

THE SIZE AND VARIATION OF DEVELOPMENT  
SUBSIDIES UNDER WISCONSIN TAX  
INCREMENTAL FINANCING

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## ABSTRACT

Wisconsin's tax incremental financing law is intended to help city and village governments in paying for development and redevelopment efforts. Unlike other state or federal development assistance programs, tax incremental financing provides subsidies to cities and villages through diverted property tax revenues of other local taxing jurisdictions, such as the county and school districts.

This study uses a hypothetical tax incremental district and 1978 tax information to estimate development subsidies for 67 Wisconsin cities. When viewed from the local "government's" vantage, the average rate of development subsidy is approximately 70 percent for Wisconsin cities. For "taxpayers" living within these cities, however, the development subsidy is only 30 percent on average. The variation in development subsidy from city to city is also shown to be significant. The study concludes by discussing the implication of such findings on state and local development policy.

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## I. INTRODUCTION

In 1975, Wisconsin joined 23 other states in enacting tax incremental financing (TIF) laws for use by local units of government. Tax incremental financing helps local governments in paying for development and redevelopment projects by temporarily diverting a portion of local property taxes to the sponsoring community. County government and school districts, for example, subsidize part of specially designated city development expenditures through the tax increment contributions that they make to the city.

Several important questions surround the use of tax incremental financing in Wisconsin. Among these are:

1. What is the nature of the development incentives provided communities under TIF? In particular, what is the size of the development incentives provided and what is the variation in development incentives among communities? Also, what overall development pattern will TIF incentives tend to promote statewide?
2. What are the fiscal impacts of TIF for cities, villages, counties and other affected taxing jurisdictions? What flow of funds is involved in the Wisconsin TIF process?
3. What are the overall costs and benefits of TIF in the Wisconsin context? Which parties gain and which lose when TIF is used to finance community development? Is the overall impact of TIF positive or negative?
4. What are the potential uses and possible abuses of TIF? Under what conditions might TIF be appropriate and when might the use of TIF run counter to the goals and constraints of Wisconsin state and local governments?

This study, addressing the first question above, estimates rates of development subsidy for various cities (and selected villages) in the state.

Subsidy rates are estimated for both units of government and for taxpayers living within the boundaries of these governments. Through development of the twin concepts of "nominal" and "effective" rates of development subsidy, it is shown that city taxpayers and city governments do not necessarily share equally in the incentives provided under TIF. Rates of TIF subsidy are compared for various size communities in an effort to highlight the potential development pattern which might be expected under current Wisconsin TIF law.

The report is composed of six major sections. Section II overviews the purpose and history of tax incremental financing in Wisconsin. Section III describes the process of using TIF in the Wisconsin context and is followed by the definition of "nominal" and "effective" rates of development subsidy, which is contained in Section IV. Section V estimates rates of potential TIF development subsidy for 67 Wisconsin cities (and nine villages in Milwaukee County) using 1978 tax information and hypothetical TIF districts in each community. The paper concludes with Section VI which summarizes the results and discusses possible implications for state development policy.

## II. PURPOSE AND HISTORY OF TAX INCREMENTAL FINANCING IN WISCONSIN

Wisconsin's tax incremental financing law is intended to encourage city and village governments to undertake socially desirable projects.<sup>1</sup> The fear expressed by the State Legislature in passing the present TIF law was that in the presence of significant disincentives which are inherent in the property tax system, cities often are discouraged from undertaking needed development and redevelopment efforts. Without TIF, municipalities often bear the cost of development projects alone while other local taxing jurisdictions share the development benefit--narrowly defined as increased property tax revenues. The resultant distribution of costs and benefits was perceived by the Legislature to be "inequitable" and the source of potential "disincentive" for cities considering various development projects.<sup>2</sup>

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<sup>1</sup>Only city and village governments may use TIF in Wisconsin. The use of the term "city" throughout the remainder of this paper refers to both city and village governments, unless otherwise noted.

<sup>2</sup>For example, the legislative declaration for the Wisconsin TIF legislation reads, in part:

The legislature finds that the existing system of allocating aggregate property tax revenues among tax levying municipalities has resulted in significant inequities and disincentives. The cost of public works or improvements within a city or village has been borne entirely by the city or village, while the expansion of tax base which is stimulated. . .benefits not only the city or village but also all municipalities which share such tax base. This situation is inequitable. Moreover, when the cost to a city. . .of a public improvement project exceeds the future benefit to the city. . ., the city. . .may decide not to undertake such project. This situation has resulted in the postponement or cancellation of socially desirable projects. (Chapter 105 Laws of 1975, Wisconsin)

Tax incremental financing works against the disincentives faced by individual municipalities by diverting a portion of county and school district property tax revenues to city and village governments as partial reimbursement for municipal development expenditures which have been made. Thus, under TIF, development expenditures are shared by all local (affected) taxing jurisdictions and not just the sponsoring city or village government. Disincentives are lessened and incentives increased as the proportion of local development expenditures paid by outside sources increases.

Casual observation would suggest that the incentives provided under the state's TIF law have been sufficient to move local governments into action. As shown in Table 1, the use of TIF has grown steadily since its enactment in 1975.

