

**The History and Purpose of Tax  
Increment Finance Policy in Wisconsin**

**an interim research report for a project on:**

**Do Wisconsin Tax Increment Finance Districts Stimulate Growth in Real Estate  
Values? Do They Contribute to Sprawl?**

Russell Kashian, Mark Skidmore and David Merriman

© 2007 Lincoln Institute of Land Policy

**Lincoln Institute of Land Policy  
Working Paper**

The findings and conclusions of this paper are not subject to detailed review and do not necessarily reflect the official views and policies of the Lincoln Institute of Land Policy.

Please do not photocopy without permission of the Institute. Contact the Institute directly with all questions or requests for permission. ([help@lincolninst.edu](mailto:help@lincolninst.edu))

**Lincoln Institute Product Code: WP07RK1**

## **Abstract**

Like other U.S. states, tax increment financing (TIF) is an important component of the development policy landscape in Wisconsin. While the guidelines for the use of TIF are similar to those that exist in other states, some aspects of TIF policy are unique to Wisconsin. The purpose of this report is to provide a concise summary of the history and purpose of tax increment financing (TIF) in Wisconsin. The report discusses TIF in relation to controversies about sprawl, representative government, fairness to poor communities and municipal competition. This report provides important background information for those interested in evaluating the impacts of TIF on factors such as property value growth and land use.

## About the Authors

**Russ Kashian** is an Associate Professor of Economics at the University of Wisconsin Whitewater. He also serves as a Specialist for the University of Wisconsin Extension. Professor Kashian's major fields of research are regional planning and regional financial institutions. He has published the results of his research in journals such as *Review of Regional Studies*, *Contemporary Economic Policy*, *Journal of Applied Business Research*, *Economic Development Quarterly*, and the *Monthly Labor Review*.

**Mark Skidmore** is the Morris Chair in State and Local Finance Policy at Michigan State University. His research focuses on state and local finance issues and the relationship between public policy and economic development. His work has appeared in journals such as *Economics Letters*, *Economic Inquiry*, *Journal of Urban Economics*, *National Tax Journal* and *Public Finance Review*.

**David Merriman** is Professor of Economics at Loyola University Chicago and holds an adjunct appointment at the Institute of Government and Public Affairs of the University of Illinois. He has also been a senior research associate in the Urban Institute's Assessing the New Federalism project. His primary areas of research are state and local public finance and urban economics. Professor Merriman has published studies of tax increment financing in *The Journal of Urban Economics* (2000), *Urban Studies* (2003) and *Regional Science and Urban Economics* (2007). His past research also has included studies of differing rates of health care expenditure growth across states, state fiscal responses to business cycles, Cook County property taxes and the impact of cigarette tax increases on state revenues. He holds a Ph.D. in Economics from the University of Wisconsin-Madison.

<p>Mark Skidmore, Morris Chair in State and Local Finance and Policy          Department of Agricultural Economics          202 Agriculture Hall          Michigan State University          Phone: 517/355-4569          Interim E-mail: skidmorm@uww.edu</p>	<p>Professor Russell Kashian          Economics Department          4045 Carlson Hall          University of Wisconsin-Whitewater          Whitewater, WI 53190          Phone: (262) 472-5584          E-mail: <a href="mailto:kashianr@uww.edu">kashianr@uww.edu</a></p>
<p>Professor David Merriman          Inst. of Government and Public Affairs          University of Illinois          815 W. Van Buren Ste 525          Chicago, Illinois 60607 MC191          Phone (312) 996-1381</p>	<p>School of Business Administration          Loyola University Chicago          1 E. Pearson Street          Chicago, Illinois 60611          Phone: (312) 915-6071          E-mail: <a href="mailto:dmerrim@luc.edu">dmerrim@luc.edu</a></p>

