INDIANA

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A Brief Look at TIF in Indiana

In Indiana, as in many states, Tax Increment Financing (TIF) is a commonly used local means of financing public infrastructure intended to stimulate private sector investment and job creation. After the Indiana General Assembly passed legislation in 1975 allowing TIF districts, South Bend created the first TIF district in the state in 1979. The collection of monies from the increment was delayed until 1985 due to a Supreme Court case concerning the constitutionality of the use of TIF in Indiana. Mishawaka and Indianapolis were next, and by 1989, TIF districts had been created in 12 Indiana counties. Total incremental assessed value (AV)[1] in those districts was approximately $69 million. By 2002, there were TIF districts in 58 counties, with total incremental AV amounting to over $4 billion. In 2012, 79 of Indiana's 92 counties had one or more TIF districts within their borders and total incremental AV surpassed $14 billion.[2]

As an economic development tool, TIF must be evaluated within the context of the public sector's role in economic development. For some projects, stopping the TIF process is equivalent to stopping the project and/or the public sector's participation. If one thinks the public sector should have no role in providing incentives to attract or direct private investment, then any use of TIF is inappropriate. However, if investment in infrastructure, site improvement, and site assembly (building and land acquisitions) is a legitimate public sector role, then two important questions arise:

- If the proposed project is worthy of public participation, what are the options available to pay for the public investment?
- Is TIF the most efficient and equitable of the available public investment choices?

About this Study

The Indiana Economic Development Association (IEDA) engaged the Indiana University Public Policy Institute (PPI) to conduct an analysis of the use of TIF in Indiana. The analysis uses data from the Department of Local Government Finance's Local Government Data Base to summarize the degree to which TIF is being utilized, including:

- Number of counties with incremental real and/or personal AV,
- Total amount of incremental real and personal value by county, and
- Share of incremental AV relative to total gross AV in each county.

Additionally, this analysis uses data from two surveys of jurisdictions with TIF districts. The first survey was designed and conducted by PPI in 2002; the second, in 2012, was designed by PPI and the IEDA. The second survey, administered by the IEDA in 2012 and 2013, was designed with many identical questions to the first survey. In total, 121 purpose-driven TIF districts responded to at least one of the surveys.

For this study, a county is considered to have at least one active TIF district when incremental AV appears in the real or personal property fields in the Department of Local Government Finance's Local Government Data Base. In Indiana, a TIF district can be created by either a municipal or countywide redevelopment commission.

For the purposes of the surveys, an area is considered one TIF district if there exists a common purpose for the district. For example, The Circle Centre TIF district in Indianapolis consists of six individually created redevelopment areas with the common goal of supporting the development of Circle Centre. Thus, the TIF district is located in more than one taxing jurisdiction. Conversely, one taxing district can contain multiple TIF districts with different purposes.

The following survey-based analysis includes unique responses to the 2002 survey and the 2012 survey across identical questions. When a TIF district responded to both surveys the 2012 survey responses were used. Based on the survey responses, TIF districts are grouped and presented according to:

- The civil entity (city or county) sponsoring the TIF;
- The motivation for creating a TIF district;
- Whether the TIF district was declared as an Economic Development Area (EDA) or as a Redevelopment Area (RDA);
- Primary use of TIF funds;
- Type of incremental AV included in the TIF district; and
- The method of financing public improvements.

[1]Incremental assessed value is defined as the assessed value in the TIF district in any post-base year, minus the base assessed value.
[2]A portion of the increase in incremental assessed value is attributable to a change in the way property is assessed in Indiana.

These categories recognize that TIF districts are created in different forms to achieve a variety of policy goals, and will serve as the basis for future subjective and quantitative evaluations of TIF. The survey findings provide insight into the wide variety of local adaptations of TIF.

The TIF Process in Indiana

The Indiana TIF process is formally established in Indiana Code (IC 36-7-14 and IC 36-7-25). The local Redevelopment Commission must designate a new TIF district as either a Redevelopment Area (RDA) or an Economic Development Area (EDA). To establish a RDA, the commission must make a determination of blight, or that the area requires redevelopment. An EDA may be established in a non-blighted area, but the proposed work must promote significant employment opportunities for local residents, attract major new business to the area, or retain or expand an existing business. The declaratory and confirmatory resolution establishing the RDA or EDA must be accompanied by a plan for the area. The plan should describe the proposed investments in the area and include a provision for the use of incremental tax revenues. Once the confirmatory resolution has been approved the TIF district can be activated.

