

21st Annual GIS/CAMA Technologies Conference Chattanooga Convention Center

GIS/CAMA • Chattanooga, TN



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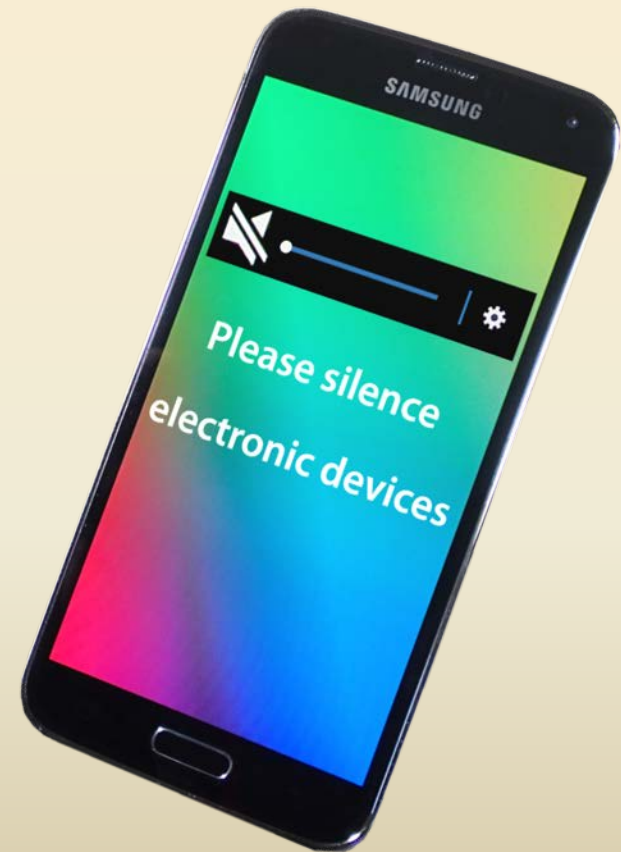
March 6-9, 2017

Continuing Education (CE) Credit

Recertification Credit forms for CE credit can be collected from the Registration Desk on Thursday.

Housekeeping

The conference proceedings will be available approximately 8 weeks after the conference.



When is tax increment financing useful?

revised for

GIS/CAMA TECHNOLOGIES CONFERENCE

MARCH 8, 2017

BY

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Agenda

I. Introduction

II. What is TIF and what is the rationale for its use?

III. Where and how has TIF been used?

IV. TIF and fiscal transparency

V. Is TIF an effective tool for economic development?

Appendix:

TIF in the context of value capture

California and TIF



Introduction

- Promotion of economic activity is a key local government function
- This may require coordination of public, private and non-profit sectors
- Tax increment financing (TIF) was designed to coordinate government actions with for-profit and non-profit sector
- Questions
 - What is TIF?
 - How has it been used?
 - Has it been effective?
 - How could the design of this tool be improved?



What is TIF? What is the rationale for its use?

