Illinois Government Finance Officers Association

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Accounting for TIFs

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General Overview of TIF

- TIF is used to direct incremental taxes toward improvements in distressed or underdeveloped areas where the redevelopment would not otherwise occur by using the increased property or sales taxes that the new development generates to finance qualified costs related to development.

General Overview of TIF

- This development is done Locally without using general municipal revenues or raising taxes, therefore no reliance on Federal or State revenue.
- The maximum life of a TIF District is 23 years, although many end prior to that. At that point, the entire property tax distributions related to that property is available to the municipality

Who Controls TIFs?

- States authorize enabling legislation.
- Local governments designate districts or project areas, then monitor progress.
- By law, all the school districts and major taxing bodies meet with the TIF municipality annually to review the progress of each TIF.
- By law, the Joint Review Board must meet annually to review the effectiveness and status of the TIF district.

Transparency is critical

- Best Practices – open meetings, open records, all laws and ordinances followed, sound leadership, community events, web/newsletters, etc.

Resources

- GFOA Best Practice - Creation, Implementation, and Evaluation of Tax Increment Financing, February 2014
- GFOA – An Elected Official's Guide: Tax Increment Financing
- (65 ILCS 5/) Illinois Municipal Code – Article 11
  - DIVISION 74.3. BUSINESS DISTRICT DEVELOPMENT AND REDEVELOPMENT
  - DIVISION 74.4. TAX INCREMENT ALLOCATION REDEVELOPMENT ACT

TIF Financing

- Pay-As-You-Go Financing
  - Expenditures undertaken as increment is realized.

- Developer Financing
  - Developer incurs risk of debt and issuance costs, with reimbursement from government via increment.

- Municipal Financing
  - Government issues revenue or G.O. bonds to better provide for large projects needed.

Types of TIF Debt

- TIF Bonds: debt used to promote economic development in a specified area; paid from the increase in tax revenues generated as a result of economic growth in the targeted area. *(May or may not produce a capital asset for the issuing government)*
- TIF Notes: generally similar to TIF bonds but typically for a shorter maturity.
- Developer Notes: a promise to pay a developer for eligible, predetermined costs from specified revenues that may be available in the future. *(Generally does not produce a capital asset for the issuing government)*

Business District Debt

- Business District (BD) Bonds: similar to TIF bonds. However, in Illinois, there are different qualification factors for a BD than a TIF district. (May or may not produce a capital asset for the issuing government.)
- BD Notes: generally similar to BD bonds, but typically for a shorter maturity.

TIF Debt

- Consider in whose name the debt is issued.
  - Bonds or notes are issued in name of government
- Consider pledged revenue streams. Who is obligated to pay?
  - Payable solely from incremental taxes
  - No other revenues securing debt
- Does issuing government record liability.
  - Yes – government created TIF and revenue stream
  - Record liability with note disclosing limited nature of obligation
  - Not a contingent liability

TIF Accounting

- Capital Projects and Debt Service Funds most commonly used
  - Use of capital projects fund makes sense because most TIF revenues are used in conjunction with the acquisition or construction of capital facilities.
  - Can use debt service fund if (1) all tax increment revenues are being accumulated solely for principal and interest payments maturing in future years, and (2) tax increment revenues are not being used for non-bond payments.

- Don’t use General Fund because TIF revenues are for specific purposes

Subsection Q – Section 11-74.4-3

The Illinois TIF Act generally authorizes that TIF funds may be used for:

- Administration of a TIF redevelopment project.
- Property acquisition.
- Rehabilitation or renovation of existing public or private buildings.
- Construction of public works or improvements.
- Job training.
- Relocation.
- Financing costs, including interest assistance.
- Studies, surveys and plans.
- Marketing sites within the TIF.
- Professional services, such as architectural, engineering, legal and financial planning.
- Demolition and site preparation.
- Some restrictions may apply, so review the full Act for the list of TIF-eligible costs.

