



Improving Tax Increment Financing (TIF) for Economic Development



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POLICY FOCUS REPORT LINCOLN INSTITUTE OF LAND POLICY

ABOUT THIS REPORT

This report explains how tax increment financing (TIF) districts work, illustrates TIF use with case studies from around the country, discusses the rationales for using TIF, describes TIF's potential benefits and pitfalls, and reviews a large body of academic work that evaluates TIF's effects on economic development. The author also examines additional academic literature about the impact of TIF on school districts and other potential unintended side effects. The report concludes that, although results are mixed, TIF often fails to meet its primary goal to increase real estate development and other economic growth. Based on these findings, the report offers recommendations to make TIF districts more successful, equitable, and efficient. David Merriman is an expert in state and local public finance, business taxation, and urban economic development. He teaches and performs research in the Department of Public Administration and the Institute of Government and Public Affairs at the University of Illinois at Chicago. His research has been published in many peer review journals, and he is frequently quoted in local and national news media.

POLICY FOCUS REPORT SERIES

The policy focus report series is published by the Lincoln Institute of Land Policy to address timely public policy issues relating to land use, land markets, and property taxation. Each report is designed to bridge the gap between theory and practice by combining research findings, case studies, and contributions from scholars in a variety of academic disciplines, and from professional practitioners, local officials, and citizens in diverse communities.



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Front Cover: Founded in 2002, the Cortex Innovation District in St. Louis is the Midwest's innovation hub of development, bioscience and technology research, and commercialization for start-up programs and established companies in the area.

Top: An intersection in the Cortex District after the first stage of development. Photo: Cortex Innovation Community.

Bottom: This view of the same St. Louis intersection in 2016 shows the completed Commons during The Murmuration Festival, a three-day event hosted by Cortex so the public could enjoy the site and explore the intersection of local art, music, science, and technology. Photo: Cortex Innovation Community. Photograph by Louis Kwok.

Back Cover: The Pritzker Pavilion, designed by renowned architect Frank Gehry, features large in Chicago's Millennium Park, which was partially funded by TIF. Photo: Serge Melki/Flickr CC BY 2.0.

Contents

3 Executive Summary

5 Chapter 1 Introduction

- 6 What Is Tax Increment Financing (TIF)?
- 6 What Are TIF Districts and How Do They Work?
- 9 How Does a TIF District Work in Practice?

13 Chapter 2 Potential Benefits and Pitfalls

- 14 What Are the Potential Benefits of TIF?
- 15 What Are the Potential Pitfalls of TIF?

17 Chapter 3 Case Studies

- 18 Case Study 1: Atlanta BeltLine Tax Allocation District, Georgia
- 20 Case Study 2: Jefferson County, Montana
- 22 Case Study 3: St. Louis, Missouri

24 Chapter 4 Use and Implementation

- 25 Where Has TIF Been Used?
- 32 How Has TIF Been Used?

35 Chapter 5 Transparency: Intensive TIF Use in Chicago

- 36 Background
- 38 Reform Efforts

41 Chapter 6 TIF Reversal: California's Story

- 42 History
- 42 Limitations
- 43 Results



3



5



13



17

44 Chapter 7 Efficacy in Economic Development

- 45 Assessing TIF's Successes and Failures
- 47 Effects of TIF Adoption on Economic Activity
- 53 Effects of TIF Adoption on School Finance
- 53 Other Effects of TIF Adoption

56 Chapter 8 Conclusion

- 57 Findings
- 58 Recommendations

59 Appendix

- 62 References**
- 67 Acknowledgments**
- 68 About the Author**



24



35



41



44

Executive Summary



Promoting economic activity is a key function of local government and requires cooperation between the government and the private sector. Tax increment financing (TIF) is one tool that cities can use to support economic development in a designated area by earmarking property tax revenues from anticipated increases in assessed property values resulting from investment in that district. TIF expenditures are often debt financed in anticipation of these future tax revenues.

Crowds in Chicago celebrate the opening of the Bloomingdale Trail and Park, which was partially funded through TIF. Photo: Charles Carper/ Flickr CC BY 2.0.

Although a number of states have used TIF for more than half a century, TIF is poorly understood and its effectiveness is disputed. This report presents basic data about TIF usage, explains how it is intended to work, notes its conceptual strengths and limitations, reviews academic evaluations of its use, and suggests methods for improving its design.

Today, TIF is legal and employed widely in every state except Arizona, with heavy use in the Midwest. Yet, many states do little to track or evaluate the use of TIF. Academic research suggests that local governments enact TIF in part to capture growth that was already occurring and in part to stimulate further economic development. Studies also indicate that TIF's impact on economic activity is mixed: Many recent findings show that TIF does little to deliver economic growth and sometimes simply relocates economic activity that would have occurred elsewhere without TIF. Empirical studies of other TIF-related effects, including its impact on school finance, land uses, and budgeting, suggest that communities should use it cautiously to avoid unintended consequences, such as diverting increased property tax revenues from counties, school districts, and other overlying governments; obscuring government financial records; and facilitating unproductive fiscal competition between neighboring jurisdictions.

This report lays out the following recommendations to address these concerns and help state and local governments improve TIF's usefulness.

1. States should track and monitor TIF use.

Basic monitoring helps states evaluate the use of TIF and helps state legislators better understand whether TIF regulations are achieving their goals.

- 2. States should revise statutes to allow counties, school districts, and other overlying local governments to opt out of contributing resources to TIF districts.** This measure would diminish or eliminate the incentive for local governments to use TIF as a device to capture revenues that otherwise would have gone to overlying governments.
- 3. State legislators should review their “but for” TIF requirements to determine whether they are effective.** Prior to the creation of a TIF district, some states require proof that the planned development would not occur “but for” the tax increment financing. An effective “but for” clause can prevent communities from using TIF when other tools might be more helpful and transparent.
- 4. Local governments should provide extensive, easily accessible information about TIF use, revenues, and expenditures.** This information would enable local elected officials to monitor and regulate the application of TIF, shortening the duration of TIF arrangements, for example, or making other adjustments to the terms of use as needed.
- 5. Researchers should study, document, and explain the different outcomes resulting from TIF use in various geographic areas.** To date, academic studies of TIF document mixed outcomes but do not clearly identify the factors that explain this variation.

The basic design of TIF has significant virtues, but decades of experience and research from around the United States show that often TIF is flawed in practice. This report argues that, if used properly, TIF can be an important tool to nurture economic development in the public interest.

CHAPTER 1

Introduction



A community's economic growth and the well-being of its residents are inextricably linked. Indeed, an area's prosperity and its citizens' quality of life depend in no small part on the creation and maintenance of jobs that are both materially and emotionally rewarding. A community's success also requires regularly revitalized commercial activity; the maintenance and renewal of infrastructure; and the provision of public goods, buildings, and services like police, schools, hospitals, and public recreation areas.

Minnesota's state legislature specifies the requirements for establishing a TIF district. Photo: Minnesota Historical Society.

In the United States, a community's economic growth is an important government function that requires coordination with the private sector. Motivated primarily by economic profit, the private sector is well positioned to act rapidly and efficiently when customers clearly desire goods or services. Sometimes, private-sector investments that may otherwise be viable can face significant impediments. These obstacles might be simple physical incompatibilities, like viaducts that are too low to allow modern truck traffic or complicated social problems, such as a workforce plagued by inadequate training and high crime rates. When such impediments arise, they can often be remediated by a combination of private-sector and governmental activity.

How can these sectors work together? While the private sector pursues profit, government aims to provide its target population with vital goods and services that are balanced against the costs imposed on that populace, generally as taxes and fees. Sometimes for-profit and government organizations receive assistance from private nonprofits dedicated to delivering particular goods and services, such as healthcare or affordable housing, to the target population. In addition, the government can use certain powers, including laws, regulations, and taxes, to compel private-sector actions. But the system operates best when government and private-sector actors work in harmony to achieve compatible goals by using their own tools—and TIF can provide a framework for that cooperation.

What Is Tax Increment Financing (TIF)?

Tax increment financing is an economic development method designed to coordinate the actions of government and the for-profit sector. TIF funds economic development activities in a designated area by earmarking the anticipated property tax revenue increases—often called the “increment”—that will result if the TIF

investment stimulates new development and real estate appreciation. Core elements of TIF include:

- a designated district with narrowly defined geographic boundaries;
- a defined and limited operation period;
- expenditures that encourage economic development; and
- real estate appreciation that generates new property tax revenues.

As implemented in most states, TIF allows city governments to divert revenues of overlying governments—such as counties, school districts, or other special districts that share responsibility for providing public services—to fund economic development activities. The rationale is that diverted revenues are produced by the same economic development that they fund—so these revenues would not exist “but for” the TIF that enabled that development. Therefore, in theory, there is no loss to the overlying governments. Also, since revenues accrue only with appreciation, developers receive no subsidy unless they create economic development.

What Are TIF Districts and How Do They Work?

The basic principles of TIF operation are consistent and widespread: State legislation sets the conditions under which TIF districts may be established and, subject to state oversight, grants cities the right to operate TIFs. These city governments typically pass an ordinance that creates the TIF district and specifies the district's goals, allowed expenditures, and terms of operation.

The TIF district's revenues are then derived from property taxes on the appreciation, development, and redevelopment of real estate within its borders. In general, that revenue comes from property taxes that would otherwise accrue for both the creating government and overlying

governments that levy property taxes on parcels within the TIF district. Tax increment financing allows those revenues to accrue for the benefit of the district itself.

Figure 1 illustrates this process. The curve for assessed value *without* TIF shows the hypothetical value of parcels in the TIF district in the absence of the TIF district.

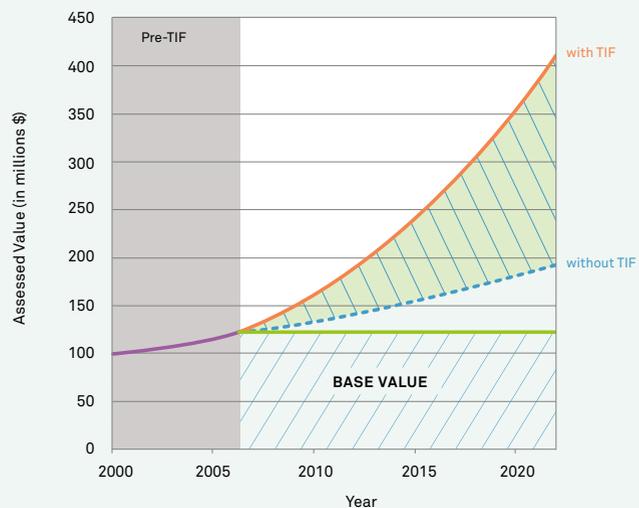
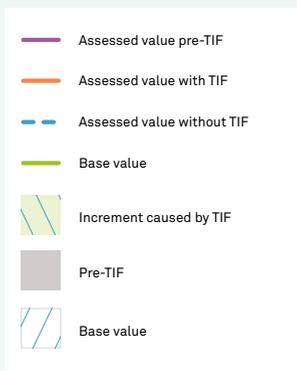
The basic principles of TIF operation are consistent and widespread: State legislation sets the conditions under which TIF districts may be established and, subject to state oversight, grants cities the right to operate TIFs.

As depicted, the value of the parcels would have grown from about \$100 to almost \$200 million between 2000 and 2020, even if a TIF district had not been established. The curve for assessed value *with* TIF depicts the hypothetical value of the parcels if the TIF district

was created beginning in 2006. In this scenario, real estate values grow more rapidly and, by the end of the period, are valued at more than \$400 million rather than nearly \$200 million. The *base value* of the TIF district is the value of the real estate in the district at the time the TIF district was established (approximately \$130 million, in this example).

The TIF district's *tax base* (increment) is the difference between the assessed value with TIF and the base value when the TIF district was created. The tax rate on the TIF tax base (not shown in the figure) is the sum of the tax rates of all overlying governments, such as counties, school districts, and other special districts. A given tax rate generates less revenue for overlying governments with a TIF in place than it would in the absence of the TIF—unless the value of real estate parcels in the TIF district would not have grown at all without the TIF district designation. In figure 1, the distance between the assessed value without TIF curve and the base value represents the tax base lost to overlying governments through the formation of the TIF district.

Figure 1
Hypothetical Example of Assessed Value With and Without TIF



The precise way in which TIF districts are formed and operate varies from state to state and from case to case. There is no simple typology to classify TIF districts, but for the purposes of this report, they can be divided based on the statutory conditions necessary for their formation and the sources and uses of financing.

State-enabling legislation sometimes allows for separate qualifying conditions for several different types of TIF districts. For example, Minnesota's legislation allows for six district types: economic development, housing, redevelopment, renewal and renovation, soil condition, and hazardous waste substance subdivisions (Minnesota House of Representatives 2017). Illinois allows the use of TIF to remediate blight, to conserve areas with many structures older than 35 years, and to promote industrial parks in areas of high unemployment (Illinois Tax Increment Redevelopment Act 2014).

Once a TIF district is formed, its finances can proceed along a number of different paths as real estate in the area appreciates and it begins to receive property tax revenues. Sometimes, new private investments result from the simple announcement that a TIF district has been formed with the promise of future economic development revenue. Thus, property values may grow even prior to any substantial public investment. In this case, the TIF district may be funded on a *pay-as-you-go* basis: As appreciation creates TIF property tax revenues, local governments can use the funds to improve infrastructure or to compensate private developers for allowable costs, such as building and site rehabilitation or repair, or professional services, such as architectural or engineering consultation.

In other cases, the mere announcement of a TIF district is insufficient to stir private investment, meaning that public spending may have to occur first. In this case, a TIF development plan, together with the assurance of a dedicated revenue source from real estate appreciation, can be sufficient to attract financing for the TIF. Typically, state legislation will explicitly allow local governments to pledge proceeds from TIF districts as

a source of bond finance. If the TIF district development plan is compelling, the municipality may even be able to create a *bond-financed* TIF by selling bonds with the promise that revenues from incremental property taxes will service them.

Often, TIF financing involves other sources of revenue, including state or federal matching funds or, in some cases, other tax revenues.

In other instances, *developer-financed* TIFs use conventional loans to developers for infrastructural improvements. Once TIF revenues become available, the developers are reimbursed. In some cases, the TIF district's primary purpose is to lower private investors' costs; TIF funds are then used to create a *development-subsidy* TIF in which payments to private developers exceed developers' private expenditures on public investments.

Often, TIF financing involves other sources of revenue, including state or federal matching funds or, in some cases, other tax revenues. Unfortunately, there is little data on the relative use of these different financing mechanisms, but anecdotal information suggests that both TIF bonds and pay-as-you-go financing are used extensively. Weber (2010) describes the sometimes-complex TIF funding mechanisms used in Chicago.

TIF statutes commonly require a finding of "blight" as a condition to establish some or all types of TIF districts. For example, Maine's statute requires that "[at] least 25%, by area, of the real property within a development district . . . must be blighted" or meet one of two other possible criteria (Maine Legislature Revised Statutes 2017). The Tax Increment Financing Act in Texas does not require an explicit finding of "blight," but it does require that an area contains "a

substantial number of substandard, slum, deteriorated, or deteriorating structures” or that the area meets various other conditions.

Individual states sometimes require proof prior to the creation of a TIF district that the planned development would not occur “but for” the establishment of a TIF district. For example, the Wisconsin legislation (in section 66.1105(4m)(c)1.a) requires that the decision to approve or deny a proposed TIF depends in part on “whether the development expected in the tax incremental district would occur without the use of tax incremental financing” (Wisconsin State Legislature 2018). In Indiana, allocation of TIF revenues requires “a specific finding of fact, supported by evidence, that the adoption of the allocation provision will result in new property taxes in the area that would not have been generated but for the adoption of the allocation provision” (General Assembly of the State of Indiana 2014).

