



# *Introduction to Tax Increment Financing*

*Disclaimer: The contents of this presentation do not have the force and effect of law and are not meant to bind the public in any way. This presentation is intended only to provide information and clarity to the public regarding existing requirements under the law or agency policies. Value capture techniques and policies are often implemented outside of Federal funding or regulatory requirements.*

# Presentation Outline

- 1 Overview of TIF
- 2 Application
- 3 Establishment
- 4 Administration
- 5 Legal and Regulatory Issues
- 6 Financing
- 7 Examples

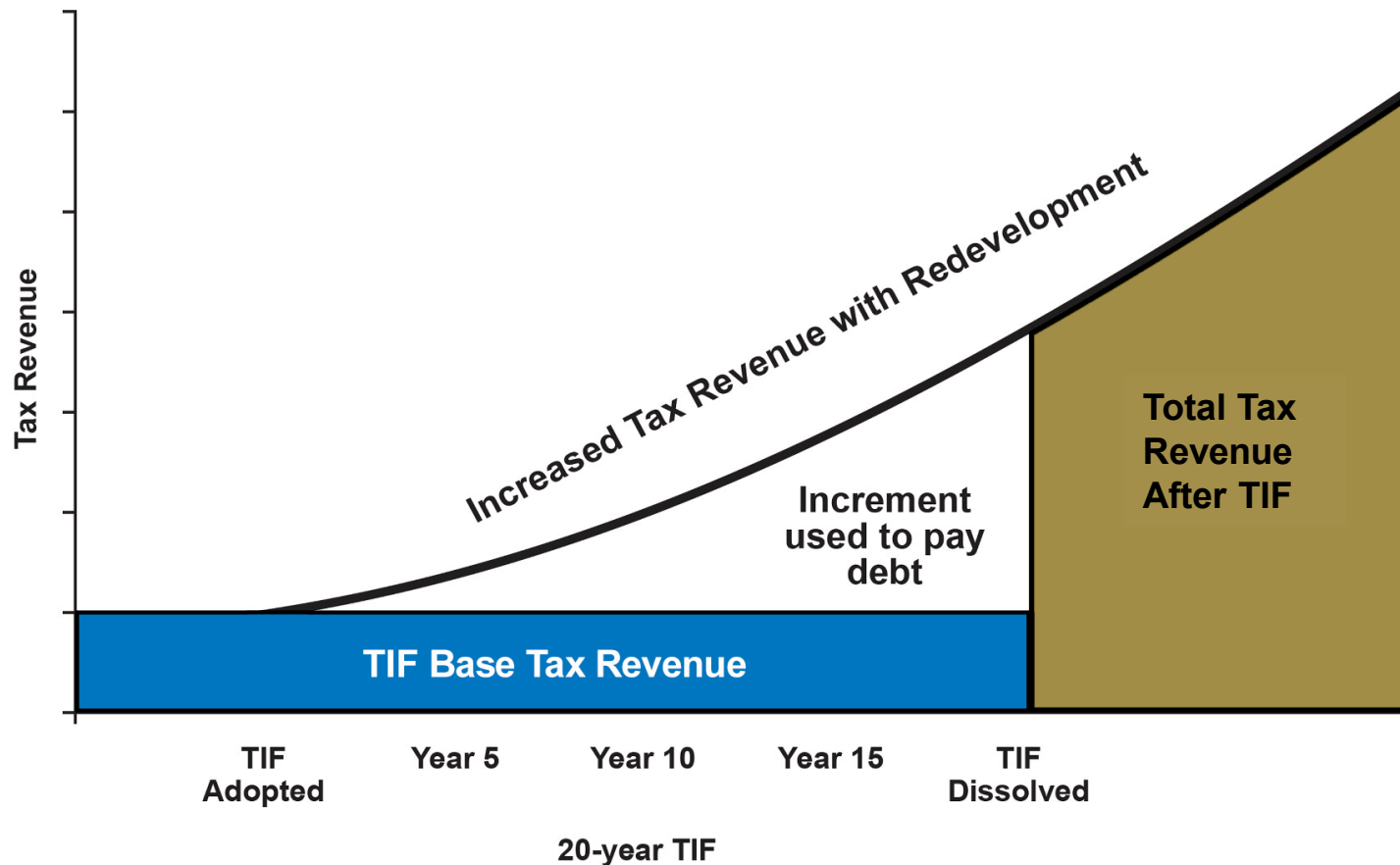
# Presentation Outline

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# What is Tax Increment Financing (TIF)?

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## BASIC TIF MODEL



# What is Tax Increment Financing (TIF)?

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**TIFs are also called:**

- Tax Allocation District (TAD - GA)
- Transportation Reinvestment Zone (TRZ - TX)
- Transportation Reinvestment District (TRID – PA)
- Community Reinvestment Area (CRA – FL)
- Economic Redevelopment & Growth Grant (ERGG – NJ)
- Project Development Financing (PDF – NC)
- Enhanced Infrastructure Finance District (EIFD – CA)

# Overview: Concept behind TIFs



## Why TIF?

### FUNDING:

- TIFs raise new funds for infrastructure projects.

