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Crony Capitalism and Social Engineering
The Case against Tax-Increment Financing

by Randal O'Toole

Executive Summary

Tax-increment financing (TIF) is an increasingly popular way for cities to promote economic development. TIF works by allowing cities to use the property, sales, and other taxes collected from new developments—taxes that would otherwise go to schools, libraries, fire departments, and other urban services—to subsidize those same developments.

While cities often claim that TIF is "free money" because it represents the taxes collected from developments that might not have taken place without the subsidy, there is plenty of evidence that this is not true. First, several studies have found that the developments subsidized by TIF would have happened anyway in the same urban area, though not necessarily the same location. Second, new developments impose costs on schools, fire departments, and other urban services, so other taxpayers must either pay more to cover those costs or accept a lower level of services as services are spread to developments that are not paying for them.

Moreover, rather than promoting economic development, many if not most TIF subsidies are used for entirely different purposes. First, many states give cities enormous discretion for how they use TIF funds, turning TIF into a way for cities to capture taxes that would otherwise go to rival tax entities such as school or library districts. Second, no matter how well-intentioned, city officials will always be tempted to use TIF as a vehicle for crony capitalism, providing subsidies to developers who in turn provide campaign funds to politicians.

Finally, many cities use TIF to persuade developers to build "new-urban" (high-density, mixed-use) developments that are supposedly greener than traditional designs but are less marketable than low-density suburbs. Albuquerque, Denver, Portland, and other cities have each spent hundreds of millions of dollars supporting such developments when developers would have been happy to build low-density developments without any subsidies.

TIF takes money from schools, fire departments, libraries, and other urban services funded by property taxes. By eliminating TIF, state legislatures can help close current budget gaps and prevent cities from taking even more money from these urban services in the future.

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Introduction

When Jerry Brown took office for the second time as governor of California in 2011, the first thing he did was propose to eliminate the state's 400 urban redevelopment agencies.[1] Run by the cities and (in a few cases) counties, these agencies siphoned $5.7 billion away from schools and other tax entities into municipal coffers in 2009.[2] Brown suggested that eliminating the agencies would be a major step toward helping the state close its $28 billion deficit.

Brown was intimately familiar with redevelopment agencies: as the mayor of Oakland from 1999 to 2007, he had doubled the size of the city's redevelopment districts.[3] Although redevelopment funds are legally dedicated to fighting blight and promoting economic development, the *Los Angeles Times* noted that cities often used them "as emergency ATMs to pay for core services, including police, fire and code enforcement, and sometimes the mayor's salary." Indeed, 15 percent of Brown's salary when he was Oakland's mayor came from the city's redevelopment agency.[4]

In California and 48 other states, most urban redevelopment is paid for using tax-increment financing (TIF), a taxing method invented by the California legislature in 1952. As described in detail below, tax-increment financing uses the property (and sometimes sales or income) taxes collected from new developments to subsidize those very developments. It is also a way for cities to enhance their budgets at the expense of schools and other government entities. Redevelopment "seemed kind of magical," Brown himself stated when mayor of Oakland. "It was the way that you could spend on stuff that they wouldn't otherwise let you."[5]

More than three out of four California cities and nearly a third of California counties use TIF. Moreover, TIF is rapidly growing outside of California. From 1990 through 1995, American cities sold $10.2 billion worth of bonds backed by TIF, more than 80 percent of which was for California.[6] In the late 2000s, cities sold nearly $20 billion worth of TIF bonds, and California's share had declined to less than 64 percent.[7] While California TIF bonds grew by 55 percent, TIF bonds in other states grew by 260 percent.

TIF has become a popular way for cities to subsidize all sorts of private developments, ranging from residential subdivisions to shopping malls and from streetcar lines to sports stadiums. The wide variety of ways TIF funds are spent is illustrated by the following news items that appeared in just one month in 2010:

- Belleville, Illinois, gave a car dealer $152,000 in TIF money "to help the dealership reinstate its General Motors franchise."[8]
- Not to be outdone, La Quinta, California, spent $2.3 million helping to remodel a car dealership and build a new showroom so the dealer could maintain its Kia franchise.[9]
- The St. Louis suburb of Bridgeton gave THF Realty $7.2 million in TIF money to cover more than 30 percent of the cost of developing a WalMart store.[10]
- The Dallas suburb of Farmers Branch agreed to sell land to WalMart for less than a third of what the city paid for the land. Counting the costs of clearing the land and providing infrastructure, the town lost close to $6 million on the deal, which it hopes to recoup in TIF revenues from the property.[11]
- San Diego set aside 20 percent of tax increment revenues in downtown for affordable housing.[12]
- San Diego also plans to use what it openly admits is a "legal trick" to use TIF money—by law dedicated to fixing blight—to house homeless people.[13]
- St. Louis plans to use TIF money to help build a 4-mile streetcar line.[14]
- Fort Worth also plans to use TIF money to build a streetcar line.[15]
- Dallas plans to partly cover the oper-

ating losses of its new streetcar line with TIF money.[16]

