

# Tax Increment Financing (TIF)

Committee of the Whole

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# History of TIF?

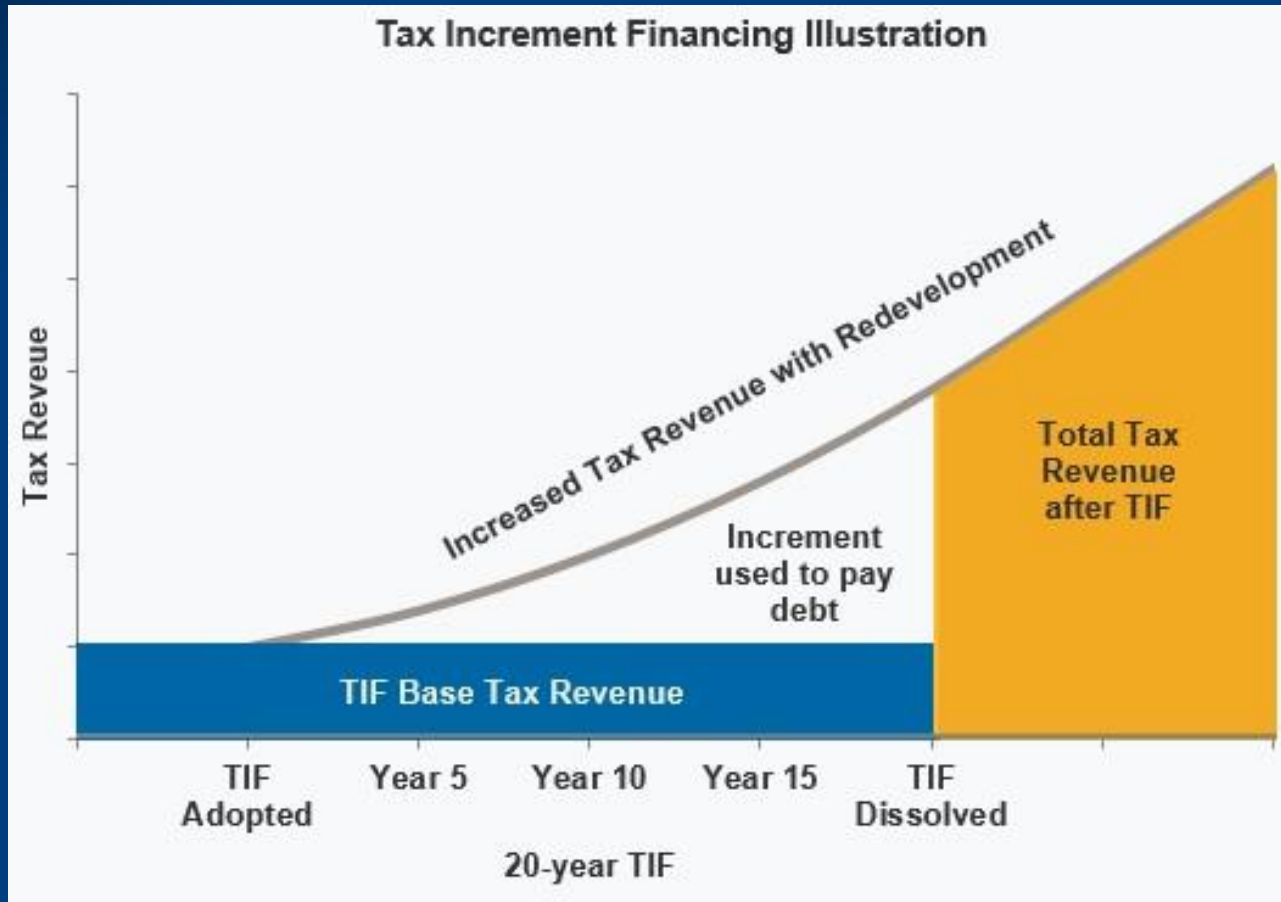
- Created in 2000
- Used for reversing urban blight or implementing initial development plans
- Ability to use incremental tax revenues in a specific footprint to support redevelopment of that site
- The resulting increase in tax revenues are then used to reimburse the government and the developer for a finite amount of time



# How a TIF works

- Provides financial incentives to projects using future, NEW tax revenues.
- Incremental revenues – subtract the “old revenues” from the “new revenues”.
- “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.
- “New revenues” - annual amount of taxes generated within the area after activation.
- Incremental State tax revenues within a TIF district cannot be pledged to more than one State incentive program (e.g., KBI, Tourism development incentives).





Source: Kentucky League of Cities



# 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 does not use any existing public funding.
- 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 dictated by the incentive agreements negotiated with the relevant parties.
- School Taxes are not part of the increment



# Types of TIFS

- **Local** – available for development on land previously undeveloped or in blighted urban redevelopment areas.
- **State** – available for real estate taxes for projects of at least \$10 million, mixed use projects between \$20 million and \$200 million, and Signature project of \$200 million and above



# Condition for TIFs

## But-For Test

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



# Taxes Available for TIFS

## Local Taxes:

- Up to 100% of real property tax and/or occupational license fees (“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.





