NCBG's Chicago TIF Encyclopedia

The first comprehensive report on
the state of tax increment financing in Chicago

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Executive Summary

Chicago's use of tax increment financing (TIF) over the past three years has grown at an unprecedented rate. The City now includes 69 TIF districts, 40 of which have been approved since the beginning of 1997. They cover almost 13,000 acres of land area and include more than $2.5 billion worth of property. As of June 1999, 7.7 percent of Chicago's total equalized assessed property value (EAV) is part of a TIF.

The rapid expansion of Chicago's TIF program has sparked widespread concern about the effect that this powerful tool is having on the City. Residents and small businesses fear that TIFs will be used to displace them, either by forcibly acquiring their land or by pricing them out of their own neighborhoods. Community and neighborhood groups resent being left out of the planning process entirely, particularly because TIFs have the potential to completely alter the face of a neighborhood during their 23-year lifespan. School and park advocates question whether the TIF program is cutting into the revenues of the region's other taxing bodies. Even some business leaders wonder if overuse of TIFs might have a negative effect on the City's long-term fiscal health.

At the same time, many advocates for neighborhood revitalization are hoping to make TIFs work for the economic empowerment and reconstruction of their communities. As advertised by the City, tax increment financing is supposed to be the "last" and "best" economic development tool Chicago has left. This rhetoric has fueled expectations among entrepreneurs, developers, small business owners, and taxpayers that the City's TIF program will trigger development and produce prosperity even in blighted urban areas where other government interventions have failed to do so.

Despite the wealth of questions about Chicago's use of TIFs, the City has been reluctant to provide straight answers to the public's concerns, or to engage the interest and energy of local stakeholders in ensuring major local economic improvements. This report seeks to answer basic questions about how well TIFs are performing and how the City is spending the revenue generated by TIFs. In our effort to go beyond the "conventional wisdom" about TIFs, the Neighborhood Capital Budget Group has developed a **"Community Benefit Index"** that not only analyzes the available data but also assesses the "intangibles" that largely determine who really benefits from the TIF program. The Community Benefit Index described on page 11 serves as a guiding framework for assessing the whole range of quantitative and qualitative issues that the TIF program raises.

But while this report focuses in great detail on the TIF program it is important to make clear from the outset that TIFs are only part of the picture. The fundamental challenge is finding a way to rebuild our neighborhoods. In some cases, TIFs may be a part of the solution. But under no circumstances should the push for neighborhood revitalization get obscured by an argument over the merits of tax increment financing.

The report consists of four parts:

- ✓ **Part I: Introduction.** An overview of the City of Chicago's TIF program, an explanation of the NCBG TIF Community Benefit Index.
- ✓ **Part II: Chicago's Neighborhood TIFs.** An in-depth analysis of how TIFs are affecting Chicago's neighborhoods, using the Community Benefit Index as the framework.
- ✓ **Part III: Lessons Learned From the Central Loop TIF.** A detailed study of Chicago's largest, oldest, and most controversial TIF, with special emphasis on how it affects the rest of Chicago.
- ✓ **Part IV: Recommendations for Action.** Important reforms that will help spread the potential benefits of TIFs more widely and minimize the negative effects that TIFs might have on the community.

Major Findings:

PROPERTY VALUES

Property values (EAV) are growing quickly in Chicago's neighborhood TIF districts. NCBG looked at the 36 TIF districts outside the downtown area for which there exists sufficient data to do a multi-year analysis of EAV growth. Property values grew faster than the citywide average in 81 percent of the neighborhood TIF districts that NCBG analyzed. Many of these TIFs grew at rates that far exceeded the City average.

NEW TAX REVENUES

Despite rapid growth in EAV, most neighborhood TIFs have not generated enough money to fund any meaningful development. In fact, 58 percent of the neighborhood TIFs have generated less than $1 million in new tax revenue (increment) since 1990. Most of these have generated less than $500,000 in new taxes that can be used for redevelopment. This doesn't necessarily mean that a particular TIF district won't generate more revenue in the future. *But it does mean that the TIF is a "magic bullet" that immediately generates a large amount of money of that can immediately be used for development*. Even fast-growing TIF districts take a long time to produce a meaningful amount of new revenue.

PUBLIC WORKS

The City has budgeted extremely little TIF money for public works projects in neighborhood TIF districts. Neighborhood TIFs have only funded $14 million worth of public works investment despite the fact that many communities are being told by the City that TIFs are the answer to their infrastructure needs. By comparison, downtown TIFs have been used to fund $158 million in public works projects. Downtown TIFs have also been able to take advantage of an additional $100 million of public works dollars from the City's general fund.

INDUSTRIAL DEVELOPMENT

Industrial TIF projects have produced the best ratio of private to public investment, and have created better-quality jobs with lower public subsidies than retail projects. Industrial projects have generated an average of $6 in private investment for every $1 worth of TIF subsidy, far greater than any other type of development. Furthermore, the average public subsidy for each job created or retained is *half as much* for industrial projects as for retail projects.

JOBS

Creating high-quality jobs for local residents has not been a top priority for Chicago's TIF program. Chicago's neighborhood TIFs have created 3,194 new jobs, over half of which are in the relatively low-wage retail sector. Only a handful of TIF deals specify that some of these jobs go to the local residents most in need of employment. Even less information is available about the quality of TIF-funded job training programs, though it is clear that the City is spending far less on workforce development than the TIF project budgets allow.

COMMERCIAL DEVELOPMENT

The City's commercial development strategy has focused on shopping malls and chain stores instead of traditional neighborhood commercial areas. TIF dollars have been used to construct eight large shopping malls and five "big-box" chain stores, but so far only two projects in traditional neighborhood retail districts have received funding. This commercial development strategy has generated the lowest ratio of private to public investment – just $4 of private investment for every dollar worth of TIF subsidies.

AFFORDABLE HOUSING

The number of units of affordable housing created through the TIF program lags far behind the City's need for such residences. The TIF program has created approximately 997 new units of affordable housing citywide. While residential investment has been reasonably successful in attracting a good ratio of public to private investment, the number of affordable units built with TIF dollars lags far behind the city-wide need. Some groups have estimated that there are almost 4 people in search of decent affordable housing for every one unit of subsidized housing that exists. Meanwhile, TIF subsidies have also been used to subsidize 942 units of market-rate housing.

Recommendations for Action:

FRONT-FUND NEIGHBORHOOD TIFs

The City should aggressively pursue innovative ways to front-fund neighborhood TIF districts. Many TIF districts are exhibiting rapid rates of growth in property value, but even after several years they haven't generated enough increment to pay for major redevelopment projects. In order to jump-start development in these areas, the City should look for ways to provide some up-front money for neighborhood TIFs. In some instances – particularly industrial corridors and TIFs in which a potential developer has already been identified – bond issues may be an appropriate tool. In other TIF districts, the City should coordinate existing public resources (infrastructure investments, Community Development Block Grant funds, Illinois FIRST dollars, General Obligation Bonds, public transit spending, etc.) to make key improvements that will make the area more appealing to private investors. Loans from private banks such as those being used for the pilot Neighborhood Investment Fund and Small Business Investment Fund programs may also prove to be a viable source of funding.

SUPPLEMENT, DON'T SUBSTITUTE

TIF dollars should *supplement* existing public investment in neighborhood TIF districts, not *substitute* for it. Many neighborhoods are being told that expenditures that used to come out of the City's general revenues (such as routine street repairs or sewer upgrades) now must wait until TIF dollars are available. Such an approach undermines the TIF program's goal of *increasing* public and private investment in distressed neighborhoods, not just paying for the same projects out of a different pocket. In the fledgling Small Business Investment Fund program, for example, the TIF-subsidized small business grants would take the place of programs such as façade rebate, not supplement them. Using TIF revenue to take the place of other existing revenues, instead of creating a net increase in public commitment, actually slows down the rate of investment in already needy areas.

FOSTER AFFORDABLE DEVELOPMENT FOR EXISTING RESIDENTS & BUSINESSES

The City should find ways that TIF dollars can benefit those who already live and work in the community, not just developers who come in from the outside. The City has taken its first small steps in this direction with the Neighborhood Investment Fund and Small Business Investment Fund pilot programs, but those are small-scale efforts that have yet to prove their effectiveness. As part of this shift in strategy, the City should move away from suburban-style shopping malls and chain stores and focus more on revitalizing traditional retail districts, as well as helping restore residential neighborhoods. *Keeping neighborhoods affordable for existing residents and small businesses must be at the heart of neighborhood redevelopment.*

RENEW INDUSTRIAL FOCUS

The City should harness the potential of industrial TIFs and turn it into good jobs for the Chicago residents who need it most. Industrial TIFs have been the most successful at leveraging private investment and creating good jobs at a relatively low cost to the taxpayer. Because of the success of these existing industrial TIFs, the City should find ways to jump-start the large industrial corridor TIFs that were established in 1998 and 1999.

CREATE GOOD JOBS

The City should require recipients of TIF subsidies to make *binding* agreements up-front about the number of jobs they will create, as well as the type of jobs they will be, the salaries, the benefits, and the proportion that will go to local residents. Projects that would create low-paying or "dead-end" jobs, or do not create a sufficient number of new positions relative to the amount of the TIF subsidy, should not be pursued by the Dept. of Planning and Development. If companies fail to live up to their commitments, the City should be able to impose sanctions, such as revoking all or part of the subsidy. To ensure that local residents can find and keep jobs, the City should take full advantage of the provision that allows TIF proceeds to be used for job training. The City should work with community-based job training agencies and local employers to identify sources for the front-funding of workforce development.

STRENGTHEN CITIZEN RIGHTS IN THE LAND ACQUISITION PROCESS

Citizens should have more rights in the land acquisition process when their homes or businesses are threatened by the use of eminent domain. Even members of the Mayoral-appointed Community Development Commission have complained that they have trouble getting access to the City's acquisition maps for TIF districts, and don't learn about land acquisition plans in a timely manner. Residents and businesses should be notified as soon as their property is placed on an acquisition map, even if there are no immediate plans to move forward with the acquisition. If the City does move to acquire the property, both the owner and the occupants should have more time to respond than the 15 days required by current policies. NCBG recognizes that in some cases it is necessary for the City to use its power of eminent domain to assemble land and make important projects a reality. *But the City must make decisions cautiously and limit its acquisition of occupied properties to an absolute minimum.* The Dept. of Planning and Development should focus on developing already-vacant parcels of land within the TIF wherever possible. In addition, the City should be more explicit and thorough when evaluating whether a private land acquisition is in the "public good."

CREATE COMMUNITY OVERSIGHT COMMITTEES

The City should empower Community Oversight Committees whenever it begins to contemplate a TIF designation, provide those committees with accurate and useful information, and create opportunities for direct, ongoing public participation. More input from the people who know the neighborhood the best will only improve the quality of development that the TIF program funds. The role of these committees does not end if and when the TIF is first approved. The community board should have an active role in how TIF funds are spent during its entire 23-year life. The sort of community planning made possible by such an oversight board would provide a unique opportunity to improve the quality of development that takes place with TIF subsidies while minimizing the disruptive effects of aggressive land acquisition policies and rising property values. NCBG invites the City to work with NCBG's Community TIF Task Force to devise models for such oversight bodies.

Introduction: A New Way of Looking at TIFs

Quick Facts About Chicago's TIFs	
Number:	69
Number Passed Since 1996:	40
Land Area:	12,966 acres
Property Value:	$2,567,938,400
Percent of City Under TIF:	7.7%
Tax Increment (Since 1984):	$331,785,023

Over the past three years, Chicago has witnessed an explosion in the number of TIF districts in the City. Every corner of the City has been affected. Between 1984 and the start of 1996, 29 TIFs had been approved by the City Council. Halfway through 1999,[1] the total stands at 69 TIF districts.

Along with the number of TIFs, the property value that lies within TIFs (referred to as "equalized assessed value," or "EAV") has increased accordingly. As of June 1999, $2.6 billion worth of property was part of a TIF – about 7.7 percent of the City's total property value (also referred to as "Equalized Assessed Value," or "EAV.")[2] Just about half of this amount is contained in the neighborhoods in and around downtown – an area that few consider to be "blighted." And there's no sign the City's TIF campaign is stopping, or even slowing down. The City has frequently stated that it will continue to establish TIFs, and even as this paper is being written at least four more are on the table.

But what does this all mean? The City has touted the TIF program as the last tool it has left to create jobs and promote economic development in an age of declining federal funds. Many neighborhoods groups have viewed TIFs as nothing but a thinly veiled way to accelerate gentrification, particularly because communities are frequently excluded from the TIF planning process from start to finish. At the same time, however, these neighborhoods are anxious to see an end to decades of disinvestment, and may be willing to try the TIF tool if they can have a say in how the money is spent. Several civic groups and business interests have questioned the effect TIFs will have on the City's overall fiscal health. On the other hand, most of the City's industrial councils have cautiously embraced TIFs as a way to create new jobs and rebuild Chicago's industrial infrastructure, and many neighborhood leaders have demonstrated a willingness to consider TIFs as an economic development tool provided that the community is given a voice in the process.

It is tempting to come up with a single, simple answer to the question "Do TIFs work?" But such broad, simplistic conclusions would be misleading and unproductive**. The fact is that each TIF district is unique, just as each neighborhood is unique.** Each one contains a different mixture of commercial, residential, and industrial areas. Some are in better shape than others. And every TIF district needs a revitalization plan that fits in with the specific goals, assets, and aspirations of the community.

Still, there is an urgent need for someone to take a long, hard look at how these millions of dollars in taxpayer money are being spent, who the TIF program is benefiting, and who is missing out. The complexity and size of the TIF program makes such an analysis an even more pressing concern, particularly for the taxpayers who foot the bill and the communities who must live with the outcomes of the program.

This paper strives to take a "big-picture" look at how TIFs are affecting our City, both downtown and in the neighborhoods. We first develop the idea of a **"community benefit index"** – a new way of looking at TIFs from the perspective of the neighborhoods they affect. Next, we put the community benefit index into practice, taking a detailed look at how the TIF program is performing in Chicago's

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[1] As of June 20, 1999.

[2] This is a conservative estimate. NCBG used the frozen, or initial, EAV for each TIF district rather than including the growth in property value that occurred since the TIF was created. The 1997 EAV for the City of Chicago, excluding the small portion of the City that lies in DuPage County, is $33,349,557,227.

neighborhoods. Finally, we take a look at the oldest, largest and most controversial TIF – the Central Loop – to try to evaluate what happens when the City puts the full force of its political and economic might behind a redevelopment project.

What Is a TIF?

Before we delve too deeply into answering these questions, it makes sense to pause and review what tax increment financing is and how it works. (*For a complete description of how a TIF works and the process for establishing a TIF district, please see Appendix 2.*)

"TIF" is short for "tax increment financing," a special tool that the City of Chicago can use to set aside money for economic development. TIFs may also affect how particular pieces of land are used (such as converting industrial property to residential use, or vice-versa), and they often give the City expanded powers to acquire property then re-sell it to a private developer.

TIFs are politically appealing tools because they do not require the City to increase tax rates. Instead, *a TIF brings more money into the City's treasury by raising the value of the property that is taxed*. Higher property values mean more property tax revenue for the City. All new tax revenues generated within the TIF district from the day it is created (known as the "increment") are supposed to be reinvested in the TIF district from which it came. The process has four basic steps:

1. A municipality, in this case the City of Chicago, designates an area as a TIF district. State law requires that only areas that are "blighted" or in danger of becoming blighted (known as "conservation areas") are eligible to become a TIF district.

2. The amount of tax revenue that other taxing districts (such as the Chicago Public Schools, the Chicago Park District, and Cook County) receive is "frozen" at current levels, which becomes the "base" amount. Until the TIF ends, up to 23 years later, these taxing districts will collect the same level of revenue each year equal to this base amount.

3. Any new tax revenues go toward economic development in the TIF, either through public works projects or direct subsidies to private developers. In some cases, a developer will begin a project before the new tax revenue has begun to accumulate with the understanding that the developer will be reimbursed in the future for eligible costs. These developments could include constructing new commercial areas on vacant land (such as a supermarket or a shopping center), rehabilitating older buildings, expanding a factory, or building new housing. The TIF subsidies or public works projects are paid for either by borrowing money (through the sale of bonds) or spending TIF revenue as it comes in (referred to as a "pay-as-you-go" TIF).

4. Once private development has occurred, the properties in the area become more valuable and therefore pay more in property taxes. However, instead of the new revenues being divided among all the taxing bodies, any revenue beyond the base amount goes into a special fund to pay for improvements within the TIF district. This new revenue is called the "increment." As property values appreciate, property owners in the TIF area will pay more in taxes, but they are in theory supposed to directly benefit from those increases in the form of new public improvements, a better business climate, new job opportunities, etc.

The challenge of the TIF program has been finding ways to make TIFs work for existing residents and businesses. The nature of the TIF subsidies – known as redevelopment agreements – tends to favor larger developments that allow the City to get a "big bang for its buck." The reasons for this pattern are simple. For one, redeveloping a large piece of vacant land is more likely to see large, quick increases in tax revenue than fixing up many smaller properties. After all, the taxes paid on vacant land are relatively low, so any new development is a boon to the City. Secondly, redevelopment agreements are complicated to negotiate and each one must go through the City Council. Negotiating dozens of full-scale redevelopment agreements with small businesses or homeowners is impractical, and until recently the City has made no effort to find alternative ways to help existing community members.

The City is testing two programs, however, that could bring some of the benefit of TIFs to existing residents and businesses. The programs – known as the **Neighborhood Investment Fund (NIF)** and the **Small Business Investment Fund (SBIF)** – are still in the test phase, and it remains to be seen how successful they will be or how much money will actually be available for communities. But they are a step in the right direction.

- The **Neighborhood Investment Fund (NIF)** is divided into two parts – one for single-family units (including two-, three-, and four-flats where one of the units is owner-occupied), and the other for larger, multi-family apartment buildings. The pilot program will provide $1 million in funds to each of two neighborhood TIFs: Bronzeville and Woodlawn. The **single-family program**, which will be administered by Neighborhood Housing Services, will provide grants of between $10,000 and $17,500 to make exterior repairs, as well as fix health and safety problems. To qualify, the owner must have lived on the property for at least three years. There are also some income requirements. Funds for the program will come from loans made by a group of eight banks. Those loans will be paid off with new taxes generated by the TIF districts. The **multi-family program** will be administered by the Community Investment Corporation. Loans will be for up to $50,000 , and rents will have to be affordable to people who earn no more than 80 percent of the City's median income. The grants cannot exceed $5,000 per unit of housing.

- The **Small Business Investment Fund (SBIF)** is designed to help existing small businesses located within a TIF district. It will be tested in three TIF districts: South Shore, Jefferson Park, and the Kinzie Industrial Corridor. Grants will be up to $50,000 per business, with a requirement that the grant is matched by the company. The funds can be used for exterior repairs, general rehabilitation work, and environmental clean-up. Funds for these programs have also been provided by local banks.

For more information on the NIF and SBIF, please see the fact sheet contained in Appendix 3.

What Is Success?
A Better Method of Measuring TIF District Performance

Everyone wants to know the answer to what seems like a simple question: "Do TIFs work?" Unfortunately, the answer is anything but simple, and everyone seems to have their own take on what it means for a TIF to be successful. The City has been defining success in terms of raw numbers. How much has property tax grown? How much new tax revenue has come in because of the TIF? How much private investment has been generated in the TIF?

But this sort of bean-counting doesn't answer the real questions that are on people's minds. ***Who*** has benefited from this new development? Who ***hasn't*** benefited? What types of projects were constructed? At what cost to the City? Could the City have used some other economic development tool to achieve the same results? Was this the best use of the City's time, energy, and money? **In short, what were the benefits, and what were the consequences?**

NCBG believes that the best way to evaluate the success or failure of all Chicago's TIF districts is by evaluating the effect of the TIF on the community. To that end, NCBG has developed a framework for a "community benefit index" that the City should apply to all of Chicago's TIF districts. Think of this as a simple, effective tool that your community can use to work its way through what may seem like a complicated and confusing maze of questions:

NCBG's TIF Community Benefit Index

Conventional Wisdom	Community Perspective
The TIF should result in rapid growth in property values.	The neighborhood must remain affordable for those who live and work there.
The TIF should produce as much new tax revenue (increment) as possible.	New tax revenue should be used to address the community's most pressing needs.
TIF subsidies should be used to leverage maximum private development.	Private developments should be of a high quality that directly benefits the community in which they are located.
TIF deals should help increase the profit margins of private companies.	TIF benefits should be distributed equitably, not only to private developers but also to those who live in the community – particularly those in need of employment.
TIFs should be used to fast-track development.	TIFs should be used to fast-track development that is beneficial to the community.
Has the TIF made progress toward achieving its stated redevelopment goals?	Does the TIF redevelopment plan include goals that will benefit the existing community? Do they take into account the community's own hopes and goals?
Would a TIF work?	Was a TIF necessary? What were the alternatives?

Clearly, the "conventional wisdom" and the community perspective depend on each other to a great extent. If a TIF fails to produce new tax revenues in a timely manner, for example, then there would be no funds for projects that genuinely benefit the community. Interested developers and community residents have a similar interest when it comes to investments that help fast-track development – public works projects, for example – and policies that cut through bureaucratic red tape (provided, of course, that those policies don't sacrifice opportunities for genuine public participation or undermine the rights of existing property owners). **The point is that the City should *expand* its notion of what makes a TIF successful and look beyond the hard numbers to the quality of the investment and the beneficiaries of those public dollars.**

Chicago's TIF Program – A Summary

The following table presents a brief overview of the City of Chicago's TIF program. In order to better analyze the typical neighborhood TIFs, we have divided Chicago's TIF districts into two categories: neighborhood TIFs and Central City TIFs. The eight Central City TIFs are the Central Loop, Near North, Near South, Near West, River South, Canal/Congress, Michigan/Cermak and Calumet/Cermak. These TIFs were chosen not only because they are the closest to downtown, but because the types of developments taking place in these areas follows a coherent pattern. In other words, all these TIFs contribute to the trend of creating a "24-hour downtown" with a large number of permanent residents, hotels, shopping opportunities and entertainment venues. This trend will be discussed fully in Part II.

- **Rows 1 and 2**: The number of TIFs as of July 1, 1999 and the total acreage in those TIFs.
- **Rows 3 and 4:** The total Equalized Assessed Value (property value) in those TIFs.
- **Rows 5, 6 and 7:** The amount of new tax revenue generated in these TIF districts.
- **Rows 8, 9, 10, and 11:** Data on the redevelopment agreements – specific subsidy contracts between the City and private developers – including the total TIF subsidy and the total amount of private investment contributed by the developer.
- **Row 12:** The amount of public works and basic infrastructure projects that was funded with TIF dollars.

		Central City TIFs	Neighborhood TIFs	Total
1	Number of TIFs	8	61	69
2	Acres	1,274	11,692	12,966 acres
3	EAV Under TIF	$1,304,288,503	$1,263,649,897	$2,567,938,400
4	% of City's EAV	3.9%	3.8%	7.7%
5	1997 Tax Increment	$45,944,362	$14,803,123	$60,747,485
6	Total Increment, 1990-1997	$249,883,932	$57,171,091	$307,055,023
7	Citywide Increment, 1984-1989[3]	N/A	N/A	$24,730,000
8	Number of Redevelopment Projects	24	46	70
9	TIF Subsidies to Developers (Promised and Actual)	$159,154,821	$196,399,514	$355,554,335
10	Private Investment	$1,068,522,391	$983,770,281	$2,052,292,672
11	Ratio of Private to Public Investment	6.5 : 1	5.1 : 1	5.8 : 1
12	TIF-Funded Public Works Allocations	$157,865,433	$14,028,404	$171,893,837

The implications of these figures will be discussed and explained throughout the report.

[3] Annual increment data by TIF district is not available from the Cook County Clerk's office prior to 1990. The citywide increment data is from the City of Chicago Dept. of Planning and Development, *Review of Tax Increment Financing in the City of Chicago*, July 1998, p14.

Part I: Are Neighborhood TIFs Really Working?

Each TIF district is different, just as every neighborhood has its own unique set of assets and challenges. Most TIF districts include a variety of different land uses – from residential to commercial to industrial, not to mention parks, schools, and other institutions – but no two TIFs have exactly the same mix. Some neighborhood TIFs are in areas that have endured decades of neglect, while others have experienced downturns more recently. Some neighborhoods are in worse shape than others. In some TIF districts, there are large amounts of vacant property, while others may have densely populated residential and commercial areas. All this is to say ***it is not particularly useful or logical to make broad generalizations about Chicago's TIF districts.*** Of course, there are certain aspects that affect everyone more or less equally: few opportunities for public participation, a lack of clear information from the City, an absence of written policy and implementation rules, and (in most TIFs) no up-front funding to jump-start tax increment financing development.

While TIFs vary greatly, there remains an urgent need to step back and assess where the City of Chicago's TIF program is headed and how well it has performed to date. The City has pushed to establish a torrent of new TIF districts – 40 of them in less than four years – without taking time to evaluate the program or even establish mechanisms to govern the TIFs during their 23-year lifetime. The following analysis – from the perspective of the community, and with the community in mind – is the first step.

NCBG's analysis will closely follow the questions laid out in the Community Benefit Index on page 11. The conclusions we reach apply to the TIF program as a whole. Individual TIF districts may perform better or worse.

Property Value

Conventional Wisdom:
The TIF should result in the rapid growth of property values.

It is too early to judge whether or how quickly property values are growing for more than one-third of Chicago's 69 TIF districts – they are simply too new. NCBG collected property tax information from the Cook County Clerk's Office for each of Chicago's TIF districts. Of the 69 TIFs in existence as of July 1999, the County Clerk's office has 1997 property tax information (the most recent available) for 41 TIFs (59 percent of all existing TIFs). Even many of those TIFs are too young to make definitive judgments on their performance.

When a TIF district is established, the property value is "frozen" at its current level. That is known as the **base, or initial, "Equalized Assessed Value (EAV)."** Any growth in the property tax revenue resulting from an expansion or appreciation of that base EAV after the TIF is established goes to the TIF district's own fund, not the City's general treasury.

In order for a TIF district to create substantial new revenue, the value of the property has to grow relatively quickly in the years following TIF approval.

TIF districts do not begin to create these increases in property revenue right away, however. Property values do not begin to increase until new development takes place. But new development does not tend to take place until property values have begun to grow and the TIF has already generated some new tax revenue. There are four ways out of this Catch-22, but two of them require patience, and the other two demand that someone takes the initiative to jump-start development.

Scenario #1: In most TIF districts, there is some "natural" growth in property values, though it is usually below the City average (currently about 8.4 percent per year). Over the course of several years, that natural growth will add up and create enough revenue to fund some small TIF projects or public improvements.

Scenario #2: The second option is to wait for a developer to pay for a project up front and get reimbursed by the City later. The new project will itself create more tax revenue and perhaps attract other developers to the area.

Scenario #3: If a TIF district has a significant amount of developable vacant land, a new project on those parcels will create increment quickly. But a developer must seize the initiative to propose a project for that vacant land.

Scenario #4: The City can be the one to seize the initiative by floating a bond issue to create a pool of funds that may be invested right away to support or directly subsidize development. Increment may be generated more quickly than under the first two scenarios, but the new tax revenue will already be spoken for – it must be used to pay off the bond.

Even in TIF districts where property values immediately begin to grow, there is a certain amount of delay built-in to the process because of the way the Cook County property tax system works. There are two reasons for this lag time:

- **The County only assesses – or determines the value of your property – once every three years.** (This is known as the "triennial reassessment.") If major changes have taken place between assessments, such as new construction or significant remodeling, the County performs a special assessment. But if your property has grown in value for other reasons – such as the increasing value of other nearby properties – that increase will not show up on the assessor's "radar screen" until the next reassessment takes place. In a an area where real estate is rapidly appreciating in value, that reassessment can mean a significant amount of new property value and, therefore, new tax revenue. But the City must wait for the reassessment to take place before it will see those new tax dollars.

- **In Cook County, there is a one-year delay between the "tax year" and the "collection year."** In other words, in 1998 (the "collection year"), you are paying your property taxes for 1997 (the "tax year"). This introduces another element of delay before TIF dollars are actually available for redevelopment.

The day-to-day realities of the tax system present a very important lesson for those who are anxious to see TIFs produce money for redevelopment. Even if TIFs immediately trigger the growth of property values, there is a lag time of several years before anyone sees any of that "new" money. TIF designation does not mean instant access to capital. Unless the City chooses to issue a bond at the same time it creates the TIF, there is no new money for redevelopment on Day One of the TIF, and probably not for several years thereafter.

TIFs cannot be considered a "magic bullet" that suddenly fills the redevelopment coffers with cash. In most TIFs, citizens must wait several years or more before they see substantial amounts of revenue for redevelopment.

How Do We Compare the Growth Rate of Various TIF Districts? As noted before, each one of Chicago's TIF districts is unique. Making meaningful comparisons and drawing general conclusions, therefore, requires careful analysis. NCBG has attempted to adjust for three major differences in our assessment of the TIF program: size, age, and proximity to downtown.

Proximity to Downtown: The question on the mind of most communities is how well do the neighborhood TIF districts perform compared to the TIFs downtown. To help answer this question, NCBG has developed a list of eight "Central City" TIFs located in or around downtown (see sidebar). Because Calumet/Cermak, Canal/Congress, and River South were created in mid- to late-1998, they have not yet created any increment and have been excluded from this analysis. Some may want to add Pilsen, Chinatown, Roosevelt/Canal, and the proposed Roosevelt/Union TIF to this list. We have chosen to limit our definition to the eight TIFs closest to downtown, though we acknowledge that residents and businesses in other areas have valid concerns that the "Central City" redevelopment trend may soon reach their neighborhoods

"Central City" TIFs

Central Loop
Near South
Near West
Near North
River South
Michigan/Cermak
Calumet/Cermak
Canal/Congress

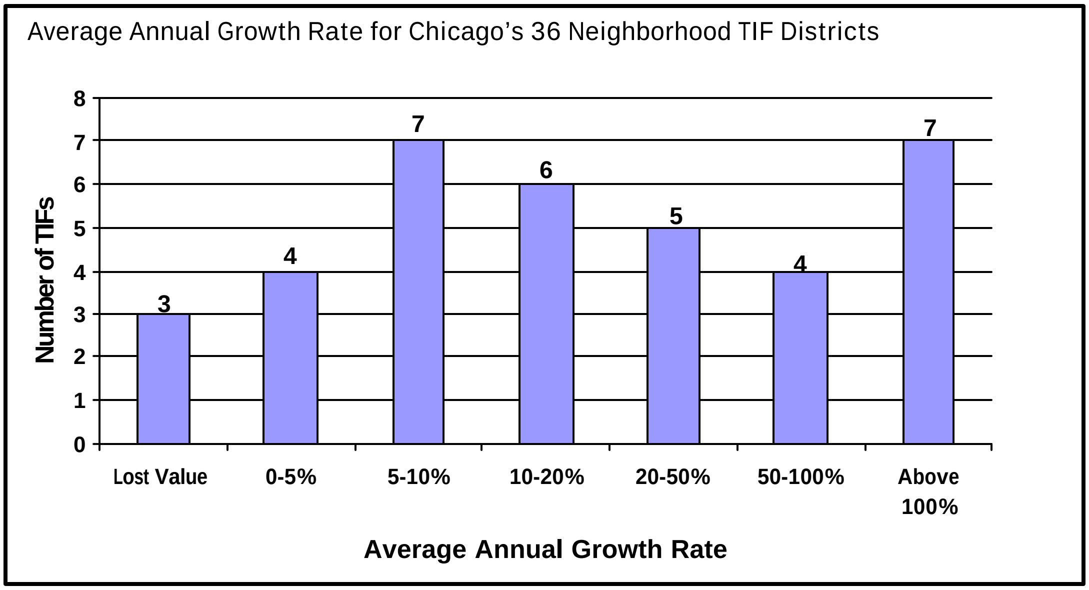
The eight Central City TIFs have many similarities, most notably that they support Mayor Daley's effort to create a "24-hour downtown" through high-end residential, hotel, entertainment and commercial ventures. Many of these TIFs – particularly the Central Loop, Near South, Near West, and River South districts – are substantially larger than the average TIF district. The Central City TIFs also share an element that cannot be fully quantified: political will. Mayor Daley and other City officials have stated on numerous occasions that downtown is Chicago's true economic engine. With that view in mind, the City tends to take extra measures to make these TIFs work that may not be extended to the lower-priority neighborhood TIFs. Finally, all of the Central City TIFs have been controversial. Many neighborhood leaders have questioned whether these downtown areas are truly blighted and should be eligible for TIF designation. Separating these downtown TIFs from our analysis allows us to get a better idea of what is really going on in Chicago's neighborhood TIFs.

