

Refocusing Wisconsin's TIF System On Urban Redevelopment

Three Reforms

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Executive Summary

Wisconsin's tax incremental financing (TIF) was originally intended to provide crucial assistance for urban redevelopment projects. Today, however, it has grown into a program with responsibility for promoting all kinds of economic development across the state. This unchecked growth is not without side effects, as the current program may actually discourage urban redevelopment and increase the opportunities for misuse of the program. This paper proposes a solution to these problems through three reforms that create a stronger tax incremental district (TID) classification system, remove TIF-based incentives for developing open land, and add incentives for stricter joint review board examination of TIF project plans.

Background

TIF is an important economic development tool for Wisconsin, allowing a municipality to promote growth in a specific district, or TID, by borrowing on the district's future growth in taxable property value. In Wisconsin, TIDs may be created for three types of projects: blight or environmental remediation, industrial development, and (as of October 1, 2004) mixed-use development. These projects are financed in the following way: first, local assessors and the Wisconsin Department of Revenue (DOR) determine a year-one base value for all property within the TID. As the city invests money in the district—upgrading roads, adding sewer service, providing incentives to developers, rehabilitating old buildings, or remedying brownfields—the taxes on all property value growth above this base value are used to pay off the costs of those improvements. Taxes are always collected on the full property value of the TID, but only the amount generated from the base value are sent to local governments; all remaining tax revenue pays back TID debts until all project costs are repaid.

In many ways, TIF allows local governments to get something for nothing. In exchange for agreeing to stagnant tax revenues from a specified district over 10–20 years, local governments can use TIF to generate new value to be added back to property tax rolls upon full repayment of project debts. However, this reading of TIF glosses over the fact that new development increases demand for city, county, and school district services—demand not accompanied by increases in tax revenue to provide these services. For instance, a new subdivision will send more kids to school, require additional snow and trash removal, and need more road maintenance. When a local government district contains a number of TIDs, city, county, and school districts must either cut services or raise taxes. For areas of high property value growth, it often makes more sense not to use TIF. If some development is likely to occur, the overall benefits of accruing some tax revenue sooner but not paying for site improvements may outweigh investments of public money that result in a large development that will not provide additional tax revenue for 20 years.

What's Wrong with TIF Today: Sprawl and Misuse

Upon signing the bill authorizing TIF in 1975, then-Governor Patrick Lucey characterized the program as “an additional means of redeveloping areas primarily urban in character.”¹ The history of TIF in Wisconsin, however, shows a program continually widening its focus and losing its ability to foster urban redevelopment. As restrictions on TIF use have loosened, though, TIF has become a vital economic development tool in Wisconsin, funding all kinds of economic development projects that are likely never to be undertaken without it. TIF’s scope in Wisconsin stretches across the entire state, with 757 active TIDs in 69 out of 72 Wisconsin counties that comprise 4.24 percent of Wisconsin’s total property value.²

TIF underwent a major overhaul during the 2003–04 legislative session that amended TIF statutes to loosen the rules for which projects are eligible for TIF funding, authorizing TIF funding for “mixed-use” developments for the first time.³ Past changes to TIF law had already greatly expanded the program’s scope, and Wisconsin’s TIF system promises to grow even larger under these most recent reforms.

While TIF’s expansion has provided municipalities with another tool to improve their regional economies, and the state’s as a whole, it also has altered the incentives for municipalities and developers to undertake urban redevelopment projects. By treating all projects equally, TIF has cut urban areas’ ability to use TIF as an effective development incentive in addressing blight and decayed infrastructure. Urban redevelopment projects are treated no differently than retail developments, and, just as blighted areas receive little attention under traditional market incentives, they continue to be ignored under TIF. Consequently, TIF is used less to fund redevelopment and more to fund the development of open land. In fact, one study estimated that 30,000 acres of open land have been developed with assistance from TIF.⁴

TIF’s unchecked growth affects Wisconsin in other ways as well. The more the program grows, the greater the potential for abuse. Currently, joint review boards, composed of representatives from all affected taxing jurisdictions and the public, must find that the development would not have occurred without the use of TIF. However, the members on these joint review boards do not realize their interest in gathering good information about the kind of development targeted by the project, and its true need for public subsidy. We know that taxpayers lose out if TIF is approved for projects that would occur without it, yet all too often TIF projects are rubberstamped as a “something for nothing” tradeoff. Lands included in industrial and mixed-use TIDs carry a far higher potential for misuse, since these parcels have no significant barriers to development. As more TIDs are created under these two classifications, Wisconsin’s TIF program will likely be marred by greater abuse and increased handouts of taxpayer money to corporations and developers.

Three Reforms for a Better TIF System

In its current form, Wisconsin's TIF system fails its residents. Urban areas remain perpetually underutilized, businesses locate further away from residents needing to access new jobs, and taxpayers pick up the tab for development that would have occurred naturally. Taken together, the following three reforms envision a better TIF program for Wisconsin: one that institutes a clearer TID classification system, refocuses TIF on addressing blight, and provides new incentives for joint review boards to prevent TIF abuse.

1. Institute a Better Classification System

The first step toward refocusing Wisconsin's TIF system on urban redevelopment is to separate redevelopment projects from those promoting industrial or mixed-use development. For the first twenty eight years that TIF existed in Wisconsin, municipalities could create TIDs without identifying their specific purpose; merely stating that the district fell under one of the state's three TID classifications. Reforms passed in 2003 require, for the first time, that municipalities specifically state under which of the three TID classifications a project was approved. This alone is not enough.

The State of Wisconsin should provide guidance to joint review boards on what constitutes an eligible project in each of the three classifications. Prior to the addition of the mixed-use category, the industrial classification acted as a catchall category without a strict definition. Now that there is a new, even wider catchall category of mixed-use development, Wisconsin should take the opportunity to refocus industrial development TIDs on aiding our struggling manufacturing sector. The result is three very distinct categories: blighted TIDs focused on urban redevelopment projects, industrial TIDs focused on growing Wisconsin's manufacturing sector, and mixed-use TIDs that foster commercial, retail, and residential growth not occurring in blighted areas.

2. Remove Rewards for Developing Open Land

Under Wisconsin's current TIF system, the manner in which TID base values are determined allows development of open land to be paid off more quickly than other projects. The root of this problem resides in land valuation guidelines designed to help farmers. In Wisconsin, agricultural land is assessed not at its market value but rather at its crop growth potential, so that farmers with favorably located land are not driven out of business by increasing property tax bills. However, when agricultural land specifically targeted for development is included in a TID, the base value is still determined on the land's potential farming value, rather than its potential value as developed land.

To level the playing field between new development and redevelopment projects, all previously undeveloped land should be revalued to reflect its future usage. The recalculated value, based on development and municipality-specific average land values, should be included in the TID's final base value.⁵ Under this reform, base values of comparatively sized TIDs in urban and exurban areas will come closer together. Redevelopment projects will pay themselves off at a rate closer to that of new development projects, in part restoring TIF's focus on redeveloping urban areas.

3. Add Incentives for Joint Review Boards to Enforce Restrictions on TIF Use

Wisconsin safeguards against TIF abuse by requiring project plans to be approved by a local joint review board. Board members are supposed to base their vote on whether the project is truly in need of public assistance and whether its benefits outweigh the costs of providing unfunded services to the development while it pays itself off. These determinations are difficult to make, and joint review board members are often ill-informed about the real costs of using TIF. Reform of the joint review board process is necessary to add incentives for better information gathering and stricter scrutiny of TID project plans.

First, base values should be tied to the rate of property value growth for the municipality creating the TID. Base values will increase each year according to the municipality-specific level of property value growth. This is distinct from the previous reform, which proposed revaluing open land at a municipality's average *land* value. This third reform will adjust TIDs' base values each year at the rate reflecting average *property* value growth in the community, a rate that includes both land appreciation and construction of new buildings. Under this system, base values for TIDs in fast-growing communities will increase more each year than in depressed communities, making it more difficult for TIDs in areas of great growth to pay themselves off. Faced with longer payback periods caused by high levels of existing property value growth, joint review boards will pay closer attention to whether the proposed project is truly in need of public financing.

Second, the annual adjustments in base value should be tied to a TID's classification. Blighted land contains significant impediments to development and, without public subsidy, is likely not to appreciate. Thus, base values for these TIDs should remain constant throughout payback. Industrial TIDs contain land suitable for development, although there is no guarantee the development will actually yield good-paying manufacturing jobs without targeted public funding. Base values for industrial TIDs should be indexed to manufacturing property value growth, establishing a minimum level for publicly funded growth in a struggling sector. Finally, because mixed-use TIDs are comprised of an unpredictable mix of developments, base values for these TIDs should be tied to the growth of property value in all classes.

In practice, base values for mixed-use TIDs will typically increase more than those for industrial TIDs, and both will increase more than blighted TIDs' constant base values. This means that, all other things being equal, a TID classified as blighted will pay itself off more quickly than one classified as industrial, and both will pay back more quickly than mixed-use TIDs. Sponsoring municipalities, then, will aim to have every TID classified as blighted to get the most favorable payback prospects. In contrast, other taxing jurisdictions, which must struggle with providing services to the new development, will want to see the increased tax revenue flows from annual raises to the base value. Faced with different levels of taxable value for each TID classification, more emphasis will be placed on assigning TID classifications truly appropriate to the development targeted. Under this system, only genuinely blighted areas will receive the greatest assistance.

Results of these Reforms

Enacting the three reforms detailed above will make for a TIF system in Wisconsin that provides better benefits to the state. Municipalities and developers will undertake more projects that provide stronger benefits to our citizens, such as urban reclamation and job-creating manufacturing projects, with authorization from a strengthened joint review board process.

Fewer TIF-based Incentives for Developing Open Land

When searching for development locations, businesses often require large plots of land. This puts urban areas at an immediate disadvantage to new development areas, as blighted infrastructure must be cleared for development to occur. TIF, which was envisioned as a solution to this problem, actually exacerbates the problem by allowing future industrial and mixed-use developments to be valued at artificially low agricultural use-value standards.

The reforms here assert the following: open land targeted for development should be included in the base value at its average market value and not at its crop-growth potential. The effect of this change is to level the playing field between open land development and redevelopment projects: paydown on project debts will not occur merely from rezoning the land, and municipalities will think twice about creating TIDs that include hundreds of acres of agricultural land since each acre included will raise TID payback standards.

Decline in Use of TIF in Cases Where Development Would Have Otherwise Occurred

TIF is statutorily limited to projects that local joint review boards determine would not have occurred without public subsidy. In practice, this determination is typically a formality, receiving little attention. Local joint review boards will pay more attention to this determination under the proposed reforms because annual base value adjustments will be tied to the municipality's property value growth. Fast-growing communities will see the land's potential growth reflected in annual base value increases that limit the ability to pay off project costs. In short, fast-growing communities that are less likely to need TIF will now have less capacity to use it.

Added Incentives for Development of Blighted Areas and Manufacturing-Sector Jobs

The property values of land within TIDs classified as blighted, environmental rehabilitation, or industrial are likely to increase at a slower rate than mixed-use TID land. Indexing base values to this difference in potential growth tips incentives back toward blighted, rehabilitation, and industrial development since they will pay off more quickly than mixed-use projects. TIF thus will become a more useful tool for financing economic development projects that help build a healthy economy in Wisconsin by removing blight, remedying environmental concerns, and adding new manufacturing jobs.

Increased Funds Reallocated to Local Governments During TID Payback

As of May 2004, Wisconsin has 757 active TIDs. In each of these districts the tax revenue to local governments is locked in for a period of up to 20 years, irrespective of the land's natural appreciation and rising demand for services from the new growth within the TID. Receiving only a set level of tax revenue for the land in a single TID may not significantly strain local governments' budgets. However, as more and more TIDs are created—at a rate of 62.3 new districts per year—many county and school district budgets may include over 50 TIDs.⁶ Combined with shrinking state revenue sharing and looming property tax freezes, local governments are facing difficult financial situations further worsened by TIF's unchecked growth.

Municipality and development-specific adjustments to base values will provide local governments with an annually increasing flow of income. Coupled with the revaluation of all open land included in TIDs, local governments will be better equipped to hold the line on property taxes and preserve vital government services.

Notes

- ¹ 1000 Friends of Wisconsin, *Wisconsin's Tax Incremental Finance Law: Lending a Hand to Blighted Areas or Turning Cornfields into Parking Lots?* Madison: (October 1999).
- ² Wisconsin Department of Revenue. Figures as of May 2004.
- ³ 2003 Wisconsin Act 126.
- ⁴ 1000 Friends of Wisconsin, *Wisconsin's Tax Incremental Finance Law*.
- ⁵ Base values are currently calculated according to strict assessor standards and cannot actually be adjusted up or down. When we refer to base value adjustments we actually intend to adjust the threshold at which tax revenues divert from feeding local governments' general-purpose revenues to repaying TID project debts.
- ⁶ Rate calculated between 1998 and 2003. Wisconsin Department of Commerce, *1999–2000 Report on Tax Incremental Financing* (Madison: May 2002).

TIF Overview

In September 2001, the city of Oconomowoc, Wisconsin, passed a resolution allocating \$24 million to help fund the development of over 1,500 acres of farmland, called Pabst Farms. The acreage surrounds the last undeveloped interstate intersection in Waukesha County.¹ The developer, WisPark — one of Wisconsin's largest corporations — claimed that the development was not possible without public subsidy, and citizens throughout Waukesha County ended up funding infrastructure improvements deemed necessary to create a business park on the land. This development is funded under a program called tax incremental financing (TIF), which originally sought to assist the redevelopment of "...areas which are primarily urban in character," as then-Governor Patrick Lucey noted upon signing the enabling legislation in 1975.²

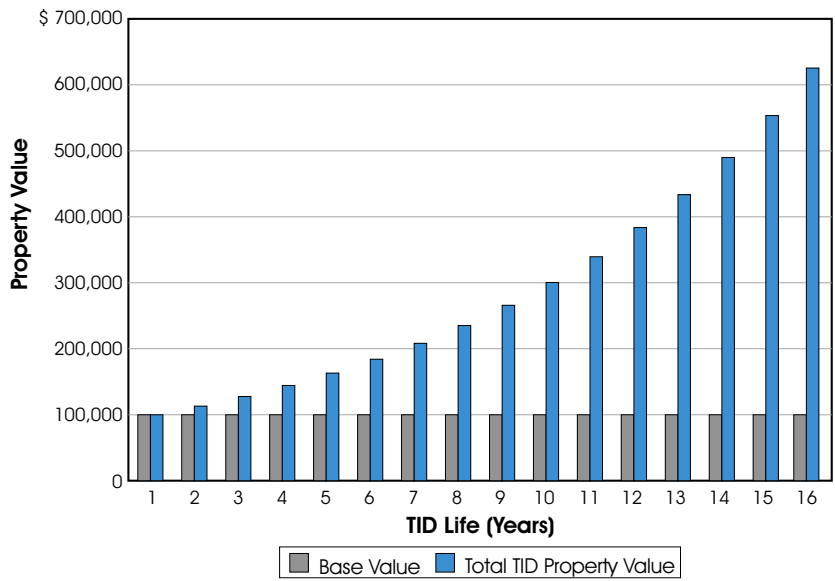
What exactly is TIF, and how does it work? How has TIF law changed, both statutorily and in actual use, since its inception? What is the current debate surrounding its use, and what reform proposals are currently being considered in Wisconsin? And, where should we go from here?

TIF is an economic development tool available to municipalities in 47 states, including Wisconsin.³ TIF allows a municipality to promote growth in a specific district through public financing that borrows on the future growth in taxable property value. TIF works by setting a base value for a Tax Incremental District (TID) and allocating the taxes on all property value growth above the district's base value to pay off the costs of improvements made in the district. Taxes on the base value continue to flow to all taxing jurisdictions (county, municipality, and school district) at the fixed value until project costs have been paid off, at which point all newly-created property value is added back to the property tax rolls of overlying districts. Thus, municipalities invest in public improvements without having to raise property tax rates or reorganize budgets, knowing that the taxes on all property value growth go towards paying off debts incurred to promote the economic development.

Any portion of a municipality designated as a TID typically lies within numerous overlying tax districts. For example, while a taxpayer receives just one property tax bill, municipal government, county government, the school district, the technical college district, and often sewage or other special districts all receive a portion of the taxes paid by citizens. In effect, when a TID is created, taxable value for the county government and technical college/school districts is locked in at a set level. In order to pay off the costs of development, any taxes assessed on growth above the base value, while taxed at the standing rates of overlying districts, go directly to the municipal government to pay off development costs. The tax bases of overlying taxing jurisdictions do not increase until all project costs are paid off. The idea is simple: if overlying tax districts are to benefit from new growth, they should also be responsible for footing part of the bill to fund economic development.

Figure 1

Fictional TID Growth Over 15 Years



To illustrate further, consider the fictional example below. In Year 1, the value of the land to be captured in the TID is determined by the Department of Revenue, and a base value of \$100,000 is set. Over the 15 years in which the TID exists, the overlying tax districts only receive taxes on this base value. Taxes are still collected on the total TID value; however, taxes on the increment, or distance between bars, are used to pay off TID project costs.

How TIF Works In Wisconsin

While TIF is popular in many states, each state sets its own eligibility, size and length of life, accountability, and project amendment restrictions. Wisconsin's TIF system underwent a major reform in March 2004, set to become effective on October 1, 2004. The functioning of TIF discussed here reflects how TIF has been and still is used in Wisconsin through mid-2004, so that we may accurately assess the program's strengths and weaknesses. The recent reforms are discussed in detail later on, under "Current TIF Reforms."

In Wisconsin, a municipality may create a TID for one of three reasons: to remedy blight, for rehabilitation or conservation work, or to promote industrial development. Only cities and villages are eligible to create TIDs. Proposed TIDs must be found by the municipality to meet all of the following criteria:

1. Not less than 50 percent of the property captured in the TID is either blighted, in need of rehabilitation or conservation work, or suitable and zoned for industrial development.
2. Improvements made through TIF will likely enhance the property values of the rest of the TID substantially.
3. The project costs relate directly to eliminating blight, directly serve to rehabilitate or conserve the area, or directly serve to promote industrial development, consistent with the TID's purpose.⁴

The majority of TIDs created in Wisconsin seek to either remedy urban blight or promote industrial development. A blighted TID must include parcels comprising over 50 percent of the total TID area which are detrimental to public health, safety, morals, or welfare, or significantly impair the sound growth of the community.⁵ The statutes specifically exclude open land area that has only been developed for agricultural uses and thus require that property vacant for the seven years prior to the TID's creation may not comprise more than 25 percent of total TID area.

Restrictions on industrial TIDs are not as stringent. For instance, the restriction on open land included in blighted TIDs does not apply to TIDs created to promote industrial development. TIDs created for industrial development are only required to provide proof that at least 50 percent of the area within the TID is actually zoned for industrial use at the time of the district's creation. Additionally, municipalities are required to keep this area zoned for industrial use throughout the life of the TID.

While a city or village in Wisconsin is able to create as many TIDs as it pleases, statutes place some limit on the amount of the municipality's total value that can be captured in a TID. Municipalities cannot create a TID if the percentage of total equalized land value caught in all existing districts and the proposed TID is above 7 percent of the municipality's total equalized value or if the total of the base value of a proposed TID plus the increments from all existing TIDs is above 5 percent of total equalized municipal value.⁶ Municipalities have up to seven years to complete all project expenditures and then up to 16 years following the end of expenditures to recoup all costs. In all, a TID can live for up to 23 years.⁷

Wisconsin law also requires a level of public input for the approval of TIDs, ensuring some accountability. Municipalities must hold a public hearing before adopting a resolution to create a TID, in which both the public and representatives of all overlying tax districts are invited to voice their opinions on the proposed development plan. The TID project plan also must win a majority vote by a joint review board consisting of one member from each taxing district with jurisdiction over the TID plus one member of the public chosen by the municipality. These representatives base their vote on three criteria: "(1) whether the development expected in the TID would occur without the use of TIF [commonly referred to as the 'but for' test]; (2) whether the economic benefits of the TID...are sufficient compensation for the improvement costs; and (3) whether the benefits of the proposal outweigh the anticipated loss in tax revenues of overlying taxing districts."⁸ In addition, audit reports must be conducted at three points during the life of the TID: after 30 percent of expenditures are made, at the conclusion of expenditures, and after the termination of the TID. Annual reports consisting of project expenditures and revenues are also publicly available and sent to each overlying tax district. However, the municipal governments are not required to submit these audit reports or any joint review board findings to the Wisconsin Department of Revenue (DOR).

