

JUNE 29, 2018

Note: Minor revisions were made in March 2019.

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Local Tax Incentives: Examples from Metropolitan Counties

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Introduction

The tax structure of metropolitan counties is increasingly complex. First, local governments are expected to provide tax relief to attract and maintain businesses and not over-burden homeowners while also delivering high quality services. Second, metropolitan counties operate in an environment of overlapping taxing jurisdictions in which the state, cities, and various authorities are all in a position to make disparate decisions about the tax base. Finally, these overlapping jurisdictions are sometimes competing against each other for purposes of capturing revenue as well as being the site of business development.

Local governments are under increasing pressure to offer tax incentives in the name of economic development even though they erode the property and sales tax base.¹ In 2015, for example, estimates of local and state economic development incentives ranged from \$45 billion to \$90 billion per year.² Because the main source of revenue for most local governments is the property tax, followed closely by a sales tax, the most valuable business incentives are given through property tax relief and sales tax exemptions.³ In fact, in fiscal year (FY) 2016, local property and sales taxes represented 87 percent of all local taxes paid by business and 25 percent of total state and local business taxes.⁴

According to the 2012 U.S. Census of Governments, there were 90,056 local governments in the United States, with 43 percent designated as general-purpose governments and 57 percent as special-purpose districts. General-purpose governments included 3,031 counties, 19,519 municipalities and 16,360 townships. The 51,146 special-purpose governments included 12,880 school districts and 38,266 other special districts.⁵ The jurisdictional boundaries and subsequent taxing authority of these many local governments and taxing districts overlap, and these jurisdictions tend to share the same tax base, creating a complex jurisdictional and taxing landscape.

This environment of overlapping and intertwined jurisdictional boundaries means that the actions of one government have revenue impacts on other jurisdictions. For example, when state and local governments share a sales tax base, exemptions passed at the state level may also be imposed at the local level. Similarly, when a local government authorizes a property tax abatement, this can and often does include the property taxes for special-purpose districts that also rely on the tax base. Furthermore, it is common for exemptions to be implemented without the knowledge or support of the other local governments. In

¹ Kenyon, Daphne A., Adam H. Langley, and Bethany P. Paquin. 2012. Rethinking property tax incentives for business. *Lincoln Institute of Land Policy*. Retrieved from www.lincolninst.edu/sites/default/files/pubfiles/rethinking-property-tax-incentives-for-business-full_0.pdf.

² Parilla, Joseph, and Sifan Liu. 2018. Examining the local value of economic development incentives, Evidence from four U.S. cities. *Metropolitan Policy Program. Brookings Institute*. Retrieved from www.brookings.edu/wp-content/uploads/2018/02/report_examining-the-local-value-of-economic-development-incentives_brookings-metro_march-2018.pdf.

³ While some local jurisdictions levy an income tax, this is not the case for most local government jurisdictions.

⁴ State Tax Research Institute, Council of State Taxation, Ernst & Young. 2017. Total state and local business taxes: State-by-state estimates for FY 2016. Retrieved from www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-studies-articles-reports/fy16-state-and-local-business-tax-burden-study.pdf.

⁵ U.S. Census Bureau. 2013. Individual state descriptions: 2012. *2012 Census of Governments. U.S. Government Printing Office*. Washington, D.C. Retrieved from www.census.gov/content/dam/Census/library/publications/2013/econ/g12-cg-isd.pdf.

addition to reducing tax revenues and affecting the level of service provision, such actions reduce the level of autonomy of the affected governments as the government officials may not be in control of their own resources.

This research highlights several common local government tax expenditures and attempts to characterize the range in their scope and use through case studies of four large metropolitan U.S. counties: Ramsey County, Minn.; Cook County, Ill.; Maricopa County, Ariz.; and Fulton County, Ga. The purpose of this research is twofold:

- To highlight how common tax expenditures by local governments impact the tax revenue of other local governments, and
- To emphasize the benefits of local tax expenditure reporting as a tool to quantify fiscal policy decisions.

Using this knowledge, we believe local governments will be able to improve the alignment of tax expenditures with broader fiscal policy and strengthen their short- and long-term strategic planning.

In an effort to support and enhance the fiscal management of local governments, this report is part of a three-part initiative to develop a model local tax expenditure report. This report will be followed by a local tax expenditure report of a metropolitan county in Georgia in which the types of tax preferences discussed in this report will be identified and valued. In addition, the project will also include a “how to” guide to assist local governments in producing their own tax expenditure reports.

What Are Tax Expenditures?⁶

Tax expenditures are provisions in the tax code that allow for special treatment of a source of income or a certain type of expense that, in most cases, results in a reduction in tax liability for the taxpayer and a reduction in revenue to the government. In principle, these tax benefits could be provided by direct appropriation; thus, these provisions are referred to as “expenditures.” They represent tax revenues that would have been generated if not for this preferential treatment. Like direct government expenditures, tax expenditures are an allocation of government revenue intended to achieve a particular policy outcome or encourage some activity. The value of a tax expenditure can be thought of as the amount of money that would be necessary to provide the same level of financial support in the form of a government grant instead of through the tax code.

Tax expenditures can take several forms. Many are structured as direct reductions in tax liability, such as exemptions for certain types of property or for purchases of certain items. Others are in the form of a reduction in liability due to a lower assessment. For the purposes of this report, we adopt a more expansive definition of tax expenditures, which includes earmarking instruments such as tax increment finance arrangements. While these arrangements do not result in a reduction in the tax liability for the

⁶ The following section is an excerpt from the Georgia Tax Expenditure Report for FY 2019. Fiscal Research Center. Dec. 12, 2017. Georgia Department of Audits and Accounts. Retrieved from opb.georgia.gov/sites/opb.georgia.gov/files/related_files/site_page/FY%202019%20Tax%20Expenditure%20Report.pdf.

taxpayer, they limit the revenues to the general fund. Therefore, from the perspective of the local government, they have similar consequences to an exemption or deduction. Furthermore, like other tax expenditures, TIF designation results in an unequal treatment of some properties relative to others, in the sense that all financing increments are supposed to exclusively benefit the district.

Tax expenditures are not necessarily bad tax policy, but leaving them out of the annual budgetary review process creates two types of distortions. First, doing so underrepresents the amount of government resources allocated for a given purpose. Second, it incorrectly represents the distribution of the benefits of government expenditures. The benefits of tax expenditure provisions are usually targeted to higher income taxpayers than direct expenditure programs are; thus, omitting tax expenditures from the overall analysis may lead to the conclusion that government resources are targeted toward less affluent taxpayers. In addition, not all tax expenditure programs have a direct budgetary counterpart; without a tax expenditure report, these provisions and their distributional effects escape notice.

Special thought should be taken when considering the exemptions that apply to business inputs. When business inputs are included in the sales tax base, those inputs are taxed and the tax is included in the price when the input is sold to the next stage of production. The more these inputs are taxed at the intermediate stages of production, the more the tax is embedded in the price of the item. This embedded tax distorts prices and influences economic decisions. Therefore, exemptions for business inputs should be considered against a different standard than exemptions that are provided based on more social grounds, such as property tax exemptions for senior citizens. While both business and non-business inputs can be included in an expenditure report, business input exemptions should be denoted as such.

The purpose of a tax expenditure report is to list all expenditures and their corresponding value. In this way, these items can be tracked over time in a fashion analogous to a budget of direct governmental expenditures. In the absence of an annual report, tax expenditures are typically not subject to such periodic review. It is equally important to monitor the value associated with these provisions because they reduce tax revenue and lead to special treatment for some taxpayers relative to others.

About the Example Counties

To illustrate the diversity of issues and challenges that tax expenditures impose upon local governments and their budgets, we selected four counties as examples: Ramsey County, Minn.; Cook County, Ill.; Maricopa County, Ariz.; and Fulton County, Ga. These four counties were selected using a high-level qualitative screening process of large metro areas and counties across the country. The selection process considered population, quantity and diversity of taxing districts, and diversity in tax revenue portfolio. These characteristics were intended to identify populous counties with a broad range of tax revenues and taxing districts, which we speculated would provide a variety of local government tax expenditures. Supporting factors in choosing suitable counties for these case studies also included regional diversity and the presence of an independent fiscal research organization within the county or state, which we assumed would bolster our research by providing relevant data.

RAMSEY COUNTY

Ramsey County, Minn., is located approximately 200 miles south of the U.S. border with Canada. Ramsey County is part of the seven-county metropolitan area on the eastern edge of the state and borders the western limits of Wisconsin. It is the second-most populous county in the state with an estimated 2016 population of 500,000 and is home to the city of St. Paul, which is the county seat and state capital. Ramsey County, which is entirely incorporated, is the smallest and most densely populated county in the state with a population growth rate of 6.3 percent since 2010. Hennepin County and the city of Minneapolis, the state's largest county and city, respectively, are located immediately west of Ramsey County and St. Paul.

According to the 2012 U.S. Census of Governments, Minnesota has 3,672 active local governments.⁷ Ramsey County is home to a diverse range of taxing districts, including 19 cities, a regional rail authority, a public safety radio system district, six school districts, development authorities, economic development authorities, hospital districts, mosquito control districts, a regional government taxing district and others.

