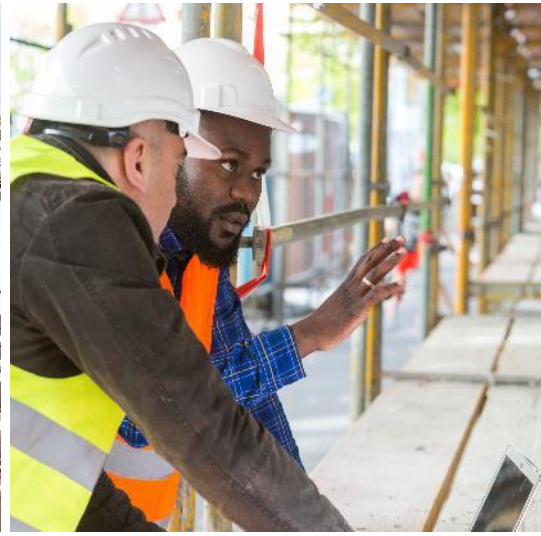


Tax Increment Financing:

Primer



Primer
Every Day Counts
Innovation Initiative
June 2021



U.S. Department of Transportation
Federal Highway Administration



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16. Abstract This primer provides practical information for implementing tax increment financing (TIF) for State and local departments of transportation and public works agencies as one approach for adding value capture to their infrastructure funding strategies. It includes an overview of this technique, the processes involved in implementation, and real-world examples of when and how it can be used.					
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LIST OF ACRONYMS AND ABBREVIATIONS

USDOT	U.S. Department of Transportation
EIFD	Enhanced infrastructure finance district
ERGG	Economic Redevelopment and Growth Grant
FHWA	Federal Highway Administration
SIB	State infrastructure bank
SSD	Special service district
TAD	Tax allocation district
TIF	Tax increment financing
TIFIA	Transportation Infrastructure Finance and Innovation Act
TRZ	Transportation reinvestment zone

FOREWORD

State and local governments often struggle to mobilize the necessary funds to maintain, rebuild, and expand their local transportation networks. Planned projects often face funding hurdles that may result in projects being delayed or cancelled altogether, leaving important safety and mobility objectives unmet.

Derived from real estate developments, “value capture” refers to a set of techniques that allow monetizing the appreciation in real property values triggered by infrastructure improvements. Such monetization enables generation of future revenues that can be leveraged upfront to help finance current or future infrastructure improvements. Under the right circumstances, this may allow practitioners to help close funding gaps and accelerate project delivery, as well as trigger much needed economic development/redevelopment to provide livable communities, create jobs, and provide environmental stewardship benefits.

In some places, it is assumed that conditions are so bad that no new development will occur. It also is assumed that new or improved infrastructure will be capable of catalyzing new private development. In order to fund this infrastructure improvement, a geographic area (district) subject to the influence of new infrastructure is defined. Specified tax revenues within the district (prior to the project) are benchmarked. Once the project is undertaken, any increase in district revenues is deemed to be attributable to the infrastructure project. This revenue increase (the “tax increment”) is not deposited into the general fund, but instead into a special account dedicated to fund the infrastructure project. This tax increment financing, or TIF, continues until the project construction or financing costs have been retired. At that point (sometimes after 15 to 30 years), the TIF district is terminated and all revenues are deposited into the general fund.

This primer was developed on behalf of the Federal Highway Administration’s Every Day Counts-5 Value Capture Implementation Team and is based on literature reviews, interviews, case studies, and lessons learned from practicing agencies. It introduces the TIF concept and how it can provide a funding source to help improve transportation and other critical infrastructure needs. It also provides several examples showing how public agencies have established and managed TIFs.

EXECUTIVE SUMMARY

In economically distressed areas, infrastructure improvements might be necessary to induce development. However, because of economic distress and a lack of economic activity, revenues may not be available for making such improvements. Tax increment financing (TIF) was created for such situations. The concept is simple:

1. Specified tax revenues in an eligible designated area are benchmarked prior to any infrastructure improvement.
2. After infrastructure improvements have commenced, any revenue from this area up to the benchmarked amount continues to be deposited into that jurisdiction's general fund. However, any increase in revenue in this area above the benchmarked amount or a designated portion of such an increase (the "tax increment") is deposited into a special account.
3. Funds in the special account are used exclusively for infrastructure improvements to benefit the properties and businesses in that designated area (TIF district).

TIF proponents claim that such infrastructure improvements are "self-financed" because they are paid for by revenue from economic development that would not occur without these improvements. In other words, TIF is an example of "value capture," whereby a portion of the private economic gain that is created by a public infrastructure investment is returned to the public sector to pay for that public infrastructure.

This relatively simple funding and financing mechanism rests on two primary assumptions:

1. Without the infrastructure improvements, little or no economic development would occur in the TIF district and public revenues would remain unchanged into the future.
2. Infrastructure improvements are necessary for private development to occur. In other words, the new development that generates the tax increment would not occur "but for" the infrastructure improvements being paid for by the tax increment.

This document provides detailed information about the:

- Types of infrastructure projects that are suited to being funded by TIFs.
- Steps to establish and operate TIFs.
- Risks associated with anticipated TIF revenues and how these risks can be mitigated.
- Administrative, legal, and regulatory issues, including competing views about whether the two primary and essential assumptions are being satisfied.
- Examples of individual TIFs that have been implemented or proposed.

CHAPTER 1. INTRODUCTION TO TAX INCREMENT FINANCING (TIF)

1.1 Funding Transportation Facilities and Services

In 1902, the year of the first comprehensive census of governments, property tax generated 68 percent of combined State and local revenue. Between 1900 and 1942, property tax diminished as a State revenue source as State governments shifted away from property tax in favor of sales and income taxes.¹ After World War II, States increasingly relied on funding from the Federal Government for transportation and other infrastructure. In the transportation arena, Federal funding typically came from the Highway Trust Fund, supported by a per gallon Federal excise tax on fuel. State funds, both for State roads and for State matching funds for Federal funds, were supported by State excise taxes on fuel.² Sales and excise taxes on fuel resemble user fees. The more miles a person drives, the more fuel that person consumes and the more fuel tax that person pays. However, fuel taxes provide only about 25 percent of funding for the Nation's public roads and only capital expenditures associated with roadway transportation. State and local taxes currently pay for approximately three-quarters of the Nation's highways, according to the Urban Institute.³ Roads and highways are also subsidized by general fund revenues.⁴

The Federal-aid highway program was created by the Federal Aid Road Act of 1916. When Federal transportation funding began flowing to States, it prompted a surge of infrastructure creation and private development. The following results have been observed:

- Land speculation near infrastructure amenities and at the centers of transportation networks can inflate land prices at these locations.⁵
- High land prices near infrastructure amenities (including transportation facilities) can encourage development at the fringe of a community where land is cheaper and perceived transportation costs (in the absence of roadway user fees) seem minimal.⁶

¹ Lincoln Institute of Land Policy. *State-by-State Property Tax at a Glance*. <https://www.lincolnst.edu/research-data/data-toolkits/significant-features-property-tax/state-state-property-tax-glance>. Significant Features of the Property Tax. Lincoln Institute of Land Policy and George Washington Institute of Public Policy.

² Oregon was the first State to tax gasoline in 1919. See Corning, Howard M. 1956. *Dictionary of Oregon History*. Binforde & Mort Publishing. Over the next 10 years, other States adopted this tax. The Federal Government began taxing gasoline through the Revenue Act of 1932. However, it was not until the Federal-Aid Highway Act of 1956 that gas tax revenues were dedicated to the Federal Highway Trust Fund. See When Did the Federal Government Begin Collecting the Gas Tax? <https://www.fhwa.dot.gov/infrastructure/gastax.cfm>.

³ Urban Institute, State and Local Finance Initiative. 2017. Highway and Road Expenditures. <https://www.urban.org/policy-centers/cross-center-initiatives/state-and-local-finance-initiative/state-and-local-backgrounders/highway-and-road-expenditures#Question1Highway>.

⁴ Frontier Group. 2015. Who Pays for Roads? <https://frontiergroup.org/sites/default/files/reports/Who%20Pays%20for%20Roads%20vUS.pdf>.

⁵ Pagano, Michael, and Ann O'M. Bowman. 2001. *Vacant Land in Cities: An Urban Resource*. Brookings. A survey of 70 cities revealed, on average, 15 percent of urban land consisted of boarded up buildings or vacant land. This ranged from slightly more than 20 percent in the South to about 10 percent in the Northeast. <https://www.brookings.edu/research/vacant-land-in-cities-an-urban-resource/>.

⁶ Rybeck, Rick. 2019, October. Avoiding misgivings: Recycling community-created land values for affordability, sustainability and equity. *Journal of Affordable Housing and Community Development Law*, 28(2), p. 299, see footnote 6 on p. 300.

- Some metropolitan areas that are losing population nonetheless continue to expand their urbanized area through “leap frog” development, in which large tracts of undeveloped land separate developed tracts.⁷ This discontinuous development generates extensive infrastructure networks and creates high per capita infrastructure costs.⁸
- Traffic congestion sometimes increases substantially despite the significant extension and widening of roads, because sprawling development necessitates single-occupant vehicle use for almost every activity outside the home.⁹
- The development at the urban fringe might lead to economic decline in central cities and the underutilization of transportation and other public infrastructure there.¹⁰

Federal and State revenues from fuel excise taxes are not keeping pace with State and local infrastructure funding needs.¹¹ Because excise taxes are levied on a per gallon basis, increases in fuel prices do not increase fuel excise tax revenues. Excise tax revenues are instead dependent upon the quantity of fuel consumed. Historically, fuel consumption increased along with increases in vehicle-miles traveled. However, increasing vehicle fuel efficiency and a leveling-off in vehicle-miles traveled since 2008 have reduced fuel tax revenues below what would have been collected if historical trends had continued.¹²

1.2 Value Capture as an Overlooked Source of Funds

Transportation investments by the public sector, while creating benefits for the general public, also can create discrete benefits for subsets of the population. Determining which populations receive which benefits creates an opportunity for obtaining revenues from the beneficiaries. For example, transit investments provide a direct benefit for transit riders. This is the justification for charging a transit fare to riders. Because transit moves people with fewer vehicles than if everyone drove their own cars, transit

⁷ Examples include Detroit, Cleveland, and Buffalo. See Mallach, Alan. 2010. *Facing the Urban Challenge: The Federal Government and America's Older Distressed Cities*. The Brookings Institution. p. 8.

⁸ See Marohn, Charles. 2011, June 16. The Growth Ponzi Scheme, Part 2. <https://www.strongtowns.org/journal/2011/6/14/the-growth-ponzi-scheme-part-2.html>. See also Gallagher, Leigh. 2014, July 28. The Suburbs Will Die: One Man's Fight to Fix the American Dream. *Time Magazine*. <http://time.com/3031079/suburbs-will-die-sprawl/>. Marohn estimates that property taxes return between 4 cents and 65 cents for every dollar of future liability incurred.

⁹ Rybeck, Rick. 2012. *Public Acceptability of Road-Use Pricing*. p. 15. <https://drive.google.com/file/d/17Qbk4LILZ0cxDiiHjP2Ygwc1nyNx0v9o/view>

¹⁰ See Rybeck, Walter. 2011. *Re-Solving the Economic Puzzle*. Shephard-Walwyn Publishers. pp. 146–148. See also Kushner, James A. Fall 2010/Winter 2011. Affordable housing as infrastructure in the time of global warming. *The Urban Lawyer*, 42(4)/43(1), p. 207, crediting real estate speculation as a significant cause of the 2007 financial melt-down.

¹¹ There are numerous reports about the insufficiency of fuel excise taxes, primarily due to the fact that it is not indexed to inflation and increasing vehicular fuel efficiency erodes revenues. See *State of the Highway Trust Fund: Long-Term Solutions for Solvency*, Hearings of the House Budget Committee, April 24, 2013, <https://www.govinfo.gov/content/pkg/CHRG-113hhrg80475/pdf/CHRG-113hhrg80475.pdf>. See Why Gas Taxes Aren't Paying the Bills Anymore at <https://www.bloomberg.com/opinion/articles/2018-02-15/gas-taxes-aren-t-paying-the-bills-for-roads-anymore>. See also *Failure to Act: Current Investment Trends in Our Surface Transportation Infrastructure, Preliminary Findings*, September 2020, American Society of Civil Engineers at https://www.infrastructurereportcard.org/wp-content/uploads/2020/09/FTA_SurfaceTransport_Study%E2%80%94FINAL.pdf.

¹² For trends in vehicle-miles per capita, see <https://www.enotrans.org/article/trends-in-per-capita-vmt/>. For total vehicle-miles traveled data, see <https://afdc.energy.gov/data/10315>.

reduces traffic congestion. This is a measurable benefit for drivers and justifies the expenditure of a portion of fuel tax revenues on transit. In communities with traffic congestion, transit service that provides convenient, affordable, and reliable service can make locations more accessible and desirable as reflected in higher rents and sales prices due to a concentration of users. Improvements to a roadway or roadway network can likewise enhance the desirability and productivity of well-served locations.¹³ Thus, nearby landowners are often “invisible” or “overlooked” beneficiaries of transportation investments.¹⁴ There are a variety of techniques to return publicly created economic gains to the public sector. This is referred to as “value capture,” and tax increment financing (TIF) is often included in these techniques.

1.3. Role for Tax Increment Financing

TIF is a budgeting technique that allows infrastructure projects to be funded and/or financed without competing against existing projects and programs and without raising taxes. This is accomplished by pledging a portion of the future tax revenue increases in a defined area to fund or finance infrastructure improvements.

1.3.1 Opportunities

TIF-funded infrastructure projects can be funded without reducing spending on existing programs or projects and without increasing taxes. Taxpayers are subject to the same tax rates regardless of whether a TIF is implemented or not. It is only the increase (increment) in revenue, derived from increased economic activity and property values, that funds the TIF portion of an infrastructure project.

The ability to fund infrastructure projects without competitive spending or tax increases is politically advantageous. As a result, this technique has become very popular.¹⁵

1.3.2 Challenges

The widespread utilization of TIFs has generated concerns that TIF revenues might be reducing general fund revenues and thereby depriving public services of funding. This concern has focused attention on the assumptions underlying TIF.

