

Frequently Asked Questions About Tax Increment Financing

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TIF 101: The Basics

What is TIF?

Tax Increment Financing, or TIF, is a geographically targeted economic development tool. It captures the increase in property taxes, and sometimes other taxes, resulting from new development, and diverts that revenue to subsidize that development. That diversion means local public services do not get the new revenue they would normally get from new re/development.

TIF diverts and then often mortgages future tax revenue.

What Other Names does TIF Go By?

In Texas, Tax Increment Redevelopment Zones, or TIRZs.

In Florida, Community Redevelopment Areas, or CRAs.

In New Mexico, Tax Increment Development Districts, or TIDDs.

In New Jersey, Economic Redevelopment and Growth Grants, or ERGGs.

In Georgia, Tax Allocation Districts, or TADs.

In California, Enhanced Infrastructure Financing Districts, or EIFDs.

How does TIF work?

Here's the basic idea. A city designates a small geographic area to be redeveloped (a "TIF district"), usually at the request of a corporation or a developer. When that redevelopment happens, property values will go up, and therefore property taxes will be higher. When that happens, the property tax will be broken into two streams.

The first stream, tied to the old property value before redevelopment—the so-called "base value"—will continue to go where it always went: schools, roads, parks, fire, sanitation, police etc. But all of the *increase* in property taxes tied to the increase in

value—the so-called “tax increment”—will not go to public services. Instead, it will be diverted to subsidize the TIF district.

Some states also allow incremental local *sales tax* to be “TIFed.” And a few states, like Kentucky or New Jersey, allow *many kinds* of taxes to be captured (even revenue that would normally go to the state treasury).

How Long Do These TIF Tax Diversions Last?

For a very long time: as many as 15, 23, 35 or even 40, 45 or 50 years. In some cases, TIF districts can be renewed: for example, TIFs in Illinois begin as 23-year diversions and can be extended 12 more years.

Where is TIF most common?

TIFs are legal in every state except Arizona.

Six states have more than 1,000 TIF districts each: Iowa (3,340), Minnesota (1,719), Texas (1,378), Ohio (1,278), Wisconsin (1,241), and Illinois (1,238). Another six states have between 450 and 1,000 TIF districts: California, Indiana, Maine, Michigan, Missouri, and Nebraska.

Several cities have a large number of TIFs. Among those cities are Chicago (which leads the nation in its use), Atlanta, St. Louis, and Kansas City.

California created TIF in the 1950s, but dissolved the program in 2012 to help solve a state budget crisis. In its place, Enhanced Infrastructure Financing Districts were later created, a limited version of TIF. A few other major states have little TIF activity (such as New York or North Carolina).

TIF 202: Who Has the Power and Where Does the Money Go?

Where does the Authority to Create TIFs Come From?

States legally enable and regulate TIF. These state laws also name the permissible uses of TIF proceeds, how long a TIF district may exist, and whether the TIF districts must report on their activity to the state.

Who Has the Authority to Actually Create a TIF District?

State laws typically give *cities or towns* the power to create TIFs. A few states give this power to counties as well.

How Do TIF Funds Subsidize Development in the TIF District?

Most states restrict the use of TIF funds to pay for public infrastructure and public structures, such as roads, sidewalks, water, and sewer lines. States often also allow TIF funds to be used to prepare land (i.e., by demolishing buildings or decontaminating soil) and to cover “soft costs” such as performing surveys.

Some states go further and allow TIF money to subsidize the construction of private buildings in the TIF district, including land purchases or interest costs of private financing of a project.

To be clear, the very structure of TIF is a generous subsidy to those who own property in a TIF district. As we detail below, the taxes diverted are not just city funds, they are also school and county revenues. By giving the TIF district first claim on the incremental tax revenue for up to 50 years is to put those corporations ahead of school children, public health, and public safety in the city’s “pecking order” of budget priorities.

