WHAT IS TAX INCREMENT FINANCING?

Tax Increment Financing (TIF) is a means by which cities, towns, and villages may achieve a level of community and economic development far beyond current expectations.

TIF is particularly useful to communities where local leaders envision a resurgence of population, a robust local economy and a town capable of providing the varied public services, security and quality of life so many young families, workers, business owners, and elderly persons are searching for today.

Tax Increment Financing is the only local economic development tool available to Illinois communities.

Tax Increment Financing is a powerful tool that enables municipalities to self-finance its redevelopment programs. TIF funds can pay for public improvements and other economic development incentives using the increased property tax revenue the improvements help generate.

To retain and attract new businesses and manufacturing operations as well as a highly qualified labor force, Illinois communities must enhance their competitive positions in the marketplace, rebuild their aging infrastructure, and upgrade older commercial centers, industrial properties and residential neighborhoods. Becoming more competitive requires strong leaders and the right tools. Given the decline in assistance available from Federal and State governments, Tax Increment Financing is the only locally controlled economic development tool available to Illinois communities.

Between 1977 and 1997, over 250 Illinois municipalities created at least one TIF District. Collectively, there are now over 800 TIF Districts within Illinois. Currently, 47 states utilize Tax Increment Financing as a catalyst for needed redevelopment. The success of TIF is a reflection of public and private entities working cooperatively to meet the redevelopment goals and objectives of those municipalities.

When the Illinois General Assembly adopted the Illinois Tax Increment Allocation Redevelopment Act in 1977, it granted municipalities the power and authority to address the adverse conditions of blighted and conservation areas within their jurisdictions by undertaking redevelopment projects that were essential to the public interest.

In general, Tax Increment Financing works as follows:

1) A municipality identifies an economically stagnant or physically declining area and determines that private investment in the area is not likely to occur at a reasonable rate if no public investment is forthcoming.

2) Having completed studies and plans and conducted public hearings as called for by state law, the municipality creates a TIF District.

3) The County Clerk certifies the total equalized assessed valuation of property in the District as of the date the TIF District is created. All property taxes arising from this certified initial valuation, or "base value," continue to be paid to existing taxing bodies within the TIF District. Any incremental taxes arising from increases in property values after this point are re-allocated and set aside for "public and private redevelopment project costs" in the District.

4) The municipality makes public improvements and provides other assistance intended to spur private development in the District. To defray the cost, the municipality can sell bonds secured by the incremental taxes the improvements will help generate.

5) After 23 years, all obligations must be paid off and the TIF District is dissolved. All taxes then generated on the new assessed valuation are distributed to the taxing bodies.

It should be emphasized that TIF does not generate tax revenues by increasing tax rates. Rather, TIF generates revenues by allowing the municipality to capture, temporarily, the new tax revenues generated by the enhanced valuation of properties resulting from the various redevelopment projects.

With TIF all taxing districts continue to receive property taxes levied on the base equalized assessed valuation (EAV) of properties within the project area. Additionally, municipalities have the authority to enter into Intergovernmental Agreements to address any excessive financial impact the TIF District poses to other taxing districts.

MORE FACTS ABOUT TAX INCREMENT FINANCING

- **TIF area properties are assessed and taxed the same as in non-TIF areas.** The only change is that during the life of the TIF District, the property tax revenue is distributed differently. Incremental increases in real estate taxes go to the municipality to help finance TIF eligible project costs within the redevelopment area.

- **TIF Districts can create money for Schools.** In Illinois, school districts continue to receive all the tax revenue they were entitled to before creation of a TIF District. Although schools usually lose state aid when assessed valuations increase, the incremental growth in property values within a TIF District is excluded from the property tax base when the State of Illinois calculates the amount of aid it awards to a school district. Therefore, the "poorer" a school district is, the more it stands to gain from having a TIF District.

- **Property tax revenue generated from private development within a TIF District 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 the area itself would remain economically stagnate.

