Your Questions Answered: Is TIF Always Bad?

Jacob Moses · January 25, 2019

Every Friday, we answer a new question that a reader asks in the Strong Towns Knowledge Base: a new Strong Towns platform where you can get the answers you need to take action locally.

This week's question: Is TIF always bad?

Tax increment financing (TIF) is a financing method used by local governments, often to redevelop blighted or disinvested areas where market-rate development is seen as unprofitable without assistance. Under a TIF agreement, a local government incentivizes a developer to work in a designated geographic area (called a TIF district) by subsidizing a portion of the development costs. The subsidy may help pay the up-front cost of either private development or associated public infrastructure. The city raises the money by selling bonds to investors, and the bonds are gradually paid back out of increased property taxes over the next 20 or 30 years.

As redevelopment causes the value of the property to increase, more property taxes can be collected from within the TIF district. Rather than adding these to the city's general budget, any additional tax revenues above the amount paid at the time the TIF was established are set aside in a special fund. That fund is reserved for gradually paying back the initial TIF bonds. Once the TIF is paid off, local governments can use the future property taxes for anything—road maintenance, schools, etc.

redeveloped and, eventually, they can use the increased property taxes however they'd like.

In the long-term, however, TIFs can create tax revenue issues for local governments. They could've used the property taxes over the past 20 or 30 years for city-wide projects. Instead, they may need to raise other citizens' taxes or take on additional debt to complete needed projects.

Every time a city approves a TIF, they have to ask themselves a series of unknowable questions. Will the TIF perform well, creating a flourishing area with tax-paying businesses and residents where one would not have otherwise existed? Or will it perform poorly, creating a huge loss of tax revenue?

At Strong Towns, this uncertainty concerns us. The intention behind TIF is not always bad—but here is a list of questions you can ask yourself or your elected officials to discover if TIF is best for your city's or town's financial health.

Have you considered incremental development?

Incremental development means making small bets on many small projects over a broad area over a long period of time. Because local governments don't have the ability to guarantee the future success of a project, they should consider growing incrementally.

Instead of constructing a rail line, you start with a shuttle bus; instead of building an apartment complex, you start with a duplex.

This same philosophy applies to TIF districts, which are often used to jump-start large scale redevelopment projects, and justified on the basis that no such mega-project would have been viable without TIF. But should the city first consider a smaller investment to develop the area? Could they invest in helping the existing local grocery meet its needs? Could they practice economic gardening and seek to help hardworking, entrepreneurial residents of the area start and grow companies?

What would it take to gradually bring up the value of existing properties instead of doing full-scale redevelopment?

We know these alternative solutions aren't as shiny and new as the proposed, TIF-funded megaproject. However, because they are small bets, local governments can preserve their resilience if they don't succeed.

Is the public losing anything?

Before local government can approve a project for TIF, they must ensure the project passes the "but for" test: but for the TIF subsidy, the development wouldn't happen.

If that's true, then the TIF is jumpstarting development but the public isn't losing anything, because the money to pay off the initial TIF subsidy is coming from property taxes that otherwise wouldn't have been collected at all.

The problem, however, is that it's challenging to actually assess that "but for" test in practice, meaning lots of projects that get TIF money probably don't pass it. That means TIF can end up starving the local government's general fund—which pays for most city services—because the property taxes are going to the TIF district instead.

Before approving projects for TIF, it's essential that local governments—to the best of their ability—ensure that the TIF money is going to truly necessary, value-creating projects that can't happen any other way, and not to subsidize development that could have been achieved by another means.

Resources

Here's a take on some of the problems with TIF, written by Chuck Marohn for Strong Towns in 2012.

Here's a 2018 account of an ill-conceived TIF deal in a Missouri city used to lure big-box retail away from nearby cities instead of to induce actual, sustainable growth.