ON THE RIGHT TRACK?

The Use of TIF for Milwaukee’s Streetcar
ABOUT THE WISCONSIN POLICY FORUM

The Wisconsin Policy Forum was created on January 1, 2018, by the merger of the Milwaukee-based Public Policy Forum and the Madison-based Wisconsin Taxpayers Alliance. Throughout their long histories, both organizations engaged in nonpartisan, independent research and civic education on fiscal and policy issues affecting state and local governments and school districts in Wisconsin. The Wisconsin Policy Forum is committed to those same activities and to that spirit of nonpartisanship.

PREFACE AND ACKNOWLEDGMENTS

This report was made possible by the family of Norman N. Gill, who was the director of the Milwaukee-based Citizens Governmental Research Bureau (now the Wisconsin Policy Forum) for 39 years. The Gill family’s generous contribution has provided for the creation of the Norman N. Gill Civic Engagement Fellowship, under which the Wisconsin Policy Forum annually hires a graduate student fellow to conduct a research project under the tutelage of its staff. The 2018-19 Norman N. Gill Fellow, Gina Vlach, was the lead researcher for this report.

We would also like to thank the city of Milwaukee’s Department of City Development, the cities of Atlanta, El Paso, Kansas City, and Oklahoma City, and all of the other municipalities that shared data and expertise in support of this research.
ON THE RIGHT TRACK?

The Use of TIF for Milwaukee's Streetcar

September 2019
# Table of Contents

- Executive Summary ......................................................................................................................... 3  
- Introduction & Background ................................................................................................................ 5  
  - How TIF Works ............................................................................................................................. 5  
  - TIF in Wisconsin & Milwaukee .................................................................................................... 6  
- Milwaukee Streetcar/The Hop .......................................................................................................... 8  
  - Project Costs and Funding Sources ............................................................................................. 8  
- Comparison with Other Cities ......................................................................................................... 11  
  - Alternative #1: Special-Purpose Districts .................................................................................. 12  
  - Alternative #2: Temporary Sales Tax ......................................................................................... 17  
  - Alternative #3: State Transportation Funding ........................................................................... 18  
- Other TIF-Financed Capital Projects ............................................................................................... 20  
  - Milwaukee Riverwalk .................................................................................................................. 20  
  - Fiserv Forum ............................................................................................................................... 21  
- Debating the Use of TIF ................................................................................................................... 22  
  - Conclusion ................................................................................................................................. 24  
  - Notes ........................................................................................................................................... 26
EXECUTIVE SUMMARY

In February 2019, with Milwaukee in the midst of a downtown development boom, the Wisconsin Policy Forum published a report that found the city is making greater use of tax increment financing (TIF) to spur development than ever before. While the city has used TIF for several decades to foster private development by paying for associated public infrastructure and site preparation work, it has drawn on the tool for additional purposes in recent years. One project that exemplifies this shift is Milwaukee’s new streetcar system, The Hop. The city has dedicated $59 million in TIF funding to constructing the system’s first phase.

In this report, we analyze how the city of Milwaukee is financing the capital costs of The Hop and compare Milwaukee’s financial strategy to those taken by other cities with recently developed streetcar systems. This analysis is not intended to weigh in on the merits of constructing the system in the first place or extending it in the future. With the system already established, our aim instead is to inform the debate about using TIF for proposed extensions. This issue is critical given that current plans call for the city to use TIF as the primary local revenue source for those extensions.

Overall, our analysis reveals that Milwaukee’s method of financing its streetcar system is uncommon nationally. It also provides context for the city’s financial approach and raises questions that can be debated by streetcar supporters and opponents alike. Key takeaways include:

**Milwaukee is similar to other cities in relying on a mix of federal and local funding sources to finance its streetcar system.** Federal grants covered 54% of the first phase of The Hop, with the remainder coming from local funding generated through TIF districts. Federal grants have helped most cities develop their streetcar systems, covering an average of 36% of total project costs among the 10 cities we analyzed. Milwaukee’s mix of federal vs. local funding is in line with other cities nationally.

**Milwaukee is the only city that has used TIF as its primary local revenue source for streetcar system development.** While all cities needed local revenue to cover at least a portion of the startup construction costs of their streetcar systems, Milwaukee is an outlier in its heavy reliance on TIF as the local financing tool. Only two other cities used TIF at all, and both of those (Cincinnati and Portland) used it to cover much smaller shares of their total project costs (see chart on p. 2) and combined TIF with other local and state funding sources.

**Most of the financing mechanisms used by other cities to develop streetcar systems are not available to Milwaukee under current state law.** Revenues generated by local sales taxes, state transportation programs, or special-purpose districts have been used to develop the streetcar systems in most of the cities we analyzed. The state of Wisconsin restricts municipalities from establishing sales taxes, however, and the state does not support transit capital projects. Putting
aside the question of whether Milwaukee ought to expand its streetcar system, our analysis shows that if it is going to do so, TIF is one of its only local financing options.

Kansas City’s creation of a “transportation development district” is a notable exception in that it is the one example we found that could at least be partially replicated in Milwaukee. If sufficient support exists among business owners or all property owners, then the city could create a business or neighborhood improvement district (BID or NID) that could levy special assessments on nearby properties that benefit from proximity to the streetcar system. A BID or NID would not have the power to levy sales taxes or raise other types of revenue available to Kansas City, however, and other revenue sources may still be needed to fully pay for streetcar system extensions.

Strong points can be made for and against using TIF to finance streetcar system development. Yet, it may come down to whether or not one believes the system itself is a worthwhile public investment. Those who believe the streetcar system is good for downtown Milwaukee and the city in general can argue that using TIF to finance system extensions makes sense because the funding is generated from the areas of the city that most benefit from the streetcar rather than from property owners citywide.

Those opposed to the streetcar can argue that TIF is not the right tool for expanding the system because it can be difficult to determine the extent to which extensions generate increased property tax base. An argument also can be made that delaying the closure of successful existing TIF districts and diverting their increased property tax revenues to system expansion (instead of back to the general tax rolls) is essentially deciding that streetcar extensions are the highest and best use of those resources.

