Tax Increment Financing (TIF)

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Introduction

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- Process to Establish a TIF Allocation Area
- Mathematics of TIF
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Introduction

- TIF is a powerful financing tool used to fund economic development and investment in infrastructure.
- Principal behind TIF is based on “capturing” future increased tax dollars that are generated due to the development.
- Debt using TIF is outside of the normal controls and limits on debt in Indiana.

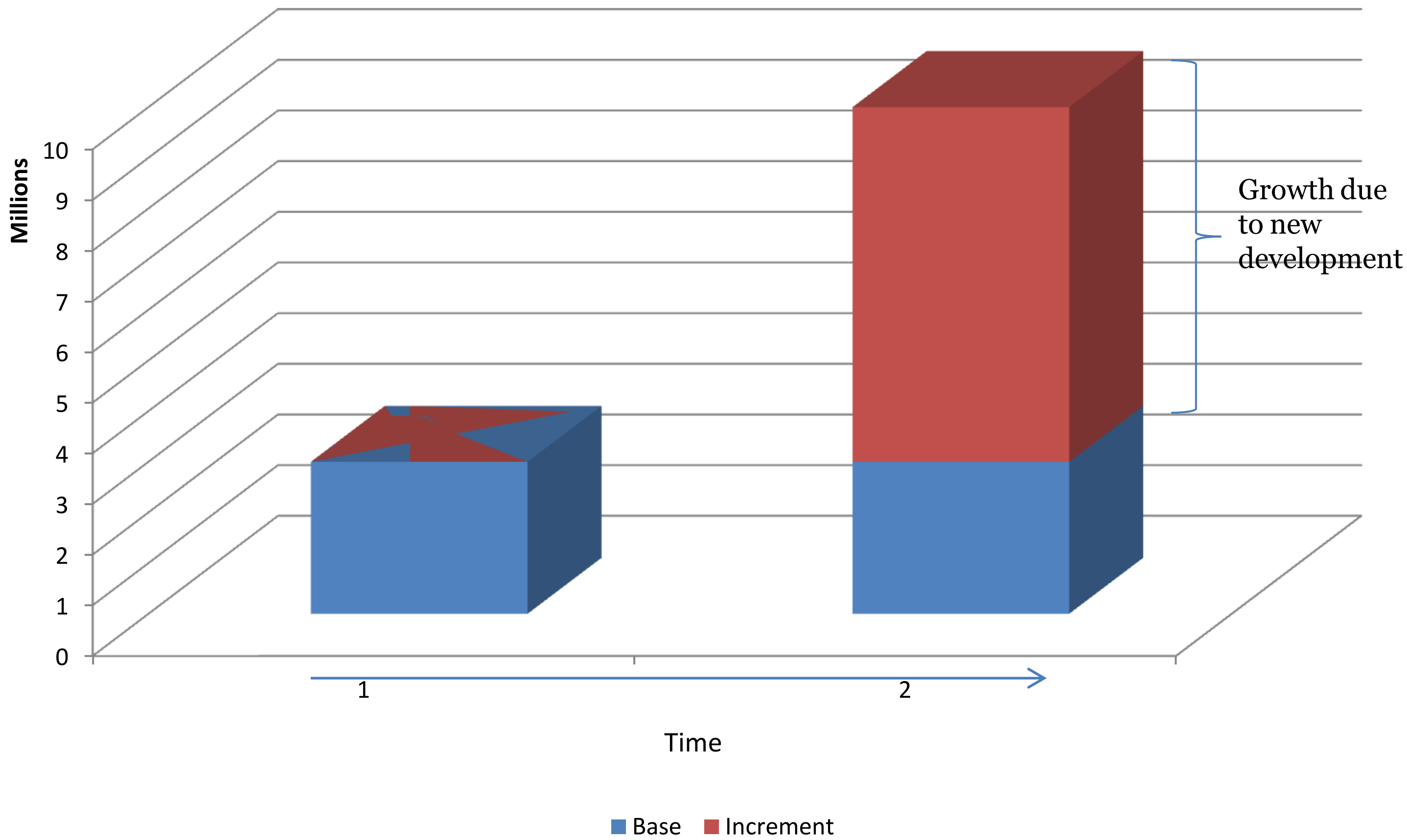
Brief History of TIF

- Originally created in California in 1952.
  - Allowed cities to raise money for development to attract federal matching funds for projects.
- Now, all states have adopted TIF enabling legislation. (Repealed in Arizona and California. California has recently reinstated.)
- TIF provides a tool for targeting economic development in a specific area.
- Laws governing TIF vary considerably from state to state.

