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The TIFs Go On

By James H. Andrews

Tax increment financing has been around for years, a tool for governments that want to encourage and direct development within their borders. You'd think that the battles would be over. But they go on.

You might also think that TIFs would be more popular in bad times, when investors are more cautious, but the economy is booming, and from all appearances, so is the creation of TIF projects.

Not all cities are sold on the idea. In San Antonio, the Spurs have been trying to get tax increment financing to help foot the bill for a new basketball arena. "A joint arena development venture between San Antonio and the Spurs is a reaffirmation of the loyalty shared by the team and the city of San Antonio," the club says on its web site, where a section is devoted to the Longhorn Arena plan.

The city has been slow to approve what would be its first TIF. Last month the North East School District Board decided the plan would cost the schools too much money and voted to withdraw from discussions.

And in Pittsburgh, where TIF districts are common, the city council has expressed reservations about the concept as well as the particulars. A new downtown project initiated by the city—Market Place at Fifth and Forbes—won approval last fall, but last month the council was scheduled to vote on new TIF regulations.

Boom times

Although TIF rules vary from state to state, the basic idea is the same: Part of the new tax revenue generated by development in a specific area is used to pay off bonds to finance site improvements, infrastructure, and other project costs. TIF usually applies only to the property tax.

Tax increment financing is one of the few tools that local governments can use to intervene directly in development. In the beginning, it was designed to cure blighted neighborhoods, to redevelop properties that no one would touch, and to meet social and economic needs.

TIF has since become an incentive program for developers, who often play competing municipalities off against each other. Mayors and city officials want to build and rehabilitate dreary downtowns and underused properties. Developers and corporations want all the help they can get. The federal government provides less help with redevelopment than it used to.

Approximately 44 states authorize local governments to create TIF districts or zones (sources differ on the figure), but some states have very few. In California, on the other hand, there are 361 active TIF agencies and 780 project areas. Redevelopment agencies play a significant role in the economy. In 1993-94 they received $1.5 billion, about eight percent of all the property taxes collected in the state that year.

Chicago established its first TIF district in 1984, 11 more in the next six years, then an additional 33 between 1990 and 1997. With a public investment of $300 million, TIF has attracted $1.8 billion in private investment, making a total of $2.1 billion invested in Chicago that would not have come without TIF, says a July 1998 report by the city's planning and development department.

The private sector invested $6.30 for every $1 the city invested, the report says. The result: 22,159 jobs retained, 6,400 jobs created, five million square feet of new commercial space, 1.7 million square feet of new industrial space, and more than 1,100 new housing units.

Always questions

Not everyone likes TIF. "Critics rally against Pilsen TIF district," a *Chicago Tribune* headline said last month. The newspaper reported that a small crowd demonstrating against the proposed redevelopment of an old, low-income neighborhood heard U.S. Rep. Bobby Rush, a candidate for mayor, ask how incumbent Mayor Richard Daley had "the nerve and audacity to tell you what's best for your community."

The criticism has gone on ever since California wrote tax increment financing into its constitution in 1952. Other states have come on board, and the laws have changed, reflecting the changing economy and meeting some criticisms, but the objections continue: displacement of residents and businesses, favoritism to developers and contractors, and projects that don't work. Another problem is the difficulty of measuring accomplishment.

Local redevelopment authorities in California are being subsidized, says a 1998 analysis by the Public Policy Institute of California. Redevelopment agencies receive annual subsidies of well over $170 million a year, and generate only slightly more than half the property tax revenues they receive, the report says. Three-quarters of the development projects studied failed to generate most of the property tax revenues they receive, it adds, and only four projects of the 38 examined grew fast enough to justify redevelopment agency claims that they were solely responsible for the increase in property taxes.

TIF has been widely used in Missouri in recent years, and especially in Kansas City. From 1982 to 1991, the city council approved seven TIF plans, while in the next five years it approved 18 more. But developers there have "systematically overstated" projected revenue to make their projects more politically attractive, says city auditor Mark Funkhouser.

Funkhouser last fall reviewed the 24 TIF developments for which projections had been made. So far the projects have generated only $12 million in new tax revenue to pay project costs—substantially less than the developers' original estimates of $52 million, he said in a report last September.