Eliminating the Central City TIFs leaves us with a total of 36 neighborhood TIFs to analyze.

Size: Chicago's TIF districts range in size from as small as three acres to as large as 1,200 acres. The tiny West Grand TIF (3 acres) cannot have as large an increase (in dollar terms) as the much larger Northwest Industrial Corridor TIF (at 1,200 acres). To control for such extreme variations in size, NCBG measured the **percent change** in property value between the time the TIF was approved and the 1997 tax year.

Age: Some of Chicago's TIF districts are significantly older than others. The City's first TIF was established in 1984. By the end of 1995, 28 others had been designated, bringing the total to 29. Since the start of 1996, 40 new TIFs have been added. To account for these differences in age, NCBG has calculated an **average annual growth rate** that measures the typical yearly increase in property values between the time the TIF was first established and the 1997 tax year. For example, an average annual growth rate of 100 percent would mean the property value of the TIF district doubles each year. By way of comparison, the citywide growth in property value (EAV) was 5.7 percent in 1996 and 8.4 percent in 1997 (the year of the last triennial reassessment). Since 1984, when Chicago adopted its first TIF, the average annual citywide growth in EAV has been about 6 percent per year.

We found that property value in most of the 36 neighborhood TIF districts for which there is sufficient data to make the calculation *tended to grow faster than the citywide average*. In fact, 29 of the 36 neighborhood TIFs (81 percent) have grown at or above the City average of 6 percent.



Some of the increases are quite dramatic. In the Roosevelt/Canal TIF, for example, the property value increased by over 9,000 percent (90 times its original value) in a single year. Several other TIFs have experienced similar jumps. **These sudden leaps in property value are generally because the TIF district contained large amounts of vacant land that was quickly developed**. In the Roosevelt/Canal TIF, for example, the entire 23-acre TIF was originally valued at just $19,452. Soon after the TIF passed, the City Council approved a redevelopment agreement that authorized construction of a 98,000 sq. ft. shopping center, including a Dominick's supermarket. That project, built with the help of a $4.5 million City subsidy, attracted almost $16 million in private investment. By 1997, the assessed value of that vacant lot had jumped to $1,787,728.

Exceptions to the Rule: Several TIFs actually lost value in the years since the TIF districts were established. The 126th/Torrence TIF, for example, has declined by an average of more than 23 percent per year since it was established in 1994. Its base property value is $3,424,375, but in 1997 the property was assessed at just $1,011,446. The value of the Bloomingdale/Laramie TIF also declined, an average of about 11 percent per year, after dangerous vacant buildings were torn down without any replacement projects. The property value of the 35th/Halsted TIF has declined by an average of 10 percent per year since its establishment in 1997.

The other neighborhood TIFs that have grown more slowly than the City's 6 percent average in the time since they were originally established are: 73rd/Kedzie (0.8 percent), West Grand (2 percent), Addison Corridor North (3.8 percent), and Howard/Paulina (4 percent). It should be noted that at least three of these TIFs soon will see a major turnaround. The Gateway Plaza project in the Howard/Paulina TIF has broken ground, and Nabisco is in the process of making major investments in the 73rd/Kedzie TIF. And in the 35th/Halsted TIF, the City Council has recently approved a pair of industrial projects that should start generating increment.

Growth Rates May Slow: The high rates of growth that many TIF districts are experiencing may be somewhat misleading, however. In the Roosevelt/Canal TIF, for example, all 23 acres were purchased by a single developer. There is no more land to build on, so the City can't look forward to any more of these huge, sudden jumps in value. In fact, when the land was reassessed in 1997, the value of it actually declined 17 percent from the previous year – from $2,152,408 to $1,787,728. This phenomenon holds true for all of the City's TIF districts.

Once any vacant land is developed – the "easy" projects with a large, quick return – then it becomes much more difficult to squeeze out incremental gains through in-fill development or rehabilitation of existing buildings.

In some of the older TIF districts, we can already begin to see growth slowing or stagnating. NCBG looked at the change in assessed value *between tax years 1996 and 1997* for the 10 TIFs that have been in place since 1990 or before. Of those 10 TIFs:

- Four TIFs grew at rates above the long-range citywide average of 6 percent (Chatham Ridge, Englewood Mall, Howard/Paulina, and Roosevelt/Homan). Howard/Paulina is an interesting case because for most of its lifetime, it has been an underperforming TIF in terms of EAV growth. However, the growth rate increased significantly between tax years 1996 and 1997. This increase immediately preceded the issuance of a bond for the Gateway Plaza project.
- One (the Stockyards Industrial-Commercial TIF) grew but at a rate slightly below the citywide average.
- Four TIFs actually had a 1997 valuation that was below their peak value (95th/Stony Island, Chinatown Basin, Edgewater, Ryan Garfield, and West Ridge/Peterson).

The three oldest Central City TIFs (Near West, Near South, and Central Loop) are harder to analyze because they include recent amendments that substantially increased the number of acres within their boundaries. Still, the same pattern emerges if we look at the years immediately before they were amended. Just before the North Loop was expanded to include the Central Loop, the growth rate had slipped to just 0.4 percent per year. The Central Station TIF was actually losing value relative to its base EAV just prior to its expansion into the Near South TIF. Only the Madison/Racine TIF (now known as the "Near West" TIF) was on the upswing at the time it was amended.

Conclusions:

- **The majority of TIF districts, particularly those with significant amounts of vacant land targeted for redevelopment, are showing increases in their property value.**
- **Over time, many of the older TIF districts have seen their growth rates slow significantly. Some have even had their property values begin to shrink.**

Community Perspective:
The neighborhood must remain affordable for those who live and work there.

No issue has been more controversial among the residents and businesses within TIF districts than the question of displacement. The question takes many forms.

- ✓ Will the City buy my home or business and tear it down to make way for new development?
- ✓ Will the City subsidize a new shopping mall that will drive my small business into bankruptcy?
- ✓ Will the neighborhood change so much that I no longer want to live or work here?
- ✓ Will my neighborhood become too expensive for me to afford?

Concerns over displacement divide into two main categories:

Gentrification: Everyone wants to see their neighborhood improve. They want to see their sidewalks fixed, and vacant lots cleaned up and rebuilt. People want easy access to the basics of good city living such as grocery stores, safe streets and quality housing. TIF districts are supposed to help provide these things, yet news of a TIF often provokes angry reactions among residents and small businesses in the proposed district. Their concern is understandable. People have seen what has happened in the TIF districts in and immediately surrounding the Loop, where TIF subsidies have been the driving force behind the construction of hundreds of high-priced condominiums and lofts. Neighborhoods on the Near West, Northwest, and Southwest Sides – Pilsen in particular – are justifiably afraid that mainly "high-end" development will come to their communities, price them out of the market, and force them to search for a new place to live. Once they are given information about tax increment financing, most community residents "get it" – TIFs are used to drive up property values. But despite these widespread fears, City officials have yet to make a concerted effort to address citizen concerns and search for solutions.

TIFs work under a simple principle: higher property values create more money for development. Those taxes must come from somewhere. Often, a large portion of those taxes comes from the development of vacant land. But even that type of development may have consequences for those who live and work in the immediate vicinity. A revitalized commercial district, for example, may make nearby residential areas more attractive and, therefore, more expensive.

The fact is, some of the property tax burden will fall on residents and businesses who have not received direct TIF subsidies.

Depending on the types of projects that were constructed, they may not have received any benefit from the TIF at all. For example, if a new shopping mall doesn't employ local residents in good jobs or provide services that the neighborhood wants or needs, then local residents and businesses do not derive any benefit from the TIF project. In fact, existing small businesses may be hurt by competition from out-of-town chain stores. The mere fact that a development was built does not automatically signal benefits for the community.

The City does not have a policy or procedure to evaluate the impact of TIFs on long-time residents or small businesses. Nor does the City release data on many key elements that would help citizens determine for themselves the impact of TIFs on their personal "bottom line" such as:

- How many people were displaced by TIF districts?
- How many occupied buildings were torn down, and for what purpose?
- How much did property taxes increase for those who live near new, TIF-funded developments?

NCBG recommends that these items become routine parts of the City's annual TIF reports. Even more importantly, the City should do more to build protections for existing residents and businesses into the original TIF plan. Some North Side residents recently won an initial victory in the redevelopment plan for the Clark/Montrose TIF. **After substantial community pressure, the City's Dept. of Planning and Development agreed to include a provision to "encourage investment in properties in which commercial and/or residential rental rates or purchase prices are maintained at affordable levels."** Similar provisions need to be included in every redevelopment plan, and they need to be given teeth so that the public can hold the City accountable for meeting those goals. (For a full discussion of affordable housing guidelines, see page 30).

Land Acquisition: At virtually every meeting of the Community Development Commission, a resident or business owner stands to testify about a notice he or she received in the mail stating that the City of Chicago was going to buy their property. There was no choice about it – the City was going to buy their home or business, and in most cases, turn around and sell the land to a private developer.

The idea that the City can force a private citizen to sell their land – known as "eminent domain" – is completely legal as long as the City follows certain basic steps. Eminent domain allows the City to forcibly purchase private land for a "public purpose," provided that the property owner is paid "fair market value" for the land. In the past, eminent domain was generally used for projects such as expressway construction, rights-of-way for transit lines, or major municipal or government buildings (such as the University of Illinois at Chicago). In recent years, in large part because of the TIF program, eminent domain has been expanded to facilitate private development projects. The City's rationale for these uses of eminent domain is that new development revitalizes the community and is therefore a "public benefit."

> Land Acquisition in Chicago's TIFs
>
> ✓ Land acquisition is planned or has already occurred in **at least 37 of the City's 69 TIF districts** (54 percent).
>
> ✓ The City Council **approved 28 TIF-driven land acquisitions** during 1998 and 1999.
>
> ✓ **The rate of land acquisition appears to be increasing.** In 1997, the City only approved one land acquisition in a TIF district.

But the idea that the government can force private individuals to sell their property rubs most people the wrong way. That's not to say there are no legitimate uses for eminent domain. It can be a valuable tool for cracking down on slumlords who let their vacant lots or buildings become dangerous blights on a community. The City's role in assembling many small parcels of vacant or underused land can be the driving force behind a jobs-producing industrial project, a new school, or another major project with the potential of benefiting the community. Of course, eminent domain is also the quickest way to clear occupied land for the benefit of private developers. It tends to favor large-scale projects such as shopping malls or market-rate housing subdivisions. Because the City's written policy on land acquisition does not contain the due process safeguards and public participation provisions that should be required of such a powerful tool, the City is able to move very quickly to take land.

It is difficult to collect data on how much land has been acquired through the use of eminent domain in Chicago's TIF districts, or even how much property is contained on the "acquisition maps" that some TIF districts have. In the absence of clear data from the City, NCBG employed three strategies for beginning to gain an understanding of the extent of the City's TIF-fueled land acquisition efforts:

- Through looking at redevelopment agreements provided by the Dept. of Planning and Development, past agendas of the Community Development Commission, and City Council records, NCBG determined that **acquisition activity is planned or has occurred in at least 37 of the City's 69 TIF districts (54 percent).** This figure is almost certainly too low because of inconsistencies in the City's reporting procedures.
- Through examining the City Council *Journal of Proceedings*, NCBG identified 28 TIF land acquisitions that have been approved by the City Council in 1998 or

1999 alone in 17 separate TIF districts. Some of these acquisitions included multiple parcels of land, though it is difficult to determine through the City Council records exactly how many parcels were acquired. It appears the pace of land acquisition in Chicago's TIF districts has increased significantly. In 1997, the City Council only approved one TIF-driven land acquisition resolution. In 1998, the number climbed to 18, and through May 1999 the number stands at 10.

- Every TIF has money budgeted for land acquisition, demolition, or site preparation. These activities are generally grouped into a single category when the City puts together a redevelopment plan budget, so it is difficult to determine exactly how much is planned for each activity. But it is fair to say that all those categories indicate that land is being acquired or existing buildings torn down. The land acquisition/demolition/site preparation budget for all 69 TIFs is about $1.4 billion, with $734 million of that total in the 61 neighborhood TIFs. This raises another important point, however: **not all of this land acquisition will be done by the City through the power of eminent domain.** Often, private developers acquire the property on their own, then are later reimbursed for some or all of their costs with TIF dollars.

The City of Chicago has a very aggressive building demolition program funded with a combination of federal Community Development Block Grant and local bond monies. Between 1999 and 2002, the City of Chicago plans on spending $42.5 million on "hazardous building clearance," according to the City's 1999-2003 *Capital Improvement Program* document. By comparison, the CIP reports that the City only plans on spending $1.8 million during that same period on the façade rebate program, which is aimed at business owners to fix and improve their properties. When used in TIF districts, this building demolition money essentially becomes another source of "front-funding" TIFs. Once the sites have been cleared of buildings, it is easier for a developer to come in and build on the property. If the demolished buildings were truly blighted and abandoned structures, these funds may be a creative way to spur development even in areas that have yet to produce significant amounts of new increment. But if the money is used to drive displacement of existing residents and businesses, then it raises grave concerns about who really benefits from the TIF program.

The Community Development Commission and the Dept. of Planning and Development are starting to make some small, incremental changes in how they exercise their authority over eminent domain proceedings.

- In September 1998, the CDC passed a new land acquisition policy that made minor reforms. For the first time, the policy put public notification policies in writing, including provisions that residents and businesses must be informed by certified mail at least 15 days prior to the CDC meeting at which the land acquisition will be considered. The policy also requires DPD staff to provide a report to commissioners at least four days ahead of the CDC meeting detailing any land acquisition proposals. Finally, the policy requires the City to wrap up any land acquisition activities within four years of its initial offer or stated intent or remove the property from the acquisition map.[4]
- At the May 22, 1999, CDC meeting, commission members compelled the planning department to halt their acquisition and demolition of two properties in the Central West Redevelopment Project Area, a non-TIF redevelopment area located bounded by Madison, Damen, Van Buren, and California. One of the properties was being rehabbed by a new owner, and the other belonged to a church that was scheduled to begin construction on its new home in the next several months. This was a recent example of a chronic problem – the "left hand" of government not knowing what the "right hand" was doing.

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[4] City of Chicago Community Development Commission, "Statement of Acquisition Policy, Sept. 8, 1998.

- DPD Deputy Commissioner Lori Healey, who oversees the City's TIF program, admitted to a June 12, 1999, forum sponsored by NCBG that the City was looking for new and better ways to inform residents promptly of any plans to acquire land. Currently, the City uses certified and regular mail and draws the list of names from the list of registered property owners, but Healey acknowledged that many affected people still fall through the cracks.

Conclusions:

- **The problem of displacement cuts to the heart of who wins and who loses as a result of the TIF program.** TIFs may represent potential benefits for those who live and work within their boundaries, but rising property values and the growing use of eminent domain also means real risks for those who find themselves in a TIF.
- **The inevitable result of TIFs – in fact, the very mechanism by which they work – is rising property values.** In order to ensure that TIFs remain affordable for those taxpayers within the TIF, it is vital that the program also increase the purchasing power for those who must indirectly pay for these higher taxes even if they don't receive direct TIF subsidies. For small business owners, that means finding ways that the TIF can make them more profitable so that they can share in the new wealth. For residents, that may mean creating more and better jobs, keeping rents affordable, finding ways to blunt sudden increases in property value, and other mechanisms to ensure that as many people as possible benefit from the TIF.
- **Displacement – whether through forced land sales or rising property taxes due to rapid appreciation of property values – is probably the single biggest source of mistrust between the public and the City's TIF officials.** If the City really wants citizens to "buy in" to the TIF program, then it must take strong steps to reverse the breaches of trust that have resulted from TIF-driven land grabs and property tax increases. Better information about land acquisition plans and effective programs to direct TIF benefits to existing residents and businesses are clearly needed.

Tax Revenues

Conventional Wisdom:
The TIF should produce as much new tax revenue (increment) as possible.

One of the most frequently heard criticisms of the TIF program is that only the downtown TIFs are producing tax revenue, while the neighborhood TIFs are lagging behind. Many of the neighborhood TIFs were passed so recently that they haven't yet had a chance to prove whether or not they will be able to generate new tax dollars, so we are leaving those out of our analysis for the time being. Instead, we will focus on the 36 neighborhood TIFs that reported tax increment data to the Cook County Clerk's office for 1997. These are the older TIFs that have had at least one year to generate new tax dollars, though it is important to note that many of these are still fairly new.

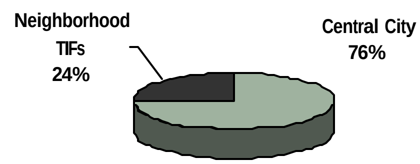
[**Note:** Growth in property value is very closely tied to the creation of new tax revenue. Please see the previous section on property value for a full discussion of the delays inherent to the Cook County property tax system that affect how and when increment is created.]

NCBG compared the 36 neighborhood TIFs with the Central City TIFs (only five of which are old enough to include sufficient data for analysis). NCBG found:

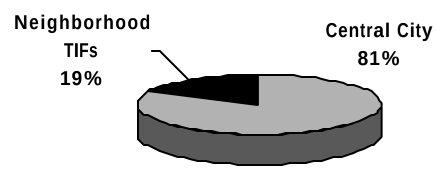
New Tax Revenue (Increment), Neighborhood and Central City TIFs

	1997	1990-1997
Central City	$45,944,362	$249,883,932
Neighborhood TIFs	$14,803,123	$57,171,091
Citywide Total	$60,747,485	$307,055,023

1997 Increment



1990-1997 Increment



For the 36 neighborhood TIFs in this analysis, **NCBG found that neighborhood TIFs have generated $57.2 million in tax increment since 1990,** 19 percent of the total increment generated during that time.

While 19 percent seems very small, it is important to understand that these TIFs represent a small portion of the total property value under TIF. In fact, the base property value of these 36 TIFs is approximately $302.9 million – 20 percent of the total base EAV of our sample. looked at this way, neighborhood TIFs are generating roughly the share of increment that one would expect.

Are Neighborhood TIFs Creating Enough Money for Development? Looked at in the big picture, it appears that neighborhood TIF districts are creating about as much new tax revenue as could be expected, given the proportion of the property tax base they represent *But that number means nothing unless there is enough real money in the bank to move forward with the first major development project.* On that account, most neighborhood TIFs are performing poorly.

The TIF development process relies on a certain "critical mass" of money in the bank before development can really begin to happen. To put this idea into context, picture a person saving to buy his or her first home. The person puts a little more money in the bank each year, and slowly the account balance begins to grow. But until there is enough money is the bank to make the down payment, the person cannot buy a house. No major investments can be made with TIF increment until that account balance reaches a certain level – what we are calling the "critical mass."

The success of a TIF district also depends on having "money in the bank." Each tax year, property values grow, more new tax revenues are generated, and the balance in the TIF account grows a little bigger. But until there is enough money to make a major investment – whether that means a public works project or a developer subsidy – nothing is likely to happen.

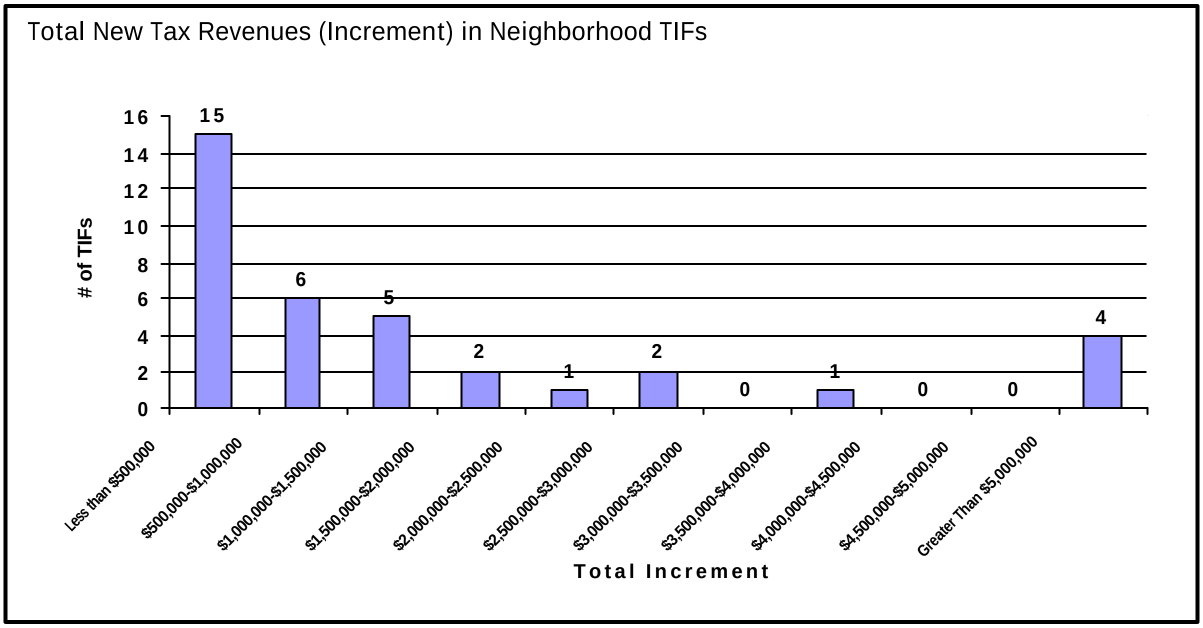
But how much money is needed before a TIF district achieves that "critical mass"? Of course, every TIF district will be somewhat different, so the amount varies from place to place. In some areas where the market is favorable to development it may be possible to attract a developer who is willing to wait to get reimbursed until TIF funds become available. But those developers are few and far between – most want to see at least some money up-front before they launch a major project. *The average developer subsidy for projects outside the Central Loop TIF is quite large – about $3.8 million.* Not all of that money has to be paid up-front, of course. In fact, only five neighborhood TIF districts have generated $3.8 million or more during their entire lifetimes.

More important than developer subsidies, however, is the amount of money available for public works projects in the TIF, especially now that many neighborhoods are being told that the TIF is the answer to their infrastructure needs. The cost of public works projects adds up quickly:

- Resurfacing a major street costs $2.5 million per mile.
- Improving an industrial street costs $300,000 per block.
- Increasing viaduct clearance – a crucial concern in the City's industrial corridors – costs $1.25 million.
- Commercial area streetscaping costs $200,000 per block.
- Sewer replacements cost $275,000 per block.
- Water mains cost $100,000 per block.
- Residential street resurfacing costs $19,000 per block.[5]

[5] City of Chicago Office of Budget and Management, "Typical Project Costs," 1998.

NCBG found that 21 of the 36 TIFs – 58 percent – have generated less than $1 million in total increment since 1990. Of those, five TIFs have raised less than $100,000 in increment, including one TIF – 126th/Torrence – that has never generated even a penny since its creation in 1994. The following chart shows how well the neighborhood TIFs have done in producing new tax revenue:



How is it possible that neighborhood TIFs are growing fairly quickly yet not producing much new tax revenue? For one, many of these TIFs are relatively new – 9 of the 36 we looked at are 2 years old or younger, and 13 are three years old or less. Perhaps in a few years, they will have generated more money. Secondly, many of these TIF districts are relatively small – 20 TIFs are 40 acres or less. This means that the City has to wait for just a handful of parcels to begin creating revenue through "natural" growth in property value before any money is available for redevelopment. Many of the newer TIFs created in 1998 and 1999 are much larger – some 1,000 acres or more – and are therefore likely to generate increment more quickly.

Still, the fact remains that the City does not have much cash to put on the table when it comes to negotiating with a developer, and not much money in the bank when it comes to making the types of infrastructure improvements that would make the TIF more appealing to private investors. These TIFs may generate new revenue in the years to come, but it must be made clear that in most instances, communities will have to wait at least several years to see real development dollars.

Do TIFs Really Create New Revenue? Looking at the amount of new tax revenue generated by all the City's TIF districts, it appears that the TIF program has generally been successful in creating (or at least capturing) new tax dollars. Determining if these tax dollars are really "new," however, can be difficult.

By law, TIFs are only supposed to be established in "blighted" areas where there would be no (or very little) growth in property values without the TIF. Where TIF districts rigorously conform to this standard, then it is fair to say the TIF has "created new tax dollars." In some cases, however, a portion of the growth may have taken place even without the TIF. If the TIF hadn't been in place, those funds would have gone to the City's general treasury instead of being "captured" by the TIF fund. In these cases, the City's general treasury and the other governmental bodies authorized to levy property taxes (such as parks and schools) may not have access to tax money they would otherwise have received. Measuring how much money has been diverted from the Chicago Public Schools, the Chicago Park District, and other taxing bodies is very difficult, in part because it involves second-guessing the intentions of developers. Still, as will be described in Part III, it seems safe to say that at least in the Central Loop TIF expansion, some of the TIF-funded development would have taken place even without the TIF. Quantifying the amount of money that has been diverted from other taxing bodies is crucial, however, to evaluating the true costs of the TIF program. If these costs are too high, the TIF program must be scaled back or other revenue sources must be found to make up other governmental bodies' budget shortfalls.

Conclusions:

1. **Overall, neighborhood TIF districts are generating about the share of new tax dollars that could be expected, given their proportion of the land value under TIF.**
2. **TIFs are not a "gold rush."** Well over half of all TIFs have generated less than $1 million in new tax revenue for development. It takes time for most TIF districts to generate sufficient revenues to move forward with a major redevelopment project. The public's perception and expectations about the potential powers of TIF to generate new revenue need to be tempered by the reality of TIF performance. In other words, there isn't as much money, nor does it materialize as quickly, as some citizens and elected officials may have been led to believe.

Community Perspective:
Private developments should be of a high quality that directly benefit the community in which they are located.

NCBG is able to identify 46 redevelopment agreements approved for the 36 neighborhood TIF districts analyzed in this study. These deals have benefited from about $193 million in TIF subsidies and have attracted approximately $984 million in private development. That translates into a ratio of just over $5 worth of private investment for every dollar worth of TIF subsidy.

Importantly, these redevelopment agreements are not concentrated in a handful of TIF districts, but spread across 32 of the 36 neighborhood TIFs in our sample. That leaves just four neighborhood TIFs in our sample without a redevelopment agreement approved by the City Council. Of those four – 126th/Torrence, Bloomingdale/Laramie, Englewood Mall, and Stockyards Annex – only one, Stockyards Annex, is less than four years old. The Englewood Mall TIF is the oldest of the group, having passed the City Council in November 1989.

While neighborhoods should be concerned that so many TIFs have generated less than $1 million in new revenue, communities should take some encouragement from the fact that most of these TIFs so far have managed to attract at least one developer even in the absence of ready cash in the TIF fund. In other words, developers are coming into TIF districts even before they have begun to generate increment. However, this finding has its own set of consequences:

- **Future incremental tax revenue has already been spoken for.** Developers are paying all of their expenses up-front and out of their own pockets. They expect to be reimbursed for many of these expenses as soon as the money becomes available. Until those promised subsidies are paid, the developer has first crack at any new tax dollars.
- **Public works projects and job training programs must take a back seat.** If new tax dollars go directly to developers first, then there is an even longer wait

before there is money in the TIF fund to pay for public works projects or job training initiatives.

What types of projects have been constructed? Ultimately, the quality of the TIF-subsidized development will have the longest-lasting effect on the communities within a TIF district. Even if a TIF district rapidly creates millions of dollars in new tax revenues, those new funds mean nothing if they are spent in ways that fail to benefit the community.

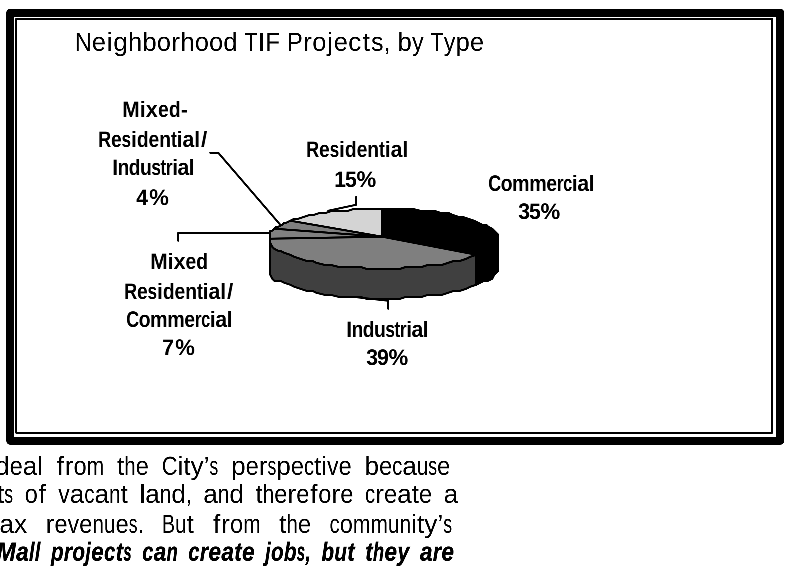
For the 61 neighborhood TIFs (including those approved in 1998 or 1999 for which no data exists on property tax growth), the redevelopment agreements break down as follows:

Project Type	# of Projects	Private Investment	TIF Assistance	Private : Public Ratio
Industrial	18	$636,458,688	$105,620,653	6 : 1
Commercial	16	$209,297,217	$52,169,290	4 : 1
Residential	7	$85,631,180	$14,690,579	5.8 : 1
Mixed-use Residential/Commercial	3	$48,451,563	$14,311,240	3.4 : 1
Mixed-use Residential/Industrial	2	$3,931,633	$6,456,352	0.6 : 1
Totals	**46**	**$983,770,281**	**$193,248,114**	**5.1 : 1**

In general, the City tries to limit the amount of the TIF subsidy to no more than 20 percent of the total project cost. That translates into a ratio of $4 worth of private investment for every $1 worth of public subsidy. By this measure, industrial and residential projects far exceed this target ratio, commercial projects fall at exactly a 4:1 ratio, and mixed-use residential/commercial and residential/industrial projects fall below the target ratio. The remainder of this section takes a detailed look at developments in each of these categories.

Commercial Development: Judging from the types of TIF projects the City chose to fund, it is clear that the Dept. of Planning and Development has favored shopping malls and "big box" retail development over traditional urban commercial districts:

- **Shopping Malls:** TIF dollars are being used to construct eight major shopping malls in the City of Chicago, one each in the Edgewater, Ryan Garfield, Roosevelt/Canal, Howard/Paulina, Irving/Cicero, Stockyards Industrial-Commercial, 95th/Stony Island, and North/Cicero TIFs. All but the Edgewater mall project are anchored by grocery stores. These eight projects have received $28,340,000 in TIF subsidies while generating $132,091,531 in private investment – a ratio of $4.7 in private investment for each dollar of TIF subsidy. According to the City of Chicago's June 30, 1998, annual reports, these projects have created or will create 1,095 new jobs (though data is not available for every project).



Shopping mall projects are a good deal from the City's perspective because they are typically built on large tracts of vacant land, and therefore create a sudden and dramatic increase in tax revenues. But from the community's perspective, they are a mixed bag. ***Mall projects can create jobs, but they are typically low-wage retail positions, often part-time, and frequently don't pay benefits.*** The City's data gives no insight into the type or quality of these jobs. The owners of these projects often live out of state or are part of a national chain. That means the profits don't stay in the community or go to locally owned small businesses. And many communities consider large malls an eyesore and a traffic hazard. On the positive side, however, these projects generally have included grocery stores, a vital service often missing in lower-income neighborhoods. On this count, these TIF deals certainly do address one of these communities' most pressing needs.

It should be noted that the Gateway Plaza development in the Howard/Paulina TIF may prove to be an exception to the rule because it seeks to integrate large retail (including a grocery store) with the surrounding neighborhood commercial district. The project is particularly promising because it plans to incorporate a new Howard Street transit station into the project's design, thereby taking advantage of the proximity to public transportation to strengthen the project's retail and residential components.