- **Municipal officials control the allocation and disbursement of funds within the TIF District.** TIF is the only economic development tool with which local leaders may have some control over the type of development occurring in the community.

- **The Illinois TIF Act permits 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 municipality decides to end the District.

- **The full tax base, including the new growth, becomes available to all taxing bodies for their use after the TIF District ends.** Until then, all major taxing bodies meet annually with the municipality to review the progress of the District.

EDG Thomas N. Jacob & Associates
The Economic Development Group, Ltd. EDG

1701 Clearwater Avenue, Bloomington, IL 61704
Ph: (309) 664-7777 Fax: (309) 664-7878
E-mail: info@tomjacobgroup.com

Thomas N. Jacob & Associates
The Economic Development Group, Ltd.

TAX INCREMENT FINANCING DISTRICT

A tool for attracting economic development, new investment, and community renewal.

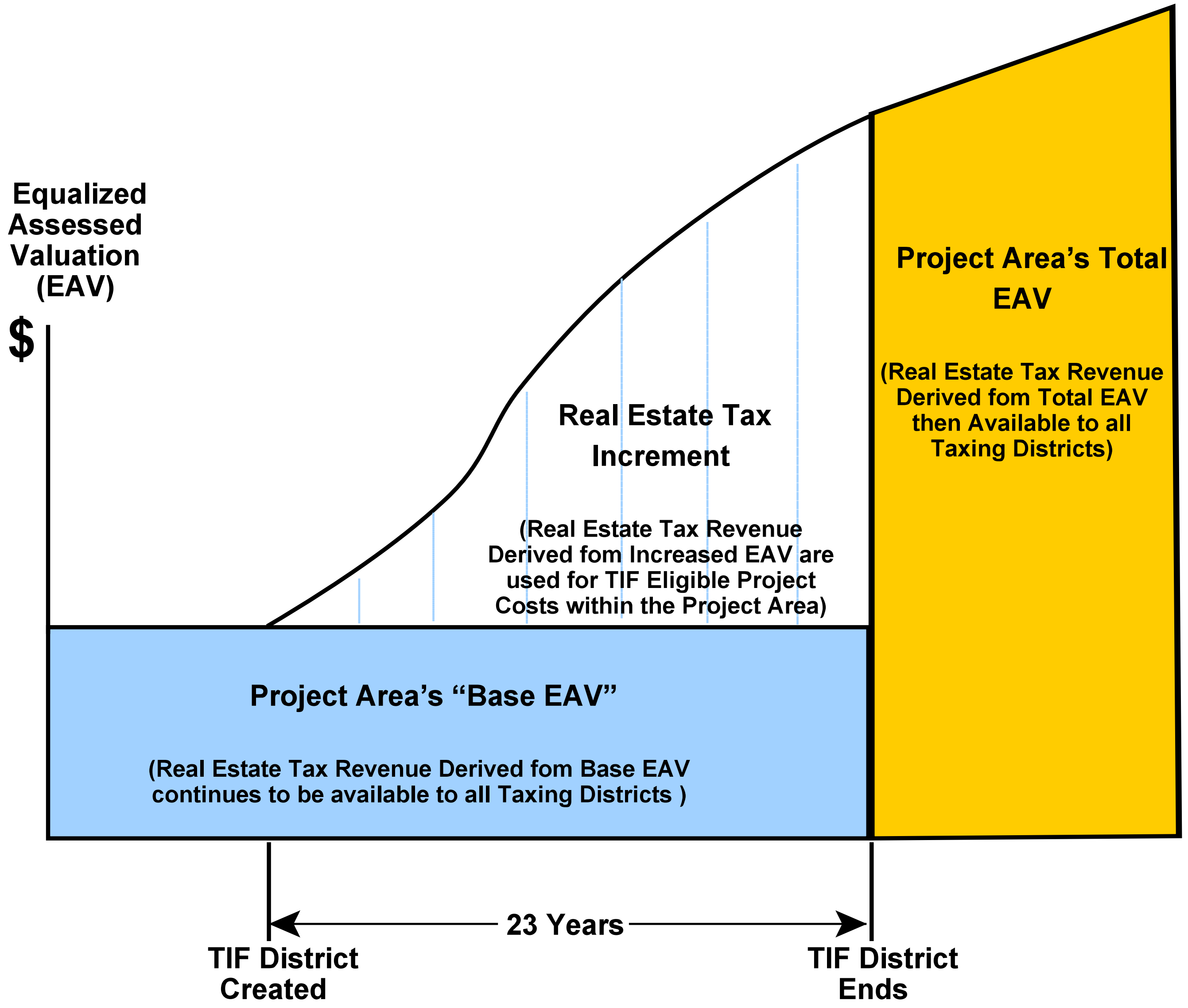
Frequently Asked Questions

HOW DOES TIF WORK?

A TIF District's revenues ("tax increment") come from the increased assessed value of property and improvements within the District. Once a TIF District is established, the "base" assessed value is determined. As vacant land and dilapidated properties develop with TIF assistance, the equalized assessed valuation (EAV) of those properties increases. New property taxes resulting from the increased assessed valuation above the base value create an incremental increase in tax revenues generated within the TIF District.

The " tax increment" created between the "baseline" and the new EAV is captured, deposited into a special city TIF account and used solely for economic development. The real estate tax increment can be used as a source of revenue to reimburse certain costs for public and private projects either by issuing TIF bonds or by reimbursing developers on a "pay-as-you-go" basis. All of the other taxing bodies continue to receive real estate tax revenue from the base assessed valuation , so there is no loss of revenue to those local taxing bodies.

The maximum life of a TIF District is 23 years. When the TIF expires and the town's investments in both public and private redevelopment projects within the TIF redevelopment area are fully repaid, property tax revenues are again shared by all the taxing bodies. All taxing bodies then share the expanded tax base – the growth which would not have been possible without the utilization of Tax Increment Financing.



