



The Downsides to “Pay-Go”

The main downside to "pay-go" TIFs (Tax Increment Financing) is that they can create a long-term revenue shortfall for local governments. While TIFs can subsidize private development and public infrastructure in the short term, they can lead to a decrease in overall tax revenue for the general fund, which is used to pay for essential services like schools, parks, and libraries. This can lead to a "general fund starvation" where local governments struggle to fund basic services.

Here's a more detailed look at the downsides: [1, 1, 2, 2]

- Reduced Tax Revenue: TIFs exempt a portion of new property tax revenue from the general fund, which is typically used to fund essential services. This means that local governments may have less money to spend on these services, even though the overall tax base may be increasing. [1, 1, 2, 2]
- Gentrification and Displacement: TIFs can incentivize development in areas where property values are lower, potentially leading to gentrification and displacement of long-term residents or small businesses due to rising costs. [2, 2, 3, 3]
- Lack of Transparency: TIF programs can sometimes lack transparency, with decisions about funding and project selection being made without public input or oversight. This can lead to a lack of accountability and public distrust. [2, 2, 3, 3]
- Misallocation of Funds: There's a risk that TIF funds may be misallocated, with developments in wealthier areas potentially taking precedence over those in areas that truly need revitalization. [3, 3]
- Uncertain Outcomes: There's no guarantee that a TIF project will generate enough tax revenue to justify the initial investment, and anticipated development may not materialize, leaving local governments to absorb the losses. [3, 3, 4, 4]
- Competition and Short-Term Thinking: TIFs can encourage competition between neighboring jurisdictions for development, potentially leading to short-term decision-making that prioritizes attracting development over long-term community needs. [5, 5, 6]

[1] <https://www.strongtowns.org/journal/2019/1/25/is-tif-always-bad>

[2] <https://www.dbsg.com/blog/the-pros-and-cons-of-tifs/>

[3] <https://www.facebook.com/groups/1508709089408538/posts/3855008558111901/>

[4] <https://www.lwm-info.org/DocumentCenter/View/2109/Managing-the-Risks-of-Tax-Increment-Financing-Matt->

[5] <https://www.lincolnist.edu/publications/articles/why-tax-increment-financing-often-fails-how-communities-can-do>

[6] https://go.erisinfo.com/TIFs_pros_cons_Blogpost