



Tax Incremental Financing on the Rise: How Do Municipalities Use Their Primary Development Tool?

To spur private development, cities and villages in Wisconsin are making greater use of tax incremental financing (TIF) than ever before. That includes the state's largest city, Milwaukee, which has increased its use of TIF substantially in recent years to a point where it now matches the statewide average. At the same time, Madison, Racine, and Eau Claire all use TIF at less than half the statewide rate.

Wisconsin municipalities used \$4.1 billion of new property tax revenues derived from TIF districts to support private development and public infrastructure within those districts between 2007 and 2017, according to Wisconsin Legislative Fiscal Bureau data.

That includes \$472 million in 2017 alone, which is up 25% from 2007 after adjusting for inflation. (See Figure 1 on page 2.) These data only go through 2017, and notably, do not include a massive TIF investment in Racine County for a development there by Foxconn Technology Group.

TIF is the primary development tool municipal governments use to encourage private development. This form of financing can make private development projects vi-

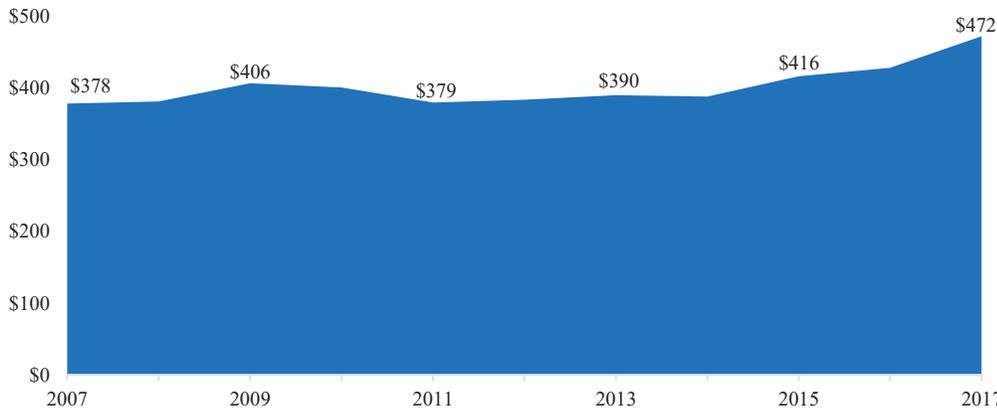
able by using public funds to pay for infrastructure improvements (streets, sewers, etc.) and other upfront project costs within a designated district. The municipality generally borrows money for the improvements and pays it back over time through increased property tax revenues generated by the new development.

In 2018, 6.4% of the city of Milwaukee's total property tax base was in TIF districts, which matched the statewide average and more than tripled the city's rate in 2000 (2.1%). Milwaukee's use of TIF had been below the statewide average every year until 2018. Among larger Wisconsin cities, Kenosha used TIF most intensively (10.4%) while Madison, Racine, and Eau Claire used it the least (<3%).

The Wisconsin cities and villages that use TIF at the highest rates tend to be smaller. To control financial risk, state law prohibits municipalities from creating new TIF districts if doing so would cause 12% or more of their total equalized property value to be within *tax increment districts* (TIDs; See "TIF Glossary" on page 2). There are 113 municipalities in Wisconsin that currently utilize TIF at levels above the state's 12% limit; a strong majority (82%) of those communities have populations under 5,000.

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Figure 1: Tax Incremental Financing Increasing in Wisconsin
Annual Statewide TIF Levies in Millions (2017\$), 2007-17



TIF GLOSSARY

Base Value - the value of taxable property within a TID on the date the TID is created.

Creation Resolution – resolution passed by a local legislative body indicating approval of a project plan.

Decrement Situation – occurs when a TID’s total property value is 10% less than its base value for two consecutive years or more.

Donor/Recipient District - after a TID pays off all of its project costs but before it is terminated, a plan commission may amend a project plan to allocate a specified amount of that district’s tax increment to another TID.

Equalized Property Value - the Department of Revenue’s calculation of the total value of all taxable property within a defined area.

Equalized Value Limitation - the maximum property value a municipality can have within TIDs cannot exceed 12% of the municipality’s total equalized value.

