



Michigan Association of Planning
A Chapter of the American Planning Association

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Tax Increment Financing

Description

Tax Increment Financing (TIF) is a popular method of financing the public costs associated with development and redevelopment projects. TIF occurs when a local government freezes the tax base within a specific development district and uses the revenues generated by reassessment or new development to finance selected improvements within the district. The term “tax increment” refers to the additional taxes that will result from private development. This “increment” is earmarked or “captured” for the TIF or to other taxing units that otherwise would receive revenues. Public improvements can be financed one of two ways in a TIF plan:

- Improvements may be financed on a pay-as-you-go basis from annual tax increment revenues.
- The municipality may issue tax increment bonds to finance public improvements and use the annual tax increment revenues to retire the bonds.

TIF provides a project plan that outlines projected costs and revenues. Bond amounts are based on the cost of the project and the anticipated TIF revenues available to make bond repayments. Municipalities can bond up to 80% of what they plan on generating each year. Contingencies may be written into the plan to fund such things as administrative costs. Excess revenues must be returned to the entities losing tax revenues to the TIF district (for example: school districts).

TIF is authorized in Michigan for use by two economic development entities:

- **Downtown Development Authorities (DDA)** - for commercial development areas, primarily in the central business district (see Downtown Development Authority technique for a more complete discussion of its use).
- **Local Development Finance Authorities (LDFA)** - for industrial, agricultural processing and high technology services facilities (see Local Development Finance Authority technique for a more complete discussion of its use).

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- **Tax Increment Finance Authorities (TIFA)** - for areas designated under PA 450 of 1980 prior to 1987.

DDAs and LDFAs are available for use in cities villages, and townships. However, LDFAs are only available to townships who qualify as an “urban townships.”

Planning Considerations

Tax Increment Financing is based on two principles:

- Without the expenditure of public funds, development would not occur. In other words, affected taxing units do not actually lose revenue, because there would be no increased property taxes if the TIF plan didn't provide for the public costs of the project.
- Since all taxing units will ultimately benefit from the development, the public costs of the project should be shared.

Utilizing TIF either through a DDA or LDFA requires the completion of several preliminary planning steps:

- The proper authority and board must be established by the municipality.
- Separate project and TIF plans must be developed. The date the TIF plan is adopted by the governing body of the municipality is the date the assessed value of the properties within the district is frozen. The taxes generated by any increases in assessments from that date forward go to the TIF authority.

The use of the TIF development district has changed, along with the shift in its use, from the DDA to the LDFA. This change reflects an evolution in the state's economic development goals; from the removal of blight to the creation of jobs. For DDAs, tax increment revenues from the entire district are captured and diverted to the DDA. For LDFAs, only tax revenues from “eligible properties,” either industrial, agricultural, or high technology service facilities, are captured and diverted to the LDFA. The development district serves only as a guide for development activities. Also under an LDFA, public improvements financed with TIF revenues do not have to be located within development district. But, with limited exception, TIF funds under LDFA must be spent to benefit the property that generates the increment.

Advantages

- Provides a dedicated source of funds for an identified area.
- Public investment encourages private investment in the area-often beyond the development projects targeted in the TIF plan.
- If used wisely, development projects utilizing TIF revenues will benefit the entire community, not just the TIF district.

Disadvantages

- TIF plans divert tax revenues from schools and counties as well as the entire municipality for the sold use of a (typically) relatively small development district. This could be viewed as an improper use of public funds by some taxpayers.
- The quest for TIF revenues can preempt local planning goals. TIF requires very close coordination between DDA's, LDFA's, and local planning efforts.

Limitations

- May be a perception that public funds are being used just to benefit property owners in the TIF district.