

## Leadership for Healthy Communities

Advancing Policies to Support  
Healthy Eating and Active Living

POLICY BRIEF | FEBRUARY 2009

# Tax Increment Financing:

## A Tool for Advancing Healthy Eating and Active Living

### Introduction

The childhood obesity epidemic has highlighted the need for innovative financing solutions that support healthy eating and physical activity in communities. Many proposed solutions require significant public investments that involve changes in the built environment—such as upgrading sidewalks, creating bike paths and introducing healthy food outlets in underserved communities. Funding shortages facing schools and state and local governments impose severe limits on decision-makers' ability to finance worthy projects. As a result, policy-makers often search for creative financing techniques to help them meet important constituent needs.

Communities have used financing mechanisms such as public-private partnerships, tax incentives and federal grants to help support healthy eating and physical activity projects. This policy brief examines the promise of Tax Increment Financing (TIF) as a means of funding initiatives that promote healthy kids and healthy communities.

### What is Tax Increment Financing?

Although TIF can function differently in each state, the approach generally involves local governments subsidizing costs by raising funds for development projects through the issuance of bonds guaranteed by future increases in property tax revenue. The increased revenue is generated as a result of the new development and/or as a result of pay-as-you-go notes financed by accumulated TIF fund tax revenues.<sup>1</sup>

To establish a TIF district, policy-makers mandate a freeze in property values in the designated area or district for a period of years, often up to 30 years, during which time taxes continue to be collected by local authorities. Any taxes collected on the difference between the baseline property value and the rising property value generated by the new development—is used to pay for TIF district development and infrastructure costs. Once a TIF district is established, the local development agency assumes responsibility for working with developers and, usually, residents from surrounding neighborhoods to create a redevelopment plan that guides the design and implementation of the project.

**Figure 1: Simplified TIF Process**



Source: Eric Nakajima, *Bay Area Economics*, 2004.

The number of states authorizing local governments to use TIF as a method for funding local economic development and infrastructure projects has increased dramatically over the past four decades.<sup>2</sup> As a result, TIF is a popular approach used by local governments to help fund economic development and infrastructure improvement projects in all 50 states and the District of Columbia.<sup>3</sup>

#### **How and where has it been used?**

In many instances, developers view TIF as a necessary component for many redevelopment projects in and near urban centers. As such, TIF has become a primary revitalization tool for local governments seeking to spur infrastructure improvements and has served as a valuable resource for healthy eating and active living projects.

In communities big and small, local governments across the country have used TIF to develop vacant or blighted lands, improve streetscapes, develop housing, enhance greenspace and incentivize mixed-used and transit-oriented development among other purposes.<sup>4</sup> This approach has also been widely used to attract important retail investments, such as supermarkets, to traditionally underserved areas.

Chicago has used TIF generously over the years as a way to meet many of its city improvement goals. In 2005, the city wanted to expand Eugene Field Park, a popular park on Chicago's northwest side, using \$250,000 from its Lawrence and Pulaski TIF district to pay for the conversion and remediation of nearby land formerly used as an auto repair shop.<sup>5</sup> At the time the project was announced, Chicago Mayor Richard Daley said, "This is a good example of how TIF money can be used to benefit a community by increasing parkland and preserving our natural resources like the Chicago River while at the same time eliminating blight and ground contamination."<sup>6</sup> As a result of this effort, residents now have a larger park with hiking and biking trails and other amenities that encourage active living.<sup>7</sup>

In 1993, Kansas City created the Midtown TIF district in a poor residential neighborhood without access to supermarkets or other retail opportunities. The redevelopment plan required the inclusion of a supermarket, additional retail and the rehabilitation of affordable single-family homes in the adjoining area. To enhance residents' use of the site, TIF funds were also used for streetscape, sidewalk and other infrastructure improvements. Today, the Midtown site includes more than 370,000 square feet of retail space including two supermarkets.<sup>8</sup>

In 1997, Kalispell, Mont.—a town of approximately 45,000 people—created its Westside TIF district in an effort to enhance and revitalize its town center. Its TIF funded the creation of affordable housing, street overlays, sidewalks, bicycle lanes, enhancements to Greenbriar Park and sewer improvements.<sup>9</sup> The city also designated TIF funds to attract new businesses that would employ more local residents.<sup>10</sup>