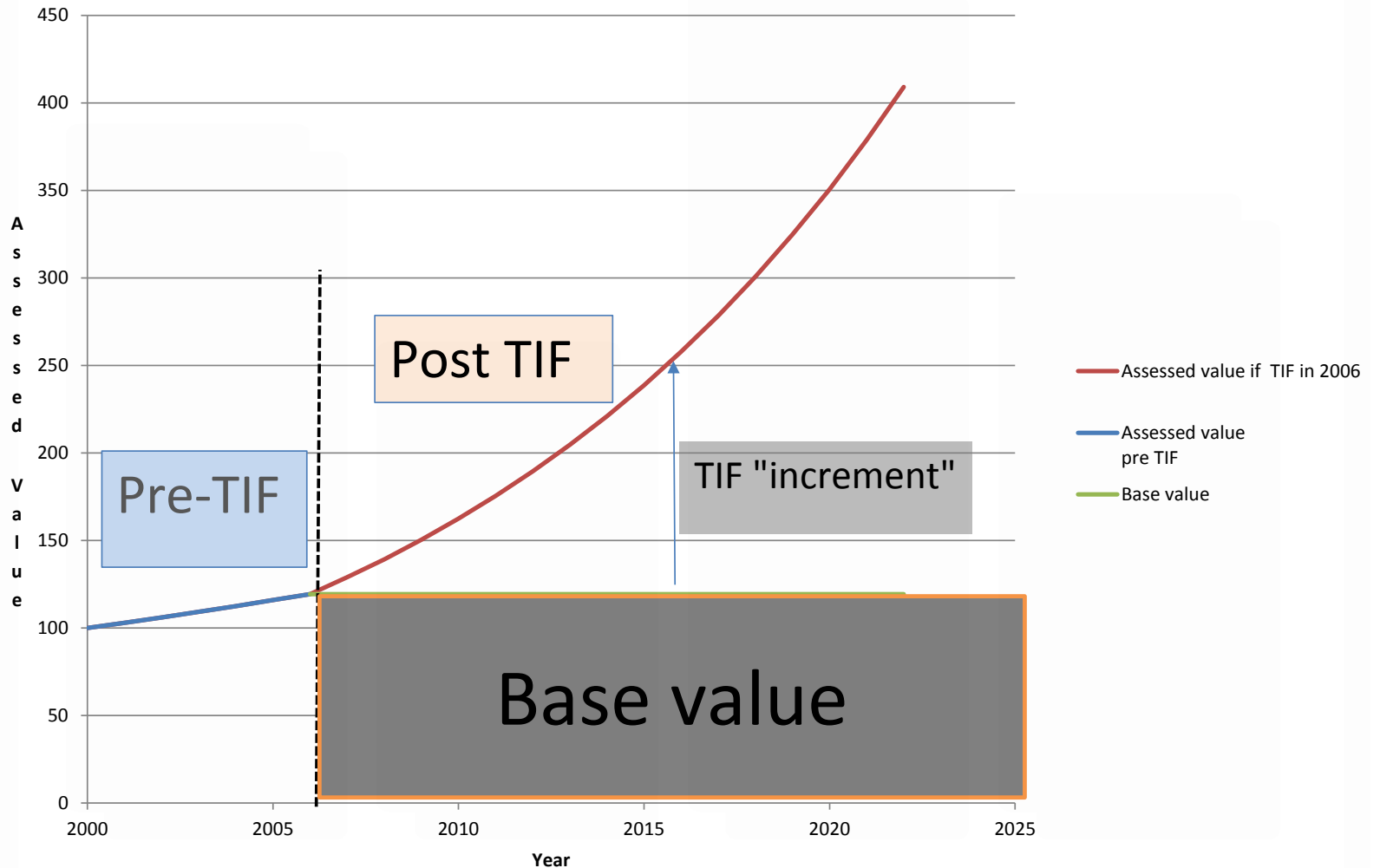
- **WHAT IS TAX INCREMENT FINANCING?**—TIF is a method of sequestering (or “earmarking”) property tax revenue from appreciation in a designated area to finance economic development in that same.
- TIF rules differ in different states, core elements are:
 - use of property tax revenues generated by real estate appreciation
 - narrowly, defined geographic boundaries
 - expenditures designed to encourage economic development and
 - a designated and limited time period of operation.

