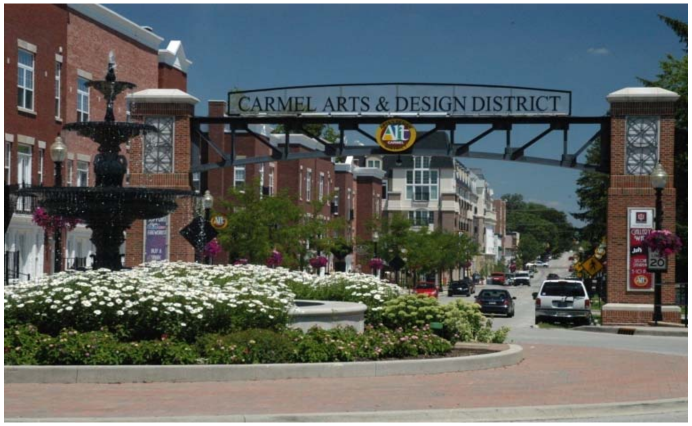
Indiana League of Municipal Clerks and Treasurers (ILMCT) Annual Conference

June 11, 2018

TIF: The Beginning, Middle, End and More

REDEVELOPMENT



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ECONOMIC DEVELOPMENT

Office Parks

Industrial Parks

Alternative Energy Projects

Major Industrial Attraction /Expansion Projects

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SPECIAL TAXING DISTRICT

- Redevelopment district is a “special taxing district” Boundaries of City/Town/County and redevelopment district are coterminous
- Exception to constitutional debt limit
- Separate 2% statutory debt limit for RDC
- IMPORTANT TOOL (marketing bonds)

REDEVELOPMENT COMMISSION

- Department of Redevelopment created by legislative body
- Five (or seven members for counties) (majority appointed by Mayor/Town Council President/Commissioners, remainder appointed by Council)
- One year terms; removed without cause by appointing body
- Subject to open door/public records
- Mayor/Town Council President/Commissioners appoints one non-voting advisor from School Board of a school corporation located in the District
  - Does not count toward a quorum
  - 2 year term

POWERS (examples from a laundry list; by no means exhaustive)

- Acquire property
- Dispose of property
- 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"

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DUTIES

- Promote use of land that best serves the City/Town/County
- Cooperate with other governmental departments or agencies to best serve City/Town/County
- Investigate, study and combat blight

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WHAT IS TIF?

- Tax increment financing (or "TIF") is a tool which captures <u>increases</u> in assessed value from new development
- Can always capture increases in <u>real property</u> and, at times, <u>depreciable personal property</u> assessed value (equipment) if a taxpayer is designated as a "Designated Taxpayer"
- Generally cannot capture increased assessed value resulting from residential property improvements

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PROCEDURES FOR ESTABLISHING AN AREA TO IMPLEMENT TIF

- Executive and legislative bodies appoint members to establish an RDC
- RDC prepares a redevelopment or economic development plan
- RDC adopts Declaratory Resolution, plan, and factual report
- **Plan Commission approval** (is plan consistent w/ overall plan of development for community)
- **Legislative body approval** of Plan Commission Order

PROCEDURES FOR ESTABLISHING AN AREA TO IMPLEMENT TIF

- Publish notice of public hearing and distribute Impact Statement
- RDC holds public hearing and adopts Confirmatory Resolution
- **Legislative body approval** of creation of Area (only for EDA)
- RDC records Resolution, notifies Department of Local Government Finance ("DLGF") and files documents with County Auditor

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PROCEDURES FOR AMENDING AN AREA

Same procedures for establishing TIF Area, as described below:

- RDC prepares an amendment to a redevelopment or economic development plan
- RDC adopts Amending Declaratory Resolution, amended plan, and factual report
- <u>Plan Commission approval</u>
- <u>Legislative body approval</u> of Plan Commission Order

PROCEDURES FOR AMENDING AN AREA

Same procedures for establishing TIF Area, as described below:

- ❑ Publish notice of public hearing
- ❑ Distribute Impact Statement, if affecting an allocation provision
- ❑ RDC holds public hearing and adopts Amending Confirmatory Resolution
- ❑ <u>Legislative body approval </u>(only if expanding EDA)
- ❑ RDC records Resolution and files documents with County Auditor and DLGF, if necessary

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TIF AND PERSONAL PROPERTY

- Personal property assessed value is not captured by default
- Personal property assessed value may only be captured when a RDC designates a "designated taxpayer"
- RDC must find that the capture of personal property assessed value is necessary to support payment of an obligation