- The Ann Arbor Downtown Development Authority gave a delicatessen $407,000—effectively the next 15 years of the deli's anticipated property taxes—to help it expand.[17] To get these funds, the deli owners had to ask the city to declare its property a "brownfield" even though it wasn't really polluted. "It's economic development," said an Ann Arbor planner, "It's not about environmental cleanup."[18]
- The developer of a $2.3 million six-screen cinema in Freeport, Maine, asked for $700,000 in TIF money, without which the "the project will not be feasible."[19] (The developer ended up accepting a mere $200,000 in TIF funds, but this is just part of nearly $20 million in subsidies given to the shopping mall in which the theater is located.[20])
- Escondido, California, gave $10 million plus land to a developer for a hotel.[21]
- The Memphis Industrial Development Board provided $45 million in TIF money to support construction of a "full-service luxury" Hilton Hotel.[22]
- Chicago used tax-increment financing to contribute $54 million to the construction of a $151 million shopping mall that included Target, Aldi, Subway, and other stores.[23]
- Fishers, a suburb of Indianapolis, provided $45 million in TIF funds to support a $335 million mixed-use shopping mall.[24]
- Sandy, Oregon, is spending $30,000 in TIF money to hire artists to paint a 12-by-60-foot mural featuring the town's history.[25]

The 2005 Supreme Court decision in *Kelo v. New London* raised public awareness of how cities abuse eminent domain to benefit wealthy developers. But TIF is eminent domain's little-known partner: without TIF, few cities could afford to use eminent domain to take people's land for so-called economic development projects. This is one more reason legislatures should remove TIF from the list of tools cities can use to raise money.

How TIF Works

To obtain TIF funds, a city (or, in most states, a county) must draw a line around an area it wants to redevelop. This may be called an urban renewal district, a redevelopment district, or simply a TIF district.

At the time the TIF district is created, the property taxes generated by that area become the base taxes, and those taxes will continue to fund schools and other services for the lifetime of the district. But from that day forward, any increases, or increment, in taxes—whether from new development or from the increased value of existing land and developments—are retained by the urban-renewal agency for redevelopment.

While 31 states require the municipality to find that the area within the district is "blighted," as anyone familiar with the eminent domain issue knows, the determination of what is "blighted" is often contentious. Not only do 18 states not require a blight determination, at least 16 others weakened their blight requirements in the decade before the *Kelo* decision.[26]

In Missouri, neighborhoods have been declared blighted simply because the homes were older than 35 years.[27] When homeowners in a Michigan city argued that their neighborhood was not blighted, the city planner responded that "'blighted' does not mean shabby or marked for demolition. It simply means the area has revitalization potential."[28] That definition effectively eliminates the blight requirement for any city whose only goal is to increase tax revenues.

Some states allow cities to create TIF districts for reasons other than blight. Idaho, for example, allows cities near state borders to create TIF districts if they are at a competitive disadvantage with cities in neighbor-

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ing states. The city of Post Falls used this to justify putting 40 percent of the land area of the city in a TIF district. Yet according to the Idaho State Tax Commission, Idaho's overall tax burden is significantly less than Washington's.[29] It seems likely that Post Falls's TIF districts attracted more business away from nearby Idaho cities, such as Coeur d'Alene, than from Washington state. Significantly, Coeur d'Alene created two urban-renewal districts five years after Post Falls created its first district, and two other nearby towns also recently created TIF districts.

Some states require little more than a public hearing to create a TIF district; others may require a study to determine if redevelopment is feasible. Only one state, Georgia, requires cities to ask voter approval to create a TIF district. Georgia also requires cities to obtain the consent of other taxing entities that overlap with the district.[30]

Though 13 states have no limit, most states limit the life of the district to between 20 and 50 years. Planners typically estimate what the tax increment will be over that time period. The city then sells bonds that can be repaid by that increment and spends the revenue from the bonds to purchase properties and clear existing structures. All but eight states and the District of Columbia allow cities to use eminent domain to compel landowners to sell property within TIF districts.[31]

Once existing structures are cleared, most cities also use TIF funds to make improvements within the district. Cities often build infrastructure such as streets, sidewalks, parks, sewers, water, and parking garages—infrastructure that developers would normally pay for themselves. The city then sells the land to developers, typically for far less than the city has invested.