Future debates about streetcar expansions are likely to focus not on whether TIF is the correct financial approach, but instead on whether the streetcar itself is worthy of additional major public sector investment. The relatively rare use of TIF for streetcar construction in other cities offers compelling evidence that other funding sources may offer a more appropriate means of financing a downtown infrastructure investment that typically cannot be linked definitively to new development, and that arguably conveys broader public benefits like livability and mobility. Consequently, in the long term, additional financing options not only for the streetcar, but also for other transportation infrastructure and economic development investment activities may be desirable. The lack of such options for Milwaukee and other Wisconsin municipalities is worthy of further analysis and discussion, regardless of one’s views on the merits of Milwaukee’s streetcar system.
INTRODUCTION & BACKGROUND

In February 2019, with Milwaukee in the midst of a downtown development boom, the Wisconsin Policy Forum published a report that found the city is making greater use of tax increment financing (TIF) to spur development than ever before. While the city has used TIF for several decades to foster private development by paying for associated public infrastructure and site preparation work, it has drawn on the tool for additional purposes in recent years. One project that exemplifies this shift is the city’s use of TIF for its new streetcar system, The Hop.

Through TIF, the city of Milwaukee has dedicated $59 million to developing The Hop to date, and city leaders have proposed expanding the system in the coming years using TIF as the primary local financing tool. With considerable resources already invested in the streetcar system and expansion plans taking shape, it is important to understand the details of the city’s financial approach, its pros and cons, and whether there may be any more appropriate alternatives.

In this report, we analyze how the city of Milwaukee is financing the capital costs of The Hop and compare Milwaukee’s financial approach to those taken by other cities with recently developed streetcar systems. (We also provide brief overviews of two other recent projects supported by TIF: the Milwaukee RiverWalk and the Fiserv Forum arena and surrounding district.) We hope this analysis will provide valuable insight for both policymakers and citizens as they evaluate expansion plans for The Hop, as well as for other Wisconsin municipalities considering the use of TIF in non-traditional ways.

HOW TIF WORKS

Tax increment financing (TIF) is the primary development tool municipal governments in Wisconsin use to facilitate private development. This form of financing can make development projects viable 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 some cases, the developer (rather than the municipality) makes the initial investments and is paid back with the increased property tax revenue.

When a new tax increment district (TID) is created, the value of taxable property within it (its base value) is determined. Each taxing authority with jurisdiction in the district (e.g. the municipality, county, school district, and technical college) continues to collect taxes from that frozen base value throughout the life of the TID (typically 20 to 27 years). 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 and borrowing.

For a new TID to be created, a project plan must be approved by the municipality’s plan commission and legislative body (city council or village or town board) and by a joint review board comprised of representatives of each taxing authority with jurisdiction in the district and one appointed citizen representative. The Wisconsin Department of Revenue (DOR) also must approve the project and certify the district’s base value.
Any change to a TID after its creation must be made through an amendment to the project plan. For example, an amendment can modify a district’s boundaries or change or expand the scope of planned improvements. To make a project plan amendment, the local plan commission, local legislative body, and joint review board must approve the proposed changes. Amendments can lengthen the time it takes for a TID to repay project costs and close.

Typically, a TID closes after all project costs are repaid, but the maximum legal lifespan of a TID can be extended in certain cases. The most common type of extension (a “standard extension”) provides more time for a TID to recover project costs. Typically, these are three-year extensions, though some may be granted for four years. Extensions also can be granted for several approved purposes, including for up to one year to improve affordable housing.

**TIF in Wisconsin & Milwaukee**

TIF use is on the rise both in Milwaukee and statewide. The city of Milwaukee used TIF at about half the average statewide rate in 2000 but caught up to match the state in 2018 (Chart 1). (The statewide figures in Chart 1 take into account all Wisconsin municipalities that use TIF, including Milwaukee.) To control financial risk, state law prohibits municipalities from creating new TIDs if the value of taxable property within the proposed district plus the value increment of all existing TIDs would exceed 12% of the municipality’s total equalized property value. While Milwaukee’s percentage is increasing, it remains well below that threshold.

**Chart 1: Percentage of total property value in TIDs in Milwaukee and statewide**

When TIF was first introduced in Wisconsin in 1975, areas were eligible for TIF assistance if they were deemed blighted, in need of rehabilitation or conservation, or suitable for industrial use. Over time, the permitted uses of TIF have expanded through several changes to state law. For example, in 2004, state lawmakers added “mixed-use” developments (those containing a combination of industrial, commercial, and residential properties) as a fourth category of eligible projects.
The project types described above are eligible for TIF assistance provided they meet the state’s “but for” test, which stipulates that new TIF districts only can be created if the joint review board determines that the proposed development would not occur but for the creation of a TID. Joint review boards are also charged with determining that the economic benefits of using TIF, “as measured by increased employment, business and personal income, and property value, are sufficient to compensate for the cost of the improvements.”

Some argue that TIF use also has expanded over time through broad interpretation of the Wisconsin statutes. For example, there is no statutory rubric for joint review boards to use in considering the “but for” test. Similarly, while the state statute includes a lengthy definition of the term “blighted,” that definition remains open to some interpretation.

In Milwaukee, TIF use has expanded from the types of projects that appeared to be envisioned in the original state statute, such as the TIDs created to clean up and prepare the heavily polluted Menomonee Valley for redevelopment. It is now used for projects in areas of downtown Milwaukee that have already experienced substantial new development, like Northwestern Mutual’s new office tower and the city’s streetcar system. In this report, we focus on the streetcar – not only because it represents a new and uncommon use of the tool, but also because it is an ongoing project that could involve substantial use of TIF in the future.
MILWAUKEE STREETCAR/THREE HOP

Since November 2018, portions of downtown Milwaukee have been home to The Hop, a new streetcar system owned and operated by the city of Milwaukee. The initial 2.1-mile route (the M-Line) extends from the core of downtown south to the city’s Historic Third Ward and north to the outskirts of the Lower East Side, with stops at the Milwaukee Intermodal Station (the city’s main intercity bus and train station), Milwaukee Public Market, and other destinations.

Tracks already have been mostly laid for the start of a second streetcar route known as the Lakefront Line or L-Line, with final construction being coordinated with the development of The Couture, a residential tower planned for downtown Milwaukee near Lake Michigan. The city plans to begin operating the Lakefront Line in late 2020.

