

What Are Tax Increment Financing (TIF) Districts?

What are TIF's? It is a financial tool to apply real estate tax revenue resulting from future increases in real estate assessments generally from private development to finance the current public improvements associated with the new development. More specifically, a designated geographic area (TIF district) is created. The base year real estate tax assessments within the TIF district are frozen in place and taxes generated from the base level of assessments continue to flow to the General Fund over the life of the TIF district. Future increases in real estate taxes generated from the increase in assessments from the new development within the TIF are used to finance public improvements. Once the debt for the public improvements is retired (or other obligations are met), the TIF district is dissolved and all the increased incremental real estate tax revenues also flow to the General Fund. It is important to note that the real estate tax rate in the TIF district is the same as the city-wide rate; residents and businesses within the TIF pay the same amount of taxes whether a TIF is imposed or not.

Why are TIF's Districts Used? Tax Increment Financing (TIF) is an economic development tool designed to stimulate economic activity within specific geographic boundaries. A TIF district is effective for redeveloping blighted areas, encouraging private investment in areas with limited prospects for growth, and improving areas where a much higher quality of development is desired. A key premise of the TIF is a "but for" assumption. That is that the economic stimulus of the new private development would not otherwise occur ("but for") without the public investment within the TIF district. In other words, the real estate increment that is forgone to the General Fund would not have materialized without the TIF development.

What Authority Does the City have to Create TIF's? The Code of Virginia §58.1-3245 through §58.1-3245.5 enables TIF districts to be created in Virginia.

A Step-by-Step of How a TIF District Works

1. A TIF District is established.
2. The "base year assessment" (the taxable value of the land in the district at July 1 of the year prior to the establishment of the district) is calculated and "frozen" at that level for the life of the TIF, and these taxes continue to accrue to General Fund to provide basic services.
3. A development agreement with a private sector investor is finalized. This agreement will spell out the responsibilities of both the city and the investor and will define the public and private investments to be made. (This step can occur even before a TIF district is established. If the city is to incur any long-term commitments, this step should precede any formal commitment of city funds to public projects in the district.)
4. The "current assessed value" is calculated each year as development takes place.
5. The real estate tax rate is applied to the difference between each year's "current assessed value" and the "base year assessment." The resulting taxes are the "tax increment" and are

earmarked to the “Tax Increment Fund.” Taxes paid on the “base year assessment” continue to flow to the general fund each year.

A hypothetical example:

a.	“Current Assessed Value”	\$ 2,000,000
b.	Less: “Base Assessed Value”	\$ 1,400,000
	= Increased Assessment	\$ 600,000
	X Real Property Tax Rate	\$1.00/\$100.00
c.	= Tax Increment Paid into Special Fund	\$ 6,000
d.	“Base Assessed Value” (\$1,400,000) x Tax Rate (\$1.00/\$100.00) = Amount Paid to General Fund =	\$ 14,000

The process illustrated above repeats itself each year as shown in the graph on the following page. A complete description and background of each TIF can be found at: [Tax Increment Financing \(TIF\) Districts](#)

