



Regional Report

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Keeping up with the neighbors?

Tax Increment Financing in Southeastern Wisconsin

EXECUTIVE SUMMARY

The original intent of Tax Increment Financing (TIF) legislation was to provide assistance to redevelop blighted urban areas that could not be developed under normal market conditions. But since the time that Wisconsin's first TIF district was approved in 1976, the number, scope, and reach of TIF has grown substantially. In just the past four years, the property value in TIF districts has grown 50% to \$9.6 billion – \$3.7 billion of which is in the seven counties that make up southeastern Wisconsin. What is most impressive, however, is the degree to which this financing tool has become the norm in almost every corner of the state – rural or urban. Indeed, 348 villages and cities in 70 of Wisconsin's 72 counties now have active TIF districts. The tool has become so pervasive that most would agree that cities and villages cannot think of investment into large-scale infrastructure without TIF.

Such widespread use both statewide and regionally warrants a closer look at how TIF actually works, who uses it, who stands to benefit from its use, and what the implications are of such use.

What is TIF?

In simple terms, TIF diverts property tax proceeds from the general tax rolls to specific geographic districts as a way to fund public infrastructure and developer incentives to spur economic development. The increase in tax revenue from new development (increment) within the district is used exclusively by the district until project debts are fully retired. When the debt is paid off, the TIF is terminated so that revenue can flow back into the general tax collection rolls of all taxing entities.

How can the use of TIF be measured?

The report uses "TIF Utilization" to measure the extent to which TIF is used in a given community. The measure is simply the community's total increment in all existing districts divided by the municipality's total equalized assessed value. For example, the City of Waukesha has a TIF Utilization percentage of 2.62%, meaning that 2.62% of all tax proceeds in the City of Waukesha are being used exclusively by TIF districts. The higher the percentage, the more tax proceeds that flow into TIF districts and not into the municipalities general fund.

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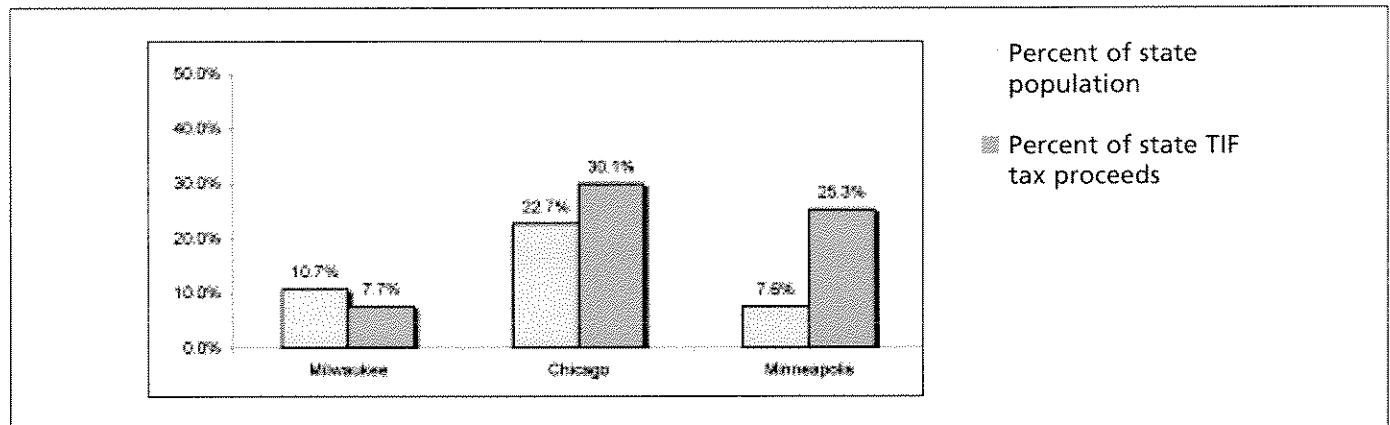
MAJOR FINDINGS

- The city and county of Milwaukee use TIF to a much lesser degree than Chicago and Minneapolis.

Implication: Although cause and effect cannot be known, the findings raise a crucial question: Does

the slow economic growth in the city and county of Milwaukee at least partially result from a low rate of TIF utilization? If so, the city and county may have to be more aggressive with TIF.

COMPARISON OF MIDWESTERN CITIES: POPULATION AND TIF TAX PROCEEDS



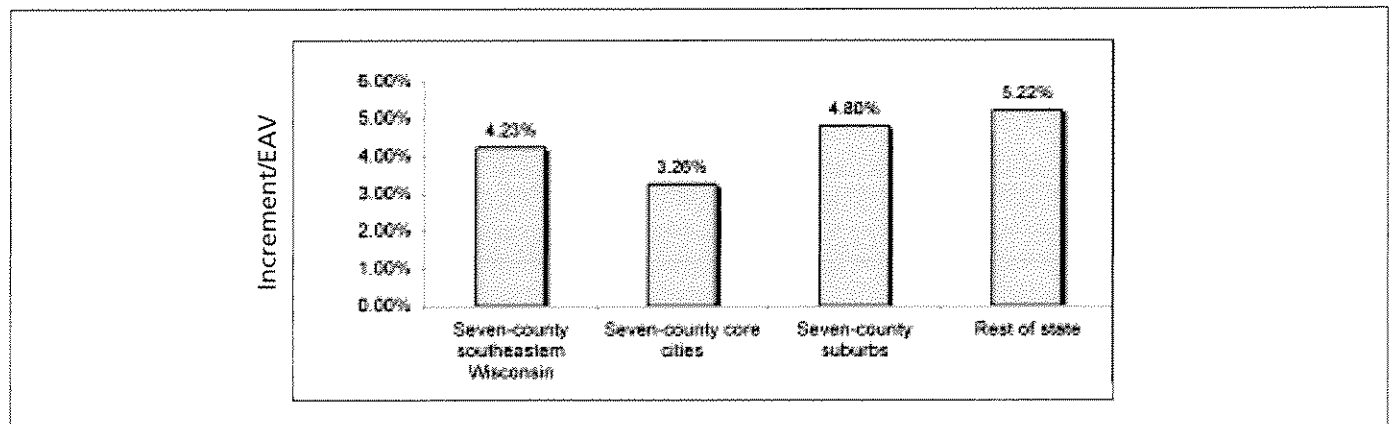
- TIF usage within the seven-county region is decentralized. The core cities of Milwaukee, Kenosha and Racine have TIF utilization rates lower than their suburban neighbors.

Implication: If the region believes that strong central cities are crucial ingredients to a strong regional economy, then it may be that the region needs to encourage higher rates of TIF utilization in its core cities.

- TIF usage in Wisconsin is decentralized. The seven-county region's TIF utilization rate is lower than the rest of the state.

Implication: With the seven-county region losing 29,050 jobs from 1999 to 2003 and the rest of the state gaining 19,816 jobs over the same period, greater TIF utilization throughout the region may be needed to better compete with the rest of Wisconsin and neighboring states for quality development and jobs.

TIF UTILIZATION BY REGION OF STATE, 2004



- TIF usage in the region's core cities (Milwaukee, Racine, and Kenosha) has increased faster than TIF usage in the rest of the region, 2000 to 2004.

Implication: The core cities increasingly are becoming more aggressive in their use of TIF. Though still trailing their more rural neighbors in TIF usage, the regions core cities have made up some ground over the last four years.

- Wisconsin's legislature sent mixed messages in its 2003 TIF law reforms. The law eased restrictions on urban redevelopment TIF districts, but also passed measures to ease the use of TIF for the development of agricultural lands.

Implication: TIF usage should remain both decentralized and counter to the original intent of the law.

- TIF is used most widely in southeastern Wisconsin in fast-growing municipalities that are small, rural, have available agricultural lands, or have relatively small tax bases.

Implication: Using public subsidies to build on easily developed agricultural lands calls into question the wisdom of authorizing public subsidies for development that may have occurred anyway.

- Research shows that TIF is one of the most important factors in location decisions with area developers.

Implication: With developers motivated by TIF, municipalities bid ever higher for new development, and the region's taxpayers run an increased risk of over-subsidizing development that may have occurred anyway.

The table on the following page shows each municipality in Southeastern Wisconsin that currently uses TIF. Cities and Villages are listed in alphabetical order and ranked in three different categories: TIF Value Increase, TIF Utilization, and Increment Created per Capita.

COUNTY TIF UTILIZATION RATES, 2004

Walworth County	8.87%
Racine County	8.28%
Washington County	7.07%
Kenosha County	4.31%
Waukesha County	4.25%
Milwaukee County	3.29%
Ozaukee County	2.27%
SE Total	4.23%

TOP 10 MUNICIPAL TIF UTILIZATION RATES, 2004

Genoa City	37.24%
Sturtevant	31.08%
Slinger	22.67%
Burlington	18.73%
Jackson	17.74%
Cudahy	17.41%
Whitewater	15.53%
Elkhorn	15.11%
Darien	12.93%
Sussex	11.30%
SE Average	4.23%