In this section, we examine how The Hop was developed and financed and compare the mix of funding sources used by Milwaukee with those used by nine other cities that have introduced modern streetcar systems since 2000. We also consider which funding sources used by other cities may be feasible for city leaders to consider as they contemplate streetcar system extensions.

PROJECT COSTS AND FUNDING SOURCES

The construction costs for Milwaukee’s initial streetcar route and Lakefront Line (phase 1) totaled $128.1 million, with support coming from three primary financing sources: $59 million in local funds generated through TIF, $54.9 million in reprogrammed highway funding from the federal government, and $14.2 million from a federal TIGER grant (Chart 2). Each of those funding sources is described in greater detail below.

Chart 2: Funding sources for phase 1 construction of Milwaukee’s streetcar system (in millions)

TIF funds for The Hop, which accounted for 46% of total project costs, came from creating one new tax increment district (TID) and amending two existing districts. The existing TIDs have performed
well enough not only to generate enough tax increment to pay back their initial project investments on time, but also to contribute excess increment toward financing The Hop.

- TID 49 (Cathedral Place), originally created in 2002, was amended in 2011 to provide $9.7 million in local match funding needed to release federal funds for streetcar system construction.

- TID 56 (Erie/Jefferson Riverwalk), originally created in 2004, was amended in 2015 to provide $18.3 million for public infrastructure related to the streetcar system.

- TID 82 (East Michigan) was created in 2015 to assist with the construction of both the streetcar system and a transit concourse that would be connected to The Couture, a planned residential tower. TID 82 contributed $31 million for the construction of two segments of the initial streetcar route and the planned Lakefront Line.

The second largest source of funding used to pay for The Hop’s startup costs was the remainder of a 1991 grant from the federal government, which covered about 43% of total project costs. That $54.9 million was part of a larger $289 million grant originally awarded to Milwaukee by Congress for the construction of a mass transit system in Greater Milwaukee’s east-west corridor (extending from downtown Milwaukee to the city of Waukesha).

Lack of agreement by elected officials caused that project to stall, and in the subsequent years, most of the funding was used for other projects. First, the federal government took back $48 million. Then, in 1999, state and local officials received federal authorization to use $149.5 million for a series of projects unrelated to public transit, including the reconstruction of the Marquette Interchange and 6th Street Viaduct. Ultimately, through another act of Congress, $54.9 million was allocated to the city of Milwaukee for use for a new downtown rail transit system and the remaining $36.6 million to Milwaukee County for its bus system.

The smallest funding source used for The Hop was a $14.2 million federal grant from a program called TIGER (Transportation Investment Generating Economic Recovery). The TIGER program, which was created in 2009 and discontinued in 2016, provided discretionary grants for transportation and transit infrastructure investments and was a common source of funding for new streetcar projects across the country.

**Planned Extensions to The Hop**

In addition to the planned Lakefront Line, city leaders are currently debating a proposal to extend the original M-Line three blocks north from the Milwaukee Intermodal Station to the proposed Vel R. Philips Plaza that would be developed across from the convention center on Wisconsin Ave. That addition would be the first leg of longer extensions envisioned for the M-Line north to the city’s Bronzeville neighborhood and south to its Walker’s Point neighborhood (Figure 1).

City leaders have proposed using TIF to finance The Hop’s $28 million extension to the convention center and associated $5 million plaza. An additional $18.8 million in TIF expenditure would support planning and engineering work for the remaining proposed extensions. All told, funding for the
$51.8 million proposal would come from six TIF districts, including five existing districts that have been or would be amended to contribute incremental revenue to the project. Those districts are:

- TID #39 (Hilton Hotel)
- TID #41 (Time Warner Riverwalk)
- TID #48 (Park East Corridor Redevelopment)
- TID #56 (Erie/Jefferson)
- TID #75 (Reed Street Yards)
- TID #88 (4th and Wisconsin)

In 2016, $20 million of the $51.8 million was approved when TID #88 was created and TIDs #39 and #41 were amended to support the proposed extension to Bronzeville along Vel Phillips Ave.

State law allows municipalities to use incremental revenue from TIDs to pay for project costs incurred within a half-mile of district boundaries. All of the TIDs that would be used to pay for the streetcar extensions would be directly served by the streetcar extensions or are close enough to be used for the project.

Notably, a recent change in state law prohibits the use of county and technical college funding to build or operate the streetcar system or any fixed guideway transportation system in Milwaukee. Thus, if the city uses TIF to pay for streetcar extensions, it must return Milwaukee County’s and MATC’s portions of TID increment revenues (roughly 20% of the total) or use that funding to pay for project components that are unrelated to the streetcar system.

City leaders plan to apply for a federal Small Starts grant to help pay for up to 50% of the total cost of developing the longer M-Line extensions and have proposed using local funding generated by the TIF districts above to cover the remaining half. The Small Starts program provides grants for new transit projects that cost less than $300 million and requires local governments to cover at least 20% of project costs.
COMPARISON WITH OTHER CITIES

To understand how Milwaukee’s use of TIF and other funding sources for phase 1 of its streetcar system compares with similar projects nationally, we examined nine other modern streetcar systems that have been developed recently in U.S. cities. For this analysis, we consulted TIF project plans, budget documents, newspaper articles, and project websites and communicated directly with city officials.

As shown in Chart 3, only two of the other nine cities used TIF to finance any portion of their streetcar systems. Milwaukee is an outlier, with the largest share of its startup costs financed by TIF (47.6%). Also, even in the two cities that did make some use of TIF, Cincinnati only supported 12.4% of project costs with TIF, and the same was true for only 8.2% of project costs in Portland.

Chart 3: Share of streetcar construction costs financed with TIF

<table>
<thead>
<tr>
<th>City</th>
<th>TIF Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milwaukee</td>
<td>47.6%</td>
</tr>
<tr>
<td>Cincinnati</td>
<td>12.4%</td>
</tr>
<tr>
<td>Portland</td>
<td>8.2%</td>
</tr>
<tr>
<td>Kansas City</td>
<td></td>
</tr>
<tr>
<td>Salt Lake City</td>
<td></td>
</tr>
<tr>
<td>Tucson</td>
<td></td>
</tr>
<tr>
<td>Oklahoma City</td>
<td></td>
</tr>
<tr>
<td>El Paso</td>
<td></td>
</tr>
<tr>
<td>Dallas</td>
<td></td>
</tr>
<tr>
<td>Atlanta</td>
<td></td>
</tr>
</tbody>
</table>

Source: Wisconsin Policy Forum analysis

Our scan of other streetcar systems shows federal grants through TIGER and other programs have been part of the funding mix for almost every new streetcar system developed recently in the United States. (Chart 4 on p. 10). In fact, Oklahoma City and El Paso are the only cities that received no federal grants of any kind. Among the 10 cities (including Milwaukee) we examined, an average of 36% of total project costs were covered by federal grants.

