

TIF FREQUENTLY ASKED QUESTIONS (FAQ)

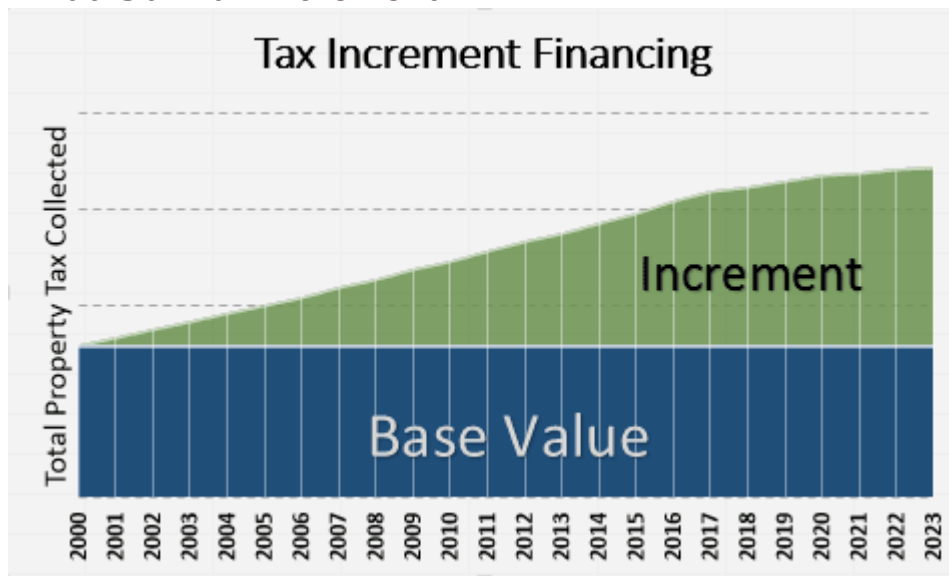
What is Tax Increment Financing (TIF)?

Tax Incremental Financing (TIF) is an economic development tool that helps local governments improve historic districts, restore run-down and blighted areas, or jump-start economically challenged parts of town. TIF funds help municipalities to make needed improvements, like new roads and sewers, or provide incentives to attract private development and new businesses. TIF designation also helps existing businesses expand or improve their properties that might otherwise find more attractive options elsewhere. TIF helps to overcome the extraordinary costs that often prevent development and private investment from occurring, including the remediation of environmentally contaminated properties, investing in new infrastructure, and assembling small properties into a single larger parcel for redevelopment.

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 to fund public investment.

Without TIF benefits, development in certain areas may not be economically feasible. Businesses do not sink capital into decaying 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”?



When a TIF district is created, the property values for all of the parcels within the district are frozen, creating a base value. As development occurs and property values increase, the overall value of the district increases as well. This new value that is created is called the increment, which is the difference between the current total value and the base value. The increment is collected into a special fund that the City can then invest back into the district under specific rules.

Establishment of a TIF does not reduce property tax revenues available to the overlapping taxing bodies. These taxing bodies continue to collect the property taxes at the base value throughout the life of the TIF. Upon the expiration of the TIF, property taxes continue to be distributed to the school districts, county, community college, and all other affected taxing districts in the same manner as if the

TIF did not exist.

How do TIFs improve communities?

TIFs create short- and long-term benefits for communities:

- No tax increases attributed directly to development of infrastructure
- Improvements to blighted areas of the City
- Increased property values
- Private investment and development
- New jobs
- Job retention
- Job training programs
- Stronger, broader tax base
- Stronger economic base
- Locally controlled development
- Incremental revenue is reinvested in the TIF district
- Stimulates investment outside TIF district boundaries.

Why is there a need for Tax Increment Financing?

There are some areas where traditional market mechanics may not support redevelopment. TIF provides local governments with a tool to overcome economic barriers in these specific areas and partner with developers and investors to make improvements. TIF has specific rules for how the increment can be spent to partner with a business or developer. An example of this would be if an investor wanted to rehabilitate a former industrial building into a new high-end office space, but the site had contamination from its previous use. The high cost of the environmental clean-up may be enough for the project to be financially infeasible. Recognizing that the proposed concept would be beneficial to the community and long-term fiscal health of all the local taxing bodies, the City could use TIF to cover the cost of the environmental remediation, thus moving the project forward.

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. A public hearing is held where residents and other interested parties can express their thoughts on the subject. The proposal must pass through the same approval process through the municipal governing board. Finally, the mayor or village president will sign the ordinance into law. No state or federal approval is required.

How do I apply for TIF? What are the steps taken after I apply?

You can go on the Village's website or visit the Village Hall at 155 W. Front Ave to obtain a TIF application. This application will need to include information regarding all projects and purchases you intend to request TIF monies for. Once the application is completed and returned, the Village Board of Trustees will review and decide if they would like to enter an Inducement (states both parties agree that the project is eligible for TIF funds and the Village agrees to provide financial assistance). It is important to note two things: 1) Any property acquisition closings, renovations, or purchasing of any materials for rehabbing CANNOT be done until the Village Board of Trustees has entered a TIF inducement. 2) Even though you complete a TIF application the board may decide against entering an inducement.

Once an inducement is entered, plans, purchases, and work on the projects listed in the application can begin. The board will then review a TIF analysis and decide how much they would like to reimburse. Once this amount is decided a redevelopment agreement will be entered between the

Village and the applicant. This agreement will list the amount the Village will reimburse and the time frame for reimbursement (3 years, 5 years, etc.). Once the project is complete the applicant will give the Village all receipts equally the total project cost listed on the application. At that point the village will review the receipts and set up for reimbursement. All TIF reimbursement checks are typically cut in December of each year.

What kinds of projects are permitted under the State TIF Act?

State legislation authorizes that TIF funds may be used for the following types of projects:

- Property acquisition
- Rehabilitation or renovation of existing public or private buildings
- Construction of public works or improvements
- Job retraining programs
- Relocation
- Financing costs, including interest assistance
- Studies, surveys, and plans
- Professional services, such as architectural, engineering, legal, property marketing, and financial planning
- Demolition and site preparation
- Day care services
- A budget for the life of the TIF district, including the total TIF-eligible costs of the plan
- An evaluation of the fiscal and programmatic impact on the overlapping taxing bodies
- A description of the process to amend the plan
- A statement of conformance with the municipality's comprehensive plan
- A timetable for redevelopment of the area.

What is the “but for” test?

When considering an area for TIF designation, municipal officials must ask the question, “Will the same kind of private investment occur here without an incentive?” In order to designate that area as a TIF district, the answer to this question must be “No.” But for the incentive provided by TIF, development would not occur in the designated area.” Evidence that the district satisfies the “but for” test is provided in the Redevelopment Plan. Illinois has one of the most stringent “but for” test of the 47 states that use Tax Increment Financing.

Who controls TIF funds?

Municipal officials control the allocation and disbursement of funds within the TIF district.

Who monitors the TIF process?

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 a 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. An extension is available if legislation is passed by the State Legislature..