Property Tax Issues: Tax Increment Financing (TIFs) and Assessed Values

Indiana Association of School Business Officials

May 9, 2014

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What is TIF?

Tax increment financing (or "TIF") is a tool which captures assessed value and new property taxes from new development in a designated area.

Capture increases in real property and, at times, depreciable personal property taxes.

Usually captures only commercial and industrial property.

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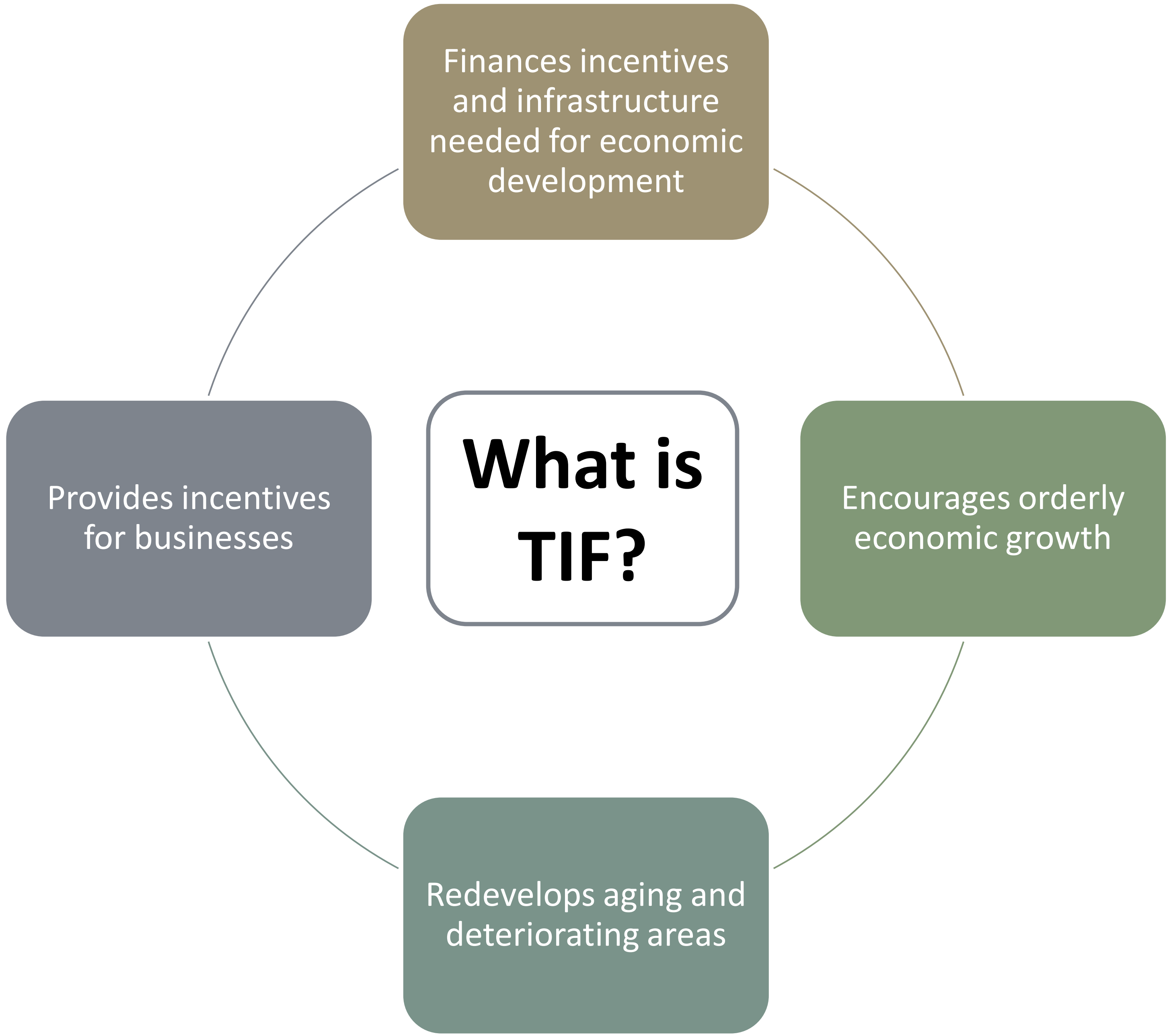

