Economic development possibilities offer many opportunities for positive future growth and change in rural America. While the relatively quiet, safe, and comfortable lifestyle frequently associated with living in rural areas is appealing, the competitiveness of a community or region is important when deciding to locate or expand a business.

Rural communities have a variety of financial resources available for improving and upgrading the basic infrastructure needed to create an environment enticing to new private investment, but few towns have the ability to pay cash for the construction of major improvements such as new sanitary sewers, water lines, and streets. Depending on a town's creditworthiness, it may establish partnerships with local lending institutions, seek state and federal grants, or exercise its taxing authority to issue bonds or, in some instances, raise taxes to finance those improvements.

Many community officials apply for grants, low-interest loans, and other forms of assistance from the state and federal government every year if for no other reason than to try to retain some of the tax dollars paid by constituents. The problem lies in the fact that if the local economic development program depends largely on obtaining grants and conventional financing, it often requires many years to assemble the resources and financial capacities needed to attract the job-producing, revenue-building, and sustainable development required to help a community be economically viable in the 21st century.

This report explores one central Illinois community's successful approach to enhancing its competitive position in the marketplace by rebuilding aging infrastructure, upgrading older commercial centers, redeveloping antiquated industrial properties, rehabilitating existing neighborhoods, and creating new residential developments using Tax Increment Financing (TIF). For Lacon, Illinois, strong leadership and the skillful use of economic tools have enabled the development of a more competitive community.

Lacon History and Background

From a dense hazel brush thicket on the east shore of the Illinois River, the City of Lacon was begun as an 1831 settlement first known as Columbia. Today, it serves as the county seat for Marshall County. Steamboats once ascended the river to Lacon, and the Peoria & Bureau Valley Railroad ran through Sparland on the opposite bank of the river. The first school was established in 1837, and by 1839, Lacon had a population of 200. The community hosted four dry goods, at least six grocery, four clothing, one hardware, three drug, one shoe, two furniture, and one book and stationery store; two banks; two hotels; two bakeries; two restaurants; two wagon and carriage

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factories; two plow factories; three harness shops; three mills; one distillery; one planing mill; one woolen factory; one high school; one Masonic lodge and chapter; one Odd Fellows lodge; and seven churches.

Although a spirited quest for growth and economic vitality was evident in Lacon from its beginning, this rural Illinois community experienced an ebb in prosperity during the 1980s. The city population declined 9 percent from a high of 2,175 in 1960 to 1,986 in 1990 (Figure 1). The city’s retail sales tax revenue stagnated at approximately $130,000 per year in the early 1990s, and the total equalized assessed valuation (EAV) for the Lacon community reached $8.3 million. Further analysis of the city’s assessed values shows the city total EAV declined 26 percent in inflation-adjusted dollars between tax year 1984 and tax year 1994. Declining population, eroding retail sales, and declining assessed valuations caused significant fiscal stress and made it very difficult for the city to provide adequate public services to residents.

In response to these negative trends, the City of Lacon initiated an ambitious plan for redevelopment and established a Tax Increment Financing (TIF) District in 1993. The TIF District concept served to encourage commercial and industrial businesses to select the community for new operations or to expand current facilities. According to the mayor, “TIF Districts must be constructed in broad view of the town’s goals.” Using TIF revenues, the City of Lacon has effectively offered incentives leading to an impressive climate for economic growth.²

What Is Tax Increment Financing?

In Illinois, rural communities have three primary economic development tools available for addressing infrastructure deficiencies and the revitalization of local economies: (1) real estate tax abatements, (2) Enterprise Zones, and (3) Tax Increment Financing. A brief comparison of these economic incentive programs is instructive.

Real estate tax abatements are offered to prospective project developers to reduce the overall cost of a project that a community wants to see happen by causing a site to become more attractive for private investment. The bottom line on tax abatements, however, is that while developers are not required to pay a portion, or in some cases any, real estate tax on new projects for a designated period, the abatements are voluntary and available only to the extent that they are allowed by participating taxing districts. Consequently, cities often find participation by the enabling public bodies difficult to organize, especially during tough economic times and budget shortfalls. A municipality may choose to “abate” its portion of the tax bill without participation by other taxing bodies, but the reduced benefit then provides only a nominal incentive that often lacks the ability to attract significant new private investment.