The first assumption is that tax revenues in the affected area will not increase **but for**¹⁶ the improvement of specified infrastructure, which will catalyze private sector development and other economic activity. If

¹³ Vadali, Sharada, et al. *Guidebook to Funding Transportation Through Land Value Return and Recycling*. NCHRP Report 873. <http://www.trb.org/Main/Blurbs/177574.aspx>.

¹⁴ Rybeck, Rick. 2018, February 21. Financing Infrastructure with Value Capture: The Good, The Bad & The Ugly. <https://www.strongtowns.org/journal/2018/2/20/financing-infrastructure-with-value-capture-the-good-the-bad-the-ugly/>.

¹⁵ McCarthy, Sean. 2017. *Tax Increment Financing in Arizona*. ATRA Special Report. p. 2. http://www.arizonatax.org/sites/default/files/publications/special_reports/file/tif_in_arizona.pdf.

¹⁶ The “but for” assumption/test will be discussed in section 5.1.

this assumption is not true, and tax revenues would have increased anyway, then a TIF deprives the general fund of revenues and diminishes resources for existing projects and programs.¹⁷

Although some parcels reside within a single taxing jurisdiction, some parcels might exist within multiple taxing jurisdictions. In other words, a single property might receive a single property tax bill, including taxes to be paid to a city, a county, a State, a school district, a water and sewer district, or a road improvement/maintenance district. Typically, only one of these tax authorities will be able to implement a TIF. However, implementing a TIF could potentially affect revenues for these other taxing authorities. Where multiple taxing authorities exist, the process for creating a TIF might be more complex and controversial.

The second assumption is that increases in development and economic activity will yield sufficient additional tax revenues to fund the specified infrastructure improvements. If this assumption is false, then either alternative funding sources will be required to repay the debt or infrastructure project lenders will not be repaid.

¹⁷ Schwartz Center for Economic Policy Analysis, The New School. 2020, August 20. TIF Case Studies: California and Chicago. <https://www.economicpolicyresearch.org/insights-blog/tif-case-studies-california-and-chicago>.

CHAPTER 2. DEFINING TAX INCREMENT FINANCING

2.1 Definition

TIF is an infrastructure funding mechanism created in California in 1952.¹⁸ The concept rests on two assumptions. First, it is assumed that, absent new or improved public infrastructure, economic activity within a defined area would remain unchanged. In accordance with this assumption, tax revenues generated within this area would also remain essentially unchanged into the future. Second, it also is assumed that a proposed investment in new or improved infrastructure would induce an increase in economic activity and in tax revenues. Any subsequent increase in tax revenues above the pre-investment revenue level is a **tax increment** that is assumed to arise solely as a result of the public infrastructure project.

Although a TIF assumes increases in tax revenues, there is no legislated increase in tax rates. In other words, the increase in revenues is derived from increased economic activity, which is subject to the same tax rates that are already in effect. Thus, taxpayers are subject to the same tax rates, regardless of whether a TIF is implemented.

TIF also can be described as a **project budgeting technique**. Typically, infrastructure projects are vetted and placed in a capital improvement budget for approval. However, if an infrastructure project was going to primarily benefit private property owners in a small area, such a project might not be very competitive with other projects that would provide more widespread benefits. Because the assumption is made that TIF revenues would not exist **but for** the TIF project, the TIF project is not competing against other projects for funds from the anticipated revenue stream. Thus, TIF projects are “off budget” in this sense.

When a TIF mechanism is created, certain taxes are identified as the source(s) of potential tax increments. These taxes are benchmarked for revenue prior to the infrastructure project. If revenues from these benchmarked taxes increase above the benchmarked amount, the tax increment is not deposited into a jurisdiction’s general fund. Instead, the tax increment (or a portion thereof) is deposited into an account dedicated solely to the funding and financing of the infrastructure project. If the initial assumptions are true, the infrastructure investment project is funded from revenues generated by economic activity induced by the infrastructure project.

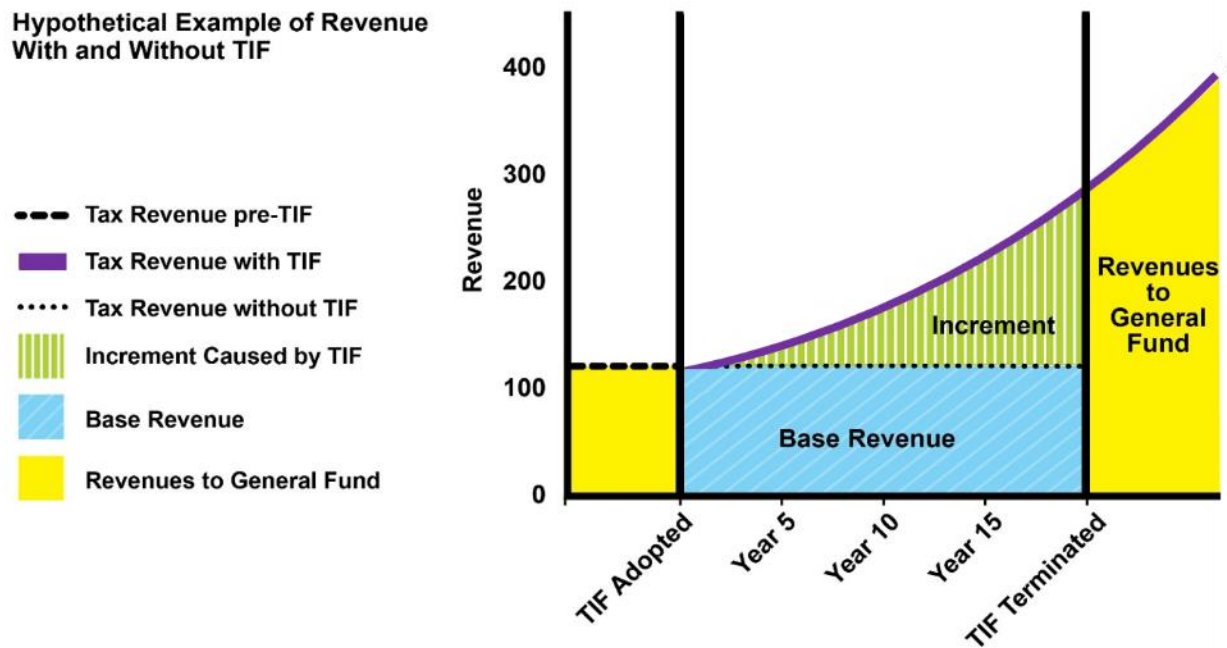
TIFs are typically terminated after the TIF infrastructure project has been completed or its debt has been retired. State enabling statutes often indicate the maximum permissible duration of TIFs. If State enabling statutes allow for extending TIF durations, they will indicate the criteria and process for doing so. Many TIF infrastructure projects are financed by bonds. Typical TIF durations are between 15 and 30 years.

¹⁸ Community Redevelopment Agencies Annual Report, 24th edition, for Fiscal Year 2008. Sept 30, 2009. The Community Redevelopment Law, Chapter 710, Statutes of 1951, was enacted by the California State Legislature with the objective of redeveloping those areas in many communities that, for a variety of reasons, suffer from unsafe, unfit, deteriorated, and economically dislocated buildings and properties. The California Constitution, Article XVI, section 16, and the Health and Safety Code, beginning with section 33000, provide funding from local property taxes to promote the redevelopment of blighted areas. Voters approved Article XVI in 1952; therefore, the revenues it generates are not subject to the limitations imposed by Article XIII B, the Gann Limit (also known as Proposition 13). See https://web.archive.org/web/20100105093005/http://www.sco.ca.gov/Files-ARD-Local/LocRep/redevelop_fy0708redev_reports.pdf.

After a TIF is terminated, the tax increment disappears and all of the tax collected is deposited in the general fund. Figure 1 illustrates the fundamental concepts behind TIF:

The original intent of a TIF programme is to stimulate private investment within a blighted area that has been designated through public hearings to be in need of economic revitalization. A typical TIF programme will finance a variety of infrastructure and site improvements that will attract new business and will hopefully raise property values within the TIF district.¹⁹

Figure 1. Tax increment financing: Fundamental concepts.²⁰

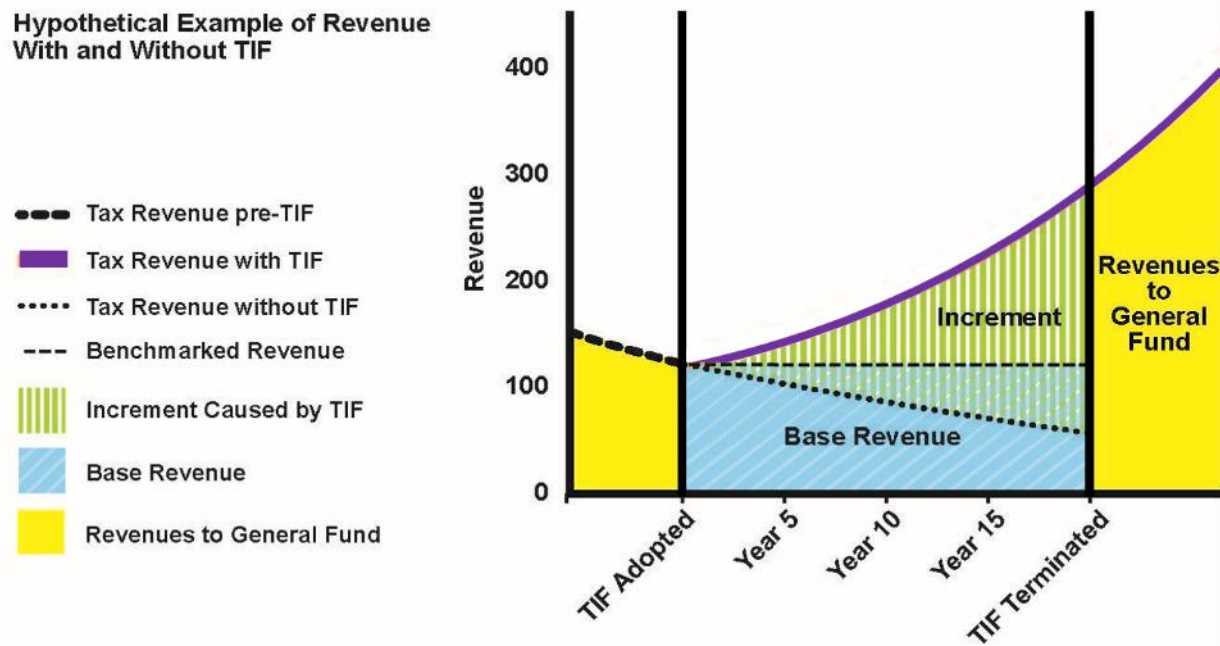


¹⁹ Mattson, Gary A. 2004. Tax Increment Financing in *Encyclopedia of the City*. Roger W. Caves, Ed. pp. 659–660.

²⁰ Source: USDOT. The key to this graphic is that revenues increase after TIF creation, not because of higher tax rates, but because of increased development and economic activity that are subject to the existing tax rates.

Figure 2 illustrates a more robust assumption that, in the absence of the TIF infrastructure investment and the ensuing private development, benchmarked revenues would actually decline over time. Under this scenario, general fund revenues are enhanced by the assumption that revenues from the TIF district would remain steady over the duration of the TIF.

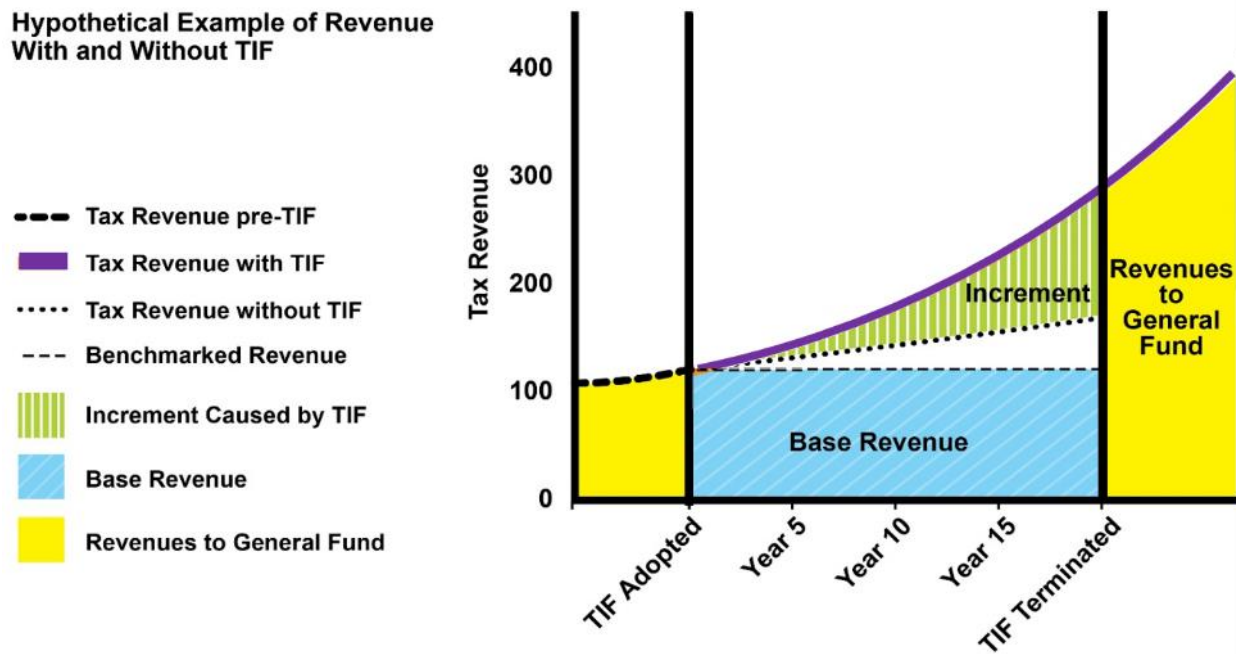
Figure 2. Tax increment financing for a district with declining tax revenues.²¹



It is possible that tax revenues within the defined district would rise even in the absence of a TIF infrastructure project. Similarly, the ongoing projects and programs funded by the general fund, due to inflation, are likely to become more costly over time. For both of these reasons, limiting tax revenues going into the general fund at the benchmarked level could deprive the general fund of revenue and fail to support the existing level of public services after the first few years of a TIF (which often last for many years until the project has been completed or until the debt for the project has been retired, which is 20 to 30 years from TIF implementation).

