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**Tax Increment Financing:
A Tool for Growth in Grapevine, Texas**

An Honors Thesis submitted in partial fulfillment of the
requirements for Honors Studies in Political Science

By:

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Tax Increment Financing: Background

Urban planners, public servants, city officials, and community leaders tend to have a common goal when it comes to their jurisdiction or boundary of focus: to improve the health, safety, and well-being of those citizens. This could be in the form of improved infrastructure, public services, or even event planning for the community. Transforming a city or community into a more comfortable or more pleasant place to live is hardly ever a controversial pursuit. What can become quarrelsome, however, is how the community leaders decide to fund those improvement projects. Everything in life, especially in city government and planning, costs money. The more nice or elaborate a plan or goal is, the more expensive that project will generally be. Average cities tend to have trouble bringing in high revenues, relying on taxes from residents, commercial businesses, and industrial centers. Property taxes today bring in the most income for cities on average, with sales taxes coming in a close second (Texas Municipal League). Smaller cities that are unattractive to consumers and developers may tend to struggle to have surplus money for development.

Following the New Deal era of cooperative federalism, the federal government slowly began to devolve power and responsibilities back down to the states. This was accelerated with the New Federalism era associated with the Nixon administration. With Franklin D. Roosevelt and Harry Truman, grants-in-aid arrived mainly in the form of block grants. While these grants did have conditions for states to meet, the Housing Act of 1949 hit states, cities, and urban renewal entities in their wallets. This federal law required municipalities with populations greater than 50,000 to match the federal funds contributing to the development

projects (Walker). The issue with this stipulation is that, generally, cities did not, and do not, have the sufficient funds to execute the urban renewal or, more recently, economic development projects.

Municipalities have, consequently, had to become more creative in how to manufacture wealth and development into their communities. Tax increment financing (TIF) got its start in California in 1952 “as a tool for cities to raise federal matching funds for their projects,” (Kerth). The Housing Act of 1949, as previously mentioned, caused cities and states to find alternatives in funding and redevelopment. “In California, the local urban renewal match required citywide bond issues which, in turn, required voter approval,” (Briffault). Voter approval is not always easy to achieve, especially when the project does not directly benefit the voter. In order to raise these matching funds, the state began TIF programs as a new source of income to fund projects. TIF had a slow and rather unnoticeable presence in its early decades. By 1970, only 6 other states had implemented TIF programs and policies.

In the 1970’s, the federal government provided continuously fewer funds to cities and states for urban renewal, as well as economic development. With “the withdrawal of federal urban development aid funds beginning in the Nixon administration and the adoption of Proposition 13 in California in 1978 and comparable tax and expenditure limitations in other states soon after, [this] led to a rapid and dramatic increase in the use of TIF,” (Briffault). Cities continued to struggle raising funds for redevelopment as the federal government grew tremendously in size and became increasingly bureaucratic. TIF gradually became an attractive tool for economic development, due to state legislatures opening up their urban renewal laws to include economic development. This made TIF legislation much more

attractive to more states, and by 1992, 44 states had statutes allowing TIF. Today, every state except for Arizona allows TIF programs to be used (including Washington D.C.).

Naturally, the major cities in each state held a large portion of the population, thus creating more demand and pressure for municipalities to provide everyday goods and services for their people. The states wanted to help their cities thrive and increase their income, which would consequently increase the state's financial standing as well. Several TIF policies and statutes were expanded by amending the language of the legislation into more vague and broad definitions. TIF's focus was essentially shifted from urban renewal and redevelopment projects, to economic development projects. The common litmus test used for TIF proposals has been whether blight is present or not, and whether the blight is harming property values. Merriam-Webster simply defines blight as a "deteriorated condition." Blighted urban areas include those areas with abandoned or worn down buildings, land that has become unable to be developed due to natural causes or human causes, and other areas that are struggling to survive economically. Essentially, TIF was mainly intended to revitalize brownfields. TIF projects also focus on the blighted area's infrastructure, such as roads, lighting, sidewalks, and other public services. While this tool is still used for polluted or blighted brownfield areas, cities have found ways to use TIF in greenfield developments reaching into suburbs. States differ in their laws regarding the land assessment standards for redevelopment, however this is a growing practice that has received some backlash. Blight has become a relatively loosely defined characteristic in some states.

According to the Council for Development Finance Agencies, 32 states currently require the finding of blight for the creation of a TIF district or project. A majority of the states use a blight requirement likely due to their ability to define blight as specific or as

vague as they please, thus opening up TIF as a more useful tool. Meanwhile, 18 states require a “but for” test. In order to pass this test, the governing body of the TIF must prove that growth and development at the proposed level would not occur “but for” a TIF district. The “but for” requirement is a much more stringent hurdle for municipalities and governing bodies to overcome. One would have to prove that no other alternative source or strategy would be able to foster the same private investment and future revenues as a TIF district would.

Methodology

In this thesis, I have focused on three main inquiries: What is tax increment financing, Why have they become so popular and widespread, and Why are some TIF districts more successful than others? The first question was addressed by researching articles and papers on TIF and the history of TIF. For the last two issues, I decided one main case study would be the best approach. I chose Grapevine, Texas due to my previous internship experience in the Economic Development and City Manager’s offices, and the relationships formed with the city officials there. “The case study is preferred in examining contemporary events, but when the relevant behaviors cannot be manipulated. The case study relies on many of the same techniques as a history, but it adds two sources of evidence not usually included in the historian’s repertoire: direct observation and systematic interviewing,” (Yin). By interviewing Grapevine officials, pulling additional academic sources concerning Grapevine, and summarizing comparable cases, this study is able to offer potential answers to these three main questions, giving the reader a general understanding of TIF’s.

