

Utilizing Tax Increment Financing (TIF) for Economic Development

Presented to the
Economic Development Committee, Greater New Haven Chamber

June 11, 2025





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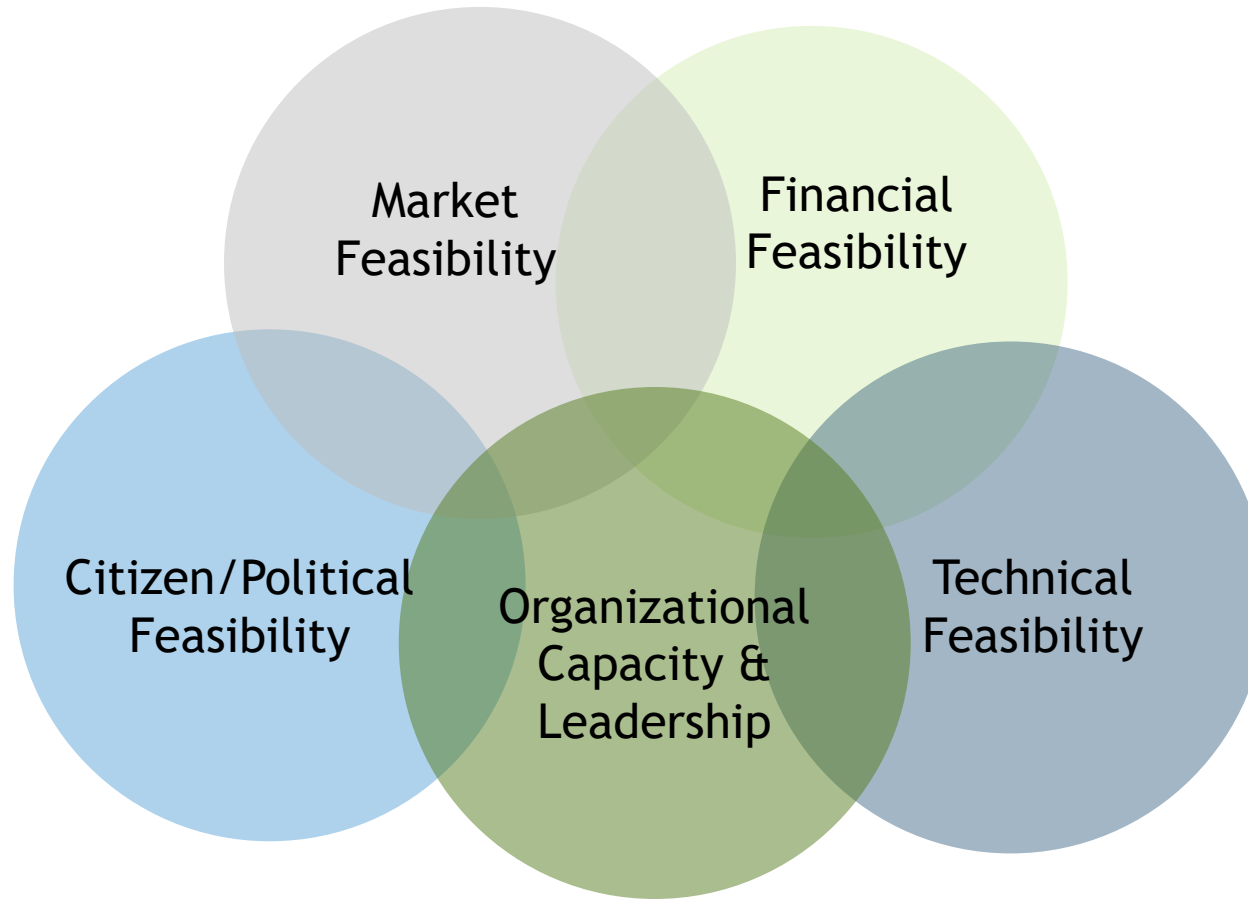
Our CT TIF Experience

- Tax Increment Financing (TIF) Master Plan
 - City of Bristol, CT
 - City of New Britain, CT
 - City of New London, CT
 - Town of Groton, CT
 - Town of Cheshire, CT
- TIF Policy, Town of East Haddam Ct
- TIF District Advisement, City of Hamden CT
- Tax Increment Financing Peer Review , Town of Windsor Locks, CT
- Tax Increment Financing (TIF) Preliminary Master Plan, Town of Canton, CT
- A Guide to Tax Increment Financing, CT Main Street

