

# *A Tale of Two Cities*



## *Reinventing Tax Increment Financing*

**Mike Quigley**  
Cook County Commissioner  
April 2007

# ***A Tale of Two Cities: Reinventing Tax Increment Financing***

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*When the Neighborhood Capital Budget Group (NCBG) went out of business in February 2007, arguably the greatest voice for TIF reform in Chicago over the past two decades went quiet. NCBG's unflagging grassroots-level efforts to inform and organize Chicagoans led to substantial change in how the city operates its TIF program, and it has left behind a network of neighborhood organizations, researchers and community activists knowledgeable about TIF and aggressive in their pursuit of reform. We hope this report aids them in their effort, and we hope that it will inspire even more people to join the call for change.*

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# Executive Summary

Tax increment financing (TIF) is a mechanism that allows municipalities to earmark tax revenues from property value growth within a designated area suffering from blight – a TIF district – in order to finance development in that same area. TIF has become the economic development tool of choice in hundreds of municipalities throughout Illinois; it is especially popular in Cook County. In 2005 there were 373 TIF districts countywide, earning over \$686 million in property tax revenue – nearly matching the County’s entire 2005 property tax extension of \$720 million. Two-thirds of the county’s municipalities had at least one TIF in 2005; Chicago alone had 136. Taxpayers in Chicago paid more property taxes to TIF in 2005 – \$386 million – than they did to Cook County.

Proponents have called TIF “the only game in town,” implying that municipalities have no other economic development tools at their disposal. They argue that TIF allows municipalities to finance redevelopment without having to raise property taxes. TIF advocates also point to the development within a TIF district as evidence of its effectiveness, arguing that the area would have remained un- or underdeveloped but for the use of TIF.

Critics of TIF call these claims into question. Municipalities, they point out, have created TIF districts in areas not suffering from blight, the most prominent example of which is Chicago’s central business district. Moreover, they claim that TIF does in fact raise property taxes, and not only that, but it also harms units of local government, like counties and school districts, that rely on property taxes for significant portions of their local revenues. In addition to pointing out TIF’s potentially detrimental effect on local taxing entities and their taxpayers, critics have found fault with the way in which municipalities implement TIF, citing a lack of comprehensive planning, weak oversight, poor documentation, and significant barriers to public participation. The controversy over TIF, then, stems not only from its impact, but from the processes that govern it.

This report looks at several of the questions surrounding TIF. Our focus is mainly on Chicago’s TIF program, but we give some attention to its use in suburban Cook County, as well. We conclude that while TIF may be a useful tool for economic development, criticisms of TIF are largely well-founded. Our findings include the following:

- Several areas of Chicago in which TIFs have been created have failed to grow any more than similar areas where TIF has not been used.
- In 2005, TIF districts consumed nearly 10 cents of every property tax dollar collected in Chicago and 26 percent of the City’s total acreage.
- In 2005, Chicago’s taxpayers paid four percent more in property taxes than they would have paid without TIF, a sevenfold increase from 1995.
- Because of how the state TIF legislation is worded, local governments in Cook County have lost nearly \$700 million simply to inflation.
- Despite taking in over \$386 million in 2005 – more than Chicago’s Streets and Sanitation and Transportation departments – TIF is effectively excluded from the city’s annual operating budget.
- What annual accounting does exist includes a minimum of tabular data, with no narrative component. Anyone not already intimately familiar with the inner workings of TIF is

## *Executive Summary*

likely to find it very difficult, if not impossible, to figure out where exactly hundreds of millions of TIF dollars are going.

- Charged with overseeing Chicago's TIF program, the Community Development Commission (CDC) exercises little actual oversight. Of 812 individual votes cast since November 2005, 808 have been yeas. None of the items that have come before the CDC since November 2005 has been voted down.

If TIF really is “the only game in town,” then these findings are deeply troubling. Over two decades since Chicago first adopted TIF, it is time to reinvent TIF. This report makes several specific recommendations, including the following:

- Proposals for new TIF districts should include a study of the potential impact on all affected local governments.
- TIF information should be included in some form on property tax bills.
- The Illinois General Assembly should reform its TIF legislation to protect local governments from the effects of inflation.
- TIF should be included in municipalities' annual operating budgets.
- TIF redevelopment plans should include specific goals and budgets, and should be subject to periodic review.
- TIF information, including maps, plans, budgets, and redevelopment contracts, should be made available online.
- The CDC should be abolished, and neighborhood-level institutions to govern and oversee TIF established in its place.

# A Tale of Two Cities

*It was the best of times, it was the worst of times....*

—Charles Dickens, *A Tale of Two Cities*

Although Charles Dickens could have hardly imagined it, the opening line of his classic novel about the French Revolution is also an apt description of the state of tax increment financing, or TIF, in the City of Chicago.

- It is the best of times for the Loop, where the Central Loop TIF district has collected nearly \$762 million (\$761,922,990.77) over 22 years of its 23-year lifespan and the LaSalle Central TIF district, newly established in 2006, is projected to collect at least \$2.1 billion before it expires in 2029.
- It is the worst of times for many neighborhoods in Chicago with virtually inactive TIF districts that are failing to spark economic growth. Between 2000 and 2005, nearly 40 TIF districts in Chicago—more than 25 percent of the total—saw no significant public or private investment.
- It is the best of times for the City of Chicago, which can essentially establish TIF districts at will and whose Department of Planning and Development and mayor exercise virtually total control over TIF district expenditures.
- It is the worst of times for all other local governments that levy property taxes; they will be denied any revenue from property growth in TIF districts until those districts expire.
- It is the best of times for all of the interests which benefit from the current TIF system—particularly those in already-growing or even booming areas of Chicago.
- It is the worst of times for taxpayers in Cook County, who foot the bill for TIF districts to the tune of hundreds of millions of dollars a year yet are provided with very little information on their operations, finances or effectiveness.

It is time for a revolution in accountability and transparency in tax increment financing.

## I. Introduction

Tax increment financing (TIF) is a financing mechanism that relies on earmarked property tax revenue growth within a targeted area – a TIF district – to pay for redevelopment within the area. In Illinois, the state legislation that enables municipalities to use TIF (the “TIF Act”) requires that it be limited to areas suffering from “blight.” After a municipality designates a TIF, local government units are kept from collecting taxes on the area’s property value growth; they may tax only the “frozen” property value as it stood when the TIF was designated. The tax revenue from growth – the **tax increment** – accrues instead to the TIF, to be spent on capital improvements, developer and rent subsidies, job training, and other expenditures meant to spur new development. The value of this new development is taxed, the taxes plowed back into the TIF, and the TIF revenues spent on creating still more development. The TIF Act allows a TIF to exist for 23 years, with the possibility of extending the life of the TIF for up to 12 additional years; several TIFs in Illinois have been extended to 35 years.<sup>1</sup> During the life of the TIF, all tax increment flows to the TIF rather than the overlapping taxing entities. Once the TIF expires, these taxing entities will have access to all of the property value in what had been the TIF.

Because it blocks local government units like school and park districts from taxing a portion of property value growth, TIF is highly controversial. In addition to requiring a finding of blight, the TIF Act defines an area eligible for TIF if it “would not derive the benefits of an increased assessment base without the benefits of tax increment financing.”<sup>2</sup> This clause is commonly known as the “but for” requirement: increased development would not occur but for the incentive put in place by TIF. When TIF is in fact responsible for growth, the 23 to 35 years local governments must wait before they can benefit financially from this growth can be thought of as a period of shared sacrifice – the collective bearing of the costs of economic development.

Critics of TIF, however, contend that some areas under TIF would in fact have grown in value even without this incentive, oftentimes because these areas did not suffer from blight in the first place. In these instances, TIFs are capturing property tax revenues from development they did not induce, and the burden of paying for economic development is not being shared, but *shifted* – from the beneficiaries of TIF spending to the local governments. And if local governments are losing tax revenue to TIF, they will have to make it up by raising taxes.

The potential for such problems to arise would seem to demand that municipalities ensure that their TIF programs incorporate thorough planning processes, robust accountability mechanisms, and ample opportunities for public participation and oversight. In Cook County and Chicago, especially, where TIF has taken in billions of property tax dollars over the years, this need would appear all the more urgent.

### TIF in Cook County and Chicago

The first TIF in Cook County – and in all of Illinois – was created in Homewood in 1977. The first Chicago TIF, in the Loop, appeared in 1984. Chicago didn’t create its second TIF until 1987, by which time the Cook County suburbs had a combined 45 TIFs. The pace of TIF creation in

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<sup>1</sup> 65 ILCS 5/11-74.4-3 and 74.4-7.

<sup>2</sup> 65 ILCS 5/11-74.4-2.

## Introduction

Chicago was fairly steady over the next decade – an average of about four new districts a year. In 1997, Chicago had a total of 41 TIFs, the suburbs 144.

From 1998 through 2002, Chicago significantly expanded its TIF program, creating 86 new TIFs – over twice as many as it had created over the prior 14 years, and more than all of suburban Cook County created during the same five-year period. By the end of 2005, the most recent year for which we have complete data, there were 373 TIFs in Cook County: 136 in Chicago and 237 in the suburbs. (As of January 2007, Chicago had 147 TIFs.<sup>3</sup> A more recent count for the suburbs is not available.) Figure 1 shows the growth of TIF in Chicago and suburban Cook County from 1986 through 2005.

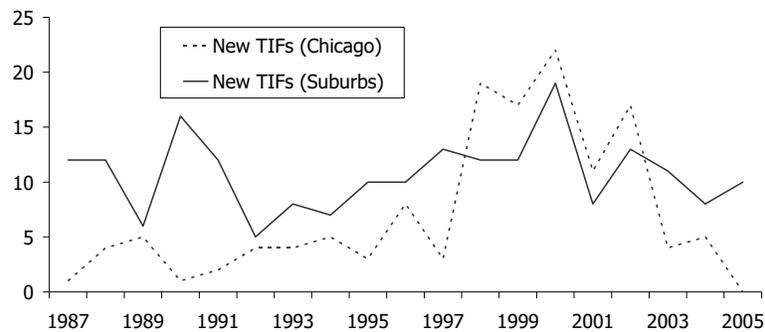
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**Figure 1. Growth of TIF in Chicago and suburban Cook County, 1986-2005.**

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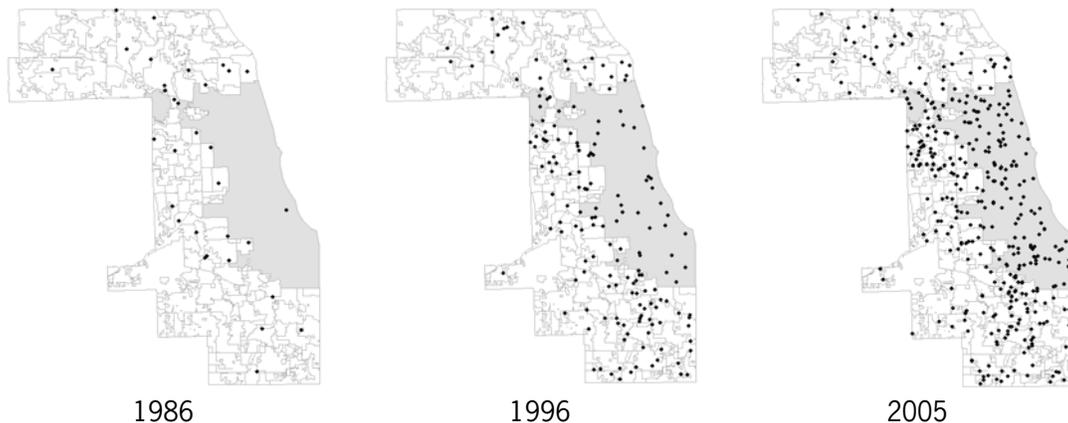
**New TIF creation by year, 1987-2005**

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**Spread of TIF throughout Cook County, 1986-2005**

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Note: Dot density maps show number of TIFs per municipality, but not the exact location of each TIF.

Source: Cook County Clerk.

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<sup>3</sup> TIF boundary file downloaded 2 February 2007 from City of Chicago's Geographic Information Systems website ([http://egov.cityofchicago.org/webportal/COCWebPortal/COC\\_ATTACH/tifs\\_1.zip](http://egov.cityofchicago.org/webportal/COCWebPortal/COC_ATTACH/tifs_1.zip)).

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Exactly how big is Chicago's TIF program? In 2005, TIF districts consumed nearly 10 cents of every property tax dollar collected in Chicago and 26 percent of the City's total acreage. That same year, Chicago's TIFs took in over \$386 million in property tax revenue, more than the Streets and Sanitation and Transportation departments.<sup>4</sup> Were TIF to be included in the city's 2005 budget, it would have ranked as Chicago's fourth largest budget category. (See Table 1.)

**Table 1. Chicago's Tax Increment Financing program relative to other Primary Government budget categories.**

Amounts in millions of dollars	2002		2003		2004		2005	
	\$	Rank*	\$	Rank*	\$	Rank*	\$	Rank*
General Government	1,587.3	2	1,738.6	1	1,642.1	2	1,842.3	1
Public Safety	1,623.3	1	1,646.8	2	1,853.9	1	1,834.0	2
Employee Pensions	328.5	3	354.8	3	299.8	5	388.1	3
<b>Tax Increment Financing</b>	<b>207.8</b>	<b>6</b>	<b>286.8</b>	<b>6</b>	<b>328.7</b>	<b>4</b>	<b>386.5</b>	<b>4</b>
Streets and Sanitation	319.0	4	335.7	4	334.9	3	354.0	5
Transportation	240.6	5	304.6	5	275.5	6	285.6	6
Health	178.8	7	174.8	7	164.8	7	147.4	7
Cultural and Recreational	102.5	8	100.7	8	95.9	8	114.5	8
Other	10.3	9	10.7	9	10.6	9	9.9	9

\*Where category would rank among Chicago's Primary Government expense categories (excl. Interest on Long-Term Debt) if Tax Increment Financing were included in the City's budget.

Sources: City of Chicago Comprehensive Annual Financial Reports, 2003-2005, Cook County Clerk.

Despite its size, unfortunately, Chicago's TIF program is marked largely by ad hoc implementation, weak oversight, scant documentation, vague and confusing financial reporting, and significant barriers to public participation. Political advocates of TIF offer full-throated proclamations of the benefits while downplaying or omitting entirely any consideration of the costs. Information that could form the basis for intelligent criticism of TIF is severely restricted. The controversy over TIF, then, stems not only from the impact of TIF, but from the rather undemocratic nature of the processes that govern it.

In a properly functioning democracy policies and programs should always be governed by a process characterized by openness, accountability, and community participation, irrespective of their impacts. It is not for the few in power – be they politicians, developers, journalists, or “civic leaders” – to decide what policies are and are not successful, and only then to choose whether or not to grant the community at large a say in how those policies are carried out. Rather, it is the right – and responsibility – of the people in whose name and on whose dime government operates to actively participate both in the evaluation of a policy's impact and in that policy's implementation.

How, though, does such participation unfold? How are people supposed to evaluate a program as massive as TIF? In preparing this report we made a substantial effort at performing just such an

<sup>4</sup> Cook County Clerk, “Tax Increment Agency Distribution Summary” (<http://www.cookctyclerk.com/pdf/tif06.pdf>).

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evaluation, and it was no mean feat. One of primary obstacles to understanding the impact of TIF lies in the tremendous difficulty one has in simply getting the information necessary for analysis. And even then, much of the information, once in hand, is so scanty as to be of questionable value at best. We are trained urban planning and policy professionals who had months to work on this research, and we were still unable to answer some basic questions about TIF. It would seem impossible, given this state of affairs, for the average resident of Cook County to form a basis for even the most rudimentary understanding of TIF. One of the chief outcomes of this report, therefore, is the recommendation for wholesale changes in how local governments handle and publish information pertaining to TIF.

Moreover, it must be understood that municipalities have a uniquely high stake in TIF. Over several decades of deindustrialization, which has cut a large share of the property tax base out from under cities, and sharp declines in federal urban development aid, cities have turned to TIF because it allows them to pay *for* growth *with* growth. In essence, TIF appeals to cities in part because it allows them to operate much like private enterprises – with all that this implies in terms of competition, risk and reward. Cities use TIF to compete with one another to attract development; the ones with more money to offer in the form of incentives will fare better, or so the thinking goes. TIF is risky, however, because there is at any given time a limited amount of money that can be used for development incentives. When a municipality spends TIF money on a particular project, it does so based on the expectation, not the guarantee, that this project will contribute to the overall growth of an area, which in turn will add to the pot of property tax revenue that can be used for further TIF spending in that area. If the speculation pays off, then the reward comes in the form of an expanded tax base and increased employment, both of which may bring more tax revenue to be reinvested for future growth, along with other benefits of economic development. If it fails, however, then the city has thrown good money after bad, and it will find itself that much further behind in the competition for economic development. For all of these reasons, TIF has been called the “the quintessential postfederal entrepreneurial policy.”<sup>5</sup>

TIF can also bring out in cities the darker temptations of entrepreneurialism – most prominently, the tendency to plump the benefits while playing down, or hiding altogether, the true costs. Furthermore, TIF allows cities to offload some of these costs onto the overlapping taxing entities – both the economic costs incurred in financing development, and the political costs of higher property taxes. (It is true that the municipality itself is one of these overlapping taxing entities, but it is also the municipality that creates and runs TIF. It would be a stretch to equate cities’ controlling role with the passive relationship other local governments have to TIF.) It is clearly not in the self-interest of any single municipality to be the first one to come clean about these costs, since such honesty risks incurring the wrath of voters and, potentially, constraining the ability of cities to use TIF. Because there is reason to doubt that any one city will undertake TIF reform on its own, much of what we recommend entails amending the TIF Act.

