

Tax Increment Financing as a tool for Public Infrastructure Development: A Game Negotiation Experiment

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SUMMARY

The development of public infrastructure has been proven to be costly and complex because it often involves large-scale investments and management of conflicting interests of different parties from both the public and private domain. However, it also has been long recognised that public infrastructure can play a crucial role in economies because of its ability to produce positive effects to the society. Traditionally, public authorities or governments are responsible for public infrastructure provision and financing. With this perspective, the problems and difficulties in public infrastructure financing arise mainly because of the limitations on public revenue, expenditure, and borrowing as well as the increase of development and construction costs. This situation has increased the need to finance the public infrastructure development by involving the contribution from private sectors. One of the most promising financing mechanism is Tax Increment Financing (TIF). In short, with TIF, future tax income as a result of public investments are used to pre-finance these investments. As such, the instrument relies on projected rises in property values caused by public investments. The instrument has been applied, with varying success, in the US and Canada since the second half of the 20th century. Currently the instrument is also considered in other countries, including the Netherlands. However, such application requires (1) adapting the preconditions to the specific national context and (2) involves a structural reconsideration of the roles of public and private actors. In this study, we have conducted an experiment to simulate the essential negotiations between local governments and private developers that are embedded in the local application of TIF. The negotiation is about the contributions of the municipality and the private developer to the financing of public infrastructure and also the content of related development project by considering TIF as well as the profitability of the project to both players. In addition, we projected the application in a case study. These abstract and practical simulations provided the basis for a discussion of essential preconditions for TIF especially in the Netherlands context.