



## About TIF

**Tax Increment Financing (TIF) helps local governments attract private development and new businesses.**

Municipalities in Illinois and across the nation are faced with numerous challenges, not the least of which is encouraging economic growth in blighted, decaying, and underperforming areas in need of development or redevelopment.

Most often improving these areas requires a public investment to reduce the extra cost and risk that private development faces in such areas. The public wishes to see this development occur, but without increased taxes or the reduction of other necessary services and projects that would be required to pay for the public investments that development and redevelopment usually require.

One tool successfully in use in Illinois and 48 other states to meet this economic development challenge is Tax Increment Financing: or TIF. With this development tool, financially strapped local governments can make the improvements they need, like new roads or sewers, and provide incentives to attract new businesses or help existing businesses stay and expand. And TIF does this without tapping into general municipal revenues or raising taxes.

Since the Federal and State governments have greatly reduced their support for local economic development, Tax Increment Financing helps local governments attract private development and new businesses using local resources that do not depend upon an increase in taxes or the reduction of other services. New development and businesses mean more jobs, more customers, and, in turn, more private investment for areas most in need. TIF projects also help retain existing businesses that might consider relocating away from declining areas. These jobs and investment — public and private — mean more revenue to help a community meet its other needs. As a result, the community as a whole, not just the area targeted for TIF revenues, improves.

### **The TIF Concept**

Tax Increment Financing is simple in concept. TIF calls for local taxing bodies to make a joint investment in the development or redevelopment of an area, with the intent that any short term gains be reinvested and leveraged so that all the taxing bodies will receive larger financial gains in the future. The funds for this investment do not come from current revenues, but from future tax revenues, not otherwise expected to occur. These new revenues are generated by increased public and private investment in identified,

underperforming, areas.

When a TIF redevelopment project area (often called a TIF district) is created, the value of the property in the area is established as the “base” amount. The property taxes paid on this base amount continue to go to the various taxing bodies as they always had, with the amount of this revenue declining only if the base declines (something that the TIF is expected to keep from happening) or the tax rate goes down. It is the growth of the value of the property over the base that generates the tax increment. This increment is collected into a special fund (the Special Tax Increment Allocation Fund) for use by the municipality to make additional investments in the TIF project area. This reinvestment generates additional growth in property value, which results in even more revenue growth for reinvestment.

In this way the TIF redevelopment project creates a vital cycle, increasing development and redevelopment in the area, such that when the TIF project ends — and Illinois law allows a TIF project to exist for a period of up to 23 years — all of the taxing bodies benefit from the new growth.

#### **How a TIF Works**

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 designation. Establishment of a TIF does not reduce property tax revenues available to overlapping taxing bodies as the property taxes collected on properties included in the TIF at the time of designation continue to be distributed to them in the same manner as they would if the TIF did not exist. Only the new property taxes generated by the incremental increase in the value of these properties after the TIF is established are available for investment in the TIF.

For example, assume that a municipality wants to develop an area that includes two parcels that contain substandard commercial buildings. Let’s also assume that both of these parcels are paying \$30,000 per year in property taxes. However, the municipality finds that by making an investment of \$500,000 to rehabilitate the buildings on the two parcels and provide necessary infrastructure, private developers will commit an additional \$2,000,000, making the commercial buildings available for new use. This additional investment causes the property to increase in assessed value, for example — and conservatively — leading to the tax paid on each parcel going from \$30,000 per year in property taxes to \$60,000 per year. The public and private investment would increase the total property taxes paid from \$60,000 each year (\$30,000 per parcel), to \$120,000 each year (\$60,000 per parcel). The project would result in \$60,000 in new tax increment, which the municipality could use to off-set its original investment in less than nine years. After this initial investment is paid-off, the newly generated increment can be used for additional investments in the area.

Ultimately, after the conclusion of the TIF project, all of this new revenue growth is available to the various taxing bodies. Successful TIF investment therefore serves all of

the investors, both public and private. Private investors are helped by a reduction in development cost and risk, and public investors by the generation of additional revenue available at the conclusion of the TIF project.

### Typical TIF Projects

TIF funds may be used for costs associated with the development or redevelopment of property within the TIF, allowing blighted, declining and underperforming areas to again become viable, and allowing these areas to compete with vacant land at the edge of urban areas.

Typical projects include:

- The redevelopment of substandard, obsolete, or vacant buildings.
- Financing general public infrastructure improvements, including streets, sewer, water, and the like, in declining areas.
- The development of residential housing in areas of need.
- Cleaning up polluted areas.
- Improving the viability of downtown business districts.
- Providing infrastructure needed to develop a site for new industrial or commercial use.
- Rehabilitating historic properties.

### Types of Eligible Costs

The eligible uses for TIF funds are provided in Illinois' Tax Increment Allocation Redevelopment Act (65 ILCS 5/11-74.4-1 through 11-74.4-11): the TIF Act.

The Illinois TIF Act generally authorizes that TIF funds may be used for:

- The administration of a TIF redevelopment project.
- Property acquisition.
- Rehabilitation or renovation of existing public or private buildings.
- Construction of public works or improvements.

- Job training.
- Relocation.
- Financing costs, including interest assistance.
- Studies, surveys and plans.
- Marketing sites within the TIF.
- Professional services, such as architectural, engineering, legal, and financial planning.
- Demolition and site preparation.

*Source: Illinois TIF Association: <http://www.illinois-tif.com>*