5-10-1993

Tax Increment Financing: A Cost/Benefit Analysis for the State of Illinois

James C. Joslin '93
Illinois Wesleyan University

TAX INCREMENT FINANCING
A Cost/Benefit Analysis for the State of Illinois

By: James C. Joslin

Submitted in Fulfillment of Research Honors Requirements
Illinois Wesleyan University
May 10, 1993

Introduction

In 1977, the Illinois general assembly passed the Tax Increment Allocation Redevelopment Act. The purpose of the act was to allow municipalities to capture increasing property taxes to pay for redevelopment of blighted areas. The law was amended in 1985 to include sales tax increments as well. Tax increment financing can be defined as a mechanism that "allows a community to recapture the increase in various state and local taxes that result from a redevelopment project in a blighted residential, commercial or industrial area. The tax revenues obtained from the project which exceed the level of tax revenues generated by the area prior to redevelopment is called the "tax increment", hence the term tax increment financing (McLure 262)."

Tax Increment Financing (TIF) works like this: A municipality sets up a TIF district in a blighted area where little or no development has occurred. For large projects, bonds or contracts are sold by the municipalities to generate more money for improvements at the start of the program. Smaller projects use the increment for development on a "pay as you go" basis. In both cases, improvements are made to encourage private development in the area (Grueling 23). The district's tax base is then assessed. It is reassessed at the end of each subsequent year. The difference between the two levels is the increment. This increment is used to help subsidize the cost of redevelopment with infrastructure improvements and other investment incentives. While TIF looks like an indirect tax break, it is much more efficient. If a tax break was given with the understanding that private business would make the needed infrastructure improvements, a free-rider problem might exist. Smaller businesses would allow the larger ones to make the necessary improvements, while neglecting their responsibility.

The businesses within the new development receive little or no direct tax break in the process. When the new businesses pay their taxes to the State and local taxing bodies, however, the increment is channeled back to the municipalities, so they can make the needed improvements and pay off their bonds (if any were sold). Ideally, if TIF is successful, all parties gain. Private investment is encouraged with infrastructure improvements and a healthier business climate. The cities gain an expanded infrastructure and a growing economy, and increased tax revenues down the road. The state gains infrastructure improvements, a stronger economy, and increased tax revenues in the future as well. However, the state can not benefit completely from a higher tax base until the bonds are retired.

As mentioned before, the law was amended in 1985 to include sales tax increment. This change was partly in response to municipalities long time concern that they finance all of a redevelopment project and only enjoy a small share of the increase in tax revenue. Municipalities were given until January 1, 1987, to set up sales tax TIF districts. The maximum life a district could be set up for was 23 years. Over 100 TIF districts were set up in 1986. So far, cities have sold close to $400 million dollars in bonds and contracts to finance improvements and attract investment. Don Eslick, Executive Director of the Illinois Tax Incremental Association (ITIA), believes that cities flocked to TIF as a direct result of the State's underfunding of municipalities (11/12/92).

As the size of the program has grown, Governor Jim Edgar wants to discontinue State funding. The program was not fully funded in 1992, and the Governor vetoed the appropriation for 1993. In fact, the TIF cut was the largest single cut in the Governors veto package (Ayers 20). While the legislature did manage a compromise with the Governor during the November 1992 veto session to return a portion of the increment back to the districts, a trend of severe

underfunding emerged. Many TIF advocates are furious about this trend. Local Government magazine states, "It is ironic that when reinvesting in America's cities is capturing national attention, Illinois is moving in the opposite direction" (6/1/92). This argument definitely holds merit. At a time when cities need the most help attracting investment, the State appears to be neglecting them.

Proponents of TIF also feel that the State's lack of support will cause more harm than just decreased investment. This is because the cities have roughly $400 million dollars in outstanding bonds. Local Government concludes, "TIF was a deal the State made with its municipalities to encourage redevelopment of blighted areas. The cities plunged into projects and borrowed money on the basis of that promise" (6/1/92). The Peoria Journal Star adds credence to this argument by stating, "We sympathize with Edgar's budget problems. But to pass them on to cities that borrowed money because the state promised to pay the debts is wrong" (7/11/92). This lack of funding by the State may cause long term problems outside TIF as well. If cities believe that the State has not been honest with them, they may be hesitant to enter into further partnership agreements in the future.

While there are many supporters of TIF, it is not without opposition. The highly respected Chicago Business letter, Crains, believes that "TIFs are one of the all time great economic development boondoggles in Illinois" (9/14/92). Many people also have the perception that "TIF has been misused to finance 'sweetheart' deals with local developers at state expense" (Ayers 21). Whether this is true or not, there are clearly differences in the level of blight and deterioration among districts. Many argue that development would have occurred in some of these districts without the aid of TIF, and that these developments merely shift jobs and tax revenue from non TIF areas into the newly developed TIF districts resulting in no net gain.

With this background information in mind, this study has the following research objectives. First, the impact on the state resulting from the sales tax TIF program will be analyzed. It is obvious that most cities, developers, and investors love TIF. The state's relationship with TIF, however, has turned sour. It must be determined whether the state has made a mistake by withdrawing its support. After the data are analyzed, the current policy stance of the state will be evaluated to see if it is making a mistake by withdrawing its' support.

Secondly, a case study of the three TIF districts in Bloomington will be conducted. Net job and tax revenue growth will be examined to see if districts are merely transferring income or if they are creating jobs and revenue. Local impact from TIF will be also be compared with the impact on the state, because what is good for a single entity may not necessarily be good for the whole. The research will be completed in the following order. First, the theoretical framework will analyze the costs and the benefits for the state. Then, the economic model used for the state and the results obtained from the model will follow. Next, the case study of Bloomington will isolate and examine three different TIF districts. Finally, the conclusion will tie the paper together and offer policy advice for the state.

Theoretical Framework

Many projects can be conceived as a stream of yearly benefits and a stream of yearly costs over their life. With TIF, there are costs and benefits to both the city and the State. Since the cities have few complaints about TIF and the State has many, this portion of the research will analyze the benefits and costs of TIF from the State's perspective.