Success With TIF Requires

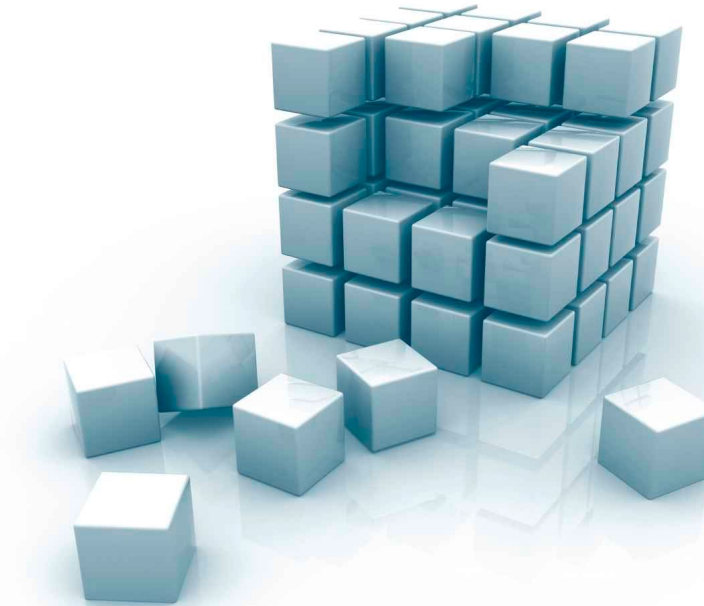
- Understanding all aspects of development feasibility
- Knowledge of municipal financing
- Successful communications and engagement among municipal staff, officials, property owners, and citizens to understand how TIF works and how it can be used for successful community outcomes

Ingredients for a Successful Economic Development Project, Initiative, or Plan



What is Tax Increment Financing (TIF)?

- Financing method used to catalyze economic development - Allows some or all of future property tax revenues from development within a district to be dedicated to support the projects and related economic development - also known as value-added financing
- Property tax benefits from projects can be used to help finance the projects - can be utilized to support public and private development costs
- Portion of incremental revenues not dedicated for TIF purposes is used for general fund



TIF is Not... a new tax or a special assessment on top of the existing property tax

Overview of CT TIF Process

Old TIF Process

- Burdensome
- State-level Approval
- Multiple Points of Approval
- Project Only (vs. Larger District)
- Limited Uses
- Result → Rarely Used

New TIF Process

- More Streamlined
- Local Control
- TIF District Beyond Project Site
- Flexible Mix of Uses
- Result → Easier to Use

Estimating Future Value and Revenues

- Valuation should be estimated based on:
 - ❑ projected new development and redevelopment in the district, plus,
 - ❑ overall anticipated changes in valuation due to market conditions
- The mill rate can be held constant for planning purposes or have an annual escalator applied
- The mill rate remains the same for all real property -
TIF is not a new or different tax!

Uses of TIF Revenue in CT

- Infrastructure
- Land Acquisition
- Construction, Demolition, Remodel
- Streetscape
- Capital Costs (fixtures, equipment, etc.)
- Professional Services (engineering, architecture, etc.)
- TIF Administration & Organization Costs (municipal, consulting costs)
- Off-Site (related to TIF District)
- Used to support bonds for approved TIF uses



Note: Can be used to offset public and/or private developer costs and as business incentives

Other Uses Related to District

Off-Site

- Roadways
- Water/Sewer
- Public Safety
- School
- Mitigate Adverse Impacts (e.g., new traffic)

Economic Development & Environmental

- Economic Development Initiatives
- Employment Training
- Environmental Improvement Projects

