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TAX INCREMENT FINANCING AND MISSOURI:

AN OVERVIEW OF HOW TIF
IMPACTS LOCAL JURISDICTIONS

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TAX INCREMENT FINANCING AND MISSOURI:

AN OVERVIEW OF HOW TIF IMPACTS LOCAL JURISDICTIONS

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EXECUTIVE SUMMARY

Tax Increment Financing (TIF) has become a common economic development tool throughout the United States. TIF takes the new taxes that a development generates and directs a portion of them to repay the costs of the project itself. Missouri is one of many states where TIF is authorized for purposes of combating blight, engaging in conservation efforts, fostering economic development, or a combination of those factors.

Supporters of TIF argue that it is a necessary tool for redevelopment in older communities. Detractors contend that it is used to simply subsidize development, and that variances in tax systems allow some governments to implement and benefit from TIF even if its use harms other levels of government.

This study provides an overview of the history and basic structure of TIF. It then analyzes the basic tax components of a TIF plan and compares how various aspects, such as tax capture and tax competition, play out in the standard system of TIF. The study then reviews the economic literature on TIF, and ends with a direct application of how TIF operates within Missouri.

TIF began as an obscure economic development tool used in a handful of states to finance improvements in blighted urban areas.

INTRODUCTION

In recent decades, state and local policymakers' role in fostering economic development within their jurisdictions has continuously become more active and expansive. Competition between jurisdictions has also placed significant pressure on economic development practitioners to offer potential developers the full array of economic development incentives that competing jurisdictions offer. Tax Increment Financing (TIF) has become one of the most popular of these incentives. TIF began as an obscure economic development tool used in a handful of states to finance improvements in blighted urban areas. The popularity of TIF grew in the 1980s as municipalities began to view TIF as a general economic development and job creation tool as opposed to a blight reduction tool. While only 24 states gave municipalities TIF authority in 1980, the number grew to 41 states and the District of Columbia by 2000. Today, all but one state authorizes the use of TIF. In many cases, the authorization of TIF was not a simple process. Arkansas, North Carolina, West Virginia, and a number of other states faced constitutional roadblocks, requiring amendments to state constitutions before their respective legislatures could authorize the use of TIF. That so many states undertook the arduous process of amending their constitutions to give municipalities the ability to use TIF highlights policymakers' view of TIF as an indispensable economic development tool.

Although economic development practitioners view TIF as a necessity, its use has its detractors. While the specific structure of TIF varies by state, some school districts, counties, and other overlapping jurisdictions have a negative view of TIF, seeing it as a mechanism that limits, as opposed to grows, their tax base. In addition, municipalities use TIF to divert tax revenue that would otherwise be destined for these overlapping jurisdictions. Furthermore,

as TIF's prominence as an economic development tool has grown, it also has been drawn into the broader debate about the general practice of local governments offering tax breaks to individual firms and developers. In this debate, policymakers viewing TIF as a necessary enticement to fulfill their responsibility to encourage economic development face a diverse opposition. Some opponents object to TIF and similar incentives on grounds that they interfere with free markets, while others view businesses in general as undeserving of tax breaks. Additional opposition comes from small business interests that are less likely to be offered the tax incentives usually given to larger firms. Still others who support the idea of using incentives to attract and foster economic development have criticized TIF as being unnecessarily generous.

In spite of TIF's obvious importance to policymakers and developers, the general public and even many policymakers lack a fundamental understanding of TIF and how its use impacts local economies. The goal of this policy study is to provide the general public and policymakers with a thorough and accessible understanding of the economics of TIF. The study begins with a basic model of how TIF finances development and how it can serve as an incentive for development. The paper then discusses how TIF differs from other economic development incentives and how this difference can result in either a sharing of development costs among overlapping jurisdictions or the municipality capturing school district and county tax revenue. Next, the paper discusses TIF's role in economic development and tax competition along with the importance of the shifting of economic activity and the but-for provision. The paper follows with a review of the academic literature's empirical findings on TIF and provides an overview of TIF use in Missouri. Finally, the study offers some concluding remarks.

BASIC STRUCTURE OF TIF

State statutes empower local jurisdictions to enact TIF and certain details of TIF vary by state. Nonetheless, the fundamental structure of TIF is common across states. A local jurisdiction, typically a municipality, designates a group of properties to be part of a newly-created TIF district. Although most TIF districts consist of contiguous properties, some states allow non-contiguous properties in close proximity to be part of a single TIF district. Figure 1 gives an example of a legally-defined TIF district: the College Hill TIF in Topeka, Kan. This TIF consists of approximately 35 parcels located in Topeka's central city that developers had acquired rights to purchase and planned on turning into a mixed-use retail and residential development. Supporters argue that TIF encourages development because it allows a municipal-controlled TIF commission to use tax revenues generated from growth in property values within the TIF district to finance development costs necessary to encourage economic development.

The type of development costs that TIF funds varies by state, but often includes infrastructure improvements, land acquisition, demolition of existing structures, abatement of environmental contamination, landscaping, general construction, and even the planning process itself. Table 1 illustrates a basic model of how TIF funds improvements for a hypothetical development. Columns two and three show the assessed value of the parcels within the designated TIF district. For this hypothetical development, the initial assessed value of the property is \$250,000. Columns four and five

Figure 1: The College Hill TIF in Topeka, Kan.



Table 1: TIF District Assessed Values and Tax Collections

Year	PROPERTY VALUES		TAX COLLECTIONS	
	Total AV within TIF District	Base AV within TIF District	Total Tax Collections	Tax Collections from Base AV
1997	\$250,000	\$250,000	\$25,000	\$25,000
1998	\$2,000,000	\$250,000	\$200,000	\$25,000
1999	\$2,000,000	\$250,000	\$200,000	\$25,000
2000	\$2,000,000	\$250,000	\$200,000	\$25,000
2001	\$2,000,000	\$250,000	\$200,000	\$25,000
2002	\$2,000,000	\$250,000	\$200,000	\$25,000
2003	\$2,000,000	\$250,000	\$200,000	\$25,000
2004	\$2,000,000	\$250,000	\$200,000	\$25,000
2005	\$2,000,000	\$250,000	\$200,000	\$25,000
2006	\$2,000,000	\$250,000	\$200,000	\$25,000
2007	\$2,000,000	\$250,000	\$200,000	\$25,000

show the property taxes that the property owner(s) pay. The property is subject to a total property tax rate of 10 percent (4 percent from the school district, 4 percent from the municipality, and 2 percent from the county), initially generating \$25,000 in property taxes annually, with \$10,000 passed on to both the school district and municipality and \$5,000 passed on to the county. In this example, the municipality

Municipalities use TIF to divert tax revenue that would otherwise be destined for overlapping jurisdictions.

created the TIF district in 1997, when the assessed value of the property was \$250,000. The creation of the TIF district limits the amount of property taxes passed on to the overlapping jurisdiction to the amount of tax applied to the base year property values, often referred to as the Base Assessed Value (Base AV). In this example, the TIF-supported development occurred in 1998 and increased the property value within the district from \$250,000 to \$2 million.

What distinguished TIF from property tax abatement is that the property owner is still required to pay property taxes on the full \$2 million in assessed value, which in this case is \$200,000, based on the 10 percent property tax rate. The manner in which TIF finances development is through the TIF commission's ability to divert the tax revenue assessed on the growth of property values above the Base AV. Although the property owner pays \$200,000 in annual property taxes from 1998 onward, the municipal government, school district, and county government continue to receive the \$10,000, \$10,000, and \$5,000, respectively, based on the 1997 assessed property value of \$250,000. The TIF commission then uses the remaining \$175,000 in annual property taxes — the difference between the total tax collections and the tax collections from the Base AV — to pay for the infrastructure improvements and other reimbursable development costs.

