



Indiana County Commissioners 2024 Annual Conference

Tax Increment Financing (TIF)

Wednesday, December 4, 2024

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What is “TIF”

- Tax increment financing (“TIF”) is a tool which captures increases in assessed value from new development
- Can capture increases in real property and, at times, depreciable personal property assessed value (equipment)
- “Designated Taxpayer”
- Can capture increases in multi-family, condominiums and (if designated area) single-family residential property



Permitted Uses of TIF

- All Projects have to be in or directly serving or benefitting the designated redevelopment area or economic development area.
- Project must be authorized in Economic Development Plan
- Utility improvements
 - Sewer and Water
- Roads and Rail
- Land acquisition / site development
- Buildings / equipment
- Capital project expenditures
- Public infrastructure (including utility infrastructure)
- Site acquisition, clearing and improvements for private developments
- Public safety projects (e.g., fire stations or trucks)
- Recreation facilities
- Job training: TIF may be used on a limited basis to reimburse public and private entities for expenses incurred in training employees of industrial facilities located in the allocation area, and to fund other training and worker education programs.
- “Efficiency” project: a project needed to carry out an interlocal cooperation agreement between governmental entities, or to consolidate local government services.
- Now allowed to spend TIF revenues for police and fire services for both capital expenditures and operating expenses



What are some Risks of TIF



Development is delayed, reduced, or cancelled



Assessment is less than estimated



Taxpayer appeals the assessment



Economy causes general decrease in property values



Company goes out of business or relocates



Company doesn't reinvest or replace equipment, equipment depreciates, or becomes obsolete



Natural disasters: earthquakes, floods, tornadoes



Company becomes non-for-profit (tax-exempt)



State legislative or regulatory changes



Residential TIF

- IC 36-7-14-53 adopted in 2019, amended in 2020 and 2023
- Allows for the establishment of a TIF area that captures new residential development that otherwise would not qualify for capture
- Similar mechanics to commercial/industrial TIF areas
- To qualify:
 - Average housing growth for prior three calendar years must be less than 1% of the total number of homes in the township (counties) or city/town; or
 - Area is designated as an “economic development target area”
- Affected school corporation(s) must adopt resolution approving residential TIF
- Additional public meetings requirements
- **After July 1, 2027, a 1% test and school approval are required**



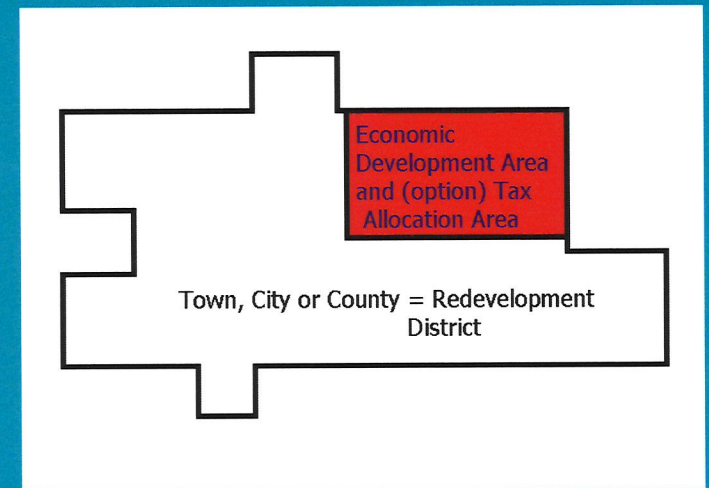
How is TIF collected

- An “allocation area” is created by a redevelopment commission establishing a base assessment date as of prior January 1 and a base assessed value (AV)
- Increases in AV over the base AV on each January 1 subsequent to the base date is incremental AV
- Incremental AV multiplied by the tax rate becomes TIF
- NOTE: New businesses in a TIF area continue to pay their property taxes on their new private investment the same as owners outside the TIF area