In lieu of providing infrastructure, cities sometimes give some of the bond proceeds directly to the developers. In other cases, particularly transit facilities, sports stadiums, and convention centers, the city builds the actual structures and then manages, leases, or sells them.

There are many variations. In addition to property taxes, 17 states allow municipalities to dedicate incremental sales taxes to redevelopment, and three states allow them to dedicate incremental income or payroll taxes to redevelopment.[32] Most states allow cities to create pay-as-you-go TIF districts, spending the incremental taxes (or any surplus tax revenues after making bond payments) on district improvements each year. In many such cases, the developer pays for the infrastructure and then the city rebates the incremental property and/or sales taxes until the developer's costs have been covered.

Some states limit the amount of land a municipality can put in a TIF district. Oregon, for example, allows cities to put no more than 25 percent of their land area in a TIF district. Other states have no limit, and cities such as Mission Viejo, California; Port Richey, Florida; and Wheaton, Illinois, have either placed or proposed to place all land within their city limits in a TIF district—effectively claiming (since those states all have blight requirements) that 100 percent of the city is blighted.[33]

In addition to providing funds for redevelopment, TIF districts generally insulate cities from failure. Although most redevelopment agencies are run by boards of directors whose members are identical to the city councils, they are considered separate entities. If a TIF district fails to collect enough incremental taxes to repay its bonds, it can default on the bonds without jeopardizing the city's bond rating. This allows cities to take on high-risk projects that developers might avoid even if they were guaranteed no increases in property taxes.

In 1991, the Englewood, Colorado, Urban Renewal Authority defaulted on $27 million worth of bonds sold in 1985 to support a retail development that failed and was eventually bulldozed.[34] Bondholders, not taxpayers, paid the price. But this does not mean that TIF is a good deal for taxpayers. In fact, such defaults are rare because cities have many ways of capturing taxpayer funds to pay for TIF.

Defaults on TIF bonds are rare because cities have many ways of capturing taxpayer funds to pay for TIF.

First, in many states, TIF agencies get rewarded for inflation. As property values increase due to inflation, TIF revenues rise even if the district does nothing to improve the area. Normally, such increased revenues would be used by schools and other tax entities to offset increased costs, but since the TIF districts are capturing those revenues, other tax districts must either raise taxes or cut back on services.

In some states, property taxes are indexed to government budgets, not to inflation, so increased property values do not automatically boost TIF revenues. But TIF agencies have other ways of using fluctuating property values to capture revenues. For example, in Idaho, when property values decline (as they did in the recent recession), the base value of the property (the portion whose taxes go to schools and other traditional tax entities) also declines. When property values recover, the base value remains at its lowest level, so TIF districts capture "incremental" tax revenues that, prior to the recession, had gone to other tax districts.

Second, in most states, TIF districts gain when other tax entities persuade voters to increase taxes. Say a school or library district convinces voters to pass a bond levy that increases taxes by $1 for every $1,000 of property value. Taxes are increased both inside and outside of the TIF districts, but the increased revenues inside the TIF districts go to TIF, not to the school or library district.

For example, in 2006, voters in a fire district in Northglenn, Colorado, agreed to increase the local fire district's tax rates, an increase that the fire district admitted was needed mainly because local TIF districts had taken so much money from the fire district. Yet the increase also increased TIF revenues, effectively rewarding the urban-renewal agency for taking money from the fire district.[35]

Third, TIF districts get credit for development that would have taken place in the district anyway. If a city creates a TIF district out of a neighborhood that is already being gentrified by private developers, all the taxes on new development in the neighborhood go to the TIF district even though that development would have taken place without the TIF district.

Fourth, TIF districts get credit for development that takes place within their boundaries that would have taken place somewhere nearby anyway. In a growing region, new homes, shops, offices, and other developments will be built somewhere. TIF subsidies may attract such development to the district at the expense of development somewhere else in the region. The result is no net increase to the region's total tax base, but a net decrease to the tax revenues for schools and other entities that must compete with the TIF agencies for funds.

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History of Urban Renewal

Urban renewal in America can be traced back to the Housing Act of 1949. This law was a response to a profound transformation that American cities were undergoing after World War II. Prior to the war, millions of mostly working-class families lived in high-density housing—sometimes called "tenements"—in the inner cities. Few of these families owned automobiles, and instead workers commuted on foot or by streetcar to nearby factories. Greenwich Village, the neighborhood celebrated in Jane Jacobs's *Death and Life of Great American Cities*, was a typical example of such a working-class neighborhood.

In the decades after the war, the vast majority of these families moved to single-family homes in suburbs typified by Long Island's Levittown. Two things prompted this change. First, in contrast to pre-war factories, which could be installed in multi-level factory buildings, the moving assembly lines pioneered by Henry Ford in the production of the Model T were horizontal, requiring large areas of land. As more industries adopted these techniques, they moved to suburban areas where land was less expensive but where few people would live within walking distance of the factories.