# Conditions for Redevelopment 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



# TIFs involving Louisville Metro

## **Pilot Program TIF**

- Arena
- Renaissance Zone

## **Old tourism-related TIF**

- Churchill Downs
- Downtown Marriott

## **2007 Signature TIF**

- Center City/Omni
- Museum Plaza
- UofL – Nucleus/Medical Center

## **State Property and Local TIF**

- LAP 2

## **Current Law Signature TIF**

- UofL – Belknap/Research Park
- UofL – Shelbyhurst

## **Current Law Mixed-Use TIF**

- NULU Hotel

## **Local Only TIF**

- Appliance Park
- Kentucky Kingdom
- Main & Clay development
- 800 Building
- Lexington Road
- Bunkhouse
- 422 E. Main St.

## **For all legal agreements:**

<https://louisvilleky.gov/government/louisville-forward/legal-agreements>



# 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.

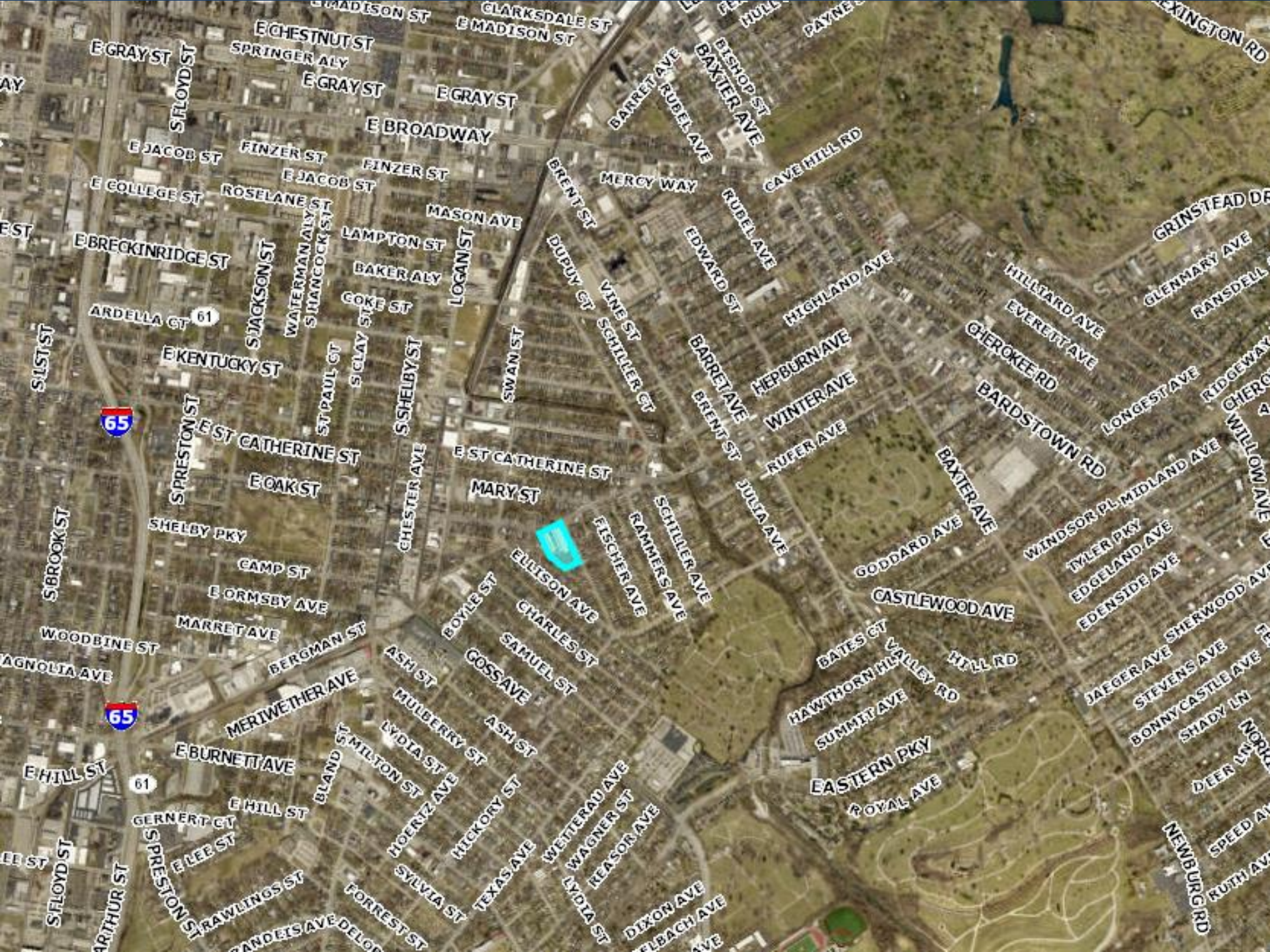


**EXAMPLE**

An aerial photograph of the Bradford Mills Lofts, a large brick industrial building converted into residential lofts. The building features multiple stories with numerous windows and a flat roof. A swimming pool is visible in the courtyard area. The surrounding area includes parking lots filled with cars and a city skyline in the background under a sunset sky. The text "BRADFORD MILLS LOFTS" is overlaid in large, bold, white capital letters.