The initial infrastructure improvement and development costs could have been financed with TIF bonds that the TIF commission or developer issued. The extent to which TIF-funded improvements are necessary for the development to take place is not always clear-cut and is addressed later. While municipalities allow some TIF districts to dissolve after the initial improvements are paid off, some states allow TIF to finance development on a pay-as-you-go basis, with the TIF commission financing additional infrastructure or development

costs as the tax increment grows. The number of years in which a TIF commission may divert the tax increment can vary by district, although state law sets a maximum time period for which the TIF may exist, typically between 20 and 30 years.¹ In this hypothetical example, when the TIF district expires, the full \$175,000 in annual taxes is passed on to the overlapping jurisdictions. Although this example focuses on TIF diverting revenue from a district's property tax base, some states have allowed taxes on a broader range of economic activities to be included in a district's tax increment, such as local sales and income taxes. The basic model of TIF is more or less unchanged when applied to these other taxes.

A very important part of understanding TIF is the extent to which the increases in a district's tax base can be solely attributable to TIF and whether development within the TIF district comes at the expense of other areas of the jurisdictions. Proponents of TIF argue that the larger tax base that a TIF designation spurs represents a significant payoff for each of the overlapping jurisdictions and justifies limiting the municipality, school district, and county tax base to the initial \$250,000 while the TIF district is in effect. Much of the debate about the impact of TIF can be framed as differing beliefs to the extent of how much of the economic activity within TIF districts can be attributable to TIF. TIF draws additional controversy because policymakers considering TIF can view it as serving two distinct functions. When the tax increment is used to fund infrastructure improvements in an area, it can be viewed as an alternative means of financing local public spending within the TIF district. On the other hand, when the TIF commission uses the tax increment to finance or reimburse a developer for private development costs, TIF effectively lowers the tax rate for developers within the district. Although policymakers initially discovered TIF as a useful means to fund public infrastructure improvements

in blighted areas, the latter function has driven TIF's explosive popularity in recent years. In many ways, TIF has evolved from a blight-fighting tool to an economic development tool. As developers have begun placing TIF at the top of their list of preferred economic development incentives, economic development practitioners who work to attract development within their jurisdictions have utilized TIF more frequently. Although in many states the legal requirements for a finding of blight remains, blight has become so broadly defined as to have become effectively meaningless. Each of these important issues is addressed in subsequent sections.

TIF: "SELF-FINANCING" DEVELOPMENT

California was the first state to enact TIF in 1952. TIF appealed to municipalities because it was a more politically-palatable means to raise the matching funds from the federal government for urban renewal projects. Using TIF allowed municipalities to raise funds without issuing general revenue bonds. While acquiring federal matching funds is no longer a driving force for TIF

utilization, the political appeal of TIF's self-financing approach still exists. Because the tax increment solely backs the repayment of TIF bonds, policymakers and the public often view TIF as having no negative effect on the municipality's fiscal condition. A municipality looking to make infrastructure improvements within a proposed TIF district could fund the improvements in a traditional manner, using general revenues, or it could issue bonds that the municipality's taxing power commits to backing. This traditional approach, however, would result in higher taxes and/or debt burden for the entire municipality, the latter of which often requires a public vote and/or is subject to debt limitations. Therefore, policymakers find fewer political obstacles to funding improvements through TIF because they can make the case that the municipality would still have access to the same taxes the property currently generates. Furthermore, they argue that the municipality does not bear the financial risk of the development failing to generate adequate tax increment. The purchasers of the TIF bonds, which generally do not have the backing of a general obligation pledge, bear the risk. TIF's popularity among municipalities facing

Proponents of TIF argue that the larger tax base that a TIF designation spurs represents a significant payoff for each of the overlapping jurisdictions.

Table 2: Tax Revenue Attributed to and Diverted by TIF

Year	Total AV within TIF District	Tax Revenue without TIF	Tax Revenue from Base AV	Tax Revenue Attributed to TIF	Tax Revenue Diverted by TIF
1997	\$25,000	\$25,000	\$25,000	\$0	\$0
1998	\$50,000	\$26,250	\$25,000	\$23,750	\$25,000
1999	\$52,500	\$27,563	\$25,000	\$24,937	\$27,500
2000	\$55,125	\$28,941	\$25,000	\$26,184	\$30,125
2001	\$57,881	\$30,388	\$25,000	\$27,493	\$32,881
2002	\$60,775	\$31,907	\$25,000	\$28,868	\$35,775
2003	\$63,814	\$33,502	\$25,000	\$30,312	\$38,814
2004	\$67,005	\$35,178	\$25,000	\$31,827	\$42,005
2005	\$70,355	\$36,936	\$25,000	\$33,419	\$45,355
2006	\$73,873	\$38,783	\$25,000	\$35,090	\$48,873
2007	\$77,567	\$40,722	\$25,000	\$36,845	\$52,567
Total	\$653,895	\$355,170	\$275,000	\$298,725	\$378,895

TIF's popularity among municipalities facing debt limits may be augmented by [the fact that] courts have generally ruled that TIF bonds not backed by a commitment of the municipality's taxing power are not included as municipal debt.

debt limits may be augmented by this latter characteristic because courts have generally ruled that TIF bonds not backed by a commitment of the municipality's taxing power are not included as municipal debt.²

The assumption that all of the property value growth after TIF creation is attributable to the improvements funded by TIF anchors the self-financing model. Weakening this assumption undermines the premise that municipal finances are held harmless by TIF. TIF legislation often freezes Base AV at the nominal initial year assessed value and does not adjust for inflation or general increases in property values. Table 2 shows an example where property values in the region are growing at a 5 percent annual rate. Column three shows the amount of property tax collections from the parcels within a proposed TIF district that would be generated in the absence of TIF designation. In the absence of the municipality creating the TIF district, these tax revenues would grow from \$25,000 to \$40,722 over the 10-year period.

In this example, the creation of the TIF district designation does spur development within the district, increasing property values to \$500,000 in the first year followed

by the 5 percent annual growth rate for the area.³ As shown in column two, this results in greater tax revenues over the same period when compared to the tax revenues collected without TIF. However, the example illustrates two deviations from the pure self-financing model. First, in the presence of growth that is independent of TIF, the increment includes tax revenue above and beyond those that the development generates. The amount of additional tax revenue that can be attributed to the TIF district, shown in column five, is the difference between columns two and three. However, while the TIF is in effect, the amount of tax collections passed on to the overlapping jurisdictions, including the municipality's general fund, are capped at the base year amount of \$25,000. As a result, the tax increment shown in column six is the difference between columns two and four, which is greater than the amount of additional revenue that the TIF generates. In this simple example, 10 years after the creation of the TIF district, the overlapping jurisdictions are collectively giving up \$15,722, or 39 percent, of the revenue that they would have collected without TIF. This weakens the notion that infrastructure improvements are being purely financed

