



# Tax Increment Financing (TIF) Local Income Tax (LIT)

COUNTY AUDITOR'S SPRING CONFERENCE

MAY 2017

# Tax Incremental Financing (TIF)

# General Overview of TIF

- ▶ What is TIF?
  - ▶ Tax increment financing is a government finance mechanism for **development and redevelopment** which captures increases in taxable assessed value within a **defined area** and then uses property tax revenue derived from these increases to **finance public improvements** within the specified area.
  - ▶ The statute over Redevelopment Commissions and the use of Tax Increment Financing is found in IC 36-7-14.

# Development and Redevelopment

- ▶ IC 36-7-14-2.5
- ▶ Public and governmental functions that cannot be accomplished through ordinary operations of private enterprise
  - ▶ Benefit the public health, safety, morals and welfare
  - ▶ Increase the economic well-being of the taxing unit and the state
  - ▶ Protect and increase property values in the taxing unit and the state.

# Redevelopment Commission

- ▶ IC 36-7-14-3
- ▶ A city, town or county may establish a department of redevelopment that is controlled by a board of five members, although for a county, the county commissioners can adopt an ordinance providing for a seven member board.
- ▶ A redevelopment commission and a department of redevelopment are subject to oversight by the legislative body of the unit, including a review of the department's annual budget. Also they are subject to audit by SBOA, public meetings laws and public records law.

# Redevelopment Commission

## Treasurer

- ▶ IC 36-7-14-8
- ▶ The fiscal officer of the unit establishing a RDC is the treasurer for that RDC.
  - ▶ For a county, the treasurer is both the county auditor who maintains the funds and the county treasurer who is the custodian of the cash and investments
- ▶ The treasurer is responsible for the administration, investment and disbursements of all funds and accounts of the RDC in compliance with state laws that apply to other funds and accounts under the administration of the fiscal officer.

# TIF Funding

- ▶ IC 36-7-14-39
- ▶ The assessed value that currently exists at the time the allocation area is established becomes the “base assessed value.”
- ▶ Increases in assessed value after the development within the allocation area is known as “incremental assessed value.”
  - ▶ Taxes paid on incremental AV (tax increment or TIF revenues) are directed to the redevelopment commission.
  - ▶ The term “TIF District” is actually the allocation area. “Allocation area” means the part of a redevelopment project area to which an allocation provision, see Section 15, refers for distribution and allocation of property taxes.

# TIF Resolutions

- ▶ Declaratory Resolution

- ▶ Starts the process.
- ▶ Establishes the base assessment date – the assessment date immediately preceding the adoption of the declaratory resolution.

- ▶ Confirmatory Resolution

- ▶ Ends the process.
- ▶ The TIF district doesn't exist until the confirmatory resolution is adopted.



# Specific Property Types in TIF

## ▶ Real Property

- ▶ The declaratory resolution should provide a geographic area for the TIF district. All real property within the geographic area is included in the TIF unless otherwise stated in the resolution.

## ▶ Residential Property

- ▶ For an economic development area established before July 1, 1995 or a redevelopment area established before July 1, 1997, residential AV is able to be captured as incremental AV.
- ▶ For TIF districts established since these dates, residential AV is not able to be captured as incremental AV.
  - ▶ If AV on a residential property increases, the base AV is increased to ensure no capture of TIF revenue.
  - ▶ If AV on a residential property decreases, the base AV is not adjusted downward.
    - ▶ TIF district takes a loss in incremental AV.

# Specific Property Types in TIF

- ▶ Personal Property
  - ▶ Personal property is not automatically included in the TIF district.
  - ▶ The redevelopment commission must specifically identify personal property taxpayers to be included in the TIF district.

# Main Uses of TIF Proceeds

- ▶ Pay expenses incurred by the Redevelopment Commission for local public improvements within the allocation area.
  - ▶ Pay principal and interest on bonds and leases incurred for local public improvements within the allocation area.
  - ▶ Reimburse the taxing unit for expenditures made for local public improvements within the allocation area.
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- ▶ Note: The allocation fund may not be used for operating expenses of the commission.
  - ▶ Note: Each allocation area would have its own fund

# Calculation of Excess Assessed Value – June 15

- ▶ Redevelopment Commission is to report to the County Auditor and each applicable taxing unit if there is any available surplus of TIF assessed value that can be “released” to the other taxing units or state or; that no excess assessed value is available to be allocated to the respective taxing units.
- ▶ The report must be in writing and should be submitted on Gateway.
- ▶ This amount of pass-through AV gets reported on CNAV as “TIF Passthrough”, which is an informational field on CNAV. The AV should also be included in the non-TIF AV for the taxing district.
  - ▶ Impacts the calculation of the cumulative fund rate cap.