Broadly speaking, the aim of this report is to increase understanding among the 5.2 million residents of Cook County, as well as the community-based institutions and elected officials that represent them, of how TIF works, some of the ways in which it’s gone wrong, and what can be done fix it. This report is organized as follows:

The following section, Section 2, analyzes how TIFs affect local units of government that overlap them. Section 3, using findings presented in Section 2, discusses how TIF affects tax rates and the tax bill. Section 4 looks at “porting” – the movement of money from TIF to TIF. Section 5

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<sup>5</sup> Rachel Weber, “Equity and Entrepreneurialism: The Impact of Tax Increment Financing on School Finance,” *Urban Affairs Review*, 2003:619-644.

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addresses the public availability of TIF information. Section 6 deals with public participation in and oversight of the TIF process. Section 7 concludes the report.

## **II. TIF and Overlapping Taxing Entities**

Much is made of the effect TIFs have on the local governments that overlap them. School and park districts tend to receive the most attention, and this is not entirely unjustified. In the City of Chicago these two districts combine to receive 60 cents of every property tax dollar. Still, this is not the case everywhere. In Maywood, for example, two school districts and one park district together receive less than 35 cents of every tax dollar paid by village taxpayers. There it is the village that gets the majority of each tax dollar: 54 cents as recently as 2005.

Moreover, the claim that TIF “takes money” from other taxing districts deserves a closer look. There are three ways in which TIF affects these taxing districts. The first arises from the fact that the TIF Act, while it allows overlapping local governments to collect tax dollars throughout the life of a TIF on “frozen” property value, fails to protect local governments from the falling value of these dollars over time – in other words, from inflation.

The second effect of TIF on overlapping taxing districts is felt when a portion of the property value within a TIF would have grown whether or not the TIF had been created. In these instances the TIF is violating the “but for” stipulation and capturing property tax revenues that would otherwise have flowed to local governments.

The third way in which TIF negatively affects local governments is felt through the political pressure to keep taxes down – or at least to keep them from rising too fast. School districts, for example, that operate under fiscal stress, which most often stems from a combination of high costs and low property values (especially in Illinois, where the majority of school districts’ local revenue comes from the property tax), are already likely to be demanding a lot of taxpayers – more so than school districts with high property values. Poorer school districts will feel greater pressure than wealthier school districts to weigh the political aspects of budgeting at the expense of the financial or programmatic ones. So unless taxpayers are unusually generous or forgiving, poorer school districts are apt to focus on holding down the tax rate, which means suppressing costs, which means, potentially, sacrificing the quality of services they deliver. We will look at the first two effects in this section; the following section deals with the effect of TIF on the tax rate.

### **Property Taxes in Cook County: A Brief Overview**

Local government funding comes from a number of sources – charges, fines and fees; subsidies from the federal and state governments; grants; debt (bonds); and taxes. In Chicago and Cook County, there are many kinds of taxes, as most of us know firsthand – from sales taxes to utility taxes to vehicle taxes – but the biggest single source of tax revenue is the property tax. From 2003 to 2005, property taxes accounted for an average of 27.4 percent of Chicago’s total tax revenues.<sup>6</sup> Cook County’s reliance on the property tax is even greater: over the same three-year period, 48.4 percent of all county tax receipts came from property taxes.<sup>7</sup>

The property tax system in its entirety is quite complex, but a simplified sketch of how it works looks like this. First, local governments prepare their budgets and determine how much they will

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<sup>6</sup> City of Chicago Comprehensive Annual Financial Reports, 2003 through 2005.

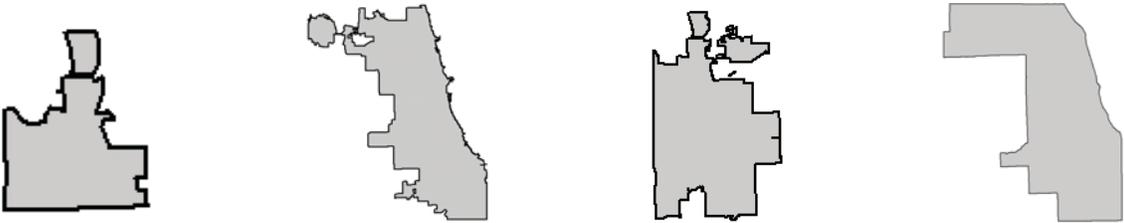
<sup>7</sup> Cook County Comprehensive Annual Financial Reports, 2003 through 2005.

TIF and Overlapping Taxing Entities

need to raise from all available sources. The amount a local government needs to raise from property taxes is called the **tax levy**. Local governments submit these levies to their county clerks every fiscal year.

Every three years the county assessor determines the value of each property in the entire county. The assessed value is a percentage of the market value (itself an adjusted estimate of what the property would sell for), and this percentage depends on the class of property being assessed – residential, commercial, industrial, and so on. After assessed values are determined, the county clerk then applies a **state equalization factor**, determined by the Illinois Department of Revenue and sometimes referred to as the multiplier, to these values in order to bring the county’s total assessed value to roughly one-third of its total market value. The value that results from assessment and equalization is called the **equalized assessed value**, or EAV. The EAV forms the basis for all property tax calculations.

It’s easy for us to pick out certain types of local government on a map – especially cities and counties. But there are several other types of local government whose boundaries most of us can’t easily picture, like school districts, water reclamation districts and park districts. Who could say which of the following outlines represents the Triton Community College District? How about Leyden Community High School District 212?



But these districts – like all local governments – do indeed have boundaries, and within these boundaries lie a certain number of properties. In 2005, for example, there were about 21,000 properties in Leyden Community High School District 212. (The one on the far left.) For each taxing district, the county clerk totals up the EAVs of all properties within it. It is this combined EAV that makes up a local government’s **tax base**.

Once the tax levies and tax bases have been figured, the clerk can calculate each local government’s **tax rate**. The tax rate is nothing more than the tax levy divided by the tax base.

$$\frac{\text{Tax Levy}}{\text{Tax Base}} = \text{Tax Rate}$$

We’ll pick up this discussion in much greater detail in the next section on TIF and the property tax bill, but what’s important for now is that the reader have a basic understanding of some of the terms we use when we talk about property taxes. At this point we can turn to the first way in which TIF affects overlapping taxing districts.

**TIF and Inflation**

The tax increment is calculated by subtracting the frozen EAV – or base – from the current EAV and multiplying the difference by the tax rate. The base is set at the time the TIF is created, and only when parcels are added or dropped from the TIF does the base change. The base is not adjusted for inflation – that is, property value growth related to changes in the national economy as distinct from growth caused by local factors, including the economic development incentive the TIF is intended to provide. It is often claimed that TIFs don’t take any money from the taxing districts that overlap them. The basis for this assertion is the fact that these taxing jurisdictions continue to tax the base throughout the 23-year life of the TIF. But because the value of this base is being eroded each year by inflation, these local governments are in fact losing money to TIF: while taxing districts’ real costs increase over time, a portion of property tax revenues allocated to meet these costs lags further and further behind for the life of the TIF, making it more expensive for local governments to meet their expenditure needs even without any attendant increase in services.

We can start by looking at the effect on a single TIF of allowing taxing districts to tax the base *plus* inflation.<sup>8</sup> When Chicago’s Midwest TIF was created in May 2000, the total EAV of all parcels was frozen at just over \$98 million. (See Table 2.) By year’s end, the total EAV in the TIF had grown by 35%, or about \$34.4 million, to just under \$132.5 million. The tax increment – the taxes on this \$34.4 million – came to about \$2.7 million. Over the next five years the TIF’s total EAV grew another \$86.2 million, so that by 2005 the tax increment reached just over \$7.2 million. The six-year total tax increment was about \$27.3 million.

**Table 2. Property Values and Tax Increments in Chicago’s Midwest TIF, 2000-2006.**

Tax Year	Current Year EAV	EAV Growth (%)	Frozen EAV	Incremental EAV	Tax Rate	Actual Tax Increment
2000	132,467,109	35.1	98,087,099	34,380,010	7.788	2,677,515.18
2001	131,832,801	-0.5	98,087,099	33,745,702	7.692	2,595,719.40
2002	140,813,878	6.8	98,087,099	42,726,779	7.277	3,109,227.71
2003	187,349,696	33.0	98,087,099	89,262,597	6.433	5,742,262.87
2004	193,762,709	3.4	98,087,099	95,675,610	6.280	6,008,428.31
2005	218,670,152	12.9	98,087,099	120,583,053	5.981	7,212,072.40
<b>Total Tax Increment, 2000-2005</b>						<b>27,345,225.87</b>

Now what if the inflation on the base had gone to the taxing districts rather than to the TIF? As Table 3 shows, the 2005 incremental EAV would have been \$103.8 million instead of \$120.6 million. The TIF would have earned almost \$24 million in tax increment over the six-year period in question. And the local governments would have kept \$3.6 million.

<sup>8</sup> All inflation factors in this section are based on the December-to-December Consumer Price Index as published by the Federal Bureau of Labor Statistics.

**Table 3. Property values and tax increments with inflation-adjusted base in Chicago's Midwest TIF, 2000-2006.**

Tax Year	Current Year EAV	One-Year Inflation (%)	Frozen EAV After Inflation	Incremental EAV	Tax Rate	Tax Increment After Inflation	Tax Revenues Lost to Inflation
2000	132,467,109	3.4	101,422,060	31,045,049	7.788	2,417,788.42	259,726.76
2001	131,832,801	1.6	103,044,813	28,787,988	7.692	2,214,372.04	381,347.36
2002	140,813,878	2.4	105,517,889	35,295,989	7.277	2,568,489.12	540,738.59
2003	187,349,696	1.9	107,522,729	79,826,967	6.433	5,135,268.79	606,994.08
2004	193,762,709	3.3	111,070,979	82,691,730	6.280	5,193,040.64	815,387.67
2005	218,670,152	3.4	114,847,392	103,822,760	5.981	6,209,639.28	1,002,433.12
<b>Total, 2000-2005</b>						<b>23,738,598.29</b>	<b>3,606,627.58</b>

If local taxing districts in Chicago lost \$3.6 million in taxes to a single TIF in just six years, simply because the Illinois TIF Act fails to adjust the base for inflation, what has the loss been countywide, over a much longer time period? From 1986 through 2005, TIFs in Cook County took in a total of more than \$4.5 billion in tax increment revenues. If inflation on the base had accrued to the overlapping taxing districts rather than to the TIFs, the TIFs would have earned just over \$3.8 billion, leaving \$700 million in tax revenue to the local governments. Almost \$300 million was lost to TIFs in Chicago. These losses are shown in Table 4.

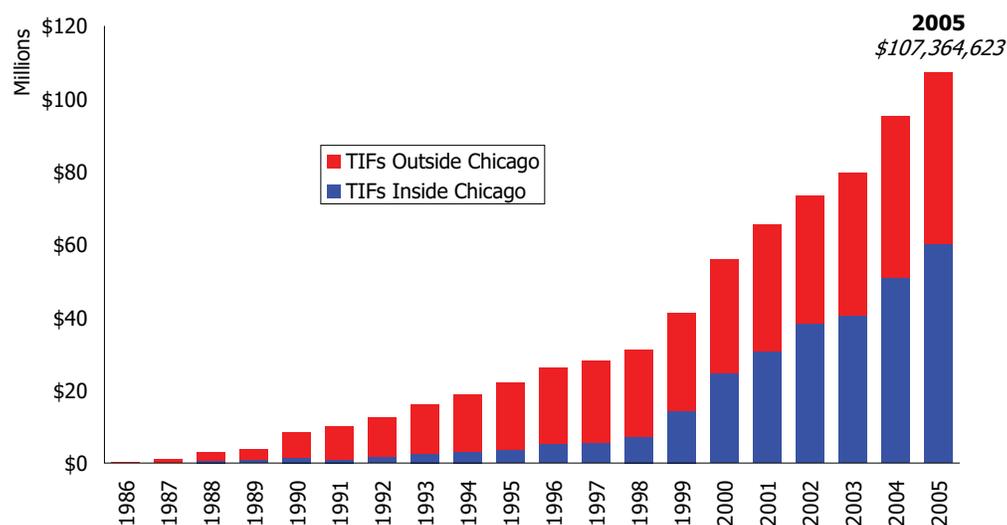
**Table 4. Tax revenues lost to inflation by taxing entities overlapping TIF districts in Cook County, 1986-2005.**

Year	TIFs Inside Chicago	TIFs in Cook County Outside Chicago	Cook County Total	Year	TIFs Inside Chicago	TIFs in Cook County Outside Chicago	Cook County Total
<b>1986</b>	0.00	156,559.27	156,559.27	<b>1996</b>	5,109,559.29	20,987,582.85	26,097,142.14
<b>1987</b>	249,756.30	945,608.87	1,195,365.17	<b>1997</b>	5,650,236.32	22,445,289.63	28,095,525.95
<b>1988</b>	576,015.13	2,403,326.84	2,979,341.97	<b>1998</b>	7,346,981.69	23,822,212.34	31,169,194.03
<b>1989</b>	962,564.27	2,992,822.91	3,955,387.18	<b>1999</b>	14,324,994.96	26,845,941.31	41,170,936.27
<b>1990</b>	1,432,546.23	7,003,892.40	8,436,438.63	<b>2000</b>	24,563,757.60	31,233,348.34	55,797,105.94
<b>1991</b>	889,400.49	9,080,354.96	9,969,755.45	<b>2001</b>	30,573,645.19	34,925,871.86	65,499,517.05
<b>1992</b>	1,644,639.52	10,724,837.42	12,369,476.94	<b>2002</b>	38,329,634.26	35,057,563.90	73,387,198.16
<b>1993</b>	2,500,551.07	13,408,552.13	15,909,103.20	<b>2003</b>	40,289,870.42	39,294,774.62	79,584,645.04
<b>1994</b>	2,977,391.67	15,885,813.14	18,863,204.81	<b>2004</b>	50,921,280.65	44,398,831.58	95,320,112.23
<b>1995</b>	3,706,745.79	18,307,191.33	22,013,937.12	<b>2005</b>	60,292,664.64	47,071,958.11	107,364,622.75
<b>Total, 1986-2005</b>				<b>292,342,235.49</b>	<b>406,992,333.81</b>	<b>699,334,569.30</b>	

Of the \$700 million in taxes lost to inflation – and thus to the TIFs – from 1986 through 2005, over half came in just the four-year period from 2002 through 2005. Figure 2 shows the annual amount of property taxes that went to TIFs – and was withheld from local governments – not because of any incentive to development provided by TIFs, but rather because of inflation. We should also keep in mind that the \$700 million figure understates the loss to local taxing

jurisdictions: the true number would have to take into account the inflation that accrued to TIFs since they first appeared in the county in 1977.

**Figure 2. Property tax revenues lost each year to inflation by local taxing districts in Cook County.**



This is not the case in some other states. When Massachusetts passed its statewide TIF-enabling legislation in 2003 it specifically defined the base as “the aggregate assessed value of the district as of the base date, increased each year by a percentage equal to the inflation factor.”<sup>9</sup> This inflation factor leaves out increases in value that occur when a property is reassessed after an ownership transfer. California, the oldest user of TIF, allows taxing entities to keep growth from inflation, up to two percent, plus any increase in tax increment stemming from reassessments after an ownership transfer.<sup>10</sup>

**Recommendation: Adjust the base every year by inflation.**

We recommend that the Illinois General Assembly reform its TIF legislation to adjust the base every year by inflation. This will ensure that, however else TIF affects local taxing districts, it doesn’t hamper their ability to pay for natural increases in the costs of providing services. Legislation recently introduced in the General Assembly, House Bill 1867, would adjust the base for inflation beginning in 2008. We support its passage.

<sup>9</sup> Massachusetts General Laws, Chapter 40Q § 1A.

<sup>10</sup> Telephone conversation with Tom Hart, California Redevelopment Association Deputy Director, 15 March 2007.