Because so many of the families displaced by urban renewal were black, James Baldwin dubbed it "Negro removal" in 1963.

Second, working-class wages grew while the cost of driving declined, so working-class families quickly acquired automobiles. In 1930, only about half of American families had an automobile, and these were mainly middle-class (white-collar) and upper-class families. By 1960, nearly 80 percent of American households owned one or more automobiles, giving workers the mobility they needed to live in single-family homes that might be several miles from their jobs.[36]

As working-class families moved out of the cities, rents on tenement housing declined. In many cases, such housing became occupied by African Americans who, due to racial discrimination, had some of the lowest incomes in the nation. Landlords failed to keep this housing in a state of good repair because they faced high vacancy rates and collected low rents from occupied units.

Central city officials were naturally concerned about the declining incomes in and tax revenues from these neighborhoods, which they called "blighted." They worried that property owners had disincentives to replace or "gentrify" the slums because the value of any new buildings would be dragged down by the continuing decline of adjacent structures. Racial segregation played a role in this assumption, as in that era many whites refused to live in even luxury housing if it was next door to homes occupied by blacks.

Urban leaders tried to use the power of government to fix this problem. They persuaded Congress to provide for "slum clearance" in Title I of the Housing Act of 1949.[37] Over the next 25 years, 992 cities received grants to carry out 2,532 urban renewal projects.[38] Adjusted for inflation to today's dollars, these grants totaled more than $50 billion.[39] Title I also encouraged cities to use eminent domain to acquire all of the properties on one or more city blocks. Cities would clear all of the structures on these properties and then offer them to developers to replace en masse instead of one at a time.

The law soon came under intense criticism, partly due to its contradictory goals. While Title I focused on slum clearance, it was part of a law whose ostensible goal was to ensure decent, affordable housing for all Americans. Thus, Title III of the law called for the construction of up to 810,000 units of low-rent public housing—with the caveat that no more than one unit of public housing could be built for each unit of slum housing cleared. In actual practice, Congress funded far less public housing than the law authorized.[40]

Moreover, the lag time between slum clearance and the completion of whatever developments replaced the slums averaged 12 years. This meant that most of the low-income people displaced by slum clearance were forced to find other housing on their own, usually at a higher cost and often no better in quality. By 1961, Title I had destroyed four times as many units of housing as Title III had built.[41] Because so many of the displaced families were black, James Baldwin dubbed urban renewal "Negro removal" in 1963.[42]

While race may have been a factor in such programs, the real goal, worthy or not, was to increase property values and tax revenues. Some have argued that urban renewal "was a program designed to demolish poor people's housing in the hope that the people would just go away."[43] But the fact is that many of the people were going away anyway, mostly to the suburbs. An inventory of 400,000 housing units cleared or scheduled to be cleared under Title I as of 1966 found that 25 percent of them were vacant, suggesting that a surplus of dense urban housing was a real problem, as people abandoned such housing for low-density suburbs.[44]

Between 1950 and 2000, the populations of most major central cities, from Albany, New York, to Youngstown, Ohio, declined by 25 to 60 percent even as the urban areas in which those cities are located grew.[45] Critics blame this "hollowing out of American cities" on federal policies. However, as University of Chicago historian Robert Bruegmann observed in *Sprawl: A Compact History*, these trends began before Congress passed

Title I of the 1949 Housing Act and continued long after Congress repealed it.[46] They resulted from changes in transportation costs, incomes, and tastes.

Beyond the housing issue, critics asked whether government was capable of improving cities at all. In 1961 Jane Jacobs argued that many of the so-called slums that cities wanted to clear were, in fact, vibrant neighborhoods, and that the developments that were built to replace them were "truly marvels of dullness and regimentation, sealed against any buoyancy or vitality of city life."[47]

In 1964 economist Martin Anderson's book *The Federal Bulldozer* charged that urban renewal was not even accomplishing its goal of improving cities. Instead, he said, slum clearances merely pushed slums into other parts of the cities while the projects that replaced the slums failed to increase the overall tax revenues collected by cities.[48] In fact, many of the areas cleared were not redeveloped for many years, if ever, thus resulting in permanent, or at least long-term, loss in tax revenues.[49]

Largely due to such criticism, Congress ended the Title I program in 1974. By that time or soon after most of the surplus dense urban housing that had crowded American cities after World War II had been removed either by government action or through private gentrification. In fact, according to Purdue historian Jon Teaford, most urban renewal was done by private enterprise without federal assistance.[50]

With the problem solved and federal funds evaporated, government-sponsored urban renewal efforts should have ended. Yet hundreds of cities had created redevelopment agencies, and these agencies had an urge to survive for a variety of bureaucratic and political reasons. All they needed was a funding source, and that funding source was provided by tax-increment financing. Under TIF, cities can sell bonds and repay those bonds from the increased property taxes collected from the new development and enhanced property values.

