

Research Brief

Tax Increment Financing in Southeastern Wisconsin

TIF use in region increases but continues to lag state average

Tax Increment Financing (TIF) is southeastern Wisconsin's largest economic development tool. With 176 TIF districts and \$8.4 billion in property value, the collective tax base devoted to TIF districts in our region ranks behind only the city of Milwaukee among our region's largest tax bases.

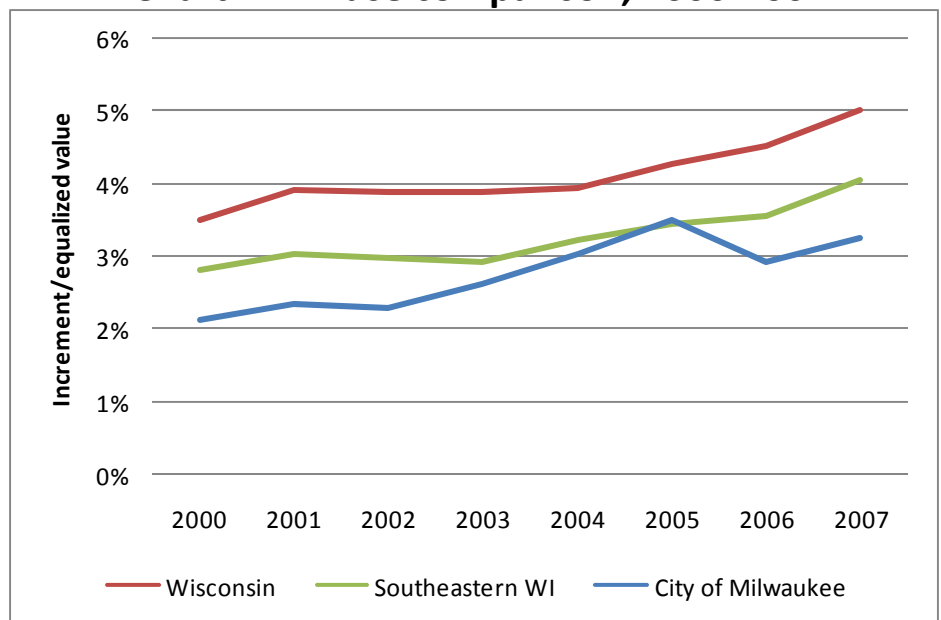
Despite the impressive scale of TIF in the seven-county area, the tool is used less here than in the rest of the state (**Chart 1**). Whether that's due to reluctance or lack of need is unclear. What is clear is that if the region decides that it can become more aggressive with TIF, it has sufficient capacity. It's critical that we know where this capacity exists and how best TIF can be deployed to shape the region's future growth. After all, economic development needs finance.

The use of TIF is growing in our region. There were 56 municipalities using it in southeastern Wisconsin in 2007 - up from 51 in 2000. Today, a quarter of the 56 municipalities are "TIF'd out" - communities that can no longer approve new TIF districts because the value in their existing districts exceeds the state limit.

TIF use in the city of Milwaukee has increased along with the rest of the state and region (**Chart 1**) despite the successful retirement of three large TIF districts in 2006. While the city's use of the tool continues to trail regional and state averages, Milwaukee has increased TIF expenditures under Mayor Tom Barrett's administration.

As TIF use increases in Wisconsin, so too will the public's scrutiny of this popular development tool. Municipalities in our region could benefit from implementing several "best practices" aimed at ensuring the strategic, accountable, and efficient use of TIF. Such practices include using TIF to finance bold public policy objectives, like transit improvements and jobs in emerging business clusters.

Chart 1: TIF use comparison, 2000-2007



Key findings

- **TIF use is growing in southeastern Wisconsin, mirroring TIF growth throughout the state.** TIF districts in the region have increased from 134 in 2000 to 176 today. Fifty-six municipalities currently use TIF in southeastern Wisconsin - up from 51 in 2000.
- **TIF use continues to be lower in southeastern Wisconsin than elsewhere in the state.** Lower TIF-use rates in Milwaukee, Waukesha, and Ozaukee county municipalities contribute to the region's lower usage compared to the state average. Currently, 30 municipalities in southeastern Wisconsin do not use TIF. Three (New Berlin, Pewaukee, & Greendale) of the five largest are in Waukesha and Milwaukee counties.
- **Currently, one in four municipalities in southeastern Wisconsin using TIF are "TIF'd out."** The 14 "TIF'd out" municipalities can no longer approve new TIF districts because the value of their existing portfolio exceeds 12% of their equalized assessed value – Wisconsin's statutory limit. This compares to nine such cases in 2004.
- **TIF districts in the region are 22% residential, 61% commercial, 10% manufacturing, and 7% "other."** While this is not appreciably different from the state-wide mix, there are wide variations within the region.
- **The city of Milwaukee's TIF districts consume 3.3% of its equalized property value, up from 2.1% in 2000.** Despite the increase, the city's use of TIF continues to be less than the average for municipalities elsewhere in southeastern Wisconsin (4.0%) and the state (5.0%). However, with the Pabst Brewery, North End, and Park East developments representing \$780 million in estimated future property value, the city's TIF utilization rate should rise in future years.
- **The city of Milwaukee has seen a rise in TIF approvals under Mayor Barrett.** From April, 2004 to December, 2007, the city authorized \$232 million in TIF expenditures for a \$66.2 million annual average, exceeding the \$46.6 million annual average from the last two years of the Norquist administration.

Policy implications

A review of TIF "best practices" yields specific actions which would help ensure the strategic, accountable, and efficient use of TIF in southeastern Wisconsin. They are:

- **Use TIF to build community partnerships**
More can be done to educate and engage the public during the TIF approval process.
- **Establish developer need, not want**
Strong due diligence of incoming TIF proposals is needed to ensure their efficient use.
- **Align TIF use with community goals**
Municipalities should use TIF to fulfill goals within an economic development plan.
- **Monitor and report TIF performance**
Accomplishments (and failures) of the region's 174 TIF districts should be readily available to the public.
- **Use TIF to compete globally**
TIF could play a central role in strengthening the region's competitive position.

