## What Is Tax Increment Financing (TIF)

Tax Increment Financing, or TIF, is simple in concept. TIF calls for local taxing bodies to make a joint investment in the development or redevelopment of an area, with the intent that any short-term gains be reinvested and leveraged so that all taxing bodies will receive larger financial gains in the future. The funds for this investment come from future tax revenues, not otherwise expected to occur, generated by increased public and private investment in identified, underperforming, area.

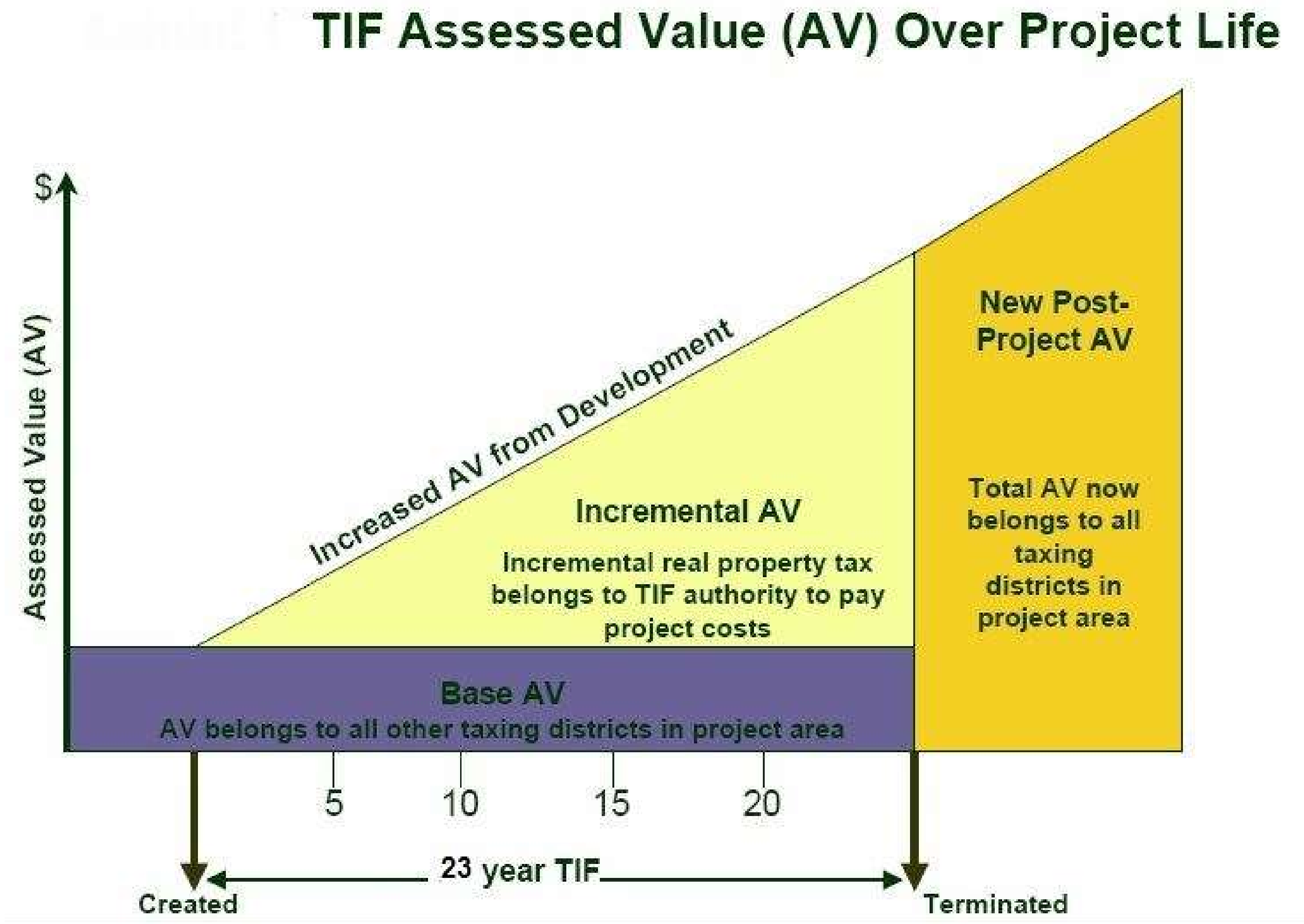
When a TIF redevelopment project area (often called a TIF district) is created, the value of the property in the area is established as the "base" value of the project area. The property taxes paid on this base amount continue to go to the various taxing bodies as they always had, with the amount of this revenue declining only if the base declines (something that the TIF is expected to keep from happening) or if the tax rate goes down. It is the growth of the value of the subject property over the base value that generates the tax increment. This increment is collected into a special fund (the Special Tax Increment Allocation Fund) for use by the municipality to make additional investments in the TIF project area. This reinvestment generates additional growth in property value, which in turn results in even more revenue growth for reinvestment.

In this way, the TIF redevelopment project creates a vital cycle, increasing development and redevelopment in the area, such that when the TIF project ends (typically after a period of 23 years), all of the taxing bodies benefit from the increased property value, and resulting increased tax revenues, from the new growth.

## How TIF Works

A tax increment is the difference between the amount of property tax revenue generated before TIF designation and the amount of property tax revenue generated after designation. It is only these new tax revenues, generated after the TIF district is designated, that can be made available for investment into public and private assets located within the district itself.

For example, assume that the City of Batavia wants to see a property containing two substandard commercial buildings redevelop. These properties are both located in a downtown TIF district. Let's also assume that each of these parcels of land is paying $30,000 in property taxes per year. However, the City finds that by making an investment of $500,000 to rehabilitate the buildings and provide necessary infrastructure to facilitate the desired redevelopment, a private developer will commit another $2,000,000, making the commercial buildings competitive in the market place and lease or purchase ready. When the redevelopment is completed for each commercial building, both properties are re-assessed with respect to their market value and ultimately, the property taxes paid on each property increases by $30,000, creating a $60,000 new tax increment. The City of Batavia can then use this increment to pay-off its original investment, which at $60,000 per year can occur in less than nine years. Thereafter, the City can use additional years of increment from these two properties for further reinvestments into the TIF until the TIF expires.




In the end, the incremental taxes paid into the TIF fund for the project in question, and for investment into other TIF projects, are due to increased property values and are paid by the persons owning property within the TIF district. In most cases, these taxes are paid by the property owner receiving the direct benefit of the City's use of Tax Increment Financing as a tool to spur economic development and redevelopment in an area where such activity would be otherwise unlikely to occur.