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CIVIC FEDERATION URGES TIF DISCLOSURE IN MUNICIPAL BUDGETS

Continues to Support TIF as an Economic Development Tool

(CHICAGO) The Civic Federation released an updated report on the role of Tax Increment Financing (TIF) as a municipal development tool today. The report and position statement updates the Federation's 2001 TIF report and includes recommendations to strengthen public reporting and make TIF more transparent. The Federation's policy position and updated TIF report are available on our website, www.civicfed.org.

One of the report's conclusions is that tax increment financing is an important economic development tool that has generated significant benefits for Illinois municipalities and citizens. In an era of declining federal and state development funding, TIF remains the most important local economic development tool for municipalities. The Civic Federation has found, however, that municipalities often do not provide adequate information to the public about TIF. The public deserves to be able to easily find out where hundreds of millions of their tax dollars are going. For example, over $386.5 million was generated by Chicago TIF districts in 2005 alone. Therefore, the Federation makes three primary recommendations to improve transparency in TIF reporting:

- Full financial information about TIF districts should be included in all municipal budgets;
- All municipalities should make complete information about TIF districts and TIF projects readily available electronically on the internet; and
- Each TIF district should be required to undergo a comprehensive public review every ten years.

"There is substantial misinformation out there about TIF," said Laurence Msall, president of the Civic Federation. "This study and position paper are intended to clear the air about how TIF affects taxpayers and taxing bodies." The Federation found that, contrary to popular belief, the **major impact of TIF is on taxpayers, not other government taxing bodies**. TIF has a direct fiscal impact on property taxpayers, leading to tax rates that are higher than they would have been in the absence of a TIF district. TIF freezes the Equalized Assessed Value (EAV) within a taxing district for all overlying government taxing bodies. EAV is the denominator in the tax rate calculation, and a smaller denominator means a higher tax rate, which increases the amount taxpayers initially pay compared to what they would have paid without the TIF.

It is **incorrect** to state that TIF causes tax increases, however. The Civic Federation recognizes that most municipalities must fund infrastructure and economic development goals somehow and without TIF, such funds would likely come from alternate sources, such as fees, sales taxes, or even property taxes. Eliminating TIF would not necessarily lead to lower taxes unless municipalities curtailed their development programs or eliminated them entirely.

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The Civic Federation found that the impact of TIF on non-municipal taxing bodies in Cook County is not as dire as opponents of the development tool often claim. Our analysis demonstrates that two out of the three types of property tax funded jurisdictions, including all jurisdictions in Cook County, are not significantly negatively impacted by TIF.
Home rule governments, such as Cook County government are not impacted or limited by TIF whatsoever because they are not subject to tax caps and are able to levy for additional revenue as needed. Tax capped non-home rule governments, such as Chicago Public Schools, are only minimally affected by TIF because existing state tax cap law restricts governments' property tax extensions regardless of changes in property value that TIF captures. These governments only "lose" the revenues going to the TIF that are created by the fraction of new construction that *would have occurred in the absence of TIF*.

Only non-home rule jurisdictions in counties without tax caps, such as LaSalle County, are significantly negatively impacted by TIF because they are subject to tax rate limits. TIF slows EAV growth rates, thereby increasing tax rates (as described above), and therefore may cause such governments to reach their tax rate limits faster than they would have otherwise and forego revenues.

TIF FACTS:

- In Illinois, both counties and municipalities may utilize TIF financing.

- In 2006, there were a total of 998 TIF districts in Illinois.

- Approximately 373 of all TIF districts were located in Cook County, 105 were in the five Collar Counties (DuPage, Kane, McHenry, Lake and Will Counties) and 520 were located in the State's other 96 counties.

- The City of Chicago's TIF districts represented 14.0% of the statewide total in 2006.

- Between 2004 and 2005 (the year for which the most complete data are available), the EAV of all 136 then-existing Chicago TIF Districts increased by 12.7%, or about $1.3 billion in dollar growth.

