PRAGmatics

The Journal of Community-Based Research

Looking into Tax Increment Financing

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Summer 2002

Editor's Comments:

In this issue we take a closer look at a topic we have touched on before that continues to be a source of controversy in debates over best practice in urban redevelopment. With more than 25% of the city's acreage included in a Tax Increment Financing (TIF) district, questions continue to be raised as to the value and the costs of this approach in improving the city. And, as with all redevelopment tools, from urban renewal to empowerment zones, the issue of who pays and who gets is always on the table. In an effort to shed further light on this debate, *PRAGmatics* offers examples of research and reflection on TIFs as well as an example of how, through a collaborative strategy, joining research with action, a proposal for using TIF funds for job training turns targeted resources into a broader community benefit.

We acknowledge the Joyce Foundation for supporting the work of the Industrial TIF Task Force of the Regional Manufacturing Training Collaborative, the Neighborhood Capital Budget Group and PRAG, and for underwriting the cost of this issue.

Maureen Hellwig

PRAG*matics* is published by the Policy Research Action Group, a collaborative partnership between four Chicago-based universities—Chicago State University, DePaul University, Loyola University Chicago, the University of Illinois Chicago, and more than 20 community organizations.

The photos on the cover are life-size plaster statues created by students of Walter Payton College Prep High School, a TIF-funded project at 1034 N. Wells. These unique likenesses are visible to city dwellers in the front of the building on the first floor.. Rumor has it the tall guy in the middle strongly resembles the school principal.

What is Tax Increment Financing (TIF)?

Tax increment financing, which has become a tool for financing and stimulating urban economic development in practically every state in our nation, was authorized by the Illinois General Assembly in 1977. Like other states, Illinois created its TIF law to allow municipalities to issue bonds to finance infrastructure improvements, undertake land assembly, and provide incentives to lure private investment to blighted urban neighborhoods that show a pattern of losing value. In Illinois, once a TIF district is approved, the designation stays in place for 23 years. During that period, any new property tax revenue generated by development of that geographic district will be used by the city or town for further improvements or development subsidies in that district. Other local taxing bodies, such as public school systems, park districts, counties, etc., continue to divide up the amount of property tax collected before the TIF district was created. In effect, their revenue collection from the area designated a TIF district is frozen for 23 years.

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If you have any suggestions about the journal or want to respond to an article, please write, call, or e-mail PRAG@, Loyola University Chicago, Lewis Towers, 10th Floor 820 N. Michigan Ave. Chicago IL 60611 312-915-8622 kide@luc.edu

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Trickle Down from the Rising Tide—TIFs and Urban Development Policy in Illinois

By Kent D. Redfield

The United States has lacked a national urban policy since the early years of the Carter administration. Either by omission or commission, national policy has shifted away from programs of the 1960s of direct assistance to areas and people with the greatest need, toward indirect programs that emphasize private economic development. Urban policy at the state level has followed the same trend toward programs designed to maximize general economic development through private investment with the belief that areas and people of need will benefit from the overall improvement of the economic base of the community. This indirect approach is held to be more effective and efficient than programs that target people or areas of greatest need.

During the Reagan years, proponents of the private economic growth model for urban redevelopment talked about a "rising tide that lifts all ships," while critics who favored a direct approach to solving the problems of urban poverty and decay talked about "trickle down economics."

Most large and medium cities have explicitly or implicitly adopted a private economic growth model for redevelopment. That model relies on attracting private investment to increase tax revenues that allow for increased city services that improve neighborhoods that improve property values and attract more private investment. One of the hoped for cumulative results is an improvement in the lives of the disadvantaged and areas in which they live.

During the Reagan years, proponents of the private economic growth model for urban redevelopment talked about a "rising tide that lifts all ships," while critics who favored a direct approach to solving the problems of urban poverty and decay talked about "trickle down economics."

Illinois established a TIF program in 1977 to promote the redevelopment of depressed urban areas. TIF was to be a program of last resort to attract economic development to the most depressed areas in Illinois cities. Over the past 25 years, the Illinois TIF program has mutated into a general economic development program firmly within the tradition of the private economic development model for urban redevelopment.

Illinois TIF was sold in the legislature in 1977 as a self-policing program that would only be used in the most economically depressed areas. Concerns were raised that municipalities would abuse their monopolistic position in creating the districts and controlling the redevelopment plans. The loss of municipal property tax revenue from an improper TIF was supposed to restrain municipalities from putting other taxing bodies at risk. Because of the "but for" language in the legislation, and the limited specific funding source for TIF bonds, it was also assumed that the fear of the bond council not approving TIF bonds for a questionable project would restrain municipalities. In practice, the TIF law as written in 1977 has not been an effective deterrent to the aggressive use and abuse of TIF.

The early history of TIF was a failure, as municipalities tried to play by the rules and still attract projects to redevelop depressed areas. Only 26 TIFs were created between 1977 and 1984. In 1984, a program was created that allowed existing TIFs or new TIFs created before 1987 to qualify for state funds based on the growth of state sales tax revenue in the districts. The stated goal was to provide a jump-start for TIFs that would make them more viable. The sales tax TIF program was aggressively marketed to municipalities by economic development consultants who designed the TIF districts and wrote the economic development plans. In 1985 and 1986, 121 new TIFs were created. Most were designed to maximize the amount of state funds for which a municipality could qualify, rather than to promote the redevelopment of depressed areas. The state sales tax TIF program was modified in 1998 and the funding scaled back drastically. However, the clear lesson from the sales tax TIF experience was that the definitions and controls in the Illinois TIF law provided little restraint on a municipality determined to create a TIF district.

Between 1977 and 1984, only 3.3 TIF districts were created per year. After the sales tax TIF experience there was a dramatic increase. Between 1987 and 2002, 635 TIF districts were created, an average of 45 per year.

By 1999, TIF had become the economic development tool of first choice for municipalities rather than a tool of last resort applied only to the most severely depressed areas. The aggressive use of TIF by municipalities prompted lawsuits by other taxing bodies and pressure on the legislature to modify the TIF program.