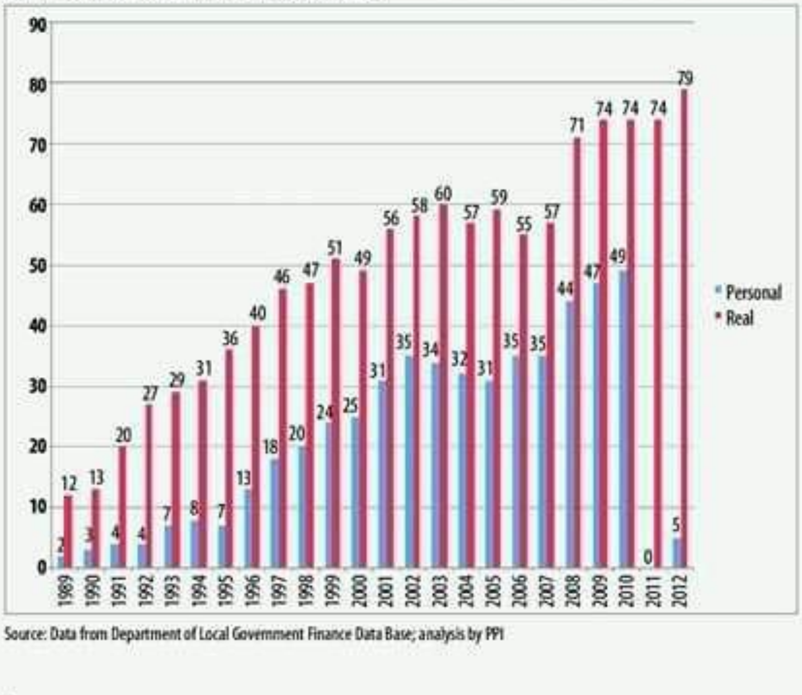
Measure of TIF Use

This portion of the analysis is derived from the DLGF's Local Government Data Base and takes a time series view of how widely use of an economic development tool TIF has become.

The Number of Counties with TIF

Figure 1 illustrates that the number of counties collecting either real or personal property based incremental revenue in the state of Indiana grew steadily between 1989 and 2012. The addition of 14 new counties collecting incremental revenue between 2007 and 2008 was the greatest annual increase in the number of counties with TIF in the state. While the number of counties collecting real property in at least one TIF district has grown steadily, the number of counties that utilize personal property in at least one TIF district remained rather consistent and less than 10 until 1996. In 1995, there were 36 counties with at least one TIF district with real property and only 7 with a TIF district that included personal property. Since then the increase in the number of counties with TIF districts using real and personal property has been relatively similar with the number of counties using real property TIF growing by 43 while an additional 36 counties began using personal property for TIF purposes.[3,4]

Figure 1: Counties with Incremental AV, 1989 - 2012



Source: Data from Department of Local Government Finance Data Base; analysis by PPI

Incremental AV

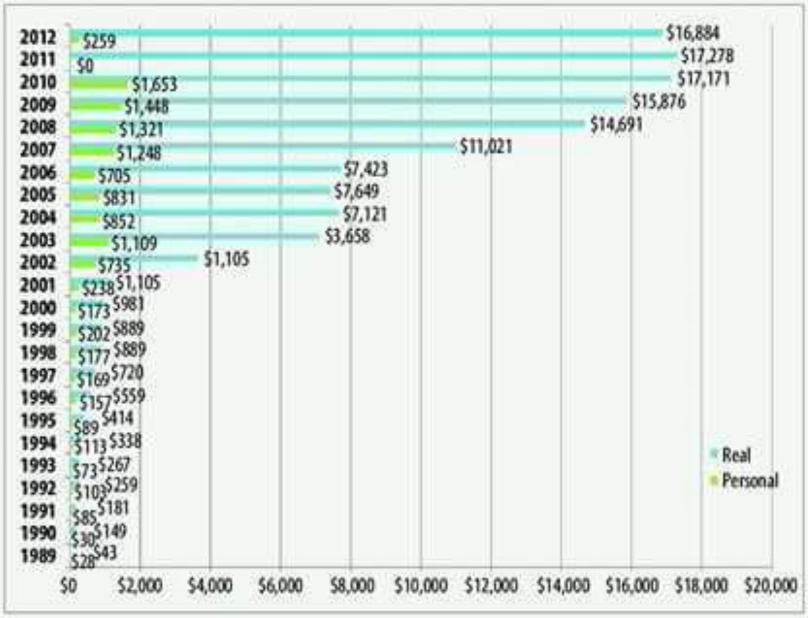
Incremental AV is the amount of assessed value within the TIF district that is above the district's base AV when it was established. Total incremental assessed value (both real and personal in Figure 2) in TIF districts grew from $71 million in 1989 to $17 billion in 2012[5], while total gross assessed value in Indiana grew from $54 billion to $281 billion. The variation in personal property AV over the years has likely occurred as a result of personal property depreciation

