Field of Dreams: How Tax Increment Financing Can Help Development Dreams Come True

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Tax increment financing (TIF) is a public financing tool used to help spur economic development in areas that may otherwise be left to fallow in the wind. Introduced in California in the 1950's, TIF has been used in most states across the county, including New Hampshire. While many TIF districts have seen distressed, blighted or abandoned areas turned into thriving neighborhoods or business centers, there is significant opportunity for failure if conservative principles and practices are not adhered to during the design, implementation and management of a TIF program, creating a costly, long-term financial burden on taxpayers. Ironically, and for these reasons, TIF is now discontinued in California—where it all began. However, here in New Hampshire, there are a number of TIF success stories, and, if best practices are followed, your municipality could successfully finance its economic development dreams.

NH Municipalities Utilizing TIF

Fundamental Concept of TIF. The concept of TIF is relatively simple: property tax revenue generated within an established TIF district is split into two components. The first is the property tax revenue based upon the "original" assessed value of all properties within the district boundary as of the date the district was formed. The second is the incremental, or increased property tax revenue that is based upon the difference between the current assessed value of the new or redeveloped properties in the TIF district and the original assessed value of those properties. This is known as the "captured" assessed value, meaning that the incremental amount of property taxes generated from the increase in property values as a result of capital improvements within the TIF district is captured or "retained" to pay for TIF debt service and other operating costs. Once the TIF program is completed (typically when the debt has been paid off), then the incremental assessed value is returned to the tax rolls.

Let's look at a real-life example. According to the report filed by the Town of Enfield's Tax Increment Finance Committee, the original assessed value of property in their TIF district was approximately $32 million in 2009. As a result, in part, of the water/sewer improvements completed under the TIF plan, the current assessed value of those properties in 2015 was approximately $44 million, resulting in an incremental increase (the retained captured assessed value) of $12 million. Based upon their 2015 property tax rate, this incremental assessed value generated $303,843 in tax revenue retained for TIF district expenses, well in excess of what is needed to make the annual debt payment of $162,246 on those infrastructure improvements.

It’s very important to note that a TIF assessment is significantly different from a betterment assessment. With a betterment assessment, certain properties are assessed an amount *in addition to* the regular property tax assessment, resulting in additional taxes. With a TIF assessment, there is no additional amount charged to the properties within the TIF district. The taxes are based upon the most recent assessed value of the properties times the current property tax rate, just like all other properties within the municipality. However, when tax revenue is received from properties within a TIF district, it ends up in two different places: some to the general fund (based upon the original assessed value) and some to the TIF fund (based upon the incremental assessed value). Taxpayers within a TIF district see no difference in their property tax bills than they would otherwise.

Benefit of TIF. The primary benefit of TIF is its use to promote economic development by providing a financing option to fund infrastructure improvements for which it might otherwise be challenging to garner legislative body approval. TIF allows a municipality to use the property tax revenue generated from the new or refurbished development to pay for the infrastructure improvements that were necessary to incentivize the construction of those new or refurbished properties. These infrastructure improvements are usually funded by the issuance of general obligation bonds that must still go through the normal bond approval process under RSA 33 (the municipal finance act) and receive the required two-thirds vote of the legislative body (or three fifths in the case of an SB2 form of town meeting). However, TIF makes the bond approval an easier “sell” since the incremental tax revenue from the properties within the district will be used to pay off the debt, rather than an increase in taxes on properties throughout the municipality. In other words, TIF creates a dedicated revenue source that allows infrastructure improvements to be self-financed by the properties directly benefiting from those improvements.

Minimizing Risk of Failure. As previously mentioned, there can be significant risk with TIF, primarily the risk that the incremental assessed value of the properties within the district does not materialize, leaving the municipality with the obligation to make the required debt payments on the infrastructure bonds, but without the anticipated incremental tax revenue to do so. In such a situation, the financial burden of the debt repayment would be included in the municipal property tax rate and assessed to all properties within the municipality, not just those within the TIF district. However, there are two principles that may be used to help minimize the risk of such a scenario: the ‘but for” requirement and the “bird-in-hand” concept.

But For. Some states have a “but for” requirement, and while New Hampshire’s TIF statute does not mandate such a requirement, it is an important principle to help insure a successful TIF program. Simply stated, *but for* the fact that the municipality established the TIF district and financed the necessary improvements, economic development would not have occurred in that area. This certainly makes sense: why would a municipality pay for costly infrastructure improvements if a business was already willing to develop the property without those improvements? In other words, no development would have occurred without the municipal improvements; or the value of properties in that area would be much less without those municipal improvements.

12 Commandments of TIF

Bird-In-Hand. Having commitment from one or more developers, preferably in writing, is also a crucial step to help insure a successful TIF program. The Black Brook TIF District in Keene is a perfect example of conservatively implementing TIF. With the goal of increasing the industrial portion of the city’s tax base from 10 percent to 20 percent, the city approved the necessary zoning changes and established a TIF district for a new business park. However, the city held off on issuing the bond needed to pay for the infrastructure improvements (water, sewer and roads) until the regional economic development corporation working with the city recruited enough new businesses to the park that would generate sufficient incremental tax revenue to cover the debt service for those improvements.

Statutory Authority. The statutory authority for municipalities to establish a TIF district and implement a TIF program is found in RSA 162-K which includes adoption procedures, hearing requirements, size limitations, expansion provisions, finance plan requirements, annual reporting, administrative powers and advisory board responsibilities.

Taxes

RSA 162-K:9, III specifically requires that prior to the formation of a TIF district, the municipality must meet with members of the school board in which the district will be located to explain the fiscal and economic implications of the proposed TIF district. Since only the original assessed value of the properties in the district, not the incremental assessed value, will be included in the tax base of the school district for the duration of the TIF program, the school district will not immediately benefit from any of the new development. So why would a school district support a TIF program? The answer is *but for – but for* creation of the TIF district, there will be no development and no increase to the school districts tax base. With the TIF district, an increase to the school district tax base will occur when the TIF program is completed and the incremental assessed value, not just the original assessed value, is included in the tax rolls. Also, as a result of TIF district development, some municipalities have experienced increases in development just *outside* the TIF district boundaries which immediately boosts the tax base for both the municipality and the school district.

Dream Come True. Some TIF programs have been far more successful than anticipated, meaning that the incremental assessed value exceeded expectations, providing more incremental tax revenue than needed for debt payments and operating costs. In such cases, the municipality may decide to refinance the bond to pay it off sooner, make an extra debt payment (as the Enfield TIF Advisory Committee decided to do), or as provided in RSA 162-K:10, II (b) return a portion of the "excess" incremental assessed value to the tax rolls.

Excerpt from 2015 Enfield Annual Report

With a well thought-out, reasonable and conservative plan, the use of TIF can help provide the dollars needed to jumpstart a development project and turn a field of dreams into reality!

Additional resources. Information about TIF can be found on the New Hampshire Office of Energy and Planning website at ***www.nh.gov/oep/planning/resources/tif.htm***. Additionally, the Government Finance Officers Association publishes "*An Elected Officials Guide to Tax Increment Financing*" and a best practices advisory paper on *Creation, Implementation and Evaluation of Tax Increment Financing*, both available at ***www.gfoa.org***.

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