What is tax increment financing (TIF)?
TIF is a local government value capture revenue tool that uses taxes on future gains in real estate values within an area known as a TIF district to pay for infrastructure improvements. TIF creates funding for public or private projects by allowing entities to borrow against future increases in property-tax revenues. TIF is based on the concept that public infrastructure investments support conditions that spur private development, leading to higher property values and other economic benefits, such as new jobs and higher sales tax revenues. The basic premise is that because these economic benefits would not occur “but for” the upfront public-sector investments, municipalities might decide to capture the new property tax revenue and use it to pay for the infrastructure investments that are expected to spark the growth.1

Plans for specific improvements within the TIF district are developed with the intent to enhance the value of existing properties and encourage new development in the district. Although the specific rules and regulations for TIF districts vary from State to State depending on State and local laws, they share many similarities, and the basic principles are generally the same.2

Thousands of TIF districts have been established around the U.S. in cities of all sizes. They are commonly used to promote housing, economic development, and redevelopment in established neighborhoods. Even though TIF has not been used extensively to fund transportation infrastructure, many States explicitly authorize the use of TIF for transportation infrastructure improvement purposes.

What is a TIF district?
A TIF district is a targeted redevelopment area within a municipality, county, or other government entity, from which all or a portion of projected future property tax revenue increases is temporarily dedicated to finance infrastructure improvements (or other investments) with the objective of stimulating economic development. In a TIF district, a local government sets aside property tax increments after a designated base year and dedicates these increments to

Disclaimer: The contents of these Frequently Asked Questions (FAQs) do not have the force and effect of law and are not meant to bind the public in any way. These FAQs are 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.


fund improvements within the zone. TIF districts are used to pay for a wide range of infrastructure improvements (e.g. transportation improvements, utilities, landscaping, streetscaping) and other development projects within a district (e.g. affordable housing, convention centers, hotels).

The duration of TIF districts varies from city to city and from project to project, ranging between 5 years and 50 years. According to statistics compiled by the Council of Development Finance Agencies, most active TIFs in 2015 had a duration ranging from 20 to 29 years.3

The concepts below and Figure 1 explain the notion of property tax increments:

- **Captured appraised value**: The captured appraised value of taxable real property within the TIF district for a year is defined as the total appraised value of all taxable real property for that year less the tax increment base. This is illustrated by the triangle in the figure.

- **Tax increment base**: The tax increment base of the TIF district is defined as the total appraised value of all taxable real property within the district for the year in which the district was created (the base year). This is illustrated by the rectangle in the figure.

- **Annual property tax increment**: The annual tax increment for any given year is defined as the amount of property taxes levied and collected for that year on the captured appraised value of taxable real property within the TIF district. This is illustrated by triangle in Figure 1.

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Value Capture: Tax Increment Financing (TIF)

How many States have enacted laws to enable the use of TIF districts?
TIF districts have an established history going back to the 1950s, and are used almost everywhere in the United States. TIFs are authorized in all States except Arizona, where the enabling legislation was repealed in 1999. The District of Columbia also has legislation authorizing the use of TIF, but Puerto Rico does not.

Are TIF districts known by any other names?
The names used to refer to TIF districts vary by State. Other terms used to describe them include: infrastructure financing districts (California), tax allocation districts (Georgia), project development financing (North Carolina), and tax increment reinvestment zones (Texas).

Which taxing jurisdictions are typically allowed to set up TIF districts?
In general, municipalities (e.g. cities, townships, boroughs) are allowed to set up TIF districts, though this depends on State law. In some States, counties are also able to do so.

Do TIF districts impose a new tax or do they require an increase in tax rates?
TIF districts do not create a new tax, nor do they require an increase in existing property or sales tax rates. Property tax rates may remain constant through the duration of a TIF district. TIF revenue is only realized if the real property tax base within the TIF district grows through land development, land use up-zoning, or land value increase, or a combination of these.

