PUTTING TOGETHER THE ECONOMIC DEVELOPMENT PUZZLE

Association of Indiana Counties

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Public Sector Assistance and Incentives – Why?

- Encourage and leverage private business investment to build tax base
- Encourage job creation or retention
- Improve local economic conditions
- Target underserved or specific industries or market segments, geographic areas, minorities or low-income
- Competition among alternative sites

Examples of Economic Development Projects

- Downtown redevelopment
- Industrial and office parks
- Expansion of infrastructure in a congested, high growth commercial/retail area
- Economic development incentives – business attraction/retention/expansion

State Incentives

- Indiana Economic Development Corporation
  - Infrastructure and job training grants
  - EDGE Credit
  - Enterprise Zones
- INDOT - Indiana Dept. of Transportation
- SRF - State Revolving Fund – sewer and water

What local incentives and funding sources are available?

- Tax abatement
- Tax Increment Financing (TIF)
- Property taxes
  - Cumulative Capital funds
  - Debt service levy to repay bonds
- Local Option Income taxes
  - EDIT/COIT
- Other taxes (special legislation)
  - Food & beverage, innkeepers, wheel and surtax
- User fees – utility revenue bonds
- Facility net revenues

What is tax abatement?

- A “phasing in” of property taxes
  - New buildings, new manufacturing or research equipment and residentially distressed areas
  - Phase in amounts are predetermined by statute and can be up to 10 years
  - Approved by County Council

Are any taxes paid under tax abatement?

- Real estate cannot receive tax abatement. Also, certain uses, such as retail and sports facilities, liquor stores, etc., are not eligible for tax abatement
- Property taxes are phased in. Each year increasing amounts of taxes are paid
- Upon completion of the abatement, all property taxes are payable

Real Property Tax Abatement Deductions Schedule

	1 YR.	2 YRS.	3 YRS.	4 YRS.	5 YRS.	6 YRS.	7 YRS.	8 YRS.	9 YRS.	10 YRS.
1ST YR.	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
2ND YR		50	66	75	80	85	85	88	88	95
3RD YR			33	50	60	66	71	75	77	80
4TH YR				25	40	50	57	63	66	65
5TH YR					20	34	43	50	55	50
6TH YR						17	29	38	44	40
7TH YR							14	25	33	30
8TH YR								13	22	20
9TH YR									11	10
10TH YR										5

Personal Property Tax Abatement Deductions Schedule

	1 YR.	2 YRS.	3 YRS.	4 YRS.	5 YRS.	6 YRS.	7 YRS.	8 YRS.	9 YRS.	10 YRS.
1ST YR.	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
2ND YR		50	66	75	80	85	85	88	88	90
3RD YR			33	50	60	66	71	75	77	80
4TH YR				25	40	50	57	63	66	70
5TH YR					20	34	43	50	55	60
6TH YR						25	29	38	44	50
7TH YR							14	25	33	40
8TH YR								13	22	30
9TH YR									11	20
10TH YR										10

What is TIF ?

- **Tax increment financing (or "TIF")** is a financing mechanism used to **capture** new property taxes attributable to **increases in assessed value from new development** within a limited designated area.

- New businesses in a TIF Area still pay property taxes on their new private investment. The incremental taxes are captured to repay bonds or to pay directly for projects. The other taxing units forgo some or all of the increase in assessed value during the term of the TIF Area.

Purpose of TIF

- TIF is used to **finance INFRASTRUCTURE** improvements or other **INCENTIVES** needed to induce the particular private development or to facilitate additional development in the area
  - Induce private investment that would not have occurred without the use of TIF, or
  - Encourage orderly growth within a specific area that would not have occurred without the use of TIF
  - Encourage job creation/retention

Purpose of TIF

- TIF provides a means for new property tax revenues that come from growth to pay for infrastructure costs related to growth.
- TIF reduces the burden on existing state and local taxpayers to pay for costs related to economic development.
- Local governments fund the majority of infrastructure and incentives needed to induce new private investment in our communities.

What can TIF be used for?

- Any capital project that is in, serving or benefiting an economic development or redevelopment area
  - Utility improvements
  - Roads, R.O.W., Drainage, Rail
  - Land acquisition / development
  - Buildings / equipment

What assessment is captured as TIF?

- Can capture increases in real property and, at times, depreciable personal property assessed value (equipment) relating to manufacturers, research or logistics operations.

