



Material from Illinois Tax Increment Association, Frequently Asked Questions

<http://www.illinois-tif.com/about-tif/faqs>

What is Tax Increment Financing?

Tax Increment Financing, or TIF, is a tool state lawmakers gave local governments more than 20 years ago to help local governments restore their most run-down areas or jumpstart economically sluggish parts of town. With this tool, financially strapped local governments can make the improvements they need, like new roads or new sewers, and provide incentives to attract businesses or help existing businesses expand, without tapping into general funds or raising taxes.

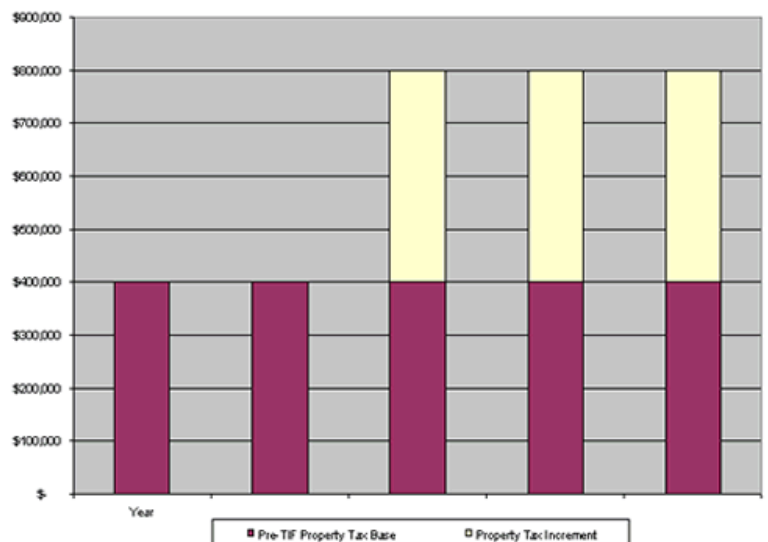
Since the Federal and State governments have greatly reduced their support for economic development, Tax Increment Financing permits municipalities to accept some of this responsibility without raising local property taxes.

TIFs help local governments attract private development and new businesses. New businesses mean more jobs, more customers, and, in turn, more private investment. TIF designation also helps retain existing businesses that might otherwise find more attractive options elsewhere. The jobs and additional investment — private and public — mean more money for the community. TIF also helps to overcome the extraordinary costs that often prevent development and private investment from occurring on environmentally contaminated and other properties. As a result, the TIF area itself improves and property values go up.

Without TIF benefits, a deteriorating area will not improve. Businesses do not sink capital into decaying areas and most local governments cannot afford the needed costly improvements without raising taxes. But in a TIF district, dollars for improvements are generated by businesses — new and old — attracted by the TIF benefits. Specifically, money for infrastructure improvements and other incentives comes from the growth in property tax revenues — the tax increment.

What is a "Tax Increment"?

A tax increment is the difference between the amount of property tax revenue generated before TIF district designation and the amount of property tax revenue generated after TIF designation. Establishment of a TIF does not reduce property tax revenues available to the overlapping taxing bodies. Property taxes collected on properties included in the TIF at the time of its designation continue to be distributed to the school districts, county, community college and all other taxing districts in the same manner as if the TIF did not exist. Only property taxes generated by the incremental increase in the value of these properties after that time are available for use by the TIF.



How do TIFs improve communities?

TIFs create short and long-term benefits for communities. TIF benefits include:

No tax increases

In TIF areas properties are assessed and taxed the same way as in non-TIF areas. The only change is that during the life of the TIF the property tax revenues are distributed differently — with the incremental increase in tax revenue going to the municipality to finance some of the redevelopment expenditures within the TIF area.

Increased property values

The engine that drives TIF is investment in private property subject to the property tax. It is primarily this investment that causes the increased property values and enables the TIF to be a valuable redevelopment tool for cities.

Private investment and development

Chicago Heights — ABC Rail Corporation had two manufacturing facilities in operation in Chicago Heights. The corporation wanted to expand its operations and open a third plant in the City. ABC Rail purchased a vacant industrial property and renovated the 195,000 square foot facility into a plant that will manufacture railroad tracks and switches.

Heights provided \$1.5 million in TIF assistance to acquire and renovate the property. ABC Rail invested \$16 million in the expansion project.

More jobs

Peoria — The \$50 million expansion of the PMP Fermentation Products Facility created 30 new technical jobs in addition to the current 60 positions. Approximately 250 construction jobs were created during the two-year construction period.

