

Tax Increment Financing: An Economic Development Tool

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General Overview

Tax increment financing is an economic development tool allowing local government to finance the development or redevelopment of designated areas and to attract industrial and commercial development to those areas.

TIF Goals:

Job Creation

Wages and Income

Community Enhancement

Increased Local Spending

Build Tax Base

Economic Diversification

General Overview *(cont.)*

Purpose of TIF:

In general, TIF provides for the temporary allocation to redevelopment districts of increased tax proceeds in an allocation area generated by increases in assessed value.

- TIF permits local governments to use increased tax revenues stimulated by development to pay for the capital improvements needed to induce the development.
- Depreciable personal property may be used under limited circumstances.

General Overview *(cont.)*

Examples of Economic Development Projects

- Downtown redevelopment
- Industrial and office parks
- Expansion of infrastructure in a high growth commercial/retail area
- Economic development incentives
 - ◆ Business attraction/retention/expansion

General Overview *(cont.)*

A Redevelopment Commission created by a unit may “freeze” the assessed value of property within a given TIF “allocation area” prior to the development or redevelopment of such area.

- The unit continues to receive property taxes attributable to the value of the predevelopment property.
- The unit may utilize the incremental value created by new development or redevelopment within the “allocation area” to pay costs of infrastructure and other capital improvements associated with such development or redevelopment.

General Overview *(cont.)*

Example:

- Redevelopment Commission determines that it will redevelop an area (the “allocation area”).
- The assessed value of the allocation area is “frozen” creating the “base assessed value” of the allocation area, *e.g.*, \$100,000,000 AV.
- The following year, the assessed value of the allocation area increases, *e.g.*, to \$110,000,000 – the amount of increase in assessed value from the base assessed value is the assessed value “increment,” in this example \$10,000,000.

General Overview *(cont.)*

- The amount taxed to the base assessed value remains with the tax districts.
 - ◆ $\text{Base Assessed Value} \times \text{Tax Rate} = \text{Taxes} \rightarrow \text{County, School, Library, City/Town}$
- The tax rate applied to the increased assessed value of the allocation area generates tax increment used to finance the TIF improvements or service TIF indebtedness.
 - ◆ $\text{Current NAV} - \text{Base NAV} = \text{Incremental AV}$
 - ◆ $\text{Incremental AV} \times \text{Net property tax rate (per \$100 AV)} = \text{TIF} \rightarrow \text{RDC Allocation Fund}$
- A unit may decide to only capture a percentage of the TIF increment at the time the allocation area is established, thereby allowing a portion of the increment to pass-through to the taxing districts.
- The year after the tax increment is determined is the year which tax increment is collected and applied to repayment of the TIF Bonds of the allocation area.

How TIF Works

How TIF works:

- i. Freeze property assessments at pre-development levels in a designated area.
- ii. Issue revenue bonds to finance the costs of land, right of way and other local public improvements in or serving the area.
- iii. As property value (and assessments) in area increase, use incremental increase in tax revenues to meet debt service on issued bonds.
- iv. All public bodies benefiting from the redevelopment share the costs of public improvements associated therewith. When the development or redevelopment costs have been paid, the tax allocation can be discontinued and all public bodies enjoy the benefits of increased property tax values.

How TIF Works *(cont.)*

Arguments in support of TIF:

- i. TIF makes redevelopment self-financed.
- ii. TIF permits local governments to offer incentives to companies interested in expanding or locating in the area.
- iii. TIF shifts the risk of development and redevelopment from taxpayers to bondholders.

How TIF Works *(cont.)*

Arguments against TIF:

- i. TIF assumes all increment is caused by development.
 - a. Some increment may be the result of other forces such as marketplace and demography;
 - b. Freezing tax base overlooks increased services other taxing districts may be called on to provide and may limit the ability of other taxing units to raise additional needed taxes or cause tax rates to increase to provide needed revenues.
- ii. “Pure” TIF revenue bonds, where TIF revenues are the sole security for the bonds, pose a greater risk to investors and, as such, bear higher interest rates and generally require higher reserves which reduces the amount of TIF available for the improvements. If the bonds are tax-backed, the taxpayers are assuming the risks.