The direct financial benefits to the State should include the increased sales tax revenues resulting from the higher tax base in the TIF districts. There is some argument as to whether all of this increment should be counted as a benefit, or if development and the resulting increase in sales tax revenues in certain districts would have occurred anyway. Supporters of TIF often cite one of the most important statutory restrictions which states, "that the corporate authorities ascertain that the area would not reasonably be expected to be developed without the adoption of the tax increment plan" (McClure 262). Yet opponents believe that many municipalities have violated the spirit of the law. While there may be some problem with this, a Department of Revenue study found only five or six questionable districts out of one hundred and thirty (Eslick 11/12/92).

It is important to realize that when the sales tax amendment was added in 1985, the cities were entitled to 100% of the increment. In 1988, however, an amendment was added that reduced the increment payment to 80% of the first $100,000 in sales tax increment, 60% of the next $400,000 and 40% of additional revenues. This means that the state does not have to wait until a district is dissolved to profit from the higher tax level. It is now reaping benefits during the district's life as well. For this study, all incremental revenues retained by the state will be counted as a benefit, while the argument that growth would have occurred anyway in some districts will be explored separately. If a problem exists, the benefits of the higher tax base will be qualified.

The increase in the tax base is not the only benefit from TIF. The infrastructure improvements, new developments, new jobs, and the better business climate that results are obviously direct benefits at the local level, but the state benefits as well. New jobs mean an increase in state income tax revenue, and additional income resulting from job creation has a multiplier effect on sales.

Also, infrastructure improvements might lure out of State investment. In other words, a better local business climate would be an indirect benefit to the State.

The financial cost to the State should be the lost tax revenue due to increment payments. This tax forgiveness is an opportunity cost, because the foregone revenue could have been used for something else. Opponents of TIF believe that the State's support will grow to a massive level. One Department of Revenue study estimated the total State cost of TIF will be $800 million dollars (1987). The result of the DOR finding will be compared to the results here.

There are also indirect costs that must be accounted for. One of Governor Edgar's top advisers believes that growth in a TIF district merely transfers growth from other areas in the State, as well as areas in the municipality (Ayers 23). There is definitely merit to this argument. A restaurant or shopping mall being built does not mean that demand for those goods will go up. However, if the new development produces an export (out of state) good or attracts out of state income in some way, revenue is generated. Furthermore, if there is job creation, there will be more income to spend on products, and revenue will be generated. Yet even if there is a massive transfer of income from one area to the next, there should not be a zero-sum gain. If the area gaining sales tax receipts and jobs is truly a blighted area, many positive externalities may result. Criminal activity may decline and the entire city will experience more balanced growth. Also. the new development should increase competition between existing businesses, which leads to a healthier business climate.

<u>The Model</u>

The research will be conducted in a two stage process. The first stage will analyze increases in state revenue (benefits) and state expenditures for TIF

(costs). The second stage will analyze benefits and costs that do not fit easily into the first stage's present value formula.

For stage one, the data come from the Illinois Department of Revenue. These data are a year by year analysis of every individual TIF district. It states the initial sales tax base and the increment for every district since 1986.

Direct costs and benefits for the first seven years of the program are derived as follows. For these years (1986-1992) there is data dividing the total sales tax increment into the portion retained by the state and the portion disbursed the districts. The amount kept by the state is the direct benefit to the state, while the amount disbursed is the opportunity cost. Increment has been kept by the State for two reasons. First, the 80/60/40 change mentioned earlier has allowed the State to retain a large portion of the increment since 1988. Second, the program has not been fully funded each year. Because of this, the state has received some benefit prior to 1988, and even more benefit after 1988. Remember, the increased increment kept by the state is a benefit because an assumption that investment would not have occurred without TIF is used.

Projecting the total increment level for each of the remaining years will not be as easy. Past increases in increment levels must be used as a reference. Here is the actual percentage increment growth for each year:

YEARS	PERCENTAGE GROWTH
1987 to 1988	45%
1988 to 1989	37%
1989 to 1990	27%
1990 to 1991	43%
1991 to 1992	15%

With the exception of 1990 to 1991, the increment has increased at a decreasing rate every year. This can largely be explained because the districts are operating close to full capacity. Once a development has been operating at 100% capacity for a couple of years, growth (and the resulting tax base) should start to stabilize. The 43% growth rate in 1991 may be caused by the second wave of TIF development. The State offered a longer funding period for cities issuing bonds between 1988 and 1991. As a result, over thirty cities entered into extensive TIF programs during this time. With almost all of the TIF districts finished or nearly finished with their development projects, the increment will most likely increase in smaller proportion for each year. Furthermore, the few districts that have not been developed yet will be hesitant to enter into large projects, considering the State's underfunding of the program so far. With this in mind, the increment should continue to increase at a decreasing rate. It will be estimated to increase 10% in 1993, 9% in 1994, 8% in 1995, 7% in 1996, 6% in 1997, and 5% for the remaining years of the program. It is stabilized at 5% because sales tax revenue from successful businesses tends to rise a little each year. It must be remembered, however, that with only six years of data on TIF, these numbers are purely estimates and the opportunity for a bias exists.

Full funding under the 80/60/40 formula will be assumed. For simplicity purposes, 60% will be the increment disbursed to the cities or the direct cost to the state. Finding the state cost will not be as easy as taking 60% of the increment, however. Since each district has a different ending date, the full sales tax increment from each district is going to be received by the State at different times. As soon as a district's life has concluded, the state will no longer have any more increment expenditures to that district. Because of this, the ending date of every individual district must be taken into account. While the ending dates for all the districts were not available, the dates that the bonds must be retired were.

They will be used as a proxy for the end of a district. For the few districts that did not sell bonds, the average of the other districts will be used for an ending date.