- Chicago TIF District Facts:
  - 4991.3% increase in amount of taxes generated between 1986 and 2005
  - Taxes generated increased from $7,591,500 to $386,502,771
  - Growth in total increment for all Chicago TIF districts between 1986 and 2005: $6.3 billion or 34,705%
  - Growth in total EAV for all Chicago TIF districts between 1986 and 2005: $11.4 billion or 15,661%

- Central Loop District TIF (created 1982 and expanded 1997)
  - Current EAV (2005): $2,603,135,368
  - Fund Balance (2005): $202,190,201
  - Total Increment to Date (2005): $1,617,843,214

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TAX INCREMENT FINANCING (TIF)

A Civic Federation Position Statement

See also the related Civic Federation Issue Brief on Tax Increment Financing

Prepared By

The Civic Federation

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OVERVIEW

The Civic Federation **supports** the use of **tax increment financing (TIF)** as a municipal economic development tool. It is an important tool that has generated significant economic development benefits for Illinois municipalities and citizens over time. However, we believe that there is insufficient **transparency** in the availability and quality of TIF information provided to the public. We strongly support enhanced state and local reporting requirements to improve the provision of TIF information available to citizens and policymakers.

Tax Increment Financing is an Important Economic Development Tool

The Civic Federation supports government economic development efforts as long as they are linked to reasonable goals and objectives, are tied to a broader planning process and provide the public with timely, accurate and complete information. Economic development programs are beneficial to taxpayers and citizens because of their ability to attract or retain companies which can result in a broadening of the tax base and the generation of increased employment opportunities. We are particularly supportive of publicly-funded efforts to develop infrastructure, such as roads, sewers, bridges and street lighting that benefit both businesses and the general public. There is clearly an important government role in the financing and construction of these improvements.

In the absence of generous federal or state funding programs, TIF remains the most important local economic development tool for municipalities. Non-home rule municipalities in particular would find it difficult to fund economic development projects without TIF due to the limiting effects of rate limits and tax caps. Therefore, the Civic Federation supports retaining municipal control over the operation and implementation of TIF and we support allowing municipalities flexibility in the application of TIF.

Currently, municipal economic development activity is funded by means of general tax revenues, state and federal grants and intergovernmental transfers, and TIF. If TIF were abolished, governments would be required to turn completely to general tax increases and intergovernmental aid to fund economic development and related infrastructure projects. While this shift would provide greater transparency in highlighting public spending on economic development, it would not necessarily be fiscally prudent. TIF allows for the cost of needed infrastructure to serve as both an incentive for business investment and to spread the cost of the project to the increased property tax base generated by the private and the public investment.

TIF can be an effective way to target resources at specific areas that require infrastructure and related improvements. A general tax increase would generate revenues that would not necessarily be earmarked for capital improvement purposes. This raises our concern about what exactly the money would be spent on. With TIF, the funds are earmarked for a limited number of specific purposes.

A Civic Federation review of 44 major projects in ten City of Chicago TIF districts (including the Central Loop TIF district) shows that 35 of the projects initiated had been completed by

2005. A total of $242.6 million in public investments in these projects from TIF funds generated over $1.1 billion in private investment.[1] As these figures suggest, TIF can and does generate economic activity. In these cases, each dollar of public investment generated $4.68 of private investment.

The stated purpose of TIF is to stimulate development that would not have occurred "but for" the presence of TIF. Precisely how much development TIF generates is the subject of intense debate, and the policy literature is inconclusive on this issue. Many opponents of TIF state that TIF has no effect on development in certain areas, arguing that they would have developed without any assistance. This, in our view, is an unreasonable proposition and an unsubstantiated claim.