- **Chain Stores:** There are five chain stores that have been funded with TIF dollars, several of which include some small complementary retail stores on the same site. The projects include a Borders book store in the 95th/Western TIF, Home Depot stores in the Fullerton/Normandy and Chatham Ridge TIFs, a PetsMart store in the West Grand TIF, and a Venture department store in the West Ridge/Peterson TIF (which since has been converted into a Kmart outlet). These projects have received $11.7 million in TIF subsidies and generated $43.5 million in private investment. This ratio – $3.7 of private investment for every dollar worth of TIF subsidy – is somewhat lower than for the shopping mall projects, but still reasonable. In general, the same criticisms that apply to the shopping mall projects apply to the chain stores: out-of-town ownership, low-paying jobs, and a general lack of the sort of development that helps build strong communities.

Which Types of Projects Generate the Most Private Investment? (Neighborhood TIFs Only)

Project Type	Ratio of Private Dollars/TIF Dollars
Commercial	$4.00/$1.00
Mall Projects	$4.70/$1.00
Chain Stores	$3.70/$1.00
Movie Theaters	$2.96/$1.00
Mixed-Use Commercial/Residential	$3.40/$1.00
Industrial	$6.00/$1.00
Mixed Industrial/Residential	$0.64/$1.00
Residential	$5.10/$1.00
Total, All Projects	**$5.12/$1.00**

- **Movie Theaters:** Three neighborhood TIFs – 60th/Western, Roosevelt/Homan, and Chatham Ridge – have seen large, multi-screen Cineplex Odeon theaters constructed with the help of TIF dollars. All were a project of Inner City Entertainment, Inc., in conjunction with the theater company. The deals have received a total of $9.8 million in TIF subsidies and generated $29 million in private investment – a fairly low ratio of $2.96 dollars of private investment for every dollar worth of TIF assistance. These projects were billed as a job-creation program for disadvantaged youth from in and around the TIF districts, but proved to be a major disappointment. The Cineplex Odeon theater projects originally won the support of the Southwest Youth Collaborative, which helped recruit youth aged 16 to 24 to a job fair in July 1997. Cineplex Odeon originally promised 240 entry-level jobs at three theater sites, and SWYC leaders saw the projects as a good opportunity to give young people some work experience.

  By March of that year, the collaborative's opinion of Cineplex Odeon had begun to sour. Many of the youth who had completed 100 hours of training and recruitment without pay were still were waiting for a job, even though only about half of the 240 promised jobs had been filled. But the worst blow came in April 1998, when Cineplex Odeon locked out members of the Motion Picture Projectionists Union Local 110 after the union refused to accept a 25 percent pay cut and layoffs of up to 320 employees. In place of the union workers, Cineplex

Odeon used many of the youth it hired when the theaters were first built, paying them the same just-above-minimum wages that they received when they were taking tickets and popping popcorn. (To read more about the Cineplex Odeon TIFs, see the *Chicago Tribune*, July 6, 1998, Business, p3, and the *Chicago Tribune*, August 9, 1998, Metro, p1).

- **Mixed-Use Commercial/Residential Projects:** Traditional neighborhood shopping districts are generally seen as mixed-use projects because they allow for rental apartment space above the storefronts. Still, only three such projects have received TIF funding:

  ✓ In the Howard/Paulina TIF, the old Howard Theater has been redeveloped into 40 affordable rental apartments on the upper floors and street-level retail on the first floor.

  ✓ In the Lincoln/Belmont/Ashland TIF, developers have built 80 loft condominiums, 47 townhomes and 90,000 sq. ft. of retail space.

  ✓ In Chinatown, the Chinese-American Development Corp. constructed a mixed development of townhomes and condominiums (280 units in all), retail stores surrounding an open-air mall, and other improvements.

These three projects have received $14.3 million in TIF subsidies, generated $48.5 million in private investment – a ratio of $3.4 of private investment for each TIF dollar, In addition, these projects have created 1,025 jobs and retained 15 jobs. Still, these more traditional commercial area revitalization projects represent a far smaller commitment from the City than it has given the shopping mall/chain store strategy.

Industrial Development: If they are implemented correctly, industrial TIFs are among the most likely to produce concrete benefits for the community, mainly because they have the potential to retain and create good-paying jobs. Industrial companies that border residential neighborhoods must, of course, be conscientious about the needs and concerns of the surrounding community. But there are clear ways in which industrial TIFs can have a positive impact on nearby residents and small businesses. Community hiring, of course, is the most direct benefit to the community, but there are others as well. Some infrastructure improvements can benefit industrial companies, local businesses, and residents. An industrial street or viaduct clearance improvement, for example, can take truck traffic off residential streets and make the roads safer and more pleasant for everyone. And many industrial corridor TIFs include schools and parks within their boundaries that could benefit directly from TIF dollars.

The 18 primarily industrial redevelopment agreements have received $105.6 million in TIF assistance while generating $636.5 million in private investment – a ratio of $6 of private investment for each dollar of TIF subsidy.

Each TIF dollar devoted to industrial development received a far higher return than a similar amount of TIF money allocated to commercial projects.

According to the City's data, the industrial TIF projects created 1,346 jobs and retained 5,853 others. It is important to note, however, that the City's industrial TIF program is just barely getting off the ground. The City's largest industrial corridors – the Northwest Industrial Corridor, the Kinzie Industrial Corridor, the Southwest Industrial Corridor, and Pilsen – were not approved as TIFs until 1998 or 1999, so there has been much less time for them to craft their first redevelopment agreements.

Food production and distribution companies have been among the largest recipients of industrial TIF dollars. Seven of the 18 industrial projects are tied to the food service industry: Nabisco Inc. in the 73rd/Kedzie TIF, Tootsie Roll in the 72nd/Cicero TIF, Eli's Chicago's Finest in the Read/Dunning TIF, Farley Candy in the 43rd/Damen TIF, National Wine & Spirits Inc. in the Sanitary Drainage and Ship Canal TIF, Culinary Foods, Inc. in the Stockyards Industrial-Commercial TIF, and Miracle LLC (a private developer that constructed a site on behalf of a local Pepsi Bottling Co.) in the 35th/Halsted TIF. These seven projects represent $81.8 million in TIF subsidies which leveraged $552.8 million in private investment – a ratio of $6.8 of private investment for each TIF dollar. **In fact, food-industry projects represent 87 percent of private investment and 86 percent of the public subsidies provided to TIF-funded industrial projects.**

Other major projects include the Federal Express Corp. distribution facility in the Division/Hooker TIF (hailed by some as a good example of job creation for local residents), Michael Tadin's Marina Cartage in the Stockyards Southeast Quadrant TIF (the deal that led to the demise of former 11th Ward Alderman Patrick Huels), and Republic Aluminum in the Goose Island TIF.

Mixed-Use Industrial/Residential: This unusual mix of land uses is found in the Read/Dunning TIF on the City's Northwest side. There are two mixed-use redevelopment agreements the Read/Dunning TIF, one of which is a $300,000 TIF-funded environmental study. The other project includes an industrial park and condominiums, although City records contain no information about how many residential units have been developed with TIF subsidies. The redevelopment agreement with the Chicago-Read Dunning Joint Venture includes $6,156,352 in TIF subsidies and, through the end of 1997, just $3,931,633 in private investment.

Residential Development: Residential development so far has not been as substantial a portion of the TIF program as commercial and industrial projects, though NCBG has documented almost 2,000 units of housing developed with TIF subsidies. Just over half of these units (51 percent) are designated as "affordable housing," though the definition of "affordable" varies from project to project. In the neighborhood TIFs, the proportion of new residential development deemed to be "affordable" is somewhat higher – about 63 percent. TIF money has also been used to subsidize 421 units of high-end residential development downtown – such as the Central Station townhouses in the Near South TIF and the Fisher Building conversion in the Central Loop – at a cost of $27.8 million to taxpayers.

TIF-Funded Residential Projects (Including Mixed-Use Projects)

	Neighborhood TIFs	Central City TIFs	Total
Affordable Units	901	96	997
Market-Rate Units	521	421	942
Total Units	1,422	517	1,939

In addition to the mixed-use projects mentioned above, the TIF program has funded seven residential-only developments:

- **49th/St. Lawrence TIF:** The Willard Square project created 100 units of affordable family housing and generated $9,618,041 in other investment. The project received $1,034,800 in TIF subsidies.

- **Bryn Mawr/Broadway TIF:** The Belle Shore and Bryn Mawr buildings at 5550 N. Kenmore and 1052 W. Bryn Mawr have been rehabilitated, creating 371 units, most of which the City's Dept. of Housing says are guaranteed affordable for people with incomes of less than 50 percent of the City's median. The project received $4,877,000 in TIF subsidies and generated $7,200,000 in private investment.

- **43rd/Cottage Grove TIF:** Hearts United used $2,096,900 in TIF subsidies to create 116 units of scattered site affordable housing, including 29 CHA replacement units, along Cottage Grove Ave. from 41st Street to 43rd Street. The project generated $13,768,646.

- **Archer Courts TIF:** The City of Chicago devoted $1,013,258 in TIF funds to preserve 127 federal Section 8 affordable housing units at 2242 S. Princeton. These funds helped to leverage an additional $10,079,211 worth of investment.[6]

- **Chinatown TIF:** The Jade Garden Limited Partnership received $318,621 in TIF assistance to construct 22 units of affordable housing on a 1.4 acre site in Chinatown. All rents must be affordable to families whose income is less than or equal to 60 percent of City's median gross income. The project generated $7,372,821 in private investment.

- **41st/King Drive TIF:** The Paul G. Stewart Apartments include 96 units of affordable housing in a new 13-story building located at the southeast corner of King Drive and 41st Street. The project received $1,750,000 in TIF subsidies and generated $7,554,961 in private investment.

- **89th/State TIF:** Chatham Club LLC will construct 143 new single-family homes, a playlot and open space on 38 acres of land. Approximately 20 percent of the units will be affordable. The project received $3,600,000 in TIF subsidies, and expects to generate $30,037,500 in private investment.

There are also several TIF-funded housing projects in the "Central City" TIFs:

- **Near South (Central Station):** This 150-unit residential development just south of the Loop – near Indiana Avenue and 13th Street – includes Mayor Daley among its list of residents. The project has received $10,689,000 in TIF assistance and has generated $104,183,600 in private investment.

- **Near South (Senior Suites):** This six-story building at 1400 S. Indiana Ave. includes 96 units of low- to moderate-income housing for senior citizens. The project has received $960,000 in TIF subsidies and generated $3,547,600 in private investment.

- **Near South (Wabash Limited Partnership):** These adjoining buildings at 1318 and 1352 S. Wabash Ave. Rehab were rehabilitated and converted into 87 one or two bedroom condos plus indoor and outdoor parking. The project has received $2 million in TIF subsidies and leveraged $10,475,698 in private investment.

- **Central Loop[7] (Fisher Building):** TIF subsidies totaling $6.6 million, plus $5 million in historic preservation tax credits, are being used to convert the historic Fisher Building into 184 luxury residential apartments and restore the terra cotta facade. The project is expected to generate $22,280,793 in private investment.

What is "affordable"? On the surface, it appears that most of the TIF-funded housing projects outside of the Central City TIFs have had a significant affordable component, though without looking at details about who actually has moved into those units this conclusion is based only on City-reported generalizations. Still, the best-case scenario according to the City is that 997 units of affordable housing has been constructed.

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[6] Data for the first four TIF deals was provided by the City of Chicago Dept. of Housing, "Recent TIF Supported Multi-Family Rental Projects in Chicago," distributed by City officials at a June 12, 1999, TIF forum sponsored by NCBG. The DOH data does not distinguish between private investment and other forms of non-TIF public investment, nor could Housing Department officials explain the numbers when asked, so these figures most likely over-represent the amount of private investment.
[7] Please note that there are also some residential units in the TIF-funded development at 201 N. Clark/200 N. Dearborn, but no information is available about the number of units.

This is a very small number when we take into account the ongoing demolition of large portions of the Chicago Housing Authority's residences, the Chicago real estate boom that has inflated home prices, and the upward pressure that TIFs are putting on property values in some areas. Putting a number of the number of units of affordable housing that have been demolished is very difficult, though we do know that a 1997 study by the Dept. of Housing and Urban Development identified 11,000 CHA units that were in such disrepair that they were not worth saving. Some watchdogs – such as the Coalition to Protect Public Housing – estimate that 42,000 residents will be displaced as the CHA moves forward with plans to demolish many of its high-rise public housing structures.[8]

According to the *Chicago Metropolis 2020* report, Chicago has about 100,000 units of subsidized housing. But the report contends that those units are not nearly enough. "As large as is the total of subsidized units, there are about 3.5 families eligible for subsidized housing for ever family fortunate enough to be accepted. These other households must find their way in the private rental market, often by doubling up in older, run-down units, the bulk of which are in Chicago."[9]

The City of Chicago Dept. of Housing acknowledges that the problem of affordable housing – particularly for renters – is reaching a critical point:

> Chicago, like other metropolitan areas, faces what is perhaps the most severe challenge in the housing arena today: affordable rental housing. Trends have worsened over the past five years despite good economic times. This combination of a growing shortage of rental units and increasing cost-of-housing burdens for renters is expected to continue during the next five years.[10]

The Dept. of Housing's five-year plan anticipates creating an additional 35,658 units of affordable housing by 2003. The plan draws on variety of state, federal, and local funds, including $15 million in general obligation bond funds and $20 million in TIF subsidies. Those TIF funds will be used to create 443 units of housing affordable to people who earn 80 percent or less of the City's median income. Two-thirds of those units (293) are expected to be affordable to those earning less than half of the median income.[11]

But what constitutes "affordable" housing? Government definitions vary somewhat from program to program. In most instances, the affordability requirements placed on a public subsidy are only in place for a limited time after the project in completed, not the entire length of the development. But there are two major approaches relevant to Chicago:

- The City of Chicago uses federal Dept. of Housing and Urban Development guidelines to define affordability by comparing a family's income to the median income for the region. The Chicago area's median income is $63,800 for a family of four. Low-income housing is supposed to be affordable to a family earning 80 percent of the region's median. Very-low-income housing is supposed to be affordable to a family earning 50 percent of the median, and extremely-low-income housing is meant to be affordable to a family earning less than 30 percent of the median.[12]

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[8] "Hearing Set on Shrinking CHA Units," *Chicago Sun-Times*, June 21, 1999.
[9] Commercial Club of Chicago, *Chicago Metropolis 2020: Preparing Metropolitan Chicago for the 21st Century*, January 1999, p42.
[10] City of Chicago Dept. of Housing, *Affordable Housing Plan 1999-2003: Housing Opportunities Into the New Century*, June 1998, p7.
[11] *Ibid*., p17.
[12] Source: U.S. Dept. of Housing and Urban Development. One caveat: The Chicago area's median income is $51,040. Federal guidelines specify that for the purposes of

- To determine eligibility for Section 8 housing vouchers, HUD uses a system based on "fair market rents." The fair market rent is the dollar amount below which 40 percent of adequate units have been rented in the past 15 months. In Chicago, the fair market rent for a one-bedroom apartment is $635 a month including all utilities except for telephone service. Fair market rent for a two-bedroom apartment in Chicago is $756, for a three-bedroom unit is $946, and for a four-bedroom unit is $1,058 per month.[13]

These standards don't always result in housing that is truly affordable to low-income families, however. The National Low Income Housing Coalition estimates that a low-income individual should not be expected to pay more than 30 percent of their income on shelter – the standard in federal housing subsidy programs.

Based on this percentage, someone who earns minimum wage must work 95 hours a week just to be able to afford rent. If a person works a standard 40-hour week, he or she must earn at least $12.21 per hour to afford the fair-market rent.[14]

In practice, the affordability standards for Chicago's TIF-funded residential projects vary from location to location. For the residential projects with explicit affordability language in the redevelopment agreements:

Project/TIF	#/% of Units	must be affordable to	families that earn
Stewart Apartments – 41st/King	40%	must be affordable to	less than 50% of median
	50%	must be affordable to	less than 60% of median
Willard Square – 49th/St. Lawrence	80%	must be affordable to	less than 60% of median
	20%	must be affordable to	less than 80% of median
Senior Suites – Near South	100%	must be affordable to	less than 80% of median
Chatham Club – 89th/State	20%	must be affordable to	less than 80% of median

There are other affordable housing reforms on the horizon. The TIF reform legislation (S.B.1032) that passed the Illinois General Assembly in the Spring of 1999 (which, as of this writing, was awaiting Gov. George Ryan's signature) includes two major provisions aimed at promoting affordable housing and minimizing displacement. The bill:

- **Requires municipalities either to certify that no displacement will result due to the TIF, or prepare a housing impact study.** The housing impact study would only be required if residents were expected to be displaced from 10 or more units, or at least 75 occupied units existed within the boundaries of the TIF. The study would identify the number and type of units that would be eliminated, and require the City to detail the number of units of available replacement housing and specify plans for relocating residents. The legislation also requires that the City provide location assistance.

- **Increases the amount of TIF money that can go to affordable housing development.** The bill would allow up to half the construction cost of low-income or very-low-income housing projects to be paid for out of TIF funds. Currently, TIFs can not be used for new construction, only related costs such as site preparation and financing assistance. The legislation would also increase the

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calculating affordable housing guidelines, no City can have a median income greater than the national average of $47,800. Therefore, Chicago uses $47,800 to calculate affordable housing guidelines. Also, note that this figure is for the Chicago's "Primary Metropolitan Statistical Area" which includes some suburban areas.

[13] National Low-Income Housing Coalition, *Out of Reach: Rental Housing at What Cost?*, October 1998.

[14] National Low-Income Housing Coalition, *Out of Reach: Rental Housing at What Cost?*, October 1998.

amount of financing assistance a city may provide for affordable housing projects. Currently, municipalities are only permitted to pay 30 percent of the interest costs associated with housing development. The reform bill would raise that figure to 70 percent. a move that advocates of the legislation believe will make affordable housing a more appealing and profitable option for developers.

The provisions in the TIF reform legislation make important changes to affordable housing policy, but they do not address the potential for indirect displacement through rising property taxes. There are, however, several programs and proposals.

One approach to preserving housing affordability is **the Chicago Homeowner Assistance Program (CHAP)**. CHAP intends to help homeowners whose assessed property values have increased more than twice the City average (or about 21.4 percent). The Cook County Assessor's office can provide the property owner a loan at 6 percent interest for the portion of the tax bill that exceeds the City's average increase. The property owner may wait to pay back the loan until he or she sells the house.

To qualify for CHAP, the owner must earn no more than $31,700 (for a one-person household) up to $59,800 (for an eight-person household) and have lived in the home for at least five years. Owners of apartment buildings with up to six units may also qualify for the program.

While the program is meant to help low- and moderate-income homeowners "in Chicago neighborhoods undergoing revitalization" keep their homes, CHAP has received a tepid reaction so far from taxpayers. CHAP may be a step in the right direction, but the City and the County should continue to search for more ways to prevent redevelopment from displacing the residents who live there.

Former State Sen. Jesus Garcia had floated a different proposal aimed at aiding long-time homeowners who experienced an increase in the property taxes due to gentrification. Sen. Garcia's proposal would exempt eligible homeowners from any increase in EAV caused by the rising values of nearby properties that have recently undergone renovation. Only individuals who had owned their home for more than 10 years – or those who purchased their home through a government assistance program at least five years ago – would be eligible. The legislation left income eligibility requirements at the discretion of the Cook County Assessor's office.

Conclusions:

1. **Industrial TIF projects have produced the best ratio of public to private investment, and have in general created better-quality jobs with lower public subsidies.** Still, the City has just scratched the surface when it comes to exploring the potential growth of its industrial corridors. The track record contradicts the City's claim that industrial TIFs are generally risky. Indeed, the track record suggests that there should be a greater public commitment to jump-starting growth in Chicago's industrial corridors.
2. **The City's commercial development strategy has focused on shopping malls and chain stores instead of traditional neighborhood retail districts.** These projects have generated the lowest ratios of private to public investment. TIF subsidies per job are twice as high in commercial projects as in industrial projects.
3. **The number of affordable housing units constructed through the TIF program lags far behind the City's need for such dwellings**. Still, the existing residential projects have been reasonably successful in attracting private investment.

Private Profit and Public Benefit

Conventional Wisdom:
TIF deals should help increase the profit margins of private companies.

There is no question that increasing the profit margin for companies that choose to invest in Chicago is a central theme of the TIF program. When City officials pitch a proposed TIF deal to the Community Development Commission, they often speak of "making the numbers work" for a developer. For a private company, "making the numbers work" doesn't mean breaking even. It means making a profit large enough to take to investors and board members with confidence. If developers can't make that sort of profit in Chicago, the theory goes, they will take their business elsewhere.

So far, the TIF program has paid or promised $355.6 million in subsidies to private developers, $159.2 million of which is slated for the Central City TIFs. The subsidies vary greatly in size, from just $318,621 to construct housing in the Chinatown TIF, to $60 million to expand the Nabisco factory in the 73rd/Kedzie TIF. We all expect local government to give incentives to major businesses and employers; that has been standard operating procedure for at least the past two decades. **But what is the public getting in return? Are government subsidies providing local benefits?**

The idea of giving millions of dollars in subsidies to mainly large, already-wealthy corporations makes most people uncomfortable. But if these projects bring concrete benefits to Chicago – jobs, tax revenues, dollars for other neighborhood development projects – then the public can more readily accept the profit-enhancing subsidies.

Without delving into the balance sheets of every company that has every received a TIF subsidy, it is impossible to know whether or how a redevelopment agreement affected a company's bottom line. What is clear is that *the 20 largest redevelopment agreements are receiving 70 percent of the TIF subsidies*. These deals are:

TIF District	Developer	TIF Assistance
73rd/Kedzie	Nabisco Inc.	$60,000,000
Central Loop	FJV Venture/Block 37	$33,972,993
Central Loop	Goodman Theater	$18,800,000
Central Loop	Hotel Allegro/Palace Theater	$17,600,000
Central Loop	Oriental Theater	$17,000,000
Central Loop	Hotel Burnham/Reliance Building	$10,888,713
Near South	Central Station Development Corp.	$10,689,000
Central Loop	Chicago Information Technology Exchange	$8,000,000
Howard/Paulina	Combined Development/Howard LLC	$8,000,000
Lincoln/Belmont/Ashland	Lincoln-Belmont-Ashland LLC	$7,500,000
Central Loop	Fisher Building	$6,600,000
Goose Island	Republic Aluminum	$6,525,000
72nd/Cicero	Tootsie Roll	$6,368,943
Read-Dunning	Chicago-Read Dunning Joint Venture	$6,156,352
Chinatown Basin	Chinese-American Development Corp.	$5,933,040
95th/Stony Island	95th-Stony LLC	$5,125,000
Stockyards Industrial-Commercial	Culinary Foods, Inc.	$5,000,000
Stockyards Southeast	Luster Products, Inc.	$5,000,000
Roosevelt/Canal	Soo T LLC	$4,500,000
Sanitary Drainage & Ship	National Wine & Spirits, Inc.	$4,460,000
Total		$248,119,041

The 20 largest redevelopment agreements represent over $248 million worth of the TIF subsidies that have been given or promised to private developers – 70 percent of all the TIF subsidies that have been allocated, including those in the Central Loop. That leaves $107 million for the other 50 redevelopment projects.

Four of the top five redevelopment projects, and seven of the top 20, are located within the Central Loop TIF. Three of the top five projects are part of the theater row development.

Tracking exactly how these subsidies were spent can be a challenge. Each redevelopment agreement contains a budget that looks very similar to the budgets put forth in the original TIF plan. Generally, these project budgets are divided into the same categories of TIF-eligible costs as are found in the redevelopment plans. And like the redevelopment plan budgets, the dollar figures are generally estimates, not hard-and-fast amounts. The Dept. of Planning and Development is free to transfer money between line items as long as the total amount of subsidy does not exceed the cap imposed by the City Council.

For the TIF deals that received subsidies in excess of $10 million:

- Nabisco's $60 million subsidy is mostly aimed at rehabilitation costs for the factory building, though it also includes up to $1 million for job training and $750,000 for administrative costs and studies. In exchange for the subsidy, Nabisco promised to retain 2,000 jobs at the plant.
- FJV Venture's deal to redevelop Block 37 in the Central Loop TIF included almost $34 million to defray the cost of land acquisition.
- The Palace Theater and Hotel Allegro in the Central Loop TIF included $14.6 million to rehabilitate the existing buildings and another $3 million for public improvements, mainly sidewalk and other exterior improvements surrounding the property.
- The controversial agreement to restore the Oriental Theater in the Central Loop TIF included $9 million to rehabilitate the building, $3.8 million to acquire land, $700,000 for demolition, and $217,500 for administrative costs and studies.
- The series of redevelopment agreements in the Central Loop TIF to restore the Reliance Building and convert it into the Hotel Burnham included a total of $3.25 million for studies, $17.7 million to rehabilitate the building, and $405,000 for financing costs.
- The Central Station redevelopment project in the Near South TIF included $35.9 million in public improvements, $3.3 million for site preparation, $500,000 for job training, and $300,000 for administrative costs and studies.
- The $18.8 million redevelopment agreement for the Goodman Theater did not include a project budget.

Clearly, the City is giving a large amount of public funds directly to private corporations. Subsidies may be able to produce public goods – *if* the recipients of those public funds are *held accountable* for how the dollars are spent. In other words, these subsidies should buy some sort of direct public benefit. The following section – the community's perspective on public benefits – closely examines the question of enhancing accountability over TIF subsidies.

Conclusions:

1. **The City is giving away enormous amounts of public wealth with very little public scrutiny.** Overall, $355.6 million worth of TIF subsidies have gone to private developers. To give taxpayers a sense of the scale of this spending, this figure is equivalent to about 9 percent of the City's annual operating budget, 12 high schools (at $30 million each), or 40 percent of all non-aviation expenditures planned for 1999 in the City's most recent *Capital Improvement Program*.
2. **The majority of TIF subsidies are part of a handful of major deals with large companies and developers.** The largest of these subsidies – including six of the seven subsidies over $10 million – have gone to TIFs located in the Central City.

Community Perspective:
TIF benefits should be distributed equitably, not only to private developers but also to those who live in the community – particularly those in need of employment.

As we have seen, private companies benefit substantially from TIF subsidies in the form of land acquisition assistance, interest subsidies, environmental clean-up, building demolition, and funds for rehabilitation, just to name a few. There are also ways in which existing residents and businesses can benefit from TIF dollars, though those benefits are often more indirect than the grants that private companies receive.

There are three major ways in which the community can benefit from TIFs.

- Public works and basic infrastructure.
- Job creation, employment training, and career education.
- Funds for rehabilitation of existing homes and businesses.

We will address each of these areas separately.

Public Works: Both from the City's perspective and the viewpoint of the community, basic infrastructure investments are among the best uses of TIF dollars. The TIF-funded infrastructure projects that NCBG was able to document through City records were few and far between.

At this point, it makes sense to draw a distinction between the types of "public improvements" that are often included in TIF redevelopment agreements and the "public works" projects listed in the City of Chicago's *Capital Improvement Program (CIP)* – the City's five year roadmap for infrastructure investment. Redevelopment agreements sometimes include a "public improvements" line-item. Generally, these funds are used for projects that are made necessary by the project, such as traffic signals at the entrance to a new shopping mall, or a "curb cut" to allow for a road into a new development. While these investments may be necessary for a redevelopment project to move forward***, they do not address pre-existing needs of the community***. These public works investments generally do little in themselves to turn around years of neglect to a neighborhood's basic infrastructure.

In contrast to the "project-specific" public improvements often found in redevelopment agreements, the City's CIP lists some TIF-funded public works projects that have an effect on the entire community, not just a single developer. Using TIF dollars for *basic public works projects* such as street and sidewalk repairs, sewer and water projects, commercial streetscaping, and industrial infrastructure improvements creates an immediate increase in the quality-of-life in a neighborhood or business district. These projects often benefit existing residents and businesses, and therefore help strengthen the fabric of the community.

For example, a well-designed commercial streetscaping program can make local businesses more profitable, which in turn benefits the community as well as the City's tax rolls. Industrial infrastructure improvements – such as improving viaduct heights to facilitate truck deliveries and shipments, or fixing industrial streets – not only makes life easier on existing companies (and nearby residents), but makes it easier to market Chicago as a viable place for new businesses. Infrastructure improvements are one of the best ways to lay the groundwork for future community-centered development and attract new developers.

In principle, at least, the City appears to agree that public works is an important use of TIF dollars. The project budgets for the 69 TIFs that have passed the City Council includes up to $1.1 billion for City public works projects.

NCBG looked through the City of Chicago's *Capital Improvement Program* documents from 1990 to present, as well as City Council records, and could only identify 51 TIF-funded public works projects – valued at $61.5 million – located outside the Central

Loop TIFs. Most of these are in the other "Central City" TIF districts. **So far, only $14 million has been allocated for public works projects in Chicago's neighborhood TIFs.** Again, this figure represents an allocation of what the City plans on spending, not necessarily actual expenditures.

TIF-Funded Public Works Outside the Central Loop

TIF	Project	Address	TIF Funds
Chinatown	Chinatown Square – Phase I		$3,755,804
Near North*	New District 18 Police Station	1200 N. Clybourn	$15,000,000
Near South*	Traffic Signals	State St. at 14th Street	$117,700
Near West*	Streetscaping	Halsted, Madison to VanBuren	$700,000
Near West*	Streetscaping	Randolph, Kennedy Expressway to Ogden	$781,000
Near West*	Traffic Signals	Washington @ Morgan	$125,000
Near West*	Traffic Signals	Washington @ Sangamon	$243,600
Read-Dunning	38th Ward Yard		$348,000
River South*	New District 1 Police Station	1718 S. State St.	$30,500,000
Roosevelt/Homan	Homan Square Infrastructure/Phase I		$1,400,000
Sanitary & Ship Canal	Job Corps Riverwalk	3400 S. Spaulding Ave.	$1,697,000
Stockyards Industrial-Commercial	Industrial Street Improvements/Stockyards North Quadrant		$4,700,000
Stockyards Southeast Quadrant	Realignment of Root and Exchange at Halsted St.	4134 S. Halsted St.	$128,000
Stockyards Southeast Quadrant	Industrial Street Improvements	Normal, 40th to 47th Streets	$1,500,000
Stockyards Southeast Quadrant	Vertical Clearance Improvements	Normal at 40th Street	$500,000
Totals			**$61,496,104**

* Projects marked with an asterisk (*) are located in one of the Central City TIFs.
[Source: City of Chicago, *Capital Improvement Program* documents, 1990-1999.

Improvements to **parks and schools** are also eligible expenditures under the TIF statute. These projects are among the most direct benefits to the community, particularly school construction funds at a time when overcrowding is high, many school facilities are crumbling, and education dollars are extremely tight. Park and school projects may be covered by the general public works line item in a TIF budget, but some redevelopment plans have a special category called "capital costs of other taxing districts" that includes not only parks and schools, but the Metropolitan Water Reclamation District and the other taxing bodies affected by the TIF. Existing TIFs include up to $87.5 million worth of funds budgeted for these other taxing bodies.

For the first time, the Chicago Public Schools are mounting a full-scale effort to capture TIF dollars for school projects. **In their Fiscal Year 2000 Budget Overview, CPS estimates including $100 million in TIF funds in their $505.6 million capital improvement program – about 20 percent of their entire construction budget for the year.**[15]

The Chicago Public Schools' *2000-2004 Capital Improvement Program* lacks details about which TIF districts these dollars are coming from or which projects they will be used to fund, but the possibility that TIFs will become a major funding source for school projects could significantly alter the developer-driven model for TIF subsidies

[15] *Chicago Public Schools 1999-2000 Proposed Budget*, May 1999, p102.

that the City has used up to this point. School and park improvements have been high on the agenda of a growing number of community groups who have been engaged on the TIF issue. Groups such as the Northwest Neighborhood Federation (which represents residents along the Northwest Industrial, Galewood/Armitage and Pulaski Corridor TIFs) and the Organization of the North East (which represents residents in the Clark/Montrose TIF) have taken the approach that if they have to live with a TIF, they want guarantees that some of the dollars will be used for local school and park improvements. As word gets out that TIFs are being used for school construction and repair, many more communities are likely to make similar demands.

