

Residential Tax Increment Financing (TIF) Make-up

Background

The General Assembly's Tax Increment Financing Reform Task Force conducted their first meeting on October 24th 2017. The task force made certain informational inquiries to the Department of Revenue concerning TIF data and practices. One of the inquiries dealt with what was the make-up of residential development TIFs.

Residential TIF description

The Annual Tax Increment Finance Report is submitted to the Comptroller for each TIF district. A PDF of the districts' reports is posted on the Comptroller's website. The report summarizes each individual TIF's fund balances, expenditures, debt obligations and whether the TIF is running a surplus or a deficit. Section 2 of the report lists the name of the redevelopment project area and its primary use; industrial, commercial, residential or mixed use development.

The PDF format of the TIF annual reporting posted on the Comptroller's website creates administrative difficulties and makes a comprehensive analysis of residential TIF developments throughout the State of Illinois a near impossible task given time constraints. This report however will detail a few residential TIF districts and how they are used to generate redevelopment.

Chicago Residential TIF districts

The 2011 City of Chicago's TIF reform panel classified the city's TIF districts into four categories with their accompanying percent of total:

- Industrial (22%)
- Residential (11%)
- Commercial (9%)
- "Multi-purpose" mixture of industrial, residential and commercial (58%)

Residential TIF districts in Chicago can be best described as a development tool for affordable housing. The TIF reform panel reported that 54% of the residential TIF projects are entirely made up of affordable housing units while 43% include a mix of affordable and market rate units.

Chicago Residential TIF Example: 43rd/Cottage Grove TIF

The City of Chicago's Department of Planning and Development (DPD) describes the initial intent of the 43rd/Cottage Grove TIF to "facilitate the replacement of vacant lots in the Grand Boulevard community with high-quality mixed-income housing developments". The TIF was soon expanded to include commercial activities particularly areas on the east side of Cottage Grove Avenue and the south side of 47th Street. An interesting note is that the 2016 Annual Tax Increment Finance Report for this TIF reports it as being residential and does not include the expanded commercial development.

Residential redevelopment projects included three phases with the City and the developer Hearts United. The phase three redevelopment agreement outlined the acquisition of nine city owned lots to Hearts United for the purchase price of \$1.00 per parcel. As part of the agreement Hearts United constructed 2 row house buildings and 7 six flats, totaling 53 units; 46 of those units were to be rent

restricted and only rented by households with incomes of 60% of Chicago's median income. The other 7 units could be leased at market rate. Attachment "A" are pages taken from the Cook County Assessor's website detailing the assessment information along with pictures of the residential structures.

An example of a mixed-use Commercial and Residential redevelopment is the Shops and Lofts at 47th Street. The 26 lots of city acquired property at the southwest corner of the intersection of South Cottage Grove and East 47th Street were sold to commercial and residential developers at \$1.00 per parcel. The commercial portion of the redevelopment was awarded to Mahogany Shops 47, LLC while the residential portion (residential apartments constructed above the commercial portion) was awarded to TCB Development Services. The commercial section contained 55,000 square feet of which 41,000 was earmarked for a Wal-Mart grocery store. The residential portion totaled 24 units of which 75% of the units had to be leased to households with incomes below 60% area median income. The Certificate of Completion of the project was submitted to the City of Chicago in June of 2015.¹

Statewide Residential TIF districts

Moline Residential TIF Example: TIF #3 (Old Moline High School)

TIF #3 (Old Moline High School) was created in 2004. The catalyst for the creation of the TIF district was the conversion of the vacant, former Moline High School into a residential community. The Old Moline High School Lofts opened in 2006. The project included 26 one-bedroom apartments, 22 two-bedroom apartments, 12 three-bedroom apartments at affordable and market rate rents. Twelve of these units were targeted toward the physically disabled. The development included a media center, a business center, a community room, and a fitness room. The total project cost was \$9,885,426. TIF #3 will expire in 2027.²

Springfield Residential TIF Example: TIF #3 Enos Park Neighborhood

Springfield's city website's incentives page describes TIF #3 Enos Park Neighborhood as "Rehabilitation assistance within this primarily residential TIF has focused on the redevelopment of single-family and some light commercial properties". The TIF is located just north of the downtown area. According to the 2016 annual TIF report submitted by the City of Springfield, \$373,045 of the \$409,629 paid to vendors for contracts was to the Enos Park Development LLC for "Property Acquisition".

Enos Park Development LLC is controlled by the Enos Park Neighborhood Improvement Association. The Enos Park Development LLC is a non-profit land bank which enables the Association to accept donations of property, with the hopes that an owner of a boarded house or vacant lot who is tired of the upkeep and expense will donate the property to the Association, which will in turn maintain it.

