

Improving Tax Increment Financing (TIF) for Economic Development

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BY

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Material behind this talk



Improving Tax Increment Financing (TIF) for Economic Development



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Available (for free) at

<https://www.lincolnst.edu/publications/policy-focus-reports/improving-tax-increment-financing-tif-economic-development>

Chapter 1 Introduction

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

Chapter 2 Potential Benefits and Pitfalls

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

Chapter 3 Case Studies (I'll skip these but happy to discuss in Q&A)

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

Chapter 4 Use and Implementation

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

Chapter 5 Transparency: Intensive TIF Use in Chicago

- Background
- Reform Efforts

Chapter 6 TIF Reversal: California's Story (I'll skip this but happy to discuss in Q&A)

- History
- Limitations
- Results

Chapter 7 Efficacy in Economic Development

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

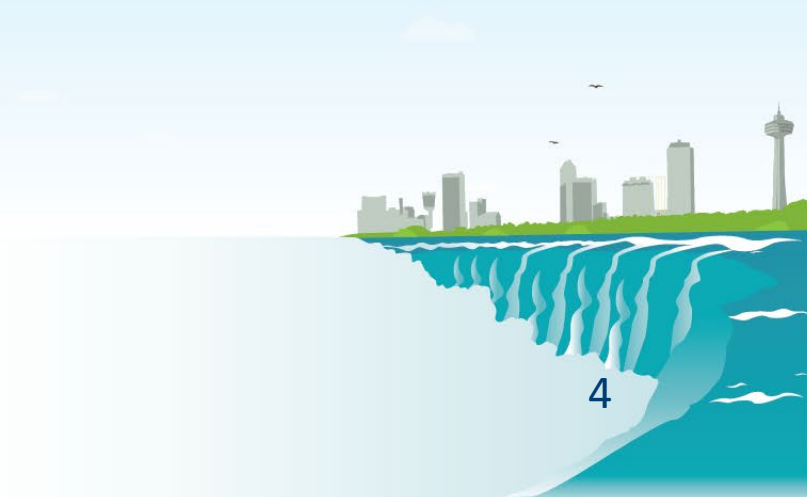
Chapter 8 Conclusion

- Findings
- Recommendations

Appendix

Among other information, the appendix provides detail on requirements for TIF creation, approval agencies, and required public hearings

B: Blight	CT: City	A: Authorization
BF: "But For" Test	CO: County	D: Deal
FS: Feasibility Study	SB: School Board or District	Approval
CB: Cost-Benefit Analysis	ST: State	
CP: Consistent with Comprehensive Plan or Development Plan	RA: Community Redevelopment Agency Board	
PP: Project Plan	TC: TIF Commission	
PB: Finding of Public Benefit	O: Other	
DP: Finding of Development Potential		
O: Other		



What is tax increment finance?

- 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.

