

AN ANALYSIS OF THE POSITIVE AND NEGATIVE ATTRIBUTES

ASSOCIATED WITH TIF USAGE IN WISCONSIN

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The problems associated with “urban blight” can be connected with a variety of problems associated with the ongoing decay of American inner cities. These problems include white flight, crime, obsolete (and in many cases unsafe) infrastructure, drug and alcohol problems, adverse effects on community and neighborhood aesthetics, declining property values, negative impact on public health and safety, the diminution of economic development and investment, unsafe public spaces, and so forth. These have been some of the difficult challenges that municipal leaders have faced. One of the possible solutions to rectify the deterioration of United States inner cities includes the creation of Tax Incremental Districts (TIDs). The purpose of this research paper is to provide an objective analysis of the usage of TIDs in the State of Wisconsin since 1975. This literature review will provide a brief history of urban development and provide analysis of the positive and negative view points associated with the incorporation of TID as an economic revitalization tool. This paper will specifically address the effects of TID usage in relation to property tax values, employment statistics, and TID usage trends. It will provide examples of TID abuses, a summary of the pros and cons associated with TIDs, and recommendations to improve TIDs. The conclusion of this literature review will encapsulate and provide recommendations for where additional research and analysis is needed to provide a firm determination of the positive and negative attributes associated TIDs.

Keywords: urban blight, TIDs, TIFs, urban sprawl

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Introduction

This paper addresses several subtopics associated with Tax Incremental Financing (TIF) such as employment trends, types of TIF development projects, TIF abuses, the popularity of TIF, an objective analysis of TIF and property taxes in Wisconsin, the positive and negative effects of TIF, and the type of municipalities that are utilizing TIF in Wisconsin. At the conclusion of this literature review, this paper will provide recommendations for TIF policy changes that will assist TIF to operate in an efficient, non-ambiguous manner that is fair, and will help TIF fulfill the original intent of the TIF development program, which was to minimize urban blight. TIF, if used properly as it was originally intended, is a valuable economic tool that can turn blighted properties into redeveloped properties that have increased property values which will pay increased property taxes.

History of Urban Renewal and the Birth of Tax Incremental Financing

Urban renewal in the United States can be traced back to the Housing Act of 1949. This law was in response to a profound transformation that American cities were undergoing after World War Two. The history of tax incremental financing (TIF) dates back to the 1950s as a means of financing improvements in blighted urban neighborhoods, and was invented by the California legislature (O'Toole, 2011). California legislation initiated TIF as a means of raising the matching funds required by the aforementioned federal urban renewal program which required municipalities with populations over 50,000 to finance one-third of the cost of redevelopment activities to match the two-thirds federal share (Briffault, 2010). However, actual TIF usage was sparse until the mid-1980s, when TIF popularity in many states experienced rapid growth (Byrne, 2009). Only twenty-seven projects utilized TIF in its first fifteen years, and as late as 1970, there were only seventy-six TIF areas in California, and just six other states authorized TIF (Briffault, 2010). The double whammy of the withdrawal of federal urban development aid funds beginning in the Nixon administration combined with the adoption of Proposition 13 in California in 1978, and comparable tax and expenditure limitations in other states soon after, led to a rapid and dramatic increase in the use of TIF (Briffault, 2010). Currently, 49 of the 50 states allow local governments to use TIF as an economic development tool. Arizona is the only state that does not allow TIF. Established in 1975, the Wisconsin TIF law is one that allows municipalities to fund

development without utilizing current taxes. Anticipated future revenue streams are earmarked to pay back the debt's principal and interest (Skidmore, 2011). Before TIF, when a community installed public improvements to promote private development, its property owners bore these costs, but all taxing entities that shared the tax base benefitted. Law makers recognized this as an inequitable situation that sometimes discouraged development costs (Wisconsin Department of Revenue, 2008). Therefore, the TIF for economic development established its roots and has grown in popularity.

How Does the TIF Process Work?

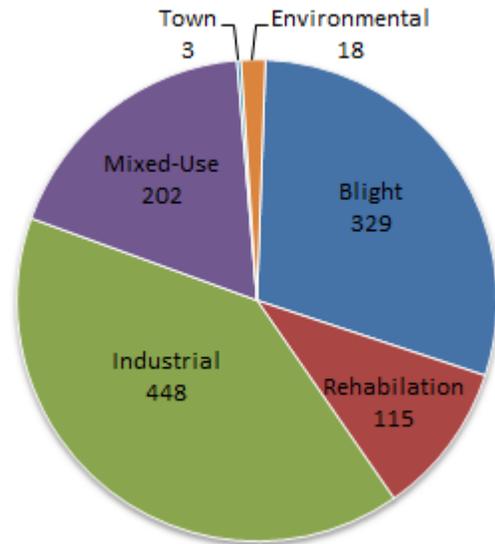
The first step is the creation of a Tax Increment District (TID). A TID is an agreement between tax entities. These bodies typically include any different municipalities involved, and other taxing organizations such as a school district, technical college, county, and in some cases, a special representative such as a water department or a sewage district. After the formation and representative agreement by all of the tax district representatives, an application to the state department of revenue is submitted for determination of the property values within the district. This is known as the district's base value. The department of revenue annually determines its equalized value. This is known as the current value. The difference between the base value and the current value is the value increment. The value increment is used to determine the amount of tax increment revenue that can be collected for that particular year (Wisconsin Department of Revenue, 2008). Although state laws differ, TIF-generated funds generally can be used for a host of purposes, including the installation, repair, or upgrade of physical infrastructure, such as street lighting, curbs and sidewalk improvements, bridges and roads, water mains and lateral supply lines, sewage removal, wastewater treatment, storm drainage, parks, parking, environmental remediation of polluted sites, land acquisition and clearance, planning and feasibility studies, and the transaction costs of bond financing (Briffault, 2010).

