

## TAX INCREMENT FINANCING IN ILLINOIS

### *Overview and Answers to Frequently Asked Questions*

#### ***TIF History***

Tax Increment Financing, "TIF" is a tool that local governments can use to help restore and revitalize areas and stimulate improvement and investment in declining areas of their communities. With this tool, local governments can undertake a redevelopment program that requires a multi-year funding source for comprehensive and coordinated improvements and incentives.

The enabling law for TIF is the Illinois Tax Increment Allocation Redevelopment Act ("TIF Act") that was adopted by the Illinois General Assembly in 1977. Comprehensive amendments to the TIF Act were enacted in 1999, including amendments related to eligibility definitions, housing displacement and relocation assistance, administration and reporting, and impacts to taxing districts.

Approximately 330 communities have adopted TIF in Illinois. There are approximately 800 TIF districts across the state.

#### ***TIF Eligibility Requirements***

The TIF Act specifies a number of requirements that must be satisfied for an area to qualify as a TIF district. These requirements are based primarily on physical conditions of sites and buildings as well as economic and market conditions.

A TIF district must be at least 1.5 acres in size and include only a contiguous area of tax parcels. A TIF district may include both vacant areas and "improved" areas (i.e. areas with building or site improvements). Improved areas may be found to be eligible as a TIF redevelopment project area based on criteria set forth in the TIF Act. In summary, any of the following sets of eligibility criteria may be applied for improved areas:

- Blighted Area: meaningful presence and reasonable distribution of at least 5 of 13 factors
- Conservation Area: older areas (most of the buildings are over 35 years) plus a combination of 3 of 13 factors
- Industrial Park Conservation Area/Industrial Jobs Recovery Law: labor surplus required

The eligibility of a vacant area is based on the presence of generally one or more extraordinary factors (e.g. area contains an unused quarry, is subject to chronic flooding, contains abandoned rail right-of-way, etc.).

#### ***Required TIF Documents***

A municipality is required to prepare two documents for each TIF District, including:

- Eligibility Study: provides a summary of requirements and documentation of fieldwork, research and findings.

- **Redevelopment Project and Plan:** identifies land use, TIF project costs, goals and objectives, planned redevelopment activities, impacts on taxing districts, term of TIF district, etc.

If a TIF District includes existing housing units, a municipality may also be required to prepare a Housing Impact Study. The purpose of the Housing Impact Study is to identify the number and type of housing units as well as expected number of units subject to removal due to redevelopment.

***Required TIF Findings:***

In order to establish a TIF District, a municipality must make the following findings:

- area qualifies as a blighted area, conservation area, etc.;
- lack of growth and development due to private investment;
- “but for” Test: on the whole, area is not reasonably anticipated to be developed without TIF;
- only parcels that will substantially benefit are included; and
- TIF Redevelopment Project and Plan is consistent with the municipal comprehensive plan.

***TIF Process***

Typically, the municipality initiates the evaluation of the feasibility of a TIF district. Once eligibility and financial feasibility are established, the municipality prepares the redevelopment project and plan (and the housing impact study, if necessary) for the proposed TIF District. The TIF Act requires that the eligibility study and redevelopment plan be on file for review by other taxing districts, taxpayers of record and other interested parties.

The TIF Act requires that a Joint Review Board (“JRB”) consisting of representatives of the major taxing districts overlapping the proposed TIF district plus a public member be convened. The role of the Joint Review Board is to provide an advisory recommendation to the municipality regarding the proposed designation of the TIF redevelopment project area and the adoption of the TIF redevelopment plan.

The municipality must conduct a public hearing and provide notices to various interested parties by certified mail and newspaper publication. In some cases, an additional community meeting is also required.

The municipality must designate the TIF district and adopt the TIF redevelopment plan by municipal ordinance. No county, state or federal approval is required.

