

# **Tax Increment Financing Districts (Including Single-Family Residential Housing TIF Districts)**

**Presented at Indiana Uplands Housing Webinar Series**


**October 12, 2022**

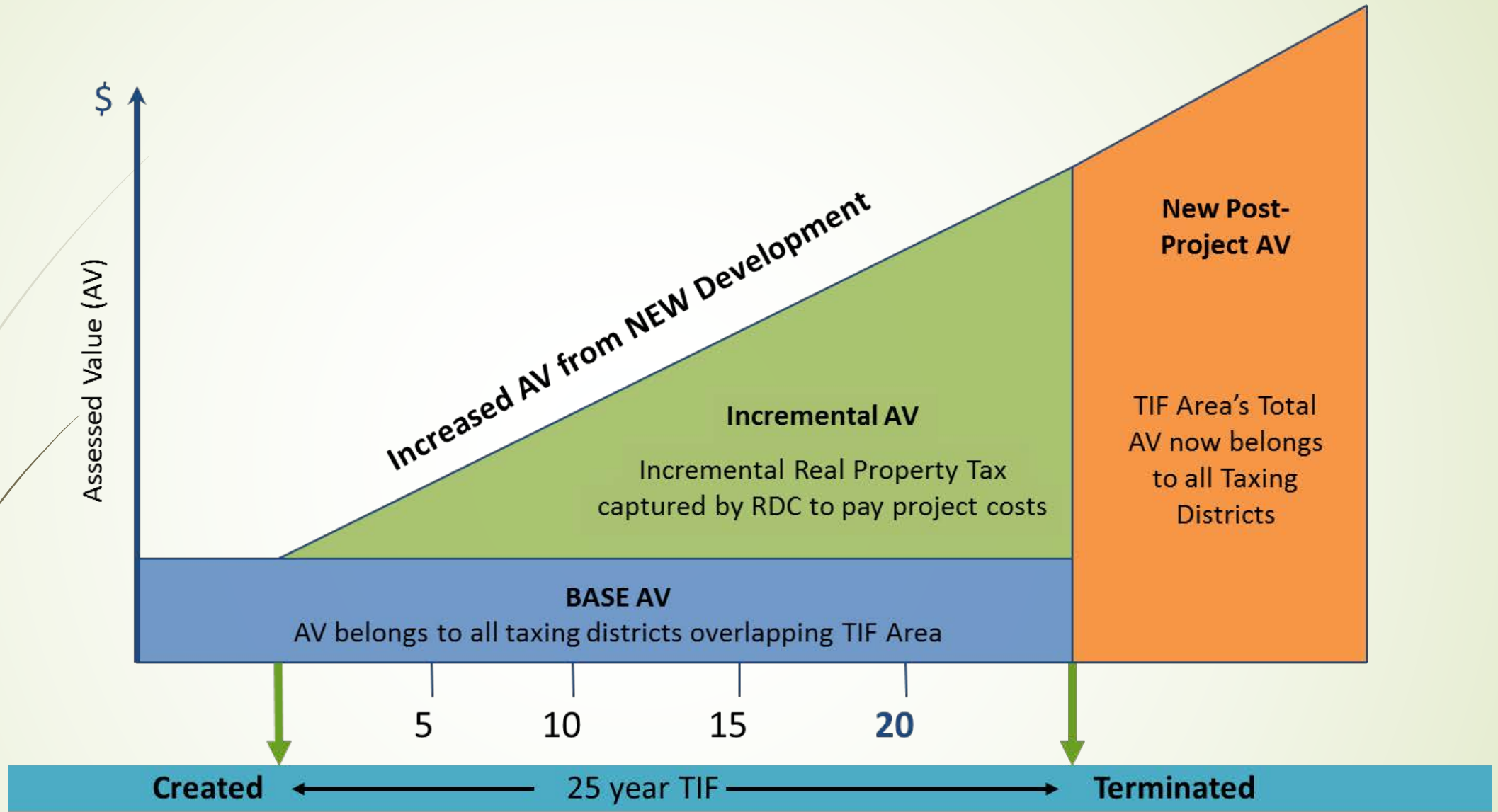
## **Presenter:**

Thomas Pitman  
Partner, Barnes & Thornburg LLP  
([thomas.pitman@btlaw.com](mailto:thomas.pitman@btlaw.com))