In 1999, the TIF law was modified by a bill passed by the state legislature and signed by the Governor. The debate in Springfield was not about the fundamental shift in the program from targeting areas of the greatest need for redevelopment to maximizing private economic growth in the community. There was little discussion about whether the poor and depressed areas in Illinois cities would be best served by taking tax dollars from school districts, cities and counties and giving them to private developers or leaving those tax dollars with the taxing bodies to provide services. Rather than reaffirm the original purpose of TIF, the 1999 changes codified the use of TIF as a general economic development tool. Some of the most outrageous abuses, such as using TIF to build golf courses and town halls were prohibited. Greater consultation by the municipality with other taxing bodies and greater public notice were provided. Eligibility criteria for TIF areas were tightened, but the sea change from the original intent in the way the TIF power is used by municipalities was left unchallenged.

Municipalities and private developers have generally found the 1999 TIF reform law very easy to live with. More than 200 of the 782 TIF districts in Illinois have been created since changes became law in 1999. That is a slight increase over the yearly average since 1987. The explosion of TIF districts in Chicago since 1999 (from 68 to 114) illustrates what an aggressive municipality can do with the TIF law, particularly when combined with a lack of political independence and political will from the other taxing bodies directly impacted by the TIF districts.

The history of TIF in Illinois is not unlike the history of the Illinois enterprise zone program. Enterprise zones started out as a program designed to attract private development to a limited number of urban areas of greatest need. In practice, it became a demand driven, politically influenced program with 98 zones created primarily to assist existing Illinois companies or attract a specific company to Illinois. Redeveloping depressed urban areas or improving the lives of poor people became only an indirect, optional outcome of the program.

In the absence of a public debate on urban policy at the state and local level and real reform in the Illinois TIF law, the urban poor in Illinois can only hope that the trickle down from the rising tide will make some difference in their lives and their neighborhoods.

Kent D. Redfield is a professor of political studies at the University of Illinois at Springfield (UIS). He has appointments with the Abraham Lincoln Presidential Center for Governmental Studies at UIS and the University of Illinois' Institute for Government and Public Affairs. In 1977 he worked on the original Illinois tax increment financing legislation as a member of the staff of the Speaker of the House of the Illinois General Assembly.

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NCBG's TIF Study Shows That TIF Is Not Cost-Free

By Patricia Nolan, Director of Community Planning
Helene Berlin, Research Director
Neighborhood Capital Budget Group

By the late 1990s, tax increment financing (TIF) had become the most widely used economic development tool under the administration of Chicago Mayor Richard M. Daley. Almost two-thirds of Chicago's 121 TIF districts were created since 1998. At this writing, at least another half dozen new TIF districts are pending.

Defying most people's notion of "blight," large areas of downtown Chicago and near-Loop neighborhoods are now TIF districts. Today, some 13.4 percent of Chicago's entire property tax base and more than one-quarter of its acreage fall under TIF designation.

Mayor Daley has repeatedly called tax increment financing "the only game in town," and "the only tool" that the City has to spur economic growth. Similarly, most municipal officials in Illinois express a deeply held conviction that without the intervention of TIF, important parts of their cities and towns would not experience economic expansion and the attendant growth of property tax revenues. But, as the use of tax increment financing accelerated in the 1990s, controversy developed over its true costs and benefits. Nowhere has the debate been more intense than in Chicago.

The Downside of TIF

Chicago neighborhood organizations and taxpayers alike have expressed concern about the possible negative effects of TIF. Community residents are concerned that TIF fuels gentrification and accompanying displacement of long-time residents, excessive and abusive use of eminent domain powers, the rapid transformation of a community's historic character, and skyrocketing rents and property taxes that eventually push long-time residents out of a neighborhood. Also, since imposing TIF on large areas of a city means that significantly less of the property tax base is available to local government agencies to help pay for day-to-day services, we are all paying more in property taxes.

This has happened because the growing value of some property is frozen for at least 23 years, and not counted when Cook County calculates the property tax extension, or when taxing bodies prepare their levies. Taxing bodies have not yet lost real dollars to TIF because many taxing districts have yet to reach their rate ceilings. However, when the day comes that taxing bodies want to increase their rate ceilings and the voters say no, then the loss of property tax revenue to taxing bodies will be very real.

Many taxing bodies, however, are not willing to wait for that day. In the late 1990s, public school districts around Illinois joined forces with community groups and affordable housing advocates in demanding TIF reform. Suburban and downstate public school officials have raised objections to the overuse or alleged abuse of TIF, charging that public education systems lose significant revenues during the 23-year lifetime of TIF districts. In this debate, serious questions have been raised about the fiscal impact of tax increment financing. While the Chicago Public Schools is now starting to tap TIF revenues for its school construction program, school officials, who effectively work for City Hall, have said little about TIF's true impact on its overall revenues. Municipalities claim the benefits of TIF in turning around "blighted" areas while maintaining that the program has no substantial costs. After all, the logic goes, none of this development would be taking place without TIF. But Neighborhood Capital Budget Group's (NCBG) initial look at the evidence points to the contrary.

In Chicago, an increasing number of neighborhoods that do not meet a common-sense definition of "blight" are being pulled into the program. As mentioned above, more than 13 percent of Chicago's property tax base is now tied up in TIF districts. Property tax revenues from neighborhoods that are already experiencing healthy growth—even without any special government intervention—are being captured by these districts, in effect cutting off taxing bodies from some of their most promising sources of revenue growth and shifting the tax burden unfairly onto taxpayers.

Until NCBG's TIF impact study, *Who Pays for the Only Game in Town?*, there had been little hard evidence to support the claim that TIF in Chicago is taking a cut out of the public budget and increasing everyone's tax bills. To determine empirically the accuracy of this claim, *Who Pays for the Only Game in Town?* focuses on the fiscal impact of tax increment financing.

