

Tax Increment Financing

One of the challenges to making improvements downtown is finding the money. One of the ways we are working to support improvements is through Tax Increment Financing. The State of Texas website defines this as, ". . . a tool that local governments can use to publicly finance needed structural improvements and enhanced infrastructure within a defined area. These improvements usually are undertaken to promote the viability of existing businesses and to attract new commercial enterprises to the area. The statutes governing tax increment financing are located in Chapter 311 of the Texas Tax Code." (<http://www.window.state.tx.us/taxinfo/proptax/registry/zone.html>)

The following is a list of questions and answers that we have compiled to inform you about this method of financing improvements. Please feel free to call 940-349-7731 if you have questions or concerns.

Why do communities need a TIF?

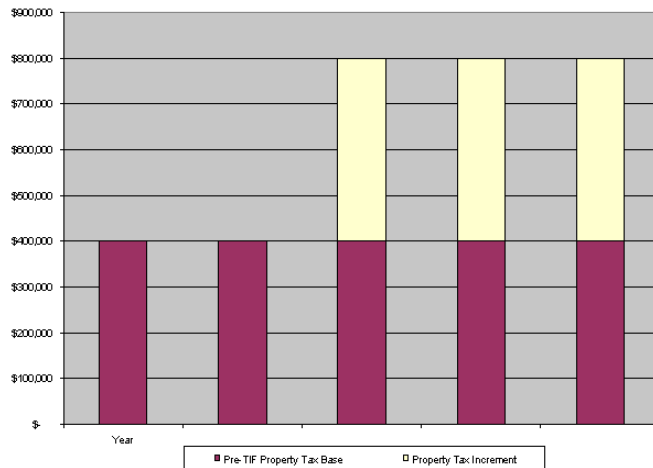
Tax Increment Financing, or TIF, is a tool state lawmakers gave local governments more than 20 years ago to help local governments restore their most run-down areas or jump-start economically sluggish parts of town.

With this tool, financially strapped local governments can make the improvements they need, like new roads or new sewers, and provide incentives to attract businesses or help existing businesses expand, without tapping into general funds or raising taxes.

Since the Federal and State governments have greatly reduced their support for economic development, Tax Increment Financing permits municipalities to accept some of this responsibility without raising local property taxes. TIFs help local governments attract private development and new businesses. New businesses mean more jobs, more customers, and, in turn, more private investment.

TIF designation also helps retain existing businesses that might otherwise find more attractive options elsewhere. The jobs and additional investment - private and public - mean more money for the community. TIF also helps to overcome the extraordinary costs that often prevent development and private investment from occurring on environmentally contaminated and other properties.

As a result, the TIF area itself improves and property values go up. Without TIF benefits, a deteriorating area will not improve. Businesses do not sink capital into decaying areas and most local governments cannot afford the needed costly improvements without raising taxes.



But in a TIF district, dollars for improvements are generated by businesses - new and old - attracted by the TIF benefits. Specifically, money for infrastructure improvements and other incentives comes from the growth in property tax revenues - the tax increment.

What is a "Tax Increment"?

A tax increment is the difference between the amount of property tax revenue generated before TIF district designation and the amount of property tax revenue generated after TIF designation.

Establishment of a TIF does not reduce property tax revenues available to the overlapping taxing bodies. Property taxes collected on properties

included in the TIF at the time of its designation continue to be distributed to the school districts, county, community college and all other taxing districts in the same manner as if the TIF did not exist.

Only property taxes generated by the incremental increase in the value of these properties after that time are available for use by the TIF.

How do TIFs improve communities?

TIFs create short and long term benefits for communities. TIF benefits include:

- No self-assessed tax: In TIF areas properties are assessed and taxed the same way as in non-TIF areas. The

only change is that during the life of the TIF the property tax revenues are distributed differently - with the incremental increase in tax revenue going to the municipality to finance some of the redevelopment expenditures within the TIF area.

