



# CIVIC FEDERATION

## Tax Increment Financing: A Primer

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# REPORT SUMMARY

This primer explains how Tax Increment Financing (TIF) operates in Illinois, including Chicago; assesses its fiscal impacts on taxpayers and overlying taxing bodies; outlines the TIF designation process; summarizes key policy debates over its benefits and drawbacks; and reviews recent empirical research on TIF in Illinois and the United States.

## **What is Tax Increment Financing?**

Tax Increment Financing (TIF) is an economic development tool that allows municipalities to capture growth in property tax revenues generated within designated redevelopment areas and reinvest those revenues to pay for redevelopment-related costs within a designated district, including infrastructure improvements, land acquisition, site preparation, building rehabilitation, environmental remediation, relocation assistance, and certain planning or financing costs. The central justification for TIF is the “but-for” test: that private investment would not occur in the absence of public financing. While TIF has supported the redevelopment activities noted above in targeted areas, it has also raised persistent concerns regarding fiscal equity, accountability, and impacts on overlying taxing bodies.

TIF is a core local economic development mechanism in Illinois, with approximately 1,488 active TIF districts across 511 municipalities as of 2025.

Compared with alternative development incentives—such as tax abatements, tax credits, or enterprise zones—TIF offers greater flexibility, local control, and access to larger revenue streams, making it particularly attractive to municipalities seeking to finance infrastructure and redevelopment without drawing on general operating funds.

## **How TIF Works in Illinois**

To create a TIF district, a municipality establishes a specifically defined geographic area. The designated area must meet certain statutory eligibility criteria that identify it as blighted or at risk of blight. The municipality then prepares a redevelopment plan outlining the goals, projects, costs, and financing strategy.

When the TIF district is created, the total equalized assessed valuation (EAV) of property (the taxable value of property, or “property tax base”) is measured and frozen. Then, revenues from the incremental growth in property values each year over the frozen baseline amount are used to pay for redevelopment costs. Once a development project is completed and paid for, and the TIF district expires, the TIF district is dissolved, and the taxable value of property is returned to the full tax base, meaning that all overlying taxing bodies can levy taxes against the new EAV increment accrued during the life of the TIF district, as well as the previously frozen EAV. In Illinois, TIF is authorized for a period of up to twenty-three years, with the possibility of renewal for an additional twelve years.

Redevelopment costs may be financed through municipal bond issuance, pay-as-you-go financing using annual funds generated from EAV increment, or developer-financed projects reimbursed from TIF increment revenues over time. Each approach allocates risk differently

between municipalities and private developers, with important implications for public cost, fiscal exposure, and project feasibility.

### **How TIF Impacts Taxpayers and Overlying Governments**

TIF affects property tax dynamics by reducing the taxable base available to overlying taxing bodies during the life of the district. TIF limits the portion of EAV that taxing districts draw against when levying their property taxes, which in turn can drive up tax rates.

Because tax rates are calculated by dividing government levies (the amount requested from taxpayers) by EAV (the taxable value of property), the frozen EAV results in a smaller denominator and therefore higher tax *rates* than would otherwise occur. As a result, property taxpayers typically pay more while a TIF is in place in order to make up for the fact that taxing bodies still need to generate the same amount of revenue based on a smaller tax base. Tax rates may decline after the TIF's dissolution when the full EAV is restored.

There are common misconceptions about the impact of TIF on governments' property tax levies, including the claim that TIF takes property tax revenues away from local governments such as school districts. While it is true that TIFs redirect new revenue generated based on property value growth within the TIF area to the TIF fund—and therefore that revenue is not accessible to the overlying governments—TIF generally does not limit the overlying governments' tax levies.

The degree to which TIF impacts the amount of property tax dollars a government receives depends on whether or not its levy (extension) is limited by the Property Tax Extension Limitation Law, also referred to as "tax caps," which limits the annual growth of a non-home rule jurisdiction's tax extension in certain counties to the lesser of 5% or the consumer price index:

**Home rule governments**, such as Cook County, the City of Chicago, and many other municipalities, are not constrained by tax caps. They can adjust their levies at will, so TIF has no impact on revenue generated. However, the primary impact is that tax rates may rise.

**Non-home rule governments in counties with tax caps have minimal impacts from TIF.** The tax cap limits total property tax extensions for these governments, such as Chicago Public Schools, regardless of changes in property value. They receive the maximum amount they are entitled to under the tax cap law, regardless of the presence of TIF. In Illinois, 39 counties are subject to tax caps, including the six-county region of northeastern Illinois.

**Non-home rule jurisdictions in counties without tax caps may experience negative impacts.** These jurisdictions, such as school districts and library districts, may be forced to forego revenues due to TIF *if* they are already at or near their statutory tax rate limits. Because TIF freezes available EAV, this can increase property tax rates and push districts toward their rate limits. In such cases, the county clerk must reduce the district's levy to

remain within the statutory rate cap, resulting in a loss of otherwise available revenue. This situation applies to the 63 downstate counties that have not adopted tax caps.

### **Controversy About TIF**

Tax Increment Financing (TIF) is controversial primarily because of disagreements over its effectiveness, fairness, and transparency.

Supporters argue that TIF enables development in blighted or weak markets that would not occur without public financing. TIF ultimately expands the long-term tax base for all taxing bodies once redevelopment is complete. The redevelopment costs are also paid for directly by the increased taxes generated from new incremental revenues.

Critics counter that many TIF-subsidized projects would likely have proceeded anyway, meaning TIF often shifts development within a region rather than creating net new economic growth.

A second major concern is who ultimately bears the cost of TIF. Although it is often described as “self-financing,” TIF freezes the tax base within designated districts, which can raise tax rates while service demands continue to grow, shifting the financial burden to taxpayers outside the TIF district.

Critics further argue that TIF resources are frequently concentrated in already strong or politically connected areas rather than in the most distressed communities. The lengthy period of TIF duration can limit transparency and public oversight. Weak and non-standardized financial reporting often results in limited visibility into revenues and spending, making it difficult for taxpayers and overlapping governments to assess how funds are being used, evaluate whether projects are delivering intended outcomes, and hold decision-makers accountable for the use of diverted tax revenues.

# OVERVIEW OF TAX INCREMENT FINANCING

Tax increment financing (TIF) is a public financing tool designed to recover and reinvest increases in land values resulting from public investment. Its use is intended to generate economic development activity that would not have occurred “but for” the incentives offered. Thus, TIF is intended to compensate for the presumed failure of the market in certain circumstances to produce economic development activity in blighted locations.<sup>1</sup> TIF is widely used by municipalities and other governments in the U.S. to promote economic development and redevelopment.

There are over 10,000 TIF districts in the U.S.<sup>2</sup> The Illinois State Comptroller reports that the State of Illinois (Illinois or ‘the State’) alone has nearly 1,500 TIF districts.<sup>3</sup> TIF districts in Illinois are currently located in 511 municipalities.<sup>4</sup>

## HISTORY OF TIF IN THE U.S.

Tax increment financing was pioneered in California in 1952 when voters approved allowing property tax increment diversions for redevelopment purposes. Illinois adopted a property tax-based TIF program in 1977. In 1985, the program was expanded to include sales and utility taxes as revenue sources. However, the use of sales and utility tax increment was subsequently restricted and has been largely eliminated.<sup>5</sup>

The use of TIF in various forms is authorized in 49 states. Arizona repealed its TIF authorization statute in 1999 but does allow some exceptions under other statutes.<sup>6</sup> California abolished its redevelopment agencies, which utilized tax increment financing mechanisms, in 2012.<sup>7</sup> However, it has since created narrower, more regulated TIF-like mechanisms that limit the use of increment, the types of projects authorized, and provide more oversight and transparency.<sup>8</sup>

The use of TIF increased in large part in response to limitations placed by Congress on the use of industrial revenue bonds (IRBs). Pioneered in the 1930s and widely used through the 1980s, IRBs are exempt from federal taxes. They are used to finance private industrial-related facilities, which are then leased to a private company or to provide loans at favorable interest rates. The

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<sup>1</sup> David Meriman. [Improving Tax Increment Financing \(TIF\) for Economic Development](#). Lincoln Land Institute, September 2018, p. 6.

<sup>2</sup> David Meriman. [Improving Tax Increment Financing \(TIF\) for Economic Development](#). Lincoln Land Institute, September 2018.

<sup>3</sup> Illinois State Comptroller. TIF Reports at <https://illinoiscomptroller.gov/constituent-services/local-government/local-government-division/upload-tif-reports>.

<sup>4</sup> Illinois State Comptroller. [Municipalities with TIF Districts](#).

<sup>5</sup> Tax Increment Allocation Redevelopment Act, [65 ILCS 5/11-74.4-3](#).

<sup>6</sup> Federal Highway Administration. [Value Capture: Tax Increment Financing \(TIF\)](#). Frequently Asked Questions – Tax Increment Financing (TIF) March 2021.

<sup>7</sup> State of California. Department of Finance. [Redevelopment Agency Dissolution](#).

<sup>8</sup> California Association for Local Economic Development. [Primer on California’s Tax Increment Financing Tools](#) 2nd Edition (Revised 2025).

private company receiving IRB proceeds or IRB-backed loans bears full financial responsibility for liability.

In the 1970s, the use of IRBs proliferated as state and local governments utilized them as an important way to stimulate economic development. Congress became concerned about this proliferation and the resulting losses in tax revenues to the federal treasury. In response, it has steadily imposed restrictions on the issuance of IRBs beginning with the 1968 Revenue and Expenditure Control Act and culminating in the Tax Reform Act of 1986, which reclassified most IRBs as *private activity bonds* (PABs) subject to a state-by-state volume cap. That cap, originally set at \$150 million or \$50 per capita, is now indexed to inflation; for 2025, it equals the greater of \$130 per capita or \$388.78 million, and for 2026, it will rise to \$135 per capita or \$397.625 million.<sup>9</sup>

These statutory limits, along with narrower eligibility rules, greatly reduced the scale of IRB issuance. Today, only small-issue manufacturing and certain “exempt facility” projects (e.g., pollution-control, water, and waste systems) typically qualify for tax-exempt IRB financing, and housing dominates more than 90 percent of total PAB volume.<sup>10</sup>

As a result of these federal constraints, local governments have turned increasingly to TIF and other “value-capture” mechanisms that rely on the local property-tax base rather than federally tax-exempt bonds. TIF allows municipalities to dedicate the incremental growth in property-tax revenue from redevelopment areas to finance infrastructure, site improvements, or developer reimbursements—functions once supported by IRBs. This shift reflects both the erosion of federal tax-exempt financing tools and the broader search for locally controlled economic-development instruments within constrained fiscal environments.<sup>11</sup>

## TAX INCENTIVE ALTERNATIVES TO TIF

There are a number of economic development tools employed by local governments as alternatives or complements to TIF in the United States. The most common incentives are:<sup>12</sup>

- **Property Tax Abatements** reduce or waive property taxes for a specific time period to encourage businesses to invest, redevelop, and rehabilitate properties in certain areas.<sup>13</sup>

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<sup>9</sup> [Internal Revenue Bulletin](#): 2024-52 (Rev. Proc. 2024-52), Section 3. 2025 Inflation-Adjusted Items. Subsection Private Activity Bonds Volume Cap, p. 1735.

<sup>10</sup> Council of Development Finance Agencies (CDFA). [2016 Annual Volume Cap Report: Private Activity Bonds](#). Columbus, OH: CDFA, 2017, p. 2.

<sup>11</sup> Richard Briffault, “[The Most Popular Tool: Tax Increment Financing and the Political Economy of Local Government](#),” *University of Chicago Law Review* 77, no. 1 (2010).

<sup>12</sup> See Judd Metzgar. *An Elected Official's Guide to Economic Development*. (Chicago: Government Finance Officers Association), p. 7.

<sup>13</sup> National Housing Conference. [Tax Abatements: The Basics](#).

- **Property Tax Credits** offset a property's tax liability by a credit amount on the taxpayer's income or sales taxes. The credit is usually linked to investment or job creation targets.
- **Sales Tax Exemptions** offer relief from taxes on certain purchases, such as machinery or construction materials. The purpose is to attract capital investment by lowering basic input-output costs.<sup>14</sup>
- **Investment Tax Credits** provide a credit against corporate income or other business-related tax liability linked to the amount of investment pledged by a business. They are designed to stimulate capital investment.<sup>15</sup>
- **Income Tax Waivers or Credits** waive or reduce corporate income taxes in order to make a location more competitive to investors. They are usually tied to job creation and/or investment targets.<sup>16</sup>

In Illinois, municipalities can also access additional programs instead of TIF, such as federal enterprise zones, State enterprise zones, and Cook County Property Tax Incentives.<sup>17</sup> They can also issue municipal tax-exempt private activity bonds. However, municipalities often prefer to use TIF because of its inherent flexibility of operation, local control over the TIF process, and the fact that TIFs generate more revenue for economic development projects than other programs.

## FINANCING IMPROVEMENTS IN A TIF DISTRICT

Improvements within a TIF district may be financed using a variety of mechanisms. One of the most common methods involves municipal financing through the issuance of **general obligation or revenue bonds**. Taxes levied on increases in the value of the increment within the TIF district are used to pay for bond principal and interest costs. Sometimes the municipality will mitigate risk and reduce interest issuance and interest costs in issuing TIF-related debt by requiring developers to pledge to purchase a portion of the bonds.

Other TIF financing mechanisms include:

- **Pay-as-you-go financing**, in which development and redevelopment costs are paid with revenues generated from increases in TIF increment value. This method keeps project costs relatively low as there are no borrowing costs from issuing debt. However, incremental revenues are unlikely to generate sufficient funds for major infrastructure projects.
- **Developer financing**, in which the developer is responsible for borrowing funds to finance projects. The municipality reimburses the developer from incremental revenues. Therefore,

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<sup>14</sup> Good Jobs First. [Sales Tax Exemptions and Reductions](#).

<sup>15</sup> Cherry Bekaert. [Top 10 States for Credits and Incentives Opportunities](#).

<sup>16</sup> Illinois Department of Commerce and Economic Opportunity. [Incentives and Tax Credits](#).