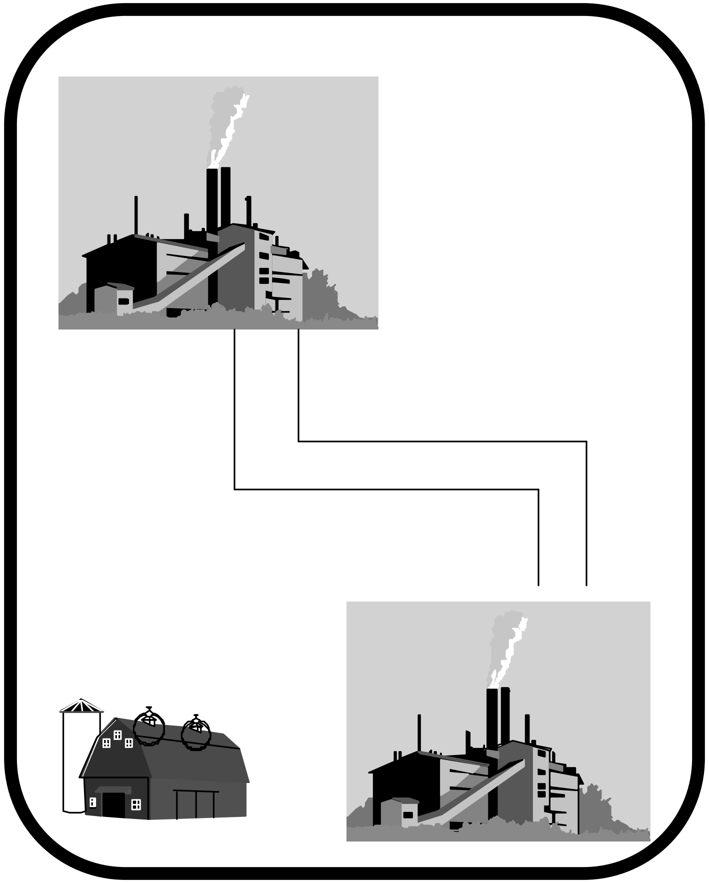
- Generally cannot capture increased assessed value resulting from residential property improvements.

Existing property assessed value is part of tax base for all overlapping taxing units

Tax Allocation Area –
Before New Construction

						- County
Base		Tax				- School
NAV	x	Rate	=	Taxes		- Library
						- City

TIF only captures assessed value <u>growth;</u> existing property assessed value is not captured