Popularity of TIF

Since TIF was invented in California, it is appropriate to begin analyzing the history, TIF usage, and its popularity in that state. More than three out of four California counties use TIF. Moreover, TIF is rapidly growing outside of California. From 1990 through 1995, American cities sold \$10.2 billion worth of bonds backed by TIF, more than 80 percent of which was for California (Man, 2001). In the late 2000's, municipalities sold nearly \$20 billion worth of TIF bonds, and California's share had declined to less than 64 percent. While California's TIF bonds grew by 55 percent, TIF bonds in other states grew by 260 percent (O'Toole, 2011). In Wisconsin, TIF utilization in municipalities has grown considerably; there has been a 400% increase since 1990 especially in the southern and central areas of the state. TIF use in Wisconsin is one of the highest in the nation. By 2008, there were approximately 1,000 active tax incremental districts (TIDs) worth \$15 billion in assessed value throughout Wisconsin (Public Policy Forum, 2009). In 2011, a total of 41 new TIDs were created in Wisconsin. The following shows how the 41 TIDs were certified:

- 4 Blight Elimination
- 8 Rehabilitation/Conservation
- 8 Industrial
- 21 Mixed Use

Figure 1. Breakdown of Type of Active TIDs in Wisconsin



Effective January 1, 2011, there were 1,115 active TIDs. The chart shows a breakdown

of the types of active TIDs. (State of Wisconsin Department of Revenue, 2012)

TIF and Property Taxes in Wisconsin

The number of TIDs being created and amended has been on the rise in Wisconsin since the TIF program was first adopted in 1975. At the same time, the amount of tax base and tax revenue devoted to TIDs has been growing. The value increment is the amount of growth in a TID since creation. Between 2000 and 2009, the increment grew in Wisconsin by an average of 11.1% per year over the previous year, while the gross property value of cities and villages has grown at an annual rate of about 6.9%. With the economic turnaround of the last two years, those rates have averaged 8.5% and 5.1%, respectively. The percent of city/village that is value increment has grown from 3.5% in 2000 to 4.8% in 2011, where it has held steadily. In 2011, value increment totaled \$14.6 billion.

As property value generated by TIF has increased, so have the taxes generated on that value. Taxes that TIF value increments generate can only be used to pay for TIF eligible project costs until the TID is retired. After the TID closes, the value is returned to the tax entities and the revenues generated by those properties can go to the general fund (State of Wisconsin Department of Revenue, 2012).

Not all TIDs are Created Equally

TIF law in Wisconsin provides different rules for different types of TIDs. The reasoning is simple and makes sense. An urban blight elimination project will almost certainly have higher costs than a “greenfield” industrial development because costs for demolition, environmental remediation, and site assembly are not associated with greenfield development, but are required in urban blight elimination projects. Blight TIDs have longer lives than industrial TIDs because the scope of work is much larger. For this same reason, blight TIDs can receive longer extensions to their lives than industrial or mixed-use TIDs. The following TIF matrix (table 1) summarizes the different rules that govern the various types of TIDs in Wisconsin:

Tax Incremental District (TID) Criteria Matrix

Changes to Wisconsin's Tax Incremental Financing (TIF) Law were approved by Governor Doyle in early 2004, and again in 2005. This matrix was developed as a guide to help identify TID criteria based on type and creation date of Tax Incremental Financing Districts.

To read the matrix, first look across the row at the top for the type of TID. There are seven different types identified as follows:

1. Existing TIDs created before 10/1/95
2. Blighted TIDs
3. TIDs created in need of Rehabilitation or Conservation work
4. Industrial TIDs
5. Mixed-Use TIDs created after 10/1/04
6. Town Tourism, Agriculture, & Forestry TID's
7. Environmental Remediation TIDs

The first column lists the requirement questions. By looking across the question row, you can find the criteria for a specific type of TID in the corresponding column.

Table 1- Tax Incremental District (TID) Criteria Matrix

TAX INCREMENTAL DISTRICT (TID) CRITERIA MATRIX							
	Wis. Stats. 66.1105 and 59.57					Wis. Stats. Sec. 60.85	Wis. Stats. 66.1106
	1. Existing TID's	2. Blighted area 3. In need of Rehabilitation or Conservation work		4. Suitable for Industrial sites 5. Mixed-Use TIDs created after 10/1/04		6. Town - Tourism, Agriculture, & Forestry (TAF)	7. Environmental Remediation
Creation Resolution date	Before 10/1/95	After 9/30/95 but before 10/1/04	After 10/1/04	After 9/30/95 but before 10/1/04	after 10/1/04	After 10/1/04	After 10/1/97
Expenditure Period (5 yrs. prior to termination)	22 years (6)(am) 1.			18 years (6)(am) 1.	15 years (6)(am) 1.	5 years (6)(b) 1.	15 years (2)(b)
Maximum Life before extensions	27 years	27 years	27 years	23 years	20 years	16 years	23 years
Extensions Allowed	No	+ 4 yrs (7)(am)1.	+ 3 yrs (7 (am) 3.	No	+ 3 yrs (7)(am) 2.	No	No
Maximum Life if extension granted	27 years	31 years	30 years	23 years	23 years.	11 yrs after expenditure or 16 yrs maximum (6)(a) 2.	23 years
\$1,000 Fee required	Redeterminations for Amendments	Certification or redeterminations for Amendments	Yes	Certification or redeterminations for Amendments	Yes	Yes	Yes
Tax Increment allocations (6)(e)1 a-d, 2, 3 New(6)(f)	Existing allocation criteria or new allocation criteria	New allocation criteria: Recipient districts are limited to project costs for low-cost housing; remediate environmental contamination; or TID's declared to be blight or rehab districts.				No	No
Written notice of termination sent to DOR	Within 60 days of termination resolution (8)(a). DOR Form PE-223 (Final Accounting for TID Agreement), along with a copy of the termination resolution.					Within 10 days of termination resolution (10) (a)	Within 10 days of termination resolution (10) (b)
Final accounting to DOR after termination	DOR form PE-110 (TID Final Accounting Report) and Excel file by agreed date (8)(c). Must include: 1. Total municipal expenditures; 2. Total project costs; 3. Total revenue; 4. Total amount of outstanding original project plan costs.				Annual accounting due before May 15th plus Feb 15th of year after termination (10)(c)	Not later than 180 days after TID has terminated (10)(d)	
Annexation restrictions (4)(gm)1.	Just prior to creation or amendment	Just prior to creation or amendment	Yes (4)(gm) 1. - 3 yrs. lapsed; pay town 5 yrs. taxes, or boundary agreement	Just prior to creation or amendment	Yes (4) (gm) 1. - 3 yrs. lapsed; pay town 5 yrs. taxes, or boundary agreement	Yes (17)	Yes (13)
Limitation restrictions (4)(gm)4.c	12% - denial (4)(gm) 4.c.					5% & 7% - denial (3)(h) 5.d	None
Number of territory amendments (4)(h)2.	Up to 4 times by subtracting or adding territory (or both) that does not change the contiguity of the district – 12% limitation requirement must be met when adding territory. (4)(h) 2.					1 during 1 st 5 yrs. - no more than 2 yrs. expenditure (3)(j)2.	None
Municipal owned Real Property included in base unless Municipal Used (5)(bm)(c) & (d)	No	Yes (5)(bm), (c)&(d)	Yes (5)(bm), (c)&(d)	Yes (5)(bm), (c)&(d)	Yes (5)(bm), (c)&(d)	Yes (3)(L)	No