HOW LONG DOES IT TAKE TO CREATE A TIF DISTRICT?

Typically the process for establishing a TIF District will take 6-8 months. The length of time required to create a TIF District depends on several factors such as the municipality's ability to complete necessary annexations and the availability of local property tax data, historical records, maps, and other planning documents. Once the calendar is set for the Public Hearing, statutory guidelines determine the earliest date when the TIF District may be created.

There are many opportunities for public participation during the process of creating and operating a TIF District. A written Redevelopment Plan must be available for public review at least 45 days prior to a Public Hearing. The Public Hearing offers the community a chance to raise questions, voice concerns, and learn about the goals and objectives driving the redevelopment effort before the District is created.

TIF Does Not Increase Taxes.

TIF Is Not a New Tax or a New Taxing District.

HOW IS TAX INCREMENT FINANCING USED?

TIF can be used to fund a variety of public improvements and other investments that are essential to a successful redevelopment program, including:

- Area-wide public infrastructure improvements such as road and sidewalk repairs, utility upgrades, water and sewer projects.
- Acquisition, clearance and other land assembly and site preparation activities.
- Rehabilitation of older, deteriorating or obsolescent buildings.
- Correction or mitigation of environmental problems and concerns.
- Job training, workforce readiness and other related educational programs.
- Incentives to retain or attract private development.

WHAT CONDITIONS QUALIFY AN AREA TO BE DESIGNATED AS A TIF DISTRICT?

In addition to being located within the municipal boundaries or annexed to the municipality, the TIF Act includes three sets of conditions for qualifying an area as a TIF District:

- Blighted Conditions – examples include dilapidation, obsolescence, deterioration, inadequate utilities, declining assessed valuations.
- Conservation Conditions – at least 50% of the structures in the proposed redevelopment area are 35 years of age or older.
- Industrial Park Conservation Conditions – based largely on a relatively high unemployment rate.