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Policy & Practice
Municipal fiscal stress and the use of Tax Increment Financing (TIF)

The Lead Paper in this policy and practice discussion begins by describing the current fiscal conditions of American cities and the constraints they face in financing both operation and capital expenditures. In particular, it comments on the effects of fiscal stress, tax limits, state imposed mandates, and self-imposed expenditure requirements. It then closely examines the use of tax increment financing (TIF) – a technique that is used by sub-state localities in all but one of the US states. After describing the steps in implementing a TIF district, the article examines the effects of its use, including its impact on redevelopment, new economic development, and on other jurisdictions.

Fiscal stress

Many American cities are still struggling with the effects of the latest economic recession, which lasted from December 2007 until June 2009 (Hoene and Pagano, 2010). The long downturn became a litmus test of the health of local budgets and revealed important structural and institutional settings in which city governments make revenue and expenditure decisions.

A vast majority of American cities rely on property taxes, local sales taxes, user fees and, less often, on income taxes for their budget revenues. While income taxation is typically the federal and state prerogative in the US, some jurisdictions that do not enjoy a rich property or sales tax base use local income taxes as a revenue source. Added to the own-source revenues are intergovernmental transfers, which largely come to localities from states. Intergovernmental transfers are often earmarked for specific programmes, although some state aid goes directly into the General Fund. In 2008, state aid to local governments amounted to 30.5 per cent total local revenues while federal aid was at the level of 3.8 per cent (calculated by authors from the US Census Bureau data). In 2009, the federal government implemented the American Recovery and Reinvestment Act (ARRA) and disbursed billions of dollars to local education programmes, transportation and construction projects. These programmes and projects would not have been undertaken or would not have withstood the economic recession in the absence of the federal support. The ARRA fund disbursement ended in 2011.

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The recession demonstrated that changes in economic conditions weaken all major sources of municipal own-source revenue. Traditionally, income elastic sources, such as sales tax and user fees and charges, are the first to reflect an economic recession. They generate smaller revenue collections as soon as the consumer confidence weakens and income growth stalls. The latest recession, for example, led to a free fall of sales tax revenue for months and resulted in sustained fiscal stress. Revenue from city sales taxes declined by 6.6 per cent from 2008 to 2009 and were forecasted to decline by an additional 4.9 per cent in 2010 (Hoene and Pagano, 2010).

Property tax collections, a traditionally stable local revenue source, have also not been immune to the negative effects of the economic downturn. The American housing market crisis triggered a decline in property market values. The latter gradually led to a decline in property assessment values, which in turn affected property tax collections. The trickle-down effect of the housing market crisis may take from 18 months to 2 years before it is reflected in local budgets (Hoene and Pagano, 2010). Unlike sales tax and user fee collections, property tax revenue is unlikely to bounce back to the pre-crisis level when the local economy fully recovers. Structural changes that have taken place in the housing market will not permit property values to rise to the pre-crisis level for many years. Insufficient property tax collections mean that local governments need to look for alternative sources of revenue or raise property tax rates or assessments to balance their budgets. Not many governments freely enjoy the latter option today. Some cities perform assessment valuations biannually and are hesitant, for political reasons, to raise property tax rates. Others are constrained by tax limits. Property tax revenues declined by 1.8 per cent in 2010 and are forecasted to decline in future (Hoene and Pagano, 2010).

Sixty per cent of municipal finance offices taking part in the National Council of State Legislatures survey indicated that the level of state aid to their city over 2010 had decreased, reducing their ability to meet overall needs (Hoene and Pagano, 2010). The recession forced states to curb aid to local governments while the demand for local government operations and services did not decrease. As a way of adjusting to the shortage of intergovernmental aid, many local budgets have incorporated programme cuts and personnel reduction plans. In general, many city finance officers believe that federal and state mandates, especially environmental mandates, negatively affected their ability to cope with fiscal stress.

