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Date: March 27,2025

To: Common Council

John Weidl, City Manager

From: Rachelle Blitch, Director of Financial and Administrative Services

Re: TIF Cost Allocation Analysis

Executive Summary

The presence of the five active Tax Increment Districts (TIDs) results in an estimated annual tax impact of $32.50 (city only Walworth County) on a $250,000 home—approximately $2.70 per month. This modest cost helps fund the Economic Development Director and supporting staff, Community Development Authority (CDA) initiatives and investments, and critical infrastructure projects, including the 2022 water tower, half of which was financed through TID dollars.

In return, the city strategically utilizes Tax Increment Financing (TIF) to revitalize the downtown area, expand the industrial park, support the Whitewater University Innovation Center, attract key retailers such as ALDI, and facilitate the development of new housing across multiple neighborhoods. These efforts contribute to a stronger tax base, job creation, increased housing availability, and long-term financial stability—all for less than the cost of a cup of coffee each month.

Without TIF increment, many of these expenses—such as infrastructure investments and staff support for economic development—would need to be covered directly by taxpayers and utility users. Additionally, some initiatives, such as CDA funding, would likely be eliminated entirely without TIF support.

Analysis of the Cost Burden of Residential TID Developments

The objective of this report is to clarify misconceptions surrounding the cost burden of residential developments within a Tax Increment District (TID). Specifically, this report will address common misunderstandings about tax rates, revenue allocation, and the long-term financial impact of new development within a TID. Additionally, it will evaluate the projected demand for municipal services associated with 200 new single-family homes and 200 multifamily units over the next 10 years, which is estimated to increase the city's population by approximately 900 residents.

Understanding Tax Rates and Revenue Allocation in a TID

No Difference in Tax Rates Between TID and Non-TID Properties

A common misconception is that properties within a TID pay a different tax rate than those outside of it. This is not the case—all properties within the municipality pay the same tax rate (each county will have a different rate). The key distinction lies not in the amount paid, but in where the tax revenue is allocated.

How Tax Revenue is Distributed

General Fund & Debt Service: The entire operating and debt service levy is allocated to the general fund, which funds essential city services such as public safety, general government operations, and debt repayment.

TID Increment Revenue: The incremental tax revenue generated by the increased property values within the TID is not added to the general fund while the TID is active. Instead, these funds are used exclusively for TID-eligible expenditures such as infrastructure improvements, site development, and financial incentives necessary to facilitate projects.

The Role of Property Tax in City Revenue

Property taxes are a significant funding source for the city. The property tax levy accounts for approximately 47% of the city's total revenue within the general fund. This underscores the importance of maximizing the tax base over time, ensuring that when a TID closes, the newly developed properties contribute fully to the general fund, helping sustain city services.

The fundamental principle of development within a Tax Increment District (TID) is that, without the use of Tax Increment Financing (TIF) funds to cover expenses such as infrastructure or other extraordinary costs, the development may not occur within the same timeframe, may be of a different quality or scale, or may struggle to attract sufficient investment capital to proceed independently.

Evaluating the Municipal Service Impact of Residential Development in a TID

A structured approach is necessary to ensure that new development within a TID does not create an undue financial strain on municipal services. This assessment identifies key areas affected by the projected growth, estimates service demands, and outlines strategies for funding required infrastructure improvements.

Scope of Development

The proposed development within the TID includes:

- 200 single-family homes
- 200 multifamily units
- Projected population increase of 900 residents over 10 years

This growth will impact multiple municipal services, including public works, infrastructure, public safety, and other community services. The following sections outline the projected costs and funding strategies for these areas.

Public Works & Infrastructure Considerations

Water, Wastewater, and Stormwater Systems

- **Funded by User Fees:** Unlike other city services, water and wastewater systems are funded through user fees, not the property tax levy. This means new developments must pay their fair share for utility usage.
- **Capacity for Growth:** Existing water, sewer, and stormwater systems have sufficient capacity to support the proposed development. However, any necessary system upgrades will be evaluated as part of the city's long-term planning.
- **Connection Fees:** All new developments are subject to connection fees, which help offset costs for expanding or upgrading water and wastewater systems.
- The additional revenue generated from the developments is anticipated to be approximately $202,560 from single family homes and $132,000 from multifamily units.

