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Tax Incremental Financing #17

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Tax Incremental Financing

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Tax Incremental Financing

This paper provides general background information on tax incremental financing (TIF) in Wisconsin. Included are a background of the TIF program, a description of the current tax incremental financing law, a description of the use of TIF in the redevelopment process, some summary statistics on participation and growth in TIF valuations and levies, and information about the impact of TIF on local governments.

Historical Background

Tax incremental financing is a mechanism for funding development and redevelopment projects. Although the concept of TIF existed as long ago as the early 1940s, California adopted the first TIF law in 1952. However, the widespread use of TIF did not occur in most states until the 1970s.

In part, the increased utilization of TIF since that time is related to changes in federal urban renewal and community development funding policies. Federal programs targeted towards urban renewal and development were folded into larger general aid and block grant programs which spread funds among more communities and decreased the focus on redevelopment financing. Many states enacted TIF laws to create a new funding source for municipal redevelopment projects; municipalities in states with existing TIF laws began using TIF extensively.

Wisconsin enacted its TIF law in 1975. Passage of the law was influenced by the changes at the federal level and a state and national recession during 1974 and early 1975. The TIF law was an

attempt to counteract that economic downturn by allowing cities and villages to work with the private sector to stimulate economic growth and employment through urban redevelopment projects.

A more general reason for the state's TIF law was a legislative determination that all taxing jurisdictions benefiting from urban redevelopment should share in its cost. Public improvements (such as sewers, streets and light systems) usually result in an expanded local tax base. Although the cost of these improvements is normally financed entirely out of municipal revenue, it was argued that the county and school and technical college districts also benefit from the expanded tax base. Tax incremental financing has the effect of making these overlying local taxing jurisdictions share in project costs.

Statutory Provisions

City and village governments may create a tax incremental district (TID) if 50% or more of the proposed district's area is "blighted," in need of rehabilitation or conservation work or suitable for industrial sites. Property that was vacant for the seven years preceding creation of a TID cannot comprise more than 25% of the district's area, unless the district is created to promote industrial development. Land acquired through condemnation is excluded from this requirement. An area designated as suitable for industrial sites must be zoned for industrial use both at the time the TID is created and throughout the life of the project.

Base Value

Once the TID has been created, a "tax incremental base value" is established for property within the district at the time it was created. The base value includes the equalized value of all taxable property and the value of municipally-owned property, as determined by the Department of Revenue (DOR). It does not include municipally-owned property used for certain municipal purposes (such as police and fire buildings and libraries).

Generally, the base value remains constant until the project terminates. However, if the project plan is amended to include additional project costs that extend beyond the allowable expenditure period, the base value will be recertified if the district's value at that time exceeds the original base value.

A planning commission can also adopt, once during the first seven years after creation, an amendment to a TIF project plan to modify the boundaries of that district so as to add contiguous territory served by public works or improvements created as part of that district's project plan. This allows expenditures for project costs incurred for public works or improvements in the area annexed to the district to be made for up to three years from the date the local legislative body adopts the resolution amending the project plan. The value of taxable property that is added to the existing district is determined by DOR. This value is then added to the original base value of the TIF district.

Tax Increment

The "tax increment" equals the general property taxes levied on the value of the TID in excess of its base value (this is the "value increment"). The amount equals the value increment multiplied by the tax rate for all tax jurisdictions--municipal, county, school district, technical college district and special purpose districts. Therefore, tax increments can only be generated by an increase in the equalized value of taxable property within a

TID.

Restriction on New TIDs

Municipalities are allowed to establish any number of TIDs. However, no new TID may be created once a municipality exceeds both of the following thresholds (a new TID can be created if only one threshold is exceeded):

1. The equalized value of the proposed TID plus the equalized value of all existing TIDs within the municipality exceeds 7% of the municipality's total equalized value.
2. The equalized value of the proposed TID plus the value increment of all existing TIDs (this excludes the base value) within the municipality exceeds 5% of the municipality's total equalized value.

Project Plan and Public Hearing

A TIF district must be created through a resolution adopted by the legislative body of a city or village. Either before or at the same time this resolution is adopted, a TIF project plan must also be approved by the local legislative body.

Before adopting a resolution creating a TID, two public hearings are required: one to discuss the proposed TID and one to discuss the project plan. The hearings can be held together, but the hearing on the project plan must be held 30 days before adopting a resolution. The project plan must be available at this hearing. In addition, before it is adopted, the municipal attorney or a special counsel must review the plan and write a formal opinion advising whether the plan is complete and in compliance with the law.

