

CHIP FAQ - Tax Increment & Tax Increment Financing



What is the duration for which tax increment may be retained?

Tax increment may be retained for a period of up to twenty (20) years from the year in which debt is first incurred.

Can we use a tax stabilization agreement for a CHIP site?

Yes. However, municipalities should consider this carefully.

A tax stabilization agreement can help make a project financially feasible, especially for challenging or high-cost developments. In some cases, it may help a project move forward that otherwise would not happen.

At the same time, a tax stabilization agreement may reduce or delay the increase in property tax revenue that CHIP relies on to fund infrastructure improvements. This can affect project financing and make administration of the CHIP district more complicated.

Communities also should consider public perception issues, such as fairness, transparency, and the long-term impact on the tax base.

A key question to ask is: Would a smaller or delayed tax increment with a stabilization agreement be better than no project (and no increment) at all?

What percentage of the education property tax increment may be retained for a standard (market rate) housing infrastructure project?

75 percent (75%)

If a project meets certain affordability criteria is the percentage of the education property tax increment that may be retained different?

Projects meeting certain affordability criteria are eligible to retain an additional 10 percent (10%) for a total of 85 percent (85%).

Will the tax increment be sufficient to pay for all eligible infrastructure costs?



It depends on both the cost of the infrastructure and the amount of tax increment that will be generated by a housing development project. CHIP financing is used to close gaps in funding. The municipality and developer will need to determine what the gap is and whether the anticipated tax increment will close the gap fully.

[How is tax increment calculated?](#)

The tax increment is calculated by subtracting the taxable value of the property on April 1 from the Original Taxable Value of the property.

Current Taxable Value – Original Taxable Value = Tax Increment

[What must a tax increment financing plan include?](#)

A tax increment financing plan must include:

- a statement of costs and sources of revenue;
- estimates of assessed values within the housing development site;
- the portion of those assessed values to be applied to the Housing Infrastructure Project;
- the resulting tax increments in each year of the financial plan and the lifetime education property tax increment retention;
- the amount of bonded indebtedness or other financing to be incurred;
- estimates of necessary principal, interest, costs of improvements, and related costs and in the event of municipal financing the amount anticipated to be approved by voters;
- other sources of financing and anticipated revenues; and
- the duration of the financial plan.

[Can other forms of public funding be used in combination with CHIP?](#)

Yes. Grants, loans, and other funding can be used in combination with CHIP tax increment. However, if a grant is used to pay some or all of the cost of an eligible CHIP infrastructure improvement, the portion of the cost paid by the grant cannot be



reimbursed through CHIP (no double dipping).

[Can a municipality incur debt for the Housing Infrastructure Project prior to CHIP application approval from VEPC?](#)

No. Debt eligible for tax increment financing cannot be incurred until the Housing Development Site is approved by VEPC.

[Is voter approval required before a municipality incurs debt for a Housing Infrastructure Project?](#)

Yes, municipal voters must approve each instance of municipal borrowing in a warned vote.

[What information must be provided to the public before the CHIP indebtedness vote?](#)

Information that must be provided to the public includes:

- The amount and type of debt and related costs to be incurred including, principal, interest, and fees,
- The term of the debt,
- The Housing Infrastructure Project to be financed,
- The Housing Development Project that will occur due to the Housing Infrastructure Project,
- A public notice that if the tax increment received is insufficient to pay debt costs in any year, the municipality remains liable for the debt, and

If interfund loans within the municipality are used, the information must include the terms and condition of the loan.

[When must a municipality incur debt for the Housing Infrastructure Project?](#)

In the event of municipal financing, the first issuance of debt must be incurred within five years of CHIP site creation (April 1 in the year the application was approved by VEPC). VEPC may issue an extension for up to three years (for a total of eight years).

[What instruments can be used for municipal CHIP debt?](#)



Allowed instruments include bonds, loans, interfund loans (interest-free), and bond anticipation notes.

Bond anticipation notes or other forms of temporary financing may not be used as a first incurrence of debt.

[How long is the debt period for a CHIP Housing Infrastructure Project?](#)

The term of the debt period is determined by the municipality and the municipality's debt financing agency.

When negotiating the debt period, municipalities should keep in mind that the CHIP Housing Development Site continues until the Final Repayment Date.

[When is the Original Taxable Value \(OTV\) of a CHIP Housing Development Site determined?](#)

The OTV of a CHIP Housing Development Site is set on April 1 of the year the Site is approved by VEPC.

This means:

- If VEPC approves an application on 12/31/26, the OTV is the assessed value on 04/01/26.
- If VEPC approves an application on 01/01/27, the OTV is the assessed value on 04/01/27.

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