

Deseret News

Tax-increment financing: Economic development or crony capitalism?

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Published: Monday, March 26 2012 9:35 a.m. MDT

A sports complex in Sioux Falls, S.D., was approved for construction this week in hope of spurring economic development around the area, a common enough project for a city's economic development board.

The difference here, as with businesses inside other tax-incremented financing (TIF) districts across the country, is that the development will be subsidized by the very tax dollars the businesses are expected to pay.

TIF districts allow cities to lure businesses with subsidies funded by any new taxes raised within the development district. The goal is for cities to capture taxes from a business that might otherwise have not moved to their location.

They are increasingly popular for governmental economic development organizations, and increasingly derided by experts.

"While cities often claim that TIF is 'free money' because it represents the taxes collected from developments that might not have taken place without the subsidy, there is plenty of evidence that this is not true," wrote Randal O'Toole in a new report from the libertarian Cato Institute.

Studies show that developments subsidized by TIF would have happened anyway, though not in that exact location, noted O'Toole.

TIF developments also impose costs on local government, like schools and fire departments, without payment, he wrote.

In the report, O'Toole shows discomfort at the level of government involvement in business.

"[N]o matter how well-intentioned, city officials will always be tempted to use TIF as a vehicle for crony capitalism, providing subsidies to developers who in turn provide campaign funds to politicians," O'Toole wrote.