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Procedures for Establishing an Area to Implement Tax Increment Financing

Step 1
- Establish a 5-member Redevelopment Commission (R.C.).
- Schools have a non-voting member sitting on the R.C.

Step 2
- Prepare a redevelopment or economic development plan.

Step 3
- R.C. adopts Declaratory Resolution, plan and factual report

Step 4
- Plan Commission approval

Step 5
- City/Town Council (County Commissioners) approval of Plan Commission Order

Step 6
- Publish Notice of public hearing and distribute Impact Statement

Step 7
- City/Town Council (County Commissioners) approval of creation of Area (only for Economic Development Area)

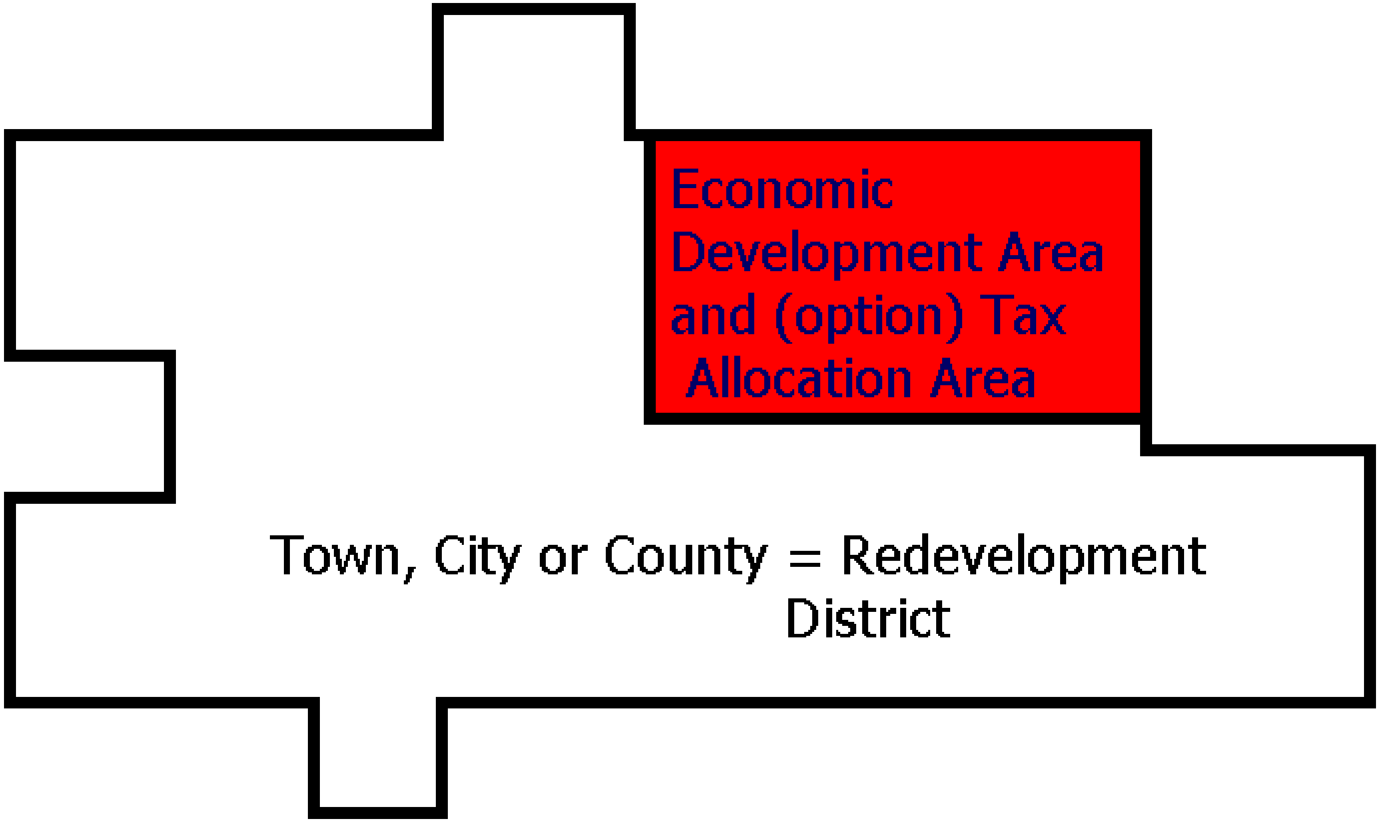
Step 8
- R.C. records Resolution, notifies DLGF and files documents with County Auditor