What Type of TIF Projects are Permitted in Wisconsin?

Each of the 49 states that allow TIF has similar rules regarding the type of TIF projects that are permitted for economic development. In Wisconsin, TIF projects can be legally used to encourage development in blighted areas-those that are otherwise unlikely to develop or redevelop. This is known as the “but for” rule. Basically the “but for” test is when the joint review board does not believe that the development will happen without some assistance. The Wisconsin Tax Incremental Law, 66.1105 describes “blighted area” as the following:

1. An area, including a slum area, in which the structures, buildings or infrastructure, which by reason of dilapidation, deterioration, age or obsolescence, have inadequate provision for ventilation, light, air, or sanitation. An area which lacks open spaces, contains a high density of population and overcrowding, or demonstrates the existence of conditions which endanger life or property by fire and other causes, or any combination of these factors which are conducive to ill health, transmission of disease, infant mortality, juvenile delinquency, or crime, and are detrimental to the public health, safety, morals or welfare.
2. An area which is predominantly open which consists primarily of an abandoned highway corridor (blight elimination and slum clearance), or that consists of land upon which buildings or deterioration of structures or

of site improvements, or otherwise, substantially impairs or detracts the sound growth of the community.

A blighted area does not include predominantly open land area that has been developed only for agricultural purposes, commonly called “greenfield” development (Moskal, 2005).

Benefits of TIF

TIF proponents claim the potential benefits of TIF utilization include a broader tax base for the municipality, school district, technical college and county to share, increased employment, an improved business environment, elimination of blighted areas, increased property values, stimulated private investment and development, and the formation of a partnership for economic development between the municipality, school district, technical college and the county (Moskal, 2005). The economic advantage of TIF is that payment is closely tied to benefits. One of the best ways to measure the value that infrastructure or service improvements add to a property is by observing the change in the property's actual market value. Since property tax assessments should, in principle, reflect such changes, a property-designed tax increment policy should collect additional revenue roughly in proportion to the increased value generated by the improvement (International City County Management Association, 2004 page 337).

Example of a TIF if the Property Value Increases

As an example (very simplified), we start with an empty lot in a new TIF area that has a value of \$3000. Its current EAV (Equalized Assessed Value) is one-third of that amount, or \$1000. (Taxes are calculated on the EAV number.) There is a commercial building being built on the property (for \$150,000) that will come on the tax rolls in 2010. Typically, the property values seem to increase about 4% per year. In this example (for simplicity), the typical 4% increase is not taken into account. In 2009, the assessed value of the property goes up by 10% due to general improvements in the TIF area. Let's assume that the total tax rate on the property is 1% so the taxing bodies currently get \$10 (\$1000 EAV x 0.01) in real estate taxes.

Table 3 – (TIF) Property Value Increase Table

Year	Property Value	EAV Value (1/3 of Property)	Tax Rate	Tax Bill	Amount To Taxing Body	Estimated amount to TIF Fund
2007	\$3,000	\$1,000	0.0100	\$10.00	\$10.00	\$0.00
TIF District Enacted						
2008	\$3,000	\$1,000	0.0100	\$10.00	\$10.00	\$0.00
Property Value Goes Up 10%						
2009	\$3,300	\$1,100	0.0100	\$11.00	\$10.00	\$1.00
Building Built On Lot (Value \$150,000)						

2010	\$153,300	\$51,100	0.0100	\$511.00	\$10.00	\$501.00
Tax Rate Increases from 1% to 1.1%						
2011	\$153,300	\$51,100	0.0110	\$562.10	\$10.00	\$552.10

Example of a TIF if the Property Value Decreases

Contrary to the previous example is an example of a TIF property struggling to meet its planned goal. We assume the same variables as in the former example. We start with an empty lot in the new TIF area that has a value of \$3000. Its current EAV (Equalized Assessed Value) is one-third of that amount, or \$1000. (Taxes are calculated on the EAV number.) There is a business building being built on the property (for \$150,000) that will come on the tax rolls in 2010. In 2009, the assessed value of the property goes down by 10% due to poor economic conditions in the TIF area. Let's also assume that the total tax rate on the property is 1%, so the taxing bodies currently get \$10 (\$1000 EAV x 0.01) in real estate taxes. (Village News, TIF District 101). Now let's also assume that the soft economy continues over the next two years with a 5% reduction in property value for the year 2010, and a 10% reduction in property value for the year 2011.