TIF in Indiana

- Uses of TIF Proceeds:
  - Pay expenses of Redevelopment Commission for the public improvements;
  - Pay principal and interest on bonds or leases;
  - Roads, streets, and sidewalks for access to new development;
  - Construction of water and sewer lines;
  - Acquisition of real estate;
  - Parking facilities;
  - Street lighting.

Basic TIF Model



Basic TIF Model

- “Base” represents the base assessed value of the area before the creation of the TIF
- “Increment” is the increased assessed value of the area after the redevelopment from the improvements financed by the TIF.
- Base and Increment can also refer to the tax dollars generated in the area both before the development and afterwards. Incremental revenues are the additional taxes after the development which are “captured” for the TIF.
- Ideally, base revenues are continually generated at the same level as before the development.

Redevelopment

- IC 36-7-14 is the primary statute governing TIF in Indiana;
- Section 2 declares that redevelopment is a “public use.”

- **IC 36-7-14-2**
  Declaration of public purpose; opportunities for redevelopment by private enterprise

Sec. 2. (a) The clearance, replanning, and redevelopment of areas needing redevelopment under this chapter are public uses and purposes for which public money may be spent and private property may be acquired.
(b) Each unit shall, to the extent feasible under this chapter and consistent with the needs of the unit as a whole, afford a maximum opportunity for rehabilitation or redevelopment of areas by private enterprise.
As added by Acts 1981, P.L.309, SEC.33. Amended by P.L.185-2005, SEC.8.

Redevelopment

- Section 2.5 requires certain benefits of the redevelopment:

Economic development areas; public functions, uses, and purposes; approvals; liberal construction

Sec. 2.5. (a) The assessment, planning, re-planning, remediation, development, and redevelopment of economic development areas:

(1) are public and governmental functions ***that cannot be accomplished through the ordinary operations of private enterprise*** because of:

(A) the necessity for requiring the proper use of the land so as to best serve the interests of the county and its citizens; and

(B) the costs of these projects;

(2) will:

(A) benefit the public health, safety, morals, and welfare;

(B) increase the economic well-being of the unit and the state; and

(C) serve to protect and increase property values in the unit and the state; and

(3) are public uses and purposes for which public money may be spent and private property may be acquired.

Definitions

- IC 36-7-14 Section 39 contains several important definitions:
- "***Allocation area***" means that part of a redevelopment project area to which an allocation provision of a declaratory resolution adopted under section 15 of this chapter refers for purposes of distribution and allocation of property taxes. The "allocation area" is also known as the ***TIF district*** with the boundaries specified in the declaratory resolutions.
- ***"Base assessed value"*** generally means the assessed value of the allocation area at the time the allocation area is established. However, it depends when the allocation area was created and can vary with reassessment and trending.
- Increases in assessed value after the allocation area is established are known as ***"incremental assessed value."***

IC 36-7-14

NOTES:

- Increases in taxes over the base are paid to the redevelopment commission. Occasionally, this has the effect of freezing the amount of levy paid to the base.
- The incremental assessed value can take assessed value from the base in cases where outstanding debt service obligations is not sufficiently funded.
- Tax increment is to be spent within the allocation area or serving the allocation area.

This is a very general overview of this complicated statute. Although this information is believed to be reliable, it is not guaranteed. This overview does not substitute as a legal opinion.

Establishing a TIF

- Counties, cities, or towns can establish redevelopment commissions.
- The redevelopment commission makes the following findings:
  - An area is in need of redevelopment (IC 36-7-14-15);
  - The conditions cannot be corrected by regulatory process or ordinary operations of private enterprise;
  - The public health and welfare will be benefited by:
    - Acquisition and redevelopment of the area or,
    - Amendment of the resolution or plan or both for an existing redevelopment project area.

