

# Tax Increment Financing in Champaign, Illinois

Analyzing the effect of TIF districts on the economic  
development of Champaign between 1980-2010

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# Prelude

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This master thesis is the result of a four-month stay in Champaign, Illinois, where I stayed as a participant of the NEURUS-ICURD program. This program enabled me to live and conduct research in a true Mid West environment. Setting up a research project in a totally new environment was more difficult than expected. I had some great plans when traveling to Champaign but all were unsuitable when finally present in Champaign. I ended up with the economic development tool called Tax Increment Financing as a topic. TIF was a tool not familiar to me and did not look like any tool used in the Netherlands. It proved to be an interesting “*black box*” research topic with much depth and political dimensions in it.

During my research I got a lot of help from local officials and university personal that provided me with new contacts, insights or useful data. I therefore want to thank Stan Jenkins and Sacha Green from the County Assessor Champaign, Eric Kotewa and Greg Gonda from the Economic Development Corporation Champaign and Mark Toalson from the City of Champaign. Also I would like to thanks Sofia Sianis for our occasional talks about the possibilities of this research. Many thanks go out to Terry Blakeman, Craig Rost and John Dimit for helping me with this research by making time for an in depth interview. You provided me with the much-needed information and thanks to your experience I was able to get a hold of all the developments that took place around the TIFs. Special thanks go out to Craig Rost who helped me during the whole process, stimulating me with new opportunities and chances. I had a great time discussing my research with you and also enjoyed talking about side topics like the cultural differences between the US and Europe. I would like to thank Brian Deal for the feedback I got at the weekly meetings at UIUC. Finally I would like to thank is my supervisor, Sierdjan Koster, who kept me on track and was always available for questions and advice, although we where 7 hours apart.

After a great time in Champaign my research was sitting on my desk for over a year because I started additional master study. After a year, and after finishing a different thesis, the topic grabbed me again and I discovered why this research was special and interesting to conduct. After this, all that is left is to conclude is that this thesis is my last piece of work I will deliver at the Faculty of Spatial Sciences, where is officially spend 6 years of my time studying, working and developing myself. Thanks!

# Summary

Tax Increment Financing is one of the most popular economic development tools in the United States of America (Briffault, 2010). By creating a TIF, increases in property value taxes are captured by the district to finance public improvements (Dye and Merriman, 2006). Investments are usually made upfront to facilitate growth and therefore income for the district (Weber and Goddeeris, 2007). Literature shows no clear consensus of the economic development effects of TIFs. Studies conclude that TIFs stimulate development and economic growth within the district but sometimes only shift capital, work and business from other areas of town to the TIF (Dye and Merriman, 2001, Byrne, 2010). Some research concludes that there are positive spillover effects but these positive effects decrease fast with distance (Weber et al., 2007 and Man and Rosentraub, 1998). Studies also find decreased total EAV growth because capital is not used in the most efficient way (Dye and Merriman, 2003). Other expected effects are job growth, business growth and increased population. The main problem TIFs originally started to tackle is fighting economic decline and blight. Research shows a positive relationship between infrastructure investments and property values (Haughwout, 2002). Infrastructure improvement are made by the capital created in the TIF Higher property values can in turn stimulate gentrification and a change of socio economic composition of an area Dye and McMillan, 2007). As a result, investments in infrastructure and properties turn around the economic path and increase the quality of life in the district. By adding value to an area other adjacent neighborhoods can benefit because more public goods are added due to the TIF (Breuckner, 2001).

In this thesis three TIF districts in Champaign, Illinois, are analyzed in a qualitative and quantitative way. The first TIF is the Downtown TIF and this district was adopted in 1981. The second TIF is the East University Avenue TIF and was established in 1986. The third TIF was started in 2001 and is named North Campustown TIF. All the TIFs met the requirements of blight or decreasing property values. Interviews, difference-in-differences analysis and a spatial analysis are used to determine the economic development effect of the TIF districts on Champaign between 1980-2010. Furthermore, possible spillover effects are analyzed by the spatial analysis. The interviews are used for the framing of expectations and goals of the TIFs. *Equalized Assessed Value, Population growth, Housing unit growth, Median gross rent growth, change in vacancy rate* and the *change in owner occupied housing* are the six indicators used to determine the effect of the TIFs. The combination of decennial census

data and spatial data offers a rather new approach in TIF research and the case study setup is able to show the dynamics of spatial effects.

The interviews and selected economic development indicators show that TIF is able to turn around an economic path of an area and stimulate economic development. It depends however how the TIF district is designed and if major projects are undertaken to give the district a head start. Within Champaign it is clear that the downtown TIF performed better than the TIF started in the same decennium, East University Avenue TIF. The Downtown TIF had stronger impact on property values than the East University TIF. The spatial analysis showed that the block groups in the Downtown TIF had stronger growth rates than the other TIFs. The results showed high developments within the Downtown TIF. Since the 1990s the TIF showed higher growth on housing units, population, and median gross rent compared to other parts of the city. The analysis of the third TIF shows that property values increased sharp after the development of a key project in the TIF.

Spatial spillover effects of economic development indicators were hard to identify. The analysis did show a clear divide between the west and the east parts of the City. These parts are separated by a train track and this is clearly a barrier between the two areas and growth rates differ partly do to this. The blocks on the west and south of the downtown TIF showed signs of housing development that might have occurred because of the better downtown. In the adjacent blocks, rents also increased faster than other parts of town. In the last period housing units and population decreased in the adjacent blocks and these results show signs of demolition of older housing units.

This research shows that development in and around a TIF diffuse and does not happen only in one single place or area. The outcomes lead to the conclusion that TIF districts can change the path of blighted areas. Within TIF districts strong changes are noticeable and these changes can be partly attributed to the presence of TIFs. The combination of qualitative and quantitative data made it possible to identify developments and unravel objectives and expectations of the City of Champaign. The use of spatial data created a new dimension in TIF research, enabling the analysis and spatial direction of economic development. It became clear that TIF is a financial tool to redevelop areas but economic development goals are not the only objective a municipality has in mind when adopting a TIF. In Champaign it proved to be a useful tool to add capital to the area and increase the quality of life in selected areas.

# List of tables and figures

<b>Table 1.1:</b>	<b>Studies on the Effect of TIF Use on Economic Development</b>	<b>8</b>
<b>Figure 2.1:</b>	<b>Property value growth TIF regions</b>	<b>12</b>
<b>Figure 2.2:</b>	<b>Schematic of TIF assessed value and Revenue Structure</b>	<b>13</b>
<b>Figure 2.3:</b>	<b>A Generic TIF Process</b>	<b>14</b>
<b>Figure 3.1:</b>	<b>Property value spillover effects of mixed-used TIF zones</b>	<b>18</b>
<b>Figure 4.1:</b>	<b>Visualized difference-in-differences analysis</b>	<b>25</b>
<b>Figure 4.2:</b>	<b>TIF districts in the City of Champaign. Source: City of Champaign, 2013</b>	<b>30</b>
<b>Figure 4.3:</b>	<b>City of Champaign with the neighboring cities of Urbana and Savoy.</b>	<b>31</b>
<b>Table 5.1:</b>	<b>Difference-in-differences analysis TIF Downtown</b>	<b>36</b>
<b>Table 5.2:</b>	<b>Difference-in-differences analysis Equalized Assessed Value TIF East University Avenue.</b>	<b>37</b>
<b>Table 5.3:</b>	<b>Difference-in-differences analysis Equalized Assessed Value TIF North Campustown.</b>	<b>38</b>
<b>Figure 5.1:</b>	<b>TIF districts and selected block group zones.</b>	<b>39</b>
<b>Table 5.4:</b>	<b>Economic development indicators in Champaign county between 1980-2010</b>	<b>40</b>
<b>Figure 5.2:</b>	<b>Population growth in Champaign central area, 1980-2010</b>	<b>45</b>
<b>Figure 5.3:</b>	<b>Housing unit growth in Champaign central area, 1980-2010</b>	<b>46</b>
<b>Figure 5.4:</b>	<b>Median gross rent growth in Champaign central area, 1980-2010</b>	<b>47</b>
<b>Figure 5.5:</b>	<b>Change in housing unit vacancy in Champaign central area, 1980-2010</b>	<b>48</b>
<b>Figure 5.6:</b>	<b>Change in owner occupied housing in Champaign central area, 1980-2010</b>	<b>49</b>

## Inhoudsopgave

<b>1. INTRODUCTION</b>	<b>7</b>
<b>1.1 BACKGROUND</b>	<b>7</b>
<b>1.2 RESEARCH GOAL AND QUESTION</b>	<b>8</b>
<b>1.3 RELEVANCE</b>	<b>9</b>
<b>1.4 RESEARCH AREA</b>	<b>10</b>
<b>2. INSTITUTIONAL SETTING</b>	<b>11</b>
<b>2.1 THE MECHANICS OF TIF</b>	<b>11</b>
<b>2.2 THE PLANNING OF TIF</b>	<b>13</b>
<b>2.3 PROPERTY TAX</b>	<b>15</b>
<b>3. THEORY</b>	<b>16</b>
<b>3.1 ECONOMIC DEVELOPMENT AND GOVERNMENT</b>	<b>16</b>
<b>3.2 TAX INCREMENT FINANCING</b>	<b>17</b>
3.2.1 RAISE PROPERTY VALUE	17
3.2.2 FIGHT ECONOMIC DECLINE	19
3.2.3 EXPECTED ECONOMIC DEVELOPMENT GAINS	20
3.2.4 NEED OF FUNDS	21
3.2.5 COMPETITION	22
<b>4. RESEARCH METHOD AND RESEARCH AREA</b>	<b>23</b>
<b>4.1 METHODS</b>	<b>23</b>
4.1.1 INTERVIEWS	23
4.1.2 DIFFERENCE-IN-DIFFERENCES ANALYSIS	24
4.1.3 SPATIAL ANALYSIS	26
<b>4.2 AREA OF RESEARCH</b>	<b>29</b>
<b>5. RESULTS</b>	<b>32</b>
<b>5.1 INTERVIEWS</b>	<b>32</b>
<b>5.2 DIFFERENCE-IN-DIFFERENCES</b>	<b>35</b>
<b>5.3 SPATIAL ANALYSIS</b>	<b>38</b>
<b>6. CONCLUSION AND DISCUSSION</b>	<b>50</b>
<b>REFERENCES</b>	<b>54</b>
<b>APPENDIX I: INTERVIEWS</b>	<b>60</b>
INTERVIEW CRAIG ROST	60
INTERVIEW TERRY BLAKEMAN	69
INTERVIEW JOHN DIMIT	75
APPENDIX II: EAV GROWTH IN CHAMPAIGN COUNTY	82

# 1. Introduction

## 1.1 Background

Policies stimulating economic development have been an important part in cities in the United States of America (Feiock, 1991). Effects that are usually expected from economic development are, job creation and retention, tax revenue growth, improved quality of life and enhanced competitiveness (McGowan and Ottensmeyer, 1993). To compete with other parts of the country, cities and counties try to attract businesses by offering incentives to locate in a particular area (De la Cerda, 2010). Tax abatements, industrial parks, tax increment finance authorities, land assembly, and infrastructure investment are different tools which local governments can use for stimulating economic development (Reese, 2011). Within this large arsenal of EDI tools Tax Increment Financing is an important and widely used method (Brueckner, 2001). At the moment TIF is used in 49 states and the District of Columbia and almost every city or community implemented this tool (Briffault, 2010). According to Krohe (2007) it is one of the first tools local governments use for economic development. TIF allow city governments to finance projects within the district without raising tax or a direct subsidy from a higher government (Dye and Merriman, 2000, Brueckner, 2001). By creating a TIF, increases in property value taxes are captured by the district to finance public improvements. Investments are usually made upfront to facilitate growth and therefore income for the district (Dye and Merriman, 2006). The original goal of TIF is stimulating underdeveloped or blighted areas but recently the focus also shifted to the creating of jobs, raising property values, the attraction of businesses and economic growth (Byrne, 2009). These goals of economic development goals are in line with the definition given by McGowan and Ottensmeyer (1993). However, TIF is also seen as controversial and is mainly popular because of its flexibility and autonomy in planning and decision-making (Briffault, 2010, Weber and Goddeeris, 2007). Governments create their own TIF district agency that results in more freedom, an earmarked funds and no competition about budgets with other governmental institutions (Weber and Goddeeris, 2007). Secondly the effect of TIF on economic development of cities is not determined and research did not show a straightforward positive or negative effect (Briffault, 2010). Table I.1 shows different studies that analyzed the effect of TIF on economic indicators. Dye and Merriman (2000) for example show that TIF might stimulate growth within the district but negatively impact the

growth of the local area outside the district because capital is not used in the most efficient manner. As a result of this, aggregate property values in cities that adopted TIF grew more slowly than cities that did not adopted TIF legislation. On the other hand Anderson (1990) and Man (1999) showed a positive effect on property values and local employment in cities that adopted TIF.

Studies	Case Study	Year(s)	Effect of TIF on property values	Other Local Area Effects of TIF
Huddleston (1984)	67 Wisconsin cities	1980	ambiguous	
Anderson (1990)	255 Michigan cities	1985 & 1986	positive correlation	
Forgey (1993)	300 municipalities from 34 states	1989	positive correlation	
Lawrence and Stephenson (1995)	Des Moines, Iowa	1973-1993	positive	lower property tax rates in later years
Man and Rosentraub (1998)	151 Indiana cities	1980 & 1990	positive	
Man (1999b)	53 Indiana cities	1985-1992		positive effect on local employment
Dye and Merriman (2000)	Chicago metropolitan area	1980-1995	negative	

Table 1.1: Studies on the Effect of TIF Use on Economic Development (Tosun and Yakovlev 2002)

## 1.2 Research goal and question

As TIF becomes a more popular tool for economic development, almost every city implements a TIF district in their community. Most research focuses on the effect of TIFs on property values. However, it might be more interesting to determine spatial effects of TIFs and the effect on their surrounding areas. Furthermore, only analyzing property values can be seen as a limited analysis considering that municipalities probably have more goals and objectives when establishing a TIF. Therefore more in depth research is needed to analyze and determine the effect of TIF on local economic development. Case study research would make an effective tool to analyze the local dynamics and effects on local economic development. This thesis will take an in depth approach to determine expectations and developments of the three TIFs in Champaign. It will distinguish six housing variables, often used to determine economic development, to analyze the economic development in and

around the TIF districts in Champaign, Illinois. The determination of the local economic development effect of these indicators will be the goal of this thesis and the research question is as follows:

**To what extent did Tax Increment Financing districts stimulate economic development in the City of Champaign between 1981 and 2010?**

To answer the main question two sub questions are asked:

- Ia: To what extent did TIF districts promote property value growth economic within the district?
- Ib: To what extent did TIF districts stimulate housing development indicators within the district?
- 2. To what extent did housing development indicators spill over from TIF districts to neighboring areas?

### **1.3 Relevance**

This research provides an in depth study about the use and the effects of TIF on local economic development by analyzing three TIF districts and their surroundings in Champaign, Illinois. A case study approach is adopted to get an in depth analysis of the dynamics and effects of TIF districts on the local economic development. A distinction will be made between effects within and outside the districts to evaluate the different effects on the city. Theoretical insights will be discussed and the Champaign TIFs will be evaluated based on six indicators. Secondly, this case study will present a spatial analysis to determine possible spillover effects in detail. This thesis will extend to previous literature by analyzing the three TIFs in Champaign in a new way. The mapping of spillover effects has not been a frequently used technique in TIF research. Data from the decennial census has been collected and the years 1980 until 2010 are used. The long timespan together with the spatial component make it possible to show where possible TIF effects took place and during which time period. The combination of a broad time range and spatial data will give this thesis a unique angle in analyzing TIF districts.

## **1.4 Research area**

This study focuses on the city of Champaign, Illinois. The city inhabits over 80.000 people and holds a total of three TIF districts. Together with Urbana it forms a metropolitan area that inhabits around 130.000 people.

The next chapter will present the institutional setting this research will be working in. The mechanics of TIF, planning of a TIF and the importance of property tax in the USA will be discussed. In the third chapter a theoretical overview of TIF research will be given. Effects of TIF will be discussed in the light of economic development and redevelopment. Chapter four will present the research method and will introduce six indicators of economic development. Furthermore, a overview of the research area is given and the three TIFs in Champaign will be discussed. In chapter five the results of this research will be discussed. The last chapter will present the conclusion and discussion.

## 2. Institutional setting

Tax increment financing (TIF) is a local economic development tool that is widely used in the United States of America (Man and Johnson, 2001). TIF is used for local economic development and coordinates funds within different tax jurisdictions for redevelopment within the district (Anderson, 1990). TIF was first developed in California in 1951 as a tool for the generation of local funds for development projects, but in the 1970s and the 1980s it became a popular tool for promoting redevelopment projects in underdeveloped or 'blighted' areas (Donaghy, Elson and Knaap, 1999, Han and Ochs, 2005). Klacik and Nunn (2001) state that the use of TIF has become very popular because it is one of the few locally controlled funding tools for local economic development that can be used for infrastructure improvements. They also state that it is an easy way of raising funds and issuing bonds without much local bureaucracy. It does not require federal or state subsidies and theoretically does not increase tax rates or impose new taxes (Donaghy, Elson and Knaap, 1999). On the other hand TIF enables municipalities to gather funds from overlapping governmental jurisdictions (Huddleston, 1982).

### 2.1 The mechanics of TIF

Investments in TIF districts can be made by revenues generated by an increase of property value tax in the TIF district. How these revenues are generated is illustrated in Figure 2.1 and Figure 2.2. The top oval figure in Figure 2.1 shows the area of a hypothetical municipality with two areas: the designated TIF district and the rest of the municipality, the non-TIF area. The bottom part of Figure 2.1 illustrates the generation of property value. 'B' represents the base year assessed value of all the properties in the TIF district and 'N' represents the base assessed value of properties in the non-TIF area. These base values are established in the adoption year of the TIF district. Over time when investments within the TIF district are made, property values are supposed to rise and generate an increment in the TIF district (I). This increment is revenue for the TIF district and can be reinvested in the TIF area. Natural growth and the positive effect on the TIF district is supposed to spillover to the rest of the city and creates growth (G) in property values in the non-TIF area of the municipality. This growth comes at the benefit of all the taxing jurisdictions because the TIF district does not capture this growth. As shown in Figure 2.2 after the base year is established only the tax revenue generated by the base assessed value flows to the different taxing bodies. The

increment on assessed values, if present, that are created in the TIF district flow to the TIF authority which can use this revenue to invest or pay their debts. (Dye and Merriman, 2006).

Investments in TIF districts are committed before increments are actually generated. Funds are needed to develop the district but results on increments are expected in the future. Therefore governments cope with a certain uncertainty because there is a risk that tax revenues will not grow (Weber and Goddeeris, 2007). Governments have three common methods to front fund TIF projects (Weber and Goddeeris, 2007):

- **Pay-as-you-go:** developers pay for their own development expenses and the municipality pays the developer as the tax increments are generated by the district.
- **Bond financing:** the TIF sponsoring municipality gives out long-term, low-interest bonds to pay for the development costs. These are paid off with the increment.
- **Short term tax anticipation notes:** these notes are short-term, higher-interest debt notes. Banks and investors take on the full risk that the tax increments will not be generated in return for higher interest.

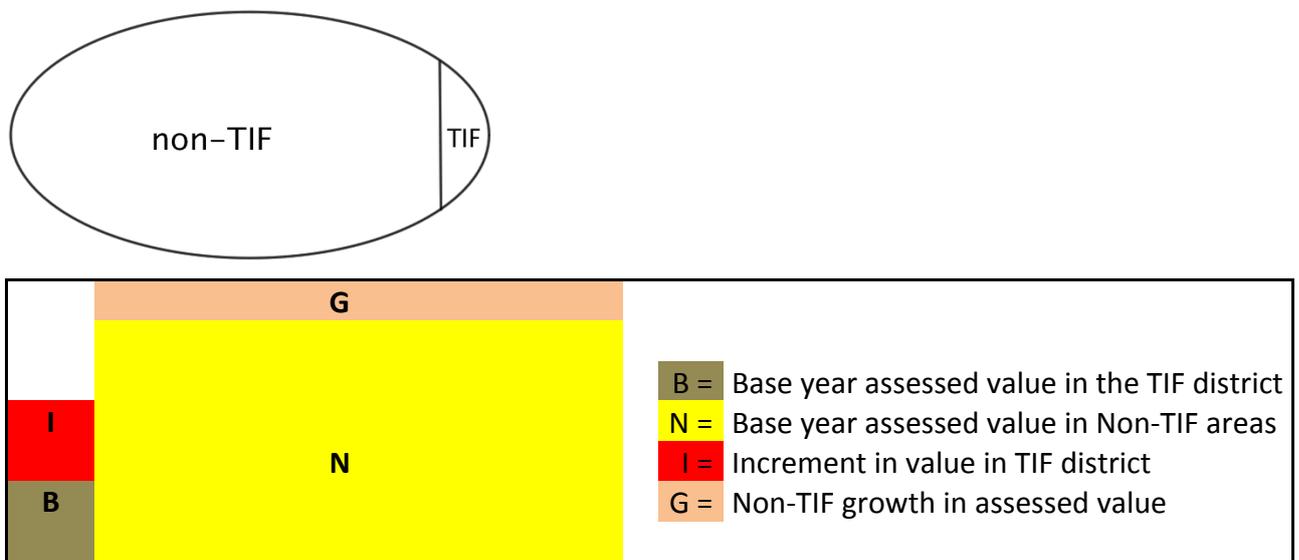


Figure 2.1: Property value growth TIF regions (figure after Dye and Merriman, 2006).