## The “But For” Question: Causing Growth – or Capturing It?

The question of whether or not TIF is responsible for property value growth – the “but for” question – is arguably the point of greatest contention between supporters and critics of TIF. It is essentially at the center of the question of whether TIF is working or not. If the “but for” stipulation is satisfied, then the result is new property tax revenue for redevelopment – “new” because the taxes are based on property value growth that would not have appeared if TIF had never been used. If the “but for” condition is not met, however, then the tax increment represents property tax revenue captured, not caused, by TIF, since the growth on with it is based would have taken place even in the absence of TIF. The centrality of the “but for” question to TIF’s success or failure as a policy has made it the most widely researched issue surrounding TIF. A brief review of the empirical literature on this question follows.

### Literature Review

Richard Dye found in a 1997 study of TIF in Northeastern Illinois’s six-county region (but excluding Chicago) that “in 26 out of the 79 municipalities used for this comparison, EAV within the TIF district grew at a slower rate than property outside the TIF district.” He also found “no important relationship between the presence of a TIF district and annual growth in municipality-wide EAV.”<sup>11</sup> Three years later, Richard Dye and David Merriman found that “municipalities that adopt TIF grow more slowly after adoption than those that do not,” suggesting that “TIF trades off higher growth in the TIF district for lower growth elsewhere.”<sup>12</sup>

The Neighborhood Capital Budget Group asked the capture-or-cause question of 36 TIFs in Chicago and found that over a 23-year period (the life of a single TIF) property tax revenues in these TIFs could be expected to grow \$1.66 billion. Of this, they conclude, only \$362 million would be stimulated by the use of TIF; the remaining \$1.3 billion, they find, would have come about anyway and is thus considered captured by TIF at the expense of overlapping taxing entities. Though NCBG reports tax revenues, the assumption of a constant tax rate over the 23 years makes it possible to interpret these findings in terms of property value growth.<sup>13</sup>

More recently, Paul Byrne found that TIF districts in greater Chicago lead to higher growth in areas marked by high vacancy rates and older buildings, suggesting that TIFs are effective when located in areas that are indeed suffering from blight. But he found evidence as well to support the claim that some TIFs are located in areas with “natural advantages” – that is, areas that were growing before TIF designation and were likely to continue to do so after TIF designation – including the Loop and Chicago’s low-density suburbs.<sup>14</sup>

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<sup>11</sup> Richard Dye, “A Comparative Analysis of Tax Increment Financing in Northeastern Illinois” in Lance Pressl and Roland Calia, “Assessing the Impact of Tax Increment Financing in Northeastern Illinois,” 1997.

<sup>12</sup> Richard Dye and David Merriman, “The Effects of Tax Increment Financing on Economic Development,” *Journal of Urban Economics*, 2000:306-328.

<sup>13</sup> Neighborhood Capital Budget Group, “Who Pays for the Only Game in Town?,” 2002.

<sup>14</sup> Paul Byrne, “Determinants of Property Value Growth for Tax Increment Financing Districts,” *Economic Development Quarterly*, 2006:317-329.

## **The “But For” Question in Chicago**

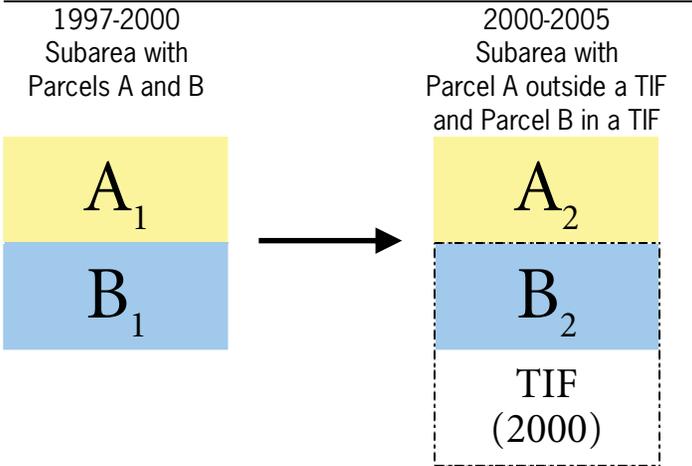
In order to look at the “but for” question in Chicago, we will look at property value growth across properties in single neighborhoods, some of which are in a TIF and some of which are not. If the properties inside the TIF grew at a rate significantly exceeding the rate at which the non-TIF properties grew, and if we control for differences between the TIF and non-TIF areas, then we can conclude that TIF had something to do with that growth. For the purposes of this analysis, we can consider a neighborhood to be an area where properties are largely similar in terms of physical characteristics like age and design; and where all properties share the same local amenities, like access (or lack thereof) to shopping, recreation, schools and the like. Neighborhoods, however, are famously hard-to-define geographies: they are irregularly shaped, and their borders can change over time. Fortunately, we can use the subarea – a legal unit created for taxing purposes – to minimize these problems.

Land in Cook County is organized according to a hierarchy of divisions and subdivisions. The highest order of division is the township. There are 38 townships in Cook County. Each township is divided into subareas, and those subareas into blocks. Each block comprises several parcels – typically hundreds or thousands. Finally, a parcel might contain multiple units – e.g., condominiums in a single building.

Townships are not uniformly shaped, and they are large, containing, except for the eight townships within Chicago, multiple municipalities. Blocks are small, but not uniformly shaped. If they were, they would make a good proxy for neighborhoods. Subareas make for convenient units of analysis, since they are, for the most part, of uniform shape and size: each one is a square of roughly 480 acres, or  $\frac{3}{4}$  square mile (except those along the lake or other curved sections of a township’s boundary). A further advantage of subarea-level analysis is that because they are fairly small, we can assume that they more or less approximate cohesive neighborhoods, as defined above in terms of the physical characteristics of properties within them, and the degree of access to amenities. A more formal analysis would consider each property’s actual physical attributes and its actual degree of access to amenities, but such an analysis is beyond the scope of this report. In its stead, we use subarea analysis.

Figure 3 shows a simplified hypothetical subarea comprising two parcels, A and B (we can ignore the subscripts 1 and 2 for now).

**Figure 3. Subarea with TIF.**



Say that in 2000, Chicago designates a TIF district that includes Parcel B but not Parcel A. In 2001, one year after designation, the TIF will have earned its first tax increment revenue to spend on development incentives. This new development should lead to an increase in property values, which in turn yield an increase in tax revenue. This increase, the tax increment, can then be plowed back into development incentives. So we would expect, all else being equal, that the change in the rate of property value growth from the period 1997-2000 to the period 2000-2005 would be greater in Parcel B than the change in the rate of property value growth in Parcel A, since the former is in a TIF and the latter is not.<sup>15</sup>

<sup>15</sup> According to the findings of Richard Dye and David Merriman ("The Effects of Tax Increment Financing on Economic Development," *Journal of Urban Economics*, 2000:306-328), TIF-induced growth in Parcel B may actually come *at the expense* of growth in Parcel A.

TIF and Overlapping Taxing Entities

In other words...

$A_1$  and  $B_1$  represent the annual-ized 1997-2000 growth rates in Parcels A and B, respectively...

and  $A_2$  and  $B_2$  represent the annualized 2000-2005 growth rates in Parcels A and B, respectively.

And our expectation of a change in the annualized growth rate can be expressed as:

$$(1) \quad B_2 - B_1 > A_2 - A_1$$

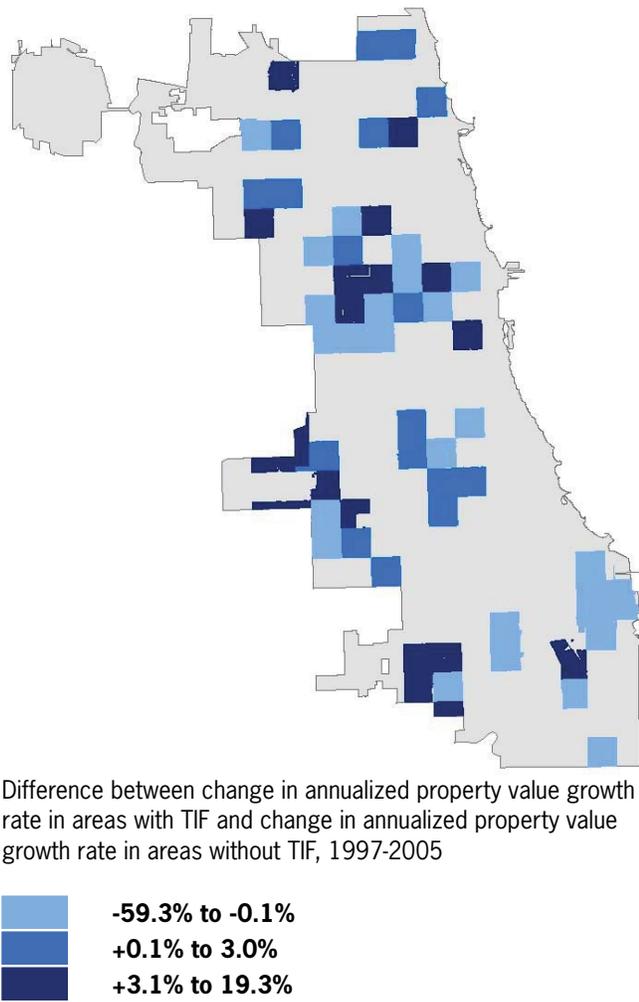
or, expressed another way,

$$(2) \quad (B_2 - B_1) - (A_2 - A_1) > 0.$$

What the map in Figure 4 shows are the actual values of Equation (2) for 63 Chicago subareas with parcels both inside and outside of TIFs. If our expectation is met – if the “but for” requirement has been fulfilled – then the map should be showing only positive values.

As we can see, however, it does not. In 25 out of 63 subareas (the lightest shade), the growth rates of those properties included in a TIF went up, after the TIF was designated, by less than the growth rates of those properties left out of a TIF.

**Figure 4. Change in property value growth rate in areas with and without TIF.**



Accordingly, the tax increment derived from property growth in the lightest areas may be considered “captured” by the TIF at the expense of the local governments to which, absent TIF, some of these property tax dollars would have flowed. Specifically, 40 percent (25 ÷ 63) of Chicago’s tax increment from 1997 to 2005 has been captured, not caused, by TIF. In other words, 40 cents of every dollar of TIF revenue is money that taxing districts lose to TIF.

This sort of analysis is a classic case of hindsight being 20/20. There is no way to predict at the outset the *exact* amount of future growth inside a TIF that will come as a result of TIF-induced development and the *exact* amount that will take place anyway. But as we have shown – and as other research has found – there is evidence that a significant portion of the growth taking place inside TIF districts would have happened even without TIF, which means that the property tax revenues of local taxing bodies do in fact suffer because of TIF.

### The Joint Review Board

The TIF Act was not written without consideration for the potentially harmful effects of TIF on overlapping taxing entities. The state statute calls for the creation of Joint Review Boards to vote on proposed TIFs. The JRB comprises representatives of the following types of taxing districts:

- Community College District
- Park District
- School District
- Library District
- County
- Municipality
- Township
- Fire Protection District

The JRB also includes a public member, elected by the board’s government representatives. In Chicago, the JRB consists of representatives from five taxing districts that overlap the entire city and therefore stand to be affected financially by any Chicago TIF district: Cook County, the City Colleges of Chicago, the Chicago Park District, the Chicago Public Schools, and the City of Chicago itself. (Chicago does not have separate library, township and fire protection districts.) In theory, the JRB gives its members the opportunity to ask questions about how any proposed TIF will affect them, to consider this effect in light of the potential benefits of economic development, and to approve or reject the TIF accordingly.

In practice, however, the JRB barely scrutinizes the TIF proposals that come before it, and has never voted one down. **With the exception of Cook County, all JRB members are in effect representatives of the mayor of Chicago.** Aside from serving as the chief executive of the city itself, the mayor of Chicago appoints the leadership of the city’s community colleges, parks and schools. These districts assign representatives to the JRB, and these representatives choose the public member. The current public member served the mayor as chief of policy during the 1990s. Since TIF proposals originate from the city, this state of affairs leads us to question the degree of independent judgment we can really expect from the JRB.

Furthermore, **the Cook County Forest Preserve and the Metropolitan Water Reclamation District of Greater Chicago are not granted seats on the JRB, even though their property tax revenues are affected by TIF.**



We recommend several changes aimed at addressing the potential for local government entities to lose property tax revenues to TIF because of the “capture” problem.

**Recommendation: Analyze fiscal effects of proposed TIFs on local units of government.**

First, any new TIF plan should contain an analysis of what each local taxing entity’s loss would be at different proportions of “captured” increment, and at different points during the TIF’s 23-year lifetime. Our recommendation is to include in these plans the answers to the question, “If 5, 10, 25, 50, 75 or 100 percent of this growth would have taken place anyway at the 5-, 10-, 15, and 23-year marks, how much tax revenue will the TIF have captured from local taxing entities?”

(Estimates of expected changes in property values and tax rates, which redevelopment plans already include, would also be necessary for this analysis.) These amounts could be reported as a matrix, with the “capture rates” – the percentage of growth that would have occurred even without the TIF – along one side of the matrix and the years along the other side. This would entail the acknowledgment that some of the growth inside TIFs would have taken place even without TIF. Since municipalities may not be expected to make this concession voluntarily, we recommend that the General Assembly require an analysis of each local taxing entity’s potential loss as part of all new redevelopment plans.

This analysis, as part of the redevelopment plan, would be made available to all interested parties – the local taxing entities themselves, as well as members of the public – during the review process leading up to TIF creation. One possible outcome would be the preference of local taxing entities to retain some portion of the tax increment for themselves, as is allowed in Texas.<sup>16</sup> We do not go so far as to recommend that Illinois amend its TIF Act to allow local taxing entities to opt out of the TIF, in part or in full. As an inherently risky economic development strategy, TIF must be allowed to reap the revenues sown by its investments in redevelopment incentives. This risk and these rewards, however, should not be open-ended as they are now. If overlapping governments are to be forced to cede tax increment to the TIF, they should know exactly why they are doing so.

**Recommendation: Include detailed budgets and tax increment caps in all new TIF plans.**

Our second recommendation, therefore, is for any new TIF plan to include a balanced budget, with caps on the amount of tax increment, and every dollar of expected increment tied to a specific spending goal. Once the goals of the plan are met, the TIF dissolves. This would be a drastic change from the status quo, which has redevelopment plans predicting tax increment revenues far in excess of planned expenditures, in effect leaving municipalities with huge slush funds: millions of dollars about whose future use we know nothing – except that they won’t be going to local governments. These goals and budgets would not have to be set in stone; after all, there is no guarantee that the expected TIF revenues will materialize according to schedule, if at all. For this reason, we recommend that the annual TIF audits be undertaken to ensure that the TIF is meeting its goals, and that the redevelopment plan itself be reviewed every so often and adjusted as needed. If these reviews result in proposed changes to the plan, these changes should be subject to the same community review process as required at the creation of the TIF.

**Recommendation: Include detailed accounting of surplus increment in annual TIF reports.**

Our third recommendation for ameliorating the harmful effects of TIF on local governments regards the use of “surplus” funds. The TIF Act requires that municipalities return to the overlapping taxing districts each year all “moneys not required, pledged, earmarked, or otherwise designated for payment and securing of the obligations and anticipated redevelopment project costs...”<sup>17</sup> There is no requirement, however, for such requirements, pledges, earmarks and

<sup>16</sup> Texas Tax Code § 311.013.  
<sup>17</sup> 65 ILCS 5/11-74.4-7.

## *TIF and Overlapping Taxing Entities*

designations to be accounted for in any kind of detail; municipalities need only declare TIF funds spoken for, and so off-limits to the overlapping taxing entities. The City of Chicago lives down to this minimal standard by including the following statement in just about all of its annual compliance reports:

The City has pledged certain amounts solely from available excess incremental taxes to provide financial assistance to a developer under the terms of a redevelopment agreement for the purpose of paying costs of certain eligible redevelopment project costs.

Local governments are forced to go without property tax revenue, but they are told only that “certain amounts” are committed to “a developer” for “certain eligible redevelopment project costs.” We recommend that the TIF Act be amended to require that the annual reports include the terms of a contract or memorandum of agreement governing the commitments of surplus TIF funds, presenting in detail the amounts, the developer or developers, and the eligible project costs. Budgets, in other words. Every dollar not so accounted for would then be returned to the taxing districts.