What is the difference between a project-specific TIF district and a district-wide TIF district?
A TIF district can be project-specific or district-wide, depending on the scope of the planned improvements, and whether it is for a specific site or for an entire neighborhood. A project-specific TIF district is generally formed by either a single property or a group of properties that a developer (or a group of developers or property owners) agree to develop as a closely coordinated investment plan. The objective of the project-specific TIF district is to support the plan proposed by the developer, and as a result, all of the district’s TIF revenue is allocated for that purpose. Project-

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4 Section 36-1488.01 (1993) of the Arizona Revised Statutes (ARS) allowed municipalities to create TIF redevelopment districts and issue tax increment bonds. The law was repealed in 1999 by repealed by 1999 Arizona Session Laws Ch. 165, Section 4.

5 The City of Tucson has one active TIF district that was established in 1999 under a different statute from ARS Section 36-1488.01 mentioned. The Rio Nuevo Multipurpose Facilities District was approved by Tucson voters in 1999 as a Stadium District, a Special Taxing District under Arizona law (ARS Sections 48.4201-48.4255). The goal of the district is to help revitalize downtown Tucson. What makes the Rio Nuevo TIF District different from typical TIF districts, is that it is funded by the State’s share of sales tax increments within the District. Also, the Rio Nuevo’s Board of Directors is appointed by the Arizona Governor, senate State president, and speaker of the Arizona House of Representatives. The TIF sunsets in 2025. Rio Nuevo District (n.d.). What is Rio Nuevo?. https://rionuevo.org/about/tif-district/benefits/. Accessed October 14, 2020.

specific TIF districts are easier to implement and simpler to administer, but have more inherent risk because they depend on the developmental effect of just one project, which creates more difficulty in securing bond financing. Project-specific TIF districts typically support public improvements (e.g. garages, sewer/water, or other infrastructure) to make projects financially viable.

On the other hand, district-wide TIF districts have multiple users and potentially multiple owners and multiple projects. As a result, they are more complex to implement and administer, because each investment requires significant due diligence. District-wide TIF districts are typically used to eliminate blight and deterioration in larger areas. They are typically used to support major infrastructure projects, such as roads, traffic lights, landscaping of public areas, and other public amenities.  

What types of projects and project costs might TIF districts support?

TIF districts are used to pay for a wide range of infrastructure improvements (e.g. transportation improvements, utilities, landscaping, streetscaping) and other development projects within the district (e.g. affordable housing, convention centers, hotels). As a result of the diversity in contexts and situations present in each State, the type of project costs that can be covered also varies and may include: property acquisition; project development expenses (e.g. legal fees, planning studies, engineering); demolition and rehabilitation of existing buildings; brownfield clean up; construction; other capital costs; and project financing costs. Some States allow TIF revenue to be used to provide subsidies and other incentives to private development.

In terms of transportation, TIF statutes in most States allow for a wide range of transportation and transportation-related projects, including: right-of-way; compensable utility relocation; trails, curbing, sidewalks, and pedestrian bridges; rail or light rail platforms and other transit infrastructure; traffic control systems and devices; as well as streets, public roads, highways and vehicular bridges.

What types of financing methods can TIF districts support?

Most States allow the use of a wide variety of project financing methods to be used in conjunction with TIF districts. Some of the most common include: general obligation bonds, pay-as-you-go, private activity revenue bonds, commercial bank loans, TIF revenue bonds, Transportation Infrastructure Finance and Innovation Act (TIFIA) loans, 

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In what type of geographic areas might TIF districts be used? What is the scale of projects that TIF districts generally support?

TIF districts have been established in any geographic area where development occurs, and they have been used to support both large-scale and small-scale investment projects. However, TIF districts are typically more common in urban areas than in rural areas. In urban settings, where land uses are denser and property values higher, the scale of projects or investments that a TIF district is able to support is naturally larger than in rural settings. Nevertheless, TIF districts have been successfully applied in rural settings. Because each local government is unique and economic development projects are different, there is no one-size-fits-all approach for all situations.

An example of a large-scale project for which a TIF district was created is the Atlanta Beltline Project in Atlanta, Georgia. The planning area for the TIF district, known in Georgia as a tax allocation district (TAD), encompasses 15,000 acres (19 percent of the city’s land mass). The TAD itself encompasses 6,500 acres. The TAD expects to generate $10 billion in economic development and includes $4.8 billion worth of investments consisting of 5,600 units of affordable housing, 33 miles of multi-use trails, 22 miles of rail transit, along with green spaces and other investments. The TAD is expected to generate $1.5 billion in TIF funds for the Beltline project.