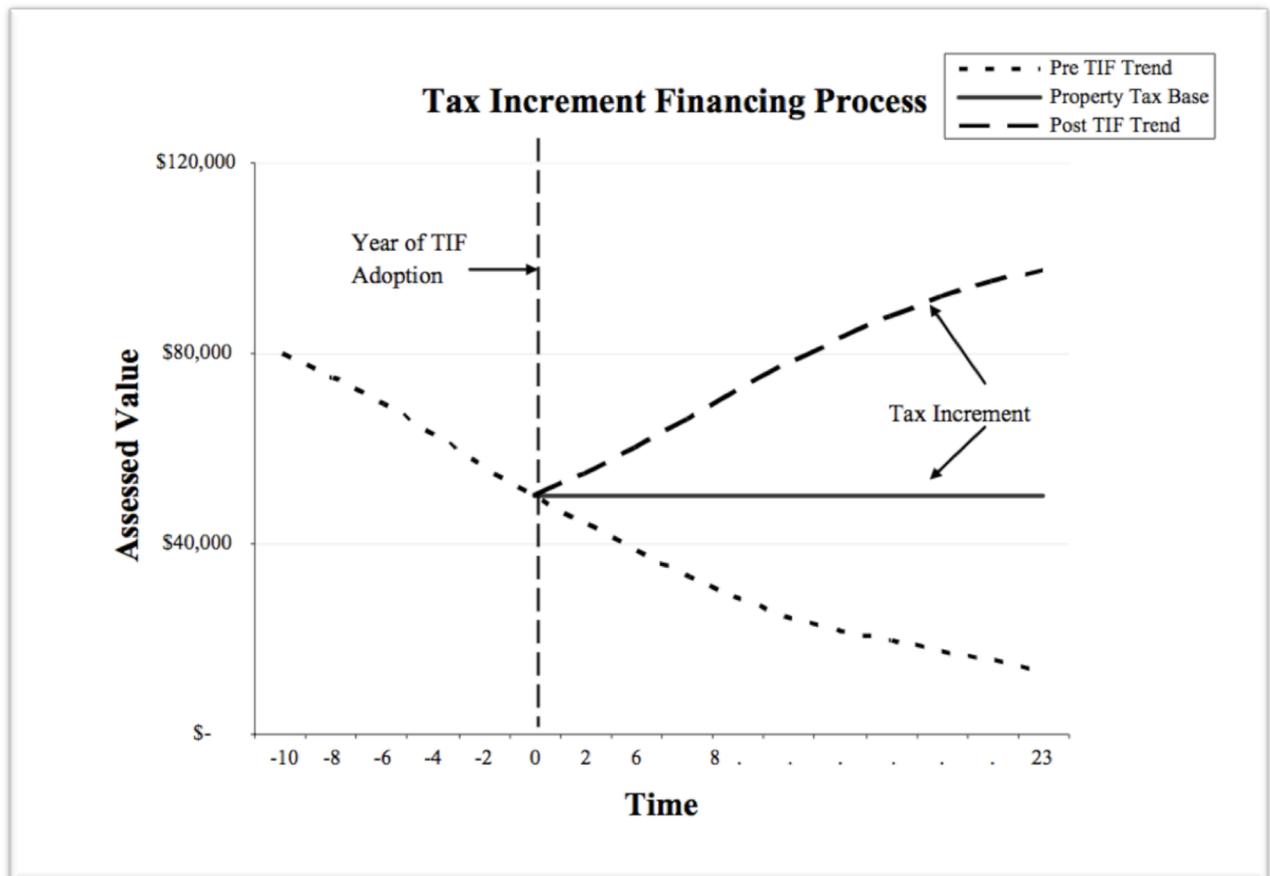


Figure 2.2 Schematic of TIF assessed value and Revenue Structure (Smith 2009).

## 2.2 The planning of TIF

Although the rules for TIF vary across the different states, the essence of TIF is that property tax revenue generated by developments in the TIF district is used to pay for public improvements in the same district (Klacik and Nunn, 2001). The public sector initiates a TIF itself because it wants to develop a site or wants to have more control over development activities (Weber and Goddeeris, 2007). In other cases, developers, property owners and private businesses pledge for the designation of a TIF district to help them with the redevelopment of a specific area (Weber and Goddeeris, 2007). To designate an area as a TIF district, the area should be blighted or underdeveloped and development would not take place “but for” the TIF subsidy (Dye and Merriman, 2006). The “but for” criteria is requirement to designate a TIF district and can be defined as the fact that the area would not be developed in the absence of the TIF investments (Gordon, 2003). Other requirements for TIF zones in Illinois are: the project area must be at least one and one-half acres in size, must be one contiguous area and can only benefit properties that need “substantially” support (Weber and Goddeeris, 2007, Hedges, 1986). The requirements

need to be documented in a development plan and presented at the state government. The state has to approve the redevelopment plan based on the requirements state in state law (Weber and Goddeeris, 2007).

The biggest controversy with the planning of a TIF lies in the blighted and “*but for*” requirement. Municipalities can provide this evidence but in practice it is hard to determine effects in the future (Gordon, 2003). Furthermore, municipalities do not include tests talking about the possibility that developments would have occurred elsewhere without investments or that they redistribute investments from elsewhere. According to Gordon (2003) local authorities almost have *carte blanche* when they have to define blight. The requirements to determine if an area is blighted is a long list of health, safety and welfare concerns where local officials have to identify some of these problems to qualify the area as blighted (Gordon, 2003, Weber and Goddeeris, 2007). As a result, the finding of blight is mostly an exercise for specialized consultants that can produce the needed evidence of most cases (Dye and Merriman, 2006). After all the requirements are met, a draft redevelopment plan for the TIF area is submitted. After the input from citizens at the public hearings, a new draft is produced and new ordinances, the issuance of debt, the establishment of TIF tax rates and the implementation of the project are created (Weber and Goddeeris, 2007, Klacik and Nunn, 2001). The whole process is summarized in Figure 2.3

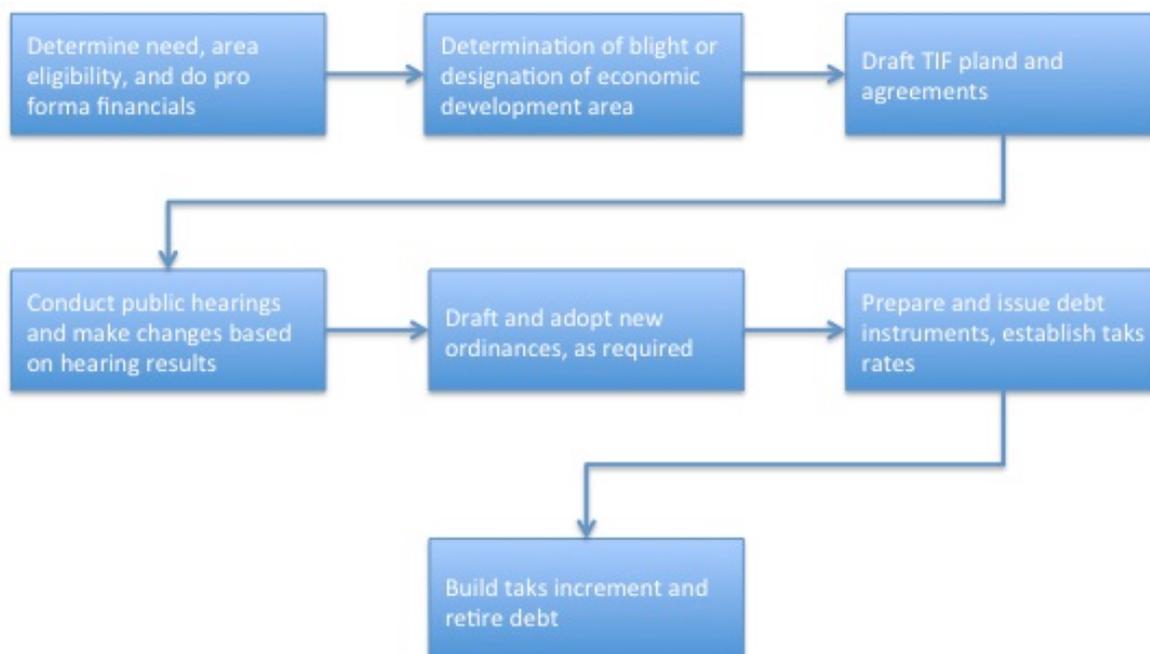


Figure 2.3: A Generic TIF Process (after, Klacik, Nunn 2001).

## 2.3 Property Tax

Property tax is an important local tax in the USA and TIF adoption often results in opposing taxing bodies because their taxing base is freezed for 23 years within the TIF district (Wallis, 2001). Local authorities depend highly on the property tax to finance projects. The tax is locally organized and therefore varies a lot across the country (Harriss, 1974). When a TIF is adopted it will influence the future tax base for property taxation for all taxing jurisdiction present in the TIF. The district will capture the EAV increment created by redevelopment. Multiple taxing jurisdictions do not receive the tax money on this developed increment, therefore often oppose against the adoption of a new TIF district (Weber and Goddeeris, 2007). School districts for example have the highest property tax rate and therefore are one of the largest contributors to the TIF subsidies (Skidmore and Kashian, 2010). Larger taxing districts like counties or school districts extend beyond this municipal border but still have to contribute to the TIF district.

## 3. Theory

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This chapter will provide basic theoretical insights in the case of economic development and Tax Increment Financing. It will start by shortly introducing economic development and the role of governments in this process. Next it will discuss reasons why governments adopt TIFs and present empirical results. This chapter will help identify expected results when adopting a TIF.

### 3.1 Economic development and government

Economic development is a concept that is rather broad and difficult to define. Different institutions or users all have their favorite definition. Economic development goes hand in hand with economic growth that is generally measured in terms of employment growth, population growth and or income growth (Green, 2007). According to Bartik (2003), government supported economic development programs seek to increase local jobs or the local tax base. Johnson and Man (2001) point out that economic development has become one of the top priorities on the public policy. Although economic development is a high priority for local governments, experts disagree about the role the government should play in this process (Koven and Lyons, 2003). There is no consensus about the role a government should play in economic development and if it actually sustains economic growth. Malizia (1985) states that economic development is a product of production, management and planning, where planning is the most essential part of this process because policies and strategies are developed at that stage. Planning and policy making is an essential part of governments, the development of economic development strategies seems to be at the right place. In addition to this, Reese and Ye (2011) state in their research that economic development tools are unrelated to economic health or lead to poorer economic health. They also state that economic health is path dependent and economic health cannot be reached by a single incentive or short-term development strategy. In the end, economic development policies try to reduce costs to businesses by assisting them with subsidies, improved infrastructure or services in order to stimulate development (Man and Johnson, 2001).

## 3.2 Tax increment Financing

TIF is one of the most widely used economic development tools in the USA and different factors may influence the governmental institutions in adopting TIF. Theory highlights five reasons for the use of TIF, namely:

- Raise property value inside and outside the TIF
- Fight economic decline
- Other Expected gains of TIF
- Need of funds
- Competition with other jurisdictions

### 3.2.1 Raise property value

The main goal of TIF is to increase property values and generate tax revenues for needed infrastructure investments and public expenditures (Man, 2001). Due to the fact that blighted characteristics are needed, vacant land, deteriorated buildings and abandoned structures will be converted to more productive uses and this makes value increases realistic (Ellen et al., 2001). TIF allows cities to invest in infrastructure improvements and public goods, which in turn can attract private development and projects (Davis, 1989). Studies show a positive relationship between infrastructure investments and housing prices (Bartik, 1991). In addition, Voith (1993) and Haughwout (2002) point out that public investments for infrastructure have a positive effect on land values. Especially transportation investments that benefit the central city's infrastructure have a positive effect. Without TIF, municipalities might not have the funds to undertake this kind of public expenditures. Therefore, by isolating a share of the future tax receipts, TIF lowers the costs of development projects for local governments so they can undertake projects (Huddleston, 1994). It may therefore be expected that through necessary public investments property values will rise and TIF will have a positive effect on property values. Even if no new development occurs within the district, it might be possible that the market will speculate on future developments based on the TIF, which in turn will higher the values in the district (Weber et al., 2007). In a theoretical paper, Brueckner (2001) points out that if the public good investments within a TIF are of the same size as the 'loss' of tax income for other taxing jurisdictions, TIF can be justified. By TIF, more public goods are provided for the whole community and both inhabitants in the TIF and outside the TIF can benefit from these goods. Due to the increased public goods aggregate real estate values will increase and will be higher than municipalities not using TIF. This theoretical study highlights the possibility of spillovers in

property value because not only house prices within the TIF benefit, the whole community can experience property value growth.

Multiple empirical studies prove that the property value increase within TIF is realistic. Furthermore, property value spillover effects can also be expected (Weber et al., 2007). Property value growth is generated mainly because of investments in infrastructure. Infrastructure investments and improvements in TIF districts cause substantial spillover effects on the community (Man and Rosentraub, 1998). Man and Rosentraub (1998) show that owner-occupied housing values increased by 11% relative to what they would have increased without TIF. Their results show a positive relation between property value growth within the district and surrounding communities and TIF adoption. Carroll (2008) supports this and shows that investments in public services and infrastructure within TIF districts are capitalized into property value over time. Weber et al. (2007) show that property value increases depend on the designation of the district. Mixed-use TIF areas (residential, commercial and industrial properties) increase the demand for land and stimulate higher prices. They also showed that TIF has significant spillover effects on neighboring houses. Infrastructure, public investments and changing neighborhood characteristics have a positive effect. Traffic, pollution, lack of pedestrian access etc. created by more business and industrial activities have negative spillover effects. They show that mixed-use zones influence properties at close proximity. Figure 3.1 shows that prices decrease rather fast with distance.

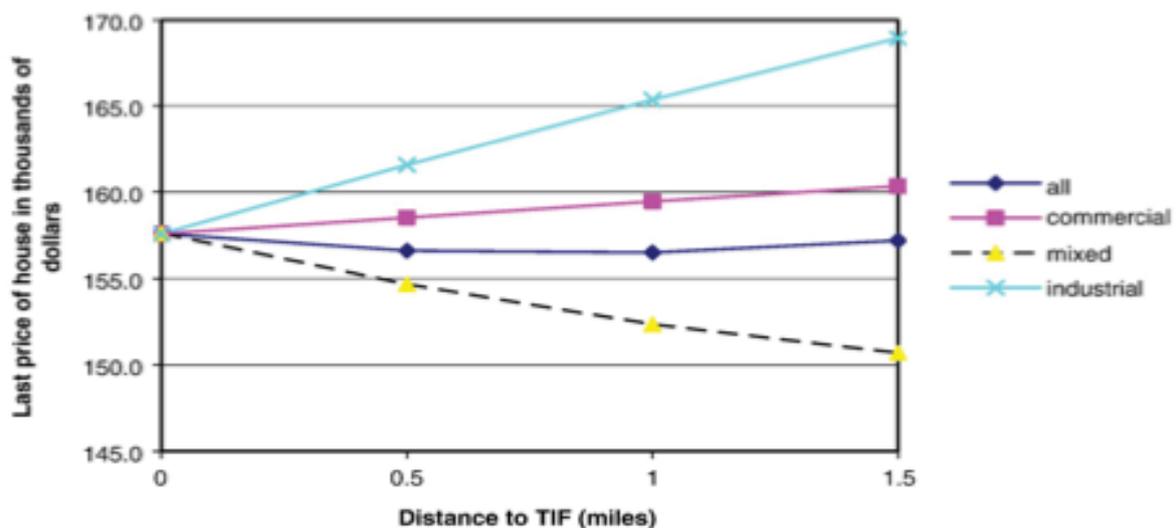


Figure 3.1: Property value spillover effects of mixed-used TIF zones (Weber et al., 2007)

Dye and Merriman (2000) come to a different conclusion than the previous listed literature and did not find a statistically positive effect of TIF adoption and growth in property values. Their results show that cities that adopted TIF grew less rapidly in Equalized Assessed Value

(EAV) than cities that did not. They argue that this is the result of relocating property improvements to less productive new locations, which negatively impacts property value growth of the city. In a different study (2003) they also show a significant negative impact on commercial assessed values outside the district. The authors call this effect by TIF districts: “cannibalization” of commercial developments. However, they do find a positive growth rate of property values within the district but this positive effect is mostly generated in the first several years and growth rates decline about one percent per year after this initial stage (Dye and Merriman, 2006). Merriman et al. (2011) also find little evidence of increased property values due to the implementation of TIF. They show a growth in property values in TIF districts but this does not lead to rapid growth in the entire community. These results show that in some cases capital is not used optimal due to TIF. Cities therefore need to consider how much growth needs to be sacrificed to develop blighted areas (Merriman et al., 2011).

### 3.2.2 Fight economic decline

TIF was originally created to support redevelopment programs that were focused on blighted areas (Briffault, 2010, Vogt, 2009). Neighborhoods are largely influenced by behavioral impacts and the state of structures. Foreclosures and abandoned properties can have a negative effect on neighborhoods (Can, 1998). Investments in physical infrastructures and other public expenditures are therefore needed to redevelop the district and improve growth within that district (Briffault, 2010). One case of redevelopment that lies in the line of TIF is property led redevelopment. Properties give the urban environment an identity and property led development has the goal to improve the condition of properties in depressed parts of cities (Turok, 1991). By redeveloping or refurbishing buildings, the appearance of the surrounding environment is hoped to change the image of an urban area (Turok, 1991). Investments in the physical condition of a neighborhood can generate positive externalities and create an upward spiral of improvement. Investments will be made with the goal to improve the quality of life within the TIF district (Turok, 1991). Improved security, better accessibility, increased opportunities for leisure, higher aesthetic value due to property improvement will add to this (Haughwout, 2002). Stimulating retail development can further add to this and when population growth is realized, these factors can strengthen each other (Weber et al. 2009). This can bring all-round benefits and makes it more attractive to live and work in the TIF district (Turok, 1991). Redevelopment and property value increase can also cause gentrification, when higher income households move back to the redeveloped

district (Dye and McMillan, 2007). According to Cumming and DiPasquale (1999), the arrival of higher income groups can further remove the existing bad neighborhood effects and can raise the standard of the neighborhood. Dublin and Sung (1990) conclude that socio-economic status and racial composition of the neighborhood affect housing prices more than the quality of public services. Gentrification can cause a shift in income profiles and will change the demographic composition of an area. These effects can also spill over to nearby areas. This can be called adjacency effects; this means that positive and negative externalities have an influence on neighboring properties (Can, 1998). In this way, cities might see demographic and socio economic changes around TIF districts. TIF is able to get these developments started because it will add capital to support investments that are normally restricted to more economically viable districts (Smith, 2009). Byrne (2002) finds that percentage of white residents, median age of structures and low vacancy rates have a positive influence on neighborhood housings prices within TIF districts. Racial composition makes a difference and could be discrimination in the housing market (Byrne, 2002). It influences housing prices because it lowers willingness of business and residential buyers/renters to move into a minority or racially mixed area This composition would limit the effect of increased public good provision on property value (Byrne, 2002).

### 3.2.3 Expected economic development gains

Closely related to fighting blight is the expected economic development gains municipalities anticipate on when adopting TIF. Municipalities adopt TIF because they assume it will positively influence business location and increase economic activity (Man, 2001). Local governments adopt TIF districts to correct for market failures and try to reverse poverty and unemployment in neighborhoods (Man, 2001). Without TIF, these districts would not attract businesses because they are in a blighted state (Man, 1999). Klemanski (1990) therefore argues that economic decline makes governments adopt local economic development tools like TIF. Research shows that economically distressed cities are more likely to adopt TIF as an economic development tool (Man, 1999). On the other hand, Anderson (1990) shows that there is a significant relation between the expected growth of a city and the adoption of TIFs. He argues that it is not only blight that cities want to turn around. This result is supported by Forgey (1993) and it can be concluded that cities use TIF to turn around a negative economic situation or anticipate on future growth. Investments that are done in the name of fighting blight need to stimulate the economic situation and benefit businesses. Infrastructure improvements and financial incentives available from the

TIF can draw jobs and new investment to these targeted areas (Weber et al., 2007). Furthermore, infrastructure improvements can increase labor productivity and reduce costs for doing business (Man and Rosentraub, 1998). In this way, private investments realize a higher marginal value and TIF districts can therefore attract more capital. Commercial and industrial sites will benefit from this because they have a high need for public goods and the lack of these goods was the reason they did not settle in the TIF district (Byrne, 2002). Research supports this and finds a positive relation between public infrastructure investments and economic performance (Man, 2001). The tool of TIF is the most efficient local economic development tool to fight economic decline because it is more effective and less bureaucratic than other city policies (Wassmer, 1994). TIF is able to refurbish districts and make downtowns attractive again (Wassmer, 1994). According to Byrne (2002) TIF is not simply a subsidy to attract businesses because it puts in durable public improvements and businesses stay within the district until and after the district has been finished. Empirical research shows increased commercial activity in the TIF and stimulated commercial activity outside the TIF (Wassmer, 1994 and Weber et al., 2007). Retail employment and local service employment are also positively influenced in TIF districts (Wassmer, 1994). A different study shows no aggregate employment increase in cities using a TIF (Byrne, 2010). Employment numbers did grow in the TIF districts but decreased in the rest of the city. Especially mall development with the help of TIF districts shifts employment within the city. Industrial development in return shows a positive effect in employment, by attracting businesses from outside the municipality. Cities therefore need to be aware of the fact that they need to create public improvements that attract new businesses from outside their county if they want to increase employment.

### **3.2.4 Need of funds**

Another reason for adopting TIF is fiscal needs of the municipality. TIF is able to capture property tax funds that would normally flow to other taxing jurisdictions. It also allows municipalities to issue out bonds for the TIF projects (Weber and Goddeiris, 2007). In this way funds can be secured for the city by adopting a TIF. Man (2001) shows that during the seventies and eighties federal and state aid to municipalities decreased. TIF was a method to generate funds without raising taxes and therefore the use of TIF increased in the U.S. during this period (Briffault, 2010). Chapman (2000) supports this when he concludes that fiscal stress in California influenced the degree of TIF adoption between 1978 and 1986. Man (1999) shows that cities with declining real per capita state aid have a higher chance to adopt

TIF than cities that experience an increase in state aid. She finds a significant relation between municipal TIF adoption and intergovernmental aid. Stinson (1992) and Dardia (1988) both point out that TIF projects are not always cost-free and high property value growth rates need to be realized in order to make it benefit the whole community. They state that TIF is a way to divert future tax money to TIF projects that seem a good investment but keeping the money on the bank might yield higher financial returns. Huddleston (1984) has a more positive view and states that TIF works for what it was designed for: change the development path and get projects started because more funds are secured. Weighing in the costs of a TIF and the potential failure of a TIF, municipalities need to realize that diverting tax money into the TIF is not always a zero-sum game and it could cost the total city money.

### 3.2.5 Competition

To attract businesses, local governments adopt incentive programs. These incentives are also used to compete with surrounding jurisdictions about business attraction (De La Cerda, 2010). Local governments fear that without these incentives they would lose the competitive battle in the region (Man, 2001). In an empirical study, Man (1999) suggests that the probability of adopting TIF is increased when its neighboring cities have implemented a TIF program. Byrne (2005) finds the same relation and shows that municipalities compete for investments and economic activity in the region. Forgey (2003) adds to this view that cities larger than 10,000 are more likely to implement TIF and that population growth has acted as a trigger to TIF adoption. Competing for economic activity and population links back to all the previous reasons for adopting a TIF. Cities want the highest growth in their region and will lure businesses in to stimulate development.

