Common Misconceptions about Tax Increment Financing (TIF)

Tax increment financing (TIF) is a tool used by many state and local governments. The primary reason for using TIF programs is that the cost of public infrastructure in an urban area is usually very high when compared to the cost of public infrastructure on a "green field" in the suburbs. TIF programs usually allow a portion of the additional tax revenue collected from a redevelopment site to help pay for the high cost public infrastructure on the site.

As the former Secretary of the Finance and Administration Cabinet, I had the great fortune to help in the drafting of the Commonwealth's new TIF legislation in 2006. The legislation eventually became law in April of 2007. Since that time, Louisville, Newport, and Bowling Green have all embarked on ambitious TIF projects.

Currently, Lexington has three projects that are considering using the TIF program to help pay for public infrastructure: 1) CentrePointe; 2) the new arena; and 3) the Lexington Distillery District. However, there still seems to be a great deal of confusion in Lexington as to exactly how a TIF works. Therefore, I believe it is important to clear up a few misperceptions that may exist so that each of the projects can be evaluated on its merits.

1. ***Misconception: TIF funds can be used to subsidize the private portion of a development****.*

> **Fact:** The "private" improvements such a hotel, office building, condominium, etc. cannot be financed by TIF funds. TIF funds can only be used for public infrastructure, as defined in the statute, such as sidewalks, promenades and pedways, roads, street lighting, utilities, environmental problems, public spaces and parks, parking, easements and right of ways, fountains, benches, sculptures or other public amenities.

2. ***Misconception: TIF project development areas could be developed without assistance to pay for the public infrastructure****.*

> **Fact:** In order to receive approval from the Commonwealth, projects must demonstrate that they could not move forward without the TIF because of the high cost of public infrastructure in the development area.

3. ***Misconception: TIF bonds are guaranteed by state and local governments****.*

> **Fact:** The state and local governments only act as a conduit in issuing the bonds. Therefore, the bonds are not guaranteed by the government, nor do the bonds affect the government's bond rating or capacity to issue other bonds.

4. Misconception: If the project fails, state and local governments would be required to pay off the TIF bonds.

> **Fact:** All of the risk is taken by the purchasers of the TIF bonds. If the project fails to produce enough revenue to make the bond payment, the purchasers of TIF bonds would not receive payment.

5. ***Misconception: All tax revenues in the TIF districts are eligible to help pay for public infrastructure.***

Fact: Only a portion of the increase in tax revenues on the property is permitted to flow back to support public infrastructure. First, a baseline tax collection on the TIF district property must be calculated and then adjusted by a normal growth rate. The new tax revenues are then compared to that amount of taxes collected on a property. A portion of the difference, up to a maximum of 80%, is permitted to support public infrastructure on the property.

6. ***Misconception: TIF projects cause tax rates to increase.***

Fact: Tax rates will stay the same. TIF laws and the approval of TIF projects do not allow the consideration of a change in local or state tax rates.

7. ***Misconception: TIF districts take money away from our schools.***

Fact: Revenues from school district taxes are not eligible to be used for TIF projects. In fact, school districts revenue will increase as a result of the new tax revenue created by the project.

8. ***Misconception: TIF projects will not increase city and state government revenues.***

Fact: All TIF projects will increase government revenues. At a minimum, state and local governments will receive 20% of the incremental taxes on the property over and above the taxes that were expected to be collected without the project. In addition, after the public infrastructure is paid off, 100% of all future taxes in a TIF district will flow directly to state and local government.