Joint Review Board – group responsible for approving, denying, or amending a TID. Members represent all taxing authorities within the TID’s jurisdiction.

Project Plan - the approved plan for development or redevelopment within a TID; includes all approved plan amendments.

Tax Increment - tax revenue generated by property within a TID for a given year minus the district’s annual base tax revenue.

Tax Increment District (TID) - geographic area within which a municipality is allowed to use TIF. Municipalities may have multiple TIDs.

Value Increment - the equalized value of taxable property within a TID for a given year minus the district’s base value.

TIF BASICS

Wisconsin’s TIF law, enacted in 1975 and most recently amended in 2017, allows municipalities to temporarily use future increases in property tax revenue (*tax increment*) within a designated district to make public investments designed to stimulate private development within that district.

When a new TID is created, the value of taxable

property within it (*its base value*) is determined. Each taxing authority with jurisdiction in the district (the municipality, county, school district, sewerage district, and technical college) continues to collect taxes from that frozen base value throughout the life of the TID. However, as the property value of the TID increases from public and private investments, the increased tax revenue derived from the private development, or tax increment, is used to repay project costs.

Birth of a Tax Incremental Financing District

TID creation begins when a municipality’s plan commission creates a project plan and holds a public hearing for interested parties to provide feedback on the proposal. The project plan must include a feasibility study, district maps, statements on proposed public works projects and zoning or ordinance changes, and more.

If the plan commission approves the project plan, it is submitted to the local municipal legislative body (city council or village/town board). To approve the TID, the legislative body must then pass a *creation resolution*.

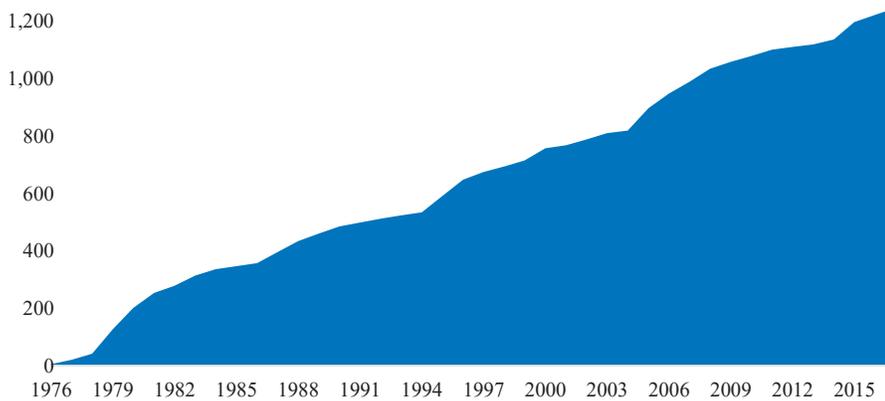
Before the proposed TID can be created, it also must be approved by a *joint review board* comprised of representatives of each tax authority with jurisdiction in the district and one appointed citizen representative. The review board can approve a proposed TID by majority vote. The Wisconsin Department of Revenue (DOR) also must approve the project and certify the district’s base value.

Once the TID has been created, the city or village can begin work on the improvements detailed in the project plan.

Changes to a TID

Any change to a TID after its creation must be made through an amendment to the project plan. For

Figure 2: Number of Tax Increment Districts On the Rise
Active TIDs in Wisconsin, 1976-2017



example, a project plan amendment can modify a district’s boundaries or change the scope of planned infrastructure improvements.

There is no limit to the number of times a project plan may be amended, but TID boundaries may only be amended up to four times. To make an amendment, the local plan commission must hold a public hearing and the plan commission, local legislative body, and joint review board must all adopt resolutions approving the proposed changes.

Extending the Life of a TID

The maximum legal life of a TID ranges from 20 to 27 years depending on the designation of the district as one of several district types (industrial, rehabilitation/conservation, blight, mixed-use, or environmental remediation).

Recent amendments to Wisconsin’s TIF law enable the life of a TID to be extended between one and four years under certain circumstances, which are described later in this report.

Terminating a TID

A district can be terminated in one of three ways:

- After all public investments are paid off;
- By resolution of the local legislative body to dissolve the district;
- When it reaches the end of its maximum legal life.

