



## State of Illinois TAX INCREMENT FINANCING Program Detail

**COMMON NAME:** TIF

**LEGAL NAME:** Tax Increment Financing

**STATUTORY CITATION:** 65 ILCS 5/11-74.4-3

**PROGRAM TYPE:** Financing Program

**TYPE OF BENEFITS:** Illinois law allows units of local governments the ability to designate redevelopment areas in need of development or redevelopment. Often, improving these areas requires a public investment to reduce the extra cost and risk that private development faces in such areas. The public wishes to see this development occur, but without increased taxes or the reduction of other necessary services and projects that would be required to pay for the public investments that development and redevelopment usually require. Tax increment financing (“TIF”) is one tool used to meet this economic development challenge. With this tool, financially strapped local governments can make the improvements, like new roads or sewers, and provide incentives to attract new business or help existing business stay and expand. These specially designated areas capture new investment tax growth as a way to spur economic growth within the tax increment district in hope of encouraging new economic development and jobs.

**DESCRIPTION OF BENEFITS:** TIF is simple in concept. It calls for local taxing bodies to make a joint investment in the development or redevelopment of a designated area, with the intent that any short-term gains be reinvested and leveraged so that all the taxing bodies will receive future financial gains. When a TIF redevelopment project area is designated, the value of the property in the area is established as the “base” amount. The property taxes paid on this base amount continue to go to the various taxing bodies. The growth in property values generates tax increment, which is collected in a special fund and allows additional investments in the TIF project area.

This reinvestment generates additional growth in property value, which results in even more revenue growth for reinvestment. In this way a TIF project creates a vital cycle, increasing development and redevelopment in the area, such that when the TIF project ends — and Illinois law allows a TIF project to exist for a period of up to 23 years — all of the taxing bodies benefit from the new growth.

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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 designation. Establishment of a TIF does not reduce property tax revenues available to overlapping taxing bodies as the property taxes collected on properties included in the TIF at the time of designation continue to be distributed to them in the same manner as they would if the TIF did not exist. Only the new property taxes generated by the incremental increase in the value of these properties after the TIF is established are available for investment in the TIF; i.e. assume that a municipality wants to develop an area that includes two parcels that contain substandard commercial buildings.

Both of these parcels are paying \$30,000 per year in property taxes. However, the municipality finds that by making an investment of \$500,000 to rehabilitate the buildings on the two parcels and provide necessary infrastructure, private developers will commit an additional \$2,000,000, making the commercial buildings available for new use. This additional investment causes the property to increase in assessed value leading to the tax paid on each parcel going from \$30,000 per year in property taxes to \$60,000 per year. The public and private investment would increase the total property taxes paid from \$60,000 each year (\$30,000 per parcel), to \$120,000 each year (\$60,000 per parcel). The project would result in \$60,000 in new tax increment, which the municipality could use to off-set its original investment.

After this initial investment is paid-off, the newly generated increment may be used for additional investments in the area. Upon conclusion of the TIF project, all of this new revenue growth is available to the various taxing bodies. Successful TIF investment therefore serves all of the investors, both public and private. Private investors are helped by a reduction in development cost and risk, and public investors by the generation of additional revenue available at the conclusion of the TIF project.

**ALLOWED USES OF BENEFITS:** Help finance general public infrastructure improvements, including streets, sewer, water; redevelopment of substandard, obsolete, or vacant buildings; cleaning up polluted areas; providing infrastructure needed to develop a site for new industrial or commercial use; rehabilitating historic properties; property acquisition; site demolition, etc...

**ELIGIBLE GEOGRAPHIC AREA:** Statewide

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**ELIGIBLE BUSINESS TYPES:** ALL

**BENEFITS ELIGIBILITY REQUIREMENTS:** Illinois law specifies a number of requirements that must be satisfied for an area to qualify for Tax Increment Financing, beginning with identifying the project area and the physical and economic deficiencies that need to be cured. These deficiencies are often called the “blighting requirements”. In addition to meeting the blighting requirements called for under the TIF Act, the municipality must also demonstrate that these conditions will not be addressed without some local action. What is often called the “but for test”, calls for the municipality to show that ‘but for’ the public investment provided through the TIF, effective redevelopment or development will not occur.

Along with meeting these requirements, the municipality must also prepare a plan laying out the actions that the municipality intends to take to improve the area, and a budget for the TIF district that includes the total TIF-eligible costs. Municipal officials and a Joint Review Board, made up of representatives from local taxing bodies, must review the plan for the redevelopment of the TIF area, allowing the various taxing bodies to provide their input and opinion on the matter to the municipal authorities. Following this, a public hearing must be held so that residents and other interested parties can express their thoughts on the subject. The establishment of a TIF requires the preparation and approval of a Project Area Redevelopment Plan. This plan includes an assessment of the area in need of economic assistance, and demonstrates why the area needs redevelopment and how the municipality plans to revitalize it. Illinois law requires review by the major overlapping taxing bodies and a public hearing on the plan prior to TIF designation. The plan must be made available for public review and inspection at least 45 days prior to the public hearing.

The Redevelopment Plan includes:

- Documentation as to how the area satisfies the “but for” requirement;
- A description of the boundaries of the area recommended for redevelopment;
- A discussion of why the area needs redevelopment;
- The redevelopment goals and objectives for the area;
- A budget for the life of the TIF, including total TIF eligible costs;
- An evaluation of the fiscal and programmatic impact on the overlapping taxing bodies;

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- A description of the process to amend the plan;
- A statement of conformance with the municipality's comprehensive plan; and
- A timetable for redevelopment of the area.

This planning is important since the municipality, by spending its own funds to establish the TIF and, potentially, securing debt with its own credit, incurs more substantial risk than any other taxing district in making the project a success.

**SPECIAL REQUIREMENTS:** In order to qualify for TIF benefits a number of requirements must be satisfied, beginning with identifying the project area and the physical and economic deficiencies that need to be cured. These deficiencies are often called the “blighting requirements”. In addition to meeting the blighting requirements, the municipality must also demonstrate these conditions satisfy the “but for test”, which calls for the municipality to show that ‘but for’ the public investment provided through the TIF, effective redevelopment or development will not occur.

Along with meeting these requirements, the municipality must also prepare a plan laying out the actions that the municipality intends to take to improve the area, and a budget for the TIF district that includes the total TIF-eligible costs. Municipal officials and a Joint Review Board, made up of representatives from local taxing bodies, must review the plan for the redevelopment of the TIF area, allowing the various taxing bodies to provide their input and opinion on the matter to the municipal authorities.

Following this, a public hearing is held so that residents and other interested parties can express their thoughts on the subject. Once these steps are completed, the proposal to establish the TIF district and engage in Tax Increment Financing must pass through the same process as any other ordinance proposed by the municipality, receiving approval by the municipal legislative body. If approved by the municipal governing body, the mayor or village president may sign the ordinance into law.



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## **State of Illinois TAX INCREMENT FINANCING Program Detail**

### **SOURCES:**

Illinois Department of Commerce  
& Economic Opportunity  
Bureau of Business Development  
620 East Adams,  
Springfield, Illinois 62701  
Tel 217-785-6145

Illinois Tax Increment Finance  
Association  
300 East Monroe Street  
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