Discussion Of “Tax Increment Financing and Economic Development:” A Practitioner’s View
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Findings Consistent with Other Research

- Predicts positive impacts on property value; marginal on employment
- Other studies mixed results with key notes on transfer effects and failure to produce uniformly superior property value or job growth
- TIF is Blight Remediation tool derived from body of urban renewal and linked to condemnation law/health, safety, general welfare base (with variations for greenfields; other economic development)
- Blight remediation and economic development not synonymous
- Eligibility criteria may include absolute or relative decline or stagnation of value growth
- Not clear how studies account for relative improvement or reversal/reduction of decline
- Intersects with real estate economics to work on margin of project feasibility
Practical Use of Tool Differs from Theory

- In practice, even when inflationary value is included, TIF use focuses on capturing desired real estate projects with infrastructure support or gap financing
- Tactical tool to protect and enhance tax base in competitive municipal landscape
- Provides capital for infrastructure
- Used for all land uses: residential, commercial, industrial, hospitality, etc., so measures of success diverse
- TIF co-invests with private development/focus public to support desired private projects
- Works where it taps and enhances private real estate markets that produce value
- Limited effectiveness in severely depressed areas – wrong tool
- What are “Best Practices” for TIF?
## Six Necessary Conditions for Providing TIF Assistance

1. **Project contributes to important public policy goals**

2. **Project is economically feasible with assistance**

3. **Project would not proceed as desired ‘but for’ the assistance**

4. **Project pays for itself through generated revenues or justifies the investment via economic/community impacts**

5. **Undertaken with developers with an established track record, financial capacity and usually known financial partners**

6. **Shifts risk to the private sector by such mechanisms as reimbursement after completion and only with revenues as available, or other protections**
Common Uses of TIF in Conjunction with Private Development

- Financing **public infrastructure/improvements**
- Funding **extraordinary costs**
- Subsidizing a proposed project that is “above market,” non-market driven, or helping to establish an unproven market
- Obtaining **higher-quality development** than the market will generate on its own
- Incentivizing to **attract or retain investment** in a strategic area
- Background growth or portion/surplus used **programmatically** or for **other districts**
Primary Means to Evaluate Need for TIF Assistance

Amount of assistance sized to:

- Allow the project to achieve **reasonable** risk-adjusted rates of return
- Amount readily explained by **extraordinary costs** in project budget
- Cost of providing **true public improvements** that are necessary for project but also benefit the broader community
- Offset the **incremental cost of locating** at proposed site as compared to alternative site
**Benefits**
- Guards against over-subsidizing projects
- Demonstrates that TIF is being used judiciously
- Reduces the appearance of arbitrariness
- Helps articulate the case for (or against) TIF for a specific project
- Helps define & clarify the problem TIF is trying to solve

**Tools**
- Analysis of real estate pro forma and returns
- Competitive site location analysis

"But-for" Approach: Financial Gap Analysis and/or Competitive Analysis

Charles A. Long, Fmr. Manager and Developer: "Do the Hard Work, Deal by Deal, Competently"
Appropriate Level of Assistance

- Assistance required to achieve financial feasibility

- Other evaluation metrics (secondary to the “but for” analysis):
  - Subsidy as % of project increment
  - Subsidy as % of project cost (public funds “leverage” private)
  - $ amount per job attracted/retained
Fund the Gap: Understanding Public Sector Timing and Risk

Monetizing
- Pay-As-You-Go
- Monetizing Future Revenues from Project Itself
- Developer Notes
- Special Revenue Bonds/Land Secured Bonds
- Backing Bonds with Other Revenue Pledges
- Loan Instead of a Grant
- Trigger & Take-Out Bonds
Public Policy Implications

1. Seek other tools for severe distress and true economic development, e.g. New Markets Tax Credits; philanthropy

2. Authorize “Linked TIF” – Stronger areas linked to severely distressed areas

3. Require planning and goal setting precede designation and deals

4. Coordinate with other tools like Opportunity Zones

5. Set underwriting/due diligence requirements:
   1. “But for...” analysis
   2. Developer capacity
   3. Risk mitigation in public finance

6. Establish accountable decision-making: ultimate approval by elected officials