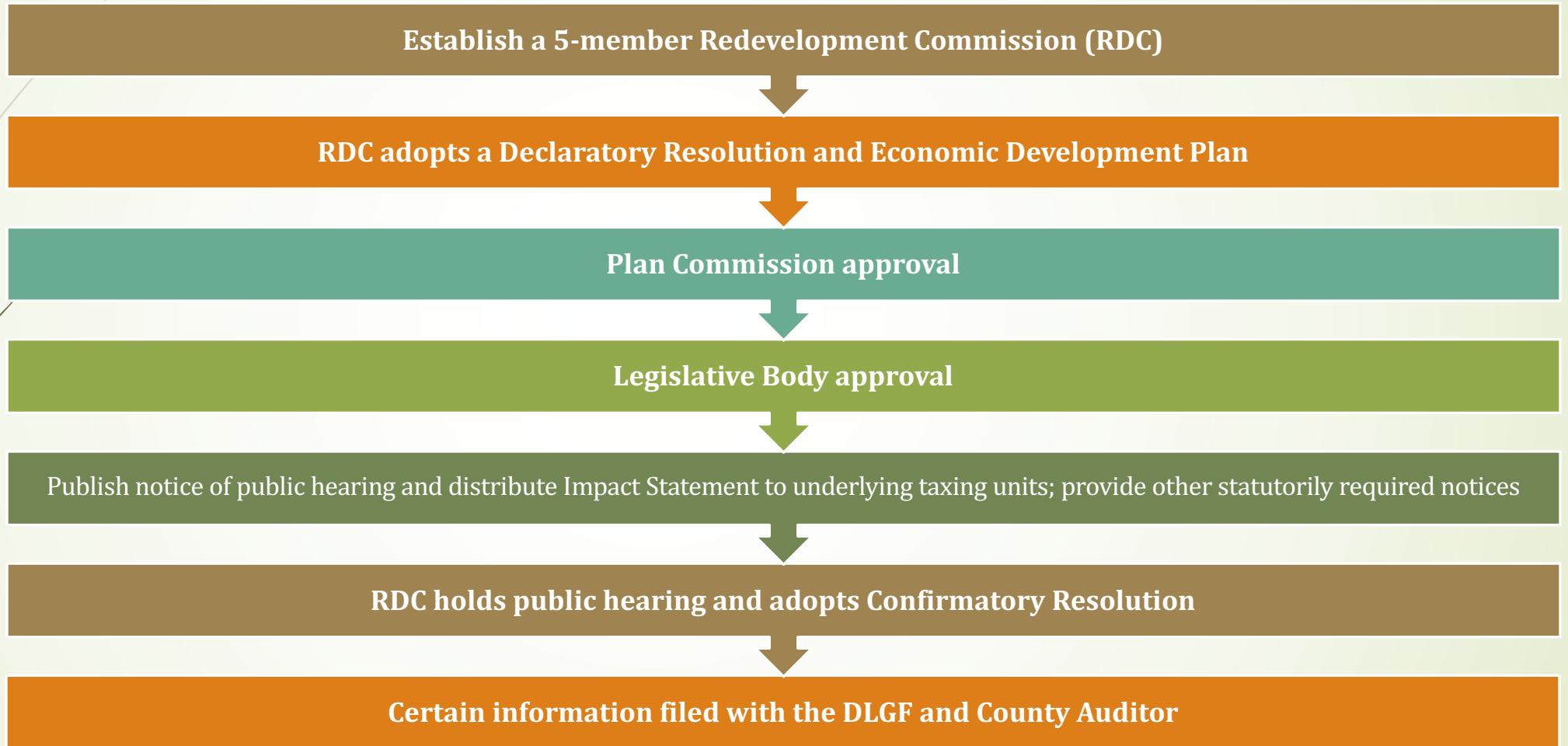
# **Concept of TIF**

- 
- **Problem**: there exist obstacles to redevelopment or economic development that have not been and are not likely to be overcome by “the ordinary operations of private enterprise” (the “but for” test).
  - **Solution**: use the new property taxes generated by a redevelopment project or economic development project to pay for the cost of removing the identified obstacles.



\*25 year term is measured from the date debt payable from TIF is first incurred

# Procedures for Establishing a “TIF District”

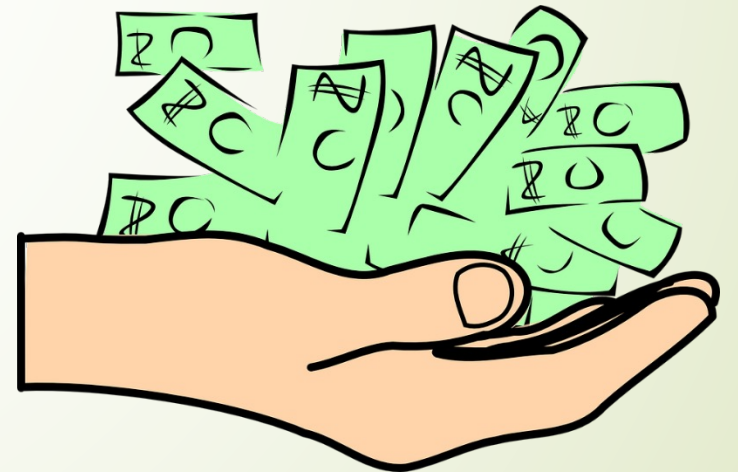




# **Frequently Used Terms**

# Frequently Used Terms

- “2021 pay 2022” means taxes payable during 2022, for which the tax liability is determined as of January 1, 2021
- “*Ad valorem* tax” means a tax which is levied in an amount determined by the value of the property being taxed
- “Allocation area” means an area designated by the redevelopment commission consisting of parcels from which the redevelopment commission will receive tax increment revenues from assessed value that arises after the creation of the allocation area.
- “Base assessed value” means the assessed value in a TIF District that will continue to flow to underlying taxing units by virtue of having arisen before the creation of the TIF District.



# Frequently Used Terms



- “Base date” means the date as of which taxes on pre-existing assessed value will be allocated to the underlying taxing units.
- “BAN” or “bond anticipation note” means a loan undertaken by a local governmental entity which is stated to be repayable from the issuance of bonds in the future.
- “Bond rating” means a rating on a bond issue assigned by a national rating agency; obtaining a rating on the bonds can often make it possible for an issuer to secure a lower interest rate on a bond issue.
- “Bond” means a loan taken out by a local governmental unit, consisting of an instrument in which the local governmental unit agrees to repay principal and interest from specified repayment sources, in return for the sale proceeds received from the purchaser



# Frequently Used Terms

- “Call date” means the first date on which the bond ordinance or bond resolution allows the bonds to be redeemed.
- “Callable” means subject to redemption.
- “Capital project” means a project that has a relatively long useful life (more than one year), such as a building or equipment.
- “Capitalized interest” means interest on a bond that is treated as part of the cost of a capital asset (generally during the project construction period) and that is paid from bond proceeds.
- “Credit enhancement” means the provision of additional security for a bond, such as bond insurance.