Establishing a TIF (Plan)

- After the redevelopment commission makes the previously mentioned findings, the commission has the following Plan prepared:
  - Maps and plats showing:
    - Boundaries of areas affected by establishment of project area;
    - Location of various parcels of the area, streets, alleys, and other areas affecting the redevelopment;
    - Parts of area devoted to public ways, levees, sewerage, parks, and other public purposes;
  - Lists of owners of various parcels to be acquired or affected by the redevelopment;
  - Estimate of costs of the redevelopment plan.

Establishing a TIF (Declaratory Resolution)

- The redevelopment commission adopts a resolution declaring:
  - The area needing redevelopment is a “menace” to the social and economic interests of the unit and its inhabitants (IC 36-7-14-15);
  - It will be of public utility and benefit to acquire the area and redevelop it, and;
  - The specified area is designated as a redevelopment project area.

Declaratory Resolution

- The date of the declaratory resolution established the base year for the allocation area.
- Boundaries of the allocation area are defined in the resolution.
- The base assessment of the allocation area is the March 1 prior to the date of the declaratory resolution. Assessment dates change on January 1, 2016 for taxes payable in 2017.

Declaratory Resolution

- Approval Process:
  - Redevelopment plan is submitted to the municipal fiscal body or county executive for approval.
  - Redevelopment commission must conduct a public hearing before establishing the redevelopment project area.
  - The public notice of the hearing must also be provided to the other taxing units in the allocation area (i.e., schools).
  - After the public hearing, the redevelopment commission adopts a confirmatory resolution officially establishing the redevelopment project area.

Overview of Process to Est.

- Fiscal body creates redevelopment commission (RDC);
- RDC makes a declaration of public purpose;
- RDC makes findings and prepares the plan;
- RDC approves declaratory resolution;
- Plan is approved by fiscal body at a public hearing;
- Confirmatory resolution is adopted establishing a redevelopment project area;
- RDC determines the redevelopment project area is an economic development area (EDA).
- Determination that project area is an EDA is approved by the unit's legislative body.

Declaratory Resolution

- Approval Process:
  - Redevelopment plan is submitted to the municipal fiscal body or county executive for approval.
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Allocation Area

- The allowable duration of the allocation area depends upon when the area was established.

  - Original: unlimited
  - Mid-1990's: 30 year limit
  - Mid-2000's: 25 year limit

- Residential property treatment also depends when the allocation area is created.
  - Post July 1, 1997, residential property cannot be captured.

Special Residential Areas

- "HO-TIF's" refers to allocation areas established for housing or residential improvements.
  - Allows the capture of residential property assessed value.
  - Most successful HO-TIF in Indiana is the Fall Creek HO-TIF in Indianapolis.
  - Began with special legislation but made permanent with the success of this area.

Economic Development Area

- IC 36-7-14-41
- The redevelopment commission may approve a plan and determine a geographic area in the redevelopment area is an economic development area if it finds:
  - The plan for the economic development area:
    - Promotes significant opportunities for gainful employment;
    - Attracts major new business enterprise to the unit;
    - Or retains or expands major business enterprise existing in the boundaries.

Economic Development Area

- IC 36-7-14-41 (Continued)…*Redevelopment commission may approve a plan if…*
  - The plan cannot be achieved by regulation or ordinary operation of private enterprise because of:
    - Lack of public improvement;
    - Existence of improvements or conditions that lower the value of land below nearby land;
    - Multiple ownership of land; or
    - Other similar conditions.
  - The public health and welfare will be benefited by accomplishment of the plan.
  - Determination of a geographic area is an economic development area must be approved by the unit's legislative body.

Economic Development Area

- IC 36-7-14-41 (Continued)…
  Redevelopment commission may approve a plan if…
  - Accomplishment of the plan will be a public utility and benefit as measured by:
    - The attraction or retention of jobs;
    - An increase in the property tax base;
    - Improved diversity of the economic base; or
    - Other similar public benefits; and
  - The plan conforms to other development and redevelopment plans for the unit.