## Table of Contents

<b>I. Introduction</b>	<b>1</b>
<b>II. History of TIF in Wisconsin</b>	<b>1</b>
<b>III. Purpose and Structure of TIF in Wisconsin</b>	<b>3</b>
<b>IV. Controversies Surrounding TIF in Wisconsin</b>	<b>5</b>
TIF and Sprawl	5
Weakness of Wisconsin's "but for" Clause	5
Lack of Democratic Controls in TIF	6
Unfairness to Poor Communities	6
TIF May Foster Unproductive Municipal Competition	6
TIF May Increase Property Tax Rates	6
<b>V. Implications for Empirical Analysis</b>	<b>7</b>
<b>VI. Conclusion</b>	<b>8</b>
<b>References</b>	<b>9</b>

# **Do Wisconsin Tax Increment Finance Districts Stimulate Growth in Real Estate Values? Do They Contribute to Sprawl?**

## ***Report Summarizing the History and Purpose of Tax Increment Finance Policy in Wisconsin***

### **I. Introduction**

This report provides a concise summary of the history and purpose of tax increment financing (TIF)<sup>1</sup> in Wisconsin. It highlights major changes in TIF policy over time and provides a brief evaluation of key policy issues. This report is organized as follows. The next section provides an overview of the history of TIF in Wisconsin. In section III, we briefly review the intended purposes and legal structure of TIF. Section IV summarizes some of the most important controversies surrounding TIF policy. In section V, we highlight the implications of recent changes in TIF policy for the coming econometric analysis. Section VI concludes.

### **II. History of TIF in Wisconsin**

Wisconsin enacted TIF Legislation in 1975 partly as an effort to stimulate economic growth that had lagged since the economic recession of the early 1970's.<sup>2</sup> TIF also was designed to provide an additional funding source for redevelopment during a period in which many Federal programs that had been targeted for urban renewal were folded into block grant and general aid programs. In addition, many legislators in Wisconsin believed that all levels of local government benefited from urban renewal and ought therefore to share in the costs of redevelopment. To these legislators, TIF was an attractive financing arrangement because it spread the costs of redevelopment from municipalities to overlying taxing jurisdictions (e.g. counties, school districts and technical college districts).

Wisconsin municipal governments (cities and villages) were empowered to create TIDs. In order for an area to qualify as a TIF district, legislators required that the land must be: (1) blighted; (2) in need of rehabilitation or conservation work; or (3) suitable for industrial development. The legislators also included the standard qualifier of TIF legislation nationwide that development would not have occurred "but for" the establishment of the TIF.

Within a few years of the initiation of TIF, research conducted by the State of Wisconsin Legislative Audit Bureau revealed that TIF was subsidizing development that would have

---

<sup>1</sup> In Wisconsin the acronyms for tax increment financing (TIF) and tax increment districts (TID) are used interchangeably. In this report, we use the acronyms TID and TIF when making reference to tax increment districts and tax increment finance policy, respectively.

<sup>2</sup> Although California enacted TIF legislation as early as 1952, use of TIF across the states did not proliferate until the 1970s. See Runde (2001) for a detailed account of the history and use of TIF in Wisconsin.

occurred even without public funding (Maryl, 2005). In reaction, legislators enacted more restrictive guidelines for the use of TIF. In 1981, policymakers increased the percentage of land within a proposed TID that must meet the criteria of being blighted, in need of rehabilitation or conservation, or suitable for industrial development. The legislature also required that land zoned for industrial purposes, remain zoned industrial throughout the life of the TID. Finally, officials required that no more than 25 percent of land within a TID was vacant for more than seven years prior to TID creation. Land used for industrial development was exempted from this vacancy requirement.

Prior to 1995, TIF projects were limited to an expenditure period of seven years and a payback period of 23 years. In conjunction with changes in school finance<sup>3</sup>, TIF law was amended to allow for a longer payback period for existing TIDs. For TIDs created before October 1, 1995, project expenditures could be made for up to ten years after the TID creation, but TIDs created after this date were still restricted to a seven year expenditure period. In a similar fashion, pre-1995 TIDs were allowed a lengthened payback period of 27 years but post-1995 TIDs were subject to the 23 year payback requirement. An additional change allowed successful TIDs to subsidize less successful TIDs for up to ten years. Finally, the 1995 amendments allowed TID boundaries to be amended once during the first seven years of a TID's existence.

