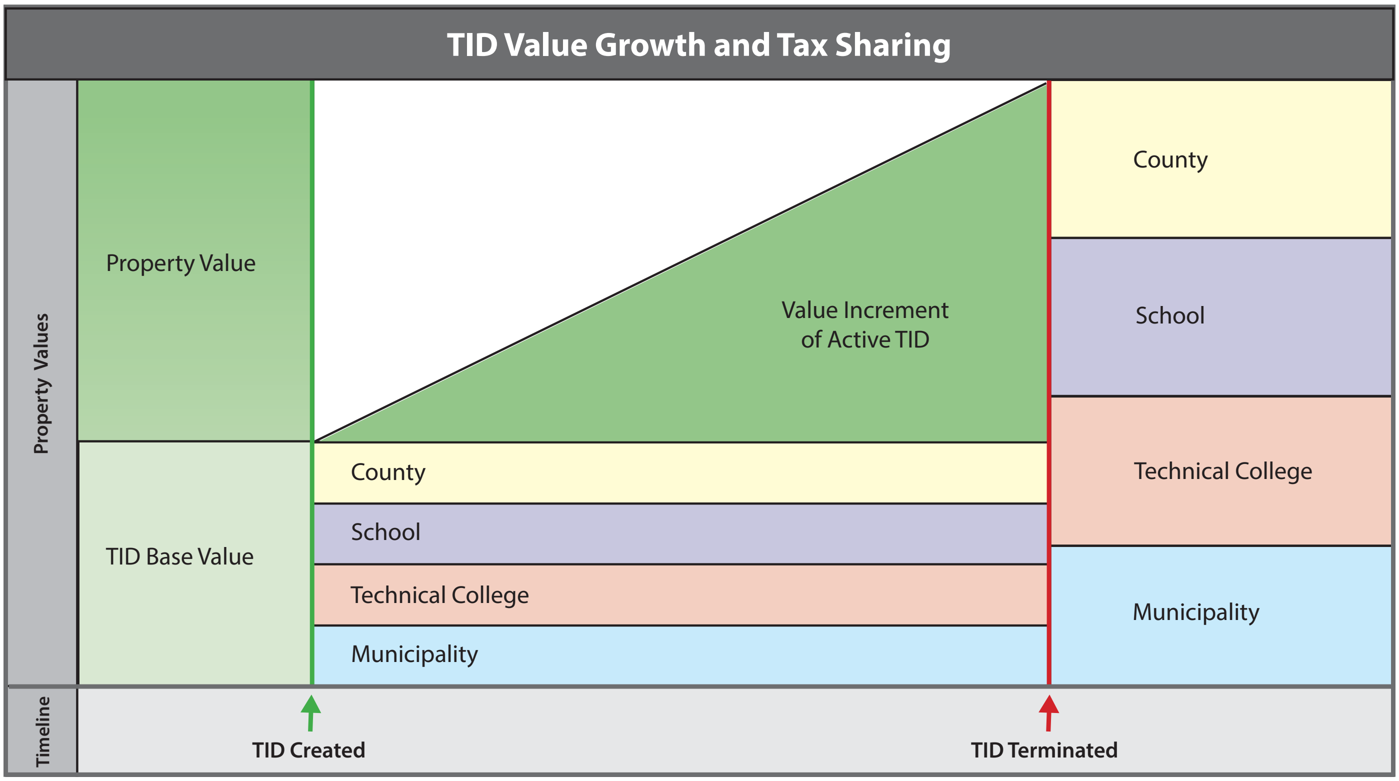
B. How TIF Works

TIF allows municipalities to promote tax base expansion. The municipality identifies an area for development; this is the TID. The municipality funds the necessary infrastructure and other projects to attract private development. Then as the property value increases, the municipality uses the taxes from that increase to pay the project costs. The municipality can only use TIF to fund infrastructure investment and other eligible projects that facilitate development.

When a municipality creates a TID, the municipality and other taxing entities agree to support their operation from the existing tax base within the TID. They agree the municipality will use the taxes on the value increase in the TID to pay for the investment.

1. Sharing the tax base



a. TID creation

When the municipality creates a TID, it establishes the base value of all the taxable property within the defined boundaries. The county, school, technical college and municipality in the chart above, make up the overlying taxing jurisdictions for the parcels in the base value. The overlying taxing jurisdictions share the tax revenue collected on this portion of the property value. After the TID is created, this tax revenue is allocated the same way as before the TID was created. In the chart, the county, school, technical college and municipality collect taxes on the property in the TID base. In areas with special taxing districts (ex: sanitary district or lake rehabilitation district), this district would appear in a row below the municipality.

Any new construction or investment in the TID property increases the value. The municipality collects the taxes on the growth in value of the property (the Value increment) as Tax increment revenue. The municipality can only use this revenue to pay for the improvements it made to the property in the TID according to the approved project plan.

Any agreement to use TIF depends on the "but for" concept. Review But For Test for more details.

b. TID termination

The municipality must terminate the TID at the end of the maximum life, or when the tax increments collected exceed the approved project costs. At termination, the entire value of the property in the TID returns to the tax rolls of the overlying taxing jurisdictions. In the TID Value Growth and Tax Sharing chart on the previous page, the column on the right represents the increased property value subject to taxes. While the TID exists, tax revenue for each overlying jurisdiction is limited to the base value of the TID parcels. After terminating the TID, all the overlying taxing jurisdictions share the tax base; tax rates can be lowered to generate the same amount of revenue for the jurisdiction. Without the development encouraged by TIF, the base value would be the only value available for the jurisdictions to tax. Partnering to facilitate development helps all the overlying districts increase their tax base. If the TID property value does not increase as expected, the municipality may not receive enough tax increment to pay its expenditures. In this case, when the TID terminates, the municipality is responsible for the unpaid debts.

