Athens State University

Economic Updates

Spring 2016

ASU College of Business

This journal is provided as a service by the Logistics, Technical, and Programmatics Institute (LTPI) at Athens State University and concentrates on providing access to the expertise and research capabilities of the University's College of Business to government and businesses. The University publishes an annual journal to provide data and information on the economy of north Alabama and to assist the professional community to quickly respond to a growing global demand from a cross-section of businesses. Our faculty are leading efforts with both government and business agencies to provide economic impact assessments, marketing analysis, employee climate surveys, training, and personnel growth, and we stand ready to assist with your requirements.

TIF as a Tool for Municipalities by Dr. Thomas Pieplow

Dr. Thomas Pieplow
Associate Professor of Management/ Logistics

Ray Kinsella was a farmer from the Midwest who loved baseball. In fact, baseball was the only thing where Ray and his father shared a common bond in an otherwise turbulent relationship. One evening while aimlessly walking through his cornfield, a voice spoke to Ray and whispered, "If you build it, he will come." The voice continued until Ray saw a vision of a baseball diamond rising like a Phoenix from ashes, and set in motion his dream to build a diamond on his farm. Ray knew that if he did, Shoeless Joe Jackson and other old-time players idolized by his father would return to play on the field Ray constructed. This story was made famous by the 1989 movie *Field of Dreams* where Ray, played by Kevin Costner, demonstrated the power of seeing things before they are visible. Despite the distinct prospect of financial ruin, Ray continued building his baseball field because he knew that unless he built it, the players would not come. Ray Kinsella knew that he could not wait for the players to arrive and then begin constructing a baseball diamond. He recognized there was a clear danger posed by building a field when no players yet existed and most of his friends thought his plan was sheer foolishness. But Ray believed that a baseball diamond in the middle of his cornfield had potential others could not see and because of that, he risked everything he had in order to see this dream come true.

Continued on p. 2

Student Loans: The High Cost of Higher Education by Dr. William Wilkes

As the events leading to what is now known as the "Great Recession" were occurring during 2006 and 2007, the increase in student loan debt was becoming apparent. As public funding of higher education was decreased, students were forced to use more loans to finance their education. This has increased the risk and reduced the expected rate of return for students and society, even to a point where pursuing a degree in higher education is less possible and they drop out. Students still have the loan to repay, but there is no economic boost of earning a degree to help them cover the loan cost. The *Washington Examiner*, Tuesday, April 12, 2016, noted that only 3.5% of students who default on their loans are the ones who successfully earned a bachelor's or associate's degree, while 60% of defaulters did not graduate.

Unlike other types of loans, student loans cannot be discharged through bankruptcy, which means these students will have an extremely difficulty, ongoing future obligation of debt repayment which puts a financial strain on families. In October 2, 2015, Michael Stratford wrote in the *Inside Higher Ed Journal* that the Obama Administration is backing legislative efforts for the first time which would allow students to more easily use bankruptcy as a means of erasing private student loans which don't have parallel protections built into the federal direct loan program. This is part of a package of proposals which would help Americans who are having difficulties making student loan payments.

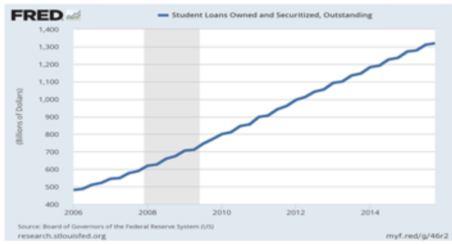
There is no doubt that the economic impact of increasing student

Continued on p. 2

Dr. William Wilkes
Professor of Economics

Student Loans... *(continued from p. 1)*

loans has slowed down recovery from the Great Recession. Individuals with more student loan debt are less likely to purchase cars or homes and are prevented from enjoying the increased standard of living from earning a college degree. According to the AFL-CIO,



in their publication of November 23, 2015, recent graduates are having a hard time finding a meaningful and stable job which is forcing them to take low paying employment in order to gain experience but this places a financial burden on them as they attempt to repay student loans. The magazine states, "Studies show that college graduates are more likely to start small businesses which have historically provided jobs and services that contribute to the economy."

Unfortunately, data is not available from the Federal Reserve until the start of 2006; however, the graph shows that student debt increased from $500 billion in 2006 to the most recent total student loan debt in 2015 of $1,295 billion, a compounded annual growth rate of 11.15%.

