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The transfer of Tax Increment Financing (TIF) as an urban policy for spatially targeted economic development

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ABSTRACT

Urban policy transfer between the US and UK has long been of interest to researchers and practitioners. Given the recent wider context of reduced direct funding and the absence of a coherent regeneration policy, this paper considers the introduction of Tax Increment Financing (TIF) to the UK as a method of stimulating spatially targeted economic development initiatives. The paper explores whether TIF could be considered a form of policy transfer, and in doing so uncovers whether the transfer of TIF could – (a) be successful and unsuccessful under certain circumstances; (b) require the actions of certain stakeholders; and (c) be enabled via prescribed frameworks and negotiation. The results are evidenced using qualitative approaches and find that TIF is more of a modified policy 'idea' rather than transfer. Further discussion argues that TIF can be successful, if it considers flexible but local elements and has the capacity to balance stakeholders for development brokerage.

Introduction

The primary focus of this paper is to explore whether the theory of policy transfer can be applied to the introduction of Tax Increment Financing (TIF), from its conceptual origins in the US, to being introduced into the UK. Secondary to this exploration is to determine, if the TIF model is to be introduced as a property development mechanism in the UK, and particularly for regeneration, would this TIF policy transfer example – (a) be successful and unsuccessful under certain circumstances; (b) require the actions of certain stakeholders; and (c) be enabled via prescribed frameworks and negotiation. To explore these two foci of investigation a more general and deeper understanding of policy transfer theory will be outlined, plus TIF will be placed contextually amongst other urban policy transfer examples within the frame of changing models of regeneration finance in the UK.

The transatlantic transfer of policy from the United States to the UK is an established phenomenon and one that has received widespread academic interest (Hulme, 2006). In relation to spatially targeted economic development initiatives and environmental management many British policy experiments have tried to replicate or refine those already in operation in the United States. Examples of these transfers include: Urban Development Grants (Goodhall, 1985); and Urban Development Corporations (Raco, 2005); Business Improvement Districts (Cook, 2008); Tax Increment Financing (BPF, 2008); The Core Cities Group (2008, 2010). In the case of Enterprise Zones transfer has seen a UK to US direction of travel with individual US states enacting zone programmes in the early 1980s and the federal government adopting a zone program in 1993 (Mossberger, 2000; Papke, 1993). Whilst some have been primarily interested in documenting the transition of individual policies such as BIDs (Cook, 2008), others (Mossberger and Wolman, 2003; Wolman, 1992) have sought to evaluate the efficacy of policies once transplanted.

The straitened economic circumstances that typify both UK and US experience in the age of the 'credit crunch' has seen the most prominent transition of urban policy in recent years to be those – both new and old – designed to either stimulate economic growth in deprived areas or relax the burden of direct investment by the state required by the activity of urban regeneration. The resurrection of Enterprise Zones in the UK (Massey, 1982; HM Treasury, 2011a) serves to illustrate the first of these trends, whilst proposals to introduce Tax Increment Financing (TIFs), a method of finance that has been used since the 1960s in the United States (Dye and Merriman, 2000) but never before in the UK, is indicative of the second.

Understanding the recycling of policies – both those imported from overseas as 'locally' devised responses to local problems – have been the subject of a good deal of academic attention. For example the above-cited example of enterprise zones has stimulated debate on whether the most recent prescription is more or less likely to be successful than the previous British experiment

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with this policy instrument in the early 1980s (Overman, 2011). More widely authors such as Ward and Jonas (2002) (see also, Peck and Tickell, 2002; Harvey, 2007) have situated experiments in urban policy within a broader history of neoliberalism that many have found intellectually persuasive. By contrast far less attention has been devoted to documenting the most recent manifestations of state retrenchment. In the UK this is best understood as part of the coalition government's abdication of what have historically been understood as statutory responsibilities in favour of a 'Big Society' that self-selects priorities filling gaps where they are somehow collectively deemed to be essential and, presumably, leaving peripheral activities to wither. In this paper we report on research undertaken to investigate the implications this do-it-yourself ethos might have for the finance of urban regeneration through a policy imported from the United States: Tax Increment Finance.

The changing model of urban regeneration finance

It is widely acknowledged that, in many contexts around the globe, urban policy has changed radically as a result of the international credit crisis and economic downturn (Parkinson et al., 2009). The financial crisis of 2007–2008 that in part developed from 'subprime' mortgage lending, led to the subsequent collapse of some banking institutions and a global restriction of credit. In the UK an initial attempt by the Labour administration of Brown to deal with this crisis was by neo-Keynesian methods, and subsequently replaced shortly after the election by the Conservative-Liberal Democrat coalition in May 2010 with a programme of austerity in public spending. Corresponding reduction in funding for urban regeneration have been radically reduced and many of the institutions set up in more prosperous times – such as regional development agencies – have been dismantled. This has prompted a drive to explore alternative financial models to continue work designed to stimulate growth and foster social cohesion in the most deprived neighbourhoods.

