

Frequently Asked Questions

- **What is Tax Increment Financing?**
- **What is a Tax Increment?**
- **Do Other Municipalities Use TIFs?**
- **How Long Have TIFs Been in Existence?**
- **Can a TIF District Successfully Co-Exist With School Districts?**
- **Does a TIF Reduce the Amount of Property Taxes to the Schools?**
- **What Kind of TIFs are There?**
- **How is a TIF Created?**
- **Who Monitors the TIF Project?**
- **When Does the TIF Terminate?**

** Sources:

Jacob & Klein, Ltd.

Illinois Tax Increment Association

Illinois Compiled Statutes-65 ILCS 5/11-74.2-3 Illinois

Municipal League

● **What is Tax Increment Financing?**

Tax Increment Financing, or TIF, is a tool state lawmakers gave local governments more than 20 years ago to help local governments restore their most run-down areas or jumpstart economically sluggish parts of town. With this tool, financially strapped local governments can make the improvements they need, like new roads or new sewers, and provide incentives to attract businesses or help existing businesses expand, without tapping into general funds or raising taxes.

Since the Federal and State governments have greatly reduced their support for economic development, Tax Increment Financing permits municipalities to accept some of this responsibility without raising local property taxes.

TIFs help local governments attract private development and new businesses. New businesses mean more jobs, more customers, and, in turn, more private investment. The TIF designation also helps retain existing businesses that might otherwise find more attractive options elsewhere. The jobs and additional investment — private and public — mean more money for the community. TIF also helps to overcome the extraordinary costs that often prevent development and private investment from occurring on environmentally contaminated and other properties. As a result, the TIF area itself improves and property values go up.

Without TIF benefits, a deteriorating area will not improve. Businesses do not sink capital into declining areas and most local governments cannot afford the needed costly improvements without raising taxes. But in a TIF district, dollars for improvements are generated by businesses — new and old — attracted by the TIF benefits. Specifically, money for infrastructure improvements and other incentives comes from the growth in property tax revenues — the tax increment.

● **What is a Tax Increment?**

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. Establishment of a TIF does not reduce property tax revenues available to the overlapping taxing bodies. Property taxes collected on properties included in the TIF at the time of its designation continue to be distributed to the school districts, county, park districts, fire protection districts and all other taxing districts in the same manner as if the TIF did not exist. Only property taxes generated by the incremental increase in the value of these properties after that time are available for use by the TIF.

● **Do Other Municipalities Use TIFs?**

In Illinois, TIF districts are used by towns as small as Sauget (pop. 138) and Chicago (pop. 2.8 million), and every size community in between. Tax Increment Financing can help any size community rebuild infrastructure and attract private investment.

TIFs are used throughout the State of Illinois — from Zion near the Wisconsin border to Marion in the South, and Rock Island on the Mississippi River to Danville near the Indiana border.

- **How Long Have TIFs Been in Existence?**

Tax Increment Financing was first used in California over half a century ago. Over 20 years ago, the Illinois General Assembly passed the Illinois Tax Increment Allocation Redevelopment Act that brought this development tool to Illinois. Illinois was the 25th state to adopt this economic development mechanism.

- **Can a TIF District Successfully Co-Exist With School Districts?**

Yes! TIF Districts can actually generate new money for schools. In Illinois, school districts continue to receive all the tax revenue they were entitled to before the creation of the TIF District. Although schools generally lose State funding when assessed valuations increase, the incremental growth in property tax values within a TIF District is by law, excluded from the property tax base when the State of Illinois calculates the amount of aid it awards school districts. The TIF Act has a default method for assisting school districts by reimbursing a portion of TIF increment for a resulting “net increase” in student enrollment.

- **Does a TIF Reduce the Amount of Property Taxes to the Schools?**

No. On the contrary, TIFs can create money for schools.

First, schools continue to receive all the tax revenue they were entitled to before the creation of the TIF district.

Second, under most circumstances, a school’s state aid is greater when a school district overlaps a successful TIF district. The incremental growth in property values is excluded from the property tax base when the state calculates the amount of aid it should award to a school district. The “poorer” a school district, the more it stands to benefit from having a TIF district.

Third, the property tax revenue generated from private development attracted by a TIF designation 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 also the area itself would remain economically stagnant, or the EAV might actually decline.

Critics of TIF argue that school districts are entitled to immediately receive a percentage of the TIF increment. However, it is the tax increment that pays for the improvements that attract private investment and stimulate economic growth. If the increment cannot be used for financing improvements and incentives, private investment and economic development will not occur, and no increment will be made available to any taxing bodies.

Fourth, when the TIF district expires, the tax increment that had been used by the municipality to pay off the redevelopment costs is returned to the tax rolls and available to schools and other local taxing bodies---even in areas where property tax “caps” have been adopted.

Fifth, from time to time a TIF district generates more incremental revenue than is needed to retire the TIF debt and pay redevelopment costs. That surplus is often distributed to the other taxing bodies, including schools.

Note: TIF areas designated after November 1, 1999 (or existing TIF’s that are amended after this date), which include TIF assisted housing developments are required to set aside

40% of the tax increment generated by such housing developments. The required payment is based, in part, on the number of students enrolled in the school district that live in the housing development that was assisted by the TIF program, if the district experiences an increase in attendance and costs resulting from the net increase in new students who reside in the housing development. However, payments to the school district would not be required if students reside in the TIF assisted housing development.

● **What Kind of TIFs are There?**

The Illinois Department of Commerce and Economic Opportunity (DCEO) has traditionally classified TIFs into five major categories:

- Central Business District
- Shopping Mall/Commercial
- Industrial
- Mixed Development/Non- Central Business District
- Housing

Types of TIF Districts in Illinois 1977 - 2000		
Types of TIF District	Number	Percent
Central Business District	128	18.2
Shopping Mall/Commercial Strip	65	9.3
Industrial/Conservation/Blight/Other	106	15.2
Mixed Development	357	51.0
Housing	42	6
Undetermined	2	.3
TOTAL	700	100
<i>Source: Illinois Department of Commerce and Community Affairs</i>		

● **How is a TIF Created?**

Illinois TIF 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. Then municipal officials and a joint review board made up of representatives from local taxing bodies must review a plan for the redevelopment of the TIF area. Then a public hearing is held where residents and other interested parties can express their thoughts on the subject.

Then the proposal must pass through the same process any other ordinance passes through approval by the municipal governing board. Then the mayor or village president will sign the ordinance into law. No state or federal approval is required.

- **Who Monitors the TIF Project?**

Local governments monitor the progress of the TIF district. By law, all the school districts and major taxing bodies meet with the TIF municipality annually to review the progress of each TIF.

Under Illinois law, municipalities have an obligation to cooperate with other taxing bodies in monitoring TIFs. By law, the Joint Review Board must meet annually to review the effectiveness and status of the TIF district.

- **When Does the TIF Terminate?**

Illinois TIF law allows 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 municipal board votes to terminate the district.

If no redevelopment project has been initiated within a TIF district within seven years following district designation, the municipality must repeal the TIF. Upon termination of the TIF district, the full tax base, including the increment, which had been used to pay for improvements, becomes available to all taxing bodies for their use throughout the future.

Since 1977, when Tax Increment Financing was enacted, about 30 TIF districts have been voluntarily terminated by their municipal sponsors. The average duration of these TIFs was about 6.5 years.