THREE LITTLE PIGS AND A TIF

Like most good tales, this one has a moral: ***Beware of wolves promoting development with TIFs. You can get the same development for less through simple borrowing***.

Once upon a time there were three little pigs that lived in a small town called Pigsville in west central Wisconsin. One pig was Farmer Pig (who also acted as the city accountant), the second was Doctor Pig, and the third was Mechanic Pig. Inflation was low. A house worth $100,000 today in Eau Claire only cost our pigs $100 in Pigsville. Each of the pigs owned a $100 home and each paid taxes of $2.50 per year (2.5%). The total amount the city collected annually from the three pigs each year was $7.50. Farmer Pig had two fancy names for that total. Sometimes he called it the base tax levy and sometimes just called it the total tax levy. I can't tell you why. The other pigs thought of it as an icky tasting pie that they had to digest and called it the tax pie. Farmer Pig referred to the total property in the community over which the taxes were spread as the allocable tax base. The other pigs, who liked to think in terms of food, called it the eaters – as they were the ones who had to consume the tax pie. Regardless of what you called it – "levy" versus "icky pie" or "allocable tax base" versus "pie eaters," life was good in Pigsville.

One day a wolf came into Pigsville and offered to build a radio station so that the pigs could listen to him all day long. He planned to live downstairs and install his tower and studio upstairs. Farmer Pig called the plan a "mixed use" property. The station/living space would cost $100.

Wolf told the pigs that he could come up with only $75 and needed Pigsville to provide the rest of the money ($25). If Pigsville did not come up with the money, he would not build the station. Wolf suggested that Pigsville establish a TIF district and borrow the $25. He would build his station in the TIF district and claimed that it wouldn't cost the pigs a cent. Wolf offered to pay taxes at the same rate as the three little pigs, but all of his taxes would be used to pay back the loan. The three little pigs would cover the cost of government – currently the $7.50 per year tax levy or pie. But they were doing that any way, so what difference did that make? Under a TIF, he would be treated as if it did not exist when it came time to divide the tax levy (pie) between the inhabitants of Pigsville. The tax pie would continue to be divided into three slices. He would not be assisting the pigs in consuming that pie.

Doctor Pig and Mechanic Pig thought this was a terrific idea: the city would help Wolf and at the same time get a radio station for free. Farmer Pig disagreed. He said it made more sense for Pigsville to do a straight borrowing, in which the city would pay the debt under the loan. True, payment of principal and interest for Wolf's loan would increase the size of the tax pie, however, the tax pie would be divided into four pieces instead of three, as Wolf would become another eater. Farmer Pig was out voted two to one and Pigsville created its first TIF district: a 20-year mixed-use district.

Pigsville borrowed $25 from the bank. The loan was to be paid back over 10 years with interest at 1%. A payment schedule was set up under which interest and principal would be paid annually at $2.64 over the 10 years. The bank warned the pigs that this was general obligation debt which means that it was Pigsville's responsibility to pay the loan out of city taxes. It would have to raise taxes (increase the levy (the size of the icky tasting pie)) to its inhabitants by including the payments in the tax levy **unless** there was TIF tax money available from which to pay the annual interest and taxes.

Farmer Pig decided to keep an annual record comparing the cost of TIF funding to straight general fund borrowing, so that he could prove who was right. Here's what happened:

YEAR ONE

Wolf did not complete the building in year one as planned, so there were no TIF taxes. The debt payment was added to the tax levy, increasing the size of the tax pie. Taxes increased to each pig from $2.50 each to $3.38. The taxes were the same under a TIF or under standard borrowing.

Taxes Under TIF		**Taxes Under Std Borrowing**	
Base Levy	$7.50	Base Levy	$7.50
Bond Debt Due	$2.64	Bond Debt Due	$2.64
Total Levy – tax pie	$10.14	Total Levy –tax pie	$10.14
Allocable Property -eaters	$300	Allocable Property -eaters	$300
Tax Rate	0.0338	Tax Rate	0.0338
Wolf TIF Payment	0		
Each Pig Pays	**$3.38**	**Each Pig Pays**	**$3.38**
TIF Bond Fund		**Bond Fund – Wolf Loan**	
From City	$2.64	From City	$2.64
From Wolf	0		

YEAR TWO

Wolf completes his radio station/living quarters building. Farmer Pig informs the other pigs that if Wolf had built his new building outside the TIF district, he would be paying a tax of $2.50 just like they were. Wisconsin's largely fixed levy law gives the pigs only one chance to add the $2.50 to the tax pie and that is the year the building is completed. Otherwise, the opportunity to add the tax to the levy is lost forever. Farmer Pig calls that addition "applying the net new construction index. My, he sure uses fancy terms. Farmer Pig points out that Wolf's $2.50 will be needed to pay for the extra services to support Wolf and his family: roads by the radio station will need to be maintained and plowed; the wolf pups will need to be educated etc. The pigs decided to add the $2.50 to the levy (tax pie), even though Wolf (all of his taxes go to the fund to repay the loan) wouldn't be paying it.

