Beech Grove, Indiana

TAX INCREMENT FINANCING

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Special Taxing District

- Redevelopment district is a “special taxing district”
- Boundaries of City and redevelopment district are coterminous
- “Special benefit” derived by taxpayers by being in the redevelopment district
- Exception to constitutional debt limit
- Separate 2% statutory debt limit for RDC
- IMPORTANT TOOL (marketing bonds)

Redevelopment Commission

- Department of Redevelopment created by City Council
- Five or seven members (majority appointed by Mayor, remainder appointed by Council)
- One year terms; removed without cause by appointing body
- Subject to open door/public records
- Mayor 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 (flexibility)
- 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"

Duties

- Promote use of land that <u>best serves</u> the City
- Cooperate with other municipal departments or agencies to best serve City
- Investigate, study and combat blight

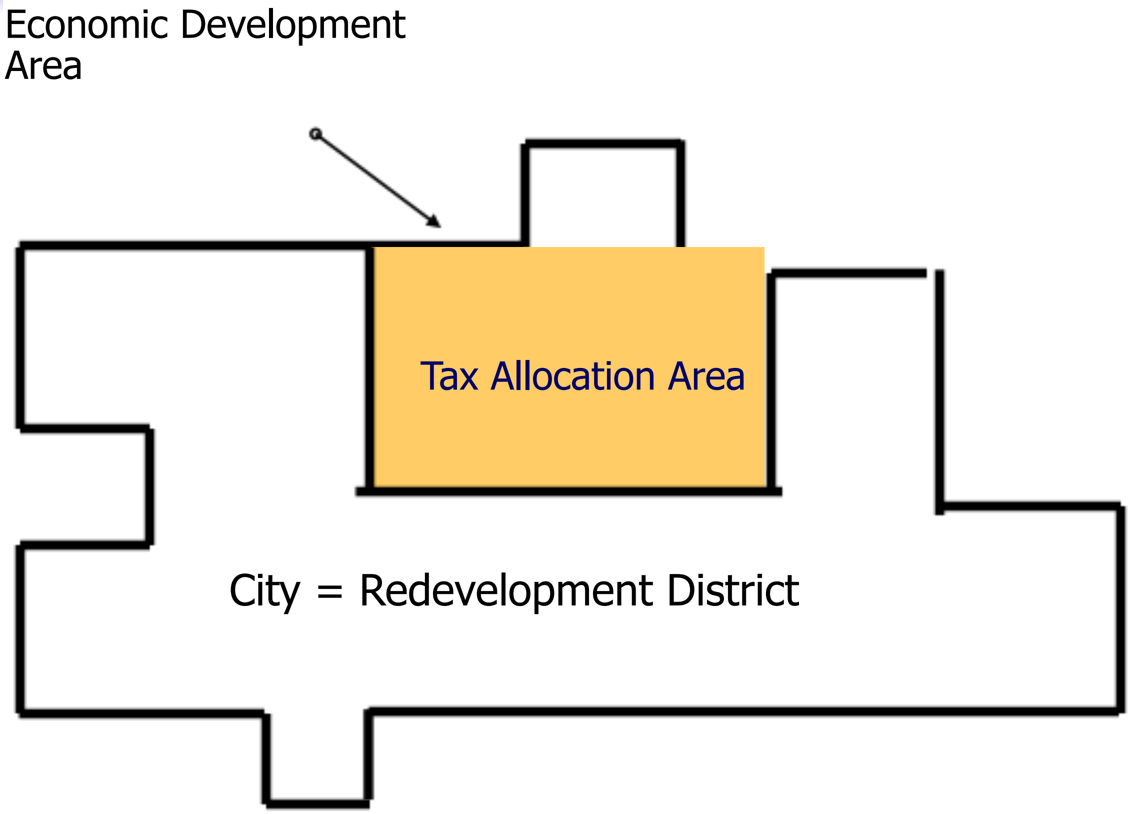
What is TIF?

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

How is TIF collected?

- An "allocation area" is created by the Redevelopment Commission establishing a base assessment date as of the prior March 1
- Existing assessed value cannot be captured
- Increases in assessed value over the base value become incremental assessed value
- Incremental assessed value multiplied by the property tax rate becomes TIF
- The new businesses in a TIF Area still pays 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 during the term of the TIF Area.