Pro-TIF officials in Kansas City counter that the analysis was "profoundly flawed" and the criticism unfair. If a project takes longer than expected, they argue, of course projections will be off.

Home ground

In California, tax increment financing is "a very powerful tool," says William Carlson, executive director of the California Redevelopment Association. TIF is "the primary funding source" for development, and the law also gives government the "capacity to intervene and assist redevelopment where it's needed most," Carlson says.

The $1.5 billion that California redevelopment agencies receive annually leverages $3.5 billion in public expenditures, Carlson says, and this amount leverages much more in private spending. California requires that 20 percent of TIF receipts be set aside for low- and moderate-income housing—20 percent of the gross amount of the tax increment received. And there is a formula under which the redevelopment agency or city shares tax receipts with other taxing bodies.

TIF is used all over the state, though less so in small cities, which can't afford the elaborate process, or rich cities, which have little or no blight. "All politics is local," Carlson says when asked about controversy. "One area may work smoothly, one with a lot of hostility." Hollywood has had some "wonderful projects," but there has been a lot of criticism. "Some people love it, and some are skeptical, and others won't have it."

In contrast, Carlson says, a TIF redevelopment including a Padres baseball park, office buildings, and hotel won a referendum handily in San Diego last fall. Referring to the National League champion Padres, Carlson adds that "of course, a pennant helps."

Spurs for development

The San Antonio Spurs plan calls for a $157 million, 18,000-seat arena on the site of the long-dormant Longhorn Quarry in the northeast part of the city. There seems to be little competition for the old quarry and adjoining property, now undeveloped, that would go into a 3,200-acre TIF district created by the city. The district would be used for commercial development, and the Spurs project a seven percent growth in property value each year for up to 30 years.

The Spurs now use the Alamodome, a city-owned facility built with public funds in 1993, but designed for football. They want a facility built for basketball, with seats closer to the court and organized to bring in more money from businesses and other season ticket holders.

City finance officials have been skeptical of the plan, questioning the location and size of the project area and predicting a shortfall of $68 million or more in TIF district revenues. Consultants have disagreed on the plan's impact.

Evidently, the Spurs considered support from the school district to be crucial. The team tried to win school board approval by offering a package of incentives and improvements, including a state-of-the-art communications network, said to be worth $28 to $43 million. Now that the school district has dropped out of the plan, prospects for that TIF district look dim.

Pittsburgh markets downtown

TIF in Pittsburgh means big stakes, big dollars, many projects. Market Place at Fifth and Forbes may be the most complex. The goal is to make downtown into a regional attraction for shopping and entertainment. The city recruited a developer—Urban Retail Properties of Chicago—willing to put the Market Place project together and pitch in 75 percent of the $200 million cost. The state has pledged $10 million, and TIF is expected to cover $30 to $35 million.

The plan calls for more than 40 stores over at least 600,000 square feet in an area of six or seven blocks. A 24-screen movie theater will be built over a 500-space new underground parking garage. The developer will set hours for the stores, with many staying open at night. Downtown must be developed as a large unit, according to Mayor Tom Murphy, not incrementally, in order to attract the right mix of businesses.

Market Place is part of a downtown plan prepared by the city planning department over 18 months and released last September. The pieces have been going into place for several years: A new Lazarus department store opened last fall, Lord & Taylor will open by 2000, the Mellon and PNC banks continue to acquire and develop properties.

But one Market Place plan would replace the Candy-Rama store with Tiffany, and people want to save other longtime businesses and historic buildings. Some city council members would prefer to use TIF in residential neighborhoods, yet go along downtown because, as officials say, the city is acting as the "developer of last resort."

The council has approved three downtown TIFs, though not always enthusiastically. It was scheduled to vote last month on rules to meet some of the objections in the future: Limit the bond payment period to 10 to 20 years, hire city residents for 50 percent of TIF-created jobs, put one percent of TIF proceeds into neighborhood development, require some companies to share TIF-related profits with the city.

TIF forever

The fate of the San Antonio and Pittsburgh projects was not known in mid-December, but no one doubts that tax increment financing will go on. "Every year there is tinkering" with the law, says Bill Carlson, and last year the California legislature considered a bill to dissolve the redevelopment agencies, but "so far we've beat back the opposition."

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