



## CITY OF MILWAUKEE TAX INCREMENT FINANCING WHITE PAPER & RECOMMENDATIONS

### INTRODUCTION

Tax incremental financing (TIF) is an economic development tool available to local governments in Wisconsin. The primary purpose of TIF is to allow cities, villages and, in some cases towns, to assist real estate development projects that would not be possible without public financial support. TIF allows municipalities to provide upfront funding for a project and repay these debts later by capturing the increased property tax revenues stemming from the development project over a number of years.

TIF can only help pay for the cost of certain development elements such as: infrastructure improvements, site preparations and some facility construction. While there are limitations in each one of these areas it allows for creative use and implementation.

Since its inception in 1975, TIF use has steadily increased throughout the state and TIF is used to finance an increasingly diverse array of projects. Wisconsin municipalities use TIF to fund the expansion of manufacturing facilities; rehabilitation of rundown housing; construction of new condominiums; or upgrading public infrastructure such as roads, sewers or pedestrian pathways. As TIF funds an increasing amount of the state's economic development activities, it is important that policymakers and the public have a detailed understanding of how the tool works, so that they can provide oversight and safeguard the public's investment.

This White Paper captures and addresses issues raised about TIF usage in Milwaukee as discussed during the July 24, 2007 CDFA/LISC Milwaukee Tax Increment Finance Practice & Policy seminar held at Marquette University. The White Paper is intended to help further stimulate and lead the discussion of TIF usage and promote best practice principles for its application.

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### BASICS

In order to create a TIF district, a municipality must formulate a detailed project plan for the development of a specific geographic area called a tax incremental district (TID). Once the project plan and the boundaries of the TIF district are approved by the local legislative body, local assessors and the Wisconsin Department of Revenue (DOR) determine a year-one 'base value' for all property within the TID. As the City and/or developer make improvements in the district (e.g., upgrading roads, adding sewer service, providing incentives to developers, rehabilitating old buildings, remedying brownfields), the TID's property value increases. Taxes on all property value growth above the base value – on what is known as the 'value increment' – are used to pay off the project's upfront costs.

In Wisconsin, the impetus to create a new TID can either come from the municipality or from private developers. Municipalities often incorporate TIF financing into broader neighborhood planning and redevelopment efforts, using the tool to finance infrastructure improvements or catalytic developments that spur further private investment in the area. This is how the majority of TIF districts were created until very recently. Today, municipalities are receiving an increasing number of requests for TIF assistance to fund privately-initiated projects. The rise of privately-initiated TIF districts is increasing the total amount of real estate development activity in the state. But, it has also challenged local governments to discern which projects should receive



assistance, how much assistance is needed and how to focus private developers' efforts on developments that are most needed in the city.

The answers to these questions are rarely straightforward and often generate significant controversy, but getting these questions right is important for a number of reasons.

First, TIF districts are a partnership between the city and other local governments. Property taxes fund a variety of local services, including those provided by city and county governments, school and technical college districts. When a TIF is approved, the other tax districts agree to constrain their ability to raise revenue in that specific district for a number of years, in exchange for higher property values in the future. However, if TIF districts are created for projects that do not need assistance, or provide overly lucrative subsidies, the city and other tax districts lose out on tax revenues that could fund important government services.

Second, TIF application in one part of a municipality or region, affects development patterns and TIF use elsewhere. A TIF district is a very powerful tool to concentrate development activity within a specific area, sometimes shifting this activity away from non-TIF areas. When one municipality subsidizes a new industrial center, it becomes the most attractive place for companies to expand. Additionally, the project may attract employers from areas with older infrastructure. Moreover, municipalities are limited both financially and politically in how much TIF assistance it can provide. Therefore, when one project is approved it may prevent or delay assistance for other projects elsewhere in the city.

Furthermore, while TIF assistance is permitted under the Wisconsin statute for greenfield development, such a practice runs counter to the original purpose of the legislation. TIF legislation is geared to address the revitalization of blighted areas that are in need of additional assistance to spur redevelopment.

## STATUS OF TIF IN MILWAUKEE

Since the state's authorization of TIF in 1975, the city of

Milwaukee has created 69 TIF districts, of which 46 are still active today.<sup>i</sup> Compared to other cities in the state, Milwaukee has created more individual districts than any other municipality—the next closest cities being Madison with 36 and Janesville with 27 districts. However, a relatively modest share of the city's property values is concentrated within TIF districts. The value increment of Milwaukee's TIF districts comprises approximately 3.2 percent of the city's total property value. No obvious answer exists, however Milwaukee should look to see if they are using TIF sufficiently to support the local environment.<sup>ii</sup> Conversely, some of the state's exurban communities have well over one-quarter of their total property values in TIF districts.<sup>iii</sup>

TIF use in Milwaukee has recently accelerated; the City created 37 new districts in the past ten years and 27 in the past five years.<sup>iv</sup> This is consistent with statewide trend toward greater TIF use. In 2000, the Wisconsin Department of Revenue certified 67 new TIF districts. By 2006, this figured had swelled to 81. The city of Milwaukee receives approximately twenty requests for TIF assistance each year, a considerable increase since the 1990's.<sup>v</sup>

The city of Milwaukee has used TIF to help fund a diverse array projects, including the redevelopment of the Third Ward and Menomonee Valley and to new housing construction in the Lindsay Heights and Commerce Avenue neighborhoods. Milwaukee's 43 active TIF districts have generated a total of \$878 million in new property value to date.<sup>vi</sup> Nearly all of the City's TIF districts have generated enough property value growth to repay their debts. The city closed three major districts in 2007, adding over \$65 million in new property value to the tax rolls.<sup>vii</sup>

## THE TIF PROCESS IN MILWAUKEE

The Milwaukee Department of City Development (DCD) manages the city's TIF process. TIF assistance requests come from many different sources, including the city's planning processes, the mayoral administration, private developers and community groups. However, regardless of their source, all TIF requests first go through the DCD. DCD staff meets with interested parties to undertake a preliminary analysis of

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the potential economic impact of the proposed development and its consistency with City plans, priorities and TIF goals as expressed in the City's written TIF guidelines.