Fiscal constraints of differing nature exist at all levels of government. Aside from the balanced budget requirements in 49 states (although there are no formal provisions for enforcing them), 43 states have some form of additional fiscal constraint on local governments. The most controversial among them are tax and expenditure limitations (TELs) adopted at both the state and local levels over the past four decades. The resurgent TEL movement started in 1976 in California and led to the enactment of voter-approved property tax and expenditure limits that – at least theoretically – serve to constrain the growth of government. These constraints are primarily on property tax rate or assessment increases as well as on setting super-majority requirements for revenue increases; less often, the limits apply directly to expenditures. TELS have been found to affect fiscal behavior, with different constraints having different effects (Bae and Gais, 2007; Shadbegian, 1998; 1999; Mullins, 2004; Mullins and Wallin, 2004). These effects may be asymmetric with respect to the core and disadvantaged populations, and may be associated with either improved local government efficiency or rising fiscal stress (Stallman, 2007). One of the most recent findings is that property tax limits encourage local governments to adopt budget systems that rely on income-elastic revenue sources and put municipalities on 'a budgetary rollercoaster with huge swings between the apex of the coaster's climb and the nadir of its fall' (McCubbins and Moule, 2010).

Theoretically, voters should continue to support TELs as long as their gains from private consumption – the gains from not paying additional property taxes – outweigh the loss in the quality of government-provided public services. In actuality, however, voters may be ignorant about the true costs of public services and support legislation that is counterproductive for government efficiency.

Revenue constraints, voter pressures for public services and constantly changing economic conditions increasingly require American governments to become creative in providing quality public services, maintaining existing infrastructure and financing new capital projects. Several creative approaches to financing public infrastructure were developed before the recent recession, at the time of fiscal stress that preceded the downturn. Many creative financing tools are space-based; therefore, it is important for planners to recognise the interrelationship between local finance and land use.

The discussion will now turn to the mechanism of Tax Increment Financing (TIF), a tool that uses land redevelopment to finance capital improvements. It will conclude with a brief description of potential consequences that governments need to consider before they decide to use TIF or another innovative land-value capture technique to finance a capital project.

Tax Increment Financing

In the early 1950s, the US federal government funded a set of urban renewal projects. These projects often required a match from local governments. TIF was developed as a tool to provide this match. When the projects were completed, the ability to use TIF remained available to local governments. When the federal urban renewal legislation ended, TIF remained. Its use was justified as a means of addressing blight and, at times, facilitating the construction of low and moderate-income housing (California State Senate Committee on Housing and Land Use, 1966). Over the past 60 years, it has become increasingly popular among governments to provide billions of dollars in funds to help address blight. As of 2011, all 50 states with the exception of Arizona use some form of tax increment financing (Council of Development Finance Agencies, 2011).

Originally, TIF was justified to finance the removal of blight, but over the years it has become a deliberate policy of economic development in 'un-blighted' areas. These are not always the same tasks and there is an on-going tension between eliminating blight and the most efficient ways of stimulating development (Chapman, 1998). It is important to recognise that TIF is a placed-based policy, not directly focused on individuals, but assumed to help individuals who live in the jurisdiction.[1]

TIF is a multi-step process that, in theory generates enough revenue to enable public financing of urban development. While there may be marginal differences among states, its general implementation process consists of the following steps.

The relevant local government establishes a public redevelopment agency. The board of governors of this agency can be the elected officials or a set of individuals appointed by the elected officials. The agency is legally distinct from the city council or the board of supervisors. As Epstein (2010) notes, this enables the local government to assume no liability for repaying bonds that are issued to finance redevelopment through general revenues (see below). Essentially, TIF bonds act as a form of non-recourse financing.

