
Proposed Elements of TIF Reform:

Introduction

As a part of the Center on Wisconsin Strategy's (COWS) commitment to improving living standards in Wisconsin and to promoting sustainable economic development, we are examining economic development policy and practice throughout the state.

As a reference for this analysis, we use the term "high road," referring to strategies that are associated with high productivity, high pay, reduced environmental damage, and greater commitment to the health and stability of surrounding communities. In contrast, "low road" strategies are associated with low pay, economic insecurity, and degraded natural environments and communities.

Conventional economic development strategy has typically focused on the "low road" – by, for example, promoting job growth without concern for the type of jobs generated – which usually means promoting low-wage jobs. Low wage jobs drag down wages elsewhere, encourage further low-roading, and draw on the tax base without proportionately contributing to it. Tax base erosion then leads to cutbacks in public goods and suburban flight. This then leads to the conclusion that jobs, any jobs at all, are what is needed, which enforces the continuation of the original "low road" strategy.

COWS is committed to ensuring that Wisconsin takes the "high road" in its economic development policy. Currently COWS staff have been assessing the state of the "high road" versus the "low road" in Wisconsin. This includes an examination of statewide policies and programs, as well as those administered at the municipal level, such as tax increment financing.

What follows are some suggestions related to Tax Increment Financing in Wisconsin, in order to begin a broader conversation around economic development policy in the state and to inform our analysis. While these suggestions apply to tax increment financing, a uniquely local economic development tool, we believe the criteria outlined below can and should be used to frame our economic development strategies as a state.

Regular re-examination of state economic development policy is crucial to maximizing the public benefit from investment of tax dollars. As economists forecast the possibility of near-term recession, insuring the long-term fiscal security of state and local governments must drive public policy.

Access to information is critical to evaluating economic development programs. We support strong "right-to-know" provisions for state and local economic development programs to ensure that information is collected, evaluated, and made available to the general public.

I. Stronger mandatory scoring criteria (for TIF applications):

Currently the main criteria for evaluating a TIF proposal is the “but for” clause. This clause is the basic question that city councils and review boards must ask when considering a TIF: “ But for TIF, would this project get done?” However, we believe that municipalities rely too heavily on the “but for” clause alone in guiding new development, without considering other factors. We propose that municipalities develop stronger mandatory scoring criteria for designated projects and require a clearer, more robust economic analysis justifying TIF assistance. These criteria must include more elements than expanding the tax base. For example, every deal must serve a public purpose, and that purpose should be outlined in the TIF development agreement. The following are proposed criteria that a municipality might use:

Community benefit

As part of the application that should be scrutinized by municipal planning officials and the public when considering a TIF, we recommend that there be some thought given to how the community will benefit from the proposal. This may come in the form of a direct question on the application form, a required component of the project plan, or part of the proposal presentation in public hearings.

Redevelopment and Land Use Goals

- **Geographic Dispersion/Equity:** Does the proposed TIF benefit an area that has not previously been a designated TIF district? Does the proposed TIF promote development within the municipality (rather than outside the municipality?)
- **Consistency with neighborhood plans:** If there is a neighborhood plan, does the proposed district fit into that plan?
- **Impact on Blight:** Does the proposed TIF district promote development in an area that has been affected by blight? How would the “blight” be characterized/defined? How would the project impact that blight? How would the project benefit the surrounding area?
- **Mixed Income:** Does the proposed TIF district promote mixed income development or redevelopment? Does the proposed TIF district promote affordable housing?
- **Impact on surrounding neighborhoods and communities:** How will the proposed TIF affect surrounding neighborhoods throughout its existence?

- **Sustainable Growth:** Does the proposed TIF development promote growth in a sustainable fashion, without encouraging sprawl? Is the proposed district serviced by public transportation? What will the development impacts be on traffic? Is the development consistent with the municipality's transportation plans?

Job Creation, Retention and Quality

We recognize that not all TIFs are designed to create new jobs. However, we recommend that the following be considered when new jobs are created, and/or jobs are retained through a project.