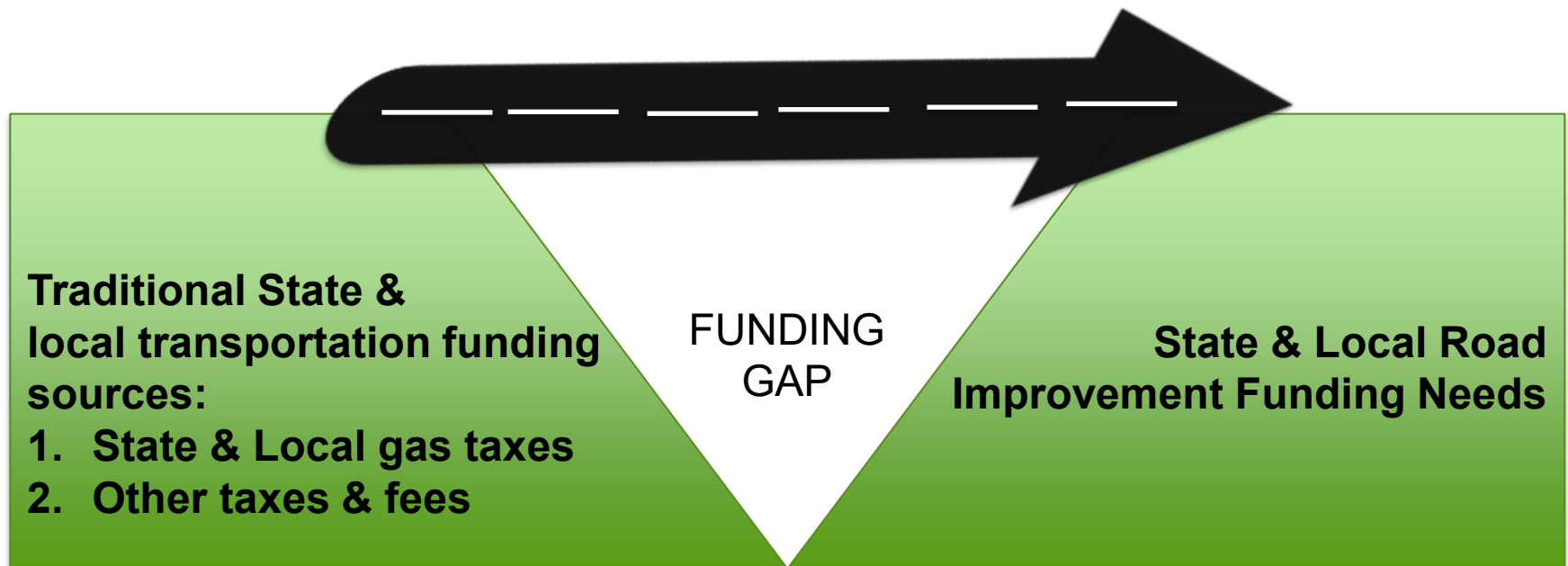
### BUDGETING:

- It is assumed that incremental revenue would NOT exist, **but for** the infrastructure improvement project.
- TIF revenues and projects are “off-budget.”
- Thus, TIF projects don’t have to compete against other spending projects nor require tax increases.

# Overview: Why use TIFs?

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## Closing Funding Gaps



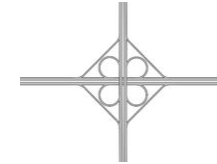
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# Application of TIFs

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- **ROW Reduction or Removal**
- **Municipal Parking Facilities**
- **Intersections & Interchanges**
- **Transit Stations**
- **Air Rights Development**
- **Elimination of RR Grade Crossings**
- **Toxic Soil Remediation / Site Assembly**
- **Corridor Improvements / Beautification**

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# Establishing a TIF District

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1

**Is TIF Authorized? What are the Criteria?**

2

**Identifying properties & defining boundaries**

3

**Identifying Revenue Sources**

4

**Estimating the Tax Increment**

5

**Termination date**

6

**Enact Legislation or Ordinance**

# Establishing a TIF District

3

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## IS TIF AUTHORIZED? WHAT ARE THE CRITERIA?

- TIFs are authorized in all States except for Arizona. But is it authorized for your unit of government?
- State enabling legislation provides establishment criteria. They might include **criteria for the area** such as:
  - Blight
  - A History of Economic Stagnation
  - Unlikely To Develop Without a TIF
  - Other?
- And **criteria for the TIF Project**. Will it catalyze:
  - New Economic Activity?
  - New Revenues Sufficient to Pay the TIF Portion of the Project?

# Establishing a TIF District

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## IS TIF AUTHORIZED? WHAT ARE THE CRITERIA?

### KEY FINDING: No Development Likely Without TIF

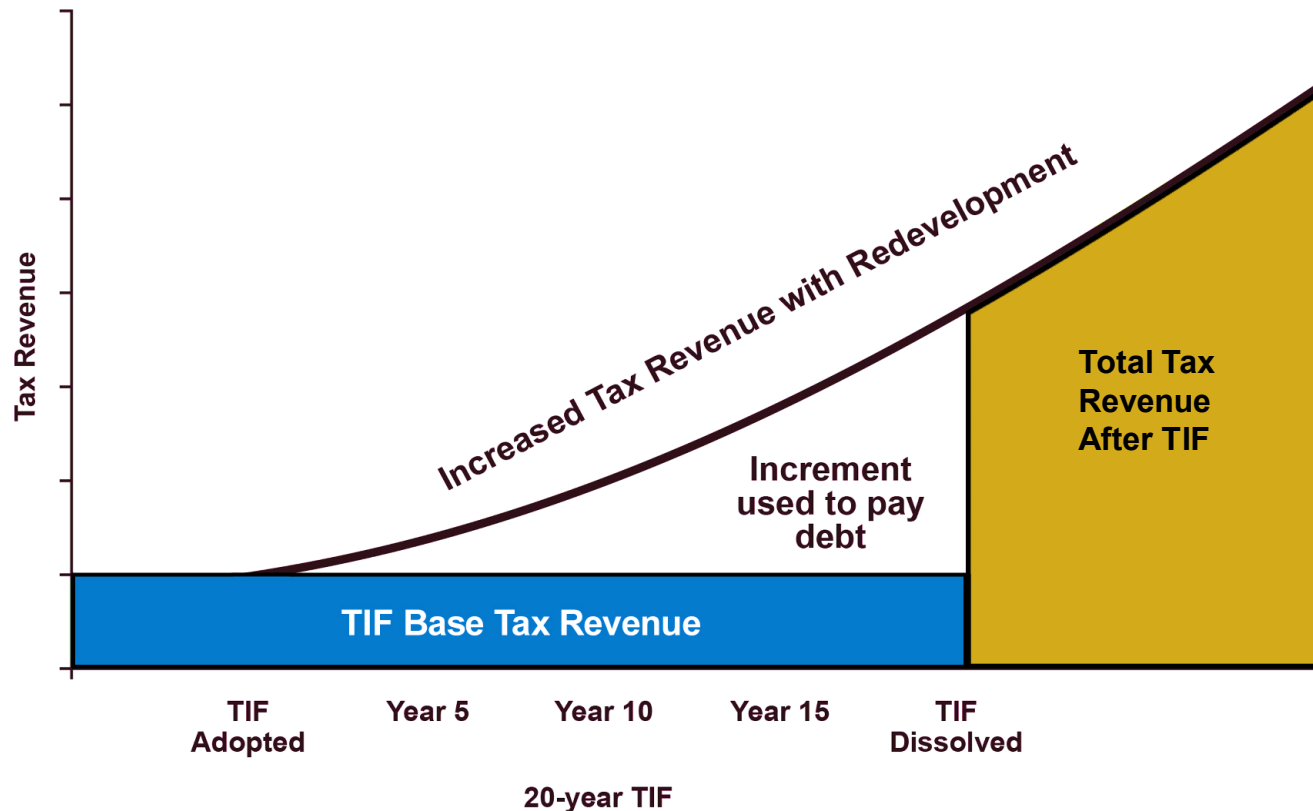
Some State enabling statutes require a “but for” finding – a determination that tax revenues in the affected area will not increase “**but for**” the improvement of specified infrastructure that will catalyze private-sector development and other economic activity.

