



# JERRY PETROWSKI

WISCONSIN STATE SENATOR

## *Senate Bill 579 – TIF Subtraction*

December 7, 2017

Good morning, Mr. Chairman and members of the committee, and thank you for the opportunity to provide testimony today on Senate Bill 579, related to increasing a political subdivision's levy limit when territory is subtracted from a tax incremental financing (TIF) district.

Although we all recognize how useful TIF can be for local municipalities to make valuable investment, redevelop blighted areas, and attract and retain businesses within their borders, we also have an interest, on behalf of the taxpayers, in returning the property located in TIF districts back to the tax rolls as quickly as possible. In general, the maximum life of a TIF district can extend to 27 years or longer, and while municipalities have the ability to make a limited number of addition and subtraction amendments during that time, subtractions are not very common.

The problem is that there is a real disincentive for municipalities to make these subtractions. Under current law, when a district is closed, the taxing jurisdiction may make a one-time levy limit adjustment for 50% of the increment of the closed district, which is supposed to help cover the additional costs of servicing the increased development of that district. If a municipality, however, uses a subtraction amendment to remove property from a district before it closes, they do not receive the levy limit adjustment for that particular property, even when the remaining TIF district is closed.

This bill seeks to address that issue by allowing a levy limit adjustment to be made for subtractions in the same way that adjustments are made following the closing or termination of a district. By doing so, I believe we will actually incentivize municipalities to make more subtractions from TIF districts and encourage more property to be moved back to the tax rolls, thereby providing both property tax relief and additional revenue for local governments.

Thank you again for the opportunity to speak on this bill. I know there are several others here today who will be speaking on the technical aspects of this bill, as well as how we expect this authority to be used in practice, but I would be happy to answer any questions you may have.

29TH SENATE DISTRICT

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To: Senate Committee on Government Operations, Technology, and Consumer Protection  
From: Curt Witynski, J.D., Assistant Director, League of Wisconsin Municipalities  
Date: December 7, 2017  
Re: **SB 579, Levy Limit Adjustments when Subtracting Territory from TIF Districts**

The League of Wisconsin Municipalities strongly supports SB 579, allowing a municipality to make the same levy limit adjustment when subtracting territory from a TIF district as is currently allowed when a TIF district is closed. The League worked with Sen. Petrowski and Rep. Loudenbeck to have this bill drafted and introduced. We thank Sen. Petrowski and Rep. Loudenbeck for initiating this legislation.

Currently, it is uncommon for a community to subtract territory from a TIF district. There is no incentive to do so. This bill creates an incentive by allowing the same 50% of the growth in value levy limit adjustment when subtracting territory from a TID as currently applies when a TID is closed.

SB 579 will encourage communities to do TID territory subtractions and allow the county, the school district, and taxpayers to benefit from the increase in the tax base within parts of the district earlier than at the time of TID closure.

No organizations are opposed to this bill. We urge you to recommend passage of SB 579. Thanks for considering our comments.



## CITY OF MIDDLETON

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Testimony on *Senate Bill 579* before the  
**Senate Committee on Government Operations, Technology and  
Consumer Protection**

December 7, 2017

**William Burns, Finance Director  
City of Middleton**

Good morning Chairman Stroebel and members of the Committee. I appreciate the opportunity to testify in support of Senate Bill 579, the TIF subtraction bill.

My name is Bill Burns. I am the Finance Director for the City of Middleton. Previously I've served as the City Administrator of Verona and Assistant City Administrator and Finance Director for the City of Sun Prairie. During the past eighteen years that I have worked for these communities, I have been involved with several Tax Increment Financing Districts (TIDs) including two of the largest in the state in terms of total value generated including TID #7 in Verona (Epic Systems) and TID #3 in Middleton (Office/Business Park and Downtown).

As new development takes place in a TID, a municipality incurs additional costs to provide services to that development. Currently, a levy limit adjustment is allowed when a TID is dissolved based on 50% of the increment of the district at the time of the closure. This adjustment is very important for municipalities. It provides an opportunity to incorporate ongoing costs to service the new development in the municipality's operating budget.

This point was recently illustrated by the Middleton Police Chief during the City's 2018 budget deliberations. The chief noted that the City of Middleton had only added one sworn police officer between 2010 and 2017, a period in which the City's population grew by 16% and there was a 25% increase in property value. While there are many positives to new development, municipalities like Middleton need to be concerned about the ability to adequately serve the development within the constraints for their operating budgets.

Allowing for a levy limit adjustment following the subtraction of territory from a TID would permit municipalities with successful TIDs to utilize a portion of the increased tax base to meet the additional service demands. Currently there is a significant disincentive for municipalities to subtract territory from a TID. Not only is there no levy limit adjustment allowed at the time of the subtraction, but the value that is removed from the TID is also not included in the adjustment calculation at the closure of the district. This is likely one reason why there are relatively few TID subtractions. In 2016 there were only 5 TID territory subtractions in the state compared to 22 TID territory additions.