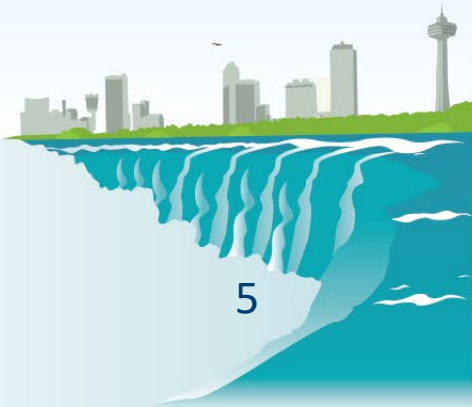
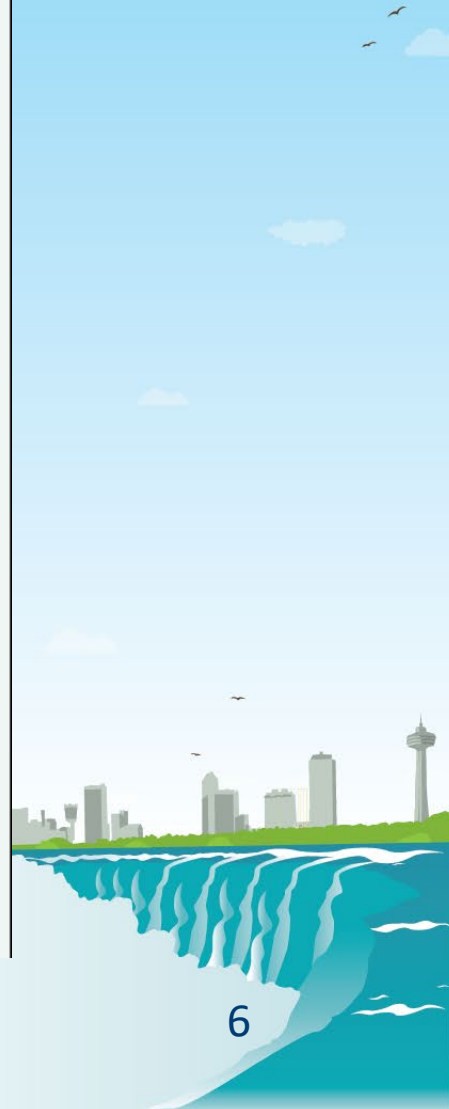
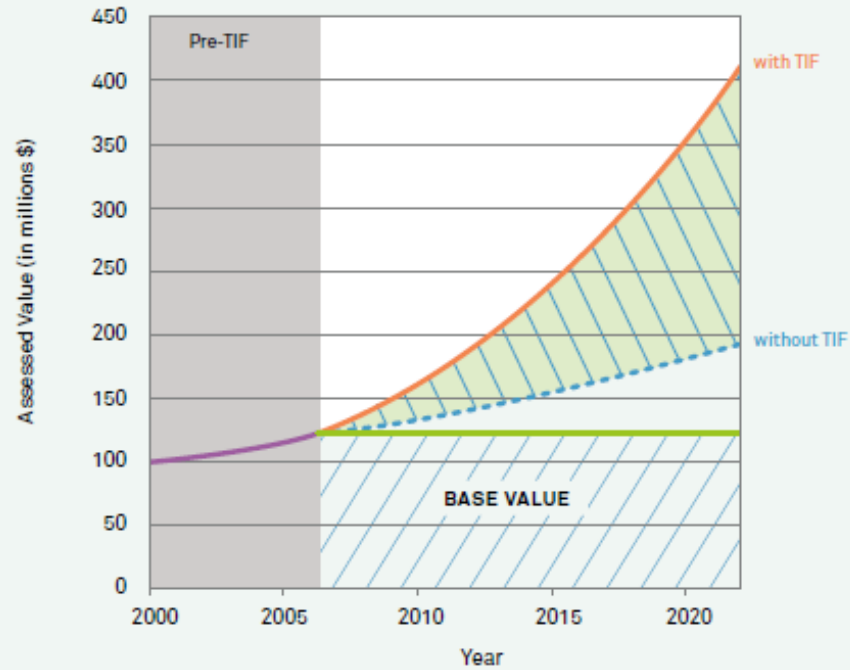
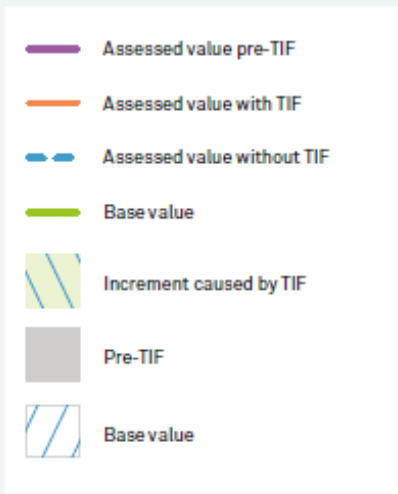


Figure 1
Hypothetical Example of Assessed Value With and Without TIF



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

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”

Illinois "blight areas" require a combination of 5 or more of the following factors: age; dilapidation; obsolescence; deterioration; illegal use of individual structures; presence of structures below minimum code standards; excessive vacancies; overcrowding of structures and community facilities; lack of ventilation, light or sanitary facilities; inadequate utilities; or excessive land coverage; deleterious land use or layout; depreciation or lack of physical maintenance; lack of community planning.



