

Elmhurst City Council will vote soon to create a 4th Tax Increment Financing District What May Have Started As A Good Idea Has Degenerated into a Justification for a Boondoggle and has Become a Corrupt Political Process

What is a TIF district?

Tax Increment Financing (TIF) is a favorite government tool used to spur economic development in areas identified as legally blighted or underperforming. Elmhurst currently has three TIF districts and is considering a fourth to assist the north side of town.

How do TIF districts work?

City Hall provides developers and businesses with subsidies to lure them into town or to improve existing properties. At the most basic level, when a TIF district is created property tax revenues that are collected over a certain base amount are redirected to City Hall for its exclusive use within the TIF district for a period of 23 - 35 years rather than being distributed to numerous taxing bodies like the school district and park district. The diversion of property tax dollars away from the other taxing bodies and into the TIF district creates a TIF “piggy bank.”

City Hall’s theory of TIF

The theory behind TIF is that a developer or business will not come into a certain area unless a subsidy is provided. More subsidies lead to more development. Over 23-35 years of subsidized development, property values that would have otherwise remained stagnant will rise. At the end of the 23-35 years, City Hall ends the TIF district and the school district and the other taxing bodies now begin to access property tax revenue based on the new, higher property values. So much development will have occurred during the TIF years that there will be a huge increase in property tax collected by the previously shut out taxing bodies as compared to what was collected during the 23-35 TIF years, or as compared to what they would have collected had City Hall never created the TIF district in the first place. The massive property tax increase will have been all due to the benevolence of City Hall.

Who pays for the TIF district?

All property owners pay for the TIF¹ district despite City Hall’s claims that only property owners in the TIF district pay.² TIF districts change the math calculation for property tax rates. Taxes are still collected on the increased property values within the TIF district, but rather than

¹ See Doings Newspapers, August 19, 2004 Article, “Study Shows Citizens Fund Elmhurst’s TIFs.” Located at www.citizenadvocacycenter.org.

going to the school district, park district, etc., those funds are co-opted by City Hall to pay back the subsidies which have been given to developers or to cover other development related costs within the TIF district. The other taxing districts still need to collect their revenues from somewhere to meet their operational costs (the levy). That somewhere is from tax on properties located outside of all the TIF districts.

The Issue: When used properly, TIF districts work. When not used properly, TIF districts:

- Waste government resources;
- Create unnecessary debt;
- Deter property owners within the TIF district from maintaining and improving property because of the belief that there is a potential for a subsidy to perform the work needed;
- Freeze the tax base in an area that would otherwise experience a natural rise in property values; and
- Increase tax rates for property owners outside of the designated TIF districts.

The Problem: In a rush to create TIF 4, the Elmhurst City Council has failed to adhere to basic principles of good public policy and has failed to justify the TIF financial details. Does the end justify the means? We say no.

Even if TIF 4 is a good idea, good public policy demands that City Council members be able to justify the financial details. The City Council has failed to do so, and the financials appears to be fuzzy math.

1. TIF 4 Privatizes Profits and Socializes the Cost of Development Without Adequate Justification

The City Council's proposed budget is \$89 million in redevelopment costs:³

- \$14 million in professional service fees and general costs associated with setting up the TIF district (i.e. attorney and contractor fees, often no-bid contracts);
- \$50.5 million in land purchase, demolition, environmental cleanup and utility improvement (i.e. the subsidy part); and
- \$24.5 million in public facilities, rehabilitation programs, and some job training.

² City of Elmhurst Power Point "Tax Increment Financing Overview. Page 5. <http://www.elmhurst.org/DocumentView.aspx?DID=1843>

³ City of Elmhurst North York Street Tax Increment Financing Redevelopment Plan and Project. <http://www.elmhurst.org/DocumentView.aspx?DID=1808>, page 23.

How did City Hall arrive at these figures and what are they based on? Why \$89 million? The TIF 4 Redevelopment Plan is generic and the City's Comprehensive Plan (essentially a zoning map) is non-binding on the City.

Before TIF 4 was even created, the City Council approved a \$1.25 million incentive related to Mariano's as part of TIF 4.⁴ Does the City Council have other projects in mind and have there been other incentive discussions that justify the \$89 million projected budget?