Farmer Pig once again did his sums, which you can see below. Note that the allocable property base (the pie eaters) under the TIF side of the calculation does not include Wolf's property. It's as if it did not exist. Wolf's property is part of the allocable property on the comparative standard borrowing calculation – he does get a serving of tax pie in that scenario. Taxes were $.17 higher under the TIF – If you want to translate it to a $100,000 Eau Claire home, that is an extra $170 per year or in the case of the average $150,000 Eau Claire home, $255. Here are Farmer Pig's detailed calculations:

Taxes Under TIF		**Taxes Under Std Borrowing**	
Base Levy	$7.50	Base Levy	$7.50
Net New Construction Index	$2.50	**Net New Construction Index**	$2.50
New Base Levy	$10.00	New Base Levy	$10.00
Bond Debt Due	$0.00	Bond Debt Due	$2.64
Total Levy (tax pie)	$10.00	Total Levy (tax pie)	$12.64
Allocable Property- pie eaters	$300	Allocable Property Base- eaters	$400
Tax Rate	3.33%	Tax Rate	3.16%
Wolf TIF Paym	**$3.33**		
Each Pig Pays	**$3.33**	**Each Pig/Wolf Pay:**	**$3.16**
TIF Bond Fund		**Bond Fund – Wolf Loan**	
Previous Balance	$2.64	Previous Balance	$2.64
From Wolf	$3.33	**From City**	$2.64
Payment	$5.97		$5.28

YEAR THREE

Mrs. Doctor Pig, is the Pigsville's teacher. She has always used her parlor as the school room for the piglets. With the addition of a family of wolves (which includes a litter of six adorable, fuzzy wolf pups) to the community, the parlor is no longer large enough for her students. A new school is needed. Pigsville holds a referendum and decides to build a school for $25. It once again goes to the bank for a loan. The bank agrees to a loan like the one used for Wolf's radio station/living space. It will be for ten years with repayment of $2.64 per year. Under the terms of the loan and Wisconsin law, general obligation debt payment is added to the tax pie (levy). Remember, there are only three pie eaters, so the pigs will be the ones who will pay this extra cost, despite the fact that the school is being built for Wolf's pups.

Farmer Pig's calculations show that taxes are now $.39 higher under the TIF – add three zeroes and that is $390 for a $100,000 house or $590 on the average $150,000 home. Here are his figures:

Taxes Under TIF		**Taxes Under Std Borrowing**	
Base Levy	$10.00	Base Levy	$10.00
Wolf Bond Debt Due	$0.00	Wolf Bond Debt Due	$2.64
School Bond Debt due	$2.64	School Bond Debt due	$2.64
Total Levy (tax pie)	$12.64	Total Levy (tax pie)	$15.28
Allocable Property- pie eaters	$300	Allocable Property Base- eaters	$400
Tax Rate	4.21%	Tax Rate	3.82%
Wolf TIF Paym	**$4.21**		
Each Pig Pays	**$4.21**	**Each Pig/Wolf Pays**	**$3.82**
TIF Bond Fund		**Bond Fund – Wolf Loan**	

Previous Balance	$5.97	Previous Balance	$5.28
From Wolf	$4.21	**From City**	$2.64
Payment	$10.18		$7.92

YEARS FOUR THRU SEVEN look just like year three. At the end of year seven, the bonds on the TIF-side of the calculation can be paid off, however, the TIF fund still owes the city money since Pigsville paid the first year of debt. The fund on the borrowing side still has three years of payments to make. Here are Farmer Pig's calculations:

Additional taxes from the TIF are $.39 per year for Years 4-7 (4-years), $1.56. On the average current-day Eau Claire home, that is $2,340. The bond funds now stands as follows:

TIF Bond Fund		**Std Borrowing Bond:**	
Previous Balance	$10.18	Previous Balance	$7.92
From Wolf	$16.85	**From City**	$10.56
Payment	$27.04		$18.48
Loan Repayment	26.04		
Excess	$1.00		
Due City	$3.33		
Net needed	$2.33		

YEAR EIGHT –

The bank loan has been paid off and the next TIF payment will fully repay Pigsville for its initial bond payment. The comparative tax increase to the pigs is the same as the last five years ($.39 (comparable to $585 on an average Eau Claire home). Here are Farmer Pig's detailed calculations:

Taxes Under TIF		**Taxes Under Std Borrowing**	
Base Levy	$10.00	Base Levy	$10.00
Wolf Bond Debt Due	$0.00	Wolf Bond Debt Due	$2.64
School Bond Debt due	$2.64	School Bond Debt due	$2.64
Total Levy (tax pie)	$12.64	Total Levy (tax pie)	$15.28
Allocable Property - eaters	$300	Allocable Property Base- eaters	$400
Tax Rate	4.21%	Tax Rate	3.82%
Wolf TIF Paym - less $.88*	**$3.99**		
Each Pig Pays -	**$4.21**	**Each Pig/Wolf Pays**	**$3.82**

TIF Bond Fund		**TIF Bond Fund**	
Previous Balance	$27.04	Previous Balance	$18.48
Less Bond Payment	-26.04	**From City**	$2.64
Remaining	$1.00		$21.12
Due City	$3.33		
Wolf Payment	$4.21		
Credit to overall taxes	**($0.88)**		
***Reduction Wolf**	($0.88)		