Introduction

This is the Public Policy Forum's second report on the use of Tax Increment Financing (TIF) in southeastern Wisconsin. Our first report was released in February 2005 and covered the period 2000-2004, prior to the enactment of a comprehensive reform bill in 2004 that significantly liberalized Wisconsin's TIF law. This report includes the "post-reform" years of 2005-2007. Our purpose is to give a macro view of how TIF is used in the seven-county region and what measures could be undertaken to improve its use as a powerful public finance tool.

What is TIF?

TIF is a public finance tool that villages and cities use to spur economic growth. It captures the increase in property tax proceeds generated by new real estate development within a particular district (increment) and uses the proceeds for public improvements in the district. Once the improvements are paid for, the district is retired and the property value is added to a municipality's tax base.

Table 1: Tax increment financing in southeastern Wisconsin, 2007

Municipality	Number of Districts	TIF Utilization	Property value in TIF districts			Composition of TIF districts			
			Base Value	Increment Value	Total Value (Base + Increment)	Residential	Commercial	Manufacturing	Other
Pleasant Prairie	1	7.7%	\$54,504,700	\$206,840,600	\$261,345,300	0%	52%	40%	7%
Kenosha	9	4.6%	\$48,779,900	\$303,302,400	\$352,082,300	32%	45%	18%	6%
Kenosha Total	10	4.8%	\$103,284,600	\$510,143,000	\$613,427,600	18%	48%	27%	6%
Brown Deer	3	2.9%	\$54,747,400	\$32,870,900	\$87,618,300	12%	81%	0%	7%
Hales Corners	1	5.3%	\$23,274,100	\$37,235,400	\$60,509,500	13%	79%	0%	8%
Shorewood	2	4.9%	\$139,664,500	\$72,688,000	\$212,352,500	15%	80%	0%	6%
West Milwaukee	3	7.5%	\$11,651,600	\$26,563,900	\$38,215,500	1%	93%	0%	6%
Whitefish Bay	1	1.9%	\$38,403,700	\$36,974,000	\$75,377,700	9%	86%	0%	4%
Cudahy	1	18.7%	\$73,249,200	\$243,998,800	\$317,248,000	49%	44%	6%	0%
Franklin	3	5.8%	\$139,815,500	\$212,003,500	\$351,819,000	10%	62%	19%	9%
Glendale	3	19.3%	\$123,102,900	\$445,313,400	\$568,416,300	1%	89%	1%	10%
Milwaukee	42	3.3%	\$424,026,000	\$1,038,175,600	\$1,462,201,600	24%	64%	5%	7%
Oak Creek	3	0.8%	\$4,074,000	\$26,610,400	\$30,684,400	0%	74%	18%	8%
St. Francis	1	0.6%	\$48,890,800	\$3,874,700	\$52,765,500	68%	28%	3%	1%
South Milwaukee	4	5.2%	\$31,915,100	\$71,714,700	\$103,629,800	21%	53%	22%	5%
Wauwatosa	3	3.9%	\$31,740,000	\$225,101,600	\$256,841,600	3%	90%	1%	6%
West Allis	7	3.0%	\$46,209,400	\$131,936,300	\$178,145,700	0%	69%	20%	11%
Milwaukee Total	77	3.9%	\$1,190,764,200	\$2,605,061,200	\$3,795,825,400	18%	69%	6%	7%
Belgium	1	13.5%	\$316,000	\$22,864,000	\$23,180,000	88%	5%	6%	1%
Fredonia	1	12.2%	\$1,265,500	\$19,593,800	\$20,859,300	63%	11%	25%	1%
Grafton	4	4.6%	\$69,902,900	\$52,017,500	\$121,920,400	21%	66%	7%	5%
Saukville	2	2.9%	\$2,252,500	\$11,941,300	\$14,193,800	2%	10%	77%	11%
Thiensville	1	11.3%	\$16,826,900	\$38,976,500	\$55,803,400	39%	58%	0%	3%
Mequon	1	0.3%	\$5,911,600	\$13,473,600	\$19,385,200	1%	65%	29%	5%
Ozaukee Total	10	1.8%	\$96,475,400	\$158,866,700	\$255,342,100	32%	51%	12%	4%
Mount Pleasant	1	0.0%	\$4,292,700	(\$21,700)	\$4,271,000	8%	77%	0%	15%
Sturtevant	1	35.1%	\$9,157,700	\$179,148,600	\$188,306,300	30%	42%	25%	3%
Union Grove	1	1.0%	\$1,882,400	\$3,263,400	\$5,145,800	0%	82%	15%	2%
Waterford	1	6.0%	\$13,130,900	\$28,476,300	\$41,607,200	14%	78%	1%	6%
Burlington	2	22.9%	\$135,373,000	\$207,675,700	\$343,048,700	54%	35%	6%	5%
Racine	13	4.9%	\$48,869,250	\$197,329,650	\$246,198,900	28%	53%	12%	7%
Racine Total	19	5.3%	\$212,705,950	\$615,871,950	\$828,577,900	38%	44%	12%	5%
Darien	1	17.0%	\$3,017,900	\$19,581,500	\$22,599,400	1%	34%	62%	2%
East Troy	2	8.1%	\$949,000	\$28,094,300	\$29,043,300	0%	79%	20%	1%
Fontana	1	5.0%	\$30,220,400	\$61,438,500	\$91,658,900	60%	40%	0%	0%
Genoa City	1	37.4%	\$4,056,000	\$74,172,900	\$78,228,900	86%	12%	1%	0%
Delavan	1	11.7%	\$22,997,800	\$82,923,000	\$105,920,800	54%	33%	0%	13%
Elkhorn	2	16.9%	\$48,910,300	\$122,117,200	\$171,027,500	35%	44%	11%	10%
Lake Geneva	2	10.8%	\$23,086,000	\$137,136,900	\$160,222,900	20%	73%	5%	2%
Whitewater	3	12.2%	\$23,742,600	\$75,408,700	\$99,151,300	25%	40%	30%	5%
Walworth Total	13	9.6%	\$156,980,000	\$600,873,000	\$757,853,000	39%	45%	10%	5%
Germantown	3	5.4%	\$17,120,950	\$126,366,650	\$143,487,600	0%	56%	36%	8%
Jackson	3	15.5%	\$4,631,900	\$88,112,900	\$92,744,800	1%	51%	39%	8%
Kewaskum	1	4.4%	\$2,868,700	\$12,625,300	\$15,494,000	53%	31%	13%	3%
Slinger	1	23.2%	\$3,842,800	\$102,507,700	\$106,350,500	77%	17%	4%	2%
Hartford	3	10.4%	\$955,100	\$118,318,800	\$119,273,900	9%	27%	56%	8%
West Bend	9	4.9%	\$36,338,400	\$121,879,400	\$158,217,800	13%	63%	15%	8%
Washington Total	20	7.7%	\$65,757,850	\$569,810,750	\$635,568,600	19%	45%	29%	7%
Butler	1	6.9%	\$12,843,300	\$18,219,100	\$31,062,400	6%	67%	22%	5%
Elm Grove	1	1.1%	\$33,435,800	\$12,480,000	\$45,915,800	1%	91%	3%	5%
Hartland	2	7.0%	\$3,670,000	\$83,268,100	\$86,938,100	1%	83%	12%	5%
Menomonee Falls	4	4.2%	\$105,402,300	\$191,276,100	\$296,678,400	11%	73%	14%	2%
Mukwonago	1	5.5%	\$2,389,500	\$43,825,200	\$46,214,700	0%	88%	0%	12%
North Prairie	1	2.5%	\$3,210,900	\$5,992,900	\$9,203,800	27%	39%	31%	4%
V. of Pewaukee	1	2.7%	\$6,323,150	\$24,939,350	\$31,262,500	44%	54%	0%	3%
Sussex	2	12.0%	\$11,343,000	\$140,370,200	\$151,713,200	44%	33%	21%	2%
Wales	1	0.3%	\$24,161,100	\$1,101,400	\$25,262,500	10%	82%	0%	7%
Brookfield	1	0.8%	\$131,110,100	\$51,946,700	\$183,056,800	0%	92%	0%	8%
Delafield	1	4.2%	\$11,391,400	\$55,136,300	\$66,527,700	37%	61%	0%	2%
Muskego	2	0.4%	\$36,312,800	\$11,709,100	\$48,021,900	9%	82%	2%	8%
Oconomowoc	2	13.8%	\$55,187,200	\$277,129,400	\$332,316,600	2%	83%	3%	11%
Waukesha	7	1.9%	\$67,486,800	\$113,720,500	\$181,207,300	33%	60%	2%	4%
Waukesha Total	27	2.6%	\$504,267,350	\$1,031,114,350	\$1,535,381,700	14%	73%	7%	6%
REGION TOTAL	176	4.0%	\$2,330,235,350	\$6,091,740,950	\$8,421,976,300	22%	61%	11%	6%
STATE TOTAL	948	5.0%	\$7,061,584,195	\$15,449,787,905	\$22,511,372,100	20%	61%	11%	7%