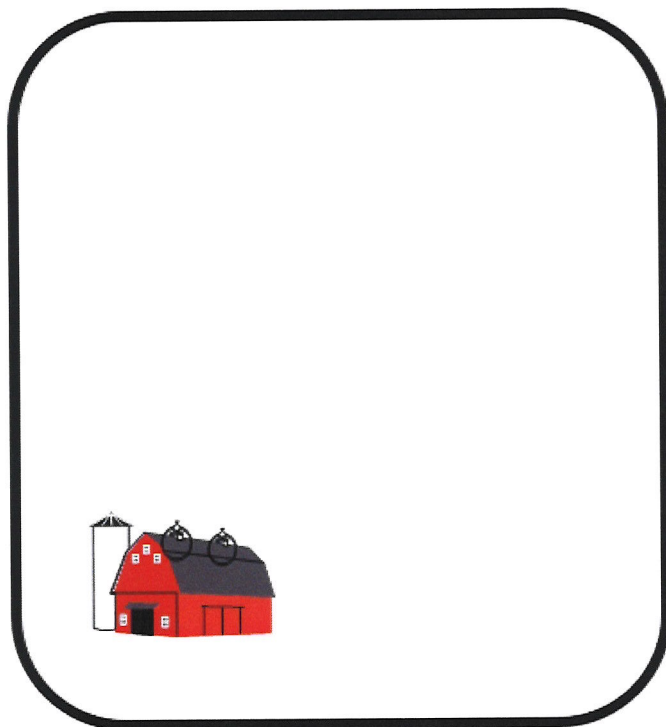


TIF Areas

- The redevelopment commission may (but is not required to) designate all or a portion of any redevelopment area or economic development area as an **allocation area** for purposes of capturing incremental new taxes in the area commonly known as “tax increment” or “TIF”.



Existing AV Before Improvements



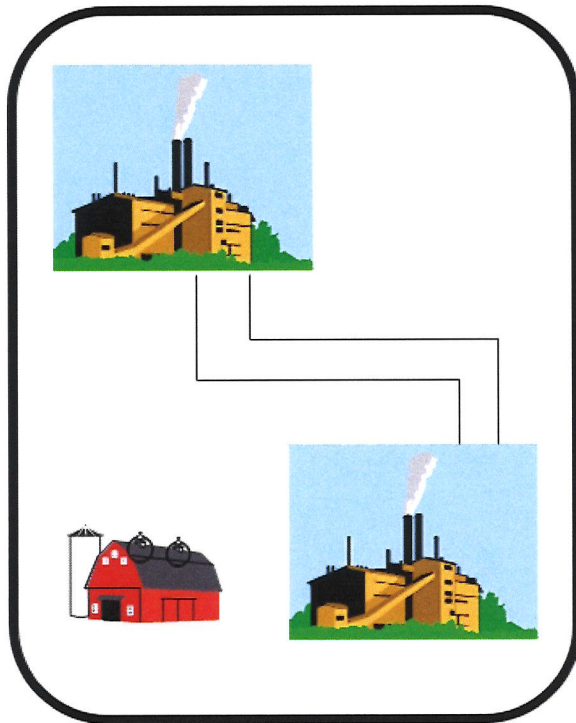
Tax Allocation Area –
Before New Construction

$$\text{Base NAV} \times \text{Tax Rate} = \text{Taxes}$$

- County
- School
- Library
- City/Town
- Township



AV Growth After Improvements



Tax Allocation Area –
After New Construction

$$\text{Incremental Assessed Value} \times \text{Tax Rate} = \text{TIF Taxes} \rightarrow \text{Redevelopment Commission Allocation Fund}$$

