

Tax Increment Financing

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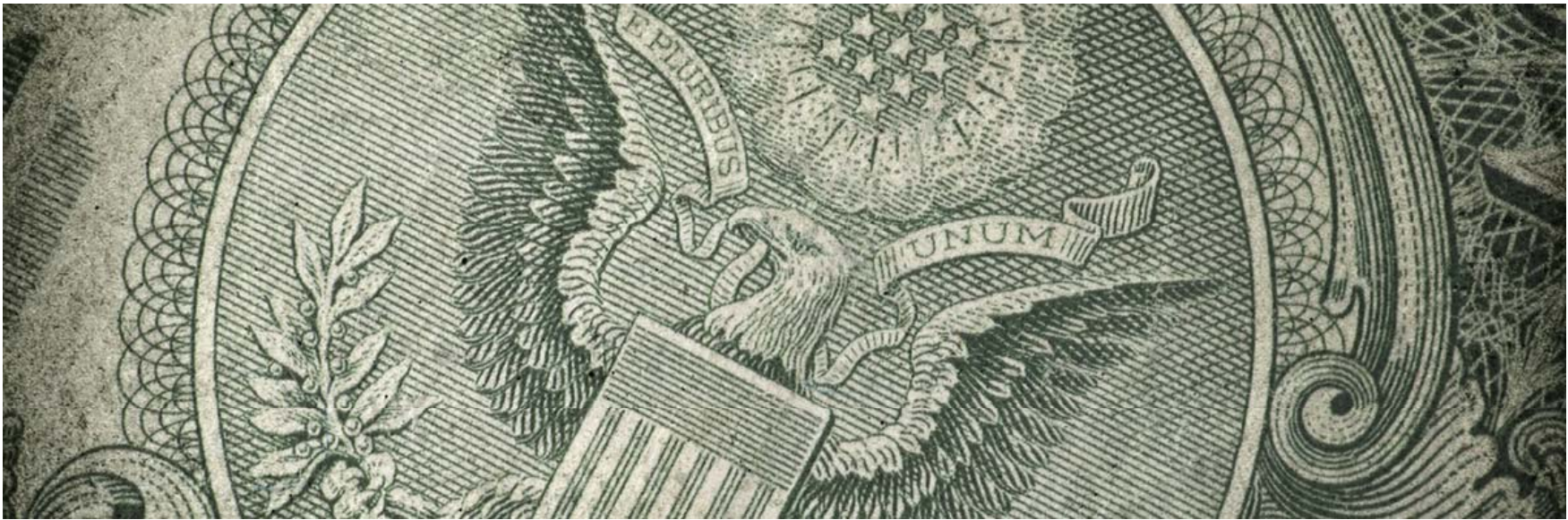
How It Begins

- ▶ That's Not a Rundown Warehouse on an Empty Lot – Those are Luxury Loft Condominiums on a Park!



How It Begins

- ▶ BUT – to change that warehouse to lofts the developer will need “incentives” (i.e. money)



How It Begins

- ▶ Tax Increment Financing – allows for incentives *without* raising taxes:
 - 1) Determination of qualification for TIF
 - 2) Rigorous procedural process
 - 3) Freeze the equalized assessed value, and any growth in the TIF area *beyond* that amount is returned and reinvested in the TIF area to be used in compliance with the TIF plan



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TIF Financing Options

- ▶ Who's on the Hook?
 - The Municipality
 - The Bond Holder
 - The Developer

- ▶ What's the Cost?
 - Interest Cost
 - Project Cost

TIF Financing Options

- ▶ General Obligation Bonds
 - Home Rule Entities – G. O. TIF Bonds
 - Non-Home Rule – Alternate Revenue Bonds
- ▶ Policy considerations and potential concerns