Joint Review Board

A municipality that intends to create a TID or amend a project plan must convene a joint review board. No TID can be created and no plan can be

amended unless approved by a majority vote of the board within 30 days after a resolution is adopted.

The joint review board consists of one member representing each taxing jurisdiction that can levy taxes on property within the TIF district--school and technical college districts, county and city or village--and one public member. All members to the board must be appointed and the board's first meeting must be held within 14 days after notice of the public hearing on the proposed TID or plan amendment. The public member and board chair are selected by a majority of the board members. Administrative support for the board is provided by the affected municipality.

A municipality proposing to create a TID must provide the joint review board with the following information and projections regarding the proposed district:

1. Specific items that constitute the project costs, the total dollar amount of project costs to be paid with tax increments and the amount of tax increments to be generated over the life of the TID.

2. The equalized value of the value increment when the project costs are paid in full and the TID is terminated.

3. The reasons why the project costs may not or should not be paid by the owners of the property that will benefit from the public improvements within the TID.

4. The share of the projected tax increments estimated to be paid by the owners of taxable property in each of the taxing jurisdictions overlying the TID.

5. The benefits that the owners of taxable property in the overlying taxing jurisdictions will receive to compensate them for their share of the projected tax increments paid.

The board must base its decision on whether or

not to approve creation of a TID on three criteria: (1) whether the development expected in the TID would occur without the use of TIF; (2) whether the economic benefits of the TID, as measured by increased employment, business and personal income and property values, are sufficient compensation for the improvement costs; and (3) whether the benefits of the proposal outweigh the anticipated loss in tax revenues of overlying taxing districts.

Project Costs

The TIF project plan must list and estimate the project costs of improving the district. All project costs must directly relate to the elimination of blight or directly serve to rehabilitate or conserve the area or to promote industrial development, whichever is consistent with the district's purpose. Project costs include, but are not limited to, costs related to capital development (such as public works or improvements), environmental remediation, removal of lead contamination from buildings and infrastructure, financing, real property assembly, professional services, imputed administrative services and organizational activities (such as the cost of preparing environmental impact statements).

Eligible project costs do not include: (1) the cost of constructing or expanding administrative buildings, police and fire facilities, libraries and community and recreational buildings, unless the structure was destroyed by a natural disaster before January 1, 1997; (2) the cost of constructing or expanding school buildings; (3) the cost of constructing or expanding any facility which has been historically financed in that municipality exclusively with user fees; (4) general government operating expenses; (5) expenses unrelated to the planning and development of a tax incremental district; (6) costs incurred prior to creation of a TID (except costs directly related to planning for the district); and (7) costs for newly-platted residential development for any TID for which a project plan

is approved after September 30, 1995. Only the share of all other eligible project costs that solely relate to or directly benefit the TID can be funded from tax increments.

To implement the project plan, a special fund is created in which all tax increments must be placed. With limited general exceptions (which are described below), the monies in the fund can only be used to finance the district's eligible project costs. Tax increments in excess of the project costs listed and estimated in the project plan cannot be expended. Also, eligible project costs must be reduced by the amount of investment earnings and by the amount of user fees or charges received in connection with the implementation of the TIF project plan.

Expenditure Period

For TIDs created after September 30, 1995, project expenditures must be made within seven years after the creation of a TID. For TIDs created before October 1, 1995, project expenditures can be made up to 10 years after the TID is created. Costs incurred as a result of condemnation or authorized by an amended project plan are not subject to these limitations.

Allocation of Tax Increments and Project Termination

Regardless of the time period allowed for TIF project expenditures, no annual allocation of tax increments may occur longer than: (a) 23 years after the date of its creation, if the TID was created after September 30, 1995; or (b) 27 years after the date of its creation, if the TID was created before October 1, 1995.

A TIF district terminates when the earliest of the following occurs: (1) all project costs of that district are reimbursed through the receipt of tax increments; (2) the local government body, by resolution, dissolves the district; and (3) for TIDs created after September 30, 1995, 16 years after the

final project cost is incurred or, for TIDs created before October 1, 1995, 20 years after the final project cost is incurred.