Ramsey County has a seven-member board of commissioners with a county manager who oversees the day-to-day county operations. According to its 2016-17 biennial budget, the county's total revenue in 2017 was \$661 million, with property taxes, intergovernmental revenue and charges for services and fines as its top three revenue sources.⁸ Unlike most local governments in the United States, Ramsey County participates in a local joint property tax advisory committee and is a member of a seven-county regional government.

The Metropolitan Council is the regional government for the seven-county Twin City metro area. It is intended to promote orderly and efficient growth, improve equity, strengthen economic competitiveness and encourage land uses that protect the environment and increase livability.⁹ As a member of the Metropolitan Council, Ramsey County contributes 40 percent of the growth in its commercial, industrial and public utility property taxes into a Fiscal Disparities Program. This program, intended to spread the fiscal benefits of commercial and industrial growth throughout the region, pools this revenue and distributes it to the counties. In 2016, this program shared \$561 million in tax revenue, representing 33 percent of the total commercial, industrial and public utility property tax base and 10 percent of the total seven-county metro area tax base.¹⁰

COOK COUNTY

Cook County in Illinois is the second-most populous county in the country with an estimated 2016 population of 5.2 million. The county is located in the northeastern corner of Illinois along the southern

⁷ U.S. Census Bureau. 2013. Individual state descriptions: 2012. 2012 Census of Governments. U.S. Government Printing Office. Washington, D.C. Retrieved from www.census.gov/content/dam/Census/library/publications/2013/econ/g12-cg-isd.pdf.

⁸ Ramsey County. 2016. 2016-17 Biennial budget. Retrieved from www.ramseycounty.us/sites/default/files/Budget%20and%20Finance/2016-2017%20Biennial%20Budget%20Book.pdf.

⁹ Metropolitan Council. 2018. Fiscal disparities, tax-base sharing in the metro area webpage. Retrieved from metro council.org/Communities/Planning/Local-Planning-Assistance/Fiscal-Disparities.aspx.

¹⁰ Ibid.

shore of Lake Michigan and abuts the northwestern corner of Indiana. Cook County represents approximately 41 percent of the state's population. The city of Chicago, the county seat, is the most populous city in Illinois and the third-most populous city in the country, with an estimated 2.7 million people. Cook County had an overall population growth rate of 0.2 percent between 2010 and 2016.

Cook County has a 17-member board of commissioners, the president of which is elected by voters and serves as the county's chief executive officer. The total operating revenue for Cook County for FY 2017 was an estimated \$4.4 billion, with revenue from the county hospitals system,¹¹ sales tax and property tax being the top three revenue sources.¹² In addition, the county received revenue from 18 separate non-property taxes, including taxes on betting machines, off-track betting, firearms and ammunition, and sweetened beverages (which has since been repealed).

According to the 2012 U.S. Census of Governments, Illinois has 6,963 active local governments, more than any other state, and accounts for nearly 8 percent of all local governments in the country. According to the Cook County treasurer, there are 549 local taxing districts across Cook County, consisting of school districts, municipalities and various special service districts such as libraries and water districts.¹³

MARICOPA COUNTY

Maricopa County, Ariz., is located in the southwestern United States, approximately 100 miles north of the U.S.-Mexico border. The county, located within the south-central region of Arizona, is the most populous of the state's 15 counties and the fourth-most populous county in the country, with an estimated 2016 population of 3.8 million. Maricopa County is home to the city of Phoenix, which is both the county seat and state capital. According to the U.S. Census, the county had an overall growth in population of 11.2 percent between 2010 and 2016.

The county has a five-member elected board of supervisors, which appoints a county manager. The total county revenue for FY 2017 was \$2.4 billion. Revenue from the state-shared sales tax, property tax, local sales taxes, and the state-shared vehicle license taxes accounted for 57 percent of the county revenue for FY 2017.¹⁴

Arizona, which ranks 38th in the nation in the number of local governments, has 674 active local governments per the 2012 U.S. Census of Governments. Within Maricopa County itself, there are 27 cities

¹¹ Revenue from the Cook County Health and Hospital System funds the county's Health Enterprise Fund, which is considered part of the county's operating revenue but is outside of the county's general fund.

¹² Cook County. 2016. Cook County FY2017 executive budget recommendation Volume 1, budget recommendation. Retrieved from www.cookcountyil.gov/file/2179/download?token=MLsfa_zl.

¹³ Cook County Treasurer. 2018. Learn about the finances of your local government webpage. Retrieved from www.cookcountytreasurer.com/setsearchparameters.aspx.

¹⁴ Maricopa County. FY 2016-2017 Annual Business Strategies. Retrieved from www.maricopa.gov/ArchiveCenter/ViewFile/Item/1064.

and towns,¹⁵ 56 K-12 school districts¹⁶ and more than 90 special taxing districts¹⁷ that include stadium districts, a theme-park district, fire districts, a health care district, an agriculture improvement district, a power district, a public transportation authority and more.

FULTON COUNTY

Fulton County is located in the northwestern region of Georgia. The county had an estimated population of 970,000 in 2016. The city of Atlanta, the majority of which is located within Fulton County and encompasses approximately 25 percent of the county's land mass, is both the county seat and state capital. According to the U.S. Census, the county had an overall population growth rate of 11 percent between 2010 and 2016.

Fulton County has a six-member elected board of commissioners, which appoints a county manager. According to the comprehensive annual financial report for FY 2016 (FY 2017 financial data were unavailable), total county revenue for FY 2016 was \$880 million, an increase of \$197 million from FY 2015. Revenue from taxes (66.8 percent), fees for service (19.9 percent), and operating grants and contributions (8.0 percent) are the county's three largest revenue sources. Of the \$587.7 million (66.8 percent) of revenue from taxes, 89.5 percent comes from property taxes, 6.1 percent from sales taxes and the remaining 4.4 percent from other taxes. Revenue from property taxes in FY 2016 was 3.6 percent less than in FY 2015, but revenue from sales and other taxes increased.

Georgia has 1,378 active local governments according to the 2012 U.S. Census of Governments, ranking 23rd in the nation for the number of active local governments. According to the FY 2016 consolidated tax digest for Fulton County, there are 44 taxing districts. One of these taxing districts was a South Fulton Tax District, which voters since chose to incorporate into the new city of South Fulton in 2017. Other overlapping tax districts within Fulton County include county and city school districts, 10 community improvement districts and 13 tax allocation districts.

Property Tax Incentives for Economic Development

Property tax abatements are the second-most common type of economic incentive, making up 39 percent of all programs and comprising 27 percent of the total cost of economic development incentives.^{18, 19} This form of tax expenditure, when used as an economic development tool, lowers or eliminates a business's property tax liability usually for a fixed period of time. These tax expenditures cost local and state jurisdictions significant funds in the form of unrealized revenue.

¹⁵ Maricopa County. 2018. Cities and towns webpage. Retrieved from www.maricopa.gov/3186/Cities-and-Towns.

¹⁶ Arizona Department of Education. 2018. Arizona Department of Education school district search webpage.

¹⁷ Clerk of Board of Supervisors. Special taxing districts webpage. Retrieved from www.maricopa.gov/745/Special-Taxing-Districts.

¹⁸ Tax increment financing is the most popular type of incentive and is discussed in a later section of this report.

¹⁹ Bartik, Timothy. J. 2017. A new panel database on business incentives for economic development offered by state and local governments in the United States. *W.E. Upjohn Institute for Employment Research*. Prepared for the *Pew Charitable Trusts*. Retrieved from research.upjohn.org/cgi/viewcontent.cgi?article=1228&context=reports.

Between the mid-1960s and the late 1970s, the number of states that offered or allowed local jurisdictions to use standalone property tax abatement programs increased from 15 to 31.²⁰ Since that time, the pace has slowed, with an additional seven states approving such programs as of 2012.²¹

In addition to standalone property tax abatement programs, states have incorporated property tax abatements into large economic development packages for businesses.²² Recently, for example, many cities across the country reportedly included property tax abatements as part of their economic development bid to land Amazon's second headquarters.

Jurisdictions typically justify their use of property tax abatements as business incentives using three primary rationales: that businesses are more mobile today than in the past, a trend that has been exacerbated by globalism; that the nation has seen a trend of slower manufacturing growth in recent decades; and that intergovernmental aid to local jurisdictions has decreased over the last 20 years.²³ Despite these rationales, property tax abatement programs, like most tax expenditures, involve little in the way of public disclosure on the estimated scale of forgone revenue or analysis of their effectiveness.

In the sections that follow, we consider four different property tax abatement mechanisms used as economic development tools in Cook County, Ill.; Ramsey County, Minn.; Maricopa County, Ariz.; and Fulton County, Ga. These case studies are not intended to comment on the structure or merit of each property tax abatement program, but rather to highlight common issues encountered and to underscore the need for regular tax expenditure reporting by local taxing districts. Reporting efforts of these abatements as they relate to the recently implemented accounting standards are discussed in a later section of this report.