Economic Development Area

- IC 36-7-14-41 (Continued) – Expansion of Area
  - Determination of a geographic area as an economic development area must be approved by unit's legislative body.
  - Plan for area may be amended.
  - Enlargement of economic development area must be approved by unit's legislative body.

Debt Financing Using TIF

Debt Financing

- Bonding Authority
  - Redevelopment commission has authority to issue debt under IC 36-7-14-25.1.
  - The legislative body of the unit that established the redevelopment commission must adopt a resolution specifying:
    a. public purpose of the bond
    b. use of the bond proceeds
    c. maximum principal amount of the bonds
    d. term of the bonds*
    e. maximum interest rate of the bonds
    f. any provision for redemption before maturity

* Not to exceed 25 years for debt issued after June 30, 2008.

Redevelopment Debt

- Bonds issued by a redevelopment commission may be payable from:
  - A special tax levy on all property in the redevelopment district;
  - Tax increment revenues;
  - Other revenues available to the redevelopment commission; or
  - A combination of the above.

A legislative body of the taxing unit may pledge local option income taxes for securing bonds.

Redevelopment Debt

- Bonds issued by a redevelopment commission are different from most other municipal bonds:
  - Redevelopment commission debt is not debt of the civil taxing unit; rather, it’s debt of the redevelopment district.
  - Debt limit of a redevelopment commission is limited to 1/3 of 2% of the assessed value if bonds are secured by property taxes.
  - However, limit does not apply to tax increment financing bonds.
  - Debt limits do not apply to leases.

Redevelopment Debt

- TIF debt is generally considered a higher risk than traditional municipal bonds.
- TIF debt is more expensive to issue and administer than traditional bonds:
    - Not considered direct debt of the political subdivision.
    - Higher risk of default.
    - Higher risk to investors demands higher interest rates (return to investors).
    - More work for legal counsel and financial advisors to issue.
    - More burdensome administratively.

Allocation

- Assessed values within a TIF district or allocation area are allocated into two parts:
  - Base, or
  - Increment.
- Allocation is based on the assessment date immediately preceding the adoption of the declaratory resolution.
- Allocation depends upon the law effective at the time of the resolution.

Allocation Formula

Total Net Assessed Value of the Property in the TIF District	*LESS*	Base Assessed Value of the TIF District (as adjusted through TIF Neutralizations)	*EQUALS*	Incremental Assessed Value of the TIF District

As net assessed value grows above the amount of the base assessed value, the allocation area (TIF) is able to capture tax revenue on the incremental value.

Economic Development Area

- Taxes generated by the base assessed value are distributed to the civil taxing units as they always have been.
- Taxes generated by the incremental assessed value are distributed to the redevelopment commission (RDC).

Both the TIF models and formula assume all growth in AV is attributed to TIF.

Mathematics of TIF

Statewide TIF Assessed Value

Payable Year	Certified TIF AV	Certified NET AV Post TIF	Total Net AV	TIF AV as % of Total Net AV
2009	$17,100,285,139	$265,629,169,290	$282,729,454,429	6.05%
2010	$18,194,997,892	$266,286,216,726	$284,481,214,618	6.40%
2011	$19,497,993,603	$262,140,785,877	$281,638,779,480	6.92%
2012	$19,041,357,319	$264,619,644,550	$283,661,001,869	6.71%
2013	$19,980,660,473	$263,336,954,551	$283,317,615,024	7.05%

* Does not include LaPorte County

Statewide TIF Dollars

Payable Year	TIF Levy*	Total Certified Levy*	TIF Levy as % of Net
2009	$459,841,790	$6,028,737,973	7.63%
2010	$497,691,298	$6,159,504,909	8.08%
2011	$553,745,457	$6,310,550,044	8.77%
2012	$536,414,567	$6,253,892,486	8.58%
2013	$594,274,329	$6,485,534,130	9.16%

* Does not include LaPorte County

Mathematical Model of TIF

Year	Net Assessed Value	Base Assessed Value	Incremental Assessed Value
2012 Pay 2013 (Base Year)	$100,000	$100,000	$0
2013 Pay 2014	$300,000	$100,000	$200,000
2014 Pay 2015	$500,000	$100,000	$400,000

