

## Tax Increment Finance and Suggestions for Reform – A Summary\*

By Byron Schlomach

It is a rare thing to have the ideological left and right agree on anything. Yet, this is largely the case with respect to Tax Increment Finance districts (“TIFs” or “TIF districts”). Left-leaning organizations such as Good Jobs First and Public Interest Research Group question the legitimacy of how TIF laws have been used. Their recommendations for reform are often the same as those of advocates for limited government. Such agreement should be enough in itself for state lawmakers to begin asking questions and enact significant reforms.

### What’s a TIF?

- Tax Increment Finance districts are designated areas within a city, town, or county where sales and/or property tax revenues over and above those collected at the time the district was created are spent only within the district.
- TIFs appear to many casual observers as a costless way to economically remake an area. Tax rates do not rise. Pre-existing revenues are not tapped.
- Tax money that would otherwise support infrastructure and education in the wider community is concentrated in the TIF to provide amenities that make the TIF district especially desirable and attractive.
- TIFs may be used to fund legitimate government infrastructure like streetscapes and parks.
- TIF’s are also used to provide direct tax subsidies to private business and real estate developers, e.g. bio-pharmaceutical manufacturers in Oklahoma City, FlightSafety in Broken Arrow, and Olive Garden in Stillwater.

### What Do TIFs Accomplish?

- TIFs bypass traditional taxpayer protection measures like voter approval of bond issues.
- Economic analyses of TIFs show no evidence that TIFs are associated with greater overall economic activity.
- Many TIFs, especially those that tap property taxes, cost everyone in the state of Oklahoma, even though TIFs are locally constituted and spend locally.
- Long-standing residents and business owners bear the financial brunt of meeting the increased financial needs of schools and other entities but do not benefit from the TIF.
- A state’s TIF statute does nothing for a state’s economic health. Instead, the impact is to rearrange where jobs occur within the state. Often communities create TIFs in order to poach jobs from other communities. Indeed, TIFs sometimes just poach jobs from another part of the same community.

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This paper, in its entirety, can be found at [www.1889institute.org/tif](http://www.1889institute.org/tif)

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- TIFs are often used as a tool for cronyism, fooling taxpayers into thinking entirely new economic development occurs from special tax deals that appear costless to the general taxpaying public; and then directly redistribute resources from the taxpayer to wealthy and well-connected businesses and real estate developers.
- TIFs do more to benefit local politicians than the economy.
- TIFs often allow TIF-creating entities to steal away the revenues of other taxing entities.

### Needed TIF Reforms

- Greater transparency with reporting to the state.
- TIFs should only fund infrastructure and rehabilitation of properties, not the construction of new privately-owned facilities.
- TIFs should only be able to access the creating entity's tax resources.
- A TIF's lifetime should be limited to the completion of an explicit purpose.
- Given the potential impacts on state resources every TIF should require final state approval for its creation.
- The best reform would be to repeal the TIF statute as well as constitutional provision for TIFs.
  - TIFs bypass taxpayer-protection provisions.
  - Legitimate infrastructure and rehabilitation projects can be accomplished through traditional means.