# Establishing a TIF District

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## IS TIF AUTHORIZED? WHAT ARE THE CRITERIA?



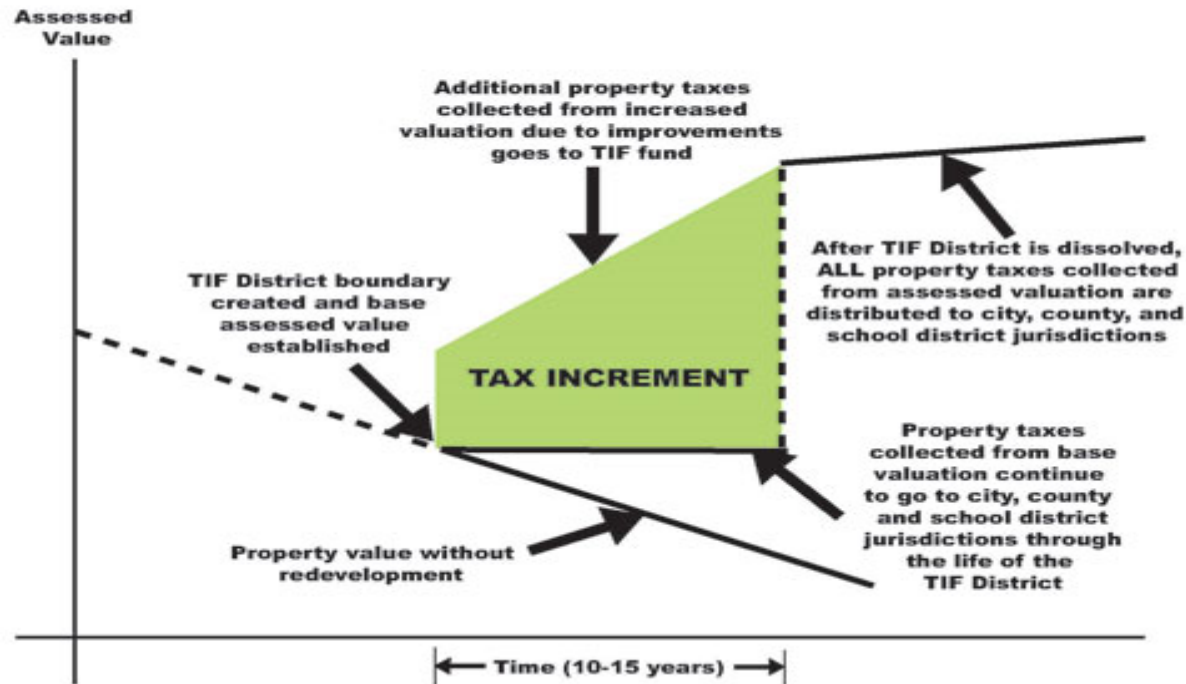
# Establishing a TIF District

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## IS TIF AUTHORIZED? WHAT ARE THE CRITERIA?

### TAX INCREMENT FINANCING DISTRICTS



Source: City of Sioux Falls, SD

# Establishing a TIF District

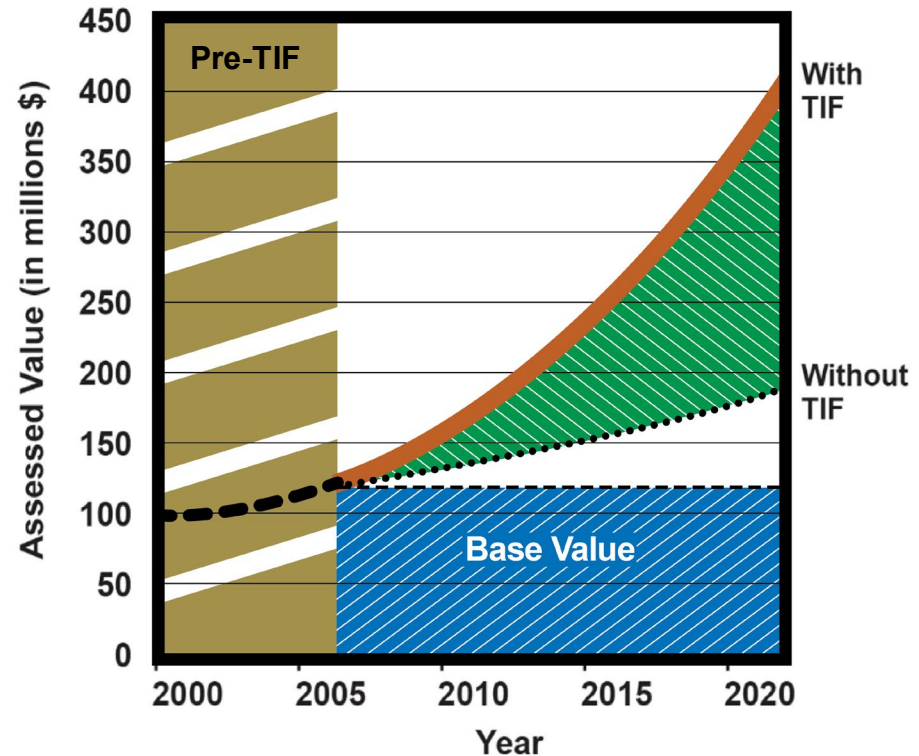
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## IS TIF AUTHORIZED? WHAT ARE THE CRITERIA?