For public dollars to pay for new infrastructure is also a costly subsidy. Normally, when a corporation builds a large new project, it pays for the new infrastructure. When tax money flows directly to subsidize the construction of private infrastructure and buildings, that is purely about raising the developer’s rate of profit.

What Are the Local Revenue Implications?

Cities get the power to create TIFs even though the tax diversions will typically also come at the expense of school districts, county governments, and other local taxing bodies. In a typical revenue split, one half of property taxes might go to schools, one fourth to a city and one fourth to a county. But the TIF diversion captures *all* of those incremental streams and pours them all into one small area for decades.

In other words, cities gain power under TIF to capture money that would normally be used to educate children, staff fire departments, run public health clinics and provide other public services.

That's why, for example, the treasurer of Adams County, Colorado, once denounced a \$26.9 million TIF for a big box retail project, "without a penny [of it] accruing to the county." He pointed out that if a murder occurs at the mall, the county coroner, county district attorney, county sheriff, county jail, and county court would all incur expenses, none of them supported by the TIF district.

This is why we refer to TIF (and property tax abatements, or other exemptions typically controlled by cities) as an "intergovernmental free lunch."

How are TIF Funds Disbursed?

There are three main ways TIF proceeds flow.

Debt service: the city borrows money by issuing a bond and then the tax increment generated by the TIF district is used to pay back the bondholders. If a project has high up-front costs, the lump sum generated by a bond issuance enables a city to pay for them. In other words, the new, diverted taxes pay down the debt.

"Pay as you go": In this case, the incremental funds are used to compensate a corporation or developer year by year for construction costs. As explained above, the eligible costs are specified in the state's enabling legislation.

"Tax rebate TIF": In these cases, the company pays the tax increment, and the city promptly refunds the same amount. There is no debt and there are no construction goals. It is an unambiguous tax abatement. (See more below on TIF and abatement definitions.)

How Do TIF Bonds Work?

TIF bonds can be financed by several devices. Many TIF bonds are a kind of “private activity bond” or PAB. (Industrial Development or Revenue Bonds are another kind of PAB.) TIFs can also be financed with a “General Obligation (or GO) bond.” That is, they are backed by the full faith and credit of the government that issues them. (School and sewer bonds are examples of GO bonds).

TIFs can also be financed with special assessments, tax allocation bonds, TIF revenue notes and sometimes other funds; it varies by state.

On Wall Street, TIF bonds are considered a subset of municipal debt and they are sold by and to many of the same banks and investors who deal in municipal bonds issued by states and localities.

TIF bonds are mostly tax-exempt, like GO bonds, because they are issued by public bodies for the public purpose of economic development. That is, the interest paid on them is usually not taxable income, so localities can offer them (like GO bonds) at interest rates lower than, say, corporate bonds whose interest *is* taxable income.

What is “But For” and Why Does Good Jobs First Disregard It?

Defenders of TIF routinely point to rules in some states requiring a corporation or developer to certify that “but for” the TIF, the project would not occur. This certification supposedly protects the public interest by ensuring that the TIF subsidy is “leveraging” the project, i.e., that it is not merely a corporate windfall. (Some states have adapted this frame to other subsidies as well.)

But we don’t consider this valid, because states don’t give cities the right to investigate a company’s internal records about such decisions (such as board minutes, emails, phone records, site location consultant memos, etc.).

Simply put, the “but for” language enables the developer to say “trust me.” At the end of the day, public officials and the general public never really know what factors drove the company’s decision.

Good Jobs First has long ignored and opposed the use of “but for,” because we think its real purpose is to disable criticism of public officials. If a politician grants a dubious or excessive deal and gets criticized for it, they can simply point to the corporation or developer and say: “They signed the ‘but for’ certification. We should

all be grateful for this new project we would not have gotten otherwise.” And since no one can credibly question that claim, the criticism dissipates.

This is what economists and political scientists call “information asymmetry.” It’s one more way the U.S. economic development system is corporate-controlled.

How Are TIF Districts Tracked Locally?

Cities typically post information online about existing TIF districts so that, district-by-district, you can get information about the boundaries, the district’s age, the amount of TIF spending, and how the money is to be used, etc.