In 1999, the State of Wisconsin created a TIF option for certain cities, villages, towns and counties to recover the costs of environmental pollution remediation. There are also numerous additional exceptions to TIF law that legislators have created for specific communities.<sup>4</sup>

In 2004, state legislators again substantially revised TIF policy. One change allowed the expenditure period on TIDs for blight and rehabilitation created after October 1, 1995 to be extended for up to five years. However, the extension cannot exceed the un-extended life of the project. In addition, all types of TIDs created after October 1, 2004 are allowed an extended life. The maximum life of TIDs created to remedy blight or environmental remediation was increased from 23 to 27 years.

Other changes included an increase in the equalized value requirement. Prior to October 1, 2004 the sum of the property value within all TIDs could not exceed 5 percent of the municipality's equalized value. However, after October, 1, 2004, this limit was raised to 12 percent. In addition, TIDs are now allowed up to four project amendments through the duration of the TID life. The prior rule limited communities to one amendment during the first seven years of TID operations. One final major change allowed for the creation of TIDs in which 50 percent or more of the land is suitable for mixed use development. In mixed use TIDs up to 35 percent of the land can be used for residential development.

---

<sup>3</sup> Beginning in 1996, state government in Wisconsin assumed a greater responsibility in funding K-12 education while at the same time mandating a reduction in local property taxation.

<sup>4</sup> A number of these exceptions are highlighted in a report by the Legislative Fiscal Bureau, 2001.

The changes that took effect in 2004 also restricted TIDs in several ways. We highlight three of the most notable changes. First, land annexed by a municipality cannot be included in a TID for three years following the annexation except under special circumstances. Second, new 2004 TIF guidelines required that members of the joint review board be high-ranking officials of the overlying tax districts. Third, the new policy reduced the maximum life (prior to extensions) of Industrial TIDs from 23 to 20 years.

### **III. Purpose and Structure of TIF in Wisconsin**

A TIF project typically begins when a municipality's development authority draws up a development plan. This plan forecasts development within the TIF area and projects costs. In order for the TID to be legally valid the TIF plan must demonstrate that private funds are insufficient to move a redevelopment project forward and that the development would not occur "but for" the TID. The "but for" qualification creates a potential for abuse because of its subjective nature and because of the difficulty in evaluating proposed TIF projects.

Once the broad outline of the district is created, a financial feasibility study is conducted. This study projects the anticipated creation of new property value, determines the method of financing the project, and reports a cash flow analysis. The proposal is then forwarded to a Joint Review Board consisting of one public advocate and representatives from the school board, the county, the community and the local technical college. The meetings of the review board are public and decisions are based on majority vote.

Once a TID is established it is common for municipal authorities to use the anticipated revenues of the project or the general obligation of the municipality to guarantee bonds that are then used to finance development within the TID. As with other state and local government bonds, TIF related bonding is exempt from federal taxation. This allows municipalities to borrow for TIDs at a relatively low rate of interest.

TID funds are often used to pay for real estate improvements including sidewalks, utility upgrades, or the construction of a parking garage near the proposed development. Generally, bond proceeds are spent on infrastructure and/or land acquisition. However, monies can also be spent on development incentives as well as for administrative and organizational expenses. Finally, expenditures are allowed for required tax payments to the township for annexed lands.

While the TIF district is operational, the tax revenues received by the municipality, county, school and technical college taxing authorities from the TID are based on the frozen predevelopment property valuation. All of the property tax revenue generated from the new development (known as the "increment") goes to the TID and can be used to pay off bonds that are used to finance the necessary infrastructure and other TIF development-related expenses. Once the bonds are repaid, the higher tax receipts then return to the municipal, school district, county and technical college taxing jurisdictions.

