

Tax Increment Financing

	TIF Developers	Non-TIF Developers
Land acquisition, demolition, and site preparation	City issues bonds	Developers pay
Streets, sewers, lights, traffic signals, "infrastructure"	City issues bonds	Developers pay, or city pays and levies special taxes
As property is developed, assessed value rises.	Increased taxes pay off bonds	Increased taxes fund general government
If taxes don't rise enough	City is liable for bond payments	
After 20 years	Taxes fund general government	Taxes fund general government

In effect, developers in TIF districts have the increase in their property taxes redirected back into their developments to pay off bonds that benefitted them. For everyone else, their increased taxes fund general government.

Do TIF districts work? Economists Richard Dye and David Merriman: "TIF districts grow much faster than other areas in their host municipalities. TIF boosters or naive analysts might point to this as evidence of the success of tax increment financing, but they would be wrong. Observing high growth in an area targeted for development is unremarkable."

What about the city as a whole?: "If the use of tax increment financing stimulates economic development, there should be a positive relationship between TIF adoption and overall growth in municipalities. This did not occur. If, on the other hand, TIF merely moves capital around within a municipality, there should be no relationship between TIF adoption and growth. What we find, however, is a negative relationship. Municipalities that use TIF do worse." Also: "TIF subsidies might be helping growth within the TIF district, but they are hurting growth outside the district by a larger amount."

What are the public policy implications of TIF districts?

Centralized government planning. Development in some areas deemed more valuable. Interventionism on a grand scale. K-96 highway.

Confused citizenry. Few understand how TIF districts work, and how they benefit TIF developers.

Sharon Fearey: "Under a TIF, the additional property taxes generated by new development are used to repay bonds. No dollars go to private developers."

The "but for" criteria.

Effect on overlapping taxing districts: counties and school districts.

Are TIF districts without cost? Will anyone develop anything outside of TIF districts?