Table 4 – (TIF) Property Value Increase Table

Year	Property Value	EAV Value (1/3 of Property)	Tax Rate	Tax Bill	Amount To Taxing Body	Estimated amount to TIF Fund
2007	\$3,000	\$1,000	0.0100	\$10.00	\$10.00	\$0.00
TIF District Enacted						
2008	\$3,000	\$1,000	0.0100	\$10.00	\$10.00	\$0.00

Property Value Goes Down 10%						
2009	\$2,700	\$900	0.0100	\$9.00	\$9.00	\$0.90
Building Built On Lot (Value \$150,000) property unexpectedly decreased 5%						
2010	\$142,365	\$47,455	0.0100	\$474.55	\$9.00	\$465.55
Tax Rate Increases from 1% to 1.1%, property decreased 10%						
2011	\$128129	\$42,710	0.0110	\$469.81	\$9.00	\$460.81

Using the aforementioned two examples, the difference between the projected dollar amount of \$552.10 became \$460.81. This represented a 16.5% percentage decrease between the amount the TIF was expecting and what it may have received in a weak economy. This simplified example has become a common reality during the tough economic times that the United States has weathered in the last 15 years. As illustrated in the above table, TID introduced during an economic cycle downturn could underperform the pro-forma. In some cases, a TID might not generate an increment sufficient to cover the investment, thus risking failure (Skidmore, 2011).

The TID has two options if a deficit occurs. The municipality can continue with the TID, in hopes that some potential development will change the projected deficit into a positive cash flow, or it can dissolve the district, at which time the municipality shall become liable for all unpaid costs. A recent article from the Kenosha News, a daily newspaper circulated in Southeastern, Wisconsin, highlighted the concern that a Paddock Lake village trustee had regarding the Paddock Lake Village Board issuing \$3.6 million in bonds, the money used both to refinance existing debt, and to pay for engineering for a

new tax increment financing district. Although he ultimately voted to approve it, Trustee Terry Burns said he was reluctant to include the \$350,000 in the bond issue. He said he was worried about the possibility that TIF would not generate enough money to make payments on the bonds within two years, and that the repayment would fall on village taxpayers. “I made a promise that they (village taxpayers) would never have to pay for the west-side water system,” Burns said. “We’re sticking our necks out that this TIF district is going to be solvent. ... Essentially you’re putting the taxpayers at risk of footing that bill” (Smith, 2012). Financial adviser James Mann said development already under way in the TIF district should be enough to pay for the portion of the payments on the bonds associated with the \$350,000. Paddock Lake began building a water system in 2005, putting in water lines and wells. The project was designed to serve five developments that had been approved at that time, which all eventually failed as the economy soured. However, all five developments failed when the economy went into recession, and none of the homes were built, leaving no users for the partially completed system. The new TIF is designed to fund completion of the project. If it remains incomplete, the loans taken out to pay for the project would ultimately need to be paid by village taxpayers (Smith, 2012). This is a real case scenario that has played out all too often during the difficult economic times the United States has waded through the past decade. See table which shows the percentage of TIDs underwater after four years in Wisconsin from 1990 through 2009. Underwater refers to the property value being below the initial base value four years after TID creation. In 2008, 60% of manufacturing TIDs were underwater and risked default, and may have needed to be bailed out by taxpayers.

The opportunity cost needs to be weighed for each purposed developmental project, especially when the majority of the project financing is being guaranteed by tax payers.

Table 2 - Percentage of TIDs Underwater After Four Years

Year	Total	Residential	Commercial	Manufacturing
1990	28.57%	21.43%	30.00%	16.67%
1991	15.00%	14.29%	7.14%	14.29%
1992	10.53%	33.33%	14.29%	13.33%
1993	8.11%	36.36%	12.50%	8.33%
1994	16.22%	16.00%	11.54%	18.75%
1995	12.12%	20.00%	31.58%	16.67%
1996	7.69%	15.38%	15.63%	21.43%
1997	13.16%	9.09%	28.00%	23.53%
1998	19.72%	27.91%	27.08%	27.27%
1999	10.53%	16.33%	15.38%	13.04%
2000	8.00%	30.56%	9.52%	6.67%
2001	11.43%	20.41%	17.78%	18.18%
2002	13.16%	28.57%	15.15%	12.50%
2003	16.67%	16.13%	20.59%	5.88%
2004	11.86%	8.82%	18.37%	26.09%
2005	19.57%	29.41%	12.12%	33.33%
2006	7.69%	35.14%	7.14%	0.00%
2007	7.81%	5.56%	1.92%	25.00%
2008	11.36%	11.11%	14.81%	60.00%
2009	9.28%	18.18%	7.35%	35.29%

Source: Wisconsin Department of Revenue

Any municipality creating a TID must be willing to accept the possibility that it may not produce the desired results. When this happens, the taxpayers in that municipality will be responsible for assuming any unpaid project costs (Wisconsin Department of Revenue, 2008). There are political risks associated with TIF as well. Keep in mind that a partnership between the municipality, school district, technical college, and county is required to use TIF. The partners need to know enough about the law, the proposed project, their responsibilities, and each other's expectations if they

hope to function effectively. Council must be dedicated to carrying out the original project plan for close to 20 years. There are many stakeholders who are likely to be positively or adversely affected by the project, or who can alter the results of the project (Moskal, 2005). If one or more of these stakeholders is adversely affected by the project, the project could run into real trouble, impacting its feasibility.