TIF Financing Options

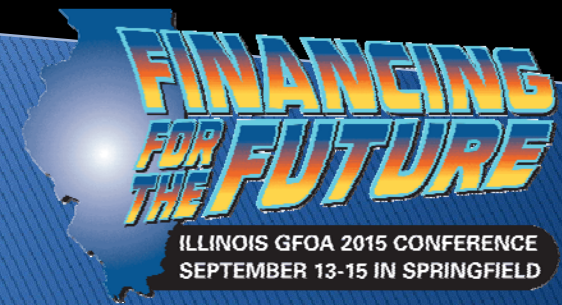
- ▶ TIF Revenue Bonds
 - Higher interest cost
 - Narrower market
 - More stringent purchaser requirements

TIF Financing Options

- ▶ Developer Notes or “Pay as You Go”
 - May even be higher interest cost
 - Shifts project risk to the developer
 - Developer can be taken out upon project success

Tax Issues and TIF

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Tax Issues and TIF

- ▶ Start Planning Early:

Tax Increment Financing goes hand in hand with tax issues, but these *can* be avoided.



Tax Issues and TIF

- ▶ Private Use–Private Payment Analysis:

Private Use + Private Payment or Security =
Taxable Bonds



Tax Issues and TIF

- ▶ We have private use, but no private payment, so we're okay, right?



Tax Issues and TIF

- ▶ THIS is private payment/security?
 - Developer guarantee of property tax payment
 - Third party guarantees
 - Overlapping TIF and Business Districts
 - Overlapping TIF and Special Service Areas
 - *Anything* that further improves or secures the payment of the TIF bonds beyond a tax of general applicability
 - *Any* private payments (even indirect) resulting from the TIF Area



Tax Issues and TIF

- ▶ THIS is private use?
 - Management contracts
 - Parking lots that are not *only* for the general public
 - Food vendors with certain contracts
 - Rental of facilities by private persons
 - Long-term leases of space by individuals, groups or teams



Tax Issues and TIF

- ▶ AVOIDING these tax problems
 - Plan early:
 - Structure your TIF area and your financing appropriately
 - Consider issuing a taxable series of bonds to soak up any “bad money”