TABLE 1  
WISCONSIN TAX INCREMENTAL FINANCING DISTRICTS  
CREATED SINCE 1975

<u>Year</u>	<u>No. of Districts</u>	<u>No. of Cities and Villages</u>	<u>Total No. of Districts to Date</u>
1976	5	5	5
1977	19	9	24
1978	22	14	46
1979	54	29	100

SOURCE: Wisconsin Department of Revenue

### III. THE TAX INCREMENTAL PROCESS IN WISCONSIN

Under tax incremental financing, a city creates an artificial tax boundary or district containing a known amount of property value, referred to as BASE VALUE, at the time of creation. In Wisconsin, at least 25 percent of the district must be blighted or in need of rehabilitation or possess industrial development potential and no more than 5 percent of the total value of the municipality can be in TIF districts when new districts are created. Up to five years following the creation of the TIF district, the city can make expenditures which promote the development or redevelopment of property within the district. These expenditures typically involve the purchasing and/or clearing of land, street improvements, infrastructure provision, and so forth. Debt service expenditures associated with TIF projects may be incurred beyond the five-year general spending limit.

The expenditures made by the city are reimbursed over time by the payment of TAX INCREMENTS from the various governments having taxing power over the property values within the district. As property values in the district increase above the BASE VALUE, TAX INCREMENTS are generated by applying the general property tax rate for each unit of government involved to the growth in the district's tax base (known as VALUE INCREMENT).

For example, three units of government use the property tax base of the City of West Bend to finance their services: The City of West Bend, Washington County, and the West Bend School District.<sup>3</sup> Suppose the city

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<sup>3</sup>Four taxing jurisdictions actually use the property values in West Bend, with the fourth jurisdiction being the Moraine Park Vocational, Technical and Adult Education District. For convenience, school tax rates have been combined here as they are reported by the Wisconsin Department of Revenue.

creates a tax incremental financing district for purposes of redeveloping a two block blighted area in its downtown and determines that there is \$10.0 million property value (BASE VALUE) in the district at the time of creation. After spending \$602,000 to improve the streets in the area and to rehabilitate several buildings, property values in the district begin to rise. For exposition purposes, suppose property values in the district increase to \$11.0 million after the first year, creating a VALUE INCREMENT of \$1.0 million.

TAX INCREMENT payments to the city for the first year are determined by multiplying the general tax rate for each of the three units of government by the VALUE INCREMENT. Table 2 shows that using 1978 tax rates for West Bend, \$25,240 would be generated for the city by the \$1.0 VALUE INCREMENT: \$6,220 from the city itself and the remainder from the county and the school district.

This process is continued each year until the \$602,000 originally expended by the city is totally recovered. When the entire development expenditure is recovered by the city, the district is dissolved and the total value in the district is returned to full use by all three units of government. Assuming a 40 percent annual growth in VALUE INCREMENTS after the first year and local general property tax rates which are unchanged over time from their 1978 level, the district is terminated seven years after district creation in the West Bend example. Under Wisconsin law, TIF districts cannot last longer than 20 years, even if all project costs have not been recovered.



TABLE 2

HYPOTHETICAL TAX INCREMENT PAYMENTS FOR THE CITY OF WEST BEND

	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
	VALUE INCREMENTS (assuming 40 percent annual growth after first year)							
	\$1,000,000	1,400,000	1,960,000	2,744,000	3,841,600	5,378,240	7,529,540	10,541,350
	TAX INCREMENTS (value increments X tax rates)*							
1978 TAX RATES								
City .00622	\$ 6,220	8,708	12,191	17,068	23,895	33,453	46,834	
County .00286	2,860	4,004	5,606	7,848	10,987	15,382	21,534	
School .01616	16,160	22,624	31,674	44,343	62,080	86,912	121,677	District Terminated: Original Expenditure Completely Recovered
Total Annual Tax Increment	\$ 25,240	35,336	49,470	69,259	96,962	135,747	190,046	
Cummulative Tax Increment	\$ 25,240	60,576	110,046	179,305	276,267	412,014	602,060	

\*In actual practice, current year tax rates are used for each year's tax increment calculation. For exposition purposes, the 1978 tax rates were used in each year here. Tax rates in Wisconsin have generally been decreasing in recent years.

#### IV. CONCEPTUAL DEFINITION OF DEVELOPMENT INCENTIVES UNDER TAX INCREMENTAL FINANCING

The previous discussion and example suggest that under tax incremental financing, part of any development expenditure made will be subsidized by units of government other than the city. In the example of West Bend, if property tax rates for each unit of government remain relatively proportional over time, approximately 25 percent of the \$602,000 development expenditure made would be paid by the city and the remainder by the county and school district. Without tax incremental financing, the city would have financed 100 percent of the development expenditure.

In most circumstances, the percentage of "outside" contribution to local expenditures is a convenient number by which to gauge the relative development incentive provided localities. For example, the old federal Urban Renewal program (which in some respects is similar to TIF) subsidized up to 80 percent of certain redevelopment costs in specially designated urban renewal areas. Economic Development Administration and Title V Commission grants often require only a 25 percent local government match. Community Development Block Grant monies require no (explicit) local contribution.

Using the "unit of government" as the level of observation, the nominal rate of development subsidy for cities may be defined as:

the percentage of development expenditures made by city governments which is paid by non-city governments.

Conceptually, it can be assumed that city governments will increase their expenditures for development or redevelopment purposes as the rate of development subsidy they realize increases. Further, it can be assumed that there is a threshold rate which the subsidy rate must exceed before

city governments engage in development efforts. This condition suggests that cities will normally only engage in development options which have a perceived positive net present value.<sup>4</sup> These relationships are characterized in Figure 1.