Hypothetical example on the next two slides 6



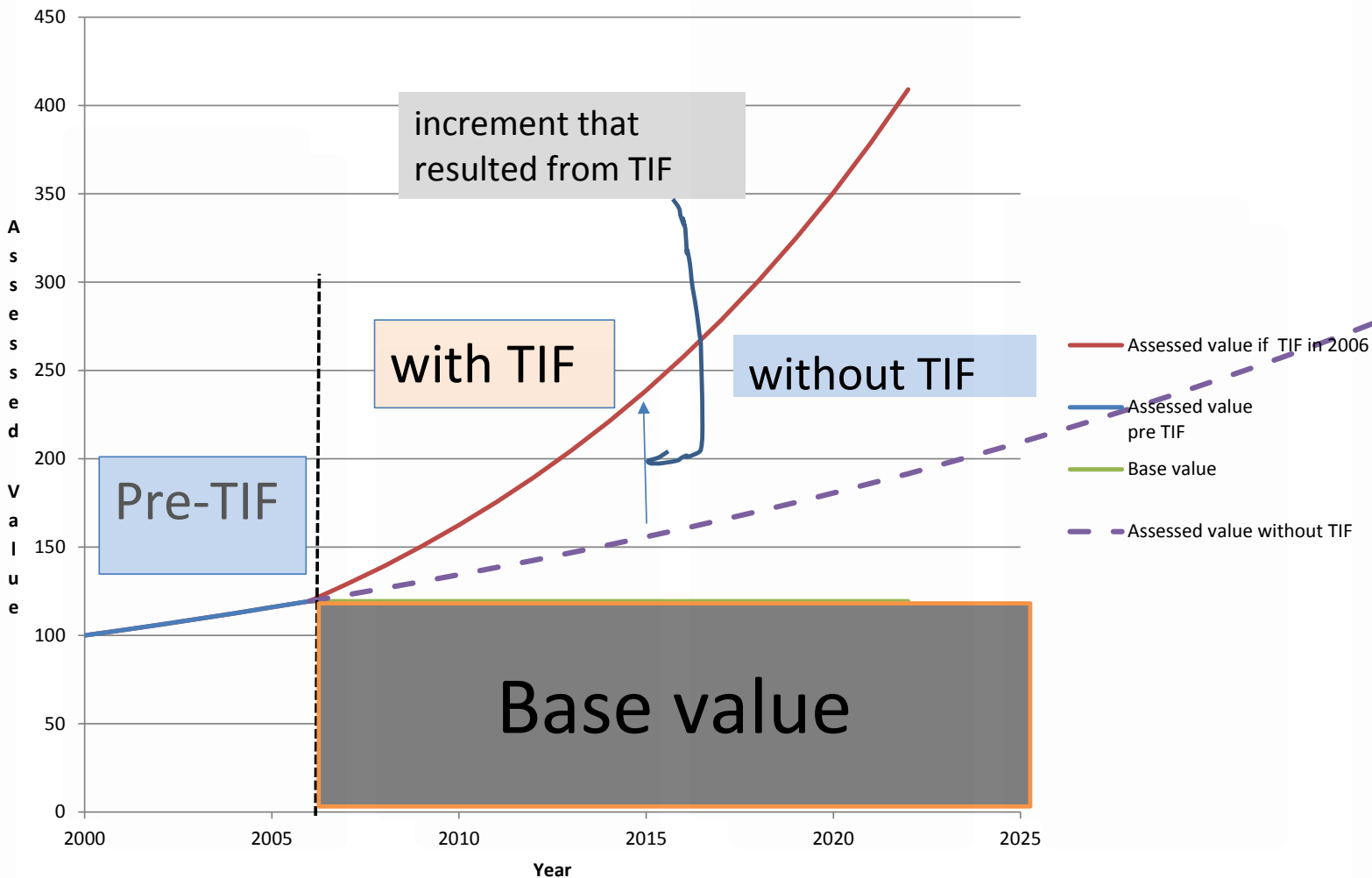
Hypothetical example of TIF

Assessed value pre and post TIF



Hypothetical example of TIF

Assessed value **without** and **with** TIF



Example of an actual TIF district from Dallas, Texas

Source: TIF Plan

http://www.dallas-ecodev.org/wp-content/uploads/2012/04/deepellum_plan.pdf
Accessed 1/18/2016

