

Big Sky Chamber of Commerce Board Meeting
September 9, 2014
TIF as Economic Development Tool

Advantages of Tax Increment Finance (TIF)

The ability to **target a specific geographic area** for new investment strengthens the argument for the use of tax increment financing. Part of the appeal of the use of tax increment financing is that no public vote is required. Many states require votes on various types of bond issuance for public purposes. Another advantage decision-makers see is that they can provide additional infrastructure for the community while not increasing property tax to fund bonds.

Leveraging TIF funds with tax exemption programs such as the New Market Tax Credits or Low to Moderate Housing Tax Credits is also popular. Utilizing multiple funding sources can sometimes facilitate public/private projects that would not happen with the help of a TIF alone. Many areas find they cannot qualify for grants due to a lack of matching funds. TIF funds can be utilized to “match” other government source funds such as Community Development Block Grant Funds.

Public Private Partnerships (P3s) are also possible when a TIF fund is available. Public sector funds such as TIF allow governments to harness the expertise and efficiencies that the private sector brings to a project. Under this scenario the private sector assets fund larger public facilities “off balance sheet” without the need to borrow and the TIF repays the partnership over time.

How This Economic Development Technique Works

The idea is to use future increases in property values, and therefore in property taxes that will be due to **finance an improvement here and now**. The increased tax that the local government is expected to collect in the TIF district over a designated period of years, is the “tax increment.”

Taxes continue to be owed on the original value of the property, but the tax on the increased value of the property after development or redevelopment is the tax increment.

The municipality then typically takes the promise of the tax increment to the bond market to obtain the money it needs to construct public infrastructure improvements to support a development.

In some instances, the support may actually take the form of contributing cash to the developer's cost to give the developer an **incentive to do the project** or allow the developer to make a reasonable profit in a risky situation.

Permissible uses of TIF vary widely from state to state. Commonly they include property acquisition, demolition of existing buildings, site preparation, utility expansion, storm and sanitary sewers, roads and streets, sidewalks, parking lots or garages, parks, street lighting, and such.

The TIF district may be restricted to one property or it may include several land parcels for which specific development proposals may or may not exist.

TIF funds are typically managed by a special district or designated division of government. They comply with all open record and public notice requirements when utilizing TIF funds on projects.

Developers receiving assistance with TIF funds are typically required to present project applications, utilize competitive bid processes and provide financial records to the district.

Key Points

- TIF is not a new tax, it is the captured **incremental increase** of the current property tax base redirected locally.
- By following best practices and creatively pairing district revenue with other financing tools, communities can leverage TIF to effectively provide targeted redevelopment.
- TIF can be used to fund infrastructure development projects to spur private investments that would otherwise not occur.
- TIF is most commonly used to cure blight, restore and revitalize infrastructure, solidify the tax base, encourage a high standard of development and fund projects that provide public benefit.
- Successful operation of TIF districts requires attention to both project financing and best practices for development
- Best practices are focused on the mechanics of the project. Identifying the experience and financial history of the developer is required up front when TIF funds will be directed to the project. Especially if the project will require TIF bonding.