Job Training and Creation: Perhaps the most direct benefit that Chicago residents can receive from the TIF program is good jobs, provided that employers make real efforts to hire community residents and make improvements that benefit both the business corridors *and* neighboring residential areas. The 1977 State of Illinois legislation that enabled local TIF programs was not first and foremost a "jobs bill," but a financing tool for blighted areas. Still, many municipalities, including Chicago, have marketed their TIF program explicitly as an engine for job creation. In its full-color brochure intended to promote the TIF program to industry leaders, the City of Chicago wrote:

> Over the years, TIF has become an indispensable part of Chicago's industrial development strategy. TIF assistance played an important role in the retention and attraction of several large industrial employers. The City has also been successful in using TIF to attract and retain employers in two important industrial corridors, Goose Island and the Stockyards Industrial Park. To date, TIF projects in Chicago have created approximately 9,500 new jobs and saved approximately 25,000 others.[16]

New and better jobs are a key element in ensuring that TIFs do not displace existing residents. If residents of TIF districts have access to good-paying jobs, then the increases in the cost-of-living that come with increased property values may be more bearable. The City of Chicago Dept. of Housing recognizes this direct link between jobs and affordability:

> For low and moderate income households, income remains the critical determinant of housing affordability. Creating jobs along with affordable housing, therefore, underpins the effectiveness of housing policy in inner cities as well as suburbs.[17]

There are four separate questions in our analysis of the City's TIF-driven jobs program:

- How many jobs have been created and retained?
- Are those good quality jobs?
- Who is getting those jobs?
- How effective have TIF-funded job training programs been?

Even the numbers that the City *does* provide – job creation and retention – may not be reliable. It appears that job creation figures are self-reported by the developers, not the result of an independent City audit. The jobs section in the annual reports for many redevelopment agreements is simply listed as "not available." Some of the job creation figures represent "indirect" jobs created by the project (such as restaurant workers near a new TIF-funded theater). *And there are no mechanisms in place to make sure these companies follow through on their promises.*

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[16] City of Chicago Dept. of Planning and Development, *Proposed Industrial Redevelopment Project Areas: Tax Increment Financing Program*, p1.
[17] City of Chicago Dept. of Housing, *Affordable Housing Plan 1999-2003: Housing Opportunities Into the New Century*, June 1998, p9.

So far, there is little solid evidence about how effective tax increment financing has been as a method for training and employing those Chicagoans who need jobs the most. The City's June 30, 1998, annual reports on each of the first 44 TIF districts include the number of jobs the City claims each TIF deal has created or retained. According to these records, the City has created 8,355 jobs (4,096 of them in the Central Loop TIF) and retained 18,693 more jobs (12,800 in the Central Loop). In the redevelopment agreements signed since the period covered by those reports (i.e., after Jan. 1, 1998), developers have promised to create 3,699 full-time jobs and another 226 part-time jobs. Two additional redevelopment agreements promise a total of 504 additional jobs, though they do not specify whether those are full- or part-time positions. Nor does the City report any information about what types of jobs have been created, what wages they pay, if they include benefits, or any of the other factors that characterize a quality job. We do know, however, something about what sectors of the economy these jobs are in. For the redevelopment agreements in the 36 neighborhood TIFs we find:

Project Type	Jobs Created	Jobs Retained	TIF Subsidy	Cost Per New or Retained Job
Commercial	1848	0	$52,169,290	$28,230
Industrial	1346	5853	$105,620,653	$14,672
Residential	0	0	$14,690,579	N/A
Mixed-use Residential/Commercial	0	0	$14,311,240	N/A
Mixed-use Industrial/Residential	0	0	$6,456,352	N/A
Totals	3194	5853	$193,248,114	$21,360

This table allows us to explore several questions:

Where Are Jobs Being Created? From the above chart, we can see that the most jobs were created in the commercial sector. From our previous analysis, we have seen that most of these commercial redevelopment agreements are shopping malls, chain stores, and movie theaters. These jobs tend to have lower wages, higher turnover, and fewer benefits. For entry-level workers, such jobs are often part-time. By contrast, jobs in the manufacturing sector tend to be full-time, relatively well-paid positions with substantially better benefit packages – though of course there are exceptions to this rule. According to the U.S. Dept. of Labor, the average hourly manufacturing wage nationwide is $15.66, compared to $8.41 for retail-sector jobs. On average, "total compensation" (wages plus benefits) is also substantially higher for manufacturing jobs. Total compensation for manufacturing jobs averages $22.77 per hour, compared to $10.64 per hour for retail-sector jobs.[18]

How much does it cost the City to create a new job? The federal Community Development Block Grant program limits the size of federal subsidies to $35,000 per new or retained job.[19] While the TIF program is not bound by these guidelines, they do represent a reasonable benchmark for comparison. Overall, the City of Chicago has performed within the limits of these guidelines, averaging $21,360 in TIF subsidies for each job created or retained in Chicago's 36 neighborhood TIFs. Importantly, however, *retail projects have received twice as much in TIF subsidies per job created or*

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[18] U.S. Dept. of Labor Bureau of Labor Statistics, "Employee Costs Per Hour Worked for Employee Compensation . . . By Occupational and Industry Group," March 1999.
[19] Greg LeRoy, *Economic Development in Minnesota: High Subsidies, Low Wages, Absent Standards*, Good Jobs First/Institute on Taxation and Economic Policy, February 1999, p18.

retained than industrial jobs, despite the fact that they tend to pay less and include fewer benefits.

When NCBG looked at individual redevelopment agreements in the neighborhood TIFs, we found that five projects exceed the $35,000-per-job guideline:

TIF District	Project Type	Jobs Created	Jobs Retained	TIF Subsidy	Cost Per Job
60th/Western	Movie Theater	33	0	$2,652,000	**$80,372**
Roosevelt/Homan	Movie Theater	50	0	$3,335,000	**$66,700**
95th/Western	Borders Book Store	28	0	$1,600,000	**$57,143**
Eastman/North Branch	Essanay Studio & Lighting	0	8	$381,532	**$47,691**
Roosevelt/ Canal	Shopping Mall	100	0	$4,500,000	**$45,000**

The Cineplex Odeon movie theaters, which have been criticized for their job training practices (see below), received the two highest subsidies per job created. Keep in mind that these findings are based on the City's self-reported job creation data, and the actual number of long-term positions that have been created may be lower. If so, more projects might be above the $35,000 threshold.

Are neighborhood residents getting these new jobs? Few of the redevelopment agreements include provisions to provide Chicago residents – or, more importantly, residents of the TIF district – with permanent jobs. Most redevelopment agreements do contain a standard provision requiring at least 50 percent of the construction hours for the project to be performed by City residents, but when it comes to permanent positions those guidelines are virtually non-existent. Federal Express and Jetro Cash & Carry – both on Goose Island – agreed to work with the New City YMCA LEED Council to hire residents from Cabrini Green at their new facilities. The developers of the Venture store in the West Ridge/Peterson promised to hire employees from the Mayor's Office of Employment and Training. Culinary Foods in the Stockyards Industrial-Commercial TIF agreed to train and employ moderate- and low-income residents of the area, though no specific details were contained in the agreement. And the redevelopment agreement for the Fisher Building in the Central Loop promises to provide construction jobs for low- and moderate-income residents of the redevelopment area.

But even in those few cases, there are no mechanisms in place to enforce those provisions. Companies may be compelled by the City to make promises, but there is no evidence that they have to live up to those commitments.

Serious doubts exist about how effective TIF-funded job training programs have been. The 69 existing TIFs have budgeted up to $142.7 million for job training and career education programs, yet only about $2.4 million – allocated among five projects – can be accounted for through the redevelopment agreements or the list of 1997 TIF contracts that the City has made public. The redevelopment agreements that do include job training money in their project budgets are:

- True-Vue Inc. in the Eastman/North Branch TIF ($25,000) Central Station in the Near South TIF ($500,000)
- Cineplex Odeon in the 60th/Western TIF ($100,000)
- Ryan Center Mall in the Ryan/Garfield TIF ($135,000)

- Nabisco Inc. in the 73rd/Kedzie TIF (1,000,000).
- The City's June 30, 1998, annual report for the Central Loop TIF includes 28 job training contracts totaling $496,240.
- The annual report for the Chatham Ridge TIF includes $110,000 in job training, $103,000 of which went to Jobs for Youth to train students for jobs at the Cineplex Odeon theater.

The size of some of these contracts – such as the $57 job training subsidy given to the Loop's Industrial Paint & Supply Co., or the $235 subsidy to the Quill Corporation – calls into question what exactly the City is trying to accomplish with these career development funds. In the Chatham Ridge TIF, the non-profit Jobs for Youth received a $103,000 job training subsidy for the Cineplex Odeon theater project. Jobs for Youth reports that they trained 112 students, 83 of whom received jobs at the theater. Of those 83 people, 40 are still employed by the theater. Furthermore, the theater has not abided by all the terms of the agreement. The trainees were supposed to work at least 20 hours per week. But soon after the students were hired, Cineplex Odeon began slashing their hours. This anecdote calls into question how well the City is really doing in creating quality jobs, retaining the workers they count among their "jobs created," and making sure that private companies that receive TIF subsidies live up to the terms of their agreement.

There is no way to be sure that the job training money budgeted in the redevelopment agreements has actually been spent, how much other money has been given for job training, whether the money actually made it into legitimate job training programs, or what the outcome of those projects has been. An in-depth evaluation of Chicago's TIF-funded job-training program is virtually impossible from the records that the City provides.

The City's policy on TIF-funded job training funds is to only give grants directly to private companies for company-specific training programs. These programs to date generally have failed to balance the needs of the employer with the needs of the worker for several reasons:

- Existing company-based job training programs focus on skills that are specific to a single employer – such as company policies and procedures – not hands-on skill training that may be useful at a number of different companies. If an employee who completes the training program does not receive a job with that company, he or she may not have gained marketable skills that increase the chances of finding employment elsewhere.

- Job-training programs have tended to be more recruitment efforts than actual educational initiatives. In these cases, the public money is not actually serving to train workers for new or better jobs, but to subsidize a regular cost of doing business – recruiting employees.

- In neighborhood industrial TIFs, the City has interpreted the TIF statute as limiting job-training dollars to only those companies that have negotiated a major redevelopment agreement and excluding companies that wish to add workers without the benefit of a major TIF subsidy. But the only limit the State law places on the use of job-training dollars is that the jobs must be located within the boundaries of the TIF district. The statute only specifies that the programs be "for persons employed or to be employed by employers located in an economic project area." In the Central Loop TIF during 1997 alone, the City provided a total of $498,237 in job training funds directly to 28 companies that have not signed a redevelopment agreement. While this practice has generally not been extended beyond the Central Loop, it demonstrates that at least in the eyes of the City, such an approach is legal and desirable.

- Company-specific subsidies defy accountability. While state law requires written agreements that spell out the details of the job training subsidy – including the number and type of positions available, an itemized list of program costs, and a description of the training programs – these agreements are seldom made public. Without a mechanism to account for these funds, job training money can become just another general subsidy to improve a company's bottom line.

The Greater West Town Community Development Project has proposed an alternative to the company-specific model of job training. Greater West Town proposes using TIF dollars to fund ***community-based job training centers in each industrial corridor*** that would evaluate the personnel needs of local companies and gear their training programs to fill those job openings. The centers would recruit community residents, complete basic workforce preparation when necessary, and train workers for the specific skills needed by companies within the TIF. The concept has been endorsed by the Chicago Association of Neighborhood Development Organizations (CANDO).

Such an approach would have a number of advantages over the current company-specific model. Participants would learn hands-on, real-world skills that are applicable to a broad range of companies. In other words, instead of learning the policies and procedures of a specific company, trainees would learn basic skills marketable throughout an entire sector of the economy (such as metalworking, woodworking, shipping-receiving, etc.) that could be put to use at a number of different companies. This skills-based approach gives job seekers much more flexibility to find good jobs for which they are qualified. Community-based job training centers would also benefit employers by providing them with a ready supply of skilled labor in the areas they need it most. Finally, such an approach would benefit tax-payers by injecting a much-needed dose of accountability to process by reducing the ability of companies to misuse job training programs.

How can we hold the City accountable? Clearly, little has been done to ensure that Chicago's TIF program is creating good jobs for local residents. Holding the City accountable requires three steps:

- ✓ **Stronger up-front commitments** to create high-wage, high-benefit jobs for those Chicagoans who need them most.
- ✓ **Better reporting requirements** to make sure private companies followed through on those commitments.
- ✓ **Meaningful penalties** if companies fail to live up to their promises.

In recent years, more of Chicago's redevelopment agreements have begun to include explicit **up-front commitments** to retain or create a specific number of jobs. Still, these commitments do not include information about wages or benefits, who is getting the jobs, or other data that would help the public (and the elected officials who must vote on the proposed subsidy) assess whether the project is a good use of taxpayer dollars. St. Paul, Minnesota, and Gary, Indiana, both have strong "right-to-know" laws that require companies receiving any public subsidies (not just TIFs) to disclose not only information on promised job creation, but also on wage, skill, and benefit levels for the new jobs. Gary and St. Paul also require information on how many jobs were "destroyed" because of the new company.[20] This

[20] Greg LeRoy, *No More Candy Store*, Washington, DC: Institute on Taxation and Economic Policy, 1997, pp26-27.

piece of information could be of particular interest to small businesses who might be affected by a new, subsidized, large-scale retail project – either because the new project steals their customers, or because the development results in the demolition of their business.

Finally, TIF deals should be sensitive to companies taking public subsidies then "fleeing" the City for another county or state. There are two aspects to this problem. First, there is the problem that some municipalities have experienced of a company securing an economic development subsidy then relocating their company elsewhere. In these cases, the municipality is left with nothing but the bill. NCBG is not aware of any instances of a company in Chicago fleeing the City after receiving a TIF subsidy, and in fact many of Chicago's redevelopment agreements contain a promise by the developer to remain in the City for the life of the TIF.[21] Second, there is the problem of municipalities using public subsidies to "steal" or "pirate" companies from other towns and cities – or even from one TIF district to another. Pirating is a state- or region-wide problem. Rather than creating new jobs or investment, incentive packages that focus on pirating only re-shuffles resources without creating new jobs or investment – often at a substantial cost to taxpayers.

Better reporting requirements help to ensure that the company is following through on its promises. Minnesota has one of the best systems of public disclosure for subsidy deals (including TIFs) in the nation. The state's subsidy accountability law requires any corporation receiving public subsidies to report its performance each year on a standardized form to the state agency in charge of economic development. Those reports are then published and released to the public.[22] Several cities (including Gary and Hammond, Indiana) also require substantial performance reporting after a company receives a public subsidy.

But what if these public reports reveal that a company has failed to live up to its promises? Then the state, county, or local government that issued the subsidy needs **meaningful penalties** to compel the company to make good on its commitments, or at least to allow taxpayers and the government to recover the subsidy they granted to the company.

The presence of penalties may also help to deter companies from abusing subsidies in the first place. These penalties, often referred to as "clawbacks" because they allow government agencies to take back all or part of a subsidy that has already been extended, have taken hold in several states and municipalities. Existing clawback provisions tend to focus on low-interest public loans, tax abatements, or industrial revenue bonds that are issued on behalf of a company for equipment purchase or other expenses, but there is no reason that similar laws could be devised to apply to TIF subsidies. Most clawbacks (such as those in Austin, Texas, New Haven, Connecticut, and the states of Ohio, Iowa, and Connecticut) are designed to penalize companies that receive a public subsidy, then move out of state. But Pennsylvania has adopted a law that allows the State to increase the interest rate on low-

[21] The language in the Farley Foods redevelopment agreement in the 43rd/Damen TIF is fairly typical: "The Developer hereby covenants and agrees to maintain its current business operations within the City of Chicago through 2017 [date of termination of the redevelopment area] so long as it remains economically viable." The redevelopment agreement does not provide a specific mechanism to enforce this provision, however. *Journal of Proceedings of the City Council of the City of Chicago*, August 3, 1994, p53990.

[22] Greg LeRoy et. al., *Economic Development in Minnesota: High Subsidies, Low Wages, Absent Standards*, Washington, DC: Good Jobs First/Institute on Taxation and Economic Policy, February 1999, p5.

interest public economic development loans if companies don't deliver on job promises.[23] Such accountability provisions in Chicago could go a long way toward making the TIF program a meaningful job-creation and workforce development strategy.

Rehabilitation of Homes and Businesses: In addition to public works projects and workforce development, there is a third way in which existing residents and businesses could benefit from TIFs – smaller grants to rehabilitate existing properties within the TIF. Unfortunately, there is not yet a reliable mechanism to translate TIF dollars into rehabilitation funds for existing residents and businesses. As NCBG's research has found, traditional redevelopment agreements historically have gone to larger-scale redevelopment projects and conversion efforts, not the average homeowner or small business who wants to spruce up their property.

As described in Appendix 3, the City has announced two pilot programs that could help distribute TIF dollars directly to existing homeowners and businesses. These programs – the **Neighborhood Investment Fund (NIF)** and the **Small Business Investment Fund (SBIF)** – would allow for direct grants to owners of single-family homes, multi-unit apartment buildings, and small businesses for exterior repairs and health and safety improvements. Right now, the programs are just barely off the ground, and little money is available in the TIF districts where the NIF and SBIF are being tested. But if more money is made available, and the program is administered fairly and efficiently, these programs might help distribute TIF benefits throughout the affected communities.

Conclusions:

1. **The City is failing to use TIF dollars to make basic public works investments in neighborhood TIFs.** Meanwhile, the City has used TIF dollars in the Central Loop to supplement already-high levels of public works investment from the City's general funds – thereby reducing the amount of non-TIF infrastructure money available to neighborhoods. These policies are seriously undermining the ability of the TIF program to provide public benefits that could spur private investment in Chicago's neighborhoods.
2. **TIF projects are tending to favor lower-wage jobs in the retail sector over higher-wage industrial jobs,** despite the fact that creating manufacturing positions on average require a smaller public subsidy per job created or retained.
3. **The City needs stronger accountability measures for both its job creation and workforce development initiatives.** Companies are not held responsible for meeting their job-creation goals or for ensuring that new jobs pay a good wage and include adequate benefits. Even less information is available for job training programs, though it is clear that the City is spending nowhere near the amount budgeted for workforce development in the neighborhood TIFs.

[23] Greg LeRoy, *No More Candy Store*, Washington, DC: Institute on Taxation and Economic Policy, 1997, pp43-46.

Fast-Track Development

Conventional Wisdom:
TIFs should be used to fast-track development.

In order for new development to move forward quickly, there must be funds available. Earlier in this report we saw that many neighborhood TIF districts have been fairly slow to accumulate enough increment to launch development projects. We also saw that outside the Central Loop, few TIF dollars have gone to basic infrastructure projects that might make neighborhoods more attractive to developers. On these two counts, the City is not doing enough to fast-track development.

Probably the most effective way to jump-start development is through bond issues. Most TIF districts are "pay-as-you-go" TIFs, meaning that developers have to invest their own money in the project and wait to be paid back by the City once new tax increment becomes available. The alternative is for the City to issue a bond, put the proceeds in the TIF fund, and reimburse developers immediately for their TIF-eligible expenses. This arrangement is much more appealing to the developer and more likely to rapidly create interest in the TIF district. A bond issue also provides up-front money for infrastructure improvements that makes the TIF even more attractive to investors. A total of 15 TIFs have received the benefit of a bond issue:

TIF District	Date Bond Was Issued	Bond Principal	# of TIF Deals	Private Investment	TIF Allocations	New Tax Revenue (Increment) Since 1990	Average Annual EAV Growth
North Loop	12/18/86	$58,000,000	18	$931,287,823	$274,306,572	$223,323,105	44%[24]
Central Loop	11/1/97	$187,000,000					
Bryn Mawr/ Broadway	7/31/97	$1,800,000	1	$9,977,000	$4,321,236	$168,315	6%
Chatham Ridge	9/7/88	$4,825,000	3	$43,492,975	$10,324,950	$5,532,945	78%
Chinatown	3/8/91	$5,591,115	2	$23,372,821	$10,052,979	$5,159,357	541%
Division/North Branch	4/15/91	$2,615,000	1	$7,900,000	$2,631,571	$1,310,017	90%
Howard/Paulina	1998	$8,000,000	2	$42,911,800	$8,891,410	$1,356,028	4%
Irving/Cicero	9/9/98	$5,000,000	1	$15,574,000	$3,700,405	$76,258	8%
Lincoln/Belmont/ Ashland	12/19/94	$7,671,035	1	$29,539,763	$7,594,781	$1,639,630	119%
Near South	12/1/94	$23,000,000	4	$118,206,898	$18,393,503	$18,357,748	9%[25]
Read-Dunning	12/11/96	$7,035,000	3	$11,168,633	$8,309,425	$3,917,560	42%
Ryan Garfield	9/29/87	$2,315,000	1	$4,700,000	$3,775,365	$2,632,758	201%
Sanitary & Ship Canal	4/9/97	$5,530,000	2	$9,700,000	$7,629,127	$2,840,803	10%
Stockyards Industrial-Commercial	1/30/97	$14,800,000	2	$33,994,033	$13,147,819	$11,957,246	29%
Stockyards Southeast Quadrant	12/29/94	$10,400,000	3	$23,740,938	$11,929,791	$7,786,000	21%
West Ridge/Peterson	11/24/86	$3,000,000	1	$9,000,000	$3,010,700	$2,103,172	14%
Totals		**$346,582,150**	**45**	**$1,314,566,684**	**$388,019,634**	**$288,162,932**	

[24] This is the rate of growth prior to the Central Loop TIF expansion. No data is available yet on how quickly the Central Loop TIF is growing.
[25] This is the growth rate since 1994, when the original Central Station TIF was expanded to the Near South TIF, and the bond was issued.

The above table is instructive in several ways:

- **All but two of the 15 TIFs with bond issues (87 percent) have generated more than $1 million in increment.** Six of the 15 bonded TIFs have generated more than $5 million in increment since 1990. By comparison, only 5 of the 26 TIFs without bond issues (19 percent) have generated more than $1 million in increment since 1990. *Bonded TIFs represent 94 percent of all increment generated in all of Chicago's existing TIF districts.* There are two explanations for this reality. First, the ready cash provided by a bond issue attracts developers and jump-starts growth. Secondly, the City looks for TIF districts that have already begun to generate some increment (such as Howard/Paulina and Read-Dunning) as good candidates for a bond. The agencies that rate bonds view a history of increment growth as a "better risk" for investors.

- **Virtually all of the TIF districts that have received the benefits of bond issues have grown at a rate that more than doubles the Citywide median.** Only two of these TIFs, in fact, have grown at an average rate below 10 percent per year, and the bonds for both of those districts were only authorized within the last year. The median annual growth rate for these TIFs is 29 percent. The median annual growth rate for the TIFs in our sample *without* a bond issue is 16 percent.

- **TIFs with bond issues account for 45 of the 64 redevelopment projects (70 percent).** In addition, they represent 64 percent of the TIF-driven private investment, 63 percent of all TIF subsidies to private developers, and 80 percent of all TIF-funded public works expenditures that we could document.

Although bonded TIFs in general tend to perform better than TIFs without bond issues, they are not the only ones finding some success in generating new tax revenue. For instance, *11 of the 26 TIFs **without** bonds in our sample (42 percent) grew at an average annual rate of over 20 percent per year.* Some of the top-performing TIFs – at least in terms of EAV growth – did so without the benefit of bond issues. The Roosevelt/Canal and Homan/Grand Trunk TIFs have both grown at annual rates of above 1000 percent without the benefit of a bond issue, and the Division/Hooker TIF has grown at 749 percent per year without a bond.

Another important measure of progress in a TIF district is whether the City has managed to attract a private developer and negotiate a redevelopment agreement. By this standard, even non-bonded TIFs are doing reasonably well. All but three of the 41 TIFs in our sample have at least one redevelopment agreement. Whether the City can keep up this pace remains to be seen, particularly with the number of TIF districts expanding so rapidly.

Marketing TIF districts, recruiting developers, negotiating redevelopment agreements, and seeing them through to completion puts substantial strain on the staff of the City's Dept. of Planning and Development, particularly as communities become more aware of TIFs and demand more dialogue with planning officials. Crain's Chicago Business reports that despite the ballooning number of TIFs, the number of DPD staff members working on TIFs has only increased by three people – from 24 to 27 – since 1995.[26] The strain on this staff will only grow as the City's aggressive publicity for the TIF program continues to raise public expectations about what it can accomplish. All 69 TIF districts – and more in the near future, if the City follows through with the additional TIF plans it has promised – will be clamoring for attention, not just the ones that currently exist.

Conclusion:

Bond issues play a major role in jump-starting development. Bonded TIFs represent 94 percent of all new tax increment generated in Chicago's TIFs. If the TIF program is going to succeed at fast-tracking economic development in Chicago's neighborhoods, it must expand its bonding program, find other innovative ways to front-fund TIFs, or look for other funding alternatives outside the TIF program.

[26] "TIF Rift," *Crain's Chicago Business*, Feb. 1, 1999, p15.

Community Perspective:
TIFs should be used to fast-track development that is beneficial to the community.

The idea of using TIFs to fast-track economic development elicits two reactions in most neighborhoods. On the one hand, people want to see needed improvements done quickly. In many cases, neighborhoods have endured promise after promise that a new government program will be the answer to their communities needs. They have been promised certain critical public works projects for years. They have watched national economic booms pass them by. These neighborhoods don't want to have to wait another five or 10 more years for the TIF to generate enough money to do some good. The idea of "fast-tracking" economic development is exactly what people want to hear.

But on the other hand, many neighborhoods are suspicious of the type of development the TIF program will bring. As discussed previously, gentrification and eminent domain remain major concerns. Communities that have been routinely excluded from the TIF planning process want to know what is being planned for their neighborhood before they consent to "fast-track" development. If the plan is to change the composition of the neighborhood through large-scale land acquisition and rapidly rising property values, then most neighborhoods want to stop such developments entirely.

In industrial corridors, the brownfields remediation program – funded through federal Community Development Block Grant dollars – could be an important source of front-funding. Often, the environmental problems facing previously-developed industrial sites are the biggest stumbling block to attracting new businesses. Cleaning up these problem spots would not only benefit business but also the surrounding communities. The City should carefully target these brownfields funds to deal with the worst environmental problems and coordinate them where possible with ongoing development plans such as TIF.

To the extent that the TIF program is funding high-quality, sustainable development that benefits existing residents and businesses, fast-track development is in everyone's best interest. But as NCBG's research has demonstrated, in many cases the types of development that are taking place are not in the community's best interest, and development projects that directly benefit neighborhoods (such as investments in public works and job training) are put on the back burner. Again, a lack of public participation and the City's ignorance of communities own plans for themselves is at the root of the problem. Significant community involvement in the creation of the TIF and the budgeting of TIF dollars might make fast-track development more palatable to Chicago's neighborhoods.

Conclusion:

"Fast-track" development is only beneficial to the community if those projects benefit the existing residents and businesses in the community. So far, the City has failed to fast-track important projects such as public works investments and workforce development, though private development projects have received top priority. An effective, integrated redevelopment strategy should target specific public works projects that are likely to encourage redevelopment.

Redevelopment Goals

Conventional Wisdom:
Has the TIF made progress toward achieving its stated redevelopment goals?

Each redevelopment plan contains a set of redevelopment goals and objectives that are supposed to shape the future direction of the TIF. Typically, these goals are not specifically tailored to the community, but are of a more "cookie cutter" variety. Often, they are vague enough as to support almost any type of development within the broad categories of residential, commercial, or industrial. Typical redevelopment goals include fixing infrastructure, revitalizing commercial corridors, performing environmental clean-up, rehabilitating or upgrading structures, increasing the value of taxable parcels of land, and occasionally improving school, park, or transit facilities in the area. The tone of the goals is such that few people would disagree with them. But at the same time, few people would get a good sense about what exactly was going to happen to their neighborhood, either.

The Homan/Arthington and 71st/Stony Island TIFs, both of which used S.B. Friedman & Co. as the TIF consultant, include a typical goals statement in their redevelopment plan. In fact, the goals statement for both TIFs is the same, almost word for word, except for the name of the TIF district:

> "The overall goal of the Redevelopment Plan is to provide the direction and mechanisms necessary for the revitalization of the [TIF District] in a manner that compliments and enhances redevelopment opportunities in the surrounding residential neighborhoods. This goal is to be achieved through an integrated and comprehensive strategy that utilizes public resources to stimulate additional private investment."[27]

A somewhat more specific measure of the redevelopment goals is the estimated project budgets that are included in each redevelopment plan. *These are only estimates of how much money will be spent in each category, not assurances, and the budgets can change over time.* But looking at how much the City has budgeted overall for all neighborhood TIFs (including those approved recently) for their entire 23-year lifespan does show something about their priorities:

Budget Category	Total Estimated Budget
Property Acquisition, Site Prep, Demolition, Environmental	$733,945,356
Public Improvements/School & Park District Capital Projects[28]	$711,223,110
Rehabilitation of Existing Buildings	$322,981,198
Financing	$116,263,925
Job Training	$106,745,000
Relocation Expenses	$59,081,000
Analysis, Administration, Studies, Surveys, Legal Fees, etc.	$53,487,014
Contingencies	$6,011,662
Total Project Budget	**$2,102,389,967**

[27] S.B. Friedman & Co., *71st and Stony Island Tax Increment Financing Eligibility Study & Redevelopment Project and Plan*, June 1998, p2, and *S.B. Friedman & Co., Proposed Homan/Arthington Redevelopment Project Area Tax Incremental Financing Redevelopment Plan and Project*, May 1997, p2.
[28] The dollar figure for public works includes both projects in the City's Capital Improvement Program documents as well as the redevelopment agreements.

From this table, it is clear that the City's top priority is to acquire vacant land and prepare it for redevelopment. As of 1999, land acquisition is moving forward at a rapid pace. The City's second priority – at least according to this list – is infrastructure improvements, including projects in the school and park districts. As we have seen previously, with the exception of the Central Loop the City is falling far short of using TIF as a viable source of major public works funding. Of the $711 million budgeted for public works projects in neighborhood TIFs, only $14 million has actually been allocated – just 20 percent of the total. But the most glaring shortfall comes in the area of job training, for which $107 million has been allocated over the lifetime of these neighborhood TIFs. Public records only document about $2.4 million in programmed job training funds in neighborhood TIFs. Moreover, the quality and quantity of the TIF-funded job training efforts leave much to be desired.

Of course, the redevelopment plans contain a variety of more general goals: commercial area revitalization, industrial growth and retention, job creation, affordable housing, growth in property values and tax revenue, and other similar objectives. To briefly recap the findings put forth earlier in this report:

- **Commercial Area Revitalization:** TIF-funded commercial development efforts focus mainly on shopping malls, chain stores and movie theaters, not traditional neighborhood retail districts.
- **Industrial Growth and Retention:** The City's industrial TIFs have been fairly successful at leveraging private investment and generating jobs with a reasonable amount of public subsidies. Of the 26 TIFs in industrial corridors, 9 of them were established in 1998 and 1999 – including the three largest industrial TIFs (Northwest Industrial, Kinzie, and Pilsen). It remains to be seen whether the City will commit to front-funding these districts.
- **Job Creation:** The City's job figures are so incomplete that it is hard to thoroughly assess its performance, but from the available data it appears the majority of the jobs created by TIF-funded projects are going to the retail sector, where lower-wage jobs with few benefits are common. Industrial projects have proven able to create and retain jobs with lower public subsidies per job than retail developments.
- **Affordable Housing:** The use of TIFs to create affordable housing has been modest, though it appears that it is failing to keep pace with the need for reasonably priced dwellings. It remains to be seen if the pilot Neighborhood Investment Fund program will be successful in extending TIF benefits to existing homeowners and renters.
- **Growth in Property Values:** Most neighborhood TIF districts are seeing their property values grow faster than the citywide average, though concerns remain about affordability and displacement.
- **Growth in Tax Revenues:** Most neighborhood TIF districts have failed to produce more than $1 million in increment, calling into question how long they will have to wait until they have sufficient funds to launch major redevelopment projects.