In reality, a district may remain active for the entire twenty three years of the program. However, all of the increment generated in a specific district must be used for improvements in that district or to retire bonds used to finance the improvements. Most municipalities set up their bond schedule in relation to the expected incremental tax growth in the districts. For the majority of the districts that sold bonds, all of the improvements were made at the start of the program. The increment is now only being used to retire the bonds. Since no more improvements are being made, as soon as the bonds are retired, the districts will become inactive. For example, Bloomington's Veterans Parkway TIF district was financed by ten year bonds, but incremental growth has been so great that the bonds will be retired in seven years (Hamilton). As soon as the bonds are retired, Bloomington will dissolve the district and the state will receive the full sales tax increment. However, if a district cannot retire its bonds on schedule, it has the opportunity to reschedule its debt payment and continue to receive increment up until the twenty third year. The effects of some districts dissolving before their bonds were initially supposed to be retired, and others refinancing their debt past their initial deadline should offset each other and make the final bond payment date a justifiable ending date for the districts.

The different funding formulas for districts will also be investigated. If a municipality sold bonds before June 1, 1988, after July 29, 1991, or never issued bonds, it is scheduled to receive 100% of the 80/60/40 increment until 1998. In 1999, only 90% of the 80/60/40 is sent back to the cities. This 10% reduction continues until 2007. No payment of State sales tax increment will be made to these districts after 2007.

For municipalities issuing bonds between June 1, 1988 and July 29, 1991 full funding is provided for the next fifteen years. Starting in the sixteenth year, funding is reduced 10% per year until the twenty-first year when funding is eliminated entirely. 2011 will be the final year that the State will disburse sales tax increment to these districts.

Each year, revenues and costs must be adjusted to present value. 1993 will be the base year used in order to determine past and future benefits and costs today. Therefore, any benefits and costs prior to 1993 will be adjusted forward, and any benefits and costs after 1993 will be discounted. This is done by multiplying the amount by a discount factor. The discount factor is dependent on the number of years from the reference point and on the interest rate. For this study the rate of interest will be 6.5%. This number was found by taking the average monthly interest rate on one year government treasury bills from 1986 to 1992. Multiplying the amount of cost or benefit by the discount factor yields the same result as using the following formula:

$$P.V.=A/(1+r)^n$$

Where A= Amount; n=years due ; r= interest rate

The discount rate answers the question, how much would have to be invested today at the market rate of interest to yield each of the annual revenue or cost figures in each of the future years. If a project's benefits are all in the future, but the costs are in the present or past, the difference between the actual dollar amount and the present value amount will be greater for the benefits than the costs. In other words, just using the actual dollar amount would overstate the benefits.

In summary, the annual projected incremental payment from the State will be calculated using the following steps. The examples that follow the steps

are purely hypothetical and address a limited time span. They are used for simplicity purposes.

1. All of the TIF districts' 1992 increment levels will be multiplied by 10% to achieve the 1993 incremental growth. This 1993 increment will be multiplied by 9% to achieve the 1994 growth. This process will continue in the manner outlined previously.

TIFS	Expire	92 Inc.	1993 Incrm. (92 x 1.1%)	1994 Incrm. (93 x 1.09%)	1995 Incrm. (94 x 1.08%)
TIF A	1994	$2000	$2200	$2398	$2590
TIF B	1995	$3000	$3300	$3597	$3885
TIF C	1999	$25000	$27500	$29975	$32373
TOTAL		$30000	$33000	$35970	$38847

2. The yearly increment level will then be multiplied by 60% to achieve the level that would be sent back to the municipalities if no districts were expired (under 80/60/40).

YEAR	INCR.	STATE COST (If none expired)
1993	$33000	$19800
1994	$35970	$21582
1995	$38847	$23308

3. As soon as a TIF district expires, its total sales tax increment is kept by the State and must be counted as additional State revenue. Thus, the 60% given to the district in step 2 is added back into the state's benefit. This is done for every year. For instance, if a TIF district expires in 1996, the State would benefit from the increased level forever, not just for that year.

YEAR	INCR.	STATE COST (If none exp.)	LESS	
1994	$35970	$21582	TIF A	$1439
1995	$38847	$23308	TIF A	$1554
			TIF B	$2331

4. The net cost for the state will then be figured. The amount in step 3 is subtracted from the amount in step 2 to yield this result.

1993	$19800-$0=	$19800
1994	$21582-$1439=	$20143
1995	$23308-$3885=	$19423

5. The net benefit retained by the State is the total increment calculated in step 1 minus the disbursement in step 4.

1993	$33000-$19800=$13800
1994	$35970-$20143=$15827
1995	$38847-$19423=$19424

6. Starting in 1999, the special funding formulas need to be factored in. If a district receives 90% funding in 1999, its increment level is multiplied by 6% to yield the additional state revenue. This is because 90% of the 60% State expenditures would be 54%. The remaining 6% is kept by the State. Like the calculations in step 3, these adjustments are subtracted from step 2 to yield total disbursement. The adjustment process is similar to step 3 as well. This method is used for the remaining years.

7. For each year, the cost and benefit to the state will be adjusted to present value.

In order to analyze all these benefits and costs in an organized manner, the following framework will be used. Six columns will be set up with each column containing the following information.

1. The YEARS will be listed chronologically from 1986 (start of sales tax TIF) until 2012 (the first year that the State will not make any increment payments).

2. The STATE COST will be listed as actual data from 1986-92 and as projections from 1993-2012.

3. Similar to column 2, the STATE BENEFIT will consist of actual data from 1986-92, and projections from 1993-2012.

4,5. These two columns will contain the state cost and state benefit in PRESENT VALUE for each year.

6. This column will contain the percent of increment RETAINED by the state in each year. As the percentage rises, so should the net benefit for the state.