²¹ Source: USDOT.

Figure 3. Tax increment financing for a district with increasing tax revenues.²²



In figure 3, tax revenues within the TIF district would have risen somewhat even in the absence of the TIF project. Therefore, the TIF mechanism in this place, at this time, could be structured so that revenues allocated to the general fund (Base Revenue in the figure) are allowed to grow either by the rate of inflation or by some other factor. This diminishes the amount of revenue allocated to the TIF project account for the sake of maintaining the general fund and existing public projects and programs.

Figures 1 through 3 illustrate that what would occur in the absence of a TIF project could be quite different depending on the circumstances unique to the time and place where a TIF project is proposed. If allowed by State enabling statutes, TIF mechanisms could be structured differently to accommodate different baseline conditions and assumptions.

²² Source: USDOT.

Although TIF enabling statutes vary from State to State, the typical mechanics are:

- A determination of the geographic area to benefit from a TIF. In most States, areas must be blighted or distressed in order to be eligible for a TIF.²³
- Development of an infrastructure improvement proposal. Because TIFs rely on future increases in economic activity, the infrastructure improvement proposal often reflects what private developers say they need to advance private development projects.
- A determination of debt service costs for the infrastructure improvement proposal.
- Designation of one or more revenue sources as eligible to be benchmarked and used to fund the infrastructure proposal out of revenues that exceed the benchmarked amounts (tax increments).
- Estimating the likely amount of revenue increases for the benchmarked funding sources, both with and without the TIF infrastructure project.
- Envisioning a TIF district that, in terms of geographic extent and designated revenues, will generate incremental revenues sufficient to cover the TIF portion of project costs. If TIF is the only, or primary, funding source, TIF revenue might need to cover debt service for the proposed infrastructure project.
 - Note: Given the uncertainty and risk associated with estimating future revenues, “sufficient” from the lenders’ perspective probably means identification of incremental revenue well in excess of projected debt service requirements. Sometimes, jurisdictions will create a special assessment district to “backstop” a TIF in the event that future tax revenues do not increase as much as anticipated. This reduces the risks for bond holders or other lenders and thereby reduces risk-related interest charges even if a special assessment is never actually levied.
- Actual legislative enactment of a TIF district:
 - Identification of boundaries
 - Identification of tax revenues to be benchmarked
 - Identification of the project funds or financing
 - Duration and termination of the TIF district. (Termination usually occurs upon project completion or retirement of the project financing.)
- A strategy to dissolve the TIF once the improvements are funded and debt is retired.

²³ Scheider, Benjamin. 2019, October 24. City Lab University: Tax Increment Financing. <https://www.bloomberg.com/news/articles/2019-10-24/the-lowdown-on-tif-the-developer-s-friend>.

The key issues to be discussed below:

- Are the key TIF assumptions valid? If not, what are the implications? (See sections 2.3 and 5.1)
- How are the boundaries of a TIF district determined? (See sections 5.2 through 5.5)
- Which tax revenue sources are benchmarked and subject to the segregation of incremental revenue? (See section 5.5)

2.2 Alternative Terms

TIF is referred to in a variety of ways throughout the country:

- California: Enhanced infrastructure finance district
- Florida: Community reinvestment area
- Georgia: Tax allocation district (TAD)
- New Jersey: Economic redevelopment and growth grant
- North Carolina: Project development financing
- Pennsylvania: Transportation reinvestment district
- Texas: Tax increment reinvestment zone

Despite their different names and different legal requirements, TIFs often adhere to a similar structure and function, regardless of geography.²⁴ Even so, State and local laws determine the actual manifestation and operation of TIF in particular places.

2.3 Circumstances Motivating the Creation of TIFs

As mentioned above, TIFs were initially intended to promote development in blighted areas.²⁵ As a result, most TIF authorizing statutes require that the implementing jurisdiction make a finding of “blight” or “distress” as a pre-condition to the creation of a TIF mechanism.²⁶

Where a finding of blight is required, blight is defined by that State’s TIF enabling statute. Identifying blight often includes one or more of the following characteristics applied either to individual properties or to neighborhoods:²⁷

²⁴ Council of Development Finance Agencies. Tax Increments & Development Finance. <https://www.cdfa.net/cdfa/cdfaweb.nsf/pages/Tax-Increment-Finance.html>.

²⁵ Mattson, Gary A. 2004. Tax Increment Financing in *Encyclopedia of the City*. Roger W. Caves, Ed. pp. 659–660.

²⁶ Scheider, Benjamin. 2019, October 24. City Lab University: Tax Increment Financing. <https://www.bloomberg.com/news/articles/2019-10-24/the-lowdown-on-tif-the-developer-s-friend>.

²⁷ Port of Port Royal Redevelopment. 2011. Tax Increment Financing Plan. [http://properties.cbre.us/port-royal/assets/tax-increment-financing-presentation-\(final\).pdf](http://properties.cbre.us/port-royal/assets/tax-increment-financing-presentation-(final).pdf).

- Age of buildings
- Dilapidation
- Obsolescence
- Excessive vacancies
- Deleterious land use or layout
- Depreciation of physical assets/lack of maintenance
- Lack of necessary transportation infrastructure
- Static or declining land values

The degree to which TIFs have succeeded in reducing blight varies:

Studies also indicate that TIF's impact on economic activity is mixed: Many recent findings show that TIF does little to deliver economic growth and sometimes simply relocates economic activity that would have occurred elsewhere without TIF.²⁸

The “relocation” of growth should not be dismissed out of hand as being of no consequence. If growth is relocated from a greenfield site to an urban infill location, this could help preserve agriculture, reduce increases in air and water pollution, provide access to services and employment for underserved populations, and accommodate new development with less new infrastructure, thereby saving taxpayers money in the long run. On the other hand, if growth is relocated from an urban infill site to the urban fringe, the opposite impacts might occur.²⁹

A study of TIFs in Wisconsin found that mid-size, growing communities were more likely to utilize TIFs than larger, economically stagnant communities. The implications are that suburban communities might be using TIFs to attract private development, raising the possibility that TIF incentives might be luring development away from the larger central cities, thereby depressing growth, economic activity, and property values in the central cities.³⁰

In addition, to the extent that TIFs are used by different jurisdictions to lure a specific new development (e.g., the relocation of a large corporate headquarters) and each city attempts to outdo the other with the size of their “incentives,” then TIFs could become a race to the bottom. In such a situation, the public

²⁸ Merriman, David. 2018. *Improving Tax Increment Financing (TIF) for Economic Development*. Lincoln Institute of Land Policy. p. 4. https://taxpayersci.org/wp-content/uploads/TIF_Lincoln-Institute_2018.pdf.

²⁹ Rybeck, Rick. October 2019. Avoiding misgivings: Recycling community-created land values for affordability, sustainability and equity. *Journal of Affordable Housing and Community Development Law*, 28(2), p. 299, see footnote 14 on p. 303.

³⁰ Public Policy Forum. 2009, July. Too Much or Not Enough? A Statistical Analysis of Tax Incremental Financing in Wisconsin. Research Brief. p. 10. <http://www.mounthorebwi.info/wp-content/uploads/2014/05/2009TIFBrief.pdf>.

sector could be impoverished for the sake of a ribbon-cutting ceremony and bragging rights for economic development officials.³¹

Regarding the development or redevelopment of blighted areas, jurisdictions are learning the importance of determining whether development is being done by, for, or to those who now live and work in these areas.³² Going forward, applying an “equity” lens to TIF decision making could be important as long as doing so is not prohibited by the enabling legislation.³³

As mentioned above, the TIF concept is very appealing because its assumptions create the appearance that infrastructure projects or developer subsidies can be provided without competing for funds with other projects or programs, and without any requirement to increase tax rates. Not surprisingly, the use of TIFs has expanded greatly. For example, the number of TIF districts in Chicago increased from 28 in 1994 to 163 in 2011, before decreasing slightly to 147 in 2014. Figure 4 shows the growth in the number of Chicago’s TIF districts and the amount of revenue generated by those districts from 2001 to 2014. In 2011, the 163 active TIF districts occupied 30 percent of Chicago’s taxable land.³⁴ In 2020, Chicago’s TIF districts were receiving \$850 million in annual revenue. Similar expansions of TIF activity have occurred in other States as well.³⁵

³¹ Scheider, Benjamin. 2019, October 24. City Lab University: Tax Increment Financing. <https://www.bloomberg.com/news/articles/2019-10-24/the-lowdown-on-tif-the-developer-s-friend>.

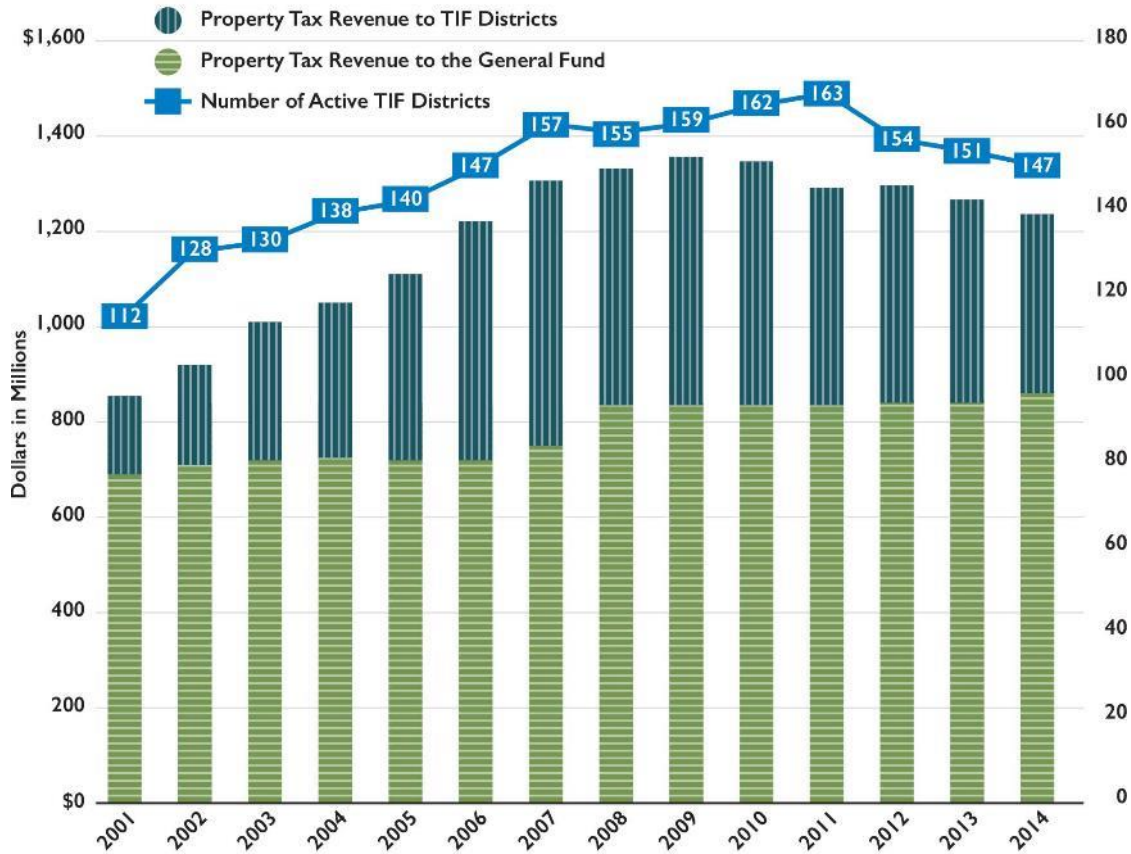
³² Treuhaft, Sarah. 2016, July 20. Embedding Equity into Economic Development. ShelterForce. <https://shelterforce.org/2016/07/20/embedding-equity-into-economic-development/>.

³³ The author is not aware of any such prohibitions. However, should they exist, they could be an appropriate subject for revision and amendment.

³⁴ City of Chicago TIF Reform Panel. 2011, August 23. *Findings and Recommendations for Reforming the Use of Tax Increment Financing in Chicago: Creating Greater Efficiency, Transparency, and Accountability*, p. 10. <https://www.chicago.gov/content/dam/city/depts/mayor/Press%20Room/Press%20Releases/2011/August/8.29.11TIFReport.pdf>.

³⁵ Fisher, Bridget, Flávia Leite, and Lina Moe. 2020, August 20. TIF Case Studies: California and Chicago. Schwartz Center for Economic Policy Analysis, The New School. <https://www.economicpolicyresearch.org/insights-blog/tif-case-studies-california-and-chicago>.

Figure 4. Number of active TIF districts in Chicago and property tax revenue directed to TIFs and to Chicago’s general fund by fiscal year.³⁶



Source: City of Chicago, Comprehensive Annual Financial Report, various years

³⁶ Source: USDOT, based on the City of Chicago’s Comprehensive Annual Financial Reports, various years, https://www.chicago.gov/city/en/depts/fin/supp_info/comprehensive_annualfinancialstatements.html. Number of TIF districts by year obtained from Chicago Data Portal, TIF Status and Eligibility, <https://data.cityofchicago.org/Community-Economic-Development/TIF-Status-and-Eligibility/3qsz-jemf/data>.

CHAPTER 3. WHERE A TIF CAN BE USED

The laws and regulations governing TIF formation and operations depend on State law and vary by State.³⁷ Forty-nine States (all but Arizona) and the District of Columbia employ TIF tools.³⁸ California eliminated TIFs in 2012, but the State re-instituted them under a different name with more limiting conditions on their use.³⁹ Links to each State's actual enabling legislation can be found on the Federal Highway Administration (FHWA) website at https://www.fhwa.dot.gov/ipd/value_capture/legislation/tax_increment_financing.aspx.

The Council of Development Finance Agencies also maintains a Tax Increment Finance Resource Center that provides State-specific information on TIF programs.⁴⁰

³⁷ Fullerton, Burdette Edward, II. 2017. *The Effects of Tax Increment Financing on Assessed Land Values*. University of Southern Mississippi. p. 5. <https://aquila.usm.edu/cgi/viewcontent.cgi?article=2479&context=dissertations>.

