



# TIF Reform in Michigan

## Some recommendations for public policy

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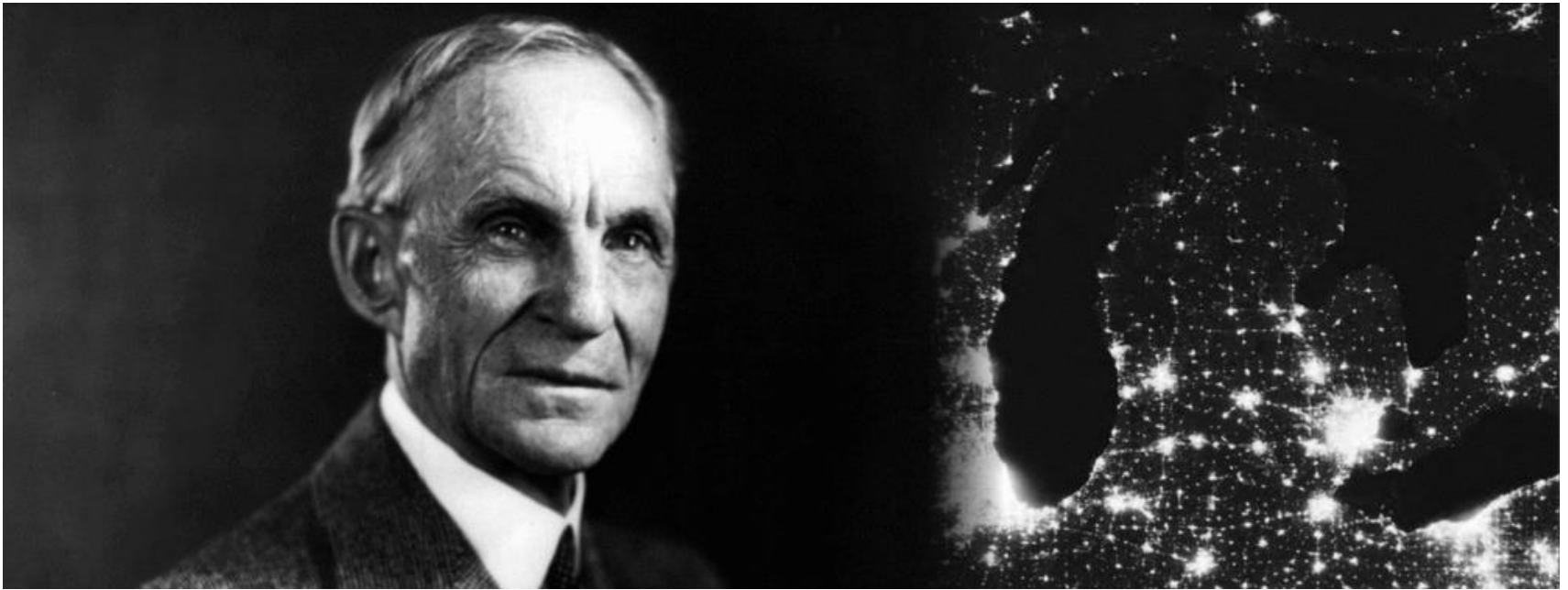
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# “Fiscal illusion” in public finance



“It is well that the people of the nation do not understand our banking and monetary system, for if they did, I believe there would be a revolution by tomorrow morning.”

Henry Ford (1922)

# Some simple questions ...

- How heavily do municipalities in Michigan rely on TIF, relative to overall revenue raised from property taxes?
- What types of TIFs are being used across the state?
- Has municipal reliance on TIF increased since the financial crisis? Is TIF related to episodes of financial instability at the local level?
- Given that TIF is a financial instrument, what is the regulatory disclosure process for monitoring its usage?

