



# Basics of Tax Increment Financing

2025 Ehlers Seminar

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# Today's Agenda

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Background



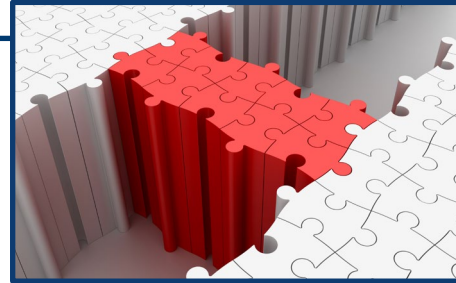
Implementation



Financing Options



Best Practices



Challenges & Solutions



Tax Increment Financing Basics

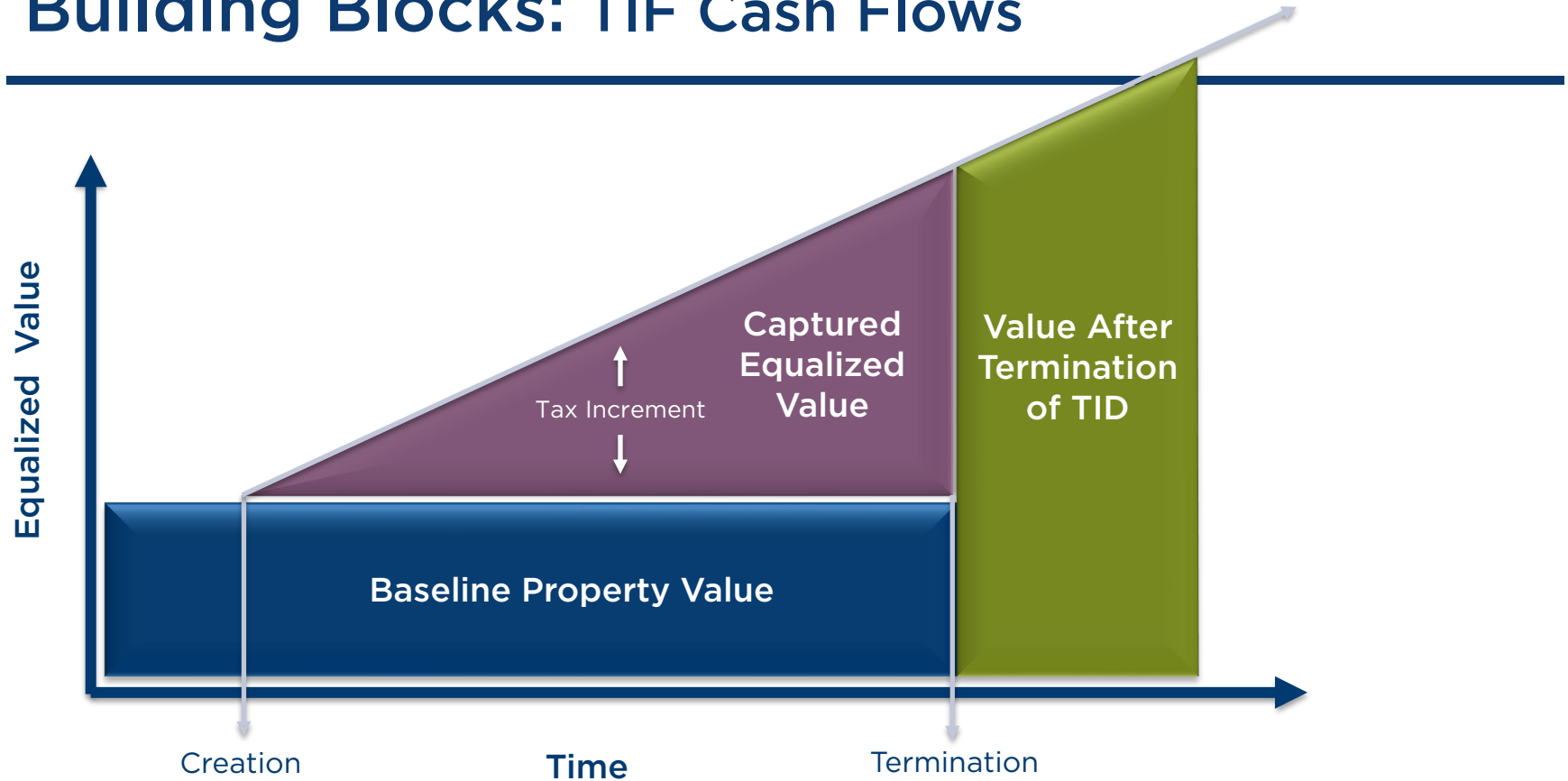
