

Introduction

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Since the first edition of *Tax Increment Financing and Economic Development: Uses, Structures, and Impact* was published in 2001, tax increment financing (TIF) in the United States has grown, matured, evolved. TIF is now one of the most widely used and recognized state and local government economic development and redevelopment techniques in the United States of America. This volume, the second edition of *Tax Increment Financing and Economic Development: Uses, Structures, and Impact (2019)* underscores the enduring and evolving nature of TIF.

TIF has changed in many ways in eighteen years, but the essence of the TIF policy imperative has remained the same—finance local government economic (re)development, with local resources, and under local political control. In this volume, we describe how TIF is currently understood and practiced across the nation. We also analyze the changes to TIF, which have been substantial. In some states the changes have been incremental, in others they have been of earthquake proportion. We document the full gambit of these changes and describe how TIF operates now, which is often very different than in 2001. The TIF model has evolved by many means, perhaps most importantly by the collaboration of stakeholders in the arena—government officials, private developers, researchers, community development organizations—learning from each other, advancing the knowledge in the field, and turning that new knowledge into new policies, laws, and practices.

Over the past eighteen years the TIF practitioner and academic research literature has grown in quality and volume. The literature is clear on how to use TIF in an effective, efficient, and equitable manner. The basic principles that can facilitate the appropriate use of TIF were laid out in the first edition of this book. In the second edition, we update the principles, expand them where necessary, and apply them to current TIF policies, practices, and cases. To get the most out of TIF, state and local officials merely need to apply the academic and practitioner knowledge, most of which is synthesized, explained, and illustrated in this second edition.

TIF has endured because it works. TIF is resilient, as demonstrated by its ability to weather the storms of the Great Recession. Wielded expertly, with care and forethought, TIF can enhance productivity and improve the quality of life in communities throughout the ups and downs of the economic cycle. But TIF is not perfect. It is a tool. Like other tools, it must be carefully and appropriately used, or it can be *misused*. There are potential spatial spillovers and direct effects on overlapping taxing districts and taxpayers (Yadavalli and Delgado, this volume; Nguyen-Hoang, this volume). In this edition we also discuss the problems and limitations of TIF, and how the TIF model has evolved to overcome some of these challenges. We also suggest solutions.

Since the citizens of the state of California passed the first TIF law in 1952 (Horiuchi and Chapman, this volume), tax increment financing has spread across local communities with laws authorizing TIF in forty-nine states and the District of Columbia. The spread of TIF was incentivized by two important trends, one emanating from the federal government and the other the result of a nationwide movement against the local government property tax. While supporting local development during the New Deal era and after World War II, in the 1970s the federal government began divesting many of its state and local government development responsibilities and reduced intergovernmental fiscal support for local capital projects in the era of federal devolution. At the same time, property taxpayers were voting down on-budget tax increases and demanding more stringent controls on property taxes, as in the case of Proposition 13 in California, for example. State and local government officials found themselves in the difficult position of having to develop new and creative own-source financing techniques to fund development-related projects in order to improve their physical infrastructure and stimulate economic redevelopment.

TIF stepped up to fill this funding void and now has become one of the first financing techniques local communities in the United States look

to in order to finance a significant economic development or redevelopment project. TIF has proven over the years to be a useful and effective vehicle for local government officials for several reasons. One, it is effective at raising funds to finance projects of all sizes. For many projects, TIF funds can cover all construction costs—land acquisition, site development, property rehabilitation and construction, water and sewer expansion and roadway improvements, etc.

For larger projects, TIF is often used as part of a broader financing package. TIF has been used in multiuse projects to help build and rebuild entire communities (Martell, this volume; Meyers, this volume). In large financing packages, it is frequently, and effectively, used as leverage with private developer funds and equity, intergovernmental grants, and other sources of funds and types of financial incentives (Paull, chapters 10 and 11, this volume). By providing a large, long-term stream of reliable, and relatively inelastic, sources of revenue dedicated to pay specific capital expenditures, TIF often provides the glue that can seal a major public-private partnership deal between local government officials, private developers, and other stakeholders.

