



# TAX INCREMENT FINANCING ASSISTANCE POLICY

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## TIF IN ROCHELLE

Tax Increment Financing (TIF) is an economic development tool used to stimulate redevelopment in areas with blight where redevelopment would be unlikely without some form of government stimulus. TIF districts can provide public infrastructure improvements in targeted areas. These public improvements, combined with expected private investment, work together to revitalize properties inside the district. When new development occurs, incremental taxes earned on increased property values are used to recover the publicly funded infrastructure investment within the TIF. If the TIF zone performs as expected, this new public infrastructure makes subsequent private investment more attractive. Private investors are assured that their property taxes will be used for needed in-zone infrastructure providing them direct benefits and reducing their development costs. TIF incentives will be clearly stated and defined as a percentage amount or dollar cap.

Funds obtained from a TIF are diverted from the general financing of local government services and used for purposes outlined in the specific development agreements for that TIF district. Monies may be paid out directly to support activities authorized in the project plan or used to repay bonds issued by the TIF district to fund the project plan.

The primary considerations when negotiating a new TIF project/development agreement are Project Type and Location. Secondary considerations include but are not limited to Quality of Life, Crime Prevention, Education, Historic Commercial Centers, and Downtown Revitalization. A numerical scoring system helps to simplify and make transparent the priorities in the City's decision-making process. Adjustments to the ranking can be made to reflect any public infrastructure improvements that will be covered by TIF revenues or assumed by the general fund.

The City of Rochelle has created a set of best practices for planners and policy makers concerning TIF financing.

## PURPOSE

- A. The purpose of this document is to provide guideline for the City of Rochelle to offer Tax Increment Financing Assistance for development activities in its narrowly-defined Tax Increment Financing Districts.
- B. As a matter of policy, the City of Rochelle will consider using Tax Increment Financing to assist private developments only in those circumstances in which the proposed private projects show a demonstrated financing gap and meet the criteria for approved projects.
- C. Each proposed project must demonstrate enough need for the City's TIF assistance, without such assistance, the proposed project would not occur. The City does not support unwarranted public subsidy of private enterprise.
- D. Tax Increment Financing in the City of Rochelle is a pay-as-you-go program. Reimbursements by the municipality to the developer are contingent upon a positive TIF fund balance. If enough tax increment revenues pledged to pay the debt service are not generated from parcels within the TIF District, the developer assumes the risk. The City will not be dependent upon the General Fund to meet these obligations nor considered to be in default.
- E. Tax Increment Financing is only available during the life of the district. No reimbursements will be made after the district has expired. Only the TIF account is to be utilized. TIF agreements do not create a general obligation of the City.
- F. This policy will be used as a guide in processing and reviewing applications requesting Tax Increment Financing assistance. The City reserves the option of amending or waiving sections of this policy when necessary or appropriate. In amending or waiving sections of this policy, the City will document the reason for deviation in the project's development agreement.
- G. The fundamental purpose of Tax Increment Financing assistance is to encourage desirable development/redevelopment projects that would not otherwise occur, **but for** the assistance provided through Tax Increment Financing. This test is important for public credibility and fairness to other taxing districts.
- H. It is the intent of the City to provide a minimum amount of Tax Increment Financing assistance. The provision of financial assistance is at the sole discretion of the City. The City reserves the right to reject or approve projects on the merits of each application, considering conventional policies, specific project criteria, and the demand on City services in relation to the potential benefits of the proposed project. Meeting policy guidelines or other criteria does not guarantee the award of Tax Increment Financing assistance. Furthermore, the approval or denial of one project is not intended to set precedent for approval or denial of another project.