- The redevelopment agency determines a blighted area and a redevelopment plan for the project area. Often the agency has a series of projects covering different areas within one jurisdiction.
- The agency prepares a pro-forma statement that compares the estimated public costs of removing the blight and the estimated public revenues that the TIF project will generate. The costs usually relate to expenses on servicing the debt that is issued to finance the project. It is important to note that no public vote is necessary for the issuance of this debt. Intergovernmental grants or loans from private developers may also be used to make the project financially viable (California Debt Advisory Commission, 1995).
- Upon adoption of a redevelopment plan, the agency is permitted to use TIF. The property tax base of the project is fixed on the tax roll. As redevelopment in the project area takes place, the assessed value of the property is expected to increase above the fixed base. As this value increases, the property taxes collected on the property also increase. The taxes collected on the original base go to the original tax-recipient jurisdictions. These jurisdictions then receive the same tax revenues as they received at the time of project approval. The increment of taxes collected that is associated with the increased assessed value goes to the public agency that established the TIF district. This increment is used to repay the tax-exempt debt that has financed the redevelopment project. For

1 For a discussion of placed-based versus individual-based polices, see Glaeser (2008).

some American states, for example, California, the aggregated increment of all agencies was about $5.7 billion in 2010. Using the California property tax limit rate of 1 per cent, one can conclude that roughly $570 billion in total property value is concentrated in tax increment financing projects (California State Controller, 2010). When the debt is retired, the project area is abolished and its tax base is returned to the jurisdiction. If the programme is successful, the new tax base is considerably larger than before the redevelopment activities began.

The use of TIF techniques raises many interdependent questions. Although we discuss them separately in the following section, we recognise that in practice answers to any one question are likely to affect answers to the others.

- How much economic development would have occurred had the TIF project not been implemented? If there would be naturally occurring economic development in the project area, then TIF financing is just a subsidy to the developer, an unnecessary shrinkage of overlapping jurisdictional revenue (see below), and a distortion of market forces. It is also a way to provide the redevelopment agency with unjustified revenues. The counterfactual is difficult to develop here. Empirical work attempting to quantify the importance of TIF offers mixed results, with the most recent findings indicating that TIF tends to shift development from one section of the jurisdiction to another (Huddleston, 1984; Davis, 1989; Ritter and Oldfield, 1990; Stinson, 1992, Merriman (forthcoming)). Other factors that influence economic development in a specific place include the extent of blight, the state of the local economy, and the use of other economic incentives. If other incentives are given in lieu of TIF, then the costs of these incentives fall on the incentive-giving jurisdiction, not on the overlapping jurisdictions.
- Is the TIF really self-financing? Because there is a fixed supply of land in the project area, it is assumed that the redevelopment activity will increase the demand for land and that the land value will increase. Such increase will translate into a higher economic rent to the landowner. Part of this increased rent will be taxed to provide the increment. So, TIF might be viewed as analogous to a benefit charge approach to property tax incidence. There are two concerns with this potential perpetual-motion method of finance. First, there may be diminishing marginal returns to redevelopment, which may lead to a decline in the projected increment. Second, the normal business cycle may affect the increment so that in years when the anticipated development does not occur, the increment will be smaller than anticipated (Chapman, 1998, 185).
- Does blight really exist in the blighted area? Although TIF was originally designed as an instrument to remove blight, over time, the definition of blight has become so elastic that it is reasonable to assume that the extent of blight is often irrelevant for TIF. Slums as well as golf courses have been 'redeveloped'

using TIF. In California, for example, in 2008–2009, there were 749 projects, of which 112 exceeded 2,500 acres, implying a very broad definition of blight. As Lefcoe (2000–2001) argues, even under the very strict California law that attempts to define blight, some cities and counties flagrantly disregarded the law. He concludes that the definition of blight ought to be relaxed so that development activities necessary to achieve legitimate planning objectives can be accommodated (Lefcoe, 2000–2001, 992).