# **BACKGROUND**

# What is Tax Increment Financing?

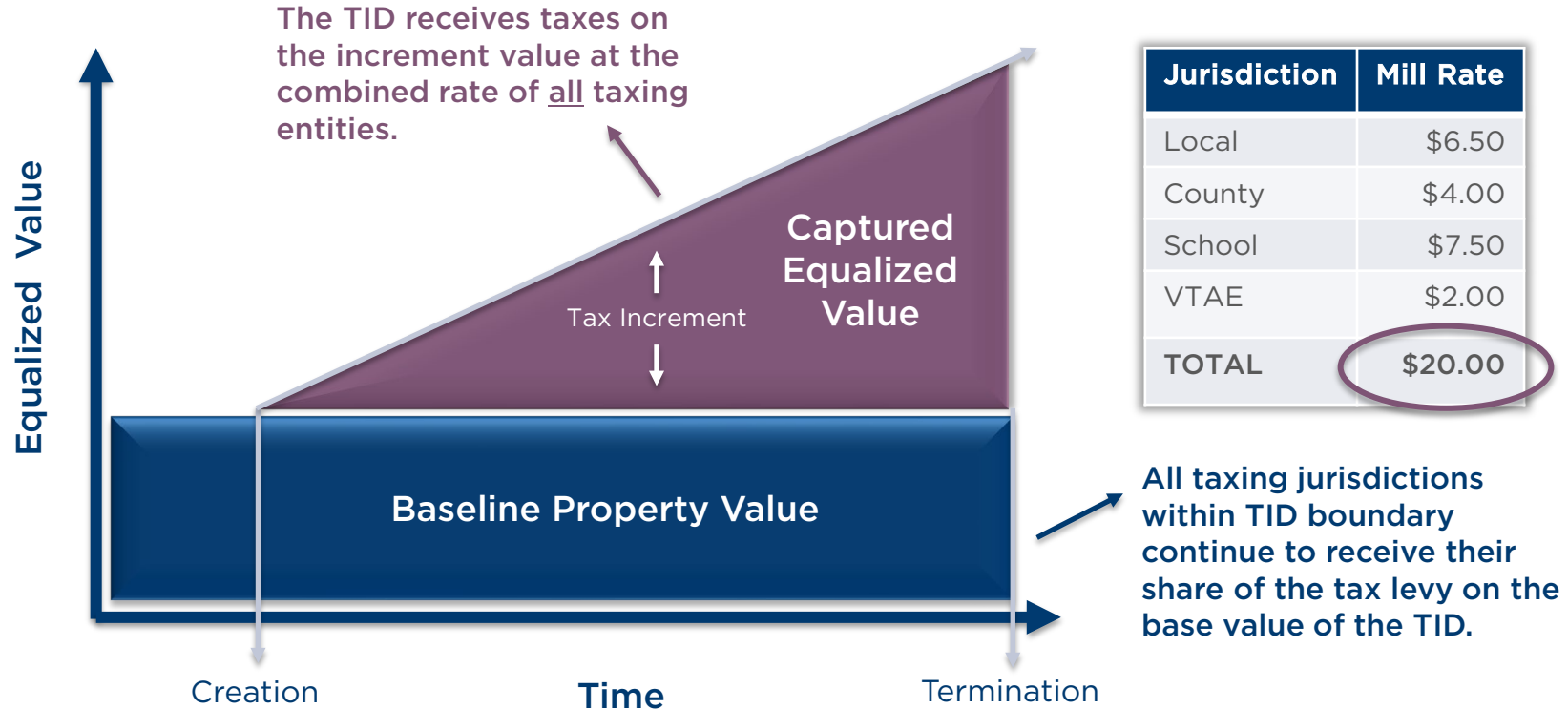
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- Key acronyms:
  - ✓ TIF = Tax Increment Financing (*the tool*)
  - ✓ TID = Tax Increment District (*where the tool is used - boundary*)
- Powerful economic development tool
- Allows municipalities to capture incremental **property tax revenue** from ***growth*** in defined area & use it to **benefit** that area

