



Tax Increment Financing Guidebook

*A Beginner's Guide to Using TIF
in Connecticut's Downtowns and Main Streets*



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Heather Conley Photography

What is Tax Increment Financing?

TIF is...

We know in the current economic environment that it is becoming increasingly difficult for states to fund economic development. This is true in Connecticut, where the State has become fiscally stressed and municipalities must now guide their economic future. This involves finding new methods to finance economic and community development. Tax Increment Financing (TIF) is an important tool to achieve that goal.

TIF is a financing method used to catalyze economic development. It uses anticipated future increases in property tax revenues to generate incremental tax revenues from a specific development project or projects across a designated district to help pay for current costs associated with development. These can be public and/or private costs.

TIF is a local economic development policy and program that is enabled and guided by state law, Connecticut Public Act No. 15-57. It does not require State approval and its structure and details are determined by the local legislative process.

TIF is Not...

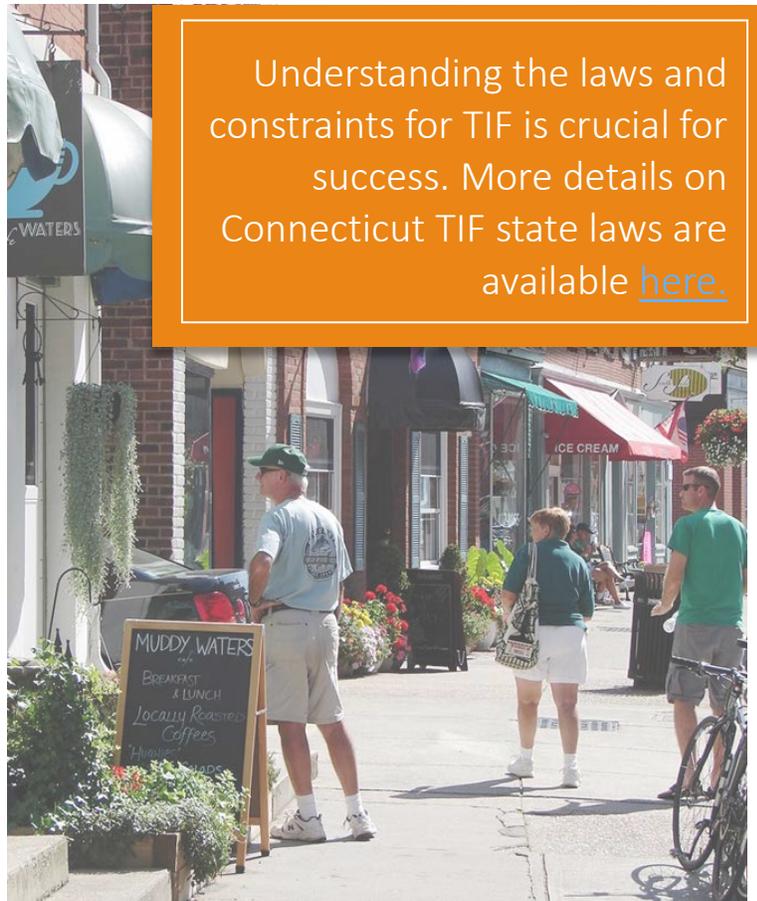
TIF is not a new tax or a special assessment on top of the existing property tax. Rather, TIF applies the same property tax rate used by a municipality for all properties and uses the same assessment process. However, with TIF, a portion of the new revenues that result from the development or other improvements can be designated by the local legislative body to pay for costs associated with the specific development and/or future economic development.

Why TIF?

TIF is a tool used to spur economic development. It creates a financing mechanism to support public and private investment for economic growth. While TIF leverages investment and economic activity within the district, when integrated with a community's economic and downtown plans, the community, region, and state benefit.

Why? Because downtowns are core assets for economic development. They are the centers for commercial activity, retail, workers and residents. Communities can have powerful visions for creating their downtowns; however, often there is a financing gap in achieving that vision. TIF is a tool that helps fill the gap so communities can realize their vision of downtowns as economic drivers.

Understanding the laws and constraints for TIF is crucial for success. More details on Connecticut TIF state laws are available [here](#).





Process for Establishing a TIF District

Connecticut Public Act No. 15-57 requires the approval of a District Master Plan to create a TIF district. The municipality's legislative body must adopt a master plan for the district. At least ninety (90) days prior to approval, the plan is transmitted to the Planning Commission for a written advisory opinion. Prior to approval, a public hearing is also required. The district master plan is adopted at the same time the district is created.

