Economic Development and Incentives

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Indianapolis (317)465-1500 / Mishawaka (574) 935-5178

Loren Matthes, Principal matthes@umbaugh.com

Jason Semler, Principal semler@umbaugh.com

Heidi Amspaugh, Manager hamspaugh@umbaugh.com

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Why do communities want "economic development" ???

Jobs, wages, increased local spending, economic diversification & build tax base

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Why is economic development important for schools and local government?

- **Property tax caps** limit property taxes paid by taxpayers and limit property tax revenues available to fund local services.
  - Property tax revenues decreased over $500 million statewide due to tax caps
  - Caps cause revenue to be less than operating budget, except debt
- **Economic recession** caused decline in **State income** distributions to local government and schools
- **Increasing costs**
  - Gas, electricity, medical, etc.

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Short and Long term solutions

- **<u>Cut</u> costs and improve operational efficiencies**
- **<u>Grow</u>** ***property tax*** base and ***income tax*** base
  - Growing property tax base at or above growth in property tax levies will stabilize, or reduce, property tax rates and property tax revenues lost to the property tax caps
  - Growing income tax base at or above the rate of inflation will provide a reliable revenue source to pay competitive wages and meet the growing needs of constituents
- **<u>Leverage private investment</u>**
- **<u>Find and leverage additional sources of funds</u>**

Why do we offer incentives for economic development?

- Encourage new business investment to increase our local and state tax base, reduce tax burden, reduce property taxes lost due to tax caps

- Encourage job creation or retention

- Target: specific industries or market segments, geographic areas, low-income

- Competition among alternative sites

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What local incentives and funding sources are available?

- Tax Increment Financing (TIF)
- Tax Abatement
- Incremental sales and use taxes
  (*CRED Districts and Certified Technology Parks)*
- Special Assessments – Economic Improvement Districts
- Property taxes: Cumulative Capital funds and G.O. bonds
- Local Option Income taxes: EDIT/COIT/CAGIT
- Economic Development Revenue Bonds – tax-exempt or subsidized
- Local Hiring Incentives (new employee income tax)
- Other taxes (special legislation)
  - Food & beverage, innkeepers, wheel and surtax
- User fees – utility revenue bonds, availability fees
- Facility net revenues
- New Market Tax Credits
- DINO Building tax credits
- Data Center – 100% personal property abatement

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Downtown Economic Development

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Economic Development

Office Parks

Alternative Energy Projects

Major Industrial Attraction /Expansion Projects

Industrial Parks

What are the **powers** of a redevelopment commission?

- May prepare redevelopment and economic development plans

- May designate areas in need of redevelopment or economic development areas and may designate tax increment allocation areas

- May acquire and dispose of personal property or real property

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What are the **powers** of a redevelopment commission?

- May issue special taxing district bonds payable from:
  - ad valorem property taxes
  - Tax increment
  - Project revenue
  - Other available revenues
- May enter into leases

***** note: Bonds and Leases require approval of the Legislative Body of the Unit (Council)***

- May contract for the construction of
  - Local public improvements
  - Structures needed for development or that enhance economic development

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What is **TIF**?

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

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– Captures increases in real property taxes and, at times, depreciable personal property taxes.
– Usually captures only commercial and industrial property.

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Purpose of **TIF**

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- To finance **INCENTIVES** or **INFRASTRUCTURE** needed **to induce private investment**
- To encourage orderly economic growth in targeted areas
- To redevelop blighted areas

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Note: New businesses in a TIF Area still pay property taxes on their new private investment. The incremental taxes are captured for projects. The other taxing units forgo the increase in assessed value during the term of the TIF Area

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Purpose of **TIF**

BENEFITS

- Finances incentives and infrastructure needed to induce private investment and economic growth
- Encourages orderly economic growth in targeted areas
- Redevelops aging and deteriorating areas
- No additional tax levy
- Avoid referenda process
- Extremely flexible uses; can be used with other revenues
- *Future:* Results in growth in the property tax base
- *Immediate:* Stimulates the local economy through job creation, increased income and spending; uncaptured personal property, surplus pass-through

COSTS

- *(During the term of the TIF Area, if no excess pass-through)*

  Other taxing units forego the increase in assessed value and forego increases in revenue on rate-controlled funds and circuit breaker reductions; may delay tax reduction for individual taxpayers
- TIF bonds require extra security, credit enhancement, higher financing costs

What can TIF be used for?

- Utility improvements
  - sewer and water
- Roads and Rail
- Land acquisition / site devt
- Buildings / equipment

- How is TIF used to fund?
  - Pay-as-you-go
  - Short or Long-term Bonds

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TIF Project Examples

- Van Buren – Water Tower – Weaver Popcorn
- Evansville – Vectren headquarters, Berry Plastics
- Princeton / Gibson County – Toyota
- Rockport / Spencer County – AK Steel
- Tippecanoe County – SIA
- Lebanon – Fire station / Light industrial developments
- Tell City / Perry County – Waupaca Foundry
- Terre Haute – industrial park development
- Columbia City / Whitley County – Steel Dynamics
- Hancock County – Mt. Comfort Rd – industrial parks
- Montgomery County – Regional Sewer District - Nucor