Hypothetical Example of Assessed Value With and Without TIF

- Assessed Value pre-TIF
- Assessed Value TIF
- ..... Assessed Value without TIF
- Base Value
- ▨ Increment Caused by TIF
- ▨ Pre-TIF
- ▨ Base Value



Source: Lincoln Institute of Land Policy



# Establishing a TIF District

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## IS TIF AUTHORIZED? WHAT ARE THE CRITERIA?

### KEY FINDINGS:

- **TIF Will Generate New Revenues Sufficient to Fund the TIF Infrastructure Project**
- **Economic Activity Induced by the TIF Will Not Generate Demands for Increased Government-Funded Facilities or Services Other Than the TIF-Funded project; and**
- **Increases in Economic Activity Within a TIF District Are Not Displacing or Inhibiting Economic Activity in Other locations.**

# Establishing a TIF District

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**IS TIF AUTHORIZED?  
WHAT ARE THE CRITERIA?**



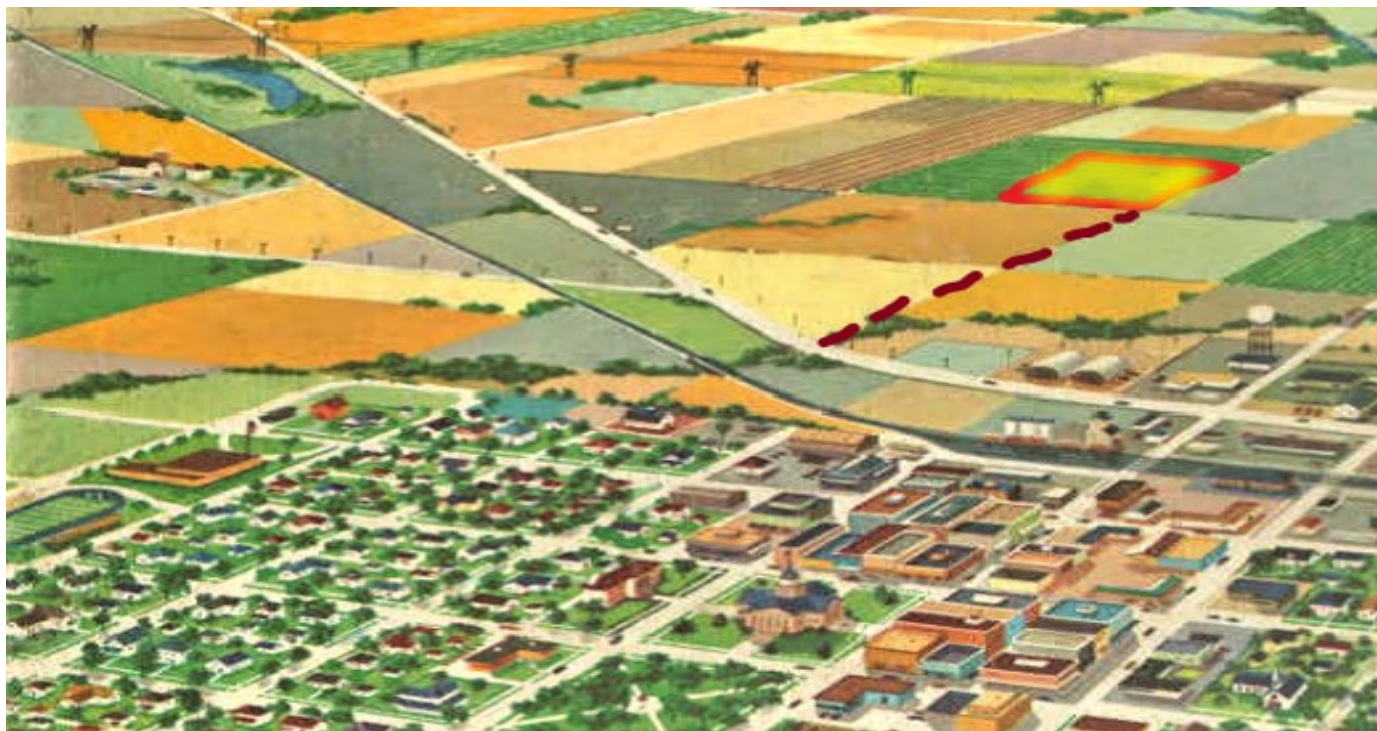
Source: *In City, Town, and Country* by Paul R. Hanna, Scott, Foresman & Co., 1959

# Establishing a TIF District

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**IS TIF AUTHORIZED?  
WHAT ARE THE CRITERIA?**



Source: *In City, Town, and Country* by Paul R. Hanna, Scott, Foresman & Co., 1959

# Establishing a TIF District

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## IDENTIFYING PROPERTIES & DEFINING BOUNDARIES

State enabling statute is always the first place to look for criteria.

Typically:

- Properties within a TIF District benefit from the TIF project.
- Properties within a TIF District will generate sufficient revenue (through higher property assessments, increased sales, or increases in other benchmarked revenues) to pay for the TIF share of the project.
- TIFs need not necessarily fund 100% of project costs (check State statute), but, if TIF provides less than 100%, the remainder will:
  - Compete with other projects or programs; and/or
  - Require an increase in tax rates.