- Only qualified personal property investments may be captured:
  - Industrial
  - Manufacturing
  - Warehousing
  - R & D
  - Processing
  - Distribution
  - Transportation
- The taxpayer's property may not primarily consist of retail, commercial or residential projects

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THE TERM OF AN ALLOCATION AREA

Date Alloc. Area Established	Expiration Date
TIF area is established before July 1, 1995.	TIF expires the later of 2025 or following the final maturity of obligations outstanding as of July 1, 2015.
TIF area is established between July 1, 1995 and July 1, 2008.	TIF expires 30 years after the adoption of the Declaratory Resolution.
TIF area is established after July 1, 2008.	TIF expires 25 years after the date the first obligation payable was incurred.

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RDC STATE REPORTING REQUIREMENTS

- By **April 1** of each year, the Treasurer of the RDC (the fiscal officer of the unit) must prepare a fiscal report for the Redevelopment Commission
- By **April 15** of each year, the RDC is required to file a report of its activities for the prior calendar year with the executive of the unit and the fiscal body
- The RDC has an affirmative obligation to notify by **June 15** of each year the county auditor, the fiscal body that created the commission and each taxing unit that is wholly or partly located in the TIF allocation area, and the DLGF in electronic format of its intended capture of incremental assessed value for the following year
- Auditor’s responsibility of TIF “neutralization” by **August 1**

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HEA 1242 – 2018 (SS)

- Bill passed during the May 14, 2018 special legislative session and signed into law
- Adds new annual requirements of redevelopment commissions:
  - The RDC must hold an annual public meeting that includes the taxing units that overlap with its tax increment allocation areas
  - The governing body of an overlapping taxing unit may request that the member of the RDC appear at its own public meeting
- The annual RDC meeting must address the following items:
  - The RDC's budget for tax increment revenues
  - The long-term plans for the tax increment allocation area
  - The impact on each of the taxing units
- State guidance on meeting timing and content requirements is not yet available

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HOW TIF IS COLLECTED

- A tax increment "allocation area" (or "TIF Area") is created by a Redevelopment Commission (or "RDC") establishing a base assessment date as of the prior January 1 (effective 2016, used to be March 1)

- Existing assessed value cannot be captured. Base assessed value is the existing value as of the base assessment date.

- **Increases** in assessed value over the base value become incremental assessed value. Declaratory Resolution sets base assessment date to protect overlapping taxing units so that the assessed value that was already existing continues to flow through to the overlapping taxing units.

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HOW TIF IS COLLECTED

- Incremental assessed value multiplied by the property tax rate becomes TIF (collection subject to circuit breaker tax caps)

- The new businesses in a TIF Area still pay property taxes on their new private investment. The incremental taxes are captured to repay bonds or to pay directly for projects. The other taxing units forgo the increase in assessed value only during the term of the TIF Area

- Gives RDC NO MORE POWER over property/property owners. . . Their taxes are just captured.