# ... but no simple answers

- MI Department of Treasury estimated tax capture authorities to capture \$280 million in revenue for FY2014
  - 86% increase (\$150 million) since 2006 (65% when adjusted for inflation to 2012 figures)
- Official figures grossly **underestimate** true magnitude of revenue capture because of the **lack of reporting**:
  - Estimate: closer to **\$500 million**, possibly as much as **\$1.2 billion**— nearly 10% of total property tax revenues
  - Revenue collection not emphasized
  - Very complex and complicated reporting
  - Missing and inconsistent data (~ 30% reporting compliance)

# Accountability in local public finance

- Tax Increment Finance (TIF) is among the most popular financing mechanisms for economic development in the U.S.
- TIF is neither intrinsically good nor bad local tax policy, but implementation is key
  - Lack of TIF transparency leads to “**fiscal illusion**” (systematic public misperception of key fiscal parameters that distort the fiscal choices by the electorate)
  - TIF gives rise to local “**shadow budgets**” that are outside of the control of local elected officials. Importance of regulatory accountability.

# Accountability in local public finance

- TIF create conditions for “**overfishing**” of fiscal common-pool as multiple territorially overlapping governments and special purpose districts levy taxes in common geographic area.
  - Increasing number of overlapping governments increases interest costs for county debt (Greer, 2015)
- Observation that TIF districts grow faster than other areas is unremarkable on its own, does not permit causal inference.
  - TIF expenditures and property value change in Chicago show negative effect of infrastructure spending (Kane and Weber, 2015)
  - TIF projects might be “crowding out” private investments

# What are the “burning issues”?

- Negative capture and TIF “bail-outs” (Kansas City, P&L TIF), “strategic defaults” (Troy, MI) and “blank cheques” (Queensgate/WestEnd, Cincinnati, OH)
- General fund budget shortfalls and TIF “war chests”
  - Chicago’s 151 TIFs had accumulated balances of \$1.7 billion in property taxes; 20% of total budget)
  - TIF sunset clauses often rolled over (“Zombie TIFs”)
- New GASB Standard for reporting of “tax-based economic development subsidies” via “Comprehensive Annual Financial Reports” (including TIFs and other local tax expenditures)
  - GASB Statement No. 77 “**Tax Abatement Disclosures**” (Dec 2015)

**Table 3: Estimating the activities of TIF authorities in Michigan**

<i>Source</i>	<i>Type*</i>	<i>BRA</i>	<i>CIA</i>	<i>DDA</i>	<i>LDFAs</i>	<i>MI RR</i>	<i>NIA</i>	<i>TIFA</i>	<i>WIRD</i>	<i>Total</i>
CRCM (2007)	A	261	–	–	–	–	–	–	–	261
	M	–	–	370	98	–	–	87	–	555
MI Tax Commission (2012)	A	–	–	361	66	–	–	57	–	484
	D	–	–	441	87	–	–	88	–	616
Authority Districts in MI		–	–	417	–	–	4	139	–	560
Authority summary <sup>†</sup>	M	215	–	416	103	–	–	–	–	734
	MT	12	–	110	13	–	–	–	–	135
Reese (2014)	C	132	4	203	–	–	–	91	–	430
MI TIF Working Group (2014)	M	500	30	380	110	1	–	95	3	1,119

*Notes:* BRA: Brownfield Redevelopment Authority; CIA: Corridor Improvement Authority; DDA: Downtown Development Authority; LDFAs: Local Development Financing Authority; NIA: Neighborhood Improvement Authority; TIFA: Tax Increment Finance Authority; WIRD: Water Resource Improvement District. \* “A”: authorities; “D”: authority districts; “C”: cities with TIF districts; “M”: municipalities with authorities; “MT”: municipalities with TIF districts (see text for more details). <sup>†</sup> Summary of BRAs (2011), DDAs (2011), LDFAs (2014).



# Assessing HB-5856

- Sweeping one-sided changes to only one type of TIF-enabled entity (DDAs)
  - Partial reform makes regulatory arbitrage very likely
- No regulatory cost-benefit assessment possible due to lack of data
- Only minimal changes to address lack of transparency and accountability
- Increased reporting burden, instead of standardization of state-wide financial reporting (no GASB compliance).

# Recommendations for TIF reform

## 1. Better **monitoring**

- Smarter regulation (not more, but better, “lean” regulation; consolidate TIFA to 2 types max.)
- Simple metrics for benchmarking TIF performance (evidence-based public policy).