- Is TIF a redevelopment tool or a tool to relieve fiscal stress? There are two reasons why local governments face fiscal stress. In the introduction to this article, we discussed fiscal stress as a function of macroeconomic cycles: when the economy contracts, local revenues fall. In addition, the local government may face tax and expenditure limitations (TELs) that force it to become fiscally stressed as population increases. TIF techniques can relieve some of these phenomena. If TIF increments are fungible, so that TIF financing can provide needed infrastructure improvements for the jurisdiction (regardless of the extent of blight), this may free up non-TIF revenues for other purposes. In addition, as most TELs restrict debt issuance to voter-approved debt and because voter approval is not necessary for TIF debt issuance, this allows another source of revenue for infrastructure. In such a case, true redevelopment activities are consistent with relieving fiscal stress.
- What are the intra-jurisdictional consequences of TIFs? Jurisdictions that overlap the project area have no say in the extent of the project. However, TIF activities do affect their fiscal abilities and give rise to several concerns. One concern is that property value may increase without TIF (see the first question, above). Another concern is that the implementation of TIF may involve increased service demands on the overlapping jurisdiction. For example, if the city provides fire suppression services to the TIF project area, then redevelopment might place additional pressures on the city's fire department without generating additional revenues. If there is an overlapping school district, then any additional students that enter schools because of the TIF project will lead to increased costs without increased property tax revenues. In some states, for example California, the state backfills the school districts' losses, which puts additional pressure on the state budget. In addition, some argue that suburbs use TIF districts for economic development competition by encouraging businesses to relocate there, thus hurting the poorer central city (Lefcoe, 2011, 426).
- What are the other distributional outcomes of TIFs? There are at least two. First, there is high likelihood of displacement of the residents of the project area during the redevelopment process. If the area is truly blighted and low-income households are forced to leave, then – if commercial or industrial structures replace the blighted homes – new housing for these households must be provided.

A second distributional consequence could occur if there are underestimates of the costs of the project. In this case, the redevelopment agency must determine how much of the total increment can be used to cover the shortfall of the particular project area. This could lead the agency to move resources from one area to another, change the timing of the development in the area with a shortfall, or even expand its activities to additional areas to gain quick revenues.

- Can transparency and oversight of TIF projects be improved? Although the theory that TIF is a self-financing mechanism is prevalent, their financial statements are often not published or analysed. Further, the statements are generally difficult to understand, even when available. A way to improve transparency and oversight for a TIF district is to require the redevelopment agency to publish a pro-forma accounting statement on a website and also provide it to the press. This should lead to an increase in public attention and scrutiny of the TIF project. In addition, jurisdictions that use TIF might be asked to separately disclose the tax increment and note any additional costs that the project is incurring. Finally, judicial oversight might be improved. Lefcoe (2008) gives several examples of how courts have intervened in the redevelopment process. It might be that these interventions could increase as the public becomes better informed. In some cases, when courts have intervened in the TIF process, they have reversed themselves; for example, the State of Florida Supreme Court first ruled that TIF projects need voter approval, and then entirely reversed its ruling a year later (Youngman, 2011).

Conclusions

As described in the detailed analysis of TIF, there are unintended consequences of these new forms of raising revenue that are associated with land value capture. First is the assumption that the benefits of any new infrastructure can be accurately determined and then assessed to a particular piece of land. Spillovers are ignored. Second, in some cases, there are ethical issues involved with deliberately designing instruments that are often complex and not understandable by the average resident of the jurisdiction. Third, at least in the US, debt issued in these arenas is often priced higher than the traditional General Obligation debt that municipalities issue. For some of these techniques, growth is necessary and sprawl may be an unintended by-product. Overall, these techniques may encourage inter-jurisdictional competition and be perceived by people as so arcane that they may easily lead to a public that is disaffected. In this pessimistic case, cities that do not understand the financial system may opt out of the area, and bolster the feeling that government is no longer responding to peoples' needs. In the US, this very disaffection might be a contributor to the rise of the anti-government 'tea-party' movement. For planners, who often develop plans that involve financial considerations, an understanding of the promises and problems associated with public finance and public service provision is crucially important.