Perhaps the biggest urban renewal disaster in United States happened in Englewood, Colorado. In 1985, the city sold \$27 million in bonds to subsidize a retail development known as Trolley Square. After the development was completed, few shops leased space in the development, and by 1991, the TIF revenues were inadequate to cover bond repayments, so the Englewood Urban Renewal Authority defaulted. The development was bulldozed a few years later because it was considered an eyesore. Given the huge subsidy, the developer may not have analyzed the market as carefully as someone risking his or her own money. It is possible that, if no subsidy were available, a development would have taken place on the site that would still be productive today. Urban renewal TIF projects effectively transfer the risk from a few developers to the taxpayers in general. If an urban-renewal district is a spectacular failure, the authority might default on its bonds. If it is only a partial failure, taxpayers end up receiving lower quality of services, or paying higher taxes while the urban renewal authority takes more time than expected to repay the bonds. Either way, the developers face a far lower risk, which explains why such developments are so popular among the development community (Lang, 2007). This particular TIF mess left the bond holders, rather than the taxpayers, on the hook for approximately \$27 million worth of bonds, but this does not

mean that TIF is a good deal for taxpayers. In fact, such defaults are rare, because cities have found many ways of capturing taxpayer funds to pay for TIF.

First, in many states, TIF agencies get rewarded for inflation. As property values increase due to inflation, TIF revenues rise even if the district does nothing to improve the area. Normally, such increased revenues would be used by schools and other tax entities to offset increased costs, but since the TIF district starves tax entities while the TIF is active, these organizations must either raise taxes, or cut back on services to deal with escalating expenditures.

Second, in most states, TIF districts gain when other tax entities persuade voters to increase taxes. For example, say a school district persuades voters to pass a bond levy that increases taxes by \$1 for every \$1,000 of property value. Taxes are increased both inside and outside of the TIF district, but the increased revenue inside the TIF districts, go to TIF, not to the school district.

Third, TIF districts get credit for development that would have taken place in the district anyway. If a city creates a TIF district out of a neighborhood that is already being gentrified by private developers, all the taxes on the new development in the neighborhood go to the TIF district, even though that development would have taken place without the TIF district.

Fourth, TIF districts get accolades for development that takes place within their boundaries that would have occurred somewhere nearby anyway. In a growing region, new homes, shopping centers, offices, and other developments will be built *somewhere*. TIF subsidies may attract such development to the district at the expense of development

somewhere else in the region. The result is no net increase to the region's total tax base, but a net decrease to the tax revenues for schools and other entities that must compete with the TIF agencies for funds (O'Toole, 2011).

Abuse of TIF

As TIF proliferated, it also evolved, shifting from what was initially an urban renewal program targeted at depressed central city areas, to a more general public investment and infrastructure financing scheme. The redirection, or expansion, of TIF is best captured through the change in the language used to describe TIF activity from redevelopment – that is, the revitalization of a once vibrant, but now economically depressed or physically deteriorated area—to simply development, or increase in economic activity in an area that might have been vacant, farmland, undeveloped, or simply lightly developed (Briffault, 2010).

While TIF has been used as a vital tool to create economic growth, it has also been abused by a broad range of players which includes politicians and developers. For example, previous to becoming the current governor of California, Jerry Brown was the mayor of Oakland. Brown was intimately familiar with redevelopment agencies; as the mayor of Oakland, he had doubled the size of the city’s redevelopment districts. Although redevelopment funds are legally dedicated to fighting blight and promoting economic growth, the *Los Angeles Times* noted that cities often used them “as emergency ATMs to pay for core services, including police, fire and code enforcement, and sometimes the mayor’s salary.” In fact, 15 percent of Mr. Brown’s salary when he was Oakland’s Mayor came from the city’s redevelopment agency (O’Toole, 2011).

TIF has also been used to finance streetcar lines. In 2010, both St. Louis and Fort Worth planned on using TIF money to build city-owned and operated streetcars (O’Toole,

2011). Yet government-owned entities such as city operated streetcars do not pay property taxes. The tax increment would never happen since government owned property is not obligated to pay property taxes. In Michigan, the Ann Arbor Downtown Development Authority gave a delicatessen \$407,000, which was approximately the next 15 years of the deli's anticipated property taxes, to help it expand. To acquire these funds, the deli owners had to ask the city to declare its property a "brownfield", even though it was not actually polluted. "Its economic development," said an Ann Arbor planner. "It's not about the environmental cleanup" (Morgan, 2010).

Another questionable TIF tactic that municipalities use is that governmental entities often build infrastructure such as streets, sidewalks, parks, sewer systems, water plants, and parking garages. In many cases, these infrastructure additions and or improvements would normally be paid for by developers. The city then sells the land to developers for typically far less than what the city has invested (O'Toole, 2011). This is unfair competition for a developer in the same area that did not receive TIF funding, or an infrastructure handout by the local government municipality. In addition, these abuses short change public schools and the tax payers. This is the law of unintended consequences, and is a perfect example of why the government does not belong in the private sector, where it is able to pick the winners and the losers. Let the free market select the victors and the failures.

Many states regulate the amount of land a municipality can put into a TIF district. For example, the state of Wisconsin limits creation of new districts or the addition of property to existing districts. The equalized value of property in the district, plus the

value increment of all existing districts cannot exceed 12% of the total equalized value of taxable property within the municipality (Wisconsin Department of Revenue). However, this regulation has been abused by municipalities located in the state of Wisconsin. For example, TIF has become such a popular method of economic development that many communities now exceed their state-imposed TIF limits. Wisconsin cities and villages are not legally allowed to TIF more than 12% of their total equalized value. The municipality's utilization rate may grow above 12% as property values fluctuate, but it is restricted from further TIF use after hitting the 12% limit. Of the 385 cities and villages using TIF in 2008, more than one in four (27%) now exceeds the state's TIF limit (Public Policy Forum, 2009). In this case, the "rules are rules" mentality should be incited to minimize over-ledgering and to minimize tax payer risk.