Milwaukee is one of eight cities whose streetcar systems were supported, in part, by TIGER grants, though at $14.2 million, Milwaukee received the smallest amount from TIGER among the cities we examined. When combined with the $54.9 million in federal legacy funding, however, Milwaukee’s total federal funding to develop its streetcar system was $69.1 million.
To supplement federal grants in financing streetcar systems, U.S. cities have been able to use a variety of local and state funding sources other than TIF that Milwaukee has not. Below, we explore three such funding sources through case studies from Atlanta, El Paso, Oklahoma City, and Kansas City and consider their relevance for Milwaukee.

**ALTERNATIVE #1: SPECIAL-PURPOSE DISTRICTS**

Several cities have established special districts to generate local funding for streetcar system development from areas around streetcar lines. Special districts are independent units with the authority to levy taxes for specific purposes within a designated area. This authority comes from their designation as political subdivisions of the state in which they are located.

**Example: Kansas City’s Transportation Development District (TDD)**

Opened in spring 2016, the 2.2-mile KC Streetcar has become a popular addition to the city’s downtown transportation mix. An uncommon feature of the KC Streetcar is that it continues to be free for riders three years after opening. Plans are currently underway to extend the initial line an additional 3.75 miles to the University of Missouri-Kansas City campus.

As Chart 5 on p. 11 shows, about half of the $120 million needed for Kansas City’s initial streetcar route came from a federal TIGER grant and other federal grants, with the remaining half financed...
with local funding generated from a transportation development district (TDD). A TDD is an economic development tool created by voters or property owners to finance transportation improvements within a designated area. In addition to transit projects, TDDs can be used to pay for a variety of other transportation improvements or infrastructure, including parking garages, new roads, or bus stops. TDDs are authorized by state law in Missouri and several other states.

**Chart 5: Funding sources and amounts for initial KC Streetcar development (in millions)**

| Source: City of Kansas City |

In Missouri, TDDs can be formed to fund, design, construct, plan, promote, improve, maintain, and operate transportation projects within a district. The approval of a TDD allows for the creation of a political subdivision with the ability to levy special assessments, impose property and sales taxes, collect tolls and fees, purchase land, sell and convey excess right of way, enter into contracts, and collect and disburse funds for its activities. A TDD is governed by a board of directors comprised of between five and 15 district residents who are elected by voters who reside within the district.

The Kansas City Main Street Rail TDD utilizes two of the five funding mechanisms TDDs are allowed to use under Missouri state law to support the KC streetcar: sales taxes and special assessments. (See text box on p. 12 for additional details on full list of options). A 1% sales tax (the maximum allowed) is applied equally across an area that extends roughly one-quarter mile in all directions from the initial streetcar line. Voters within the district approved the sales tax, with 75.6% voting in favor.

District voters also approved special assessments on property owners, with 74.7% voting in favor. For every $100 in assessed value, commercial property owners pay an additional $0.48 in property taxes, residential owners pay an additional $0.70, and (for city-owned properties) the municipality pays $1.04. In addition, the TDD has a supplemental special assessment on surface parking lots within the district’s boundaries that generates $54.75 per parking space annually.

**Creation of a TDD in Missouri**

A TDD may be created by petition if at least 50 registered voters within the proposed district sign on. Or, if there are no registered voters within the proposed district, a TDD can be created if the proposal is supported by all of the property owners in the district. In addition, two or more local transportation
authorities may adopt resolutions calling for the joint establishment of a TDD. The properties within a TDD must be contiguous.

A proposed TDD must be approved by the Missouri Highways and Transportation Commission and by the local transportation authority that will become the owner of the project. The local transportation authority and TDD then enter into an agreement regarding development and future maintenance of the project.

Example: Atlanta’s Community Improvement District (CID)

Launched in December 2014, Atlanta’s initial 2.7-mile streetcar line loops through the city’s downtown. The $98.9 million used to develop Atlanta’s system came from four sources: a federal TIGER grant, local capital funds (through bonding) as local match for the TIGER grant, other federal grants, and additional local funding generated through a special-purpose district called the Atlanta Downtown Improvement District (Chart 6 on p. 13).

The Atlanta Downtown Improvement District is a “community improvement district” (CID), which is an entity enabled by Georgia state law to levy taxes, fees, and assessments within a designated area to pay for certain governmental services, including public transportation systems. (See text box on p. 13 for a full list of authorized services.) Total annual funding raised by a CID is not to exceed 2.5% of the assessed value of the real commercial property within the district.

The Atlanta Downtown Improvement District contributed $17.1 million toward the construction of the Atlanta Streetcar system and has committed to providing an additional total of $12 million for system operations and maintenance in the coming years. The

FINANCING OPTIONS FOR TDDS IN MISSOURI

Sales Tax
A TDD may impose a sales tax of up to 1% on all retail sales made within the district subject to taxation under Missouri law. The sales tax must be approved by a majority of “qualified voters,” who are defined as individuals who are either registered voters or property owners within the TDD. The sales tax is collected by the Department of Revenue on behalf of the TDD and deposited into a special trust fund, which can be used for project purposes or invested by the board when not needed to cover district expenses.

Special Assessment
With voter approval, a TDD may make one or more special assessments to pay for improvements that specifically benefit properties within the district. Special assessments are collected by the county and deposited into the TDD’s trust fund. Alternatively, the district may choose to collect special assessments on its own.

Property Tax
A TDD may impose a property tax of up to 10 cents for every $100 in assessed value. The property tax must be applied uniformly throughout the district. Approval by at least four-sevenths of voters is required to implement a property tax.

Tolls
If approved by a majority of qualified voters, a TDD may charge and collect tolls or fees to pay for a project.

