TIF Basics for Community Stakeholders

August 3rd, 2021

2:00 – 3:00 PM EST

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IEDA

Indiana Economic Development Association

Meet Your Presenters

Gary Smith, CPA – Partner

Gary has led the Public Finance & Economic Development teams from the Indianapolis office since 2017. Gary's primary practices involve municipal finance & economic development advising around the State. Being closely involved with many high profile TIF industrial development projects, including Fortune 500 developments such as Cummins, ConAgra Brands & Frito Lay (PepsiCo), has given Gary the background required to navigate complex incentive and financing programs. Gary is proficient in all financial & accounting matters pertaining to tax increment finance in Indiana.

Parker Criswell – Senior Staff in Economic Development

Parker focuses his practice around Economic Development & Tax Increment Financing. Parker engages closely with governmental officials to assist with all faucets of TIF financial planning and the structuring of developer incentives to ensure the best possible outcome for his client.

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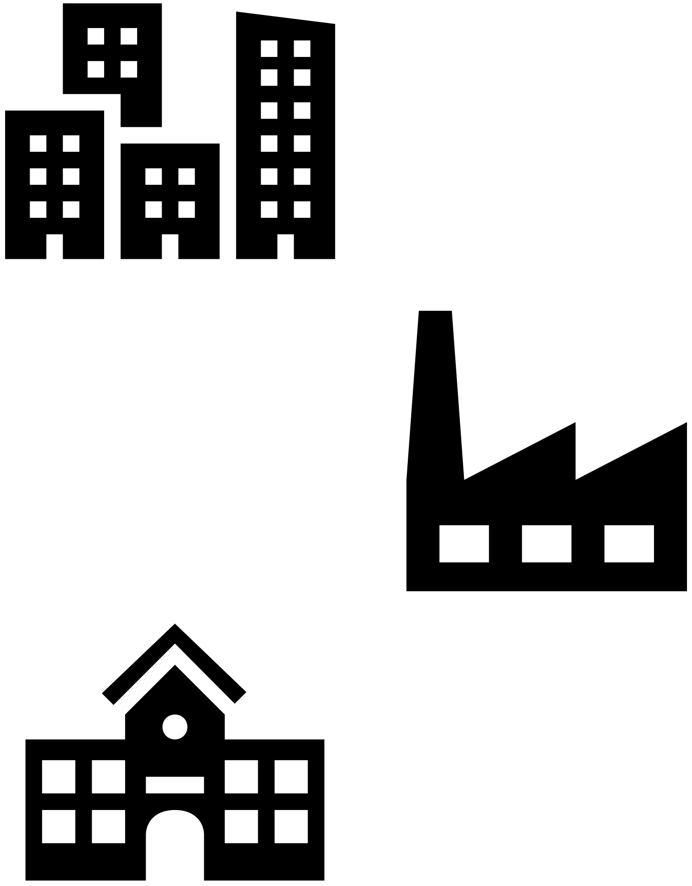
What is Tax Increment Financing



Tax Increment Financing (TIF) Enables municipalities to fund development projects with the incremental increase in property tax revenues generated by the development.

- Why should municipalities utilize TIF?
  - Funds development projects that otherwise would have no revenue source
  - Incentivize growth in stagnate assessed value growth environments
  - Allows municipalities flexibility when delivering incentive, beyond standard 10-year abatements

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Introducing TIF Definitions:

Economic Development Area:	A targeted area with an official plan to increase employment opportunities, attract new business, or retain / expand current business
Allocation Area:	A sub-area within an Economic Development Area. The Allocation Area designates which properties will capture Tax Increment Finance (TIF) revenue
Base Assessed Value:	The assessed value of all units in the area prior to new development
Incremental Assessed Value:	New assessed values and property taxes generated from new development within a designated allocation area
TIF Clock:	TIF Allocation Areas expire 25 years after debt has been issued on the area

