

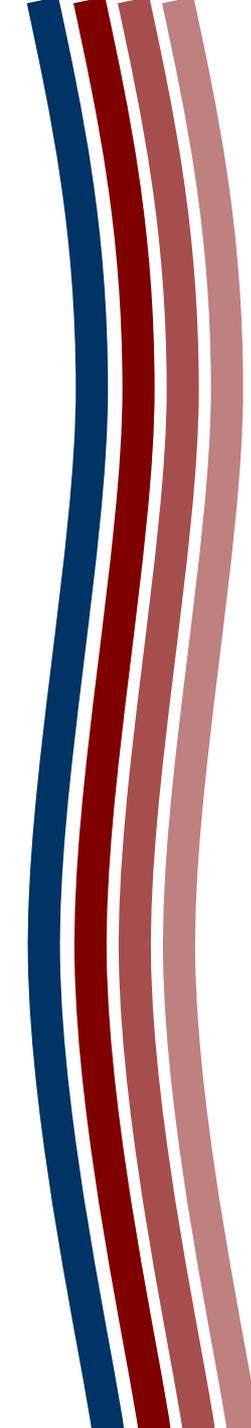


Consistency in Tax Incentives for Economic Development

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Introduction

- Tax increment financing (TIF), a traditional resource for housing and redevelopment, is now used for economic development
- Tennessee governments need certainty and consistency in tax incentives for economic development, and in TIF generally



What are the issues?

What is a TIF?

A plan offered by a city or county to clear blight or promote housing or economic development by paying the cost of public or private improvements out of future growth in taxes attributed to the new development.

TIF vs. PILOT

- PILOT: IDB owns the project, leases to business, negotiates payment in lieu of tax
- TIF: Business owns the project, IDB establishes TIF area, tax increment pays for project & infrastructure

Issue: Consistent Uses

Presently IDB TIF increments can be used :

- for any 'project' eligible for a PILOT, or
- for general economic development purposes

Issue: Consistent Uses

Housing and redevelopment increments are limited to financing costs of blight removal and infrastructure

Issue: Consistent Uses

Our bill: State's interest determination required for allocating TIF increment for ('vertical') project or general economic development

Issue: Unused TIF Increment

- Presently, unobligated IDB TIF revenues can be accumulated off budget
- Our bill: unobligated TIF revenues not spent or reserved for approved purposes revert to local general fund

Issue: Consistent Term Limits

Presently IDB PILOT terms exceeding 20 years **require** state approval,

but

TIF's exceeding 20 years do **not**.

Issue: Consistent Term Limits

Our bill:

- IDB TIF terms exceeding 20 years,
and
- Housing/redevelopment terms
exceeding 30 years,
both would require state approval

Issue: Inconsistent reporting

- Only (non-Metro) IDB TIF's are presently disclosed centrally (Comptroller)
- Our bill: all TIF's would be disclosed centrally with annual data reportable to the Comptroller

Issue: Shrinking Base Revenues

- IDB TIF increments capture revenue growth beyond fixed base year taxes
- All other TIF increments freeze base year assessment but apply current year rate,
 - meaning
base year tax
can shrink over time

Issue: Shrinking Base Revenues

Our bill: base year tax is fixed
and will not shrink

Issue: Administrative Cost

Costs defrayable from TIF increments are unlimited in amount, but limited to costs incurred by the TIF agency (whether an IDB or Housing agency)

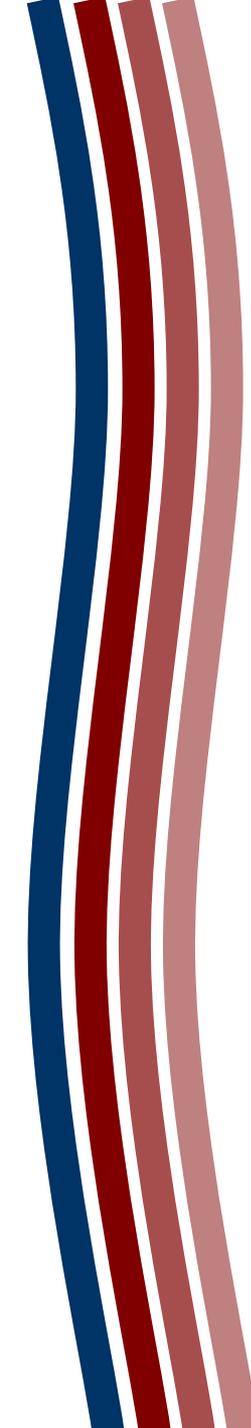
Issue: Administrative Cost

TIF related costs of tax collecting or administrative officials are not defrayed

Our bill: limits administrative cost to 5% and permits inclusion of local administrative costs

Conclusion

- Local governments, as well as business recruiters, **need** certainty and consistency in local tax incentives for economic development
- This bill is a needed first step



Questions?
Suggestions?

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