In some cases, amendments to TID project plans are allowed. Currently, the municipality can apply for a one-time boundary amendment during the first seven years, which allows the addition of contiguous land to the TID. If the amendment is approved by the local joint review board and certified by the DOR, the value of the new land is added to the TID's base value, and municipalities are allowed another three years to complete project expenditures. However, these boundary amendments are not subject to any value limit restrictions. There are also some instances in which a TID may exist beyond the date when all project costs have been paid off, allocating its increment to another TID: "If both TIDs were created before October 1, 1995 [when school tax codes were restructured], and have the same overlying taxing jurisdictions, one district may allocate positive tax increments for up to 10 years to another district that has yet to pay off its project costs under its project plan."⁹

Historical Gestation of TIF Law

TIF was first implemented in Wisconsin in 1975. At the time, the state viewed it "...as an alternative to federal categorical aids for urban redevelopment which were being phased out."¹⁰ To assist municipalities in remedying blight and revitalizing urban areas, Wisconsin contracted with a major law firm to develop a TIF plan based on similar ones adopted in California and Minnesota. The original plan focused entirely on urban development and redevelopment. Later, the Wisconsin Department of Business Development (the predecessor of the Wisconsin Department of Commerce, or DOC) suggested an amendment to the original plan, allowing the use of TIF to develop sites suitable for industrial development.¹¹ Upon signing the original bill in 1975, Governor Patrick Lucey commented, "The intention of the bill as it was introduced was to provide an additional means of redeveloping areas which are primarily urban in character."¹² Because the land and development costs required to develop urban areas exceed those of suburban areas, TIF aimed to eliminate this competitive disadvantage faced by urban areas. Despite its original intent, today TIF primarily funds new development, development on the municipality's periphery, and development of industrially zoned land.¹³

The laws governing TIF's use have changed several times since the program's inception in 1975. In 1981, the Legislative Audit Bureau (LAB) conducted a review of TIF and found that TIF had been used for development which would have occurred without it. Spurred by this report, the 1981 state legislature acted in three ways to significantly tighten TIF's use. First, it increased the percentage of TID land that must meet one of the three criteria for TID creation (blighted, in need of rehabilitation or conservation work, or suitable for industrial development) from 25 to 50 percent. Second, it required that land suitable for industrial development be zoned industrially and remain so throughout the duration of the TID. Finally, it limited the amount of vacant land allowed in a TID, stipulating that no more than 25 percent of TID land may have stood vacant over the seven years prior to TID creation. This was a significant tightening of TIF-use standards; however, sites suitable for industrial development were excluded from the last provision, allowing TIF-financed industrial development to occur on entirely open land.

In the early years of Wisconsin's TIF program, very few measures of public accountability existed. Working on another suggestion made by the 1981 LAB report to "consider improving public participation in and review of the TIF process...",¹⁴ TIF law began requiring project approval by a joint review board. This joint review board ensured that all overlying tax districts and the public have the opportunity to voice their opinions concerning the creation of a TID. Additionally, in laying out criteria on which the joint review board should base its vote, the legislature required that joint review boards consider whether the proposed development would have occurred without the creation of a TID. While involving the overlying districts was undoubtedly a change for the better, the "but for" test was left without significant strength. Municipalities and overlying districts must subjectively assess prospects for future development themselves and provide a written finding only when the "but for" test is not satisfied, but not if a project plan is approved. Indeed, overlying districts and municipalities debating the approval of a TID project plan have little incentive to gather good information on whether the "but for" test is satisfied, as the community's growth potential is not currently tied to how tax revenues are divided between overlying tax districts and project costs debts.

Another round of TIF law changes occurred in 1995, this time loosening regulations on maximum TID life and sharing of TIF increments between districts. These reforms were spurred by a change in Wisconsin's financing of public schools. In response to rising property tax rates, then-Governor Tommy Thompson vowed to finance two-thirds of public school costs, which became law in 1996.¹⁵ In anticipation of drops in school district property tax rates, and consequently smaller TID tax increments, the State of Wisconsin amended TIF law to allow TIDs created through September 30, 1995, to generate increased revenue. First, the legislature extended the project expenditure period from seven to ten years. Second, amendments increased the period of time in which municipalities can collect increment following the expenditure period from 16 to 20 years, upping potential TID life from 23 to 27 years. Finally, a new provision allowed municipalities to allocate increments from one TID to another for up to ten years. All of these reforms were intended to give municipalities the flexibility to maintain original plans and debt repayment schedules originally created with old school district tax rates in mind.

Also included in this series of law changes was a provision unrelated to the change in school district tax rates. This allowed all TIDs, regardless of creation date, to amend their boundaries once during the first seven years of life. Of note, however, is that these additions are not subject to the five and seven percent limitations on total TID size applicable to new TIDs previously discussed in this report. While both boundary amendments and amendments allocating increments from one TID to another must be approved by the joint review board, neither amendment is subject to state oversight. In sum, earlier reforms tightened TIF restrictions and mandated increased oversight of TID creation by a joint review board. However, the decision criteria for joint review boards never placed significant emphasis on preventing development that would have occurred without subsidy, and the most recent changes loosened restrictions on TIF use.

Historical Gestation of TIF Usage

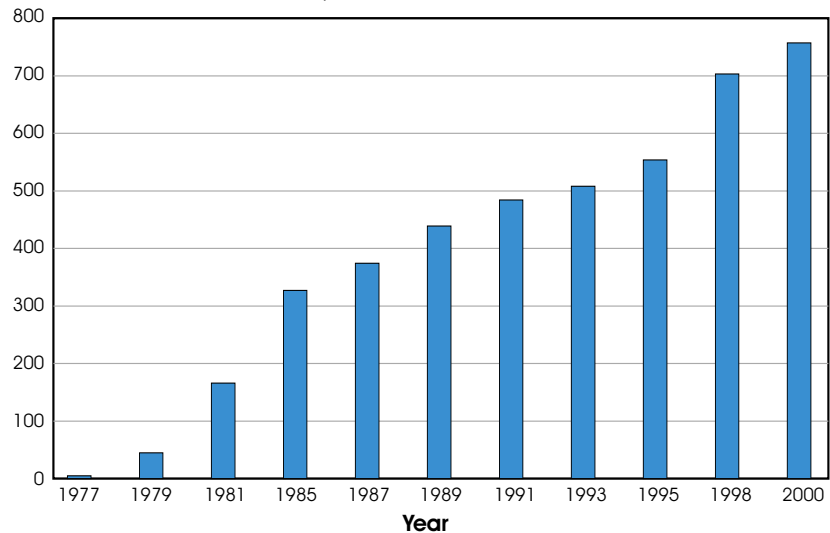
State law requires the DOC to release biennial reports on the “effects and impacts of TIF projects socially, economically, and financially.”¹⁶ From these reports, we gain a better picture of the historical trajectory of TIF usage to supplement our knowledge of statutory changes. Three major trends in TIF usage are: increased utilization of TIF, increased use of TIFs for industrial development, and increased use of TIF by small communities.

The *1999–2000 Report on Tax Incremental Financing* notes that, since its inception, TIF has created 1,123 TIDs, of which 757 remain active. The number of active TIDs in any given year has increased steadily over the program’s 28-year history. This yearly increase in the number of active TIDs is illustrated in Figure 2.

Data were not available for the year 1983; however, the figure shows a clear increase in the number of active TIDs over 1977–2000. This is the result of many factors. First, it is natural for a program with a potential life of 27 years (for those created before 1995) to increase in total number, as some TIDs created in the early 1970s are just now reaching the statutory limit to their lives. However, we have also seen a recent increase in the number of TIDs created per year. According to the most recent DOC *Report on Tax Incremental Financing* (1999–2000), since the program was established an average of 44.9 new districts have been created per year. However, over the past six years, 62.3 new districts have been created per year¹⁷

Figure 2

Number of Active TIDs, 1977–2000



This increase in TIF usage also increased the percentage of total Wisconsin property value captured in TIDs. Comparing the 1989–90 and 1999–2000 DOC reports on TIF, the percentage of total Wisconsin property value that is captured in total TID value has increased from 2.99 to 3.85 percent. Perhaps more importantly, we should evaluate the percentage of total state value which is TID value increment, since this is the amount of taxable property value no longer providing tax revenue to overlying districts. In this measure, too, TIF has extended its reach; the percentage of taxable Wisconsin property value now considered value increment increased from 2.01 percent in 1990 to 2.62 percent in 2000.¹⁸ Currently, overlying tax districts are not receiving taxes on over \$7.5 billion of taxable income.¹⁹

Another trend in Wisconsin has been the increased usage of TIF for industrial or commercial development. While accurate data do not exist on the purposes for which TIF is used, by comparing the 1989–91 and 1999–2000 DOC reports on TIF, we can draw some useful conclusions. For TIDs created in 1989 and 1990, 67 percent of the purposes cited were industrial or commercial development. In contrast, for TIDs created in 1999 and 2000, 73.5 percent of the purposes stated were industrial or commercial development. The stated purposes of the TIDs offer some insight into how these project plans statutorily qualified for TIF. Many projects listed multiple purposes; however, just because the project listed industrial or commercial development as its main goal does not necessarily exclude it from remedying blight or redeveloping urban areas. Thus, while there seems to be some evidence to support our claim that the current usage of TIF is not consistent with the law's original intent, we cannot make this statement with absolute assurance.

Another major trend is the increased utilization of TIF by small communities. According to the DOC's 1999–2000 report on TIFs, "Prior to 1995 the smallest municipalities [populations less than 1,000] as a group created on the average of 4.9 districts per year (94 TIDs in 19 years); ... [between 1995 and 2000] they created on the average of 12.3 districts per year (74 TIDs in 6 years), a 151% increase."²⁰ Driven by increased TIF use by municipalities with populations less than 1,000, over 50 percent of all TIDs created between 1995 and 2000 are in communities with populations under 5,000.²¹ This is significant because communities of less than 5,000, and particularly those with populations below 1,000, are unlikely to have true urban areas in need of publicly assisted redevelopment. Consequently, conditions in these communities are less likely to warrant the creation of blighted TIDs.

If small communities are causing much of the growth in TID-creation rate, and also have fewer conditions warranting blighted TID creation, they must be creating more industrial TIDs. Coupled with the increased number of TIDs citing industrial purposes, this lends additional support to the assertion that TIDs are increasingly used for industrial development and that current TIF use has strayed from its original intent.

Current Debate over TIF

The changes in TIF utilization have sparked a strong debate over the future of TIF. As of 2000, TIF was used in 69 out of Wisconsin's 72 counties and has increased the value in the 757 then-active TID districts by 313 percent over the certified base values.²² However, Wisconsin also has more taxable property value in TIDs than ever before. Faced with a budget shortfall, cuts to local governments, and rising property tax rates, the debate over how TIF should be used is becoming ever more important.

Arguments in Favor of TIF

One side of the TIF-reform argument, usually backed by municipal governments and developers, is that the TIF program has positively influenced Wisconsin's economy over the last 28 years and that measured expansion of TIF would yield similar results. This argument is typically grounded in three assertions: 1) TIF allows Wisconsin's cities and villages to remain competitive with neighboring states; 2) TIF is one of the few tools available to municipalities seeking to promote economic growth; and 3) TIF effectively promotes development that would not have occurred without public subsidy, adding taxable value to Wisconsin's property tax rolls.

TIF allows municipalities seeking to produce economic growth to attract developers by covering the cost of clearing and preparing sites for development, adding public infrastructure, and financing loans and grants to developers. Covering these costs, which are normally paid by the developer, allows areas with high development costs to remain competitive with areas of lower development costs both inside and outside of the state. In this way, TIF allows Wisconsin municipalities to compete with other states, and allows depressed Wisconsin municipalities to compete with thriving Wisconsin communities. A good example of this is when TIF funds the clearing of decrepit structures or remediation of environmental pollution to promote future development. Developers with the choice to redevelop slum areas or locate on open land on a municipality's fringe will naturally choose to minimize development costs, locating on the open land. By funding basic site-preparation costs, TIF allows sites with inherently high development costs to remain competitive.

Second, municipalities with declining property values often note that TIF is one of only a few tools available to municipalities trying to attract new investment. With more generous tax abatements programs offered in Illinois, developers' decisions about where to locate may be influenced by TIF. Indeed, Andy Bruce, executive vice president and principal with MLG Development in Brookfield, Wisconsin, notes, "TIF is an extremely beneficial economic development tool. It's important to note that this state doesn't have a whole lot of other options available for municipalities."²³ In the absence of TIF, municipalities would be forced to raise taxes to fund new development or apply for more restrictive grants which do not guarantee funding.²⁴ In addition, TIF allows municipalities "...to respond quickly to development proposals, since approval can occur at any time in the year, rather than being constrained by the timing of the local budget."²⁵ This flexibility is also present in the wide range of projects eligible for TIF use. The classification of "industrial development" is a wide umbrella, which can cover anything from retail to chemical factories and from office buildings to restaurants. In sum, TIF is of great value to municipalities because it: 1) funds development without raising taxes or requiring application for restrictive and uncertain grants; and 2) affords great flexibility in the timing and nature of project costs to municipalities.

Finally, TIF's supporters claim that TIF results in development that would not have occurred without public subsidy, thus adding taxable value to Wisconsin's property tax rolls. A 1998 survey of Wisconsin municipalities, conducted by the consulting firm Virchow, Krause & Company on behalf of the League of Wisconsin Municipalities, illustrates TIF's success in the eyes of municipalities. Of the 328 municipalities that had used TIF, 213, or 65 percent, responded to the questionnaire. Of those that responded, 79 percent indicated that they believed development would not have occurred without TIF, and another 14 percent believed that the current development would not have occurred to the same extent, or as quickly, without use of TIF. Accordingly, "respondents gave each TID a 4.11 success ranking, using a scale of 1 to 5, with 1 signifying 'little success' and 5 signifying 'very successful.'"²⁶ The municipality's assessments of success are bolstered by DOC statistics showing that the taxable value of the 366 TIDs terminated by 2000 increased an average of 502 percent.²⁷ This increase in value was created over the course of many years and is based on the questionable assumption that absolutely no other growth in property value would have occurred without TIF. However, it is the case that TIDs do show significant increases in property value, on average, even if the DOC's growth index may be an exaggerated measure of how much growth has occurred.

In sum, developers, municipalities, and other TIF supporters lobby in favor of TIF and its possible expansion because it: 1) allows Wisconsin municipalities to remain competitive with neighboring states and each other; 2) gives cities and villages a flexible tool with which to promote economic growth; and 3) causes significant property value growth that would not have occurred without TIF.

Arguments Against TIF

The argument against TIF is based on three claims: 1) TIF is used to develop open land far too often and thus contributes to the problem of urban sprawl; 2) despite joint review board findings that no development would have occurred without TIF use, areas that would have developed anyway are still receiving public financing; and 3) TIF contributes to rising property taxes. These arguments are typically made by community-based organizations and advocacy groups from overlying tax districts affected by TIDs.

TIF Contributes to Urban Sprawl

We will first consider the claim that TIF primarily develops open land, an assertion made by public watchdog groups concerned with land use such as 1000 Friends of Wisconsin and the Land Use Institute. Such groups argue that the use of TIF to develop open land is against the original intent of the law to redevelop "...areas which are primarily urban in character," as noted by then-Governor Patrick Lucey upon signing the bill in 1975.²⁸ Since then, the provision allowing for TIF-financed development in areas suitable for industrial development has been used to fund sprawling development on the edge of cities and villages, such as the Pabst Farms development mentioned earlier. Indeed, "sites suitable for industrial development" are the only type of TID exempt from requirements that no more than 25 percent of TID land stood vacant for the seven years prior to TID creation. Industrial TIDs then face far fewer restrictions on their use, with the most ambiguous eligibility criteria — "a site suitable for industrial development" — and also exemption from any requirements concerning previous land usage.

This argument is backed by two facts: 1) since its inception in 1975, TIF has been used to finance a significant amount of open land; and 2) the use of TIF to fund open land has accelerated rapidly over the past ten years. In a 1999 report on TIF in Wisconsin, 1000 Friends of Wisconsin discovered that 45 percent of active TIDs (302 out of 661) at that time were developing open land. According to this report, public subsidies have funded the development of over 30,000 acres of previously open land in the 302 TIDs examined by 1000 Friends of Wisconsin.²⁹ Neither the DOC nor the DOR keep official statistics on whether TIDs are used to fund the development of open land. However, the increase in TIDs created to promote industrial development (the classification without any restrictions on amount of open land included in its boundaries) indicates that TIF is likely funding the development of an increasing amount of open land. Further, it is likely that this trend will continue in the future as more TIF projects are funded that do not contain statutory limits on the amount of previously open land.

What, then, is the consequence of publicly funding the development of significant amounts of previously open land? The most obvious consequence is a contribution to urban sprawl. If more businesses locate on the fringe of municipalities, people are forced to commute farther, road traffic increases, air pollution from automobiles increases, and the tax base from already distressed inner cities is redistributed to outlying areas. The last point is perhaps the most interesting. Indeed, many of the arguments in favor of TIF revolve around maintaining the competitiveness of areas with high development costs. However, allowing the creation of TIDs for sites suitable for industrial development "...makes TIF useable for the development of any open space land..."³⁰ Thus, urban fringes are equally able to utilize TIF, effectively negating any competitive advantage gained by cities using TIF to remedy urban blight.

TIF is a Corporate Handout

The second argument against the current TIF system is that TIF essentially functions as a corporate handout, since it finances development that would have occurred without public assistance. Because the "but for" test is so difficult to accurately determine, consultants and developers are able to secure TIF agreements from municipalities that do not need to provide such subsidies to create property value growth. These arguments are supported by observations that large corporations often locate in TIDs and benefit from public subsidization of development costs. The 1000 Friends of Wisconsin report on TIF highlighted one TID created in Baraboo, Wisconsin, that funded the construction of a Wal-Mart Superstore. The project plan was approved by the local joint review board, despite the fact that Wal-Mart boasted sales of \$137 billion in the TID's base year, a Wal-Mart already existed two miles away, and Wal-Mart's corporate real estate manager admitted that the development would have occurred without TIF.³¹

Clearly, the "but for" test was not satisfied in this case, yet the local joint review board still approved the project plan. This indicates a number of weaknesses in the "but for" test. First, local government officials may not be able to make an accurate determination of whether or not development would have occurred without TIF. Reliable information on a developer's interests or profitability, or even the growth capacity of the municipality, may not be available to local decision makers. Second, the joint review board is likely to approve TIF plans in cases where there is doubt about whether or not the development would occur without TIF. If development is likely but not assured, joint review boards are apt to approve TIF plans. Complicating matters further, members of the joint review boards often have short-sighted interests in assuring the business growth within the municipality insofar as it increases the prospects of reelection for local officials.

The argument that TIF funds development that would have occurred without it is certainly plausible but difficult to prove. Making judgments about whether or not development would have occurred without public subsidy *after* the development has already occurred carries an inherent level of uncertainty and speculation. Most often, arguments of this nature are made on a case-by-case basis, with judgments based on the type of business located in the TID, the success of these developments elsewhere, and the recent success of the municipality in attracting development. However, we can also look to general trends in TIF usage for circumstantial evidence supporting arguments that assert the weakness and malfunctioning of the “but for” test.