Conclusion:

The City should – in conjunction with the community – develop clear and meaningful goals for redeveloping the community. Because the current plans are developed outside the public eye and tend to include "cookie-cutter" goals and priorities, it is difficult for the public to get a clear idea of how the City is planning to spend money and for citizens to hold public officials accountable for the progress they are making with the redevelopment plan.

Community Perspective:
Does the redevelopment plan incorporate the community's own goals and plans?

The manner in which the City and the Dept. of Planning and Development goes about drafting the TIF redevelopment plans has been a subject of serious concern in the communities that must live with the TIF plan for more than two decades. The plans are generally developed by a private consultant with no ties to the neighborhood. Sometimes, the redevelopment plan is presented at a "community meeting" sponsored by DPD or a local alderman, but these meetings are generally not well publicized and most community leaders do not believe they are truly working meetings. More often, the first time the community hears any real details about the TIF plan is at a meeting of the Community Development Commission. These meetings generally take place on Tuesday afternoons in City Hall, a time and place that discourages members of the community to come participate in the process. Those community members who do come testify often leave frustrated with the process because the TIF approval usually seems like a "done deal" even before the public testimony begins. The City Council Finance Committee and the full City Council must also vote on the TIF proposal, but those meetings are generally even more difficult for community to penetrate.

The closed-door process of forming a TIF district and setting redevelopment goals leaves most neighborhoods asking: **Whose plan is this, anyway?**

Many neighborhoods have taken the time to draft a formal plan for their communities. In most others, even if no written plan exists, residents and business owners have done a lot of thinking about what they want and need in their neighborhoods, and could offer valuable insight into what the redevelopment plan should look like. But the City's TIF program and other economic development initiatives are not designed to encourage or support community-based planning. The only exceptions have been site-specific – not neighborhood-wide – planning efforts, and the now-defunct "Model Industrial Corridor" program.

City officials have expressed a desire to convince more residents of TIF districts to "buy in" to the goals of the TIF program. But convincing citizens to support a program that does not value their input is a tough sell. ***If City officials are serious about building grassroots community support for TIFs, they will have to begin by including the community in a real decision-making role from the start.*** Engaging the community's stakeholders when shaping a plan for future redevelopment creates a framework in which TIFs and other tools may be utilized.

But the community's role shouldn't stop when the City Council votes to approve the TIF. TIFs can stay in place for up to 23 years, and the City expects many of them to spend tens of millions of dollars worth of taxpayer money during that period. Because of the current nature of the TIF program, these expenditures will undergo less scrutiny by the City Council than a typical budget outlay of this magnitude, and will probably take place completely off the community's radar screen.

To ensure that the residents and businesses that are directly affected by these new developments have a say in these decisions, communities need to take the lead in developing local oversight boards to shape the initial redevelopment plan, monitor the TIF's progress and intervene when necessary. The board should include representatives from all the affected groups in the community. These oversight boards – which should be in place from the moment the TIF is first proposed – would serve as a vital link between the City and the community, organizing public meetings on significant new developments and helping shape future projects in the neighborhood.

Conclusion:

The lack of public participation in the TIF process means that the City's redevelopment plan often does not meet the needs and desires of the communities the TIF is supposed to help. The ultimate success of neighborhood revitalization depends on its ability to foster sustainable, affordable development that fits as much as possible with the plans that neighborhoods have developed for themselves and the needs that community stakeholders have identified. In such a scenario, TIF reverts to being a tool, rather than an end unto itself.

Conclusion: Are TIFs Really Needed?

Communities that are in dire need of targeted, sustained public investment to get them back on their feet are being told they have one option: tax increment financing. Officials from the Dept. of Planning and Development all the way to the Mayor himself have contended that TIFs are the only economic development tool that the City has left.

In effect, the City has reduced the entire public discussion over community planning and economic development to a single issue: tax increment financing. But TIFs should only be a part of the discussion. TIFs are a tool with specific uses, benefits and drawbacks. *They are not by themselves a comprehensive strategy to alleviate poverty, create economic growth, or turn around years of neighborhood neglect.*

In public, Mayor Daley and top-ranking planning officials advertise TIFs as the last hope for economic development in cities like Chicago. "It's the only tool we have in local government. After you take this tool away, you have nothing but industrial vacant land," Mayor Daley said at a 1998 press conference.[29] On another occasion, the Mayor described himself as "a TIF person. I like TIFs." More to the point, Christopher Hill, Commissioner of the City's Dept. of Planning and Development, described the need for TIFs as follows:

> TIFs are a tool we need. The feds have screwed us, and Springfield at best has been a poor contributor to the City's economic development. We're not going to sit around and wait. We're going to move ahead.[30]

While in public the City has chosen to put all its eggs in the TIF basket, in other venues it has stressed the City's "integrated" approach to economic development. One such place is the City's "action plan" filed with the U.S. Dept. of Housing and Urban Development (HUD). Each year, the City must file such a plan in order to quality for federal aid for development, known as Community Development Block Grants (CDBG). In the 1999 action plan submitted to HUD, the City writes:

> To strengthen this synergy [between housing and economic development programs] and enhance economic opportunities for low- and moderate-income residents, the City, working through the Dept. of Planning and Development (DPD), the Mayor's Office of Workforce Development (MOWD), and the Dept. of Housing (DOH), has created a blend of initiatives that are stimulating both private and public investments. ***Chicago has been on the leading edge in effectively leveraging HUD dollars by linking them with other investments and targeting them in areas where they can be most effective*** [emphasis added].[31]

This passage in the *Draft Action Plan* acknowledges that there several programs and a variety of resources available to the City for economic development. That is not to say that there isn't a need for more money for neighborhood renewal and economic development – it is true that State and Federal funds to U.S. cities have been on the decline. But there are other programs and funding sources. In fact, the City's own web site advertises and promotes these other economic development tools.[32] Some of them may serve as effective alternatives to TIFs in some circumstances; others may work well in conjunction with TIFs, perhaps as a way to front-fund neighborhood TIF projects.

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29 "Daley Touts TIF Benefits," *Chicago Sun-Times*, July 1, 1998, p1.
30 "The City that TIFs," *Crain's Chicago Business*, July 7, 1999, p1.
31 City of Chicago, *1999 Draft Action Plan*, October 1998, p16.
32 http://www.ci.chi.il.us

While this report is not intended as an exhaustive survey of all of Chicago's economic development options, it is important to at least identify some of the other major programs and funding sources that the City has at its disposal. The following list casts substantial doubt on the City's public claims that TIFs are "the only tool we have in local government."

Community Development Block Grant (CDBG) Funds: The 1999 Draft Action Plan reveals that the City of Chicago expects to receive a total of $125.8 million in federal funding. About $38 million of these funds are budgeted for social services activities that fall outside the scope of economic development and infrastructure (such as substance abuse treatment, support services for the elderly, and public health). Another $17 million will go to program administration. The rest will go to economic development, community improvements, and affordable housing. The rest ($69.8 million for 1999 alone) may be used for the same sort of community development activities that TIFs target.

Federal Funds in FY 1999 Draft Action Plan

Economic Development	$21.9 million
Community Improvements	$10.8 million
Affordable Housing	$37.0 million
Public Services	$38 million
Planning/Administration	$17.4 million

While the City's neighborhood revitalization needs certainly exceed the $69.8 million in the CDBG program, the size of this federal grant is still substantially greater than the money that neighborhood TIFs have been able to create to this point.

In fact, the $69.8 million in 1999 CDBG funds is almost $13 million more than the **total increment** generated in **all** neighborhood TIFs from 1990 to 1997, and almost ***five times greater*** than the increment generated by all neighborhood TIFs in 1997.

Among the programs budgeted to receive CDBG funds:

- **Façade Rebate Program** ($479,647): Allows homeowners and business owners to receive grants to make exterior improvements to their properties.
- **Industrial Area Redevelopment** ($2,037,603): Funds to spur industrial development on brownfields sites.
- **Section 108 Loan Program** ($8,000,000): Low-interest federal loans for neighborhood commercial and industrial projects.
- **Hazardous Building Clearance** ($3,028,403): Money to tear down vacant buildings that have become a blight on the neighborhood.

City of Chicago Capital Improvement Program/General Obligation Bonds: Since 1990, the City of Chicago has allocated an average of $550 million per year for non-aviation related public works projects such as streets, sewers, water mains, sidewalks, economic development initiatives, and a whole range of other basic infrastructure. The CIP pulls together a variety of state, federal and local funding sources into a five-year public works plan.

The CIP also includes the funds raised through the City of **Chicago's General Obligation Bonds**. G.O. Bond funds are the most flexible funds at the City's disposal, and can be used to fund anything from repaving residential streets to raising a viaduct in an industrial corridor to major "mega-projects" such as transit facilities or libraries. The 1999 G.O. Bond is expected to include $260[33] million worth of infrastructure projects, including $102 million for

[33] The City of Chicago originally announced a $260 million bond issue for public works projects, though only $202 million can be accounted for in *the 1999-2003 Capital Improvement Program*.

neighborhood infrastructure (such as street repaving, curbs and gutters, and lighting), $79.6 million for economic development projects (such as commercial streetscaping, industrial streets, viaducts, and medians), $37.8 million for arterial street and bridge improvements, and $41 million for municipal buildings. The City also issues other bonds, such as motor-fuel tax bonds that are dedicated to transportation improvements, as well as water and sewer bonds.

As discussed in previous sections, public works projects can often serve as an important way to jump-start economic development. Using G.O. bond money to fund the projects that are most important to struggling neighborhoods is one of the most flexible and well-funded economic development initiative the City has at its disposal.

Illinois FIRST: For the first time since 1986, the State of Illinois has launched a large-scale program to renew local infrastructure. The $6.3 billion in new funds that will be distributed statewide through the Illinois FIRST program includes $1.5 billion for roads, $2.1 billion for public transit, $1.1 billion for school construction and repair, and $1.6 billion for other infrastructure projects. Little is known at this point about which projects will receive this funding or what Chicago's share will be, though the City is expected to receive about $1 billion for such high-profile projects as the Blue and Brown Line L reconstruction projects and the rebuilding of Lower Wacker Drive, plus about $200 million for school construction. These new funds may provide a major new infusion of public works and economic development dollars for Chicago.

Redevelopment Areas: Redevelopment Areas are similar to TIFs in many ways, though they do not have any of the special tax-collection powers that make TIF districts unique. These areas generally are distressed neighborhoods that the City targets for revitalization through a coordinated investment strategy. Low- and moderate-income communities that have experienced physical and economic decline as a result of public and/or private disinvestment are prime candidates for the program. The City has the same sorts of powers to acquire and assemble land, initiate a long-term planning process, and take other sorts of steps to fast-track development as it does in a TIF district. Redevelopment areas are also eligible to receive Community Development Block Grant Funds. The 1999 *Draft Action Plan* includes $4,571,678 for redevelopment areas, and the Dept. of Planning and Development reports on its Web site that it plans to invest $50 million in these areas between 1997 and 2002.

Special Service Areas: Special Service Areas (SSAs) are an economic development tool that allow a group of businesses to pay slightly more in property taxes in exchange for local control over how that tax revenue is spent. SSA funds can be used for a wide range of projects geared specifically toward existing businesses, such as joint advertising campaigns, extra street sweeping and security, landscaping, façade improvements, and small infrastructure improvements.

Unlike TIF districts, SSAs allow community members to exert direct control over locally generated revenues. SSAs may fund local planning and development initiatives, and may even recommend that the City finance bonds to be repaid with SSA revenues. SSAs can be very effective tools for continued economic growth in areas that have already attained enough stability that property owners can afford a modest additional tax burden. NCBG has data for 13 of the 17 active SSAs. In 1998, the budgets for those 13 SSAs was just over $4 million.[34]

[34] Dept. of Planning and Development, *Special Service Area Status Summary*, Jan. 14, 1998.

SSAs may also be used in combination with a TIF and could provide some seed money to "jump start" a TIF, particularly in neighborhood commercial TIFs. For example, SSA money could be used to complete some basic streetscaping improvements, or to launch a joint business marketing campaign to lure development to the area. The SSA-funded campaign could even be used to market the existence of the TIF to developers, thereby helping to ensure that the TIF is successful.

Strategic Neighborhood Action Program (SNAP): The City of Chicago abandoned the SNAP program in 1998 despite widespread acknowledgement that it was one of the most effective local economic development tools it had at its disposal. The SNAP program worked to coordinate investment in target neighborhoods among a wide variety of key players: community groups, private investors, the Chicago Public Schools, the Chicago Park District, and seven City departments. The program encompassed infrastructure improvements, development assistance such as business loans and land assembly, commercial revitalization such as streetscaping and façade rehabilitation, and the creation of new open space and parkland.

Industrial Revenue Bonds: The Chicago Dept. of Planning and Development issues tax-exempt, reduced-interest bonds to help finance new construction or equipment purchase at industrial companies that wish to locate in Chicago or expand their facilities.

Bank Participation Loan Program: The Dept. of Planning and Development will help private commercial and industrial companies that wish to expand their local operations to obtain reduced-interest loans through private banks. The loans may be used for construction, renovation, or equipment purchase.

Business Infrastructure Investment Program: This program provides fast-tracked public works improvements to commercial and industrial areas with the help of a 50 percent private sector match.

Business Express: The City of Chicago has set up a special telephone hotline as a first line of communication with business owners. The program gives businesses information on everything from City services to job training programs to public works improvements.

Brownfields Redevelopment: Working through the Departments of Environment, Buildings, and Law, the City provides assistance in cleaning up former industrial sites that have been plagued by environmental contamination. The program aims to prepare these sites for redevelopment. Part of the funding for the program comes through federal CDBG funds. The City reports on its web site that it has allocated $50 million for the program since 1997.

Micro Loan Program: The City provides small loans of up to $20,000 to help small businesses to create jobs through machinery purchase or renovation work.

Enterprise Zones: Chicago includes six Enterprise Zones that are designated by the City and approved by the State of Illinois. These zones are meant to coordinate State and City economic development programs to attract and retain businesses. Enterprise Zones rely on a variety of tax credits and exemptions to make these areas more desirable to business, such as: sales tax exemptions, utility tax exemptions, property tax reductions, job creation tax credits, and investment tax credits, just to name a few.

Commercial and Industrial Tax Reactivation Program: This program aims to acquire property whose owners are delinquent on their taxes, then redevelop that land for productive commercial or industrial use.

Of course, each of these programs has its own list of pluses and minuses. Their inclusion here is not meant as an endorsement of any particular program, but as evidence that ***the economic development landscape is much broader and more diverse than the City leads the public to believe***. For the time being, however, the City is pushing TIF as the primary – if not only – development tool it has at its disposal.

One result of this TIF push has been the rapid expansion of TIFs into areas that do not meet a common-sense definition of "blighted," particularly on Chicago's North and Northwest Sides. This indiscriminate use of TIF may become more difficult as a result of TIF-reform legislation that has passed the Illinois General Assembly. The legislation (S.B. 1032 and H.B. 305) – which as of this writing is awaiting Gov. George Ryan's signature – would improve public participation in the TIF process and make it more difficult to TIF vacant land. The more rigorous blight standards come as a result of widespread abuses of the TIF process downstate and in suburban areas such as establishing TIFs in "vacant" farmland in order to build shopping malls. It remains to be seen how great an effect the legislation will have on the establishment of neighborhood TIFs. But if the TIF reform legislation does make it more difficult to prove that a TIF meets the legal eligibility requirements – either through tougher definitions of "blight" or more public participation – then the City might be compelled to revisit and reactivate some of the other economic tools that have been put on the back burner.

Back to Basics: The debate over the City's TIF program has distracted many people – including many in Chicago's neighborhoods – from the real issues at hand. The debate should not be limited to the pros and cons of tax increment financing. It should be about much more fundamental questions. What do we want our neighborhood to look like? Does our community have a plan for the future? What are our top priorities for change? What assets do we want to protect and improve? What are the best and most equitable uses of public tax dollars to spur neighborhood revitalization? How do we ensure the expansion of economic opportunities for all our citizens and businesses?

Once the stakeholders in a community develop a plan for the future revitalization of a neighborhood, then it is time to sit down and talk about which tools are the most appropriate and cost-effective strategies to implement that plan. There may be a role for a TIF. Maybe a less aggressive tool will accomplish the desired goals and be more sensitive to the needs of the community. In any case, focusing our public discussion solely on TIFs will only distract communities from their big-picture goals. When the federal Empowerment Zones first came on the scene, they became the all-consuming focus of virtually every discussion about the renewal of low-income neighborhoods. Now, TIFs have assumed center stage. In five years, maybe another economic development strategy will be fashionable. Rather than latching onto the pros and cons of a single program, it is time for communities and our government to begin answering the big questions facing our neighborhoods.

Part II: Lessons Learned from the Central Loop TIF

Why Study the Central Loop TIF?

The Central Loop is Chicago's first, biggest, highest-profile, and most controversial TIF district. Because of its size – both in terms of land area and property value – it has by far the most substantial impact on the citywide tax base and other tax-collecting bodies in the region. Its expansion in 1997 to include most of downtown drew the fire of neighborhood groups and fiscal conservatives alike. Many of Chicago's community leaders questioned whether focusing so intently on downtown development when there were so many pressing neighborhood needs was a wise and equitable decision. Many public interest groups feared that cutting off the rest of the City's access to new Loop tax dollars would eventually take away from the revenues available for schools, parks and neighborhoods.

Quick Facts About the Central Loop TIF

Size:	171 acres
Established:	June 1984
Expanded:	February 1997
1997 Property Value:	$1.38 billion
1997 Incremental Taxes:	$37.2 million
Incremental Taxes Since 1990:	$223.3 million
# of Redevelopment Projects:	18
Value of TIF Developer Subsidies:	$143.1 million

The City saw the TIF tool as a way to turn around a part of the central business district that had been hampered by slow growth and a number of deals – including a proposed Hilton Hotel – that fell apart at the last moment.[35] "While much of the Loop area continues to thrive, the north central portion, known as the North Loop, has declined," the City writes in the original North Loop redevelopment plan. The plan goes on to state that "the City of Chicago has long recognized that revitalization of the North Loop is critical to the overall strength and long-term viability of the Central Business District," and argued that the TIF revenue "will play a decisive role in encouraging private investment."[36]

But there are more reasons to study the Central Loop than size or controversy. By some standards, the Central Loop TIF has been successful in accomplishing what it set out to do. Few people will question that the Loop looks better than it has in years, perhaps decades. Downtown has experienced an unprecedented boom in residential development, which in turn has spurred a need for new businesses to serve the influx of people who stay in the Loop after business hours. Streets and sidewalks in the Loop are greener and more attractive. Everywhere you turn, there seems to be a new building being built or an old one renovated from the inside out. The question is: At what cost?

The Early Days of the North Loop TIF

Chicago launches the TIF experiment

When word of the North Loop TIF began circulating in the Winter of 1984, the proposal met with many of the same criticisms and contradictions that characterize today's TIF debate. The *Chicago Tribune* kicked off its 1984 story on the North Loop TIF proposal with the headline "Schools Sacrifice in Loop Plan,"[37] though the paper had previously endorsed the TIF as a "driving force in saving the City's economy."[38] The City Club of Chicago blasted the *Tribune* endorsement of the North Loop TIF in a letter to the editor, calling the TIF plan "a pig in a poke. The important factor in TIF is how these tax funds will be reallocated. . . . The City Club is not opposed to the TIF concept. We are not about to endorse it, however, without knowledge as to how the

[35] "Schools Sacrifice in Loop Plan," *Chicago Tribune*, Feb. 26, 1984, Sec. 2, p1C.
[36] City of Chicago, *North Loop Tax Increment Redevelopment Area Redevelopment Plan and Project*, January 1984, pp. 1-4.
[37] "Schools Sacrifice in Loop Plan," *Chicago Tribune*, Feb. 26, 1984, Sec. ?, p1C.
[38] "A Good Bet for North Loop," *Chicago Tribune*, Feb. 15, 1984, Sec. 1, p14.

funds will be expended."[39] Fifteen years later, most TIF-watchers are still asking the same questions.

The original North Loop TIF – which the City Council approved on June 20, 1984 – was relatively small, at least compared to the massive expansion which would come more than a decade later. The North Loop TIF was roughly square, stretching from W. Wacker Drive to Washington Street, and from La Salle Street to Wabash Avenue. It covered about 32 acres, and included property valued at approximately $53 million. Still, the proposed plan was a massive endeavor. The project budget presented to the City Council listed $226 million in TIF-funded improvements expected over the district's 23-year life.

Then-Mayor Harold Washington's administration opted to pursue the TIF when other urban redevelopment options appeared to be running out. Federal urban renewal dollars had shrunk drastically under the Reagan administration, the owner of the historic Chicago Theater was threatening to level the building unless the City found the cash to purchase the structure, and large parcels of vacant land downtown had failed to attract a willing developer. The Mayor and the City Council had made up its mind. Chicago's TIF experiment had begun.

The Central Loop Expansion

A big thing gets even bigger

By 1997, many would say the original North Loop TIF had begun to run its course. The major projects that had driven the creation of the TIF – the Chicago Theater restoration and the development of City-owned land along Wacker Drive from Clark Street to State Street – had been successfully developed. Wacker Drive now features the glitzy Leo Burnett building, the luxury Renaissance Hotel, and the Donnelly building, a high-rise office and residential development overlooking the Chicago River. The Chicago Theater, once on the brink of demolition, has been refurbished to reflect its former glory.

From the start, some supporters of the Central Loop TIF saw the possibility that the program could change the face of downtown Chicago. "Buildings that can't survive with office space will be converted to condominiums," former Ald. John Buchanan (10th) told the *Chicago Sun-Times* during the expansion debate. "Maybe the future of State Street won't be retail or office space. Maybe it will be condominium development to give people the opportunity to live within the Loop." Other TIF backers saw the expansion as a chance to extend the successes of the North Loop as far south as Congress Pkwy. "If it's anywhere near as successful as the North Loop redevelopment project," said Ald. Edward Burke (14th), "it could dramatically alter the face of the South Loop, which obviously needs some help."[40]

In large part because of the apparent improvements downtown, the City's proposal to increase the size of the original North Loop TIF drew angry reactions from neighborhoods that long had fought for more investment in the communities where the vast majority of Chicagoans lived, worked, and played. The expansion would make the new Central Loop TIF five times larger than the original North Loop project area. But as large as the proposed Central Loop TIF was, it represented only a tiny fraction – less than one-tenth of one percent[41] – of the City's total land area. The rest of Chicago was made up of residential areas, commercial districts and industrial corridors – many of which were in acute need of meaningful public investment.

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39 "The Problems of Tax Increment Financing," *Chicago Tribune*, Feb. 28, 1984, Sec. 1, p10.

40 "Central Loop Plan Clears Council Panel," *Chicago Sun-Times*, Feb. 4, 1997, p14.

41 The Central Loop TIF covers 171 acres. The City of Chicago's total land area is 228.5 sq. mi., or 146,240 acres.

The debate over the Central Loop TIF expansion helped galvanize public opinion about tax increment financing in general. During the previous year – 1996 – the City Council approved nine new TIFs; 1997 would see another six districts pass the Council. *Crain's Chicago Business* – hardly a hotbed of radicalism – called for a "moratorium on future tax districts until the City's TIF program is subjected to an independent, rigorous review." The staff editorial went on to argue:

> Viewed individually, Chicago's TIFs appear to be an attractive vehicle for spurring economic growth in an era of diminished state and federal resources. Editorial pages – including this one – have supported each incremental expansion of the City's TIF program. But the sudden growth of TIF districts suggests it's time to step back and look at their cumulative effect. It's time to pause, to study, to reassess before more TIFs consume an even greater portion of the City.[42]

A separate article in *Crain's* a week earlier suggested that the effect of TIFs on the City's overall fiscal health could be quite substantial. The report predicts that by the end of the decade, about $200 million will have been diverted from the Chicago Public Schools alone because of TIFs. *Crain's* also estimated that Cook County lost an amount equivalent to 1 percent of its budget to TIFs during fiscal year 1995.[43] Because *Crain's* did not disclose exactly how it arrived at that figure, it is difficult to judge its credibility. But the simple fact that no one knows exactly how much money – if any – is being diverted highlights the need for more public scrutiny of TIFs.

Crain's also highlighted the issue of public accountability over TIFs in the wake of the Central Loop expansion. "Of particular significance is what's happening downtown. Within the City's central core, a quasi-independent TIF fiefdom is being created that will operate with its own tax base at the margins of public scrutiny, drawing money from a broad swath of land more than three miles long," the article contends. It goes on to argue that because of the lack of attention given to the approval of TIF subsidies, "decisions to spend large amounts of money are made incrementally, rather than after a high-level policy debate."[44] The result, sometimes, is wasteful or even fraudulent spending. A separate *Crain's* article uncovered questionable TIF expenditures, such as almost $7,000 in luxury furniture for then-Planning Commissioner Valerie Jarrett's office, a $38,000 sidewalk repair contract to a company with known ties to organized crime, and $500,000 in annual subsidies to Gallery 37 – an arts project that counts the Mayor's wife among its primary boosters.[45]

But despite all the attention focused on the Central Loop TIF, no one has taken a comprehensive look at all the approved redevelopment projects or analyzed what lessons the rest of the City can learn from the Central Loop experiment. In some ways, the Central Loop TIF has accomplished what it set out to do – revitalize Chicago's Central City.

Money in the Bank

How much revenue has the Central Loop TIF generated?

The first step in our analysis of the Central Loop TIF begins with the "conventional wisdom." How much has property value increased? How much new tax revenue has been generated by the TIF?

[42] "The City That TIFs: Too Much of a Good Thing?" *Crain's Chicago Business*, July 14, 1997, p10.
[43] "The City That TIFs," *Crain's Chicago Business*, July 7, 1997, p1.
[44] *Ibid.*, p11.
[45] "Loop TIF Spending Questioned," *Crain's Chicago Business*, June 16, 1997, p46.

The property in the original North Loop TIF was valued at approximately $53 million. Between 1984 and 1996 (the last year before the TIF was expanded into the Central Loop), the value of that property ballooned to $389.4 million – more than six times its original value. The 1997 Central Loop expansion added $910.7 million to the TIF's property tax base. Combined with the growth in the original North Loop properties,[46] that brought the total assessed value of the Central Loop TIF to $1.38 billion.

Property Value of the North Loop/Central Loop TIF, 1984-1997 (in millions of dollars)

	1984[47]	1990	1991	1992	1993	1994	1995	1996	1997
Property Value	$54.5	$240.6	$262.5	$302	$365.6	$375.6	$387.7	$389.4	$1,379.4
Annual Growth	N/A		9%	15%	21%	3%	3%	0.4%	N/A[48]

The Central Loop has also generated substantial amounts of new tax revenue. Since 1990, the Central Loop TIF has generated $223.3 million in new tax dollars for use in the area. But the amount of money available for development is far more than that. In 1997, the City of Chicago issued $187 million of bonds to be repaid with future TIF revenues in order to jump start activity in the expanded Central Loop project area.[49] As of the end of 1997, the Central Loop's TIF fund contained $273.2 million ready to be used for downtown redevelopment.[50]

Incremental Taxes in the North Loop/Central Loop TIF, 1990-1997 (in millions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997
Increment	$18.6	$19.7	$24.0	$29.9	$30.3	$31.2	$32.3	$37.2
Annual Growth Rate	N/A	6%	22%	25%	12%	3%	4%	15%

The Central Loop far outpaces any other TIF district in terms of the value of its property or the amount of new tax revenue it has generated. As noted in Part I, Chicago's TIF districts have generated a total of $307 million of new tax revenue since 1990. The North Loop/Central Loop TIF represents about 81 percent of that total.

Make No Small Plans . . .

The Central Loop TIF's Roadmap for Redevelopment

Figuring out TIF terminology can be tricky, especially when the City uses terms like "redevelopment plan" and "redevelopment agreement" to refer to very different things. The **"redevelopment plan"** is the original document that sets forth a general

[46] In 1997, the original North Loop TIF properties had an equalized assessed value of about $468.7 million.

[47] Yearly property tax data was not available from the Cook County Clerk's office for the years 1985 through 1989. Between 1984 and 1990, the North Loop TIF grew at an *average* annual growth rate of 56.8 percent.

[48] This figure is skewed because of the expansion of the North Loop TIF. The 1997 EAV for the parcels in the original project area grew to approximately $468.7 million, a 20 percent increase over 1996.

[49] In 1983, prior to the establishment of the North Loop TIF, the City approved $65 million of "tax anticipation bonds" to be repaid with future TIF dollars, once the North Loop TIF had been established and had begun to generate revenue. Those bond funds were used to finance the first North Loop projects, and have since been paid off.

[50] City of Chicago Dept. of Planning and Development, Annual Report on Central Loop TIF, June 30, 1998.

plan for revitalizing the area for which the TIF has been proposed. It includes broad goals for how redevelopment should take place, but it generally does not list specific projects or the names of private developers who will carry out those plans. The redevelopment plan itself does not authorize specific subsidies to private developers or signal the beginning of work on specific public works projects. The **"redevelopment agreement"** is the contract between the City and a private developer. It spells out the details of the project, any special commitments the developer makes to the City in areas such as employment or design, a project budget, and the maximum size of the TIF subsidy.

The redevelopment plan for the Central Loop lists four general goals:

- Maintain a healthy and viable downtown.
- Improve the business climate in the Central Loop.
- Increase employment and retail opportunities for the City's residents.
- Stabilize and expand tax revenues generated in the Central Loop.

An even more important part of the redevelopment plan is the estimated project budget, which sketches out approximately how much will be spent in each of several categories of eligible TIF expenses. The project budget for the North Loop TIF was $226 million; the expanded Central Loop budget rose to $526 million.

Estimated Project Budget for North Loop/Central Loop TIF

	Original Cost	Added Costs	Total
Land Acquisition, Demolition, Site Preparation, and Relocation Expenses	$171,000,000	$30,000,000	$201,000,000
Theater Rehabilitation	$14,500,000	$60,000,000	$74,500,000
Rehabilitation of Landmarks	$0	$20,000,000	$20,000,000
Other Rehabilitation and Conversion	$0	$60,000,000	$60,000,000
Job Training	$0	$3,000,000	$3,000,000
Bus Station Relocation	$17,500,000	$0	$17,500,000
Service Tunnel	$3,000,000	$0	$3,000,000
Utility Relocation and Adjustments	$3,000,000	$0	$3,000,000
Road Improvements	$2,000,000	$0	$2,000,000
Riverfront Improvements/Pedestrian Walkways	$2,000,000	$0	$2,000,000
Public Improvements	$0	$52,000,000	$52,000,000
Transit Improvements	$6,500,000	$49,000,000	$55,500,000
Planning, Legal, Studies, and Administrative Costs	$2,000,000	$6,000,000	$8,000,000
Financing	$53,000,000	$0	$53,000,000
Contingencies	$8,500,000	$0	$8,500,000
Interest Subsidies	$0	$20,000,000	$20,000,000
Subtotal of Project Costs	$283,000,000	$300,000,000	$583,000,000
Revenues from Sale of City-Owned Land	$57,000,000	$0	$57,000,000
Total Project Costs	**$226,000,000**	**$300,000,000**	**$526,000,000**

[**Note:** "Added Costs" are the amounts added to the budget when the original North Loop TIF was expanded to include the Central Loop.]

It is important to understand that while these budget numbers may be fairly good estimates of how much money is planned to be spent in each of these categories, they are nothing more than estimates. These numbers should not be confused with a report of actual expenditures. Tracking those down is much more difficult.

Jump Start

How the City Lit a Fire Beneath the Loop TIFs

The wave of development that has washed over the North and Central Loop since the TIF was established has not come without help.

More than any other TIF in the City, downtown has benefited from a supply of ready cash up-front, a sort of "shot in the arm" that makes it easier to attract developers and grow property values.

This front funding – which came both from large bond issues and from targeted infrastructure investments – goes a long way toward explaining why the Loop TIF has grown so quickly.

Bond Issues: Both the original North Loop TIF and the Central Loop expansion have benefited from large bond issues that provided a ready supply of cash for redevelopment projects. The first bond issue for the North Loop TIF came in December 1986, when the City issued a $58 million bond for exclusive use in the TIF district. In November 1997, soon after the Central Loop TIF was approved, the City issued a second bond for the area – this one for $187 million.