Data sources

Major data sources for this report were the Wisconsin Department of Revenue’s (DOR) Tax Incremental Value Report and the DOR’s TIF Statement of Changes. Both contain district-level TIF data for each municipality in Wisconsin. DOR TIF reports are updated annually and can be downloaded at their website.

Intensity of TIF use

This report uses the benchmark “TIF Utilization” to measure the intensity of TIF use in a given community. The measure is the community’s total value of increment in all existing TIF districts divided by the municipality’s total equalized assessed value. For example, the city of Racine had a TIF utilization of 4.9% in 2007 (**Table 1**). This means that 4.9% of its tax proceeds generated by TIF are being used exclusively to pay for public improvements made within the city’s TIF districts. The higher the percentage, the more tax proceeds flow into TIF districts.

Any municipality over the state-mandated 12% threshold is considered “TIF’d out” and can no longer approve new TIF districts or amend existing districts. Those districts

over, or just under, the 12% capacity limit are shown in **Chart 2** (the 12% threshold is depicted by the red line).

Southeastern Wisconsin is home to 14 TIF’d out communities, which is about one in four communities currently using the tool in the region. That’s up from nine such districts in 2004.

Those communities just below the 12% threshold may also be prohibited from adopting additional TIF districts if the value of the new district plus the value of increment of existing districts exceeds 12% - a likely possibility for those just below the red line in **Chart 2**. As more communities exceed the 12% cap, there could be political pressure to further increase the cap, which was last lifted in 2004 from 7% to 12%.

Of course, most municipalities in southeastern Wisconsin are far from the 12% limit. The TIF utilization average for the entire region is just 4.0%, placing it below the 5.0% state average (**Chart 1**).

Our region’s lower TIF utilization has its roots in Milwaukee, Waukesha, and Ozaukee counties (**Chart 3**). Why is not clear. Ozaukee and Waukesha counties are two of the