CURRENT USE IN WISCONSIN

In 2017, the state of Wisconsin had 1,245 active TIDs. That number has increased steadily since TIF was first used in Wisconsin in 1975 with occasional plateaus. (See Figure 2.)

The plateaus appear to lag recessions by several years, which could reflect reduced willingness or capacity on the part of municipalities to make invest-

ments during periods of economic uncertainty.

Where is TIF Used?

Bigger cities and villages account for a large number of total TIDs in Wisconsin, but smaller municipalities tend to have larger shares of total property value in TIDs. That is because for small communities, even one TID can account for a relatively large share of total property value.

While only 25% of Wisconsin cities and villages have populations over 5,000, they account for 60% of the state’s total TIDs. (See Figure 3.) On the other hand, 40% of Wisconsin cities and villages have populations under 1,000, but only 11% of the state’s TIDs are in those communities.

Yet, nine of the 10 Wisconsin municipalities with the highest share of total property value in TIDs are small communities with populations under 5,000. (See Table 1 on page 4.) All 10 exceed the state’s 12% limit by wide margins.

With the exception of Kenosha at 10.4%, the state’s 10 largest cities tend to use TIF at rates well below the state’s 12% limit. In 2017, Madison, Racine, and Eau Claire all used TIF at less than half the state’s average rate of 6.4% of total value.

If we look at municipalities that exceeded the state’s 12% limit in 2017, we see that more than four of every five (82%) have populations under

Figure 3: TID Numbers by City and Village Size
% of Municipalities and TIDs by Population, 2018



Table 1: 2018 TID Values
TID Values as % of Total Prop. Value

10 Municipalities with Highest % of Value in TIDs

Municipality	Pop.	% of Val.
Weyerhaeuser	231	67.8%
Warrens	354	66.6%
Cashton	1,107	53.4%
Pittsville	869	52.7%
Brokaw	233	45.1%
Wilton	496	42.1%
Blue Mounds	961	40.1%
Johnson Creek	2,997	35.4%
Altoona	7,682	33.0%
Hillsboro	1,401	31.8%

10 Largest Cities

Municipality	Pop.	% of Val.
Milwaukee	595,555	6.4%
Madison	252,546	2.9%
Green Bay	105,477	5.4%
Kenosha	99,263	10.4%
Racine	77,807	2.7%
Appleton	74,734	4.3%
Waukesha	71,731	4.4%
Eau Claire	68,043	2.5%
Oshkosh	66,945	3.6%
Janesville	63,570	5.6%

The increasing percentage of Milwaukee’s total property value in TIDs can be attributed not only to increased TID creation, but also to the growing *value increment* of existing districts. For example, in 2013 the city made its largest TIF investment ever to support Northwestern Mutual’s new downtown office tower. By the end of 2017, the value of that district had grown by approximately \$193 million and now accounts for more than 10% of the total citywide TID value increment of \$1.81 billion. When that combined value increment of all TIDs in the city increases at a faster rate than the city’s total equalized value, the share of total value in TIDs rises.

State law changes appear to have contributed to the growing use of TIF in Milwaukee and statewide. Wisconsin’s original TIF law set a 5% limit for the share of a municipality’s total property value that can be in TIDs. Since then, amendments have increased that limit to 12%. In addition, a 2003 law change permitted TIF to be used for mixed-use developments (which typically include residential components) and for cash grants to developers for the first time.

5,000. (See Figure 4.) Those communities are therefore unable to create new TIDs until they fall below the 12% threshold because of closing districts or other reasons. In 2017, this applied to more than one-third of municipalities with populations under 5,000 and at least one active TID.

TIF In Milwaukee

Between 1999 and 2018, the share of Milwaukee property value in TIDs more than tripled, from 1.9% to 6.4%. (See Figure 5 on page 5.) Meanwhile, the number of TIDs in the city increased at a slower rate, from 28 to 48.

Milwaukee and Wisconsin

Milwaukee’s use of TIF has caught up with the rest of the state over the past two decades, growing nearly twice as fast as the statewide average since 1999 (See Figure 6 on page 5.) It is important to note that the statewide numbers in the figure take into account all Wisconsin municipalities that use TIF, including Milwaukee.