2. Phantom rationale for anticipated property growth and estimated redevelopment costs:

The City Council projects the property tax base in TIF 4 will go from its current value of \$32 million up to \$105-\$150 million once the TIF district is in place.⁵ This estimate far exceeds growth projections made by City Hall at the creation of the three previous TIF districts. The Redevelopment Plan, upon which the figures are based, refers to the \$105-\$150 million figure but does not provide details.⁶

TIF 4 is very large as compared to Elmhurst's current TIF districts. TIFs 1, 2, and 3 each had an anticipated public investment that totaled well less than the base Equalized Assessed Valuation at the time of creation.⁷ Also, TIF 4's proposed budget is nearly three times greater than the base Equalized Assessed Evaluation and the estimated end property valuation is also significantly higher. Why? See how TIF 4 numbers at creation compare to TIF 1 at creation:

TIF District	Year Created	Property Valuation at Start of TIF	Anticipated Property Valuation at end of TIF (per Redevelopment Plan in year created)	Projected Redevelopment Budget	Estimated % Increase in Property Valuation (per City in original ordinance)
1	1986	\$22.0 million	\$32 million	\$16 million	50%
4	2012	\$31.9 million	\$105-\$150 million	\$89 million	228% - 369%

⁴ <http://www.youtube.com/elmhursttv#p/c/4027C7A8BCF3669F>

⁵ City of Elmhurst North York Street Tax Increment Financing Redevelopment Plan and Project. <http://www.elmhurst.org/DocumentView.aspx?DID=1808>, page 23.

⁶ City of Elmhurst North York Street Tax Increment Financing Redevelopment Plan and Project. <http://www.elmhurst.org/DocumentView.aspx?DID=1808>, page 23.

⁷ TIF 1 Property Valuation at creation was \$22 million with proposed investment of \$16 million in redevelopment costs. TIF 2 Property Valuation at creation was \$4.4 million with proposed investment of \$3 million. TIF 3 Property Valuation was \$4.3 million at creation with proposed investment of \$4 million.

How are TIFs 1, 2, and 3 doing today? The City Council says very well. They have tripled their base value since created, and that is an apparent justification that TIF 4 property values will exponentially increase.

- In looking at Elmhurst TIF districts in today’s dollars, have TIFs 1, 2, and 3 outperformed expectations to the degree the City Council claims or are they doing as expected? In other words, what is the projection for the property base increase of TIFs 1, 2, and 3 that was due to inflation and what part was due to development?
- Did the anticipated property valuations at the end of TIFs 1, 2, and 3 account for inflation? The TIF 4 projected \$105-\$150 property valuation was calculated by using figures for inflation and anticipated redevelopment but it was not detailed what part of the \$105 - \$150 increase was due to rise in anticipated inflation vs. rise in anticipated development.

Take TIF 1 as an example:

TIF District	Year Created	Property Valuation at Start of TIF	Anticipated Property Valuation at end of TIF (per Redevelopment Plan in year created)	Estimated % Increase in Property Valuation (per City in original ordinance)	Estimated End Property Valuation in 2011 Dollars ⁸ (inflation adjustment)	Current Property Valuation (2011)	Estimated Development Costs at Start of TIF (in original dollars)	Estimated Development Costs at start of TIF 2011 Dollars (inflation adjustment)
1	1986	\$22.0 million	\$32 million	50%	\$58-108 million	\$85 million	\$16 million	\$29-54 million
4	2012	\$31.9 million	\$105-\$150 million	228% - 369%	-----	-----	\$89 million	\$89 million

Why does the discussion about how inflation relates to TIF districts important? Has your home increased or decreased in value over the last 23 years? Has that increase or decrease directly correlated to work you have put into the house, such as an addition or has the value been tied to the general economy? Justifying how well a TIF district does is based on the same logic. Property values within the TIF districts may have indeed increased, but what can be attributed to inflation versus increased development? In order to justify the exceedingly large projected performance of TIF 4, the City Council has failed to explore how inflation contributed to the overall property value increase in TIFs 1, 2, and 3.

⁸ Conversion from 1986 dollars to 2011 dollars using calculator at <http://www.measuringworth.com/uscompare/>

3. City Hall financials project a \$16 million difference between projected budgeted redevelopment costs and projected generation of property tax increment at the end of 23 years.

- The City Council estimates spending \$89 million in redevelopment costs;
- The City Council estimates that TIF 4 will generate approximately \$73 million in property tax increment at the end of 23 years, which includes an approximate \$6 million payout to affected taxing bodies.⁹

\$89 million is the figure that will be in the ordinance (local law) and is the cap the City Council will be allowed to spend.¹⁰ If the projection depends on future resources, why not use the more conservative \$73 million figure? If future Councils want to increase spending they can use the public process that includes public hearings and Joint Review Board meeting.