Once a TIF district is operating, revenue can be spent in a variety of ways. For example, the City of Chicago 2016 Annual Financial Analysis reports that, between 2009 and 2015, about 60 percent of TIF expenditures went to economic development or infrastructure. Most of the rest was directed to city facilities for sister agencies,

such as the parks and the school district, and about 10 percent was spent in direct support of residential development.

How Does a TIF District Work in Practice?

The operation of a TIF district might be more fully understood through the example of an actual TIF district. In June 2005, the city council of Dallas, Texas, passed an ordinance creating the Deep Ellum TIF District. This particular district covers a mixed residential, commercial, and industrial area of about 157 acres near downtown Dallas; in 2008, the city amended the boundaries to include about ten additional acres. At the time of its creation, the total appraised value of taxable real property in the TIF district was approximately \$108 million.

The project was designed to facilitate 18 new real estate projects and about \$400 million in new taxable private investment, as well as increased transit use and improved environmental outcomes. Planned TIF district expenditures of more than \$27 million will be financed by tax revenues on “incremental”



The Case apartment building, an infill development in Dallas, has attracted more residents to the Deep Ellum District. Photo: City of Dallas, Office of Economic Development.

real estate value in the district. The TIF district is scheduled to terminate after 22 years in 2027—or sooner, if revenue sufficient to fund the proposed TIF projects accrues faster. Figure 2 shows a map of this TIF district.

The inset map shows the location of the district within the city of Dallas and the larger map shows detail within the district.

The TIF project plan calls for mixed-use development including offices, residences, stores, and hotels based on the expectation this will generate increases in assessed value that will then generate increases in property tax revenue.

Table 1 is from the official project plan for the Deep Ellum TIF District and shows projected taxable assessed property values, increments of assessed value (called “anticipated captured value”), and sources of property

tax revenue for each year of the TIF district’s projected life. Column 2 of that table shows that actual taxable property values were about \$108 million when the district was created in 2005. As shown in column 3, property value grew by about \$6 million in 2006 (to about \$114 million) and by an additional \$10 million dollars in 2007 (to about \$124 million). Property value is then projected to grow each year after that for the life of the project. Columns 4 and 5 show the amount of property tax revenue derived from the increments of assessed value and designated for use in the TIF district. Beginning in 2008, revenue that would otherwise have gone to either the City of Dallas or Dallas County instead went to the TIF district. That year, the increment in assessed values of \$42.9 million would have generated about \$273,000 for the TIF district, rather than the City of Dallas (an effective tax rate of 0.6 percent). An additional \$54,000 (an effective tax rate of 0.1 percent) that would have gone to Dallas County also became TIF district revenue.

Figure 2
Deep Ellum TIF District Map



Source: City of Dallas, Office of Economic Development (2014).

Table 1

Annual Real Property Appraisals and City/County Tax to the TIF Fund (Deep Ellum TIF District)*Assumptions:*

The city of Dallas is expected to participate in the Deep Ellum TIF District for a period of 19 years beginning in 2008 at a rate of 85%. Dallas County is expected to participate in the Deep Ellum TIF District for a period of 19 years beginning in 2008 at a rate of 55%. The tax rate is assumed constant at 2005 rate. The actual rate will vary annually. Tax appraisals are for January 1 of the year. Levies occur by September 30 of the year. Tax receipts generally occur 12–13 months after appraisal. Property value estimates assume 1.5% annual property appreciation and 3% annual inflation.

Tax Year	Property Value Total	Anticipated Captured Value	TIF Contribution City of Dallas	TIF Contribution Dallas County	Total TIF Contribution	Total TIF 2006 NPV @ 4.00%
2005	\$107,990,540					
2006	\$114,140,302	\$6,149,762	\$0	\$0	\$0	\$0
2007	\$124,590,053	\$16,599,513	\$0	\$0	\$0	\$0
2008	\$150,935,989	\$42,945,449	\$273,011	\$53,877	\$326,888	\$290,602
2009	\$168,506,948	\$60,516,408	\$384,712	\$75,921	\$460,633	\$684,353
2010	\$402,025,968	\$294,035,428	\$1,869,227	\$368,882	\$2,238,109	\$2,523,916
2011	\$425,967,142	\$317,976,602	\$2,021,425	\$398,918	\$2,420,343*	\$4,436,748
2012	\$509,592,727	\$401,602,187	\$2,553,945	\$503,830	\$3,057,775*	\$6,759,722
2013	\$531,297,766	\$423,307,226	\$2,691,028	\$531,060	\$3,222,088	\$9,114,070
2014	\$539,267,233	\$431,276,693	\$2,741,691	\$541,058	\$3,282,749	\$11,420,485
2015	\$568,993,295	\$461,002,755	\$2,930,664	\$578,351	\$3,509,015	\$13,791,050
2016	\$577,528,194	\$469,537,654	\$2,984,921	\$589,058	\$3,573,979*	\$16,112,639
2017	\$586,191,117*	\$478,200,577	\$3,039,993	\$599,927	\$3,639,920*	\$18,386,122
2018	\$594,983,984	\$486,993,444	\$3,095,890	\$610,958	\$3,706,848	\$20,612,359
2019	\$615,253,167	\$507,262,627	\$3,224,745	\$636,386	\$3,861,131	\$22,842,066
2020	\$624,481,964	\$516,491,424	\$3,283,413	\$647,964	\$3,931,377*	\$25,025,020
2021	\$633,849,194	\$525,858,654	\$3,342,962	\$659,716	\$4,002,678	\$27,162,083
2022	\$643,356,932	\$535,366,392	\$0	\$0	\$0	\$27,162,083
2023	\$653,007,286	\$545,016,746	\$0	\$0	\$0	\$27,162,083
2024	\$662,802,395	\$554,811,855	\$0	\$0	\$0	\$27,162,083
2025	\$672,744,431	\$564,753,891	\$0	\$0	\$0	\$27,162,083
2026	\$682,835,597	\$574,845,057	\$0	\$0	\$0	\$27,162,083
2027	\$693,078,131	\$585,087,591	\$0	\$0	\$0	\$27,162,083
2028	\$703,474,303	\$595,483,763	\$0	\$0	\$0	\$27,162,083
2029	\$714,026,418	\$606,035,878	\$0	\$0	\$0	\$27,162,083
2030	\$724,736,814	\$616,746,274	\$0	\$0	\$0	\$27,162,083
2031	\$735,607,866	\$627,617,326	\$0	\$0	\$0	\$27,162,083
2032	\$746,641,984	\$638,651,444	\$0	\$0	\$0	\$27,162,083
2033	\$757,841,614	\$649,851,074	\$0	\$0	\$0	\$27,162,083
2034	\$769,209,238	\$661,218,698	\$0	\$0	\$0	\$27,162,083
2035	\$780,747,377	\$672,756,837	\$0	\$0	\$0	\$27,162,083
TOTAL During TIF			\$34,437,627*	\$6,795,906	\$41,233,533*	\$27,162,083

Source: City of Dallas, Office of Economic Development (2011, 2014).

* Figures corrected by the Lincoln Institute of Land Policy.

The TIF project plan assumes that the effective property tax rates charged by Dallas City and County remain constant (at 0.6 percent and 0.1 percent, respectively) for the life of the project and generate each year's revenues based on expected increases in incremental assessed values. In these projections, the TIF district will continue to receive revenue until 2021, at which time sufficient revenues will have been raised, according to projections, to support expenditures planned for the TIF district. Should the TIF district generate sufficient revenues earlier, the increment would revert back to the tax base of the overlying governments of Dallas City and County. If effective tax rates or rates of real estate value growth differ from those assumed in the project plan, revenue raised by the TIF district will also differ.

Note that the formation of the TIF district has no impact on the property tax liabilities of real estate owners in the TIF district. That is, TIF is neither a property tax break nor an increase. Rather, TIF is a method for financing public expenditures that may then promote economic development. Of course, to the extent that TIF districts divert property tax revenue that otherwise would have been available to other areas or uses, TIF may result in higher taxes or lower services elsewhere, depending on how overlying governments, such as school and special districts, respond.

TIF IS NOT ADDITIONAL LAND VALUE CAPTURE

Land value capture is a policy approach that enables communities to recover and reinvest land value increases that result from public investment and other government actions. Since well-functioning property tax systems base obligations on the market value of real estate, the property tax can be an important form of land value capture (<http://www.lincolnst.edu/key-issues/value-capture-property-tax>).

Because TIF diverts revenue from real estate appreciation that may in part be due to public investment, some observers may erroneously believe that TIF is a land value capture tool separate from the property tax.

The property tax liability of property owners in TIF projects is the same as in projects using other funding mechanisms. Because of that, the general public "captures" no more of the value created by public investments in a TIF district than it would without the TIF district. In fact, if some TIF revenues are used to subsidize private activity, as is the usual case, TIF is more properly a device that "transfers" value to, rather than "captures" value from, the private sector.

CHAPTER 2

Potential Benefits and Pitfalls



Some of the most important tools used by local governments to shape land use and encourage economic development are not always recognized for their direct effect on economic growth. These tools include public expenditures to promote physical infrastructure, such as streets, bridges, and lighting, and social infrastructure, such as schools, job training, police, and fire services. State and local governments often also have access to property tax–related tools, including incentives and special assessment districts (Kenyon, Langley, and Paquin 2012). In every state except Arizona, TIF is yet another economic development tool available to local policy makers who must weigh the benefits and problems of TIF in deciding how to design and apply it.

Local businesses like the Murray Street Coffee Shop increase activity in the Deep Ellum TIF District in Dallas, Texas. Photo: City of Dallas, Office of Economic Development.

State legislators and local officials alike should first ask how TIF would best promote public well-being and what potential pitfalls its use might create. Careful consideration and a review of the evidence shows that TIF has the potential to be a constructive and positive force—but is also vulnerable to abuse, as this report will consider.

What Are the Potential Benefits of TIF?

TIF can promote credible commitment between government and private parties that might not otherwise be possible.

TIF is not a property tax break, but it represents a deviation from the usual budgetary process. Most noncapital government expenditures on economic development go through an annual appropriation cycle and must compete with other spending priorities for the support of a city council or similar governing body. Such revenues are explicitly appropriated, whereas TIF district revenues are tax expenditures (i.e., tax revenues diverted before they reach overlying governments) requiring no explicit appropriation once government officials initiate the TIF district. The justification for this dedicated treatment of TIF funds is that TIF is both a self-financing and an incentive-compatible mechanism for funding economic development. At least in principle, the most important and distinctive feature of TIF is that the revenues used to fund economic development are generated by that same economic development.

Imagine a real estate developer negotiating with a city government about a potential development. The developer would like the government to make some infrastructure investments that would increase the value of her property and help ensure that her private investment will be economically rewarding. The government would like the developer to make a private investment first, to increase the property tax base, enhance the quality of life in the community, and help

ensure that the developer will not renege on or reduce her commitment after public investments are made.

TIF provides a potential way around this dilemma: The government can promise the developer that property tax revenue generated by any increase in real estate value resulting from her private investment will be dedicated for the sole use of public investment to enhance the project. With this promise, lenders can be persuaded to buy bonds backed by future TIF district tax revenues, and those bonds can be used to pay for public investments even before private investments are made. The key is the credible and legal commitment by the government to direct all future revenues to economic development projects within the TIF district. If the developer fails to make the promised private investments, property values will not appreciate enough to service the bonds backing the public investment, resulting in default or the slowing (or halting) of public investment. Either outcome could severely reduce the value of the private investment. The developer's incentive to maximize the value of the private investment is compatible with the government's incentive to increase the property tax base and improve the quality of life.

TIF ensures mutual commitment and mutual benefit. Without it, the government officials could make a verbal commitment to the developer, promising to devote revenue from incremental taxable property to economic development projects within a given area. But government officials change over time, and potential lenders and developers might worry that the government's commitment will not prove totally credible or sustainable in the longer term. This might make them reluctant to invest in the project.

TIF may facilitate widespread political support for public investments with localized benefits.

Imagine a public investment that will benefit only a small fraction of a municipality, like infrastructure for a small shopping mall. Under ordinary circumstances, citywide taxpayers may oppose this investment, even

when the benefit to the immediately surrounding neighborhood is greater than the public cost, because the increase in taxes to pay for the investment will be greater than the benefit received for residents outside the affected neighborhood. TIF presents a potential mechanism to circumvent this problem because it allows the government making the investment to capture some revenues that otherwise would have gone to overlying governments while not unduly burdening unaffected taxpayers. In this way, Brueckner (2001) argues, TIF may improve the allocation of resources. That said, local governments may accomplish similar goals with alternative tools such as special assessments—where tax rates rise only in a specific area to accomplish a specific goal.

The key is the credible and legal commitment by the government to direct all future revenues to economic development projects within the TIF district.

What Are the Potential Pitfalls of TIF?

TIF may capture revenues that would otherwise go to overlying governments.

Most states allow cities to establish TIF districts without consent from overlying governments, such as counties and school districts, that may depend on the same tax base. Unfortunately, these rules set up potentially perverse incentives by allowing cities to claim property tax revenue that they might not have received in the absence of TIF. Establishing a TIF district allows city governments to capture property tax revenue generated by non-TIF increases in taxable assessed values—revenue that otherwise would have gone to special districts and other overlying governments. In this case,

even though the TIF district fails to stimulate economic development, it still benefits the city government that established it.

To avert these perverse incentives, many states include a “but for” clause in their TIF-enabling legislation. As a Minnesota source explains,

[The] Tax Increment Financing Act requires that before a city establishes a TIF district, the governing body must find that, “the proposed development or redevelopment, in the opinion of the municipality, would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future.” This requirement, known as the “but for” test, is intended to restrict the use of TIF. (Minnesota Office of the Legislative Auditor, Program Evaluation Division 1996, 71)

If it were true that no real estate appreciation would have occurred in the TIF district “but for” the TIF activities, overlying governments, such as school districts and other special districts, would get the same amount of property tax revenue that they would have received without the TIF district. In this case, the TIF designation harms no one and potentially benefits both the private developer and the city government creating the TIF district. Eventually, the overlying governments also benefit when the TIF district is retired and taxable appraised values revert to their tax bases.

In practice, however, the “but for” requirement has been interpreted in a variety of ways. At most, it has produced only a very loose constraint on the funding of development activities. Minnesota’s legislative auditor found that Minnesota cities “interpret the ‘but for’ requirement in a variety of ways.” Reasons for providing TIF-based assistance to development included:

- unusual circumstances made the project too expensive to develop otherwise;
- even though the development would likely occur without TIF assistance, it would not occur at a

location consistent with the city's development goals absent the assistance;

- the development would occur sooner with TIF assistance;
- the development would be bigger or better with TIF assistance;
- a company threatened to go elsewhere if it did not get TIF assistance; and
- TIF allowed the city to make public improvements that would not otherwise have happened.

The auditor concluded that “given the variety of interpretations available, it is difficult to imagine a development that would not meet the ‘but for’ test in some sense” (Minnesota Office of the Legislative Auditor, Program Evaluation Division 1996, 73).

TIF can make governments' financial situations and transactions less transparent and allow evasion of political constraints on using public funds for private purposes.

Because TIF revenues can be used only for limited purposes, they are usually sequestered in special funds, which contain a mixture of money that otherwise would have gone to the city that established the TIF and overlying governments. TIF revenues are also temporary, as the TIF district expires at some point. TIF districts use a variety of mechanisms to document and account for the receipt of these funds. In the most transparent cases, TIF authorities make publicly available the TIF plan and a record of annual TIF district receipts and expenditures, sometimes with a great deal of detail, perhaps even including account balances and fund transfers. Many TIF districts fall far short of these ideals, however, or provide materials late.