## GENERAL POLICIES FOR THE USE OF TAX INCREMENT FINANCING

- A. Tax Increment Financing assistance will not be provided to projects that have the financial feasibility to proceed without the benefit of the assistance. Prior to consideration of a Tax Increment Financing assistance request, the City will undertake an independent analysis of the project costs to ensure that the request for assistance is valid.
- B. An estimate of the incremental increase in real estate valuation the proposed project will create is required. This will be based on an evaluation provided by the Township or County Assessor comparing the before and after assessment and the Assessor's opinion of value.
- C. Individuals requesting Tax Increment Financing assistance must demonstrate enough private financing commitments to the project.
- D. The applicant will provide any market and financial feasibility studies, appraisals, or other information provided to private lenders for the project as well as any other information or data which the City, or its financial consultants, may require to review the need for Tax Increment Financing Assistance.
- E. Tax Increment Financing will not be used for projects that place extraordinary demands on City infrastructure or services.
- F. If requested by the City, the applicant will provide adequate financial guarantees to ensure completion of the project, including, but not limited to, assessment agreements, letters of credit, cash escrow, and personal guarantees.
- G. The applicant must be able to demonstrate an ability to construct, operate, and maintain the proposed project based upon experience, general reputation, and credit history.
- H. The proposed project must be subject to real estate tax. It is the responsibility of the applicant to provide annual copies of real estate tax bills and proof of payment before reimbursements will be processed, throughout the life of the agreement. Developer will be prohibited from contesting assessments during the life of the TIF agreement.
- I. Schools, universities, hospitals, and churches that are exempt from real estate taxes must fulfill the priorities of the TIF policy to be considered.
- J. The applicant must retain ownership of the project long enough to complete it, to stabilize its occupancy, to establish the project management, and to initiate payment of taxes based on the increased project value. Tax Increment Financial assistance is not transferable upon the sale of the project and its properties.

- K. The level of Tax Increment Financing assistance should be reduced to the lowest possible level in the least amount of time by maximizing the use of private debt and equity financing first.

## **CRITERIA FOR TIF ASSISTANCE**

- A. Tax Increment Financing reimbursement will be provided by the City when there exists a positive balance in the TIF and as funds are available.
- B. The amount of assistance provided to an applicant will be limited to the amount necessary to provide the applicant a reasonable rate of return based on current market conditions and performance measures as determined by the City's Finance Director.
- C. Projects receiving assistance must provide the City with a Certificate of Substantial Completion. The Certificate is a guarantee that work has been completed in accordance with its development agreement so that the owner may use or occupy the project for its intended purpose. The developer will submit all supporting documents for each reimbursable expense such as invoices from vendors, proof of payment and waivers of lien from contactors. Developer will also guarantee the project's users (tenants, operators, etc.) are obligated to provide the information necessary to monitor results.
- D. Projects receiving assistance will provide certified records of project costs and revenues within a specified period after project completion. Adjustments to the level of assistance will be made to limit assistance in accordance with terms of the development agreement.

## **ELIGIBLE COSTS**

TIF eligible project costs are defined by Illinois statues, 65 ILCS 5/11-74.4-1 through 11-74.4-11): the TIF Act. The City reserves the right to limit based on the merits of the project. The Developer's share of TIF revenues derived from the Developer's project will be defined in the Agreement. The following are typical eligible costs.

1. Capital costs including actual costs of:
  - a. Construction of public works or improvements,
  - b. Demolition, alteration, rehabilitation, repair or reconstruction of existing buildings, structures and fixtures, other than historic buildings and structures,
  - c. Acquisition of equipment to service the district,
  - d. Restoration of soil or groundwater affected by environmental pollution,
  - e. Clearing and grading of land,
2. Real property assembly costs,
3. Professional service costs (planning, architectural, engineering, and legal,

4. Relocation costs,
5. Professional or soft costs (environmental and other studies, publication, and notification costs).

Under certain circumstances, a Developer's project will be eligible to receive TIF support from revenues generated from other increment in the District in which the project is located. Projects of significant importance to the community and meeting multiple goals of the City's Strategic Plan may be considered.

## **MONITORING TIF AGREEMENTS**

The Finance and Community Development Departments will monitor, evaluate, and enforce performance measures contained in TIF agreements. The Developer will cover the administration costs to the City for staff, counsel, and consultants throughout the life of the TIF. The City is not responsible for Developer expenses. Ongoing transparency costs including the filing and publishing of annual reports will also be reimbursed. The City will identify the amount of funds to be withheld to monitor each agreement.

TIF Agreements will describe the consequences if performance goals are not met. Document will govern who is responsible for the following:

1. Project upkeep,
2. Who backs up project revenue if increments are not enough,
3. Ongoing maintenance responsibilities,
4. Maintaining designated reserves, if required,
5. Project reporting and monitoring,
6. Adherence with state and local laws.