COOK COUNTY ASSESSMENT RATIO

Commercial property tax relief in Cook County takes two forms. Consider the typical formula for determining the property tax liability:

$$\text{Tax Liability} = [(\text{Market Value} * \text{Assessment Ratio}) - \text{Exemptions}] * \text{Millage Rate}$$

The final tax liability can be reduced through several means. First, assessment ratios may differ across properties. It is common for properties to have assessment ratios based on their use. For instance, commercial property may have a separate assessment ratio than residential property. Similarly, farmland

²⁰ Wasserman, Robert. 2009. Tax abatement as means of promoting economic activity. In "Erosion of the Property Tax Base: Trends, Causes, and Consequences" by the Lincoln Institute of Land Policy. ISBN: 978-1-55844-186-6.

²¹ Kenyon, Daphne A., Adam H. Langley, and Bethany P. Paquin. 2012. Rethinking property tax incentives for business. *Lincoln Institute of Land Policy*. Retrieved from www.lincolnst.edu/sites/default/files/pubfiles/rethinking-property-tax-incentives-for-business-full_0.pdf.

²² Mattered, Philip, Kasia Tarczyska and Greg LeRoy. Jun. 2013. Megadeals: the largest economic development subsidy packages ever awarded by state and local government in the United States. *Good Jobs First*. Retrieved from www.goodjobsfirst.org/sites/default/files/docs/pdf/megadeals_report.pdf.

²³ Anderson, John E, and Robert W. Wassmer. 2000. Bidding for business: the efficacy of local economic development incentives in a metropolitan area. *W.E. Upjohn Institute for Employment Research*. DOI 10.17848/9780585313610. Retrieved from research.upjohn.org/up_press/43/.

and conservation property are often assessed at special values.²⁴ Second, exemptions reduce the assessed value of the property and, thus, lower the tax liability. Therefore, properties with the same assessment ratio may have different tax liabilities because of the presence of exemptions. Unlike assessments, exemptions typically vary based on characteristics of the land owner. Lastly, the jurisdiction may grant an abatement for certain properties. Exemptions are typically applied such that they reduce the assessed value of all properties that qualify for the exemption. Abatements, on the other hand, reduce the final tax liability of the property and are often applied case-by-case.²⁵

Under standard practices, Illinois requires real estate to be uniformly assessed at 33.3 percent of its market value, with some exceptions.²⁶ This procedure is followed by all counties except Cook County. Cook County, which accounts for approximately 45 percent of all property tax levied in the state,²⁷ categorizes property into 13 classes with varying assessment rates.²⁸ In general, residential properties are assessed at a 10 percent rate, while commercial and industrial properties are assessed at a 25 percent rate, both of which are subject to appeal. Proponents claim that businesses are able to pass along the higher assessment rates for commercial and business property to consumers, while opponents of this classification system say it creates an unequal burden on commercial and industrial properties within Cook County.^{29, 30} For example, in 2012 the Chicago Metropolitan Agency for Planning (CMAP) estimated that despite comprising 17 percent of the market value in Cook County, commercial and industrial properties comprised 35.1 percent of the equalized assessed value.³¹ Furthermore, this analysis documented a higher tax burden on commercial and industrial properties in Cook County as compared to the surrounding counties, which do not use Cook County's property classification assessment process.

To incentivize economic development within the commercial and industrial sectors, Cook County has created five separate commercial and industrial incentive classes that lower the assessed rate on property from 25 percent for a period of time, as shown in the Table 1. Each of these five incentive

²⁴ In some jurisdictions, the same effect may be achieved through different market valuation practices. For instance, farmland may be valued based on the income generated from the land and not based on the value for which it may be sold on the market.

²⁵ For some jurisdictions, these definitions are reversed. For the purposes of this report, we adhere to the definitions stated in the text above.

²⁶ Illinois Department of Revenue. 2017. The Illinois property tax system. A general guide to the local property tax cycle. Springfield, IL. Publication PTAX-1004. Retrieved from tax.illinois.gov/Publications/LocalGovernment/PTAX-1004.pdf.

²⁷ Department of Revenue. 2017. Calculations by Center for State & Local Finance using the Illinois Department of Revenue's Annual Report of Collections and Distributions for Fiscal Year 2011 and Fiscal Year 2012. Retrieved from tax.illinois.gov/publications/AnnualReport/Annual-Report-2011-2012.pdf.

²⁸ Cook County Assessor. Oct. 30, 2017. Definitions for the codes for classification of real property. *Cook County Assessor's Office*. Retrieved from www.cookcountyassessor.com/assets/forms/classcode.pdf.

²⁹ Dye, Richard F., Therese J. McGuire, and David F. Merriman. 1999. The impact of property taxes and property tax classification on business activity in the Chicago metropolitan area. Lincoln Institute of Land Policy. Working Paper.

³⁰ Chicago Metropolitan Agency for Planning. Nov. 28, 2017. Property tax burden in the Chicago region. Retrieved from www.cmap.illinois.gov/updates/all/-/asset_publisher/UIMfSLnFfMB6/content/property-tax-burden-in-the-chicago-regi-2.

³¹ Chicago Metropolitan Agency for Planning. Nov. 14, 2014. Cook County property tax classification effects on property tax burden. Retrieved from www.cmap.illinois.gov/updates/all/-/asset_publisher/UIMfSLnFfMB6/content/cook-county-property-tax-classification-effects-on-property-tax-burden.

classes have different eligibility requirements and associated terms and must be approved by resolution by the taxing district following an application.

Table 1. Commercial and Industrial Classification Categories in Cook County

CLASS	DESCRIPTION	TERM (YEARS)	INCENTIVIZED ASSESSMENT RATE	RENEWABLE
6b	Industrial Development Incentive	12	10% (Yrs 1-10) 15% (Yr 11) 20% (Yr 12)	Yes
C	Brownfield Redevelopment for Industrial or Commercial Use	12	10% (Yrs 1-10) 15% (Yr 11) 20% (Yr 12)	Yes - Industrial No - Commercial
7a/7b	Incentive for Commercial Development in Areas Designated for Revitalization	12	10% (Yrs 1-10) 15% (Yr 11) 20% (Yr 12)	No
7c	Commercial Development Incentive	5	10% (Yrs 1-3) 15% (Yr 4) 20% (Yr 5)	Yes
8	Development of Commercial or Industrial within Areas Designated for Revitalization	12	10% (Yrs 1-10) 15% (Yr 11) 20% (Yr 12)	Yes

In 2012, CMAP estimated that 6.2 percent of commercial or industrial market value was designated as an incentive class. This was an increase from an estimated 5.8 percent in 2011.³² While this represented just over 1 percent of the total market value in Cook County in 2012, it reflects a larger percentage of the county's total \$6.2 billion 2012 tax levy³³ because commercial and industrial properties shoulder a disproportionately higher tax burden. Further, the 7c incentive class was only passed in 2014. While 7c is not as generous as other incentive classes, its application is broader and eligibility requirements are less restrictive. Therefore, it is likely that the use of these incentive classes by commercial or industrial properties has continued to increase and reflects a larger percentage of the county's total property tax market value.

In March 2017, the Cook County Board of Commissioners amended these incentive classes to, among other things, improve transparency and compliance with the requirements of the incentive. While the amendments apply only to incentives approved in the future, they require greater self-reporting of incentive compliance and provide municipalities with the ability to revoke incentives if they are not complying.

³² Chicago Metropolitan Agency for Planning. Aug. 2013. Examination of local economic development incentives in Northeastern Illinois. Retrieved from www.cmap.illinois.gov/documents/10180/82875/FY14-0009+LOCAL+ECONOMIC+INCENTIVES+REPORT.pdf/51b8f555-4579-42df-8667-87587fcc14f1.

³³ Cook County. 2017. Comprehensive annual financial report for the Year ended November 30, 2016. Schedule S-8. Retrieved from opendocs.cookcountyil.gov/comptroller/cafr/Cook_County-2016-CAFR_Final.pdf.

RAMSEY COUNTY ABATEMENTS

Counties and other taxing districts within Minnesota were authorized in 1997 under Chapter 469, Section 1813 of the Minnesota Statutes to abate local property taxes for economic development. By law, jurisdictions may only authorize the abatement of their own district's portion of property tax, and local taxing districts do not have the authority to abate the state's general property tax, which applies to commercial/industrial and seasonal recreational real estate. The state caps property tax abatement by taxing districts, including Ramsey County, to \$200,000 or 10 percent of the net tax capacity of the taxing district for the year it is applied, whichever is greater. Furthermore, the duration of the abatement is typically limited to 15 years, or 20 years in special circumstances.

While the authority to abate taxes has been available since 1997, Ramsey County had not exercised it until very recently. In April 2016, the Ramsey County Board of Commissioners approved a property tax abatement for Land O'Lakes, a major agricultural business based in the county. As part of the abatement agreement, Land O'Lakes committed to an \$80 million campus expansion near its current headquarters and proposed to create 200 jobs by 2020 with wages of at least \$18 per hour exclusive of benefits.³⁴ Under the agreement, Land O'Lakes will receive a property tax abatement worth a maximum of \$1.5 million over 15 years on the parcels associated with the new expansion. This abatement is valued at approximately \$100,000 per year. Should Land O'Lakes not meet its obligated job creation targets by 2020, it is required to repay the county with interest. As structured, the abatement resembles a tax increment financing arrangement in that it only applies to the increase in the value that occurs after Jan. 2, 2016.