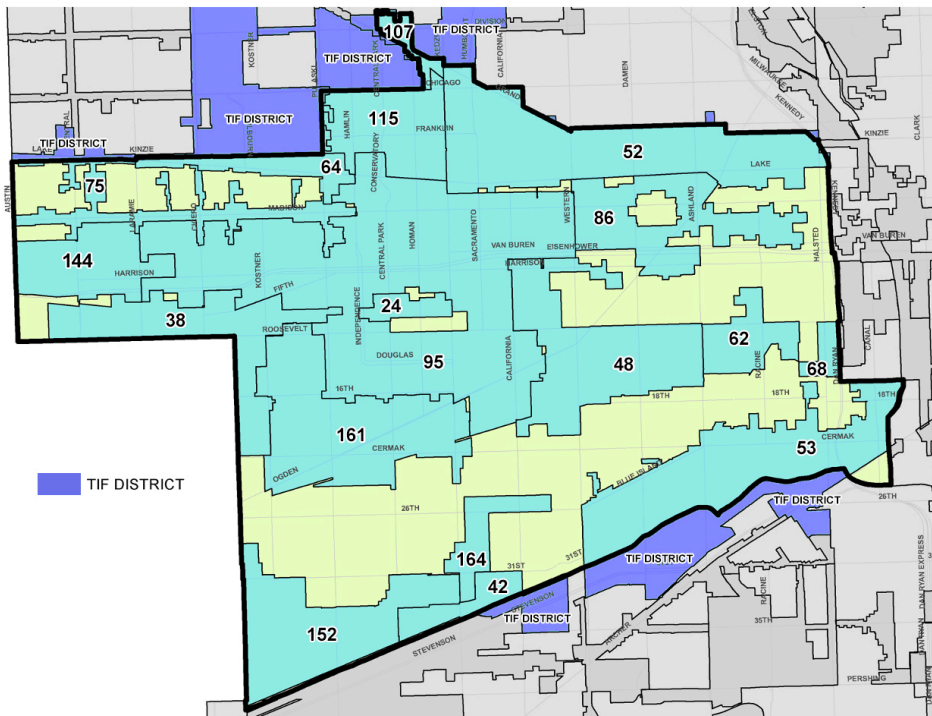
# Establishing a TIF District

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## Defining a District Boundary

### CHICAGO: West Side TIF Districts



Numbers reflect the order that districts are designated citywide.

Source: City of Chicago, West Side TIFI District Map



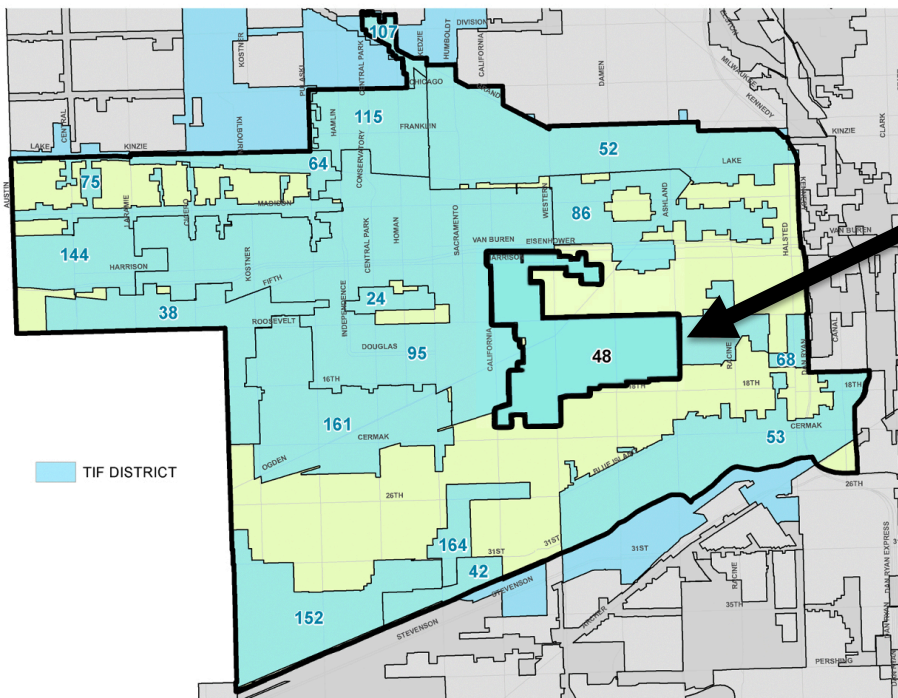
# Establishing a TIF District

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## Defining a District Boundary

### CHICAGO: West Side TIF Districts



The Western Ogden TIF (#48)

The redevelopment plan, the TIF designation ordinance, and other related reports and data are available at:  
[https://www.chicago.gov/city/en/depts/dcd/supp\\_info/tif/western\\_ogden\\_tif.html](https://www.chicago.gov/city/en/depts/dcd/supp_info/tif/western_ogden_tif.html)

Source: City of Chicago, West Side TIFI District Map

# Establishing a TIF District

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## IDENTIFYING REVENUE SOURCES

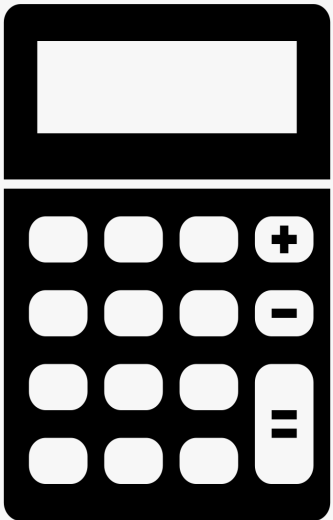
- What revenue sources are available for TIFs pursuant to the State enabling legislation?
- Is the jurisdiction implementing the TIF authorized to levy and segregate the authorized TIF revenue sources?
- Based upon the anticipated TIF redevelopment plan, which of the authorized TIF revenue sources are likely to grow as a result?

