Financing Strategies:

During the January Study Session the topic of financing the downtown improvements was raised, and Staff was asked to consider and report to the Council on some of the more common economic development tools available to municipalities. There is a generally accepted set of economic development tools available to local governments in Illinois. The table below summarizes some of the more common tools used in our area:

Economic Development Tool	Strengths	Weaknesses
Tax Increment Financing (TIF)	Often largest source of funds; not an additional tax	Some Limits on Flexibility of Funds; school and other special unit tax impacts
Special Service Area (SSA)	Flexible Use of Funds	Creates Additional Property Tax; Objections can be filed
Additional Sales Tax or Home Rule Sales Tax	Home Rule Communities can institute additional sales tax without referendum in quarter percent intervals – flexible use of funds	Creates Additional Tax
Business District Designation	Flexible Use of Funds, allows for additional sales tax within the designated area	Creates Additional Tax; Redundant with Home Rule Sales Tax option
Land Write Downs	Provides Parcel Site Development Control	Municipality Must Own the Land
Fund Raising/Foundations	Non-Public Money	Difficult to Establish and obtain

To provide the Council with an overview of options for potentially funding downtown improvements, we will briefly explain the first three listed tools including TIF, SSA, and sales tax options.

Tax Increment Financing

Tax Increment Financing (TIF) is a program that allocates future increases in property taxes from a designated area, or TIF district, to pay for improvements within that area. In Illinois, the TIF district can remain in place for up to 23 years after its creation. The district can be extended for another 12 years, but an extension requires an act of the state legislature.

Normally, property is taxed by several different governmental jurisdictions: the municipality, School District, County, Park District, Water Reclamation District, etc. The taxes levied are allocated to each district in accordance with its tax rate. Under TIF, the property taxes resulting from increased value due to new development, rehabilitation or improvement, property appreciation, equalization, or rate changes are all allocated to the municipal TIF fund. Other jurisdictions continue to receive the property taxes generated by the base value of properties in the district prior to the TIF development.

All properties in the district are assessed in the same manner as all other properties and taxed at the same rate. TIF is not an increase in taxes. It is only a re-allocation of how the increase in tax revenues are used. Increases in property taxes experienced by property owners are due to reassessment and rate increases, not TIF.

Illinois law specifies a number of requirements that must be satisfied for an area to qualify for Tax Increment Financing, beginning with identifying the project area and the physical and economic deficiencies that need to be cured. An Eligibility Analysis is required to be performed to meet the statutory requirements. The municipality must also demonstrate that these conditions will not be addressed without some local action. What is often called the “but for” test, calls for the municipality to show that ‘but for’ the public investment provided through the TIF, effective redevelopment or development will not occur.

The establishment of a TIF also requires the preparation and approval of a Project Area Redevelopment Plan. This plan includes an assessment of the area in need of economic assistance, and demonstrates why the area needs redevelopment and how the municipality plans to revitalize it. Illinois law requires review by the major overlapping taxing bodies and a public hearing on the plan prior to TIF designation. The plan must be made available for public review and inspection at least 45 days prior to the public hearing.

<u>The Redevelopment Plan typically includes:</u>

- Documentation as to how the area satisfies the "but for" requirement;
- A description of the boundaries of the area recommended for redevelopment;
- A discussion of why the area needs redevelopment;
- The redevelopment goals and objectives for the area;
- An explanation of how land in the TIF district will be used;
- A budget for the life of the TIF, including the total TIF eligible costs; and
- An evaluation of the fiscal and programmatic impact on the overlapping taxing bodies.

Typical TIF projects include:

- Redeveloping substandard, obsolete, or vacant buildings;
- Financing general public infrastructure improvements, including streets, sewer, water, and the like, in declining areas;
- Remediating polluted areas;
- Improving the viability of downtown business districts;
- Providing infrastructure needed to develop a site for new industrial or commercial use; and
- Rehabilitating historic properties.