- If the City Council projects spending \$89 million, are they also projecting a need for an extension of the duration of the TIF district?
- Is the Intergovernmental Agreement with the School District justified considering the discrepancies in the projected figures?

4. Gerrymandered TIF map: TIF 4 includes unnecessary properties.

- Properties south of North Avenue should not be included in TIF 4. These properties are already located in TIF 1, scheduled to end in 2021. Illinois law limits the duration of TIF districts (23 year initially and a onetime extension of 12 year maximum) to ensure that properties are not held in perpetuity. Moving those properties from TIF 1 to TIF 4 means they could be in a TIF district for more than 60 years and circumvents the legislative purpose of limiting how long properties should be held in a TIF district.
- If Hahn St. is only being moved to TIF 4 so the City Council can recover the \$8 million from the project once developed, why not put into the TIF 4 ordinance that Hahn Street properties will be released from the TIF district after the \$8 million is paid back? Was this even discussed?
- City Hall has paid approximately \$8 million from the TIF 1 piggy bank to purchase properties on Hahn Street. At the August 20, 2012 City Council meeting it was discussed that when a developer is contracted to build a project, the City will give the land that they already own as a subsidy.¹¹ What happens to the \$8 million already paid out from TIF 1 piggy bank? There may be no debt, but isn't there still \$8 million less in the TIF 1 piggy bank than there should be?

⁹ City of Elmhurst North York Revenue Sharing Draft Proposal Discussed at August 13, 2011 Committee of the Whole Meeting.

¹⁰ 65 ILCS 5/11-74.4-5 allows a municipality to exceed total estimated redevelopment project costs by 5%, after adjustment for inflation at time TIF established.

¹¹ <http://www.youtube.com/elmhursttv#p/c/4027C7A8BCF3669F>

5. Doing what's right vs. what's legal: The City Council's TIF process has resulted in closed door discussions with the School District on an Intergovernmental Agreement rather than an open discussion on the validity of the TIF district itself.

- The School¹² and Park Districts¹³ were not invited to substantively discuss TIF 4 until legal notice was provided to those taxing bodies informing them of the Joint Review Board meeting, where they would be required to provide an up or down vote in the City's TIF 4 proposal.
- If the City Council believed TIF 4 to be a good idea, why not go beyond the requirements of the law and have a joint City Council and School Board meeting to discuss the issue publically?
- Despite being directly related to the creation of the TIF district, the Intergovernmental Agreement is legally independent of TIF 4. The City Council is under no obligation to pay the school district or the other taxing bodies anything beyond requirements outlined in the TIF statute.¹⁴ Limiting substantive discussion on the TIF district to the Joint Review Board meeting negated meaningful public dialogue on TIF 4 itself and resulted in closed door discussions of financial payouts.

Following the law is the floor, not the ceiling, for good government operations. A discussion about the creation of the TIF district is entirely different than an Intergovernmental Agreement and the spirit of collaboration dictates letting public bodies know about a major issue that is going to impact them prior to mere public notice.

¹² <http://elmhurstcusd205-il.schoolloop.com/file/1235192735095/8915217590815771575.pdf>

¹³ <http://www.epd.org/meetingminutes/2012/06-25-12.pdf>

¹⁴ Q & A from the 08/06/2012 Public Hearing on the North York TIF, Point 5 and 12.

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QUESTIONS AND RECOMMENDATIONS**

- 1) Where is the detailed justification for the need of an \$89 million redevelopment budget?**
- 2) Where is the detailed justification for the anticipated property valuation growth of 300%?**
- 3) Why is the City Council going to approve a TIF district with a project \$16 million difference between projected redevelopment costs and projected recovery of increment over the life of the TIF district?**
- 4) If the City Council is basing the projected valuation of TIF 4 on TIFs 1, 2, and 3, where has been the discussion about rate of inflation?**
- 5) Why does City Hall need to hold properties in a TIF district for potentially 60 years to develop one parcel?**
- 6) Why is the City Council considering an Intergovernmental Agreement with the School District when it anticipates a \$16 million projected difference between the anticipated budget and anticipated recover costs?**
- 7) In tandem with approving the TIF district, the City Council should also adopt a formal procedure by which potential developers and business submit an incentive request. Currently City Hall has no such process.**
- 8) In tandem with approving the TIF district, the City Council should direct staff to post on its website a “Taxpayer TIF Cost” portion on the website where individual property owners can determine how much more they pay due to the TIF district.**

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