

# **Town of Groton Tax Increment Financing Policy**

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Adopted by the Groton Town Council on March 6, 2018

## **I. Town of Groton TIF Policy**

To support economic development, the Town of Groton, may consider the creation of and adoption of Tax Increment Financing (TIF) Districts. TIF is a financing tool that can be used by municipalities to invest in economic development. It allows some or all of public and/or private costs associated with development to be financed over time by increases in the property tax revenues that are generated by the new development or redevelopment. Connecticut Statute, as specified in Chapter 105b - Tax Increment Districts authorizes municipalities in Connecticut to create tax increment financing (TIF) districts for the purposes of economic development.

The following shall be the Town of Groton's Policy to guide the process of planning for, reviewing, approving, and implementing TIF Districts. The details of each TIF District will be contained in the District's TIF Development Plan. In addition, the Town's establishment and implementation of TIF Districts will be consistent with all other applicable Federal, State, and local laws and regulations.

### **1. Purpose**

The Town understands the usefulness of TIF in economic development as part of its long-term economic development planning and implementation, including the Town's Plan of Conservation and Development and its recently completed Zoning and Market Analysis. In designating TIF District(s) and adopting TIF District Master Plan(s), the Town seeks to accomplish the following goals:

- a. Grow and diversify the Town's tax base through private investment.
- b. Grow and support economically diverse, long-term, stable employment opportunities for area residents.
- c. Improve Groton's quality of life and place to serve residents, businesses and workers including:
  - I. Enhance the Town's infrastructure development.
  - II. Create housing opportunities to attract and support workforce development.
  - III. Establish public spaces and cultural uses.
  - IV. Improve transportation and recreation infrastructure, including enhanced and well-connected pedestrian and bicycle facilities.
  - V. Assist established businesses in the Town, thus assisting in retaining existing employment opportunities and expanding employment.
  - VI. Revitalize areas or buildings in need of redevelopment, remediation, or rehabilitation.

### **2. TIF District Master Plan Requirements**

To establish a TIF District Groton will prepare and approve a TIF District Master Plan applicable to such district. This will include:

- a. A legal description of the boundaries of the TIF District and a listing of all properties (lots and parcels) within the district including tax map and tax identification numbers, gross assessed value of taxable real property for each lot within the district and for the district as a whole based on the most current assessed value, a description of the present condition and current use of all land and buildings within the TIF District, and an indication for each lot or parcel if it is subject to any special tax districts or zones currently, such as an Enterprise Zone or Business Improvement District.
- b. A statement on how the creation of the TIF District meets some or all of the stated purposes contained in the Town's TIF Policy and that it is needed for successful development or redevelopment to occur within the TIF District.
- c. Maximum Duration of TIF District in number of years– The preferred TIF District term will be a maximum of thirty (30) years. While State law allows terms up to fifty (50) years, this will only be considered as special circumstances by the Town.
- d. A determination with supporting data that the Original Assessed Value (OAV) of taxable real property of the TIF District plus the OAV of taxable real property of all existing TIF Districts within the Town do not exceed ten percent (10%) of the total value of taxable real property within the municipality as of October 1st of the year immediately preceding the establishment of the TIF District.
- e. Description of projected future public and private development or redevelopment to occur within the District, to include size, type, and uses; public and private site, building, and infrastructure improvements to be completed in the district and related areas; and estimated costs for all components.
- f. Annual estimated, projected assessed value of taxable real property and associated annual estimated, projected tax revenues, as well as the value and associated revenues above the OAV for all parcels within the district.
- g. Annual percentage of incremental (percent of the amount above OAV) valuation of taxable real property to be captured (dedicated for specified TIF District purposes) and percent to be sent to General Fund (percent for each between 0% and 100%; combined total must equal 100%).
- h. Maximum percentage and estimated, projected dollar amount of incremental revenues captured for TIF District purposes to directly support private development or redevelopment.
- i. A description of the method(s) to provide direct support to developers, property owners, or businesses using incremental captured TIF District revenues including abatements, credit enhancement agreements, or any other methods of direct support.
- j. Details on any other financing mechanisms that are tied to or impacted by the TIF, including a statement of (i) whether the TIF includes the issuance of Municipal Bonds or any other form of municipal public debt; and (ii) the relationship with any special district or zone tax assessments including Enterprise Zones, Business Improvement Districts, and Tax Abatements.
- k. A description of the methods the Town will use to annually track and report on TIF District performance and detailed associated financials.

- I. Any other requirements imposed by section 7-339ff of the Connecticut General Statutes or successor provision thereof, as may be from time to time amended, at the time such TIF District Master Plan is approved, including but not limited to the financial plan required thereunder.
  