[3] In 2011, there were no entries for TIF personal property in the DLGF's Local Government Data Base.

[4] All counties with personal property also collect real property TIF, thus there are a total of 79 counties with at least one TIF district in Indiana and the number of real property counties is identical to the total number of counties with at least one TIF district.

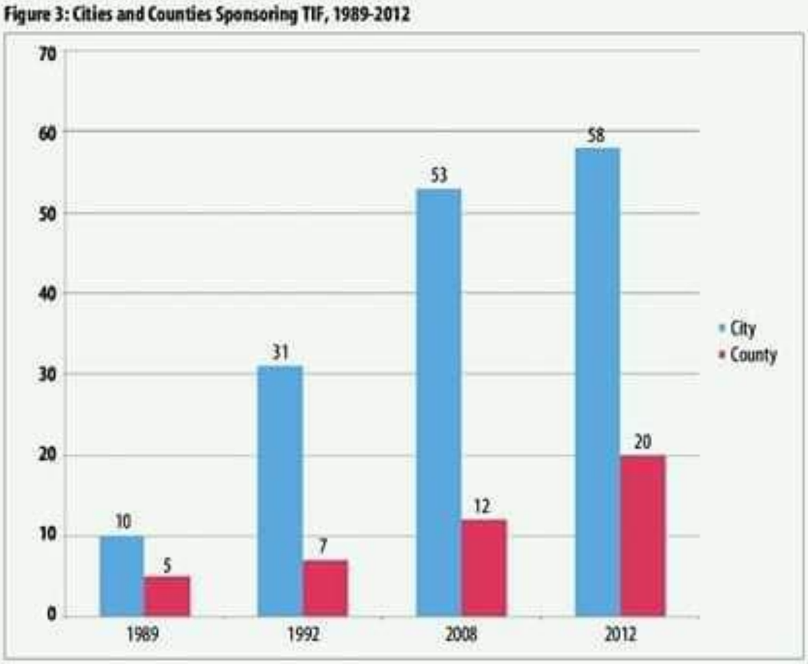
[5] Data from Department of Local Government Finance Data Base; analysis by PPI.

Figure 2: Total Real and Personal Incremental AV, 1989 - 2012 (million $)



Source: Data from Department of Local Government Finance Data Base; analysis by PPI

Figure 3: Cities and Counties Sponsoring TIF, 1989-2012



Source: PPI surveys, 2003 and 2012

schedules rather than disinvestment. The greater AV growth rate in TIF districts has resulted in TIF AV growing from approximately 0.1 percent of gross AV in 1989, to 1.2 percent of gross AV in 1995, to 6 percent in the year 2012. In 2012, Saint Joseph County reported the highest share of gross AV within TIF districts (16.6 percent).

In total in 2012*:

- 12 counties do not use TIF,
- 13 counties have less than 1 percent of their gross assessed value in TIF increments,
- 16 counties have between 1 and 2 percent,
- 23 counties have between 2 and 5 percent,
- 21 counties have between 5 and 10 percent, and
- 5 counties have 10 percent or more of their gross AV in TIF increments.

TIF Sponsorship

For the purposes of this analysis, the unit of government that creates and activates the TIF district, is considered to be the sponsor. As Figure 3 indicates, based on survey respondents only, in 1989, ten cities and towns and five counties sponsored TIFs and collected incremental revenue. These sponsors established a total of 18 TIF districts, principally in Indiana's larger, more industrialized cities and towns. The county-sponsored TIFs were created to address the needs of three of the largest economic development projects in the state: GM Truck and Bus Facility in Allen County; I/NTEK and I/NKOTE steel facility in St. Joseph County; and the Subaru/Isuzu joint venture in Tippecanoe County. Survey responses indicate that by 1992, 31 cities and towns and 7 counties were sponsoring a total of 51 TIF districts.