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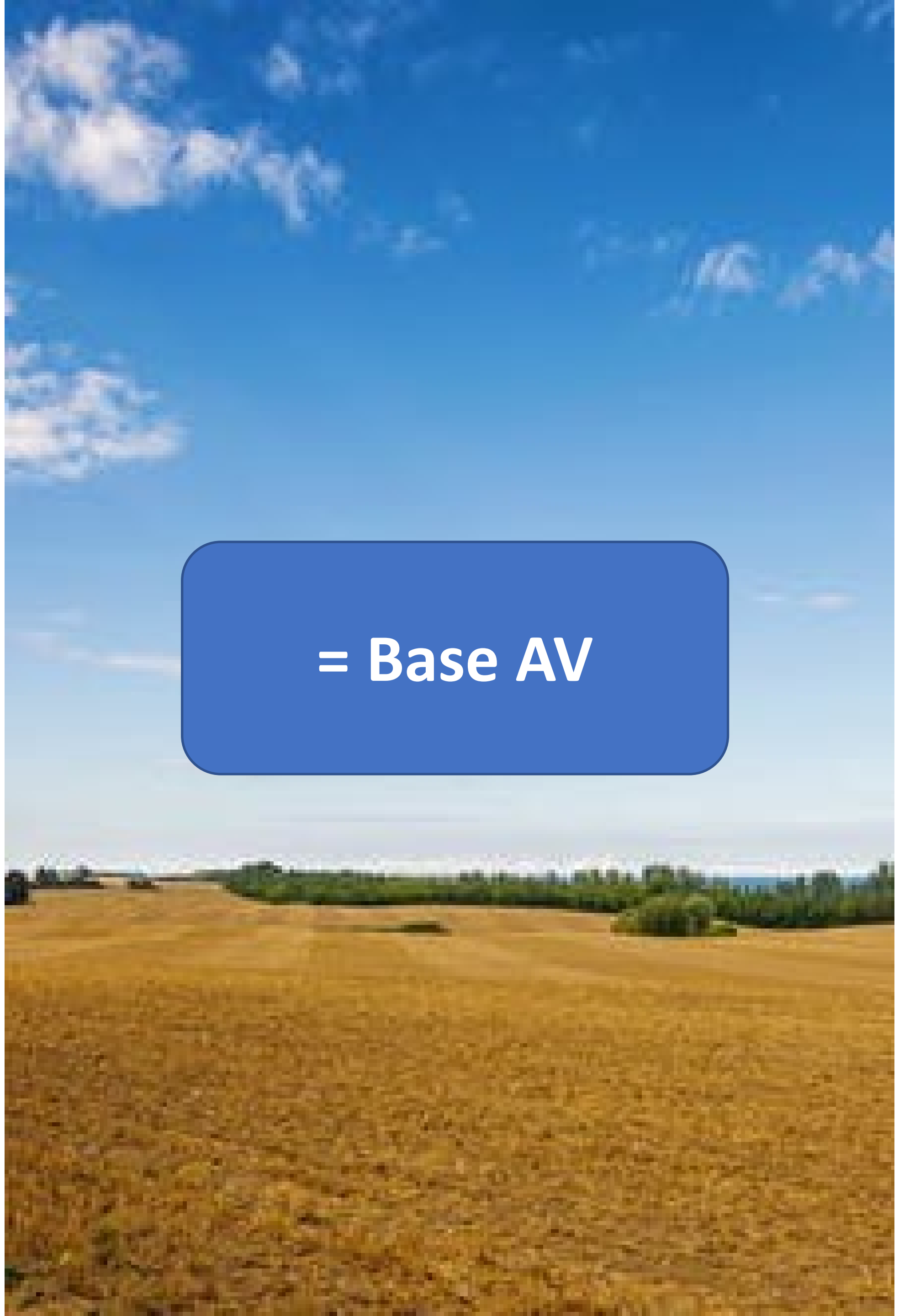

Base Assessed Value

- Company A is coming to town!
- Construction site is currently undeveloped land
- The current assessed value (AV) of the land is considered the Base Assessed Value