Indeed, even in the best cases, the existence of a separate set of funds—outside cities' operating accounts and generally not reflected in their annual financial reports—may obscure, delay, or prohibit a comprehensive picture of a city's financial condition.

If TIF district expenditures are not documented in detail, observers may also suspect misuse of funds, such as money funneled to political allies in particularly egregious cases. TIF district budget transparency has been a particularly controversial issue in cities such as Chicago, which has many TIF districts and thus large, sometimes temporary, reserves of TIF funds. This is discussed more in chapter 5.

TIF is yet another economic development tool available to local policy makers who must weigh the benefits and problems of TIF in deciding how to design and apply it.

TIF can facilitate unproductive fiscal competition between neighboring jurisdictions.

Business tax incentives in general—and TIF in particular—are vulnerable to overuse if potential beneficiaries can stimulate a virtual or actual bidding war among competing governments. A business that is considering expansion or relocation may use the existence of tax incentive programs to obtain benefits or threaten to leave to obtain more, even when a location would be the business's most profitable option even without the benefits. As TIF policies usually allow many cities to offer TIF, businesses may find several negotiating partners.

Economic theory suggests that under some conditions such negotiations can reduce economic efficiency. Recent empirical research shows that business tax incentives in general are not well targeted and often do little to stimulate economic activity (Bartik 2017; Florida 2017; Kenyon, Langley, and Paquin 2012). Evidence on the specific impact of TIF districts is discussed in chapter 7 and shows mixed results, with some studies showing a net stimulus but others showing little or no effects.

CHAPTER 3

Case Studies



This chapter presents three case studies demonstrating TIF use in a variety of areas: a large southern city (Atlanta, Georgia), a rural western area (Jefferson County, Montana), and an older Midwestern city (St. Louis, Missouri). While three cases cannot fully illustrate the vast number of ways and situations in which TIF has been used, these examples provide some sense of the tool's diversity and illuminate many of its strengths and weakness.

Cortex Innovation District in St. Louis is the Midwest's premier hub of bioscience and technology, serving start-up programs and established companies. The master plan provides for mixed-use development for research, office, clinical, residential, hospitality, and retail spaces. Photo: Cortex Innovation Community.

Case Study 1: Atlanta BeltLine Tax Allocation District, Georgia

This case illustrates how TIF can be used to support a community vision that requires a prolonged period of gestation and demands substantial public and private investment. It also shows how plans can evolve over time.

BACKGROUND

In 1999, Ryan Gravel, a graduate student at Georgia Tech, proposed a new transit system linking multiple Atlanta neighborhoods along old rail corridors surrounding the city. The idea gradually gained grassroots support, and a steering committee study found that a tax allocation district (TAD)—Georgia’s name for a TIF—could cover 60 percent of project costs without requiring a tax increase. In 2004, the Atlanta BeltLine TAD was approved by the city council with the support of the mayor. In 2006, Invest Atlanta, formerly the Atlanta Development Authority, formed the Atlanta BeltLine Inc., and a \$60 million capital campaign was launched to support the project. By 2008, the capital campaign was 50 percent complete, and more than \$60 million dollars of bonds were sold to investors with backing of TIF revenues. Over the next several years, the BeltLine project increasingly emphasized environmental responsibility, equitable development, and affordable housing. Construction proceeded on several transportation, recreation, and housing projects.

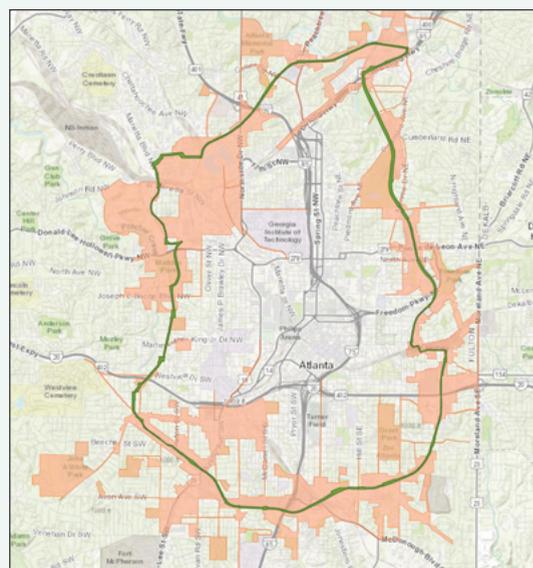
Though many of the Atlanta BeltLine TAD’s goals are comparable to those of other TIF projects throughout the country, the BeltLine is unusual for its shape and scope: This particular district encircles the city of Atlanta and includes a 22-mile transit system, many miles of trails, and numerous new and affordable housing units (figure 3).

PLANS

The original 2005 Atlanta BeltLine Redevelopment Plan, created by Atlanta Development, aimed to change the pattern of spotty regional growth by attracting and organizing future growth through creating parks, transit, and trails. The plan focused on acquiring land, creating trails and green spaces, building a new transit system and improving existing transportation, developing affordable workforce housing, and contributing to Atlanta Public Schools. In 2013, Atlanta BeltLine Inc.’s board of directors unanimously approved the 2030 Strategic Implementation Plan (SIP). The project was supposed to be executed in stages. The SIP prioritized certain projects and laid out the funding mechanisms. The majority of funding was directed toward transit improvements even though these projects are set to begin later in the process. Atlanta Beltline Inc. will develop trails and parks first, using bond money, to create the tax increment necessary to pay for the transit projects.

Figure 3

Map of Atlanta Tax Allocation District (TAD)



Atlanta BeltLine Corridor Atlanta BeltLine Tax Allocation District (TAD)

Source: Atlanta BeltLine, Inc. (2018).

FUNDING

The SIP projected that the plan could be completed by 2030 and would cost \$4.4 billion in total. Throughout the duration of the project, the TAD funds are expected to be the most substantial source of funding, accounting for about 33 percent of the total cost. Appreciation should generate approximately \$1.5 billion in tax increment revenue—a conservative estimate with prices pegged to inflation. The next largest source of revenue is expected to come from the federal government—especially U.S. Department of Transportation funding—that will be used specifically for BeltLine transit projects. The remaining funding will come from a combination of local sources, such as a new parking tax and private donations. According to a project website, the BeltLine has already received over \$40 million from private donations and \$25 million from federal sources. During the first five years of Atlanta BeltLine Inc. (2006–2011), \$337 million was expended, about 35 percent of which came from the tax increment. Another 44 percent came from city funds, with the remainder from federal funds, philanthropies, or other sources (Atlanta BeltLine 2013).

PROJECTS

The Atlanta BeltLine 2015 and 2016 annual reports featured a “performance dashboard” that showed mixed results. By 2015, the project had raised \$449 million out of a total target investment of \$2.8 to \$4.8 billion by 2030. The project’s control of trail and transit real estate was on time, but completed transit projects, streetscape construction, and affordable housing were all behind schedule. In November 2016, Atlanta voters approved two new taxes designed to speed progress on the project: an extra one-half of a cent sales tax to provide revenues for public transportation

and an additional four-tenths of a cent local option sales tax to provide additional revenue to purchase easements for the Atlanta BeltLine loop.

OPPOSITION

Though much of the Atlanta BeltLine project has met with support, some local opposition has arisen throughout its lifetime. In the early planning stages, a resident sued the city on constitutional grounds, claiming that the use of school taxes for security on bonds violated the educational purpose clause of Georgia’s constitution. The Georgia Supreme Court agreed and declared the TAD’s use of public school taxes unconstitutional, dealing an early blow to the project. Following this ruling, however, the Georgia General Assembly amended the state constitution to strengthen the Redevelopment Powers Law, effectively bolstering the legitimacy of TAD funding. Now officially constitutional, the project was able to continue with its original main funding source.

In 2008, the Fulton County Taxpayers Foundation filed a lawsuit against the City of Atlanta and its public school system, seeking an injunction to again prevent the use of school property tax revenues for the TAD. Despite the recent amendment, the Foundation argued, the Educational Purpose Clause remained intact. In a unanimous vote, the Georgia Supreme Court ruled that the use of TAD financing for the BeltLine and other TAD projects in the state is constitutional, technically overturning the court’s prior decision in light of the new constitutional amendment and allowing Georgia’s TIF mechanism to continue funding a range of projects. The BeltLine project, with the confluence of concerns about gentrification, government spending, and issues of race, illustrates how a TIF mechanism can become so closely scrutinized.

Case Study 2: Jefferson County, Montana

This case illustrates how a small county used TIF to cushion community transition when one source of economic activity slowed, requiring new sources of jobs and income.

BACKGROUND

Located in southwestern Montana, Jefferson County is home to 11,406 people who enjoy a median household income of \$60,863—well above the state median of \$46,230. The county includes Boulder, Jefferson City, Clancy, Montana City, and Whitehall, as well as several smaller towns. The county's economy depends largely on its natural resources, including agriculture, forestry, and mining.

The Golden Sunlight Mine, a long-standing presence in the local economy employing about 200 people from the county, was expected to exhaust its resources and close sometime in 2015. In 2009, anticipating this loss of employment, Jefferson County and the Jefferson Local Development Corporation (JLDC), in partnership with mine operator Barrick Gold, proposed the implementation of a TIFID (Tax Increment Financing Industrial District). The mine did not close in 2015 and is expected to continue operation into the next decade. Economic development efforts have continued on the land surrounding the mine.

Until 1989, Montana allowed TIF only for rehabilitation within designated urban renewal areas. In that year, the state legislature amended the Montana Urban Renewal Law to allow TIFIDs to be used to develop and retain “value-added” companies—that is, companies that convert raw materials into more valuable products that can be traded. With this in mind, the Jefferson Local Development Corporation formulated and submitted a new plan for the Sunlight District.

PLANS

The 2009 Jefferson County TIFID Plan, which proposed the Sunlight Business Park, outlined the types of industrial developments being sought and analyzed related infrastructure needs. First, the plan identified five key potential industries particularly suited for the economy and the needs of both Jefferson County and Montana as a whole. These industries included metal ore mining, general manufacturing, food manufacturing, engineering services, and electrical power generation (except hydroelectric, fossil fuel, and nuclear).

The plan also identified a significant deficiency in usable infrastructure. The only roads identified in the district were described in the plan as “primitive” and “unpaved.” The district had an electrical transmission line and an electrical substation line but no gas or electrical supply lines outside of the mining properties. Additionally, there were no water supply or treatment lines outside of the Golden Sunlight Mine. TIFID funds would be needed to build and extend the infrastructure for development to occur within the TIFID.

FUNDING

The proposed development projects would be funded through annual tax increment appropriation and conventional financing through Jefferson County but managed by the JLDC. The plan emphasized partnership development including existing partnerships among Jefferson County, the JLDC, and Barrick Gold. However, the JLDC planned to seek additional partners, including state and federal government funding programs, to speed up and ease the development process.

PROGRESS

The JLDC used the dedicated local portion of revenues from a tax on metal mining (in this case, gold) to secure a \$655,000 loan from the county to fund infrastructure in the TIFID. The Great Recession discouraged new



In 2015, Jefferson County, Montana implemented a Tax Increment Financing Industrial District (TIFID) to compensate for the expected closing of the Golden Sunlight Mine. Photo: Mark Briggs, Barrick Gold of North America, Inc.

business activity in the region, however, and during the first few years of operation there was little new economic activity in the Sunlight TIFID. In 2013, Jefferson County amended the Sunlight TIFID Plan yet again to include a Tax Increment Financing Revolving Loan Program. The new program was funded with incremental property tax revenues. The JLDC intended to entice new business development to the area. The revolving loan fund is perpetual and can continue even after the TIFID expires. Actual construction in the TIFID area did not commence until May 2014, when the county broke ground on a new business park.

In the five-year period between the original Sunlight TIFID proposal and the 2014 groundbreaking, Jefferson County and the JLDC recognized the increasing importance of rapid Internet access for business development and decided to use the TIFID to reinvent and invigorate the local economy. This caused a shift away from the original proposal, which focused on resource-oriented development, to a plan to attract more high-tech companies and jobs, which in turn altered the original plans of the Sunlight Business Park. By early 2017, three units, including office and warehouse space, had been built in the business park and were occupied by businesses focused on the Internet, wind energy, and medicine. One company was a business already established within the county, that moved to the park and expanded employment to take advantage of faster Internet service. The

wind-energy firm, LGT Advanced Technology Limited from the United Kingdom, also moved in. By early 2017, the companies had added only a small number of jobs, but the JLDC remains hopeful that future growth will create more well-paying, permanent jobs in the next few years.

CHALLENGES

Since its conception, the Sunlight TIFID was uniquely poised for success. Jefferson County had a built-in organization to manage and help plan the TIFID with the JLDC as well as the commitment and support of one of the largest corporate entities in the area—Barrick Gold, which operates the Sunlight Gold Mine. The company has demonstrated its commitment to ensuring the county's economic stability. For example, the company leases the land for the Sunlight Business Park to Jefferson County—a total of 48 acres—for just \$10 annually.

Loans from the county, supported by dedicated revenues from the metals tax, were used to create the infrastructure needed to make the business park operable, as well as to finance construction of the office building and warehouse. Through early 2017, development in the TIFID was slow—perhaps because of a lack of advertising and recruiting due to the limited resources available to the JLDC. This illustrates the “chicken and egg” problems that can arise with “pay-as-you-go” TIF, which must generate revenues through new tax increments provided to the district. The lack of advertising contributed to the slow real estate development, and subsequent tax increments provided insufficient funds to support advertisement and recruitment. This, along with poor economic conditions during the time the TIFID was started, resulted in slow initial development in the area (Harrington 2017).

Despite this, there has been some development in the TIFID, which has benefited the community beyond its geographic boundaries by making possible the expansion of fiber lines to support rapid Internet service in surrounding communities. Proponents hope that this will enhance business opportunities in the region in the long run.

Case Study 3: St. Louis, Missouri

This case study illustrates the use of TIF in a big city facing severe fiscal, economic, and competitive challenges. Missouri's TIF law, though similar to other states' in some respects, uses unusual mechanisms and language.

BACKGROUND

In Missouri, a TIF district technically freezes property taxes within the district but requires that property owners make Payments in Lieu of Taxes (PILOTS) to a special fund—at a rate of 100 percent. These PILOTS should not be confused with payments of the same name sometimes made by universities and charitable organizations that are exempt from property taxes in other states (Langley, Kenyon, and Ballin 2012). Missouri also allows for up to 50 percent of local income and sales tax revenue generated by new economic activity to be captured and diverted into the special-allocation fund, which is then used to reimburse the developer or to retire debt from bonds used to finance development.

By early 2016, there were well over 100 TIF projects in the city of St. Louis alone, making it among the most active TIF users in the United States. A local research and advocacy group, Better Together St. Louis, found that \$2 billion of public tax dollars had been diverted to developers in the region through TIF. The same group's 2011 survey of TIFs in the St. Louis metropolitan area found that about 80 percent of TIF projects in the region were retail-oriented development projects; residential development was another common use of TIF in the area (Coleman and Murphy 2014).

With so many TIF districts in St. Louis, however, mixed results are not surprising.

STORY OF SUCCESS: INNOVATION DISTRICT REDEVELOPMENT AREA

Approved in 2012, the Cortex Redevelopment Plan, also known as the Innovation District Redevelopment Area, was one of the largest TIF-supported undertakings in the St. Louis area. The plan included developing offices, research facilities, stores, a healthcare facility, a recreational open space, and a new public-transit station—all on largely vacant land that had resulted in part from the loss of jobs and population in the area. The plan is estimated to be completed in 2024 and projected to cost upward of \$2 billion, including \$158.2 million funded by TIF.