For non-governmental parties, an official request for TIF assistance must be filed with the City DCD following the preliminary analysis. This official request form gathers information on the development team, the type of development proposed, any zoning changes needed for the project to occur, the project budget, the amount of assistance requested, and the number and type of jobs created by the development. In addition, DCD frequently engages outside counsel to perform an independent financial analysis to evaluate feasibility of the project. From this information, DCD determines whether or not the project should receive funding.

If the DCD decides that the project satisfies the city's requirements, the project plan is forwarded to the City Comptroller's Office for an additional layer of review. The Comptroller is an independently elected official who's agency administers the City's financial affairs. On TIF projects, the Comptroller's Office reviews TIF proposals to determine their potential for success and whether the requested level of government assistance is needed. The Comptroller's opinion on these two questions is used to inform public officials and citizens as the proposed district works through the City's TIF approval process.

In the city of Milwaukee, four bodies and the mayor must approve a TIF proposal: the board of the Redevelopment Authority of the City of Milwaukee (RACM); the Zoning, Neighborhoods and Development Committee (ZND) of the Milwaukee Common Council; the full Milwaukee Common Council; and the Joint Review Board. A proposed TIF district works its way through these bodies in the following way:

A proposed district is first sent to the Joint Review Board for an initial informational hearing. After this initial hearing, the TIF proposal receives a public hearing before the RACM board. Once approved by the RACM board, the district is reviewed by the ZND Committee of the Milwaukee Common Council. If

approved in committee, the proposal is forwarded on for a vote before the entire Milwaukee Common Council. Once the proposed district has received approval from all of these bodies within the city, it is returned to the Joint Review Board for final approval, based on a majority vote.<sup>viii</sup>

The joint review board is comprised of five representatives: one each from the city of Milwaukee, Milwaukee County, Milwaukee Public Schools (MPS) and the Milwaukee Technical College System, and a citizen representative. This joint review board evaluates the specifics of the TID project plan, including whether the land within the TID is as characterized, the proposed boundaries of the TIF districts, the TID financing plan and expected expenditures and costs. Joint review boards have the power to approve or deny TIF districts based on the following criteria:

- Whether the development expected in the TID would not occur without the use of TIF (commonly referred to as the "but for" test)
- Whether the economic benefits, as measured by increased employment; business and personal income; and property value, are sufficient to compensate for the cost of improvements
- Whether the benefits of the proposed plan outweigh the costs, in taxes on the value increment, to the overlying tax districts<sup>ix</sup>

It is important to note that in instances where a TIF is being used to help finance city infrastructure improvements, RACM does not become involved in the TIFs creation.

## RESOURCES AVAILABLE TO USERS/COMMUNITY

Individuals who wish to receive more information about, or comment on, proposed TIF districts in the City should monitor the City's meeting calendar, which can be accessed through the city of Milwaukee Web site at: [www.city.milwaukee.gov](http://www.city.milwaukee.gov). This calendar lists the meeting schedule for the RACM, ZND Committee, Milwaukee Common Council and Joint Review Board. Because these bodies (with the exception of the Joint Review Board) deal with a wide range of City issues, interested individuals should review meeting agendas in advance



to see if new TIF assistance proposals are being debated. The City's E-Notify system, which allows citizens to sign-up to automatically receive meeting notices and agendas for these public bodies, simplifies access to this information.

Information on existing Milwaukee TIF districts can be found at the DCD's Web site, [www.mkedcd.org/business/tif](http://www.mkedcd.org/business/tif). Twice each year, DCD issues annual reports on the status of Milwaukee's TIF program, with descriptions of all existing TIF districts, property value creation to date, project costs to date and expected retirement date. These reports are presented publicly during a Common Council committee hearing and posted on the DCD's Web site.

## ISSUES FACING THE MILWAUKEE AREA

The use of TIF is changing, both statewide and within the city of Milwaukee. Through the dialogue at the CDFA/LISC TIF Seminar, several key issues facing the Milwaukee areas were identified, including:

### *Promoting Success and Progress*

Milwaukee's TIF system has been a model for the rest of the state. The City was among the first communities to rigorously analyze real estate developers' pro formas and to require that job creation figures be submitted along with the application for TIF assistance. Furthermore, the City has used the tool to successfully redevelop some of Milwaukee's most underutilized properties, such as the Menomonee Valley and the Park East area, as well as utilized TIF for job creation efforts. Since 2004, companies including Falk Corporation, Manpower, Direct Supply and Aldrich Chemical have received TIF assistance to expand hiring in Milwaukee. As the rest of the state vastly expands its TIF use, it will be important that the City be even more strategic and innovative with its use of TIF to build upon these past successes.

### *Ensuring Community Buy In*

Nationwide, the most overlooked aspect of the TIF process is ensuring community buy-in for the project. Educating and engaging the community is especially important in Milwaukee where the use of TIF has become increasingly political. As TIF use increases, it

will be important for the city of Milwaukee to educate and engage the community more actively so that community questions, concerns and priorities are addressed well before districts receive their final approval. Several communities have been able to leverage community and stakeholder support for redevelopment projects. For example, the Beltline TAD in Atlanta, Georgia and the Stapleton Project in Denver, Colorado have excelled in engaging the public and area stakeholders to build support and buy-in for their respective redevelopment projects. They have done so through public participation, education and continuous communication.

