



**A plain-speaking explanation  
of a complicated topic.**

**What does “TIF” stand for?**

**“TIF” stands for Tax Increment Financing.**

**What is Tax Increment Financing?**

**It’s a financial tool that cities and villages use to  
redevelop declining areas.**

**How does TIF work?**

**When a city or village creates a TIF district, the as-  
sessed property values in the TIF district are “fro-  
zen” at the current level for all taxing bodies --  
except for the city or village. As redevelopment is  
started and property values rise, the city or village  
captures the increased property taxes to pay for any  
public improvements or to help finance the  
redevelopment projects. The other taxing bodies  
can only tax the initial property values set when the  
TIF district was formed.**

## TIF 101

-2-

### What is a TIF district?

A TIF district is a designated area within a city or village that is experiencing physical or economic decline.

### How is a TIF district formed?

First, the city or village must determine if the area qualifies. Second, the city or village must prepare a TIF Plan. If a Housing Impact Study is required, the residents in the proposed TIF district must be notified and a special public meeting must be held. Third, the city or village must notify all local governments and property owners in the proposed TIF district. Fourth, the city or village must hold a public hearing about the proposed TIF district. Fifth, the city or village must adopt ordinances to create a TIF district.

### Who can form a TIF district?

Only cities and villages are allowed to create a TIF district. Counties and other special purpose governments cannot create TIF districts.

### How does an area qualify to be a TIF district?

The area must meet specific legal criteria described in the State legislation to qualify as a TIF district. The city or village must also determine that little or no investment has been made in the area in recent years and that investment will not take place without a TIF district.

## TIF 101

-3-

### What are the eligibility criteria for TIF districts?

The eligibility criteria for “blighted areas” and “conservation areas” focus upon the physical and economic characteristics of the proposed TIF district. The factors must be evident throughout the area. Vacant areas may also qualify under two different sets of criteria.

### What is a TIF Plan?

A TIF Plan is a legal document that describes why the area is eligible to be a TIF district and describes the proposed redevelopment projects and activities. The TIF Plan also lists the projected cost of the redevelopment activities and describes how they will be paid for.

### How big can a TIF district be?

It must be at least 1.5 acres in size. There is no maximum size limit.

### Does a TIF district come with money?

No. A TIF district gets its money from the increased property taxes generated by private redevelopment projects. If there are no private redevelopment projects or new investment in the TIF district, there will be no money.

### How long can a TIF district exist?

A TIF district can exist for up to 23 years.

**Will a TIF district create development?**

No, but it can help. A business must be able to make money if you want it to locate at a specific location. A TIF district can help by decreasing the development costs, but it cannot make up for an insufficient customer base, low household incomes, or other market factors.

**What can TIF funds be used for?**

TIF funds can only be used for physical improvements and related costs, such as buying land, demolishing buildings, streets, parking, architects and engineers, financing costs, etc.. TIF funds cannot be used for loans to businesses for working capital or machinery and equipment.

**Can TIF funds be used outside a TIF district?**

Yes, but only by the City or village for directly adjacent public improvements or if the city or village is transferring funds to an adjacent TIF district. A city or village must amend its TIF plans if it wants to transfer funds between adjacent TIF districts.

**Why would anyone object to a TIF district?**

The other taxing bodies sometimes object to creation of a TIF district because it “freezes” the property values of part of their tax base. These other taxing bodies are concerned about their ability to pay for the services that they provide.

**When is the best time to form a TIF district?**

The best time would be when property values are at their lowest in the proposed TIF district *and* when there is a real chance for development to occur.

This would mean the property values would be “frozen” at a low level, which makes it easier to get an increase in property values after redevelopment begins. *However*, if there are no real prospects for development to happen very soon, then it would be better to wait to create a TIF district so part of its lifespan isn’t wasted while nothing happens.

**Why is the lifespan of a TIF district important?**

New TIF districts may have a lifespan of up to 23 years. Most major redevelopment projects need long-term financing in order to be feasible. The later in the life of a TIF district, the less feasible major projects become.

**When is the worst time to create a TIF district?**

The worst time to create a TIF district is *after* a redevelopment project has taken place. The new project’s property value would be “frozen” at a high level, making it harder to create new tax revenues to capture. It is best to create a TIF district *before* any major redevelopment happens.