

Tax Increment Financing

WHAT IS TIF?

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

HOW IT WORKS

Normally, property is taxed by several different governmental jurisdictions: the municipality (City or Village), School District, County, Park District, Water Reclamation District, etc. The taxes levied are allocated to each district in accordance with its tax rate. (In this document, we refer to the municipality as the City, but it also applies to Villages).

Under TIF, the property taxes due to increased value from new development, increases in assessment due to rehab or improvement, equalization, or rate changes are all allocated to the City. 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 other properties, and taxed at the same rate. TIF is not an increase in taxes. 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.

RATIONALE

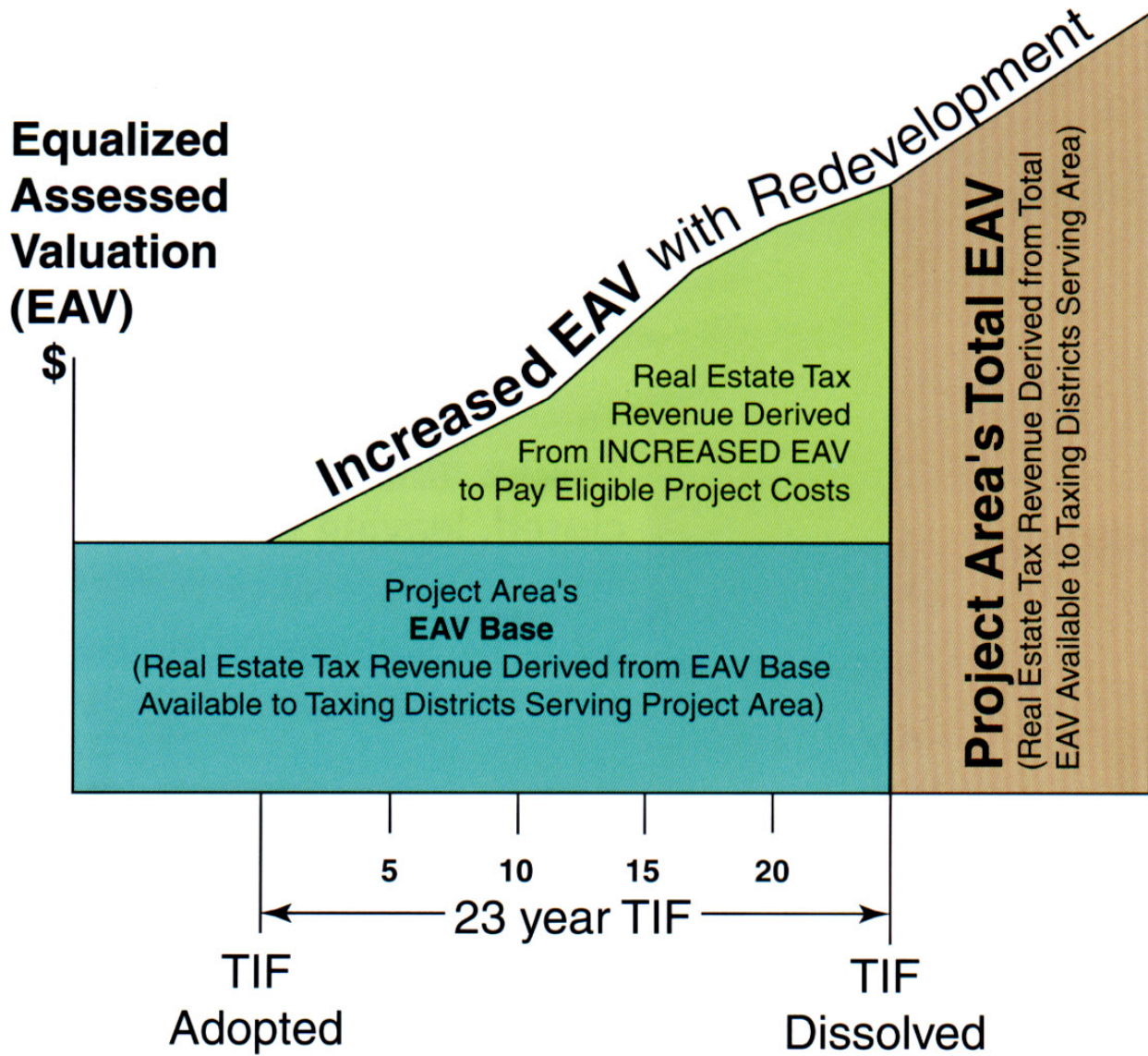
The rationale for TIF is that only Cities have the responsibility and authority to support redevelopment and, more broadly, economic development. All taxing bodies benefit in the long run from these activities. It is therefore appropriate to utilize “their taxes” to help pay for costs necessary to bring about redevelopment from which the City will benefit. Since only the City can incur those costs, it is fair to re-allocate those tax dollars for the use of the City for the redevelopment project.

