Tax Increment Financing (TIF) Resources

VALPARAISO Redevelopment Commission

Summary of TIF

From 1994 to 2016, Valparaiso created a total of five Tax Allocation Areas, and in 2016, consolidated all Allocation Areas into one connected district. By forming this Consolidated Allocation Area, the City of Valparaiso is able to partake in Tax Increment Financing (TIF), which is used as a financial tool that sets aside a portion of property taxes for public infrastructure improvements within or serving the Tax Allocation Area. Frequently Asked Questions about TIF in Valparaiso can be found below.

Frequently Asked Questions (FAQs)

1. **How does TIF work?**
   The moment a Tax Allocation Area is created, the assessed value for property inside of the district, commonly called the "base assessed value", is recorded. Taxes collected on the base assessed value will continue to be distributed among all taxing entities throughout the lifetime of the Tax Allocation Area. While a property is in a Tax Allocation Area, the assessed value often increases beyond the base assessed value (AV) because of private development supported with TIF dollars. This increase in AV is also taxed at the same basic property tax rate, and the taxes on this increment between the base assessed value and the new assessed value is allocated to the Redevelopment Commission (RDC). The RDC uses these tax increment funds for projects within or serving the Allocation Area. Examples of TIF funded programs in Valparaiso include city roundabouts, streetscape improvements, pathway construction, Central Park, the William E. Urschel Pavilion and skating rink, matches to state and federal grants, dark fiber installation, and environmental remediation for underused parcels. (Note: The voter approved levies for the Valparaiso Community Schools do not get allocated to the Redevelopment Commission.)

2. **What is an example of how TIF works?**
   10 acres of property on the southeast side of Someville were left unoccupied after a local manufacturing company, Tulane, closed. When the company left the community, the buildings and 10 acres used by Tulane remained contaminated from the manufacturing process, making the property hard to sell to prospective buyers. The area remained unused by the private sector for 5 years, and the manufacturing buildings on-site fell into disrepair.

   With dangerously obsolete, environmentally contaminated factory buildings, the property became known as a dangerous area and neighboring parcels also became difficult to sell. During this time, assessed property value throughout the area continued to decrease. With lower property values, all taxing units began to see a decrease in tax revenue and local school districts began to see declining enrollment as workers and their families moved to find jobs in other communities.

Someville decided that if they could acquire properties in this declining area, restore or demolish the former manufacturing structures, environmentally remediate properties, and repair public roads in the neighborhood, new development would be attracted to the area and the tax base would be restored. Because these improvements were costly, Someville decided to use a financial tool known as Tax Increment Financing (TIF) and subsequently issued TIF bonds.

To begin using TIF, Someville created a Tax Allocation Area around the former Tulane property, which had an assessed value (AV) of $100,000. Taxes on this “base AV” continued to be distributed to all taxing units including the school districts, police, fire, public library, county, etc. Once the Allocation Area was established, the Someville Redevelopment Commission took out a bond on the promise of future increased tax revenue and used these bond proceeds to acquire the properties, demolish unsafe buildings, remediate environmental hazards, and restore public infrastructure.

After the site was redeveloped by the RDC with bond proceeds, a medical manufacturing company called Medcorp became interested in the 10 acres formerly owned by Tulane. Because the area was now free of any environmental contamination and had public infrastructure serving the site, Medcorp offered to purchase the property from Someville at market price.

After purchasing the property, Medcorp expanded their facilities in Someville, bringing new investement totaling $2,000,000 to the community. Since this expansion, Medcorp has brought over 200 new jobs to Someville, and the AV increased to over $1,000,000. New jobs brought new residents to the district, which helped improve the city’s economy and boosted the local school district’s state aide due to the surge in enrollment.

The RDC used taxes on the extra $900,000 AV generated by improvements in the allocation area to pay back bonds taken out during the redevelopment process. Based on the tax rate of 3%, the RDC now receives $27,000 annually in new tax revenue. Over the next 20 years, the RDC used this annual tax income to repay the TIF bond used for the redevelopment process described above. Once this bond is repaid, the Redevelopment Commission can use leftover funds to start more projects similar to this one, continuing the cycle.

