

TAX INCREMENT FINANCING (TIF)



BACKGROUND

Illinois adopted Tax Increment Financing (TIF) in 1977. A reform to this law was enacted in 1999. Since the first TIF statute was adopted by the State of California in 1952, 49 states have passed legislation authorizing the use of TIF. According to the most recently available data from the Illinois Office of Comptroller (IOC), there may be up to 1,513 TIF districts located in as many as 549 Illinois municipalities.

WHAT IS TIF?

TIF is a mechanism for municipalities to spur economic development in specific geographic areas that are blighted and deteriorating. To do this, local taxing bodies create a TIF redevelopment project area, or TIF district, whereby the Equalized Assessed Value (EAV) of the property in the area is set at a base amount. Property taxes collected on properties included in the TIF district at the time of its designation continue to be distributed to the school districts and all other affected taxing districts in the same manner as if the district did not exist. Establishment of a TIF does not reduce property tax revenues available to the overlapping taxing bodies.

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. Only property taxes generated by the incremental increase in the EAV of these properties after that time are available for use in the TIF district by a municipality.

HOW IS A TIF DISTRICT CREATED?

In order to establish a TIF district, a local government must find that development or redevelopment of the area would not occur “but for” the creation and use of TIF. Illinois 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. Specifically, state law requires that the proposed area must meet one or more of three conditions:

1. Blighted conditions;
2. Conservation conditions; and,
3. Industrial park conservation conditions.

If one or more of these conditions is identified, municipal officials and a Joint Review Board, made up of representatives from affected local taxing bodies, must review a plan for the redevelopment of the TIF area. A public hearing must be held where residents and other interested parties can express their thoughts on the subject. If the plan for redevelopment is approved by the Joint Review Board, the municipality may adopt the plan by a majority vote of the corporate authorities. If the Joint Review Board rejects the plan for redevelopment, the municipality may proceed but the plan must be approved by a three-fifths vote of the corporate authorities. Finally, the mayor or village president will sign the ordinance into law. No state or federal approval is required for creation.



HOW DOES TIF WORK AFTER CREATION?

The growth of the EAV of property within the TIF district (the increment) is collected into a special fund for use by the municipality to make additional eligible investments in the TIF project areas. The reinvestment generates additional growth in property value, which results in more revenue growth for reinvestment. Once a redevelopment project is completed and has been paid for, the TIF district may be dissolved and the tax base returned to full use by all eligible taxing bodies.

HOW LONG DOES A TIF DISTRICT LAST?

Under Illinois law, a TIF district may last for up to a maximum of 23 years. This period can be extended by 12 additional years upon approval by the Illinois General Assembly. In some cases, the General Assembly has extended TIF districts twice, for a total of 47 years. Municipalities seeking extensions must receive approval from the General Assembly, which requires, by rule, letters of support from overlapping units of local government whose boundaries fall within the TIF district.

OTHER FUNDING SOURCES BESIDES TIF

TIFs are more frequently used now because other development tools, like Industrial Revenue Bonds and Urban Development and Infrastructure Grants, are no longer readily available to local governments.

