



DAVID ORR COOK COUNTY CLERK

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TIFs 101: A taxpayer's primer for understanding TIFs

Q: What's a TIF?

A: "TIF" stands for "Tax Increment Financing," a special tool that a city such as Chicago can use to generate money for economic development in a specific geographic area. TIFs allow a city to re-invest all new property tax dollars in the neighborhood from which they came for a 23-year period.

These "new" revenues arise if new development takes place in the TIF district, or if the value of existing properties rises, resulting in higher tax bills. These funds can be spent on public works projects or given as subsidies to encourage private development. But TIFs can also make it easier for a city to acquire private property and demolish buildings to make way for new construction.

With consistent community participation, TIFs can be a tool for implementing a community-based revitalization plan through encouraging affordable housing development, improving parks and schools, fixing basic infrastructure, putting vacant land to productive use, creating well-paying jobs, and meeting other local needs.

Q: How does a TIF work?

A: There are three basic stages in a TIF:

1. Creating the TIF
2. Obtaining revenue from increased property values
3. Spending the money

Creating the TIF and Making a Plan

The state law that allows Illinois cities and towns to create TIFs requires that they are only established in areas that are "blighted," or in danger of becoming blighted (often called a "conservation area" TIF). To determine if an area is eligible, the City hires a consultant to conduct an "eligibility study" of the proposed TIF. If the area meets the State standards, then the City (actually a consultant the City hires) conducts a study of the area and writes a "redevelopment plan" and a "project budget" - an overview of the development priorities for the area and how TIF dollars will be spent during the TIF's 23-year life. The redevelopment plan must be approved by the City Council, but the TIF district may make changes to its TIF project budget at any time.

"Freezing" the Tax Base and Collecting "Increment"

TIFs are politically appealing tools because they do not require the City to raise your tax rate. Instead, TIFs generate money for redevelopment by raising the value of the property that is taxed. It works like this:

- When the TIF is established, the County looks at the value of all the property in the TIF. (The County uses the term "EAV," or "Equalized Assessed Value," to describe property value.) This is the "Base EAV."

- Remember, TIFs capture money by devoting all new property taxes to redevelopment. That means that once a TIF is established, taxing bodies (the City of Chicago's general treasury, the Chicago Public Schools, the Chicago Park District, etc.) get no new revenue from the TIF. Their share of the property taxes is "frozen" at the level it was at just before the TIF was approved. The taxes on all the new property value in the TIF go into the TIF fund and are reinvested in that area.
- Where does this new property value come from? It can happen in one of three ways. First, there could be new development on vacant land that, before the new project was built, paid little or no taxes. Second, there could be improvements to existing properties, such as an addition to a house, a factory, or a store. Third, the taxes on existing properties could go up, either because of inflation (sometimes called "natural growth" in property values) or because of gentrification in the neighborhood. In any of these cases, the new tax dollars go to the project fund controlled by the TIF district, not to the City, the schools, or any other taxing body. Money can be transferred between TIFs, but only between adjacent TIFs.

Here's an example:

Step	Description	Amount
1. Base EAV	The total value of all property in the TIF just before the TIF district was established.	\$10,000,000
2. Year One EAV	The total property value of the TIF one year after it was created.	\$11,000,000
3. Growth in EAV	The difference between the Base EAV and the current EAV.	\$1,000,000
4. Tax Rate	The percentage of EAV (property value) that goes to taxes.	10%
5. Increment	The growth in property value multiplied by the tax rate - i.e., the new taxes that go to the TIF fund.	10%

Spending the Money

TIFs are politically appealing tools because they do not require the City to raise your tax rate. Instead, TIFs generate money for redevelopment by raising the value of the property that is taxed. It works like this:

TIF money can be used for:

- Planning expenses, such as studies and surveys, legal and consulting fees, accounting, and engineering.
- Acquiring land and preparing it for redevelopment, including the costs of environmental cleanup and building demolition. Especially in older areas, where making a site ready for a developer reduces costs and eliminates a major barrier to redevelopment. To aid this process, the TIF law gives the City expanded powers to acquire private property through its power of "eminent domain." If the City can show it is acting for a "public purpose" - a very loosely defined idea - it can force property owners to sell their land to the City at "fair market value." The City then re-sells the land to a private developer, often at a deep discount, or uses it for a public building.
- Job training and day care expenses for companies located within the TIF, or for companies that are planning to locate within the TIF. There are also proposals on the table that advocate establishing job-training centers that would serve the job-training needs of all the companies within a TIF district, regardless of whether or not they have received a direct TIF subsidy.
- Renovation and rehabilitation of existing buildings.
- Financing and interest subsidies for the loans a developer takes out to pay for a project.

Q: What is the role of the County Clerk's office in the TIF process?

A: Under Illinois law, the Clerk's office receives and processes a municipality's ordinance establishing the TIF district and directing the Clerk to dictate to the Cook County Treasurer the allocation of revenues to the TIF.

These ordinances authorize the Clerk to set a frozen value for each parcel in the district, called the "initial equalized assessed value" (EAV). This amount is derived from the most recent values available at the time the TIF is created. Revenue is generated for the TIF as property values increase within the TIF district.

Under state law, the Clerk's office must redistribute revenue to the TIF districts according to the amount of the increment or increased value since the initial or frozen value. Parcels are taxed utilizing the current property value of the property, but any taxes collected because of increases to the value beyond the frozen or initial value of the property are diverted from other tax districts and distributed to the TIF.

Q: Does the Clerk's office make this information available to the public?

A: Yes. Every year a few weeks after the tax rates are released, the Clerk publishes an extensive TIF report.

The Clerk's report includes the traditional Tax Increment Agency Distribution Summary, as well the "Taxpayer's TIF Revenue Summary," which offers a summary and comparison of total district revenues over the past two tax years, with the percentage change over that time. It also provides the beginning year of the TIF.

The "Taxpayers' TIF Revenue Summary" can be reviewed three ways:

Summary A: Includes TIFs from the City of Chicago, as well as the suburbs. You will notice that the alphabetical order reflects that some municipalities are called cities, some villages, and Cicero is listed as a township. For example, Alsip is found among the villages, as it is the Village of Alsip.

Summary B: Includes TIFs in just the City of Chicago.

Summary C: Includes TIFs in suburban Cook County only. Again, the alphabetical order reflects the same conventions as Version 1 in that it is organized by cities, villages, and has Cicero listed as a township.

Summary D: The Tax Increment Agency Distribution Summary provides more detailed information regarding each TIF. In addition to the revenue totals for each TIF, this report also includes the current equalized assessed valuation, as well as the frozen ("initial") equalized assessed valuation for the TIF. Within each TIF there is a further breakdown of the values and revenue according to tax codes. These codes are used internally to identify which taxing districts the parcels have in common.

Each tax code listed shows the composite tax rate and distribution percentage that is used to tax and distribute revenue collected on each parcel within that code. These rates and percentages are often different, even within the TIF, because different taxing districts, such as different parks or schools, may fall within the same TIF.