## **PERFORMANCE MEASURES**

Project evaluations that reveal unfavorable variances should trigger further review and possible implementation of remedies determined by the City. Performance measures might include:

1. Comparison of actual to estimated investment,
2. Comparison of actual to estimated land use,
3. Numbers, types of jobs created, and residency requirements,
4. Average wage,
5. Dollar amount of private investment,
6. Net increase in property tax base,
7. Living wage requirements,
8. Low-to-moderate income employee qualifications,

9. Actual market value and/or tax revenue performance,
10. Occupancy requirements,
11. Disclosure of any tax delinquencies,
12. Actual to estimated debt service cash flow,
13. Debt coverage ratio, and,
14. Any conditions that might change the tax status of any related public bonding offering.

## **DEFAULT AND TERMINATION**

During the life of the TIF, the Project will be considered in default if the Developer:

1. Does not complete the Project within twelve (12) months following the execution of a Development Agreement,
2. Fails to maintain operations located on the Property in accordance with City codes and ordinances,
3. Sells or otherwise conveys the Property (unless stipulated in the Development Agreement),
4. Files for bankruptcy or otherwise becomes insolvent,
5. Fails to provide annual verification that the real estate taxes for the subject Property have been paid,
6. Becomes the subject of foreclosure proceedings,
7. Files any challenge, appeal, or similar action which seeks to reduce the equalized assessed value of the Property.

## **REPORTING OF EXISTING TIF DISTRICTS AND AGREEMENTS**

The Community Development Department will be required to annually ensure TIF Districts are regularly and fairly monitored:

1. Tax Increment Financing Performance Measures include but are not limited to:
  - a. Actual versus projected tax base, jobs created, location of jobs, and the potential impact of shifting economic development from non-TIF District to TIF District,
  - b. Private investment completed during the year within the TIF,
  - c. Public investment measured in TIF and non-TIF dollars,
  - d. Current projections measured in TIF fund revenue and fund balances through the life of the TIF, and
  - e. Review of any transfer of funds from one TIF District to another.
2. On an annual basis, provide a summary of existing development agreements within each TIF and performance of the agreement compared to projections.
3. Fully comply with the State of Illinois requirements for an annual TIF Report.
4. Convene the Joint Review Board to review existing TIF Districts.
  - a. Evaluate performance of TIF,

- b. Review implementation of Redevelopment Plan,
- c. Assess Fiscal Impact on affected taxing districts,
- d. Review of any increase in services to any taxing district,
- e. Determine if there are any surplus funds as defined by the TIF Act.

## **APPLICATION PROCESS AND PROCEDURE**

- A. Application for Tax Increment Financing assistance shall be made on the forms provided by the City.
- B. In addition to the information requested in the Tax Increment Financing assistance application, the applicant will submit:
  - 1. Financial commitment from lending institution,
  - 2. Plans and drawings,
  - 3. Background information on the applicant,
  - 4. Proforma analysis, and,
  - 5. Financial statements.

The City will request the Township or County Assessor determine the level of increment that is expected to be generated by the proposed project.

To be considered for TIF assistance, the following steps and procedures are required:

- 1. Project must be located within the boundary of the TIF district,
- 2. Applicant must complete and return the appropriate application forms (attached),
- 3. Application should be supplemented by all pertinent documentation (number of jobs to be created/retained, capital investment, construction schedule, evidence of project financing, etc.) as required in application.
- 4. Completed applications will be submitted to the Community Development Director for staff review and comment. Incomplete forms will be returned to the applicant with an explanation on additional information as may be required.
- 5. The TIF Review Committee will consist of the City Manager, City Attorney, Community Development Director, Finance Director, Mayor, (1) Rochelle City Council, and (1) Designee of the City Manager. Staff will review and consider the application and act as promptly as possible. The TIF Review Committee may defer action on any application pending further information required to clearly evaluate the project. It will be the responsibility of the

applicant to supplement the application with information as may be required by the Community Development Director in a timely manner.