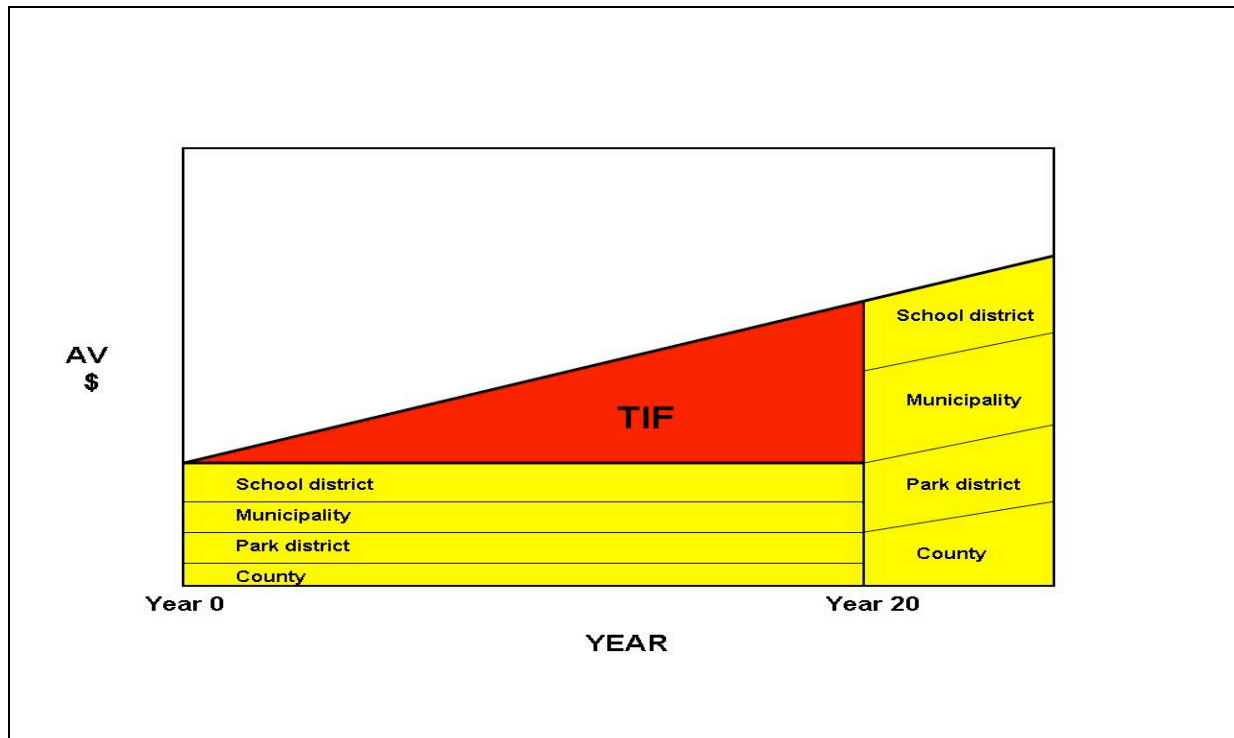
Tax Increment Financing: Process

Before going into the arguments for and against tax increment financing, it is important to first look into the TIF process itself, and what all it entails. TIF's may be initiated by private interests (businesses, developers, or private owners) or by the municipality itself. Private interests may propose a TIF district designation when they see an opportunity to develop or redevelop on a piece of property they believe will produce beneficial property tax revenues. "Municipalities often prefer to initiate TIF districts based on a developer's solicitation of funding because it reflects the developer's willingness and interest in investing in the area," (Weber and Goddeeris). On the other hand, cities may also choose to initiate a TIF without any outside influence. This is attractive to municipalities due to the flexibility and freedom that TIF legislation tends to offer these governing bodies. According to the CDFA, municipalities may decide to take this route when it: "sees an opportunity to aggressively market a weak or very high-risk market, wants to pursue a mega-project, identifies or anticipates specific site impediments that may discourage developers, or wants to have more control over development activities in a heated market." Essentially, whichever party sees the opportunity first will move to initiate the TIF and take advantage of potential revenues. The initiator will then conduct a study to identify blight and/or a "but for" test in order to argue the need for a TIF.

After deeming an area to be necessary for redevelopment, or development, a municipality will establish a TIF district and its boundaries. Legislation from the state typically establishes requirements for the physical boundaries of the redevelopment project

area. These guidelines may include size minimums or maximums, whether the area must be contiguous or not, properties allowed within the boundaries, along with other size and shape stipulations. Once all requirements and guidelines are satisfied, the municipality must establish a governing body or commission tasked to prepare a plan for the project. The plan should include aspects such as expected property tax values and revenues, the maximum life span of the TIF (if any), and other defining factors. This plan is then presented at public hearings, which are typically required in the TIF process by state legislation. The hearing is an opportunity for the community to be educated on the plan and voice their concerns, whether in support of or against the project. Following the hearing, the city council or other legislative body of the city votes on the approval of the proposed TIF plan, its boundaries, and its adoption.

Inside this established boundary, tax levels and property values are assessed and essentially frozen for a certain number of years. During that time, “property taxes levied on this frozen tax base continue to accrue to local tax bodies, but taxes derived from the new development are used to pay for infrastructure needs and development expenditures in the TIF district,” (Johnson). In other words, “the initial assessed property valuation in the district is held constant for a period specified in the state’s enabling legislation,” (Weber and Goddeeris). The established base tax value is typically held constant throughout the life of the TIF, although in some states, such as Minnesota, the base may increase with the rate of inflation.



