Tax Increment Financing

Overview of TIF Programs

Tax Increment Financing (TIF) is a common tool that municipalities in the U.S. use to finance development projects. A geographic boundary called a district is established and a development plan is created. A base year is designated and the district issues bonds to fund projects pursuant to the plan. Moving forward, tax revenue generated in excess of the base year's levels (labeled incremental revenue) are disbursed to the district to service those bonds. In theory, any tax revenue can be used for TIF, but most often property tax and occasionally sales tax revenues are leveraged.

TIFs are most typically utilized as urban redevelopment tools for areas in which the redevelopment would not happen without the TIF. TIF is most commonly used for one of the following purposes:

- Redevelop brownfields (environmentally contaminated / hazardous properties)
- Eliminate blighted areas
- Build affordable housing
- Finance public infrastructure

TIF in Arizona

Arizona is the only state in the nation that does not allow Tax Increment Financing. The state repealed its TIF enabling legislation in 1999. There are similar tools such as a Community Facilities District and Multipurpose Facilities District used in Arizona, however these are applicable solely for the creation and improvement of public infrastructure, generally utilities and roads.

Best Practices

TIF programs are very complex relative to other standard economic development tools. Successful TIF programs adhere to a set of controls designed to mitigate misuse. When these controls are present and policymakers and governing bodies understand the complexities, TIF districts can be very successful. Examples of successful TIF districts can be found in many municipalities across the nation.

Important principles of successful TIF programs are the following:

- **Establish specific areas and specific purposes.**
  Many states require candidate communities demonstrate hardship before establishing a TIF district. In some cases, a "but-for" approach is also used, where communities must demonstrate that without a TIF district, the redevelopment would not occur. Most TIFs also require the establishment of a comprehensive development plan.

- **Limit use of TIF districts to public use projects.**
  Efforts should be focused on activities that will both improve the economic viability of the region and generate more incremental revenue for the district. Often, infrastructure projects are the best use of TIF funds. TIFs should not be used to refinance existing projects as these efforts rarely create new economic activity or more incremental revenue for the district to pay the bonds.

- **Heavily restrict the types of expenses to which TIF funds can be applied.**
  The application of TIF funds should be directly tied to the district's goals and should be restricted to only absolutely necessary costs. While TIF funds can be used for the administration of the district, they should not be applied to a project's soft costs, including consultant and legal fees. Inclusive clauses (e.g.: or any other cost deemed appropriate but not specified above) especially present significant opportunities for abuse.

- **Require an annual audit of activities and expenses.**
  Given the long term nature of districts and their financial instruments, it is important to regularly review a district's activity to ensure that it is accomplishing its agreed upon goal without exposing the community to excessive risk.