

Tax Increment Financing (TIF) *Fundamentals and Best Practices*

Village of Shorewood
August 2015



Kane, McKenna
and Associates, Inc.



TIF Overview

- I. What Is TIF?
- II. When Is It the Right Tool? What Makes an Area Eligible for TIF Designation?
- III. What Is the Process for Implementing a TIF District?
- IV. TIF Financing – What Are Financing Options and Allowable Uses of TIF Funds?



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I. What is TIF?

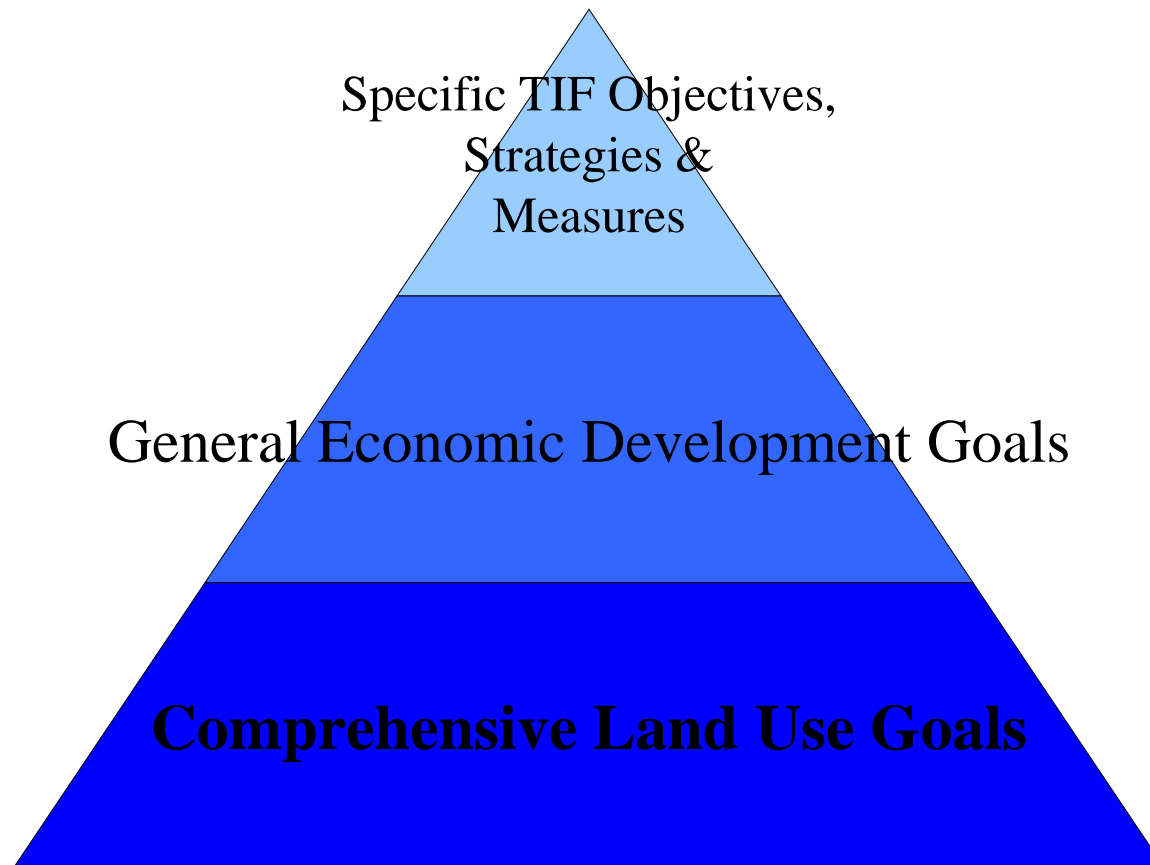


- TIF is a municipal financial incentive tool created by the Illinois State Legislature in 1978 to:
 - assist communities in implementing sound economic development
 - combat or prevent blight
- TIF is a uniquely powerful tool.
 - Can be decisive in attracting key development projects
 - TIF is locally controlled (no state or federal approvals)
 - TIF is flexible
 - TIF can be used to acquire property
 - TIF can provide infrastructure
 - TIF can pay for consultant, engineering, attorney and other applicable soft costs.