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Peter Park

Policy & Practice
Comment

'Gentlemen, we have run out of money. Now we have to think.'

These famous words, said in desperate times during WWII, provide useful perspective for addressing fiscal challenges in American cities today. In their Lead Paper, Chapman and Gorina provide a useful primer on the more than 50-year evolution of TIF in jurisdictions across the US. Understanding the effects of TIF on politics and real estate markets is critical in defining the appropriate role of local government in economic development. This is especially true in times of fiscal distress. Equally important, but often ignored, is an understanding of the relationship between effective city planning and TIF as a tool for implementation.

As described in the Lead Paper, TIF began as a tool for local governments to generate matching funds for federal grants and remove urban blight, but has now morphed into just another economic incentive tool in many jurisdictions. TIF practices have changed considerably over the years as politics and changing market conditions demanded more flexible and broader application. Stretching the fundamental definition of blight removal has strained public support for TIF. A controversy is brewing in Colorado, a western US state where private property rights are fiercely protected and low taxes are favoured. A $300 million incentive package including TIF is being considered by local jurisdictions to subsidise an $800+ million hotel and convention centre development on 85 acres of greenfield land in Aurora, a suburb between Denver International Airport and downtown Denver. Not only does this proposal threaten historically strong regional cooperation, it comes in the midst of recent Colorado legislation aimed at preventing the use of TIF for greenfield development. This proposal represents a significant departure from the original purposes of TIF, especially with regard to removing blight, meeting rigorous 'but for' scrutiny, and prioritising urban development regionally. Gaylord Entertainment's proposal could be the largest public subsidy of private development in Colorado's history. As the proposal runs its course, it will provide many lessons for gauging government's role in underwriting risk for private development in uncertain economic times.

By contrast, Milwaukee, Wisconsin during the John O. Norquist mayoral administration, offers lessons in returning to the basics of government and fiscal constraint. The economic turnaround that occurred in this Midwestern, rust-belt city is noteworthy and largely attributable to Norquist's fiscal conservatism, firm belief in the strength

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of urban places and clarity about government's role in supporting sustainable market competition. For example, he prioritised improving the efficiency and predictability of construction permitting services over offering financial subsidies to development projects. Community-based planning became more effective in aligning community vision with development-related regulations and processes. Norquist applied great rigour to the financial analysis of any TIF proposal not only to minimise the city's financial risk in a given project, but just as importantly, to avoid queering market-based investment. By preparing community-based plans upfront, Milwaukee was able to clearly broadcast its vision and priorities for new development and redevelopment to potential investors in downtown, the industrial valley, and various neighbourhoods. TIF was primarily considered only to 'level the playing field' for encumbered urban sites (needing soil remediation, lacking infrastructure, historic preservation, etc.) where market gaps were clearly demonstrated. This approach was used in major place-making initiatives including the Beerline 'B' Neighborhood, the Milwaukee River-walk, and the redevelopment of the Park East Freeway corridor, where an at-grade boulevard replaced an elevated downtown freeway. These efforts rebalanced public and private roles in development financing in Milwaukee and resulted in significant city development during the Norquist administration.

The primary lesson from Milwaukee is how TIF was used as a tool of last resort in the implementation of adopted plans. Milwaukee proactively implemented plans by prioritising predictable regulations and permitting services and using TIF only when necessary using place-based approaches. This discipline evolved after years of reacting to piecemeal, project-based requests for subsidies with little or no planning guidance. Clear vision and strong political leadership were central to Milwaukee's success.

In today's economy, cities are not only facing questions about where to invest, but also how, and, with what resources? The notion of 'creative financing' no longer holds appeal. In many circles, the mere mention of the phrase raises suspicion and doubt amid growing public sentiment toward returning to the 'basics'. This perspective applies to TIF and will undoubtedly affect its future use and evolution. Assessing the appropriate role of TIF and balancing private and public risk especially in these times is critical. For in the midst of the Tea-party fervour we must be careful not to throw the baby out with the bath water.