While the Ramsey County Board of Commissioners approved the property tax abatement for Land O'Lakes on a vote of 6-1, the discussion prior to the vote focused on several issues:

- Equity and fairness to other Ramsey County businesses;
- The threat of the company leaving the county;
- Strengthening the county's employment base;
- Secondary benefits to other businesses supporting Land O'Lakes; and
- Creating new jobs near other county investments (e.g., new mixed-use development and a future transit corridor).

In independent agreements, Land O'Lakes also received property tax abatements from the city of Arden Hills and the Mounds View School District valued at \$650,000 and \$630,000, respectively, over 15 years.

MARICOPA COUNTY GPLET

Under Title 42, Chapter 6, Article 5 of the Arizona Revised Statutes,³⁵ the Arizona state legislature authorized counties in the state to use an economic development incentive known as a government

³⁴ Ramsey County. 2016. Comprehensive annual financial report. p. 40.

³⁵ Arizona Revised Statutes. 2017. Title 42, Chapter 6, Article 5. Government property lease excise tax. Retrieved from www.azleg.gov/arsDetail/?title=42.

property lease excise tax (GPLET). This financing tool allows any private party (individual or corporate entity) to enter into an agreement with a local taxing district. The taxing jurisdiction holds the property title for up to 25 years and leases it back to the private entity. Cities, towns, counties, and county stadium districts are the local taxing districts authorized to become government lessors and enter into GPLET agreements. The prime lessor, in lieu of paying an ad valorem property tax to local taxing districts, pays an excise tax at a rate based on the building's square footage. Projects occurring within central business districts and downtown redevelopment areas may have their GPLET payments abated for eight years. Further, a variety of business types, industries and easements are exempt from paying the GPLET. GPLET revenue collected by the government lessor is distributed in accordance with a codified formula to school districts, counties, community colleges and cities.

GPLETs are negotiated among local taxing districts and private parties. The economic and fiscal benefits must exceed the benefits received for qualifying projects. Notification of the GPLET must be provided to the county and any affected cities, towns and school districts within 60 days and before they may be approved by a simple majority vote by the local taxing districts' governing bodies.

The GPLET was created to replace the possessory interest tax (PIT), which the courts struck down as unconstitutional in 1995. PIT itself was created in 1985 as a way to formalize a practice by local governments in the early 1980s to leverage their tax-exempt status as local government entities as an economic development tool for private landowners.³⁶ Unlike GPLET, which is an excise tax, PIT was still considered a form of property tax, and the courts ruled it unconstitutional for not meeting the state's uniformity requirement. The League of Arizona Cities and Towns is an advocate of the GPLET, given that it is one of the only economic development tools available to local governments in Arizona,³⁷ where other business tax incentives (e.g., tax incremental financing) are not allowed. The Arizona Tax Research Association estimates that more than \$750 million in property taxes have been abated statewide via GPLET.³⁸ This accounts for approximately 10 percent of the \$7.3 billion gross property tax levy for the state of Arizona for FY 2017.

Revisions to the GPLET were passed in 2010 that were intended to increase revenue. Following a special audit by the Arizona auditor general in 2015, additional reforms were passed by the state legislature in 2017; these went into effect in August 2017. In general, the 2017 changes include placing the responsibility for calculating and collecting the GPLET with the government lessor instead of with the lessee and improving the distribution of the collected GPLET revenue to other jurisdictions. Additionally, the term of the GPLET was reduced from 25 years to eight years if property tax abatement occurs, which is allowed for up to eight years when the GPLET is used within a central business district that is also designated as a downtown redevelopment area.

³⁶ McCarthy, Kevin, 2017. Government property lease excise tax (GPLET) [Presentation]. *Arizona Tax Research Association*. Retrieved from azdor.gov/sites/default/files/media/NEWS_TAXCONFERENCE_2017_gplet.pdf.

³⁷ League of Arizona Cities and Towns. HB 2213 webpage. Retrieved from www.azleague.org/index.aspx?nid=376.

³⁸ Arizona Tax Research Association. Mar. 2017. ATRA supports HB2213 [Handout]. Retrieved from www.arizonatax.org/sites/default/files/publications/position_papers/gplet_handout_amended.pdf.

FULTON COUNTY BOND FINANCING ARRANGEMENTS

Industrial revenue bonds (IRBs) are a type of municipal tax-exempt bond that local governments or their conduit agencies (e.g., building, housing, economic development authorities) offer to help finance certain types of private projects. The municipal government or conduit agency is exposed to little risk as it is not legally obligated to repay the bonds. Therefore, this conduit debt is in fact not considered debt to the municipality or conduit agency and does not detract from the government body's potential debt capacity. Given the low risk exposure, these conduit agencies may even allow private entities from outside of their jurisdiction to utilize their municipal bonding authority.

Strictly speaking, IRBs as they are generally characterized would not be considered tax expenditures to the state or local municipalities because these government bodies are not forgoing any perceived revenue from assisting private parties with financing through the municipal bond market. However, many municipal governments or conduit agencies further incentivize IRBs for specific projects, activities or industries within their jurisdictions to strengthen the IRB as an economic development tool. These additional incentives to private entities may include property tax abatements or sales tax exemptions. For example, as IRBs are allowed to fund the acquisition of personal or real property, a municipality may agree to retain the title of the property and lease it to the private entity. Furthermore, the municipality may agree to use bond proceeds to purchase materials or equipment, effectively providing the private entity with a sales tax exemption for materials that otherwise would not have been tax exempt.

Closely related to IRBs are lease-purchase transactions. Under these transactions, the government jurisdiction floats a bond to raise capital funds for a private-sector economic development venture, such as a corporate headquarters or apartment complex. Although the government jurisdiction holds the debt, the property is leased back to the developer for a specified period of time. The developer makes lease payments to the local government in an amount equal to the bond payments. Because the title of the property is held by the local government, the property may be exempt from some or all property taxes. Alternatively, the local government jurisdiction may provide an abatement on a sliding scale that increases over time, or it may tag the level of the abatement to the value of the property. At the end of the specified time period, the property title is transferred to the firm, and the firm becomes liable for the full value of the property tax liability for however long it owns the property.

The Development Authority of Fulton County entered into such an arrangement for the development of the Mercedes-Benz USA headquarters. The arrangement involves a 10-year partnership between the company and the county development authority; the development authority holds the title to the headquarter property and leases it back to Mercedes-Benz. The county property tax abatement in the

first year equals 50 percent and is reduced by 5 percent each additional year for the 10-year period.³⁹ Similar arrangements have also been entered into with several apartment complex developers.⁴⁰

Tax Incremental Finance Districts

Tax incremental financing (TIF) is a common tool for funding municipal projects. TIF works by dividing the property values located within a TIF jurisdiction into two pieces: a base and an increment. The base amount of property value for a taxing jurisdiction is an amount determined to exist at a given point in time. The increment is defined to include any growth in value over and above the base amount. The tax revenues from the increment are used to fund additional development projects, while tax revenues from the base amount continue to fund general government expenses both inside and outside of the TIF jurisdiction.⁴¹ TIF districts are typically blighted areas, and advocates argue that in the absence of the TIF investment, no additional development would have occurred. Property tax is the most common tax system associated with TIF districts, although sales tax may also be established as a TIF funding source. TIFs are often cited as the most widely used economic development financing tool in the country, with 49 states and the District of Columbia having adopted legislation.^{42, 43, 44, 45}

TIF has also proven to be one of the more contentious economic development finance tools. Proponents make the following arguments in favor of TIF:

- TIF funds economic development without the need to approve additional taxes. Jurisdictions borrow against the anticipated increase in revenues from the tax increment.
- Funding of economic development usually is captured from an area that directly benefits from the investment.
- With reductions in federal and state funding to local governments, TIF is a financing tool that local governments can largely control.

Alternatively, opponents of TIF often cite versions of the following arguments:

³⁹ Trubey, J. Scott. Jan. 13, 2015. State discloses part of Mercedes incentives deal. *Atlanta Journal-Constitution*. Retrieved from www.ajc.com/business/state-discloses-part-mercedes-incentives-deal/c2VygIE5SoGItDu8OhHqI/.

⁴⁰ Trubey, J. Scott. Oct. 11, 2014. Fulton grants tax breaks for luxury apartment projects. Development authority didn't calculate cost of incentives for Buckhead, Midtown, North Fulton deals. *Atlanta Journal-Constitution*. Retrieved from politics.myajc.com/news/local-govt--politics/fulton-grants-tax-breaks-for-luxury-apartment-projects/TWOleP1oCgK5fBdZQFBxTK/.

⁴¹ Weber, Rachel, and Sara O'Neill-Kohl. 2013. The historical roots of tax increment financing, or how real estate consultants kept urban renewal alive. *Economic Development Quarterly* 27(3): 193-207. Retrieved from journals.sagepub.com/doi/abs/10.1177/0891242413487018.