³⁸ Merriman, David. 2018. Improving Tax Increment Financing (TIF) for Economic Development. Lincoln Institute of Land Policy. p. 4. <https://www.lincolnst.edu/publications/policy-focus-reports/improving-tax-increment-financing-tif-economic-development>.

³⁹ Southern California Association of Governments. Enhanced Infrastructure Financing District (EIFD). <https://scag.ca.gov/post/enhanced-infrastructure-financing-district-eifd>.

⁴⁰ Council of Development Finance Agencies. Tax Increment Finance Resource Center. <https://www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/tif.html>.

CHAPTER 4. HOW A TIF IS USED

4.1 Highways, Roads, Streets, and Pedestrian Facilities

Although eligibility varies by State, some examples of common TIF-eligible expenses include the following:

- Bridges
- Lighting
- Traffic signals and related equipment
- Decorative pavers
- Medians
- Turn lanes
- Property used for right-of-way
- Compensable utility relocations that occur due to the placement or construction of a roadway
- Beautification components and related hardware

Also,⁴¹

- Sidewalks
- Hiking and biking trails
- Pathways that facilitate intermodal transportation
- Bike lanes in street right-of-way
- Pedestrian bridge systems that link commercial centers to transit systems
- Sky bridges that link public buildings
- Public tunnel systems for private buildings

⁴¹ Ibid.

4.2 Transit

TIF has frequently been used for transit, typically in combination with transit-oriented development. In at least four States—Georgia, Illinois, Oregon, and Pennsylvania—TIF has funded transit or transit-related projects.⁴² TIF is one of several funding and financing mechanisms being used to develop a new infill rail transit station in Alexandria, Virginia.⁴³

4.3 Ports⁴⁴

- Docks and piers
- Roadways
- Environmental remediation

4.4 Other Infrastructure

- Utility extensions or improvements (e.g., water, sewer, electric, gas, telecommunications)
- Wastewater treatment facilities
- Lift stations
- Force mains
- Transmission lines
- Sewer pump stations and related equipment
- Drainage facilities, including storm sewer systems, collection and detention facilities, pumps, inlets, canals and related channel equipment

⁴² FHWA. 2019, August. *Value Capture Implementation Manual*, section 7.2.

https://www.fhwa.dot.gov/ipd/value_capture/resources/value_capture_resources/value_capture_implementation_manual/ch_7.aspx.

⁴³ City of Alexandria. Potomac Yard Metrorail Station Project FAQs. See General Information questions 2, 3, and 4, <https://www.alexandriava.gov/potomacyard/default.aspx?id=101655>. See also *Potomac Yard Metrorail Station Cost/Revenue Summary*, April 29, 2019, <https://www.alexandriava.gov/uploadedFiles/City2ndVDEQAddlInfoReqAttGPYMSCostRevSum20190429.pdf>.

⁴⁴ See Tax Increment Financing Plan (TIF): Port of Port Royal Redevelopment (South Carolina) at [http://properties.cbre.us/port-royal/assets/tax-increment-financing-presentation-\(final\).pdf](http://properties.cbre.us/port-royal/assets/tax-increment-financing-presentation-(final).pdf). See also Board of Estimates Approves First Batch of TIF Bonds for Port Covington at <https://www.wbaltv.com/article/baltimore-port-covington-tif-bonds-approved/32896767#>.

4.5 Blight and Environmental Remediation

Blighted and brownfield sites can be very difficult to redevelop. Redevelopment sites might be occupied by derelict and obsolete buildings, which might or might not contain lead paint, asbestos, underground storage tanks, and other potentially dangerous materials. Even if vacant, these sites might contain soil contaminated by toxic substances. Additionally, there are substantial legal and economic risks associated with attempting to remediate contaminated sites, which may be subject to Federal and State environmental laws.⁴⁵ In such instances, the costs of demolition, soil remediation, and proper disposal of debris might exceed the economic value of these sites. As a result, the private sector will not undertake redevelopment because no profit can be made.

For this reason, TIFs have been used to demolish derelict or obsolete buildings and to remediate contaminated brownfield sites. Once the sites have been cleared and cleaned, developers acquire them for a price that will allow them to realize a profit. An analysis of individual TIF deals would be necessary to determine whether this publicly sponsored site preparation or remediation represents a subsidy to developers or to the prior landowners (who could otherwise remain liable for remediation under Federal or State environmental laws. However, in these instances, a compelling case can be made that no redevelopment activity would occur in the absence of publicly funded demolition and/or remediation.⁴⁶ Although there are several criteria necessary to determine whether establishing a TIF district satisfies the legislative criteria for doing so, brownfield situations probably satisfy the “but for” criteria necessary to establish a TIF. (See section 5.1 below.)

4.6 Economic Development and Affordable Housing

In some instances, the tax increment is not used for infrastructure, but for direct subsidies to private developers. Examples include site acquisition, demolition of existing buildings, construction, and other development-related expenses such as the construction of parking garages.⁴⁷ In a very different approach, Portland, Oregon’s largest TIF district (which includes the Pearl District neighborhood) has generated \$83 million, which has been used with other funds to produce 2,200 units of affordable housing.⁴⁸

⁴⁵ U.S. EPA. Basic Information About Cleanups, <https://www.epa.gov/cleanups/basic-information-about-cleanups>, and Overview of EPA’s Brownfields Program, <https://www.epa.gov/brownfields/overview-epas-brownfields-program>.

⁴⁶ U.S. EPA. Smart Growth, Brownfields, and Infill Development. <https://www.epa.gov/smartgrowth/smart-growth-brownfields-and-infill-development>.

⁴⁷ Scheider, Benjamin. 2019, October 24. City Lab University: Tax Increment Financing. <https://www.bloomberg.com/news/articles/2019-10-24/the-lowdown-on-tif-the-developer-s-friend>.

⁴⁸ Ibid.

CHAPTER 5. HOW A TIF WORKS: STEPS TO ESTABLISH AND OPERATE

The steps necessary and sufficient to establish TIFs are defined by the State statutes that enable them. Although most TIF authorizing statutes have similar frameworks, TIF formation is governed by the specific TIF authorizing statutes in that State.

5.1 Does Infrastructure Investment Generate Economic Activity or Wealth in a Defined Geographic Area? The “But For” Test

As stated above, most States have authorized TIF. However, TIF authorizing statutes might limit the creation of TIFs to certain types of infrastructure projects and/or to projects that can be shown to catalyze increases in economic activity and the resulting tax revenue. This is known as the “but for” test. In other words, is the proposed TIF infrastructure project *necessary* to generate increased economic activity and tax revenues within the TIF district?

Imagine that a jurisdiction’s legislature is considering spending taxpayer dollars on an infrastructure project that will confer a significant benefit on a few property owners or businesses. In all probability, such a proposed project, funded out of the jurisdiction’s general fund revenues, would be opposed because of concerns that public tax dollars should not be spent to benefit private entities. TIF solves the problem of using public funds for private gain by claiming that, **but for** the infrastructure project, these public tax revenues would not exist. In other words, economic activity generated by the project, which would not otherwise exist, will produce the revenue used to fund or finance the project. This **but for** claim suggests that the project is “paying for itself,” and not transferring wealth from the public sector to the private sector.

Typically, taxpayers within a TIF district are paying the same taxes they would pay if the TIF district did not exist. When new development occurs, it often requires additional public goods and services. The taxes paid by new developments (the tax increment) typically cover a portion of the new operating expenses associated with these additional public goods and services. However, when a TIF district is created, the tax increment is diverted to fund a particular infrastructure project, and is therefore unavailable to cover increased costs for providing other public goods and services to new developments in the district for the duration of the TIF, which can be a substantial number of years.⁴⁹ This can create hardships for other agencies.

In 1972, concerns that California TIFs were depriving schools of property tax revenue were addressed when the State promised to reimburse school districts for lost TIF revenues.⁵⁰ More recently, in 2016, Chicago created a TIF for transit. This TIF was structured so that Chicago Public Schools would receive their proportionate share of TIF revenues (based on their share of regular property tax revenue). Of the

⁴⁹ Scheider, Benjamin. 2019, October 24. City Lab University: Tax Increment Financing. <https://www.bloomberg.com/news/articles/2019-10-24/the-lowdown-on-tif-the-developer-s-friend>.

⁵⁰ Fisher, Bridget, Flávia Leite, and Lina Moe. 2020, August 20. TIF Case Studies: California and Chicago. Schwartz Center for Economic Policy Analysis, The New School. <https://www.economicpolicyresearch.org/insights-blog/tif-case-studies-california-and-chicago>.

remainder, 80 percent would go to the Transit TIF and 20 percent to other taxing districts.⁵¹ And, in some States, the State TIF enabling statute mandates approval from other tax districts when an overlapping taxing authority creates a TIF that potentially impacts their revenue.⁵² These types of modifications to the traditional TIF structure could provide for greater equity and political support.

The preceding paragraphs raise a concern that new developments within a TIF district might not pay their fair share of government operating expenses. And, if new developments create a necessity for new infrastructure capacity, then the new developments would not be paying for this capital expense either.⁵³ Thus, the mere fact that a development generates new tax revenue that would not otherwise exist (thereby satisfying the “but for” test) does not mean that a TIF will not have an impact on a jurisdiction’s existing public goods and services.

A study compared 38 California TIF districts to similar areas without TIFs. Because baseline tax assessments increased in the non-TIF areas during the same period, only four TIF districts were found to generate enough new revenue to be self-financing.⁵⁴ This implies a need for equity adjustments. Therefore, to avoid or minimize diverting funds from existing public goods and services, most TIF laws require a finding that increased tax revenues within a TIF district (the tax increment) would not exist but for (in the absence of) the infrastructure project being funded by tax increment revenues.

Even if infrastructure investment actually increases land values, property owners are paying taxes at the same rate they would otherwise pay in the absence of a TIF. Thus, the only “value capture” occurring is that which would occur even in the absence of a TIF. Although property tax rates vary from place to place, the national average is about 1 percent to 2 percent of value paid annually.⁵⁵ A present value calculation shows that such a tax on a long-lived asset (like land) in an economic environment where interest rates are 5 percent returns between 20 percent and 40 percent of the publicly created land value.⁵⁶ Thus, to the extent that infrastructure investments lead to higher land values, the lion’s share (60 percent to 80 percent) ends up as windfall gains for affected landowners. Given concerns over growing inequality, spending public funds to benefit private landowners might be difficult to justify. This

⁵¹ Cook County, Illinois. Chicago City Transit TIF Fact Sheet.

https://www.cookcountyclerk.com/sites/default/files/pdfs/2017%20Transit%20TIF%20RPM1%20Fact%20Sheet_0.pdf.

⁵² Fisher, Bridget, Flávia Leite, and Lina Moe. 2020, August 20. TIF Case Studies: California and Chicago. Schwartz Center for Economic Policy Analysis, The New School. <https://www.economicpolicyresearch.org/insights-blog/tif-case-studies-california-and-chicago>.

⁵³ For an elaboration, see discussions about development impact fees. In particular, see FHWA, Value Capture Implementation Manual, section 4: Developer Contributions.

https://www.fhwa.dot.gov/ipd/value_capture/resources/value_capture_resources/value_capture_implementation_manual/ch_4.aspx.

⁵⁴ Dardia, Michael. *Subsidizing Redevelopment in California*. Public Policy Institute of California. January 1998. p. xiii.

https://www.ppic.org/content/pubs/report/R_298MDR.pdf.

⁵⁵ Mallach, Alan. 2018. *The Divided City: Poverty and Prosperity in Urban America*. Island Press. p. 164.

⁵⁶ Present Value for a perpetual stream of income or expense = Annual income (or expense) / interest rate. Thus, a perpetual payment of \$2 has a present value of $\$2/0.05 = \40 . So if a landowner receives \$100 in publicly created land value and must pay an annual \$2 fee (the present value of which is \$40), then the landowner is receiving \$100 minus \$40 (the present value of tax payments), leaving a \$60 (60 percent) windfall gain.

explains why many property owners and developers lobby for TIF creation. In the final analysis, TIF might be accurately described as **revenue segregation**.⁵⁷

Of course, a TIF project might lead to new development activity. Thus, in addition to taxes on increased land value, new development within a TIF district will be contributing additional revenues related to the value of new buildings and the taxable economic activities that occur in them. As mentioned previously, new buildings and economic activity will place demands on public goods and services. Tax revenues derived from new buildings and economic activity will not be available to pay for these public goods and services until TIF termination—generally between 15 and 30 years from TIF inception.

In Minnesota, the State statute governing TIFs mandates a test to determine whether a proposed TIF district satisfies Minnesota’s “but for” requirement:⁵⁸

1. The development would not happen solely through private investment in the “reasonably foreseeable future.”
2. The induced development will yield a net increase in market value for the site compared with the likely development that would occur without TIF. To determine this, follow the steps below:⁵⁹
 - a. Determine the increase in market value of “the site” that would reasonably be expected to occur *without* using TIF: Estimated future market value (at the end of the TIF period) minus the current market value.
 - b. Determine the increase in market value of the proposed TIF development minus the present value of the TIF assistance: Estimated future market value (at the end of the TIF period) minus the current market value minus the value of the TIF assistance.
 - c. There is no “net increase in market value” if the value of “b” is less than or equal to “a.”

⁵⁷ Sharada Vadali et al, *Guidebook to Funding Transportation Through Land Value Return and Recycling*, NCHRP Report 873, p 17. See <http://www.trb.org/Main/Blurbs/177574.aspx>. See also Merriman, David. 2018. *Improving Tax Increment Financing (TIF) for Economic Development*. Lincoln Institute of Land Policy. p. 12. https://taxpayersci.org/wp-content/uploads/TIF_Lincoln-Institute_2018.pdf.

⁵⁸ Minnesota Legislature, House Research Department. The But-For Test. <https://www.house.leg.state.mn.us/hrd/issinfo/tif/butfor.aspx>.