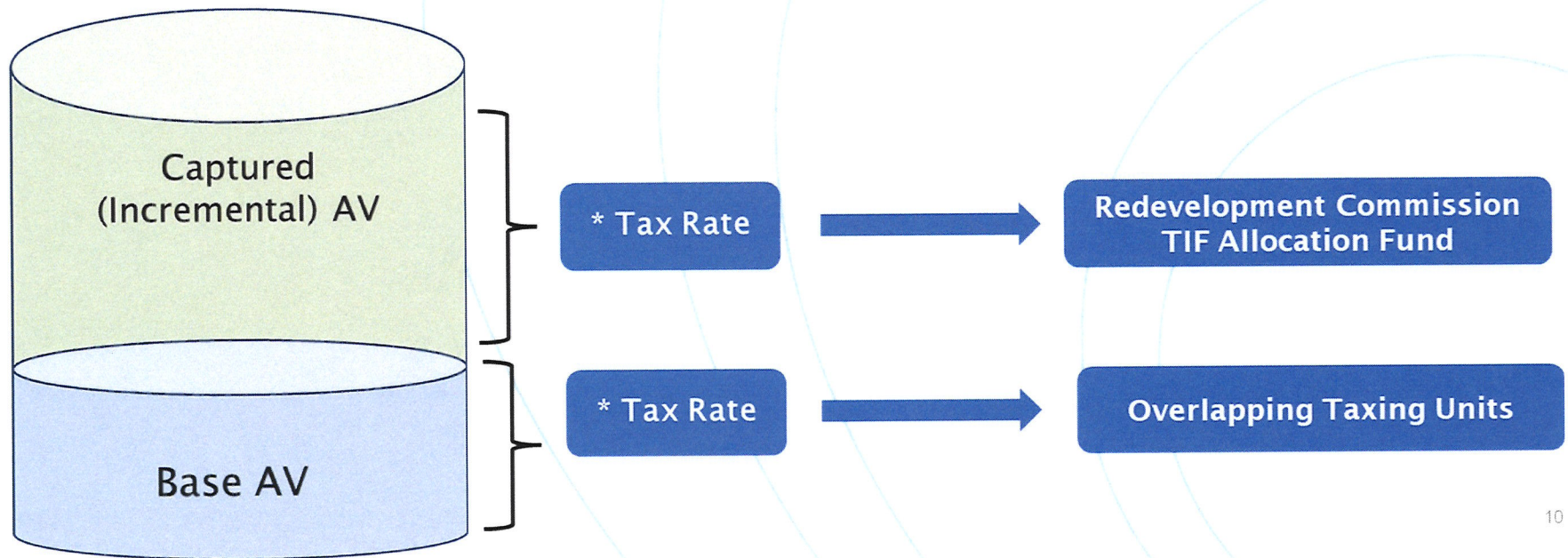
$$\text{Base Assessed Value} \times \text{Tax Rate} = \text{Taxes} \rightarrow \begin{array}{l} \text{County} \\ \text{School} \\ \text{Library} \\ \text{City/Town} \\ \text{Township} \end{array}$$