Under one circumstance, a TIF district does not have to be terminated when all project costs have been reimbursed. Under this circumstance, the tax increments of the TIF district that has paid off its project costs could be shifted to pay off project costs of another TIF district. If both TIDs were created before October 1, 1995, (or before October 1, 1996, for first class cities) and have the same overlying taxing jurisdictions, one district may allocate positive tax increments for up to 10 years to another district that has yet to pay off its aggregate project costs under its project plan.

Audits of the tax incremental district are required to be conducted within 12 months after each of the following occurs: (1) 30% of the project expenditures are made; (2) the end of the expenditure period; and (3) termination of the district. Municipalities must also prepare, and make available to the public, annual reports describing TIF project status, expenditures and revenues.

Specific Exceptions to General Provisions

During recent legislative sessions, several exceptions to general TIF provisions have been created for specific municipalities. The appendix to this paper describes the most significant of these exceptions.

State Role

There are a number of statutory procedures (such as public hearing requirements and project plan contents) that a city or village must follow if it chooses to use TIF. The Department of Revenue, which administers the TIF law at the state level, must ensure that each required procedure is followed. The Department, however, has no formal authority to review nonprocedural statutory requirements.

The Department of Commerce must issue a biennial report to the Governor and the Legislature as to the social, economic and financial impacts of TIF projects.

School District Capital Improvements

Under 1999 Act 17, a school board, by two-thirds vote, can create a capital improvement fund for the purpose of financing the cost of acquiring and improving school sites, constructing or improving school facilities and major maintenance of school facilities if the following conditions are true: (a) if a TID that is located in whole or in part in the school district terminates before the maximum number of years that it could have existed; and (b) the value increment of the TID exceeds \$300 million.

In each year that the school board adopts a resolution by a two-thirds vote, until the year after the year in which the TID would have been required to terminate, the school district is allowed to deposit the percentage specified in the resolution, up to 100%, of the school district's portion of the positive tax increment of the TID into the capital improvement fund. The school board must use the balance of the school district's portion of the positive tax increment to reduce the school property tax levy that otherwise would be imposed. The positive tax increment for each year is calculated by the Department of Revenue. No monies other than the specified tax increment percentage can be deposited in the fund.

Monies cannot be expended or transferred to any other fund from the capital improvement fund without approval by a majority of voters in a school district at referendum on the question. If a referendum is adopted authorizing the use of monies in the capital improvement fund, then the Legislative Audit Bureau must conduct an audit to determine whether the monies have been used only for the purposes approved in the referendum. Also, any school board taking action to establish a capital improvement fund must report to the Governor and

to the Joint Committee on Finance, by January 1 of each odd-numbered year, describing the use of the monies deposited in the fund and the effects of that use.

Act 17 specifies that a school district's revenue limit for any year is increased by the amount deposited in the capital improvement fund in that school year. The establishment of a capital improvement fund does not affect the costs of state two-thirds funding of K-12 partial school revenues, because any increases in revenue limits are excluded from partial school revenues in calculating the costs of two-thirds funding. Also, any expenditures from the capital improvement fund are excluded from shared costs for purposes of calculating equalization aid.

Although Act 17 establishes two general criteria to meet in order to create a capital improvement fund, to date only one TID, in the Village of Pleasant Prairie, satisfies the \$300 million value increment threshold.

In May, 2000, the Board of the Kenosha School District adopted a resolution creating a capital improvement fund to utilize the value increment from the Village of Pleasant Prairie's TID. No other district in the state has created a capital improvement fund under the provisions of Act 17.

Environmental Remediation TIF Districts

The 1997-99 biennial budget (1997 Act 27) created a tax increment financing option for local units of government (cities, villages, towns and counties) to recover the costs of remediation of environmental pollution. The statutes related to the creation of environmental remediation TIF (ER-TIF) districts were further modified under the 1999-01 biennial budget (1999 Act 9).

The ER-TIF tax increment is determined in the same manner as tax increments for regular TIF districts. Tax increments can be used to fund eligible costs for the shorter of the following periods: (a) 16 years after DOR establishes the environmental remediation TID increment base; or (b) once all eligible costs associated with the remediation of the pollution have been paid. The Department of Natural Resources (DNR) must certify to DOR when the remediation of contamination at sites identified in the site investigation report is complete.

