

Why So Many TIF Districts?

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Preview

- What is a TIF district?
- Finding 'blight'
- Establishing a TIF district
- Developing an IGA
- Annual reporting
- TIF districts as a tool for borrowing
- Extending the Term
- TIF Termination and Post Termination Issues
- TIF Reform Efforts

What is a TIF District?

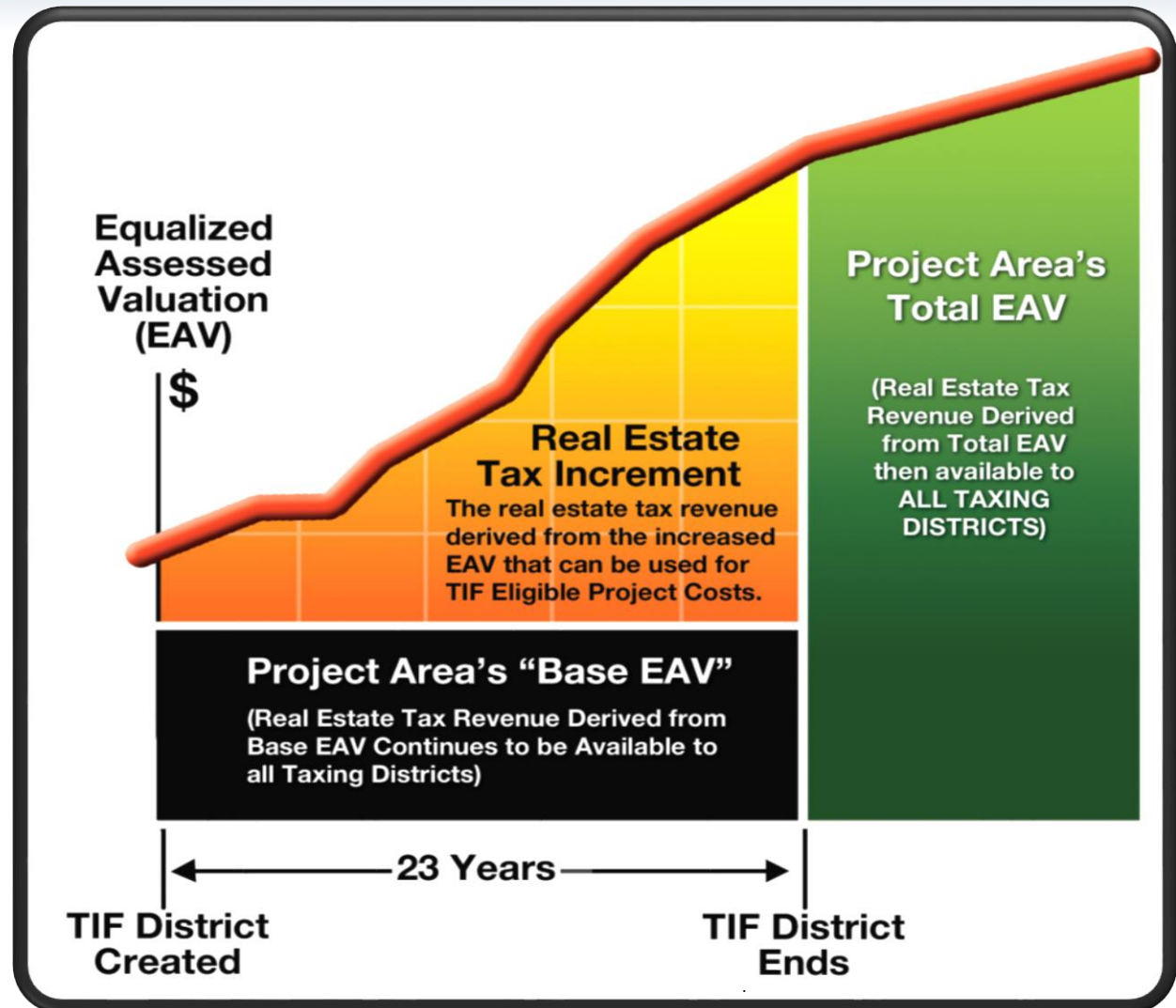
- Economic development tool
- Available to municipalities
- Requires finding of 'blight' or 'conservation area'
- Creates a revenue source for public investments to improve an area
- The default tool for new development

How Does a TIF District Work?

