

(placed into the file on 4/27/05)

Chairman D'Amato, Vice Chairman Wade, distinguished committee members,

Thank you for inviting me to speak about this important subject.

Tax incremental financing was designed to help redevelop areas that are “blighted,” “in need of environmental remediation” or to stimulate industrial development. It was a targeted economic development tool to fund capital projects in areas that could not attract sufficient private investment. The objective and intent was economic revitalization of distressed or de-industrializing areas. The subsidy was justified on the clear public purpose grounds that the growth it subsidizes will: 1) increase the overall tax base; 2) create jobs or; 3) change perceptions or demonstrate the vitality of a market.

On October 1, 2004, Wisconsin's TID law was liberalized. Two of the changes deserve our attention. First, mixed use development became eligible for subsidy. Second, it increased the cap on TIFs from 5% of total equalized value to 12%. The impact of these changes will be to encourage the use of TIFs more widely throughout the state as a general economic development tool, but diminish its effectiveness as a tool targeted to the revitalize distressed communities and job creation. A recent study by Mathew Mayrl from the Center on Wisconsin Strategy concludes that these recent changes have in fact undermined TIF's effectiveness. As he wrote that TIFs expansion “...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...TIF is used less to fund development and more to fund the development of open land.”

Key to TIFs are the “but for” clause. A TIF is only justified if the proposed development would not occur or would not occur as proposed without the TID. TIDs should not be established where the exact project or one of a similar nature would occur in quality and timing without its use. Ryan Horton points out in his Public Policy Forum report that this is an “exceeding subjective and difficult to evaluate” criteria. But it must be central to any evaluation of TIFs and proposed projects. There are many cases in the state where TIDs have been used to develop projects that did not meet this standard.

MATC sits on the City's Joint Review Board because the establishment of TID's by keeping new property tax increments in a TIF district costs the college income. Last year our board discussed the impact of TID's on the college's finances and revised our policy to ensure that TIDs are consistent with MATC's interests.

As you know, MATC's state aid as a percentage of operating revenue has decline by 50% since 1990 and our state aid has decline by almost \$5 million since 1999. As a result, the tax levy has become our most important source of revenue despite the fact that only we receive 7 cents for every dollar in property tax levy in Milwaukee. This year MATC lost \$2.5 million a year to tax incremental financing districts. We anticipate that this will grow to more than \$3 million in 2005-2006. If these dollars are stimulating investment, growth and jobs in distressed areas that

would not have been created without a TID or promoting industrial revitalization and job creation, then they are projects the college supports. But if they are in areas where the market is robust or they stimulate growth that does not create gainful employment or they simply redistribute the location of growth in the metropolitan area, then they amount to an unproductive diversion of dollars that could be used to train the areas workforce or provide essential public services. The opportunity cost is significant since independent studies indicate that every public dollar invested in MATC returns \$9.26 to the local economy within two years.

Mr. Horton report's has a number of insights that have not received attention. He points out for example that using public subsidies to build on agricultural land, which is increasing in frequency (45% of active TIFs in 1999), tends to result in taxpayers subsidizing development that would have occurred in any case. One notorious example of this was the use of a TIF to develop the Pabst Farms in Oconomowoc. Using TIFs to subsidize development in agricultural areas stretches the intent of TIFs and encourages sprawl which carries with it significant increased public costs.

Horton also suggests that the "but for rule" is highly subjective. The most egregious violation of this rule was in Baraboo, Wisconsin where a TID was sued to finance a Wal-Mart Superstore. The project was approved despite the fact that if Wal-Mart was a country it would be the world's 8<sup>th</sup> largest economy with sales of \$137 billion, that Wal-Mart already owned and operated a store two miles away and that the company's real estate manager admitted that the development would have occurred without the TID.

Locally the Bayshore Mall TID is an example. It was established in 2002 because "the existing development was constructed prior to or during the 1960's and 1970's...creating an environment that lacks community appeal or character." The \$34 million TID was amended last year to include a US Bank, Kohl's Department Store and the Bayshore Mall core as well as "public works outside the district," adding an additional \$84 million to the total cost.

