

# Tax Incremental Financing Tool Review

## Incentives Tools

TABLES Project 2012: Mini reviews	
<b>Task 1: Basic information</b>	
<b>Name of the tool</b>	Tax Incremental Financing
<b>Type of tool (list all that apply)</b>	Regulatory, Mapping, Valuation, Engagement
<b>Group members</b>	<ol style="list-style-type: none"> <li>1. Alister Scott</li> <li>2.</li> <li>3.</li> </ol>
<b>Please provide a brief synopsis of the tool</b>	<p>Tax Incremental Financing (TIF) is a tool for using anticipated future increases in tax revenues to finance current improvements particularly infrastructure. The overarching goal of TIF is to support and guide increasingly limited public finances available for assisting regeneration and helping to lever in additional private sector capital. Whilst they are relatively new and untested in the UK, they have played a significant role in the USA as a key component of the contemporary institutional architecture for regeneration (Squires, 2012).</p> <p>TIF enables a local authority to trade anticipated future tax income for a present benefit. TIF works on the principle that the supply of new or improved infrastructure usually leads both to new development and to an increase in the value of surrounding property, both of which serve to increase the level of property taxation in the area (Brueckner, 2001). Within a designated TIF district, this anticipated increased taxation (tax increment) is captured and used to payback the infrastructure that has been provided for via front-loaded finance. In most cases this takes the form of a bond to the Local Authority.</p> <p>Financing debt issued to pay for a project by utilising increased tax revenues is a long term and speculative venture taking up to 20-25 years, but in some cases the timeframe can be much shorter (BPF, 2008). Adoption of this policy by the UK coalition government has been considered for some time, and it is has been stated that TIF borrowing can fund key infrastructure and other capital projects, which will support locally driven economic development and growth' (HM Treasury, 2011).</p> <p>TIF can offer a potential solution for regeneration projects which depend on the delivery of infrastructure for which funding cannot be found from other, public or private, sources. This becomes particularly important in areas that are suffering blight or deprivation with the concomitant lack of investment (Skidmore and Kashian, 2010; Squires and Lord, 2012).</p> <p>The Scottish Government have announced six TIF pilot projects in Scotland with strict criteria as to their use.</p> <ul style="list-style-type: none"> <li>• the enabling infrastructure will unlock regeneration and sustainable economic growth;</li> <li>• it will generate additional (or incremental) public sector revenues (net of a</li> </ul>

displacement effect); and

- It is capable of repaying, over an agreed timescale, the financing requirements of the enabling infrastructure from the incremental revenues.

It is noteworthy that a high profile TIF scheme for a city garden scheme for Aberdeen was recently defeated by one vote in a planning meeting. This was a regeneration proposal Five projects as part of a wider City Centre Regeneration Scheme (CCRS);

1. St Nicholas House redevelopment
2. City Circle Pedestrian Route (a pedestrian walking route around the city centre)
3. Upper Denburn redevelopment
4. Art Gallery redevelopment
5. The City Garden project

Investment totalling £182 million comprising;

- £70 million of private sector investment for the City Garden Project
- £20 million of non-council funding for the Art Gallery redevelopment
- £92 million investment from the City Council, using public loan funds

An investment programme that will help; stimulate further city centre regeneration and create a vibrant and modern city centre that will help to attract future new business investment and retain existing businesses

### Task 2: Use of the tool

Position / Use	Stage	Currently used	Could be used
	Ideas	Y*	Y*
	Survey	Y	Y
	Assess	Y	Y
	Policy / decision	Y*	Y*
	Implement	Indirectly	
	Evaluate	Indirectly	Y*

### Task 3: Existing literature about the tool

**Are you aware of any KEY policy and / or academic literature evaluating your tool?**

There is a strong focus on US literature on TIFS but there are increasing papers in the UK context which are examining their transferability to the UK situation. Squires (2012) is a key researcher in this area.

Aberdeen City Council Aberdeen garden TIF project presentation.

<http://www.aberdeencity.gov.uk/nmsruntime/saveasdialog.asp?IID=43006&slD=15955>  
accessed 27 November 2012

BPF (British Property Federation) (2008) *Tax Increment Financing: A New Tool for Funding Regeneration in the UK?* British Property Federation

Brueckner, J. (2001), 'Tax increment financing: A theoretical inquiry', *Journal of Public Economics*, Vol. 81, No. 2, pp. 321–343.