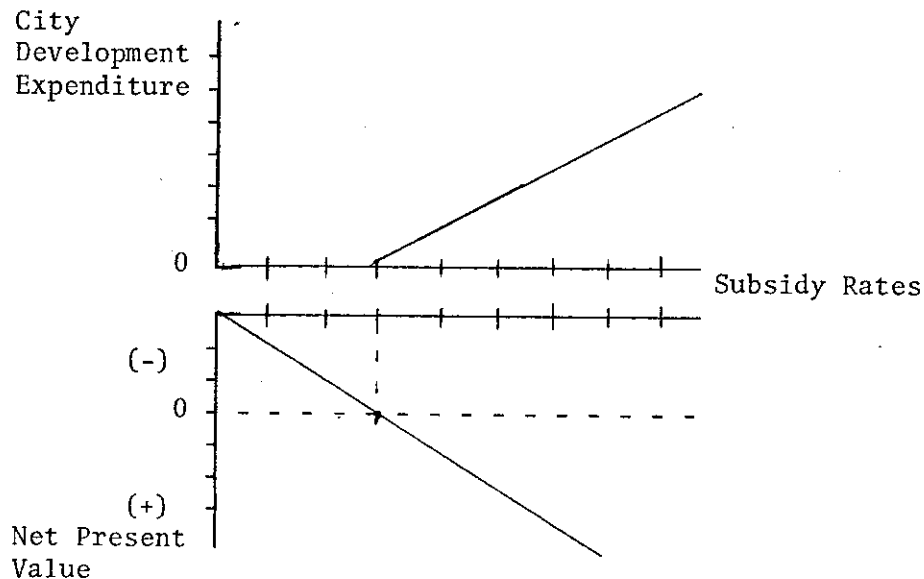


FIGURE I. EFFECT OF SUBSIDY RATES ON NET PRESENT VALUES AND CITY DEVELOPMENT EXPENDITURES

<sup>4</sup>Net present value represents the value today of a stream of benefits and costs which occur over time. The net present value computation for a proposed city development option may be expressed as:

$$NPV_0 = \frac{B_0 - C_0}{(1+r)^0} + \frac{B_1 - C_1}{(1+r)^1} + \frac{B_2 - C_2}{(1+r)^2} + \dots + \frac{B_n - C_n}{(1+r)^n}$$

where:  $NPV_0$  is the net present value today (time period 0),

$B_0$  through  $B_n$  are the benefits of the development option in each of the years  $n_0$  through  $n$ ,

$C_0$  through  $C_n$  are the costs of the development option in each of the years  $n_0$  through  $n$ , and

$r$  is the social interest rate for the city (often assumed equal to the interest rate the city pays for its borrowing).

Tax incremental financing subsidies increase the net present value of a development option to a city by increasing the benefit stream over time through the diversion of property tax revenues (tax increments) to the city.

The commonly used definition of nominal rate of development subsidy is actually misleading when used to analyze the incentives provided under tax incremental financing. Governments do not subsidize other governments as suggested in the definition above but more precisely stated, taxpayers in one jurisdiction subsidize taxpayers in other taxing jurisdictions. This distinction is seldom important when considering the subsidies provided cities by federal or even state governments. As suggested in Figure 2, taxpayers in any particular city contribute a very small proportion of federal and state tax collections which ultimately might be returned to help in financing city development efforts. This situation is not true of county and school district tax collections. For example, in 1977 taxpayers in the City of Milwaukee contributed 13.7 percent of "major revenues" collected by the State.<sup>5</sup> They, on the other hand, contributed 52.4 percent of county property tax revenues and approximately 100 percent of school district property tax revenues for the same year.<sup>6</sup> Thus, while federal or state dollars provided cities represent a major introduction of "new" tax dollars to an area, tax dollars coming from other local taxing jurisdictions may be considerably less.

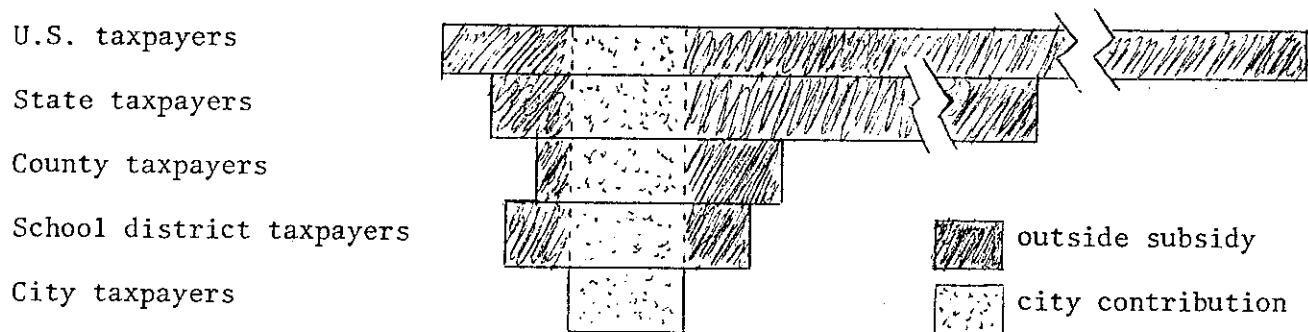


FIGURE 2. IMPORTANCE OF CITY RESOURCES TO EXPENDITURES OF VARIOUS UNITS OF GOVERNMENT

<sup>5</sup>Taxes-Aids & Shared Taxes, 1977 (Wisconsin Department of Revenue).

<sup>6</sup>Data from Wisconsin Departments of Revenue and Public Instruction.

