

TIF Provides Return for Taxpayer Investment

By Jim Villa, CEO of NAIOP Wisconsin | December 2016

In 1994 the Village of Sturtevant, like many local communities, wanted to invest in their future economic growth. And they did.

Using an economic development tool known as Tax Incremental Financing (TIF), the Village of Sturtevant borrowed money by issuing bonds to pay for roads, sewer, electrical, and other infrastructure costs related to the development of a business park, the Renaissance Business Park. At the time, property taxes on the land were being paid on a value of \$4 million.

Tax incremental financing was first enacted in the state in 1975. The goal was to provide local municipalities with a flexible tool for economic development. Communities use the tool differently, but in most cases it is to advance a common goal for development. The “but/for” test was established to protect taxpayers, requiring that to open a Tax Incremental District (TID), the municipality had to demonstrate that but for the TIF financing, the development would not happen.

As a result of the investment by the taxpayers of Sturtevant, the value of the land in the business park grew. Property taxes paid on the original \$4 million value continued to be paid to the local taxing authorities while the portion of taxes generated from the new, increased value of the property, were used to pay off the bonds issued by the TID.

Simply put, the Village of Sturtevant, issued the bonds and the property taxes from the increased value of the property paid them off. Taxpayers saw their investment repaid and an increased value in the property for future taxes.

Fast forward to 2016 where TID #3 in Sturtevant closed (earlier this fall) 6 years ahead of schedule (indicating that the value of the property increased at an even greater rate than was expected). Once the TID is closed, all of the property taxes paid, at the new increased value of the land, will go to local taxing authorities. Simply put, now that the bonds are paid off, taxpayers will see the return on their investment.

The return on their investment is sizable! The property, originally valued at \$4 million, will now be taxed at a value of over \$220 million, generating a substantially higher tax base for the Village.

To be fair, not all TIDs close as successfully as #3 in Sturtevant; in fact, a limited number struggle and an even fewer number fail. This is not the norm, nor is it the epidemic that some would have you believe.

NAIOP, the Commercial Real Estate Development Association, advocates for responsible development and supports flexibility in the TID/TIF policy. This critical tool is one of the most

important that local municipalities have to directly engage in economic development. Some will argue that there are not enough protections for taxpayers or that TIF has been used beyond the original intent. We appreciate this concern and welcome a serious, fact-driven dialogue about how to ensure taxpayers realize the best return for their investment.

Despite some challenges, we are seeing significant investment and development in Wisconsin. We cannot, and should not jeopardize this momentum and risk losing that influx of investment capital in a very competitive global economy. Instead, we should demonstrate our state's commitment to being open for business and work to ensure that this highly effective public/private partnership continues to deliver for communities wanting to invest in themselves, and their future.