Scottish Futures Trust (2011), 'Tax incremental financing in Scotland', SFT, Edinburgh, available at

[http://www.scottishfuturestust.org.uk/publications/tax\\_incremental\\_financing](http://www.scottishfuturestust.org.uk/publications/tax_incremental_financing)  
 accessed 20th November 2012.

Squires, G. and Lord, A. (2012). 'The transfer of Tax Increment Financing (TIF) as an urban policy for spatially targeted economic development initiatives' in *Land Use Policy*, Vol. 29, No. 4, pp. 817-826

Squires, G. (2012). 'A Review of Tax Increment Financing (TIF) for Regeneration and Renewal' in *Journal of Urban Regeneration and Renewal*, Vol. 5, No. 4, pp. 356-366

Weber, R., Bhatta, S. and Merriman, D. (2007), Spillovers from tax increment financing districts: implications for housing price appreciation, *Regional Science and Urban Economics*, Vol. 37, No. 2, pp. 259–281

**Task 4: Your experience of working on the tool**

<b>Have you done any research/consultancy work on this tool in terms of its development, testing and/or evaluation?</b>	None I have read material to support lectures in this area.
---	--

**Task 5: Incorporating the ecosystem approach (EA) and ecosystem services (ES)**

<b>Using examples (from practice, research or consultancy), explain how EA and/or ES are currently incorporated in/by the tool</b>	This tool is new and ES/EA has not explicitly covered this aspect.
--	--

<b>How <u>could</u> the ecosystem approach and/or ecosystem services be (further) incorporated within the existing tool?</b>	<p>This tool has significant potential under the guide of localism and regeneration projects (Squires (2012)). Given that the areas most likely to use TIF are those in deprived areas it offers a tool that deals explicitly with distributional aspects and has potential; to ensure that regeneration also enhances the ecosystem services as part of the necessary wider ingredients for regeneration theory. This forms a key area within the ecosystem approach and wider sustainability discourses and addresses a fundamental weakness of current ecosystem services framework which do not equity.</p> <p>The Aberdeen City project illustrated how significant ecosystem services would have benefited from the investment as part of a wider park development.  <a href="http://www.aberdeencity.gov.uk/nmsruntime/saveasdialog.asp?IID=43006&amp;SID=15955">http://www.aberdeencity.gov.uk/nmsruntime/saveasdialog.asp?IID=43006&amp;SID=15955</a></p>
--	--

**Task 6: Situating the tool within priority questions/criteria arising from the scoping interviews**

<b>Explain how the tool can be situated within the priority questions/criteria that arose in the scoping interviews</b>	<b>Priority question/criteria</b>	<b>Does your tool address/implement this question/criteria? If yes, please explain how.</b>
	<b>Language and communication</b>	
	1. Contribution to aiding the development of shared	<b>Somewhat</b> – If the environmental assets can be built into the regeneration scheme then this