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2004 SOUTHEASTERN WISCONSIN TAX INCREMENT FINANCING

Municipality	TIF'd population	Number TIF districts	Base value	Increment	Total TIF value	TIF value increase	Rank	Total municipal EAV	TIF utilization	Rank	Increment created per capita	Rank
BELGIUM	1,887	1	\$316,000	\$9,985,400	\$10,301,400	3160%	4	\$123,392,500	8.09%	13	\$5,292	22
BROWN DEER	11,845	1	\$11,979,900	\$15,113,700	\$27,093,600	126%	40	\$958,886,600	1.58%	43	\$1,276	42
BURLINGTON	10,183	2	\$135,373,000	\$130,318,200	\$265,691,200	96%	47	\$695,847,200	18.73%	4	\$12,798	5
BUTLER	1,855	1	\$12,843,300	\$16,105,700	\$28,949,000	125%	41	\$232,502,200	6.93%	17	\$8,682	10
CUDAHY	18,315	3	\$78,852,500	\$176,887,300	\$255,739,800	224%	32	\$1,015,954,600	17.41%	6	\$9,658	8
DARIEN	1,595	1	\$3,017,900	\$10,835,200	\$13,853,100	359%	19	\$83,804,600	12.93%	9	\$6,793	15
DELAFIELD	6,720	1	\$11,391,400	\$22,550,400	\$33,941,800	198%	35	\$978,968,700	2.30%	38	\$3,356	27
DELAVAN	8,158	1	\$22,997,800	\$2,367,500	\$25,365,300	10%	51	\$501,659,000	0.47%	49	\$290	50
EAST TROY	3,850	2	\$810,000	\$12,880,300	\$13,690,300	1590%	6	\$264,875,400	4.86%	26	\$3,346	28
ELKHORN	8,191	2	\$50,349,800	\$76,427,600	\$126,777,400	152%	38	\$505,888,600	15.11%	8	\$9,331	9
FONTANA	1,842	1	\$29,658,300	\$8,945,000	\$38,603,300	30%	49	\$752,391,300	1.19%	46	\$4,856	24
FRANKLIN	31,804	1	\$2,229,400	\$115,597,000	\$117,826,400	5185%	3	\$2,681,945,500	4.31%	28	\$3,635	26
FREDONIA	2,111	1	\$1,265,500	\$10,328,500	\$11,594,000	816%	12	\$129,156,600	8.00%	14	\$4,893	23
GENOA CITY	2,466	1	\$4,056,000	\$54,534,400	\$58,590,400	1345%	9	\$146,459,200	37.24%	1	\$22,115	1
GERMANTOWN	19,001	3	\$17,120,950	\$107,899,350	\$125,020,300	630%	14	\$1,906,999,800	5.66%	24	\$5,679	19
GLENDALE	13,024	3	\$64,132,700	\$112,187,500	\$176,320,200	175%	37	\$1,656,487,000	6.77%	20	\$8,614	11
GRAFTON	11,160	2	\$21,562,000	\$21,526,900	\$43,088,900	100%	46	\$916,618,600	2.35%	37	\$1,929	38
HALES CORNERS	7,682	1	\$23,274,100	\$30,088,300	\$53,362,400	129%	39	\$582,479,200	5.17%	25	\$3,917	25
HARTFORD	12,068	2	\$597,600	\$65,005,400	\$65,603,000	10878%	2	\$823,168,600	7.90%	15	\$5,387	21
HARTLAND	8,267	2	\$3,670,000	\$53,079,800	\$56,749,800	1446%	8	\$911,044,500	5.83%	23	\$6,421	17
JACKSON	5,678	3	\$4,631,900	\$73,673,800	\$78,305,700	1591%	5	\$415,297,300	17.74%	5	\$12,975	4
KENOSHA	92,808	7	\$36,013,400	\$171,823,900	\$207,837,300	477%	15	\$5,149,078,800	3.34%	33	\$1,851	40
LAKE GENEVA	7,276	2	\$23,086,000	\$81,620,100	\$104,706,100	354%	20	\$894,886,800	9.12%	11	\$11,218	6
MENOMONEE FALLS	33,660	4	\$57,958,700	\$247,459,100	\$305,417,800	427%	16	\$3,589,589,300	6.89%	18	\$7,352	13
MEQUON	23,416	1	\$5,911,600	\$6,737,700	\$12,649,300	114%	44	\$3,758,931,200	0.18%	51	\$288	51
MILWAUKEE	593,920	38	\$339,585,200	\$709,686,000	\$1,049,271,200	209%	33	\$23,491,773,700	3.02%	34	\$1,195	43
MUKWONAGO	6,428	1	\$2,389,500	\$4,630,900	\$7,020,400	194%	36	\$521,519,000	0.89%	47	\$720	47
MUSKEGO	22,203	2	\$27,440,500	\$6,548,900	\$33,989,400	24%	50	\$2,036,879,500	0.32%	50	\$295	49
NORTH PRAIRIE	1,815	1	\$3,210,900	\$3,849,700	\$7,060,600	120%	42	\$191,176,100	2.01%	40	\$2,121	35
OAK CREEK	31,029	5	\$14,508,100	\$40,281,500	\$54,789,600	278%	27	\$2,469,572,500	1.63%	42	\$1,298	41
OCONOMOWOC	13,194	2	\$45,745,100	\$93,464,500	\$139,209,600	204%	34	\$1,389,635,700	6.73%	21	\$7,084	14
PEWAUKEE	8,864	1	\$6,323,150	\$20,083,550	\$26,406,700	318%	22	\$783,515,800	2.56%	36	\$2,266	34
PLEASANT PRAIRIE	18,122	1	\$54,504,700	\$136,210,400	\$190,715,100	250%	30	\$1,990,686,400	6.84%	19	\$7,516	12
PORT WASHINGTON	10,683	1	\$21,266,100	\$66,889,200	\$88,155,300	315%	23	\$737,818,300	9.07%	12	\$6,261	18
RACINE	80,806	8	\$39,062,350	\$159,328,750	\$198,391,100	408%	18	\$3,322,696,100	4.80%	27	\$1,972	37
SAUKVILLE	4,167	2	\$1,633,700	\$4,696,600	\$6,330,300	287%	26	\$326,916,300	1.44%	45	\$1,127	44
SHARON	1,548	2	\$656,100	\$4,249,500	\$4,905,600	648%	13	\$63,731,100	6.67%	22	\$2,745	30
SHOREWOOD	13,535	2	\$39,366,300	\$44,202,000	\$83,568,300	112%	45	\$1,269,237,700	3.48%	31	\$3,266	29
SLINGER	4,143	2	\$4,468,100	\$69,321,700	\$73,789,800	1551%	7	\$305,813,900	22.67%	3	\$16,732	3
SOUTH MILWAUKEE	21,360	2	\$13,565,800	\$15,561,900	\$29,127,700	115%	43	\$1,062,356,400	1.46%	44	\$729	46
STURTEVANT	5,451	1	\$9,157,700	\$105,383,500	\$114,541,200	1151%	10	\$339,115,100	31.08%	2	\$19,333	2
SUSSEX	9,576	2	\$11,343,000	\$101,005,900	\$112,348,900	890%	11	\$893,560,200	11.30%	10	\$10,548	7
THIENSVILLE	3,278	1	\$5,330,700	\$22,174,600	\$27,505,300	416%	17	\$283,826,200	7.81%	16	\$6,765	16
UNION GROVE	4,459	1	\$1,882,400	\$1,368,200	\$3,250,600	73%	48	\$256,673,700	0.53%	48	\$307	48
WATERFORD	4,399	1	\$42,200	\$11,813,300	\$11,855,500	27994%	1	\$314,603,700	3.75%	29	\$2,685	31
WAUKESHA	66,816	8	\$50,554,700	\$126,730,200	\$177,284,900	251%	29	\$4,828,733,700	2.62%	35	\$1,897	39
WAUWATOSA	46,511	3	\$31,740,000	\$98,404,400	\$130,144,400	310%	24	\$4,511,276,400	2.18%	39	\$2,116	36
WEST ALLIS	60,607	5	\$26,587,600	\$60,104,800	\$86,692,400	226%	31	\$3,493,894,500	1.72%	41	\$992	45
WEST BEND	29,204	7	\$20,771,000	\$68,469,700	\$89,240,700	330%	21	\$1,982,907,100	3.45%	32	\$2,345	32
WEST MILWAUKEE	4,142	2	\$3,664,800	\$9,685,600	\$13,350,400	264%	28	\$263,554,600	3.67%	30	\$2,338	33
WHITEWATER	13,996	5	\$26,437,200	\$77,346,000	\$103,783,200	293%	25	\$498,043,900	15.53%	7	\$5,526	20
SE WISCONSIN TOTAL	1,425,118	155	\$1,424,336,650	\$3,695,469,350	\$5,119,806,000	259%		\$87,305,830,700	4.23%		\$2,593	

INTRODUCTION

Since being authorized by state statute in 1975, Tax Increment Financing (TIF) has become the primary tool for local economic development in Wisconsin. Largely supplanting once popular federal redevelopment dollars, this local source of funding for development projects is commonly seen as more flexible and responsive, let alone more available, than that of federal and state aid. With TIF's increased popularity, scrutiny has followed. While some see triple-digit gains in land values, others see million dollar developer handouts. While some see tax relief, others see tax dollars misspent. Still more common are those that find TIF difficult to evaluate because of the complexities unique to this financial tool.

This report aims to demystify TIF by giving policymakers and citizens a basic working knowledge of how TIF functions and a snapshot view of how TIF is currently used in the seven-county region.

Often, the focus is on the *financial feasibility* of TIF. The central question is:

“Does the TIF district benefit from TIF?”

This report shifts the spotlight from feasibility to *efficiency*. The two central questions are:

“Does the region benefit from TIF?”

“Does the taxpayer benefit from TIF?”

The focus of the report will be on TIF's effect on regional cooperation and economic development in southeastern Wisconsin's seven-county region and its effect on individual taxpayers in the region. From this discussion, implications of the findings will be explored.

History and context

The original intent of TIF legislation was to provide assistance to redevelop blighted urban areas that could not be developed under normal market conditions. The tool emerged out of the need to better leverage public and private funding into jobs and urban development in the wake of a national recession (1974-75) that was particularly

hard on the country's older urban industries. Another important reason cited for its passage in Wisconsin and other states during the 1970's was decreased federal funding for urban redevelopment through the elimination of direct project grants. These grants were replaced with community development block grants, passing grant-making powers to lower levels of government and essentially spreading monies out to more municipalities based on a set formula.¹

Since the time that Wisconsin's first TIF was approved in 1976, the number, magnitude, and reach of TIF districts have grown substantially. In just the past four years the number of active TIF districts has risen 23%, to a total of 810 statewide in 2004. Over the same time period the property value in TIF districts has grown 50% to \$9.6 billion. What is most impressive, however, is the degree to which this financing tool has become the norm in almost every corner of the state – rural or urban. Indeed, 348 villages and cities in 70 of Wisconsin's 72 counties now have active TIF districts. The two counties not supporting TIF districts are the only two counties in the state that are entirely made up of townships (Menominee and Florence) and are thus not allowed by state statute to apply for TIF. The tool has become so pervasive that many municipal officials contend that they cannot even think of investment in large scale infrastructure without TIF.

Data and methodology

The major source of data for this report was the Wisconsin Department of Revenue's (DOR) TIF assessment data, which contains individual TIF level data including year of origin, name of municipality, increment value, total TIF value, and total equalized assessed value of the municipality. This data – which is released annually – is in the public domain and can be found on the DOR website.² The DOR also provided access to data pertaining to the acreage and type of land constituting TIF districts.

Four major data analyses with the DOR data were performed:

- A cross-sectional look at 2004 Wisconsin TIF usage by region, county, and municipality

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- A 2000-2004 longitudinal analysis of Wisconsin TIF growth rates by region, county, and municipality
- An examining of the relationships between utilization rates and various characteristics of area municipalities.

In addition, comparative analyses with neighboring states and regions were performed with the aid of data from the Illinois Tax Increment Association,ⁱⁱⁱ the Citizens League in Minneapolis,^{iv} and the State of Illinois Department of Revenue.^v

Some caution should be taken when interpreting results from this study as the lowest level of analysis was municipality, not district. By not analyzing the economic merits of individual districts it is difficult to definitively say that any district is efficient or inefficient absent certain specifics, such as job creation, income creation, and spillover development. The purpose of the report, however, was not to examine the effectiveness and efficiency of individual districts but to give the reader a macro view of the how TIF is used in the seven-county region.