- Example: The land is assessed at $100,000
- Revenue to overlapping units is:
  - ($100K AV/100) * taxing district rate ($2.50)
  - Existing $2,500 tax levy goes to the overlapping taxing units

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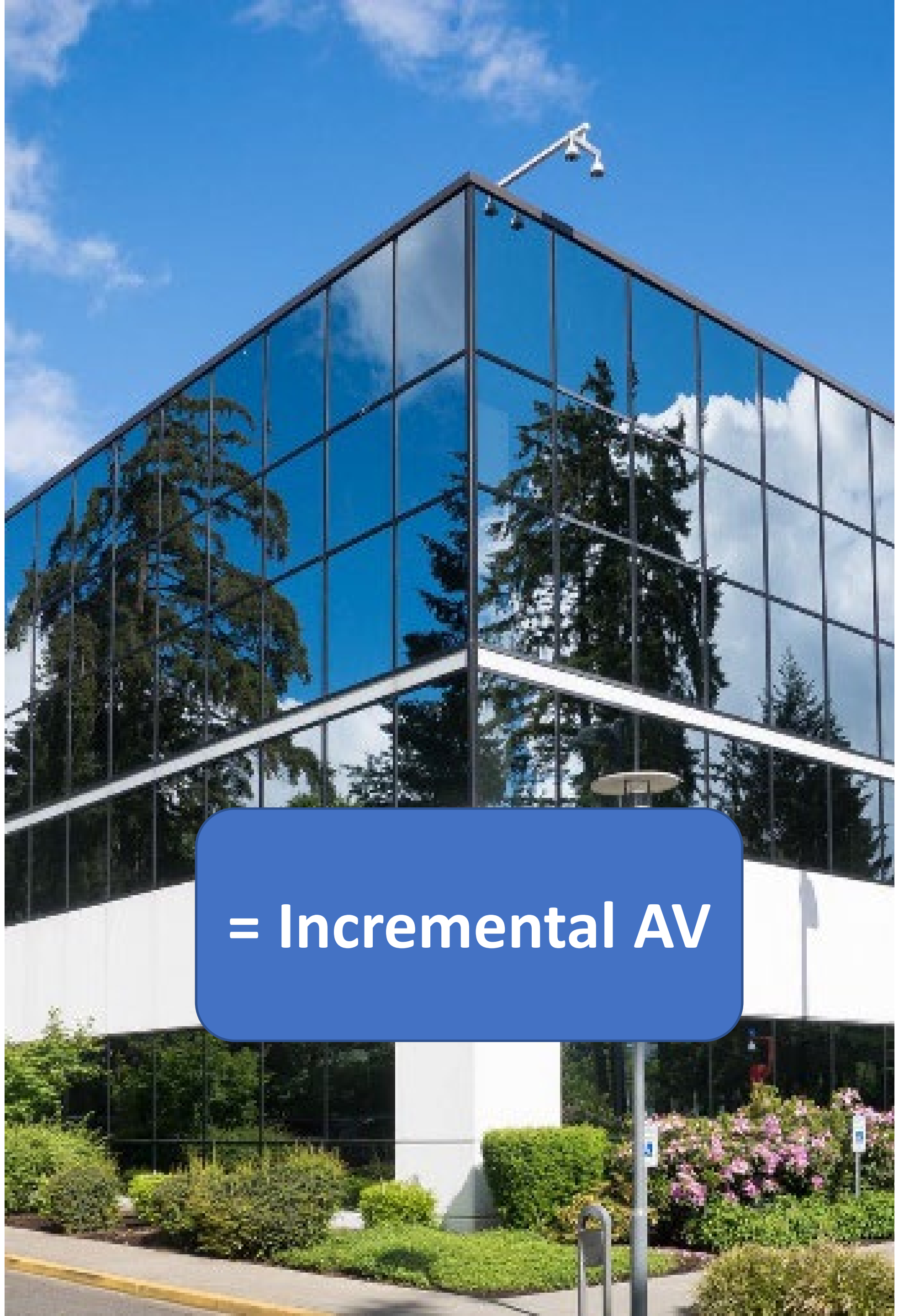