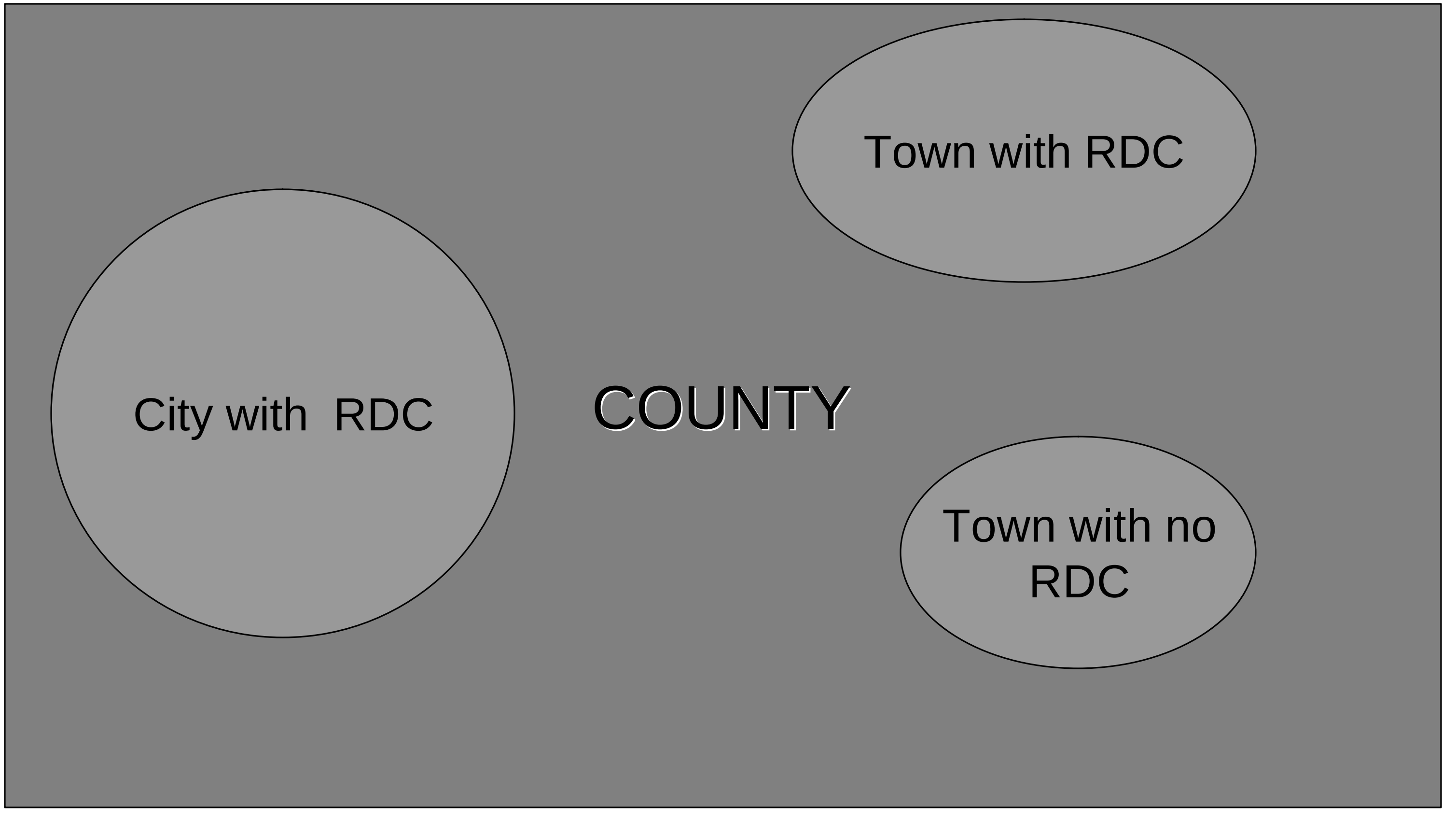
Tax Allocation Area –

<u>After</u> New Construction

Incremental Assessed Value	x	Tax Rate	=	TIF Taxes	→	Redevelopment Commission Allocation Fund

Base Assessed Value	x	Tax Rate	=	Taxes	→	County
					→	School
					→	Library
					→	City/Town

County redevelopment commission jurisdiction



TIF does not take away funds from other taxing units

- Tax increment may only be used to encourage private investment that would not otherwise occur.
- Growth in property tax levies are limited by statute
  - Limits on the total dollars collected
    - General Funds, Debt Service Funds, etc.
  - Limits on the maximum rate
    - Capital Projects Funds ,etc.

TIF does not take away funds from other taxing units

- When TIF Areas capture increases in assessed value, the local taxing unit postpones a reduction in tax rates for funds with controlled levies and postpones an increase in tax revenues for funds with controlled rates.

TIF creates new tax revenues for other taxing units

- TIF often results in the creation of new jobs, providing new income, sales and other tax revenues for both state and local governments. The following tables lists a limited number of examples throughout Indiana.

Location	Company	Investment (millions)	New Jobs Created
Decatur Co	Honda	$500	2,000
Gibson Co	Toyota	$1,200	4,400
Henry Co	TS Tech	$30.7	300
Jeffersonville	Med Venture	$6.3	360
Kosciusko Co	Louis Dreyfus	$120	70
Tipton Co	Getrag/ Chrysler	$455	1,400
Vigo Co	Pfizer	$174	450

TIF reduces property tax rates

- New assessed value that is not captured increases the tax base, which reduces property tax rates.
- In most cases, not all newly created assessed values are captured in TIF Areas and instead are passed through as assessed value of the underlying taxing units
- After needed improvements are funded, captured assessed values may be passed through to the underlying taxing units
- Tax increment areas created after 1995 are limited to 30 years, releasing all captured assessments

Examples of TIF Areas Creating New Assessed Value for Taxing Units

- Indianapolis – released $ 513 million of assessed value from TIF areas after TIF bonds were repaid.
- West Lafayette – will release $ 20,500,000 of excess captured assessed value from its TIF Areas in 2008.
- Gibson County - $54 million of new assessed value from Toyota TIF Area is currently not captured. Remaining TIF bonds will be retired in ten years, at which time $ 592 million of captured assessed value could be released.