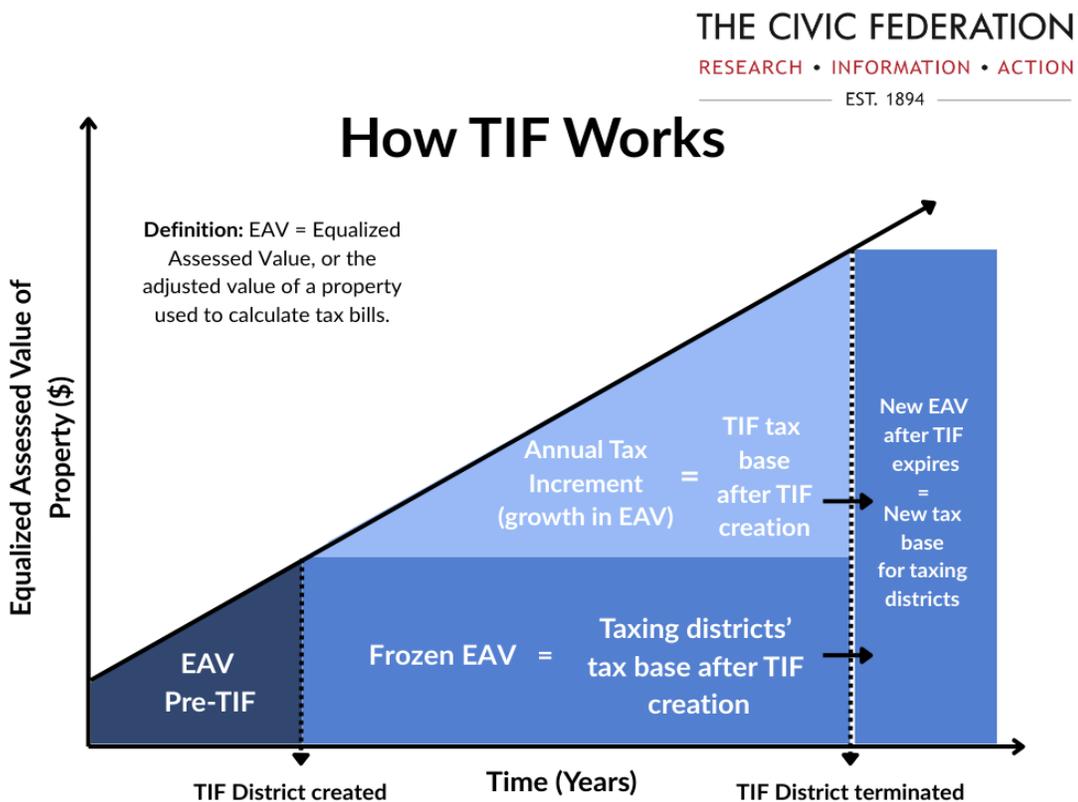
<sup>17</sup> A summary of the Cook County incentive classes can be found in the appendix.

the risk is shifted from the government to the developer. A variation of this method involves the developer providing municipalities with loans to finance projects. The loans are repaid from incremental revenues.<sup>18</sup>

## How TIF Works

In Illinois, both counties and municipalities may utilize TIF financing,<sup>19</sup> although this is most commonly used by municipalities. To create a TIF district, a specifically defined area is first established by a municipality or a designated development authority.

TIF is primarily funded through property tax revenues in Illinois. At the time of the TIF district's creation, the total equalized assessed valuation (EAV), which is the taxable value of property within the district, is measured and frozen. Then, revenues from the incremental growth in property values each year over the frozen baseline amount are used to pay for redevelopment costs. Once a development project is completed and has been paid for, the TIF district is dissolved and the tax base is returned to full use by all eligible taxing bodies (*see graphic below for a visual representation*). In Illinois, TIF is authorized for a period of up to twenty-three years, with the possibility of renewal for an additional twelve years.



<sup>18</sup> Nicholas Greifer. *Tax Increment Financing*. (Chicago, Government Finance Officers Association), pp. 33-34.

<sup>19</sup> Federal Highway Administration. [Value Capture: Tax Increment Financing \(TIF\)](#). Frequently Asked Questions – Tax Increment Financing (TIF) March 2021.

# BEST PRACTICES IN TAX INCREMENT FINANCING

The Government Finance Officers Association (GFOA) has provided best practice guidance on the implementation and evaluation of tax increment financing programs.<sup>20</sup> The following is a summary of those recommendations (*see page 13 for a visual summary of TIF Best Practices*).

## 1) Develop a Formal TIF Policy

Before creating a TIF, local governments should establish a formal TIF policy to guide the creation, implementation, and review of the TIF district projections. The policy is intended to ensure transparency, strategic alignment, and fiscal responsibility.

The policy should articulate strategic objectives regarding what the government intends to achieve through TIF, including:

- Job creation and economic revitalization
- Removal or mitigation of blight
- Support for major infrastructure projects
- Expansion of the local tax base

These objectives should align with the jurisdiction's comprehensive economic development and capital plans.

A TIF policy should clearly specify:

- Eligible uses, such as infrastructure improvements, site preparation, environmental remediation, redevelopment, or mixed-use development.
- Non-eligible uses, such as operational subsidies, projects lacking clear economic benefit, or developments that do not require public support.

TIF policies should outline the criteria that must be met before a TIF district is established, including statutory requirements, alignment with community goals, and evidence that TIF is the most appropriate financing mechanism.

The policy should specify review and approval processes, including application requirements, review timelines, required documentation, and approval authorities.

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<sup>20</sup> Government Finance Officers Association, [Creation, Implementation and Evaluation of Tax Increment Financing](#), adopted 2014.

## 2) Conduct an Evaluation to Assess if TIF is the Appropriate Economic Development Tool

Before designating a TIF district, governments should establish a designated area for economic development and conduct a “but-for” analysis to determine whether development would occur without TIF assistance.

TIF proposals should be carefully evaluated to assess the feasibility of projects. The feasibility evaluation should include the following elements:

An evaluation of Key Project Risk Factors, such as:

- The volatility of the revenue base.
- The history of property tax appeals, collection performance, and delinquency trends.
- Overlapping taxing jurisdictions.
  - Contributions: Which taxing bodies will lose revenue to the TIF, and how much
  - Cooperation: Whether those bodies are aligned, supportive, and effectively working together
  - Exposure: What financial risks each entity faces if the project underperforms or costs more than expected
- Statutory caps on assessed value growth or tax rates that could limit future growth.
- Potential credit rating impacts from increased risk exposure.
- Whether governments can absorb revenue shortfalls or project delays.

A revenue and economic analysis that involves the following elements:

- For property tax TIFs: A review of historic and projected assessed valuation (AV) growth, delinquency rates, and demographic trends.
- For sales tax TIFs: An evaluation of historical sales performance, rate changes, exemption issues, reauthorization risks, and broader economic forecasts.
- Sensitivity analyses that utilize stress-testing assumptions to reflect different economic scenarios.
- Cost/revenue forecasts that calculate expected increment, project costs, and long-term operating needs.
- An assessment of the fiscal impact on the government and other taxing bodies for the entire TIF term.

A formal maintenance plan should be developed to identify long-term costs and the responsible party, whether that is the government or the developer. TIF development agreements must clearly specify:

- The responsibility for project upkeep and maintenance.
- Backup revenue sources in the event that increment revenues are insufficient.
- Reserve requirements.
- Reporting, accounting, and compliance obligations; and

- Any shared risk between the government and developer, such as potential project failure, revenue underperformance, and debt service implications.

Before entering into a TIF agreement, governments must perform rigorous due diligence on developers and private-sector partners to reduce project failure risk, including examining their:

- Financial capacity and liquidity.
- Track record with similar developments; and
- Organizational stability and management capacity.

### **3) Establish TIF Implementation Guidelines**

After a government determines that a TIF is warranted, it should adopt a detailed redevelopment plan that:

- Outlines proposed projects.
- Estimates incremental assessed value growth.
- Defines performance measures and milestones.
- Establishes procedures for monitoring, reporting, and enforcing obligations
- Specifies consequences if performance goals (e.g., job creation, growth in property assessed value) are not met.
- Requires bond covenants to be monitored carefully and assigns post-agreement filing responsibilities.

There should be opportunities for stakeholder and public input for the TIF creation and implementation processes. Multi-jurisdictional districts should consider establishing oversight boards to ensure transparency and coordination.

### **4) Ensure Ongoing Monitoring and Review of TIF Projects**

TIF districts should be reviewed periodically to evaluate whether they are meeting intended goals. Monitoring should include:

- Comparison of actual versus projected tax base, increment, and job creation.
- Assessment of whether development is shifting activity from non-TIF areas.
- Examination of the long-term impact on overlapping taxing jurisdictions.
- Verification of compliance with reporting requirements.
- Clear accountability for monitoring and reporting ensures consistent oversight.

The figure below summarizes the information described above.



# TIF Best Practices

<h2>Formal TIF Policy</h2> <p>A formal TIF policy:</p> <ul style="list-style-type: none"><li>• Guides creation, implementation and review of the TIF district projections</li><li>• Clearly articulates strategic objectives</li><li>• Specifies eligible and non-eligible uses</li></ul>	<h2>Economic Evaluation</h2> <p>To determine if TIF is an appropriate economic development tool, an evaluation should include:</p> <ul style="list-style-type: none"><li>• Key Project Risk Factors</li><li>• Revenue and economic analysis</li><li>• Formal maintenance plan</li></ul>
<h2>Implementation</h2> <p>Guidelines should:</p> <ul style="list-style-type: none"><li>• Outline project proposals</li><li>• Estimate value growth</li><li>• Monitor performance and specify consequences if measures are not met</li><li>• Assigns responsibilities post-filing</li></ul>	<h2>Monitor &amp; Review</h2> <p>Monitor process should:</p> <ul style="list-style-type: none"><li>• Compare actual vs projected tax base, increment, and job creation</li><li>• Assess development shift from non-TIF areas</li><li>• Examine long-term impact on over-lapping tax jurisdictions</li></ul>

## ARGUMENTS FOR AND AGAINST TIF

Policymakers tend to view TIF as operating in one of two ways: “pure attribution” or “pure capture.”

**Pure attribution** refers to the concept that growth in all property value within the TIF happened directly because of the TIF. Advocates for TIF tend to argue that no increase in property values would have occurred “but for” the project. In this view, requiring overlying governments to contribute to TIF financing is reasonable because development costs are shared in proportion to the government’s participation in future revenues.<sup>21</sup>

**Pure capture** refers to the perspective that growth in property value would have happened anyway, even without the TIF. Critics of tax increment financing tend to decry it as a device that “captures” revenue from non-municipal governments from increases in property values that probably would have occurred without the project. In their view, access to TIF encourages municipalities to undertake economic development projects that primarily benefit the municipality because they can be financed with transfers of revenue from other governments. The result is a net loss to overlying governments, such as school districts. TIF is also criticized as merely moving development from one municipality to another, resulting in no net economic gain for a region.

In Illinois, TIF has been very popular with municipal officials seeking creative ways to lure private investment and promote economic development. However, the use of TIF is quite controversial, with critics particularly concerned about the diversion of revenues from overlying governments to municipalities.

A review of the advantages and disadvantages of tax increment financing in the United States, as presented by proponents and opponents, is presented below (*see page 16 for an infographic overview*). There are differences in process and application in states, such as the impact of tax caps in Illinois, that may render some of the advantages and disadvantages moot in certain jurisdictions.

### Advantages of TIF

1. The economic base of a municipality may be strengthened by private economic development that would not have taken place without the TIF incentive.
2. Tax increment financing promotes economic development without tapping into general funds or levying special assessments on property owners.
3. TIF makes it easier for cities to attract private development.

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<sup>21</sup> Roland Calia, “Introduction,” *in Assessing the Impact of Tax Increment Financing in Northeastern Illinois: Empirical Analysis and Case Studies*. (Chicago: Civic Federation, 1997), pp. 1-7.

4. Once private development and the public financing within a TIF district are complete, the permanent increase in economic value becomes part of the tax base for all jurisdictions.
5. TIF is a self-sufficient system. The redevelopment costs are paid for directly by the increased taxes generated from new incremental revenues.
6. TIF will be advantageous to a municipality in the long run since it will attract new industry and commerce, create more jobs, and expand the city's tax base. Other taxing bodies ultimately benefit from these changes.
7. TIF is locally controlled, placing responsibility for development and redevelopment with municipalities.
8. TIF can function as an indirect tax incentive by using increment revenue to fund infrastructure, site preparation, environmental cleanup, or project-based grants and reimbursements that offset development costs and improve project feasibility, thereby reducing a company's net costs.

## **Disadvantages of TIF**

1. TIF enabling statutes typically specify that TIF is to be used to remediate blight or to prevent an area from deteriorating into a blighted situation (a "conservation" area). However, because laws are often vague as to intent or lack standards, municipalities may stretch the definition of "blighted area" or "conservation area" to create TIF districts that could be developed without public subsidies.
2. TIF can effectively freeze much of the tax base of a municipality for 23 to 35 years, while at the same time promoting development that increases service demands (education, police, and fire protection) without necessarily directly supplying revenues to finance them from within the TIF district.
3. Taxpayers outside the TIF district implicitly subsidize services provided in the district during its long redevelopment period. In jurisdictions with tax caps, all taxpayers ultimately subsidize the TIF itself.
4. There is no guarantee that a TIF renewal effort will generate the anticipated new private investment. If the tax increment does not materialize and the tax base fails to meet the expected level, bonds issued will have to be repaid from the city's general fund.
5. The TIF system does not provide for full taxpayer transparency or accountability. Because the operations of redevelopment agencies are often obscure, taxpayers often have little knowledge of and limited control over decisions that significantly affect the amount of tax revenues available to the city, school districts, and other local governments.

6. Non-municipal overlying taxing bodies are often forced to relinquish part of their tax revenues with little say on how the revenues are spent. (However, the impact is relatively minimal in jurisdictions with tax caps that limit the total amount of their property tax revenues regardless of the TIF).
7. Because it is locally based, TIF is not tied to regional planning.

*The figure below summarizes the information described above.*



# TAX INCREMENT FINANCING IN ILLINOIS

This section presents an overview of the operation of TIF in Illinois, including discussions of:

- The statutory authorization for TIF in Illinois.
- The use of TIF in the State.
- The financial impact of TIF on taxpayers.
- The impact of TIF on overlying taxing districts.
- How TIF impacts general State aid to schools; and
- The distribution of surplus funds.

