A New Era of Tax Increment Finance

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With tightened budgets, states and municipalities are analyzing how to meet the economic and redevelopment needs of their communities, while at the same time allocating incentives in a transparent and accountable manner.

Specifically, a variety of states are considering whether to use tax increment finance (TIF), how much TIF to allow, and for what types of projects TIF can be used. These same questions have been asked for decades, but as the economic downturn has stressed government capacity, legislators are taking a more active role in the redevelopment process.

Below is a sampling of the TIF-related movements CDFA is following across the country.

California

California is the birthplace of TIF, but unfortunately, the California Supreme Court upheld a new law requiring the state's redevelopment agencies to close. This has effectively eliminated TIF in the state. Many are debating the future of redevelopment in the state. This challenge is also causing very serious concern over the status of outstanding TIF districts and projects currently underway.

Iowa

Considered one of the most lenient TIF statutes in the country, Iowa is contemplating a new TIF statute. Proposed reforms include limiting TIF districts to 20 years, mandating annual audits of TIF projects, and requiring that a municipality receive approval on a TIF plan from affected taxing entities, such as a county or school district. These are widely believed to be good accountability and due diligence measures for the state.

Nebraska

Nebraska is considering a fundamental change to its TIF statute, transitioning from a geography-based law to a property value-based law. Proposals call for the amount of TIF invested in a project to be restricted to 7% of the total property value in a taxing jurisdiction, giving municipalities a cap for how much TIF could be allocated at any point in time. This policy already exists in a number of states and strengthens the accountability of TIF.

Arizona

Arizona is the only state that does not have statewide TIF legislation. However, the Glendale City Council has urged the state to adopt tax increment financing. The city argues that it has become increasingly difficult to attract development projects with limited ability to collect development impact fees. A small group of state development finance leaders are working diligently to overcome both constitutional and perceptional challenges to get TIF approved in the state.

Colorado

Colorado's recent Regional Tourism Act requires an independent analysis of all applicants seeking TIF for tourism projects to verify that the projected visitors and revenues are reasonable. The most recent analysis of six applicants showed that each project overestimated these projections, and therefore more TIF was requested than necessary. The state body that approves TIF applications will be taking this analysis into consideration when approving TIF funds later this year.

Stay informed on these states and other TIF matters by reading CDFA's daily headlines. Also, use CDFA's TIF Resource Center or TIF State-By-State Map to look-up your state's TIF statute.

The stories behind these states, and from municipalities that are similarly reviewing their TIF practices, are compelling because they demonstrate the growing focus on due diligence, transparency, and accountability. In fact, these are the main tenets of CDFA's *Recommended Practices for Effective TIF Program Management.*

CDFA urges local communities use TIF judiciously to protect the public's interest and to promote the economic development and redevelopment of areas that might otherwise not receive investment. All decision makers, including the project managers and advisory team, should be accountable to the public and local government, and must provide accurate, informative, and timely information.

Decisions by elected leaders to support projects should be based on financial analysis, identifiable community needs, and potential project impact. Without these elements as the foundation of the decision making process, the use of TIF can become counterproductive.

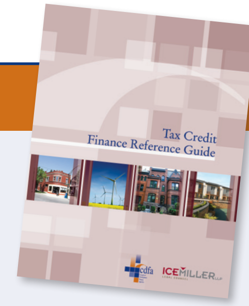
To avoid these problems, CDFA's Recommended Practices provide local governments with a roadmap for developing sound TIF policies. However, this roadmap can be applied most effectively by local officials who have thorough underlying knowledge of TIF.

That is why education is the first step when considering how TIF should best be used in your community.

In September, the CDFA Training Institute will once again host TIF Week–four days of intensive TIF training with an in-depth look at the guiding principles and appropriate applications of TIF. The entire program will be offered online, giving you access to this timely and comprehensive education no matter your location.

The Intro TIF WebCourse will be offered September 18-19, and the Advanced TIF WebCourse will be offered September 20-21. Join us for one or both courses to learn the basic mechanics of TIF and how to structure TIF deals and develop short- and long-term policies. Both of these courses qualify for the CDFA Training Institute's Development Finance Certified Professional (DFCP) Program.

A Note on State Tax Credits



CDFA has seen an uptick in states analyzing the effectiveness and availability of tax credits for development projects. A variety of states are reviewing the types of tax credits they offer. Below is a snapshot of notable examples:

- **Michigan** – After significant cuts to its tax credit programs in 2011, Michigan is reconsidering whether their film tax credit is creating enough jobs for the investment or should see further reductions.
- **Oregon** – The state reworked many of its tax credit programs last year, and is discussing the potential for a more comprehensive tax credit program to encourage job growth.
- **Kansas** – As part of a broad tax reform effort, the Governor of Kansas has proposed significant cuts to the state's tax credit programs, including the elimination of the angel investor credit and the historic preservation credit.
- **Virginia & Georgia** – Both states have proposed a series of tax credits to spur job creation in the manufacturing sector.
- **New Jersey** – The GrowNJ Assistance Program was recently created in New Jersey to provide tax credits to companies relocating in designated areas that have seen disinvestment or have lost jobs.

For a more in-depth look at tax credit programs at both the federal and state levels, read CDFA's *Tax Credit Finance Reference Guide*. Developed in conjunction with Ice Miller LLP, this guide explains how tax credits are used to support economic growth. Included are 26 case studies of projects that successfully used tax credits as part of the financing package.