Important

At termination, if the tax increment revenue exceeds the project costs, the municipality must return the surplus revenue to the overlying taxing jurisdictions in proportion to overlying taxing jurisdictions respective tax levy without TIF.

2. Tax increment calculation

The Tax Increment Worksheet (Form PC-202) calculates the amount of taxes for the TIF fund. The worksheet uses the apportionment of each overlying taxing jurisdiction to determine the share of each district's tax revenues that will be part of the municipality's tax increment.

Example

This example shows how the county levy is apportioned and how the tax increment is calculated. The same process is used to determine the tax increment added to each of the other levies, including the municipality's that created the TID.

Assumptions

a) Entire county consists of four municipalities. Only Municipality "A" has a TIF district.

b) 2018 equalized property value in the four municipalities, including the TID increment are:

Municipal Values								Total
A	$400,000,000*	B	70,000,000	C	20,000,000	D	10,000,000	$500,000,000
** Includes $30,000,000 increment value*								

c) Municipality "A" has a Tax Incremental District (TID #1) with values of:

- 2000 base value $20,000,000
- 2018 current value 50,000,000
- Value increment 30,000,000

d) The county needs $1,500,000 from property taxes for its budget

Note: Values of the taxing entity and any municipality with one or more TIDs, are reduced by the value increment in any of the TIF districts. This is referred to as TID/OUT in the upcoming charts.

Step 1	Formula to determine each municipality's percent of the county's value: Municipality Value ÷ County Value = % of County's Value				
Municipality	TID/Out Municipality Value	÷	TID/Out County Value	=	Percentage County Value
A	$ 370,000,000	÷	$ 470,000,000	=	.787234
B	70,000,000	÷	470,000,000	=	.148936
C	20,000,000	÷	470,000,000	=	.042553
D	10,000,000	÷	470,000,000	=	.021277
Totals	**$ 470,000,000**		**n/a**		**1.000000**

Step 2	Formula to determine the county tax apportioned to each municipality: Percentage County Value × County Levy = Apportioned Tax				
Municipality	Percentage County Value	×	County Levy	=	Apportioned Taxes
A	.787234	×	$ 1,500,000	=	$ 1,180,850
B	.148936	×	1,500,000	=	223,405
C	.042553	×	1,500,000	=	63,830
D	.021277	×	1,500,000	=	31,915
Totals	**1.000000**		**n/a**		**$ 1,500,000**

Step 3	Formula to determine the county tax rate each municipality will collect, including the tax increment: County Apportioned Tax ÷ (Municipality Equalized Value - Increment) = County Tax Rate per Municipality				
Municipality	Apportioned Municipality Taxes	÷	Municipality TID/Out Equalized Value	=	County Tax Rate for Each Municipality
A	$ 1,180,850	÷	$ 370,000,000	=	.0031915
B	223,405	÷	70,000,000	=	.0031915
C	63,830	÷	20,000,000	=	.0031915
D	31,915	÷	10,000,000	=	.0031915
Totals	**$ 1,500,000**	÷	**$ 470,000,000**		n/a

Step 4	Formula to determine the county tax rate for each municipality (referred to TID/IN below) County Tax Rate × Total Equalized Value of all Municipal property = County Tax Collected (includes the tax increment for TID #1 in Municipality "A")				
Municipality	Tax Rate	×	Total Equalized Value Municipality TID/IN	=	County Taxes Collected
A	.0031915	×	$ 400,000,000	=	$ 1,276,600
B	.0031915	×	70,000,000	=	223,405
C	.0031915	×	20,000,000	=	63,830
D	.0031915	×	10,000,000	=	31,915
Totals	n/a		**$ 500,000,000**		**$ 1,595,750**

Total County Taxes Collected from Municipality "A"	$ 1,276,600
Total County Apportioned Taxes for Municipality "A"	$ 1,180,850
Tax Increment Retained by Municipality "A"	**$ 95,750**

Step 1- 4 Explanation

- County tax collected is apportioned to individual property owners in each municipality based on the assessed value of each parcel
- Amount of the tax apportioned by the county is $1,500,000. Step 2 shows the amounts apportioned to each municipality.
- Tax increment of $95,750 is the difference between the amount Municipality "A" collected by the county ($1,276,600 shown in Step 4) and the amount apportioned for Municipality "A" ($1,118,850 shown in Step 2)
- $95,750 is the county portion of tax increment kept by Municipality "A" and deposited into the TID #1 fund for the TID's project costs

Step 5	Effect on the county tax rate if the TID in Municipality "A" terminates in 2018 and the county's levy and each municipality's values remain the same	
County Levy	County Equalized Value	Tax Rate
$ 1,500,000	$ 500,000,000	.030000
** Includes TID value increment in TID #1, Municipality "A"*		

Step 5 Explanation

- There is a difference in the tax rate of 19.15 cents per thousand dollars of equalized value without the TID in Municipality "A" (.0031915 shown in Step 3), compared to the rate with the TID (.0030000 shown in Step 5)
- This results in a $19.15 tax difference for the county portion of taxes on a property valued at $100,000

When a municipality has no TIDs, the municipal apportioned levy is the same as the county taxes collected. If there are no TIDs in a county, the county tax rate is lower for everyone. However, if there are TIDs, every taxpayer in the county pays a higher rate to generate the increment paid to the municipality operating the TID. All taxpayers in the county share this cost because they will all share the expanded tax base once the TID terminates.

C. Summary Statistics

The number of TIDs continue to grow. The chart below shows TID creation by year. Overall, there has been steady growth since TIF was added to state law. There are a few noticeable spikes in creation activity due to law changes or economic trends.