Second, when done correctly TIF can be an effective planning and management tool. TIF does more than just raise money. It facilitates local government capital and community facilities planning and management (Craft and Weber, this volume; Maher et al., this volume; Billingham and Sandefur, this volume; Burnett et al., this volume). Governments use TIF to organize people and resources around specific development and redevelopment opportunities, and then use the TIF administrative enterprise to implement and manage such projects. Though TIF is a financing tool, its added value is often in its use as a planning, land development, and improvement tool. TIF contains a process for creating or revising the redevelopment plan, providing a vehicle for local government officials, private developers, and citizen stakeholders to collaboratively plan and manage the development of their community.

Third, TIF's template has been exported to local jurisdictions around the nation because its generic framework is flexible and easily adapts to different political environments and the financial and budgetary circumstances of local jurisdictions (Johnson and Kriz, chapter 2, this volume; Kriz and Johnson, chapter 3, this volume). Generic TIF principles are applied differently across the United States. The use of TIF is broadly enabled at the state level, but TIF is mostly practiced at the local level with detailed local statutes written and executed by local government officials. TIF is popular

because it gives local government officials fiscal autonomy over their capital project improvements. TIF enhances their ability to finance their own projects, with their own resources, when and how they want and need to.

TIF has also become popular among the professional community, with both practitioners and academics, because in theory it is consistent with the benefit principle of public finance (Kriz, this volume; Klacik and Nunn 2001). The basic theory undergirding TIF is that only those expected to benefit from the project will pay for the project, and beneficiaries contribute in proportion to their benefits. Though in practice TIF sometimes falls short of this principle, TIF laws and practices can, and should, uphold this principle in practice as well as theory.

TIF demonstrates its flexibility as a financing tool by the wide variety of improvements it is able to support. It finances commercial, industrial, and residential economic development and redevelopment projects and the infrastructure—water, wastewater, power utilities, transportation facilities, etc.—necessary to support such projects. It is also not uncommon for TIF projects to support residential projects such as affordable housing, the revitalization of low-income and moderate-income communities, and brownfields remediation and redevelopment (Paull, chapter 10, this volume).

TIF can also be a controversial form of financing, and it is not free from abuse. TIF was originally designed and justified as a local method of self-financing the redevelopment of blighted urban areas. But TIF commonly finances projects in non-blighted, as well as blighted areas; in suburban, as well as urban areas; in greenfields, as well as brownfields (Maher et al., this volume; Billingham and Sandefur, this volume). Such applications in non-blighted, suburban, growing greenfields, for example, are potentially misuses of the generic TIF model, and are not consistent with the original intent and principles of TIF. Such practices should be addressed at the state level. State officials provide the TIF enabling legislation, and should craft laws that minimize the abuse of the TIF subsidy.

A recurring problem with TIF is its potential impact on overlapping governments. If not structured properly TIF districts can drain the future revenues of overlapping taxing districts. Indeed, the state of California recently eliminated its redevelopment agencies largely because of their effect on school district and state government budgets. If TIF authorities in other states do not heed the lessons of California redevelopment agencies and make appropriate reforms, they may face a similar fate.

TIF has also been used as a fiscal and budgetary tool to circumvent traditional local budgetary processes. TIF has been adopted by local com-

munities facing several forms of fiscal stress, especially property tax limitations, infrastructure demands from population growth, and declines in intergovernmental aid. TIF has also been used as a method of participatory budgeting to increase citizen participation in the budgetary process (Craft and Weber, this volume). TIF can be used to lock in long-term, intrajurisdictional revenue and expenditure decisions. However, taxpayers should be protected from government officials using TIF to circumvent the annual budget processes of overlapping taxing districts. In addition, surplus TIF revenues should not be allowed to accumulate in TIF funds; rather, they should be returned to overlapping taxing districts promptly.