## STATUTORY AUTHORIZATION FOR TIF IN ILLINOIS

The use of tax increment financing in Illinois is authorized by two different statutes:

- **The Tax Increment Allocation Redevelopment Act (TIF Act) of 1977:** This enables governments to establish TIF districts in blighted areas.<sup>22</sup>
- **The Economic Development Project Area Tax Increment Allocation Act of 1995:** Authorizes the use of TIF for the redevelopment of major military facilities being closed by the federal government.<sup>23</sup>

## THE USE OF TIF IN ILLINOIS

As of 2025, there are approximately 1,488 TIF districts in Illinois (*as illustrated in the figure below*).<sup>24</sup>

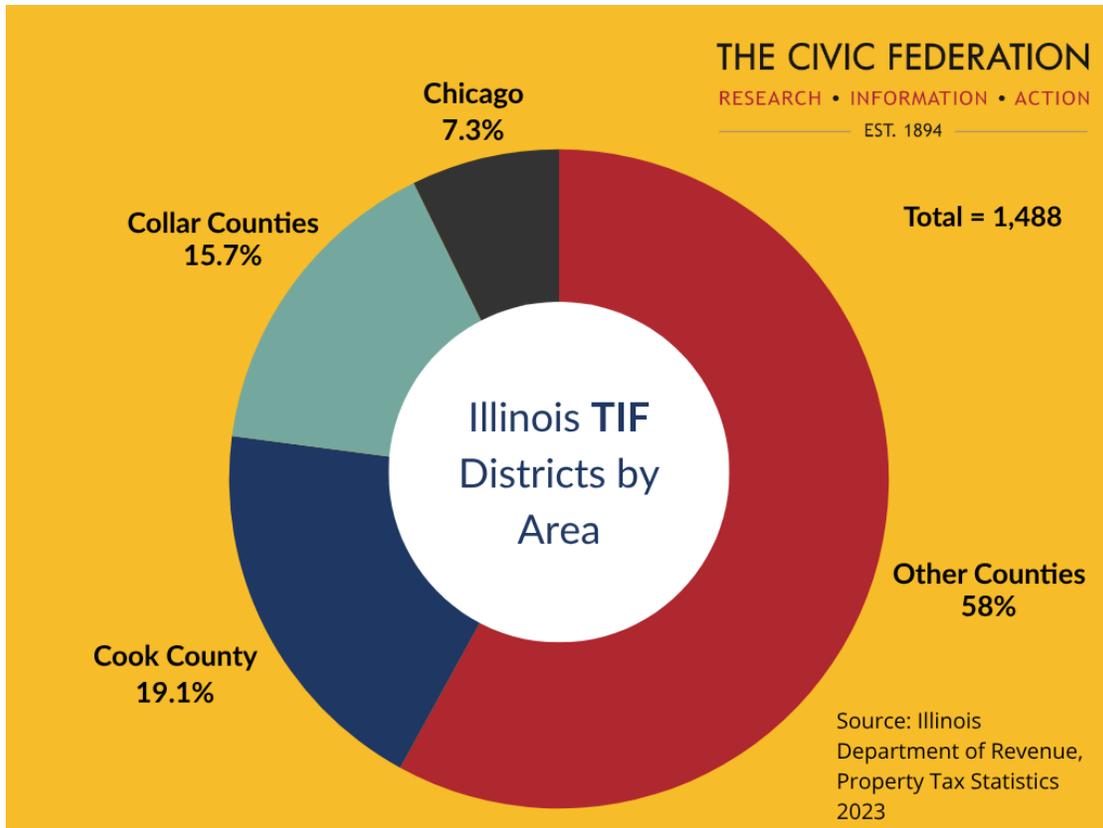
- The City of Chicago had 108 TIF districts, representing 7.3% of the statewide total.
- 284 districts, or 19.1%, were in Cook County outside of the City of Chicago.
- Another 233, or 15.7%, TIF districts were located in the five Collar Counties (DuPage, Kane, McHenry, Lake, and Will).
- The remaining 863 districts, or 58.0%, were located in the State's other 96 counties.

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<sup>22</sup> 65 ILCS 5/11-74.4-1 et seq. —Tax Increment Allocation Redevelopment Act.

<sup>23</sup> 55 ILCS 90/1 et seq. County Economic Development Project Area Tax Increment Allocation Act.

<sup>24</sup> Illinois Department of Revenue. [Property Tax Statistics](#), Table 14A, 2023 Tax Increment Financing (TIF) Districts. In 2023, there were 1,502 TIF districts, but as of 2026 the number of Chicago TIF districts has decreased by 14, reducing the total to 1,488 – see [City of Chicago 2026 Budget Forecast](#), p. 44.



Source: Illinois Department of Revenue, [Property Tax Statistics](#), Table 14A, 2023 Tax Increment Financing Districts.

## FINANCIAL IMPACT OF TIF

### How TIF Impacts Taxpayers

TIF has a direct fiscal impact on property taxpayers. During the life of a TIF district, TIF leads to higher tax rates for the municipality and overlying tax districts. Tax rates are calculated by dividing levies by EAV. Because EAV is frozen within TIF districts, the total EAV of all overlying taxing bodies is less than it would be otherwise. As the EAV figure in the tax rate calculation (the denominator) is smaller, the rate is higher. The consequence is that individual taxpayers pay more than they would have absent the TIF. Once a TIF district is dissolved, however, property taxpayers may benefit because the tax base of all affected governments is substantially increased. This can lead to lower tax rates and, in turn, may reduce tax bills. Whether a reduction occurs, however, is also dependent on and/or how much governments increase their property tax extensions.

## Tax Rate Formula

$$\frac{\text{Government's Property Tax Levy}}{\text{Equalized Assessed Value (EAV)}} = \text{Tax Rate}$$

However, it is incorrect to state that “TIF causes tax increases.” It is reasonable to assume that the municipalities would have spent part or the entire amount currently available for TIF resources from a variety of revenue sources for infrastructure and economic development purposes. Alternative potential revenues could include fees, sales taxes, hotel taxes, or a wide range of other types of revenue enhancements; they could even include property taxes. In sum, eliminating TIF might not necessarily lead to a corresponding decrease in property taxes unless municipalities eliminated or scaled back their property-tax-funded economic development programs and it could lead to other increases in taxes or fees.

### How TIF Impacts Governments

TIF constricts the tax base available to overlapping taxing districts, such as municipalities, school districts, and other special purpose governments, by redirecting the growth in property values within a designated TIF area from the tax base of the governments to the TIF. While this doesn't necessarily limit the amount of revenue the overlying governments can raise through their property tax levies, it diverts the revenue raised from growing property values that otherwise would have been directed to the taxing districts rather than the TIF.

In Illinois, the amount of revenue diverted varies greatly and depends on the property tax laws effective in the respective county. Additionally, there are several mechanisms that overlying taxing districts can access to mitigate at least some of the loss in incremental revenues over the lifespan of the TIF district. They include provisions for distribution of surplus TIF district funds, allowable reimbursements from municipalities to overlying districts, and intergovernmental agreements. Debate continues over the amount of compensation that is provided and whether it is adequate for the overlying districts to meet their obligations.

The financial impact of TIF on overlying taxing districts depends on the property tax system in place. There are three different types of taxing bodies in Illinois:

1. Home rule governments (certain municipalities and Cook County);
2. Non-home rule jurisdictions in counties with tax caps; and
3. Non-home rule jurisdictions in counties without tax caps.

Under Illinois law, a “home rule” government is one that is given significant freedom in the amount and type of taxes it can levy.<sup>25</sup> Home rule governments are not limited by property tax rate limits or tax caps. The final extensions of non-home rule governments, such as school districts, are limited by tax caps and rate limits regarding the amount of property tax revenue they can raise.

The Property Tax Extension Limitation Law (PTELL)<sup>26</sup> or the “tax cap” limits the annual growth of a non-home rule jurisdiction’s tax extension in certain counties to the lesser of 5% or the consumer price index (CPI).<sup>27</sup> Governments initially request a property tax levy. However, after exemptions and limitations such as rate limits and tax caps are applied, the amount of revenue the government actually receives is its extension. Certain parts of a tax extension, such as funds for some types of bonds and building leases, are exempted from tax caps and a tax cap can be increased through voter referendum. Certain parts of the tax base, such as new property (in the first year after its construction) and dissolved TIFs are also exempted from the tax cap calculation.<sup>28</sup> These exempted parts of the levy and EAV provide additional property tax revenue beyond the 5% or CPI annual growth limit.

In addition to tax caps, non-home rule jurisdictions in all counties are subject to **“rate limits”** that can impact the amount of property tax revenue they raise. This is accomplished through a maximum tax rate per governmental fund, not a maximum extension as with tax caps. Since this limits the rate, not the extension, the total extension can increase as total EAV increases.

The impact of rate limits is predominantly experienced in counties without tax caps where many jurisdictions may be near or at their rate limits. In tax-cap-limited counties, the effect of tax caps over time has been to lower the actual rates for each fund, such that rate limits are no longer a limiting factor in the vast majority of these districts.

### **Impact of TIF on Home Rule Jurisdictions**

Home rule governments, such as Cook County, the City of Chicago, and many other municipalities, are not constrained by tax caps. Many of these governments do have self-imposed ordinances that limit their property tax levies. But these ordinances can be amended at the will of the governing body. As a result, TIF has no impact on revenue generated. However, the primary impact is that tax rates may rise.

### **Impact of TIF on Non-Home Rule Jurisdictions in Counties with Tax Caps**

In 39 Illinois counties that have adopted the Property Tax Extension Limitation Law, tax caps limit the amount of property tax revenues that non-home rule taxing bodies, such as the

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<sup>25</sup> See Illinois Municipal League, [Home Rule Overview](#), December 17, 2024.

<sup>26</sup> 35 ILCS 200/18-185.

<sup>27</sup> A tax *levy* is the amount of money a taxing district requests from taxpayers; the corresponding tax *extension* is the amount of money the County Clerk calculates that the taxing district is entitled to after any tax limitations have been applied and the final rate is determined.

<sup>28</sup> The EAV of property “outside the tax cap” (e.g. new property or dissolved TIFs) is subtracted from the total district EAV for calculation of the tax cap rate. This rate is then applied to all EAV in the district, including new property and dissolved TIFs.

Chicago Public Schools, can receive annually. Their extensions are limited to a dollar amount equivalent to an increase from the previous year, that is the lesser of 5% or CPI.<sup>29</sup>

In these jurisdictions, property tax revenues are insensitive to changes in EAV, with the exception of additional revenue available from new property and TIF dissolution. For example, a district with a maximum tax cap extension of \$1 million will receive \$1 million from the existing tax base, regardless of whether the EAV is \$30 million or \$32 million. A tax base of \$32 million would generate a lower tax rate than a tax base of \$30 million since the fixed extension of \$1 million would be spread over a greater denominator. So increased value simply generates a lower tax rate, not additional revenues. Therefore, if TIF districts did not exist, taxing jurisdiction revenues would not increase but tax rates would be lower as the value of taxable property increased.

Because tax-capped, non-home rule jurisdictions cannot access increases in value of existing property within a TIF district, TIF does not have a negative impact on their finances with one limited exception. Simply put, taxing districts cannot “lose” revenues they were never able to access.

The limited exception concerns new property within a TIF district. The tax cap law does exempt new property in the first year after its construction such that this property can be taxed “outside the cap.” Therefore, the taxing body does potentially “lose” some tax revenues. However, the jurisdiction can only truly have “lost” revenues attributable to new construction that would have occurred even in the absence of the TIF district. It is unreasonable to assume that the TIF had **no** impact on new construction. It is impossible to prove or disprove what new construction would have occurred in the absence of TIF, thus any claims regarding truly “lost” revenue are limited to speculation. However, it is fair to say that this “loss” would only represent a fraction of total taxable TIF property value.

When a TIF district is dissolved, the tax-cap-limited overlying taxing districts receive a **one-time** increase in revenues as the frozen increment is restored to the tax rolls outside the tax cap. This infusion of revenues boosts the extension by more than 5% or CPI in one year. In subsequent years, the new (higher) base extension will continue to grow by no more than the lesser of 5% or CPI unless the jurisdiction voluntarily reduces its extension or holds the extension flat.

Taxing districts limited by tax caps receive a benefit from the TIF that becomes apparent when TIF districts are dissolved. As discussed above, the incremental growth of existing properties’ EAV does not increase revenues for tax-cap-limited districts because the growth is under the tax cap. However, when this incremental growth within a TIF is returned to the tax rolls at TIF

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<sup>29</sup> Keith Staats, “Uncapping’ Illinois’ Property Tax Extension Limitation Law,” Insight Magazine, Tax Decoded – Winter 2022. For more information about the Property Tax Extension Limitation Law, see the Civic Federation and Mansueto Institute’s [Property Tax Limitations in Practice: What the Data Reveals about Property Tax Caps in Cook County](#), November 12, 2025.

dissolution, it is outside the tax cap for one year and thus serves to boost property tax revenues in a way it could not as simple incremental growth of existing property.

In summary, the tax cap law limits total property tax extensions for certain governments regardless of changes in property value. They receive the maximum amount they are entitled to under the tax cap law, regardless of the presence of TIF, with a few limited exceptions.

### **Impact of TIF on Non-Home Rule Jurisdictions in Counties Without Tax Caps**

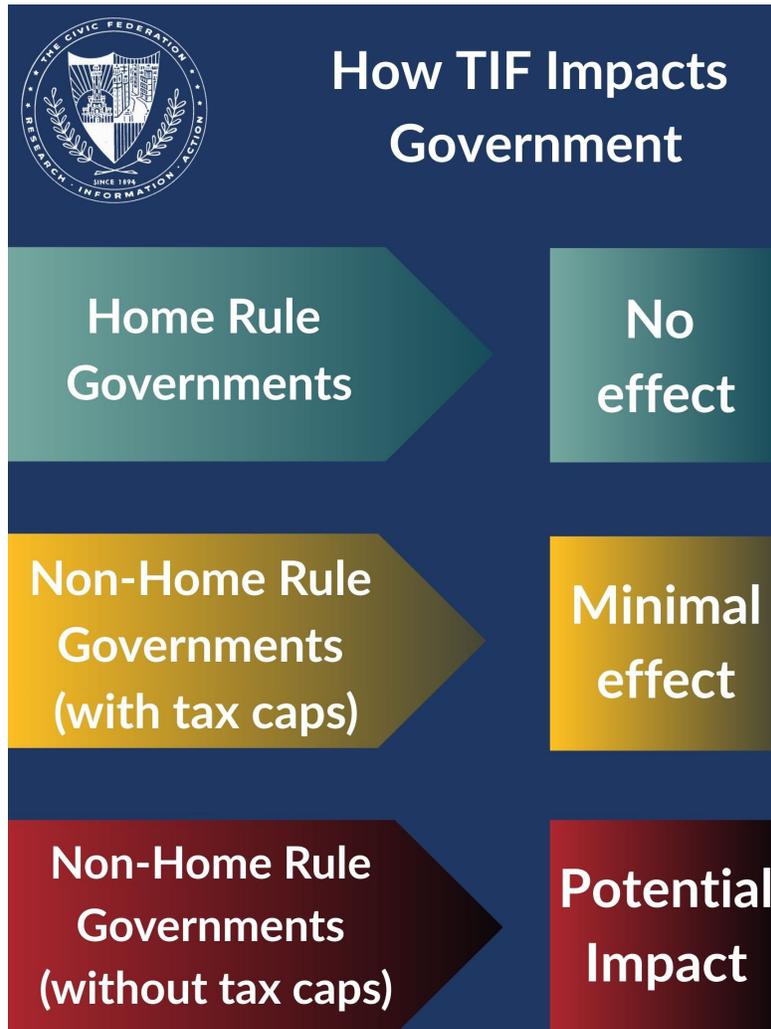
TIF can have the greatest financial impact on non-home rule jurisdictions in the 63 Illinois counties that have not adopted tax caps because of the effects of rate limits. Rate limits impose a maximum tax rate on certain individual government funds, such as a school district's Education Fund. Rate limits are different than tax caps, which impose a ceiling on extensions. "Rate limited" district revenues are very sensitive to changes in EAV. For example, a fund with a rate limit of 2% will receive \$2 from \$100 of EAV, or \$2.20 from \$110 of EAV.