Chart 2: “TIF’d out” municipalities in southeastern Wisconsin, 2007

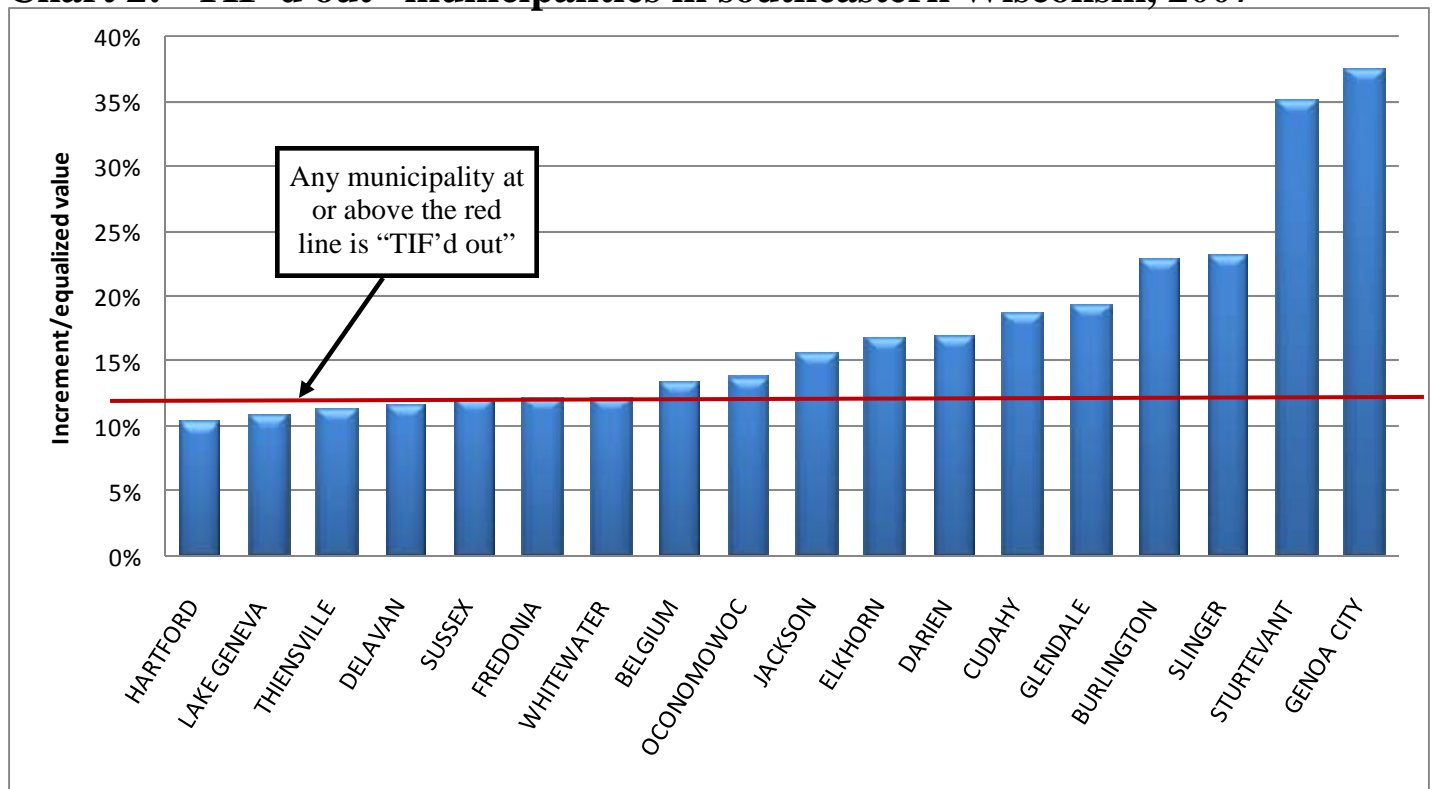
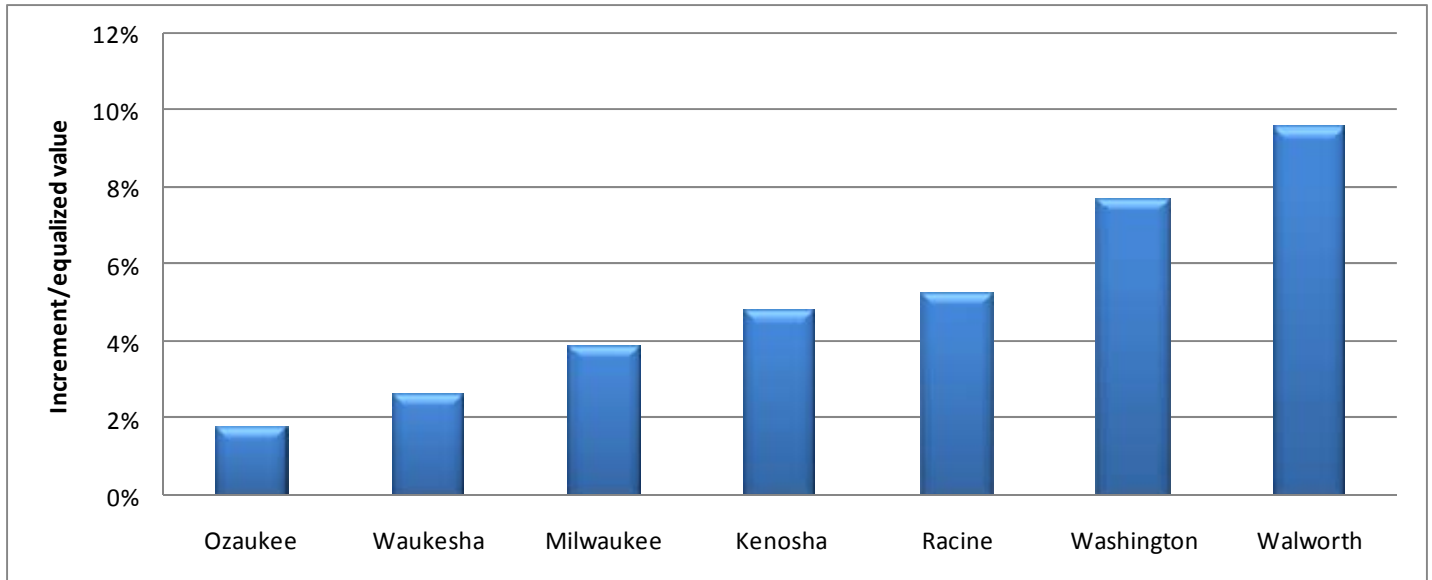


Chart 3: Intensity of TIF use by county, 2007



region’s richest counties in per-capita property value so there may be less pressure to “grow the base” using TIF. Then again, Walworth County has the highest per-capita property values in the region, but also has the highest TIF utilization rates. Perhaps there isn’t a good correlation between being property rich and TIF usage.

One concern is why a property-poor area like Milwaukee County would have such a low utilization (third lowest in the region) of a tool used to grow property wealth. The answer lies in lower usage rates in the city of Milwaukee and in the fact that two of the five largest communities not using TIF in the region - the city of Greenfield and the village of Greendale - are located in Milwaukee County.

Perhaps the region has lower TIF utilization rates because municipalities either have chosen not to use TIF or have no need to use TIF. Somewhat surprisingly, even after decades of growth in the use of TIF throughout the region, there are still 30 cities and villages that do not use TIF (**Table 2**). Most non-users are small, exclusively residential hamlets. However, some non-users are larger, older communities, indicating they might have some use of TIF. The other large non-TIF-users in the region are New Berlin and Pewaukee in Waukesha County and Caledonia (incorporated last year) in Racine County.