⁴² Briffault, Richard. 2010. The most popular tool: tax increment financing and the political economy of local government. *Columbia University Academic Commons*. Retrieved from doi.org/10.7916/D8J966KG.

⁴³ American Planning Association. Oct. 9, 2007. Tax increment financing in the Chicago region. Tuesdays at APA presentation by Rachel Weber, University of Illinois at Chicago. Retrieved from planning.org/tuesdaysatapa/2007/oct.htm.

⁴⁴ Council of Development Finance Agencies. 2008. 2008 TIF state-by-state report. Retrieved from www.cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open=open&id=TIFStatebyState.html.

⁴⁵ Council of Development Finance Agencies. 2015. Tax increment finance state-by-state report. Retrieved from [www.cdfa.net/cdfa/cdfaweb.nsf/ord/201601-TIF-State-By-State.html/\\$file/CDFA_TIF_State-By-State.2015.pdf](http://www.cdfa.net/cdfa/cdfaweb.nsf/ord/201601-TIF-State-By-State.html/$file/CDFA_TIF_State-By-State.2015.pdf).

- There is often a lack of transparency and oversight related to how much money is collected via a TIF district and how it is spent.
- TIF laws often include both a “blight” requirement and the stipulation that it satisfy a “but-for” test. However, the interpretation of what blight means can be subjective depending upon how the law is written, and it is challenging to prove that investment would not have occurred “but for” the investment from TIF districts. Therefore, concerns have been raised about the standards and oversight in the formation of a TIF district.
- As incremental tax is collected by a TIF district, the tax base of the larger local jurisdiction is reduced and those taxes typically are not distributed to overlapping tax districts such as school districts, water and sewer districts, and other similar taxing districts, resulting in the erosion of the tax bases of the overlapping districts.

To be sure, stories of both successful and failing TIF districts abound. As TIFs has become more popular and opponents have become more vocal, significant policy innovation and reform has occurred at both the state and local levels. In the sections that follow, we examine how TIF is used in Cook County, Ill.; Ramsey County, Minn.; and Fulton County, Ga., to underscore the need for regular tax expenditure reporting by local taxing districts. As TIF is not legal in Arizona, Maricopa County is not included.

Before proceeding, it is important to understand how TIF fits into the larger discussion of local tax expenditures. Labelling TIFs as tax expenditures is a departure from the standard definition. From the perspective of the taxpayer, unlike a typical tax expenditure, a TIF district does not result in a reduction in the tax liability paid by a property owner. A taxpayer’s tax liability remains the same, regardless of whether the property is located within a TIF district. Instead, the TIF is an earmarking instrument. Because the tax increment revenues are dedicated for funding development activities in the TIF district and are not free to fund other government operations, the presence of TIF reduces tax collections for general local government services. Thus, from the viewpoint of the local government, the increment, but not the base amount, associated with a TIF district can be viewed as a type of tax expenditure.

RAMSEY COUNTY

Minnesota approved the use of TIF in 1979 through the adoption of the TIF Act under Chapter 469, Sections 174-1799 of the Minnesota Statutes. Under this law, a TIF district may be created by a city or an entity (e.g., development authority) created by a city or county. While the TIF Act was initially intended only to finance redevelopment, Minnesota now allows TIF districts to be created for economic development, housing, infrastructure and soil remediation.

According to the Tax Increment Financing Legislative Report prepared by the state auditor’s office for FY 2015,⁴⁶ there were 1,719 TIF districts in the state. Revenue generated by TIF districts statewide fell from a high in 2008 of \$307.8 million to \$194 million in 2015. Per the state auditor’s 2015 report, the use of TIF

⁴⁶ Office of State Auditor. Mar. 28, 2017. Tax increment financing legislative report. Retrieved from www.auditor.state.mn.us/reports/tif/2015/tifLegislative/tifLegislative_15_report.pdf.

throughout the state slowed with only four more total TIF districts approved in 2015 than were approved in 2014.

Within the seven-county metropolitan Twin Cities region, there were 619 TIF districts comprising 36 percent of the state's total TIF districts yet accounting for approximately 83 percent of the increment tax generated statewide.

As Ramsey County is entirely incorporated, the county cannot create TIF districts itself. Cities within Ramsey County, however, have taken advantage of TIF, and Ramsey County is only legally able to comment on TIF proposals. For example, 9 percent of the city of St. Paul's tax base was located within TIF districts in 2014, down from a mid-1980s high of 15 percent.⁴⁷ And while St. Paul now has a policy that no more than 10 percent of the city's tax base can be located within TIF districts, the 61 TIF districts within St. Paul in 2014 captured approximately \$25 million in tax increments annually. The largest of these TIF districts is the Minnesota Events TIF, which covers an area of approximately 20 blocks in downtown St. Paul and captures 40 percent (\$4.6 million) of downtown's \$11.1 million in property taxes annually.

The Minnesota Events TIF district, which was created in 2009 and will terminate in 2023, replaced a TIF district that expired in 2008. The new Minnesota Events TIF district was specifically created to provide funds to pay off approximately \$43 million⁴⁸ in outstanding debt on the St. Paul RiverCentre complex issued in 1996. However, as repayment of existing debt is not an approved TIF expense, the Minnesota Events TIF district first required approval by the state under Section 469.1782 of the Minnesota Statutes to authorize its formation. This special law authorized the St. Paul Housing and Redevelopment Authority to create the new Minnesota Events TIF district provided Ramsey County was able to collect the property taxes it would otherwise have received. This type of TIF district, which does not comply with the typical state requirements, is referred to as an uncodified district. The 2015 Tax Increment Finance Report completed by the state auditor states that there are 116 uncodified TIF districts out of the 1,719 TIF districts in Minnesota.

COOK COUNTY

Illinois first approved TIF in 1977 with the passage of the Illinois Tax Increment Allocation Redevelopment Act (65 ILCS 5/11-74.4-3), referred to as the TIF Act. Allowable uses of tax increments are further described within the Economic Development Area Tax Increment Allocation Act (20 ILCS 620/) and the Industrial Jobs Recovery Law (65 ILCS 5/11-74.6-10).

There are three broad categories of TIF allowed under Illinois law:

1. Redevelopment TIF Districts: Districts created as a result of blighted conditions.

⁴⁷ Melo, Frederick. Mar. 21, 2016. A St. Paul TIF district. Big yawn, right? Not so much. *Twin Cities Pioneer Press*. Retrieved from www.twincities.com/2015/11/20/a-st-paul-tif-district-big-yawn-right-not-so-much/.

⁴⁸ Havens, Chris. May 20, 2008. Turnaround of St. Paul's wish list pleases city officials. *Star Tribune*. Retrieved from www.startribune.com/turnaround-of-st-paul-s-wish-list-pleases-city-officials/19123194/.

2. Conservation TIF Districts: Districts created where 50 percent of the structures are 35 years old or more and where some blight is present.
3. Industrial Park Conservation TIF Districts: Industrial areas where unemployment is high.

Under Illinois law, eligible TIF expenditures can range broadly from costs associated with planning, land assemblage and construction of public or private improvements to job training and operating childcare facilities for low-income families. The maximum duration of a typical redevelopment TIF district in Illinois is 23 years, with a 35-year extension allowed should the TIF district not achieve its stated performance goals. A TIF district may also be closed early by a local government if it determines it to no longer be warranted.

According to the Fiscal Responsibility Report Card for FY 2016 prepared by the Local Government Division of the Illinois Comptroller's Office, there were 1,422 TIF districts among 524 municipalities statewide. As of FY 2016, per Cook County's annual financial reports submitted to the Illinois Office of the Comptroller, the county itself did not have any TIF districts. However, there were 443 TIF districts among 99 local governments within Cook County, comprising approximately 73 percent of Cook County local governments.⁴⁹

According to David Merriman, a professor at the University of Illinois at Chicago, of the top 10 most populous cities in the country, Chicago has more TIF districts than the other nine combined. As Merriman said during a recent TIF forum, "It's fair to say, Chicago is in a whole different world. Chicago is using TIF in a way that other big cities aren't."⁵⁰ A report prepared in 2017 by Cook County Clerk David Orr, a vocal advocate for TIF reform, states that one in four properties in Chicago is now within a TIF district, and TIF revenue of more than \$561 million accounts for 10 percent of the \$5.8 billion property tax billed within the city. Orr noted that since the city of Chicago began using TIF in 1983, \$6.7 billion in revenue has been collected by TIF districts within the city alone.⁵¹ Orr also noted that countywide, one in 12 properties is located within a TIF district, and TIF revenue accounts for 6 percent of property tax billed in Cook County. In total, more than \$852 million was collected in FY 2016 countywide by TIF districts, an increase of 19 percent from FY 2015 revenue.

Revenue collected by TIF districts that is unencumbered at the end of each year is supposed to be considered surplus and given back to the Cook County Assessor's Office to be proportionally distributed to overlapping taxing districts. In practice, however, those managing TIF revenues argue that most funds held within the accounts of TIF districts are encumbered as funding may be earmarked for projects and

⁴⁹ Cook County. 2017. Suburban Cook County TIF overview. *Cook County Clerk's Office*. Retrieved from www.cookcountyclerk.com/sites/default/files/pdfs/2016%20Suburban%20TIF%20Overview.pdf.