TIF “Increment” comes from the increase in Equalized Assessed Valuation (EAV) above a “Base Year” EAV.

Annual increases in EAV are multiplied by the tax rates of all the taxing bodies each year throughout the life of the District.

After projects are completed and the TIF District ends, all taxing districts can levy against the new growth.



Source: www.tifillinois.com

1,238 TIF DISTRICTS IN ILLINOIS IN 2015

339 (27%) of TIF Districts
in Cook County, including
130 within City of Chicago

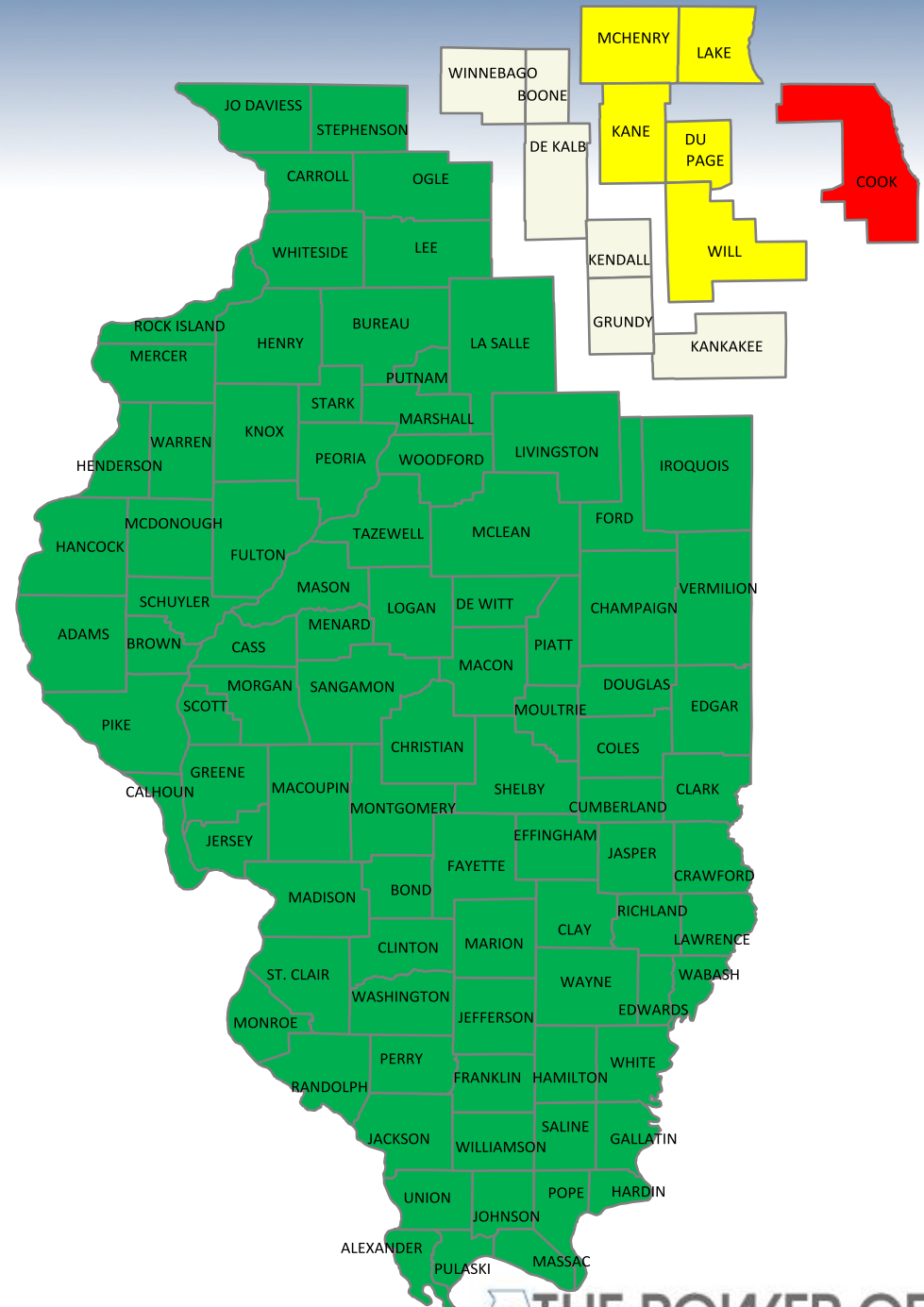
175 (14%) of TIF Districts in
5 Collar Counties:

DuPage
Kane
Lake
McHenry
Will

88 (7%) of TIF Districts in
6 Adjacent Counties:

Boone
DeKalb
Grundy
Kankakee
Kendall
Winnebago

**636 (51%) TIF Districts in
84 of the Downstate Counties**

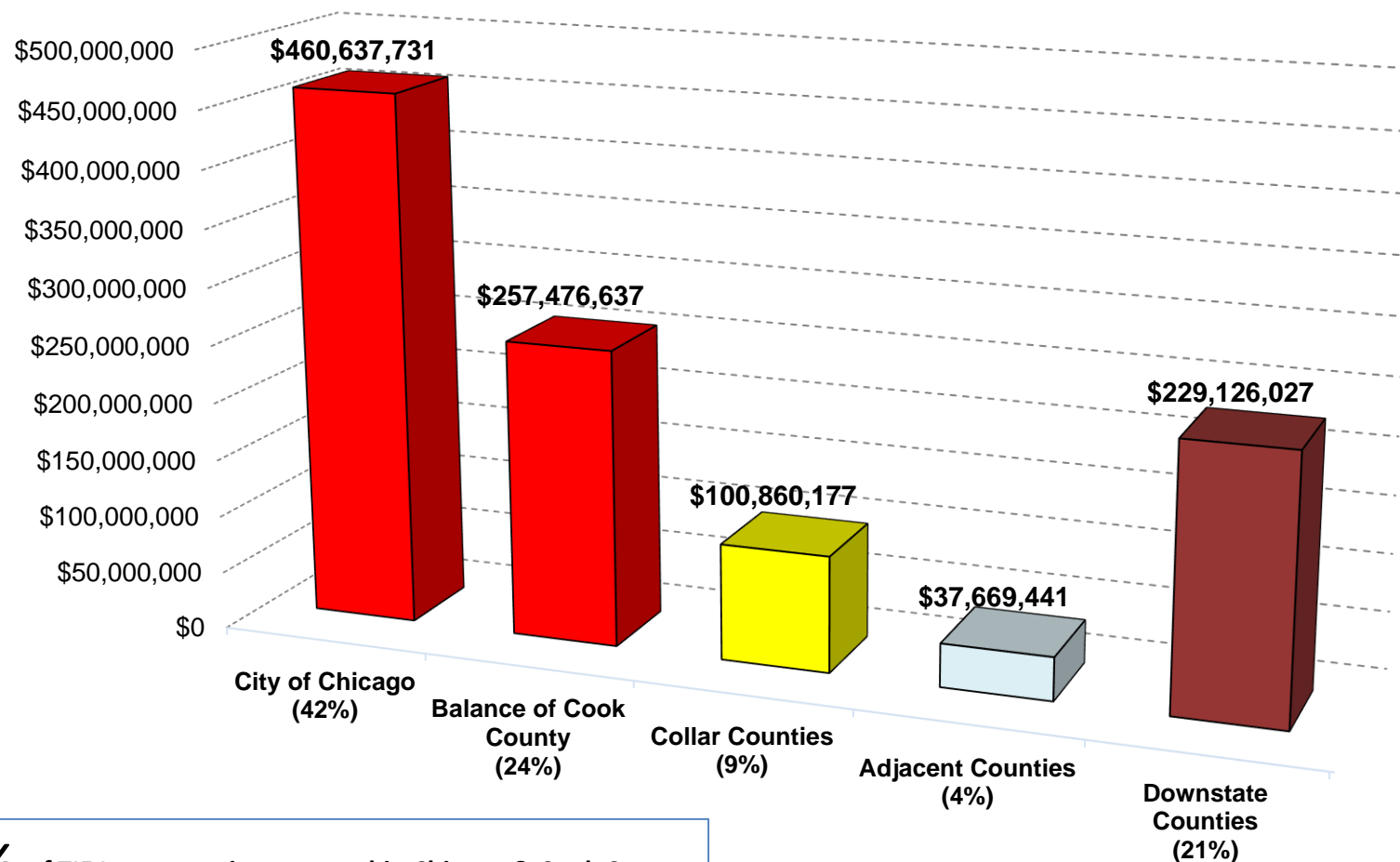


TOTAL TIF INCREMENT OF IL TIF DISTRICTS IN 2015

The total Real Estate Tax Increment generated by Illinois

TIF Districts in 2015 was

\$1,085,770,013.



$\frac{2}{3}$ of TIF Increment is generated in Chicago & Cook County

Blighting Factors

- Dilapidation
- Obsolescence
- Deterioration
- Structures below minimum code
- Illegal use of structures
- Excessive vacancies
- Lack of ventilation, light or sanitary
- Inadequate utilities
- Excessive land coverage/overcrowding
- Deleterious land use & layout
- Environmental clean-up
- Lack of community planning
- Declining EAV in 3 of last 5 years

Finding Blight

- For a 'blighted area' – must demonstrate 5 or more of the 13 factors
- For a 'conservation area' – must find 3 or more of the factors
- Factors must be 'present to a meaningful extent' and 'reasonably distributed'
- Municipality will retain a TIF consultant to establish eligibility
- Vacant land findings

Joint Review Board

- Convened by the municipality
- Your opportunity to be heard
- Consists of representatives from community college, schools, park, library, fire protection, township, county, municipality, and a 'public member'
- JRB provides a recommendation
- If no, municipal approval must be 3/5 (rather than simple majority)

Importance of JRB

- Carefully review TIF eligibility study
 - Hire your own land use planner
- Communicate with other taxing bodies
- Negotiate JRB recommendation
- Insist on an intergovernmental agreement with municipality – TIFs run for 23 years
 - Surplus payments