As previously mentioned, part two examines benefits and costs not accounted for in part 1. The data come from the Illinois Tax Incremental Association as well as the Department of Revenue[1]. These figures include breakdowns between public and private investment, breakdowns between local

[1]The author would like to thank Lois Mills, legislative aid to State Senator John Maitland, and Don Eslick, Executive Director of the Illinois Tax Incremental Association, for their overall assistance and their help in obtaining relevant data.

and state expenditures, job creation, and type of business activity being performed in the district.

If development in a TIF district is largely financed by TIF funds, the TIF program might be viewed as a massive "public works" program. However, if private investment is large, the TIF money can be viewed as more of a catalyst that encourages private development. Also, if a large portion of the TIF money comes from the local sales and property tax increment, the State cannot claim to be bearing the burden for local development. However, a small level of local support would violate the local/State partnership intentions of TIF.

Results

The results from 1986-1992 are very straight forward (see Table 1). The State came close to fully funding TIF until 1989. However, in 1991 and 1992, the State retained 59% and 74% of the increment for its own use. Over the first six years, 76.5 million actual dollars has been disbursed to the municipalities, and 85.6 million actual dollars of increment has been retained by the State for its own use. Adjusting to present value, these numbers are 95.2 million dollars and 99 million dollars respectively. In other words, the increment sent back to the municipalities is worth 95.2 million dollars today, and the increment retained by the State is worth 99 million dollars. While the benefits here outweigh the cost for the state, it is only because the state has not fully funded the program. The projected figures for years 1993-2012 will show the consequences of a fully funded program.

Table 1.
Actual State Expenditures on TIF 1986-1992
(In Millions)

Years	Cost	Benefit	P.V. Cost	P.V. Benefit	Percent Retained
1986	2.4	.4	3.7	.6	**14%**
1987	9.8	1.8	14.3	2.6	**15%**
1988	9.7	7.3	13.3	10	**43%**
1989	11.4	7.3	14.7	9.4	**39%**
1990	13.8	9.9	16.7	12.0	**42%**
1991	17.4	24.9	19.7	28.1	**59%**
1992	12	34	12.8	36.3	**74%**
TOTAL	**76.5**	**85.6**	**95.2**	**99**	

The results from 1993-2012 strengthen the municipalities' side of the argument (see Table 2). If the State were to fully fund the TIF program, the disbursement to the cities would increase to a high of $44.6 million in 1997 and decrease for every following year. The amount of increment retained by the State, however, would increase every year. Starting in 1994, the percentage of increment retained by the State would increase yearly. This can be explained by TIF districts that will expire and the reduced funding formulas that take effect in 1999. In fact, in 1999, the percentage of increment retained by the State would exceed 50%. The state cost from this point forward would decrease at an extremely rapid rate until the final payment in 2011.

Adding the 1986-1992 and 1993-2012 numbers together gives the total cost of TIF to the State. The State would spend $569.4 million dollars ($440 million

Table 2.
Projected Costs/Benefits for 1993-2012
(In Millions)

Year	Cost	Benefit	P.V. Cost	P.V. Ben.	% Kept
1993	34.0	22.7	34	22.7	40%
1994	38.0	26.6	35.6	25	41%
1995	41.0	28.7	36.1	25.3	41%
1996	42.0	32.7	34.8	27.1	44%
1997	44.6	34.5	34.7	26.8	44%
1998	43.5	39.6	31.8	28.9	48%
1999	42.5	44.7	29.2	30.7	51%
2000	37.4	54.1	24.1	34.8	59%
2001	35.4	60.7	21.4	36.7	63%
2002	24.0	77.0	12.2	39.1	76%
2003	22.6	83.4	12	44.5	79%
2004	22.1	89.2	11.1	44.7	80%
2005	19.7	97.2	9.3	45.8	83%
2006	14.8	107.9	6.5	47.7	88%
2007	10.8	118.1	4.5	52.4	92%
2008	9.0	126.2	3.5	49.2	93%
2009	6.7	135.3	2.5	49.5	95%
2010	3.1	146.0	1.1	50.2	98%
2011	1.7	156.4	.5	50.5	99%
2012	0	164.4	0	50	100%
TOTAL	492.9	1645.4	345	781.6	

adjusted to present value) in disbursement payments. While this seems like a large financial burden, it is dwarfed in size by the amount of increment retained by the State. The total benefit to the state would be $1.73 billion ($881 million in present value). Even though the majority of the costs will be in the present and the majority of the benefits will be in the future, the benefit level is so great that adjusting it to present value still produces a benefit over two times the cost. This study only calculated retained increment as a benefit until 2012. However, it must be remembered that the State will benefit from this higher tax base every year after 2012.

As previously mentioned, expenditures and retained increment are not the only costs and benefits of TIF. The Illinois Tax Incremental Association recently surveyed the TIF districts to discover what type of business activity was being performed in them (6/30/92). Sixty-three sales tax districts are in a central business district (downtown area); Seventeen districts primarily support a shopping mall or commercial strip; Thirty-six districts support mixed development (restaurants, shopping centers, auto dealerships, ect.); Finally, three districts are industry oriented.

These preliminary figures point toward some potential benefits and costs. Having such a large number of TIF districts in downtown areas is definitely a benefit. Many municipalities are experiencing a migration away from the downtown area. The result is often a highly developed suburban area and an abandoned central business district. The high number of downtown TIF districts suggests that municipalities will be experiencing more balanced geographical growth. Furthermore, the presence of new businesses in an older area should increase positive social activity and reduce criminal activity.

The creation of new jobs is another benefit of TIF. According to a survey of municipalities by the ITIA[2], 5065 permanent and 2076 part time jobs have been created as a result of TIF. If the average salary per worker is $12,879 dollars per year[3], the increase in State income tax can be computed. Using the 3% annual income tax rate and assuming that two part time workers count as one full time worker, the State has gained $2.35 million in increased income tax receipts.