This chapter showed that municipalities all have different reasons to adopt a TIF. When a TIF is adopted multiple mechanisms affect economic development although no clear verdict is given on the true effect. Literature shows that in some cases TIF can cause positive effects within the district and also in the rest of the city but it also shows that capital can shift to TIF districts from other areas of a town because the added benefits. The next chapter will introduce the research methods that will be used in this thesis.

## 4. Research method and research area

This research tries to unravel the performance of the three TIF districts in Champaign and the impact on Champaign due to possible spillover effects. To answer the research question three methods are implemented, namely: interviews, difference-in-differences analysis and socio-economic spatial analysis. As shown in chapter three, multiple empirical studies have been executed about the effect of TIF on property values. This research however, will take a case study approach to determine the local effect of TIFs on property values and demographic changes. This approach is adopted because it will give an in-depth look in the functioning of the TIFs and possible spillover effects in Champaign. Indicators will be used to identify economic development and spatial mapping tools are used to visualize the spatial effects. This chapter will discuss the three methods used in this research. For every method used, data and data limitations will be discussed. At the end of the chapter the research area will be introduced.

### 4.1 Methods

This part will discuss the methods used in this thesis. First, the interview method and interviewees will be presented. Secondly, the difference-in-differences analysis will be explained. Finally, the spatial analysis is introduced.

#### 4.1.1 Interviews

To create a better context for this research, interviews are conducted with experts on TIFs and role of TIFs in economic development and redevelopment. This will provide the research with inside knowledge of developments and goals of TIFs and will give a political view to the topic. Interviews are conducted with Craig Rost, City Manager for Development for the City of Champaign, Terry Blakeman, City Planner and TIF administrator for the City of Champaign and John Demit, CEO of the Economic Development Corporation of Champaign County. The interviews will be used to indicate the goals of the TIFs in Champaign and will help evaluating their level of success over the years. They will also help to explain certain shifts in and around the TIF districts. All the interviewees have a long experience with TIF, although not all were present when the TIFs were adopted. To support the interviews, official TIF documents and research about the TIFs in Champaign are reviewed and used to formulate expectations and goals.

#### 4.1.2 Difference-in-differences analysis

The first indicator that will be used to determine economic development is the Equalized Assessed Value (EAV). EAV is a key indicator in TIF research because it shows the increase in property values and determines the increment created in the TIF district (Weber and Goddeeris, 2007). EAV growth is generated by public and private investments in the district. By adding capital to the district, property values are supposed to increase and create an increment. TIF districts need EAV growth to generate income in the district and use this income to pay off debts or finance new investments (Klacik and Nunn, 2001). Most TIF research evaluates the success of a TIF on the performance of the EAV development. Besides pure financial matters, EAV growth is also a good indicator for the quality of a neighborhood and local economic conditions (Ding and Knaap, 2003 and Hwang and Quigley, 2006). Housing prices are the result of the local economic and housing market situation. Changes in the economic situation, like the distribution of income will change the demand for housing and will influence property values (Hwang and Quigley, 2006).

The EAV indicator will be analyzed by a difference-in-differences analysis. This method is a much-used tool to estimate policy effects (Wooldridge, 2009). The impact of a policy on an outcome can be estimated by calculating the difference over time and across subjects (EU, 2012). By comparing the before-after change in the area and the differences between the treatment area and the control area, the effect of the policy can be estimated. In this way, the effect of the policy intervention is separated from the situation where no intervention occurred. The analysis makes use of a control group, which is not affected by the policy change and a treatment group that is affected by the policy change (Wooldridge, 2009). In a standard difference-in-differences analysis four periods of data need to be available: the control group before the intervention, the control group after the intervention, the treatment group before the intervention and the treatment group after the intervention (Wooldridge, 2009). The schematic representation of a difference-in-differences analysis is visualized in figure 4.1.

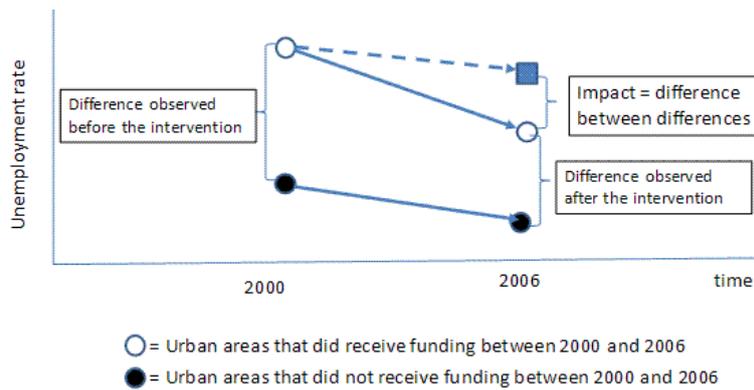


Figure 4.1: Visualized difference-in-differences analysis (EU, 2012).

This research will apply a basic difference-in-differences analysis on the Equalized Assessed Value of the three TIF district. The control group in this case will be the EAV of the County of Champaign and the Township of Champaign. The treatment group will be the three TIF districts. This analysis will be able to shed a light on the difference a TIF district can make on the change of property values and EAV increase. Byrne (2002) points out that controlling for differences between TIF districts and their respective municipalities is essential when comparing the success of property value growth of TIFs. The analysis of the EAV will be the first indicator of economic development in Champaign.

The data that will be used for the difference-in-differences analysis is gathered from local documents and records from the County Assessor of Champaign County. Several annual reports and TIF parcel valuation were provided by Terry Blakeman from the City of Champaign. Only records of the pre-stage of the downtown TIF and North Campustown TIF were collected. Government documents however did write about EAV growth rates in the other district, but no values were displayed. The documents stated that the EAV growth rate of TIF 2 did not keep up with the increase in the overall City EAVs between 1975 and 1985. The growth in block groups of this TIF was attributed to inflation and the construction of new multi-family structures. Since TIF districts need to be blighted and the city needs to show a decline in EAV growth rates, the rate used will be zero percent. Records of TIF 1 go as far back as 1970, eleven years before the creation of the TIF. Records of TIF 3 go as far back as 1995, six years before the creation of TIF 3. The EAV data about the County and the Township date back as far as 1983. Before these years there is no data and therefore a growth percentage of three percent is used for the years before 1983. This percentage is chosen because it closely reflects the consumer price index change during this period (BLS,

2013). The EAV of the TIFs is subtracted from the county and township EAV to filter out the effect within the TIF.

#### 4.1.3 Spatial analysis

To evaluate the contribution of TIFs to the districts and possible spillover effects on the city of Champaign, a spatial analysis is executed. Evaluation of the contribution of TIFs to the development of Champaign and the determination of possible spillover effects requires indicators that can shed a light on shifts that happened in the districts or in close proximity to the districts. The decennial housing census collects several housing indicators, used frequently in research to explain economic development. Five variables from this census will be used in this thesis to identify economic development. The selected variables are:

- Population growth
- Housing units growth
- Median gross rent growth
- Change in vacancy rate
- Change in share of owner occupied housing units.

These variables will be the five indicators used in the spatial analysis to map economic development within the TIF district and economic spillovers in Champaign. These indicators are chosen because they can reveal social economic shifts and can therefore shed a light on economic development (Boyer, 2008) Furthermore, data from the housing census is widely available and is one of the most stable census part.

*Population growth* is a much-used indicator in economic development (Green, 2007). Population growth can be linked to both economic development and employment growth (Green, 2007). For example, population growth can indicate employment opportunities for the city as a whole and a growing population can indicate increasing economic performances. Moreover, population growth can stimulate property growth due to higher demand of housing in an area (Ellen et al. 2001). In the light of TIF research, Huddleston (1984) and Anderson (1990) point out that cities with a higher population growth earlier adopt TIFs but are also able to fully exploit the benefits of a TIF. Furthermore, TIF redevelopments have the goal to remove blight from an area and attract population to the area. Therefore, in this research this variable is down scaled to identify economic growth and attractiveness of small geographic areas in Champaign County.

Glaeser et al. (2006) point out that when interested in urban growth one must

consider housing markets and especially the housing supply. There is a strong correlation between population development and housing unit development (Glaeser et al., 2006). However, this does not mean that housing unit growth is a direct result of population growth because employment and businesses cannot expand when there is no construction of new homes for new workers (Glaeser et al., 2006). In the case of TIF, *housing unit growth* can give an indication of real estate development and can shed a light on the increased private investment behavior in a region stimulated by TIFs (Smith, 2009). The development of housing units indicates a demand in the local housing system. As income increases, prices are bid up and new construction of housing units becomes more profitable so more development should occur (Hwang and Quigley, 2006). This increased demand could be a result of changes in the economic situation in a neighborhood. Finally, development of housing units can also be a result of local land use and building regulations (Hwang and Quigley, 2006). These factors affect the development of housing units and stringent regulations for example make the housing supply inelastic (Glaeser et al., 2006). In the case of TIF one might expect less stringent housing regulations and therefore a higher elastic housing supply responding quickly to population demand.

Households that do not own a house must rent housing services on the market and are subject to annual fluctuations and changing supply and demand (Sinai and Souleles, 2005). Prices are determined by different factors and research shows that several variable and fixed effects determine rents (Potepan, 1996). Fixed effects for a city are for example climate or other topographical constraints. Variables that can vary within a city are for example: land prices, household income, population and crime rates in the neighborhoods (Potepan, 1996 and Saiz, 2010). In this way, economic development and attractiveness within a city can be indicated. In this thesis, *Median gross rent growth* will be the indicator used. This variable will give an indication of income development and the value of building in the city. Furthermore, as with EAV, median gross rent is a good measure of the quality of a neighborhood (Ding and Knaap, 2003). Rents will capture the local economic conditions and the socioeconomic status of inhabitants in the area (Hwang and Quigley, 2006)

Municipalities often regard vacancy rates as a blight factor (Dardia, 1998). A goal of property led development is to improve buildings for occupation and investment purposes (Turok, 1991). By (re)developing housing units and improving infrastructure, apartments become more leasable and by decreasing vacancy rates the area can benefit. By a higher standard in the TIF area and surrounding areas, vacancy rates should decrease. Decreasing

*vacancy rates* will therefore be a positive result of TIF development. Lower vacancy rates will show signs of more leasable apartments in the area due to better apartments or a higher quality area. Furthermore, vacancy rates will decrease when demand for housing units increases. Houses that would otherwise become vacant or demolished will become occupied or renovated when demand is high (Hwang and Quigley, 2006). High vacancy rates can also be considered as an indicator of anticipated growth because developers see potential in an area (Boyer, 2008). Developers then overdevelop to meet demand in a later stage of time. The indicator will give an indication of the removal of blight and property development.

*Change in owner occupied housing units* will shed a light on the amount of owner occupied housing units in the TIF area and it will indicate the long term attractiveness and the socio economic status of a neighborhood. Increasing homeownership is a goal for many economic development programs and is often seen as essential in neighborhood revitalization (Rohe and Stewart, 1996). Homeowners typically earn higher incomes than renters and their presence can raise the socioeconomic status of an area (Ellen et al. 2001) Homeownership can also have positive spillover effects on property values due to increased property maintenance and less migration (Rohe and Stewart, 1996). Furthermore, homeowners are expected to take better care of their homes and are more involved in local activities because their house value will be positively influenced by a better neighborhood (Ellen et al. 2001). Decreasing homeownership can decrease property values, which is especially negative in the case of TIF. This indicator will be able to shed a light on a changing socio-economic population. This can be seen as economic development because it will add value and capital to the area.

By making use of the census data starting in 1980, the changes of all the TIF districts and their surroundings can be monitored and possible shifts can be revealed. As this study aims to reveal possible spillover effects of the three TIFs, GIS technology is used to map the change of the nine indicators for the City of Champaign. GIS is often used in research to visualize spatial relations and provides the researcher to organize, visualize, and analyze data in a map form (Can, 1998). Multiple data sets have been integrated to create the maps needed for this research. GIS is a useful tool to explore spatial data and do spatial analysis (Can, 1998). This research will use GIS as an exploratory tool to describe spatial patterns and trends over time. By integrating decennial census data with spatial data a rather new way of analyzing a TIF district is implemented.

Data that will be used for this analysis is data from the decennial census about

housing characteristics. Data is gathered for Census Block Groups (BGs) and the dataset includes data of the five indicators. Only median gross rent is missing in the dataset of 2010. The BGs make it possible to separate property inside the three TIF districts. Data is gathered for the years 1980, 1990, 2000 and 2010. These years cover the whole period of all the TIF districts and can therefore serve as an appropriate window to examine changes in the districts over time (Boyer, 2008). Shape files needed for the spatial analysis are recovered from the United States Census Bureau. Spatial data for 1980 was not available and the 1990 spatial data is therefore used in its place. Some census data and geographic data did not match and is therefore reported as 'missing'. Other time periods also showed missing data because geographical entities did not overlap.

## 4.2 Area of research

This research will analyze three TIF districts in the city of Champaign, Illinois USE. The City of Champaign is the largest city in the County with a population of 81,055 inhabitants. Two others cities are contiguous with Champaign and the combined population of Champaign, Urbana and Savoy is 129,585 inhabitants (EDC, 2013). The largest employer in this urban area is the University of Illinois Urbana Champaign. The university lies between Champaign and Urbana and the number of students enrolled in this university is around 40,000 students. This research will analyze the spatial effects of the three TIFs situated in Champaign. All the TIFs are mixed-use TIFs and try to attract population and businesses. Between Downtown TIF and East University Avenue a train track is situated that separates the two parts of the city. Figure 4.2 shows the three TIF districts in the City of Champaign. Figure 4.3 shows the City of Champaign and its surroundings.

The first TIF, called Downtown TIF, was established in 1981 and was set for 20 years. The TIF got extended in 2006 to further improve the downtown. The original goal of this TIF was to turn around the functional and economic obsolescence of downtown Champaign (City of Champaign, 1981). Disinvestment and companies leaving downtown led to accelerating blight. Large expenditures to assemble sites or modernize buildings and locations and the failure to maintain the retail mix required to compete with planned shopping centers are put forward as reasons. The goal of the TIF was to redevelop the downtown and prevent and remove blight from the downtown. Furthermore, the city wanted to increase the tax base and encourage private investments and redevelopment within the district. A building rehabilitation loan program was set up, landscape and

streetscape projects were undertaken and the city participated in land acquisition to stimulate private redevelopment or use it for the construction of public improvements. Funding was realized by increases in the equalized assessed valuation of the TIF and money from the sale of city-owned land located in the TIF (City of Champaign, 1981).

The second TIF, called East University Avenue TIF, was established in 1986 and had an original lifespan of 23 years. The original argument to start this TIF was that the University Avenue corridor had lost the vitality and importance it once had (City of Champaign, 1986). It was called a conservation area where rapid deterioration and decline may lead to blighted areas when not checked. Obsolescence, abandonment, depreciation of physical maintenance are some of the 14 original blighting factors (City of Champaign, 1986). Overall, the area was not experiencing growth and development through private investment and the EAV declined. The hope was that the TIF would capitalize on the downtown redevelopment, the planned expansion of the Mercy Hospital and the North Campus expansion from UIUC. The city planned land acquisition and public improvements like sidewalk replacement and other kinds of streetscape. It also put into place a building rehabilitation loan program. Funding was realized by increases in the equalized assessed valuation of the TIF and money from the sale of city-owned land located in the TIF. The TIF got extended in 2010, but the area of the TIF was made smaller. It was argued that the TIF did not perform up to expectation due to wrong expectations about planned developments like the expansion of the campus that did not take off as the City expected and the momentum from downtown did not spill over to this area (City of Champaign, 2010).

The third TIF situated in Champaign, called North Campustown TIF, was established in 2001. The TIF was implemented to try to meet the demand for multi-unit residential structures and to spur development on the former Burnham Hospital facility site. The City had large concerns about the hospital site because they expected no redevelopment on this site without help,

due to deteriorated conditions and environmental remediation requirements (City of

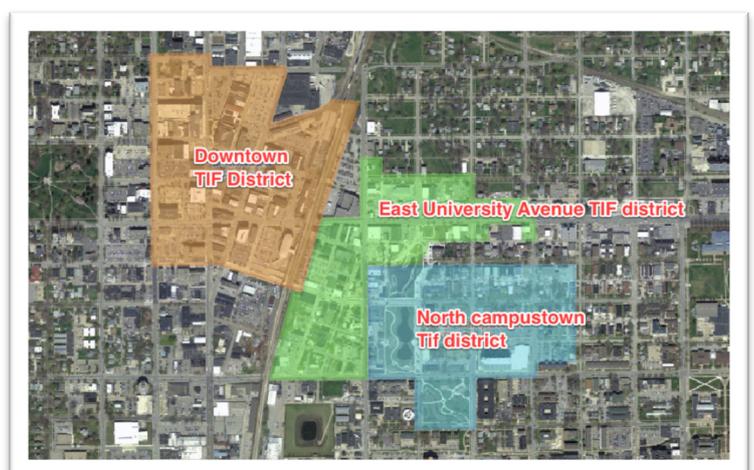


Figure 4.2: TIF districts in the City of Champaign. (City of Champaign, 2013)

Champaign, 1986). This would have a negative impact on this area that is close to the university campus. The redevelopment plan stated that the TIF there would be a large investment in the land acquisition and site preparation of the former hospital site. Furthermore, landscape and streetscape projects were initialized and improvements to existing structures were promoted. The TIF is financed by property tax increments, other local taxes and proceeds of property sales. This financing will be used to pay debt service on the investments of the City during the life of the TIF (City of Champaign, 2001)

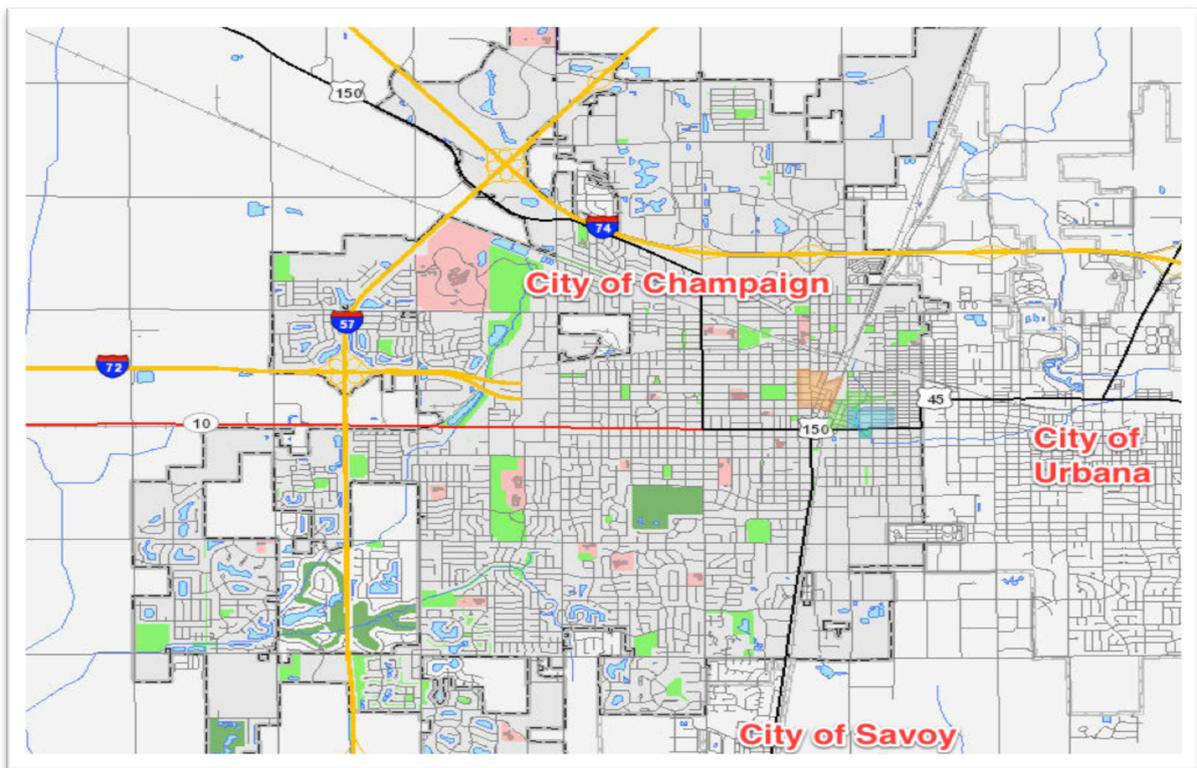


Figure 4.3: City of Champaign with the neighboring cities of Urbana and Savoy (City of Champaign, 2013).

## 5. Results

This chapter will discuss the results based on the available data and methods used. It will start by discussing the expected economic growth of the different TIF districts. Based on interviews and policy documents, an impression of the TIFs development will be given and expectation will be formulated. After the first section, the expectations will be discussed and analyzed by the introduced indicators and spatial analysis. During the spatial analysis possible spillover effects are described.

### 5.1 Interviews

The Downtown TIF that started in 1981 and the East University Avenue TIF that was adopted in 1986 show a different development path. Based on the interviews it is clear that the Downtown TIF was a successfully designed TIF and had great impact on the quality of downtown (The interviews can be found in the I). In the first years of the Downtown TIF the results started slowly, until 1990 it stayed a downtown that used 8:00-17:00 operation hours (City of Champaign, 2006). In the eighties a central pedestrian mall was removed and other buildings and land were acquired and demolished. During the nineties more development came into the downtown and traffic increased in the night hours. From the beginning there was a focus on cityscape, public areas and restaurants. Due to a liquor license offered by the city, bars and restaurants entered the TIF district (Blakeman, 2012). All the interviewees believe that businesses created in the downtown are mostly new businesses coming to this area because it was redeveloped and population growth was realized (Blakeman, 2012). A 'brick and mortar reconstruction' approach was adopted and this changed the appeal of downtown. Businesses were attracted because the redevelopment in the district was successful. Local entrepreneurs started this development and at the moment there is a good mix of local stores and food and drink businesses that create a good quality of life. Rost (2012) indicates that he did not see shifting of capital from elsewhere in the city to the TIF district because the district has a specific crowd it attracts. Dimit (2012) has a different view and acknowledges shifting of capital and population but sees this as a good thing because it encouraged people to take on projects in the district that otherwise would not have happened. Because the TIF was stretching over the whole of downtown, rents stayed equal and businesses with a preference for downtown got a equal playing field (Dimit, 2012). Blakeman (2012) evaluates this TIF as successful because it brought residents

back to down town and created more leasable properties. Dimit (2012) sees the redirection of development to the core of the community as the main success. Rost (2012) states that the success of the TIF was the change of identity of the downtown. By making it safer, more walkable and by implementing entertainment people were drawn to the downtown. Based on the interviews, a strong development in the economic development indicators can be expected. In the first period of 1980 - 1990 there was a strong focus on removing obsolete buildings. The fire in 1987 also stimulated the demolition of a block. Between 1990 and 2000 a streetscape and loan program was adopted. Property owner largely started renovating buildings and in a later period large property development projects came online (Blakeman, 2012). This helped to increase the quality of life and the attractiveness of downtown. More value was added to the area in this period, therefore a strong rent increase could be expected. In the period 2000 – 2010 large development projects came online but at the same time the interest in downtown also increased. This might suggest a stable vacancy rate. During all the periods EAV development took place but one might expect a slower growth in the first period due to the removal of several buildings. EAV increases will be especially strong when large projects like M1 came online. Furthermore, from the interviews it becomes clear that other indicators like safety and street activity are important goals in the redevelopment of the downtown TIF. It seems that not only value determines the success of this TIF.