(Weber & Goddeeris 2007, pg. 9)

As development and investment occurs within the TIF district area, property values and its taxes are expected to increase with surges of growth shocks. While the general public continues to pay the base tax value, the additional property values' tax revenues (tax increment) are funneled into the TIF governing body in order to pay off debt incurred from the project. Meanwhile, the tax base continues to channel to the local taxing bodies. These taxing bodies could include city and county governments, school districts, and even park districts. Although the increment revenue is dedicated to the TIF, market fluctuations are bound to occur, especially early on in the life of the TIF. Municipalities may choose from a few different “front-funding” methods in order to jump-start the investment. First, “the city may sell bonds secured against the revenues expected to be paid to the special fund over its lifetime,” (Kerth). Over the life span of the bond, and the TIF district, these revenues are used to pay off the bond, thus allowing the city to begin construction immediately. Another

option is to pay for the project as you go. In this case, the municipality forces the developer to assume more of the risk and pay for their own development expenses. Then, as incremental taxes are generated, the municipality reimburses the developer. This is a slower option, although arguably safer, since cities that take out bonds could be at more risk if a TIF project were to be a failure and would not have enough funds from the TIF to pay off the bond.

Once the life of the TIF has expired, property taxes in the TIF district lose their special rate and are adjusted according to the actual rate in the rest of the city. While some states set time limits for TIF's, others do not require an expiration date, and continue to exist until, typically, all redevelopment costs have been paid off. Most states have maximum lengths ranging from 20 to 29 years (Rittner, Rittenberg, and Stouffer). Upon extinction, cities have the ability to observe the impacts of the development on the area around it, particularly in terms of property values. One of the major goals of TIF is to increase property values through the redevelopment or development projects; improved infrastructure, positive economies of agglomeration, and attractive destinations are supposed to help fuel the rebirth of blighted areas. TIF projects can be as forgettable as a road repair, or as prominent as a new sports stadium or resort. Whether or not these projects bring about economic growth or human capital depends on the unique case itself. Many criticisms of TIF have been raised over the last few decades, ranging in severity depending on each unique case. These criticisms and some unique TIF cases will be noted later on in this study.

Do TIF projects really improve the property values of surrounding areas? Is the public substantially educated and informed of the implications that accompany TIF projects? Are these projects worth the large tickets prices? Will people really come if something is

built? Is tax increment financing an effective economic development tool compared to its alternatives? These questions, along with others, will be thoroughly explored and assessed. In addition to research of literature and case studies, I will also obtain personal anecdotes from city officials familiar with TIF districts. One of these cities will be Grapevine, Texas, a popular tourist and destination location in the Dallas/Fort Worth metropolitan area due to its proximity in between Dallas and Fort Worth, as well as most of the Dallas/Fort Worth International Airport residing within its city limits. Grapevine has used TIF districts to pay for impressive attractions, such as the Gaylord Texan Resort & Convention Center, as well as the Grapevine Mills Mall. For instance, while Grapevine's TIF for the Gaylord has liabilities exceeding its assets by more than \$16 million as of 2013, their TIF around the Mall has its assets exceeding its liabilities by more than \$33 million as of 2014 (Pattillo, Brown and Hill, L.L.P. (1 & 2)).

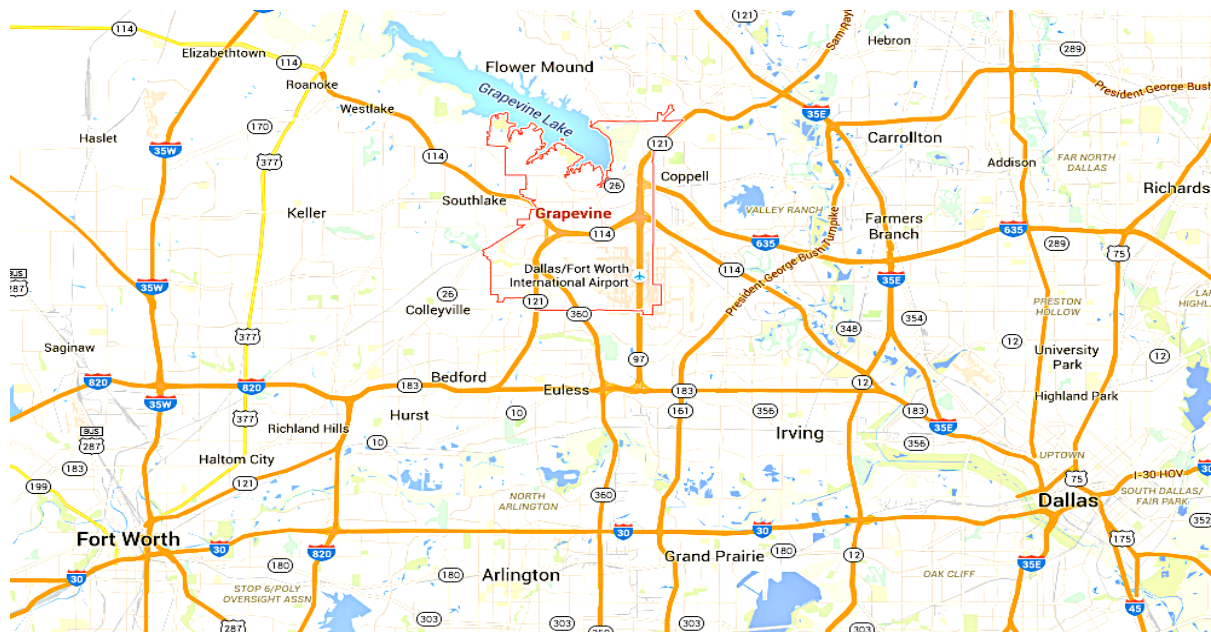
This highlights just how much the effectiveness of TIF can fluctuate case-by-case, and this study will dive into the causes and explanations for those differences. Many of these differences stem from economic development and redevelopment being largely left to the states, as mentioned earlier. "In the United States, TIF is governed by state law, but implemented by municipal governments... (and) can also be implemented by county governments, economic development authorities, or other municipal governments," (Peterson). One could say that a municipality that is in a more fragmented and complicated government relationship would be more likely to initiate a TIF project due to its flexibility and ease of operation. TIF is an ideal alternative for these type of larger, more complicated governing bodies, for they do not have to go through as many bureaucratic loops or hurdles.