Debt Financing
A TDD may issue bonds, notes, and other obligations for up to 40 years, and may secure obligations by mortgage, pledge, assignment, or deed of trust for any or all property and income within the district. A TDD can also levy sales or property taxes or impose tolls or special assessments to repay the bonds.

Source: Missouri Department of Transportation
The district’s primary financing mechanism is an additional ad valorem property tax, also called an assessment, with additional funding coming from a variety of local, regional, and state sources.

**Chart 6: Funding sources and amounts for Atlanta’s initial streetcar line (in millions)**

- $24.1 million TIGER grant
- $10.1 million Atlanta Downtown Improvement District
- $17.1 million Other federal grants
- $47.6 million Other local funds
- $24.1 million Other local funds

Source: City of Atlanta

Founded in 1995, the Atlanta Downtown Improvement District is a public-private partnership and 501(c)3 nonprofit that seeks to create a livable environment for downtown Atlanta. Its board of directors is comprised of nine private and public sector leaders. The district was originally authorized to operate for six years and has been reauthorized every six years ever since.

During the creation of the Atlanta Downtown Improvement District, the downtown business association determined that it wanted to form a CID rather than a BID (business improvement district). In Georgia, BIDs typically perform a narrow range of activities focused on restoring and promoting commercial activity, whereas CIDs may cover a wider array of governmental services.

**Feasibility in Wisconsin**

The mechanisms allowed under Wisconsin law that are most closely related to the special-purpose districts in Kansas City and Atlanta are business

**SERVICES CIDS MAY PROVIDE IN GEORGIA**

The purpose of a community improvement district is the provision of any one or more of the following governmental services and facilities:

1. Street and road construction and maintenance, including curbs, sidewalks, street lights, and devices to control the flow of traffic on streets and roads
2. Parks and recreational areas and facilities
3. Storm water and sewage collection and disposal systems
4. Development, storage, treatment, purification, and distribution of water
5. Public transportation
6. Terminal and dock facilities and parking facilities
7. Such other services and facilities as may be provided for by general law

Source: City of Atlanta
improvement districts (BIDs) and neighborhood improvement districts (NIDs). (BIDs focus exclusively on businesses within a district and NIDs also include residential property owners.) In July 2017, the Wisconsin Policy Forum published an in-depth report that analyzed BIDs and NIDs in Milwaukee County and identified six distinct types of districts.¹⁶ The type most similar to TDDs are “specialty” BIDs or NIDs, which can be created to finance special projects involving multiple districts. Since The Hop traverses multiple existing BIDs, it may be possible to create a specialty BID or NID to generate funding for the system.

The funding mechanism for a BID or NID is the property assessment formula, which is determined by the district during its creation process and levied on an annual basis. Examples of assessment methods include a set dollar amount per $1,000 of property value, flat fees, formulas based on linear footage, and tiered formulas based on proximity to the amenity being developed.

Milwaukee’s RiverWalk BID utilizes a tiered assessment formula, which is similar in some ways to the approach Kansas City has taken for its TDD. The RiverWalk BID, which pays for RiverWalk maintenance, banners, and railing and infrastructure upgrade projects, separates properties into two classes (Class 1 and Class 6) and assesses each class differently. Class 1 properties are either not located on the Milwaukee River or are located on the river but will not have RiverWalk constructed on their river frontage. Class 6 properties are located on or near the Milwaukee River and will have new RiverWalk or related amenities constructed on their river frontage directly benefiting their properties, so those properties are assessed at a higher rate.

A major difference between a TDD and a BID or NID, however, is that a TDD can choose from among four other financing methods that are not available to BIDs or NIDs in Milwaukee. For example, Kansas City levies a sales tax within its TDD in addition to levying special assessments on property owners. Consequently, while a BID or NID could be created in Milwaukee for the specific purpose of financing capital improvements and infrastructure for the city’s streetcar system, its budget would be limited to the funds it could generate through assessments.

For context, as of 2017, Milwaukee’s BID 21 (Milwaukee Downtown) and BID 2 (Historic Third Ward) levied special assessments of 0.18% and 0.15% of property value on businesses within their borders and had annual budgets of $3.4 million and $2.5 million, respectively.¹⁷ Most of the city’s other BIDs and NIDs, however, had much smaller budgets. For example, BID 8 (Historic King Drive) and NID 1 (The Brewery), which cover areas where a streetcar extension is planned, had annual budgets of $178,000 and $200,000, respectively.¹⁸

The city of Milwaukee’s share of capital costs for the planned streetcar extensions to Bronzeville and Walker’s Point could be as much as $80 million.¹⁹ Thus, raising the assessments on businesses (or all property owners) to pay for those extensions would only make a meaningful impact if downtown and Third Ward properties were included. For example, if they were included, and there were support from business owners for doing so, doubling the assessments in all four districts could generate a little over $6 million per year, which could pay principal and interest costs for debt encompassing most or all of the city’s share of project costs within a reasonable timeframe.

Another option would be to create a BID or NID focused on supporting streetcar system operations, as opposed to construction. Such a BID or NID could encompass all businesses or all property owners within a designated distance of the streetcar system and could be used to pay for all
operating expenses or combined with other revenue sources. The Hop’s 2020 operating budget is $4.3 million. Annual operating expenses will increase if the system is expanded. Notably, a recent change to the Wisconsin state statutes prohibits the city of Milwaukee from using TIF to pay for streetcar system operations.

**ALTERNATIVE #2: TEMPORARY SALES TAX**

Dedicated sales taxes are a relatively common source of funding to support transit system operations. Less common – but still used by some U.S. cities – are temporary sales taxes to help finance the capital cost of new transit projects, including streetcar system development.

**Example: Oklahoma City’s “MAPS 3” Initiative**

In 1993, the citizens of Oklahoma City voted to approve the Metropolitan Area Projects Plan (MAPS), a capital improvement initiative for new and upgraded sports, recreation, entertainment, cultural, and convention facilities. MAPS gave the city authority to establish – by voter referendum – a limited-term, one-cent sales tax to finance a specific set of proposed projects. Taxes collected through the initiative were deposited into a dedicated trust rather than into the city’s general fund, and the initiative operated on a pay-as-you-go basis, meaning funds were only spent on the specified projects once they were collected and debt was not issued.