***How does TIF work?***

The tax “increment” is the difference between the taxable value of properties (equalized assessed valuation) before TIF district designation and the taxable value of properties after TIF designation. In general, tax increment is generated based on the following sequence:

- Village designates a TIF District for up to 23 years

- County establishes BASE EAV = sum of the total equalized assessed valuation of all properties in the TIF District at time of adoption
- Village improves infrastructure and streetscape environment
- Village facilitates private investment (assemble/prepare/market sites)
- Private investment and new development occurs
- Property values increase above the BASE EAV = INCREMENTAL EAV
- NOTE: TIF designation does not establish a new tax rate on TIF properties
- $\text{Aggregate Tax Rate} \times \text{BASE EAV} = \text{Tax Revenues distributed to all taxing districts each year}$
- $\text{Tax Rate} \times \text{INCREMENTAL EAV} = \text{Incremental Tax Revenues distributed only to municipality each year}$
- Incremental Tax Revenues must be spent within the TIF District and can be used as a source of revenue to pay back bonds issued for "upfront" costs, or can be used on a "pay-you-go" basis for individual projects.

#### *Why (and how) TIF in Commercial Areas?*

Many older commercial areas and central business districts are characterized by a number of conditions that have led to deterioration and disinvestment and prevent private investment in the future. These conditions might include any or all of the following:

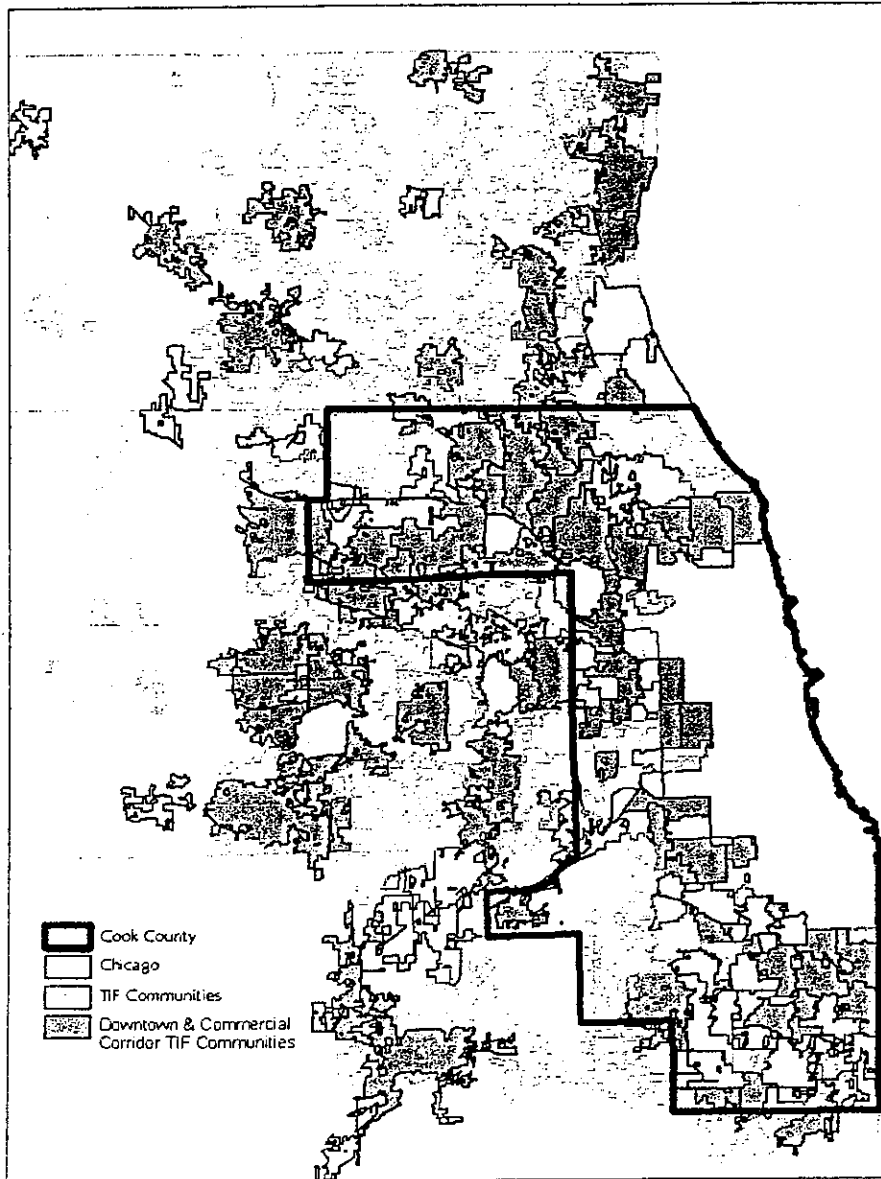
- Lack of market demand for small, obsolescent buildings
- Obsolete platting
- Diverse, multiple ownership pattern: area's problems difficult to manage
- Inadequate parking
- Inadequate utilities
- Deteriorating and deteriorated buildings
- Mixed, incompatible land uses
- Vacant or underutilized land and/or buildings
- Declining or stagnant property values
- Increased demand for municipal services, but
- Municipality less able to provide services due to declining tax base
- Deferred property maintenance, leading to further decline
- Poor image and appearance

