

White Paper
Tax Incremental Financing (TIF)
Prepared by Downtown Madison, Inc. (DMI)
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What is it? How does TIF function? How is it intended to work? Why/how is TIF connected to economic development? Potential benefits? Potential risks? What is the history of TIF in the City of Madison?

Definition: Tax incremental financing (TIF) is a financial tool that can be used to promote tax base expansion and job creation. It is targeted toward geographic areas that have become blighted, or are in need of rehabilitation or conservation work, or to promote industrial development or “mixed-use” development.

How does TIF function?: TIF is a financing tool that allows municipalities to invest in infrastructure and other improvements, and pay for these investments by capturing property tax revenue from the newly developed property. An area (as small as one parcel) is identified (the tax incremental district, or TID) as appropriate for a certain type of development, and projects are identified to encourage and facilitate the desired development. As property values rise in the TID, the assessed value of property located in the TID as of the time of TID creation, called “base value”, continues to generate taxes to overlying jurisdictions. Then as property values rise, the property tax paid on value growth is used by the municipality to pay for the projects. The tax paid to the schools, county and technical college district (the overlying taxing jurisdictions) is also sent to the municipality to pay for the improvements. After the costs of the projects are paid off, the TID is closed and the value of all the new development gets shared by the municipality, schools, county and technical college as it does for other property.

The way TIF is used varies from project to project, and from place to place. In some cases, the municipality will choose an area they would like to see developed, or that is unlikely to develop without assistance. They then design improvements, such as roads, sidewalks, sewer systems, streetscapes, etc., that will attract growth. In other cases, a developer or company will identify a site where they might like to locate (and as part of negotiations with the municipality) TIF will be used to fund some improvements, such as demolition, soil clean up,

roads, water, etc. Either way, an area that faces development challenges gets help to grow, providing a larger tax base for the municipality and the overlying taxing jurisdictions. In Wisconsin, when the tax base grows and spending is stable, tax rates and tax bills are expected to go down, decreasing the property tax burden for everyone.

How is it intended to work?: City officials can encourage private development by making publicly funded improvements such as demolition, sewer, roads, curb and gutter. This option, however, is expensive and can discourage local officials from taking action—especially since the overlying taxing jurisdictions (school district, county and Technical College) would not bear any redevelopment costs, yet would share in the expanded tax base.

State lawmakers saw this situation as inequitable to local taxpayers and counterproductive to redevelopment efforts. With TIF, the overlying taxing jurisdictions become involved in helping to pay development costs in partnership with the city.

In summary, the municipality makes the expenditures to promote development/redevelopment in an area where development would not likely otherwise occur. Any resulting private development increases the tax base. The other taxing jurisdictions agree to forego the increase in property tax revenues so that the city can use it exclusively to repay the costs of public improvements. If development/redevelopment occurs, resulting in increased tax base and jobs, the local municipality recoups the cost of their investment. Thereafter, all taxing jurisdictions share the tax base. This is the basis of TIF.

Why/how is TIF connected to economic development?: Economic development is the process that communities engage in for the purposes of creating wealth through increasing jobs and income. There are several strategies that communities can use for their economic development efforts. TIF is particularly suited to increase assessed values, but has been used as financing assistance to attract and retain business.

Potential benefits: A well planned and executed TIF project has many possible benefits:

- An increased tax base for the city, school district, county and technical college
- Elimination or reduction of blighted areas
- Rehabilitation of areas declining in value
- Creation of new jobs and income
- Partnership for economic development among the city, school district, county and technical college.

Potential risks: The biggest risk is financial. If TIF costs exceed TIF revenue over the life of the TID the municipality must make up the difference when the TID is closed. For this reason, it is important to plan the district with a clear financial plan and sense of financial feasibility.