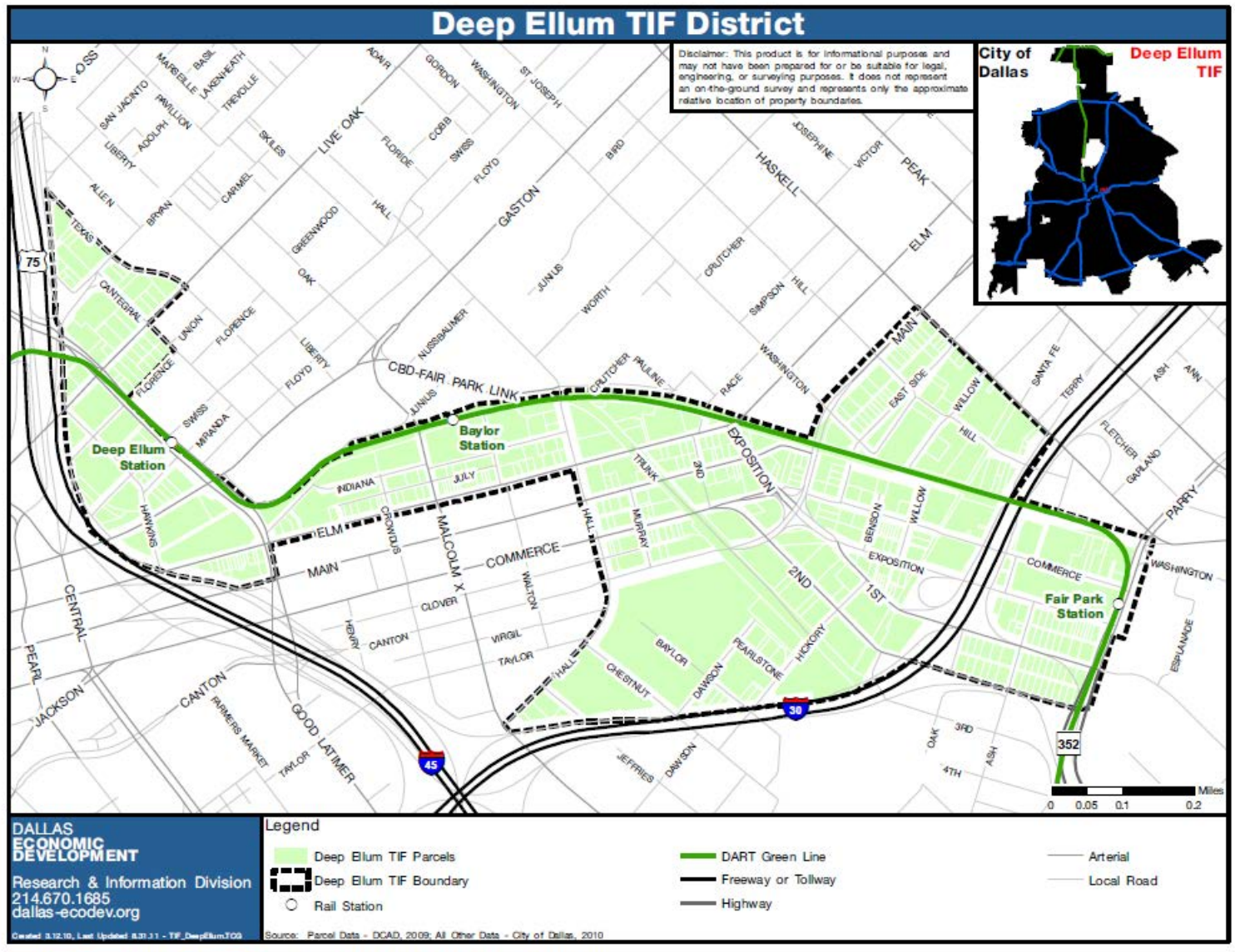


EXHIBIT N Projected TIF Increment Schedule

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



5. Tax increment base and current captured appraised value retained by the zone:

Taxing Jurisdiction	Taxable Value 2015 *	Base Year 2008 Value	Est. Captured Value 2015**
City of Dallas	\$315,062,667	\$189,162,613	\$125,900,054
Dallas County	\$322,567,943	\$189,363,589	\$133,204,354

* 2015 taxable value shown for participating taxing jurisdictions. County values are approximate and will vary slightly from the City value due to different exemption levels.

