

MIDTOWN TIF: DESIGNED FOR SUCCESS

by Thomas P. Healy

With two projects under way and two more in the planning stages, the North Midtown Tax Increment Finance (TIF) District is off to a good start to fulfill its mission of stimulating economic development.

A recent Ball State University study, “Some Economic Benefits of Tax Increment Financing in Indiana,” looked at the average effect of TIF districts around the Hoosier State from 2000 to 2012 and found problems. “While we cannot conclusively report that TIFs are the cause of higher tax rates on existing taxpayers,” the report concludes, “that is a very likely effect.”

Michael Hicks, the report’s lead author, is the director of the Center for Business and Economic Research and the George and Frances Ball Distinguished Professor of Economics at Ball State’s Miller College of Business. “Because we only have 9 or 10 years of data, we’re a little bit uncomfortable conclusively saying there’s a direct causation between TIFs and higher tax rates,” he said recently by phone from his office. “We were left with these conclusions that increased uses of TIF aren’t getting the kind of benefits as claimed: more jobs, higher income, and higher levels of investment.”

Even though Hicks said there are examples of good TIFs, the study opted not to name them. “Our study could have identified good and bad TIFs but I don’t think that doing that without a lot of additional research is fair to other communities.”

Because the study does not include any TIFs created since 2012, it does not include the Midtown TIF. However, Hicks has been tracking it and likes what he sees. “The Midtown TIF is more like what TIFs were designed to do when they first sprang in to the public policy sphere in the 1970s—urban redevelopment.”

He said the Midtown TIF differs from others around the state: “You built the TIF district with a plan for redevelopment rather than as a business attraction tool.”

Such validation is welcome news. “The Midtown TIF was unique by design,” said Michael McKillip, executive director of Midtown Indianapolis, Inc., the lead advocate for its creation and implementation. “The entire goal was diversity, equity, and urban redevelopment.”

He said that legislative changes by the Indiana General Assembly had to be incorporated into the Midtown TIF, to its benefit. “Our TIF has been the beneficiary of the modernization of TIF policy. We recognized the benefit and enhanced it.”

Both Hicks and McKillip pointed to the Indianapolis City-County Council’s 2012 TIF Study Commission as an important public review of TIFs that set the stage for Midtown’s

success. “We participated in probably the largest public dialogue that has occurred on TIF in Marion County in 40 years,” McKillip said. “We learned what worked and what didn’t and we insured that the construct for our TIF accommodated any and all potential concerns.”

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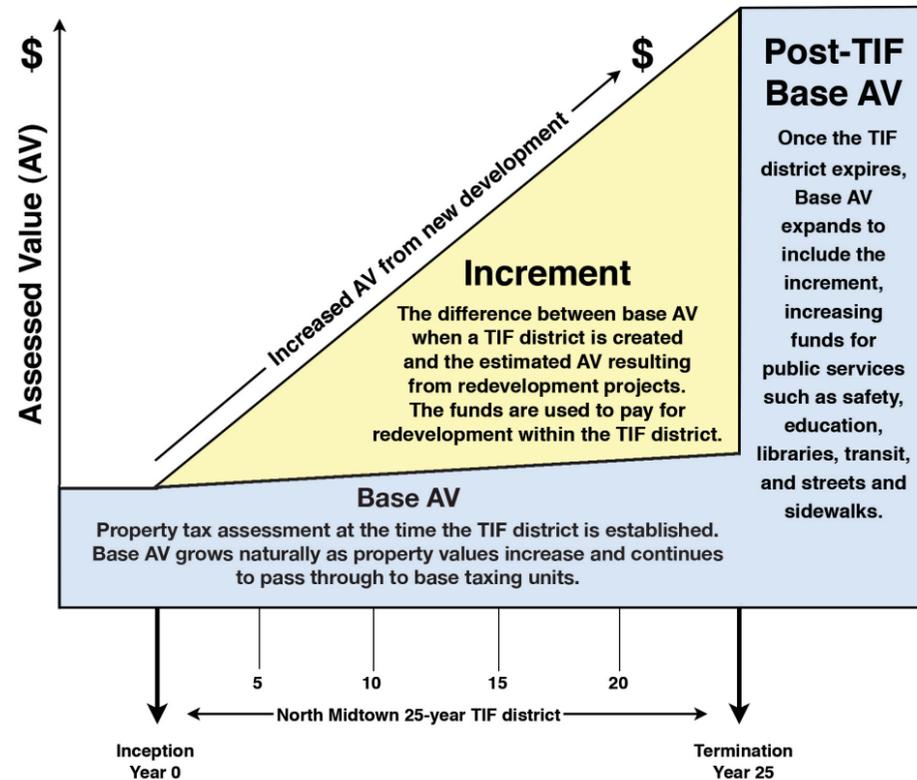
Hicks agreed. “That is ideal: to have a very refreshing public debate about what you’re expecting TIF to do, to publish findings from the public debate, and to respond to them.” He added that Midtown’s responses to the Study Commission’s recommendations “ought to be what every community does for TIF. It would result in a general improvement in public finance in Indiana.”