Consider the following two facts. First, the average TID life is declining. The *1999–2000 Report on Tax Incremental Financing* notes that, “on average, TIDs created from 1976–1983 remained active for 10–15 years, while TIDs created since 1984 remained active for less than 10 years.”³² Additionally, TIDs created in the earlier period have an average growth index of 458 percent, while those created since 1984 have a growth index of 698 percent.³³ Many argue that this shows an increase in municipalities’ skill at using TIF, but it is also possible that this increased success is a function of more TIDs being created to fund projects that would have, in some form, occurred regardless of public funding.

Second, a study by the League of Wisconsin Municipalities concluded that, while individual TIF districts grew at a high rate, sponsoring municipalities did not have higher total growth rates compared to municipalities within the same county that had never used TIF.³⁴ So, TIDs are paying themselves off more quickly, but their sponsoring municipalities grow no more quickly than municipalities that have avoided using TIF. The logical conclusion from these facts is that local joint review boards are driving down average TID life by approving projects that do not need assistance.

TIF Causes Rising Property Taxes

A third argument against TIF argues that its overuse is actually causing a rise in property tax rates in two ways: 1) its widespread use has shifted responsibility for covering basic development costs from the private to the public sector; and 2) new development in TID districts increases demands on the operating budgets of local governments and school districts, but does not add taxable value to property tax rolls, forcing municipalities to raise tax levies until the TID pays itself off.

TIF’s Overuse Shifts the Burden of Development Costs to the Public Sphere

There is no doubt that TIF is used widely throughout the state; as noted earlier, the financing tool has been used in 69 out of 72 counties in Wisconsin. However, as use of TIF becomes more prevalent, municipalities are often forced to offer some public subsidy to developers in order to attract development. TIF is inherently a slippery slope; when a neighboring municipality shows a willingness to offer public subsidies to developers, surrounding municipalities are forced to offer similar deals to developers. As this process continues, costs previously covered by developers are now regularly funded through TIF.³⁵

Ideally, though, TIF would fund the relocation of businesses coming in from out of state, the expansion of businesses within Wisconsin, and new business creation. Using TIF in this manner benefits all of Wisconsin, creating new jobs in the state and expanding the tax base. However, *Governing* magazine noted that TIF is more often used to “move a shopping center from one suburb to another...”³⁶ Indeed, in a survey conducted for the League of Wisconsin Municipalities, 24 percent of industries subsidized by TIF had relocated from another Wisconsin community.³⁷ This may add some money to tax rolls or create some jobs, but the net gains made per dollar of public subsidy when businesses are relocated within Wisconsin are generally not very high. Thus, city/village property tax rates are raised when TIF is used as an inefficient method of financing economic development — if industries only move from one Wisconsin municipality to another where the local government is willing to cover development costs previously assumed by the business.

Development in TIDs Raises the Demand for Government Services without Extra Tax Base to Fund Them

As the number of TIDs increases, so too does the share of Wisconsin municipalities’ property value contained within them. As of October 1999, 42 percent of all municipalities with a TID were above the five and seven percent limits of TID value (as percentage of total municipal value for the creation of a new TID, discussed earlier in this report).³⁸ In some municipalities, over 50 percent of total municipal land value is caught in TIDs.³⁹

Take, for instance, the village of Oakdale, Wisconsin. In Oakdale, 68.05 percent of the village’s equalized value is captured in a single TID, whose value increment comprised 40.7 percent of total municipal value. This means that taxes on 40.7 percent of total taxable value are not going to pay for the city’s operating budget, but rather are going to pay off development costs. As more municipalities tie up tax base for extended periods of time, less money is available to fund increasingly expensive general operations. To fund these operations, taxing districts are required to raise tax rates.

This upward pressure on property taxes is especially pronounced for overlying tax districts. Consider, for example, the effect of TIF on a county’s budget. Throughout the life of a TID, counties continue to receive taxes on the base value of a TID; however, as a result of the development, there are increased demands on the county’s operating budget for county services in that district. While one individual TID may not significantly change a county’s budget, many TIDs typically exist in any county, and the aggregation of increased service demands from all of these TIDs can have an appreciable effect. Consider that Milwaukee and Dane counties alone did not receive tax revenue on almost \$1.8 billion of taxable property value; however, services still had to be provided for these areas.⁴⁰ Counties across the state must find ways to deal with these increased demands on their budgets. Without new tax base to fund them, counties must cut services or raise tax rates, shifting the burden of funding services within the district to taxpayers elsewhere in the county who may not have benefited from the TIF development at all.

Summary of TIF Debate

To recapitulate the debate between those in favor of TIF in its current or expanded form and those in favor of increased restrictions on TIF: Those in support of TIF and its expansion argue that it benefits Wisconsin in three major ways: 1) TIF allows Wisconsin's cities and villages to remain competitive with neighboring states; 2) TIF is one of the few tools available to municipalities seeking to promote economic growth; and 3) TIF effectively promotes development that would not have occurred without public subsidy, adding taxable value to Wisconsin's property tax rolls. The major arguments against TIF fall into three categories: 1) TIF is used to develop open land far too often and thus contributes to the problem of urban sprawl; 2) despite joint review board findings that no development would have occurred without TIF, areas that would have developed anyway are still receiving public financing; and 3) TIF, and its wide-spread use, contributes to rising property taxes.

Recent TIF Reforms

Now that we have presented both sides of the debate over TIF, it is useful to know the future of TIF in Wisconsin.

In 1999, then-Governor Tommy Thompson created a working group on TIF to recommend changes to TIF law. The working group brought together elected representatives, bureaucrats, consultants, developers, school board members, and public interests groups. The group produced a report that discussed and evaluated a wide range of proposals, offering recommendations on many of them.

In the most recent legislative session (2003–04), some of these proposals were included in a major TIF bill, signed by Wisconsin Governor Jim Doyle on February 20, 2004. While it is difficult to accurately characterize a bill with numerous reforms as either a wholesale loosening of or restriction on TIF regulations, 2003 Wisconsin Act 126 will likely expand the use of TIF in Wisconsin. According to the fiscal effect statement prepared for the bill, "...the number of TIF districts will increase because significantly more TIF districts will be created and both existing and newly-created TIF districts will remain in effect for longer periods of time..."⁴¹

Mixed-Use: A New Catchall TID Classification

The largest expansion under 2003 Wisconsin Act 126 results from creating a new TIF category: mixed-use. It was noted earlier that, under current law, industrial-use TIDs can encapsulate nearly all kinds of growth but are required to keep at least 50 percent of the land zoned as industrial and are not allowed to use TIF to fund any improvements not related to "industrial development." Creating mixed-use TIDs allows municipalities to use TIF to fund the development of residential and retail businesses. While proponents argue that this modification will allow municipalities even more leeway to fund projects that will eventually add significant value to Wisconsin's property tax rolls, detractors note that mixed-use TIDs essentially use public funding for development that either produces few new jobs or produces low-paying, unstable jobs that offer few or no benefits. This is in stark contrast to industrial and manufacturing jobs, which typically pay better than average wages and offer good employee benefits.⁴²

Reforms under 2003 Wisconsin Act 126, Effective October 2004

Expansions

- TIDs can be created for districts where over 50 percent of the land is suitable for mixed-use development, defined as area that contains a combination of industrial, commercial, or residential uses
- The costs of newly-platted residential development are eligible TIF project costs in mixed-use TIDs
- Cities and villages seeking to create a TID no longer have to satisfy the five percent limitation on the amount of municipal value captured in a TID. The limit on percentage of municipal value comprised by the sum of the value of the proposed district and all existing districts would be raised from five to 12 percent.
- Municipalities are allowed to amend TID project plans up to four times throughout the duration of TID life, rather than the one opportunity during the first seven years allowed under current law.
- TIDs are allowed to make project expenditures up to five years prior to the district's termination.
- For TIDs created to remedy urban blight or environmental remediation, maximum TID life is increased from 23 to 27 years.

Restrictions

- Municipalities are not allowed to include land annexed within the last three years in a TID, with some exceptions.
- Municipalities are required to categorize new TIDs into the following categories: blighted area district, rehabilitation or conservation district, industrial district, or mixed-used district.
- Members of local joint review board committees are required to be high-ranking officials from overlying tax districts.
- Land annexed by a municipality may not be included in a TID until three years after the date of annexation.
- Municipalities are required to submit to the DOR an estimate of total land to be devoted to retail businesses, should this figure be higher than 35 percent.
- Joint review boards are required to issue a positive assertion that the "but for" test has been met.
- TIDs created for industrial or mixed-use purposes have a maximum life span of 20 years, as opposed to 23 years under the current statutes.
- The DOR is given power to deny TIDs in excess of territory limitations.
- The same territory limitations are imposed on amended TIDs⁴³

One other expansion of the program worth noting is allowing the costs of newly-platted residential development to be funded by TIF in mixed-use TIDs. However, any cash grants to owners, lessees, or developers of property in the TID district to fund such development will have to be accompanied by a development plan submitted to the city or village. The rationale behind this change to TIF law is that, as new businesses are created in TIDs across the state, municipalities should be allowed to fund new housing developments that can provide housing for the employees in these new businesses. In short, locating a business in a TID that will provide a proximate workforce is more attractive to businesses considering where to locate. However, the need for this reform indicates that TIF truly does contribute to urban sprawl. If industries find it difficult to staff new businesses, this is most likely the result of locating away from city centers, illustrating the case made by 1000 Friends of Wisconsin. Ideally, industries receiving public subsidy should locate where an employable population already exists. This would reduce unemployment and revitalize communities. However, allowing public subsidies to fund the development of newly-platted residential development will further increase the competitive disadvantage faced by urban areas. Urban areas already struggle with higher land values and higher costs of development, but often remain competitive by offering a proximate, available, and willing workforce. Under the proposed reform, distressed urban areas would lose one of their few advantages, pushing more and more development to areas that were formally open land and consequently furthering the problem of urban sprawl.

A Better Foundation for Research and [Slightly] Better Public Accountability

While the main reforms of 2003 Wisconsin Act 126 would certainly extend the reach and use of TIF, two of the proposed reforms hold promise. First, the bill would require that each TID be classified into one of the following categories: blighted area district, rehabilitation or conservation district, industrial district, or mixed-used district. While this may not immediately alleviate any of the problems associated with TIF, it allows for deeper and more useful TIF research in the future. The classification is necessary for the DOR to enforce reformed limits on maximum TIF life, which would vary by type of TID. Under 2003 Wisconsin Act 126, industrial and mixed-use TIDs are allowed to exist for 20 years, while blighted, rehabilitation, and conservation TIDs may live for 27 years. Implicit in this proposed statutory reform is the recognition that, under current law, blighted, rehabilitation, and conservation TIDs face difficulties not present for most industrial TIDs. Industrial TIDs are located on land that is already suitable for industrial development, while blighted and rehabilitation TIDs are located on land with barriers preventing their development, such as decrepit public infrastructure or obsolete and dilapidated buildings. In the future, this required classification will allow researchers and policy makers to better understand and reform TIF statutes, cognizant of the substantive differences between TIDs funding new development and those funding redevelopment.

A second positive reform in 2003 Wisconsin Act 126 is the requirement that local joint review boards issue a positive assertion that no development would have occurred without public subsidy in order to approve a new TID. Under current law, the “but for” test is one of three criteria that must be satisfied by local joint review boards in order to approve a TIF project plan. However, the review board is only required to make a written finding about the “but for” test if it is *not* met and, consequently, the project plan is denied. This reform requiring joint review boards to take a closer look at whether development would have occurred without public subsidy is a step in the right direction; however, review boards still face a host of problems in obtaining reliable information on which to base their decision, as discussed earlier in this report.

Keeping Up With the Joneses: A Pattern Consistent with Wisconsin’s Neighbors

Looking across the country, these proposed changes seem to fit into a larger national trend of loosening restrictions on state TIF policies. A recently released report by Good Jobs First noted that 16 states have weakened their TIF laws, allowing for increased usage in “non-blighted or affluent areas.”⁴⁴ Of Wisconsin’s bordering and main competitor states, Illinois has recently acted to rein in TIF’s usage, while Minnesota and Iowa have acted to expand its use.

While Illinois previously supported TIF with increments from increased sales tax revenues within the TID, it has acted to phase out these state supports by 2007 and also tightened its definition of blight in 1999. Additionally, Illinois has improved public accountability by requiring “housing impact studies to be sent to all individuals who have registered with the state’s ‘Interested Parties Registry.’”⁴⁵ Conversely, Minnesota loosened its definition of blight in 1990 and now has over 2,000 TIDs. Municipalities can apply for seven different types of TIDs, only two of which require blight. Of the states bordering Wisconsin, Iowa has acted most clearly to expand its TIF program. In 1985, Iowa acted to allow the uses of TIF for projects that fall under the general heading of “economic development area.” More recently, restrictions on the proximity of TIF land to municipal boundaries, contiguity of TIF land, and public hearing requirements have all been loosened. Like Minnesota, Iowa also has over 2,000 TIDs.

Conclusions

The topic of TIF is one deep in complexity, controversy, and importance. Wisconsin’s property taxes are 11th highest in the nation and, depending on how efficiently TIF is administered, it can be seen as either a cause or alleviation of this.⁴⁶ If one believes that TIF spurs economic growth that would not have occurred without subsidy, then TIF adds value to property tax rolls, spreading the burden of public services over a wider base. However, if TIF funds development that does not need public subsidy, budgets of municipal government are being constrained and the burden of covering increased costs of county/school services is being shifted to taxpayers outside of the TID, all contributing to rising property tax rates.

Between 1975 and 2004, Wisconsin's TIF program allowed for the creation of TIDs for three cases: to remedy urban blight, for rehabilitation or conservation, or to promote industrial development. Of the three, industrial-development TIDs, because of their catchall nature, have been the focus of most debate surrounding TIF. The use of TIF for industrial development was often seen as inconsistent with its original intent, eliminating the competitive advantage given to struggling urban areas and promoting increasing development away from disadvantaged urban areas. Industrial development TIDs faced the fewest statutory restrictions and the easiest road to success, developing land that often has no standing impediment to its development such as obsolete infrastructure or decrepit buildings. Accordingly, Wisconsin has seen a steady increase in TIF utilization over the past ten years, driven by greater numbers of municipalities creating these catchall TIDs. The number of active TIDs has risen while the average life of a TID has decreased as TIDs generate larger and larger value increments.

While it is impossible to make a blanket assertion concerning all TIDs, any public subsidization of development that would have occurred without TIF is harmful to citizens, schools, and state, county, and municipal governments. The greatest opportunity for such abuse occurs with industrial TIDs, which allow development of land already very attractive to developers and which offer the widest definition for TIF eligibility. Looking to the future, the addition of the mixed-use classification in October 2004 is likely to increase opportunities for the misuse of TIF, since restrictions on this kind of TID are even less stringent than those on industrial TIDs. While we cannot assert that no TIF subsidy authorized for environmental rehabilitation or to remedy blight has ever funded development that would have occurred independent of public assistance, the opportunity for such abuses is far greater for industrial TIDs. Thus, industrial and mixed-use TIDs are a vital subject for future research.

TIF is neither a categorically good or bad program, nor are all industrial TIDs good or bad. TIF works best for Wisconsin when disadvantaged urban areas can use TIF to remain competitive and to create development or redevelopment that adds new value to property tax rolls that would not have been possible without public subsidy. However, it is questionable whether TIF is good public policy when TIF use captures an increasing portion of total property value and is so widespread that it eliminates any competitive advantage originally given to distressed urban areas, as developers pit one municipality against another in search of the sweetest deal. The reforms proposed in the next section seek to restore urban areas' competitive advantage, reduce the burden on overlying tax districts, and add strength to the "but for" test.



Policy Reforms

Introduction

TIF is a program of great importance to the State of Wisconsin, but also one that can easily be abused. In this section, we offer a set of reforms to Wisconsin's TIF program which aim to refocus TIF law to its original intent, the redevelopment of urban areas. We have constructed these reforms cognizant of the current political environment in Wisconsin (as of early 2005). The reforms proposed here will not single-handedly prevent all misuses of TIF or make urban areas the apple of every developer's eye; however, they will reduce the subsidy for developing open land, hold different types of TIDs to different standards tied to the relative development-difficulty of each district, return a more sizable chunk of money to overlying tax districts, and increase incentives for joint review boards to gather good information.

Before laying out the proposed reforms, it will be helpful to spell out the assumptions on which these policy prescriptions have been constructed. While the prescriptions described here have been crafted with the express intent of promoting development in Wisconsin's depressed and urban communities, great care has also been taken to ensure that they are also realistic given Wisconsin's current political climate.

Assumptions

1. The best way to make redevelopment more attractive is to increase the costs of new development in TIDs.

Developers choose to locate their developments where the prospects for profitability are highest. Profitability is determined by an array of variables, from transportation and labor costs to the amount of public subsidy available to offset initial development costs. When using TIF as a development tool, how much a municipal government can offer and still remain fiscally responsible is largely dependent on projections of how much value increment can be generated over the life of the TID. Value increments, in turn, are largely dependent on the established base value. Thus, a TID's base value directly affects the amount of public subsidy that is offered and, ultimately, where a developer will choose to locate. In areas where base property values are high, a municipality's ability to subsidize development is less than in areas where property values are low.

Because of the presence of existing structures, redevelopment TIDs typically will have higher base values, on a per-acre basis, than areas suitable for new development. One way to equalize the cost differential would be to bring the base values for redevelopment projects down to the levels of similar-scale new development projects. However, if the base value is decreased, less money will flow into the municipality's and the overlying tax district's coffers during the TID payback period, despite rising demand for services. This loss of revenue and increase in demand for services must be made up either by raising taxes or cutting services. In practice, then, reducing a redevelopment project's base values does not actually help municipalities desiring to promote redevelopment and would especially hurt overlying tax districts.

Thus, in order to make redevelopment more competitive with development projects, it will be necessary to limit what municipalities can offer to new projects by raising those projects' base values. This will not necessarily reduce the total amount of economic growth generated through TIF; however, municipalities should be able to offer equal assistance to developers interested in pursuing redevelopment and development projects.

2. TIF is inherently a good program that needs to be refocused.

TIF, despite its recently unchecked growth and potential for abuse, has kept jobs from leaving the state, has added value to Wisconsin's property tax rolls, and has allowed municipalities to pursue their development goals. While undoubtedly many projects have received funding that effectively served as a corporate handout, many others have used public subsidy to promote responsible growth and create jobs.

However, the original goal of promoting the redevelopment of blighted urban areas has been compromised by treating development and redevelopment projects as essentially the same, despite substantive differences in barriers to development that are inherent to these projects. When municipalities compete for development projects, areas saddled with blighted infrastructure and land in need of demolition, renovation, and then new construction will likely lose out to municipalities offering vast plots of land primed and ready for immediate construction. We recognize that not all development can occur through redevelopment due to differences in land plot size, the growth of Wisconsin's economy, and new markets created throughout the state. There simply are not enough viable sites for redevelopment to accommodate all growth. However, TIF should be reformed to make redevelopment more attractive without cutting public subsidy to worthy new development projects.

3. Manufacturing jobs are more valuable, socially, than jobs created through residential or retail development.

As Wisconsin's economy copes with increased global competition, the decline of the manufacturing sector, and the rise of the retail and service markets, we must remain cognizant of differences in the nature of jobs and careers created in these new sectors. Jobs created in the manufacturing sector are likely to be higher paying, more stable, and more inclined to serve as careers rather than just jobs. In contrast, service and retail jobs tend to pay far less, and lack stability and opportunities for advancement. Studies by the Center on Wisconsin Strategy have noted that "manufacturing job decline is at the center of declining job quality in the state."⁴⁷ Indeed, between November 2001 and November 2003, Wisconsin lost a total of 33,000 manufacturing jobs, which paid an average of \$40,000 per year. In contrast, the growth of leisure and hospitality and other service industries netted a job increase of nearly 10,000 jobs, with an average salary of \$15,526 per year.⁴⁸

Recognizing the quantitative and qualitative differences in the jobs that manufacturing and the service/retail sectors promote, we should value growth in these two sectors differently. Given the struggles of the manufacturing sector to keep jobs in the recent past, and the service sector's ability to continue its growth during an economic downturn, TIF statutes should be reformed to allow for more public subsidy to projects targeting manufacturing growth.