# Establishing a TIF District

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## ESTIMATING THE TAX INCREMENT



**Communities typically hire consultants to:**

- **Estimate the timing and extent of new development generated by TIF incentives**
  - **What's the range of increase in assessed values by year?**
  - **In each year, multiply by the existing tax rate.**
- **Estimate the timing and magnitude of increases in economic activity (sales, income, etc.)**
  - **In each year, multiply the base increment by the existing tax rate.**



# Establishing a TIF District

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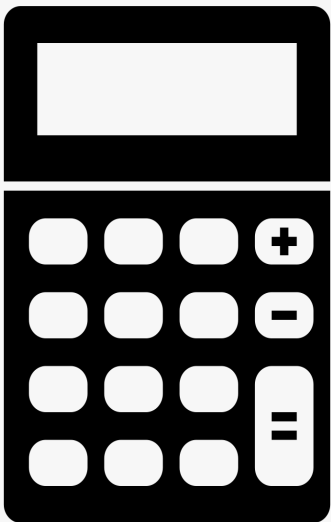
## ESTIMATING THE TAX INCREMENT

### INCORPORATE RISKS IN ESTIMATES

The calculated tax increment is only an **ESTIMATE**.

A sensitivity analysis will determine:

- The types and probabilities of risks that could thwart the realization of the increases in development, economic activity and revenue;
- Risk assessment for the national, regional and local economies; and
- Risk assessment for the infrastructure project (cost overruns, delays, etc.) and for the anticipated catalytic results.



# Establishing a District

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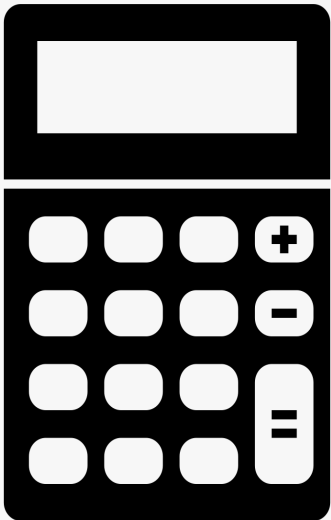
## ESTIMATING THE TAX INCREMENT

### TAX INCREMENT CONCLUSION:

The tax increment should be expressed as a range, from:

- Low (unlikely) to
- Medium (most probable) to
- High (also unlikely)

The range of each outcome will become larger in future years because uncertainty is magnified the further into the future an estimate is made.



# Establishing a TIF District

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## ESTABLISHING A TERMINATION DATE FOR THE TIF DISTRICT



Identify an infrastructure project or program to catalyze development.

Compare yearly projections of costs and of tax increment revenues.

Differences between the cost calendar and the revenue calendar (both adjusted for risk) will determine whether the TIF project can be funded on a pay-as-you-go (pay-go) basis or whether financing will be required.

This analysis will also determine when project costs will be retired. The TIF termination date is often established as the day after costs are retired.

*Note: No Federal requirements pertain to these analyses.*

# Establishing a TIF District

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## NOTIFYING THE PUBLIC & ADOPTING ORDINANCES



### Notice & Public Hearing

Hearings are held to obtain input from the public. Interested persons are provided an opportunity to support, oppose or suggest changes to the proposed **Redevelopment Plan** and **TIF Designation** ordinances.



### Enact Ordinances

State enabling legislation will provide substantive and procedural requirements for local legislation to implement a TIF. Typically, this entails the adoption of both a **“Redevelopment Plan”** and a **TIF Designation** ordinance.

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# Administering TIFs

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IMPLEMENT REDEVELOPMENT PLAN

2

ACCOUNT FOR THE TAX INCREMENT

3

PAY PROJECT COSTS FROM THE  
DEDICATED ACCOUNT

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# Legal and Regulatory Issues

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## Ensuring Appropriate Legal Authority

State legislation typically establishes:

- Criteria for establishing a TIF district including:
  - Underlying economic conditions
  - The types of jurisdictions that can establish a TIF
  - And, in some cases, a “but for” requirement related to the necessity of a public infrastructure project to catalyze private development.
- A list of revenue streams that can be utilized for TIF purposes.
- Rules for benchmarking the revenue stream(s) and defining the tax increment.
- Permissible activities that a TIF district might pursue to catalyze private development



# Legal and Regulatory Issues

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## Establish Required Findings:

Typically, an implementing jurisdiction must make findings to show:

- The State-established criteria exist for establishing a TIF, including the “but for” analysis if required;
- A designation of revenue streams to be benchmarked and utilized according to the State law.
- A proposed TIF project will catalyze development and increase revenues within the designated area sufficient to cover the TIF-designated portion of the project costs
- A Redevelopment Plan consistent with State criteria and procedures to ensure that the TIF project fosters the desired development.

# Legal and Regulatory Issues

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## Key Legal Issues

### Spending Public Funds for Private Gain

- Many States prohibit spending public funds to create private gains.
- TIF enabling statutes will carve out an exception for TIF activities or distinguish TIF activities so that they do not fall into this prohibited category.
- Jurisdictions seeking to establish a TIF will follow State guidance scrupulously to avoid illegal conduct.

### Takings

- Some TIF development plans entail the use of eminent domain to assemble properties for development.
- Strict adherence to substantive and procedural due process is required.

# Legal and Regulatory Issues

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## Key Legal Issues

### **Inappropriate Diversion of General Fund Revenues**

- If other taxing jurisdictions (e.g., a school district) rely on revenues from taxes or fees that have been designated for TIF, they might believe that a TIF will divert revenues that they rely upon for up to 10 to 25 years.
- These jurisdictions might be motivated to sue the TIF-creating jurisdiction and often have the resources to hire legal counsel.

# Legal and Regulatory Issues

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## Surviving Legal Challenges

- **Strict Adherence to Requirements in State TIF Enabling Legislation:**
  - Local governments' experience suggests that it is beneficial to document the investigation (process and results) about whether an area and a TIF project satisfy the statutory criteria for TIF formation.
- **Judicial Standard of Review:**
  - Courts will NOT second-guess legislative findings as long as a good-faith effort was made to investigate and evaluate legally mandated criteria.
  - However, courts might invalidate findings if the findings lack evidence or are based upon spurious evidence.