** Based on Certified Taxable Values. Final values will be determined on February 01, 2016.

<http://www.dallas-ecodev.org/wp-content/uploads/2016/03/FY-2015-DE-TIF-Annual-Report.pdf>

Deep Ellum TIF District FY 2015 Annual Report

Accessed 1/18/2016



TIF is an unusual business tax incentive because

1. Not a tax break
2. Represents a deviation from the usual budgetary process
 - A. Revenues are not appropriated
 - B. TIF spending not voted on by city council
 - C. Reports about TIF finances are not usually incorporated into city financial documents (e.g. the Comprehensive Annual Report)

WHAT IS THE RATIONAL FOR USE OF TIF? (continued)

- TIF may solve the credible commitment problem
 - In many development projects each party has an incentive to act only if the other is also firmly committed.
 - Neither may be able to credibly commit
 - TIF may alleviate that problem by using incentive compatible rules
 - Developer gets no public revenue unless there is appreciation
 - No appreciation unless developer credibly commits to investment



WHAT IS THE RATIONAL FOR USE OF TIF? (continued)

Other explanations

1. TIF may capture tax revenues from overlying governments (eg City of Dallas capturing revenues from county)
 - A. This would not happen if the “but for” rule were strictly applied
 - B. “but for” rule may do little to constrain the use of TIF (see Minnesota analysis)
2. TIF may reduce political opposition to investments with localized benefits (Brueckner’s argument).

Where has TIF been used?

- It is hard to know because it is a *local* program and some states do little monitoring