Table 3: Pure Revenue-Capture Model of TIF

Year	Tax Revenue with TIF	Tax Revenue without TIF	Tax Revenue from Base AV	Tax Revenue Attributed to TIF	Tax Revenue Diverted by TIF
1997	\$1,000,000	\$1,000,000	\$1,000,000	\$0	\$0
1998	\$1,070,000	\$1,070,000	\$1,000,000	\$0	\$70,000
1999	\$1,144,900	\$1,144,900	\$1,000,000	\$0	\$144,900
2000	\$1,225,043	\$1,225,043	\$1,000,000	\$0	\$225,043
2001	\$1,310,796	\$1,310,796	\$1,000,000	\$0	\$310,796
2002	\$1,402,552	\$1,402,552	\$1,000,000	\$0	\$402,552
2003	\$1,500,730	\$1,500,730	\$1,000,000	\$0	\$500,730
2004	\$1,605,781	\$1,605,781	\$1,000,000	\$0	\$605,781
2005	\$1,718,186	\$1,718,186	\$1,000,000	\$0	\$718,186
2006	\$1,838,459	\$1,838,459	\$1,000,000	\$0	\$838,459
2007	\$1,967,151	\$1,967,151	\$1,000,000	\$0	\$967,151
Total	\$15,783,599	\$15,783,599	\$11,000,000	\$0	\$4,783,599

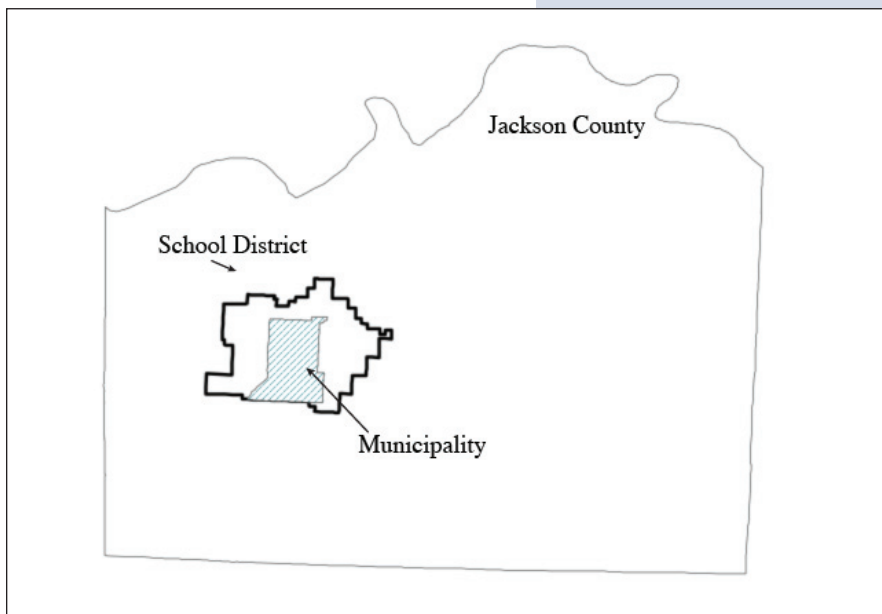
from the increases in property values that the development generates. That is a key selling point of TIF to the general public, as the overlapping jurisdictions are foregoing tax revenue they would have collected had TIF not been enacted. As a result, the municipality and other affected jurisdictions may ultimately have to increase property tax rates to offset lost tax revenue that it would have otherwise collected from within the TIF district.

While the fiscal consequences of freezing the Base AV in nominal dollars often appears to become a political issue in cases where large portions of a municipality's tax base is generated from TIF districts, the issue is not a new one. In 1975, Los Angeles City Councilman Ernani Bernadi wrote an editorial in the *Los Angeles Times* criticizing Los Angeles's proposed Central City TIF. The criticism was based on the fact that inflation alone would result in higher taxes for the rest of the city to make up for the tax base frozen by TIF (Bernadi, 1975). His comments echo common criticism heard today:

County Assessor Philip E. Watson estimates (TIF) will require a 10 percent tax increase — \$100 to \$200 a year for the typical homeowner — to subsidize the “rebuilding” of downtown. . . . Watson has figures to show that from 1965 to 1975 property in the project area increased in assessed valuation by an average of 7.47 percent a year. My office, using a 6 percent inflationary growth factor figured over the 35-year life of the project and a fixed \$14 tax rate, has arrived at a cost to the taxpayers of \$4.6 billion.⁴

The second deviation from the self-financing occurs because the TIF commission captures property tax revenue even when no additional development

Figure 2: Jackson County Overlapping Jurisdictions



occurs within the district. Table 3 shows an example where a municipality creates a TIF district with property generating \$1 million in property taxes and experiencing a 7 percent annual growth rate in property values. Although no new development is occurring within the district, fixing the Base AV in nominal dollars results in a significant amount of tax revenue diverted to the TIF. Therefore, the key to TIF's self-financing hinges on the extent to which the increase in economic activity is attributable to TIF. Initially created as a blight-reduction tool, policymakers may not have seen freezing the Base AV at nominal base year dollars as a significant issue in economically-depressed areas. However, the growth in TIF's popularity has coincided with its use well beyond blighted areas. Increasingly, TIF districts are more likely to exist in areas where at least some increases in the tax base can be expected independent of TIF, thereby weakening the self-financing assumptions behind TIF.

TIF diverts revenue from each of the overlapping jurisdictions and that is an important distinction between funding infrastructure or economic development with TIF instead of general revenue.

Because municipalities consider tax bases not available to the other overlapping jurisdictions, TIF's role in facilitating the sharing of development costs among jurisdictions in proportion to the growth of their respective tax bases breaks down.

The most obvious problem with the weakening of TIF's self-financing characteristic is the impact on the municipality's fiscal condition. First, TIF may allow municipal leaders to place an increased fiscal burden on residents in a stealth manner, as residents are not required to vote on the commitment of future revenues and may be uninformed of the long-run costs and benefits of TIF at the time future revenues are committed. Second, some argue that the failure to account for TIF's commitment of future tax revenues to municipal debt limits undermines the debt limit's role in restraining a leviathan government.

TIF: SHARING OF DEVELOPMENT COSTS OR CAPTURING OF TAX REVENUE

Municipalities typically control decisions regarding the creation and location of TIF districts. While the previous section discussed TIF as an alternative means of municipal funding, an important characteristic of TIF financing is that the increment not only includes tax revenue destined for the municipality, but also tax revenue destined for the other overlapping jurisdictions, i.e., the school district and county. Figure 2 shows the boundaries of the overlapping jurisdictions serving Raytown, Mo. The Raytown School District (border shown in bold) and municipality (shaded area) are located entirely within Jackson County. The municipality is located entirely within the school district, although the school district includes areas outside the municipality.

TIF diverts revenue from each of the overlapping jurisdictions and that is an important distinction between funding infrastructure or economic development with TIF instead of general revenue. Under TIF, the overlapping jurisdictions share in the development costs via their share of the tax increment. In the example from Table 1,

development increased TIF district property values from \$250,000 to \$2 million. Because the total property tax rate was 10 percent, the increase in property values resulted in a \$175,000 tax increment, revenue which would have otherwise been passed on to each of the overlapping jurisdictions. The structure of TIF results in each overlapping jurisdiction's share of the \$175,000 in foregone revenue being proportional to their respective shares of the overall tax rate. In this example, the municipality and school district had tax rates of 4 percent and the county had a tax rate of 2 percent. As a result, TIF diverts \$70,000 — two-fifths of the TIF increment — from both the municipality and school district, as each jurisdiction's tax rate accounted for two-fifths of the total tax rate. TIF diverts the remaining \$35,000 of the tax increment from tax revenue destined for the county, which accounted for one-fifth of the total tax rate. The extent to which the growth within the district can be attributable to TIF has important economic efficiency implications when overlapping jurisdictions share in funding the increment.