Examples of where TIF and tax abatement have been used

- Indianapolis – Circle Center Mall / Lilly
- Evansville – Vectren headquarters
- Princeton / Gibson County – Toyota
- Rockport / Spencer County – AK Steel
- Greensburg / Decatur County - Honda
- Lafayette / Tippecanoe County – SIA
- Rushville / Rush County – INTAT
- Tell City / Perry County – Waupaca Foundry
- Kosciusko County – Louis Dreyfus
- Terre Haute / Vigo County – Pfizer / Certainteed / CSN Steel

Examples of where TIF and tax abatement have been used

- LaPorte – Value City distribution center
- Jeffersonville – Med Venture
- Madison – Arvin Sango
- Tipton / Tipton County – Getrag/Chryler Transmission Project
- Whitley County – Steel Dynamics
- New Castle / Henry County – industrial park / TS Tech
- West Lafayette – Purdue Research Park
- Marion – Central Indiana Ethanol

Issues Affecting Bonds Payable from TIF

- Tax abatement
- Taxable vs. tax exempt interest
- Security for bonds
  - TIF revenues only
  - Corporate guarantee, letter of credit, or company purchases bonds
  - Local tax backup
    - Property taxes or local income taxes
- Consider who bears bond risk, bond marketability, local political support/approval