Often, however, local TIF disclosures amount to “staring at the bark” rather than seeing a forest. That is, there may be a great deal of raw information specific to each TIF district, but not a database providing you with key information about all the TIF districts in one place.

How Are TIF Districts Tracked Statewide?

In a word: poorly. Very few states keep good central record-keeping systems of their TIF districts (and those that do are often states where TIF has been especially prolific and controversial, such as Illinois, Missouri, and Minnesota). So we must depend on academic studies that go to great lengths to assemble even basic information about TIF districts’ *existence*, much less their costs or current status.

That said, there are a few examples of a well-done TIF disclosures on a local level, like this Chicago [one](#). But of course, disclosure is not the same as rational use or accountability. Chicago TIFs are hyper-transparent because they have long been very controversial.

If a Company Gets a TIF, Does That Mean It Can't Get Other Subsidies?

No, in fact the opposite is true. Even though TIF is a generous long-term subsidy, it does not disqualify companies from getting loans or loan guarantees, corporate income tax credits, training grants, sales tax exemptions or other state- or federally enabled incentives. In some states, TIF projects can also receive other local subsidies, such as (in Missouri) transportation development districts.

Are TIFs More or Less Accountable Than Other Kinds of Subsidies?

TIFs are less accountable because of their structure, especially when they involve debt.

Compare a TIF district to, say, a corporate income tax credit for job creation. The income tax credit can be subject to annual review and adjustments. If the company fails to hire and retain as many people as it pledged, the credit can be reduced or rescinded going forward. And if the shortfall is really severe or there is evidence the company lied, past credits could even be recaptured via a “clawback.”

None of those remedies are available in a debt-service TIF, the most common form. Once the TIF bonds have been sold, the TIF consultants, lawyers and investment bankers have their fees, the bond holders are entitled to their debt service payments, and the construction companies have signed contracts to build the infrastructure. There is nothing to adjust or rescind.

Why are Public Officials So Vehement in Defending TIF?

“Don't take away the last tool in our tool kit!” you will invariably hear public officials cry when TIFs are criticized.

Local public officials like TIF because of its *flexibility*: money can be spent in many ways to help redevelop an area. Some officials may also cite long-term cutbacks in federal and state aid to cities.

But there are darker aspects to this deep attachment. In some states, TIF has clearly become a deeply embedded political payback tool. That is, developers fund the political campaigns of local politicians, and the elected officials return the favor with

TIF districts (and other subsidies). Developers, TIF consultants, lawyers and investment bankers create a special interest lobby in some cities and state capitals.

What is the Connection Between TIF and Eminent Domain?

About two-thirds of the states give TIF districts the power of eminent domain. In some places this has prompted anti-TIF campaigns framed along with “eminent domain abuse” community resistance to displacement.

How Has an Anti-Blight Incentive Been Subverted?

In many states’ enabling legislation, the intent of TIF is to help alleviate blight. Indeed, some states borrow Progressive Era anti-slum ordinance language.

But over time, this goal has been subverted. Whereas some states wrote their TIF-targeting language tightly so as to restrict TIF to areas that are clearly distressed, other states did not. And over time, some states with once well-targeted programs deregulated their TIF eligibility rules so that, as we explain here, they can fuel sprawl and become costly fiscal headaches for school districts and county governments.

Too often, states enable an area to be declared “blighted” based on a laundry list of criteria. The area may only need to meet one or a few of these criteria and some of the definitions can be loose and subjective.

The other reason involves litigation. State courts have for the most part decided that cities have wide latitude to define blight as they see fit. Missouri’s highest court, for example, deemed it legal for an affluent St. Louis suburb, Des Peres, to give a \$41 million TIF to an upscale shopping mall so that it could attract a Nordstrom store.

Other states have abandoned any pretense of addressing poverty. Virginia allows localities to create a TIF district anywhere it will “promote commerce and prosperity.”