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TIF Project Examples

- Gas City – American Woodmark, Wal-Mart Distribution
- Boone County – Anson Development by Duke
- LaPorte – Value City distribution center
- Jeffersonville – Med Venture
- New Castle / Henry County
  – industrial park
- Rushville - INTAT
- Plainfield – Air Tech Park – multiple TIF Areas
- Michigan City – commercial development
- Madison – Arvin Sango
- Carmel – Downtown Arts District

TIF Project Examples

- Noblesville – industrial and commercial development
- Mishawaka – infrastructure in congested commercial area
- Winona Lake – downtown redevelopment
- Dyer – infrastructure for commercial development
- Elkhart – downtown redevelopment
- Nappanee – industrial park
- Huntington – commercial development
- Lafayette – downtown and commercial development infrastructure
- Warsaw – Sofamor Danek / Medtronic

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Procedures for Establishing an Area to Implement Tax Increment Financing

- Establish a 5-member Redevelopment Commission (R.C.).
- Prepare a redevelopment or economic development plan
- R.C. adopts Declaratory Resolution, plan, and factual report
- Plan Commission approval
- City/Town Council (County Commissioners) approval of Plan Commission Order
- Publish notice of public hearing and distribute Impact Statement
- R.C. holds public hearing and adopts Confirmatory Resolution
- City/Town Council (County Commissioners) approval of creation of Area (only for EDA)
- R.C. records Resolution, notifies DLGF and files documents with County Auditor

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TIF Calculation

- An "allocation area" is established and the base date is 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

Incremental AV x Tax Rate = TIF

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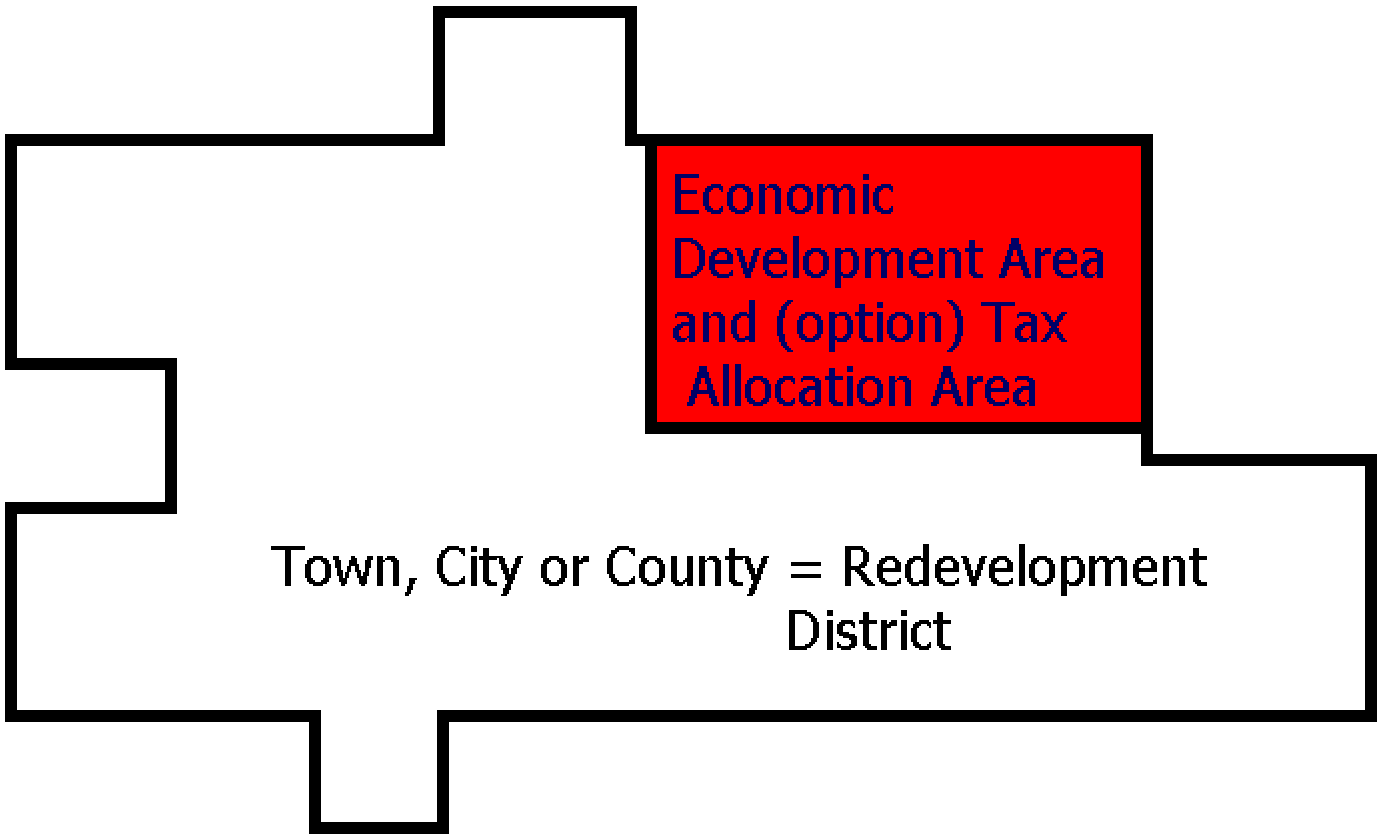
Tax Increment Financing (TIF) Area



