Indiana Economic Development Association

In Defense of TIF

Tax Increment Financing*:* TIF has been an essential economic development tool used over the past 30 years to encourage private business investment throughout Indiana. TIF often provides the "lion's share" of the incentives to attract new business and fund infrastructure. TIF funds direct incentives or infrastructure by using the new property taxes generated from the new private development. Although other taxing units forego the immediate benefit of the incremental property taxes, the community benefits from the new jobs, employee income and spending, local income taxes, economic activity and, eventually, from increased property tax revenue that would not have occurred without the TIF. Most times, the new personal property taxes are not captured as TIF, and immediately increase the tax base. The new infrastructure also helps attract additional business growth to the TIF area and surrounding areas.

A recent article by Thomas A. Heller about tax increment financing (TIF), includes many accusations, insinuations and unsubstantiated conclusions drawn from observations of TIF as purportedly used in one city. There are hundreds of TIF Areas and economic development projects in Indiana alone. Many statements were made without any supporting evidence, statistical analysis or study. There was no mention, nor any attempt to analyze the complexity of factors that affect tax rates and tax bases of different communities such as the effects of the many statewide property tax reforms, circuit breaker tax caps, market value assessments, and the recent national economic recession. All of these have contributed to the loss of market value and reduced assessments throughout Indiana: the true cause of "erosion of the tax base".

The author insinuates that some kind of political "behind the scenes manipulation of property assessments" has occurred inside and outside TIF areas. Such an action would require collusion among local officials, local assessors and taxpayers in TIF areas. That is a bold accusation made without supporting evidence. Property is assessed based on objective measures of square footage, use, age and other factors, and is not a subjective process conducted at the whim of an assessor. Many assessors hire commercial appraisers to assess commercial and industrial properties.

Unfounded statements, such as "*Generally, the use of tax increment financing to pursue economic development has produced higher tax rates and higher tax bills on all those who aren't politically favored"* are unsubstantiated. On the contrary, many examples can be provided of communities that utilize TIF and are among communities with lowest tax rates in the State, such as Plainfield, Lafayette, Lebanon, Carmel, Fishers, Zionsville, Mooresville, Warsaw, etc.

There are many factors that affect tax rates of particular communities. An attempt to attribute the local tax rate to TIF or any other single factor is naïve and simplistic. Urban areas, for example, tend to have higher tax rates because of the higher incidence of untaxed property (government, non-profits, etc.), higher poor relief costs, aging infrastructure, etc. Certain rural areas have higher tax rates due to a relatively small tax base.

Other communities have lost major manufacturers and are then forced to spread costs across remaining taxpayers. Some communities have low property tax rates because of gaming revenues or higher local option income taxes.

Claiming that TIF alone is responsible for variations in tax rates is incorrect and unsubstantiated.

It is correct that Indiana statute requires adjustments, 'growth quotients,' be applied to the tax base in TIF Areas to "neutralize" the impact of annual changes in assessments from significantly benefitting or harming TIF. The Indiana Department of Local Government Finance (DLGF) was tasked with developing a form with formulas to make these annual base value adjustments.

No single form or formula is going to perfectly adjust every base and every TIF Area.

In many cases, both the TIF and the base have suffered losses due to the decline in property values and have fostered numerous taxpayer appeals inside and outside TIF Areas. In some cases, one could argue that the base has overly benefitted and in some cases the TIF may have overly benefitted from the application of the growth quotients. The DLGF has just revised and distributed a new base adjustment form, which, based on some initial sampling, will likely favor the base over TIF. The new forms should also simplify the calculations.

Although the base values have decreased in certain TIF Areas, this is usually because the tax base and the TIF have actually lost value due, in large part, to the economic recession which drove down market value of properties inside and outside TIF Areas.

Many TIF Areas will be reaching their expiration dates in the next few years, and all the new assessed value (no longer captured as TIF) will increase the tax base of the community and all the taxing units. Effective in 2010, all new debt (and the debt tax rate) passed by voter referendum for schools, counties and municipalities, will not be applied to TIF. As old debt is paid-off, the tax rate applied to TIF will continue to drop, which will reduce the amount of TIF capture, while the additional assessed value will, instead, help to reduce the impact of the debt tax rate. We are just beginning to see the impacts of these State legislative property tax changes, which will reduce or completely end TIF capture and immediately increase the tax base.

The Heller article discusses maximum levy limits (limits in place since the early 70's) and tax rates changes, but misses the new revenue constraints on local government caused by circuit breaker caps in place since 2009. Circuit breaker tax caps have benefitted taxpayers by freezing or reducing their taxes, but have also caused the greatest revenue loss to municipal government and schools and to TIF. These changes minimize options for adequately funding public safety, schools, parks, roads and infrastructure for many Indiana communities. Essentially, when all taxpayers' taxes are frozen by tax caps, the local government units and schools are left to compete for frozen revenues. As the costs of health care, asphalt, insurance, wages, etc. continue to grow, the revenue does not. TIF is an essential tool needed to fund infrastructure and incentives to encourage economic development and grow the tax base, which is the only hope to reduce future circuit breaker losses.

Without TIF, many communities would have no alternative other than property tax bonds, which would significantly increase the tax rate and cause greater circuit breaker losses for all other local government funds and schools.

The incentives for attracting or expanding business offered by the State of Indiana are primarily performance-based tax credits. Most of the time, these credits are not sufficient to attract new companies without the additional local property tax incentives. TIF and tax abatement provide the majority of the local incentive, and are necessary for Indiana to compete with sites in other states or countries. If TIF is limited or eliminated, the State would need to replace this incentive with actual funds to build infrastructure and capital investment, not merely provide tax credits.

Economic development for the purpose of increasing tax base and community prosperity is a competitive activity. Indiana communities need a robust set of tools that will enable them to compete with communities around the world in creating an environment that can effectively attract new investment. TIF is and has been an effective tool in giving Indiana communities an opportunity to create an environment that is conducive for attracting and retaining business investment and a tool that is regulated by appropriate statute and oversight. To remove this tool from the economic developer's tool box would seriously hamper the ability of Indiana communities to grow and thrive.

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The Indiana Economic Development Association is the association serving Indiana's economic development professionals and economic development stakeholders. The Indiana Economic Development Association defines economic development as the facilitation of investment that leads to long-term community prosperity.