3. Process for Drafting, Reviewing, and Approval of a TIF District Master Plan(s) in the Town of Groton
  - a) TIF District Master Plans for review and consideration of approval shall be prepared by appropriate Town Staff at the request of the Town Council and or Town Manager.
  - b) Staff will utilize a TIF Advisory Committee for guidance in development of a TIF District Master Plan.
  - c) Once drafted by Town Staff with guidance from the TIF Advisory Committee, the Draft TIF District Master Plan will be sent to the Economic Development Commission for review and recommendation. The Economic Development Commission shall review the Draft for consistency with the Town's TIF Policy and its ability to meet stated economic development purposes.
  - d) Upon review and receipt of recommendations from the Economic Development Commission, the Draft TIF District Master Plan shall be sent to the Town Council for review and comment.
  - e) Upon determination by the Town Council that the TIF Master Plan satisfies the requirements of the Connecticut General Statutes, as specified in Chapter 105b. Tax Increment Districts, and is in the Town's best interest to adopt, the Town Council shall submit the TIF District Master Plan to the Planning and Zoning Commission or Planning Commission. The Plan shall be submitted to the Planning and Zoning Commission or the Planning Commission at least ninety (90) days prior to the public hearing date for the TIF Master Plan by the Town Council requesting a study of the TIF District Master Plan and a written advisory opinion. The Planning and Zoning Commission or Planning Commission shall render a written advisory opinion as to whether the proposed TIF District Master Plan is consistent with the Plan of Conservation and Development.
  - f) The Town Council shall hold a public hearing on the proposed TIF District and TIF District Master Plan. Such public hearing shall be properly noticed at least 10 days prior to the public hearing pursuant to the requirements of Chapter 105b of the Connecticut General Statutes.
  - g) Following the Public Hearing, the Town Council shall act to consider establishment of the TIF District and adoption of the TIF District Master Plan applicable to such district. The Town Council is not required to act the same day as the Public Hearing.
  - h) If approved by the Town Council, the TIF District Master Plan shall become effective at a date set by the Town Council and its implementation will be carried forth by Town Administration with guidance as needed from the TIF Advisory Committee. Any resulting agreements with developers, property owners, or businesses, such as Credit Enhancement Agreements, must also be approved by the Town Council following review and recommendations from Staff, the TIF Advisory Committee, and the Economic Development Commission.
  - i) The creation and approval of a TIF District Master Plan shall not relieve any developer from complying with any other regulatory and/or permitting requirements which may be necessary as part of such developer's project.

- j) The Town through its Staff shall annually report to the Town Council on the status and performance of the TIF District, and the Town Council shall review the TIF District Master Plan annually.

#### 4. TIF District Development Financing Mechanisms

In addition to public infrastructure and improvements, the Town may support certain industrial, commercial, residential, mixed-use or retail improvements, downtown development or transit-oriented development within TIF Districts, or a combination thereof, using TIF revenues. The Town's preferred method of providing assistance to property owners, businesses, and developers of property within a TIF District is through Credit Enhancement Agreements (CEAs), however, the Town may choose to utilize other methods as appropriate including issuance of municipal debt and utilizing TIF tax revenues to support debt repayment, tax abatements, or fixed valuation agreements.

Credit Enhancement Agreement (CEA): CEAs are the preferred mechanism for providing assistance to property owners and/or developers undertaking development projects within the Town's TIF Districts. A CEA is a contractual agreement between the Town and applicant that allows the Town to provide reimbursements of future incremental property tax revenues to property owners. This policy outlines the eligibility requirements, guidelines, process, and other details for how and when the Town may enter into CEAs.

The Town reserves the right to negotiate CEAs individually with property owners or developers of any properties within the TIF District. CEAs may provide a reimbursement of up to 100% of the incremental real property tax revenue produced from the captured assessed value on the particular property, and up to the full term of the TIF District. Under any CEA, the Town's obligation to make a periodic payment under the CEA will only arise to the extent the Town receives incremental real property tax revenue based on positive captured assessed value of the particular property during the appropriate period. In other words, in any CEA, the Town shall not obligate itself to make payments the applicant without receiving incremental tax revenues nor shall it be obligated to make payments if there is no increased assessed value.

The Town will review CEA applications on a case-by-case basis and is not obligated or bound to enter into a CEA.

Property Tax Abatements: Property tax abatements involve reducing a portion of property taxes owed for specified reasons. In Connecticut, they can be used by communities to reduce taxes for a specified period of time for certain types of new construction or rehabilitation including residential and commercial/industrial, subject to State law. They have been the traditional method used by communities in Connecticut to incentivize private development for the purpose of economic development at the municipal level. Their use is very limited in terms of time period over which incentives can be provided, the types of property and uses for which abatements can be provided, and the percent of taxes to be paid that can be abated. Within TIF districts, abatements or CEAs can be utilized according the Town's TIF District Master Plan.

