



Are tax incentives the right tool for this development?

Local governments often use tax incentives to encourage development and strengthen their communities. Tax increment financing (TIF) districts, sales tax rebates, and property tax abatements are among the most popular incentive types.

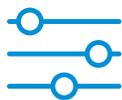
Before using these tools, local governments in northeastern Illinois must ask whether tax incentives are the most effective way to achieve their community's goals — and if so, carefully consider the costs and benefits of each incentive type.

5 ways to get the most out of incentives

No matter the incentive type, consider these best practices:



Use incentives to meet community needs and advance equity



Consider non-financial incentives first



Design incentives to create living wage jobs for local workers



Collaborate — don't compete — with other local governments



Establish business commitments with clear performance targets



Tax increment financing

A local government creates a TIF district to fund development and infrastructure improvements — such as roads or signage — in an area determined to be blighted or in danger of becoming blighted. After the TIF is established, the revenue associated with any increase in property value is set aside to fund public improvements within the district. These improvements are intended to foster more private investment within that area. TIF districts can last up to 23 years.

Questions to consider before using tax increment financing in your community:

- Are the potential benefits (e.g., new jobs, expanded tax base, improvement to blighted areas) expected to outweigh the costs?
- Would private investment occur in the area without TIF-funded public improvements?
- What is the life expectancy of the public improvements being funded through the TIF? And does that align with the time it will take the district revenue to pay for it? For example, roadway improvements may last 15 to 25 years; benches may last 5 to 10.
- Are there other development tools that might be more effective?
- What will be the impact on overlapping taxing districts, such as the county or school districts?
- Will the TIF district advance racial and economic equity?

Key action: Use TIF funds to invest in publicly owned infrastructure that can benefit multiple future developments — rather than upgrades to private properties.



Sales tax rebates

A local government agrees to return to a business a portion of the local sales tax revenue that the business generates. These agreements have a median duration of 15 years.

Questions to consider before using sales tax rebates in your community:

- How much sales tax revenue is the project expected to generate?
- What benefits (e.g., new jobs, business expansion, land development) can the community expect?
- What public services will the business require and does the total amount of taxes paid correlate with these costs?
- What are the business commitments? For example, how many new full-time jobs will be created? What are the wages? How will commitments be monitored?
- Does the proposed tax rebate have a time limit or maximum amount?
- Will the incentive make a difference in the business' location decision?

Key action: Always include a maximum rebate amount, an expiration date, and a revenue minimum in sales tax sharing agreements. The revenue minimum should cover the cost of the public services that the business will require.



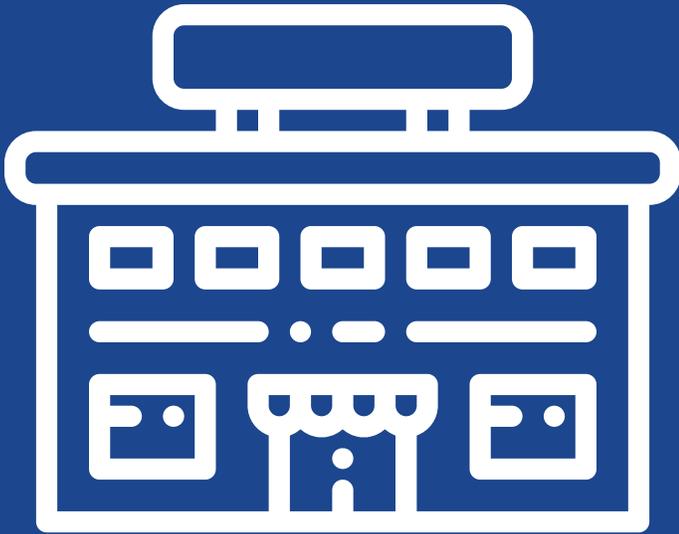
Property tax abatements

A local government abates or temporarily reduces property taxes on a specific property. In Cook County, where commercial and industrial properties are assessed at a higher rate, incentive classification is a unique form of property tax abatement.

Questions to consider before using property tax abatements in your community:

- What benefits (e.g., a needed grocery store or an increase in local business-to-business purchases) will the business or development bring to the community?
- Is the property tax abatement necessary for the development to occur?
- How will the abatement affect overlapping governments, such as the county or school district?
- Will the development lead to new costs for the community, such as infrastructure investments or new students in the school district?
- Will the abatement create new jobs or amenities in the region, or will it only relocate the business from a neighboring community?

Key action: Tie continuation and renewal of tax abatements to meeting established performance targets, such as jobs created, sales generated, or public amenities developed.



Case study:

Attracting a large grocery store to meet community needs

Incentive: sales tax rebate

Community: a village of more than 40,000 residents in Lake County

Background: The village first established an economic development strategic plan. The plan helped to build consensus on incentives use and set parameters around what benefits they must achieve. Later that year, the village used the plan as a guide when they considered incentives to encourage development in an older commercial corridor.

Agreement: The village established a sales tax sharing agreement with a regional supermarket chain. The business agreed to build and operate a 250,000-square foot grocery store — along with a gas station, convenience store, and car wash — in a long vacant space. The supermarket, the first of its kind in the area, was also responsible for covering the upfront costs of roadway improvements to a nearby key intersection. The village agreed to share up to \$7 million in new sales tax revenue generated by the project.

Outcomes: The development created around 240 new jobs and brought a large grocery store and other amenities to the community. It's expected to generate \$25 million in new revenue for the village over 20 years. The grocery store also served as an anchor for further redevelopment in the area, including new retail and office space.



Learn more

Download the [Improving local development incentives](https://cmap.is/incentives-guide) guide at cmap.is/incentives-guide for more information on how to support your local economy through smarter incentive use. This guide provides local governments in northeastern Illinois with specific strategies and best practices.

The Chicago Metropolitan Agency for Planning (CMAP) is our region's comprehensive planning organization. The agency and its partners developed and are now implementing ON TO 2050, a long-range plan to help the seven counties and 284 communities of northeastern Illinois pursue strategies that address transportation, housing, economic development, open space, the environment, and other quality-of-life issues.

See cmap.illinois.gov for more information.