

HOW TAX INCREMENT FINANCING FOR HOUSING WORKS

- 1** This vacant, functionally obsolete school building is in a residential neighborhood.
- 2** The owner pays \$1,000 a year in property taxes. That \$1,000 is **tax baseline**.
- 3** The surrounding property values are stagnant because of this eyesore, and the city does not have enough homes for working residents.
- 4** Developer Amy wants to buy the property, demolish the school, and build new homes. But the extra cost to demolish the school building means Amy will pay more to build homes than she can sell them for. This is a **funding gap**.
- 5** Amy talks to her local Brownfield Redevelopment Authority. They agree workforce housing is beneficial and approve a plan to reimburse Amy for the funding gap between building cost and sale price.
- 6** Amy spends \$20,000 to demolish the old school building. This is Amy's **eligible cost**. Now she will build 10 new homes on the old school property.
- 7** Once the homes are built and sold, the property value goes up. Each of the 10 new homeowners pays \$500 a year in property taxes - a \$4,000 per year increase (10 homes x \$500 = \$5,000, minus the \$1,000 tax baseline)! That's the **tax increment**.
- 8** Every year for five years, the BRA returns the \$4,000 per year tax increment to Amy to repay her \$20,000 eligible cost. The city keeps the original \$1,000 tax baseline for schools and public services.
- 9** After Amy's eligible cost has been reimbursed, the city keeps the new taxes generated by Amy's project.