Wabash County, Indiana, offers an example of a successful TIF district application in a rural area for a smaller (but still critical) infrastructure investment. In 2010, a partnership formed by Wabash County, the City of Wabash, and the towns of North Manchester and LaFontaine created a TIF district to develop a high-speed fiber optic network to join the three municipalities. The TIF district included all public right-of-ways from Wabash northward to North Manchester and southward to LaFontaine. Wabash County and the three municipalities agreed to assign the

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governance of the TIF district to the City of Wabash Redevelopment Commission. Funds from the TIF district, along with State funds, were used to leverage a $15 million investment in fiber optic cable by a private company.

What are the advantages of using a TIF district compared to other value capture techniques?

When compared to other value capture techniques, the most significant advantage of TIF districts is that they do not require imposition of a new tax or an increase in the rate of an existing tax. TIF district revenue is only realized if the real property tax base within it grows through land development, land use up-zoning, or land value increases. Another advantage TIF districts have over other value capture techniques is flexibility, as they can be used to raise funding for a wide variety of projects ranging from improvements for utilities, landscaping, and streetscaping, to affordable housing and transportation improvements (such as highway, street, transit, and pedestrian improvements).

What are the challenges with using a TIF district compared to other value capture techniques?

In general, TIF districts have some disadvantages when compared to other value capture techniques. First, TIF district revenue is received in annual increments starting with the base year (the year in which the TIF is created). Because annual revenues are driven by growth in the tax base within the zone relative to the base year, the initial years normally provide relatively small increments in revenue growth. Small annual increments in the early years of the TIF district limit the ability to use the funds on a pay-as-you-go basis. As a result, TIF districts are most effective when future TIF revenues are pledged to secure the capital needed to implement the project. Because future TIF revenue depends on local real estate market conditions, securing non-recourse TIF revenue debt from private capital markets will generally command a higher interest rate than general-obligation municipal debt.

Second, TIF districts require the creation of a special district and a public agency to oversee the implementation of the district’s investment plan over the duration of the district. TIF revenues are deposited into a tax increment account before they are used. The existence of a separate account (outside of the municipality’s operating accounts and

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15 As noted in the FHWA Value Capture Implementation Manual, because TIF value capture tools do not generally involve additional taxes, they may be less controversial than other value capture tools.
17 The incremental growth nature of TIF revenue flows also means that in order to adequately serve debt commitments acquired for the project, local governments may be forced to supplement TIF revenue from general revenue funds in order to meet payments in the early years. Over time, this situation would reverse as annual incremental revenue grows and exceed annual debt service commitments.
Value Capture: Tax Increment Financing (TIF)

budgetary processes) involves maintaining detailed records of receipts and expenditures to avoid the perception of misuse of funds. These features impose a relatively high administrative cost when compared to other value capture strategies.

Finally, there are also some disadvantages that depend on the type of TIF district: project-specific or district-wide. Project-specific TIF districts are easier to implement and to administer, but they have more inherent risk because they depend on the developmental effect of one single project. The higher risk can make it more difficult to secure bond financing. District-wide TIFs have multiple users and potentially multiple owners, and as a result are more complex to implement and administer, because each investment involves significant due diligence.6

Are TIF districts dependent on the real estate market?
TIF district revenues are driven by conditions in the real estate market within the zone. There are two real estate market forces driving TIF district revenue. The first one is demand of development for undeveloped land and/or upzoning of already developed land to a higher and better use. The second one is general value increases in existing property, also driven by supply and demand. Consequently, selecting projects that demonstrate economic benefits to the region (such as significant accessibility improvement, increased private investment and employment) will in turn drive development within the district and property tax revenue.

