

Tax Increment Financing

There's been a lot of talk of a new development program called Tax Increment Financing (TIF). We've put together a three-part series designed to describe how this program works and highlight what TIF can do for downtown.

TIF Overview.

Tax Increment Financing (TIF) is a way to help encourage the development of catalytic projects, particularly in a downtown area where lack of economic investment could eventually lead to blight. It's also reserved for projects that would not occur without this assistance.

Any project can be submitted for review by the TIF Commission and to date, two projects have--a mixed use development on the corner of Tenth & Locust and the Tiger Hotel.



The Tenth & Locust project is a combination of retail (possibly a grocery store) on the ground floor, offices on the second, and apartments on the upper floors.



The Tiger Hotel, a Columbia landmark, is currently unused save for a few offices and meeting rooms. (Bleu Restaurant is not in the Tiger building.) The project would rehab the building as a boutique hotel.

What is TIF?

A TIF leverages the future taxes a project will create in order to help fund the project.

How exactly does this work?

First, a property owner secures a bank loan for 100% of the project costs backed by his or her own collateral--the city does not guarantee the loan. If the project fails, the developer is on the hook for the entire amount.

Second, the property tax assessments are frozen at current levels. All taxing entities--city, schools, county, the Special Business District--continue to receive the same amount of property tax revenue as they do right now. Only the *increase* in property taxes goes to the project.

Third, the sales taxes are also frozen at current levels--but the *increases* are split between the project and the taxing entities. Any taxing entities receiving sales tax will continue to receive their current amount *plus* 50% of *increase* in sales taxes generated by the project.

Fourth, the *increase* in taxes is used to pay off a portion of the loan, usually 15-19%. TIFs usually take between 15 and 23 years to pay off, although a successful project can be paid off even sooner.

When the loan is paid off, the tax revenues increase to their new levels and everyone benefits by receiving those additional revenues. The Special Business District benefits because not only do we have those new taxes (to help provide more services and programs) but we also have a new development that will serve as an economic catalyst in an area that sorely needed it.

What TIF is not.

- **A TIF is not an added tax.** Consumers will not be paying more for goods or services.
- **A TIF is not funded by the city.** A developer does not simply receive a check from the city nor are any taxes abated.
- **A TIF is not secured by the city.** A developer assumes 100% of the risk when it comes to the bank loan and the project itself. City bonds are not used.
- **Tax revenues will not decrease.** All taxing entities will continue to receive their current tax revenues and some will see an additional 50% of new sales taxes. All entities will see an increase in revenues if the tax *rate* increases.
- **TIFs are not just for blighted areas.** TIFs can also be used for conservation areas--areas that could become blighted if no action is taken to repair or rebuild the infrastructure, buildings, etc.
- **TIFs are not suitable for non-profits.** Because TIF is a tax-based incentive, organizations that pay no taxes cannot benefit. A non-profit that wants to use TIF must become a for-profit entity.
- **Schools will not be overburdened.** The schools will continue to received their current tax revenues and these projects--a hotel and apartments designed for adults without children--will not add more children to the school system.

Why do we need TIF?

The future economic strength of *The District* depends on smart development projects--infill development projects built on empty lots, rehabbed older buildings, building up rather than out, and creating space for more residents.

Even though the last few years have seen a building boom here in Columbia, very few of these building projects were located downtown. If these projects didn't happen in boom years, how can we expect them to happen now?

We can learn something from the significant increase in historic renovations downtown. This level of development would never have happened if not for the State Historic Preservation Tax Credit. This tax credit helped property owners bridge the gap between what the banks were willing to loan and what the project would really cost.

TIF will serve this same function for larger projects, many of which are either new or ineligible for tax credits. Without this new incentive we simply won't see the catalytic projects needed to bring our city to the next level--nor will it help us compete with cities such as Springfield, St. Louis and Kansas City who are already using TIFs to create more exciting, attractive and economically strong downtowns.

Next time, learn about the specific TIF projects planned for *The District*!
