TIF IS A TOOL FOR DEVELOPMENT AND REDEVELOPMENT WHICH CAPTURES INCREASES IN TAXABLE ASSESSED VALUE IN AN ALLOCATION AREA, AND THE REVENUE GENERATED FROM THAT DEVELOPMENT (OR GROWTH) IS USED TO FINANCE PUBLIC IMPROVEMENTS.

Source: Indiana Department of Local Goverment Finance (Vincent & Jones, 2009).

Responsible School Board Members Should Know and Understand the Effects of

Tax Increment Financing (TIF)

on their School Corporations

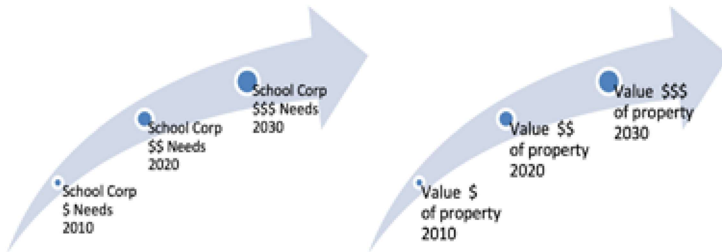
By Sherri K. Flynn, MBA
Department Chair, Ivy Tech Community College – Evansville Campus

You have heard the term … TIF. You think you know what it means, or at least you pretend you do. But what do you really know about how TIF affects your school corporation? The ISBA Code of Ethics spells out many responsibilities, one of which is to "refuse to play politics in either the traditional partisan, or in any petty sense" (ISBA Board of Directors, 2010). A school board member should, "assure that adequate facilities and resources are provided for the proper functioning of schools" (ISBA Board of Directors, 2010). But what does either responsibility have to do with TIF? In order to understand that, one must understand TIF.

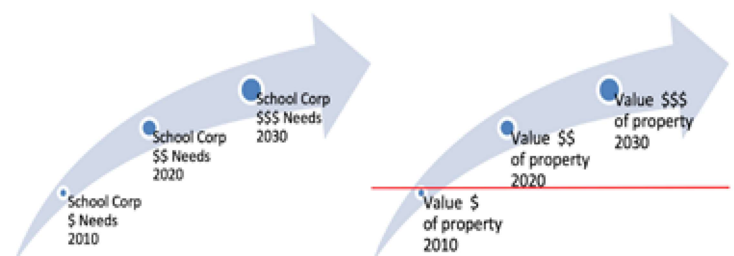
According to the Indiana Department of Local Government Finance, TIF is a tool for development and redevelopment which captures increases in taxable assessed value in an allocation area, and the revenue generated from that development (or Growth) is used to finance public improvements (Vincent & Jones, 2009). If that sounds like mumbo jumbo to you, then you, like most school board members and the public in general, are in need of an explanation that is given in layman's terms.

We hear that TIFs are intended to stimulate private sector investment and job creation. That sounds great! We hear that certain projects can be funded by TIF: so that's great too because it won't cost us anything! Well, wait a minute: we all know that nothing is free. TIF funds are coming from somewhere. That somewhere is the taxpayers – the same taxpayers that pay into our school corporations' financing. Since there are only so many tax dollars to go around, we want to make sure our school corporations see the maximum benefit. The taxes we are talking about specifically are property taxes. These are the taxes that fund our schools' building projects, transportation, debt service, and other non-classroom spending.

As the cost of living rises, so too do the dollars needed to fund the schools' needs in all of these areas. If it cost XXX dollars to maintain our buildings and run transportation in 2010, it will almost certainly cost more in 2020 and in 2030. That is basic economics. However, if the funds coming in to our school corporation (tax dollars) don't increase at the same rate, we are unable to adequately support our school buildings and transportation needs. In the normal tax situation, an individual's property taxes would rise as well due to an increase in the values of the home/property.



In an area with a TIF, the revenues from property tax increases do not go to the tax drawing entities. The entire value of the property is still taxed. It is just that the normal taxing units such as the school corporation, the police, the library, etc. are only given the portion attributed to the value of the properties at the time the TIF was implemented. You see, once the TIF is put in place, the tax dollars received in the designated area are frozen. Thus, even though the needs of the school corporation in the illustration below go up in 2030, and the value of the property in the area goes up in 2030 as well, the school corporation is only taking in taxes on the value of the property when it was the year 2010. This was enough in 2010, but it is not enough in 2030. As a result, the schools' needs are not met. Due to the maximum allowable tax levy rate (tax caps), many schools are unable to receive their full tax levy request. This problem is many times caused by the increased property values being used to fund the TIFs rather than the normal taxing entities. In other words, TIF is diverted tax dollars.



