A Future Framework for TIFs and Taxing Districts

Illinois Financial Forecast Forum
Illinois City Managers Association
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Harry Caray’s, Lombard, IL
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Overview of Discussion

• “Make-Whole” Agreements

• Review how overlapping local taxing bodies can be assisted using TIF funds

• Common themes and concerns from taxing districts

• Looking Forward: Using stewardship to strengthen TIF as a tool for the entire community
IL Authority on Tax Increment Financing “Make-Whole” Agreements

• A tool utilized by some municipalities to mitigate challenges to the establishment of a TIF District brought by other local taxing districts

  – Provides that one, but not all, overlapping taxing bodies will receive annual payments of its proportionate share of the increment

  – These agreements are not permitted under the TIF Act; illegality also demonstrated in case law (Henry County Board v. Village of Orion, 1996)
Methods for Distributing TIF to a Specific District

- **Payments in Lieu of Taxes (PILOT)**
  - Requires Actual Municipal Ownership
  - Requires Pro Rata Distribution

- **Distribution of Surplus TIF Revenues**
  - Requires Pro Rata Distribution to all districts
Alternatives to “Make-Whole” Agreements

TIF Act provides a list of powers to a municipality, the following which are relevant to the discussion:

- **The Power to Enter into Contracts**
  - PILOT
  - Payment for public works (infrastructure and facilities)
  - Reimbursement to school districts for increased costs attributable to TIF-assisted housing units
  - Pay for costs of training, retraining, or advanced vocational or career education

- **The Power to Renovate or Construct any Structure or Building**
  - Exception for “city hall”-type buildings
  - Coordination with the districts to identify needs, priority projects
City of Chicago: The Chinatown Branch Library was funded almost entirely with funds from the 24th/Michigan TIF District.

Village of Rockton: The former Old Beloit Corporation site was remediated and redeveloped using TIF funds. The site now houses Chemtool’s world headquarters. Incremental tax revenue could be used for local schools’ capital needs.
Taxing Districts’ Common Mis(TIF)perceptions and Concerns

- Some school districts ignore/don’t believe the “But For”
  - Rationalize that if the EAV is taxable by them, they would receive more than the General State Aid (GSA) Formula
  - GSA assumes a 3% tax rate
  - Many school districts are higher (nearly 4% to 6%)
- Property in a TIF does not reduce what any taxing body receives in the TIF
- Not getting increase in property tax (during TIF life)
  - The increase is delayed; the incremental EAV and New Property do not impact the EAV on which the levy is based, therefore, not subject to tax cap
  - TIF or no TIF, school district levy is subject to the tax cap
  - Levy would ideally meet the budget needs, but it rarely does
Case Study: Impact of Established TIFs on Taxing Districts

**COLLECTION OF INCREMENTAL PROPERTY TAXES**  
**(CUMULATIVE FOR TAX YEARS 2016-2033)**

<table>
<thead>
<tr>
<th>District Revenue</th>
<th>TIFs A &amp; B Expire ² (What Districts Would Get³)</th>
<th>TIFs A &amp; B Extended 12 Years ⁴ (What Districts Could Get⁵)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cumulative Total</td>
<td>NPV @ 4.5%</td>
</tr>
<tr>
<td>School District</td>
<td>$27 million</td>
<td>$17 million</td>
</tr>
<tr>
<td>Park District</td>
<td>$3 million</td>
<td>$1.8 million</td>
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¹Revenues are calculated on the Operating Rate portion of the tax rate only.
²TIF A expires 2015 and TIF B expires 2021.
³Operating Rate affected due to EAV increase after TIFs expire in 2015 and 2021.
⁴TIF A extended through 2027 and TIF B extended through 2033.
⁵Incremental EAV x Operating Rate. We assumed a flat operating rate because EAV impact is delayed until 2033 when TIF B expires.
⁶Additional Revenues as a result of growing incremental EAV from TIF Extensions. Additional funds go into the Tax Increment Allocation Fund and could be shared with the taxing districts via an Agreement with the Municipality. These funds would be above and beyond the amount assuming the TIFs expired.
Looking Forward: Building Trust and Cooperation Through Planning and Engagement

- Begin engagement with taxing districts in advance of any public discussion of a new TIF, major amendment, or extension.

- Establish a plan for marketing the TIF.
  - How will the municipality implement the plan to make it successful instead of the “TIF it and they will come” approach?
  - Make the marketing plan available to the taxing districts

- Meet with taxing districts to understand capital needs and plans.
  - Can help inform decisions on TIF boundary, Redevelopment Plan, etc.

- Establish a TIF policy, application and review process for funding requests from private sector
- Quantitative
  - Prove-up the “But For” requirements have been met
  - Proforma Review & Gap Analysis
- Qualitative
  - Demonstrate how project meets the goals and objectives of the Redevelopment Plan.
  - Other due diligence: political, economic and market considerations
- Review Key Redevelopment Agreement Terms
  - Term Sheet and RDA that protects the municipality, preserves the TIF

• Consider establishing a policy to distribute surplus TIF funds on an annual basis.
  – Should be evaluated on a TIF-by-TIF basis depending on the Municipality’s goals, specific project needs, etc.
  – Even a small amount is a demonstration of goodwill and stewardship of these funds.
  – Target district needs from CIP, other program goals that can be funded under the TIF Act.

• Review any proposed sharing agreements or allowable funding to district(s) in context with current debt/financial management plan.
  – Provides for greater certainty on debt capacity for future municipal projects and public-private partnerships.
Still with me??????

Questions & Answers