Tax Increment Finance

Economic Development Forum

Dekalb, LaGrange, Noble, Steuben and Whitley Counties

October 4, 2023

bakertilly
MUNICIPAL ADVISORS

Why do communities want “economic development”?

- Jobs, wages
- Build tax base
- Increased local spending
- Economic diversification
- Redevelopment
- Improve quality of life

Why do we offer incentives for economic development?

Encourage new business investment to increase our local and state tax base, reduce tax burden, reduce property taxes lost due to tax caps

Encourage job creation or retention

Target specific industries or market segments, geographic areas, low-income

Competition among alternative sites

Purpose of TIF

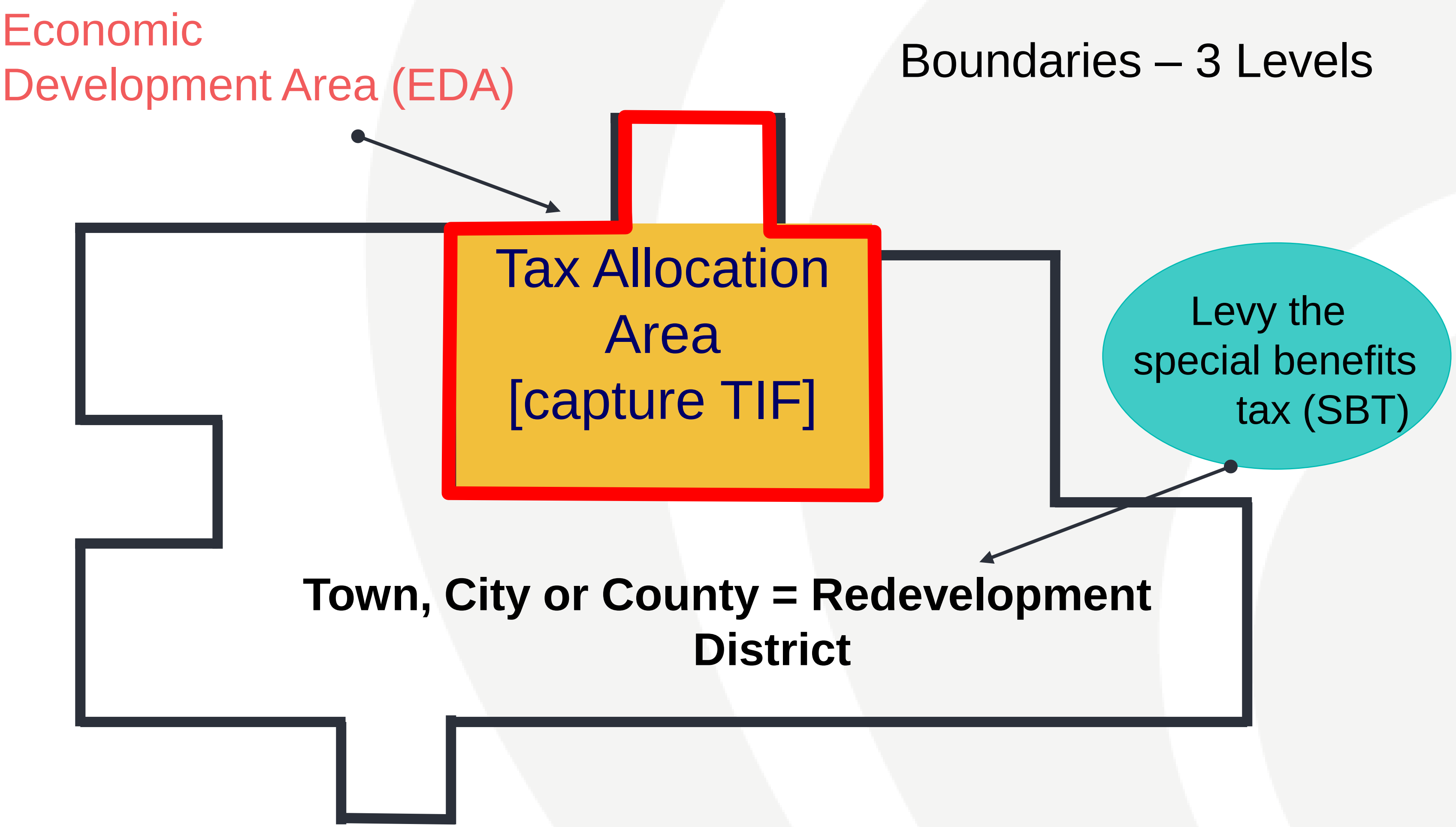
To finance **incentives** or **infrastructure** needed to induce private investment

