
# Local Government Economic Development Incentives

# Our Agenda

- Property tax abatement
- Tax Increment Financing
- Non-Local Incentives
- Incentive Policies/Best Practices

# What is property tax abatement?

- A “phasing in” of property taxes -- 1 to 10 year terms
- Reduce company’s tax liability on new real estate improvements and equipment
  - Eligibility defined in state code
  - The fiscal body must determine the deduction percentages for up to 10 years
  - 10-year abatement of existing taxes on large vacant buildings
  - 10-year abatement of residentially distressed areas
  - 20-year “super” abatement for depreciable personal property

BENEFITS: Reduces company’s operating expenses

COSTS: Delays property assessed value benefit to local government

LIMITS: Does not provide an “up-front” capital incentive or funds for infrastructure

# Property Tax Abatement – Eligible Property Types

## Real Property

- New real estate improvements
  - New buildings
  - Additions to existing buildings
- Certain eligible vacant buildings (as defined in state code)

## Personal Property

- Must be new to Indiana
- State code defines qualifying property types:
  - Manufacturing
  - Logistical/Distribution
  - Information Technology
  - Research & Development

# Personal Property Tax Abatement - Mechanics

- The calculation accounts for **all** personal property owned by a company, **both existing and new**, and includes the application of the Minimum Value Ratio (MVR)
- The MVR effectively increases the abated assessed value of a piece of equipment when the company's entire investment is at the 30% depreciation floor, and may cause the value of an abatement to exceed the actual book value of the equipment being abated
- If the MVR impact is a concern, then an alternative abatement schedule may be used to mitigate possible negative impacts

| Year Payable | No New Investment Current Value | Existing and New Investment: No Abatement | Existing and New Investment: Traditional 10-year Abatement | | Existing and New Investment: Modified 10-year Abatement | |
|---|---|---|---|---|---|---|
| 2013 | $6,510,000 | $6,510,000 | | $6,510,000 | | $6,510,000 |
| 2014 | 6,523,000 | 6,554,000 | ***100%*** | 6,484,000 | ***65%*** | 6,508,000 |
| 2015 | 6,531,000 | 13,921,000 | ***90%*** | 1,222,000 | ***55%*** | 5,669,000 |
| 2016 | 6,535,000 | 13,924,000 | ***80%*** | (191,000) | ***55%*** | 5,296,000 |
| 2017 | 6,537,000 | 13,926,000 | ***70%*** | 1,566,000 | ***55%*** | 5,426,000 |
| 2018 | 6,537,000 | 13,926,000 | ***60%*** | 3,830,000 | ***60%*** | 5,990,000 |
| 2019 | 6,537,000 | 13,926,000 | ***50%*** | 5,897,000 | ***65%*** | 5,893,000 |
| 2020 | 6,537,000 | 13,926,000 | ***40%*** | 7,821,000 | ***70%*** | 5,986,000 |
| 2021 | 6,537,000 | 13,926,000 | ***30%*** | 9,446,000 | ***80%*** | 6,079,000 |
| 2022 | 6,537,000 | 13,926,000 | ***20%*** | 10,953,000 | ***85%*** | 5,989,000 |
| 2023 | 6,537,000 | 13,926,000 | ***10%*** | 12,201,000 | ***85%*** | 6,582,000 |

# Property Tax Abatement – Pros and Cons

- Tax abatement delays or "phases-in" local property taxes and assessed value on the new private investment (delays benefit to local government budgets and circuit breaker)
- Traditional 10-year property tax abatement options and schedules have been adequate for most projects
- Flexibility can encourage certain investment
- When TIF and Tax Abatement are combined, the greater the abatement the less TIF is available to fund project
- TIF may be needed to fund infrastructure
- Sometimes the company is allowed to choose the balance between tax abatement and TIF-funded capital incentives
- Complex structures can be more complicated to administer
- Could increase competition among local communities
- What are your criteria?

