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# SALES TAX INCREMENT FINANCING IN INDIANA: PUTTING HB1144 INTO HISTORICAL PERSPECTIVE

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Lawmakers are loathe to let revenue from the state's income tax out of their control. It's the state's largest source of tax revenue and an important component of the state budgeting process. On rare occasions over the last 30 years, however, the General Assembly has given local governments the authority to divert some of the revenue in so-called Sales Tax Increment Financing Districts, or STIFs.

On Feb. 23, the Indiana House of Representatives passed HB 1144 to authorize a STIF along the South Shore Line, a commuter railroad between South Bend and downtown Chicago. It is the first attempt to designate a transportation-oriented development district, or TODD. In this case it would use the sales-tax increment to pay off bonds the state will issue for the rail projects. The bill is scheduled for a hearing in the Senate Committee on Tax and Fiscal Policy on Tuesday, March 28.

While utilized in many states as an economic development tool, the concept of sales tax increment financing has had a relatively long and, some would say, tortuous history in Indiana. The General Assembly has been selective in authorizing the property-, sales- and income-tax increment financing tools since the first was established about 40 years ago, and HB1144 faces significant hurdles—both legislative and with local governments—if it is to reach the governor's desk.

To this author's best knowledge, the first consideration for authorizing the use of sales tax increment to partially finance a local development project was in 1987 when the City of Indianapolis was granted statutory premise to use the tool for the Circle Center Mall project. P.L. 380 enacted during the 1987 Special Session allowed the City to repay a loan from the Indiana Employment Development Commission with state sales tax

## Bill would create new TIF category

House Bill 1144, authored by Rep. Harold Slager, R-Schererville, is co-authored by a bipartisan group of 15 representatives and sponsored by six senators. It cleared the House Feb. 23 by an 84-8 vote and is assigned to the Senate Tax and Fiscal Policy Committee.

This bill creates the Rail Transit Corridor in Northwest Indiana for two purposes:

--Creation of transportation-oriented development districts (TODD) along the South Short Line commuter rail system;

--Using increases in sales, income and property taxes within these districts to pay off state bonds used to fund improvements to the South Shore line.

The improvements include installing a second set of tracks in the most congested areas of the route and creation of a spur in far-western Lake County that connects points between Dyer and Hammond to the line. An attempt to include St. Joseph County in the district, where the eastern terminus is located, was defeated on second reading.

These improvements are expected to boost economic activity in the TODD, increasing the amount of taxes collected. It is this "incremental" increase that will be collected to pay off the bonds Indiana will issue to pay for the project. The state's portion is expected to top $200 million.

The Legislative Services Agency in its Feb. 23 Fiscal Note indicated the amount of tax diverted to the project "is indeterminable but could be significant and would depend on the number of districts" created along the route.

revenue to be captured from that project.[1] The City subsequently decided not to pursue this vehicle to partially finance its commitment to the project.[2]

Interestingly, that same year the General Assembly also authorized a Marion County Local Sales Tax. Again, to the best of this author's knowledge, this is the only time the General Assembly has agreed to allow a local sales tax.[3] As with the STIF, the local sales tax that was also to be used for the Circle Center Mall, was not implemented at the local level.[4] Both the Marion County STIF and Local Sales Tax provisions were shortly thereafter removed from the Indiana Code.[5]

**Sales Tax Increment Financing in Indiana**

| Year | Jurisdiction | Type | Use | Status | Revenue |
|---|---|---|---|---|---|
| **1987** | Indianapolis | STIF | Circle Center Mall | Repealed | N/A |
| **1987** | Indianapolis | Local Sales Tax | Circle Center Mall | Repealed | N/A |
| **1990** | Evansville, Fort Wayne, Hammond, South Bend | STIF | Economic Development Project Districts | Current | $0 |
| **1997** | Various | STIF | Pro Sports & Convention Development Areas | Current | $12.7M |
| **1998** | 1st/2nd-class cities | Incremental growth in sales/income taxes | Community Revitalization Enhancement District | Current | $2.5M |
| **2002** | Certified Tech Parks | Incremental growth in sales/income taxes | Tech-Related Economic Development | Current | $2.8M |

Source: Various Acts of the General Assembly

All subsequent efforts to gain authority for implementing a local option general sales tax have not been viewed favorably by the Legislature. The most commonly held perception is that with sales tax being a critical component of state revenue, the General Assembly has been, and likely will continue to be, very reluctant to share this revenue stream with local government. There does seem to be an exception in very limited situations for case-specific STIFs such as the one contained in HB1144.