This increase must be qualified. There are only three sales tax TIF districts listed as industrial[4]. Since a large percentage of the TIF districts support restaurants or retail services, there may be a transfer of income and jobs from non TIF area to TIF districts. However, if there were a transfer, it would hurt the cities more than it would the state. The State's support for the TIF program for years 1986-1991, relative to the municipalities, has been 37% (see figure 1). In other words, local sales and property taxes have accounted for 63% of all TIF revenues. Because over 60% of the TIF revenues come from local authorities, the risk for the municipalities is much greater. While this does not rule out a transfer, it seems foolish for municipalities to create TIF districts if they are not generating net growth.

Another area that must be investigated is the breakdown of private and public investment in the various TIF projects (see figure 2). According to the ITIA, "Each TIF dollar results in $3.65 worth of direct private investment" (Spring 1992). This $3.65 acts as an investment multiplier. Multiplying the total state cost of $564 million by 3.65 yields a private investment figure of 2.1 billion dollars. If the municipalities continue to fund 63% of the program, their cost will

---

[2]The survey was not completed by all municipalities, so these numbers might be smaller than the actual figures.

[3]This manner in which this number was derived is discussed in the case study.

[4] While there are only three industrial sales tax TIF districts, there are over thirty property tax TIF districts (where the State is not involved). Industrial districts simply do not generate much sales tax revenue.

