

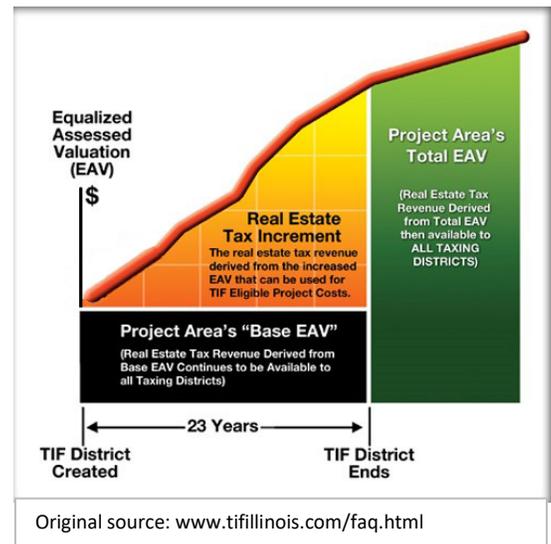
City of O'Fallon

TIF Redevelopment Agreement Guidelines

Whether you're starting a new business, relocating a business, or reinvesting in your existing location, we're glad you're considering doing it in O'Fallon, Illinois. Not only does the city benefit from robust development near the interstate, but citizens and developers are also showing renewed interest downtown. Several high-profile projects such as Cincotta Photography, Peel Pizza, and Shooter's BBQ have shown the potential of the historic buildings in the City's core. O'Fallon has several TIF districts that might be able to assist with your project, including the recently created Central City TIF District in the downtown area.

How does Tax Increment Financing (TIF) work?

Tax increment is the difference between the amount of property tax revenue generated before the TIF district was created (base) and the amount of property tax revenue generated after the TIF was created. Once a TIF District is established, the tax increment is placed in a TIF fund. These TIF funds can be used to help pay for public improvement projects (like streets and sidewalks) or to incentivize developers to invest in their properties by reimbursing a portion of their tax increment to cover certain types of expenses. All of the overlapping taxing bodies (such as school districts) continue to receive property tax revenue from the base amount taxes, so there is no loss of revenue. The maximum life of a TIF District is 23 years. When the TIF ends, the total amount of tax revenues is again shared by all the taxing bodies. At the end of the TIF, the total tax amount should be larger than from before the TIF, due to the growth which would not have been possible without the utilization of Tax Increment Financing.



Can I use a TIF Redevelopment Agreement for my project?

The City can offer a TIF Redevelopment Agreement to many properties that are undergoing major rehab or redevelopment. These agreements allow the developer to be gradually reimbursed for eligible expenses over the life of the TIF district. Since this method relies on the appraised value of the property increasing significantly, the City is unlikely to make agreements for projects costing less than \$50,000 as they will yield little to no money that can be reimbursed to the developer (see FAQ on the next page for more information). Additionally, due to complexities in reimbursement, the City prefers to work directly with owners of the building who have paid for improvements rather than trying to split or filter reimbursements to a tenant through their landlords. Any projects that proceed before having a Redevelopment Agreement approved by City Council do so at their own risk. TIF Redevelopment Agreements will not be considered for projects that received their commercial occupancy permit more than 90 days prior. Please contact the Community Development Department for more information:

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Frequently Asked Questions

1. What is a TIF Redevelopment Agreement?

A TIF Redevelopment Agreement is a contract entered into between the City and the developer/owner of a project within the TIF District. It allows the City to reimburse a portion of the tax increment to the developer each year for the remaining life of the TIF district. The Central City TIF operates as a “pay as you go” district. With this arrangement, the developer will only be reimbursed to the extent that the property value increases and tax increment is generated by the property. If the value of the property does not increase, the City will not refund any money to the developer. TIF Redevelopment Agreements can be an effective tool for large-scale projects since it relies on the equalized appraised value (EAV) increasing significantly.

2. Why are TIF Redevelopment Agreements generally only available for projects more than \$50,000?

The City uses the guideline of \$50,000 because projects of a lesser amount will likely generate a lot of paperwork, legal fees, and tracking, but would offer very little monetary value in return. It is impossible to accurately estimate the amount of TIF incentives you would receive because it is entirely dependent on how the County Assessor appraises the property once the project is complete. However, generally speaking, we have found that commercial rehab projects need to be quite large for the equalized assessed value (EAV) to increase significantly. If the equalized assessed value (EAV) of the property does not increase significantly, the project will not generate additional property taxes and there will be little to no money to reimburse to the building/business owner.

It might be easiest to explain the reasoning behind having a minimum investment requirement for our TIF Redevelopment Agreements with a real life example. We'll look at an existing downtown commercial property that could use some rehabbing, but is currently usable/leasable space.

This building was sold for \$164,000 in 2009, but according to the St. Clair County Assessor, for tax year 2015, it has a “market value” of \$68,596 and an “equalized assessed value” (EAV) of \$22,863 (the EAV is 1/3 of the market value). For tax year 2015, that value results in \$1,870 in taxes for the year. If someone were to make improvements that were dramatic enough to double the EAV of the building, the taxes would approximately double from \$1,870 per year to \$3,740. A maximum of 75% of the *increase* in taxes ($0.75 \times \$1,870$) would be eligible to reimburse to the property owner each year. That would equate to about \$1,402 in reimbursement each year until the TIF district expires, or until you have been reimbursed for all eligible expenses, whichever occurs first.

As you can see, even with a major rehab project that *doubles* the value of the building according to the County Assessor, the monetary value of the reimbursement can be relatively modest. Therefore, staff is using \$50,000 as a general guideline at which the administrative burden of tracking the rehab project over the 23-year life of TIF is more than likely not worth the paperwork, legal fees, and tracking necessary to manage a TIF Redevelopment Agreement.

3. What about projects that are less than \$50,000?

As explained in question two above, TIF Redevelopment Agreements are not going to be efficient for lower cost projects that don't significantly increase the equalized assessed value (EAV) of the building. However, in the future, the City hopes to offer façade and life-safety improvement programs that would benefit many types of projects less than \$50,000. Typically, façade/life-safety programs are offered as a matching grant where approved projects receive a lump sum reimbursement for a portion of the cost upon completion, instead of a slow reimbursement of tax increment over 20+ years. That matching grant money typically comes from the City's TIF fund. Money gradually accumulates in the City's TIF fund as rehab projects are completed in the downtown and the assessed value of properties increases. Since the Central City TIF is so new, very little money has accumulated in this fund. The City will not be able to create a façade/life-safety program until enough money accumulates in the TIF fund, or an alternative source of funding is identified.

4. Can I get started on my project before a TIF Redevelopment Agreement is approved?

Any projects that proceed before having a TIF Redevelopment Agreement approved by City Council do so at their own risk. TIF Redevelopment Agreements will not be considered for projects that received their commercial occupancy permit more than 90 days prior.