The heart of the policy debate about economic development programs, including TIF, is about the efficacy of public funding, particularly when it may benefit private interests. Some favor strict limits on economic development funding, perhaps limiting it only to areas of serious blight. Others favor a more expansive definition. The Civic Federation supports giving municipalities flexibility to pursue economic development goals and plans. However, the burden should always be on the government to make the case for its economic development proposals. We think it there should be maximum transparency and public input into the economic development process. Such openness assures that the electorate can decide if they are satisfied with the results of municipal economic development plans through the democratic process.

The Impact of TIF on Property Taxpayers

TIF has a direct fiscal impact on property taxpayers. During the life of a TIF district, TIF leads to tax rates for overlying taxing districts that are higher than they would be without the presence of TIF. Tax rates are calculated by dividing levies by Equalized Assessed Value (EAV). Because EAV is frozen within TIF districts, the total EAV of all overlying taxing bodies is less than it would be otherwise. As the EAV figure in the tax rate calculation (the denominator) is smaller, the rate is higher. The consequence is that individual taxpayers pay more initially than they would have absent the TIF. Once a TIF district is dissolved, however, property taxpayers may benefit because the tax base of all affected governments is substantially increased. This correspondingly leads to lower tax rates and thus reduced tax bills.

Many commentators assume that municipalities would <u>not</u> have spent part or the entire amount currently available for TIF resources from a variety of other tax or revenue sources for infrastructure and economic development purposes. Alternative potential revenues could include fees, sales taxes, hotel/motel taxes or a wide range of other types of revenue enhancement; they could even include property taxes. In sum, eliminating TIF might not necessarily lead to a corresponding decrease in property taxes <u>unless</u> municipalities eliminated or scaled back their property tax funded economic development programs. In fact, eliminating TIF could lead to increases in other taxes or fees.

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[1] Data compiled from City of Chicago *2005 Tax Increment Financing District Annual Reports,* and the Neighborhood Capital Budget Group at http://www.ncbg.org/tifs/tifprofile.aspx?id=163

The Impact of TIF on Non-Municipal Taxing Bodies

The impact of TIF on non-municipal taxing bodies is controversial. Opponents of TIF often claim that TIF diverts millions of dollars from school districts and other taxing districts. It is argued that these cash strapped non-municipal governments are thereby deprived of badly needed dollars for basic services. In their view, TIF is a zero-sum game. Municipalities are the "winners" and other taxing districts the "losers." TIF represents nothing more than the capture of non-municipal tax revenues by cities and villages. However, this view is overly simplistic. It presumes that the TIF "but for" test is never met and it fails to consider the impact of property extension limitations ("tax caps") and rate limits on non-home rule governments.

Tax caps limit the annual growth of a non-home rule jurisdiction's tax extension in certain counties to the lesser of 5% or the consumer price index (CPI).[2] Certain parts of the tax base, such as new property (in the first year after its construction) and dissolved TIFs, are also exempted from the tax cap calculation.[3] These exempted parts of the levy and EAV provide additional property tax revenue beyond the 5% or CPI annual growth limit. In addition to tax caps, non-home rule jurisdictions in all counties are also subject to **rate limits** that can impact the amount of property tax revenue they raise. This is accomplished through a maximum tax rate per fund, not a maximum extension as with tax caps. Since these "rate limits" limit the tax rate, not the extension, the total extension can increase as total EAV increases.

How TIF Interacts with Tax Caps and Rate Limits

The financial impact of TIF on overlying taxing districts depends on the property tax system in place.

- Home rule governments such as Cook County are not impacted by TIF because they are not subject to tax caps. These governments' tax levies are not negatively impacted by TIF as they maintain the ability to levy additional property taxes.

- Non-home rule jurisdictions in counties without tax caps are negatively impacted by TIF because: 1) the amount of EAV they can tax within a TIF is frozen for many years, forcing them to forego revenues if they are already at their rate limits; and 2)TIF slows EAV growth rates and thereby increases tax rates, leading many districts to reach their tax rate limits faster than they would have otherwise and thus forego revenues.

