5 Facts to Consider in Tax Increment Financing

Tax Increment Financing (TIF) is an alluring tool allowing municipalities to promote economic development by earmarking property tax revenue from increases in assessed values within a designated TIF district. Proponents point to evidence that assessed property value within TIF districts generally grows much faster than in the rest of the municipality, and they infer that, therefore, TIF benefits the entire municipality. Empirical analysis conducted by economists Richard Dye and David Merriman of the Lincoln Institute of Land Policy suggests the opposite.

TIF Theory and Practice
Rules for Tax Increment Financing – and even its name – vary across the 48 states in which the practice is authorized. The designation usually requires a finding that an area is “blighted” or “underdeveloped,” and that development would not take place “but for” the public expenditure or subsidy. It is only a bit of an overstatement to characterize the “blight” and “but for” findings as merely pro forma exercises, since specialized consultants can produce the needed evidence in almost all cases. In most states, the requirement for these findings does little to restrict the location of TIF districts.

5 Facts to Consider before Embarking on or Renewing a TIF Program
Here are five facts to consider before embarking on or renewing a TIF program.

1. **TIF programs divert money from schools.** Case studies conducted in various states – including Minnesota, Montana, and Ohio – by Good Jobs First show that schools lose significant amounts of money as a result of TIFs.

2. **Property values in TIF districts do not grow any faster than property values in non-TIF districts.** TIF programs are often sold on the basis that property values in TIF districts will grow and, hence, pay off the debt created to finance TIF programs. The empirical evidence clearly shows that this is not true. For example, the Dye and Merriman analysis shows that property values in TIF districts grew at the same rate as, or even less rapidly than, in non-TIF districts.

3. **Commercial and Industrial TIF districts have a negative impact on such property outside the TIF districts.** Again, the Dye and Merriman analysis shows that both commercial and industrial TIF districts show a significantly negative impact on growth in commercial assessed values outside the district.

4. **TIF’s are a moral hazard.** TIF’s are morally hazardous: they promote misallocation of resources.

5. **TIFs create public debt without accountability.** Joan Youngman, of the Lincoln Institute of Land Policy, underscores the point that TIFs usually create public debt without much accountability. If entering into a TIF program, those holding jurisdiction must consider what their recourse is if the TIF does not deliver what it promises.

TIF programs may sound attractive in theory, but in practice they don't usually measure up to what they promise. Extreme caution must be exercised, and regular evaluation must be undertaken.

For more information contact TEF@nea.org.