Revenue Bonds: Revenue Bonds provide a method for financing public and private (through public-private partnership) infrastructure and development costs. They are a means of debt financing available to municipalities. Revenue bonds distinguish themselves from general obligation (GO) bonds through their method of repayment; unlike GOs which rely on taxation,

revenue bonds are guaranteed by the specific revenues generated by the issuer. In the case of use for financing for economic development, an example would be utilizing parking fees to pay back a revenue bond issued to build a parking garage. Within a TIF District and according to a TIF District Master Plan, future incremental revenues from new property taxes on taxable real property can be utilized to help finance public and private development costs including infrastructure and site improvements.

Fixed Assessment Agreements (FAA): With a TIF District the municipality can agree to set a fixed valuation on a property for up to fifteen years providing the Town and the owner/developer with predictability in tax liability. All Fixed Assessment Agreements shall be recorded in the Groton land evidence records.

#### Use of Multiple Incentives

In all cases the Town shall not allow "double dipping," providing tax incentives from more than one program on the same dollar value of new investment such as providing Enterprise Zone tax benefits and TIF tax benefits.

The Town also reserves the right to transfer revenues from any TIF Development Accounts that are in excess of funds needed to meet its obligations specified in its TIF District Master Plans and any related CEAs to its General Fund and utilize funds for General Fund purposes at any time during the life of the TIF.

While the Town may provide a reimbursement of up to 100% of the incremental real property tax revenue produced from the captured assessed value on the particular property for the duration of the TIF District, it shall be the Town's policy to provide no more than 50%, on average annually, of incremental real property tax revenue as reimbursement to the developer, business, or property owner regardless of whether achieved through a Credit Enhancement Agreement, Tax Abatement, or Fixed Valuation Agreement. Reimbursement in excess of this 50% threshold will only be considered when the potential benefits as measured by the potential to achieve the Town's goals, as stated in this policy, to the Town are considered to be significantly high.

## 5. TIF District Credit Enhancement Guidelines and Requirements

### *General Provisions*

#### A. Terms

The specific terms of each CEA will be negotiated between the Town and the applicant. Agreements can extend between one (1) and thirty (30) years; and up to 100% of the annual TIF Revenues associated with the captured incremental value from the property can be reimbursed to the property owner depending on the merit in achieving the Town's purpose for CEAs. Under any CEA, the Town's obligation to make a periodic payment under the CEA will only arise to the extent the Town receives incremental real property tax revenue based on positive captured assessed value of the particular property during the appropriate period. In other words, in any CEA, the Town shall not obligate itself to make payments without receiving incremental tax revenues nor shall it be obligated to make payments if there is no increased assessed value. The percentage of annual TIF Revenues that are reimbursed to the

property owner may be adjusted over the life of the Agreement. In no case, shall a CEA extend beyond the life of the TIF District. While the Town may provide a reimbursement of up to 100% of the incremental real property tax revenue produced from the captured assessed value on the particular property for the duration of the TIF District, it shall be the Town's policy to provide no more than 50%, on average annually, of incremental real property tax revenue as reimbursement to the developer, business, or property owner regardless of whether achieved through a Credit Enhancement Agreement, Tax Abatement, or Fixed Valuation Agreement. Reimbursement in excess of this 50% threshold will only be considered when the potential benefits as measured by the potential to achieve the Town's goals, as stated in this policy, to the Town are considered to be significantly high.

B. Level of Funding Adjustments

During the application process and during the life of the TIF District (and CEA), the applicant shall demonstrate that the funds are being used at appropriate levels for the purpose intended. If the level of funds the applicant receives exceeds the projected need, the amount returned to the applicant shall be adjusted and any excess placed in the Town's General Fund or applied to the TIF Districts.

C. Enterprise Zone Requirements and Relation to Other Town Provided Incentives

For projects within an enterprise zone or receiving other Town-provided direct tax benefit, the applicant will contractually agree not to take the Town enterprise zone reduced assessed value on land and buildings benefit or to receive any other direct Town tax benefit for any phase of the project benefitting from a CEA. The Applicant cannot receive benefit from both a CEA and another Town financial incentive on the same incremental value.

6. CEA Requirements

The Town may participate in CEAs when its participation is financially necessary and involvement by the Town is needed in order for the project to be undertaken. Justification for financial need and Town involvement can be demonstrated by:

- a. A need to offset infrastructure costs unique to the site; or
- b. A need to offset economic advantages available to a corporate entity if it should develop a project (or expand operations) outside of Groton; or
- c. A lack of sufficient private or other public funding sources to meet the full capital investments needed to undertake a project.

The following requirements will also be considered:

- a. The Applicant is financially capable to undertake the project demonstrated by submitting one or more of the following:
  - i. Letters from a financial institution, government agency, or other funding agency indicating a commitment to provide a specified amount of funds, and the uses for which the funds may be utilized.