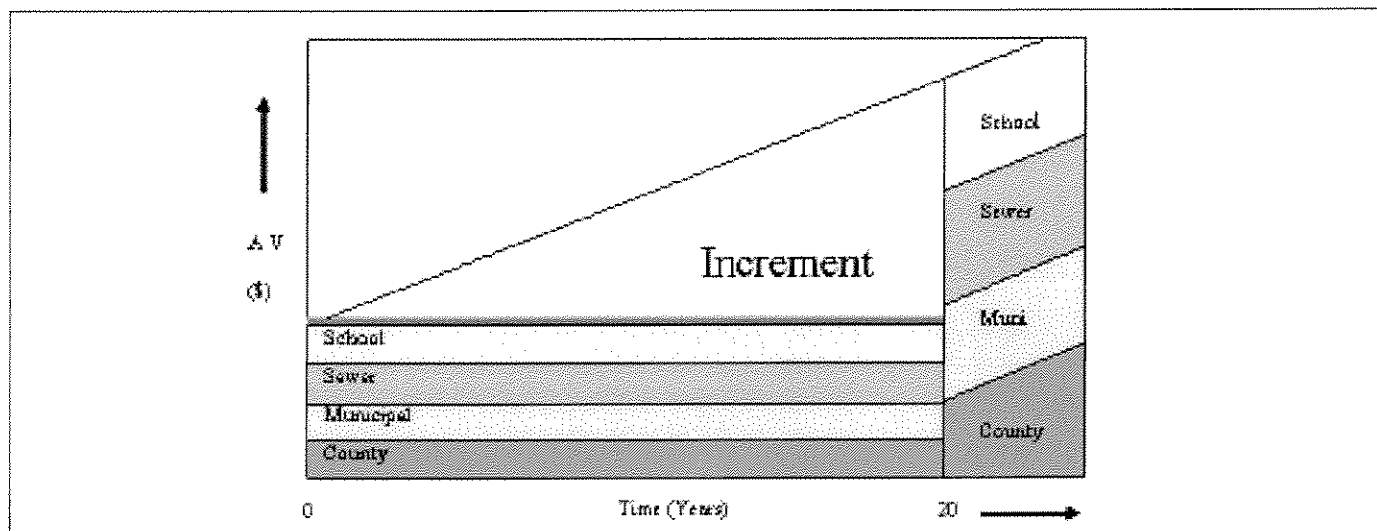
TIF POLICY ANALYSIS

In simple terms, TIF diverts tax proceeds from the general tax rolls to specific geographic districts as a way to

fund public infrastructure and developer incentives to spur private economic development. Districts can range in size from a single parcel of land to several hundreds of acres, from agricultural land to blighted brownfields, from rural to urban. The increase in tax proceeds from new development within the TIF district is used exclusively to pay down debt incurred by the TIF district. TIF is then terminated so that the higher tax proceeds can flow back into the general tax collection rolls of all taxing entities.

Tax proceeds that pay down the TIF debt come from the “increment.” The increment is the assessed value of the newly-improved property within the TIF district, minus what the pre-development land was worth. The property value prior to development is frozen at the time the TIF district is created (year 0) and is called the “base value” (red line Figure 1). Unless the TIF agreement is amended to include more territory, the base value remains constant throughout the life of the TIF, resulting in a flat stream of revenue to all taxing districts. Meanwhile, the TIF increases as the assessed value increases (not always in a linear fashion as in Figure 1) on annual assessments collected by the DOR. In this hypothetical case, the TIF debt is fully retired by year 20 at which point the TIF is closed and tax proceeds flow back to the original four taxing districts but at a significantly higher level (right side of graph) if the TIF is successful.

Figure 1 ALLOCATION OF ASSESSED VALUE (AV) OF A TAX INCREMENT FINANCE DISTRICT TO TAXING AUTHORITIES OVER TIME^{vi}



What does TIF look like in practice?

The process can either be initiated by a municipality, consultant, or developer. Whatever the case, each seeks the same thing: high return on investment. Developers want to maximize incentives to shift risk onto the municipality, thereby increasing the potential for profit. A municipality is willing to take on a degree of risk if it believes a developer's plan will substantially increase its local tax base. In other words, the value of the developer's investment must be at least equal to, but preferably greater than, the amount of the subsidy offered by the municipality to the developer.

Financial feasibility and developer incentives

Each municipality has its own political process and employs its own criteria to determine the worthiness of each TIF. How does it fit with the neighborhood plan? Would the development happen without subsidy? Is it blighted? Does it pay for itself? Of those questions, "Does it pay for itself," receives special attention. Planning and financial consultants are often brought in to calculate the feasibility of differing development and funding schemes at this stage. This is essentially a "numbers game," entailing several rounds of negotiations, different cost estimates and revenue projections, and fine tuning of the final numbers.

What follows is a typical four-step process in how the financial feasibility of a TIF district is calculated:¹⁰¹

1. *Come to agreement on a capital budget plan* – The total cost of infrastructure and incentives provided by the municipality (see inset below for descriptions of incentives).
2. *Draw TIF district boundaries* – Sometimes creatively drawn so as to capture adjacent parcels that are growing at comparatively fast rates.
3. *Project the increment* – Use historical growth rates and estimate value of planned future development.
4. *Run the cash flow* – Accounting for inflation, make sure TIF revenues are able to cover the debt. If so, the TIF is financially feasible.

Within this process there is a discussion between developer and municipality over incentives. The following inset gives an idea of the types of incentives available to developers in Wisconsin.

This public/private partnership is often solidified in some sort of "development agreement" which states that if the city puts in X infrastructure and hands out Y financial incentives, then the developer must put in Z taxable development. A development agreement is typically seen to

Infrastructure improvements

This is the most visible type of incentive the municipality provides for the developer. Infrastructure incentives often produce tangible improvements for public use such as sewer, water, road, environmental remediation, lead removal, demolition, street lighting, landscaping, and streetscaping. Most Milwaukee area TIF districts include at least some TIF funded physical infrastructure improvements.¹⁰²

Financial incentives¹⁰³

More interesting is TIF's ability to be used as a finance mechanism itself. Unlike infrastructure improvements, the public often cannot see these incentives because they typically go directly to the developer, and come in three major forms:

1. **Loan** – Below market-rate loans both lower up-front equity requirements and lower mortgage payments for the developer. Individual contributions by the developer are required to pay off the loan.
2. **Land write down** – The municipality purchases parcels within the development area with TIF funding and devalues the land to \$0 because municipalities are tax exempt. Now valued at \$0, the land is sold by the city to the developer at a small profit. The developer gets cheap land and the municipality converts "unproductive" land to potentially tax-rich development. The original land purchase is paid off by tax revenue generated from the increment.
3. **Cash grant** – Cash grants to developers are repaid only by the increment tax revenues generated. In this case, no individual contributions by the developer are made. New in 2004, any cash grant must be accompanied by a "development agreement" which essentially guarantees certain conditions from developers (jobs, office space, public access, etc.). To the degree that this oversight actually happens is up to the purview of the volunteer joint review board (see below "Joint review board" section)

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be in the public's interest because it protects the municipality from a developer defaulting on its end of the bargain. As per Wisconsin law, however, a contract does not have to be signed unless a cash grant is involved.

Joint review board and the "but for" clause

Wisconsin's TIF law calls for the initial approval of the proposed TIF district by a joint review board. Each individual TIF district in the state has its own board or each municipality can choose to have a standing joint review board to review all TIF districts within its jurisdiction. Each board is made up of representatives from the affected tax districts (municipality, county, public school, or tech school) as well as an at-large member of the public. A key function of the board is to assure that the proposed TIF satisfies the "but for" clause: "But for the TIF, the development would not occur." By asserting that the development would not otherwise occur, the board plays a key role in determining whether or not the TIF is ultimately efficient for taxpayers, meaning the taxpayer eventually receives the benefit of the initial government subsidy. The "but for" clause is exceedingly subjective and difficult to evaluate. Who is to say that a given project would happen without public dollars? Maybe the same development would happen, but at a much slower pace. Is that good or bad? The DOR can be called on by a joint review board to aid in determining if the development would not occur without a TIF by reviewing objective facts regarding a proposed TIF district.*

Final approval

A formal application is sent to the DOR to make a final judgment on the appropriateness of the proposed TIF district. If approved by the DOR, the current assessed value of the land will be frozen for the duration of the TIF; bonds will often be floated by the sponsoring municipality to fund the initial bundle of incentives, and redevelopment would start immediately to avoid any "lag time" between investment going into the TIF and the revenue coming out of the TIF. The idea is to get the developer to break ground on high-quality taxable development as soon as possible to keep the TIF "cash flow positive," and produce enough tax revenue so that the TIF can be retired as soon as possible. The sooner the TIF district is retired, the sooner the increased tax increment can start flowing back to all taxing authorities.

Arguments for and against TIF

The following is a summary of commonly stated arguments for and against TIF. The list was compiled from newspaper stories, academic articles, and government publications.* Some arguments address the basic principles underlying TIF, others concern how TIF is implemented, and still others have to do with effects stemming from its implementation.

Arguments for TIF

1. Because TIF development and increasing tax proceeds *beyond what would have normally occurred* are encouraged, the temporary public subsidy of a development is justified. The increase in property values eventually is shifted to the benefit all taxing authorities.
2. The cost of providing infrastructure for a district is not incurred solely by the municipality, but is shared among all taxing jurisdictions. Therefore, all taxing jurisdictions pay for project costs and ultimately benefit from the (presumably) increased tax base.
3. Projects are financed that otherwise might not be economically feasible.
4. The city loses no tax revenue.
5. Property owners in the district pay the same amount of property taxes as those living outside the district.
6. TIF bonds are not included in a city's general debt obligation.
7. Development is financed by the development itself, not from sources outside the district.
8. The entire city will benefit from the newly revitalized district as costly services no longer need to pour into the typically "high-service" blighted area.
9. TIF districts have the potential to be catalysts for the redevelopment of properties outside district boundaries. Successful TIF districts can have a positive "spillover" effect on adjacent parcels.

Arguments against TIF

1. TIF not only does not benefit the taxpayer unless the “but for” clause is met, but it actually hurts the taxpayer by shifting development costs onto them.
2. The original intent of the program is compromised due to many existing TIF districts capturing taxes on development that would have occurred without TIF.
3. If the increment does not grow as planned, the municipality must borrow revenue from other areas to avoid defaulting on debt.
4. TIF is welfare for developers. They use incentives as a way to increase profit margins and avoid risk on projects that would have been undertaken anyway.
5. Little voter accountability.
6. Developers play municipalities off one another in an attempt to get the best TIF package, thereby increasing regional infighting at the expense of the taxpayer.
7. TIF is less risky for wealthier municipalities because these areas typically have higher growth rates in assessed value to support faster growth in increment. Conversely, TIF is more risky in blighted urban areas because of higher costs and risks associated with brownfield redevelopment. Thus, a tool that was originally designed to help level the playing field between tax-rich and tax-poor municipalities, now exacerbates regional inequities because success with TIF is easier to achieve in wealthier municipalities.
8. Although appearing to be self-financing, TIF is actually a burden to taxpayers outside of redevelopment areas because it increases taxes as the new development spurs the need for more services (schools, police, fire).
9. TIF encourages sprawl. Increasingly TIF districts are being established to develop agriculture land and open space, rather brownfield (vacant, blighted, and/or contaminated land) redevelopment, which was the original intent of the 1975 legislation.

TIF grows up in Wisconsin: controversy and reform

In 1999, in response to growing concerns over the misuse of TIF from various interest groups, then-Governor Tommy Thompson appointed a Working Group on TIF to recommend changes to state law. Legislation incorporating the group’s recommendations was introduced but failed to pass in the 2000-2001 session. Later that same year, the reform movement gained a catalyst in the controversial approval of the Pabst Farm TIF district. Approved in September 2001, it was one of the more controversial TIF districts to pass in Wisconsin, and ultimately helped push through new legislation reforming the 1975 TIF law.

An analysis of commentary on the Pabst Farms TIF highlights three potential flaws in Wisconsin’s TIF law.

1. Members of any joint review board are essentially free to change the definition of the “but-for” criteria. In the case of Pabst Farms, instead of the original intent which read “but for the TIF, the development would not occur,” they reasoned, “*but for the TIF, the land would not develop as quickly or in the same manner, and the economic benefits of the development outweigh the cost of the tax subsidies.*”^{xi}
2. The Pabst TIF exploited a loophole in the legislation. The law states that TIF can be used if 50% or more of the proposed district’s area is “blighted,” in need of rehabilitation or conservation work, or suitable for industrial sites or mixed-use development. Therefore, although controversial, the Pabst TIF was statutorily sound in that it qualified for TIF because of “the inappropriate use of the land given the prime location.”^{xii}
3. Voter accountability was an issue. Responding to the claim that the Pabst TIF would not pass a citywide referendum, Oconomowoc City Attorney G. William Chapman responded with the suspicion that “most every TIF district in the state would fail if put to a referendum,” thus bringing up representation issues with this and other TIF districts.^{xiii}

One Region

Key 2003 revisions to Wisconsin TIF law:

Strengthening of joint review board and DOR oversight

- Provides guidelines to increase the level of sophistication and professionalism of the joint review board.
- Specifically instructs joint review boards to only approve proposed developments that would not occur without TIF. Allows joint review boards to get assistance from DOR to produce findings of fact that could aid in this decision-making process.

