TENNESSEE COMPTROLLER OF THE TREASURY

USER GUIDE

Understanding the Comptroller's Economic Development Dashboard

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DIVISION OF
LOCAL GOVERNMENT FINANCE

Contents

Understanding the Comptroller's Economic Development Dashboard

Payment in Lieu of Taxes (PILOT), Tax Increment Financing (TIF), and Debt Issues by Industrial Development Boards

This report is an accompaniment to the interactive map and dataset found on the Comptroller's website. The information in the dashboard was obtained from data reported pursuant to state law (See TIF Reporting Requirements below).

Overview

State legislators have passed legislation that promotes economic growth for strong communities in Tennessee. Incentives are available at both the state and local levels. The Tennessee Department of Economic and Community Development administers incentives at the state level: https://tnecd.com/advantages/incentives-grants/. This document highlights three economic incentive tools authorized in Tennessee statute that local governments may utilize for attracting industry that provides the needed jobs for a vibrant economy and the housing, education, and healthcare needed to support its citizens.

These tools are:

- Payment in lieu of tax agreements, called PILOTs, where the real and personal property taxes are abated and a payment, generally much less than the tax payment, is made in its place.
- Tax increment financing plans, called TIFs, where portions of public or private infrastructure are financed with the growth in taxes brought about by the new development. These can be property tax TIFs or sales tax TIFs.
- Debt Issues by Industrial Development Boards, where a business can use the IDB to issue debt on their behalf to fund property, plant, or equipment; or the IDB can issue debt to build an industrial park to attract business to the area.

These incentives have a limited life, and annual reporting requirements to the Comptroller's Office that support accountability and transparency for the incentives. Local governments are willing to offer the tax breaks that are associated with PILOTs and the incentives associated with TIFs and debt issues because the additional jobs and/or increased pay of certain jobs will drive economic growth and with that growth the local government will collect additional taxes.

Tax Abatements

Tax abatement refers to the reduction of, or exemption from, taxes for a specified period, usually to encourage economic investment in a community. The Tennessee Constitution Article 2, Section 28, limits counties and municipalities from abating local property taxes; however, the power to abate local property taxes can be given to government-created boards authorized in state statutes. Tennessee statute authorizes local governments, either alone or in partnership, to create local level boards that have the

ability to abate property taxes under certain circumstances and approval of the taxing authority. These are: industrial development boards, health education and housing facility boards, sports authorities, and housing authorities. Regional megasite authorities, the West Tennessee Megasite Authority, and the East Bank Authority, may also abate property taxes.

Exhibit: Authorized Boards

Local Government Entity	Statutory Authority	PILOT	TIF
Industrial Development Board	Title 7, Chapter 53, Part 3	✓	✓
Health, Educational, and Housing Facilities Board	Title 48, Chapter 101, Part 3	✓	
Housing Authorities	Title 13, Chapter 20, Part 1	✓	✓
Sports Authorities	Title 7, Chapter, 67, Part 1	✓	
Community Redevelopment Act of 1988	Public Chapter 987 of the Acts of 1988		✓
West Tennessee Megasite Authority	Title 64, Chapter 9, Part 1	✓	
Regional Megasite Authorities	Title 64, Chapter 6, Part 2	✓	
East Bank Authority (Nashville)	Private Act NO. 68 Acts of 2024	✓	✓

Payment in Lieu of Taxes (PILOT) Agreements

PILOT as a Tax Incentive

Payment in lieu of tax (PILOT) agreements are a form of tax abatement wherein private taxpayers, often businesses, agree to provide a certain level of investment - such as jobs, building construction, or a commitment to a length of time - in lieu of a typical property tax payment during the term of the agreement.

A PILOT is typically used by a local government to entice a private company to relocate to or expand in the area. To that end, an agreement is made that allows real and personal property to be transferred for a specified period of time to an industrial development board (IDB), health, education, and housing facility board (HEHFB), or housing authority. The effect of this transfer is that the company's assets, now in the hands of a governmental entity, are exempt from taxation. In exchange for this favorable tax treatment, the entity agrees to pay the local government payments in lieu of taxes. At the conclusion of the agreement period, the property is typically transferred back to the private company and placed on the property tax roll. PILOT payments vary but often include a base payment of what the taxes would have been for the property before or without the development. In exchange for the reduced tax liability the benefiting entity usually commits to bringing a certain number of jobs or other investment to the locality. See Appendix C for an illustration of how a PILOT works.