Allowable Uses of TIF Funds – Private Incentives

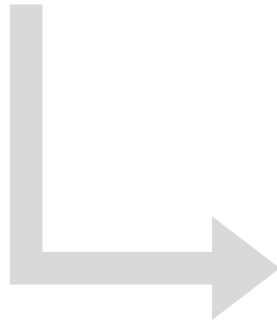
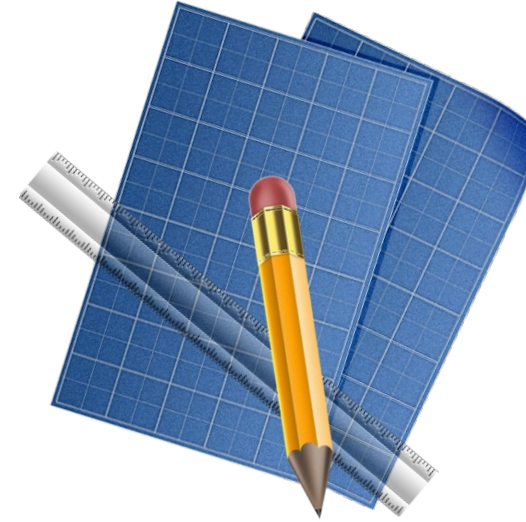
- ❑ **Credit Enhancement Agreements** - Binding legal agreement with a property owner or developer to reduce future property taxes related to new development by a specified percentage (0-100%) for a specified period of time (up to 50 years). This reduction in future property taxes represents a future flow of funds which can then be used by the developer to enhance their credit in obtaining additional private debt or equity.
- ❑ **Fixed Valuation** - With a TIF District the municipality can agree to set a fixed valuation on a property for up to fifteen years providing the owner/developer with predictability and/or reduction in tax liability.
- ❑ **Property Tax Abatements** - 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. Use is very limited in terms of time period over which incentives can be provided, 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.

Allowable Uses of TIF Funds – Public Financing

- ❑ **General Obligation Bonds** - Public debt financing typically for infrastructure improvements backed by the full faith and credit of the municipality. TIF revenues can be used to pay some or all of GO bonds issued for public costs associated with a TIF District.
- ❑ **Revenue Bonds** - Method of debt financing for public and private infrastructure and development costs. Unlike general obligation bonds (Go's) which rely on taxation, revenue bonds are guaranteed by the specific revenues generated by the issuer. TIF revenues can be utilized to help finance repayment.

