



PERFORMANCE AUDIT

▶ AUDIT REQUEST

The Legislative Audit Subcommittee requested that we evaluate the overall success of tax increment financing (TIF) as a tool for municipalities to incentivize economic development. To accomplish this task, we reviewed past project area plans, assumptions, analyses, and outcomes from a random sample of ten case studies within Class 1 and Class 2 counties. Our audit team also reviewed four Economic Development Tax Increment Finance (EDTIF) project areas at the state level.

▶ BACKGROUND

Tax increment financing, or TIF, is an economic development tool designed to coordinate the actions of government and the for-profit sector by allocating revenue from property tax increases to fund development activities. TIF funds can be used for building infrastructure, acquiring or assembling parcels of land, paying developer incentives, and mitigating blight, among other uses. To use TIF funds, cities and counties need to work through a redevelopment agency. The agency board can create project areas and invite additional taxing entities, such as school districts, to participate.

Tax Increment Financing (TIF)



KEY FINDINGS

- ✓ Five of the ten project areas that we sampled had significant fund balances, with millions in unexpended TIF funds.
- ✓ TIF project areas have varying levels of analyses. Most of the sampled project areas provided either blight analyses or benefit analyses. While these analyses are helpful in determining the presence of health/social problems and identifying the nature of investment, they do not adequately justify the use of TIF funds.
- ✓ Even though all agencies in our sample complied with the statutory requirement of establishing project area plans, none of the ten agencies were able to show evidence that project area plan objectives had been tracked. Furthermore, only four agencies were able to provide evidence that developer objectives had been tracked.

Information on TIF Revenues and Expenditures Should Be Extensive and Easily Accessible

TIF project areas in Utah could be improved by increased transparency, evaluation, and a more controlled reporting process. Overall, we found challenges associated with monitoring the performance and compliance of TIF project areas because receipts, expenditures, account balances, and fund transfers of individual project areas are not statutorily required reporting elements.



RECOMMENDATIONS

- We recommend that the Legislature consider revising statute:
- ✓ To include guidance on managing unexpended TIF funds once a collection period expires.
 - ✓ To require local governments to make financial information such as receipts, expenditures, account balances, and fund transfers publicly available for each project area.
 - ✓ To require local governments to conduct a robust justification study known as a "but for" analysis that adequately justifies the use of TIF funds.

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REPORT SUMMARY

To Prevent Unnecessary Use of TIF Funds, Justification Analyses Should Be Required

A best practice for providing justification for TIF assistance is called the “but for” analysis. The name comes from the assertion that the development would not occur “but for” the use of TIF funds. An effective “but for” clause can prevent communities from using TIF when other tools might be more helpful and transparent, or when no public investment is necessary to ensure an area is adequately developed. Therefore, agencies must have convincing evidence to show that TIF funds are necessary to make proposed developments. Evidence in the “but for” analysis may incorporate a variety of factors including the type and timing of development, as well as anticipated public benefits. While current statute requires an analysis of the anticipated public benefit resulting from project area development, we are concerned that this type of analysis does not adequately

justify the use of the tax increment. Furthermore, not all analyses at the municipal level were conducted with equal consideration.

EDTIF Can Improve Its Project Audit and Justification Processes

The Governor’s Office of Economic Opportunity (Go Utah) administers the EDTIF program, which uses post-performance tax credits to incentivize companies seeking to expand or relocate to Utah. Internal compliance auditors at Go Utah analyze company-reported sales tax data by inputting information into a statistical model. Acceptable error rates entered by Go Utah auditors contributed to large sample size variations. Our concern is that this inconsistent sampling method may result in inconsistent outcomes for companies receiving EDTIF tax credits. As such, we recommend that Go Utah establish written policies and procedures to guide sample selection.

Local Governments Should Monitor Progress Toward Project Area Goals and Long-Term Outcomes

To measure the success of a TIF project area, we considered three elements:

- Marginal increase of property tax base
- Completion of project area plan objectives
- Completion of developer agreement objectives

TIF project area plans, which contain development goals and objectives, are presented in a public setting. The intended outcomes are part of the reason taxing entities (such as school districts) opt to forego their tax revenue for a specified length of time. For this purpose, agencies should be more transparent about whether project area goals and objectives are being successfully tracked and met.

Redevelopment Agency	Increased Property Value?*	Evidence Project Area Plan Objectives Tracked?	Evidence Developer Objectives Tracked?
Holladay City	Y	N	Y
Ogden City	Y	N	N
Riverdale City	Y	N	N
West Jordan City	Y	N	Y
West Valley City	Y	N	N
West Bountiful City	Y	N	N
St. George City	Y	N	N
Sandy City	Y	N	Y
Spanish Fork City	Y	N*	N
Orem City	Y	N*	Y

* Indicates agencies that provided a detailed analysis of objective completion as a result of this audit.