Despite its relatively new status, Cortex is considered one of the most successful TIF undertakings in St. Louis. During Phase I of the project, the Cortex Innovation District used around \$10 million in TIF funds to inject \$155 million of investment and to create 955 technology and management jobs in the area. Phase II is expected to spur \$186 million of investment within the district, as well as 1,400 more well-paying, permanent jobs. Over the course of the 25-year project, the Cortex Innovation District is expected to produce an estimated 2,400 jobs. By late 2016, the Cortex District reportedly had 4,100 people working for 260 companies and was adding additional economic activity including new hotels, apartments, and retailers (Barker and Bryant 2016).

Unlike many TIF projects in the city, the Cortex Innovation District has managed to procure outside funding and partners. Cortex has paired with two major universities in the area—Washington University in St. Louis and University of Missouri—as well as private, nonprofit, and government organizations. Though TIF remains integral to the district's further development, these outside partnerships have helped the Innovation District to thrive. The use of TIF in St. Louis reflects the urgency felt by public, private, and nonprofit leaders to find a path to regeneration after devastating losses of population and jobs that left wide swaths of vacant and underutilized urban land.

STORIES OF FAILURE: GRAND AND SHENANDOAH

Not all of the TIF districts in St. Louis have been as successful as the Cortex TIF district. A 2018 summary of St. Louis TIF districts on the city's website lists approximately 180 TIF districts (St. Louis Development Corporation 2018). Most of these are still active in 2018, so it is difficult to render a final judgment on their success. Roughly 20 of the TIF districts were terminated before completion, and approximately 16 ultimately failed to get approval after potential developers filed applications with the redevelopment agency.

The Grand and Shenandoah District, approved in February 2007, was terminated before completion. The city ordinance creating the TIF district described a plan to use \$2.5 million in TIF borrowing in addition to other revenues to finance more than \$7 million of redevelopment on two blighted parcels at the corner of Grand and Shenandoah Avenues. The plan called for the demolition of a building that formerly housed a YMCA and the construction of a new, mixed-use commercial building with 14,000 square feet of retail space and 16,000 square feet of office space. The plan also involved rehabilitating a 1895 historic building once used as a high-end restaurant, before it fell into disrepair. The city's 2007 annual report on the project filed with the Missouri state auditor estimated that 125 jobs would be created (Missouri Office of State Auditor 2018). The developer, however, could not secure the needed preconstruction leasing commitments and, therefore, was unable to get financing for the project. The TIF district was dissolved in 2016 without creating any new jobs and with only approximately \$6,000 in tax revenues since its inception. After this TIF failed, the city was later able to attract new developers by using tax abatements and, by early 2018, renovation on the historic restaurant was underway and additional construction was planned at the site of the former YMCA.

Studies have found that jobs created in TIF districts can displace jobs in competing businesses that do not

thrive or survive in surrounding neighborhoods. Thus, one neighborhood may benefit while the surrounding areas suffer, resulting in minimal net benefit to the city as a whole (Coleman and Murphy 2014). Another study noted the sharp decline of small retail stores employing 10 or fewer people, suggesting that large businesses gained sales and employees at the expense of smaller local businesses (East-West Gateway Council of Government 2011). Coleman and Murphy (2014) argue that this trend indicates there is less room for local entrepreneurs in the market and indicates an increased likelihood of reduced profits for the City of St. Louis.

Literature suggests that these unsuccessful projects failed because over 80 percent of TIFs are for retail projects that serve a local market. Unlike Cortex, these retail jobs are not being created by TIF; they are merely being displaced. Other projects may be less successful due to a strong dependence on TIF financing rather than community partnerships that would help ensure long-term success.

Washington University in St. Louis and the University of Missouri among others partnered with Cortex to help launch the Innovation District. Photo: bluepoint951/Flickr CC BY-NC-SA 2.0.



CHAPTER 4

Use and Implementation



In Maine, TIF was used to fund the Bath Iron Works modernization project, which created a dry dock launching facility.
Photo: Ted Kerwin/Flickr CC BY 2.0.

TIF is a local government program facilitated by state-enabling legislation with varying state involvement. Some states, such as Maine, simply verify that proposals for local TIF districts meet statutory requirements but do not track or monitor TIF districts once they are created. Others, such as Illinois, require annual reports on each TIF district and provide state-level data about TIF use. Nationwide, TIF has certain common elements (described in chapter 1), but each state has its own enabling legislation and regulations for the use of TIF. States set the rules for establishing and modifying TIF districts, the length of time they may be in effect, the acceptable uses of funds, the reporting requirements, and other guidelines.

Early studies documenting state TIF legislation include Johnson and Kritz (2001), Johnson (2002), and Council of Development Finance Authorities (2008). As of early 2018, there are two web-based resources that provide information about TIF rules across the United States.

1. The Council of Development Finance Agencies (CDFA) has an online Tax Increment Finance Resource Center (2017) that provides a wealth of information, though some items are available only to paying members. The site provides an open-access state-by-state map that allows users to click on a U.S. state and obtain a link to that state's TIF statute and summary information about requirements for district creation, eligible public costs, financing options, maximum length of district, and several other items. (This data excludes Arizona, which does not allow TIF.)
2. Significant Features of the Property Tax Database (2018), updated annually and produced through a partnership of the Lincoln Institute of Land Policy and the George Washington Institute of Public Policy, provides a range of information on the property tax and TIF laws in each state, including relevant statutes, program names, geographic requirements, descriptions of incentives, and more. The website includes information about TIF programs in each state. The appendix table in this report (p. 59) is drawn from that website and contains the most current available information about the name of the TIF program in each state, the allowable duration of TIF districts, the legal requirements to create a TIF district, the agencies that must approve TIF districts, and the requirements for public hearings.

Where Has TIF Been Used?

Both resources focus on the legal authority for TIF, but neither source provides data on the tool's actual use. National data on TIF use is extremely difficult to compile because many states do not monitor TIF use once a district is authorized. The International City/County Management Association (ICMA) has sponsored several surveys asking local government officials about their economic development activities. Their 2014 survey reports that about 42 percent of the 1,148 responding local governments are using TIF as a source of funding. Warner and Zheng (2013), Felix and Hines (2013), and Greenbaum and Landers (2014) all provide analyses of earlier ICMA surveys and find similar percentages of respondents offering TIF-type economic development incentives. However, as Greenbaum and Landers point out, the response rate to ICMA surveys is generally relatively low—around 25 percent—and thus may not be representative of all local governments. Greenbaum and Landers also find significant regional variation in the use of TIF by respondents to the ICMA's 2009 survey, with 74 percent of respondents in the north-central region reporting use of TIF, compared to only 24 percent of respondents in the Northeast.

Table 2 (p. 26) provides information about the legal uses of TIF revenues and estimates of the number of TIF districts in each state. In some cases, the estimates have been compiled by state authorities and are quite precise. In other cases, where the state does not track or report the number of TIF districts, the best available estimates are reported. Figure 4 maps the data in column 3 of table 2 (p. 30).

Table 2

Number of TIF Districts and Additional Authorized Uses of TIF Revenues by State

State	Program Name	Estimated Number of TIF Districts in State	Sell or Rent Land Below Fair Market Value
ALABAMA	Tax Increment Districts	10	✓
ALASKA	Improvement Area Projects	1	
ARIZONA	N/A	N/A	N/A
ARKANSAS	Redevelopment Districts	9	✓
CALIFORNIA	Enhanced Infrastructure Financing Districts	743	
COLORADO	Tax Increment Financing Districts	140	
CONNECTICUT	Tax Increment Financing Districts	4	
DELAWARE	Municipal Tax Increment Financing Districts	0	
FLORIDA	Community Development	222	
GEORGIA	Tax Allocation Districts	64	
HAWAII	Tax Increment Financing Districts	0	
IDAHO	Revenue Allocation Areas	78	
ILLINOIS	Tax Increment Allocation Redevelopment Areas	1238	✓
INDIANA	Tax Increment Financing Districts	700–800	
IOWA	Urban Renewal Areas	3340	
KANSAS	Tax Increment Financing Districts	11	
KENTUCKY	Tax Increment Financing Districts	23	✓
LOUISIANA	Tax Increment Development	9	✓
MAINE	Tax Increment Financing Districts	483	
MARYLAND	Tax Increment Financing Districts	28	
MASSACHUSETTS	District Improvement Financing	2	
MICHIGAN	Tax Increment Financing	634	✓
MINNESOTA	Tax Increment Financing	1719	
MISSISSIPPI	Tax Increment Financing	25	
MISSOURI	Real Property Tax Increment Allocation	468	
MONTANA	Tax Increment Financing	50	
NEBRASKA	Tax Increment Financing for Redevelopment Projects	828	

Permitted Development Subsidies			Other Public Uses Outside of TIF District	
Construct Buildings and Facilities	Tax Subsidies (freezes and abatements)	Direct Financial Subsidies (including reimbursement for project costs, loans, and funds for training)	Public Expenditure to Benefit TIF District	Shared Revenue*
✓			✓	✓
N/A	N/A	N/A	N/A	N/A
✓	✓		✓	✓
✓		✓	✓	✓
		✓	â	✓
	✓	✓	✓	✓
✓		✓	✓	✓
				✓
✓	✓		✓	✓
✓				✓
		✓	✓	
		✓	✓	
	✓	✓		✓
✓				✓
✓		✓		✓
✓		✓	✓	✓
✓		✓	✓	✓
				✓
✓		✓	✓	✓
✓				✓
		✓	✓	
		✓	✓	✓
				✓
		✓		✓
		✓		

Table 2, cont'd

Number of TIF Districts and Additional Authorized Uses of TIF Revenues by State

State	Program Name	Estimated Number of TIF Districts in State	Sell or Rent Land Below Fair Market Value
NEVADA	TIF and Redevelopment Areas	22	
NEW HAMPSHIRE	Tax Increment Financing in Development Districts	32	
NEW JERSEY	Revenue Allocation District Financing	49	
NEW MEXICO	Tax Increment Development Districts	16	
NEW YORK	Tax Increment Financing	2	
NORTH CAROLINA	Project Development Financing (TIF)	3	✓
NORTH DAKOTA	Tax Increment Financing	48	
OHIO	Tax Increment Financing Districts	1278	
OKLAHOMA	Tax Increment Financing Districts	48	
OREGON	Urban Renewal Plans	244	
PENNSYLVANIA	Tax Incremental Financing Districts	100	
RHODE ISLAND	Tax Increment Financing Areas	5	
SOUTH CAROLINA	Tax Increment Financing for Redevelopment Projects	17	
SOUTH DAKOTA	Tax Incremental Districts	172	
TENNESSEE	Tax Increment Financing	29	
TEXAS	Tax Increment Reinvestment Zones	1378	
UTAH	Tax Increment Financing Districts	84	✓
VERMONT	Tax Increment Financing Districts	9	
VIRGINIA	Tax Increment Financing Districts	9	
WASHINGTON	Tax Increment Financing	38	
WEST VIRGINIA	Tax Increment Financing	31	
WISCONSIN	Tax Incremental Districts	1241	
WYOMING	Tax Increment Financing	10	

Table focuses on the most broadly applicable TIFs.

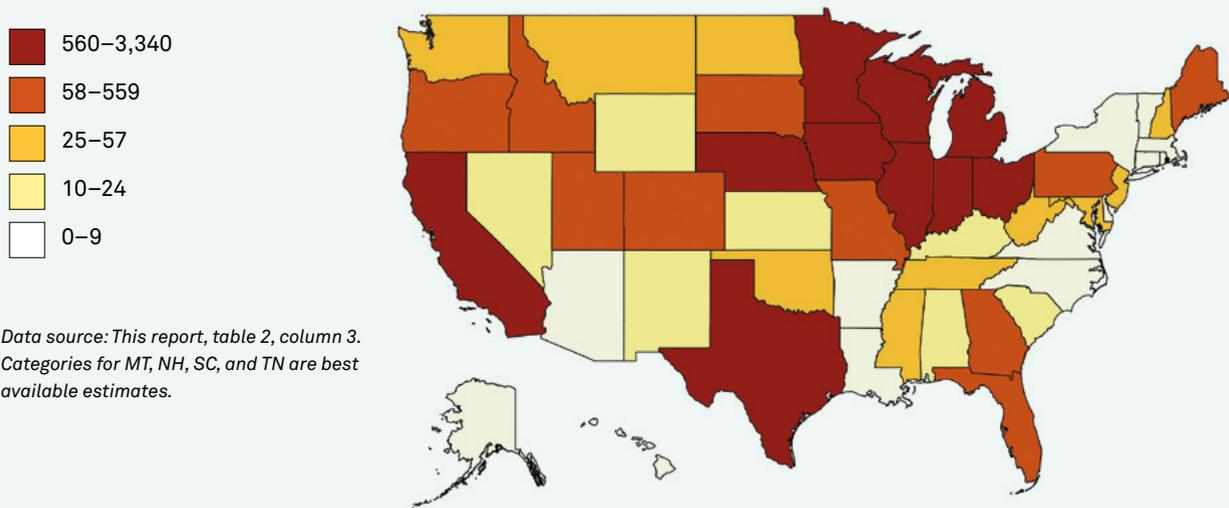
Permitted Development Subsidies			Other Public Uses Outside of TIF District	
Construct Buildings and Facilities	Tax Subsidies (freezes and abatements)	Direct Financial Subsidies (including reimbursement for project costs, loans, and funds for training)	Public Expenditure to Benefit TIF District	Shared Revenue*
✓	✓		✓	✓
				✓
✓	✓	✓		
		✓	✓	✓
				✓
✓			✓	✓
				✓
	✓			✓
✓		✓		✓
		✓		✓
✓			✓	✓
✓		✓	✓	
			✓	✓
		✓		✓
				✓
✓	✓			✓
✓		✓	✓	✓
				✓
				✓
			✓	✓
			✓	

Sources: Lincoln Institute of Land Policy and the George Washington Institute of Public Policy (2018); Column 3: Merriman, Qiao, and Zhao (2018).

* Shared revenue indicates either initial allocation among jurisdictions and TIF districts or that jurisdiction allows other jurisdictions to opt out. In general, when TIF districts have sufficient funds for development and debt service, excess funds are returned to the taxing jurisdictions.

Figure 4

Estimated Number of TIF Districts by State



Data source: This report, table 2, column 3. Categories for MT, NH, SC, and TN are best available estimates.

Figure 4 illustrates how the use of TIF varies dramatically from state to state. Consistent with Greenbaum and Landers's (2014) analysis of ICMA data, nearly all of the Midwestern states make extensive use of TIF. By contrast, none of the New England states except Maine use TIF to a large extent. In fact, outside of the Midwest, Colorado, Florida, Maine, Oregon, Pennsylvania, and Texas have 100 or more TIF districts, and California greatly restricts the creation of new TIF districts. Twelve states (not including Arizona, which prohibits TIF) have nine or fewer TIF districts. To date, there has been no published academic work explaining why local governments in some states use TIF more extensively than others.

The remainder of table 2 provides information about acceptable use of TIF revenue. All state TIF statutes allow TIF revenues to be used to service bonds that are sold to fund development activities in the TIF district. TIF funds can be used for other development subsidies in some states including the below-fair-market sale or rental of real estate to private parties in order

to promote economic development or construction of facilities within the TIF district, etc. Roughly two-thirds of the states allow some use of TIF funds for limited activities outside of physical TIF boundaries.

In some cases, TIF authorities sell bonds and use funds from property tax revenues on the TIF increment to service the bond debt. As discussed previously, use of TIF district-financed debt may allow the TIF authority to jump-start economic development in the district. Table 3 shows, in general, that states with many TIF districts also had a large amount of TIF debt. For example, California, with more than 700 TIF districts, had about \$25 billion of TIF bond issues. However, the amount varies greatly across states: Ohio has even more TIF districts than California, but TIF districts in Ohio issued only about \$500 million of TIF debt. In fact, California issued far more TIF debt than any other state, and the only other states with more than \$1 billion of TIF debt issued are Illinois and Minnesota. A few states (including Iowa, Maine, and Nebraska) have a substantial number of TIF districts but a modest amount of TIF debt issuance.

