

## **TAX INCREMENTAL FINANCING DISTRICT**

In 2015, the Connecticut State Legislature passed enabling legislation that allowed municipalities to create Tax Incremental Financing Districts or TIFs. A TIF is a financing method used to foster economic development by using anticipated future increases in property tax revenues to help pay for costs associated with a development project within a specific TIF district. When redevelopment occurs, the property tax is broken into two streams. The first stream, tied to the old property value before redevelopment (the base value), will continue to go into the public coffers. All or a percentage of the second stream, the increase in property taxes tied to the increase in value of the development (the tax increment) can be diverted into a special TIF fund that can be used for the following purposes:

- Public infrastructure improvements (roadway improvement, streetscape, water/sewer improvement, etc.)
- Facade improvements
- Remediation costs
- Land assembly costs
- Professional services
- Repayment of debt incurred by the private developer
- Repayment of debt incurred by the municipality through bonds
- Studies

Any taxes designated for a TIF fund cannot be used for general fund purposes.

In addition to repayment of debt or general improvement expenditures, other mechanisms can also be used within a TIF district:

- Credit Enhancement Agreements – a binding legal agreement with a property owner or developer to reduce future property taxes related to new development by a specified percentage (0-100%) for a specified period of time (up to 50 years). This reduction in future property taxes represents a future flow of funds which can then be used by the developer to enhance their credit in obtaining additional private debt or equity.
- Fixed Valuation – With a TIF District the municipality can agree to set a fixed valuation on a property for up to fifteen years providing the owner/developer with predictability in tax liability.

A TIF Master Plan, which is a component of an overall Redevelopment Master Plan, should include the following:

- Goals and objectives
- Boundaries of the TIF district by legal description
- A description of the present condition and uses of all land and buildings within the TIF district
- A financial plan detailing the schedule of incremental tax revenues

- The maximum duration of the TIF district, which may not exceed a total of fifty years.
- A description of the improvements, studies, or other programs to be financed in whole or in part.

Once a developer submits a plan and obtains sufficient rights to purchase the property or properties within the TIF district, a more comprehensive financial plan must be negotiated with the developer. The components of the financial plan should include:

- Cost estimates for the public improvements and developments anticipated in the District Master Plan.
- 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.
- Estimates of the increased assessed values of the tax increment district.
- 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.

#### LINKS:

State statute 105b: [https://www.cga.ct.gov/current/pub/chap\\_105b.htm](https://www.cga.ct.gov/current/pub/chap_105b.htm)

Canton, CT TIF

document: [https://www.townofcantonct.org/filestorage/19342/45811/Final\\_Report\\_-\\_Collinsville\\_Axe\\_TIF\\_Master\\_Plan\\_-\\_Town\\_of\\_Canton\\_CT\\_%281%29.pdf](https://www.townofcantonct.org/filestorage/19342/45811/Final_Report_-_Collinsville_Axe_TIF_Master_Plan_-_Town_of_Canton_CT_%281%29.pdf)