Sian Llewellyn

Policy & Practice
Comment
Transplanting TIF to the UK

Tax Increment Financing (TIF) has been a topic of conversation among those working in regeneration in the UK since I moved to London from the US five years ago. Many in the public and private sectors are hoping to see the UK establish the legislation to create the redevelopment tool known as TIF and the Coalition Government is now consulting on this. On the surface, a local application of funding resulting in an increase of value would be a great tool to have in the regeneration toolbox. However, the application of American TIF to the British system requires that a few differences are recognised, the most important of which are:

- *Incentives*: US property taxes vs. UK business rates.
- *Increments*: US local vs. UK national.
- *Instruments*: robust municipal bond markets.

TIF districts in the US are drawn around specific parcels of property and the 'increment' is collected from an increase in property tax, a tax paid by the land owner. Most conversations about TIF in the UK assume the increment would come from an increase in the 'business rates' (local property taxes). Business rates are paid by the users or occupiers of a property, not the owner. That is a crucial US–UK incentive difference. As an owner (including an owner-occupier), an increase in property tax is usually directly related to an increase in the capital value of your property. Should you choose to sell the property you, as owner, will receive an increase in price if your property rises in value. Business rates, on the other hand, are a function of rental income. If an occupying renter chooses to move, the increase in value stays with the property and belongs to the property owner. Thus the occupier, who pays the rates, has no vested interest in the capital value of the property. He or she may prefer it to be surrounded by an attractive public realm and may even pay more for that amenity, but will receive no capital benefit from that application of TIF funds. Because of this property tax vs. business rates difference, the incentive of the TIF in the UK is a bit skewed from its original meaning – i.e. that the person or business who receives the capital benefit of the local application of funding pays for that benefit.

Another interesting difference is how the increment is collected and applied. Property taxes in the US are set by local governments and are collected and applied locally. There is no national collection and redistribution. So TIF in the US is a purely

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local decision. Authority is given to the local municipality by the state and there is no federal involvement at all. In the UK, although discussions are under way to re-localise business rates in England (DCLG, 2011), business rates are currently collected locally and then redistributed from the national treasury; so collection is local, but application is national. Therefore, some mechanism of retaining and applying the increment in the specified district must be enacted. The government's current proposal suggests a possible ring-fencing of business rates to support TIF-like local applications.

One final difference is the prevalence in the US of municipal bonding of infrastructure. This instrument of financing is tax-free to many investors, thus frequently attracting a lower rate for the bonds used to finance the infrastructure. My understanding of UK fiscal policy is that bonding for infrastructure is fairly unusual. Because the future value of the increment is the projected repayment of the bonds, a fairly robust bond market helps to keep the cost of financing down. That market exists in the US (or did prior to the financial meltdown) and could be created in the UK with the right incentive.

TIF, prudently applied, can provide the marginal financing that can allow a redevelopment project go forward. The differences discussed above are a few of the quirks that prevent direct transplantation of the US model into the UK; none of these are insurmountable, just differences to overcome.

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Chris Murray

Policy & Practice
Comment

The Lead Paper by Chapman and Gorina lucidly sets out the issues surrounding Tax Increment Financing (TIF) in the US context, presenting some provocative food for thought as to how TIF might operate in the UK and, as the introduction of TIF approaches for England, what we might learn from the North American experience. It is important, therefore, to understand the fiscal differences between the US and UK contexts, particularly in respect of local government finance. The fiscal instruments available to local government in the UK at the time of writing are virtually nil, the exception being Council Tax (the local domestic property tax), which does not loom large as a potential revenue stream for TIF. However, with the potential local retention of business rates proposed by the current Local Government Resource Review (DCLG, 2011), this picture could change significantly.