As the U.S. economy was exiting the Great Recession in 2009-10, the data show an interesting correlation between the decrease in the unemployment rate and a slow down of the annual percentage increase in student loans. This slowdown does not mean that the amount of student loans is decreasing. Rather, the slope of the total annual student loans will become less steep. This slowdown is shown in the table below. Data shows that, after 2008, student loans were experiencing a reduction in the percentage change in the annual growth

YEAR	STUDENT LOANS	ANNUAL % CHANGE-LOANS	% UNEM-PLOYMENT RATE
2006	$500.006	N/A	4.6%
2007	$565.282	13.06%	4.6%
2008	$644.937	14.09%	5.8%
2009	$733.475	13.73%	9.3%
2010	$828.309	12.93%	9.6%
2011	$926.883	11.90%	8.9%
2012	$1,026.411	10.74%	8.1%
2013	$1,118.702	8.99%	7.4%
2014	$1,209.145	8.08%	6.2%
2015	$1,295.021	7.10%	5.5%

rate of the loans. The annual growth was at a maximum of 14.09% in 2008 and decreases every year to a 7.10% annual increase in 2015. This is shown by the blue line in the graph on page 3.

Continued on p. 3

"We are competing with communities across the globe for jobs and TIFs are one of several tools at our disposal to remain a viable player"

TIF as a Tool... *(continued from p. 1)*

Today, governmental entities face a somewhat similar paradox when it comes to economic development. Thirty years ago, cities such as Detroit, Atlanta, Moline, or Nashville were the competition; but today, businesses are actively courted by communities outside our borders, such as Beijing, Seoul, New Delhi, Winnipeg, and Juarez. North Alabama has competed well on this global stage and government leaders deserve credit for employing initiatives that made this region a destination of choice and, like Ray Kinsella, recognizing that "building it first" is imperative if we expect them to come.

One of the primary mechanisms employed has been Tax Increment Financing (TIF), a tool that allows municipalities to promote economic development using revenues from future funding streams. TIF is a program where local government officials designate a geographic area for development and then finance certain aspects of the development with future growth in tax revenue generated within the designated TIF area. At its core, TIF assists development activities and subsidizes businesses in a TIF area using property or sales tax revenue generated in the TIF area to finance land acquisition, site preparation and cleanup, and infrastructure improvements that benefit private businesses that locate their operations on sites within the TIF area. Often, the financing arrangement involves a bond issue that provides upfront money to pay for the TIF programs. The debt service on the bonds is then paid from the tax revenue generated in the TIF. In most cases, the revenue source for TIF programs is the property tax; but in some instances, sales tax is used as a revenue source.

When a TIF area is designated, the property values within the TIF area are specified as the "base property values." The property tax revenue subsequently generated from the base property values continues to be distributed to local government and school district programs. Property tax revenue generated from the growth in property values above the base property values is diverted to finance the TIF development programs in lieu of being distributed to local government and school district programs. This revenue stream is referred to as the "tax increment." Because TIF only diverts the tax increment to TIF programs and leaves in place the base revenue financing existing local government and school district programs, TIF has historically been advocated as a self-financing economic development program that does not reduce a local government's base revenues.

Continued on p. 3

TIF as a Tool... *(continued from p. 2)*

The self-financing aspect of TIF both adds to its popularity and differentiates it from other economic development programs such as tax abatements, tax credits, and other incentives, enterprise zones, and direct subsidy programs. The programs that are alternatives to TIF either forego tax revenue (base revenue as well as revenue growth) or make expenditures from current tax revenue to subsidize and encourage development projects. In the case of TIF, the business continues to pay property taxes on its assessed value, part of which continue to flow to local government units. The same argument cannot be made for these other economic development programs.

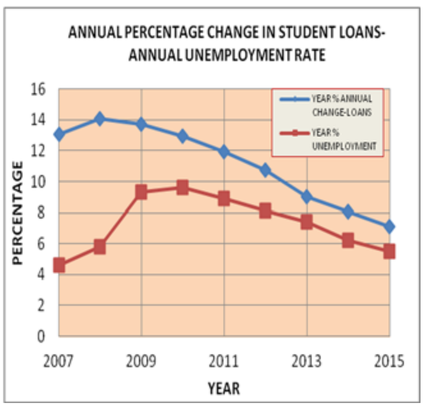
For the past 15 years, TIFs have played a key role in both luring businesses to Huntsville as well as improving the existing footprint. Huntsville viewed TIFs as an opportunity to stimulate business development as well as enhance a school system that needed to renovate aging facilities as well as build new schools. Business development in key locations around the city was inhibited by the lack of adequate infrastructure. TIFs offered an opportunity to invest in these needed improvements without raising taxes on those already residing in the city. TIFs generate revenue through the growth in the tax base, not through an increase in the tax rate.

Huntsville has long been a regional shopping destination but recognized the need to diversify if it were to remain the choice for many consumers. In 2002, the $50 million "Westside Center" opened, anchored by the city's first Super Target. Prior to the opening, the city designated the sixty acre site as a TIF1 and spent over $2.3 million to develop the roads and infrastructure necessary to support such a facility. TIF1 proved to be a huge success, with the increased tax revenues allowing debt to be retired nine years ahead of schedule. Again, this did not require an increase in any taxes on current residents but, instead, borrowed against future revenues in order to improve roads, revitalize schools, and create jobs.

Huntsville Mayor Tommy Battle has been aggressive in bringing jobs to the Tennessee Valley and believes that without TIFs, remaining competitive would be difficult. "We are competing with communities across the globe for jobs and TIFs are one of several tools at our disposal to remain a viable player," said the Mayor.