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Acquisition costs

- Typically, costs from feasibility studies will be incurred.
- Capitalization = deferral of expense recognition to future periods. However, this cannot happen until there is evidence of future service utility.
- Acquisition costs to be capitalized only after it is probable that an asset will be acquired.
- Costs of feasibility studies not to be capitalized since they precede this determination.

TIF Surplus

- Successful TIFs eventually generate excess of revenue over costs.
- Need to account for obligations that will require future disbursements.

Accounting for TIF Surplus

Two options

- Accumulate surplus over time – potential to call or retire bonds prior to maturity. Overlapping governments share in increment after dissolution.
- Disburse surplus to other governments.

Tax Abatements

Statement 77 applies only to transactions meeting this definition:

A reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which:

- One or more governments promise to forgo tax revenues to which they are otherwise entitled and
- Individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

Tax Increment Financing - CIG Z.77.1

- A government utilizes TIF to encourage economic development
  - Bonds are issued by the government to finance infrastructure improvements (government assets) in a specific geographic area.
  - Baseline for sales tax revenues for the geographic area, including the proposed development, is established prior to the start of the project.
  - Additional sales tax revenues above the baseline are specifically set aside for the payment of the bonds.
- This arrangement does not meet the definition of a tax abatement under Statement 77
  - It is not an agreement with an individual or entity.
  - TIF agreement does not result in a reduction of the government’s tax revenues, rather the additional revenue is earmarked for bonds.
  - Name of the transaction is not relevant to the determination of whether it is a tax abatement for financial reporting purposes.

Tax Increment Financing – (2017-1, Q4.40, CIG Z.77.9)

- Agreement with real estate developer to spur economic growth
  - Developer to construct a building, owned by developer.
  - Baseline for property tax revenues for the specific area in which the building will be constructed will be established prior to the start of the project.
  - Developer will receive an amount from the additional property tax revenues above the baseline, based on certain costs incurred by the developer related only to the developer's building.
- This arrangement meets the definition of a tax abatement under Statement 77
  - The developer is promising to take the specific action of constructing a building for purposes of economic development.
  - Government is forgoing tax revenues to which it is otherwise entitled by providing some or all of the additional property tax revenues above the baseline to the developer.
  - Fact that the developer pays property taxes and subsequently receives amounts from the government related to the additional property tax revenues means that the government did, in substance, forgo tax revenues.

Tax Increment Financing – Rebate to Developer (2018-1-Q4.6, CIG Z.77.11)

- Same facts as 77.9, except now the building constructed by the developer is or will become an asset of the government when complete.
- In 77.1, the incremental tax revenues are used to repay debt issued by the government, while this arrangement rebates the incremental tax revenues to the developer. But both are approaches to financing improvements to an asset of the government.

  - The same would be true if, instead of a building, the developer had installed new sidewalks, sewers, or water mains that are ancillary to the developer's building and those ancillary capital assets become the property of the government.
- Because the government's tax revenues are being used to improve an asset of the government, the taxes are not forgone, and the arrangement does not meet the definition of a tax abatement.

State Reporting Compliance

- There are two main types of reports that must be generated:

1) Annual Reports – These reports are generated within a template provided by the State Office of the Comptroller. They provide a summary-level reporting of revenues and expenses for the most recent year and cumulatively since the creation of the TIF district. These reports must be completed prior to the annual Joint Review Board Meeting, also required by state law.

2) 10-Year Status Reports – Illinois law also requires cities to provide a status report after a TIF district has been in place for 10 years. State law (65 ILCS 5/11-74.4-5(i)) provides general guidance in terms of report content. However, these reports are much more narrative in nature and can vary from one TIF district to another.

Comptroller Annual Filing

- TIF filing due no later than 180 days after FYE, or as soon as audit is complete.
- Audited TIF fund statements to be included after cumulative incremental revenues reach $100,000.
- Audit to include letter from the auditor indicating compliance or noncompliance with the requirements of subsection (q) of Section 11-74.4-3 (eligible TIF costs).