District Master Plan Components

1. The boundaries of the TIF district by legal description.
2. A list of the tax identification numbers for all lots or parcels within the tax increment district.
3. A description of the present condition and uses of all land and buildings within the tax increment district.
4. A description of the public facilities, improvements, or programs within the tax increment district anticipated to be added and financed in whole or in part.
5. A description of the industrial, commercial, residential, mixed-use, or retail development/improvements; downtown development; or transit-oriented development within the tax increment district to be financed in whole or in part.
6. A Financial Plan detailing the schedule of incremental tax revenues.
7. A plan for the proposed maintenance and operation of the tax increment district after the planned capital improvements are completed, if applicable.
8. The maximum duration of the tax increment district, which may not exceed a total of fifty tax years beginning with the tax year in which the tax increment district is established.



Financial Plan Components

1. Cost estimates for the public improvements and developments anticipated in the District Master Plan.
2. The maximum amount of indebtedness, if any, to be incurred to implement the District Master Plan.
3. Sources of anticipated revenues, including TIF and any other revenues, to be used for the District.
4. A description of the terms and conditions of any agreements, to set or hold the assessed value to a specific amount for a fix period of time, including any anticipated assessment agreements, contracts, credit enhancement agreements (CEA), or other obligations related to the District Master Plan.
5. Estimates of the increased assessed values of the tax increment district.
6. The portion of the increased assessed values to be applied to the District Master Plan as captured assessed values and resulting tax increments in each year of the plan. *Note:* A municipality can designate an amount up to 100% of incremental value to be utilized for specified TIF purposes or any amount less than 100%. Whatever amount of incremental revenues that are not utilized for specified TIF purposes accrue to the General Fund and can be utilized through appropriations process for General Fund Purposes.
7. Specify the portion of TIF revenues to be utilized for municipal purposes versus any to be utilized to support private developers through credit enhancement agreements or other mechanisms.

TIF Limitations

A municipality can have multiple TIF Districts; however, all districts combined are subject to limitations of:

The original assessed value of the tax increment district plus the original assessed value of all existing tax increment districts within the municipality may not exceed ten percent (10%) of the total value of taxable real property within the municipality as of October 1st of the year immediately preceding the establishment of the tax increment district. It can also be used to pay for projects, programs, and services directly as they occur, or a "pay-as-you-go" approach.

How can TIF revenues be used?

Connecticut TIF legislation enables a municipality to use TIF revenues to support or leverage projects and programs within or related to the TIF District. This includes: governmental services made necessary by the project, repayment of debt service on municipal or private developer costs, and debt related to the TIF district, support or leverage for further economic development within or related to the district. More specifically, TIF revenues can be used for the following purposes:

- Public infrastructure improvements
- Façade improvements
- Project development and redevelopment costs (including transit-oriented and downtown district development)
- Capital costs
- Remediation costs
- Land assembly costs
- Technical and marketing assistance
- Revolving loans
- Professional services
- Repayment of private debt incurred by private developer
- Administrative expenses, including personnel, studies, reports, administration for Main Street managers

TIF also allows a municipality to utilize a Benefit Assessment (a special assessment on property owners to help pay for improvements). However, Benefit Assessments are not required as part of TIF.

It is important to note that there is a trade-off between TIF funds to support economic development and having money available for the General Fund: What you take in and designate for TIFs cannot be used for General Fund purposes.



- Business development and expansion assistance for TIF district property owners
- TIF district establishment costs
- Off-Site (related to TIF District)
 - Roadways, water/sewer
 - Public safety
 - School
 - Mitigate adverse impacts (e.g. new traffic)
- Economic development and environmental
 - Economic development initiatives
 - Workforce training
 - Environmental mitigation