Rate limits can reduce the amount of revenues available to non-home rule governments. Many, if not most, jurisdictions' funds are near or at their rate limits in counties that do not impose tax caps. Because a portion of a taxing district's EAV is frozen, the total amount of district EAV is less than it would be without the presence of TIF, further increasing tax rates and often pushing rates to their limits. The result is that the taxing district may forego more revenues than it would have without the presence of TIF. Even districts with funds not at their rate limits will reach those limits faster than they would have without the presence of TIF and thus be forced to forego some revenues.

Overlying jurisdictions are also very sensitive to the fact that the amount of EAV they can tax within a TIF district is frozen for many years. If one assumes that there would have been some minimal amount of EAV growth in the area **even if** the TIF had not been created to spur development, the taxing district clearly forgoes some property tax revenue due to the frozen EAV of the TIF.

In summary, non-home rule jurisdictions in counties without tax caps may be forced to forego revenues due to TIF if they are already at or near their statutory tax rate limits. Because TIF freezes available EAV, this can increase property tax rates and push districts toward their rate limits. In such cases, the county clerk must reduce the district's levy to remain within the statutory rate cap, resulting in a loss of otherwise available revenue. This situation applies to the 63 downstate counties that have not adopted tax caps.

The figure below summarizes the information described above.



### How TIF Impacts School Funding

Much of the debate around Tax Increment Financing (TIF) focuses on its fiscal impact on school districts. This section examines how TIF interacts with the amount of Evidence-Based Funding (EBF) a district receives from the State of Illinois.

The Evidence-Based Funding for Student Success Act (2017) consolidated five previous grant programs—General State Aid (GSA), Special Education (personnel, services, and summer school), and English Learner Education—into a single funding formula designed to promote more equitable funding, particularly for under-resourced districts.

EBF funding is calculated in three stages: (1) the adequacy target, representing the estimated cost of educating students based on EBF investments; (2) local resources, primarily determined

by property wealth as measured by EAV, compared against the adequacy target; and (3) state supplemental funding to help districts meet their adequacy targets.<sup>30</sup>

Despite EBF's intent to increase equity, local property wealth continues to influence available resources. Districts in areas with higher property values generate more local revenue at the same tax rate, while TIF districts freeze taxable EAV within the TIF at a base level, limiting the growth of locally available revenue.<sup>31</sup>

Under EBF, reporting of TIF-related subsidies was simplified compared to the previous GSA formula, which had allowed certain districts to underreport property values and potentially receive more state aid. The "hold harmless" provision ensures that no district receives less funding than it did under GSA.<sup>32</sup>

Because TIFs freeze the base EAV for overlapping taxing bodies, school districts do not capture the growth in property value within TIF districts.<sup>33</sup> Since the EBF formula calculates a school district's local capacity target using available EAV, school districts with substantial TIF property may appear to have lower local capacity due to the limited EAV available and therefore qualify for a higher state share of funding. However, the increase is not dollar-for-dollar and depends on factors such as the district's tier status, adequacy level, other local revenues, and the relative size of the TIF footprint. The impact is generally more significant in districts that are further from adequacy and have large concentrations of TIF property.<sup>34</sup>

## OTHER WAYS TIF IS DISTRIBUTED

TIF funds may be allocated to overlying governments in a number of ways, including surplus fund distributions and reimbursements for costs incurred due to the presence of the TIF district.

### TIF Surplus Funds

TIF-related debt obligations issued by a municipality are secured by a special tax obligation fund funded by property taxes, sales taxes, or other designated revenues. Money in the special tax obligation fund is pledged by the municipality to pay for the principal and interest on bond obligations or to directly pay TIF-eligible costs. If there is excess money in the fund annually after funds have been pledged, it is considered to be surplus.

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30 105 ILCS 5/18-8.15 (School Code), Illinois State Board of Education. [Evidence-Based Funding Distribution Calculation](#) and Illinois State Board of Education. [Understanding Evidence- Based Funding](#).

31 105 ILCS 5/18-8.15(d)(3)(B).

32 Illinois State Board of Education. [Understanding Evidence- Based Funding](#)

33 20 ILCS 620/7 — *Economic Development Area Tax Increment Allocation Act*

34 65 ILCS 5/11-74.4-8 (allocation of incremental EAV to TIF fund) and 105 ILCS 5/18-8.15(b), (c), (j) (Local Capacity Target, Adequacy Target, and Tier distribution provisions).

Under the terms of the TIF Act, surplus funds must be calculated annually and distributed to overlying taxing districts within 180 days at the end of the municipal fiscal year. The funds must be distributed on a *pro rata* basis – they cannot be directed to a single or select group of overlying taxing districts.<sup>35</sup>

## Reimbursements to Overlying Districts

The TIF Act permits municipalities to reimburse overlying taxing districts in four ways:

1. **Payments in lieu of taxes.** Municipalities are authorized to make payments in lieu of taxes during a time in which the municipality owns land that is to be used for private development. The language of the TIF Act, affirmed in subsequent court rulings, requires that these payments be made on a *pro rata* basis to all affected taxing districts.<sup>36</sup>
2. All or a portion of a taxing district's **capital costs** resulting from the redevelopment of the project.<sup>37</sup> The TIF law allows municipalities to use TIF dollars for improvements to parks, schools, or other eligible facilities if they are located in an area adjacent to a TIF district or separated from a TIF district by a public right of way.<sup>38</sup>
3. The **costs of training, retraining, or advanced vocational or career education** incurred by a taxing district. These costs must be specified as being related to the training of persons who are or will be employed within the TIF district.<sup>39</sup>
4. The increased **cost of housing units** brought about by the redevelopment plan. The governments most impacted by increases in housing units are libraries and school districts, and there are specific remedies in the TIF Act for both.

## Reimbursing Library Districts for Housing Unit Costs

Illinois law authorizes reimbursement to public library districts for increased operating costs attributable to TIF-assisted, publicly subsidized housing.<sup>40</sup> A library district located in a PTELL ("tax cap") county, or a county otherwise prohibited from increasing its extension without referendum, may annually claim reimbursement when a developer receives TIF assistance or the municipality funds necessary infrastructure for the housing; the payment is calculated based on the net increase in eligible library users multiplied by the library's per-capita operating cost (capped at \$120 per person) and is further capped at no more than 2% of the tax increment produced by the assisted housing and deposited into the Special Tax Allocation

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<sup>35</sup> 65 ILCS 5/11-74.4-7

<sup>36</sup> See 65 ILCS 5/11-74.4-4(1) and *Henry County Board v. Village of Orion* (278 Ill. App.3d 1058, 663 N.E.2d 1076), 1996.

<sup>37</sup> "To the extent the municipality by written agreement accepts and approves the same, all or a portion of a taxing district's capital costs resulting from the redevelopment project necessarily incurred or to be incurred within a taxing district in furtherance of the objectives of the redevelopment plan and project." See 65 ILCS 5/11-74.4-3(q).

<sup>38</sup> Neighborhood Capital Budget Group, NCBG's TIF Almanac, p. 22.

<sup>39</sup> Bell, Boyd and Lloyd, LLC. "Illinois Authority on Tax Increment Financing ("TIF") Make-Whole Agreements," September 17, 2003. Memo for the Illinois Tax Increment Association, p. 6.

<sup>40</sup> Public Act 93-961 and 65 ILCS 5/11-74.4-3(7.7).

Fund, with annual documentation requirements and a waiver of the right to challenge the TIF upon acceptance.<sup>41</sup>

## Reimbursing School Districts for Housing Unit Costs

Illinois law allows, but does not require, municipalities to reimburse school districts for increased educational costs attributable to TIF-assisted housing units. School districts may seek an annual payment from TIF incremental revenues when they can demonstrate that housing units receiving TIF assistance have generated net new pupils and increased instructional costs. The provision applies statewide, but it is not automatic and must be affirmatively claimed by the district.<sup>42</sup>

The statute establishes a specific reimbursement calculation: the number of net new pupils residing in TIF-assisted housing is multiplied by the school district's per-capita tuition charge, and the resulting amount is reduced by any increase in State aid attributable to those students (which today operates through the Evidence-Based Funding formula). Under 65 ILCS 5/11-74.4-3(7.5), the TIF Act uses a district's per-capita tuition cost as a cost-proxy within the reimbursement formula to estimate the incremental cost of educating net new students from TIF-assisted housing, not as a tuition charge to families, and it applies based on net new enrollment regardless of residency status.

Reimbursement is further limited by percentage caps tied to district type and historic tuition levels, generally limiting payments to a defined share of the property tax increment generated by the assisted housing. As a result, reimbursements rarely cover the full cost of educating additional students.

School districts must annually submit documentation supporting their claims, and failure to meet statutory deadlines results in forfeiture of reimbursement for that year. By accepting reimbursement, a school district waives its right to challenge the establishment of the TIF district or redevelopment project area, reinforcing that this mechanism functions as a mitigation tool rather than an entitlement.

The TIF reimbursement provision operates outside Illinois' Evidence-Based Funding (EBF) system. Under EBF, a district's State aid is determined by its adequacy target and local capacity, and property value growth within a TIF district is excluded from local capacity calculations while the TIF is active. To prevent double counting, the TIF Act requires that any increase in State aid attributable to new students be subtracted from the TIF reimbursement calculation. TIF reimbursements therefore do not affect a district's EBF tier or State aid entitlement and instead function as limited, project-specific mitigation payments, while EBF addresses system-wide adequacy and equity.

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<sup>41</sup> 65 ILCS 5/11-74.4-3(7.7).

<sup>42</sup> Illinois Municipal Code, Tax Increment Allocation Redevelopment Act, 65 ILCS 5/11-74.4-3(7.5)(school district reimbursement for TIF-assisted housing) and Illinois School Code, Evidence-Based Funding formula, 105 ILCS 5/18-8.15.

## Intergovernmental Agreements

Intergovernmental agreements (IGAs) between municipalities, school districts, and other taxing bodies are authorized under the Illinois Intergovernmental Cooperation Act<sup>43</sup> and the Illinois Tax Increment Allocation Redevelopment Act (TIF Act).<sup>44</sup> The Intergovernmental Cooperation Act permits public agencies to contract with one another to jointly exercise powers they are otherwise authorized to perform. The TIF Act further authorizes municipalities to enter into agreements that are “necessary or incidental to the implementation of and furtherance of” an adopted redevelopment plan and redevelopment project.<sup>45</sup>

There are many ways school districts or other taxing bodies may receive compensation related to redevelopment activity within a TIF district through an intergovernmental agreement. Commonly used mechanisms include:

- The use of TIF revenues for school-related capital improvements.
- Municipal funding of infrastructure serving new or expanded school facilities.
- Amendments to reduce the geographic scope of a TIF district or return parcels to the tax rolls.
- Early termination of a TIF once redevelopment obligations have been satisfied.

Municipalities may also issue bonds, including general obligation bonds where authorized, to support redevelopment activities that benefit school facilities, provided statutory procedures governing TIF obligations and surplus distributions are followed.<sup>46</sup>

Other arrangements, such as payments based on student enrollment measures (e.g., ADA-based “make-whole” payments), contributions toward job training programs, fixed per-unit payments associated with residential development, or sharing of non-TIF revenues such as sales or income tax, are not expressly authorized by the TIF Act but may be legally permissible if structured as voluntary, contractual agreements that further redevelopment objectives and comply with applicable limits on municipal taxing and spending authority under Illinois law.<sup>47</sup> These intergovernmental agreements are separate from and do not replace the statutory school district reimbursement mechanism for TIF-assisted housing (see above).

## TIF DESIGNATION PROCESS IN ILLINOIS

The TIF process begins with identifying the district boundaries and the problems that the TIF district is intended to fix. An eligibility study is then commissioned to provide an assessment of the area in question. It is intended to demonstrate that the area under consideration meets the eligibility criteria described in the TIF Act. The designation of an area as a TIF district requires the following steps (*as illustrated in the figure below*):

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<sup>43</sup> 5 ILCS 220/1 et seq.

<sup>44</sup> 65 ILCS 5/11-74.4

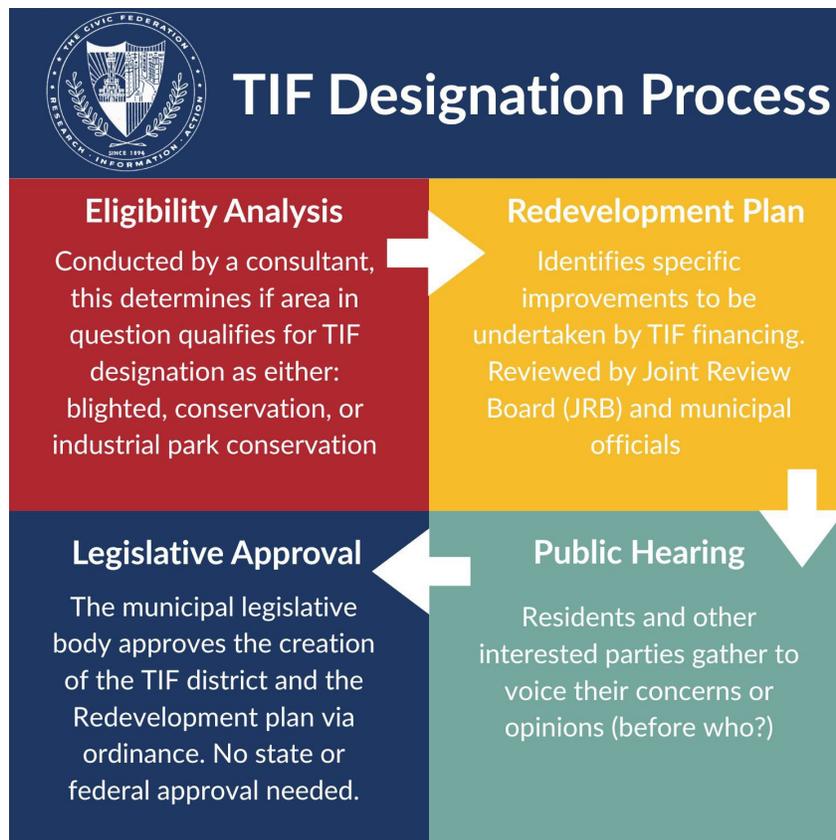
<sup>45</sup> 65 ILCS 5/11-74.4-4(c)

<sup>46</sup> 65 ILCS 5/11-74.4-7.