The assignment of future valuation increases to the TIF district can encourage municipalities to target undeveloped land or other property with low assessed values, particularly agricultural land eligible for preferential farmland programs. Those areas may not be blighted or underserved by private developers, but they may offer dramatic increases in assessed value simply by being reclassified as commercial or industrial. A 1999 study found that 45 percent of Wisconsin's 661 TIFs have been used to develop open space, primarily farmland or green space including, most famously, a Wal-Mart Supercenter built on what had been an apple orchard in Baraboo (Youngman, 2011). The meaning of blighted has been transformed from decayed or deteriorated structures, unsafe and unsanitary conditions, and economic and social distress to something a lot more like "underdeveloped", or lacking the physical or legal preconditions for further economic

development. Indeed, TIFs are now so widely used for suburban and urban shopping malls that the coauthor of the Council of Development Finance Agencies of the 2008 Tax Increment Finance: *Best Practices Reference Guide* is the president of the International Council of Shopping Centers (Briffault, 2010). These types of TIF abuses destroy farmland, wild life habitats, hinder natural storm drainage, and may cause drainage that adversely affects environmental watersheds.

Six Major Criticisms of TIF

There are six major criticisms often leveled against tax increment financing (TIF). First, TIF helps outer suburbs lure jobs from center cities and inner suburbs. State legislators may be well-advised to prioritize central city development when authorizing TIF. Large cities may be negatively affected by excessive TIF use among their neighboring communities. Blighted and vacant properties in central cities, which may remain undeveloped due to TIF projects in outlying areas, negatively impact central city economies (Public Policy Forum, 2009).

Second, TIF should be confined to seriously blighted areas. A sound recommendation would be to change TIF laws so that the TIF regulations are clear and not ambiguous. Pennsylvania law describes blight as including “inadequate planning of the area,” “excessive land coverage by the buildings thereon,” “faulty street or lot layout,” and “the defective design and arrangement of the buildings.” In Missouri, blight includes “defective or inadequate street layout”, and best of all, “lack of community planning” support a finding of blight. Not all courts have overreached in determining that a property is blighted. An example comes from the village of Orion, Illinois; that land was blighted because of “loose or missing roof shingles, gravel drives, grass growing through the cracks in a driveway and surface cracking in driveways and sidewalks”. This request was rejected by the court and explained as no more than “routine disrepair common to many communities.” Furthermore, when the wealthy Chicago suburb Burr Ridge sought to create a TIF in order to attract a Radisson Hotel and Conference Center, it declared that part of the village was blighted because the parcels in

the proposed TIF site were “too large”, one of Illinois’s statutory blighting factors. The court sternly responded that on that theory, “one would have to accept the conclusion that the entire country is blighted” (Briffault, 2010).

The State of Minnesota defines blight more concretely than most states. Minnesota restricts TIF use to blighted areas in which: (1) over 70% of the district is occupied by buildings, streets, utilities, and similar structures, and (2) over 50% of the buildings within the district are structurally substandard (Minn. Stat. 469.174) (Public Policy Forum, 2009). Other states should copy the State of Minnesota’s definition of blight and eliminate the ambiguity of determining what a blighted property is. The broad definition of what a blighted property is has caused confusion and abuse.

Third, TIF is often used to subsidize the increased supply of retail development in markets where demand is static, achieving little except the displacement of sales from other locations. Researchers Dye and Merriman concluded that the use of TIF-backed commercial development did little more than substitute for, or displace commercial activity that would have occurred elsewhere within the city (Merriman, 2001).

Fourth, cities sponsoring tax increment projects unfairly and inefficiently drain property tax revenues from other taxing entities including schools and counties. A TIF program may commit to the incremental property tax revenues that would have gone to overlapping local governments, such as school districts. These revenues are often substantial. In Illinois, for example, only 15 percent of local property tax revenues, on average, go to a municipality. The remaining 85 percent go to the county, school districts, and other special districts, with most of the money in the TIF going to the school

districts. In many cases, this has led to mistrust between school districts and municipalities. To help alleviate this animosity between municipalities, school districts, and other special districts, many states have curtailed municipal TIF authority. These states now require notification to school districts and other overlapping governments about proposed TIF districts. In addition, many of these states require that TIF advisory boards seat overlapping representatives, and require consent from the these representatives before their revenues may be redirected to the TIF project (Public Policy Forum, 2009).

Fifth, there are few serious obstacles preventing local governments from sponsoring TIF projects in places that would have attracted private development anyway, or few obstacles bestowing subsidies greater than necessary upon firms agreeing to locate in marginal areas. TIF underscores the sharply competitive structure of inter-local relations among adjacent municipalities in metropolitan areas. TIF is a popular tool used by neighboring cities as part of the ongoing interlocal bidding war for business investment (Briffault, 2010). This investment is especially critical during these tough economic times as municipalities fight for tax revenue to pay for local services. A recommendation in order to eliminate TIF being used as a weapon between neighboring municipalities is to promote greater regional cooperative government. A third party mediator may be necessary if the entities are unable to find common ground. Another remedy to stifle this competition is to limit the use of TIF to urban cities. This limitation would help minimize urban sprawl. After all, much of the original intent of TIF was to

promote the redevelopment of older, poorer neighborhoods that have blighted or dilapidated structures.

Lastly, many local governments do not bother to analyze whether TIF projects are net tax revenue producers, or bother to assess periodically whether actual yields match initial projections. Adopting formal TIF guidelines that are rooted in community-based goals is one alternative to help minimize inadequate TIF feasibility analyzation. In addition to TIF guidelines, local officials may benefit from third party analyses of redevelopment plans submitted to them for consideration of TIF assistance. Furthermore, many large cities hire consultants to review TIF applications to help them determine objectively whether the proposal meets the statutory “blight” and “but for” requirements, or if there are other options available to the local officials to help the development occur without TIF (Public Policy Forum, 2009).