⁵⁹ *Ibid.*

5.2 Does the Area Satisfy the State’s Legislative Criteria for a TIF District?

As mentioned above, State laws authorizing TIF typically establish eligibility criteria for sites or districts. Blight (see section 2.3 above) and environmental contamination (see section 4.5 above) are often among the requirements. There also is often a requirement that the TIF parcels be contiguous and that they are not part of another, pre-existing TIF district. The TIF enabling legislation in each State provides the requirements for establishing TIF district boundaries in your locality.⁶⁰

5.3 How Are District Boundaries Defined?

First, the State’s legislative criteria mentioned in section 5.2 will guide the establishment of TIF district boundaries. Second, the TIF district needs to be large enough so that the projected tax increment satisfies the funding needs of the infrastructure project. This determination will be based on the revenue sources that can be utilized, as indicated in the State TIF authorizing legislation.⁶¹ In the event that a TIF district meeting a State’s geographic criteria is not large enough to generate the funding needs of the infrastructure project, either additional resources will be identified or the project will be postponed.

In terms of boundaries, a distinction is made between “project-specific TIFs” and neighborhood or district TIFs. A project-specific TIF entails a single private development project. An example might be the development of a shopping mall. If, prior to the TIF project, the parcels upon which the mall will be located were largely vacant or underutilized, then the development of a successful retail mall could generate a substantial tax increment in terms of sales taxes. An increment in property taxes might be possible also, although some malls are characterized by large surface parking lots (which have minimal improvement value) and by retail structures that are cheaply built and have minimal value compared with other building types.

A district TIF might contain many more properties under multiple ownership. Generation of the tax increment would depend not on the success of a single project, but on multiple development projects. Although there might be exceptions, having the success of a TIF dependent upon the success of a single development project might be perceived as being riskier. Depending on a State’s TIF enabling statute, TIF boundaries might be amendable. The possibility of amending TIF boundaries for the sake of increasing the tax increment is discussed in section 5.6 below.

When determining TIF boundaries, if public property will not be sold or leased to produce TIF revenue, inclusion of such property within a TIF district will not enhance TIF revenues because these properties are tax exempt. Likewise, including other tax-exempt property within a TIF district will not enhance revenues.

⁶⁰ For citations to individual State laws authorizing TIFs, see https://www.fhwa.dot.gov/ipd/value_capture/legislation/tax_increment_financing.aspx.

⁶¹ See section 5.5 below.

Montana has only two legal criteria for TIF boundaries—that they be contiguous parcels and not part of any other pre-existing TIF. Yet Montana has created a TIF manual for local governments and economic development agencies with advice about questions to consider when defining TIF boundaries. These questions are:

- Ability to generate revenue (increment): Will enough development occur in the area to generate an adequate increment, remembering that \$1 million in assessed value will only generate about \$12,500 of new property tax revenue?
- Feasibility of improving, installing, or replacing infrastructure: Can affordable infrastructure improvements be made within the boundary?
- Proximity to services: Is the area close enough to emergency, utility, and other services and/or is the area close enough to reasonably connect to existing infrastructure?
- Fairness: Is the proposed district taking advantage of new investment that will not benefit from the TIF district?
- Reasonable benefit: Is the area large enough to accommodate more than one business enterprise/tenant/property owner?⁶² (Required specifically by 7d15d4279 MCA.)
- Effects on taxing jurisdictions: Does the size of the district put a strain on the other taxing jurisdictions that provide services?
- Opportunities for success: Is the district sized so that the local government can meet its revitalization and/or development goals?

Certainly logic also plays a role. In establishing an urban renewal district, it makes sense to pick boundaries that encompass a neighborhood or business district. TEDDs [Targeted Economic Development Districts] should be designed so as not to promote sprawl or to compete with other existing industrial or business parks or districts.⁶³

5.4 What Funding Needs and Gaps Exist?

Typically, when infrastructure projects are proposed, they are accompanied by a budget showing likely costs and expenditures and funding sources. If a proposed project is likely to enhance the value of private property, then value capture mechanisms could be considered if they are not already included in the proposed funding. Most value capture mechanisms constitute payments that property owners or businesses make in addition to the taxes and fees that they regularly pay.

⁶² Required specifically by Montana Code Annotated § 7-15-4279(2)(a).

⁶³ Cornish, J. 2014. *Tax Increment Financing in Montana: A Manual for Local Governments and Economic and Community Development Agencies*. Community Development Services of Montana. p. 17. <https://leg.mt.gov/content/Committees/Interim/2017-2018/Revenue-and-Transportation/Meetings/Sept-2017/tif-manual-2014-cornish.pdf>. Montana allows TIFs to be applied only to urban renewal districts and targeted economic development districts.

In the event that proposed funding sources are insufficient and no new development would or could occur in the absence of a proposed infrastructure project, then implementation of a TIF might be considered. As mentioned above, TIF does not rely on any new tax or fee applied to properties or businesses within a TIF district. Incremental revenues are diverted from the general fund to an account dedicated to the purposes of the TIF.

5.5 What Are the Proposed Changes in District Revenues With and Without Infrastructure Investment?

State laws provide instructions on how to determine the “tax increment” that could become available to fund a TIF infrastructure project. In many States, the implementing jurisdiction needs to make a finding that “but for” the TIF project, no new development would occur within a designated TIF district and, as a result, no new tax revenue would be obtained from properties within that district.

State enabling legislation indicates what taxes and fees can be utilized for TIF purposes. Typically, the revenue sources available for TIF include a jurisdiction’s property taxes.⁶⁴ In some States, other taxes and fees might also be available, including the following:

- Sales taxes⁶⁵
- Income taxes⁶⁶
- Hotel and occupancy taxes⁶⁷
- Sales or lease revenues from public property within a TIF district⁶⁸
- Principal and interest payments on loans made from TIF funds

A local jurisdiction authorized to create a TIF will choose one or more revenue sources (pursuant to State law) that will provide the funds for a TIF infrastructure project. The jurisdiction will document the revenue being obtained from properties within the TIF district immediately before the TIF is created. These benchmarked revenues then become the **base revenue**.⁶⁹ If designated revenues obtained from properties within the TIF district after creation of the TIF district exceed the base revenue, the difference between the collected amount and the base revenue constitutes the **tax increment** that can be deposited into the TIF project account in lieu of being deposited into the general funds of the relevant taxing jurisdictions.

⁶⁴ Vadali, Sharada, et al. *Guidebook to Funding Transportation Through Land Value Return and Recycling*. NCHRP Report 873. p. 6. <http://www.trb.org/Main/Blurbs/177574.aspx>.

⁶⁵ Ibid.

⁶⁶ Ibid.

⁶⁷ Ibid.

⁶⁸ Velkme, Ingrid S., and Michael T. Jurusik. TIF Tips: Getting the Most Out of Your TIF District. Illinois City/County Management Association. 2019 Summer Conference, June 6, 2019. <https://www.ilcma.org/wp-content/uploads/2019/06/TIPS-on-Getting-the-Most-Out-of-TIFS.pdf>.

⁶⁹ In some States, the base revenue remains constant over the life of the TIF. This is illustrated in figure 1 in this primer. In other States, the base revenue is allowed to grow by the amount of inflation or some other factor. This is illustrated in figure 3 in this primer.

As previously mentioned, some studies show that tax revenues, even in blighted areas lacking new development, rise over time even in the absence of any infrastructure improvement projects. Thus, some States require that an implementing jurisdiction estimate includes:

- The likely change in tax revenues for the proposed TIF district in the event that the TIF infrastructure project does not proceed. (In these States, the base revenue might not be static over the duration of the TIF.)
- The likely change in tax revenues for the proposed TIF district in the event that the TIF infrastructure project does proceed.

The difference between these two revenue streams constitutes the tax increment (see figure 3). Depending on a State's TIF authorization statute, the base revenue (allocated to the general funds of the taxing jurisdictions) might be either the revenue obtained immediately prior to the creation of the TIF or it might be that amount plus a specified growth factor.⁷⁰ Once TIF project costs have been paid (or debt has been retired), a TIF terminates and all revenue generated within the TIF district are deposited into the general fund.

5.6 Is the Infrastructure-Generated Revenue Increment Sufficient to Satisfy a Funding Need or Gap?

Section 5.5 discusses how the tax increment is defined. If the tax increment is the sole funding source, it could be sufficient to fund a proposed TIF project if:

- For a pay-as-you-go project, the tax increment equals or exceeds the required funding in the years in which the funding is required. (The tax increment will typically be smaller in the early years of a TIF and larger in the later years as development matures.)
- For a financed project, the tax increment equals or exceeds the required debt service or bond repayment. Note that under this approach, the tax increment must be sufficient to fund both principal and interest for the financing mechanism(s) used.

Depending on a State's TIF enabling statute, the boundaries might be amendable. Therefore, if a TIF's tax increment is insufficient and TIF district boundaries can be expanded, that might be one approach to resolving a funding gap. However, even if allowed, the boundary revision process will be subject to all substantive and procedural requirements established by both State and local law.

Because the sufficiency of the tax increment is dependent upon the development and economic activity occurring after the TIF is created, zoning in the TIF area or district is very important. Depending on the context and the desired economic outcome, zoning changes might be necessary. Typically, changes in zoning are required to be consistent with a jurisdiction's comprehensive plan and any small area plans that might also be in effect.

⁷⁰ See figure 3 and its corresponding footnote above.

Although zoning changes to allow increased density or more profitable uses might be needed, they are not necessarily sufficient to generate more intense development or uses that are more profitable. In other words, if a development site is zoned for a maximum floor area ratio of 4, the zoning could be changed to allow a floor area ratio of 6. Potentially, a bigger building could provide more economic activity and more tax revenue than a smaller building. However, if market demand throughout the term of the TIF is only for buildings with a floor area ratio of 3, the zoning change will have had no impact on increasing the amount of development or the tax increment.

5.7 What Are the Revenue Risks?

There are several risks associated with TIF revenues.⁷¹

- **Inflation:** The relationship between inflation and the growth of benchmarked tax revenues in a TIF district could be different from what was initially assumed. If general inflation is higher than initially assumed relative to the growth in benchmarked tax revenues, the tax increment will not have as much purchasing power as was initially estimated. For example, a TIF proposal estimates that inflation during the TIF period will average 2 percent each year and the tax increment will grow an average of 8 percent each year. If inflation averages 6 percent each year and the tax increment grows 9 percent each year, both inflation and the tax increment are higher than anticipated. But more importantly, the relationship between them has changed. In the plan, inflation constituted 25 percent of tax increment growth. In actuality, inflation constituted 66 percent of tax increment growth. In this example, the purchasing power of the tax increment will be less than initially estimated.
- **Market Risk:** There are at least two components to market risk. First, the demand for a particular type of development, envisioned by the TIF, is not as robust as anticipated. As a result, less development occurs and/or that development is less valuable, resulting in a reduction in the tax increment. This risk is more pronounced for project-specific TIFs, which are structured around a single private development. Second, general economic conditions are less robust than predicted, resulting in less development and/or lower levels of economic activity than predicted, resulting in a reduction in the tax increment. Even if development activity is unaffected, a decline in local or regional economic conditions could result in lower property values and a lower tax increment than initially anticipated. In Illinois, statewide TIF revenues declined by 41 percent between 2009 and 2013 as a result of the Great Recession.⁷²
- **Infrastructure Project Risk:** Even if the tax increment is achieved as predicted and inflation is no worse (or even better) than predicted, there is always a risk that the TIF infrastructure project itself might exceed estimated costs for a variety of reasons. This risk is associated with any infrastructure project and is not unique to TIFs.

⁷¹ Citizens Budget Commission. 2017, December 5. Tax Increment Financing: A Primer. <https://cbcny.org/research/tax-increment-financing-primer>. See also Aldrete, Rafael, et al. 2012. Valuing public sector revenue risk exposure in transportation public-private partnerships. *Transportation Research Record: Journal of the Transportation Research Board*, 2297(1), pp. 88–96. <https://journals.sagepub.com/doi/abs/10.3141/2297-11>.

⁷² Illinois General Assembly. 2018, June 1. *Final Report of the Tax Increment Financing Reform Task Force*. https://www2.illinois.gov/rev/research/taxresearch/Documents/TIF_Reform_Task_Force_Report.pdf.

- **Tax Incentive Risk:** Sometimes jurisdictions use tax abatements to lure specific companies to relocate to their jurisdiction. Tax abatements or similar incentives, if applied to developments within the TIF district, will diminish the tax increment.
- **General Fund Risk:** Although TIF creation requires a finding that development in a TIF district would not occur “but for” the proposed TIF infrastructure project, we know from academic studies that this is not necessarily the case. In 1972, concerns that California TIFs were depriving schools of property tax revenue were addressed when the State promised to reimburse school districts for lost TIF revenues.⁷³ By 2008, 12 percent of statewide property tax revenues were dedicated to TIF projects.⁷⁴ Perceptions that TIF creation will imperil funding for schools or other existing services can generate opposition to it.

5.8 How Can Those Risks Be Mitigated or Extinguished?

Due to the uncertainties surrounding estimates of future revenue increases (the tax increment), estimates of the tax increment are more helpful when they are both conservative and exceed the revenue needs of the TIF infrastructure project. This is particularly true if financing will be required to provide upfront cash before the tax increment funds become available. Lenders and bond purchasers will increase interest charges as the perceived risk of repayment increases.

Several steps could mitigate uncertainty surrounding the tax increment. First, other funding sources could be identified for portions of the TIF infrastructure project(s), such as Federal and State formula or discretionary funds. Additionally, special assessment districts (which charge an additional tax to property owners within a defined area) might be used either to augment TIF funds or to serve as a backstop in the event that TIF funds are insufficient.⁷⁵

The additional funding sources might be conditional to the extent that they would only be used if the tax increment proved to be insufficient. Even if such conditional funding sources are never used, they can be very helpful to the project by reducing risk and thereby allowing lenders or bond purchasers to charge less interest than would otherwise occur. Likewise, contracting and project management techniques that minimize the risks associated with cost overruns also can help minimize risks and avoid higher interest rates.

Local officials, particularly those involved in economic development, could become aware of the risks associated with providing tax abatements or similar incentives to firms that will locate within a TIF district and could exercise caution and restraint in this regard.

The risk to general fund revenues and existing programs was mentioned at the end of section 5.7 above. In some States, if a TIF could impact taxing districts other than the one implementing the TIF, these other

⁷³ Fisher, Bridget, Flávia Leite, and Lina Moe. 2020, August 20. TIF Case Studies: California and Chicago. Schwartz Center for Economic Policy Analysis, The New School. <https://www.economicpolicyresearch.org/insights-blog/tif-case-studies-california-and-chicago>.

⁷⁴ Ibid.