Although California invented TIF in 1952, most states continued to rely on federal funding as long as that funding was available. At the time Congress repealed Title I of the 1949 Housing Act in 1974, only 8 other states—Rhode Island, Nevada, Oregon, Utah, Florida, Iowa, Connecticut, and North Dakota—had passed laws allowing cities to use TIF. But within five years after Congress repealed the law, 15 more states passed TIF laws, and today all states but Arizona allow cities to use TIF.[51]

The Politics of TIF

Though the original need for urban renewal is gone, the tools of TIF and eminent domain remain. Given a hammer, everything becomes a nail, and given the opportunity to use TIF, every neighborhood becomes blighted.

It is possible that some neighborhoods are genuinely blighted, and it is also possible that even in this enlightened age of lower racial tensions a neighborhood can be so blighted that property owners could not themselves gentrify the area. Yet it is clear that the promoters of the urban-renewal programs found in almost every major city have aims that are independent of blight or the need for government intervention to correct market failures.

First, city managers view school districts, fire districts, and other agencies funded out of property taxes as rivals for the limited tax dollars paid by the public. TIF offers cities an easy way to capture a larger share of these funds from their rivals. For example, if a city is short of funds for maintaining streets, it can create a TIF district and use TIF revenues for street maintenance in that area, leaving the rest of the city's street maintenance budget available for a smaller area.

Second, elected officials use TIF to engage in crony capitalism, that is, to provide tax subsidies to favored developers. This reduces the risk to developers, who naturally respond by making campaign contributions to the officials when they run for re-election.

Third, urban planners use TIF to practice social engineering, promoting develop-

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ments that may be less marketable but that follow the latest urban-planning fads. Ironically, the current fad is high-density, mixed-use developments in a conscious imitation of the neighborhoods that were demolished by urban-renewal projects in the 1950s and 1960s.

Competing for Dollars

Cities, like fire districts, schools, libraries, and other government entities, depend on tax dollars and often rely on the same property and sales taxes. In many states, cities can increase tax rates only by persuading voters that they deserve more taxes. But Georgia is the only state that requires cities to ask voters to approve tax-increment financing, so most cities can use TIF to increase their revenues at little political cost.

City officials often present TIF as "free money" because, they suggest, the tax increment would not have taken place without the bond-funded improvements to the area. But this is far from true. First, due to inflation, tax assessments within the district would likely have increased even without any actions by the city. Since inflation also increases costs, schools and other government entities dependent on taxes end up paying higher costs to serve the district but do not collect higher revenues to cover those costs. This means that taxpayers outside the district must either pay higher taxes to support the district or accept a lower level of services in their own neighborhoods.

Second, studies show that urban renewal is not a positive-sum game. In other words, the developments stimulated by TIF-supported urban renewal projects would have happened somewhere in the urban area.[52] At most, all TIF does is relocate those projects to the redevelopment district. Thus, TIF does not increase the level of economic growth or the taxes generated by that growth; all it does is direct some of those taxes to the city that creates the redevelopment district rather than to schools, other cities in the urban area, or other tax districts.

At least one study has concluded that TIF is a negative-sum game; that is, that the extra tax burden imposed by TIF causes cities to grow slower than cities that do not use TIF, particularly if the TIF is used to support retail and other commercial uses.[53] While the urban-renewal district itself may grow, "commercial TIF districts reduce commercial property value growth in the non-TIF part of the same municipality."[54]

There are two reasons why TIF might actually reduce a region's economic growth. One is that the increased tax burden (or reduced level of funding for schools or other public services) makes the region less attractive to new businesses. Another is that TIF creates what economists call a "moral hazard" for developers: once one hotel, office building, or housing complex is built with TIF subsidies, developers are not likely to want to build competing projects that are not supported by similar subsidies.

If TIF is a zero- or negative-sum game, then schools and other taxing entities would receive greater revenues without the TIF district than with it. Any new residences in the TIF district that have children will impose higher costs on schools. Any new developments in the district will impose higher costs on fire, police, and other services that rely on tax revenues. Thus, the costs of these government agencies will increase, but their revenues will not. As in the case of inflation, this gives other taxpayers a choice of paying higher costs or receiving less urban services.