- ii. In cases where funding is required but there can be no commitment of money until approvals are received, letters of "Intent to Fund" from the appropriate funding institution indicating the amount of funds and their specified uses.
  - iii. The Applicant's most recent corporate (or other entity) annual report indicating availability of sufficient funds to finance the development, together with explanatory material interpreting the report.
  - iv. Evidence indicating availability of funds if the applicant will personally finance the development.
- b. The Applicant is compliant with statutory and regulatory guidelines of the Town and State of Connecticut.
- c. The project represents a minimum private investment of at least one million dollars (\$1,000,000) in development or redevelopment costs. This minimum investment cannot include the cost of acquisition of the property.
- d. The Applicant's equity contribution (excluding all debt, local, state, and federal support including tax credits, grants, and other support) to the project is a minimum of ten percent (10%) of the development or redevelopment costs.
- e. Reasonable buildout timeline for investment and completion of construction with documentation indicating the buildout completion plans with supporting market/feasibility information.
- f. Developer has pursued use of other available funding and incentives and has integrated other sources to the extent possible.
- g. Developer provides sufficient financial information as deemed necessary by the Town for planning and administration of the TIF District including information for the consideration of TIF District and CEA approval AND annual information following TIF District and CEA approval on the status of the development including a description of development completed, jobs created, jobs retained, and total private investment made.
- h. Submission of any other documentation requested by the Town to help ensure that the Town will benefit through new investment, new employment, or other public benefits.

7. Guidelines That Determine Level of Municipal Participation in CEAs

In considering and negotiating support for private development costs, the level of support given by the Town should be based on the potential of the project to advance the Town's purpose for utilizing TIF, as stated under Section II.1. Purpose, above.

8. CEA Application Requirements

The Town shall utilize an application form that includes at a minimum the following information:

- a. Name and contact information of applicant and owner if separate; attorney if applicable
- b. Tax Map and Lot # of property (or properties) for which TIF assistance is being requested
- c. Zoning District(s)

- d. List of any other local zones or districts the property is within that relate to tax assessment or payments, including but not limited to fire districts, city taxes, sewer mill rates, etc...
- e. Current original assessed value of taxable real property
- f. Description of proposed project
- g. Description of proposed use(s) for site (residential, commercial, retail, industrial, etc.)
- h. Description of how the proposed project meets the Town's TIF purposes as stated in its TIF Policy
- i. Estimated permanent jobs to be created and/or retained resulting from development
- j. Estimated development costs
- k. Estimated development timetable including project start, completion, and any phasing if applicable
- l. Statement that the applicant demonstrates the financial capacity to undertake the project and provides evidence in support of this capacity. Evidence will include but is not limited to:
  - i. Development budget and pro-forma
  - ii. Financial commitments of project lenders
  - iii. A project implementation plan and schedule
- m. Description of any other local, state, or federal support being used to finance project
- n. Statement that the requested TIF project would not otherwise occur "but for" assistance through TIF

Confidentiality: All such information provided by the Applicant shall be kept confidential to the extent permitted by law.

Other Requirements: The creation and approval of a TIF District Master Plan shall not relieve the Developer from complying with any other regulatory and/or permitting requirements which may be necessary as part of the Developer's project such as site plan, wetlands, building permits, etc.

Application Fee: At the time of the final application submission and after preliminary advisement by Town staff, a non-refundable fee of \$5,000 will be made by the applicant to help fund Town expenses for staff time and any other direct expenses such as required legal fees.

#### 9. CEA Application Process

A property owner, or a developer that has secured an interest in real property within an approved or proposed TIF District, may approach the Town seeking the potential use of a CEA. If a developer, the property interest must include sufficient rights to purchase the property upon a definitive event. The steps outlined below detail the full CEA approval process.

Step 1: Preliminary Advisement with applicant by Town Staff (Office of Planning and Development Services (OPDS), Finance, and Tax Assessor)

Step 2: Application preparation by OPDS with input by Finance and Town Manager

Step 3: Application submission by OPDS if all required information is supplied by applicant

Step 4: Review and approval by Town Manager



Step 5: Review and Recommendation by TIF Advisory Committee and referral of application to: Economic Development Commission, and Representative Town Meeting

Step 6: Submission to Town Council for review and approval

Step 7: Implementation and tracking by Town Staff

Additional CEA process and requirements may be contained within individual TIF District Master Plans that add to or exceed the requirements contained in this policy.

10. Amendment procedure

Amendments to this policy shall be completed in the same manner, as required by Connecticut and local laws and ordinances, as the adoption of this policy.