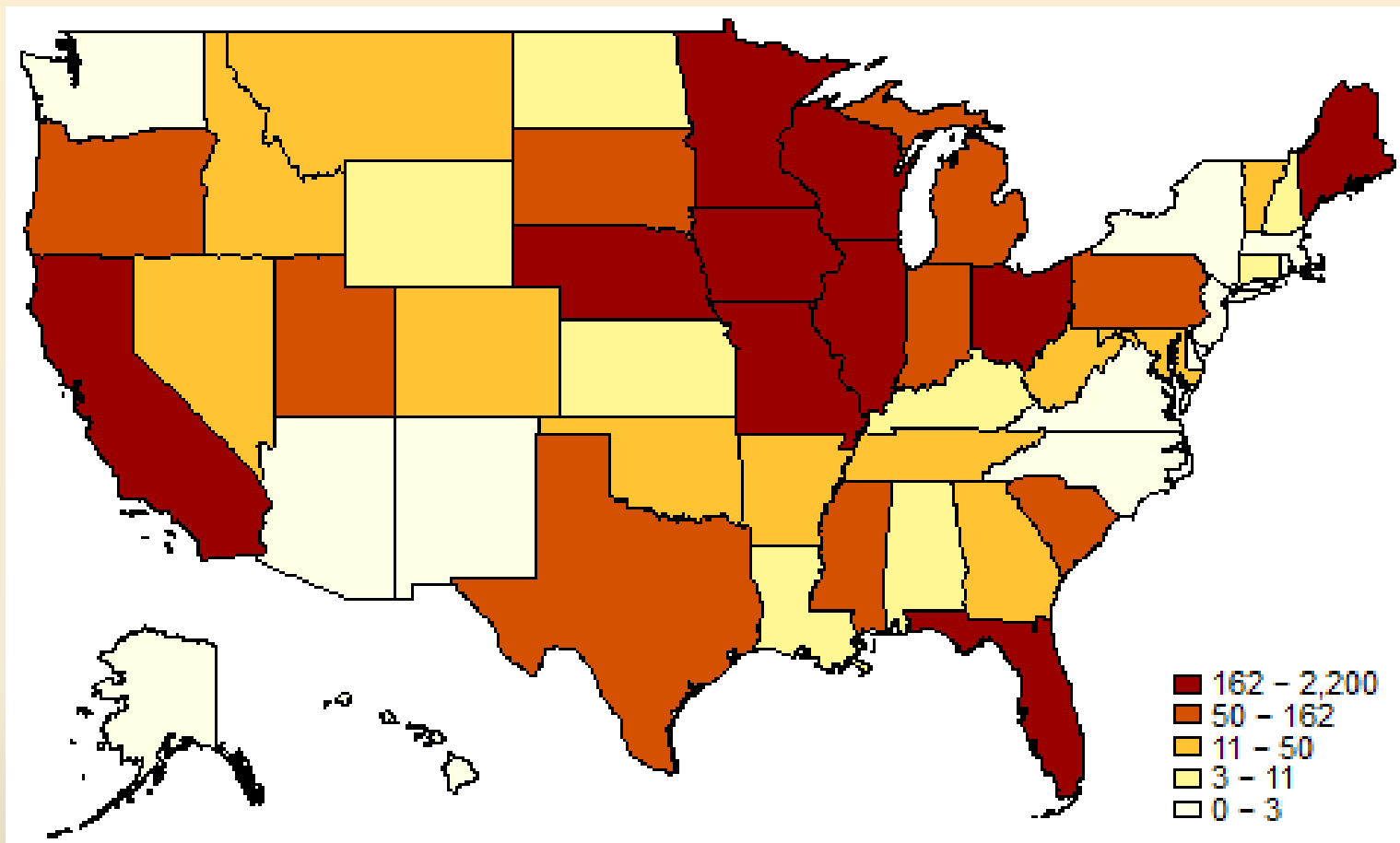


Estimated number of Tax Increment Finance Districts in Biggest US Cities and Chattanooga, TN

Size rank 2014	City name	Population (millions)		14 year population growth (%)	Estimated number of TIF districts
		7/1/2014	4/1/2000		
1	New York, N.Y.	8.45	8.01	5.5%	Uncertain, TIF used only twice in NYS by 2012
2	Los Angeles, Calif.	3.93	3.67	7.1%	24 (in flux due to changes in California law)
3	Chicago, Ill.	2.72	2.90	-6.2%	149 (as of 2014)
4	Houston, Tex.	2.24	1.95	14.9%	27
5	Philadelphia, Pa.	1.56	1.52	2.6%	13 (as of November 2013)
6	Phoenix, Ariz.	1.54	1.32	16.7%	probably 0--several sources say no TIF law in Arizona
7	San Antonio, Tex.	1.44	1.14	26.3%	19
8	San Diego, Calif.	1.38	1.22	13.1%	14 (in flux due to changes in California law)
9	Dallas, Tex.	1.28	1.19	7.6%	18
10	San Jose, Calif.	1.02	0.89	14.6%	21 (prior to the dissolution of the RDA in 2012)
	Total cities other than Chicago				136
Size rank 2014	City name	Population		14 year population growth (%)	Estimated number of TIF districts
		7/1/2014	4/1/2000		
	Chattanooga, TN	173,778	155,554	11.7%	0



Number of tax increment finance districts by state



Source(s): Most data is from 2007. Main data source is from Petersen, Jennifer A. August 2007. "The State of Tax Increment Financing in the United States," State Tax Notes p. 601 to 604. Data for Alaska, Illinois, Indiana, Nebraska and Vermont from Merriman. Data about Maine (>200), Maryland (>18), Nevada (>50) and Pennsylvania (>100) gives only a minimum number of TIF districts.

How has TIF been used?



or



- Two primary questions
 - Is TIF adopted to *nurture* growth or to *capture* growth that would otherwise go to overlying governments?
 - Is TIF used to gain a competitive advantage over neighboring communities?