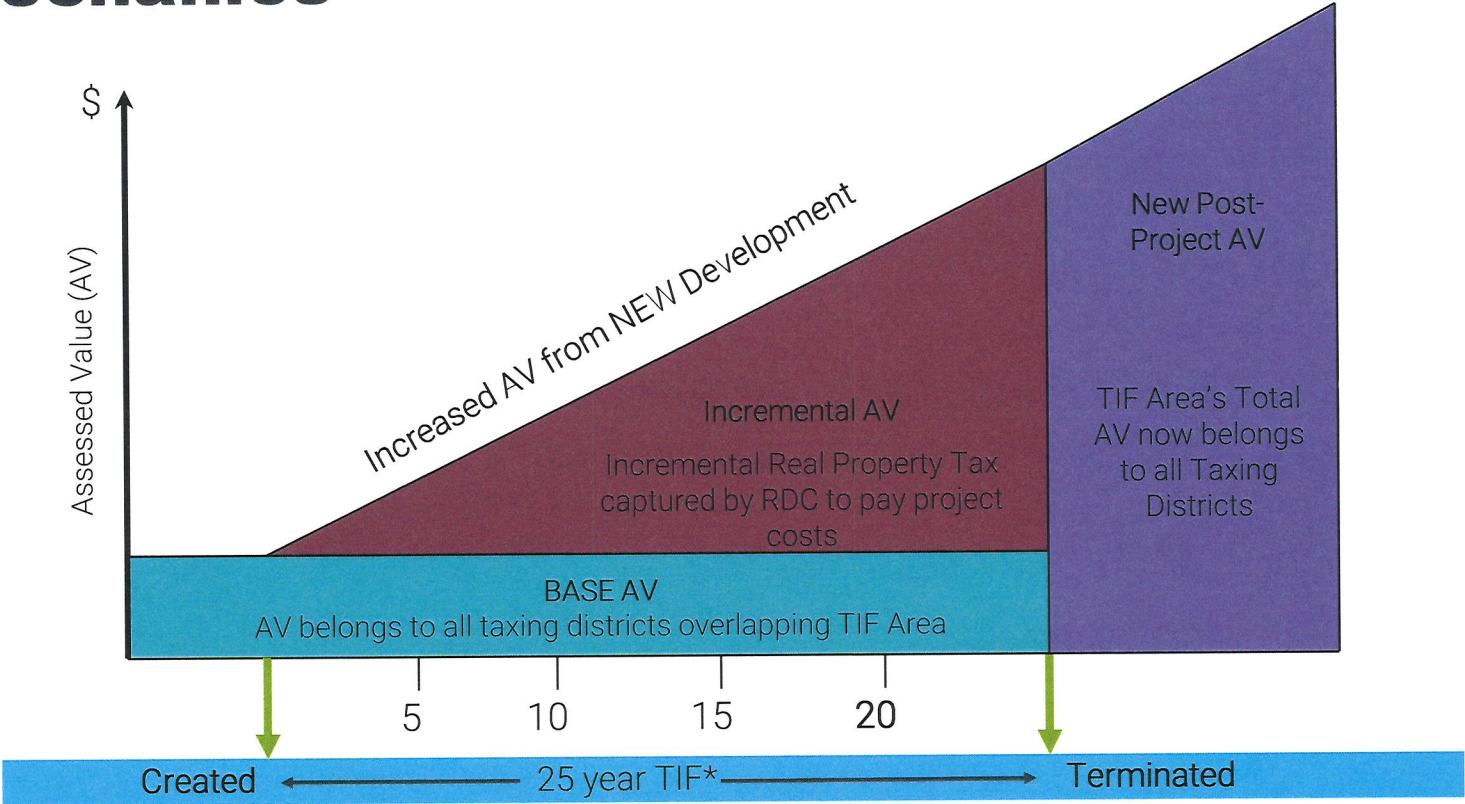
TIF Calculation

Increases in assessed value (AV) over the base value become the incremental assessed value ("Incremental AV").

Incremental AV multiplied by tax rate (per \$100 AV), minus circuit breaker tax credits, equals the Tax Increment (TIF).



TIF Mechanics



*20 years for residential TIF

Property Tax Levies, NAVs and Tax Rates

<u>Fund</u>	<u>Certified Property Tax Levies</u>	<u>Net Assessed Value</u>	<u>Property Tax Rates</u>	<u>Illustrative Net Assessed Value</u>	<u>Change in Tax Rate/ Levy</u>
General	\$10,489,229	\$2,634,161,035	\$0.3982	\$2,644,161,035	(\$0.0015)
2015 Reassessment	397,758	2,634,161,035	0.0151	2,644,161,035	(0.0001)
Cumulative Bridge	637,467	2,634,161,035	0.0242	2,644,161,035	(0.0001)
Health	218,635	2,634,161,035	0.0083	2,644,161,035	0.0000
Park and Recreation	534,735	2,634,161,035	0.0203	2,644,161,035	(0.0001)
Planning	123,806	2,634,161,035	0.0047	2,644,161,035	0.0000
Cumulative Capital Development	437,271	2,634,161,035	0.0166	2,644,161,035	1,660
Totals	\$12,838,901		\$0.4874		(\$0.0018)/ \$1,660

Formula: $(\text{Levy}/\text{Net Assessed Value}) \times 100 = \text{Property Tax Rate}$



Expiration of TIF Areas

- Can separate and re-establish TIF Areas
- Can expand and connect TIF Areas
- Be careful when setting boundaries to avoid unexpected TIF loss
- If Allocation Area is getting close to expiration, be sure to analyze the impacts of the release of assessed value to the overlapping taxing units.