### *TIF Use and Historic Preservation*

TIF can be used for historic preservation in two different ways. It can help fund some of the additional costs of redevelopment plans that take care to restore historic buildings at some extra cost. Additionally, it can help fund new development that requires the demolition of structures with some historical significance. Both of these cases, however, raise the same difficult public policy question: How much is preserving the historic character of a specific building or buildings worth in terms of additional construction costs and forgone property taxes, stemming from altered development plans? There is no simple answer to this question. Going forward, however, it is important that the city of Milwaukee be able to engage community members in a discussion about these trade-offs.

### *TIF Support for Future Transit Investments*

TIF can support transit development in the city of Milwaukee by helping to pay for upfront infrastructure costs, supporting transit-oriented development (TOD) around transit hubs, or by a combination of both. As debates over the Kenosha-Racine-Milwaukee (KRM) commuter rail expansion and use of \$92 million in long dormant federal funds for buses and/or streetcars are resolved, the City should consider how TIF use could support TOD and further expansion of transit lines. In doing so, it is important that the City be proactive in establishing TIF districts where transit investments are occurring. In fact, the City has been proactive by establishing a \$6 million TIF to support the upgrade of the Amtrak station, which will serve as the most important Milwaukee stop on the KRM. Mayor Barrett's



transit plan also incorporates the Amtrak station as the hub of a downtown rail loop. This will allow the city to capture new increment for future expansion, TOD, or neighborhood development projects.

### **Supporting TIF with Other Financing Sources**

One of the most effective uses of TIF is to pair it with other economic development tools. TIF can be used to provide a local match to state and federal funds, or to capture the increment created by projects that are wholly funded by the state or federal government. Milwaukee has done this successfully in its Menomonee Valley TID, where it has bundled state and federal money for brownfield remediation with TIF investments in infrastructure to help redevelop the valley. In addition, some of the businesses that relocated to the valley received federal New Market Tax Credits. When state and federal monies fund new investment in weak market areas – where the City would normally be unable to generate value increment – it is especially important for the City to consider capturing the value of these outside investments. Doing so allows the city to make further public investments in areas where attracting private investment is difficult. Furthermore, TIF can be paired with other financing tools such as tax credits including, brownfield, historic rehabilitation and green; tax-exempt bond financing through Industrial Development Bonds (IDBs); and various access to capital programs to help fill the developer's funding gap. Milwaukee has been active in pairing TIF funds with other sources of support. The Amtrak station, which incorporates significant state funding, is one such example. Both the Direct Supply and DRS projects incorporate State tax credits, and the DRS project is accessing Focus on Energy and federal Renewal Community Tax Credit assistance.

### **TIF Investments: Infrastructure vs. Developer Assistance**

TIF monies can be used to fund a wide range of costs associated with a development project. The most traditional use of TIF is to cover the costs of infrastructure construction needed to advance a development. For instance, TIF might finance new access roads; sewer and utility hookups; and streetscaping to help redevelop and expand an inner city shopping center. These costs are sometimes borne by

developers, but might need public assistance to make the entire project financially feasible. Today, however, there are an increasing number of TIF project proposals that include direct developer assistance. This may come in the form of a reduced land sale costs or earmarked grants to cover extraordinary construction costs associated with the site or even general assistance grants used to raise developer's return to a financially feasible rate.

Funding direct developer assistance through TIF raises difficult questions surrounding the level of public benefit that comes from the project. When TIF supports public infrastructure, taxpayer money assists a project while also building public goods that can be enjoyed by all. When TIF provides developer assistance, the public benefit connection is less direct. Therefore, when the city of Milwaukee considers developer assistance requests, it should be clear when communicating the other public benefits the development will create, such as acting as a catalyst for further development in the area, or bringing needed services to the neighborhood.

### **Regional Competition for Development**

Every community in the state wants to attract a new retail center, corporate expansion, or high-tech start-up. This desire for new development and its associated property taxes, leads municipalities within the region to compete against each other, offering bigger and bigger assistance packages to attract development—TIF often being one of the incentives. This can lead to overly lucrative TIF deals. In some cases, businesses and developers receive unnecessary TIF assistance for projects that do not produce any net increase in economic activity within the Milwaukee region.

In addition to competing for development, how one city in the Milwaukee region uses TIF often affects its use elsewhere in the region. For instance, the TIF-assisted construction of Bayshore Town Center in Glendale has placed further pressure on Grand Avenue Mall in downtown Milwaukee. This resulted in Brookfield using TIF to renovate their major shopping mall, Brookfield Square. Compounding this problem is the fact that state TIF statutes favor suburban development. Suburban TIDs' base values often include agricultural land, which



is valued at its crop-growing potential. This means that a typical suburban greenfield development has an artificially low base value compared to a similar urban district. These lower base values help suburban communities quickly generate increment, allowing municipalities to use TIF more aggressively.

TIF is an incredibly valuable resource to promote economic activity in southeastern Wisconsin. As the Milwaukee region seeks to continue its economic growth, it is important that TIF be used strategically to bolster the economy of the region, as opposed to singling out the benefits to just one community. Milwaukee's proactive TIF guidelines restrict the use of TIF to relocate tax base from one place to another within the city limits.

### ***Using TIF for Neighborhood Revitalization***

TIF use in Milwaukee should not be limited only to large downtown projects, but also as a tool to help promote neighborhood revitalization. To its credit, the city of Milwaukee used TIF successfully to promote investment in the Lindsay Heights and Metcalf Park neighborhoods and has more recently approved TIF funding for the Bronzeville and Mitchell Street neighborhoods. While these projects may be more difficult to administer and can be more risky, they are vital to Milwaukee's overall economic future. As Milwaukee deals with increasing developer requests for TIF assistance for downtown projects, it is important that neighborhood projects like these remain a priority for the City.

