

Tax Increment Financing

WHAT IS TAX INCREMENT FINANCING?

Tax Increment Financing (TIF) is a program that allocates future increases in property taxes from a designated district to pay for improvements only within that district. The TIF district lasts for 23 years from the date of the district's creation or when the district is dissolved, whichever comes first.

HOW IT WORKS

Normally property is taxed by several different governmental jurisdictions (school districts, townships, park district, municipality, community college, etc.). The taxes levied are allocated to each district in accordance with its tax rate.

Under Tax Increment Financing, the increases in taxes as a direct result of new development, increases in assessment due to rehabilitation or improvement, or increases in taxes due to equalization or rate changes are all allocated to the city that created the TIF district. The other districts continue to share the taxes that were being paid at the rate established prior to the creation of the TIF district.

All properties in the TIF district are assessed in the same manner as all other properties and are taxed at the same rate. Tax Increment Financing is not an increase in taxes; it is only a reallocation of how they are used. Increases in property taxes are due to reassessment and rate increases, not tax increment financing.

RATIONALE

The rationale for Tax Increment Financing is that only municipalities have the responsibility and authority to support redevelopment, and more broadly, economic development. All taxing bodies benefit in the long run from these activities. Therefore, it is appropriate to utilize "their taxes" to help pay for costs necessary to bring about redevelopment from which they will benefit. Since only the municipality can incur those costs, it is fair to reallocate those tax dollars for the use of the City for the redevelopment project.

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. The area can be qualified as either a blighted area or a conservation area. Designation as a "blighted area" requires that five (5) of the following factors be found present to a meaningful extent and reasonably distributed.

Designation as a "conservation area" requires that more than fifty percent (50%) of the buildings in the study area are thirty-five (35) or more years of age and that three (3) of the following factors are found to be present to a meaningful extent and reasonably distributed.

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 which is in the process of falling into disuse or has become ill-suited for the original use.
3. Deterioration
 - ✓ Physical deficiencies or disrepair in buildings or site improvements that are beyond normal maintenance.
 - ✓ Buildings – major defects in the doors, windows, porches, gutters and downspouts, fascia and in primary areas like foundations, frames, 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, exclusive of those applicable to the presence of structures below minimum code standards.
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 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.
 - ✓ For there to be 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, increased threat of spread of fire due to the 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 for the clean-up of hazardous waste, hazardous substances, or underground storage tanks required by federal or State law, provided that the 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 an absence of effective community planning.

13. Lack of Growth in Equalized Assessed Valuation (EAV)

- ✓ The total EAV for the study area has either declined or is increasing at an annual rate that is less than that of the balance of the municipality for the last three (3) of the last five (5) calendar years.

Other Eligibility Approaches

1. Vacant land under certain conditions
2. Industrial area (Industrial Jobs Recovery Act)

PLAN AND PROJECT

Goals and Objectives

Tax Increment Financing districts may be project-specific or for areas. Goals and objectives may be project-specific or general.

Housing Impact Study

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

Elements of Redevelopment Plan

There are three (3) general categories of activities that may be supported by tax increment funds under the provisions of the Act:

1. Public Improvements
 - ✓ Provision or rehabilitation of public improvements and facilities
 - ✓ Streets
 - ✓ Streetscaping

- ✓ Other Infrastructure
- 2. 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
- 3. Administrative Support and Financing
 - ✓ Job training and related educational programs
 - ✓ Day care
 - ✓ Analysis, administration, studies, legal
 - ✓ Financing costs
 - ✓ Payments in lieu of taxes

Eligible Costs

1. Cost of studies, surveys, development of plans and specifications, implementation and administration of the Redevelopment Plan. *Including, but 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 provided, however, that no such charges may be based on a percentage of the tax increment collected.*
2. Property Assembly Costs. *Including, but not limited to, acquisition of land and other property, real or personal, or rights or interests 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;
6. Financing costs. *Including, but not limited to, all necessary and incidental expenses related to the issuance of obligations and which may include payment of interest on any obligations issued including interest accruing during the estimated period of construction of any redevelopment project for which such obligations are issued and for not exceeding 36 months thereafter and including reasonable reserves related thereto;*
7. All or a portion of a taxing district's capital costs. *Costs resulting from the redevelopment project 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 by written agreement accepts and approves such costs;*
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. *Incurred by a developer or other user related to the construction, renovation or rehabilitation of a redevelopment project, generally up to 30% of interest, but up to 75% of interest costs incurred for rehabilitated or new housing units for low- and very low-income households;*

11. Costs of the construction of low-income housing. *Tax Increment Financing revenues may be used to pay up to 50% of the cost of construction of new housing units to be occupied by low- and very low-income families;*
12. Day care. *If the redevelopment project area 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 redevelopment project area.*

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

1. Lack of growth and private investment. *The municipality is required to evaluate whether or not the redevelopment project area has been subject to growth and private investment and must substantiate a finding of lack of such investment prior to establishing a tax increment financing district.*
2. But For... *The municipality is required to find that but for the designation of the TIF district and the use of tax increment financing, it is unlikely that any significant investment will occur in the proposed redevelopment project area.*
3. Conformance to the plans of the municipality. *The proposed redevelopment area and plan must conform to the comprehensive plan for the municipality, conform to the strategic economic development plans, or include land uses that have been approved by the planning commission.*
4. Dates of completion. *The redevelopment project shall be completed and all obligations retired within 23 years.*
5. Financial impact of the redevelopment project. *Financial benefits and costs of the project must be evaluated and found to be, on balance, positive.*
6. Demand on taxing district services. *The potential impact on demand for services is to be explicitly considered as well. Of particular concern is usually the impact of residential projects upon the schools.*
7. Program to address financial and service impacts on other jurisdictions. *If there are significant impacts, then the plan should address them.*