PILOT Reporting Requirements

Tennessee statutes require payment in lieu of tax agreements to be reported to the Comptroller's office by October 1 of each year.

The data reported is composed of information that is self-reported by local governments, their authorized representatives, and the lessees of local government-owned properties. The Comptroller of the Treasury gives no warranties, expressed or implied, as to the accuracy, reliability, or completeness of this information and assumes no liability or responsibility for any errors or omissions in the information contained on the website or the data reported in this report.

PILOT Best Interest Determination Requirement

A PILOT agreement, including any renewal or extension, which would abate taxes for a period greater than twenty (20) years (not to include a reasonable construction or installation period three (3) years or less) cannot be executed unless both the commissioner of economic and community development and the comptroller of the treasury have made a written determination that the agreement is in the best interest of the state. (Tenn. Code Ann. § 7-53-305(b)(1)(B)).

Tax Increment Financing (TIF)

TIF as a Tax Incentive

Tax increment financing (TIF) is an economic development and redevelopment incentive tool used in targeted locations – such as blighted areas – to buy and prepare land for development (e.g., putting in utility connections or demolishing old buildings). The Uniformity in Tax Increment Financing Act of 2012 provides overarching requirements for all TIFs.

Base taxes – the amount of taxes collected for the TIF plan area in the year prior to the date the plan was approved.

Dedicated taxes – the amount of taxes dedicated to education and/or debt service of the local government. x

Before a TIF project begins, the "base" property or sales tax revenue generated by the property must be determined. After the project is completed, the debt incurred to finance the development is repaid from the "incremental" increase in property tax revenue – i.e. the additional property or sales tax revenue over the base taxes and dedicated taxes – that is generated after the new construction is completed. In other words, the TIF project "pays for itself" through reallocated tax revenue, and the business does not have to pay some of the costs associated with developing property. See Appendix D for an illustration of how a TIF works.

Financing Infrastructure in a TIF Plan

Public infrastructure – is defined in Tenn. Code Ann. § 9-23-102(16) as roads, streets, publicly-owned or privately-owned parking lots, facilities or garages, traffic signals, sidewalks or other public improvements that are available for public use, utility improvements and storm water and drainage improvements, whether or not located on public property or a publicly-dedicated easement, that are necessary or desirable, as determined by the tax increment agency.

The infrastructure built as part of a TIF Plan is funded by either debt or self-funded by the project developer. In the case of debt, bonds are issued for the authorized public infrastructure portion of the project and the taxes collected from the growth over the base and dedicated tax amounts are pledged to the repayment of the bonds. There is no guarantee that the incremental tax revenues will be sufficient to repay the bonds and in most cases there is no recourse to the local government or the issuing entity. Debt may be issued by an industrial development board, housing authority or under the authority of the community redevelopment act.

As TIF Plans have become more commonplace, local governments have taken a more proactive role in creating the TIF Plan. This has led to accelerated development of needed infrastructure like road improvements and parks.

Local governments contemplating the creation of a TIF Plan, and the issuance of debt should ensure they understand all the risks and requirements and seek guidance from qualified legal counsel.

TIF Reporting Requirements

Tennessee statutes require TIF Plans to be reported to the Comptroller's office by October 1 of each year. Each agency issuing tax increment financing must file with the Comptroller an annual statement identifying tax increment revenues allocated to the agency for each active TIF Plan.

TIF Best Interest Determination Requirement

TIF Plans must adhere to the following time limits unless both the Comptroller of the Treasury and the Commissioner of the Department of Economic and Community Development make a written determination that a longer period is in the best interest of the state. (Tenn. Code. Ann. § 9-23-104)

- Twenty (20) years for economic impact plan, or
- Thirty (30) years for redevelopment plan or community redevelopment plan as defined in § 9-23-102.