Without further research it’s difficult to know the exact reason(s) why one community uses TIF so much more than another. Is it a choice that the community has made or is it a reflection of the demand for the tool?

Table 2: Southeastern Wisconsin municipalities not using TIF, 2007

Milwaukee	Ozaukee	Racine	Waukesha
Bayside	Cedarburg*	Rochester	Eagle
River Hills	Port Washington	Elmwood Park	Chenequa
Fox Point		North Bay	Merton
Greendale		Wind Point	Lac La Belle
Greenfield*		Caledonia*	Nashotah
			Oconomowoc Lake
			Lannon
			Dousman
			New Berlin
			Big Bend*
			Pewaukee (City)
Kenosha	Walworth	Washington	
Paddock Lake	Sharon*	Newburg	
Silver Lake	Williams Bay		
Twin Lakes	Walworth		

What we do know is that we use TIF less than the rest of the state. In a way, this can be interpreted as an opportunity. If the region decides that it should be more aggressive with TIF, it clearly has the capacity to meet future needs. And for future development, it’s good to know how much and where this capacity exists.

*Indicates that the municipality recently approved the creation of a TIF district

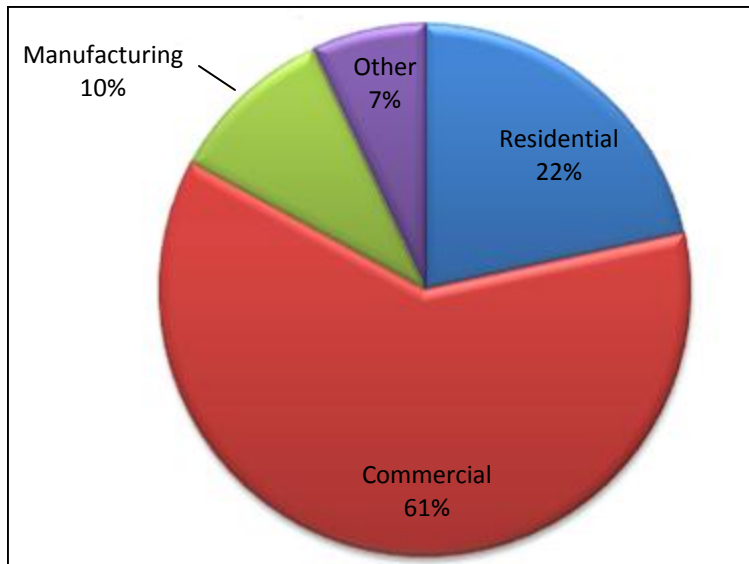
What does TIF look like in our region?

Data are now available from the Wisconsin Department of Revenue which makes it possible to compare the real estate mix supported by TIF within each community. In southeastern Wisconsin, the composition is as follows: 22% residential, 61% commercial, 10% manufacturing and 7% other (open space, personal property, etc.). While this composition is not appreciably different from the statewide mix, communities in the region use TIF in very different ways.

The type of real estate development supported by TIF varies greatly throughout the region and appears to reflect a particular area's unique geographic advantages (Table 3). For example, the use of TIF for commercial development is most highly concentrated in Waukesha and Milwaukee counties, capitalizing on their status as the region's centers for retail and white-collar employment. Meanwhile, the use of TIF

for manufacturing development is most concentrated in Washington County, reflecting its status within the region as having the highest percentage of labor force devoted to manufacturing. Communities within Kenosha County also support an above average use of TIF for manufacturing, reflecting Kenosha's available land and its proximity to Chicago. Lastly, residential TIF development is most highly concentrated in Walworth County, reflecting its status as a popular location for second homes.


Chart 4: Real estate composition of TIF in southeastern Wisconsin, 2007




This analysis shows the tendency of TIF use to reinforce location and market advantages. While TIF also is being used to breathe new life into underserved markets with projects, such as downtown housing in Kenosha and central-city manufacturing in Milwaukee's Menomonee Valley, the balance of development supported by TIF appears to mirror a particular community's unique market niche.

Table 3: Real estate composition of TIF by county, 2007


Figures highlighted in yellow indicate counties with above-average concentrations of a particular type of real estate development



	Waukesha	Milwaukee
Commercial	73%	69%
Residential	14%	18%
Manufacturing	7%	6%



	Walworth	Racine	Ozaukee
Commercial	45%	44%	51%
Residential	39%	38%	32%
Manufacturing	10%	12%	12%



	Washington	Kenosha
Commercial	45%	48%
Residential	19%	18%
Manufacturing	29%	27%

City of Milwaukee TIF use

The city of Milwaukee is the region's largest user of TIF and is home to several large districts (**Table 4**). With over \$1 billion in increment in 42 active TIF districts, Milwaukee's use of the tool dwarfs the region's next largest user - the city of Glendale with \$445 million in increment in three districts.

Milwaukee's current TIF district roster consumes 3.3% of the city's equalized property value, less than the average for the rest of southeastern Wisconsin and the state (**Chart 5**). Additional comparisons place the city's use of TIF in the middle of the 10 largest Wisconsin municipalities, but less than Chicago and Minneapolis - cities with historically high TIF utilization rates.

One reason for Milwaukee's lower TIF utilization is its retirement of three large TIF districts in 2006. This added \$272 million to the city's tax base - the equivalent of one and a half US Bank buildings - in just one year. The successful retirement of districts eases the tax burden on city taxpayers and reinforces why TIF districts are created in the first place - to grow the tax base.