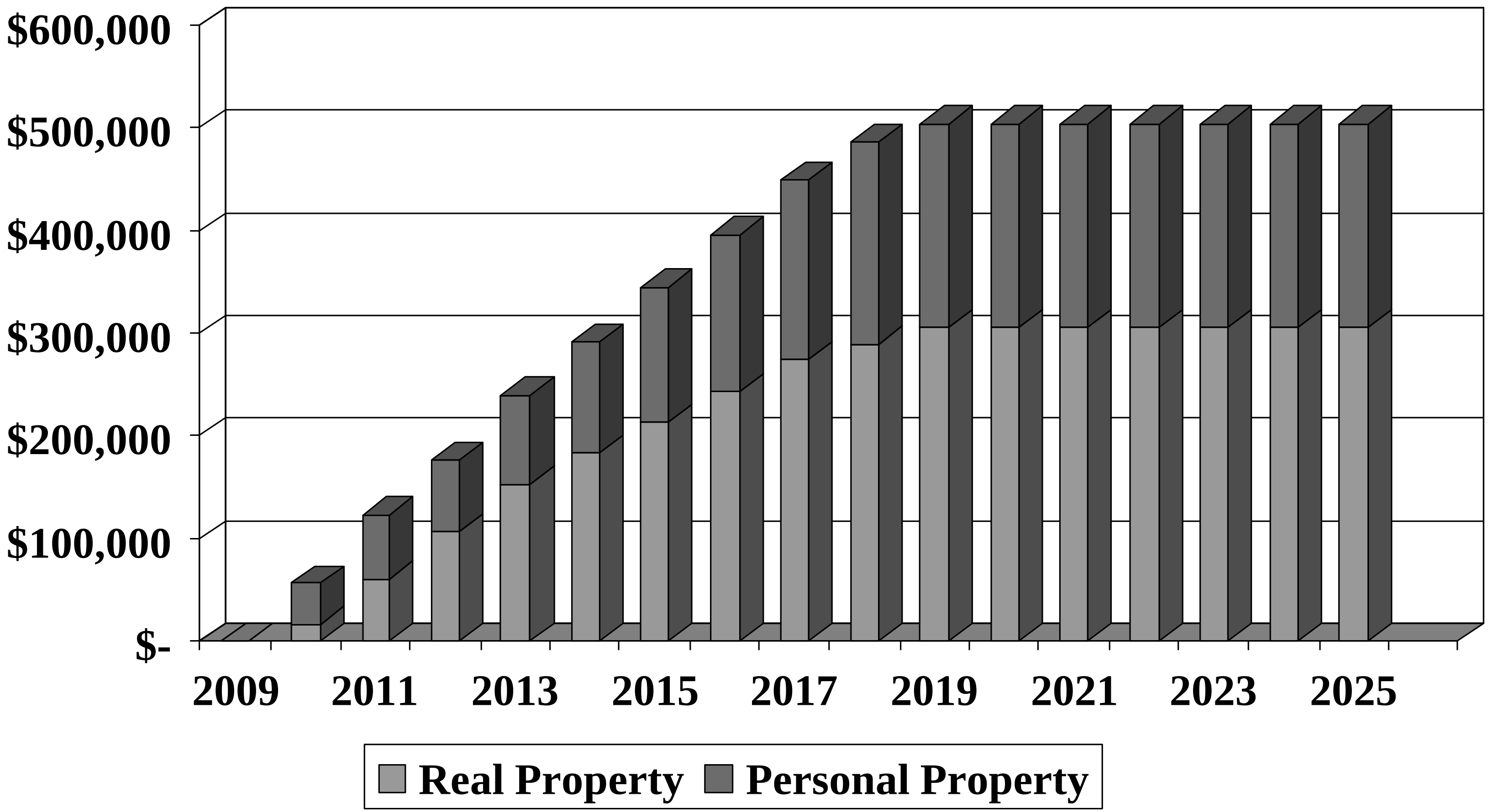
Proposed Investment

■ Real Property	$18,875,000
■ Depreciable Personal Property	$36,125,000
■ Total	$55,000,000