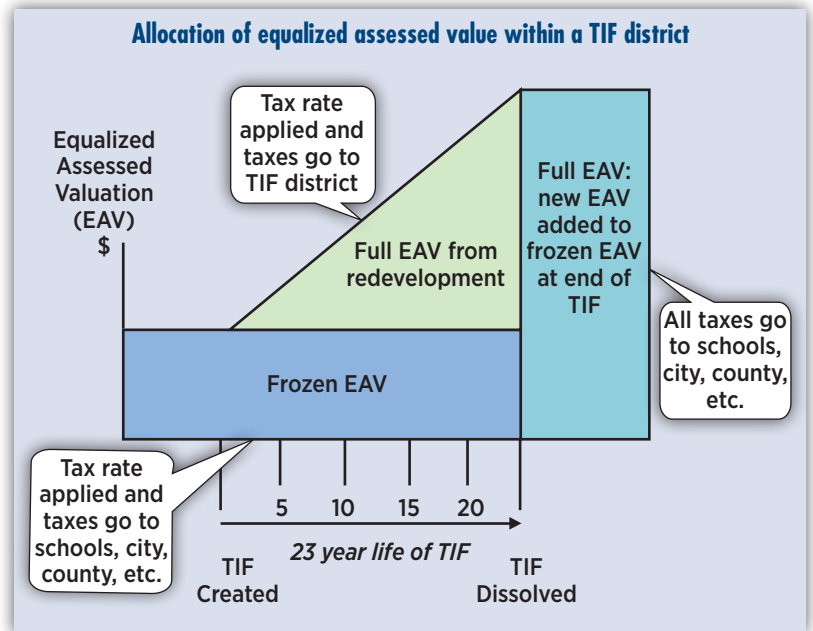
Federal and state aid to local governments has been reduced. At the same time, unfunded federal and state mandates have increased the financial burden on most municipalities. Factor in state imposed property tax caps, and the funding problems facing local governments make it obvious that local governments are left to do more with less.

TIF offers local governments a resource 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 taxes on the whole community.

WHAT CAN TIF BE USED FOR?

TIF funds may be used to reimburse eligible “redevelopment projects costs” as defined in the Act.¹ The statute provides a comprehensive list of associated project and reimbursement costs which may include, but are not limited to, the following actions occurring within the TIF district:

- Administration of a TIF redevelopment project;
- Property acquisition, renovation, rehabilitation and demolition;
- Construction of public works or improvements;
- Job training related to the TIF area;
- Financing costs, including interest assistance;
- Studies, surveys and plans;
- Marketing related to sites within the TIF; and,
- Professional services, such as architecture and design services.



Source: The “Final Report of the TIF Reform Task Force,” June 1, 2018.

¹ 65 ILCS 5/11-74.4-3(q).

DESIGNATION AND DISTRIBUTION OF SURPLUS FUNDS

The TIF Act provides that any portion of an annual ending balance of a TIF fund that has not been identified (or is not identified as being required, pledged, earmarked or otherwise designated for payment or securing of obligations or anticipated redevelopment project costs) shall be designated as surplus. (Section 11-74.4-7)

The Act also provides for the distribution of surplus funds annually, within 180 days after the close of a municipality's fiscal year. Surplus funds are paid by the municipal treasurer to the county collector, the Illinois Department of Revenue (IDOR) and to the municipality in direct proportion to the incremental tax revenue received. The county treasurer is then required to make distributions to the respective taxing districts.

TIF REPORTING REQUIREMENTS

The Act currently requires TIF municipalities to submit a report to IOC, and all taxing districts overlapping the redevelopment project area, no later than 180 days after the close of each municipal fiscal year detailing information about a TIF district. The report must include, but is not limited to, an analysis of the special tax allocation fund, a statement setting forth all activities undertaken in furtherance of the objectives of a TIF District Redevelopment Plan, a legal opinion that the municipality is in compliance with the TIF Act and any amendments to the redevelopment plan.

Enacted in 2021, [Public Act \(P.A.\) 102-0127](#) amends the TIF Act and expands mandated reporting requirements to include a comparison between the original projected increment and jobs for the TIF district, the actual amount of increment and jobs created to date, and an update on the stated rate of return for a development and the actual debt service on any notes issued by the municipality. In addition, P.A. 102-0127 authorizes municipalities to select a consultant to provide an analysis of the projected increment and the actual debt service on any notes issued by the municipality. The Illinois Municipal League (IML) opposed the legislation as an unfunded mandate.

IML ADVOCACY

IML and numerous local elected officials, as well as the General Assembly – shown through its continued actions granting and extending TIF designations – firmly believe in the value of TIF as a mechanism to spur economic development in communities across the state.

While IML will not advocate for proposals that would be harmful to or reduce the effectiveness of TIF, we remain committed to serving as a partner with and all stakeholders in improving and addressing perceived issues with the TIF Act.

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