There is a series of barriers to accurately predicting what kind of development will occur in a TID, not least of which is the fact that industrial and mixed-use TIDs can house development ranging from an automotive factory to a Wal-Mart. However, the new TID classification system offers a window of opportunity to draw stronger distinctions between TIDs aimed at growing the manufacturing sector and TIDs that will produce retail, service, and residential sector growth. By shortening the lives of mixed-use and industrial TIDs and lengthening the lives of blight and rehabilitation TIDs, 2003 Wisconsin Act 126 sets a precedent of recognizing the different barriers to success faced by different types of TIDs. The policy proposals described here will expand on this precedent, drawing stronger distinctions between manufacturing-sector TIDs and service/retail-sector TIDs, and ultimately valuing manufacturing growth more highly.

4. Calls for the elimination of all industrial or mixed-use TIDs are politically unrealistic.

Groups concerned with land use often advocate for the abolition of industrial and mixed-use TIDs entirely; however, these calls do not resonate in the current political environment. In fact, 2003 Wisconsin Acts 126 and 127 constitute the largest expansion of TIF since its introduction in 1975. As noted earlier, this expansion is in line with Wisconsin's neighboring states. Wisconsin Governor Jim Doyle signed this bill into law and has made "growing our [Wisconsin's] economy a top priority for [his] administration."⁴⁹ Wisconsin policy makers are focused on creating jobs and adding value to the tax rolls.

The best way to achieve this is neither through eliminating TID classifications or a wholesale expansion of TIF. Consequently, the reforms proposed here will promote a responsible, measured, and targeted expansion of Wisconsin's existing TIF system, improving it without the elimination of any current TID classifications.

5. Despite the power of TIF to alleviate job loss, Wisconsin's tight budgetary position necessitates reforms that do not require additional funds from general purpose revenue.

According to Governor Doyle's *2003–05 Executive Budget Summary*, the State of Wisconsin was expected to end fiscal year 2003 with a budget deficit of \$454 million. The most recent budget bill (FY04–FY05) addressed "Wisconsin's worst financial crisis in over 20 years."⁵⁰ Accordingly, state funds are at a premium, and there is no extra money available to help fund TIF, a program whose roots lie in local control, responsibility, and administration.

It would be easy to alter the relative attractiveness of redevelopment projects through an influx of state money that could assume a percentage of the project costs for redevelopment or blighted TIDs. However, every effort has been made to construct policy solutions that are revenue-neutral and that change development incentives within the existing framework of TIF law.

Policy Prescriptions

The reforms to TIF proposed here take three general forms: 1) an initial-year base value adjustment, 2) an annual base value adjustment, and 3) a strengthening of categorical definitions. These three elements of reform will be dealt with in turn, and case studies will illustrate the effects of our proposed reforms. First, however, it will be useful to review each of the policy prescriptions and their conceptual premise individually.

1. Revaluation of Open Land Captured In TIDs

Conceptual Premise

Development in exurban areas, when compared to urban areas, is typically less expensive and provides the opportunity for greater and quicker profits. A great advantage inherent to exurban development is the availability of large plots of previously undeveloped land, available at low cost. In contrast, land in urban areas costs significantly more to purchase and develop compared to plots of exurban land previously used exclusively for agricultural purposes. This is reflected in a great difference in base values for TIDs of similar size located in urban and exurban areas. To illustrate, we refer briefly to two case studies that will be discussed later in more detail. Due to the presence of existing structures, and use-value property valuation standards, the 47-acre Milwaukee TID #24 had base value of over \$6 million, while the base value for the 310 acres included in Belgium TID #4 was set at only \$316,000.

Such great base value disparity between urban and exurban areas significantly affects the amount and type of subsidy a municipality can offer, and the nature and scope of the projects a municipality can undertake. The root of this problem lies in the fact that agricultural land is not valued at fair market values — as commercial, manufacturing, or residential land is — but rather at its “use-value.” Essentially, agricultural land values are set to reflect how much money could be yielded through use of the land for farming and not through private sale.⁵¹ These different valuation standards give exurban areas an unfair competitive advantage in their ability to attract developers, as they are able to offer more assistance, create larger TIDs, and pay off TIDs more quickly.

As an illustration, let us consider a fictional industrial TID, “A.” TID “A” includes 100 acres of previously agricultural land that is targeted for development. Wisconsin statutes require that TID “A” must be suitable for industrial development and that not less than 50 percent of the property must be zoned for industrial uses in order to qualify as an industrial TID. Under these restrictions, there is clearly no intention for TID “A” to be used agriculturally and, therefore, no basis for its land value to be set at “use-value” levels. If the land encapsulated in TID “A” has satisfied the conditions of eligibility for an industrial TID, it must be suitable for industrial development and consequently should be set at current market values. This principle extends beyond just industrial TIDs to include the new category of mixed-use TIDs, which also do not have a limitation on the amount of open land included in them. If a plot of land is without any structural impediments to development and plans exist for its development, a base value that reflects its current marketability will allow the value increment to best represent the amount of property value growth stemming from the new development in the TID.

Determining Where the Base Value Should Be Set

The best way to approximate the fair market value of previously undeveloped land to be included in a TID is to use the average per-acre land value by the class that most closely represents the future development that will occur in the TID. Note that we are not discussing average per-acre property value by class, which would include both land and structure values, but rather only the land value. In this way, it is a good representation of a new development TID’s composition in Year 1 — land, without any structures, that will soon be the sites for either industrial or mixed-use development.

Thus, the first policy prescription offered here is to amend the manner in which base values are set for new development projects. Since blighted and rehabilitation TIDs have a statutory provision limiting the amount of open land that can be included, we are mainly considering industrial and mixed-use TIDs, which can develop any amount of open land desired.⁵² Any open land included in an industrial TID would be revalued at the prevailing manufacturing land value per acre in that municipality. And since mixed-use TIDs are likely to incorporate a combination of commercial, manufacturing, and residential property value growth, any open land included in a mixed-use TID should be revalued at average land value per acre in the municipality.

Effects of Revaluing Open Land In TIDs

The expected effects of this reform will be to level the playing field between urban and exurban TIDs. Because of the more representative base value for TIDs developing open land, value increments for similar projects in urban redevelopment and exurban new development will be more comparable. This will give urban and exurban municipalities similar prospects for paying off the costs incurred in TIDs, and will allow urban municipalities to offer development incentives more closely in line with those offered by exurban municipal governments. Additionally, this may also limit the geographical size of TIDs that include open land. Since all open land will be revalued, municipalities will not be able to include vast amounts of land under the new value limits on TID size. Under 2003 Wisconsin Act 126, the equalized value of taxable property of the district plus the value increment of all existing districts may not exceed 12 percent of total taxable property value in the municipality.

Together, these changes will force municipal governments to collect more and better data on possible development projects that seek to develop open land through TIF. They will now need to make more certain that a project will pay itself off and will have to analyze the benefits of each potential development plan more closely to know which projects are most deserving of public subsidy, knowing that they may bump against value limits on TID size. These are considerations already made by urban governments that will now have to be considered by suburban and exurban municipal governments and joint review boards.

Besides changing the level and quality of information gathered by suburban and exurban municipalities prior to TID creation, the initial-year base value adjustment may also change the decisions of some developers. With the knowledge that base values for open land TIDs will now be higher — limiting how much of the development costs an exurban municipality will be able to assume — developers may now consider redevelopment sites as well as open land sites. Under this proposed reform, it may now be in developers' interest to search out blighted or rehabilitation/conservation sites that match their needs. Developers will realize that these municipalities now have a similar capacity to offer incentives as exurban municipalities *and* an additional incentive to develop blighted land that is hampering growth throughout the rest of the community, which exurban municipalities do not have.

2. Annual Base Value Adjustment

Conceptual Premise

While the initial-year base value adjustment aims to change the type and size of TIDs created, the proposal for an annual base value adjustment will both reinforce these effects and widen the aggregate effects of our reforms. We propose to apply the annual base value adjustment only to industrial and mixed-use TIDs, adding to the competitive advantages given to blighted and redevelopment TIDs by the initial-year base value adjustment. An additional effect of this reform will be to return more taxable value to overlying tax districts now coping with increased demand for services, and to limit the amount of TIDs created in fast-growing communities.

TIF's goal is to promote development, which it does well. However, new development in a municipality will always demand services from the overlying tax districts, whether from the school, county, sewage, or technical college district. A new factory will require sewage services, will place increased demand on county public transit systems, and may utilize county highways to ship goods. If a TID includes residential development, more children will be placed in a school district, requiring more educational material and teaching staff. If this development were to occur without TIF, the new costs for overlying tax districts would be covered by greater tax revenues flowing to these districts as a result of new value added to the property tax rolls. However, under the current TIF program, overlying tax districts do not see any increase in taxable value until the TID has expired. This means that overlying tax districts will have to cope with the increased demand for services, either by raising more revenue or cutting services, for up to 20 years.⁵³

While the increased demand for services from a single TID may not have an appreciable effect on an overlying tax district's budget, the aggregate effect is appreciable. Indeed, Milwaukee County has 67 active TIDs that, despite great growth within them, have not paid any more money into county coffers than they did in their year of creation. The rationale behind TIF is that, by fixing the base value and assuring the flow of these tax revenues back to overlying tax districts, the development project is a win-win situation. Development is induced, adding new value to property tax rolls, and the costs are paid without costing the municipality or overlying tax districts anything. This rationale, however, disregards natural property value appreciation and the increased cost of services due to inflation. Thus, the claim that development can be induced through TIF without any cost to overlying districts is not entirely true.

Additionally, under current law, overlying districts lose out on the taxable revenue from any development that would have occurred without public subsidy. We have already noted the difficulty of determining what, if any, development would have occurred without use of TIF, and structuring our reforms to provide exact compensation to overlying districts for this loss of taxable revenue is impossible. However, we do know that development is far more likely in fast-growing communities than slow-growing ones. Thus, while we may never know what would have happened without TIF, fast-growing municipalities that create TIDs should return more taxable value to overlying districts, whose tax base likely would have grown to some extent without public money.

Determining How the Base Value Should Be Adjusted Each Year

Our second policy prescription is to adjust the base value of TIDs by the percentage property value growth in the class that most closely represents the development which has occurred in the TID. In contrast to our previous base value readjustment plan, the percentage growth factor used for this adjustment will include both land and improvements. By using the total value growth of both land appreciation and construction of buildings, we can best approximate the amount of growth likely to have occurred without any public subsidy. Through this approximation, we arrive at a fairer level of taxable value that should be sent back to overlying districts each year.

Since blighted and rehabilitation TIDs are less likely to develop on their own, it is reasonable to apply this reform to industrial and mixed-use TIDs. For industrial TIDs, the base value will be adjusted to allow for increases in the average manufacturing property value growth for the previous five years. Similarly, the base value will appreciate at the average total (all classes) property value growth for the previous five years in mixed-use TIDs.⁵⁴

Effects of Annually Adjusting TID Base Values by Property Value Growth

The increase in taxable value will help overlying districts fund new demand on services, and cover the increased costs of providing the same level of services resulting from inflation. Similarly, we will see fast-growing municipalities face base values growing over \$1 million per year. This will force those municipalities and joint review boards to consider more seriously whether or not development would have occurred without public subsidy.

As stated earlier, this reform will not greatly alter the type or size of TIDs created in Wisconsin. It will mainly serve to provide for a more fair distribution of money to the overlying tax districts and to limit the number of TIDs created in fast-growing communities. There will, however, also be a reinforcement of incentives for a municipality to create an industrial rather than a mixed-use TID, or a blighted TID over either of the other two categories originally established by the initial-year base value adjustment. Wisconsin's average total property value growth in all classes between 1994 and 2003 was eight percent, while growth in manufacturing land, largely due to the decline of the manufacturing sector, was only 5.9 percent.⁵⁵ Thus, the base value for a mixed-use TID will be adjusted at a higher annual rate than an industrial TID. And both of these will be adjusted more than the base value for a blighted or rehabilitation TID, which will be held constant.

3. Stricter Standards for TIF Classification

Conceptual Premise

If our goal is to treat different types of TIDs differently, so that redevelopment is valued over development and the creation of manufacturing jobs is valued over the expansion of the service sector, then we must also draw greater distinctions between TIF classifications. Earlier in this report, we noted that up until this year, industrial development TIDs have acted as the catchall category. Industrial TIDs have seen development ranging from McDonald's and Wal-Marts to steel stamping factories. However, with the creation of a mixed-use TID category, we now have the opportunity to modify our TID classification system to better account for the great differences in job quality between the manufacturing and service sectors.

The manufacturing sector has been in decline as globalization ships more factory jobs overseas. If these jobs are replaced, they are often replaced by lower wage jobs in the retail or service sector.⁵⁶ As a state, Wisconsin should promote the development of industries that offer the highest job quality for its citizens; however, under current law, industrial TIDs do not necessarily promote the growth of the manufacturing sector.

New Qualifications for Industrial and Blighted Classifications:

Thus, the eligibility criteria to qualify as an industrial TID should be revised to require a positive finding by the joint review board that at least 25 percent of the property value growth within a proposed TID is likely to occur in the manufacturing sector.⁵⁷ While it may vary from municipality to municipality, by and large, the base value for industrial TIDs will face a smaller annual adjustment, and any open land included in the development project will be revalued at manufacturing property values.⁵⁸ Average manufacturing property values also will generally be less than that for all classes, because while factories and other manufacturing development may have great value, average total property values will typically be higher due to the inclusion of residential property, which tends to be very valuable and particularly dense.

It will also be necessary to refine our definition of “blight.” Up to this point, we have considered the definition of blight to be adequate and, indeed, strict in comparison with the definition of industrial TIDs. However, there has already been much evidence of questionable TID use, according to Judie Gibbon, the TIF specialist at the DOR. Included among these are tax increments from “blighted” TIDs funding the expansion of a golf course and nearly \$20 million of “redevelopment” to a vacation resort seeking to construct 380 studio, one-, and two-bedroom suites and an eight-penthouse unit.⁵⁹ Holding blighted TIDs free from initial-year and annual base value adjustments will now provide even more motivation for municipalities to classify their TIDs as blighted if at all possible. With new payoffs for classifying a TID as blighted, we will need to refine our definition to avoid misuse.

Currently, the definition of “blight,” among many other qualifications, requires that only 50 percent of the area to be included in a TID “significantly impair the sound growth of a community.”⁶⁰ Other states, such as Nebraska, have limited blighted TIDs to areas that meet one of the following conditions:

“...an unemployment rate at least 120 percent of the state or national rate; residential or commercial units with an average age of 40 years; more than half of the platted and subdivided property unimproved for at least 40 years; a per capita income below the average income of the city or village; or a stable or decreasing population over the last two decades.”⁶¹

Stricter definitions like these may be useful in preventing any abuse of blighted TIDs, which, under our new system, will not be required to contribute to increasing demands on services provided by overlying tax districts through an annual adjustment of the base value. The prevention of such abuses may well be achieved through the increased incentive to gather better information on the proposed TID by overlying tax districts; however, stricter statutory definitions of blight would certainly give overlying tax districts better guidelines and increased leverage in joint review board meetings. This alone makes a reevaluation of Wisconsin’s definition of blight worthwhile.

Effects of a Stricter Classification System

In conjunction with our other reforms, the stricter classification system will mean that TIDs classified as blighted and industrial by local joint review boards will then gain a competitive advantage over those in the new catchall category of mixed-use TIDs. Blighted TIDs, which are most attractive to the municipalities creating them, will face the strictest definition, with their approval possibly tied to empirical proof of high unemployment, depressed property values, or decreasing population. Industrial TIDs will now be forced to focus, at least partially, on the creation of value and employment in the manufacturing sector, which produces higher-paying and more stable jobs than other sectors. Finally, the mixed-use category will now encapsulate all TIDs that do not fall into either the blighted or industrial category. Because the development expected will not serve to redevelop a depressed area or target high-quality manufacturing growth, the social benefits to the municipality's residents and overlying tax districts are not as great as with other TIDs.

Members of the joint review board from overlying tax districts will now have increased incentive to scrutinize potential TID usage. Consider this example: Village X is seeking to create an industrial TID that develops 200 acres of open land on its geographical boundaries. The average manufacturing property value in Village X is \$20,000 per acre, while the average total property value is \$30,000 per acre. If the TID is approved as an industrial district, the base value will be \$4 million, whereas if it were to be classified as mixed-use development the base value would be set at \$6 million. Under our new schema, the school district, county, and other overlying tax districts will have a greater incentive to make sure that the TID truly intends to promote manufacturing growth, because it will have more taxable value if the TID is classed as mixed-use and the base value is set at average total property levels. The same incentives for greater TID scrutiny would apply for any project plans seeking the blighted classification, which would provide no annual increases in tax revenue to overlying districts.

In sum, because of new changes to the base value — both in the initial year and annually — of blighted, industrial, and mixed-use TIDs, development projects will be valued differently based on their social benefits. These changes will provide motivation to municipalities and developers to gain a classification that will return the most money possible to pay off project costs. This interest, however, comes into conflict with those of overlying tax districts who want to maximize the tax revenue generated from the base value. These conflicting interests will ensure that all TID project plans receive strict scrutiny by joint review boards, limiting TIF use only to cases in which it is appropriate, and guaranteeing that TIF projects providing the greatest social benefits receive the highest level of public assistance.

Conclusions

In this section, we have outlined three major policy reform proposals: 1) an initial-year base value adjustment that revalues all previously undeveloped land included in a TID; 2) an annual base value adjustment to account for increased costs to overlying tax districts stemming from the new development; and 3) a tightening of the TID classification system. These reforms will be applied differently for each class of TID and will act to change the information-gathering incentives of taxing districts affected by TID creation, valuing redevelopment projects more than new development projects, and valuing the expansion of manufacturing over sectors whose job quality may not be as high. In sum, the reforms advocated here will return money to overlying tax districts that struggle to cope with increased demand for services and will provide a new statutory advantage for redevelopment projects without the expenditure of additional state money. From here, we move on to examining a number of cases that will demonstrate the positive real-world effects of our proposed reforms.

Case Studies

Introduction

In this section, we demonstrate how our proposed reforms would change the nature of TIF in Wisconsin, by retroactively applying our statutory changes to existing TIDs. The cases presented here do not claim to show the entirety of our reforms' changes; however, they do illustrate how our reforms will change the incentives of developers, overlying tax districts, and municipalities creating TIDs. In all, we examine four sample situations.

The first two case studies are comparative in nature, focusing on how incentives to develop in certain areas are changed through our reforms. First, we consider how incentives will be changed within the same TID classification. We look at two TIDs that would be classified as industrial TIDs, with similar development goals, creation year, TID life, and acreage. These two TIDs are also located in the same geographic region, allowing us to speculate about how developers may consider comparable development sites in urban versus suburban communities. Second, we examine how the proposed changes will alter the incentives between different TID classes — in particular, the advantages now given to blighted TIDs over the newly created mixed-use category. Again, we present two sample TIDs that are as similar as possible in order to gauge how blighted development sites now stack up against new mixed-use development sites.

The other examples focus more closely on the effect of the two base value adjustment proposals, illustrating: 1) how the creation of some TIDs will now become unviable; and 2) the increased flow of revenue to overlying tax districts. First, we examine more closely the effect of our major policy prescription: the revaluation of previously undeveloped land. We look briefly at two TIDs that developed large amounts of open land and, from these examples, draw conclusions about which types of TIDs may become unviable under our new law. Finally, we examine the effects of an annual base value adjustment for overlying tax districts. We noted earlier that the effects of an annual base value adjustment for a single TID are likely to be minimal, but become appreciable when applied to all TIDs within an overlying tax district. To illustrate, we estimate how much an annual base value adjustment would increase the tax base of Dane County.