Under the public investment view of TIF, jurisdictions view tax revenue diverted by TIF as an investment meant to increase the tax base. Future tax revenues are then the return to the investment. Such public investments are efficiency-enhancing for the sponsoring jurisdictions if the growth in the property tax base that can be attributable to TIF expenditures is such that the net present value (NPV) of the taxing jurisdictions' foregone revenue is less than the NPV of future revenue.⁵ Under the public investment view, TIF's structure results in both the costs and benefits of TIF to the municipality, school district, and county being proportional to their respective shares of the total tax rate. The proportionality between costs and benefits occur under TIF because the tax increment represents both the cost to the overlapping jurisdictions of funding the development while TIF is in

effect and the gain in additional tax revenues to the overlapping jurisdictions once TIF expires. In the example discussed earlier, the school district and municipality's \$70,000 share and the county's \$35,000 share of the tax increment are the jurisdictions' respective burdens of the development costs while TIF is in effect. Once TIF expires, the school district and municipality each receive the benefit of an additional \$70,000 per year in tax revenue and the county receives the benefit of an additional \$35,000 per year in tax revenue. Although the school district and municipality forego twice as much tax revenue as the county during the TIF district's lifetime, each will collect twice as much tax revenue as the county from the expanded tax base when the TIF expires. TIF advocates often point out that under this view of TIF, the municipality's interests align with the other overlapping jurisdictions'. Allowing the school district and county to opt-out of TIF financing, as some states allow, would result in free-riding. They could enjoy the benefits of TIF (higher tax base and future revenue) without sharing in the cost (initial foregoing of revenue).

Furthermore, given the municipality will only consider the net present value of its own benefits when considering TIF, requiring the municipality to fund the full development costs would result in some public investments not taking place whose total

benefits exceed total costs. For example, if the NPV of the costs of a public investment is \$2.5 million and the NPV of the increase in future tax revenues is \$3.75 million, then it is efficient for the taxing jurisdictions to make the investment. However, if the municipality's share of the increase in future tax revenues is only \$1.5 million of the \$3.75 million, it will be unwilling to fund the investment on its own.

The public investment view of TIF is limited in that it assumes overlapping jurisdictions have the same tax bases. Because municipalities consider tax bases not available to the other overlapping jurisdictions, TIF's role in facilitating the sharing of development costs among jurisdictions in proportion to the growth of their respective tax bases breaks down. For example, a development that increases the sales tax base would benefit a municipality but not a school district. As such, it could be beneficial for a municipality, which controls TIF adoption in most states, to enact a TIF district even though it would fail to generate enough additional tax revenues to make it an efficient public investment. Table 4 illustrates a scenario where the municipality and county, but not the school district, assess a sales tax. Because the school district does not benefit from the growth of the sales tax base, it bears 40 percent of the costs of foregone property tax revenue while enjoying only 18

[In a scenario presented in the paper], the municipality rationally chooses to undertake the public investment as it gains a NPV (net present value) of \$0.2 million in tax revenue, even though the municipality's and county's gains in the NPV of tax revenue is more than offset by the \$0.6 million loss in the NPV of tax revenue to the school district.

Table 4: TIF Fostering Inefficient Economic Development

Jurisdiction	NPV of Diverted Property Taxes	NPV of Additional Property Taxes	NPV of Additional Property Taxes	Net Impact on Total Tax Revenue
Municipality	\$1 million	\$0.4 million	\$0.8 million	\$0.2 million
School District	\$1 million	\$0.4 million	\$0	-\$0.6 million
County	\$0.5 million	\$0.2 million	\$0.4 million	\$0.1 million
All Jurisdictions	\$2.5 million	\$1 million	\$1.2 million	-\$0.3 million

Table 5: Municipalities Using TIF to Capture Revenue from Anticipated Development

Year	Tax Revenue with TIF	Tax Revenue without TIF	Tax Revenue from Base AV	Tax Revenue Attributed to TIF	Tax Revenue Diverted by TIF
1997	\$25,000	\$25,000	\$25,000	\$0	\$0
1998	\$50,000	\$50,000	\$25,000	\$0	\$25,000
1999	\$52,500	\$52,500	\$25,000	\$0	\$27,500
2000	\$55,125	\$55,125	\$25,000	\$0	\$30,125
2001	\$57,881	\$57,881	\$25,000	\$0	\$32,881
2002	\$60,775	\$60,775	\$25,000	\$0	\$35,775
2003	\$63,814	\$63,814	\$25,000	\$0	\$38,814
2004	\$67,005	\$67,005	\$25,000	\$0	\$42,005
2005	\$70,355	\$70,355	\$25,000	\$0	\$45,355
2006	\$73,873	\$73,873	\$25,000	\$0	\$48,873
2007	\$77,567	\$77,567	\$25,000	\$0	\$52,567

[A] municipality simply uses TIF to capture tax revenue from the school district and county with the creation of a TIF district encompassing the area that will experience development.

percent of the benefit of additional property and sales tax revenue. The municipality, on the other hand, enjoys 55 percent of the benefit of additional property and sales tax revenue, while bearing only 40 percent of the cost of foregone property tax revenue. In this scenario, the municipality rationally chooses to undertake the public investment as it gains a NPV of \$0.2 million in tax revenue, even though the municipality's and county's gains in the NPV of tax revenue is more than offset by the \$0.6 million loss in the NPV of tax revenue to the school district.

Skepticism of the public investment view of TIF also comes from critics contending that municipalities can take advantage of the structure of TIF to capture tax revenue from overlapping jurisdictions in a manner that undermines the efficient provision of government services that the overlapping jurisdictions provide. These criticisms are often heard in areas where municipalities have aggressively implemented TIF that resulted in a significant portion of the tax base subjected to diversion through the increment. In such areas, TIF often becomes the bane of school district and county officials, who decry municipalities for subsidizing municipal services at the expense of school district and county services.

In this pure revenue-capture model, a municipality can simply enact a TIF district in an area that is experiencing or about to experience an increase in the tax base and use the county and school district's share of the tax increment to subsidize municipal services. Table 5 illustrates a scenario where a municipality anticipates development in a particular area where the assessed property value is initially \$250,000. Similar to the scenario illustrated in Table 2, development will increase property values from \$250,000 to \$500,000. However, in this case, TIF does not spur the development, which occurs independently of TIF. As such, columns two and three are identical and the tax revenue attributable to TIF is \$0. The municipality simply uses TIF to capture tax revenue from the school district and county with the creation of a TIF district encompassing the area that will experience development. This effectively freezes the taxes passed on to overlapping jurisdictions according to the Base AV of \$250,000. Assuming a constant tax rate of 10 percent, development increases the amount of taxes collected from the initial \$25,000 to \$50,000 and then continues to grow at an annual rate of 5 percent. The TIF authority captures the increment, shown in column 6, even though the increase in tax revenues is not attributed to TIF.

