

## **Tax Increment Explanation**

Modified from

Introduction to Tax Increment and Redevelopment - July 2007

City of Lodi

Tax increment is a component of the California Redevelopment Law. State law makes available to cities the use of Tax Increment for redevelopment to meet the local needs of their residents and businesses, as outlined in the Health and Safety Code. It is a revenue source that does not raise taxes. Every city and county in the State of California has the ability to form a redevelopment agency, but not all do. The City of Livermore formed the City of Livermore Redevelopment Agency (Agency) in 1982.

### ***What is tax increment?***

Tax increment is the difference between the base year of the assessed property value at the date of formation of the Redevelopment Agency and the increase in property values in the current year. Tax increment does not change the amount of taxes that the property owner is required to pay. It does change how the extra property tax generated, "the increment," is distributed. Livermore typically receives about 17 cents from every dollar of property tax paid by the property owners of the City. With tax increment, Livermore receives about 75 cents from every dollar of new property tax generated above the base assessment. Tax increment is not an assessment or lien on property. Property taxes within the Redevelopment Area are governed by the same laws that limit property tax increases outside of the Area.

For example, typical property tax on a parcel with an assessed value of \$500,000 would be \$5,000 (about 1% of the total value). The City's typical share (about 17 % of the property tax amount) would be about \$850. If the same property sold in later years for \$750,000, the new annual tax would be \$7,500 (about 1%). This would be an "incremental" increase in the tax of \$2,500 and the City would receive about \$1,275. However, if this same property had been in the Redevelopment Project Area when it was established in 1982, the City would instead receive 80 percent of the \$2,500 increase (\$2,000), plus the original \$850, amounting to \$2,850. This is money that would otherwise go to the State of California, the County or other agencies that are the responsibility of the State of California.

### ***How is the tax increment spent?***

Under the State's tax increment rules, the Livermore Redevelopment Agency retains tax increment funds and it must spend according to a plan, referred to as a Redevelopment Plan. The Redevelopment Plan can allow for expenditures for programs ranging from major rehabilitation of water, wastewater, and storm drain infrastructure to building new facilities. There is only one absolute requirement with regard to the expenditure of tax increment funds: 20 percent of tax increment revenue must be spent on affordable housing. Tax increment is only generated within a designated Redevelopment Area. This is a distinct geographic area, and in Livermore's case is the Downtown. Although there are some exceptions, tax increment funds are mandated to be spent within the Redevelopment Area.

### ***Why tax increment is important***

It has been demonstrated in many cities and counties throughout the State that tax increment is an economic tool that encourages economic stimulation so that growth in the tax base can provide funding for local improvements, create jobs, and improve health, safety, and quality of life. And Livermore has shown that it can accomplish amazing reuse and revitalization of the Downtown with this simple but effective tool.