Continued on page 4

Student Loans... *(continued from p. 2)*



While the data in the graph and table are limited to 9 years, they do show an interesting relationship between spending in higher education, using annual changes in total student loans as a proxy for investment in human capita, and the unemployment rate. A doctoral thesis submitted in 2015 by Diana Barbu, Florida State University, "The Relationship Between Unemployment and College Enrollment and Success Outcomes" commented that scholarly studies in higher education have stated that the desire to acquire higher investment in education increases during periods of higher unemployment or recessions. The two columns in the table to the left lists the annual percentage change in student loans and the unemployment rate show this relation appears accurate after 2010 as the economy was coming out of the Great Recession. This can also be seen in the graph below by the close movement of the plotted data in these two columns. This shows that the growth rate of student loans (blue line) decreased at approximately the same rate as the changes in the unemployment rate (red line). This suggests that as the economy continues to improve, there will be an ongoing reduction in the growth of student loans.

While the growth of student loans has slowed down, the Obama Administration is trying to find ways to help students with the high costs of college or lower than expected income. According to a White House Bulletin in July 2015, about 65% of graduates have student debt of over $23,000. This debt represents a financial burden on graduates who decide to enter public service careers which are often lower paying than jobs in the private sector. Students can suffer loss or reduction of income due to setbacks from unemployment, serious illness or do not complete their degree.

One of the major initiatives was the Health Care and Education Reconciliation of 2010 when President Obama reformed part of the Direct Loan Program and offers programs to graduates with federal student loans. The programs deal with a variety of student loan repayment plans, some of which adjust loan repayments based on the graduate's earnings so they won't be expected to pay more than is affordable. It also contains student loan forgiveness in some circumstances. One of the negative issues relating to loan forgiveness is that the Internal Revenue Service considers forgiven loans to be earned income which is subject to standard tax rates.

The different federal student loan programs are complicated, and it is important that graduates understand their options, benefits, and costs. They must also recognize that life altering events may change their ability to earn sufficient income to repay the loans. In such cases, they must contact the Department of Education for assistance in understanding the various loan programs. The Department of Education and agencies that make federal student loans offer a number of websites to help students pick programs which are most beneficial. Students must also be wary of agencies/organizations that offer assistance for payment since many of these are scams. Here are several URLs which link to legitimate and reputable websites.

https://studentaid.ed.gov/sa/about/announcements/debt-relief-message

http://www.bc.edu/offices/stserv/financial/undergrad/types_of_aid/loans_financing/federal_student_loans/federal_direct/forgiveness.html

Finally, there is an interesting employer benefit program which is becoming appealing to students and helps companies attract the best college graduates. According to the Society of Human Resource Management, a small, but growing number of firms are beginning to offer student loan assistance programs as an option to a 401(k) retirement plan. Graduates who have large student loan repayments don't always have enough income to participate in retirement plans and would rather have help from their employers which assist with student debt repayments.

College of Business

Athens State University
College of Business
300 North Beaty Street
Athens, AL 35611

Phone: 256-216-5352
Fax: 256-216-5351
Email: thomas.pieplow@athens.edu
Email: bill.wilkes@athens.edu

Building Success Stories

We're on the Web

www.athens.edu/college_business/

TIF as a Tool... (continued from p. 3)

"Huntsville remains a very attractive destination for businesses and through the employment of varying incentives, we have been able to target some of the best corporations in the world. But the successes we have realized also speak to the partnership that has been forged among city, county, and state governmental bodies. That singular focus on schools, roads, and jobs has fostered an environment that businesses want to join and be a part of."

The $230 million Toyota factory, North America's first V-8 engine production facility located in northwest Huntsville, is another testament to what TIFs can mean to a community. TIF 3A was the primary factor behind Toyota's decision to build in north Alabama. This brought more than several thousand new jobs to the area—it also provided over $12 million for capital improvements to eight schools in the northwest Huntsville district, while the debt incurred by the city was retired ten years ahead of schedule.

TIFs will remain one of several incentive tools available to development authorities.

The most recent, and possibly the largest in terms of potential, is TIF D6 (map attached). The footprint encompasses Limestone and Madison counties as well as the cities of Huntsville and Madison. Polaris and General Electric have already committed to the site and with the planned infrastructure improvements, there will be ample opportunities for even larger facilities. TIFs are not unique to north Alabama and have been employed across America for decades, though many in other states have not been as successful as those cited. One key to the local success stories is founded on the willingness of state, county, and city government leaders to work together. President John F. Kennedy once said, "Success has a thousand fathers, but failure is an orphan." Instead, leaders from across the region have followed the advice of President Harry Truman who said, "It is amazing what you can accomplish if you do not care who gets the credit." Because leaders have been united in a common objective, a climate has been fostered where the corporate makeup of the region is truly diversified, while also showing a growing resilience to changes in the economy.