The East University TIF had a different start and approach. It started on a larger geographical scale and was created to anticipate on future developments. This TIF is sited on the east side of downtown and is separated by a train track that puts a barrier between the downtown and the more industrial east downtown (City of Champaign, 2010). When in 1986 the TIF was started in this area, with First Street as its main corridor, it lacked pedestrian infrastructure and was between the two downtowns of Champaign and Urbana. As a result, developments began to take place elsewhere and blight occurred (City of Champaign, 2010). The TIF was adopted to turn back this blight but also because of upcoming research park developments from UIUC spurred plans for nearby offices, research facilities and a hotel. Furthermore, spillovers from downtown were expected. A TIF could benefit these expectations by offering a suitable place for development. Unfortunately the University only developed a new part of campus and this campus site minimized the need for offices and a hotel. Both Rost (2012) and Blakeman (2012) indicate that TIF 2 did not start off well. The TIF area was too large and the anticipated developments did not occur. The TIF

took a more low profile attitude and streetscape projects were implemented. The city also situated a new police station in this TIF and started to redevelop the area around it. Rost (2012) indicates that this TIF did not have an economic engine to stimulate the area, unlike downtown where several owners invested in the area and larger projects came online. Properties did not change ownership and developments did not take place. Rents in the area also stayed low and owners did not invest in their buildings although the city invested in infrastructure. In the nineties, the city started to create Boneyard Creek, a floodplain with water overflow storage basins for occasional floods (City of Champaign, 2008). This development created a large floodplain basin that could function as a park. The green atmosphere spurred redevelopment around it when it was finished. All the interviewees were less positive about TIF 2 than TIF 1 and focused on the developments that did not happen and the lack of ideas about the purpose of this TIF. Expectations about the performance of the economic development indicators are therefore low. Rost (2012) indicated that properties did not change hands enough so EAV growth is expected to be low. In the first years of the TIF, developments did not take place so changes in the first period that will be seen cannot be attributed to the TIF. In the second period, more initiative by the city was taken and several projects were undertaken. The police station area might show some positive result and attractiveness of this area might be higher due to the development of downtown and the campus of UIUC. Based on the interview it can be expected that vacancy rates of housing units will be low because of the availability of student housing units and the good location to campus. In the period 2000-2010 the municipality changed and decreased the size of the TIF. Although less capital came into the area because the base value was adjusted, both Rost (2012) and Blakeman (2012) indicate that during this period spillover effects from downtown occurred and the refocused TIF had positive results on redevelopment activity.

TIF North Campustown is the most recent TIF and was created to eliminate the blight left by a former hospital. On this spot the development of a large student housing project was lined up. This project materialized and the 18 stories high building was finished in 2007 and was called Burnham 310 (City of Champaign, 2011). A supermarket and coffee bar were also created next to the new student housing. This project could develop because the TIF and capital was made available to get this site ready for development (Blakeman, 2012). Along with this project, investments were made to do infill development and refurbish housing around the big project (Blakeman, 2012). A goal of the municipality is to

include some ownership into this area because it is largely rent based housing (Blakeman, 2012). The TIF was focused and a small geographic area was lined up. It was clear to the municipality that the hospital site needed to be redeveloped within a TIF. This TIF had one main project and that was the Burnham 310 project. This large student housing development came online in 2008 and stimulated development in the area (Rost, 2012). It can be expected that the construction of Burnham 310 also stimulated other developments so during this period positive growth on EAV, housing units, population and renter occupied housing units can be expected.

## 5.2 Difference-in-differences

The first indicator that will be discussed in the difference-in-differences analysis is the growth or decline of Equalized Assessed Value in and outside the TIF. The indicator will show if the adoption of TIF turned around the declining property values in the TIF compared to the County and Township and will show the development of EAV during the three periods.

Results from the difference-in-differences analysis for the downtown TIF are shown in table 5.1. The downtown TIF had a negative EAV growth before the TIF was adopted. This is an expected percentage because declining EAV rates are common when adopting a TIF. In the first period of the TIF it showed a 4,56 percent growth rate of EAV. Compared to the county average this is a 1,68 percent point higher growth rate. When the growth rate is compared to the EAV growth in the township, it is less positive. The townships EAV showed a growth percentage of 4,71 percent, which is higher than the growth rate within the TIF. The EAV value of the TIF in the period between 1991 and 2000 was rather low compared to the growth rate of the County and the Township. This low percentage is remarkably low while the interviewees and policy documents stated that the TIF started to perform since the nineties. In the last period, the growth rate of the TIF showed a very strong increase of 8,22 percent. This was only slightly higher than the growth rate of the township but was almost three percent point higher than the county's growth rate. Since the TIF was started, the Downtown TIF experienced a higher growth than the growth rate of the county but stayed behind one percent point compared to the Township. However, the most important part of a difference-in-differences analysis is to show the difference between the before and after period and to show differences between the groups. When the periods are compared it becomes clear that the EAV growth within the TIF was not spectacular compared to the township but when the growth rates between the periods are analyzed, a different story can

be told. From this analysis it becomes clear that the TIF was able to turn around a declining EAV in downtown to an average growth rate of almost five percent over the whole period. Compared to the county this is 4,24 percent point difference and compared to the township a 2,65 percent point difference. This result suggests a strong positive influence of the downtown TIF on EAV values.

Difference-in-differences TIF Downtown							
	1971-1980	1981-1990	1991-2000	2001-2010	Between periods	Before TIF	After TIF
<b>County</b>	3,00%	2,88%	4,94%	5,26%	1,36%	3,00%	4,36%
<b>TIF Downtown</b>	-0,65%	4,56%	2,09%	8,22%	5,60%	-0,65%	4,96%
<b>Between groups</b>	-3,65%	1,68%	-2,85%	2,96%	4,24%	-3,65%	0,60%
<b>Township</b>	3,00%	4,71%	5,46%	7,68%	2,95%	3,00%	5,95%
<b>TIF Downtown</b>	-0,65%	4,56%	2,09%	8,22%	5,60%	-0,65%	4,96%
<b>Between groups</b>	-3,65%	-0,15%	-3,37%	0,54%	2,65%	-3,65%	-1,00%

Table 5.1: Difference-in-differences analysis TIF Downtown

The results of the difference-in-differences analysis for the East University TIF are displayed in table 5.2. Based on the interviews, one would expect a lower growth rate in the East University Avenue TIF. However, the growth rates in the first two periods of the TIF show higher growth EAV growth rates than the downtown TIF. A reason might be that this TIF was larger in scale and maybe realized a small increase in the whole area. Furthermore, the downtown TIF experienced a fire and demolitions between 1980 and 1990 and probably lost some EAV during that period. Nevertheless, a positive growth rate compared to the zero percent growth before can be seen as a positive result. When the result is compared to the growth rates of the county and the township, the results show that TIF 2 performed better in the first period. While it was only slightly better than the township, TIF 2 realized a 1,53 percent point difference compared to the county. After the first period, the TIF did not exceed the growth rate of the county and the township. When the average growth rate of the TIF is compared to the growth rate of the county and the township since the TIF, the picture becomes less in favor of the TIF. East University Avenue experienced a lower growth compared to both the jurisdictions since the TIF was started. Only the period between 1986 and 1990 showed a higher growth. However, when the before after results are compared, it again becomes clear that the TIF district was able to turn around the non-increasing rate of the EAV. The difference between the two periods compared to the control group is positive and larger change in EAV growth was realized within the district. Compared to the

downtown TIF, East University Avenue performed slightly worse with a little less than one percent point growth between the periods.

Difference-in-differences TIF East University Avenue							
	1980-1985	1986-1990	1991-2000	2001-2010	Between periods	Before TIF	After TIF
<b>County</b>	2,49%	3,37%	4,94%	5,26%	2,26%	2,49%	4,75%
<b>TIF East University Avenue</b>	0,00%	4,90%	3,68%	5,10%	4,49%	0,00%	4,49%
<b>Between groups</b>	-2,49%	1,53%	-1,26%	-0,16%	2,23%	-2,49%	-0,26%
<b>Township</b>	2,60%	4,71%	5,46%	7,68%	2,95%	2,60%	6,20%
<b>TIF East University Avenue</b>	0,00%	4,90%	3,68%	5,10%	4,56%	0,00%	4,49%
<b>Between groups</b>	-2,60%	0,18%	-1,78%	-2,58%	1,61%	-2,60%	-1,71%

Table 5.2: Difference-in-differences analysis Equalized Assessed Value TIF East University Avenue.

The North Campustown TIF is the most recent TIF. This time factor makes this third analysis rather short and straightforward. The results from the analysis are displayed in table 5.3. The TIF did not show declining EAV rates before the TIF was started. This is probably due to the fact that the TIF was mainly adopted to remove the blight from the former hospital site. However, the growth rates are lower than the growth rates of the county and township. This is probably due to the fact that there was a large piece of vacant land in the district that was heavily polluted and development around this site was unlikely (Blakeman, 2012). The difference between the county is especially large when realizing that the township had the highest growth rates in the previous analysis. Apparently, the township had a lower growth rate in the second period of the nineties. In the ten years this TIF has been existing, it shows the highest growth EAV growth rates compared to all the other TIFs. The growth rate of 11,18 percent is mainly realized in the most recent years. This strong increase in EAV value is most likely created by the completion of the Burnham project. The EAV in the TIF jumped from 3 million in 2007 to 11 million in 2010. It becomes clear that the delivery of this big project is the main stimulator of economic growth, reflected as EAV growth, in the TIF.

Difference-in-differences TIF North Campustown			
	1995-2000	2001-2010	Between periods
<b>County</b>	5,76%	5,26%	-0,50%
<b>TIF North Campus town</b>	2,72%	11,18%	8,45%
<b>Between groups</b>	-3,04%	5,91%	8,95%
<b>Township</b>	3,00%	7,68%	4,68%
<b>TIF North Campus town</b>	2,72%	11,18%	8,45%
<b>Between groups</b>	-0,28%	3,50%	3,77%

Table 5.3: Difference-in-differences analysis Equalized Assessed Value TIF North Campus town.

When the results of the difference in difference analysis are compared, it becomes clear that the TIF districts show a larger average growth between the periods compared to the control groups. The two TIFs that started in the eighties can be best used for this analysis due to the longer time frame. In both cases, the TIF was able to change the development path of the district. In the downtown case, a clear negative EAV growth spiral was turned around to a positive EAV growth. The biggest result was realized in the last period when several projects came online. What has become clear from the interviews and is also shown in this analysis, is that big projects will help TIF projects to grow. In the downtown case, MI was finished in 2004 and in 2005 the EAV grew with almost twelve percent in that TIF (Yearly EAV growth rates are displayed in II). The Burnham 310 project in the Campus town TIF added a significant amount of growth to the area. When looking at the growth numbers more closely, it can be seen that the largest attributes to a high growth rate are sudden increases of around ten percent or higher. Probably these increases are realized by larger (re)development projects that finished.

### 5.3 Spatial analysis

The next section will describe the spatial analysis to determine possible spillover effects and see where development took place over time. Table 5.4 will be the control table, to which the results are compared. In this table, an overview is given of the development in the TIF districts, adjacent blocks and the county. Each decennial period will be discussed at the time and the maps will identify the spatial developments. The focus will be firstly on the TIF districts compared to the county average. Secondly the analysis will focus on the adjacent block groups of the TIF districts and possible spillover effects. The results of table 5.4 are all in percentages. Population growth, housing unit growth and median gross rent growth are all

displayed in percentage growth compared to the previous period. The vacancy rate difference and owner rate difference are the respective differences between the two periods. The vacancy rate in for example 1980 is subtracted from the rate in 1990 to get the difference between those periods. The maps display these changes in three block group zones. The first zone is the combination of all the block groups that have a part of a TIF district in it. During the research this zone will be called *TIF block groups*. Within the TIF block groups a distinction is made between the block groups containing TIF 1 and the block groups containing TIF 2 and 3. TIF 2 and 3 are combined because they situate in the same block groups. The second zone, called *first adjacent block groups*, are all the block groups that border one of the block groups in the TIF block groups zone. The second zone, called *second adjacent block groups*, are all the block groups bordering the block groups of the first adjacent block group zone. The three zones and the TIF district are displayed in figure 5.1. All the spatial analysis figures are displayed at the end of the chapter and are grouped per indicator.

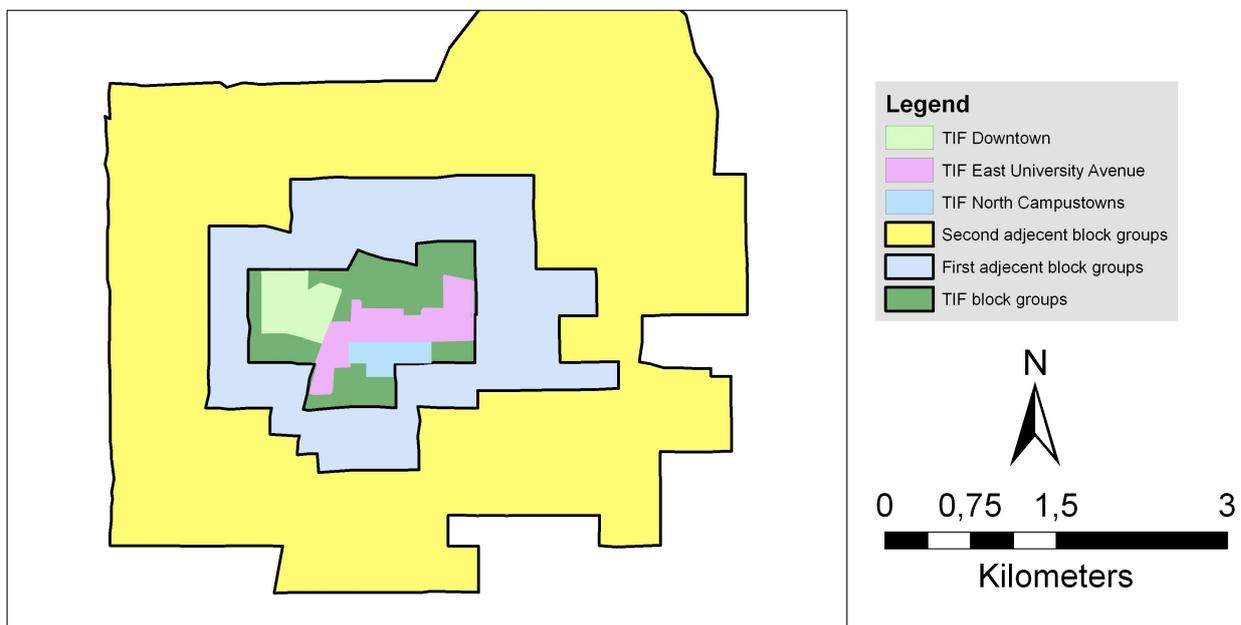


Figure 5.1: TIF districts and selected block group zones.

	Population growth <sup>a</sup>	Housing Unit growth <sup>a</sup>	Gross rent Percentage growth <sup>a</sup>	Vacancy rate <sup>b</sup>	Vacancy rate Difference between periods <sup>c</sup>	Owner Occupied rate <sup>b</sup>	Owner Occupied rate Difference between periods <sup>c</sup>
<b>County 1990</b>	29,77%	38,87%	56,42%	6,60%	0,09%	54,55%	4,24%
<b>TIF block groups 1990</b>	2,98%	9,05%	46,14%	8,79%	4,23%	7,69%	-4,61%
<b>Adjacent blocks 1990</b>	3,80%	24,03%	36,81%	8,66%	2,78%	15,57%	-0,64%
<b>2nd adjacent blocks 1990</b>	14,51%	7,35%	51,23%	7,59%	2,53%	39,59%	-7,55%
<b>TIF Downtown</b>	-37,24%	-27,39%	34,65%	27,19%	9,68%	19,28%	-5,82%
<b>TIF 2&amp;3</b>	6,71%	13,68%	50,34%	7,30%	4,39%	6,95%	-3,97%
<b>County 2000</b>	-4,74%	10,03%	24,33%	14,68%	8,08%	51,60%	-2,95%
<b>TIF block groups 2000</b>	9,19%	7,51%	20,89%	8,49%	-0,31%	4,72%	-2,97%
<b>Adjacent blocks 2000</b>	-0,71%	33,77%	32,60%	7,89%	-0,77%	13,71%	-1,86%
<b>2nd adjacent blocks 2000</b>	-34,82%	-6,30%	15,75%	12,31%	4,72%	30,35%	-9,25%
<b>TIF Downtown</b>	57,14%	71,05%	45,64%	20,26%	-6,94%	1,93%	-17,35%
<b>TIF 2&amp;3</b>	6,57%	2,35%	-19,39%	6,89%	-0,41%	5,04%	-1,91%
<b>County 2010</b>	12,21%	16,32%		7,88%	-6,80%	53,83%	2,23%
<b>TIF block groups 2010</b>	11,68%	16,91%		7,44%	-1,04%	5,75%	1,03%
<b>Adjacent blocks 2010</b>	-31,17%	-34,35%		6,94%	-0,95%	13,53%	-0,19%
<b>2nd adjacent blocks 2010</b>	16,80%	38,22%		9,53%	-2,78%	27,49%	-2,85%
<b>TIF Downtown</b>	34,97%	43,59%		21,25%	0,99%	11,56%	9,64%
<b>TIF 2&amp;3</b>	9,80%	13,29%		5,07%	-1,82%	4,92%	-0,13%

Table 5.4: Economic development indicators in Champaign county between 1980-2010

Notes: a: Growth rates are based on numbers from the previous period.

b: The variables vacancy rate and owner occupied rate represent the rate for the given period.

c: The difference between periods is calculated by subtracting the rate from the previous period from the current.

Between 1980 and 1990, Champaign County experienced a strong increase in population and housing unit growth. None of the selected combined block groups realized a growth rate that compared to these numbers. Most likely, development took place outside the center of Champaign and population was attracted to these places. The downtown TIF area saw a sharp decrease in population and housing units. A large share of people left the downtown and the number of housing units probably decreased. This might be a result of large demolition projects and the fire that struck downtown in 1987. Remarkably, the owner rate went up in the downtown of Champaign. This signals that mostly renters left the downtown in this period, which can be expected because renters can leave the area more

easily. Figure 5.6 shows the changes in ownership and shows that also the other TIF district had increasing ownership although on average this occupancy decreased in the city. Figure 5.2 shows population growth and figure 5.3 shows housing unit growth. The figures clearly show strong decreases in the downtown TIF blocks. The blocks where University Avenue TIF is situated show that population and housing units increase on average. The maps show that there is especially one block that performs above average. This block realized a strong population and housing unit increase. The adjacent block groups show a small population increase but a large housing unit growth. This increase is mainly created to the south of the Downtown TIF. It might be the case that due to decreasing housing units in the Downtown, more development took place around the downtown to facilitate the population. The average median gross rent increase was the highest in the whole county and none of the combined block groups had a higher increase. Figure 5.4 shows the changes in median gross rent in the selected areas. Especially the downtown TIF and the adjacent block groups showed a low median gross rent increase. One block in downtown increased by more than 100 percent, but the other blocks had displayed low growth rates. Increases in median gross rent were the lowest in block groups to the north of downtown. One block group to the east of TIF 2 even showed negative growth. Most of the other blocks in the selected areas showed a growth between 50 – 100 percent and a spillover pattern does not become clear. When looking at possible spillover effects, the only pattern that can be seen is the development of housing units around the downtown TIF. It seems that developments outside the downtown TIF district anticipate on future developments and needs to live in the neighborhood of downtown.

In the second period, the picture changes for Champaign County. In the previous period strong growth was realized, but between 1990 and 2000 the population decreased by almost 5 percent. Housing units did grow by 10 percent and the vacancy rate also increased by 8 percent so a lot of buildings were left vacant. In the downtown TIF development started to take off, the housing unit capacity grew by 71 percent and population was attracted to the downtown area. The vacancy rate in downtown stayed high but decreased by almost 7 percent. Renters also came back to downtown and the housing unit occupied by renters increased by 17,35 percent. Downtown also saw the strongest increase in median gross rent. All the results indicate that the developments in the TIF stimulated economic growth. More value than elsewhere in the city was added and population was attracted. The streetscape and renovation probably added to the attractiveness of the downtown. Figure 5.5 shows the

changes in vacancy rates and it can be seen that mostly one block group in the Downtown TIF decreased its vacancy rate. The other two block groups experienced increased vacancy that went hand in hand with housing unit growth in these blocks. This might suggest anticipation of developers to the expectation that living close to downtown would become more popular. In these block groups the occupancy rate of renters also increased together with the rent. Together with the increased population it suggests the development of higher density rental units. This development is also described in the analysis of Boyer (2008).

East University Avenue had a more modest development path. Although it saw a higher increase in population than the county average, housing unit growth stayed behind. Rents also decreased in this area, which was largely due to one block group because other block groups show positive increases (see figure 5.4). The results indicate that more value is added to downtown than to this area because rents did not increase as strongly as downtown. Based on table 5.4, only the adjacent block groups had a strong development path, and the 2<sup>nd</sup> adjacent block groups show negative population and housing unit growth. However, it looks like a barrier created by the train track separates the east part from downtown Champaign. This divide creates a sharp difference between growth rates in east and west parts of the city. Stronger population and housing unit growth can be seen around the downtown TIF and to the west of the train track. Five blocks show negative growth but the other blocks show strong increases. To the east of the train track growth rates are smaller and also some negative block groups can be seen. It seems that living in and around downtown became more popular and developers seem to have anticipated on this by building new housing units. The development of the median gross rent did not show this pattern and the strongest increase is not seen to the west of downtown but in the first adjacent blocks to the north of the TIF block groups. In this region, there is also a strong increase of housing units, population and a steady decrease of owner occupied housing. Only the block group to the west of the train track in this part saw a decrease in housing unit vacancy, which might indicate the willingness of people to live on this side of town. The large decrease in housing units in the south east of the city is caused by development of the university, as an engineering campus is built in those lots (Rost, 2012). This also explains the population drop in this area.

