



Check List for Early Termination Of Tax Increment Financing Projects

Charles J. Blankenship

June 2013

Published by the Applied Government Studies Center [www.agscenter.org]

Tax increment financing [TIF] has often been successfully implemented to facilitate private development through the use of project generated tax revenue to fund infrastructure investment and other eligible expenses.

When a TIF district is established by local taxing jurisdictions a portion of incremental taxes, above the tax base prior to infrastructure development, is allocated to service debt incurred for project funding.

TIF projects are typically administered by a local authority possessing the necessary authorization to manage tax incentive funding.

Occasionally the total incremental tax revenues generated exceeds the amount of the balance due on the TIF project note. At that time, to comply with Internal Revenue Service regulation requirements, the participating taxing jurisdictions

should reach an agreement on how and when to initiate early termination of the TIF district.

Following is a check list of actions to consider for early TIF termination:

1. Convene a meeting of representatives from the taxing jurisdictions, administering authority, lending bank, escrow agent and project bond counsel to develop a plan for early termination.
2. Calculate escrow balance and TIF note balance.
3. Calculate if or when designated tax revenues will exceed TIF project note balance.
4. Determine that no further TIF funded capital improvements will be made in the TIF district.
5. Calculate any costs to be incurred for early retirement.
6. Calculate the amounts, if any, of reimbursements of excess tax increment revenues to the taxing jurisdictions.
7. Taxing jurisdictions should agree on a plan for shared payment of any unpaid balances or liabilities discovered after termination of the TIF district.
8. Preparation of a written agreement for termination of the TIF district.
9. Approval and execution of the termination agreement by the taxing jurisdictions and administering authority.
10. Instruct the administering authority to apply, or cause the escrow agent to apply, the balance of unexpended TIF funds to [1] repayment and retirement of the TIF note, [2] any costs associated with the TIF district administration or termination and [3] distribution of remaining funds to the taxing jurisdictions.
11. Terminate all further payments of tax increment revenues to the administering authority or escrow agent.

A highly successful TIF project could generate more tax revenue, or achieve lower improvement costs, than originally planned. In that fortunate event an early termination of the TIF district is required. The above check list should provide guidance on the steps to take toward smooth termination.