- Increased property values: The engine that drives TIF is investment in private property subject to the property tax. It is primarily this investment that causes the increased property values and enables the TIF to be a valuable redevelopment tool for cities.
- Private investment and development
- Job Retention
- Job training programs
- Stronger, broader tax base
- Stronger economic base
- Locally controlled
- Incremental revenue is reinvested in the TIF district
- Stimulates investment outside TIF district boundaries

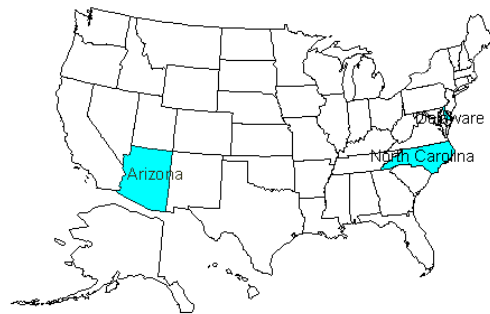
Are TIFs widely used?

Yes. Tax Increment Financing Districts (TIFs) are used throughout the country in communities large and small, urban and rural. 47 states currently utilize Tax Increment Financing as a catalyst for needed redevelopment projects.

All states except Arizona, Delaware, and North Carolina Use Tax Increment Financing.

Why is there a need for Tax Increment Financing?

Tax Increment Financing has proven to be an enduring and widely used economic development tool nationwide. TIFs are more frequently used now than ever because other development tools like Industrial Revenue Bonds and Urban Development and Infrastructure Grants, are no longer readily available to local governments.



Billions of dollars in federal and state aid to local governments have been eliminated. At the same time, unfunded federal and state mandates have increased the financial burden on most municipalities. Factor in state imposed property tax caps, and the funding problems facing local governments make it obvious that local governments are left to do more with less.

Tax Increment Financing offers local governments a way to revitalize their communities by expanding their tax base, offsetting, in part, the federal and state funds that are no longer available to them without imposing increased property taxes on the whole community.

How does Tax Increment Financing work?

Anytown, Texas - Property in the central business district of Anytown was left unoccupied following decades of decline in the small business. The area was characterized by roads friendly to motorists (not pedestrians), vacant lots and dilapidated structures. Anytown decided that it could attract private investors to this part of the city if it could rework the roads and clean up and rehab the dilapidated structures. Anytown designated this area as a TIF district.

An investment firm that had been looking to construct a multi-use housing and retail site, found one of the vacant lots to be ideal for its project. This firm brought 100 new jobs to the area, 50 new residents, generated sales tax revenue in excess of \$1.3 million, and increased the property value in the district significantly. The activity brought more new residents to the district, and a private developer built 50 new townhouses in the area in response to the increased demand for housing.

The city used the additional property tax revenue - the tax increment - to pay for the clean up of the lot, new access roads and improved utilities.

How is a TIF district created?

Texas TIF law specifies a number of requirements that must be satisfied for an area to qualify as a TIF district, beginning with identifying the district and the physical and economic deficiencies that need to be cured. Then municipal officials and a joint review board made up of representatives from local taxing bodies must review a plan

for the redevelopment of the TIF area. A public hearing is held where residents and other interested parties can express their thoughts on the subject. Next, the proposal must pass through the same process any other ordinance passes through approval by the municipal governing board. The municipal governing board must prepare both a project and financing plan and present these plans for approval to the TIF board and the municipal governing body. The mayor will then sign the ordinance into law.

What major redevelopment costs are eligible for TIF funding?

TIF funds may be used for costs that will permit previously developed properties to compete with vacant land at the edge of the urban area. State legislation authorizes that TIF funds may be used for: public roadways, utilities, streetscapes, and lighting, public parking, environmental abatements, demolition, and facade purchases in special circumstances

Who controls TIF funds?

Municipal officials control the allocation and disbursement of funds within the TIF district. A TIF board, made up of property owners within the zone and representatives from the taxing entities, is appointed by City Council to oversee the fund account.