Case Study of TIF in Grapevine, Texas: The Tale of the Two TIF's

TIF districts continue to be prevalent in highly populated cities and states. According to the City of Austin, Texas, California and Illinois are two of the most active users of TIF districts in development and redevelopment, which makes sense since they are ranked number one and number five in the United States in terms of population, respectively. Most of Illinois' TIF's are located in the Chicago metropolitan area, a highly studied and cited region for this tool. Texas, the second highest populated state, is also an increasingly large user of TIF districts. In Texas, these districts may be referred to as TIF's, PID's (Public Improvement Districts), or TIRZ's (Tax Increment Reinvestment Zones). As of 2014, the City of Fort Worth, Texas had approximately 12 active TIF districts (City of Fort Worth). Currently, the City of Dallas, Texas has approximately 18 active TIF districts or TIRZ's, and 12 active PID's (City of Dallas, Texas). According to both cities' most recent TIF district annual reports, both are enjoying comfortable revenues from their respective TIRZ's. Fort Worth has seen an overall increase of approximately \$2.1 trillion in taxable value from each TIF's base year (171% increase). Meanwhile, Dallas has seen an overall increase of approximately \$6.7 trillion in taxable value from each TIF's base year (190.8%).

Of course, this size and level success is not the norm across the state. When your city is as heavily populated as Fort Worth (approximately 800,000) or as Dallas (approximately 1.3 million), your local government has substantially more money to allocate and distribute. Smaller cities have found ways to initiate and accelerate growth, such as through the use of TIF. Grapevine, Texas, home to approximately 50,000 people, is an intriguing case to observe in terms of TIF districts. Centrally located in the Dallas/Fort Worth metropolitan

area, one could drive about 22 miles west to Fort Worth, or about 23 miles east to Dallas. The city limits uniquely sprawl into three counties: Tarrant County, Denton County, and Dallas County. Grapevine is also home to the DFW International Airport, with more than half of the airport located within Grapevine city limits. The completion of DFW International Airport in 1974 caused surrounding cities, such as Grapevine, to reevaluate their focus and determine whether or not they were perceived as attractive to travelers and commuters. Restaurants, hotels, resorts, recreation, and shopping became just a few of the catalysts to bring more money, people, and resources into the city.



Grapevine has done a relatively good job at developing restaurants, hotels, entertainment centers, and shopping corridors to attract visitors from across the metroplex, as well as visitors from abroad. Although Grapevine is only 36 square miles large, and barely has 50,000 residents, the City has found a way to achieve a daytime population of approximately 128,000 people, more than doubling their nighttime population. Numerous hotels serve as employment hubs, as well as entertainment destinations, including the Gaylord Texan Resort Hotel & Convention Hotel and the Great Wolf Lodge Indoor Water

Park Resort. Grapevine Mills Mall houses several renowned retailers, as well as a movie theater, LegoLand Discovery Center, and SeaLife Aquarium. Grapevine is also home to several attractive destination restaurants, including 13 wineries and breweries, as well as two corporate headquarters: GameStop and Kubota Tractor Corporation (as of October 2015). Lake Grapevine also provides 12 square miles of recreational activities and entertainment along the northern border of the city. Grapevine's central location in the Dallas/Fort Worth metropolitan area has proven to be an asset that the city has taken advantage of economically.

Two of Grapevine's largest developments, Grapevine Mills Mall and the Gaylord Texas Resort Hotel & Convention Center, were both created and sustained with the help of tax increment financing. Both TIRZ's are still active today. In fact, the Grapevine Mills Mall plan was just amended in December of 2015 to include a 185-acre development, on which will house the new Kubota Tractor Co. Corporate Headquarters campus. Additionally, the expansion also extended the life of the TIF an additional 21 years to December of 2038 (Rumbelow). In total, the previous 242-acre boundary has been expanded to 661 acres. According to Karen Walker, Managing Director of Financial Services for the City of Grapevine, the City paid off its last debt payment in February of 2016, and is working to transition into the newly approved terms, boundaries, and length of the TIF #1. Under this new agreement, the City of Grapevine will be the only taxing jurisdiction participating in the contribution of future tax dollars (Rumbelow). According to David Pettit Economic Development, this new amendment and expansion is projected to generate approximately \$94 million of new increment revenues by the TIF termination date in 2038, which would help finance substantial development and redevelopment in the newly established boundaries.

These amended boundaries are worth noting, as well. While most of the new boundary expands to the north of the current area, TIRZ #1 now also includes two separate areas in downtown Grapevine on Main Street. Chapter 311 of the Texas Tax Code was recently amended to strike the previous requirement that the boundaries for TIF districts must be contiguous. The City's continuous strategic approach towards the reshaping of TIF #1 skillfully uses the Tax Code's statutes to their advantage. The two areas on Main Street are future sites for a commuter rail station and required parking garages for the station. TEX Rail is under construction in Tarrant County, and will provide service from downtown Fort Worth to the northern entrance of DFW International Airport, with one stop being on Main Street in Grapevine. The City of Grapevine will use a portion of the future increment revenues from TIF #1 to help finance the construction and maintenance of the TEX Rail station, which undoubtedly is an exciting and opportunistic development for the economy of Grapevine.

As mentioned earlier, the financial standings of these TIF's differ quite a bit. Grapevine Tax Increment Financing District Reinvestment Zone Number One (Grapevine Mills Mall TIF) has a positive net position of \$32 million as of the end of the fiscal year ending in September of 2015. Meanwhile, the Grapevine Tax Increment Financing District Reinvestment Zone Number Two (Gaylord Texan TIF) has liabilities exceeding its assets by \$14 million as of the end of the fiscal year ending in September of 2015. The reasons for these discrepancies are unclear.