Removing the disincentive to TID subtractions would also benefit the other taxing jurisdictions and property taxpayers allowing them to take advantage of some of the increased value in a TID without having to wait until the entire TID is dissolved.

This can be illustrated by the example of Middleton's TIF District #3 which includes its business/office park and downtown area. Over \$750 million of development has been added in this district. Middleton has already subtracted territory from the TID adding over \$300 million of value to the general tax base. The district currently has a value increment of \$453 million with a required closure date of 2030. Due to ongoing projects and pay-as-you go TIF obligations, it is not feasible for the district to be closed early. The district has a positive cash flow and the City could consider another significant subtraction to the district. However, doing an additional subtraction at this time would require to the City to forever forego a levy limit adjustment on the value that would be subtracted.

Senate Bill 579 would provide an incentive for municipalities like Middleton to use TID territory subtractions when feasible, resulting in additional operating tax revenue needed to provide important services while also benefiting taxpayers in the community.

I encourage you to support Senate Bill 579. Thank you for your consideration. I would be happy to answer any questions.

William Burns  
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**TO:** Chairman Stroebel and members of the Senate Government Operations, Technology, and Consumer Protection Committee  
**FROM:** Mike Harrigan – Ehlers & Associates, Inc.  
**DATE:** December 7, 2017  
**RE:** **Written testimony in favor of Senate Bill 579**

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Good morning Chairman Stroebel and members of the Committee. Thank you for the opportunity to testify today in favor of Senate Bill 579, the TIF subtraction bill.

My name is Mike Harrigan. I currently serve as Senior Municipal Advisor and Chairman of the Board at Ehlers, Inc. I am also a member of the Wisconsin Economic Development Association.

Ehlers is an independent public financial advisory firm regulated by the SEC serving only local municipal governments. In Wisconsin, we represent over 300 Local units of Government as their Financial Advisor in the public Bond Market and on matters involving their financial participation in Economic Development initiatives including Tax Incremental Financing.

WEDA is a statewide association representing roughly 450 public and private sector economic development professionals. We are dedicated to advancing economic prosperity in Wisconsin and providing our members with the necessary tools to encourage business expansion and promote private investment.

All economic development happens at the local level. As such, Local communities are often the engines that drive economic development in Wisconsin. They help create a climate that encourages business growth and economic activity. And the most consistently reliable tool municipalities have to promote private development, job creation, and tax base growth is Tax Incremental Financing (TIF).

Tax Incremental Financing is a unique funding tool used to spur economic development that would not otherwise occur. When a municipality creates a Tax Incremental District, or TID, taxpayers within the district pay the same property taxes as those outside the TID. But as the value of the property within the TID grows, the increased tax collections – known as the tax increment – is used to fund infrastructure improvements and eliminate blight to attract new development.

Today, there are roughly 1,200 active TIDs in Wisconsin. Since their creation, these TIDs have increased property values in the state by \$16 billion. Since 1976, nearly 792 TIDs in Wisconsin have been closed out, creating almost \$9 billion in new value to the tax base.

The lifespan of a TID can vary, but many remain open for more than 20 years. The average life of a TID is currently 14.4 years.

During the life of a TID, the local municipality may experience increases in costs to cover the services provided to the newly developed property within the TID, however they are not able to benefit from the tax base generated by that development to pay for these costs until the TID closes.

When a TID is terminated, the district returns to the tax rolls based on its full property value, resulting in a higher tax base for the former TID's local taxing jurisdictions. In addition, 50% of the increment of the former district may be added to the allowable levy of the municipality in which the TID was located thereby enabling the community to cover the cost of servicing that area utilizing the tax base from the area itself.

Current law also allows a municipality to subtract territory from a TID prior to the termination of the whole TID. Unfortunately, if a municipality subtracts territory from a TID, current law does not allow for a levy-limit adjustment – not at the time of the subtraction, nor at the time of the termination of the TID. Therefore, there is no incentive for a local unit of government to subtract territory from a TID, even if it's in the best interest of the district or local property taxpayers.

Senate Bill 579 would fix this unintended “flaw” in state TIF law. The bill would permit municipalities that subtract territory from a TID to increase their levy limit by an amount equal to 50% of the subtracted territory's value increment. It's straightforward, common-sense legislation that would incentivize municipalities to use the TID territory subtraction process, which could result in additional local tax revenue, immediate property tax relief, and new economic development opportunities.

There are numerous examples of municipalities across the state that could benefit immediately from SB 579. I would like to mention just a couple:

- City of Waupun, Tax Increment District # 6
- Village of East Troy, Tax Increment District # 3

In addition, I might also mention that Ehlers represent the Village of Mt. Pleasant for the recent creation of the Foxconn Tax Increment District. Ultimately, if all of the value that is expected is generated, this is a district that could subtract territory from the TID and value that would not be needed to service the bonds issued thereby providing tax relief sooner without penalizing Mt. Pleasant on its levy limit treatment.

In closing, I would like to encourage your support for SB 579. Thank you for your time and consideration.