It is hard to underestimate how important these bond issues have been to development downtown. At the end of 1997, the Central Loop TIF fund contained $273.2 million. Except for the limitation imposed by State law, there are virtually no restrictions on how the City can spend that money (most of which was raised through the bond issue). This huge infusion of cash gives the City tremendous flexibility and substantial bargaining power when it begins to comb the market in search of redevelopment opportunities.

Bond funds made it easier for private investors to take the plunge and put down roots in the Loop TIF and provided a ready reserve of money for public works projects.

A developer who wishes to build a project downtown could count on up-front funding from the City. The City could construct infrastructure projects that would make the area even more attractive to developers and raise the property values of other properties in the area. The alternative is known as a "pay-as-you-go" TIF, an arrangement that is often a much tougher sell for developers. Under a "pay-as-you-go" TIF, the developer must pay for the entire cost of the project up-front, then be reimbursed for some predetermined portion of the eligible costs once TIF funds become available. Having the ready cash provided by a bond issue is a tremendous incentive for attracting private development.

State Street Revitalization: Many Chicagoans believed that the decision to turn North State Street into a "pedestrian mall" and shut it down to automobile traffic was a major factor in the street's decline. "[I]nstead of drawing more shoppers, [the pedestrian mall] drove them away," the Chicago Tribune wrote when the City announced plans to revamp State Street. "For one thing, shoppers didn't think about State Street because they couldn't drive there. For another, the mall was a depressing place to be. Its paving stones were a gloomy gray, and its most prominent characteristic was the line of elephantine buses that lumbered along, filling the air with their fumes."[51]

There was no question in the late 1980s through the mid-1990s that State Street was only a shadow of its former glory. In an effort to reverse this decline, the City

[51] "State Street, Lake Shore Drive to Get New Face," *Chicago Tribune*, January 16, 1996, Sec. 1, p1.

launched a $32 million project in January 1996 intended to revitalize the State Street commercial district from Wacker Drive on the north all the way to Congress Parkway on the south. In addition to $10.6 million in TIF funds, the project managed to secure $21.4 million in federal funds and $739,000 from the Illinois Dept. of Transportation. The project would not only remove the pedestrian mall – built in the late 1970s at a cost of more than $17 million – but would also include decorative lighting, streetscaping, narrower sidewalks and decorative planters.[52]

The State Street revitalization project roughly coincided with several other massive public works projects downtown – the construction of the new $200 million Harold Washington Library along State Street from Van Buren to Congress Parkway, and the $94 million relocation of Lake Shore Drive to make way for the new museum campus. The *Tribune* said the goal of the State Street and Lake Shore Drive projects "is nothing less than to change the face of Chicago."[53] This threesome of major public works projects represented well over $300 million of public investment in and around the downtown.

While the decision to dismantle the State Street mall received widespread support, questions began to arise when the City began discussing the possibility of expanding the North Loop TIF. Critics of the Central Loop expansion argued that the State Street project should be given some time to work. If, as many were saying, the revitalization of State Street would "change the face of the City," then it made sense to give the project time to lure more private investment downtown. Nevertheless, the City approved the Central Loop TIF expansion about a year after the State Street project was complete. In essence, the State Street revitalization was used as one more way to front-fund and jump-start development in the Central Loop TIF.

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[52] "State Street, Lake Shore Drive to Get New Face," *Chicago Tribune*, January 16, 1996, Sec. 1, p1.
[53] *Ibid.*

Who's Getting the Money?

Following the Trail of Redevelopment Agreements

Quick Facts About Loop TIF Deals	
# of Redevelopment Projects:	18
Total TIF Subsidy to Private Developers:	$143.1
Value of TIF Bonds:	$245 million
Other Public Investment:	$7 million
Value of TIF-Funded Public Works:	$110.4 million
Total Private Investment:	$931.3 million

The real meat of a TIF comes with the redevelopment agreements, the City Council-approved contracts between the City and a private developer. NCBG collected all the redevelopment agreements signed by the City since the TIF program began in 1984 – more than 70 in all. Unfortunately, the City of Chicago does not clearly report how much TIF money it actually spent for each year a TIF was in existence, so NCBG had to rely on several sources of information. Between the redevelopment agreements, the City's June 1998 annual reports on the first 44 TIF districts, individual site visits, and research through major Chicago publications, NCBG was able to piece together a picture of what sorts of redevelopment agreements the City is choosing to negotiate. This section focuses in great detail on the redevelopment agreements in the Central Loop TIF.

The Dept. of Planning and Development has either completed or begun construction on 18 separate redevelopment projects. Some of these projects – such as the restoration of the historic Reliance Building at 32 N. State St. – required several redevelopment agreements to work out all the details.[54] NCBG can identify 26 redevelopment agreements in the Central Loop TIF that were approved by the City Council. Simply looking at the numbers, these deals received roughly $162 million, $7 million in other forms of government investment (such as federal Community Development Block Grant funds and historic preservation tax credits), and generated $931.3 million in private investment – a ratio of 5.7 private dollars for every dollar's worth of direct TIF assistance. If we include the other, indirect subsidies – such as public works investments – that ratio falls to 3.5 private dollars for every public dollar spent.

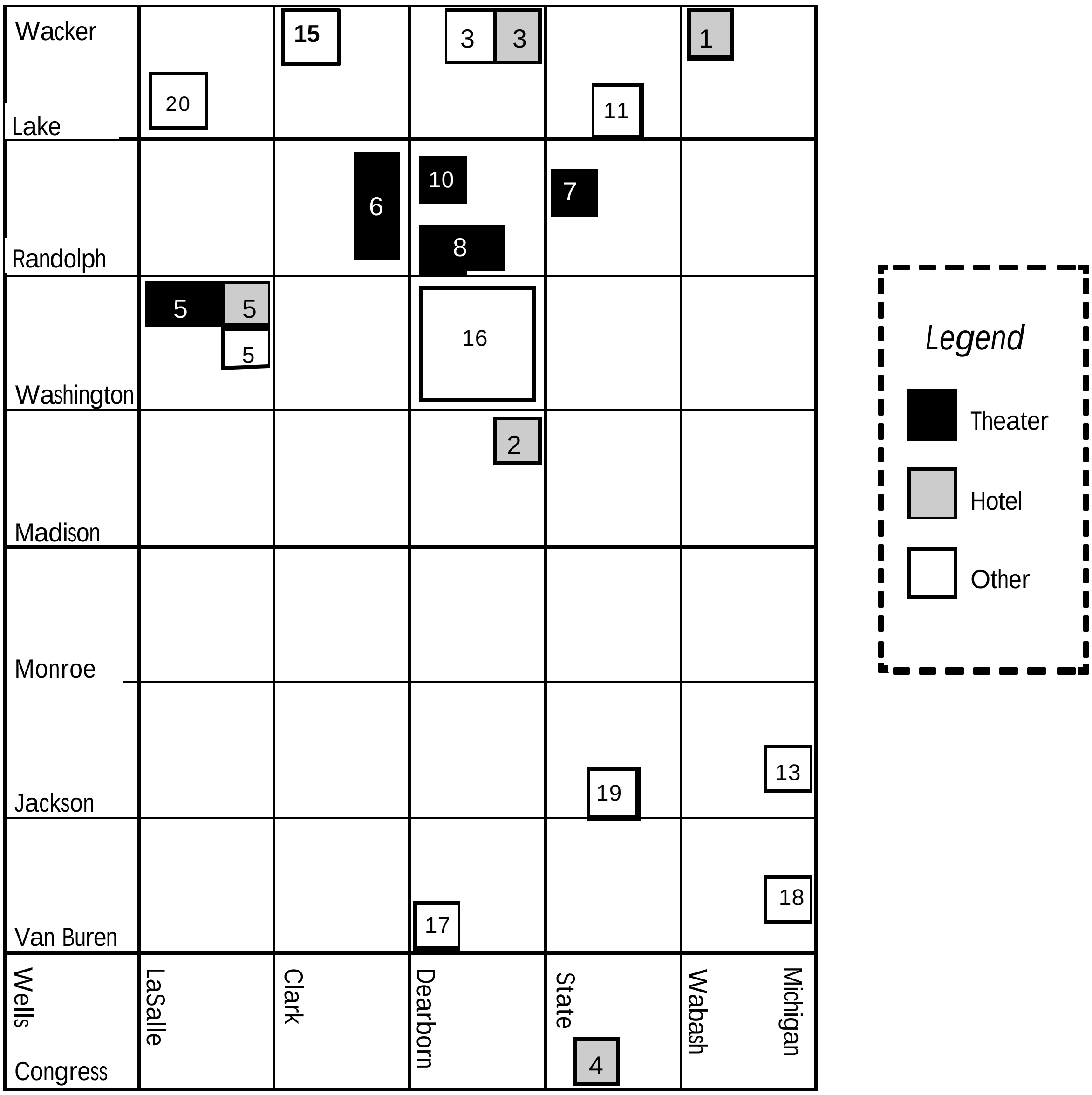
But the numbers don't tell the whole story. What types of deals the City has negotiated? How efficient has the City has been in administering the program downtown? Does the Central Loop TIF meet the real test of success – has it truly benefited *all* of Chicago?

NCBG's analysis of Central Loop TIF spending will focus on four areas:

- The Theater District
- "Block 37"
- Residential and Office Conversions
- Hotels, Hostels, and Dormitories
- Public Works
- Jobs

[54] For an explanation of NCBG's methodology for collecting and evaluating the redevelopment agreements, please see Appendix 1.

Central Loop TIF Developments



1. Oxford House Hotel, 225 N. Wabash
2. Hotel Burnham, 32 N. State
3. Leo Burnett Building/ Renaissance Hotel, 1 W. Wacker
4. American Youth Hostels–Chicago, Inc., 24 E. Congress
5. Hotel Allegro/Palace Theater/Metropolitan Office Building, 134 N. LaSalle
6. Goodman Theater, Lake/State
7. Chicago Theater, 117 N. State
8. Oriental Theater, 32 W. Randolph
10. Theater Row Parking Garage, 195 N. Dearborn
11. Commonwealth Edison, 6-10 E. Lake
13. Chicago Symphony Orchestra, 220 S. Michigan
15. Donnelly Building, 201 N. Clark
16. FJV Venture, Block 37
17. Fisher Building, 343 S. Dearborn
18. 330 S. Michigan Building
19. Chicago Information Technology Exchange, 14 E. Jackson
20. Transportation Building , 203 N. LaSalle

The Theater District: From the beginning, part of the plan for the Loop was to establish a Broadway-style theater district that would lure people downtown after business hours and encourage other businesses – such as restaurants and nightclubs – to open their doors as well. The theater district surrounds perhaps the most talked-about piece of land in the Loop – the so-called "Block 37," which has remained vacant for well over a decade. Some real estate writers have speculated that the theater district would make Block 37 – bordered by State, Washington, Clark, and Randolph Streets – more appealing to an investor and allow the City to attract a showcase project to the site. The Central Loop TIF expansion thrust the idea of a theater district front and center. The project budget for the North Loop TIF included up to $14.5 million in TIF subsidies to create "theater row." After the expansion, an additional $60 million was budgeted for theater projects. So far, four theater projects have received TIF subsidies, plus a "theater row" parking garage to accommodate those who choose to drive downtown. Maps have begun to appear on Loop streetcorners directing pedestrians to various theater row attractions. Another theater project is in the works – the Community Development Commission on May 11, 1999, approved a plan to bring smaller, "cabaret-style" theaters to the upper floors of the buildings at 174 and 178 W. Randolph St., including space to house the long-running production *Shear Madness*.

TIF Projects in the Downtown "Theater District"

Project	TIF Subsidy
Goodman Theater	$18,800,000
Palace Theater	$7,312,875
Oriental Theater	$17,000,000
Chicago Theater	$16,068,000

The theater district has been the most expensive component of the Central Loop TIF. The theater projects have received $59.2 million in direct TIF subsidies while generating $102 million in private investment.[55] That translates into just under $2 in private investment for every dollar of direct TIF subsidy, far below the average for the rest of the Central Loop TIF.[56] The four theater projects represent 37 percent of all Central Loop TIF subsidies while generating only about 11 percent of the private investment.

Getting the theater projects done has required *more* public subsidies while generating proportionately *less* private investment.

Cost aside, the theater district has had to endure its share of controversy:

The most controversial project has been the rehabilitation of the **Oriental Theater** by Toronto-based Livent, Inc. After laying vacant for 15 years, work began in May 1997 on the theater, located at 32 W. Randolph St. The project sparked high hopes among those who had been waiting for a second theater project that would build on the momentum generated by the nearby Chicago Theater. "The North Loop will have another jewel added to its original crown," Mayor Richard M. Daley exclaimed when

[55] Because of inconsistencies in the City's data reporting, no figures for public and private investment are available for the theater row parking garage. The other public funds are associated with the City's acquisition and restoration of the Chicago Theater, which was accomplished with $13.5 million in Community Development Block Grant (CDBG) funds and a $2.5 million Urban Development Action Grant (UDAG).
[56] Because the Palace Theater, Hotel Allegro, and Metropolitan Office Building are grouped into a single redevelopment agreement, NCBG had to prorate the public and private investment and distribute it among the projects. The redevelopment agreement specifies that $2 million in TIF funds went to the hotel, $3,476,802 to the Theater, and $614,979 to the office building, plus $11,508, 219 for HVAC, electrical, and safety systems that all three buildings share. This last category was distributed equally among all three projects. On the private investment side, one-third of the total was attributed to each part of the project. While this is not an exact estimate, NCBG believes it is fair and most likely underestimates how much was actually used for the theater and hotel projects, not exaggerates.

restoration work got off the ground. Lewis Manilow, a cultural philanthropist who pushed the project, predicted that "with the Chicago Theater, the Oriental, and the Goodman . . . you'll have 2 million people a year in the Loop at night."[57]

But the Oriental Theater project has been rocked by scandal and debt. For starters, the project actually received more public subsidies – $17 million – than it generated in private investment ($15 million). Given the lavish subsidy for the project, one would expect that the theater would turn a healthy profit right out of the gate. To the contrary, Livent was forced to declare bankruptcy in November 1998. "The massive scale of the accounting irregularities and inappropriate business practices uncovered at Livent has left no choice but to file for protection under Chapter 11," Livent Chairman Roy Furman said. The company's new management then filed a $225 million lawsuit against Livent founder and former top executive Garth Drabinksy.[58]

The Securities and Exchange Commission later brought its own charges of security and accounting fraud against the company,[59] alleging that high-ranking officials engineered a cover-up that kept investors in the dark about more than $60 million in losses the company piled up between 1996 and the first quarter of 1998 – precisely the time when key decisions were being made about the Oriental Theater rehabilitation. The victims of Livent's scheme were many. Livent shareholders lost about $60 million, according to new Livent Chairman Michael Ovitz. Months after the theater opened in October 1998, contractors who performed the rehabilitation work were still waiting for $8.6 million in unpaid bills from the bankrupt corporation.[60]

Livent went bankrupt in large part because of its own internal problems, but the circumstances surrounding the Oriental Theater deal still should be of great interest to Chicago taxpayers. ***Because of Livent's bad business practices, taxpayer dollars were put at risk.*** Not only had the City invested $17 million in the project, but it held a $16.9 million mortgage on the property.[61] If Livent had failed to obtain a last-minute emergency loan of $23.5 million, the tax dollars the City sunk into the project may have been jeopardized. The circumstances become even more troubling when coupled with allegations that politically connected contractors benefited most from the deal, including:

- The law firm of Daley & George (which counts the Mayor's brother Michael among the partners),
- Attorney Earl Neal, a long-time confidante of the Daley administration and the chief real estate counsel for the Chicago Public Schools,
- U.S. Equities, manager of City and CPS properties,
- Developer Al Friedman, then-chairman of the City's Landmarks Commission.

The Oriental Theater project also highlights the controversial nature of the City's land acquisition powers, often a central part of a TIF-driven redevelopment process. In order to expand the Oriental's stage to Broadway standards, the City sought to acquire the neighboring Oliver Building, gut the interior, and restore its historic facade. The owner of the building, Peter Palivos, contested both the City's "quick-take" land acquisition and its proposed $2.3 million purchase price, eventually forcing the matter to court. A Cook County Circuit Court judge ruled in favor of the City, but

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[57] "Oriental's New Act Stirs Up Hopes," *Chicago Tribune*, April 25, 1997, Sec. 2, p. 1.
[58] "Troubled Livent Inc. Files for Bankruptcy," *Chicago Sun-Times*, Nov. 19, 1998, p52.
[59] For more information on the fraud case against Livent, see Laurie Cohen's fine article on the subject: "Clout Becomes Phantom of the Oriental," *Chicago Tribune*, July 20, 1997, Sec. 1, p1.
[60] "$23.5 Million Loan to Keep Oriental Open," *Chicago Sun-Times*, Dec. 1, 1998, p47.
[61] "Rush Blasts Daley on Oriental Theater Deal," *Chicago Sun-Times*, Dec. 23, 1998, p18.

forced the City to increase its offer to $2.85 million.[62] Palivos' story speaks to a larger problem in the TIF process. While he had the resources to challenge the price offered him by the City, and even to win an extra half-million dollars, most people have neither the time, expertise, or resources to launch a major challenge when the City moves to take their land.

The Oriental Theater project highlights that even downtown development projects come with real risks and deserve thorough review. As with virtually all TIF deals, the pursuit of the Oriental Theater took place almost entirely outside of the public eye and with virtually no debate or review. Should the City be permitted to gamble with our tax dollars without any public input on the potential costs and benefits?

The **Harris-Selwyn Theaters** building – which eventually will be the new home for Chicago's **Goodman Theater** – has also run into some controversy. Efforts to rehabilitate the historic Harris-Selwyn Theaters began in September 1988 when the City negotiated its first redevelopment agreement in an attempt to acquire the land. The project then stalled until May 1990, when the City approved a second redevelopment agreement for the site which allowed it to acquire the property. Still, it wasn't until 1997 that the City Council finally approved the $18.8 million TIF subsidy for the property, and as of June 1999 the project was still far from complete.

"If we keep making these huge grants, I wonder how much is going to be left," Ald. Burton Natarus (42nd) said just before the Harris-Selwyn Theaters and a similar deal for the Palace Theater were approved by the Community Development Commission in July 1997. "I know that theater is very important, but I wonder what will be left for other projects."[63]

In June 1999, the Goodman Theater project again sparked an angry reaction from Ald. Natarus, who this time was joined by Ald. Bernard Stone (50th). The Aldermen said they were "stunned" to learn that developers had left nothing but the exterior facades during their renovation of the Harris and Selwyn Theaters, reducing the entire interior to rubble and leaving only the front wall standing. "These theaters weren't made landmarks because of their facades," Stone said. "It's because they were two of our great theaters. Great performers played on those great stages that are now gone with the wind."

Stone criticized the Dept. of Planning and Development for moving forward with the TIF-funded demolition without adequate oversight. "You don't destroy a building when it's a landmark and you certainly don't destroy it without coming back to the City Council," Stone said. "To bypass a group like us, who always get accused of being insensitive to landmarks, takes a lot of chutzpah."[64]

The controversy surrounding the rehabilitation of the **Palace Thea**ter pit Chicago Blackhawks owner and real-estate mogul William Wirtz against Gery Chico, president of the Chicago school board and a partner at the influential law firm of Altheimer & Gray. Wirtz is the former owner of the Bismark Hotel (now known as the Hotel Allegro) and the Palace Theater. Chico is the attorney hired by Pal/Met Venture, the real estate partnership purchased the hotel/theater complex. Wirtz claimed that he was kept in the dark about plans expand the North Loop TIF to include the Palace Theater when he agreed to sell the property for $20 million. Wirtz said that had he known about the TIF plans – as, he insinuated, the politically connected attorney for Pal/Met had – then he would have sold the property for more money.[65]

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62 "Daley Rips Landmark Building's Owner; Defends His Brother's Law Firm, " *Chicago Sun-Times*, July 10, 1997, p14.
63 "City to Fund North Loop Theaters," *Chicago Sun-Times*, July 8, 1997, p4.
64 "Aldermen Slam Razing of Theaters," *Chicago Sun-Times*, June 3, 1999, p16.
65 "Such a Deal! Tale of a Big TIF Handout," *Crain's Chicago Bus*iness, Sept. 8, 1997.

The **Chicago Theater** restoration was ultimately successful, but not without its share of ups and downs, not to mention a costly lawsuit. The City sued then-owner Plitt Theaters to stop the company from demolishing the landmark building. The City was successful in blocking Plitt from tearing down the theater, but at a cost. The City paid Plitt $11.5 million to acquire the property, plus $2 million in court-ordered damages.[66]

Whether the theater district will be successful in bringing more people downtown and spurring related investments remains to be seen. So far, only two of the theaters are complete. All four of the projects have a stormy past, having to overcome major roadblocks in order to complete the development process. **What is clear is that the theater district has been the single most expensive – and riskiest – component of the Central Loop TIF.**

Block 37: Right in the heart of the theater district is a piece of property known as "Block 37." Bordered by State, Washington, Dearborn, and Randolph Streets, this long-vacant piece of real estate in the heart of downtown has served little purpose besides a place for a downtown ice skating rink during the wintertime. A real estate partnership called FJV Venture – composed of JMB Realty Corp., Metropolitan Structures and restauranteur/real estate developer Lawrence Levy – purchased most of the land on Block 37 from the City in 1989. It had cost the City $46.5 million to purchase and clear the property. FJV bought it for $12.5 million, which translates into roughly $34 million worth of TIF subsidies. FJV already owned several parcels on Block 37, which it had purchased earlier for over $50 million.[67]

The on-again, off-again plans for Block 37 have become a symbol of mismanagement in a place that prides itself as "the City that works." Despite the massive amount of money and political capital that have been poured into the Central Loop TIF, neither FJV nor the City has managed to lure a developer to actually break ground on the property, though there have been several offers and plenty more rumors about the future of downtown's most talked-about piece of land. In September 1998, Cincinnati-based Federated Department Stores, Inc. – the parent company of Macy's – said it would open a major store on the block if the City could come up with a $55 million TIF subsidy.[68] In the face of vocal public criticism, the City backed away from the Macy's plan.

The latest proposal for Block 37 surfaced in June 1999, when word surfaced that FJV had attracted Lord & Taylor to build a major store on the site. The plan, which has not yet formally been proposed, would also include a hotel, an office tower, and green space. Ald. Burton Natarus' was quoted as saying that the developer would likely receive a "reasonable" subsidy in the "20 million dollar range."[69]

Residential and Office Conversions: Mayor Richard M. Daley has sought to transform the Loop into a "24-hour downtown" and shed its stodgy image as nothing more than a 9-to-5 office district. A vital element of this strategy is to entice people to move into the Loop. A sizable community of after-hours residents creates the need for new businesses to serve those residents. That means everything from restaurants, clubs, and theaters to more ordinary services such as grocery stores.

The housing boom doesn't stop at the boundaries of the Central Loop TIF. The phenomenon extends into the seven other "Central City" TIFs that surround downtown. Those projects also contribute to the changing face of downtown. In the Near South TIF, the City has invested $10.7 million in the Central Station townhome complex,

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66 *Journal of the Proceedings of the City Council of the City of Chicago*, Sept. 11, 1985, p19752.
67 "City, JMB Deadlock on State," *Crain's Chicago Business*, Sept. 7, 1998, p1.
68 *Ibid.*
69 "Deal Close on Block 37," *Chicago Sun-Times*, June 25, 1999, p1.

which in turn has sparked a residential renaissance just south of the Loop. Just north of the Loop, agreements are pending that will allow the Near North TIF to fuel a major mixed-income residential redevelopment of the Cabrini-Green public housing project. The Canal/Congress TIF passed with the explicit intention of redeveloping the vacant central Post Office into a major condominium complex. And the two "McCormick Place TIFs" – Michigan/Cermak and Calumet/Cermak – have been eyed as prime sites for new hotels to serve the convention center market. The people who live in or visit these areas are also likely to come downtown looking for restaurants, stores, and entertainment, further bolstering development in the Central Loop TIF.

To the City's credit, the era of tearing down Chicago's historic buildings may be coming to an end. Many of the City's architectural wonders are being restored and rehabilitated, often with TIF subsidies. "The TIF is important because converting downtown office buildings is a close shave financially and a few million in TIF money can make the difference between whether a project works or not," Eugene Stunard, a development consultant, told the *Chicago Sun-Times*.[70] But these redevelopment projects often have another consequence:

Restoring these great buildings often requires large capital investments which, in turn, require the owners to raise rents. In some instances, the owners choose to convert the buildings from lower-rent office space to condominiums or some other sort of project with large investment returns. The unfortunate result is that rents are going up and many tenants are being squeezed out of the Loop market.

The conversion of the historic **Fisher Building**, 343 S. Dearborn Street, is a prime example of this trend.[71] The new owners – Kenard Enterprises – are in the process of converting most of the building into luxury apartments, with the help of $6.6 million in TIF subsidies and $5 million in historic preservation tax credits. Few would contest that the building was in need of substantial restoration work. Maintenance had been deferred for years, and tenants were allowed to leave the building without any effort to replace them. However, the Fisher Building was among a shrinking number of downtown locations with affordable office space. So-called "Class C" office buildings – generally older facilities with fewer of the luxury amenities that characterize the more expensive addresses – have been disappearing from downtown while new, top-dollar office developments are springing up. Without this Class C space, however, many organizations that benefit from easy access to downtown – from nonprofits to small start-up companies – are being forced to look elsewhere for space.

The redevelopment plan for the Central Loop TIF explicitly targets Class C office space. "Occupancy trends for Class C buildings in the [amended Central Loop TIF area] show an even more troubling trend," the report states. "In 1988, the occupancy rate in these Class C buildings was 84 percent. By 1995, the rate had fallen to 71 percent, more than 11 percentage points less than the downtown average of 82 percent. Nearly one-third of the space in these buildings stands vacant. Ten Class C buildings in Added Project Area currently have occupancy rates of 50 percent or less. In contrast, in 1988 only one building was less than 50 percent occupied."[72]

But during 1998, downtown witnessed a sudden reversal of those trends. Downtown office rents shot up by 22 percent, the largest single-year increase in 17 years. The average gross rent rose from $19.84 to $24.26 in a single year. "New owners were especially eager to push up rents," reported Crain's Chicago Business, with some of the largest increases coming in the 46 office buildings sold during 1998. These

[70] Living in the Loop: Turning Office Space into Living Space is Transforming Life in the Loop," *Chicago Sun-Times*, July 18, 1997, Homelife Section, p1.
[71] In the interest of full disclosure, NCBG was among the tenants forced out of the Fisher Building when remodeling work began.
[72] Trkla, Pettigrew, Allen and Payne, "Central Loop Tax Increment Financing Redevelopment Project and Plan," Oct. 24, 1996, p2.

buildings represented 27 million square feet of office space – nearly one-quarter of the downtown market.[73] The market boom has increased demand for older buildings. "With rents for class A office space hovering around $30 per square foot and vacancy rates as low as 2 percent in some parts of downtown Chicago, more tenants are taking another look at Class B properties," Crain's reports.[74]

The **Chicago Information Technology Exchange**, a TIF-funded project at 14 E. Jackson Blvd, is another example of a Class C conversion. The City Council in May 1999 approved a plan to develop this building – until recently Class C office space – into an incubator for high-tech companies. With the help of an $8 million TIF subsidy, the developers promise to create 262 information-technology jobs in an effort to establish Chicago's reputation as the "Silicon Prairie." While the project sailed through the approval process with much fanfare, one member of the Community Development Commission raised a concern about what the project meant for downtown. "Class B and C [office] space are beginning to disappear in downtown Chicago, and at some point we're going to have to consider that," Commissioner Andrew Mooney said at the Feb. 9, 1999, CDC meeting.

The Chicago Information Technology Exchange and the Fisher Building are only two examples of the rapid disappearance of affordable office space downtown. On May 12, 1999 – the same day the City Council approved the Fisher Building conversion – aldermen also approved the redevelopment of the vacant McCormick office building at 330 S. Michigan Avenue. The lower 14 floors will become upgraded office space, while the top six stories will be reborn as condominiums. Several other conversion projects in and around the Central Loop that have not received TIF subsidies amplify the impact of the conversion trend.

Conversion Projects Within the TIF Boundaries:[75]

Building	Address	Description
Silversmith Building	10 S. Wabash	143-room Crown Plaza Hotel
Singer Building	120 S. State	13 condominiums
6 N. Michigan Building	6 N. Michigan	19 stories of condominiums overlooking Grant Park
Art Deco Building	201 N. Wells	190 condominiums priced between $100,000 and $400,000 apiece.
59 E. Van Buren Building	59 E. Van Buren	26-floor condominium complex
68 E. Wacker Place Building	68 E. Wacker Pl.	Loft conversions priced up to $700,000 each

Other Conversion Projects in the Central City

Project	Address	Description
Telephone Building	212 W. Washington	183 condos called the City Center Club
Union Square Building	333 W. Hubbard	217 loft condominiums
The Sexton	360 W. Illinois	231 loft condominiums
Michigan Avenue Lofts	910 S. Michigan	Condominiums
Randolph Place	Randolph & Chicago River	Condominiums
Metropolitan Place	130 S. Canal	Condominiums

[73] "1998 Survey of Downtown Chicago Office Space," *Crain's Chicago Business*, March 1, 1999.
[74] "Grade A Interest In Class B Buildings," *Crain's Chicago Business*, Oct. 19, 1998.
[75] The source for these two tables are: "In the Heart of It All: Downtown Becomes Hometown to Many as Old Offices are Recycled Into New Residences," *Chicago Tribune*, June 6, 1999, Real Estate Section (Section 16), p1, and "Living in the Loop: Turning Office Space into Living Space is Transforming Life in the Loop," *Chicago Sun-Times*, July 18, 1997, Homelife Section, p1.

The *Chicago Tribune* estimates that the average cost of these condominium units is between $160,000 and $240,000,[76] though many units go for far more than that. With prices in the higher end of the real estate market, the type of new Loop resident is probably in the upper-income brackets, and may be a suburban dweller who wants to trade in a long commute for a convenient downtown home. In other words, the trend toward living downtown is redefining the role of the Loop from a daytime business district to a residential and entertainment hub. Small entrepreneurs and civic organizations are finding it harder to fit into the neighborhood where they have operated for years. But these conversions must survive in the ever-volatile real-estate market, where tides sometimes turn suddenly and dramatically. If any of the factors underpinning the current sustained economic boom – and the drive motivating people to move downtown – were to reverse, then the future of the rash of residential conversions becomes uncertain, too.

Hotels, Hostels, and Dorms: In addition to condominium and theater developments in the Loop, the City has pursued other types of development that may help to establish a 24-hour downtown. Most notably, the TIF program has been used to subsidize four downtown hotels and a youth hostel/college dormitory that will bring hundreds of young people downtown. The City has also backed several other college residence hall projects within the Central Loop, though those have not received direct TIF subsidies. The four hotels have received approximately $20.3 million in TIF subsidies.[77] The youth hostel received a $3.5 million TIF subsidy.

TIF-Funded Hotel, Hostel and Dorm Projects in the Central Loop

Project Name	TIF Subsidy
Hotel Burnham	$10,888,713
Stouffer/Renaissance Hotel	$1,850,000
Hotel Allegro	$5,836,073
Oxford House Hotel	$1,700,000
American Youth Hostels	$3,500,000

Most of the hotel projects have moved forward relatively smoothly, with one major exception. The historic **Reliance Building** – 32 N. State St. – has gone through four separate redevelopment agreements dating as far back as December 1991, and rehabilitation of the building still is not complete eight years later.

- The Reliance Building first appears in City records on December 11, 1991, when the City Council approved a deal that would have provided $6 million in TIF funds to AFS Intercultural Programs, Inc. – a company that organizes student exchange programs – to make the Reliance Building its new corporate headquarters. Apparently, that deal crumbled before any TIF money could be disbursed or any construction work begun.

- Between December 1993 and November 1994, the City Council approved a pair of redevelopment agreements for Baldwin Development Co. to study the condition of the building ($1.7 million) and begin restoration work ($6.7 million). Those two contracts received a total of $8.4 million in TIF subsidies, but still there was no tenant for the building.