“But for”









Wisconsin legislation 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”

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”

Nebraska requires that the redevelopment project in the plan would not be economically feasible without the use of tax increment financing

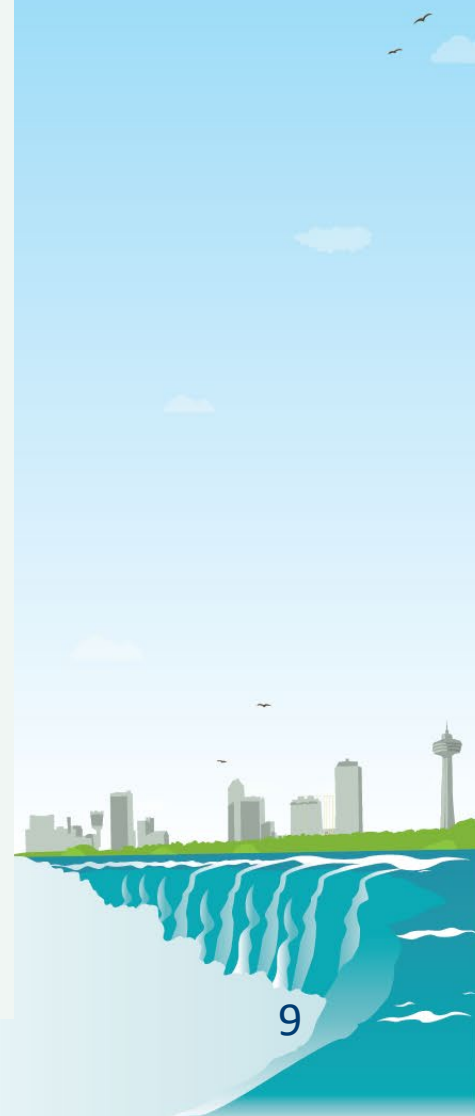
Representative Real Life TIF district (Dallas, Texas)

Figure 2
Deep Ellum TIF District Map

-  Deep Ellum TIF Parcels
-  Deep Ellum TIF Boundary
-  Rail Station
-  DART Green Line
-  Freeway or Tollway
-  Highway
-  Arterial
-  Local Road



