

## **Tax Increment Financing: Private Investment at the Expense of Local Community**

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Economic development has become a primary focus for communities throughout the nation, both large and small. In response to blight, sprawl and general economic deterioration, business attraction, business retention and tax base diversification have become the primary foci of economic development agencies and municipal governments in the hopes of revitalizing their local communities. In this quest to redevelop growth-stagnant areas, a large portion of focus tends to fall directly upon improving economic conditions, with little time, money or resources focused on developing the residential community in correlation with the business community. Tax Increment Financing (TIF) is one tool employed by municipalities that focuses the majority of its efforts on economic revitalization while leaving many aspects of the local community dismantled in its wake. For many, TIF is now “the only game in town”, as Chicago’s mayor Daley has expressed on several occasions (Nolan and Berlin 2004). Therefore, the question of community sustainability within the framework of tax increment finance is greatly in question.

A municipal government’s ability to implement tax increment financing is legislated by its state government. Local governments throughout the nation are now resorting to the implementation of TIF districts to spur economic growth through increased private investment. Though the local governing bodies that implement TIF publicize its many positive qualities, the framework of TIF and its focus on increased private investment can concomitantly have a very negative impact on special taxing districts, small business owners and the greater community in general. This paper is going to examine the tradeoffs between economic and community development associated with TIF, referring specifically to the implementation of TIF districts in Illinois. TIF may raise revenue locally for reinvestment within the TIF district but its associated costs can be detrimental to the communities that are relying on it for economic and community revitalization.

### **TIF in Illinois**

Illinois is a national leader in the implementation of TIF districts. As of January 31, 2004, 353 municipalities in 77 counties created 874 TIFs in the state of Illinois (DCEO 2004). Since TIF is legislated at the state level, it is the Illinois Department of Commerce and Community Affairs (DCCA) defines TIF for municipalities, but there is no specific TIF oversight agency. In Illinois, TIF is defined as:

A financing technique that cities may use to pay public improvement or other incentive costs necessary to attract a private developer into a particular redevelopment area. Tax increment financing is so named because the cost of the TIF eligible expense is borne by the increased tax revenues that result from the new private developments that occur in the area. This increase in tax revenues – the new taxes generated from the higher value of the property or increased sales taxes – is the tax increment (DCCA 1998, iii).

The purpose of the funds garnered from the tax increment is also specifically delineated by the DCCA for use by the municipality:

TIF funds can be used to pay for such improvements as parking lots, utilities, streets, sidewalks, building demolition and/or rehabilitation of site preparation, job training, interest write-downs or land assemblage. Tax increment financing can only be used when the private development would not occur without the incentives and improvements provided by the city (DCCA 1998, iii).

Thus, TIF is a tool for promoting private investment in a community that would not otherwise occur. This investment, though, is primarily in the form of private capital and building construction with little mention of investment in the community members themselves. More specifically, as can be seen from the DCCA's outlining of TIF, the solitary mention of community member development is job training. Job training is fundamental to community development, but nowhere in the legislation

does it state that job training must be included as part of the redevelopment project. Job training is merely one of many options for the use of TIF funds and the incorporation of job training, or more specifically community development activities, is at the sole discretion of the municipality.

For an Illinois municipality to qualify for designation as a “blighted area,” there are few legislated requirements. Illinois legislation dictates that the TIF project area:

- “include only those contiguous parcels and improvements therein substantially benefited by the proposed redevelopment project improvements,” 65 ILCS 5/11-74.4-4(a); and
- “on the whole [the area] has not been subject to growth and development through investment of private enterprise and would not reasonably be anticipated to be developed without the adoption of its development plan and projects,” 65 ILCS 5/11-74.4-3(n) (DCCA 1998, 5).

Additionally, the area must be labeled as a “blighted area,” conservation area, or a combination of the two. Blight tends to be the most commonly cited reason for the implementation of TIF for municipalities. In Illinois,

If the property under consideration is improved [using TIF funds], a combination of five or more of the following factors would qualify the area as a blighted area: age; deleterious land use or layout; depreciation of physical maintenance; dilapidation; deterioration; excessive land coverage; illegal use of individual structures; excessive vacancies; inadequate utilities; lack of community planning; lack of ventilation, light or sanitary facilities; obsolescence; overcrowding of structures and community facilities; and presence of structures below minimum code standards (DCCA 1998, 5).

An expansion of these terms is included, but in an ambiguous fashion that leaves many questions open for interpretation by the implementing government body.