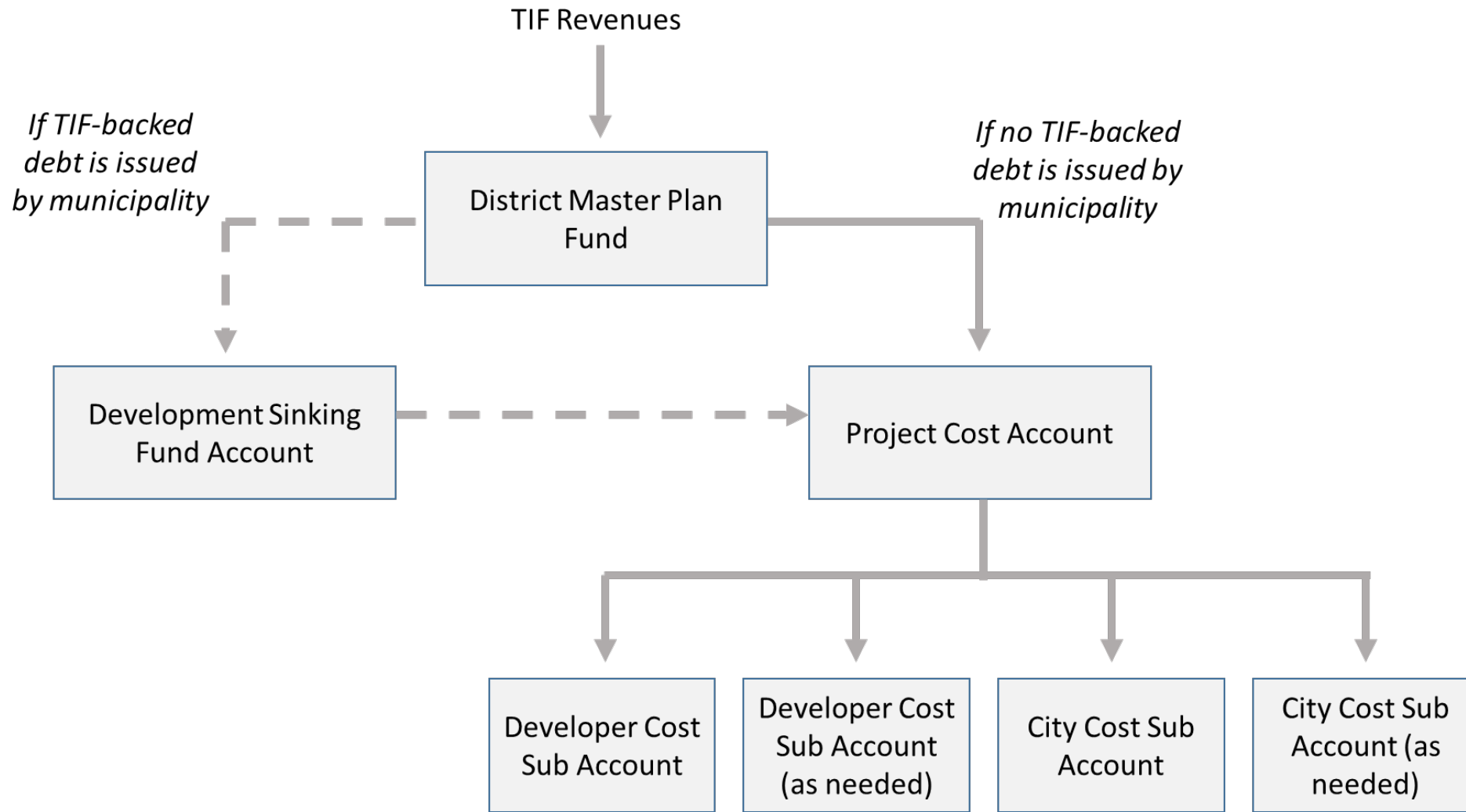
District Master Plan

- Boundaries & Properties of District
- Improvements (Projects)
- Length of TIF District (50 year max)
- Financial Plan



- Cost Estimates for Expected Projects
- Max Debt if any
- Anticipated Revenue
- TIF Terms and Agreements
- Estimated Increase in Assessed Value (Increment)
- Percent of Increment “Captured” (0-100%)
- Use of Revenues including abatements and CEAs if any

TIF Flow of Funds



TIF Example by the Numbers:

75% Incremental Value Captured in TIF District - \$7.5 million in new investment

➤ **Original Assessed Value (OAV): \$14 million**

Annual Property Taxes Paid on OAV: \$447,160

(\$14 million X current mill rate at 31.94 mills)

Available to General Fund

➤ **Value after \$7.5 million of New Development: \$21.5 million**

Incremental Value above OAV: \$7.5 million

Annual Property Taxes Paid on Incremental Value: \$239,550

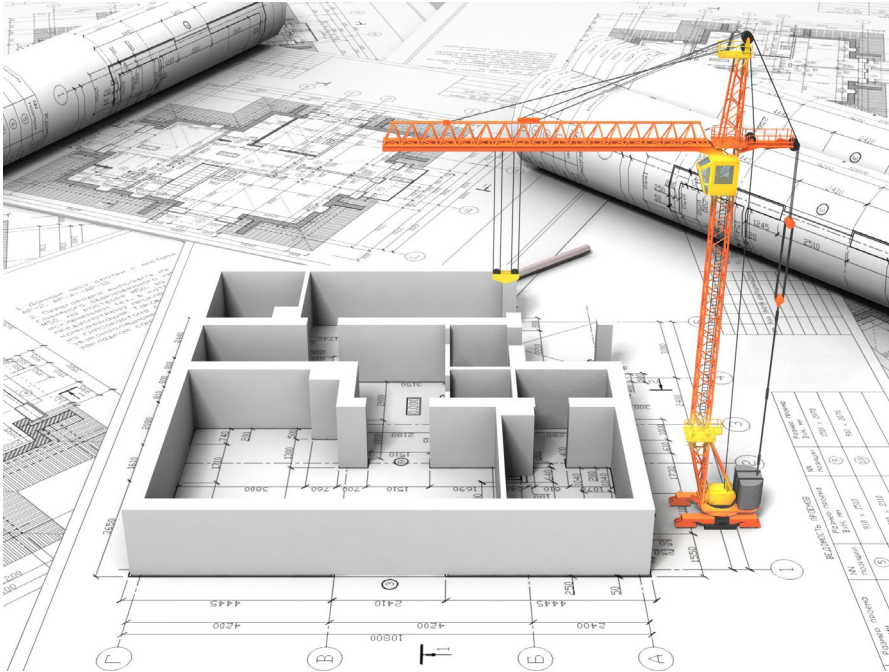
(\$7.5 million X current mill rate at 31.94 mills)