Table 3, for example, looks at the first year tax increment for the City of West Bend in greater detail. Most notably, the significance of the West Bend tax base to Washington County and the West Bend School District is introduced. The property tax base of West Bend makes up 23.5 and 61.3 percent of the county and school district tax bases respectively. This suggests that 23.5 percent of any expenditure by the county, for example (whether for general purposes or for tax increment payments) will come from city taxpayers and the rest from non-city taxpayers living elsewhere in the county. A similar situation, but with different percentage shares, exists for school district expenditures. Columns F through H of Table 3 breaks the first year tax increment payments by government unit down into payment by place of residence of the taxpayer.

This adjustment reflects the fact that some of the "new" money cities receive under tax incremental financing is, in fact, not new but rather "old" resources which have been renamed or diverted. In the West Bend example, \$672 of the \$2,860 generated by the county tax increment and \$9,906 of the \$16,160 generated by the school district increment came from city taxpayers. Without TIF, these monies would have been paid by city taxpayers to the county and school district. With TIF, they are paid to the city. From the city taxpayers point of reference, the effective development subsidy comes from the \$2,188 and \$6,254 which are paid by non-city county and school district taxpayers. These amounts represent the "new" money which is available to help finance city sponsored development efforts.

This discussion provides the basis for the definition of the effective rate of development subsidy for city taxpayers, which is:

TABLE 3

TAX INCREMENT PAYMENTS AND RATES OF NOMINAL AND EFFECTIVE SUBSIDY  
 FOR WEST BEND, WISCONSIN: \$1.0 MILLION GROWTH IN TIF DISTRICT VALUE

taxing jurisdiction	(A) 1978 property tax rate <sup>a</sup>	(B) growth in district value above base	(C) tax increment	(D) 1978 property tax base <sup>a/b</sup>	(E) city tax base as percent of taxing jurisdiction's tax base
(1) City of West Bend	.00622	\$1,000,000	\$ 6,220	\$ 392,476,320	100.0
(2) Washington County	.00286	1,000,000	2,860	1,671,662,230	23.5
(3) West Bend School District	.01616	1,000,000	16,160	639,913,120	61.3
			<u>\$25,240</u>		

taxing jurisdiction	(F) city residents	(G) county residents outside city	(H) school district residents outside city	(I) tax increment by unit of government	(J) percent of total tax increment (nominal subsidy*)
(4) City	\$ 6,220	--	--	\$ 6,220	24.6
(5) County	672	\$2,188	--	2,860	11.3*
(6) School	9,906	--	<u>\$6,254</u>	16,160	64.1*
(7) Tax increment by place of residence	\$16,798	\$2,188	\$6,254	\$25,240	
(8) Percent of total tax increment (effective subsidy #)	66.6	8.6#	24.8#		100.0

SOURCE: a. Town, Village & City Taxes-1978, Wisconsin Department of Revenue.  
 b. Wisconsin Department of Public Instruction.

the percentage of development expenditures made by city governments which is paid by non-city taxpayers.

The importance of the distinction between the two definitions of development subsidy can be seen by an example. Suppose a city whose boundaries happen to be coterminous with the county and school district is considering a large, \$2.0 million redevelopment project. Further suppose that initially not considering the use of TIF in financing the project, the net present value of the stream of costs and benefits associated with the project is negative, discouraging the city in further consideration of the project. At this point, the use of TIF is introduced and the city is so attracted by the nominal subsidy it will receive from the county and school district (suppose this is 75 percent) that it decides to undertake the project.

What has changed in the "real" fiscal resources available with the introduction of TIF? The city perceives that it has \$1.5 million "new" money ( $\$2.0 \text{ million} \times .75$ ) to help finance the project; only \$0.5 million of "local" money is needed to gain a \$2.0 million project. But from where does the additional \$1.5 million come? Since the city, county and school district boundaries are coterminous and since city property taxpayers are also county and school district property taxpayers, the "new" money is simply "old" money renamed. In the extreme case where city, county and school district boundaries are coterminous, city taxpayers pay 100 percent of any city development made, with or without tax incremental financing. While nominal subsidy rates would suggest that the costs and benefits of this particular development effort have been redistributed under TIF, the effective subsidy rates would suggest that they have not been.

Two factors affect the amount of development subsidy paid by taxpayers residing outside the city. These are (1) the distribution of the property tax rates among the taxing jurisdictions using the tax base in a TIF district relative to each other, and (2) the importance (percentage) of the city tax base to each of the affected taxing jurisdictions. As the city property tax rate is higher vis-a-vis the tax rates for the other jurisdictions or as the importance of the city tax base to other tax bases increases, the non-city taxpayer subsidy lowers.

Section V estimates nominal and effective rates of subsidy for a large number of Wisconsin cities.



V. NOMINAL AND EFFECTIVE RATES OF DEVELOPMENT SUBSIDY UNDER  
WISCONSIN TAX INCREMENTAL FINANCING

The potential TIF subsidies available to Wisconsin municipalities can be estimated by assuming the existence of a hypothetical TIF district in each jurisdiction and then comparing relative tax rates and tax base compositions among the various taxing jurisdictions involved in each instance. This study concentrated mainly on Wisconsin cities and assumed that a TIF district was created in each city in 1977 which generated a \$1.0 million value increment over the first year. Nominal subsidies for the first year were estimated for each city by calculating the percentage of the total tax increment which would be generated by county and school districts as was done for West Bend in Columns A, B, C and J in Table 3. Effective subsidies to city taxpayers were estimated by adjusting the various tax increments for who paid the increment, either city or non-city taxpayer, per the pattern of Columns D through H of Table 3. Tax information from the Wisconsin Departments of Revenue and Public Instruction for 1978 were used for the estimates.