⁷⁵ For details, see *Potomac Yard Metrorail Station Cost/Revenue Summary*, April 29, 2019, <https://www.alexandriava.gov/uploadedFiles/City2ndVDEQAddlInfoReqAttGPYMSCostRevSum20190429.pdf>.

districts must be consulted and/or grant approval.⁷⁶ The extensive use of TIFs caused California to eliminate TIFs in 2012. California replaced TIFs in 2014 with enhanced infrastructure finance districts (EIFDs). EIFDs are allowed to issue TIF-type debt. However, EIFD debt is subject to more stringent limitations, including:

- TIF (EIFD) revenues are not drawn from taxes that fund schools.
- Approval is obtained from any affected tax district.
- Voter approval to issue TIF (EIFD) bonds is obtained.⁷⁷

5.9 What Does a TIF Ordinance Typically Include?

An ordinance to implement a TIF funding mechanism must conform to any and all requirements established in the State TIF authorizing statute and regulations. At a minimum, and in accordance with State criteria, a TIF ordinance will:

- Define the TIF boundaries (see sections 5.2 and 5.3).
- Demonstrate that the boundaries are compatible with State TIF criteria.
- Identify the taxes and/or fees to be utilized (see section 5.5).
- Establish a date for the benchmarking of those taxes and/or fees in order to determine the base revenue—static or growing (see sections 2.1 and 5.5).
- Determine the tax increment for each year (see sections 2.1 and 5.5).
- Determine that portion of the increment that will be:
 - Apportioned to other taxing entities (if any) (see sections 2.1, 5.5, and 7.2).
 - Apportioned to the general fund (if required or desired) (see sections 2.1, 5.5, and 7.2).
 - Apportioned to and available for TIF project purposes (see sections 2.1, 5.5, and 7.2).
- Identify eligible uses for that portion of the tax increment applied to the TIF project(s) (see section 7.1).
- Incorporate the TIF project plan and budget (see section 7.1).
- Define the term or duration and the process for extension (if allowed) and termination of the TIF⁷⁸ (see sections 5.13, 7.1, and 7.2).

⁷⁶ Connecticut General Statutes. Chapter 132: Municipal Development Projects. https://www.cga.ct.gov/current/pub/chap_132.htm. See also Connecticut Legislative Program Review and Investigations Committee. 1998. *Brownfields in Connecticut*. Final Report. <https://www.cga.ct.gov/pri/archives/1998bcfinal.htm>.

⁷⁷ Fisher, Bridget, Flávia Leite, and Lina Moe. 2020, August 20. TIF Case Studies: California and Chicago. Schwartz Center for Economic Policy Analysis, The New School. <https://www.economicpolicyresearch.org/insights-blog/tif-case-studies-california-and-chicago>.

⁷⁸ As mentioned previously, the duration of a TIF could either be related to the construction period or to the period required to pay and retire loans or bonds used to finance the TIF project.

5.10 Conducting a Public Hearing(s)

A State's TIF authorizing statute, in conjunction with a local jurisdiction's established legislative procedures, will determine the type(s) of public involvement required. Typically, a public hearing will be required as part of the TIF creation process. To the extent that a TIF will support some new development project(s), competing businesses that might be adversely affected will probably want to testify in opposition. In some instances, if the creation of a TIF could potentially impact other taxing authorities or departments, these authorities or departments might be consulted pursuant to a legal requirement, or as a matter of courtesy.

5.11 Adopting the Ordinance

A State's TIF authorizing statute, in conjunction with a local jurisdiction's established legislative procedures, will determine how TIF funding mechanisms are created. In some instances, after a public hearing, the local legislative body might adopt a TIF ordinance. In other instances, a vote might be required by the jurisdiction's residents. Or, if the creation of a TIF could potentially impact other taxing authorities or departments, these authorities or departments might be required by State law to indicate approval (or lack of objection).⁷⁹

5.12 Notifying the Public

Unlike other value capture mechanisms, TIFs do not entail any taxes or fees to be paid by property owners or businesses that are not already required. As such, the primary notice required is prior to adoption in anticipation of public hearings. States typically require that the approval and existence of TIFs are publicly available information for the sake of transparency and accountability. This is particularly important because most States do not allow TIF districts to overlap. Thus, public notice about the creation of a TIF district is important to inform people not to include any of its parcels in any future TIF proposals.

⁷⁹ Connecticut General Statutes. Chapter 132: Municipal Development Projects. https://www.cga.ct.gov/current/pub/chap_132.htm. See also Connecticut Legislative Program Review and Investigations Committee. 1998. *Brownfields in Connecticut*. Final Report. <https://www.cga.ct.gov/pri/archives/1998bcfinal.htm>.

5.13 Termination

TIFs are typically of limited duration. Sometimes, the State enabling legislation dictates the maximum term for TIFs. If so, this statute might also provide criteria and procedures for extending the term. Regardless of whether a maximum duration is established in the State enabling legislation, the local implementing ordinance (which may simply be an adoption of the financing plan for the TIF) will provide for termination. This can be established as a performance standard (e.g., upon completion of the infrastructure project or upon the retirement of bonds or other financing mechanisms used to pay for it) or as a specified date, with or without an opportunity to extend the term. Upon termination, the special TIF account is closed and any unexpended funds are returned to the general fund of the taxing authority(ies). After termination, all tax revenues are deposited to the general fund(s) of the taxing authorities having jurisdiction there.

CHAPTER 6. ADMINISTERING A TIF

As mentioned above, once a TIF is approved, typical State laws require that certain benchmarked taxes and fees generated within the TIF district must be split into “base revenue” and “incremental revenue,” with the base revenue being deposited into the general fund and the incremental revenue being deposited into an account dedicated to the TIF infrastructure project. Of course, achieving the desired outcome within the established budget requires that the TIF infrastructure project itself must be administered with care. This “project administration” is somewhat separate from the TIF itself. Therefore, the key TIF administrative functions are:

- Establishing a separate account for incremental revenue.
- Accounting for the base revenue and incremental revenue generated within the TIF district.
- Ensuring that tax increments are spent on permissible actions or interventions within the TIF district itself.

The tax increment represents funds generated within the TIF district and, with few exceptions, State and local laws will require that these funds must be spent on approved projects or activities within the district to benefit the district.

CHAPTER 7. LEGAL AND REGULATORY PROCESSES

Although most TIFs follow the general structure discussed in previous sections of this report, each State's statutory TIF requirements are unique.⁸⁰ Creation and administration of a TIF will be subject to the substantive and procedural requirements established by State statutes and by local laws and procedures as well. If a State has created implementation resources or has an office responsible for overseeing TIF creation and administration, these will provide authoritative information regarding key legal and regulatory issues.⁸¹

7.1 Ensuring Appropriate Legislation

State TIF enabling statutes typically include the following parameters for local implementing ordinances:

- A finding that a TIF district is “blighted” and unlikely to develop without public sector intervention. If this requirement exists, localities will typically hire a consultant to conduct an eligibility study to ensure that the proposed TIF district satisfies State criteria.⁸²
- A finding that subsequent development within a TIF district would not occur “but for” the specific intervention being proposed in the TIF implementation ordinance.⁸³
- A delineation of activities (interventions) that could be permissibly undertaken by localities using TIF in support of private sector development.
- Compatibility of intended TIF development with local comprehensive plans and zoning.
- A maximum duration for the TIF district, along with procedures for extending the term (if any) and for termination.

To the extent that these requirements exist in State law, localities will typically hire consultants to:

- Conduct an eligibility study to ensure that the proposed TIF district boundaries satisfy State criteria.
- Develop a TIF implementation plan that ensures that the proposed interventions are, among other matters, consistent with State law, compliant with any “but for” requirement, and consistent with local plans and zoning.

⁸⁰ For citations to individual State laws authorizing TIF, see https://www.fhwa.dot.gov/ipd/value_capture/legislation/tax_increment_financing.aspx.

⁸¹ Minnesota has extensive online materials related to TIF formation and implementation at <https://www.house.leg.state.mn.us/hrd/issinfo/tifmain.aspx?src=21>. Montana has a TIF manual available at <https://leg.mt.gov/content/Committees/Interim/2017-2018/Revenue-and-Transportation/Meetings/Sept-2017/tif-manual-2014-cornish.pdf>.

⁸² Some studies have found that TIFs have been used in areas that would not be widely considered as “blighted.” In some cases, TIF laws have been amended to eliminate the blight requirement. See Merriman, David. 2018. *Improving Tax Increment Financing (TIF) for Economic Development*. Lincoln Institute of Land Policy. p. 7. https://taxpayersci.org/wp-content/uploads/TIF_Lincoln-Institute_2018.pdf.

⁸³ Studies indicate that the “but for” test has often been construed very loosely. See Merriman, David. 2018. *Improving Tax Increment Financing (TIF) for Economic Development*. Lincoln Institute of Land Policy. pp. 15–16. https://taxpayersci.org/wp-content/uploads/TIF_Lincoln-Institute_2018.pdf.

Once the eligibility study and plan have been completed, a public hearing will typically be held in accordance with State law and local legislative procedures. Notice of the hearing will typically be provided to the public and specifically to property owners within the proposed TIF boundaries.

Having completed the hearing (and making any warranted changes to the TIF plan), the TIF creation and implementation ordinance is drafted and subjected to the legislative process for enactment.

7.2 Protection of General Fund Revenue

For the duration of a TIF district, the local tax and revenue authority will identify the collection of TIF-eligible taxes or fees that are generated within any designated TIF district(s). For each such tax or fee, the collection will need to be disaggregated into:

- Base revenue, which is deposited to the general fund.
- Tax increment, which is distributed to the TIF project account (and possibly to others as well) according to the TIF ordinance.

The local tax and revenue authority will be mindful of amendments to TIF boundaries (if any) and to extensions of the termination date (if any).

CHAPTER 8. TIF EXAMPLES

8.1 Texas Transportation Reinvestment Zones

In Texas, municipalities may establish transportation reinvestment zones (TRZs) to fund projects, which are like tax increment finance zones, solely for transportation. The municipality designates a contiguous zone in which it will promote a specified transportation project. Once the zone is created, a base year is established and the incremental increase (or a portion of the increase) in property tax revenue accruing to the municipality from this area is designated as a tax increment that is used to partially fund the transportation project's capital cost. The proposed zone must be deemed underdeveloped and the TRZ must (1) promote public safety; (2) facilitate the improvement, development, or redevelopment of property; (3) facilitate the movement of traffic; and (4) enhance the local entity's ability to sponsor transportation projects. TRZs can be established by municipalities only, not by counties. A municipality could use TRZ revenues to fund their share of a county or State project.⁸⁴

In 2007, Senate Bill 1266 amended chapter 222 of the Texas Transportation Code, providing legal context for TRZs (sections 222.105–222.107) to address funding shortcomings for transportation projects throughout the State. Since then, TRZ legislation has evolved to remedy some technical issues related to project definition, boundary changes (limits), and the ability to rescind pledges. The legislation also was expanded to be applicable to rail, transit, parking lots, ferries, airports, and port and navigation projects.⁸⁵

TRZs can be established at the municipal level only. TRZs have confronted implementation issues related to the issuance of an opinion by the Texas Attorney General stating that their use could be subject to challenge under the “equal and uniform taxation” requirement of the Texas Constitution.

An amendment to the Texas Constitution was passed to exempt municipalities from the constitutional requirement for equal and uniform property taxation with regard to TRZs. No similar provision was made to exempt counties.⁸⁶

⁸⁴ Vadali, Sharada, et al. 2018. *Guidebook to Funding Transportation Through Land Value Return and Recycling*. NCHRP Report 873. p. 35. <http://www.trb.org/Main/Blurbs/177574.aspx>.

⁸⁵ *Ibid.* p. 65.

⁸⁶ *Ibid.*

8.1.1 Project Summary

The City of El Paso adopted TRZs to generate revenue for \$403 million in Interstate 10 projects that had been identified in their 2008 comprehensive management plan. The value-creating investments included interchange improvements, new connections between existing roadways, new roadways, safety and pedestrian access improvements, and aesthetic and transit improvements to several corridors in the city. Funding sources for the investments included motor fuel tax funds, tolls, and TRZ revenue. Local partners involved in planning, funding, or otherwise supporting implementation of the TRZ projects included the City of El Paso, the Camino Real Regional Mobility Authority, El Paso's Metropolitan Planning Organization, the Texas Department of Transportation (DOT) – El Paso District, and local property owners.⁸⁷

8.1.2 Key Findings

- Caution should be taken when developing reinvestment zones given possible issues over the “equal and uniform taxation” clauses. In Texas, pursuant to an amendment to the State Constitution, counties cannot consider reinvestment zones; however, cities are authorized.
- Local agencies can use reinvestment zones to gain more control over which projects get funded in their municipality in close collaboration with their State DOT and planning partners.⁸⁸

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⁸⁷ Ibid. p. 35.

⁸⁸ Ibid. p. B-15.

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8.2 Illinois Route 53/120

Figure 5. Canceled Illinois Route 53/120 project.⁸⁹



⁸⁹ Illinois Tollway. Illinois Route 53/120 Project Overview.

https://www.illinoistollway.com/documents/20184/96146/IL_Route53_120_FactSheet_FINAL_081613.pdf/d704f34b-bdb2-4532-bb47-ec94c80f272c. Project was cancelled.

8.2.1 Summary⁹⁰

Northwest of Chicago, north-south Interstate 290 (I-290) terminates at east-west Interstate 90 (I-90). Since the 1960s, transportation planners believed that some continuation of I-290 to the north of I-90 would be beneficial. In the late 1960s, Illinois Route 53 was constructed from I-90 north to Arlington Heights. In the late 1980s, it was extended further so that Route 53 extended 7.5 miles north of I-90. Between then and 2019, numerous planning efforts were undertaken to examine extending Route 53 an additional 12 miles north to east-west Route 120. Plans also were proposed to improve or bypass a 12-mile section of Route 120, the eastern portion of which would have an interchange with north-south Interstate 94. The planning effort was complicated because of the environmental sensitivity of some of the proposed right-of-way and due to the significant cost, estimated at about \$2.7 billion. During the late planning phase, tax increment financing was being considered to partially fund Illinois Route 53/120.

