# TIF 101:
# MUNICIPAL IMPACT FROM ECONOMIC DEVELOPMENT & REDEVELOPMENT

**ASHLEY M. ULBRICHT**
CARMEL CITY ATTORNEY & GENERAL COUNSEL
CITY OF CARMEL REDEVELOPMENT COMMSSION
IMLA MIDYEAR CONFERENCE-APRIL 2021

# TAX INCREMENT FINANCING (TIF)

# History of TIF

- Born in California in 1952 (*Briffault 2010*)
- Means to raise funds without issuing bonds that require voter approval
- Use accelerated in 1970's due to cuts in Federal and State support for local economic development
- California's 1978 Proposition 13
- By 2010- 49 states and District of Columbia had authorized TIF (*CDFA 2015*).
- "Most widely used local government program for financing economic development in the US." (*Briffault 2010*)

# WHAT IS TIF?

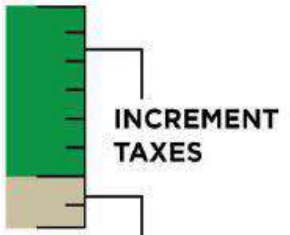
## TAX INCREMENT FINANCING

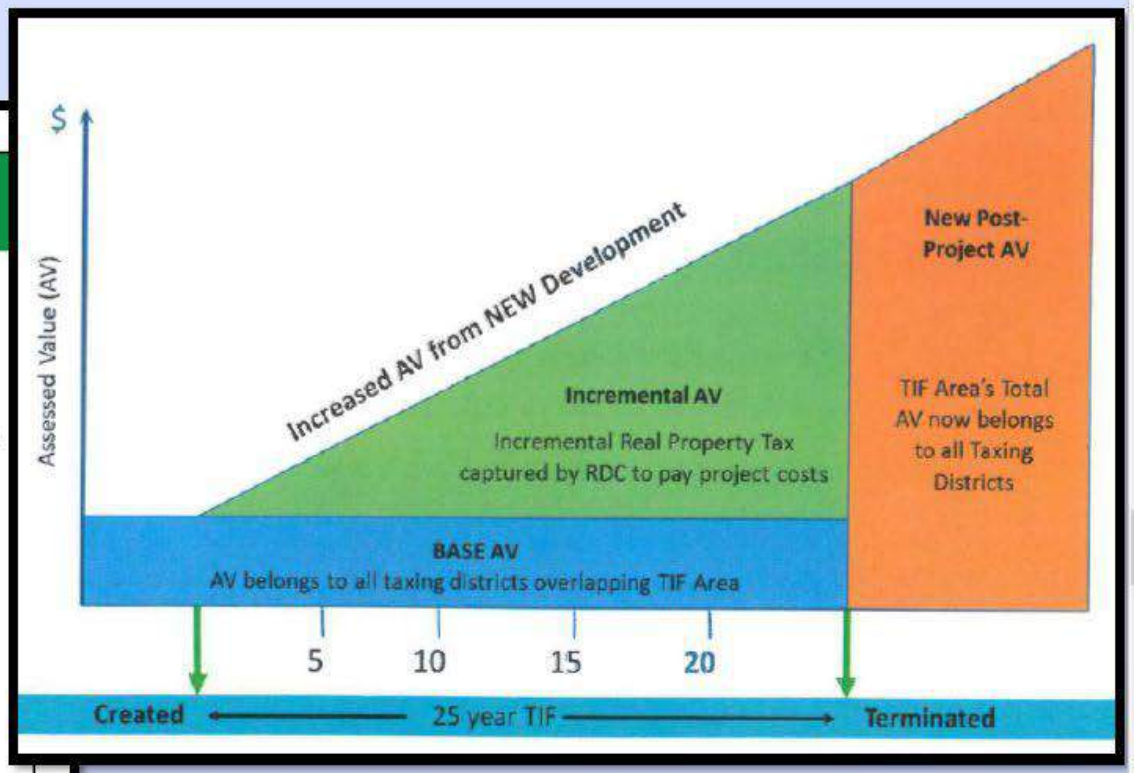
Tax increment financing, or TIF, pays for public improvements using anticipated new tax dollars from the development.



**INCREMENT TAXES:**
Used to pay long-term debt on eligible costs that include parking structures, land acquisition and prep, demolition and modifications of roads, sidewalks or utilities.

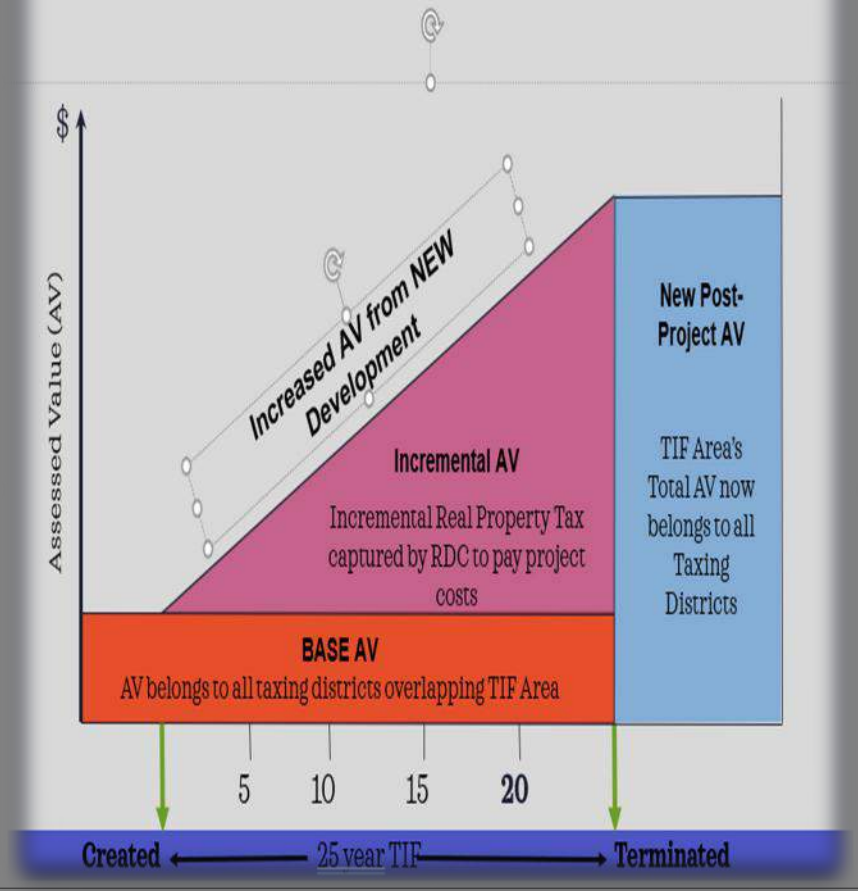
**BASE TAXES**
**(city, county and school):**
Jurisdictions do not lose existing money because these taxes are frozen.