The 2016 annual TIF report contains the 2015 Redevelopment Agreement between the City of Springfield and the Enos Park Development, LLC detailing the use of TIF funds by the LLC to acquire distressed properties within the district. The Enos Park Association markets the acquired properties for

¹ Chicago DPD "43rd /Cottage Grove TIF", https://www.cityofchicago.org/city/en/depts/dcd/supp_info/tif/43rd_cottage_grovetif.html , Retrieved 11-30-2017.

² City of Moline Tax Increment Financing Districts, <http://www.moline.il.us/index.aspx?NID=1235> , Retrieved 12-5-2017.

nominal costs to potential buyers in “as is” condition with the goal of attracting “Urban Pioneers” who will fix up and live in the properties preserving the historic character of Enos Park.

The Enos Park Neighborhood Improvement Association (EPNIA) of Springfield, Illinois website details the role it takes in preserving and revitalizing the neighborhood.³

Quincy Residential TIF Example: TIF RENTAL REHAB PROGRAM (TRRP)

While not a residential TIF, funds from Quincy’s two downtown TIF Districts; TIF West and TIF East are used as a financial incentive to owners of existing buildings located those districts for the renovation of market rate residential rental housing. The stated goal of the program is to encourage private investment in renovation of vacant upper floor residential properties. A summary from the City of Quincy’s website is given below.

Eligible units must be tenant occupied and not owner-occupied. Owner(s) will be given one year to complete the improvements shown in the approved specifications. TIF funds will only be used for cost of material that will be permanently affixed to real estate plus cost of associated labor. TIF funds and owner leveraging funds will only be applied to the rehabilitation of an existing structure and cannot be used for new construction.

Eligible Properties: Properties must be privately owned and located in a TIF District. The property must have at least the entire ground level floor space devoted to commercial use. Applications will be accepted for a single-site property identified by one tax identification number. Multiple applications may, however, be submitted by one owner/business.

Forgivable Loan/Grant: The Program will provide zero interest loans for fifty-percent (50%) of the eligible project costs up to a maximum of \$25,000.00 per rental unit with the balance of the project cost paid by the owner.⁴

In May of 2017, Quincy’s Planning and Development office held a seminar on its Downtown Residential REHAB Program. The goal of the program was to have \$100,000 available to potential rehab projects for any given year. As of the 2017 meeting, \$135,000 was awarded in 2015 to 3 approved projects. Those projects will result in 7 total renovated units in 3 different properties. In 2016, \$75,000 was awarded in 2016 to 1 approved project resulting in 3 total renovated units in 1 building.

Rockford Residential TIF Example: Trust Building

Located at West State and Main streets in downtown Rockford, the Daniel Burnham designed Trust building was originally built in 1907 with 7 floors with 4 more floors added in 1924. The building housed the Rockford National Bank along with office suites and retail space on the first floor.

³ Enos Park Neighborhood Improvement Association (EPNIA) of Springfield, Illinois, <http://www.epnia.com/>, Retrieved 12-5-2017

⁴ City of Quincy, http://www.quincyl.gov/files/City-Documents/PD/TIF_Rental_Properties_Program_GUIDELINES_July_1_2015.pdf, Retrieved 12-6-2017

In February 2013, Morgan Management acquired the building for \$1.7 million with plans to convert the building's offices into 62 luxury residential apartment units. Before Morgan could enter into an agreement with the city for the use of TIF funds, the project had to go through a "but for" test known as the "Guideline Point System" employing a point scoring system that would be used for the amount of TIF funds available for the specific project. The Guideline Point System used four categories of points allocated to a project: (a) the type of project; (b) the location of the project; (c) an employment factor; and (d) a discretionary "other" factor.⁵ The total score for any project is the sum of its four point categories. The project scored 230 out of the 300 points available.⁶

The latest 2015 Annual TIF report filed with the Comptroller details the expansion of the River North TIF District to include the Trust Building. It also reports the developer's estimated costs of the project at \$12.3 million. The City of Rockford determined that the available TIF funds made available the developer to be \$3.7 million; the amount to be repaid "solely from incremental taxes" from the increase in EAV of the Redevelopment Project Area.

The property is also part of the West Downtown Rockford Historic District. Morgan Management partnered with Urban Equities because of their local experiences with historic renovations. The developers therefore had further incentive to complete the project to qualify for state and federal tax credits.⁷

After the renovations were complete, the building was renamed Burnham Lofts and began leasing apartments in early 2017.

⁵ City of Rockford, "Guideline Point System", <http://rockfordil.gov/wp-content/uploads/2017/03/Approved-Scoring-System-Appendix-A-9-22-2014.pdf>, Retrieved 12-21-2017.

⁶ Rrstar.com, "Rockford Trust historic rehab downtown could cost \$12.8 million", <http://www.rrstar.com/article/20150130/NEWS/150139917>, Retrieved 12-21-2017.

⁷ Rrstar.com, "Urban Equity Properties to partner on Rockford Trust Building makeover", <http://www.rrstar.com/news/20160113/urban-equity-properties-to-partner-on-rockford-trust-building-makeover>, Retrieved 12-21-2017.