To encourage orderly economic growth in targeted areas

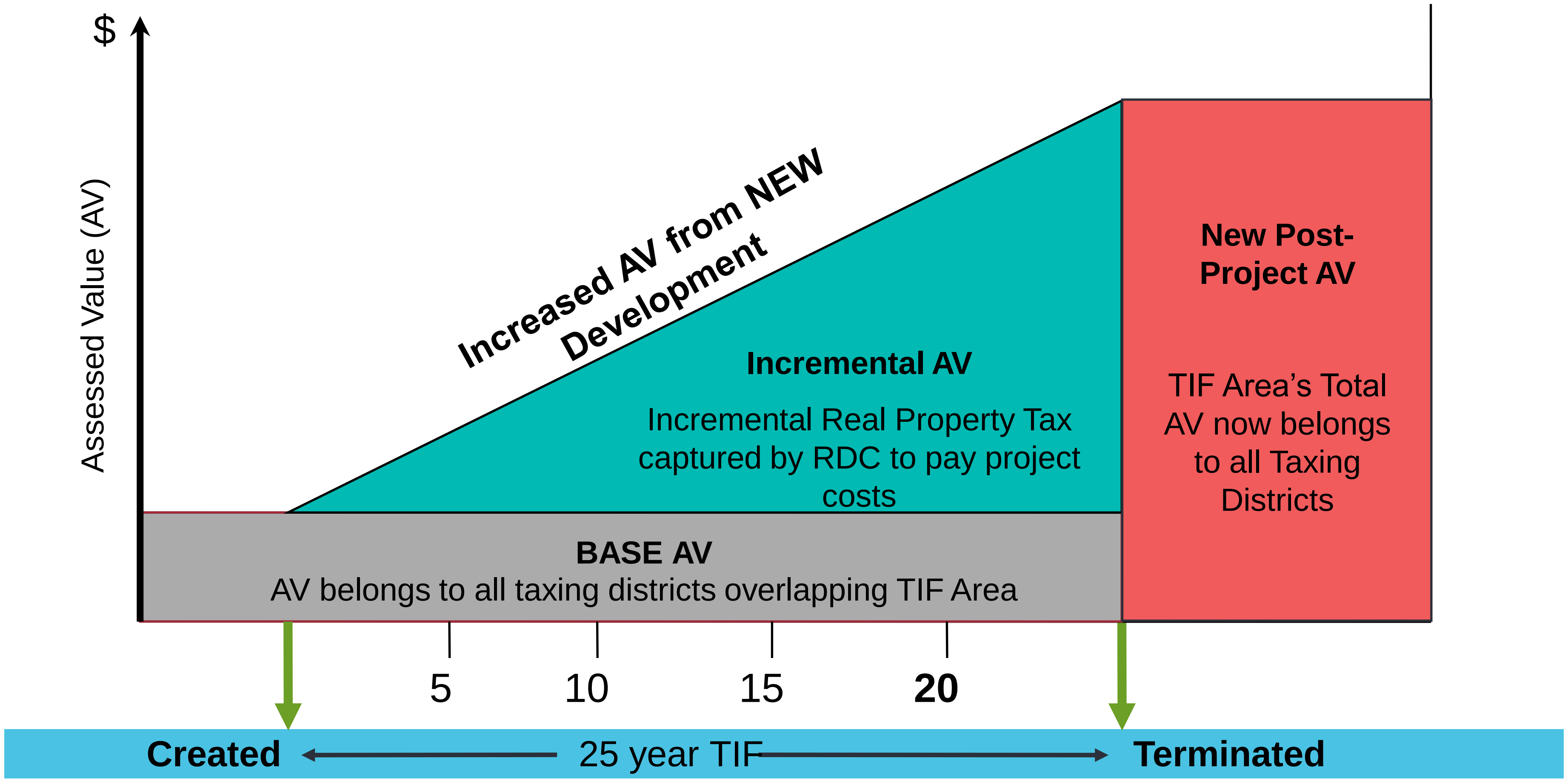
To redevelop blighted areas

Note: New businesses in a TIF Area still pay property taxes on their new private investment.

