

Tax Increment Districts Overview

How a Tax Increment Financing District (TIF) is created.

- Municipality (defined as incorporated city or town, county or city-county consolidated local government) establishes TIF by resolution.
 - Allowable districts:
 - Aerospace transportation and technology district.
 - Industrial District
 - Urban Renewal District

What tax increment districts do.

- TIF purpose to fund infrastructure and other improvements. Cost of improvements can be paid directly with TIF revenues or the TIF revenues can be pledged to the payment of bonds issued to pay the cost of the improvements.

Tax Increment District is established in 2003.

- City of Jonesville creates a tax increment district in 2003. The taxable values of the properties within the tax increment boundary establishes the base value of the tax increment district. For purposes of this example, assume that the taxable value of Jonesville is \$1,000,000 and the base taxable value of the newly created TIF district is \$100,000. The tax dollars levied on the properties within the tax increment are distributed to the various taxing jurisdictions.
 - "Actual taxable value" means the taxable value of taxable property at any time, as calculated from the assessment roll.
 - "Base taxable value" means the actual taxable value of all taxable property within an urban renewal area, industrial district, or aerospace transportation and technology district prior to the effective date of a tax increment financing provision.
 - "Incremental taxable value" means the amount, if any, by which the actual taxable value at any time exceeds the base taxable value of all property within an urban renewal area, industrial district, or aerospace transportation and technology district subject to taxation.

2004 Tax Increment District Base Taxable Value and Incremental Value Reported

For 2004 Dept. of Revenue reports

- 2004 City Jonesville Taxable Value (includes the taxable value of the tax increment district) = \$1,050,000
- 2004 Jonesville Tax Increment District Base Taxable Value = \$ 100,000
- 2004 Jonesville Tax Increment District Incremental Value = \$ 40,000

Chart #2 provides a comparison of the 2003 and 2004 tax increment values.

2004 Tax Distribution

Based on the information supplied by the Department of Revenue, the City of Jonesville calculates the mill levy requirements based on the total taxable value minus the TIF increment value. ($\$1,050,000 - \$40,000 = \$1,010,000$ available for the City of Jonesville). Mill levies are applied to all taxable property within and outside the TIF. The distribution of tax is displayed in Chart #3.

The only mill levy that is not subject to the requirement of excluding the incremental value of the TIF district when calculating revenue the university mill levy.

2004 Tax Distribution of the Tax Increment District

The total taxable value of the tax increment district is \$140,000, the base taxable value is \$100,000. The taxes generated by the base taxable value gets distributed to all taxing jurisdictions. Only the \$40,000 incremental value creates revenue for use by the tax increment district.

This is demonstrated in Chart #4.

May a municipality change the base and tax increment of an existing TIF?

A municipality can adjust the base taxable value or the incremental value of a tax increment district. When an adjustment is made to the base taxable value of the tax increment district the various taxing jurisdictions are directly impacted, as the base taxable value is included in the various taxing jurisdictions values.

Release of incremental value

- A municipality may release a portion of the tax increment from the incremental taxable value by an adjustment of the base value of a TIF district. This is accomplished by increasing the base value.
 - By increasing the base taxable value, taxing jurisdictions will realize more property tax revenue. The TIF will realize a decrease in funds.
 - It should be noted that this authority to increase the base and reduce the tax increment of the TIF has prescribed limits. A TIF must be permitted a sufficient tax increment to service its bond and other debt obligations. If a municipality mistakenly increases the base to a level that prevents a TIF from servicing its debts, the municipality is statutorily required to lower the base again to a level that permits adequate debt service for the TIF.

Adjustment due to statutory changes

- A municipality may request the Department of Revenue to adjust the base taxable value if
 - the base taxable value of a tax increment district is affected by a statutory, administrative or judicial change in the method of appraising property,
 - the tax rate applied to the property within the TIF district is changed,
 - the tax exemption status of property or the taxable valuation of property in the TIF district changes;

- if the change in taxable valuation is based on conditions existing at the time the base year was established.

An example of this would be a tax rate change due to a reappraisal. In effect the base value would be lowered to provide a higher incremental value to cover bonds that have been issued.

This is demonstrated on Chart #5.

Termination of Tax Increment Districts

A tax increment provision terminates within 15 years after its adoption, if adopted after January 1, 1980, or 17 years if adopted prior to 1980, or the bonds that were pledged have been fully paid. An additional stipulation on the tax increment district is that it cannot pledge increment revenue for bonds after the 15th anniversary of tax increment provisions adopted after January 1, 1980, and the 17th anniversary of tax increment provisions adopted prior to January 1, 1980.

Once a tax increment district has terminated, any amounts remaining in the increment fund held by the Treasurer must be distributed to the appropriate taxing jurisdiction.

As a tax increment district terminates, the Department of Revenue must report the incremental value as newly taxable property to the various taxing jurisdictions.