 - Capital improvements
 - Limitations on Appeals & Rate Objections

Tax Increment Finance Bonds and Agreements that can Benefit Illinois School Districts and Cities and Villages

Legal Authority for School Districts Working with TIF Districts

REIMBURSE

CAPITAL COSTS

Section 5/11-74.4-3(q) of the TIF Act defines “redevelopment project costs” to mean and include the sum total of all reasonable or necessary costs incurred or estimated to be incurred, and any such costs incidental to a redevelopment plan and a redevelopment project.

Section 5/11-74.4-3(q)(7) states that “to the extent the municipality by written agreement accepts and approves the same, all or a portion of a taxing district’s capital 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.”

MAKE & ENTER INTO ALL CONTRACTS WITH OVERLAPPING TAXING DISTRICTS

Section 5/11-74.4-4(b) of the TIF Act provides authority to municipalities to enter into all contracts with property owners, developers, tenants, overlapping taxing bodies, and others necessary or incidental to the implementation and furtherance of its redevelopment plan and project.

INTERGOVERNMENTAL COOPERATION ACT

The 1970 Illinois Constitution, Article VII, Section 10, and the Illinois Compiled Statutes, Ch. 5 Section 220/1 et. seq. provide legal authority for intergovernmental privileges and authority to be enjoyed jointly by school districts and municipalities as well as other public bodies politic

EXPENSES FOR ECONOMIC DEVELOPMENT ACT

Section 5/8-1-2.5 of the Municipal Code allows a municipality to appropriate and expend funds for economic development purposes, including, without limitation for commercial enterprises that are deemed necessary or desirable for the promotion of economic development within the community.

