

# Tax Increment Financing Toolkit



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The information provided in this toolkit does not, and is not intended to, constitute legal advice. Instead, all information, content and materials available within the toolkit are for general informational purposes only.

Please consult with your municipal attorney if you have any additional questions regarding Tax Increment Financing (TIF).



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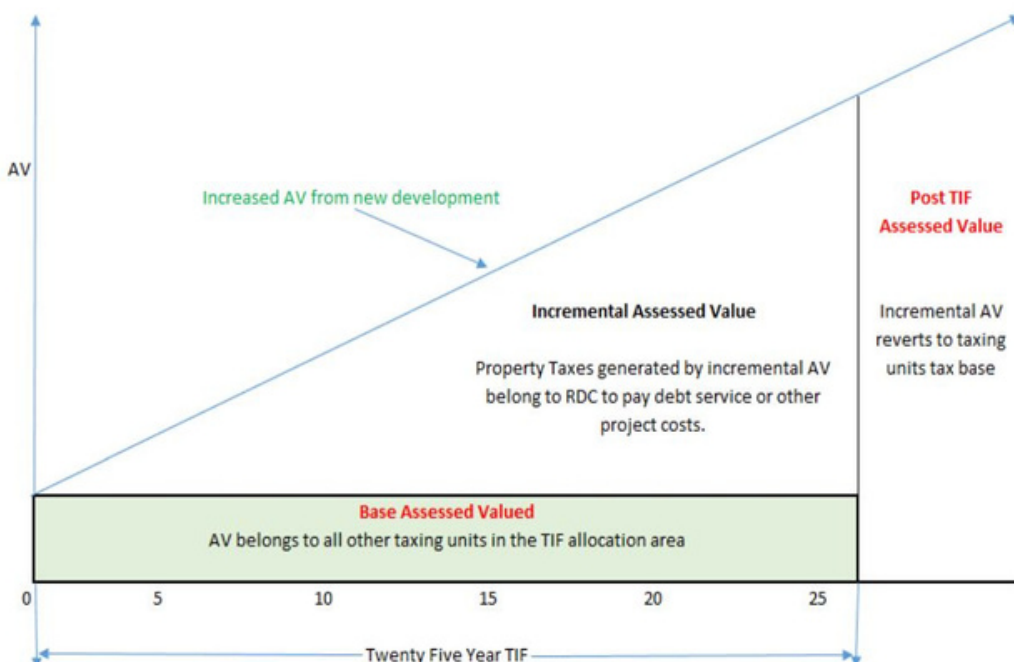


# WHAT IS TAX INCREMENT FINANCING?

## THE BASICS

- TIF is a value capture tool that uses taxes on future gains in real estate values to fund new public infrastructure improvements.
- TIFs are authorized by state law in nearly all 50 states and begin with the designation of a geographic areas as a TIF district.
- The TIF creates funding for public or private projects by borrowing against the future increase in these property-tax revenues. The intent is for the improved property to increase the value of existing properties, while also encouraging new development.
- TIF districts are usually established for a period of 20 to 25 years, during which time all incremental real estate tax revenues above the base rate at the time the district is established, flow into the TIF.

Base and Incremental Assessed Value in TIF Model



- The figure to the left is a visual representation of a 25-year TIF and the relationship between the base and incremental assessed values.



# DEFINITIONS

- **Allocation Area**
  - Known as the TIF district with the boundaries specified in the declaratory resolutions.
- **Base Assessed Value**
  - The Net Assessed Value of the allocation area at the time the allocation area is established.
- **Declaratory Resolution**
  - A resolution that shall be recorded in the proceedings of the county executive. Notice of the adoption of the declaratory resolution shall be given by the county executive by the publication of the resolution in full by two insertions published at least a week apart.
- **Economic Development Area**
  - Requires the finding of significant economic benefits, jobs and private investment for the community.
- **Incremental Assessed Value**
  - Increases in assessed value after the allocation area is established.
- **Redevelopment**
  - Defined as use for public uses and purposes for which public money may be spent and private property may be acquired.
- **Redevelopment Area**
  - Requires the finding of blight and is typically located in an older urban area or brownfield.
- **Redevelopment Commission**
  - A department of redevelopment controlled by a board of five members for the purpose of levying and collecting special benefit taxes for redevelopment purposes.
- **Tax Increment Financing**
  - The principle behind TIF is based on capturing future increased tax dollars that are generated due to the development.