# BASIC OVERVIEW

## TIF Mechanics




**Create TIF District**

Set Geographical Boundaries

**Establish initial assessed value**

Tax Revenue Analysis

**Capture Tax Increment above initial assessed value during life of District**

**Becomes repayment stream for debt used to finance new development and infrastructure.**

# WHAT IS TIF? - EXAMPLE

**Old Assessed Value** **$34,500 (just land)**
**New Assessed Value** **$53,065,500**

**TIF of about $10m**
**Of this, $9m was used for the garage**



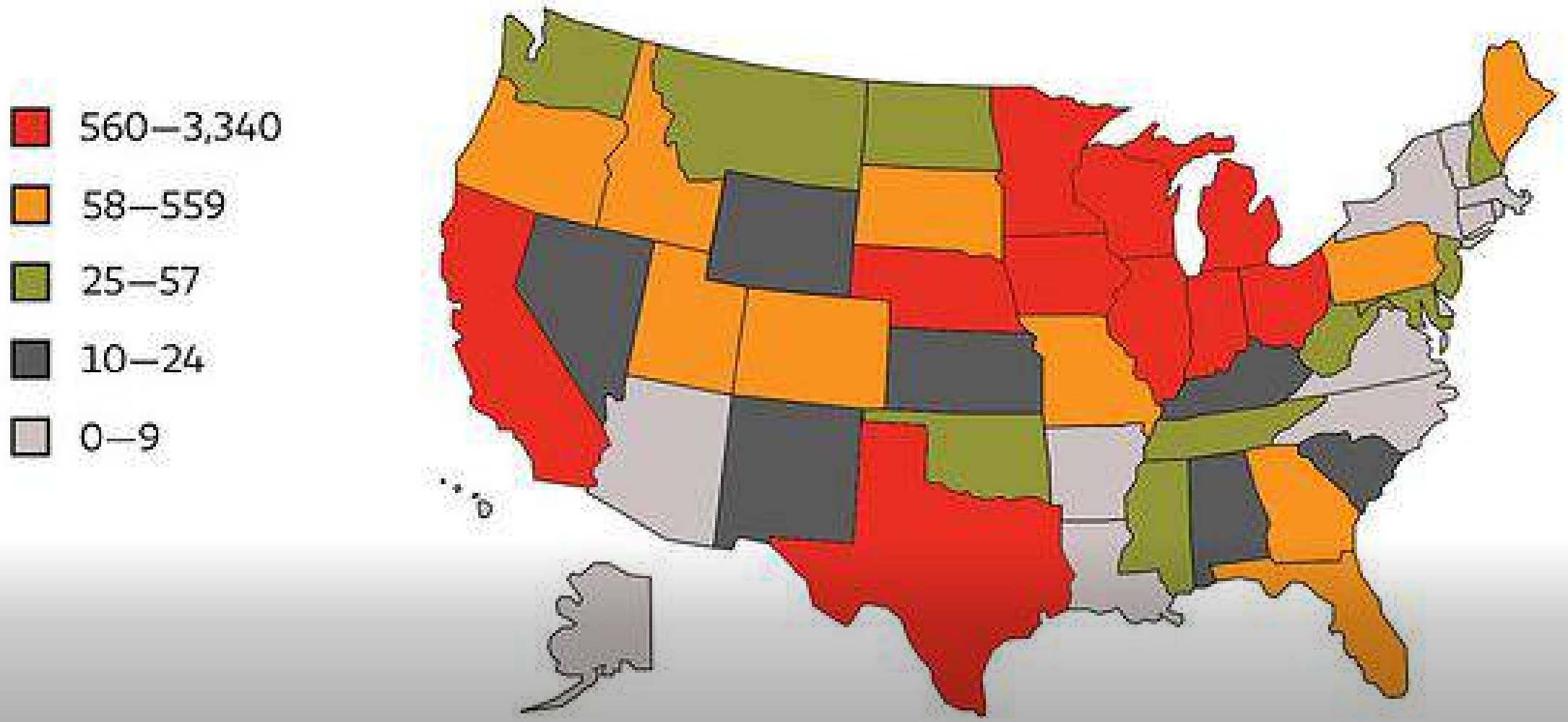





# TIF LAWS

# STATE SPECIFIC

# Estimated Number of TIF Districts by State




Source: Merriman, D. (2018). Improving Tax Increment Financing (TIF) for Economic Development. Cambridge: Lincoln Institute of Land Policy. doi: ISBN 978-1-55844-378-5 (PDF)
Note: Categories for MT, NH, SC, and TN are best available estimates

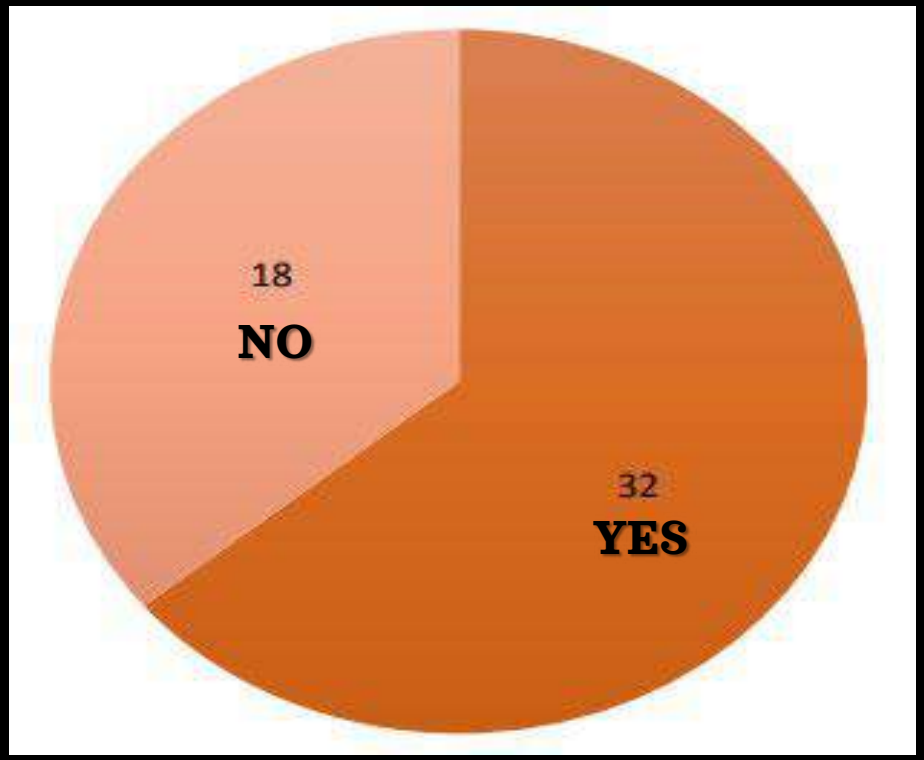
# Enabling Statutes

Key Trends of Enabling Statutes:

- Blight Requirements: "But for" Test
- Eligible Revenue Sources
- Maximum District Length by State
- Significant Frequent Amendments

# Blight Requirement

## State Specific Definitions



# State Specific Definitions

## Enabling Statute in Indiana: § 36-7-14-*et. seq.*

**IC 36-7-1-3"Area needing redevelopment"**

Sec. 3. "Area needing redevelopment" means an area in which normal development and occupancy are undesirable or impossible because of any of the following:

(1) Lack of development.
(2) Cessation of growth.
(3) Deteriorated or deteriorating improvements.
(4) Environmental contamination.
(5) Character of occupancy.
(6) Age.
(7) Obsolescence.
(8) Substandard buildings.
(9) Other factors that impair values or prevent a normal use or development of property.

[Pre-Local Government Recodification Citations: 18-7-7-3(a); 18-7-7.1-2(a); 18-7-7.5-1(h).]