The authors clearly set out the dangers of fiscal stress to TIF projects in the US and that they are not a panacea for all stalled development. This is correct, and the approach to TIF that Core Cities Group has championed in England is a relatively conservative one, where the weight of risk would in a sense self-limit the number and kinds of schemes that could be undertaken. However, it should also be remembered that TIF is not just about borrowing and spending, it is also about local economic transformation which will create jobs, putting taxes back into the system beyond those that are used to fund the TIF (i.e. business rates), through income tax, national insurance and corporation tax, and also reduce the burden of public expenditure by reducing benefits payments and dependency-related services.

The Lead Paper makes a strong argument that retail-focused TIF may not do well in a recession. There are two important points here. First, the case studies undertaken by Core Cities on TIF schemes had a broader focus than retail and included mixed use development, transport infrastructure and high-end knowledge industry facilities such as bio-tech. In theory, there is no reason why TIF might not also be used for other kinds of infrastructure, e.g. high-speed broadband. Therefore, although there may be a perverse incentive in the proposed new local government finance system toward retail development (because of the larger business rates accruing from it), this is unlikely to be the sole – or even majority – focus of English TIF schemes. The second point is that many TIF schemes will have a 20+ year pay back, and although they will begin close to the recession, they must take a much longer economic erspective.

Recession does, however, change the context for TIF, at least in its early stages in England. My view is that this simply means that schemes will be more conservatively

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underwritten – which is a parallel with the current US approach – and that schemes which are more marginal in terms of risk may not immediately happen. That is, sure bets will go first. Even outside recession, TIF will not work everywhere for every scheme, and I want to return for a moment to the idea that it will in some ways be self-limiting in England. Proposals exist for off-balance sheet TIF, i.e. private sector-led, although there are different views on whether this is completely achievable to the satisfaction of Her Majesty's Treasury. However, if a TIF is private sector-led – that is, the risk is held entirely by a private company – then the market will dictate what TIFs can and cannot happen. Against this economic backdrop, companies are unlikely to be profligate in risk-taking. If, instead, local authorities lead a TIF, then the Prudential Code[2] would apply, alongside other systemic checks and balances, and, equally, this provides some assurance that diligent and intelligent decisions will be made.

The article demonstrates how TIF in the US initially focused on urban blight, but was then subject to a bit of 'mission-creep'. The work we have undertaken on TIF in England has not focused exclusively on blight. The common factor in the schemes we examined was one of transformational economic potential that could not be achieved any other way because of the up-front infrastructure financing gap. TIF then unlocked these schemes, allowing a wider cocktail of finance to come into play, which led ultimately to local job and wealth creation. Essentially we have viewed TIF as an instrument of economic competitiveness and long-term investment in the future of our places.

Bonds are discussed in the Lead Paper and are widely used in the US; they are being debated in the UK and the likelihood is that they will be used more widely by local authorities in future. However, it should be remembered that bonds are simply another method of borrowing, not a revenue stream, and my city-finance colleagues tell me that they do not have any problems accessing borrowing: what they need is the revenue to pay it back. TIF could be undertaken through bonds in England, but initially at least, they are likely to prove an expensive means of doing so. The second possibility is that TIF schemes, once they have got going and proven themselves financially, might be re-securitised through the bond market, perhaps even in bundles to create the scale necessary to make this an economic approach.

TIF in the US has a wider fiscal base to play with at the local level than have English authorities, even if and when retention of the business rate occurs. In one sense, this makes TIF more challenging here, but in another it provides an additional safeguard, as schemes must have a clear and realistic focus on the expectations of a single revenue stream. However, the tax exemptions available in the US are very attractive, and this more creative approach is certainly worth exploring in England. I was also interested to learn from the Lead Paper that the local authority does not carry any liability in

2 The Prudential Code for Capital Finance in local Authorities was introduced in 2004, replacing the previous complex regulatory regime, and was fully revised in 2009. See www.cipfa.org.uk/pt/prudential_framework.cfm.

the US because of the third-party agency arrangements. This has obvious benefits, although the same principles of due diligence would need to be applied to the operation of any such agencies – should they come into play – in England.

