Response to Questions on the FY 2005 Advertised Budget Plan

Request By: Supervisor Kauffman

Question: Can TIF [Tax Increment Financing] be used to support the Community Improvement Program?

Response: Yes, in theory; however, there are some practical limitations to this approach. Tax Increment Financing (TIF) is designed to support public improvements within a defined area by applying tax revenue received on the incremental increase in value of the properties within the area after the improvement is complete to pay the debt service on bonds issued to finance for the public improvements. Under a TIF plan, the value of properties in a designated area is determined as of a certain base date prior to the completion of the improvement. Taxes received on that base value will accrue to the general fund as before. However, if property values increase due to general redevelopment within the area, then the additional tax revenue collected on the incremental increase in value above the base value would be paid into a separate account. The additional tax revenue would be used to repay the cost of the public improvement, including any financing costs. There is no additional tax associated with a TIF district as it would continue to pay the same general County tax rate as all other areas. Instead, a portion of the revenue collected is diverted from the General Fund to the TIF fund.

For such a plan to work, the improvement must be of a nature that the value (and thus the tax base) of the properties would increase sufficiently to cover the debt service associated with the bonds. If the capital improvements are maintenance or mundane in nature (sidewalks, drainage improvements, curbs and gutters), it is unlikely that property values would be significantly affected and thus the revenue generated could be insufficient to pay off the bonds. If the improvements are sufficiently significant to raise values, then the improvements will be repaid but the County would forego the receipt of additional tax revenue from the district as it grows in value. The primary risk associated with establishing a TIF district for Capital Improvements and financing is that increases in value may not materialize or may not be sufficient in fact to support the cost of the improvement which leads to risks associated within potential default or an obligation of the County to pay the debt service. An additional complication is that general reductions in tax rates apply to the TIF district as well, and any further tax rate reduction would reduce the amount collected on the increment.

TIF plans have been used successfully in other jurisdictions. The Fairfax County Redevelopment and Housing Authority and HCD are currently researching TIF programs for revitalization. However the model for revitalization is strikingly different than what would be used for Capital Improvements because the revitalization model assumes that a developer would front the cost of the improvements, take any associated risk, and would be repaid from the future tax increment resulting from the rise in values due to the investment. This model would not work for established single family neighborhoods where homeowners would likely be unwilling to pay the upfront cost and where the improvements are unlikely to create the value needed to repay the bonds that would be required to cover the cost of the improvements and examining options that might be available to the County for such a program.