Roads & Infrastructure for Single-Family Developments

- **Higher Costs for New Roads:** Single-family home developments require significantly higher infrastructure investment, as roads, sidewalks, and utilities do not currently exist in the proposed development areas.
- **Funding Options:** The city has two primary methods for funding these necessary improvements:
  - **Municipal Bonding:** The city could issue bonds to finance infrastructure construction, with debt repayment spread over time.
  - **Developer-Funded Infrastructure (Reimbursed Through TIF Incentives):** Developers can fund infrastructure construction upfront, with costs reimbursed through TIF incentives. This approach ensures that infrastructure is built without requiring an immediate increase in the property tax levy for existing residents. This is the approach the city uses when working with developers.

Long-Term Infrastructure Costs

- **Expected Lifespan:** The infrastructure constructed as part of the development has an estimated 50-year lifespan, with major maintenance occurring at the midpoint (approximately 25 years).
- **TID Closure & Revenue Impact**: By the time significant maintenance or replacement is required, the TID will have closed, and the incremental tax value from the development will be fully integrated into the general fund, helping cover long-term infrastructure costs without burdening taxpayers.

Funding for Park Development & Acquisition

All new developments are subject to a parkland development impact fee, which is charged per unit to support the expansion and enhancement of public green spaces. Additionally, any land that has not been previously platted is subject to a parkland acquisition fee to ensure that public recreation areas grow alongside residential development.

Projected Revenue & Funding for Recreation Planning

- The parkland development fund is specifically used for expanding and maintaining park facilities.
- The City anticipates approximately $58,000 in parkland development fees from these new developments in 2025 alone.
- A Comprehensive Outdoor Recreation Plan (CORP) is required every five years to maintain eligibility for Wisconsin DNR grant funding. However, it is unknown when Whitewater's last CORP was updated.
- The estimated cost of updating the CORP is $35,000, which will be fully funded by parkland development fees collected from these developments rather than the general fund.

The additional development will enhance recreational opportunities while ensuring that necessary funding is secured through impact fees and grant eligibility, eliminating any financial burden on existing taxpayers.

Solid Waste & Recycling Services

Impact of Residential Growth on Waste Management

- Multifamily housing is classified as commercial property and is responsible for privately contracting solid waste and recycling services.
- Only single-family homes impact the city's municipal solid waste and recycling services, which are funded entirely through property taxes (general fund).

Projected Cost Increases

- The 2025 solid waste and recycling rate is $16.05/month per household.
- With 200 additional single-family homes, the total annual cost increase will be $38,520.

This increase will be phased in over 10 years, making the year-over-year impact minimal. While solid waste and recycling costs will increase with new single-family homes, the gradual nature of the development ensures that the financial impact is spread out over a decade, reducing any immediate strain on the general fund.

Transit & Transportation Services

Funding Sources for Shared-Ride Taxi Service

- Whitewater's shared-ride taxi service is funded through federal, state, and local contributions, which consist of fares and property taxes.
- The operating costs are determined by the number of service hours, not by the number of rides or population growth.

Potential for Increased Revenue

- If more residents use the service, the additional ride fares will help offset city costs.

- The anticipated increase in ridership due to population growth is expected to positively impact the program's financial sustainability.

New residential development does not add direct costs to the transit system, but it has the potential to increase ridership and generate additional revenue to help offset city expenses.

Public Safety

Current Public Safety Funding & Staffing

- Public safety services (police) are entirely funded by the general fund, with some additional support from grants and state aid.
- The Municipal Services Payment (MSP) helps cover costs for services provided to state-owned facilities like UW-Whitewater.

Projected Impact on Law Enforcement

- The national standard for police staffing is 2.2 officers per 1,000 residents.
- Whitewater PD currently has 1.58 officers per 1,000 residents, which will increase to 1.9 with an approved referendum.
- To maintain the 1.9 ratio once the 900 new residents move in, Whitewater would need two additional officers when the developments are complete. Current all-in costs to add an officer is approximately $120,000.

Maintaining public safety service levels will require additional staffing over time, but careful planning and phased development will allow the city to strategically manage growth without placing an immediate burden on taxpayers.