Evidence about the reasons for TIF adoption

- I. Mixed evidence about whether TIF is adopted to capture growth that would have occurred even w/o TIF.
 - A. Several studies find that cities time TIF adoption to coincide with growth.
 - B. TIF is not adopted in areas growing fastest rather in moderate growth areas
- II. Evidence suggests use of TIF increases with neighbors' use of TIF implying strategic and competitive use
- III. Summary
 - A. Mixed evidence on the first question (nurture vs capture)
 - B. Evidence supports hypothesis of geographical competition



TIF and budget transparency

TIF spending is fundamentally different from other gov't spending. It

- benefits designated areas for a narrow purpose—economic development.
- derives from taxes levied by all overlapping governments.
- is not
 - authorized,
 - appropriated,
 - accounted for
 - or voted on during the normal budget cycle of any elected government.
- does not compete with non-TIF district priorities.
- is often combined with resources of private, sometimes for-profit, institutions
- persists for decades without being subject to ordinary democratic controls.



Is TIF an effective tool for economic development?

- This question has gotten the most attention in the scholarly literature
- Question in this literature, like all policy evaluation, is
 - How is the world different *with* the policy compared to *without* ?
 - In medicine/agriculture etc **random assignment** of treatment is used to answer the question. We can't usually do that with policy.

Is TIF an effective tool for economic development?

- Empirical question is difficult primarily because it is difficult to find comparable “control” and “treated” areas.
- Methodological toolbox employed with varying degrees of sophistication

Effect of TIF on Economic Activity

- Measures of econ activity include
 - Property values, Employment, Retail Sales, Median house values, Income, New building permits
- Results
- 20 studies use data from a Midwestern state
 - Many of the studies report multiple results. My judgement is that effect of TIF on economic activity is
 - primarily **positive** in 13 studies
 - primarily **negative** in 4 studies
 - primarily **neutral** in 6 studies
 - **mixed** 3 studies
- Why do we find such mixed results? (discussion section)



Effect of TIF on school finance

- This has been controversial since TIF is sometimes thought to be a strategic attempt by general purpose gov'ts to capture revenue from overlying gov'ts. School districts are, of course, the biggest potential losers.
- Effect might be small because state aid formulae may compensate for loss of tax base to TIF
- Only three studies
 - Two Illinois studies show little effect
 - A more recent Iowa study shows a bigger effect especially on low wealth districts