<sup>47</sup> 5 ILCS 220/1 et seq. and 65 ILCS 5/11-74.4-4(c).

1. An **eligibility analysis**, usually conducted by a consultant, establishes that the area in question qualifies for TIF designation. Through the eligibility analysis, the area must be declared as one of the following: 1) “blighted;” 2) a conservation area; or 3) an industrial park conservation area. Each has different eligibility requirements (discussed further below).
2. The municipality prepares a **Redevelopment Plan** that identifies specific improvements to be undertaken with TIF financing. Municipal officials and a Joint Review Board (JRB) made up of representatives from local taxing bodies review the Redevelopment Plan.
3. A **public hearing** is held where residents and other interested parties can express opinions.
4. The **municipal legislative body approves** the creation of the TIF district and the Redevelopment Plan in an ordinance. No state or federal approval is required.

The eligibility criteria that must be met for TIF district designation were substantively revised in the 1999 TIF Reform law.<sup>48</sup> Several former criteria were eliminated (e.g., age, depreciation of physical maintenance as blight criteria), others were added (e.g. multi-year declining EAV). The use of TIF to develop golf courses was banned.



<sup>48</sup> Public Act 91-478 (effective November 1, 1999).

## Eligibility

### Eligibility Criteria for Designation as a Blighted Area

To be eligible for TIF designation as “blighted,” the identified TIF area must contain at least five of the thirteen conditions listed below that make it detrimental to the public safety, health or welfare of a community:

1. Dilapidation;
2. Obsolescence;
3. Deterioration;
4. Excessive vacancies;
5. Illegal use of individual structures;
6. Structures below minimum code standards;
7. Excessive land coverage and overcrowding of structures and community facilities;
8. Lack of ventilation, light or sanitary facilities;
9. Inadequate utilities;
10. Deleterious land use or layout;
11. Environmental clean-up;
12. Declining equalized assessed value; or
13. Lack of community planning.

Each of the five or more conditions must be present, “with that presence documented, to a meaningful extent...” and “reasonably distributed throughout the improved part of the redevelopment project.”<sup>49</sup>

For vacant properties to be designated as “blighted,” they must demonstrate a combination of two or more of the following six factors:<sup>50</sup>

1. Obsolete platting of land;
2. Diversity of ownership;
3. Tax and special assessment delinquencies;
4. Deterioration of Structures or site improvements in neighboring areas adjacent to the vacant land;
5. Environmental contamination; or
6. Lack of growth in equalized assessed value.

Eligibility for vacant land can also be established based on factors that would have qualified the land as blighted before becoming vacant. Building records must be reviewed to determine that at least five of the thirteen eligibility requirements needed to establish blight were present prior to demolition.<sup>51</sup>

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<sup>49</sup> 65 ILCS 5/11-74.4-3 (a)(1)(I and ii).

<sup>50</sup> 65 ILCS 5/11-74.4-3 (a)(2).

<sup>51</sup> 65 ILCS 5/11-74.4-3 (a)(3).

### Eligibility Criteria for Designation as a Conservation Area

A conservation area is any area within the boundaries of a redevelopment project in which 50% or more of the structures have an age of 35 years or more. These areas are not yet considered blighted, but at risk of becoming blighted if the conditions are not rectified. At least 3 of the following factors must be documented:

1. Dilapidation;
2. Obsolescence;
3. Deterioration;
4. Excessive vacancies;
5. Illegal use of individual structures;
6. Structures below minimum code standards;
7. Excessive land coverage and overcrowding of structures and community facilities;
8. Lack of ventilation, light or sanitary facilities;
9. Inadequate utilities;
10. Deleterious land use or layout;
11. Environmental clean-up;
12. Declining equalized assessed value;  
or
13. Lack of community planning

### Eligibility Criteria for Designation as an Industrial Park Conservation Area

To be eligible for designation as an industrial park conservation area, an area must meet three criteria:

- The area is within the boundaries of a municipality that is a “labor surplus” municipality (i.e., has an unemployment rate over 6% and is also 100% or more of the national average unemployment rate) or within 1 ½ miles of the boundaries of a municipality that is a labor surplus municipality if that area is annexed to the municipality.
- The area is zoned as industrial by the time the ordinance is approved designating the redevelopment project area.
- The area includes both vacant land suitable for use as an industrial park and a blighted or conservation area contiguous to such vacant land.<sup>52</sup>

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<sup>52</sup> 65 ILCS 5/11-74.4-3 (d) and (e).



The figure below summarizes the information described above.



## Redevelopment Plan

The eligibility analysis is accompanied by a Redevelopment Plan that lays out a comprehensive program plan for the development or redevelopment of a designated project. The Redevelopment Plan outlines the justification, scope, financing, intended outcomes of the TIF district, and specific projects to be undertaken.

The eligibility analysis and the Redevelopment Plan required by the State to establish a TIF in Illinois must provide evidence that the proposed use of TIF will satisfy the **“but for”** test. The but for test is intended to show that economic development activity in an area would not have occurred “but for” the tax incentives offered given the prevailing market conditions.<sup>53</sup>

The Redevelopment Plan includes the following elements (*as illustrated in the figure on page 33*):

- The proposed boundaries of the TIF district.
- The Redevelopment Plan’s goals, objectives and strategies.
- A Financial Plan that includes a budget detailing estimated redevelopment project cost, sources of funds that will be used to pay those costs, and a projection of increases in equalized assessed valuation over the life of the TIF district.
- A section entitled Required Findings and Tests that presents evidence of the need for the use of TIF financing, a description of how the TIF district will conform to the City’s comprehensive land use plan, a list of the dates of completion for projects and the retirement of debt, and an analysis of the financial impact of the new TIF district on overlying taxing bodies.
- A description of the process required to amend the Redevelopment Plan.

The types of costs that may be reimbursed from TIF funds are:<sup>54</sup>

- Property assembly and acquisition;
- Rehabilitation or renovation of existing public or private buildings;
- Construction of public works or improvements;
- Job training, advanced vocational education or career education;
- Relocation costs;
- Payments in lieu of taxes;
- Financing costs, including interest costs related to construction,
- renovation or rehabilitation of a redevelopment project;
- Studies, survey and plans;
- Professional services such as architectural, engineering, legal, property marketing and financial planning;
- Demolition and site preparation;
- Day care services;<sup>55</sup> and
- Reimbursements to school districts for assisted housing redevelopment.

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<sup>53</sup> 65 ILCS 5/11-74.4-3.

<sup>54</sup> 65 ILCS 5/11-74.4-3 (q).

<sup>55</sup> Day care services are allowable costs to be paid out of TIF funds if the redevelopment project is located within a municipality of more than 100,000 (for children of employees from low income families working for businesses located within the redevelopment project area and all or a portion of the cost of operating day care centers to serve low income families working in businesses in the redevelopment project area).

Upon completion, the Redevelopment Plan is reviewed by municipal officials and a Joint Review Board made up of representatives from local taxing bodies and a citizen member representing the community. The Redevelopment Plan must be made available for public review and inspection 45 days prior to a public hearing. At that hearing, residents and other interested parties can express opinions.

The final step is for the municipal legislative body to approve the creation of the TIF district and the Redevelopment Plan in an ordinance.

A registry of interested residents and organizations must be created for each TIF district and notice of important TIF activities shall be sent to those registered.

*The figure below summarizes the information described above.*



## Reviewing and Monitoring TIF Districts

In Illinois, TIF district activities are primarily overseen by the municipal government that established them, not the State. State law requires each TIF district to establish a Joint Review Board (JRB) that must meet annually to review the status of development and redevelopment projects. JRBs are advisory only. The municipality provides administrative support to the JRB. The JRB membership includes a public member and representatives from local property tax levying governments: community college districts, elementary and high school districts, park districts, library districts, townships, fire protection districts, the county government and the municipality.

A 1999 TIF reform law<sup>56</sup> institutionalized and expanded the role of the Joint Review Boards to standardize them as part of the TIF oversight process and expand their scope. In addition to reviewing the eligibility qualifications of the TIF area, JRBs also annually reassess the development and financial performance of the TIF. If there are any major changes to the Redevelopment Plan the JRB must hold a public hearing prior to adoption of the changes.

If the JRB disapproves of a TIF designation, the municipality must obtain 60% approval from the municipal legislative body to move forward with establishing a new TIF district or making a major change to an existing TIF district.

All TIF districts are required to file annual financial reports with the State Comptroller's Office and make the report available to each overlying taxing body and the public. The format of the reports is specified in the TIF statute and requires information such as revenues, expenditures, fund balances, debt and outstanding obligations, development project information, and property tax information. These reports are available on the State Comptroller's website.<sup>57</sup>

## TIF District Duration

TIF districts are authorized for a period of 23 years. Any TIF district may be terminated earlier by the municipality if all financial obligations are paid off and the municipal governing board votes to terminate the district. If no redevelopment project has been initiated within seven years following TIF district designation, the municipality must repeal the TIF.<sup>58</sup>

A TIF district may be extended for 12 years beyond the original 23 year authorization period. The extension must be approved by the General Assembly. Municipalities seeking extensions must provide some documentation of the need for the time extension and an indication of support from overlying governments, particularly school districts, in support of the extension.<sup>59</sup>

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<sup>56</sup> Public Act 91-478 (effective November 1, 1999)

<sup>57</sup> See Illinois State Comptroller's [Tax Increment Financial Reports](#).

<sup>58</sup> 65 ILCS 5/11-74.4-3.5

<sup>59</sup> 65 ILCS 5/11-74.4-3.5

## **Amending the Redevelopment Plan**

The TIF Redevelopment Plan can be amended during the life of a TIF district. Minor changes simply require notification of all overlying taxing bodies and the public through publication in a newspaper of general circulation prior to enactment of the changes. Major changes, however, require review by municipal authorities and another public hearing. Major changes would include adjustments such as adding property parcels to the TIF district, changing land use, changing the nature of the TIF, or increasing the cost of the plan by more than 5% (after accounting for inflation).

## **Transferring Funds between TIF Districts**

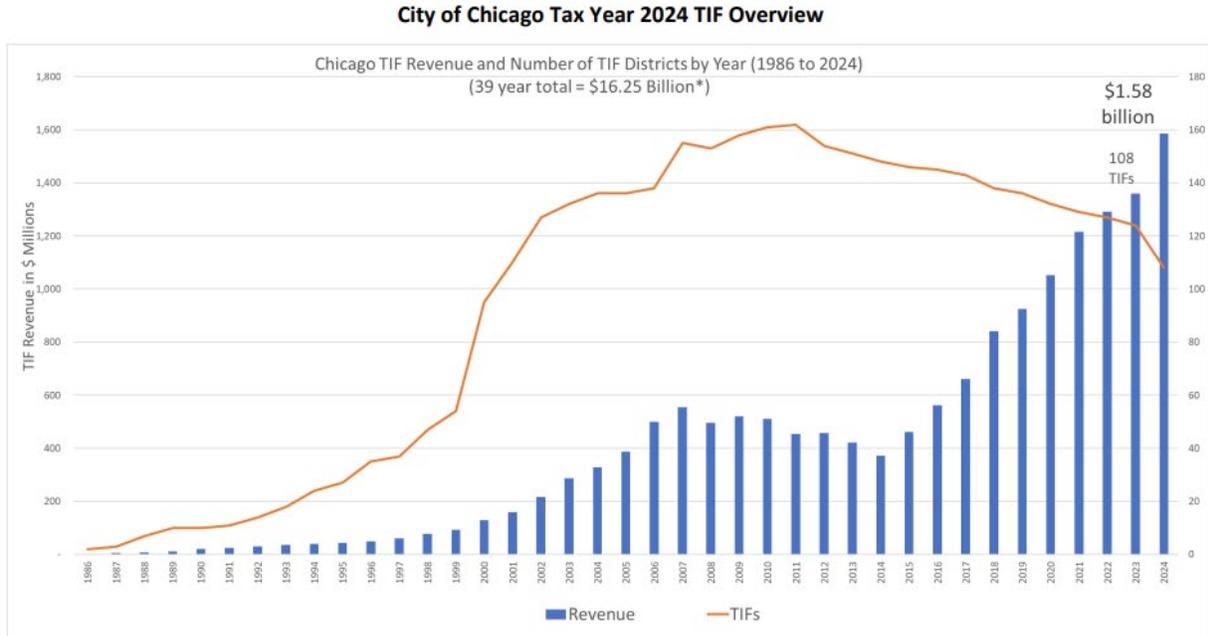
The TIF Act permits “porting,” or transferring funds between TIF districts if they are contiguous or separated by a public right-of-way. The funds can only be used for TIF-eligible expenditures. This gives municipalities the flexibility to redistribute excess TIF funds to nearby districts, as long as the funds are used for costs identified in the TIF Redevelopment Plan.<sup>60</sup>

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<sup>60</sup> 65 ILCS 5/11-74.4-4(q)

# TAX INCREMENT FINANCING IN CHICAGO

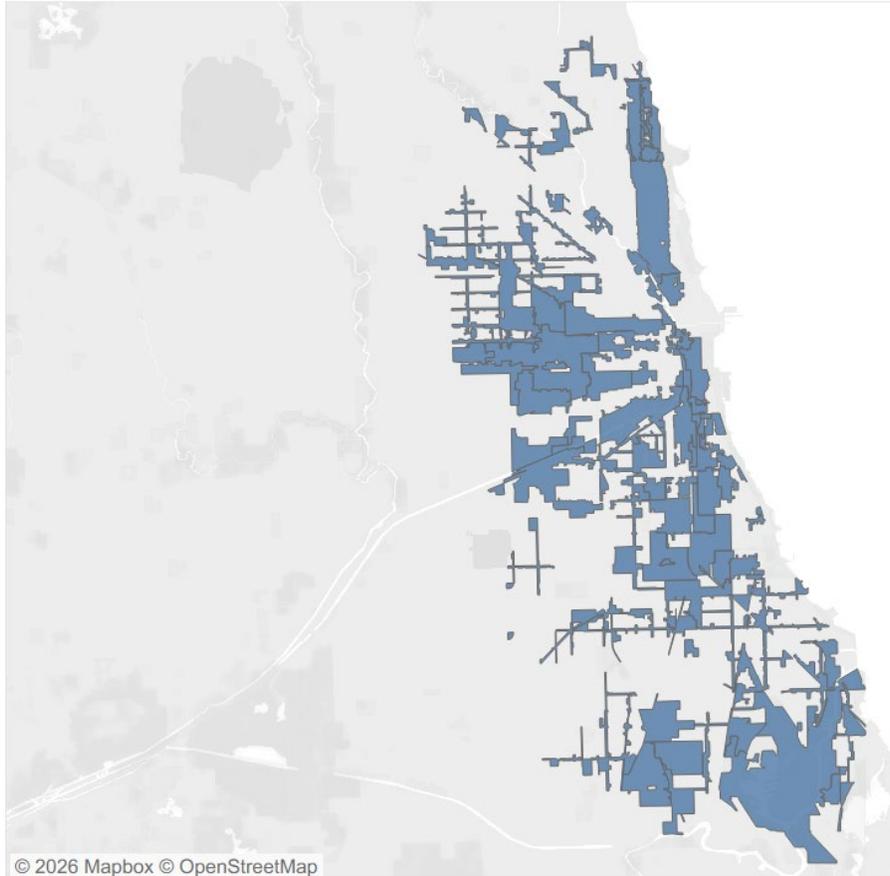
The first tax increment financing district in Chicago was the North Loop TIF district, initiated in 1984. Since then, the number of Chicago TIF districts has mushroomed, rising to a high of 163 in 2011. More recently, the number of TIF districts in Chicago has declined as districts begin to expire. Currently, there are 108 active TIF districts within Chicago. The number of TIF districts in the City through 2024, along with TIF revenues generated, are shown in the graph below.