HEA 1001 (2008) – New Physically Connected Requirement

- Pre-HEA 1001 (2008)
 - ◆ TIF (or TIF Bonds) could fund projects located “in, serving or benefiting” the Area
- HEA 1001 (2008)
 - ◆ Limits the use of TIF to projects that are inside or “physically connected”
 - ◆ IC 36-7-14-39: For projects undertaken by the “unit”, project must be physically located inside or connected to the allocation area
 - ◆ IC 36-7-25-3 (*unchanged*): For projects undertaken by the RDC, project must be located “in, serving or benefiting” the allocation area
 - ◆ IC 36-7-39(b)(J): For RDC expenses in or serving allocation area

Procedures for Establishing an Area to Implement Tax Increment Financing

- Establish Redevelopment Commission
- Prepare a redevelopment or economic development plan
- Redevelopment Commission adopts Declaratory Resolution, plan, and factual report
- Plan Commission approval
- City/Town Council/County Commissioners approval of Plan Commission Order
- Publish notice of public hearing and distribute Tax Impact Statement
- Redevelopment Commission holds public hearing and adopts Confirmatory Resolution
- City/Town Council/County Commissioners approval of creation of Area (only for EDA)
- Redevelopment Commission records Resolution, notifies DLGF and files documents with County Auditor
- Adopt Bond Resolution and issue bonds

Organization of Redevelopment Commissioners

- Municipal Redevelopment Commission – 5 Redevelopment Commissioners - 3 appointed by the municipal executive, 2 appointed by the municipal legislative body.
- County Redevelopment Commission –
 - ◆ For a county Redevelopment Commission having five (5) members, the county executive will appoint three (3) members and the county fiscal body will appoint two (2) members.
 - ◆ For a county Redevelopment Commission having seven (7) members, the county executive will appoint four (4) members and the county fiscal body will appoint three (3) members.
- Officers – President, Vice President and Secretary to be elected by Redevelopment Commission members.
- School Corporation Representative – Beginning July 1, 2008, the municipal or county executive must appoint an individual to serve as a non-voting advisor to the redevelopment commission who must be a member of the school board of a school corporation that includes all or part of the territories served by the Redevelopment Commission.

Joint Economic Development Projects

Municipalities may undertake joint economic development or redevelopment projects with counties or other municipalities in contiguous areas (and may capture TIF) from those joint and contiguous areas.

Powers of Redevelopment Commission

Include —

- Levy taxes.
- Designate areas as economic development areas and designate all or part of these areas as a tax increment allocation area.
- Acquire, by purchase, exchange, gift, grant, condemnation, or any combination, personal property or real property needed for the redevelopment of blighted areas.
- Dispose of property on the terms and conditions the commission considers best for the unit and its inhabitants.
- Prepare redevelopment and economic plans.
- Issue special taxing district bonds payable from ad valorem property taxes, tax increment, project revenues, other available revenues, or a combination of sources.
- Enter into lease financing arrangements to lease projects that could be financed with bonds.
- Sell, lease, or grant interests in real property acquired for redevelopment purposes to any governmental agency for public ways, levees, sewerage, parks, playgrounds, schools and other public purposes.
- Clear real property.
- Repair and maintain, remodel, rebuild, enlarge, or make major structural improvements on structures acquired for redevelopment purposes.
- Exercise the power of eminent domain in the name of and within the unit boundaries of the unit. A redevelopment commission may not exercise the power of eminent domain without the prior approval of the legislative body of the unit that established the redevelopment commission.
- Contract for the construction of local public improvements.

Redevelopment or Economic Development Plan

The Redevelopment Commission, utilizing personnel of the unit and/or outside consultants, must prepare a redevelopment or economic development plan that will provide evidence to support the findings that the Redevelopment Commission must make and describe the redevelopment or development activities to be undertaken.

Declaratory Resolution

After the redevelopment plan or economic development plan is completed, the Redevelopment Commission must adopt a “Declaratory Resolution” which describes the economic development area, makes this area an “allocation area,” adopts a plan of redevelopment or economic development and makes required statutory findings.