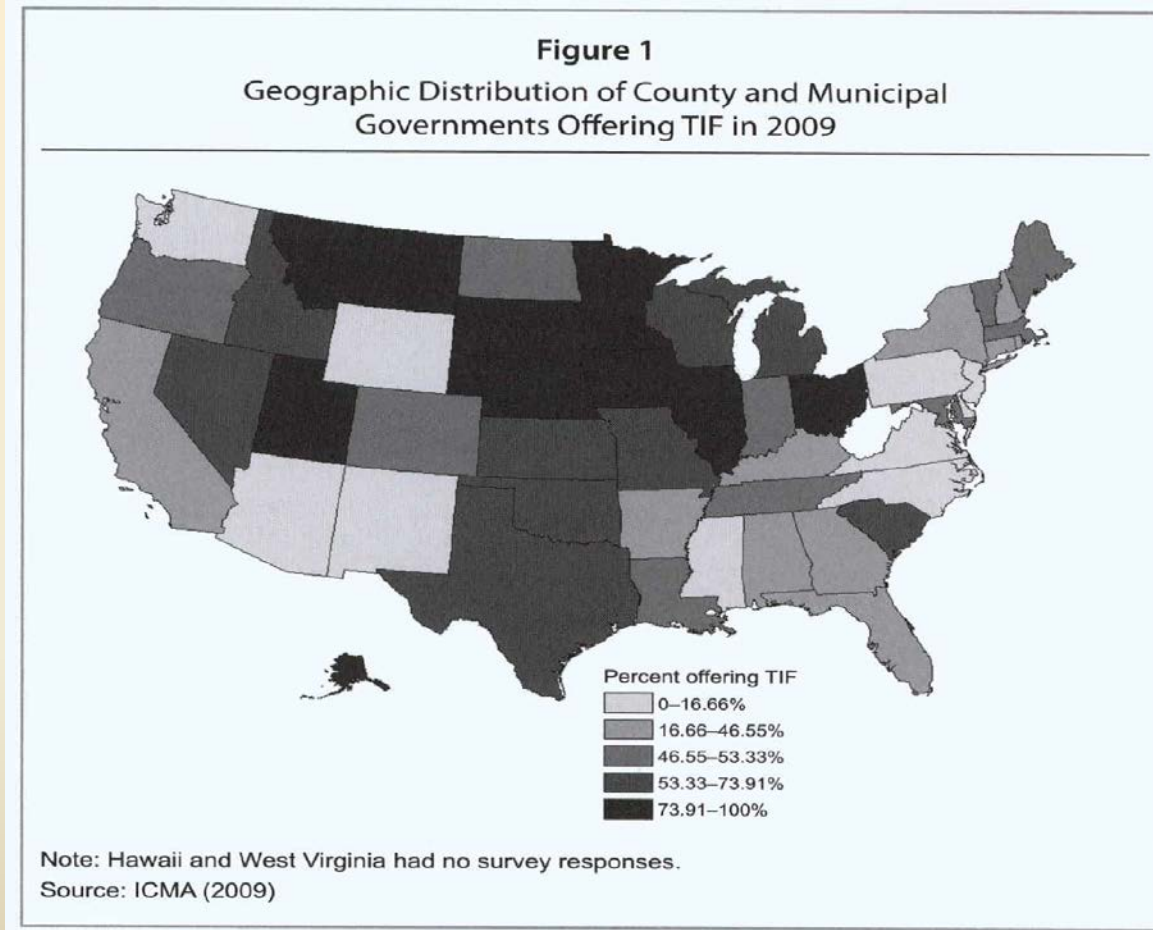
Other potential effects of TIF

- Some evidence that TIF encourages annexation
- TIF may lead to volatility in general fund revenues as TIF districts expire and come on line (simulation study no empirical data).
- TIF may vary in its effects over the business cycle
- TIF may be more likely to succeed when formal performance measurement techniques are used
- Other issues we should discuss?
 - E.g. gentrification

End of main points



Where has TIF been used?(continued)



Source: based on data from ICMA survey reported in Greenbaum, and Jim Landers. 2014

III. TIF in the context of value capture

- A. Value capture is a source of funding involving public appropriation of some portion of site value gains caused by public investment.
- B. I conclude that the property tax is a “value capture” mechanism
- C. I also conclude that TIF is not a value capture mechanism
 - 1. TIF does not change the total amount of property taxes paid by those in the TIF district
 - 2. Compared to a “no TIF” policy, if the “but for” condition
 - i. holds then property taxes outside the TIF are unchanged
 - ii. is not met property taxes outside the TIF district rise

California

- Was a very early adopter (1950s) of TIF. TIF could only be used in redevelopment areas (RDAs)
- California TIF had original been used primarily to provide a source of matching funds for federal grants.
- By the time Proposition 13 was passed (1978) California TIF use was widespread.



California (continued)

- Empirical study of California
- Dardia 1998—California TIF grew faster than comparison areas but not fast enough to make up for the revenue lost as a result
- Swenson 2015—finds that RDAs (and by extension TIF districts) had very little impact on employment, poverty rates, family income, rental vacancy rates and rents



California (continued)

RECENT DEVELOPMENTS:

In October 2015 the California legislature approved and Governor Brown signed AB-2 Community revitalization authority which gave local governments authority to create TIF districts in some circumstances. The bulk of this appendix was drafted prior to the approval of this legislation.

Compared to previous California TIF legislation AB-2 imposes many limits on TIF-creating governments. Most importantly:

1. TIF districts are restricted to low income or high crime areas
 2. School entities are prohibited from participating
 3. Permission of non-school entity overlying governments' is required in order to use their tax revenues for the TIF.
 4. There are extensive reporting and transparency provisions.
 5. There are extensive requirements for public input including provisions under which a popular vote could prevent further action on the plan.
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