### ***Recommendation: Include all affected local taxing entities on Joint Review Board.***

Our fourth recommendation is that the Illinois General Assembly amend the TIF Act to include on the Joint Review Board all taxing entities that overlap proposed TIF districts. In Chicago and Cook County this would give the Forest Preserve and the Metropolitan Water Reclamation District a say in the TIF process.<sup>18</sup> The question of what to do about the Chicago districts effectively controlled by the very municipality proposing the TIF district – the city colleges, schools, parks and libraries – is trickier. As long as these governments have their leaderships appointed by the mayor, it is hard to imagine their representatives on the JRB exercising independent oversight of TIF. But if our first recommendation – the inclusion in all TIF proposals of the potential tax revenue loss to overlapping taxing districts – comes to fruition, then at least these governments will have more complete data on which to base their votes. Being informed of the potential consequences of TIF (more to the point, being unable to say that they weren’t warned of these consequences) may lead them to cast a more critical eye on TIF proposals before them.

### ***Recommendation: Require Cook County’s JRB member to vote as directed by the Board.***

Our fifth and final recommendation is directed at the Cook County Board of Commissioners. Our office introduced the Tax Increment Finance District Approval Ordinance during the 2006 legislative session, and we will reintroduce it in 2007. This legislation would require that all TIF proposals in the county come before the County Board for scrutiny and would require that the County’s JRB representative vote on the TIF proposal as directed by the Board.

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<sup>18</sup> The MWRD would be represented on the JRB for most, but not all, proposed Cook County TIFs, since its borders do not quite extend to those of the county.

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These recommendations, we believe, would go a long way toward helping overlapping taxing entities live with TIF. There remains however, the question of the fiscal stress experienced by local governments not directly as a result of TIF's propensity to capture a portion of the property base, but rather indirectly, from TIF's effect on the tax rate. The two are related: for every dollar of property tax revenue captured by the TIF district, local governments must make it up from taxes on the non-TIF portions of their property bases. But local governments – especially those in poorer areas – face constant political pressure to hold down taxes, so there is a question as to whether or not local governments can fully compensate for TIF-related property tax losses. TIF, as the next section shows, forces tax rates to be higher than they would be in the absence of TIF, thus exacerbating this pressure.

The following section lays out TIF's effect on the tax rate, and thus on the tax bill. It concludes by proposing that specific information on these effects be added to tax bills, in the hopes of keeping taxpayers wholly and accurately informed about the uses of their tax dollars. This will give people the information they need to think critically and ask questions about how their property tax dollars are spent.

### III. TIF and the Property Tax Bill

A property tax bill is basically a function of two things: the value of the property and the tax rate. We began discussing the relationship between property values, tax levies and the tax rate in the previous section. Applying that discussion to a real-world example, we can calculate the 2005 tax rate for the Metropolitan Water Reclamation District of Greater Chicago, or MWRD for short.

1. In 2005, the MWRD prepared its budget, figured that it needed to raise \$410,744,250 from property taxes and submitted this levy to the Cook County clerk.
2. The clerk added up all of the EAV within the MWRD in 2005. The total came to \$130,586,921,450.
3. Finally, the clerk divided the tax levy of \$410,744,250 by the tax base of \$130,586,921,450 and arrived at a tax rate of 0.315%.

So for 2005, the Metropolitan Water District's tax rate calculation looks like:

$$\frac{\$410,774,250}{\$130,586,921,450} = 0.315\%$$

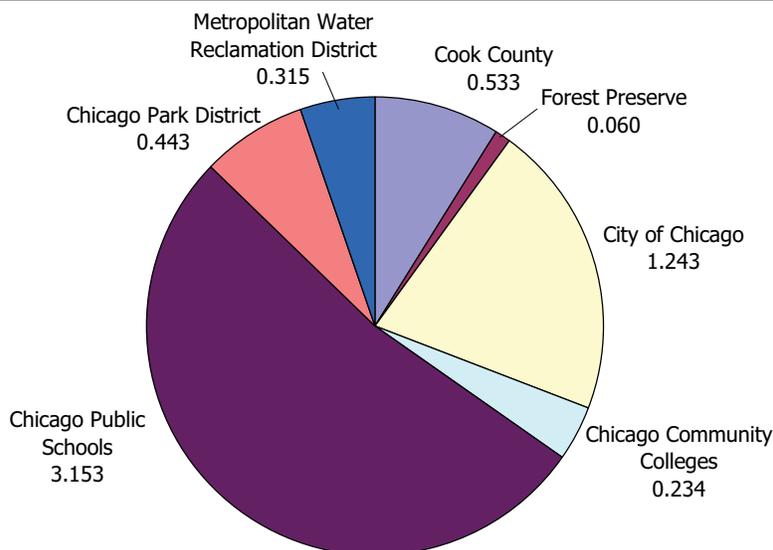
#### The Consolidated Rate

Once the tax rates for all local governments have been calculated, they're added up into a consolidated rate. The clerk calculates thousands of different consolidated rates, each one based on where different local governments overlap. The consolidated rate for the City of Chicago consists of the individual rates calculated for seven overlapping local governments:

- City of Chicago
- Chicago Public Schools
- Chicago Park District
- City Colleges of Chicago (Community College District 508)
- Cook County
- Cook County Forest Preserve
- Metropolitan Water Reclamation District of Greater Chicago

In 2005, the consolidated rate for the City of Chicago came to 5.981. This rate is broken down in the following graph.

**Figure 5. Tax rates for City of Chicago, 2005.**



Once the individual governments' tax rates have been calculated and consolidated, individual property tax bills can be calculated. Each year, every taxpayer gets a bill, showing the tax rate multiplied by the EAV of his or her property. The tax rate on any given tax bill depends on which local taxing entities the property itself lies within. In the City of Chicago most properties are within the seven taxing districts listed above.<sup>19</sup> So whatever the consolidated tax rate for these seven districts comes to, that is the rate most Chicagoans see on their tax bills. The following table shows the rates for these seven individual local governments from 1995 through 2005, with the consolidated rate at the bottom.

**Table 5. Tax rates in Chicago, 1995-2005.**

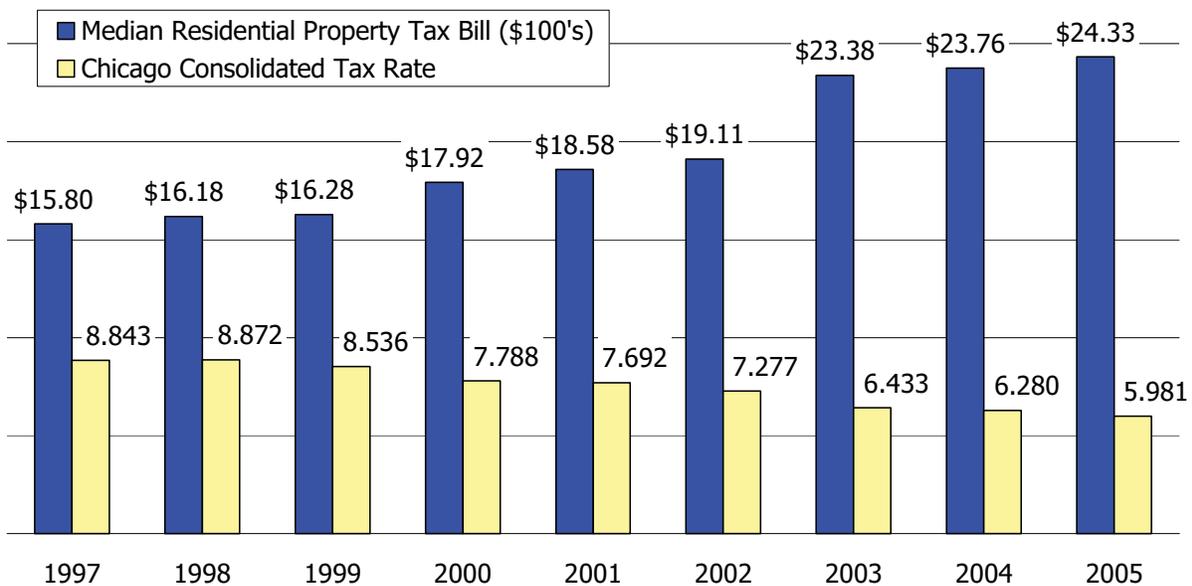
Taxing District	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
City of Chicago	2.131	2.182	2.024	1.998	1.860	1.660	1.637	1.591	1.380	1.302	1.243
Chicago Public Schools	4.547	4.618	4.354	4.440	4.359	3.937	3.967	3.739	3.293	3.281	3.153
Chicago Park District	0.730	0.721	0.665	0.653	0.627	0.572	0.567	0.545	0.464	0.455	0.443
City Colleges of Chicago	0.376	0.377	0.356	0.354	0.347	0.311	0.307	0.280	0.246	0.242	0.234
Cook County	0.994	0.989	0.919	0.911	0.854	0.824	0.746	0.690	0.630	0.593	0.533
Forest Preserve	0.072	0.074	0.074	0.072	0.070	0.069	0.067	0.061	0.059	0.060	0.060
Metropolitan Water Reclamation District	0.495	0.492	0.451	0.444	0.419	0.415	0.401	0.371	0.361	0.347	0.315
<b>Chicago Consolidated</b>	<b>9.345</b>	<b>9.453</b>	<b>8.843</b>	<b>8.872</b>	<b>8.536</b>	<b>7.788</b>	<b>7.692</b>	<b>7.277</b>	<b>6.433</b>	<b>6.280</b>	<b>5.981</b>
% Change from Previous Year		+1.14	-6.90	+0.33	-3.94	-9.60	-1.25	-5.70	-13.12	-2.44	-5.00

<sup>19</sup> There are exceptions when a property lies within a special taxing district of some sort, typically a Special Service Area, but in 2005, 77.9 percent of all parcels, and 76.4 percent of residential parcels, in the City of Chicago paid the consolidated rate of 5.981 percent. (Source: Cook County Assessor, Cook County Clerk, authors' calculations.)

As can be seen, Chicago’s tax rate has been going down pretty much steadily since the mid-1990s, with only slight increases from 1995 to 1996 and again from 1997 to 1998. This is what some people mean when they say that taxes have gone down. But have taxes really gone down? After all, when most of us talk about taxes, we’re nearly always referring to the amount of taxes we pay – in dollars and cents. Tax rates aren’t dollars and cents; they’re percentages. To figure out the amount we pay – our **tax bill** – we have to multiply the tax rate by the value of our property. If the value of our property increases faster than the tax rate decreases, our tax bill will go up.

In Chicago, as many of us know, this is exactly what has been happening. In 1997, the median residential property assessment in the City of Chicago was about \$65,000. By 2005, that figure had gone up 60 percent, or more than six percent annually, to just over \$104,000. In contrast, the tax rate, 8.843 in 1997, had fallen by less than one-third, or under five percent annually, to 5.981 in 2005. The combined effect of these two trends, as shown in Figure 6, was a 54 percent increase in the median homeowner’s tax bill, from \$1,580 in 1997 to \$2,433 in 2005.<sup>20</sup>

**Figure 6. Chicago tax rates and median residential property tax bills, 1997-2005.**



Source: Cook County Assessor, Cook County Clerk, authors’ calculations.

<sup>20</sup> Based on data from the Cook County Assessor and Cook County Clerk, and on authors’ calculations. These calculations assume the minimum homeowner exemption of \$5,000 rather than the \$20,000 maximum. This maximum was in place between the 2003 and 2006 Chicago assessments under the Cook County’s 7% Extended Homeowner Exemption. It will revert to \$5,000 unless the Illinois General Assembly renews the 7% Extended Homeowner Exemption during its 2007 legislative session.

## TIF and the Property Tax Bill

But where does TIF come in? In order to offer as complete an answer to this question as possible, we need to step back from the tax bill and look again at the tax rate. This discussion is divided into two sections. The first lays out how TIF affects the tax rate for a single hypothetical taxing district. The second shows how TIF has affected the actual property tax bills of Chicagoans.

### TIF and the Tax Rate

Let's say that in 1995, School District 100 has \$1,000,000 in EAV that it can tax. And now let's imagine that School District 100 submits to the county clerk a levy of \$50,000. We can use the method for calculating the tax rate that we outlined above...

$$\frac{\text{Tax Levy}}{\text{Tax Base}} = \text{Tax Rate}$$

...for determining School District 100's 1995 tax rate:

$$\frac{\$50,000}{\$1,000,000} = 5.000\%$$

Let's assume that the school district's levy increases by 3.5 percent a year, and that EAV in the school district increase by five percent a year. Then in 1996, the tax rate for School District 100 would be calculated like this:

First we figure out the 1996 tax levy:

$$\text{Tax Levy} \quad \frac{1995}{\$ 50,000} \times \frac{\text{GROWTH}}{3.5\%} = \$ 1,750 \rightarrow \frac{1995 + \text{GROWTH}}{\$ 50,000 + \$ 1,750} = \frac{1996}{\$ \mathbf{51,750}}$$

Then we figure out the 1996 tax base:

$$\text{Tax Base} \quad \frac{1995}{\$ 1,000,000} \times \frac{\text{GROWTH}}{5.0\%} = \$ 50,000 \rightarrow \frac{1995 + \text{GROWTH}}{\$ 1,000,000 + \$ 50,000} = \frac{1996}{\$ \mathbf{\$1,050,000}}$$

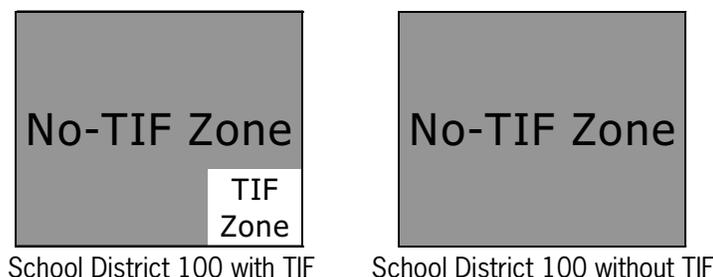
Finally we divide the levy into the base:

$$\frac{\$51,750}{\$1,050,000} = 4.929\%$$

The school district could raise what it needs from property taxes, and the tax rate would decrease slightly from 1995 – by 1.4 percent, to be exact.

Now, let's say that sometime during 1995, a TIF district had been created that contains some of School District 100's property – \$75,000 worth, to be exact. Since School District 100 now shares some of its land with a TIF, we can think of the school district as having been split into two zones: the TIF zone and the no-TIF zone. All of the property value in the No-TIF Zone, plus all property value growth in the No-TIF Zone, can be taxed by the school district.

## TIF and the Property Tax Bill



In the TIF Zone, however, things are different. What the school district gets from the TIF Zone is the property value as it stands on the day the TIF is created. After that, however, all property value growth in the TIF Zone – including growth from inflation in the national economy – is withheld from the school district, going instead into the TIF, where it is supposed to be used to pay for redevelopment. The amount of property value in the TIF Zone withheld from local governments is the incremental property value.

So the actual 1996 tax rate calculation for School District 100 would proceed as follows:

First we need to figure out the 1996 tax levy:

$$\text{Tax Levy} \quad \frac{1995}{\$ 50,000} \times \frac{\text{GROWTH}}{3.5\%} = \$ 1,750 \rightarrow \frac{1995 + \text{GROWTH}}{\$ 50,000 + \$ 1,750} = \frac{1996}{\$ 51,750}$$

Next we need to calculate the tax base in the No-TIF Zone and the TIF Zone separately. And we need to keep in mind that even though all of the property value within the district is growing, the incremental property value – the growth in the TIF Zone – goes not to the school district but to the TIF district.

TAX BASE	1995	GROWTH	1995 + GROWTH	1996
<b>No-TIF Zone</b>	\$ 925,000	x 5.0% = \$ 46,250	→ \$ 925,000 + \$ 46,250 =	<b>\$ 971,250</b>
<b>TIF Zone</b>	\$ 75,000	x 5.0% = \$ 3,750	→ \$ 75,000 + \$ 0 =	<b>\$ 75,000</b>
<b>Total</b>	\$ 1,000,000		\$ 1,000,000 + \$ 46,250 =	<b>\$ 1,046,250</b>

TIF doesn't do anything to the tax levy – that remains the same, at \$51,750. The school district's total tax base, however, is lower than it would have been if the TIF hadn't been created.