This chapter continues by describing the structure and contents of the book. The book is divided into three sections. The first section provides an overview of tax increment finance in the United States. Part I provides an up-to-date and comprehensive background discussion on the world of TIF. The introductory chapter provides a discussion on why TIF is important and an overview of the book. Chapter 2, “A Primer on Tax Increment Financing,” by Craig L. Johnson and Kenneth A. Kriz presents a descriptive discussion on the generic structure of most tax increment financing districts. They discuss what TIF is and how it works. Chapter 3, “A Review of State Tax Increment Financing Laws,” by Kenneth A. Kriz and Craig L. Johnson, reviews the diverse legal framework of tax increment finance across the states. The legal framework is important in that it sets forth the “rules of the road” for establishing, stimulating, regulating, maintaining, constraining, and terminating TIF districts. The chapter shows how TIF laws have changed since the first edition of the book was published in 2001. It reviews state TIF laws in 2018, current trends, and the areas where TIF has been subject to substantive reforms, as well as areas where reforms are still needed. The chapter notes that strong, comprehensive TIF laws are essential to ensuring that TIF is used in the most transparent, publicly accountable, equitable, efficient, and effective manner.

Debt is used to finance most TIF projects. Chapter 4, “The Use of Debt in Tax Increment Financing,” by Martin J. Luby, Tima T. Moldogaziev, Craig L. Johnson, and Ruth Winecoff describes the aggregate use of municipal debt securities from 2000 to 2016 in financing TIF. Chapter 4 describes the different types of TIF debt security structures, issue purposes, use of financial intermediaries, methods of sale, and bond structures associated with TIF debt. The chapter provides an analysis of the risks inherent in TIF debt from both taxpayer and bondholder perspectives, including a discussion of issues associated with the changes in California TIF debt.

Part II illustrates the diversity of TIF programs by covering the implementation, uses, and structure of TIF. Part II also provides a multidimensional picture on the use of TIFs across the United States, including case studies of major economic development and redevelopment TIF projects.

Chapter 5, “The Port Covington TIF: Did Baltimore ‘Protect This House’?” written by Roy Meyers, describes the Port Covington (PC) megaproject—260 acres and \$6.9 billion in total project costs. The chapter covers the TIF processes of initiating, formulating, and adopting a major TIF redevelopment project in Maryland. In 2016 the city of Baltimore approved \$658.6 million in tax increment financing for the project. The chapter describes the basics of the TIF deal, and the community process of considering and approving the TIF. It describes the agreement reached between the corporate developer, Under Armour, Inc., and community advocates. The chapter concludes with an evaluation of the TIF decision-making process.

In Chapter 6, “TIF for Major Project Development: The Case of the Stapleton Airport Redevelopment,” Christine Martell tells the story of the nation’s largest infill redevelopment project, the former Stapleton International Airport in Denver, Colorado. The Stapleton case represents the outcome of a transformation from the City and County of Denver (CCD)–run Stapleton International Airport covering 4,700 acres to a vibrant community with residential, commercial, and industrial uses. The success of the Stapleton Redevelopment is attributed to the strong vision, the multiparty partnerships, and the creative use of tax increment financing. This case yields a number of lessons for complex, large-scale redevelopment projects. The redevelopment projects of the Stapleton International Airport in Denver, Colorado, and Port Covington in Baltimore, Maryland, represent not only some of the largest TIF projects, but might well be thought of historically as among the most important urban renewal stories of the late twentieth and early twenty-first centuries.

In Chapter 7, Andrea Craft and Rachel Weber tell the story of TIF in Chicago in “An Incentive Program Grows Up: The Evolution of TIF in Chicago.” They write that for the last thirty years, the City of Chicago has relied almost exclusively on TIF to pay for infrastructure and finance private development expenses. The City currently has 145 TIF districts that cover more than 30 percent of the area of the city. TIF has become so pervasive in Chicago that few developers operating in Chicago proceed without asking for TIF assistance to underwrite land acquisition, demolish existing buildings, and install infrastructure. Craft and Weber use the example of

TIF in Chicago to examine how economic development programs evolve over time in response to changed fiscal and political conditions.

