CHIP FAQ - Tax Increment & Tax Increment Financing

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Tax increment financing, often called TIF, is a tool that helps communities support public improvement projects and economic growth. CHIP projects may use tax increment financing to help pay for eligible infrastructure costs that enable housing development. Understanding how tax increment works for CHIP can help communities better plan projects, manage funding, and meet program requirements.

VEPC's CHIP webpage may have additional FAQs related to this topic.

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%).

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.

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

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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).

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.

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

When must the lister or assessor certify the Original Taxable Value of a CHIP Housing Development Site?

The municipality must certify the Original Taxable Value of a CHIP Housing Development Site after VEPC approves the CHIP application.

Who does the lister or assessor report the Original Taxable Value of a CHIP Housing Development Site to?

The municipal Legislative Body.

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?

Is the lister required to do a projection of future development value for a prospective CHIP site?

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No. This is not a statutory duty of listers.

Depending on the project's complexity, projections may be developed or reviewed by:

- A municipal assessor (if they have the necessary experience).
- A contracted assessor or appraisal professional.
- A financial or economic consultant with TIF experience.
- A real estate market consultant.
- The project developer, subject to municipal review and verification.

Although a developer may prepare an initial projection, the municipality should independently evaluate the assumptions before relying on them. Because projected future development value affects tax increment estimates, bonding decisions, and the overall financial feasibility of the CHIP project, municipalities should be comfortable that the assumptions are reasonable and supported by evidence.

VLCT recommends conservative forecasting of the future development value. It also can be helpful to forecast expected and optimistic scenarios for comparison.

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