



Tax Increment Financing

PRIMER

INTRODUCTION TO TAX INCREMENT FINANCING

The Tax Increment Financing (TIF) permits a community (governing body, municipality, school district, downtown improvement district, business improvement district) to borrow money through a bond issuance or other debt instrument to improve a distressed property and to repay the bonds with future tax revenue generated by the improvements to property (private and public.) As the property improvements are completed and the property's assessed value increases; incremental tax revenue is generated.

Tax Increment Financing (TIF) began in California in 1952. Aside from Arizona, every state has enabling legislation that allows for this type of financing, though the name that this type of financing goes by may vary from state to state.

The reason TIF's have experienced widespread adoption is because they can be a powerful economic development tool for a community which decides to target a distressed property and come up with a plan to address the concerns of the community for the property.

USE OF TAX INCREMENT FINANCING

The basic concept is that a governing body will work with an Authority to create a TIF District. Formation of a TIF District is typically formed by a municipal authority (the "Authority.") Once the TIF District is formed then a community can borrow money through a bond issuance or other debt instrument to improve a distressed property and to repay the bonds with future tax revenue generated by the improvements to the property.

It's important to note that the Authority is the one that will initiate the TIF. This can be a Redevelopment Authority, or a Commercial and Industrial Development Authority. The TIF Authority will bring the proposal to all the governing bodies that will be part of the project, all municipalities and school districts that levy property taxes in the proposed economic development area.

The TIF Authority recommends the boundaries of the District along with a TIF project plan. Items that a project plan should include are:

- » A list of public works or economic development improvements within the proposed district
- » An economic feasibility study of the project including how it will affect the municipal tax base
 - A detailed list of estimated project costs: Capital costs, professional services & administrative costs, financing costs
- » A description of how all the costs will be financed, and a timeline for funding them
- » A map showing project
- » Any changes to zoning ordinances

The governing body of the municipality can approve the District, in whole or in part, by adopting either Resolution or Ordinance depending on what the municipal code would stipulate.



After the District is approved, the finance officer of the municipality will notify the municipality's assessor to determine the full aggregate market value of all taxable property in the district. This will establish the tax increment base, from which increases in property values and tax revenues will be calculated. Some municipalities have also included taxes on commercial activity in their TIF District and increment base.

QUESTIONS THE FINANCE OFFICER SHOULD ASK ABOUT TAX INCREMENT FINANCING

The finance officer should be prepared to answer the following questions about a proposed TIF.

- » Who (e.g. Authority, developer) will bear the risk if actual tax increments do not meet or exceed projected tax increments for the purposes of paying the debt
- » How will the positive tax increments in the District be allocated to the Authority that issued the debt instrument?
- » How long will the allocations to the Authority continue, until it equals the amount of expenditures made, or monetary obligations incurred, for the project costs?
- » How long may the district exist? Number of Years?
- » How will the TIF impact the financial health of overlapping jurisdictions (TIFs are sometimes criticized for diverting future revenues away from overlapping governments, particularly school districts)

OUTSIDE RESOURCES FOR TAX INCREMENT FINANCING (TIF)

- » Community Development Finance Agencies (CDFA):
 - <https://www.cdfa.net>
 - <https://www.zonwhois.com/www/cdfa.net.html>
- » Nebraska Tax Incrementing Financing (TIF): www.neded.org/tax-increment-financing
- » City of Chicago: <https://www.cityofchicago.org/city/en/depts/dcd/provdrs/tif.html>
- » City of Philadelphia: <http://www.pidcphila.com/product/tax-increment-financing-tif>
- » Lehigh Valley Economic Development Corporation: <http://lehighvalley.org/the-abcs-of-the-tif/>
- » Legislation: <http://www.legis.state.pa.us/WU01/LI/LI/US/PDF/1992/O/0164..PDF>

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