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Three Things You Need to Know About Industrial TIFs

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We're in a recession, but good business does not have to hit a complete halt.

Industrial deals are still going to get done. Cost will be an issue; cost is always an issue. Standing still is an issue fraught with peril. Today, clever real estate executives will find ways to reduce costs sufficiently enough to get the industrial user to justify the cost of relocation or expansion. Tax Increment Financing is one of those silver bullets that can make the difference. Knowing how to use this valuable financing tool can reimburse 10 to 20 percent of the cost your industrial project.

First, qualifying as a TIF area

In Illinois, as in most states, TIF is a vehicle that allows new property taxes in qualifying areas to be channeled back to the developer to pay for land acquisition, environmental costs, infrastructure and similar qualifying costs.

In simplest terms, in order to qualify, a vacant area must meet two of various criteria, such as diversity of ownership, obsolete platting, tax delinquencies, environmental issues, deterioration of site improvements or structures in neighboring areas, and/or decreasing assessment levels in three of the last five years. Or, you can qualify if an area consists of unused mines, quarries, or rail yards, the site might be subject to chronic flooding or it has a history of being tagged as an unused or illegal disposal site. Exploring the use of a TIF may very well address a number of needs yet unrecognized.

For improved sites that are in need of redevelopment, you must meet certain criteria that establish a "blight" finding based on varying degrees of dilapidation, obsolescence, deterioration, lack of community planning, environmental clean-up, vacancy, and similar factors.

Second, intermodal facilities automatically qualify

The Illinois Legislature saw fit in 2006 to create a separate category of TIF for intermodal facilities. If you are developing an intermodal terminal facility that comprises a minimum of 150 acres (but no more than two square miles) there is no need to meet any blighting criteria. The area automatically qualifies for TIF benefits. The facility must contain a Class 1 railroad right of way and no boundary of the area can be more than three miles from the right of way.

Third, how to qualify as an industrial jobs conservation area

An area can also be designated as an Industrial Park Conservation Area under the Industrial Jobs Recovery Law. This is another avenue to get TIF benefits without the need to meet any "blighting" criteria.

In general, there are two ways to qualify: One, you must be in a "labor surplus municipality." Generally, that means that the unemployment rate in the municipality is 1 percent higher than the state average unemployment rate, and you must create a significant number of jobs (the statute is silent on how many is "significant"). Or, if you are redeveloping an existing vacant industrial building that has either experienced declining assessments or substantial employment declines, you may also qualify.

If your project is in an "environmentally contaminated area" you potentially qualify under this statute, especially if your project presents an imminent or substantial danger to public health.

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What It All Means/Next Steps

If your industrial development site can qualify under any of the above criteria, the municipality you are located in has the authority to do the following:

· Designate you as the developer
· Pledge 23 years of future taxes towards the project
· Reimburse you for land acquisition costs, environmental costs, site preparation costs, job training, infrastructure improvements and similar costs
· Issue bonds secured by the future tax increment

How much is that?

Let's say that you purchase a 200-acre parcel and plan on developing a 2 million-square-foot industrial park. If new real estate taxes are about $1.50 per square foot (of course this will vary with local assessors and different tax rates), your new project will generate $3 million in new real estate taxes annually.

On a net present value basis (8%), that could be worth as much as $30 million in reimbursements to help pay for acquisition, infrastructure, site preparation, and other eligible costs. Of course, you will have to justify the need for TIF dollars, but in our current economic environment, any industrial project that results in major capital investment and creates new jobs, should be given the welcome map, if not a red carpet.

No doubt you know there are numerous procedural steps that must be taken in order to establish any of these TIF areas, along with consultation with the taxing districts to garner political approval and consensus.

But with financing for all projects becoming more difficult, no significant industrial project should be initiated without looking at the possibility of TIF benefits. It can make the difference.

The economy might be stagnant, but clever developers need not be.

Sam Polsky established Polsky & Associates in 1985. The firm represents Fortune 500 companies and regional development companies, including industrial, residential, and commercial development firms, tax increment financing (TIF), sales tax financing, governmental tax abatements, and public/private partnerships. The firm has an extensive background in representing clients before state and municipal governmental bodies and in the negotiation and issuance of governmental obligations in conjunction with private development. It has counseled clients in the structuring and issuance of hundreds of millions of dollars of municipal TIF and sales tax bonds and notes on a national basis.