

# Tax Increment Financing (TIF) Explained

## What is a TIF district? Is it a tax increase?

TIF stands for Tax Increment Financing. A tax increment is the difference between the amount of property tax revenue generated before TIF district designation and the amount of property tax revenue generated after TIF designation.

Only property taxes generated by the incremental increase in value of TIF district are available for TIF projects. Tax rates do not change when a TIF is created. **TIF districts do not increase taxes.**

**Creating a TIF does not reduce property tax revenues available to overlapping taxing bodies like schools.** Property taxes collected on properties included in the TIF at the time of its designation continue to be distributed to the school districts, park district, library district, and other taxing districts and are not reduced by the TIF creation. **Only taxes derived from future growth that would not have occurred, "but for the TIF" go to TIF projects.**

## History of TIF Districts

In the 1960's and 1970's, the federal and state governments, including Illinois, began cutting back economic development programs that cities could use to revitalize communities. TIF districts are one of the few remaining tools that local governments can use to attract new business, invest in infrastructure and rebuild blighted areas. TIF districts are a popular and effective redevelopment tool, used in 47 states across the country and in over 250 Illinois cities.

## What are the benefits of TIF districts?

TIF's create short and long term benefits for communities, which include:

1. Provides development incentives requiring no tax increases. Properties are assessed and taxed the same way as in non TIF areas. The only change is that during the life of the TIF, property tax revenues are distributed differently with the incremental increase in tax revenue going to the village to finance redevelopment expenditures within the TIF area and the rest going to the underlying taxing bodies.
2. Increases property values. TIF redevelopment projects are an investment that causes property values to increase thus broadening the tax base and benefitting everyone who pays taxes.
3. Induces private investment and development. Villages and Cities can utilize TIF funds to offset relocation costs, development costs, and improve needed infrastructure to facilitate redevelopment.
4. Creates jobs, job retention and supports training programs. Increased development, redevelopment and relocation mean a greater demand for workforce, and often times a higher skilled or higher educated workforce. Redevelopment also impacts areas outside of the TIF enabling other businesses to grow and prosper as well.
5. Creates a stronger, broader tax base. Infrastructure improvements, demolition or redevelopment of blighted areas attract private developers to invest in the community. As a result, the overall equalized assessment value increases, lessening the property tax burden.
6. Locally controlled. Municipal officials are responsible for determining the best utilization of TIF funds, not the state or federal government.
7. Incremental revenue is reinvested in the TIF district. TIF funds are only utilized within the TIF district as a means to encourage the redevelopment of the area.
8. Benefits other taxing bodies. At the end of the TIF the entire property tax generated by the newly revitalized property goes to the underlying taxing bodies providing a revenue increase for schools, parks, libraries and so forth without raising taxes.

## Do TIF's divert money from schools?

No. On the contrary, TIF's, when properly executed, create money for schools. First, schools continue to receive all the tax revenue they were entitled to before the creation of the TIF district. Second, under most circumstances, a school's state aid is greater when a school district overlaps a successful TIF. The incremental growth in property values is excluded from the property tax base when the state calculates the amount of aid it should award to a school district. The "poorer" a school district, the more it stands to benefit from having a TIF district.