Some TIF critics contend that this model more accurately explains municipalities' penchant for using TIF. They argue that municipal leaders implement TIF to fund municipal services within the TIF district with tax revenue intended for the school district and county, thereby improving its fiscal condition at the expense of these other jurisdictions.⁶ In this hypothetical case, 10 years after TIF enactment, TIF captures 68 percent of property taxes. Although 40 percent of these captured revenues would have gone to the municipality in any case, the municipality captures almost \$380,000 from the county and school district during these first 10 years. With most TIF districts lasting between 20 and 30 years (up to 23 years in Missouri), the increment can become significant over time.⁷ The size of the increment, and therefore the amount of revenue a municipality could potentially capture from other overlapping jurisdictions, increases with the difference between pre- and post-TIF district tax base. This characteristic could result in municipalities capturing a sizable portion of the tax base from the development of greenfield sites that have low base AVs.

While the pure public investment and revenue-capture views of TIF diverge in their assumptions of municipal intentions, the fact that most municipalities do not share a common border with their respective school districts and counties gives TIF the potential to be more than a revenue shell game. Byrne (2005) demonstrates that a municipality has little incentive to capture revenue from an overlapping jurisdiction that shares its borders, because the overlapping jurisdiction provides valuable services to municipal residents. For example, when a municipality and school district share identical boundaries, any decrease in the municipal tax burden achieved through revenue capturing is exactly offset by either an increase in school district tax burden or a decrease in school district services.

Assuming tax rates accurately represent voter preferences for government services, residents gain nothing when a municipality captures tax revenue from the school district. However, if a municipality makes up a small portion of the school district, the cost of the captured school district revenue is partially borne by the non-municipal residents of the school district. Consider the case where a municipality representing 20 percent of a school district's tax base uses TIF to capture school district revenue. The municipality can decrease municipal residents' taxes by the captured amount without decreasing services. If the school district increases its taxes to replace the captured amount, municipal residents, representing only 20 percent of the school district's tax base, are responsible for only 20 percent of the school district's additional taxes. Non-municipal residents are responsible for the remaining 80 percent. Therefore, municipal residents' gains to tax capturing increases as the municipality's proportion of the school district tax base decreases. Conversely, TIF's role in rectifying the problem of non-municipal residents of a school district free-riding off of municipal infrastructure investments disappears when municipal residents make up the entirety of the school district, as residents cannot free-ride off of themselves.

PURPOSE OF TIF: BLIGHT REDUCTION VERSUS ECONOMIC DEVELOPMENT TOOL

Since California created TIF almost 60 years ago to improve blighted urban areas, TIF has experienced growth in both its utilization and purpose. In many ways, the importance of TIF to policymakers today comes not from its ability to transform decaying neighborhoods but in its ability to attract jobs and economic development into municipalities. In a study of TIF in the Chicago metropolitan area, Byrne (2006) found that 25 percent of TIF districts were

**In many ways,
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Under a model of tax competition, municipalities can engage in tax discrimination. . . . The jurisdiction's objective under tax discrimination is to lower the mobile firm's tax rate just enough to make that jurisdiction the preferred location.

in areas of cities that had median incomes at least \$3,113 greater than the municipal-wide median income and that 5 percent of the TIF districts were in areas whose median incomes were at least \$13,278 greater than the municipal-wide median income.⁸ Not unlike eminent domain, a legal finding of blight is often required for TIF. In both cases, the requirement for a finding of blight has often evolved along with the expanded use of the tools in encouraging economic development. Whether TIF should be restricted to blighted areas is certainly a valid question. However, from a practical purpose, TIF operates in an economic environment in which blight, as ordinarily defined, is not a requirement.⁹ In many ways, the use of TIF for blight reduction has become a relic. Local government ambitions for spurring economic development, not blight removal, was the driving force behind TIF expansion within local jurisdictions, states, and the country. In Chicago, perhaps the most prodigious user of TIF, Mayor Richard Daley, has defended TIF as an indispensable tool in employment retention and job creation.

In the Lincoln-Belmont-Ashland Corridor TIF financing has helped attract major retailers. . . . Down in the Stockyards, TIFs have led to an expansion of industrial facilities, creating 2,000 new jobs. . . . [TIF] helped attract the Home Depot on West Fullerton Avenue in Montclare. (Washburn & Martin, 1997)

In Kansas City, the Pershing Road TIF is credited with creating 6,268 new jobs (State Auditor of Missouri, 2011) and when Saint Louis County's Lambert Airport Perimeter TIF was formed, the county's TIF commission overwhelmingly supported the project, emphasizing the estimated 12,000 jobs the TIF would create over its lifetime (Harris, 2004).

Missouri's reporting requirements

highlight the preeminence of TIF's role in job creation over blight reduction. TIF administrators are required to report the estimated new and retained jobs at TIF creation and the estimated new and retained jobs to date. On the other hand, there is no requirement for documenting TIF success at blight reduction. TIF's role as a job creator extends well beyond the Midwest. In North Carolina, where a 2004 constitutional amendment allowed the legislature to implement TIF, economic development officials touted TIF as a necessary tool for creating jobs and growth (Elkins, 2005). In Washington state, then-Gov. Gary Locke undertook a long campaign to adopt a TIF statute that was permissible under its constitution in order to eliminate his state's perceived disadvantage at attracting firms as a result of its failure to adopt TIF (Erb, 2002).

Whether TIF's purpose is blight reduction, tax base maximization, or job creation, the framework laid out in the previous sections remains essentially unchanged. For a municipality drawing a major employer with TIF, the value of the jobs created are added to future tax revenues as a benefit of TIF that must be compared to the cost of foregone revenue. One potential difference does exist, however, in metropolitan areas such as Chicago, Kansas City and Saint Louis, where a large number of municipalities co-exist in a single metropolitan area. While attributing the benefit of growing property values is somewhat straightforward, attributing the benefit of a job to a specific municipality is more difficult, as employees could reasonably reside in any number of jurisdictions

TAX COMPETITION, SHIFTING OF ECONOMIC ACTIVITY AND THE BUT-FOR PROVISION

The ultimate purpose of economic development incentives is to attract economic activity into a particular area; in this case, into the TIF district. Municipalities offering TIF and other economic development incentives fall under the model of tax competition. Tax competition results when jurisdictions make themselves more attractive to firms by lowering tax rates relative to competing jurisdictions. Firms take into account numerous factors when making location decisions, such as local labor market conditions, transportation costs, retail demand, infrastructure, and taxes. Under tax competition, municipalities funding public spending through taxes on mobile firms simultaneously set their respective tax rates cognizant of the potential to either gain or lose tax base, depending on relative taxes and services.¹⁰ This competition can either lead to efficient levels of government spending or inefficiently low government spending, depending on how beneficial the government spending is to mobile firms. Bartik (1991), Garcia-Mila and McGuire (2002), and Glaeser (2002) provide excellent overviews of the tax competition literature. Under a model of tax competition, municipalities can engage in tax discrimination. Tax discrimination refers to a municipality setting differential tax rates, with lower tax rates on mobile tax bases and higher tax rates on immobile tax bases. Just like an airline attempts to charge higher prices to less price-sensitive business travelers and lower prices to more price-sensitive leisure travelers, the municipality sets lower rates on the tax bases whose location decision is more sensitive to the tax rates. These non-uniform tax rates sometimes occur across an entire jurisdiction. For example, there can be one tax rate for property but a standard exemption for all capital equipment or, as is the case with incentives, the tax rate can vary at the individual firm level. The jurisdiction's

objective under tax discrimination is to lower the mobile firm's tax rate just enough to make that jurisdiction the preferred location, conditional on collecting enough taxes from the firm to cover the cost of providing it government services. Economic development incentives, like TIF and tax abatements, are therefore viewed as being successful when they attract or retain economic activity within a jurisdiction that otherwise would occur elsewhere.