# Annual Report – April 15

- ▶ Filed with the executive and fiscal body of the unit. Also filed on Gateway
- ▶ Contents:
  - ▶ Names of the qualified and acting commissioners
  - ▶ Names of the officers of the Redevelopment Commission
  - ▶ Number of regular employees and their salaries or compensation
  - ▶ Amount of expenditures made during preceding year and general purpose
  - ▶ An accounting of tax increment revenues as a grant or loan from commission
  - ▶ Amount of funds on hand at the close of the calendar year
  - ▶ Other information necessary to disclose the activities of the commissioners and the results obtained.
  - ▶ Commissioners appointed or removed from office in the preceding year

# Annual Report – April 15

- ▶ Additional Information for each TIF district in the previous year:
  - ▶ Revenues received
  - ▶ Expenses paid
  - ▶ Fund balances
  - ▶ The amount and maturity date for all outstanding obligations
  - ▶ The amount paid on outstanding obligations
  - ▶ A list of all the parcels and personal property records included in each TIF district and the base assessed value and incremental assessed value for each parcel

# Annual Report – April 15

- ▶ Additional information on each TIF District (continued)
- ▶ To the extent that it has not already been provided:
  - ▶ The year in which each TIF district was established
  - ▶ The section of the Indiana Code under which the TIF district was established
  - ▶ Whether the TIF district is part of an area needing redevelopment, an economic development area, a redevelopment project area or an urban renewal area.
  - ▶ If applicable, the year in which the boundaries were changed and a description of the changes
  - ▶ The date on which the TIF district will expire
  - ▶ A copy of each resolution adopted that establishes or alters a TIF district

# TIF Neutralization

- ▶ The county auditor is responsible for certifying to the Department the TIF Neutralization Worksheets, prior to the submission of CNAV.
  - ▶ TIF Neutralization is designed to negate the effects of annual trending on assessed value and allow the TIF district to capture only growth in assessed value caused by construction or improvements.
  - ▶ The TIF Neutralization Worksheet is an estimate of the values at the time the Worksheet is submitted.



# TIF Changes

- ▶ The county auditor may become aware of necessary TIF changes throughout the year.
  - ▶ Examples: New TIFs, TIFs not previously captured, parcel level corrections
- ▶ The process for handling this additional information may depend on the time of year.
  - ▶ If prior to CNAV, the county auditor may be able to incorporate all changes prior to certifying.
  - ▶ If post-CNAV but before budget order, the county auditor should evaluate the impact of the changes to see if they warrant changing the CNAV. Please work with the Department on this!
  - ▶ If post-budget order, the county auditor should work with both the Department and the Auditor of State's Office to determine the best course of action.

# TIF Expirations

- ▶ For an allocation area established before July 1, 1995, the expiration date is June 30, 2025 or the last date of any obligations that are outstanding on July 1, 2015.
- ▶ A declaratory resolution or amendment that establishes an allocation provision after June 30, 1995 must include an expiration date for the allocation provision.
- ▶ For an allocation area established before July 1, 2008, the expiration date may not be more than 30 years after the date on which the allocation provision is established.
- ▶ For an allocation area established after June 30, 2008, the expiration date may not be more than 25 years after the date on which the first obligation was incurred to pay principal and interest on bonds or lease rentals on lease rentals payable from TIF revenues.

# TIF Expirations and Closures

- ▶ While Indiana Code provides for TIF districts expiring, it does not provide directions on how the closure process should occur.
- ▶ Given the county auditor's role in ensuring accurate taxation, the county auditor should maintain records that will allow the auditor to identify when a TIF district is to expire and be removed from consideration.