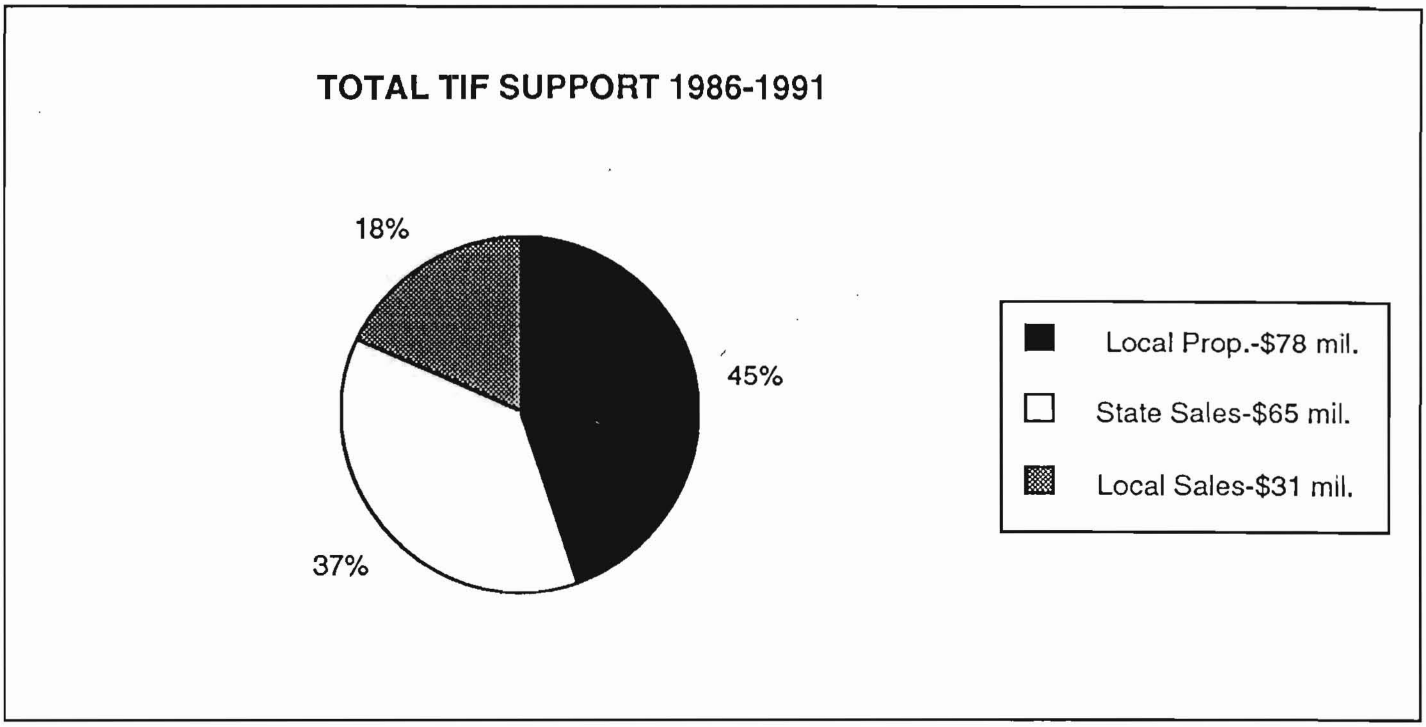

Figure 1

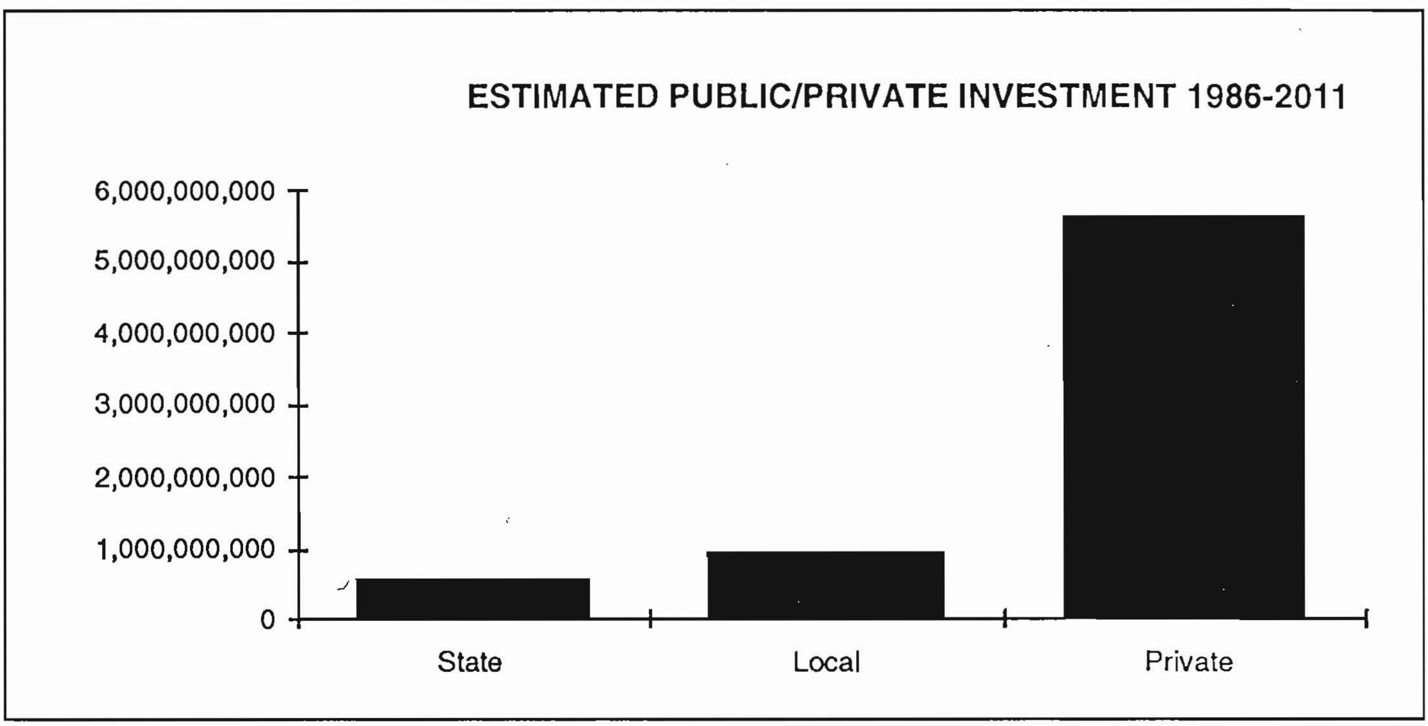

Figure 2

be over a billion dollars, and the private investment generated will be 3.7 billion dollars. Adding the two investment figures together gives a total private investment of over five and a half billion dollars. This seems like a pretty good return on the State's investment (see figures 2).

Case Study

Like most municipalities, Bloomington became interested in TIF in 1986 when the law was changed to include sales tax increments. Bloomington set up two districts in June of 1986. One district is along Veterans Parkway and the other one is along Market Street on the city's west side (Krebs D1). A third district was set up in downtown Bloomington in December of 1986. The Veterans Parkway district, along interstate 55, contains the Jumers Hotel and Conference Center, "Auto Row" with three new car dealerships, and Lakewood Plaza, a 200,000 square foot center anchored by Wal-Mart (Status 1). The Market Square district contains many restaurants and retail shops, while the downtown area contains office space and small retail stores.

After the districts were set up, Bloomington had to decide how they were going to finance them. The city sold 7.2 million dollars in ten year bonds to finance the Veterans Parkway district, 7.3 million dollars in twenty year bonds to finance the Market Square district, and 3 million dollars in twenty year bonds to finance the Downtown district (Status 1-3). Bloomington used all General Obligation (G.O.) Bonds. G.O. bonds are secured by the full faith and credit of the municipality. They are attractive to investors because even if an increment in the TIF district does not materialize, the G.O. bonds (unlike many other bonds) still must be paid off by the city (Dirks). The city likes the G.O. bonds because it pays a lower interest rate due to the reduction in risk to the investor.

All three of the districts have been successful in creating sizable tax increments and stimulating growth and investment[5] (see Table 3). The sales tax increment in the Market Square district has grown at a slower rate due to its' seriously depressed condition prior to TIF. All together the three TIF districts have created $8.3 million dollars in sales tax increment during the TIF program. While this large figure indicates the possibility that growth might have occurred anyway in some of these areas, Bloomington officials claim the large figure is merely a result of a successful TIF program and not a result of TIF districts being set up in high growth areas. City Manager, Tom Hamilton described the condition in the districts prior to TIF. "Along Veterans Parkway, there was no development, no intersections, and no utilities from Jumers all the way south to Lakewood Plaza and the area was prone to chronic flooding. In the Market Square district, most homes were on individual wells, and there was no storm water retention, and in the downtown area, vacant buildings were commonplace and jobs were leaving by the dozens (Hamilton)." There are few who would claim that the Market Square and downtown areas were not severely depressed, but many have questioned the level of blight in the Veterans district. Department of Revenue Director, Doug Whitley states, "Any 12-year old would recognize that (the Veterans Parkway area) was likely to be a high-growth economic area for that community" (Predergast A5). With the Veterans district receiving so much publicity, it is necessary to investigate it further.

Prior to 1986, the Veterans area received little attention from private investors. Local developer, Larry Hundman, had apartment starts out on the land that is now the TIF district, but no money to finish them (Hamilton). After observing the lack of progress within the area, the city set up the TIF district and

---

[5]In the two cases where there was $0 in incremental growth, new businesses had not been set up and development had not been completed.

built two major intersections which "opened up large parcels of land for development" (Status 1). The city also constructed roads, water-mains, sewers, and part of the Constitution Bike-Jogging Trail. These improvements helped bring roughly forty million dollars in private investment (Hamilton). Dividing $40 million by $7.2 million (money generated from bond sales) yields a private investment figure of $5.55 for every TIF dollar. This is well ahead of the state average.

Table 3
Yearly Sales Tax Increment

	Market Square	Downtown	Veterans
1987	$21,486	$84,965	$4,220
1988	$0	$94,707	$0
1989	$6,042	$300,606	$872,758
1990	$21,871	$276,423	$1,653,836
1991	$252,732	$272,816	$1,625,954
1992	$537,855	$615,645	$1,691,581

Another positive effect of the rapid growth in the Veterans district is that as soon as the bonds are retired, the state can enjoy the higher tax base. Tom Hamilton states, "While the bonds were supposed to be retired in 1997, Bloomington will most likely retire them in December of 1993, and if it weren't for the state's underfunding of the program, the bonds would have been retired by now." Yet TIF opponents remain adamant. Governor Edgar's TIF advisor states, "The implication of the law is to help support a distressed or economically depressed area. I would find it hard-pressed to characterize (Veterans Parkway) as distressed or economically troubled when it started out as farmland" (Prendergast A5). However, even if private investment had eventually occurred

along Veterans, it would not have occurred so extensively in such a short time. The state stands to enjoy $1.7 million in annual sales tax increment from the Veterans district alone starting at the end of 1993. Considering that prior to the conception of the TIF district, private development had only tried to build apartments (unsuccessfully), the area was nowhere close to being a "high growth area".