Ultimately, in our opinion, the use of “blight” amounts to a cynical use of poor people as bait. Using the Progressive-era framing suggests that TIF is intended to improve the lives of people in dilapidated housing or depressed commercial districts. But state legislation enabling TIF rarely requires any community benefits that could aid incumbent TIF district residents.

What is the connection between TIF and sprawl?

Developers, of course, like subsidies to be as big as possible. (The same is true of investment bankers underwriting TIF bonds.) In the case of TIF, that means that vacant land or agricultural land—each of which likely has a low assessed value—is prized. That’s because the lower the “base value” of the property in the TIF district, the bigger the tax increment and bond sale can be (since all of the new improvements will count towards the increment).

In Wisconsin, farm advocates decried a TIF district created for a Walmart store in Baraboo to pave over an apple orchard. But the low assessed value of farmland meant a low base value and a resulting big increment. It was not an unusual event: [an academic found](#) that over a 14-year period, 54% of the newly annexed land in the Badger State was TIFed. That is, by definition, these were sprawling TIF districts on the fringes of city limits.

Good Jobs First [documented a similar pattern](#) in the Twin Cities. We looked at subsidy deals that involved corporate relocations and found that three-fourths of them were TIFs. The overall pattern was to move jobs outbound: away from communities of color, away from public transit routes and away from pockets of poverty, into wealthier communities.

How Can the Definition of “Tax Increment” Undermine Local Budgets?

You might call it the “ravenous increment” problem. In the early 2000s, the Neighborhood Capital Budget Group in Chicago examined the city’s biggest TIF districts. They looked at the land records both before and after the TIFs were created. They found that the property values in many of the TIF districts were not previously stagnant; they had been rising. That is, measured by their tax base-health, the areas were not really “blighted.”

But when the TIF districts were created, all that pre-existing growth that would otherwise have kept going to support schools and other public services was instead legally redefined as part of the “increment.” (TIF laws freeze the “base value” as whatever property values are at the time the TIF is created.) In Illinois, that diversion of naturally occurring revenue growth lasts for 23 to 35 years.

Chicago is a cautionary outlier, with more TIF districts than any other city. TIF captures a third of the city’s property tax base and has become a recurring point of contention between the City and public employee unions. Shortly before he left

office, then-Mayor Rahm Emanuel created two of the costliest TIFs in U.S. history; Lincoln Yards and The 78, totaling \$2.4 billion in subsidies.

Why Have Retail TIFs Caused Controversies in Some States?

The use of TIF for retail projects in some states has undermined local jobs and tax revenues. In the St. Louis metropolitan area, the East-West Gateway Council (the regional planning association) [issued a scathing study](#) about TIF and excessive retail space. It documented how St. Louis suburbs had given a total of \$2 billion in TIF subsidies for suburban malls and big-box stores.

Geographically, the TIF deals favor the outer parts of the region. Meanwhile, in the central city and inner-ring suburbs, retail establishments have closed, laying off tens of thousands of workers and driving buying power to the suburbs. From 1990 to 2007, combining all the new retail and closed retail, there was a net increase of only 5,400 jobs in the entire three million population MSA. That's a per-job subsidy of more than \$370,000.

The point here is that when it creates duplicate capacity like excessive retail, TIF merely *transfers* economic activity and tax revenue; it does not create net new growth. Consumers do not have more money with which to shop just because they have *more places* to shop.

TIF has figured prominently in the aggressive subsidy strategies of national retailers such as Cabela's, Bass Pro, Walmart, Target, and Amazon. In other words, TIF has massively subsidized the monopolization of U.S. retailing and all the problems associated with declining entrepreneurship and Main Street life.

What Happens if an Increment Becomes Insufficient to Cover the Debt Service?

This is called an "underwater TIF."

Sometimes, TIF projects fail to maintain enough incremental tax revenue to pay the debt service. This can happen because a recession arrives, causing the property's value to decline (and enabling the developer to appeal for a lower tax assessment).