Advocates of TIF argue that the implementation of TIF in deteriorating areas that do not have the fiscal capacity to carry out large

scale redevelopment projects because of a weak tax base tied to blighting conditions is the only course of action that remains to spur economic growth in an otherwise run-down area. Without the TIF district, these individuals argue that private business would not look to invest in the community and the current trend of physical deterioration and decreasing property values would continue to the point of community unsustainably. Additionally, municipal governments, the implementers of TIF, advocate on its behalf because they are greatly concerned with property values that are decreasing because of a lack of investment, since property taxes play such a vital role in local tax revenue. In the eyes of the municipality, decreasing property values equates to decreasing community value, in turn leading to decreased interest by businesses to locate within the community. The municipality is forced to focus on increasing tax revenue and thus sees TIF as the ideal way to catalyze economic growth through enticed private investment, leading to larger revenue via increased property and sales taxes. Nevertheless, the municipality's gain becomes the special taxing district's loss.

#### **TIF: Its Impact on Special Taxing Districts**

Special taxing districts, such as school, water and fire districts, are extremely concerned with the effects of TIF on the local community. The growth related to TIF increases the need for public services but there is no corresponding growth in tax revenue for these special taxing districts since the fundamental element of TIF is a reinvestment of the incremental tax growth into the TIF district itself for physical improvement and not service provision. Thus, the amount of tax dollars that special taxing districts receive over the 23 life of the TIF in Illinois are established at the birth of the TIF and, excluding specific negotiation with the municipality, there is no increase in the tax dollars available to these special taxing districts. Concerning schools specifically, advocates of TIF in Illinois argue that the state supported funding for schools in TIF districts increases when growth occurs due to TIF, but Illinois is presently ranked 48<sup>th</sup> out of 50 states for the amount of funding the state provides for public education (ISBE 2004). Combined with the extraordinary amount of TIF districts that exist in Illinois, schools see a significant decrease in available funds during the life

of the TIF yet the essence of the TIF is economic and community growth, resulting in a much higher demand for educational services. As a result, Illinois schools have lost an average of \$83 million annually to the TIF authority (CED 1999).

### **TIF: Its Impact on Citizens within the TIF District**

Much like special taxing districts, the local business community, mainly small business owners, can greatly suffer from TIF if the municipal government does not take precautionary measures. Oftentimes, to acquire land and create a more enticing environment for private investment, the municipal government will invoke the power of eminent domain. This power allows the authority to displace businesses and residents for the “health, safety and/or welfare” of the general public. Those being displaced have no voice in this matter; eminent domain is a constitutionally sanctioned right to government in which the sole remuneration to the property/business owner is the fair market value of the property. If the property owners want to dispute this figure, which is determined by the government demanding his/her removal, they too have a constitutional right to be heard in court, but they must also incur the associated costs in terms of time and money. Moreover, the municipality is not required to assist in the relocation of these property/business owners. Economic development in this instance simply means the recruitment of businesses that will increase the tax base available to the government, with no focus on the individual that presently operates within the district.

For those businesses/property owners that do not fall victim to eminent domain, the possibility of increased property taxes and unaffordable rents is a threat. This extends to the residential population as well living within the boundaries of the TIF district. In more urban areas, the residential population is primarily comprised of low-income earners. Like property and business owners in the TIF district, low-income residents can be displaced through the invocation of eminent domain, with no relocation assistance made available. For those that are not specifically displaced by such means, it is highly likely that the new development will not take into consideration the low-income population that resides in the area. Since the essence of TIF is economic development via increased tax

revenue, low-income populations residing in the TIF district are not considered primary stakeholders because, in the eyes of the TIF authority, they do not contribute significantly to the tax base. Ironically, low-income earners are in effect paying for their own removal from the area via the taxes they do pay, which in turn are subsidizing the development causing their removal. Attracting individuals that can pay higher property taxes becomes the focus of the TIF authority, thus promoting gentrification in the name of economic development regardless of the outcome for low-income residents. Consequently, the local government sees low-income populations as impeding economic development. Inherent in the framework of TIF are both explicit and implicit measures for the removal of low-income earners.