There does exist a strong incentive for municipalities to set up TIF districts in potentially high growth areas. James Paetsch states, "TIF authorities must make an earnest attempt to reduce their risks. Assuming this to be true, it is only logical that administrators will attempt to assemble TIF districts with a high potential for future growth that will strengthen the tax base and can almost ensure an increment, thus reducing risk" (Bingham 96). With a high growth area, municipalities can almost be certain that the increment will be sufficient to pay off the bonds. While the Veterans district prior to TIF does not fall into the category of a high growth district., it is possible that commercial growth could have eventually occurred. However, even if growth would have occurred without TIF, the Veterans district is a net benefit for the state due to the quick retirement of the bonds and the high level of sales tax growth.

There is one aspect of the Veterans district that is a benefit for the city and not for the State. In the mid-1980's, Jumer Hotels was looking for a city in Illinois to build a hotel. Bloomington promised to build Jumers a conference center with TIF money if they located there. Jumers took the bait and decided to locate in Bloomington. While this increased the tax base and economic opportunities in Bloomington, the state as a whole did not gain. If Jumers had not located in Bloomington, they would have most likely located in another part on the state, and the state would still be receiving taxes from them.

For Bloomington, Jumers is more than just a hotel. The conference center attracts various businesses and groups from all over the state. In this sense, Jumers is more like a primary business as opposed to a tertiary business. The idea behind the primary / tertiary business argument is that cities should not tailor their development policy to attract service related businesses like hotels and restaurants (tertiary). They should be more interested in attracting industries (primary), because it they can do this, the service sector businesses will follow. However, with the conference center being used frequently by out of town guests, it acts as a primary business in the sense that these guests create the demand for more service related businesses to accommodate them during their stay in Bloomington.

Because of all the attention focused on the Veterans district, the other two districts often are over looked. The Market Square district provides needed goods and services for the west side of Bloomington. This area had been deteriorating for years and had experienced an increase in crime. With few employment possibilities in the area, the opportunity cost for drug use and crime were relatively low for residents without the transportation or the desire to work in other parts of the city. Sociologist William Julius Wilson states, "..as the prospects for employment diminish, other alternatives such as welfare and the underground economy are not only increasingly relied on, they come to be seen as a way of life" (Wilson 57). However, with the influx of new service related businesses, this opportunity cost should be raised.

TIF has also been able to take the place of other social programs in urban areas that have been cut by the state. Mayor Jesse Smart comments, "(TIF) has helped greatly as other urban programs like Revenue Sharing, Community Development Block Grants and Urban Development Action Grants have been reduced or eliminated" (Status 4). By increasing employment opportunities and

improving on poor infrastructure, TIF has gone to the heart of the problem and more than picked up the slack for some of these programs.

The third TIF district, located in Bloomington's downtown, is similar to downtown areas in other cities. As new development occurs on the periphery of cities, businesses and jobs move out of the downtown area leaving vacant buildings to deteriorate. In Bloomington, "Heritage Enterprises (with the aid of TIF) is developing over 50,000 square feet of space in four contiguous buildings for office and retail uses. This project is also the first large scale historical redevelopment project in the downtown area" (Status 4). The goal of the downtown district is not so much to create jobs, but to maintain them. However, the city has been extremely impressed with the number of new businesses that have decided to locate downtown instead of in other areas (Hamilton). With all of Bloomington's growth on the east side, maintaining and creating jobs in the downtown area will foster a more balanced and diverse business climate.

The actual number of new businesses and new jobs in the three TIF districts indicate a benefit for the city and the state[6]. There have been twenty nine businesses that have located in the Veterans district. Of these twenty nine, four are relocations from other areas in the city and the rest are new. These businesses have created 351 full time and 427 part time jobs. In the Market Square district, there are eleven new businesses and two relocations. These businesses have created 87 full time and 92 part time jobs. Finally, in the downtown district, there are twenty two new businesses and seven relocations which are responsible for 497 full time and 40 part time jobs. About half of these jobs in the downtown district are new and the other half are jobs that the TIF district has helped to maintain. For instance, Union Insurance and First of America Bank are

---

[6]The information on the new businesses within the TIF districts comes from the City Manager's office, while the information on job creation comes from the survey conducted by the ITIA.

responsible for 226 full time jobs in Downtown district that existed prior to the district's conception.

All together, TIF is responsible for roughly 935 full time and 559 part time jobs for a total of 1492. Subtracting the 226 from the Downtown district yields a figure of 1266 full time jobs and 559 part time jobs Almost all of these jobs are in the retail trade or service sectors. Between 1986 and 1990, these two sectors experienced job growth in McLean County from 22, 423 to 27, 698 employees (County Business Patterns). This means that of the 5275 new retail and service jobs in McLean County, about 1825 or 35% are a result of TIF. One qualifying factor to consider is that the average salary for service and retail jobs in McLean County in 1990 was only $12, 879, while the average for all jobs was $22,159. Still, these salaries are incomes that were not being made before. Also, the higher the level of services in a community, the more likely other businesses and industry will be attracted to and remain in an area. It is not a coincidence that Bloomington is the headquarters for State Farm Insurance (Corporate and Regional Headquarters), County Companies Insurance, Diamond-Star Motors, and The Illinois Farm Bureau. Furthermore, the level of services has helped attract events such as the Annual Corvette Show, National and World Softball Finals, the Illinois Special Olympics, and Illinois High School Association athletic events.