*Data from Department of Local Government Finance Data Base; analysis by PPI.

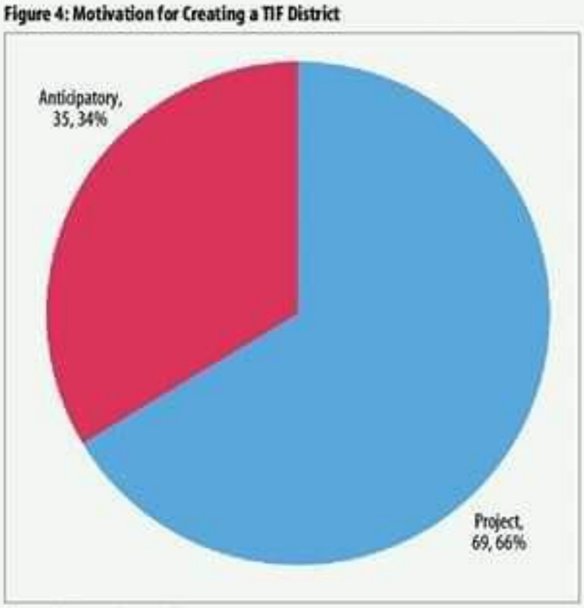
In 2003, 53 cities and 12 counties sponsored a total of 85 TIF districts. For the 2012 survey, 58 cities and 20 counties reported sponsoring at least one TIF district.

Motivation for Creating a TIF District

This category separates TIFs according to the sponsor jurisdiction's motivation in creating the TIF district. Though there are a variety of specific motivations of a sponsor jurisdiction in creating a TIF district, they can be grouped into two categories: 1) project-specific TIF districts created in response to a known project with committed private sector investment; or 2) anticipatory TIF districts created in a proactive effort to capture unknown yet anticipated private investment in an area believed, by the TIF sponsor, to have development potential. Figure 4 shows the number of districts in each category as reported by survey respondents.

Specific-project TIF districts are most common (two-thirds of all TIF district that responded to the survey question). These districts were created in response to a committed private sector investment or a series of committed private sector investments. The use of TIF funds usually are a part of the public-private negotiation and the use of TIF is contingent upon the private sector firm committing to the project. Examples of specific-project TIFs include many of the state's largest economic development projects: General Motors Truck and Bus Facility in Allen County, the Subaru/Isuzu joint venture in Tippecanoe County, the Toyota facility in Princeton/Gibson County, and the Honda Plant in Greensburg. Other specific-project TIFs include downtown revitalization projects in Indianapolis, Kendallville, Lafayette, LaPorte, Muncie, and South Bend. In general, these downtown catalyst projects include support of retail development, parking garages, convention center construction or expansion, or other office and hotel related development efforts. The town of Plainfield created the US 40 Corridor EDA to initially support Premier Properties shopping center and then expanded the district to include both Plainfield Commons and Metropolis. Rural areas tend to make project-specific TIF investments to provide distribution facilities with ample roadways and manufacturing facilities with appropriate infrastructure.