Methodological Overview

Before we analyze our proposed policy reforms empirically, it is necessary to discuss our methodology. Throughout the case studies, we rely heavily on basic material about the nature, location, projected expenditures, and property value growth of specific TIDs. Unless otherwise noted, all qualitative information about the proposed TID was found in the project plans filed with the DOR. The descriptive information concerning current usage of land, total TID size, proposed project plans and expenditures, and stated goals of development is taken directly from documents written and compiled by the contracted development consultants or municipalities themselves. Specific property values — including current base value, equalized TID value, and value increment, and their yearly changes — were found in annual property value updates conducted by and kept on file at the DOR.

In order to adjust the base value for TIDs that develop previously undeveloped land, we obtained property values broken down by class from the Statement of Assessment conducted the year prior to TID creation. In order to determine the average value per acre by class, the property values recorded in the Statement of Assessment were divided by total acreage for each municipality. For manufacturing classed land, this was also found in the Statement of Assessment; however, for reevaluation of mixed-use TIDs where average land value per acre for all classes was needed, U.S. Census data were used to estimate the total acreage of a municipality. Specifically, the Summary of Population and Housing Characteristics report from Wisconsin for both 1990 and 2000 was used. Data from 1990 were used for TIDs created in the years 1990–95, and data from 2000 were used for TIDs with base years from 1996 and later.

The annual adjustment factor for each non-blighted case study was calculated using the average property value growth over the five years prior to TID creation. These data come from Statement of Changes in Equalized Values by Class and Item reports compiled by the DOR. Their application varies by year, municipality, and class to fit the requirements of each case study. Similarly, data demonstrating property value growth by class within the TID were obtained from Statement of Changes in Full Value calculated for each individual TID between the base years and most current figures available (from 2003).

Finally, to calculate the total tax increment generated for each case study, gross tax rates were found in the Town, Village, and City Taxes publication also produced annually by the DOR. Since this report was not yet available for 2003, tax increments were estimated by holding over the gross tax rate from 2002. Typically, changes in gross tax rate from year to year are less than 0.1 percent, so figures provided here should be reasonably accurate.

Case Study 1: Comparison of Milwaukee TID #24 and Grafton TID #2

Overview of Subject TIDs

Milwaukee TID #24 is located on Milwaukee's north side and originally comprised 43 acres of land between East Capitol Drive and East Keefe Avenue. Previously, the land had been the site of the American Motors/Chrysler Automotive plant. During the plant's operation, the land now included in TID #24 was a vibrant and high employment section of Milwaukee. However, since the plant shut down, economic growth in the area has stagnated.

In 1994, the City of Milwaukee cited a need to redevelop this land for industrial purposes. To do so, the city created Milwaukee TID #24, an industrial TID called the Riverworks Industrial Center. Much of the land included in this TID was vacant at TID creation; however, it had previously been developed. Structures left on the land included in TID #24 had only minor deficiencies, not enough for a blighted TID to be created. Indeed, the stated objective for TID #24 was to encourage the rehabilitation and/or expansion of basically sound manufacturing and industrial buildings and uses within the district.

Milwaukee TID #24 has been successful in promoting the redevelopment of this northside area. Indeed, it was so successful that, in 2002, the City of Milwaukee amended the boundaries of Milwaukee TID #24 to include more land. For our purposes, we will focus only on the first seven years of Milwaukee TID #24's life. During this time, the City of Milwaukee was successful in attracting a healthy mix of commercial and manufacturing development: both an Aldi's food store and a Builder's Square hardware store opened on Capitol Drive, while two new manufacturing facilities of 36,000 and 116,000 square feet were constructed on East Vienna Street. Clearly, the City of Milwaukee targeted some development in the manufacturing sector, further indicating that Milwaukee TID #24 would have been classified as industrial under our current reforms.

At the time when the project amendment was adopted, a total of \$1.4 million, not including administrative or financing costs, was to be spent on project costs for the territory included in Milwaukee TID #24's original boundaries. Most of this money was spent on reconstruction of streets, upgrading of sewage and lighting service, or installation of streetscapes. Additionally, \$750,000 was earmarked for the use by the Redevelopment Authority of the City of Milwaukee (RACM) to fund loans for development projects within the TID.

The other TID studied here is Grafton TID #2, an industrial TID located approximately 20 miles from Milwaukee TID #24 in a suburban area. Grafton TID #2 was created in 1996, and, for purposes of comparison, we focus our attention on its first seven years of life, 1996 to 2003. Grafton TID #2 is comprised of approximately 57 acres of previously undeveloped land on the village's northeast side.

Grafton TID #2's stated purpose is to promote primarily industrial and secondarily office development. To date, the TID has been successful in achieving these goals through a balanced development in commercial and manufacturing sectors. Development within the TID includes an office building that houses a number of non-profit organizations, a pharmaceutical laboratory and factory, an engineering office, a sterilization equipment factory, and a metal stamping and welding factory. Indeed, this mix of commercial and industrial development indicates that Grafton TID #2 also would have been classified as an industrial TID under our proposed reforms, as at least 25 percent of the expected property value growth was likely to occur in the manufacturing sector.

According to Grafton's finance director, Thomas Watson, project expenditures, excluding any debt service, totaled \$1.32 million as of January 8, 2004. These expenditures were made mostly to insert roadways and sewage systems into the TID territory; however, Grafton also spent some money, \$75,000, on development incentives.

To review the basics of the TIDs we have chosen to study, both Milwaukee TID #24 and Grafton TID #2 developed around 50-acre plots of land in the greater Milwaukee area separated by a 20-mile stretch of interstate running north of Milwaukee. Both TIDs had similar development goals, focusing first on manufacturing development, and second on office/commercial development — goals that were, by and large, achieved. Project expenditures in these TIDs over their first seven years of life were also virtually identical: about \$1.4 million each. Having identified two TIDs, comparable in size, location, targeted development, and project expenditures, we now examine how our policy reforms would affect their economic success.

Subject TIDs Under Current Law

Tables 1.1 and 1.2 show the growth in value increment over the first seven years of TID life for both Milwaukee TID #24 and Grafton TID #2. For purposes of comparison, we only focus on the first seven years of life, since Grafton TID #2 has only existed for seven years and there was a territory amendment to Milwaukee TID #24 in its eighth year.

Table 1.1

Grafton TID #2

Year	Base Value	Equalized TID Value	Value Increment
1996	\$ 522,100	\$ 522,100	\$ —
1997	522,100	714,800	192,700
1998	522,100	5,912,800	5,390,700
1999	522,100	8,395,900	7,873,800
2000	522,100	10,304,400	9,782,300
2001	522,100	12,039,000	11,516,900
2002	522,100	12,227,400	11,705,300
2003	522,100	13,112,300	12,590,200
Increment Generated			\$ 59,051,900

Source: Wisconsin DOR.

Table 1.2

Milwaukee TID #24

Year	Base Value	Equalized TID Value	Value Increment
1994	\$ 6,032,800	\$ 6,032,800	\$ —
1995	6,032,800	12,342,900	6,310,100
1996	6,032,800	12,103,900	6,071,100
1997	6,032,800	11,929,300	5,896,500
1998	6,032,800	13,851,300	7,818,500
1999	6,032,800	15,985,700	9,952,900
2000	6,032,800	14,897,800	8,865,000
2001	6,032,800	17,973,500	11,940,700
Increment Generated			\$ 56,854,800

Source: Wisconsin DOR.

The figures in Tables 1.1 and 1.2 demonstrate that, over the first seven years, both Milwaukee TID #24 and Grafton TID #2 showed similar growth in value increment. Both had seventh year value increments of about \$12 million, and generated between \$55 and \$60 million of cumulative yearly value increment. The value increment is the total amount of taxable value whose tax revenue has been used entirely to pay off project costs. While these two TIDs yielded similar total value increment over the time period examined, property value in Milwaukee TID #24 needed to appreciate to a much higher value (\$18 million versus \$13 million) in order to accommodate a higher base value (\$6 million versus \$500,000).

Considering the similarities in development projects, acreage, and geographical location, it is safe to assume that the Village of Grafton was able to offer a slightly more attractive development site. The lower TID base value allowed for greater growth in value increment, assuring Grafton that TID #2 was likely to recoup all project costs in a short period of time. This, in turn, gave Grafton more freedom to invest money in attracting development to the site. Coupled with lower tax rates, Grafton had better tools with which to promote growth than did Milwaukee. Milwaukee, in contrast, was limited in what it could do to redevelop the neighborhood within Milwaukee TID #24. Because of a base value nearly 12 times higher, Milwaukee — and urban areas in general — must be more careful about TIF use. As a whole, urban areas must pay special attention to limiting project costs and ensuring adequate growth in the TID. While both TIDs were successful in promoting development and generating increment, this initial look at two similar development sites in urban versus suburban communities illustrates how Wisconsin's TIF program, in its current form, gives suburban areas a competitive advantage. It is this competitive imbalance which we seek to eliminate.

Policy Reform Effects

Initial-Year and Annual Base Value Adjustments

We have already demonstrated that both Milwaukee TID #24 and Grafton TID #2 would likely be classified as industrial TIDs under our new classification system, and thus subject to both initial-year base value adjustments and annual base value adjustments. We now examine how these base value adjustments will affect the value increments generated by each TID.

In this example, Grafton TID #2 would be required to undergo an initial-year base value adjustment, since it developed previously undeveloped land. Because Milwaukee TID #24 did not develop open land, it is not subject to this base value adjustment. Using data from Grafton's 1995 *Statement of Assessment*, we know both the total manufacturing land value and the total acres classed as manufacturing in the Village of Grafton. This allows us to calculate average manufacturing land value per acre and apply it to the undeveloped land included in TID #2. This calculation is shown in Table 1.3.

Table 1.3.

First-Year Adjustment of Base Value for Grafton TID #2

Total Manufacturing Land Value in Grafton (1996)	\$ 5,877,900
Total Manufacturing Acres	197
Manufacturing Land Value Per Acre	\$29,837
Amount Previously Undeveloped Land in TID	59.5
Adjusted Base Value	\$ 1,776,020.91

Source: Wisconsin DOR.

Because both Grafton TID #2 and Milwaukee TID #24 are classified industrially under our reforms, both are subject to annual base value adjustments determined by the growth of manufacturing property value in the five years prior to TID creation. Data for these figures were compiled using data from the DOR for both Milwaukee and Grafton between 1989–93 and 1991–95, respectively. These calculations are shown in Tables 1.4 and 1.5.

As expected, revaluing the Grafton TID #2's base value at prevailing manufacturing land values had a large effect, tripling the previous base value. A base value of \$1.78 million more fairly represents the current usage of the land for manufacturing purposes. It also more accurately estimates the taxable value needed by overlying tax districts to provide services to this new development.

The annual base value adjustment factors calculated in Tables 1.4 and 1.5 will satisfy our goal of providing more taxable revenue for the overlying districts. Both Milwaukee and Grafton manufacturing property values grew slowly over the five years prior to TID creation. While Milwaukee's manufacturing property value actually grew slightly faster than Grafton's, we will see that neither a 1.6 percent or 2.5 percent annual adjustment will drastically affect the economic feasibility of a TID. Both annual adjustment rates are relatively low; however, both will provide revenue to overlying tax districts coping with increased costs from new development until the TID is paid off and its full value is added back to the tax rolls.

Table 1.4

Annual Base Value Adjustment Factor for Milwaukee TID #24

Year	Manufacturing Property Value Prior Year	Manufacturing Property Value Current Year	Property Value Growth	Percentage Growth
1989	\$ 86,508,100	\$ 86,623,300	\$ 115,200	1.0013
1990	86,623,300	91,920,900	5,297,600	1.0612
1991	91,920,900	92,949,100	1,028,200	1.0112
1992	92,949,100	97,017,900	4,068,800	1.0438
1993	97,017,900	98,012,500	994,600	1.0103
Annual Adjustment Factor				1.0253

Source: Wisconsin DOR.

Table 1.5

Annual Base Value Adjustment Factor for Grafton TID #2

Year	Manufacturing Property Value Prior Year	Manufacturing Property Value Current Year	Property Value Growth	Percentage Growth
1991	\$ 30,357,300	\$ 32,376,800	\$ 2,019,500	1.0665
1992	32,376,800	33,341,200	964,400	1.0298
1993	33,341,200	32,021,600	(1,319,600)	0.9604
1994	32,021,600	32,552,900	531,300	1.0166
1995	32,552,900	32,857,200	304,300	1.0093
Annual Adjustment Factor				1.0160

Source: Wisconsin DOR.

Changes in Value Increment Generated

To illustrate the combined effects of the application of our reforms to Milwaukee TID #24 and Grafton TID #2, we have recalculated new base values and value increments for the districts. The changes to Milwaukee TID #24's base value and amount of value increment generated are minimal, raising the base value by \$1.1 million over seven years and reducing total value increment by less than \$4.5 million. These changes are shown in Tables 1.6.

For Grafton TID #2, the increase in base value, including both initial year and annual adjustments, is similar to the increases for Milwaukee TID #24. Over seven years, the base value increases by \$1.4 million for Grafton TID #2, compared to a \$1.1 million base value increase for Milwaukee TID #24. The major effect of our reforms can be seen in the change in cumulative value increment generated over seven years. Due to Grafton's inclusion of a large amount of undeveloped land, cumulative value increment was cut by over \$10 million, or twice as much as the cumulative value increment decrease for Milwaukee TID #24. These changes are illustrated in Table 1.7.

From an analysis of the changes in base value and value increment, it is clear that our proposed reforms can allow comparable redevelopment TIDs to generate more increment than new development TIDs. To illustrate, consider the cumulative value increment for both Milwaukee TID #24 and Grafton TID #2. Under current law, Milwaukee TID #24 would have generated a total cumulative value increment of \$56.9 million, while the cumulative value increment for Grafton TID #2 would be \$59.1 million. However, with the changes in base value caused by a revaluation of previously undeveloped land and an annual base value adjustment, Grafton TID #2's cumulative value increment has fallen \$2 million *below* Milwaukee TID #24's total: \$50.5 million and \$52.4 million, respectively. This is significant, because potential value increments are considered by municipal leaders, developers, and members of the joint review board when deciding whether or not to create a TID, the size of a TID, and amount of project costs to be funded by the municipality. Thus, we can see that our proposed reforms *do* work to make redevelopment projects more economically feasible in comparison with new development projects that now must revalue all previously undeveloped land.

Table 1.6

Milwaukee TID #24 with Adjustments

Year	Equalized TID Value	Annual Adjustment Factor	Adjusted Base	Value Increment
1994	\$ 6,032,800	1.0253	\$ 6,032,800	\$ —
1995	12,342,900	1.0253	6,185,344	6,157,556
1996	12,103,900	1.0253	6,341,745	5,762,155
1997	11,929,300	1.0253	6,502,101	5,427,199
1998	13,851,300	1.0253	6,666,512	7,184,788
1999	15,985,700	1.0253	6,835,080	9,150,620
2000	14,897,800	1.0253	7,007,911	7,889,889
2001	17,973,500	1.0253	7,185,111	10,788,389
Total Increment Under Reforms				\$ 52,360,594
Total Increment Under Current Law				\$ 56,854,800

Source: Wisconsin DOR.

Table 1.7

Grafton TID #2 with Adjustments

Year	Equalized TID Value	Annual Adjustment Factor	Adjusted Base	Value Increment
1996	\$ 522,100	1.0160	\$ 1,776,021	\$ —
1997	714,800	1.0160	1,804,353	—
1998	5,912,800	1.0160	1,833,137	4,079,663
1999	8,395,900	1.0160	1,862,381	6,533,519
2000	10,304,400	1.0160	1,892,091	8,412,309
2001	12,039,000	1.0160	1,922,275	10,116,725
2002	12,227,400	1.0160	1,952,940	10,274,460
2003	13,112,300	1.0160	1,984,095	11,128,205
Total Increment Under Reforms				\$ 50,544,881
Total Increment Under Current Law				\$ 59,051,900

Source: Wisconsin DOR.

Changes in Tax Increment Generated

Value increments, however, provide only one view of the competitive balance between our two case studies. Indeed, only a percentage of the value increment is used to pay off project costs. This percentage is the tax increment. Calculations of the tax increment generated by both Milwaukee TID #24 and Grafton TID #2, with and without our proposed reforms, are shown in Tables 1.8 and 1.9. For Grafton TID #2, tax rates from 2002 were used to estimate rates for 2003, since data on tax rates for 2003 were not yet available.

Table 1.8

Tax Increment for Grafton TID #2 Under Current Law

Year	Value Increment	Gross Tax Rate	Tax Increment
1996	\$ —	0.02501	\$ —
1997	192,700	0.02458	4,737
1998	5,390,700	0.02383	128,460
1999	7,873,800	0.02241	176,452
2000	9,782,300	0.02293	224,308
2001	11,516,900	0.02257	259,936
2002	11,705,300	0.02251	263,486
2003	12,590,200	0.02251	283,405
Total	\$ 59,051,900		\$ 1,340,785

Tax Increment for Grafton TID #2 Under Reforms

Year	Value Increment	Gross Tax Rate	Tax Increment
1996	\$ (1,253,921)	0.02501	\$ —
1997	(1,089,553)	0.02458	—
1998	4,079,663	0.02383	97,218
1999	6,533,519	0.02241	146,416
2000	8,412,309	0.02293	192,894
2001	10,116,725	0.02257	228,334
2002	10,274,460	0.02251	231,278
2003	11,128,205	0.02251	250,496
Total	\$ 48,201,406		\$ 1,146,637

Source: Wisconsin DOR.

Tables 1.8 and 1.9 demonstrate that the revaluation of the base value for projects that develop previously undeveloped land will lead to significantly reduced tax increments, while redevelopment projects will see far smaller reductions in tax increment and ability to pay off project costs. Indeed, tax increment revenue over the first seven years of life for Grafton TID #2 decreases 14.5 percent under our proposed reforms, while tax increment revenue for Milwaukee TID #24 decreases only 7.8 percent. The lower tax increments caused by our reforms mean that the Village of Grafton would have two options: either allow TID #2 to live longer, or restrict project costs to accommodate the lower tax increments that result from a base value closer to that which would be faced by a similar redevelopment project.

Table 1.9

Tax Increment for Milwaukee TID #24 Under Current Law

Year	Value Increment	Gross Tax Rate	Tax Increment
1994	\$ —	0.03769	\$ —
1995	6,310,100	0.03498	220,727
1996	6,071,100	0.03149	191,179
1997	5,896,500	0.02969	175,067
1998	7,818,500	0.03003	234,790
1999	9,952,900	0.02840	282,662
2000	8,865,000	0.03011	266,925
2001	11,940,700	0.02840	339,116
Total	\$ 59,051,900		\$ 1,710,466

Tax Increment for Milwaukee TID #24 Under Reforms

Year	Value Increment	Gross Tax Rate	Tax Increment
1994	\$ —	0.03769	\$ —
1995	6,157,556	0.03498	215,391
1996	5,762,155	0.03149	181,450
1997	5,427,199	0.02969	161,134
1998	7,184,788	0.03003	215,759
1999	9,150,620	0.02840	259,878
2000	7,889,889	0.03011	237,565
2001	10,788,389	0.02840	306,390
Total	\$ 59,051,900		\$ 1,577,567

Source: Wisconsin DOR.

A More Level Playing Field between New and Redevelopment TIDs within TID Classification

To extrapolate from our specific examples to the more general issue of competitiveness between development sites within a single TID classification, we can see that the reforms proposed here will have positive effects. Most notably, redevelopment projects, and urban areas in general, will be valued relatively more highly under the proposed reforms. Because new development projects will now be accountable for creating growth above a base value more representative of the development expected to occur without TIF, redevelopment projects will no longer be saddled with the need to generate relatively large growth to yield similar tax increments. Municipalities that redevelop land using TIF will largely be able to pay off projects at the same speed as before, save for a small bump in base value to cover increased costs by the overlying tax districts. However, municipalities promoting new development will face more difficult payback prospects, in line with those faced by municipalities redeveloping land.

