CDFA Original Research

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Council of Development Finance Agencies

Tax Increment Finance State-By-State Report

An Analysis of Trends in State TIF Statutes

Released 2015

Report Overview

Tax increment financing (TIF), also known in some states as TAD or TIRZ, is the leading economic development finance tool nationwide. Today, 49 states and the District of Columbia have tax increment-type statutes with hundreds of projects financed annually. Understanding the various rules, regulations, limitations, and the relative flexibility of these statutes is vital for practitioners when using TIF to spur development, redevelopment, and new investment in the community.

A basic understanding of how the tool operates is necessary to properly gauge the information provided in the report. To start, TIF is a popular financing tool that allows local governments to invest in infrastructure and other improvements and pay for them by capturing the increase in property tax revenues (and in some states, other types of incremental taxes) generated by the enhancements. Several steps are required to ensure value is added and an increment can be captured.

The first step is to set the TIF district's geographic boundaries. The second step is to establish the initial assessed value of all the land within the district. An analysis of current tax revenue from property tax, sales tax, and other taxes should be conducted to benchmark the current level of tax. Once the district is created, a local government captures the tax revenue, or increment, above the initial assessed value during the life of the district. The increment becomes a repayment stream for debt used to finance some aspects of what is driving the increase, such as retail, commercial, residential, or mixed-use development.

The *CDFA 2015 TIF State-By-State Report* is a review of recent alterations regarding current state statutes and related regulations governing the use of tax increment and similar special district financing tools. The report provides a summary of several states' enabling statutes with respect to key changes since 2012 that are designed to expand, limit, or improve the tool's use. In addition, graphs and charts illustrating key trends from across the country are provided, including statute requirements related to maximum district length, eligible tax revenue sources, and the presence of blight for district creation. This information has been collected by CDFA with help from practitioners in the industry, and every effort has been made to verify the accuracy of the data provided in this report.

State-By-State

Eleven states have enacted amendments to their TIF statutes since 2012. Some of these changes have significant impacts on the use of the tool, as discussed for the following states.

Alabama

In 2013, the State of Alabama passed the Major 21st Century Manufacturing Zone Act. The legislation broadens the use of TIF in an effort to help cities attract large manufacturing projects. Alabama's statute requires the presence of blight for TIF district creation, but this requirement is not applicable to potential manufacturing projects. The new law allows cities to create manufacturing TIF zones for a range of industries, including: automotive, aviation, medical, pharmaceutical, semiconductor, computer, electronics, energy conservation, cyber technology, and biomedical if at least $100 million is invested on a site larger than 250 contiguous acres.

California

More than 400 Community Redevelopment Agencies (CRAs) were officially dissolved in 2012 as a result of legislation passed by the state legislature, effectively eliminating California cities' ability to utilize TIF for redevelopment purposes. Reasoning for the legislation focused on the direct and indirect effects CRAs had on the state budget.

Local governments are still capable of financing infrastructure improvements through a TIF structure by creating Infrastructure Financing Districts (IFDs). In September 2014, A.B. 313 was passed to facilitate more infrastructure investment at the local level by improving upon the current IFD structure. This piece of legislation enables cities and counties to create Enhanced Infrastructure Financing Districts (EIFDs). One of the primary limitations of IFDs is the tool's inability to overlap in whole or part with redevelopment project areas. Under the new law, EFIDs provide an alternative means for cities or counties to finance public infrastructure in former redevelopment project areas that have been dissolved or are in the process of being dissolved.

Colorado

House Bill 1348, which passed in May 2015, gives non-city entities three voting seats on 13-member urban renewal authorities that have been largely formed by municipal officials. The bill also requires cities and counties to seek a third-party mediator if the allocation of a county's future property-tax revenue and a city's future sales-tax revenue can't be determined as it relates to TIF projects. The legislation was created to address complaints from counties that believe urban renewal projects can adversely affect their property tax revenues, in addition to claims that other taxing jurisdictions are worthy of more voting power.

District of Columbia

The District's TIF enabling statute expired on January 1, 2014, and has not been reauthorized, meaning the District is not able to issue additional debt under the TIF Act. The District has been using project-specific TIF statutes rather than proceeding under a general TIF statute, resulting in the authorization of new TIF districts and projects on a deal-by-deal basis.

Missouri

There have been three recent amendments within Missouri's statute.

- In 2013, legislation was passed that excludes from TIF capture sales taxes imposed for the purpose of operating and maintaining a metropolitan park and recreation district, or for the purpose of emergency communication systems.

- Legislation was passed in 2014 stating if the voters in a taxing district approve an increase to a taxing district's levy, then the additional revenues generated within an existing redevelopment project area from the voter-approved increase to the tax levy will not be subject to capture without the taxing district's consent.