# Building Blocks: TIF Cash Flows



# Building Blocks: TID Tax Levies



# Why use TIF?

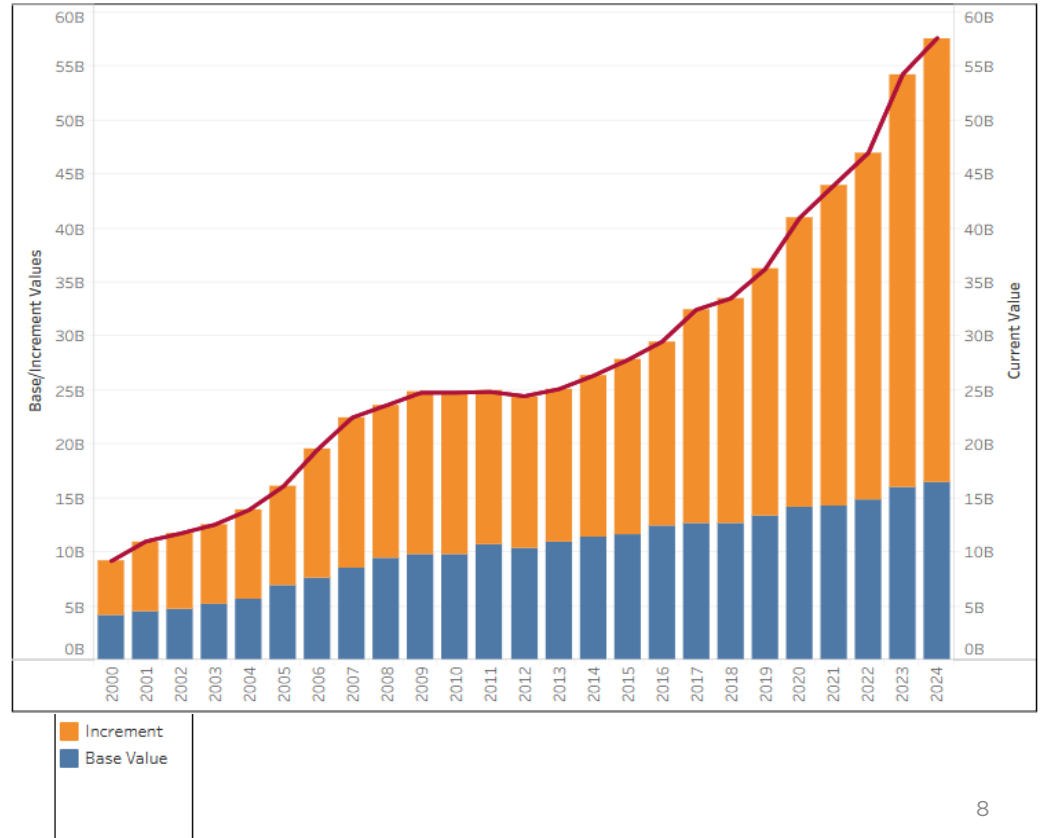
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## THE INTENT

- |  |  |
|--|--|
| ✓ Require cost participation amongst all taxing jurisdictions that ultimately benefit from increased property values | ✓ Promote economic development and redevelopment         |
| ✓ Address lack of other incentives and financial resources   | ✓ Promote cooperation between public and private sectors |
| ✓ Counteract economic downturn (mid-70's recession)  |  |

# TIF in Wisconsin

- Original program created by State Legislature in 1975
- \$41.2 billion in incremental property value as of 1/1/24 (about 4.5% of all property value in state)
- 1,400 TIDs as of April 2024







Tax Increment Financing Basics

# **IMPLEMENTATION & RULES**

# TID Creation Requirements

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Increment value of existing TID(s)

+ proposed base value of new district(s)

**Must be < 12% of total Equalized Value**

- Contiguous area & cannot extend beyond corporate limits
- Other requirements & maximum life limits apply per TID type

# District Types

Type	Max Life	At Least 50% of Proposed District Area Must Be:	Newly Platted Residential
Mixed Use	20 Years	Suitable for combination of industrial, commercial & residential uses	Max 35% (plus density requirement)
Industrial		Zoned & suitable for industrial development	Not Allowed
Blighted Area	27 Years	Blighted	Not Allowed
Conservation or Rehabilitation		In need of conservation or rehabilitation	Not Allowed
Environmental Remediation		Containing significant environmental pollution	Not Allowed

# Project Plan Requirements



## Project Costs

- Can be phased & laid out to plan for adequate revenue stream
- Costs description
- Development, Redevelopment description



## Financing Plan

- Cash flow forecast
- Financing tools
- Estimated life of proposed district

# The “But For” Test

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- Standard applied by Joint Review Board
  - ✓ key underpinning of TIF program
- “But for” the use of TIF assistance, the proposed development could not occur:
  - ✓ as proposed
  - ✓ within same time frame
  - ✓ with same level of value



# The “But For” Test, Continued...

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## How do you prove it?