Tax increment revenues to be used for the development of privately owned land, improvements, or equipment requires a written determination from both the Comptroller and the Commissioner of the Department of Economic and Community Development that such use of TIF revenues is in the best interest of the state. (Tenn. Code. Ann. § 9-23-108).

Debt Issued by Industrial Development Boards

Industrial development boards are created to help boost the local economy by encouraging business to the area. One of these incentives is to facilitate the issuance of debt on behalf of industry. IDBs have authority to issue two types of debt, direct and conduit.

Conduit Debt – debt issued by the IDB to provide capital financing for a public, private, or nonprofit entity other than the IDB. The entity receiving the proceeds of the bonds is responsible for repaying the bonds through the IDB. The IDB is not liable for the debt service on the bonds, they only act as a conduit to the market for the entity. Some conduit debt can be issued as tax-exempt debt if the project is allowed under the IRS regulations, such as, 501(c)(3) non-profits, low-income housing, solid waste facilities, and small manufacturing facilities, but most is issued taxable. See Appendix B for an illustration on how conduit debt by IDBs works.

Direct Debt – debt in which the IDB incurs a definite and absolute obligation to the payment of the principal of and interest on the debt obligation. Although not frequently used, one use is for industrial parks which typically includes purchase of land, grading, and utility installation. The debt is issued as revenue bonds generally backed by proceeds of land sales in industrial parks owned by the IDB. The IDB is responsible for repaying the bonds. See Appendix A for an illustration on how this type of debt issued by IDBs works.

Tax Increment Financing (TIF) Debt – As explained earlier in this document, TIF debt is payable from the incremental increase in tax revenues realized from the increase in property values or other economic activity, designed to capture the economic benefit that results from issuing the debt. IDBs have statutory authority to issue bonds and notes for certain projects that will be repaid with incremental property and/or sales tax revenues resulting from the growth the project brings to the area. Local governments forego this incremental tax revenue over the life of the debt. TIF debt is issued as limited and special debt obligations where the debt is secured solely by the incremental increase in one or more specific tax revenues, with no recourse to the IDB or local government should the pledged tax revenues be insufficient to repay the debt. See Appendix D for an illustration on how this type of debt issued by IDBs works.

IDB Debt Reporting Requirements

Legislation was passed in 2018 that requires IDBs to annually report a listing of their current debt and information on defaults in accordance with guidelines established by the Tennessee State Funding Board. The Comptroller's Division of Local Government Finance (LGF) compiles the annual debt submissions from IDB and reports annually to the State Funding Board. LGF also reports all defaults to the State Funding Board.

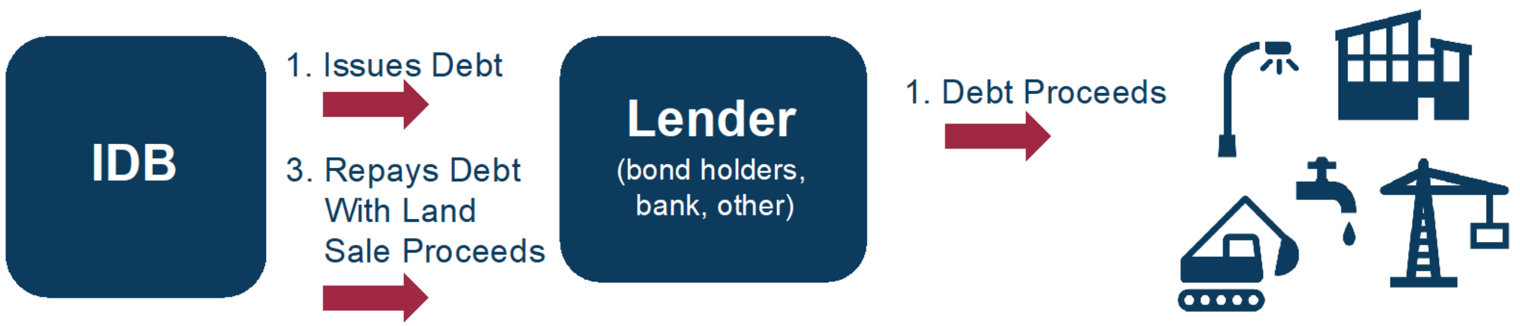
Additional Information

For additional information on **PILOTs** or **TIFs** please contact:

State Board of Equalization at:
615.401.7883
sb.web@cot.tn.gov
For additional information on **Debt Issued by Industrial Development Boards** please contact:

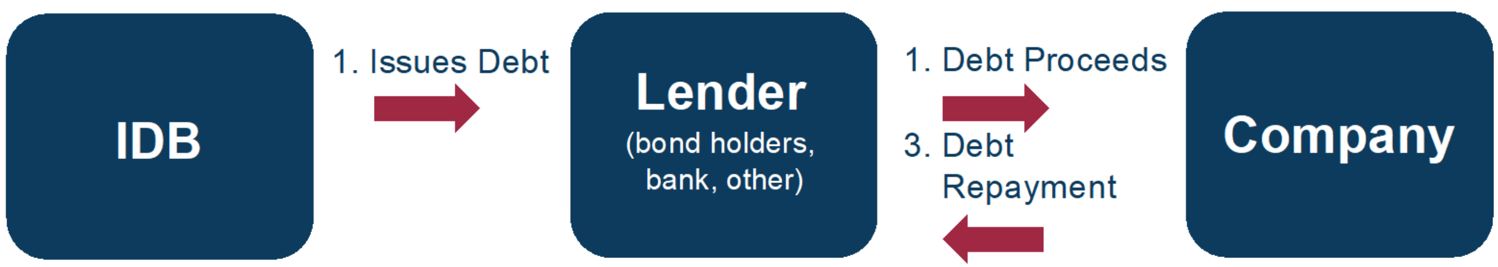
The Division of Local Government Finance at:
615.401.7829
LGF@cot.tn.gov

Debt Issued by IDBs for Industrial Parks



1. IDB issues debt to finance industrial park to attract industry and business to the area. Typically involves site purchase, grading, and utilities.
2. IDB sells a site in the industrial park.
3. IDB uses the proceeds from the sale of the land to repay the debt.

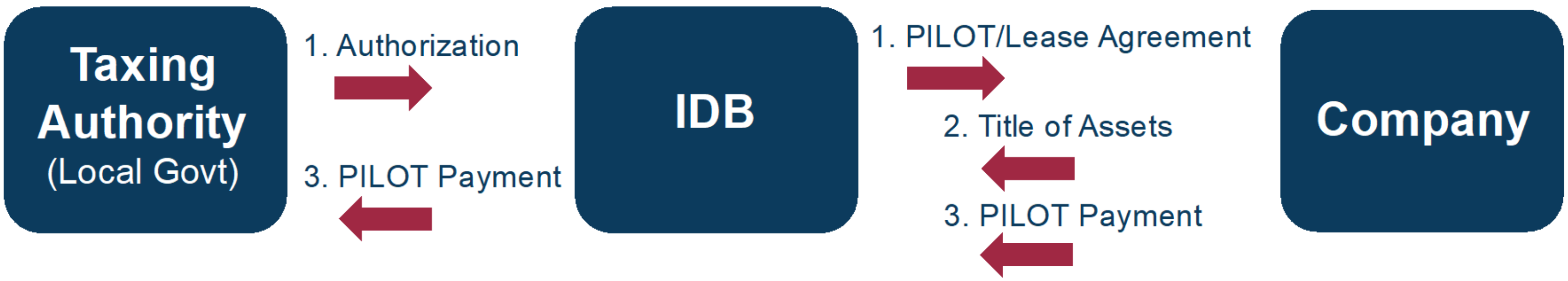
Conduit Debt Issues by Industrial Development Boards



1. The IDB issues debt (e.g., bonds) on behalf of a company.
2. The company uses the proceeds to finance capital investment within the local community.
3. The company is responsible for repayment to lender(s). The IDB or local government has no responsibility to repay the debt and in the case of default, there is no recourse to the local government or the IDB.