Incremental Assessed Value

- Company A’s increase in assessed value as a result of their construction project is absorbed into a TIF allocation area
- Pre-developed land remains a part of the Base AV that continues to go to all overlapping units

- Example: Assume Company A’s new building is assessed at $40 million and is in the Allocation Area.
- Revenue to TIF is:
  - ($40 million AV/100) * taxing district rate ($2.50)
  - Generates $1 million in annual TIF Revenues
  - **NEW revenues that would not have been seen “but-for” TIF**

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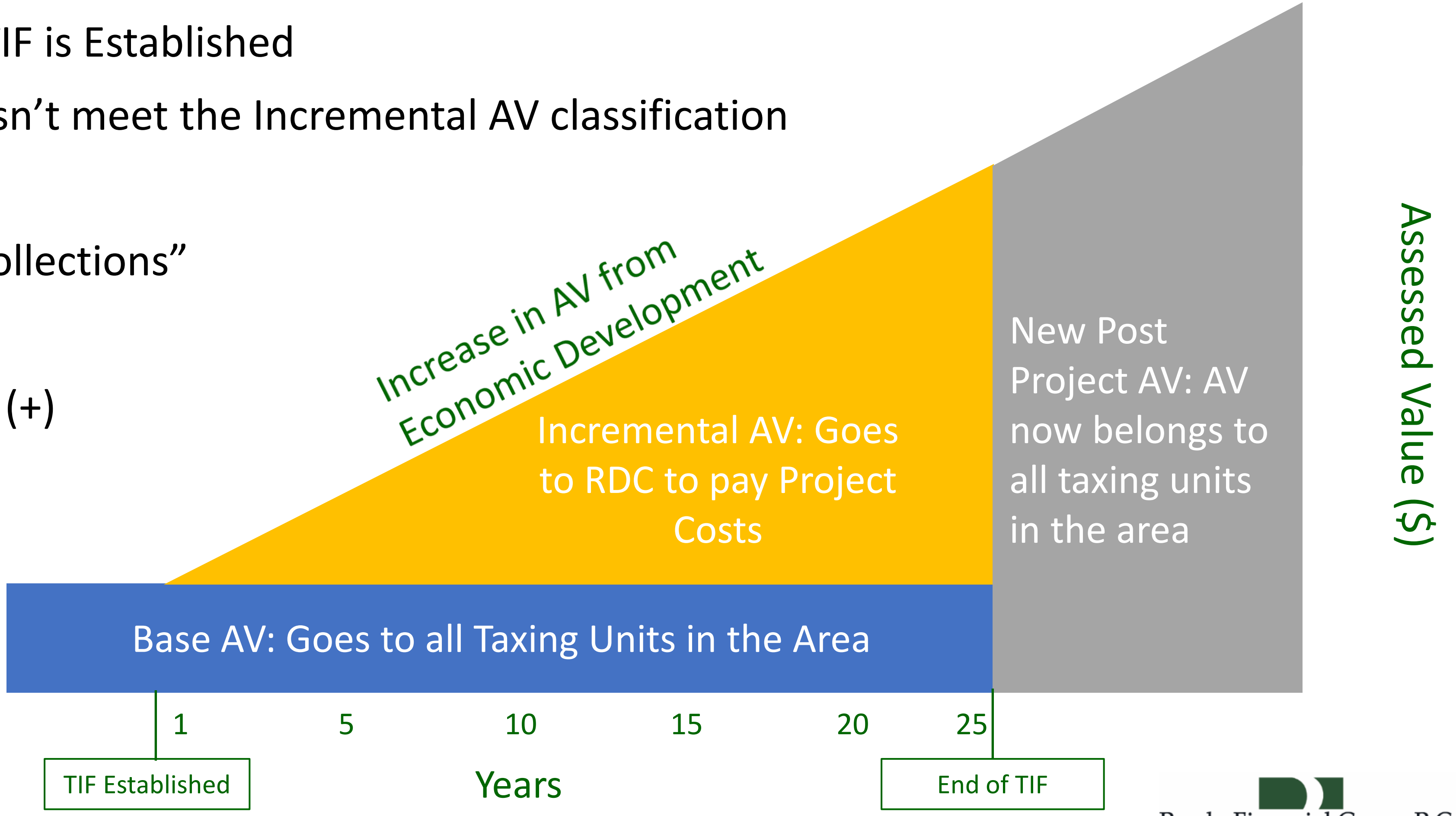
TIF Clock