## II. Appendices

### Appendix A.

#### Introduction and Background to Connecticut TIF State Law

Tax Increment Financing (“TIF”) is a financing tool that can be used by municipalities to invest in economic development. It allows some or all of public and/or private costs associated with development to be financed over time by increases in the property tax revenues that are generated by the new development or redevelopment. Chapter 105b of the Connecticut General Statutes, titled “Tax Increment Districts”, authorizes Connecticut municipalities to create TIF Districts for the purposes of economic development.

The following is an overview of the TIF process, components and requirements per the Connecticut General Statutes. This information provides guidance for the Town of Groton’s TIF Policy, which in turn, provides the framework, process, and details for any TIF District(s) and TIF District Master Plan(s) to be adopted by the Town.

##### 1. TIF Process

Use of TIF by Connecticut municipalities does not require State approval, and its structure and details are determined by the local legislative process. However, the State does require the creation and local adoption of a TIF District Master Plan to create and utilize a TIF District. The municipality’s legislative body must adopt a TIF District Master Plan for each TIF District. The TIF District Master Plan is adopted at the same time the TIF District is created. The TIF District creation and approval process includes the following steps:

- a. The municipality’s legislative body affirms TIF will contribute to the economic growth or well-being of the municipality or to the betterment of the health, welfare or safety of the inhabitants of the municipality.
- b. At least 90 days prior to establishing a TIF District and approval of a TIF District Master Plan, submit such plan to the municipality’s Planning Commission requesting a study of the plan and a written advisory opinion prior to approval of such plan. Such written advisory opinion shall include a determination of whether the plan is consistent with the municipality’s plan of conservation and development.
- c. Hold a public hearing on the proposal to establish the TIF District and adopt the TIF District Master Plan.
- d. The municipality’s legislative body confirms that the TIF District meets all eligibility criteria and assessed value requirements in accordance with applicable Connecticut General Statutes.
- e. Submission of TIF District Master Plan to the municipality’s legislative body.
- f. The municipality’s legislative body establishes the TIF District and approves the TIF District Master Plan applicable to such district.

##### 2. TIF District Master Plan Components

The TIF District Master Plan must include:

- a. The boundaries of the TIF district by legal description.
- b. A list of the tax identification numbers for all lots or parcels within the TIF District.

- c. A description of the present condition and uses of all land and buildings within the TIF District.
- d. A description of the public facilities, improvements, or programs within the tax increment district anticipated to be added and financed in whole or in part.
- e. A description of the industrial, commercial, residential, mixed-use, or retail development/improvements; downtown development; or transit-oriented development within the TIF District anticipated to be financed in whole or in part.
- f. A financial Plan detailing the schedule of incremental tax revenues.
- g. A plan for the proposed maintenance and operation of the TIF District after the planned capital improvements are completed, if applicable.
- h. The maximum duration of the TIF District, which may not exceed a total of fifty (50) tax years, beginning with the tax year in which the TIF District is established.

### 3. Financial Plan Components

The Financial Plan of the TIF District Master Plan must include:

- a. Cost estimates for the public improvements and developments anticipated in the TIF District Master Plan.
- b. The maximum amount of indebtedness, if any, to be incurred to implement the TIF District Master Plan.
- c. Sources of anticipated revenues, including TIF and any other revenues.
- d. A description of the terms and conditions of any agreements, including any anticipated assessment agreements, contracts, credit enhancement agreements (CEA), or other obligations related to the TIF District Master Plan.
- e. Estimates of the increased assessed values of the TIF District.
- f. The portion of the increased assessed values to be applied to the District Master Plan as captured assessed values and resulting tax increments in each year of the plan. Captured value is the amount, as a percentage or stated sum, of increased real assessed value that is utilized from year to year to finance project costs pursuant to the TIF District Master Plan.  
*Note: A municipality can designate an amount up to 100% of incremental value to be utilized for specified TIF purposes or any amount less than 100%. The amount of tax increment revenues to be designated is determined by designating captured assessed value, subject to any assessment agreements. Whatever amount of incremental revenues that are not utilized for specified TIF purposes accrue to the General Fund. The applicant cannot receive a CEA or other TIF benefit if they are also utilizing any state or local tax incentives such as, but not limited to Enterprise zones, Urban Jobs, Airport Development Zone, or other property tax incentives. Subject to any assessment agreements provided by the TIF statute or the TIF Plan.*
- g. Specify the maximum percentage of TIF revenues to be utilized to support private developers through credit enhancement agreements or other mechanisms (such as bonding).