With 75% capture, annually \$179,663 can be used for public and/or private development costs and economic development, and \$59,887 flows to General Fund along with the original \$447,160

TIF Process in CT

1. Legislative body affirms TIF will benefit the municipality
2. Submit Master Plan to Planning Commission for advisory opinion
3. Hold public hearing on the proposed Master Plan
4. Confirm eligibility criteria and assessed value requirements
5. Submission of Master Plan to municipal legislative body
6. Municipal legislative body approves Master Plan, establishes tax increment district

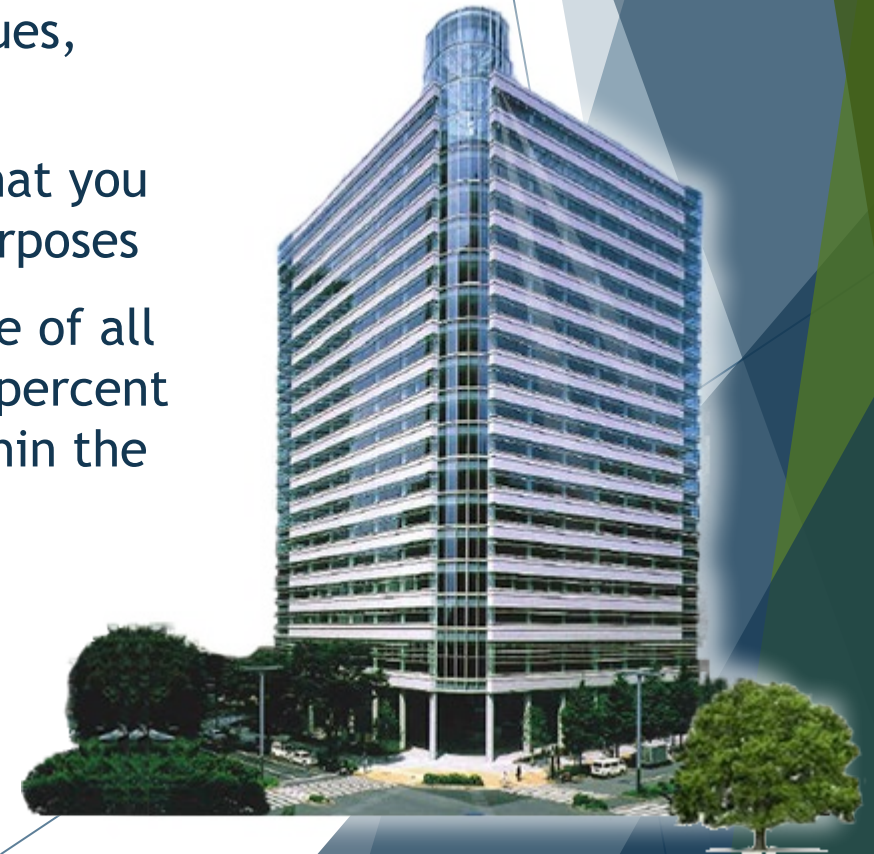
Tips



- Fit use of TIFs into long-term economic development strategy
- Create advisory board, to advise on the planning, construction and implementation of the district
- Identify public and private needs
- Consider TIF within mix of financing options
- Consider going beyond use of TIFs for business incentives, including to fund public infrastructure and activities to support economic development
- Provide public education and engagement to get community comfortable with this technical tool

More Tips

- When using TIF revenues to benefit businesses/developers, what you provide to one will be serve as benchmark for future requests
- TIF policies can help direct decisions on when and how to use, can be tailored to meet community's long-term objectives
- Once TIF is used, implement system for tracking values, revenues, and expenditures throughout the duration
- Trade-off between TIF funds and General Funds - What you take in for TIFs can *not* be used for General Fund purposes
- TIF Limited by State law - The original assessed value of all existing tax increment districts may not exceed ten percent (10%) of the total value of taxable real property within the municipality



Understanding Tax Increment Financing - Resources

- **State Statute Related to TIF - 105b:**
https://www.cga.ct.gov/current/pub/chap_105b.htm
- **Tax Increment Financing Guidebook, A Beginner's Guide to Using TIF in Connecticut's Downtowns and Main Streets**, Connecticut Maine Street Center, <https://ctmainstreet.org/how-we-help/downtown-resources/economic-vitality/tax-increment-financing/>

Questions and Answers

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