Schools, fire districts, and other entities that compete for tax dollars are often acutely aware of the effects of TIF on their budgets. The chair of the commission for Multnomah County (where Portland, Oregon, is located) says that the county has had to cut its budgets for health, public safety, libraries, and other programs for nine straight years because Portland TIF districts took so much money from the county. "The cost of our services grows at a much faster rate than the revenues coming in," he said.[55]

Some states allow counties and other tax districts to opt out of TIF districts. For example, Sedgwick County (where Wichita, Kansas, is located) recently voted against a Wichita TIF district to support a grocery store. The city may still create the district, but the county's share of incremental taxes would go to the county, not the district.[56]

When a fire district in Colorado sought a $2 million per year tax increase from local voters in 2006, a representative of the district explained that TIF had taken $1.4 million away from the district.[57] Near Columbus, Ohio, Norwich Township objected to a TIF district to support a housing development "because it not only siphoned tax revenue from the township, it also saddled the township with additional residences that would need fire protection."[58]

Voters may be more inclined to vote for better schools or fire protection than for subsidies to developers, but when they vote to compensate other entities for lost TIF money, they are effectively supporting subsidies to developers.

Crony Capitalism

It is likely that no American city exemplifies the meaning of "crony capitalism" better than Chicago, which for many years was run by a political machine controlled by Richard J. Daley. Daley died in 1976, two years before Illinois legalized the use of TIF. The first Chicago mayor to use TIF was Harold Washington, the city's first black mayor, whose goal was to rehabilitate slum neighborhoods inhabited mainly by blacks and other minorities.

After the late Mayor Daley's son, Richard M. Daley, became mayor in 1989, he transformed TIF into a source of political power. By the time he left office in 2011, nearly a third of the city was in one of 160 TIF districts. The $500 million per year collected by those districts represented one-sixth of the city's budget. Far from focusing on blight, most of the revenues came from TIF districts in and around the city's booming downtown. TIF became known as "the mayor's slush fund," because Daley used the money to reward developers who supported him and denied funds to wards represented by aldermen who opposed him.[59]

Daley kept TIF budgets secret—individual aldermen were only allowed to know how TIF money would be spent in their own wards.[60] When reporters for the *Chicago Reader* obtained the budget through a Freedom of Information Act request, they were able to document that many of the subsidies were going to developers who had made large contributions to Daley's political campaigns, or had other business relationships with Daley and his political allies. "TIFs aren't just a tool for economic development. They're a tool for consolidating power," reported the *Reader*. "At least half a dozen aldermen have told us that mayoral aides pressure them on key votes . . . by either promising to give their wards more TIF dollars or threatening to take TIF dollars away."[61]

"TIFs aren't just a tool for economic development," says the *Chicago Reader*; "they're a tool for consolidating power."

Now that Daley has left office, his replacement, Rahm Emanuel, has promised to reform the program. But he isn't willing to abolish TIF, as several alderman have proposed, because he thinks it can still be effectively "used for blighted or underserved parts of the city." The problem is that, even if Emanuel uses TIF for those purposes only, one of his successors is likely to follow Daley's example by using TIF to consolidate political power.

Chicago is far from the only city in which TIF is used for crony capitalism. In 2004 newspaper reporters in Portland, Oregon, revealed the existence of a "light-rail mafia" consisting of politicians, rail contractors, and developers who relied on TIF both to help pay for new rail construction and for redevelopment of neighborhoods near rail stops.[62]

For example, from 1991 to 1998, the general manager of Portland's transit agency, TriMet, was Tom Walsh, whose family owned Walsh Construction, which specialized in redevelopment of inner-city neighborhoods. Under Walsh's leadership, TriMet planned and built several new rail lines. The city of Portland then used TIF to subsidize developments along the rail lines, many of which were built by Walsh Construction. When the leading advocate of TIF on Portland's city council, Charles Hales, was challenged by a well-financed opponent of such subsidies, Hales was able to quickly raise tens of thousands of dollars for his campaign from developers who received TIF subsidies. Walsh Construction, for example, gave Hales $5,000.[63]

In addition to using TIF to increase their power, some companies rely on TIF to give them an advantage over their competitors. Over the last decade, Bass Pro Shops, the nation's second-largest sporting goods chain, has obtained more than $560 million worth of tax subsidies, mostly TIFs (including rebates of sales taxes, a form of pay-as-you-go TIF), from 25 different communities.[64]

Cabela's, the nation's largest sporting goods chain, reports that, "Historically, we have been able to negotiate economic development arrangements relating to the construction of a number of our new destination retail stores, including free land, monetary grants and the recapture of incremental sales, property or other taxes through economic development bonds, with many local and state governments."[65] Among other TIF subsidies, the company obtained $61 million from Buda, Texas; $54 million from Reno; $40 million from Kansas City; $32 million from Fort Worth; $21 million from a community near Reading, Pennsylvania; and $12 million from Rapid City, South Dakota.[66]