In fact, TIF assisted development, outside downtown, has surged over the past few years. Of the 15 active TIF districts, 10 are located outside downtown and are classified by DCD as either neighborhood revitalization or job creation/retention. And, despite the growth in developer pressure for TIF assistance, Milwaukee has continued its track record of using TIF in an appropriate and deliberate manner.

## **RECOMMENDATIONS**

### ***1. Increase Public Participation and Awareness***

Milwaukee's Department of City Development has taken a number of steps to improve public access to

information about its TIF districts. DCD recently established a Web site that provides basic information on how TIF functions; the city of Milwaukee's TIF guidelines and application procedures; as well as the location and status of existing TIF districts. Having all of this information collected on one central Web site gives interested parties the basic information needed to contribute and participate in the discussion about TIF use.

In order to further increase public participation and buy-in, the Web site should be expanded to include more information about TIF funding proposals as they move through the approval process. Some suggestions on information to add include:

- **Provide Public Summaries of Proposed TIF Districts:** For TIF funding requests that are forwarded to the Redevelopment Authority of the City of Milwaukee (RACM) Board, DCD should provide the public online summaries of the proposal. These summaries should describe the project, the boundaries of the district, proposed project costs, expected payback period, method of funding and detail the public benefits. Having this basic information would promote a more informed discussion about future uses of TIF within the city.
- **Create an "Upcoming Meetings" Section:** Before approval, a Milwaukee TID is approved by four separate bodies: the Joint Review Board for Milwaukee TIF Districts; the Redevelopment Authority of the City of Milwaukee (RACM) Board; the Zoning and Neighborhood Development (ZND) Committee of the Common Council; and the full Milwaukee Common Council. Meetings for each of these bodies are listed on the City's meeting calendar, but there is no way to know whether they will discuss TIF without reading each meeting agenda. A simple list of upcoming meetings and meeting minutes compiled by DCD staff would make it easier for interested residents to track and contribute to TIF discussions. The City's established E-Notify system can further be enhanced with the addition of TIF references in the accompanied agendas.



- **List Contact Information for Review Bodies:** The City should provide names and contact information for members of the RACM board, ZND Committee and Common Council on the DCD's TIF Web site. Residents whose schedules prevent them from attending these meetings should be able to easily access contact information for their public representatives in order to have their concerns heard.
- **Add a "Press" Section:** DCD should help interested residents learn about current TIF funding proposals and the status of existing districts by compiling press articles about TIF use in Milwaukee on their Web site.

**Case Study:** In 2005, the city of Atlanta created a TIF district to support development around a transit line that will encircle the entire city. The BeltLine Tax Allocation District is a major undertaking, which will fund work in a total of 45 neighborhoods in every City Council District. Over 100,000 people live within a half-mile of the district.<sup>x</sup> In order to ensure public participation and buy-in for the project, the city of Atlanta invested heavily in a communications strategy to keep residents apprised of developments within the district. The Atlanta Redevelopment Authority set-up a Web site ([www.beltline.org](http://www.beltline.org)) devoted to the BeltLine project, which includes informational materials on the history of the project, conceptual plans, feasibility studies and funding sources for the work. Residents can sign-up for a regular newsletter that details progress within the district, as well as access a calendar of future meetings and events for the BeltLine district. An example of a recent newsletter can be found here: [www.beltline.org/media/docs/Mayor's Update Letter Ca l and Ray eblast.pdf](http://www.beltline.org/media/docs/Mayor's_Update_Letter_Ca_l_and_Ray_eblast.pdf)

In addition, the Authority is actively promoting community participation in the implementation of the district. Atlanta has created a BeltLine Advisory Committee, which is made up of stakeholders and community members representing the BeltLine neighborhoods. This committee provides recommendations to the Board of Directors concerning

the planning and implementation of the project and allocation of funds. Additionally, the Authority is organizing five study groups within neighborhoods affected by the district that will meet regularly to provide community input on BeltLine initiatives.<sup>xi</sup>

## **2. Address the Regional Dynamics of TIF**

Competition for development between Milwaukee-area cities and villages does nothing to improve the overall health of the Greater Milwaukee region. When developers and businesses know that they can play one city against another, taxpayers shoulder greater costs to generate new development and help local businesses expand. In order to ensure that Milwaukee receives the greatest possible benefit for each TIF dollar expended, the city should take steps to help curb regional competition for development.

A first step towards achieving this goal would be to host a training seminar for all TIF administrators in the Milwaukee region. The Milwaukee Department of City Development and Comptroller's Office are among the most skilled entities within the state when it comes to dissecting TIF deals and analyzing the "but for" test. It is in the interests of both the city and the region to ensure that the surrounding municipalities conduct rigorous analysis of all requests for TIF assistance. By sharing their expertise more widely, the city of Milwaukee can ensure that its TIF costs are not unnecessarily increased by overly-lucrative offers from suburban communities.

In addition, the city of Milwaukee should ensure that regional TIF use continues to be addressed by the Milwaukee 7, a newly formed regional economic development campaign. TIF is the strongest economic development tool available in the Milwaukee region and it should be allocated to promote business development, expansion and relocation on sites that best meet employers' needs as well as provide the greatest economic and social benefit to the region. To the extent that the Milwaukee 7 becomes a first-stop for business expansion and relocation, the initiative can also serve to help coordinate and limit competition between municipalities' development assistance offers. In addition, the initial steps taken by the Milwaukee 7 to



limit the use of TIF for intra-region corporate relocation recruitment is a positive step in using TIF effectively in the community.