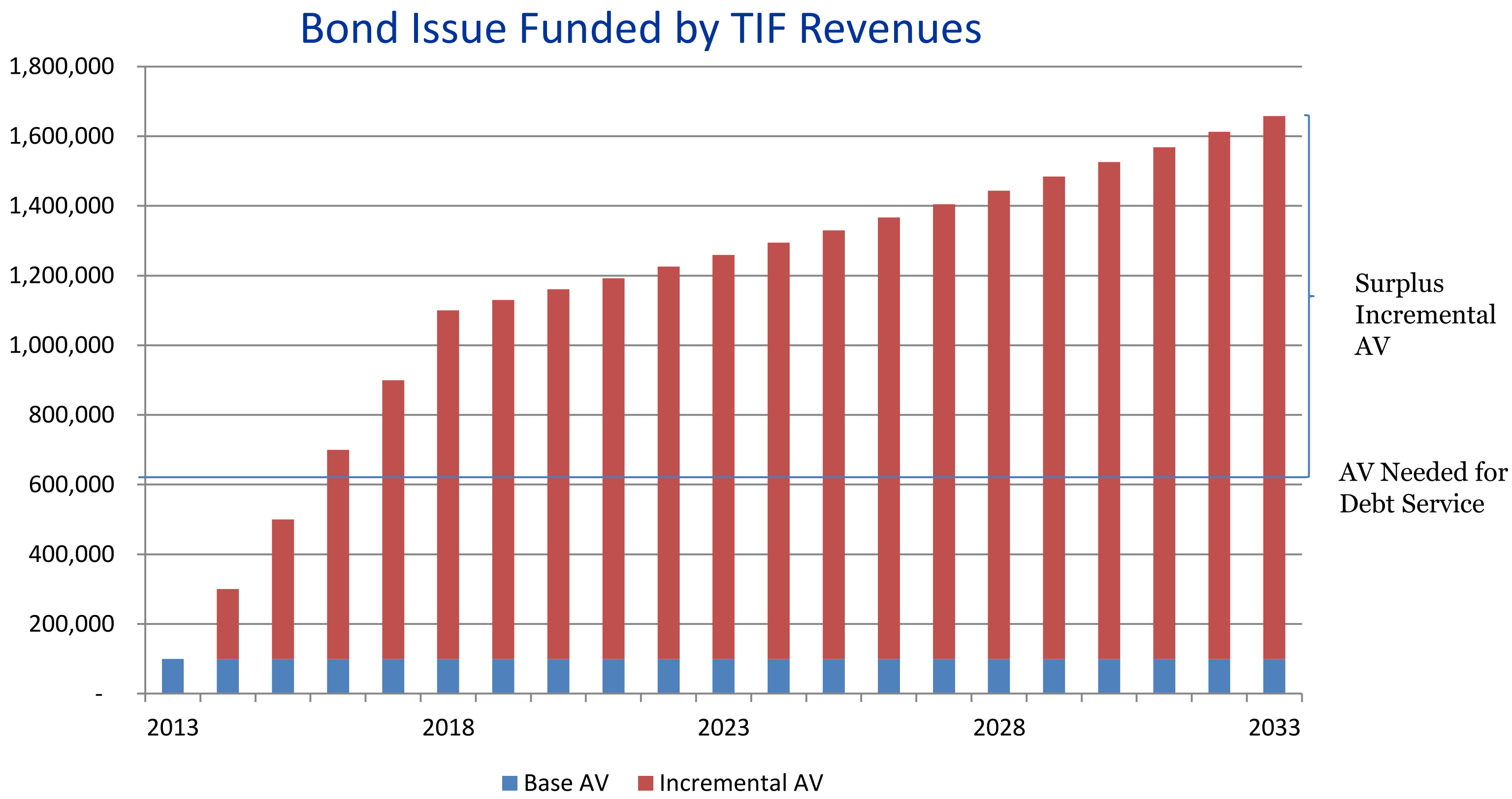
Assumes all increased assessed value in the allocation area is due to redevelopment.

