FISHKIND
& ASSOCIATES

Are Community Development Incentives Worth It?

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Cities all across Florida are providing huge economic incentives to developers to assist them in new redevelopment projects. Projects range from giant sports stadiums costing hundreds of millions of dollars to small apartment projects garnering incentives of less than $1 million. Prominent projects locally include more than $100 million spent by Daytona Beach to refurbish the beach areas and to establish the Ocean Center Convention facilities, and the $40 million recently pledged by the City of Orlando for three downtown projects.

Convention centers and sports facilities are typically funded from taxing hotel rooms or from a one-cent sales tax, but most redevelopment projects are funded by what are called Community Redevelopment Authorities, or CRAs, which are established by cities to redevelop what are termed blighted areas. The CRAs provide incentives to developers funded from increases in property tax revenues generated by the projects. This is called Tax Increment Financing, or TIF in the parlance of the trade. The concept is that if there were no incentives there would be no incremental revenues. Since only the incremental property tax revenues are used to fund the incentives, the TIFs pay for themselves.

Furthermore, proponents argue that generating development in blighted areas that otherwise would not occur triggers additional development in the area, and that creates additional TIF revenues. In many cases this is true. In the early 1980s Orlando used TIF financing to rebuild Orange Avenue, which supported development of much of the city's existing skyline. And Daytona Beach's efforts are clearly a success.

But TIF funding is not really free because both the city and the county must still provide the full range of public services to the new projects. However, the property taxes that generally fund these public services are captured in the CRA and are not available to the local governments to fund the services. So unless the CRA projects create sufficient amounts of other local revenue beyond property taxes, the net fiscal impact of development in the CRA may be negative, not positive.

Unfortunately, this is often the case. The ultimate result is that local residents are forced to subsidize projects in the CRA. This exact scenario has played out in the City of Hollywood. There a CRA at the beach has had enormous success. However, because of Hollywood's revenue structure, there are not enough revenues flowing from sources other than property taxes to pay for the services the city must provide to the beach area CRA.

Each project in each area must be evaluated on its own individual merits. There are no absolutely free gifts, except perhaps the ones your family gives you. And on that note let me wish all of you a very happy holiday season.

This is Hank Fishkind for 90.7 FM, WMFE News.