After the previous period when population left the county, the third period in the County of Champaign displayed a growth in both population and housing units. This is also indicated by the decreasing vacancy rate in the county. The vacancy in the county decreased

by almost 7 percent and development realized in this period and the previous one were able to welcome occupiers. The owner rate also increased by more than 2 percent and it seems that the city added more ownership to their occupancy base. This trend is also visible in the downtown TIF block groups where ownership occupancy increased by almost 10 percent. This is a sign that the downtown area has been able to attract long-term inhabitants, which signals a better quality of life in the downtown. In this period, the downtown area saw more housing unit development and population growth. The small increase in vacancy rate signals that not all buildings were built to support the needs for housing but were built by developers with private interests. This also gives an indication of the future potential developers see in the downtown of Champaign. Vacancy rates were already very high in the downtown area and adding more buildings to the downtown might start a fled from the older housing units. The documents of the City of Champaign see this high vacancy as an opportunity for downtown to develop further. They however need to be aware of the fact that too much vacancy can create blight again, especially when not enough ownership is stimulated in the area.

In this period, the Campus Town TIF was adopted and was placed in the southern block groups of the indicated TIF block groups to the east side of downtown. The developments of this area show a stronger population increase than before and a strong housing unit increase compared to the previous period. This might be mainly the result of the Burnham 310 project stimulated by the Campus town TIF. The vacancy rate decreased by almost 2 percent in this period and all the block groups show decreasing vacancy rates. This signals that this area became more popular and none of the block groups was left behind. It must however be noted that about three block groups showed decreasing population and one block group had decreasing housing unit growth. It might be the case that old and (partly) vacant housing units were demolished because they were not financially viable anymore. Also in these block groups, owner occupancy increased up to 15 percent. This result indicates that the city already attracts more ownership to this part of town although more ownership in the future is wanted (Blakeman, 2012)

In the first adjacent block group a total different picture is shown compared to the downtown TIF. In these block groups the population and housing units decreased very strong. This is also visible in the second adjacent block groups. Especially to the west side of downtown, housing units decreased. However, on this side the vacancy decreased in most of the block groups, which might indicate the removal of old housing units like in the East

University Avenue TIF. It is probably also a result of the strong development of housing units in previous years because not much population was added to this area over the years. The positive population and housing unit growth numbers are mainly realized at the east side of the train track. At areas close to the campus of UIUC, new housing units are developed and population is attracted to these areas. Although this research does not give insights in type of persons inhabiting these housing units, it may be expected that students of the university inhabit these units.

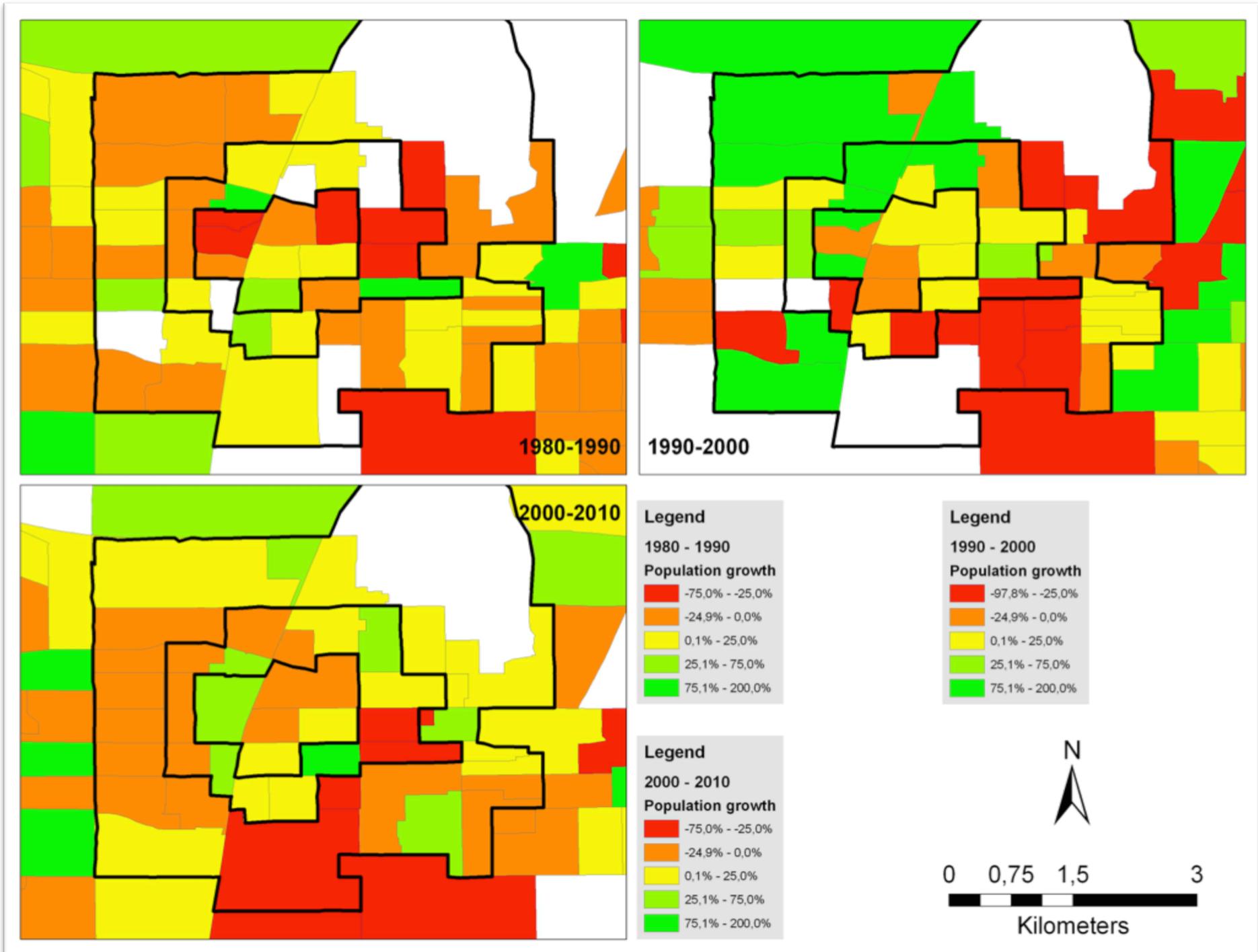


Figure 5.2: Population growth in Champaign central area, 1980-2010

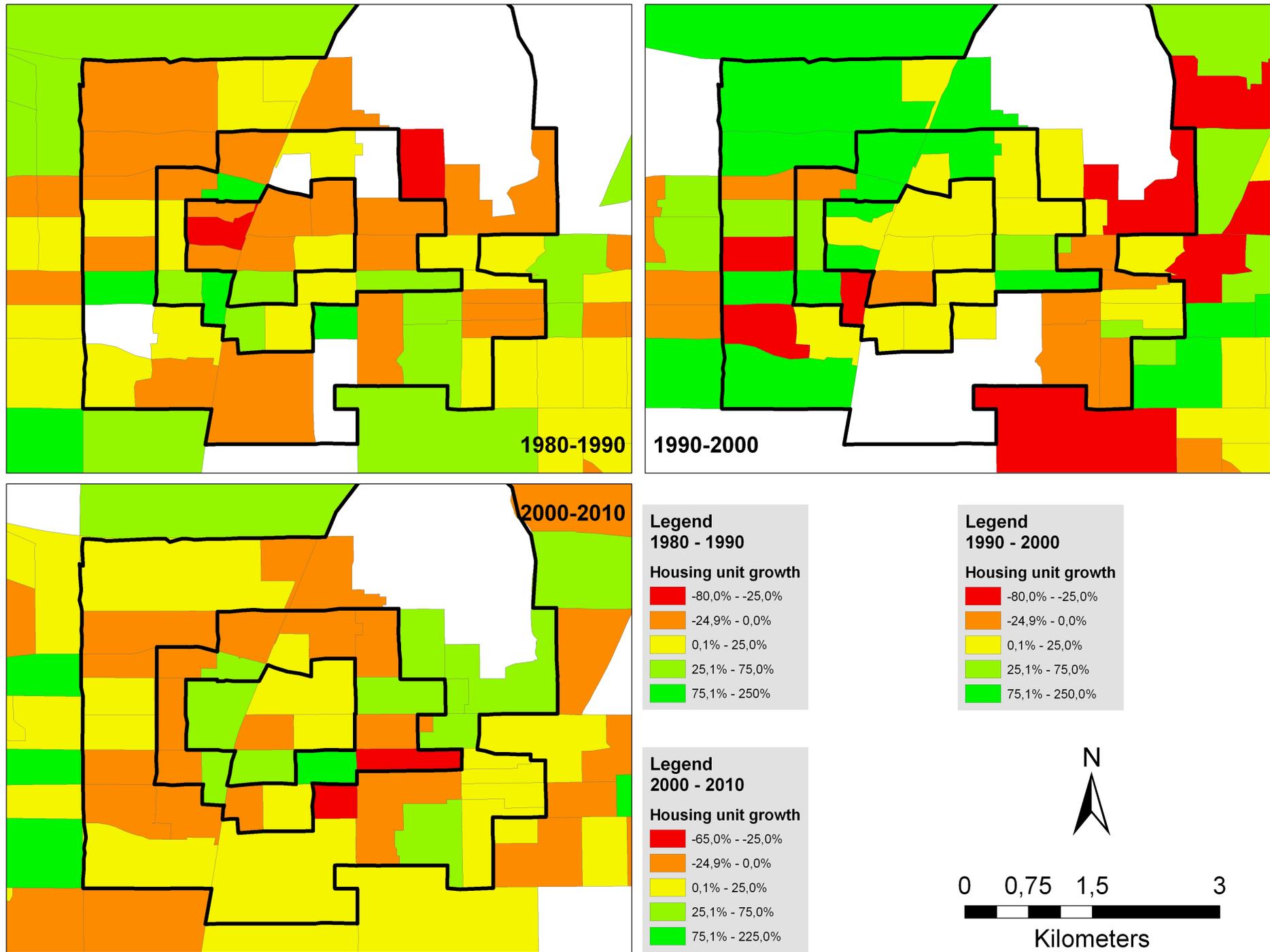


Figure 5.3: Housing unit growth in Champaign central area, 1980-2010

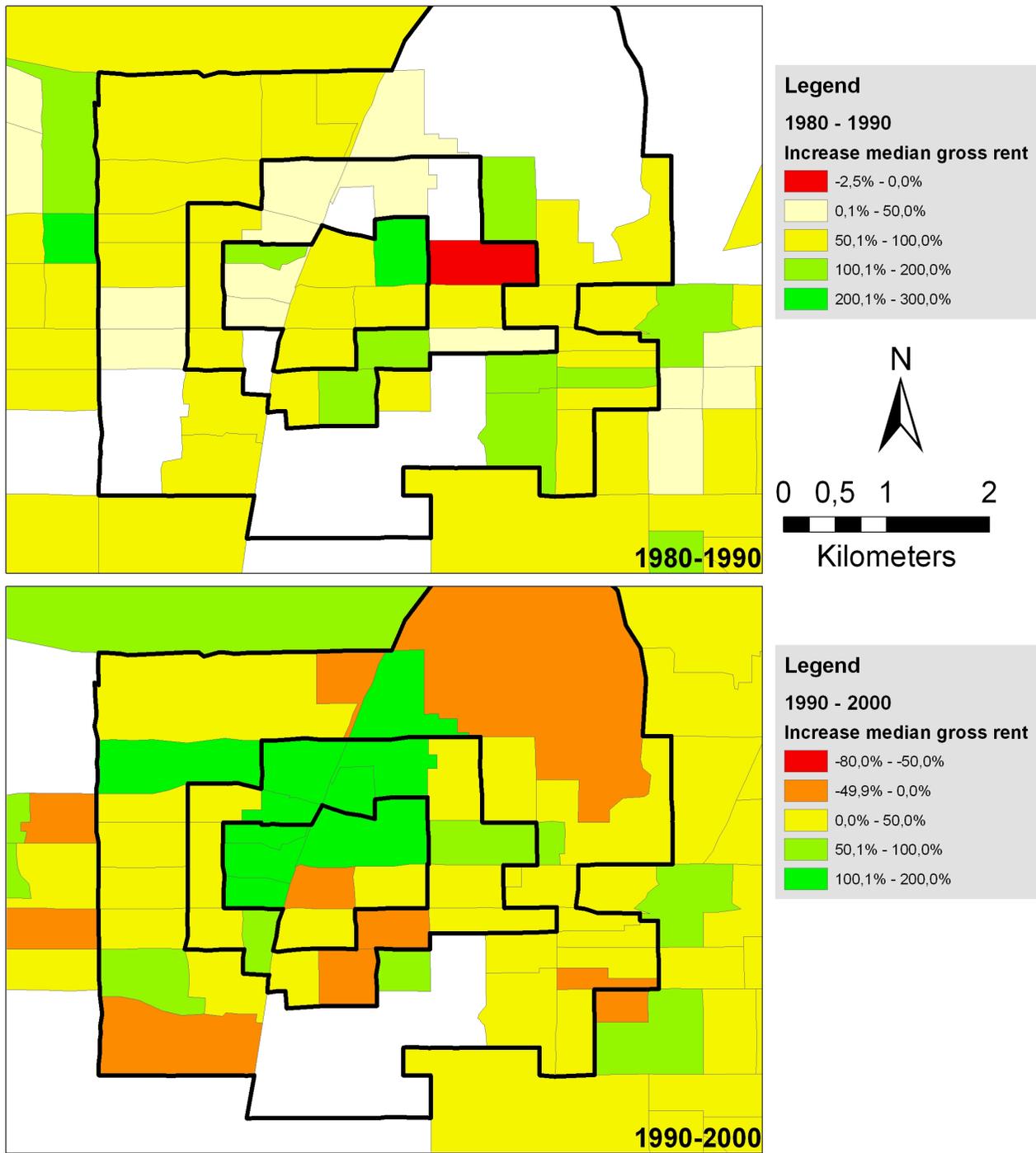


Figure 5.4: Median gross rent growth in Champaign central area, 1980-2010

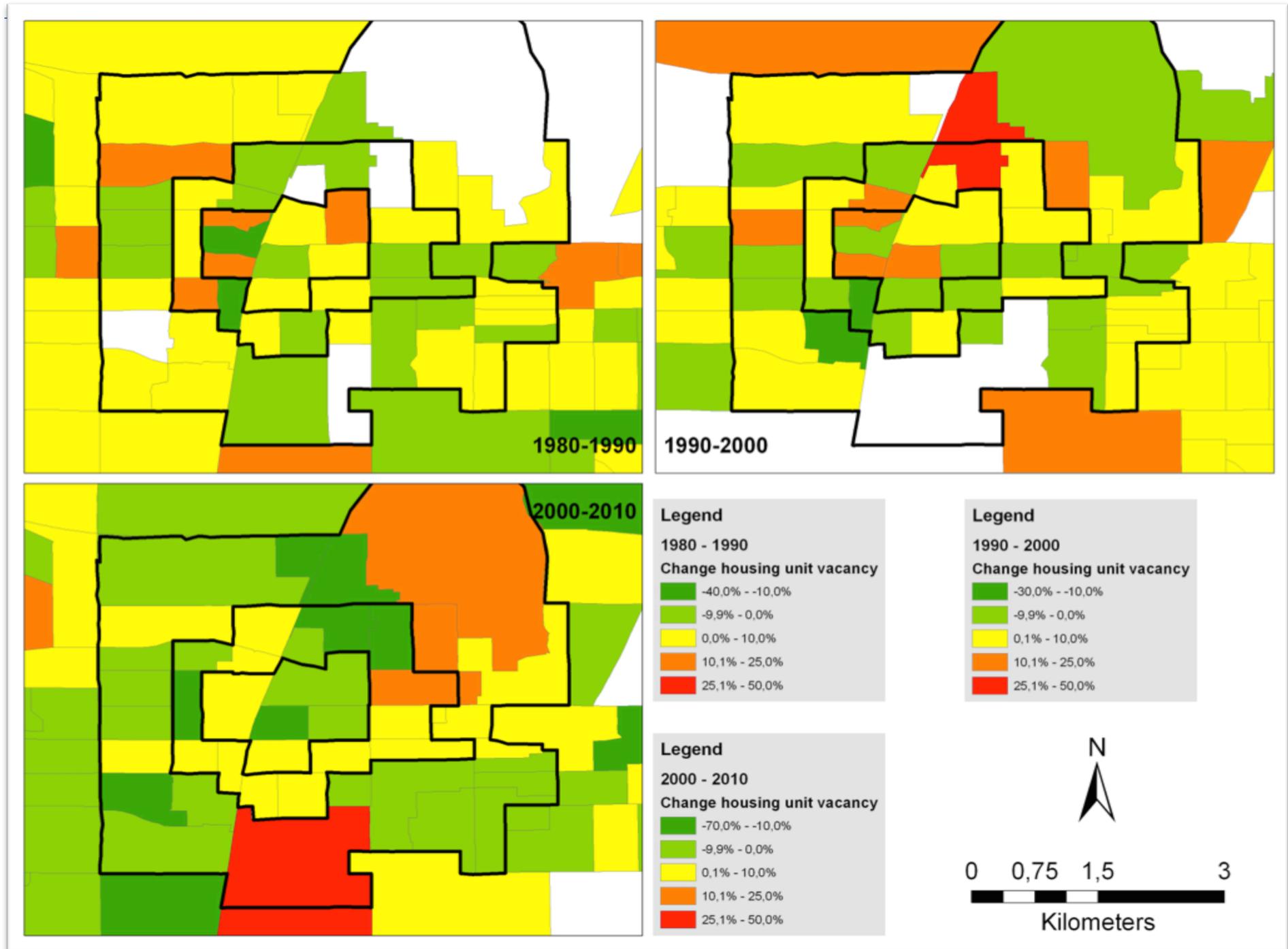


Figure 5.5: Change in housing unit vacancy in Champaign central area, 1980-2010

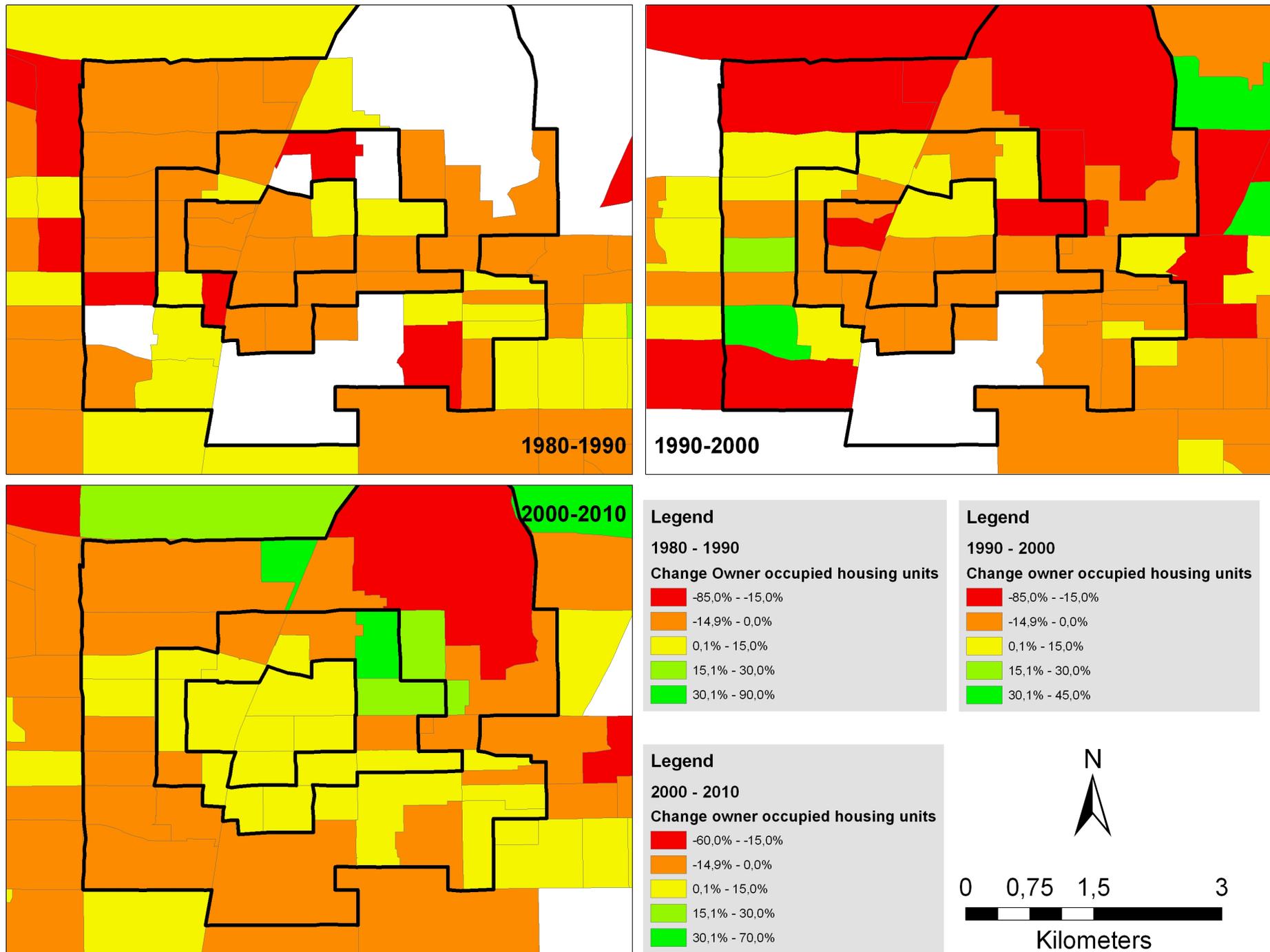


Figure 5.6: Change in owner occupied housing in Champaign central area, 1980-2010

## 6. Conclusion and discussion

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The previous chapter discussed the results from the three used methods. This chapter presents the conclusions derived from this study and discusses the implications for TIF practices. Finally it will discuss research limitations and future research potential.

The goal of this in-depth case study was to determine the effects of TIF districts on the local economic development of Champaign. Literature shows no clear consensus on the economic effect of TIFs. Most studies conclude that TIFs stimulate development and economic growth within the district but sometimes this is only a shift of capital, work and business from other areas of town to the TIF. Some research concludes that there are positive spillover effects but these positive effects decrease fast with distance. Studies also find decreased total EAV (Equalized Assessed Value) growth because capital is not used in the most efficient way. Other expected effects are job growth, business growth and increased population. The main problem TIFs are supposed to tackle is fighting economic decline and blight. Literature agrees on this prospect and shows a positive relationship between investments in infrastructure and renovations to turn around an economic path and increase the quality of life. By adding TIF capital to an area, other adjacent neighborhoods or even the city can benefit because more public goods are added because of the TIF. By redeveloping a TIF, economic development can be generated and economic situations can be turned around.