NOTE: A HOME RULE CITY HAS ADDITIONAL AUTHORITY IN THESE AREAS.

Tax Increment Finance Bonds and Agreements that can Benefit Illinois School Districts and Cities and Villages

Ways to Cooperate with Cities and School Districts

Numerous approaches are available for using TIF real estate tax increment through bonds and other authorized tools to encourage cooperation among cities and school districts.

1 Design TIF Plan with Cooperative Options

Incorporate a thoughtful impact analysis and anticipate some future assistance to other taxing bodies in the TIF Redevelopment Plan and Projects. For example, school districts provide to cities the anticipated school construction budget.

2 Count New Students from TIF Projects

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.

3 Annual Capital Cost Reimbursement

It may be possible to design a method based on an annual flat percentage or formula amount to reimburse capital costs. Some capital cost reimbursements are "triggered" by certain events, such as the occurrence of new residential development.

4 Periodic, Lump-Sum Reimbursement

Municipalities may agree to periodic reimbursement of TIF funds for specific capital projects, such as building improvements or repairs, purchase of equipment, or other capital expenditures.

5 In-Kind Assistance

If located within the TIF District Redevelopment Project Area, municipality could repair or construct public infrastructure (e.g., roads, sidewalks, storm drains, etc.).

6 Return TIF Increment per School Bond Rate

Municipality could agree to return TIF increment derived from a tax rate resulting from a taxing body's bond referendum. Taxing body should then adjust annual levy.

7 Surplus Funds

Municipalities may declare TIF surplus funds if unobligated TIF funds exist or such surplus was anticipated when the TIF Redevelopment Plan was designed. Such TIF funds are returned to County Collector who then re-distributes the money to taxing bodies based on current real estate tax rates.

8 Payment in Lieu of Taxes

Payment of estimated tax revenues from property in a TIF Area that is derived from property acquired by the municipality which, per the TIF Plan, is to be used for private use. Such funds are paid to County Collector who then distributes the money to taxing bodies.

NOTE: WRITTEN AGREEMENTS ARE NECESSARY IN EACH CASE.

Glenview Naval Air Station (The Glen)

- Development of the Glenview Naval Air Station (GNAS) under terms of the Economic Development Project Area Tax Increment Allocation Act of 1995 (65 ILCS 110/1 et. Seq.), which automatically qualified closed military installations greater than 500 acres as blighted areas eligible for TIF
- Development of Intergovernmental Agreements and Make-whole formula with affected taxing districts
- Converted this special TIF to a conventional TIF to assure that growth in value would be treated as “new property” when TIF retired
- TIF is now eligible for extension with agreement from taxing districts
- Downturn in home values has had a negative impact upon the Village and a positive impact upon the taxing districts
- Value of “new property” may result in less tax revenue than make-whole payments

City of North Chicago

- Sheridan Crossing TIF created in 2007
- “But for” requirement* met based on reasonable rate of return...*However*,
- Property value did not increase over last 10 years, resulting in no increase in tax revenue
- Creation of IGA to sunset TIF and create tax abatement for duration of original TIF
- IGA provides adequate revenue for project and new revenue for taxing districts

* Redevelopment is only feasible with utilization of tax increment financing

Village of Niles

- Four new proposed TIF districts
- TIF districts qualify as “conservation areas”
- Milwaukee Ave corridor qualifies as a “transit facility improvement area (TFIA)”
- TFIA created in 2016 as modified TIF for major transit improvements in Chicago and adjacent municipalities
- Niles TFIA based on new Pace Pulse bus stations (Milwaukee Ave to the Blue Line)

Northbrook Court

- Covers western portion of the Mall
- Macy's to be demolished, adding:
 - New grocery store
 - Restaurant
 - Retail space
 - 300-unit apartment complex
- Still under discussion

Annual Report

- Municipality must produce annual report
- To be filed with State Comptroller
 - The Warehouse
 - Examine fund balances and expenditures
- JRB to hold annual meeting with municipality to report on activities and spending in TIF district
- Use annual report as tool for surplus payments and early termination

Typical Bond Tax Increment Finance Schedule

Step 1 City creates TIF going through steps required in TIF Act including Joint Review Board meeting. As part of this process, the school district has the opportunity for Intergovernmental Agreement.

