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## **Tax Increment Financing**

Ray Kinsella was a farmer from the Midwest who loved baseball. In fact, baseball was the only thing where Ray and his father John shared a common bond in an otherwise turbulent relationship. One evening while aimlessly walking through his cornfield, a voice spoke to Ray and whispered "If you build it, he will come." The voice continued until Ray saw a vision of a baseball diamond, rising like a Phoenix from ashes, and set in motion his dream to build a diamond on his farm. Ray knew that if he did, Shoeless Joe Jackson and other old-time players idolized by his father would return to play on the field Ray constructed. This story was made famous by the 1989 movie "Field of Dreams" where Ray, played by Kevin Costner, demonstrated the power of seeing things before they are visible. Despite the distinct prospect of financial ruin, Ray continued building his baseball field because he knew that unless he built it, the players would not come. Ray Kinsella knew that he could not wait for the players to arrive and then begin constructing a baseball diamond. He recognized there was a clear danger posed by building a field when no players yet existed and most of his friends thought his plan was sheer foolishness. But Ray believed that a baseball diamond in the middle of his cornfield had potential others could not see and because of that, he risked everything he had in order to see this dream come true.

Today, governmental entities face a somewhat similar paradox when it comes to economic development. Thirty years ago, cities such as Detroit, Atlanta, Moline, or Nashville were the competition but today, businesses are actively courted by communities outside our borders, such as in Beijing, Seoul, New Delhi, Winnipeg, and Juarez. North Alabama has competed well on this global stage and government leaders deserve credit for employing initiatives that made this region a destination of choice and like Ray Kinsella, recognizing that "building it first" is imperative if we expect them to come.

One of the primary mechanisms employed has been Tax Increment Financing (TIF), a tool that allows municipalities to promote economic development using revenues from future funding streams. TIF is a program where local government officials designate a geographic area for development and then finance certain aspects of the development with future growth in tax revenue generated within the designated TIF area. At its core, TIF assists development activities and subsidizes businesses in a TIF area using property or sales tax revenue generated in the TIF area to finance land acquisition, site preparation and cleanup, and infrastructure improvements that benefit

private businesses that locate their operations on sites within the TIF area. Often, the financing arrangement involves a bond issue that provides upfront money to pay for the TIF programs. The debt service on the bonds is then paid from the tax revenue generated in the TIF. In most cases the revenue source for TIF programs is the property tax, but in some instances sales tax is used as a revenue source.

When a TIF area is designated, the property values within the TIF area are specified as the “base property values.” The property tax revenue subsequently generated from the base property values continues to be distributed to local government and school district programs. Property tax revenue generated from the growth in property values above the base property values is diverted to finance the TIF development programs in lieu of being distributed to local government and school district programs. This revenue stream is referred to as the “tax increment.”<sup>1</sup> Because TIF only diverts the tax increment to TIF programs and leaves in place the base revenue financing existing local government and school district programs, TIF has historically been advocated as a self-financing economic development program that does not reduce a local government’s base revenues.

The self-financing aspect of TIF both adds to its popularity and differentiates it from other economic development programs such as tax abatements, tax credits, and other tax incentives, enterprise zones, and direct subsidy programs. The programs that are alternatives to TIF either forego tax revenue (base revenue as well as revenue growth) or make expenditures from current tax revenue to subsidize and encourage development projects. In the case of TIF, the business continues to pay property taxes on its assessed value, part of which continue to flow to local government units. The same argument cannot be made for these other economic development programs.

For the past 15 years, TIFs have played a key role in both luring businesses to Huntsville as well as improving the existing footprint. Huntsville viewed TIFs as an opportunity to stimulate business development as well as enhance a school system that needed to renovate aging facilities as well as build new schools. Business development in key locations around the city was inhibited by the lack of adequate infrastructure. TIFs offered an opportunity to invest in these needed improvements without raising taxes on those already residing in the city. TIFs generate revenue through the growth in the tax base, not through an increase in the tax rate.

Huntsville has long been a regional shopping destination but recognized the need to diversify if it were to remain the choice for many consumers. In 2002, the \$50 million “Westside Center” opened, anchored by the city’s first Super Target. But prior to the opening, the city designated the sixty acre site as a TIF1 and spent over \$2.3 million to develop the roads and infrastructure necessary to support such a facility. TIF1 proved to be a huge success, with the increased tax revenues allowing debt to be retired nine years ahead of schedule. Again, this did not require an increase in any

taxes on current residents but instead borrowed against future revenues in order to improve roads, revitalize schools, and create jobs.

Huntsville Mayor Tommy Battle has been aggressive in bringing jobs to the Tennessee Valley and believes that without TIFs, remaining competitive would be difficult. “We are competing with communities across the globe for jobs and TIFs are one of several tools at our disposal to remain a viable player” said the Mayor. “Huntsville remains a very attractive destination for businesses and through the employment of varying incentives, we have been able to target some of the best corporations in the world. But the successes we have realized also speak to the partnership that has been forged among city, county, and state governmental bodies. That singular focus on schools, roads, and jobs has fostered an environment that businesses want to join and be a part of.”

The \$230 million Toyota factory, North America’s first V-8 engine production facility located in northwest Huntsville, is another testament to what TIFs can mean to a community. TIF3A was the primary factor behind Toyota’s decision to build in north Alabama. But this brought more than several thousand new jobs to the area – it also provided over \$12 million for capital improvements to eight schools in the northwest Huntsville district while the debt incurred by the city was retired ten years ahead of schedule.

TIFs will remain one of several incentive tools available to development authorities. The most recent, and possibly the largest in terms of potential, is TIFD6 (map attached). The footprint encompasses Limestone and Madison counties as well as the cities of Huntsville and Madison. Polaris and General Electric have already committed to the site and with the planned infrastructure improvements, there will be ample opportunities for even larger facilities. TIFs are not unique to north Alabama and have been employed across America for decades, though many in other states have not been as successful as those cited. One key to the local success stories is founded on the willingness of state, county, and city government leaders to work together. President John Kennedy once said that “success has a thousand fathers, but failure is an orphan”. Instead, leaders from across the region have followed the advice of President Harry Truman who said “It is amazing what you can accomplish if you do not care who gets the credit.” Because leaders have been united in a common objective, a climate has been fostered where the corporate makeup of the region is truly diversified while also showing a growing resilience to changes in the economy.





