Tax Increment Financing (TIF)

Budget Committee

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What is a TIF?

- Ability to use incremental tax revenues in a specific footprint to support redevelopment.

- Provides financial incentives to projects using NEW tax revenues, that otherwise would not be received by local or state governments if the project did not happen.

How a TIF works

- Incremental revenues – subtract the "old revenues" (annual amount generated within the TIF district prior to the creation of the TIF district) from the "new revenues" (annual amount of taxes generated within the area after activation).
- "Old revenues" – the tax revenues from within the TIF district for the last calendar year before the effective date of the TIF ordinance and participation agreement.
- Incremental State tax revenues within a TIF district cannot be pledged to more than one State incentive program (i.e., TIF, KBI, Tourism development incentives).
    - As a result, it is important to understand the other incentive programs and how the use of TIF may impact other incentives and the project.

TIF Facts

- TIF does not change the way property or businesses are taxed, or how taxes are collected.
- TIF does not create any tax exemptions.
- TIF does not create any restrictions on property within the TIF district.
- TIF is a tool to capture the incremental increase in future tax collections due to the new development, and to use a portion of those taxes for new development within the TIF district.
- TIF incremental revenues are not controlled by the property owner.

Types of TIFS

- **Local** – available for development on land previously undeveloped or in blighted urban redevelopment areas

- **Mixed-use projects** – available for projects of $20 million and above, that contain a minimum of two significant uses.

- **Signature projects** – available for projects of $200 million and above.

Taxes Available for TIFS

Local Taxes:

- Up to 100% of property or occupational license fee ("withholding taxes").

State Taxes:

- Up to 100% of state property taxes (for Property Tax TIF)
- Up to 80% of state property, sales and income taxes (for Mixed Use and Signature TIFs), subject to the following limitations:
    - Total amount of released taxes cannot exceed the total amount of approved public infrastructure costs and for signature projects only approved signature project costs, and approved financing costs; and
    - For Mixed Use and Signature TIFs: total amount of released taxes cannot exceed the net positive economic impact to the Commonwealth resulting from the project as certified by a consultant's report.

Local TIFS

Development on previously undeveloped land:

- No more than 1,000 acres shall be approved for a TIF in any 12-month period
- The land must be previously undeveloped
- Not eligible for state participation

OR

Development in blighted urban redevelopment areas:

- Must meet 2 of 7 conditions of blight or the project must be a mixed-use development that meets certain criteria (KRS 65.7049(3))
- The area must be contiguous and shall be no more than three square miles in size
- May be eligible for state participation

Conditions for Local TIFS

A TIF district must meet two of the following conditions:

- Substantial loss of residential/commercial/industrial activity/use
- 40% or more of households are low income
- 50% of structures are deteriorated/deteriorating
- Substantial abandonment of residential/ commercial/ industrial
- Substantial presence of environmentally contaminated land
- Inadequate public improvements or substantial deterioration of public infrastructure
- Any combination of factors that substantially impairs or arrests the growth in economic development of the city or county; impedes the provision of adequate housing; impedes the development of commercial or industrial property; or adversely affects public health, safety or general welfare due to the development area's present condition and use.

See KRS 65.7049

State Real Property TIF

- Project shall represent new economic activity in the Commonwealth, limited to new public infrastructure cost.
- Project shall result in a minimum capital investment of $10 million.
- Not more than 20% of the capital investment or 20% of the finished square footage shall be devoted to the support or development of assets that will be utilized for the retail sale of tangible personal property.
- State may pledge up to 100% of the property tax increment, not to exceed the approved public infrastructure cost.

Mixed-Use TIF

TIF district must meet 3 of the 7 conditions for blight:

- Project must have minimum capital investment between $20 and $200m
- Must represent new economic activity for the Commonwealth
- Net tax impact must be determined by independent consultant
- Must be a mixed-use project (2 or more uses)
- No one retail establishment may exceed 20k square feet
- Project must include pedestrian amenities and public spaces
- May recover up to 100% of approved public infrastructure costs and up to 100% of expenses for land preparation and demolition necessary for project to occur.

The NULU Hotel Project is a state mixed-use TIF.

Signature TIF

- Must have a minimum capital investment of at least $200m
- Must represent new economic activity for the Commonwealth
- Net tax impact must be determined by independent consultant
- No more than 20% of capital investment or finished floor space can be dedicated to retail.
- May recover up to 100% of approved public infrastructure costs, up to 100% of financing costs of approved public infrastructure costs, and up to 100% of approved signature project costs (land acquisition needed for infrastructure, etc), less sales and use tax paid on the approved items.
- May also qualify for sales tax refund on construction materials that are not approved costs.

Omni and UofL Medical Center (approved under old law), and UofL Research Park and Shelbyhurst (approved under current law) are Signature TIFs.

Condition for All TIFs

But-For Test

"That the TIF district is not reasonably expected to be developed without public assistance." (KRS 65.7049(4))

TIFs involving Louisville Metro

Pilot Program TIF	Current Law Signature TIF
• Arena • Renaissance Zone	• UofL – Belknap/Research Park • UofL – Shelbyhurst
Old tourism-related TIF • Churchill Downs • Downtown Marriott	**Current Law Mixed-Use TIF** • NULU Hotel
2007 Signature TIF • Center City/Omni • Museum Plaza • UofL – Nucleus/Medical Center	**Local Only TIF** • Appliance Park • Kentucky Kingdom • Main & Clay development • 800 Building • Lexington Road

TIF Approval Process – Local

Metro Council, by ordinance:

- approves the project
- creates the TIF district
- authorizes the release of incremental taxes within the TIF district.

As part of the establishment of the TIF district, a local participation agreement is executed.

TIF Approval Process – Mixed Use & Signature

- If requesting state participation, Louisville Metro submits an application to the State Cabinet for Economic Development (CED).
- KEDFA grants preliminary approval for state participation for the project.
- CED commissions consultant's report to determine the net positive impact to the Commonwealth.
- If project will have a net positive impact, CED staff negotiates a tax incentive agreement establishing the maximum amount of released incremental state tax revenues and the terms and conditions for the release of such incremental revenues.
- KEDFA grants final approval; incentive agreement executed.

QUESTIONS