Three methods were used to test these potential effects in Champaign, namely: Interviews, difference-in-differences and a spatial analysis. The interview tool helped to gather data about the expectations and performance of TIFs in Champaign. The Difference-in-Difference analysis was used to analyze the first indicator namely, Equalized Assessed Value. The Spatial analysis provided insight in the location of economic development. The five from literature adopted indicators (*Population growth, housing unit growth, median gross rent growth, change in vacancy rate and change in owner occupied housing*) were mapped with GIS to show growth rates in the period between 1980 and 2010.

The main research question of this study was: *To what extent did Tax Increment Financing districts stimulate economic development in the City of Champaign between 1981 and 2010?* This question was divided into three sub questions: *To what extent did TIF districts promote property value growth economic within the district?, To what extent did TIF districts*

*stimulate housing development indicators within the district? and, To what extent did housing development indicators spill over from TIF districts to neighboring areas?*

Based on the interviews and selected economic development indicators it can be concluded that TIF is able to turn around an economic path of an area and stimulate economic development. Property values were positively influenced in TIF areas and the housing indicators for economic development showed stronger growth rates in TIF districts than in other areas. Especially the downtown area showed strong growth rates and the interviewees acknowledged this strong development. Success of a TIF depends on many factors like how it is designed and whether major projects are undertaken to give the district a head start. Within Champaign it is clear that the downtown TIF performed better than the TIF started in the same decennium, the East University Avenue TIF. The downtown TIF was a successful redevelopment TIF because it was able to get capital and population back to downtown. Successful variables in this TIF were a good focus and an active municipality that provided loans and implemented streetscape projects. In later years, property development projects brought more capital into the area to further stimulate economic development. East University Avenue did not have a strong focus and was set up too large. Furthermore, anticipated developments did not take place and property values did not increase enough to get capital into the area. This difference between the TIFs became clear in the difference-in-difference analysis. The Downtown TIF had stronger impact on property values than the East University TIF. Compared to the county and township, both TIFs performed slightly better during the three periods but the difference in growth rate before and after the adoption of the TIF made clear that the TIF changed the development path positively. The spatial analysis showed that the block groups in the downtown TIF experienced stronger changes than the other TIFs. The results showed high developments within the Downtown TIF. Since the 1990s the TIF showed higher growth on housing units, population, and median gross rent compared to other parts of the city. The third TIF in Champaign was analyzed in a more limited way because of the time limitation (it started in 2001). The analysis showed that property values increased sharp after the development of a key project in the TIF. Clear signs of the other indicator did not become clear.

The third research question about possible spillover effects was analyzed through the spatial analysis. In all the maps spatial spillover effects of economic development indicators were hard to identify. The analyses did show a clear divide between the west and the east parts of the City. These parts are separated by a train track

and this is clearly a barrier between the two areas. The blocks to the west and south of the downtown TIF showed signs of housing development that might have occurred because of the better economic performance of downtown. In the adjacent blocks rents also increased faster than in other parts of town. In the last period housing units and population decreased in the adjacent blocks and these results show signs of demolition of older housing units. All in all, it can be concluded that there were signs of spillover effects around the TIFs. More importantly the analysis showed that development in and around a TIF is diffuse and does not happen only in one place. Development probably happens in smaller lots and spillover effects might be seen around those lots. In this matter, scale is an important factor. This research used census block groups as the geographical identifier. Block groups however are divided in several blocks and blocks are divided in parcels. By aggregating on block group level important spatial data is lost and a smaller scale would be able to reveal a more exact location of developments.

It became clear that redevelopment of the blighted areas was the biggest goal in the Champaign TIFs rather than economic development.

### **Discussion**

From the research it becomes clear that TIF is an economic development and redevelopment tool that can be used to turn around blight in a city. TIF literature often focuses on property value growth and business creation as success factors of a TIF. This study however shows that other indicators and effects are just as important to municipalities when starting a TIF. Property value growth is only the tool to generate income that will help cities redevelop urban areas. Other factors like safety, nightlife activity or appearance of properties are also as important when evaluating a TIF and attention to other factors should be considered in future research. An analysis where a combination of qualitative and quantitative data is used will be an effective approach to tackle the different goals of cities when adopting a TIF. In the analysis of TIF districts GIS provided a useful tool of analysis. GIS allows the researcher to pinpoint spatial effects and visualize the direction of developments. TIF research often only considers the TIF and non-TIF districts as two separate groups. With possible spillover effects however it can be useful to identify the direction of spillover effects as well. As said, the smaller the scale the more precise the researcher can identify developments. A smaller scale however is more difficult to attain and makes large-scale research projects harder to undertake due to lower-level data availability. Future research should therefore consider spatial effects when doing TIF research. Spatial development

should not be overlooked and this thesis showed that it is important to visualize where developments take place in and around the TIF district. Future research should therefore consider in-depth spatial research as a suitable tool of analysis. Data should be collected on a more regular basis to allow for a good case study approach. In this process municipalities can stimulate TIF research by collecting and publishing yearly numbers on TIF indicators.

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## **Interviews**

Rost (2012). Interview with Craig Rost deputy city manger of development at the City of Champaign.  
Interview conducted on 21 April 2012.

Blakeman (2012). Interview with Terry Blakeman, city planner and TIF administrator at the City of Champaign. Interview conducted on 24 April 2012

Dimit (2012). Interview with John Dimit, CEO of the Economic Development Corporation Champaign.  
Interview conducted on 26 April 2012

## Appendix I: Interviews

### Interview Craig Rost

Date: 21 April 2012

#### Start

**Function: deputy city manager of development and I'm working here since 1988**, I have been working for the city even longer. I started as a zoning administrator in 1981 shortly after that I became the assistant planning director in the planning department and did that for a couple of years. After that I went out to the private sector but came back to enter this job so I got a total of 30 years at the city

#### **So you experienced the start of the TIF 1?**

Yeah, the downtown tif just started in 1981 so I have been working with TIFs a long time

#### **Is tif a Redevelopment or Economic development tool, both?**

I think the primary purpose is to turn the declining values around and have them more closely match what the city value increases would be or what you expect property appreciate property at. In order to start a TIF you have to show that the values are declining compared to the community tax growth rate. And so it is first foremost an economic development tool because you try to turn around a declining tax situation to provide additional revenue.

#### **So it is a revenue tool?**

Yes it is a revenue tool that provides you with extra tax revenue that in turn can be put back into the project which in theory turns around that declining value problem. You can change revenues in a lot of different ways but from a permanence point of view you are better off try to do it in a way that turns around value of the property. And from that point it becomes a redevelopment tool because the only way you can really turn that value around from declining into growing is to rebuild the building, put new users in the building or build new projects and infrastructure that support new projects so you can't really separate it between an economic development or redevelopment tool because they go hand in hand.

4:00 I read a lot about the Infill use of a tif

if you think about the way tif is structured it is in a way an infill program on its face because usually it is an area where there declining values, vacant properties or at least under utilized properties and so most TIFs are used as in an infill way because what you are trying to do is get new projects or owners into an area, infill and tiff go hand in hand

#### **Do you therefore think it is especially suitable for downtown areas or can it be used in every area?**

Yes it is usually best applied to downtown situation or urban environment, in order to meet the requirements you have to have the blight and the tax decline and that is more difficult to prove in more suburban areas. It can be done, we have some areas where an old shopping center is completely out of date and needs to be rebuilt so you could show declining property values and that would be out of the urban area but it would be a retail project.

#### **And do you see job creation and business development as an important part? Main factor**

I think the primary goal is to redevelop properties so that their tax value is retained or built back up. It is a secondary objective to see it as a business or employment development tool. Of course, putting businesses into the new buildings will help but at least in tif like ours, there may be exceptions elsewhere, it is not an employment tool, it is an economic development and redevelopment tool. If you are doing a tif well you are creating places for businesses and

places for employers to work, so you are not directly creating jobs but that is usually not the primary goal.

**Compare to enterprise zones or incentive planning?**

The tif is different financially because it uses other taxing bodies tax resources so it expands the amount of money that can be gathered into the tif substantially. Enterprise zones for the most part only the taxes or the incentives come from the jurisdiction that originates it, so in our case it is only the city or county that puts money in.

Proportionally it is a smaller amount, like a quarter or a less, of the financially amount to work with but I also say that enterprise zones tend to be more like what you are asking about they tend to be more employment and business development focused, they tend to be more spread out across the community. It is a smaller amount of money as an incentive and they are made more available by right rather than an agreement with a special case as a tif. So it is money spread around more broadly and it does help secure companies and jobs at times so it's a more generalized incentive.

There is much more geographical area covered by enterprise zones but from a revenue point of view there is more revenue in a tif because it is a larger part of the tax base.

**Is it therefore more interesting, or should you see them as separate tools?**

I think they are separate because you can't use them in the same place, so you can't use tax abatements and a tif so they are mutually exclusive. They are different because I think enterprise zones are helping cities being competitive with other regions and cities by offering generalized incentives for enterprises and job creation. Tif helps you to target a smaller area and turn around economic decline. So you use it differently and so they are different and it is not a choice of the one over the other but more of applicability to the problem or case.

**Literature also suggest that tifs are used to stay competitive in the regions and tifs are implemented when other regions implement this tool. So you might say, because urbana has 4 and there are more tif in the county. So do you need or implement more tifs to stay competitive?**

No, we don't we look at tif as a very specific tool in our community to turn around the blight and economic decline problems for ourselves. We don't think as it in completion. I suppose if you talk about creating the best downtown in the region and we used tif as a tool to do so but the reason wasn't to be competitive with Bloomington or some other cities, it was to redevelop the downtown.

**Was this also the case for the other tifs?**

The other tifs were both done in areas suffering from blight. In the case from the third tif, north campus, we adopted an old city hospital and used the tif to redevelop this area.

**Do you think cities in Illinois use tif as an competitive tool?**

I think it is used that way sometimes if let's say in an environment like Chicago were you got a lot of cities a villages close together, creating a tif might allow them to start a shopping centre which a neighbouring community is unable to because the tif creates a resources to do so. In that case communities are fiercely competing for the same kind of business and the tif allows them to be competitive. But the way TIFs are required to set up you really can't use them as competition as one of your justifications to start a tif, you really need to show blight and economic decline.

**Are the requirements that strict?**

They are pretty strict, when you adopt a tif you have to do a study that you looked at all the Equalized Assessed Values (EAV) and that those actually declined so historically you have to look at the development of the tax value. You have to do a property inventory, so you have to account for structures and have to make a case that there is blight and deterioration. Tif have been challenged in the state because piece of bare ground could be called blighted even without an building on it. It may be an urban legend but there are stories out that people called

a corn field a blighted area so they could call it a tif to put up a shopping centre and enjoy the benefits of a tif. That seems to not fit the property use of a tif and we would never consider that good use of a tif.

**How do you consider blight here in champaign?**

I don't know what the statutory test is to determine blight but we use the physical condition of the property to determine blight and we would say that partial occupancy or empty properties that seem not to be rentable in their current condition or they don't suit the business needs because of obsolescence of physical factors. Usually there are physical factors like roofs or windows that need expensive reconstruction, usually visually is the first determination of blight to determine exterior and building deterioration. The difficulty becomes when too much money is put into that part of the building that doesn't help it be more rentable but only put it up to standard that a tenant would expect so it costs money that you would normally use to pay off your mortgage or debt on that building.

**For the downtown area, it was quite blighted and started to look like a ghetto?**

We had no difficulty in the downtown area to show high vacancy especially on higher floors but even on ground floor level there was a high vacancy in property that should be rented commercially. And some physical deterioration and obsolescences because in a lot of cases these buildings were old and were not meeting the safety criteria. It was pretty easy to determine that they need sprinklers and safety doors etc.

Is the lack of requirements counts as blight?

I don't know if that qualifies for blight unless it makes the building unusable. Blight is usually considered as deterioration of a structure and is usually caused by the fact that an owner couldn't get it leased so it is empty and then it begins to deteriorate. So that is generally how to consider blight. But I suppose they go hand in hand because when a building is not up to standard a restaurant for example cannot start up because it needs to meet all kinds of requirements so it becomes harder to rent and maybe empty and eventually blighted.

**But nowadays it's still a lot of old shops and old buildings in downtown. Most new buildings are closer to campus. Are you trying to attract those kind of businesses to the downtown?**

To a certain extent, downtowns are challenging because your most successful downtowns are a mix of local small business and some national strong retailers. You don't really want either extreme. If it's all small business you tend not to bring in the higher rent, higher revenue businesses like wallgreens and other kinds of businesses that give economic vitality to the area. If every space is a small bookstore then you don't create the economic vitality you want and you also don't create much diversity and that is mostly what you need. Customers only visit a couple of those small shops and eventually you need to visit the drug store or get groceries. You need a mix, and a mix is always a challenge in a downtown but those seem to support each other if you get a good mix. Campustown nowadays is a good mix of small shops and national brands. So you got urban outfitters and chipotle kind of brand names, financially supporting the small businesses they play off each other nicely.

**Shifting of capital is a problem not a solution?**

It can be a problem, it hasn't been a problem here but one of the drawbacks of a tif is sometimes when you pull in businesses for reinvestment or purchase of buildings and reconstruction you may create vacancy somewhere else. It also can in extreme cases start to affect market rates. One of the difficult challenges and probably why tif last as long as they do is that in the early years, tif and other subsidies tend to keep the rents low. Low rents tends to reinforce the problem you had in the first place. And the only way you can heal up an economy and give help over the long haul is for those rents to be higher and at market rate. You won't get there overnight and tifs can last 10, 20 years sometimes to start to turn around prices from 8 dollars per square foot and have them to produce rents at 18 dollar because that

is closer to market rate. So you need to be careful that when you adopt a tif and when you are not careful with your subsidies you keep the rent suppressed instead of growing. What you want them to do is start to grow so that you tif grows but also the businesses are able stand competitively against the other businesses because in time the tif will be gone and if they cannot support themselves for the target rate for commercial rent then the economy wont last and you will be back at the situation before the TIF.

**Did you see shifting of capital or businesses here in champaign?**

Not to much transference and that was one of the concerns of people who don't like tif and pointed that out. One thing that helped was that almost the entire downtown was the tif. If you create a tif in only a portion of downtown, say 25% or half, then the possibility for transferring within the downtown would increase but we have tended to be a community that does ok supporting the market rate and expectations for a healthy economy and someone who is on greenstreet or north prospect is paying the price at that location because the traffic volume and costumer base supports that price and they are ok with that and for example the red lobster does not want to move to the tif because they like the place where they at and where the cars are out and people fill the parking lot up and buy food so generally speaking the transference haven't been a big problem because there are different places and different businesses. It has been mostly local businesses, capital owners and local developers that capitalized on the tif. Both new and old businesses went into the tif, we had existing owners and developers build new things which also attracted some new business. M2 for example was build by a local resident property owner and have some of their own business in there but also attracted 3 restaurants so they pulled new activity in.

**To me it looks like it is mostly restaurant and entertainment getting into downtown that wouldn't be on other places**

What is happening in our downtown is that the food/beverage/entertainment activity started to evolve and then we started to do capitalize on that and help it grow. For example we stimulate outdoor dining and allow liquor licences in old historic buildings and so we give incentives to allow people to be more successful and therefore will invest more. I seems like this has worked.

**What about east university district?**

That tif is really different to the downtown tif. I would describe the downtown tif as we got the geographical area right when we adopted it and we established it for the right reasons and we had the expected results as we hoped for in the way of renovations and the growth of the tif. We spend money on infrastructure, owners spend money on buildings and changed tenants so that is what I would say is a typical well performing tif, it has done what it was supposed to do and the tax base increased significant. The city has use a small amount of their money to get people to spend their private money, this ratio public/private was good.

At East university there was a hospital project that going to accur on east university avenue and that would be the first big project in the tif. That never materilezed and the tif was to big and its goal wasn't specifically played out enough. It encountered to many businesses and land use types and didn't have the identity that the downtown has, it was just a large piece of land spread out. It is partly university and partly downtown it was in between. In that respect the tif hasn't performed and we recently readopted the tif shrinking the boundaries down which will help a lot. But in the original plan it was to big, too general, too ill defined and didn't have a big project to start it off.

**So you need a big project to kickstart the tif**

Well you need a couple, it helps a lot to have at least one, North campus had Bernham 310, downtown had a few good sized projects that got the things rolling because if you don't do that gradual tax growth is the only new money you create in the tif. If properties don't change hands or you don't have private developments you wont have that jump in value.

**So are those projects negotiated before the start of a tif?**

In a lot of cases, in the case of our downtown tif the weren't but the blight and the decline was so significant that it was easy to visualize the need for the tif and then the city undertook on a couple big capital projects that helped a lot. We took the Neilstreet mall and it was blocking the main road and therefore went from no traffic on neilstreet to thousands so there was a dramatic change of environment that made it possible for businesses to thrive onto downtown. So that was a big capital expense we could use tif funds to pay back the bonds we used to pay for the project. And then we did 3 rounds of streetscape were we did sidewalks, lights and those kind of things. That gave the impression that there was money in reinvestment in the area and the businesses had a reason to reinvest. So that kind of economic engine helped downtown a lot to start it off. That didn't occur in east university avenue and nothing near to that extend.

**So were the hospital plans just rumors or vague plans?**

No they were beyond rumors, there were some serious negotiations were they spoke that without a tif we cannot make this happen so the tif was adopted. I'm not saying that there weren't any other reasons to adopt the tif but I think if we hadn't had to go so far east to get the hospital properties in and go so far towards campus to catch some of the blighted properties in because you have to put some of the qualifications in to make it work but in the end it got to big and didn't have enough focus.

**So you did adjust the tif area to meet the requirements and get the project in?**

Well, I can't say that because I didn't put the plan together and don't know what the thinking was but in some cases the boundaries of tif are established to get your redevelopment properties in there but you also want to get the properties in there that make it qualify. In the case of downtown those were the same properties, the same ones you want to redevelop are the ones that got it qualified. I don't know if that was always the case in university avenue. Or they may have a case, let's say on water street or one of those streets helped qualify it because they were under utilized but weren't really good properties for redevelopment. There was a small automotive garages in a building that is turning over low rents and poor tax performance adopting a tif doesn't make that owner willing to sell it's garage or redevelop it if the garage works and makes money it is ok for the owner and doesn't want to change it. So a lot of that stuff in east university avenue just sat there and made ok money but didn't go anywhere.

**To come back to the boundries and case in the tif, do you think expected high growth capital was put into the tif to create a higher increment?**

I think that would be a goal that a city would look for to building the projects that have the best tax curve performance or increase in value obviously gives you the most tif performances. So yes in that regard, taking downtown for example, business buildings would yield a higher return than a residential building because of the rent structure and they will be worth more and will be taxed higher. Parking spots will be at the bottom of the list because the possible value is not worth very much so yes there is a hierarchy of those that you can say that in a tif we try to induce the most business development at the ground floor, so at least at the ground floor, because if you can put residential above it you can kill two birds with the same stone because you get the tax value and you have the residents that live upstairs that also have to make use of the business in the downtown so you get customers so you get the best of both. So an ideal tif would be a tif like our downtown is structured where you are encouraging mixed use and diversity of uses that support the economy. You wouldn't encourage construction of a wholesalers warehouse which would be a large amount of square footage but will have very poor tax performance, no retail and no multiplier effect, and so you want to have businesses with a high number of employers or high sales per square meters or have high tax performance

**So would you extend the tif to include those buildings?**

Well, yes It possible that a city would enlarge the boundaries a bit and try to put those properties in there but if the tif is well justified and well conceived it's boundaries should really describe a uniform district like the central business district or a downtown and that will have that mixed use component

I think if you study the abuse cases you might find that they grab something that look like it had a good return but didn't fit the tif model or the purpose of a tif. Than that could be an example what you talked about to pump the values up were there was a vacant piece of ground that you will develop for something that will have a tax value but doesn't fit the tif. So I would say that cities will have to show that their tif is structured based on the characteristics of their tifs and good urban planning standards rather than grabbing everything they can return the best dollar on.

**But I also read about other taxing jurisdictions that feel that this process is going on in champaign as well. How do you feel that other taxing bodies view the tifs over here?**

Well, both of our early two tifs have both been extended and I would say, and this is biased because I'm a planner and in this job, but I would say that if you have the ability to go back to those who waited a long time for their tax money, they waited 20 years for their tax money , and if you go back to those groups and negotiated an extension and you do it good faith based on how successful the project has been and you give them back something that they earned by waiting patiently so give them some back by compensation them for the time they waited.

Both cases were different, in downtown we went back and we carved out financially some of the redevelopment properties so that the base rate could go up and they could get more tax money. We didn't change the boundary but raised the base rate on the already developed properties so we gave them a return on the stuff that has successfully been rebuild. That seems to me that the promise that we made in the early tif that if you will wait for you money we will increase the value and your taxes will go up. They also then tolerated our leaving something in the tif that hadn't yet build and developed at the lower base rate. So we allowed that some of the tax money got back and didn't want to be greedy for the properties that were already developed but there where some underdeveloped parts that needs to be stay the same in the tif to be further developed. In downtown we were successful with the taxing bodies.

When eastern university avenue was extended we took a different attitude and that was to shrink the boundaries down and to be more concise in what we wanted to accomplish and be more specific geographically and say we are extending it but will take some of the properties out that didn't seem to fit the original tif. So they got the money back on those that were left out because the tif was over in that part and they get there new bump up. So in both cases we said to the taxing bodies that they should get a bump up but we should be able to extend to accomplish what we started and they said yes. So in an extension they should be willing to go on with it so it is a negotiated deal. In an original tif they don't have to agree.

**So how did this planning go with the third one?**

The third one was just such a badly blighted piece of property. The hospital property was so large and had such a negative tax drain and the properties that we put into the tif were again limited in the geographical area and consistent in their type and tax base. We didn't do the thing we talked about earlier where we grabbed this property and that property that might be lucrative in the tif. We just drew a good justifiable urban planning based boundary around that tif and said weak old housing we will redevelop around bernham and create more increment around this big project that we are doing right now and will increase a huge increment and without the tif there wouldn't be a project and there would just be 5 acres of empty land.

**So you used the tif money to clean up the environmental polluted ground and clean up the streets and build parks?**

Yes we cleaned up all the environmental pollution and incentive the big project which was going to create the large chunk of tax money originally and make it work financially. An the district all looked at that and said that that was a good argument and they didn't say that we would take advantage of them because they saw that if we don't make it a tif it will not redevelop and will be a poor tax performer for ever.