What can TIF be used for?

- Economic Development
- Redevelopment of blighted areas
- Infrastructure Development and local improvements

Any capital project that is in, serving or benefiting an economic development or redevelopment area if the project is undertaken by Redevelopment Commission.

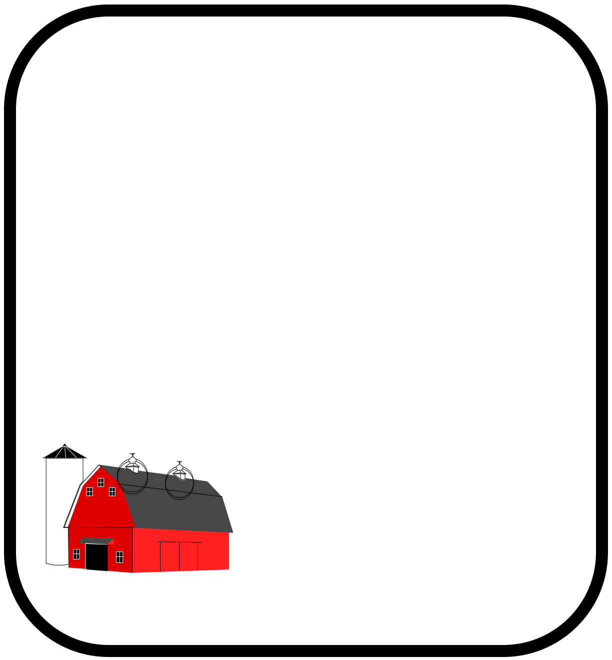
Tax Increment Financing (TIF) Area



Existing Property Assessed Value – Part of the Tax Base for the Overlapping Taxing Units