It is undeniable that TIF districts experience incredible growth within their boundaries. A more difficult and important task is attributing such growth to the TIF. Two often obscure issues have considerable impacts on assessing the success of TIF. First, proponents of TIF frequently overlook the extent to which TIF shifts economic activity from areas outside of the TIF district. Second, fairly attributing increased economic activity to TIF requires that the economic activity would not occur but for the presence of TIF.

The shifting of economic activity diminishes the benefits of TIF when growth in jobs or taxes within the TIF district comes at the expense of non-TIF areas of a jurisdiction. For example, the Pershing Road TIF referenced earlier involved the consolidation of the IRS's operations in the Kansas City area. While the IRS had no previous presence within the TIF district, most of the jobs existed at its Bannister Road office complex located within Kansas City (Collinson, 2003). This case highlights the economic importance of defining the geographical area for which one is attempting to measure TIF's benefit. The TIF district itself clearly experienced a significant growth in economic activity, jobs, and related taxes. However, if the area of study expanded to include the entire municipality, the decrease in economic activity, jobs, and related taxes from the Bannister Road location must be included in the costs. Unfortunately, the public and

The shifting of economic activity diminishes the benefits of TIF when growth in jobs or taxes within the TIF district comes at the expense of non-TIF areas of a jurisdiction.

While a firm receiving the incentive is well aware of the minimum incentive necessary, the municipality is not.

policymakers often do not undertake such a nuanced evaluation of TIF and other economic development incentives. Thus, they incorrectly assume that the 6,268-job increase within the Pershing Road TIF that the TIF commission reported implies that Kansas City also gained 6,268 jobs. The extent to which TIF and other incentives results in a zero sum gain is entirely contingent on the geographic area. For example, approximately 1,800 jobs at the IRS center relocated from Overland Park, Kan. (Ibid). Therefore, while Kansas City's and Missouri's economies gained these 1,800 jobs, the 1,800 jobs lost to the Overland Park and Kansas economies exactly offset Missouri's gains. The shifting of economic activity is crucial to an accurate analysis of TIF from a statewide perspective because Kansas City, Mo., does not just compete with Kansas municipalities but also with Missouri cities, including Independence, Lee's Summit, Saint Joseph, and others in the metropolitan area.

Even when TIF does not finance relocation, it can facilitate a more subtle shifting of economic activity. If TIF adoption increases economic activity within the district by attracting spending that had previously occurred with firms located outside the TIF district, an increase in economic activity within the TIF district is tempered by a decrease in economic activity outside the district. This shifting of economic activity more likely occurs with TIF districts supporting firms that compete for local consumer spending. For example, a firm whose customers are located across

Figure 3: Municipalities Located in Saint Louis City, Saint Louis County, Saint Charles County, and Jefferson County



the country can locate in Columbia, Mo., or Columbia, S.C., with little impact on their sales. On the other hand, a grocery or furniture store serves consumers located within a reasonable distance from the store, making the shifting of economic activity within a jurisdiction's boundaries more likely for incentives supporting these types of firms.¹¹ The shifting of economic activity is particularly important given the structure of TIF. Figure 3 shows the municipalities located in Saint Louis City, Saint Louis County, Saint Charles County, and Jefferson County. Saint Louis's three most populated suburban counties consist of 137 municipalities. As a result, the pressure to engage in tax competition is more acute in metropolitan areas such as this, where retailers' market area may naturally include a number of municipal jurisdictions, resulting in multiple options for their stores. The structure of TIF is important in this scenario because the increment includes tax revenue diverted from the school district and county. A TIF project that relocates or shifts a sizable amount of economic activity from Creve

Coeur to neighboring Chesterfield would provide significant benefits to Chesterfield. Similarly, a TIF that Creve Coeur offers, preventing the relocation, would provide significant benefits to Creve Coeur. However, neither TIF would provide a benefit to Saint Louis County, whose taxes are included in the increment.¹²

Even in cases where no economic shifting within a jurisdiction's boundaries occurs, the but-for condition is another caveat that must be considered when assessing TIF. The but-for provision refers to the statutory requirement that an incentive cannot be awarded unless the supported economic activity would not occur but for the incentive being offered. This provision has economic importance because if a firm would locate in a particular jurisdiction with or without receiving the economic incentive, then the economic impact of offering the incentive is non-existent. While an exporting firm receiving an incentive may generate significant economic activity without shifting local economic activity — because that activity would exist in the area independent of the incentive — the firm's economic impact on the area cannot be attributable to the incentive.¹³ The but-for provision represents the legislature's attempt at preventing a local jurisdiction from awarding more than the minimum incentive necessary to induce a firm to locate within the jurisdiction. However, while a firm receiving the incentive is well aware of the minimum incentive necessary, the municipality is not.¹⁴ The importance of the but-for provision relates to the scenarios illustrated in Tables 2, 3, and 5; namely, does freezing the Base AV capture revenue that is not attributable to TIF?

EMPIRICAL FINDINGS ON TIF

There are two primary empirical questions regarding TIF: what drives municipalities to adopt TIF and what is TIF's impact on economic outcomes? Man & Rosentraub (1998), Man (1999), and Dye and Merriman (2001) find evidence that fiscal stress increases the likelihood that a municipality will utilize TIF, supporting the theory of TIF as an alternative to increasing tax rates or municipal debt. Anderson (1990) finds evidence that municipalities' desire to capture tax revenue from counties, school districts, and other overlapping jurisdictions may be a motivation for TIF, as Michigan municipalities with growing tax bases were more likely to adopt.¹⁵ However, Byrne (2005) finds that Chicago area municipalities making up a smaller portion of their school district are less likely to adopt TIF, which is inconsistent with the tax capturing model. Byrne does find evidence of tax competition, as municipalities are more likely to adopt TIF when neighboring municipalities adopt TIF. Mason and Thomas (2010) find similar evidence of tax competition for Missouri municipalities and also find that larger municipalities, measured by population, are more likely to adopt TIF. The impact of potential blight on adoption is mixed, as higher unemployment rates increase the likelihood of TIF adoption, whereas higher poverty rates decrease the likelihood of TIF adoption.

Self-selection bias is an important concern when assessing the impact of TIF. If TIF is more likely to be used in areas experiencing or expecting to experience growth, statistical results will overestimate TIF's impact. Conversely, if TIF is more likely to be used in areas experiencing or expecting to experience economic decline, statistical results will underestimate TIF's impact. Both biases are possible because overestimation can occur when municipalities engage in tax capturing, or if high value developers regularly

Dye and Merriman (2000) study municipalities in the metropolitan Chicago area and find that TIF adoption has a negative impact on a municipality's aggregate property value growth.

The fundamental structure of TIF is common across states.

extract incentives from municipalities. Underestimation can occur if TIF is regularly used in areas in an attempt to counteract economic decline. Because the success of TIF is contingent on increased property values, it is not surprising that empirical studies of TIF have focused on TIF's impact on property values. Anderson (1990) looks at the effect of TIF on municipal property values in Michigan and finds that municipalities that adopt TIF experience higher property value growth, although he did not control for self-selection bias. Man and Rosentraub (1998) use a slightly different approach, measuring TIF efficacy by looking at the growth in median housing value (rather than aggregate value) for Indiana municipalities. Man and Rosentraub find that TIF adoption leads to increases in property value growth. Dye and Merriman (2000) study municipalities in the metropolitan Chicago area and, in contrast to the previous studies, find that TIF adoption has a negative impact on a municipality's aggregate property value growth. This finding highlights the importance of considering the shifting of economic activity. Although Dye and Merriman find significant property value growth within TIF districts, the growth was more than offset by decreased growth in the non-TIF areas of municipalities. Weber (2003) examines the impact the intensity of TIF use has on school district revenues in Cook County, Ill., and finds that more intensive use of TIF, measured as the amount of the property tax base included in TIF, negatively affects the property tax revenue of public schools. Although, increases in state school aid offset a portion of the decrease.