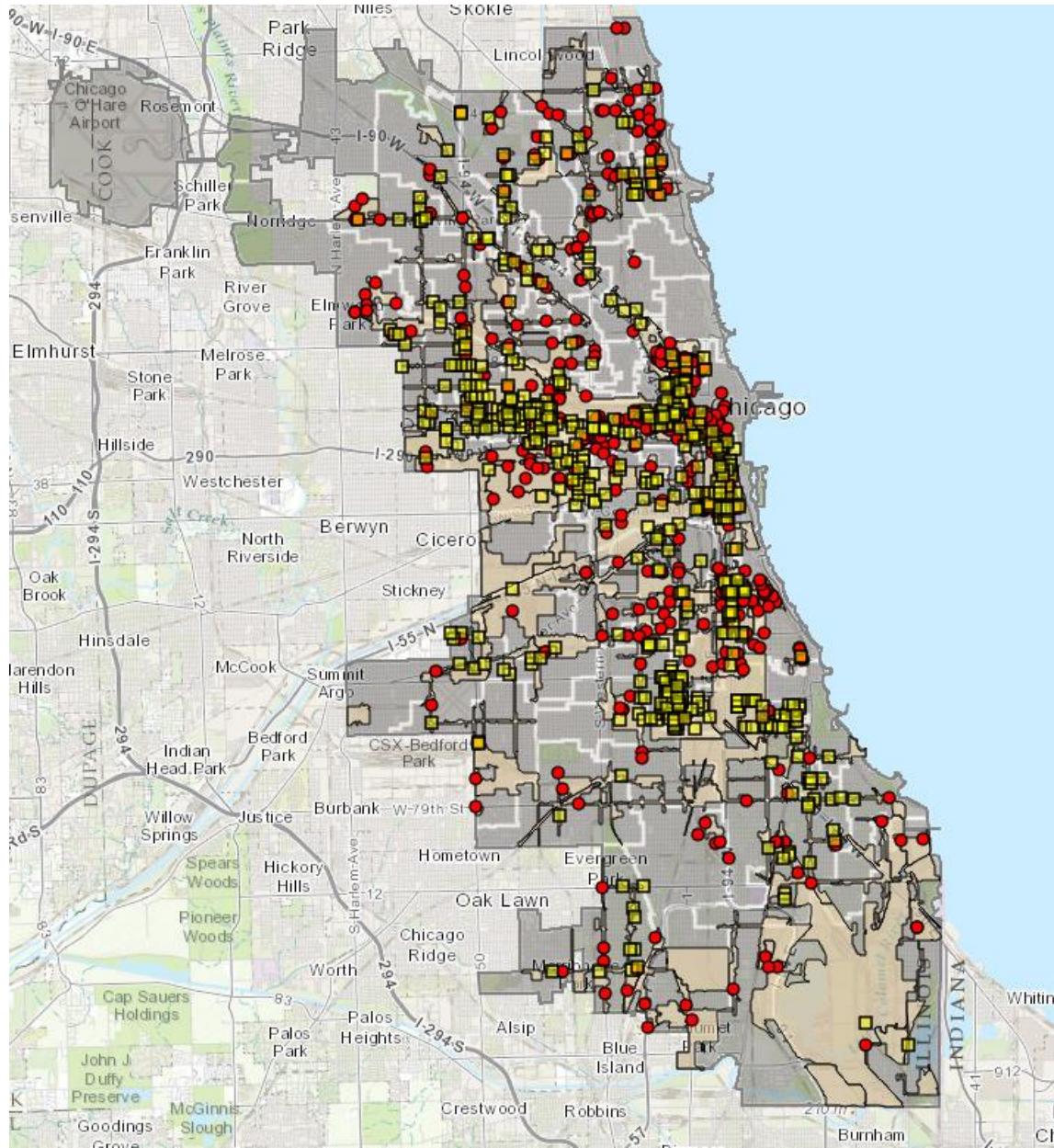
## 2. Improved **accountability**

- Smarter and more regular reporting (open data)
- New GASB Statement 77 on “Tax Abatement Disclosures” as opportunity

## 3. Strengthened **oversight** with more consistent enforcement

- Internal body with well-defined accountability for all aspects of TIFs (e.g. Treasury)

# TIF projects in Chicago



Source: City of Chicago Data Portal -- <https://data.cityofchicago.org/>