In 2009, a local referendum was conducted. Seventy-six percent of the votes approved going forward with the project, although only about 21 percent of eligible voters actually participated in the referendum.

A 2015 feasibility study was tasked with determining a financially viable, fiscally sustainable, and equitable approach to fund the project. Toll revenue (based on \$0.20/mile) was estimated to be capable of supporting between \$250 million and \$330 million in bonds. (Adding congestion-based tolls and additional tolls on nearby toll facilities could increase bonding capacity by an additional \$380 million to \$510 million.) However, even with enhanced tolling, TIF, and an additional county fuel tax, the Finance Committee could only envision revenues valued between \$745 million and \$993 million for a \$2.7 billion project, leaving a substantial funding gap to be filled.

The 2015 study proposed a Sustainable Transportation Fund that would collect 25 percent of increased property taxes from non-residential parcels near the roadway. This TIF was estimated to provide financing for between \$81 million and \$108 million, which would be devoted to the Environmental Restoration and Stewardship Fund. These environmental safeguards and enhancements were critical for obtaining local political support for the project and were not eligible for funding from toll revenues pursuant to Illinois law.⁹¹

In 2016, some key local officials began to withdraw their support. Concerns included environmental issues, high proposed tolls, and the need for State or local tax revenues to fill the large funding gap.

In July 2019, the Illinois Tollway Authority announced that they were stopping the \$25 million environmental impact statement that was underway due to a lack of consensus about the project and an inability to develop an acceptable funding proposal. Over the five decades that the Illinois Route 53 extension had been under consideration, the Illinois DOT had spent \$54 million acquiring about

⁹⁰ Vadali, Sharada, et al. *Guidebook to Funding Transportation Through Land Value Return and Recycling*. NCHRP Report 873. p. B-17. <http://www.trb.org/Main/Blurbs/177574.aspx>.

⁹¹ Illinois Route 53/120 Finance Committee. 2015, March. *Illinois Route 53/120 Feasibility Analysis*. p. 35. https://www.illinoistollway.com/documents/20184/96146/201503+53-120+finance+committee_final+report.pdf/9173f2be2-173a-47ee-85b5-1639f9221997?version=1.0&t=1462802607425.

1,100 acres of right-of-way. Illinois, Lake County, and some of its communities will now decide what to do with the acquired right-of-way.

8.2.2 Key Findings⁹²

Scattershot suburban development in rural areas can overwhelm rural road capacity. Traffic congestion on rural roads was the impetus for this project.

Because the transportation system in the United States consists primarily of roads that do not impose tolls, creating new toll facilities (and increasing the tolls on existing toll facilities) is difficult because people object to tolls and introducing new tolls or increasing existing tolls often will divert some traffic from the toll facility onto nearby facilities without tolls.

The dispersed and low-density nature of sprawl development requires extensive infrastructure expansion, the cost of which may exceed the utility to users (as measured by potential user fees) and to nearby landowners (as measured by potential increases in land values). TIF revenues were limited to environmental protection. Aggressive proposed tolls, combined with an additional county gas tax, were only able to generate one-third (or less) of the estimated project costs, and no other source of funds could be found to fill a funding gap of more than \$1 billion. Even if projected TIF revenues (\$81 million to \$108 million) had been available for road construction, they would not have come close to closing this gap.

Although this was not studied, this project raises interesting questions:

- Could there have been enough development demand near the proposed interchanges to generate tax revenues sufficient to fund the highway?
- If that amount of development would occur, would it overwhelm the proposed highway and replicate the congestion that the facility was intended to resolve?

Community stakeholders were able to support a TIF concept for environmental protection and stewardship. Typically, TIFs are more popular than special assessments because it appears that TIFs do not entail any expenditure of existing revenue nor any increase in tax rates.⁹³

⁹² The findings provided in NCHRP Report 873 were written in 2017 and were very upbeat. The findings presented here are the author's conclusions after reading the 2015 Financial Analysis and newspaper accounts of the evolution of the project.

⁹³ Vadali, Sharada, et al. *Guidebook to Funding Transportation Through Land Value Return and Recycling*. NCHRP Report 873. p. B-17. <http://www.trb.org/Main/Blurbs/177574.aspx>.

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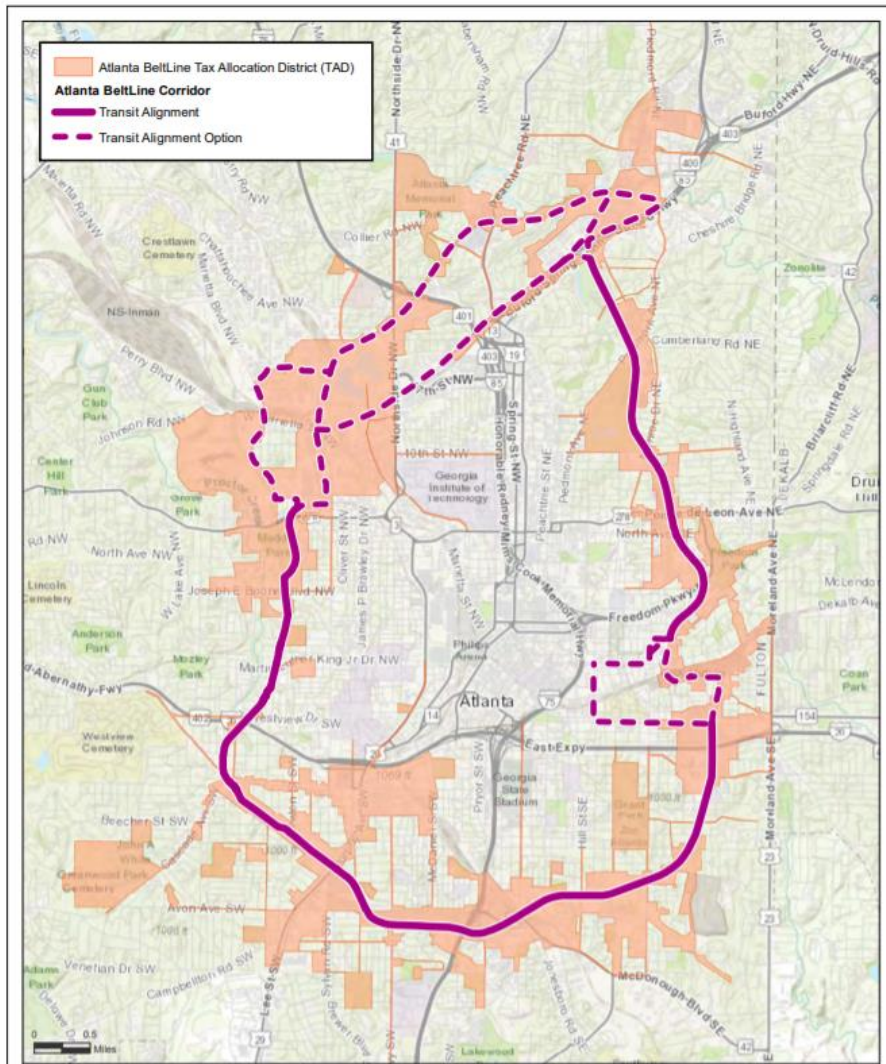
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8.3 Atlanta BeltLine

Figure 6. Atlanta BeltLine Tax Allocation District.⁹⁴



⁹⁴ Atlanta BeltLine. Atlanta BeltLine Tax Allocation District. https://beltline.org/wp-content/uploads/2015/04/ABI_TAD.pdf.

8.3.1 Summary⁹⁵

The Atlanta BeltLine is a comprehensive transportation and economic development effort, and it is one of the Nation's largest urban redevelopment programs. By transforming Atlanta's mostly abandoned freight rail corridors, the completed BeltLine will ultimately include at least a 33-mile trail network and about 22 miles of transit. The full trail network and transit system are currently planned to be completed by 2030 and will ultimately connect 45 neighborhoods in Atlanta. The project is expected to generate \$10 billion in total economic growth within the City of Atlanta, much of which will support ongoing project costs through a tax allocation district (TAD), which is the term for a TIF in Georgia.

When the TAD was created in 2005, properties around the proposed BeltLine generated limited tax revenue. To spur economic development, the City of Atlanta, Fulton County, and Atlanta Public Schools agreed to create a TAD on parcels surrounding this BeltLine's rail corridor. As investment increases around the BeltLine, this TAD generates tax revenue to support ongoing project delivery.

The City of Atlanta incorporated a legislatively directed goal of creating 5,600 units of affordable workforce housing over the TAD's lifespan, funded with TAD and other revenues. As of May 2021, 3,340 affordable units had been built within walking distance of the BeltLine.⁹⁶

Alongside TAD revenue, other funding sources for the BeltLine include: the City of Atlanta; private investment and philanthropic contributions; county, regional, State, and Federal funding; and public-private partnerships. Ballot referenda in 2016 increased the local sales tax by 0.9 percent (from 8.0 to 8.9 percent) for transit and transportation projects within the City of Atlanta, a portion of which will fund some BeltLine transit, access, and the remaining right-of-way for the entirety of the 22-mile loop.

A 2005 forecast pegged total TAD revenues at \$3 billion. Due to the Great Recession of 2007–2009 and other factors, total TAD revenues are expected to be much lower. More recent projections forecast that the TAD will generate about \$1.6 billion from 2012 to its conclusion in 2030.⁹⁷ In fiscal years 2008 through 2016, the TAD generated only \$166 million.⁹⁸

This funding shortfall led to the creation of a special service district (SSD) in 2021. The SSD is a special assessment district in which owners of about 5,000 commercial and multifamily property owners pay slightly more in property taxes (\$2 per \$1,000 of assessed value) to fund the completion of the BeltLine's 22-mile multiuse trail loop. Revenue from the SSD will be used to finance bonds that are expected to generate an estimated \$100 million.⁹⁹ Passage of the SSD is expected to unlock an additional \$100 million in philanthropic matching contributions, as well as an anticipated \$50 million in State and

⁹⁵ Federal Highway Administration. Project Profile: Atlanta BeltLine. https://www.fhwa.dot.gov/ipd/project_profiles/ga_atlanta_beltline.aspx.

⁹⁶ Atlanta BeltLine. Affordable Housing on the BeltLine: Goals & Progress. <https://beltline.org/the-project/affordable-housing-on-the-beltline/goals-progress/>.

⁹⁷ Atlanta BeltLine. 2013. *Atlanta BeltLine 2030 Strategic Implementation Plan*. Final Report. p. 32. https://beltline.org/wp-content/uploads/2019/03/Beltline_Implementation-Plan_web.pdf.

⁹⁸ Invest Atlanta. 2016, June 30. *Beltline Tax Allocation District Fund: Financial Statements and Supplementary Information*. https://www.investatlanta.com/assets/beltline_tad_2016_fincial_statements_jpv8LwM.pdf.

⁹⁹ Atlanta BeltLine. The Project: Special Service District (SSD). <https://beltline.org/the-project/special-service-district/>.

Federal grants. It is hoped that by ensuring the completion of the BeltLine's mainline trail, the SSD will enhance the TAD.

8.3.2 Cost

\$4.8 billion (approximately \$600 million spent through fiscal year 2019)¹⁰⁰

8.3.3 Funding Sources¹⁰¹

In 2013, the Atlanta BeltLine organization published a Strategic Implementation Plan with the funding sources and amounts shown in table 1. Note that there is an \$891 million funding gap.

Table 1. Funding Sources for the Atlanta BeltLine.¹⁰²

Funding Source	Amount (in millions)
TAD	\$1,575
Federal funds	\$1,295
City of Atlanta	\$146
Federal, State, regional, or local funding for streetscapes	\$343
Local funding for parks	\$157
Private philanthropic donations	\$312
Other	\$11
Unidentified (funding gap)	\$891
Total	\$4,730

8.3.4 Sources

Atlanta BeltLine. 2013. *Atlanta BeltLine 2030 Strategic Implementation Plan*. Final Report. https://beltline.org/wp-content/uploads/2019/03/Beltline_Implementation-Plan_web.pdf.

Atlanta BeltLine. The Project: Project Funding and Financials. <https://beltline.org/the-project/project-funding/>.

Atlanta Beltline. The Project: Special Service District (SSD). <https://beltline.org/the-project/special-service-district/>.

Federal Highway Administration. Case Studies: Atlanta BeltLine Tax Allocation District. https://www.fhwa.dot.gov/ipd/value_capture/case_studies/atlanta_beltline_tax_allocation_district.aspx.

¹⁰⁰ Atlanta BeltLine. The Project: Project Funding & Financials. <https://beltline.org/the-project/project-funding/>.

¹⁰¹ Atlanta BeltLine. 2013. *Atlanta BeltLine 2030 Strategic Implementation Plan*. Final Report. pp. 46–47. https://beltline.org/wp-content/uploads/2019/03/Beltline_Implementation-Plan_web.pdf.

¹⁰² Ibid.

8.4 Denver Union Station Improvements

Figure 7. Denver Union Station project.¹⁰³



8.4.1 Summary¹⁰⁴

The project is a public-private partnership development venture located on approximately 50 acres in lower downtown Denver, Colorado, which includes the historic Denver Union Station building (excluding renovation of the building itself), rail lines, vacant parcels, street rights-of-way, and offsite trackage rights. The project comprises the redevelopment of the site as an intermodal transit district surrounded by transit-oriented development, including a mix of residential, retail, and office space. The transit district will serve as a regional multimodal hub connecting commuter rail, light rail and bus rapid transit, regularly scheduled bus service, and others, including:

- Construction of light rail and commuter rail stations.
- A regional bus facility.
- Extension of the 16th Street Mall and the shuttle service.
- Accommodation of the Downtown Circulator service.
- Pedestrian improvements and improved street, replacement parking, and utility infrastructure.

Denver Union Station acts as a hub for all of Metro Denver's mass transit. The facility includes transportation options offered by the Regional Transportation District (RTD), the Colorado DOT,

¹⁰³ USDOT. Denver Union Station Project. <https://www.transportation.gov/buildamerica/projects/denver-union-station>.

¹⁰⁴ Ibid.

Greyhound, and Amtrak, and it connects intercity transit options to the Denver International Airport. By facilitating transit ridership, this project will reduce vehicle traffic and its accompanying emissions. Since the project's completion, the project area has added more than 200 stories of office, retail, residential, and hotel space.

