



# Tax Increment Financing & Business Districts

## Frequently Asked Questions

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### TAX INCREMENT FINANCING

#### Overview

Tax Increment Financing, or TIF, is a long-term economic development tool to help local governments revitalize stagnate or blighted areas within their community. With this tool, financially strapped local governments are able to reinvest in critical infrastructure such as roads and sewers and provide incentives to attract businesses or help existing businesses expand, without tapping into general funds or raising 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. As a result, the TIF area itself improves and property values increase. 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 TIF's 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.
- Stronger, broader tax base – The reinvestment that is spurred by the TIF investment in the district can bring in new businesses, strengthening and diversifying the community’s tax base.
- Local control – The incremental revenue is controlled and invested by the Village, ensuring that the money is spent in a way that is consistent with the Village’s values and objectives.
- Incremental revenue is reinvested in the district – The revenue generated by the TIF district is reinvested within its boundaries, helping to ensure the long-term viability and vitality of the area.

**Are TIF’s 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. Illinois, along with other Midwestern states is the one of the largest users of TIF’s.

**Does TIF divert money from schools?**

No. On the contrary, TIFs can create money for schools. School districts continue to receive all the tax revenue they were entitled to before the creation of the TIF districts. 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. 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.

**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. In early 2016, the Village conducted a TIF Feasibility Study that included all the commercial and industrial areas of the Village. The results of the study indicated that the areas met the criteria for establishment of a TIF District. The Village will then begin the process of preparing redevelopment plans for the areas to be TIF’d. Once the draft plans are complete, Village Officials and a joint review board made up of representatives from local taxing bodies must review the plans after which a public hearing is held to obtain input from the public on the plan contents. Once the plans are finalized, they must be

approved by the Village Board, along with ordinances establishing the TIF's. 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 the Plan be reviewed by the taxing bodies impacted by the TIF and that 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 types of 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:

- 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

The Village’s development consultant, S.B. Friedman, has determined that the areas the Village is considering for TIF’s meet the “conservation conditions.”

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.

- 1) 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.
- 2) 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.
- 3) 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.
- 4) Village Board meetings will also afford the public another opportunity to voice support or opposition of the TIF district.
- 5) Extensive annual reports are required for each TIF and will soon be available to the public through the State Comptroller's web page.

### **Who controls TIF funds?**

The Village controls the allocation and disbursement of funds within the TIF district.

### **Can TIF boundaries be changed or the content of the Redevelopment Plan?**

Yes. 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 – such as 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.

### **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 is anticipated to be generated by the Village Market TIF and the 31<sup>st</sup> Street/Barnsdale Corridor TIF's?**

The Village's consultant, S.B. Friedman has put together some preliminary estimates as to how much revenue may be generated over the life of the TIF's. These estimates, which will be updated as part of the implementation process, project that approximately \$11 million will be generated over the life of

the Village Market TIF and approximately \$9 million will be generated over the life of the 31<sup>st</sup> Street/Barnsdale Corridor TIF.

**When does a TIF terminate and what happens to any remaining revenue?**

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. Any incremental revenue that remains in the TIF fund at the time the TIF expires or is terminated, must be returned to the respective taxing bodies that would have otherwise received the revenue had the TIF not been in place.

**What if I have more questions?**

The Village understands that residents, businesses and property owners may have questions about the TIF process. We encourage you to attend the Village Board meetings to learn more about the process and to share your comments and concerns. You may also contact Village staff at any time by calling Village Hall at (708) 354-0225 or emailing Emily Rodman at [erodman@lagrangepark.org](mailto:erodman@lagrangepark.org).