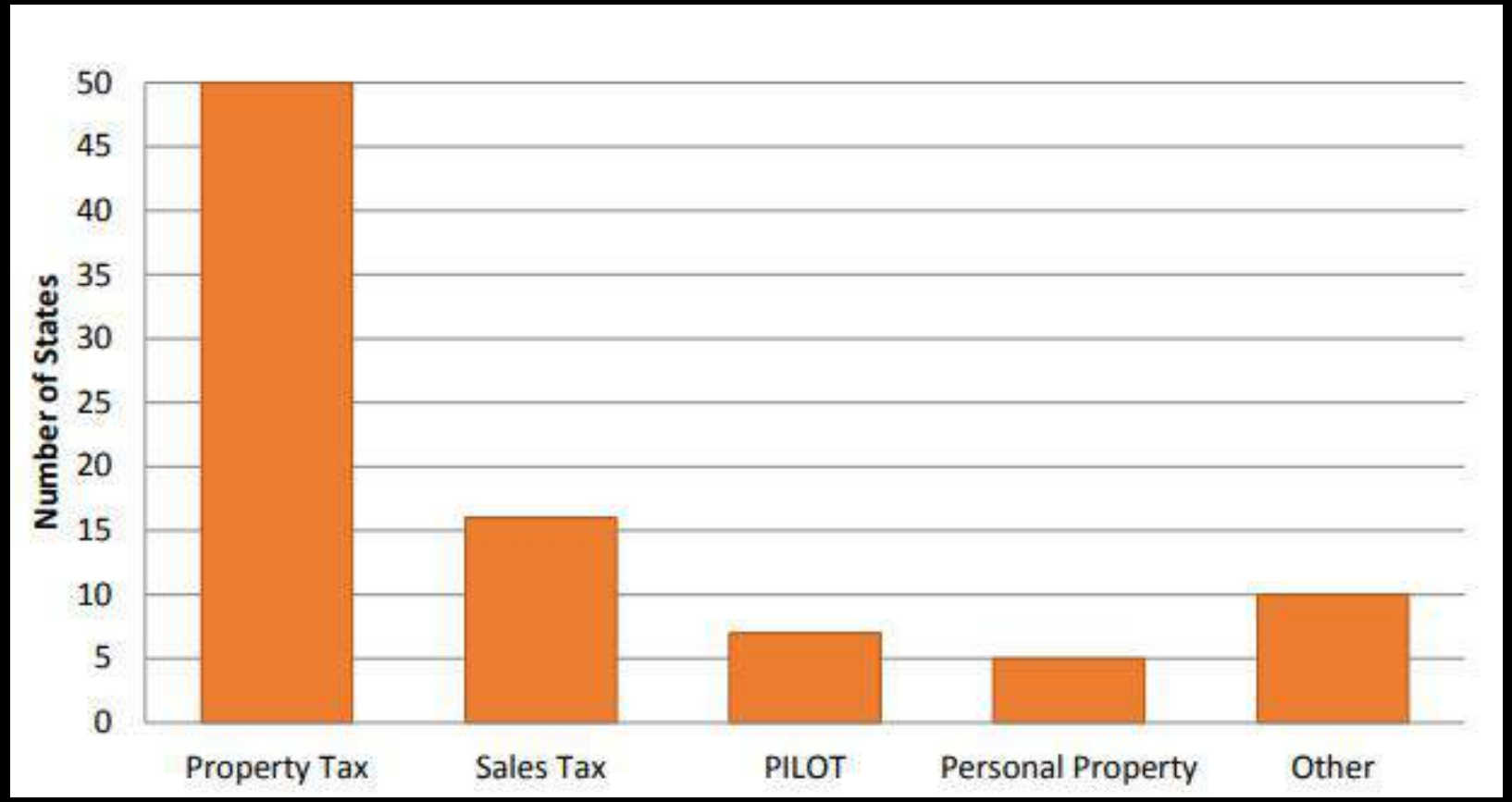



# "*But For*" Test

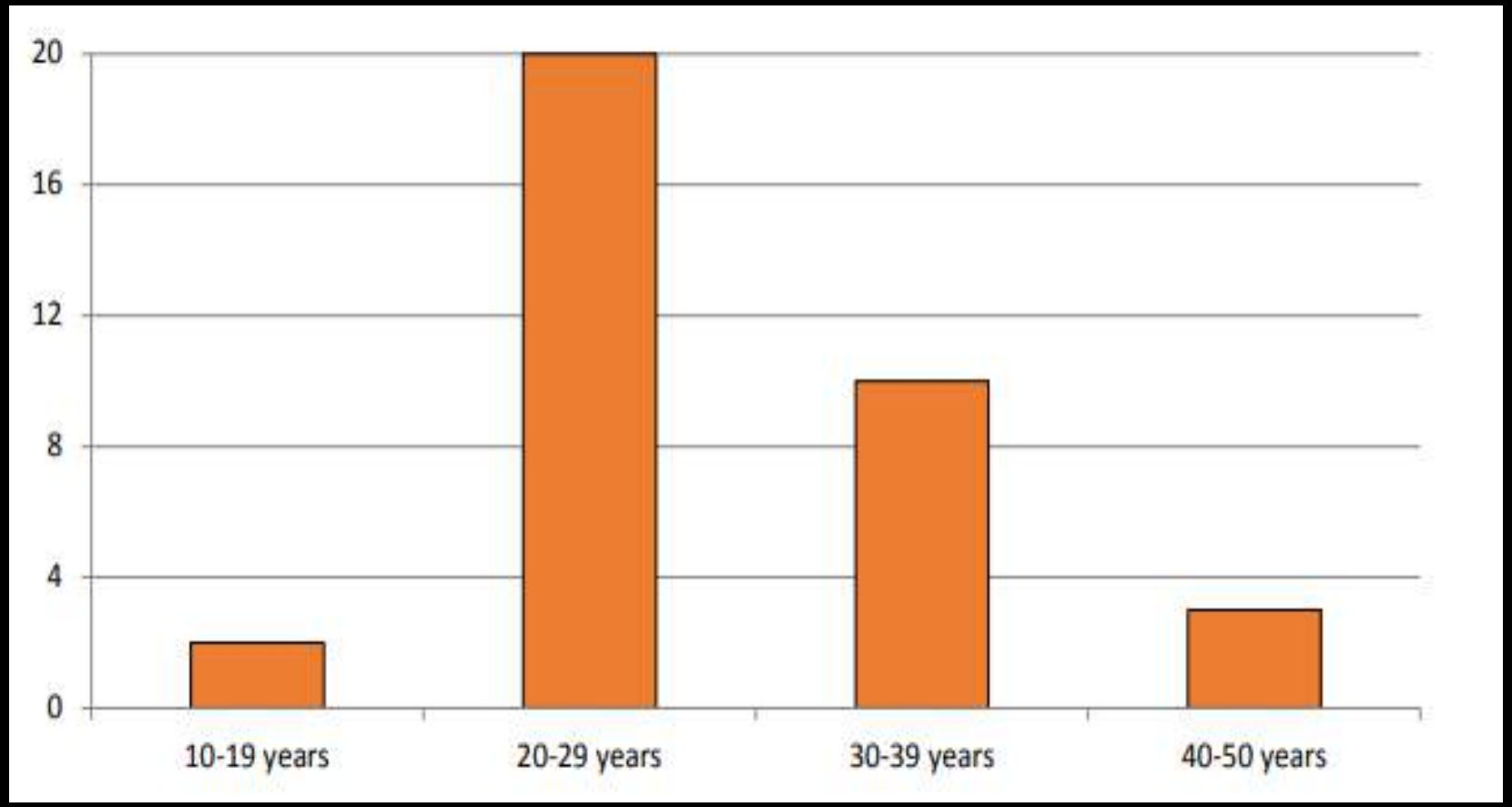
Key Trends:

- "*But For*" the TIF assistance, growth or development at the proposed level would not occur
- Broad Interpretation
- Requires Counter-Factual Analysis
- Perceived Procedural Hurdle

# Eligible Revenue Sources
## State Specific



# Maximum District Length By State










# WHY USE TIF?

# TIF Theory

- **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.

# TIF Theory

- **Examples of obstacles**:
  - Lack of needed public infrastructure
  - High cost of land
  - High cost of structured parking
  - Environmental contamination
  - Incentive competition from other states and communities

# TIF Purpose

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.

# How Can TIF be Used?

- Utility improvements
- Roads and Rail
- **Land acquisition / site development**
- Buildings / equipment

# Downtown Redevelopment

Leverage private investment in mixed-use developments









**INFRASTRUCTURE**

- Parking Structures
- Utility relocation
- Environmental remediation
- Amenities
- Quality of Place

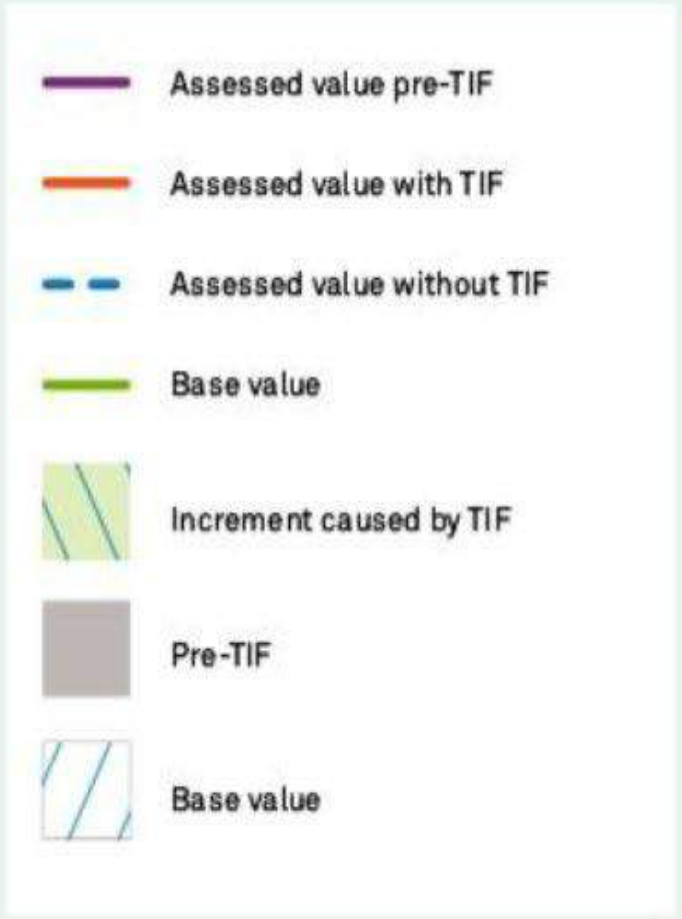
# TIF MECHANICS

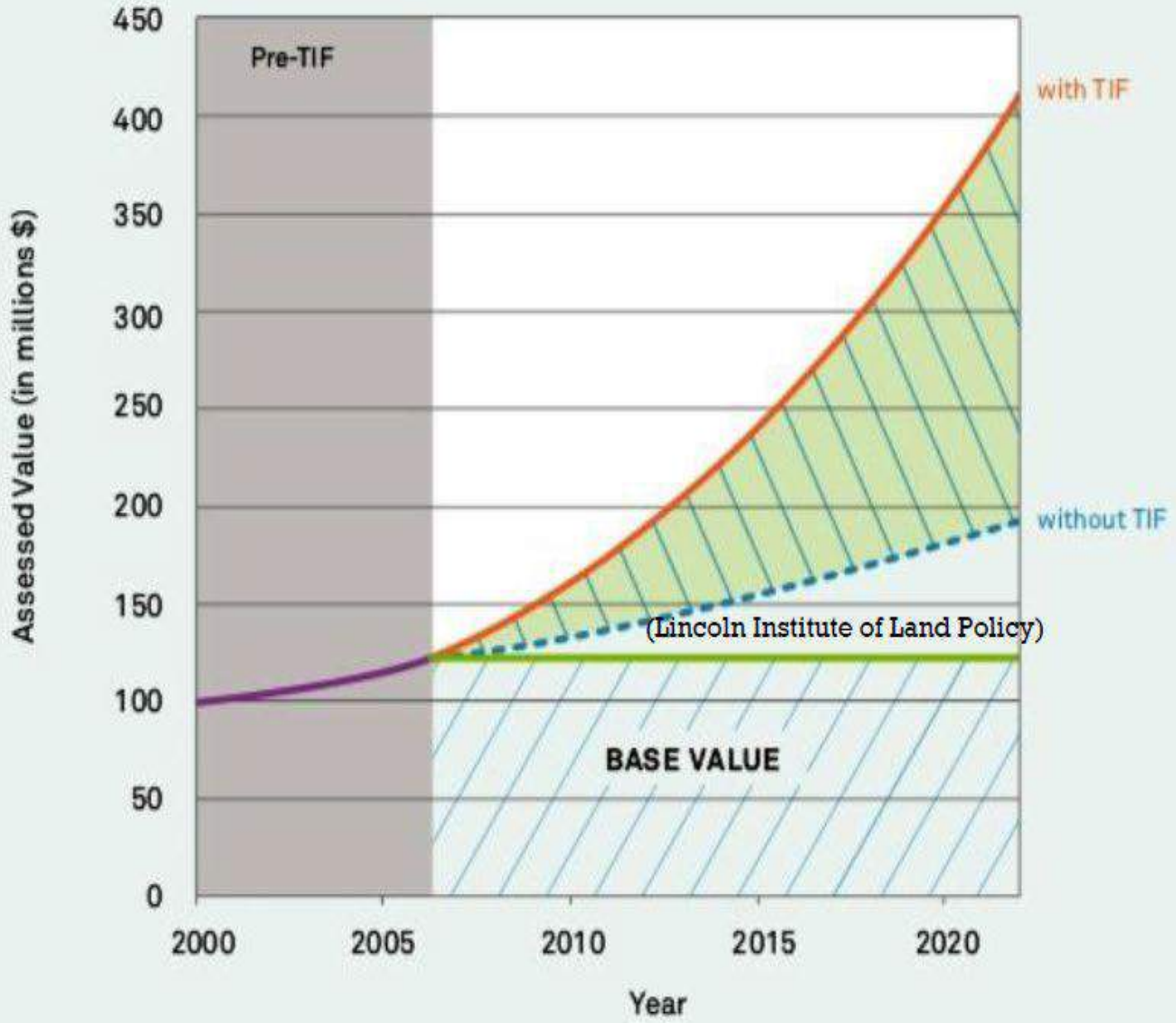
How does it work?