In contrast, Gander Mountain—which competes with both Bass Pro Shops and Cabela's—opposes TIF and other subsidies and attempts to build its stores without them. This may be one reason that Gander Mountain is only the nation's third-largest sporting goods chain. "We consider these demands [for subsidies] to be anti-competitive and fundamentally inappropriate," says Gander Mountain CEO Mark Baker, who points out that "incentives to lure retail into a community often do harm to businesses already located in the area."[67]

While the nation's two largest sporting goods chains have received hundreds of millions of dollars in TIF subsidies, the CEO of the third-largest says such subsidies are "anti-competitive and fundamentally inappropriate."

Social Engineering

Many urban planners believe there is a pent-up demand for living in "new-urban" developments: high-density, mixed-use developments served by transit lines. Planners believe such projects are less auto-oriented and therefore more environmentally sound. According to these planners, developers have failed to meet the demand for mixed-use density developments because existing zoning codes require separation of residential from commercial uses.

Yet when planners rezoned areas to allow such developments, few were built and even fewer were successful. Surveys repeatedly show that the vast majority of American homebuyers prefer suburbs over higher-density projects.[68] Since developers weren't voluntarily building transit-oriented developments, planners in Albuquerque, Denver, Portland, and many other cities have turned to TIF to effectively compensate developers for the lower marketability of new urban developments.

Portland, Oregon, has built numerous new-urban developments (also known as transit-oriented developments), and Portland planners often claim that these developments were stimulated by the opening of new light-rail and streetcar lines.[69] In reality, when Portland's first light-rail line opened for business in 1986, the city zoned much of the land near light-rail stations for high-density development. Ten years later, city planners sadly reported to the Portland City Council that "we have not seen any of the kind of development—of a mid-rise, higher-density, mixed-use, mixed-income type—that we would've liked to have seen" along the light-rail line. City commissioner Charles Hales noted, "we are in the hottest real estate market in the country," yet city planning maps revealed that "most of those sites [along the light-rail line] are still vacant."[70]

To correct this, Hales persuaded the city council to use TIF and other subsidies to encourage developers to build transit-oriented developments. Today, Portland routinely creates urban-renewal districts along all of its light-rail and streetcar lines so it can use TIF funds to promote high-density development along those lines. Portland's famous Pearl District alone received more than $170 million in subsidies, mostly financed by TIF.[71]

Before the recent recession, the Denver metro area had "the highest housing prices of any state without a coastline," observed Denver Chamber of Commerce CEO Tom Clark. So, when the city replaced Stapleton Airport with Denver International Airport in 1995, developers would have been ecstatic to build conventional low-density housing in the 4,700 acres vacated by Stapleton.[72] However, the city wanted a new-urban community, so it offered developers $294 million in subsidies to build at higher densities.[73] Though "affordably priced," the higher-density units in the development were "slow to sell."[74]

Albuquerque is another western city that has been rapidly growing in recent decades. In the 1980s, the state of New Mexico decided to make nearly 13,000 acres of vacant state land adjacent to the city available for development. Rather than allow developers to build for the market, the state hired Peter Calthorpe, a leading new-urban planner, to design a high-density community called Mesa Del Sol. The developer expects to spend more than $600 million on roads, water, sewer, and other infrastructure. Instead of passing these costs onto home and other property buyers, as would be done in a normal suburban development, the developer will cover most of these costs out of 67 percent of city property and gross receipts taxes (similar to sales taxes) and 75 percent of state gross receipts taxes collected from the development over the next 25 years.[75]

When a Houston developer considered the idea of building a high-density, mixed-use development in that city, he reviewed such developments in other cities and "discovered the ones that were economically successful were the ones that had government help." Since no such help was coming from the city of Houston, the developer decided not to build one there.[76]

TIF by the Numbers

TIF is "the fastest-growing part of the [city of Chicago] budget," observes Chicago Mayor Rahm Emanuel.[77] That appears to be true of many other cities as well. While there is no central clearinghouse for TIF data, the data that are available suggest that the use of TIF is rapidly growing throughout the nation.

- California property taxes going to TIF grew from $1.5 billion in 1995 to $5.7 billion in 2009, representing a 10 percent annual growth rate.[78]
- Oregon property taxes going to TIF grew from $65 million in 1998 to $212 million in 2010, representing a 10.4 percent annual growth rate.[79]
- Idaho property taxes going to TIF grew from less than $20 million in 2000 to more than $52 million in 2009, representing an 11.4 percent annual growth rate.[80]
- TIF bond sales grew from about $1.7 billion per year in 1990–1995 to $3.3 billion per year in 2005–2010, an annual growth rate of 4.6 percent.[81]

As shown in Table 1, bond sale reports for 2005–10 indicate that per-capita TIF bonds were highest in California, averaging $57 per year, followed by Colorado, Connecticut, and Missouri. Actual TIF collections will be much greater than bond sales because TIF revenues must pay off past bonds, finance charges, and pay-as-you-go TIF. In California, TIF collections of more than $5 billion per year are close to three times TIF bond sales of $2.1 billion per year.