Job Retention

Granite City — National Steel Corporation needed to add new coating line facilities to its existing operations. The company opted to remain in Granite City because TIF incentives made expansion possible — keeping more than 3,500 jobs in the area.

Job training programs

Riverdale — To increase its tax base and ensure employment opportunities for area residents, the Village of Riverdale offered \$10,000 annually in matching funds for job training programs to each of the companies in the district.

Stronger, broader tax base

Washington — Infrastructure improvements in the City of Washington — new roads, demolition of dilapidated structures, a new well, a new water treatment plant, and a water tower — attracted private developers to invest in the community. As a result, the equalized assessed value of the city went from \$318,000 in 1985 to more than \$1.8 million in 1993.

Stronger economic base

Chicago — After the demise of the union stockyards in the 1960's, hundreds of acres of land on Chicago's south side were left vacant with inadequate infrastructure. \$15 million in TIF funds were used to rehabilitate the area. Today, the Stockyards Industrial Park is one of the nation's most successful inner city industrial parks with an industrial community of 200 firms and 17,000 workers.

Locally controlled

Chicago — One of the City of Chicago’s primary development goals in its North Loop TIF district was the creation of a theater district to be the “Broadway of the Midwest.” The Oriental Theater, part of this entertainment district, is expected to add \$3.5 million annually to city tax revenue. No federal or state approval of this project was required.

Incremental revenue is reinvested in the TIF district

Bartlett — The Village of Bartlett plans to use funds from a downtown TIF district for streetscaping in the business district. The \$600,000 in improvements includes street resurfacing, landscaping, brick pavers, streetlights, and benches.

Stimulates investment outside TIF district boundaries

In 1993, a subsidiary of Tru Vue, Inc. of New York City relocated its 40,000 square foot industrial facility to the Eastman — North Branch TIF in Chicago. This \$5 million project brought over 20 new jobs to the district and encouraged other industrial interests to establish operations in the area.

Are TIFs widely used?

Yes. Since the establishment of the first Tax Increment Financing districts in California in 1952, TIF has been used throughout the United States in both communities large and small, rural and urban.

According to the Council of Development Finance Agencies (CDFA), as of June 2006, 49 states and the District of Columbia were using Tax Increment Financing as a catalyst for local development and redevelopment. According to CDFA, only Arizona does not have a state TIF law in place.

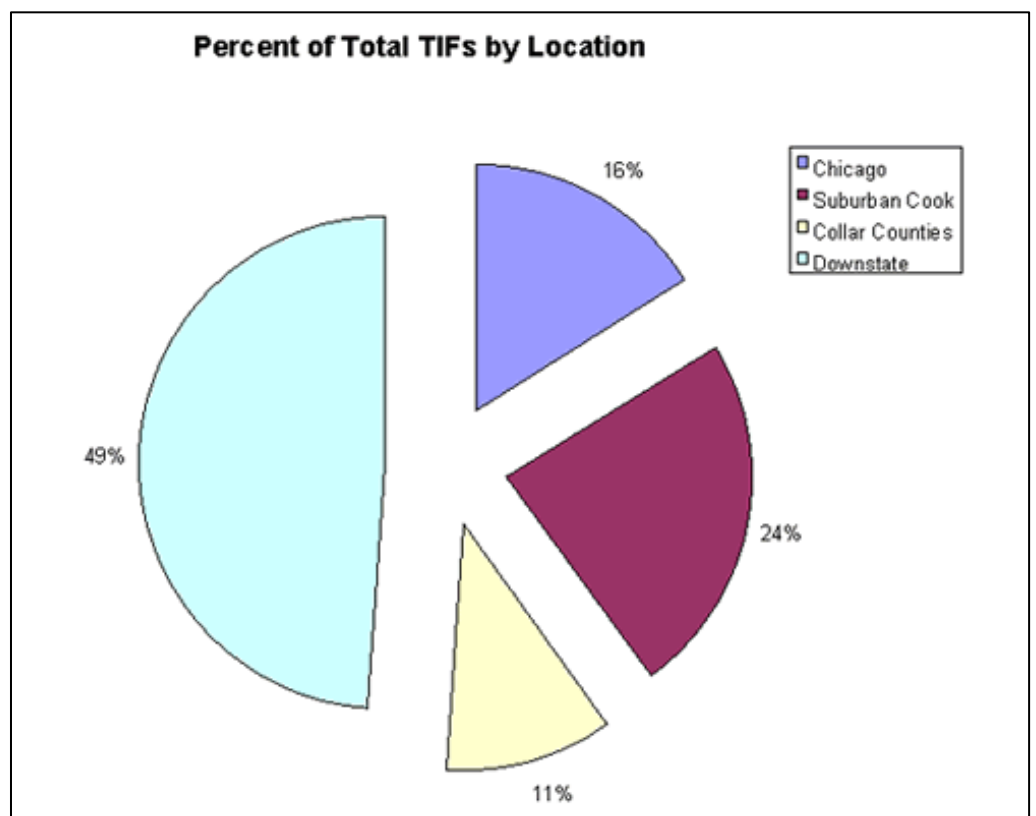
Previous studies indicated that the Midwest leads the nation in TIFs. Four of the seven leading states in the use of Tax Increment Financing are Indiana, Minnesota, Wisconsin and Illinois. This being the case, Tax Increment Financing helps make Illinois communities competitive with communities in the Midwest as well as throughout the nation.