Redevelopment District and TIF Areas



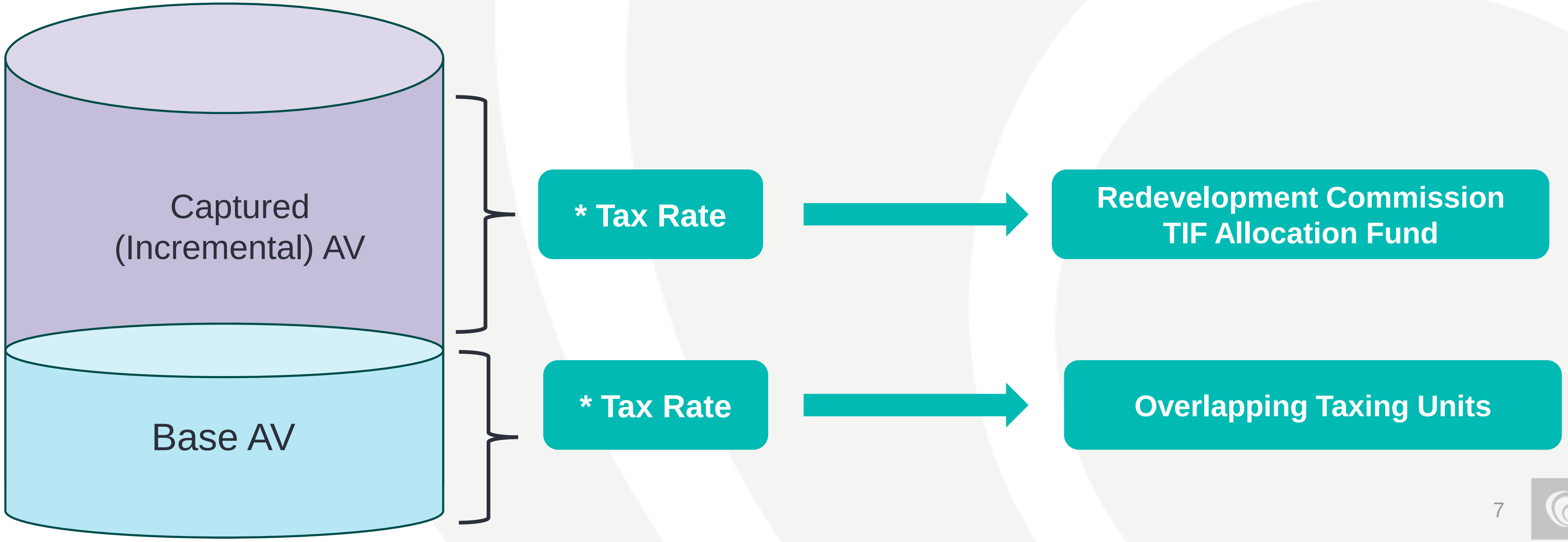
Tax increment financing (or "TIF") is a tool which ***captures new assessed value*** and property taxes from new development in a ***designated area***



TIF Calculation

Increases in assessed value (AV) over the base value become the incremental assessed value (“**Incremental AV**”).

Incremental AV multiplied by tax rate (per $100 AV), minus circuit breaker tax credits, equals the **Tax Increment (TIF)**.



Permitted use of TIF

All projects have to be **in or directly serving or benefitting** the designated redevelopment area or economic development area.

Capital project expenditures

Public infrastructure (including utility infrastructure)

Site acquisition, clearing and improvements for private developments

Public safety projects
(e.g., fire stations or trucks)

Recreation facilities

Job training:

TIF may be used on a limited basis to reimburse public and private entities for expenses incurred in training employees of industrial facilities located in the allocation area, and to fund other training and worker education programs.

"Efficiency" project

a project needed to carry out an interlocal cooperation agreement between govt'l entities, or to consolidate local gov't services

Police and Fire capital and operating

Uses of Downtown TIF

- Infrastructure
- Property Acquisition
- Environmental Remediation
- Utility Relocation
- Site clearing, demolition
- Parking
- Façade improvement grants
- Building rehabilitation and infill
- Co-working space

TIF Façade Grant Programs

- Common use of TIF in downtown areas
- Several ways it can be administered
- LIT (EDIT) statutes allow use of LIT directly for façades
- TIF statutes generally allow reimbursement of capital expenditures
- Revolving loan fund
  - IC 5-1-14-14 allows revolving loan fund from EDIT, other sources
  - pay from LIT (EDIT)
  - reimburse with TIF
- Reimburse owners once work fully complete
- Forgivable loan
  - ensure owner completes work