General expansion and added flexibility of the TIF tool

- Provides that the municipality can create a TIF district if the equalized assessed value of the proposed districts plus the value increment of all existing districts in the municipality does not exceed 12% of the total equalized assessed value of the municipality. Thus, those that could not create any additional TIF districts under the 5% criteria now have significantly more room increase TIF usage.
- TIF funds can be spent on infrastructure and incentives nearly throughout the duration of the district's life rather than in just the first few years of its existence.

Restrictions on incorporating newly annexed land into a TIF district

- The municipality must wait three years, or have a cooperative boundary agreement, or the annexing municipality must pay five years of the town's loss in taxes, before annexed land is TIF eligible.

Can use TIF for new residential developments

- Lifts ban on using TIF for newly platted residential land. Newly platted lands must not comprise more than 35% of a "mixed use" TIF district.

Attempt at leveling the playing field between "blight" TIF's and non-blight TIF's

- Extends the life of a "blight elimination" TIF from 23 to 27 years. One four-year extension can be granted.

- Reduces the life of an industrial TIF from 23 to 20 years. One three-year extension can be granted.
- Successful TIF districts can donate excess increment revenue to struggling redevelopment, affordable housing, or environmental remediation TIF districts so as to fulfill the original intent of the legislation and make it easier to redevelop brownfields.

Implications of 2003 revisions

1. The general liberalization in TIF law means that TIF utilization rates across all municipalities should rise. Small municipalities in particular will benefit as they more easily hit the previous TIF cap due to having small property tax bases.
2. Each TIF district's joint review board continues to be the only entity responsible to ensure that the "but for" clause has been met. This remains a significant loophole in the legislation.
3. If the 2003 law was retroactive, the Pabst Farms TIF would not meet the new criteria. The annexed land, at the time, was too newly acquired from the Town of Summit to qualify for TIF without the passage of some type of boundary agreement or payment to the town.
4. The public subsidy of new residential subdivisions through TIF is codified in the new law via the creation of a "mixed-use" TIF. Rather than tightening the blight "loophole" described above, the law creates additional ways to use TIF. This should result in an increase in TIF residential developments in areas with ample agricultural land.
5. Because of eased restrictions on "blight" elimination TIF's there should be an increase in the number of TIF brownfield redevelopment projects in the coming years.
6. The idea of increased voter input in the TIF approval process was not addressed.

DATA ANALYSIS

Every county that can have a TIF district in Wisconsin does have a TIF district. With 810 total TIF districts in 2004, Wisconsin municipalities are not shy about using the tool. But where does southeastern Wisconsin fit into the overall state TIF picture?

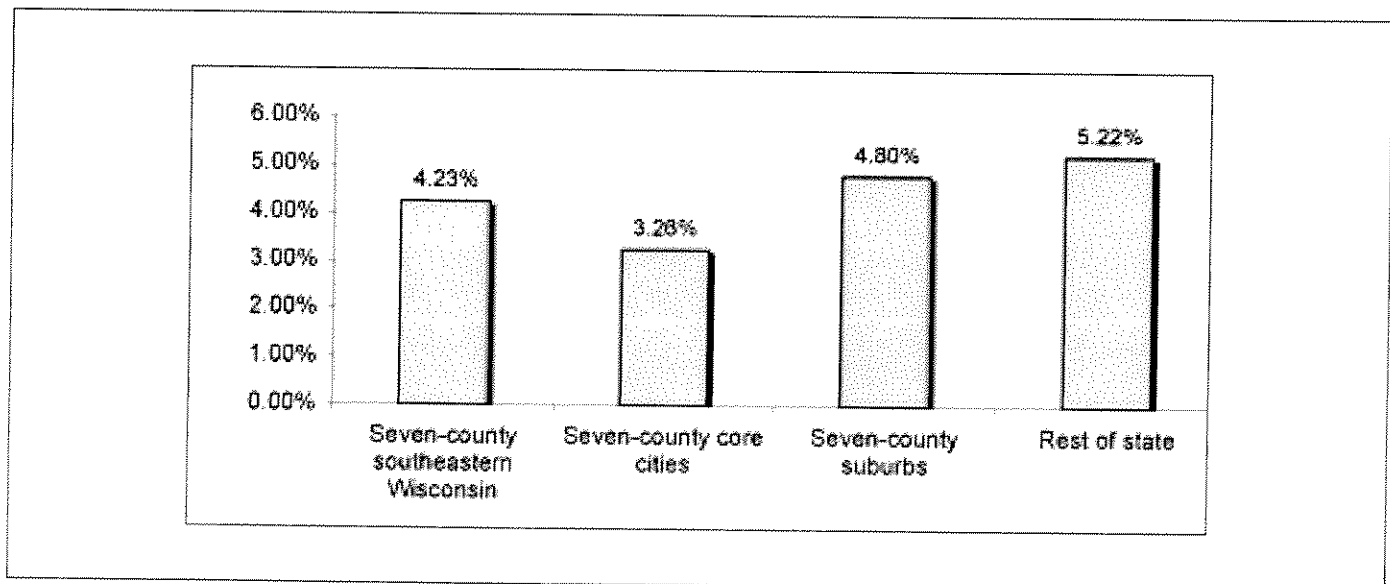
To analyze the intensity of TIF usage, a measure called "TIF Utilization" is used. The measure is simply the municipality's total increment in all existing districts divided by the municipality's total equalized assessed value. For example, the City of Waukesha has a TIF utilization percentage of 2.62%, meaning that 2.62% of all tax proceeds in the City of Waukesha are being used exclusively by TIF districts. The higher the percentage, the more tax proceeds that flow into a TIF district and not into a municipality's general fund.

The "TIF utilization" measure used here is the same calculation authorized by state statutes to check if a municipality is over its legal limit for TIF. This is the 12% property value limit found in the state statutes - a city or village may create a TIF district if the equalized value of the proposed TIF district plus the tax increment of all existing TIF districts does not exceed 12% of the total equalized assessed value (EAV). In the above example, the City of Waukesha is comfortably under the 12% threshold.

TIF Utilization = Total tax increment for municipality / Total EAV for municipality

Using this tool, Figure 2 tells a story that may be somewhat surprising. Despite being the economic center of the state, southeastern Wisconsin trails the rest of the state in TIF utilization – 4.23% for the region v. 5.22% for the rest of the state. What may be even more surprising is the extent to which the region's "core cities" (City of Racine, City of Milwaukee, and City of Kenosha) detract from the region's utilization figure. As a tool that was originally crafted in 1975 to aid economic development in blighted central-city communities, TIF in Wisconsin in 2004 is not utilized in its high unemployment centers to the same extent that it is used in other areas of the state. Indeed, utilization rates are nearly two percentage points lower in southeastern Wisconsin's core cities than for the rest of the state outside the region (3.26% v. 5.22%). This, however, is not as important a finding if other states and metropolitan regions use TIF in similar proportions. Thus, a comparison between Wisconsin, Illinois and Minnesota follows.

FIGURE 2 TIF UTILIZATION BY REGION OF STATE, 2004



One Region

TIF usage in Wisconsin, Illinois and Minnesota

According to the Illinois Tax Increment Association, Wisconsin ranks in the top seven nationally in the number of active TIF districts. Wisconsin is joined by Minnesota and Illinois in the top seven giving the Midwest a distinct lead over the rest of the country in TIF usage (Delaware, North Carolina, and Arizona do not currently have TIF legislation).³⁰ This section takes a closer look at these three states by comparing them based on population, number of TIF districts, and total TIF tax proceeds. Examining tax proceeds gauges the degree to which each state and region is using the TIF tool.

Table 1 compares Wisconsin to its Midwestern counterparts. Most intriguing is how different the city of Milwaukee and Milwaukee county behave compared to the central cities and counties of neighboring states. Controlling for population differences, the TIF tax

generated per capita in the city of Milwaukee significantly trails that of Chicago and Minneapolis. Higher TIF utilization rates in these cities may be one explanation (EAV data are not available for Illinois and Minnesota so this figure could not be calculated), but the mechanics of our neighboring cities may be another explanation. Minneapolis and Chicago are the two major business and finance centers of the Midwest, with downtown real estate values that dwarf those of Milwaukee. Conceivably then, it would be easier to register large gains in tax increment in these hot markets. The only way to attempt to control for this 'hot market' effect is to move the analysis boundary out further to the county level. But again the trend holds. Milwaukee County's TIF tax collected per capita is significantly lower than that of Hennepin (Minneapolis) and Cook (Chicago) counties.

TABLE 1 TIF USAGE IN WISCONSIN, ILLINOIS AND MINNESOTA

	Population	Number of TIF districts	Net TIF tax generated	TIF tax generated per capita	TIF tax generated per district
City of Milwaukee	586,941	38	\$14,949,144	\$25.47	\$393,399
City of Chicago	2,869,121	135	\$129,283,589	\$45.06	\$957,656
City of Minneapolis	382,295	103	\$68,636,786	\$179.54	\$666,377
Milwaukee County	933,221	66	\$30,574,230	\$32.76	\$463,246
Cook County	5,351,552	340	\$297,542,916	\$55.60	\$875,126
Hennepin County	1,121,035	295	\$133,537,184	\$119.12	\$452,668
Wisconsin	5,472,299	810	\$195,131,853	\$35.66	\$240,904
Illinois	12,653,544	874	\$429,982,436	\$33.98	\$491,971
Minnesota	5,059,375	1965	\$270,782,485	\$53.52	\$137,803

Data from Wisconsin, Illinois, and Minnesota are from 2003, 2000 and 2004 respectively