**But if you wanted you could implemented it without their agreement because you don't need to give them a message or official approval right?**

We don't have to agree, you have to set up a review board, and that review board has the right to review the tif and the can challenge the tif. So they have the opportunity to carefully watch and have an opinion in public meeting, that usually also gets published in the newspapers in the light of day. And every year you have to meet with this board to show them the performance of the tif and have to send an accounting message to the state.

**But they don't have any power to stop it, and if you wanted you could plan Tif everywhere you wanted?**

No they don't have any power to stop it but the can legally challenge it and challenge it in the press and can try to object through the public voting level and hoping they get enough objections if the want to stop it. But they can't stop it because they don't want to have it to happen. And yes, you could have tifs all over, some cities have a lot of tifs. Urbana has more than we do for example and we tried to keep ours smaller and more targeted. Their tifs are bigger and wander more like our east university avenue. But I wouldn't criticize Urbana without knowing more about it.

**But it can be a worrying fact for taxing bodies that you can just place tif everywhere without their approval if it meets the criteria?**

Yes, it is all based on the 'but for' criteria and in an extreme case like the bernham, north campus we talked about there is one large project that really can't occur without a tif. In this case it is easier to make the but for argument. In a tif where you just have a lot of general decline it is a tougher argument to make. If an area is going to have redevelopment anyway, for example closer to campus, we actually never tried to implement a tif close to campus because you cannot make the but for argument because 40000 students are there to buy goods and services.

**but could you meet the requirements when you extended the tif zones? Was is blighted enough?**

It still had areas that had quite a bit of blight, and if you had the case of a downtown that was pretty much redeveloped and still had 1 or 2 properties or property owners that were holding out you could make the case that you shouldn't really extend the tif because they those buildings are exceptions. But really in our tif, if you look at the geographic area and the buildings we left out, there were some patterns of blight and underdevelopment that we could justify that we still need the tool of a tif to get resources back into the area. It was not just one problem owner or one building in a there were pockets that still need the tif, and it was just a short amount of time, it was 7 years and it wasn't 10 years or the whole period of a tif.

We did remove some blight but in the end there were still pockets of problems. If we would have the same blight as in 1981 the tax bodies would be in the right to say that we didn't accomplish anything, the tif didn't so why would you continue to hold back the tax money. In cities like Detroit where you have such a big economic decline a case like that might happen. But luckily ours is going up.

**Is population growth, economic growth therefore necessary to support a tif?**

In our case, our downtown, it's changed it's purpose. It is still the core, the centre of the city and business center of the city in that extend but it purpose changed from a retail area to an employment and nighttime and entertainment district. That happened to fit pretty nicely

with the social changes that happened where people were looking for that nightlife, social activities, so part of that was luck I guess or circumstance. But the advantage we had there was the personality overhaul was successful and we were able to change the identity of downtown. A lot of downtowns are still struggling because they don't know what the identity should be. The business district failed, shopping districts got all the businesses and cities are struggling with the question how do we get our stores back and how do we become something. In order to succeed you need to find a mission for your downtown. Places like Charlotte have done it by a big medical center that is a big employment center. So focus is important, Charlotte put banking and medical back in their downtown and didn't want to get all the department stores back to downtown. They said, ok, the department stores are out of the gate, and the same thing happened here, a big department store closed all the retailers left to north prospect where they have all the access of traffic and you won't get that back. Retail would get back in our downtown to follow residential and employment not as a business as its own. So we got some population growth as far as people living here, we didn't get big population growth in the city. But what we did convince people that have left the downtown and didn't patronize businesses that this was a good place to come too, so in that sense we changed behavior. So yes, you got to change the behavior of the population, they have to come back for some reason or you have to grow the city a lot, it's easier to get people come back but you have to give them a reason to come there, you can't just say we put money into the buildings but will not make it attractive to the people to go there.

**And what about economic growth, especially the last years were probably not much of a success, is that influencing the tif and your goals?**

Our downtown, so our tif, it kind of that our tif is following our downtown because it has its own socially and economically personality seems to be thriving now as much as before the economic downturn. The business stayed and we had very few closures and if you come down in an evening it looks like the center of social opportunity. So in some ways we have seen more closures in other parts of the city compared to downtown. That tells me that downtown has its own economic strength, it is standing on its own and that is a good thing because a few years ago we were thinking if it would be solid enough to be standing on itself and if the economy changes and people's taste changes would it then fall back. But luckily people keep eating and drinking during a downturn and this community has a lot of entertainment and dining around. Also because of the large group of students, and a large international population here in Champaign. So diversity help to reinforcement this and food and places to go to drink are the largest share of entertainment.

**What are success factors and failures when talking about TIFs**

We had a lot of successes, we had a lot of buildings renovated, older historically significant structures rebuild, that is a good thing, and it preserved the character of downtown. We had some infill projects like m2 and we build up parking places to tax producing units. That part of it, so ground floor has been pretty successful in creating new business space. We created a successful food and beverage environment as part of the character building. The area that has been the slowest has been the upper floor residential area that has been slower than we hoped. It is expensive and hard to do, living requirements make it hard to accomplish so we still have some upper floor space.

**Do you see east university as a failure?**

I think the original purpose of that tif kind of failed and didn't fulfill its promise but in that case the big project never materialized so you didn't have the economic driver for that area which didn't allow us to do capital projects to support the tif. The other factor was that maybe should have changed it earlier so we would have focused it and redefined it so that we didn't have to wait that long before that occurred. I'm not sure it was a failure or that is was a matter of proper defining but it could have been better.

**What about the future of the tif districts, you have 7 or more years left on all the TIFs ?**

I think the future for downtown is pretty clear, and we get close to a strong economy that supports itself. I think when the extension is finished we should have a good economy where the rents should be headed in a positive direction and we wouldn't be able to justify another tif because the decline is reversed.

In east university tif, because we shrank it down that one we go back to the tif analysis and we might be able to do the same thing but maybe not as much as downtown because it is not as clear maybe. There will still be some pockets of buildings that are not able to change. It is also because of the location, it is not the central business district and doesn't have that same draw.

For the north campus tif we try to get more projects around bernham and it will be successful because the next wave of development will be housing that starts to the edges of the tif. There is a lot of housing units that are going to age out, they are close to the end of their live. So I think owners will start to reinvest and we will see more brownstone flats and new style living apartments compared to the old student style. And because it is so compact it will be easy to show that it was successful

**Do you see any new tif areas?**

Not right now, I think we have covered the areas that meet the requirements. We talked about potentially the area around county fair shopping centre because it is a big old obsolete shopping centre at springfield and madis. We could justify a tif based on property values and decline, we have to set some goals that we have to limit the amount of commercial because there is just too much right now and to spread out. So tif might work there but we first have to do some good planning to set goal and redefine the areas and not just put a tif there and hope it happens. Because sometimes it does happen this way and cities say, let's adopt a tif, but what are your goals is there good planning behind it or is it just a way to raise revenue?

If we would have any new TIFs in champaign it would be for problems that we don't see at the moment. The might possibly be big shift in preferences that will make area not interesting anymore but my cristal ball is not that good.

**Do you got any additions?**

Well, I think tifs will never be fully embraced or loved by the taxing bodies because they lose some money. And I think cities should be accountable and should do good planning around there tifs and be able to show that they actually deliver what the promised they would do. If those two things occur it is a tool that can work, if it is used responsible and cities are held accountable by the taxing bodies and cities then behave accountable it is a tool that works. It is a unique tool that in a way captures tax money but it also brings the responsibility to spend it wisely an responsible.

What I think is interesting is to analyse where the tax patterns where going and where they ended up eventually and try to prove some of the but for argument to actually show that we did try to accomplish redevelopment. An after - now statistics analysis would be nice to do. Was it a positive tool and are the areas better with a tif or was it a better option to not adopt a tif.

## Interview Terry Blakeman

Date: 24 April 2012

### **Can you explain something about yourself and how you see TIFs in Champaign**

I'm a city planner in a long range planning division and our TIF administrator so I handle administering our programming and filing our annual report, background data, budgeting and that kind of information for our three TIFs in Champaign.

### **Do you see TIF as an economic development tool or redevelopment tool?**

We use it primarily as a redevelopment tool, our TIF districts are established in existing central parts of the city, we don't have any TIF in new areas that are built on the fringe and are a kind of greenfield development. Some cities have done it like that but I would say our TIFs are used as redevelopment of existing areas. So our council has affirmed that by placing a higher emphasis on the redevelopment of older commercial buildings for instance. Try to get upper floors renovated, making sure buildings are structured well and bringing them up to code or making sure they are handicapped accessible, those kind of things. We also focus a lot on infrastructure but that infrastructure is built and designed to maximize the redevelopment in the district. Streetscape projects to beautify the street, park deck projects to open up existing services lots for redevelopment. We don't typically spend TIF money on sewer improvement or routine maintenance program. We spend a little bit of money on storm water sewers to solve a flooding problem which causes values to decline.

### **But the main point of a TIF is to get more money in the area and get more taxable property in there. In that way it would be stimulating economic activity?**

Yes that is true because if you don't have that you don't have money to spend in your TIF district. However we have invested in properties such as museums or theaters that are tax exempt so we sometimes invest in buildings that don't necessarily return from the property tax point of view, but from a revitalization standpoint those are very critical cultural centers. So we use that but realize that it is the value that keeps the program running.

### **How do you compare TIFs to other redevelopment or economic development programs.**

The TIF is our strongest and most successful tool and we have very few other tools to turn to especially at this point in time. We basically have our enterprise zones benefits that are really not as strong and creative as what we can do with TIFs. We have other taxing structures that we can use, a food beverage tax, a hotel motel tax, these are things we control, were state sales tax we don't control. So we do have some taxing portions that we control and we can be creative with those but those are more difficult, so TIF is our strongest tool to get redevelopment happening in the city.

### **But by working with TIFs you are only able to target a few areas and the tool doesn't in that way benefit the whole city?**

Yes, that is the whole target of the program, that the area has to be blighted in order to have a TIF. But we struggle, if you look for example anywhere south from downtown. There are some areas that probably could qualify for a TIF and need some help but we don't have a TIF there because they are difficult to create and therefore our tools are very limited. So we have to be very creative of how to assist. There is still this imbalance of that it is cheaper to build a building on the fringe of town than to reinvest and redevelop an existing building. So we have to find the tools to balance that equation so that someone will start rebuilding, otherwise we will be hollowing our center out and have all the development on the fringe.

**So do you adopt a 50/50 approach of 50% infill projects and 50% greenfield development, is there a focus?**

I think the city of Champaign is focusing stronger on infill development. The council stated that the last couple of years. We have the existing infrastructure in place to serve a much denser center city. Whether we take advantage of that is up to us. Or do we build new infrastructure and extend more to the green fields. Our council has been taking a much stronger approach to focus on what we have and redevelop inside instead of continue to build out.

**You talked about the blighted areas, literature suggest it is easy to meet those demands. How do you feel about this?**

I haven't been here when we created the districts and the last district was created in 2002. I will say that state law is changing and it is whatever the state legislator wants to add as blighted. I think you could say those are easy to meet because most of our downtowns in the US are crumbling and then it comes up to the council if they can sell it to all the other taxing districts that an area needs help. If you cannot do that, set aside the criteria from the state, if you can't sell your plan and the need for a district, so you have to overcome that hurdle as well. So if the criteria is too lenient from the state level I know for a fact that our local taxing districts are very cautious in creating a new one because it has an impact on them as well. If the state legislator doesn't scrutinize it I can assure you that our taxing districts will do it.

**But in the initial planning it is easy to create a district, taxing bodies can't block a district if you meet the criteria, how do you see that?**

You are right by saying that if it meets the criteria we can create one but again you need the political will behind it and that varies from city to city. If for example in a city of Chicago where the mayor has such strong political capital that he can create TIF districts wherever he wants to and that is a total different situation like in Champaign where we have a city manager form of government, we don't have a strong mayor form of government and we have 10 other taxing bodies that will have a say in it.

**But do they actually have a say in it?**

Well I think they do although it is the case that is not required to have a say. Again it goes back to the political power of a city. If a city has so much political capital that they can pass and ignore all the taxing districts, that they may need some help from later on then it can be simple to do but when you play the game of politics than you realize that this will have a pretty big hand in it as well. You all need to work as a unit because your tax bill goes out to the citizens as a unit. I can't speak for creating one because I haven't, but I know that there is a political side to and if you don't foster that relationship with them that can be a difficult one in a later stage.

**Do you see TIF as a tool to create more jobs and growth in an area?**

I like to think that the work we do in campus town and downtown to revitalize the city is the work that is most recognized by those that look at the community as somewhere they might want to move to. A city is often judged on its downtown on its liveliness on its ability to offer the types of living someone wants. If you are coming from a large metropolitan area they want the things we are creating in our city. They want the nightlife, they want the dining, the cultural aspect, concerts and we create those things in downtown. I believe, and some people told me, that they wouldn't have moved to Champaign if we wouldn't have this downtown and of course I like to hear those things. When you look around in the country, you don't choose

the that has a great selection of big box stores, most people look for the intangible things about a community and that is what we try to create.

**Is a tif district creating jobs or is it just shifting those jobs?**

I think the tif district actually create jobs. When you add it all up and lets take this recession time as an example where not a lot of action is coming from the trade side, capital projects are drying up, we build a two million dollar road improvement and a 12 million dollar bone yard construction basis that put money at the architects, to the contractors, to the landscapers to work in difficult times. We were able to do that because of the strength of the tif district. Capital allowed us to keep those projects going on in difficult times so yes It helped a lot of trade. If you look at over the life of it, all the renovations we have done would not have been happened if it was not for the tif. We can debate that and it can be my anecdotal data against your empirical data but people were not investing in those buildings and even now people need assistance because these small businesses are hurt by the recession, property owners are hurt by the recession they are not investing as much, so if we are unable to provide the incentive to keep that momentum going we would not be able to push through a recession. I don't think it is reshifting a jobs because I think by having a great downtown we added population to this community because of that.

**Do you need growth to sustain a tif because it is still working even during the recession?**

That is mostly happening because we kept money in our fund balance and number two we haven't seen as large of increases as before but any increase or sustain level still allows funds getting into the funds. It matters how you make the money you have stretch further. Growth makes it easier because the more growth we have the larger projects we can take up and we can do in a shorter amount of time. It is really a time issue, we can do a lot if we have time on our side and can spread it over a couple of years. If we a couple of really big projects come in that make a healthier tif fund balance than those projects can be done quicker that in turn will get more money into the tif and it is self-fulfilling

**What are the actual goals of tif in champaign?**

Our goal in downtown has always been bricks and mortar reconstruction and redevelopment, investing in the existing parts.

Tif 2 started with much loftier (grander scale) when it was created there were some interesting dynamics going on at the university. The north campus, engineering quad, and the computer science buildings weren't there, they were in the planning fase of being build. The idea was that the university of Illinois was going to build a research park, we ultimately build the south research park, but at the time the cities were expecting a north research park to be build. So from urbana stand point they created a tif district along university avenue and the city of champaign created a tif district extending down university avenue in the thought that the university would build a north research park around where Beckman is at today and that was going to spur a hotel conference center on the champaign side and urbane would get a medical campus block close to the existing medical center, but the university changed their plans and developed their engineering school which didn't create the private sector jobs that would need a hotel and things like that. And so that tif district didn't grow as much as expected. The focus then became more like the downtown tif. More focused on the first and university area, the north first area which is primarily the African American commercial center of town. When the new police station was build that was kind of a reason to redevelop that area. So new street scape, focus on older building, less on grandious hotel projects, and in took a lower key profile. And it is really in the last couple of years that we see that the demand is finally there and downtown is growing and has some spillover effects and we try to rebrand the area as the

connection between campus and the bone yard creek. If we would have build the bone yard 15 years ago that tif would have probably took a different direction. So now we don't have much years left on that tif and we finally got some momentum going that will spur some capital projects. The extension also gave us a more targeted focus and we weren't giving up on that area of the tif because before we left it we fixed up the street scape and put some components in place so that the district could go on its own. We saw that a little bit with some property that was redevelop because we fixed up the street. The new owner told me that he wouldn't have looked at this building hadn't we fixed up the street.

Tif 3 had a very different focus, it's purpose was to figure out how to remove the blighted hospital from the district and finding a redevelopment which we started with the bernham 312 project. So that tif is really focused on paying off the debt created for the demolition project. We tore down the hospital, there were a lot of things there like asbestos and environmental issues. We had to completely go in there and clean it and it was a 8 million project to get the hospital out and the sight ready for a new building. We are paying the debt down on that and when we get into the position when the debt is paid and the fund is doing healthy we plan to build 2 more somethings on the existing lots that we haven't finished. Eventually we hope see the district so strong that we are able to put programs in place to work on some of the older apartment buildings. On the long term we need to figure out if we want to purchase them, knock them down getting redevelopment going. That one is more aggressive in clearing sites and making it ready for redevelopment.

**Were the deals for tif 2 and 3 negotiated before and was the tif created for those future speculated deals?**

I think for tif 2 that was created in 1986 it was probably a number of people sitting down and saying what can it go here. Probably some developers from town, some planners and they were probably figuring out what do we expect to happen and that is what they expect to happen and then adjusted to this situation. You had to create the district to be ready and create increments for the project. That is how tif work sometimes, you can only put out there ideas that work best for the districts and work towards those goals. Very rarely we know what is going to happen over the next 20-30 years.

**Was it then more the development opportunity or was the area really blighted?**

I think there was any doubt that there was blight or it was falling into blight. University avenue was a collection of gas stations and auto mechanics, you have to know that university avenue in the 30's and 40's was a two lane residential street with homes along it. The Streets were widened in the 40's and 50's, the homes were torn down and the highway uses were put along it. Those highway uses today are falling into disrepair, and we wanted our center back and if we are not having homes along it we want it to look like an urban street not a sub-urban street. It is still an important street, it connects champaign with urbana and there is a hospital along it, so it is really a major east west commuter way but it looked awful in the 80's and it is getting better.

**But the development opportunities made it happen due to the effects of tif as a tool?**

Yes

**How did the extension process go?**

The negotiations were tough because we trying to do most of them close to the economic crises. We did the downtown in 2005 which wasn't as bad, the economy was still relatively strong and we convinced the people that there was still work to be done. Ultimately we they

agreed with us however we did a surplus payment back to them. That payment was necessary to get them on board, again it is this political game, the council had the authority to just pass it but the state legislator wanted us to sign off the school districts and other things. It was really the preference of the legislator so the political will is really driving it more than the actual rule. In essence we ended the downtown tif and started a new one, but the way we structured the surplus payment we gave away all of the increment from 1981 to 2005 we giving that back in the form of surplus payments. What we are working with now in downtown is everything that resulted from the growth since 2005. So m2 the new building, the growth there, that is what we using to pay the tif district. We made a new base value. It was not a true extension but a restart of the tif.

Tif 2 was much more difficult, with tif 2 we were in the heart of the recession. You have to remember with the recession that it always hits the government after it hits the private side so we have been in a recession for almost two years and all of our budgets were looking very bleak for the following year. We were separating services, and were loosing employees, without laying them off. The school district was facing a deficit themselves and all of the taxing districts were facing the same situation. So we had to pass it in a very difficult economic climate. With downtown we knew we had M2 coming online and we would have the increment we needed. We didn't have that kind of project in tif 2, so we needed to keep our increment and tax so we counterd that to make the district smaller and more focused. They got a surplus back of 100% the first year and 50% the second year and 25% the third year. Helping them in their hard times and expecting that we would be out of the recession in 3 years and we can all focus on the tif district. We were able to that because we had a fund coming out of the last year.

### **What are success factors and what are possible failures of a tif?**

I think the succeses are all around us, the fact that tif dollars have been used on 80% of the buildings in the tif, and that has resulted in brand new upper floor residential which has brought residents back to downtown and made property stronger and more leasable to new businesses. That is the success story, I'm really protecting the buildings and I put more emphasize on that than others. We have seen some fires in the downtown, 1 fire can take an entire block, our program has not only stabilized the buildings for a hundred years but also put into place fire suppression systems. Those things will be very long lasting so that next generation will still have a strong collection of historic buildings.

The failures have been that we have never been able to adequately convince certain property owners, that own very large properties, to reinvest while the program is in place. Those building will be increasingly hard for one land lord to renovate it up to new standards and requirements and just structurally stabilizing a 100 year old building. It will get harder and harder to pay for these renovation due to stricter requirements. Every year the building code gets more stringent and while it is this code is getting better in addressing the rehab of existing commercial building they are still not great. This building across the street, I won't be surprised when it is a 3 million renovation project, when you run the numbers and figure out how expensive the apartments need to be and how expensive you need to rent out the ground floor retail. It gets almost impossible, it makes living downtown not affordable, it makes leasing a place almost impossible because we try to create retail in the downtown by local shops. The only people that are able to pay those rates are the large corporate businesses that won't even give that corner a look. So start to think about the economics of it and it is almost impossible. You have to do that as a labour of lover now, you are not making money, you will lose.

It is partially the fold of the owner, because the price of renovation has only gone up. Back in 1995 it would be a lot cheaper, it is just increasingly expensive and that is what the downtowns of the future have to fight. People need to get to it now instead of diverting it because that will only make it more costly. That is why when we renovated some of the apartments, which look very nice, but are expensive. The rent is typically is 1 dollar per square foot so a 800 square foot apartment is 800 dollar and that is a high rate. That means that a server in the restaurant downstairs is not able to live in that apartment, so there is an imbalance. Trying to create affordable housing is something we try to do but that is a difficult task and you have to look at other external sources like federal dollars for housing programs. Tif comes in to make the project work financially for the owner to do it, without tif, good luck and go fix it. And the owner then probably builds somewhere else.

### **What about the future of the current tif districts?**

They are ending, it is really interesting if the state will put something in place to replace them, maybe nothing, I do fear that if you are not able to create a situation where you can jumpstart your district and it can stand on its own, which we have tried for 25 years and we are almost there but if you cannot do this, does it flip back without any money. And now with downtown competing with every other sidewalk in the city when do you fix the sidewalks, if you cannot fix the sidewalks what kind of effect will it have on the businesses etc. I generally feel that the downtown and campus town are the heart of the community. If the sidewalks are crumbling again, how will people feel about your community? As a dying community in central Illinois?, that is my fear.

### **Are there some new developments coming up?**

Yes we do, we have the hotel that is planned downtown that is using tif dollars. I hope to see a couple other lots getting developed before the tif ends. And I would like to see the art plaza constructed before the tif ends because I want that to be the lasting civic piece of the tif before it goes away.

In tif 2 we have a couple small project and hopefully 1 larger project. I hope that gets up and running and will assist in getting the good products there.