**Case Study:** Regional economic development efforts are prevalent in communities across the U.S. and some are beginning to tackle the challenge of regional competition to secure existing businesses' relocations. One example is in the Greater Cleveland region. Recognizing that competition exists between the City of Cleveland and its suburbs was doing little to improve the regions economic prosperity; the mayor of Cleveland is persuading suburban communities to enter into no poaching agreements. The city of Cleveland is offering to fund a multi-million dollar upgrade to the region's water system in exchange for agreements from suburban communities stating they will not offer development incentives to lure businesses out of the City. Under this agreement, local governments would share income tax receipts for five years on businesses that choose to move without subsidy. To date, Cleveland has established agreements with six surrounding communities, with another six communities expected to sign soon.<sup>xii</sup>

### **3. Fund Staff Time for Active Outreach to Inner City Developers**

Milwaukee's TIF system is in transition. For the first time in its history, the city of Milwaukee must deal with a staggering number of private requests for TIF assistance. Not surprisingly, however, almost all of these requests are for projects located in strong-market areas of the city—such as downtown or the Park East corridor. Through initiatives like the Bronzeville redevelopment, Milwaukee has continued to make investments elsewhere in the City, but nearly all of these have been planned and led by the City.

Going forward, the city of Milwaukee should promote further investment in its inner city by leveraging the capabilities of smaller nonprofit developers and businesses, which are already active in these neighborhoods. It is harder for these smaller entities to take advantage of Milwaukee's TIF program because of the tool's complexity and the level of resources and expertise needed to craft a viable TIF proposal.

As pointed out by DCD staff, smaller scale projects that are initiated by emerging developers can and are currently benefiting from other city provided resources such as CDBG, HOME funds, low income housing tax credits, federal Renewal Community tax credits, donation of City land, and the City's Development fund. These projects are making a significant difference in the City's various neighborhoods. Milwaukee has made a strong effort to match public investment programs with appropriate uses for new development or redevelopment. TIF is not, as the DCD has established, a simple process. The use of TIF requires an intensive period of discussion, debate and evaluation. Therefore, TIF is not always the best resource for development projects requesting City assistance. In many cases, the complexity of the TIF process can outweigh the benefits of using TIF for smaller projects and DCD has established a number of programs to assist these types of projects.

In order to bridge this gap, the city of Milwaukee should have a dedicated staff person within DCD to identify and support small development projects in Milwaukee's inner city. This person would match interested developers with skilled individuals in the finance industry and help shuttle them through the City's TIF application process. Funding for the position could be provided through corporate or foundation donations, an increase in TIF application fees (currently \$5000), or additional administrative charges recouped through the tax increment payments of districts created under the program. To this end, DCD is making progress. In 2006, the DCD established a neighborhood business and development office, which includes several project managers that work with small scale commercial development. The Bronzeville project, for example, is managed out of this section. In addition, DCD is now employing two project managers responsible for crafting residential projects such as the multiple central city subdivisions supported by TIF-funded investment. Efforts of this nature should continue into the future to ensure that TIF and the other available financing tools continue to be utilized in an appropriate and efficient manner.





**Case Study:** One example of how a city can increase access to TIF funds for small development projects comes from the city of Chicago. In response to community criticism about lack of access to TIF funds, the City of Chicago launched the Small Business Improvement Fund (SBIF) as a pilot program in four of the city's TIF districts in 2000. SBIF uses TIF revenues to help owners of small commercial and industrial properties and/or tenants within TIF districts repair or remodel their facilities. Projects eligible for SBIF grants include: new windows, floors or roofs; sign removal and replacement; tuckpointing; new heating, ventilation and air conditioning; improvements to accommodate disabled patrons or workers; and the purchase of adjacent property for building expansion or parking.<sup>xiii</sup> Program participants can receive reimbursement grants to cover up to 75 percent the cost of remodeling work, with a maximum grant amount of \$150,000. As of 2003, a total of 48 completed and committed SBIF matching grants had leveraged more than \$4.1 million worth of capital improvements.<sup>xiv</sup> More information on Chicago's SBIF program can be found at: [www.somercor.com/sbif.htm](http://www.somercor.com/sbif.htm).

#### **4. Strengthen Milwaukee's Data-Based Approach to TIF Management**

The city of Milwaukee has been a statewide leader in using data to guide their TIF investments. For example, the City recently contracted with an outside consultant to analyze the City's downtown hotel and condominium market to help guide City TIF investments in future Park East projects.<sup>xv</sup> The use of data helps to ensure that the City only provides TIF assistance to viable projects and prevents over saturation of the market by a single type of development.

Going forward, it is important that the City further strengthen its data-based approach to TIF administration. This can be accomplished in two ways. First, the City should analyze the present value of tax flows from properties within a proposed TIF district—under TIF and non-TIF scenarios. In many cases, when the City denies TIF assistance, it does not mean that no development will occur. Rather, development on that parcel may occur at a later date and/or a smaller scale. Since TIF districts take ten to twenty years to repay

themselves and yield increased tax revenues to the City and overlying tax districts, it may be wise to allow a smaller unsubsidized development to occur at a later time.

Consider the following example: The city of Milwaukee has to choose whether or not to extend assistance to a development that will create \$15 million in property value immediately. If it does provide assistance, a TIF district will be created that will need to live 15 years in order to pay itself off. If no assistance is provided, the City's best estimate is that the property will be developed in about five years at a smaller scale of \$12 million. However, because no subsidy was provided the City and overlying tax districts will receive tax revenues from this district immediately. Assuming that properties will appreciate at 5 percent and using a discount rate of 5 percent, the present value of tax flows (over a 30 year period) under the TIF scenario would be \$4.7 million as opposed to \$5.4 million in the non-TIF scenario. Full calculations can be found in Appendix A. However, this may be risky.