- Independent third-party review of developer’s sources, uses & cashflows (with/without TIF assistance)
- Challenged site
- Extensive public infrastructure costs
- Lack of economic development in community



**Ultimately the Joint Review Boards’ judgment call**

# TID Creation Procedure

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- Feasibility study (Project Plan)
- Initial Joint Review Board (JRB) meeting
- Public hearing of Plan Commission
- Governing body approval (official “Creation Date”)
- Final JRB approval
- State approval (procedural & legal review)



# TIF District Creation Team

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- Municipal Attorney letter of review needed for TID creation
- Joint Review Board
  - ✓ Municipal member
  - ✓ Public member
  - ✓ School District member
  - ✓ Technical College member
  - ✓ County member
- Municipal Advisor helps plan, coordinate required components





# Eligible Project Costs

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Public works & improvements

Financing

Real property assembly (land write-down)

Professional services

Administrative & organizational

Contributions to Community Dev. or Redev. Authority

Relocation

Pro-rated share of utility infrastructure (municipality-wide)

Cash grants (requires developer agreement)

Environmental remediation

Projects within ½ mile of district

**...All costs must directly relate to purpose of TID, including ½ mile.**

# Prohibited Project Costs

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- Constructing or expanding municipal buildings
- Facilities financed with utility user fees
- General gov't exp. unrelated to TID
- Costs associated with newly platted residential development
  - ✓ except in mixed-use districts with “qualifying” residential, no more than 35% of district by acreage)



# Amendments

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## Boundary

- May add, subtract property
- Must remain contiguous, can encircle non-district parcel
- Must follow 12% test to add property
- 4 amendment maximum during life of district

## Plan

- Used to amend list of proposed projects
- Revenue sharing
- No limit to number allowed (except maximum expenditure period)

...same procedure as TID Creation

# Expenditure Period

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- Maximum time period TID can incur expenses or obligate revenues related to project plan
- Ends 5 years prior to end of maximum life for all district types (extensions do not change expenditure period)
- After expenditure period ends, TID may continue to pay:
  - ✓ Debt service on existing obligations
  - ✓ Contractually-obligated expenses
  - ✓ Ongoing administrative expenses
  - ✓ If designated donor TID, district may continue to donate increment

# Maximum Life

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**A TID may remain open until the earliest of the following:**

- Maximum life is reached
- Tax increments (revenues) collected sufficient to pay project obligations (expenses)
- The municipality passes a resolution to close the district

**At closure:**

- Remaining funds (surplus) distributed proportionately to taxing jurisdictions (shared benefit) - OR -
- Unreimbursed project costs become general liability of the municipality (risk not shared)

# Closure Process

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Within 60 days of termination resolution, municipality must complete Form PE-223 and send, with copy of resolution to:

- Department of Revenue
- County property lister
- Municipal Assessor
- Overlying taxing jurisdictions



On or before PE-223 submission date, municipality must e-file the following:

- Form PE-110 (TID Final Accounting Report)
- TID final accounting spreadsheet or final audit report/financial statements



Tax Increment Financing Basics

# FINANCING

# Funding Eligible Projects: Options

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## Community “Fronts” Costs

- Issue general obligation or revenue debt
- Advances from other funds

## Pay-As-You-Go

- Use TIF revenue stream and accumulated balances to pay expenses
- Developer agrees to up-front costs, repaid from TIF revenues



# Municipality Funded

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- Municipality issues debt or advances funding from other funds to finance development incentives or pay for other tax increment eligible costs (infrastructure, land acquisition, etc.)
- Municipality uses revenue generated by development in tax increment district to repay debt/advance
- Municipality bears entire risk of insufficient revenues
- Development Agreement provisions can be used to mitigate risk

# Pay-As-You-Go

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- Developer funds project costs up front
- Municipality agrees to return tax increment revenue paid from new development
  - ✓ Subject to annual appropriation
  - ✓ Payment dependent on revenue being available, no revenue – no payment
- Shifts risks of insufficient revenue to repay debt from Municipality to Developer while allowing use of TIF to incentivize project
- Developer may choose to monetize TIF, request private financing secured by PAYGO agreement