Conclusion

Overall, the TIF program appears to be an extremely worthwhile investment on the part of the State. The increases in sales and income tax receipts are obvious benefits. Also, the level of private investment created proves that the TIF program is not a "public works" program, but rather a

catalyst for development. Other benefits such as an extremely competitive business climate, revitalized downtown areas, and urban improvement also must be considered.

The majority of the State's problems result from the sunset law requiring all of the districts to be set up by January 1, 1987. This caused a rush to set up districts. These districts all are starting to prosper at the same time. Hence, the state is now facing the majority of the opportunity costs. If the State had used more of a "rolling admissions" style, the costs would not be nearly as condensed into a short period of time. Furthermore, if the State had more time, it could review the districts more closely.

While the total cost of $569 million ($440 million in present value) is a huge investment, the total benefit must be examined. The 1987 Department of Revenue study estimated the total State cost of the TIF program at $800 million. The DOR study was before the 80/60/40 laws were written, so it estimated the state would disburse $800 million to the TIF districts and not be able to retain increment until the districts expired. This study, however, predicts a total cost of $231 million less than the DOR study. More importantly, over $1.73 billion in increment is estimated to be retained by the end of the program. This translates to over a billion dollar difference between the two studies.

In the case of Bloomington, TIF has been a remarkable program for development and redevelopment. The Market Square, and the Downtown districts are classic examples of deteriorating areas being revived with infrastructure improvements, private investment, and job growth and retention. While state officials have attacked the Veterans district for violating the spirit of the law, the state stands to benefit immensely from this district. For all of the complaining, the state will receive 100% of the increment or $1.7 million per year

by the winter of 1993. This is amazing considering the state has retained a large benefit already due to severe underfunding of the program.

For future research, the recent compromise legislation between the municipalities and Governor Edgar could be examined The State agreed to extend the funding period for districts issuing bonds and guarantee a minimum funding level of $12 million per year (Legislators 1). While this legislation gives needed stability to the TIF program, it shifts more and more of the financial benefit to the state. With incremental growth of $48 million 1992, the state is keeping 75% of the benefit. Also, many municipalities will now have to refinance their debt. In the case of Bloomington, city officials are looking into rescheduling the debt for the Market Square district, because the reduced payments by the state will not be enough to retire the existing debt.

In conclusion, the State receives many benefits from TIF. It entered into a mutual agreement with its municipalities, yet it refuses to live up to its obligation. Governor Edgar's TIF advisor states, "TIF is not a net advantage for the State in most instances" (Ayers 23). First of all, TIF _is_ a net advantage for the State. However, even if it was a zero-sum gain (which obviously is not the case), the program would still be a success. TIF is not meant to be a huge net benefit for the State. Its purpose is to aid redevelopment in municipalities. Any benefits the State receives should be counted as bonuses. Secondly, the State made a commitment to the municipalities. Over $400 million in bonds were sold with the understanding that the State would help retire the debt. If the State does not honor this obligation, municipalities will have to resort to other means to retire the bonds. Finally, the economic integrity of the State is at stake. Governor Edgar makes the paradoxical claim that the TIF cuts were made for economic reasons. However, with a direct net benefit of $1.16 billion, it makes little sense that the State would cut a program that costs an average of $15 million dollars

per year (over the 26 year period). The State should realize the benefits, honor its' obligations, and fully fund the TIF program.

WORKS CITED

Ayers, Diane Oltman. "TIF Districts: Tiff Over Turf On Sales Tax Growth." Illinois Issues, November 1992, pp. 20-24.

Bendavid-Val, Avrom. Regional and Local Economic Analysis for Practitioners. Praeger Publishers. New York 1991.

Bingham, Richard, Edward Hill, and Sammis White, ed. Financing Economic Development. Newbury Park, CA. Sage Publications, 1990.

Dirks, Herman. "The Politics and Economics of a Specific Plant Location." Issues in Community Development. I.W.U. 5 May 1992.

Eslick, Don. (Executive Director, Illinois Tax Incremental Association) Personal Interview. 12 Nov. 1992.

Grueling, John. "Tax Increment Financing: A Downtown Development Tool" Economic Development Review Winter (1987) :23-28.

Hamilton, Tom. (City Manager--Bloomington). Personal Interval. 8 March 1993.

"How Can We Help Cities?" Local Government. 1 June 1992.

Illinois Department of Revenue "TIF Expenditures For First Six Years" Springfield, IL. 1992.

Illinois Department of Revenue. "Gross Increment Levels for First Six Years." Springfield, IL. 1992.

Illinois Tax Incremental Assoiciation. "Contracts/Bonds Issued" 1992.

"In a Tif over TIF" Tax Facts September (1987) :1-6.

Krebs, Emilie. "Bloomington Sets up TIF Distrct." The Pantagragh 23 Dec. 1986: Sec. A1,12.

McClure, Steve. "Redevelopment Through Tax Increment Financing." Current Municipal Problems. 18.3 (1992) : 262-264.

Prendergast, Tom. "Bloomington TIF areas questioned." The Pantagraph 21 February 1993: Sec, A5.

Stallard, Michael. "TIF: Flying a Public/Private Banner." Corporate Cashflow 12.9 (1991) : 40-41.

Status Report: Tax Increment Financing (City of Bloomington, Illinois). Bloomington 1988.

U.S. Census. County Business Patterns (Illinois) Washington D.C.:1986. 124-127.

U.S. Census. County Business Patterns (Illinois) Washington D.C.:1990. 136-139.

"The TIF Funding Veto" Journal Star. 11 July 1992, Sec A, p. 6.

"TIF Returns 12.5 to 1 on State's Dollar Investment in TIF." The Illinois Tax Increment Association Newsletter Spring 1992.

"Why Cuts in TIF Pork Shouldn't Be Restored" Crains. 14 Sep. 1992.

Wilson, William Julius. The Truly Disadvantaged. University of Chicago Press 1987.