The Real Impact of TIF

Tax increment financing, or “TIF” has been part of the development environment since the 1970s. A mixture of factors has morphed the once limited program into a sprawling, near entitlement for developers with significant negative consequences for property taxpayers.

TIF designates a parcel of land where the growth in property tax revenue from increased property values no longer goes to the normal taxing jurisdictions (i.e., municipality, county, school district, technical college), but instead solely subsidizes the project and pays debt service on the subsidy.

The logic is that without the subsidy and/or developer incentives being paid from the diverted funds, the development would never occur. Following this logic, the increased property tax revenue from the increased property value will “pay back” the subsidy. Once paid back, the TIF district closes, and the property begins to pay property taxes as normal. In theory, this analysis can work if TIF is used properly and only in situations where no development would have otherwise occurred. All too often, this is no longer the case.

What we are seeing now is prime real estate, often in affluent suburban communities, being sold to developers that now see TIF as a “drug.” Developers produce self-serving “analyses” showing that without a taxpayer funded TIF subsidy, there is no way to feasibly develop or redevelop the property. These “analyses” are often buoyed by outside consultants that rarely see a TIF they don’t like.

Not only are the developer’s pockets being lined by the taxpayer subsidy, it may also be the landowner selling to the developer that is unjustly enriched by the subsidy. This subsidy distorts the market value by artificially increasing the land’s price at the expense of the taxpayer.

The ongoing, but rarely discussed harm to the average property taxpayer is significant. Higher TIF property values increase the municipality’s tax levy authority, but all taxpayers outside the TIF pay the increased cost, <u>NOT</u> the TIF benefactors. Whether you are happy about the development in the TIF or not, you are paying to subsidize it. In addition, any development requires services – schools, police, fire, EMS, etc. Properties in the TIF district pay nothing for these significant costs. Again, they will be paid by every other property taxpayer <u>NOT</u> in the TIF district. In most cases, this situation will occur for 20+ years, as often this is the time necessary to pay off the debt incurred by the municipality to fund the subsidy.

Sadly, as we have seen recently in many communities, shortly after project completion the developer sells or refinances the property and pockets a significant profit while leaving the municipality 20+ years of debt service on the subsidy. Some municipalities use a “pay go” arrangement. This is where the subsidy comes in the form of a property tax abatement until the cumulative reduction equals the cost of the agreed upon subsidy, in which case all the aforementioned negatives to the average property taxpayer still apply.

Unsurprisingly, the special interest groups in Madison love TIF – it is their golden goose. Like too many local officials, many state legislators' eyes glaze over when dealing with TIF issues. From my private sector career as a developer, I know the issues and recognize the abuses all too well. I represent the best interests of all Wisconsinites, not the special interests that can unjustly benefit from public policy. I have made some progress in curbing abusive TIF legislation at the state level, and I will continue efforts to reform state TIF laws.