An Enterprise Zone (EZ) is another program involving real estate tax abatements that enables enhanced abatements because of valuable exemptions for municipal and state sales taxes on building materials, investment tax credits, and job credits applied to Illinois income taxes for qualified projects. More than 90 EZs have been established by the Illinois State Legislature since 1982, resulting in millions of dollars of new development.³ Despite their success and popularity, relatively few Illinois communities actually have access to an EZ and, because these zones can only be created by the State Legislature, it is unlikely the number will increase markedly in the foreseeable future.

Tax Increment Financing (TIF) is an economic development tool that, unlike tax abatements and EZs, is a program of real estate tax rebates. Any incorporated municipality

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² The information in this report about the City of Lacon and its experiences with Tax Increment Financing can be found at the City of Lacon website: [www.midland-7.org/siverstsen/history%20of%20lacon.htm](http://www.midland-7.org/siverstsen/history%20of%20lacon.htm).

within the State of Illinois may, under the authority of the Illinois Tax Increment Allocation Redevelopment Act (the “Act,” 65 ILCS 5/11-74.4 et seq.), establish a TIF District for the purpose of reducing or removing conditions and impediments that have prevented economic development in specific qualified areas.

How Does TIF Work?

In general, Tax Increment Financing, as provided in the Act, works as follows:

1. A municipality identifies an economically stagnant or physically declining area and determines that private investment in the area is not likely to occur at a reasonable pace if no public investment is forthcoming.

2. The municipality has the authority to approve a series of ordinances required by the Act to establish a TIF District. After completing required studies to define a qualified Redevelopment Project Area located within the municipal boundaries, a TIF Redevelopment Plan is created, meetings with representatives of the overlapping taxing districts are arranged, and a Public Hearing is conducted. This process normally requires four to six months to complete unless the municipality requires additional time to annex property that it desires to include within the TIF Redevelopment Project Area. Property annexation can extend the TIF preparation significantly.

3. Once a TIF District has been established by a municipality, the county clerk certifies the total equalized assessed valuation of each parcel of property within the Redevelopment Project Area on the date of enactment. Annual property taxes generated from the certified initial assessed valuation, or “base value,” continue to be paid to the taxing bodies whose territory includes the TIF District. Any “incremental” real estate tax generated from increases in property values after the TIF District is established is reallocated by the county treasurer to the municipality’s Special Tax Allocation Fund and used for public and/or private redevelopment project costs incurred within the Redevelopment Project Area.

4. When TIF funds become available, the municipality may use those funds to pay for public improvements and/or reimburse other specific private TIF-eligible project costs necessary to spur new private development within the TIF District. The city council or village board controls the use of the TIF funds received.

A municipality may use TIF revenue to amortize bonds or other obligations to finance specific public sector improvements that enable the redevelopment of deteriorated, blighted, or other key conservation areas within the entire Redevelopment Project Area. A municipality may also choose to use TIF funds on a pay-as-you-go basis whereby revenue is spent as collected. In either case, the new investment within the Redevelopment Project Area that would not have been expected to occur without TIF funds will ultimately stimulate population growth, funds increase employment, and improve the overall value and quality of life of the entire community.

5. The Act provides that the statutory life of a TIF District is 23 years unless extended by the General Assembly. The municipality may dissolve a TIF District earlier, provided there are no remaining obligations for which TIF funds have been committed. Whenever the TIF District ends and the municipality no longer receives TIF funds in its Special Tax Allocation Fund, all of the real estate taxes generated from the new assessed valuation over and above the “base” assessed values are proportionately distributed annually by the county treasurer to the taxing bodies. That is, the full tax base, including the new growth created within the Redevelopment Project Area, becomes available to all taxing bodies for use after the TIF ends.

It is especially important to note that the creation of a TIF District DOES NOT create a new taxing district and it DOES NOT raise taxes. TIF is a reallocation of new real estate taxes generated from increased equalized assessed valuation that occurs because of the completion of new improvements to property within the TIF Redevelopment Project Area—improvements that “but for” the assistance made possible with TIF would not have occurred.

