**TIF 101**

Tax Increment Finance (TIF) is an economic development tool funded by property tax revenue. The broad goal of this type of economic development strategy is to raise the assessed value of real property, thereby generating additional property tax revenue that can be used to support specific community economic development goals. TIF is enabled and regulated by the state legislature, though local municipalities may impose further policy restrictions as long as they’re within the bounds of the state enabling statute. For example, statute allows TIF to be used to support multifamily development, although in Indianapolis it has been City policy that TIF may only be used to support *mixed-use* multifamily development (multifamily development that also includes retail/commercial space.) This is analogous to the way the federal government enables and regulates CDBG funding; municipalities that receive federal CDBG allocations often create policies that more specifically define how CDBG should be used in their communities.

Property tax revenue is based on assessed value (AV) as determined by the County Assessor. Property tax revenue is collected by the County Treasurer, and a portion is remitted to the state via policies and procedures defined by the state Department of Local Government Finance (DLGF.) Local property tax revenue is also disbursed to local “taxing units” such as IPS (schools) and IMCPL (The Library.) Local property taxes support the local municipality directly, they support the state, and they also support special local taxing units.

Municipalities create TIF districts within larger Economic Development Areas (EDAs.) Since the state forfeits some property tax revenue for the 25-year lifetime of each TIF district, state TIF statute requires that municipalities wishing to utilize TIF justify their needs. In order to create an EDA and associated TIF district, municipalities must demonstrate specific characteristics (blight such as vacancy, abandonment, contamination, aged infrastructure, obsolete property uses, etc.) within the EDA, and specifically define which parcels will be included within the TIF district enclosed by the EDA. Once established, a portion of the property tax revenue from every commercial parcel within the TIF district is diverted back to the municipality to address identified needs within or directly adjacent to the TIF district.

The AV of every parcel within the TIF district, on the date the district is established, is the baseline AV. For the lifetime of the TIF, the baseline AV is fixed and only the property tax revenue generated from that AV is remitted to the state/municipality/local units. The increment is the additional property tax revenue generated (i.e. above and beyond the baseline) as AV within the TIF district rises. The increment is not shared with the state/municipality/local units, but rather is used to support specific economic development goals within the EDA. In other words, as AV and associated property tax revenue rises over the life of the TIF, the state/municipality/local units are still guaranteed the baseline revenue, although the *incremental* revenue is only available to be reinvested back into the TIF district.

Increment (generically also referred to as “TIF”) may be spent by the municipality like cash-in-hand, but the majority of TIF revenue is generally used to secure municipal bonds. In other words, the increment (the promise of future, dedicated, property tax revenue over the lifetime of the TIF) is the collateral that allows the City (the Bond Bank in Indianapolis) to sell bonds on the open market. Municipal bond buyers essentially lend a lump sum to the City, which the City pays back over time (principle plus interest) with the annual increment. As successful economic development projects create additional AV within the TIF district, the City can sell more bonds. Wash, rinse, repeat.

In Indianapolis, the Deputy Mayor for Economic Development, the Indianapolis Public Improvement Bond Bank, the Metropolitan Development Commission (MDC), and the City-County Council (CCC) et al ultimately work together to authorize the sale of TIF-backed municipal bonds via local ordinance. Though the City may authorize the sale of bonds, there is some period of time (months to years) between authorization, the sale of the bonds, and the realization of the actual TIF revenue to pay off those bonds. Thus, the City often seeks short-term interim financing (i.e. cash-in-hand) which is collateralized by the ordinance authorizing the sale of the bonds. These so-called “bond anticipation notes” are paid off once the City receives the proceeds from bond sales. In simple terms, once the City commits to sell municipal bonds, it can subsequently get a loan based on the anticipated future bond proceeds.

To summarize, the City creates a TIF district (i.e. the City “TIFs” a specific geography) to capture incremental property tax revenue (also referred to as TIF) generated by rising commercial property values for a specific period of time (25 years, the lifetime of the TIF.) The City leverages this revenue stream to secure cash-in-hand, which is then invested in economic development projects within the TIF that are designed to raise AV. Imagine a recent college graduate getting an offer letter from an employer guaranteeing her a specific salary, then taking that letter to a payday lender and convincing them to give her a cash advance equal to 25 years of her annual salary. That scenario is unlikely, but cities are stable entities undergirded by the authority of law, thus they are able to arrange complex municipal financing schemes such as this. TIF, like any other public subsidy, is attractive to the private market and drives beneficial investment.

**Why is the North Midtown TIF special?**

Since TIF is public subsidy, it holds that the public should weigh in on all TIF investment. When the North Midtown EDA and associated TIF were created (<http://www.midtownindy.org/TIF-district>) the Midtown Economic Council (MEC) was also officially recognized as the community body that would hold in trust the broad interests of residents and stakeholders within the EDA, ultimately advising the City on which economic development projects should receive TIF subsidy. The MEC charter document outlines the criteria by which the MEC evaluates potential TIF investment (<http://www.midtownindy.org/MidtownEconomicCouncil.php>.) In addition to serving the public interest, this additional level of scrutiny may help the City to feel more comfortable that their economic development investments will ultimately be successful, which in turn may help the City to “sell” the project to financial underwriters (above and beyond bond underwriters’ satisfaction with the City's calculations regarding projected property tax revenue, debt coverage ratio, cash reserves, overall credit worthiness, etc.)

Developers that decide to pursue TIF enter into an iterative and communicative process designed to insure that their project satisfies community priorities.

