

## RESEARCH SUMMARY

# Economic Development Incentives, Reported Job Creation, and Local Employment

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Economic development programs such as tax increment financing (TIF) are among the tools policymakers use to pursue job creation. In spite of popular support for these programs, there is growing demand for evidence that TIFs are effective job creators.

In “[Economic Development Incentives, Reported Job Creation, and Local Employment](#),” Paul F. Byrne examines self-reported job creation numbers from TIF districts in Missouri and finds that the reported number of jobs they support does not have a positive effect on county-level employment.

### TAX INCREMENT FINANCING

TIF districts were originally conceived to help renew blighted areas by funding infrastructure improvements, but today they are more often promoted as job creators. They work in the following way:

- A geographical area is designated a TIF district, which often overlaps multiple municipal jurisdictions.
- Tax revenue collected by jurisdictions from within the TIF district is frozen at its value in the year of creation, and additional revenue raised is kept and managed by the district.
- TIF first uses bonds backed by expected increases in tax revenues to invest in infrastructure improvements or other costs necessary to encourage economic development in the district.
- Assuming tax revenues increase, the district repays its bonds and may be able to use any additional revenue or new bond issues to continue its investments.

### KEY FINDINGS

In the years examined, there were 513 TIF districts in Missouri. The state requires that TIF districts file annual reports on job creation and retention, but there is no consistent rule for determining whether a job was really created or retained as a result of the TIF district—in spite of a “but-for” provision, which requires that an incentive not be awarded unless the supported economic activity would not occur without the incentive.

New jobs, retained jobs, and total jobs (the sum of new and retained) are all reported by the TIF districts. Comparing the results of these reports with job creation data at the county level reported by the Bureau of Labor Statistics reveals the following:

- There is insufficient evidence that reported numbers of TIF-supported jobs have a positive impact on county-level employment, suggesting that TIF-supported jobs were simply shifted from other areas of the county or are supporting jobs that would have located in the county anyway.

- If TIF adoption increases economic activity within the district only by attracting jobs and spending that existed previously outside the district, this tempers the increase in economic activity in the TIF district.
- TIFs appear to have significant positive effects on job creation only when unobserved county differences are not included in the analysis, which could explain some positive findings for TIF job creation in previous studies.

Since TIF districts divert municipal tax revenue, Missouri lawmakers should require more evidence of the effectiveness of their incentive programs for job creation than self-reporting on TIF-supported jobs.