

**Tax Increment Finance in Indiana (TIF)**

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**General description:**

The tax increment finance ("TIF") mechanism in Indiana permits a town, city or county, through a local redevelopment commission, to designate targeted areas for redevelopment or economic development. Those areas can then be designated as "allocation areas" which triggers the TIF process. After such a designation is made, property taxes generated from new construction in the area, rather than going to the normal taxing units (e.g., schools, cities, counties), can be set aside and invested back in the area to promote development. These property tax revenues can be leveraged by the issuance of TIF bonds, the proceeds of which also can be used to promote development in the area.

**Permitted Uses of TIF:**

TIF revenues may be used directly to finance public infrastructure, land acquisition, site improvements, and other public improvements. Alternatively, TIF revenues may be pledged to the payment of bonds or lease rental obligations issued or incurred to finance such projects.

**Property Subject to TIF:**

Only taxes on real property, and taxes on depreciable personal property used in industrial, manufacturing, warehousing, research and development, processing, distribution, or transportation related projects, qualify for the use of the TIF mechanism.

NOTE: TIF revenues and TIF bond proceeds are public funds. Therefore, under Indiana law, the expenditure of such monies is subject to certain laws, most notably the public bidding law and the prevailing wage law. Also, the transfer of TIF-financed property to a private company is subject to certain public property disposition laws.

### **Establishment of TIF Area:**

To create a TIF area, a town, city or county must first create a local redevelopment commission (if it has not already done so). The commission must then prepare a formal plan for the development of the targeted area. Once the plan is ready, a four step public process is required, as follows:

1. The redevelopment commission must adopt a declaratory resolution designating the area and approving the development plan.
2. The declaratory resolution and plan must be approved by the local planning commission.
3. The declaratory resolution and plan must be approved by the city or town council or the county commissioners, as the case may be.
4. The redevelopment commission must conduct a public hearing on the plan and adopt a confirmatory resolution finally approving the designation of the area.

This process typically takes from four to eight weeks to complete, depending upon the complexity of the development plan, the willingness of the public bodies to hold special meetings and similar contingencies.

### **TIF and Tax Abatement:**

To the extent that tax abatement is granted to a company located in a TIF area, the amount of TIF revenues that will be generated is reduced. This in turn reduces the amount of TIF bond proceeds that can be generated for a project. Thus, a company often must make a decision as to whether it would rather obtain property tax relief through tax abatement, or leverage the payment of more property taxes into increased TIF bond proceeds for a project.

### **TIF Bonding Procedures:**

The issuance of "pure" TIF bonds, that is, bonds payable solely from TIF revenues, is a relatively simple process. The major steps are the preparation by a financial consultant of a projected TIF revenue study, the preparation of a disclosure document for the sale of the bonds, and adoption by the redevelopment commission of a bond resolution. The issuance of pure TIF bonds can be accomplished in as little as two or three months.

Often, however, TIF bonds are enhanced by the pledge of another backup revenue source, such as EDIT revenues or a general obligation property tax. Such an enhancement is often necessary to sell bonds when the TIF area consists of a limited number of taxpayers. The pledge of other revenue sources may necessitate additional procedures that can add several months to the bonding process, including petition and remonstrance procedures in certain cases.

**Leasing Structure:**

When other tax revenues are pledged to enhance a TIF financing, Indiana constitutional debt limit restrictions often dictate that the financing be structured as a lease. Under this structure, a separate entity known as a redevelopment authority is created by ordinance of the unit's legislative body. The redevelopment authority then issues bonds, constructs the project, and leases it back to the redevelopment commission. The commission then pays lease rentals to the authority from TIF and the other pledged revenues in an amount sufficient to pay the authority bonds. If the project financed is an on-site improvement such as a building or equipment, the commission then must sublease the property to the company (typically for a nominal amount). The practical implication for the company is that it will not take outright ownership to the TIF bond-financed property until the bonds are retired.