

TIF IS NOT A FOUR LETTER WORD

Tax Increment Financing (TIF) Is An Effective development Tool

Tax Increment Financing (TIF) is a controversial method to help redevelop older declining neighborhoods. It can be a very effective method of revitalizing older communities. It is a poorly understood tool, however, and often unfairly criticized. TIF is not a 4 letter word.

What is Tax Increment Financing?

The Illinois Tax Increment Financing Association <http://www.illinois-tif.com> provides an excellent explanation of TIF. The law helps governments rebuild their older, deteriorating areas. Governments can make the improvements they need and assist businesses to locate or expand.



Without TIF benefits, many times a deteriorating area will not improve. Businesses do not invest in decaying areas and local governments cannot afford to construct new infrastructure. But in a TIF district the money dollars for improvements are generated by new investment that was attracted by the TIF. The dollars needed to support the new investment come in part from the taxes created by the new investment.

Governments and citizens are often confused about the impact of TIF. But they are not harmed by a properly developed TIF. All taxing bodies continue to get the same tax revenue from the original real estate. Newly increased taxes from new development in the TIF are used to help the project. Eventually, when the TIF is complete, all taxing bodies will share in the new revenue.

The City of Peoria has developed seven TIF Districts. The value of the TIF areas originally was very low. The TIF helped these areas redevelop, and the value of these areas has gone up on average 23% each year since the TIF began. Nearby areas without the TIF have had little improvement in value. And, of course, the redeveloped areas created jobs and vitality.

Taxes paid by the new development may be more than 50% of the total investment by the developer. The city can provide some or all of that sum as an incentive back to the developer to help make the project a reality.



Values within TIFs Outpacing Other Areas

A Tax Increment Financing (TIF) district is established under the principle that government intervention and incentive is needed in order for depressed areas to recover. New TIFs are currently being considered for the Southern Gateway of Peoria: the Warehouse District and the Eagle View TIF. As these discussions begin, it is important to look at how Equalized Assessed Values (EAV) within existing TIFs are performing. The Department of Economic Development has conducted a small study to determine if EAVs within the two existing TIFs closest to these proposed areas have had substantial gain. Further, the Department also measured the increase in city-wide EAV and the EAVs of certain blocks and parcels within the Warehouse District and along Darst Street.

Area	Annualized Increase in EAV
Southtown TIF (1978-2004)	17.5%
Central Business TIF (1986-2004)	12.5%
City of Peoria (1995-2004)	6.5%
Warehouse District (1995-2004)	4.8%
Southern Gateway (1995-2004)	1.8%

Impressive Performance in Existing TIFs

Comparing the control areas to existing TIF's was illustrative. Two TIFs that were closest geographically to the proposed areas were selected and evaluated. The table below shows the increase in EAV for these two districts between their establishment and 2004:

TIF	Year Created	EAV When Created	EAV in 2004	Increase in EAV	Percent Increase
Southtown	1978	\$4,243,420	\$23,550,410	\$19,306,990	455.0%
Central Business	1986	\$7,879,830	\$25,611,950	\$17,732,120	225.0%

Both of these TIFs have demonstrated a tremendous increase in EAV. In terms of an average yearly increase since creation, the Southtown TIF has grown by 17.5% a year and the Central Business TIF has grown by 12.5% a year. According to the Consumer Price Index, inflation between 1978 and 2004 has averaged 4.3% per year.

Comparatively Poor Results in Other Areas

Given the impressive rate of growth in these two TIFs, staff determined the comparative growth in EAVs for the two areas currently being considered for a TIF: the Warehouse District and the Southern Gateway. In collaboration with the Peoria County Supervisor of Assessments, staff tracked EAVs between 1995 and 2004 (1995 is the earliest year for which there is electronic data). For the Warehouse District, staff determined the aggregate EAV for 9 blocks in this area. For the Southern Gateway, the combination of a lack of "blocks" and the abundance of publicly-held land¹ required staff to assemble information on 12 individual parcels along Darst and Clark Streets. The table below shows the increase in EAV for these two areas, plus the City as a whole:

Area	EAV in 1995	EAV in 2004	Increase in EAV	Percent Increase
Warehouse District	\$ 1,829,670	\$ 2,702,030	\$ 872,630	47.7%
Southern Gateway	\$ 432,280	\$ 508,250	\$ 75,970	17.6%
City-wide	\$932,732,172	\$1,536,607,174	\$603,875,002	64.7%

As can be seen, the two areas have not kept pace. While the City as a whole has increased an average of 6.5% per year between 1995 and 2004, the nine blocks within the Warehouse District have increased by 4.8% per year and the Southern Gateway parcels have increased at a paltry yearly rate of 1.8%.



¹ Regardless of their value, the Assessor's Office always lists the EAV of publicly-held land as \$0.