

Tax Increment Financing (TIF) Explained

The information below was adapted from the [Illinois Tax Increment Association \(ITIA\)](#).

What is Tax Increment Financing?

Tax Increment Financing, or TIF, is a tool state lawmakers gave local governments in the 1980s to help communities restore their most run-down areas or jumpstart economically sluggish parts of town. With this tool, financially strapped municipalities can make the improvements they need, like new roads or new sewers, and provide incentives to attract businesses or to 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, TIF allows 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 communities 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 affected 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
- Increased property values

- Private investment and development
- New jobs
- Job retention
- Job training programs
- Stronger, broader tax base
- Stronger economic base
- Locally controlled development
- Incremental revenue is reinvested in the TIF district
- Stimulates investment outside TIF district boundaries

Are TIFs widely used?

Since the establishment of the first TIF 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 TIF as a catalyst for local development and redevelopment. According to CDFA, Arizona is the only state that does not have a 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 TIF are Indiana, Minnesota, Wisconsin and Illinois. This being the case, TIF helps make Illinois communities competitive with communities in the Midwest as well as throughout the nation.

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.

TIF 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 – actually, 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 stimulates 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.

How does TIF affect property owners or homeowners in or near the TIF District?

Homeowners and property owners benefit from a successful TIF District in several ways:

- Property values are generally stabilized or improved, which can create a "spill over" benefit for adjacent neighborhoods.
- Certain public improvements – water/sewer/streets, etc. – can be and have been paid for through sources other than general property taxes.
- Increased business activity can mean that fewer homeowner property taxes are required to provide for essential services – police, fire, public safety, etc.

Does TIF result in increased tax rates?

TIF captures increases in tax revenue without any change in tax rates. If property values increase as redevelopment occurs, the municipality will receive increased revenues and utilize those revenues to pay for public improvements without increasing tax rates.

The general tax rate in the scenario above stays the same. Only property taxes resulting from any increase in property values, above and beyond the values in the current year, would be designated for future TIF projects.

How does Tax Increment Financing work?

Here's an example of how TIF can work in an Illinois community:

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.

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

- Central Business District
- Shopping Mall/Commercial
- Industrial
- Mixed Development/Non-Central Business District
- Housing

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. A public hearing is held where residents and other interested parties can express their thoughts on the subject.

The proposal must pass through the same approval process through the municipal governing board. Finally, 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 taxing bodies 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;
- Reasons for redevelopment of the area;
- Documentation of how the area satisfies the “but for” requirement in order to qualify for TIF eligibility;
- Redevelopment goals and objectives for the area;
- An explanation of how the land in the proposed 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; and
- A timetable for redevelopment of the area.

What major redevelopment costs are eligible for TIF funding? What kinds of projects are permitted under the State TIF Act?

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, surveys, and plans;
- Professional services, such as architectural, engineering, legal, property marketing, and financial planning;
- Demolition and site preparation;
- Day care services;
- 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; and
- A timetable for redevelopment of the area.

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;
- 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; and
- 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; and 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;
- 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 a notice of important TIF activities shall be sent to those registered.

Village Board meetings 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.

Does TIF require the issuance of debt?

The creation or amendment of a TIF district does not mean that any debt will be created or incurred. If the Village decides to incur debt to provide for public improvements, then funds for debt repayment will generally come from taxes generated in the TIF District and not from any Village-wide property taxes. The Village possesses the option of using other revenues and issuing other types of debt- if it believes that a specific development project would justify such utilization of funds and/or taxing powers.

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.

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.

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.