One advantage of TIF as a development tool is that it does not rely on uncertain state or federal funds. TIF pays off the debt incurred from subsidizing development by capturing the increment created by future real estate appreciation. The TIF thus creates a system by which a community may borrow and spend against future tax revenue increases from county, municipal, school and technical college taxing jurisdictions brought about by the development. Provided that the development realizes a sufficient increase in property valuation, the TID is said to pay for itself. A “failure” is said to occur when the assessed value of the TID does not rise to the projected amount, causing a property tax receipt shortfall that would prevent debt repayment in the allowable timeframe. Conversely, a “successful” TID generates enough property tax revenue to pay off the debt within the allotted period.

In Wisconsin as well as in other states, the prevention or removal of blight is a predominant feature that drives TIF legislation. However, it is important to note that in Wisconsin TIF use is not limited to blight removal. Because of this, communities facing competition for tax base from their neighbors may feel compelled to use TIF. Along the same lines, businesses, looking for the “best deal” in locating a project, see the TIF program as a way to shift infrastructure costs to the municipality. In shopping for the best opportunity, businesses use TIF as a negotiating tool in discussions about relocation or redevelopment with municipal planning departments.

An important issue in the creation of any TID is the determination of its boundary. In Wisconsin, the boundary of a TID must be a contiguous “redevelopment” area created by ordinance or resolution of the municipality. The municipality must inform any overlapping taxing entity of their intention to create a TID. Objections are addressed through public hearings in order to receive community input regarding the TIF proposal. After public opinion is weighed, community leaders decide whether to proceed. As previously discussed, the size of TIDs is also limited. The base values of all existing districts cannot exceed 12 percent of the total equalized value of the municipality.<sup>5</sup> It is possible to amend the boundaries by adding and/or subtracting contiguous territory so long as the TID meets the 12 percent test. Note that the simultaneous addition and subtraction of territory is counted as a single (not multiple) boundary amendment (Wisconsin Department of Revenue, 2005). Finally, for mixed use TIDs, the proposed residential component is limited to a maximum of 35 percent of the TID.

Since a maximum of 12 percent of a municipality’s assessed value may be included in TIDs and since each district must include contiguous properties, TID boundaries must be constructed carefully. The current use of the property is also a consideration because no more than 25 percent of the land can have been vacant for the preceding seven years (except in the instance of environmentally contaminated lands).

Each of the various types of TIDs have different maximum life spans. The maximum life is 27 years if the TID is designed to remediate blight.<sup>6</sup> The maximum life of an industrial

---

<sup>5</sup> Beginning in October 2004, the maximum percentage of municipal value increased from 5 percent to 12 percent. This change in the law significantly expanded the opportunities for municipalities to utilize TIF.

<sup>6</sup> In October 2004, the maximum life increased from 23 to 27 years.

district and a mixed use development is 20 years.<sup>7</sup> However, it is permissible for each of these districts to receive a three year extension to its maximum life. Environmental TIDs have a maximum expenditure span of 15 years, with a repayment period of 16 years and no possibility of extension. Districts can be closed when the maximum life is expended, the total tax increments collected are sufficient to pay the district's cost, or when the municipality passes a resolution to close the district. In all types, if there are any remaining cost obligations, they become a general liability of the municipality.

#### **IV. Controversies Surrounding TIF in Wisconsin**

The previous sections identify a number of points around which controversy may arise. In this section, we discuss some of the most controversial issues.