Source: [Cook County Clerk 2024 TIF Report, p. 24.](#)

TIF districts are located all throughout the City of Chicago, as shown in map below. About a quarter of all properties in the City are located within a TIF area.<sup>61</sup>

### Chicago's TIF Districts



Source: Civic Federation, based on [City of Chicago 10-Year TIF Projections 2025 Mid-Year Report](#).

## TIF DISTRICT PROPERTY VALUES

Since TIFs freeze the equalized assessed valuation (EAV) of property at the time of their creation, the incremental property value within TIFs tends to rise by far more than the rest of the EAV in the City. The figures below show the growth in total EAV compared to growth in TIF increment, as well as the total revenue raised by the TIFs over two time periods: first the one-year growth between 2023 and 2024, and growth over the ten-year period between 2015 and 2024.

Between 2023 and 2024, the EAV of all Chicago TIF Districts increased by 2.61%, or about \$1.1 billion, to \$42.7 billion in 2024. The frozen valuation of the City of Chicago TIF Districts

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<sup>61</sup> [Cook County Clerk 2024 TIF Report, p. 24.](#)

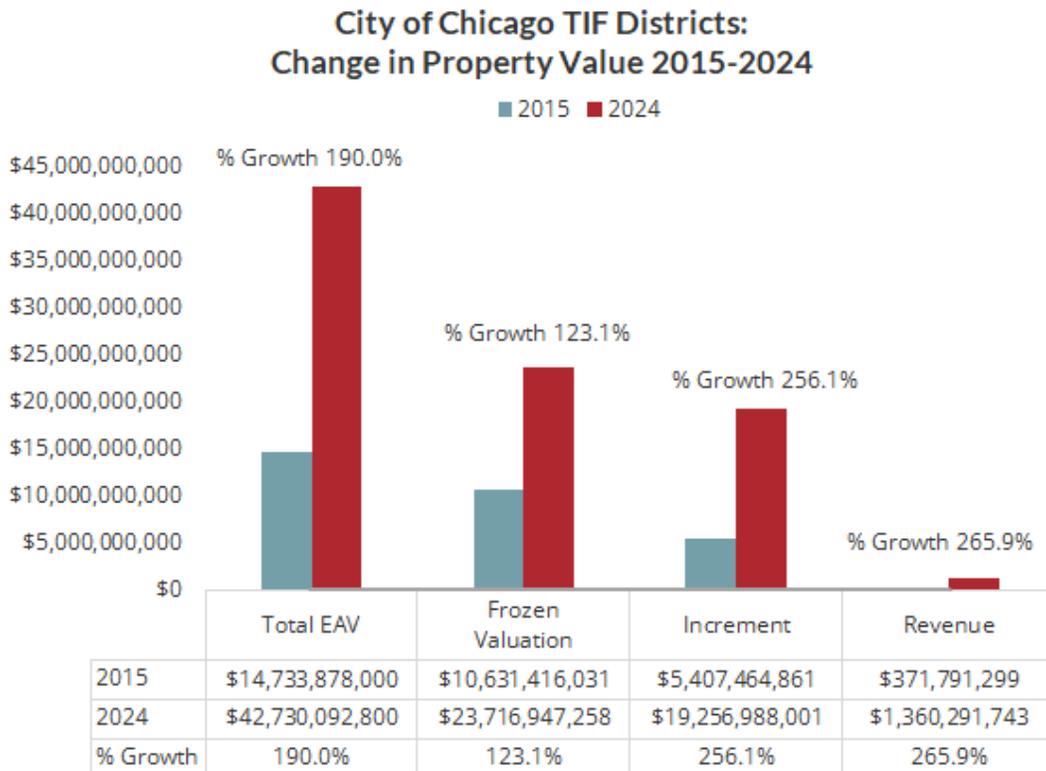
decreased by 0.23%, or approximately \$54 million to \$23.7 billion. The value of citywide TIF district increment increased by 5.95%, or about \$1.1 billion to \$19.3 billion in 2024. Overall revenue to TIF districts increased by 5.35% between 2023 and 2024 to \$1.4 billion.

**City of Chicago TIF Districts Change in Value of Property 2023-2024**

Year	Total EAV	Frozen Valuation	Increment	Revenue
2023	\$41,641,441,086	\$23,771,047,288	\$18,176,074,062	\$1,291,171,481
2024	\$42,730,092,800	\$23,716,947,258	\$19,256,988,001	\$1,360,291,743
<b>Growth in Dollars</b>	\$1,088,651,714	-\$54,100,030	\$1,080,913,939	\$69,120,262
<b>% Growth</b>	2.61%	-0.23%	5.95%	5.35%

Source: Cook County Clerk, *Tax Agency Reports*, 2022 and 2023.

Comparisons of changes in Equalized Assessed Valuation (EAV), frozen valuation and increment of Chicago’s Tax Increment Financing Districts over the ten-year period between 2015 and 2024 are shown below. During this ten-year period, TIF district EAV increased by 190%, or by about \$28.0 billion in dollar growth. This was an increase from the original value of \$14.7 billion in 2015 to \$42.7 billion in 2024. The frozen valuation included in the TIF districts increased by 123%, or approximately \$13.1 billion, from \$10.6 billion in 2015 to \$23.7 billion in 2024. The value of the increment within the City of Chicago TIF Districts increased by 256%, or about \$13.8 billion. This was an increase from \$5.4 billion in 1986 to \$19.3 billion in 2024. Overall revenue to TIF districts increased by 266% between 2015 and 2024, or \$989 million. This was an increase from \$372 million in 2015 to \$1.4 billion in 2024.



Source: Cook County Clerk, *Tax Agency Reports*, 2015 and 2024.

## TRANSIT TIFS

Transit TIFs collect revenue the same way as normal TIF districts. However, they have several statutory differences. First, transit TIFs are only legally permitted to utilize their funds for transit-related projects such as maintenance, station development, or storage facilities.<sup>62</sup> Second, transit TIF districts have no “blight” requirement, and they have a lifetime of 35 years instead of 23. Third, they hold harmless the Chicago Public Schools (CPS), meaning CPS still receives its full share of property tax disbursement based on the incremental property value growth within the TIF (as if the TIF did not exist).<sup>63</sup> After CPS receives its disbursement, 20% of the remaining revenue is then distributed to the other local governments that receive TIF surplus distributions according to the same rules as normal surpluses. Only after these carveouts does the transit TIF receive the remaining revenue for its own use.<sup>64</sup>

Chicago currently has two transit TIF districts: the Red-Purple Modernization (RPM) TIF, initiated in 2016, and the Red Line Extension (RLE) TIF, initiated in 2022. Both TIFs were created to finance specific transit development projects and cover a large geographic area around the section of rail line where the project is proposed.

In the 2024 tax year, the two transit TIFs generated a combined \$368 million in increment revenue—an increase of 71% from the previous year. Of that increment, \$298 million was generated by the RPM TIF and \$71 million by the RLE TIF. After disbursement to local governments, the RPM TIF kept \$109 million and the RLE TIF kept \$26 million.<sup>65</sup>

## HOW TIF IS USED IN CHICAGO

Although TIF is frequently cited as a tool for subsidizing private economic development, most TIF expenditure goes to public infrastructure improvements. According to the City of Chicago, 71% of TIF expenditure in 2019 went to public improvements, while 29% was spent subsidizing private development (through downtown and neighborhood economic development) (*refer to the figure on page 40*).<sup>66</sup>

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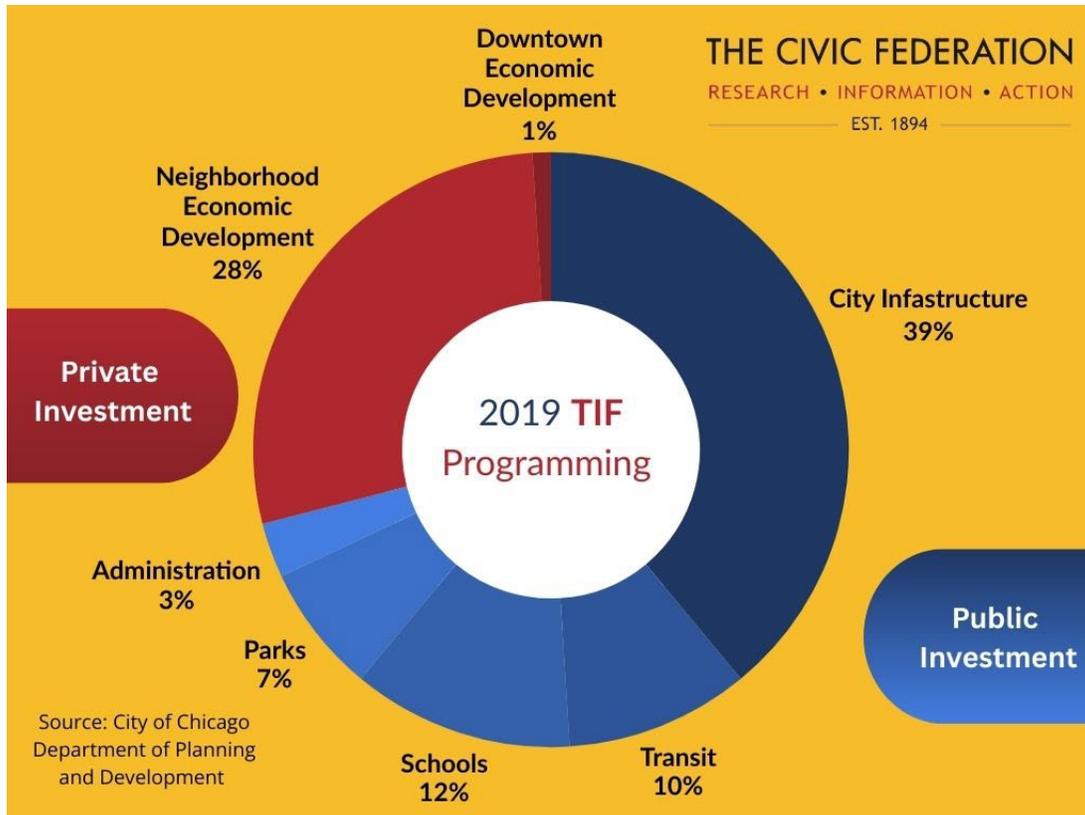
<sup>62</sup> Chicago Transit Authority, [RLE Transit TIF](#).

<sup>63</sup> Chicago Public Schools receives about 52% of all revenue produced in the Transit TIF district, based on its portion of the composite tax rate in Chicago. Rather than that revenue being diverted to the TIF, as is the case for other TIF districts, it is directed to CPS.

<sup>64</sup> Cook County Clerk, [2022 Transit TIF Fact Sheet](#).

<sup>65</sup> Cook County Clerk, [2024 TIF Report](#), July 2024, p. 21.

<sup>66</sup> City of Chicago Department of Planning and Development, [Tax Increment Financing Program Guide](#), 2020.



Source: City of Chicago Department of Planning and Development, [Tax Increment Financing Program Guide](#), 2020.

## TIF SURPLUS POLICY

Every year, the City of Chicago declares a TIF surplus composed of all funds in TIF districts that are not already used, obligated for existing projects, or needed for continued maintenance of the district. Surplusing unused TIF funds is required by State law. Since 2019, the City has followed a specific policy that determines which TIF funds get declared as surpluses and which remain in their districts. The outline of this policy is published annually in the City's budget.<sup>67</sup>

The City declares its annual surplus as a part of determining its operating budget for the coming fiscal year. When determining the surplus, the City follows a set formula:

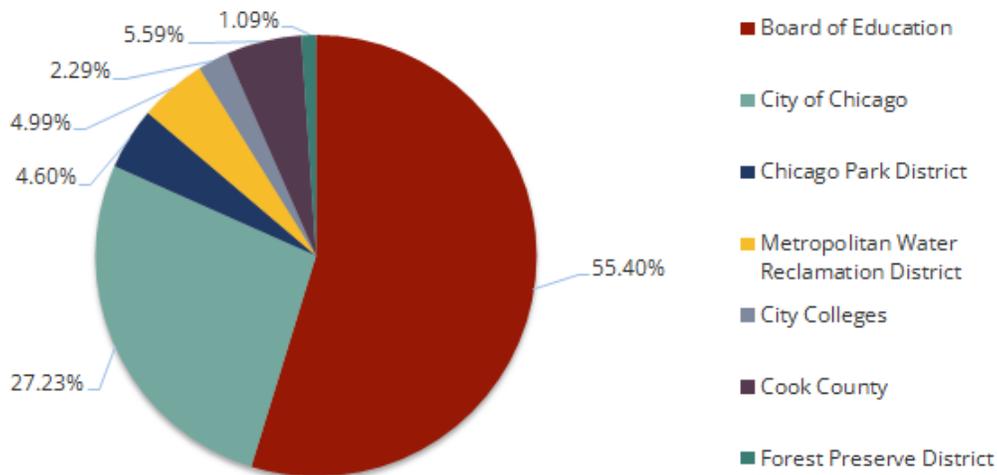
- All TIF districts in and around the Central Business District have been reserved for major projects and are known as "Downtown Freeze" TIF districts. The City declares the full balance of uncommitted funds in each of these districts to be surplus.
- All TIFs that are being terminated or are expiring have any balance declared as surplus after all projects are closed.
- Then, all other TIFs are swept. For each remaining TIF, all uncommitted funds under \$750,000 remain in the TIF in case of unanticipated project costs. The City declares 25% of the uncommitted balance above \$750,000 as surplus, proceeding incrementally to

<sup>67</sup> City of Chicago, [2025 Budget Overview](#), October 2024, p. 51.

\$2.5 million. All uncommitted funds above \$2.5 million in each district are declared as surplus.