Tif 3 is our longest lasting one, and we got some time left on it but we try to get the last lots on bernham and then really see how much can be generated and transformed. I think we can actually transform the whole neighbourhood, there will be enough money in the fund to really do some interesting stuff. We are for example really promoting transit in that part. And in the end trying to connect midtown and campus town with the engineering quad, really make that part attractive to students to live there and try to introduce some ownership in the district. So that someone that works as staff in the university or is a graduate wants to stay here because it is so much more interesting here instead of moving to somewhere else in the community. We haven't got to the homeownership yet but like to do something.

### **Will there be any new tifs?**

There could be, I think there are areas around downtown that would qualify. The baseball part is interesting. There is an old scrapyards in the south. So there are needs just south of the current downtown of the tif. In the future we they will be small and targeted tifs, not to expensive. We never created residential tif, those are difficult, more difficult than commercial so I don't know if we will get into that. They are mixed use but some cities will do tifs that have a lot of single family residents and there are separate requirements to do that. You have to pay money to the school district for every child, so we probably don't do those kinds. We see tif as a tool to redevelop commercial centers and I think tif really does is best job.

## **Interview John Dimit**

**Date: 26 April 2012**

Dimit joined the agency shortly after retiring as executive director of the Champaign County Regional Planning Commission. He continues to serve as president of the Urbana school board

### **Could you tell a bit about your background and what the EDC is doing in champaign county?**

John Dimit, president ceo of the Economic development corporation but I worked in champaign county for about 45 years and most of the time in the planning commission. The edc is working for champaign county and not only for the city of champaign. The purpose of the EDC is to try to assist businesses when they are in a growth mode or try to attract new businesses here. We primarily work with basic industries, we don't necessarily work with retail although you have met with Greg Glonda of the EDC and he is working with small retail. But our major focus is on industry and we actually avoid retail and let the cities themselves take care of that. We take care of the industrial and technological companies, people that aren't sales tax generators.

Recently it has been a tough economic situation so we have recently mostly been working on local expansion projects when we could find them. They were very modest in size and companies were asking us for training needs so they can have 5 to 10 employees. We had one big project which was hiring jobs which makes graduation caps and gowns and those kind of things and they added 90 jobs.

### **What kind of economic development tools is the EDC using?**

I know you are interested in TIF and we make major use of TIF and also use enterprise zones, federal and state training dollars, and in Illinois that is pretty much the limit. We do have some public funds so we can make public loans to them but the interest rates are so low at commercial banks that the public financing programs aren't particularly advantageous or attractive, they are a little bit of an interest break but the conditions that come with that loan like documenting takes away that the loan is interesting.

### **When attracting business to champaign, what are main selling points of the county?**

Our transportation network and the presence of the university. The labour market is relatively good, the quality of work ethics in the mid west is good. Other types of industry that are already here and might relate to companies that want to settle here is a major advantage. Particularly if we start out talking with tech companies because we have a lot of tech companies so that other tech companies are interested in location here.

We facilitate site selection, a company might not want to be completely identified when they are first looking for a site and we'll provide that wall of security for them. We will go out and outline what their needs are for their site. We will contact all commercial renters in town and they will respond and then in privacy the company can look at those sites and choose the site they want without having a lot of pressure from the renters bothering them. We are the go-between person.

### **Getting back to TIFs, do you see this tool as an economic development or redevelopment tool?**

When the TIFs were first created they in the USA were completely a redevelopment tool. The tool has been picked up and taken by the economic development community and now it is a general economic development tool. Because our tax system is set up with so much emphasis on property taxes in the state of Illinois particularly, it becomes a valuable tool to kind of harness those property taxes and apply them to an area that

does need the TIF rules. I am a purist on that and think that TIFs are brought beyond areas that need redevelopment are improperly applied. Actually the community in Champaign county has actually done a good job in not doing that. If you look at other communities sometimes you find greenfield TIFs where they do residential development and to me that is improper use of a TIF.

**Do you see it as an economic development tool to redevelop and attract more businesses?**

Indeed, I do, it helps the community to identify the situation by going through the exercise of establishing a TIF is causes the city government to have to examine what they want within the boundaries of a TIF, what kind of land use they want and by bringing extra attention and focus to that I think it moves the process of redevelopment along.

**You said the TIF design is good in Champaign, can you say something about the use of TIFs in Champaign?**

The majority of tax dollars go to the school districts and the beauty of the TIF is that there is no tax abatement and no loss of tax income to the other taxing districts unless there is redevelopment going on and that is the delight. Even as a school board member I recognize the usefulness of that, I'm on the Urbana school board. But the use of it as a tool, I do believe that developments that have happened that would not have happened if the TIF had not been here. So I think it is an encouragement, and I think the both cities of Champaign and Urbana have both used TIFs to redevelop the center and the core of the community. And I think it has a lot to do with the fact that there has been redevelopment in the center that would otherwise have been on the edges. When you see the success in the Champaign downtown how it turned out it is a success.

**They recently renewed 2 TIFs in Champaign and there is some discussion about meeting the requirements for a TIF. Do you think the blighted factors are always met because you could argue that the redevelopment was successful and TIF would not be of much use.**

You could argue that but there are still unfinished projects, the task of bringing the downtown in the current era has not yet been complete. Urbana also renewed their downtown TIF and when they did that they moved the baseline of the tax base up to the another level and only capture the growth that was going to occur. So the other taxing districts did get the advantage of earlier redevelopments. There is more work to be done, Urbana actually has 3 TIFs in their downtown and is kind of like a donut around the city. Champaign just has the single TIF in the downtown. And Urbana let one go because they were done and only renewed the parts that needed further help.

**How do you compare the effectiveness of TIF as an economic development tool compared to other tools like EZ, grants or tax incentives?**

I think TIF gives more control to the local government, the local government handles the money, the program, the income and can decide how it is used. The majority of the real important benefits an enterprise zone are state tax benefits that accrue directly to the company. It is important for a community to have an enterprise zone and to use it and to partner with the enterprise zone but I think TIF gives more control. It is more targeted and you have a wider latitude of what you can do with the money and you can target it specifically for the targeted businesses, to its needs. You can also choose, if it is a business that you are not really trying to attract, you can choose not to extend and provide them with less or no money.

Enterprise zones are much larger, and any business located in that zone can get the benefits so there is no targeting and that can sometimes result in the case that you get businesses that you don't particularly want to encourage that will take advantage of that.

**Do you think that when you establish a TIF and attract businesses that it is a matter of shifting business around the city or creating new jobs and businesses?**

It does, it is not a bad thing that it does, because when you create your TIF correctly we will have stronger downtowns because of TIFs. Did it take capital away from the community? No. Did it encourage people to invest new capital in the downtown instead of on the edges? Yes it did. And I think that is a good thing. Did it have a net add to the economic activity of the city? That is a tough question to answer because you are playing with what ifs. I think TIF encourage people to take on projects that otherwise would not have happened. Without TIF M2 and M1 would not have happened, it gave that little bit of extra help that is needed for a project that is developed in the middle of town compared to a project on the edge. I think it levels the playing field. Infill development is in that case stimulated. Without TIF to provide a little bit of a back stop to the risk some of the developers, I think in the without case developers would not have taken the risk. So looking backwards, we got M2 build at a time when the economy was taking a dive so maybe we were a little bit over build and that could have been a risk. But on the other hand it created so much energy and a vibe that other things started to happen.

**Do you think it is a zero sum game, in the sense that the money is returned to the public?**

I think yes but on the long run. In the short run no. On the long run it creates a community and a lot of people in the US that do not want to pay any taxes for anything but there are standing on the shoulders of our history that did make investments and did do things for the public goods. So I think it will benefit everybody in the end.

**Literature also suggest that nearby TIF in other towns stimulate the development of more TIFs in other towns, did or do you see that in Champaign?**

Yes absolutely, in communities that are competing with each other. Not all communities are equal, but Champaign and Urbana make a perfect laboratory for that although they approached TIFs in a very different manner. Urbana when they first did a TIF went out and bonded against the expected TIF revenue and made upfront investments and they needed that kind of kickstart. Champaign on the other hand did a more pay as you go process, so two different approaches but ones the one city got the TIF the other one also needed to have one. There is definitely some competition, although if you look at the towns, Champaign has been more successful, Champaign is larger and they partnered their TIF with their liquor license and went after the nightlife. Urbana was still trying to chase retail and they changed at the moment to art studios and a little bit of the nightlife.

**Did you see the two towns competing about business and enterprises?**

Not really, the focus was different, but they had to have the tools in order to say they had it so a TIF was needed. Some developers looked at both sides and would choose depending upon the best tool. Rantoul was not really in the picture, they have a TIF now but their downtown is really in a bad shape at the moment and they are just starting the TIF angle now.

Both Urbana and Champaign are thriving but in different ways. I think Champaign reached a saturation point, to be honest about it concerning the downtown. In terms of the kind of strategy they had, I think the city works on the next step because we got all the restaurants and bars and the live music venues and things of that sort so we have a vibrant downtown at night but now we need to get more residents and basic employment downtown. There was one big move of a company from a suburban area to downtown and that was a big happening and it happened because of TIF. I think Urbana has some catch-up to do, but it is a smaller community so has some different conditions.

**Illinois has a lot of taxing bodies in place in one region, how do these taxing bodies view TIF here?**

It is really the park districts, school districts and the cities and townships and sometimes the county. The other smaller ones their increment of property tax is so small that they are not players in this matter. It is important for cities to be sensitive to the needs of the other taxing bodies. It takes vision on behalf of the other taxing bodies to realize what

they are giving up is not current revenue but potential revenue. I think the length of time is important. The renewal that Urbana did was the right was where they allowed the other taxing bodies to get some of the revenue. I'm not that familiar with the Champaign renewal.

County board has been very anti tif and anti enterprise zones because their budgets has been desperate and have been difficult for a long time. So they have been very sensitive to every small amount of tax revenue that they will lose. In some TIFs the county has therefore been out of the TIF, the city can decide which will be included in the tif. Only the entities that agree will be in the TIF under the new rules. The old rules allowed the city to capture all the districts and that created some tensions and problems.

**So compensations and negotiations about a TIF are very important at the moment?**

The important thing is that if they want to get everything out of it as in the case where there was not TIF than nobody will get an advantage. Both sides have to be fair and reasonable and recognizing the goal of the TIF and have to be supportive in the overall goal. Therefore the plan of the TIF is so important and have elements that work and elements that everyone can buy into, so that people will say that it is worth to give up a part of my revenue because on the long run it will be better for the community. It will help me in indirect ways and I will see a better community. Compensation doesn't pay back everything but it is a sweetener that will make you stand the time and in the end we want a better community.

(Part between 33:00-36:00)

**Champaign also changed the base and did surplus payments.**

I think that is important to keep the peace between the taxing districts because when you keep the tax level that long you will destroy the purpose of the tif. In the end it is all about how you put together the tif plan. A part of the plan can be direct benefit to the districts. Tif 4 in Urbana involves one of the schools, so the school got 80000 dollar from the tif fund to help build the the new school gym so that bought a lot of good will. In addition to that Urbana provided the school district with 50000 dollar every year for technology purposes and training. And that was another way to make sure the school district was part of the project and could enjoy it. The park districts were handled the same.

In Champaign, first of, it is much more property tax rich with its tax base. The percentage of the total tax base in Champaign that is captured in the tif is therefore much smaller and less of a burden on other taxing district.

It is absolutely a selling game where municipalities sell their plan. I also appreciate that when Illinois renewed the TIF law they gave the other taxing bodies a little bit bigger voice, review board and you have to get permission from the other taxing bodies to implement a tif. You have to talk to the taxing bodies. The biggest example of that locally is in Mahomet. Mahomet started a TIF and had to consult with the school board but the board was against the TIF and raised a lot of Cain about it and this brought the residents out which effected the city council and how they would vote on it. In the end they reached an agreement and found a solution for it. I think it is good that cities now have to talk and reach those agreements instead of just saying we don't care what you think. In Champaign we didn't have much conflict because over here we sat together and worked plans out with the city.

**Do you need a growing city to support a TIF? Do you need population growth, economic growth or any of that kind?**

The community has to have a least the strong possibility of having new developments occur. TIF are pointless if there is not going to be any development. First of you have no increment of revenue to apply. I think TIFs can be successful in communities where the growth had been stalled. And they need a jolt that will put them back on the track of growth. In a community that is in a state of significant decline it will be much more difficult for the tif to be effective. If you are in a region that is in decline that will make it even

harder. But if you are in a community, say Cleveland, a region that is losing population and losing business, and the area around it is still continuing to grow. In that way TIFs can be very helpful in redirecting the development energy back to the area. Economic and population goes hand in hand but economic activity is more important. If you look at a city like Detroit where there is a lot of unemployment, you have the people but you have to get the economic activity there.

**Sometimes it looks like TIF are made bigger or high growth sights are added to capture a larger share of property tax. Do you see that happening in Champaign?**

Yes, when there is knowledge and awareness that there will be a large project that is close to the TIF than it helps to put that into the TIF. Because that money can be applied to further activity inside the TIF. I think it is a tool persuading, if you can capture that increment and put that money back into the district. It is an investment model, you need to see TIF as the TIF captures value and money that is invested in new projects that will lead to additional growth which in the end should return back to the rest of the community in some way. It is a dilemma to put less blighted pieces in the TIF but I think it is something to be said for capturing the money so you got the money to apply it to the core of the problem. The core of the problem will not be fixed if you are simply are only working with the worst parts because you will not get the amount of money to have an impact. In the 60's and 70's, the US approach to urban renewal was to go to the worst parts of a community and work out, I was working in community development at that time. All that was happening by that was that the problem continue to move out, it became much more effective to work at the core but also work on the borders and shore up the borders and work back in and that combined approach had the most impact and solved the most problems. The issue with a TIF district capturing a little bit of an increment that is going to occur in an area that is not your worst blighted area is the same thing. You sometimes need an area that you can be successful at redevelopment that will then be a leverage to go back into the core. You need that money in order to do this.

**How do school districts etc it?**

You have to compromise that, and they have to be convinced that it the right thing to do. There also needs to be something in it for them.

**Do you think Champaign county needs TIF to get the developments going or could they use the EZ or have the EDC help them?**

The real alternative to a TIF is peace meal, case by case tax abatement. I think it is better and fairer if all the property owners inside the TIF understand the rules and there is less opportunity for favoritism between property owners. There is an alternative legally as far as a city property tax dollars concerned, park and school districts and the other taxing bodies, it is difficult to bring them together for a case by case basis. There is less money spend on administration if you do it by the TIF process and let the city take the lead. There is predictability about it, and it is implementation of a plan rather than having a plan for this parcel and a plan for this parcel. It is an effective tool and makes the process much faster. From a private part it is also good because they know the rules and know what is possible when they do xyz and they will get xyz. People argue that it creates an unlevel playing field, and yes it does. But at least inside the TIF people are treated fairly.

**What do you see as failures of TIF in Champaign or in general?**

If it is based on unrealistic expectations of what the private market will do in terms of new development it can be a disaster. Because the city can go out and make investments and betting on certain amount of increment that is going to happen but when it does not happen it can be a real problem. In terms of failures city of Champaign, with TIF 2 the city was so concentrated on what was going on in the core of downtown that the development didn't happen in TIF 2. So from that viewpoint Champaign was wise to not do some bonding and so forth. It would have to be a failure in planning there.

**TIF 2 was also partly created because there were rumours about upcoming developments, how do you feel about this speculative tif creation?**

Well it is part of it, because you have to have a tif in place before actually anybody takes a look at it so otherwise it doesn't qualify. That is part of creating a vision for a Tif that cannot be too high in the sky and needs to be a realistic vision. You can't create the TIF and let it sit there, you have to work with it. I think in that sort of a way it showed that a Tif is needed because even with the tif there but it just kind of sat there. Was the development going to happen with or without the TIF, well no it didn't happen either way so the tif is only a tool in the toolbox. And beside the TIF you need the energy of the city in driving the development and making sure the other tools are there, including proper zoning, a lot of tools have to come together.

**But do you feel there are upfront agreements before establishing a tif? Can this agreement then be more of a starting point than the blighted factor?**

I think that you have to meet the blight before you can establish a TIF, but in some cases it is easy to meet that standard. I do believe that there has been deals where it was said that the deal will only happen and only if the tif is established and I think that happened frequently. That doesn't upset me, most of the time, we have a very clean government here, and those things are known and have not been in the back. It has been a matter of pre closed public record that has been documented where they said we need you to deliver this and tell us how you will deliver it. And the community probably said well we can only deliver it when there is a TIF so we have to get through the process and if we go through the process and in fact establish the TIF will you then in fact build? And the developer often then says yes and I think that this is ok. I think it is really important that the taxing bodies are fully aware of this.

**What is a success factors of TIF, in Champaign county specifically?**

I truly think that champaign county would be a ghost town if the work wasn't done on the downtown. Downtown urbana would have a lot of empty storefronts, at the moment they few if any empty store fronts and one of their tif programs was a storefront renewal program where they provided property owners with dollars to improve their storefront. It didn't go back beyond the storefront, but they wanted more street appeal. I think that are successes and I do not think that either of the downtowns would have been as vibrant as it is now without the TIFs, the development would have occurred outside the downtown. The redirection of development, or redevelopment, to the core of the community is the main success. I won't use it for greenfield developments because there are already so much competitive advantages, cost advantages in those areas, that I don't believe in tif outside the city center.

**How do you see the future of TIF in Champaign county?**

I think there will be more TIFs, for areas that are a mile or 2 mile from both downtowns. In those cases tif can become a legitimate and useful tool, meaning that there are areas that need redevelopment. The county fair shopping centre in Champaign is a definite candidate for tif type attention. In Urbana is pretty well set for the coming years. They have been mostly done streetscape projects in residential areas. In tif 4 they took in especially a lot of residential area.

The way our systems are set up here, Tif is the easiest and most effective way to do redevelopment. You can set up a special redevelopment district and tax them but it is not as effective. You will get more funds in the area with tif.

**Does this benefit the EDC as well?**

A lot of TIF financing has been for retail but in the instances that it has been used for businesses it has been one of the critical factors because Illinois does not have many of the tax abatement programs or grants programs that other states have done. It is more of a bootstrap approach, you are pulling yourself up by your own bootstraps rather than

taking money from the state government and try to get them from Chicago and get them somewhere else. We use TIF all the time, and it is a good selling point. We use it, but in our market with the EDC, EZ is more important for the bigger picture but tif is a valuable tool. If I had to choose between TIF and EZ I would choose EZ the state benefits are more important to the companies we work with. There are building cost deductions, tax credits for utilities. We are not putting our large customers inside town because there is no space. But our tech companies and office type operations, than we turn to tif a lot of times. For large manufacturing or warehousing EZ is often more important. Tif is a usefull local (economic) redevelopment tool, not to get big companies is but making the city more vibrant. It will also work for home grown companies. These companies start from scratch, there are small in scope and size and the tif becomes more important to them because they are not building huge buildings but tif is a more flexible tool and so when your economic development does not involve significant real estate development, the redevelopment by TIF is important to a tenant.

## Appendix II: EAV Growth in Champaign County

	County	Township	TIF downtown	TIF East University	TIF campustown
EAV 1970	0,00%	0,00%	0,00%	0,00%	0,00%
EAV 1971	0,00%	0,00%	-1,79%	0,00%	0,00%
EAV 1972	0,00%	0,00%	-0,27%	0,00%	0,00%
EAV 1973	0,00%	0,00%	-1,31%	0,00%	0,00%
EAV 1974	0,00%	0,00%	-0,49%	0,00%	0,00%
EAV 1975	0,00%	0,00%	-4,55%	0,00%	0,00%
EAV 1976	0,00%	0,00%	-24,93%	0,00%	0,00%
EAV 1977	0,00%	0,00%	-5,89%	0,00%	0,00%
EAV 1978	0,00%	0,00%	<b>11,09%</b>	0,00%	0,00%
EAV 1979	0,00%	0,00%	7,15%	0,00%	0,00%
EAV 1980	0,00%	3,00%	<b>14,51%</b>	0,00%	0,00%
EAV 1981	0,00%	3,00%	-0,20%	0,00%	0,00%
EAV 1982	0,00%	3,00%	<b>17,32%</b>	0,00%	0,00%
EAV 1983	0,00%	3,00%	<b>11,21%</b>	0,00%	0,00%
EAV 1984	0,00%	1,41%	-1,15%	0,00%	0,00%
EAV 1985	0,45%	2,18%	-1,92%	0,00%	0,00%
EAV 1986	2,66%	2,34%	6,70%	0,22%	0,00%
EAV 1987	3,85%	5,37%	2,44%	5,03%	0,00%
EAV 1988	3,35%	7,21%	5,78%	<b>15,15%</b>	0,00%
EAV 1989	4,94%	<b>8,50%</b>	4,06%	1,78%	0,00%
EAV 1990	2,06%	6,01%	1,37%	2,32%	0,00%
EAV 1991	1,99%	5,00%	5,73%	1,47%	0,00%
EAV 1992	3,03%	4,01%	7,15%	0,74%	0,00%
EAV 1993	4,76%	3,98%	1,77%	0,00%	0,00%
EAV 1994	5,02%	4,15%	5,02%	1,56%	0,00%
EAV 1995	5,90%	6,42%	-2,84%	<b>8,95%</b>	0,00%
EAV 1996	5,69%	5,88%	-0,70%	1,73%	3,01%
EAV 1997	5,16%	6,37%	-2,49%	7,72%	0,51%
EAV 1998	5,58%	4,80%	1,72%	5,71%	0,73%
EAV 1999	6,16%	5,42%	1,50%	-0,39%	4,18%
EAV 2000	6,09%	<b>8,62%</b>	4,05%	5,65%	5,19%
EAV 2001	4,74%	7,27%	3,48%	1,67%	0,00%
EAV 2002	4,50%	6,32%	1,13%	4,00%	4,94%
EAV 2003	5,65%	5,92%	3,59%	<b>14,06%</b>	6,18%
EAV 2004	5,03%	5,76%	<b>9,90%</b>	4,01%	1,92%
EAV 2005	<b>8,20%</b>	<b>8,81%</b>	<b>15,91%</b>	7,24%	7,50%
EAV 2006	<b>8,62%</b>	<b>10,89%</b>	7,83%	4,26%	6,98%
EAV 2007	<b>8,40%</b>	<b>16,12%</b>	5,87%	5,51%	7,67%
EAV 2008	5,65%	0,34%	<b>9,14%</b>	2,76%	<b>28,21%</b>
EAV 2009	1,38%	0,00%	<b>8,11%</b>	<b>8,37%</b>	<b>14,30%</b>
EAV 2010	0,46%	0,00%	<b>17,23%</b>	-0,89%	<b>22,89%</b>