



TAX INCREMENT FINANCING (TIF)

Downtown Renaissance Defies Predictions

In 1997, columnist Neal Peirce picked 2010 as the year in which tourists would be coming poking through the ruins of Washington Avenue in the City of St. Louis, gawking at deserted historic buildings and wondering how a great city could sink so low. Mr. Peirce and his co-author projected that the tourists would be witnessing “the tragic end point of the flight of Americans from their once-proud cities.” Defying all predictions, in June 2008, the St. Louis region won the “All American City” award. St. Louis last received this award in 1956.

On a summer Friday night in Springfield, die-hard baseball fans gather at Hammons Field to watch the future of one of Major League Baseball’s leading franchises. Before the game, it’s an easy stop to go downtown and grab an early dinner at Flame. Ten years ago, this kick-off to the weekend in Springfield would have been unheard of.

Every city, when it considers the development or redevelopment of real estate, fundamentally cares about certain core issues.

-How do we encourage developers to create new value and drive new investment and economic development within our region?

-How do we create jobs and services for our people?

Some projects are easy. The large, never developed property with good access and proximity to lots of people is a prime candidate for development. What about the vacant former warehouse near the river in downtown Kansas City? The vacant retail building on the Square in Springfield? A riverfront site with environmental issues in Jefferson City? Missouri has its share of neighborhoods in decline and real estate that, but for incentive programs like tax increment financing, (TIF), would continue to decay.

TIF Misperceptions

There are a lot of misperceptions about TIF: that it is a give-away to developers, that it takes money away from cities and school districts, or that it always involves a taking of private property. We could find an example of a specific TIF project that did not succeed. We could also give examples of TIF projects that were widely debated in their communities. We could also give many examples of TIF projects that were simply transformative of neighborhoods, creating new life for once depressed areas and bringing investment to communities that otherwise would have at best remained static.

What is TIF?

TIF does not involve the imposition of new taxes. It looks at a project on Day 1 and freezes the existing tax base. The local taxing districts continue to receive all taxes they received before the TIF was created. If the proposed project succeeds in increasing property values or creating new sales tax revenue, then for a period of up to 23 years, the developer may be reimbursed for approved costs of developing the project, from the new tax revenues that are created. Once the cost reimbursement obligation is satisfied (or the 23 year period expires), the local taxing districts receive 100% of the benefit of all new property and sales taxes that were created by the development.

Under Missouri law, TIF may only be used for certain types of properties: blighted areas, conservation areas, or economic development areas. A TIF may only be approved after mandatory public hearings, giving the public opportunities to weigh in on the proposed development. The city must adopt an ordinance approving the TIF and related development plans, placing all discretion as to the need for a TIF squarely in local hands. Before agreeing to reimburse any costs from TIF revenues, a city will engage advisors to review and confirm how much new tax revenue could be created as a result of

Advancing public policy for the commercial real estate industry.

the TIF. In 2007, the Missouri Legislature also limited the use of TIF in certain “greenfields” areas. Simply put, TIF is not a tool that is available to many development projects.

It is important to understand that TIF is basically a speculative concept, with all risk on the developer. If the project is never completed, and no new tax revenue is generated as a result of the project, then the developer loses. The developer is never reimbursed for any costs spent in the course of the development. On the other hand, the city has no risk, because it has no liability for any TIF obligations. The City only has upside: if the project succeeds, the tax base increases and all corresponding tax benefits inure to the taxing districts once the initial costs are paid (or the 23 year period expires).

TIF has been used successfully in cities throughout Missouri, at times acting as the linchpin for bringing investment dollars to Missouri. Real estate investors have many choices when considering where to invest their dollars. They also have choices with respect to the specific types of projects in which to invest, always undertaking a risk-reward analysis when determining where to invest. Development tools such as TIF can serve as the gap-filler that brings a potential project across the finish line by securing a revenue source that is not otherwise available in the private market. Removing or limiting the use of TIF as a development tool would without question reduce the investment dollars flowing to Missouri real estate development.

Missouri has long been a leader among states by offering many public incentives designed to draw investment dollars to our state. TIF, when coupled with available tax credits and development tools, has fueled the revitalization of Missouri’s cities. One cannot just look at the increased tax base of a specific project without also looking at the overall community impact. Hammons Field increased the local tax base in Springfield. How many new retail stores and restaurants opened down the street as a result of the new development?

A Glimpse of the Future

Looking forward to 2020, what does Missouri want the outside world to see? Vibrant cities with a diverse business base and significant opportunity? Investors willing to inject significant capital into our communities? TIF is a critical development tool to allow Missouri to maintain the competitive edge that it needs to promote that investment in our communities.

TIF Success Stories

Kansas City, MO



Kansas City’s Economic Development Corporation’s Tax Increment Financing Commission is responsible for:

- 57 TIF plans approved
- TIF projects approved through 2005 have generated \$1.5 billion in private investment and have created 19,500 new jobs
- Through 2005, a total of \$115 million of public investment has been made in TIF projects
- The private/public return on investment is 17:1

St. Louis, MO



In 2007, the City of St. Louis approved \$25.3 million of TIF projects. The projects are expected to:

- Leverage approximately \$127.7 million in private investment in the City
- Create around 275 new homes
- Attract several new taxpaying businesses to the City
- Create 485 new jobs in the City

Springfield, MO



The Springfield Jordan Valley TIF is responsible for:

- Doubling assessed valuation in the District from 2001 to 2007 (which still does not account for full assessment of a key development within the District)
- Creating 139 full time and 220 new part time jobs
- Spurring development of Hammons Field, Jordan Valley Ice Park, the Exposition Center, significant public open space, parking and streetscape improvements, and new retail development