An effort was made to calculate TIF subsidy rates for all Wisconsin cities with 1978 populations above 5,000.<sup>7</sup> This was not easily done for cities lying in more than one county or cities which were served by more than one school district. Excluding these cities, it was possible to calculate subsidy rates for 100 percent (11) of the cities above 50,000 population,

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<sup>7</sup> Village governments were not a primary thrust of this study, although the methodology employed is applicable to villages.

76 percent (28) of the cities with population between 10,000 and 49,999, and 82 percent (28) of the cities with population between 5,000 and 9,999. The hypothetical first year nominal subsidy rates (corresponding to the sum of county and school district percents found in Column J of Table 3) and effective subsidy rates (sum of county and school district percents in Row 8 of Table 3) for the 67 cities are reported in Table 4.

Two characteristics stand out in the relationship between the two rates of development subsidy.

- a. Effective rates are significantly lower than nominal rates. When viewed from the governmental unit point of view, it appears that on average, 70.3 percent of local development expenditures will be paid by "outside" units of government. This ranges in the cities examined from a low of 51.6 percent in Portage to a high of 88.5 percent in Franklin.

From the city taxpayers point of view, the percentage subsidy is not as high. The average rate of subsidy for the 67 cities is 29.8 percent, with a low of 6.5 percent in Milwaukee and a high of 51.8 in Hartford. On average, the effective rate is 42.4 percent of the nominal rate.

- b. There is little systematic relationship between nominal and effective subsidy rates. Although effective rates are always lower than nominal rates, little else can be seen in the relationship between the two. High nominal rates do not necessarily imply high effective rates. The Pearson correlation between the two rates is, in fact,  $-.015$ , suggesting little systematic relationship.

This is especially problematic in particular places which have high apparent (nominal) subsidies but low real (effective) subsidies for taxpayers. Examples of this include: Milwaukee, Janesville, Beloit, Sturgeon Bay, Madison, and especially New Berlin, where nominal and effective rates differ by over 77 percentage points. Taxpayers in such cities could find the benefits of development efforts redistributed far less than is commonly perceived.

A second important dimension to the incentives provided under Wisconsin TIF is the spatial pattern of effective rates which emerges. From a

TABLE 4

HYPOTHETICAL FIRST YEAR NOMINAL AND EFFECTIVE TIF FOR  
 WISCONSIN CITIES: \$1.0 MILLION GROWTH IN TIF DISTRICT VALUE

City	Nominal Subsidy Rate	Effective Subsidy Rate	Difference in Subsidy Rates
Antigo	65.5	40.8	24.7
Appleton	62.2	20.5	41.7
Ashland	59.3	20.6	38.7
Baraboo	66.6	38.5	28.1
Beaver Dam	72.7	33.9	38.8
Beloit	59.1	10.7	48.4
Brookfield	81.9	23.2	58.7
Burlington	61.0	41.1	19.9
Chippewa Falls	55.3	32.7	22.6
Cudahy	75.2	17.7	57.5
Delevan	77.5	51.2	26.3
Eau Claire	67.1	20.0	47.1
Fond du Lac	74.0	25.4	48.6
Franklin	88.5	18.5	70.0
Ft. Atkinson	74.1	37.9	36.2
Glendale	78.6	47.6	31.0
Green Bay	74.8	18.5	56.3
Greenfield	81.6	18.9	62.7
Hartford	70.7	51.8	18.9
Hudson	61.1	40.1	21.0
Janesville	73.5	13.7	59.8
Jefferson	77.4	50.0	27.4
Kenosha	64.6	19.2	45.4
LaCrosse	66.9	15.6	51.3
Lake Geneva	74.1	44.2	29.9
Madison	68.6	10.1	58.5
Manitowoc	65.1	16.9	48.2
Marionette	78.1	25.5	52.6
Menomonie	67.4	36.7	30.7
Mequon	81.2	17.4	63.8
Merrill	63.4	40.6	22.8
Middleton	79.8	42.9	36.9
Milwaukee	68.0	6.5	61.5
Monona	80.8	27.6	53.2
Monroe	77.2	38.1	39.1

TABLE 4 (cont.)

City	Nominal Subsidy Rate	Effective Subsidy Rate	Difference in Subsidy Rates
Neenah	63.4	30.1	33.3
New Berlin	86.0	8.6	77.4
Oak Creek	78.7	24.7	54.0
Oshkosh	69.4	22.4	47.0
Platteville	70.0	37.5	32.5
Plymouth	72.6	45.2	27.4
Portage	51.6	27.0	24.6
Port Washington	72.0	30.9	41.1
Prairie du Chien	72.0	30.1	41.9
Racine	61.2	29.7	31.5
Rhineland	65.9	43.1	22.8
Rice Lake	60.5	34.9	25.6
Ripon	64.8	35.4	29.4
Shawano	65.5	41.9	23.6
Sheboygan	65.8	17.2	48.6
Sheboygan Falls	73.2	47.0	26.2
South Milwaukee	75.4	15.2	60.2
Sparta	63.9	39.4	24.5
Stevens Point	68.7	36.0	32.7
St. Francis	69.4	14.7	54.7
Stoughton	73.0	48.1	24.9
Sturgeon Bay	77.3	13.2	64.1
Sun Prairie	82.2	40.8	41.4
Superior	58.0	12.1	45.9
Tomah	62.7	42.0	20.7
Waukesha	70.4	26.9	43.5
Wausau	71.9	30.2	41.7
Wauwatosa	76.6	17.6	59.0
West Allis	70.5	25.5	45.0
West Bend	75.4	33.4	42.0
Whitewater	72.1	50.7	21.4
Wisconsin Rapids	57.0	27.6	29.4
Mean	70.3	29.8	40.5
Standard deviation	7.7	12.3	14.6

state development perspective, it is not only the difference between nominal and effective rates which is important but, as well, the difference in effective rates among places. For example, if the effective rate of development subsidy is 25 percent in community A and 50 percent in community B, B can undertake twice the development expenditure as A at the same local taxpayer cost.