	vocabulary within which principles of EA and ES can be shared with multiple stakeholders across built and/or natural environment	could be a major consideration. Ideally to be used in conjunction with an asset check tool.
2.	Capacity of the tool to develop shared understandings of the many identities and values of places from the perspectives of multiple visitors, residents and businesses	<b>Somewhat</b> –The tIF is about regeneration and would depend on a shared vision for said regeneration in line with community views and aspirations. There is a key link here in attracting visitors and further investment as a result of intervention.
3.	Capacity of the tool to improve or enable engagement across different publics so avoiding the usual suspect problem	<b>Depends</b> This lies outside the remit of the tool itself and depends on the engagement processes utilised.
<b>Learning from experience/pedagogy</b>		
4.	Capacity of the tool to help reveal and value 'hidden' assets that are not recognised by communities or publics that use them	<b>Yes</b> – The tool addresses areas that are lacking investment and as such allows investment into an area based on realising and enhancing hidden assets or developing new ones.
5.	Extent to which tool is building on other tools or EA/ES progress	<b>Somewhat</b> It is new tool but can build on neighbourhood plans (asset checks) and other aspects of Big Society discourse (Squires, 2012)
6.	Extent to which tool is locally derived or grounded or can be adjusted to closely reflect 'local' context. Is the tool suitable for an open source approach?	<b>Yes</b> – US evidence shows that TIFS can be locally differentiated. Local variation and distributional effects are a key consideration (Werner et al 2003).
7.	Extent to which the tool is open to interpretation and application in a variety of forms (that reflect 'cultural' differences)	<b>Yes</b> – the criteria for TIF selection and defining a district area will vary and have been shown to vary across the US. There is clear evidence of different approaches in England and Scotland.(Scottish Futures Trust, 2011)
<b>Developing and selecting tools</b>		
8.	Is the tool dependent on a specific funding source? How onerous is the application procedure? What are the chances of success?	<b>Yes</b> –TIFS are dependent on the forecasted increase in business rates following the development and as such are seen by some as inherently risky ventures. This has led to some notable refusals at Committee such as the Aberdeen City Garden project.
9.	Does skills development (essential or optional?) and support exist for the tool or is there a body to ensure the optimal and correct use of it?	<b>Somewhat</b> – TIFS need skills in business and economics to ensure costs and revenues are accurately predicted and that the development is not merely displaced from other areas (as in the case of Enterprise Zones in the 1980s). Danger of poorly designed schemes a major worry (Squires and Lord, 2012). There is also a risk that transplanting the US version into the UK context might be problematic.
10.	Extent to which current	<b>Yes</b> – there is a hook into the localism agenda

<p>statutory hooks can be exploited by the tool or will benefit the quality or application of the tool (e.g. NNPF's duty to cooperate, SUDS, ecol. networks)</p>	<p>and DCLG (2013) and Scottish government (2012) are introducing them as innovative market mechanisms to tackle deprivation. . Government buy in at a time of austerity is important in raising the profile of these tools.</p>	
<p><b>Informing resultant policies effectively</b></p>		
<p>11. Extent to which the tool informs or improves policies/decisions. What does the tool cover? (full range of positive and negative economic, social and environment impacts / tradeoffs?)</p>	<p><b>Yes</b> – TIF does help implement regeneration proposals. There is an issue over the extent to which economic growth predominates here at the expense of wider environmental and social benefits that are increasingly recognised as vital for successful regeneration.</p>	
<p>12. How does the tool link into the planning system (applications and processes). At what cost / extra burden?</p>	<p><b>Somewhat</b> – It will be part of a wider regeneration plan.</p>	
<p><b>Delivering management objectives</b></p>		
<p>13. Suitability or capacity of the tool to assist with managing visitor needs and pressures within protected areas / the considered area? How?</p>	<p><b>Limited</b>- TIF may have a role to play in some deprived peri urban environments such as to inject money for mountain bike trail developments for example.</p>	
<p><b>Local ownership/new governance</b></p>		
<p>14. To what extent can the tool assist in developing statutory plans (local and management plans) and improve ownership and use by publics?</p>	<p><b>Limited</b> although it will have a role to play in identifying major regeneration schemes in areas that would normally not get go ahead. -</p>	
<p>15. To what extent does/could the tool contribute to a new form of community governance in management of the environment?</p>	<p><b>Limited.</b> However there may be scope and value in third parties undertaking their own impact assessments.</p>	
<p><b>Improved tools: understanding flows, interconnections and spatial issues</b></p>		
<p>16. Capacity to improve spatial understandings of the flows and interactions of various ecosystem services between sectors and at different scales</p>	<p><b>Limited</b> - The core analytical stages of the TIF (on costs and benefits and impact of alternatives) could be based on a comprehensive understanding of economic, social and natural environmental processes..</p>	
<p>17. Capacity of the tool to reconcile assessments of options and benefits across different scales (and sectors)</p>	<p><b>Yes</b> –The TIF would look across the impacts (costs and benefits) specific TIF area and impacts on surrounding areas.</p>	
<p>18. Extent to which the tool is capable or can be manipulated to work across sectoral and administrative boundaries</p>	<p><b>Limited</b></p>	
<p>19. Extent to which the tool can handle data shortages and gaps (or is effectiveness considerably</p>	<p><b>Yes</b> - The TIF deals with future uncertainty explicitly in terms of predicting future return on investment. Good quality financial data is</p>	

compromised?)	important to provide an adequate baseline and understanding of the impacts – based on qualitative and quantitative data sources.
20. To what extent has/could the tool put landscape/nature conservation and designated species/sites on the radar (positively or resulting in resentment?)	<b>Limited</b> Most TIFs have an urban focus but there is no reason why they can't be developed as part of wider rural development schemes.