Consider When Creating & Expanding TIF Areas and Adding Projects

Establish bigger Area to begin with OR

Establish a smaller (project-specific) area and later create new separate Area(s)

- ◆ Consider future assessed value of area
- ◆ 25-year TIF Area limit
- ◆ The need to leverage TIF for future projects
- ◆ Statutory process and timing
- ◆ Size and cost of project
- ◆ Developer may only guarantee bonds for a specific project site
- ◆ Abatement

Sharing the Benefits of TIF Projects with Tax Units & Taxpayers

- Pass-thru Excess TIF Assessed Value
- Only capture a portion of the TIF
 - ◆ Example: Capture 90% of the incremental assessed value and pass through 10% to overlapping taxing units.
- Keep the Term of the TIF Bonds short
 - ◆ 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.
- Pay-off TIF Bonds early
 - ◆ Example: Issue 20-year Bonds, but pay-off early with surplus TIF; structure bonds for 150% coverage to allow build-up of surplus.
- Communicate Purpose and Value of TIF

Plan Commission Approval

Following the adoption of a Declaratory Resolution by the Redevelopment Commission, the Plan Commission then determines by written order whether the Declaratory Resolution and the redevelopment or economic development plan submitted by the Redevelopment Commission conform to the plan of development for the unit and approves or disapproves them.

In Indianapolis this determination is made by the Redevelopment Commission, which also is the Metropolitan Development Commission.

Other Governmental Approvals

In units other than Indianapolis, the municipal legislative body or county executive must then approve the order of the Plan Commission.

In Indianapolis, the City-County Council's approval of any bond issue of the Redevelopment Commission is required.

Also, in Indianapolis and all other units, the establishment of an economic development area must be approved by the unit's legislative body.

Public Hearing and Confirmatory Resolution

- Following approval by the Plan Commission of the Declaratory Resolution and the approval by the legislative body of order of the Plan Commission, the Redevelopment Commission then publishes notice of the approval of the Declaratory Resolution and gives notice of a public hearing and meeting to adopt a “Confirmatory Resolution.”
- If the Declaratory Resolution includes a provision designating the redevelopment area or economic development area an “allocation area,” the Redevelopment Commission must also file certain information with each taxing unit that is wholly or partly in the allocation area, including the notice of the public hearing and a statement disclosing in detail the economic and tax impact of the allocation area.
- Construction contracts with Redevelopment Commissions are subject to holding a common construction wage hearing.

Required Filings

- Redevelopment Commission must record Confirmatory Resolution.
- A Redevelopment Commission must notify the Department of Local Government Finance upon declaration of an area as an “allocation area.”
- Before the first March 1 following such a declaration, a Redevelopment Commission must file with the County Auditor a copy of the allocation area map, the resolution declaring the allocation area, and a list of parcel identification numbers of real property in the area.
- A Redevelopment Commission is required to make a determination before July 15 of each year with respect to the amount of incremental taxes to be raised in the following year.
- If the Redevelopment Commission intends to collect less than the entire amount of potential incremental taxes in the following year, it must give notice to that effect to the County Auditor by July 15.

Expansion of TIF Areas

Effective July 1, 2008 – An Allocation Area can be expanded only if:

- The unit finds that the existing Area does not generate sufficient TIF to meet the financial obligations of the “original project”; OR
- The Indiana Economic Development Corporation makes findings that the expansion will:
 - ◆ Lead to increased investment in Indiana
 - ◆ Create or retain jobs
 - ◆ Have a positive impact on the unit in which the project is located
 - ◆ Otherwise benefit the people of Indiana by increasing opportunities for employment and strengthening the Indiana economy

Even if the IEDC allows the enlargement of an area, the RDC must again go through all of the statutory requirements of IC 36-7-14 for the creation of a new redevelopment area or economic development area in order to effect such enlargement. IC 36-7-14-15, 16, 17, 17.5 and 41(c).

Economic Improvement Districts

What is an Economic Improvement District – “EID?”

Economic Improvement Districts (“EIDs”) are public-private partnerships whereby property owners elect to make a collective contribution to the maintenance, development and promotion of their property and the projects they develop within an EID.

What Does An EID Do?

EIDs, also known as business improvement districts, are widespread throughout the United States (approximately 430 nationally) and provide an economic and community development tool for municipalities, developers and property owners by allowing targeted control, financing and development of projects without creating an additional financing burden on county and municipal taxing units.

How are EID Projects and Services Paid For?

- Funds to pay for EID programs and services are generated from a special self-assessment paid by the benefited property owners. The assessment can be billed and collected by the tax unit and then disbursed to the EID, which in turn delivers the district's services.
- An EID assessment is a fee that each property owner pays to support the operations of the EID. The sum of all the individual assessments that property owners pay comprise the total yearly assessment of the EID, and underwrite most, if not all, annual operating expenses.

