

# FAQ: Tax Increment Financing

by Missouri Economic Development Financing Association

*The material for this issue's Frequently Asked Questions is provided by the Missouri Economic Development Financing Association (MEDFA). Questions can be directed to Doug Stone, MEDFA's legislative chair and a partner at the Lewis Rice law firm in Kansas City, at [dstone@lewisricekc.com](mailto:dstone@lewisricekc.com).*

## What is Tax Increment Financing?

Tax increment financing (TIF) is an economic development tool authorized by Missouri statutes (Sections 99.800 – 99.865, RSMo, the TIF Act). It allows cities and counties to encourage development in areas of the community that would not otherwise develop or redevelop “but for” TIF financial assistance. When a city or county adopts a TIF Plan, the expectation is that increased taxes (the new increment) will result from the new development. The new increment comes from the increased real property value being applied to most, but not all, real property tax levies, and 50% of the increased economic activity being applied to most sales and utility (and in some cities, earnings and profits) tax levies. This new increment is captured and used to pay for certain project costs. Existing taxes are not impacted. The creation, approval and implementation of TIF plans are governed by the TIF Act, although the decision to adopt a TIF plan and the extent of TIF assistance provided rests with the local governing body.

## Does the use of TIF increase tax rates?

No. Approval of a Tax Increment Financing plan is not a tax rate increase. The incremental taxes referred that are captured are the newly created taxes resulting from the project. It is this new tax revenue used to pay for a portion of the project costs.

## Is TIF a tax abatement program?

No. All property owners and businesses located in a TIF project area pay the same amount of taxes that would have been paid if the area was not a TIF project, no less and no more. Instead, TIF alters the distribution of the tax revenue stream. The taxes existing prior to TIF designation continue to flow to the taxing districts that previously received those tax dollars. The new increment of taxes over the “base” level is set aside as it is generated over time (up to 23 years) in a separate fund, and used to either reimburse the developer for certain specified project costs as TIF revenue is generated over time, or make periodic payments to pay private financing or (at the discretion of the governing body) bonds that financed the reimbursable project costs.

## What conditions have to exist to adopt a TIF plan?

A TIF plan can be adopted for an area that meets the TIF Act's definitions of a “blighted area,” a “conservation area” or an “economic development area.” After a hearing and

recommendation by a TIF Commission, the governing body can adopt a TIF Plan after making certain findings that include a finding that the redevelopment “has not been subject to growth and development through investment by private enterprise and would not reasonably be anticipated to be developed without the adoption of tax increment financing.” This is commonly referred to as the “but for” test.

## What is required to satisfy the “but for” test?

The TIF Act specifies that in order to make this finding, there must be detailed evidence of the factors that supports the finding and a signed affidavit of the developer attesting to the conditions supporting this finding. Some municipalities engage consultants to review project financial information to assist in this determination.

## Do the county, the school district and other taxing districts lose revenue from the creation of a TIF Plan?

No. Where the “but for” test is satisfied, the area being developed with TIF assistance would not have otherwise developed. Under a TIF plan, the taxes existing prior to TIF designation continue to flow to the taxing districts that previously received those tax dollars. In addition, taxing districts that levy economic activity taxes (such as sales or earnings taxes), receive 50% of the new taxes generated by the project. Certain property and sales tax levies are not captured by TIF at all. When the TIF plan terminates, the taxing districts will receive substantial revenue from property that previously generated little or no taxes.

## What type of improvements or costs can be reimbursed out of TIF revenues?

TIF revenue can be used to pay for any reasonable or necessary costs incidental to the TIF plan or one of its projects. This can include, among other things, costs of studies, architectural, engineering, legal, marketing, financial and planning costs, property assembly costs, demolition, clearing and grading of land, costs of rehabilitation, reconstruction, or repair or remodeling of existing buildings and fixtures; costs of construction of public works or improvements and financing costs. However, the TIF Act includes certain limitations on the use of TIF revenues that apply to specific types of projects or to specific areas or types of areas.

### How is a TIF Commission created?

In all cities and counties, the governing body creates the TIF Commission. The size of the TIF Commission varies depending on the municipality creating it. All TIF Commissions have the same mix of nine members, comprised of six members appointed by the governing body, two members appointed by the affected school district and one member appointed by the other taxing districts who levy property taxes. In the city of St. Louis and in any county (other than St. Louis County), the TIF Commission is made up of those nine members. In St. Louis County and cities in St. Louis County, three additional members are appointed by St. Louis County, making a 12-member TIF Commission. All other cities have 11-member TIF Commissions comprised of the nine basic members, plus two members appointed by the affected county.

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### Do other states permit the use of TIF?

Yes. Today more than 47 states use TIF to some extent, including all states bordering Missouri. 🍃



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**“We requested Brown Smith Wallace conduct an analysis of the city’s water and sewer billings and collections to ensure they were reasonable and controls were in place, adequate and operating effectively to ensure the accuracy and proper reporting of future water and sewer revenues. Their team performed detailed data analytic procedures on billing records over two years. The results included recommendations to improve our procedures and internal controls over billings and collections. A significant initiative being led by city management is underway to correct various items identified during this assessment and other related projects. We are grateful for the work Brown Smith Wallace has done and continues to do for the City of Moberly.”**

**Mary West, Director of Utilities, City of Moberly**



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