A TIF District does not abate or reduce property taxes paid by a developer or any property owner. For example, if two identical properties have the same assessed valuation, are both located in the same town, and are subject to the same tax rate, the property owners will be billed the same amount of real estate tax even if one property is located within the TIF District and the other is not. Only a change
in the property's assessed valuation as determined by the county assessor (or a change in the property tax rate as set by the county treasurer) can result in an increase in the amount of real estate tax billed to a specific property. If, however, the property located within the TIF District makes an improvement that results in an increase in the assessed valuation, then only the new real estate tax resulting from the new improvement is reallocated to the municipality's Special Tax Allocation Fund.

Following the creation of Lacon TIF District I in 1993, more than $2.6 million of new private economic development was underway by 1996, including the expansion of a metal fabricating plant (Figure 2) and construction of a 12,000 square-foot manufactured parts distribution center. To date, other developments in Lacon TIF District I include new commercial and retail businesses such as a convenience store/restaurant (Figure 3), a car wash facility, a commercial auto repair business, and a general merchandise variety store.

The rehabilitation of existing downtown buildings; construction of residential duplexes; rehabilitation of older, deteriorated houses; and the construction of single-family houses on vacant (in-fill) lots in existing neighborhoods have also been made possible in Lacon through TIF funding (Figures 4 & 5). “City officials made it a point to spruce up existing sites as well,” according to the mayor. Long-standing downtown buildings have benefited from improvements, as have older, deteriorated houses in the community.

As of 2000, Lacon’s population loss had been arrested and the city’s retail sales tax and equalized assessed valuation showed marked improvement. Between 1997 and 2005, the city’s retail sales increased 52 percent or nearly 30 percent after adjusting for annual inflation (Figure 6). In addition, the community’s total equalized assessed valuation grew from $8.3 million in 1994 to nearly $21 million in 2004—a 150 percent increase in just 10 years compared with the 6.3 percent growth the city had experienced in EAV during the previous decade.

A crowning achievement resulting from Lacon's original TIF District is the redevelopment of a 17-acre site along the Illinois
River that once housed the Lacon Woolen Manufacturing Company. The Woolen Mill was started in Lacon in 1866 to manufacture shawls, cashmeres, flannels, and other wool products (Figure 7). The Woolen Mill’s processes included picking, weaving, spinning, and dyeing facilities for approximately 270 employees until it closed in 1968. Chemical processes at the plant, however, produced waste that was incinerated on site and disposed of along the river, leaving behind several safety issues and hazardous conditions.

Following a complaint from a local resident about the unsightly ruins and potential contamination, the city acquired the site in 1996 and began formulating a plan to redevelop the property (Figure 8). Lacon used $250,000 of TIF funds for engineering studies that were required before it could address the environmental issues at the former mill. To match city TIF funds, state and federal funding of more than $1 million were used to finance the site investigation, planning, and cleanup. Monies to assist in this endeavor also included grants from the Illinois Environmental Protection Agency, U.S. Environmental Protection Agency, and a $425,000 IEPA/USEPA Brownfield Cooperative Agreement—the first of its kind in the state.

In 2005, the city council transferred title of the former Woolen Mill property to a private developer for $1. Six luxury condominiums and as many as eight residential duplexes are now being built in two phases on the “clean” site (Figure 9). Mayor Hiell reports that city leaders hope to contribute further to the development of the area by extending the river marina located north of the former mill site. As part of the marina project, Lacon officials plan to
offer boat access to existing restaurants and retail stores, create a new green space area, and add more recreational amenities for residents and visitors.

In total, nearly $38 million of new investment has occurred in Lacon, $16 million of which was within the TIF District I redevelopment area. As of FY 2007, Lacon TIF District I will generate nearly $470,000 of real estate tax increment annually, and more than 20 individual TIF Redevelopment Agreements with private developers are administered annually.

Aware that new commercial and industrial development was occurring as had been planned in TIF District I, the city created TIF District II in 1996 to enable the redevelopment of a small area, less than one-half of a city block, for the construction of town homes. As of tax year 2005, the equalized assessed valuation of that area had increased by $138,000 because of the TIF Redevelopment Project.

Lacon's third TIF District was created in early 2006 to help facilitate construction of a residential development. Lacon TIF District III includes 15 acres of vacant land along Illinois Route 26 as the new site for Oakridge Estates Subdivision based on incentives from the city to a new developer. This project consists of 25 duplex condominium lots located within the proposed Lacon TIF District III. Phased in over five years, the development is projected to offer units with fair market values ranging from $130,000 to $146,900 and cumulatively generate $5,032,484 of real estate tax increment.