# BRADFORD MILLS LOFTS

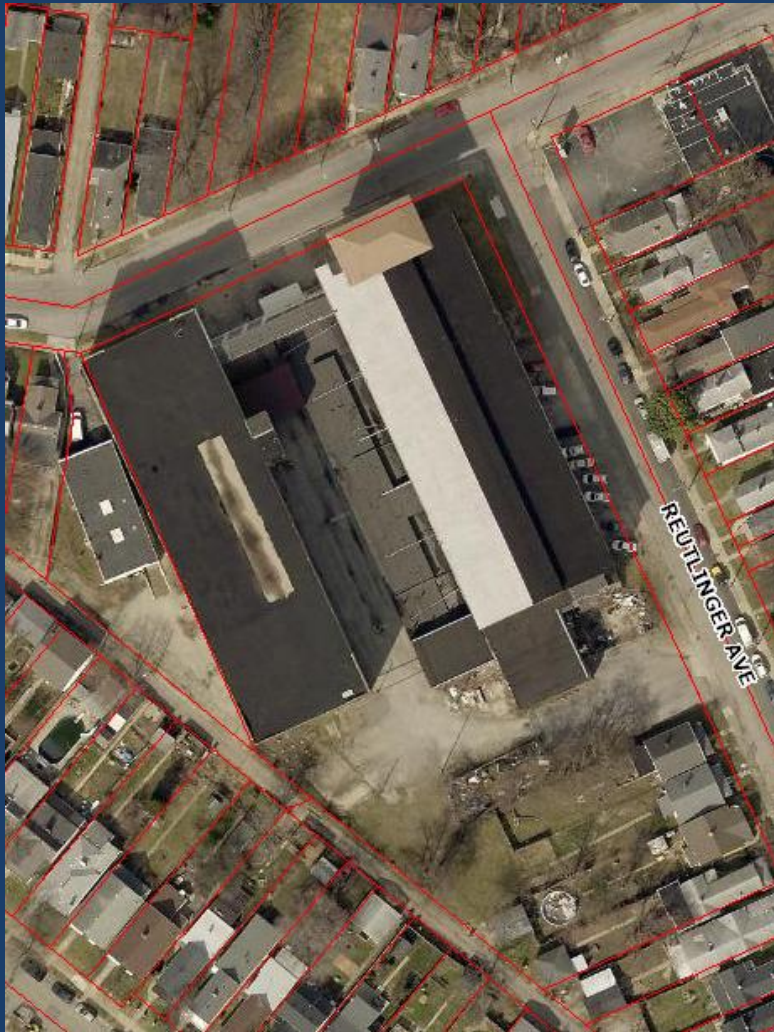






# BEFORE

Base Year : 2015



# AFTER

TODAY





# **Base Year Tax Revenue**

## **BRADFORD MILLS LOFTS**

- **“taxable value of all real property within the Development Area was \$1,234,040”**
- **“real property ad valorem tax was 0.4792 per one hundred dollars of assessed value”**
- **Based Year Tax Revenue was \$6,073**

***(See Section 4.1 of the Local Participation Agreement)***

# PROPERTY TAXES

**Urban Services District tax and County Tax  
Bradford Mills Loft at .004792 local tax rate**

YEAR	TOTAL ASSESSED VALUE	LOCAL PROPERTY TAX REVENUE
2014 (base)	\$1,234,040	\$6,073.00
2021	\$21,000,000	\$100,632.00
	INCREMENT:	\$94,559.00

# CALCULATIONS

## Bradford Mills Loft

### INCREMENT

2021 Tax Revenue  
- 2014 Base Year Rev  
INCREMENT

\$ 100,632.00  
- \$ 6,073.00  
\$ 90,776.64

### RELEASED AMOUNT

INCREMENT  
x 80%  
RELEASED AMOUNT

\$ 90,776.64  
x 80%  
\$ 72,621.32

# CALCULATIONS

## Bradford Mills Loft

	<b>\$ 90,776.64</b>	<b><i>2021 Increment</i></b>
-	<b><u>\$ 72,621.32</u></b>	<b><i>2021 Released amount</i></b>
	<b>\$ 18,155.32</b>	<b><i>Net amount to Metro in 2021</i></b>

# CALCULATIONS

## Bradford Mills Loft

	<b>\$ 18,155.32</b>	<b><i>2021 Net Revenue with TIF</i></b>
-	<b><u>\$ 6,073.00</u></b>	<b><i>Original Revenue</i></b>
	<b>\$ 12,082.32</b>	<b><i>Additional RE tax to Metro because of Development “but for” TIF</i></b>

***\*Note: The state real estate tax (.122 per \$100) and school real tax (.755 per \$100) is not part of the released amount.***

# QUESTIONS