TIF LAW ELIGIBILITY

A parcel-by-parcel analysis of the potential area is required.

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 an 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

- an advanced state of disrepair or neglect
- critical defects in primary structural components (roof, bearing walls, floors, foundations), building systems, and secondary structural components

2. Obsolescence

- a building or improvement has fallen into disuse, is in the process of falling into disuse, or has become ill-suited for its original use

3. Deterioration

- physical deficiencies or disrepair in buildings or site improvements beyond normal maintenance
- buildings - major defects in the doors, windows, porches, gutters and downspouts, fascia, and in primary areas such as foundations, frames, and roofs
- surface improvements - surface cracking, crumbling, potholes, depressions, loose paving material, weeds protruding through surface

4. Presence of Structures below Minimum Code Standards

- all structures that do not meet the standards of zoning, subdivision, building, fire, and other governmental codes applicable to property, but not including housing and property maintenance codes

5. Illegal Use of Individual Structures

- the use of structures in violation of the applicable federal, State, or local laws, not including the laws detailed in number 4 above

6. Excessive Vacancies

- the presence of buildings that are unoccupied or under-utilized, and that represent an adverse influence on the area because of the frequency, extent, or duration of the vacancies

7. Lack of Ventilation, Light, or Sanitary Facilities

- inadequate natural light or ventilation in rooms without windows, or with improper

- window sizes
 - inadequate sanitary facilities such as garbage storage, bathroom facilities, hot water, etc.
- 8. Inadequate Utilities**
- underground and overhead utilities that are (i) of insufficient capacity, (ii) deteriorated, antiquated, obsolete, or in disrepair, or (iii) lacking within the study area
- 9. Excessive Land Coverage and Overcrowding of Structures and Community Facilities**
- over-intensive use of property and the crowding of buildings and accessory facilities onto a site
 - examples of excessive land coverage are buildings that are either improperly situated on land parcels, or located in a parcel of inadequate size or shape (based on current standards of health and safety development), or when there are multiple buildings on a single parcel
 - for a finding of excessive land coverage, these parcels must exhibit one or more of the following conditions: insufficient provision for light and air within or around buildings, increasing threats of the spread of fire due to close proximity of buildings, lack of adequate or proper access to a public right-of-way, lack of reasonably required off-street parking, or inadequate provision for loading and service.
- 10. Deleterious Land Use or Layout**
- incompatible land-use relationships, inappropriate mixed uses inside buildings, environmentally unsuitable uses, offensive uses, etc.
- 11. Environmental Clean-up**
- a need to clean up hazardous waste, hazardous substances, or underground storage tanks required by State or federal law, provided that remediation costs constitute a material impediment to the development or redevelopment of the redevelopment project area
- 12. Lack of Community Planning**
- the proposed redevelopment project area was developed prior to or without the benefit or guidance of a community plan, or where such a plan has not been followed
 - this factor must be documented by evidence of adverse or incompatible land use relationships, inadequate street layout, improper subdivision, parcels of inadequate shape and size to meet contemporary development standards, or other evidence demonstrating absence of effective community planning
- 13. Lack of Growth in EAV**
- the total EAV for the study area has either declined or is increasing at an annual rate less than the balance of the municipality or the Consumer Price Index for All Urban

Consumers during three of the past five calendar years

Vacant Land Designation Factors

There are two ways to qualify vacant land as blighted. One way is to find that at least two of the following six factors are present to a meaningful extent and reasonably distributed throughout the study area:

1. Obsolete platting
 - Platting that created parcels of limited or narrow size, or configurations of parcels of irregular size or shape that would be difficult to develop on a planned basis and in a manner compatible with contemporary standards
 - Platting which failed to create adequate rights of way for streets or alleys or rights of way, omitting easements for public utilities
2. Diversity of ownership
 - Ownership of parcels of land sufficient in number to retard or impede the ability to assemble the land for development
3. Tax and Special Assessment Delinquencies
 - Delinquencies either exist now, or
 - Parcels have been subject to a tax sale during the past five years
4. Deterioration of structures or site improvements in areas adjacent to vacant land
5. Environmental Issues
 - The area has incurred U.S. EPA or IL EPA remediation costs that constitute a material impediment to development
 - An independent consultant has determined the need for environmental remediation that constitutes a material impediment to development
6. Lack of Growth in EAV
 - The total EAV for the study area has either declined or is increasing at an annual rate less than the balance of the municipality, or the Consumer Price Index for All Urban Consumers, during three of the past five calendar years