The growing use of TIF in Milwaukee is particularly evident since 2015. In 2016, the city’s TIF use surpassed the state’s original 5% limit for the first time—fully 10 years after that line was crossed by the statewide average.

Two years later, the city matched the statewide average. It is beyond the scope of this report to explore the impacts of this growth on the city’s overall finances, but we plan to consider this issue in our ongoing review and analysis of the city’s budget and financial condition.

RISK OF TIF VERSUS REWARD

In Wisconsin, property taxes must be assessed uniformly for all property within a municipality, so the share of total equalized value that is TID value increment is the same as the share of all property tax revenue that is channeled into TIDs. For example, if the combined increment value of all property within a municipality’s TIDs is 12% of its total equalized value, then 12% of that municipality’s total tax revenues are being used to repay TIF project costs.

In one sense, a larger increment is desirable because it means TIF project costs can be paid back and TIDs can be retired more quickly, resulting in increased tax base for the taxing jurisdictions. So why is there a 12% limit? The answer lies in policymakers’ desire to minimize municipal risk and ensure an adequate tax base for other local services.

Figure 4: Small Municipalities Use TIF More Intensively
of Municipalities Exceeding State Limit of 12% of Value, 2018

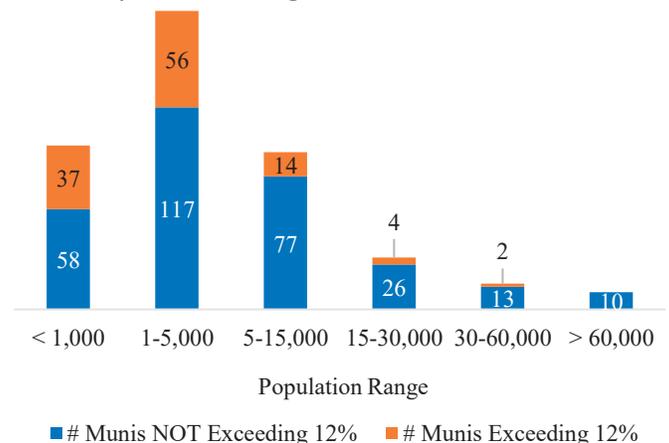
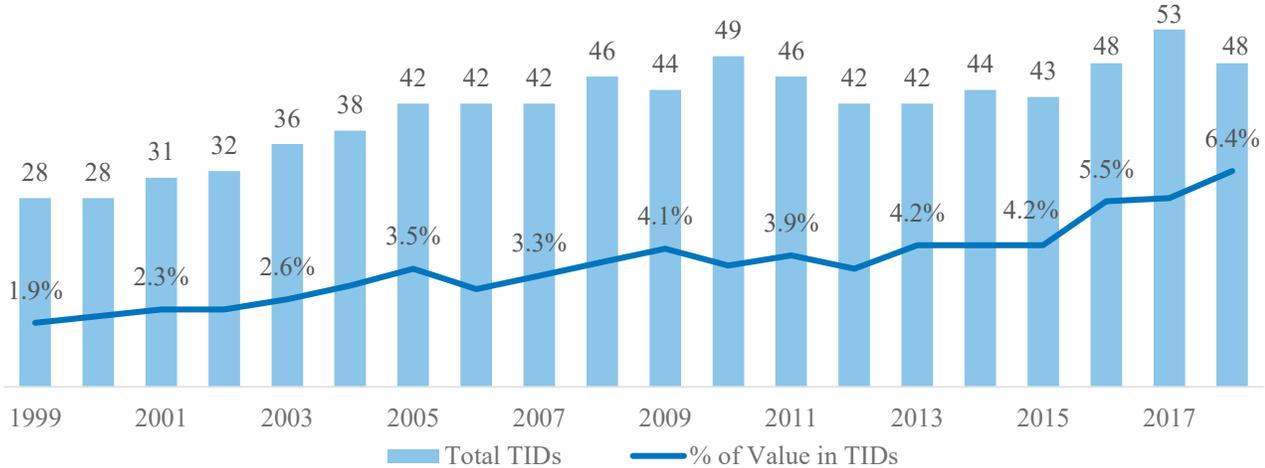


Figure 5: Use of Tax Incremental Financing Increasing in Milwaukee
 Number of Active TIDs and Percentage of the City's Total Property Value in TIDs, 1999-2018



When a municipality pays for upfront TIF project costs, it can spend up to 100% of the amount of increment tax revenue projected to be generated by the district during its lifetime, typically borrowing money to do so. Municipalities take on this debt and pay for project costs before any tax increment appears. There is always some risk that new development will not occur as expected, requiring the municipality to turn to its general fund to repay project costs.