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

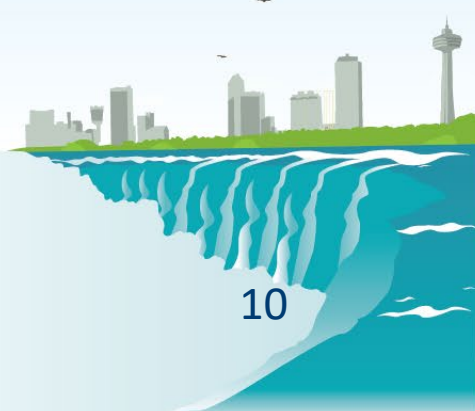


Financial Plan for Deep Ellum TIF district

EXHIBIT N Projected TIF Increment Schedule

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%
2005	\$107,990,540					
Adj Base08	\$113,885,770					
2006	\$114,140,302	\$6,149,762	\$0	\$0	\$0	
2007	\$119,293,043	\$11,302,503	\$0	\$0	\$0	
2008	\$151,578,174	\$37,692,404	\$269,407	\$59,926	\$329,333	\$292,776
2009	\$163,916,711	\$50,030,941	\$322,509	\$70,654	\$393,163	\$628,853
2010	\$151,873,281	\$37,987,511	\$257,346	\$68,994	\$326,341	\$897,081
2011	\$149,135,375	\$35,249,605	\$239,543	\$65,394	\$304,937	\$1,138,078
2012	\$160,159,315	\$46,273,545	\$313,480	\$77,462	\$390,942	\$1,435,161
2013	\$169,042,489	\$55,156,719	\$373,659	\$73,747	\$447,406	\$1,762,077
2014	\$171,578,126	\$57,692,356	\$390,837	\$77,138	\$467,974	\$2,090,869
2015	\$220,446,496	\$106,560,726	\$721,896	\$142,477	\$864,373	\$2,674,809
2016	\$274,401,090	\$160,515,320	\$1,087,411	\$214,617	\$1,302,028	\$3,520,581
2017	\$393,639,464	\$279,753,694	\$1,895,191	\$374,045	\$2,269,236	\$4,937,939
2018	\$418,049,087	\$304,163,317	\$2,060,554	\$406,682	\$2,467,236	\$6,419,697
2019	\$589,356,203	\$475,470,433	\$3,221,074	\$635,728	\$3,856,802	\$8,646,904
2020	\$690,064,693	\$576,178,923	\$3,903,324	\$770,380	\$4,673,704	\$11,242,046
2021	\$709,109,789	\$595,224,019	\$4,032,345	\$795,844	\$4,828,189	\$13,819,856
2022	\$795,819,605	\$681,933,835	\$4,619,761	\$911,780	\$5,531,540	\$16,659,601
2023	\$939,415,984	\$825,530,214	\$5,592,554	\$256,061	\$5,848,616	\$19,546,642
2024	\$953,507,224	\$839,621,454	\$5,688,016	\$0	\$5,688,016	\$22,246,416
2025	\$967,809,832	\$853,924,062	\$5,784,909	\$0	\$5,784,909	\$24,886,573
2026	\$982,326,980	\$868,441,210	\$5,883,255	\$0	\$5,883,255	\$27,468,343
2027	\$997,061,884	\$883,176,114	\$5,983,077	\$0	\$5,983,077	\$29,992,934
2028	\$1,012,017,813	\$898,132,043	\$0	\$0	\$27,076,123	\$40,978,430
2029	\$1,027,198,080	\$913,312,310	\$0	\$0	\$27,076,123	\$51,541,407
2030	\$1,042,606,051	\$928,720,281	\$0	\$0	\$27,076,123	\$61,698,116
2031	\$1,058,245,142	\$944,359,372	\$0	\$0	\$27,076,123	\$71,464,182
2032	\$1,074,118,819	\$960,233,049	\$0	\$0	\$27,076,123	\$80,854,630
2033	\$1,090,230,601	\$976,344,831	\$0	\$0	\$27,076,123	\$89,883,907
2034	\$1,106,584,060	\$992,698,290	\$0	\$0	\$27,076,123	\$98,565,904
2035	\$1,123,182,821	\$1,009,297,051	\$0	\$0	\$27,076,123	\$106,913,979
TOTAL During TIF			\$52,640,149	\$5,000,928	\$57,641,077	\$29,992,934

DEEP ELLUM TAX INCREMENT FINANCING DISTRICT
PROJECT PLAN & REINVESTMENT ZONE FINANCING PLAN APRIL 12, 2006
AMENDED APRIL 9, 2008 AMENDED JUNE 22, 2011 AMENDED SEPTEMBER 10, 2014
http://www.dallas-ecodev.org/wp-content/uploads/2012/04/deepellum_plan.pdf
Accessed 1/18/2016



Potential Benefits of TIF (AKA: What I like about TIF)

1. TIF can promote credible commitment between government and private parties that might not otherwise be possible.
 - A. TIF is not a tax break
 - B. TIF is really a commitment device
2. TIF may facilitate widespread political support for public investments with localized benefits.
 - A. Many public investments mostly benefit sub-municipal areas (think of a new fire house).
 - B. Even when the benefit greatly exceeds the cost it can be difficult to get majority support for such investments
 - C. TIF can lessen the political opposition by extracting contributions from overlapping governments
 - D. BUT other mechanisms such as special assessments might do the job better

Potential Pitfalls of TIF (AKA: What I don't like about TIF)

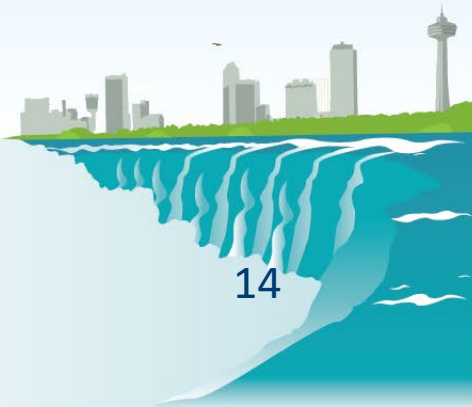
1. TIF may capture revenues that would otherwise go to overlying governments.
 - A. TIF generally allows general purpose governments to redirect incremental revenues from special purpose governments (Note: not the case in S. Carolina)
 - B. This artificially deflates the cost of TIF funds
2. TIF can make financial situations and transactions less transparent and allow evasion of political constraints on using public funds for private purposes.
 - A. Once created TIF expenditures are generally not part of the regular budgetary process (Note: Not the case in some Massachusetts localities)
 - B. Expenditures are often hard to track even with substantial reporting.
 - C. There have been serious allegations of outright fraud in some cases where TIF funds have been misdirected for municipal use.
3. TIF can facilitate unproductive fiscal competition between neighboring jurisdictions.
 - A. There is academic evidence that local governments mimic their neighbors' incentives.