The city's TIF utilization rate could rise significantly in upcoming years, based on data that show rising TIF expenditures in Milwaukee during the Barrett administration. During the period of April 2004 to December 2007, the city authorized \$232 million in TIF expenditures resulting in a \$66.2 million annual average. This exceeded the \$46.6 million average from the last two years of the Norquist administration. Because there is a lag between when a TIF is approved and construction is completed, TIF expenditures typically will not bear significant new property value for some years. However, with the Brewery, North End and Park East developments representing \$780 million in estimated future value, the city's TIF utilization rate should rise in upcoming years.¹

There is no magic number when it comes to appropriate level of TIF use. Perhaps even more important than the level of TIF use is the need for districts to be performing well

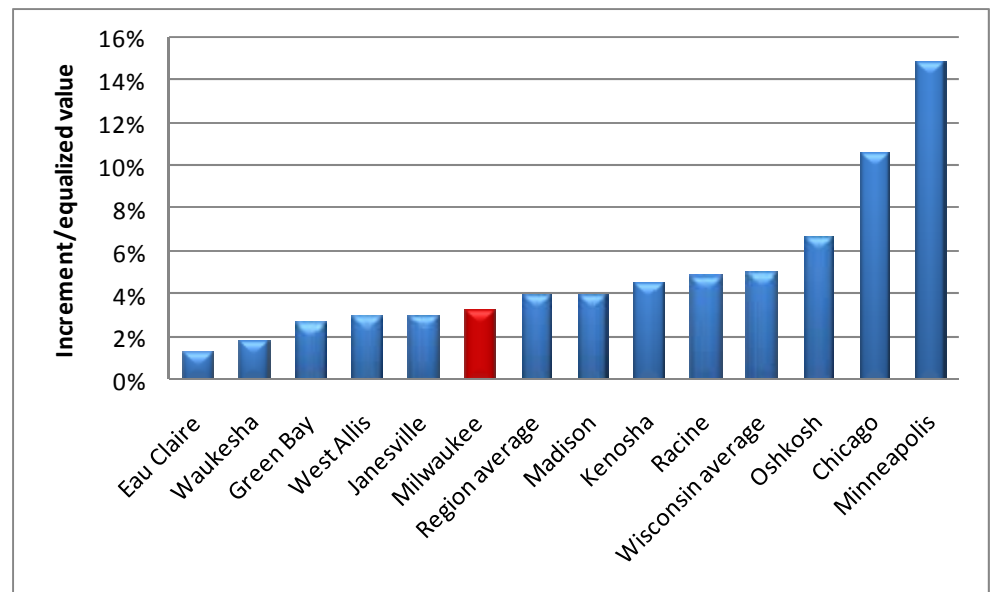
Table 4: Largest city of Milwaukee TIF districts, 2007

	Year created	Increment
Beerline (Commerce St.)	1994	\$141,305,300
Riverwalk (Third Ward)	2004	\$120,124,600
The Shops of Grand Avenue	1998	\$91,953,400
Roundy's headquarters (875 E. Wisconsin)	2002	\$91,277,100
Midtown Center	2001	\$65,425,600

and transparently and strategically. On these criteria, the city of Milwaukee's record is mixed but improving.

The average lifespan of a TIF district in the city has been 15 years and is projected to increase to 19 years for current districts.² "Lifespan," or "payback period," is an important performance benchmark that measures how quickly TIF debt is retired to allow for the increase in property value to be added to the city's tax base. By this measure, the typical lifespan of a TIF district in the city is longer than the state average of 12.4 years but is well under the statutory limit of 30 years.³ It is not unexpected for the city's average TIF payback period to be higher than the state average. Redevelopment TIF districts in dense, urban environments typically take longer to retire due to high property base valuations, relocation expenses, complex land assembly needs, environmental cleanup issues, demolition costs, etc. In light of the recent retirement of three large TIF districts in 2006 at an average age of 16.7 years, average payback periods in the city seem reasonable.

Chart 5: City of Milwaukee TIF utilization comparison, 2007



* Chicago data is 2005.

Regarding transparency and accountability, the city of Milwaukee has stepped up its efforts. Most noticeable are improvements to its Web site. The city has consolidated all TIF documents on a single Web page (www.mkedcd.org/business/TIF/) that includes links to the city's TIF guidelines, citywide TIF district map, TIF annual report, and individual TIF project summaries. The page is relatively easy to find and all documents are linked for public download and scrutiny. This is a model for other communities to emulate in the region and state. Potential improvements to current offerings on the city's TIF Web page include:

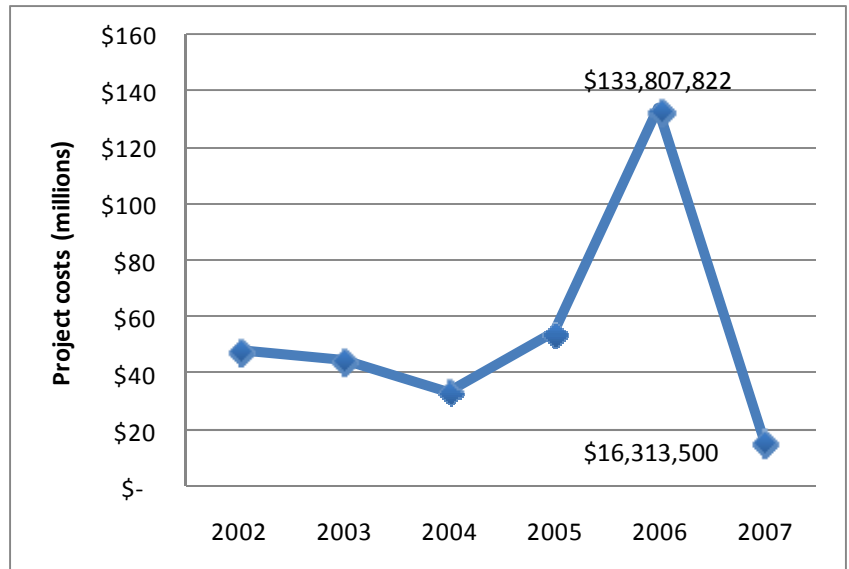
- Individual TIF district maps
- Direct links to project plans, changes, feasibility studies, and developer agreements
- A "news" section on pending TIF approvals, important dates, and upcoming opportunities for public input

Transparency goes hand in hand with accountability. For every municipality currently using TIF, it is necessary to track actual results against goals. At present, the city compares current property and increment values against projected values, actual expenditures against budgeted amounts, and current lifespan against projected lifespan. These measures make it easy for the public to see if individual TIF districts are on budget and on schedule. Other helpful performance measurements would be to report actual jobs created versus projected jobs created, actual jobs retained versus projected jobs retained, and the ratio of total private investment versus public investment.