Several factors contribute to the amount of risk a municipality takes on when creating a new TID, including:

- **Project cost relative to projected tax increment.** The higher a municipality's project costs are relative to the amount of tax increment the TID is projected to bring in, the more potential risk for the municipality.
- **Project cost relative to total tax revenue.** The larger a municipality's project costs are relative to its total property tax revenue, the more potential risk for the municipality. For example, it may be

easier for a large city to absorb the impact of one underperforming TID than a small village.

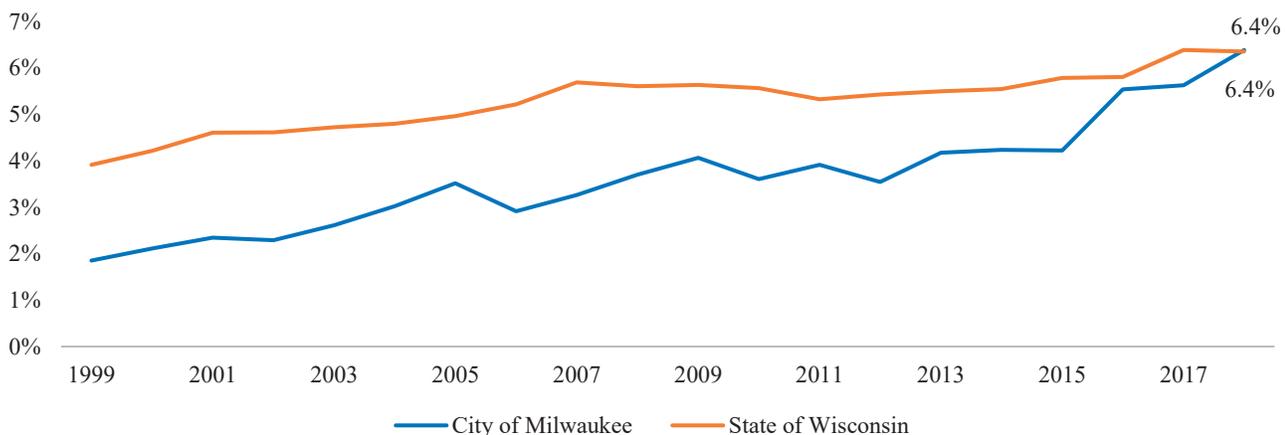
- **Degree of development certainty.** Some TIDs are more speculative than others. In some cases, development projects are almost certain to occur, while in other cases, TIF investments may be made with the hope of attracting new development to an area where no development interest yet exists.

While riskier TIDs can have negative consequences if a district does not develop as projected, higher risk also can lead to higher reward. If the increment does materialize as expected, the municipality may be able to repay its project costs and close the TID on or ahead of schedule, at which point the reward kicks in as the tax base begins contributing to all taxing jurisdictions.

OPTIONS FOR STRUGGLING TIDS

If a TID's property value does not increase as expected, the municipality may not receive enough

Figure 6: Use of TIF in Milwaukee Catches up with the Rest of the State
 % of Total Property Value in TIDs, 1999-2018



tax increment to pay back its project expenditures within the district's legal lifetime. As noted above, when this occurs, the municipality is responsible for repaying the remaining debt.

If a TID's total property value falls 10% below the district's original base value for at least two consecutive years, it is considered to be in a *decrement situation*. We are unable to provide data on how common it is for TIDs in Wisconsin to be in decrement situations as those numbers are not compiled and reported by the DOR.

Municipalities with TIDs in decrement situations have several options available:

Take no action. Municipalities can choose to allow the TID to continue with the hope that the increment will increase enough to cover project expenditures.

Re-determine base value. If total property value within a TID falls below the base value set when the district was created, the Wisconsin DOR can re-determine (and lower) the district's base value. This can occur only once during a TID's lifespan. Between 2014 and 2017, re-determinations were made for 18 TIDs statewide.