Is TIF a Truly Cost-Free Economic Development Tool for Chicago?

This question, although asked frequently, is seldom answered based upon empirical research. Chicago, like other municipalities, uses tax increment financing to increase its property tax base, and thus the revenue stream that supports new development, vital public investments and government services. NCBG looked for empirical answers to the question, "What does it cost to play *the only game in town*?"

To find the answer, NCBG researched these specific questions—

- Were areas that the City designated as TIF Districts already growing in value?
- If so, what has the public paid to promote their future growth?
- How can we tell if the benefits justify the costs?

Basic Assumptions of the Study

NCBG developed a sample of 36 TIF Districts in the City of Chicago for which there is sufficient historical data to track the rate at which property values have increased, measured in Equalized Assessed Value (EAV).

- When TIF is targeted at blighted areas declining in value, the rationale is probably sound: New public improvements and subsidies to developers can help attract business and industry to unused or under-developed land, add jobs and grow the property tax base. At the same time, particularly in the case of residential development, new growth often means additional demands on public services and facilities, such as public schools.
- When TIF districts are created in areas already growing in value—where it is reasonable to assume that a similar growth rate will continue—the effect is one of capturing the "natural growth" of the tax revenue stream and diverting it away from the available tax base, increasing tax rates and shifting the tax burden onto taxpayers.

- The revenue that would have been available is used instead to subsidize TIF development causing tax rates to go up.
- When the natural growth in revenues from already appreciating areas now under TIF designation is captured for 23 years, taxpayers are stuck paying for economic growth that would have likely occurred anyway.
- Because a municipality's schools, public library and park district must expand services to accommodate development in a TIF district, capturing natural tax revenue growth places an unfair burden on taxpayers whose property tax payments must make up that difference.

Major Findings

How much does TIF cost?

Over the lifetime of the 36 districts NCBG analyzed:

- The local taxing bodies drawing on Chicago's property tax base will have $1.3 billion less in taxable land available than if these areas had not been declared TIF districts.
- The Chicago Public Schools will lose out on a projected $631.7 million in property tax revenue that it would have received if these 36 areas had continued to grow at their pre-TIF rates.

TIF ARITHMETIC

NCBG's study projects that total tax revenues from the 36 TIF districts sampled would have increased $1.3 billion over 23 years if prior rates of growth continued.

Using the City's own figures, as TIFs these areas will generate an estimated additional $361.9 million. Adding those two numbers together, more than $1.6 billion would be captured over 23 years in TIF funds in the 36 sample TIF districts:

Here's the math on our 36 sample TIF districts:

$1.3 billion	**estimated natural (without TIF) property tax revenue growth**
+ $ 361.9 million	**estimated TIF-stimulated property tax revenue growth**
$1.661.9 billion	**Total tax revenue yield from the sample 36 TIF districts – lost for 23 years to the City, schools, parks and other taxing bodies**

.➢ The City of Chicago will lose out on the projected $254.8 million it would have received without creating TIF districts in these areas.

➢ The overall gain in projected new property tax revenue that can be attributed to these TIF districts will be $361.9 million.

➢ Collectively, taxpayers will "forego" the benefits of a projected $1.6 billion in property tax revenue during the lifetimes of these TIF districts. Subsequently, tax rates may be higher when so much of the city's total value of land is captured by TIF. The amount foregone is the sum of lost revenue (estimated natural property tax growth of land without TIF designation) and new revenue created by a TIF district.

Tax increment financing is usually sold to the public with assurances that "TIF does not increase your taxes." However, NCBG's study indicates clear warning signs that the liberal use of TIF captures the natural growth in property tax base, putting more strain on every taxpayer and all taxing bodies, a strain more acutely felt in public budget belt-tightening times. Clearly, tax increment financing is not cost-free when already-growing areas are designated as TIF districts.

Reform Strategies/Policy Changes

The Illinois TIF legislation, initially passed in 1977, was amended in 1999 to include clearer definitions of blight factors. The 1999 reform mandated housing impact studies for certain TIF districts, added early public notice provisions, created an Interested Parties Registry, and required an annual report for each TIF district and inclusion of a public member on Joint Review Boards. These reforms have been valuable in ensuring increased accountability and public participation in the creation and administration of TIF districts. However, especially in the City of Chicago, *Who Pays for the Only Game in Town?* points to further needed changes in state law. Based on the study, NCBG recommends that Illinois TIF legislation be revised in the following ways:

➢ Increase the "baseline" of equalized assessed value (EAV) available to taxing bodies by the rate of inflation each year over the life of a TIF district in order to help pay for rising costs associated with development.

➢ Require local municipalities to perform a detailed analysis of the economic and fiscal impact on all taxing districts that will be affected by a TIF district. This analysis should disclose what the impact on the taxpayer is for each component of the tax rate, and should include projections over the time period that the TIF will impact the tax rate.

➢ Require more descriptive and user-friendly reporting processes to affected communities and the public at large about TIF implementation and expenditures.

➢ Require more detailed and user-friendly reporting of redevelopment agreements proposed and approved for TIF districts so that the public understands what subsidies are being drawn from TIF funds, who received those funds, what type of development will or has taken place and who benefited from that development.

➢ Require municipalities to hold annual public meetings in each TIF district, for the duration of the TIF district, at which they would report annual TIF expenditures and updates on the implementation of redevelopment agreements.

➢ Require County agencies that issue property tax bills to notify taxpayers whose property is in TIF districts of that fact by printing a notice on the face of the tax bill, with the name of the TIF district and instructions on signing up to be on the local "Registry of Interested Parties."

Conclusion

Many questions remain unanswered about how to measure the costs and benefits of tax increment financing and whether the benefits of TIF are worth the fiscal costs to other local government bodies. Further study on the impact of TIF is warranted, including a repeat of *Who Pays for the Only Game in Town?* in three to five years. At that point, usable data on TIF increment will be available for considerably more TIF districts, making it possible to apply the methodology created for the first study and measure more precisely the performance and impact of TIF districts on Chicago taxpayers and taxing bodies. NCBG is concerned not only about the fiscal impact that TIF districts are having on our communities, but also the impact TIF is having on overall development patterns, public investments, infrastructure, public housing redevelopment, schools and jobs. Look for upcoming studies that examine the relationship of TIF to community development.