YEARS NINE AND TEN

Now that the TIF is over, Pigsville has an opportunity under Wisconsin TIF law to treat 50% of (Wolf's $100 radio station) as new property and increase the levy through the net new construction index by $1.25. Don't ask me why this is, it's just the law. Farmer Pig consults with the gurus at the Wisconsin Department of Revenue and is told that it is standard practice for the cities in Wisconsin to increase their levies this way at the end of a TIF. He takes their advice, after all, they are the experts, and increases Pigville's levy by the $1.25. He also treats Wolf's property as fully assessable, meaning that the tax pie will now be shared by Wolf as well as the three pigs. That provides some welcome tax relief on the TIF side. In fact the taxes are now less on the TIF side of Farmer Pig's calculation. The City still has two more years left on the repayment of the Wolf Loan under the standard borrowing scenario, so the levy (tax pie) is higher there. The TIF saves each pigs $.35 over straight borrowing, which equates to $350 on an $100,000 home or $525 on an average Eau Claire home. The pigs will save the same amount in year 10. Here are Farmer Pig's detailed calculations:

Taxes Under TIF with TIF ENDING	
Base Levy	$10.00
New Construction Index - 12.5%	$1.25
Adjusted Base Levy – tax pie	$11.25
Wolf Bond Debt Due	$0.00
School Bond Debt due	$2.64
Total Levy (tax pie)	**$13.89**
Allocable Property Base - eaters	**$400**
Rate Rate	3.47%
Each Pig/Wolf Pays	**$3.47**
TIF Bond Fund	

Taxes Under Std Borrowing	
Base Levy	$10.00
New Construction Index	$0.00
Adjusted Base Levy – tax pie	$10.00
Wolf Bond Debt Due	$2.64
School Bond Debt due	$2.64
Total Levy (tax pie)	$15.28
Allocable Property Base- eaters	$400
Rate Rate	3.82%
Each Pig/Wolf Pays	**$3.82**
TIF Bond Fund	
Previous Balance	$21.12
From City	$2.64
	$23.76

THE COMPARISON

With wolf's debt now at an end under both scenarios, Farmer Pig does a ten year tally of the taxes under each to determine which is the more economical way to fund economic development - TIF or General Fund Borrowing. He concludes that he was indeed correct – straight fund borrowing would have saved the pigs a great deal of money ($1.81 or on an average Eau Claire Home, $2,715). Farmer Pig notes that the figures did not take into consideration the time value of money and points out that the savings in years 9 and 10 occurred long after Doctor Pig had died and left his home and business to his son (also Doctor Pig). Thus Doctor Pig senior never experienced the benefits when the TIF ended. When Wolf tells him that the comparison would have been closer if the city had not added the $1.25 (50% end-of -TIF increment) to the levy, he responds that each pig would have still have saved

$1.19 (equivalent to $1,785 on an average Eau Claire home) if the city had borrowed the money instead of using a TIF. Here are his comparisons:

Year	TIF	Borrowing	Difference	$150,000 EC Home
Year 1	$3.38	$3.38	$0.00	$0.00
Year 2	$3.33	$3.16	$0.17	$255.00
Year 3	$4.21	$3.82	$0.39	$585.00
Year 4	$4.21	$3.82	$0.39	$585.00
Year 5	$4.21	$3.82	$0.39	$585.00
Year 6	$4.21	$3.82	$0.39	$585.00
Year 7	$4.21	$3.82	$0.39	$585.00
Year 8	$4.21	$3.82	$0.39	$255.00
Year 9	$3.47	$3.82	($0.35)	($525.00)
Year 10	$3.47	$3.82	($0.35)	($525.00)
Total	**$38.91**	**$37.10**	**$1.81**	**$2,715.00**

All good fairy stores tell you what happened thereafter. This one is no exception.

YEAR 11 AND FOREVER

The pigs and wolf under the TIF scenario will pay forever more an additional $.31 per year because of the TIF. For the average Eau Claire home owner, that is an additional $465 of annual tax forever.

Taxes Under TIF with TIF ENDED		**Taxes Under Std Borrowing**	
Base Levy	$11.25	Base Levy	$10.00
Wolf Bond Debt Due	$0.00	Wolf Bond Debt Due	$0.00
School Bond Debt due	$2.64	School Bond Debt due	$2.64
Total	**$13.89**	Total	$12.64
Allocable Property Base	**$400**	Allocable Property Base	$400
Tax Rate	3.47%	Tax Rate	3.16%
Each Pig/Wolf Pays	**$3.47**	**Each Pig/Wolf Pays**	**$3.16**

EPILOGUE

Farmer Pig reviews these numbers with Doctor Pig and Mechanic Pig. Both agree that Farmer Pig was right all along. Pigsville decides to pass a TIF policy. The policy states:

> **TIFS WILL NOT BE USED TO FUND ECONOMIC DEVELOPMENT IN PIGSVILLE EVER AGAIN**.

And they weren't.

The families of the three pigs and wolf lived together happily ever after.

THE END