Chapter 8, “TIF in California: Birth, Growth, Death, and Resurrection,” is written by Catherine Horiuchi and Jeffery Chapman. The authors note that TIF started in California in 1951 and ended in 2012. In 2015, Enhanced Infrastructure Finance Districts (EIFDs) replaced the redevelopment agencies (RDAs) that utilized TIF. The chapter examines TIF in California as a response to the fiscal stresses faced by localities. It discusses the history of TIF in California, the fiscal stresses faced by California jurisdictions, and then links the increasing use of TIF as a response to these stresses. As the extent of local TIFs in California ballooned, fiscal pressures grew on the state budget. A reassessment of the state’s costs in encouraging the use of TIF redevelopment led to the demise of RDAs and TIF. Because fiscal stressors of local governments had not changed, the state soon legislated, designed, and implemented a new fiscal technique, EIFDs. The chapter ends by describing this tax financing innovation and draws preliminary conclusions on EIFDs and future financing streams. The downfall of TIF and RDAs in California serves a cautionary tale, while the rise of EIFD indicates the ongoing relevance of this type of financing mechanism.

Chapter 9, “The (D)Evolution of TIF Use: Redevelopment to Land Development in Nebraska,” by Craig S. Maher, Sungho Park, and Ji Hyung Park, is a case study analyzing a recent TIF project in Fremont, Nebraska, that has been approved to invite a chicken processing plant onto largely agricultural land. They examine the TIF project within the original context of Johnson and Kriz’s (2001) TIF process framework, updated by Kriz and Johnson (this volume). They demonstrate the benefit of studying TIF within this process framework. They find that Fremont’s use of TIF has been far from the standard practice and conclude that it has much to do with the vagueness of state TIF laws in Nebraska. Nebraska is a state that greatly employs TIF to redevelop commercial areas (Kriz 2013) and compared to other states it has malleable and insufficient rules for the usage of TIF.

Nebraska statutes allow municipalities to operate without input from other affected entities, are vague in defining blight and require the bare minimum for meeting the “but for” clause and cost-benefit analysis. Fund management is so vague that it allows TIFs to spend funds on questionable expenses, including those incurred prior to TIF approval, and raises concerns about the management of excess funds. The authors note that where strict guidelines are not provided, TIF may not be used for public purposes as

much as for lowering the bottom line for private firms. The case study also highlights the evolution of the use of TIF in undeveloped, rural areas. Clearly, not how TIF was intended to be used.

Chapter 10 by Evans Paull, “Using TIF for Brownfields Redevelopment,” squarely covers a topic vital for the future of cities: the brownfields-TIF connection, which often involves transformative redevelopment projects. Paull provides examples of TIF brownfield projects from across the nation and describes best practice techniques and solutions that local and state officials are employing to help facilitate these beneficial but difficult projects. Paull argues that city after city ends up at the intersection of brownfields and TIF as each attempts to negotiate a path to a viable economic future, and provides examples of projects that are “game changers” for their communities and represent different ways that brownfields hurdles have been overcome.

Ending Part II, Evans Paull reviews a growing practice in the evolution of TIF—“Super TIF’s.” Chapter 11, “State Super TIF Programs—New Tools for Transformative Urban Redevelopment,” reviews where, since 2009, at least four states (New Jersey, Mississippi, Pennsylvania, and Michigan) have adopted legislation that allows the state to capture the state taxes generated by certain kinds of development projects and devote the captured revenues to funding infrastructure or closing gaps on those same projects. These programs are sometimes referred to as “Super TIF’s,” because they dedicate certain project-generated *state* revenues in the same manner that *local* government TIF projects use project-derived property taxes to support the project. Paull argues that Super TIF might be the most powerful inducement ever devised by the economic development field. He adds, however, that state Super TIF should not just be an add-on to local TIF commitments; rather, Super TIF should be viewed as an opportunity for states to support transformational projects, while also allowing localities to retain a larger portion of project-generated revenues, thereby enhancing local basic services.