### **TIF: Its Impact on the Greater Community**

The effects of TIF are not felt solely within the TIF district either. A successful TIF will lead to new business and residential development and thus an increase in population, both in the TIF district and the surrounding area. An increased population means a greater burden on public service delivery, which equates to an increase in taxes to pay for these public services to make up for the lost revenue the TIF authority captures. Therefore, all taxpayers end up subsidizing the public investment that must be made in the TIF district (CED 1999). The only alternative to raising taxes in response to increased demand is cutting public services. Consequently, the entire community must absorb the negative impacts of TIF, be it increased taxes or decreased services. Either way, there is a large tradeoff between the development of the community and the economy. The citizens of the greater community, not just those within the TIF district, are forced to give up elements of life experienced prior to the implementation of the TIF district in response to increases associated with TIF-induced economic development.

### **Problems Inherent in the TIF Process**

The level of accountability integrated into the TIF process is also highly questionable. There is no agency at the state level charged with TIF district

oversight and the only public involvement in the process is through an initial public meeting to inform the local population of the decision to implement a TIF district. The definition of blight is also so broad that localities are now using TIF as a tool for business attraction and retention rather than its initial sole purpose of revitalizing depressed environments, which is extremely difficult to regulate because of the lack of oversight and public involvement. For example, nearly “13.4 percent of Chicago’s entire property tax base and more than one-quarter of its acreage fall under TIF designation” (Nolan and Berlin 2004). These TIF districts incorporate parts of downtown Chicago as well as neighborhoods near the Loop not characterized by blight. Because of the lack of oversight, the situation in Chicago is indicative of a majority of cities throughout the state that are implementing TIF districts. The localities are now using TIF to attract businesses to an area while businesses are using TIF districts as a bargaining tool to pit cities against one another. In essence, companies that are looking to relocate receive incentives in the form of tax increment redistribution from local governments to entice them to locate there. “Firms locating in TIF areas will benefit either from the public improvements in the area, or may even receive some of the captured property taxes that would normally go to the TIF authority” (CED 1999). Hence, business attraction and retention outweigh the welfare of the local population, increasing monetary incentives to businesses at expense of citizen displacement and increased taxation of the local population.

The overarching assumption made thus far is that the economic development aspects of the TIF model will be successful. As the Illinois DCCA (1998) states, “There is no guarantee that a redevelopment project by the municipality will actually generate the expected new private investment. As a result, a municipality that uses tax increment financing could be left with a financial liability associated with the TIF process.” In such cases where the required private investment does not occur, the debt incurred by the municipality must be repaid and will most likely result in the raising of taxes. Therefore, when TIF is unsuccessful, the local community is left with the very heavy financial burden from the initial debt incurred to acquire land and make physical improvements to attract private investment. Operating under the assumption that the environment within the TIF district is dilapidated or “blighted” (which is not always the case), those

individuals living and working in the TIF district cannot afford to shoulder the economic burden of multi-million dollar debt via increased taxes. In many cases, the residents of the area are low-income, which translates to the municipality looking to low-income populations to repay their debt, resulting in the impossibility of paying for the unsuccessful economic ventures and placing the community in a state of economic depression while further impeding the development of the low-income community. As such, high levels of local government debt tied to an unsuccessful TIF district result in programs that are aimed at assisting the low-income populations being cut, depressing the community's ability to develop further and possibly increasing poverty levels.

### **TIF: Replacing Community Development with Private Investment**

With the implementation of TIF, communities are effectively removed from participation in their own development. TIF replaces community development with economic development, with blatant disregard for the negative effects upon individual members of the community. Some would argue that because of the economic development that TIF promotes through private investment, a community develops fiscally, therefore becoming more economically stable and resulting in a more tightly knit community because of financial security. This may be the case in some instances but, regardless of success, economic development via TIF has costs that must be absorbed by the community, either at the individual level or collectively.

For example, the legislated TIF process in Illinois only mandates an initial public meeting for comment after which the local legislative body assumes control of the project, which then appoints a TIF authority to carry out the project. The general public therefore has two avenues to affect the TIF process: the initial public meeting and voting-out members of the legislative body charged with approving the plan. With each of these avenues a major flaw that remains. The initial public meeting is designed for public comment but public approval is not required for the municipality to carry forward with the plan. Moreover, once the TIF district is enacted, it must be carried forward regardless of who is in office because of the large initial investment made by the municipality. By the time these elected

members are voted out of office and new members voted in, the TIF will have been initiated and its impact felt by community. Here, too, an operating assumption exists; that a sizeable portion of the local population understands the negative community affects of TIF despite the municipalities praising of the positive economic results associated with increased private investment.