The second way to qualify vacant land is to find that at least one of the following six factors is present to a meaningful extent and reasonably distributed throughout the study area:

1. Contains unused quarries, strip mines, or strip mine ponds
2. Contains unused rail yards, rail tracks, or railroad rights-of-way
3. Is subject to chronic flooding that adversely impacts real property or discharges water that contributes to flooding within the watershed. In order to consider this factor, the redevelopment project must provide for facility improvements which will contribute to the alleviation of all or part of the flooding
4. Contains unused or illegal dumping sites

5. Designated as a town center prior to January 1, 1982, is between 50 and 100 acres in size, and is 75 percent vacant land
6. The area qualified as blighted prior to becoming vacant

Industrial Park Conservation Area

Under Illinois TIF law, an Industrial Park Conservation Area is another means by which a TIF can be established. In order to qualify, an area must be within the territorial limits of a labor surplus municipality or must be within one-and-a-half miles of the municipality prior to annexation. The area must include vacant land suitable for industrial development and be located adjacent to an established blighted area or conservation area.

Under TIF law, a labor surplus municipality is defined as one in which the unemployment rate was more than 6 percent, and 100 percent or more of the national average unemployment rate at any time during the preceding six months.

Industrial Jobs Recovery Law Eligibility

Alternative methods for TIF establishment exist for industrial areas to help communities preserve their manufacturing base, retain and create new jobs, facilitate environmental clean-up, and redevelop industrial property. There are three types of TIFs which can be established under the Industrial Jobs Recovery Law.

1. Industrial Park Conservation Area (IPCA)

In order to establish an IPCA, an area must be located within the corporate boundaries of a municipality, or be within one-and-a-half miles of the corporate boundary if the area is to be annexed. The area must include vacant or improved land suitable for industrial development or a research park. It must also be zoned for industrial use prior to designation as a redevelopment project area. If these two conditions are met, there are two sets of standards by which an area can be designated an IPCA:

1. Standard One:
 - a. The municipality is a “labor surplus municipality”
 - b. The area must be served by adequate roads
 - c. The RPA contains no more than 2 percent of the total EAV within the municipality after adjusting for annexations associated with the RPA, or is located in the vicinity of a waste disposal site or other waste facility
 - d. The redevelopment project plan must also provide for
 - i. A marketing program to attract appropriate businesses to the site
 - ii. A plan for financing and construction of infrastructure
 - iii. An approved employment training project
2. Standard Two:
 - a. The municipality must be a “substantial labor surplus municipality”

- b. The area must be served by adequate roads
- c. The RPA contains no more than 2 percent of the total EAV within the municipality after adjusting for annexations associated with the RPA
- d. The redevelopment project plan must also provide for an approved employment training project

Under the Industrial Jobs Recovery Law, a labor surplus municipality is defined differently than under TIF law. If, during the past four years, the average unemployment rate for the area was 1 percent or more higher, than the state average unemployment rate, then an area is a labor surplus municipality.

A substantial labor surplus municipality is one in which, during the past five years, the average unemployment rate was 2 percent or more higher than the State average.

2. Vacant Industrial Buildings Conservation Area (VIBCA)

In order to establish a VIBCA, an area must contain one or more buildings located within the corporate limits of the municipality that have been zoned industrial for at least five years before the designation, and is planned for principally industrial reuse. It must also meet one of the following standards:

1. Standard One: The area shall consist of one or more buildings totaling at least 50,000 net square feet of industrial space with a majority of the total area having been vacant for the past 18 months, and one of the two following conditions must be met:
 - a. The area is located in a “labor surplus municipality” or “substantial labor surplus municipality”
 - b. The EAV of the properties within the area during the last two years is at least 25 percent lower than the maximum EAV of those properties during the previous 10 years
2. Standard Two: The area consists of exclusively industrial buildings or a building complex operated by a user or related users and:
 - a. Has employed 200 or more employees at the location during the preceding five years or, if the municipality has a population of 12,000 or fewer persons, employed more than 50 persons
 - b. Is currently vacant, or the owner has notified the municipality of their intention to terminate operations, or filed a notice of closure under the Worker Adjustment and Retraining Notification Act

3. Environmentally Contaminated Area (ECA)

In order to establish an ECA designation:

1. Land must be improved or vacant (farmland is not considered vacant land)
2. A determination of release, or substantial threat of release, of a hazardous substance or pesticide must have been made by the U.S. EPA or Illinois EPA.

3. This release or threat must present an imminent threat to public health or the environment and would have a significant impact on the cost of redeveloping the site.