Equalizing the payback opportunities for redevelopment and development projects will have a number of effects. First, municipalities undertaking new development projects will have to rein in the amount of money committed to project costs. Since tax increments will be substantially decreased for new development TIDs, municipalities will now have the ability to offer similar incentives to developers, regardless of whether the project is redevelopment or new development. Second, municipalities creating new development TIDs and joint review boards approving project plans will now need to examine more closely the prospects for growth in a TID. Third, if we assume that developers are aware of municipalities' ability and willingness to offer public subsidy through TIF, developers may now consider and pursue equally redevelopment and new development sites. Thus, for both developers and municipalities, the relative attractiveness of creating a TID for redevelopment versus new development is much greater.

Case Study 2: Comparison of Milwaukee TID #22 and Hartland TID #3

Overview of Subject TIDs

Our second case study shifts the focus from how redevelopment sites compare to development sites within a TID classification to changes in the competitive balance between TID classes. In this case, we examine how a blighted TID compares to a TID that would be classified as mixed-use. Assuming that almost all blighted TIDs are redevelopment projects and that most mixed-use TIDs will be new development projects, we continue to deal with issues of redevelopment versus new development TIDs. However, this case study also sheds some light on how annual base value adjustments allow blighted TIDs to be more economically competitive relative to non-blighted TIDs.

Milwaukee TID #22 was created in 1994 to redevelop 46 acres of land along the Milwaukee River. The land contained in TID #22 is approximately 12 blocks north of downtown, and 70 percent of it was considered blighted. Previously, the land in Milwaukee TID #22 was the heart of Milwaukee’s brewing industry, housing the Schlitz brewery along with the former Gimbel’s warehouse. The TID is commonly referred to as Beer Line “B,” since it encompasses an abandoned railroad that served the Schlitz brewery. For our purposes, we will continue to consider Milwaukee TID #22 a blighted TID, and treat it as such in the policy effects section.

In 1994, the City of Milwaukee sought to redevelop these areas by utilizing their proximity to the Milwaukee River to promote residential development. The goal was to add new value to the area, promote the reuse of historically important industrial buildings for residential and commercial purposes, and eliminate blight. The city was successful in converting a former warehouse into a 106-unit apartment complex and a former city garage into a microbrewery. However, the majority of growth during the TID’s first six years was commercial, as the city had not yet been able to induce the residential growth it had originally planned. Details of Milwaukee TID #22’s value growth by class can be found in Table 2.1. In 1999, the project plans were amended to add an additional 12 acres of land on which a retail center and further residential development were planned, bringing total TID size to approximately 58 acres. Since 1999, the area included in TID #22 has seen the construction of new housing units, apartments, condominiums, and townhouses.

Table 2.1

Property Value Growth in Milwaukee TID #22 by Class over TID Life

Year	Residential Property Value	Commercial Property Value	Manufacturing Property Value	Agricultural Property Value	Personal Property Value	Total Property Value
1994	\$ 395,900	\$ 2,053,200	\$ —	\$ —	\$ 262,200	\$ 2,711,300
1999	666,600	10,211,800	437,600	—	392,500	11,708,500
Growth over TID Life	\$ 270,700	\$ 8,158,600	\$ 437,600	\$ —	\$ 130,300	\$ 8,997,200
Percentage of Total TID Property Value Growth	3.01%	90.68%	4.86%	0.00%	1.45%	—

Source: Wisconsin DOR.

Between 1994 and 1999, the City of Milwaukee spent approximately \$3.3 million on project costs for the TID. These project costs were incurred primarily by reconstructing roadways and extending Milwaukee’s RiverWalk, a pedestrian passage along the Milwaukee River. At the time of the amendment, Milwaukee foresaw an additional expenditure of \$9.5 million for similar purposes, bringing total projected expenditures to \$12.8 million.

In this second case study, Milwaukee TID #22 is contrasted with Hartland TID #3, an 85-acre development district located in a suburban community 25 miles west of Milwaukee. Hartland’s TID #3 was created in 1998 to develop a commercial center on the city’s southwest periphery, and contains a total of 69.7 acres of developable land. Prior to the creation of the district, all of the developable land was classified as agricultural for tax purposes, with an average land value of approximately \$2,000 per acre.

Hartland TID #3 was created under the wide definition of industrial TIDs; however, an examination of its resulting growth shows that over 96 percent of its growth occurred in the commercial sector. Indeed, while the project plans justify its use of TIF for high quality industrial, distributor, and related private development, over 96 percent of the property value growth within the district came in commercially classed property. Knowing that manufacturing development was not specifically targeted in this TID, we will consider it a mixed-use TID as determined earlier in our policy prescriptions. See Table 2.2 for full details of growth within Hartland TID #3.

Between 1998 and 2003, Hartland spent \$1.1 million, and the original project plans call for total expenditures to reach \$1.98 upon the termination of the seven-year expenditure period. Included in the nearly \$2 million in project costs are over \$1 million in costs for sewers, roads, and utilities and also \$150,000 earmarked for developer incentives.

Table 2.2

Property Value Growth in Hartland TID #3 by Class over TID Life

Year	Residential Property Value	Commercial Property Value	Manufacturing Property Value	Agricultural Property Value	Personal Property Value	Total Property Value
1998	\$ 677,400	\$ 1,000	\$ —	\$ 156,900	\$ —	\$ 835,300
2003	488,900	14,789,900	—	—	885,400	16,164,200
Growth over TID Life	\$ (188,500)	\$ 14,788,900	\$ —	\$ (156,900)	\$ 885,400	\$ 15,328,900
Percentage of Total TID Property Value Growth	-1.23%	96.48%	0.00%	-1.02%	5.78%	—

Source: Wisconsin DOR.

Subject TIDs Under Current Law

We begin our comparison of Milwaukee TID #22 and Hartland TID #3 by reviewing the basics of the TIDs' growth under current law. Hartland TID #3's growth is displayed in Table 2.3. Unfortunately, we have only six years of data for TID #3, since it was created in 1998. However, these six years are sufficient to note some general trends and evaluate the effects. From the chart, we can see that Hartland TID #3 appears to fit our expectations for a mixed-use TID developing open land in a fast-growing community. The returns from the TID are very quick, with no immediate loss in value due to the low valuation of agricultural land.

In contrast, the growth of Milwaukee TID #22, displayed in Table 2.4, occurs much more slowly and includes drops in property value over the first three years of life. This is typical of what we can expect from a blighted TID, since infrastructure must often be razed during the first few years in order to eliminate obstacles to development. Once this has occurred, the city then is able to begin attracting new development and generate positive value increments. Because of its earlier creation, we have far more data on Milwaukee TID #22. The data on TID value growth under current law have been separated into the first six years of life before the project amendment, and the four years following it. For comparative purposes, we focus primarily on the first six years of life for Milwaukee TID #22, prior to the amendment and when growth was primarily commercial. However, the figures for the last four years from Milwaukee TID #22 do illustrate that, while blighted TIDs may initially be slow-growing, they can also yield great property growth over time.

Table 2.3

Hartland TID #3

Year	Base Value	Equalized TID Value	Value Increment
1998	\$ 835,300	\$ 835,300	\$ —
1999	835,300	2,021,300	1,186,000
2000	835,300	5,124,600	4,289,300
2001	835,300	13,134,100	12,298,800
2002	835,300	16,057,500	15,222,200
2003	835,300	16,164,200	15,328,900
Total			\$ 48,325,200

Source: Wisconsin DOR.

Under the current law, the returns from Milwaukee TID #22 are far lower than those in Hartland TID #3. While Hartland is yielding value increments of \$12.3 million in its fourth year of life, Milwaukee TID #22 is still generating negative value increment and will not attract enough development to be comparable with Hartland TID #3 until its eighth year. Over their first six years of life, Hartland TID #3 was able to accumulate \$48.3 million of cumulative value increment, while Milwaukee TID #22 generated only \$10.8 million.

When we consider this slower growth in conjunction with the higher costs of redeveloping blighted land, it is clear that mixed-use TIDs developing open land have a clear competitive advantage. Urban areas must tie up a larger percentage of total property value in the TID, must have higher base values that limit value increment growth, and must tailor their expenditures to the realities of slower growing blighted TIDs.

Table 2.4

Milwaukee TID #22

Year	Base Value	Equalized TID Value	Value Increment
1994	\$ 2,711,300	\$ 2,711,300	\$ —
1995	2,711,300	2,190,200	—
1996	2,711,300	2,124,200	—
1997	2,711,300	2,231,000	—
1998	2,711,300	4,548,200	1,836,900
1999	2,711,300	11,708,500	8,997,200
Total			\$ 10,834,100
2000	7,761,700	14,126,400	6,364,700
2001	7,761,700	26,727,800	18,966,100
2002	7,761,700	35,875,100	28,113,400
2003	7,761,700	60,292,400	52,530,700
Total			\$ 125,806,200

Source: Wisconsin DOR.

Policy Reform Effects

Let us now consider the effects that our proposed plans would have on the TIDs in this second case study. The land encompassed in Milwaukee TID #22 had significant blighting influences and thus will not be subjected to base value adjustments. Hartland TID #3, however, owing to its location on previously undeveloped agricultural land, is subject to both initial-year (for its inclusion of open land) and annual base value adjustments.

Initial-Year and Annual Base Value Adjustments

Since Hartland TID #3 developed land suitable for industrial development but did not target any growth in the manufacturing sector, it will be considered a mixed-use TID for our purposes. Total TID acreage for Hartland TID #3 is approximately 85 acres, including 70 acres of previously undeveloped agricultural land. The inclusion of this undeveloped land allows Hartland TID #3 to have an artificially low base value. To illustrate, consider the following. While the previously undeveloped land comprised 82 percent of the total acreage in Hartland TID #3, it totaled only 16.5 percent of the base value. The other 15 acres were primarily residential, containing single-family dwellings, and accounted for 83.5 percent of the property value included in the TID at creation. Thus, in order to determine a new base value for Hartland TID #3, the 70 acres must be revalued at the prevailing average land value per acre and then added to the value of the non-vacant 11 acres included in TID #3. These calculations can be seen in Table 2.5.

Revaluing the previously undeveloped land in Hartland TID #3 alone increases the base value by nearly 450 percent. This new value is more representative of the kinds of services that will need to be provided to this land, and places this new development on a more equal plane with redevelopment projects such as Milwaukee TID #22, which must deal with higher base values.

Table 2.5

First-Year Adjustment of Base Value for Hartland TID #3

Total Land Value in Hartland (1997)	\$ 131,051,900
Total Municipal Acres	2,886.40
Average Land Value Per Acre	\$ 45,403.24
Amount Previously Undeveloped Land in TID	69.91
Revaluation of Open Land in TID	\$ 3,174,140.22
Other Property Included in TID	\$ 541,200
Adjusted Base Value	\$ 3,715,340.22

Source: Wisconsin DOR.

We must also consider how our annual base value adjustment will affect our case studies. Milwaukee TID #22 will not need to undergo annual base value adjustments, since the land included is blighted and unlikely to experience any property value growth without subsidy. However, the land in Hartland TID #3 has no significant impediments to development, and its base value should increase at the same rate as other property values, returning a level of taxable value to overlying districts approximately representative of the growth that would occur without public subsidy. This calculation is performed in Table 2.6.

Growth in the Village of Hartland during the five years prior to the creation of TID #3 was exceptionally high, with property values increasing by an average of 15.3 percent for all classes. This is particularly high when compared to an average growth of property values in Milwaukee over the same period in all classes of approximately three percent. This, many would argue, is proof that Hartland most likely did not need to use public subsidy to attract development in the first place. While this certainly may be the case, oversights like these are the natural side effect of TIF's decentralized nature. However, this case study provides an opportunity to illustrate how our reforms will strengthen the "but for" test by drawing a statutory connection between base values and the economic health of a municipality. While the annual base value adjustment did not play a significant role in changing the payoff prospects in our first case study, we will see that, for municipalities with strong economic growth such as Hartland, the annual base value adjustment will significantly affect large TIDs' feasibility.

Table 2.6

Annual Base Value Adjustment Factor for Hartland TID #3

Year	Total Property Value Prior Year	Total Property Value Current Year	Property Value Growth	Percentage Growth
1993	\$ 54,390,200	\$ 57,764,500	\$ 3,374,300	1.0620
1994	57,764,500	68,933,000	11,168,500	1.1933
1995	68,933,000	79,080,400	10,147,400	1.1472
1996	79,080,400	110,816,900	31,736,500	1.4013
1997	110,816,900	110,874,800	57,900	1.0005
Annual Adjustment Factor				1.1531

Source: Wisconsin DOR.

Before moving on to assess the effect of our initial and annual base value adjustments on the economic feasibility on Hartland TID #3, we should pause to note how incentives for information-gathering by members of the joint review board will also be changed through our reforms. Recall that our reforms leave the TID-classification determinations to the local joint review board. In this case, had the joint review board approved Hartland TID #3 as an industrial development project, the annual base value adjustment would be appreciably lower. Indeed, had this TID been classed industrially, the annual base value adjustment factor for an industrial TID created in Hartland in 1998 would have been 12.3 percent. This would have returned less money to overlying districts than classification as a mixed-use TID. With this new monetary incentive for joint review boards, we can reasonably expect a much higher level of scrutiny from joint review boards as sponsoring municipalities try to seek out the TID classification that will provide the greatest payback prospects (in this case, either industrial or blighted classification).

Changes in Value Increment Generated

Beyond the positive effects our reforms will have in promoting responsible information-gathering, they will also yield significant effects on the value increments generated by Hartland TID #3. By revaluing the 70 acres of previously undeveloped agricultural land included and indexing annual base value adjustments to Hartland’s high level of property value growth occurring naturally, Hartland will see its cumulative value increment nearly halved over the first six years. The value increments for Hartland TID #3 have been recalculated in Table 2.7. The changes to Hartland TID #3’s base value result in a number of significant changes to the value increment generated by the TID.

Table 2.7

Hartland TID #3 with Adjustments

Year	Equalized TID Value	Annual Adjustment Factor	Adjusted Base	Value Increment
1998	\$ 835,300	1.1531	\$ 3,715,340	\$ —
1999	2,021,300	1.1531	4,284,114	—
2000	5,124,600	1.1531	4,939,960	184,640
2001	13,134,100	1.1531	5,696,209	7,437,891
2002	16,057,500	1.1531	6,568,230	9,489,270
2003	16,164,200	1.1531	7,573,747	8,590,453
Total Increment Under Reforms				\$ 25,702,254
Total Increment Under Current Law				\$ 48,325,200

Source: Wisconsin DOR.

First, the new development TID now faces a similar, though not as serious, situation as blighted TIDs during its earliest years of life. Positive and significant value increments are not generated until its third year of life. This delay in generating a value increment is a barrier faced by all blighted TIDs, as they must remove blighting influences before attracting development. Our initial-year base value adjustment replicates this payoff delay in Hartland TID #3 as well, showing that holding suburban and exurban municipalities to the same property valuation standards that apply to blighted areas will level the playing field between blighted and new development TIDs.

Second, we observe that, because of Hartland's very high property value growth, the base value will increase nearly \$1 million per year. This will force Hartland and other fast-growing communities to examine more closely whether the use of TIF is appropriate in their development plans, strengthening the "but for" test.

Third, by the sixth year of life, the aggregation of effects from our initial-year and annual base adjustments for mixed-use TIDs has equalized the payoff prospects between the blighted and mixed-use TIDs in our case study. While there still exists a great difference in cumulative value increment (\$10.8 million for Milwaukee TID #22 versus \$25.7 million for Hartland TID #3), value increments for Hartland have decreased 48 percent and payoffs in later years of TID life are becoming more and more similar. To illustrate, note that Milwaukee TID #22 generates a value increment of approximately \$9 million in its sixth year. Under current law, the payoff from new development mixed-use TIDs is far higher, \$15.3 million; however, under the proposed reforms, Hartland TID #3 would actually generate a smaller value increment than Milwaukee TID #22 did in its sixth year, generating \$8.5 million.

Changes in Tax Increment Generated

To continue our analysis of the competitive balance between blighted and non-blighted TIDs, we now analyze how our proposed reforms will affect the tax increment generated by each of our example TIDs. Although the cumulative tax increments remain significantly different, they too have moved closer to each other and begin to give blighted TIDs a slight advantage once development occurs. The tax increments for Milwaukee TID #22, under both current and proposed law (since blighted TIDs are not subject to any statutory changes under our reforms), are displayed in Table 2.8. The comparison of tax increments under current and proposed law for Hartland TID #3 are shown in Table 2.9.

Table 2.8

Tax Increment for Milwaukee TID #22 Under Both Current and Proposed Law

Year	Value Increment	Gross Tax Rate	Tax Increment
1994	\$ —	0.03769	\$ —
1995	(521,100)	0.03498	—
1996	(587,100)	0.03149	—
1997	(480,300)	0.02969	—
1998	1,836,900	0.03003	55,162
1999	8,997,200	0.02840	255,520
Total			\$ 310,683

Source: Wisconsin DOR.

Table 2.9

Tax Increment for Hartland TID #3 Under Current Law

Year	Value Increment	Gross Tax Rate	Tax Increment
1998	\$ —	0.02103	\$ —
1999	1,186,000	0.02011	23,850
2000	4,289,300	0.02048	87,845
2001	12,298,800	0.02117	260,366
2002	15,222,200	0.02035	309,772
2003	15,328,900	0.02035	311,943
Total			\$ 993,776

Tax Increment for Hartland TID #3 Under Reforms

Year	Value Increment	Gross Tax Rate	Tax Increment
1998	\$ (2,338,840)	0.02103	\$ —
1999	(1,638,763)	0.02011	—
2000	904,226	0.02048	18,519
2001	8,267,637	0.02117	175,026
2002	10,446,040	0.02035	212,577
2003	9,693,693	0.02035	197,267
Total			\$ 603,388

Source: Wisconsin DOR.

Milwaukee TID #22's slower growth initially still yields significantly less tax increment over the early years of TID life. However, our reforms decreased the difference in tax increment between Milwaukee TID #22 and Hartland TID #3 by 56.4 percent, making the blighted Milwaukee TID decidedly more competitive than under current law. We also note that, in its sixth year, Milwaukee's tax increment, and consequently, payback prospects appear much better when compared to Hartland's. Under current law, Hartland generated \$56,423 more in tax increment during the TID's sixth year of life. With our proposed reforms, however, Milwaukee generates \$58,253 *more* tax increment than Hartland in the sixth year. Coupled with the knowledge that Hartland's base value is growing close to \$1 million per year, the blighted Milwaukee TID #22 seems to have regained some competitive advantage in the long run over new development TIDs.

Less Capacity for Fast-Growing Communities to Use TIF and a Stronger Joint Review Board Process

We conclude this section with a discussion of the effects our annual base value adjustment plan will have on base values in fast-growing communities and the joint review board process in general. In the project plans submitted to the DOR by the Village of Hartland, expected revenues from tax increments "...will be sufficient to meet all obligations in a timely manner...by the year 2009." Given a base year of 1998, the Village of Hartland expects TID #3 to exist for a total of 12 years. For the purpose of analyzing changes in incentives for TID decision-makers, we have projected the base value growth over 12 years of TID life for both mixed-use classification and industrial classification. These calculations are shown in Table 2.10.

