



## Dark tax strategies may undermine TIF strategies

A friend of mine from a neighboring municipality called me up the other day and asked, "Did you hear about some national chain retailers trying to pay property taxes based upon the assumption that the buildings they operate out of should be assessed at the same rate as comparable, but vacant, buildings in the area?"

"I read that story in the News Graphic," I replied.

"Well, what do you think about it," he pressed.

"It is curious," I remarked.

"How so?" he kept on going. Clearly he wanted me to go on the record, as it were.

"It contributes to an emerging dynamic that may undermine municipal financing and ultimately suck resources and quality of life out of local taxpayers and transfer them to persons who own and/or operate national retail chains," my voice rang out full and clear. "It is bad for the people and should be squashed."

He became quiet on the other end of the line and then, after a moment, said, "Explain that dynamic just a little bit more, please."

"Sure," I said. "Imagine you have a nice little community with a good mix of retail, residential and manufacturing – plus quality services like a good school system, police force, fire and public works department. The community doesn't really change much from year to year, and it doesn't have a whole slew of empty buildings. It just gradually



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grows with population growth. New retail, residential and manufacturing buildings are added as needed. Sometimes the old, worn-out buildings get rehabilitated or torn down and replaced, but throughout it all, all the buildings pay taxes to help pay for required services."

"In a community like that, everybody helps pull the freight and the community grows gradually, like a healthy tree," my friend said. Clearly he had a picture of such a community in his head. He could

"see it" as it were.

"Precisely," I agreed. Then I went on, "And then imagine that some bedazzling figure moves into town and wants the community to borrow a ton of money to pay for a bunch of new roads and infrastructure so that he can locate a new chain store there – where people will sell the same stuff that can be purchased at the existing stores. Or maybe the bedazzler wants to build a bunch of new residential units."

"Or maybe the bedazzler wants to do a mixed-use project," my friend on the other end of the line chimed in, "and have his development placed inside a TIF district that will, over some set number of years, pay the municipality back for the original infrastructure costs – hence ensuring that all this goodness can advance without costing the municipality anything."

See **MOBLEY**, Page A8

## Mobley: Paying the taxes due is the only option

**Continued from Page A7**

"Right," I said. "And now comes the potential rub. If the community is too bedazzled, and expands too quickly, instead of in a healthy sort of way, there is a good chance that the activity that originally occurred in the old, taxed buildings, will transfer itself into the new buildings inside the TIF, where the tax revenue generated isn't used to pay for services the community needs, but is instead used to pay for the infrastructure the new development required to get started."

"And the old buildings will be vacant and hence get assessed at a lesser value and hence generate less revenue to help pull the necessary community freight," my friend marveled. Then he went on, in a rather sick, disappointed sounding voice, "And then the bedazzler who persuaded the community to embark upon unwise growth in the first place may say to the community that he should get a tax break on his buildings because his buildings are only worth what the vacant buildings in the community are worth - even though the vacant buildings probably would not be vacant if the community had not been lured into an unwise course of action by the bedazzler."

"And if the courts agree

with the bedazzler, the bedazzler gets a tax break that increases his profits and the community gets less property tax revenue from the bedazzlers and must at that point either reduce the quality of services or raise taxes or generate efficiencies in the provision of services," I agreed. "And the bedazzler will of course say that everybody should be more efficient, like him."

Silence reigned on the other end of the line for a spell. Finally my friend asked, "We are already pretty efficient ... so when we start raising taxes and/or cutting services people will start leaving for greener pastures, hence putting us into a downward trajectory ... Is there any way out of this death spiral?"

"Don't be bedazzled, my friend, there is never any free lunch and anybody who suggests otherwise is often looking for a free lunch," I noted the obvious. "Make them pay and if they don't like it tell them not to let the door hit them on the way out."

Then I wished my friend a Merry Christmas and hung up. He will be fine, I think. But who knows?

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