After the size of the surplus is determined by the City of Chicago, TIF revenue is apportioned to all local overlapping governments with statutory property tax levy (extension) authority. These governments include the City of Chicago, the Chicago Public School District (CPS), Cook County, the Metropolitan Water Reclamation District (MWRD), the Cook County Forest Preserve District, the Chicago Park District, and the City Colleges of Chicago. In accordance with state law, each local government gets a percentage of the surplus based on its share of the normal property tax bill, as shown in the figure below.<sup>68</sup> The Cook County Clerk calculates this based on the most recent year's tax rates. For example, in the 2023 tax year, CPS received 55.4% of the property tax revenue collected in Chicago. Therefore, CPS' distribution of any TIF surplus funds would be 55.4% for that year.

### Tax Dollar Distribution in the City of Chicago, Tax Year 2023



Source: Cook County Clerk 2023 Annual Tax Rates Report

Over the last decade, the City has declared increasingly larger TIF surpluses, reaching \$712 million in 2025 and a record surplus of \$1 billion in 2026. Surpluses have grown because overall property tax revenue flowing through the TIF districts has increased, while the number and cost of projects within the districts have remained roughly the same. As a result, more funds remain unspent. Between 2017 and 2025, for example, both property tax revenue collected from TIFs and TIF surpluses more than doubled. This trend is likely to reverse in the coming years, however, as many of the oldest and therefore largest TIF districts reach their expiration date by 2035. As more TIF districts expire, and therefore generate less tax revenue, the overall surplus will likely be reduced.

<sup>68</sup> Cook County Clerk, [2023 TIF Report](#), July 2024, p. 2.

## Recent TIF Policy Changes

### TIF Renewals

Recent mayoral administrations have significantly scaled back the creation of TIFs, with only a handful of TIFs designated since the 2000s. Only one new TIF has been created since 2019: the Red Line Extension transit TIF.<sup>69</sup> Mayor Brandon Johnson advanced a Housing and Economic Development bond program that seeks to utilize revenue added to the City's property tax levy from expiring TIF districts to fund a bond program to support economic development, affordable housing and public infrastructure as a citywide alternative to TIF financing.<sup>70</sup> The program counts on letting the majority of TIF districts expire at the end of their 23-year terms.

However, although the City has not been creating many new TIF districts, it has still sought to renew many existing districts as they hit their 23-year expiration dates. To renew a TIF district, both the City Council and the Illinois General Assembly must vote to approve the renewal.

To determine which TIF districts to renew, the Department of Planning and Development released a white paper in November 2025 with a policy outlining when the City will seek renewal.<sup>71</sup> This policy ranks each expiring TIF by overall socioeconomic need within the TIF as well as by what DPD defines as the financial capacity of the TIF to support redevelopment projects. However, the financial capacity score does not examine the usage of each TIF in detail; instead, it simply ranks the total revenue and spending of each TIF against the citywide average. This disadvantages smaller TIF districts and economically distressed districts, which are likely to see lower growth in year-to-year revenue and therefore lower funding allocation than the average TIF. Additionally, when deciding how many TIFs to renew, the framework does not include a specific score to use as a benchmark to determine which TIFs ought to be renewed. Instead, it seeks to renew as many TIF districts as possible while still providing sufficient revenue to fund the Housing and Economic Development Bond.

### Funding Holds

Another recent change to the City's TIF surplus policy in February 2025 centers around how much of the existing fund balance within each TIF account are available to use toward the surplus. Funds that are committed to approved projects are not eligible to be swept as a part of the surplus. However, before February of 2025, aldermen and City officials could issue 'holds' on TIF funds for projects that were not yet formally approved but were in the approval process, still securing funding, or otherwise making their way towards approval. These holds had no time limit. The revised TIF surplus policy limits such holds to a single year, with the potential for renewal through the Office of Budget and Management. In 2025, this freed up additional funds for a record-breaking TIF surplus.

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<sup>69</sup> City of Chicago, [10-Year TIF Projections](#), October 2025.

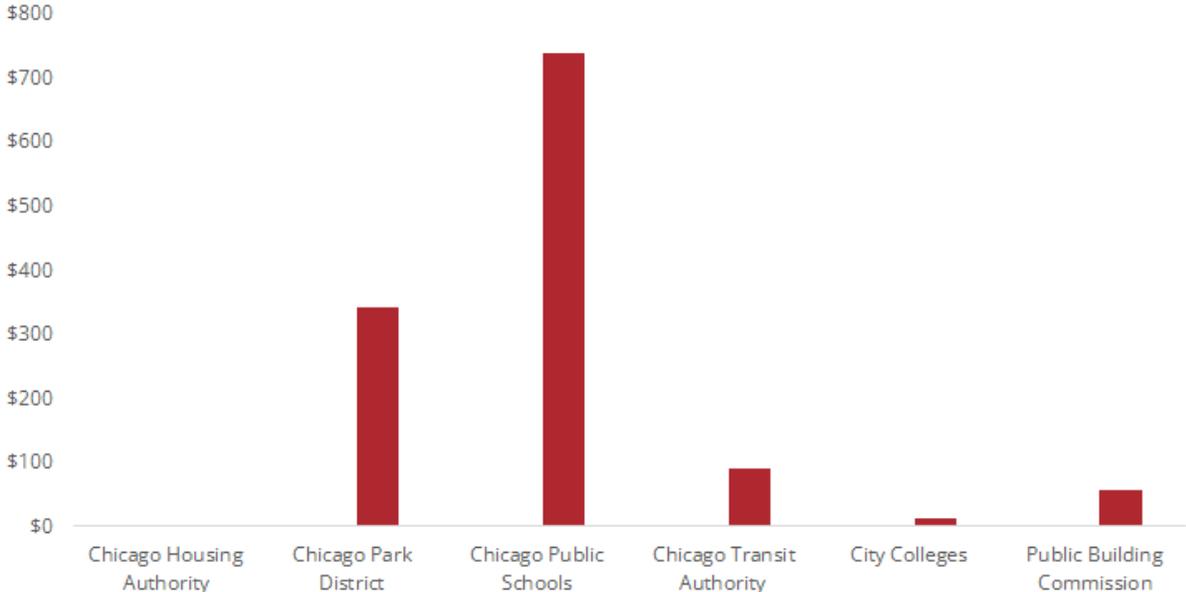
<sup>70</sup> City of Chicago, [Housing and Economic Development Bond](#), 2025.

<sup>71</sup> City of Chicago, Department of Planning and Development, [TIF District Extension Framework](#), November 2025.

# INTERGOVERNMENTAL AGREEMENTS AND TRANSFERS USING TIF

In addition to supporting private development, TIF funding can be used to provide funding for capital projects for local governments. To effectuate these projects, the City of Chicago makes intergovernmental agreements (IGAs) with other units of local government to provide TIF funding for public projects such as rehabilitating a school or building a park fieldhouse. The vast majority of IGA spending goes to Chicago Public Schools, the Chicago Park District, and the Chicago Transit Authority (CTA) (see figure below). However, almost all CTA funding came from the two transit TIFs, which were designated specifically to fund two major CTA projects.

**Chicago TIF Intergovernmental Agreements, 2006-2024**  
(\$ in millions)



Source: City of Chicago Data Portal, Tax Increment Financing (TIF) Funded RDA and IGA Projects.  
Note: CTA total excludes transit TIF funding.

# BRIEF REVIEW OF EMPIRICAL RESEARCH ON TIF

There is a great deal of empirical research on tax increment financing. The following literature review is by no means meant to be exhaustive but rather is intended to provide a brief summary of relevant research on TIF in Illinois and the U.S.

Overall, the studies we highlight here find that TIF can be effective in stimulating development within designated districts, especially in commercial and industrial areas. However, most evidence suggests that TIF does not generate significant economic growth at the municipal level. Instead, development is often shifted from other areas, and gains within TIF districts may be offset by slower growth elsewhere. Research also highlights potential fiscal and equity tradeoffs, including reduced revenues for overlapping taxing bodies and uneven distribution of benefits. Studies of the “but for” test similarly find limited and mixed evidence that TIF consistently induces development that would not have occurred otherwise.

## RESEARCH ON THE IMPACT OF TAX INCREMENT FINANCING

The following publications evaluate the economic development impact of tax increment financing. These studies suggest that TIF can succeed in revitalizing targeted commercial or industrial zones. However, the research suggests that it rarely produces broad, net new economic growth, and may result in financial and equity costs on overlapping jurisdictions and underserved communities.

### Assessing the Impact of Tax Increment Financing in Northeastern Illinois (1997)

The Civic Federation published *Assessing the Impact of Tax Increment Financing in Northeastern Illinois: Empirical Analysis and Case Studies* in 1997.<sup>72</sup> The report consisted of two parts: 1) an analysis of the impact of tax increment financing based on information the authors compiled into a database linking property tax, sales tax, population and other information for each municipality, TIF district and overlying government in the six-county region of northeastern Illinois for years 1982 through 1993; and 2) case studies of ten selected Cook County TIF districts.

The regional database analysis study found that municipalities adopting TIF were larger, slower-growing, higher-tax, more reliant on non-residential property, and received higher per capita sales tax revenues than non-adopters. On average, TIF municipalities had slower property value growth (7.36% vs. 8.90%), and in one-third of districts, growth lagged behind the rest of the municipality. Regression analysis showed no significant overall TIF effect, leaving unresolved whether TIF drives or merely follows growth.

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<sup>72</sup> Richard F. Dye, Krista Grimm and David Silverman. [\*Assessing the Impact of Tax Increment Financing in Northeastern Illinois: Empirical Analysis and Case Studies\*](#) (Chicago: The Civic Federation, 1997).

The case studies revealed that while EAV growth within TIFs often outpaced municipal averages and attracted new investment, oversight by overlapping governments was minimal, financing strategies differed (Chicago relied more on limited obligation bonds; suburbs on general obligation bonds), and community involvement was stronger in Chicago than in suburban Cook County. Suburban communities often used TIF to compete with lower-tax municipalities outside Cook County.

### **The Effects of Tax Increment Financing on Economic Development (1999)**

Dye and Merriman studied 235 northeastern Illinois municipalities to test whether TIF boosts municipal growth.<sup>73</sup> Between 1980 and 1984, they found that municipalities that would later adopt TIF had a mean equalized assessed value (EAV) growth rate nearly equal to those municipalities that later did not adopt TIF. They found that before adoption, future TIF municipalities' EAV grew at similar rates to non-adopters, but after adoption (1992–95), they grew significantly more slowly (4.96% vs. 7.38%). Statistical models controlling for community characteristics showed TIF adopters averaged 0.79% slower growth annually, and non-TIF areas within adopters grew 1.31% less per year than comparable non-adopters. Their conclusion was that while TIF may stimulate growth inside designated districts, it reduces growth elsewhere in the municipality, suggesting TIF shifts rather than creates development and ultimately depresses overall municipal property value growth.

### **Chicago TIF Encyclopedia (1999)**

The Neighborhood Capital Budget Group evaluated 36 neighborhood Chicago TIF districts.<sup>74</sup> They found that property values as measured by EAV growth rose faster than the city average in 81% of the districts. However, 58% of the districts generated too little revenue (under \$1 million over a decade) to fund major development. The City prioritized downtown development over neighborhood development (\$158 million vs. \$14 million), and TIF-supported retail often emphasized malls and chain stores rather than traditional business corridors. Industrial TIFs, however, showed the highest leverage, with \$6 in private investment for each \$1 in public investment. The report recommended reforms: front-funding projects in revenue-poor districts, ensuring TIF supplements rather than replaces city investment, prioritizing affordable housing and industrial job creation, mandating binding job commitments from developers, strengthening citizen rights in land acquisition, and creating community oversight committees to shape TIF use over its lifespan.

### **The Effects of Tax Increment Financing on Economic Development (2000)**

This empirical study published in the *Journal of Urban Economics* analyzed whether tax increment financing (TIF) stimulates net new growth or merely reallocated it within

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<sup>73</sup> Richard F. Dye and David F. Merriman. "The Effects of Tax Increment Financing on Economic Development," Working Paper #75, James H. Kuklinski, editor. Lincoln Land Institute. September 1999, p. 6.

<sup>74</sup> Chris Schwartz, et al., *NCBG's TIF Encyclopedia: The First Comprehensive Report on the State of Tax Increment Financing in Chicago*. (Chicago: Neighborhood Capital Budget Group, 1999), pp. 5-6.

municipalities.<sup>75</sup> Using data from Illinois, the authors compared municipalities with TIF to those without and examined differences between TIF and non-TIF areas within adopting cities. The principal findings were:

- Municipalities adopting TIF did not show higher total economic growth, as measured by property value increases, compared to non-TIF municipalities.
- Property values rose inside TIF districts, but growth in non-TIF areas of the same municipalities slowed, suggesting displacement rather than net creation of development.
- TIFs were disproportionately adopted in municipalities already experiencing faster growth, raising concerns about whether TIF targets truly distressed areas.
- Since TIF diverts property tax revenues into redevelopment projects rather than general services, the net effect can weaken municipal finances without producing citywide gains.

The overall conclusion of the study was that TIFs may succeed in promoting development inside designated districts, but at the cost of reducing growth elsewhere in the municipality. This raises issues about whether TIF is an efficient development tool.

### **The Effect of Tax Increment Financing on Land Use (2003)**

This study examined how TIF can affect land use patterns by comparing municipalities with and without TIF adoption to track changes in residential, commercial, and industrial land use.<sup>76</sup> The analysis suggested that TIF districts are more likely to experience shifts toward commercial and industrial development, consistent with the incentive structure of TIF, which subsidizes projects in designated areas. Some of this apparent growth represents displacement rather than new activity. Land use changes inside TIF districts often come at the expense of alternative uses outside them. The effects are strongest in municipalities already positioned for growth, suggesting that TIF amplifies existing market trends rather than transforming weaker markets.

In sum, TIF may *shape* where and how land is used, favoring more intense or commercial uses in designated zones, but does not necessarily create entirely new land use transitions that would not otherwise have happened. Some caveats noted in the study include challenges in addressing endogeneity (i.e. unobserved factors leading both to TIF adoption and certain land use trends), the possibility that observed effects reflect “crowding out” of development from non-TIF areas, and limited generalizability since findings are specific to Illinois municipalities.

### **Tax Increment Financing: A Documentary Case Study of Financial Impact and Policy Implications for Public Schools in Illinois (2005)**

This case study examined 30 TIF districts in LaSalle County and their effect on 20 school districts

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<sup>75</sup> Richard F. Dye and David F. Merriman. [The Effects of Tax Increment Financing on Economic Development](#), Journal of Urban Economics. Volume 47, Issue 2, March 2000, pp. 306-328.