One could possibly point to the creation date of each respective TIF, perhaps alluding that the older TIF would have less net liabilities than the newer TIF. According to the 2015 Annual TIF reports for each TIRZ, TIF #1 (Grapevine Mills) was established in February of 1996, and TIF #2 (Gaylord) was established in December of 1998. Although this finding

would confirm the assumption of the older TIF being more financially stable, two years does not seem to be enough time for one project to have a \$32 million net positive balance, while the other has a \$14 million net negative balance. A more likely indicator in this case would be to observe what is inside each TIRZ.

Although the Gaylord Texan is a popular destination for visitors to visit and stay at, Grapevine Mills Mall is much more attractive to the public. According to Catalyst Commercial, Grapevine Mills Mall accounts for over 30% of the City's retail sales, making it a predominant factor on the local retail economy. Since TIF #1 contains Grapevine Mills Mall, it has enjoyed an abundance of revenues in a faster manner than typical TIF districts. "TIF #1 is very unique in that most TIF's created by Texas entities do operate in the negative as they collect their designated taxes each year, then cover the long-term debt associated with their unique financing plan and the amount of issued debt for that particular TIF district," (Karen Walker). In other words, it is more common for a TIF to have a net negative balance than to have a net positive balance from the tax increments. Thus, it is not accurate or valid to only look at a TIF's net financial balance when attempting to analyze the effectiveness or success of a TIF. One's assessment of a TIF could very well be persuaded by perspective as well, since many TIF's are collaborations between a number of taxing bodies, developers, and other invested parties. City governments, county governments, school districts, and other taxing bodies have vested interests in TIF districts, and each actor aims to benefit their cause as much as possible.

Both of the active TIF's in the City of Grapevine have unique agreements with the Grapevine-Colleyville Independent School District (GCISD), as permitted by the Texas Tax Code. As mentioned earlier, Grapevine is located in three different counties. In a statute that

seems to have been written specifically for the City of Grapevine, Section 311.0085 of the Texas Tax Code states, “(a) This section applies only to a municipality with a population of less than 130,000 as shown by the 2000 federal decennial census that has territory in three counties... (c) In addition to exercising the powers described by Section 311.008, a municipality may enter into a new agreement, or amend an existing agreement, with a school district that is located in whole or in part in a reinvestment zone created by the municipality to dedicate revenue from the tax increment fund to the school district for acquiring, constructing, or reconstructing an educational facility located in or outside of the zone,” (Texas State Legislature). Grapevine used this statute in the extension and amendment of TIF #1, as they promised GCISD up to \$30 million for a new educational facility. The \$30 million amount is equivalent to the tax increment contributions from GCISD to the original TIF #1 agreement.

The City Council and TIF Board agreed to amend the TIF #1 plan in order to ensure that GCISD continued to benefit from the TIF. Under the old terms, the school district’s participation in the TIF ended once all of the debt had been paid off from the redevelopment. Thus, the City was eager and effective in amending the TIF in December and January, in order to maintain the school district’s participation prior to the final payment in February. A new educational facility could mean potential increases in surrounding property values (and thus property taxes), improved quality of education and educators, and an increase in private investment in the surrounding area, just to name a few consequences. Had the amendment not been proposed or accepted, that \$30 million would have gone back into the general fund of the City. With such a comfortable positive net balance in TIF #1, it allows the City to be able to make additional improvements around the City, including schools and infrastructure,

as long as the Texas Tax Code allows it. In fact, the Grapevine TIF #1 “was originally set up to pay for roads and utilities to support the mall. But the TIF created enough revenue to pay off that debt, refund tax money back to participating entities, and provide funding for additional projects and renovations at the mall,” (Hirst).

According to Greg Jordan, Chief Financial Officer for the City of Grapevine, the Grapevine Mills Mall TIF #1 has been arguably one of the most successful TIF districts in the state of Texas. The success of this TIF has a large part to do with the City of Grapevine itself. The City and the Grapevine-Colleyville Independent School District have a very strong and cooperative relationship. This is also true of the City and its citizens. The people of Grapevine trust their government officials, especially their mayor. Mayor William D. Tate has held his position since 1973, with the exception of a 3-year absence from 1985 to 1988. This level of trust, as well as the positive relationships established by Grapevine City Manager Bruno Rumbelow, has fostered a positive and honest dynamic, not only in City Hall, but also throughout the Grapevine city limits. With TIF #1, the City got almost every taxing body to participate in the district, a rare feat to accomplish in most cities. This allows the TIF to accumulate property tax revenues from each of these overlapping governments extremely faster than if only one taxing body were participating. These great relationships are a big factor in why Grapevine has chosen to help its school district retain these TIF funds. It is difficult for schools to get, and retain, funds in Texas due to the “Robin Hood” legislation. This phrase is known as “the state’s practice of collecting portions of property tax revenue from wealthier [school] districts and redistributing it to poorer ones, also known as ‘recapture’,” (Smith). The \$30 million would have been recaptured back into the general fund, and then potentially recaptured again by the state to be reallocated to less affluent

school districts. Thus, Grapevine legally retained 100% of the school district's funds in order to help build a "joint facility," as the statute dictates. However, as Jordan describes, the City intends for the facility to belong completely to the school district.

Grapevine's TIF #2 is also in an agreement with GCISD, as they are allocating some of the tax increments to help pay off debt held by Grapevine Middle School. This could also serve as another explanation for the negative net balance of the TIF. It seems as though this type of relationship between the City and the school district, in any case, would be beneficial for both parties financially, politically, in terms of public relations, and also in terms of property values. Similarly to GCISD's agreement with the city on TIF #1, this agreement permits the City to aid the school district financially, allowing the district to reallocate some of their funds away from debt servicing payments and apply that money towards facility improvements, educational resources, and multiple other areas that are more tangible and useful. While these are positive aspects of tax increment financing, not all people agree that this tool is the most effective, transparent, or fair tactic for governments or developers to take part in. The next section of this study will analyze some common arguments for and against using TIF districts for economic development.