The article concludes with a number of important searching questions, which I will respond to briefly.

Would the development have happened anyway?

Our rule of thumb in examining TIF schemes has been that it could not otherwise happen in current circumstances. The Local Government Resource Review consultation sets out two options for TIF in England. In option one, TIF is simply a matter for local decision because business rates are retained. This would make perfect sense were it not for the fact that TIF revenues above a certain level might be drawn back into a national pool and that business rates included in a TIF could be subject to revaluations over quite short periods of time, e.g. 3–5 years. This makes TIF in these circumstances unstable and more risky. However, whether a scheme would have happened anyway or not is purely a matter for local decision. In the second option TIF would be more stable and ring-fenced from change, but would also be rationed, and therefore subject to national criteria. This would provide additional certainty that schemes would not have otherwise happened, but would be unwieldy and mean that some good schemes would not be approved and their growth potential lost. In the current economic climate, and given the risks associated with this mechanism, it seems unlikely that TIF would be a default position for schemes that could be funded in some other way.

Is a TIF self-financing?

In England, TIF would often be used in areas that have little or no business there at present, and so would be funded not just by incremental rises in rates, but by entirely new rates. The business cycle has to be clearly calculated for a TIF to work, and as above, in the current climate estimates are likely to be conservative. However, it is worth remembering that these calculations of future income and lettings have to happen for any development before it can begin, so while not straightforward, the calculation is highly achievable. The issue of TIF and blight has been dealt with above.

Relieving fiscal stress

The Lead Paper makes a cogent case as to why this is a real possibility in the US system, but because of the very limited fiscal instruments of local government in the UK this is much less of a concern here. What is of concern is the very limited public capital finance that is now available and TIF provides a way to bring forward new investment.

Cross-jurisdictional issues

Because TIF takes place through independent agencies in the US, this could clearly become a problem if they are not sensitive to cross boundary issues. However, most TIFs in England would need to relate in some way to the Local Enterprise Partnership (the public/private strategic economic board) at roughly the level of the functioning economic geography. This means that cross-boundary issues would be accounted for in some way, or at the very least fully aired and scrutinised.

Displacements of people from the area

This issue does not apply in the same way in England. Most English TIFs are unlikely to displace housing or business from the area in any quantity, and should this be the case, it would be dealt with within current legislation and policy. The issue of displacement much discussed in England in relation to TIF is that of business relocating to the area, and therefore making a true assessment of additionality difficult before the fact. A large amount of work has been done on examining this issue, and my view is that it is possible to make a satisfactory and pragmatic estimate of this. Where TIF happens within a functioning economic geography with the agreement of all parties additionality is much less of an issue, as most if not all displacement would occur within that geography.

Underestimating the costs and accountability for projects

This is an issue for all development and not something specific to TIF; a prudent approach must always be taken. Because, at least initially, most English TIF projects would be public sector-led, levels of accountability and scrutiny would be high. The authors also make a good point about alienating local people by using a financing mechanism they do not understand. However, compared to much of local government finance in England – which is a highly complex system – TIF might be said to be an extremely clear and understandable mechanism, at least in its principles.

Chapman and Gorina conclude with a crucial point: that planners need to have a greater understanding of public finance, specifically of how TIF decisions relate to the availability and usage of future revenues. This point might also be put this way: that planning, financing and economic development issues need to be seen in the round at the local level. Increasingly this is something that local authorities strive to do. With TIF coming on stream it will be an absolute necessity.

Reference

DCLG (Department for Communities and Local Government) (2011), *Local Government Resources Review: Proposal for Business Rates Retention*, London, DCLG. www.communities.gov.uk/publications/localgovernment/resourcesreviewbusinessrates (accessed 12 October 2011).