<sup>76</sup> Richard F Dye and David F. Merriman (2003). The Effect of Tax Increment Financing on Land Use. In D. Netzer (Ed.), *The Property Tax, Land Use, and Land-Use Regulation* (pp. 37–61). Cheltenham, UK: Edward Elgar.

between 1999 and 2003.<sup>77</sup> She estimated schools lost \$10.5 million in property tax revenues due to TIF increments being diverted, since the county did not have tax caps that could offset the impact. State General State Aid partially made up the shortfall, providing \$2 million—about 20% of the loss—because TIF increment EAV is excluded from state funding formulas. She also found that intergovernmental agreements helped schools recapture some diverted funds through measures like rebating TIF dollars for school projects, reallocating surplus revenues, charging developer impact fees, shortening TIF durations, and sharing infrastructure costs. These agreements varied widely, making total recovered revenues difficult to quantify.

### **The Impact of Tax Increment Financing on Residential Property Value Appreciation (2006)**

Weber, Bhatta, and Merriman investigated whether TIF accelerates gentrification by driving up housing prices in Chicago.<sup>78</sup> Using sales data that controlled for property, neighborhood, and TIF characteristics, they compared appreciation inside and near TIF districts. They found that low-priced homes close to TIFs appreciated faster than higher-priced homes, but this pattern did not indicate disproportionate appreciation of lower-value properties caused by TIF itself. Their conclusion was that TIF does not significantly intensify gentrification, countering the common concern that it displaces lower-income residents.

### **Spillovers From Tax Increment Financing Districts: Implications for Housing Price Appreciation (2007)**

This study examined the spillover effects of TIF on the appreciation of single-family Chicago homes that sold multiple times between 1993 and 1999.<sup>79</sup> After controlling for structural characteristics of the home, neighborhood conditions, and information about the nature and scale of activities within TIF districts, it found that proximity to industrial TIF districts is associated with a *decrease* in the rate of appreciation. In contrast, proximity to mixed-use TIF districts that contain both commercial and residential parcels *increases* the appreciation of nearby houses.

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<sup>77</sup> Christine Benson. *Tax Increment Financing: A Documentary Case Study of the Financial Impact and Policy Implications for Public Schools in Illinois*, Doctoral Dissertation, Northern Illinois University, 2005, p. 9

<sup>78</sup> Rachel Weber, Saurav Dev Bhatta and David Merriman, "The Impact of Tax Increment Financing on Residential Property Value Appreciation," Unpublished paper, 2006, p. 5. See [www.niu.edu/econ/Schedule/Seminar%20papers](http://www.niu.edu/econ/Schedule/Seminar%20papers).

<sup>79</sup> R. Weber, R., S.D. Bhatta and D.F. Merriman. [Spillovers From Tax Increment Financing Districts: Implications for Housing Price Appreciation](#). *Regional Science and Urban Economics*, 37(2), 259–281.

## Improving Tax Increment Financing (TIF) for Economic Development (2018)

Drawing from over 30 studies and national case studies, this report by David Merriman, published by the Lincoln Land Institute,<sup>80</sup> identified the key benefits and problems with TIF. It found that:

- Empirical studies indicate that TIF often fails to stimulate economic development beyond what would have occurred without it.
- TIF can divert property tax revenues from essential services, such as education, to fund development projects that may not require public subsidies.
- The benefits of TIF are frequently concentrated in areas that are already experiencing growth, rather than in the most economically distressed regions.
- Many TIF districts operate with insufficient oversight, leading to concerns about accountability and the potential misuse of funds.

The report made the following recommendations:

- States should systematically collect data on TIF activity to evaluate its effectiveness and guide policymaking.
- Counties, school districts, and other local governments should have the ability to opt out of contributing resources to TIF districts, reducing incentives to capture revenue at others' expense.
- State legislators should assess whether proof that development wouldn't occur without TIF is functioning effectively, ensuring TIF is used only when necessary.
- Local governments should provide clear, accessible information on TIF districts, including revenues and expenditures, to allow better oversight and potential adjustments to TIF arrangements.
- Researchers should investigate how TIF affects different regions and conditions to clarify why results vary and identify best practices.

## RESEARCH ON THE “BUT FOR” TEST

The following studies examined the effectiveness of the “but for” test for establishing tax increment financing programs. Collectively, these empirical studies offer mixed evidence that TIF programs meet the “but for” test—that is, producing economic outcomes that would not have occurred otherwise. Studies of Chicago and other jurisdictions consistently find limited or uneven evidence that TIF districts generate net new economic growth.

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<sup>80</sup> David Merriman. [Improving Tax Increment Financing \(TIF\) for Economic Development](#). Lincoln Land Institute, September 2018.

## **Does Chicago’s Tax Increment Financing (TIF) Programme Pass the “But-for” Test? Job Creation and Economic Development Impacts Using Time-series Data (2014)**

This study uses block-group panel time-series data and methods to control for selection of areas into the TIF program and tests whether TIF areas generate economic outcomes above what would have occurred otherwise (i.e., a but-for test).<sup>81</sup> The study found, after controlling for selection bias, little evidence that Chicago TIFs pass the but-for test for jobs/building permit activity. Many TIF districts did not produce measurable net new economic benefits beyond what similar non-TIF areas experienced.

## **The Dynamic and Persistent Effects of Tax Increment Financing as an Example of Place-Based Policy: Evidence from Cook County, Illinois (2024)**

Using a staggered difference-in-differences design, this report analyzed the effects of tax increment financing in Cook County, Illinois.<sup>82</sup> It found that TIF is negatively correlated with the number of establishments in Chicago, which is likely due to unintended tax burdens and competition between TIF districts. In non-Chicago areas, TIF shows positive effects on employment for 6–20 years. The study also provided evidence of the persistent effects of TIF and its potential to move localities from low- to high-density economic activity, calling for a re-evaluation of the argument against subsidizing economically lagging areas.

## **The Effect of Tax Increment Financing Districts on Job Creation in Chicago (2023)**

This study used comprehensive data on employment by place of work and place of residency to analyze whether TIF districts generate increases in jobs and whether residents in neighborhoods designated as TIF districts see employment benefits.<sup>83</sup> It found that TIF designation increases the number of jobs in a selected census block by approximately 15% over 5 years. However, the employment levels of residents living in or around TIF districts showed no increase due to the TIF designation. In addition, there was evidence of substantial spillover effects to adjacent blocks and some limited neighborhood changes in the types of property developed. In sum, the study found that TIF districts can be effective in revitalizing commercial and industrial areas but that its ability to improve outcomes in blighted residential neighborhoods surrounding the district is limited.

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<sup>81</sup> T. William Lester. [Does Chicago’s Tax Increment Financing \(TIF\) Programme Pass the “But-for” Test? Job Creation and Economic Development Impacts Using Time-series Data](#) (Urban Studies, 2014).

<sup>82</sup> Geon Kim. [The dynamic and persistent effects of tax increment financing as an example of place-based policy: evidence from Cook County, Illinois](#). Regional Studies, Volume 58, Issue 6. Pp. 1339-1355 (2024).

<sup>83</sup> Todd Czurylo. [The Effect of Tax Increment Financing Districts on Job Creation in Chicago](#). Journal of Urban Economics, Volume 134, March 2023.

## **Tax Increment Financing in Chicago: The Perplexing Relationship Between Blight, Race, and Property Values (2019)**

This study examines Chicago's TIF districts to determine whether blight levels and percentage of non-White residents interact to reduce the effectiveness of TIFs.<sup>84</sup> The metric used was the change in the equalized assessed valuation (EAV) of properties. Using composite indices to measure physical and economic blight, the results of a quantile regression analysis indicate that economically blighted TIFs with predominantly non-White populations outperform other districts.<sup>85</sup> These findings run counter to expectations given that TIFs report high rates of growth in property values, yet they remain substantially blighted. This suggests a need to reconsider change in equalized assessed valuation as the measure of TIF effectiveness given that the "growth" in TIFs does not seem to reflect a higher quality of life for residents.

## **Tax Increment Financing and Property Value: An Examination of Business Property Using Panel Data (2019)**

This study examined how TIF affected business property values in Milwaukee between 1980 and 1999.<sup>86</sup> It found that businesses in TIF districts see higher property values over time because the public services and improvements funded by TIF get "built into" or capitalized into the value of the property. However, properties chosen for TIF tend to be more valuable to begin with. The effect of TIF was larger than the effects of other factors examined. Overall, TIF seems to raise business property values, but careful analysis is needed to separate the effect of TIF itself from the fact that valuable properties are more likely to get TIF in the first place.

## **Does Tax Increment Financing Pass the "But-for" Test in Missouri? (2019)**

This was a comprehensive assessment of the effectiveness of Missouri's TIF program in creating economic opportunities, focusing on Kansas City and St. Louis.<sup>87</sup> Using a time-series data set from 1990 through 2012 of detailed employment levels, establishment counts, and sales at the census block-group level, the authors matched similar units together and then used a before-and-after comparison to estimate the effect of TIF. Although the study evaluated the impact of TIF on a wide set of indicators and across various industry sectors, it found no conclusive evidence that the TIF program in either city had a causal impact on key economic development indicators.

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<sup>84</sup> T.B. Larnell and D.C. Downey. (2019). [Tax Increment Financing in Chicago: The Perplexing Relationship Between Blight, Race, and Property Values](#). *Economic Development Quarterly*, 33(4), 316-330.

<sup>85</sup> Twyla Blackmond Larnell and Davia Cox Downey. [Tax Increment Financing in Chicago: The Perplexing Relationship Between Blight, Race, and Property Values](#). *Economic Development Quarterly*, Volume 33, Issue 4, 2019.

<sup>86</sup> Deborah Carroll. [Tax Increment Financing and Property Value: An Examination of Business Property Using Panel Data](#). *Urban Affairs Review*, Volume 43, Issue 4, 2008.

<sup>87</sup> [Ahmed Rachid El-Khattabi](#) and [T. William Lester](#). [Does Tax Increment Financing Pass the "But-for" Test in Missouri?](#) *Economic Development Quarterly*. [Volume 33, Issue 3](#), 2019.

# GLOSSARY

## **Blight**

A statutory designation based on the presence of specific physical or economic conditions that are deemed detrimental to public safety, health, or welfare.

## **But-For Test**

The statutory requirement that redevelopment would not reasonably occur without the assistance provided through TIF.

## **Eligible Redevelopment Costs**

Costs authorized by statute to be paid with TIF revenues, including land acquisition, site preparation, public infrastructure, and certain financing costs.

## **Equalized Assessed Valuation (EAV)**

The taxable value of property, as determined by the county assessor and equalized statewide, used to calculate property tax liabilities.

## **Extension**

A government's tax extension is the amount of property tax revenue the county clerk calculates that the taxing district is entitled to after any tax limitations have been applied and the final rate is determined.

## **Fiscal Impact on Taxpayers**

The effect of TIF on property tax rates and burdens, resulting from the freezing of EAV and the diversion of incremental revenues during the life of the district.

## **Frozen EAV (Base EAV)**

The total EAV of property within a TIF district at the time of designation; this amount continues to be shared by all overlapping taxing bodies during the life of the TIF.

## **Incremental EAV**

The increase in EAV above the frozen base within a TIF district; property taxes generated by this growth are captured by the TIF district.

## **Intergovernmental Agreement (IGA)**

A contractual arrangement through which TIF revenues are transferred to other local governments for eligible public purposes, such as school or transit projects.

## **Joint Review Board (JRB)**

A body composed of representatives from overlying taxing districts that reviews and provides advisory input on the creation and amendment of TIF districts.

**Levy**

A tax *levy* is the amount of property tax revenue a taxing district initially requests from taxpayers. The taxing district submits the levy request to the county clerk, who then calculates tax rates and finalizes tax extensions (final amounts billed to property owners).

**Overlying (Overlapping) Taxing Districts**

Local governments and school districts that levy property taxes within a TIF district but do not receive revenues from the increment.

**Porting of TIF Funds**

The transfer of revenues between contiguous TIF districts, permitted under Illinois law to cover eligible redevelopment costs.

**Redevelopment Plan and Project**

A legally required document outlining the conditions justifying TIF designation, planned improvements, eligible costs, and anticipated fiscal impacts.

**Redevelopment Project Area (RPA)**

The statutory term used in Illinois law to describe a TIF district.

**Surplus TIF Funds**

Revenues held in a TIF fund that are determined to be unnecessary for redevelopment obligations and may be distributed to overlying taxing bodies.

**Tax Increment Financing (TIF)**

A public financing mechanism that dedicates the growth in tax revenues generated within a designated redevelopment area to pay for redevelopment costs.

**TIF District**

A geographically defined area established by a municipality in which incremental property tax revenues are diverted to a special fund for redevelopment purposes.

**TIF District Duration**

The period for which a TIF district is authorized to operate, generally 23 years in Illinois, with possible extensions subject to legislative approval.

**TIF Extension (Renewal)**

The process by which a municipality seeks to extend the life of an existing TIF district beyond its original statutory term.

**TIF Increment**

The property tax revenue generated from the incremental EAV and deposited into the TIF fund rather than distributed to taxing bodies.

**Transit TIF**

A specialized TIF district authorized to fund transit-related improvements and subject to distinct statutory rules, including different revenue distribution requirements.

# APPENDIX: COOK COUNTY INCENTIVE CLASSES

Cook County Incentive Classes		
Class	Purpose / Eligible Use	Assessment Rate Reduction & Duration
<b>6b</b>	Industrial: new construction, substantial rehab, or re-occupancy of abandoned industrial buildings	10% for Years 1–10; 15% in Year 11; 20% in Year 12; then revert to 25% industrial
<b>7a</b>	Commercial projects ≤ \$2M: rehab, new construction, or re-occupancy	10% (Years 1–10), 15% (Year 11), 20% (Year 12); then revert
<b>7b</b>	Commercial projects > \$2M: larger commercial rehab/new construction or re-occupancy	Same schedule: 10% (1–10), 15% (11), 20% (12); then revert
<b>7c</b>	New commercial development requiring short-term support	10% (Years 1–3); 15% (Year 4); 20% (Year 5); then revert
<b>7d</b>	Grocery stores in designated food-desert areas	10% (1–10), 15% (11), 20% (12); then revert
<b>8</b>	Commercial/industrial development in economically distressed/underutilized areas	10% (1–10), 15% (11), 20% (12); then revert
<b>8 MICRO</b>	Microelectronics & semiconductor manufacturing	Flat 10% assessment rate for 30 years (non-renewable)
<b>9</b>	Affordable multifamily rental housing (new, rehab, or preservation)	Reduced assessment based on affordable-housing compliance (special Class 3 → Class 9 ratio)
<b>C</b>	Redevelopment of environmentally contaminated commercial/industrial sites	Treated similarly to Classes 6–8 after cleanup (generally 10% incentive tier)
<b>L</b>	Landmark / historic buildings (commercial, multifamily, nonprofit) undergoing rehab	Significant multi-year assessment reduction tied to landmark preservation

**Source:** Cook County Assessor. Incentives and Special Properties at: <https://www.cookcountyassessoril.gov/incentives-special-properties>.