Governments Can Improve TIF Practices.

The Lincoln Institute of Land Policy and Professor David Merriman have developed five recommendations on ways to improve Tax Increment Financing (TIF) for economic development. Their guidance stems from case studies and a review of academic work on TIF theory, practice, and effectiveness.

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."

Smart Incentives agrees with many of these recommendations, which are consistent with our guiding principles on the need for better data, analysis, transparency and accountability in incentive use. We also appreciate the emphasis on understanding outcomes.

Going past the high-level recommendations, we found some of the topics from the review of previous research interesting. For example, the discussion around "but for" in the paper highlights the issue of whether the diverted revenues would exist "but for" the TIF – not simply whether the development itself would have occurred. This brings into the conversation a look at local government choices relative to other taxing jurisdictions and the implications of shifting rather than creating development. It also includes a reminder that there can be negative fiscal effects from development that often are not, but should be, counted.

The extensive look at studies examining efficacy in economic development raises the usual frustrations with academic studies that yield “mixed” findings, with 42% showing positive results, 42% with neutral or mixed results, and 16% with negative results.

What is interesting is the variety of ways those results are measured. The chapter begins with the statement that, “TIF is designed to promote real estate investments that raise the market and assessed values of real estate parcels in a given area.” The studies, however, examine variables that include “employment, retail sales, assessed values, growth in median house value, median household income, and value of building permits, among others.” It’s not surprising the findings are mixed.

We generally agree with the point that “the purpose of stimulating growth in property values is to ultimately improve citizens’ quality of life,” which is presumably the way all government activities should be measured and evaluated. But there may be some additional steps or metrics that are needed to help link TIF activity to those broader outcomes as we think through exactly how a TIF district influences community-wide measures like employment or income.

Learn more and read the entirety of this highly informative report here.

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