How much lower? At first glance, the answer might appear to be \$3,750 – the amount by which EAV in the TIF Zone has grown. But because some of this growth can be attributed to TIF – it would not have come about “but for” TIF – we cannot claim that the school district is “losing” all \$3,750. We found earlier that 40 percent of the growth would have taken place even without TIF. Using this finding to figure what School District 100's total tax base would have been if the TIF hadn't been created, we can take 40 percent of the five percent growth rate in the TIF Zone – which comes to two percent – and apply it to the TIF Zone's 1995 EAV of \$75,000. Two percent of \$75,000 is \$1,500. So a more accurate figuring of TIF's effect on School District 100's tax base looks like this:

## TIF and the Property Tax Bill

TAX BASE	1995	GROWTH	1995 + GROWTH	1996
<b>No-TIF Zone</b>	\$ 925,000	x 5.0% = \$ 46,250	→ \$ 925,000 + \$ 46,250 =	<b>\$ 971,250</b>
<b>TIF Zone</b>	\$ 75,000	x 2.0% = \$ 1,500	→ \$ 75,000 + \$ 1,500 =	<b>\$ 76,500</b>
<b>Total</b>	\$ 1,000,000		\$ 1,000,000 + \$ 47,750 =	<b>\$ 1,047,750</b>

Now we can calculate TIF's effect on School District 100's tax rate. First we figure out what the tax rate would have been if TIF were not capturing 40 percent of School District 100's EAV growth, dividing the levy of \$51,750 by the tax base of \$1,047,750:

$$\frac{\$51,750}{\$1,047,750} = 4.939\%$$

Without TIF, the tax rate would have been 4.939. Next we divide the levy of \$51,750 by the actual tax base of \$1,046,250:

$$\frac{\$51,750}{\$1,046,250} = 4.946\%$$

TIF produces a tax rate of 4.946, about one-seventh of one percent higher than what it would have been without TIF. This is the **TIF rate**; it is what every taxpayer in School District 100 pays because of TIF.

The TIF rate in the case of School District 100 certainly isn't much. But three points need to be kept in mind: the consolidated rate; the duration of the TIF; and the considerable probability that the TIF created in 1995 would not be the last one created in School District 100.

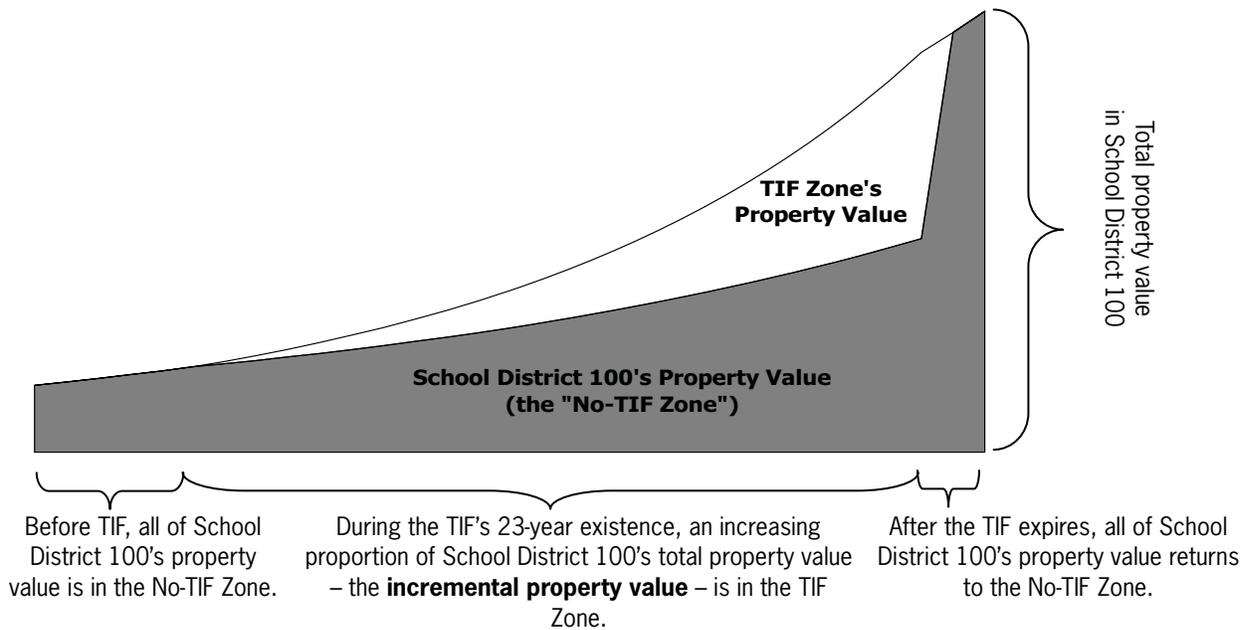
## TIF and the Consolidated Rate

First, our hypothetical School District 100 is just one of many local governments whose tax rates will make up the final consolidated rate. If School District 100 is one of seven taxing entities that contribute to a consolidated rate – including a municipality, a county, a park district, et cetera – and if TIF raises the other six entities' tax rates by the same amount as it does the school district's, then the combined effect of TIF would be about a one percent tax increase.

## The Older the TIF, the Greater the Tax Rate Increase

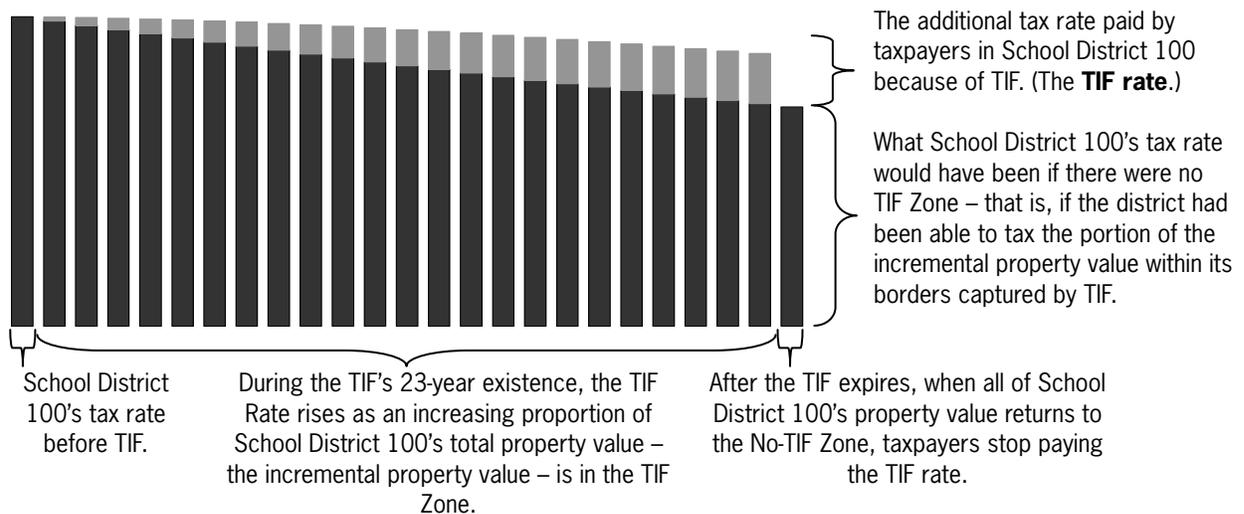
Second, we've only looked at one year. TIFs in Illinois are around for 23 years, sometimes longer. During these 23 years, property value in the TIF Zone is growing and growing, but the amount of property value School District 100 gets to keep from the TIF Zone doesn't ever grow – it will stay at the same \$75,000 until the TIF expires, and inflation will erode that \$75,000 over time. Put another way, for each year of the TIF's existence, the incremental property value will account for an ever increasing proportion of the total property value within School District 100's boundaries, as shown in Figure 7.

**Figure 7. Property Value in and out of the TIF Zone over the life of a single TIF.**



This proportion, adjusted for TIF's propensity to capture a portion of growth, is the amount by which TIF raises the tax rate – the **TIF rate**. How the TIF rate affects the actual tax rate over the life of a TIF is shown graphically in Figure 8.

**Figure 8. The TIF Rate in and out of the TIF Zone over the life of a single TIF.**



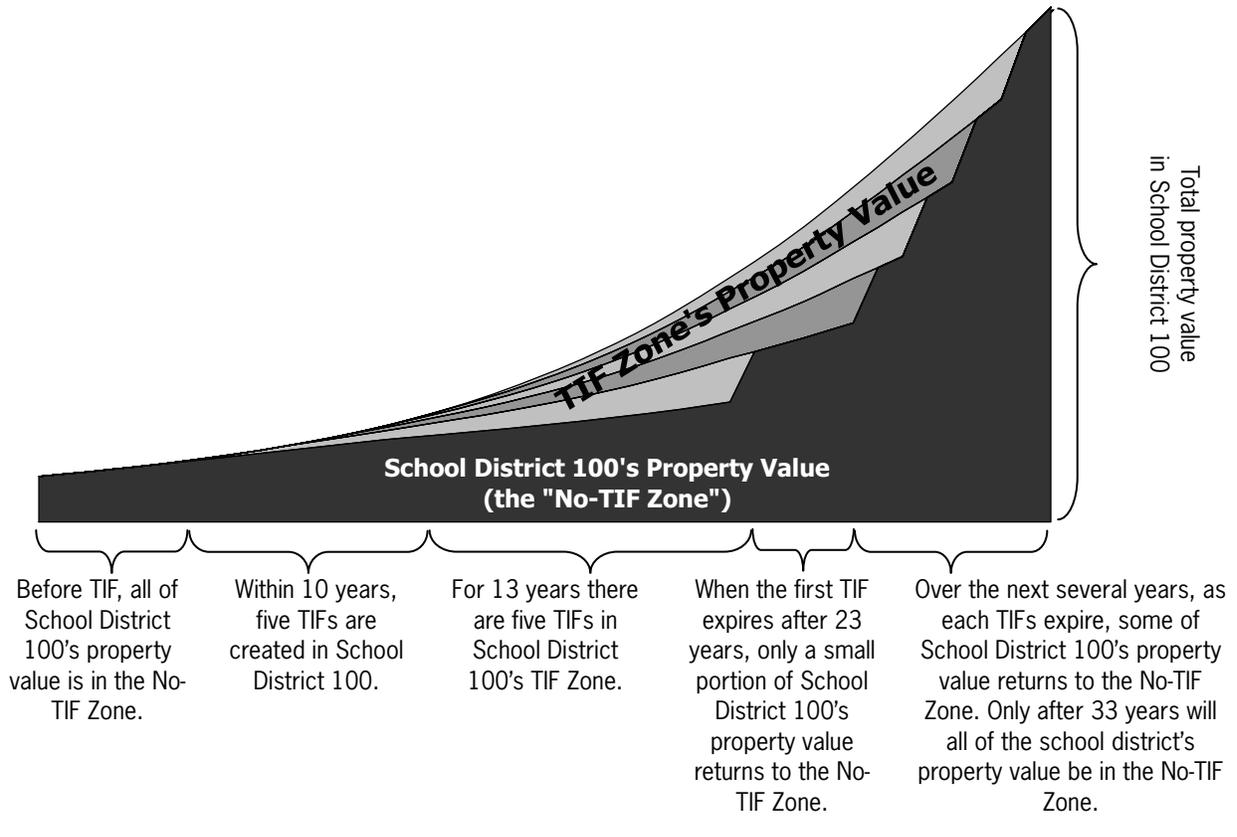
As Figures 7 and 8 suggest, School District 100's property value will jump, and its tax rate will fall, once the TIF expires after 23 years. But what if, sometime during those 23 years, *another* TIF is created from some of School District 100's property? The odds of this happening are good: out of the 95 municipalities in Cook County that had at least one TIF between 1986 and 2005, 65 had at least two TIFs during the same time period.

Moreover, these second TIFs were likely to be created well before the life of the first TIF was even half over. Half of the municipalities that created a second TIF did so within five years of creating their first; 88 percent did so within ten years.

### **More TIFs Keep the Tax Rate Higher... for Longer**

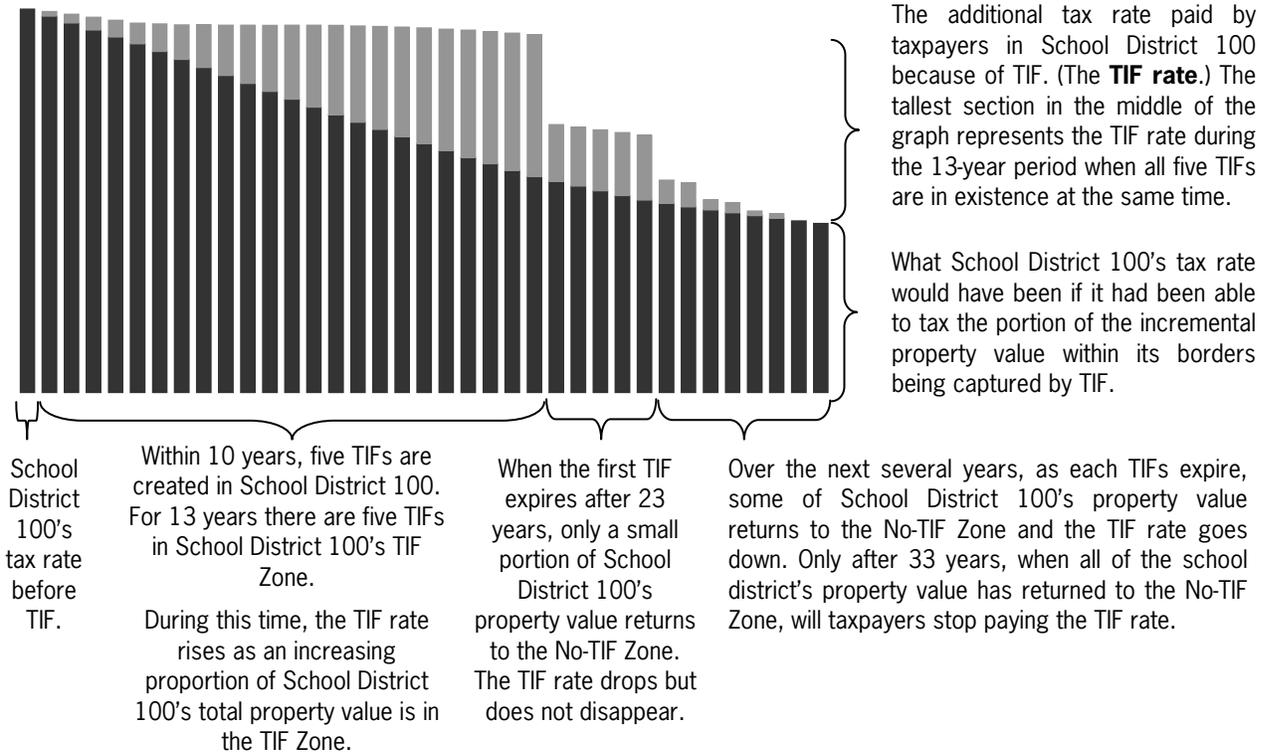
This is the third point to consider when analyzing the effect of TIF on taxes: TIFs tend to come in twos (or, in some municipalities, threes, fours and fives), and every time a new TIF is created, more of the local government's EAV enters the TIF Zone, which means the county, school district or park district has to wait longer and longer until it has access to all of the property value growth within its boundaries. Figure 9 portrays what happens when multiple TIFs overlap School District 100.

**Figure 9. Property Value in and out of the TIF Zone over the life of multiple TIFs.**



And what effect will the continued creation of new TIFs mean for the tax rate? As we can see in Figure 10, it will keep the TIF rate in place, and so the total tax rate higher, for longer and longer.

**Figure 10. The TIF Rate in and out of the TIF Zone over the life of multiple TIFs.**

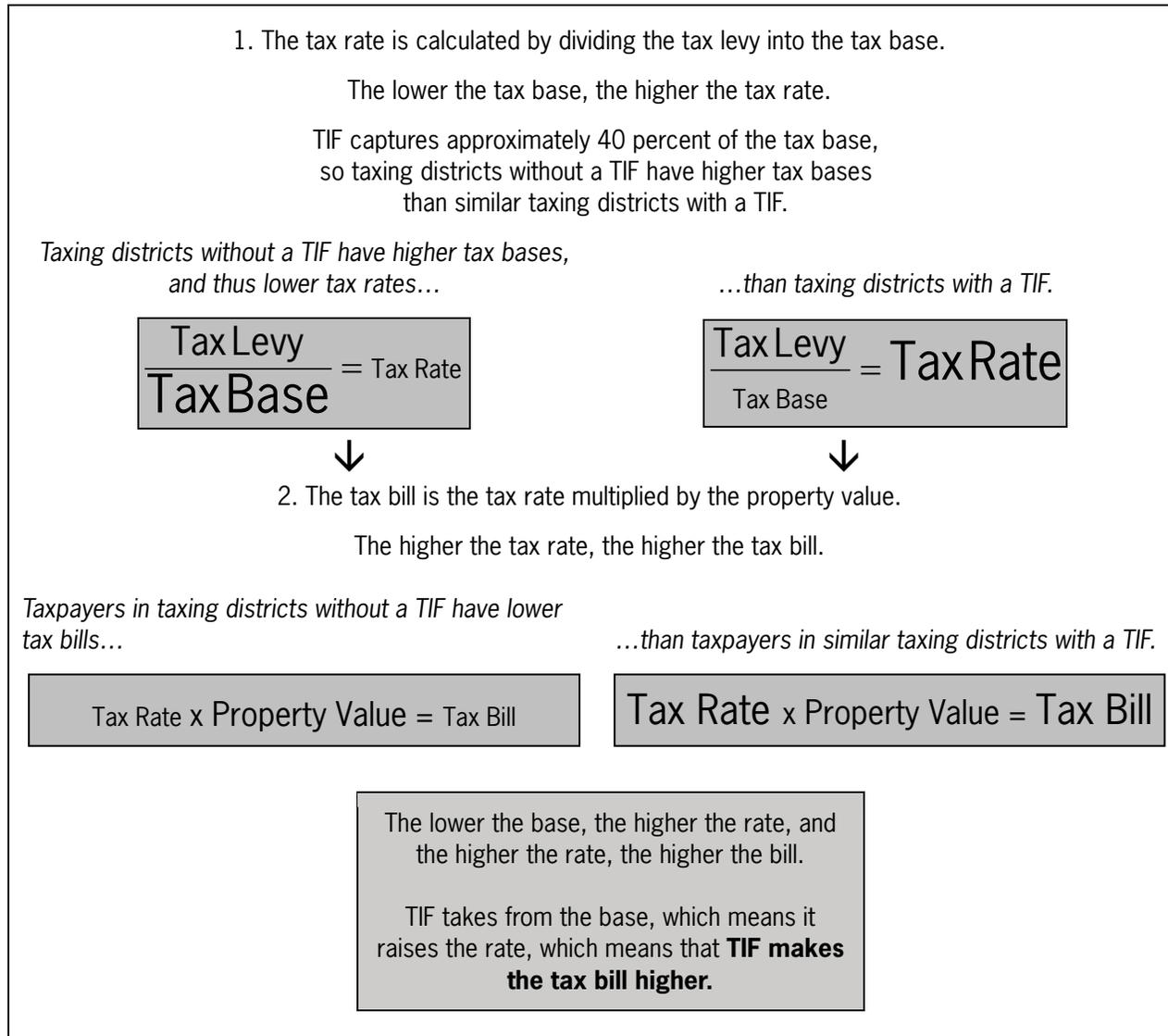


Now that we've laid out the ways in which TIF affects the tax rate, we can turn from the imaginary School District 100 to the real-world case of the City of Chicago. And we can go from discussing tax rates to discussing the tax bill.