6. The TIF Review Committee will approve, deny, or amend the application and provide the applicant with a written response of its determination.
7. Staff will respect the confidentiality of financial records of the applicant as allowed by law.
8. The recommendation of the City Manager must be submitted and approved by a majority vote of the Rochelle City Council before any incremental property tax usage can be realized.
9. If approved by the City Council, a *letter of intent* outlining the specific terms and conditions of the TIF assistance will be provided to the applicant.

## **POLICY CRITERIA**

In reviewing the TIF application the City Manager, City Attorney, and TIF Review Committee will evaluate each project using the following criteria and ranking system. Projects must accumulate at least 125 points to be considered for approval. Points can range from 0 to the maximum in each of four categories that consider: the type of project, location and size of the project, employment, and discretionary (other) factors. The total score for any project is the sum of points in the four categories.



## SCALE

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High Priority - Over 225 Points | Mid Priority - 125-224 Points | Low Priority - Under 124 Points

### CRITERIA

#### 1. Type of Project – Maximum Points

##### Industrial/Manufacturing – 100

1. Increase primary employment opportunities, considering the number of jobs created based on full time equivalent (FTE).
2. Maintain adequate capacities in public utilities.
3. Promote the development of transportation-related goods and services.
4. Create economic incentives for businesses to locate in existing infrastructure.
5. Support craft manufacturing and entrepreneurship.
6. Create jobs in underserved areas and high unemployment zones.

##### Commercial/Retail – 100

1. Make retail centers attractive destinations.
2. Provide incentives for mixed-use development and redevelopment.
3. Pursue opportunities to strengthen sales tax base.
4. Provide job opportunities and services in underserved areas.
5. Plan for the redevelopment of Rochelle’s older commercial areas.
6. Direct development along corridors to create stronger districts.
7. Avoid cannibalizing other businesses within the district or contiguous districts.
8. Healthcare.

##### Professional/Office – 75

##### Advanced education and workforce training – 30

##### Arts and culture – 20

##### Tourism – 10

##### Expand public improvements – 10

1. Retrofit existing infrastructure and sidewalks.
2. Facilitate safe pedestrian crossings.
3. Connect walkways, parking lots, bike paths, and greenspace.
4. Plant trees and preserve existing trees during construction.
5. Make places walkable for aging population.
6. Improve stormwater management.

Attracting, retaining, or expanding businesses for improving the City’s economic base. (Documentation of employment or financial projections must be provided by the party making the request and will serve as the basis for agreement.) – 50

Projects that directly implement specific recommendations of the City’s Strategic Plan, Comprehensive Plan, Stormwater Management Plans, etc. - 50

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**2. Location and Size of Project**

Retail development projects that encourage an inflow of customers from outside the City that result in exported goods or that provide services or fill retail markets that are currently unavailable or underserved.

- 1. High Priority (Downtown). – **100** 

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- 2. Mid-Priority (Buildings that have been vacant for more than 10 years). - **50**
- 3. Low-Priority (Green field locations which require the extension of public services). – **10** 

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Sizeable development/redevelopment costs such as: - **50** 

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- 1. Remodeling/Rehabilitation/Demolition.
- 2. Brownfields or environmental remediation.
- 3. Capital purchases.
- 4. Facility expansion.
- 5. Improved Public infrastructure.

**3. Employment – 50** 

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Expected employment potential:

- 1. Number of new employees.
- 2. Skill and education levels required for the jobs.
- 3. Salary range and compensation rates compared with the City’s median income level.
- 4. Cost of public assistance per job.
- 5. Potential for executive relocation.
- 6. Material and emotional job satisfaction.

**4. Discretionary (Other)**

Enhance a gateway, façade, streetscape, and pedestrian experience. – **10** 

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Historic preservation/rehabilitation of a locally significant historic structure. – **10** 

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Provides direct benefit to distressed areas through elimination of blight. – **15** 

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Quality of development and overall aesthetics (architectural, site design, landscaping, etc.) beyond what is minimally required by Zoning Ordinance. – **10** 

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Higher standards of Building Design, Materials, and Energy Efficiency such as meeting LEED Certification, Energy Star, etc. – **10** 

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Minority Business Enterprise/Women Business Enterprise/Veterans. – **10** 

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Indirect employment (The businesses that supply goods and services to the project). – **10** 

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