Figures 3 and 4 display the effective rate of first-year development subsidy for the 67 cities. When grouped according to city population size, a clear pattern of outside subsidy rates becomes visible. As shown in Table 5, the mean subsidy rates for the three groups of cities are inversely related to community size. The mean subsidy rate for smaller cities (38.9 percent) is over twice that of the largest cities (19.2 percent), with the mean rate for medium sized cities (24.8 percent) between the other two. Statistically, the difference between the mean subsidy rate for large cities and medium sized cities is significant at the 0.10 level of significance and between the medium size and smaller cities at the 0.01 level.

TABLE 5  
AVERAGE RATE OF EFFECTIVE SUBSIDY BY SIZE OF PLACE

cities by population size	no. of places	mean subsidy rate	stand. dev.	lowest	highest
Cities, 50,000 and above	11	19.2	7.1	6.5	29.7
Cities, 10,000-49,000	28	24.8	10.3	8.6	47.6
Cities, 5,000-9,999	28	38.9	9.2	13.2	51.8



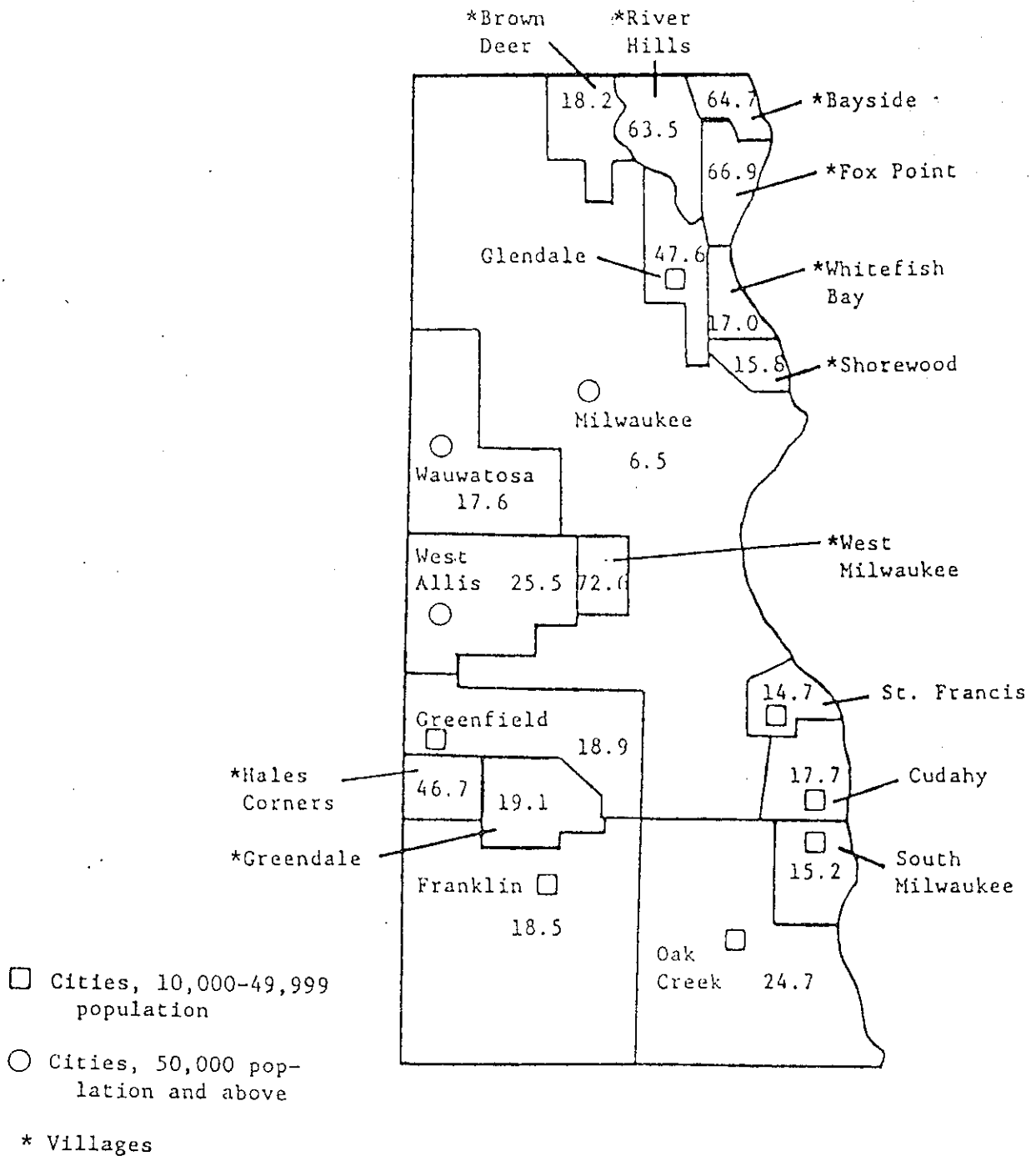


FIGURE 4  
 EFFECTIVE SUBSIDY RATES FOR ALL CITIES AND VILLAGES  
 IN MILWAUKEE COUNTY, WISCONSIN <sup>8</sup>

Figure 4 goes further by reporting the effective subsidy rates for all municipal governments in Milwaukee.<sup>8</sup> Nine village and ten city governments contain the entire tax base of Milwaukee County.