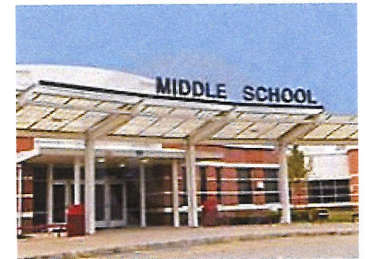
Date Allocation Area Established	Expiration Date
TIF area is established <u>before</u> July 1, 1995.	TIF expires the <u>later</u> of 2025 or following the final maturity of obligations outstanding as of July 1, 2015.
TIF area is established <u>between</u> July 1, 1995 and July 1, 2008.	TIF expires 30 years <u>after</u> the adoption of the Declaratory Resolution.
TIF area is established <u>after</u> July 1, 2008.	TIF expires 25 years after the date the first obligation payable was incurred.
Residential TIF - New residential TIF expires June 30, 2027 (and reverts to previous statute allowing schools veto power)	TIF expires 20 years <u>after</u> the date on which the first obligation was incurred. <u>Residential prior to new statute was 25 years.</u>

What Are Bonds?



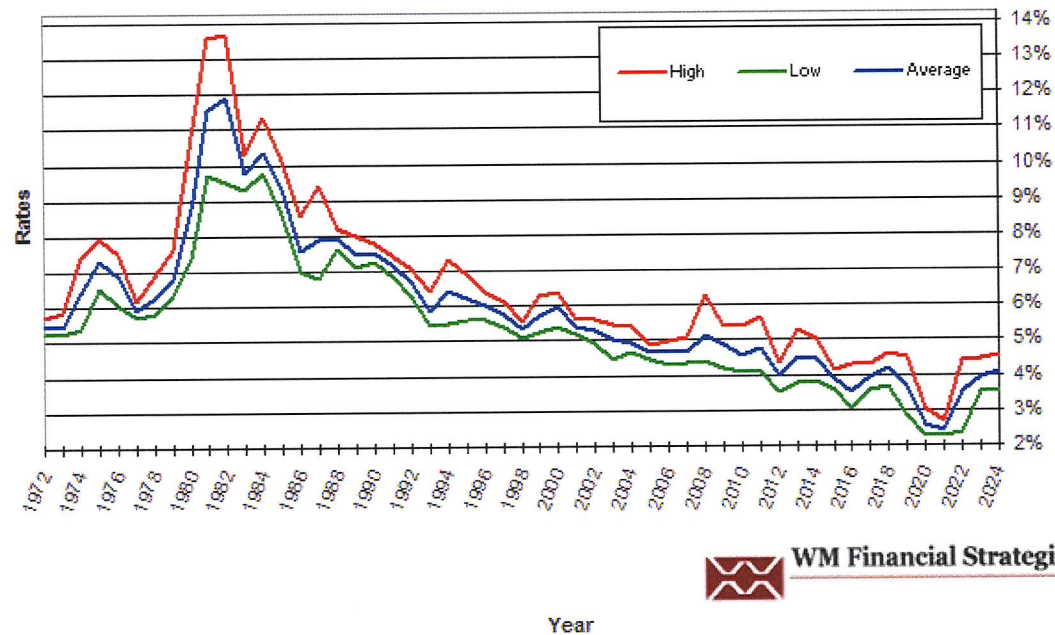
Municipal Bonds

- A municipal bond is a security that is issued by a local government to raise funds
- Municipal bonds are issued for the purpose of financing infrastructure needs of the municipality such as streets, highways, bridges, sewer and water systems, schools, hospitals, jails, fire and police stations, power utilities and various public projects
- Economic Development and Public- Private Partnerships
- May be general obligations of the issuer or secured by specified revenues or special assessments (or combinations)



The Market Fluctuates

20-BOND BUYER INDEX
1972-PRESENT



Why Issue Bonds?