In 2009, following the completion of an initial set of projects under MAPS and a subsequent school-focused initiative called MAPS for Kids, the citizens of Oklahoma City voted for a third iteration of MAPS under which the city would continue to collect the one-cent sales tax to support a new set of projects, including the development of a streetcar system. Under MAPS 3, the city collected taxes from 2010 to 2017.

The 4.9-mile initial route of the Oklahoma City Streetcar, which connects the city’s downtown with several adjacent neighborhoods (Figure 2), cost $135 million to develop and began operation in December 2018. The system was financed entirely with local sales tax revenue raised through the MAPS 3 initiative; no federal monies were used.
Oklahoma law allows incorporated cities and towns to levy sales taxes for general and specific purposes provided they are approved by a majority of voters through a referendum.\textsuperscript{22} There is no maximum local sales tax rate that may be levied by cities and towns.

The sales tax rate in Oklahoma City is 8.625\%. Of that, 4.5\% is state sales tax and 4.125\% is levied by Oklahoma City. The city’s portion is directed to four areas: 2.25 cents goes to the city’s general fund, 0.75 cents supports public safety, and 0.125 cents goes to the city’s zoo. The remaining one cent is the temporary sales tax established through the MAPS initiatives.

In 2017, citizens voted to extend the temporary one-cent sales tax through the end of 2019 to support the “Better Streets, Safer City” initiative, which will generate funding for improvements to streets, trails, sidewalks, and bicycle infrastructure.\textsuperscript{23}

Feasibility in Wisconsin

Currently, counties are the only form of local government permitted to establish a general sales tax in Wisconsin. Counties may impose a 0.5\% sales tax and all but six of Wisconsin’s 72 counties do so, including Milwaukee County.\textsuperscript{24} Seven Wisconsin municipalities whose economies depend heavily on tourism are also permitted to levy a special “premier resort area” tax of up to 1.25\% on certain sales. Only the state legislature and governor can create other taxing districts under state law. For example, the Southeast Wisconsin Professional Baseball Park District used to finance Miller Park had to be approved by state lawmakers.

Enabling municipalities in Wisconsin to levy sales taxes, like Oklahoma does, would require a change to state law. Past proposals for local referenda on municipal sales taxes and regional transit authorities have failed to secure legislative approval, making the prospects for such a change unlikely in the near future.

**ALTERNATIVE #3: STATE TRANSPORTATION FUNDING**

Unlike Wisconsin, many states have capital transit programs designed exclusively to support transit system enhancements, which can range from construction of new infrastructure to vehicle replacements. Also unlike Wisconsin, other states have transportation capital programs for which transit projects may qualify. In two of the 10 cities we examined (El Paso and Portland), state funding was used to finance streetcar system development.

**Example: El Paso Streetcar**

Started in November 2018 and spanning 4.8 miles, the El Paso streetcar system is one of the most extensive among those that have opened recently in U.S. cities. A unique feature of El Paso’s new streetcar system is that its vehicles are the same ones used for the city’s original streetcar system, which operated from the 1950s until 1974; they have even been painted with the same vintage color schemes. However, the vehicles have been fully refurbished and now provide air conditioning, Wi-Fi, bicycle racks, ADA accessibility, and modern propulsion.

Construction of the El Paso streetcar system, including its six vehicles and 27 stops, cost $107 million. The Texas Department of Transportation (TxDOT) provided 95\% of the funding needed for system development ($97 million) using fee revenue from the Texas Mobility Fund. As shown in
Chart 7, the remaining costs were covered by the city of El Paso and El Paso Water, which each contributed about $5 million for additional street improvements along and near the streetcar route. El Paso is the only city we reviewed other than Oklahoma City not to receive a federal grant for its streetcar system.

Chart 7: Funding sources and amounts for El Paso’s initial streetcar line (in millions)

Voters amended the Texas constitution to create the Texas Mobility Fund (TMF) in 2001. The TMF is established within the treasury of the state of Texas and administered by the Texas Transportation Commission. A revolving fund, the TMF primarily finances the construction, reconstruction, acquisition, and expansion of state highways, but it also may be used to pay for a portion of the costs of transit capital projects. Major revenue sources supporting the TMF include fees for vehicle titles, driver’s licenses, and vehicle inspections. Fuel taxes and vehicle registration fees may not be directed to the fund.

Feasibility in Wisconsin

No state program currently exists in Wisconsin for transit capital projects. Local governments instead rely on federal and local funding sources to finance the infrastructure and vehicles associated with new transit services and vehicle replacements.

Governor Tony Evers’ proposed 2019-2021 budget sought to address that gap by creating a transit capital assistance program for urban areas, which would have begun in fiscal year 2021 with an annual appropriation of $10 million. The state legislature rejected the proposal, however. Consequently, unless Wisconsin creates a program or allows capital transit projects to be eligible for participation in existing state highway or local road aid programs, state funding will not be a financing option for extensions of Milwaukee’s streetcar system.
OTHER TIF-FINANCED CAPITAL PROJECTS

In addition to the streetcar system, the city of Milwaukee has used TIF to finance two other high-profile capital projects in recent years that represent non-traditional uses: the city’s gradually expanding RiverWalk system and the Fiserv Forum arena and surrounding district.

MILWAUKEE RIVERWALK

What began as a simple idea to improve public access to the Milwaukee River in the early 1990s has grown into a 4.4-mile RiverWalk system that stretches from downtown Milwaukee north to Humboldt Ave. and southeast to Lake Michigan near Henry Maier Festival Park. City leaders recently approved plans to begin extending the RiverWalk to the Menomonee and Kinnickinnic rivers as well.

Project Costs and Funding Sources

The city’s policy for a uniform method of financing RiverWalk development was laid out in a 2006 resolution by the Common Council. The resolution states that the city may contribute up to 70% of the total cost of constructing new RiverWalk segments and sets a maximum city investment at $2,000 per linear foot (adjusted annually by the RS Means Index). Private developers are required to pay the remaining costs. In exchange for the city’s upfront financial contribution toward RiverWalk construction, the private property owner provides a permanent public access easement.

TIF is the primary financing mechanism the city has used to develop the RiverWalk. To date, the total cost of constructing the RiverWalk has been $67 million. Of that, $38.6 million has come from TIF district revenues and an additional $8 million came from an initial allocation from the city’s capital budget (Chart 8).