Figure 1

## Hypothetical Example of Assessed Value With and Without TIF

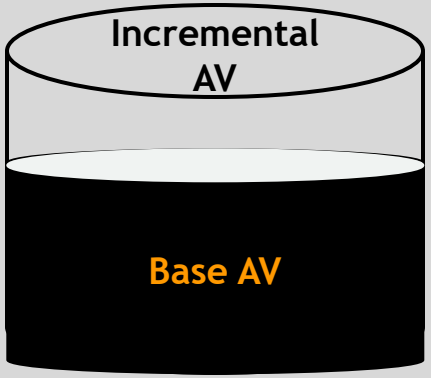


# TIF Calculation

- Increases in assessed value (AV) over the base value become the incremental assessed value (“Incremental AV”).
- Incremental AV multiplied by tax rate (per $100 AV), minus circuit breaker tax credits, equals the Tax Increment (TIF).

Current NAV – Base NAV = Incremental AV
Incremental AV x Tax Rate - CBTC = Tax Increment (TIF)




**x tax rate** → **Redevelopment Commission TIF Allocation Fund**

**x tax rate** → **Taxing Units**

# How do Property Tax Caps Work?

- Computed property tax bill is compared to the “cap”
- Property taxes over the cap are simply not paid
- Shortfall in property taxes collected and distributed to taxing units
- Circuit breaker credits are allocated to taxing units based on the percentage of overall tax district tax rate. Revenue shortfall for all taxing units

# Maximum Property Tax Levy

- The maximum amount of property tax dollars that may be levied in any budget year
- Certified by DLGF
- Annual statewide growth factor based on a 6-year average of non-farm personal income (affected by changes in the economy)
  - 2020 – 3.5%
  - 2021 – 4.2%
- Annual levy growth is NOT affected by changes in:
  - Population
  - Property Values
  - Local Expenditures (Appropriations)

# PROPERTY TAX CAPS

- **In 2010, a Referendum added property tax caps to the Indiana Constitution.**
- **Real property taxes are capped at a percent of a property's assessed value, as follows:**

Homestead – 1% of AV

Multifamily Residential / AG - 2% of AV

Office/Retail – 3% of AV

**Example:**



**New Neighborhood (1% homestead):**
**100 houses x $150k AV**
**= $150k per year in tax revenue for town**

**Enough for one police officer. That's it.**
**Not fire, power, roads, water, sewer, school, library, etc.**

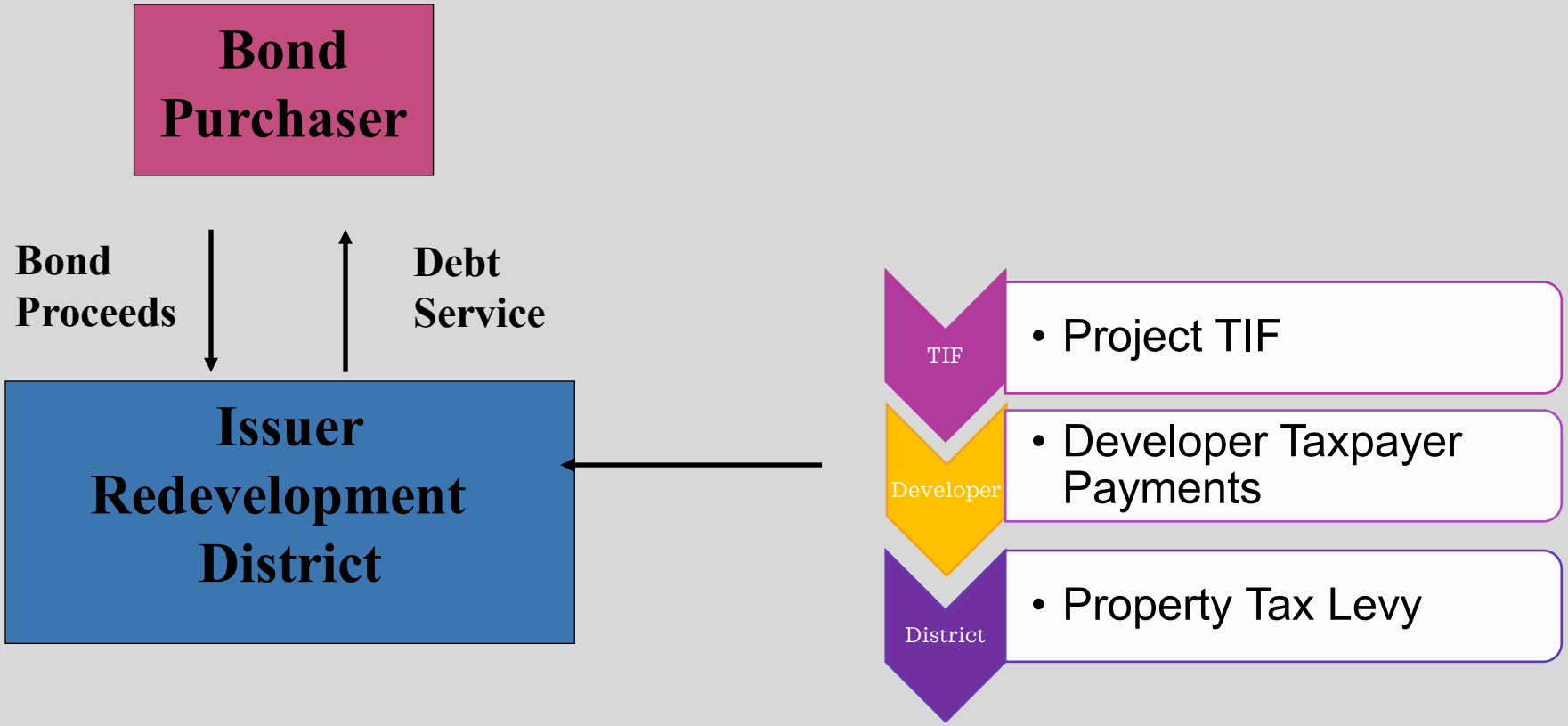
# Circuit Breaker Credits

**Limit the total property tax bill to a percentage of the gross assessed value of the taxpayer's property.**

| Property Type | Circuit Breaker Cap |
|---|---|
| **Residential homesteads** | **1%** |
| **Other residential (i.e. apartments, agricultural)** | **2%** |
| **Commercial** | **3%** |

Note: Property taxes approved in a referendum process are not subject to the tax caps.