Close and cut losses. Municipalities may terminate a TID before its maximum legal life ends. If the increment is insufficient to repay project debt, the municipality is responsible for repaying it from its general fund.

Extend life. The maximum legal lifespan of a TID can be extended to provide more time to recover project costs under a "standard extension." Typically, these are three-year extensions, though some TID types may be granted four years.

Extensions also can be granted to help pay for affordable housing (one year) and to offset negative impacts from a 2013 change in state policy regarding technical college financing (three years). The lifespans of TIDs designated as distressed or as donor districts, which are discussed below, also are extended. Approximately 227 of the 1,245 TIDs active at the end of 2017 had received extensions.

Designate district as distressed. Prior to 2015, municipalities could declare any TID created before October 1, 2008 as either "distressed" or "severely distressed" if its project costs were greater than the projected tax increment. A distressed TID could receive a 10-year extension on its maximum legal life and a severely distressed TID could have its life extended to up to 40 years total.

These extensions are longer than those available for TIDs created after October 1, 2008. The

OTHER FINANCING OPTIONS

To mitigate the risk of TIF for municipalities, two alternative financing methods have been developed: developer financed and pay-as-you-go (PAYGO).

Traditional TIF is the original and most commonly used method. Municipalities finance project costs through debt they intend to repay through tax increment.

In developer-financed TIF, also known as "reverse TIF," the developer, rather than the municipality, takes out an initial loan and is repaid through the increment. The developer is often required to meet specific benchmarks, such as employment levels, to receive the increment from the municipality.

In PAYGO TIF, loans are not taken out to finance expenditures; instead, expenditures can only be made when increment is generated.

Hybrid combinations of these financing methods may also be used simultaneously within a TID.

creation of the distressed and severely distressed designations coincided with the Great Recession. At the end of 2017, 84 TIDs remained designated as distressed and 18 as severely distressed.

Donate funds from other TIDs. Struggling TIDs can receive support from other TIDs within the same municipality that have fully repaid their project costs. Those districts are referred to as "recipients" and "donors." The lifespans of donor TIDs are often extended,

At the end of 2017, approximately 170 of the 1,245 active TIDs in Wisconsin (13.7%) were donating to other recipient districts, according to the DOR.

Milwaukee Donor and Recipient TIDs

One municipality taking advantage of the option to donate from one TID to another is Milwaukee, which is currently tapping three donor districts to provide a combined total of \$19.6 million to six recipient districts.

Milwaukee's TID 56, for example, which is located in the thriving Historic Third Ward neighborhood along the Milwaukee River, has been so successful that it has been used as a donor for five recipient districts in other parts of the city. TID 56 was originally approved in 2004 to facilitate the reuse of existing buildings, the creation of

new buildings, and an extension of the Milwaukee Riverwalk. The project plan also included public infrastructure improvements.

By 2009, TID 56 was projected to cover all of its project costs. Two mixed-use developments and a public plaza had already been completed within the district, which had resulted in \$131 million in increment value.

Since then, TID 56 has been amended five times, including twice to become a donor district. The first amendment in 2009 allowed the district to donate \$5.1 million over a two-year period to TIDs 35 and 69. In 2013, the district was amended again to donate \$6.5 million over five years to TIDs 58, 65, and 66. The recipient districts all failed to meet anticipated levels of development and thus were in decrement situations.

The project plan for TID 56 also has been amended to provide funding for additional public infrastructure projects including Trestle Park, the Riverwalk, and the Milwaukee Streetcar.

NEED FOR ADDITIONAL DATA

While TIF certainly can produce long-term benefits for local governments and school districts, it also involves some degree of risk. To address this inherent risk, the act of creating a new TID requires considerable scrutiny—including public hearings and joint review board approval—and annual reports for individual TIDs must be submitted to the Wisconsin DOR.

The DOR compiles some of the information it collects and makes it publicly available online, but we have found that additional data would make it easier for the public to understand how TIF is being used and the success of TIF investments.