Table 3

TIF Borrowing by State, 2000–2014 (millions of nominal dollars)

State	2000–2004	2005–2009	2010–2014	TOTAL
Alabama	28	30	2	60
Alaska	0	0	0	0
Arizona	does not allow TIF			
Arkansas	0	0	0	0
California	10,198	11,609	3,233	25,040
Colorado	447	704	434	1,585
Connecticut	0	0	129	129
Delaware	0	0	0	0
Florida	110	235	68	413
Georgia	109	554	21	684
Hawaii	0	0	12	12
Idaho	15	8	33	56
Illinois	657	448	169	1,274
Indiana	137	337	246	720
Iowa	120	186	9	315
Kansas	15	325	14	354
Kentucky	0	1	0	1
Louisiana	16	5	10	31
Maine	1	0	30	31
Maryland	14	0	40	54
Massachusetts	0	0	0	0
Michigan	186	148	100	434
Minnesota	698	500	202	1,400
Mississippi	50	61	23	134
Missouri	519	658	248	1,425
Montana	22	48	20	90

State	2000–2004	2005–2009	2010–2014	TOTAL
Nebraska	19	19	5	43
Nevada	70	140	22	232
New Hampshire	0	0	0	0
New Jersey	0	0	0	0
New Mexico	0	0	0	0
New York	0	0	0	0
North Carolina	16	0	0	16
North Dakota	2	3	3	8
Ohio	130	269	117	516
Oklahoma	0	26	140	166
Oregon	77	18	0	95
Pennsylvania	177	70	29	276
Rhode Island	8	29	0	37
South Carolina	157	105	14	276
South Dakota	6	7	2	15
Tennessee	0	33	0	33
Texas	339	455	351	1,145
Utah	29	58	77	164
Vermont	0	0	0	0
Virginia	32	14	0	46
Washington	0	0	0	0
West Virginia	0	56	11	67
Wisconsin	51	8	30	89
Wyoming	0	0	0	0
TOTAL	14,455	17,167	5,844	37,466

Source: Luby and Moldogazie (2014); personal communications.

How Has TIF Been Used?

Over the past quarter-century, scholars have conducted numerous studies to better understand when TIF is used. Table 4 provides some basic information about nine empirical studies of the determinants of TIF adoption. Each study predicts the probability of TIF use as a function of an area's characteristics. The six older studies use data from a particular state or region, five of which are located in the Midwest and one in Maine. The more recent studies use national data from surveys of municipal officials. Eight of the nine studies focus on TIF adoption at the municipal or county level. Only Gibson (2003) predicts use at the neighborhood level.

These empirical analyses focus on two fundamental questions. First, do municipal officials adopt TIF because growth is slow and they wish to stimulate growth or because growth is rapid and they wish to capture growth in a tax base that would otherwise go to overlying governments, such as counties, school districts, or other special districts? Second, do communities use TIF to gain a competitive advantage over neighboring areas?

On the first question, the evidence is mixed. Anderson's evidence "strongly suggests that prior growth is responsible for TIF adoption," while Man "finds no empirical evidence to support the contention that growing cities are more likely to adopt TIF" (Anderson 1990, 160; Man 1999a, 1151). Gibson (2003) finds that moderately economically distressed neighborhoods, which experience moderate growth, are most likely to be included in TIF districts. There is little point in using TIF in an area that is not growing at all, but municipalities may also be reluctant to use TIF in an area that is growing rapidly already.

Table 4
Determinants of TIF Adoption

Article
Anderson, John E. (1990)
Man, Joyce Y. (1999)
LaPlante, Josephine M. (2001)
Gibson, Diane (2003)
Byrne, Paul F. (2005)
Mason, Susan, and Kenneth P. Thomas (2010)
Warner, Mildred E., and Lingwen Zheng (2013)
Felix, R. Alison, and James R. Hines (2013)
Greenbaum, Robert T., and Jim Landers (2014)

Area	Data	Time Period	Dependent Variable(s)	Reasons for Increases in the Probability of TIF Adoption	Notes
Michigan	255 cities	1985–1986	Probability of TIF adoption	City growth	TIF adoption and property value growth estimated simultaneously
Indiana	150 cities with a population above 2,500	1985–1991	Probability of TIF adoption	Fiscal stress, lower share of property taxes, and if neighboring areas adopt TIF	TIF adoption and property value growth estimated simultaneously
Maine	86 larger municipalities (42 of which adopted TIF)	1989–1998	Probability of TIF adoption at the time analyses were done	Nonmunicipal tax burden, business share of property tax, and percentage elderly	Predictive discriminant analyses used without correction for simultaneity
Chicago	866 census tracts	1990–2000	Time until census tract became part of a TIF district	Neighborhood distress and the presence of an Empowerment Zone, but probability falls with the tenure of alderman	Study finds that moderately disadvantaged neighborhoods are most likely to get TIF
Chicago Metropolitan Area	255 municipalities	2000	Probability of TIF adoption	Neighboring areas adopt TIF, percent of overlap with school district, and municipal tax rate	None
Missouri	171 cities	Spring 2008	Approval of a TIF and approval of a retail TIF	Use other economic development tools, and neighboring areas adopt TIF	No correction for simultaneity
United States	800 chief municipal administrative officers	2004 and 2009	Use of business development incentives that reduce costs to business	Accountability, competition, and unemployment, but falls with citizen opposition and low per capita property taxes	Two other non-TIF types of development incentives also studied
United States	1,022 chief municipal development officers	1999	Use of TIF alone or in combination with other business development incentives	Share of low-income residents, proximity to state borders, and political corruption	Poorest communities less likely to use TIF
United States	844 municipal and county governments	2009	Use of TIF	Government size, low-income residents, and suburban location	Study finds significant regional differences

If nonmunicipal governments, such as school districts, are responsible for the majority of the property tax burden in an area, a municipality-initiated TIF district can capture tax revenue for economic development at a relatively low cost to the municipality. For example, suppose that 10 cents of each dollar paid in property taxes goes to the municipality, 65 cents goes to the school district, and 25 cents goes to the county or other local governments, such as park and transportation districts. Municipalities might be more likely to use TIF since they bear only a small share of the cost for redirected property tax dollars. Anderson (1990, 161) studied this but found “the proportion of the tax rate attributed to the city government has no impact” on TIF adoption, suggesting that towns do not act strategically to capture TIF revenue. LaPlante (2001, 91) finds that “a town with a heavy municipal tax burden is likely to embrace TIF;” but her results are difficult to compare with Anderson’s (1990), as she did not control simultaneously for the tax share of overlying governments. Both Byrne (2005) and Mason and Thomas (2010) found that towns are more likely to adopt TIF

when their neighboring towns use it. This suggests strategic, or at least competitive, behavior.

Studies that use survey data have the virtue of covering a much broader geographic area, but survey respondents’ answers may be subjective, and thus the analyses may be less revealing compared to studies using administrative data collected to implement or monitor government programs. Warner and Zheng (2013), Felix and Hines (2013), and Greenbaum and Landers (2014) all find evidence that economic distress promotes the use of TIF. Warner and Zheng find more use of TIF-type incentives when there is more accountability for results, while Felix and Hines find evidence that TIF is used to compete with neighboring jurisdictions and is possibly associated with political corruption. Greenbaum and Landers emphasize that the determinants of TIF use in the north-central region are somewhat different from factors in the rest of the country. In particular, higher property taxes are associated with more TIF use in the north-central region, but not in other regions.

CHAPTER 5

Transparency: Intensive TIF Use in Chicago



Some have called for more transparent use of TIF revenues. Once a municipality establishes a TIF district and begins to receive revenues and make expenditures, it can account for them separately—and sometimes obscurely—compared to other governmental funds. Some argue that municipalities could achieve transparency by including TIF-funded activities as part of a city’s regular operating budget. Cities could also document property tax dollars from TIF districts in capital plans and in regular city financial reports.

Morgan Station in Chicago, funded almost fully through TIF, accelerated the redevelopment of the area. Photo: Steven Vance/ Flickr CC BY-NC-SA 2.0.

Background

Chicago has used TIF since the late 1980s, and the lack of TIF transparency has been a particularly salient issue there (Reingold 2001). By 1997, Chicago had 41 TIF districts, and TIF use was rapidly expanding (Youngman 2016). By the mid-2000s, TIF use in Chicago was extremely controversial (Quigley 2007), and that controversy continues to the present (Youngman 2016).

Chicago is worthy of special focus because of its extensive and controversial use of TIF. By 2014—after years of municipal fiscal distress—Chicago used TIF more than any big city in the United States. As shown in table 5, Chicago had as many TIF districts (149) as the other nine largest U.S. cities combined. In 2015 alone, Chicago TIFs collected about \$461 million in property tax revenues (Office of the Cook County Clerk 2016).



More than \$4.5 million in TIF funds were used to rebuild Cermak Station in Chicago adjacent to the McCormick Place Convention Center. Photo: Steven Vance/Flickr CC BY-NC-SA 2.0.

GASB 77 AND TIF

In August 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 77 (GASB 77). The new policy requires governments to disclose the amount of tax revenues forgone through tax abatements, including at least some of those made through TIF (Knezevic 2017), for reporting periods that begin after December 15, 2015. GASB establishes accounting and financial reporting standards for U.S. governments that follow Generally Accepted Accounting Principles (GAAP). GASB periodically issues statements about how particular accounting issues should be dealt with in government financial reports.

GASB 77's potential to increase TIF transparency is unclear. Because TIF, as generally implemented, does

not reduce tax payments but rather redirects the expenditure of public funds, its status as a tax abatement is sometimes unclear and disputed (LeRoy 2017). Also, GASB 77 allows individual governments discretion to disclose abatements either individually or in aggregate, and aggregated disclosure is less likely to provide information about individual TIF districts within a government.

Careful analysis of GASB 77's impact on financial reporting probably won't be available until at least late 2018. For many governments, the first required disclosure involved a fiscal year that began in the calendar year 2016 and ended in the calendar year 2017, and financial reports generally do not appear until several months after the fiscal year ends.

Table 5

Population and TIF Use in Largest U.S. Cities

City	Population, 2016 (in millions)	Districts, 2017 (except where noted)
New York, NY	8.54	0
Phoenix, AZ	1.62	0
Philadelphia, PA	1.57	13 (2013)
San Diego, CA	1.40	14 (in flux due to changes in California law)
Dallas, TX	1.32	18
San Antonio, TX	1.49	19
San Jose, CA	1.02	21 (in flux due to changes in California law)
Los Angeles, CA	3.98	24 (in flux due to changes in California law)
Houston, TX	2.30	27
Chicago, IL	2.70	149
Total TIF Districts		285

Source: U.S. Census Bureau; city websites.

Many aspects of TIF use in Chicago have been controversial, but the central theme of these controversies has revolved around the questions of who gets to decide about the use of property tax dollars and how Chicago's city government tracks and reports the collection and dispersal of TIF tax dollars.

Spending TIF district dollars is fundamentally different from other government spending. TIF dollars are raised by a general property tax but must be spent to benefit economic development in designated areas. In most cases, TIF revenues derive from taxes levied by all overlying governments, such as counties, school districts, or other special districts. Spending of TIF funds, unlike other earmarked revenues, is not authorized, appropriated, accounted for, or voted on during the normal budget cycle of any elected government. Once a TIF district is created, funds generated by the district do not compete with non-TIF district priorities. Furthermore, TIF projects often combine resources of private, and sometimes for-profit, institutions with public money. Thus, TIF districts often persist for decades without being subject to ordinary democratic controls.

These sets of circumstances suggest that TIF districts should be created only after careful study, deliberation, and debate. Once created, TIF district activities should be documented carefully and monitored by local government officials to assure that they fulfill their stated missions. The appendix table (p. 59) lists some of the conditions mandated by state laws in order to create a TIF district. Most states require a detailed application and public hearings to solicit citizen input. State review of the application is common, and usually the governing body of the city must take a formal vote to approve the project.

While many states mandate well-articulated procedures for creating TIF districts, state laws often require little reporting or monitoring of TIF districts once they are established. Without reporting, there can be little oversight, increasing the potential for misallocation—or even abuse—of TIF spending. Because of this, demands for TIF transparency have been loud and sometimes strident.

One particularly persistent reporter, Ben Joravsky, published dozens of mostly critical articles in the *Chicago Reader*, a local newspaper, documenting the lack of transparency in TIF and the frequency of politically influenced decision making in Chicago. Joravsky alleged that then-Mayor Richard Daley used TIF dollars as a “shadow budget,” which could be allocated with minimal oversight from the elected city council or the general public.

Reform Efforts

Joravsky’s reporting and some academic studies stimulated additional interest in TIF, and in 2007, then-Cook County Commissioner (and later U.S. Representative) Mike Quigley published a report that found

[t]he near-total lack of public information readily available on Chicago’s TIFs is, in a word, inexcusable. Reams of documentation are produced—with taxpayer dollars—every time a TIF is proposed or created. Redevelopment agreements . . . [and] compliance reports are submitted to the Comptroller annually. All . . . are produced electronically. Not a single one is available from the City’s website. (Quigley 2007, 41)

As pressure for reform grew, Mayor Rahm Emanuel responded in 2011, just three days after his inauguration, by announcing the TIF Reform Task Force, charged with recommending concrete steps for increasing TIF transparency. Three months later, the task force issued a report that proclaimed:

Information about TIF districts . . . has been limited since TIF was first used in 1983. However, more comprehensive information . . . has been available . . . since City Council passed the TIF Sunshine Ordinance in 2009. The . . . website includes:

“Redevelopment plans and approval ordinances . . . [b]asic annual financial reports for each

TIF district . . . web pages for every TIF district aggregating relevant information . . . [r]edevelopment agreements (RDAs) for private projects . . . [t]hree-year district-level projections about collections.”

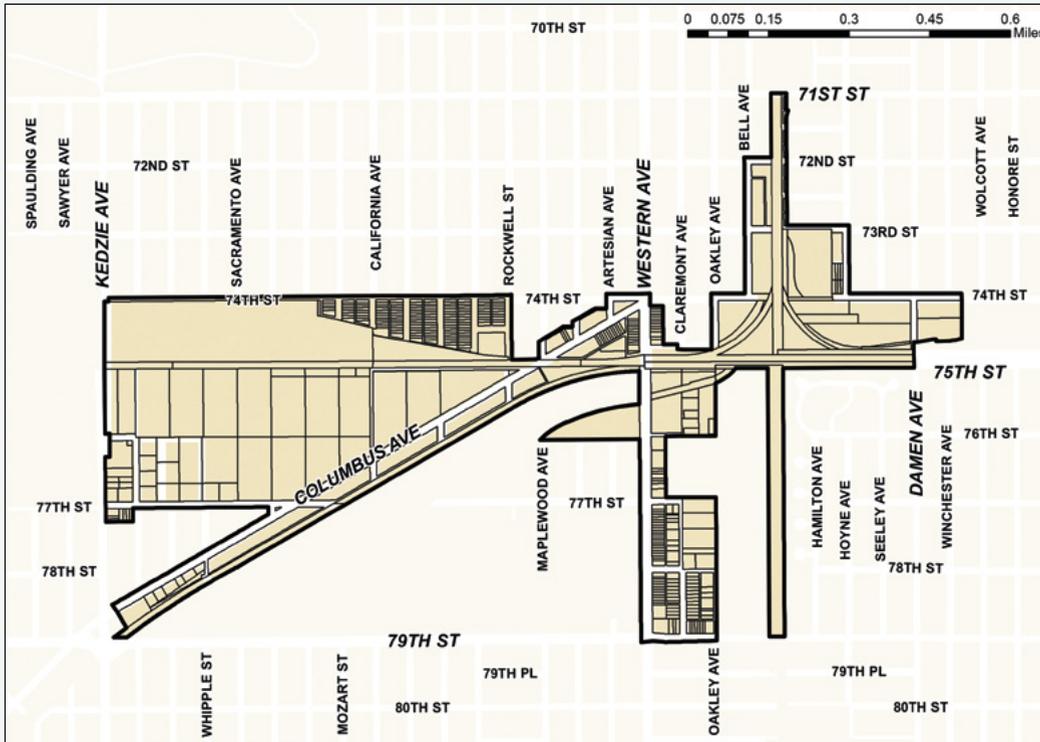
Although there has been a significant increase in the amount of publicly available TIF information in recent years, there is significant room to improve. (City of Chicago, TIF Reform Panel 2011, 32)

To increase transparency, the task force recommended that Chicago develop a multiyear capital budget incorporating TIF district spending and submit this capital budget to the city council for consideration. The task force further stated that TIF resources should undergo the same scrutiny as other resources, and it recommended a number of transparency measures, including public disclosure of all intergovernmental agreements related to TIF and publication on the city’s website of the newly created capital budget as well as TIF district and project data to track performance.