TIF as Part of Local Planning

- TIF Must Advance Comp Plan goals





II. When Is It the Right Tool? What Makes an Area Eligible for TIF Designation?



When Is It the Right Tool?

Will the area benefit from a TIF designation? What is the area's current condition or past history?

TIF is frequently used to:

- Induce Industrial Projects
- Induce Commercial Projects including Downtown areas
- Induce Residential and Mixed Use Projects



Policy Considerations

- Is there a “but for”?
- What effect will the TIF have on other taxing districts?
- What type of developments should be funded?
- What resources are available to the municipality?
- How does the estimate of incremental taxes compare to the costs to develop?



III. What Is the Process for Implementing a TIF District?



How Is TIF Implemented?

- Determine the Area to be Studied
- Adopt a Feasibility Resolution
- Qualify the Redevelopment Area
 - Conservation Area
 - Blighted Improved / Vacant



Timing Considerations

- Under the current TIF Act, the entire TIF designation process can take between 4 and 6 months.
 - Typically 40-50 discrete steps
 - There are numerous public notices and meetings/hearings that must either be published in local newspapers, sent by regular mail, or sent by certified mail.
- Critical step
 - Local taxing districts are invited to a Joint Review board to act in an advisory capacity early in the process.



Timing Consideration (Cont'd)

Typical Steps required as part of the TIF designation process:

- Public Meeting to review TIF concept
- Public Hearing Ordinance/Resolution Approval to set Public Hearing
- Joint Review Board meeting (taxing districts and village)



Timing Consideration (Cont'd)

- Notice of Public Hearing sent to taxpayers and parties interested in TIF
 - Two newspaper notices are also published
- Public Hearing to review TIF plan
- TIF ordinances may be introduced 14 to 90 days after the Public Hearing
 - If the TIF ordinances are approved, they are then filed with the County Clerk
- The timetable occurs over a 120 to 180 day period



IV. TIF Financing: What Are Financing Options and Allowable Uses of TIF Funds?



How Is the TIF Funded?

“PAY AS YOU GO”

- Developer Note
- Redevelopment Agreement

- Maximum TIF term – 23 years
- Financing obligations – 20 years

“UP FRONT”

- GO TIF Bond
- Taxable Revenue Bond



TIF Basics

Review of TIF Financing

TIF involves splitting property tax revenue generated from properties within the TIF District into two components or “buckets”:



Bucket for Base Revenues – For All
Local Governments



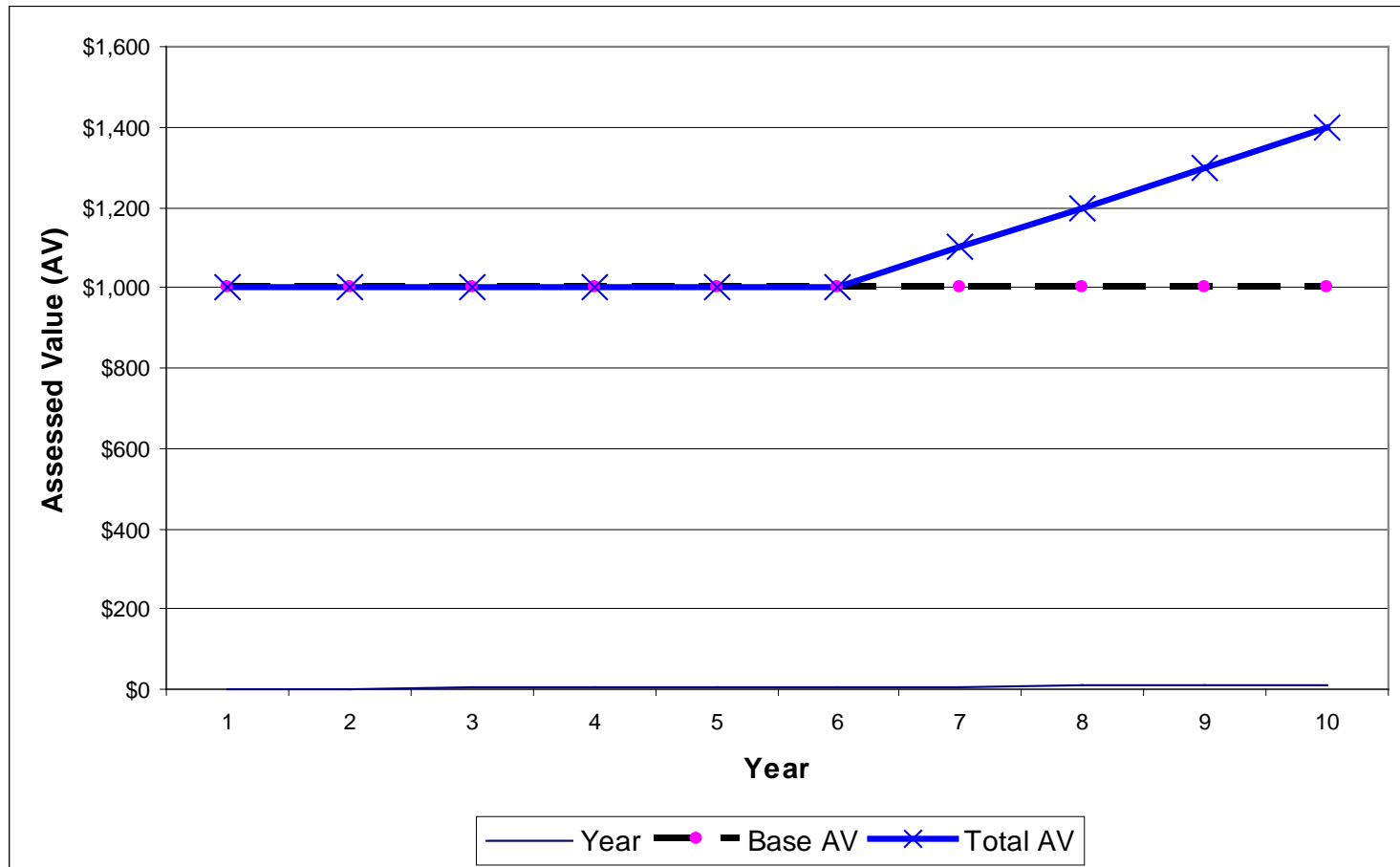
Bucket for Incremental Revenues – For
Redevelopment within TIF