- **Job Creation/Retention:** How many jobs currently exist in the proposed district? How many employers? Does the proposed development retain and/or create new jobs? How many jobs will be retained? How many created?
- **Job Quality:** What is the quality of the jobs retained/created? Wages? Are there opportunities for advancement? Are the jobs affected by the development union jobs? Will the new employers use union labor? Will the new employers provide health care to their workers?
- **Compatibility with Existing Workforce Skills:** Will the proposed TIF provide jobs which match the skills of the resident labor force, or for which local workers have access to established training systems? Can local training resources be used in providing needed training or retraining for the firm's employees?
- **Child Care:** Has there been an assessment of child care availability to workers in the district? Is the child care affordable and accessible to workers in the district?

Environmental Quality

- **Environmental issues/record:** Have the developers/companies receiving benefits from the TIF district been in compliance with all Federal, State and Local environmental laws?
- **Aesthetics/Quality of life:** How will the proposed development impact the aesthetics of the area? Does the proposed development promote an improved quality of life for residents in the area and in the surrounding neighborhoods? Does the proposed development retain or create greenspace?

Anti-Piracy

When a corporation seeks incentives to relocate an existing business from one area of the state to another, it often creates a zero-sum game in which there are no net economic benefits to the state. At the federal level, most major economic development programs now have anti-piracy regulations preventing their use in *interstate* job-movement deals, but there is still a need to prevent *intrastate* competition from occurring. The following are some questions to be used as a guideline in preventing *intrastate* competition in Wisconsin with regards to the use of tax-increment financing.

- **Relocation:** Are firms benefiting from the TIF relocating from other municipalities in Wisconsin? What are the impacts of that firm's relocation on the community it is leaving?
- **Impact on Wages:** How will the relocation affect wages for workers within the firm?
- **Impact on Incumbent workers:** Will the incumbent workers get transfer rights or be close enough to the new site to retain their jobs?
- **Dislocation:** If a company is relocating from one part of the state to another, and it has to hire new workers to re-fill existing positions, will taxpayers incur additional expenses for safety-net spending of laid off workers or training new ones?

II. Stronger Public Participation and Input

Currently, two public hearings are required by state law before adopting a resolution to create a TIF: one to discuss the proposed TIF, and one to discuss the project plan. These can be held together, but must occur 30 days before the resolution is adopted. We propose that municipalities clearly advertise these hearings, and hold them in the communities that will be affected by the TIF. In addition, we propose the following related to the hearings:

- **Formalized Neighborhood Representation:** We recommend that municipalities explore mechanisms to ensure representation from neighborhoods that would be affected by the proposed TIF district.
- **Other public input:** Publish/distribute the plan in local newspapers, on the internet, at local libraries. In addition copies of the plan should be available at the hearings for people to comment.

III. Stronger Reporting/Accountability

Currently, TIFs are only required to be audited three times during the course of their existence. These audits are only meant to document the project costs and yearly increments for individual TIFs. Municipalities are also required to prepare annual reports for each TIF describing the project's status, expenditures and revenues. However, rarely are the audits or the annual reports used to evaluate or make any judgements about the economic and social impacts of individual TIFs. To promote further accountability, we recommend that the following be included in the TIF annual reports:

- Parent corporations of companies benefiting from the TIF
- Other agency assistance being received for the same project or by the company receiving benefits through the TIF
- Jobs created/jobs retained through the TIF
- Wages of jobs created/retained through the project (and benefits)
- Impact of changing value increment on surrounding areas, including surrounding neighborhoods (in terms of property values, rents, tenants, hiring)
- Impact of the changing value increment on the school district in terms of revenue, and state aid distributions
- Housing: Number of units and affordability (if project includes housing)

All data in the annual reports should be subject to open records law and easily accessible by the public. Municipalities should be permitted to recoup economic development funds from parties involved in discrepant deals. Compliance would be measured against the original application and proposals as well as around reporting by the beneficiaries. So-called "claw back" mechanisms have proven highly effective means of ensuring compliance.