The estimated total investment in the project is $6,957,000. Of that $6.9 million investment, the city will ultimately be able to reimburse the developer approximately $1.2 million of TIF-eligible project costs such as land acquisition, site preparation, demolition, planning and engineering, and public infrastructure—all of which would not be possible without TIF. Mayor Hiell notes that the creation of Lacon TIF II and Lacon TIF III represented a focused approach by the city to begin rebuilding its population base, ensuring sufficient growth in the future to maintain economic viability for growing commercial and industrial sectors.

Lacon officials have high hopes for the future success of all areas inside the city limits, and leaders are confident that their continued work will foster improvements similar to the flood of development they began in 1993. Hiell believes that TIF has allowed the city to gather the necessary resources to stimulate continued economic growth and redevelopment.

Several public redevelopment projects have been undertaken in Lacon with TIF. With TIF, the city has been able to repair and reconstruct several miles of streets, curbs, and sidewalks (Figure 10). The city has employed local high school students during the summers to assist in the cleanup and preparation to repair the streets and the city-owned cemetery damaged by a 1942 tornado. In 2005, the City of Lacon provided land to the Fire Protection District for the construction of a firehouse. Using TIF funds, the city purchased the land and subsequently transferred title of the property to the fire district. Local schoolchildren have also benefited from the city’s redevelopment strategies. The city has reimbursed Midland Community Unit School District #7

Figure 10. The City of Lacon has utilized TIF funds to replace or repair several miles of streets, curbs, and sidewalks within Lacon TIF District I.
approximately $474,000 in TIF funds through its first TIF District for capital costs incurred by the school district.

The most recent addition to the City of Lacon’s redevelopment tool chest is a downtown façade program called “Project Facelift.” This project was created in 2006 because city officials believe that the condition of properties and buildings throughout downtown Lacon have a significant effect on the public identity and character of the entire community and, as such, need to be improved and carefully maintained.

Specifically designed to promote improvements to commercial storefronts and sides of buildings which are adjacent to city streets, Lacon allocated $50,000 of TIF funds to provide grants to property owners in the amount of $50.00 per lineal footage of retail building frontage and $25.00 per lineal footage for service businesses. Within six months of establishing this program, the city has accepted five applications for more than $24,000 of improvements to be completed in 2006.

Today, the City of Lacon continues to advance at a steady pace because of having dedicated community leaders. Economic development is occurring in Lacon, and all forecasts are good for a continued increase in prosperity for what might be described as one of the most resilient communities in rural Illinois.

Now in his second term as mayor, Mike Hiell is proud of the progress the community has achieved and delighted that Lacon is recognized as one of the most fiscally sound cities in Illinois. According to Hiell, however, “this type of success has not occurred simply by chance.” Rather, Hiell sums up his city’s approach as one that required much foresight and leadership by those who decided in 1993 that it was time to either take action or watch their city slide into disrepair. The use of Tax Increment Financing is still a major factor as is the city’s continuing aggressive effort to acquire its share of state and federal resources for funding critical infrastructure projects.

In summary, Mayor Hiell offers four important tips for those contemplating a LEAP into a new economic development program:

1. **Lead.** City leaders embarking on a mission to stimulate investment and bring new economic development to their communities need a clear vision of where the community wants to go, its goals, and a plan of action with the right tools to achieve the defined goals.

2. **Evaluate.** An effective plan of action must constantly evolve. It is essential for community leaders to regularly take stock of the progress achieved, determine the next steps, and focus on the actions needed to move forward.

3. **Anticipate.** Achieving results can also bring other unintended consequences. Be sure to consider the full range of potential impacts on others, such as schools and fire districts, which will be important to the success of the city’s plan and anticipate ways to help these entities remain viable supporters of your initiatives.

4. **Promote.** Becoming or being the “best kept secret in rural Illinois” does little to enhance a community’s economic development efforts. Success begets success, so be good ambassadors for your community and make it known that it offers great opportunities for economic growth and change.

To some extent, says Hiell, “this is all a big leap of faith that your efforts will eventually pay off. But with persistence, leadership, dedicated residents, and the right tools, almost anything is possible.”
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