Infrastructure needs will be great in the future which likely means municipalities will need to issue more bonds in the future.



Since public capital facilities provide services over a long period of time, it makes financial and economic sense to pay for the facilities over a similarly long period of time.



The rational response of the state or local official concerned with satisfying the preferences of constituents is to match the timing of the payments to the flow of services, which is the function served by long-term bond financing.

Why Don't We Just Get a Loan?

“Getting a loan from the local bank,” signing a promissory note, issuing bonds or bond anticipation notes - all borrowing

Properly structuring borrowing, regardless of its name, saves municipal officials frustration, possible embarrassment, negative publicity and, in some cases, prosecution for official misconduct

Home Rule Statute provides that if there is a statute or constitutional provision requiring a specific manner for exercising a power, a municipality wanting to exercise the power must do so in that manner – and the General Assembly has a number of statutes about borrowing

IFA Residential Infrastructure Fund

- Established under HEA 1005-2003
- State revolving fund loan program administered by the Indiana Finance Authority
- May provide funds for public infrastructure required to serve residential housing developments
- Both single- and multi-family developments are eligible



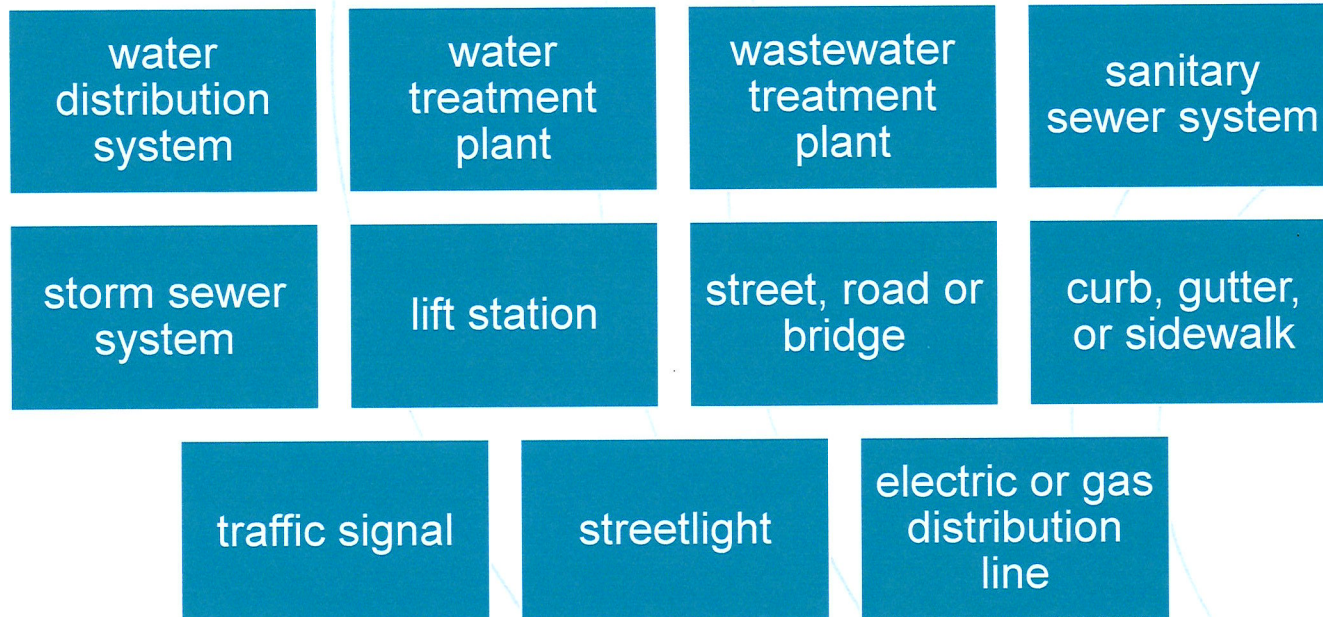
Indiana Infrastructure Fund

- The purpose of the Fund is to provide financial assistance to participants to finance infrastructure for the support of residential housing in communities
- Administered by the Indiana Finance Authority
- **Residential Housing:** Single family or multifamily housing for rent or sale
 - Includes condominiums and townhouses located in an economic development target area under IC 6-1.1-12.1-7