TIF Mechanics

Review of TIF Financing

- Ideally, a successful TIF produces positive incremental revenue over time

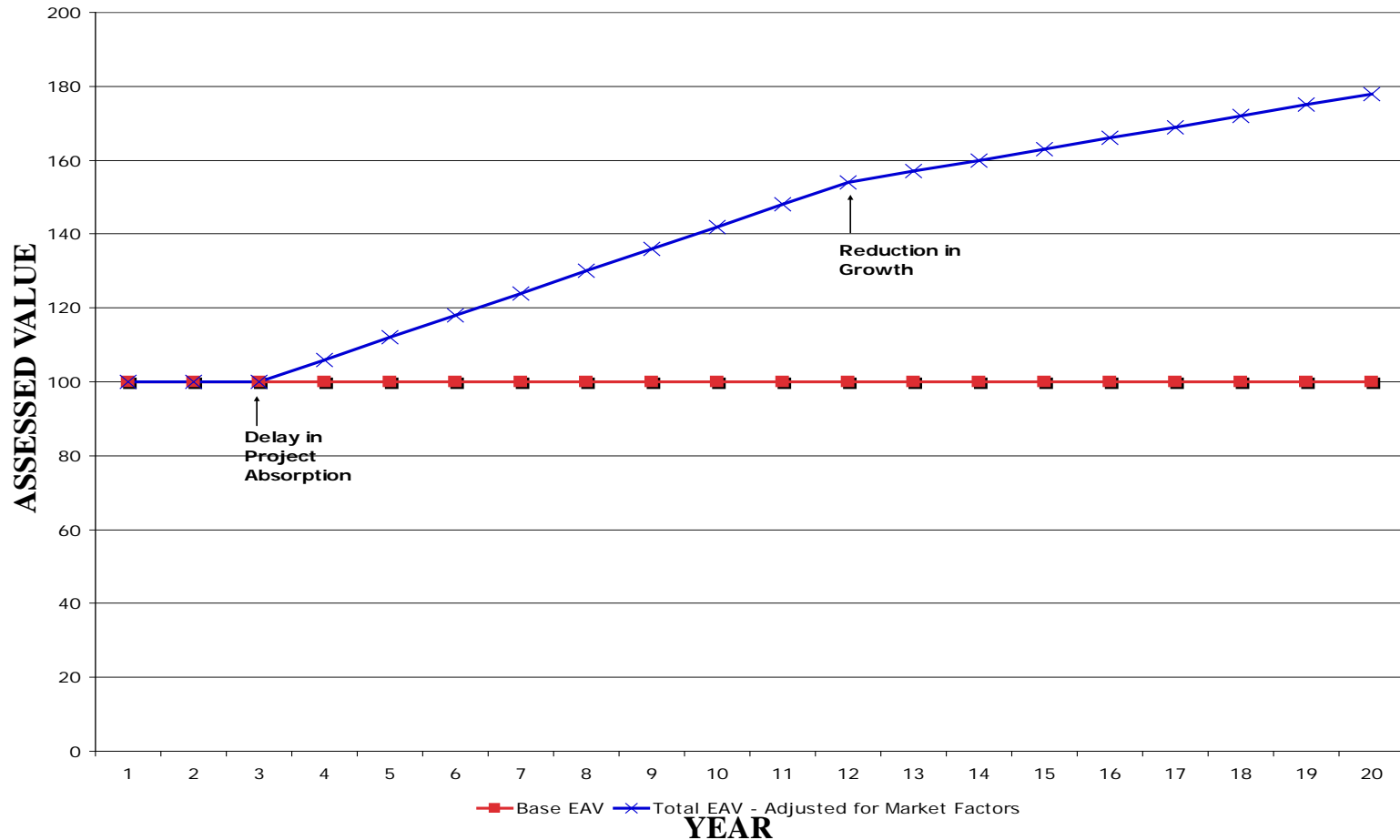




Review of TIF Financing

- A successful TIF is not guaranteed

TIF Performance Adjusted for Project-Related Risks





General Assumptions

Anytown, Illinois							
TIF - Project Analysis							
Preliminary User Assumptions							
				Avg.	Sq. Ft.		% Sales
Component	Project	Class	Sq. Ft./	Market Value	Generating	Avg. Sales	Taxable (Local
Name	Description	Code	# Units	Sq. Ft./Unit	Sales Tax	Sq. Ft./Unit	Sales Tax)
Parcel 1	Residential Component	4	152	300,000.00	0	0	0%
Parcel 2	Retail Component	3	41,000	100.00	41,000	200	100%
Parcel 3	Specialty Grocery Store	3	11,000	100.00	11,000	600	100%
Parcel 4	Book Store	3	20,000	100.00	20,000	300	100%
Parcel 5	Restaurant	3	6,000	70.00	6,000	250	100%
Totals					78,000		



Absorption Schedule

Absorp. Year	<u>Annual Units/Sq. Ft. Occupied</u>				
	Parcel 1	Parcel 2	Parcel 3	Parcel 4	Parcel 5
2015	36				
2016	36	41,000	11,000	20,000	
2017	36				6,000
2018	36				
2019	8				
2020					
2021					
2022					
2023					
2024					
2025					
2026					
2027					



Property Tax Assumptions

Anytown, Illinois							
TIF - Project Analysis							
Preliminary Tax Pro Forma							
	2015	2016	2017	2018	2019	2020	
Total EAV All Components	1,736,820	6,608,320	14,203,733	20,792,205	23,828,072	25,008,118	
I. Incremental Property Taxes:							
a) Base EAV (2014 Tax Levy Year)	2,019,268	2,019,268	2,019,268	2,019,268	2,019,268	2,019,268	
b) Incremental EAV	0	4,589,052	12,184,465	18,772,937	21,808,804	22,988,850	
c) Tax Rate 6.080%	6.080%	6.080%	6.080%	6.080%	6.080%	6.080%	
d) Total Est. Incremental Property Taxes	0	0	279,014	740,815	1,141,395	1,325,975	
e) Incremental Property Taxes (Residential Only) for School District 40.0%	0	0	72,542	189,919	309,210	362,398	
f) Est. Incremental Property Taxes Available After Payment to School Districts	0	0	206,473	550,896	832,185	963,578	
g) Cumulative Incremental Property Taxes	0	0	206,473	757,369	1,589,554	2,553,132	