The problem also remains that the negative effects of TIF on the general public are mostly indirect and not realized until well after the TIF district has been implemented, while the direct effects fall immediately on marginalized populations; small business and property owners with neither the economic nor political clout to affect the political process and the low-income residents within the TIF district. Thus, minimal public participation in the TIF process allows the local governing body to sell TIF as a very positive economic development tool promoting private investment while playing on the lack of TIF specific knowledge in the general public and the inability of those most affected to respond to the strong-arm tactics of TIF proponents.

A further problem arises in communities that focus on TIF as an economic tool even though they are not in economic decline. Because of the broad definition of “blight” in Illinois legislation, many communities are now turning to TIF as an instrument for business attraction; making their community look more economically attractive to perspective businesses looking to locate in the area by promising them a piece of the tax increment pie when they locate within the TIF district. In this situation, the greater community does not need TIF to revitalize but the municipality sees the opportunity to broaden the tax base with the arrival of a new business. As such, “property tax revenues from neighborhoods that are already experiencing healthy growth—even without government intervention—are being captured by these districts, in effect cutting off taxing bodies from some of their most promising sources of revenue growth and shifting the tax burden unfairly onto taxpayers” (Nolan and Berlin 2004). Therefore, as is being seen in numerous areas of Chicago, TIF districts are being implemented by Mayor Daley in areas that are already experiencing healthy economic growth while the special taxing districts (i.e. school and fire) are losing out on tax dollars that they should be receiving but are not because the tax increment is being reinvested into the TIF district. Additionally,

“since imposing TIF on large areas of the city means that significantly less of the property tax base is available to local government agencies to help for day-to-day services,” all residents of the city are paying more in property taxes to make up for the difference (Nolan and Berlin 2004).

### **Reforming TIF to Balance Economic and Community Development**

As a result of the careless efforts by Illinois legislators when crafting the TIF legislation and the apparent disregard for community development on behalf of many of the municipalities that implement TIF districts, overall reform in the TIF process must take place to reverse the present trend of community marginalization in the name of economic development. First, increased citizen participation and education is critical in the promotion of community development aligned with economic development. More often than not, TIF districts are implemented with little education concerning the tradeoff that exists. More knowledge about TIF would most likely result in fewer TIF districts being implemented, severely hampering a municipality's ability to garner development funds quickly. Conversely, if private investment is to be encouraged through TIF, there must be a balance with community investment via information and education. Ideally, a referendum would occur to include citizens in such a long-term decision that affects the community in such adverse ways. By presenting the idea of TIF implementation to the people who will be affected by it, citizens are given the ability to steer their own community through democratic participation. Even if the municipality does not actively assist in the dissemination of information concerning the affects of TIF upon the community and marginalized citizens, the enactment of a referendum indicates that the municipality wants to operate within the interests of the people while placing the responsibility of TIF education upon the citizens themselves. If a TIF referendum became the norm, a great deal of information on both sides of the argument would become widely available in response to the demand for it. Conversely, the present suppression of public participation in the TIF process represses the demand for information because there is little opportunity available for the community to affect the outcome regardless of the information they have. As such, the present imposition of TIF upon communities borders on the repression of

democratic ideals; citizens are allowed to comment on the TIF initiative but the government has complete control of the outcome and little can be done through public involvement once the district has been implemented, equating to imposed change by local elites that circumvents public participation.

Community involvement is paramount to community development. The input and endorsement of community members steers the community in a direction that the community itself desires, not one in which a few local political figures decide that the removal of blighting conditions is necessary. More often than not, the removal of these blighting conditions translates to removal of “undesirable” populations that produce low levels of revenue via taxes from the TIF district. More community involvement increases the accountability of the process exponentially. The current TIF process incorporates almost no accountability by local public officials to the public and once the TIF process is set in motion (with or without public consent), little can be done to change its course because of the large debt that is initially incurred by the municipality to begin the process. Therefore, accountability is paramount to development of the community.