For more information: see www.ncbg.org/tif.
Join the NCBG TIF Community Task Force which meets at 6 pm. on the fourth Tuesday of every month at 407 S. Dearborn, 14th floor conference room. Call 312-939-7198.

The Neighborhood Capital Budget Group is a decade-old coalition of nearly 200 community based organizations and local economic development groups in Chicago dedicated to improving our neighborhoods through well-planned, targeted public investment. The NCBG mission: To ensure the quality of our infrastructure in order to ensure the quality of life for our communities.

Methodological Challenges and Limitations

While the Neighborhood Capital Budget Group took great care in its study, *Who Pays for the Only Game in Town?*, to develop the most reliable methodology and most accurate projections that it could possibly undertake, the entire arena of TIF research faces a number of challenges and limitations.

The City of Chicago and the Cook County Assessor's Office have inadequate data to fully evaluate the historical rates of growth of most of the City's TIF districts. Prior to 1999, the Illinois TIF law did not require municipalities to report the prior EAV history of proposed TIF districts. Since redevelopment often leads to land assembly and altered uses, parcel identification of much of the land in TIF districts changes. Due to these circumstances in many of Chicago's TIF districts, it is not feasible to reconstruct the history of changes in EAV accurately. Of the City's 114 (at the time the study was commenced) TIF districts with approved redevelopment plans, only 48 reported the prior rates of growth for a three-to-five-year period.

Projecting the anticipated revenues, growth in EAV and benefits of tax increment financing is more of an educated guess than a science. No one can predict what will happen in the future to change the value of land, patterns of development or tax rates. A careful analysis of existing market conditions, proposed development, current tax rates and assessed value are all used by TIF consultants to project future increment.

Over the past few years, NCBG has:

- Helped increase public and media attention to the infrastructure issue.
- Documented and exposed inequitable patterns of capital budget allocations.
- Helped scores of community organizations and local economic development organizations fight for—and get—increased public investment in their neighborhoods.
- Persuaded the City to increase its capital investment by over $1 billion in the 1990s.
- Advocated for and won the adoption of a citizen participation process in the City's capital improvement planning. Citizens can now voice their concerns for their community's capital improvement needs through established City procedures including annual public hearings, disclosure of the proposed capital improvement plan, and a citizen's advisory committee to the Mayor.
- Persuaded policy makers that good infrastructure management and increased public investment in infrastructure must have a higher priority in government.

What citizens and the public officials responsible to them should ask about TIF—

What is the true cost and benefit of the net $361.9 million gain in tax revenue?

What could the school and park districts, and the County and City do with the $1.3 billion that would have been available over 23 years if just these 36 TIF districts had not been created?

Schools, for example, will miss out on $631.8 million over 23 years.

That's enough to pay for:

20 new high schools,
or 33 elementary schools,
or 23 years of salaries for 686 teachers.

Even the City of Chicago shortchanges itself. The estimated $254.8 million in tax revenue foregone by the City from these 36 sample TIF districts, would build, over 23 years:

56 new neighborhood libraries,
or 11 new police stations,
or 63 new fire stations,
or 14 new transit stations,
or reinforce 64 miles of streets.

TIFWorks— A Win-Win Campaign for Workers, Employers and Communities

By Maureen Hellwig

Every once in a while, a citizen-driven effort to shape public policy is extraordinarily successful. This is the story of one of those successes.

In September 2001, the Regional Manufacturing Training Collaborative (RMTC) and the Policy Research Action Group (PRAG) launched a research and public policy initiative designed to enhance workforce development resources in the City of Chicago. The goal of the initiative was to secure a new city policy/program that would provide guidelines for spending funds generated in Tax Increment Financing (TIF) districts that had been earmarked for job training in the TIF development agreements. The RMTC is a Chicagoland coalition of community-based job training providers, employer organizations, workforce policy/research centers, and community colleges. A critical component of its mission is to search for and develop new resources for training in the manufacturing sector, which the RMTC believes offers jobs that are accessible to educationally and economically disadvantaged residents, if appropriate and affordable training is provided. PRAG is a consortium of four universities (Chicago State, DePaul, Loyola, the University of Illinois Chicago) and an array of community-based or community-focused organizations that promotes university/community collaborative research and policy development. PRAG and RMTC then approached the Neighborhood Capital Budget Group (NCBG), a recognized expert and information source on TIFs to join the effort.

RMTC's interest in TIFs was sparked by a report put out by NCBG in November 2000. NCBG had reviewed the development agreements for 36 industrial TIFs and reported that the set-asides or earmarks for job training totaled $101.8 million. By 2001, that figure had risen to $157.4 million. The problem was that there were no guidelines for how to access these funds to carry out the training mandate. When RMTC members met with staff from the Mayor's Office of Workforce Development (MOWD) seeking an answer to this question, their advice was to "submit a proposal and we will see if it warrants funding."

Proposals were submitted and some were funded. But, there were no criteria to help interpret acceptance or rejection and no standards to evaluate success or failure. In short, it was a deal-making environment that generally places the uninformed and less connected at a distinct disadvantage. Those workforce initiatives that were being funded with TIF dollars (and they were few) were focused on customized training that has individual companies or associations asking for funds either to train incumbent workers or entry-level new hires for large retailers, like COSTCO, that recently moved to Chicago. Reports on the success or failure or cost/benefit analysis of these efforts were unavailable. Meanwhile, experienced training organizations with a sectoral approach to training, based on business/community partnerships were left out. (The value of this approach has been documented by the Aspen Institute and the Annie E. Casey Foundation.)*

[In 2000,]. . . set-asides for job training in TIFs totaled $101.8 million. By 2001, that figure had risen to $157.4 million. The problem was that there were no guidelines for how to access these funds to carry out the training mandate.