Prior to 1999 Act 9, DOR could certify the tax increment base of an ER-TIF district only after DNR certified that the remediation was complete. Act 9 allows DOR to certify the tax increment base prior to completion of the contamination remediation. However, the Act specifies that prior to DOR certification of the tax increment base, the political subdivision must provide the following: (a) a certificate from DNR indicating that DNR has approved the site investigation report that relates to the affected parcels of property; (b) information on eligible costs already incurred within the district; and (c) a DNR-approved, detailed remedial action plan containing cost estimates for anticipated eligible costs within the proposed ER-TIF district and a schedule for completion of the remedial action.

Eligible Properties

Act 9 made several changes to the types of properties that can be included in an ER-TIF district. The Act deleted the requirement that the property on which an environmental remediation tax increment may be used to defray the costs of remediation must be owned by a county or municipality at the time of the remediation. As a result, an ER-TIF district may include private properties. However, all eligible expenditures must be public expenditures. Counties and municipalities can also use ER-TIF to pay the costs of remediating environmental pollution of groundwater

regardless of whether or not the county or municipality owns the property above the groundwater. ER-TIF districts may only include contiguous parcels of property and those parcels must be within the political subdivision creating the district

Eligible Costs

Eligible costs that may be funded from positive environmental remediation tax increments include capital costs, financing costs, administrative costs and professional service costs associated with the investigation, removal, containment or monitoring of, or the restoration of soil, air, surface water, sediments or groundwater affected by, environmental pollution. Eligible costs that can be paid from tax increments specifically include: (a) property acquisition costs; (b) demolition costs, including asbestos removal; (c) the cost of removing and disposing of underground storage tanks or abandoned containers containing hazardous substances; and (d) costs associated with groundwater investigations and remediation that occur outside the boundaries of the ER-TIF district.

Eligible costs must be incurred within 15 years after the district is created. In addition, all eligible costs must be public expenditures.

No costs incurred after DNR notification that a remedial action has been completed are considered eligible costs, except: (a) monitoring costs incurred within two years after the notification date; and (b) costs identified as a required condition of site closure.

Eligible costs must be reduced by the following: (a) any amounts received from the person(s) responsible for the discharge of a hazardous substance on the property; (b) the amount of net gain from the sale of the property by the local unit of government; and (c) any amounts received, or reasonably expected to be received, from a local, state or federal program aimed at remediation of contamination within the district, if these amounts

do not have to be reimbursed or repaid.

Through calendar year 2000, no environmental remediation TIFs have been established.

General Overview of the Use of TIF

This section provides a general overview of how municipalities use TIF to finance economic development and redevelopment projects. This material provides a broad conceptual framework related to the method by which TIF is used as a source of funding for these projects. This material does not provide a detailed and technical description of the manner in which the economic development process operates in municipalities.

Initially, the economic development process begins with planning activities. The staff of the local redevelopment agency or planning commission generally performs this function. In some instances, municipalities hire consultants to assist in the planning process. Generally, this process consists of choosing an area in need of a TIF redevelopment project and then preparing a project plan to guide redevelopment activities. The TIF law requires that the redevelopment area and project plan meet certain statutory requirements.

Once the initial planning process is complete or nearly complete, a tax incremental district is established, subject to approval by the local planning commission (if any) and the city or village council. Similar approval of the project plan is also required. The approval process includes statutory public hearing requirements and approval by the joint review board.

Once the TID is established and the project plan is approved, the municipality or its redevelopment agency begins to prepare the district for a developer. Land is assembled in conformity with

the project plan. Land is acquired through negotiation with owners or, if necessary, by court condemnation using the power of eminent domain. Residents and businesses are relocated from the acquired buildings into satisfactory structures at a different location.

When the necessary property is acquired and relocation is completed, site clearance begins. Unnecessary structures on the acquired land are razed. At the same time, site improvements are constructed. Site improvements include streets, sewers and new lighting systems. The actual site clearance activities and construction of public improvements and facilities are normally done under contract with private contractors.

The costs of TIF project activities (including planning, administration, land assembly, relocation, site preparation and public improvements) are incurred by the municipality. Often, initial financing for project activities is acquired through general obligation bond issues or, possibly, promissory notes. Sometimes, a transfer from the municipality's general fund is also used for initial project funding. In general, all project costs, including repayment of bond principal and interest and reimbursement of the general fund, are funded by tax increments and special assessments. Federal grants are another means of funding project costs.

