

Tax Increment Financing

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Public Financing

Tax Increment Financing (TIF) is used to incentivize development in certain areas desired by a city. Tax Increment Districts are designated by a municipality.

Typically, development projects increase taxes to be paid. Through TIF, the difference between the original tax before development and the resulting tax after development can be reapplied to help pay for that development or for other public improvements. This increase in taxes is called the increment and can be applied to affordable housing, public infrastructure, including parks, or to clean up brownfields among other possibilities. These funds can only be used within the designated Tax Increment District.

In Washington TIF is officially called Community Revitalization Financing. The law was enacted in 2001 and would sunset in 2010 though the sunset provision was removed in 2002 and the law made permanent. Through this law the sponsoring government can now capture a portion of the regular property taxes for public improvement projects. Washington voters had previously rejected this provision in 1973, 1982 and 1985. Until recently Washington did not benefit from TIF laws like many other western states and was subsequently at a disadvantage.

TIF in Washington has not been as effective as hoped, for a variety of reasons, one of which is that funds cannot be used to address future needs of the project, but only those identified at the time of inception. Jeff Nave points out, "TIF has a place in our economic development tool chest. However, it may be a three-penny nail, rather than the powerful hammer many had desired" (2003).

When seeking Community Revitalization projects issues to keep in mind include: the sponsoring government will not receive revenue if the assessed value drops below the original amount, because significant increases in assessed value are needed to finance significant public improvements. Undeveloped and under-developed properties are the most favorable candidates.

RESOURCES

Municipal Services and Research Center of Washington: <http://www.mrsc.org/Subjects/Econ/ed-revitalization.aspx> (Contains several additional sources)

Ch. 212 Laws 2001 (ESHB 1418): http://www.leg.wa.gov/sl/2001-02/1418-s_sl.pdf

Minnesota Legislature FAQ's on TIF: <http://www.house.leg.state.mn.us/hrd/issinfo/tif-mech.htm>

Nave, Jeff. 2003. Tax Increment Financing: Why it isn't Working Here: <http://www.djc.com/news/co/11149492.html>

The Effects of Tax Increment Financing on Economic Development: <http://www.igpa.uiuc.edu/publications/workingPapers/WP75-TIF.pdf>

Tax Increment Financing Best Practices Study, El Paso: <http://iped.utep.edu/IPED%20Reports/tr2002-10/tr2002-10.pdf>

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON: Sec. 1. (1) It is declared to be the public policy of the state of Washington to promote and facilitate the orderly development and economic stability of its communities. Local governments need the ability to raise revenue to finance public improvements that are designed to encourage economic growth and development in geographic areas characterized by high levels of unemployment and stagnate employment and income growth. The construction of necessary public improvements in accordance with local economic development plans will encourage investment in job-producing private development and expand the public tax base.

-Engrossed Substitute House Bill 1418, Chapter 212, Sec. 1