[76] "In the Heart of It All," *Chicago Tribune*, June 6, 1999, Real Estate Section (Section 16), p1.
[77] Because the Palace Theater, Hotel Allegro, and Metropolitan Office Building are grouped into a single redevelopment agreement, NCBG had to prorate the public and private investment and distribute it among the projects. The redevelopment agreement specifies that $2 million in TIF funds went to the hotel, $3,476,802 to the Theater, and $614,979 to the office building, plus $11,508, 219 for HVAC, electrical, and safety systems that all three buildings share. This last category was distributed equally among all three projects.

- Finally, in June 1998, the City found someone to complete the restoration of the building and move in. On June 19, 1998, the City Council approved Canal Street Hotel Partners as the developer for the Reliance Building. The company received $2.5 million in TIF subsidies, and plans to invest $19.3 million on its own to convert the building. Construction is finally underway on the **Hotel Burnham,** scheduled to open in September 1999.

The story of the Reliance Building illustrates all that can go wrong with a redevelopment agreement. NCBG is not in a position to know precisely who was at fault for the arduous process of restoring the Reliance Building. But the story does point to an important reality about the redevelopment process.

If so many deals could be scuttled and delayed in the TIF where the City has devoted the greatest amount of its time, energy, and resources, what must be going on in the neighborhood TIF districts where the City's commitment has been spotty at best?

The drive to bring people downtown at night hasn't stopped at hotels. Mayor Daley has lent his support to a wide variety of residential projects – from college dormitories to luxury condominiums.

So far, only one project aimed at luring college students to live downtown has received a TIF subsidy, though several others have been built on land sold to local universities by the City. In December 1998, the City Council approved a plan that would provide up to $3.5 million in TIF subsidies to **American Youth Hostels – Chicago** to fund the $14 million conversion of the vacant office building at 24 W. Congress Pkwy. into a youth hostel. The hostel will have 250 year-around beds, plus 125 Columbia College dormitory rooms. "We are always trying to market Chicago to the international community," said Christopher Hill, commissioner of the Dept. of Planning and Development. "If it's through students, that is fine. It works for us."

Other dormitory projects have also received the City's blessing, though they proceeded without any TIF subsidies. Most recently, the School of the Art Institute of Chicago purchased the property next to the Oriental Theater from the City and plans to build a 490-student residence hall on the site. "What made the proposal so attractive to the City was not simply the higher purchase price of $3.6 million, compared with $2.4 million for the other bidders," wrote *Chicago Sun-Times* reporter Fran Spielman. "It was the potential to advance Daley's vision of a 24-hour Loop."

A year earlier, the School of the Art Institute purchased property owned by the Chicago Board of Education at 7 W. Madison Street for $1.3 million and converted it into a 200-bed dormitory. And DePaul University has been scouring the Central Loop and Near South TIFs for dormitory space, though none of those projects have successfully navigated the City's approval process. Still, even deals that don't receive direct subsidies may carry a certain price tag for the City. If the City approves a project that generates less new tax revenue for the TIF district than a possible alternative, then that means less money in the City's treasury in the long run. That's not to say that these are bad projects, or that the City should use maximizing tax revenue as its main criteria for selecting projects. But it does illustrate the fact that *every development decision the City makes has consequences for the larger community*.

Public Works: Just looking at the redevelopment agreements doesn't tell the whole story either. TIF funds may be used to make a wide variety of public improvements as well as subsidizing private developers – everything from street repairs to sewer improvements to parks, schools, and transit stations. Often, basic infrastructure improvements can be an important factor in luring development to a TIF district.

The Central Loop TIF is no exception. City planners have invested large amounts of TIF dollars in the Central Loop to supplement the already substantial public works investment from traditional sources.[78] And the investment doesn't stop with the State Street revitalization described earlier. At least $110 million of TIF money has been allocated for public works projects in the Central Loop. Because the City does not clearly disclose its TIF expenditures over the lifetime of each TIF district, it is difficult to determine exactly how much has been spent. But by using the annual reports the City issued for each TIF district on June 30, 1998, and the City of *Chicago's Capital Improvement Program* documents from 1990 to present, it is possible to estimate how much TIF money went to public works projects in the Central Loop.

The list is revealing. About half of all TIF infrastructure dollars in the Central Loop are being spent on ornamental lighting projects. Another $2 million is being spent on park improvements, $3 million for the Cultural Center, and most of the rest on transit projects. With the exception of the transit improvements, the focus of the TIF infrastructure dollars that NCBG can track is clearly on beautification.

But these TIF-funded projects are by no means the end of the infrastructure story downtown. The City's *Capital Improvement Program* documents reveal that in addition to the $110 million of TIF-funded public works investment, over $106 million ***from the City's general revenue funds*** has been allocated for capital improvements within the boundaries of the Central Loop TIF. This figure does not include "mega-projects" such as the Harold Washington Library Center, the Lake Shore Drive relocation, or the $150 million Millennium Park project – all of which have the effect of bringing more people downtown and therefore increasing the profitability and value of Loop properties.

While not all of these projects could or should have been funded with TIF dollars, some of them were prime candidates for TIF investment. For example, the CIP contains $18.7 million for the Clark/Lake El station and $24 million for the renovation of the State Street subway platform. These would be good candidates for TIF funding because they would support development downtown by making the area more attractive to the shoppers, tourists, and theater-goers needed to make the notion of a 24-hour downtown a reality.

The decision to use TIF funds for beautification rather than basic infrastructure means siphoning off funds from the City's general revenues that otherwise would have gone to neighborhood improvements.

This pattern – paying for beautification with TIF dollars and basic infrastructure costs from the general treasury – has real consequences for the rest of the City. **Rather than making improvements to roads, bridges, and sewers with the TIF dollars required to remain in the Central Loop, the City is drawing from its general funds – the funds that could be used anywhere in the City – to make basic structural infrastructure improvements.** While neighborhoods are being told to wait for key public improvements until TIF dollars become available, City planners are using the Central Loop TIF funds to "gild the lily" with beautification projects of questionable importance.

[78] NCBG has consistently found that the 42nd Ward, which includes the Central Loop and the immediately surrounding neighborhoods, receives a disproportionate share of the public works funds allocated through the City of Chicago's *Capital Improvement Program* documents. NCBG conservatively estimates that the Central Loop was allocated approximately $547 million in public works funds from 1990-2002 – **12 percent of the City total.** For full details, please see *Chicago's Public Works Program: Is It Working for Everyone*, January 1999, available from NCBG.

TIF-Funded Public Works Projects in the Central Loop

Cultural Arts Resource Center (70 E. Randolph St.)	$3,050,000
Lower Wacker Dock Removal	$1,500,000
Randolph/Washington El Station	$13,500,000
Dearborn Subway — Lake/Wells	$1,200,000
Miscellaneous Transit Projects — Central Loop	$24,000,000
State Street Infrastructure — Wacker to Congress	$10,553,400
Central Loop Park Improvements	$2,000,000
Loop Lighting Improvements	
Michigan, Randolph to Congress	$14,900,000
Exterior Lighting, Harold Washington Library	$350,000
Couch Place and Benton Court	$2,400,000
Lake, Wacker to Michigan	$5,069,000
Randolph, Wacker to Michigan	$7,585,000
Madison, Wacker to Michigan	$2,257,500
Washington, Wacker to Michigan	$2,257,500
Jackson, Wacker to Michigan	$2,415,000
Adams, Wacker to Michigan	$2,257,500
Dearborn, Wacker to Congress	$5,061,000
Wells, Wacker to Congress	$127,650
Wabash, Wacker to Congress	$555,000
Clark, Wacker to Congress	$2,032,000
Franklin, Wacker to Congress	$889,000
El Structure at Wells/Randolph	$660,000
Monroe St./Wacker Drive	$1,940,500
Madison/Randolph	$200,000
LaSalle, Wacker to Jackson	$1,273,000
Loop Alley Lighting	$100,000
Van Buren, Wabash to Wells	$2,265,583
Total — Loop Lighting Improvements	**$54,594,733**
Total — Central Loop Public Works Projects	**$110,398,133**

Jobs: The Mayor and his staff have justified the time and effort devoted to developing the Central Loop TIF by arguing that downtown is Chicago's main economic engine. That point is itself debatable – our study of neighborhood TIF districts in the previous section shows that industrial TIFs in particular are especially adept at creating good jobs and leveraging private development. But if downtown were to be the City's main economic force, then it stands to reason that it would be producing a large number of good new jobs, too.

Job creation is potentially the way that all Chicagoans share in the profits of the Central Loop TIF. Even if the new tax dollars generated downtown cannot be shared throughout the City, so the logic goes, then at least Chicago residents can count on good jobs in the booming Central City economy.

Unfortunately, the data on job creation in the Central Loop provided by the City is so inconsistent that it is impossible to fully analyze whether downtown truly is the jobs engine that top officials claim. Overall, the City claims in its June 30, 1998, annual report that the Central Loop TIF created 4,096 jobs and retained 12,800 jobs. In the redevelopment agreements signed since the annual reports were released, developers promise to create another 1,081 full-time jobs, 35 part-time jobs, and 370 construction jobs. These numbers, however, may not tell the whole story because of inconsistencies in how the City reports its data. The Oriental Theater, for example, claims to have created 1,700 new jobs. That many workers would nearly fill the 2,220-seat theater. The fine print admits that this figure includes "indirect" jobs created by the project, though it does not specify what those indirect jobs are.

TIF-Funded Job Creation In the Central Loop TIF

Project	Private Investment	Public Subsidy	Ratio of Private to TIF Investment	Full-Time Jobs Created	Jobs Retained	Cost Per Job Created or Retained
Reliance Building/Hotel Burnham	$19,325,000	$10,888,713	1.8 : 1	N/A	N/A	N/A
Block 37/FJV Venture	$0	$33,972,993	0	0	0	N/A
Chicago Theater	$26,200,000	$16,068,424	1.6 : 1	1,460	0	$11,006
Renaissance Hotel/Leo Burnett Building	$352,000,000	$1,850,000	190 : 1	400	5,300	$325
Donnelly Building	$200,000,000	$600,000	333 : 1	0	4,700	$128
Goodman Theater	$40,783,000	$18,800,000	2.2 : 1			N/A
Oriental Theater	$15,000,000	$17,000,000	0.9 : 1	1,780	0	$9,550
Palace Theater/Hotel Allegro	$60,100,000	$17,600,000	3.4 : 1	456*	0	$38,596
Oxford House Hotel	$25,800,000	$1,700,000	15 : 1	35*	0	$48,571
American Youth Hostels	$1,970,000	$3,500,000	0.6	25*	0	$140,000
Chicago Information Technology Exchange	$28,521,000	$8,000,000	3.6 : 1	285*	0	$28,070
Fisher Building	$22,280,793	$11,600,000	1.9 : 1	0*	0	N/A
330 S. Michigan Ave.	$21,308,030	$2,030,000	10 : 1	280	0	$7,250
Chicago Symphony	$0	$3,300,000	0			N/A
Communications Building	$118,000,000	$9,400,000	13 : 1	0	2,400	$3,967
Totals	$931,287,823	$156,310,130	6 : 1	4,721	12,400	$9,130

Because the data includes such misleading data as the Oriental Theater figures, and because such a high percentage of job activity is in job retention – not the creation of new positions – the overall cost-per-job ratio for the Central Loop TIF is a reasonable $9,130. However, the cost per new job is $33,110 – very close to the per-job cap established by the Community Development Block Grant program that was discussed in the previous section. Furthermore, the above table shows that even given the inflated data for some projects, three Central Loop projects exceed that $35,000 guideline.

As with the neighborhood TIF projects, the City does not disclose information about job quality, wages, or benefits. However, a careful examination of this data does hint that the quality jobs that are produced or retained by the Central Loop TIF dollars may be of such a specialized nature that they are beyond the reach of most Chicagoans. For example, 5,300 jobs were retained at the Leo Burnett advertising agency, and 263 of the jobs created as a result of the Chicago Information Technology Exchange project will be highly skilled infotech jobs. Of course, Chicago wants to attract and retain these types of jobs, too. But there is a big difference between subsidizing professional positions with public dollars and using the TIF program to create good jobs for the people who are hovering at or below the poverty line.

Today's Loop: Winners and Losers

What have we learned from the Central Loop TIF?

The shortcomings of the Central Loop TIF have received substantial attention in many circles, and with good reason. The idea that downtown was deemed a needy, deteriorating area rubs most people outside of downtown the wrong way. There is no doubt that today's downtown looks better than it has in decades. More people are coming downtown, and some of our City's best-loved buildings have remained standing. With the help of two large bond issues, the TIF has generated plenty of money to fund redevelopment projects, and some of those projects have managed to leverage substantial amounts of private investment with relatively few public funds.

But while the "conventional wisdom" would certainly deem the Central Loop TIF a success, the view from Chicago's neighborhoods on the matter is very different. Serious doubts remain about how much the Central Loop TIF has benefited areas beyond downtown. Even more troubling is the potential drawbacks of the TIF. No one really knows for sure how much tax money is being diverted away from other taxing bodies – particularly the Chicago Public Schools – and the City's general treasury. Without assessing the extent of this diversion, the taxpaying public cannot assess the true costs of the expansive Central Loop TIF.

The Central Loop TIF has also spurred new development – particularly residential development – in the neighborhoods just north, south, and west of downtown as well. Many of these projects are being driven forward by the market without a dime of public subsidy. On one hand, this is exactly the type of result that the TIF program hopes for: public subsidies to a few development pioneers begin a "chain reaction" of private investment. But this chain reaction may move so quickly that they overrun existing neighborhoods. The success of the TIF from the perspective of a downtown merchant or developer may be its downfall from the perspective of a nearby neighborhood that must contend with rising property taxes and displacement.

NCBG's analysis of the Central Loop TIF leads us to the following conclusions:

- **Much of the success of the Central Loop TIF in generating money for redevelopment can be attributed to the aggressive support and early front-funding by the City.** The Central Loop TIF epitomizes the marriage of political will and a pool of ready capital. Two major bond issues, combined with large-scale public works investments such as the revitalization of State Street, jump-started the TIF and accelerated development. The City has not in general shown the same level of commitment in the neighborhood TIF districts outside downtown.

- **Downtown development has been expensive.** Of the 18 redevelopment projects downtown, 10 of them do not meet the City's own guidelines for an appropriate ratio of public to private investment (80 percent private, 20 percent public). Certain aspects of the downtown redevelopment – such as the theater district – have required huge amounts of TIF funds while leveraging relatively little private investment.

- **TIF-funded public works expenditures have been used to "gild the lily" downtown.** Most of the Central Loop's TIF-funded infrastructure projects have been used for cosmetic improvements – improvements that could have found other sources of funding that don't have as great a fiscal impact as the TIF program. For example, State Street merchants have established a very successful Special Service Area which in 1998 had a $1.1 million budget for business-area improvements. The Metropolitan Pier and Exposition Authority could fund some beautification projects that would make downtown more attractive to conventiongoers. *As for the City, it should use TIF dollars for projects that otherwise would have been paid for through general revenues.* Using TIF funds for basic infrastructure in the Central Loop – clearly an eligible expense – would free up general revenues for use in the neighborhoods and industrial corridors that need them most. That would mean more good jobs for Chicago residents and a better quality of life throughout the City.

- **There is no evidence that the Central Loop TIF has produced good jobs for Chicago residents.** The City's downtown job creation data is very erratic. Many of the positions that have been created or retained are professional positions that are beyond the reach of most of the Chicagoans who are most in need of jobs. While it is important to keep jobs such as these in the City as well, it does not appear that the Central Loop TIF has been an agent for job creation for the vast majority of Chicagoans who are in need of good jobs that will help them stabilize their neighborhoods.

- **The City has staked the future of downtown on high-end commercial and residential development.** The combination of theaters, hotels, and luxury residential properties downtown bets all the Loop's development chips on the notion of a "24-hour downtown." But projects such as Broadway-style theaters and condominium conversions requires a delicate balance to survive in the long run. If the factors that have contributed to the increased interest in downtown living – a sustained expansion of the national economy, low interest rates, falling crime rates, general optimism about school reform – were to reverse themselves, then these costly Loop projects may cease being profitable. By tipping the balance toward high-end development, the City risks undermining the diversity of downtown and, therefore, its ability to whether economic ups and downs.

Despite these critiques, **the successes of the Central Loop TIF also teach us an important lesson.** With a few exceptions – such as the Oriental Theater and the Reliance Building – the projects spawned by the Central Loop TIF demonstrate what a City can do when it puts the full force of its political will behind getting something done. Even the Reliance Building project has an upside: the City stuck it out through various ups and downs and finally made something happen.

The City must show this same degree of commitment and ingenuity in the neighborhood TIFs. Downtown, the City floated two bond issues – one of them just a few months after the TIF was established – to jump-start development in the Loop. Now the challenge becomes how to demonstrate that same level of commitment to Chicago's neighborhoods while avoiding the pitfalls that befell the Central Loop.

Recommendations for Action

This study has examined both the potential strengths and weaknesses of tax increment financing. It has looked at both instances in which TIFs have succeeded and ways that they have fallen short of their goal of neighborhood revitalization. NCBG recognizes that TIFs are part of Chicago's landscape, and will likely remain so for a long time to come. But NCBG also recognizes that if TIFs are going to become part of a plan for positive change, far-reaching changes will have to be made to how TIFs are created, governed, and implemented:

FRONT-FUND NEIGHBORHOOD TIFs

The City should aggressively pursue innovative ways to front-fund neighborhood TIF districts. Many TIF districts are exhibiting rapid rates of growth in property value, but even after several years they haven't generated enough increment to pay for major redevelopment projects. In order to jump-start development in these areas, the City should look for ways to provide some up-front money for neighborhood TIFs. In some instances – particularly industrial corridors and TIFs in which a potential developer has already been identified – bond issues may be an appropriate tool. In other TIF districts, the City should coordinate existing public resources (infrastructure investments, Community Development Block Grant funds, Illinois FIRST dollars, General Obligation Bonds, public transit spending, etc.) to make key improvements that will make the area more appealing to private investors. Loans from private banks such as those being used for the pilot Neighborhood Investment Fund and Small Business Investment Fund programs may also be a viable source of funding.

SUPPLEMENT, DON'T SUBSTITUTE

TIF dollars should *supplement* existing public investment in neighborhood TIF districts, not *substitute* for it. Many neighborhoods are being told that expenditures that used to come out of the City's general revenues (such as routine street repairs or sewer upgrades) now must wait until TIF dollars are available. Such an approach undermines the TIF program's goal of *increasing* public and private investment in distressed neighborhoods, not just paying for the same projects out of a different pocket. In the fledgling Small Business Investment Fund program, for example, the TIF-subsidized small business grants would take the place of programs such as façade rebate, not supplement them. Using TIF revenue to take the place of other existing revenues, instead of creating a net increase in public commitment, actually slows down the rate of investment in already needy areas.

FOSTER AFFORDABLE DEVELOPMENT FOR EXISTING RESIDENTS & BUSINESSES

The City should find ways that TIF dollars can benefit those who already live and work in the community, not just developers who come in from the outside. The City has taken its first small steps in this direction with the Neighborhood Investment Fund and Small Business Investment Fund pilot programs, but those are small-scale efforts that have yet to prove their effectiveness. As part of this shift in strategy, the City should move away from suburban-style shopping malls and chain stores and focus more on revitalizing traditional retail districts, as well as helping restore residential neighborhoods. *Keeping neighborhoods affordable for existing residents and small businesses must be at the heart of neighborhood redevelopment.*

RENEW INDUSTRIAL FOCUS

The City should harness the potential of industrial TIFs and turn it into good jobs for the Chicago residents who need it most. Industrial TIFs have been the most successful at leveraging private investment and creating good jobs at a relatively low cost to the taxpayer. Because of the success of these existing industrial TIFs, the City should find ways to jump-start the large industrial corridor TIFs that were established in 1998 and 1999.

CREATE GOOD JOBS

The City should require recipients of TIF subsidies to make *binding* agreements up-front about the number of jobs they will create, as well as the type of jobs they will be, the salaries, the benefits, and the proportion that will go to local residents. Projects that would create low-paying or "dead-end" jobs, or do not create a sufficient number of new positions relative to the amount of the TIF subsidy, should not be pursued by the Dept. of Planning and Development. If companies fail to live up to their commitments, the City should be able to impose sanctions, such as revoking all or part of the subsidy. To ensure that local residents can find and keep jobs, the City should take full advantage of the provision that allows TIF proceeds to be used for job training. The City should work with community-based job training agencies and local employers to identify sources for the front-funding of workforce development.

STRENGTHEN CITIZEN RIGHTS IN THE LAND ACQUISITION PROCESS

Citizens should have more rights in the land acquisition process when their homes or businesses are threatened by the use of eminent domain. Even members of the Mayoral-appointed Community Development Commission have complained that they have trouble getting access to the City's acquisition maps for TIF districts, and don't learn about land acquisition plans in a timely manner. Residents and businesses should be notified as soon as their property is placed on an acquisition map, even if there are no immediate plans to move forward with the acquisition. If the City does move to acquire the property, both the owner and the occupants should have more time to respond than the 15 days required by current policies. NCBG recognizes that in some cases it is necessary for the City to use its power of eminent domain to assemble land and make important projects a reality. *But the City must make decisions cautiously and limit its acquisition of occupied properties to an absolute minimum.* The Dept. of Planning and Development should focus on developing already-vacant parcels of land within the TIF wherever possible. In addition, the City should be more explicit and thorough when evaluating whether a private land acquisition is in the "public good."

CREATE COMMUNITY OVERSIGHT COMMITTEES

The City should empower Community Oversight Committees whenever it begins to contemplate a TIF designation, provide those committees with accurate and useful information, and create opportunities for direct, ongoing public participation. More input from the people who know the neighborhood the best will only improve the quality of development that the TIF program funds. The role of these committees does not end if and when the TIF is first approved. The community board should have an active role in how TIF funds are spent during its entire 23-year life. The sort of community planning made possible by such an oversight board would provide a unique opportunity to improve the quality of development that takes place with TIF subsidies while minimizing the disruptive effects of aggressive land acquisition policies and rising property values. NCBG invites the City to work with NCBG's Community TIF Task Force to devise models for such oversight bodies.

Appendix One: Methodology

This report has drawn on a wide variety of sources in an effort to piece together what is taking place in Chicago's TIF districts. Every effort has been made to evaluate the available data in as fair and objective a manner as possible. Information about each TIF district was entered into a comprehensive database that allows us to track how much money has been allocated or spent in each TIF district, details on individual redevelopment agreements such as public investment and job data, and growth in property value or tax revenue. The database also allows us to analyze a variety of TIF characteristics such as size, age, type, and location and relate those variable to performance measures such as the growth in Equalized Assessed Value, tax increment, and private investment.

This study incorporates data from:

Cook County Clerk's Office: The Clerk's office provided data, separated by TIF district, on EAV and increment from tax year 1990 through tax year 1997. Data prior to 1990 was not available, though the relatively small number of TIF districts in existence during that period (11) and the relatively small amount of increment generated ($24,730,000) minimizes the effect that this omission has on the report's overall conclusions. While 69 TIFs are in place at the time this report was written, sufficient data only exists to analyze property value and tax increment trends for 41 TIF districts. These 41 TIFs were selected for study because they have at least one year worth of property tax data beyond their base (or "frozen") EAV.

Redevelopment Plans: NCBG has collected the redevelopment plans for all TIFs approved by the City Council. These documents provided general information about the City's plans for the area, as well as specific information on the size and location of the TIF district. These plans also include an estimated project budget that gives a rough sense of the City's priorities for a particular TIF district. In TIF districts that are too new to have property value information available from the Cook County Clerk's office, redevelopment plans were used to determine the base EAV.

Redevelopment Agreements: The City of Chicago does not publish a comprehensive list of redevelopment agreements, the specific subsidy contracts negotiated between the City and private developers. Efforts to obtain such a list from the Dept. of Planning and Development through the Freedom of Information Act were unsuccessful. In the absence of such a list, NCBG relied on several sources to compile a comprehensive list. As a starting point, NCBG used the City of Chicago's 1998 Annual Reports for each of the first 44 TIF districts. To supplement that list, NCBG staff reviewed records from every City Council meeting from 1984 (when Chicago passed its first TIF district) to present. Those two sources produced a list of 80 redevelopment agreements, though those do not translate into 80 individual projects. Some projects required more than one redevelopment agreement to complete. Other redevelopment agreements, upon further investigation, were found to have not have proceeded to completion after City Council approval. Those agreements were excluded from the analysis. NCBG staff read each redevelopment agreement and entered the relevant information into the TIF database.

City of Chicago 1997 and 1998 Annual Reports on Chicago's TIF Districts: On June 30, 1998, pursuant to Mayor Richard M. Daley's Executive Order 97-2, the City of Chicago released the first annual report on each of Chicago's first 44 TIF districts. NCBG incorporated into its database information on job creation and retention, public and private investment, end-of-year fund balances, TIF-funded City contracts, and other relevant data found in the reports. This report also incorporates data from the second round of annual reports, released July 1, 1999, and covering 64 TIF districts.

City of Chicago Capital Improvement Program Documents: NCBG has analyzed the City of Chicago's Capital Improvement Program (CIP) documents since the organization's inception more than a decade ago. Each CIP spells out a five-year plan for the City's public works spending on such items as roads, streets, sewers, water mains, municipal facilities, industrial infrastructure improvements, streetscaping, and economic development initiatives. The data included in the CIP documents are planned allocations, not actual expenditures. The City of Chicago does not publish a record of actual capital expenditures. Allocations from the CIP documents from 1990 through 1999 were used to supplement our analysis of the City's TIF-funded public works investments.

One additional note: figures for private investment and TIF subsidies were developed from two sources. In those instances when a redevelopment agreement appeared in one of the City's TIF annual reports, we used the figures reported there. In instances where the City failed to acknowledge a redevelopment agreement in the annual reports, we used figures from the redevelopment agreement's TIF-funded project budget table to estimate amounts of private and public investment.

Appendix Two: What is a TIF . . . And How Does it Work?

What is a TIF?

"TIF" is short for "tax increment financing," a special tool that the City of Chicago can use to generate money for economic development. TIFs may also affect how particular pieces of land are used (such as converting industrial property to residential use, or vice-versa), and usually give the City the power to acquire property then re-sell it to a private developer.

How do TIFs work?

TIFs are politically appealing tools because they do not require the City to increase tax rates. Instead, *a TIF brings more money into the City's treasury by raising the value of the property that is taxed*. Higher property values mean more property tax revenue for the City. The City must then reinvest that new revenue — known as the "increment" — in the TIF district from which it came. The process has four basic steps:

1. A municipality, in this case the City of Chicago, designates an area as a TIF district (see *What is the process to set up a TIF district?* below).

2. The amount of tax revenue that other taxing districts (such as the Chicago Public Schools, the Chicago Park District, and Cook County) receive is "frozen" at current levels, which becomes the "base" amount. Until the TIF ends, up to 23 years later, these taxing districts will collect the same level of revenue each year equal to this base amount.

3. The City either makes its own infrastructure improvements to the area, or it gives money to help developers or companies to make their own improvements. This is paid for either by borrowing money (through the sale of bonds) or spending TIF revenue as it comes in (referred to as a "pay-as-you-go" TIF).

4. Once private development has occurred, the properties in the area become more valuable and therefore pay more in property taxes. However, instead of the new revenues being divided among all the taxing bodies, any revenue beyond the base amount goes into a special fund to pay for improvements within the TIF district. This new revenue is called the "increment." As property values appreciate, property owners in the TIF area will pay more in taxes, but they are in theory supposed to directly benefit from those increases in the form of new public improvements, a better business climate, new job opportunities, etc.

Do TIFs generate money for redevelopment right away?

No. In most cases, this new tax money is not immediately available. There are two types of TIFs:

TIFs with bond issues. In some TIF districts, the City of Chicago issues a bond to raise money up-front for use in the TIF district. The City gradually repays the bond over the 23-year life of the TIF with the new property tax revenues generated by the TIF district. A bond issue often helps "jump-start" redevelopment by providing a pool of money that can be spent immediately on development projects. Very few TIF districts — only about a dozen in the entire City — have received the benefits of a bond. In most cases, those seem to be the TIFs in which property values seems to be increasing most rapidly.

"Pay-as-you-go" TIFs. Most TIFs created by the City since 1996 operate as "pay-as-you-go" districts. The City cannot spend money it does not have, so it must either wait until property tax revenue grows on its own or hope that a private developer is willing to invest money up-front in hopes of eventually getting reimbursed from the TIF fund. Often, getting a TIF off the ground will require patience. Finding an investor willing to risk his or her own money, or waiting for property tax revenue to grow on their own because of inflation, will take time, often several years.

What types of projects can TIF money fund?

A TIF works by making investments in public and private projects that ultimately make the TIF district a more desirable place to live, work, or operate a business. In a properly functioning TIF district, these publicly funded investments will then attract private development to the area and increase the TIF district's tax base even more.

There are two broad categories of investments on which TIF dollars may be spent:

Public infrastructure. Public works and infrastructure projects — such as roads, bridges, new or repaired schools, and parks — make an area a more attractive to potential residents and businesses that may wish to move into the TIF. For struggling commercial districts, an infusion of new money can help lure customers by making parking easier or the shopping area more attractive. For industry, better infrastructure — such as more accessible roadways and viaducts with adequate clearance — can be a life-or-death issue. For these businesses, infrastructure improvements may attract new businesses, encourage existing businesses to expand their facilities, and prevent some businesses from leaving Chicago altogether.

Developer Subsidies. Subsidies to private developers can help attract investment to areas that have long been ignored by the private sector. *TIF money cannot be used for new construction of buildings or the purchase of equipment that will be privately owned*, but it can be used for a wide range of other activities that help to "grease the wheels" for developers. These eligible uses for TIF dollars include:

- Planning expenses, such as architectural design and engineering, legal fees, studies and surveys, accounting, and other planning expenses. These costs often make up a large part of a development project, and the TIF subsidy can help defray some of the up-front investment that a developer must make.

- Land assembly and acquisition. The City helps developers acquire parcels of land for projects, including vacant lots, and when necessary combine many smaller properties into a larger site. Help with land assembly is often very desirable for developers who wish to build large projects, such as a shopping mall, a housing development or "subdivision," or an industrial complex. The City has the power to condemn and acquire occupied properties through its power of "eminent domain," though it must pay the current owner fair market value for the property. In these instances, TIF money can also be used to pay the relocation costs of those residents and businesses that have been displaced.

- Job training and career education. TIFs can be used to fund job-training and education programs that help translate new development in the TIF district into living-wage jobs for nearby residents.

- Renovation and rehabilitation. TIFs can be used to subsidize the improvement of existing structures, including their exterior facades.

- Demolition. TIF dollars can be used to pay for the demolition of existing structures.

- Financing and interest subsidies. TIF money can be used to help pay financing costs and the interest on loans the developer takes out to pay for the project.

- Environmental clean-up. This use of TIF dollars is especially helpful at "brownfields" industrial sites, where a developer wishes to redevelop and reuse old or abandoned industrial properties.

How long have TIFs been in existence?

An Illinois state law first authorized TIFs in 1977. The first TIF in Chicago — known at the time as the North Loop TIF — was approved by the City Council in 1984. But the use of TIFs in Chicago didn't really take off until the middle of 1996, when the City and the Dept. of Planning and Development adopted TIFs as their main economic development tool. Well over half of all TIF districts in Chicago have been established in the last three years.

What types of neighborhoods qualify as potential TIF districts?

State law requires the areas designated as TIF districts to be "blighted" or in danger of becoming blighted. This second type of TIF is known as a "conservation area" TIF. Before a TIF is formally proposed, the City hires a private consultant to conduct an extensive, and usually costly, "eligibility study" to determine if the proposed area qualifies under state law. This eligibility study looks at factors such as the age of the building stock, the degree of vacancy, the amount of deterioration, and the level of new construction activity. However, the criteria are flexible enough that municipalities throughout Illinois have created TIF districts in areas that do not fit a common-sense assessment of blight and most likely would have attracted development without a TIF.

Who initiates a TIF district?