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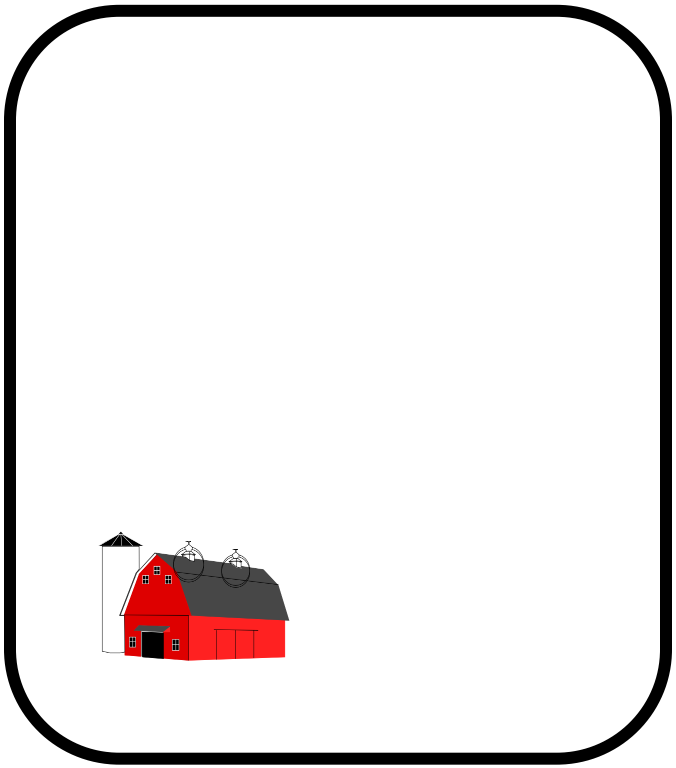
Existing property assessed value is part of tax base for all overlapping taxing units



Tax Allocation Area –
Before New Construction

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

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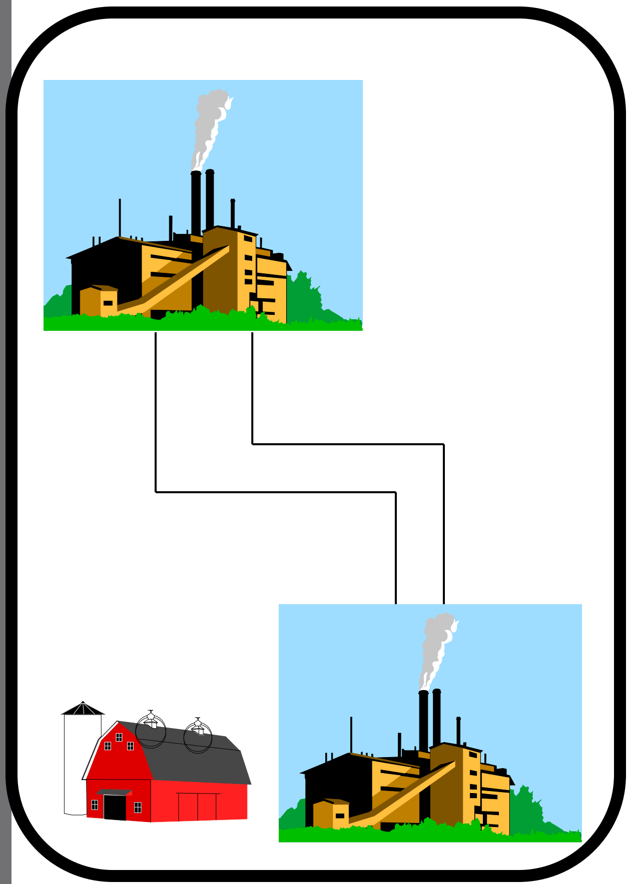
TIF: Capture real and *(sometimes)* personal property assessed value growth



Tax Allocation Area –
After New Construction

Incremental Assessed Value	x	Tax Rate	=	TIF Taxes	→	Redevelopment Commission Allocation Fund

Base Assessed Value	x	Tax Rate	=	Taxes	→	County
					→	School
					→	Library
					→	City/Town

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How can TIF reduce property tax rates?

- Often, not all newly created assessed values are captured and excess value is passed through to the underlying taxing units.

- After needed improvements are funded and bonds, if any, are retired, the new assessed values becomes part of the tax base of all the underlying taxing units.

- Tax increment areas created after July 2008 are limited to 25 years from the time debt is issued (30 years after July 1995).

- Uncaptured new assessed value increases tax base, reducing tax rates.

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IMPACT of TIF
Does TIF take away funds from other units?

- If the increased assessed value from NEW developments would not occur "**BUT FOR**" the **TIF** incentives, then, it **CANNOT** be "**LOST**" to the other taxing units.

- TIF ***postpones*** adding new assessed value to the tax base, which postpones the reduction in tax rates for funds with controlled levies and postpones increased revenues from funds with controlled rates.

- After TIF ends (or if there is surplus pass-through), the increased assessed value is added to the tax base of all the taxing units.