### 4. TIF District Limitations

A municipality can have multiple TIF Districts; however, all TIF Districts combined are subject to the following limitation:

**The original assessed value of all taxable real property of the TIF District plus the original assessed value of all taxable real property of all existing TIF Districts within the municipality may not exceed ten percent (10%) of the total value of taxable real property within the municipality as of October 1st of the year immediately preceding the establishment of the TIF District.**

5. TIF Revenues Uses

Connecticut General Statutes § 7-339hh enables a municipality to use all or part of TIF revenues in connection with costs of improvements within the TIF District, costs of improvements outside the TIF District which are directly related to or are made necessary by the establishment or operation of the TIF District, or for support of economic development, environmental improvements or employment training associated with the TIF District. This includes, but is not limited to: infrastructure, services made necessary by the project, repayment of debt service on municipal or private developer costs, and support or leverage for further economic development within or related to the district. More specifically, TIF revenues can be used for the following non-exclusive purposes:

- a. Public infrastructure improvements
- b. Façade improvements
- c. Project development and redevelopment costs (including transit-oriented and downtown district development)
- d. Capital costs
- e. Remediation costs
- f. Land assembly costs (forming a single site from a number of parcels)
- g. Technical and marketing assistance
- h. Revolving loans
- i. Professional services
- j. Repayment of private debt incurred by private developer
- k. Administrative expenses, including personnel, studies, reports, and/or administration for Main Street managers
- l. Business development and expansion assistance for TIF district property owners
- m. TIF district establishment costs
- n. Off-Site (related to TIF District)
  - i. Roadways, water/sewer
  - ii. Public safety
  - iii. School
  - iv. Mitigate adverse impacts (e.g. new traffic)
- o. Economic development and environmental
  - i. Economic development initiatives
  - ii. Workforce training
  - iii. Environmental mitigation

Dedicated TIF revenues **cannot** be used for General Fund purposes. The portion of incremental revenues not dedicated for TIF purposes are used for General Fund expenses.

## 6. TIF Use with other Financing Tools

TIFs can and should be used with other public and private financing tools as appropriate and available. They are not meant to be used “instead of” or “exclusive of” other financing mechanisms. TIF can, but does not have to be, used in conjunction with municipal bonding and related debt service. As available during the life of the District, TIF can be used to directly pay for specified costs or pay down debt service associated with the TIF District. A detailed overview of Economic Development Finance Tools is contained in the Appendix.

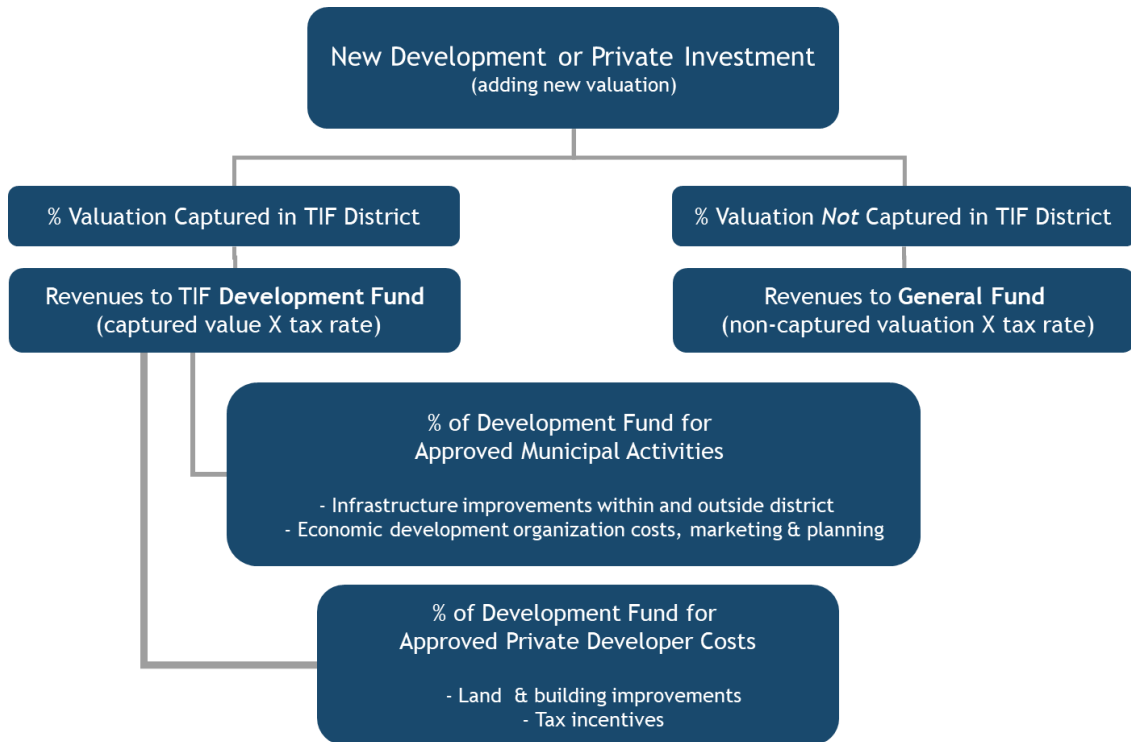
## 7. TIF Use to Directly Support Private Development