If California is any indication, there is room for much more growth in the other 48 states that allow cities to use TIF. The $5.7 billion in TIF property taxes collected by California redevelopment agencies is roughly equal to the TIF funds collected by all other states combined. California's TIF collections were $153 per resident in 2010. If all states put that much money per resident into TIF, TIF nationwide

If all states dedicated as much money per resident to TIF as California, TIF collections would be five times higher than today.

Table 1
TIF Bond Sales by State, 2005–10

State	TIF Bonds ($ millions)	Annual Sales Per Capita ($)
California	12,702.2	57.28
Colorado	845.7	28.05
Connecticut	544.0	25.77
Missouri	722.0	20.10
Kansas	325.1	19.22
Minnesota	558.4	17.67
Indiana	429.9	11.15
Iowa	191.5	10.61
Nevada	161.7	10.20
Georgia	554.3	9.40
Pennsylvania	636.7	8.42
Montana	48.2	8.24
Illinois	466.7	6.03
West Virginia	58.8	5.38
Ohio	323.3	4.67
Rhode Island	28.7	4.54
Utah	70.7	4.23
South Carolina	105.0	3.84
Mississippi	60.8	3.43
Texas	477.5	3.21
Michigan	154.0	2.57
Florida	240.8	2.16
Nebraska	21.6	2.01
Idaho	14.2	1.53
South Dakota	7.2	1.48
Oklahoma	25.7	1.16
Alabama	29.8	1.05
Arkansas	16.8	0.97
Tennessee	32.9	0.87
Oregon	17.9	0.78
North Dakota	3.0	0.77
Virginia	13.6	0.29
Wisconsin	8.1	0.24
Louisiana	5.0	0.19
Kentucky	1.2	0.04

Source: "TIF Bonds 2005 to 2010," Securities Data Corporation spreadsheet, 2011.

revenues would total $47 billion, or close to five times the current amount.

Figured another way, the share of California property taxes going to TIF has grown from about 2 percent in 1970 to nearly 12 percent today. If all states diverted 12 percent of property taxes to TIF, TIF collections would exceed $56 billion, or more than five times current collections. At the 10 percent annual growth rates found in California, Idaho, and Oregon, nationwide TIF revenues will meet or exceed these levels in less than 20 years.

Reform or Repeal?

The benefits of tax-increment financing are questionable. Originally created to solve a problem that no longer exists, TIF is now being used by cities to

- Attract businesses to a specific neighborhood that probably would have located in a nearby area without any subsidy;
- Capture funds that voters think they have allocated to schools, fire departments, and other purposes in order to spend them on grandiose projects that have little net benefit; and
- Build neighborhoods that follow the latest planning fads, which could not be marketed without government subsidies.

Since most development attracted by TIF likely would have taken place in the same urban area, though not necessarily the exact same location, without TIF, every dollar going to a TIF project represents a dollar taken away from schools, fire districts, and other tax entities.

Despite this, the number of TIF districts and TIF revenues are both growing rapidly. In the short run, eliminating TIF will help states close critical budget gaps. In the long run, eliminating TIF will prevent cities from taking ever-increasing amounts of money from schools and other programs that are supported by property taxes.

Although California governor Jerry Brown has proposed to eliminate TIF in the Golden State, governors and lawmakers in other states will be tempted to merely try to reform TIF. Possible reforms could include

- Tightening the definition of "blight" or other rules limiting the use of TIF;
- Defining TIF formulas to ensure that TIF districts don't automatically get more funds when other tax districts raise tax rates;
- Allowing other tax entities to opt out of TIF districts; and
- Requiring a vote of the people to approve or extend a TIF district.

There are two problems with any attempts to reform TIF. First, no matter how much legislatures may try to focus TIF on genuine examples of blighted neighborhoods, cities will find ways to get around such safeguards. Second, there is little evidence that city governments are better than private developers at determining the type and location of new development that cities need, and plenty of evidence that they are not as good. Instead of reforming TIF, state legislatures should simply repeal the laws that give cities and counties the authority to use it and similar tools to subsidize economic development.

There is little evidence that city governments are better than private developers at determining the type and location of new development that cities need, and plenty of evidence that they are not as good.

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