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Does TIF take away funds from our schools?

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

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Ways to lessen the impact on the overlapping taxing units ?

- **Only capture a portion of the TIF**
  - Example: Capture 90% of the incremental assessed value and pass through 10% to overlapping taxing units

- **Pass-thru Excess TIF Assessed Value**

- **Keep the term of the TIF Bonds short or pay-off early**
  - Example: 10 – 15 year bond term; capture 100% of the TIF / no tax abatement; within 10 to 15 years, 100% of the new incremental assessed value will be added to the tax base
  - Issue 20-year Bonds, but pay-off early with surplus TIF; structure bonds for 150% coverage to allow build-up of surplus.

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What are some RISKS of TIF ?

- No Project or Smaller Project or Delayed Project
  - The Company doesn't make the private investment at all, or the size and scope of the project could be less
- Assessment is less than estimated
- Taxpayer appeals the assessment
- Economy causes general decrease in property values
- Business problems:
  - Company goes out of business or relocates
  - Company doesn't reinvest or replace equipment, and equipment depreciates becomes obsolete; reduces value
- Natural disasters: earthquakes, floods, tornadoes
- Company becomes non-for-profit (tax-exempt)

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Issues Affecting Bonds Payable from TIF

- **Taxable vs. tax exempt interest**
- **Bond Marketability / Security**
-
  - **TIF revenues only** [Bonds may not be marketable.]
  - ***For single Company or Developer-driven projects:***
    - **Corporate guarantee, taxpayer payments, bank letter of credit, or Company purchases bonds**
  - ***For Locally-driven projects - may add tax backup***
    - Property taxes, local income taxes, sewer revenues
    - Lower interest rate, leverage bigger bond
- **RISK:** Consider **who bears bond risk**, bond marketability, local political support/approval

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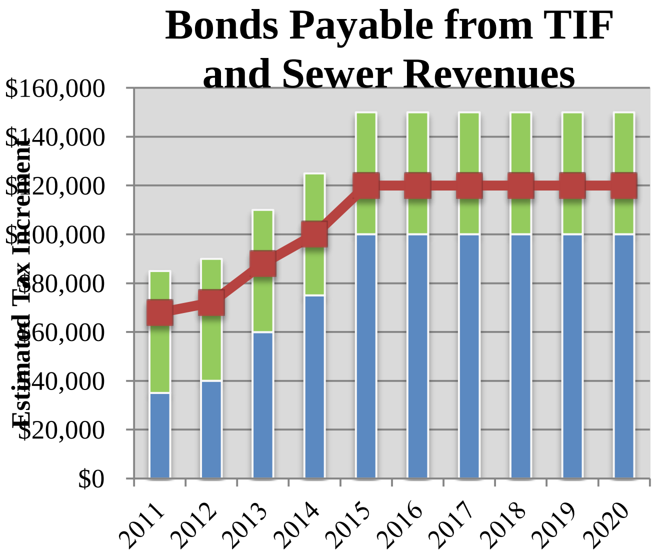
Economic Development Financing

Bonds and leases can be paid from:

- TIF alone
- TIF and Other Revenues to add security or to fill-in gaps during the early years.



- EDIT, COIT or sewer revenues
- F&B taxes and other special taxes
- Project revenues e.g. parking fees
- CRED or CTP revenues
- Special Benefits Tax levy

Types of TIF Bonds

- **Tax Increment Revenue Bonds** (tax-exempt or taxable)
  - Bonds payable solely from TIF (or can add other revenues)
  - Difficult to market; may add Developer guarantees
  - Need Reserve Fund and extra revenue coverage of debt service
- **Economic Development Revenue Bonds** (Taxable)
  - Company is responsible to repay bonds; TIF can be pledged to off-set Developer payments
- **Special Taxing District Bonds**
  - Bonds payable from a Special Benefits Tax (SBT), which is a property tax levy on the Redevelopment District; also TIF
  - Counts against 2% debt limit
- **Lease Bonds**
  - Lease payments from SBT levy, TIF, other revenues
  - Doesn't count against 2% debt limit

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TIF Project Examples

Single Company

- Decatur County - Honda
- Princeton / Gibson County – Toyota
  - Company purchased TIF Bonds
- Van Buren – Water Tower – Weaver Popcorn
  - Bonds issued through SRF
  - payable from TIF and Utility Revenue

- Tell City / Perry County – Waupaca Foundry
  - VAR Taxable ED Lease Bonds
  - TIF, Bank Letter of Credit and Company Guarantee

- Vigo County – Staples Distribution
  - Taxable EDC Bonds payable from Company and TIF pledge
- Gas City – Wal-Mart Distribution, Echelon Furniture Manufacturer
  - Taxable EDC Bonds payable from Company and TIF pledge
  - Prospects – advantage: existing TIF and prospect TIF

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Project Examples: TIF and Other Funds and Leveraging

Town of Plainfield

- Infrastructure – Industrial Parks and Commercial
  - Leverage State and Federal grant funds with EDIT and TIF funds
  - Developer TIF; NO other tax back-up
  - Short-Term Notes until new development and TIF build-up;
  - Take-out Notes with TIF Bonds
- Office HQ
  - TIF to subsidize tenant rent to Developer
  - Taxable EDC Bonds
  - ***CLAW BACK*** $7 million