In relation to the Park East redevelopment project, the city's data-based philosophy has led to a market fix with the decision by RSC Corp. to proceed with the project despite the absence of city TIF participation. The patient and data-based approach has been shown in Milwaukee to be beneficial and produce the desired outcomes that benefit the entire community.

Net present value calculations can help to compliment the City's existing "but for" analysis, which analyzes developers' return on investment. Return on investment calculations are useful to discern whether or not TIF monies are actually needed, while net present value calculations can better assess whether a proposed district's costs (in deferred tax revenue) are greater than the benefits (of a higher valued development). For both analyses, however, it is important to test how results change with different sets of assumptions.

In addition, the City should consider expanding its TIF policy to include guidelines on maximum levels of TIF assistance available from the City. As the number of private requests for TIF assistance has increased, so too have the size of TIF requests. A set of maximum



assistance guidelines can help set the terms of TIF negotiations and ultimately improve the quality of TIF assistance requests submitted to the City. Further, by setting a baseline, the City can offer development assistance bonuses above this baseline for particularly needed development, such as high-wage job creation.

**Case Study:** The city of Madison's TIF policy limits the amount of assistance it provides to an individual project to 50 percent of the net present value of the tax increment generated by the project.<sup>xvi</sup> According to the presentation by Madison's TIF administrator at the CDFA/LISC Seminar, this practice has given the City a stronger negotiating position with developers. While many development projects request far higher levels of assistance initially, the 50 percent figure gives City staff a rationale to push for revised development plans that are less costly. This policy could be adapted for use in Milwaukee by offering different levels of assistance to projects in strong, stable and weak market areas, with further bonuses tied to job creation, affordable housing development and/or blight elimination.

### **5. Encourage State-Level TIF Reforms**

Wisconsin should make reforms to the TIF statute that promotes the use of TIF to help stimulate urban redevelopment. It is important for the state to limit the use of TIF as a gap-financing tool for undeveloped land, particularly in exurban areas. Greenfield development occurs at a lower cost, than redeveloping property in urban or brownfield areas. Under this umbrella, the state should also look at what types of projects are being financed.

Often public criticism exists when public financing is used to support the development of retail establishments. These projects bring with them the promise of a large number of jobs, however many times lower wage employment opportunities exist within these deals while industrial jobs are often overlooked for receiving this form of financing assistance. Industrial employment often provides higher-skill and higher-waged employment opportunities. Furthermore, TIF should be a tool used to help promote the redevelopment of blighted areas.<sup>xvii</sup>

### **Conclusion**

The city of Milwaukee has been at the forefront of TIF use for implementing this tool in creative instances. As with nearly every financing tool, challenges with TIF still exist. This paper has outlined several challenges for the city of Milwaukee and its leaders to address when revising TIF to meet some of the issues addressed derived from this discussion. The suggestions listed in this paper can help refine Milwaukee's TIF program to help address these concerns and best meet the needs of its residents and business community.

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## Appendix A: Net Present Value Calculations of TIF and Non-TIF Scenarios

Year	Property Value Creation with TIF	Tax Revenues with TIF	Property Value Creation without TIF	Tax Revenues without TIF
1	\$15,000,000	\$0	\$0	\$0
2	\$15,750,000	\$0	\$0	\$0
3	\$16,537,500	\$0	\$0	\$0
4	\$17,364,375	\$0	\$0	\$0
5	\$18,232,594	\$0	\$12,000,000	\$264,000
6	\$19,144,223	\$0	\$12,600,000	\$277,200
7	\$20,101,435	\$0	\$13,230,000	\$291,060
8	\$21,106,506	\$0	\$13,891,500	\$305,613
9	\$22,161,832	\$0	\$14,586,075	\$320,894
10	\$23,269,923	\$0	\$15,315,379	\$336,938
11	\$24,433,419	\$0	\$16,081,148	\$353,785
12	\$25,655,090	\$0	\$16,885,205	\$371,475
13	\$26,937,845	\$0	\$17,729,465	\$390,048
14	\$28,284,737	\$0	\$18,615,939	\$409,551
15	\$29,698,974	\$0	\$19,546,736	\$430,028
16	\$31,183,923	\$686,046	\$20,524,072	\$451,530
17	\$32,743,119	\$720,349	\$21,550,276	\$474,106
18	\$34,380,275	\$756,366	\$22,627,790	\$497,811
19	\$36,099,289	\$794,184	\$23,759,179	\$522,702
20	\$37,904,253	\$833,894	\$24,947,138	\$548,837
21	\$39,799,466	\$875,588	\$26,194,495	\$576,279
22	\$41,789,439	\$919,368	\$27,504,220	\$605,093
23	\$43,878,911	\$965,336	\$28,879,431	\$635,347
24	\$46,072,856	\$1,013,603	\$30,323,402	\$667,115
25	\$48,376,499	\$1,064,283	\$31,839,572	\$700,471
26	\$50,795,324	\$1,117,497	\$33,431,551	\$735,494
27	\$53,335,090	\$1,173,372	\$35,103,129	\$772,269
28	\$56,001,845	\$1,232,041	\$36,858,285	\$810,882
29	\$58,801,937	\$1,293,643	\$38,701,199	\$851,426
30	\$61,742,034	\$1,358,325	\$40,636,259	\$893,998

### Net Present Value of Tax Revenues

\$4,714,286

\$5,378,124

Note: The calculations above used a discount rate of 5% at the current City of Milwaukee tax rate of \$22/1000. Additionally, property value was assumed to appreciate at a rate of 5% per year.