PRAG and the RMTC contacted the Joyce Foundation in March of 2001, with a proposal to put together the necessary research that would support a sectoral approach to training in the industrial TIFs, and a process that would engage key workforce development players in crafting a proposal for a formal city program to spend TIF job training dollars. The Joyce Foundation awarded a grant of $55,000 to the RMTC in August, 2001.

Twenty-six organizations came together in November 2001 to form the RMTC's Industrial TIF Task Force. (See sidebar for list) At the first meeting, NCBG's TIF Handbooks were distributed and the research agenda was mapped out. The goal was to identify all the manufacturing firms in each TIF by sector (SIC Code) and number of employees. (Examples of "sectors" include: metalworking, food processing, printing, and woodworking.) This involved a matching process using data on firms from an electronic version of the Manufacturers News

Inc. and TIF maps developed by the Department of Planning and Development (DPD) through a GIS application. PRAG employed a graduate student, Frank Faine, to gather the data on firms, and the GIS mapping was done by Patricia Nolan at NCBG. (Some of the data resulting from this process can be found in this issue in Steve Heller's article on page 14 and in the final report: *Job Training and Tax Increment Financing: Untapped Dollars for Chicago's Manufacturing Sector, May 2002,* available from PRAG or the RMTC)

As the data collection got under way, an additional benefit of the partnership with NCBG surfaced. Not only did NCBG share their TIF information and GIS mapping capability, but they also extended their mantle of contacts to include RMTC and PRAG. Because NCBG had their own TIF Community Task Force, they were pursuing a broad array of TIF reforms and had established a good working relationship with Alicia Berg, the Commissioner of DPD, which is the city department that oversees TIF policy and operations. NCBG's director, Jackie Leavy, requested that Berg invite Jackie Edens, Commissioner of the Mayor's Office of Workforce Development (MOWD) to a meeting to discuss TIF-related workforce policy. The meeting took place on December 21, 2001.

Commissioner Berg was enthusiastic about the RMTC/PRAG research project and looked forward to receiving the report. Commissioner Edens reported that MOWD was starting to work on a program for spending job training dollars for TIFs. The group urged her to keep the needs of the unemployed in mind as well as the importance of supporting a sectoral strategy. Everyone agreed to meet again when the RMTC Task Force report was ready. That meeting took place April 3.

In the interim, the research was completed and reported to the Industrial TIF Task Force. Briefly, the research revealed that the 32 TIFs studied were home to 1,067 firms employing 58,100 workers, with an average workforce of 50 employees per firm. Over 50% of the workers in industrial TIFs were employed in either metalworking or food processing.

The Task Force then drafted a list of policy recommendations to accompany the research. The key idea that the Task Force wanted to communicate was: "While TIFs are designed to return maximum benefit to the TIF itself, the benefit can be extended to nearby communities and the city as a whole, while still serving companies in the district, through an appropriately designed job training strategy" (RMTC report, p. 10). To achieve this benefit, the task force outlined eleven key concepts that should serve as the basis for a sound TIF job training policy. (See p. 13). It was also decided that the Task Force should release its study at a community forum on May 1, 2002.

Preliminary findings and policy recommendations were presented at the April 3 meeting by RMTC Director, Steve Heller. At the same time, Heller invited both commissioners to attend the May 1 forum to join in the discussion of the full report and to hear from the speakers and panels of employers and training providers that had been invited to participate. Representatives of MOWD indicated that they now had a draft ordinance for what they were calling TIFWorks and were seeking approval at a city council meeting also scheduled for May 1. Given the timing of MOWD's plans, NCBG and RMTC asked for a meeting with MOWD staff and for a copy of the draft ordinance.

The proposed TIFWorks ordinance had two key components. The first was an innovative plan to borrow $5,000,000 from LISC (Local Initiatives Support Corporation) to be made available to TIF districts that were not yet generating an increment from new investment. The LISC money would ensure that job training would be supported in these districts, with LISC being paid back when the new increment became available. The second component, referred to as Exhibit A in the ordinance, basically outlined the program design. It was this component that caused the Industrial TIF Task Force to raise a few red flags.

These are the issues that emerged:

- **No indication was given of what criteria would be used for eligibility for TIFWorks, for selection of TIF districts to benefit from the LISC funds, or for selection of TIFs already generating increment.**
  - ➢ *In other words, what was the anticipated scale of TIFWorks?*

- **TIFWorks proposed funding set-asides for different types of applicants. 75% was to be available to individual or groups of companies; 25% was set aside for not-for-profit training organizations.**
  - ➢ *This program design favors training for incumbent workers v. the unemployed. (MOWD conceded this had been their idea for TIFWorks from the outset; setting aside 25% for training the unemployed was already a concession.) But Task Force members argued that, if the 75/25 split was used, it should be regarded as a floor and not a ceiling for allocation of funds, allowing for the possibility that training for the unemployed might generate more demand than was anticipated.*

- **All firms participating in TIFWorks were required to pay 25% of the cost of training as a match.**
  - ➢ *While this is acceptable and appropriate practice for incumbent worker training, it would not be a workable requirement for*

training the unemployed. Further issues were raised regarding this requirement by small minority-owned business advocates, like the Cosmopolitan Chamber of Commerce, as onerous even for incumbent worker training for their firms.

- **Numerous questions were raised that touched on the issue of evaluation and accountability.**

➢ *If firms had direct access to the lion's share of the dollars, what were the criteria for selecting applicants in terms of their commitment to decent wages, benefits, retention, and staying in Chicago. This issue was defined in the context of many more detailed criteria for CBO participation and performance.*

With these issues in mind, representatives from RMTC, NCBG and PRAG attended the City Council Finance Committee meeting on April 29 to offer testimony, in the hope of making some changes before the ordinance was put to a vote on May 1 at a full Council meeting.