- Base AV – "Overlapping Units Collections"
- Existing AV at the time TIF is Established
- Percentage of what doesn't meet the Incremental AV classification

- Incremental AV – "TIF Collections"
- New Construction (+)
- New Abatement Roll off (+)
- New Destruction (-)
- New Appeals (+)



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Managing the TIF Clock

Year 1: Construction Begins on Development

Year 2: Construction In-Progress

Year 3: Construction Completion

Year 4: In January, Development is assessed

Year 5: Development's Assessed Values are included on Taxpayer's tax bill and **TIF revenues are collected**

TIF Clock

1. The TIF clock begins the day debt is issued and Allocation Area revenues are pledged
   - Often debt is issued in Year 1 to fund capital cost incentive.
   - Property values may not be assessed and taxable until many years later, Year 5 in this example.

Tip: If debt is issued in Year 5, the TIF area can collect on the full 25-year clock of the TIF.

Tip: If available, other revenues may be pledged to delay the start date.

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Utilizing TIF Revenues

Each TIF project should be catered toward the specific needs of each community to effectively utilize the TIF revenue…

Quality of Life Projects

Community projects, emergency services, local road and street projects, façade programs

Workforce Development/Housing

1. 15% allowable amount for Workforce Development programs
2. Incentivize housing projects (single & multi-family)

Incentivize Business Development

Leverage future TIF Revenues to deliver business development today or structure incentive over time.

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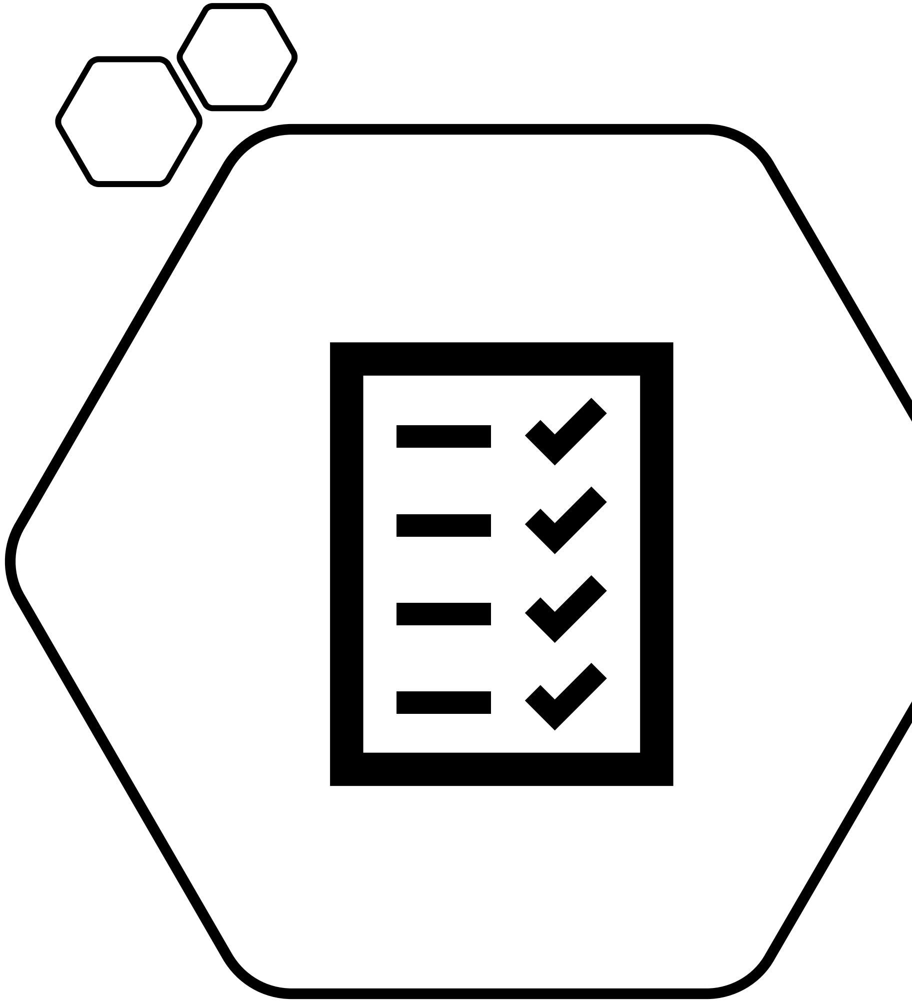
Redevelopment Area Creation Steps