Tax Increment Financing (TIF) Area



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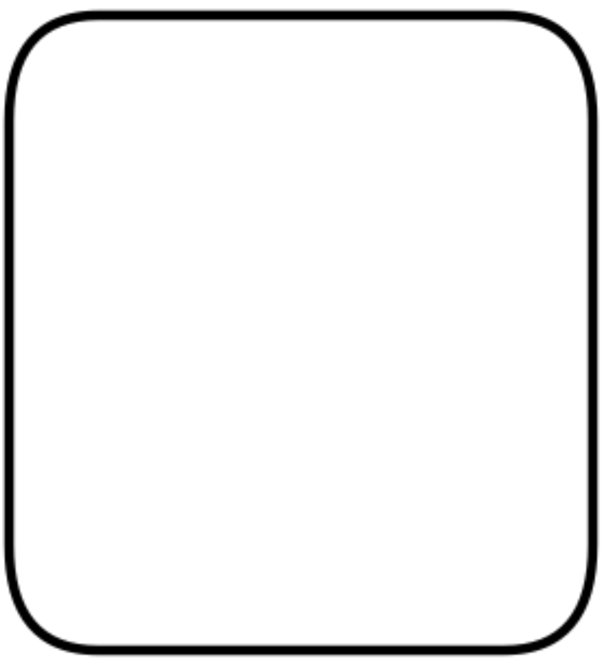
Existing property assessed value is part of tax base for all overlapping taxing units



Tax Allocation Area –
Before New Construction

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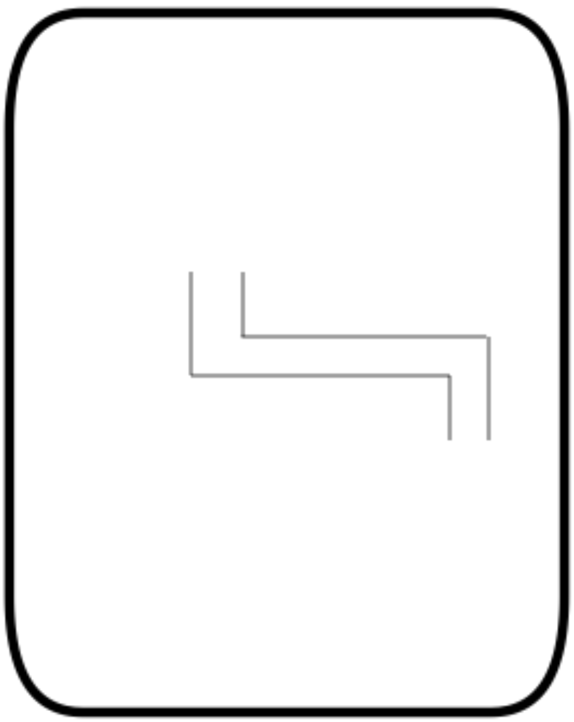
TIF: <u>Capture</u> real and *(sometimes)* personal property assessed value <u>growth</u>



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

How can TIF reduce property tax rates?

- Often, 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 becomes part of the tax base of all the underlying taxing units.
- Tax increment areas created before 1995 have no sunset; tax increment areas created after 1995 but before July 1, 2008 have a life of 30 years from when they were established.
- Tax increment areas created after June 30, 2008 are limited to 25 years from the time debt is issued.
- Uncaptured new assessed value increases tax base, reducing tax rates.

What can TIF be used for?

- Any capital project that is in, serving or benefitting an economic development or redevelopment area
- Examples:
  - Roads, R.O.W., drainage, rail
  - Land acquisition / development
  - Buildings / equipment
  - Police / fire stations
  - Utility improvements (sewer and water)
  - Need to be able to make findings to show an economic development or redevelopment purpose
  - Fact sensitive analysis: operating expense (not allowed) or capital expense (allowed)

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
  - To alleviate congestion and to facilitate additional growth in a developing area (e.g. road improvements)
  - To fund improvements to enhance area. Examples: fire stations, police stations
- Redevelopment of blighted areas
  - Examples: Rehab sewers, construct parking facilities or rehabilitate buildings in a downtown area

Procedures for Establishing or Amending an Area to Implement Tax Increment Financing

- Prepare a redevelopment or economic development plan
- RDC adopts Declaratory Resolution, plan, and factual report
- Plan Commission approval
- City Council approval of Plan Commission Order
- Publish notice of public hearing and distribute Impact Statement
- RDC holds public hearing and adopts Confirmatory Resolution
- City Council approval of creation of Area (only for EDA)
- RDC records Resolution, notifies Department of Local Government Finance ("DLGF") and files documents with County Auditor

Issues Affecting Bonds Payable from TIF

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