# BRIEF HISTORY OF TIF

- Tax Increment Financing was originally created in California in 1952.
- This new type of financing allowed cities to raise money for development to attract federal matching funds for the projects.
- All states have adopted TIF enabling legislation, except that it was repealed in Arizona.
- TIF provides a tool for targeting economic development in a specific area.
- The original TIF legislation in Indiana was originally enacted in 1975.

## TIF IN INDIANA

- **Overview of the Process**

- Fiscal body creates redevelopment commissions (RDC)
- RDC makes a declaration of public purpose
- RDC makes finding and prepares the plan
- RDC approves declaratory resolution
- The plan is approved by fiscal body at a public hearing
- Confirmatory resolution is adopted establishing a redevelopment project area
- Redevelopment determines the redevelopment project area is an economic development area
- Determination of project area is approved by the unit's legislative body





# ADVANTAGES

- Normally, TIF is funded only by new taxes that would not have generated without the TIF.
- TIF uses only new tax dollars generated by development to finance infrastructure.
- TIF makes redevelopment self-financed.
- TIF is highly flexible.
- TIF has local control.
- TIF has no debt limitations.
- TIF shifts risk of redevelopment from taxpayers to bondholders.



# DISADVANTAGES

- TIF assumes all increment is caused by redevelopment, to determinant of overlapping taxing districts.
- Some increment may be result of other force such as marketplace and demography.
- 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.
- Pure TIF bonds pose a greater risk to investors and, as such, bear higher interest rates than general obligation bonds.



# PROJECTS THAT MAY BE FUNDED

Generally, bonds payable from TIF may be used to finance the cost of redevelopment and construction of public improvements in the redevelopment project area or projects that directly serve or benefit the area.

- For example, the proceeds of TIF bonds may be used for property acquisition and redevelopment activities including the construction of local public improvements.

The specific permitted uses of property tax proceeds generated from the increased value are the following:

- Paying the principal of and interest on obligations payable solely from TIF.
- Establishing, augmenting, or restoring the debt service for TIF bonds.
- Paying the principal of and interest on TIF bonds payable from TIF and a special taxing district tax levied by the commission.
- Paying the principal of and interest on bonds issued by the “unit” to pay for local public improvements in or serving the allocation area.
- Paying premiums on the redemption before maturity of TIF bonds.
- Paying leases entered into by the Redevelopment Commission for public improvements.
- Reimbursing the “unit” for expenditures made by it for local public improvements.
- Reimbursing the “unit” for rentals paid by it for a building or parking facility in or serving the allocation area.
- Paying all or a portion of a property tax replacement credit to taxpayers in the allocation area.
- Paying expenses incurred by the Redevelopment Commission for local public improvements that are in or serve the allocation area.
- With certain limitations, reimbursing public and private entities for expenses incurred in training employees of industrial facilities located in the allocation area.





# ANNUAL REPORTING

- The annual report is filed with the unit executive and on TIF Gateway.
- Contents of the annual report include:
  - Names of qualified and acting commissioners.
  - Name of officers of Redevelopment Commission.
  - Number of regular employees and salaries or compensation.
  - Amount of expenditures made in preceding year and the general purpose.
  - Accounting of the tax increment revenues expended by the entity receiving TIF revenues as a grant or loan.
  - Amount of funds on hand at year end.
  - Any other information necessary to disclose the activities of the Commission and the results obtained.



## INDIANA REPORTING

Counties and cities with authorized TIF districts must submit information, including the name of the district, the parcels which comprise it, the revenue received and the expenses paid. Other required information regarding the TIF districts authorized includes the following:

- Redevelopment Commission name.
- Names and codes of the TIF district(s).
- Bonds associated with each TIF district, including the amount of the obligation and the amount paid on outstanding debt.
- Parcels which comprise each TIF district.



# INDIANA GATEWAY TIF VIEWER



- The TIF viewer provides the public with tabular summaries for the TIF districts within a county, providing information on the number of parcels included each district as well as summaries on the gross, net, base and incremental assessed values, the revenues for the TIFs, the expenses and the cost of the bonds associated with TIF districts.
- The default view is the statewide summary and a listing of all submitted TIF districts. Users may also view a county-level summary and a list of TIF districts by clicking on specific counties on the map.
- The TIF viewer also provides a mapped view of the actual parcels that comprise each TIF, as well as a table of detailed information.
- Information about a given TIF district will be displayed in a format similar to the county or city level information.