Comptroller Annual Filing

- Extensions/Fines
  - Previous 60 day extension reduced to 14 days after 6/29/18. No other extensions unless municipality provides engagement letter from auditor identifying redevelopment project area. Must also identify expected date of audit completion and date requested as extended due date.

Comptroller Annual Filing

- Extensions/Fines (cont'd)

FINES FOR FILING LATE TAX INCREMENT REPORTS

• Delinquent 1-15 days:	$5 per day, per delinquent TIF Report
• Delinquent 16-30 days:	$10 per day, per delinquent TIF Report
• Delinquent 31-45 days:	$15 per day, per delinquent TIF Report
• Delinquent over 45 days:	$20 per day, per delinquent TIF Report

Refer to the following link for more information:

https://illinoiscomptroller.gov/financial-data/local-government-division/upload-tif-reports/fy-2018-upload-instructions-tif-eda/

Or email

LocGovTIF@illinoiscomptroller.gov

TIF Dissolution

- When a TIF district is retired, the surplus funds are distributed among the other taxing bodies in the district – the school districts, community colleges or special districts, as examples, based on their pro rata share of the total tax.
- Illinois law allows a TIF district to exist for a maximum of 23 years.
- Can be terminated earlier if all financial obligations are paid off and the municipal board votes to terminate the TIF.

TIF Closure – Issue #1: Debt

- Village's only TIF District was established on August 13, 1990; anticipated closure was a full 23 years later in 2013.
- The Village was collecting property taxes on the TIF properties and using it to pay a debt instrument (note) to the developer to reimburse public improvements erected in the District.
- Illinois property taxes levied in one year (i.e., 2013) are received by the Village the following year (2014).
- What is the final year of debt payments?

TIF Closure – Issue #1: Debt

- Public Act 91-478 became effective 11/1/1999 which changed debt retirement dates to Dec. 31 of the tax payment year for taxes levied in the 23rd year after adopting the redevelopment.
  - Ex: Taxes levied in 2013 are collected in 2014. The debt retirement date for these tax monies was extended to 12/31/2014.
- Act provides that a municipality may amend an existing redevelopment agreement by adopting an ordinance.
  - Village adopted an ordinance in 2004 to clarify the Act's provisions.
  - The Village's developer note was issued in 2006 and had a maturity date of 12/31/2014.

TIF Closure – Issue #2: Dissolution

- Adopt ordinance dissolving the TIF & file with County Clerk to cease future tax levies.
  - Specified that TIF was terminated effective December 31, 2013.
  - Dissolved the TIF funds received effective December 31, 2014 or upon final payout of the obligations (whichever comes first).
- Give notice to affected taxing districts (by Village).
- Disposition of any remaining surplus (by County).

TIF Closure – Issue #3: Final Reporting

- Prepare final TIF report for IL Comptroller
  - For Willowbrook, was fiscal year 4/30/2015
  - Note date of termination, amount of surplus distribution & $0 fund balance in TIF Fund
- Hold final Joint Review Board meeting (within 6 months of year end, i.e. 10/31/2015)

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ACCOUNTING FOR TIFS SPEAKER BIOS

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John has more than 13 years of public accounting experience with governmental and not-for-profit entities, providing audit and consulting services such as financial statement audits and reviews. John is a member of the American Institute of CPAs, Illinois CPA Society (ICPAS) and Illinois Government Finance Officers Association (IGFOA). He serves on the ICPAS Governmental Report Review Committee. John is a 2004 graduate of Dominican University, River Forest, Illinois, with a B.S. degree in accounting and a 2009 graduate with an M.B.A. degree in general management.

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Scott has over 20 years-experience providing government and not-for-profit audit, accounting and consulting services. He has been a partner with BKD, LLP since August 2008. Prior to that he was an Executive with Crowe Horwath LLP. Scott is a member of the Illinois Government Finance Officers Association (IGFOA). He earned his Bachelor of Science in Accounting from the University of Illinois at Chicago. Scott volunteers as a member of the Board of Trustees and Treasurer/Chair of Finance Committee with the Joliet Montessori School.

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