Another outcome of the Study Commission was a 2014 Letter of Agreement between the Council and the City’s Metropolitan Development Commission that outlines how TIFs will be evaluated and implemented. The agreement details hiring goals (women, veterans, minorities), establishes guidelines for making annual pass-through decisions (how much, if any, funds flow from TIFs back to base taxing units), and lays out ways to determine which projects qualify for inclusion in a TIF district—the so-called “but for” test.

Bruce Donaldson, a Barnes and Thornburg attorney who consults for the City of Indianapolis on TIFs, says understanding the “but for” test is fundamental. “If new assessed value is created and goes into the base, it would lower the tax rate,” he said. “But you would never get new development without TIF,” he said. “That’s the whole point of TIF—a way to have new development pay for what it took to get that new development.”

Donaldson said another fundamental facet is that the assessed values of parcels that are redeveloped with TIF continue to flow into the base. “It doesn’t take away from the existing tax base.”

Tax Increment Financing



Adapted from the Indianapolis Marion County TIF Study Commission Final Report June 2012

For example, property taxes for the former Shell station site and the old apartments along the Canal in Broad Ripple were approximately \$27,000 annually. Redevelopment of the site to a mixed-use housing/retail project will generate an estimated \$580,000 in property taxes. After redevelopment, the pre-development assessed value of those parcels will continue to flow into the base taxing units: public safety, schools, libraries, etc. The difference between the pre-development assessed value and the estimated assessed value after redevelopment (\$580,000 minus \$27,000) is called “increment” and used as the basis for determining what size bond to issue for the project. By law, Donaldson said, “TIF funds have to be spent for capital project needs in the benefiting area created in the redevelopment district.” In the case of the Coil Apartments/Fresh Thyme project, this includes a parking garage, utilities relocation, and Canal Esplanade improvements.

He added that a process called TIF neutralization ensures that the TIF never gets a windfall. “If a property either goes up in value or down due to market factors, the base gets adjusted,” he said. “The only benefits realized are the true value of new commercial construction.”

According to Adam Collins, deputy mayor for economic development, using a portion of the increment from the Canal project to help fund a bond that contributes to Tarkington Park upgrades is an example of Midtown’s sound development strategy. “The dollars leveraged were huge,” he said. “Midtown had the Broad Ripple Parking garage in conjunction with other properties in that area that contributed enough increment to be able to finance the Browning project,” he said. “The Browning project was in good enough financial shape that it didn’t require all of the increment it generated, which is a good sign for the City.”

Collins said the City’s goal for the Midtown TIF district is to “put transformative and catalytic projects that will spur growth in the surrounding

areas. These are the projects that continue to bring additional tax revenue and investment.”

He said that the Broad Ripple and 38th and Illinois projects are generating momentum: “You can feel the excitement.” He tempers his enthusiasm with discipline. “We can’t emphasize it enough—economic development’s got to be targeted. It has to be focused on where there’s a current market or a potential market. Right now, 38th and Illinois has potential for a market and that’s why you see continued interest there. Broad Ripple is an existing market that can use investment. When you have places that have a potential market and you layer the number of investments, you’ll see a tremendous amount of success. When you spread out those layers, or when you don’t target, that’s when it’s becoming a riskier investment.”

With the issuance of the first debt for the Midtown TIF this year, countdown begins for the 25-year duration mandated by the General Assembly. What’s the City’s strategy for the future now that the clock is running? “We’ll be as creatively aggressive as we can while also being fiscally prudent,” Collins said. “You want to take full advantage of that 25 years and we want to make sure you don’t get the benefit of the first five years and then the last 20 years you’re stuck paying the debt.”

Midtown’s McKillip agrees: “It’s true you can’t consume all of the TIF resources in years 1 through 10, but if you don’t subsidize and support projects early, there will be no money to continue doing projects during years 11 through 25. Every possible supportive, qualified project that fits the neighborhood plan that needs subsidy ought to get it. We created this TIF to make predictability for the developers and to insure that we had a steady stream of investment.”

He cautions that the Midtown TIF does not exist solely for the sake of development. “It’s not development for the sake of development. It’s a means to an end of a better quality of life for the residents of Midtown.”

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Our TIF tracks key commercial transit corridors that favor renewed density and help achieve a neighborhood archetype that residents have said they wanted to return to,” McKillip said. “What we’re trying to do here is not really new. We’re trying to put back what was here 50 years ago that we lost when a third of our residents left.”

“When you take a collection of largely residential neighborhoods, it’s hard to say this TIF was designed just to create jobs,” he said. “While part of the goal of this TIF is to create jobs, it is also to modernize the infrastructure in our neighborhoods in specific places where we want increased density and transit to occur.”

According to McKillip, the next TIF request will also pass the “but for” test and will add net increment while adding jobs and diversified housing product to the district. “The time frame is a little fluid as we work to educate members of the City-County Council to remind them of the community and the neighborhoods’ plan and how these developments are supporting the neighborhood,” he said. Sometime in June, McKillip hopes to ask the Council to support two projects in the ballpark of \$36 million. 📍