How Has TIF Been Used?

Various academic studies find that the probability an area uses TIF increases with:

1. Ability to capture property tax revenue from overlying governments
2. Fiscal stress
3. Economic distress
4. Political clout of local elected officials
5. Neighboring areas adopting TIF



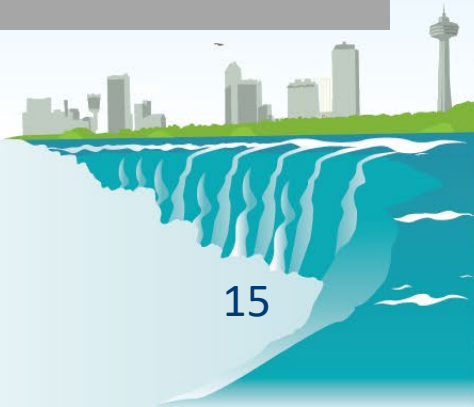
Transparency: Intensive TIF Use in Chicago

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.

Chicago makes more intensive use of TIF than any other large city in the U.S. and therefore TIF has been the subject of intense scrutiny in Chicago



Transparency: Intensive TIF Use in Chicago

Mayor Emmanuel's 2011 TIF task force recommended (among other things)

1. A multiyear capital budget incorporating TIF district spending
2. Review of capital budget by the city council
3. TIF resources should undergo the same scrutiny as other resources
4. Public disclosure of all intergovernmental agreements related to TIF
5. Publication on the city's website of the newly created capital budget
6. TIF district and project data to track performance
7. Develop performance thresholds for TIF districts and projects and conduct strategic reviews

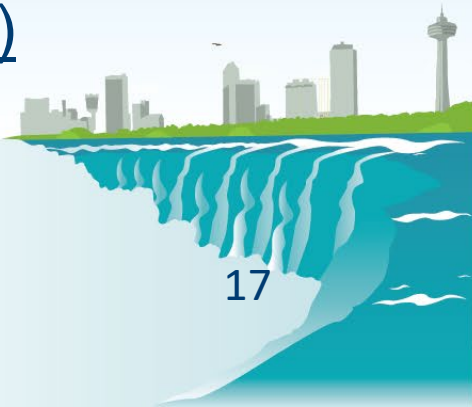


Transparency: Intensive TIF Use in Chicago

[Chicago TIF data portal \(https://www.chicago.gov/city/en/depts/dcd/provdrs/tif.html\)](https://www.chicago.gov/city/en/depts/dcd/provdrs/tif.html)

Contains (comprehensive and downloadable) information about

- Citywide TIF Map ([Data Portal](#))
- Annual Reports ([2004-present](#))
- Balances by Year ([Open Data](#))
- Projection Reports 2018-22 ([PDF](#)) ([Open Data](#))
- Funding Sources and Uses by District, Year, and Type ([Open Data](#))
- Small Business Improvement Fund (SBIF) Grants ([Open Data](#)) ([PDF](#))
- Proposed TIF Districts ([2018](#))



BUT

June 2019 report of CITY OF CHICAGO OFFICE OF INSPECTOR GENERAL

(<https://igchicago.org/wp-content/uploads/2019/06/Inquiry-Regarding-Status-of-Tax-Increment-Financing-Reform-Panel-Recommendations.pdf>) concluded that the Task Force's recommendations had been only partially implemented and that:

The city did not

- A. Adopt economic development goals, objectives and milestones
- B. Make TIF metrics easily available to the public
- C. Publish justifications for TIF funding to support private development
- D. Establish performance standards for strategic review of TIF projects
- E. Clearly delineate authority and accountability for TIF oversight