The disparity among effective subsidy rates is even more pronounced when looking at all units of government within this single metropolitan area than when viewing the state pattern. Subsidy rates range from 6.5 percent for the City of Milwaukee to 72.6 percent for the Village of West Milwaukee, a relatively low income enclave of about 3,500 population. The majority of communities in the county have effective subsidy rates between 10 and 20 percent, while 4 communities have rates in excess of 60 percent. The mean subsidy rate for cities and villages within the county is 31.1 percent, with a rather large standard deviation of 21.5 percent.

Subsidy rates also vary significantly among suburban communities within Milwaukee County. This contrast is most visible in the seven communities clustered in the northeast corner of the county where effective subsidy rates range from 15.8 percent in the relatively low income Village of Shorewood to 66.9 percent in the relatively high income Village of Fox Point.

As suggested earlier, the effective rate of outside taxpayers subsidy is a function of the relative importance of the municipal tax rate, vis-a-vis other tax rates, and the importance of the municipal tax base to other

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<sup>8</sup>Several villages in Milwaukee County are not located solely within a single school district. Tax incremental financing subsidies were calculated as if the TIF district was located in just one of the school districts. In particular, the subsidy calculated for River Hills assumed the district was located within the Nicolet Union school district; and the Bayside district within the Fox Point JZ school district. Districts in these villages, but in other school districts would alter the estimated subsidies.



taxing jurisdictions. Table 6 contrasts these conditions for the five highest and lowest subsidy communities in Milwaukee County. Two characteristics are immediately apparent in Table 6. First, low subsidy communities tend to tax at a higher rate for both municipal and school purposes than do high subsidy communities, although the relative significance of the city/village tax is higher in low subsidy communities, as shown in Column D. Second, the municipal tax base is a larger proportion of both county and school district tax bases in the low subsidy communities. This is especially apparent where municipal and school district boundaries are coterminous.

In general, important contrasts exist in effective development subsidies when viewed from either the state or metropolitan level. Large urban centers such as Milwaukee and Madison can expect to receive about 10 cents of outside money for every dollar of TIF development expenditure made while, on average, medium sized cities and smaller cities can expect 25 and 39 cents respectively. Of the 67 cities studied, 25 would receive subsidies between 0 and 25 percent, 38 subsidies between 25 and 50 percent, and 4 subsidies above 50 percent.

TABLE 6

EFFECTIVE SUBSIDY RATES, TAX RATES AND TAX BASE IN SELECTED  
CITIES AND VILLAGES IN MILWAUKEE COUNTY

	(A)		(B)		(C)		(D)		(E)		(F)	
	percent outside subsidy	local tax rate	school tax rate	local tax rate as percent of total tax rate	local value as percent of county value	local value as percent of school district value	local tax rate as percent of total tax rate	local value as percent of county value	local value as percent of school district value	local value as percent of school district value	local value as percent of school district value	local value as percent of school district value
<u>Five highest subsidy cities or villages</u>												
West Milwaukee	72.6	.00425	.01613	16.9	1.6	15.9						
Fox Point	66.9	.00414	.01507	17.2	1.5	24.8						
Bayside	64.7	.00405	.01493	17.0	0.9	28.8						
River Hills	63.5	.00925	.01429	32.6	0.5	7.6						
Glendale	47.6	.00482	.01284	21.4	3.3	52.9						
<u>Five lowest subsidy cities or villages</u>												
Milwaukee	6.5	.01133	.01918	32.1	52.4	100.0						
Saint Francis	14.7	.00918	.01597	30.6	8.9	100.0						
South Milwaukee	15.2	.00663	.01612	24.6	2.4	100.0						
Shorewood	15.8	.00760	.01761	25.3	1.9	100.0						
Whitefish Bay	17.0	.00437	.01845	15.8	2.4	100.0						
Mean: five highest	63.1	.00530	.01465	21.0	1.6	26.0						
Mean: five lowest	13.8	.00782	.01747	25.7	13.6	100.0						
Mean: all cities & villages	31.1	.00585	.01604	21.5	5.6	76.8						

SOURCE: Town, Village & City Taxes-1978, Wisconsin Department of Revenue.

## VI. SUMMARY AND IMPLICATIONS

The primary purpose of this study was to estimate the size of and variation in rates of development subsidy provided communities and their taxpayers under the Wisconsin tax incremental financing law. The effective rate of taxpayer subsidies estimated for cities in this study range from 6.5 to 51.8 percent and have an average of 29.8 percent. Rates of development subsidy for city governments (nominal subsidies) range from 51.6 to 88.5 percent, with an average of 70.3 percent. The rapid growth in use of TIF by Wisconsin communities since 1975 would suggest that such incentives are sufficient to encourage municipal governments to undertake presumed socially desirable development projects.

The variation in development subsidies under TIF, however, suggests that the redistribution of costs and benefits from development efforts is different from place to place. Smaller cities benefit more from non-city taxpayer subsidies than do medium size cities, and these more than large cities. This could be expected from a development incentive program which uses the property tax system and local spending/taxing patterns to determine intergovernmental and inter-taxpayer subsidy.

An important distinction to be realized by city administrators, local policy-makers and city taxpayers is the difference between nominal subsidies and effective subsidies. On average, only about 30 percent of city development expenditures are paid by outside taxpayers while the average nominal subsidy rate would suggest that over 70 percent of development expenditures might be subsidized. In particular cities, the difference between the two subsidy

rates can be extreme. It is the effective subsidy, not the nominal subsidy, which ultimately determines how much the costs and benefits of development efforts are redistributed under TIF.

