

Tax Increment Financing in the Chicago Region

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Outline of presentation

- 1) The mechanics of TIF
- 2) The use of TIF in the Chicago region
- 3) 3 controversies surrounding the use of TIF for economic development
 - * Impact on property values
 - * Impact on overlapping jurisdictions
 - * Impact on the fiscal health of municipalities

Municipality may initiate the TIF process when it:

- sees an opportunity to aggressively market a weak or very high-risk market.
- wants to pursue a mega-project.
- identifies or anticipates specific site impediments that may discourage developers.
- wants to have more control over development activities in a heated market.

Blight defined as:

- age; dilapidation; obsolescence; deterioration; illegal use of individual structures; presence of structures below minimum code standards; excessive vacancies; overcrowding of structures and community facilities; lack of ventilation, light or sanitary facilities; inadequate utilities; or excessive land coverage; deleterious land use or layout; depreciation or lack of physical maintenance; lack of community planning, are detrimental to the public safety, health, morals or welfare (65 ILCS 5/11-74.4-3(a)).

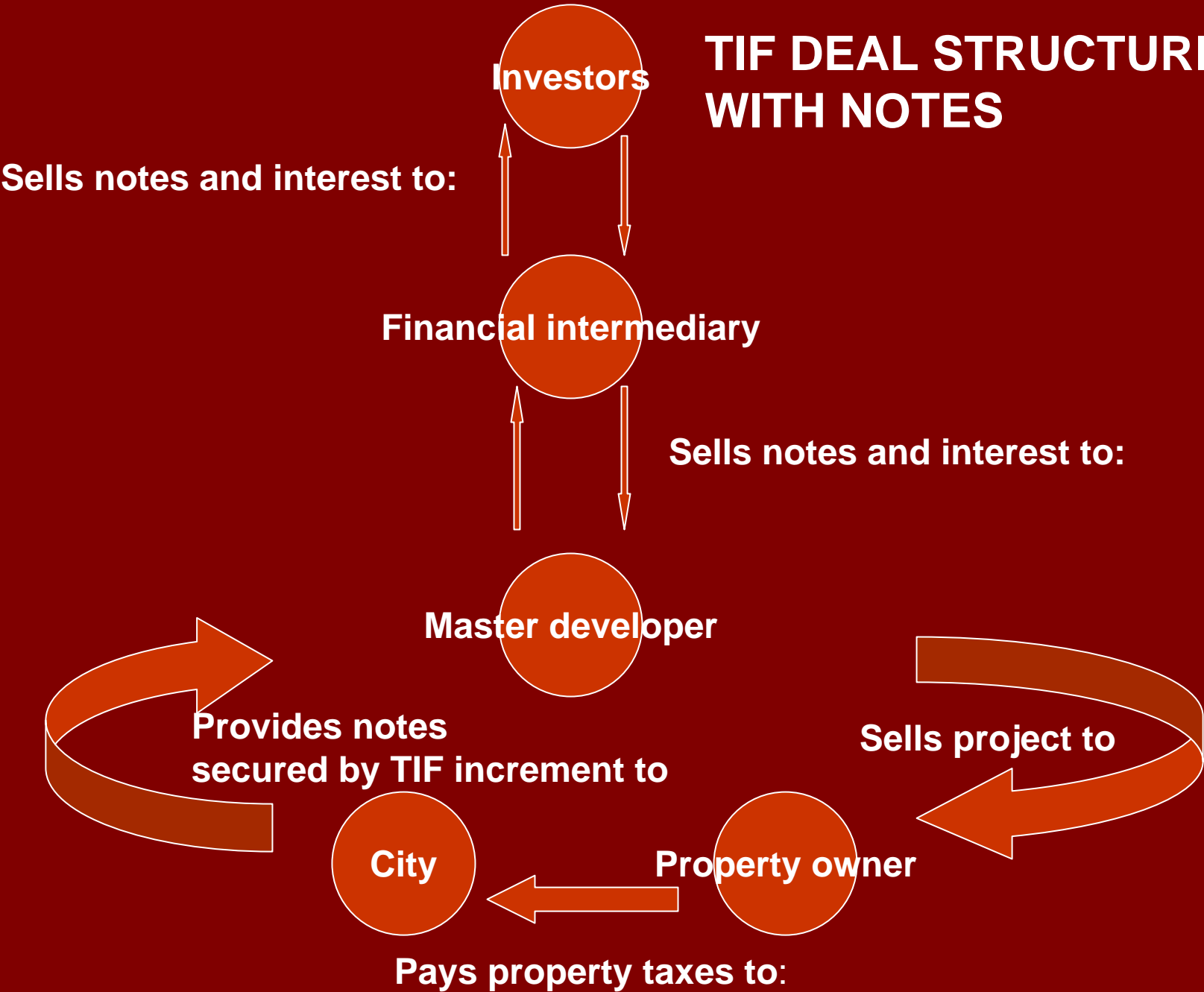
Amount of subsidy depends on:

- Market conditions
- Project risk
- Political connections
- Private financing “gap”
- Perceived public benefits

Front-funding techniques

- Pay-as-you-go
- Bond financing
- Short-term tax anticipation notes

TIF DEAL STRUCTURE WITH NOTES



Controversy #1: Does TIF cause property values to appreciate?

- TIF opponents say:

Municipalities intentionally designate districts in areas where property values are expected to rise

TIF captures natural increases in value, such as those associated with inflation

Property values have risen in districts with no public improvements

- TIF advocates say:

The assistance provided by TIF plays a decisive role in attracting new development to the district

By attracting new investment to the district, TIF creates value associated with the new construction as well as the spillover effects

Because property value appreciation within a TIF district are due to the TIF, the cost to taxpayers is zero – i.e. TIF is self-financing

Controversy #2: What is the impact of TIF on other taxing jurisdictions?

- TIF opponents say:

TIF freezes the available property tax base while increasing demands for services

TIF forces jurisdictions to raise tax rates

If “but for” is not met and property values increase in the district, TIF becomes a device for diverting taxes from overlapping taxing bodies

- TIF advocates say:

TIF forces jurisdictions to pay upfront for some of the economic development that will eventually expand their tax base

Development would not have occurred in TIF districts “but for” the use of this incentive

If TIF plays a decisive role in attracting new development, it is not diverting taxes. These taxes would not have existed in the absence of TIF

Controversy #3: Does TIF jeopardize the fiscal health of municipalities?

- TIF opponents say:

Municipalities wager their bond ratings and reduce spending on other city services to support speculative, risky projects

TIF causes increases in consolidated property tax rates - even when individual projects are successful

- TIF advocates say:

Savvy municipalities pass the bulk of the risks on to the developer and their investors

Revenue bonds don't place the public fisc at risk

Subsidized development pays for itself through taxes on its own increased property values