# TIF Bonds with Taxpayer Payments and Tax Back-up





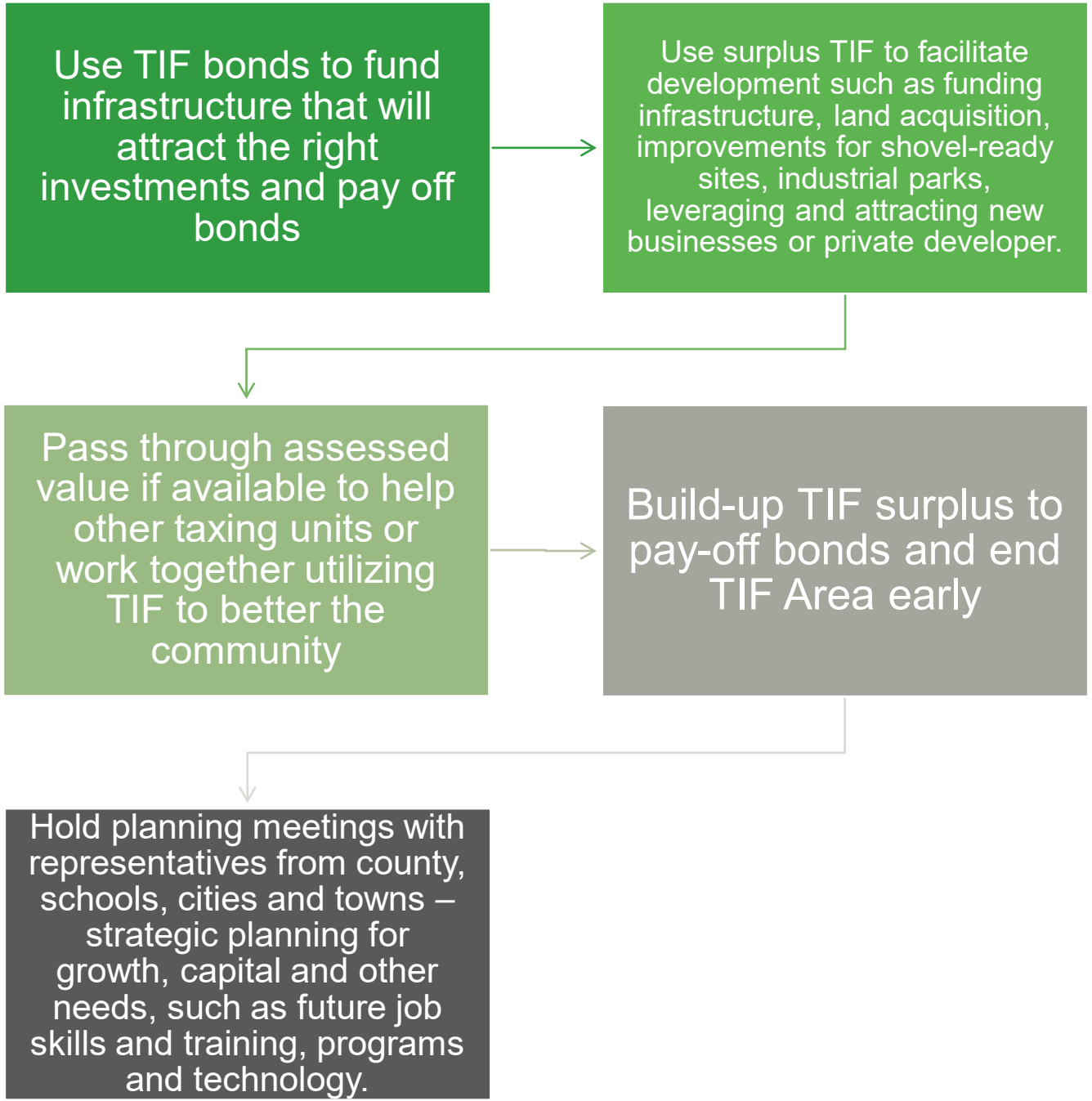




# COMPANY OR DEVELOPER PURCHASES THE BONDS

# KEY TO TIF = LOCAL PLANNING

# Best Practices for TIF Districts



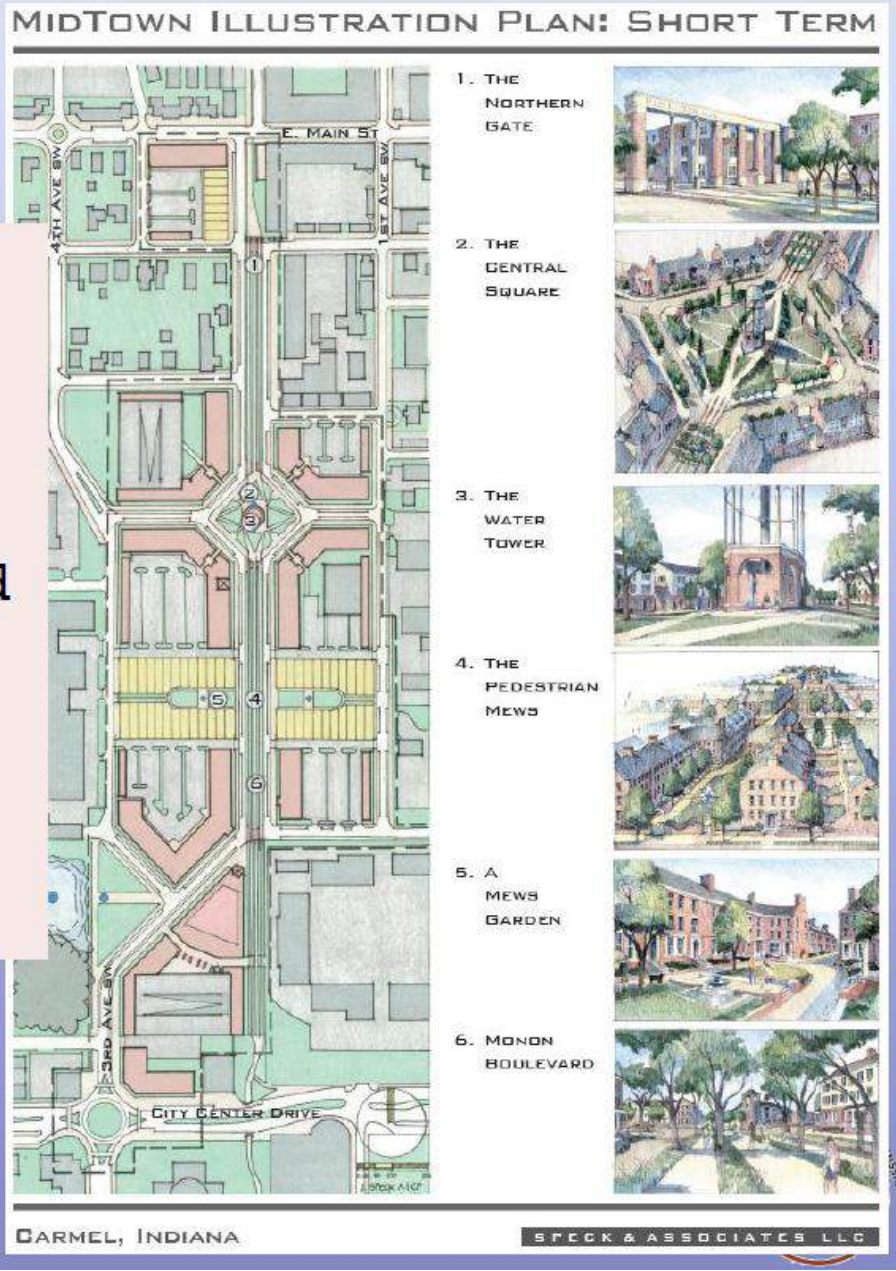
# Economic Development Plan (a cash flow model)

| | 2020 | 2021 | 2022 |
|---|---|---|---|
| TIF Revenues | $1,467,000 | $1,492,000 | $1,516,000 |
| | | | |
| Economic Dev't Plan Expenditures | | | |
| Bond/lease payments | (308,000) | (307,000 | (311,000) |
| Road and rail | (600,000) | (600,000) | |
| Facade improvements | (50,000) | | |
| Workforce training assist. | | (200,000) | (200,000) |
| Total | ($958,000) | ($1,107,000) | ($511,000) |
| **Revenues remaining** | **$509,000** | **$285,000** | **$1,005,000** |
| Coverage | 153% | 135% | 297% |

# LAND ASSEMBLY FUNDS REQUEST

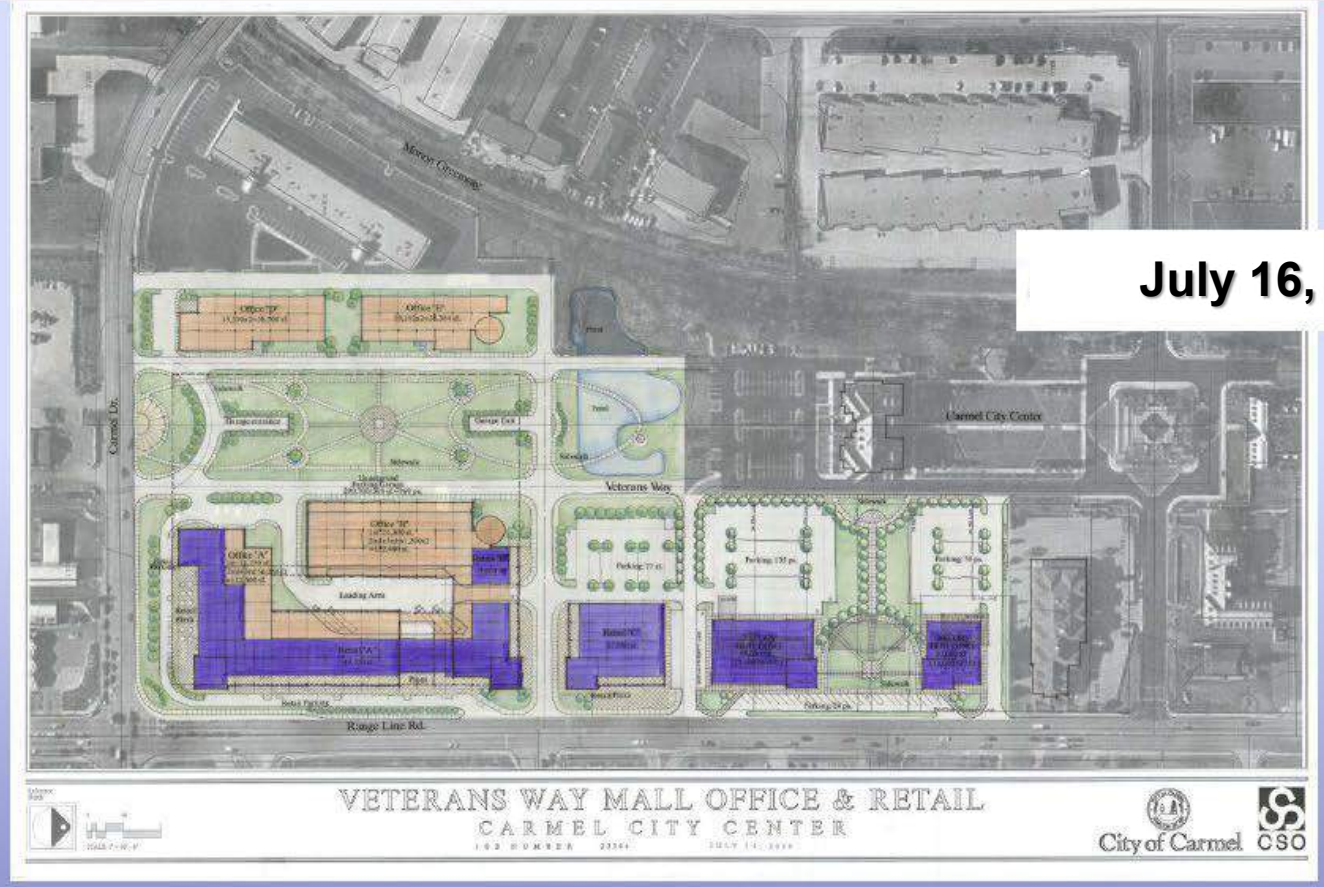
| Parcel | | Cost |
|---|---|---|
| 1 | $ | 1,062,000 |
| 2 | $ | 1,566,000 |
| 3 | $ | 3,696,600 |
| 4 | $ | 485,000 |
| 5 | $ | 200,000 |
| 6 | $ | 1,212,500 |
| 7 | $ | 485,000 |
| 8 | $ | 485,000 |
| 9 | $ | 97,000 |
| 10 | $ | 38,800 |
| 11 | $ | 16,000 |
| 12 | $ | 436,500 |
| 13 | $ | 145,500 |
| 14 | $ | 145,500 |
| 15 | $ | 145,500 |
| 16 | $ | 485,000 |
| 17 | $ | 440,000 |
| 18 | $ | 440,000 |
| 19 | $ | 440,000 |
| 20 | $ | 440,000 |
| 21 | $ | 1,046,500 |
| 22 | $ | 2,875,000 |
| 23 | $ | 3,335,000 |
| 24 | $ | 1,418,440 |
| 25 | $ | 918,000 |
| 26 | $ | 4,500,000 |
| | | |
| | $ | 26,554,840 |