FIGURE 3 COMPARISON OF MIDWESTERN CITIES: POPULATION AND TIF TAX PROCEEDS

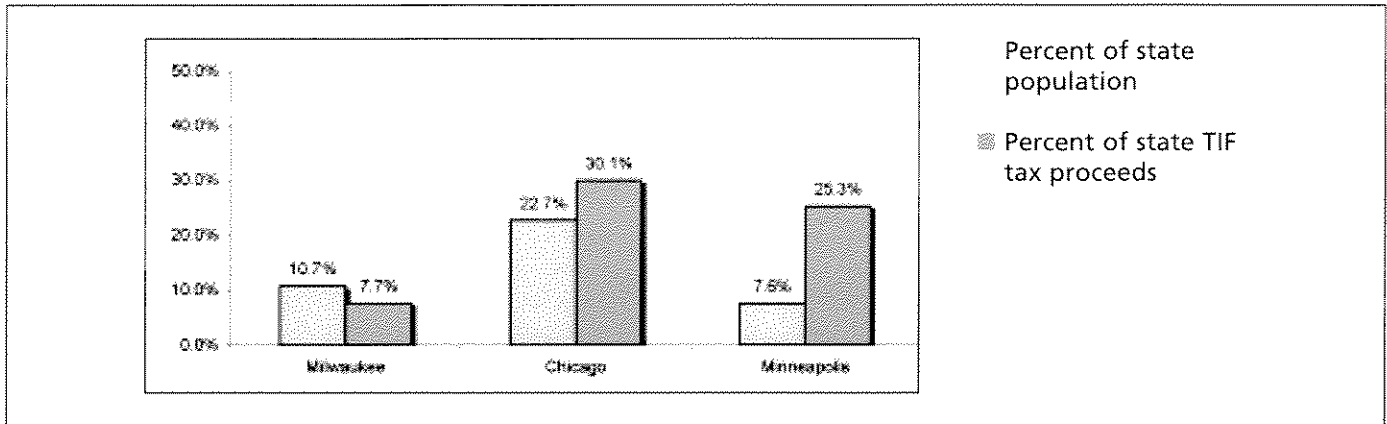
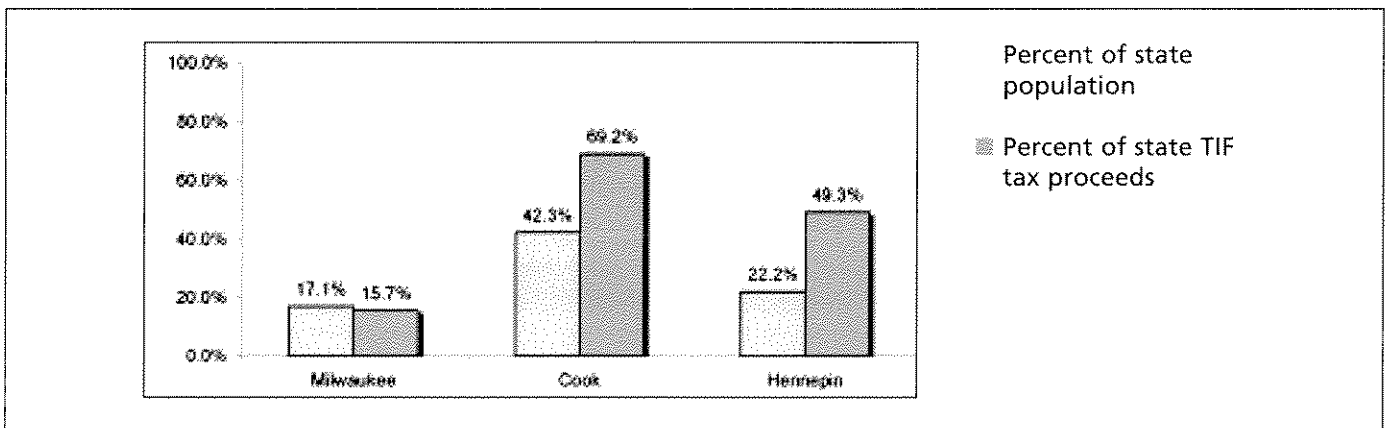


FIGURE 4 COMPARISON OF MIDWESTERN COUNTIES: POPULATION AND TIF TAX PROCEEDS



Figures 3 and Figure 4 graphically show this relationship. The percentage of state population and percentage of TIF tax collections are compared for each city and then for each county. When the city numbers are run, the Chicago and Minneapolis proportions of state TIF collections exceed their percentage of state population – Milwaukee’s relationship is the inverse. The trend holds at the county level, with Cook and Hennepin counties collecting a greater share of TIF tax compared to their share of the state’s population; Milwaukee county, collects a smaller amount in comparison

In short, the regional dynamics of TIF usage in Illinois and Minnesota are rather different from that of Wisconsin. In both neighboring states, TIF usage is more focused in the largest cities, even when controlling for population

differences. A possible explanation for this may be that Chicago and Minneapolis are simply hot economies where TIF is more financially feasible. Or, possibly these cities just naturally have economies that are more centralized than dispersed. Regardless, TIF usage in the city and county of Milwaukee packs less punch than its weight in population when compared to its neighbors.

These differences between neighbors are not without implications. TIF “under-usage” in Milwaukee could be good for Milwaukee if the neighbor’s use of TIF proves to be financially reckless compared to Milwaukee’s. However, Milwaukee also assumes the significant risk that its TIF “under-usage” is a symptom, or worse yet, a contributing factor to Milwaukee’s declining economic fortunes in comparison to Chicago and Minneapolis.

One Region

TIF usage in southeastern Wisconsin – 2004

To better understand how TIF is used in southeastern Wisconsin it is necessary to display where and to what extent it is being used. The analysis of data is at the county level. Table 2 shows the percent of eligible municipalities

that use TIF in each of the region's seven counties. For the region, 60% of cities and villages use TIF. The highest rate of usage in Ozaukee county (88%), and the lowest in Kenosha county (40%).

TABLE 2 PREVALENCE OF TIF AMONGST SOUTHEASTERN WISCONSIN MUNICIPALITIES, 2004

	Municipalities with TIF districts	Municipalities eligible to use TIF	Percent of municipalities that use TIF
Ozaukee County	7	8	88%
Walworth County	9	11	82%
Washington County	5	7	71%
Milwaukee County	12	19	63%
Racine County	5	10	50%
Waukesha County	11	25	44%
Kenosha County	2	5	40%
SE Total	51	85	60%

As previously explained, a good measure of TIF usage is "TIF utilization." Here the seven-county region's 4.23% figure is broken out by county (Table 3). Walworth, Racine and Washington all emerge as counties where significant TIF activity is taking place while Milwaukee and Ozaukee counties lag the regional average. Interestingly, three of the top four counties in terms of TIF utilization are the three counties closest to the Illinois border. Illinois developers in search of cheap land and labor may be one explanation for the aggressive application of TIF in these counties. Another possible explanation is that these migrants, presumably from Chicago, may have brought with them an ethos of aggressive TIF practices. Either way, the region's counties that are closest to the Illinois border seem to be particularly aggressive with TIF.

TABLE 3 COUNTY TIF UTILIZATION RATES, 2004

Walworth County	8.87%
Racine County	8.28%
Washington County	7.07%
Kenosha County	4.31%
Waukesha County	4.25%
Milwaukee County	3.29%
Ozaukee County	2.27%
SE Total	4.23%

The snapshot view of the region is fairly clear: TIF utilization in the region is lower than that in the rest of Wisconsin, with the region's core cities of Milwaukee, Racine, and Kenosha accounting for much of this disparity, combining for an underwhelming TIF utilization rate of 3.26%. Furthermore, Milwaukee city and county seem out of step with the more aggressive approach to TIF usage in Chicago and Minneapolis. Lastly, a look at counties inside the region reveals that while TIF is being used throughout, Milwaukee County is below the region's TIF average, and those counties closest to Illinois have the largest percentage of land value funding TIF districts. In summary, decentralization of TIF use in Wisconsin and the Milwaukee area has been the constant theme.

Growth Trends 2000 – 2004

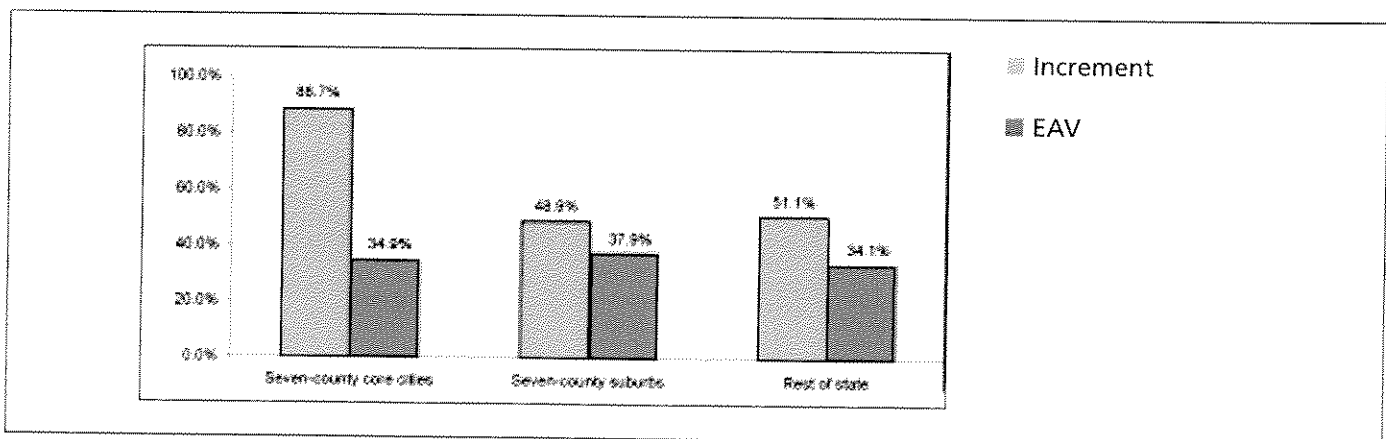
A 2004 snapshot view only gives us limited insight into the regional dynamics of TIF usage. To uncover emerging trends in TIF usage it is helpful to look at changes from 2000 to 2004. In Table 4, the counties with the largest gains in the number of active TIF districts are the three counties with the region's three core cities (Milwaukee, Racine, and Kenosha). This trend could be because municipalities have been more aggressive in securing TIF for development projects, a recent uptick in real estate markets in these areas, or even that these counties could be having a harder time retiring old TIF districts. Milwaukee County accounts for nearly 75% of the increase in active TIF districts.

TABLE 4 NUMBER OF TIF DISTRICTS BY COUNTY, 2000-2004

	2000	2004	Change
Milwaukee County	52	66	14
Racine County	10	13	3
Kenosha County	5	8	3
Ozaukee County	7	9	2
Waukesha County	24	25	1
Walworth County	17	17	-
Washington County	19	17	(2)
SE Total	134	155	21

The trend of increased core city activity holds when increment growth is examined. Increment growth can be used to both the increased number of active TIF districts and the increased value of the land in those districts. In Figure 5, the seven-county region's core cities (City of Racine, City of Milwaukee, and City of Kenosha) are measured against the rest of the seven-county region and the rest of the state outside of the seven counties. What emerges is a story of core city awakening, with the total increment of TIF district land increasing 88.7%. In the comparison regions, increment growth was approximately half that amount (48.9% and 51.1%). Growth in EAV was used as a control variable and was not a contributing factor, with each region having similar EAV growth rates from 2000-2004.

