

GEORGISTS EXPLAIN (AGAIN) WHY TIFs DON'T WORK

The Illinois Georgist, Winter, 2001
by Charles Metalitz, Chicago, IL

(A highlight of the 2000 conference of the Council of Georgist Organizations, held Sept. 21-24 at Des Moines) was a paper by Bill Batt and HGS instructor Bob Gene, analyzing the potential for shifting taxes from improvements to land in Polk county, IA. The following extract immediately follows a description of economic development incentives currently offered in Des Moines.)

But with these provisions, the municipality seems to have lost sight of their purpose: it is not to give business enterprises a break in their taxes; rather it is to foster economic vitality in identifiable locations. And there is no evidence that these provisions have been successful in accomplishing this end. Indeed, what studies have been done evaluating the effectiveness of TIFs show that their impact is negligible. Penelope Lemov, the highly regarded public finance reporter for Governing Magazine, knows the sentiments of local and state officials throughout the nation. In her last review of the subject in 1994, she concluded that these were "tough times for TIFs," and that credit agencies were increasingly looking askance at their value. Particular attention was paid in this article to the difficulties that Minnesota has experienced. The view was expressed, reflective of many of her contacts throughout the nation, that TIFs were not typically able to recover the costs of their investment, particularly inasmuch as revenue that would have been allotted to other taxing authorities was diverted to the earmarked TIFs, and in consequence depressing the economic activity of the neighboring areas. A more recent study released by the Public Policy Institute of California casts strong doubt on TIF successes. The conclusion stated that "Redevelopment projects do not increase property values enough to account for the tax revenues they receive. Overall, the agencies stimulated enough growth to cover just about half of those tax revenues. The rest resulted from local trends and would have gone to other jurisdictions in the absence of redevelopment."

Another study done on the efficacy of TIFs in Pittsburgh was undertaken by a team of reporters for the Pittsburgh Tribune Review, in 1998. In a series of three long articles, the conclusion was drawn that projects there had a mixed success at best and were so fraught with political intrigue that it was impossible to ascertain whether they would have been compelling in the absence of such interventions. Much of the uncertainty about the security of TIF approaches depends upon leveraging land sites as an asset in securing greater financing. But land values are very much subject to fluctuations and forces
(continued on page 11)

January-February 2001 , GroundSwell Page 3

GEORGISTS EXPLAIN ... TIFs (continued from page 3)

beyond the immediate environment. They are, rather, a consequence of the vitality of local and regional economies, and may take unpredictable turns after initial arrangements have been made.

The problematic nature of TIFs becomes clear when it is pointed out that whatever reduction in taxes is awarded to one group must necessarily be made up for in higher taxes by another group. Our own Georgist Mason Gaffney perhaps put it best when he said that the problem with TIFs is that "certain favored groups get the increment while everyone else gets the excrement."

BIDs or business improvement districts, which Des Moines also relies upon extensively, are efforts of special areas to finance services that the greater tax and administrative jurisdictions decline to provide. But many of those service needs arise from the fact that the areas in question are marginal in their economic health, and the BID is seen as a vehicle by which to strengthen the vitality of the area. That added tax burden, when placed upon the improvements as well as the parcel sites, is likely to have mixed effects. The tax burden on the improvement has a different effect on renewal even while the tax burden on the land component constitutes a spur. As Walter Rybeck puts it, such a tax, like the property tax everywhere, works like a railroad with an engine tugging at each end. It is no wonder that there is little movement!

-- -

From Shifting Taxes to Land in Des Moines, Iowa: A simulation of its Impact, by William Batt and Robert Jene. For further information, contact Central Research Group, PO Box 4112,

(continued on page page 12)

January-February 2001 , GroundSwell Page 11