In the course of the meeting, it became apparent that the Aldermen were not aware of Exhibit A. As copies were quickly distributed, Aldermen Toni Preckwinkle (4th Ward) and Alderman Ginger Rugai (19th Ward) responded to the testimony on program design, indicating that there were too many unresolved issues to be voting on TIFWorks the next day. Preckwinkle moved that it be held in committee for 30 days to allow for further study. She also noted she had just received a preliminary copy of the Task Force study on industrial TIFs to be officially released on May 1, and suggested that it would be wise to take advantage of this research, made available to the city at no charge to them, and which might inform their vote.

Before the next meeting of the Finance Committee on May 22, two events occurred. First, the RMTC Industrial TIF Task Force hosted a successful forum on workforce development and the TIF connection on May 1. About 80 people came to First Baptist Congregational Church to hear World Business Chicago talk about the critical need for skilled workers to sustain a healthy Chicago economy, a panel of community-based training organizations and their company partners speak to the benefit of sectorally-focused training for small manufacturers, and to receive a copy of the RMTC/PRAG/NCBG report. Sean Harden, Director of Workforce Solutions at MOWD, the division that would have responsibility for TIFWorks, was given the opportunity to address the audience on MOWD's perspective. A lively debate ensued.

Following the May 1 release of the RMTC report, it was sent to all 50 aldermen along with a briefing paper on the issues outlined above. Those in attendance at the forum were encouraged to talk to their aldermen in preparation for the next Finance Committee meeting and the eventual City Council vote.

The same organizations returned to the Finance Committee on May 22 and were joined by Cosmopolitan Chamber of Commerce board member, R. Lenel James. While MOWD had agreed to remove the 25% match requirement for applicants in the not-for-profit category of applicants, the Chamber was concerned that more was needed for small businesses across the board who would find the match requirement a barrier to participation in TIFWorks.

From left, R. Lenel James, Cosmopolitan Chamber of Commerce, Steve Heller, RMTC Director, Maureen Hellwig, PRAG Director, at NCBG's annual membership meeting.

The group never got to testify. Aldermen took the initiative in questioning representatives from MOWD and DPD pressing for answers on most of the same issues raised by the Task Force. Alderman Preckwinkle also protested a new provision that was added to the ordinance since April 29. She did not like the notion that "placement only" programs could be funded through TIFWorks, emphasizing that training is what is needed. Alderman Coleman (16th Ward) wanted assurances that TIFWorks would address the needs of the unemployed. Aldermen Rugai and Schulter (47th Ward) raised questions concerning accountability. How would the aldermen and their community partners have input into the best use of TIF dollars in their area? The 25% match was challenged on several fronts and alternative considerations were proposed. Suggestions included the use of wages paid incumbent workers while in training as a suitable match in lieu of cash. The issue of a waiver for small firms based on some benchmark criteria for evaluating size was also put on the table. In light of continued intense debate, Chairman Ed Burke recommended an additional 30 day deferral of the vote on TIFWorks.

While 30 days turned into 60, advocacy work behind the scenes finally yielded positive results. A suggestion was made by the joint TIF Task Forces of RMTC and NCBG that the aldermen organize a meeting that would bring all interested parties to the table to hammer out a compromise. Aldermen Preckwinkle and Rugai then contacted the Office of Intergovernmental Affairs (IGA) to put such a process in motion. A meeting was called for July 11 at City Hall and was attended by NCBG, RMTC, PRAG, Chicago Jobs Council, Cosmopolitan Chamber of Commerce, CANDO, the Candy Institute, LEED Council, (all members of the RMTC Industrial TIF Task Force) Industrial Council of Northwest Chicago, Aldermen Burnett (27th), Rugai, Preckwinkle, and Schulter, LISC, MOWD, DPD, and Joan Coogan from IGA.

MOWD came to the meeting with a "substitute ordinance" that was the first written document the key community players had seen since April 10. This revised version embraced several of the changes that the Task Force and key aldermen had been asking for as well as some additional program process issues that emerged in preparation for the July 11 meeting.

Important changes included:

- Wages paid to incumbent workers in training could be credited toward the required match.
- TIFWorks would use the criteria already adopted for the TIF/SBIF (Small Business Improvement Fund) as the basis for a waiver of the 25% match. These criteria are as follows: $1.5 million in annual sales for commercial firms or 40 FTE employees for industrial firms.
- Placement-only programs were removed as an eligible user of TIFWorks.
- It was clarified that all TIFs were eligible for TIFWorks unless removed from the list by the local alderman.
- While the 75%/25% apportionment of TIFWorks funds was retained, MOWD emphasized that they intend to spend the money, and if the current allocation does not reflect demand, it could be adjusted.
- All applicants would be allowed to submit proposals quarterly.
- Proposals for manufacturing training would receive extra points for consideration.

The substitute ordinance adds two other features favored by the Task Force. **Quarterly reporting** to the City Council is required. These reports are to include: number and types of applications received, funding decisions made, progress reports for each application approved, and other information as may be requested by the Council. A provision was also added for the creation of a **TIFWorks Citizen Advisory Committee** to work with the appropriate city agencies regarding the administration and ongoing design issues pertaining to TIFWorks.

On July 24, 2002, TIFWorks passed the City Council Finance Committee without a hitch and was approved by the full city council on July 31.

So, in less than one year, a citizen-supported initiative, facilitated by three key intermediary organizations, catalyzed a new workforce development program for employers and employees of the City of Chicago that garnered support of city council members and put over $157 million of taxpayer dollars on the table for job training. As Steve Heller, RMTC director noted in the organization's newsletter: "It may be just about the most cost-effective policy initiative the Joyce Foundation has ever supported." (The grant that supported the RMTC Task Force was for $55,000.)