## *Private and Public Sector Roles in Commercial Area Revitalization*

The roles of both the private and public sectors in investing in the commercial area to stimulate new development and accomplish timely revitalization are based upon basic requirements for action by each sector.

<i>Private Investor Requirements</i>	<i>Need for Public Action and Expenditures</i>
<ul style="list-style-type: none"> <li>• Site with good vehicular and pedestrian access</li> <li>• Site of adequate size and configuration for contemporary development standards</li> <li>• Adequate and well located off-street parking</li> <li>• Site at competitive price</li> <li>• Adequate utilities for proposed development</li> <li>• Attractive environment</li> <li>• Environmentally "clean" sites</li> </ul>	<ul style="list-style-type: none"> <li>• To minimize or eliminate blighting factors</li> <li>• To assemble sites that are adaptable to redevelopment</li> <li>• To upgrade utilities and other infrastructure to meet current-day standards</li> <li>• To provide supporting facilities and environmental improvements</li> <li>• To close the "gap" between what the private sector can afford and the actual cost of revitalization development</li> <li>• To stabilize and ultimately improve the property tax base</li> <li>• To preserve or restore areas of historic or cultural significance to the community as a whole</li> </ul>

*Downtown and Commercial Area TIF Communities in the Chicago Metropolitan Region*



*What major redevelopment costs can be paid for with TIF funds?*

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
- Capital costs of other taxing districts
- Marketing of development sites
- Studies, survey and plans
- Professional services such as architectural, engineering, legal and financial planning
- Demolition, environmental remediation and site preparation
- Day care services (for communities over 100,000 in size)
- Construction of affordable housing

The TIF Act requires:

- Reimbursement to school districts for increased costs due to new students from homes that have been built within the TIF district with assistance from the municipality.

TIF funds cannot pay for:

- New private construction (except for affordable housing)
- New municipal buildings (unless need is a direct result from TIF development)
- Retail "raiding" from another nearby community
- General overhead or operating costs of taxing district (some exceptions such as TIF administration or costs of new students).

*Can a TIF be changed?*

"Minor" amendments to the Redevelopment Plan require notice to all taxing bodies and to the public through publication in a newspaper.

"Major" amendments to the Redevelopment Plan--adding parcels of property to the TIF district; changing land use, changing the nature of the Plan, extending the life of a TIF, increasing the number of low income households to be displaced, adding 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.

*Who monitors the TIF process?*

The Joint Review Board must meet annually to review the effectiveness and status of the TIF district.

The administering municipality must also file an annual report with the Illinois State Comptroller identifying revenues and expenditures from the TIF fund for the fiscal year.

Finally, a municipality must set up an interested parties registry for each TIF district and provide registrants with various notices and information regarding the TIF.