1. Determine Boundaries (Identifying Specific Parcels)
2. Creation of Plan for Area
3. Declaratory Resolution
4. Planning Commission Approving Resolution
5. Council/Commissioners Approving Resolution
6. Tax Impact Statement
7. Notice of Public Hearing
8. Public Hearing and Confirmatory Resolution
9. Filings



Who Controls TIF Revenues?

- Counties, Cities, and Towns can establish a Redevelopment Commissions (RDC) to assist with decisions associated with Economic Development and TIF incentives

- RDC’s generally consist of five voting members and one non-voting school board member:

Appointed by:	Municipal Executive	Municipal Executive	Municipal Executive	Legislative Body	Legislative Body	School Board

- Appointed RDC Positions: President, Vice President, Secretary

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RDC Member Duties

Monthly Duties

- Attend Monthly Meetings
- **Oversight of TIF Funds (Planning)**
- Consider & Approve/Disapprove of:
  - Creation and Expansion of Allocation Areas
  - Consider Bond Approval Documents
  - Consider the Public's Funding Requests
- Reporting Requirements

Long-Term Duties

- Actively engage in Community Planning Discussions
  - Quality of Life Projects
  - Workforce Development
  - Housing Development
  - Employer Retention/Business Development
    - Tax Abatement
    - Capital Incentive

Oversight of TIF Funds

TIF Allocation Area #1

	2019 Actual	2020 Actual	2021 Projected	as of 6/30/2021	2022 Projected	2023 Projected
Beginning Cash Balance	$ 844,206	$ 1,793,664	$ 2,805,731	$ 2,805,731	$ 3,257,629	$ 3,721,928
Plus Revenues:						
Interest / Misc. Revenue	$ 1,152	$ 1,203	$ 1,189	$ 595	$ 1,147	$ 970
TIF Revenue Collections	$ 2,034,378	$ 2,101,859	$ 1,953,652	$ 976,826	$ 1,953,652	$ 1,953,652
Total Revenues	**$ 2,035,530**	**$ 2,103,062**	**$ 1,954,841**	**$ 977,420**	**$ 1,954,799**	**$ 1,954,622**
Less Expenditures:						
Capital Outlays						
Airport	$ 57,650	$ 52,559	$ 57,668	$ 25,903	$ 57,000	$ 57,000
Highway	$ 51,230	$ 52,996	$ 56,774	$ 11,424	$ -	$ -
Hospital	$ 23,382	$ 29,463	[illegible]	[illegible]	$ -	$ -
Laramie Park	$ 15,224	$ 16,852	[illegible]	[illegible]	$ -	$ -
Fire Station Renovation	$ -	$ -	$ 430,000	$ -	$ 400,000	$ -
School STEM Program	$ 45,000	$ 45,000	$ 45,000	$ -	$ 45,000	$ 45,000
Debt Payments						
Revenue Bonds 2016	$ 850,000	$ 850,000	$ 865,000	$ 432,500	$ 865,000	$ 865,000
Potential Debt Issue	$ -	$ -	$ -	$ -	$ -	$ -
Other Services & Charges						
Professional Services	$ 43,586	$ 44,126	$ 48,500	$ 16,158	$ 48,500	$ 48,500
Total Spending	**$ 1,086,072**	**$ 1,090,996**	**$ 1,502,942**	**$ 485,985**	**$ 1,490,500**	**$ 1,090,500**
Surplus / (Deficit)	$ 949,458	$ 1,012,066	**$ 451,899**	$ 491,435	**$ 464,299**	**$ 864,122**
Pass Through Calculation	187%	193%	130%	201%	131%	179%
Year End Fund Balance:	**$ 1,793,664**	**$ 2,805,731**	**$ 3,257,629**	**$ 3,297,166**	**$ 3,721,928**	**$ 4,586,049**

