

· TAX INCREMENT FINANCING ·

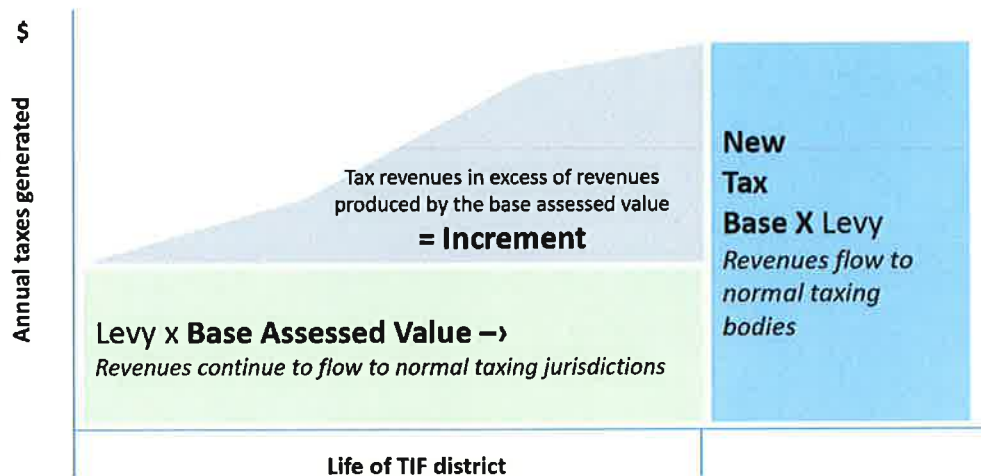
REFERENCE GUIDE

What is TIF?

Tax increment financing (TIF) is a public tool for supporting development or redevelopment in certain, limited areas of a city, town, or county. In Oklahoma, TIF is authorized by Constitutional Amendments approved by the citizens of the State in 1990 and 2003. The terms and conditions for using TIF are provided in the Local Development Act (Act) (62 O.S. §§ 850-869), which was enacted by the Legislature in 1992 and has been amended several times since. TIF is used to help generate private development projects through the funding of public improvements and other eligible **project costs** defined in the Act.

How does TIF work?

TIF works by apportioning an **increment** of local taxes to fund eligible project costs. When a TIF district is established, a baseline is set; then, when the project generates tax revenues above the baseline, those new revenues are allocated (“apportioned”) to the project to help pay the costs of generating the new development.



How are the base and increment determined?

For property (*i.e., ad valorem*) tax increment districts: the County Assessor establishes the **base assessed value** of all taxable property in the **increment district** as of the date it was established. After that date, the ad valorem taxes produced by applying each year’s levy to the base assessed value continues to be paid to the affected taxing jurisdictions as if there were no increment district. The portion of the ad valorem taxes produced in excess of the base tax revenues is apportioned to a fund that can be used only for **project costs** or as a specific revenue source for other public entities in the area in which the project costs take place. For sales taxes or other local taxes or fees: the governing body approves a formula to determine the amount generated by the project, regardless of taxable location or recipient local public taxing entity.

Where can TIF districts be established?

TIF districts may be established only in areas that are at least one of the following:

- a **reinvestment area**: an area requiring public improvements in order to reverse economic stagnation or decline, to serve as a catalyst for retaining or expanding employment, to attract major investment in the area, to preserve or enhance the tax base, or in which 50% or more of the structures are at least 35 years old; or an area that is blighted, as defined in the Urban Renewal Act;
- a **historic preservation area**: an area or structure listed in or nominated to the National Register of Historic Places and subject to historic preservation zoning; or
- an **enterprise area**: an area within a state or federal enterprise zone.

What is a project plan?

The project plan is the document which controls the parameters of TIF project, including the boundaries of the increment district and project area, total project costs, and the public entity authorized to carry out the project.

How long do TIF districts last?

Increment districts last for a period specified in the project plan of up to 25 years, or for the period necessary to pay all project costs, whichever is less. When all eligible project costs and all bonds, loans, interest, indebtedness and advances have been paid, the governing body adopts an ordinance or resolution dissolving the TIF district and all ad valorem taxes in the TIF district are paid to the respective taxing entities.

How may TIF revenues be used?

TIF revenues may be spent only for publicly approved project costs within a specific geographic area, known as the project area. The Act defines project costs to include a wide range of public expenditures, including the cost of public works, public improvements, land acquisition, clearance, and grading, as well as financing, professional services, administration, interest, fees, and assistance in development financing for private projects.

What input from the public and the other taxing entities is required?

The governing body of the city, town, or county considering a TIF project must appoint a **review committee** made up of: a representative of the governing body (who serves as chair), a representative of the planning commission, representatives of each taxing jurisdiction whose ad valorem taxes might be impacted by the plan, and three representatives of the public at large, who are selected by the other committee members from a list of seven names submitted by the chair. The review committee makes determinations as to the eligibility of the proposed increment district and the appropriateness of the approval of the proposed plan and project. The review committee also considers and determines whether the proposed plan and project will have a financial impact on any taxing jurisdiction within the proposed district. Meetings of the review committee are subject to the Open Meeting Act.

The planning commission separately considers the proposed project and whether it conforms to the comprehensive plan of the city, town, or county. Then, before the adoption of a project plan, the governing body must hold two public hearings. The primary purpose of the first hearing is to provide information and answer questions. The purpose of the second hearing is to allow any interested persons the opportunity to express their views on the proposed plan. Notices of the public hearings must be published, and the date of the second public hearing must be announced at the first public hearing.

Glossary

Apportion	To direct that all or any portion of an increment be applied to finance a project under a project plan. Only a governing body can direct apportionment.
Base Assessed Value	The valuation of all assessed property within an ad valorem Increment District as of the date the Increment District is made effective. The county assessor certifies the Base Assessed Value for each Increment District within 90 days of the Increment District's effective date. Any time any official is required by state law to use the "equalized assessed value" of a jurisdiction for computing tax levies, debt limitations, or for purposes of calculating the state school aid formula, the official is required to include only the Base Assessed Value of areas within an Increment District—Increment Assessed Values are to be specifically excluded.
Increment	The portion of taxes collected in an Increment District attributed to the Increment Assessed Value (ad valorem increment districts) or in excess of the Base Sales Tax (sales tax increment districts). If the Increment Assessed Value is \$0 or negative in a tax year or collected sales taxes do not exceed the Base Sales Tax, there is no Increment that tax year.
Increment District	The geographic area outlined in the Project Plan where the apportionment of the Increment is authorized for payment of Project Costs. The Base Assessed Values of all Increment Districts within a city or town may not exceed 25% (35%, if the city/town has less than 50,000 residents) of the city's or town's aggregate net assessed value. A similar restriction limits county-adopted Increment District's combined Base Assessed Values at 15% of the county's aggregate net assessed value. Regardless of whether Increment Districts are created by a municipality or county, the land area within all Increment Districts within that entity may not exceed 25% of its total land area.
Project Area	The geographic area where all development activities will occur and within which all Project Costs must be expended. A Project Area may be coextensive or larger than the Increment District.
Project Costs	Specific listed expenditures authorized by the Project Plan that are incidental to the planning, approval, and implementation of the Project. Any revenue source may be used to pay Project Costs, but Project Costs are typically paid with the Increments received or by proceeds of Tax Apportionment Bonds / Notes whose repayment is secured by future Increment revenues. Once all Project Costs have been paid, the Increment District terminates, even if the Increment District has not been effective for the full term described in the Project Plan. Any excess Increment collected from that point forward are paid into the funds of their respective taxing entities.