What communities in Illinois use TIF?

In Illinois, TIF districts are used by Sauget (pop. 138) and Chicago (pop. 2.8 million), and every size community in between. Tax Increment Financing can help any size community rebuild infrastructure and attract private investment.

TIFs are found throughout the State of Illinois — from Zion near the Wisconsin border to Marion in the South, and Rock Island on the Mississippi River to Danville near the Indiana border.

How Long has TIF



been around?

Tax Increment Financing was first used in California over half a century ago.

Over 20 years ago, the Illinois General Assembly passed the Illinois Tax Increment Allocation Redevelopment Act that brought this development tool to Illinois. Illinois was the 25th state to adopt this economic development mechanism.

Why is there a need for Tax Increment Financing?

Tax Increment Financing has proven to be an enduring and widely used economic development tool nationwide. TIFs are more frequently used now than ever because other development tools like Industrial Revenue Bonds and Urban Development and Infrastructure Grants, are no longer readily available to local governments.

Billions of dollars in federal and state aid to local governments have been eliminated. At the same time, unfunded federal and state mandates have increased the financial burden on most municipalities. Factor in state imposed property tax caps, and the funding problems facing local governments make it obvious that local governments are left to do more with less.

Tax Increment Financing offers local governments a way to revitalize their communities by expanding their tax base, offsetting, in part, the federal and state funds that are no longer available to them *without imposing increased property taxes on the whole community.*

Does TIF divert money from schools?

No. On the contrary, TIFs can create money for schools.

First, schools continue to receive all the tax revenue they were entitled to before the creation of the TIF district.

Second, under most circumstances, a school's state aid is greater when a school district overlaps a successful TIF district. The incremental growth in property values is excluded from the property tax base when the state calculates the amount of aid it should award to a school district. The "poorer" a school district, the more it stands to benefit from having a TIF district.

Third, the property tax revenue generated from private development attracted by a TIF designation is truly "new" money. Without TIF, development would not occur and the tax increment would not be produced. Not only would new tax money not be generated, but also the area itself would remain economically stagnant.

Critics of TIF argue that school districts are entitled to immediately receive a percentage of the TIF increment. However, it is the tax increment that pays for the improvements that attract private investment and stimulate economic growth. If the increment cannot be used for financing improvements and incentives, private investment and economic development will not occur, and no increment will be made available to any taxing bodies.

Fourth, when the TIF district expires, the tax increment that had been used by the municipality to pay off the redevelopment costs is returned to the tax rolls and available to schools and other local taxing bodies---even in areas where property tax "caps" have been adopted.

Fifth, from time to time a TIF district generates more incremental revenue than is needed to retire the TIF debt and pay redevelopment costs. That surplus is often distributed to the other taxing bodies, including schools.

Homewood — *Over the past 5 years, Homewood's TIF districts have generated more than \$3.7 million in tax increment surplus. A total of \$2.2 million of this surplus went to Homewood's school districts. The funds were used by the schools to pay for building construction, technology projects, and operating expenses.*

How does Tax Increment Financing work?

Anytown, Illinois — Hundreds of acres of property in the northwest side of Anytown were left unoccupied following decades of decline in the steel industry. The area was characterized by dangerously obsolete, environmentally contaminated facilities, old and inadequate access roads and utilities, and vacant foundries. Furthermore, no building permits had been issued in the area in over 10 years.