After the site is cleared and the improvements completed, the land is usually sold to private developers at a relatively low cost. These developers make changes and improvements to the land in conformity with the project plan. Any loss that the municipality incurs by virtue of the resale price being less than the price it paid for the site (which is commonly referred to as a "land writedown") is an eligible cost and may be financed with tax increments.

During and after development, all private property owners within the district, including

developers, pay property taxes on the basis of the current value of their property, the same as non-TID property owners. However, the municipality's general fund, the county, school district and other taxing jurisdictions receive only the taxes levied on the base value of the district. The remaining tax dollars (tax increments) are allocated to the special TIF fund and are used to pay TIF project costs.

Upon termination of the TIF project, all overlying taxing jurisdictions receive taxes on the basis of the current assessed value of the project area.

Statistics on TIF Usage

Table 1 shows the number of TIF districts which have been established between 1976 and 2000. In addition, the table indicates the number of districts created in each year that have subsequently terminated or dissolved and the number that remain in existence. Of the 1,069 TIF districts that have been created, 31.9% have been terminated or dissolved and 68.1% remain in existence.

The statewide use of tax incremental financing has gone through several stages. Initially, the number of TIF districts created was small. Between 1976 and 1978, only 43 districts were created. The number of TIDs increased dramatically from 1979 to 1981, with 213 new districts created (an average of 71 per year). During the next six years (1982 to 1987), the number of new TIDs was comparatively modest (an average of 28 per year).

A number of factors may have contributed to the decline and subsequent leveling off in TIF development during this period. The economic

recession during the early 1980s and high interest rates may have deterred municipalities from initiating development and public improvement projects. More importantly, interest in TIF development may have reached a saturation point by 1981. The municipalities that were most interested in this financing mechanism took advantage of it in earlier years. In addition, many small and medium-sized municipalities reached the statutory limits placed on new TIF development.

Between 1988 and 1993, there was a slight increase in the number of new TIDs (an average of 41 per year). As TIDs created in the late 1970s and early 1980s terminated, municipalities established new ones. In addition, municipalities that had never used the TIF mechanism began to create TIDs.

In 1994 and 1995, the average number of TIDs created nearly doubled (to 80 per year). A factor that may have contributed to this increase was the legislation that committed the state to providing two-thirds state funding for schools. With the expectation of reduced property tax levies related to increased state funding came the notion that the state would hold municipalities harmless for the corresponding loss of TIF revenues. It was further anticipated that such a hold harmless provision would apply only to those TIDs created prior to the law change. Ultimately, however, a hold harmless provision was not realized. Instead, changes to the TIF law were enacted to provide municipalities with greater flexibility in managing possible TIF revenue shortfalls. Since these provisions were to apply only to TIDs created before October 1, 1995, there existed an incentive for municipalities to create any pending TIDs prior to this point in time.

Table 1**Number of Tax Increment Districts**

Year	Number Established	Number Terminated or Dissolved	Number Still in Existence
1976	5	3	2
1977	18	16	2
1978	20	13	7
1979	85	69	16
1980	73	55	18
1981	55	49	6
1982	25	21	4
1983	40	27	13
1984	20	13	7
1985	28	13	15
1986	26	11	15
1987	31	12	19
1988	46	15	31
1989	40	13	27
1990	39	4	35
1991	38	1	37
1992	44	1	43
1993	41	2	39
1994	75	0	75
1995	85	1	84
1996	60	1	59
1997	69	1	68
1998	44	0	44
1999	49	0	49
2000*	13	0	13
Total	1,069	341	728

*Preliminary.

The number of TIDs created in 1998 and 1999 declined significantly from the recent year levels to a level more similar to that seen during the 1988 to 1993 period.

Table 2 compares the change in aggregate TIF incremental values to the change in total equalized valuation for cities and villages (towns cannot create TIF districts), from 1991 to 2000. Between 1991 and 1992, TIF incremental value grew at a rate faster than the total equalized value, allowing TIF incremental value as a percentage of total city and village equalized value to increase from 3.2% in 1991 to 3.3% in 1992. In 1993 and 1994, this trend reversed and TIF incremental value as a percentage of total city and village equalized value fell. Since 1995, TIF incremental values again grew at a rate faster than the total equalized value. In 2000, TIF incremental value as a percentage of total city and village equalized value was 3.5%.

Table 3 compares the growth in property tax increments (the levy amount collected by municipalities for TIF project costs) to the total levy in villages and cities. Over this period, tax increments grew at an average annual rate that was 23% greater than that for the total levy. In 1999, tax increments represented 3.3% of the total tax levy in villages and cities.