Blackford County – Montpelier Industrial Park

- Establish Industrial Park with infrastructure
- EDIT Bonds
- Attract NRP Manufacturing facility
  - 26-acre "shovel ready" site
  - 75% TIF $1.9 million
  - Tax Abatement $1.3 million savings
  - State: $475,000 Tax Credits

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CTPs, CRED and TIF and Leveraging

MID-AMERICA
science park

City of Scottsburg

Mid-America Science Park

- High Tech Incubator and Conference Center for Entrepreneurs
- Funded with TIF and CTP revenues and $4 million EDA grant

Delaware County Industrial Parks

- Attract Magna Drive Train, Progress Rail, Shell Building
- Incentives funded with EDIT, TIF and CRED revenues, EDA grants

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TIF Bonds with EDIT, Property Tax back-up

Fund Roads, design, ROW and drainage

Leverage federal and state funds

- Why back-up? *lower interest rate, public infrastructure*

- Other examples
  - Hancock County Mt. Comfort Rd.
  - Hamilton County and Noblesville
  - South Bend, Elkhart, Dyer
  - Brownsburg, Plainfield,
  - Zionsville, Clarksville

More TIF Project Examples

- **City of Lafayette**
  - Downtown Hotel , Mixed-Use Projects
    Parking Facilities and infrastructure
  - EDC Bonds, TIF Revenue and Lease Bonds
  - Senior TIF, Junior TIF
  - Developer guarantees – Developer incentives
  - Property Tax Back-up (SBT) - public infrastructure
  - Parking Facility Revenue Bonds

EDIT funds leveraged over $100 million of federal funds for railroad relocation and road improvements

Economic Improvement Districts (EID)

- Special Assessments (tax liens) on property owners in the District are used to fund new projects such as streets, infrastructure, parking facilities and building rehabilitation
- Potential disincentive: property owners pay additional tax; can make property more expensive and less competitive;
- Must establish Board, annual budgets
- Require petition of majority of property owners to establish EID; hearing, etc.
- Apportionment formula; on-going administration
- May not be economically feasible
- Limited revenue makes bonds difficult to market; may need credit enhancement or other sources of revenue

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What is tax abatement?

- **A "phasing in" of property taxes** -- 1 to 10 year terms
- Reduce company's tax liability on new improvements, new buildings and equipment
  - Manufacturing, R&D, Distribution, Residentially distressed
  – *(Under prior and current law)* Abatement percentages are predetermined by statute and can be up to 10 years
  – *2013* provides many abatement options, criteria
  – 3-year abatement of existing taxes on large vacant buildings

BENEFITS: Reduces company's operating expenses

COSTS: Delays property taxes to local government

LIMITS: Does not provide "up-front" capital incentive or fund infrastructure

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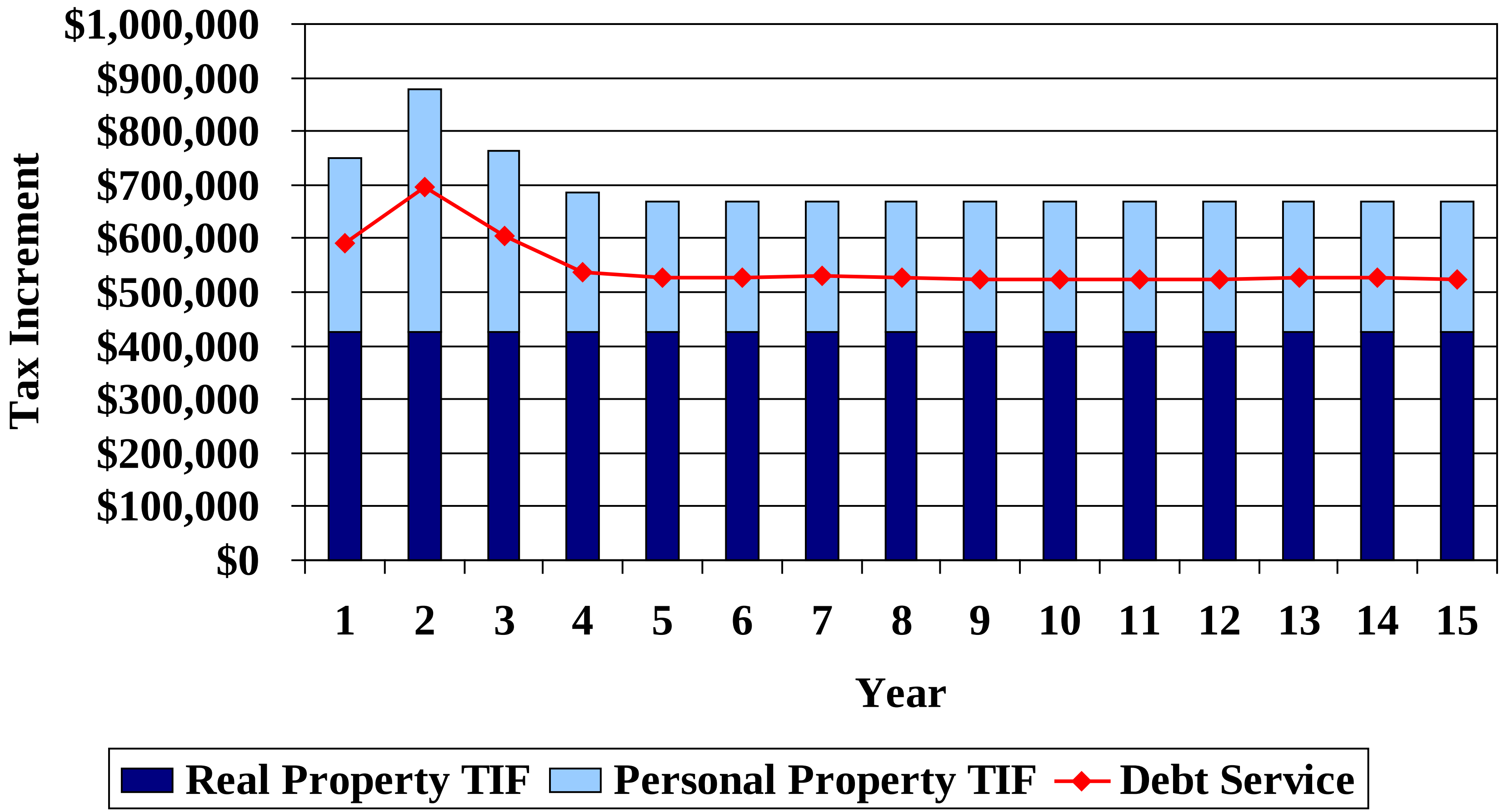
Can TIF bonds be issued when property taxes have been abated?