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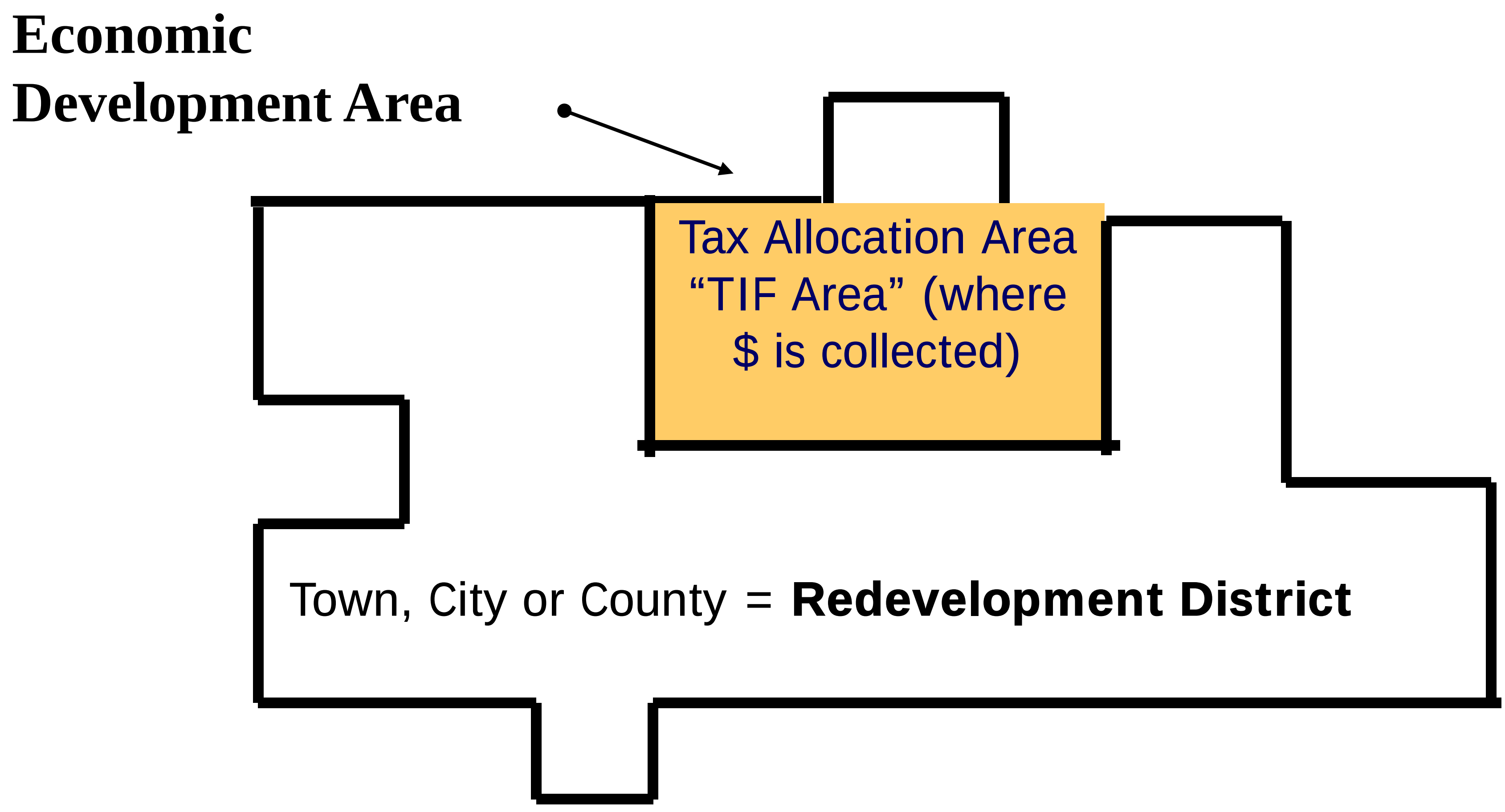
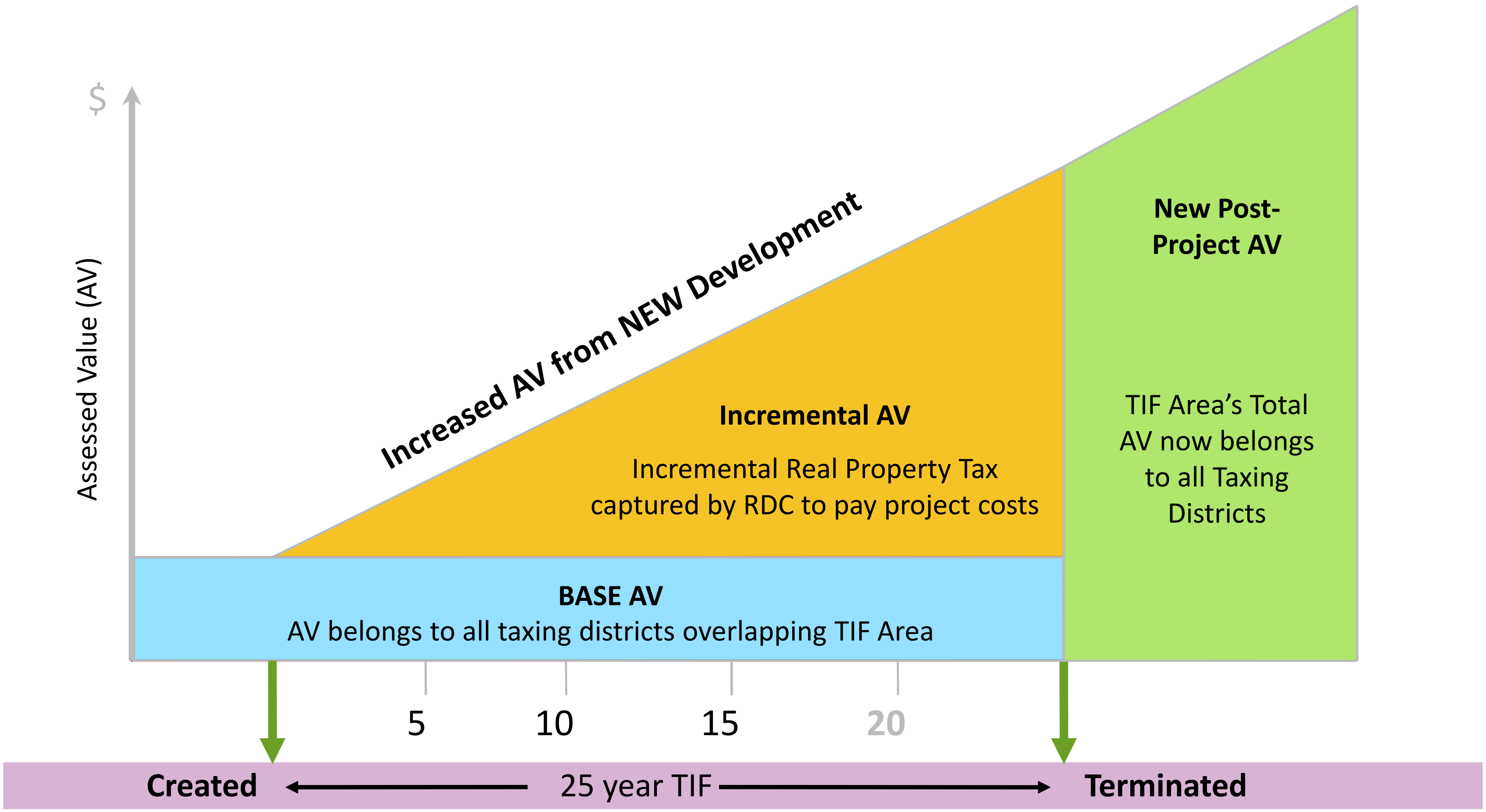
TAX INCREMENT FINANCING (TIF) AREA