EID Advantages to Property Owners:

- A steady and reliable funding source for supplemental services and programs.
- The potential to increase property values, improve sales and decrease commercial vacancy rates.
- A district that is better able to compete with nearby retail and business centers.
- Control funding for targeted project.

Advantages to Municipalities and Counties

- Alternative to TIF/Property Tax Based Economic Development.
- EID Assessment Not Property Tax Levy.
- No Impact on Tax Rate and Levy of Tax Units.
- EID Assessment Not Included With Circuit Breaker Credits.
- No Affect on Constitutional Debt Limit/Bond Capacity.
- No Petition Remonstrance or Referendum Process to EID Financed Bonds.
- EIDs Within a TIF Increase TIF Increment.

House Bill 1125 (2008) Amendments

Indiana Code 36-7-22-3 is amended to read as follows (Effective July 1, 2008):
Sec. 3. “Economic Improvement Project” means:

- Planning or managing development or improvement activities.

House Bill 1125 (2008) Amendments, con't.

- Designing, landscaping, beautifying, constructing, or maintaining public areas, **public improvements**, or public ways (including designing, constructing, or maintaining lighting, **infrastructure, utility facilities improvements and equipment, water facilities improvements and equipment, sewage facilities improvements and equipment, streets or sidewalks** for a public area or public way).

House Bill 1125 (2008) Amendments, con't.

- Promoting commercial activity or public events.
- Supporting business recruitment and development.
- Providing security for public areas.
- Acquiring, constructing, or maintaining parking facilities.
- Constructing, rehabilitating, or repairing residential property, **including improvements related to the habitability of the residential property.**

House Bill 1125 (2008) Amendments, con't.

Indiana Code 36-7-11.9-3 is amended to read as follows (Effective July 1, 2008): Sec. 3. (a) "Economic development facilities" includes land; interests in land; site improvements; infrastructure improvements; buildings; structures; rehabilitation, renovation, and enlargement of buildings and structures; **economic improvement projects under IC 36-7-22**; machinery; equipment; and furnishings for the following:

IC 36-7-22-5 Apportionment of benefits

The benefits accruing to parcels of real property within an economic improvement district may be apportioned among those parcels on any basis reasonably representative of the diffusion of benefits from the economic improvement project, including the following:

- Proximity of the parcel to the project.
- Accessibility of the parcel to the project.
- True cash value of the parcel.
- True cash value of any improvement on the parcel.
- Age of any improvement on the parcel.
- Other similar factors.

IC 36-7-22-5 Apportionment of benefits, cont.

- (a) The apportionment of benefits under this subsection may be adjusted by zone or land use as provided in subsections (b) and (c).
- (b) If the benefit of the economic development project varies from one (1) area to another within the economic improvement district, up to three (3) zones may be established within the district to delineate the approximate difference in beneficial impact, and benefits may be apportioned accordingly.
- (c) In order to encourage the retention or development of various land uses within the district, assessments may be adjusted according to the zoning classification of the property.

Who Oversees an EID?

Each EID is governed by a Board of Directors. The Board of Directors manages and administers the EID.

IC 36-7-22-11 Ordinance; economic improvement board

Sec. 11. An ordinance adopted . . . must establish an economic improvement board to be appointed by the legislative body. The board must have at least three (3) members, and a majority of the board members must own real property within the district.

EID Creation Steps and Timeline

Step 1:

- Submitting petitions and proposed ordinance to Legislative Body.

Indiana Code 36-7-22-7

- (b) The legislative body may adopt the ordinance only if it determines that the petition has been signed by:
- (1) a majority of the owners of real property within the proposed district; and
 - (2) the owners of real property constituting at least sixty-six and two-thirds percent (66 2/3%) of the assessed valuation in the proposed district.

Step 2:

- Notice of public hearing on proposed EIDs published (notice published at least 10 days before public hearing on proposed EIDs).

EID Creation Steps and Timeline, con't.

Step 3:

- Legislative Body Public Hearing

Step 4:

- EID Ordinances adopted by Legislative Body.

Step 5:

- EID Board mails notice of proposed assessment to EID property owners.

Step 6:

- EID Boards hold proposed EID assessment hearing.

Step 7:

- EID Board files annual report with Legislative Body summarizing its activities and expenditures.
- EID Board submits its budget to Fiscal Body budget.

Thank you.

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