- *Yes. But, tax abatement reduces the level of tax increment revenues available for the repayment of the bonds, reducing the amount that can be borrowed.*

Assumes no Property Tax Abatement

$5,800,000 Bond Proceeds



Note: Assumes $40 million real property investment and $60 million personal property investment.

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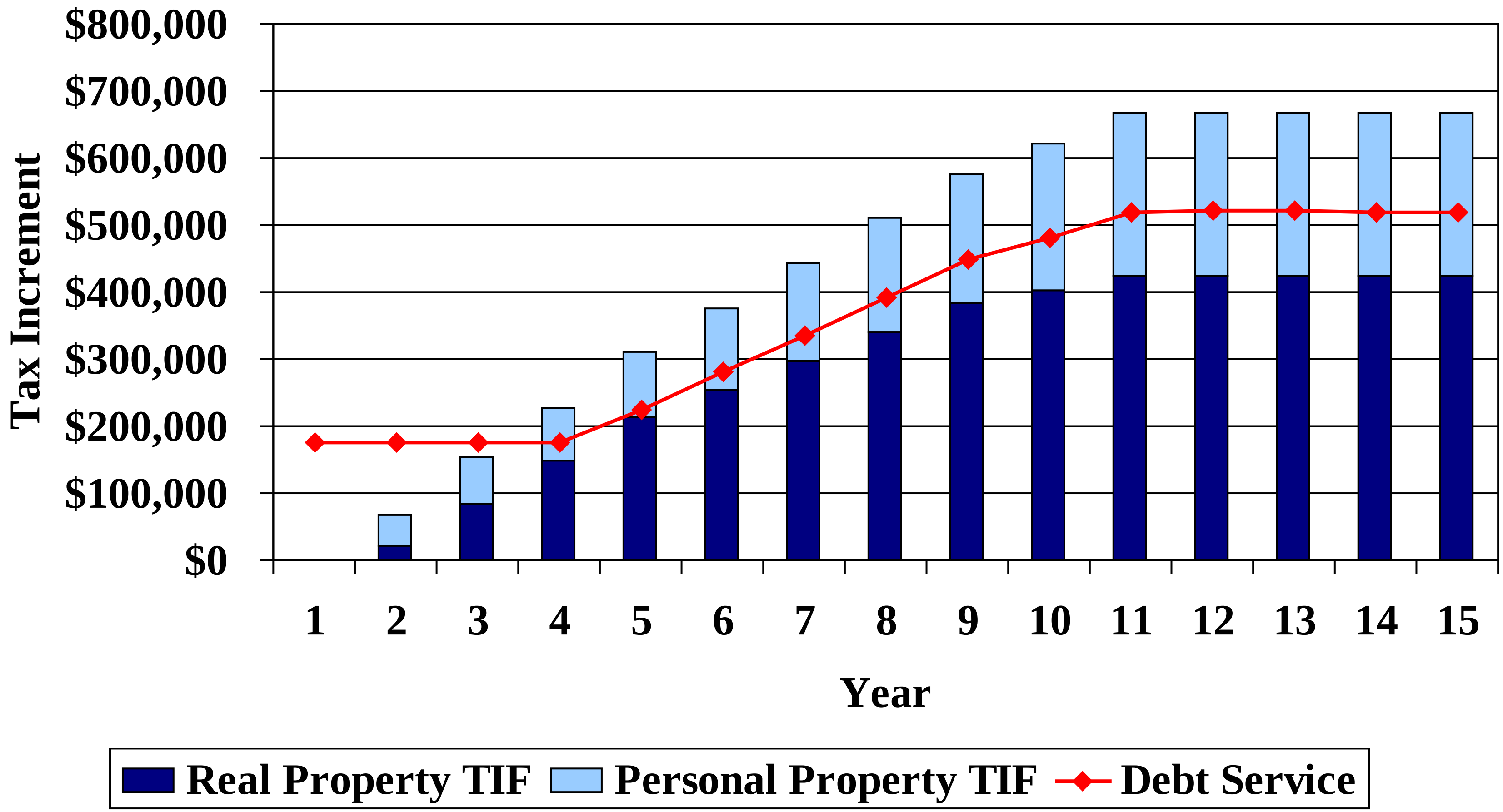
Assumes 10-year Property Tax Abatement

$3,500,000 Bond Proceeds



Note: Assumes $40 million real property investment and $60 million personal property investment.