While the $157 million figure is a long-term budget projection contingent upon how TIFs perform, NCBG has documented that, to date, there is $92.9 million in the TIF Fund balance. This is based on data available from the city as of December 2000. They suggest that this number has likely increased significantly since then. If the 10% average job training set-aside is applied to this fund, it suggests that there is at least $9.2 million available for job training right now. Compare this to the state's JTED program (Job Training and Economic Development), which supports community-based training organizations and is currently funded at $1.5 million to serve the entire state, and one gets a sense of the magnitude of this new funding source.

Maureen Hellwig is Program Coordinator for the Policy Research Action Group and the Program Director for the Chicago Studies Graduate Program at Loyola University Chicago.
E-mail to mhellwi@luc.edu

Resources:

* Robert Giloth, *Jobs & Economic Development: Strategies and Practice* (Thousand Oaks CA: Sage Publications, 1998).
* Amy K. Glasmeier, Candace Nelson, Jeffery W. Thompson, *Jane Addams Resource Corporation: A Case Study of a Sectoral Employment Development Approach*, Washington DC: Aspen Institute, 2000.

Other Tif Resources:

See *PRAGmatics*, Vol. 2, No. 3, Summer 1999, available at www.luc.edu/curl/prag or phone 312-915-8622.

See www.ncbg.org for Neighborhood Capital Budget Group publications or phone 312-939-7198.

See www.illinois-tif.com/for the Illinois Tax Increment Association.

Industrial TIF Task Force

CANDO   Candy Institute   Center for Economic Policy Analysis
Chicago Federation of Labor   Chicago Jobs Council   Chicago Women in Trades
City Colleges of Chicago   College of Urban Planning & Public Affairs/UIC
Council for Adult Experiential Learning   Good Jobs Illinois
Greater North Pulaski Development Corp.   Greater Southwest Development Corp.
Greater West Town Project   Humboldt Park Economic Development Corp.
Illinois Manufacturing Foundation   Instituto del Progreso Latino
Jane Addams Resource Corp.   Lawndale Business & LDC   LEED Council
Near Northwest Neighborhood Network   Neighborhood Capital Budget Group
NORBIC   North Lawndale Employment Network   Policy Research Action Group
Regional Manufacturing Training Collaborative   SAFER Foundation
Southeast Chicago Development Corp.   South Suburban College
Southwest Women Working Together   World Business Chicago

Industrial TIF Task Force Policy Recommendations

While TIFS are designed to return maximum benefit to the TIF itself, the benefit can be extended to nearby communities and the city as a whole, while still serving companies in the district, through an appropriately designed job training strategy. To achieve this benefit, the task force recommends a TIF job training policy based on these concepts:

- To enhance the quality of the city's labor pool, make TIF job training dollars available to train the unemployed and underemployed, as well as incumbent workers.

- Establish as policy that agreements for industrial TIFs earmark at least 10% of development budget for job training.

- In a manufacturing environment where the average number of employees per firm is 50 or fewer, support a sectoral approach to training that prepares workers for employment in multiple companies in a particular industry.

- Sustain and increase the city's capacity for training over time by prioritizing funding for training programs/schools v. one company at a time.

- Support job training that integrates vocational skills with job readiness and language and math upgrades.

- Support the full cost of training for the unemployed and underemployed, which includes recruitment, assessment, case management, instruction, management of sectoral company relationships, and placement and retention assistance.

- Since a fair evaluation of outcomes and benefits associated with comprehensive sectoral training requires a longer monitoring period than is now allowed, allocate funds to allow for that longer-term follow-up by training organizations.

- Provide training support for companies that agree to meet a minimum set of standards for good business practices, that embrace the goal of family-support wages and that strive to remain competitive.

- Consider the value of hands-on training in the manufacturing sector and allow training dollars to cover the cost of investment in appropriate equipment for training purposes.

- Support the opportunities for self-sufficient, career track employment training in manufacturing for special populations such as women and ex-offenders.

- Allow the Industrial TIF Task Force to help create the most effective program by working with MOWD to refine the TIF Works RFP and work out a user-friendly administrative structure.

Source: Maureen Hellwig and Frank Faine, *Job Training and Tax Increment Financing: Untapped Dollars for Chicago's Manufacturing Sector*, (Chicago: Policy Research Action Group, 2002).

Chicago Industrial TIFs by the Numbers

By Steve Heller

In recent years, the City of Chicago has—for better or worse—made extensive use of Tax Increment Financing Districts to power its economic development efforts. However, until the RMTC Industrial TIF Task Force's Report, *Job Training and Tax Increment Financing (TIF): Untapped Training Dollars for Chicago's Manufacturing Sector*, was published, neither the City government, nor its communities, had any real understanding of the distribution and population patterns of firms and their employees by industrial sector and TIF district. Obviously, such data is vital in order to reach conclusions on how TIF job training funds should best be used to train both current workers and unemployed City residents.

Short of going from door-to-door in each Industrial and Mixed Use TIF in Chicago, how does one conduct a census of manufacturing firms located in them? The Task Force had access to the online database (www.mnileads.com) published by Manufacturers News, Inc., an Evanston, IL based supplier of business information, recognized as the most comprehensive source of data on manufacturers in Chicago. As with any business database, information changes constantly and is subject to reporting and processing discrepancies, but the MNI source was judged as the best one from which to extract the reports that the Task Force required.

The Task Force's first attempt to identify TIF manufacturers involved looking at the ZIP codes associated with the Industrial and Mixed Use TIFs, but it was soon evident that the results were unsatisfactory. ZIP code boundaries by no means exactly match TIF districts and the number of firms identified in TIFs was overstated. Then, the Task Force obtained detailed maps of the 32 (out of a total of 45) Industrial and Mixed Use TIF districts prepared by the Chicago Department of Planning & Development. Using these maps, NCBG staff was able to utilize a GIS mapping application to correlate exact addresses with each TIF. With this in hand, the PRAG researcher extracted from the MNI database those firms located in the TIF districts. Key data captured included the size of each firm (based on employee count) and its sector (based on two-digit major SIC group). Thus, it is possible to sort the database to identify firms by TIF, by sector within a TIF, or by sector across all TIFs.