- Another amendment was passed in 2014 stating if the voters in a taxing district approve a new sales tax (including increases to existing sales taxes, but not including renewals of expiring sales taxes), then the revenues generated within an existing redevelopment project area from the new sales tax will not be subject to capture without the consent of the taxing district.

North Dakota

The state recently increased the maximum length of a TIF district to be 25 years, a 10-year increase compared to the previous requirement. The base year for tax increments may not be used for more than 25 taxable years without establishing a new base year -- the new base year may be used for an additional 5 years after which time the tax increment district must be closed.

Statute Trends

The following section provides an overview of general trends concerning important components of state-enabling TIF statutes from across the country.

Blight Requirements

Figure 1. Blight Requirements by State

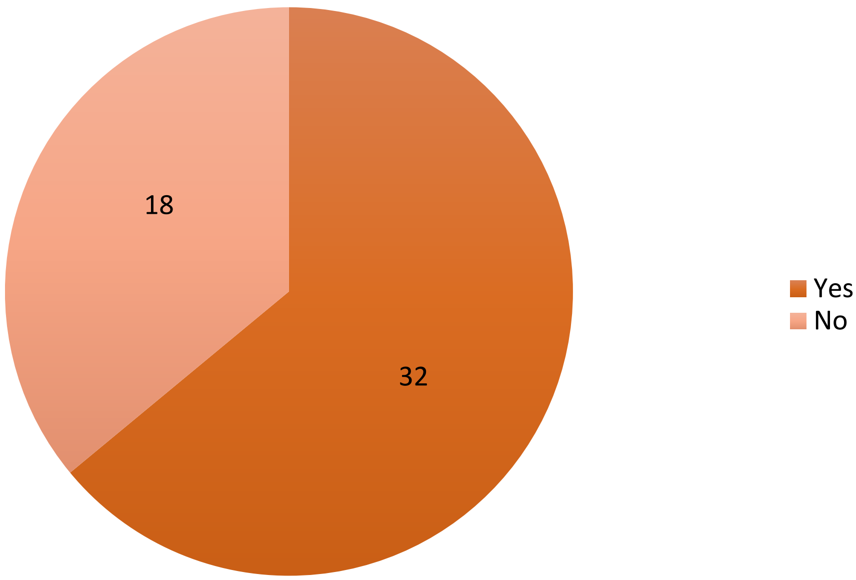
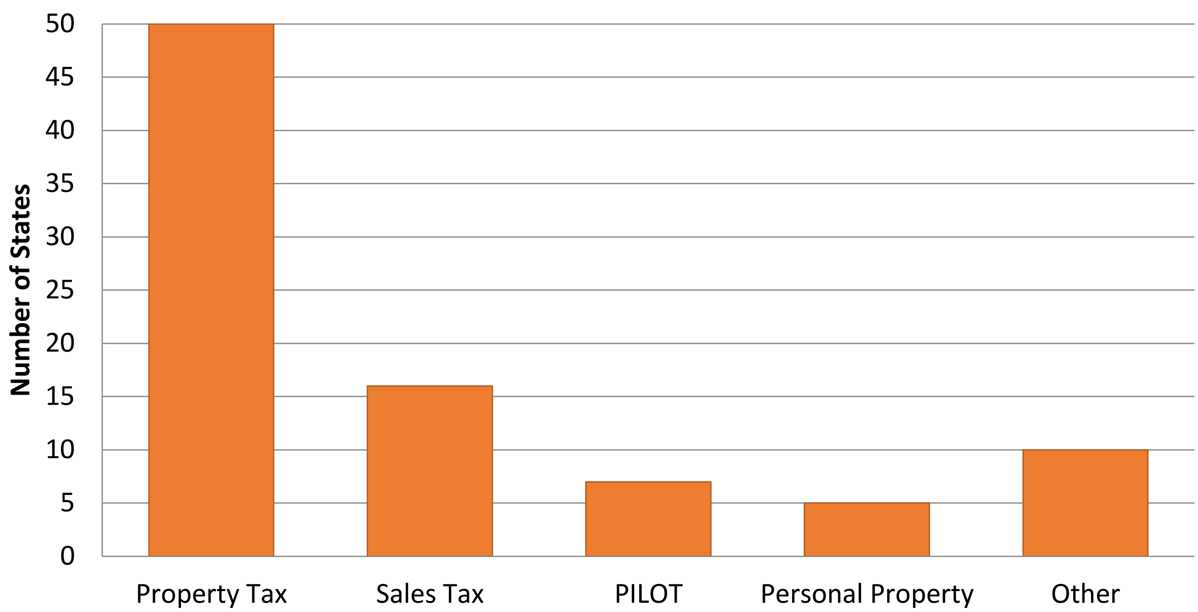


Figure 1 displays the number of states that do and do not require the finding of blight for TIF district or project creation. CDFA's findings indicate that a little over half of TIF enabling statutes list blight as a requirement. Each state has its own way of defining blight with various factors that can support its finding. Some states that require a finding of blight have increased the tool's use as a result of the relatively loose definition of the term. For states that do not list this as a requirement, potential TIF districts or projects typically have to pass a "but for" test. This test requires that "but for" the TIF assistance, growth or development at the proposed level would not occur.