REDEVELOPMENT PLAN AND PROJECT

Goals and Objectives

TIFs may be project-or area-specific. Goals and objectives may be project-specific or general.

Housing Impact Study

If the redevelopment plan would result in the displacement of residents from 10 or more inhabited residential units, or if the redevelopment project area contains 75 or more inhabited residential units and no municipal certification that displacement will not occur is made, then a housing impact study is required.

Elements of Redevelopment Plan

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 Engineered Barriers Addressing Ground Level (or Below) Contamination Rehabilitation

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

Eligible Costs

1. **Costs of Studies, Surveys, Development of Plans and Specifications, Implementation, and Administration of the Redevelopment Plan.** This includes, but

is not limited to, staff and professional service costs for architectural, engineering, development advisors, development managers, legal, marketing, financial, planning or other services, related hard and soft costs, and other related expenses. No charges for professional services may be based on a percentage of the tax increment collected;

2. **Property Assembly Costs.** This includes, but is not limited to, acquisition of land and other property, real or personal, or rights or interest therein, demolition of buildings, clearing and grading of land, and other site preparation costs;
3. **Costs of Rehabilitation, Reconstruction or Repair or Remodeling of Existing Public or Private Buildings or Fixtures;**
4. **Costs of the Construction of Public Works or Improvements;**
5. **Costs of Job Training and Retraining Projects.** This includes the cost of welfare-to-work programs implemented by businesses located within the redevelopment project area;
6. **Financing Costs.** This includes, but is not limited to, all necessary and incidental expenses related to the issuance of obligations, and may include payment of interest on any obligations issued hereunder, including interest accrued during the estimated period of construction of any redevelopment project for which such obligations are issued (but not exceeding 36 months thereafter). These costs include reasonable reserves related thereto;
7. **All or a Portion of a Taxing District's Capital Costs.** Costs resulting from the redevelopment project that are necessarily incurred, or to be incurred within a taxing district in furtherance of the objectives of the redevelopment plan and project, to the extent the municipality approves and accepts such costs by written agreement;
8. **Relocation Costs to the Extent That a Municipality Determines That Relocation Costs Shall Be Paid, or Is Required to Make Payment of Relocation Costs by Federal or State Law;**
9. **Payment in Lieu of Taxes;**
10. **Interest Costs.** Costs incurred by a developer or other user related to the construction, or by renovation or rehabilitation of a redevelopment project, generally up to 30 percent of interest, but up to 75 percent if these interest costs are incurred for rehabilitated or new housing units for low- and very low-income households;
11. **Costs of the Construction of Low Income Housing.** TIF revenues may be used to pay up to 50 percent of the cost of constructing new housing units, if these units will be occupied by low- and very low-income families;
12. **Day Care.** If the RPA is located within a municipality with a population of more than

100,000, the cost of day care services for children of employees from low-income families working for businesses located within the RPA.

Unless explicitly stated in the Act, the cost of construction of new privately owned buildings shall not be an eligible redevelopment project cost.

Required Findings and Tests

Lack of Growth and Private Investment

The municipality is required to determine whether the RPA has been subject to growth and private investment, and must substantiate such a finding prior to establishing a tax increment financing district.

BUT FOR...

The municipality is required to find that, but for the designation of the TIF district and the use of tax increment financing, significant investment is unlikely to occur within the proposed RPA.

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.

NOTE: This is only a brief summary of the requirements and conditions for tax increment financing. The full text, including recent reforms, of the Illinois Tax Increment Allocation Redevelopment Act, 65 ILCS 5/11-74.4-1, can be found online at:

<http://www.ilga.gov/legislation/ilcs/ilcs4.asp?DocName=006500050HArt%2E+11+Div%2E+74%2E4&ActID=802&ChapAct=65%26nbsp%3BILCS%26nbsp%3B5%2F&ChapterID=14&ChapterName=MUNICIPALITIES&SectionID=44567&SeqStart=389000&SeqEnd=391200&ActName=Illinois+Municipal+Code%2E>

and

<http://www.ilga.gov/legislation/legisnet90/hbgroups/hb/900HB3081enr.html>.

The full text of the Industrial Jobs Recovery Law can be found online at:

<http://www.ilga.gov/legislation/ilcs/ilcs4.asp?ChapAct=65%26nbsp%3BILCS%26nbsp%3B5%2F&DocName=006500050HArt%2E+11+Div%2E+74%2E6&ActName=Illinois+Municipal+Code%2E&ChapterName=MUNICIPALITIES&ActID=802&ChapterID=14&SeqStart=392852&SeqEnd=393382&Print=True>

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