Step 2 City enters into redevelopment agreement with the developer.

- a. Pay as you go, TIF Develop Note
- b. Issue Bonds

Step 3 City issues TIF Bonds to refinance TIF Developer Note or issues TIF Bond or otherwise satisfy redevelopment agreement terms.

Summary of Village/City Tax Increment Finance Bonds under Illinois Law

Type of Debt	Security	General Requirements
General Obligation <i>Home Rule</i>	Full faith and credit and backed by the ad valorem taxing power of the Issuer.	No statutory debt limit and no need for voter approval to issue bonds. Flexibility.
General Obligation <i>Non Home Rule</i>	Full faith and credit and backed by the ad valorem taxing power of the Issuer.	Referendum unless exception. Statutory debt limit of 8.625% of E.A.V. BINA required.
Alternate Revenue Bonds	"Double-barreled" – payable from tax increment finance revenue with the general obligation of the municipality serving as backup security.	Pledged revenues must meet 1.25 times debt service coverage requirement. Backdoor referendum procedures and BINA required.
Debt Certificate	No separate tax levy backing, obligation is a promise to pay from lawfully available funds.	Borrow money by entering into installment contract agreement. Statutory debt limit of 8.625% of E.A.V.
Promissory Note payable to financial institution	No separate tax levy backing, obligation is a promise to pay from lawfully available funds.	Borrow money by entering into promissory note or similar debt instrument. Statutory debt limit of 8.625 % of E.A.V.
Tax Increment Finance Revenue	Future incremental property tax growth from project, TIF area or contiguous TIF district.	Validly created TIF, TIF eligible costs only.
Special Service Area	Full faith and credit of the taxable real property in the special service area (sometimes overlaps with TIF area).	Need hearings, notice and various other requirements.
TIF Revenue Note	Future incremental property tax growth from project, TIF area or contiguous TIF district.	Validly created TIF, TIF eligible costs only.

School District Tax Increment Finance Bonds Under Illinois Law

Alternate Revenue Bonds	"Double-barreled" – payable from tax increment finance revenue with the general obligation of the municipality serving as backup security.	Pledged revenues must meet 1.25 times debt service coverage requirement. Backdoor referendum procedures and BINA required.
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Recent Illinois Examples of Issuing Bonds by Utilizing Tax Increment Finance

- TIF Bonds can be issued to finance Redevelopment project costs incurred within a TIF district including public infrastructure costs and certain private costs such as land acquisition, rehabilitation and related costs.
- TIF Revenue Bonds secured solely by TIF.
 - Port TIF revenue from contiguous TIF's pursuant to TIF Act to help coverage and enable bonds to be issued and project built.
 - Gun store and shooting range in **East Dundee**.
- Alternative Revenue Bonds using TIF as primary revenue source meeting 125% test and general obligation backup.
 - Assisted Living, Auto Dealership, Large National Retailers, Athletic Facilities.
 - Infrastructure costs such as Roads, Water, Sewer.
 - Residential Housing.
 - **Peoria Heights, Hillside, Bartlett, East Dundee, Berwyn, Sterling, Canton, Sullivan, Milan, are recent examples.**
- School Districts can use TIF revenues as primary revenue source meeting 125% test and general obligation backup, a recent example, **LaSalle-Peru High School No. 120**.
- City issues Debt Certificates enhanced by sales tax pledged from project to finance land costs for Costco located in Business District in **North Riverside**.
- Bank purchased private activity bonds to finance mixed use facility with TIF benefits, NMTC, LIHTC and Chicago Housing Authority assistance.
 - **City of Chicago- Shops and Lofts Project.**