TIF MECHANICS



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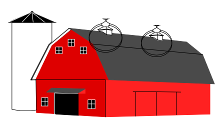
EXISTING PROPERTY ASSESSED VALUE IS PART OF TAX BASE FOR ALL OVERLAPPING TAXING UNITS

Tax Allocation Area –

Before New Construction



Base NAV x Tax Rate = Taxes

- County
- School
- Library
- City

(on January 1 preceding adoption of declaratory resolution)

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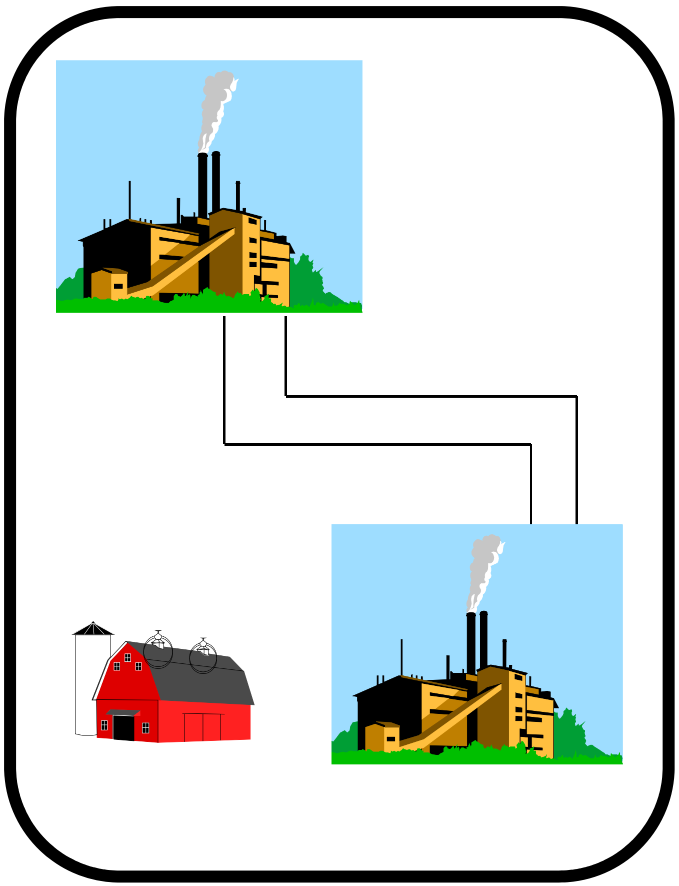
TIF: CAPTURE REAL AND (SOMETIMES) PERSONAL PROPERTY ASSESSED VALUE GROWTH