##### **TIF and Sprawl**

While the original intent of TIF was to redevelop blighted areas, its use to develop agricultural land under the "but for" clause may cause sprawl. The "but for" clause provides an opportunity to extend infrastructure to areas where it would be financially challenging to justify dragging sewer and water laterals. This provides for leapfrog development since without TIF the targeted property would have to wait for adjacent properties, closer to older neighborhoods, to develop. As a further complication, in Wisconsin agricultural land is assessed at "use value" as opposed to market value. Beginning in 1995, for property tax purposes agricultural land value is determined by the value of crops. The intent of this provision is to protect farmers with high demand land from increasing property tax bills. TIF legislation sets the base value of agricultural land at its value in farming rather than its market value. Thus, the interaction between use value and TIF policies means that TIDs formed on open land can be paid off more quickly than other projects, thus further encouraging sprawl.<sup>8</sup>

##### **Weakness of Wisconsin's "but for" Clause**

In an ideal world, the removal of blight and the "but for" qualifications would be met in every approved TIF project. However, in Wisconsin vaguely defined requirements and corresponding loose interpretations of both standards suggests that there is potential for improper use of TIF as a development tool.<sup>9</sup>

Due to loosely defined and interpreted guidelines, TIF may be used for projects that would have been developed anyway. If redevelopment would have occurred in the absence of a TID, the increment would have also occurred and would have benefited the

---

<sup>7</sup> In October 2004, the maximum life decreased from 23 to 20 years.

<sup>8</sup> Mayrl (2005a, 2005b) argues persuasively that the combination of the use valuation of farmland and TIF policy provides suburban and rural development with an artificial advantage over urban redevelopment.

<sup>9</sup> For example, Runde (2001) points to a case in which one tax increment district formed in Baraboo, Wisconsin provided funds to support the construction of a Wal-Mart Superstore. In this case, the project was approved despite the fact that a Wal-Mart already existed two miles from the new development site and that the Wal-Mart corporate real estate manager acknowledged that the development would have occurred anyway.

various taxable jurisdictions. Instead, TIF may result in an unnecessary subsidy to developers which delays tax revenues for municipalities, schools, technical college, and county governments. Importantly, this may lead to higher property tax rates (Chapman, 1998).

### **Lack of Democratic Controls in TIF**

TIF is not dominated by democratic institutions (Public Policy Forum, 2005). The structure of a TIF board allows for little voter accountability. In addition, approval of TIDs does not require direct referenda. While the municipal government must approve the TID, the school board, the county and the vocational college do not have a direct vote in the process. Rather, they appoint members to the review board. Since the members of the review board are not directly elected, but are appointed to represent elective bodies there exists a gap between voters and the TIF approval process. In addition, the citizen representative to the board is selected by the other members of the board.

### **Unfairness to Poor Communities**

Fourth, TIF is less risky for wealthier communities. Since wealthier communities often experience faster growth, it is possible that the existing development actually accelerates the growth of the new development. As a result, TIDs may appear to be more successful in growing and wealthy communities compared to older or poorer communities. Conversely, poorer communities have inherent social and economic barriers. The existence of the barriers in poor communities makes success challenging but potentially worthwhile. This point is of relevance because it suggests a potential endogenous relationship between TIF adoption and property valuation.

### **TIF May Foster Unproductive Municipal Competition**

Fifth, TIF may create an environment of competition between communities rather than cooperation. The fear of losing on employment opportunities generates an opportunity for developers to pit communities against each other. As the developer awaits the best offer, communities with greater blight are required to offer larger incentives in order to compete with communities with a stronger economic base. This suggests that empirical analysis of TIF policy may require a consideration of spatial issues (TIF use in a municipality may in part be determined by whether neighboring municipalities use TIF).

### **TIF May Increase Property Tax Rates**

Finally, for several reasons, TIF may contribute to rising property tax rates. This argument is based on several observations. First, especially in the instances of residential TIF, new homes create costs for schools and other local governments that are not immediately compensated for by increased real estate valuation. Second, there are non-education costs created by commercial and industrial development (such as police, fire, and other public services). However, since much of TIF development compensates the existing governmental entities based on the prior use (often low valued, degraded real

estate or “use-value” based agricultural land), the corresponding public services are not paid for by real estate price appreciation until the district pays off the corresponding debt (Maryl, 2005). Lastly, if the “but for” clause does hold, use of TIF results in a pure transfer from the community to the developer, which in turn must ultimately be paid for with higher property taxes.