As of March 2018, the City of Chicago has an open data portal with extensive information about TIF districts and the projects they house (City of Chicago 2018). The website contains a map of each TIF district with its boundaries overlaid on a map of city streets. The map indicates each project within the TIF district and specifies redevelopment agreements and total TIF and non-TIF planned investments. Figure 5 shows, for example, the Greater Southwest Industrial Corridor (East) TIF district on Chicago’s southwest side. This district encompasses portions of several communities, including the predominantly low-income, African American communities of Ashburn and Auburn-Gresham. The website says that the TIF district is intended to encourage land uses that strengthen the appeal of the area for industrial, commercial, institutional, and residential uses. A few specific targeted projects include the redevelopment of an abandoned theater and abandoned railroad right-of-way.

Figure 5

Greater Southwest Industrial Corridor (East) TIF District



Source: City of Chicago, Department of Planning and Development (2018).

According to Chicago's 2014 annual report, the TIF district housed a single redevelopment project, which was designed to facilitate cleanup and remediation of a 62-acre industrial site. The project also included construction of a 660,000-square-foot industrial space for StyleMaster and other tenants. A direct link from Chicago's mapping portal allows users to access the associated 111-page redevelopment agreement, amendments to that agreement, a Department of Planning and Development staff report on the project, and several other related documents. These reports

detail the legal basis for the project, projected costs, and time lines. As of early 2017, total projected costs were about \$28 million, split about evenly between public and private investments.

Chicago's TIF portal also provides separate access to data about beginning and ending balances, revenues, and expenditures in the TIF district. The Greater Southwest Industrial Corridor (East) began in 2001 with balances of about \$320,000 and ended in 2014 with balances of \$2.5 million. In 2014, revenues for

this TIF district included about \$9,000 of interest and about \$500,000 of property tax revenues; expenditures that year totaled \$1.2 million, and the vast majority was spent on site assembly and preparation (\$370,000) and public improvements (\$733,000).

Because property taxes in Illinois are assessed, billed, and collected at the county level, counties are intricately involved in the administration of TIF districts. The Cook County Clerk has a separate county-level website with additional information about each TIF district, including maps and lists of the total and frozen assessed value and revenue distribution for each district. Additionally, information about property tax revenue that goes to TIF districts has been added to Cook County tax bills sent to owners of real estate parcels.

Even though information about TIF districts in Chicago and Cook County is significantly more available than it was in 2011 when Mayor Emanuel's task force issued its report, there continues to be significant vocal and organized opposition to Cook County's use of TIF, such as from the TIF Illumination Project.

More data about TIF is unquestionably available in Chicago today, but some of the specific recommendations of Mayor Emanuel's 2011 task force have not been fully implemented and monitored. Recommendations included, for example, formally establishing the city's TIF goals and metrics to monitor the performance of TIF districts. The City of Chicago Department of Planning and Development, however, failed to produce documentation of formal implementation or monitoring based on these recommendations after repeated inquiries.

Concern about transparency in the use of TIF extends beyond Chicago. In an analysis looking at national patterns of TIF use, Kirth and Baxandall (2011, 2) argue that "TIF often lacks transparency." They note that some states do not publish TIF budgets for public

Concern about transparency in the use of TIF extends beyond Chicago.

review at all. The authors further express concern that in some states TIF money can be used as a "slush fund" for entrenched local officials and that recipients of aid through TIF are not always held accountable for results.

Despite continued controversy over the use of "conventional" TIF districts, Illinois state legislators authorized Chicago to establish a new kind of TIF district in June 2016. These "transit TIFs" were designed to help the city designate a source of matching funds to secure \$800 million in federal funding to improve its commuter-rail system. The legislation allows the city to create long, narrow TIF districts within a half-mile radius of a rail station, irrespective of the usual blight requirement. Unlike conventional TIF districts, which generally capture all incremental property tax revenue on real estate, the transit TIF does not capture revenue accruing to the City of Chicago School District. Other overlying governments, such as the county or park district, will give up only 20 percent of the revenue they otherwise would have received from the increment. Also, transit TIF districts can last 35 years, rather than the 23-year duration of most conventional TIF districts (Vance 2016).

Chicago's experience demonstrates both the allure of TIF and the potential for governmental misuse and public mistrust of it. Although the city and county government reforms have increased accountability and transparency, TIF remains a very controversial tool, especially as its uses continue to evolve. This suggests that transparency and monitoring efforts should continue and should themselves be evaluated on a regular basis.

CHAPTER 6

TIF Reversal: California's Story



California was the first state to make extensive use of tax increment financing—and recently became the first state to reverse course and drastically reduce its use of TIF. California may thus provide an instructive case study for other states wishing to avoid some of the pitfalls of TIF.

The Hammer Theatre, a venue for performances and cultural activities, is owned by the city and operated by San Jose State University. It was funded in large part by the San Jose Redevelopment Agency. Photo: Allie_Caulfield/Flickr CC BY 2.0.

History

California began using TIF in the early 1950s and was one of the heaviest users outside of the Midwest region in the last several decades. California TIF districts are housed in redevelopment areas (RDAs) and, by 2008, California had over 400 RDAs with more than \$10 billion in annual revenue, \$28 billion in debt, and more than \$674 billion in aggregate assessed values (Swenson 2015).

California's legal structure for TIF had been in place for decades prior to the passage of Proposition 13 in 1978, which fundamentally changed the California property tax system by both limiting the property tax rate to 1 percent of market value and by dramatically limiting the rate at which real estate assessments could rise, except in the event of ownership transfers. According to Lefcoe and Swenson,

Proposition 13 cut local government property tax revenues in half and diminished school funding by 60 percent. . . . Redevelopment in California would never have become so widespread but for Proposition 13. Desperate for replacement revenues, cities (and a few counties) saw an opportunity to fill their depleted property tax coffers by culling property taxes from other taxing entities. (2014, 723)

TIF allowed California general purpose governments—mostly cities, but also some counties—to garner property tax revenues that otherwise would have gone to school districts and other overlying governments. The number of redevelopment agencies—and corresponding TIF districts—exploded in the 1970s and 1980s as local governments used every conceivable tool to overcome the revenue shortfalls resulting from Proposition 13. The state government was constitutionally obligated to make up at least some of school districts' lost property tax revenues, so this proliferation of TIF districts also imposed a fiscal burden at the state level.

Limitations

In the years after the passage of Proposition 13, the California legislature enacted rules to restrain and restrict the use of TIF, including a strict definition of blight required for the establishment of a TIF district. The rules required that 20 percent of overlying governments' contributions to TIF revenue be passed back to those governments. Despite these requirements, TIF continued to drain a large share of revenues from school districts and other overlying governments. A legal battle ensued, and the California state government attempted to redirect funds from RDAs. This was finally settled in 2010, when a ballot initiative called Proposition 22 passed, preventing the state government from raiding RDA funds and putting increased financial pressure on the state. According to Lefcoe and Swenson (2014, 732), the passage of Proposition 22 “left the permanent dissolution of redevelopment as the state's only remaining option for re-directing property taxes away from RDAs to more urgent public needs.”

Like most states, California faced intense fiscal pressure during and after the Great Recession, which began in 2008. In this environment, the dissolution of RDAs presented the state with an attractive potential fiscal windfall. During the legislative debate, Governor Jerry Brown said the state would get \$1.7 billion immediately and \$400 million in each following fiscal year if RDAs were abolished (Herr, Clark, and Levin 2012).

Despite its heavy investment in TIF, the California legislature ultimately passed legislation in 2010, known locally as AB-26, which dissolved the RDAs that housed TIF districts under California law (Lefcoe and Swenson 2014). Passage of AB-26, companion legislation AB-27, and subsequent court rulings would allow local governments to keep RDAs and TIF districts in existence—for a price. California's local governments, however, have not pursued this or other options to continue the use of TIF. Given that California's current requirements for the use of TIF include affordable housing mandates and prohibit capturing revenues

from overlying governments, such as schools or special districts, TIF has been rendered unattractive to local governments compared to other economic development tools.

AB-26 set up an extensive and careful protocol to wind down existing RDAs and make payments to “enforce obligations” previously made by RDAs. Revenue in excess of the amount needed to cover these obligations was overseen by the State Department of Finance Tax and returned to overlying governments (Herr, Clark, and Levin 2012).

Results

Swenson (2015) asks whether California’s defunct TIF program was successful. This study provides an excellent follow-up to Dardia’s (1998) very early study of a similar question. Dardia found that, although Californian TIF districts grew faster than his comparison group, the benefits ultimately did not justify the costs because public revenues diverted to economic development were less than the revenues eventually generated by increased property values.

Swenson (2015) developed a unique data set that allowed precise geographic comparisons. Using this information, Swenson compared economic activity in California RDAs to adjacent areas without RDAs. He showed that, during the 1980s, census tracts adjacent to RDAs had economic growth rates very similar to those that would later be within the RDA. Using appropriate statistical methods and controls, Swenson studied whether the formation of the RDA had caused a relative improvement in economic growth in the tracts housed within RDAs. He concluded,

The results show that in the 1990s there was little measurable impact of RDAs on RDA area employment, poverty rates, family incomes, rental vacancy rates, and average residential rental rates. There was also little measurable business growth in such areas during the 2000–2009 decade in terms of job creation or business revenues. (2015, 211)

Swenson concludes that California’s decision to end TIF may have been wise because evidence showed that TIF did not stimulate economic development and significantly diverted resources from both the state and overlying local governments. The use of California TIF also did not conform to the “but for” requirement.

In October 2015, the California legislature approved and Governor Brown signed AB-2 (California Legislative Information 2015), which once again gave local governments the authority to create TIF districts in some circumstances. Compared to previous California TIF legislation, AB-2 imposed many limits on TIF-creating governments. Most importantly:

- TIF districts are restricted to low-income or high-crime areas;
- school entities are prohibited from participating;
- other overlying governments (nonschool) must consent to use their tax revenues for the TIF;
- extensive reporting and transparency provisions are required;
- extensive public input is required, including provisions under which a popular vote could prevent further action on the plan;
- twenty-five percent of property tax increment revenues must be used to increase, improve, and preserve affordable housing; and
- issuance of bonds by TIF districts now requires 55 percent voter approval. (League of California Cities 2016)

The above conditions appear to restrict the use of TIF in California to a narrow set of circumstances and thus prevent future overuse or abuse. It should be noted, however, that there is a tendency for TIF legislation to be modified gradually to allow for more expansive uses. In fact, AB-2 was soon modified by legislation that took effect January 1, 2017 (Torres 2016). While these changes seem to be innocuous, vigilance will be required to assure that TIF legislation serves its stated purpose.

CHAPTER 7

Efficacy in Economic Development



One study found that TIF designation had no impact on employment, establishment counts, or building permits in Chicago.

Photo: Dan Perry/Flickr CC BY 2.0.

As previously discussed, TIF should promote economic development. In particular, TIF is designed to promote real estate investments that raise the market and assessed values of real estate parcels in a given area. So, does TIF work? Does the establishment of a TIF district result in higher real estate value beyond increases that would have occurred without the TIF designation?

In one sense, the answer should almost certainly be yes, if all stakeholders strictly adhered to the legal dictates of TIF. Generally, the relevant legislation requires that TIF can be used only if the planned development would not have occurred “but for” the TIF district. Yet, TIF often fails in both obvious and subtle ways. Flaws in TIF result more often from poor execution than from conceptual design.

Assessing TIF's Successes and Failures

Compared to other methods of public funding to promote economic development, TIF has several virtues. First, TIF funding is designed so that, if used as intended, economic development funds will not displace other public spending because the revenue generated by TIF would not have been available “but for” that TIF. In contrast, some government programs designed to stimulate economic development, such as advertising campaigns, require up-front expenditures despite uncertain returns. Unlike such appropriated economic development expenditures, TIF design allows expenditures of public funds only out of revenues that are themselves the product of increases in the tax base.

Second, TIF provides benefits to private developers only when the tax base appreciates, so private developers only receive revenue derived from appreciation that otherwise would not have occurred in the absence of their investment. This makes it difficult for private developers to get something for nothing, as long as the TIF is appropriately designed.

Despite TIF's conceptual strengths, it remains vulnerable to abuse and often falls short in execution. First, TIF can fail simply if planned developments do not materialize. Generally, TIF districts are established based on a plan that may specify both public and private investments. The public investment sometimes precedes the private investment and may be funded with public debt to be serviced by a revenue stream from taxes on the increment. If the public investment occurs but the planned private investment does not follow, or if it follows too slowly, revenue to service the bonds may be insufficient, and the government could either default on the TIF debt or have to service it through other revenues. We know that complete failures of this type are relatively rare, as defaults on

TIF debt are quite rare (Lemov 2010; Moody's Investor Service 2012). However, it is not uncommon for public or private investment to lag, even years after a TIF district is initiated, or drastically underperform relative to the amount specified in the TIF plan.

A second potential hazard in the use of TIF is caused by a design flaw in many states' TIF statutes discussed in chapter 2. In a number of states, TIF statutes direct to the TIF district all incremental property tax revenues generated by appreciation above the frozen base value. This overestimates the fiscal benefit of TIF, as some appreciation of land and structures occurs in most areas, even in the absence of investment. Appreciation could result either from inflation or because regional growth raises demand for all fixed assets. Crediting TIF districts with revenue they did not earn may be especially problematic because part of the unearned TIF revenue would otherwise have been directed to overlying governments, like school districts, in the absence of TIF. These governments typically have little say in the establishment of TIF districts. Municipalities that establish TIF may regard these unearned funds as a windfall and tend to use TIF even when the total costs are less than the benefits.

A third potential pitfall for TIF is that, even though development may occur within the district, the development may not be worth the costs that it imposes on the community. For example, a TIF district might generate a new commercial business—for instance, a theater—that would not have been built “but for” the TIF district. The theater may even generate sufficient tax revenues to pay for the public investments that were necessary to attract private investments. Despite this fiscal success, the TIF district may fail if the new development imposes negative externalities like traffic, crime, or noise pollution that lowers the value of nearby houses or businesses.

A fourth, subtler, and more common problem is when a TIF district fails to adhere strictly to the “but for” requirement. Adherence requires a prediction about what would happen in the absence of TIF. Thus, strictly speaking, we can never know with certainty whether a TIF district adhered to the “but for” requirement.

Although state statutes and regulations generally require specific criteria that must be documented prior to the establishment of a TIF district, these criteria are vague enough that almost any project with strong political support can satisfy the “but for” requirement.