Tax Increment Financing: Cons

Tax increment financing has become increasingly popular across the country for city governments and developers to enact economic development or redevelopment. Despite its positive intent and commendable message, however, there are many scholars, politicians, and other officials who would be considered skeptical at best. The purpose of a TIF district is

essentially to raise property values in, and around, the boundary area. The rise in property values will, hypothetically, create more investment and development, bringing more people into the city to increase the tax base, and thus raise sales tax and property tax revenues. Of course, with each TIF being unique in regards to its terms, boundaries, actual objectives, and economic environment, not all of these goals can be met every time.

Kerth and Baxandall are very critical of the widespread use of TIF as a tool of economic development. Although they acknowledge its merits and potential good when used “properly and sparingly”, they seem to challenge TIF’s innocent and pure façade. “Tax-increment financing can be a boon to the public, or it can be a vehicle for corruption, favoritism and wasteful subsidies,” (Kerth & Baxandall). Their first argument is that TIF can sometimes fail to benefit the public, despite its allure of providing seemingly free money for the city. TIF’s allow cities to capture the tax increments gained from overlapping taxing bodies participating in the TIF, such as school districts or county governments. “The money dedicated to the TIF is not free, but in fact comes from funds that would otherwise have been available to pay for police, firefighters, schools, parks and other municipal services – forcing either a reduction in service quality or an increase in taxes for other taxpayers,” (Kerth & Baxandall). Additionally, they point out that there are virtually no requirements for private interests involved in a TIF to prove or demonstrate any public benefit created from their development. If a company or private investor makes a deal with a city to receive a tax break, then that party is essentially receiving free improvements and renovations, such as infrastructure, roads, and utilities, all funded by the TIF taxing bodies. Many larger companies may, and do, use their economic promise to enact bidding wars between municipalities and take advantage of competing jurisdictions’ generosity. One could say this

was the case in Grapevine with the relocation of Kubota Tractor Company's Corporate Headquarters.

Another argument against the rampant use of TIF is its occasional failure to perform or produce the promised revenues. In Tarrant County, Texas, the "Woodhaven TIF" has experienced a 1.6% decrease in property values from its \$181.1 million base value in 2007 to \$178.9 million in 2013. "The TIF was created to fund infrastructure improvements to provide a foundation for new development," which obviously has not occurred yet (Hirst). Another more famous case of an underperforming TIF is one that is also out of Tarrant County. In 2004, the City of Fort Worth enacted a TIF to lure a Cabela's sporting goods store to build a new location and have it attract additional development around it. At the time, the City and Cabela's promised that "the shopping center would draw more visitors than the Alamo," (Kerth & Baxandall). Unfortunately, this growth has not yet occurred in northern Fort Worth. Fort Worth Director of Housing and Economic Development, Jay Chapa, admitted that although Cabela's is meeting its obligations, "the overall tax district was hurt during the recession and has not fulfilled projections for additional development," (Montgomery). An unsuccessful lawsuit was charged against the City for the creation of the TIF, claiming that taxpayer money should not be used to fund a sporting goods store. Coincidentally, Greg Jordan, CFO of Grapevine, was working for the City of Fort Worth when this TIF deal was being made. The Cabela's TIF was being modeled after a Kansas City development site that had a Cabela's, along with several other larger developments such as a furniture outlet, a racetrack, and a Great Wolf Lodge Indoor Water Park Resort. These additional developments did not occur as planned, although the Great Wolf Lodge ironically ended up in Grapevine.

Some of the citizens involved in the lawsuit were also owners of smaller sporting goods stores in Fort Worth. They didn't want taxpayer money to fund their own major competition, especially when some of their own businesses could use the municipal assistance. Using TIF in greenfield developments that have weak signs of blight (river or creek, for example) or that impede development in other areas of the city is another argument against TIF. Part of this problem is due to the two main requirements for establishing a TIF district: proving the presence of blight and/or proving that economic development would not occur in this area *but for* this TIF district. Although more states are enacting the "but for" requirement, many states still rely on the finding of blight, which, as discussed earlier, varies in definition depending on the enabling statutes of each respective state. They are often rather lenient, encouraging greater development and redevelopment for a state's municipalities. "The lack of clear criteria to guide the use of TIF results in municipalities wielding the tool in battles with neighboring municipalities for new development and sometimes subsidizing projects that work against the interests of existing businesses," (Kerth & Baxandall).

One large issue with the TIF process is its lack of transparency and public lack of education on the TIF's terms, or even its existence. Typically, the first step taken by the governing body of the TIF after developing the idea of a potential TIF is to have a public hearing on the zone. This is the common practice in the United States, minus Washington DC, New Jersey, and Virginia. There is an important distinction to be made here: this public hearing is only required for TIF district authorization, meaning the public may only speak on the zone and its boundaries, essentially. According to Kerth and Baxandall, only 18 states require that public hearings also be held for the TIF deal approval, or the TIF's actual terms and agreements. This has huge implications in the power that these bodies yield in governing

TIF districts. Section 311.003 in the Texas Tax Code allows municipalities to govern by these same guidelines: “(c) Before adopting an ordinance or order providing for a reinvestment zone, the municipality or county must hold a public hearing on the creation of the zone and its benefits to the municipality or county and to property in the proposed zone. At the hearing an interested person may speak for or against the creation of the zone, its boundaries, or the concept of tax increment financing,” (Texas State Legislature).

As long as municipalities in states such as Texas can sell the public on a TIF’s boundaries and the simple idea of the TIF itself, then they essentially have free reign to do with the zone’s terms as they please, pending the TIF board and City Council’s approval. These conditions are quite appealing to city officials looking to foster development, especially since public hearings rarely ever experience high attendance, especially those concerning taxing districts, a foreign concept to most. The real mystery with TIF’s is the movement of finances. “Unlike ordinary spending, TIF subsidies typically are issued outside the framework of the municipal budget, and can even be used to circumvent ordinary restrictions on municipal borrowing,” (Kerth & Baxandall). TIF district spending abides by significantly less formal rules than those with ordinary municipal spending. Although, if revenue is lost to a TIF district’s underperformance, the bond and other payments on the development must be paid, often meaning a raise in taxes or a financial cut elsewhere in the city budget.