- The impact of TIF on non-home rule jurisdictions in counties such as DuPage County with tax caps is minimal. The tax cap restricts extensions regardless of changes in property value. TIF simply raises tax rates. The additional dollars going to TIF come from taxpayers, not governments. Taxing districts do "lose" the portion of TIF revenues generated by any new

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[2] Certain parts of a tax levy are exempted from tax caps, such as funds for some types of bonds and building leases, and a tax cap can be raised through voter referendum. A tax *levy* is the amount of money a taxing district requests from taxpayers; the corresponding tax *extension* is the amount of money the County Clerk calculates that the taxing district is entitled to after any tax limitations have been applied and the final rate is determined.

[3] The EAV of property "outside the tax cap" (e.g., new property or dissolved TIFs) is subtracted from the total district EAV for calculation of the tax cap tax rate. Then this rate is applied to all EAV in the district, including new property and dissolved TIFs.

construction that would have occurred even in the absence of TIF. However, that amount is only a fraction of total taxable TIF property value. It is not precisely quantifiable.

Do Taxing Bodies Lose Revenues to TIF because of Inflation?

A recent report stated that non-municipal taxing bodies in Cook County lost as much as $700 million between 1986 and 2005 because of the impact of inflation.[4] The argument is that, as overlying taxing bodies can only access the EAV that is frozen in TIF districts, the value of that EAV base is eroded annually because of inflation. As the taxing bodies are not compensated for the impact of inflation, they "lose" tax revenues. The argument is incorrect, however, because it fails to consider the impact of the tax cap law.

Even if the TIF law were changed to include some inflation factor, the total amount of tax revenues the taxing bodies would be entitled to would **still** be limited by the tax cap. The impact of TIF is to increase tax rates to a higher level than they would be otherwise because growth in the EAV base is capped; the increased tax burden is shared by all taxpayers, not just those in the TIF district. But, TIF does not generally lead to a loss in revenues to non-home rule taxing bodies because of inflation. TIF does limit the ability of non-home rule bodies such as the Chicago Public Schools to levy against new construction that is exempt from the tax cap. But the fiscal impact of this is far less than the $700 million figure suggested by the report.

The Interaction between TIF and General State Aid

Much of the debate over TIF centers around the interaction between TIF and school district revenues. TIF affects not only school district property tax revenues, but also the amount of General State Aid (GSA) provided by the State of Illinois. GSA is intended to provide each school district with adequate financial resources to reach a foundation or minimum level of funding per pupil. It is designed to equalize disparities among districts caused by unequal amounts of available local resources (ALR). In general, the GSA formula provides more state revenue to districts with lower EAV and less state revenue to districts with higher EAV.[5]

When a TIF is created, it limits the amount of EAV available to the school district by freezing taxable EAV within the TIF at a fixed level over time, effectively making the available EAV lower than it otherwise would have been. This reduces available local resources for a school district and thus increases the General State Aid entitlement of the school district. In tax capped counties, however, the impact of TIF on GSA is overshadowed by the far more significant fiscal effect of the GSA calculation that is permitted for school districts in counties with tax caps.

The amount of GSA available in a given year is contingent upon the total amount of funding appropriated by the General Assembly. This is a finite amount and does not increase based on a calculation of loss experienced by school districts containing TIF districts. So school districts

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[4] Jeremy Thompson, Jason Liechty and Mike Quigley. *A Tale of Two Cities: Reinventing Tax Increment Financing*, April 2007, pp. 8-9.

[5] There are other factors in the GSA formula, such as number of low income pupils and amount of Personal Property Replacement Tax received.

without TIFs are in effect subsidizing school districts with TIFs.[6] The TIF-inclusive school districts may well receive more state funding than they would have otherwise, but it is at the expense of other school districts.