In particular, TIF projects may be approved even though the development that occurs in the TIF district is offset by a loss of similar development in a nearby location, would likely have occurred at the location of the TIF district at a later time, or is offset by the loss of a different but similarly valued development that would have occurred even if the TIF project had not been approved. Wisconsin’s TIF manual has a section devoted to the “but for” clause. It advises local officials that the “but for” clause requires that “the proposed development would not happen unless financial support is available from TIF” (Wisconsin Department of Revenue 2017a, chapter 5.1).



Research suggests that TIF often displaces economic activity that would have happened anyway in economically vibrant areas. In Kansas City, Missouri, eight times as many TIF deals were approved in low-poverty areas such as Country Club Plaza (left) than in areas like East Kansas City (right), with poverty rates above 30 percent despite the fact that high poverty often impedes economic activity. Photo: Eric Bowers.

This interpretation of “but for” might allow TIF use even when it would displace other potential development; however, the Wisconsin law also requires that:

1. the economic benefits of the TIF district compensate for the cost of improvements; and
2. the anticipated tax increments outweigh the costs to overlapping taxing districts.

These criteria are laudable. If interpreted strictly, criterion 1 would require any development displaced by the TIF district to count as a cost of the TIF project. Criterion 2 would require that future gains offset costs to overlapping taxing districts. The challenge for Wisconsin and other states is to adhere strictly to these criteria during implementation.

Effects of TIF Adoption on Economic Activity

As discussed, TIF has both conceptual strengths and potential weaknesses. Numerous empirical studies have attempted to sort this out and determine whether, on average, TIF delivers what it promises. Like any empirical study of a policy regime, evaluation requires the analyst to separate the data into “treated” and “control” areas. Treated areas receive TIF districts, while control areas do not. As TIF treatments cannot be assigned randomly, the main empirical challenge is to find control areas that are similar to areas that receive TIF, so that data from control areas might predict what would have occurred in the treated areas in TIF’s absence. In essence, this measure is designed to answer the question of whether the “but for” criterion has been met. Studies must also wrestle with the question of whether the observed development in the TIF district might have come at the expense of development that otherwise would have occurred in nearby venues.

Table 6 (p.48) provides some basic information about 31 empirical studies, listed in chronological order by publication date, that have attempted to answer these questions in a methodical way. All the studies use some measure of economic activity as the variable to be explained—often a dependent variable in a regression equation—and all include an independent variable that measures TIF use or TIF intensity. Perhaps unsurprisingly, the studies draw primarily from data in Midwestern (or north-central) states where TIF is most widely used. Twenty-two of the studies use data from Illinois, Indiana, Michigan, Minnesota, or Wisconsin. California and Texas have two studies each; Iowa, Florida, Georgia, Maryland, and Missouri each have one.

The dependent (or outcome) variables include employment, retail sales, assessed values, growth in median house value, median household income, and value of building permits, among others. Many studies report results about more than one dependent variable.

Although state statutes and regulations generally require specific criteria that must be documented prior to the establishment of a TIF district, these criteria are vague enough that almost any project with strong political support can satisfy the “but for” requirement.

Table 6

Empirical Studies of Effect of TIF on Economic Activity

Article	City, State, or Region	Data	Time	Dependent Variable(s)
Wassmer, Robert W. (1994)	Detroit Metropolitan Area	25 cities	1947–1987	Employment or retail sales
Dardia, Michael (1998)	California	47,000 parcels in 38 redevelopment projects and matched-pair areas	1978–1996	Assessed values
Man, Joyce Y., and Mark S. Rosentraub (1998)	Indiana	151 cities	1990	Real growth in value of median valued house
Man, Joyce Y. (1999b)	Indiana	53 cities with populations greater than 10,000	1985–1992	Employment
Dye, Richard F., and David F. Merriman (2000)	Chicago Metropolitan Area	235 municipalities	1980–1995	Growth in municipal property value, 1992–1995
Wassmer, Robert W., and John E. Anderson (2001)	Detroit Metropolitan Area	112 municipalities	1977–1992	Commercial property value
Kriz, Kenneth A. (2001)	Minneapolis, MN	Simulated data based on observed values	Parameters based on data available around 2000	Net present value (NPV) of TIF project
Dye, Richard F., and David F. Merriman (2003)	Illinois	1,242 municipalities	1980–1998	Growth in non-TIF municipal property value, 1995–1998
Weber, Rachel, Saurav Dev Bhatta, and David Merriman (2003)	Chicago, IL	154 sales of vacant industrial parcels	1999–2002	Natural log of parcel price
Rogers, Cynthia L., and Jill L. Tao (2004)	Florida	31 small cities	1980–1990	Population, unemployment-to-population ratio, median property value, and median household income
Ingraham, Allan T., Hal J. Singer, and Thomas G. Thibodeau (2005)	Dallas, TX	Case study of a proposed retail TIF district	1990–2003	Share of newly TIF-generated retail sales that cannibalize sales of neighbors
Carroll, Deborah A., and Robert J. Eger (2006)	Milwaukee, WI	17 aldermanic districts	1993–2000	Real assessed property value within aldermanic district
Byrne, Paul F. (2006)	Chicago Metropolitan Area	89 TIF districts in 67 municipalities	1990–1993	Annualized property value growth
Smith, Brent C. (2006)	Chicago, IL	36,158 multifamily units	1992–2000	Natural log of sale price per square foot
Weber, Rachel, Saurav Dev Bhatta, and David Merriman (2007)	Chicago, IL	5,852 single-family homes that sold more than once	1993–1999	Sale price of single-family homes sold more than once during the time period

Finding(s)	Notes	Summary Finding
TIF increased retail employment, but had no significant effect on retail sales or service receipts.	Controls for a number of other economic development incentives	Positive
TIF did not generate enough extra tax revenue to compensate overlying governments for loss of revenue during TIF period.	Matched-pair methodology	Negative
TIF increased median owner-occupied housing value by 11.4 %.	TIF adoption treated as endogenous	Positive
Cities with TIF have about 4.5% more jobs than cities without TIF.	TIF adoption treated as exogenous	Positive
Cities that adopt TIF grow between 0.78% and 2.18% slower than those that do not.	Revenue shifting not a determinant of TIF adoption	Negative
TIF increased commercial property value by 12%.	TIF adoption treated as endogenous	Positive
The net present value of a typical TIF district will be negative under most plausible assumptions.	Simulation results limited to the financial effects of TIF	Negative
Non-TIF municipal property values grow slower in cities with TIF.	Similar negative results with sample of Chicago Metropolitan Area communities; TIF adoption estimated simultaneously	Negative
Value of parcels in industrial TIF districts fall by 40% to 66%. Value of parcels in mixed-use TIF rise by 15% to 115%.	TIF adoption estimated simultaneously; similar results obtained with much larger sample of industrial parcels with structures	Mixed
TIF had no significant effect on any of the dependent variables.	Considers both TIF and enterprise zones; quasi-experimental methods and regression analyses used	Neutral
Less than 34% of growth in TIF cannibalizes non-TIF development.	Argues that Dallas benefits whenever cannibalization rate is less than 93%	Positive
Each dollar of TIF financing generates a \$3.50 increase in property value.	TIF adoption not estimated simultaneously	Positive
Industrial, blighted, and centrally located TIF districts grow faster than the municipalities that house them.	Lagged demographic independent variables used to reduce endogeneity concerns	Positive
Price of units within a TIF district grew slightly faster than those outside TIF districts.	TIF adoption not estimated simultaneously	Positive
Houses near mixed-use TIF districts appreciated faster than those farther away, but units near industrial or commercial TIF districts appreciated slower.	Three sets of data used; results do not support hypothesis	Mixed

Table 6, cont'd

Empirical Studies of Effect of TIF on Economic Activity

Article	City, State, or Region	Data	Time	Dependent Variable(s)
Carroll, Deborah A. (2008)	Milwaukee, WI	12,169 business parcels	1980–1999	Real assessed value
Smith, Brent C. (2009)	Chicago, IL	4,022 commercial property sales	1992 and 2000	Commercial property values
Immergluck, Dan (2009)	Atlanta, GA	25,999 house sales near the BeltLine TIF district	2003–2005	Log of sale price
Byrne, Paul F. (2010)	Illinois	1,449 observations in a panel of municipalities	1980–1999	Employment
Skidmore, Mark, and Russ Kashian (2010)	Wisconsin	537 municipalities	1990–2003	Property tax rates
Merriman, David F., Mark L. Skidmore, and Russ D. Kashian (2011)	Wisconsin	All municipalities	1990–2003	Real per capita value of real estate
Bossard, Jennifer A. (2011)	Minnesota	Panel of 334–421 school districts	1992–2007	Non-TIF district property value growth for school districts
Giradi, Anthony G. (2013)	Iowa	All counties	2002–2012	Standardized employment growth and wage growth
Lester, T. William (2014)	Chicago, IL	1,026 block groups treated by TIF and 14,013 block groups not treated by TIF	1990–2008	Log of employment by industry and number and value of building permits
Overton, Michael, and Robert L. Bland (2014)	Dallas, TX	17 TIF districts	1992–2011	Annual amount of private investment in a TIF district
Swenson, Charles W. (2015)	California	5,689 census tracts	1980–2000	Changes in measures of economic well-being, including poverty, unemployment, income, vacancy rate, employment, and others
Hicks, Michael J., Dagny Faulk, and Pam Quirin (2015)	Indiana	91 counties	2003–2012	Effective property tax rate, total assessed values, and employment
Hicks, Michael J., Dagny Faulk, and Srikant Devaraj (2016)	Indiana	91 counties	2003–2012	Local-option income and sales taxes and non-TIF assessed value
Stewart, N. M. (2016)	Baltimore, MD	710 block groups	2002–2013	Employment, building permits, and home sales
Yadavalli, A., and J. Lander (2017)	Indiana	123,000 parcels in 579 TIF areas	2004–2013	Assessed values, employment, and wages
Lester, T. W., and El-Khattabi, Rachid (2017)	St. Louis and Kansas City, MO	141 Kansas City census block groups with TIF and 92 St. Louis block groups with TIF matched to block groups without TIF	1990–2012	Employment, sales, and establishments

Finding(s)	Notes	Summary Finding
Business parcels located in TIF districts grow faster.	TIF adoption treated as endogenous	Positive
Commercial property values appreciate faster in TIF districts.	TIF adoption treated as endogenous	Positive
Announcement of the TIF district caused prices to increase substantially near some parts of the TIF district.	Effects varied with geography; negative effects in some areas	Positive
On average, TIF has no effect on employment, but industrial TIF increases employment.	Some controls for endogeneity	Neutral
With TIF in place, the property tax rate of nonmunicipal governments rises, but the property tax rate of municipal governments falls.	Lagged control variables reduce concerns about endogeneity	Mixed
TIF does not increase in total, residential, or manufacturing property values, but may increase commercial property values.	Panel data reduce concerns about endogeneity	Neutral
Increases in TIF intensity result in more rapid growth.	TIF intensity too low to maximize non-TIF school district property value growth	Positive
TIF had no impact on wage or employment growth.	Actual employment and wages compared to predicted level; controlling for industrial composition	Neutral
TIF designation had no impact on employment, establishment counts, or building permits.	Propensity score weighting to deal with potential endogeneity	Neutral
A \$1 increase in public expenditures within a TIF results in a 20¢ increase in private investment.	Result holds only during recessions	Positive
TIF districts resulted in minimal positive impacts.	TIF adoption treated as endogenous	Neutral
TIF use is associated with increases in assessed value and effective property tax rates, but also with declines in employment.	TIF adoption not estimated simultaneously	Neutral
TIF use has no impact on retail sales tax or local-option income tax revenue.	TIF adoption not estimated simultaneously	Neutral
TIF had no impact on employment or building permits, but did stimulate home sales.	Difference-in-difference and propensity score matching used to assure treated areas and control areas were comparable	Neutral (slightly positive)
TIF increased growth in assessed values by .2%, but had no impact on employment or wages.	Propensity score weighting to deal with potential endogeneity	Neutral (slightly positive)
TIF had no impact on economic development in either city.	Propensity score weighting to deal with potential endogeneity	Negative

What is the most appropriate dependent variable? One might argue that TIF is designed as a tool to stimulate growth in real estate variables, and therefore it is most appropriate to focus on property values. However, the purpose of stimulating growth in property values is to ultimately improve citizens' quality of life, so employment or median household income would also be appropriate. Increases in retail sales or building permits, by contrast, are relatively weak proxies for the key underlying variables of interest.

Methodology is also important. All but two studies use some form of regression analyses (Dardia 1998; Kriz 2001). The various data used in the studies are from city, TIF, and parcel-level observations. Many of the studies account for potential reverse causality between TIF use and economic outcomes. This is important because without reverse causality one might attribute economic gains to TIF use when, in fact, the expectation of economic growth was the stimulus for TIF formation in the first place. The differences in study areas, time periods, outcome variables, and methodologies make it difficult to generalize about the findings, however.

Despite this, the last column of table 6 reports a very concise qualitative summary of each study's finding—classifying the empirical results as positive (i.e., TIF promotes economic development), negative (i.e., TIF reduces growth), and neutral or mixed (both positive and negative results). In many cases, the concise summary required a judgment call about which results were most important and salient. A simple count shows 42 percent of the studies—13 total—have positive results. Of the remaining 18 studies, 5 have negative results, 8 have neutral results, and 5 have mixed results. The neutral results suggest that TIF did little or nothing to stimulate economic development, so these studies might be viewed as an argument against the use of TIF. The mixed results often show very weak positive effects (Stewart 2016; Yadavalli and Landers 2017) or strong negative effects (Skidmore and Kashian 2010; Weber, Bhatta, and Merriman 2003). Also, the most re-

cent studies, which tend to have the strongest data and best methodologies, are much less positive than earlier studies. Taken together, this review of the rigorous evaluation literature suggests that in most cases, TIF has not accomplished the goal of promoting economic development.

Taken together, this review of the rigorous evaluation literature suggests that in most cases, TIF has not accomplished the goal of promoting economic development.

Still, there is some evidence that TIF does work in certain cases. One possible explanation is that TIF simply works in some locations but not in others. The empirical research does not support that view, however: Of the nine studies using Illinois data, three are positive, two are negative, two are neutral, and two are mixed. Two of the four studies using Wisconsin data are positive, but one is neutral and one is mixed.

Two of the five studies from Indiana are positive, but the three most recent studies show a mostly neutral effect. Thus, the empirical evidence shows that use of TIF is no guarantee of success, which suggests using caution in employing TIF.

Empirical work provides other guidance, too. Several studies provide evidence that TIF has its strongest positive effects when used for commercial or mixed uses (Ingraham, Singer, and Thibodeau 2005; Merriman, Skidmore, and Kashian 2011; Smith 2009; Wassmer and Anderson 2001; Weber, Bhatta, and Merriman 2003; 2007). However, Dye and Merriman (2000; 2003) suggest that at least some of the growth in commercial TIF districts is offset by reduced growth in other nearby areas.

Effects of TIF Adoption on School Finance

One area of considerable controversy about TIF is its impact on school finance. Cities are responsible for establishing and overseeing TIF districts. If some of the real estate appreciation in a TIF district would have occurred even in the absence of the TIF district, overlying school districts may face a diminished tax base during the life of the TIF district. A school district's fiscal difficulties due to loss of its tax base may also be exacerbated if the TIF district facilitates new housing and increased demand for school services.

Some of the revenue lost to the school district in the short run may be eventually recovered if the TIF district stimulates additional real estate appreciation. Even the short-run impact of the TIF district may be mitigated because many school aid formulas that depend on property tax base per pupil compensate school districts, at least to some degree, for the loss of tax base due to TIF. For example, Illinois's state-aid formula subtracts TIF increments from available tax base per pupil to calculate state aid. Also, TIF revenues may in some cases be used to finance public spending that can substitute for school district funding, such as renovations of parks instead of school playgrounds. Hence, the net effect of TIF on school finance is unclear and may be illuminated by further empirical research. In an environment of scarce resources and ongoing pressure on the property tax despite its importance as a source of local revenue, it is no wonder that the impact on school funding continues to be a major issue.