Do TIF districts increase the cost of housing?
The creation of a TIF district itself does not increase the cost of housing. If a TIF district is working as intended, the expectation is that the infrastructure project(s) and other improvements made within the zone will have a positive effect on land and real property values, including housing. Conversely, it is possible that a TIF district with a poorly conceived investment plan does not deliver increased development or property values. It is the positive effect of the investments made within a district that drive up property values and deliver larger property tax receipts to the municipality, assuming a constant property tax rate. As such, in cases where housing affordability within the district is identified as a potential risk that requires mitigation, some TIF districts are required by State law or local ordinance to dedicate part of their revenue to affordable housing.18 19 For example, the City Council of Portland, Oregon, first enacted its set-aside requirement in 2006 and later increased the minimum percentage of TIF revenues to be dedicated to affordable housing from an aggregate citywide minimum of 30 percent to 45 percent.20

How could economic downturns impact a TIF district?
An economic downturn is likely to have a detrimental effect on property values and the real estate market in general. Depending how long the effects of the downturn last, it may significantly affect future incremental property tax

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19 For example, California’s Community Redevelopment Law requires allocating 20 percent of all tax increment revenues to low and moderate-income housing. California Health and Safety Code Division 24, §§ 33000 – 37964.
revenues. Issuers of TIF-backed bonds generally will require a “backstop” to ensure repayment of bonds if TIF revenues fall short of projections. The specific backstop may vary depending on the specifics of the district, but some examples include: a reserve fund, a minimum service payment agreement with the developer, or special assessments or taxes on property that benefitted from the district.21

Structure and Application of TIFs

What are the legal requirements to initiate a TIF district and what conditions must a district meet?

The legal requirements to initiate a TIF district vary by State, but the four most common legal requirements and conditions that a TIF district must meet are summarized below:22

- **Finding of Blight.** Most States require a finding of “blight” as a condition to create a TIF district. Although the definition of blight varies across States, the term generally refers to physical deterioration, unsanitary conditions, and high property tax delinquency.23 The finding of blight sets boundaries for the purposes for which a TIF district can be used. This also ensures that it is used for a public purpose in the sense that the presence of blight adversely affects all surrounding properties by decreasing their value and creating social, safety, and health concerns for the community (e.g. criminal activity, unsanitary conditions). The finding of blight may take one of two forms. In the first and most common form, the finding of blight is qualitative and does not specifically establish a standard or specific condition for the area to meet the definition. For example, New Mexico law requires a finding that “one or more slum, blighted, or land redevelopment areas exist in the municipality . . . .” (New Mexico Statutes § 3-46-29). The second form is a more tangible, quantitative form that is used by a minority of States. For example, in South Dakota a local government is required to find that at least “twenty-five percent, by area, or real property within the district is a blighted area . . . .” (South Dakota Codified Laws § 11-9-8(1)).24 As of 2018, thirty-four States had a finding of blight requirement to allow the creation of a TIF.25

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22 For links to the TIF legislation of each State, the reader is referred to: https://www.fhwa.dot.gov/ipd/value_capture/legislation/tax_increment_financing.aspx.


“But For” Test. Some States require that TIF districts satisfy a “but for” test that is aimed at ensuring that the TIF district is only used in cases where the development would not occur without government assistance. As of 2018, eighteen States have a “but for” test requirement. Although the “but for” test does not have a precise definition in most States, the question it answers is essentially whether the same level and type of development would occur within the district in the absence of the TIF district project(s). A few States have articulated these requirements in their legislation. For example, Wisconsin specifically requires demonstrating that the development expected in the tax incremental district would not occur without the use of tax increment financing (Wisconsin Statutes 66.1105(4m)(c)1.a)). Indiana requires a specific finding of fact, supported by evidence that the TIF district investment will result in new property taxes that would not have been generated without it (Indiana Code § 36-7-14-1 et seq.).

Feasibility Study or Cost-Benefit Analysis. There are several States that require some form of feasibility or cost-benefit analysis that is more rigorous than the blight finding or the “but for” test. The feasibility study or cost-benefit analysis helps ensure that TIF district projects are only undertaken if they will generate more revenues than costs. As of 2018, there were twenty-one States that required a feasibility study or cost-benefit analysis in order to allow the creation of a TIF-district. For example, Chapter 311 (Sections 311.001-311.021) of the Texas Tax Code requires that the project plan must include “a finding that the plan is economically feasible and an economic feasibility study.” Missouri requires a “a cost-benefit analysis showing the economic impact . . . .” of the TIF district plan for each taxing district (Missouri Revised Statutes § 99.800 et seq.).