I refer you to Greg LeRoy on this

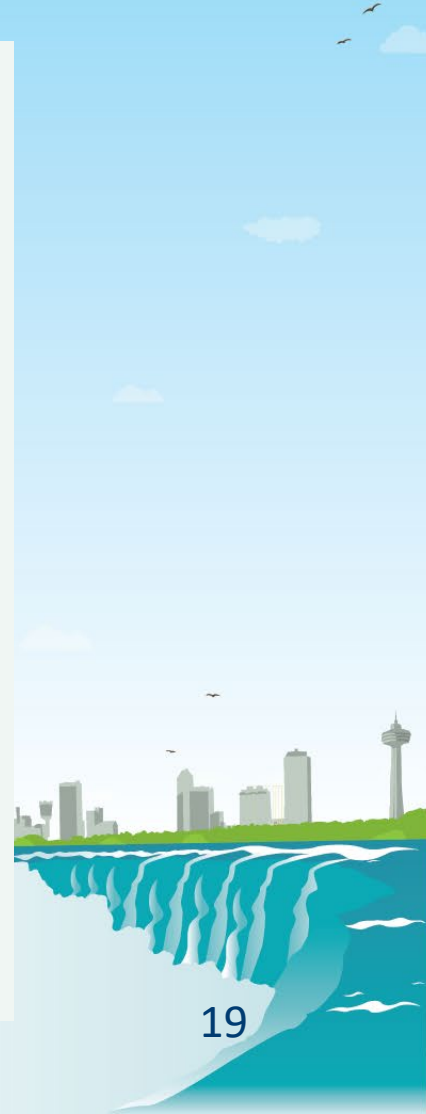
GASB 77 AND TIF

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.



This chapter looks at research that answers the question:

Does the establishment of a TIF district result in higher real estate value beyond increases that would have occurred without the TIF designation?

TIF can fail

- if planned developments do not materialize
- if development occurs but is too low to justify the public investment
- if development occurs and is greater than the cost but the development would have occurred (possibly at a different location) even in the absence of TIF funding



Efficacy in Economic Development

Academic research: I reviewed 31 empirical studies on this question. The studies tended to be both more methodologically rigorous and to have the most comprehensive data.

A simple count shows

- 13 studies (42%) have positive results;
- 5 have mixed results;
- 8 have neutral results; and
- 5 have negative results.

A neutral result should be interpreted as a TIF failure with respect to economic development.

The most recent and best studies almost uniformly find little or no economic development benefit from TIF

Effects of TIF Adoption on School Finance

- In many states, school districts lose access to the tax increment within TIF districts.
- Because of this, school districts may have to raise property tax rates.
- Because school districts face tax rate limits, they may be unable to make up for the tax base lost to TIF districts and hence may get less revenue.
- However, state aid formulae may compensate for the tax base lost to TIF districts.

Research

I could find only three studies that examined this issue. Two of the studies (in Illinois) found little impact on school district revenues. A third study in Iowa found some impact especially in school districts with more low income children.

Findings

1. Tax increment financing is widely used to promote economic development, especially in areas facing significant economic challenges.
2. The design of TIF in many states makes it vulnerable to exploitation by cities.
3. TIF has been used very unevenly, with extensive use in Midwestern states.
4. Most often TIF has been used in areas that were already moderately successful, and 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 is very uneven.
6. Academic studies suggest TIF often fails to deliver economic growth beyond what otherwise would have occurred.



- 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.



Technical Matters for Assessors (as time allows)

1. Handling of negative increments:
 - A. Some TIF districts contain multiple parcels
 - B. In certain cases, some of the parcels depreciate while others appreciate between appraisals.
 - C. There are a number of options for calculating the total TIF “increment”
 - i. Sum the increment of the depreciating and appreciating parcels
 - ii. Bundle the depreciating parcels together treat them as a separate taxing entity thereby increasing the increment.
 - D. My understanding is that option ii is used in some taxing districts

2. Handling of tax abatements within TIF districts

Tax abatements are sometimes handled as reductions in a parcel's assessed values. In our research we have found such tax abatements within TIF districts. This can depress the increment below its true economic value.

3. Timing of base value designation. We have seen TIF proponents advise city officials to “time” appraisal of base value to maximize TIF increment. E.g., wait until a private real estate parcel has been transferred to the public.