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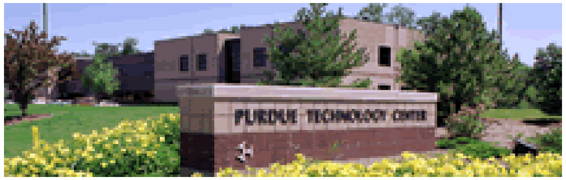
CTPs and CRED
Incremental Tax Revenues:
sales and income taxes

Purdue Research Park

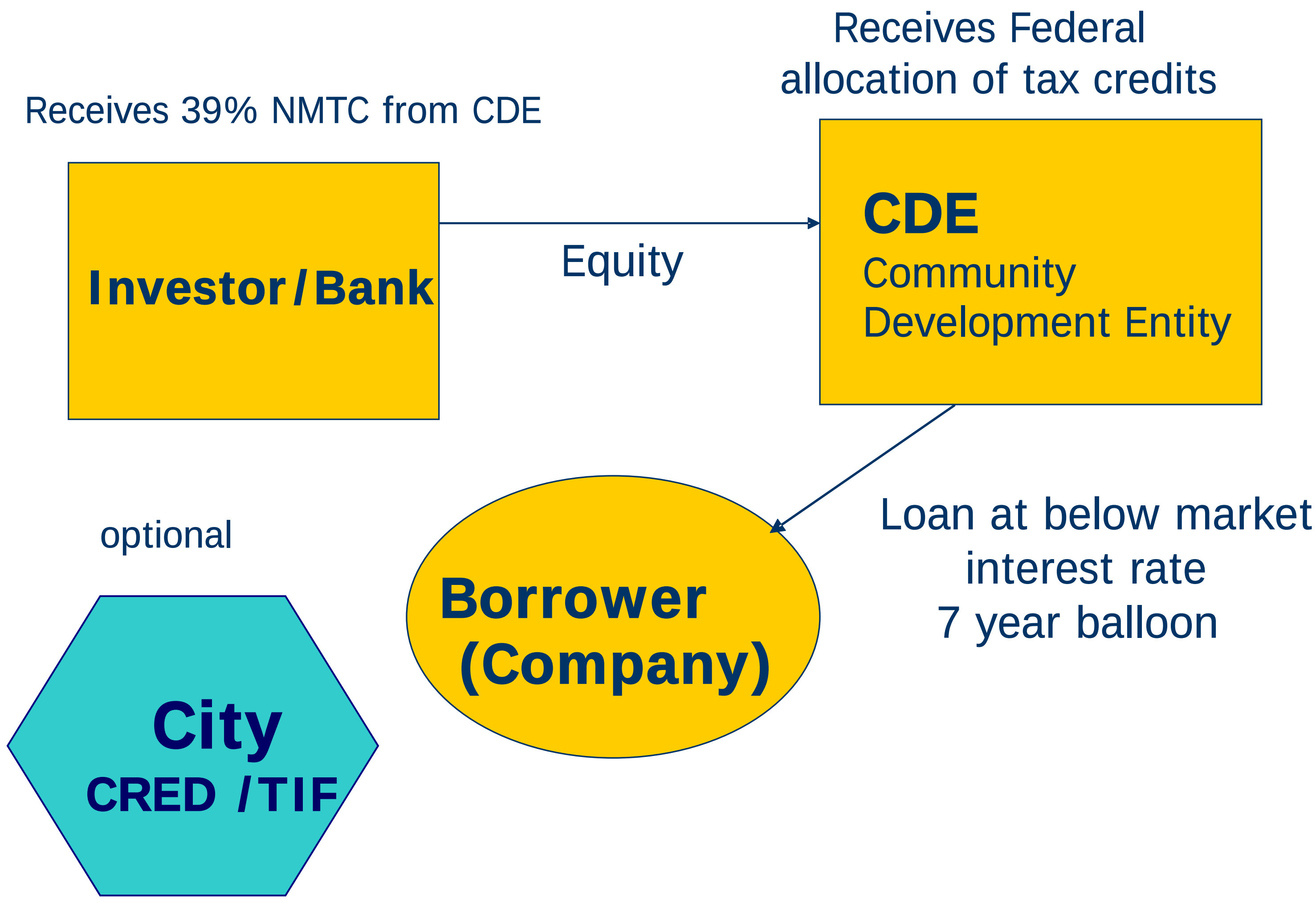


MID-AMERICA
science park

- CTPs: Capture up to $5,000,000 incremental tax revenues over life time of CTP.
- CRED: Capture up to $750,000 per year ($1,000,000 Delaware County CRED) ; 15-year District limit