TIF approvals in the city of Milwaukee recently have undergone uncharacteristic bouts of volatility. From 2002 to 2005, city leaders approved a steady diet of between \$35 million and \$55 million per year in TIF assistance (**Chart 6**). In 2006, this jumped to \$133.8 million before dropping in 2007 to \$16.3 million. The recent rise and fall in TIF approvals may just reflect the city's particular redevelopment needs and opportunities of that time. Indeed, 2006 was unique with TIF approved to help bridge financing gaps in three large projects - the Pabst Brewery redevelopment (\$41 million), Manpower's relocation (\$43 million) and the Direct Supply expansion (\$30 million).

The 2006 spike in approvals coincided with the Barrett Administration's desire, expressed in summer of 2005, to double TIF use.⁵ From that point through 2006, TIF approvals increased accordingly. As TIF deals accelerated, the city of Milwaukee began to encounter "an unprece-

Chart 6: City of Milwaukee TIF approvals, 2002-07



dent level of requests for public investment in downtown projects," as stated in a memo from Mayor Barrett to the Common Council.⁶ Early in 2007, corresponding with the subsequent drop in TIF approvals, the city wisely commissioned a third-party evaluation of development finance needs in the downtown area. The study recommended a more measured and strategic approach to TIF in downtown Milwaukee.

In the future, the city may want to evaluate the need to establish citywide TIF priorities and requirements (as in the case of the downtown TIF study). Its current guidelines, passed in 2006, are vague and were adopted to "understand the issues generally involved in the City's consideration of TIF assistance."⁷ In a recent presentation on the subject, Michael Daun, deputy comptroller at the city of Milwaukee, stated that "the City's TIF guidelines don't go far enough" and suggested something closer to the city of Madison's TIF policy.⁸ Madison's policy aligns TIF approvals with local development goals (*see page 10 for details on Madison's TIF policy*).

Lastly, it should be noted that the city of Milwaukee continues to make critical economic development decisions without a citywide economic development plan. While the city will unveil its *Economic Strategy and Policy Framework* in 2008, it's unclear how and if the plan will be used to evaluate future TIF applications. One encouraging sign is the plan's apparent alignment with the Milwaukee 7's *Strategic Framework*. The hope is that such a policy would position the city to use TIF to further both local and regional economic development goals.

TIF policy review

As TIF usage in Wisconsin accelerates, so too will the public's scrutiny of the public-finance tool. The judicious, transparent, and accountable use of TIF will help ensure its success in southeastern Wisconsin. Specific policies exist that will address each of these elements.

To frame the following discussion on how TIF should best be used, guidelines from the Government Finance Officers Association (GFOA) and the Council of Development Finance Agencies (CDFA) were consulted.

TIF "best practices"

1. **Use TIF to build community partnerships**
2. **Establish developer need, not want**
3. **Align TIF approvals with community goals**
4. **Monitor and report TIF performance**
5. **Use TIF to compete globally**

Use TIF to build community partnerships

TIF does not have to be divisive. In fact, if TIF is used transparently with genuine public input, it can transcend controversy and be a catalyst for strong partnerships among residents, government, and developers. This is the view advocated by CDFA which calls community buy-in "the most important element in the effective use of TIF."⁹

Those skeptical of more public participation will say there are currently many opportunities for the public to weigh in on a particular proposal. However, municipalities and developers need to go beyond public hearings and committee meetings. In an era of larger and more complex TIF deals, placing a public meeting announcement in a newspaper may not be enough to trigger a real community discussion. More creative approaches may be needed.

The goal for municipalities is not just more public input, but more informed public input. Community dialog is a two-way street. Not only could government sharpen its information-gathering and listening skills, but it could always do more to educate its citizenry on the merits of TIF. Clearly showing citizens the community benefit of a project will increase support for TIF and the development.

EXAMPLE: Atlanta's Beltline TIF district - a massive project transforming an abandoned 22-mile loop surrounding downtown to greenspace, trails, transit, and affordable housing - is a model for public participation. Passed by the Atlanta City Council in July 2006, the "Community Engagement Framework" (CEF) details how citizen input will be solicited and incorporated into Beltline planning. To ensure the delivery of a consistent message to all communities, a combination of citizen-led study groups and an interactive Web site have allowed citizens opportunity to

shape the project's future. In the first six weeks of the Web site's launch, it recorded more than 10,000 opinions. Planners then used Web-based software to organize the comments and draft reports to help in decisionmaking.¹⁰

Establish developer need, not want

We often hear that TIF is "corporate welfare" or that TIF is "welfare for developers." These statements could be grounded in some truth. After all, TIF is only efficient for taxpayers if the development in question would not have happened *but for* TIF assistance. If a municipality fails to conduct a rigorous financial analysis to ensure that the "but for" clause has been met, communities stand to lose credibility and money. Absent adequate empirical analysis, the "corporate welfare" tag may be well deserved.

A developer must prove a *need* for TIF, not just the *desire* for it. To evaluate this need, it is crucial for the developer to open the books on a proposed deal. With some believing that the "but for" test has become more art than science, perhaps there is no better time to move toward a more empirical calculation of need.

The following are steps a municipality can take to conduct adequate due diligence on incoming TIF proposals:

- TIF assistance to be utilized only for gap financing. To determine the amount of TIF needed to close the gap, a credible pro-forma analysis is needed to evaluate how much profit a developer is making on a project and whether it's within industry norms.
- Reasonable, but enforceable, guarantee that the development will happen as planned. Can include "clawback" provisions to reclaim government assistance when performance doesn't meet expectations.
- Assurances from developers that all other financing options have been exhausted (tax credits, federal/state grants, etc.).
- Credible feasibility study conducted by an outside, independent party to test economic assumptions.
- "Lookback" provisions allowing governments to be co-investors and participate on the upside of a project when performance exceeds expectations.

It will be important for the region to get away from the notion that there are always "winners and losers" in TIF deals. While a poorly constructed deal will have winners and losers, a well-constructed and vetted deal can be beneficial to both developer and municipality.