Articles by Weber, Bhatta, and Merriman (2003), and Smith (2006) study TIF's impact at the individual parcel level. The former examines TIF's impact on the property values of industrial parcels in Chicago and finds mixed results. The latter finds that TIF has a positive impact on Chicago's multi-family residential properties,

although this study does not control for potential self-selection bias.

While those studies examine the presence of a general TIF impact, Weber, Bhatta, and Merriman (2007) and Byrne (2010) examine the impact of TIF contingent on the type of development supported. Weber et al. examine whether TIF development has spillover effects on neighboring residential property. They find that proximity to industrial TIFs has a negative impact on residential property while proximity to mixed-use TIFs (residential and commercial property) has a positive influence on appreciation. Byrne examines the impact of TIF adoption on municipal employment growth and finds that industrial TIF has a positive impact on employment growth whereas retail-supporting TIF has a negative impact on employment growth. Weber et al. and Byrne's findings are not necessarily contradictory, as the papers examine different economic impacts. Byrne's finding of a positive impact for industrial TIF on employment is consistent with these firms being less reliant on local spending and thereby less likely to shift economic activity from within the jurisdiction. However, such development may also cause negative spillovers for nearby neighborhoods suppressing residential property values. Conversely, Weber et al.'s finding of positive spillovers for mixed-use TIF is consistent with TIF supporting redevelopment of the retail base in a manner benefiting local residents, i.e., gentrification. On the other hand, this redevelopment is more likely to result in shifting local spending to more labor-efficient national chains, resulting in the finding of a negative employment effect.

TIF IN MISSOURI

Missouri adopted TIF with the Real Property Tax Increment Allocation Redevelopment Act in 1982. The statute allows for the creation of TIF in redevelopment areas satisfying the following criteria:

The redevelopment area on the whole is a blighted area, a conservation area, or an economic development area, and has not been subject to growth and development through investment by private enterprise and would not reasonably be anticipated to be developed without the adoption of tax increment financing. (Real Property Tax Increment Allocation Redevelopment Act, 2010)

The latter portion of the excerpt represents Missouri's but-for provision discussed earlier. The law defines blighted as:

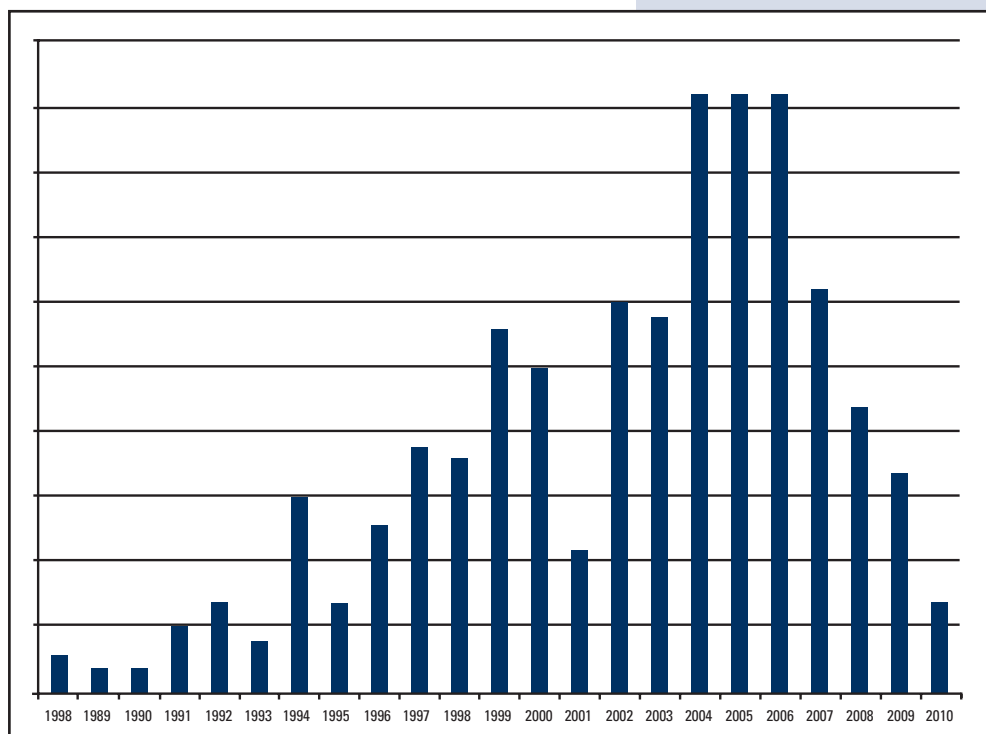
[A]n area which by reason of the predominance of defective or inadequate street layout, unsanitary or unsafe conditions, deterioration of site improvements, improper subdivision or obsolete platting, or the existence of conditions which endanger life or property by fire and other causes, or any combination of such factors, retards the provision of housing accommodations or constitutes an economic or social liability or a menace to the public health, safety, morals, or welfare in its present condition and use. (Ibid.)

The law defines conservation area as an area not yet blighted but that may become so in the future. In Missouri, as in most states, legal challenges over TIF use have occurred regarding the blight criteria. Missouri courts generally defer to policymakers when it comes to defining blight. Although most states implicitly allow economic development goals to justify TIF use, Missouri explicitly allows TIF use in any area where it will:

- (a) Discourage commerce, industry or manufacturing from moving their operations to another state; or
- (b) Result in increased employment in the municipality; or
- (c) Result in preservation or enhancement of the tax base of the municipality. (Ibid.)

Missouri adopted TIF with the Real Property Tax Increment Allocation Redevelopment Act in 1982.

Figure 4: TIF Approvals by Year



Whether the intent of TIF legislation is to facilitate interstate tax competition between Missouri and non-Missouri municipalities, or intra-state competition between Missouri municipalities, is not clear.

This clause thereby affirms TIF as a tool in inter-jurisdictional tax competition. Whether the intent of TIF legislation is to facilitate interstate tax competition between Missouri and non-Missouri municipalities, or intra-state competition between Missouri municipalities, is not clear. Section (a) implies the former and sections (b) and (c) imply the latter. As discussed earlier, TIF districts supporting businesses catering to local spending are more likely to be a product of competition between neighboring municipalities. The East-West Council of Governments (2011) reported that 80 percent of TIF districts in the Saint Louis metropolitan area supported retail development. The Real Property Tax Increment Allocation Redevelopment Act allows for TIF to capture both property taxes and economic activity taxes (EATs), which are primarily local sales taxes, for up to 23 years.

