Tax increment financing overview

Tax increment financing (TIF) originated as a vehicle for issuing bonds to fund the redevelopment of blighted areas which are designated as TIF districts.

A jurisdiction starts by creating a TIF district with well-defined boundaries, and then issues bonds to pay for public infrastructure improvements and other amenities to stimulate private development within the district. The bonds are backed by the anticipated TIF revenue, and repaid with incremental tax receipts as private development activity increases. Alternatively, some jurisdictions use their own funds to pay for improvements, and then capture some or all of the increase in property tax receipts over the duration of the TIF district as reimbursement.

A number of cities, towns and counties now include development or preservation of affordable housing as part of the public infrastructure to be supported by a TIF district and require that a share of TIF revenue be used for these purposes. In addition, while not yet a well-established use of TIF, Texas has established a TIF-like structure that can be used in gentrifying areas, with the intention of capturing incremental tax revenue to build or preserve increasingly scarce affordable housing units. This strategy may be well-suited to neighborhoods around proposed transit stations and other gentrifying areas when the public investment is likely to lead to property value increases.