

Town of Groton TIF Frequently Asked Questions

Frequently used terms/acronyms:

TIF – Tax Increment Financing

CEA – Credit Enhancement Agreement

POCD – Plan of Conservation and Development

What is Tax Increment Financing (TIF)? TIF is used to support real estate, business and economic development projects that otherwise would not occur without this financing method, thus creating new tax revenues. In other words, **but for** TIF a development project could otherwise not occur. Additionally, TIF is a financing method that is used to catalyze economic development. TIF allows some or all of future property tax revenues from development within a district to be dedicated to support the projects and related economic development.

- A portion of future property tax benefits from a project are used to help finance project - Can be utilized to support public and/or private development costs;
- A portion of new revenues not dedicated for TIF purposes are used for general fund.

Is TIF a local, state, federal, or private financing program? TIF is a local (Town) tool that can be utilized with a TIF Master Plan developed and approved by the town. CT State Law Chapter 105b enables the program. While it is not a program that can be directly used by a business or developer on their own, they can benefit from TIF through a partnership with the town as set forth in a TIF Master Plan through credit enhancement agreements, abatements, or assessment agreements.

What is a TIF Master Plan? The TIF Master Plan identifies the specific properties in a municipality that can utilize TIF, the types of projects that could be funded through a TIF, and sets the time duration of the TIF district. The TIF Master Plan will specify how much goes into the TIF budget and how much goes into general fund budget. What is not captured as part of the TIF goes into the general fund and the Town Council can spend it consistent with its own policies, documents, budgets, CIP's, etc.

Is TIF a new tax? TIF IS NOT a new tax or a special assessment on top of the existing property tax. The same tax rate is applied to properties located within the district or outside the district.

How are TIF Master Plan districts or boundaries defined? The TIF boundaries are defined on a parcel-by-parcel basis. Usually the district will be indicated as a growth, village, or redevelopment district in a municipal Plan of Conservation and Development (POCD).

What happens if a project doesn't get developed or falls short of development plans? Is the town at risk? The town will structure the TIF agreements to minimize risk. A developer will only receive money back as a percent of taxes **actually paid** on an annual basis. The developer does not get paid upfront and only gets paid if the development is built and taxes are paid.

What is a TIF Policy? A TIF Policy sets the framework and process for how TIFs are established in a town, as well as the preferred financial mechanisms and other standards to be utilized in the TIF Master Plan.

Does Connecticut state law require a town to create TIF districts? No. TIFs can be utilized by a municipality but they are not required to use them.

How many TIF districts are being proposed? Right now there are four (4) districts being proposed in Groton. The intersection of Route 117/184, downtown Groton on Route 1, Thames Street/Waterfront in the City, and 5 Corners in the City. Other districts may be proposed in the future.

Why are we not proposing more TIF districts? More TIF districts may be established in the future. If those proposed districts are consistent with the TIF Policy and the POCD, a TIF Master Plan(s) could be proposed for those area(s).

When will these TIF districts be established? In the future, as part of a different public hearing process separate from the public hearing from the TIF Policy.

Is there a limit to the number of TIF districts or TIF areas? Yes. The assessed value (land and buildings) of all the TIF Districts cannot exceed 10% of the total of the assessed value of the Town.

Is the Mystic Education property in a proposed TIF district? No, not at this time.

How much of the 10% cap is being “taken up” by the 4 proposed TIF districts? The boundaries of all the districts have not been defined at this time. The two districts with draft boundaries are the districts in the town. Those districts “take up” less than 2% of the total assessed value of the town. These questions will be answered at the time of the development of the TIF Master Plans and their public process.

What happens if the total assessed value of the town goes down? Do we have to get rid of some of the TIF districts? No. The threshold applies at the time the district is created. It would just impact whether or not future TIFs could be created.

Who decides to create a TIF District and if a Developer is to be provided financing assistance? All TIF Districts and related agreements with developers must be approved by a vote of the Town Council at a public meeting. All agreements with developers must meet Town Policy Guidelines and be part of an approved TIF Master Plan.

Is a town referendum required to establish a TIF district? No. Connecticut Public Act Section 7-339ff(a) calls for the establishment of the TIF District and the adoption of the Master Plan by a vote of Groton’s legislative body. Nothing in the TIF Statute requires a referendum vote for the establishment of a TIF District.

What is a Credit Enhancement Agreement? A Credit Enhancement Agreement (CEA) is a legal agreement between the town and a property owner/developer/business that specifies as part of the master plan the terms of any agreement to provide TIF assistance to help offset development costs.

There are concerns that the town will be diverting tax money from the general fund to developers or to these special TIF districts. First and most importantly, we need to keep in mind that this tax revenue would not exist without TIF. But for TIF, this development would not happen. The portion of the funding going to the CEA and the TIF district is what makes this future tax revenue possible.