FIGURE 5 GROWTH IN INCREMENT VS. GROWTH IN EQUALIZED ASSESSED VALUE (EAV), 2000-2004



One Region

Having a larger number of active TIF districts unsurprisingly translates into higher county increment growth rates for Milwaukee, Racine, and Kenosha (Figure 6). Kenosha, in particular, experienced strong TIF growth. Kenosha County's large increase is primarily due to the strong growth of TIF District #4 in the City of Kenosha and TIF District #2 in the Village of Pleasant Prairie. Kenosha

TIF #4 is the Harbor Park TIF District which redeveloped land from a vacant AMC-Jeep factory into a new lakefront park, adjacent housing, and transit service from a new street car route. Pleasant Prairie TIF #2 is the Lake View and Prairie Wood industrial and light-industrial parks on either side of Interstate 94 at the Illinois-Wisconsin border.^{xvi}

FIGURE 6 GROWTH IN INCREMENT BY COUNTY, 2000-2004

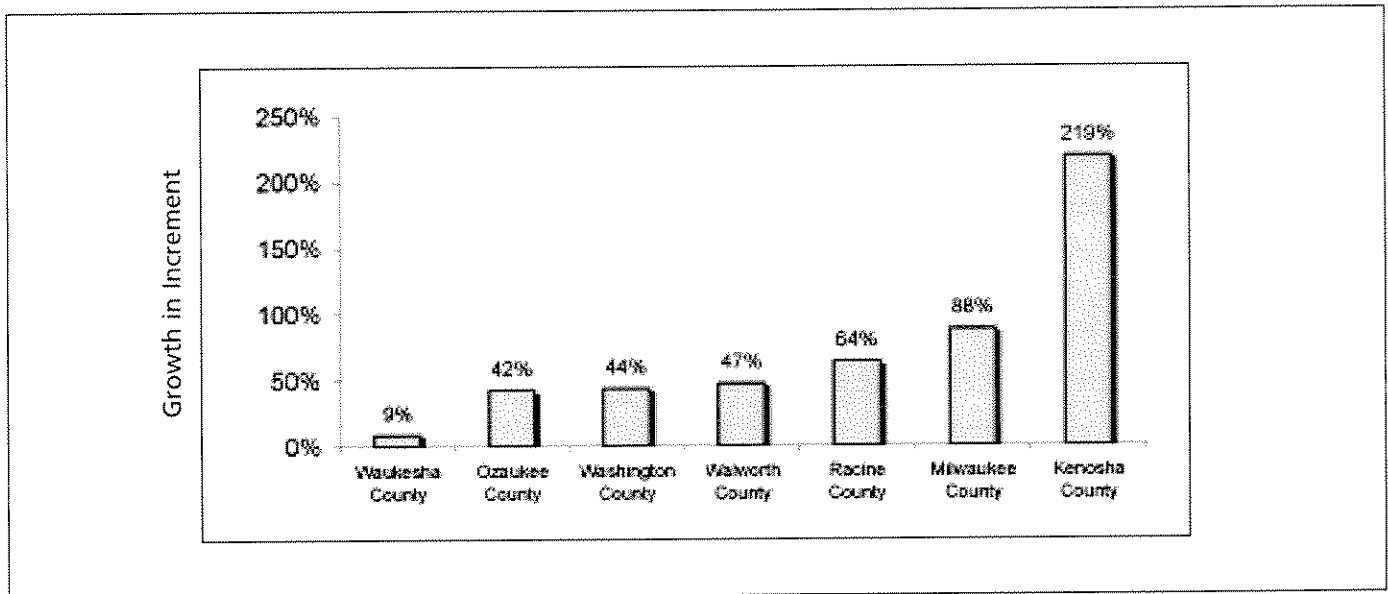


Table 5 shows each municipality in southeastern Wisconsin currently using TIF. Cities and villages are listed in alphabetical order and ranked in three different categories: TIF value increase, TIF utilization, and increment created per capita. The largest TIF value increase was in the Village of Waterford in Racine County at a whopping 27,994% increase over base value. This was due to the success of the Waterford Center business park; however, the percentage increase is so large because the

base value was very low (\$42,200). The largest TIF utilization percentage and increment per capita both belonged to the Village of Genoa City in Walworth County. The reason for its number one rankings is that the Village is a small municipality with one very large TIF district. The 320-acre TIF district is for Corporate Ridge business park. Formerly agriculture land, this development bills itself as the largest business park in southern Wisconsin between I-94 and I-90.^{xvii}

TABLE 5 2004 SOUTHEASTERN WISCONSIN TAX INCREMENT FINANCING

Municipality	TIF'd population	Number TIF districts	Base value	Increment	Total TIF value	TIF value increase	Rank	Total municipal EAV	TIF utilization	Rank	Increment created per capita	Rank
BELGIUM	1,887	1	\$316,000	\$9,985,400	\$10,301,400	3160%	4	\$123,392,500	8.09%	13	\$5,292	22
BROWN DEER	11,845	1	\$11,979,900	\$15,113,700	\$27,093,600	126%	40	\$958,886,600	1.58%	43	\$1,276	42
BURLINGTON	10,183	2	\$135,373,000	\$130,318,200	\$265,691,200	96%	47	\$695,847,200	18.73%	4	\$12,798	5
BUTLER	1,855	1	\$12,843,300	\$16,105,700	\$28,949,000	125%	41	\$232,502,200	6.93%	17	\$8,682	10
CUDAHY	18,315	3	\$78,852,500	\$176,887,300	\$255,739,800	224%	32	\$1,015,954,600	17.41%	6	\$9,658	8
DARIEN	1,595	1	\$3,017,900	\$10,835,200	\$13,853,100	359%	19	\$83,804,600	12.93%	9	\$6,793	15
DELAFIELD	6,720	1	\$11,391,400	\$22,550,400	\$33,941,800	198%	35	\$978,968,700	2.30%	38	\$3,356	27
DELAVAN	8,158	1	\$22,997,800	\$2,367,500	\$25,365,300	10%	51	\$501,659,000	0.47%	49	\$290	50
EAST TROY	3,850	2	\$810,000	\$12,880,300	\$13,690,300	1590%	6	\$264,875,400	4.86%	26	\$3,346	28
ELKHORN	8,191	2	\$50,349,800	\$76,427,600	\$126,777,400	152%	38	\$505,888,600	15.11%	8	\$9,331	9
FONTANA	1,842	1	\$29,658,300	\$8,945,000	\$38,603,300	30%	49	\$752,391,300	1.19%	46	\$4,856	24
FRANKLIN	31,804	1	\$2,229,400	\$115,597,000	\$117,826,400	5185%	3	\$2,681,945,500	4.31%	28	\$3,635	26
FREDONIA	2,111	1	\$1,265,500	\$10,328,500	\$11,594,000	816%	12	\$129,156,600	8.00%	14	\$4,893	23
GENOA CITY	2,466	1	\$4,056,000	\$54,534,400	\$58,590,400	1345%	9	\$146,459,200	37.24%	1	\$22,115	1
GERMANTOWN	19,001	3	\$17,120,950	\$107,899,350	\$125,020,300	630%	14	\$1,906,999,800	5.66%	24	\$5,679	19
GLENDALE	13,024	3	\$64,132,700	\$112,187,500	\$176,320,200	175%	37	\$1,656,487,000	6.77%	20	\$8,614	11
GRAFTON	11,160	2	\$21,562,000	\$21,526,900	\$43,088,900	100%	46	\$916,618,600	2.35%	37	\$1,929	38
HALES CORNERS	7,682	1	\$23,274,100	\$30,088,300	\$53,362,400	129%	39	\$582,479,200	5.17%	25	\$3,917	25
HARTFORD	12,068	2	\$597,600	\$65,005,400	\$65,603,000	10878%	2	\$823,168,600	7.90%	15	\$5,387	21
HARTLAND	8,267	2	\$3,670,000	\$53,079,800	\$56,749,800	1446%	8	\$911,044,500	5.83%	23	\$6,421	17
JACKSON	5,678	3	\$4,631,900	\$73,673,800	\$78,305,700	1591%	5	\$415,297,300	17.74%	5	\$12,975	4
KENOSHA	92,808	7	\$36,013,400	\$171,823,900	\$207,837,300	477%	15	\$5,149,078,800	3.34%	33	\$1,851	40
LAKE GENEVA	7,276	2	\$23,086,000	\$81,620,100	\$104,706,100	354%	20	\$894,886,800	9.12%	11	\$11,218	6
LENOMONEE FALLS	33,660	4	\$57,958,700	\$247,459,100	\$305,417,800	427%	16	\$3,589,589,300	6.89%	18	\$7,352	13
MEQUON	23,416	1	\$5,911,600	\$6,737,700	\$12,649,300	114%	44	\$3,758,931,200	0.18%	51	\$288	51
MILWAUKEE	593,920	38	\$339,585,200	\$709,686,000	\$1,049,271,200	209%	33	\$23,491,773,700	3.02%	34	\$1,195	43
MUKWONAGO	6,428	1	\$2,389,500	\$4,630,900	\$7,020,400	194%	36	\$521,519,000	0.89%	47	\$720	47
MUSKEGO	22,203	2	\$27,440,500	\$6,548,900	\$33,989,400	24%	50	\$2,036,879,500	0.32%	50	\$295	49
NORTH PRAIRIE	1,815	1	\$3,210,900	\$3,849,700	\$7,060,600	120%	42	\$191,176,100	2.01%	40	\$2,121	35
OAK CREEK	31,029	5	\$14,508,100	\$40,281,500	\$54,789,600	278%	27	\$2,469,572,500	1.63%	42	\$1,298	41
OCONOMOWOC	13,194	2	\$45,745,100	\$93,464,500	\$139,209,600	204%	34	\$1,389,635,700	6.73%	21	\$7,084	14
PEWAUKEE	8,864	1	\$6,323,150	\$20,083,550	\$26,406,700	318%	22	\$783,515,800	2.56%	36	\$2,266	34
PLEASANT PRAIRIE	18,122	1	\$54,504,700	\$136,210,400	\$190,715,100	250%	30	\$1,990,686,400	6.84%	19	\$7,516	12
PORT WASHINGTON	10,683	1	\$21,266,100	\$66,889,200	\$88,155,300	315%	23	\$737,818,300	9.07%	12	\$6,261	18
RACINE	80,806	8	\$39,062,350	\$159,328,750	\$198,391,100	408%	18	\$3,322,696,100	4.80%	27	\$1,972	37
SAUKVILLE	4,167	2	\$1,633,700	\$4,696,600	\$6,330,300	287%	26	\$326,916,300	1.44%	45	\$1,127	44
SHARON	1,548	2	\$656,100	\$4,249,500	\$4,905,600	648%	13	\$63,731,100	6.67%	22	\$2,745	30
SHOREWOOD	13,535	2	\$39,366,300	\$44,202,000	\$83,568,300	112%	45	\$1,269,237,700	3.48%	31	\$3,266	29
SLINGER	4,143	2	\$4,468,100	\$69,321,700	\$73,789,800	1551%	7	\$305,813,900	22.67%	3	\$16,732	3
SOUTH MILWAUKEE	21,360	2	\$13,565,800	\$15,561,900	\$29,127,700	115%	43	\$1,062,356,400	1.46%	44	\$729	46
STURTEVANT	5,451	1	\$9,157,700	\$105,383,500	\$114,541,200	1151%	10	\$339,115,100	31.08%	2	\$19,333	2
SUSSEX	9,576	2	\$11,343,000	\$101,005,900	\$112,348,900	890%	11	\$893,560,200	11.30%	10	\$10,548	7
THIENSVILLE	3,278	1	\$5,330,700	\$22,174,600	\$27,505,300	416%	17	\$283,826,200	7.81%	16	\$6,765	16
UNION GROVE	4,459	1	\$1,882,400	\$1,368,200	\$3,250,600	73%	48	\$256,673,700	0.53%	48	\$307	48
WATERFORD	4,399	1	\$42,200	\$11,813,300	\$11,855,500	27994%	1	\$314,603,700	3.75%	29	\$2,685	31
WAUKESHA	66,816	8	\$50,554,700	\$126,730,200	\$177,284,900	251%	29	\$4,828,733,700	2.62%	35	\$1,897	39
WAUWATOSA	46,511	3	\$31,740,000	\$98,404,400	\$130,144,400	310%	24	\$4,511,276,400	2.18%	39	\$2,116	36
WEST ALLIS	60,607	5	\$26,587,600	\$60,104,800	\$86,692,400	226%	31	\$3,493,894,500	1.72%	41	\$992	45
WEST BEND	29,204	7	\$20,771,000	\$68,469,700	\$89,240,700	330%	21	\$1,982,907,100	3.45%	32	\$2,345	32
WEST MILWAUKEE	4,142	2	\$3,664,800	\$9,685,600	\$13,350,400	264%	28	\$263,554,600	3.67%	30	\$2,338	33
WHITEWATER	13,996	5	\$26,437,200	\$77,346,000	\$103,783,200	293%	25	\$498,043,900	15.53%	7	\$5,526	20
SE WISCONSIN TOTAL	1,425,118	155	\$1,424,336,650	\$3,695,469,350	\$5,119,806,000	259%		\$87,305,830,700	4.23%		\$2,593	