Public Hearing. Creation of a TIF district is a decision with long term implications for the local governments involved and residents, and mechanisms to allow public participation offer opportunities to consider their input into the process. As a result, most States require local governments to hold public hearings prior to TIF district plan approval or TIF district creation. As of 2018, forty-two States required holding a public hearing for TIF district approval.

What is the process to create a TIF district and administer its revenues?
Although the laws that govern how municipalities set up a TIF district vary across States, most of them follow the same general pattern from initiation to termination, consisting of five stages:

Stage 1: Initiation
This stage consists of identifying an eligible target area for a TIF district that may be considered blighted, unproductive or underdeveloped. A TIF project may be initiated by the municipality, or may also be identified by a private developer or not-for-profit agency, with a plan to redevelop the area that would not be viable without specific public investments. The State’s enabling legislation typically outlines the formal process that residents and affected taxing jurisdictions can follow to influence the TIF approval process. At this stage the local government may also commence internal and external stakeholder engagement to build support for the project.

Stage 2: Formulation
The second stage of the process involves bringing together the two basic aspects of TIF, land development planning and project financing, to create the redevelopment plan. The plan sets forth the project objectives and schedule and
should reflect the interests and plans of the community (e.g., a community’s master plan). At this stage, the geographical boundaries of the district are determined, and the total assessed value of properties within the potential TIF district is estimated. This estimate is used to establish the baseline value from which the incremental tax revenue is calculated, and to develop projections of the property tax revenue that the project will generate over time. These projections allow the municipality to develop a borrowing plan or a plan to reimburse a developer’s upfront infrastructure expenditures. The TIF district area is often larger than the actual area where the project will be. What is critical is that only areas that are expected to receive an economic benefit from the project are included in the district. It is at this stage that the municipality conducts a “but for” analysis to address two questions: 1) Is the area in the proposed TIF district “blighted” or in need of redevelopment?; and 2) Would the proposed development occur “but for” the TIF-funded investments?

**Stage 3: Adoption**

It is during the adoption stage, that the public hearings and other stakeholder participation efforts take place prior to the approval of the redevelopment plan or the creation of the TIF district. After the hearings have taken place and all stakeholder input and concerns have been considered and addressed, the redevelopment plan may be adopted and the TIF district created. At this stage, the financing arrangements are also defined, any required administrative bodies (e.g., a redevelopment agency appointed by the governing body of the municipality, or the TIF district’s governing body itself) are established, and templates of public-private sector agreement are drawn. Once these arrangements are in place, work on developing the project area can commence.

**Stage 4: Implementation**

During the implementation stage the local government provides general oversight of the construction process and the finances of the TIF district administrative body and of the TIF district. In this stage, land is purchased and prepared for development, and planning approvals are secured. Municipalities through the TIF district administrative agency will begin managing incremental revenue flows and if necessary, use debt instruments to finance the capital costs of development. In other cases, a private developer may pay for the improvements and get reimbursed in whole or in part by the proceeds from a TIF bond, or directly from incremental TIF revenue as it is collected.

**Stage 5: Monitoring and Termination**

This stage commences after construction is complete and the TIF district has an operational history. The new investments spur new development, and property values within the district begin to rise, generating property tax increment revenues above the baseline value that go into the district’s tax increment account for the duration of the district. The incremental revenue is then used to repay bonds or loans, fund expenditures, or reimburse the developer for their upfront investment.

It is important at this stage to monitor the expected versus actual results, to maintain the district administrative agency accountability to stakeholders and residents. The end date of the TIF district is generally driven by statutory limits, provided that all debt has been repaid. However, as long as debt is outstanding, most TIF districts continue to exist and collect revenue. Once the TIF district expires, its properties return at their full assessed value to the tax rolls and the totality of the property taxes paid on them flows to the applicable tax jurisdiction.
Value Capture: Tax Increment Financing (TIF)

What types of analyses are conducted to determine the feasibility of a TIF district?

There are several States that require some form of feasibility or cost-benefit analysis that is more rigorous than the blight finding or the “but for” test. These analyses can help ensure that TIF district projects are only undertaken if they will generate more revenues than costs. As of 2018, there were twenty-one States that required a feasibility study or cost-benefit analysis in order to allow the creation of a TIF-district.25 For example, Chapter 311 (Sections 311.001-311.021) of the Texas Tax Code requires “a finding that the plan is economically feasible and an economic feasibility study.” Missouri requires a “a cost-benefit analysis showing the economic impact . . . .” of the TIF district plan for each taxing district (Missouri Revised Statutes § 99.800 et seq.).