In 1990 the General Assembly revisited the issue with the enactment of P.L. 35 creating a new tool known as Economic Development Project Districts. This legislation remains in the Indiana Code[6] and currently gives four cities the ability to utilize STIF with the approval of the State Board of Finance. In 2005, the City of Hammond sought permission to use revenue from a STIF to assist financing incentives to attract a Cabela's sporting goods store. The request from Hammond was subsequently tabled by

[1] P.L. 380 – 1987(ss), Sec. 1

[2] History of the Circle Center Mall Indianapolis http://www.circlecentermall.com/circle-center-mall-indianapolis-history.html

[3] P.L. 84 - 1987

[4] History of the Circle Center Mall Indianapolis http://www.circlecentermall.com/circle-center-mall-indianapolis-history.html

[5] P.L. 2 - 1989

[6] IC 36-7-26

the state Board[7] and other means of financing incentives were used to successfully attract the Cabela's. Again, to the best of the author's knowledge, there have been no subsequent efforts to implement the provisions of this legislation.

From 1997 through 2002, the General Assembly enacted three uses of STIF for economic development initiatives. In 1997 legislation authorized the creation of Professional Sports and Convention Development Areas (PSCDAs) in communities that hosted professional sports teams.[8] State sales and income taxes generated within specific geographic areas in such communities could be captured by those local governments and be used to fund capital improvements to sports and convention facilities. As of 2013, there are currently PSCDAs in Allen County, Evansville, Indianapolis and South Bend. Approximately $12.7 million in state sales tax revenue was captured in these Areas in 2013,[9] the most recent year for which data were available.

In 1998 the General Assembly authorized the first Community Revitalization Enhancement District in Bloomington.[10] Within this district, the city could capture incremental growth in state sales and income tax revenue. In 2003, the authority to create these districts was expanded to allow all first- and second-class cities to create one new district.[11] There are currently nine authorized districts—two in Bloomington, two in Fort Wayne, one in Delaware County, one in South Bend, one in Indianapolis, and one in Anderson that is not active. About $2.5 million in state sales tax revenue was captured by these districts in 2013.[12]

In 2002 the General Assembly again expanded the circumstances for local communities to capture state sales tax revenue – this time to support "certified technology parks." P.L. 192 authorized such districts to capture both state sales and income tax revenues, as well as local income tax revenue, and use the funds to enhance efforts to create technology-related economic developments.[13] There are currently 26 Certified Technology Parks in the state. Ten of these districts captured a total of approximately $2.8 million in state sales tax revenue in 2015.

The General Assembly has granted local governments the ability to capture state sales tax revenue for specific economic development purposes on several occasions over the years. Yet the stringent terms also indicate a reluctance by the state to allow deep encroachment into its most significant revenue source and has limited its desire to

[7] Minutes of the Indiana State Board of Finance; November 30, 2005

[8] P.L. 255 – 1997(ss)

[9] Fiscal Brief – Indiana's Geographically Targeted Development Programs: Professional Sports and Convention Development Areas; October, 2014; Office of Fiscal and Management Analysis, Indiana Legislative Services Agency

[10] P.L. 125 - 1998

[11] P.L. 224 - 2003

[12] Fiscal Brief – Indiana's Geographically Targeted Development Programs: Community Revitalization Enhancement Districts; October, 2014; Office of Fiscal and Management Analysis, Indiana Legislative Services Agency

[13] P.L. 192 - 2002

further expand the circumstances for which sales tax increment financing districts are permitted. It will be interesting to see whether the purpose of promoting transit-oriented development along the two South Shore routes will be another one of those circumstances where the General Assembly agrees to allow additional expansion of sales tax increment financing.

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## About the Author

John Stafford is the interim director of the Community Research Institute at Indiana-Purdue University Fort Wayne. He has served in various positions in local government in Elkhart and Allen counties. He received the Ivan Brinegar Municipal Management Award in 1999 given by the Indiana Association of Cities and Towns. Stafford has authored several papers and reports for the Indiana Fiscal Policy Institute.

## About the Indiana Fiscal Policy Institute

The Indiana Fiscal Policy Institute (IFPI), formed in 1987, is a private, non-profit government research organization. The IFPI's mission is to enhance the effectiveness and accountability of state and local government through the education of public sector, business and labor leaders on significant fiscal policy questions, and the consequences of state and local decisions. The IFPI makes a significant contribution to the important, on-going debate over the appropriate role of government. The IFPI does not lobby and does not support or oppose candidates for public office. Instead it relies on objective research evidence as the basis for assessing sound state fiscal policy.

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