■ 10-year abatement

Projected Tax Increment

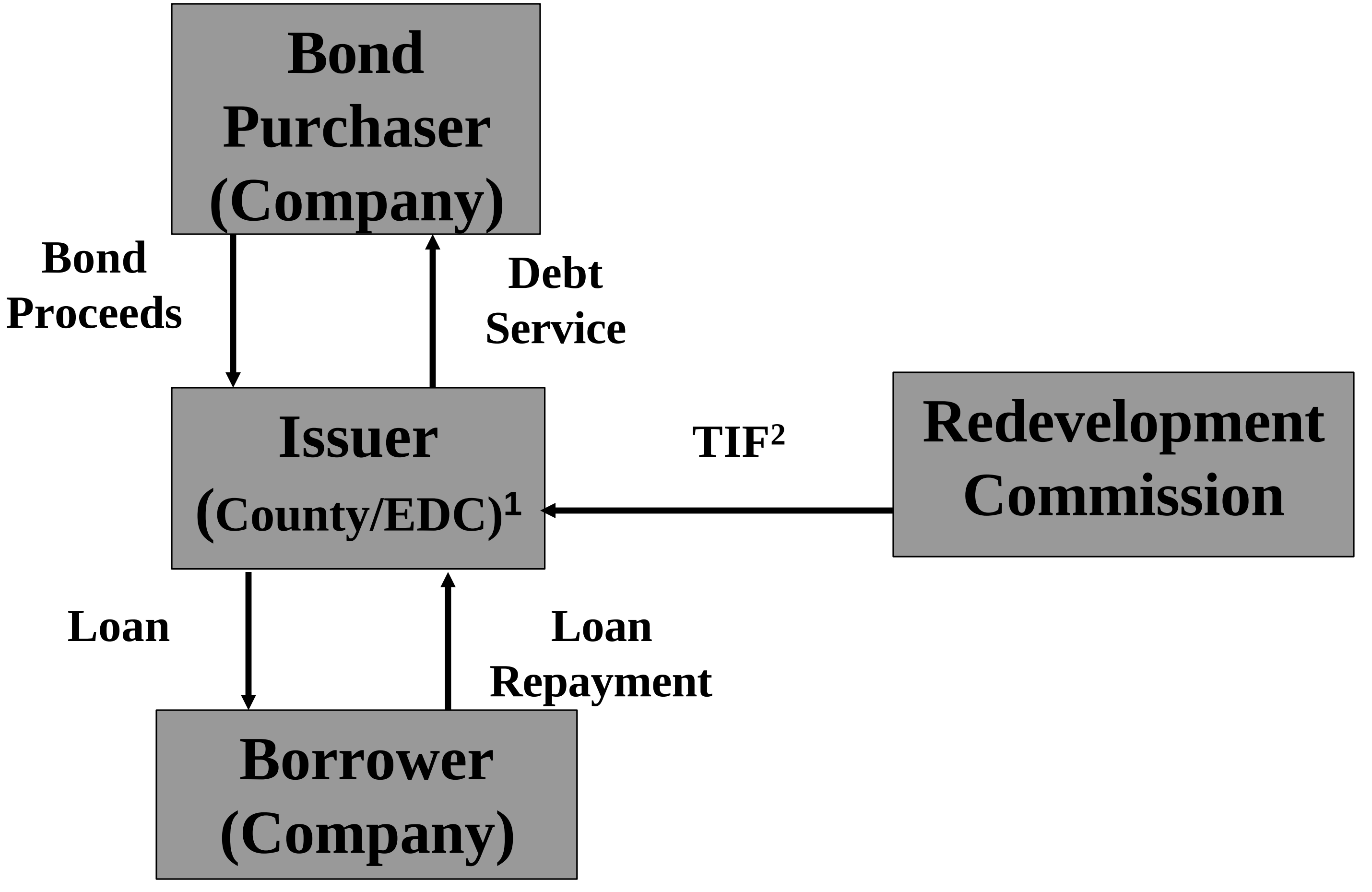
CertainTeed Corporation



Proposed Financing

- County issues Bonds through its Economic Development Commission (EDC) and loans the proceeds to the Company.
- Company purchases Bonds from the EDC.
- Redevelopment Commission collects incremental property tax revenues and provides them to the EDC for repayment of the Bonds.
- Company repays loan from the TIF collected.

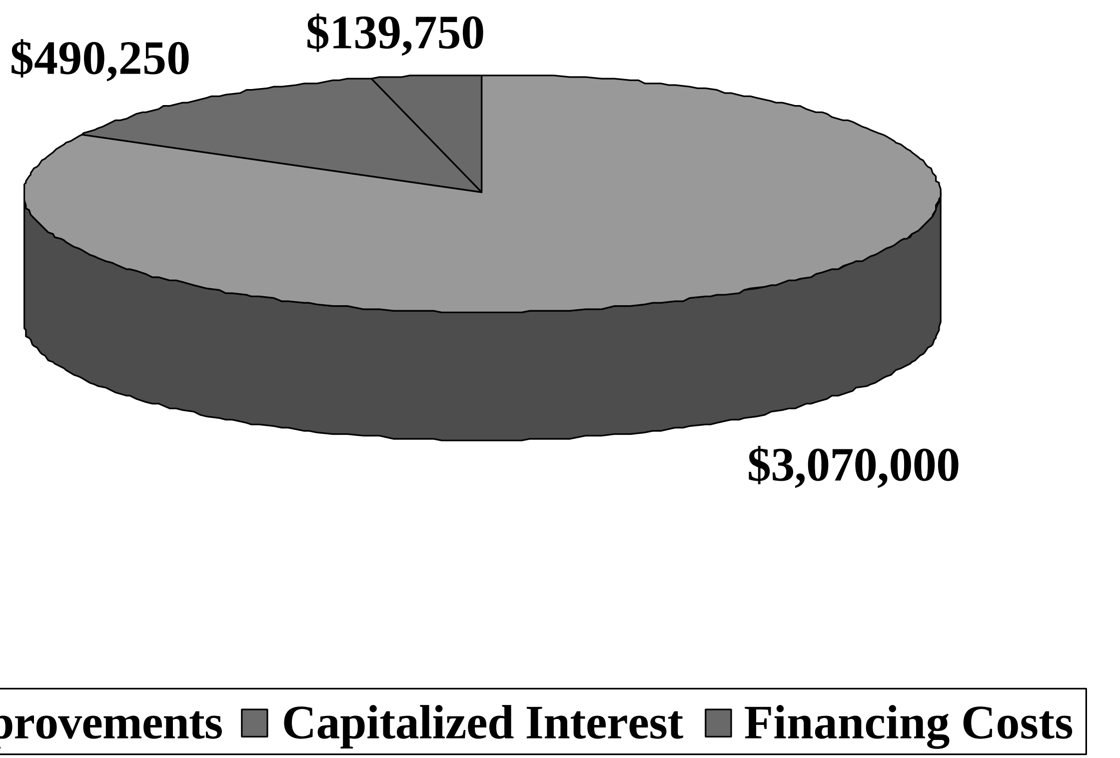
Proposed Financing



[1] The County issues the Bonds pursuant to IC 36-7-11.9 and –12 (EDC Statute). The Economic Development Commission also acts pursuant to the EDC Statute.

[2] TIF is pledged by the Redevelopment Commission to the payment of debt service on the bonds, offsetting the loan repayments to be made by the Borrower. The trustee will look to the tax increment allocation fund prior to each debt service payment date to determine the amount of the loan repayment, if any, to be made by the Borrower on the next debt service payment date.

Estimated Project Costs and Funding *$3,700,000*



Illustrative Bond Repayment

($3,700,000 Bond Issue)