Are the boundaries of a TIF district fixed, or can they be reduced or expanded? How large can the footprint of a TIF district be?

TIF district boundaries can be reduced or expanded after a district is created. In some States, such as Wisconsin, there is a limit as to the number of times boundaries can be amended (Secs. 60.85 and 66.1105, Wis. Statutes).26 Most States require local governments to follow the same process followed to create the district to alter its boundaries requirements (e.g. addressing blight, “but for” test, holding a public hearing, and issuing an ordinance or order describing the revised limits).

Generally, State statutes do not establish a minimum or maximum size for a TIF district boundaries. The only requirements related to the geographical boundaries of a TIF district that are consistently mentioned at the statutory level are: 1) contiguity – a continuous area with a clearly defined boundary; and 2) exclusion of pre-existing tax increment commitments— that is, the boundaries may not include any areas already included in an existing TIF district. In the absence of specific statutory limits on the size of a TIF district, it is critical that local governments establish boundaries that are both reasonable (e.g., the district is not too large that it over-commits the local government’s tax base) and defensible (i.e., the project benefits will demonstrably extend throughout the entire district’s boundaries and beyond). Montana has formalized the consideration of these factors by incorporating a list of criteria to guide TIF district boundary size that is laid out in the State of Montana’s TIF Manual.27

Additionally, there are other practical considerations that influence the size of a TIF district. If a TIF district is too large in that it represents a significant portion of the local tax base, it will likely have a detrimental impact on the municipality’s general revenue fund. Also, a number of States, such as Texas and Maryland, require majority-owner

approval (in both number and property value) for the creation of a TIF district, which makes creating large TIF districts difficult.\(^{28,29}\)

Can funds from a TIF district be used to pay for projects outside the district?
Some States allow using TIF funds for projects outside the district. For example, Minnesota allows spending of up to 20 percent of the increment of housing TIF districts to finance “housing projects” located anywhere in the broader redevelopment “Project Area” (a larger planning area in which one or more TIF parcels may be located).\(^{30}\) Other States, such as Vermont or California, allow using TIF funds to pay for infrastructure outside the district by demonstrating that there is a benefit nexus or tangible connection between the district and the infrastructure, and that the benefit is proportional to the funds spent.\(^{31,32}\)

Do TIF districts sunset or expire?
Yes, TIF districts are created with pre-determined duration after which they expire. The maximum allowable duration of a TIF district varies from State to State, with the most common duration being between 20 and 29 years, and the maximum reaching up to 50 years. In some States, such as Texas and New Hampshire, the duration is not set up as a fixed number of years, but it is rather driven by the amount of time it takes to pay off debt or other project commitments made for use of its revenue. TIF districts can also be terminated earlier than initially planned if the debt acquired to pay for improvements is paid off sooner, and many States allow for extensions on the initial duration.\(^3\)

Must local governments dedicate 100 percent of annual tax increments of a TIF district?
No, generally local governments may dedicate any portion of the annual tax increment they approve up to 100 percent.

Does a TIF district have to be created for each project or can a TIF district be used to fund multiple projects?
It varies by project and type of TIF district application. In a district-wide TIF application, a TIF can be used to pay for either one major improvement (e.g. a roadway), or multiple improvement projects within a district (e.g. transit

\(^{28}\) Chapter 311 of the Texas Tax Code (https://statutes.capitol.texas.gov/Docs/TX/htm/TX.311.htm)
\(^{29}\) Maryland Code Economic Development Division II - Independent and Regional Development Units and Resources Title 12 - Local Development Authorities and Resources Subtitle 2 - Tax Increment Financing Act (Sections 12-201 et seq.)
stations, bicycle lanes, street lighting). In a project-specific application, TIF revenue is generally used to fund a single project or elements of a specific project.