Chart 8: Funding sources and amounts used for the Milwaukee RiverWalk to date (in millions)

Combined, those public contributions account for 69.6% of total project costs, roughly matching the 70% maximum allowed under city policy. Private developers have contributed the remaining $20.4 million for the Milwaukee RiverWalk, or 30.4% of total project costs.

The city has tapped seven different TIF districts to pay for the Milwaukee RiverWalk. Four of those districts were created, in part, to support RiverWalk development, while the remaining three were amended years after their creation to
support new RiverWalk segments. All seven districts include riverfront property where stretches of the RiverWalk have been constructed.

While our national scan of riverwalks in other U.S. cities found several others that were financed, in part, with TIF, we also found projects supported with other funding sources generally not available to cities in Wisconsin. For example, Oklahoma City used a temporary sales tax established through its MAPS initiative and Columbus, Ga., used a series of similar special purpose local option sales taxes (SPLOSTs). Chicago accessed a federal loan to pay for a large portion of its riverwalk through the Transportation Infrastructure Finance and Innovation Act (TIFIA) program. TIFIA loans are only available to projects that cost at least $50 million and must be paid back with other revenue sources, such as user fees.27

**Fiserv Forum**

The Milwaukee Bucks’ recent playoff run drew tens of thousands of people to the city’s new arena district, which has helped to reinvigorate that section of downtown Milwaukee. TIF played a role in making that district a reality.

The estimated total cost of building Fiserv Forum and its adjoining plaza and parking structure was $500 million. Half of that total came from a $100 million contribution from Senator Herb Kohl and investments from the Bucks and other private investors. The remaining $250 million came from public funds contributed by the Wisconsin Center District, Milwaukee County, the state of Wisconsin, and the city of Milwaukee. The city’s $47 million contribution came entirely from TIF.

City funds were specifically used to develop the 5th Street Parking Structure ($35 million) and the “Deer District’s” new plaza ($12 million).28 The city amended one existing TIF district (Beerline B – TID 22) and created one new district (West McKinley & Juneau – TID 84) to make these contributions. The 1,243-space 5th Street Parking Structure is located just north of the arena and is owned by the city of Milwaukee, making the city the only government to have gained a revenue-generating asset from the deal. (The city and the Bucks split parking revenues equally.) The district’s 130,000 square foot, open-air plaza was developed just east of the arena, which required closing off one block of Vel R. Phillips Ave. The plaza is owned by the Wisconsin Center District.

Several other recently-developed arena projects in U.S. cities included some financial support from TIF. As with riverwalks, however, we also found additional tools used by other cities that are not available to cities in Wisconsin. For example, Oklahoma City once again used its temporary sales tax initiative (MAPS) to finance construction of the Chesapeake Energy Arena, which is home to the Oklahoma City Thunder.
DEBATING THE USE OF TIF

Our examination of the use of TIF to finance Milwaukee’s new streetcar system is not intended to weigh in on the merits of constructing the system in the first place or extending it in the future. With the system already established, our aim instead is to inform the debate about using this particular form of financing for proposed extensions. This issue is critical given that current plans call for the city to use TIF as the primary local revenue source for those extensions.

Below, we present arguments for and against doing so. Because there are pros and cons with using funds both from new TIDs and from the amendment of existing TIDs, we present those arguments separately below.

Creating New TIDs to Finance Streetcar Expansion

One option is for the city of Milwaukee to create new TIDs with the explicit goal of financing streetcar extensions. The premise for doing so would be that system extensions could drive new development and thus generate incremental property tax revenue, which would then be used to pay back project costs.

Since the extensions would have the potential to increase property values near the streetcar lines specifically, an argument for using TIF is that it would appropriately pay the city share of construction costs with funds collected from areas near the streetcar lines that would benefit most from the new service. This approach spares general property taxpayers from paying for the project. Another argument for using TIF is that its use is predicated on new (incremental) property tax growth, whereas alternative options like temporary sales taxes involve an increase in taxes even if no incremental value is generated.

On the other hand, it may be difficult to know the extent to which future development activity along or near streetcar system extensions would occur because of the addition of the streetcar. The city’s “transit oriented development” plan for the proposed extensions to Bronzeville and Walker’s Point includes a market analysis, prepared by a national consulting firm, which states that fixed rail transit service generally increases the feasibility, density, and pace of development, especially within a quarter mile of station areas. However, an argument can be made that the areas currently served by The Hop – and most of the areas that would be served by planned extensions – are already attracting development without the streetcar system, such as the growing district surrounding the Fiserv Forum and the steadily-developing Walker’s Point neighborhood.

Another concern would be whether development activity along future streetcar routes would be sufficient to generate the increment needed to pay off streetcar debt. Opportunities for development projects large enough to generate sufficient incremental value to pay for extensions could be hard to come by in areas outside of downtown Milwaukee and adjacent neighborhoods. This points to a potential limitation of relying on TIF, rather than more flexible options, as the primary local financing source for system expansion.

Amending Existing TIDs

Another option is for the city to amend the project plans of existing TIDs to allow them to finance streetcar extensions. That is the plan currently being pursued by city leaders to pay for the proposed...
extension to the convention center and for planning and engineering work for the proposed extensions to Bronzeville and Walker’s Point. This approach differs from creating new TIDs in that the existing TIDs being tapped were originally created to support other projects and, if not for the streetcar, would be on track to close in the near future.

An argument against this approach is that it would mean continuing to divert revenue not only from the city, but also from other local taxing authorities for some period of time after the TID’s original debt had been retired and the district otherwise would have closed. For example, at least two TIDs that could be tapped for streetcar extensions under a current proposal would otherwise close by 2024. Amending districts for streetcar extensions is viewed by some as favoring an expanded streetcar system over other priorities held by other taxing authorities, which would have to forsake increased property tax collections for as long as the TID remains open while those collections instead flow to streetcar construction.

Supporters of this approach may push back by pointing out that the only reason such TIDs are being tapped is that they have been so successful in generating tax increment that they can be used to support the streetcar system while remaining on track to close within their legal time limits. They may also note that only TIDs located along or near proposed extensions could be used and that the process of amending existing TIDs requires the same level of public oversight as creating new TIDs, including approval by the same joint review board that approved the TID’s initial creation.

