

Tax Increment Financing

WHAT IS TIF?

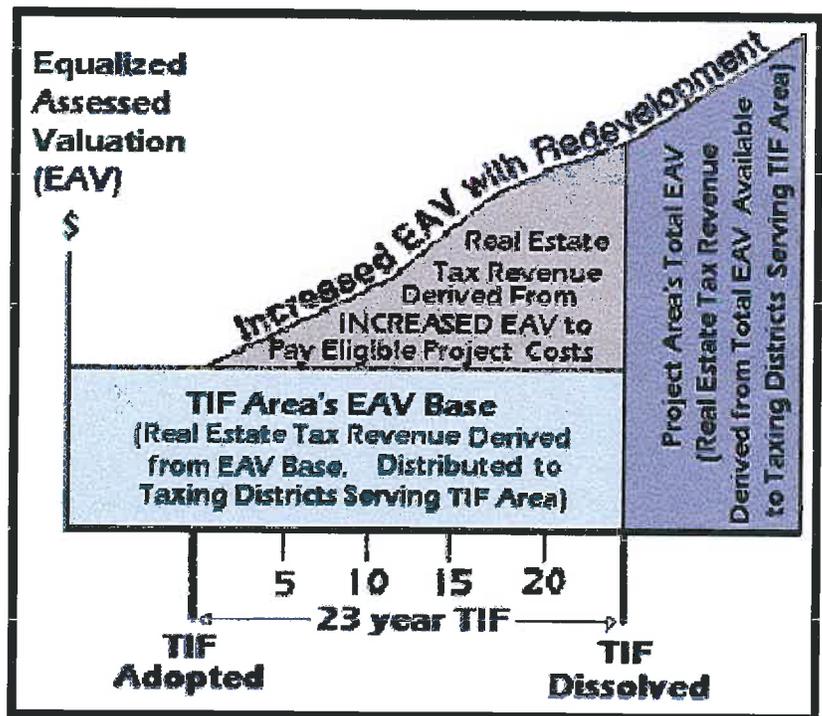
Tax Increment Financing (TIF) is an economic development technique that allocates future property taxes from a designated area to pay for improvements only within that area. The program lasts for up to 23 years after the creation of the TIF district.

Tax Increment Financing (TIF) is a technique which utilizes future tax revenues to stimulate new private investment in redevelopment areas.

- *TIF is Not a tax!*
- *TIF is Not a tax freeze!*
- *New property tax revenues must be used within the district*
- *TIF is a Tool to leverage private investment*

HOW DOES TIF WORK?

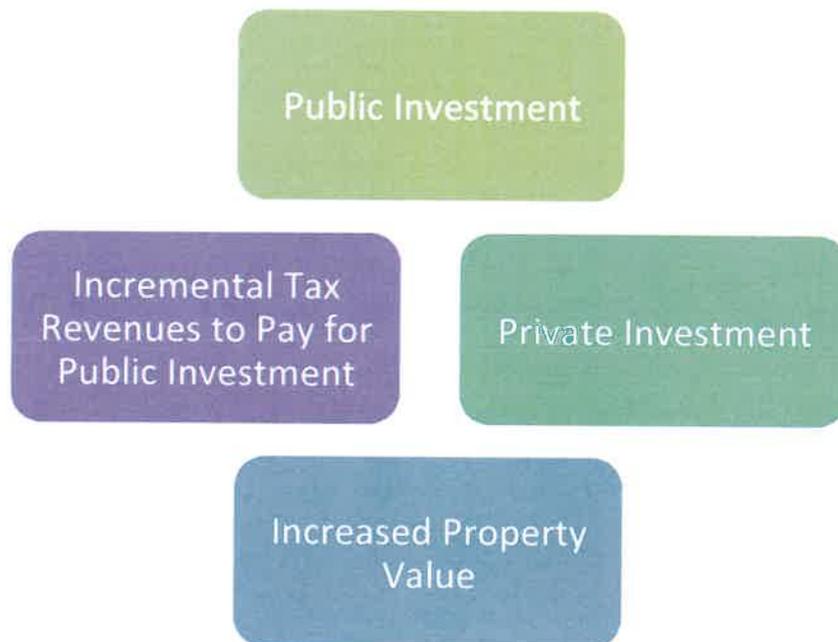
Normally, property is taxed by several different governmental jurisdictions: the City, school districts, the county, forest preserve district, community college district, etc. The taxes levied are allocated to each district in accordance with its tax rate. Under TIF, when the assessed value of property rises due to new development, the increased property taxes collected on that additional value all allocated to the TIF District Fund. Other districts continue to receive the property taxes generated by the base value of properties in the district.