What is the first step to determine how all revenues from the TIF district are utilized? Before determining how much tax revenue is to be shared with a developer, the town needs to determine how much goes to the TIF Fund vs. the General Fund; it can range from 100% TIF/0% General Fund to 1% TIF/99% General Fund. The draft TIF policy says that, generally, no more than 50% of tax revenue will go to the TIF fund. This allows the town to keep some money for general fund services (non-TIF related).

If we do a 50%/50% split with the credit enhancement agreement, can we designate where additional tax revenue goes? The decisions regarding the 50% that goes to the General Fund are part of the town's budget process. The town can allocate money to open space, education, etc. as it sees fit. This is a policy and budgeting decision that shouldn't be inserted into the CEA. Generally, if we did a 50/50 split, the town may decide that 50% goes to pay back the CEA; 25% is directed to that TIF Master Plan district account for other TIF district improvements; and the other 25% is directed to the general fund for uses consistent with the budget, CIP, or other policies as directed by the Town Council and RTM.

How does the town determine how much funding will be dedicated to the TIF Fund balance? The funding amount is determined by the amount of work that will be supported by the TIF. Once the town determines how much funding or percentage of funding will go into the general fund vs. the TIF fund, the town will then decide how much they will allow for CEAs (with developers) vs. how much for town economic development and infrastructure expenditures directly related to the TIF District. The developer dollars through this process can be for tax reduction and/or to support the developer paying for certain development/infrastructure costs.

Can the town transfer money from the TIF fund to the general fund? Yes. If there is money over the course of years from the TIF that is not spent AND NOT legally obligated through the TIF Plan, then that money can be periodically transferred to the General Fund. This is not something that would be done yearly, but instead every few years if there is an excess balance.

How can the town access or take funding from the non-CEA designated TIF fund balance? In that 50/50 example, once the CEA portion of the funding is paid off, and any other town requirements for TIF are paid off (i.e. other town projects in the TIF district or other TIF districts), the excess funding can go back into the general fund, or be directed to specific projects in the general fund or CIP. This would not be done every year, but instead when there is a significant excess of funds in the TIF account.

Can the town specifically dictate where and how much funding, or the percentage of funding, goes towards certain items? Yes, but there is no reason to spell out these types of funding restrictions in a TIF Policy or Master Plan. The TIF Policy and TIF Master Plan(s) will set the standards for how we will utilize TIF funds for TIF related expenditures. The yearly budget dictates how and where funding will be spent from the general fund portion. As part of the TIF Master Plan and as part of each CEA the town will dictate how much money or what percentage of the future taxes are going to the general fund, how much to the CEA and how much funding/percentage of the taxes are going into the general TIF fund for other improvements in the district. How these funds are directed must be consistent with the goals of the policy and master plan.

TIF did not work in California, why will it work in Groton? TIF has been successfully utilized in many states throughout New England, with hundreds of TIFs in Maine. There were many reasons for California's eliminating its use of TIF. One of the reasons that California's TIF program failed was due to the fixed requirements as to what funding percentages were dedicated to non-TIF improvements. We and our consultant strongly caution against specifying what will be funded (schools, open space, etc.) and at what percentage in the TIF Policy.

Are any other towns in Connecticut using TIF? Yes. Currently New Britain, Canton, Middletown use TIF, Others towns including Bristol, Cheshire, and Old Lyme are in the process.

How can the town spend general fund revenue from the TIF district? Any funds generated within a TIF district that are not dedicated for TIF proposes go to the general fund and their use is determined like any other general fund revenues. The Town Council does have that discretion for the life of that CEA. During CEA negotiations, the Town Council could lock in certain percentages or dollar amounts for each project envisioned for the TIF. It should be noted that the more specific the town gets about how general fund directed TIF revenues can be spent, the more complex the accounting becomes and the more likely the need for additional staff resources to track these funds. The yearly budget process is the safest mechanism to determine the use of general fund revenues.

Should TIF funds be used for general town operation funds? NO, TIF funds should only be used for schools or other general services if the need for new construction of facilities for these services is directly due to the TIF project.

It seems unfair that a small business owner outside the TIF district is not getting any financial help from the town. Why not? The town has other economic incentives geared towards smaller businesses and parcels outside of the proposed TIF districts. TIF is designed to benefit the town's economy to help all businesses with improved infrastructure and an improved business environment.

The Bottom Line: A TIF Master Plan determines what revenues go to General Fund vs. what revenue goes to the TIF District for public and private economic development purposes. If the town wants to have money for General Fund purposes from the TIF, it keeps that money outside of TIF dedicated revenues by dedicating a smaller percentage of the TIF generated tax revenue to TIF improvements. Money specified in the plan for TIF Funds/Purposes can be moved to the General Fund only if it is unnecessary for TIF specified purposes and otherwise not legally obligated such as paying back CEAs or bonds. This should be avoided unless absolutely necessary as it goes against the intent of the TIF Plan.

The way we protect and mitigate our risk is through the policy and the master plan. Some flexibility is built into these documents such as the ability to withdraw funding and direct that funding to the general fund of the town if all other TIF obligations are met.

For questions regarding Tax Increment Financing, please contact the Office of Planning and Development Services at (860) 446-5995.