Next, the final section of the book, Part III, covers the theory of TIF and empirical analyses of several controversial TIF subjects, namely, spillovers and the impact on school districts. It also covers how the TIF label has become so popular and acceptable in local communities that it is being used inaccurately and misleadingly to garner social and political support for non-TIF activities, and provides a chronology of how a state legislature responded to the issues associated with TIF by reforming its laws over roughly thirty years. Finally, the book ends with a conclusion.

Chapter 12, “Theory and Economic Impact of Tax Increment Financing,” by Kenneth A. Kriz, provides a much needed theoretical discussion on TIF. He notes that there has been much coverage in the literature on the use of TIF and its legal basis. However, there is far less theoretical literature that uses economics, political science, or political economy to tease out the incentives facing key stakeholders in the TIF adoption, continuation, or termination decision. Kriz reviews the elements of major theories that have been developed about TIF and discusses how they can be used to develop a larger theory of TIF project adoption and impact. He also brings in ideas from related literatures on game theory and behavioral economics to inform the theoretical framework. Finally, Kriz discusses a stylized model of TIF adoption based on the existing literature, to set forth the elements that would be required in a robust model of TIF adoption.

In chapter 13, “Tax Increment Financing and Spatial Spillovers,” Anita Yadavalli and Michael Delgado address the issue of the incidence of spillovers from TIF. They empirically analyze the question of whether the real estate market capitalizes potential future investment into transaction sales prices of properties not only within TIF areas, but also of nearby properties in non-TIF areas. They estimate a-spatial and spatial difference-in-differences models with state of Indiana property-level data from 2010–16. They find a significant spillover effect over the entire period, but a positive spillover effect from 2011–14, and a negative effect from 2015–16. Their findings raise several important issues for policymakers on the timing of TIF project adoption and the economic cycle, the life of the TIF net benefit cycle, and the “but for” test.

In chapter 14, “The Conceptual Pliability of TIF and the Political Rhetoric of Environmental Remediation: Groundwater Pollution and Tax ‘Decrement’ Financing in Wichita,” Chase M. Billingham and Sean Sandefur examine the issue of applying the TIF label to a non-TIF-based tax policy. Their case study provides an analysis of city officials’ commitment to the idea of TIF, the rhetorical strategies that they utilized to persuade legislators, other taxing jurisdictions, and the public to adopt their plan, and the strategic deployment of “but for” arguments to defend their plan in the face of criticism. They show that TIF can provide a useful vehicle for creative solutions to fiscal problems, but with its inherent flexibility, vagueness, and breadth, it is also susceptible to mislabeling and abuse.

In chapter 15, “TIF and Education Funding: Issues and Impact,” Phuong Nguyen-Hoang analyzes one of the most controversial areas of TIF,

the impact of TIF on overlapping school districts. Phuong Nguyen-Hoang argues that TIF may affect education funding both positively and negatively during its duration. Successful TIF areas, once terminated, clearly bring fiscal benefits to school districts. Also, when TIF projects in blighted areas meet the “but for” condition, school districts are likely to benefit, or at least not lose anything from TIF. But school districts stand to lose if the “but for” condition is not met. School districts, however, may gain even when TIF projects fail to meet the “but for” condition if municipalities return excess TIF increments to the schools. Phuong Nguyen-Hoang concludes that states should consider adopting policies and statutes that provide better protection for school districts from the potential negative aspects of TIF.

The main purpose of chapter 16, “TIF Legislation in Indiana: Agile and Adaptive,” is to provide an overview of the evolution of TIF legislation in Indiana over roughly three decades. Perry Burnett, Mohammed Khayum, Sudesh Mujumdar, and Daniel Friesner do so by emphasizing legal changes associated with the evolution of TIF district formation and the capturing of incremental assessed value. They describe legislative responses to issues associated with TIF throughout the state over the years, and document the agility and adaptability of the legislature in responding to these concerns. They argue that the reforms in TIF laws reflect legislative intent to increase transparency, accountability, efficiency, and equity in TIFs throughout the state.

References

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