# What is TIF?

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

– Captures increases in real property taxes and, at times, depreciable personal property taxes.
– Typically captures commercial and/or industrial property
– Generally cannot capture increased assessed value resulting from residential property improvements
  - Residential properties assessed as commercial (e.g. apartments) is an exception
  - Residential TIF tool

# What is the purpose of TIF?

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

*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

# Common Uses of TIF in Indiana

Economic Development

- Incentives to induce private investment
- Infrastructure development and local improvements
- Encourage growth in a targeted area (e.g. industrial parks)
- Facilitation of additional growth in developing areas (e.g. targeted infrastructure)

Quality of Place projects

- Public safety infrastructure, recreational amenities, etc.

# Common Uses of TIF in Indiana

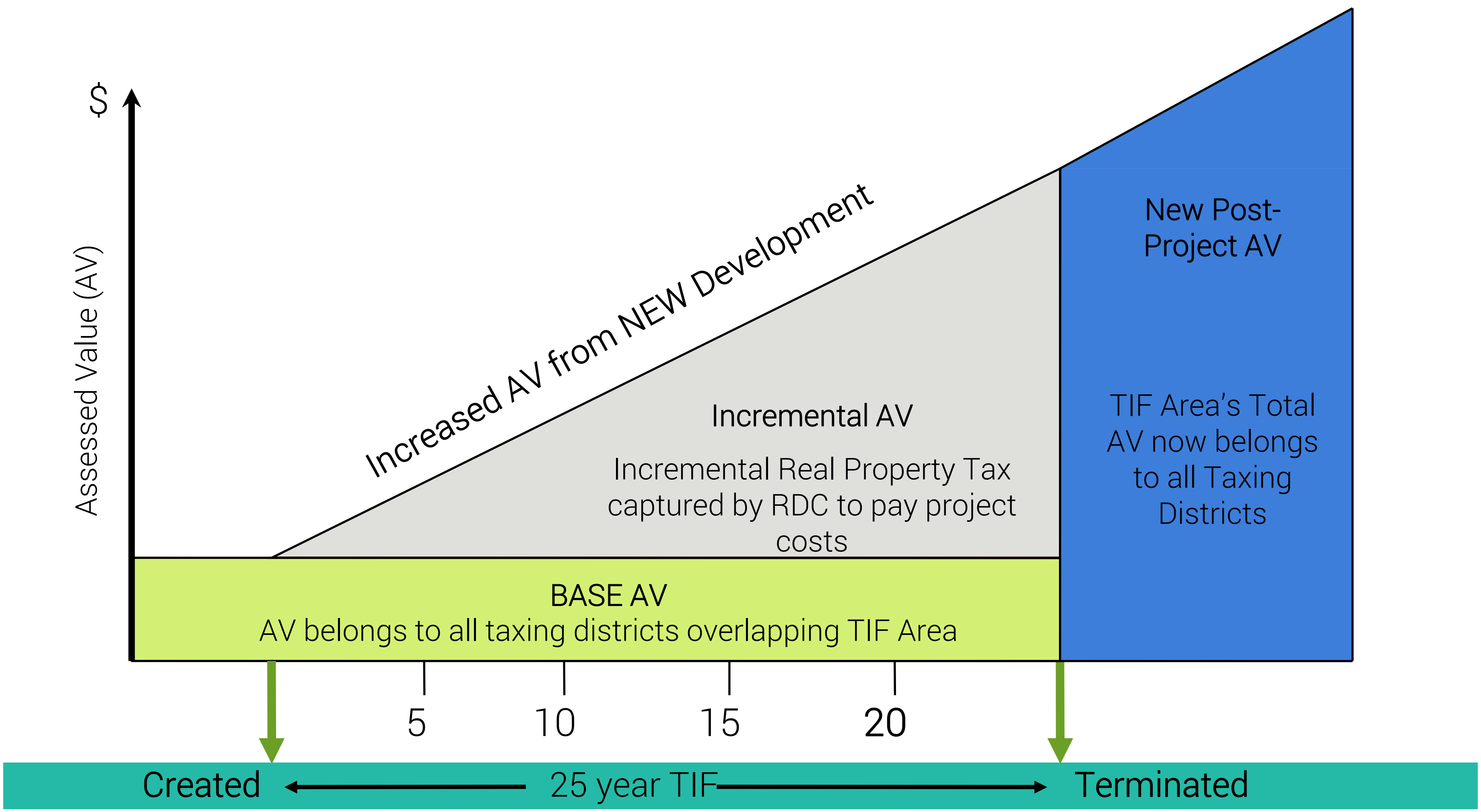
Blight Redevelopment

- Rehabilitation of decayed infrastructure
- New infrastructure to support redeveloping areas (e.g. downtown parking)
- Public-private partnerships

Supporting Education

- Capital projects
- Educational programs

# The Mechanics of TIF



# The TIF Calculation

- An “allocation area” is established and the base date is the prior January 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

Note: Referendum tax rates ***are not*** included in the calculation of tax increment

# Impact of TIF – Does it take away funds from other taxing 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 AV pass-through), the increased assessed value is added to the tax base of all the taxing units.