All properties in the district are assessed in the same manner as all properties outside the district, and taxed at the same rate. TIF is not an increase in taxes. A similar property would pay the same property taxes inside or outside the TIF District, before, during and after the life of the district. It is only a re-allocation of how they are used. Increases in property taxes experienced by property owners are due to reassessment and rate increases, not TIF.

What is the RATIONALE for the use of TIF?

The rationale for TIF is that only municipalities have the responsibility and authority to support redevelopment and, more broadly, economic development. All taxing bodies benefit in the long run from these activities. It is therefore appropriate to utilize the power of their combined tax rates to help pay for costs necessary to bring about redevelopment from which the community and all of the taxing bodies will benefit. TIF calls for public improvements that attract private reinvestment in an area, with the intent that redistribution of tax revenues during the life of the district will result in the creation of a broader tax base and the redevelopment of deteriorating and underutilized property. The funds for this investment come from revenues from the TIF district that would not otherwise exist if the TIF public improvements were not made.



TIF FUNDING

TIF funds can only be used for project costs that directly benefit the district, including, but not limited to:

- Utilities & Road Improvements, Traffic Signalization
- Environmental Clean-Up
- Land Acquisition - Property Assembly
- Taxing District Capital Costs, Student Impact Compensation
- Rehabilitation of Buildings
- Not Direct Funding of New Private Construction Costs, but can pay for infrastructure and land assembly.

What Determines Whether a TIF Can or Should be Established?

Improved Area Designation Factors

There are two ways to qualify an improved area: (i) a blighted area, or (ii) a conservation area. Designation as a “blighted area” requires that five of the factors listed below are found to a meaningful extent and reasonably distributed. Designation as a “conservation area” requires that more than 50 percent of the buildings in the study area are 35 or more years of age, and that three of the below listed factors are found. (Such a “conservation area” is not yet a blighted area, but because of a combination of three or more of the following factors, is detrimental to the public safety, health, morals, or welfare, and such an area may become a blighted area.)

1. Dilapidation
2. Obsolescence
3. Deterioration
4. Presence of Structures below Minimum Code Standards
5. Illegal Use of Individual Structures
6. Excessive Vacancies
7. Lack of Ventilation, Light, or Sanitary Facilities
8. Inadequate Utilities
9. Excessive Land Coverage and Overcrowding of Structures and Community Facilities
10. Deleterious Land Use or Layout
11. Environmental Clean-up
12. Lack of Community Planning
13. Lack of Growth in Equalized Assessed Value

Vacant Land Designation Factors

Vacant land can be determined to be eligible if at least two of the following six factors are present to a meaningful extent and reasonably distributed throughout the TIF area:

1. Obsolete platting
2. Diversity of ownership
3. Tax and Special Assessment Delinquencies
4. Deterioration of structures or site improvements in areas adjacent to vacant land
5. Environmental Issues
6. Lack of Growth in EAV

Required Findings and Tests

Lack of Growth and Private Investment

The City Council is required to determine whether the proposed TIF area has been subject to growth and private investment, and must substantiate such a finding prior to establishing a TIF district.

What does “BUT FOR” mean...

The municipality is required to find that, if the designation of the TIF district and the use of tax increment financing did not occur, significant investment is unlikely to occur within the proposed TIF District.

Conformance to the Plans of the Municipality

The proposed redevelopment area and plan must conform to the comprehensive plan for the municipality, conform to strategic economic development plans, or include land uses approved by the planning commission.

Dates of Completion

The redevelopment project shall be completed and all obligations retired within 23 years.