# “Pay-As-You-Go” Model



# Developer Agreements

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Irrevocable letter  
of credit

Performance  
bonds

Mortgage lien  
(on project or  
other property)

Assignment of  
securities or  
other collateral

Restrictions on  
assignment of  
developer  
agreement

Withholding of  
permits or other  
approvals

Personal  
guarantee



Tax Increment Financing Basics

# **BEST PRACTICES**

# Planning & Monitoring

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## Effective ways to mitigate risk

- Sensitivity analysis
- Worst case scenario, back-up plan

## Use together, proactively to:

- Better match expenses, debt service to revenues
- Ensure TID doesn't undertake projects it's unlikely to recover

## Can't fully eliminate risks

- Economic cycles, change in law, private party performance

# Important Considerations

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- Under what circumstances TID will be used?
- Process to request assistance
- Term (maximum or flexibility)
- Proforma analysis
- Pay-as-you-go vs. traditional
- Community goals





Tax Increment Financing Basics

# CHALLENGES



# Tools: Underperforming TID

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Fund balance  
utilization

Tax levy & user fee  
(utility) support

Debt restructuring

Maximum life  
extensions

Increment sharing  
("donation")

Territory  
amendment

Enforcing security  
provisions in  
developer  
agreements

# Fund Balance Utilization

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- Sufficient dollars available in another fund to transfer or advance?
- Understand probability of advance being repaid & impact on the advancing fund (including another TID)
  - ✓ For municipalities with credit rating or considering getting one: Be careful about making large General Fund advances!
  - ✓ Receivable only as good as quality of anticipated repayment
  - ✓ Generally, avoid advancing funds from another TID
- Consider having another fund “repay” TID for originally TID-funded project the district can no longer afford

# Other Revenue Support for TID Debt

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## G.O. Debt:

- Community obligated to levy sufficient funds to make entire payment each year, regardless of anticipated revenue source

## Utility Revenue Bonds:

- Must increase user rates or apply other available funds to make payment and/or demonstrate coverage requirement

## CDA/RDA Lease Revenue Bonds:

- Must apply or consider applying other available funds to make payment

# Debt Restructuring

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## Reallocation of TID debt to other funds

- Example: water utility may need to assume repayment for TID debt incurred to finance TID-eligible water system improvements

## Refinancing

- Goal is restructure debt in a way that best matches anticipated TID revenue stream
- If current obligation is revenue-backed, may require conversion to G.O. if coverage (revenues vs. debt service) is not adequate

# Maximum Life Extensions

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## Four-year extension

- For blighted area and in need of rehabilitation or conservation
- TIDs created on or after October 1, 1995 but before October 1, 2004



## Three-year extension

- For all TIDs created on or after October 1, 2004
- For any TID eligible to collect increment as part of 2014 levy (Wisconsin Act 258 – Tech College Adverse Impact)

# Maximum Life Extensions, Continued...

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- Require project plan amendment, but JRB must approve if:
  - ✓ An independent audit demonstrates requirement for additional years to recover project costs
- Not mutually exclusive
  - ✓ Tech College extension can be combined with 3- or 4-year extension for total extensions of 6 or 7 years



# Increment Sharing: Donor Status

## *(WI Stats. 66.1106 (6)(f))*

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- A TID generating excess increment (surplus) may allocate it to any of the following TIDs:
  - ✓ Blighted area
  - ✓ Rehabilitation/conservation
  - ✓ Distressed or severely distressed
- Requires a project plan amendment & JRB approval for donor TID
- Life of “sharing” relationship can last until earliest end of either TID *(see specifics relating to sharing with Distressed TID)*

# Enforce Security Provisions: Dev. Agreements

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- Whenever possible, development agreements should contain provisions to protect community if TID increments are not generated
  - ✓ Letters of credit
  - ✓ Value guarantees/shortfall payments
  - ✓ Special assessments
- Ability to collect may be a factor



# Recent TID Law Changes: (TID's created after 10/1/24)

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1. Reduced annual levy limit benefit (growth outside TID's not impacted).



2. Reduced levy limit adjustment upon closure.



3. Personal property exemption adjustments.

# Current Levy Limit Net New Construction Percentage

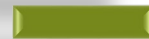
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- Determined by DOR
- Includes growth in **AND** out of TIDs
- Net new construction percentage still includes growth in TID's created prior to 10/1/2024.