Table 2: TIF Incremental Value Compared to Total Equalized Value (In Millions)

	TIF Incremental Value		City/Village Equalized Value		TIF Incremental Value as a % of City/Village Equalized Value
	Amount	% Change	Amount	% Change	
1991	\$3,125.5	---	\$98,816.9	---	3.2%
1992	3,428.9	9.7%	104,106.0	5.4%	3.3
1993	3,502.7	2.2	111,823.4	7.4	3.1
1994	3,318.1	-5.3	119,898.3	7.2	2.8
1995	3,809.3	14.8	129,379.4	7.9	2.9
1996	4,102.9	7.7	138,113.3	6.8	3.0
1997	4,672.9	13.9	142,258.6	3.0	3.3
1998	5,142.9	10.1	155,723.1	9.5	3.3
1999	5,484.0	6.6	164,215.9	5.5	3.3
2000	6,235.7	13.7	177,340.5	8.0	3.5
Avg. Annual % Change		8.0%		6.7%	

Table 3: Tax Incremental Levies and Total Tax Levies – Villages and Cities (In Millions)

	Tax Increment Levies		Total Levy		Tax Increments as a Percent of Total Levy
	Amount	% Change	Amount	% Change	
1990	\$93.9	---	\$3,091.6	---	3.0%
1991	103.6	10.3%	3,319.3	7.4%	3.1
1992	117.6	13.5	3,607.0	8.7	3.3
1993	116.8	-0.7	3,779.7	4.8	3.1
1994	103.8	-11.1	3,871.2	2.4	2.7
1995	112.8	8.7	3,970.8	2.6	2.8
1996	106.1	-5.9	3,749.2	-5.6	2.8
1997	117.9	11.1	3,898.2	4.0	3.0
1998	130.2	10.4	4,107.9	5.4	3.2
1999	137.2	5.4	4,203.7	2.3	3.3
Avg. Annual % Change		4.3%		3.5%	

Impact of TIF on the Net Revenues of Local Governments

K-12 School Districts

Although the school levy for elementary and secondary education makes up a large part of the tax increment (45% on average) and this suggests that K-12 school districts fund a major part of TIF project costs, many school districts are not adversely impacted by TIFs since districts are often compensated for the loss in local tax revenues through increases in state aids. From 1977-78 through 1992-93, school districts with TIF districts benefited from the state supplemental aid program, which, when fully funded, would for many school districts replace most of the lost tax revenues with increases in state aid.

State supplemental aid to school districts was computed by calculating equalization aid for each eligible school district twice, once with the TIF value increment included in the district's property wealth and once with the value increment

excluded. Since the school equalization aid formula is based on the principal of equalizing tax base (neutralizing the effect of property wealth per pupil on total revenues), state supplemental aid would approximately equal the amount of tax revenue lost to the TIF district.

Although the state supplemental aid program had the potential to fully offset the loss of tax revenue, there are several factors which prevented the full replacement of lost tax revenues for all districts with TIFs. First, school districts with very high per pupil property values (zero-aid school districts) would not benefit from the state supplemental aid program since such districts are not eligible for equalization aid. Second, during the sixteen-year history of supplemental aid payments, the supplemental aid appropriation did not always equal the amounts determined by the aid calculation, resulting in a proration in payments during six years. Also, due to cost concerns and other factors, there was a period of time (1983-84 to 1990-91) when new TIF districts were not allowed to be part of the supplemental aid program. In the last year, payments were made to 212 of the state's 427 school districts.

Although the supplemental aid program was repealed after 1992-93, the funding for the supplemental aid appropriation was transferred to the general equalization aid appropriation, and the equalization aid formula for school districts was modified, beginning in 1993-94, to exclude the incremental value of TIF districts from a school district's equalized property valuation. These changes, for the most part, maintained the same distribution of total aids that existed under the supplemental aids system, since supplemental aids were based on running the equalization formula with and without the TIF value increment. The current method may be more favorable to school districts with TIF districts since the compensation for the loss of tax revenue is built into the equalization formula and does not depend on the funding of a separate appropriation (where compensation could be prorated). However, collapsing of the separate supplemental aid appropriation into the general equalization aid appropriation does obscure the state's role in compensating school districts for their lost tax base.