Quality of Life Projects

Proactive TIF Planning identifies opportunities for potential debt issuances

Workforce Development Program

To structure incentive, it is important to understand existing financial commitments, remaining TIF life, cash flow, etc.

A detailed RDC plan will allow RDC commissioners to effectively structure incentives and fund projects on time.

Structuring Incentives

Characteristics of an Incentive

1. **Type**
   - Bond
   - Abatement
   - Incentive Agreement
2. **Timing**
   - Managing the TIF clock
3. **Length**
   - 5yr, 10yr, 20yr, 25yr
4. **Source**
   - Developer
   - Local Unit
   - Other
5. **Risk**
   - Local Unit Vs. Developer

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Negotiating Incentive & Risk Management

Example Development: Multi-Family Housing Development

Project developer has quantified an incentive they would like to receive in exchange for building out a new apartment complex.

- Often, this incentive number is tied to the revenue **<u>the Developer</u>** projects.
- Includes annual assessment increases due to trending property values
- Includes annual increases in the total tax district rate based on a
- composite growth factor
- Assessment projection tied to total project investment

Developers often prefer up front incentive for the full amount of the projected future revenues.

Negotiating Incentive & Risk Management

Abatement		Revenue Bond		Development Incentive Agreement	
Pros	**Cons**	**Pros**	**Cons**	**Pros**	**Cons**
Understandable	Limited to 10 Years	Deliver $ Incentive Up Front	Could Shift Risk Burden To Local Unit	Shifts Risk Burden To Developer	Some Developers May Require $ Up Front
Standard Schedule of Abatement	Annual Review Needed	Can Be Structured to Cashflows	Reduces Future Borrowing Capacity	Less Cost of Issuance	Can Be Difficult To Negotiate
Easily Modified	Not Always Effective (High CB Communities)	Highly Effective Incentive Tool	May Require Additional Revenue Pledge	Functions Like A "Super Abatement" Up To 25 Years	
Roll-Off Captured By TIF			Delivers Less Incentive (Coverage & Cost of Issuance)	Ideal Incentive Vehicle For Local Unit	

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Negotiating Incentive & Risk Management

While required incentives in your area may vary, it is important to consider the burden of risk.

What will the project realistically generate?

- Pull comp assessment data rather than using total investment
- Take out composite growth factors in the tax rate and assessment

Vehicle to Deliver Incentive

- TIF Revenue Bond – To provide a cash contribution up front, the local unit will need to pledge other revenues to make the bond marketable (Risk)
- Economic Development Incentive – Provides incentive over time, essentially providing a long-term abatement. Developer only gets what they pay in tax revenue (No Risk)

TIF Revenue Bond Example

Risk on local unit to make debt service, regardless of what happens with the development.