**Key concerns as expressed by Squires 2012 for developing TIFS**

1. Does the development address 'blight' and deprivation?
2. Would the development not be redeveloped 'but for' the use of TIF?
3. Have all costs and benefits (private and public) been considered?
4. Has TIF designation considered speculation, displacement, stigma or crowding out of private investors?
5. Is the TIF likely to allow a capture of revenues from overlapping taxing jurisdictions?
6. Has the TIF been selected mainly on the grounds of an area having fast-growth?
7. Does the TIF detrimentally cost (or significantly benefit) other areas outside the TIF, or produce a net zero-sum gain for areas inside and outside the TIF district?
8. Have all stakeholders been considered in negotiation of the TIF, such as the interests of developers, local authority officials, and neighbourhood groups? Is there a collective will to make the project work?
9. Have increased service needs not funded by TIF been included (eg schools)?
10. Is there transparency of gains from unelected and thus publicly unaccountable stakeholders gaining from publicly-financed projects (eg commercial developers)?
11. How complex, costly and time-consuming will it be to implement, monitor and control the TIF funded project?
12. Is there a need to ring-fence the capture of tax in the TIF agreement to protect the revenue streams of business rates uplift?
13. Is the upfront finance available for a TIF project while keeping national debt at a reasonable level?
14. Is the use of TIF appropriate given the necessary tools and guidance?
15. Has the sector mix and land-use focus been considered in the TIF district; is there opportunity to make other tax gains (eg residential)?
16. Has an appraisal, assessment, and evaluation been considered — particularly to ensure the TIF project is viable? (eg is the future uplift projection accurate)
17. Is the finance prudential given the risks involved in the TIF project?

**Task 7: A SWOT analysis of the tool**

Referring back to the relevant policy and academic literature (listed in Task 3), plus your own expertise (listed in Task 4) and the way in which the tool is situated within the priority questions/criteria (listed in Task 6), please complete a summary SWOT

- Strengths** *(of the tool in delivering intended outcomes)*
- Tool works to level investment in deprived districts and therefore adds value to regeneration efforts.
  - Tool has had significant success in the US and as such we can learn from that experience.
  - TIFs address equity issues
  - TIFs can help to improve ecosystem services deficits
  - TIFs allow front loaded investment
- Weaknesses** *(factors that detract from the tool's ability to deliver intended outcomes)*
- TIFs are inherently risky ventures due to future uncertainties
  - Translating a US tool to the UK situation is problematic given the different institutional contexts.
  - Reliance on future taxable incomes may not fulfil predictions.

analysis ensuring that each point is well justified	<b>Opportunities</b> ( <i>consider opportunities for application of the ecosystem approach and services</i> )		
	<ul style="list-style-type: none"> <li>• Risk based approach inherent in TIF lends itself to an ecosystem services assessment.</li> <li>• Role of improving quality of ecosystem services in deprived areas will bring significant benefits in terms of health and quality of life.</li> <li>• Important opportunities for community identity and agendas being realised.</li> </ul>		
	<b>Threats</b> ( <i>factors which negatively affect the tool and its outcomes</i> )		
		<b>Seriousness (high, medium, low)</b>	<b>Probability of occurrence (high, medium, low)</b>
	The use of ecosystem services language may not resonate with stakeholders.	Medium	Medium
	The complexity of ecosystem services may add to already complex process	Medium	High
	Doing more comprehensive ecosystem services assessment is potentially very resource intensive. Needs to be linked in with asset checks as part of development plan or neighbourhood plan process .	High	High
Ecosystem services may not be relevant to all TIFS or all institutional contexts	Low	High	
Valuation of ecosystem services does not necessarily fit with how decisions are made about spatial planning – which is much more about balancing a wide range of factors, not a cost, benefit calculation.	Medium	Low	
<b>Further comments</b>			