Other

Are there equity considerations associated with TIF?
Yes, equity considerations factor into plans for a TIF district. Some situations where equity concerns may be at play include:

- **The freezing of property tax revenue may disproportionately affect school districts or other overlapping taxing jurisdictions.**

  In a number of States, this has been addressed through legislation. For example, in States with school districts that are taxing jurisdictions themselves and where their property tax revenue is decoupled from the revenue of municipalities or other taxing entities (e.g. Texas), legislation often does not require them to contribute to or participate in the TIF, but they are allowed to opt-in upon approval by their governing body. In other States, the law stipulates that schools continue to receive the same proportion of property tax revenues as they would if there was no TIF, as is the case with Illinois’ Transit TIF districts. However, there are States where opting out of a TIF district is not an option, or where school districts do not have taxing authority and depend on the local government for funding (e.g., Virginia). In these cases, a thorough analysis of the expected effects of the TIF development on the municipal tax base or the inclusion of school infrastructure in the TIF investment plan may address or mitigate any concern.

- **A TIF district may disproportionately benefit the private sector, because the development may have occurred without public investment.**

  This the core of the question that the “but for” test, that is required by many States in order to approve a TIF district, is aimed at answering. It has been documented that the outcomes of a TIF district depend on a wide variety of factors, including land use and the need for additional land development, location, district size and area economics. Addressing these concerns through thorough analysis of the factors influencing development, and adequate sizing of the district and of the proposed investment of public funds is critical. If the district passes the “but for” test, it is important to ensure that the amount of public funds dedicated to support private investment is only the minimum necessary to make it viable. There may be concerns that development and increased property values generated by a TIF district will likely spur gentrification, displacing lower-income residents, or small businesses.


In cases where housing affordability within the district is identified as a risk requiring mitigation, TIF districts may include provisions to dedicate part of their revenue to affordable housing. Examples of this can be found in California and Oregon. Error! Bookmark not defined. Other States, such as Illinois, mitigate concerns about small businesses closing by allowing the use of TIF district revenues to provide residents with training geared towards the jobs that are expected to be created within the TIF area.8

Is public involvement required to establish a TIF district?
Most States require public hearings to be held for TIF authorization, with the exception of Alaska, the District of Columbia, and New Jersey. Although Virginia does not require a public hearing for authoring a TIF district, the State requires a public hearing for the approval of individual developer deals in which TIF revenue funding is involved.9

Is the use of TIF controversial? What kind of objections do TIF districts typically encounter at public meetings?
There is ample consensus that when used correctly and cautiously, TIF districts can promote long-term economic development and opportunities for a community. However, when TIF districts are not well planned or when they are used excessively, they can end up wasting public resources. As a result, the use of TIF sometimes becomes a subject of controversy. Most cases of negative experience with TIF districts found in the literature have been associated with projects involving private or commercial development subsidies, as opposed to public transit or affordable housing projects. Below are some of the criticisms that are sometimes made of TIF districts: 2 25 35

- Some may argue that some or all of the tax increment generated by the TIF district would have been generated through the normal appreciation of property values and without the need to invest public funds. This question is the reason that a “but for” test is required by many States to approve a TIF district. It has been documented that the outcomes of a TIF district depend on a wide variety of factors, including land use, location, district size, and area economics. It is critical to address these concerns through analysis of the factors influencing development, as well as through adequate sizing of the district and of the proposed investment of public funds.9
- Critics may argue that if the TIF district succeeds in generating development, it will likely spur gentrification, displacing lower-income residents. Often, local governments have mitigated this concern by ensuring that a minimum percentage of TIF revenue or land are dedicated to affordable housing.
- Other common arguments are that a TIF district will divert property tax revenues from other essential community services (e.g. police, libraries), or that inflation will further erode the purchasing power of the “frozen” tax base. Just like the debate about whether the tax increment generated by the TIF would be generated even without the public investment, these concerns are also addressed by conducting a thorough analysis. The objective of the analysis is to demonstrate that the TIF district investments will generate

development that would not occur otherwise and will grow the municipal tax base well beyond the district, balancing out the resources committed to TIF. Some State’s TIF policies have provisions to address inflation, as is the case of Massachusetts, where municipalities may receive revenue over and above the base year tax base value. This additional revenue is calculated using a pre-determined inflation growth factor.³⁶

- Opponents might argue that TIF district incentives can cause existing development to move and lead to blight in an already-developed area. For example, development might move from its present location if it were lured by lower costs in another TIF district. It can become a competitive approach among different jurisdictions.