Model of TIF for Debt Service

Year	Net Assessed Value	Base Assessed Value	Incremental Assessed Value	AV Needed For Debt Service	Surplus AV or (DEFICIT)
2012 Pay 2013 (Base)	$100,000	$100,000	$0	$0	$0
2013 Pay 2014	$300,000	$100,000	$200,000	$0	$0
2014 Pay 2015	$500,000	$100,000	$400,000	$500,000	($100,000)
2015 Pay 2016	$700,000	$100,000	$600,000	$500,000	$100,000
2016 Pay 2017	$900,000	$100,000	$800,000	$500,000	$300,000

AV of $500,000 would generate $10,000 per year with a tax rate of 2.0000. Over twenty years this could support a bond of $200,000.

Model of TIF for Debt Service



Surplus of Incremental AV over the required AV improves the credit worthiness of the bonds.

Surplus TIF AV

- Causes of Surplus TIF AV or Levy:
  - Debt coverage estimate exceeded;
    - Most planners use 120% to 150% of debt service requirement for coverage estimate;
  - Growth in allocation area exceeded estimates;
  - Too large of an area “captured” in allocation area;
  - Tax rates increased above level for necessary funding.

Surplus TIF AV

- Uses of Surplus TIF AV or Levy:
  - IC 36-7-14-39
    - Allocated to redevelopment district for principal and interest of any obligations.
    - Establish or restore debt service reserve.
    - Pay principal and interest of bonds issued by the unit for local public improvements.
    - Reimburse unit for expenses it made for local public improvements (includes buildings, parking facilities, and other items physically located in the district).
    - Pay expenses of the commission for local public improvements.

Surplus TIF AV

- IC 36-7-14-39 (Continued)
  - Declare a surplus AV in excess of the amount required for debt service and those other purposes of the commission.
  - Provide a written notice to the county auditor, the fiscal body of the county or municipality of the unit that established the commission, and the other fiscal officers in the allocation area.
  - Notice states the amount of the excess AV. Auditor then reallocates the excess AV to the respective taxing units.
  - Reallocating excess AV either increases levy to units or reduces future property tax rates.

Shortfall of TIF AV

- Occasionally, there are funding shortfalls for bonds issued with TIF as the source of payment.
  - TIF proceeds are insufficient for repayment of obligation.
- Options under IC 6-1.1-21.2-12 include:
  - Impose a property tax on the redevelopment district;
  - Reduce the base AV of the allocation area;
  - Levy a special tax assessment (TIR) or fees;
    - TIR is Tax Increment Replacement levy.
- Other options include:
  - Refinance the obligation;
  - Expand the allocation area (TIF district).

Shortfall in TIF AV or Levy

- Causes of Shortfall:
  - Cost of project exceeded estimates.
  - Under estimated debt service requirements.
  - Over estimated future growth of the incremental AV.
  - Tax rates reduced below level needed for debt service requirements.
  - Allocation area established too small.

TIF Neutralization

- Purpose of Neutralization is to remove the impact of general reassessment or annual adjustment of assessed values from the calculation of TIF revenues.
- Neutralization is only done on real property values.
- Forms are prepared each year by the county auditor and submitted to the Department for approval.
- Forms calculate a factor which is applied to the base and incremental assessed values by the auditor.

TIF Neutralization

- Statute was revised for Pay 2014 and forward to allow better protection to the Base AV in the neutralization process.
- The previous formula protected the revenues to the TIF at the prior years level regardless of the need and sometimes at the expense of the base.
- New forms were developed for Pay 2014 which better identifies changes to the base and the increment due to annual adjustments and reassessment.
- New procedure better preserves the base assessed value.

External Factors

Other Factors Affecting TIF

- TIF revenue projections are based on an assumed tax rate for other municipal units.
  - Commission has no control over those tax rates.
- TIF revenues can be greatly impacted by changes in legislation.
- Most TIF models only assume growth in assessed value, not decreases.
- Federal tax status subject to change.
  - Taxable activity vs. tax exempt.