TIF commissions, which are composed of members appointed from the impacted municipality, school district, and county, have the authority to create TIF. Missouri requires commissioners representing all

overlapping jurisdictions as a check against potential capturing of tax revenue. This check was atypical in TIF's earlier years but has become a more common reform. However, municipal appointments generally dominate TIF commissions, with six of the 11 members. Of the remaining five appointments, the school district appoints two, the county appoints two, and the other overlapping jurisdictions appoint one. In 2007, the Missouri Legislature reformed the makeup of subsequent TIF commissions for metropolitan Saint Louis as well as Saint Louis, Saint Charles, and Jefferson counties. The reform requires a 12-member commission, in which the county appoints six members, the municipality appoints three members, the school district appoints two members, and the remaining overlapping jurisdictions appoint one member. By shifting the power of adoption towards the county, the reform intends to curtail TIF's use in tax competition between municipalities within a single county. The county and school district's appointment of eight out of the 12 commissioners also serves as a stronger check against capturing of tax revenue.

Table 6: Summary of Missouri TIF

Endorsing Jurisdiction	Number of TIFs	PILOTs Received to Date	EATs Received to Date	Total AV Captured by Increment
Saint Louis	123	\$78,500,835	46,270,770	\$167,711,812
Kansas City	99	281,020,950	242,955,452	569,658,359
Independence	17	38,025,196	25,953,290	122,141,439
Grandview	14	10,455,264	5,571,393	19,587,761
Saint Joseph	10	9,153,388	12,329,861	48,424,380
Blue Springs	9	1,761,027	2,894,737	10,622,095
Lee's Summit	9	34,525,913	34,537,083	75,392,735
Jennings	7	3,149,502	1,888,346	7,637,630
Saint Louis County	6	775,845	566,151	9,499,281
Belton	5	3,195,276	7,815,130	37,265,095
Brentwood	5	11,756,520	30,652,191	42,231,549
Saint Charles	5	20,311,842	7,680,744	64,288,200
Liberty	4	1,435,687	3,248,283	10,436,990
Riverside	4	10,499,006	2,007,900	28,359,665
Remainder of State (74 Jurisdictions)	113	19,5428,221	270,429,962	438,923,857
State Total	434	\$699,994,471	\$694,801,294	\$1,652,180,848

Source: State Auditor of Missouri Local Tax Increment Financing Reports

In 2010, there were 437 TIF reports filed with the Missouri State Auditor's Office, 433 of which reported the year the TIF project was approved. Figure 4 shows the years for these TIF adoptions. There were relatively few adoptions prior to 1994, although some may have expired and therefore did not file a report. The late 1990s experienced a moderate increase in TIF activity followed by a dramatic increase in the use of TIF in the 2000s. More recent years have seen a decline in the use of TIF. The recent decline may be a result of both the reforms implemented in the Saint Louis metropolitan area described earlier and the election of Mark Funkhouser as mayor of Kansas City in 2007. During the election, Funkhouser, the former Kansas City auditor, criticized what he viewed as the city's liberal use of TIF.

Table 6 summarizes the use of TIF in Missouri by jurisdiction. Saint Louis and Kansas City account for the majority of TIFs, with 123 and 99, respectively. Although Saint Louis leads the state in TIF use as measured by the number of districts, Kansas City leads in intensity of TIF use. The amount of revenue diverted by TIF is categorized by revenue type. Diverted property tax revenue is categorized as Payments in Lieu of Taxes (PILOTs) and diverted sales and income taxes are categorized as Economic Activity Taxes (EATs). Kansas City TIFs have received \$281 million in PILOTs and \$243 million in EATs. Their increments also include almost \$570 million in property values. Statewide, the 434 TIFs have reported \$700 million received in PILOTs and \$695 million received in EATs. Furthermore, the amount of statewide property values that TIF increments captured totals \$1.65 billion, 75 percent of the property value within the state's TIF districts. Over their lifetimes, the TIFs will reimburse an estimated \$7.24 billion in project costs, with Kansas City and Saint Louis accounting for \$4.38 billion of the total.

CONCLUSION

TIF is unquestionably a ubiquitous economic development tool that local jurisdictions use throughout the United States. Municipal competition for economic development drives TIF's extensive use as private developers demand TIF financing as a part of incentive packages. Whether TIF can be viewed as a success or failure from a public policy perspective requires a detailed understanding of the economic issues involving TIF. Proponents of TIF view Missouri's \$1.65 billion in tax increment as a benefit of TIF, growth in the state's tax base that would not exist without TIF. Opponents of TIF view the same increment as the cost of TIF, captured revenue that would have otherwise gone to provide valuable public services from municipalities, school districts, and counties. The general public and policymakers can better draw conclusions on TIF's effectiveness if they understand TIF's structure, tax competition, the shifting of economic activity, and the but-for provision. This policy study has provided the general public and policymakers with a thorough and accessible overview of TIF, which can assist in determining the appropriateness of TIF for Missouri and the U.S.

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**Although
Saint Louis
leads the state
in TIF use as
measured by
the number
of districts,
Kansas City
leads in
intensity of
TIF use.**

NOTES

¹ Missouri's limit is 23 years. Some state legislatures have also extended the life of individual TIF districts that reached their normal statutory limit.

² According to Goshorn (1999), only Arizona, Iowa, Kentucky, South Dakota, and Wisconsin have held TIF debt to be subject to constitutional debt limits.

³ As discussed in more detail later, the extent that TIF shifts development and other economic activity from one geographic area to another has meaningful impact on its measured effectiveness. For example, if the \$500,000 increase in property values within the district comes at the expense of a \$500,000 decrease in property values outside the district, TIF's net impact on development is zero.

⁴ All figures in 1975 dollars.

⁵ This is a simplification which implicitly assumes that the objective of the taxing jurisdictions is to maximize tax revenue, ignoring the cost of providing services to the new development. In practice, jurisdictions would also take into account such costs. For example, a \$10 million office park would increase the school district's tax base and ultimately its revenue while having no impact on its costs of providing services. On the other hand, a \$10 million residential development with 50 new homes would result in increased costs for the school district.

⁶ Chicago is an outlier along most dimensions of TIF use. The city is an extreme example of TIF being used for municipal services, as diverting TIF funds into the general budget have been proposed as a solution to its current budget crisis (Spielman, 2010).

⁷ Simply creating a TIF district in an area experiencing 5 percent growth in property values with no additional development would allow a municipality to capture 44 percent of the property tax revenue generated within a TIF district over its 23-year lifetime.

⁸ In 1990 dollars. Adjusted for inflation, these differences become \$5,245 and \$22,373, respectively.

⁹ Some state courts have followed the federal courts in allowing for a very broad definition of blight that effectively encompasses any development which would put property to a higher use. Other states have expanded the use of TIF statutorily by either explicitly broadening the definition of blight or authorizing blight reduction and economic development as sufficient conditions to use TIF.

¹⁰ Mobile firms refer to a willingness to locate in numerous locations at the time of an investment. It does not imply that the firm can easily or cheaply relocate after the initial investment occurs.

¹¹ Kansas Legislative Post Audit (2008) found that furniture sales in the counties closest to TIF-supported Nebraska Furniture Mart fell after the store's opening, while sales in counties further from Nebraska Furniture Mart rose over the same period.

¹² Goshorn (1999) describes such a scenario when the city of Olivette, Mo., proposed a TIF for development which would include a Walmart and Sam's Club located 2 miles away from a Target and 15 minutes away from another Walmart.

¹³ An exporting firm refers to a firm selling to customers outside of the jurisdiction.

¹⁴ For example, developers requesting a TIF in Olivette, Mo., initially stated that \$41 million in TIF was necessary for making the project financially viable, but ultimately accepted \$35 million in TIF from the city (Reinert, 2001).

¹⁵ As discussed earlier, the amount of revenue a municipality can capture from overlapping jurisdictions increases with an area's property value growth rate.

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