

Economic Development Insight

Tax Increment Financing

By Joan Bethell

Municipalities use a variety of tools to enhance and increase the capacity of their communities. However, just like any development, the necessary improvements come with a price tag.

A popular and effective approach is targeted area redevelopment, which, according to the following excerpts from the International Economic Development Council's E.D. reference guide, is "a comprehensive approach that addresses the potential of an area and the synergies among sites. By improving infrastructure and multiple properties, the market appeal and value of an entire area increases."

"Rebuilding the physical infrastructure of a community improves the local business climate ... Infrastructure gets people to their jobs and goods and services to their markets ... Programs to build roads, provide water and waste removal, and offer telecommunications services all bestow substantial economic benefits such as job and business creation and retention to a community."

"Some communities use Tax Increment Financing (TIF) for infrastructure improvements ... TIF captures the future tax benefits of real estate improvements to pay the present cost of those improvements."

The Government Finance Officers Association's (GFOA) publication on TIF has this to say about the reasons for its use: "Governments employ TIF to promote economic development and redevelopment. By capturing future incremental revenue, the sponsoring government is able to undertake economic development activities or provide subsidies that otherwise might not be possible ... it helps local governments achieve a variety of E.D. goals, including job creation, growth in property values, and protection of the local tax base ."

"TIF is used in nearly every state ... Currently forty-nine states allow city and/or county governments to establish TIF districts."

Just as there are varied objectives when creating a TIF district so, too, the type of district can differ, based on financing type, land use, and even sponsoring government. Property taxes are the most common financing source.

So, how does the financing of a TIF work? (Snapshot of a frequently-used model)

- Before creating a TIF district, the base revenues from the properties within the boundaries of the proposed district are established. These revenues include the existing property taxes assessed by each of the taxing agencies, such as, schools, cities, counties, and special districts. These original taxing agencies will continue to receive their portion of these taxes.
- If major, costly, up-front investments are needed, such as land assembly and municipal infrastructure, these improvements to the area can be financed by issuing bonds (the government borrows the money.)

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- As new commercial or industrial structures are built within the district, the increased taxes (only - not the base revenues, which continue to be disbursed to the original taxing agencies) are then allocated to pay the debt service on the bonds.
- Any surplus of funds allow the government to make extra payments, so as to retire the bonds before the scheduled maturity date, or can be used to finance additional projects that will further benefit the TIF district.

Benefits of TIF versus other financing tools include “self-financing - the incremental revenue expected to occur after businesses move into a TIF district provides the resources needed to carry out TIF projects, thus alleviating the need to establish a separate tax levy or increase tax rates upon residents outside the TIF district); local control - not dependent upon federal or state funding); and, flexibility in project activities (but still within legislated guidelines).” *Reference: GFOA.*

“A prime feature that makes TIF attractive is that it does not require a direct increase of property tax rates. The incremental revenues that are derived from a TIF project are obtained by applying the same tax rate as in the rest of the municipality to new businesses that enter the TIF district ... As a result, taxpayers outside the TIF districts will not see a direct increase in their property tax rates in order to finance TIF projects.” *Reference: GFOA.*

In future articles, I'll share some of the other tools used in community and economic development.

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