Tax Allocation Area –
<u>After</u> New Construction

Incremental Assessed Value	x	Tax Rate	=	TIF Taxes	→	Redevelopment Commission Allocation Fund
Base Assessed Value	x	Tax Rate	=	Taxes	→	County
					→	School
					→	Library
					→	City/Town

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USES OF TIF

- Any capital project that is "in, serving or benefitting" (or in some cases - if bond issue of the Unit as opposed to the RDC - "in or physically connected to") an economic development or redevelopment area

<u>EXAMPLES</u>:

- Roads, R.O.W., drainage, rail
- Land acquisition / development
- Buildings / equipment
- Police / fire stations
- Utility improvements
- Educational programs
- Need to be able to make findings to show an economic development or redevelopment purpose
- Fact sensitive analysis: operating expense (not allowed) (i.e. salaries; however, could pay portion of salary that qualifies as "supervisory expenses" of TIF capital projects) or capital expense (allowed)

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COMMON WAYS THAT TIF IS USED:

- Economic Development
- To offer incentives to induce new private investment
- Infrastructure Development and Local Improvements
- To encourage growth in a specific area such as a potential industrial, office or commercial area (ex. Industrial park)
- To alleviate congestion and to facilitate additional growth in a developing area (ex. Road improvements)
- To fund improvements to enhance area
  - Examples: Fire stations, police stations

COMMON WAYS THAT TIF IS USED:

- Redevelopment of Blighted Areas
  - Examples: Rehabilitation of sewers, construct parking facilities or rehabilitate buildings in a downtown area

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HOW TIF CAN REDUCE PROPERTY TAX RATES

- Sometimes, not all newly created assessed values are captured and excess value is passed through to the underlying taxing units
- After needed improvements are funded and bonds, if any, are retired, the new assessed values become part of the tax base of all the underlying taxing units
- Assessed value that is not captured is added to the tax base for the overlapping taxing units, and this tax base growth generally places downward pressure on property tax rates

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ASSESSED VALUE – TAX RATE CORRELATIONS

- ❑ If assessed value increases, tax rates decrease
- ❑ If assessed value decreases, tax rates increase
- ❑ Units @ Max Levy, no additional tax revenue from assessed value growth

  (except cumulative funds and circuit breaker change)

- ❑ Decreases in tax rates can reduce the impact of the property tax caps

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IMPACT OF TIF

- TIF does not take away funds from other units
- TIF ***postpones*** adding new assessed value to the tax base, which postpones the reduction in tax rates for funds with controlled levies and postpones increased revenues from funds with controlled rates
- 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

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WAYS TO LESSEN THE IMPACT ON THE OVERLAPPING TAXING UNITS?

- Only capture a portion of the TIF
  - Example: Capture 90% of the incremental assessed value and pass through 10% to overlapping taxing units
- Pass-through Excess TIF Assessed Value
- Keep the term of the TIF Bonds short or pay the TIF Bonds off early
  - Example: 10 – 15 year bond term; capture 100% of the TIF / no tax abatement; within 10 to 15 years, 100% of the new incremental assessed value will be added to the tax base
  - Issue 20-year Bonds, but pay-off early with surplus TIF; structure bonds for 150% coverage to allow build-up of surplus

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DEPLOYING TIF FUNDS

- Cash funding
- Pay-as-you-go
- Reimbursement
- Debt instruments
  - Bonds
  - Leases
  - Other instruments
- TIF dollars (bond proceeds and/or cash) may be used as matching funds for most grants

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ISSUES AFFECTING BONDS PAYABLE FROM TIF

- Taxable vs. tax exempt interest
- Security for bonds
  - TIF revenues only (usually some sort of backup)
  - Corporate guarantee, letter of credit, or company purchases bonds
  - Local tax backup
    - Property taxes or local income taxes (unusual for private incentive)
- Consider who bears bond risk, bond marketability, local political support/approval

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TYPES OF TIF BONDS

- **Tax Increment Revenue Bonds** (tax-exempt or taxable)
  - Bonds payable solely from TIF (or can add other revenues)
  - Difficult to market; may add Developer guarantees
  - Need Reserve Fund and extra revenue coverage of debt service
- **Economic Development Revenue Bonds** (tax-exempt or taxable)
  - Company is responsible to repay bonds; TIF can be pledged to off-set Developer payments
- **Special Taxing District Bonds**
  - Bonds payable from a Special Benefits Tax (SBT), which is a property tax levy on the Redevelopment District; also TIF
  - Counts against 2% debt limit
- **Lease Bonds**
  - Lease payments from SBT levy, TIF, other revenues
  - Doesn't count against 2% debt limit

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