Hey, St. Paul: Here's some TIF advice from Boston and Chicago

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Imagine that you want to buy, remodel and expand an ugly old house. You first need to clean the yard — not just the twigs and leaves, but remnants of old oil spills in the soil. Maybe you need a new sewer line while you're at it, even a new sidewalk. These kinds of environmental and quasi-public improvements don't come cheap, but lucky for you, you're a taxpayer.

And as a taxpayer, you can just dip into your property tax increases for the next 26 years, right? Rather than pay the city, county and school district their due, just take the property tax increase that would have been sent their way as a result of your increased home value and use all of that cash to pay your own home-improvement loans.

If all that sounds implausible, guess again. This is the basic set-up behind tax-increment financing, or TIF, a mechanism that allows developers to redirect funds that would otherwise go to the public purse and use that money toward their own real estate projects. Critics call it corporate welfare, but proponents point out that in cities with limited economic-development tools, TIF is one of the few strategies available to fight blight, draw new jobs and build affordable housing.

But for $11 million in tax incentives, the St. Paul Port Authority might not have redeveloped the vacant Macy's department store into Treasure Island Center, a downtown retail-restaurant-and-office complex that houses a practice rink for the Minnesota Wild. But for $2.2 million in TIF, maybe Dominium would not have built affordable senior housing in Dayton's Bluff. That "but for" argument is key.

Love it or hate it, St. Paul is well beyond smitten. Through about 55 TIF districts, Minnesota's capital city collects some $21 million each year to pay off TIF obligations. For comparison's sake, we collect about $220 million to $250 million annually in property taxes. Do the math, and it's safe to say 9 percent of our tax base doesn't fund our schools, cops or potholes. It funds TIF projects.

I wrote about TIF a few weeks ago, and to my surprise, reader response was wicked awesome. Also to my surprise, I ended up moderating a panel at the Lincoln Institute of Land Policy journalism conference in Harvard Square in Cambridge, Mass., where some of the nation's biggest TIF experts gathered to say "mend it, don't end it."

Here's what they would do:

PROFESSOR RACHEL WEBER

Based at the University of Illinois at Chicago, political economist and urban planner Rachel Weber serves on a public commission appointed to reform the Windy City's use of TIF.

In TIF districts, a limited or base level of property tax continues to flow to the taxing jurisdictions over the life of the TIF. She feels that amount should increase with inflation.

She also supports "opt-outs." South Carolina and Kansas allow school districts the chance to not participate in TIF districts. "In Texas, school boards can elect to contribute anywhere from 0 to 100 percent of their share of property tax revenue to the TIF," Weber said.

Weber suggests improving monitoring and evaluation "so that TIF districts can be terminated when they have fulfilled the main goals of their plans. Any funds that remain after that and after bond obligations have been repaid can be considered surplus and redistributed to the overlapping taxing jurisdictions."

PROFESSOR DAVID MERRIMAN

Also based at the University of Illinois at Chicago, government and public affairs professor David Merriman is writing a national report on TIF. "States should review their 'but for' TIF requirements to determine whether they are effective," Merriman said.

That's "but for" as in "but for TIF, this project wouldn't happen at all." That's the standard that private projects are supposed to meet to qualify for these public financing tools. Critics feel developers have gotten accustomed to asking for TIF money, regardless of need.

" 'But for' compliance should be rigorously evaluated by a neutral party — a politically independent panel of experts," Merriman said. "A state's requirement of proof prior to the creation of a TIF district … can reduce the potential that TIF is used when other tools might be more helpful and transparent."

Merriman also says: "Local governments should provide extensive, easily accessible information about TIF use, revenues and expenditures."

RON RAKOW, BOSTON'S FORMER CITY ASSESSOR

Former city of Boston assessor Ron Rakow developed a reputation for saying "no" when it came to proposed TIF districts. Of course, most cities aren't growing like Boston and its coastal peers, yet Rakow acknowledges there are times when some form of incentive feels necessary, such as in depressed areas.

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In an online essay, Rakow encourages cities to establish clear guidelines as to when to resort to tax incentives, and to what degree: "A community with set guidelines is … unlikely to overextend in the heat of a competition to attract a company or advance a development."

He said cities should figure out what the project would pay in taxes if it received no tax incentives, require companies and developers to provide the same level of detailed financial disclosures they would provide a bank or investor, and get them to agree to a certain level of hiring to continue to receive their annual tax benefit.

Rather than offering tax incentives, cities might consider paying for the infrastructure themselves, he said. That way, they are not paying out more in incentives than the actual cost of improving the land.