Eligible Tax Revenue Sources

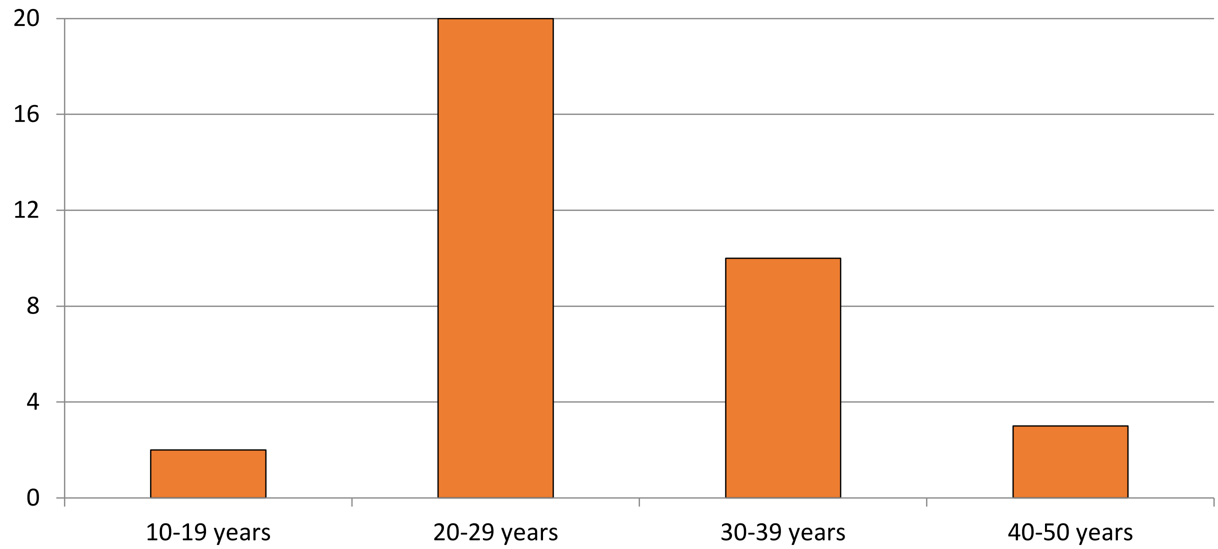
Figure 2. Eligible Revenue Sources by State



The chart above shows the eligible tax revenue sources as displayed in TIF enabling statutes. Every state allows for the capture of real property tax, as the effectiveness of TIF is contingent upon the generation of incremental revenue coming from the increase in assessed property value within the district. Sales tax, the highest of the other sources, is eligible in 16 states. These projects are mostly associated with retail TIFs, which can be a controversial public policy decision in some markets. Sales tax revenues can be difficult to predict, resulting in the likelihood of a retail TIF project inferring greater risk. However, these projects can also provide considerable economic benefits. Other eligible tax revenue sources are also limited compared to real property tax, likely due to the tool's design.

Maximum District Length

Figure 3. Maximum District Length by State



The maximum district length is displayed to show the vast disparity among state requirements. It should be noted, however, that many states allow for extensions in the event that incremental revenue for debt service is insufficient within the required timeframe. For example, the maximum district length for TIF projects in Illinois is 23 years, but the life of the district can be extended to 35 years if the project fails to perform as expected. Arkansas, Florida, and Wisconsin also allow for similar extensions.

Other alternatives to district length exist outside of lack of project performance.

- Ohio allows for TIF projects to last up to 30 years with school district approval. Without such approval, district life is limited to 10 years.
- Some states specify district length by project type. Iowa lists three categories: 10 years for specific housing TIFs, 20 years for economic development projects that are not also classified as blight, and an unlimited amount of years for blight-specific redevelopment projects.
- District length requirements can also line up with the life of bonds issued for the project, as is the case in New Hampshire.
- In states like Tennessee and Utah, district length is stated within the redevelopment plan for the TIF project and is not specified within the state enabling statute.

CDFA TIF Resources

CDFA Tax Increment Finance Resource Center
http://www.cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open&id=tifrc.html

CDFA TIF State-By-State Map & Report
http://www.cdfa.net/cdfa/tifmap.nsf/index.html

CDFA Tax Increment Finance Best Practices Reference Guide - 2nd Edition
http://www.cdfa.net/cdfa/store2.nsf/browse.html?open&so=popularity

CDFA Advanced Tax Increment Finance Reference Guide
http://www.cdfa.net/cdfa/store2.nsf/browse.html?open&so=popularity

CDFA Intro Tax Increment Finance Course
http://www.cdfa.net/cdfa/cdfaweb.nsf/pages/traininginstitute.html

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