## TIF and the Tax Bill

Figure 11 summarizes how TIF affects the tax bill.

**Figure 11. A model of how TIF affects the property tax bill.**



Because the seven taxing districts that contribute to Chicago’s consolidated tax rate have different boundaries, their TIF and No-TIF Zones are all going to look different, so it would be difficult (but not impossible) to answer the question, “What is the total effect of TIF in general on the tax rate in all seven of these local governments?” The question we *can* answer is this: “What is the effect of Chicago’s TIFs on the tax rates of these local governments?” And because the tax rate determines the tax bill, another way of putting this is, “What do Chicago’s TIFs cost the taxpayers of Chicago?”

TIF and the Property Tax Bill

We can begin by looking at the tax levies, tax bases and tax rates for the seven taxing districts that contribute to Chicago’s consolidated tax rate. Table 6 on the following page shows the calculation for the actual 2005 tax rate.

**Table 6. Tax levies, tax bases and tax rates for the seven taxing districts in Chicago, 2005.**

Taxing District	Tax Levy	Actual Tax Base	Actual Tax Rate
City of Chicago	\$ 737,155,310	\$ 59,304,530,189	1.243
Chicago Public Schools	1,869,871,837	59,304,530,189	3.153
Chicago Park District	262,719,069	59,304,530,189	0.443
City Colleges of Chicago	138,687,813	59,268,296,045	0.234
Cook County	710,871,234	133,371,713,730	0.533
Forest Preserve	80,023,028	133,371,713,730	0.060
Metropolitan Water Reclamation District	411,348,803	130,586,921,450	0.315
<b>Chicago Consolidated</b>			<b>5.981</b>

In 2005, the actual tax rate paid by most Chicago property owners was 5.981.

Now we’ll calculate what this rate would have been if Chicago’s seven local governments had been able to tax some of the incremental property value within Chicago’s TIF Zone. Each of the seven local governments had its own TIF zone (for instance, the Forest Preserve’s TIF Zone comprises all TIFs in Cook County), but here we’re looking only at the parts of those TIF Zones that lay within the City of Chicago. In 2005 Chicago’s 136 TIFs contained a little over \$6.4 billion in incremental property value. We have seen that approximately 40 percent of this growth would have taken place even without TIF, so we can begin by adding back 40 percent of Chicago’s incremental property value – a little over \$2.5 billion – to the property tax bases of these seven local governments. The sums are shown in the “Combined Tax Base” column in Table 7.

**Table 7. Property values in the seven Chicago taxing districts including captured incremental value, 2005.**

Taxing District	Property Value in No-TIF Zone (Actual Tax Base)	Captured Property Value in Chicago TIF Zone (40% of Incremental Value)	Combined Tax Base
City of Chicago	\$ 59,304,530,189	\$ 2,563,486,441	\$ 61,868,016,630
Chicago Public Schools	59,304,530,189	2,563,486,441	61,868,016,630
Chicago Park District	59,304,530,189	2,563,486,441	61,868,016,630
City Colleges of Chicago	59,268,296,045	2,563,486,441	61,831,782,486
Cook County	133,371,713,730	2,563,486,441	135,935,200,171
Forest Preserve	133,371,713,730	2,563,486,441	135,935,200,171
Metropolitan Water Reclamation District	130,586,921,450	2,563,486,441	133,150,407,891

Once we have calculated these combined tax bases, we can divide the levies into them to come up with what the tax rates would have been had the local governments been able to tax the captured incremental property value, shown in the column labeled “New Tax Rate” in Table 8 on the following page.

**Table 8. Tax levies, tax bases and tax rates for the seven taxing districts in Chicago after adjustment for captured incremental property value, 2005.**

Taxing District	Tax Levy	Combined Tax Base (including Captured 40% of Incremental Value)	New Tax Rate	Actual Tax Rate	TIF Rate
City of Chicago	\$ 737,155,310	\$ 61,868,016,630	1.191	1.243	4.32%
Chicago Public Schools	1,869,871,837	61,868,016,630	3.022	3.153	4.32%
Chicago Park District	262,719,069	61,868,016,630	0.425	0.443	4.32%
City Colleges of Chicago	138,687,813	61,831,782,486	0.224	0.234	4.32%
Cook County	710,871,234	135,935,200,171	0.523	0.533	1.92%
Forest Preserve	80,023,028	135,935,200,171	0.059	0.060	1.92%
Metropolitan Water Reclamation District	411,348,803	133,150,407,891	0.309	0.315	1.96%
<b>Chicago Consolidated</b>			<b>5.754</b>	<b>5.981</b>	<b>3.95%</b>

As we can see, and as we saw above in the School District 100 example, the “new tax rates” are lower than the actual 2005 rates. The combined effect throughout the city in 2005 was 3.95 percent. This is the TIF rate. Now that we know this, we can figure out, in dollars and cents, what Chicago’s TIFs cost the city’s taxpayers in 2005.

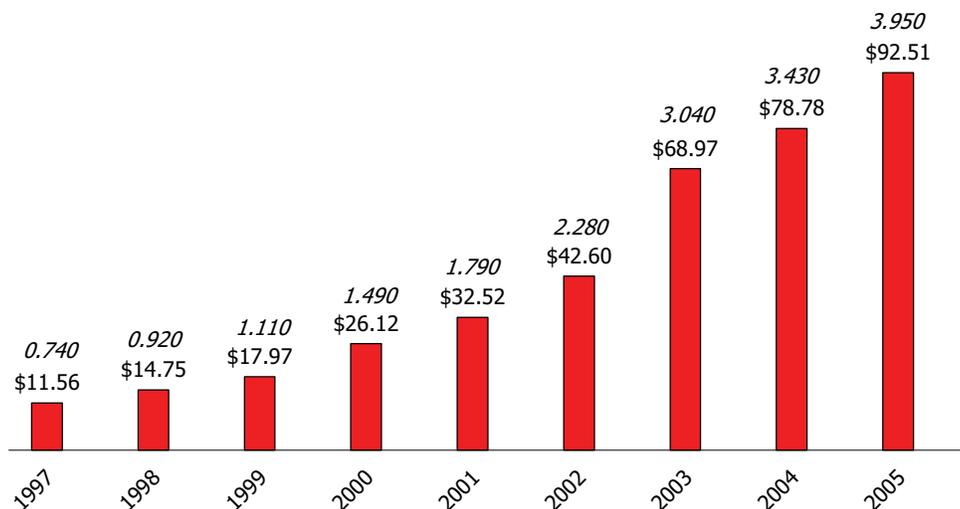
As we saw above in Figure 6, the median residential property owner in Chicago paid about \$2,433 in property taxes in 2005. This amount was 3.95 percent, or about \$92, higher than it would have been if the seven local governments had been able to tax the portion of incremental property value captured – not caused – by TIF. This amount – the difference between what taxpayers would pay if taxing districts had been able to tax the captured incremental property value and what they actually pay – is the TIF tax. Every taxpayer in Chicago – whether he or she lives within a TIF – pays the TIF tax.

Figure 12 shows the TIF rates and TIF taxes paid by the median residential property owner in Chicago from 1997 through 2005.

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**Figure 12. TIF rates (in italics) and TIF taxes paid by median Chicago homeowner, 1997-2005.**

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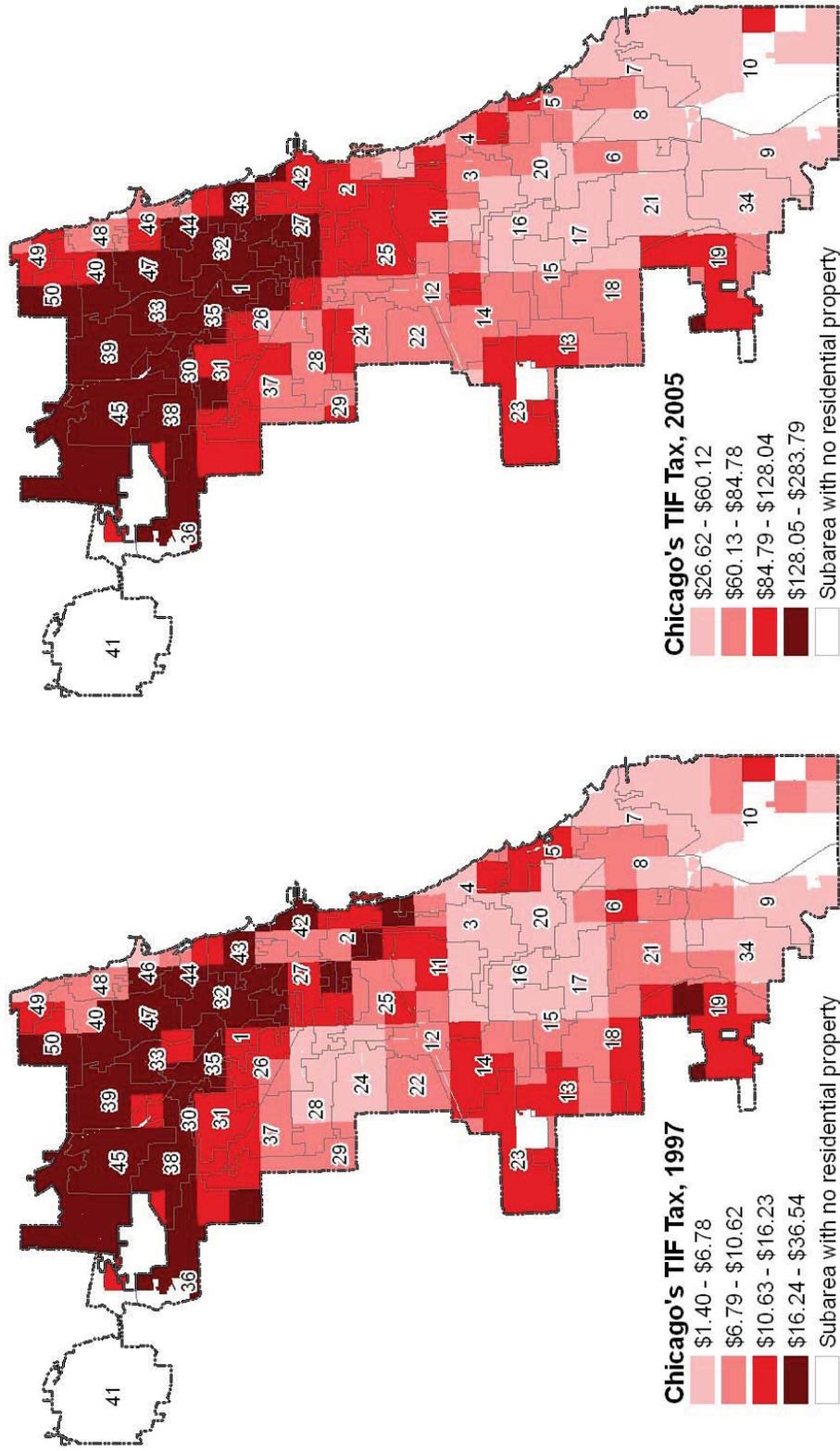
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Source: Cook County Assessor, Cook County Clerk, authors' calculations.

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Figure 13 on the following page shows the TIF tax paid by median residential property owners in different parts of Chicago in 1997 and 2005. As we can see, the TIF tax has gone up considerably.

Figure 13. TIF taxes in the City of Chicago, 1997 and 2005



Note: Numbers on map show wards.

Source: Cook County Assessor, Cook County Clerk, authors' calculations.

*TIF and the Property Tax Bill*

The mere existence of a TIF tax is not in and of itself problematic, any more than the mere existence of a schools tax is problematic: the latter is what we pay for the provision of free public education; the former can be thought of as what we pay for economic development and the benefits it confers on our cities and regions – such as an expanded tax base and increased employment. What is troubling is the hidden nature of the TIF tax. Units of local government appear as discrete items on the property tax bill, telling us where our property tax dollars are going. Or so it seems. As we discuss in the recommendations section that follows, the TIF information currently shown on property tax bills misleads the taxpayer by claiming that none of his or her tax dollars are going to a TIF district. And in so doing, the tax bill overstates the portion of the tax payment going to schools, parks, the county, et cetera.

Because taxpayers deserve to know how much they are paying for what, we recommend the inclusion of complete and accurate TIF information on property tax bills. We imagine that two types of TIF information above all would be of interest to the taxpayer.

***Recommendation: Include TIF rate and TIF tax information on property tax bills.***

The first would show information related to the TIF rate and TIF tax. These figures are based on the portion of property value growth that TIF is capturing rather than causing, a figure that will change from year to year and from municipality to municipality. This variability makes implementing this recommendation a technical challenge. Moreover, the contentious nature of the “but for” debate that lies at the root of the TIF rate and TIF tax calculations is likely to make this recommendation a highly controversial one. But because it would allow every taxpayer in Cook County to see the effects of TIF on the tax bill, we urge that it be seriously considered.

***Recommendation: Show the actual amount paid to TIF on property tax bills.***

The second TIF-related change that we would like to see made to tax bills is simply to show each taxpayer living inside a TIF what portion of his or her tax dollar goes toward the tax increment. Currently, a Chicago taxpayer’s tax bill shows the total tax – the consolidated rate times the EAV of the property – apportioned among the various local taxing districts according to each taxing district’s share of the consolidated rate. If the property is inside a TIF, then the TIF is in fact listed on the bill. The amount of tax actually paid to the TIF, however, is shown as zero. Figure 14 shows a sample tax bill for a property inside one of Chicago’s TIFs.

**Figure 14. Sample tax bill for a Chicago property inside a TIF, showing no contribution to the TIF.**

Taxing District	2005 Tax	2005 Rate	Pension	2004 Tax	2004 Rate
WATER RECLAMATION DIST	58.54	0.315	3.34	78.14	0.347
PARKS-MUSEUM/AQUARIUM BOND	4.09	0.022		5.40	0.024
CHICAGO PARK DISTRICT	78.24	0.421	2.97	97.06	0.431
SCHOOL FINANCE AUTHORITY	23.60	0.127		39.86	0.177
BOARD OF EDUCATION	562.35	3.026		698.99	3.104
CHICAGO COMMUNITY COLLEGE DIST	43.49	0.234		54.50	0.242
CHICAGO LIBRARY FUND	16.73	0.090		25.67	0.114
CITY OF CHICAGO	214.27	1.153	101.46	267.53	1.188
FOREST PRESERVE DISTRICT	11.15	0.060	0.18	13.51	0.060
COUNTY OF COOK	50.92	0.274	23.97	73.64	0.327
COOK COUNTY PUBLIC SAFETY	27.32	0.147		32.43	0.144
COOK COUNTY HEALTH FACIL.	20.81	0.112		27.47	0.122
TAX INCREMENT FINANCING DISTRICT	0.00			0.00	
	<b>1,111.51</b>	<b>5.981</b>		<b>1,414.19</b>	<b>6.280</b>

	Amount
2005 Property Value	88,269
2005 Assessment Level	X 16%
2005 Assessed Value	= 14,123
2005 State Equalization Factor	X 2.7320
2005 Equalized Assessed Value	= 38,584
2005 Local Tax Rate	X 5.981
2005 Total Tax Before Exemptions	= 2,307.71
Exemptions (Homeowner's, etc.)	- 1,196.20
<b>2005 Total Tax After Exemptions</b>	<b>= 1,111.51</b>

Since this property is inside a TIF district, the amounts shown going to each taxing district can only be accurate if the property had not increased in value since the TIF was created – in other words, if none of its property value is *incremental* property value. But tax bills for *all* properties located within a TIF show the TIF amount as zero, even when 100 percent of the tax bill is going to the TIF.<sup>21</sup> This is, of course, an impossibility: if *no one* is paying into a TIF, all TIF districts everywhere are functionally non-existent.