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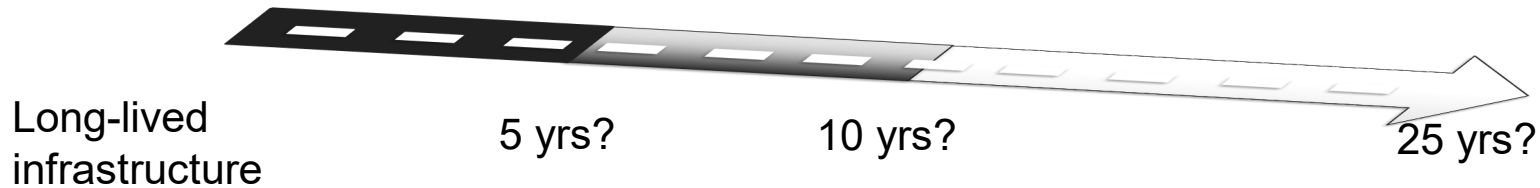
# TIF and Financing

## PAY-GO or FINANCING

- During the establishment of a TIF, it is important to determine the spending calendar associated with the TIF infrastructure project and compare that to the revenue calendar associated with the estimated tax increments. (See Section 3.5, slide #27 above)
- If requirements for spending are less than and later than the receipt of tax increment revenues, then the TIF project can probably be funded out of tax increment revenues deposited into an account dedicated for this purpose. This is pay-as-you-go (or pay-go) funding.
- If requirements for spending are greater than and/or sooner than the receipt of tax increment revenues, then financing the TIF project might make sense.

# TIFs and Financing

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## CAPITAL PROJECTS & FINANCING

- Financing should only be pursued for the creation of assets whose useful life is longer than the financing term.
- Typically, investors are willing to make loans (or buy bonds) to provide up-front cash for infrastructure projects that will be paid back over a specified time at an agreed-upon rate of interest / return.
- Initially, tax increments are merely estimates related to future revenues that entail substantial uncertainty and risk. Uncertainty and risk cause investors to seek **higher interest rates** or **refuse to finance**.
- Special assessments or other arrangements can be created to serve as backstops for uncertain TIF revenue, thereby facilitating financing.

# Presentation Outline

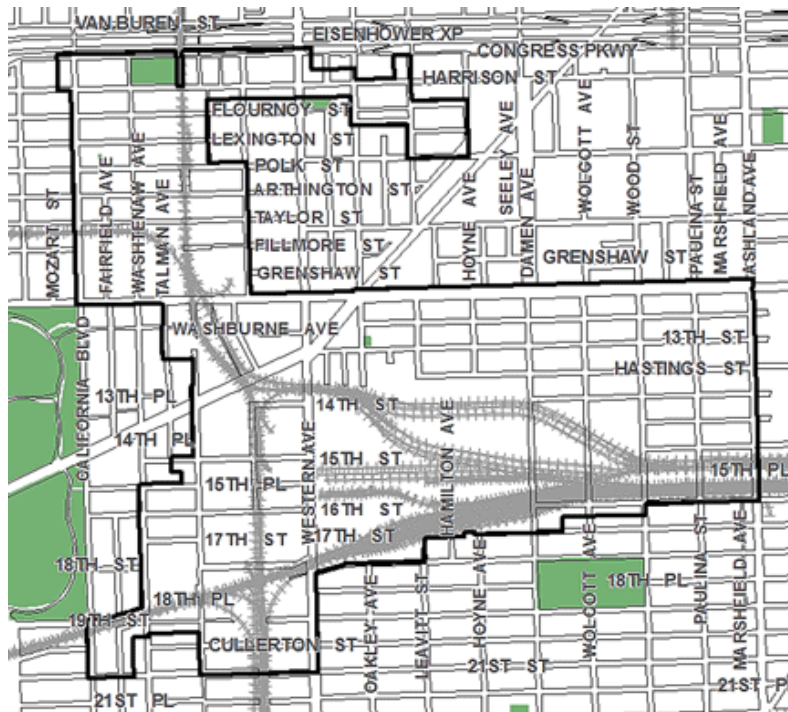
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# TIF Examples

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## CHICAGO TIF #48: Western Ogden TIF



Source: City of Chicago

**Designation:** 1998    **Expiration:** 2022  
Encompassing 754 acres

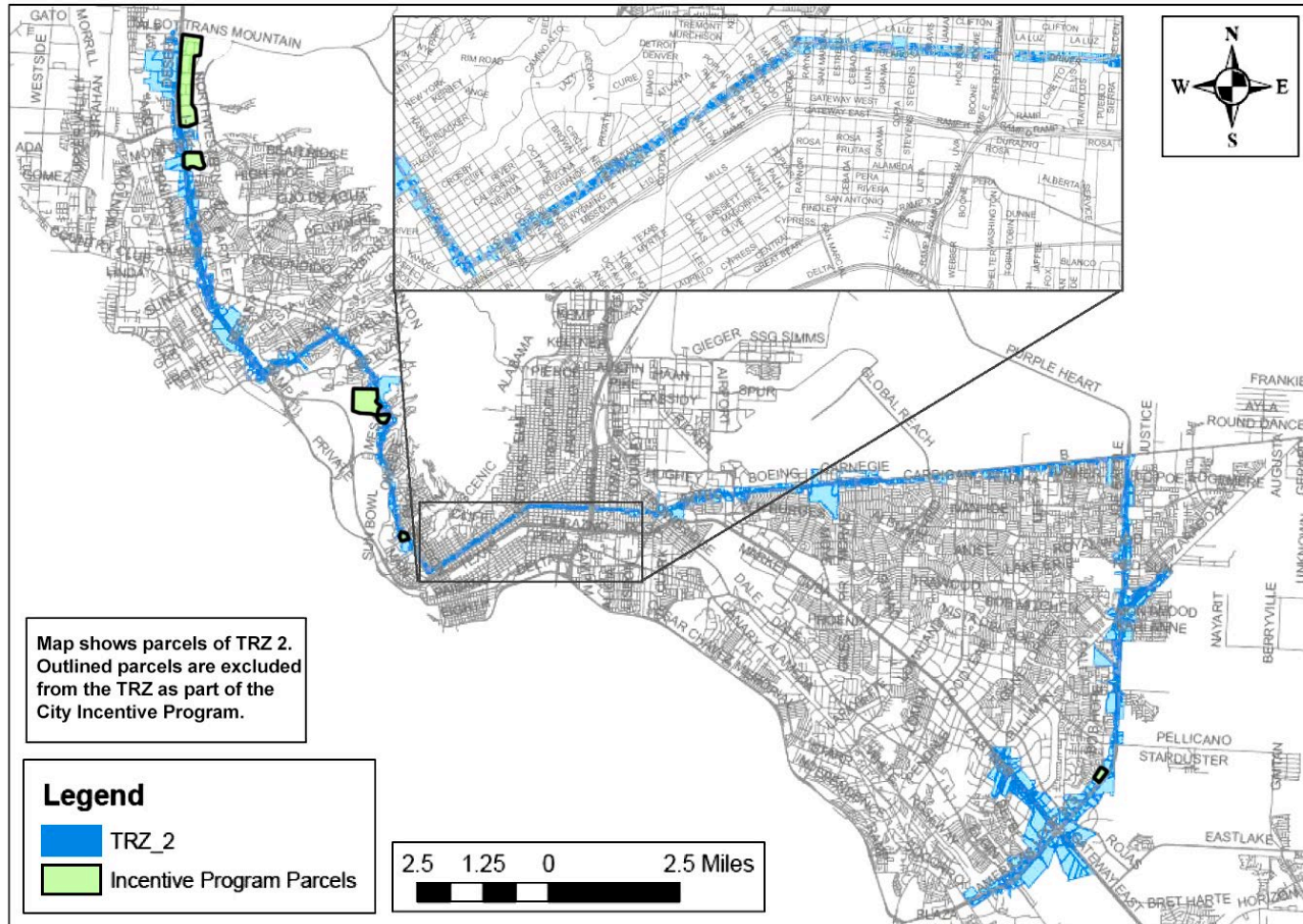
Characterized by older industrial buildings, vacant land, and numerous railroad holdings. The tax increment is targeted for building rehabilitation costs, environmental remediation activities, property assembly efforts, and public works upgrades involving streets and utilities.