Indiana Infrastructure Fund (cont'd)

- **Public Infrastructure:** Means any of the following infrastructure that is or will be owned, maintained, or provided by a political subdivision:



Indiana Infrastructure Fund (cont'd)

- The Program may finance public infrastructure for the support of residential housing including the purchase of land necessary to accommodate a project, including any excavation and compaction
- All funds will be distributed to a political subdivision in the form of a low interest loan for an eligible project
- To be considered for financial assistance, participants must submit an application for funding
 - The authority will select projects and place them on a project priority list after being ranked and scored



Marketing Considerations

- Potential bond purchasers and pools
 - Commercial banks
 - Underwriters
 - Competitive sale
 - Negotiated sale
 - Indiana Bond Bank / SRF / IFA
- Bond ratings
- Bond insurance



Competitive Sells Itself	vs.	Negotiated Need to Tell a Story
General Obligation, other strong established revenue source	Type of Security	Speculative or less consistent revenues, complicated security
Typically highly rated with stable outlook, sometimes non-rated	Rating	Typically non-rated or lower rated with weak outlook
Regularly in market, general purpose municipal borrower	Issuer	New or infrequent borrower, special purpose or conduit issuer
No legal issues, stable financial condition, stable politically	Issuer Characteristics	New or infrequent borrower, special purpose or conduit issuer
Stable, predictable market, high investor demand and light supply	Market Conditions	New or infrequent borrower, special purpose or conduit issuer
Level or flexible debt service, standard bond covenants	Bond Structure	Complex wrap or coverage structure, unique bond covenants



Illustrative Financing

	Local Bank	Competitive Sale
Bond Size	\$14,665,000	\$14,715,000
Available Proceeds	\$14,565,000	\$14,565,000
Cost of Issuance	\$100,000	\$150,000
Term	10 years	10 years
Interest Rate	1.75%	1.15%
Total Cost (Principal & Interest)	\$16,140,000	\$15,745,000



Issues Affecting Financings

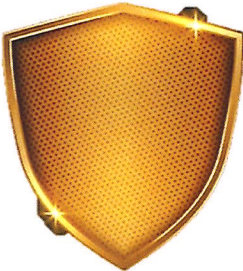
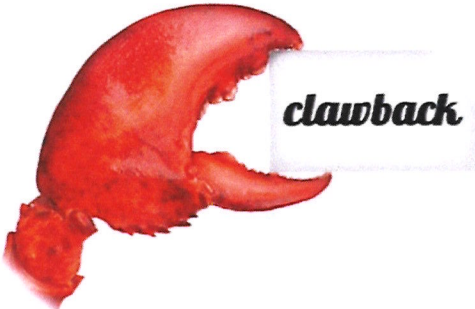
- Existing constraints
- Sufficiency of revenue stream/capacity
- Outstanding bonds
- Existing bond covenants
- Restrictions for future debt
- Competitive vs negotiated
- Cost

Issues Affecting Structure

- Term of financing (balloon payments)
- Fixed vs. variable interest rates



Clawbacks and Protections



Managing Incentive Risk

- Company purchases the bonds
- Company guarantees the debt service
- Company pay off bonds early (excess TIF)
- Company Letter of Credit – DSRF
- Company moves, required to pay off bonds
- If Company goes bankrupt or out of business...



Managing Incentive Risk (cont.)

- Covenant not to appeal
- Dispute resolution fund
- Tax abatement clawback
- Clawback percentage of revenue pledge
- Land reversion
- PILOT for legislative changes



THANK YOU

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