A redesigned tax bill that showed where the tax dollars are really going when some of them are going to a TIF might look something like the sample bill in Figure 15 on the following page. The only major change would be the addition of a box titled “Tax Increment Calculation,” showing the incremental property value (step 1), which is the current EAV minus the base EAV, established at the time the TIF was created.<sup>22</sup> By calculating what portion of the total current EAV is actually

<sup>21</sup> Ben Joravsky, “Million-Dollar Lies,” *Chicago Reader*, 11 August 2006.

<sup>22</sup> To be precise, a TIF district’s total property value increment is not calculated simply by adding up the increments of individual properties within the TIF. Rather, properties are first grouped by “tax code,” which the county clerk assigns to each parcel based on its consolidated tax rate. TIF districts often comprise several tax codes; the property value increment for the entire TIF is the sum of the individual tax code increments. There is a catch, however: if a tax code’s total property value increment is negative – even if it contains individual properties with positive incremental values – the tax code is excluded from the TIF-wide increment. Tax codes with negative total property value increments are relatively rare. But if the property shown here in the sample tax bill, which has a positive increment,

TIF and the Property Tax Bill

incremental value (step 2), and then multiplying that percentage by the total tax we can come up with exactly how much of this taxpayer’s bill is going to the TIF (step 3). The remainder – the amount of taxes *not* paid to the TIF (in this case, \$1,111.51 minus \$823.43, or \$288.08) – are then allotted to the taxing districts, again in proportion to each one’s contribution to the consolidated tax rate.

**Figure 15. Proposed redesigned tax bill for a Chicago property inside a TIF, showing actual contribution to the TIF.**

	<b>Amount</b>
2005 Property Value	88,269
2005 Assessment Level	x 16%
2005 Assessed Value	= 14,123
2005 State Equalization Factor	x 2.7320
2005 Equalized Assessed Value	= 38,584
2005 Local Tax Rate	x 5.981
2005 Total Tax Before Exemptions	= 2,307.71
Exemptions (Homeowner's, etc.)	- 1,196.20
<b>2005 Total Tax After Exemptions</b>	<b>= 1,111.51</b>

<b>Tax Increment Calculation</b>	
	2005 Equalized Assessed Value 38,584
	[Base Year] Frozen EAV - 10,000
<b>1.</b>	2005 Incremental EAV = 28,584
	2005 Equalized Assessed Value ÷ 38,584
<b>2.</b>	% Total Tax to TIF = 74.1%
	2005 Total Tax After Exemptions x 1,111.51
<b>3.</b>	<b>2005 Tax Increment = 823.43</b>

Taxing District	2005 Tax	2005 Rate	Pension	2004 Tax	2004 Rate
WATER RECLAMATION DIST	15.17	0.147		34.70	0.144
PARKS-MUSEUM/AQUARIUM BOND	1.06	0.112		2.40	0.122
CHICAGO PARK DISTRICT	20.28	0.274	6.21	43.10	0.327
SCHOOL FINANCE AUTHORITY	6.12	0.06	0.05	17.70	0.06
BOARD OF EDUCATION	145.75	1.153	26.30	310.40	1.188
CHICAGO COMMUNITY COLLEGE DIST	11.27	0.09		24.20	0.114
CHICAGO LIBRARY FUND	4.33	0.234		11.40	0.242
CITY OF CHICAGO	55.53	3.026		118.80	3.104
FOREST PRESERVE DISTRICT	2.89	0.127		6.00	0.177
COUNTY OF COOK	13.20	0.421	0.77	32.70	0.431
COOK COUNTY PUBLIC SAFETY	7.08	0.022		14.40	0.024
COOK COUNTY HEALTH FACIL.	5.39	0.315	0.87	12.20	0.347
<b>TAX INCREMENT FINANCING DISTRICT</b>	<b>823.43</b>			<b>786.19</b>	
	<b>1,111.51</b>	<b>5.981</b>		<b>1,414.19</b>	<b>6.280</b>

happens to be within a tax code with a negative overall increment, it may be argued that this property is not actually contributing any property tax to the TIF. In the end, this is a point to consider when programming the software that calculates and prints tax bill, but it should not pose an insurmountable barrier to including TIF information in some form on the tax bill.

## *TIF and the Property Tax Bill*

There is now a bill pending in the Revenue Committee of the Illinois House, House Bill 3434, authorizing the Illinois Department of Revenue to study the feasibility of having county clerks include TIF information on the tax bill. If the bill passes, the Department of Revenue will have until April 2008 to submit its study. **We strongly urge the General Assembly to take a significant step toward establishing truth in taxation by passing HB 3434.**

## IV. Porting: How Local are TIF's Benefits?

Under the TIF Act, municipalities are allowed to transfer money from one TIF to an adjacent TIF. In TIF lingo, this is known as “porting” money. Part of the rationale for allowing cities to port TIF money is that if one TIF has earned significantly more property tax revenue than adjacent TIFs, then the more successful TIF stands to lure more development. This, in turn, is apt to yield even more property tax revenue, which can be used as an incentive to attract further development, and so on. So areas around the successful TIF, including both less successful TIFs and areas where there's no TIF at all, risk being placed continually at a economic development disadvantage. Allowing municipalities to transfer money between TIFs is an attempt to balance out some of this unevenness.

There is, then, a sound theoretical basis for taking money from one TIF and giving it to another. Nevertheless, Chicago's Department of Planning and Development insists on presenting a simpler, and not wholly accurate, version. For example:

- “...the money stays in your district, earmarked for TIF projects.”<sup>23</sup>
- “...schools, parks and other entities in the TIF district are given the opportunity to make use of TIF funds as they become available.”<sup>24</sup>
- “Since TIF funds stay in the district where they were generated, neighborhood residents benefit as TIF funds are used to pay for public improvements such as street repairs and park maintenance.”<sup>25</sup> [*emphasis added*]

To be sure, the vast majority of money earned in any given TIF has remained in that TIF. Lately, however, Chicago has been porting TIF money with increasing frequency: from 2001 to 2005, Chicago ported over \$35 million among its TIFs. These transfers, in and of themselves, are not necessarily problematic, but they do obviously confound the claim that “TIF funds stay in the district where they were generated.”

The TIF Act requires only that TIFs be “contiguous” in order to move money between them.<sup>26</sup> In order to allow for more flexible use of TIF money, the city has gerrymandered TIFs in such a way that all but a handful now border at least one other TIF, suggesting that the borders between TIFs are being drawn expressly to allow one TIF to take money from another. So while assuring residents that TIF revenues stay local, the city has been rigging the system precisely for the purpose of undermining this promise.

Consider, for example, the supposedly “local” benefit conferred by certain TIF-funded school projects. In one case, the City is taking \$18.5 million from the Midwest TIF and transferring it to the contiguous Madison/Austin TIF, where the money is being used to finance the construction of Oscar DePriest Elementary School at Chicago's western border.<sup>27</sup> The catch? No one in the Midwest TIF lives anywhere near the new school's attendance area. The Midwest TIF abuts the

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<sup>23</sup> “Tax Increment Financing: Myth/Reality,” flyer, by City of Chicago.

<sup>24</sup> “Tax Increment Financing: Myth/Reality,” flyer, by City of Chicago.

<sup>25</sup> “Tax Increment Financing: The Basics,” flyer, by City of Chicago.

<sup>26</sup> 65 ILCS 5/11-74.4-4.

<sup>27</sup> Intergovernmental Agreement between City of Chicago Department of Planning and Development and Chicago Board of Education, 24 November 2004.

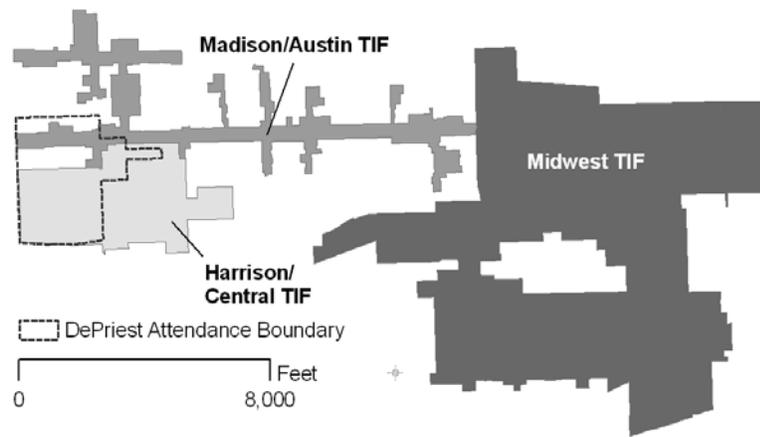
## Porting TIF Money

Madison/Austin TIF at Hamlin, nearly two miles away from the eastern edge of DePriest's attendance area. In fact the majority of the attendance area, as Figure 16 shows, isn't even in the Madison/Austin TIF, but rather in the Harrison/Central TIF.

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**Figure 16. Midwest, Madison/Austin and Harrison/Central TIFs, and the DePriest Elementary attendance boundary.**

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In another example, Mayor Daley has earmarked \$60 million from two Western Avenue TIFs in the 47th Ward for the purposes of school construction in another ward.<sup>28</sup> Alderman Gene Schulter had consulted extensively with his constituents to hammer out how the revenue expected from the Western Avenue TIFs would be spent. But as he learned last year, the mayor's \$1 billion Modern Schools Across Chicago plan, the majority of which will be funded with TIF revenues, takes precedence over the community planning process. Tens of millions of these TIF dollars stand ready to be ported from adjacent TIFs into the ones where the schools are actually sited.<sup>29</sup>

Indeed, the ability to port is now brought up by those proposing a new TIF explicitly as an argument in favor of creating it – rather than as an ancillary feature of TIF meant to mitigate competitive disadvantages suffered by parts of the city that border thriving redevelopment project areas. In one instance, the Little Village Quality of Life Plan, produced in May 2005 by the Local Initiatives Support Corporation and the Little Village Community Development Corporation as part of the New Communities Program, proposes a new Little Village Industrial Corridor TIF district. “To maximize flexibility in use of TIF funds,” the plan reads, “the new district should abut established TIFs east of Kedzie [the Pilsen Industrial Corridor and Sanitary/Ship Canal TIFs] and at 26th and Kostner.”

And at a recent community meeting, one alderman, pushing for approval of a proposed TIF, cited the prospect of being able to move money from an adjacent existing TIF. When one of the attendees noted that this adjacency would allow money to be moved just as easily *out* of the new TIF into the existing one, the alderman demurred, emphasizing that such a transfer is not part of

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<sup>28</sup> Ben Joravsky, “Whose Slush Fund Is It Anyway?,” *Chicago Reader*, 13 October 2006.

<sup>29</sup> Neighborhood Capital Budget Group, “Modern Schools Across Chicago: Will the Mayor’s Plan for Financing School Construction Work?,” p. 9.

## *Porting TIF Money*

the current plan. The questioner replied that Alderman Schulner had not planned on Mayor Daley taking \$60 million from the two Western Avenue TIFs, either. The alderman repeated his point that there were currently no such plans for the proposed TIF. But in contrast to the city's publicity materials, this alderman could not promise that the new TIF would keep all of its tax increment.

We wish to emphasize that the objection here is not to the movement of money from TIF to TIF, per se. As noted at the beginning of this section, there are legitimate reasons to allow porting. Rather, we take issue with the cunning language used to mislead community members about the true use of TIF money.

***Recommendation: Restrict the movement of TIF money by distance instead of contiguity.***

Since porting is enabled by the TIF Act, we recommend that the Illinois General Assembly amend the statute to restrict the movement of TIF money. In particular, distance should replace contiguity as the requirement for moving money. This will ensure that the TIF money targeted for development in a certain area be used either only in that area or in nearby areas that suffer, at least in part as an effect of an adjacent TIF, a relative disadvantage in their ability to lure development.

***Recommendation: Limit "portable" money to a percentage of the originating TIF's surplus.***

Moreover, we recommend that the amount of money allowed to be ported from one TIF to another be limited to a percentage of the originating TIF's surplus revenues, and that any proposal to transfer more than that amount trigger an amendment to the original redevelopment plan, subject to JRB approval, public hearings and passage by the Community Development Commission.

## V. TIF and the Availability of Information

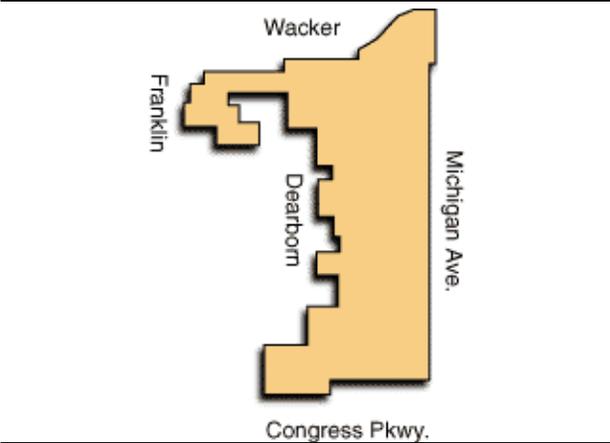
The near total lack of public information readily available on Chicago’s TIFs is, in a word, inexcusable. Reams of documentation are produced – with taxpayer dollars – every time a TIF is proposed or created. Redevelopment agreements come before the Community Development Commission in the form of staff reports written by Department of Planning and Development employees. Compliance reports mandated by the state TIF Act are submitted to the Comptroller annually. All of these documents are produced electronically. Not a single one is available from the City’s website.

What is on the website then? From the Department of Planning and Development’s main page, one can click through to the Community Development Commission’s home page. The members of the CDC are listed, along with the current year’s meeting schedule. Below that are minutes of past meetings and the agenda for the upcoming one. The first order of business at each CDC meeting is to approve the prior meeting’s minutes. Nevertheless, it takes weeks and sometimes months for DPD to post approved minutes to its website. It took several phone calls from our office to a DPD public affairs officer before the department posted the minutes from the October 2006 and November 2006 meetings. More recently, we had to call repeatedly to ask the department to post the minutes from the December 2006 through February 2007 meetings.

Elsewhere on DPD’s website, under the heading “Maps,” one can click on a link labeled “Tax Increment Financing Districts.” There one will find map images, showing only general boundaries of the city’s TIFs (see Figure 17), and providing no detail whatsoever about activity within TIF. There is also a citywide TIF map, but it is rendered at such a small scale that even making out streets is just about impossible, so the most someone reading the map can glean from it is a very rough idea of where in the city a certain TIF is located. In any event, the TIF maps have not been updated since June of last year to show the controversial \$2 billion LaSalle Central TIF.

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**Figure 17. Map of the Central Loop TIF**



Source: [www.cityofchicago.org](http://www.cityofchicago.org)

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*TIF and the Availability of Information*

The Chicago Property Finder (<http://maps.cityofchicago.org/Properties/Map.sites>) does allow the user to zoom in on a specific TIF, down to the parcel level, anywhere in the city – and this site has been updated to include the LaSalle Central TIF. But aside from boundaries, the site offers no other data on TIFs. Since TIFs are geographic development incentive areas, it should be possible to map almost all TIF activity at the parcel level, TIF-wide, or somewhere in between. Table 9 lists TIF activities by geographic level.