WTCS Districts

State general aid to Wisconsin Technical College System (WTCS) districts is also inversely related to a district's equalized value per pupil and, like the current aid formula for K-12 districts, does not include the value increments from TIF districts in measuring equalized value per pupil. However, the aid formula is not as equalizing as that for K-12 districts, and will only partially offset (less than half) the lost revenue from a loss of tax base.

County Governments

County governments participate in the shared revenue aid program, which has a tax-base equalizing effect similar to the general school aid formula. The measure of equalized value per capita used for counties in the shared revenue formula excludes the value increments of TIF districts

located in the county. Thus, there is the potential for the shared revenue program to offset the loss in potential tax revenues. However, all but eight of the 72 counties in Wisconsin are constrained by the minimum/maximum limitations of the shared revenue program. Counties which are subject to the minimum/maximum limitations are not affected by changes in their property tax base in the short run.

Municipal Governments

Municipalities also participate in the tax-base equalizing formula under the shared revenue program. However, unlike counties, the TIF value increment is included in the measure of equalized value per capita, and thus, formation of a TIF district will not lower a municipality's measure of tax base and will not result in additional shared revenue payments due to a lower tax base. The rationale for this differential treatment is that the municipality is the main agent behind the TIF district and uses the TIF tax increment to fund redevelopment in the TIF district. Redevelopment is a function usually performed by the municipality.

Although the shared revenue program does not treat a TIF district as a loss of tax base for the municipality, the program counts the TIF tax increment (municipality's share only) as part of the municipality's revenue effort for purposes of the shared revenue payment. Shared revenue payments are positively related to the measure of revenue effort, but the increase in the shared revenue payment will be less than the tax increment (municipality's share). Also, 1,181 municipalities (63.8%) are on either the minimum guarantee or maximum limitation so that, under the current circumstances, the shared revenue payment for many municipalities is not affected by the presence of a TIF district.

APPENDIX

Specific Exceptions to Requirements on Tax Increment Districts

City of Glendale

1. A TID project may be extended when the tax increments of one TID have been shifted to another TID within the city because development in the recipient TID has been impacted by environmental contamination and the project's costs have not been fully covered. However, the allocation of positive tax increments to the district impacted by environmental contamination cannot occur beyond 2002.

City of Kenosha

1. Any amendment to a TID project plan in the City that allows for the allocation of tax increments from that TID to a second district where development is being affected by environmental contamination would have 12 years after the creation of the second district to complete expenditures.

2. A TID project may be extended when the tax increments of one TID have been shifted to another TID within the city because development in the recipient TID has been impacted by environmental contamination and the project's costs have not been fully covered. However, the allocation of positive tax increments to the district impacted by environmental contamination cannot occur beyond 2016.

3. Any TID that is amended to allow for the allocation of tax increments from that TID to a second district that has been affected by environmental contamination must be terminated before the sum of the number of years for which expenditures are made in the second district and tax increments from the original TID are allocated

exceeds 37 years.

City of Oconomowoc

1. Allocation of tax increments may occur 38 years after the creation of a district whose plan is amended to include contiguous territory served by public works or improvements that were created as part of the district plan.

2. If a TID is amended to include contiguous areas served by any public works or improvements created under the original TID plan, the project must be terminated within 22 years after all project costs have been incurred.

City of Oshkosh

1. A TID project may be extended when the tax increments of one TID have been shifted to another TID within the city because development in the recipient TID has been impacted by environmental contamination and the project's costs have not been fully covered. However, the allocation of positive tax increments to the district impacted by environmental contamination cannot occur beyond 2016.

City of Sheboygan

1. The period during which eligible expenditures can be incurred and be reimbursed through the allocation of tax increments may be extended from seven years to 13 years for TIF district number six. Eligible expenditures for the district may occur through December 31, 2004.

Village of Ashwaubenon

1. The period for which expenditures may be

made in TIF district number two may be extended from three years to five years after the village board adopts an amended project plan adding territory to the district. Eligible expenditures for the district may occur until July 30, 2001.

Village of Gilman

1. A TIF district project plan may be amended to modify the district's boundaries by adding contiguous properties that are served by public works improvements that were created

under the TIF project plan for up to eleven years after the district is created.

2. The period during which expenditures may be made under the amended plan may be extended from three years to five years after the amended plan is adopted.

3. The period a district may exist before termination is required may be extended from 20 years to 22 years after the last expenditure identified in the project plan.