Impact of Changing Tax Rates

Base AV	$100,000		Rate Increase	0.2500
Increment AV	$300,000			
Unit	Rate	Levy	New Rate	New Levy
County	0.4679	$467.90	0.4679	$467.90
Township	0.0497	49.70	0.0497	49.70
Town	0.7683	768.30	0.7683	768.30
School	0.6333	633.30	0.8833	883.30
Library	0.0390	39.00	0.0390	39.00
Total Rate	1.9582	$1,958.20	2.2082	$2,208.20
TIF		$5,874.60		$6,624.60
Impact on TIF				+ $750.00

Impact of Changing Tax Rates

Base AV	**$100,000**		**Rate Decrease**	**0.2500**
Increment AV	$300,000			
Unit	Rate	Levy	New Rate	New Levy
County	0.4679	$467.90	0.4679	$467.90
Township	0.0497	49.70	0.0497	49.70
Town	0.7683	768.30	0.7683	768.30
School	0.6333	633.30	0.3833	383.30
Library	0.0390	39.00	0.0390	39.00
Total Rate	1.9582	$1,958.20	1.7082	$1,708.20
TIF	N/A	$5,874.60	N/A	$5,124.60
Impact on TIF				- $750.00

Circuit Breaker Credits

Base AV	$100,000*			
Increment AV	$300,000*			Circuit Breaker
Unit	Rate	Levy		Calculation
County	0.4679	$467.90		
Township	0.0497	49.70	TIF Gross AV	$300,000
Town	0.7683	768.30	Circuit Breaker %	2%
School	0.8833	383.30	Maximum Tax	$6,000
Library	0.0390	39.00		
Total Rate	2.2082	$2,208.20		
TIF	N/A	$6,624.60		
Loss Due to CB		($624.69)		

* Assumes not eligible for any deductions or credits. Gross AV = Net AV.

TIF Reporting

TIF Reporting

- Several reports are required by statute:
  - Annual Report by March 15.
  - Calculation of excess assessed value by July 15.
  - Report to fiscal body by August 1.
  - Fiscal body submits report on Gateway by October 1.
  - Disclosure of Contractual Obligations and Debt Service.
  - Reporting in Gateway within 30 days of any new debt issuance.

Annual Report – March 15

- Annual report is filed with the unit executive and on Gateway
- Contents of Annual Report:
  - Names of qualified and acting commissioners.
  - Names of officers of Redevelopment Commission.
  - Number of regular employees and salaries or compensation.
  - Amount of expenditures made in preceding year and the general purpose.

Annual Report – March 15

- Contents (Continued):
  - Accounting of the tax increment revenues expended by the entity receiving TIF revenues as a grant or a loan.
  - Amount of funds on hand at year end.
  - Any other information necessary to disclose the activities of the Commission and the results obtained.

Report to Fiscal Body – Aug 1

- Redevelopment Commission files this report with the fiscal body.
- For each TIF district, the report must contain:
  - Revenues received;
  - Expenses paid;
  - Fund balances;
  - Amount and maturity of outstanding obligations;
  - Amount paid on outstanding obligations; and
  - List of all parcels, base AV, and incremental AV for each parcel.

Outlook

- TIF is a powerful economic development tool.
  - Very unlikely to change.
- Gradually, TIF is becoming more limited in use and more regulated.
  - Shorter duration,
  - Limit on principal, and
  - Possible limits on permitted uses.

References

- DLGF Report to Legislative Services on Redevelopment:
  - http://www.in.gov/dlgf/files/Report_on_Redevelopment_1409304.pdf
- TIF Management (Gateway):
  - http://www.in.gov/dlgf/files/pdf/140616_-_Parkinson_Memo_-_2014_TIF_Management_Application_Launched.pdf
- TIF Neutralization:
  - http://www.in.gov/dlgf/files/pdf/140613_-_Schaafsma_Memo_-_Pay_2015_TIF_Neutralization_Worksheet.pdf
- Responsibilities of Redevelopment Commissions:
  - http://www.in.gov/dlgf/files/pdf/140613_-_Schaafsma_Memo_-_Upcoming_Responsibilities_for_Redevelopment_Commissions.pdf

Closing

QUESTIONS???

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