- Each targeted parcel is part of a comprehensive city planning and redevelopment strategy
- The market and development opportunities are fluid. City is constantly evaluating where targeted investment will return the most private-sector investment (see past projects).
- CRC to request Council approval each time



# LAND ASSEMBLY – KEY TO MASTER-PLANNED REDEVELOPMENT

- Business/lending model based on greenfield development. City needs to ensure redevelopment is on equal playing field.
- Without City participating in land assembly, the free market will not redevelop sites (or develop as single story with large parking lots).
- Each targeted parcel is part of a comprehensive city planning and redevelopment strategy.
- City can guide long term master planning (See proscenium and park concepts from 2004).
- City willing to assemble parcels over decades. Private developers would not. City can hold to wait for the right project.




**July 16, 2014**

Each of the following projects would not have happened if the City didn't assist with land assembly:








# WHY IS "**ECONOMIC DEVELOPMENT**" NEEDED?

# SPRAWL VS. MIXED-USE

**What attracted people to cities before is what attracts people and companies today:**





# SPRAWL




Commercial

Retail



Jeff Speck – TEDxMidAtlanic

**"Sprawl is the abandoning of the traditional neighborhood-centered development structure in favor of auto-dependent, single-use development patterns that flourished after WW II." Galina Tachieva**

# SPRAWL

Residential





Jeff Speck – TEDxMidAtlanic

**"Sprawl is a pattern of growth characterized by an abundance of congested highways, strip shopping centers, big boxes, office parks, and gated cul-de-sac subdivisions—all separated from each other in isolated, single-use pods." Galina Tachieva**

# SPRAWL









Jeff Speck – TEDxMidAtlanic

**"Sprawl is central to wasteful use of water, energy, land, and time spent in traffic. Sprawl has been linked to increased air and water pollution, greenhouse gas emissions, loss of open space and natural habitat, and the exponential increase in new infrastructure costs." Galina Tachieva**

# WHY MIXED-USE?




Jeff Speck – TEDxMidAtlanic

**Only two choices – Sprawl or Mixed Use**

**Why Mixes Use:**

1. **Livable/Walkable City**
2. **Financially Responsible**

# WHY MIXED-USE - MAKES $ SENSE

## Option A

30,000 Sq. Ft. Parking lot

10,000 Sq. Ft.
Building

10,000 Sq. Ft. x
$2 Sq. Ft. Property Tax Rate
= $20,000

## Option B

200,000 Sq. Ft., 5 Story Building
with
Underground Parking

40,000 Sq. Ft. x 5 Stories = 200,000 Sq. Ft.
x $2 Sq. Ft. Property Tax Rate
= $400,000

# WHY MIXED-USE, LIVABLE CITY?

**Reason 1 – Vibrancy is Good for Economic Development**

- Carmel must be a place people want to live – proper urban planning helps build an amazing city
- Today's employees can work anywhere (Austin, Denver, San Diego)
- Carmel is home to over 120 global and regional corporate HQs for a reason
- We need to attract companies and talented workers
- We need to retain bright Carmel HS graduates







## Carmel Named Best Place In U.S. To Launch Career: Report

Why Money Magazine ranked Carmel as the 'Best Place in the U.S. to Launch a Career': Details

By Rebecca Bream, Patch Staff | Mar 13, 2018 11:41 am ET

# WHY MIXED-USE, LIVABLE CITY?

**Reason 2 – Master-planning a tax base for the future**

- Mixed-use, 5-story projects generate up to 20 times the taxes per acre for the City
- This is in addition to all the income tax and sales tax generated in the area
- Urban infill inside an existing city grid doesn't require all new infrastructure
- Examples of AV/Acre from market:

| Super Target – Michigan Road | | | |
|---|---|---|---|
| AV | Acres | AV/Acre | Constructed |
| $9,005,500.00 | 14.21 | **$630k** | 2001 |





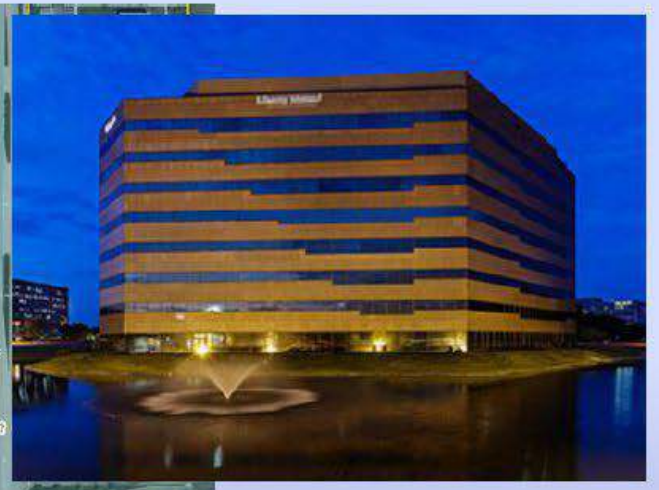
| 86th Street Walmart | | | |
|---|---|---|---|
| AV | Acres | AV/Acre | Constructed |
| $14,125,900.00 | 30.8 | **$450k** | 1990 |

# WHY MIXED-USE, LIVABLE CITY?

**Reason 2 – Master-planning a tax base for the future**

- Examples of AV/Acre from market:





| Opus Office Building (Capital Group north parcel) | | | |
|---|---|---|---|
| AV | Acres | AV/Acre | Constructed |
| $12,254,300.00 | 8.59 | **$1.4m** | 2006 |





| Meridian Mark I (Zeller south tower) | | | |
|---|---|---|---|
| AV | Acres | AV/Acre | Constructed |
| $11,792,100.00 | 10.33 | **$1.1m** | 1983 |

# OTHER EXAMPLES

| Grand Park | | | |
|---|---|---|---|
| AV | Acres | AV/Acre | Constructed |
| $44,634,000.00 | 418.87 | $106k | |



| Deer Creek | | | |
|---|---|---|---|
| AV | Acres | AV/Acre | Constructed |
| $14,283,500.00 | 200.75 | $71k | 1989 |






| Ikea | | | |
|---|---|---|---|
| AV | Acres | AV/Acre | Constructed |
| $35,454,400.00 | 35.22 | $1m | 2018 |

# MÉLANGE

- City contributing land that generates no tax revenue.
- $29m all for-sale townhome/flats urban neighborhood
- This first-of-its-kind project will set comps for lenders and make this type of development easier in the future