Funding and financing sources included sales tax revenues, TIF, and an appropriation backstop from the City and County of Denver to improve the credit quality of debt. TIF provided repayment of \$300 million in Federal loans, or approximately 60 percent of total project costs, which were approximately \$500 million. The sale of government land (another form of value capture) provided an additional \$38.4 million in revenue that was applied to the project.¹⁰⁵

The project also received loans from two Federal credit programs: the Railroad Rehabilitation and Improvement Financing program and the Transportation Infrastructure Finance and Innovation Act (TIFIA) program. TIF revenues and property taxes were expected to cover debt service; however, sales taxes and the city-contingent commitment provided a backstop in the event that these revenues were insufficient.

8.4.2 Key Findings¹⁰⁶

- TIF can benefit from a backstop support to improve credit quality.
- TIF can work in tandem with traditional sources of funding, such as sales tax revenues.

8.4.3 Sources¹⁰⁷

- BATIC Institute. Webinar: Denver Union Station Redevelopment Project, March 30, 2016. http://www.financingtransportation.org/capacity_building/event_details/webinar_dus.aspx.
- Denver Union Station Project Authority. 2011, February 1. Plan of Finance Prepared for Federal Highway Administration. TIFIA Joint Program Office.
- Federal Highway Administration. Project Profile: Denver Union Station. https://www.fhwa.dot.gov/ipd/project_profiles/co_union_station.aspx.
- RTD website. <https://www.rtd-denver.com/fastracks/union-station>.

¹⁰⁵ Vadali, Sharada, et al. *Guidebook to Funding Transportation Through Land Value Return and Recycling*. NCHRP Report 873. p. 53. <http://www.trb.org/Main/Blurbs/177574.aspx>.

¹⁰⁶ Ibid. p. B-16.

¹⁰⁷ Ibid.

CHAPTER 9. TIF AS FUNDING OR FINANCING

9.1 Pay-As-You-Go

As tax increments are deposited into the account dedicated to a TIF infrastructure project, they become available for expenditures. Under typical circumstances, incremental tax revenue will be minimal during the early period of a TIF and become more substantial with each passing year. Therefore, if the TIF infrastructure project is being funded on a pay-as-you-go basis, the project manager will need to align spending plans with the availability of incremental revenues during the duration of the TIF.

9.2 Local Match for State or Federal Funding

Depending on Federal and State requirements, the use of tax increments to match State or Federal funds could be accomplished either on a pay-as-you-go basis or on a financed basis. State and/or Federal program requirements will dictate when matching funds must be available. If the cash flow of the tax increment does not meet those requirements and/or an alignment between the timing of matching funds and the timing of the tax increment cannot be negotiated with the funding agencies, then alternative funds could be identified to provide the local match on a schedule that satisfies the funding agencies. If permitted by the TIF ordinance, these alternative funds could be reimbursed by the tax increment as incremental revenue becomes available.

9.3 Debt Service for Bonds or Other Financing Mechanisms

If the spending plan calendar requirements for the TIF transportation infrastructure project (project expenditures and/or matching fund requirements) require the availability of funds before the tax increment becomes available (or becomes available in sufficient amounts), then loans can be obtained or revenue bonds sold to raise the necessary cash in the short term. However, the tax increment over the term of the TIF needs to satisfy the payment of both interest and principal. Two Federal innovative financing programs may be used for this purpose: State infrastructure banks (SIBs) and the Transportation Infrastructure Finance and Innovation Act (TIFIA) credit program.

A SIB is a revolving fund that is established and operated by a State (usually a State DOT). It has the capacity to offer direct loans and various types of credit enhancement products to help finance surface transportation infrastructure projects. Federal and State funds are used to capitalize the SIB. A percentage of Federal funds are transferred from specific modal accounts, and these funds are matched with State money in a prescribed ratio. SIBs are able to offer loan guarantees or pay bond insurance premiums. These credit enhancements enable lenders to reduce interest rates for debt. SIBs also are able to offer below-market interest rates to loan applicants.¹⁰⁸

¹⁰⁸ Federal Highway Administration. State Infrastructure Banks (SIBs). https://www.fhwa.dot.gov/ipd/finance/tools_programs/federal_credit_assistance/sibs/.

The TIFIA program provides credit assistance for qualified projects of regional and national significance. Many large-scale surface transportation projects—highway, transit, railroad, intermodal freight, and port access—are eligible for assistance. Eligible applicants include State and local governments, transit agencies, railroad companies, special authorities, special districts, and private entities. Among other tasks, the TIFIA credit program is designed to fill market gaps and leverage substantial private co-investment through supplemental, subordinate investment in critical improvements to the Nation’s transportation system. TIFIA credit assistance is often available on more advantageous terms than in the financial market, making it possible to obtain financing for needed projects when that financing might not otherwise be available.¹⁰⁹ The total Federal assistance provided for a project receiving a loan under the TIFIA program cannot exceed 80 percent of the total project cost.¹¹⁰

As mentioned in sections 5.7 and 5.8, there are steps that may minimize TIF risks, both on the revenue side and on the expenditure side. To the extent that these steps are perceived as reducing risk, lenders and bond purchasers may lower the associated interest charges accordingly.

¹⁰⁹ USDOT. TIFIA: Program Overview. <https://www.transportation.gov/buildamerica/financing/tifia/program-overview>.

¹¹⁰ 23 U.S. Code 603(b)(9)(A).

CHAPTER 10. TIFs AND SPECIAL ASSESSMENT DISTRICTS

Where an infrastructure project is likely to enhance the value of private property, special assessments have sometimes been created so that the benefiting properties pay for some portion of the special benefit that they receive. Special assessments are fees that are added onto the property taxes for designated properties. They are collected as part of the regular property tax process. However, the regular property tax is deposited into the taxing authority's general fund, and the special assessment fee is deposited into an account dedicated to funding the infrastructure project that is conferring a benefit on designated properties.

Potomac Yard Metrorail Station

The City of Alexandria, Virginia, has created both a TIF district and a special assessment district to pay for a new Metrorail transit station. The Potomac Yard station is being constructed on the grounds of a former railroad switching yard. More information about the project is available at <https://www.alexandriava.gov/PotomacYardMetro>

There are two primary reasons why a special assessment district might be created in combination with a TIF district. First, the special assessment district can provide additional revenues to support an infrastructure project. Second, a “contingent” special assessment district can provide a backstop in case TIF revenues are insufficient. If TIF revenues fall below a specified threshold, this could trigger the implementation of an enacted special assessment. Special assessments are collected only if TIF revenues fail to meet a designated level.

To the extent that revenues from the special assessment district are determined by a formula not subject to future development activity, those revenues are more certain. Thus, even if the special assessment district is never invoked, its mere existence as a backstop reduces the risk for bond holders or lenders and can lead to lower interest rates on TIF financing. In the absence of a contingent special assessment district, jurisdictions could backstop TIF bonds with the “full faith and credit” of their general revenues.

11. APPENDIX

11.1 State Enabling Legislation

Forty-nine States and the District of Columbia already authorize TIFs. Links to each State's actual enabling legislation can be found on the FHWA website at https://www.fhwa.dot.gov/ipd/value_capture/legislation/tax_increment_financing.aspx.

11.2 Local Implementing Ordinances

Local implementing ordinances will conform to requirements established in the State's enabling legislation. Given the numerous differences among State statutes, any model implementing ordinance would either be incomplete, misleading, or both. However, as one example, the City of St. Louis, Missouri, has passed multiple ordinances creating TIF districts known as "redevelopment areas."¹¹¹ The State of Missouri's enabling legislation, the Real Property Tax Increment Allocation Redevelopment Act, is codified in sections 99.800 through 99.865 of the Revised Statutes of Missouri.¹¹²

11.3 Case Studies

Section 8 of this primer provides information on the following TIF case studies:

- Texas Transportation Reinvestment Zones
- Illinois Route 53/120 (proposed)
- Atlanta BeltLine
- Denver Union Station Improvements

¹¹¹ One example of a St. Louis implementing ordinance is Ordinance 68092 (June 27, 2008), which created the South Carondelet District #3 Redevelopment Area, <https://www.stlouis-mo.gov/government/city-laws/ordinances/ordinance.cfm?ord=68092>.

¹¹² Real Property Tax Increment Allocation Redevelopment Act, Revised Statutes of Missouri, sections 99.800–99.865, <http://revisor.mo.gov/main/OneSection.aspx?section=99.800>.

GLOSSARY OF TERMS

Assessed value refers to the value that a taxing authority places on real property (both land and any improvements upon it, such as buildings or parking lots) for the purposes of real property taxation. Assessed values typically bear some relationship to market value. In some jurisdictions, assessed values are frozen when a property is purchased and then reset when a property is subsequently sold. In other jurisdictions, the law mandates that assessed values reflect only a specified fraction of market value. Even in jurisdictions where assessments are mandated to reflect market value, the data used to determine market value are often a year or two old by the time that assessments are proposed. There are typically two metrics for evaluating the quality of assessments:

Accuracy: A comparison of the assessed value of a property to the legally mandated determinant of value.

Uniformity: The degree to which identical properties are assessed the same.

Base revenue is the total revenue from designated taxes and fees received from the properties and/or businesses within a TIF district prior to undertaking any TIF-related infrastructure or development projects. This base revenue is certified when the TIF district is created. Base revenue is used to calculate each year's **tax increment**. Depending on a State's TIF enabling statute, the base revenue might be fixed at its initial level or it might be allowed to grow by the amount of inflation or some other factor provided in the statute. Allowing the base revenue to grow helps protect funding for existing public goods and services, but decreases the amount of tax increment that will be generated.

Bonds are a type of loan or debt. The bond purchaser provides an amount of cash (principal) that the issuer is obligated to repay with interest. Typically, interest-only payments are made until the maturity date, at which time the entire principal must be returned. There are different types of bonds:

General obligation bonds, meaning that the issuer (typically a local government) is obligated to make the required payment from whatever resources it has at its disposal. This could entail a requirement that the local government raise taxes if the annual TIF increments are insufficient.

Revenue bonds, meaning that a stated source of revenue (e.g., annual TIF increment) is the only possible source of funds for making required payments. The issuer (typically a local government) *is not* obligated to make the payment by obtaining funds from other sources. These "non-recourse" bonds entail greater risk of non-payment to bond purchasers. Therefore, they typically require higher interest payments as compensation.

District area is the area containing properties from which a tax increment is *collected*. The area is defined by the TIF plan; depending on State requirements, it may or may not need to be contiguous. The total annual revenue from designated taxes and fees received from the properties in the district is certified when the district is created. This value is the **base revenue** for the district.

Environmental impact statement is a detailed study mandated by the National Environmental Policy Act of 1969 that assesses the environmental impact of a proposed Federal action (and alternatives) that could significantly affect the natural or human environment.

Land write-down occurs when a local government (or government agency or instrumentality) transfers property to a developer at less than the government's acquisition cost. For example, an agency acquires a property for \$900,000 and spends \$100,000 to demolish a building on the property and an additional \$100,000 to clean up contaminated soils. If the agency sells the property to a developer for \$700,000, the price of the land is "written down" by \$400,000 from the agency's \$1.1 million. To know whether the write-down constitutes a subsidy to the developer or to the initial property owner (or both), one needs to know the actual market value of a property when it was acquired by the government and the market value when it was sold to a developer.

Market value, in the context of real property, refers to the price that a willing buyer would pay to a willing seller when both the buyer and the seller are aware of market conditions and neither is under any coercion, compulsion, or hardship regarding the completion of the transaction.

Revenue segregation is a characterization of the TIF process. TIFs do not increase tax rates or apply special fees to properties that obtain a special benefit from public funds. Instead, TIFs merely segregate the tax increment from the total revenue received from benefiting properties and allocate it to an account dedicated to the creation of the special benefit.

Special assessment district (SAD) is a legally designated area that is purported to receive specific and direct benefits from an infrastructure improvement project. Properties within a SAD must pay an additional fee that is added onto their regular property tax to compensate the public sector for the special benefit that they are receiving. The additional fee is used to help pay for the infrastructure improvement. A SAD is different from a TIF because a SAD consists of an additional fee that property owners must pay. Under a TIF, property owners pay the same taxes and fees that they would have even if the TIF had not been created. (See the definition of **TIF** below.)

Tax increment is generally the difference between the amount of revenue from designated taxes and fees in a year after a TIF has been created and the **base revenue**. Depending on a State's TIF enabling statute, the base revenue might be fixed at its initial level or it might be allowed to grow by the amount of inflation or some other factor. Allowing the base revenue to grow helps protect funding for existing public goods and services, but decreases the amount of tax increment that will be generated.

Tax increment financing (TIF) is a process whereby identified revenue sources are benchmarked prior to an infrastructure improvement project. Any increase in revenue after the project begins (or some designated portion thereof) is defined as a **tax increment** and is used to fund the infrastructure project instead of being deposited into the general fund. (See section 2.1.)

Value capture entails returning a portion of publicly created value to the public sector that created it. Public goods and services, in addition to providing benefits for the general public, sometimes confer specific and direct benefits on particular properties. For example, a highway interchange might be useful to an entire community, but those properties closest to the interchange will have greater access to the highway facility and the services it provides. This "greater access" will often be reflected in higher land values for well-served properties. TIF is sometimes referred to as "value capture." However, because

properties within a TIF district are paying the same taxes and fees that they would have in the absence of a TIF, they are not providing any more (or less) value capture than what is already embedded in the structure of the taxes and fees that they owe. For this reason, a TIF could more accurately be referred to as **revenue segregation** or **value transfer**.

Value transfer entails extracting value from some parties and providing it to others. Although a TIF is sometimes referred to as **value capture**, in some circumstances it amounts to “value transfer.” In other words, in the absence of a TIF, a new development would pay taxes, and these taxes would help offset the cost of public goods and services that the new development consumes. When a TIF is created, most of the taxes paid by a new development are characterized as a **tax increment**. Instead of going into the general fund to compensate for public goods and services, the tax increment is deposited into an account used solely for infrastructure projects and programs likely to benefit that property. Thus, to the extent that other taxpayers will be subsidizing the public goods and services consumed by new development in a TIF district for the duration of the TIF, a TIF could be characterized as “value transfer.”

RESOURCES

Council of Development Finance Agencies. Tax Increment Finance Resource Center.

<https://www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/tif.html>.

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