* Developer approaches City (Mayor, Deputy Mayor, Bond Bank, MDC, CCC, et al) to inquire about TIF subsidy for their project; developers like to start “at the top.” By establishing an EDA/TIF district, the City has already clearly articulated its economic development priorities.
* City refers the developer to the MEC, which articulates their priorities relative to the public benefit. Public benefit priorities include answering the “but for” question (e.g. “this development wouldn't happen *but for* TIF investment because…”), evaluating long-term project viability/potential TIF impact, TIF increment generated vs. TIF subsidy requested, local hiring/job creation, environmental issues, improving transportation/connectivity, improving infrastructure, stabilizing/creating markets, preserving/improving public spaces, etc.
* MEC refers the developer to the Neighborhood Land Use Committee (or other neighborhood group that evaluates development proposals), which articulates specific local priorities. Neighborhood groups generally seek to satisfy community-driven Quality of Life goals and resolve issues around specific concerns such as setbacks, noise, density, housing type/mix, architectural massing/style/finish, traffic, etc.
* Neighborhood Land Use Committee works with developer; evaluates and makes recommendation on the project.
* MEC works with developer; evaluates and makes recommendation on the project.
* City conducts additional due diligence related to the current financial health of the TIF, receives neighborhood and MEC recommendations, and ultimately decides whether or not to award TIF.

A major premise of the North Midtown EDA is that some portion of the increment generated by investment in strong market areas should subsidize projects that have limited capacity to generate additional AV, such as public parks, Low Income Housing Tax Credit projects (LIHTC Section 42 rule limits property tax paid by this type of affordable housing development), pay-as-you-go projects (i.e. paid for by TIF cash-in-hand rather than using TIF to back municipal bonds) such as streets, curbs, sidewalks, trails, lighting, etc. not associated with a specific development project. A prime example is the initial North Midtown TIF bond authorization which linked the TIF subsidy allocated to the Tarkington Park project to the TIF subsidy allocated to the Broad Ripple mixed-use apartment/grocery project. In other words, some of the increment that will be generated by the strong-market project will be invested in that project itself, and the rest of the increment will be invested in Tarkington Park. Although this is a “this for that” example, it’s not feasible to link all TIF-subsidized projects in this manner due to timing of development cycles and other scheduling factors.

As with all community economic development, subsidized development should strengthen the market and spur additional, non-subsidized beneficial private investment. Not every new development within the TIF district receives TIF subsidy, therefore the TIF is strengthened by all new commercial development. For example, the “Chipotle building” in Broad Ripple will generate increment even though that project did not receive TIF subsidy. Note that property tax abatements, another common economic development tool, work to the detriment of TIF districts for obvious reasons.

**The TIF “glitch” and the TIF “fix”**

*Addressing the TIF calculation problem created by the new state DLGF policy interpretation is important. The proposed “fix" is to remove the residential parcels from the TIF, a process that involves MDC and CCC approval. Removing the residential effectively prevents AV “losses” attributed to the residential parcels (due to appeals, mortgage and other exemptions, failure to appreciate at the projected rate, etc.) from impacting the property tax increment that is generated. According to DLGF policy, TIFs need to make up every annual decrease from residential AV “losses”, but have no capacity to reap any benefit from residential AV increases. Thus, the fix essentially addresses the new DLGF policy interpretation, which is aimed at limiting the state's loss of property tax revenue from municipalities that TIF “everything” in order to generate greater local revenue.*

Per state TIF statute, only commercial properties (i.e. 4+ unit multifamily, mixed-use, commercial) generate increment, and only commercial properties are eligible to receive TIF subsidy. However, residential properties have traditionally been included within the boundaries of TIF districts *if* there is a chance that those particular parcels may convert to commercial use and seek TIF subsidy. A common example are residential properties adjacent to an existing commercial node, such as the two bungalows just north of Ambrosia/Haus (formerly Fox Art Glass) on the NE corner of College and Kessler. Were those residential properties included in the TIF, once they were converted to commercial use, they would begin to generate increment. Including residential parcels within TIF boundaries is logical given that TIF investment is restricted to *only the parcels within or physically connected to TIF districts*.

Also in the past, the DLGF has excluded residential properties from TIF calculations, allowing the property tax revenue generated by residential properties within TIF districts to simply pass through to the state/municipality/local units. A recent DLGF policy change stipulates that although residential parcels generate no increment, the TIF district as a whole must make up losses attributed to residential AV decreases. Additionally, rather than addressing residential AV changes in the aggregate (i.e. combining gains and losses to determine a *net* gain or loss), DLGF now addresses AV changes on a *per- parcel* basis. Since DLGF policy dictates that TIF districts need to make up the lost property tax revenue from each residential property that shows an AV decrease, yet statute stipulates that TIF districts have no capacity to reap any benefit from residential AV increases, every residential AV decrease “robs” the TIF of increment generated by rising commercial AV. This policy interpretation also seeks to discourage municipalities from establishing overly broad TIF districts since commercial parcels within TIF districts don’t generate property tax revenue for the state.

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**TIF issues affecting MFCDC 30th & Central project**

* The Broad Ripple/Tarkington Park projects together will consume 100% of the increment generated by the Broad Ripple project, by design.
* New DLGF policy implementation regarding residential parcels has depleted the minimal additional increment generated by the “Chipotle building” and other new commercial development within the nascent TIF.
* Without the “fix”, the TIF is projected to generate increment very slowly in the future, if at all.
* Without projected TIF increment, the City has no capacity to sell TIF-backed bonds.
* Without bonding capacity, the City has no capacity to secure short-term, bond-backed financing.
* Without the “fix”, developers without the ability to secure short-term financing (so-called “developer-backed bonds”) will not be able to utilize TIF subsidy until there is once again sufficient increment built up in the TIF.
* Potential TIF-subsidized projects that are ready to begin construction now must secure their own short-term financing on the premise that the TIF will be fixed and proceeds from eventual City municipal bond sales/bond anticipation notes will pay off these developer notes.

*9/2/2015 MFCDC Economic Development Committee presentation*

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