⁵⁰ Cook County. Mar. 14, 2017. Tax increment financing (TIF) forum. Minute 26:03. *Cook County Clerk's Office*. YouTube. Retrieved from youtu.be/HzfxekGK5Gs.

⁵¹ Cook County. Mar. 14, 2017. Tax increment financing (TIF) forum. Minute 6:03. *Cook County Clerk's Office*. YouTube. Retrieved from youtu.be/HzfxekGK5Gs.

infrastructure in different stages of development, making it rare to declare funds surplus.⁵² However, some advocating for TIF reforms estimate that \$1.4 billion of surplus TIF revenue was on the books of Chicago's TIF districts as of Jan. 1, 2017 that could be better used.⁵³

Additionally, under the TIF Act, local governments are allowed to use tax increment revenues generated in one TIF district to pay for projects in a different TIF district provided the two TIF districts are contiguous, a process referred to as porting. The porting of taxpayer funds outside of a defined district to pay for improvements in a different district has been challenged in court. To date, these transfers of the tax increment have been determined to have merit as a valid public purpose, namely, to combat the problems of blight.⁵⁴

In 2016, Illinois passed the Transportation Facility Improvement Act (TFIA) to specifically authorize four transit TIF districts in Chicago. These new transit TIF districts behave significantly differently from other TIF districts in Illinois in five ways:

1. The boundaries for the four transit TIF districts are defined as a 0.5-mile radius around a defined linear project corridor.
2. There is no blight requirement for approval as they are approved outright.
3. The funds are specifically for transit facilities and infrastructure and not for broader community development.
4. School districts that overlap with the four transit TIF districts will continue to receive their portion of incremental tax.
5. The maximum duration of the transit TIF district is 35 years.

TFIA was approved in 2016, in part, to help the Chicago Transit Authority with securing \$1.4 billion in federal funding. This federal funding will pay for approximately half of Phase One of the Red and Purple Modernization Project that is rebuilding 100-year old heavy rail transit facilities along the Red and Purple lines. The tax increment collected from one of the authorized transit TIF districts (Transit TIF RPM1 2016 District), which coincides with the Red and Purple Modernization Project, commits approximately \$622 million in local match required for the federal funding. This transit TIF district is anticipated to generate \$18 million in its first year, with \$7 million of that available for the TIF district itself following distribution of other incremental tax collected.⁵⁵ Transit TIF districts were authorized for three other future transit improvement projects that have yet to be approved by the city.⁵⁶

⁵² TIF Reform Panel. Aug. 23, 2011. Findings and recommendations for reforming the use of tax increment finance in Chicago: creating greater efficiency, transparency and accountability. Retrieved from www.cityofchicago.org/content/dam/city/depts/mayor/Press%20Room/Press%20Releases/2011/August/8.29.11TIFReport.pdf.

⁵³ TIF Illumination Project. Sep. 8, 2017. 2016 TIF analysis webpage. Retrieved from www.tifreports.com/2016-tif-analysis/.

⁵⁴ Callies, David, and W. Andrew Gowder. 2012. Tax increment financing. *American Bar Association, Section of State and Local Government Law*. See also Chapter 3, Illinois: TIF and the City of Chicago, by David Silverman.

⁵⁵ Cook County. Jul. 20, 2017. Cook County Clerk David Orr notes "Chicago TIFs to generate records \$561 Million" Report. Retrieved from www.cookcountyclerk.com/sites/default/files/pdfs/2016%20TIF%20Report.pdf.

⁵⁶ Chicago Transit Authority. 2018. Red ahead, Red and Purple Modernization Project webpage. Retrieved from www.transitchicago.com/rpm/.

FULTON COUNTY

In 1985, the state of Georgia approved the Redevelopment Powers Law, empowering local governments to create and implement tax allocation districts (TADs).⁵⁷ Despite being approved in 1985, the first TAD was not established for another seven years. In 2004, the legislation was amended to allow the collection of incremental property, sales and other taxes (e.g., hotel-motel taxes). Over time TAD use has increased, growing from nine TADs approved statewide in 2002 to 26 by 2007, 64 by 2013, and 88 by 2017.^{58, 59}

To approve a TAD in Georgia, a local government must receive authorization from the state legislature. Once authorized by the state legislature, the local electorate must vote to approve the initiation of a TAD. Further, the state limits 10 percent of all taxable land value within a local government's jurisdiction to fall within a TAD and requires all overlapping jurisdictions whose tax increment is captured within the TAD to consent. TADs remain in effect until the costs of the project specified within the TAD's redevelopment plan are paid or until the electorate votes to terminate the TAD.⁶⁰

According to the Georgia Department of Revenue's 2016 Tax Digest Consolidated Summary for Fulton County, there are 13 TADs located within the county.⁶¹ Of these TADs, 10 are located within the city of Atlanta, although only six remain active, including the Beltline TAD.⁶²

In 2005, the city of Atlanta approved legislation that authorized the formation of a TAD to fund a 22-mile linear project known as the Beltline. The Beltline project is estimated to be completed by 2030 and cost \$4.8 billion.⁶³ Among other redevelopment goals,⁶⁴ the Beltline would convert 22 miles of old heavy rail right-of-way into a revitalized corridor of greenspaces, trails and transit facilities. Per the TAD authorization legislation, the Beltline TAD would remain in effect for 25 years, until Dec. 31, 2030, and generate an estimated \$546.6 million in incremental revenues.

⁵⁷ Tax allocation districts are referred to as tax increment financing districts in other states.

⁵⁸ Sjoquist, David. Apr. 16, 2014. Tax allocation districts: how they work [Presentation]. *Center for State and Local Finance*. Retrieved from cslf.gsu.edu/files/2014/06/TAD_Presentation_4-16-141.pdf.

⁵⁹ Authors' calculations based on TAD jurisdictions identified by Georgia Department of Revenue property tax rates publication.

⁶⁰ Bourdeaux, Carolyn, and John Matthews. 2004, Nov. Georgia's Redevelopment Powers Law: A policy guide to the evaluation and use of tax allocation districts. *Research Atlanta, Inc. and Georgia State University, Andrew Young School of Policy Studies*. Retrieved from cslf.gsu.edu/files/2015/01/Tax-Allocation-District-Report_Nov2004.pdf#new_tab?wpdmdl=5197&refresh=5adf53a9460631524585385.

⁶¹ Georgia Department of Revenue. 2016. Consolidated tax digest for Fulton County. Retrieved from apps.dor.ga.gov/digestconsolidation/default.aspx.

⁶² City of Atlanta. 2018. Tax allocation district (TAD). Retrieved from www.atlantaga.gov/government/departments/city-planning/office-of-zoning-development/plans-and-studies/tax-allocation-district-tad.

⁶³ Atlanta Beltline. 2018. How the Atlanta Beltline is funded. Retrieved from beltline.org/about/the-atlanta-beltline-project/funding/.

⁶⁴ EDaw, Urban Collage, Grive & Associates, Troutman Sanders LLP, and Gravel, Inc. 2005, Nov. Atlanta BeltLine redevelopment plan. Prepared for the *Atlanta Development Authority*. Retrieved from beltlineorg.wpengine.netdna-cdn.com/wp-content/uploads/2012/05/Atlanta-BeltLine-Redevelopment-Plan.pdf.

As the state law required, the Fulton County Commission and the Atlanta Public Schools Board authorized the collection of their portion of the ad valorem increment through the formation of the Beltline TAD.^{65, 66} Per the 2005 Beltline Redevelopment Plan, Atlanta Public Schools (APS) would benefit through the investment in current school improvements and potential land acquisition for future school development. Additionally, APS, the Beltline, Fulton County, the city of Atlanta and the state of Georgia entered to an intergovernmental agreement that included, among other things, a payment in lieu of taxes (PILOT) contract in which APS would be paid \$7.5 million annually for 20 years beginning in 2008 for a total of \$150 million.⁶⁷

In 2008, the Georgia Supreme Court ruled that the collection and use of school tax funds under the Redevelopment Powers Law violated the Educational Purpose Clause of the Georgia Constitution; consequently, the increment associated with APS could not be collected. However, Georgia voters approved a constitutional amendment later that year to reauthorize the collection of school tax by TADs.⁶⁸

Following the lawsuit, the intergovernmental agreement among APS, the Beltline, Atlanta and the others was revised in 2009 for the first of three times.⁶⁹ In this amendment, PILOT payments were to be paid to APS beginning in 2013. However, because the Great Recession had eroded the city of Atlanta's budget and reduced the increment collected by the Beltline, the agreed-upon PILOT payments to APS were not made in 2013 or in 2014.⁷⁰ In February 2016, after contentious negotiations and threats of lawsuits, the city and APS reached an accord to amend their intergovernmental agreement a third time. Since its formation in 2005 and authorization to collect an ad valorem increment in 2008, the Beltline TAD has collected a total of \$165.7 million in increments through 2016 and paid APS nearly \$17 million according to the 2016 Financial Statements and Supplementary Information report.⁷¹

⁶⁵ Fulton County Commissioners. Dec. 21, 2005. Resolution consenting to the inclusion of certain Fulton County taxes in the computation of the tax allocation increment for the City of Atlanta tax allocation district number six – Beltline redevelopment area; and for other purposes, Item No. 05-1497. Retrieved from beltlineorg-wpengine.netdna-ssl.com/wp-content/uploads/2012/03/Fulton-BeltLine-TAD-Consent-Legislation-Final-Signed.pdf.