# TIF Examples

## El Paso TRZs

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### TRZ No.2 Parcels

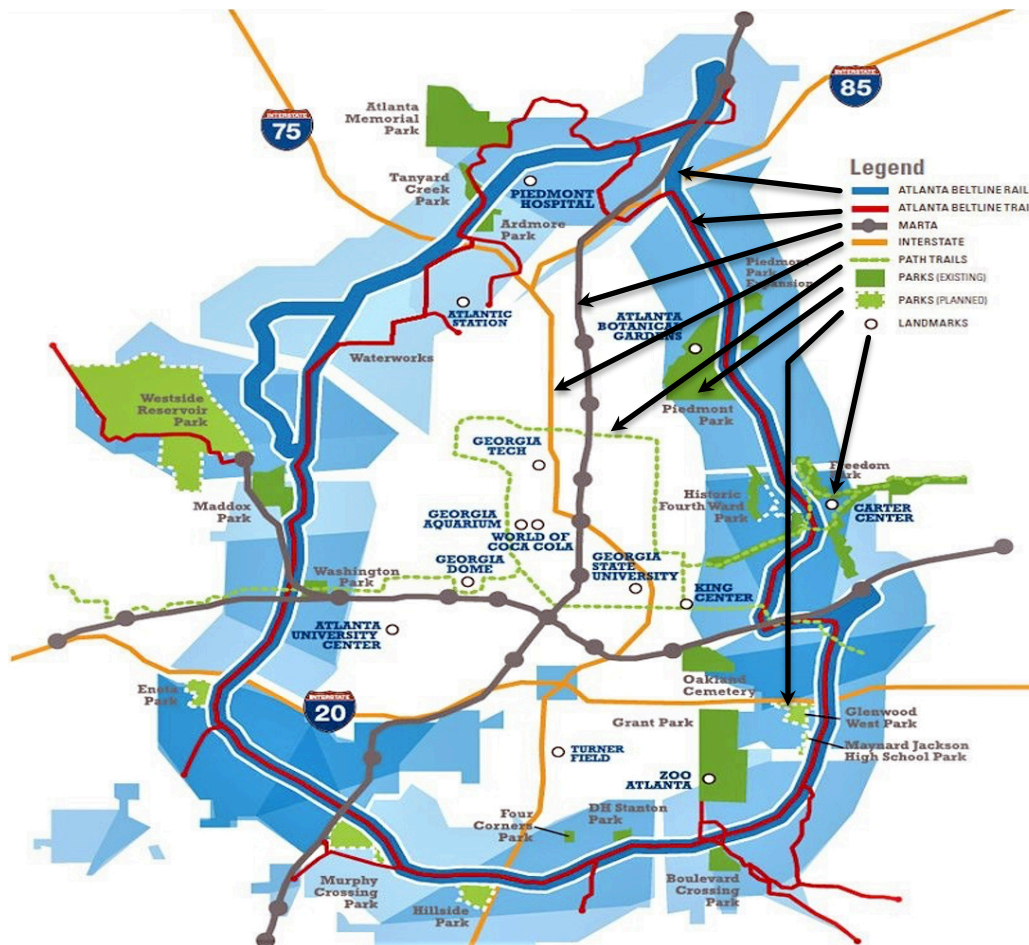


Source: Texas Transportation Institute

# TIF Examples

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## Atlanta BeltLine



Source: Atlanta Beltline Inc.

# TIF Examples



## Atlanta BeltLine

### **Cost**

\$4.8 billion (approximately \$500 million spent through FY2017)

### **Funding Sources**

Bonds - \$143 million

City of Atlanta - \$85 million

Private Philanthropic Grants - \$42 million

Other Governmental Funding - \$43 million

### **TIF:**

- City of Atlanta (TAD) - \$48 million
- Atlanta Public Schools (TAD, net) - \$80 million
- Fulton County (TAD, net) - \$51 million

From 2005-2017, the TAD generated \$325 million and has generated a direct economic impact of \$4.1 billion in private development as of the end of 2017. This is eight times greater than the total public/private investment of \$500 million to date. Most recent projections forecast that the TAD will generate \$800 million - \$1.4 billion from 2012 to its conclusion in 2030.