What Type of Municipalities Utilize TIF in Wisconsin

In Wisconsin, research has determined that big, slow-growth communities, such as Milwaukee or Green Bay, use TIF less than their small and medium-sized counterparts like Glendale or Ashwaubenon. The City of Glendale's use of TIF to support the recent development of Bayshore Mall is a noteworthy example. In 2008, its TIF utilization rate exceeded 22% compared with a 3% rate in the much larger city of Milwaukee (Public Policy Forum, 2009). However, the city of Milwaukee has a much greater percentage of properties that are TIF eligible, such as blemished, vacate buildings.

TIF and Municipal Employment

Proponents of TIF passionately argue that TIF development leads to higher employment within the TIF district. The proponent's argument is narrow and focuses on the employment effect within the TIF district. However, where is this new employment being taken *from*? If TIF is used to finance the relocation of a business from one part of the municipality into the TIF district, the employment increases with the TIF district are not true employment increases. TIF-supported relocation results in a positive municipal-wide employment effect only when businesses relocate from outside the municipality, or if TIF induces the relocated businesses to expand their workforces (Byrne, 2009).

This same argument can be regionally extended. Many TIF districts are created in urban environments. However, these TIF urban developments have a tendency to pull employment to the large cities while reducing employment in the suburbs or surrounding communities. Furthermore, the type of municipalities that use TIF to attract redevelopment is also factored into whether the development creates a net positive employment increase in the TIF district. For example, "big box" retailers such as Wal-Mart have changed the retail market from smaller "mom and pop" stores, "into larger stores that are less labor-intensive stores". Therefore, TIF supported transition to larger, more labor-efficient retailers could result in a negative employment effect (Byrne, 2009). Contrarily, TIF developments which are classified as industrial are more likely to be firms whose competitors and customers are primarily located outside of the TID. In such cases, employment growth within a TIF district from an industrial development would most likely result in a positive employment effect (Byrne, 2009). Interestingly,

residences are not major employers in a TIF district. However, if TIF facilitates the replacement of dilapidated housing occupied by low-income residents with higher-quality units occupied by residents with higher incomes, a positive employment effect could exist. By replacing low-income residents with high-income residents who spend more money, adoption of a Housing TIF District could result in a derivative effect of businesses (and employees) catering to the new high-income residents (Byrne, 2009).

Suggested Remedies to Deal with Blight and Urban Sprawl

Many cities incorporated anti-blight ordinances to deal with deteriorated properties. The idea is rather simple; the purpose of an anti-blight ordinance is to identify blighted properties and to motivate owners to remediate the situation by means of the issuance of official notices and, in some cases, by levying fines. Ultimately, anti-blight ordinances provide for the possession and/or demolition of blighted buildings or structures by municipalities (Setterfield). Another idea includes exploring the use of land value taxation (LVT) rather than TIF. LVT is a method of raising public revenue by means of an annual charge on the rental value of land. Although described as a tax, it is not really a tax at all, but a payment for benefits received. It would replace, not add to, existing taxes. Properly applied, Land Value Tax would support a whole range of social and economic initiatives, including housing, transport, and other infrastructural investments. It is an elementary fiscal measure that would go far toward correcting fundamental economic and social ills. The value of every parcel of land would be assessed regularly, and the land value tax levied as a percentage of those assessed values. "Land" means the site alone, not counting any improvements. The value of buildings, crops, drainage, or any other works which people have erected or carried out on each plot of land would be ignored, but it would be assumed that all neighboring properties were developed as at the time of the valuation; other components being equal, a vacant site in a row of houses would be assessed at the same value as the adjacent sites occupied by houses. The valuation would be based on market evidence, in accordance with the optimum use of the land within the planning regulations. If the current planning

restrictions on the use were altered, the site would be reassessed. Proponents of LVT cite the following advantages: (Land Value Taxation Campaign)

First, it's a natural source of public revenue. All land makes its full contribution to the tax base, thus allowing reductions in existing taxes on labor and enterprise.

Second, it grows a stronger economy. If we tax labor, buildings, or machinery and plants, we discourage people from constructive and beneficial activities and penalize enterprise and efficiency. The reverse is the case with a tax on land values, which is payable regardless of how well the land is actually used. It is a payment, based on current market value, for the exclusive occupation of a piece of land. In the longer term, this fundamentally new approach to revenue raising will stimulate new business and new employment, reducing the need for costly government welfare programs.

Third, marginal areas are revitalized. Economic activities are handicapped by distance from the major centers of population. Conventional taxes such as Value Added Tax and those on transport fuels cause particular damage to the more remote areas of the country. Land Value Tax, by definition, bears lightly, or not at all, where land has little or no value, thereby stimulating economic activity away from the center; it creates what are, in effect, tax havens exactly where they are most needed.

Fourth, a more efficient land market is created. The necessity to pay the tax obliges landowners to develop vacant and under-used land properly, or to make way for others who will.

Fifth, it encourages less urban sprawl. Land Value Taxation deters speculative land holding. Thus dilapidated inner-city areas are returned to good use, reducing the pressure for building on green-field sites.

Sixth, less bureaucracy is needed. The complexities of Income Tax, Inheritance Tax, Capital Gains Tax and VAT are well known. By contrast, Land Value Tax is straightforward. Once the system has settled down, landholders will not be faced with complicated forms and demands for information. Revaluation will become relatively simple.

Seventh, there will be little or no avoidance or evasion from tax violators. Land cannot be hidden, removed to a tax haven, or concealed in an electronic data system. All property owners would have "skin in the game" under a LVT system.