- Another potential criticism is that the TIF district will divert property tax revenue from schools and/or other taxing jurisdictions (e.g. county hospitals). The extent to which this concern may be applicable varies across States, depending on their specific school funding and TIF district legislation. In States with school districts that are taxing jurisdictions themselves and where their property tax revenue is decoupled from the revenue of municipalities or other taxing entities (e.g. Texas), legislation often does not require them to contribute to or participate in the TIF, but they are allowed to opt-in upon approval by their governing body.²⁸ In other States, the law stipulates that schools continue to receive the same proportion of property tax revenues as they would if there was no TIF, as is the case with Illinois’ Transit TIF districts.³⁷ However, there are States where opting out of a TIF district is not an option, or where school districts do not have taxing authority and depend on the local government for funding (e.g. Virginia).³⁴ In these cases, local governments have often addressed or mitigated concerns through a thorough analysis of the expected effects of the TIF development on the municipal tax base, or through the inclusion of school infrastructure in the TIF investment plan.

**Does a TIF district need to be approved by other existing taxing entities in the zone besides the one setting it up (e.g. school districts, county, port authority)?**

Most States do not require the approval of other geographically overlapping taxing entities besides the local government creating the TIF district, unless the governing body of said taxing entity (e.g. a county or school district) approves to opt-into the TIF district and dedicate its share of the tax increment for the district’s purpose.²² In some States where school funding is not decoupled from local government property tax revenue, the law stipulates that schools continue to receive the same proportion of property tax revenues as they would if there was no TIF, as is the case with Illinois’ Transit TIF districts.³⁷ However, there are States where opting out of a TIF district is not an option, or where school districts do not have taxing authority and depend on the local government for funding (e.g. Virginia).³⁴


Some States require other governmental bodies to approve the creation of a municipal or county TIF district. For example, Connecticut law requires municipalities seeking the creation of a TIF district in a brownfield site (an abandoned or underutilized site with known or perceived environmental contamination) to obtain approval from the State’s Department of Economic and Community Development (DECD) and the Department of Environmental Protection (DEP). 38 39

Could a TIF district divert funding from schools or hospitals?
The extent to which diversion of school funds may be a concern varies across States, depending on their specific school funding and TIF district legislation. In States with school districts that are taxing jurisdictions themselves and where their property tax revenue is decoupled from the revenue of municipalities or other taxing entities (e.g. Texas), legislation often does not require them to contribute to or participate in the TIF, but they are allowed to opt-in upon approval by their governing body. 28 In other States, the law stipulates that schools continue to receive the same proportion of property tax revenues as they would if there was no TIF, as is the case with Illinois’ Transit TIF districts. 40 However, there are States where opting out of a TIF district is not an option, or where school districts do not have taxing authority and depend on the local government for funding (the State of Virginia is the only example of the latter). 34 In these cases, local governments have mitigated this concern through a thorough analysis of the expected effects of the TIF development on the municipal tax base, ensuring that the planned investments in the TIF district will likely result in tax base growth that will balance out the loss of revenue available for schools, for example. Another possible way to address these concerns consists of including school infrastructure in the TIF investment plan that will balance out the school system revenue losses.

Could TIF districts be used to pay for 100 percent of a project’s cost?
TIF districts are generally allowed to pay for 100 percent of a project’s cost, with the specific requirements depending on State and local laws.

Could TIF district funds be used along with other funding sources?
Yes. In fact, TIF district funds are generally used in combination with Federal government grants and/or private developer funds to pay for part of large commercial investments in the investment plan (e.g. retail spaces, hotels), affordable housing, or public infrastructure (e.g. transit, bicycle lanes, roadways).

Resources

FHWA EDC-5 Value Capture: Capitalizing on the Value Created by Transportation
https://www.fhwa.dot.gov/innovation/everydaycounts/edc_5/value_capture.cfm

FHWA EDC-5 Value Capture Implementation Manual

FHWA Center for Innovative Finance Support – Value Capture
https://www.fhwa.dot.gov/ipd/value_capture

FHWA Center for Innovative Finance Support – Tax Increment Financing
https://www.fhwa.dot.gov/ipd/value_capture/defined/tax_increment_financing.aspx