In addition to helping finance public costs to support economic development, TIFs can be used to help finance private developers’ costs to spur further private investment. If a Town chooses to help finance private development costs, the Town should, as a matter of policy, require developers to demonstrate that “but for” the TIF support a project would not occur and that they have utilized and exhausted all other financing mechanisms, such as state and federal grants and tax credit programs

Municipalities can assist private developers with financing through property tax abatements. They can also utilize TIF for such purposes. TIFs can be used to support private development by reimbursing the private developer a portion (up to 100%) of property taxes resulting from new investment annually through what is known as a “credit enhancement agreement” (CEA). The CEA is a binding legal contract developed and agreed to as part of the TIF District process that can be used by the private developer to offset some private development costs and be used to support or enhance financing for the private developer. If the municipality chooses to provide CEAs it should do so in the form of a percentage of paid incremental taxes to be returned as opposed to a fixed dollar amount to protect itself from an underperforming TIF development. The municipality should also have an application process and guidelines for helping determine if the Town should support development through a CEA as part of a TIF District and to what extent it should support it. The municipality shall also prohibit a developer from what is known as “double dipping,” providing tax incentives from more than one program on the same dollar value of new investment, such as providing Enterprise Zone tax benefits and TIF tax benefits

Figure 1 below shows how revenues are dedicated under a TIF arrangement.

Figure 1



## APPENDIX B

### 1. Glossary of Tax Increment Financing Terms

- a. Captured Assessed Value – the amount, as a percentage or stated sum, of increased real assessed value that is utilized from year to year to finance project costs pursuant to the TIF District Master Plan.
- b. Credit Enhancement Agreement – agreement with developer or business to return a portion of real property taxes paid annually over a specified period of time to offset development costs
- c. Current Assessed Value – the assessed value of all taxable real property within a TIF District as of October first of each year that the TIF District remains in effect.
- d. Incremental Assessed Value – the valuation amount by which current assessed value of a TIF District exceeds the original assessed value of the TIF District. If the current assessed value is equal to or less than the original assessed value, there is no incremental assessed value.
- e. Original Assessed Value (OAV) – assessed value of all taxable real property (land & buildings) within a TIF District as of October first of the tax year immediately preceding the year in which the TIF District was established by the legislative body of the municipality.
- f. Tax Abatement – Connecticut law allowing communities to reduce a portion of property taxes owed for specified reasons for a fixed time period of time; more restrictive than CEAs
- g. TIF District – Those property(ies) wholly within the corporate limits of the municipality that have been established and designated as such pursuant to the Connecticut General Statutes and that is to be developed under the TIF District Master Plan applicable to such district.
- h. TIF District Master Plan – a statement of means and objectives prepared and approved by the municipality relating to a TIF District designed to provide new employment opportunities, retain existing employment, provide housing opportunities, improve or broaden the tax base or construct or improve the physical facilities and structures through the development of industrial, commercial, residential, retail and mixed use, transit oriented development, downtown development or any combination thereof, as described in section 7-339ff of the Connecticut General Statutes.
- i. TIF Revenues – revenues generated by incremental real assessed value within a TIF District

## 2. Tools for Financing Economic Development

Tax Increment Financing (TIF) provides a method for communities to support economic development by helping finance public and private investments for development within a specified district. In addition to TIF, there are other financing mechanisms to assist with economic development financing, all of which can be used either separate from or within a TIF District Plan.

### *Property Tax Abatement*

Property tax abatements involve reducing a portion of property taxes owed for specified reasons. In Connecticut, they can be used by communities to reduce taxes for a specified period of time for certain types of new construction or rehabilitation including residential and commercial/industrial, subject to property tax laws detailed in the Connecticut General Statutes C.G.S. Sec. 12-81. They have been the traditional method used by communities in Connecticut to incentivize private development for the purpose of economic development at the municipal level. Their use is very limited in terms of time period over which incentives can be provided, the types of property and uses for which abatements can be provided, and the percent of taxes to be paid that can be abated. TIF provides an alternative to the use of tax abatements through what is known as a credit enhancement agreement (CEA), which provide far greater flexibility on these matters and are discussed further below. Plus, within TIF districts, abatements or CEAs can be utilized according the Town's district plan.

