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What is Tax Incremental Financing (TIF)?

MARCH 22, 2023

Tax incremental financing, also known as “TIF” financing, is a tool that municipalities utilize by providing financial incentives to spur development. More specifically, the TIF process allows a municipality to pay for public improvements or other related costs associated with a particular development. In doing so, a developer offsets certain costs that would otherwise prohibit a development from occurring. The municipality then recovers those costs from the future tax revenue generated by a property’s increased tax assessment.

Two of the most common methods for TIF incentive are: (1) TIF bond; or (2) Pay-As-You-Go (PAYGO).

TIF Bond

Prior to beginning construction of a development, the municipality will expend funds to pay for the cost of certain public infrastructure improvements. The municipality typically secures a loan to pay for such costs.

The municipality will pay off its obligations through the future tax revenue that is generated by the property upon completion. This method of financing is typically higher risk for municipalities because it requires them to incur up-front debt without a guarantee that the future tax revenue will be available, or the development will be completed as previously intended.

TIF PAYGO

Under a PAYGO TIF, no up-front funds are provided by the municipality. Rather, prior to construction, the municipality and developer agree to share in future tax revenue generated by a property upon project completion. The tax revenue is shared until the developer is paid back a certain agreed upon amount. A PAYGO TIF is best described by an illustration.

Assume a village agrees to provide a developer a \$500,000 PAYGO TIF incentive. The developer and municipality agree to each share 50% of the future tax revenue generated by the property. Upon project completion, if the tax revenue generated from the property is \$100,000, then the village and developer will each receive \$50,000. This arrangement will continue until the developer receives \$500,000. PAYGO TIFs are less risky for municipalities compared to a TIF up-front bond.

If you are a municipality seeking to extend TIF financing, or a developer wishing to obtain TIF financing, Axley Attorneys can provide the necessary legal advice to support such an endeavor.

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