Tools for downtown redevelopment

- Tax Increment
- Tax Abatement
- Vacant Building Deduction
- Other City Revenues (EDIT, for example)
- Tax Credit Programs
  - Historic Tax Credits
  - Redevelopment Tax Credit
  - Low-income Housing Tax Credit

Downtown Redevelopment Projects

Vine Street Lofts
Jasper, IN

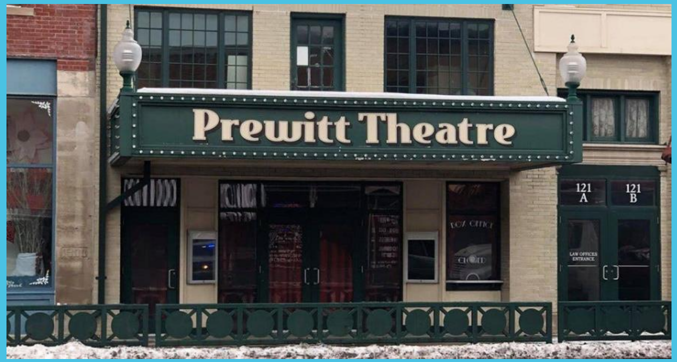
- Former Jasper Wood Products building
- Affordable housing for 55+ residents
- Tools: Tax abatement

The Landing
Fort Wayne, IN

- Redevelopment of historic buildings along Columbia St.
- Tools: Tax Abatement, TIF, New Market Tax Credits, Redevelopment Tax Credits

The Prewitt
Plainfield, IN

- Former Prewitt Theater
- Tools: Tax Increment



Residential TIF

- Previously, the idea was that traditional TIF was a tool to create jobs and wages, and residential growth would follow
- Traditional TIF could capture commercial and industrial growth, but residential growth would support the tax base
- Many communities experienced a disconnect, with a strong ability to attract employees but struggles to attract residents
- In many communities, shortage of jobs no longer the issue but lack of residents to fill those jobs
- Up-front funding barriers to new residential development, developer “gaps”
- State legislature realized issues and passed Residential TIF legislation as a tool to combat the barriers to development

Similarities: Residential TIF v. Traditional TIF

- Overall mechanics and calculations
- RDC, Plan Commission, and Council approvals
- Tax Impact Statement and public hearing required
- Life begins with the pledge of the TIF to a long-term obligation
- TIF may be pledged to bonds or leases or combined with other revenues

Differences: Residential TIF v. Traditional TIF

Allows for the capture of single-family residential property in addition to commercial and industrial property

20-year life for residential TIF

Eligible uses:

- Single-family housing related infrastructure or other local public improvements
- Acquisition of real property for single-family housing rehabilitation purposes
- Site preparation in anticipation of single-family housing development

Residential Housing TIF Revenue Uses

- Construction of infrastructure or local public improvements in, serving or benefiting a residential housing project (roads, sidewalks, utilities)
- Acquisition of property for rehabilitation purposes within the area
- Preparation of real property within the area for development
- Payment of principal and interest on bonds or other obligations payable from the Housing TIF revenues
- Reimburse the unit for expenditures made for local public improvements that are physically located in or connected to the Housing TIF Area

Property tax caps – "Circuit breaker tax credit"

- The computed property tax bill is compared to the "cap" amount
  - 1% of gross assessed value (pre-deductions) for homesteads
  - 2% for agricultural or non-homestead residential
  - 3% for commercial
- The taxes above the cap amount are not paid by the taxpayer

- The cap amount is driven by the assessed value of the property before deductions
- The amount of unpaid taxes generates a shortfall for the taxing units
- Credits are allocated to the taxing units based upon the percentage of the unit's tax rate to the overall tax rate of the taxing district

What are some risks of TIF?

- No Project or Smaller Project or Delayed Project
- Assessment is less than estimated
- Taxpayer appeals the assessment
- Economy causes general decrease in property values
- Company goes out of business or relocates
- Company doesn't reinvest or replace equipment, equipment depreciates, or becomes obsolete
- Natural disasters: earthquakes, floods, tornadoes
- Company becomes non-for-profit (tax-exempt)
- State legislative or regulatory changes

Does TIF take away funds from other units?