Anytown decided that it could attract private investors to this part of the city if it could repair the access roads and clean up and rehab the dilapidated structures.

Anytown designated this area as a TIF district. A ball-bearing company that had been looking to expand its operations found one of the improved buildings to be ideal for its manufacturing and distribution facilities. This company brought 175 new jobs to the area, generated sales tax revenue in excess of \$1.3 million, and increased the property value in the district significantly.

The new jobs brought new residents to the district, and a private developer built 50 new townhouses in the area in response to the increased demand for housing. The local school district's state aid increased due to the surge in enrollment.

The city used the additional property tax revenue — the tax increment — to pay for the clean up, new access road and improved utilities.

What kinds of TIFs are there?

The Illinois Department of Commerce and Economic Opportunity (DCEO) has traditionally classified TIFs into five major categories:

Central Business District

Bloomington — In the last several years, 10 projects, representing a total investment of over \$15 million, have been initiated in Bloomington's Downtown TIF district. 75% of the investment has come from private developers. The two largest projects, the renovation of the Livingston Office Tower and two adjacent buildings, and the rehabilitation of the Livingston Department Store, have already increased the downtown district's property value almost \$5 million.

Shopping Mall/Commercial

Effingham - \$3.0 million in TIF project bonds were issued for infrastructure improvements — utility easements, water tank construction, improved site drainage.

Industrial

Collinsville — A \$200,000 TIF agreement for a new road and sewer line made it possible for the relocation of Vigoro, a fertilizer manufacturer, to a new \$2 million facility. This will bring 85 to 90 full time jobs to the community, making it one of the largest employers in the city.

Mixed Development/Non- Central Business District

Columbia — The city approved 4 redevelopment projects designed to spur commercial growth. Projects include: a 7,000 square foot child and elder care center, a new Chrysler — Dodge dealership, a vehicle emissions testing facility, and a 50,000 square foot manufacturing plant. TIF was used as an incentive to keep the manufacturing plant in Columbia and to create 50 new jobs.

Housing

Gibson City — \$375,000 in TIF funds attracted developers to build a \$1.5 million congregate living project for the elderly. Developers rehabbed a school building into 34 one-bedroom living units. Additional service facilities include a library, dining room, and health office.

Types of TIF Districts in Illinois 1977 - 2000		
Types of TIF District	Number	Percent
Central Business District	128	18.2
Shopping Mall/Commercial Strip	65	9.3
Industrial/Conservation/Blight/Other	106	15.2
Mixed Development	357	51.0
Housing	42	6
Undetermined	2	.3
TOTAL	700	100
<i>Source: Illinois Department of Commerce and Community Affairs</i>		

How is a TIF created?

Illinois TIF law specifies a number of requirements that must be satisfied for an area to qualify as a TIF district, beginning with identifying the district and the physical and economic deficiencies that need to be cured. Then municipal officials and a joint review board made up of representatives from local taxing bodies must review a plan for the redevelopment of the TIF area. Then a public hearing is held where residents and other interested parties can express their thoughts on the subject.

Then the proposal must pass through the same process any other ordinance passes through approval by the municipal governing board. Then the mayor or village president will sign the ordinance into law. No state or federal approval is required.

What kind of planning goes into the development of a TIF project area?

A Redevelopment Plan is an assessment of an area in need of economic assistance. The Plan demonstrates why the area needs to be redeveloped and how the municipality plans to revitalize the area.

Illinois law requires review by the major overlapping local governments and a public hearing on the Redevelopment Plan prior to TIF designation. The Plan must be made available for public review and inspection at least 45 days prior to the public hearing.

A Redevelopment Plan includes:

- a description of the boundaries of the district recommended for redevelopment
- a discussion of why the area needs to be redeveloped
- documentation of how the area satisfies the “but for” requirement in order to qualify for TIF eligibility
- the redevelopment goals and objectives for the area
- an explanation of how the land in the TIF district will be used
- a budget for the life of the TIF district, including the total TIF-eligible costs of the plan
- an evaluation of the fiscal and programmatic impact on the overlapping taxing bodies
- a description of the process to amend the plan
- a statement of conformance with the municipality’s comprehensive plan
- a timetable for redevelopment of the area.

What major redevelopment costs are eligible for TIF funding?