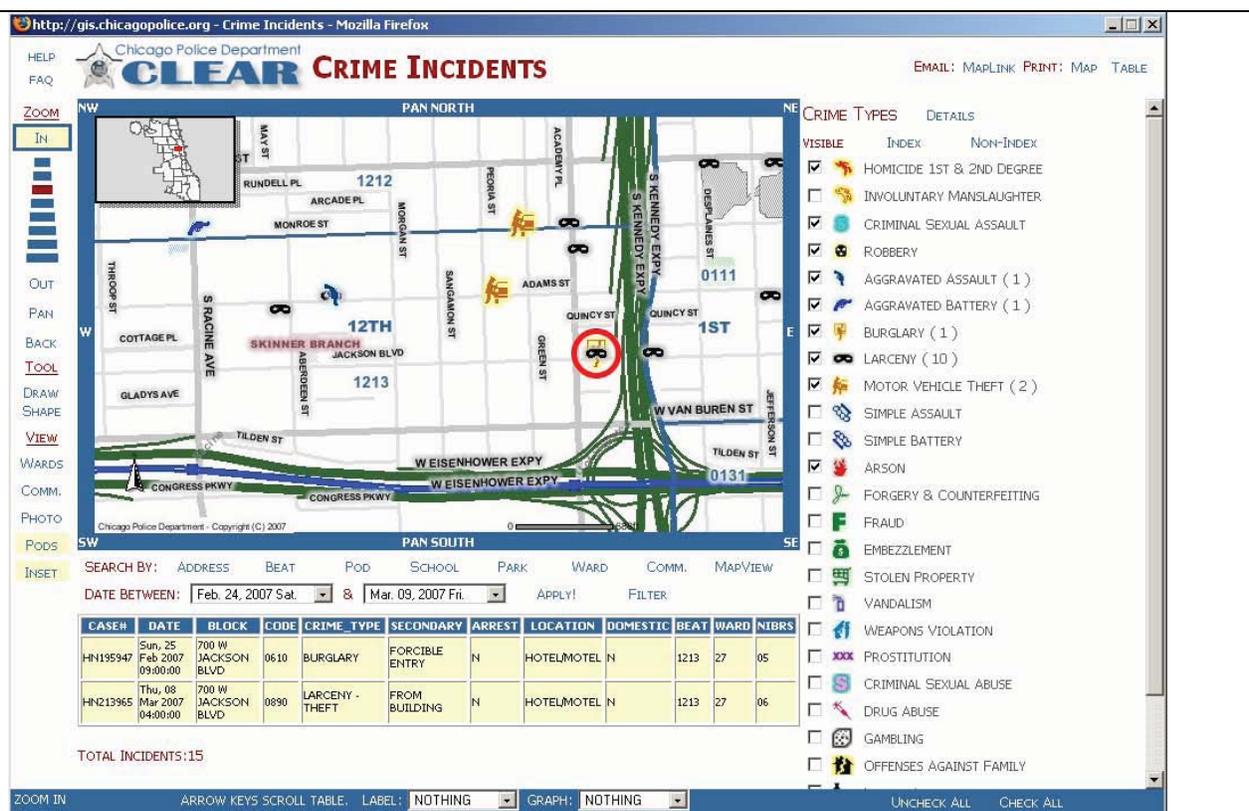
**Table 9. TIF activities by level of geography.**

Parcel (incl. multiple parcels)	TIF-wide	Other
<ul style="list-style-type: none"> <li>• Redevelopment agreements</li> <li>• Property acquisition</li> <li>• Property sales and transfers</li> <li>• Requests for Proposals (issuance, acceptance/rejection)</li> </ul>	<ul style="list-style-type: none"> <li>• Redevelopment plans (proposal, acceptance and approval)</li> <li>• Feasibility and housing impact studies</li> <li>• Amendments to the TIF</li> </ul>	<ul style="list-style-type: none"> <li>• Infrastructure improvements</li> </ul>

**Recommendation: Develop an 21st-century online TIF information portal.**

We recommend the development of an online TIF information portal worthy of a world-class 21<sup>st</sup>-century city. Such a system would allow the user, by pointing to an area of the map, to view the history of all TIF activity associated with the geography of interest. A model site already exists in the form of the very sophisticated CLEAR Map (<http://gis.chicagopolice.org>), which displays geographic information on crime in Chicago. CLEAR, which stands for Citizen Law Enforcement Analysis and Reporting, allows users to search by geography (address, beat, ward) or type of crime, and then to click on the map to display the incident’s details at the bottom of the screen. (See Figure 18.)

**Figure 18. Chicago Police Department's CLEAR Map, a potential model for an interactive TIF-mapping site.**



Source: <http://gis.chicagopolice.org>

If the CLEAR Map site were adapted to show TIF information, then, for example, clicking on a parcel might bring up the terms of a redevelopment agreement. The user could then click through for more detail, such as the terms of the original RFP; and the names of respondents and amounts of their bids. Still more clicking could open up a document viewer, allowing the user to read the original RFP, the redevelopment agreements, the relevant portion of the CDC meeting transcript, the City Council ordinance approving the agreement, and any other pertinent documents.

Prototyping and testing a dynamic, interactive mapping program of this sort would take time, to be sure. Meanwhile, we would like to see a TIF website much like that of the Community Redevelopment Agency of Los Angeles (CRALA). Each of Los Angeles' redevelopment project areas (RPAs) has its own home page. From there one can link to the RPA's plans, work programs and budgets – which are updated every year. Much of this information is presented in narrative form in addition to tables and charts, so people can read about redevelopment in plain English. Each RPA's page provides public meeting schedules, as well as links to the websites of the advisory committees and neighborhood councils that guide implementation of the redevelopment plan. (See Figure 19.)

**Figure 19. Pages from the website of the Community Redevelopment Agency of Los Angeles.**

Source: <http://www.crala.org>

Contrast this abundance of information with what Chicago makes available. Presently all information relating to redevelopment agreements in Chicago is conveyed in staff reports to the CDC, and generally DPD staffers presenting redevelopment proposals read the details aloud during the CDC meetings. But one has either to attend the CDC meetings – held at the less than convenient time of one o’clock, on the second Tuesday of the month – or make a trip to Harold Washington Library to read the meeting transcripts when they are published a few months after the meeting itself.

Even if one is after the most basic facts about TIF, one must request from DPD a CD-ROM containing the annual compliance reports. These reports, consisting almost entirely of legal boilerplate and tabular data, are saved as PDFs, but for some reason they are stored as images rather than text. This leaves two options for analyzing the data contained in these reports: manual data entry, which can take dozens of hours with nearly 150 TIF reports; or scanning the data into a spreadsheet with optical character recognition software costing upwards of \$100. Essentially, documents originally created with word processing and spreadsheet software but saved as image files must be laboriously converted *back* to their original formats. Why this should be so is perplexing, but the process one must go through just to get a minimally clear picture of TIF in Chicago requires time and fortitude average citizens simply don’t have.

Nor should they have to. For government to demand such legwork for access to public information is tantamount to shifting the burden of ensuring open, transparent governance onto voters and taxpayers – and quite needlessly, given the relative ease with this information, already in electronic form, could be shared instantaneously via the web. The Neighborhood Capital Budget Group, which fought eighteen years for equitable development and transparent,

## *TIF and the Availability of Information*

participatory government, had been posting much of this information to its website, <http://www.ncbg.org>. But NCBG's data is current only through 2004, and in any case the organization, unfortunately, ceased operations on February 1, 2007, when its funding stream ran out. (The site will remain up until at least August 1, 2007. A handful of local academic and research institutions have acquired NCBG's data. Future plans may include analyzing and publishing this data, as well as continuing to collect new TIF data.)

Besides providing current and prior TIF activity online, the city can just as easily post to its website plans and studies for proposed TIF districts. Since TIFs affect, as we showed above, all taxpayers in all local taxing entities overlapping a TIF, it follows that public input on any new TIF in Chicago should be solicited citywide – if not countywide. At present, notices of public hearings on new TIFs are mailed to property owners and residents living within a certain distance of the proposed redevelopment area.

Clearly expanding this mailing to every taxpayer in every overlapping taxing district would prove highly impractical, not to say fantastically expensive. But there is no reason why complete TIF proposal packages – which would include feasibility studies, housing impact studies and redevelopment plans as they are accepted for review by the City Council – cannot be posted to a city-run website. (A webpage for any proposed TIF would have been created once the City Council had authorized the preparation of the feasibility study.) This would accomplish two things. First, it would make it easier for residents and businesses in and around the proposed TIF to access details of the plan, and thus to base their input into the process on hard data. Second, it would afford the millions of people whose tax bills are affected by Chicago's use of TIF an opportunity to understand better the tradeoffs they are being asked to make between tax revenue for the local taxing districts – the county, the school district, the park district, the community colleges, et cetera – and tax revenue for redevelopment. This has nothing to do with the relative value one places on redevelopment vis-à-vis the services provided by the various local governments, nor is it a question of whether people will actually visit the website and download the documents. The point is that the city must make the operation of its nearly \$400-million TIF program a truly democratic process, and the first step in doing so is enabling the free flow of information.

For the city to create an information-rich online TIF resource would represent a monumental overturning of the status quo – but only because the present offerings are so meager. The number of TIFs is set to pass 160 this coming year, a sure sign that TIFs truly are “the only game in town.” It is long past time for the city to take the necessary measures for bringing the public information component of this massive program into the 21<sup>st</sup> century.

## **VI. TIF and Oversight**

Better information access alone, however, is not enough. It must go hand in hand with substantial reform to the public participation side of the TIF process. At present, public meetings and hearings are held at various points in the TIF process. The first step in creating a TIF is the preparation of an eligibility study and a redevelopment plan by a consultant hired by DPD. Once this document has been prepared, DPD sometimes holds neighborhood meetings. When they take place, these meetings are generally led a DPD staffer, the consultant who prepared the study, and the alderman in whose ward the TIF is being proposed.

After these meetings, all public review is managed by the Community Development Commission (the CDC). Comprising 15 mayorally appointed members, the CDC is charged with overseeing Chicago's TIF program, including both the creation of new TIFs and all redevelopment activity within existing TIFs. The CDC, after it accepts the eligibility study and redevelopment plan, orders the publication of a public hearing notice in a local newspaper, along with notification by mail of property owners, businesses, residents within a certain distance of the proposed TIF, as well as other interested parties. These notifications must come at least 14 days before the public hearing. The same notifications are made for individual redevelopment agreements and property transfers coming before the CDC.

This public hearing takes place at the CDC's monthly meeting, which occurs at one o'clock on the second Tuesday of the month at City Hall. For each TIF redevelopment plan, redevelopment agreement or property transfer the CDC is considering, a DPD staffer makes a presentation; sometimes consultants, developers and architects speak, as well. On occasion the aldermen in whose ward the development is being proposed will make a statement.

At this point, the chair of the CDC temporarily adjourns the regular CDC meeting and calls for a public comment period. New TIFs generally bring out commenters; it is rare for a member of the public to speak on an individual redevelopment agreement or property transfer. If a member of the public asks a question, he or she must wait for the regular CDC meeting to reconvene after the public comment period has closed to learn if a response is forthcoming.

Once the regular CDC meeting is called back to order, the CDC chair rereads questions posed by the public, which may be answered by a DPD staffer, consultant, or developer. But there is no guarantee of a response; if no one is present to answer the question, the CDC chair pledges to redirect the question as appropriate after the meeting. In any case, responses to questions posed after a CDC meeting likely have no material effect on the outcome of the CDC's vote, since the vote takes place during the meeting, notwithstanding any questions from the public that remain unanswered.

After any public questions have been reread, the chair opens up the floor to commissioners' questions. A handful of commissioners – typically the same handful each time, to judge from the CDC meetings we have witnessed – ask questions of the presenters. Finally, the chair reads roll call. Commissioners must vote yea or nay; they cannot vote absent. They may recuse themselves from the vote.

We have attended seven CDC meetings since September 2006, reviewed transcripts from a dozen CDC meetings over the past two years, and analyzed roll call records from 105 redevelopment agreements and property transfers voted on by the CDC since November 2005. We have to

## *TIF and Oversight*

conclude that the CDC functions as a rubber stamp, exercising little actual oversight. There have been 812 yeas and nays, and 16 recusals, in response to the 105 roll calls we analyzed – an average of fewer than eight responses per roll call from a commission of 15. Of the 812 actual votes cast, 808 have been yeas. Not a single one of the items that have come before the CDC since November 2005 has been voted down.

We also have to ask how seriously some of the commissioners take their obligation to oversee Chicago's \$386-million TIF program. Four commissioners have been present for fewer than half of the votes taken since November 2005. One commissioner whose name has been read during 95 roll calls has been present for just three of them.

***Recommendation: Abolish the CDC in favor of neighborhood-level oversight institutions.***

Seemingly uncritical of almost every question that comes before it and directly accountable to no one but the administration whose proposals it reviews, the CDC is not operating in the public trust. For this reason, we recommend that the CDC be abolished and that it be replaced by neighborhood-level institutions. The Chicago Public Schools have Local School Councils; the Chicago Police Department has District Advisory Committees. Because development, like education and crime, substantially affects the quality of life in our neighborhoods, TIF demands a serious public input and oversight component, as well.

## VII. Conclusion

Chicago's tax increment financing program is the proverbial "black box" – taxpayer dollars go in, development comes out, and what happens in between is for some to know and others to find out. But a government program that has taken in billions of dollars over the years should not be allowed to operate as a black box. The aim of this report has been to pry back the lid in order to provide a better understanding of how TIF really works; to point out some of the things that need fixing; and to propose concrete solutions for addressing these shortcomings.

In Section 1, the introduction, we raised the concern that municipalities using TIF – an inherently risky economic development strategy – would be likely to promote the benefits of TIF while downplaying its costs. When private companies trying to sell us toothpaste or shoes engage in this sort of behavior, we call it advertising, and implicit in all advertising is the warning "buyer beware." But should we also have to keep this caution in mind when dealing with government, which operates in the public trust at taxpayer expense?

To judge by Chicago's portrayal of TIF, the answer seems to be yes. Consider the flyer titled "Tax Increment Financing: Myth/Reality," handed out by the City of Chicago's Department of Planning and Development at community meetings about TIF:

*Myth:* TIF will increase my taxes.

*Reality:* TIF produces more tax revenue by encouraging growth in the neighborhood and expanding the tax base, but it does not change the way your taxes are assessed or change the way you pay taxes. The amount you pay increases or decreases independent of TIF, but how the money is distributed changes. Instead of disappearing into the citywide budget, the money stays in your district, earmarked for TIF projects.<sup>30</sup>

In comparing these statements with our report's findings, we can only conclude that the time to reinvent TIF is now.

The city claims that the amount of taxes paid increases or decreases independent of TIF. But as we have shown, TIF does indeed affect the property tax bill. We analyzed in Section 2 how TIF captures property value that would have come about even if TIF had never been used – value that could have been taxed by local units of government. We went on to show in Section 3 that this forces local taxing entities to raise taxes.

What about the assertion that "the money stays in your district"? As we discussed in Section 4, sometimes this is true and sometimes it isn't: the city has "ported" millions of dollars *out* of the TIF districts that earned them and *into* other TIF districts.

The city also contends that any tax revenues not taking the form of tax increment "disappear into the citywide budget" – an odd way for the city to characterize its own handling of an annual \$700 million property tax levy. In truth, of course, tax revenues don't disappear; they help the city pay

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<sup>30</sup> "Tax Increment Financing: Myth/Reality," flyer, by City of Chicago.

## *Conclusion*

the costs of infrastructure, pensions, libraries, and so on. Nevertheless, the suggestion is made that TIF is the only good thing ever to come from property taxes.

We suspect that the millions of people who benefit daily from city infrastructure and services would disagree, and we think that the same could be said for those who rely on public education, open space, law enforcement and clean water, to name a few of the government services paid for with property taxes. We feel confident saying that while no one likes paying taxes, most of us realize that they represent the costs of government – and of the benefits it provides.

Among these benefits, schools, parks and infrastructure have historically been the ones that first come to mind. But over the past several decades, economic development has emerged in its own right as a major public expenditure. In light of this, it is time to include economic development in the discussion about what we pay in taxes and what we get in return. In Chicago, this means talking honestly about TIF.

An honest discussion can only unfold, however, if all parties to the discussion are both well informed and accountable. As we illustrated in Section 5, Chicago makes public almost no information about TIF; even then, little of it is intelligible to the layperson or of much practical use for analysis. And in Section 6, we discussed the weaknesses of the oversight and public accountability mechanisms that supposedly ensure the prudent use of nearly \$400 million in property taxes.

In each section we have been critical of TIF, but we have made several specific recommendations to address these criticisms. These recommendations are aimed at actors at the city, county and state levels. Some will be technologically simpler to implement than others. Some are likely to be highly controversial. But all of them are urgently needed, and all will require a combination of political will and community activism.

The tale of two cities that is TIF continues to unfold, each new chapter threatening to widen the rift between the city that controls TIF and the governments that lose tax revenue to it, between the private interests that benefit from TIF and the taxpayers who underwrite that benefit.

We hope this report can carry the tale in a different direction. For people who hadn't ever given much thought to TIF, we hope this report makes clear the stake our communities have in its future. For those already pursuing TIF reform, we hope our findings and recommendations aid their effort. For public officials involved with TIF, we hope this report incites a willingness and eagerness to overhaul a potentially valuable but deeply flawed program. And for the taxpayers and residents of Cook County, we hope this report inspires them to demand a TIF program that is accountable, transparent and effective.