  - State gross retail and use taxes
  - Employee state and local income taxes
  - TIF

New Market Tax Credits



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Creative Combinations and Leveraging

- High Tech, Green Manufacturing Company

  Tax abatement and TIF/EDIT, EDC, Sewer SRF, INDOT funds, IDGF Grant, HBITC

- "BioTown" – Waste and Agri-products Energy Plants

  Tax-exempt Waste Facility Bonds, TIF EDC Bonds w/Corporate Payments, Energy Credits

- Rebuild after flooding; add a Business Incubator/Conf. Center

  Disaster Bonds, EDA Grants, BDC

- Revitalize Downtown Building

  New Market Tax Credits, TIF, CRED, EID, Brownfields, EPA grant

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2014 Legislation:
SEA 118 Redevelopment and TIF

- **Creates more oversight by legislative body (Council) over redevelopment commissions (RDC)**
  - RDC Obligations are subject to legislative body approval
  - Legislative body will review RDC annual budget
  - Certain property disposition will require approval by legislative body
- **Annual 7/15 Excess Determination: If TIF exceeds 200%, the amount of pass-through is subject to approval/modification by the legislative body**
  - Law already required an annual determination, and pass-thru of excess incremental value to the underlying taxing units
  - Test: If TIF exceeds 200% of principal and interest on bonds plus the amount needed for other purposes permitted in redevelopment statute
  - Projects must be in the ED Plan
- **Establishing or expanding TIF Area: explicit "but for" finding and evidence**
  - New property taxes will result that would not have been generated "but for" the TIF Area

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2014 Legislation:
SEA 118 Redevelopment and TIF

- **Remove RDC power of eminent domain (legislative body still has power**
- **Fiscal Officer serves as Treasurer of RDC**

- **EXPIRATION OF TIF AREAs: New limit on pre-1995 ("Legacy") TIF Areas**
  - Created: 7/1/1995 – 6/30/2008 — 30-years
  - Created: 7/1/2008 – 12/31/2009 — 25 years
  - Created: 7/1/2010 or later — 25 years after debt is issued and 1st payment
  - **Created: Before 7/1/1995** (excludes Indianapolis) — **ends 2025, or final maturity of outstanding debt (issued by 7/1/15) (2040 or earlier)**
- **Study Committee**
- **Effective July 1, 2014**

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2014 Legislation:

SEA 1 – Business Personal Property (BPP) Optional Elimination

Options create potential competition among Indiana counties

- **Option #1: Eliminate all BPP of taxpayers with less than $20,000 BPP**
  - County Income Tax Council vote
  - Check LSA Data Fiscal Impacts – estimated impacts for counties and units
  - Could create some tax increase to non-BPP taxes and some lost revenue due to circuit breaker
  - **TIF Adjustment** – County Auditor must add back BPP for TIF calculation – mechanics?

- **Option #2: Eliminate taxes on all NEW BPP in the county**
  - County Income Tax vote
  - Could eventually reduce local tax base unless replacement or offset with growth in real property taxes from new investment
  - **No more BPP TIF capital incentive or infrastructure funding from BPP**

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2014 Legislation:

SEA 1 – Business Personal Property (BPP) Optional Elimination

- **Option #3: SUPER ABATEMENT on New BPP – 20 years**
  - Fixed abatement percentage, 20 years
  - Local decision per individual project
  - Unintended consequence – over-abatement of existing BPP
  - **Less BPP TIF for capital incentive or infrastructure funding**
    - Consider less than 100% fixed percent

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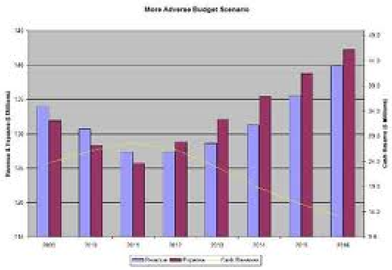
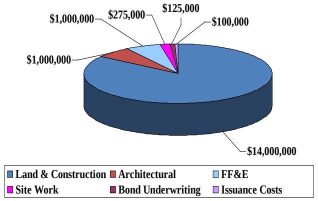
Economic Development

Strategies and Incentives

– ED Financial Planning
  - industrial parks, annexed and targeted growth areas
  - shell buildings, infrastructure, site ready
– Incentives and Feasibility
– TIF and Tax Abatement Analysis
– Bond Structuring and Issuance
– TIF Administration , Reporting and Monitoring





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- **Project planning and financing**, new bond issuance
- **Comprehensive Fiscal and Capital Planning**
- **Economic Development** Strategies
- **Utility Systems**
  - Utility Rate /Cost of Service Studies
  - Financing
  - Availability Fees
- **Outstanding Bonds**
  - Monitoring draw down and direct investments
  - Arbitrage Rebate calculations; Continuing Disclosure
- **Fiscal assistance**
  - Budgeting assistance/Circuit Breaker Impacts
  - Benchmarking and Efficiency Studies
  - Audit preparation
  - Monitoring cash flow and maximizing investments
  - Cash investment and advisory services

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