This is just one of the unintended consequences that may result from a TIF district. One last major criticism of the widespread use and popularity of TIF is the lack of accountability with which TIF’s are often created. Despite the agreements and promises made between developers and cities, it seems that developers do not always deliver on their

guarantees, and cities do not always administer punishments. “At present, developers are rarely held responsible for meeting those goals, and can typically retain the subsidies they receive, even if they clearly fail to meet the expectations under which the project was undertaken,” (Kerth & Baxandall). Perhaps if the public were more aware of the specific actions and dealings occurring within their TIF districts, then perhaps these deals and agreements would be less risky and more accountable.

Tax Increment Financing: Pros

While those looking on from the outside may view TIF only with the lens of these negative attributes, many city officials and those more familiar with TIF may contend that the positives outweigh these negatives. Although the public may not be able to vote on a TIF district, as they would with a municipal bond, it is not a direct tax on the average citizen. This is a popular selling point that city officials and mayors use to persuade the public. For local governments, TIF is easy to sell, and even easier to manage due to the decentralized and flexible nature of the tool. “The decisions about whether to create a TIF district, where to place its boundaries, what kinds of infrastructure to finance with TIF funds, what types of private investments to pursue, what projects or mix of projects to fund, whether to issue debt or rely on pay-as-you-go financing are all made by local government officials, with little or no oversight by other level of governments,” (Briffault). With little state or federal aid coming into local governments, municipalities found ways to adapt and continue to foster growth within their communities. One way of trying to grow the local economy through TIF is by creating more jobs. According to a study conducted by Joyce Man, “on average, cities

that adopt TIF programs created 4 percent more jobs than those non-TIF cities. This result supports the argument that TIF programs have a strong positive effect on employment in the community that adopts TIF,” (Man).

Higher employment would ideally lead to higher populations, higher consumption, and a larger tax base for overlapping governing bodies. This larger tax base, with rising property values, would increase tax revenues with which TIF development projects are financed from; many people essentially believe that TIF developments are self-funded, or will pay for itself. This is the ideal situation if you are a city official or developer involved. In order to accelerate development and allow the developer to bring in revenue faster, cities will often issue TIF bonds up front and use the increment to pay off the bond. In this strategy, municipalities are able to bring economic development and investment into a certain district significantly faster than if the government had not done anything. This also reiterates the dynamic of the Grapevine TIF #1, revealing that a cooperative relationship among overlapping taxing governments can lead to additional benefits and redevelopments in a more rapid manner.

In a TIF, according to Jordan, nothing is taken from anybody; “rising tides raise all ships.” Taxing bodies’ tax increments are allocated towards paying off debt obligations, and then excess revenues are redistributed proportionately to the bodies. The budget process can be a constricting process for city governments to attempt to provide additional improvements. Every dollar that goes into the general fund gets consumed. All dollars not allocated in the budget must go towards debt service payments, making it difficult to improve infrastructure, redevelop blighted areas, or provide additional public services without the help of a tool such as TIF. TIF allows the City and the taxing bodies to retain 100% of the

revenues and reinvest them directly into the community for public benefit. These revenues can also be used as incentives to bring in businesses into your city, such as Kubota in Grapevine. It may be true that some areas need redevelopment and aid more than those that sometimes receive a TIF distinction. However, development is not always meant to occur in these less affluent areas. Local dissent over a new development may arise; or perhaps an area is simply not capable to sustain such economic development or growth.

More businesses and economic activity help to create additional jobs, as well as encourage capital investment within a city. In the end, the TIF district will most likely have an attractive new development to lure businesses, consumers, or patrons to spend time and money at. If something goes wrong with the TIF, whether it is failing to produce sales tax revenues or a catastrophe occurs on the site, state enabling statutes allow for TIF's to be terminated at any time. These statutes also require that cities and developers follow a stringent and time-consuming process in the formation of the TIF and its terms, as well as the continuous management of the TIF. As Greg Jordan suggests, this barrage of challenging steps and requirements forces TIF's to have an extremely transparent process, allowing anyone who is interested to know what exactly is going on.

Tax increment financing allows a city to create new developments, create density, raise property values, and insulate city and tax dollars from going into the "machine" that is the general fund. City officials and those involved in the TIF must agree to the terms, so it is never a forced participation in which one party is handcuffed into a negative result. Those involved, overall, speak highly of TIF and the possible opportunities it brings to municipalities. Economic development is a difficult field with many factors being out of your

control. TIF presents itself as a tool to make development more feasible and accelerates growth to a pace more appropriate for people's expectations.

Tax Increment Financing: Analysis

Tax increment financing, academically, has proven to be a rather controversial tool in economic development. No matter which side of the argument one lands on, each argument has some validity and should be considered when entertaining the idea of establishing a TIF district. As mentioned earlier, the work by Kerth and Baxandall is extremely critical of the proliferated use of TIF across the United States. For most of their arguments, they are able to pull at least one example to support their claim. TIF has indeed exploded since the 1980's, however it seems as though there is limited literature or documentation on most TIF's. This has a large part to do with each state's enabling statutes and their requirements, or lack thereof, in reporting TIF's and their progress. Perhaps this is a problem with the current culture of TIF in municipal, local, and county governments in some states. Texas seems to be one of the more transparent states when it comes to TIF's, as they require public hearings and notices for both the plans and terms of the proposed TIF's, as well as annual audit reports on the district's status and standing.