One influence on the effective rate which is not explicitly considered here is that of state payments to school districts as a partial reimbursement for school aids lost due to TIF. Power equalized school aids are calculated without regard to the tax base "frozen" in a TIF district. If a school district has a TIF district within its boundaries, state aids received by the school district are lower because of the "apparent" higher value per pupil, even though the school district does not receive revenues from property values above the TIF base. In Wisconsin, this loss in aids is made up through a supplemental aid payment from the general school aids fund. If this supplemental aid payment is made from "new" state appropriations, the effect would be to introduce a new source of tax increment contribution to the city (from the state) which in turn would lower the school district's tax increment contribution and raise the rate of outside development subsidy.

Very limited evidence would suggest that this is not the case in Wisconsin.<sup>9</sup> New appropriations have not explicitly been set aside for TIF supplemental school aids. Tax increment supplemental payments directly reduce the amount

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<sup>9</sup>The fact that new appropriations are not used to fund TIF supplemental payments can be seen in the fiscal note prepared for AB 1216 which was considered in the 1979 legislative session. AB 1216 proposed to expand the use of TIF to townships. The fiscal note, in part, states:

- 3) The level of total school aid will not change because of the bill.
- 5) General school aid (20.255(1)(C)) will decline by the amount of increase in supplemental aid.

available for distribution to all school districts as general school aids and, thus, leave school districts needing to implicitly raise their levy to cover tax increment payments to the city.<sup>10</sup> Even if new appropriations were set aside to fund TIF supplemental payments, it is not clear that taxpayers in all school districts would be equally subsidized.

To be clear, the non-city taxpayer subsidies calculated in this study pertain only to the first year of a hypothetical TIF project which produces \$1.0 million of new value within the TIF district. Implied here is that the relative distribution of tax increments by place of residence of the taxpayer would remain relatively constant over the life of a TIF district and project. This would be true as long as relative tax rates and relative tax base composition among the various taxing jurisdictions involved remain unchanged from their 1978 levels.

While convenient, this set of conditions is not likely. Recent trends in Wisconsin tax rates would actually serve to heighten the distinction between smaller and larger places. Between 1970 and 1978, statewide average property tax rates for both city governments and school districts have fallen. However, the decrease in city tax rates in cities in the 18 metropolitan counties<sup>11</sup> located in the southeast corner of Wisconsin has been only 3.1

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<sup>10</sup> Thus, on average, school districts will have to increase their levies to make-up forgone tax increments to cities. It is true, however, that school districts with TIF districts within their boundaries have potential short-run gains vis-a-vis districts without TIF districts, since supplemental payments are paid first from the general school aids fund. Working against this gain, however, is the fact that all school districts receive a smaller total amount of general school aids.

<sup>11</sup> The 18 counties located in the southeast corner of Wisconsin contain 65.5 percent of the State's 1978 estimated population.

percent, compared to 11.6 percent for all cities in the State. Thus, city tax rates remain relatively more important vis-a-vis total tax rates in metropolitan counties than in nonmetropolitan counties. The opposite is true of school tax rates. Between 1970 and 1978, school district rates have fallen 34.8 percent in the metropolitan counties while the statewide average decrease has been only 26.0 percent. As summarized in the discussion of Table 3, these trends would suggest that city taxpayers in the metropolitan counties would be paying a higher proportion of their development expenditures over time, compared to city taxpayers in nonmetropolitan counties.

An important question for Wisconsin to decide is whether urban areas or smaller places should receive the greatest assistance in their development efforts. There are compelling arguments on both sides of this issue. Clearly, large urban areas which are simultaneously experiencing extreme fiscal pressures and escalating urban deterioration need development assistance. At the same time, smaller outlying areas which are experiencing the State's most rapid population growth need assistance in financing the cost of expanding public infrastructure and services. As presently structured, the Wisconsin tax incremental financing law provides the lowest relative development subsidy to central cities.

Are there options for the State in the event that it is decided to give TIF a stronger urban development focus? Two adjustments are immediately apparent. First, within obvious political constraints, the TIF law could be restricted for use by certain type or size places. Wisconsin TIF, for example, is currently only available to cities and villages; counties and unincorporated areas may not use TIF. Eligibility might further be restricted to only the

largest places or even to central cities. Minnesota, for example, focuses on "predominantly built-up areas" under its TIF law.

A second option for Wisconsin is to restrict the criteria for district creation or the definition of eligible costs to be recovered such that more narrowly defined goals are accomplished. Wisconsin's law could be shaped, for example, such that only costs associated with slum clearance or blight elimination might be recovered with tax increments. Similarly, district creation might be restricted to places with declining or stagnant areas, which is the case under California TIF law.

Whether Wisconsin's tax incremental financing law needs refocusing or expansion is clearly a question of growing concern. The intent of this paper is to help all affected parties understand the direction of the incentives provided local governments under the State's TIF law and to encourage an examination of the compatibility of these incentives with state and local development goals and objectives and related development policies.

PREVIOUS OCCASIONAL PAPERS

1. Impact of Tax Base Equalization on Local Development Planning.  
Dr. Jack R. Huddleston, October 1979.
2. Adaptive Reuse of Closed School Buildings in Madison, Wisconsin.  
Debra Allen and Thomas Hartz, January 1980.
3. An Ethical Perspective on the Land Planning Urgency.  
Jerome L. Kaufman, September 1980.