# MAGNOLIA

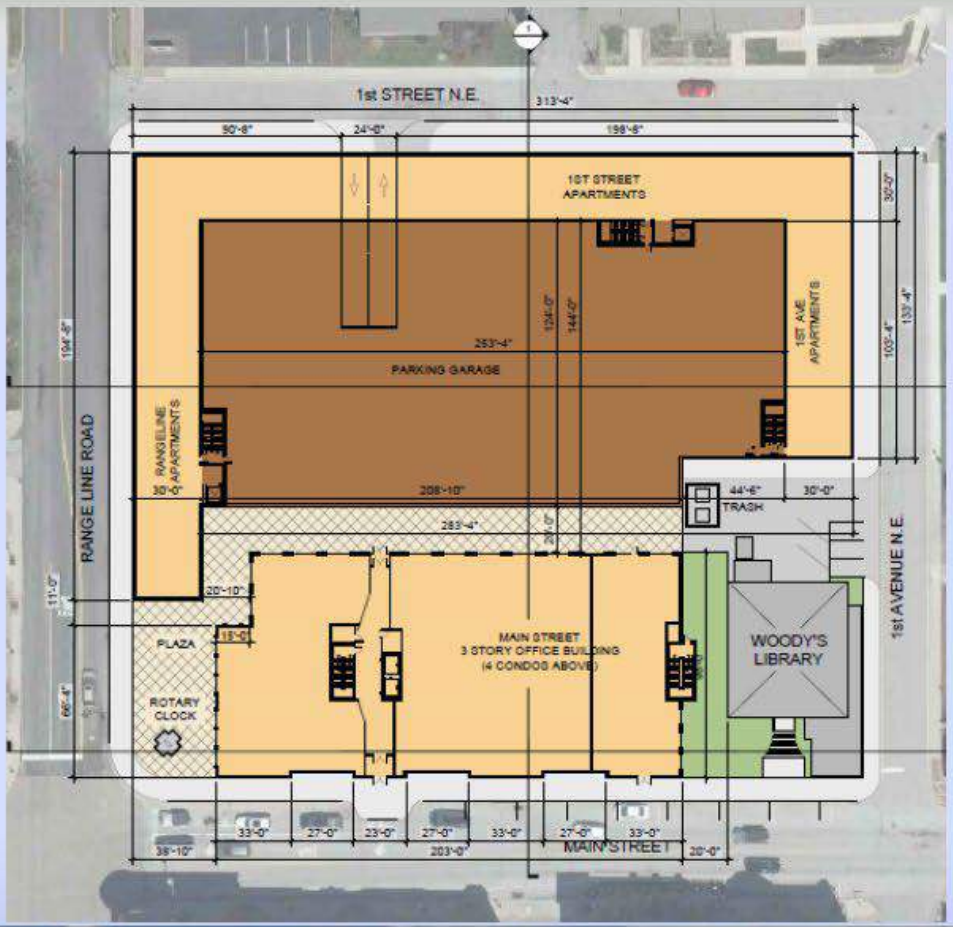



- City acquired shopping center for $2.7m and contributed it to the development (all TIF returns to City)
- Developer will be starting on the first for-sale stacked flats building next month



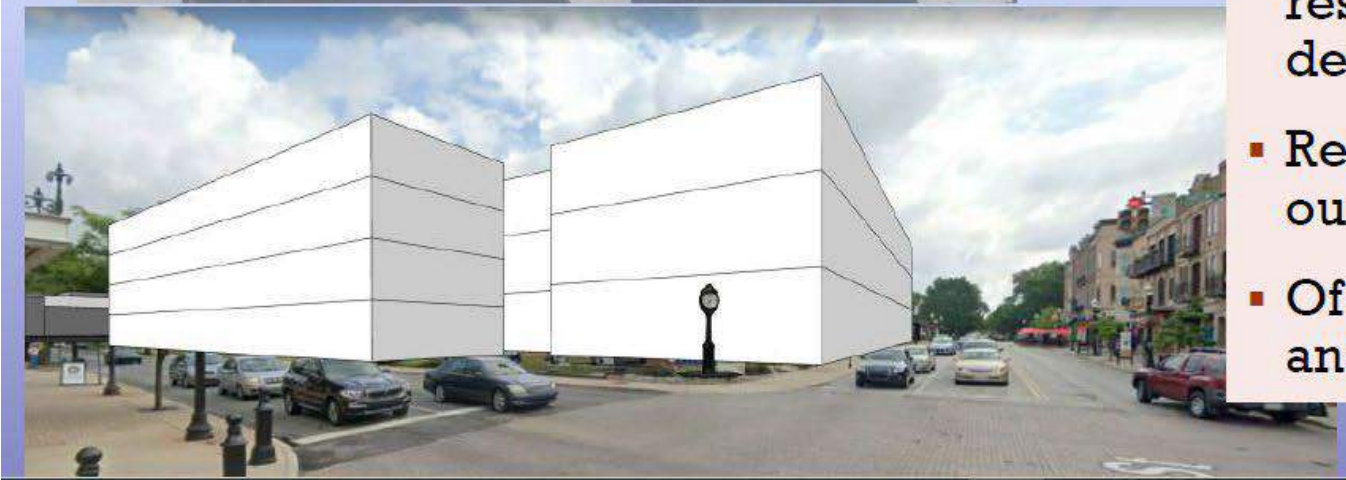


# LOT ONE









- City paid $4.5m to assemble PNC, office, and residential parcels, contributed it to the development.
- Result is $35m mixed-use game-changer for our Art and Design District
- Office/For-sale and for-rent residential/retail and 325 space free parking garage









- City acquired five parcels from the Apostolic Church before selling them to developer
- Mixed-use project was the catalyst for that intersection and wider district

# THE OLIVIA

# INDIANA DESIGN CENTER

- City paid $2.5m+ for Amoco, O'Malias and Payless Liquors and sold the land for $1.25m to developer.
- The Indiana Design Center is a destination and home to dozens of Carmel small businesses








# OLD TOWN SHOPS I&II










- City paid $4m to assemble land from 8 different owners and contributed it to the development.
- Timeless mixed-use project anchors our first intersection

# MONON & MAIN












- City purchased the land for $1.6m and contributed it to the development
- Developer planned on building a standalone steakhouse. Instead, Carmel has an ideal mixed-use block.
- Development only possible because of land acquisition

# SOPHIA SQUARE

- City purchased properties for $3.9m and sold to developer for $2m. Also helped relocate VFW and contributed VFW parcel to development.
- Project transformed the Art and Design District.












# MIDTOWN WEST




- City purchased 3 parcels for $2.3m and sold to developer for $1.7m
- $60m development is a partnership between the world HQ of Merchants Bank and the adjacent Railyard Apartments.
- The free public garage perfectly flexes the parking between daytime employees and evening residents










# MIDTOWN SOUTH – MJ INSURANCE, MIDTOWN FLATS & SOUTH GARAGE










**MJ Insurance HQ**
- 68,000 sq. ft. of office
- 12,000 sq. ft. of retail
- 135 jobs; other tenants
- Completion – June 2018