The real problem, it seems, is a lack of public participation or interest. When forming a TIF district, no matter how many hearings or notices or reports a city is required to produce, the truth is that the average citizen does not care enough to educate themselves on the project or its potential consequences. Only those who are directly affected by a project would feel inclined to inquire upon what is going on. These people may include neighbors to

the development, those within a TIF district's boundaries, or potential competitors to whatever is being developed. Besides these affected individuals, other people arguing against a TIF are most likely upset with what business or development is going in, rather than the TIF plan or idea itself.

Through my research of negative consequences from TIF districts, the Fort Worth Cabela's TIF was quite frequently cited in several works. The biggest dissenters to the project were local business owners concerned about losing customers. The fact that there were enough people against the project to create a lawsuit, speaks to the amount of transparency and openness the City of Fort Worth had with the public. Although the expected additional development has not yet occurred, Cabela's is still a profitable business for the City, and the TIF could hardly be considered a failure, as it has continued to bring in tax increment revenues (City of Fort Worth, Texas).

Another conclusion that could be drawn from this study is that those who are against using TIF as a tool of economic development may not totally understand the tool itself, or they may just generally be against economic development as a whole. TIF can be a confusing concept if one does not do their due diligence in researching the tool. City officials are not perfect angels who always act for the greater good; humans have their faults. However, it is not fair to brand TIF as a tool for corruption or deception of the public. There may have been a case or two where mayors strategically place TIF's to benefit one group of citizens over another, but these are few and far between. As technology and journalism become more advanced, it becomes increasingly more difficult for officials to act in a corrupt manner and get away with it. Literature on TIF districts seems to be similar to online restaurant reviews. In other words, journalists and researchers are more likely to write about corruption and

bankruptcies or failures than they are to write about tax revenues or a successful new hotel development. People do not like to read stories about processes that worked exactly they were supposed to; success stories lack drama or plot twists that are more exciting.

Hirst's article mentions the disappointment of the Cabela's TIF, but later goes on to praise Grapevine for their TIF #1 on the mall. Grapevine has used TIF #1 rather brilliantly, experiencing tremendous revenues due to their exceptional relationships between overlapping governing bodies, as well as the growth and success of the Grapevine Mills Mall itself. TIF is not made for all developments or cities. Perhaps it is used a little too often across the country, however it is difficult to blame city officials for their eagerness to use this tool to their advantage. The time-consuming process of forming a TIF district forces cities to be transparent, and ensure that each party involved is benefitted by the terms for the public good.

Cities with competitive economic neighbors, especially in the Dallas/Fort Worth metropolitan area, must take advantage of every opportunity to bring growth and economic prosperity into their respective boundaries. The retail audit report conducted by Catalyst Commercial highlights the level of competition between DFW cities and their need to be attractive in order to bring businesses and people in. "Grapevine's pull factor is 2.022, which reveals that Grapevine attracts two times more retail than its peers [Note 1.0 is the baseline]," (Catalyst Commercial). According to Catalyst's data, Grapevine ranks 3rd out of 18 DFW municipalities in pull factor, ranking well above Dallas (10th at 0.995) and Fort Worth (12th at 0.94). Cities such as Grapevine have learned how to effectively use TIF, and their environment helps them thrive economically. For instance, when the City of Fort Worth attempted to lure the Great Wolf Lodge near the Cabela's TIF, Grapevine ended up

persuading the resort to build there instead. Also, Grapevine used TIF incentives to help bring the Kubota Corporate Headquarters there instead of in Kansas City, where Kubota was also considering. Now, the amended TIF #1 will help fund the Kubota campus, as well as additional developments, in order to bring jobs and additional revenues to the City.

	TIF #1 Pro	TIF #1 Con	TIF #2 Pro	TIF #2 Con
Financial Standing	\$32 million positive net balance		On track to pay off debt on schedule	\$14 million negative net balance
Community Sentiment	Arguably most successful TIF in state		Helping pay off debts in GCISD	“Step-child TIF” relative to TIF #1
District Composition	Grapevine Mills Mall, Kubota future site, TEX Rail future site		Gaylord Texas Resort & Convention Center	Not as strong revenues as TIF #1
Transparency	Significant public reports and information	Open for more criticism of plans	Harder to critique or criticize	Less public information to compare facts
Future Outlook	Fund 185 development, TEX Rail, continue improving mall	Only taxing body participating in new terms until 2038	Continue improvements around Gaylord Resort and helping GCISD	Paying off debt services without much additional developments

TIF: Conclusion

Tax increment financing is an unorthodox tool that, when used correctly, can help municipalities bring substantial growth and redevelopment to an area. Since TIF is regulated at the state level, and carried out at the local level, each TIF district and its characteristics are

unique, for better or for worse. Although this decentralized approach allows states and localities develop according to their local customs and norms, it does tend to lead to ambiguous results and thus mixed assessments of TIF districts across the country. Regardless, most empirical studies and comparisons found on TIF's reveal an increase in property values, tax base, development, and prosperity from the tool's use. With the proliferation of the use of TIF since the 1970's, the number of cases pointing to failed TIF districts seems to be rather low considering the assumedly high number of overall TIF's over time.

Municipalities and governing bodies need to analyze each case when considering enacting a TIF district, and ensure that it would be the best tool to accomplish whatever the desired goal might be. More states may look into establishing more uniform requirements in terms of transparency in reporting the actions and financial standings of TIF districts, as well as better documentation of TIF's as they expire and their economic consequences and impacts on the city's economy. It seems as though the foreign and misunderstood nature of TIF is the main reason why people dislike the idea of the tool. With the conditions that local governments have to work with, TIF acts as an elevator for local economic development. Rather than taking the stairs up to the 100th floor, which takes a long time and becomes painful after a few flights, the elevator allows you advance to the top extremely faster with less struggle and less obstacles to overcome. Unless there is a substantial shift in the amount of federal aid going to state and local governments, it seems as though using TIF as a tool in local economic development will continue to grow in popularity and proliferate in use.

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