Using successful existing TIDs rather than creating new TIDs may also mitigate risk in that existing TIDs have already generated incremental value and thus have a relatively predictable flow of revenue. Doing so may also lower costs by reducing the amount of interest the city pays; existing TIDs typically have already paid off most or all of the interest on their debt, whereas creating a new TID means a substantial portion of incremental revenue will go toward interest payments for many years.
CONCLUSION

Our analysis shows the way the city of Milwaukee is financing its streetcar system differs significantly from the approaches taken by other cities that have developed streetcar systems in recent years. It also provides context for the city’s financial approach and raises questions that can be debated by streetcar supporters and opponents alike. Key takeaways include:

**Milwaukee is similar to other cities in relying on a mix of federal and local funding sources to finance its streetcar system.** Federal grants covered 54% of the first phase of Milwaukee’s streetcar system development, with the remainder coming from local funding generated through TIF districts. Federal grants have helped most cities develop their streetcar systems, covering an average of 36% of total project costs among the 10 cities we analyzed. Milwaukee’s mix of federal vs. local funding is in line with other cities nationally.

**Milwaukee is the only city that has used TIF as its primary local revenue source for streetcar system development.** While all cities needed local revenue to cover at least a portion of the startup construction costs of their streetcar systems, Milwaukee is an outlier in its heavy reliance on TIF as the local financing tool. Only two other cities used TIF at all, and both of those (Cincinnati and Portland) used it to cover much smaller shares of their total project costs and combined TIF with other local and state funding sources.

**Most of the financing mechanisms used by other cities to develop streetcar systems are not available to Milwaukee under current state law.** Revenues generated by local sales taxes, state transportation programs, or special-purpose districts have been used to develop the streetcar systems in most of the cities we analyzed. The state of Wisconsin restricts municipalities from establishing sales taxes, however, and the state does not support transit capital projects. Putting aside the question of whether Milwaukee ought to expand its streetcar system, our analysis shows that if it is going to do so, TIF is one of its only local financing options.

Kansas City’s transportation development district model is a notable exception in that it is the one example we found that could at least be partially replicated in Milwaukee. If sufficient support exists among businesses or all property owners, then the city could create a specialty BID or NID that could levy assessments on nearby properties that benefit from proximity to the streetcar system. A specialty BID or NID would not have the power to levy sales taxes or raise other types of revenue available to Kansas City, however, and other revenue sources may still be needed to fully pay for streetcar system extensions.

**Strong points can be made for and against using TIF to finance streetcar system development. Yet, it may come down to whether or not one believes the system itself is a worthwhile public investment.** Those who believe the streetcar system is good for downtown Milwaukee and the city in general can argue that using TIF to finance system extensions makes sense because the funding is generated from the areas of the city that most benefit from the streetcar rather than from property owners citywide. Similarly, because streetcar supporters believe the build-out of the system will produce a benefit for virtually all downtown properties, they can justify the amendment of existing TIDs as an opportunity to reinvest resources generated by successful development in a manner that will encourage even more development, particularly in underinvested neighborhoods nearby.
Those opposed to the streetcar can argue that TIF is not the ideal tool for expanding the system because it can be difficult to determine the extent to which extensions generate increased property tax base. An argument also can be made that delaying the closure of successful existing TIF districts and diverting their increased property tax revenues to system expansion (instead of back to the general tax rolls) is essentially deciding that streetcar extensions are the highest and best use of those resources.

Future debates about streetcar expansion are likely to focus not on whether TIF is the correct financial approach, but instead on whether the streetcar itself is worthy of additional major public sector investment. While that may be inevitable and justified given the lack of alternatives, we hope this analysis will spur additional consideration of Milwaukee’s economic development investment toolbox and whether it should be expanded for various purposes.

The relatively rare use of TIF for streetcar construction in other cities offers compelling evidence that other funding sources may offer a more appropriate means of financing a downtown infrastructure investment that typically cannot be linked definitively to new development, and that arguably conveys broader public benefits like livability and mobility. Consequently, in the long term, additional financing options not only for the streetcar, but also for other transportation infrastructure and economic development investment activities may be desirable. The lack of such options for Milwaukee and other Wisconsin municipalities is worthy of further analysis and discussion, regardless of one’s views on the merits of Milwaukee’s streetcar system.
NOTES


2 Ibid.


6 Wisconsin Statutes 66.1105, http://docs.legis.wisconsin.gov/statutes/statutes/66/XI/1105

7 The TIGER program has been replaced by a new program called BUILD Discretionary Grants. BUILD (Better Utilizing Investments to Leverage Development) is focused more on rural areas and less on transit than TIGER.


9 Wisconsin State Legislature. https://docs.legis.wisconsin.gov/statutes/statutes/66/XI/1105/2/f/1/n

10 Wisconsin Statutes 85.066(3) http://docs.legis.wisconsin.gov/statutes/statutes/85/066/3


13 Missouri Department of Transportation. https://www.modot.org/transportation-development-districts-tdds

14 Ibid.

15 Metro Atlanta Rapid Transit Authority provided the figure for total funds contributed by the Atlanta Downtown Improvement District for construction of the Atlanta Streetcar. Operations and maintenance funding information came from the Center for State and Local Finance’s 2016 report, “Georgia’s Community Improvement Districts (CIDs).” https://45tkhs2ch4042kf51f1akcju-wpengine.netdna-ssl.com/wp-content/uploads/2016/07/Georgias-Community-Improvement-Districts_June-2016.pdf


17 Ibid.


21 Wisconsin Statutes 66.1105(2)(f)/e. https://docs.legis.wisconsin.gov/statutes/statutes/66/XI/1105/2/f/2/e


23 City of Oklahoma City. https://www.okc.gov/residents/better-streets-safer-city-projects

24 Wisconsin Department of Revenue. https://www.revenue.wi.gov/Pages/FAQS/pcs-taxrates.aspx#txrate4


27 U.S. Department of Transportation. https://www.transportation.gov/buildamerica/programs-services/tifia/overview

28 City of Milwaukee. TID Project Summaries. https://city.milwaukee.gov/MilwaukeeTIDprojectsummaries.htm#XRpFeKIU

29 City of Milwaukee. “Equitable Growth through Transit Oriented Development.” https://city.milwaukee.gov/Plans/MovingMKForward/#XWAEG.hKiM9