In order to illustrate the interaction of TIF and GSA, the Civic Federation estimated the effect of dissolving the Central Loop TIF district in 2004 on the GSA entitlement of the Chicago Public Schools. For school year 2005-2006, the tax-capped Chicago Public Schools were entitled to receive $669.1 million from the State of Illinois through the school aid formula (payable 2006-2007). An entitlement amount was calculated using the formula allowed for school districts in tax capped counties. If all TIFs had been dissolved in 2004, the CPS would have received an additional $41.5 million in property tax revenue. The increase in EAV due to the dissolved TIF would have led to a decrease in GSA entitlement of $29.7 million, as shown in the table below. Therefore, the net revenue gain for CPS as a result of dissolving all TIFs in one year would have been only $11.7 million.

Comparison of CPS Net Revenues With and Without Central Loop TIF*			
	Actual	If TIF Dissolved 2004	Difference
CPS Property Tax Extension	$ 1,715,801,063	$ 1,757,314,645	$ 41,513,582
CPS General State Aid	$ 669,110,237	$ 639,378,299	$ (29,731,939)
Net Gain if Central Loop TIF Dissolved in 2004			**$ 11,781,644**
Net Gain as % of Gross Property Tax Increase			**28%**

* The property tax extension is for tax year 2004, payable in 2005. The GSA calculations are for 2005-2006, payable in 2006-2007, and use 2004 EAV for calculations.

TIF Reporting is not Transparent or Complete

The Civic Federation took a leadership role in promoting transparency in TIF reporting during the 1999 TIF reform legislative process. We also worked with the City of Chicago in developing their TIF disclosure process. Unfortunately, both the State's and the City's efforts in providing TIF transparency have fallen far short of what they should be. We believe that the State, the City of Chicago and Cook County, which is responsible for creating property tax bills, fail to provide adequate and accessible information to the public about TIF. Their failure to provide information has led to a great deal of misinformation and erroneous speculation about what TIF is and how it works.

TIF financial information is not readily available in an easily accessible format. The amount of property tax dollars earmarked for TIF is not available in municipal budget documents or on individual property tax bills. Rather, this information is only available from Annual Reports of individual TIF districts or the County Clerk's annual TIF report. In our view, this omission is problematic considering the large sums of taxpayer dollars TIF involves. For example, City of Chicago TIF districts generated $386.5 million in property taxes in 2005. These property taxes are in addition to the City's 2005 levy of $713.5 million. Thus, the total amount of property taxes the City of Chicago obtained from taxpayers in 2005 was $1.1 billion, the sum of the two figures. Yet, in most reports, the lower figure of $713.5 million only is presented as the City's property

[6] Christine Benson. *Tax Increment Financing: A Documentary Case Study of the Financial Impact and Policy Implications for Public Schools in Illinois*, Doctoral Dissertation, Northern Illinois University, 2005, pp. 157-158.

tax burden. Simply stated, this is inaccurate. The public is not well served by obscuring the total amount of any government's property tax resources or any other revenue source.

Civic Federation Recommendations for Improved Transparency in TIF Reporting

The Civic Federation strongly supports enhancing the public reporting requirements for TIF in Illinois. Many of these proposals have been advocated by other groups and are included in Cook County Commissioner Michael Quigley's April 2007 report entitled: *A Tale of Two Cities: Reinventing Tax Increment Financing*. We believe that maximum transparency is always the best policy regarding public financial matters. Taxpayers deserve no less.

The Civic Federation makes the following recommendations for improved transparency in TIF reporting:

1. Full financial information about TIF districts, including expenses, revenues, fund balance and debt, should be included in annual municipal budgets. Taxpayers are entitled to full and complete information about the financial activities and obligations of government. The current practice of excluding TIF data from budgets is inconsistent with providing full disclosure of a municipality's financial information.

2. Each TIF district should be required to undertake a status report ten years after its inception. The report would be presented and discussed at a public hearing and made publicly available. It would include information on the status of redevelopment projects within the TIF, a review of redevelopment plan goals and objectives, an accounting of TIF revenues and expenditures to date, and relevant evaluation or performance data such as return on investment reports for projects. This would be an opportunity for municipalities to present information about TIF results and for stakeholders to better understand the uses of TIF funds.