Appendix C: Flow Chart for Sample PILOT Agreement

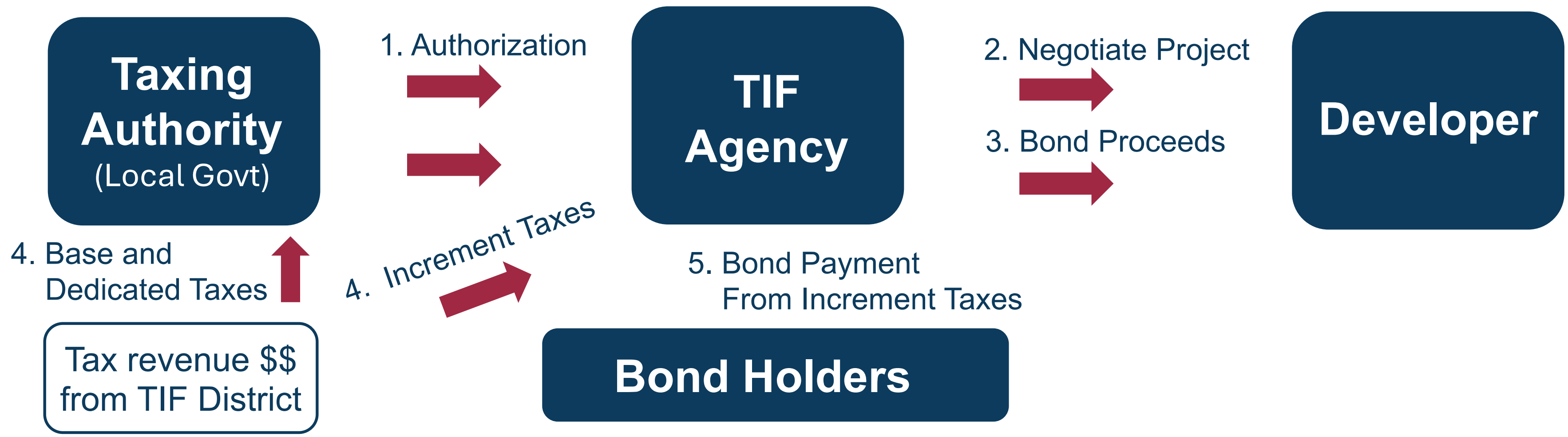
Tax Abatement Through Payments in Lieu of Taxes (PILOT) Agreements



1. Taxing authority authorizes IDB to negotiate a PILOT agreement and corresponding lease agreement with company.
2. To establish a tax-exempt status for its assets the company transfers title of otherwise taxable assets to the IDB through the lease agreement for the term of the lease.
3. Company makes annual PILOT to the IDB and the IDB transfers the payment to the taxing authority. The PILOT will be in effect for a specific term, generally 20-30 years, and represents an amount significantly lower than the actual taxes abated. At the end of the PILOT agreement, including any approved extensions, the title to the assets will transfer back to the company and the company will begin making full property tax payments to the taxing authority.

Tax Increment Financing Structure of a Redevelopment Area

Example of a typical bond issue for public infrastructure that is secured with TIF property tax revenues.



1. Local government creates and gives authorization to TIF Agency to approve a TIF District.
2. TIF Agency negotiates redevelopment project with developer.
3. Bonds are issued by TIF Agency to finance the public infrastructure portion of the project.
4. Once project is complete, taxes assessed within the TIF District are paid to the County Trustee. The local government receives the **base taxes** and **dedicated taxes**, and the TIF Agency receives the **increment taxes**.
5. TIF Agency uses the increment portion to make bond payments.

Appendix E: Key Dashboard Terms for Maps and Tables

Source: Local Government Finance

Key Terms Used In The Economic Development Dashboard

1. Debt Map and Table

Conduit – Debt issued by the IDB that will be repaid by another entity, normally an industry. The IDB has no obligation to repay conduit debt.

Debt Issues – The total number of debt issues associated with an IDB for the reporting year.

Debt Type – Either conduit or direct.

Direct – Debt issued by the IDB for a project in which the IDB has a legal obligation to repay the debt.

Original Amount – The initial amount of debt issued that must be repaid by either the conduit issuer or the IDB.

Project – The name of the project associated with the debt issue. This could be a company name, a development area, or a property name, etc.

2. PILOTs Map and Table

Agency – The type of local government board authorizing the PILOT. Agency codes can be found in Appendix F.