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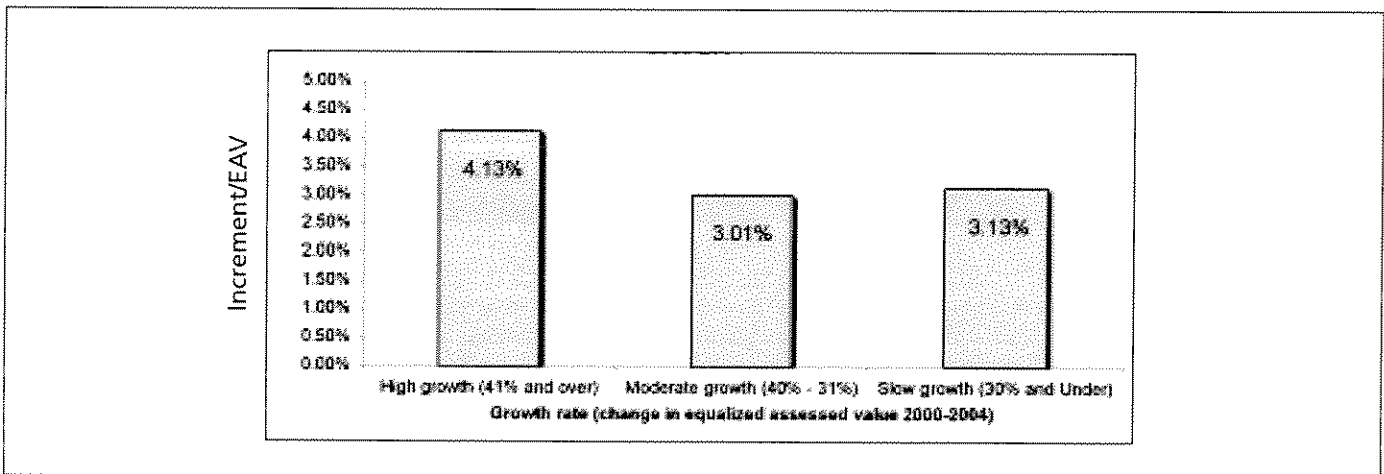
TIF characteristics analysis

The story thus far is mixed. The region's core cities have lower TIF utilization rates, but at the same time they have been making up significant ground since 2000 to close the gap with their suburban counterparts. Still, it's an incomplete picture. The cities of Milwaukee, Racine and Kenosha are certainly not the only localities in the region with downtown main streets that are in tough shape, or have vacant and polluted industrial land that is ripe for redevelopment. Therefore, it is necessary to group the region's municipalities in additional ways to get a better idea of who is and who is not using TIF and to what extent. TIF utilization rates were calculated for municipalities first by growth in EAV, then by tax wealth, and lastly, by size. These analyses have never before been conducted for southeastern Wisconsin. The results are surprising.

Growth – growth in equalized assessed value between 2000 and 2004

Every city and village in southeastern Wisconsin is either classified as “high,” “moderate,” or “slow” growth. One would expect to see higher TIF utilization in the moderate growth or slow growth categories as higher growth municipalities have less reason to use TIF. Instead, higher growth communities have, on average, a higher rate of TIF utilization. The main question this raises is: do higher rates of TIF utilization lead to higher rates of growth or do high growth rates lead to higher TIF utilization rates? We cannot know definitively from this analysis, but the trend is counterintuitive.

FIGURE 7 TIF UTILIZATION, GROUPED BY MUNICIPALITY GROWTH RATE, 2000-2004



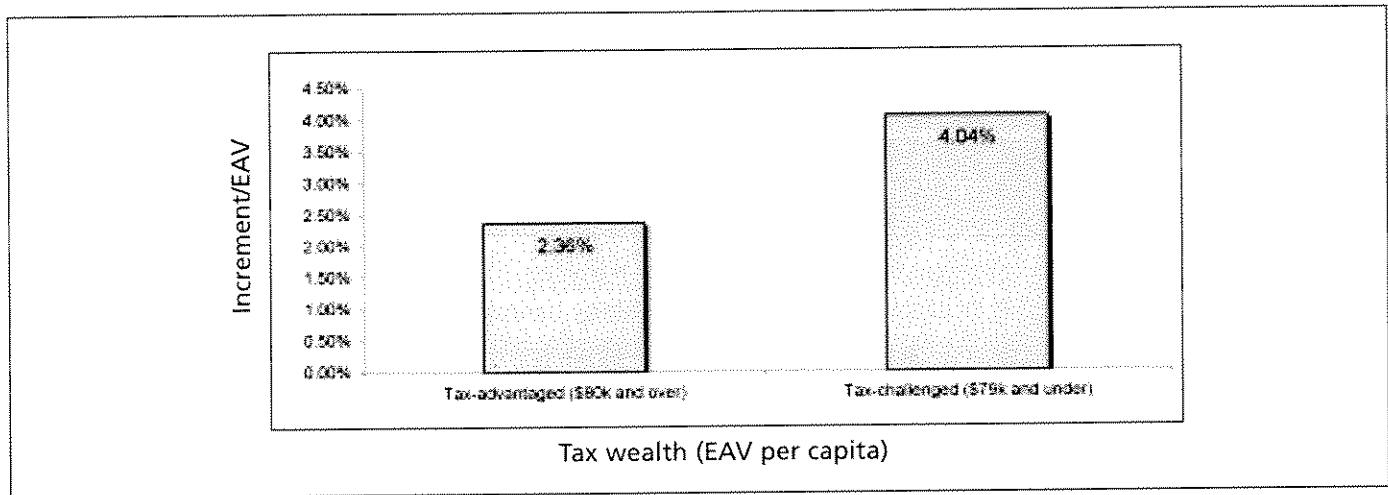
Tax wealth – equalized assessed value per capita in 2004

In Figure 8 each municipality is classified as either “tax-advantaged” or “tax-challenged.” One would expect to see higher TIF utilization in the tax-challenged category as these are typically older industrial communities. Hemmed in by jurisdictional borders, and having run out of agricultural land, they must rely on TIF to develop large tracts of blighted lands. Indeed, this is the basic trend that emerges. Tax-challenged communities have higher TIF utilization rates than tax-advantaged communities.

Total Size – equalized assessed value in 2004

Each municipality is classified as “large,” “mid-sized,” “small/mid-sized,” or “small.” One would expect to see higher TIF utilization in larger municipalities because that's where most brownfields are located. Moreover, TIF is a complex financial tool requiring a certain degree of professionalization. Somewhat surprisingly, it is the smaller municipalities that are better users of TIF in southeastern Wisconsin. There are two possible explanations for this finding. First, the TIF process is increasingly being outsourced to consultants and developers and therefore not

FIGURE 8 TIF UTILIZATION, GROUPED BY MUNICIPALITY TAX WEALTH, 2004



having a professional planning staff is not an impediment to TIF creation. In fact, not having a large paid staff may even be an asset to developers and consultants because they have less bureaucracy to navigate. The second possible explanation for this finding is that it is easier for small municipalities to have bigger utilization rates because they have a relatively small EAV base initially. However, this analysis attempts to mitigate this effect of “scale” by grouping cities to avoid having to compare Milwaukee with, say, North Prairie.

SUMMARY OF FINDINGS

The city and county of Milwaukee are not using TIF to the same extent as Chicago and Minneapolis. They also are not using TIF to the extent of many of their immediate neighbors within the region. While it is true that increment from the city of Milwaukee accounts for almost 20% of the total increment for the region (Table 6), with utilization rates in the low 3% range the question might be asked: is Milwaukee being aggressive enough in trying to grow its tax base?

Some speculate that the city of Milwaukee may not be getting the development it deserves because it is being undermined by “high growth” municipalities in the region that use TIF to finance development of lands that would have been developed without the aid of TIF. Analyses

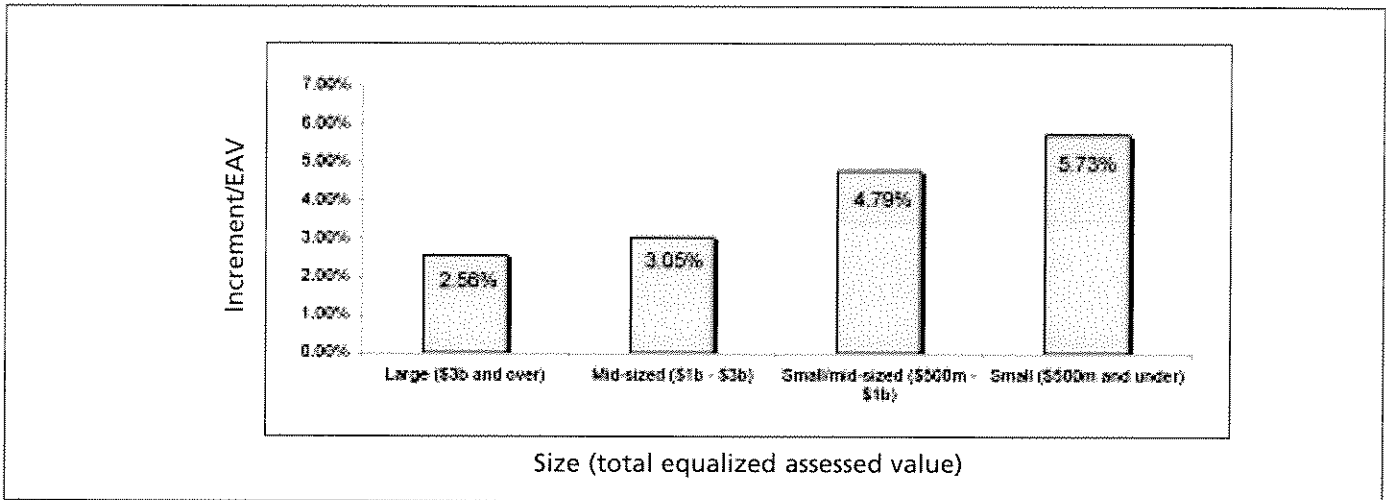
included here partially support this assertion. Utilization rates for outlying areas are high in comparison to their core city counterparts, and results thus far indicate that small municipalities with high growth rates are particularly adept at using TIF.

Our analysis also shows that small tax-challenged municipalities with ample room to grow can grow fast with TIF and do. For example, Walworth county is the most TIF-leveraged county in the region, and is not coincidentally the most rural. An analysis examining DOR records found that over half the acreage contained within existing TIF districts in Walworth County was formerly agriculture or open space land. Why would a developer assume the inherent risks associated with brownfield redevelopment in an urban area when plentiful agricultural land can be easily developed with an equally good package of incentives?

So what does this all mean? The results may help explain why southeastern Wisconsin uses TIF the way it does, particularly if there is evidence that developers gravitate toward communities with the best TIF incentive package. Yet, if redevelopment of brownfields and saving taxpayer money continue to be regional goals, then the current method for approving, administering, and financing TIF districts may need to be altered.