**Value of Improvements Added**



**Improvements Removed**

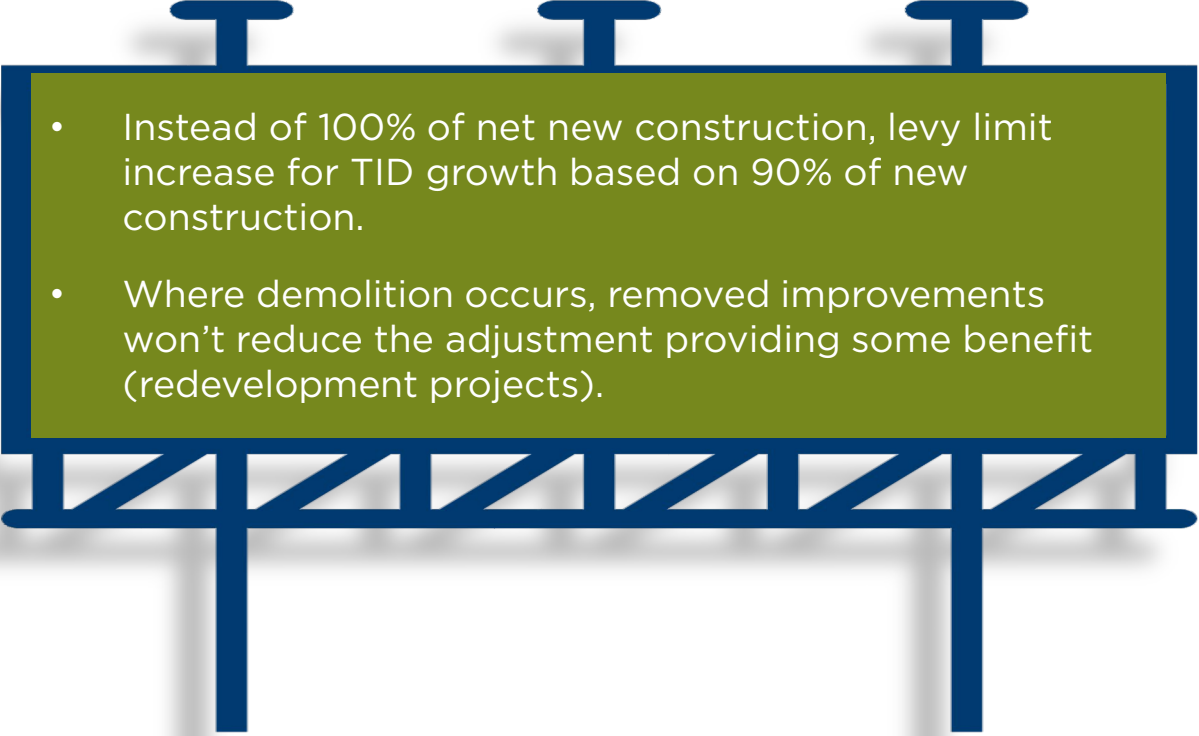


**Net New Construction**

# Annual Levy Adjustment

*(TIDs created after 10/1/24)*

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- Instead of 100% of net new construction, levy limit increase for TID growth based on 90% of new construction.
  - Where demolition occurs, removed improvements won't reduce the adjustment providing some benefit (redevelopment projects).

# Early TID Closure Levy Limit Impact

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- If TID closes within 75% or less of expected termination date, 10% adjustment increases to 25%
- Per statute, expected termination date determined by Joint Review Board
  - ✓ DOR requires date as part of approval resolution and may correspond to final year of District's life
    - (may be different than cash flow projection included in Project Plan)

# Impact of Reduced TID Closure Adjustment

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Changing to new construction instead of final incremental value

Significantly diminishes TID closure levy limit adjustment

Won't receive benefit from economic appreciation during life of TID.

# TIF & Personal Property Exemption

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- A municipality may request Wisconsin Department of Revenue (DOR) reduce a TID's **base value** by the amount of exempt personal property.
- DOR will review requests received:
  - ✓ Between November 1, 2024 and October 31, 2025 for adjustment in the 2026 tax year

# Final thoughts...

- TIF is **STILL** the most important tool available to help local governments stimulate growth
- TIF requires active management
- Plan ahead to position yourself for opportunities
- TIF has been around for 45 years, you WILL see continual program adjustments!



# Let's Talk!

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# Download the Presentation

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# Your Presenters

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