



MEMORANDUM

LEGISLATIVE REFERENCE BUREAU

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To: Ald. Joe Davis, Sr.
From: Aaron Cadle, Legislative Fiscal Analyst—Lead
Date: January 21, 2015
Subject: Estimated Tax Revenue Diversion to Fund Streetcar Project

Per your request, provided below is an estimate of the amount of property tax revenue generated from Tax Incremental Districts (TIDs) 56 and 82 that will be diverted under a proposed City financing plan relating, in part, to a revised downtown streetcar proposal.¹

This memo is a revised version of memos dated January 5 and 7, 2015, on the same subject to provide further clarification on the assumptions used in making the calculations.

Assumption

For purposes of analysis, this memo assumes a “what if” scenario, i.e. what if the TIDs had never been established and the improvements were financed privately. Clearly, once the TID was formed and used as a financing vehicle, all incremental tax collections could only be used for TID-incurred expenses. The analysis suggests what might have happened if the improvements were in fact made and financed privately.

On a broader level, this memo assumes the assessed value of improvements made in the TID will be added to the City’s total equalized assessed property value, and the State-imposed ceiling on Milwaukee’s total tax levy collection will be raised to reflect this increased property value.

This assumption is based on an understanding that, although the State’s regulation of the City’s tax levy ceiling is complex, there are circumstances where a real increase in the base of Milwaukee’s total equalized assessed property value can be grounds for allowing an increase in the City’s overall tax levy collections.

For the City of Milwaukee, this assumption would allow the City to receive an increase in overall property tax collections equal to the amount of taxes collected on the increased assessed property value once the TID is closed.

Based on this assumption, had the TIDs never been created and the same property improvements had been privately financed without any public support, property taxes on the increased assessed value of the underlying real estate would accrue to the City from day one.

¹ The estimates are based on internal analysis conducted by the Department of City Development (DCD) for the proposed amendment to TID 56, and on project analysis performed for DCD by S. B. Friedman & Company of Chicago for the proposed TID 82.

This same assumption has been applied to the other taxing entities which levy taxes against property in the City, but this is for comparison purposes only. Each of these other taxing entities is governed by its own complex tax collecting regulations.

LRB is not expert in the tax collecting regulations governing these entities, but it is generally understood the other entities have a somewhat freer hand in setting their tax levies than the City. This greater taxing freedom means there can be no basis for extrapolating, for example, from the comparisons in Table 1 that the Milwaukee Public School system is underfunded in any way by the use of tax incremental financing in any TID. This, of course, goes for other taxing entities as well.

Alternative Assumption

If it is assumed the assessed value of improvements made in the TIDs will be added to the City's total equalized assessed property value, but the State-imposed ceiling on Milwaukee's total tax levy collection will NOT be raised to reflect this increased property value, then Milwaukee's tax levy remains fixed, and because the City's equalized assessed property value increases, property tax rates will fall after the TIDs close. The tax rates for the other taxing entities would presumably also decline as the increased tax base allows them to collect the same amount of tax revenue at a lower property tax rate.

According to this alternative assumption, neither the City nor the other taxing entities defer any tax revenue. The total \$104 million cited in Table 1 is therefore not a tax deferral, but rather a deferral of an overall property tax rate cut.

In effect, the property tax payers of Milwaukee are deferring a property tax rate reduction to fund the TIDs. Here again, had the TIDs never been created and the same property improvements been privately financed without any public support and added to the City's total equalized assessed property value, Milwaukee residential and commercial property tax payers would have realized a property tax rate decrease from day one.

Analysis

1. The total debt financed is approximately \$69 million. Table 2 on page 4 provides the relevant project expenditures for TIDs 56 and 82.
2. Total estimated property tax diverted for all taxing entities (identified in Table 1) for the full life of the proposed amended TID 56 and the new TID 82 is approximately \$104 million.²

Table 1 provides the estimated impact for the life of the proposed TID financing period, based on the proportion of each taxing entity's 2014 tax rate to the total 2014 property tax rate of \$32.61 per \$1,000 of assessed valuation, before State Tax Credit.

3. The City's pro rata share of the \$104 million in diverted property taxes is approximately \$34 million.³
4. The \$34 million in diverted property taxes is approximately \$2.5 annually over the life of the TIDs.⁴

Table 1. Proportion of Total Estimated Property Tax Diversion by Taxing Entity.

Taxing Entity	Total Estimated Amount of Property Tax Diverted
City of Milwaukee	\$33,692,411
Milwaukee Public Schools	\$39,774,878
Milwaukee County	\$17,037,278
MATC	\$7,069,674
MMSD	\$5,700,323
State Forestry	\$573,217
Total	\$103,847,780

² This \$104 million includes the repayment of the debt incurred to finance approximately \$69 million of improvements as detailed in Table 2 of this memo, plus financing charges, including capitalized interest, bond issuance costs and bond interest. TID 56 and TID 82 are amortized through 2027 and 2036, respectively.

³ The proportion is based on the City's 2014 tax rate of \$10.58 per \$1,000 of assessed valuation as compared to the total 2014 property tax rate of \$32.61, before State Tax Credit and assuming no changes in tax rates.

⁴ This estimate is based on the City's proportion of total 2014 property tax revenues of the estimated annual debt service for TID 56 debt incurred plus annual debt service for TID 82 between 2022 and 2034.

Table 2. Relevant Project Expenditures for Revised TID 56 and New TID 82.

Project Expenditures	TID 56	TID 82	Total
Streetcar Line & Infrastructure	\$18,300,000	\$31,000,000	\$49,300,000
Public Infrastructure			
Couture		\$17,500,000	\$17,500,000
Milwaukee St. & Corcoran Ave.	\$540,000		\$540,000
Administration		\$500,000	\$500,000
Workforce Training		\$400,000	\$400,000
Business Expansion/Relocation Grants	\$400,000		\$400,000
Street Repaving		\$150,000	\$150,000
Total	\$19,240,000	\$49,550,000	\$68,790,000

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