TIF funds may be used for costs that will permit previously developed properties to compete with vacant land at the edge of the urban area. State legislation authorizes that TIF funds may be used for:

TIF funds may be used for costs that will permit previously developed properties to compete with vacant land at the edge of the urban area. State legislation authorizes that TIF funds may be used for:

- Property acquisition
- Rehabilitation or renovation of existing public or private buildings
- Construction of public works or improvements
- Job retraining programs
- Relocation
- Financing costs, including interest assistance
- Studies, survey and plans
- Professional services such as architectural, engineering, legal, property marketing and financial planning
- Demolition and site preparation
- Day care services

What is the "but for" test?

When considering an area for TIF designation, municipal officials must ask the question “Will the same kind of private investment occur here without an incentive?”

In order to designate that area as a TIF district, the answer to this question must be “No.” But for the incentive provided by Tax Increment Financing, development would not occur in the designated area.” Evidence that the district satisfies the “but for” test is provided in the Redevelopment Plan.

According to a national study of TIF laws undertaken by Chapman and Cutler, a large bond counsel firm, Illinois has the most stringent “but for” test of the 47 states that use Tax Increment Financing.

What conditions must exist for an area to be designated for TIF?

Illinois law includes three sets of conditions for qualifying areas as TIFs:

- blighted conditions
- conservation conditions
- industrial park conservation conditions

To be designated as a **blighted area**:

Improved property (land that is not vacant) must contain at least 5 of 14 factors that make it detrimental to the public safety, health or welfare of the community. These factors must be present, with that presence documented, to a meaningful extent so that a municipality may reasonably find that each factor is clearly present and reasonably distributed throughout the improved part of the area. These factors are:

- Dilapidation
- Obsolescence
- Deterioration
- Illegal use of individual structures
- Structures below minimum code standards
- Excessive land coverage and overcrowding of structures and community facilities
- Lack of ventilation, light or sanitary facilities
- Inadequate utilities

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- Excessive land coverage
- Deleterious land use or layout
- Environmental clean-up
- Declining equalized assessed value, and
- Lack of community planning

Vacant land must have at least two of the following six factors that impair sound growth of the area, using comparable standards of evidence as for improved areas:

- Obsolete platting
- Diversity of ownership
- Tax and special assessment delinquencies
- Environmental contamination
- Declining equalized assessed value
- Deterioration of structures or site improvements on adjacent land

In addition, there are six other types of vacant land that can be designated for TIF. They include land that was blighted before becoming vacant; unused quarries, mines, or strip mine ponds; unused rail yards, rail tracks or railroad right-of-way; chronic flooding that adversely impacts on property in the area and is caused by improvements recently constructed in the area; unused or illegal disposal sites; large areas that have been previously designated as a town center and meet other requirements.

To be designated as an **industrial park conservation area**:

The municipality must have had a relatively high unemployment rate and the area to be designated must be located within the municipality or within 1.5 miles of the municipal boundaries and be annexed to the municipality; be zoned industrial prior to the establishment of the TIF and contain vacant land suitable for an industrial park and a blighted or conservation area contiguous to the vacant land.

To be designated as a **conservation area**:

- At least 50% of the structures in the improved area must be 35 years old; and
- Three of the 14 factors for designation of a blighted area and another factor entitled "excessive vacancies" must be present.

What are the opportunities for public input?

In the establishment and operation of a TIF district, there are many opportunities for public participation. Before a TIF district is created, the Redevelopment Plan must be available for public review at least 45 days prior to the public hearing. The public hearing offers the community an opportunity to raise questions and voice their concerns about the proposed redevelopment.

A member from the community, representing the public, serves on the Joint Review Board along with representatives of the major taxing bodies overlapping the TIF.

A registry of interested residents and organizations must be created for each TIF and notice of important TIF activities shall be sent to those registered.

Committee meetings of the city council or village trustees afford the public another opportunity to voice support or opposition of the TIF district.

Extensive annual reports are required for each TIF and will soon be available to the public through the State Comptroller's web page.

Additional notices and public meetings are required for certain housing TIFs.

Who controls TIF funds?

Municipal officials control the allocation and disbursement of funds within the TIF district.

Can TIFs be changed?

Yes, TIFs can be changed.

In the case of minor changes to the Redevelopment Plan notice must be given to all taxing bodies and to the public through publication in a newspaper of general circulation within the area prior to the TIF being established.