Figure 4: Motivation for Creating a TIF District



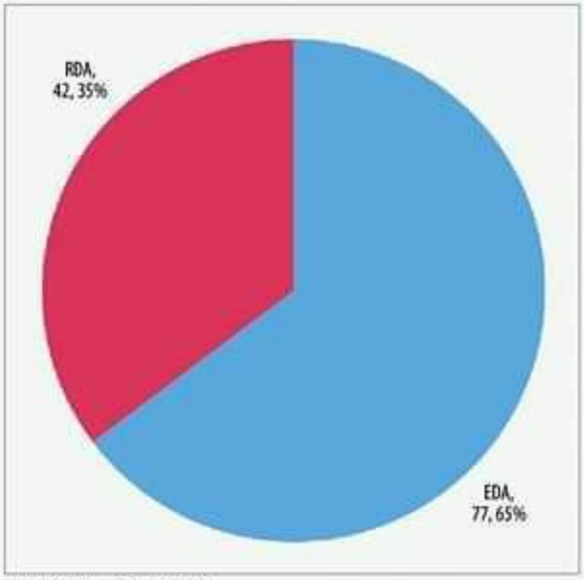
Source: PPI surveys, 2003 and 2012

As previously stated, an anticipatory TIF represents an effort by the sponsoring entity to capture unknown yet anticipated private investment in an area believed to have development potential. A proactive TIF differs from the specific-project TIF in that the private investor(s) and the schedule of private investment is not known at the time of the TIF district's designation. Another way to view proactive TIFs is to consider the sponsor jurisdiction as a speculative real estate developer, who does not incur the risk of buying property. The sponsor jurisdiction identifies the land that it views as having excellent private sector development potential, designates the land as ready for development, and proactively sets up a TIF district to finance infrastructure improvements as they become necessary. As might be expected, many proactive TIF districts are created to capture the assessed value accruing from expected new private investment in pre-designated (for marketing purposes) industrial or office/commercial parks. When new investments are identified the incremental revenue is used to fund the infrastructure improvements in the development area. Because there can be years between the date of TIF designation and the initial private investment, the initial AV growth rates in proactive TIFs tend to be slower than in specific-project TIF districts. A good example of a proactive TIF is the State Road 46 TIF district in Vigo County that was created to develop farmland at the IN 46 and I-70 interchange without any commitments from a specific investor.

Economic Development Area and Redevelopment Area Designation

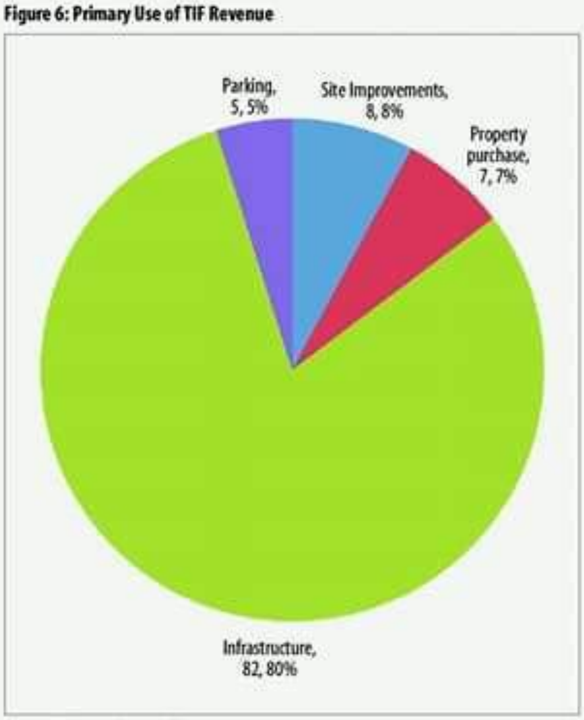
In Indiana, TIF districts may be designated as either an economic development area (EDA) or a redevelopment area (RDA). Though redevelopment areas require the finding of blight, economic development areas merely require a finding of significant economic development benefit. The use of EDA designation began in 1989, by 1993, these designations had become more popular. According to the survey, there are now more EDAs (77) than RDAs (42) in Indiana (Figure 5).

Figure 5: EDA or RDA Designation



Source: PPI surveys, 2003 and 2012

Figure 6: Primary Use of TIF Revenue



Source: PPI surveys, 2003 and 2012

With a blight finding (RDA), a TIF district is most likely to be used in a deteriorating portion of the sponsor community. The infrastructure in the RDA probably is insufficient for re-use and disinvestment probably has occurred. In a RDA, TIF is an urban revitalization tool, likely used to redirect property taxes to finance infrastructure repair or replacement. Prior to the enabling of EDA designation, TIF was one of the few local public mechanisms available to offset the advantages of sub-urban development.

Primary Use of TIF Funds

TIF in Indiana is principally used to fund infrastructure, according to the survey respondents (Figure 6). Of the 102 reporting TIF districts, 82 were created principally for financing infrastructure improvements. Infrastructure investments include: sewer expansion/repair, storm drainage, street construction/expansion, water supply, park improvements, bridge construction/repair, curb and sidewalk improvements, traffic control, and street lighting. In eight cases, building demolition and site improvements were reported to be the primary use of TIF funds and land and building acquisition was reported as the principal use of TIF funds in seven cases. Five TIF districts primarily dedicated TIF funds for public parking structures.