# Methods for accelerating the benefit to overlapping taxing units

- Only capture a portion of the eligible assessed value
  - Example:  Capture 90% of the incremental assessed value and pass through 10% to overlapping taxing units
- Pass-through excess incremental assessed value
- Keep the term of TIF-supported bonds short, or pay them off early
  - Build up sufficient funds over time to pay off bonds early
  - Refinance TIF bonds with shorter terms if revenues allow
- Fund projects for other units
  - TIF may be used to fund capital projects of other units if a nexus to the allocation area and the support of development can be established

# Using TIF to Support Schools

TIF revenues may be used to support schools or educational programs

- Up to 15% of TIF revenues may be used to fund certain educational programs that enhance workforce skills
- TIF may be used to support education-focused capital projects

# Residential TIF

- *IC 36-7-14-53* adopted in 2019, amended in 2020
- Allows for the establishment of a TIF area that captures new residential development that otherwise would not qualify for capture
- Similar mechanics to commercial/industrial TIF areas
- To qualify:
  - Average housing growth for prior three calendar years must be less than 1% of the total number of homes in the township (counties) or city/town; or
  - Area is designated as an "Economic Development Target Area"
- Affected school corporation(s) must adopt resolution approving residential TIF
- Additional public meetings requirements

# Non-Local Incentives - State

The IEDC manages several state incentive programs, including:

- EDGE (payroll tax) Credits
- Hoosier Business Investment Tax Credit
- Industrial Development Grant Fund
- Skills Enhancement Fund – Workforce Training Grant

See more at:

http://iedc.in.gov/incentives

# Non-Local Incentives - Federal Programs

- New Market Tax Credits
  - Competitive program for shovel ready projects with high community impact
  - Project must be located in "qualifying distressed" census tracts (see mapping tool at: https://connect.bakertilly.com/nmtc-lihtc-mapping-tool)
  - Allows for additional capital to fund projects which can include new facilities, expansions, or equipment
- Opportunity Zones
  - Established by the 2017 tax reform bill
  - State-designated qualifying census tracts (see map at: https://www.in.gov/gov/governor-holcomb/governors-office/opportunity-zones/)
  - Allows for project investors to defer taxes on gains if investments held for defined periods of time
- Other tax credit programs
  - Low-income housing tax credits
  - Historic preservation tax credits
  - Energy related tax credits
- Economic Development Administration Grant programs
  - Can support planning efforts, public works projects that support economic development, or revolving loan fund programs
  - Grants are competitive and available for application on rolling deadlines
  - Funding typically eligible for 50% of eligible project costs

# Incentive Policies/Best Practices

- Many communities have adopted formal policies governing the use of incentives, particularly abatements, in their jurisdiction
- Companies may apply for abatements or other incentives through a standard form
- Communities must consider the type of business, the amount of investment, and other items
- Communities may want to perform due diligence as a part of the process

- Does it have to be local money plugging the "gap"?
- Considerations for granting incentives can include:
  - Employment details
    - Payroll
    - New or retained jobs
    - Employee benefits
    - Full or part-time positions
    - Skilled or unskilled jobs
  - Proposed project site
    - New or existing building
    - Infrastructure needs
    - Target area for development?
  - Other community benefits
  - Impacts on other taxing units or existing TIF obligations
  - The capital stack for the project

# Incentive Policies

- Why are incentive policies, formal or informal, important?
  - They enable your community to define its criteria
  - They allow rapid responses to initial project inquiries
  - They may allow you to expedite approvals during the deal making process
  - They allow your community to define development goals
  - They set expectations for those who request incentives
- Remember, every project is unique!

# Thank You

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