## 2023 LEGISLATION AND UPCOMING DATES

- Indiana's 2023 legislative session may be over, but it brought some noteworthy changes related to tax increment financing (TIF) that redevelopment commissions (RDCs) should be taking into consideration.
- The changes range from basic to significant, including expanding permitted TIF expenditures and requiring RDCs submit annual spending plans. Topics covered will include Permitted TIF Expenditures, RDC Annual Spending Plan, Annual Gateway TIF Management Report.



# LEGISLATIVE INFORMATION

Below are the TIF-related highlights of the legislative session.

- **Permitted TIF Expenditures**

- Redevelopment Commissions are now allowed to spend TIF revenues for police and fire services. This includes capital expenditures and operating expenses. **Effective Jan. 1, 2023**

- **RDC Annual Spending Plan**

- Each year by Dec. 1, a Redevelopment Commission must now file an annual spending plan for the next calendar year with the unit's executive and fiscal body as well as with the Department of Local Finance.
- The RDC may use money in the TIF allocation fund and any other Redevelopment Commission maintained fund only according to its annual plan.
- Before Feb. 1, 2025, the DLGF is required to submit a report of Redevelopment Commissions that failed to submit a spending plan for distribution to the members of the legislative council.

- **Annual Gateway TIF Management Report**

- In the past, Redevelopment Commissions had to provide their Gateway TIF Management Report to the fiscal body before April 15, but there was no requirement around how it was shared with the fiscal body. Now, the report must be presented to the unit's fiscal body at a public meeting.
- The law has also introduced two new reporting components. The first is that RDCs must now include the amount distributed to other taxing units. The second provision is regarding residential housing TIF areas. The report needs to include the number of houses completed under the program and the average sales price of those homes. **Effective Jan. 1, 2024.**

- **Residential TIF Areas**

- Residential TIF areas are no longer required to pass the 1% test, which restricted the number of homes constructed over the past three calendar years to less than 1% of the total number of single-family residential homes in the area.
- Also, the life of a residential TIF area was reduced to 20 years from 25 years from the date that the first obligation was incurred.
- Finally, proposed residential TIF areas no longer require the approval of affected school corporations. **Effective July 1, 2027.**



# TESTIMONY

The Indiana Main Street Network is a valuable resource for all Main Street Organizations (ODAN, IAMS and NAMS). The IMS Team has gathered testimony from several different executive directors and provided them below.

"Our TIF district is an excellent tool that helps us leverage the necessary funds to improve our downtown buildings through matching façade grants. Our façade program has provided hundreds of thousands of matching grant dollars to downtown property owners over the past few years, allowing them to make substantial improvements to their buildings. Our local TIF funding was also used to help fund a solar field to power our wastewater treatment plant, reducing the city's operating expenses substantially for that facility. There are many creative ways to use TIF funding, including purchasing property within the district, providing match dollars for state and federal grants, and more. It has definitely been a blessing to our community." - **Kristen Johnson, Main Street Manager, Historic Downtown Kendallville**

"Having a TIF has allowed our community to invest in improvements such as sidewalk or drainage projects, support businesses with our façade program, and aid in supporting various improvement projects in the economic development areas." - **Ann Finchum, Executive Director, Auburn Main Street**

"TIF is an excellent tool for local elected officials to help attract capital investment for job opportunities and to build quality of place. Henry County, through TIF, has developed an industrial park that hosts over 1,200 jobs. The City of New Castle built 1400 Plaza, a downtown gathering place." - **Corey Murphy, CEcD, EFGP, MEDP, New Castle Henry County Economic Development Corporation**



# TECHNICAL RESOURCES

- Indiana Tax Increment Financing Database
- Indiana Department of Local Government Finance TIF Overview
- Indiana Department of Local Government Finance TIF Management Resource
- The Use of Tax Increment Financing by Indiana Local Government Report
- Council of Development Finance Agencies Online Resource Database
- TIF Explainer from Benny Turner, Clerk-Treasurer, City of Aurora, IN
- Accelerate Indiana Municipalities (AIM) TIF Transparency Quick Guide
- Barnes and Thornburg, LLC TIF Handbook
- Baker Tilly's Key 2023 Changes in Indiana TIF Law List



# CONTACT INFORMATION OF COMMUNITY LEADERS

Below is a list of individuals throughout the state who have valuable insight into TIF district establishment, operation and utilization.

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