Eighth, an LVT system elicits an end to boom-slump cycles. Speculation in land value - frequently misrepresented and disguised as "property" or "asset" speculation - is the root cause of unsustainable booms which result periodically in damaging corrective slumps. Land Value Taxation, fully and properly applied, knocks the speculative element out of land pricing.

Ninth and final reason an LVT system will work: It is less plausible to pass on in higher prices, to lower wages earners in the form of higher rents. Competition makes it impossible for a business producing goods on a valuable site to charge more per item than one producing similar goods on less valuable land - after all, producers and traders at

different locations are paying different rents to landlords, now, yet, “like goods” generally sell for much the same price and employers pay their workers comparable wages. The tax cannot be passed on to a tenant who is already paying the full market rent (Land Value Taxation Campaign).

Another method to deal with urban blight while promoting community development is incorporating an aggressive urban planning component. For example, during the early 1970s, the City of Portland, Oregon, began to suffer from the symptoms of urban flight. Forty years later, however, it is considered to be a model for planners, due to having controlled suburban sprawl, fostering extensive use of public transport, and significantly revitalizing its inner-city. This has all been brought about by a very tight “green belt” law, which has banned development outside a boundary encircling the city, and thus forced development back into the inner-city (Setterfield). The research from the Portland Revitalization Plan is very encouraging. The study determined that housing density increased. Portland, nevertheless, increased housing densities by putting more people on less land even though they were below planners' targets. Densities for new development increased on average from five homes per acre (one-fifth of an acre per home) to eight homes per acre (one-eighth of an acre per home) from 1994 to 1997. The amount of land used for new housing development has declined as multifamily housing units have increased from 25 percent of all building permits in 1992 to 49 percent in 1997. The Portland study also concluded that the development of infill land increased under the “green belt” redevelopment program. Vacant land within the growth boundary is disappearing. It has fallen from 75,000 acres in 1985 to less than 55,000 today. Once

environmentally sensitive and otherwise undevelopable land is considered, the amount falls to less than 38,000 acres. While almost 40 percent of the land in the boundary was vacant in 1980, the share of total vacant land represented just 19.8 percent of the land by 1997, less than 14 percent when undevelopable land is considered. Portland's current refill rate rests at 25.4 percent. In other words, about one-fourth of all housing units built inside the growth boundary are either infill lots or re-development of existing property. Higher refill rates and rebounding home prices in inner-city neighborhoods should mean the goals of revitalization and increasing density are being met (Mildner, 1999).

However, there was a double-edged sword noted in the Portland study. Inner-city Portland appeared to benefit from these higher rates of redevelopment. From 1990 to 1995, inner-city neighborhoods in Portland experienced a substantial increase in home-price inflation: the North, Southeast, and Northeast areas of the City of Portland saw their housing prices increase the fastest. Home prices in North Portland doubled, rising from \$41,300 in 1990 to \$83,800 in 1995 (in non-inflation adjusted dollars). The average home price among these cities increased from \$97,684 to \$152,700 (Mildner, 1999). These increased housing costs have been transferred to renters and low income renters have been adversely affected. In addition, less infill land has resulted in less open space where children may have played, or groups may have used for community gardening.

Summary

To summarize, this paper has discussed the positive and negative attributes associated with TIF usage in Wisconsin. Also discussed was the history and original intent of TIDs. The original purpose of TIDs was to redevelop inner city properties that were considered blemished. Unfortunately, the poor regulation of the use of TIDs has been expanded and abused by developers and politicians for developmental projects that do not meet the legal definition of a blighted property. This abuse has clouded the intent of TIDs as a redevelopment economic tool to a developmental instrument for properties that are not dilapidated or legally eligible to be considered for a tax incremental financing project. To curb these abuses, strict regulation and a clear, non-ambiguous definition of a blemished property should be created and strictly enforced. In addition, the “but for” test theory should be replaced with the “what if”, which asks the question “What will be the overall positive impact to the district if this development is approved and allowed to proceed?”

TIF usage should also be regulated to private sector developments. Non-profit and public sector projects should be restricted from TIF because, in most cases, these entities are exempt from paying property taxes. Therefore, the TID never realizes the tax increment as a result of the property value increase.

In addition, this paper has discussed TID usage trends and the significant increases of TIDs in the state of Wisconsin. The state of Wisconsin has a high level of TID utilization compared with many other states. The high level of TID usage should be

monitored to minimize tax payer leverage and risk associated with default if these TIDs fail.

Additional research is recommended to determine whether TID increases overall property tax values, and a negative, positive or neutral gain in employment. The researcher believes that there is short term employment increases as a result of the construction and development associated with TID projects in the specific vicinity that the project is being constructed. However, after the construction has been completed, the employment is most likely shifted from one location to another, resulting in a neutral employment gain. In some cases, the employment as a result of the redevelopment may actually be lower. An example of lower employment was discussed in this paper citing the example of the “big box retailer”, which utilizes fewer employees to operate in an efficient manner compared with the locally owned “mom and pop” store. Furthermore, the state of Wisconsin needs to monitor and disallow further TID entities when the equalized value of property in the district, plus the value increment of all existing districts, exceeds 12% of the total equalized value of taxable property. This will ensure the tax payer is not leveraged to a high level of risk associated with the negative consequences which may result in default, and leave the tax payers liable.

The positive and negative attributes associated with TIDs will continue to be debated. However, TIDs are one of the few economic tools that entities have to combat blighted properties that are doing little more than taking up space, and, in many cases, provide a safe haven that fosters criminal activity, and provides cover to detrimental unfavorable activities which lower adjacent property values and adversely affects a

community's reputation. There are many places where TIDs can, and should, be successfully implemented. However, the criteria for selection should be tightly regulated to minimize tax payer risks, and to benefit the entire community.

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