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Evanston TIFs Background



Evanston TIFs

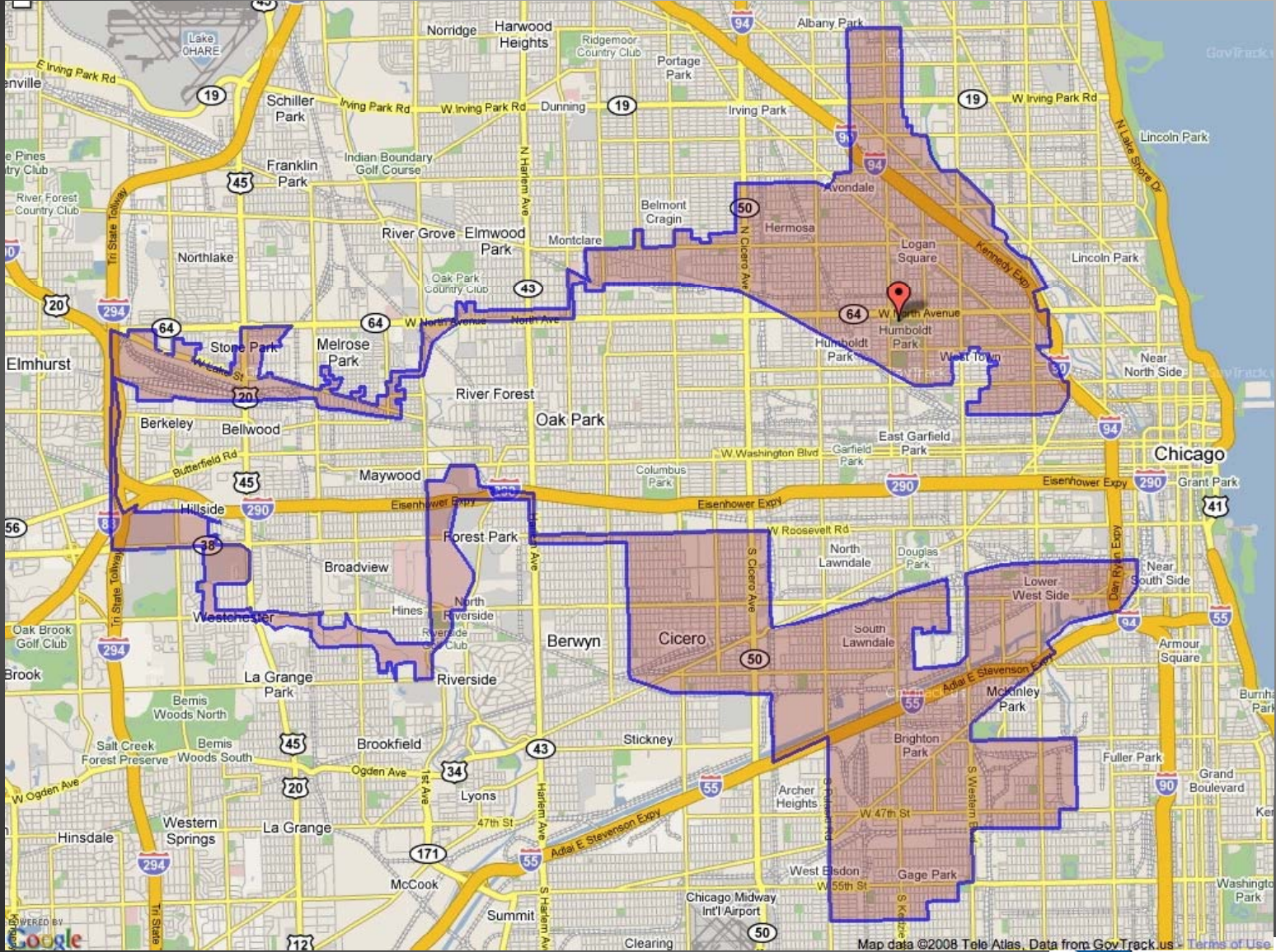
- Currently Seven TIFs
 - Largest EAV \$150M in Downtown
 - Smallest EAV \$10M – West Side Shopping Center
- Age of TIFs
 - Closed Downtown in 2009 and Southwest TIF in 2014
 - Opened Two TIFS, one in 2013 and one in 2014



Big TIF Little TIF (Red TIF, Blue TIF)



