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TAX INCREMENT FINANCING (TIF)

Tax Increment Financing (TIF) is a technique that municipalities may use to carry out redevelopment activities on a local basis. The technique is used to pay for the public and designated private improvements and other services needed to prepare a project area for private investment. Tax increment financing allows a community to capture the increase in various state and local taxes that result from a redevelopment project to pay for the costs involved with the project. Tax revenue obtained from the redevelopment is called "tax increment." This is why the technique is called tax increment financing.

Under tax increment financing, a community must calculate the equalized assessed valuation of real estate at the time the "blighted", "conservation" or "industrial park" area is designated as a TIF area. This base amount of taxes that had previously been levied on the real estate continues to go to the taxing bodies serving the TIF area such as the county, school district, township, etc. This system does not lower the tax revenues collected by the various taxing districts; nor does it impose special assessments on the project area. However, the growth in property tax revenues generated in the TIF redevelopment area (the tax increment) above the base amount goes into a special "tax allocation fund." These funds are then used by the municipality to pay the investments made in the TIF area. These property tax increment diversions continue until all costs related to the redevelopment are paid or for a period of 23 years, or such extended period as enacted by the State Legislature, whichever comes first.

The "tax increments" are often used to retire municipal bonds issued to finance land acquisition, demolition, property rehabilitation, new construction, and other activities within the redevelopment area. Municipalities can also fund redevelopment activities on a pay-as-you-go basis. For example, by using tax increments from the area to complete numerous small projects as funds become available, the TIF area can be redeveloped without bonding.

Municipalities have used or plan to use tax increment financing for a variety of purposes. For example, a number of communities have constructed parking facilities to complement anticipated private commercial development; others have acquired obsolete buildings and demolished them to provide sites that are resold to developers. Another popular use of tax increment funds is the construction of streets, curbs, gutters, and sewer and water lines and streetscaping. In addition, several municipalities have offered below market rate commercial rehabilitation loans to developers, made traffic engineering and mass transit improvements, and developed overhead pedestrian walkways.

The property tax proceeds collected from a TIF redevelopment area can be used for a broad range of public purposes including:

- planning, architectural, engineering, legal and other services;
- property assembly costs including land assembly and purchase of real and personal property
- demolition of buildings and clearing and grading of land, for example, for lease or resale;
- rehabilitation of existing public buildings and fixtures;
- construction costs of public works or improvements and capital costs;
- bond financing costs incurred by the municipality; and
- certain staffing costs to implement and administer the redevelopment plan.

The tax increment proceeds can also be used directly for certain incentives to spur private sector investment including:

- interest costs incurred by a redeveloper in a redevelopment project, provided that they do not exceed 30 percent of the annual interest costs incurred by a TIF project redeveloper;
- training costs of a business' employees within the redevelopment area;
- relocation costs required by federal or state law or as determined is necessary by the local government;
- clearance by demolition or removal of any existing building or structure; and costs of rehabilitation, repair, reconstruction or remodeling of existing private buildings.

TIF techniques may be used in conjunction with a range of other business development tools such as: special service area financing, certain county incentives, the issuance of tax-exempt revenue bonds, business loans and loan guarantees by state and federal agencies, etc.

The use of tax increment financing is clearly designed to stimulate private sector investments (and related employment opportunities) which otherwise would not have occurred within the municipality. TIF does not mandate public/private sector funding ratios as do certain other state and federal economic development grant programs.