Facts about TIDs in the City of Madison

- **Financial benefit to the City of Madison:** Since 1978 the City of Madison has invested \$155 million in 90 projects leveraging \$1.7 billion in new property tax base.
- **Total City of Madison TIDs:** 44 TIDs created in the City of Madison since 1978

City of Madison active TIDs: Currently, the City of Madison has 13 active TIDs, #25, #29, #35, #36, #37, #38, #39, #41, #42, #44, #45, #46 and #47—see the attached map.

- **City of Madison TID history:** In the City's history of TIDs, six were created for declared industrial purposes (#1, #12, #13, #22, #24, #39). TID #13 was created on the West Beltline to provide \$3 million of assistance to retain Rayovac's 1200 jobs in 1984. TID #22 was created in 1992 to create The Blettner Group's Corporate Center Business Park. TID #34 was created as a blighted area TID to provide infrastructure assistance for the Covance expansion in 2003 (though not declared an industrial TID, it was business related). TID #35 was also created as a blighted area TID, although the TIF generator was the \$40 million Arbor Gate (retaining Wisconsin Heart, Wipfli, et. al in Madison) office project at the Beltline

and Todd Drive where the City provided \$2.7 million of assistance and the WI DOT contributed several million of intersection improvements at Todd Drive and the Beltline. TID #32 provided \$3mil of TIF assistance to the commercial portion of the University Square project.

There have been two single purpose TIDs formed (i.e. one or two parcels). They are TID #30 (Amoth Ct.) for the Kennedy Place redevelopment projects and TID 33 (Monroe Commons) for the Monroe Commons/Trader Joe's project.

- **Uses for TIF:** TIF used for public improvements mainly focuses on paying for street reconstruction, sidewalks, streetscape, and in some cases pedestrian and/or vehicular bridges. TID #32 (State Street TID) is an example of this commitment. Of the \$22.4 million of public expenditures estimated in the amended TID #32 project plan, the City has recovered approximately \$10.6 million, leaving approximately \$2.2 million of unrecovered cost.

The City acquired property, such as the \$3.5 Million BioAg purchase of 27 AC to sell to Bio-Ag companies in TID #24 (now TID #39), purchase of the Doty School building in TID #10 to stimulate its redevelopment and various eminent domain acquisitions for right-of-way purposes such as Regas Road—Corporate Drive extension in TID #22. In TID #29 (Allied Drive), the City acquired the former Super Saver grocery store for \$3.5 million to be re-sold to a developer for private development, and \$4.5 million for the former Hauk property to be redeveloped into housing. In TID 36, the City acquired the former Don Miller site for approximately \$5.6 million along East Washington Avenue, later sold to Gebhardt Development for the development of high-rise apartments and commercial along the Capital East Gateway. In TID 37, the City acquired the former Union Corners property bounded by East Washington Avenue and Milwaukee Street and Winnebago Street for approximately \$3.6 million and made approximately \$2.4 million of road improvements, transferring approximately \$5 million of it to Gorman Company for the development of a UW Clinic, housing and commercial uses.

TIF used for bridges: In TID #25, the pedestrian bridge between Monona Terrace parking ramp and Monona Terrace Hilton Hotel was built with TIF funds for about \$2 million, the pedestrian bridge access Park Street to Meriter Hospital was a \$1.6 million TIF expenditure in TID #26, the \$4 million Marsh Road bridge provided vehicular access in TID #24 for companies on either side of the South Beltline.

- **Case study:** TID #28 (Bassett). This TID closed in 2007. TID #28 was created in 2000 with a base value of about \$206 million and closed about seven years later with a new value of over \$484 million—an incremental gain of approximately \$280 million. TID #28 recovered/paid for \$12.7 million of expenditure including and over \$6.6 million of direct assistance to development projects and \$6.1 million of public improvement costs.

As required by law, a TID closes when it fully recovers all of its cost. In TID #28 it did so in only seven years, when on average, a City of Madison TID closes in about 12 of its statutory 20-27 year lifespan. When TID #28 closed, approximately \$3.5 million of excess tax increment was apportioned among the overlying tax jurisdictions as required by law.