In some respects the model of regeneration finance pioneered during the New Labour years (1997–2010) can be best understood as consonant with the wider trends in the macro economy that unravelled in the credit crunch. Large injections of public finance, particularly in projects designed to enhance community consciousness such as the New Deal for Communities programme were augmented by often much larger sums lent by financial institutions to develop the physical environment underpinned by rapidly increasing, if unsustainable, property values. Sometimes the state actively sponsored property development as part of the regeneration process through initiatives such as Housing Market Renewal where a partnership of the Homes and Community Agency, a 'preferred' housebuilder and financial institutions undertook extensive, highly invasive, redevelopment of large neighbourhoods in some of Britain's best known cities: Birmingham, Liverpool, Manchester. Whilst the property boom that allowed developers to secure returns even in these, the poorest neighbourhoods in the country, the viability of private sector involvement was further supported by a willing state prepared to invest heavily in public infrastructure (BPF, 2011). With the property boom ended save for the most affluent parts of the Capital and a central government preoccupied with reducing the budget deficit, the arrangements that characterised the period 1997–2007 is now widely agreed to be no longer viable.

Current coalition responses to these development difficulties have called in new (and recycled) economic and financial mechanisms. As noted above the UK government's budget statement for 2011 (HM Treasury, 2011b) re-introduced the Enterprise Zone concept. Similarly 'simplified' planning – effectively reducing the regulatory nature of the system of environmental planning – has emerged as a core policy objective. Further, the new homes bonus scheme is another policy that is emblematic of the dissolving of planning laws, as the policy incentivises home builders and local authorities to focus on producing greater quantities of housing units rather than integrating with more wider strategic needs and demand. The push for a localism approach has further fuelled the lack of wider economic strategic planning and introduced more localised initiatives such as Local Enterprise Partnerships (LEP). In doing so, this policy tends to support at the local level through grants those localities that can have the resources and ability to be enterprising. Continued support for efficiency gains in the public sector via value for money procurement reform also adds to the string of policies that are considered the best way to reduce the deficit to stimulate property development, regeneration, and economic growth.

TIF in policy transfer context

The key focus of this paper is to examine TIF as a spatially targeted economic development policy as a form of policy transfer. This is in a similar vein to other spatially targeted economic development initiatives since the 1980s, that have had some element of policy transfer association such as Urban Development Grants (UDG) (Meyer and Kraushaar, 1989; DSD, 2011; Goodhall, 1985), Urban Development Corporations (UDC) (Miller and Kraushaar, 1979; Raco, 2005), Business Improvement Districts (BIDS) (Cook, 2008; Lloyd et al., 2003) and Enterprise Zones (EZs) (Lloyd et al., 2001, 2002; McGreal et al., 2002; Papke, 1993; Mossberger, 2000).

Tax Increment Finance (henceforth TIF) is a mechanism for using anticipated future increases in tax revenues to finance current improvements (such as new or improved infrastructure). In simple terms, TIF enables a local authority to trade anticipated future tax income for a present benefit. TIF works on the principle that the supply of new or improved infrastructure usually leads both to new development and to an increase in the value of surrounding property, both of which serve to increase the level of property taxation in the area. Within a designated TIF district, this anticipated increased taxation (the 'tax increment') is captured and used to payback the infrastructure that has been provided for by the front-loaded finance in the form of a bond to the Local Authority.

The way it would work is for example if an authority could borrow say £1 Million, in 10–15 years the business rate would increase and pay off the £1m with this capital increase. Financing debt issued to pay for the project by utilising increased tax revenues can take up to 20–25 years, but in some cases the timeframe can be much shorter (BPF, 2008). Adoption of this policy by the UK coalition government has been considered for some time, and it is has been stated that TIF borrowing can 'fund key infrastructure and other capital projects, which will support locally driven economic development and growth' (HM Treasury, 2011a). As part of a structural reform plan in 2011 it was released by The Department for Communities and Local Government in conjunction with the Treasury (CLG, 2010) that they would develop and introduce proposals to implement local retention of business rates and Tax Increment Financing by the end of April 2012.

In connection to policy transfer of TIF from the US, the initiative was first introduced in California in the 1950s. As part of their incarnation in the US, TIFs were intended to be another tool, like tax abatement and EZs, which could be used to promote urban renewal. Whilst some states, such as California and Illinois, have been using TIF for decades, many others have only recently introduced state laws that allow them to use this tool. Of the US's fifty states, almost all now have enabling legislation that allows Tax Increment Financing. Furthermore, using TIFs in the US have grown dramatically since the 1970s. The number of TIFs in operation exactly is