Tax Increment Financing

Strategy description

Tax increment financing (TIF) is a tool used to raise revenue for community redevelopment, including the production of affordable housing. Communities use TIF to pay for projects with the increased property tax revenues that these projects are expected to produce. A community designates a tax increment district and estimates future tax revenues based on the assumption that the district would not grow in the absence of redevelopment activity. Revenues above this estimate are used to fund redevelopment projects in the district. In some instances, jurisdictions borrow against expected tax increment revenues.

History of the strategy

California was the first state to use tax increment financing, implementing the first TIF district in 1952. Every other state except Arizona has since followed suit, motivated by declines in other funding sources. In particular, reduced federal funding for redevelopment-related activities beginning in the 1970s, state-imposed caps on municipal property tax collections, and limits on other sources of city revenue have led local governments to adopt TIF.131

Target population

- Affordable housing created as part of redevelopment using TIF is targeted to low- and moderate-income renters and owners.
- TIF benefits the community generally by financing redevelopment that the community otherwise might not be able to pay for. Once the development is paid for, the incremental revenues can be used to fund affordable housing and meet other community needs such as roads and schools.

How the strategy is administered

- State authorizing legislation generally is required to implement tax increment financing. Legislation often allocates a certain percentage of the revenues for specific uses, such as affordable housing.
- Local redevelopment authorities can have significant roles in the administration of tax increment financing statutes, such as in California.

How the strategy is funded

Needed funding is limited to the cost of administration.

Extent of use of the strategy

Widely used: Forty-nine states and the District of Columbia have enacted statutes permitting the use of tax increment financing to help local governments finance redevelopment. Few states require funding to be set aside for affordable housing as part of their tax increment financing statutes, however.

Examples of locations where the strategy is being used

- In Utah, the Limited Purpose Local Government Entities – Community Development and Renewal Agencies Act authorizes local governments to use tax increment financing for redevelopment activities, including a minimum of 20 percent to affordable housing.
- California's redevelopment law requires local redevelopment agencies to set aside 20 percent of revenues from tax increment districts for a separate low- and moderate-income housing fund.
- Maine allows TIF districts to be established specifically for affordable housing.
- Chicago has over 100 TIFs.

Strategy results

- In Utah, approximately $127 million has become available to fund affordable housing under TIF legislation. Two of the major affordable housing efforts conducted using TIF include Bluffdale, a community near Salt Lake City where 85 affordable units have been constructed; and Sandy City, also near Salt Lake City, which is using TIF money for infrastructure support for housing development.[132]
- The TIF revenues placed into housing trust funds by California's redevelopment agencies a major source of funding for affordable housing in California. For example, in the 2004-2005 fiscal year, this funding amounted to more than $1.2 billion. This funding was used to help nearly 20,500 low- and moderate-income households obtain affordable housing.[133]
- In Maine, four affordable housing tax increment financing districts have been created since 2004. These districts will create over 200 units of affordable housing.

Pros and cons to using the strategy

Pros:

- Can provide a stream of funding for affordable housing development without an increase in municipal taxes.
- Developers can use the affordable housing TIF revenue to make a project feasible and rely less on the dwindling supply of traditional federal and state housing subsidies.
- Can improve communities, as revenue can be used for roads, schools, and other basic infrastructure needs in addition to affordable housing.
- TIF debt typically doesn't count against a municipality's debt limits.
- Individual TIF plans are generally controlled at the local level; they do not require state approval.

- TIF districts that have the greatest amount of the most vacant land before projects begin experience the greatest tax increment growth.

Cons:

- The high degree of competition for tax increment revenues can mean affordable housing is overlooked, unless legislation is passed designating a specific percentage of the revenues toward affordable housing.
- Redevelopment projects using TIF can lead to gentrification and displacement of low- and moderate-income households.
- Overuse of TIF, including districts that retain their designation as TIF districts for lengthy periods of time, can lead to higher than needed property taxes.
- TIF projections can be overly optimistic, leading to collecting insufficient revenue to pay debt service
- Investment in a TIF district almost always requires more municipal services such as police, fire, education, and transportation.
- TIF debt is more risky than general obligation debt and therefore commands a higher interest rate.

Sources of information about the strategy

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