

Wisconsin Policy Forum: Budget proposals would mean major impacts for key development tool

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WPF Looks at Potential Effects on TIF

MADISON – Changes proposed by Gov. Tony Evers to tax increment financing (TIF) would have major impacts on the main economic development tool for local governments in the state, lowering the revenues of existing TIF districts and putting limits on TIF going forward, according to a new report from the nonpartisan, independent Wisconsin Policy Forum (WPF).

State budget provisions put forward by the governor would limit the use of tax increment district (TID) funds to make cash grants to developers rather than more traditional investments in public infrastructure such as streets and sewers. The use of cash grants appears to have grown in recent years, drawing criticism from those who see them as an unnecessary subsidy to developers but a defense from others who say they can spur growth and reduce the amount of debt assumed by municipalities.

The Wisconsin Taxpayer report, “Renovating TIF,” notes the Joint Committee on Finance has removed these provisions from the budget but not eliminated the need to debate the larger issues they raise.

“There is still value in considering whether changes to TIF in Wisconsin are merited given its strong growth over the past decade and, if so, which ones,” the report reads. “Previous WPF research found \$472 million in TID levies in 2017 alone, which was up 25% from 2007 after adjusting for inflation.”

One change proposed by the governor and rejected so far by lawmakers would be to limit cash grants to developers to 20% of a TID’s total project costs. Another would be to require “stress tests” prior to TID creation that would examine how difficult economic conditions could affect growth in property values in the district and its ability to repay debt.

Looking at the provisions, the report found:

□ Municipalities have traditionally borrowed money to finance infrastructure and other TIF spending to spur development, paying off the debt through increased property values and taxes within a TID. Over time, it has become relatively common for developers to assume the borrowing risk (an approach known as developer-financed TIF), with the municipality passing on increased tax revenues to the developer to help pay off the debt. The Evers proposal would limit such arrangements, which in some cases might reduce subsidies to businesses but in others might shift risk back to municipalities or cause development not to occur. State Department of Revenue data for 2017 show 172 TIDs in the state, or 65% of the districts that used cash grants, reported cash grants of 20% or more of spending – the threshold put forward in the budget proposal.

□ In 2017, developer grants were 11% of total TIF spending statewide. That appeared to be an increase over a 2009 report by the Wisconsin Taxpayers Alliance, a WPF predecessor, which looked at 81 recently closed TIDs and found that 2.7% of expenditures were grants to developers.

□ Many municipalities already do alternative economic projections, or stress tests, whether

on their own or through a consultant. For that reason, the proposal may not represent a large added burden for municipalities.

□ Unrelated school finance and property tax provisions in the budget bill would decrease TID levies by 5.5% starting with the tax bills sent in December 2020 and paid in 2021. These provisions have also been rejected so far by lawmakers.

TIF is the primary tool that local governments in Wisconsin use to encourage development, particularly in the case of sites and communities with blight, environmental concerns, or other factors that may make projects more costly or unattractive. When a new tax increment district (TID) is created, the value of taxable property within it (its base value) is determined. Each taxing authority with jurisdiction in the district (the municipality, county, school district, sewerage district, and technical college) continues to collect taxes from that frozen base value throughout the life of the TID. However, as the property value of the TID increases due to public and private investments, the increased tax revenue derived from the private development, or tax increment, is used to repay project costs and borrowing.

The complete report is available [here](#). This is the second in a series of reports planned by WPF on TIF usage in Wisconsin. The first in the series, "Tax Incremental Financing on the Rise," can be found [here](#).