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FIGURE 9 TIF UTILIZATION, GROUPED BY MUNICIPALITY SIZE, 2004



How important is TIF in location decisions in the metro area?

A 2004 dissertation written by UW-Milwaukee's Deborah A. Carroll, "From Tiebout to TIF: Does business vote with its feet?" examines TIF's influence on the location decision-making process of private developers.^{xxvii} The researcher conducted interviews with consultants and developers in the metro Milwaukee region familiar with TIF. The following are key questions asked and summary responses:

1. "What are the most influential factors on private business developers' decisions to invest in particular development projects?"

After aggregating responses, two of the top three influential incentives indicated by interviewees directly related to TIF. Number one influence was "municipal infrastructure investment," followed by "visibility," then "local tax incentives." Note that the first and third most important factors to developers in picking an investment location are incentives provided nearly exclusively by TIF.

2. "Does TIF act as an incentive to private business developers, thereby influencing their decision within a multi-jurisdictional setting to invest in particular projects?"

Yes. Two reasons were indicated by developers and consultants for TIF's necessity in business attraction in the

TABLE 6 TOP 10 MUNICIPALITIES RANKED BY TOTAL INCREMENT

Rank	Municipality	% of regions total increment
1	MILWAUKEE	19.2%
2	MENOMONEE FALLS	6.7%
3	CUDAHY	4.8%
4	KENOSHA	4.6%
5	RACINE	4.3%
6	PLEASANT PRAIRIE	3.7%
7	BURLINGTON	3.5%
8	WAUKESHA	3.4%
9	FRANKLIN	3.1%
10	GLENDALE	3.0%
	Rest of municipalities	43.5%
	SE Wisconsin	100.0%

Milwaukee area. First, homogeneity; because municipalities often display similar characteristics and amenities within a regional economy, it typically comes down to who can provide the best incentive package. Second, cost; it is one

of the only ways to make brownfield properties equivalent to their greenfield counterparts by decreasing the cost of business investment. Businesses are often averse to taking on the risk of environmental cleanup.

Evidence presented in the study concluded that businesses and developers in the Milwaukee area are mobile and that TIF plays a large, but not exclusive, role in their investment decisions. Two developers in the study, recalling their most recent TIF development, cited “that neither project would have been possible without the incentives offered through tax increment financing” rating TIF a “7” on a 0-7 scale (7 being the most important, 0 the least) on the role it played in their latest decision to invest.

These findings mesh with anecdotal evidence from area economic development officials who say that TIF is one of the most effective tools in location decision in such a competitive market. This perceived necessity on behalf of developers and municipalities can help explain TIF’s profusion in the region’s economy and why the region has such high utilization rates for areas that were not originally targeted for this financing tool (i.e. suburban counties, small communities, and high-growth communities).

TIF’s effect on the individual taxpayer

The arguments made by TIF proponents to taxpayers are familiar – “There will be no direct taxpayer support for project X,” or, “Through the miracle of TIF, this project will be self financing.” This rationale violates one of the first rules of economics: there is no such thing as a free lunch. Indeed, we all pay for TIF and we all benefit from TIF. New retail options, job creation, more housing choices, a higher tax base with the promise of lower tax rates, and the removal of blighted properties all benefit an entire community. But positive outcomes come at a cost to the taxpayer.

There are two primary ways for taxpayers to lose money in TIF:

Ineffectiveness

First, and most obvious, if the district fails to attract adequate development to increase the increment steep enough to pay down initial debts, the municipality and, by default, the taxpayer must pick up the tab for the failed district. These failures are easy for the taxpayer to see as

there is little or no development occurring in the district. The first TIF in Wisconsin was ineffective. After investing \$15.4 million in demolition, clean-up, and land assembly in Milwaukee’s Menomonee Valley Industrial Area TIF, the district went on to see land values decline by \$43 million from the time of its creation in 1976 to the time it was retired in 2001. Interestingly, the valley has again emerged as a TIF district and in 2005 became Milwaukee’s 53rd TIF, with nearly \$20 million planned in improvements.

Inefficiency

Inefficiency places taxpayers at risk of losing money when municipalities violate the “but for” clause. Violating this clause means that incentives are used to entice development that would have otherwise occurred. This gets at the heart of the efficiency argument. In the most efficient TIF districts, taxpayers will recoup these initial costs and then some. In inefficient TIF districts, the taxpayers could lose all or most of their initial investment. The reality is that the efficiency of most TIF districts presumably lays somewhere between these two extremes, but it all hinges on the degree to which the “but for” clause is satisfied. Expressed as a formula, “TIF Efficiency” would be as follows:

TIF Efficiency = Value achieved with TIF – Value that would have been achieved without TIF

What does research say about the efficiency of TIF districts? A University of Minnesota study conducted on TIF districts in Minneapolis employed a probability model to estimate the number of positive outcomes for taxpayers from TIF investment. The model projected that the most likely outcome was a financial loss to municipalities. Not surprisingly, the variable in the model with the most positive effect on the outcome was if a location had a low probability of development in the first place. The study concludes that the best chance for a TIF to be beneficial to taxpayers is when its use is limited to situations that meet the “but for” clause.³⁸

In Milwaukee, a 2004 study set out to answer to what degree developer incentives get capitalized into the valuation of business properties in the city of Milwaukee.³⁹ TIF incentives do get capitalized into increased land values to a significant degree. However, the author cautioned that TIF only accounts for less than 8% of the variation in land values in TIF districts in the model. So, if 92% of the

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growth in land values is due to variables outside the influence of TIF, than why should 100% of the growth in land value flow toward paying down TIF debt? The study concludes that evidence exists challenging the assertion that TIF is completely responsible for the increase in property values.

Table 7 lists how much taxpayers are losing per \$100,000 of assessed value, assuming that none of the region's TIF districts meet the "but for" clause. Taxpayers currently do not see this money coming out of their tax bills because TIF debts are paid off by increased development. What this analysis asks is what if the development would have happened without taxpayer subsidies? If development would have occurred without TIF, then the amount listed in Table 7 is how much money-per-taxpayer municipalities are foregoing by subsidizing development.

Admittedly, we would be naïve to think that every TIF does not meet the "but for" clause. However, it is reasonable to assume that many districts do not meet the "but for" clause, and even when they do, research indicates that several other factors not associated with tax increment financing influence the valuation of business properties. So, for a property owner toward the top of the rankings in Table 7, if even a fraction of the increase in property value would have occurred without the TIF, this can end up being costly for the taxpayer.

CONCLUSION

Trends identified in this report suggest that there may be inefficient TIF districts in southeastern Wisconsin, based upon evidence showing that the highest TIF utilization rates correspond with fast-growing municipalities that are largely small, rural, have available agricultural lands, and have relatively small tax bases. By using public subsidies to build on easy-to-develop agricultural lands, this calls into question the efficiency of development that may have occurred "but for" the TIF subsidy.

Those districts that are financially inefficient for the taxpayer are also inefficient for the region. By subsidizing development in community X, neighboring community Y is forced to do the same. With the developer shopping around for the best deal, municipalities bid ever higher for

TABLE 7 TAXPAYER SUBSIDY IF "BUT FOR" CLAUSE NOT MET, 2003

	TIF tax rate	TIF tax per \$100k of EAV
Village of Genoa City	\$8.37	\$836.89
Village of Sturtevant	\$6.55	\$655.16
Village of Slinger	\$4.70	\$469.52
City of Cudahy	\$4.52	\$451.74
Village of Darien	\$4.09	\$409.09
City of Burlington	\$3.92	\$392.16
Village of Jackson	\$3.64	\$363.58
City of Whitewater	\$3.43	\$343.31
City of Elkhorn	\$3.16	\$315.67
City of Delavan	\$2.82	\$282.19
Village of Sussex	\$2.12	\$211.76
City of Lake Geneva	\$2.09	\$208.53
Village of Sharon	\$1.97	\$196.72
Village of Fredonia	\$1.87	\$186.96
City of Port Washington	\$1.83	\$182.84
Village of Thiensville	\$1.48	\$148.06
City of Hartford	\$1.47	\$146.92
Village of Belgium	\$1.47	\$146.54
Village of Butler	\$1.38	\$138.18
City of Glendale	\$1.23	\$122.51
Village of Menomonee Falls	\$1.20	\$120.03
Village of East Troy	\$1.16	\$115.88
Village of Germantown	\$1.15	\$115.27
City of Racine	\$1.15	\$114.79
City of Franklin	\$1.14	\$113.71
Village of Hartland	\$1.11	\$111.08
Village of Pleasant Prairie	\$1.04	\$103.83
Village of Waterford	\$0.93	\$92.52
Village of Shorewood	\$0.90	\$89.77
Village of Hales Corners	\$0.86	\$86.09
City of Kenosha	\$0.76	\$76.15
City of West Bend	\$0.76	\$75.70
City of Milwaukee	\$0.69	\$68.86
City of Waukesha	\$0.55	\$55.29
City of Wauwatosa	\$0.53	\$52.81
Village of Grafton	\$0.53	\$52.78
City of West Allis	\$0.51	\$50.92
City of Oconomowoc	\$0.51	\$50.65
Village of Pewaukee	\$0.48	\$47.95
Village of Fontana	\$0.46	\$46.11
City of Oak Creek	\$0.40	\$39.89
Village of North Prairie	\$0.36	\$36.31
Village of West Milwaukee	\$0.35	\$35.37
City of South Milwaukee	\$0.35	\$34.90
City of Delafield	\$0.31	\$31.45
Village of Union Grove	\$0.09	\$8.76
Village of Saukville	\$0.01	\$0.84
City of Muskego	\$0.01	\$0.57

development and the region's taxpayers subsidize development that may have occurred regardless of the subsidy. Thus, due to the low cost at which agricultural land can be converted to other uses in land-rich areas, TIF may actually exacerbate currently entrenched regional inequities.

These inefficiencies may help explain why TIF usage within southeastern Wisconsin is significantly more decentralized than other regions. The city of Milwaukee in particular has low TIF utilization rates compared to its Wisconsin and Great Lakes neighbors. Though TIF rates have increased in recent years, the city of Milwaukee is still fiscally conservative in comparison to its own suburbs, to Chicago, and to Minneapolis. While these low rates may be a result of TIF competition from the suburbs, this fiscal conservatism would certainly not be out of character for a city that has advocated for governmental efficiency and private sector redevelopment strategies throughout much of its recent history. Although cause and effect cannot be known, the findings raise a crucial question: Does the slow economic growth in the city and county of Milwaukee at least partially result from a poor rate of TIF utilization?

Lastly, the seven-county region has a lower TIF utilization rate than the rest of the state (5.2% vs. 4.2%). Does this disparity in TIF utilization rates help contribute to southeastern Wisconsin losing 29,050 jobs over the last four years while the rest of the state gained 19,816 jobs over the same time period?²⁶ If true, the implications for the region's economy could be the need to increase TIF utilization throughout the region, but especially in core cities, to better compete with the rest of Wisconsin and our Great Lakes neighbors for quality development and jobs.

In lieu of legislative reforms that could clarify the intent of Wisconsin TIF law, other measures could be taken to increase TIF effectiveness and efficiency within current law. Greater administrative oversight and staffing by the DOR could be provided to ensure that joint review boards have enough information to make educated decisions on TIF districts appropriateness. In addition, greater efforts at public notification and public participation could be implemented to ensure transparency in the TIF approval process. Lastly, greater consistency with municipalities' smart growth plans may help avert using TIF for developments outside the communities' recommendations.

ENDNOTES

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