### *Historic Tax Credits*

Historic Tax Credits can also be utilized to help offset development costs. The Connecticut Historic Rehabilitation Tax Credit Program (C.G.S. Sec. 10-416c) establishes a 25% tax credit on the Qualified Rehabilitation Expenditures associated with the rehabilitation of a Certified Historic Structure for either 1) residential use of five units or more, 2) mixed residential and nonresidential use, or 3) nonresidential use consistent with the historic character of such property or the district in which such property is located. An additional credit is available for projects that include affordable housing as provided in section 8-39a of the general statutes. Similar Federal Tax Credits of 20% are also available, which together with the State credits covers a total of 45% of qualified expenditures

#### Program Specifics:

- a. 25% tax credit of the total qualified rehabilitation expenditures
- b. 30% tax credit of the total qualified rehabilitation expenditures if the project includes an affordable housing component provided at least 20% of the rental units or 10% of for sale units qualify under CGS Section 8-39a.
- c. \$31.7 million in tax credit reservations are available each fiscal year
- d. Per project cap is up to \$4.5 million in tax credits
- e. Qualified rehabilitation expenditures are hard costs associated with rehabilitation of the certified historic structure; site improvements and non-construction costs are excluded
- f. Buildings must be listed on the National or State Register of Historic Places, either individually or as part of an historic district



- g. All work must comply with the Secretary of the Interior's Standards for Rehabilitation
- h. State tax credits may be combined with the 20% federal historic preservation tax credits provided the project qualifies under federal law as a substantial rehabilitation of depreciable property as defined by the Internal Revenue Service
- i. Tax credit vouchers are issued after completion of rehabilitation work or, in phased projects, completion of rehabilitation work to an identifiable portion of the building placed in service
- j. Tax credits are available for the tax year in which the building or, in phased projects, an identifiable portion of the building is placed in service
- k. Tax credits can only be used by C-corporations with tax liability under Chapters 207 through 212 of the Connecticut General Statutes
- l. Tax credits can be assigned, transferred or conveyed in whole or in part by the owner to others up to three times

#### *Bonds*

General Obligation bond (GO): A GO is a bond issued by the municipality that is backed by the municipality's full faith and credit (including taxing authority). GO bonds are obligated to be paid back regardless of the completion and performance of the use for which they were issued. They are typically used by municipalities to finance significant public infrastructure projects including roads, sewer, water, and facilities.

Revenue Bonds: Revenue Bonds provide a method for financing public and private (through public-private partnership) infrastructure and development costs. They are a means of debt financing available to municipalities. Revenue bonds distinguish themselves from general obligation (GO) bonds through their method of repayment; unlike GOs which rely on taxation, revenue bonds are guaranteed by the specific revenues generated by the issuer. In the case of use for financing for economic development an example would be utilizing parking fees to pay back a revenue bond utilized to build a parking garage. Within a TIF district and according to a TIF District Master Plan future revenues from new property taxes can be utilized to help finance public and private development costs including infrastructure and site improvements.

#### *Tax Increment Financing*

The purpose of Tax Increment Financing (TIF) is to assist a developer with redevelopment through various mechanisms, including the fixing of tax assessments, abatements, payment for credit enhancement agreement, bonds, and funding of infrastructure to support development. State guidelines for TIF are included in C.G.S. 7-339cc to 7-339kk

Through a TIF, future property tax revenues from new development and/or above current property valuations within a specified district (parcel or set of parcels) can be dedicated to pay portions of public and/or private development. This can include any of the following or a mix of the following:

- a. Placing into TIF development fund to dedicate to paying off public costs for infrastructure and economic development related to the district

- b. Credit Enhancement Agreements – a binding legal agreement with a property owner or developer to reduce future property taxes related to new development by a specified percentage (0-100%) for a specified period of time (up to 50 years). This reduction in future property taxes represents a future flow of funds which can then be used by the property owner or development to enhance their credit in obtaining additional private debt or equity.
- c. Tax Abatement – see explanation above – more restrictive than CEAs but can still be utilized within a TIF District
- d. Fixed assessment agreement – With a TIF District the municipality can agree to set a fixed assessment on a property for up to fifteen years providing the owner/developer with predictability in tax liability.
- e. Payment stream for public finance including bonds explained above
- f. General Obligation bond (GO) – A GO is a bond issued by the municipality that is backed by the municipality's full faith and credit (including taxing authority). GO bonds are obligated to be paid back regardless of the completion and performance of the use for which they were issued. They are typically used by municipalities to finance significant public infrastructure projects including roads, sewer, water, and facilities.
- g. Revenue Bonds – Revenue Bonds provide a method for financing public and private (through public-private partnership) infrastructure and development costs. They are a means of debt financing available to municipalities. Revenue bonds distinguish themselves from general obligation (GO) bonds through their method of repayment; unlike GOs which rely on taxation, revenue bonds are guaranteed by the specific revenues generated by the issuer. In the case of use for financing for economic development an example would be utilizing parking fees to pay back a revenue bond utilized to build a parking garage. Within a TIF district and according to a TIF District Master Plan future revenues from new property taxes can be utilized to help finance public and private development costs including infrastructure and site improvements. However, if revenue bond funds are used to support private development then the bond revenues will not be tax-exempt, contrary to if they are used for public infrastructure.