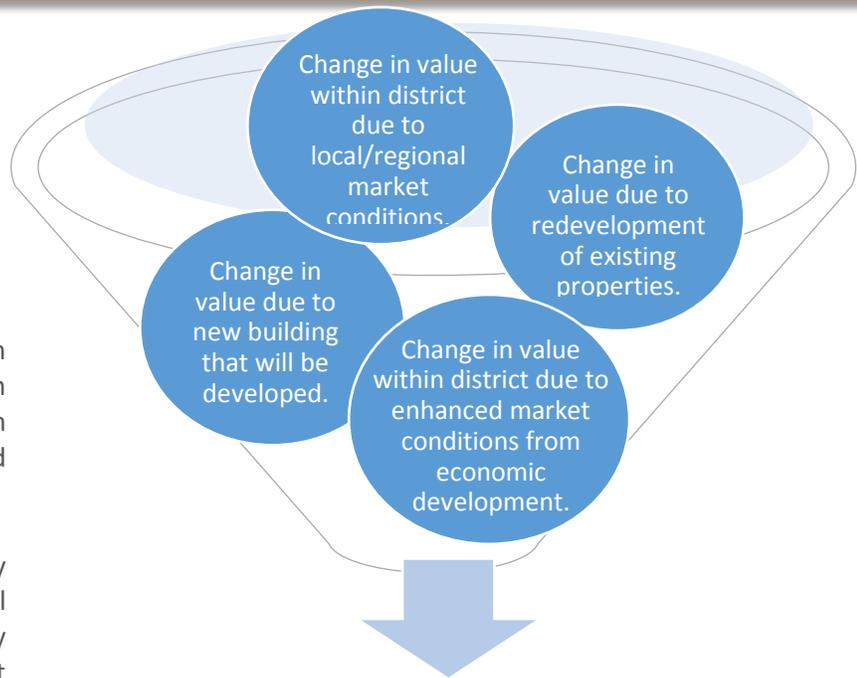
How does TIF fit with other financing tools?

TIF can, but does not have to be, used in conjunction with municipal bonding. It can be used to pay down debt service associated with the TIF District. It can also be used to pay for projects, programs, and services directly as they occur.

TIFs can be used to support private development by providing a portion (up to 100%) of incremental property taxes back to the private developer annually through what is known as a “credit enhancement agreement” (CEA). The CEA is a binding legal contract developed and agreed to as part of the TIF District process that can be used by the private developer to offset some private development costs and be used to support or enhance financing for the private developer. If the municipality chooses to provide CEAs it should do so in the form of a percentage of incremental taxes to be returned as opposed to a fixed dollar amount to protect itself from underperforming TIF development.

TIFs can and should be used with other public and private financing tools as appropriate. They are not meant to be used “instead of” or “exclusive of” other financing mechanisms. This is particularly true for the support of private development as credit enhancement. Private developers should, as a matter of policy, be required to demonstrate that “but for” the TIF agreement this project would not occur *and* that they have utilized and exhausted all other financing mechanisms such as state and federal grants, and tax credit programs.

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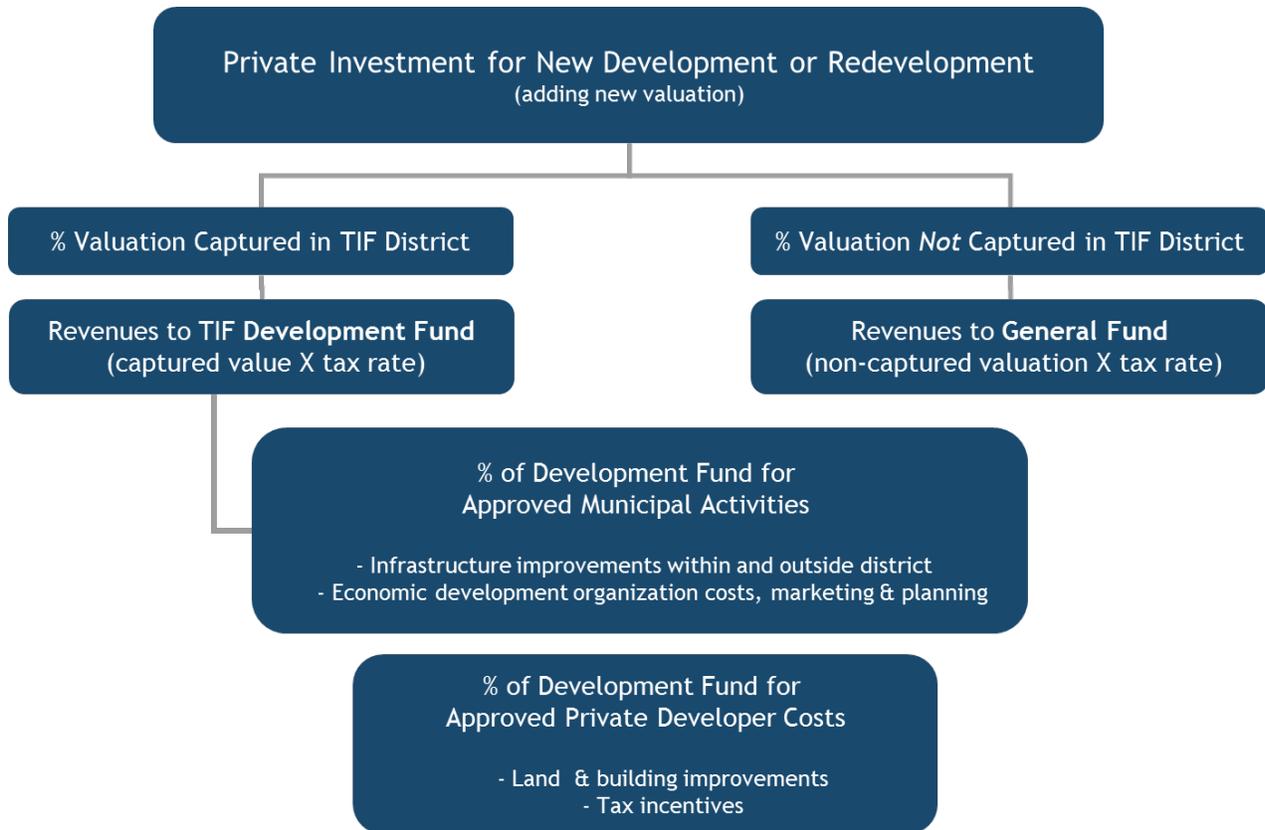
Understanding How to Estimate Future Value and Revenues