Historically, the City relied on developers to propose specific projects to the Dept. of Planning and Development, and pay for the preliminary studies and surveys required by state law. This arrangement precluded many community-based organizations from proposing a TIF unless they had a developer ready to go and the resources (usually a minimum of $20,000) to pay for an eligibility study.

Now, however, the City is creating TIF districts first and then seeking out developers for specific projects, with whom the City eventually signs redevelopment agreements. If the City initiates a TIF district, then it pays for the eligibility study. The earlier developer-driven TIFs tended to be relatively small in terms of land area because they focused on a single project or small set of projects. The newer TIFs that cover an entire residential area, commercial district, or industrial corridor tend to be much larger, some as big as 1200 acres.

Whose Plan Is It, Anyway?

Unfortunately, the process of determining the redevelopment goals that define the TIF generally leaves out the community members themselves. The City is not required to hold public meetings in the community to discuss a TIF proposal, and unless a community puts serious pressure on the Dept. of Planning and Development or their local alderman, such a meeting may never take place. Even if it does, the community's concerns often are not reflected in the final plan.

Some communities have already mapped out their own visions for revitalization of their neighborhoods. But it remains to be seen whether the City will help set up TIFs to implement community-based redevelopment plans or consider these neighborhood goals as guiding principals for existing TIFs. Some of Chicago's "Model Industrial Corridors" have had some success in translating their local priorities into TIF plans. The 12 Model Industrial Corridors received funding from the City to map out a community redevelopment plan, and those plans have helped form the basis of some community-centered industrial TIFs that include significant commitments to job training programs and public improvements.

What is the process to set up a TIF district?

The following steps outline the process usually used by the City to create a TIF district. Many of the steps are required by state law. These steps do not describe the process for issuing bonds, which may take place any time after the TIF district has been created.

1. A company, local alderman, real estate developer, and/or community development organization enters into discussions with the Dept. of Planning and Development about the creation of a TIF district. Since 1996, DPD has in many cases already initiated a TIF before discussions with developers had taken place.

2. A consultant is hired, either by the developer or by the City, to conduct an "eligibility study" and create a "redevelopment area plan," which together can cost up to $250,000. A DPD representative, along with the local alderman, sometimes attends a community meeting to brief community members on the status of the proposal, but this briefing does not constitute a public hearing. There is no law or rule, however, that requires the City to give neighborhood residents early briefings.

3. The completed eligibility study and redevelopment plan are presented jointly at a meeting of the City of Chicago's Community Development Commission (CDC). The CDC then orders a "public hearing," an announcement of which must be published at least 14 days prior to the hearing in the legal notices section of a local newspaper. Property owners within the proposed TIF must be notified by mail at least 14 days before the hearing. *Typically, there is no other form of publicity for the public hearing other than the legal notice.* The law only requires the City to mail written notices to property owners, not residents or businesses that rent their space.

4. Fourteen days after the TIF proposal is made to the CDC, the Joint Review Board — which includes all the local taxing bodies affected by the TIF — reviews and votes on the proposal. Until 1998, the JRB rarely met, and it still does not have nay power to block or reject a TIF proposal.

5. The official public hearing usually takes place at a regular monthly meeting of the CDC, held during the afternoon at City Hall. At the public hearing, the TIF proposal is presented and public comments are allowed. State law does not require the City to respond to those comments or act on public input regarding TIF districts, only that a public hearing take place.

6. The CDC meets after the public meeting (often at the same meeting, immediately following the hearing), and approves the TIF district proposal. The CDC almost never votes down a TIF proposal.

7. The proposal goes to the Chicago Plan Commission if it involves zoning and land use changes. The Plan Commission accepts public comments on the land use aspects of the TIF, though this "public hearing" closely resembles the one held by the CDC.

8. Within 14 to 90 days after the public hearing at the CDC, the TIF proposal goes to the City Council for designation. The Finance Committee has a brief hearing on the proposal, then it goes to the full Council for approval.

9. Each time a private developer wishes to negotiate a specific subsidy — known as a "redevelopment agreement" — that proposal must be approved by the

CDC and the City Council (including the Council's Finance Committee). The redevelopment agreement goes through most of the same steps as the initial TIF proposal, including the opportunity for members of the community to make public comments on the proposal.

10. Mayor Richard M. Daley's Executive Order 97-2 mandates one additional meeting per year of the Joint Review Board (JRB). This new meeting must take place no earlier than July 15 and no later than August 1 of each year. At the meeting, the Joint Review Board is supposed to examine the effectiveness and status of the TIF process. While this meeting is not a public hearing per se, it will be conducted in accordance with the Illinois Public Meetings Act — which means that the public will at least be able to observe what takes place. It is important to note that the Joint Review Board will be evaluating TIF activities that already happened. *JRB members may be able to criticize past decisions, but they will not be able to change them or make different decisions about future TIF implementation.*

Glossary of TIF Terms

Redevelopment Plan: The redevelopment plan is a general roadmap for development over the 23-year life of the TIF, including: (1) redevelopment goals, (2) recommended land uses, and (3) a budget of estimated project costs. When we say a TIF district has been created, we mean that the redevelopment plan has been approved by the City Council.

Redevelopment Agreement: The specific contract signed between the City and a private developer spelling out the details of a specific project and the public subsidy for that project.

Equalized Assessed Value (EAV): The Cook County Assessor's term for the value of a particular piece of property. The "initial" or "base" EAV is the value of the property at the time the TIF district was created.

Increment: The growth in property tax revenue that has occurred since the TIF was put in place. The increment is the amount of money available for investment in the TIF district.

Bond Issue: A bond issue is a way to provide "up-front" money for a TIF district. The City in essence borrows money by selling "IOU" notes to private investors, who later get their money back with interest. The City uses the new property taxes generated in the TIF (the "increment") to pay back this loan.

"Pay-as-you-go" TIF: The "opposite" of a bond issue TIF. Rather than funding the TIF up front by borrowing money, a pay-as-you-go TIF waits for new tax money (the increment) to come in, then spends that money on redevelopment projects.

Annual TIF Reports: The Dept. of Planning and Development must publish no later than July 1 of each year a report on the performance of each TIF district that had been approved as of December 31 of the previous year. One set of these reports has been published so far, on June 30, 1998, and includes information on the first TIF districts that existed as of December 31, 1997. While these reports do not include some of the key information that the public needs to know, there is some valuable data in their pages. The reports contain information on redevelopment agreements, private contracts, bond issues, job creation and retention, and the growth in property value and tax revenue, among other things. NCBG has the complete set, or you can call DPD for a copy at 312-744-4471.

Eminent Domain: The power of the City to acquire private land without the consent of the owner. The City is required, however, to pay the land owner the fair market value of the property and abide by other restrictions. In a TIF district, the City may only acquire land that has been previously listed on an “acquisition map.” The Community Development Commission must approve the creation of the acquisition map, and any changes to that map. The CDC must also approve and take public comment each time the City moves forward with land acquisition.

“Blighted Area” and “Conservation Area” TIFs: State law requires that TIFs may only be established in areas that are considered “blighted” or in danger of becoming blighted. This second type of TIF is known as a “conservation area TIF.” To determine whether a neighborhood is blighted, a consultant hired by the Dept. of Planning and Development looks at factors such as the age of the building stock, the condition of those buildings, and the amount of new investment in the area.

Finding a way to ensure that tax increment financing (TIF) districts benefit existing residents and small businesses has been a major challenge facing the City. Until recently, the Dept. of Planning and Development has made little effort to spread the potential benefits of TIF more broadly. But two new pilot programs – the Neighborhood Investment Fund and the Small Business Investment Fund – may begin to help some people who live or work in TIF districts to fix up their homes or businesses. It is important to note, however, that these programs are still in their early stages and the City has yet to locate substantial funding for them.

Historically, the nature of the TIF subsidies – known as redevelopment agreements – has tended to favor larger developments that allow the City to get a "big bang for its buck." The reasons for this pattern are simple. For one, redeveloping a large piece of vacant land is more likely to see large, quick increases in tax revenue than fixing up many smaller properties. After all, the taxes paid on vacant land are relatively low, so any new development is a boon to the City. Secondly, redevelopment agreements are complicated to negotiate and each one must go through the City Council. Negotiating dozens of full-scale redevelopment agreements with small businesses or homeowners is impractical, and until recently the City has made no effort to find alternative ways to help existing community members.

The Neighborhood Investment Fund (NIF)

The **Neighborhood Investment Fund (NIF)** is divided into two parts – one for single-family units (including two-, three-, and four-flats where one of the units is owner-occupied), and the other for larger, multi-family apartment buildings. The pilot program will provide $1 million in funds to each of two neighborhood TIFs: Bronzeville and Woodlawn. Funds for the program come through loans from private banks. The City in effect borrows $1 million from the bank and agrees to pay it back through TIF revenues.

- The **single-family program**, which will be administered by Neighborhood Housing Services, will provide grants of between $10,000 and $17,500 to make exterior repairs, as well as fix health and safety problems. To qualify, the owner must have lived on the property for at least three years. There are also some income requirements. Funds for the program will come from loans made by a group of eight banks. Those loans will be paid off with new taxes generated by the TIF districts. Single family homes will receive $10,000 grants, two-flats will receive $12,500, three-flats will receive $15,000, and four-flats will receive $17,500 grants.

- The **multi-family program** will be administered by the Community Investment Corporation. Loans will be for up to $50,000, and rents will have to be affordable to people who earn no more than 80 percent of the City's median income. The grants cannot exceed $5,000 per unit of housing.

Which neighborhoods are eligible for the NIF?

So far, just two neighborhood TIFs – Bronzeville and Woodlawn – are eligible for the NIF program. Each TIF will have $1 million to invest in this program, though the City had to recruit a total of eight banks to raise the money.

For an individual homeowner to be eligible for the program, he or she must have lived on the property for at least three years. For families whose income falls below the City median, the NIF program provides a straight grant. For families whose incomes are between 100 and 120 percent of the median, the homeowner will have to match the amount of the grant with either a private grant or their own money.

Small Business Investment Fund (SBIF)

The **Small Business Investment Fund (SBIF)** is designed to help existing small businesses located within a TIF district Grants will be up to $50,000 per business, with a requirement that the grant is matched by the company. The funds can be used for exterior repairs, general rehabilitation work, mechanical work, and environmental clean-up. In order to be eligible for the program, a commercial business must have annual sales of less than $1.5 million. Manufacturing businesses that apply for the SBIF funds must have fewer than 40 employees. Funds for these programs have also been provided by local banks in four TIFs:

- **Jefferson Park:** LaSalle Bank has committed $750,000 to the Jefferson Park SBIF.
- **Portage Park:** Parkway Bank & Trust had committed $1.25 million for the Portage Park SBIF.
- **Kinzie Industrial:** BankAmerica Corp. has committed $2 million for the Kinzie Industrial Corridor SBIF.
- **71st/Stony Island:** ShoreBank Corp. (the parent company of South Shore Bank) is expected to commit $250,000 for the 71st/Stony Island SBIF.

[Source: "Neighborhood TIF Boost," *Crain's Chicago Business*, July 5, 1999, p4]

City officials have also stated at public meetings of the Community Development Commission that several other newly formed TIFs are being considered for the SBIF program, including Clark/Montrose, Ridge/Clark, and 111th/Kedzie.

Appendix Four: An Overview of Chicago's TIF Districts

TIF District	Date Authorized by City Council	Eligible Development Types			Initial Assessed Property Value	1997 Assessed Property Value	Average Annual Growth Rate	Total New Tax Dollars Since 1990 (Increment)	# of TIF Projects	Private Investment	Total Documented TIF Allocations
		Industrial	Commercial	Residential							
126th/ Torrence	12/21/94	Yes	No	No	$3,424,375	$1,011,446	-23%	$0	0	$0	$0
26th/Kostner	4/29/98	No	Yes	Yes	$2,834,583		N/A	$0	0	$0	$0
35th/Halsted	1/14/97	Yes	Yes	Yes	$80,938,228	$72,893,969	-10%	$33,672	2	$24,440,000	$3,284,099
43rd/Cottage Grove	5/14/98	No	Yes	Yes	$7,666,759		N/A	N/A	1	$13,768,646	$2,096,900
43rd/Damen	10/3/94	Yes	No	No	$5,395,485	$6,840,621	9%	$297,744	1	$8,000,000	$3,003,227
49th/St. Lawrence Ave.	1/10/96	No	No	Yes	$683,377	$926,186	36%	$27,787	1	$9,618,041	$2,492,330
60th/Western	5/9/96	Yes	Yes	No	$3,103,985		N/A	$0	1	$9,268,871	$2,652,290
71st/Stony Island	10/7/98	No	Yes	Yes	$53,000,000		N/A	$0	0	$0	$0
72nd/Cicero	11/15/93	Yes	No	No	$6,499,683	$8,283,612	7%	$534,960	1	$174,000,000	$6,368,943
73rd/Kedzie	11/17/93	Yes	No	No	$14,587,780	$15,035,645	0.8%	$161,542	1	$318,900,000	$60,000,000
79th Street Corridor	7/8/98	No	Yes	Yes	$21,807,730		N/A	$0	0	$0	$0
89th/State	4/1/98	No	No	Yes	$3,827,328		N/A	$0	1	$30,037,500	$3,600,000
95th/Stony Island	5/16/90	Yes	Yes	No	$2,321,632	$4,057,267	11%	$1,183,812	1	$21,938,203	$5,138,622
95th/Western	7/13/95	No	Yes	Yes	$16,035,773	$18,014,298	6%	$640,575	1	$4,322,000	$1,609,511
Addison Corridor North	6/4/97	Yes	No	No	$14,400,224	$14,942,648	3.8%	$47,967	0	$0	$0
Archer Courts	5/12/99	No	Yes	Yes	$85,326		N/A	$0	1	$10,079,211	$1,013,258
Bloomingdale/Laramie	8/15/93	Yes	No	No	$1,076,216	$585,800	-11%	$1,411	0	$0	$0
Bronzeville	11/4/98	No	Yes	Yes	$5,969,184		N/A	$0	0	$0	$0
Bryn Mawr/Broadway	12/11/96	No	Yes	Yes	$17,682,409	$18,749,808	6%	$168,315	1	$7,200,000	$3,270,000
Calumet /Cermak	7/29/98	No	Yes	No	$3,219,686		N/A	$0	0	$0	$0
Canal/Congress	11/12/98	No	Yes	Yes	$35,604,890		N/A	$0	0	$0	$0
Central Loop	6/20/84	No	Yes	Yes	$988,298,550	$1,379,439,511	(1)	$223,323,105	18	$945,817,823	$141,910,130
Chatham Ridge	12/18/86	No	Yes	No	$1,369,425	$13,157,277	78%	$5,532,945	2	$43,492,975	$10,324,950
Chinatown Basin	12/18/86	No	Yes	Yes	$199,790	$12,089,809	541%	$5,159,357	2	$23,372,821	$10,052,979
Division/Hooker	7/10/96	Yes	No	No	$380,624	$3,403,548	794%	$667,842	1	$10,764,215	$2,200,021
Division/North Branch	3/15/91	No	No	No	$482,150	$3,078,961	90%	$1,310,017	1	$7,900,000	$2,631,571
Eastman/North Branch	10/7/93	Yes	No	No	$2,222,210	$3,439,197	14%	$253,200	2	$6,762,00	$1,004,642
Edgewater	12/18/86	No	Yes	No	$479,172	$3,196,340	52%	$1,563,166	1	$4,800,000	$1,110,612
Englewood Mall	11/29/89	No	Yes	No	$3,868,736	$8,379,885	15%	$1,136,459	0	$0	$3,114
Fullerton/Normandy	10/7/93	No	Yes	No	$2,031,931	$7,441,811	67%	$1,364,539	1	$14,400,000	$3,114,209
Goose Island	7/10/96	Yes	No	Yes	$13,676,187	$14,782,418	8%	$214,531	1	$24,399,402	$6,528,854
Greater Southwest Industrial	4/20/99	Yes	No	No	$18,333,519		N/A	$0	0	$0	$0
Homan/Arthington	2/15/98	No	Yes	Yes	$4,801,927		N/A	$0	0	$0	$0
Homan/Grand Trunk	12/15/93	Yes	No	No	$35,753	$1,857,479	1273%	$525,758	1	$2,706,100	$524,318
Howard/Paulina	10/14/88	No	Yes	Yes	$10,081,104	$13,594,068	4%	$1,356,028	2	$42,911,800	$8,891,410
Irving/Cicero	7/10/96	No	Yes	No	$8,150,631	$8,830,992	8%	$76,258	1	$15,574,000	$3,700,405

TIF District	Date Authorized by City Council	Eligible Development Types			Initial Assessed Property Value	1997 Assessed Property Value	Average Annual Growth Rate	Total New Tax Dollars Since 1990 (Increment)	# of TIF Projects	Private Investment	Total Documented TIF Allocations
		Industrial	Commercial	Residential							
Jefferson Park	9/19/98	No	Yes	Yes	$25,121,134		N/A	$0	0	$0	$0
King Drive/41st St.	7/13/94	No	No	Yes	$114,305	$1,210,506	319%	$136,216	1	$7,554,961	$1,751,249
Kinzie Industrial	6/10/98	Yes	No	No	$153,738,190		N/A	$0	0	$0	$0
Lincoln/Belmont/Ashland	11/2/94	No	Yes	Yes	$2,457,347	$11,199,003	118%	$1,639,630	1	$29,539,763	$7,594,781
Michigan/Cermak	9/13/89	No	Yes	No	$5,797,051	$8,045,620	39%	873,134	0	$0	$65,333
Near North	7/30/97	No	Yes	Yes	$41,343,348	$49,369,678	19%	$709,768	0	$0	$15,00,000
Near South	11/28/90	Yes	Yes	Yes	$128,812,758	$195,171,648	(2)	$18,357,748	4	$118,206,898	$13,649,000
Near West	3/23/89	No	Yes	No	$36,805,570	$58,250,601	(3)	$6,620,177	2	$4,497,670	$4,305,870
North Branch (North)	7/2/97	Yes	No	No	$29,016,400		N/A	$0	0	$0	$0
North Branch (South)	2/5/98	Yes	No	No	$43,683,329		N/A	$0	0	$0	$0
North/Cicero	7/30/97	No	Yes	No	$1,021,457	$1,255,673	23%	$20,712	1	$17,844,967	$3,000,000
Northwest Industrial	11/16/98	Yes	No	No	$138,000,000		N/A	$0	0	$0	$0
Pilsen	6/10/98	Yes	Yes	No	$114,441,698		N/A	$0	0	$0	$0
Portage Park	9/9/98	Yes	Yes	Yes	$65,328,053		N/A	$0	0	$0	$0
Pulaski Corridor	5/12/99	Yes	No	No	$81,900,000		N/A	$0	0	$0	$0
Read-Dunning	1/11/91	Yes	Yes	Yes	$6,379,879	$22,436,466	42%	$3,917,560	3	$11,168,633	$8,309,425
River South	7/30/97	Yes	Yes	Yes	$64,406,650		N/A	$0	0	$0	$30,617,755
Roosevelt/Canal	7/31/96	No	Yes	No	$19,452	$1,787,728	9090%	$357,997	1	$15,849,361	$4,506,600
Roosevelt/Cicero	2/5/98	Yes	No	No	$48,279,419		N/A	$0	0	$0	$0
Roosevelt/Homan	12/5/90	No	Yes	Yes	$3,539,018	$5,609,309	8%	$739,854	1	$7,018,000	$4,735,000
Roosevelt/Racine	11/4/98	No	Yes	Yes	$6,018,800		N/A	$0	0	$0	$0
Roosevelt/Union	5/12/99	No	Yes	Yes	$3,987,742		N/A	$0	0	$0	$0
Ryan Garfield	12/18/86	No	Yes	No	$166,083	$3,838,967	201%	$2,632,758	1	$4,700,000	$2,335,365
Sanitary Drainage & Ship Canal	7/24/91	Yes	Yes	No	$10,722,329	$17,402,860	10%	$2,840,803	2	$9,700,000	$7,629,127
Stockyards Annex	12/11/96	Yes	No	No	$38,650,630	$45,020,023	16%	$813,279	0	$0	$15,652
Stockyards Industrial-Commercial	3/9/89	Yes	Yes	No	$10,176,325	$33,431,797	29%	$11,957,246	2	$33,994,033	$13,147,819
Stockyards Southeast Quadrant	2/26/92	Yes	Yes	No	$21,527,824	$44,509,131	21%	$7,786,000	3	$23,740,938	$11,929,791
Stony Island Commercial/Burnside Industrial	6/10/98	Yes	Yes	No	$46,396,292		N/A	$0	0	$0	$0
West Grand	6/10/96	No	Yes	No	$465,129	$473,515	2%	$1,651	1	$3,559,000	$800,030
West Pullman	3/11/98	Yes	No	No	$7,567,273		N/A	$0	0	$0	$0
West Ridge/Peterson	10/27/86	No	Yes	No	$1,617,926	$4,082,483	14%	$2,103,172	1	$9,000,000	$3,010,700
Western/Ogden	2/5/98	Yes	No	No	$42,999,317		N/A	$0	0	$0	$0
Woodlawn	1/20/99	No	Yes	Yes	$32,861,310		N/A	$0	0	$0	$0
Totals					**$2,567,938,400**			**$307,055,023**	**70**	**$2,064,092,594**	**$403,929,907**

Appendix Five: Redevelopment Agreements in Chicago's TIF Districts

TIF District	Developer	Description	Date Authorized By City Council	Job Creation	Job Retention	Private Investment	TIF Assistance
35th/Halsted	Trippe Manufacturing Co.	Rehab factory building.	7/29/98	0	370	$7,390,000	$1,600,000
35th/Halsted	Mircale LLC	Pepsi distribution facility.	4/21/99	250	0	$17,050,000	$1,650,000
43rd/Cottage Grove	Hearts United	Affordable housing.		0	0	$13,768,646	$2,096,900
43rd/Damen	Farley Candy	Construct warehouse and distribution facility.	8/3/94	200	0	$8,000,000	$3,000,000
49th/St. Lawrence Ave.	Willard Square Ltd.	Affordable housing.	7/31/96	0	0	$9,618,041	$1,034,800
60th/Western	Plitt/Inner City Entertainment Southwest, LLC	Movie theater.	6/4/97	33	0	$9,268,871	$2,652,290
72nd/Cicero	Tootsie Roll	Rehabilitate candy factory and warehouse.	9/9/98	200	750	$174,000,000	$6,368,943
73rd/Kedzie	Nabisco Inc.	Construct expanded bakery facilities.	6/16/94	0	2000	$318,900,000	$60,000,000
89th/State	Chatham Club LLC	Affordable housing.	9/9/98	0	0	$30,037,500	$3,600,000
95th/Stony Island	95th-Stony LLC	Shopping mall.	4/1/98	400	0	$21,938,203	$5,125,000
95th/Western	DB Beverly LLC (Borders)	Book store.	12/10/97	28	0	$4,322,000	$1,600,000
Archer Courts	City of Chicago	Affordable housing.		0	0	$10,079,211	$1,013,258
Bryn Mawr/Broadway	Bryn Mawr-Belle Shore Limited Partnership	Rehabilitate apartment building for affordable housing.	6/14/97	0	0	$7,200,000	$4,877,000
Central Loop	Libra Partners/Americana/Urban Venture		11/28/84	400	0	$102,000,000	$1,850,000
Central Loop	Canal Street Hotel Partners LP	Hotel Burnham.	6/10/98	0	0	$19,325,000	$2,500,000
Central Loop	Chicago Symphony Orchestra	Expand Symphony Center.		0	0	$0	$3,300,000
Central Loop	Stein/Warshauer	Construct Transportation Building.		0	2800	$118,000,000	$9,400,000
Central Loop	Prime Group (Baird & Warner/Higginbottom/Stein & Co.	Construct Donnelly Building.	10/15/87	0	4700	$200,000,000	$600,000
Central Loop	Oriental Theater/Livent Realty (Chicago) Inc.	Rehabilitate historic theater building and façade of Oliver Building.	3/26/96	1780	0	$15,000,000	$17,000,000
Central Loop	FJV Venture	Acquire land on Block 37.	9/23/87	0	0	$0	$33,972,993
Central Loop	Chicago Theater Restoration Associates	Restore Chicago Theater building and neighboring Page Bros. Building.	9/11/85	1460	0	$26,200,000	$0
Central Loop	Chicago Theater Group/ Linpro Chicago Land Ltd. Partnership/Goodman Theater	Rehabilitate Harris-Selwyn Theaters building for use of Goodman Theater.	5/16/90	0	0	$40,783,000	$18,800,000
Central Loop	Block 16 Hotel Associates/John Buck/CTF Chicago Hotel Ltd. Partnership	Construct Renaissance Hotel and Leo Burnett building.	3/25/86	0	5300	$250,000,000	$1,850,000
Central Loop	Baldwin Development Co. (I) -- Reliance Building	Studies to preserve and rehabilitate historic Reliance Building.	12/15/93	0	0	$0	$1,720,000
Central Loop	Baldwin Devleopment Co. (II) -- Reliance Building	Begin rehabilitation work on Reliance Building.	11/10/94	0	0	$0	$6,668,713

TIF District	Developer	Description	Date Authorized By City Council	Job Creation	Job Retention	Private Investment	TIF Assistance
Central Loop	Fisher Building LLC/Kenard Corp.	Convert office building to luxury apartments.	5/12/99	0	0	$22,280,793	$6,600,000
Central Loop	Chicago Information Technology Exchange	Rehab office building and convert to incubator for high-tech startups.	5/12/99	0	0	$28,521,000	$8,000,000
Central Loop	Harris-Selwyn Theater -- Linpro Chicago Land Limited Partnership	Rehab Harris-Selwyn Theaters building for Goodman Theater.	9/14/88	0	0	$0	$0
Central Loop	CTF Chicago Hotel Limited Partnership/Gallery 37	Reserve space in TIF-subsidized office building for Gallery 37 arts project.	1/12/94	0	0	$0	$0
Central Loop	Tremont Theater Row Partnership	Theater row parking garage.	3/25/86	0	0	$0	$0
Central Loop	Oxford House Hotel/Chicago Oxford Associates	Rehab Oxford House Hotel building.	9/9/98	0	0	$25,800,000	$1,700,000
Central Loop	330 S. Michigan LLC	Rehab residential and office space.	5/12/99	0	0	$21,308,030	$2,030,000
Central Loop	Hotel Allegro/Palace Theater -- Palmet Venture LLC	Rehab hotel and theater complex.	12/10/97	0	0	$60,100,000	$17,600,000
Central Loop	American Youth Hostels -- Chicago, Inc.	Convert office building into youth hostel and Columbia College dormitory.r	12/2/98	0	0	$10,500,000	$3,500,000
Central Loop	Commonwealth Edison	Construct electrical substation.	3/2/94	0	0	$0	$0
Chatham Ridge	Plitt/ICE Chatham, Inc.	Movie theater.	5/20/98	0	0	$12,728,288	$3,827,000
Chatham Ridge	Home Depot	Construct home improvement store.	1/14/98	0	0	$12,209,527	$3,200,000
Chinatown Basin	Chinese-American Development Corp.	Construct neighborhood shopping area.	4/25/90	700	0	$16,000,000	$5,933,040
Chinatown Basin	Jade Garden Limited Partnership	Affordable housing.	5/9/96	0	0	$7,372,821	$318,621
Division/Hooker	Federal Express Corp.	Construct new distribution facility.	7/10/96	45	330	$10,764,215	$2,200,000
Division/North Branch	River North Distributing	Construct new distribution facility.	4/12/91	75	50	$7,900,000	$2,615,000
Eastman/North Branch	Tru-Vue, Inc.	New manufacturing facility.	10/7/93	20	55	$4,234,000	$620,000
Eastman/North Branch	Essanay Studio and Lighting Co.	Construct new sound-stage facility.	6/14/95	0	8	$2,528,000	$381,532
Edgewater	First National Realty & Development/American National Bank (Trustee)	Construct shopping mall.	2/7/90	0	0	$4,800,000	$1,100,000
Fullerton/Normandy	Home Depot	Construct home improvement store.	10/5/94	200	0	$14,400,000	$3,100,000
Goose Island	Republic Aluminum	Expand window and door manufacturer.	9/11/96	202	408	$24,399,402	$6,525,000
Homan/Grand Trunk	Stellar Distribution	Construct new distribution facility.	4/13/94	30	0	$2,706,100	$518,836
Howard/Paulina	Combined Development/Howard LLC	Construct Gateway Plaza shopping center.	6/10/98	395	0	$40,000,000	$8,000,000
Howard/Paulina	Howard Theater, LLC	Rehab historic building for affordable housing and neighborhood retail.	7/29/98	12	15	$2,911,800	$878,200
Irving/Cicero	Six Corners Development, LLC	Construct shopping center.	9/11/96	200	0	$15,574,000	$3,700,000
King Drive/41st St.	Paul G. Stewart Apartments	Affordable housing.	7/13/94	0	0	$7,554,961	$1,750,000

TIF District	Developer	Description	Date Authorized By City Council	Job Creation	Job Retention	Private Investment	TIF Assistance
Lincoln/Belmont/Ashland	Lincoln-Belmont-Ashland LLC	Construct mixed townhouse, loft, and retail development.	11/30/94	313	0	$29,539,763	$7,500,000
Near South	Wabash Ltd. Partnership		9/14/94	0	0	$10,475,698	$2,000,000
Near South	Vietnam Veterans Arts Group	Vietnam Veterans Museum.	2/7/96	0	0	$0	$0
Near South	Central Station Development Corp.	Market-rate townhome development.	7/24/91	0	0	$104,183,600	$10,689,000
Near South	Senior Suites Chicago	Construct affordable senior housing.	7/13/95	5	0	$3,547,600	$960,000
Near West	United Hellenic-American Congress	Commercial streetscaping.	7/10/96	0	0	$44,670	$1,330,000
Near West	Fogleson Development Corp.	New office building.	7/2/92	60	0	$4,453,000	$1,084,115
North/Cicero	North & Cicero Development LLC	Construct shopping center.	4/21/99	0	0	$17,844,967	$3,000,000
Read-Dunning	The Alter Group, Ltd.	Environmental and planning studies.	10/14/92	0	0	$0	$300,000
Read-Dunning	Eli's Chicago's Finest, LLC	Construct cheesecake factory.	2/8/95	25	105	$7,237,000	$1,300,000
Read-Dunning	Chicago-Read Dunning Joint Venture Limited Partnership	Mixed industrial/residential development.	9/14/94	0	0	$3,931,633	$6,156,352
Roosevelt/Canal	Soo T LLC	Construct shopping mall.	10/30/96	100	0	$15,849,361	$4,500,000
Roosevelt/Homan	Plitt/Inner City Entertainment Lawndale LLC	Movie theater.	3/19/97	50	0	$7,018,000	$3,335,000
Ryan Garfield	Ryan Center Limited Partnership	Construct shopping mall.	9/9/87	0	0	$4,700,000	$2,315,000
Sanitary Drainage & Ship Canal	Hawthorne Realty Group	Redevelop industrial park.	7/24/91	0	0	$0	$1,200,000
Sanitary Drainage & Ship Canal	National Wine & Spirits, Inc.	Rehab warehouse and distribution facility.	2/10/93	0	0	$9,700,000	$4,460,000
Stockyards Industrial-Commercial	Culinary Foods, Inc.	Construct manufacturing and warehouse facility.	6/16/94	100	775	$17,909,033	$5,000,000
Stockyards Industrial-Commercial	Yards Developers, Inc.	Construct shopping mall.	5/24/89	400	0	$16,085,000	$2,915,000
Stockyards Southeast Quadrant	OSI Industries, Inc.	Rehab manufacturing facility.	6/10/96	194	497	$12,628,000	$2,045,370
Stockyards Southeast Quadrant	Luster Products, Inc.	Construct manufacturing and warehouse facility.	12/21/92	0	330	$7,705,022	$5,000,000
Stockyards Southeast Quadrant	Marina Cartage, Inc./Michael Tadin	Rehabilitate facility.	2/7/96	5	175	$3,407,916	$1,135,972
West Grand	PetsMart	Construct pet store.	6/10/96	42	0	$3,559,000	$800,000
West Ridge/Peterson	May Company Department Stores	Construct Venture store.	11/27/86	0	0	$9,000,000	$3,000,000