Tax Allocation Area –

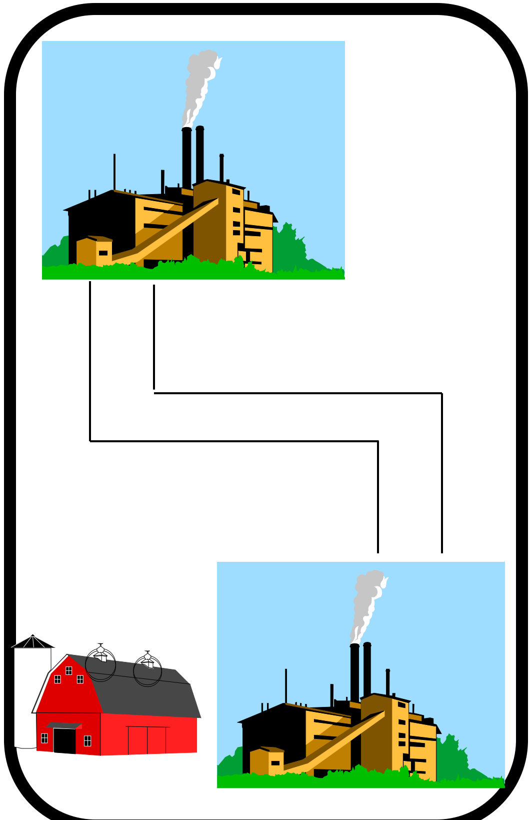
Before New Construction



Base NAV x Tax Rate = Taxes →

-County
-School
-Library
-City/ Town

TIF: Capture Real and Designated Personal Property Assessed Value Growth



Tax Allocation Area –
After New Construction

Incremental NAV x **Tax Rate** = **TIF Revenue** → **Redevelopment Commission Allocation Fund**

Base NAV x **Tax Rate** = **Taxes** →
-County
-School
-Library
-City/Town

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TIF Calculation

- An “allocation area” is created by the Redevelopment Commission establishing a base assessment date as of the prior March 1
- Existing (Base) assessed value cannot be captured
- Increases in assessed value over the base value become incremental assessed value
  - Current NAV – Base NAV = Incremental AV
  - TIF = Incremental AV x Net property tax rate (per $100 AV)

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Does TIF take away funds from our schools?

- State has taken over the funding of school general and pre-school special education funds.
- Postpones increases in revenues for Capital Projects funds with rate limitations.
- Postpones reduction in tax rates for funds with levy limitations.

*** TIF assessed value is included in tax rate calculations for operating and capital referenda.**

How can TIF benefit overlapping taxing units?

- Only capture a portion of TIF
- Funds projects that would otherwise be paid by property taxes
- Keep the term of TIF Bonds short
- Pass-Through Excess TIF AV

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Example:
Pass-Through Assessed Valuation

	No Pass-Through	$1M Pass-Through	$10M Pass-Through	$100M Pass-Through
AV of Taxing District	$500,000,000	$500,000,000	$500,000,000	$500,000,000
Amount of TIF Pass-Through	-	1,000,000	10,000,000	100,000,000
Total AV of Taxing District	$500,000,000	$501,000,000	$510,000,000	$600,000,000
Dollar Change in AV		**$1,000,000**	**$10,000,000**	**$100,000,000**
Percent Change in AV		**0.20%**	**2.00%**	**20.00%**
Levy Driven Funds				
Estimated Levies	$10,000,000	$10,000,000	$10,000,000	$10,000,000
Estimated Tax Rate	**$2.0000**	**$1.9960**	**$1.9608**	**$1.6667**
Dollar Change in Tax Rate		**($0.0040)**	**($0.0392)**	**($0.3333)**
Percent Change in Tax Rate		**-0.20%**	**-1.96%**	**-16.67%**
Rate Driven Funds				
Estimated Tax Rate	**$0.3500**	**$0.3500**	**$0.3500**	**$0.3500**
Estimated Levies	$1,750,000	$1,753,500	$1,785,000	$2,100,000
Dollar Change in Levies		**$3,500**	**$35,000**	**$350,000**
Percent Change in Levies		**0.20%**	**2.00%**	**20.00%**

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2014 Legislation:
SEA 1 – Business Personal Property (BPP) Optional Elimination

- Option 1: Eliminate all BPP by taxpayers with less than $20,000 BPP
- Option 2: Eliminate taxes on all **new** BPP in the county
- Option 3: Super Abatement on New BPP – 20 years

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Illustrative Impact on Tax Rates

	Current	5% Loss	10% Loss	15% Loss
Net Assessed Value	$500,000,000	$475,000,000	$450,000,000	$425,000,000
Estimated Levy	$6,250,000	$6,250,000	$6,250,000	$6,250,000
Estimated Tax Rate	$1.2500	$1.3158	$1.3889	$1.4706
Change in Tax Rate		$0.0658	$0.1389	$0.2206

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Approaching the Solutions

- Important to understand how the actions of one taxing unit affect others within the County
- Determining solutions requires cooperation amongst taxing units since there is an interdependence that did not previously exist

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