**Midtown Flats**
- 209 Units
- Completion - 2019

**Midtown South Garage**
- 1,800 sq. ft. retail
- 317 parking spaces
- Completion – June 2018

MIDTOWN EAST

# SUN KING DISTILLERY & MIDTOWN PLAZA








**Sun King Distillery - Open July 2018**

**Midtown Plaza – Joint project of CRC and Carmel Engineering Dept. (part of Monon expansion)**

MIDTOWN EAST

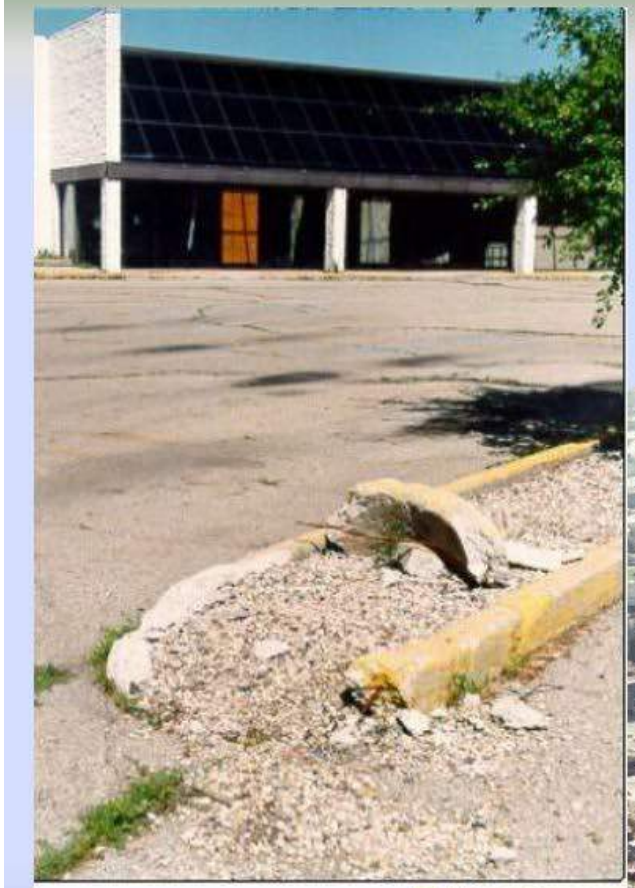
# THE PROSCENIUM



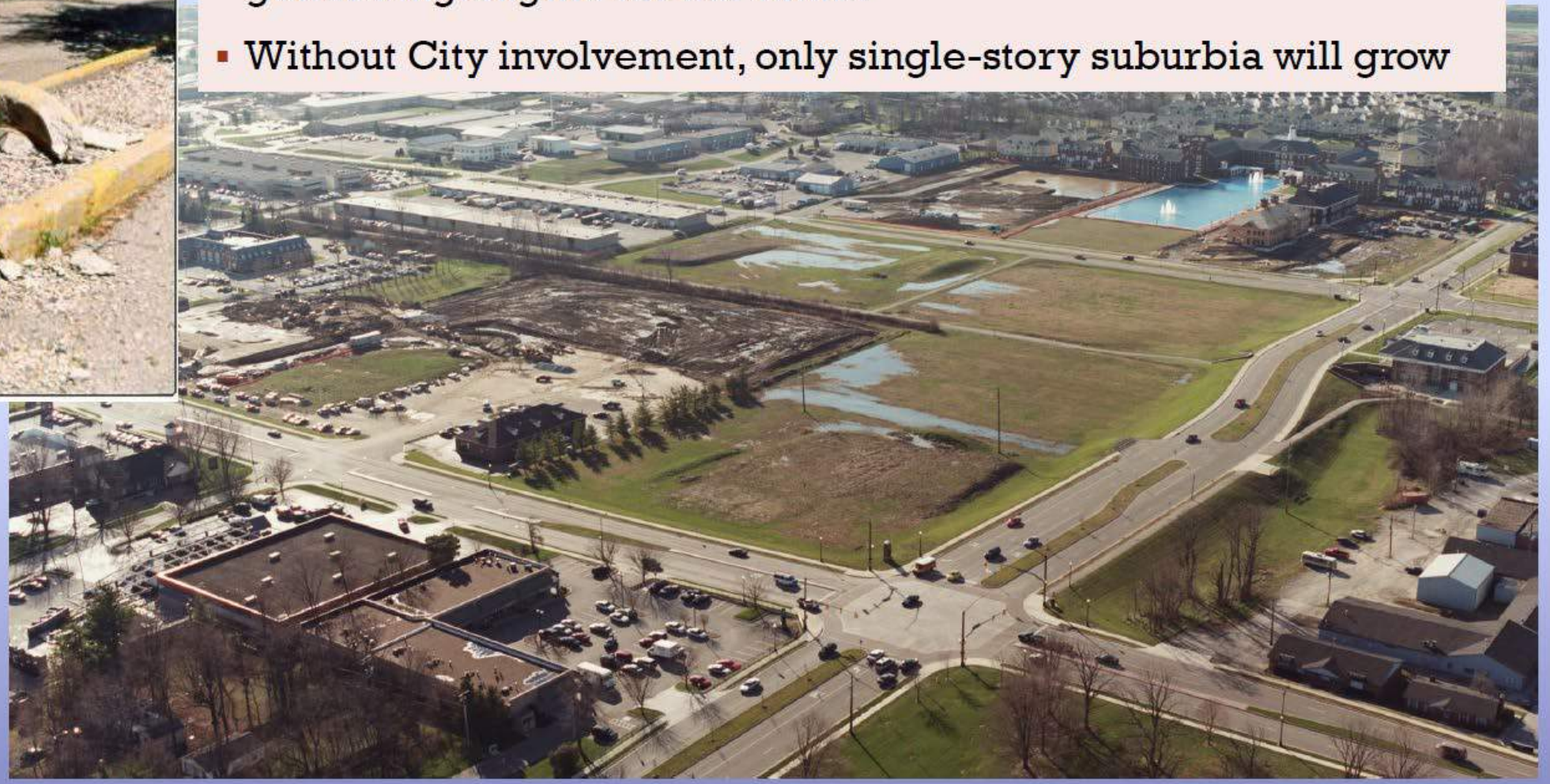

- City purchased Party Time parcel for $3.7m and the Arby's for $2.5m.
- Sold to developer for $50k
- Today it's an $60m+ beautiful mixed-use district atop a free 650 underground garage
- Wahlbergers coming soon







- City purchased in 1998
- Transactions included at least $10.5m for the CVS, Kroger, Mueller Property
- Today it is the center of our Carmel's downtown, and a tax-generating engine for our future
- Without City involvement, only single-story suburbia will grow



CITY CENTER

# 126& RANGELINE-CITY CENTER



**Before:**

# 126& RANGELINE-CITY CENTER

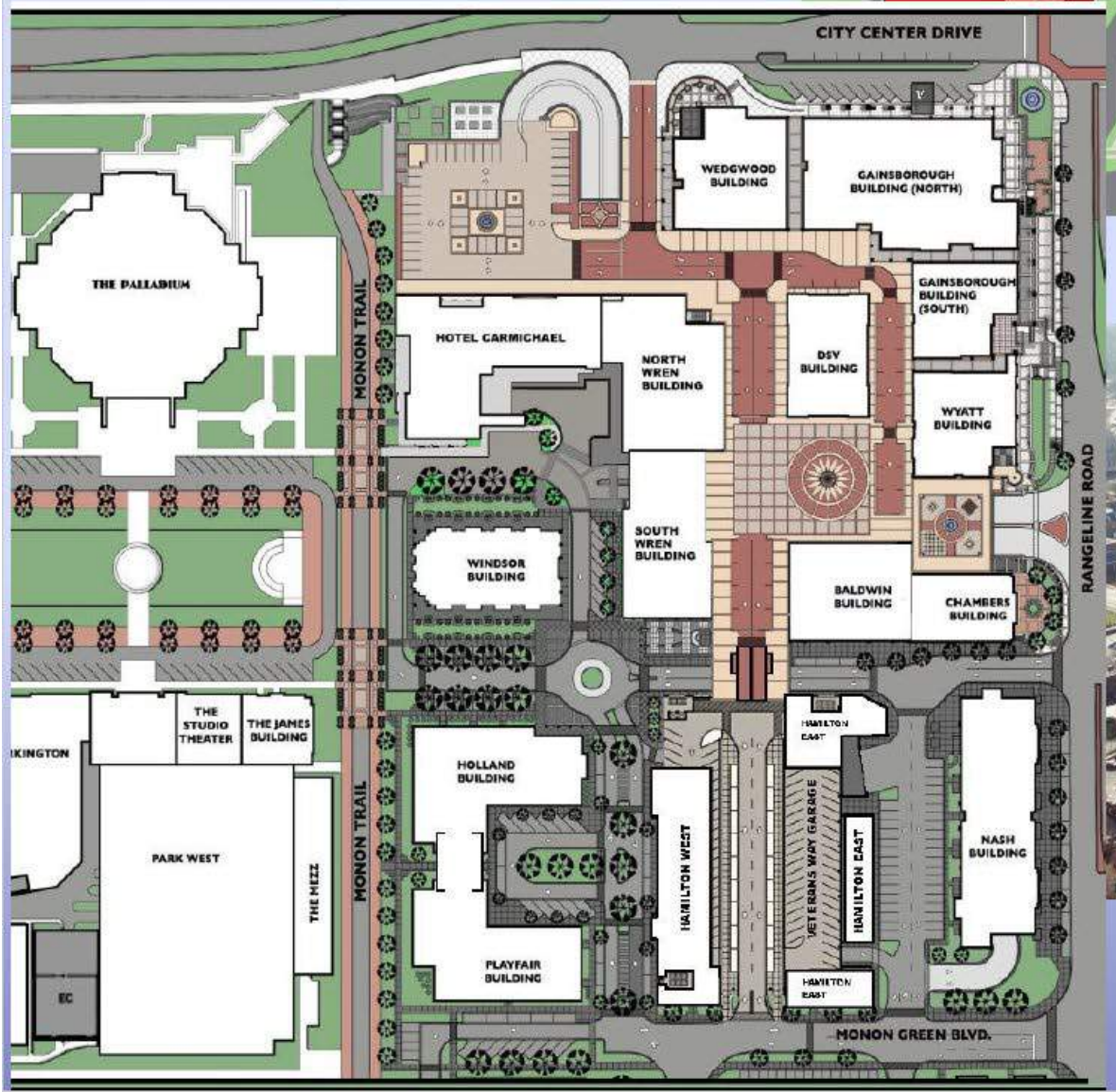




**After:**








# CITY CENTER

CARMEL · REDEVELOPMENT · COMMISSION
CRC

# HOTEL CARMICHAEL

- **Public-Private Partnership**
- **Marriott Autograph Collection Hotel**
- **122 rooms; Feinstein live music club**

**Status: Construction start 2018**








# HOTEL, WINDSOR AND HOLLAND

**Status: Construction start in 2018-2019**



CITY CENTER

# ICE AT CENTER GREEN & CHRISTKINDLMARKT








**Christkindlmarkt –**

**150,000 total visitors in 2017**

**328,000 total visitors in 2018**

**Ice at Center Green –**

**16,809 skaters Nov 19-Dec 24, 2017**

**19,806 skaters 2018**

**(CRC Design and Construction)**

RESULT

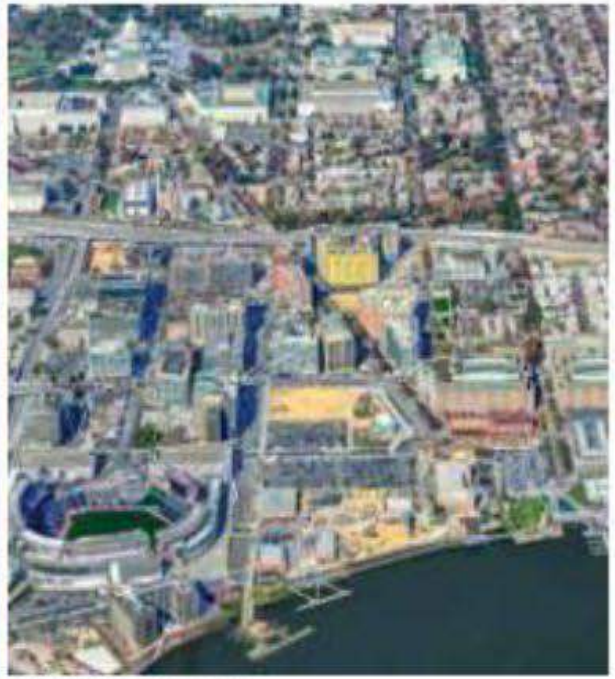
# These 3 American neighborhoods are emerging as economic powerhouses

Leanna Garfield 18h

BUSINESS INSIDER

## Examples of Emerging Economic Centers

### THE CAPITOL RIVERFRONT
Washington, D.C.



Capitol Riverfront BID

### SOUTHPARK
Charlotte, NC



Terrace Restauraunts

### CARMEL CITY CENTER
Carmel, IN



Carmel City Center

THE NEW GEOGRAPHY OF URBAN NEIGHBORHOODS

Urban Land Institute

RCLCO

CARMEL · REDEVELOPMENT · COMMISSION
CRC