Issues bonds payable from Developer TIF & Other Sources

Lender

$ delivered to project fund

Redevelopment Commission

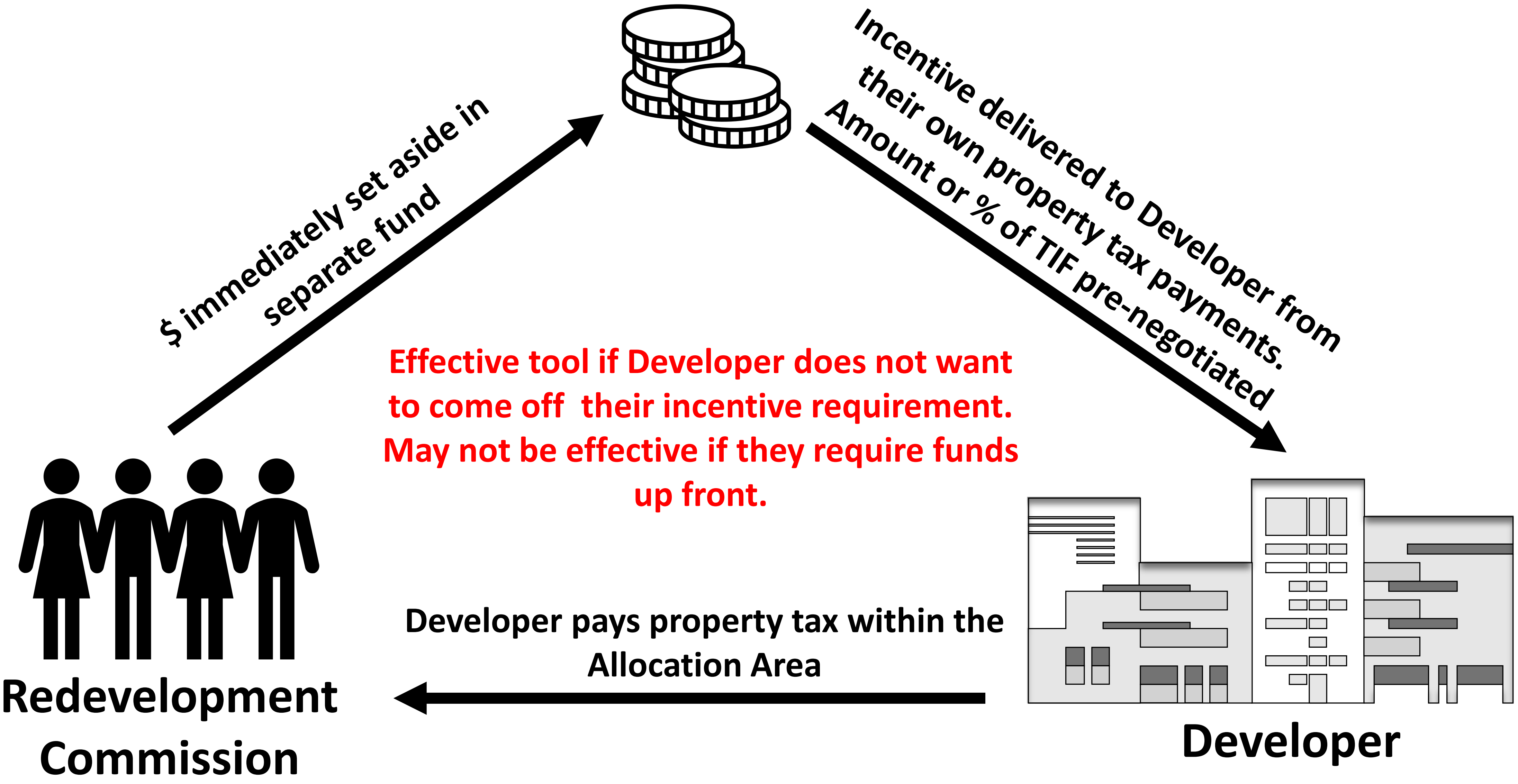
$ pay for public improvements (utilities, road access, site acquisition, etc.)

Developer

Note: No relationship between the lender & developer. While developer project may be considered, the lender will look to the local unit to make the debt service payments and likely require additional security (DSR, LIT pledge, other TIF revenues, etc.)

Note: Conduit borrowing may be an option

Economic Development Incentive Agreement



Closing Remarks

Thank you for taking the time to speak with us today!

Questions?

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