Table 2.10

Comparison of Effects of Annual Base Value Adjustment Over Projected TID Life, Hartland TID #3

TID Life (Years)	Classed Mixed Use		Classed Industrial	
	Adjusted Base	Annual Adjustment Factor	Adjusted Base	Annual Adjustment Factor
1	\$ 3,174,140	1.1531	\$ 3,174,140	1.1230
2	3,660,063	1.1531	3,564,509	1.1230
3	4,220,374	1.1531	4,002,887	1.1230
4	4,866,463	1.1531	4,495,179	1.1230
5	5,611,460	1.1531	5,048,014	1.1230
6	6,470,507	1.1531	5,668,840	1.1230
7	7,461,064	1.1531	6,366,017	1.1230
8	8,603,263	1.1531	7,148,936	1.1230
9	9,920,319	1.1531	8,028,142	1.1230
10	11,439,000	1.1531	9,015,476	1.1230
11	13,190,173	1.1531	10,124,236	1.1230
12	15,209,430	1.1531	11,369,357	1.1230

Source: Wisconsin DOR.

First, we focus on the changes in incentives for municipalities and potential developers, both of whom may initiate the TID-creation process. If Hartland TID #3 were to live for a total of 12 years or even longer, as it likely would under our reforms, the base value would grow to \$15.2 million. Additionally, by year 12 of TID life, the base value would be appreciating at a rate of over \$2 million per year. This would force Hartland to do one of three things: 1) gain complete assurance that this project will generate extreme growth in property value; 2) cut back public subsidy to this development; or 3) consider other ways to fund the public improvements necessary to attract development. In all, fast-growing communities will need to take a harder look at whether the development would occur without the use of public money, adding strength to the “but for” test. Indeed, many would argue that a village experiencing 15.3 percent property value growth may find it easier to fund development project through a reallocation of tax revenues. Additionally, from a developer’s standpoint, the development site in Hartland is now far less attractive, knowing that the village will not be able to cover as many of the development costs, and there will be greater pressure on the developer to ensure enough property value growth to accommodate an exponentially increasing base value.

In addition to changes in incentives for the municipality and would-be developers, joint review boards now have a new incentive to scrutinize project plans and TID classification. Remember that the joint review board for Hartland TID #3 approved the project plans as an industrial development site, although no growth in the manufacturing sector was seen over the first six years of TID life. Under our system, a joint review board would have to approve a non-blighted TID in one of two classes: manufacturing-focused industrial development, or mixed-use development. Figure 2.10 demonstrates that overlying districts will now have a monetary incentive to ensure that industrial development projects actually promote growth in the manufacturing sector. Indeed, had this TID been classified as industrial, the overlying districts would lose out on over \$3.8 million of taxable value in its 12th year alone.

In sum, what we learn from our comparison of Hartland TID #3 and Milwaukee TID #22 is that our proposed reforms will strengthen the “but for” test, increase TID-classification scrutiny, and ultimately make blighted TIDs more competitive with non-blighted TIDs. It appears that, over the early years of TID life, blighted TIDs still will take longer than non-blighted TIDs to generate a value increment. However, our reforms push the dates of first positive value increment closer together for blighted and non-blighted TIDs. This is certainly a first step in returning tax revenue to overlying districts and reducing the competitive disadvantage that blighted TIDs face in Wisconsin’s current TIF program.

Our proposed plan to adjust the base value to account for prevailing land growth holds promise to tip the competitive balance towards blighted TIDs in some cases. While a blighted TID may not generate as much tax increment over its early years, a base value growing at 15 percent or higher (compared to one that is stable) will allow blighted TIDs to yield significantly more tax increment over total TID life. Indeed, when Hartland TID #3 has a base value of over \$15.2 million in its 12th year of life, Milwaukee TID #22's will remain at \$2.4 million. This will place an onus for extremely high growth on non-blighted TIDs developing open land in fast-growing communities. In other words, municipalities with the highest growth potential will be required to generate the highest real growth in order to profitably use a TIF system originally designed to aid depressed urban areas. Free from the burden of competing against areas of high growth and abundant prime real estate, blighted sites will become more logical places for municipalities to redevelop and for developers to target.

Case Study 3: Reforms' Effects on Curbing Urban Sprawl

Our third case study highlights two examples of TIDs that developed very large areas of previously undeveloped land. While at this point we have gained some understanding of how our proposed reforms will shift the competitive balance between redevelopment and new development TIDs and between blighted and non-blighted TIDs, this case study allows us to answer two important questions. First, how will the proposed reforms affect the geographical size of TIDs created? And second, will the proposed reforms make any types of TIDs economically unviable? Since we have previously discussed the methods used to calculate adjusted base values, we omit the details of the recalculations here for the sake of brevity.

Menomonee Falls TID #4

Overview

We begin by looking at Menomonee Falls TID #4, an expansive 250-acre development site less than ten miles from the City of Milwaukee's limits. The district was formed in 1995 to create an industrial park, used partially for a Kohl's Department Store warehouse that relocated from a site elsewhere in Menomonee Falls. This development alone was expected to create "...about 600 office jobs and 800 manufacturing jobs." To house its new facility, Kohl's planned on purchasing 50 acres of land within the new industrial park, leaving over 200 acres open for other development. In this case, keeping the Kohl's facility in Menomonee Falls benefited both the municipality and taxpayers. Indeed, using TIF to help existing businesses expand and prevent their departure across state borders is entirely appropriate. However, this project took a much larger scale. In fact, over \$14.1 million of public subsidy was used to develop an expansive industrial park in a Milwaukee-area municipality whose property value growth between 1990 and 1994 was 10.5 percent, while property values in Milwaukee increased only 2.5 percent over the same period. In this case, our proposed reforms might have limited the scale of this project, forcing a more narrow focus on helping Kohl's expand within Menomonee Falls.

Menomonee Falls TID #4 promoted a good mix of growth over its eight-year history, with about 65 percent coming in commercial development, 25 percent in manufacturing, and 10 percent in personal property. Thus, for our purposes, we will consider Menomonee Falls TID #4 to be an industrial TID and, accordingly, will adjust its base value annually by seven percent, the average manufacturing property value growth between 1990 and 1994. Table 3.1 presents the growth in value increment under current law for Menomonee Falls TID #4.

Table 3.1

Menomonee Falls TID #3 Under Current Law

Year	Base Value	Equalized TID Value	Value Increment	Gross Tax Rate	Tax Increment
1995	\$ 4,613,100	\$ 4,613,100	\$ —	0.02745	\$ —
1996	4,613,100	8,371,400	3,758,300	0.02529	95,047
1997	4,613,100	47,190,200	42,577,100	0.02484	1,057,615
1998	4,613,100	69,489,800	64,876,700	0.02477	1,606,996
1999	4,613,100	64,351,700	59,738,600	0.02411	1,440,298
2000	4,613,100	88,167,500	83,554,400	0.02277	1,902,534
2001	4,613,100	92,668,300	88,055,200	0.02228	1,961,870
2002	4,613,100	96,809,500	92,196,400	0.02155	1,986,832
2003	4,613,100	105,053,300	100,440,200	0.02155	2,164,486
Total			\$ 535,196,900		\$ 12,215,678

Source: Wisconsin DOR.

Base Value Adjustments and their Effects

By all accounts, Menomonee Falls TID #4 was very successful. In eight years, it generated value increments of over \$100 million dollars and nearly paid itself off, despite very large project costs. However, the increments generated by Menomonee Falls TID #4 are not entirely fair to overlying tax districts, which continue to receive only the taxes on what was originally a plot of vacant agricultural land. To this end, we will revalue all previously undeveloped land to determine a new initial base value and then adjust it annually by the prevailing property value appreciation, previously stated to be seven percent. The initial-year base value adjustment is displayed in Table 3.2.

The initial-year base value adjustment, as expected, causes a sizable jump in base value for TID #4, doubling the base value from \$4.6 million to \$9.2 million. The value and tax increment effects of coupling this initial-year base value adjustment with an annual base value adjustment of seven percent are shown in Table 3.3.

Table 3.2

First-Year Adjustment of Base Value for Menomonee Falls TID #3

Total Manufacturing Land Value in Menomonee Falls (1995)	\$ 22,722,400
Total Manufacturing Acres	669
Manufacturing Land Value Per Acre	\$ 33,964.72
Amount Previously Undeveloped Land in TID	187
Revaluation of Open Land in TID	6,351,403.29
Other Property Included in TID	2,891,300
Adjusted Base Value	\$ 9,242,703.29

Source: Wisconsin DOR.

Table 3.3

Menomonee Falls TID #3 with Adjustments

Year	Equalized TID Value	Adjusted Base	Annual Adjustment Factor	Value Increment	Gross Tax Rate	Tax Increment
1995	\$ 4,613,100	\$ 9,242,703	1.0700	\$ (4,629,603)	0.02745	\$ —
1996	8,371,400	9,889,467	1.0700	(1,518,067)	0.02529	—
1997	47,190,200	10,581,489	1.0700	36,608,711	0.02484	909,360
1998	69,489,800	11,321,935	1.0700	58,167,865	0.02477	1,440,818
1999	64,351,700	12,114,195	1.0700	52,237,505	0.02411	1,259,446
2000	88,167,500	12,961,893	1.0700	75,205,607	0.02277	1,712,432
2001	92,668,300	13,868,910	1.0700	78,799,390	0.02228	1,755,650
2002	96,809,500	14,839,395	1.0700	81,970,105	0.02155	1,766,456
2003	105,053,300	15,877,791	1.0700	89,175,509	0.02155	1,921,732
Total Under Reforms				\$ 472,164,691		\$ 10,765,895
Total Under Current Law				\$ 535,196,900		\$ 12,215,678

Source: Wisconsin DOR.

The combined effects of the initial-year and annual base value adjustment are sizable, reducing cumulative value increment by nearly \$70 million and tax increment by close to \$2 million. These payoff reductions would not alone make Menomonee Falls TID #4 economically unviable, since it has promoted such rapid and sizable property value growth. However, the combination of a doubled first-year base value and annual base value increase of \$1–2 million likely would have prevented the municipality and joint review board from proposing or authorizing a TID including such a large chunk of previously undeveloped land. In this case, our reforms would have driven Menomonee Falls to reduce the size or scope of this development. Under these reforms, Menomonee Falls would have an incentive to explore other financing options, besides TIF, for the development alongside the Kohl's expansion.

Earlier, we examined the ways in which TIF, if used inappropriately, can cause significant financial woes for municipalities. When public subsidy is used to fund development that would have occurred to the same extent — or even to a lesser extent — a municipality incurs debt typically assumed by the developer and forfeits the additional tax revenue from the development to repay the assumed costs. This may have been what happened to Menomonee Falls. According to the *Milwaukee Journal Sentinel*, Menomonee Falls is in significant debt: anywhere from \$117 million to \$156 million, depending on what interest accrues before the debts can be paid back.⁶² Considering Menomonee Falls high growth prior to the creation of TID #4, it is possible that some growth would have occurred within the 250-acre development site without public funds. While Menomonee Falls will certainly see a bulge in revenue when over \$100 million is added back to the tax rolls upon TID #4's expiration, a less expansive and sprawling development would have prevented some of the village's financial strain. A smaller scale project would have allowed non-subsidized development to occur, which would add value to the village's tax rolls, and ameliorated some of the municipality's significant financial problems.

It is clear that the reforms developed here will not prevent the creation of all large-scale new development projects. However, the reforms would limit municipalities' and developers' capacity to use TIF to fund developments adding to urban sprawl, as municipalities and joint review boards must reconsider a TID's size and scope when it includes previously undeveloped land.

Belgium TID #4

Overview

The other TID we will examine in this section is Belgium TID #4, which was created in 1995. Belgium TID #4 is comprised of 310 acres of land on the village's northern border, previously annexed from the Town of Belgium. In order to promote development in the newly added area, Belgium created a TID to "assist expansion of the tax base by providing public improvements necessary to promote industrial development." While the stated purpose was to promote industrial development and the joint review board approved it as such, actual property value growth has not coincided with the stated goals or intent. As shown in Table 3.4, nearly all of the growth has come in the residential sector.

This is especially disturbing considering that Belgium TID #4 was created before the passage of 2003 Wisconsin Act 126, when project costs were explicitly prohibited from directly assisting the newly platted residential development. A look at the planned project costs provides further cause for concern. Project costs for Belgium TID #4 were planned to be slightly more than \$7 million, of which \$3 million were slated for industrial park development incentives. Despite direct subsidies of over \$3 million to industrial developers, only \$1.8 million of new manufacturing or commercial property value has been added. This is in stark contrast to the addition of \$6.8 million in new residential property value growth. How was Belgium so unsuccessful in promoting development despite such large incentives to industrial developers?

Table 3.4

Property Value Growth in Belgium TID #4 by Class over TID Life

Year	Residential Property Value	Commercial Property Value	Manufacturing Property Value	Agricultural Property Value	Total Property Value
1995	\$ —	\$ —	\$ —	\$ 316,000	\$ 316,000
2003	6,854,600	301,300	1,476,600	2,600	8,651,800
Growth over TID Life	\$ 6,854,600	\$ 301,300	\$ 1,476,600	\$ (313,400)	\$ 8,335,800
Percentage of Total TID Property Value Growth	82.23%	3.61%	17.71%	-3.76%	—

Source: Wisconsin DOR.

It appears, from the original project plan, that indeed 75 percent of the land within the TID was set aside for industrial development; however, the balance of the land was planned for residential development. The \$4 million of project costs not used for developer subsidies were used to fund street and sanitary sewer improvements, which may not *directly* assist newly platted residential development; however, these improvements are a prerequisite for residential growth. Knowing the property value growth over the TID's first eight years of life, it is possible that the industrial development plans completely failed or that the residential property growth, assisted by TID-funded improvements, was expected to provide enough increment to pay off its project costs. While reforms adopted in 2003 will allow for project costs that directly assist newly platted residential development, the case of Belgium TID #4 provides insight into the ways in which TIF has been abused.

The use of TIF to fund development that vastly expands its boundaries is inappropriate and inconsistent with the intent of TIF. In the case of Belgium TID #4, the proposed development expanded the total size of Belgium by almost 50 percent! Such a large addition of land, with the accompanying restrictions on municipal tax revenues, is clearly not the intention of TIF. Under the proposed reforms, our new base value of \$3.3 million would have precluded its creation based on the 12 percent limit on total value allowed to be captured in TIDs. It is cases like these that will be most affected by our proposed reforms, effectively making them economically infeasible. The value increments and tax increments generated by Belgium TID #4 under current law are displayed in Table 3.5.

Table 3.5

Belgium TID #4 Under Current Law

Year	Base Value	Equalized TID Value	Value Increment	Gross Tax Rate	Tax Increment
1995	\$ 316,000	\$ 316,000	\$ —	—	\$ —
1996	316,000	316,000	—	—	—
1997	316,000	1,054,100	738,100	0.01659	12,245
1998	316,000	2,121,100	1,805,100	0.01769	31,932
1999	316,000	2,797,800	2,481,800	0.01641	40,726
2000	316,000	2,965,400	2,649,400	0.01769	46,868
2001	316,000	5,108,900	4,792,900	0.01665	79,802
2002	316,000	5,134,600	4,818,600	0.01596	76,905
2003	316,000	8,786,100	8,470,100	0.01596	135,183
Total			\$ 25,756,000		\$ 423,661

Source: Wisconsin DOR.

In contrast to Menomonee Falls TID #4, Belgium TID #4 is a TID that probably never should have been created. Despite public expenditure of over \$7 million, it only added \$8.5 million in value to the village, and only \$423,661 has been recouped over its eight-year life. Since this TID was created before the recent lengthening of the project expenditure period, it is safe to say that much of the anticipated development has already occurred. Thus, it seems that the TID will need an exceptionally long life to pay itself off. This type of TID is undesirable to overlying tax districts and the general public, who must now fund increased services to this area without any additional tax revenue from this district until it expires or pays itself off. The question then becomes: why was Belgium TID #4 created in the first place, and how can we prevent the creation of TIDs similar to Belgium #4 in the future?

Surprisingly, the Village of Belgium is a community in an advantageous location that had experienced great growth in the five years prior to TID #4's creation. Belgium is located off Interstate I-43, less than 30 miles north of Milwaukee. It offered a vast amount of entirely open, undeveloped land, and the village was clearly willing to offer subsidies to developers who intended to develop land in TID #4. Additionally, property values in all classes within Belgium grew at a rate of 10.7 percent between 1990 and 1994. As we noted before, this is far better than the 2.5 percent growth in all-class property values experienced in Milwaukee over the same period. Despite this, original project plans estimated the TID would need 25 years to recoup the significant outlays of public money in TID #4.

Base Value Adjustments and Their Effects

These facts seem to indicate that overlying tax districts, whose members sit on the joint review board, would have been better served by allowing the plan to develop without TIF or adopting a plan with fewer expenditures and/or whose growth was expected to occur more quickly. It is possible that the joint review board members were inexperienced or poorly informed about the nature of TIF in Wisconsin, or that they simply did not gather enough information about the proposed development in Belgium TID #4. Throughout this report, we have emphasized the ability of our proposed reforms to provide added incentive for joint review boards to scrutinize project plans and enforce the “but for” test. The case of Belgium TID #4 provides the strongest evidence of this, as our reforms would most likely have prevented the approval of the project plans by the municipality or the joint review board. Let us first examine the effects of our initial-year base adjustment on Belgium TID #4’s base value, which currently is \$316,000. This recalculation is displayed in Table 3.5.

Our initial-year base value adjustment sets a base value more representative than the artificially low \$316,000 base value calculated on agricultural land values. Because Belgium TID #4’s manufacturing-classed property value growth was well below 25 percent, we consider it to be a mixed-use TID and have revalued the 310 acres of previously undeveloped land at average Belgium land value per acre for all classes in 1994. For the determination of value and tax increments under our proposed reforms, we coupled this with an annual base value increase of 10.8 percent — the average all-class property value growth for Belgium in the five years prior to TID creation. The changes in value and tax increments under our proposed reforms are shown in Table 3.6.

Table 3.5

First Year Adjustment of Base Value for Belgium TID #4

Total Land Value in Belgium (1994)	\$ 6,841,581
Total Municipal Acres	640
Average Land Value Per Acre	\$ 10,689.97
Amount Previously Undeveloped Land in TID	310
Revaluation of Open Land in TID	3,313,890.80
Other Property Included in TID	—
Adjusted Base Value	\$ 3,313,890.80

Source: Wisconsin DOR.

The effects of our proposed reforms on Belgium TID #4 are significant. Belgium TID #4 would not show a positive value or tax increment until its eighth year of life and will need to add around \$1 million per year of property value in order to generate positive tax increments. Under our system, the prospects for Belgium TID #4 to pay itself off are dim, and the district probably would not have been created in its current form. Economic forecasts required by the DOR would have shown the unviability of TID #4, and it is likely that the municipality never would have proposed it. Or, the joint review board would have rejected it, realizing that the development plans did not display that TID #4 would grow at a significantly higher rate than development occurring without public subsidy: one of three criteria on which review boards base their decision.

Conclusion: Smarter Growth through TIF

In short, we can say that our reforms will have a sizable effect on some kinds of TIDs — those that develop large parcels of open land in already fast growing communities. Under our current system, these types of TIDs are most often created in suburban/exurban communities that compete with urban areas for development. In some cases, such as Belgium TID #4, our reforms will block the formation of these TIDs completely. In others, such as Menomonee Falls TID #4, fast-growing municipalities will be forced to scale down and refocus their use of TIF. Both of these outcomes will promote smarter growth in Wisconsin; less open land will be developed, and urban and exurban areas will have equal ability to utilize TIF, leading to vibrant urban centers.

Table 3.6

Belgium TID #4 with Adjustments

Year	Equalized TID Value	Adjusted Base	Annual Adjustment Factor	Value Increment	Gross Tax Rate	Tax Increment
1995	\$ 316,000	\$ 3,313,891	1.1072	\$ —		\$ —
1996	316,000	3,669,045	1.1072	—		—
1997	1,054,100	4,062,261	1.1072	—	0.01659	—
1998	2,121,100	4,497,618	1.1072	—	0.01769	—
1999	2,797,800	4,979,634	1.1072	—	0.01641	—
2000	2,965,400	5,513,307	1.1072	—	0.01769	—
2001	5,108,900	6,104,176	1.1072	—	0.01665	—
2002	5,134,600	6,758,368	1.1072	—	0.01596	—
2003	8,786,100	7,482,671	1.1072	1,303,429	0.01596	20,803
Total Under Reforms				\$ 1,303,429		\$ 20,803
Total Under Current Law				\$ 25,756,000		\$ 423,661

Source: Wisconsin DOR.

