

Public policy: tax increment financing



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Is TIF an effective EDI tool? A Case Study of Los Angeles County

Local governments often use property tax to influence economic development and business location decisions. Farris & Horbas (2009) points out that it is in the interest of local governments to provide economic development incentives (EDIs). In this regard, one of the most common forms of EDI used by local government is Tax Increment Financing (TIF), which is revenue-generating tool that local governments use to foster economic development, offer middle and low income housing, lessen blight, and fund infrastructure projects. The intended objective of TIF is to foster growth, and increase the property tax base to the level that it results in long-term benefit to the tax payers and the city. The theory underpinning the use of TIF is that the revenue growth observed in a district is earmarked to pay for the infrastructure and other expenditures that are supposed to spur economic growth, which in turn, result in incremental revenues.

Fundamentally, TIF is self-financing in the sense that its expenditures are paid for using the increased revenues as a result of new growth without any increase in taxation. However, the use of TIF as an economic redevelopment tool has faced a lot of criticism on various accounts (Farris & Horbas, 2009). Despite these criticisms, TIF is emerging as a popular public policy adopted by local governments yet there is little empirical evidence affirming its effectiveness in fostering economic growth. Amidst these divergent views, the focus of this thesis is to explore the impacts of TIF and measure its effectiveness with regard to achieving its predetermined objective of economic growth. Specifically, this thesis will assess the impact of TIF on economic growth and property values, and the impact of TIF on Non-TIF

areas and overlapping governments. This method integrates both social and economic indicators with the goal of offering a complete picture regarding the impacts of TIF as a policy tool for economic development. This thesis will analyze TIF by placing emphasis on its implementation in Los Angeles County, especially the city of Los Angeles. This thesis will achieve its objective using the following research questions:

Is TIF an effective EDI tool for local governments? What are the impacts of impact of TIF on economic growth and property values, on Non-TIF areas and on overlapping governments?