TIF Termination

- Incremental EAV considered 'new property' under PTELL
- Additional revenue from new property EAV is part of aggregate extension forever
- Must monitor TIF to know when it ends
- Municipality required to give notice by November 1st of final year

Extending the Term

- From 23 to 35 years
- Must have taxing district approval
- Why do it?
- Calculate loss of revenue
- Intergovernmental agreement
 - Surplus payments
 - Detach certain parcels

Post Termination Issues

- Responsibility for refunds once increment is gone
- *Village of Arlington Heights v. Pappas*
 - Appellate Court ruling in November of 2016 holding that municipality is responsible for post-TIF refund payments
- Re-TIF'ing an area
 - The latest exploitation of the TIF concept
 - See HB 2964
 - Examples: Elmhurst, Mt. Prospect, Wheeling



TIF Impact & Recommendations for Change

Testimony before the Illinois TIF Task Force – 4/24/18

School Districts across Illinois need the following changes enacted to secure predictable, stable and reliable funds to educate Illinois' children! Please support these changes to the Tax Increment Financing Law, providing transparency for community and impacted local governments!

ED-RED



Joint Review Board (JRB) Review and Action:

- REQUIRE Binding Approval
 - JRB Issues a Report approving or disapproving of any proposed plan
 - Include finances of all impacted taxing bodies in plan decision
 - Include "best interests of the community" as criteria for disapproval
 - Weighted JRB Voting based upon each taxing district's percentage of total property tax rate

STOP using Tax Increment Financing to Overly Restrict Access to Property Tax Revenue

- No more than 25% of EAV of any taxing district without consent of the taxing district



RETURN Accumulated TIF Surpluses to Local Governments

- Distribution of Unused Funds Returned
 - Require Municipalities to report surplus in Annual Financial Reports
 - Require declaration and distribution of surplus for any dedicated incremental revenues not used after 5 years
- Limit Portability of Revenues



STOP Allowing New Redevelopment Plans from Including Formerly TIF'd Land

- Prohibit Municipalities from creating new TIF projects on any portion of property previously included within a redevelopment area that has been dissolved, completed or terminated, for fifteen (15) years.

SCOPE

INCREASE the Criteria for Establishing a TIF

- Adjust the requirement for "vacant" property to include four (4) or more of the criteria to be considered for a TIF.

**Vision on
Issues and
Choices in
Education
V.O.I.C.E.**

STOP Establishing Residential TIF Areas Creating Overburdened Schools

- Prohibit the use of TIF for residential development from future or extended TIF agreements without the approval of local school boards.
- Require an Intergovernmental Agreement (IGA) with the affected board of education that addresses the financial support for any new students generated due to the development.

REQUIRE Transparency with Timely Reporting and Notice of Meetings

- Municipalities:
 - failure to notice, Failure to File Reports, and Failure to hold annual JRB Meetings – County treasurer notified to declare "surplus funds" distributed to underlying taxing bodies

- Provide additional time, 90 days (now 45 days) for notice to taxing bodies of JRB annual, amendment and origination plan meetings
- Require all existing municipalities where TIF ordinances are in place to file a termination date (last tax year established) with county treasurers.
 - Prospectively, require the same for any new redevelopment plans adopted.
 - Require notification to taxing districts by July 1st annually, instead of November 1st.
- Recovered Tax Increment Value after Failure To Notice
 - Allow taxing districts to recover lost access. Recovered tax increment value will be current year EAV in the first year beginning at least 60 days after such notice has been provided.

TIF Reform Efforts

- Tax Increment Financing Reform Task Force
- Included with School Funding Reform Law
- Proposed changes:
 - JRB review and action
 - Stop using TIF to overly restrict property tax revenue

TIF Reform Efforts

- Return accumulated TIF surplus to Local Governments
- Stop allowing new redevelopment plans from including formerly TIF'd land
- Increase the criteria for establishing a TIF
- Stop establishing residential TIF areas creating overburdened schools
- Require transparency with timely reporting and notice of meetings

Questions and Answers

We thank you for your time!