However, major changes to the Redevelopment Plan adding parcels of property to the TIF district, changing land use, changing the nature of or extending the life of a TIF, increasing the number of low income households to be displaced, add new redevelopment costs to the budget, or increasing the budget by more than 5% after adjustments for inflation, require another public hearing, and all the opportunities for public input that were available during the initial establishment of the TIF district. An example of a major change is the following:

Chicago Ridge — *The Village of Chicago Ridge amended the boundaries of its commercial TIF district, adding an additional 44,000 square feet of retail shopping to the area.*

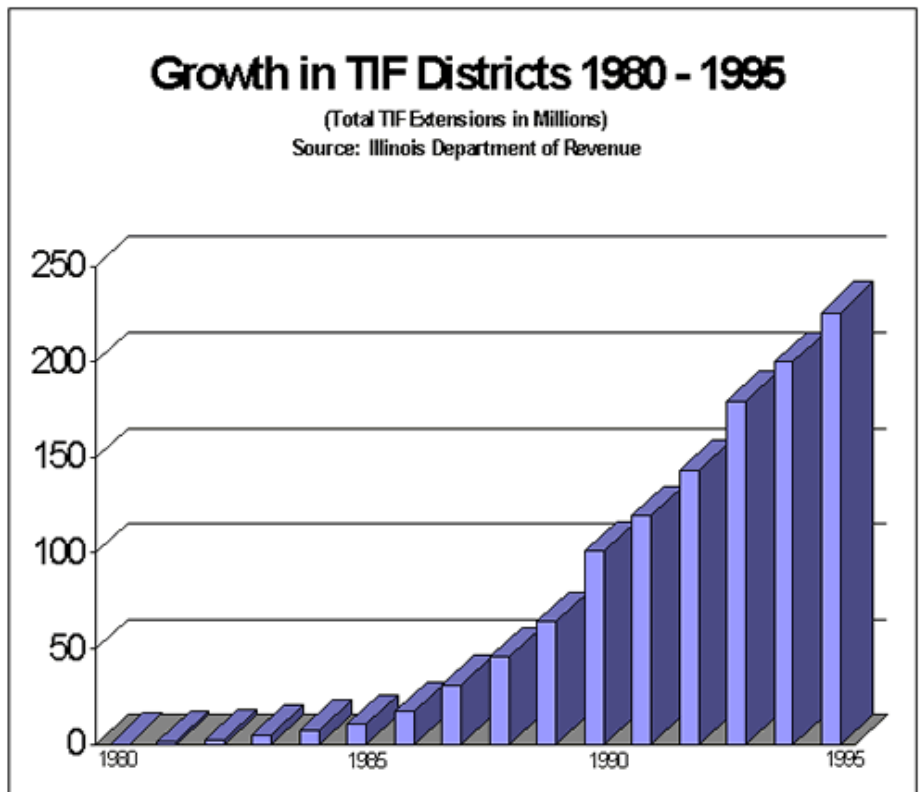
Who monitors the TIF process?

Local governments monitor the progress of the TIF district. By law, all the school districts and major taxing bodies meet with the TIF municipality annually to review the progress of each TIF.

Under Illinois law, municipalities have an obligation to cooperate with other taxing bodies in monitoring TIFs. By law, the Joint Review Board must meet annually to review the effectiveness and status of the TIF district.

How much incremental tax revenue has been generated by Tax Increment Financing in Illinois?

To get some idea of revenue generation, an analysis showing the growth in TIF from 1980 to 1995 is presented in the graph at the right.



How much private investment has been generated by TIF in Illinois?

A 1992 survey of TIF municipalities found that the average TIF project produced four dollars of private investment for every dollar of tax increment investment. Thus investment of the \$225 million of property tax increment produced during the 1995 tax year would induce \$900 million of private investment, for a total of \$1.125 billion of investment in TIF areas during that year. The total TIF district investment was probably far higher because the issuance of bonds, secured by future TIF revenues, allows municipalities access to far greater amounts of money that, in turn leverages even greater amounts of private investment within these areas.

When does a TIF terminate?

Illinois TIF law allows a TIF district to exist for a maximum of 23 years. Any TIF district may be terminated earlier if all financial obligations are paid-off and the municipal board votes to terminate the district.

If no redevelopment project has been initiated within a TIF district within seven years following district designation, the municipality must repeal the TIF. Upon termination of the TIF district, the full tax base, including the increment which had been used to pay for improvements, becomes available to all taxing bodies for their use throughout the future.

Since 1977, when Tax Increment Financing was enacted, about 30 TIF districts have been voluntarily terminated by their municipal sponsors. The average duration of these TIFs was about 6.5 years.

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