For example, it is currently impossible to access information dating back more than seven years for something as simple as the total number of active TIDs in the state. (We had to piece together historical information using previously collected data.) Likewise, the state does not provide data on the rate at which TIDs have closed on time or the frequency with which TIDs have fallen into decrement situations.

With regard to historical data, part of the issue may be the state's records retention laws, which only require the DOR to keep statewide TIF reports for seven years and reports for individual TIDs for the same number of years after districts are terminated. Since individual TIDs are typically open for between 20 and 40 years, having statewide reports

available that cover longer periods of time would be valuable.

An optimal solution would be to create a publicly accessible database on TIF in Wisconsin. Such a database could include aggregate data on how many TIDs exist across the state, where they are located, the level of resources being invested, and their return on investment. It could also include links to each individual TID's project plan and amendments, information about expenditures, etc. Such a database could allow residents to track investments made by their municipalities and municipal officials to make smarter decisions regarding TIF investments.

LOOKING AHEAD

The increasing use of TIF in Wisconsin raises several policy questions we plan to explore through upcoming research.

For example, why do some municipalities use TIF more than others? Have the types of projects supported by TIF expanded over time, and if so, why? Are there best practices for municipalities to consider regarding when to use TIF, how to craft project plans, and how to negotiate agreements with developers?

Future WPF reports will address these and related topics as we seek to shed light on the primary development tool for cities and villages in the state. □

Sources: Data in Figure 1 taken from the Legislative Fiscal Bureau. The data in other charts and in Table 1 come from the state Department of Revenue except population figures, which come from the Department of Administration.

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POLICY NOTES

■ **Milwaukee County Finances.** A work group formed by the Milwaukee County executive and board chairman to focus on solutions to the county’s steep financial challenges recently recommended a series of legislative changes in advance of the 2019-21 state budget. The group—comprised of both public and private sector stakeholders—frequently cited Wisconsin Policy Forum research on the county’s infrastructure needs and structural deficit. In fact, a Forum presentation sizing up the county’s overall fiscal dilemma initiated the work group’s deliberations.

The work group’s recommended requests include:

- Authority to pursue non-property tax options for local revenues through a binding referendum
- Inflationary increases in shared revenue payments
- Full state reimbursement for expressway patrol costs
- An enhanced share of court and register of deed revenues

In addition to raising concerns about the county’s revenue structure, the Forum has also looked at ways to address county costs by curbing the growth in retiree benefits and pursuing service sharing with municipal governments.

■ **State Finances.** Wisconsin took in slightly more money than it spent between 2003 and 2017, with the

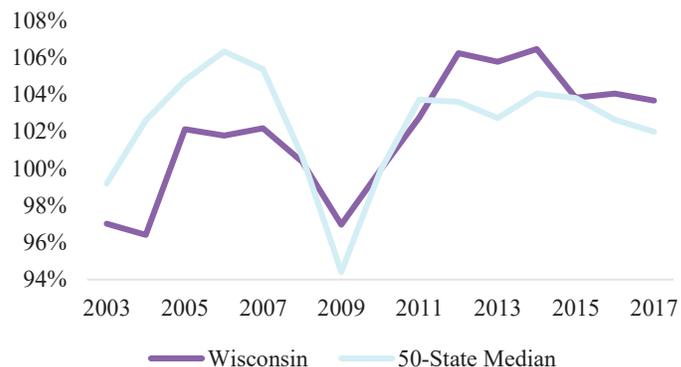
state’s overall performance matching the typical state, a recent report shows.

The study by the Pew Charitable Trusts found that Wisconsin’s revenues for the period amounted to 102.0% of expenditures, just below the national median of 102.1%. In all, 40 states brought in enough revenue during the period to cover their expenses and 10 states did not, the report found.

Wisconsin revenues outpaced expenses in every fiscal year since 2011, according to Pew. State expenses were larger than revenues in four years: 2003, 2004, 2009, and 2010.

The study looked at audited annual financial statements for Wisconsin and the other 49 states. These comprehensive annual financial reports (CAFRs) use accrual accounting, which provides a fuller picture of a state’s finances because it counts spending commitments when they are made. The state’s budget documents, on the other hand, track cash payments when they are made to cover expenses.

State Revenues Exceed Spending in Recent Years
Annual State Revenues as a % of Spending, 2003-17



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