

# Tax Increment Financing (TIF) White Paper

## Traditional TIF—How It Works:

Tax Increment Financing is a tool that allows municipalities to promote economic development by earmarking property tax revenue from increases in assessed values within a designated TIF district. It is available to local governments and developers in 49 states and the District of Columbia. The original intent of TIF was to provide an adequate tool for the reuse and redevelopment of the nation’s urban centers and to eliminate blight. Generally, TIF has focused on industrial development, commercial/office development, and, in some states, retail development. Taking advantage of TIF benefits requires the formation of an urban renewal agency, and the designation of an area in which certain public improvements will be made using additional taxes generated from business growth within the TIF area.

## Steps:

First, the TIF district is defined for development. Then the tax baseline is established within the district. Finally, the TIF districts negotiates a deal with taxing agencies to receive a portion of the incremental increase in tax revenue resulting from the improvement within the district for some specific timeframe, typically 20-30 years. The increment is used to pay the developer for the cost of infrastructure, land acquisition, demolition, utilities and planning, and other improvements in the district. Tax-exempt revenue bonds are issued by the TIF district to finance the infrastructure. When the district is terminated, the increment reverts back to the taxing entities, and they receive all the taxes paid from that point forward.

## Example:

A municipality wants to develop a parcel that contains one substandard commercial building. Property tax on this parcel is \$30,000 per year. A developer is willing to invest \$2,000,000 to improve the building and make it suitable for new use if the municipality will improve the existing infrastructure. The municipality makes an investment of \$500,000 to improve the sewer, and add curbs and sidewalks. These public and private investments result in an increase in assessed property value – causing the property tax to increase to \$60,000 per year. The project would result in a new tax increment of \$30,000, which the municipality uses to off-set its original investment of \$500,000 in less than 17 years. After this initial investment is paid-off and the TIF district dissolved, the newly generated increment can then be used for additional investments in the area.

Parcel pays \$30,000/year in property tax.....	\$30,000
Municipal Investment to improve infrastructure .....	\$500,000
Developer investment on rehabilitating dilapidated building.....	\$2,000,000
Resulting increase in annual assessed value property tax .....	\$60,000
Resulting annual tax increment .....	\$30,000
Number of years to pay off municipality’s initial investment ( $\$500,000/\$30,000$ ) ...	16.7