Lease Begin – The date on which the lease and the PILOT start.

Lease End – The date on which the lease and PILOT end.

Lessee – The company, or individual, that is leasing the property associated with the PILOT from the governmental board.

Par ID – (parcel identification number) The unique number assigned to all assessed property in a taxing jurisdiction. A single mailing address could have multiple parcel identification numbers.

PILOT to City – The amount of PILOT payment transferred by the authorizing agency, such as an Industrial Development Board, Housing Authority, or Health, Education, and Housing Facility Board, to the city.

PILOT to County – The amount of PILOT payment transferred by the authorizing agency, such as an Industrial Development Board, Housing Authority, or Health, Education, and Housing Facility Board, to the county.

Project Code – Tennessee statute authorizes certain projects for the local boards to enter into and abate taxes authorized in law. The codes are derived from the sections of statute that authorizes the project and can be found in Appendix F.

Prop Est Value – (estimated value) the estimated value of the property under the PILOT agreement. The law only requires a good faith estimate of value, not a formal appraisal.

Prop Type – (property type) The PILOT agreement can be for either real property (buildings and land) or personal property (equipment and machinery).

3. TIFs Map and Table

City Taxes - The total amount of increment transferred by the city.

County Taxes – The total amount of increment transferred by the county.

Increment Agency – The local governing body with the authority to authorize a TIF plan.

Increment Agency Codes –

HED	Health, Educational and Housing Facility Corporation
IDB	Industrial Development Board
KCDC	Knoxville's Community Development Corporation
MDHA	Metropolitan Development and Housing Agency

Maturity Date – The date the TIF ends.

Project – The name of the TIF plan's associated project. Could be name of the redevelopment district, housing complex, or associated area, etc.

Tax Base – the amount of taxes collected for the TIF plan area in the year prior to the date the plan was approved.

TIF Amount – Total project amount.

Appendix F – Agency and Project Code Key for PILOTs

Source: State Board of Equalization

Agency Codes

HA	Housing Authority
HED	Health Educational and Housing Facility Corporation
IDB	Industrial Development Board

Project Type Codes For PILOTs

Industrial Development Projects (code prefix: ID)

ID01 Storage, manufacture, process or assembly of agricultural, mining, or manufactured products

ID02 Ship canals, ports, harbor or dock facilities

ID03 Off-street parking facilities

ID04 Financial services

ID05 Rail, monorail, or tramway terminals, belt lines and switches

ID06 Office buildings for authorized commercial tenants or organizations promoting agriculture, commerce, or public health safety and welfare

ID07 Public agency office buildings

ID08 Health care or related facilities

ID09 Nonprofit educational facilities

ID10 Planetariums or museums

ID11 Recreation or amusement parks

ID12 Multifamily housing for low to moderate income persons, or elderly or handicapped persons

ID13 Job Training Partnership operation or management projects

ID14 Certain hotel, apartment, conference or convention center facilities (serving CBID or specific counties by population parameters, or adjoining "substantially downsized" federal facilities)

ID15 Pollution control, coal gasification, or energy production facilities

ID16 Airport authority hotel or apartment facilities (Metro only)

ID17 Land or buildings necessary or suitable to farming or ranching

Health & Ed Board Projects (code prefix: HE)

HE01 Facilities, including machinery and equipment, operated by institutions of higher education, including campus educational and athletic facilities and hospital, medical and laundry facilities operated by an institution of higher education

HE02 Facilities, including machinery and equipment operated by a hospital institution, including hospitals, clinics, congregate elderly living facilities, and research, recreational, storage and educational facilities operated by a hospital

HE03 Structures, machinery and equipment operated by an educational facility for physically and mentally retarded individuals

HE04 Structures, machinery and equipment operated and suitable for use by a not for profit blood bank or blood center

HE05 Multifamily housing and related facilities

HE06 Nonexempt single family housing units for purchase

Housing Authority Projects (code prefix: HA)

HA All housing authority projects are classified as HA.

Sports Authority Projects (code prefix: SA)

SA01 Sports or recreation building, complex, stadium, or arena, or supporting infrastructure