⁶⁶ Atlanta Public Schools et al. Dec. 31, 2005. Intergovernmental agreement by and between the City of Atlanta, Georgia, the Atlanta Development Authority and the Atlanta Independent School System. Retrieved from beltlineorg-wpengine.netdna-ssl.com/wp-content/uploads/2012/03/APS-Original-IGA.pdf.

⁶⁷ Atlanta Public Schools. Jun. 2, 2014. Summary of Beltline TAD contract with City, APS, and ADA. Retrieved from www.atlantapublicschools.us/cms/lib/GA01000924/Centricity/Domain/1/Summary%20of%20Beltline%20TAD%20Contract%20between%20APS%20.pdf.

⁶⁸ Sutherland, Eversheds. Nov. 25, 2008. Tax allocation district financing revitalized by Georgia voters. Legal Alert. Retrieved from us.eversheds-sutherland.com/portalresource/lookup/poid/Z1tOI9NPluKPtDNIqLMRV56Pab6TfzcRXncKbDtRr9tObDdEuGZDp0!/fileUpload.name=/RealEstateAlertTaxAllocation112508.pdf.

⁶⁹ Atlanta School Board et al. Aug. 17, 2009. First amendment to intergovernmental agreement among the City of Atlanta, Georgia, the Atlanta Development Authority, and the Atlanta Independent School System. Retrieved from beltlineorg-wpengine.netdna-ssl.com/wp-content/uploads/2012/03/APS-IGA-First-Amendment.pdf.

⁷⁰ Leslie, Katie. Feb. 19, 2014. Beltline misses another payment to schools. *Atlanta Journal-Constitution*. www.myajc.com/news/local/beltline-misses-another-payment-schools/dL2mbtNqGMv98rgLtxymXM/#6e250691.3789520.735389.

⁷¹ Invest Atlanta. Jun. 30, 2016. City of Atlanta, Georgia Beltline Tax Allocation District Fund financial statements and supplementary information. Retrieved from www.investatlanta.com/assets/beltline_tad_2016_fincial_statements_jpv8LwM.pdf.

Residential Property Tax Expenditures

Apart from property tax abatements and tax incremental finance arrangements, counties and other local municipalities routinely incorporate expenditure provisions into their tax systems for homeowners. These provisions are most commonly established to provide taxpayer relief to low- or fixed-income individuals or to protect homeowners from rapidly rising home prices.

Homestead exemptions are used by taxing jurisdictions to provide tax relief. These exemptions are usually available only to homeowners and only apply for homes used as primary residences. In most jurisdictions, these are available on an annual basis without the need for annual renewal and are not available to income-generating property such as businesses or residential rental property.

Homestead exemptions typically exclude a fixed amount or a percentage of the assessed value of a home from the property tax liability calculation. It is important to note that while both forms provide tax relief, they have different distributional outcomes. Providing a fixed amount of relief per homeowner results in smaller, lower valued homes receiving greater tax relief compared to higher valued homes. Alternatively, homestead exemptions provided as a percentage of the property tax liability confer relatively more relief to higher income properties. Furthermore, homestead exemptions provided as a percentage of the assessed value result in an increase in forgone revenue to the local government as home values increase.

While most states have passed legislation allowing for homestead exemptions, it is typically up to the local taxing district to approve them. Thus, school homestead exemptions may differ in value from county homestead exemptions for the same property. In some cases, these exemptions are coupled with an income requirement and are referred to as circuit breakers. In such cases, the exemption may or may not consist of a base level available to all primary resident homeowners and an exemption provided to individuals with incomes below a defined amount. A similar exemption may also be provided to seniors, veterans or the spouses of police or firefighters killed in the line of duty. Some areas are also experimenting with providing homestead exemptions for teachers and police officers as an incentive to reside in the district in which they are employed.

Another commonly used property tax relief mechanism is an assessment limit. In general, this is a provision in the property tax code section that limits or caps the increase in the assessed value of the property to some annual amount. This is a common mechanism and has been put in place in many jurisdictions across the country. This provision serves to artificially reduce the amount of revenue raised from the property tax and thus, reduces revenue to the local government.⁷² In some jurisdictions, the cap is applied to all property and in others it is applied only to homestead property.

The common justification for these types of exemptions is the need for property tax relief. The property tax liability of a home can grow over time in two primary ways: through an increase in the assessed value of the property or through an increase in tax rates when the government needs to raise additional funds

⁷² The revenue loss associated with the assessment limit may be offset by increases in the millage rate.

for operations. Either situation results in an increase in annual liabilities for the homeowner. Because increases in property tax liability are unrelated to increases in income, homeowners can face a liquidity problem. For instance, a homeowner on a fixed income may have sufficient equity in the home to pay the liability but may not be able to access that cash until the home is sold. This situation is a concern for individuals regardless of income and age who live in areas where home values have rapidly appreciated.

Opponents to such exemptions cite issues relating to fairness and market interruptions. Homestead exemptions are not available for residential rental property; in fact, it is widely accepted that a significant amount of the property tax on rental property is borne by the renter.⁷³ Because renters generally earn less than most homeowners, this exemption creates a regressive aspect to property taxes. In addition, by placing less of a burden on homeowners, there is a higher burden placed on other properties, such as business and commercial properties, to raise the same level of revenue. This increases the cost of business operations in the locality and reduces the area's competitiveness as a business location.

RAMSEY COUNTY

Minnesota has a statewide homestead exemption, referred to as the Homestead Market Value Exclusion, which was approved in 2012 to replace a homestead credit program. Qualifying homeowners receive an exclusion equal to 40 percent of the first \$76,000 of market value. The exemption is gradually phased out for values between \$76,001 and \$413,800. In addition, Ramsey County provides homestead exemptions for blind and disabled property owners and for disabled veterans.

COOK COUNTY

Cook County has several homestead exemptions that can be combined with one another. These include a standard homeowner exemption, a longtime resident exemption, a longtime homeowner exemption, a senior citizen exemption, a veteran exemption, a disabled veteran exemption and a disabled person exemption. The Property Tax Extension Limitation Law (PTELL) as it applies in Cook County does not cap property tax assessments but limits the annual tax increase to the minimum of 5 percent or the annual growth in the CPI.⁷⁴

MARICOPA COUNTY

Arizona has approved two statewide homestead exemptions. These apply to widows and widowers and to disabled persons. In the case of both exemptions, the total household income may not generally exceed \$32,447, and the total assessed value of property may not exceed \$26,458. Furthermore, property assessments in Arizona are limited to the greater of a 10 percent increase over the prior year's

⁷³ Although renters do not submit the property tax to the taxing authority, it is assumed to be indirectly paid by renters in the form of higher rents.

⁷⁴ Illinois Department of Revenue. 2013. The Property Tax Extension Limitation Law, A Technical Manual. Retrieved from tax.illinois.gov/Publications/LocalGovernment/PTAX1080.pdf.

limited property value or 25 percent of the difference between the current year's full cash value and the prior year's limited property value.⁷⁵

FULTON COUNTY

Fulton County in Georgia offers a number of exemptions similar to those found in other counties across the country. The county offers a basic exemption for all primary-resident homeowners, several age- and income-related exemptions, and exemptions for disabled veterans and the surviving spouse of a veteran.⁷⁶ In addition, annual increases in assessments of homestead property are limited to of the lesser of 3 percent or the annual percentage increase in the Consumer Price Index (CPI).⁷⁷

The income-related exemptions offered by Fulton County illustrate the overlapping jurisdiction issue in a slightly different way than discussed earlier. The county provides three exemptions based on income: two of which rely on the federal definition of adjusted gross income (AGI) and one of which relies on the definition of Georgia taxable income. It is imperative to have a well-defined measure of income for such an exemption, and using a measure that is audited by other agencies reduces the administrative costs of the county tax collector's office. On the other hand, both income measures are outside the county government's control. Thus, changes made to AGI at the federal level or changes made to state taxable income will have revenue consequences for the county government. For example, the 2017 federal Tax Cuts and Jobs Act modified the calculation of AGI, which will affect the ability of some homeowners in Fulton County to pay their property taxes. As another illustration, consider the impact of the state exclusion for retirement income, which allows qualifying taxpayers filing a joint income return to exempt up to \$130,000 of retirement income. This results in a \$130,000 reduction in their Georgia taxable income. Because the county uses this same measure, the state exemption has revenue consequences for the county.

Sales Tax Exemptions

Sales tax exemptions affect the tax base for local governments differently from other tax expenditures previously described. The expenditures discussed in other sections of this report are predominantly tax expenditures by local governments as granted by the state. Under these circumstances, local governments have been given authority by the state to use a specific tax expenditure that often has impacts on underlying taxing districts. However, sales tax exemptions are typically tax expenditures made at the state level that affect municipalities and potentially overlapping tax districts.