3. **What is the difference between Tax Increment Financing (TIF) and a Tax Allocation Area?**

A Tax Allocation Area is the district defined by a Redevelopment Commission as needing improvement, while Tax Increment Financing (TIF) refers to the allocation of property taxes within that Tax Allocation Area toward redevelopment projects that are within or serving the Tax Allocation Area. Tax Allocation Areas are commonly referred to as “TIF districts.”

4. **What conditions must exist for an area to be designated as a Tax Allocation Area?**
   Indiana law states that for a Tax Allocation Area to be approved, it must be considered an "area needing redevelopment", meaning an area in which normal development and occupancy are undesirable or impossible due to any of the following: lack of development, cessation of growth, deteriorated or deteriorating improvements, environmental contamination, poor character of occupancy, age, obsolescence, substandard buildings, or other factors that impair values or prevent a normal use or development of property. Allocation Areas are set by the RDC with the review and approval of the City Planning Commission and City Council

5. **What is the History of Tax Increment Financing?**
   Tax Increment financing was first implemented in 1952 in California. Today every state except for Arizona has some form of Tax Increment Financing. South Bend created Indiana's first Tax Allocation Area in 1979. In 2012, 79 out of Indiana's 92 counties had one or more Allocation Areas. In 1994, Valparaiso created its first of five Tax Allocation Areas with the last being created in 2015. In 2016, the City decided to consolidate all five tax districts into one Consolidated Allocation Area.

6. **Who Controls TIF Funds?**
   All TIF funds go to the Valparaiso Redevelopment Commission to use for City redevelopment projects within or serving a defined Tax Allocation Area.

7. **How is the Redevelopment Commission funded?**
   Redevelopment Commissions are funded primarily through Tax Increment Financing (TIF) collected within a Tax Allocation Area. Redevelopment Commissions can also use the promise of TIF collection to take out Bonds. The Redevelopment Commission also receives some donations, reimbursements, rents, and Tax Abatement fees which are the financial backbone of our General fund.

8. **What does Tax Increment Financing do for a community?**
   All funds received from Tax Increment Financing must be used in a way that serves a public purpose within or serving the Tax Allocation Area, such a building roads, improving infrastructure and creating incentives for businesses. TIF also increases property values, helps create new jobs, stimulates investment, and helps with private investment inside the district and development of previously underused parcels.

9. **What has TIF done for Valpo?**
   Tax Increment Financing is a core financial tool for City Projects including road improvements, roundabout construction, and larger community projects like the construction of Central Park Plaza and the future Transit Center. Tax Increment Financing beautifies the City, funds community initiatives, and stimulates private investment throughout Valparaiso. Without TIF, the City of Valparaiso would struggle to find capital to fund major public improvement projects.

10. **Are local schools losing funding because of Valparaiso's TIF Districts?**
    No. Since 2011, the Redevelopment Commission calculates how much the Valparaiso Community Schools are impacted by TIF Districts, and then returns that amount to the schools in the form of an annual Education Challenge Grant. Since establishing the program, Valparaiso schools have received more money from grants than they would have received if the TIF districts were never established. The schools in Valparaiso are not compromised, but rather benefit from the TIF process.

11. **What percentage of Valparaiso's total acreage is in a Tax Allocation Area?**
    34.1% of Valparaiso's total acreage is in the Allocation Area.

12. **How many Tax Allocation Areas are in Valparaiso?**
    Before 2016, Valparaiso had five different Tax Allocation Areas. The first was established in 1994 and the last was established in 2015. In 2016 the RDC decided to consolidate the districts into one Consolidated Allocation Area.

13. **What percentage of Valparaiso's Assessed Value is in a Tax Allocation Area?**
    17.05% of Valparaiso's Assessed Value is in the Consolidated Allocation Area.

14. **Will my property taxes increase because I'm in a Tax Allocation Area?**
    No. Tax rates are not higher in a Tax Allocation Area, and Tax Increment Financing is not taken into account when your property is assessed.

15. **Will the zoning of my property change when I'm added to a Tax Allocation Area?**
    No. A Tax Allocation Area does not give the Redevelopment Commission authority to change zoning.

16. **Does the Redevelopment Commission have the authority to claim eminent domain over my property if it is in a Tax Allocation Area?**
    No. The Redevelopment Commission does not have the power of eminent domain; it can only purchase a property through negotiation with the property owner and after following State regulations.