# Frequently Used Terms



- “Debt limit” means a limit on the total amount of direct debt (excluding certain categories of debt such as utility revenue bonds) that a local governmental entity may have outstanding at any particular time. Redevelopment commissions have their own separate debt limit equal to 2% of the net assessed value (divided by three) of the territory in the jurisdiction of the redevelopment commission. Financings in the form of a lease usually do not count against a local governmental entity’s debt limit.
- “Debt service coverage ratio” means the ratio of (a) pledged revenues projected to be available for the repayment of existing and proposed debt to (b) the amount of total debt payments payable from the pledged source that will be due in the year during which the aggregate debt payments for the existing and proposed debt will be highest.
- “Decrement” means a loss of tax increment on property in a TIF allocation area that results from a reduction in the assessed value of the property.

# Frequently Used Terms

- “Defeasance” means the setting aside of funds for the remaining pay-off of a bond issue, effecting a release of the rights of bondholders in the revenue stream pledged to the bonds and the substitution of such rights with an irrevocable pledge of the account holding the funds that have been set aside.
- “Economic development area” means an area that meets certain statutory criteria, including a finding that the plan for the area will promote significant opportunities for the gainful employment of the unit’s citizens; will attract a major new business enterprise to the unit; will retain or expand an existing business enterprise in the unit; or meets certain similar criteria. In order to create a TIF District, a redevelopment commission must first create an underlying area consisting of either an economic development area or an area needing redevelopment.
- “General obligation bond” means a bond secured by a commitment of the issuing local governmental entity to levy property taxes to pay principal and interest.



# Frequently Used Terms

- “Incremental assessed value” means assessed value in a TIF District that arises after the creation of the TIF District, the taxes on which are given to the redevelopment commission.




- “Junior Debt” means debt with respect to which the claim of the bond owners on the revenue source pledged to the debt is subordinate to the claim of certain other debt payable from the same source.
- “Neutralization” means the annual process of neutralizing the impact of reassessment or trending on the allocation of assessed value between the base assessed value and the incremental assessed value of property in a TIF District.

# Frequently Used Terms

- “Parity debt” means debt with respect to which the claim of the bond owners on the revenue source pledged to the debt is equal to the claim of certain other debt payable from the same source.
- “Parity tests” means conditions that an issuer is required to satisfy in order to qualify proposed additional debt to have an equal claim on a shared repayment source with holders of outstanding debt secured by such source.
- “Pledge” means to commit particular funds to the repayment of the local governmental entity’s debt.
- “Property tax back-up” means a commitment by a local governmental entity to levy property taxes as a back-up source for the repayment of debt if the primary repayment source proves to be inadequate; using a property tax back-up will usually result in a lower interest rate.



# Frequently Used Terms

- 
- “Rate study” means a professional study, usually by a municipal advisor, to determine whether existing utility rates are sufficient to meet all of the utility’s needs or whether the rates need to be increased.
  - “Reserve fund” means a fund established by an issuer to provide a cushion in case revenues pledged to the repayment of the bonds fall short of the amount needed to pay debt service.
  - “Senior debt” means debt with respect to which the claim of the bond owners on the revenue source pledged to the debt is superior to the claim of certain other debt payable from the same source.
  - “Tax increment” means the revenue generated by the incremental assessed value in a TIF District that arises after the creation of the TIF District. Tax increment revenues are given to the redevelopment commission instead of the underlying taxing units.

# Frequently Used Terms


- “Tax increment financing district” is another term for an allocation area.
- “TIF” means tax increment financing, and is sometimes used to refer to the revenues generated by a TIF District.
- “TIF allocation area” is another name for an allocation area.
- “TIF District” is another name or an allocation area.





# **Single Family Residential Housing TIF**





New Indiana Code IC 36-7-14-53 through 56

1% Test Met? (Average of prior three years of housing construction does not exceed 1% of existing housing in the City or Town (or, in Counties, specified township))

Alternative to 1% test for Cities and Towns: Create an “Economic Development Target Area.”

Develop “Residential Housing Development Program”

Hold public hearing in neighborhoods

School Board approval