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## RESOURCES

### **Conference Materials**

Presentations from Tax Increment Financing Practice and Policy Seminar, July 2007.

<http://www.cdfa.net/cdfa/cdfaweb.nsf/search-articles?SearchView&query=LISC2007&SearchOrder=3&Count=0&SearchWv=TRUE>

### **Resources from Local Governments**

City of Milwaukee Department of City Development TIF Website:

[www.mkedcd.org/business/TIF/index.html](http://www.mkedcd.org/business/TIF/index.html)

Milwaukee Tax Incremental Financing District Guidelines, Milwaukee Department of City Development.

[www.mkedcd.org/business/TIF/pdfs/MilwaukeeTIFGuidelines.pdf](http://www.mkedcd.org/business/TIF/pdfs/MilwaukeeTIFGuidelines.pdf)

Annual Report on Milwaukee Tax Incremental Financing Districts, Milwaukee Department of City Development, 2006.

[www.mkedcd.org/business/TIF/pdfs/2006TIFReport.pdf](http://www.mkedcd.org/business/TIF/pdfs/2006TIFReport.pdf)

Map of Milwaukee TIF Districts. Milwaukee Department of City Development. 2007.

[www.mkedcd.org/business/TIF/pdfs/TIDMap07.pdf](http://www.mkedcd.org/business/TIF/pdfs/TIDMap07.pdf)

City of Milwaukee Downtown Market Study. 2007.

<http://www.mkedcd.org/news/2007/DowntownMarketStudy.html>

Milwaukee City Hall Meeting Calendar.

[www.city.milwaukee.gov/CityHallMeetingSched621.htm](http://www.city.milwaukee.gov/CityHallMeetingSched621.htm)

Joint Review Board for Milwaukee Tax Incremental Finance Districts. Meeting Schedule.

[www.city.milwaukee.gov/JointReviewBoardforT219573.htm](http://www.city.milwaukee.gov/JointReviewBoardforT219573.htm)

Redevelopment Authority for the City of Milwaukee. Meeting Schedule.

[www.city.milwaukee.gov/RedevelopmentAuthority34328.htm](http://www.city.milwaukee.gov/RedevelopmentAuthority34328.htm)

Zoning, Neighborhoods and Development Committee, Milwaukee Common Council. Meeting Schedule.

[www.city.milwaukee.gov/ZONINGNEIGHBORHOODSa54334.htm](http://www.city.milwaukee.gov/ZONINGNEIGHBORHOODSa54334.htm)

Milwaukee Common Council Committee Assignments.

[www.ci.mil.wi.us/router.asp?docid=815](http://www.ci.mil.wi.us/router.asp?docid=815)

City of Madison TIF Web site.

[www.ci.madison.wi.us/planning/TIF.html](http://www.ci.madison.wi.us/planning/TIF.html)

City of Madison TIF Policies and Objectives. 2006.

<http://www.ci.madison.wi.us/planning/tidmaps/TIFPOLICY.pdf>

### **Resources from State Government**

Wisconsin State Statute Governing TIF Use. (s.66.1105)

[www.legis.state.wi.us/statutes/Stat0066.pdf](http://www.legis.state.wi.us/statutes/Stat0066.pdf)

Wisconsin Department of Revenue TIF Website.

[www.revenue.wi.gov/slf/tif.html](http://www.revenue.wi.gov/slf/tif.html)

Top Ten TIF Questions. Wisconsin Department of Revenue.

[www.revenue.wi.gov/faqs/slf/tif10.pdf](http://www.revenue.wi.gov/faqs/slf/tif10.pdf)

City/Village Tax Incremental Financing Guide. Wisconsin Department of Revenue. 2005.

[www.revenue.wi.gov/pubs/slf/tif/cvmanual.html](http://www.revenue.wi.gov/pubs/slf/tif/cvmanual.html)

A Guide for Joint Review Board Members. Wisconsin Department of Revenue. 2005.

[www.revenue.wi.gov/pubs/slf/pr067.pdf](http://www.revenue.wi.gov/pubs/slf/pr067.pdf)

Tax Incremental Finance – An Intergovernmental/Private Partnership. Wisconsin Department of Revenue. 2005.

[www.revenue.wi.gov/pubs/slf/pe-212.pdf](http://www.revenue.wi.gov/pubs/slf/pe-212.pdf)

2006 Statement of Changes in Tax Incremental District Value. Wisconsin Department of Revenue. 2006.

[www.revenue.wi.gov/forms/govtif/tidsoc.html](http://www.revenue.wi.gov/forms/govtif/tidsoc.html)

TIF Value Limitation Report for 2007. Wisconsin Department of Revenue. 2007.

[www.revenue.wi.gov/equ/07tifrep.pdf](http://www.revenue.wi.gov/equ/07tifrep.pdf)

Wisconsin Department of Revenue Electronic Mailing Lists Sign-up.

[www.revenue.wi.gov/html/lists.html](http://www.revenue.wi.gov/html/lists.html)

### **Research Reports**

CDFA & ICSC Tax Increment Financing Best Practices Reference Guide, November 2007

<http://www.cdfa.net/cdfa/cdfaweb.nsf/pages/cdfabookstore.html>

Efficient and Strategic TIF Use, Center on Wisconsin Strategy, December 2006.

