TIFs: No Such Thing as Free Money

Tax Increment Financing (TIF) schemes divert future tax revenue from special districts to government-backed projects intended to reduce blight or create jobs via redevelopment.

In a TIF district, property tax revenues are broken into two streams: one stream, the "base value," or the property tax value before the redevelopment, will continue to go to the locality's general fund. The second stream is the increase in property value – the "increment." That stream goes back into the TIF district. TIF diversions can last anywhere from 15 years or more – sometimes up to 50 years – depending on the legislation establishing the TIF district.

In New York, TIF is often combined with a subsidy in the form of a payment-in-lieu-of-taxes (PILOT). In these cases, developers and landowners in the TIF district pay *less* in taxes than what is otherwise assessed for that area. This is effectively a double subsidy: the TIF increment increases the value of private investments in the TIF district, and developers also benefit from PILOT-reduced taxes.

Local governments like to use TIFs because they are a form of subsidy that is off-budget and thus can be characterized by development officials as cost-free to the public. The reality is that the future tax revenue TIFs divert from a locality's general fund could otherwise fund core government services and thus have a real cost to the public. There is an opportunity cost when development revenues are earmarked for one specific purpose, particularly given that TIFs can last for decades.

To be truly successful, the TIF model must accurately predict two very unpredictable things:

1. the costs of infrastructure investments and improvements in the TIF district, and
2. the revenues that will result from said infrastructure investments and improvements.

Potential cost spillovers and potential economic downturns all increase the risks and unpredictability associated with TIFs. And, as noted by the Citizens Budget Commission, TIF projects "experience a lag between upfront capital investments and

the collection of incremental property tax revenue." To mitigate these risks, public entities guarantee bond payments.

When the anticipated incremental revenue fails to materialize, the entity that took on the project's debt will be unable to pay the cost of new infrastructure. According to Bridget Fisher of the New School, when this happens, there are two results:

1. either the public entity defaults, or
2. the public entity itself must step in and pay the outstanding costs with general revenues.

In the case of Hudson Yards, New York City agreed to guarantee the interest payments on up to $3 billion in bonds. This means that in any given year, if incremental revenues fall short, the City will make up the shortfall between revenue generated and the interest due on bonds. This deal ended up forcingNew York City to pay $2.2 billion in unexpected costs.

Reinvent Albany opposes the use of TIFs for any development because they are off-budget and put tax dollars at risk. Not only is the use of subsidized PILOTs problematic, there is no such thing as "self-financing," and no such thing as getting something for nothing.

For more reading on TIFs, we recommend:
Tax Increment Financing: A Primer from Citizens Budget Commission
Tax Increment Financing from Good Jobs First
Testimony from Bridget Fisher to the NYS Senate Committee on Corporations, Authorities, and Commissions
Uses and Abuses of Value Capture for Transit from NYU's Rudin Center