Fire/EMS

Funding Sources for Emergency Services

- Fire and EMS services are supported by a combination of:
  - General fund contributions
  - Intergovernmental agreements with neighboring townships
  - EMS billing revenue (insurance reimbursements, patient billing)
- The general fund supports approximately 50% of total funding.

Projected Demand Increase

- Staffing Shortfall: Industry standards suggest 25 full-time firefighters for Whitewater's population, but the city currently has 15 and relies on Paid-on-Call personnel, which is becoming less reliable.
- Response Time & Coverage:
  - National standards recommend 15-17 firefighters on scene within 15 minutes, but Whitewater, even with auto-aid, only reaches 10-11.

  - If crews are handling an EMS call, fire suppression efforts may be delayed due to staffing limitations.
  - As new developments are built further from the station, response times will naturally increase due to longer travel distances.
- Service Demand is More Than Just New Homes: More people in town means more daily activity, businesses, and traffic incidents, all of which increase Fire/EMS calls.
- Infrastructure & Equipment: The city won't immediately need a new fire engine, but station infrastructure issues remain a concern.

Predicting the exact impact of 900 new residents on Fire/EMS services is complex, as many factors influence service demand beyond just population growth. It is impossible to add 900 residents without increasing service demand, but many variables affect when and how much staffing growth will be needed. The city must monitor population growth, call trends, and response times to determine the best course of action.

Administration

Impact on Government Operations

- Administrative departments such as Neighborhood Services, the Clerk's Office, the City Manager's Office, the City Attorney, Finance, and Human Resources are not directly impacted by the proposed developments.
- The expected growth will not require additional administrative staff or resources.

No additional administrative costs are anticipated as a result of the residential development within the TIDs.

Library Services

Library Funding & Service Area

- The public library is primarily funded through general fund transfers.
- Act 420 provides reimbursement for services provided to non-resident users from surrounding counties, including Walworth, Jefferson, Rock, Dane, and Waukesha.

Projected Service Impact

- While new residents may increase demand for library services, the current level of staffing and resources is expected to remain sufficient.

The proposed residential developments are not expected to significantly impact library operations or require additional staffing.

So, What Does TIF Cover?

Offsetting Costs Through Tax Increment Financing

While new developments generate incremental costs, Tax Increment Districts (TIDs) provide offsetting benefits that reduce financial strain on the general fund.

Examples of TID-Funded Expenses

- Salaries & Benefits – The Economic Development Director and support staff are funded by annual TID transfers. Without a successful TID, these costs would fall on the general fund.
- Infrastructure Development – TIDs cover the cost of developer negotiations, market studies, and large infrastructure projects that would otherwise require municipal bonding.
- Major Infrastructure Projects – A recent example is the 2022 water tower, where TID funding is estimated to cover 50% of the total cost, significantly reducing the burden on utility ratepayers.

Well-managed TIDs stimulate economic growth, expand the tax base, and fund critical infrastructure projects—all while limiting the immediate tax impact on residents. However, their success relies on careful planning, oversight, and alignment with long-term community development goals.

Summary

While residential development within a TID creates service demands, it also generates dedicated revenue streams and long-term economic benefits that offset costs:

- Parks & Recreation improvements are funded through impact fees
- Solid waste costs increase gradually over 10 years
- Transit services benefit from the proposed increase in population without additional costs
- Public safety needs will be met through phased staffing growth
- TIDs fund major infrastructure projects, reducing taxpayer burden

With proper financial planning and phased development, Whitewater can support new growth while maintaining fiscal sustainability and service quality for all residents.

Impact on Property Taxes When a Community Does Not Grow

When a community experiences little or no growth, property taxes are often affected in several ways. Without new development, the tax base remains stagnant as does the operational levy, making it more challenging for municipalities to fund services without increasing the tax burden on existing property owners.

Limited Tax Base Growth Leads to Higher Tax Burdens

- Property taxes fund essential services such as police, fire, EMS, infrastructure, and schools.
- If new developments (residential, commercial, or industrial) do not expand the tax base, the same amount of tax revenue must be collected from existing properties.

Rising Costs Without Revenue Growth

- Over time, the cost of providing municipal services increases due to factors like inflation, salary adjustments, and infrastructure maintenance.
- Without new construction or economic growth, municipalities struggle to generate additional revenue and must either cut services, increase fees, or raise taxes.

