



## **Tax Increment Financing Districts, City of Huntsville, Alabama**

The City of Huntsville, a hub for technology, space, and defense, is home to NASA's premier flight center and the world's largest space museum. Huntsville has more than 200,000 residents and is consistently recognized as one of the best cities to live and work in the Southeast. Set at the foot of a mountain, the City of Huntsville is known for its botanical garden, arts scene, breweries, and regional cuisine. It is also an outdoor sports destination with expansive parks, nature preserves, and trails.

### Financial Need and Indicative Solution

In the mid-1990s, the city was in danger of decaying. It was failing to win new jobs and residents were moving to more prosperous communities. Something needed to be done, and the city was determined to find a way to raise revenue for improvements, especially for its schools and main shopping mall, which would attract new developments.

The then-mayor proposed Tax Increment Financing Districts (TIFs), which were being used across the nation as well as in Birmingham and Mobile, as the solution. The State Legislature approved TIFs in 1988 as a way to let city and county governments fund public improvements in blighted or economically distressed areas. The TIF helps governments finance major infrastructure improvements in short order and pay back the debt through increased revenues generated by the district's new economic development. Residents of Huntsville all benefit financially from an improved economy. This allows the City to issue tax-exempt bonds to finance public improvements such as new schools, roads and infrastructure for economic development, and pay back the debt through increased revenues generated by the district's new economic development. Residents of Huntsville all benefit financially from an improved economy.

A common misunderstanding is that TIFs raise property taxes within their boundaries to repay the loans. This is not correct. Under Alabama law, only voters can approve a change in property taxes. TIFs allow the city to finance public infrastructure improvements with increment tax revenues generate from increased property tax revenue and the economic activities generate from new development/businesses such as sales tax, payroll tax, and hotel tax.

After a TIF meets its financial goal, it is closed, and all tax revenue generated within the district returns to routine collection and distribution. TIFs are best for special projects because some can take decades to pay off if the project does not generate growth and boost property value.

### Tax Increment Financing Districts (TIFs)

Huntsville had approved TIFs in 1988 to fund public improvements in blighted or economically distressed areas and created its first one in 2000. Today, the city has seven TIFs.



There are three important factors in considering a TIF. First, the tax rate used to calculate local property taxes, called tax millage, must be relatively high. Second, the TIF must induce development to increase property values. Third, the outcome must be ensured as much as possible because the government sponsoring the TIF incurs any risk.

To create a TIF, a public approval process requires public hearings and involvement by county or other governments that are affected. The city must adopt a resolution authorizing it and approve the project plan. Once funds are borrowed for a project, they must be spent within five years.

Huntsville's first TIF provided \$2.26 million to widen a major highway and build access to a large shopping center and was paid off in advance. The next one provided \$10 million to rebuild a high school and \$5.5 million for a parking garage as part of a shopping mall renovation, and its tax revenue to date is a year ahead of its planned 2028 closing date. The third TIF provided \$30 million to build a new K–8 school and a high school, plus \$9.5 million for surrounding road improvements, and was paid off several years early. The fourth TIF provided \$12 million for renovating eight schools, \$8 million for road improvements, \$5.3 million for improvements to an industrial park to entice an automobile manufacturing plant, and \$470,000 for other city facilities. The city was to pay off these loans in 2029 but expects to close the project by 2025.

Revenue from these first four TIFs alone grew \$14.03 million, nearly \$4 million more than projected, and helped pay for \$83 million in improvements. The TIFs have boosted city school revenue by \$1.3 million, county school revenue by \$1 million, and Madison school revenue by \$417,000. Because of the early payoffs, more TIF-boosted tax revenue was added to the operating funds of schools and the county government.

The fifth TIF, supporting a \$1 billion office park, will be paid over 35 years. The sixth one is supporting infrastructure improvements in a growth corridor and is helping the City of Huntsville fund infrastructure to support a new manufacturing plant.

The seventh and most recent TIF was created when the city agreed to take care of the roads and infrastructure associated with the enormous auto manufacturing site. Excluding land purchase costs, the expected cost is around \$70 million. In 2020, the automaker upped their investment in the plant by \$830 million, bringing their total investment to \$2.311 billion. Along with new revenue, the plant will add 4,000 new jobs.

Thanks to TIFs, the once decaying city has been revitalized. Over the next 25 years, TIFs are estimated to spin off \$2 billion in new houses, stores, office buildings, and factories. They have also helped turn Huntsville into a regional shopping destination, attracting visitors who help pay a larger share of its overall taxes.



Sources:

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[Alabama Code Title 11. Counties and Municipal Corporations § 11-99-4](#)

[Justia – 2016 Code of Alabama Title 11, Title 3, and Chapter 99](#)