## **V. Implications for Empirical Analysis**

As the above discussion suggests, current as well as recent changes in TIF policy may have important implications for our study of the effects of TIF on development and sprawl. Below, we briefly highlight what we perceive to be several key issues.

As previously discussed, TIF may lead to sprawl, but TIF in combination with use valuation clearly provides suburban and rural development with an artificial advantage over urban redevelopment. Currently, we are collecting data over the 1990-2003 period on annexation, municipality size in square miles as well changes in agricultural land valuation. This information, along with detailed TIF data, should enable us to evaluate the degree to which TIF has led to sprawl.

Also, the improper use TIF may not increase property valuation beyond that which would have occurred in the absence of TIF. In fact, if TIF use is inefficient it could actually lead to a lower rate of property valuation growth than would have otherwise occurred (Dye and Merriman 2000). Our analysis will enable us to determine whether TIF has led to increases in property values within a given TID as well as within the community as a whole.

Given that communities with a stronger economic base may be more inclined to use TIF, selection/endogeneity may confound the empirical analysis. It will therefore be important to test for and, if found, correct for endogeneity in our econometric analysis. A key challenge will be in determining a valid instrument that is correlated with TIF use but uncorrelated with the growth of property valuation.

Given that TIF use in one municipality may in part be determined by whether neighboring communities use TIF, it may also be important to consider spatial econometric issues. Also, with regard to the selection/endogeneity issue a possible instrument could be whether spatial neighbors recently adopted TIF as a development tool.

Lastly, if TIF is misused and if TIF is indeed leading to sprawl, then TIF may also result in rising property tax rates. Inappropriate use of TIF results in an unnecessary transfer from the community as a whole to developers, which ultimately results in higher property tax rates. Similarly, sprawl may increase the costs of providing services such as sewer and water lines, again resulting in higher property taxes. Our data include detailed information on property taxation for all local taxing jurisdictions across the state over the 1990-2003 period. These data should allow us to examine the relationship between TIF use and effective property tax rates.

## **VI. Conclusion**

This report summarizes the structure and use of TIF in Wisconsin, noting areas of potential concern. Highlighted throughout are key drivers and changes in TIF policy that will be important considerations in the coming empirical analysis. The information provided here provides a foundation for understanding how TIF is used in Wisconsin, which will play a critical role as we continue to research the effects of TIF in Wisconsin.

## References

- Chapman, Jeffrey . 1998. "Tax Increment Financing as a Tool of Redevelopment," Local Government Tax and Land Use Policies in the United States. Northampton, MA; 182-198
- Dye, Richard and David Merriman 2000. "The Effects of Tax Increment Financing on Economic Development" Journal of Urban Economics 47(): pp. 306-328.
- Maryl, Matthew 2005a. "Refocusing Wisconsin's TIF System on Urban Redevelopment". Center on Wisconsin Strategy.
- Maryl, Mathew 2005b. "Epic Move Highlights Reform Need," Op-ed article published in the Wisconsin State Journal, March 25, 2005.
- Moskal, Joe 2005. "Tax Incremental Finance Law (TIF) of Wisconsin for Cities and Villages. Center for Community Economic Development, University of Wisconsin-Extension.
- Public Policy Forum 2005. "Keeping Up With the Neighbors? Tax Increment Financing in Southeastern Wisconsin". Public Policy Forum, Vol 2 Number 1.
- Runde, Al 2001. "Tax Increment Financing, #17". Wisconsin Legislative Fiscal Bureau.
- Wisconsin Department of Revenue: Division of Research and Policy. June 27, 2005.
- Wisconsin Legislative Audit Bureau (LAB), *Review of Tax Incremental Financing* (Madison: LAB, 1981), 17.
- Wisconsin, State of. Legislative Fiscal Bureau. 2001. Tax Increment Financing #17. State of Wisconsin.