3. The State of Illinois should require information about TIF districts and TIF projects be made readily available electronically online. The information should be provided in the same electronic format that is required for local governments under the State of Illinois Fiscal Responsibility Report Card Act. Currently, reports required by the Office of the State Comptroller are only available in printed form. In an age characterized by low cost electronic dissemination of information, there is no reason why TIF reports should not be provided on the internet.

4. The City of Chicago and all municipalities should make complete information about TIF districts and TIF projects readily available electronically on the internet in a consistent and easily accessed format. This would include annual financial reports and redevelopment agreements.

Should Property Tax Bills Include TIF Information?

A Tale of Two Cities: Reinventing Tax Increment Financing recommends that Cook County property tax bills include TIF information. The intent of such a proposal, which is greater transparency, is laudable. Unfortunately, at this time, a method to provide an accurate accounting for the exact amount of property tax dollars directed from individual tax bills to TIF purposes has not yet been developed. It is our understanding that efforts are underway to develop an accurate method. We await the results of these efforts.

Our concern with methods currently proposed to place TIF information on property tax bills is that the information provided would necessarily be incomplete. This is because the tax bills of taxpayers both within and outside of a TIF district are affected by the TIF and presenting accurate information about how TIF raises tax rates even outside a TIF district is extraordinarily difficult on an individual tax bill.

Taxpayers within a TIF district directly subsidize TIF activities. In most cases, these taxpayers would pay a greater proportion of property taxes to the TIF than to the overlying taxing bodies as taxes levied on incremental growth are being used directly to fund projects within that geographic area. The tax rate is known and the amount of money devoted for the TIF district and the overlying districts can be estimated. However, it is a different situation regarding those taxpayers outside the TIF district who indirectly subsidize the TIF.

TIF freezes the property tax base of overlying tax districts, many of which overlap substantial areas not located in the TIF district. The impact on property taxpayers is to raise tax rates since the tax base is smaller than it would have been without the presence of TIF. Therefore, taxpayers both within and outside of a TIF district subsidize the TIF. More specifically taxpayers in **non-TIF district** portions of a municipality indirectly subsidize TIF districts as tax rates are higher than they would be otherwise. These taxpayers may pay proportionately less than their peers located in TIF districts, but the amounts they pay could still be substantial. This means that taxpayers in **other municipalities** also are affected by the presence of TIF districts; they pay for the TIFs of other municipalities with shared taxing agencies (such as the Metropolitan Water Reclamation District or the Forest Preserve District of Cook County or school districts that overlap several municipalities). Consequently, tax rates are higher than they would be otherwise.

It would be extraordinarily difficult to calculate tax rates for individual taxpayers located outside TIF districts or in other municipalities in a way that would accurately reflect how much of the rate could be attributed to the presence of TIF. Some have suggested that tax bills show what tax rates would be with and without TIF. But, this approach is misleading because those calculations make a flawed assumption that all development would have occurred without TIF. It would be a very complex undertaking to disaggregate what portion of TIF tax rates are explicitly caused by TIF and which are not. Therefore, we conclude that it would be extraordinarily difficult to determine how much taxpayers outside TIF districts pay in property taxes for TIF.

In sum, providing information on the amount of taxes allocated to TIF on individual property tax bills under current proposals would be incomplete and thus would not provide a completely accurate portrayal of the effects of TIF on taxpayers. The Civic Federation at this time recommends that all tax bills, for parcels within TIF districts and outside TIF districts, could include a statement that says," By agreement among the taxing bodies, a portion of taxes paid are allocated to TIF districts." This would acknowledge that some revenues are in fact allocated to TIF and that all taxpayers do pay for TIF. We would also recommend that the bill include a link to a page on the County Clerk's Web site that explains how TIF impacts taxpayers regardless of where they live.