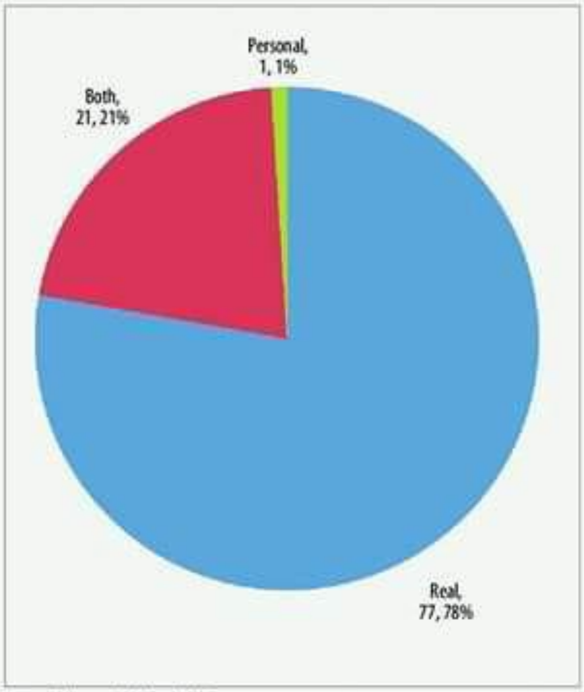
Type of Incremental AV Included Within TIF Districts

There are three possible incremental AV options available to TIF sponsors: real property, personal property, or both real and personal property. The type of incremental AV collected is determined by the sponsoring jurisdiction and cannot be changed without an amendment to the TIF designation resolution. Of the TIF districts that responded to this question, 77 depend solely on real property incremental assessed value to generate incremental revenue, and 21 TIF districts include both real and personal property (Figure 7). Only one TIF district reported TIF revenue from taxes on personal property incremental AV only, the project was intended to retain and attract jobs at an existing manufacturing facility that added new equipment.

Finance Method

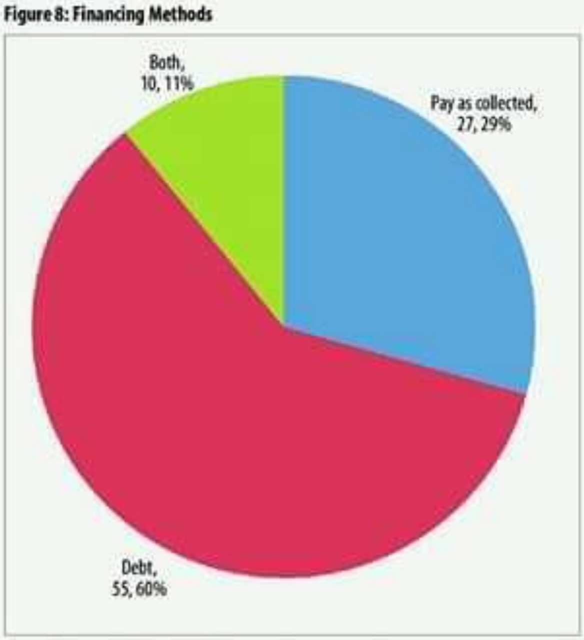
There are three options for financing public investment in a TIF district: 1) incur debt, 2) spend as revenue is collected, or 3) use both. As shown in Figure 8, the majority of Indiana TIFs use debt financing (60 percent). Ten of the responding TIF districts based their funding strategy on incurring debt while spending excess revenue on additional improvements and infrastructure. Twenty-seven TIF districts reportedly do not intend to incur debt and only will make investments as TIF revenue allows.

Figure 7: Type(s) of Incremental Included Within TIF Districts



Source: PPI surveys, 2003 and 2012

Figure 8: Financing Methods



Source: PPI surveys, 2003 and 2012

It is becoming increasingly popular to support TIF related debt with additional revenue sources in order to reduce risk and get a better bond rating and lower interest rates. Additionally, it is becoming increasingly common for TIF district sponsors to return any excess incremental AV and the associated revenue to the traditional taxing units rather than use the excess in a pay as you go fashion. TIF districts in Greencastle and Brownsburg distribute the excess portion of the incremental AV back to the general taxing units. In 2013, the Greencastle and Brownsburg TIFs redistributed over $31 million and $14.5 million, respectively, back to the general taxing units. Any remaining tax revenue from the incremental AV in the Six Points TIF in Plainfield after all TIF debt service has been paid goes to the school transportation debt service fund.