

TIFs Aren't that Tough

by Keene Winters

Tax incremental financing (TIF) districts generate free money, right? One might think so if you read recent articles about the City of Wausau. TIF districts are useful municipal development tools, but they are, at their heart, business ventures and not creative financing gimmicks for politicians.

In 1975, Wisconsin passed its TIF law to help communities re-develop blighted areas. The problem was that cleaning-up old developments often added so much extra costs that it made re-development unrealistic.

Using TIF, the municipality helps the private developer with some of the costs, usually by paying for clean-up or new infrastructure. That lowers the cost to the developer and makes the project more financially attractive. The idea was that TIF districts would be used sparingly for only those re-development projects that were financially infeasible for the private sector alone.

The return to the city's taxpayers should be improved properties that generate more tax revenue. The municipality finances their initial investment by issuing bonds. To pay off the bonds, the TIF law allows the city to "fence off" all the additional property tax revenue gained from improvements and use it to retire the debt. When the bonds are paid off, the district is closed, and all the incremental revenue goes to the general fund.

A TIF district is a business venture. When it "cash flows," there are benefits to both the developers and taxpayers. But when used imprudently, the taxpayers will be on the hook for bonds with nothing to show in return.

In July, the *Wausau Daily Herald* ran two stories on how the City of Wausau used the TIF process to purchase 16 acres of riverfront land for \$2.6 million with no immediate plans for development. The newspaper also reported that taking the property out of private hands eliminated some \$55,000 in annual property tax revenue and that it would probably be a decade before development occurred.

Huh? Where is the cash flow on this project? It's minus \$55K per year plus the cost of debt service with no concrete strategy to turn that around!

Worse yet, the city has embarked on this massive brainstorming process where committees, council members, city bureaucrats and even architecture students from Milwaukee sit around and think about ways to spend some developer's money. Would you like to be the developer that ventures his or her capital on a project with so many expectations?

Should we develop part of the 16 acres into a park or public space? That might be nice. But we should be up-front about the costs to the general fund. Then the costs and benefits can be weighed.

One of the great challenges for our economy today has been politicians promising benefits and using financial gimmicks to hide the costs.

TIF district management isn't that tough. Have a developer with a plan to start. Keep the city's requirements for the project simple, and have a solid strategy for the municipal cash flow. Then, the project can get done and be a win-win for everyone.

##

Printed in the *Wausau Daily Herald* on September 30, 2011.