[http://cows.org/pdf/rp\\_tif.pdf](http://cows.org/pdf/rp_tif.pdf)

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Refocusing Wisconsin's TIF system on Urban Redevelopment, Center on Wisconsin Strategy, March 2005. [www.cows.org/pdf/rp-tif\\_2005.pdf](http://www.cows.org/pdf/rp-tif_2005.pdf)

Wisconsin's Tax Incremental Finance Law: Lending a Hand to Blighted Areas of Turning Cornfields into Parking Lots? 1000 Friends of Wisconsin. 1999. [www.1kfriends.org/Publications/Online\\_Documents/TIF.htm](http://www.1kfriends.org/Publications/Online_Documents/TIF.htm)

Keeping Up with the Neighbors? Tax Increment Financing in Southeastern Wisconsin. Public Policy Forum. 2005. [www.publicpolicyforum.org/pdfs/2005TIFreport.pdf](http://www.publicpolicyforum.org/pdfs/2005TIFreport.pdf)

<sup>i</sup> Brennan, Joel. "Tax Incremental Finance in Milwaukee". Presentation to CDFA/LISC TIF Policy Seminar. July 24, 2007.

<sup>ii</sup> Though factually accurate, comparing the percentage of Milwaukee's tax base contained within TID boundaries with the percentage of exurban communities contained within TID boundaries, has misleading implications. In most fully-developed communities, between three and five percent of the tax base is within a TIF boundary. The difference is primarily a function of the fact that the tax base of a city is so much larger from the start. Milwaukee's property tax base is about \$31 billion, up from a bout \$20 billion just five years ago. Compare that to Glendale, where the tax base (pre-Bay Shore Town Center TIF) was only \$72 million. The \$300 million Bay Shore project, built in Milwaukee with its \$31 billion tax base, would have put only 1 percent more of the tax base within a TIF boundary.

<sup>iii</sup> "TIF Value Limitations for 2007". Wisconsin Department of Revenue. 2007. [www.revenue.wi.gov/equ/07tifrep.pdf](http://www.revenue.wi.gov/equ/07tifrep.pdf)

<sup>iv</sup> Brennan, Joel. "Tax Incremental Finance in Milwaukee". Presentation to CDFA/LISC TIF Policy Seminar. July 24, 2007.

<sup>v</sup> "City Expects 20 TIF Requests". *Milwaukee Business Journal*. September 22, 2006. [http://milwaukee.bizjournals.com/milwaukee/stories/2006/09/25/newscolumn3.html?jst=s\\_cn\\_hl](http://milwaukee.bizjournals.com/milwaukee/stories/2006/09/25/newscolumn3.html?jst=s_cn_hl)

<sup>vi</sup> Brennan, Joel. "Tax Incremental Finance in Milwaukee". Presentation to CDFA/LISC TIF Policy Seminar. July 24, 2007.

<sup>vii</sup> Weiland, Andrew. "Closing 3 TIF Districts Could Add to City's Coiffers". *Small Business Times*. June 8, 2007. [www.biztimes.com/news/2007/6/8/closing-3-tif-districts-could-add-to-citys-coiffers](http://www.biztimes.com/news/2007/6/8/closing-3-tif-districts-could-add-to-citys-coiffers)

<sup>viii</sup> "Tax Incremental Financing – TIF – What is TIF and What is the approval process for TIF projects in the City of Milwaukee?". Milwaukee Department of City Development. [www.mkedcd.org/business/TIF/pdfs/TIFExplanation.pdf](http://www.mkedcd.org/business/TIF/pdfs/TIFExplanation.pdf)

<sup>ix</sup> Mayrl, Matthew. "Efficient and Strategic TIF Use". Center on Wisconsin Strategy. December 2006. [http://cows.org/pdf/rp\\_tif.pdf](http://cows.org/pdf/rp_tif.pdf)

<sup>x</sup> "Beltline TAD Map". City of Atlanta. [www.beltline.org/media/docs/PDF\\_BL\\_TAD\\_Map.pdf](http://www.beltline.org/media/docs/PDF_BL_TAD_Map.pdf)

<sup>xi</sup> For more information regarding community outreach on the Atlanta's Beltline initiative, see: [www.beltlinecommunity.com/getinvolved.asp](http://www.beltlinecommunity.com/getinvolved.asp)

<sup>xii</sup> Niedermeier, Kevin. "Water Could Lead the Way to Less Business Poaching in Cuyahoga County". WKSU Radio Report. July 30, 2007. [www.wksu.org/news/story/21215](http://www.wksu.org/news/story/21215)

<sup>xiii</sup> Small Business Improvement Fund Website. <http://www.somercor.com/sbif.htm>

<sup>xiv</sup> "City Council Expands Small Business Improvement Fund". City of Chicago Press Release. July 7, 2003. [www.cityofchicago.org/city/webportal/portalContentItemAction.do?contentTypeName=COC\\_EDITORIAL&contentOID=536896309&topChannelName=HomePage](http://www.cityofchicago.org/city/webportal/portalContentItemAction.do?contentTypeName=COC_EDITORIAL&contentOID=536896309&topChannelName=HomePage)

<sup>xv</sup> See: "Downtown Market Study" and "Hotel Market Study" conducted for the City of Milwaukee in June 2007. Available online at: [www.mkedcd.org/news/2007/DowntownMarketStudy.html](http://www.mkedcd.org/news/2007/DowntownMarketStudy.html)

<sup>xvi</sup> "City of Madison TIF Objectives and Policies". City of Madison. November 2006.

[www.ci.madison.wi.us/planning/tidmaps/TIFPOLICY.pdf](http://www.ci.madison.wi.us/planning/tidmaps/TIFPOLICY.pdf)

<sup>xvii</sup> Mayrl, Matthew. "Refocusing Wisconsin's TIF System on Urban Redevelopment: Three reforms." March 2005. [http://www.cows.org/pdf/rp-tif\\_2005.pdf](http://www.cows.org/pdf/rp-tif_2005.pdf)

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