2030 School Tax	Living Outside TIF	Living Within TIF with Tax Caps	
		2010 Base	TIF Fund
Fair Market Value	$150,000	$100,000	$50,000
Taxable Amount	$37,500	$25,000	$12,500
School Levy Rate .1567	$5,876	$3,917	$1,959
		$3,917 + $1,959	
Total Taxes Paid	$5,876	$5,876	

Originally, TIFs had a valiant goal: to improve blighted areas, thus increasing the tax base in those areas, and benefiting all tax drawing entities once the TIF was retired. In other words, fixing something up (using tax money), in order to see increases in the future. However, it is your responsibility as a board member to know how TIFs are being used in your area. Are they really increasing the tax base and ending in a timely manner, allowing additional tax monies to go to your school corporation? Or, are they being used as a "honey pot" for special projects that do nothing to increase the tax base, yet prevent your school corporation from drawing increased taxes that would have occurred naturally? For instance, is the TIF in your school corporation's area being used to fund a county-wide not-for-profit project? If so, tax dollars are being diverted from your school corporation to fund something that an entire county's population should be funding, not just those that live in your corporation's district. If so, you also have to question whether that not-for-profit project is really going to play a part in raising the tax base. If it is not, then you are doing your school corporation a disservice by supporting these TIFs and not speaking out on behalf of the school corporation you support.

My political party, or your political party … it doesn't matter. You chose to put politics aside when you took your oath as a school board member. Your allegiance is to your school corporation, and you need to know how TIFs will affect your funding. Below are some important findings from a 2016 study by the Center for Business and Economic Research at Ball State University:

- More than half of the assessed value growth in Indiana's TIF districts is attributable to the "capture" of growth from non-TIF areas that would have happened regardless of the presence of a TIF. This has reduced property tax revenues to local governments by as much as $320 million per year.
- The impact of TIF capture of non-TIF property is significant. The public school share of costs is equivalent to roughly 2,400 teachers or the operation of more than 900 additional buses per year.
- Property tax loss to local government due to TIF use may be as high as 41.5 percent of the loss due to property tax caps.

"Local governments" as mentioned above include our school corporations! One of the main reasons to establish a TIF is that "TIF can induce capital investment in [an] area that otherwise may not have occurred" (Vincent & Jones, 2009). So, what if the development would have happened anyway, without the TIF district or the infrastructure that the TIF taxes financed? In that case, your school district would have collected revenue from the added assessed value of this development. The added assessed value would have reduced the property tax rates required to raise property tax revenue as well.

The realities are that a TIF in your area may be providing an economic bump that will benefit your school corporation, but then again it may not. It is your responsibility to know which is true for you. When used appropriately, TIF does not raise taxes for taxpayers or result in losses from your school corporation. However, when used inappropriately, TIF shifts taxes from taxpayers of the enacting government to other taxpayers. If TIF is used to pay for a bond that is beyond the tax caps, or if TIF is used when development would have happened anyway, the schools lose revenue to the tax cap credits.

Because TIF accounting in all states is not the same, reviewing materials from other states doesn't help to clarify the situation in Indiana, and may confuse it. Quoting from the Indiana Policy Review (September 8, 2015), TIF accounting in Indiana results in

1. Unearned TIF income is credited to local redevelopment commissions, providing them false signals of success.
2. Local budgetary challenges and higher property-tax rates become necessary to make up for a tax base eroded into TIF's "captured increment."
3. A market is created for hyped development schemes that rely on TIF financing, including TIF-backed debt.

If the TIF Percentage of Net Assessed Value is more than inching up in your school district or has reached more than 10% as it has in my home county of Perry (DeBoer, 2016) , then you owe it to your school corporation to fight to have a say. I'm asking all school board members to support House and Senate Bills that recognize the vital role that schools play in economic development by giving local schools a vote on the local Redevelopment Commissions. As the law stands now, school representatives can serve in an advisory position only. The school representatives need to be voting members if we are to have a voice in the funding of our schools, and thus the impact we can make economically.

Sherri K. Flynn, MBA
Department Chair / Associate Professor
Business Administration / Supply Chain-Logistics / Entrepreneurship
Ivy Tech Community College-Evansville Campus

Sherri is also an eight year member of the Tell City-Troy Township School Board.