Case Study 4: Annual Base Value Adjustment

Throughout this report, we have theorized about and seen some evidence of the role that an annual base value adjustment indexed to a municipality's property value growth has on Wisconsin's TIF system. This section will add some context and provide further verification of our claim that this reform will improve Wisconsin's TIF system in two ways: 1) by limiting its use by municipalities that don't need it; and 2) by giving greater assistance to overlying tax districts that must pay for services to TIF-funded development without any increase in tax base.

Greater Relative Ability for Depressed Communities to Use TIF

TIF functions best for Wisconsin when depressed communities have the greatest ability to utilize TIF, while fast-growing communities primarily rely on other development tools. To assess how Wisconsin's TIF system moves closer to this goal under the annual base value adjustment, we will consider its effects in three fictional communities: 1) a depressed community that has seen the departure of businesses and people over the past ten years and whose five-year average growth is one percent; 2) a healthy Wisconsin community, with property values growing annually at eight percent; and 3) a fast-growing community set on the urban fringe, which is taking advantage of its abundant open land and proximity to a major commercial center whose property values are growing at an annual rate of 17 percent. Under the proposed reforms, each of these five-year property value growth rates would be applied to the base values of any TID created in these communities.

In the slow-growing community, the effects of a one percent annual base value adjustment are marginal. The TID would have to live nearly 70 years for its base value to double. If the TID did live the maximum 20 years allowed for mixed-use and industrial TIDs, its base value would have increased by only 22 percent. For the healthy Wisconsin community, the base value will double in a little over nine years. Since most TIDs are now living for less than ten years⁶³, a TID located in an average-growth community will pay itself off around the time that its base value has doubled. Finally, we consider the effect of an annual base value adjustment for high-growth communities. These communities already experience much success in promoting property value growth in their municipalities without the use of public funds, and development here is the most likely to occur without the assistance of TIF. Under the annual base value adjustment, communities with higher growth prospects will be held to a higher standard. An annual base value increase of 17 percent will double the base value in a TID's fifth year of life, triple the base value in the seventh year of life, and quadruple the base value by year nine.

This may or may not prevent the creation of the TID itself, but it certainly provides an incentive for better planning to ensure paying off TID project costs. Municipalities will be less likely to create TIDs encapsulating a lot of value. Further, once authorized, TIDs in fast-growing municipalities will not be able to delay making project expenditures, feeling out whether they will be able to generate enough tax increment to finance further projects. Instead, these TIDs will be forced to begin work on their development plans immediately, in order to add value to the tax rolls more quickly. While some may argue that higher base values for these TIDs will hurt taxpayers by forcing these TIDs to live longer, this effect will likely be offset by a decrease in the overall size of TIDs created and faster implementation of TID project plans.

Money to Help Overlying Districts Provide Services to TID Development

In addition to placing the onus on fast-growing communities to pay off their TIDs off more quickly, the annual base value adjustment applied to TIDs statewide will generate a sizable amount of revenue for overlying tax districts. To illustrate, we attempt to estimate the increased property tax revenue for all of Dane County if an annual base value adjustment had been part of Wisconsin's TIF program from its inception.

As of May 2004, Dane County had 48 active TIDs, which comprised over \$1.6 billion dollars of taxable revenue. Of these 48 TIDs, 25 are industrial TIDs. The rest are either blighted or environment remediation TIDs, which would not be subject to an annual base value adjustment under our proposed reforms.⁶⁴ Table 4.1 displays the average property value growth for all classes of property over the past ten years, which will be used to estimate the rate at which base values would have appreciated.

Table 4.1

Average Property Value Growth in Dane County: All Classes (1993–2003)

1993 Total Property Value	14,400,250,400
2003 Total Property Value	33,702,155,800
Average Property Value Growth	1.0888

Source: Wisconsin DOR.

Table 4.2 then displays each of the 25 applicable TIDs in Dane County, and their estimated base values after a retroactive application of the annual adjustment. The estimated base value figures were compiled using the following formula:

$$\text{Current Base Value} \times (\text{Average Growth})^{\text{Years of TID Life}} = \text{Adjusted Base Value}$$

The annual base value adjustment reform for industrial and mixed-use TIDs would have added nearly \$170 million of the taxable value to Dane County tax rolls for 2003. This returned taxable value could be used to fund services, such as county roads and highways, protection by the Dane County Sheriff's Department, job training services and child-care opportunities for workers employed in the development, and others. Using a tax rate of 0.299 percent to estimate tax rates for Dane County, which actually varied from 0.338 percent to 0.295 percent of total property value in 2003, the annual base value adjustment reform would yield Dane County over half a million dollars of additional tax revenue every year. Put in perspective, this is about one-seventh of the Dane County Libraries budget, one third of the budget for the Dane County Parks system, or nearly the total cost of the Dane County Juvenile Court's Shelter Home program.⁶⁵

In reality, the effects of the annual adjustment, when applied in conjunction with our other reforms, are underestimated by this calculation. First, tightening the definition of blight would have subjected some of the more questionable "blighted" TIDs to the annual adjustment. Second, the increase in revenue estimated for Dane County here does not attempt to estimate the addition of taxable value to the county tax rolls caused by a revaluation of previously undeveloped land. This figure is likely to be sizable for those TIDs created in communities on the urban fringe of Dane County. And finally, the addition of a mixed-use TID classification is expected to cause a bump in TIF use, capturing more property value in TIDs.

In summary, it is clear that although the effects of an annual base value adjustment do not immediately appear to be significant, the exponential and aggregate effects of our reform will substantially benefit taxpayers and overlying districts alike. Indexing the base value to prevailing property value growth in a community will make those communities with the highest growth potential responsible for paying back their costs most quickly. Compared to neighboring high-growth communities, slow-growing municipalities will be able to use TIF more extensively. Additionally, the annual base value adjustment reform will provide much needed relief to overlying tax districts, which have long had to cope with increased demand for services caused by new development without any increase in tax base.

Table 4.2

Active Industrial and Mixed Use TIDs in Dane County, 2003

TIF District	Base Year	TID Life (Years)	Base Year Equalized Value	Estimated Adjusted Base	2003 Equalized Value	2003 Value Increment	Estimated Adjusted Value Increment
Belleville #2	1995	8	\$ 7,511,200	\$ 14,829,942	\$ 22,556,000	\$ 15,044,800	\$ 7,726,058
Black Earth #2	1994	9	108,800	233,877	673,300	564,500	439,423
Blue Mounds #1	1995	8	1,011,200	1,996,490	6,652,600	5,641,400	4,656,110
Cambridge #3	1998	5	2,692,200	4,118,614	5,375,300	2,683,100	1,256,686
Cottage Grove #4	2001	2	169,300	200,685	165,400	0	0
Dane #1	1986	17	553,100	2,347,430	6,362,600	5,809,500	4,015,170
Deerfield #2	1995	8	4,912,600	9,699,325	13,639,700	8,727,100	3,940,375
DeForest #1	1994	9	7,290,500	15,671,703	81,131,200	73,840,700	65,459,497
Marshall #1	1994	9	15,548,000	33,422,075	36,804,300	21,256,300	3,382,225
Mazomanie #1	1989	14	880,300	2,894,899	9,983,600	9,103,300	7,088,701
Oregon #2	1993	10	1,475,300	3,452,773	10,754,700	9,279,400	7,301,927
Waunakee #2	2000	3	98,800	127,510	7,531,200	7,432,400	7,403,690
Waunakee #3	2000	3	526,800	679,880	4,336,000	3,809,200	3,656,120
Edgerton #5	1998	5	620,300	948,955	17,784,200	17,163,900	16,835,245
Madison #24	1995	8	33,429,200	66,001,848	122,491,900	89,062,700	56,490,052
Madison #24	1995	8	6,507,600	12,848,457	5,093,100	0	0
Middleton #3	1993	10	65,361,200	152,970,491	277,998,300	212,637,100	125,027,809
Monona #3	2000	3	6,196,200	7,996,717	6,239,500	43,300	0
Stoughton #2	1993	10	361,700	846,518	6,100,400	5,738,700	5,253,882
Stoughton #3	1993	10	94,000	219,996	6,204,500	6,110,500	5,984,504
Sun Prairie #6	1997	6	117,600	195,875	2,598,700	2,481,100	2,402,825
Sun Prairie #7	1998	5	706,700	1,081,132	23,154,900	22,448,200	22,073,768
Verona #3	1991	12	56,800	157,577	7,480,100	7,423,300	7,322,523
Verona #5	1997	6	92,200	153,569	7,317,700	7,225,500	7,164,131
Verona #6	2000	3	475,200	613,286	1,101,000	625,800	487,714
Verona #7	2000	3	327,100	422,150	320,700	0	0
Total						\$ 534,151,800	\$ 365,368,434

Conclusions

As Wisconsin emerges from extended job losses and its worst fiscal crisis in a decade, we look forward to a large expansion of our TIF program. As of October 1, 2004, an entirely new category of TID was created, and time and territory limits on project expenditures were eased. These reforms will vastly increase the number of TIDs created at a time when Wisconsin's ability to attract development and grow its tax base is greatly needed. However, we must ask ourselves: which types of projects do we want to benefit most from TIF's expansion? And, how will the reforms of 2003 Wisconsin Act 126 aid these projects?

Unfortunately, we know that the reforms adopted in 2003 Wisconsin Act 126 will provide the greatest assistance to those projects with the least need. At a time when we have seen great increases in the number of TIDs that develop open land on the urban periphery, we are on the brink of assisting such projects further, by creating a mixed-use TID classification. Sadly, projects in depressed areas that rebuild blighted communities will see few gains from the future reforms. In fact, insofar as developers are able to pit municipalities against each other for the best deal, 2003 Wisconsin Act 126 actually hurts depressed and urban communities. As the total number of TIDs grows over the upcoming years, more and more suburban communities will be able to offer vast plots of open land to developers, while urban and depressed communities will find their relative ability to attract developers constricted as they remained saddled with higher land values and development costs.

These failures highlight a need for further evaluation of how best to structure our laws so as to achieve results that are most socially valuable. In this report, we have proposed a three-pronged reform which attempts to restore urban and blighted areas' ability to attract development. First, we must hold municipalities accountable for the previously undeveloped land included in a TID. Suburban and exurban communities must not be allowed to capitalize on the low values of previously undeveloped land so that redevelopment projects become uncompetitive. Second, for projects developing previously undeveloped land, we must draw a statutory connection between a municipality's demonstrated ability to grow its property tax base and the amount of taxable value it annually returns to overlying districts. Communities experiencing high growth should be held to a higher standard of development than depressed communities. Finally, we should draw tougher distinctions between redevelopment and new development projects, and between manufacturing-sector and mixed-use development. As we begin to hold different development projects to different payback standards, we must act to strengthen both the statutory definitions of TID classes and the local joint review boards that classify and authorize TIDs.

Our reforms hold the potential to bring about significant changes in how TIF is used in Wisconsin. Evidence for this exists in the case studies above. Cumulative value increments for an industrial development project in Milwaukee would exceed those in Grafton; a blighted TID in Milwaukee would become more profitable than a Hartland mixed-use development in their sixth years; Belgium would never have slated \$3 million of public money for use as development incentives for the conversion of 310 acres of farmland into an industrial park; incentives for true public dialogue concerning TID project plans would be increased; and overlying tax districts would begin to see increased tax base to accommodate increased services required in a TID. In all, the reforms proposed here envision a better TIF system, which restores its focus on urban redevelopment projects, assists strained overlying tax districts, adds strength to the “but for” test, and provides real incentives for information-gathering by joint review board members.

Notes

- ¹ Whitney Gould, "Evolution of Pabst Farms Should Teach Us a Few Things," *Milwaukee Journal Sentinel*, 20 January 2003.
- ² 1000 Friends of Wisconsin, *Wisconsin's Tax Incremental Finance Law: Lending a Hand to Blighted Areas or Turning Cornfields into Parking Lots?* October 1999.
- ³ Alyssa Talanker et al., "How States are Weakening Enterprise Zone and Tax Increment Financing Programs," *State Tax Notes* 30, no. 1 (6 October 2003): 43–58.
- ⁴ Wisconsin State Statutes, s. 66.1105 (2003).
- ⁵ *Ibid.*
- ⁶ *Ibid.* Equalized value refers to the full value that could ordinarily be obtained through a private sale, as determined by the Wisconsin Department of Revenue (DOR).
- ⁷ TIDs created prior to 1995 have a ten-year expenditure period and 20 years to recoup project costs, not to exceed a total of 27 years.
- ⁸ Al Runde, *Tax Incremental Financing* (Madison: Wisconsin Legislative Fiscal Bureau, 2001).
- ⁹ *Ibid.*
- ¹⁰ Wisconsin Legislative Audit Bureau (LAB), *Review of Tax Incremental Financing* (Madison: LAB, 1981), 17.
- ¹¹ *Ibid.*
- ¹² 1000 Friends, *Wisconsin's Tax Incremental Finance Law*.
- ¹³ Wisconsin LAB, *An Evaluation of Tax Incremental Financing* (Madison: LAB, 1991), no. 91–15.
- ¹⁴ Wisconsin LAB, *Review of Tax Incremental Financing*, 6.
- ¹⁵ Wisconsin Council on Children and Families, *The New Kettle Commission: Sweeping Implications for State-Local Relations*, 16 October 2003. Available on the Internet at <http://www.wccf.org/pdf/kettl.pdf> as of 4 March 2005.
- ¹⁶ Wisconsin State Statutes, s. 66.1105 (2003).
- ¹⁷ Wisconsin Department of Commerce (DOC), *1999–2000 Report on Tax Incremental Financing* (Madison: DOC, 2002).
- ¹⁸ DOC, *1989–90 Report on Tax Incremental Financing* (Madison: DOC, 1991), and *ibid.*
- ¹⁹ This figure derived from total value increment for Wisconsin. DOC, *1999–2000 Report on Tax Incremental Financing*.
- ²⁰ DOC, *1999–2000 Report on Tax Incremental Financing*.
- ²¹ Compiled from data in *ibid.*
- ²² DOC, *1999–2000 Report on Tax Incremental Financing*.
- ²³ Pete Millard, "TIF: Development Tool or Corporate Welfare?" *Business Journal*, 23 February 2001.
- ²⁴ See *The Financial Resource Guide for Cleanup & Redevelopment* (Madison: Wisconsin Department of Natural Resources and DOC, 2002).
- ²⁵ Wisconsin Taxpayers Alliance, *Tax Incremental Financing in Wisconsin*, April 2002.

- ²⁶ League of Wisconsin Municipalities, *Tax Incremental Financing Research Report*, 3 March 1998.
- ²⁷ DOC, *1999–2000 Report on Tax Incremental Financing*.
- ²⁸ 1000 Friends of Wisconsin, *Wisconsin's Tax Incremental Finance Law*.
- ²⁹ Ibid.
- ³⁰ Ibid.
- ³¹ Ibid.
- ³² DOC, *1999–2000 Report on Tax Incremental Financing*.
- ³³ Ibid.
- ³⁴ League of Wisconsin Municipalities, *Tax Incremental Financing Research Report*.
- ³⁵ Pat Peckham, "Is TIF Worth It?" *Wausau Daily Pages*, 9–16 October 2003.
- ³⁶ Penelope Lemov, "Tough Times for TIF," *Governing*, February 1994: 18.
- ³⁷ League of Wisconsin Municipalities. *Tax Incremental Financing Research Report*.
- ³⁸ 1000 Friends of Wisconsin. *Wisconsin's Tax Incremental Finance Law*.
- ³⁹ DOC, *1999–2000 Report on Tax Incremental Financing*.
- ⁴⁰ Ibid.
- ⁴¹ Memo, Wisconsin Legislative Fiscal Bureau to Members of Joint Finance Committee, 12 November 2003.
- ⁴² Matthew Vidal et al., *Challenges and Options for Wisconsin Component Manufacturers* (Madison: Center on Wisconsin Strategy, 2003).
- ⁴³ Information in this section is taken from Wisconsin Legislative Reference Bureau analysis of 2003 AB 654 and *ibid*.
- ⁴⁴ Talanker et al. "How States are Weakening Enterprise Zone and Tax Increment Financing Programs."
- ⁴⁵ Ibid.
- ⁴⁶ Wisconsin Manufacturers and Commerce, "Budget Priority Issue: Property Tax Freeze," 28 May 2003. Available on the Internet at <http://www.wmc.org/display.cfm?ID=409> as of 4 March 2005.
- ⁴⁷ Center on Wisconsin Strategy (COWS), *Job Watch: A Shift to Low Wage Jobs in Wisconsin*, (February 2004). Available on the Internet at http://www.cows.org/pdf/jobs/jobwatch/rp-job_watch-04-02.pdf as of 4 March 2005.
- ⁴⁸ Ibid.
- ⁴⁹ Office of Governor Jim Doyle, *Grow Wisconsin*, 10 September 2003. Available on the Internet at http://www.wisgov.state.wi.us/docs/Doyle_Economic_Package.pdf as of 26 March 2004.
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- ⁵¹ "The Importance of Land Value," *Public Policy Forum* (28 February 2001). Available on the Internet at <http://www.publicpolicyforum.org/pdfs/manufacturingvalue.pdf> as of 4 March 2004.
- ⁵² 2003 Wisconsin Act 126 does not specifically state that mixed-use TIDs shall be exempt from limitations on the amount of open land included in a TID; however, those that find a portion of their land suitable for industrial development will also be able to develop unrestricted amounts of open land.
- ⁵³ Under the tax increment pooling allowances of 2003 Wisconsin Act 126, the length of time property values are frozen for overlying districts may be even longer than it takes for tax revenues to pay off project cost debts.
- ⁵⁴ We have proposed using the past average property value growth here for practical purposes. Municipalities are required to conduct an economic feasibility study before the creation of a TID, and the use of historical data will allow municipalities to be more accurate in their estimations. Certainly, a dynamic growth figure has its benefits in accommodating for economic cycles and would also accomplish the same goals of returning money to overlying districts and limiting the use of TIF by fast-growing communities.
- ⁵⁵ These figures are taken from DOR, *Statement of Changes in Equalized Values for Wisconsin*, 1993, 2004. These reports, dating back to 1998, can be found on the Internet at <http://ww2.dor.state.wi.us/EqValue2/application> as of 4 March 2005.
- ⁵⁶ COWS, "Job Watch: A Shift to Low Wage Jobs in Wisconsin."
- ⁵⁷ It is possible that, with the creation of a mixed-use category, the threshold of industrial development should be higher than 25 percent.
- ⁵⁸ When revaluing the base value for mixed-use TIDs, we have not attempted to control for the amount of use-valued agricultural land while determining average total land value for all classes. A large amount of use-valued agricultural land may produce artificially low average all-class land values under our methodology.
- ⁵⁹ Personal interview by author with Judie Gibbon, 21 January 2004, Madison, Wis. See Waupaca TID #7 and Fontana TID #1.
- ⁶⁰ Wisconsin State Statutes, s. 66.1105 (2003).
- ⁶¹ Talanker et al., "How States are Weakening Enterprise Zone and Tax Increment Financing Programs."
- ⁶² "Debt Figures Seen as Deceptive," *Milwaukee Journal Sentinel*, 30 March 2004. Available on the Internet at <http://www.jsonline.com/news/wauk/mar04/218282.asp> as of 4 March 2004.
- ⁶³ DOC, *1999–2000 Report on Tax Incremental Financing*.
- ⁶⁴ TID classification were determined by reviewing each TID's individual project plans.
- ⁶⁵ Dane County, *Adopted Budget*, 2003. Available on the Internet at <http://www.co.dane.wi.us/budget/2003/adopted.html> as of 4 March 2004.

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