It can also happen because a project was inherently flawed. A feasibility study may have overestimated market trends or future rent rates. A corporation may have overstated its likely future growth. Or a retailer may downsize or go bankrupt due to new competition from e-commerce.

When a debt-service TIF goes underwater, if the bond is not a general obligation, the city is not legally obligated to cover the shortfall. But in reality, cities rarely allow TIF bonds to default. So a TIF can become a drain on a city's general fund. At one point in the Great Recession, Kansas City had six underwater TIF districts.

To reduce the chances of an insufficient increment, lenders reportedly now want the projected increment to equal 150% of the debt service. That is: if debt service is to be \$100,000 per month, underwriters would want to see the increment be at least \$150,000 per month.

How Well Are the Costs of TIF Disclosed in Government Financial Reports?

The short answer is not well.

Since 2017, most state and local governments have been required to report (in their Annual Comprehensive Financial Reports, or backwards-looking spending records) how much revenue they lose to economic development "tax abatements." While the phrase "tax abatements" has historically been associated with property tax exemptions or discounts, in this case it means any kind of corporate property, income or sales tax.

The rule mandating this disclosure is Governmental Accounting Standards Board (GASB) Statement No. 77 on Tax Abatement Disclosures. GASB's "Statements" are amendments to Generally Accepted Accounting Principles (GAAP) for the public sector.

Good Jobs First and others have long argued for ways the Statement could better capture the costs of TIF. In short: we are now on record stating that GASB has mishandled the subject so badly, it should simply issue a TIF-specific Statement.

That said, here is where Statement No. 77 stands on disclosure of the three kinds of TIF:

- On tax-rebate TIF, where the government promptly refunds the tax increment payment to the company, GASB has ruled that that is clearly an "abatement," and its cost should be disclosed.
- On "pay as you go" TIF, where there are no bonds and the government pays the company on deliverables, it depends upon what got paid for. If the funds

- went for what will become public infrastructure, GASB has ruled that is not a reportable abatement. If the funds pay for private improvements, it is unclear whether GASB considers that an abatement to be disclosed.
- On TIF funds that are used to pay for debt service, GASB has ruled that such spending is not an abatement, but rather it is equivalent to a general obligation bond (like a school bond or a sewer bond). Further, GASB states that such TIF debt service appears in financial reports alongside general obligation debt service tables.

Based upon our readings of thousands of financial reports, we disagree. First, TIF debt service does not always appear in financial reports. Second, even if TIF debt service *does* appear, those figures may be incomplete (because of the aforementioned Wall Street insistence that the tax increments should exceed the debt service). If, per our example above, the \$100,000 debt service gets reported in the annual financial report, that is only two-thirds of the \$150,000 increment.

For help interpreting your local financial reports and TIF, Christine Wen of our staff may be able to help: chris@goodjobsfirst.org

TIF 404: How TIF Can Be Curbed

First, Back to Basics

States should amend the TIF-enabling laws to restrict its use to areas that are objectively economically deprived. No more calling a farm “blighted” just because its farmhouse is more than 35 years old.

Spending Limits

States should cap the amount of tax revenue that a city can divert into TIFs at revenue tied to 2% of their Equalized Assessed Value base (i.e., the total assessed value of all taxable property in the city).

Let Voters Decide

The creation of a new TIF district should require approval by referendum, the way GO bonds are in some states, at least for projects above a certain dollar threshold.

Community Benefits

When it had TIF, California required that 20% of the tax diversion go to build affordable housing. States could require that TIF-financed projects utilize state-certified apprenticeship programs, pay prevailing construction wages, and use green building standards.

More-Robust Public Hearings

TIFs are already the subject of planning hearings, but states should require multiple public hearings in the proposed TIF district footprint, during the evening, with advance online disclosure of the project application.

No More Intergovernmental Free Lunches

The states should reserve the power to participate in or not participate in each TIF district to every school district, county, and other local taxing body. So if, say, a school district doesn’t want to surrender its incremental property taxes to a shopping mall for 20 years, it can exclude its portion from the deal.