Types of TIF-Eligible Costs

The eligible uses for TIF funds are provided in Illinois' Tax Increment Allocation Redevelopment Act (65 ILCS 5/11-74.4-1 through 11-74.4-11) or "the TIF Act." 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; and
- Demolition and site preparation.

Special Service Areas

Special service area (SSA) financing is a taxing mechanism used by a municipality to finance additional services, improvements, or facilities desired in a certain contiguous portion of its jurisdiction. An SSA constitutes a differential taxing area within a municipality in which the improvement or service is financed through an additional tax applicable only on the area receiving the benefit. For example, if people located in the main business district of a community go to village hall and ask that new street lighting be installed, then according to the SSA method of financing, the village could issue bonds payable from additional property taxes levied in only that business district. These taxes would be extended by the county clerk and would appear on the real estate tax bill of each person within the boundary of the special service area.

The Village has utilized SSAs for public infrastructure improvements, including dedication of private roads to Village roads, alley, and street improvements. The life of an SSA depends on the funding mechanism employed, such as debt issued, but they are not established in perpetuity. However, the Village has not recently used SSAs for downtown improvements. There are statutory guidelines for establishing an SSA, including:

- Adopt an ordinance proposing the establishment of the special service area, which must outline the parameters of the SSA, including the purpose of the SSA, the property to be included, the tax rate that may be imposed, the duration (if any) of the SSA, the amount of SSA bond (if any) to be issued, and the method for allocating the taxes;
- Schedule a public hearing to be held by the Village Council not less than 60 days after the adoption of the ordinance;
- Publish notice of the hearing at least 15 days in advance in the newspaper and mail a copy at least 10 days in advance to all taxpayers for each property with the proposed SSA;
- Conduct a public hearing;
- Observe a 60-day waiting period to allow petitions to block implementation. If a petition is filed that is signed by 51% of the electors and 51% of the owners in the proposed SSA area, the SSA cannot proceed;
- Adopt an ordinance establishing the SSA and its parameters;
- Record the ordinance with the Cook County Recorder within 60 days of passage; and
- File a certified copy of the ordinance and supporting documents with the Cook County Clerk.

Local Home Rule Sales Tax

Many area municipalities have pursued additional local sales tax as a General Fund revenue enhancement, depending upon the make-up of the local tax base. The Village of Winnetka, as a home rule unit of government, has the authority to institute home rule sales tax. As a home rule community, an ordinance is all that is required for implementing a home rule sales tax. A voter referendum is not required. Once an ordinance has been adopted by the Village and a certified copy has been filed with the Illinois Department of Revenue, the State will administer and enforce the new sales tax rate that has been imposed. For example, if the ordinance is approved by April 1st the tax will take effect by July 1st of the same year. If filed by October 1st, the tax will take effect on January 1st of the following year. Home rule sales tax must be imposed in ¼ percent increments and there is no maximum rate limit.

The following area home rule municipalities have implemented a home rule sales tax:

Municipality	Home Rule Sales Tax Rate as of 1/1/207
Deerfield	1.00%
Glenview	0.75%
Highland Park	1.00%
Lake Forest	0.50%
Northbrook	0.75%
Northfield	0.75%
Wilmette	1.00%

Home rule sales tax revenue is generally consistent, could be considered General Fund revenue, or earmarked for specific needs such as capital improvements. If for example, a 1% home rule sales tax was imposed, a conservative estimate of $700,000 - $725,000 in annual sales tax revenue could be realized. This is significantly less than the approximate $1.2 million the

Village currently receives in our base 1% sales tax allocation. This is due to various items that are excluded from the home rule sales tax such as auto sales, groceries, and prescriptions.

As the above summaries illustrate, there are several options for the Council to consider for financing public improvements and/or pursuing financing of redevelopment of key parcels in the Village. Staff seeks direction on what additional information should be provided to further advance one or more strategies presented.