Align TIF approvals with community goals

TIF is typically referred to as “project based financing” because it is evaluated on a project-by-project basis. Both the GFOA and CDFA think the role of TIF should be elevated beyond the project-level view to playing a key role in fulfilling a municipality’s development goals.

On connecting TIF with planning, the CDFA states, “TIF should be used to help advance a community’s redevelopment priorities.” The GFOA concurs and “recommends that local governments evaluate whether tax increment financing districts may assist the local government in its economic development plans.”¹¹

On drafting specific TIF guidelines at the municipal level, the GFOA says, “a TIF policy should be adopted by the local governing body that includes statements regarding when a TIF district is appropriate, including its relationship to an overall development/redevelopment plan.” It adds, “TIF policies should clearly explain to a developer the need to demonstrate how a proposal may contribute to meeting community goals.”

Wisconsin law governing TIF is liberal, contributing to TIF’s appeal as a flexible and favored economic development tool. Detailed policy guidelines, it could be argued, would take away some of the flexibility. While it’s true that such policies may do so, one of the goals in crafting them is predictability, also important in the development game.

The following are examples of TIF policies. It should be noted that such policies differ considerably based on a particular community’s goals and local market conditions.

EXAMPLE: The *City of Madison TIF Objectives and Policy*, first adopted in 2001 and amended in 2006, details the types of projects that are eligible and ineligible for TIF financing and the conditions that apply to new TIF loan approvals. The document ensures that new districts meet key strategic local development goals by stipulating the following:¹²

- Projects eligible only for 50% of TIF they generate
- 10% of TIF set-aside for affordable housing
- Developer equity must be greater or equal to TIF

Developers may object to such stringent requirements, but at least they know what they are getting into when they apply for TIF assistance in the city of Madison. An honest, transparent policy is better than changing the rules midstream-(for example, having a municipality add workforce training or transit funding as a throw-in requirement near the end of negotiations).

EXAMPLE: The city of Dallas has taken a standard “TIF policy” one step further and quantified economic development goals in a TIF scorecard. In 2005, the Dallas city council passed a set of criteria with which to judge all TIF district approvals. Staff members are instructed not to move forward on any proposal unless both financial and public benefit goals score a minimum of 70 out of 100 possible points.¹³ The scoring mechanism gives weight to green space, affordable housing, amount of leveraged private investment, alignment with the city’s core economic assets, and financial feasibility. The policy does not seem to have stymied demand for TIF assistance. In April 2007, Dallas raised its TIF capacity cap from 5% to 10% (compare to 12% in Wisconsin) and tied approvals to even stricter requirements, such as a 20% set-aside for affordable housing in residential TIF districts.¹⁴

Monitor and report TIF performance

If TIF is as good as people say it is, why aren’t its accomplishments reported in a more transparent and accessible fashion? Doing so would mean reporting to the public expected vs. realized returns in terms of jobs and investment activity on all active TIF districts.

Increasing the transparency and measurability of TIF is a lesson for Wisconsin municipalities. Anything less opens an information gap; absent hard data from a municipality, such gaps could be filled with misinformation.

The GFOA recommends that for any specific economic development incentive, the economic benefit to the government (taxpayer), as well as the cost of the incentive, be measured and compared against the goals and criteria that have been previously established.¹⁵ Of course, this assumes that forward looking benchmarks have been established in advance which is not always the case in southeastern Wisconsin.

EXAMPLE: Performance is typically measured based on dollar benefits (private investment) and non-dollar benefits (job growth, job retention, etc.). The city of Kansas City has measured both and includes the following:

- Ratio of private investment vs. public investment
- New jobs projected vs. new jobs actual
- Retained jobs projected vs. retained jobs achieved.

Kansas City annually reports these figures for each district. Its most recent report revealed that while TIF had promised 51,853 new jobs, only 23,527 were realized.⁴ With such information openly available to the public and private sectors, these measures could play a critical role in ensuring expected results from TIF.

Use TIF to compete globally

TIF can be a powerful local economic development tool. However, economies aren't local, they're regional. Can a predominantly "local" tool like TIF be realigned to address regional development goals? In our new global era where political borders are increasingly irrelevant, we may have little choice but to do so.

The challenge is to move beyond thinking of TIF as only a "project-based" tool and start thinking of it as a way to achieve local *and* regional goals. Such a paradigm shift in thinking about TIF will require proactive regional leadership and, with the presence of the M7, such action is possible in southeastern Wisconsin. With the recent passage of the M7 code of ethics, the end of internal fighting over corporate expansion plans may be drawing near. Meanwhile, the need to build our niche in the global marketplace is dawning and TIF could play an increasingly important role in that process.

EXAMPLE: Atlanta has long been known for its dynamic business environment and explosive growth. Unfortunately, it is also known for sprawl, air pollution, lack of greenspace, and traffic congestion. In an effort to address these "quality of life" issues and reassert the region's competitive position, the city recently approved the creation of a TIF for its "Beltline" project. The Beltline is currently the largest redevelopment project in the U.S. and will encompass 8% of the city's total land area and generate \$1.7 billion in revenue. The project will transform a ring of blighted and underutilized land encircling the city to trails, parks, transit improvements, affordable workforce housing, and public school projects. In what promises to be the most ambitious use of TIF in the country, it will contain over \$20 billion of increment value after 25 years - larger than the total of all TIF districts in the state of Wisconsin. Atlanta's Beltline TIF is not only big, it's also innovative and is continually cited as a model for transparency and accountability.

What are southeastern Wisconsin's challenges to its global position and how could TIF be used to address them? Here are two examples:

- Lack of a modern transit system - Use TIF to finance station and land development costs associated with transit upgrades (express buses, KRM, high-speed rail).
- Slow employment and income growth - Use TIF to finance growth in emerging regional industry clusters (financial services, water technology, advanced manufacturing) as identified in the M7 strategic framework.

Endnotes

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Southeastern Wisconsin is in a fight for its economic life.

To succeed in the new global economy, our region must utilize every tool at its disposal. In Wisconsin, **tax increment financing (TIF)** emerges as one of the most important instruments that can grow our economy and improve our quality of life.

Much work is needed to ensure the strategic, accountable, and efficient use of TIF in our region, but if we can learn to better use TIF can we also learn to use it more often?