Redesigning a thriving suburban mall with amenities like an ice skating rink, bicycle racks and high end metro market supermarket hardly meets the criteria of revitalizing a distressed area or creating jobs. Such expenditures are inefficient and actually encourage development that distorts the marketplace and undermines local government by removing precious dollars from the local tax base. These are the very dollars that finance the education and training of the areas labor force at MATC and essential municipal and county services. One must ask how rational is it to subsidize a skating rink at the Bayshore Mall while the County is closing swimming pools in poor neighborhoods.

Mr. Ryan's most publicized mediation is whether we should use TIF's more widely to "better compete with the rest of Wisconsin and neighboring states for quality development and jobs." He points out that both Minneapolis and Chicago are more dynamic than Milwaukee suggests this may be because they have more TIFs.

There are a number of reasons that both Minneapolis and Chicago are more economically vital than Milwaukee. The use of TIF s has little to do with them. Both are regional economic centers with a large number of corporate headquarters. Milwaukee is neither a regional economic center

nor do we have a large number of corporate headquarters and the high end ancillary services that agglomerate around corporate headquarters.

Historically, Milwaukee's economy has been disproportionately dependent on manufacturing. A larger percentage of our labor force worked in manufacturing than in either Chicago or Minneapolis. As a result, as outsourcing has increased and plant closings intensified, Milwaukee's economy and neighborhoods have been disproportionately impacted.

Minnesota's use of TIDs is no model. In fact, a study conducted by the Institute on Taxation and Economic Policy concluded TIDs had fueled urban sprawl in the Minneapolis region rather than urban revitalization. The city of Anoka, 15 miles northeast of Minneapolis, used TIFs aggressively to develop 300 acres and attracted 29 companies or distributors, all of whom relocated from the Twin Cities... The net effect was to move jobs further away from the region's concentrations of people of color, away from poorer neighborhoods and make job less accessible to the people who need them."

Another study by David Merriman, an economist from Loyola University in Chicago, documented that cities and areas that adopted TIFs grow more slowly than cities that do not. He concluded that TIF growth comes at the expense of growth in surrounding areas. Chicago, as a result of this experience, has tightened rather than liberalized its use of TIF districts.

These findings have important implications for the proposed Pabst development. WisPark plans to redevelop the entire 21 acre property as a single project. Another and less costly approach would be to slowly develop the property in pieces based on a level of development the downtown market actually will support. This was the model used to successfully develop the Riverwalks.

But assuming that the project passes the "but for" test, it is still reasonable to ask whether such development will contribute to the areas revitalization or whether it will simply relocate entertainment and retail activity from Water Street and surrounding areas.

The development, anchored by a House of Blues, a Ganework's and a movie complex is not a sufficient job generator to justify a \$40 million subsidy. The only legitimate justification for a Pabst TID is that it will revitalize a distressed area. But if the Pabst's redevelopment simply subsidizes the relocation of a significant segment of downtown's entertainment, commercial and retail to slightly west of downtown, the \$40 million TID and over \$100 million total public subsidy would not be responsible for any new growth. If this is the case, it is a questionable public investment.

In the past, the City opposed development of a hotel and other retail and commercial activities in the Menominee Valley because it felt the City should not subsidize development that undermine thriving downtown markets. Several Aldermen have opposed the development of a Casino in Kenosha based on the same logic. If the subsidized development of the Pabst area as a self enclosed entertainment area undermines Milwaukee's existing downtown entertainment market with the resulting depreciation in real estate values that would follow, the city, its taxpayers and its residents will be no better off.

This committee must also consider the precedent such a TID would establish. There are reports that the Brewers' new ownership will seek public assistance to develop entertainment and retail property adjacent to Miller Park. Subsidizing such a development would certainly create competitive pressures on Milwaukee's downtown. It raises the question: Should we reward the Brewers who refused to build the stadium downtown with public dollars that will subsidize the relocation of entertainment and retail activity away the city?

One final criticism of TIFs made by Jan Brueckner, an economist from the University of Illinois, is that "without job training, TIFs are a real estate deal and a transfer of jobs." As a result, Illinois TIF enabling legislation allows TIF funds to be used toward job training, vocational education and career education including but not limited to courses in occupational, semi-technical or technical fields leading directly to employment in the TIF district. This is an area that the Milwaukee should explore and that MATC would be very interested in as well.

Thank you.