For the establishment of a TIF District and as part of the District Master Plan, the municipal assessor must certify the Original Assessed Value of Real (land and building) Taxable Property. This should be the value based on the last Certified Assessment as of the immediate past October 1st values. It should exclude non-real property (equipment, vehicles) and exclude property that is likely to become tax-exempt.

The annual tax increment (incremental value and associated revenues) will be based on the annual increased value as certified by the municipal assessor each October 1st and the agreed to percentage to be “captured” within the TIF District. TIF revenues will further be based on the mill-rate in that year, and the estimated mill-rate over the life of the TIF District.

For projecting values for TIF District planning, valuation should be estimated based on projected new development and redevelopment in the district as well as overall anticipated changes in valuation due to market conditions. This should take into consideration regional market trends based on historic (5-10 year) trends as well as increases anticipated because of enhanced market opportunities due to economic development within the TIF District. The mill rate can be held constant for planning purposes or have an annual escalator applied based on mill rate performance in the past five years.

How TIF Works



Understanding TIF District Boundaries

TIF Districts can be a single parcel or multiple parcels. In the case of a downtown they typically would involve multiple parcels associated with the defined downtown area. This allows for consistent planning and use for the overall economic well-being of the downtown or main street area.

Managing and Oversight of TIF Districts

- Municipalities should create an advisory board to advise on the planning, design, and implementation of the district. It should include key staff related to TIF (assessing, planning, finance and economic development directors), and representatives from the council, finance committee, planning commission, and economic development committee as applicable.
- Downtown TIFs should include coordination with planning, design, implementation, and oversight of the district. Include key staff (assessing, planning, finance and economic development directors) along with representatives from the council and key committees such as finance, planning, and economic development, and finally, public and private stakeholders. However, the TIF District and its boundaries, goals, and policies need not be identical to those of these other entities.



Tips for the Use of TIF on Main Street

- A TIF Policy, separate from the plan, can be crafted and utilized to help guide and direct decisions on when and how to use TIF, and be tailored to meet a community's long term objectives.
- Align use of TIF into a long-term economic development strategy for the community and for downtown and main street through the District Master Plan.
- Go beyond creating TIF Districts for development or redevelopment of single parcels or projects. Rather, utilize TIF to support and leverage private development for proposed projects, potential future projects, and strategies, programs, and services to further develop and sustain downtown and main street businesses, housing, and residents.
- Downtown management entities can be a recipient of TIF District revenues per the TIF District Plan for performance of specific programs or services related to the approved district and economic development.
- Identify both public and private needs and costs to be supported by the TIF District.
- Instead of just using TIF for business incentives, consider using TIF to fund public infrastructure and activities to support economic development.
- When using TIF revenues to benefit businesses and private developers, what the municipality provides will serve as a benchmark for future requests. Develop policies and guidelines that specify under what conditions your municipality/town/downtown, etc., will utilize credit enhancement agreements to support private development including goals regarding minimum private investment, jobs, type and level of development.
- Consider TIF within a mix of financing options.
- Once TIF is used, implement an internal system for tracking values, revenues, and expenditures throughout the duration. Provide regular reporting to administration, council, and the public.
- Create an advisory board to advise on the planning, design, implementation, and oversight of the district. Include key staff (assessing, planning, finance and economic development directors) along with representatives from the council and key committees such as finance, planning, and economic development, and finally, public and private stakeholders.
- Educate and engage the community at large about the importance of downtowns and main streets and understanding of TIF in order to build community support.



This guidebook was created by Camoin Associates on behalf of the Connecticut Main Street Center



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