Increased Financial Burden on Residents & Businesses

- Without growth, existing taxpayers bear the full cost of funding government operations.
- Higher property taxes can lead to:
    - Financial strain on homeowners, particularly those on fixed incomes.
    - Reduced affordability, potentially discouraging new residents and businesses.
    - Less economic activity, as higher taxes may make the community less attractive to businesses and developers.

Infrastructure & Public Services Struggle

- Aging infrastructure (roads, water systems, public buildings) needs ongoing maintenance and replacement.
- If the tax base does not grow, funding major projects becomes more difficult, often requiring:
    - Higher borrowing (debt issuance), leading to increased long-term costs.
    - Service reductions (e.g., fewer public safety personnel, delayed road repairs).

Without growth, a community's financial sustainability is at risk. Expanding the tax base through responsible development helps distribute costs more equitably, preventing sharp increases in property taxes for existing residents while ensuring that essential services are maintained.

Shouldn’t We Focus on Attracting Businesses Instead?

This is a valid question but let’s consider the factors that drive retail and commercial businesses decisions since their success heavily depends on their surrounding environment.

Market Demand & Population

- Businesses assess the local population size, growth trends, income levels, and consumer preferences to ensure sufficient demand for their products or services.
- Retailers, restaurants, and service providers rely heavily on population density and foot traffic to drive sales.

Workforce Availability

- Companies seek areas with a skilled and available workforce that aligns with their industry needs.
- Educational institutions and workforce training programs also influence location decisions.

Housing Availability & Affordability

- The cost and availability of housing affect the ability to attract and retain employees.
- High housing costs can deter potential workers, making it difficult for businesses to staff their operations.

Infrastructure & Accessibility

- Proximity to highways, public transportation, and airports is essential for logistics and employee commutes.
- High-speed internet, utilities, and reliable services are also critical factors.

Business Costs & Incentives

- Companies consider tax rates, real estate costs, and local incentives such as tax credits, grants, and development zones.
- Some municipalities offer economic incentives to attract businesses, including reduced permitting fees or TIF incentives to make the project feasible.

Competition & Industry Clusters

- Businesses evaluate the presence of competitors and complementary industries.
- Being near suppliers or within established industry hubs can provide strategic advantages.

Quality of Life & Community Appeal

- Safe neighborhoods, strong school systems, healthcare facilities, and cultural amenities make a location more appealing for employees and their families.
- A high quality of life can help businesses attract top talent.

Local Regulations & Business Climate

- Zoning laws, licensing requirements, labor laws, and government policies influence whether a business can operate efficiently.

Population size and housing availability are both important considerations for businesses, particularly those relying on a steady customer base and workforce. A strong local economy, coupled with an affordable and well-developed housing market, enhances a location's attractiveness for business expansion; it starts with housing.

Final Summary

Tax Increment Districts (TIDs) may lead to a temporary increase in the mill rate; however, the long-term benefits significantly outweigh the short-term costs. By fostering economic development, TIDs attract new businesses, create jobs, and enhance property values. These improvements ultimately expand the tax base, reducing the burden on individual taxpayers over time. Additionally, the infrastructure and community enhancements funded by TIDs contribute to sustained growth and a more prosperous local economy, making the initial increase in the mill rate a worthwhile investment.

At the request of a Common Council and community member, Greg Johnson of Ehlers, a municipal advisory firm, delivered a presentation at the March 18th Common Council meeting and subsequently at the Finance Committee meeting on March 25th. During these sessions, he addressed questions from both the community and the Common Council.

A recording of his presentation is available on the city's website and provides valuable insights into the impact of Tax Increment Districts (TIDs) on property taxes. As part of his analysis, Greg conducted a scenario to determine the potential tax rate if community growth occurred without tax increment financing. The resulting mill rate calculation for Walworth County was $6.45, compared to Whitewater's current mill rate of $6.57—a difference of $0.12. This analysis demonstrates that while there may be a slight increase in mill rates, the long-term benefits of new development—such as economic growth, job creation, and an expanded tax base—far outweigh the costs.

For further reference, his worksheets are attached to this memo for the community's review.