Development for communities via TIF must remain safe for the communities that reside and work in the TIF district. This can be accomplished by granting more power to the special taxing districts (via the Joint Review Board), a narrower definition of blight by state legislators, relocation assistance for those required to move and a more equitable redistribution of the tax base. The community itself needs more power in the process. Presently, the power is centralized within the polity of the municipality. By instilling more power in the Joint Review Board, a greater voice is given to the special taxing districts most directly affected by TIF. Their present status as a mostly advisory panel in the majority of TIF districts severely inhibits their ability to guide the fund redistribution process. Though redistribution is often the goal of the municipality in order to maximize its funds available for reinvestment in the TIF district, it is essentially a discrediting of the importance of these special taxing districts. By capping the amount of money the school district will receive throughout the life of the TIF district regardless of increases in the student population tied to growth in the district, the municipality is, in effect,

stating that the education of community youth is secondary to economic development and private investment. Furthermore, a decrease in education resources over the 23-year life of the TIF will have a direct effect upon the local workforce, creating a community of under skilled, undereducated workers. Therefore, if the TIF district is successful in promoting private investment and business flourishes as a result yet the local workforce does not possess the skills necessary to operate the new businesses, business owners will be forced to import workers from other communities, further diminishing the local community that was originally designed to benefit from the TIF.

The definition of blight given by legislators also plays a key role in the misuses of TIF that are pulling at the very thread of stability for economically healthy communities. Because the definitions of blight given in TIF legislation are vague, municipalities are using TIF for much more than community revitalization. As Mayor Daley stated, “TIF is now the only game in town,” but not just for communities in which there is no other recourse for promoting economic development. TIF has become a development tool for many, focusing on communities experiencing healthy growth as well as “blighted areas.” The present ambiguity in the definition of blight allows local elites to entice business at the expense of the local community, regardless of that community’s economic status. By creating more specific definitions for blight, local elites will be less able manipulate TIF districts to appease their own interests and business attraction desires.

Arguably the most ironic aspect of TIF is that a municipality is promoting private investment to develop their community from external sources while sacrificing the effectiveness of local entities. Special taxing districts and small business owners are asked to make great sacrifices while numerous incentives are given to private companies unrelated to the community, all in the name of economic development. Instead of bending over backwards to promote private investment while placing local entities in a state of complete subservience, municipalities should require companies foreign to the community to operate at high standards for the sake of their community members. The mandating of a livable wage as well as compulsory health benefit provisions would provide the necessary economic development foundation as well as guarantees basic necessities for community members. By not obligating developers to provide at

certain minimal standard levels for the betterment of community members, the municipality is effectively stating that the welfare of the community is secondary to the welfare of foreign developers.

The implementation of tax increment financing districts presents a slippery slope for those municipalities that choose it as their primary development tool, as is presently being witnessed in the Town of Normal, IL with the recent implementation of TIF to “revitalize” the deteriorating downtown area. Conversely, TIF presents an excellent opportunity to catalyze community investment that would not otherwise occur. However, the careless crafting of TIF legislation and the diminishing of local community members in the attempt to create incentives for private investors makes tax increment financing a tool of community devaluation. The Town of Normal presents an excellent opportunity to observe first-hand the tradeoffs that occur between economic and community development with the implementation of TIF. Initiated in March of 2003, the Town of Normal TIF district is still in its infancy, but it began with limited public participation and therefore has started down the road of replacing community development with private investment and needs to be further monitored for continued tradeoffs throughout its lifetime.

### **Conclusion**

Perhaps the situation is best surmised in the words of Greg LeRoy of Good Jobs First, “TIF is the fastest-growing yet least understood form of development subsidy in America today” (CED 2004). Many of the effects of TIF are presently undocumented for a number of reasons. TIF districts are relatively young, governments are the guiding forces of TIF, meaning that they are more than likely not going to focus on the negative effects of their economic development ventures, and those that are most affected by TIF do not have the economic means or political clout to affect the process, a process which borders on the oppression of basic democratic ideals. Thus the tradeoffs between economic and community development are many when TIF is the only game in town. Large-scale reforms, such as public participation, public accountability and the narrowing of definitions, are needed to incorporate citizens in the development of their own community.

Economic development initiatives are expanding rapidly through communities around the nation, regardless of the damage they inflict upon the local community. TIF feeds this fire with the lowering of community standards and circumventing of public participation while the most fundamental community services are at risk, school, fire, health, etc., all in the name of promoting private investment. People are being forced out of their homes and businesses so that developers from other communities can construct new buildings and property taxes can increase. Expansion of economic development initiatives are seemingly spreading uncontrollably and can only be contained through massive reforms that place the local community at the center of the initiative. Accordingly, community involvement is the key component to successful local economic development. Without the inclusion of the local community members and their best interests at the heart of the matter, economic development via tax increment financing simply becomes the replacement of one community with another, destroying the very notion of community development.

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