# Local Income Tax

# Local Income Tax (LIT) Funds

- ▶ Expenditure Rate
  - ▶ Economic Development (EDIT) – Fund 1112
  - ▶ Public Safety – Fund 1170
  - ▶ Certified Shares – General Fund
- ▶ Property Tax Relief Rate
  - ▶ Settlement Fund – 6203
- ▶ Special Purpose Rate
  - ▶ Specific legislation for purpose of fund – Fund 1114

# Expenditure Rate

- ▶ Starting in 2017, local income tax funds will replace the former LOIT, CAGIT and COIT funds.
  - ▶ Certified shares LIT is now placed in the General fund. The CAGIT and COIT funds should be closed out by the end of the year. Unused balances should be transferred to the General Fund during 2017.
  - ▶ Economic Development fund was renamed, however, no change in fund number.
  - ▶ Public Safety fund was renamed, however, no change in fund number.

# Property Tax Relief LIT

- ▶ Established a new fund to be used starting in 2017 for PTR LIT. You were asked not to use the LOIT/COIT/CEDIT property tax relief funds and that any balances left in those funds would be included in a joint effort clean-up process.
  - ▶ For each fund balance we need to determine what makes up that balance and hopefully the entire balance is property tax relief funding.
  - ▶ Once the balance has been determined, property tax relief funds will be included in settlement. Non property tax relief funds will be moved to the appropriate fund.

# Local Government Remittance

- ▶ New clearing funds for receipt of total distribution:
- ▶ Fund 7330 – Certified Shares
  - ▶ Distribution from the state is deposited to this fund and then remitted to each applicable taxing unit based on information provided by DLGF. The county's share will be deposited into the General fund
- ▶ Fund 7331 – Public Safety
  - ▶ Distribution from the state is deposited to this fund and then remitted to applicable taxing unit and applicable PSAP.
- ▶ Fund 7332 – Economic Development
  - ▶ Distribution from the state is deposited to this fund and then remitted to each eligible taxing unit.



# DLGF-Provided Documents

- ▶ HEA 1129 removed the requirement for adopting bodies to use DLGF-prescribed notices, ordinances and resolutions.
- ▶ The Department intends to still provide template documents for those adopting bodies that would like use them.
- ▶ If using locally-drafted documents, the Department recommends reviewing the Department's template to ensure the same information is contained within the locally-drafted documents.

# What Changes Can I Make to Impact Revenue for 2018?

- ▶ Add, increase, decrease, rescind an expenditure tax rate.
  - ▶ If targeting a particular part of the expenditure tax rate, please specify this in the notice, ordinance/resolutions.
- ▶ Modify allocation of expenditure rate revenue.
  - ▶ If a levy freeze county, levy freeze revenue is identified first based on tax rate imposed.
  - ▶ If a former CAGIT county, revenue from the next 0.25% rate is identified next for the distribution that equates to the former CAGIT PTRC.
  - ▶ The remaining revenue is allocated to public safety, economic development and certified shares by percentage.
    - ▶ If PSAP-specific ordinance has been adopted, PSAP revenue is identified before the remaining public safety dollars are distributed to units.

# What Changes Can I Make to Impact Credits for 2018?

- ▶ Add, increase, decrease, rescind a property tax relief rate.
  - ▶ If targeting a particular credit category, please specify this in the notice, ordinance/resolutions.
- ▶ Modify allocation of property tax relief rate revenue.
  - ▶ Specify allocation in percentages.
    - ▶ Homesteads eligible for 1% property tax cap credit.
    - ▶ Residential property, long term care property, ag land, and other property eligible for 2% property tax cap credit.
    - ▶ Residential property
    - ▶ Nonresidential property, personal property and other property eligible for 3% property tax cap credit.
  - ▶ Credit applied uniformly to all taxpayers within the category in the county.

# When Will Changes Take Effect on Employees' Paychecks?

- ▶ Rate changes made between January 1 and August 31 become effective and start to impact paychecks on October 1.
- ▶ Rate changes made between September 1 and November 1 become effective and start to impact paychecks on January 1.
- ▶ Rate changes made between November 2 and December 31 become effective and start to impact paychecks on October 1 of the next year.

# When Will Changes Take Effect for Revenue Purposes?

- ▶ Expenditure rate or allocation changes
- ▶ Special purpose rate changes
- ▶ All distribution changes take effect on January 1, regardless of when the rate change impacts employees' paychecks.

# When Will Changes Take Effect for Credit Purposes?

- ▶ Property tax relief rate or allocation changes
- ▶ Changes made between January 1 and November 1 will apply to tax bills in the next year.
- ▶ Changes made between November 2 and December 31 will apply to tax bills in the year after next.