Financial Impact of the Redevelopment Project

Financial benefits and costs of the project must be evaluated and found to be, on balance, positive.

Demand on Taxing District Services

The potential impact on demand for services must also be explicitly considered. The impact of residential projects upon schools is usually of particular concern.

Program to Address Financial and Service Impacts on Other Jurisdictions

If there are significant impacts, the plan should address them.

What is the Redevelopment Plan?

The process of establishing a TIF district requires the preparation and adoption of a redevelopment plan and redevelopment program...essentially the “ends and means” of redevelopment. The Redevelopment Plan and Program include the following:

Elements of Redevelopment Plan

- Introduction
- Legal Description
- Eligibility Summary
- Goals and Objectives
- Future Land Use and Redevelopment Activities
- Redevelopment Program, including what TIF funds would be used for, what the Estimated Project Costs would be, and, If Bonds are proposed, what are terms?
- A Finding of Need – “But for.....”
- Impact on Taxing Districts

How can TIF revenue be used?

There are three general categories of activities that may be supported by tax increment funds under the provisions of the Act:

- **Public Improvements**
 - Provision or Rehabilitation of Public Improvements and Facilities
 - Streets
 - Streetscaping
 - Other Infrastructure
- **Development/Redevelopment/Rehabilitation Activities**
 - Assembly and Acquisition of Sites, Demolition, and Site Preparation Including Contamination Clean-up and Relocation
 - Environmental Remediation
- **Administrative Support and Financing**
 - Job Training, “Welfare to Work,” and Related Educational Programs
 - Day Care
 - Analysis, Administration, Studies, Legal
 - Financing Costs
 - Payments in Lieu of Taxes

Has Lake Forest Used TIF Before?

Yes. The City established a TIF District in West Lake Forest in 1988. That District began with an assessed value of \$2.4 million, and by the close of the district, in 2012, had grown to more than \$50 million in EAV. The Public improvements included:

- The Train Station and Commuter Lot
- Everett Park Improvements
- Fire Station
- Installation of sanitary sewer and water mains
- Traffic improvements
- Streetscape improvements
- \$7.8 million capital grant to School District #67 for Everett School expansion and renovations

These public improvements, in turn, leveraged:

- The Construction of Sunset Foods Shopping Center
- Lovell’s Restaurant
- Northern Trust, Fifth Third and Private Bank
- 128 dwelling (Townhomes and single family) development
- Forest Square mixed use development

How Is the TIF Process Organized?

The process of establishing a TIF District is specified by the Illinois TIF Act. Before the municipality adopts TIF, it must have a tentative plan which describes the proposed boundaries, why the area might qualify as a TIF District, what the municipality intends to do to eliminate problem areas and attract private investment, what the general land uses are proposed to be, what private and public projects are anticipated, what the estimated budget is and what the estimated life of the TIF District will be.

Citizens can take an active role by attending public hearings and meetings to voice their opinions on the TIF proposal. Notice of the availability of the plan and the date and time of a public hearing must be sent to all property owners within the proposed TIF District, as well as other interested parties. In addition, a Joint Review Board, composed of representatives from local taxing bodies, such as the school district, is organized to review the proposal. Prior to the adoption of the plan and the TIF District, the JRB votes and makes a recommendation to the municipality. Final approval of a TIF District is given by the City Council.

Finally, a detailed annual report of activities and the financial status of the TIF District must be filed with the State Comptroller and with members of the JRB. This will indicate how successfully the municipality is in utilizing TIF.

Doesn't TIF Harm the Schools?

During the life of the TIF district, the School Districts continue to receive tax revenues based on the property value in place at the time of the adoption of the TIF (these revenues often go up or down if the school district modifies its tax rate during the life of the district, as the taxes are not "frozen"). But the Illinois Legislature recognized that there would be TIF districts that generated new students from within the redevelopment area that might create a burden on the schools districts. In an effort to "hold the school districts unharmed", the TIF Act includes provisions for compensating the school districts for unrealized tuition for every enrolled student living in homes constructed within the district as part of the TIF project. Both the elementary and high school districts will receive more revenue from the TIF district than they currently receive, and far more revenue from the district once the TIF district is dissolved.