- If the increased assessed value from NEW developments would not occur "**BUT FOR**" the **TIF incentives**, then, it **CANNOT** be "**LOST**" to the other taxing units.
- TIF ***postpones*** adding new assessed value to the tax base, which postpones the reduction in tax rates for funds with levy limits and postpones increased revenues from funds with rate limits; and postpones reduction in circuit breaker credits.
- During TIF capture, other taxing units may immediately benefit if personal property AV is not captured; if a portion of the TIF AV is passed-through to other units; new jobs and wages may increase local option income tax revenue.
- After TIF ends (or if there is surplus pass-through), the increased assessed value is added to the tax base of all the taxing units.

Does TIF take away funds from schools?

- School educational expenses are largely funded by the State
  - State funding is based upon *student enrollment*

- Operations Fund and Debt Service Funds are <u>Levy Limited</u>
  - No revenue impact from TIF capture
  - TIF capture postpones reduction in tax rates

- Taxpayers' <u>Property Tax Caps reduce</u> School Funding
  - Circuit Breaker loss only if TIF does not meet the "but for" test

- Referendum-approved levy includes TIF Value

Examples: TIF to help Schools:

- Training programs
- Transportation center
- STEM programs
- Safety/ Security
- Computers
- Personal Property AV growth
- Pass-through excess TIF AV

TIF - Education

- Utilize up to 15% of TIF revenues generated in allocation area for job training programs
  - Local school corporations
  - Certain nonprofit organizations
  - Higher education institutions
- Utilize TIF for school capital projects
  - In or directly benefitting TIF area
  - Included in TIF economic development plan

RDC Powers
(Not exhaustive)

- Acquire property (need 2 appraisals BUT can pay more than the average of the 2 - useful if part of an incentive)
- Dispose of property (2 appraisals BUT can sell the property for $1.00. - again, useful incentive)
- Repair, maintain, build structures, etc.
- Contract for local public improvements
- Issue bonds, enter into leases, accept grants / loans, etc.
- “On terms and conditions considered best by Redevelopment Commission”

Procedures for Establishing or Amending a TIF Area

1. Identify area boundaries and prepare a redevelopment or economic development plan
2. RDC adopts Declaratory Resolution, plan, and factual report
3. Plan Commission approval
4. City Council (County Commissioners) approval of Plan Commission Order
5. Publish notice of public hearing and distribute Impact Statement
6. RDC holds public hearing and adopts Confirmatory Resolution
7. RDC records Resolution, notifies DLGF and files documents with County Auditor

Establishing & Amending TIF Areas

- Can separate and re-establish TIF Areas
- Can expand and connect TIF Areas
- Be careful when setting boundaries to avoid unexpected TIF loss
- If Allocation Area is getting close to expiration, be sure to analyze the impacts of the release of assessed value to the overlapping taxing units.

Traditional TIF Areas created after July 1, 2008 expire **25 years** after the date the first obligation payable was incurred

Residential TIF Areas expire **20 years** after the date the first obligation payable was incurred

RDC Reporting Requirements

April 1

- **Fiscal Plan**
- Each year, the Treasurer of the RDC (the Clerk-Treasurer) must prepare a fiscal report for the RDC

April 15

- **TIF Management Report**
- By April 15 of each year, the RDC is required to file a report of its activities for the prior calendar year with the Mayor, the Council, and to the DLGF via Gateway.
- Beginning in 2024, the report must be presented at a Council meeting

June 15

- **Pass-through determination**
- Annual notification to overlapping taxing units

Dec. 1

- **RDC Annual Spending Plan**
- Beginning in 2024, the RDC needs to file an annual spending plan for the next calendar year with the Mayor and Council as well as with DLGF
- The RDC may use money in the TIF allocation fund and any other RDC-maintained fund only according to the annual spending plan

Annually

- **RDC Annual Presentation to Taxing Units**
- RDC's budget for TIF revenues
- Long-term plans for the TIF area
- Impact on each of the overlapping taxing units

Property taxes

Gross Assessed Value
Total value of the property

–

Exemptions / deductions

=

Net Assessed Value
Value of the property that is taxed

$$\frac{\textbf{Net Assessed Value}}{\textbf{100}} \ast \textbf{Tax Rate} = \underbrace{\textbf{property tax levy}}\ \textbf{(revenue received)}$$

Levy controlled by the DLGF.
Can only increase by a certain percentage each year

Correlations – Assessed Value and Tax Rate

If assessed value increases,	Tax rates decrease
If assessed value decreases,	Tax rates increase

Questions?

Heidi Amspaugh
Principal

P: +1 (317) 465- 1517
E: heidi.amspaugh@bakertilly.com

bakertilly
MUNICIPAL ADVISORS