Tax Increment Financing

Presentation to
the Rutherford County Commission

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Tax Increment Financing

- Allows governments to create areas in which tax revenue growth is earmarked for a particular project
- Used to fund public improvements in order to spur private sector improvements that would not otherwise occur
When to Use TIF

- When private redevelopment in the TIF district would not happen without the encouragement of the redevelopment agency

  *Some areas cannot be developed without a TIF, but it is believed that the project will produce positive results*

- When an investment of public funds will cause an increase in the tax base that otherwise would not have occurred

  *The taxing authorities that surrender the increase in revenue eventually benefit from that increased tax base when the debt is repaid (typically 15-30 years)*

Source: American Planning Association
Brief History

- Known usage dates back to the 1940s
- First gained widespread usage starting in California (1950s)
- Became more popular during the 1970s & 1980s as federal funding for local projects decreased
- Currently, 49 states and the District of Columbia have authorized TIF
General TIF Process

- A geographic area is designated for development or redevelopment (the TIF district)
- A plan for specific improvements in the TIF district is developed
- Bonds are issued, and the proceeds are used to pay for the planned improvements
- The improvements encourage private development and thus raise property values
- With higher values, property tax revenues rise
- Property tax increments from increased assessments is used to retire the debt
Development Plan

- TIF districts are created by adoption of development and financing plans
- Most states require development plans to be comprehensive in nature
- The development plans are usually implemented by a redevelopment agency, which may be the governing body of the local government or a separate agency created by law
- The development plan establishes the period that the tax diversion will last
TIF in Tennessee

- Tennessee authorizes the use of TIF by
  - Local housing authorities using the property tax
  - Industrial development boards using the property tax
  - Sports Authorities using the state and local sales tax
  - Tourism Development Zones using the state and local sales tax
  - Tourism Development Zones using the public use facility privilege tax (newly authorized in 2007)
Sales Tax – Tourist Development Zones

- TCA § 7-88-106 Tourism Development Zones (TDZ)
- Uses sales tax increment to pay for qualified public use facilities
- Must be approved by the State Department of Finance and Administration
- Limited to 30 years
- The Comptroller and the Commissioner of Revenue must monitor and report to the General Assembly in writing on the economic impact and fiscal effect of the Convention Center and Tourism Development Financing Act by February 1, 2009.

<table>
<thead>
<tr>
<th>State Tax Distributions</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chattanooga*</td>
<td>$427,823</td>
<td>$0</td>
</tr>
<tr>
<td>Sevierville</td>
<td>$319,835</td>
<td>$1,636,635</td>
</tr>
<tr>
<td>Memphis</td>
<td>$7,084,764</td>
<td>$8,737,374</td>
</tr>
<tr>
<td>Knoxville</td>
<td>$0</td>
<td>$168,843</td>
</tr>
</tbody>
</table>

*Chattanooga received no state sales tax distribution in 2007 because taxable sales fell below their pre-TIF level. Several businesses left the designated area.*
Tourism Development Zone Approval Process

- A letter of intent must have been filed with the commissioner of finance and administration by June 26, 2007.
- A municipality or public authority must file an application, including a master development plan, seeking certification of the TDZ and the planned public use facility with the Department of Finance and Administration.
- F&A reviews the application to include the boundaries of the proposed tourist development zone and may alter or reduce its boundaries.
- F&A must consult with the Department of Economic and Community Development and the Department of Tourism and certify that the TDZ meets requirements.
- The State Building Commission is the final authority for TDZ approval.
- After the facility is completed, the municipality or public authority must submit cost information to F&A, who will review it to confirm the amount of taxes to be apportioned and distributed.
Evaluating TIF Proposals

Before approving a TIF, elected officials should carefully evaluate the proposed project

- Will the TIF achieve a public purpose?
  - Will it create development that would not have occurred otherwise?
    - What are the lost opportunity costs?
  - Will it improve the quality of life of citizens?
    - How will it affect income?
    - How will it affect traffic, public safety, etc?
Evaluating TIF Proposals (cont’d)

- Has the economic impact been thoroughly evaluated?
  - Sound assumptions, independently verified
  - Revenue adequate to cover development costs
  - Effect on other businesses

- Is the approval process transparent?
  - Has the public been involved?
  - Has economic impact documentation been made available to elected officials and the public?

- Is there robust accountability for the TIF revenue?

- Who is responsible in case of project failure?
  - How is debt repayment handled?
  - What happens to property (land and improvements) in the TIF area?
Appendix
IDB Economic Impact Plan Approval Process – Property Tax TIF

- IDB prepares an economic development plan and submits it to the affected county or municipality for approval.

- The economic development plan must
  - identify the boundaries of the area subject to the plan;
  - identify the industrial park or project located within the area subject to the plan;
  - discuss the expected benefits to the county or municipality from the development of the area subject to the plan, including anticipated tax receipts and jobs created; and
  - provide that the property taxes imposed on the property, including the personal property, located within the area subject to the plan will be distributable in the proper manner and time period.
Any governing body considering an economic development plan must hold public hearings on the matter with notice given at least two weeks before the hearing.

The municipality or county may approve the plan by resolution.

Any city, town or county affected must approve the plan before their tax revenues are diverted.
Recent TACIR Publications

- Local Realty Transfer Taxes
- Getting It Right: The Effect on the Property Tax Base of Economic Development Agreements and Property Tax Incentives for Businesses
- Who Pays More? Local Tax Burdens on Tennessee Households by County
- Local Taxing Authority
- Property Tax Reduction and Relief Programs
- Fiscal Effort, Fiscal Capacity, and Fiscal Need: Separate Concepts, Separate Problems
- Tax Increment Financing: Opportunities and Concerns

http://www.state.tn.us/tacir/publications.htm
What is TACIR?

- Serves as a forum for the discussion and resolution of intergovernmental problems.
- Provides high quality research support to state and local government officials in order to improve the overall quality of government in Tennessee.

- 25 Commission Members:
  - 10 members have local government as their primary affiliation
  - 11 represent the General Assembly
    - Chair, Senate Finance, Ways & Means
    - Chair, House Finance, Ways & Means
    - 4 Senators
    - 4 Representatives
    - Comptroller of the Treasury
  - 2 from the executive branch
  - 2 private citizens