⁷⁵ Arizona Department of Revenue, Property Tax Division. Aug. 25, 2015. Part 3 Assessment Procedures: Chapter 3 Limited Property Value. Retrieved from azdor.gov/sites/default/files/media/PROPERTY_AssessmentPart3Ch3.pdf. The full cash value of a property typically refers to the market value. The limited property value is the limited property value in the preceding year plus 5 percent.

⁷⁶ In addition, Fulton County also offers property tax relief through a property tax freeze applicable to homeowners aged 65 and older with federal adjusted gross income less than \$39,000 and by limiting the increase in property values for the purposes of computing the county property tax liability to 3 percent annually.

⁷⁷ Fulton County. Apr. 2, 2018. Fulton County Guide to Homestead Exemptions. Retrieved from fultonassessor.org/wp-content/uploads/sites/16/2018/03/Tax-Exemption-Guide-FINAL-03-16-18.pdf.

Common state sales tax exemptions apply to food for home consumption and medical supplies. Other state sales tax exemptions are often targeted to specific industries or sectors, such as exemptions on agricultural materials, renewable energy equipment, coal and gas production processing equipment, wireless telecommunication equipment, and research and development activities. When a state approves new sales tax exemptions, revenue to the state decreases and revenue at the local government level can also decrease to the extent that the governments share the sales tax base.

Minnesota, Illinois, Arizona and Georgia have approved a suite of sales tax exemptions. Georgia is an example of a state in which food for home consumption is exempt from the state tax base but not from the local base, thereby not resulting in a tax exemption at the local level. On the other hand, Georgia recently modified the taxation of motor vehicles. In doing so, it removed motor vehicles from the sales tax and property tax bases at both the state and local level and imposed an alternative shared revenue source designed to replace a portion of the lost revenue. This change in the tax base greatly affected the amount of local government revenues as well as the distribution of revenues between local governments.

Nonprofit Organizations

Another significant local government exemption is for property owned by nonprofit organizations. It is common to exempt nonprofit property from property taxes. The definition of nonprofit organizations qualifying for this exemption varies across jurisdictions but, in general, nonprofit property owned by governments, schools, churches, hospitals, and other charitable organizations are covered by this exemption. In many jurisdictions, though, it does not immediately follow that organizations classified as nonprofits for the purposes of the federal income tax exemption are exempt from the property tax. While the rules can vary significantly by jurisdiction, a general oversimplification is that entities classified as 501(c)(3) organizations tend to be exempt at the local levels from property tax.⁷⁸ On the other hand, organizations classified as nonprofit, other than 501(c)(3)s may not be included in this exemption.

Although the exempt property does not generate revenue for the local government, the local government remains under an obligation to provide services to that location. For example, the fire department responds to calls at the public school or hospital in the event of an emergency. In some cases, organizations may make payments in lieu of taxes (PILOT) to provide some funds to compensate for the absence of the property tax payments.⁷⁹ Not all organizations make or are asked to make PILOTs and when they do occur, the terms and amounts are not typically disclosed to the public but do represent revenue to the local government.

⁷⁸ Organizations classified as 501(c)(3) organizations are those that are determined eligible to receive tax deductible contributions.

⁷⁹ As an alternative, some organizations may provide services in lieu of taxes (SILOTs). Gravelle, Jennifer and Sally Wallace. 2009. Introduction and Overview: Erosion of the Property Tax Base: Trends, Causes, Consequences [Presentation]. Washington, D.C.: Lincoln Institute of Land Policy and George Washington University Property Tax Roundtable Proceedings.

In addition, there may be sales tax exemptions that are typically defined to apply to certain purchasers, the purchases of certain items, or both. In some cases, nonprofit organizations are not exempt from paying sales taxes on their purchases because of their nonprofit status. The rationale for this is that because nonprofits typically distribute taxable items, such as food and housing outside of a market transaction, the nonprofit organization operates as the point of collection for the final consumer of the product. Typically, the sales taxes are levied only with the authorization of the state government and as such, the exemptions are also dictated by state law.

RAMSEY COUNTY

In Ramsey County, the nonprofit exemption is generally limited to property used for public, educational, religious or charitable purposes that are classified as 501(c)(3) organizations and that meet the conditions of the state six-factor test.⁸⁰ Thus, the federal designation of 501(c)(3) status is a necessary, but not a sufficient condition, in and of itself to trigger the exemption status.

COOK COUNTY

A similar standard applies in Illinois. For instance, organizations established to operate as charitable, religious, educational, or governmental entities are exempt from the property tax for the property that is used exclusively for those purposes. Property owned by the organization that is leased or otherwise used for profitable purposes is not eligible for the exemption. Furthermore, civic and fraternal organizations are not eligible for the exemption.⁸¹

MARICOPA COUNTY

Exemptions for nonprofit organizations include property owned by 501(c)(3) organizations. In addition, property owned by fraternal organizations classified as 501(c)(8) or (10) and property owned by veterans' organizations classified as 501(c)(19) organizations are exempt.⁸²

FULTON COUNTY

Religious organizations designated as 501(c)(3) organizations in Georgia are exempt from tax as are all pure public charities, a term that is not defined in Georgia law.⁸³ In addition, the Georgia code describes numerous other types of property owned by nonprofit organizations that are eligible for exemption, including fraternal organizations classified as 501(c)(10), educational facilities, and nonprofit veterans' homes.

⁸⁰ See Minnesota Statutes 272.02

⁸¹ Illinois Department of Revenue. Sales and Property Tax Exemptions (POI-37).

⁸² See Arizona Revised Statutes Chapter 11 Article 3 for a list of exemptions.

⁸³ See Georgia code O.C.G.A. §48-5-41.

GASB 77

Because of the prevalence of the various types of tax incentives offered at the local level, the Governmental Accounting Standards Board (GASB) began to require that local governments report the value of their tax abatement agreements as part of their annual end-of-year financial reports. The standard, referred to as GASB 77, requires governments to report information about certain tax abatement agreements that affect their tax collections for accounting periods beginning after December 15, 2015. The purpose is to increase transparency by requiring governments acknowledge these liabilities against their current tax base.

Specifically, GASB 77 requires governments to provide information on the purpose of the abatement, the value of the abatement and the tax being abated, any recapture provisions, commitments made by the abatement recipient, and any other commitments made by the abating government such as commitments to provide infrastructure assets.⁸⁴ Although some governments may have provided this information before this requirement, the standard was introduced because generally few governments did so and did so regularly. In addition, abatements entered into by other governments that result in a reduction of their revenues are also required to be reported. The latter are referred to as passive abatements and highlight the impact of overlapping districts.

The GASB 77 standard does not require the disclosure of all exemptions. For instance, tax incentives referred to as “as-of-right” are not subject to disclosure under this rule.⁸⁵ These are incentives that are provided to any entity that meets the criteria, such as a homestead exemption or an exemption for qualifying nonprofit organizations. Furthermore, most sales tax exemptions or tax increment financing (TIF) arrangements may not be subject to reporting under this rule.⁸⁶ Lastly, the standard does not require an estimate of the future tax liability loss for the government. Only the revenue effect for the year for which the CAFR applies is required to be reported.

Of our example jurisdictions, Ramsey, Maricopa, and Fulton counties have reported additional information regarding various tax abatement programs in their recently available CAFRs. GASB 77 disclosure requirements for Cook County will become effective for FY 2017.⁸⁷

Conclusion

As the above examples have outlined, there are numerous types of tax incentives that are being used at the local level. These incentives can have significant implications to the budgeting process and future

⁸⁴ Statement No. 77 of the Governmental Accounting Standards Board. No. 353. 2015, August. Retrieved from www.gasb.org.

⁸⁵ Governmental Accounting Standard Series: Implementation Guide No. 2018-1 Implementation Guidance Update---2018, No. 369. May, 2018. Retrieved from www.gasb.org.

⁸⁶ The GASB 77 standard may apply to certain TIF arrangements. The important factor in determining the application of this standard with regard to a TIF is the substance of the agreement and not its title.

⁸⁷ Cook County. 2017. Comprehensive annual financial report for the year ended November 30, 2016. Retrieved from opendocs.cookcountvil.gov/comptroller/cafr/Cook_County-2016-CAFR_Final.pdf.

revenue streams. Thus, it is important for policymakers to understand the full extent of the revenue implications of these arrangements over the long run. The absence of any systematic reporting of the value and types of these arrangements leaves local governments vulnerable to budgetary shortfalls and puts them in a reactionary position in terms of strategic planning. Lastly, because of the presence of overlapping jurisdictions, local governments are not always aware of losses or threats to their sales and property tax bases. Identifying and computing the number, value, and long-term impact of these incentives on a regular basis will provide local governments with tools to better manage their fiscal environment. While some of this information is made available by the requirements of GASB 77, the above cases include several types of incentives that have significant revenue implications yet are not addressed by the new GASB rules; these will be included in a tax expenditure report.

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