In 2008, New Castle County, Del., passed the New Castle County Tax Increment Financing Act, which authorized the use of TIF funds for the, “installation of utilities, construction of parks, playgrounds, recreational areas, establishment of open areas, and other improvements, including streets, roads, signage, landscaping and pathways to, from, or within the TIF district, parking, lighting and other facilities.”<sup>11</sup> Since passage of the act, New Castle County has moved forward with implementing plans for the “Renaissance Village” development. This project, a recipient of the National Association of Counties Sustainable Community Award, is infused with New Urbanist design principles that include mixed-use development, live/work areas (where residents can live over their places of business), open space and green space requirements, affordable housing requirements, and standards for sidewalks, landscaping, and streetscapes that enable active communities.<sup>12</sup>

The Council of the District of Columbia also passed the “CityMarket at O Street Tax Increment Financing Act of 2008” to secure the public financing necessary to advance a community revitalization project featuring a full-service supermarket in the heart of the city’s historically underserved and heavily minority Shaw neighborhood. City plans call for a boutique hotel with ground-floor retail, four residential buildings with 600 condo and rental units and 80 to 100 affordable-housing units for seniors, and a new Giant grocery store. This project is slated to be the city’s largest grocery store.

The above are just a few examples of the types of projects relevant to childhood obesity prevention that use TIF-generated funds. Each of these examples demonstrate the importance of TIF as a policy tool essential for improving access to healthy food and opportunities for physical activity. As such, TIF can be seen as a necessary component in the effort to support healthy children and healthy communities.

### Research on Tax Increment Financing

A review of the literature demonstrates that there are benefits and challenges associated with TIF as a financing mechanism. Critics question whether TIF is an effective way to stimulate economic development.<sup>13</sup> While the state of the research in this area is not yet definitive, a study published in the *Journal of Urban Economics* suggests that the creation of TIF districts in Chicago resulted in slower economic growth for the city overall.<sup>14</sup> This argument has been countered by other studies showing significant growth patterns in cities in Michigan and Indiana.<sup>15</sup>

There is similar concern about whether TIF districts divert much needed revenue from other taxing authorities with overlapping jurisdiction, such as school districts.<sup>16</sup> In recognition of this concern, states such as Georgia have implemented safeguard to ensure that money is not directed away from the school district during the TIF allocation process. Finally, there are some researchers who are concerned about whether TIF improvements actually benefit the residents who lived in the blighted areas prior to the new development.<sup>17</sup> From this perspective, TIF districts can accelerate a gentrification process that displaces those residents most in need of the new neighborhood amenities.

Proponents of TIF view it as a way to attract private investors, revitalize blighted areas, create jobs, stimulate economic growth and engage the public and private sectors.<sup>18</sup> From a practical perspective, policy-makers also tend to view TIF favorably because it doesn’t burden taxpayers with more taxes, its funds can be used in many ways within the TIF district, it can be paired with other financing vehicles and economic development programs, and it does not necessarily result in lost revenue like tax abatements and other business investment incentives sometimes do.<sup>19</sup>

### Policy Recommendations

From creating better sidewalks, streetscapes and parks to advancing transit-oriented development and incentivizing the placement of more supermarkets in underserved areas, there are many promising practices associated with TIF that are already underway in many communities across the country. Advocates concerned about reversing childhood obesity may want to make

sure that these beneficial elements are included in TIF redevelopment plans in their local areas and consider enhanced approaches to TIF redevelopments that may help promote healthy eating and active living goals. Some approaches to consider include:

1. Proposing standards for TIF-funded redevelopment plans that encourage biking, walking, greenspace development, the use of mass transit and access to healthy foods.
2. Requiring participation by officials from the local health, planning, education and transportation departments in the TIF redevelopment planning process.
3. Pairing TIF with existing transportation infrastructure grants, including Safe Routes to School funds.
4. Including facilities and infrastructure that promote pedestrian safety in TIF-development plans.
5. Mandating measures that ensure plentiful housing and job opportunities for residents who lived in the area prior to redevelopment.

## Endnotes

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**Leadership for Healthy Communities** is a national program of the Robert Wood Johnson Foundation



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