- Draw your borders carefully
 - Smaller can be better
 - Contiguous TIFS

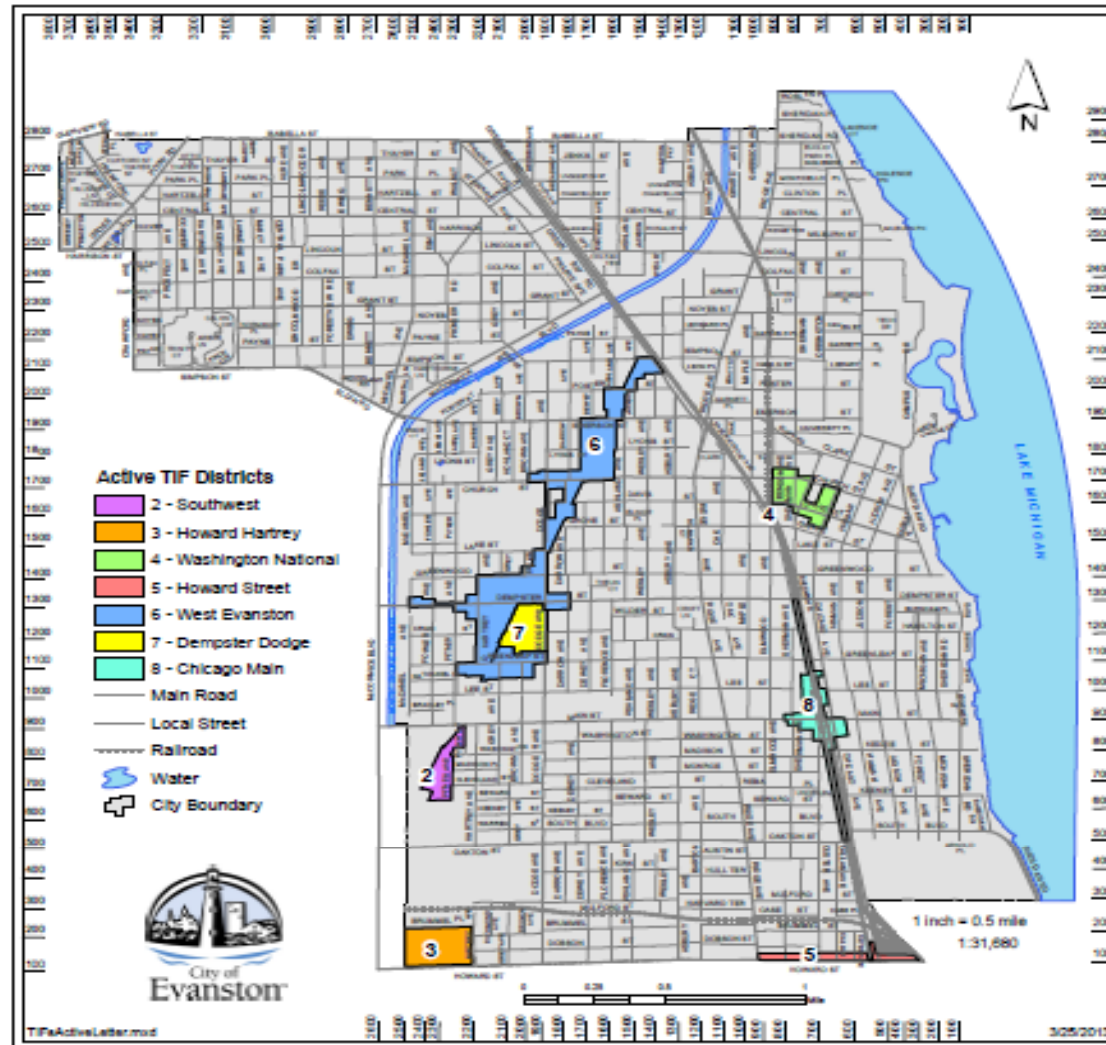


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ILLINOIS GFOA 2015 CONFERENCE
SEPTEMBER 13-15 IN SPRINGFIELD

- Keep your purpose in mind when drawing
- Don't try to accomplish too much with one TIF
- Watch for changing conditions - TIF opportunities can appear quickly
- Border TIFs take more cooperation

City of Evanston Tax Increment Financing Districts (TIFs)



What Does a Tifferman Look Like?



Short-range Budgeting

- Coordination with Economic Development, Community Development and CIP Teams
- TIF Inputs
 - Monitor your Assessed Values
 - Monitor your Building Permits
- TIF Outputs
 - Private Sector Developments and Improvements
 - Public ROW and Infrastructure Improvements



Long-range Budgeting

- Coordination with Economic Development, Community Development and CIP Teams
 - Private Development in early years
 - Infrastructure Development in later years or after close from tax supported debt (assuming the TIF grew the tax base)
- Modeling
 - Worst – How to avoid going underwater – set conditions for debt issuance
 - Best – How to take advantage of unexpected opportunities – go big on your 23 year budget
 - Optimal – How to utilize your expected development in and outside the TIF



Long-range Budgeting

- Closing TIFs
 - Over Plan your expenses (don't over commit)
 - Work with your districts – get something for any surpluses!
 - Send surplus to Capital
 - New increment can go to Operating or Capital



Working with your Governing Board/Council members

- Different for Wards
 - Crossing Ward Boundaries is a political and financial complication
 - Balancing the good of the Ward versus the good of the City
 - Behavior can mimic Cities fighting over the “Car Dealership”
 - Can free up funds for City-wide Capital Projects
- Public vs. Private goals
 - Public projects sometimes seen as beneficial to the “neighborhood rather than a business...”
 - Private projects can benefit both, but in sequence



QUESTIONS?