Table 7 (p. 54) provides basic information about three empirical studies on TIF's effect on school finance. Weber (2003) finds that TIF has no observable impact on school district tax revenue in the Chicago metropolitan area but does raise state aid to school districts. Similarly, Weber, Hendrick, and Thompson (2008) find little impact on tax revenues in the Chicago area, but

they do find evidence of lower revenues and higher tax rates in school districts with TIF in other parts of Illinois. Nguyen-Hoang (2014) studies the impact of TIF on school spending in Iowa; in contrast to Weber (2003), he finds that greater use of TIF is associated with reduced education expenditures. He finds that this effect is greater for lower-wealth districts. Taken together, these findings suggest additional reasons to be cautious about using TIF.

Other Effects of TIF Adoption

Table 8 (p. 55) gives some basic information about empirical studies that examine other potential effects of TIF and that cover various related ad hoc topics. Skidmore, Merriman, and Kashian (2009) provide evidence that, at least in Wisconsin, TIF encourages municipal annexation, as TIF districts can be used to improve municipalities' fiscal conditions. Merriman (2010) provides a simulation analysis that illustrates how the cycle of TIF adoption and dissolution can make municipal budgets significantly more difficult to manage, as TIF gradually supplements available municipal funds and then those funds suddenly disappear when TIF is dissolved. In the context of random fluctuations in assessed value, this can make financial management significantly more difficult.

Kashian and Skidmore (2011) study factors that determine the time until a TIF district is dissolved. They find that TIF districts have longer life spans when the municipalities that house them—and thus can decide when they are dissolved—pay smaller shares of the cost, as measured by the municipal tax rate as a share of the total. TIF districts were also kept alive longer following the slow-growth period of the 1991 recession. This finding seems consistent with Dye, Merriman, and Goulde (2014), who find that TIF districts in both Illinois and Nebraska grew significantly slower during and immediately after the 2008–2009 recession. They find some evidence of a recovery in TIF growth in Nebraska but little in Illinois.

Table 7

Empirical Studies of Effect of TIF on School Finance

Article	Region or State	Data	Time Period	Dependent Variable(s)	Finding	Notes	Summary Finding
Weber, Rachel (2003)	Cook County, Illinois	151 school districts	1989–1999	Change in tax revenue, state aid, and effective tax rate	TIF intensity had no effect on the tax revenue of the school district, but did raise state aid.	TIF intensity treated as endogenous	No impact
Weber, Rachel, Rebecca Hendrick, and Jeremy Thompson (2008)	Illinois	777 school districts	2001	Property tax rate percentage (2001) and change in property tax revenue (1990–2000)	TIF intensity was not a determinant of change in property tax revenues in the Chicago metropolitan area, but revenues were lowered in other areas of Illinois.	Endogeneity not an issue (municipalities choose TIF)	No impact
Nguyen-Hoang, Phuong (2014)	Iowa	347 school districts	2001–2011	Log of education expenditure	TIF is associated with reduced education expenditures, especially in low wealth districts.	Argues that endogeneity is not an issue	TIF lowers education spending

Hall and Bartels (2014) ask why some Dallas–Ft. Worth TIF districts are more successful than others and find that TIF districts using certain formal management methods, especially performance measurement, have better outcomes than those that do not. For example, TIF districts that listed, quantified, and tracked public versus private initiatives, cost responsibilities, and success indicators had higher property value growth than those that did not. On the other hand, risk-management techniques, such as very detailed and explicit economic projections, did not significantly improve the performance of TIF districts.

Kane and Weber (2015) study the relationship between the type of expenditures in Chicago TIF districts and the growth rate of property values in those districts. Disturbingly, they find a clear positive effect resulting

from commercial subsidies but a negative impact from infrastructure spending. This could suggest that TIF is ineffective in areas that lack the preconditions (namely, infrastructure) to support growth. As other studies have suggested that commercial development in TIF districts often displaces commercial development elsewhere, the scope for successful use of TIF may be narrow.

Bland and Overton (2016) study the growth of TIF districts in Dallas, Texas, and ask whether public or private investments do more to stimulate real estate appreciation. They find that public investments, by themselves, do little to stimulate appreciation, but that public investment can be a catalyst to stimulate private investment and promote appreciation when combined with operational and institutional knowledge.

Table 8

Empirical Studies About Other TIF-Related Issues

Article	City or State	Data	Time Period	Dependent Variable(s)	Finding(s)	Notes
Skidmore, Mark, David F. Merriman, and Russ Kashian (2009)	Wisconsin	533 municipalities	1990–2003	Log of municipal land area	Adding a new TIF district is associated with annexation.	TIF adoption treated as endogenous
Merriman, David F. (2010)	Simulation, parameters mimic Wisconsin	Simulation, based on typical Wisconsin municipality	Simulation, based on 2003 parameters	Volatility of municipal property tax revenues	The formation and expiration of TIF districts can significantly increase revenue volatility.	Simulation of municipal governments' revenue; overlying governments not studied
Kashian, Russ, and Mark Skidmore (2011)	Wisconsin	362 TIF districts	1988–2009	Lifespans of TIF districts	Longer TIF lifespans are associated with smaller municipal share of the tax rate and several other variables.	Parameters estimated using duration analysis
Hall, Jeremy L., and Christopher E. Bartels (2014)	Dallas–Ft. Worth, TX	72 TIF projects	2007–2008	Difference between projected assessed value in the TIF district and actual assessed value in the TIF district	Actual results match performance results more closely in TIF districts that use preimplementation risk and performance management.	TIF adoption not estimated simultaneously
Dye, Richard F., David F. Merriman, and Katherine Goulde (2014)	Nebraska and Illinois	920 Illinois TIF districts and 297 Nebraska TIF districts	2006–2013	Growth rate of EAV* in TIF districts	There was a large decline in TIF EAV after the start of the Great Recession in Illinois, but the recession had less of an effect in Nebraska.	Young TIF districts grow faster than more mature districts in both states
Kane, Kevin, and Rachel Weber (2015)	Chicago, IL	160 TIF districts	2002–2012	Growth rate of EAV* in TIF districts	Commercial TIF subsidies result in faster property-value growth than other types of expenditures.	Research suggests important symbolic effect of TIF district
Bland, R. L., and M. Overton (2016)	Dallas, TX	18 TIF districts, 212 observations	Not provided	Growth rate of EAV* in TIF districts	Private investments stimulate more growth than public investments, but there is interaction between these two types of investments.	No correction for possibility that private investments are attracted to rapidly growing areas

Note: *EAV: equalized assessed value.

CHAPTER 8

Conclusion



TIF was used to help fund the Millennium Park in Chicago. Photo: Serge Melki/Flickr CC BY 2.0.

Although TIF has been used across many states for years, there is still much we do not know about how its use affects economic development. Nonetheless, the information summarized in this report provides a strong factual basis for certain findings and recommendations as we continue to monitor and research this tool.

Findings

1. Tax increment financing is an important and widely used tool to promote economic development, especially in areas facing blight and other significant economic challenges. TIF performs best when the public and private sectors work together to stimulate economic development. TIF can be a useful tool to create commitments that engender trust among the various parties involved and lead to successful implementation of development plans.
2. Unfortunately, the design of TIF in many states makes it vulnerable to exploitation by cities, which can obtain revenues that otherwise would have gone to overlying governments, especially school districts.
3. TIF has been used very unevenly across states, with extensive use in Midwestern states, for example, but little use in other regions of the country. The reasons for the uneven use of TIF have not been rigorously studied, but it is reasonable to speculate that states' responses to their neighbors' use of TIF has contributed to this pattern of unevenness.
4. Within individual states and cities, most often TIF has been used in areas that were already moderately successful, and it has done little to stimulate growth in the most depressed areas.
5. Transparency in the use of TIF is a huge challenge, and state monitoring of TIF use is very uneven. City reporting about TIF is also mixed. Even in cities like Chicago, where TIF is used extensively and where much information has been made public, the transparency of TIF remains inconsistent.
6. Many academic studies of TIF suggest that it often fails to deliver economic growth beyond what otherwise would have occurred and may often simply result in the relocation of economic activity.
7. Academic studies suggest a variety of unintended effects that may result from TIF use. These include diminished or reallocated school revenues and increased budget volatility, especially during unstable economic cycles.
8. Recent research suggests that more attention to the management of TIF and the type of spending within TIF districts could lead to a better understanding of why some TIF districts succeed and others do not.

Recommendations

1. States should track and monitor TIF use.

Basic monitoring helps states evaluate the use of TIF and helps state legislators better understand whether TIF regulations are achieving their goals. Virtually all states are involved in monitoring the property tax assessment processes of local governments and could easily report on the number of TIF districts and the base and incremental value in each district in each year. Some states, such as Wisconsin and Illinois, require regular reporting on TIF and can serve as models for other states. Wisconsin provides a particularly strong example, as it requires detailed delineation of expenditures and information about the movement of TIF funds from one TIF district to another, known as porting. Wisconsin could improve its reports (Wisconsin Department of Revenue 2017b) by requiring information about TIF-related borrowing.

2. States should revise statutes to allow counties, school districts, and other overlying local governments to opt out of contributing resources to TIF districts.

This measure would diminish or eliminate the incentive for cities to use TIF as a device to capture revenues that otherwise would have gone to overlying governments. TIF districts can be particularly problematic for overlying governments when combined with tax limitations, which can prevent the districts from recouping revenue lost to TIF districts. Recent legislation allowing transit TIFs in Chicago may provide a model for this kind of policy.

3. State legislators should review their states' "but for" TIF requirements to determine whether they are effective.

An effective "but for" requirement can reduce reliance on TIF when other tools might be more helpful and transparent. If a state's

requirement is not effective, that state should consider revisions that place realistic limits on local governments' use of TIF. California's recent revisions of rules on TIF might provide useful guidance in this area.

4. Local governments should provide extensive, easily accessible information about TIF use, revenues, and expenditures.

This information would enable local elected officials to monitor and regulate the application of this tool. Local legislative bodies (e.g., city councils) should require regular reports from executive officers that document progress toward clearly articulated goals for the use of TIF. Local legislators should consider policies that require periodic reports on the administration of TIF districts, and they should have the option of directing staff to dissolve TIF districts that do not meet the jurisdiction's objectives. They could also use the evidence-based approach to make adjustments, such as limiting the duration of TIF mechanisms.

5. Researchers should study, document, and explain the different outcomes of TIF use in various geographic areas.

To date, academic studies of TIF document mixed outcomes but do not clearly identify factors that explain this variation. Such studies should also expand knowledge about the types of TIF expenditures that best promote economic development.

Evidence suggests that implementing these recommendations will improve tax increment financing and make it a useful tool for economic development that contributes to strong, fiscally sustainable communities.

State Tax Increment Finance Programs

State	Program Name	Duration (years)	Requirements for District Creation										Approval Agencies						Public Hearing Required?	
			B	BF	FS	CB	CP	PP	PB	DP	O ¹	CT	CO	SB	ST	RA	TC	O ²	A	D
AK	Improvement Area Projects	40	✓								✓							N	N	
AL	Tax Increment Districts	30	✓			✓					✓							Y	Y	
AR	Redevelopment Districts	25	✓		✓						✓							Y	Y	
AZ	N/A	N/A																		
CA	Enhanced Infrastructure Financing Districts	45						✓			✓							Y	N	
CO	Tax Increment Financing Districts	25–50	✓													✓		Y	N	
CT	Tax Increment Financing Districts	40	✓								✓							Y	Y	
DC	Tax Increment Financing	Varies by district		✓			✓				✓							N	N	
DE	Municipal Tax Increment Financing Districts	30	✓	✓			✓									✓		Y	N	
FL	Community Development	7–40	✓								✓							Y	N	
GA	Tax Allocation Districts	Term of bonds	✓															Y	N	
HI	Tax Increment Financing Districts	Term of bonds					✓											N	N	
IA	Urban Renewal Areas	20	✓								✓							Y	Y	
ID	Revenue Allocation Areas	24	✓															Y	N	
IL	Tax Increment Allocation Redevelopment Areas	23	✓	✓														Y	N	
IN	Tax Increment Financing Districts	25	✓	✓							✓							Y	Y	
KS	Tax Increment Financing Districts	20			✓													Y	N	
KY	Tax Increment Financing Districts	30	✓	✓	✓													Y	Y	
LA	Tax Increment Development	30																Y	N	

State Tax Increment Finance Programs

State	Program Name	Duration (years)	Requirements for District Creation										Approval Agencies						Public Hearing Required?	
			B	BF	FS	CB	CP	PP	PB	DP	O ¹	CT	CO	SB	ST	RA	TC	O ²	A	D
MA	District Improvement Financing	20		✓										✓				Y	N	
MD	Tax Increment Financing Districts	Unspecified										✓						N	N	
ME	Tax Increment Financing Districts	30	✓											✓				Y	Y	
MI	Tax Increment Financing	Term of bonds												✓				Y	Y	
MN	Tax Increment Financing	25	✓											✓				Y	Y	
MO	Real Property Tax Increment Allocation	23	✓				✓							✓				Y	Y	
MS	Tax Increment Financing	30					✓							✓				Y	Y	
MT	Tax Increment Financing	15-40	✓				✓							✓				Y	N	
NC	Project Development Financing (TIF)	30	✓											✓				Y	N	
ND	Tax Increment Financing	30	✓											✓				Y	Y	
NE	Tax Increment Financing for Redevelopment Projects	15	✓				✓							✓				Y	Y	
NH	Tax Increment Financing in Development Districts	Term of bonds												✓				Y	N	
NJ	Revenue Allocation District Financing	Unspecified	✓				✓							✓				N	N	
NM	Tax Increment Development Districts	10-20		✓			✓							✓				Y	N	
NV	TIF and Redevelopment Areas	20	✓											✓				Y	N	
NY	Tax Increment Financing	Unspecified	✓				✓							✓				Y	Y	
OH	Tax Increment Financing Districts	30	✓											✓				N	N	
OK	Tax Increment Financing Districts	25	✓							✓								Y	Y	
OR	Urban Renewal Plans	Unspecified	✓															Y	N	
PA	Tax Incremental Financing Districts	20	✓											✓				Y	Y	

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Improving Tax Increment Financing (TIF) for Economic Development

One of the main responsibilities of local government is to promote economic activity for the benefit of all stakeholders, including residents and businesses. Tax increment financing (TIF) is one tool that cities can use to support economic development in a designated area by earmarking property tax revenues from anticipated increases in assessed property values resulting from investment in that district. Virtually every state allows some form of TIF, which requires cooperation between government and the private sector.

Yet, the fundamental attributes of TIF are still poorly understood, and its effectiveness is disputed. Many states do little to track or evaluate the use of TIF. Recent findings show that TIF does little to deliver economic growth and sometimes simply relocates economic activity that would have occurred elsewhere without TIF. Empirical studies suggest that communities should use TIF cautiously to avoid diverting increased property tax revenues from overlying governments, obscuring government financial records, and facilitating unproductive fiscal competition between neighboring jurisdictions.

Written by an expert and educator in public finance, business taxation, and urban economic development, this report presents data about TIF usage, explains how it is intended to work, notes its conceptual strengths and limitations, reviews academic evaluations of its use, and offers the following recommendations for improving its design.

- States should track and monitor TIF use.
- States should revise statutes to allow counties, school districts, and other overlying local governments to opt out of contributing resources to TIF districts.
- State legislators should review their “but for” TIF requirements to determine whether they are effective.
- Local governments should provide extensive, easily accessible information about TIF use, revenues, and expenditures.
- Researchers should study, document, and explain the different outcomes resulting from TIF use in various geographic areas.

