Managing Tax Increment Risk

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Understanding the Factors That Can Affect CHIP Financing

Tax increment is the financial foundation of a CHIP project. The amount of tax increment generated by a housing development helps determine how much funding may be available to reimburse eligible infrastructure costs. While municipalities can estimate future tax increment, those estimates are based on assumptions about the development, property values, and project timing. As a result, the actual tax increment may be higher, lower, or generated on a different schedule than expected.

Many of the factors that affect tax increment can be identified before construction begins. By understanding these risks early, municipalities can make more informed decisions, negotiate stronger Housing Infrastructure Agreements, and reduce the likelihood of unexpected financial challenges. This resource highlights common circumstances that may affect tax increment and offers practical questions to help municipalities evaluate and manage those risks.

Development Risks

These risks arise from changes to the housing development itself.

Circumstance	Why It Matters	Questions Municipalities Should Ask

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Reduced scope of development	Fewer housing units or smaller buildings may generate less tax increment than projected.	Can the developer change the project without municipal approval? What changes should require approval?
Project phasing	Development may occur over several years, delaying tax increment generation.	Is the phasing schedule realistic? How will delays affect municipal financing?
Construction delays	Delays postpone completion and delay tax increment.	What happens if construction starts late or stops? How will the municipality be informed?
Failure to complete the project	Infrastructure may be completed while the housing project is only partially built or never finished.	What performance assurances are in place? What remedies are available if the project is abandoned?
Change in project use	Converting housing to another use could affect eligibility and tax increment.	Should municipal approval be required before changing the approved project?

Property Valuation Risks

These risks affect the taxable value that generates tax increment.

Circumstance	Why It Matters	Questions Municipalities Should Ask
Property reassessment	Actual assessed value may differ from projections.	How sensitive is the project if assessed values are lower than expected?

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Circumstance	Why It Matters	Questions Municipalities Should Ask
Property tax appeals	Successful appeals can reduce assessed value and tax increment.	How should the municipality respond if the property assessment is appealed?
Property tax exemptions	Tax exemptions may eliminate or reduce tax increment.	Could any portion of the project become tax exempt?
Parcel subdivision or consolidation	Changes to parcel boundaries can complicate increment tracking.	How will parcel changes be coordinated with municipal officials?

Financial Risks

These risks affect the municipality's ability to finance infrastructure.

Circumstance	Why It Matters	Questions Municipalities Should Ask
Lower-than-expected tax increment	Municipal revenue may be insufficient to support planned reimbursements or debt service.	Does the municipality have a contingency plan if projections are not achieved?
Cost overruns	Infrastructure costs exceed estimates.	Who is responsible for additional costs? Are reimbursement limits clearly defined?

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Changes in financing	Developer financing difficulties may delay or prevent construction.	Does the developer have committed financing? What happens if financing changes?
Municipal borrowing	Debt repayment may depend on future tax increment.	Has the municipality evaluated how much financial risk it is willing to accept?

Ownership and Legal Risks

These risks arise from changes in ownership or legal circumstances.

Circumstance	Why It Matters	Questions Municipalities Should Ask
Property ownership changes	A new owner may not have the same obligations or financial capacity.	Must a new owner assume the Housing Infrastructure Agreement?
Tax stabilization agreements	Property tax reductions may reduce available tax increment.	How would any stabilization agreement affect CHIP financing?
Changes in law	Legislative or regulatory changes may affect project administration.	Does the agreement describe how legal changes will be handled?

Administrative Risks

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These risks relate to communication, reporting, and project management.

Circumstance	Why It Matters	Questions Municipalities Should Ask
Inadequate reporting	The municipality may not receive timely information needed to manage the project.	What reports are required? How often? Who prepares them?
Poor communication	Unexpected project changes may not be identified until they create financial problems.	What events require immediate notice to the municipality?
Incomplete documentation	Lack of documentation can delay reimbursement or create audit concerns.	What documentation is required before reimbursement is approved?

Strategies for Managing Risk

No CHIP project is completely risk free. The goal is to identify the risks that could have the greatest impact on the project and determine how they will be managed. Municipalities can reduce uncertainty by:

- Developing realistic assumptions when projecting future tax increment.
- Performing financial sensitivity analyses to understand the impact of lower-than-expected tax increment or project delays.
- Requiring regular communication and progress reporting throughout the project.
- Clearly defining responsibilities in the Housing Infrastructure Agreement.

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- Using performance assurances, such as letters of credit, performance bonds, or phased reimbursements, when appropriate.
- Working with development attorneys, financial advisors, engineers, and other technical experts throughout project planning and implementation.

Key Takeaways

Tax increment projections are estimates, not guarantees. A successful CHIP project depends on more than generating new housing; it also depends on thoughtful planning, clear agreements, and proactive risk management. By identifying potential challenges early and documenting how they will be addressed, municipalities and developers can build stronger partnerships, make more informed financial decisions, and improve the likelihood of a successful project.

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