Overview of the TIFs

The RMTC Industrial TIF Task Force report identified 1,067 manufacturing firms employing 58,100 workers in the 32 TIF districts studied. The study was limited to the sixteen largest manufacturing sectors as defined by Standard Industrial Classification codes. The average number of jobs per TIF is 1,815; the median is 1,048. The report highlights a critical fact to be considered for the design of job training strategies and programs—Chicago manufacturers are generally not large firms. The average number of workers per firm in the industrial TIF districts is 54, and this drops to 49 if the five firms with over 1,000 employees are excluded. However, the range of circumstances within TIFs renders an average somewhat meaningless. There are five TIFs consisting of one company only, such as 126th and Torrance that encompasses the Ford assembly plant. Employment in these districts ranges from 100 to nearly 2800 workers. At the high end, the Kinzie TIF includes 270 firms with 7784 employees and the Northwest Industrial Corridor TIF has 146 firms with 8231 workers. Three TIFs—51st/Archer, Bloomingdale-Laramie, and Western Ave./North—have multiple employers, but fewer than 100 jobs in each. Among TIFs, average employment among firms in dominant sectors varies considerably. For example, in the Kinzie district, there are 103 companies in the consolidated metals sector, with average employment of 30 workers—23% smaller than the average size in all TIFs. In firms of this size, it is extremely difficult to organize cost-effective training, as there may be only a handful of workers in any key job classification. Thus, a TIF-focused job-training program that only looks to provide incumbent worker training for individual employers is unlikely to be effective for the majority of metals companies. The RMTC TIF Task Force also used this data to demonstrate that the 25% matching payment in cash requirement for smaller employers (single or multiple) in the original TIFWorks plan design would be a significant obstacle to these firms benefiting from the program.

Sectoral Analysis

Two manufacturing sectors dominate employment in Chicago's industrial TIFs: metalworking (SIC Codes 33,34,35) and food processing (SIC Code 20). Respectively, they represent 28% and 25% of total jobs in the TIFs studied. Transportation is next, but 64% of jobs in that sector are all clustered at Ford in the 126th and Torrance TIF. Electronics, Printing, Paper, Rubber/Plastics, and Woodworking/Lumber make up the rest. Thus, eight manufacturing sectors represented in Chicago make up 90% of the employment in the industrial TIFs included in the study. As for numbers of companies, the metals again lead the way, but printing is the second largest sector, surpassing food 122 to 114. Printers average only about a quarter the number of workers per firm, as do food processors, so their total impact in TIF employment is less pronounced. Among the eight manufacturing sectors that dominate employment, "concentration" of companies in TIFs varies from a low of 18% for printing to highs of 38% in electronics and 37% in the consolidated metals group. Among all 16 sectors examined, 31% of Chicago manufacturing firms (1,067 out of 3473) are found in TIFs, and those that dominate (see chart) average 32%. TIF-focused job training programs which take this data into consideration and concentrate on the serving manufacturing sectors concentrated in the districts, will have the best chance of achieving the scale needed for success.

Job Training Dollars

Dollars available to spend in TIFs are governed by the projected "increment" in property tax revenue the TIF will generate over its 23-year life span and the budget that is written into the TIF agreement for each district. Many TIF budgets have earmarked a certain percent of funds for job training. Of the 32 industrial TIFs in the study, two have no funds set aside; but on average these TIFs have set aside 5.84% or $113.6 million of their projected revenue for job training. The TIF Task Force recommended a 10% job-training component for all TIFs. To increase the training figure to this target in all 32 TIFs would mean an increase of $80.9 million, or 71%. However, the $80.9 million increase represents only about 4% of the total budget in these 32 TIFs.

It is noteworthy that current budgets for job training in Chicago Industrial and Mixed Use TIFs do not appear to have a significant correlation with the number of firms or employees within them. While some of these discrepancies may be due to gaps in the MNI database, there are nevertheless extreme variations among TIFs in the job training dollars available per firm or per employee. If we assume that all TIF budgets spread their job training funds over the 23-year life of the district, among the 32 TIFs studied , the dollars on average available per firm per year vary from a low of $1,242 in the Portage Park TIF to $86,957 in Greater SW Industrial-East. Similarly, training dollars per employee per year range from $9 in the Addison Corridor to $4,348 in the 51st/Archer TIF. This data raises the troubling scenario down the road of some TIFs sitting on six or seven-figure training balances which cannot be spent, while others with many more actual or potential jobs have no more resources to assist companies and workers—actual or potential.

Even projecting all TIFs at a 10% job training component, as recommended by the Task Force does not significantly reduce the variations. Since TIF budgets often have heavy infrastructure components, such as sewers, bridges, streets, etc., that may be unrelated to employment in the district, perhaps the 10% figure recommended by the Task Force should be seen as a target for City-wide TIF expenditures. That 10% recommendation, projected over the 32 TIFs studied, produces a job training allocation of about $550 per employee per year. In each actual TIF budget the job training component might be based on the number of current workers, or a percentage of current payroll, plus an add-on for increased district employment due to training the unemployed, so that the total comes to the $550 number. Combining this or a similar methodology with a focus on supporting the manufacturing sectors that dominate the TIFs and provide good jobs for Chicago residents would represent positive steps toward an industrial strategy that provides a vision for strengthening and growing the City's economy.

While there are no guarantees that $157.4 million or $282.1 million (10% of all 45 TIF district budgets) will be the exact amount of revenue that will be available for job training, either figure nevertheless represents a sum worth inclusion in any strategic planning for job training in Chicago's Industrial TIF districts and has implications for the City's entire economy. Generally, this money is not subject to spending guidelines and restrictions associated with state and federally funded job-training programs. This gives the City tremendous flexibility to fund TIF-focused programs that best meet the needs of Chicago residents and businesses. Because of its six months of intensive research and consideration of this data on firms and jobs in Chicago's Industrial TIFs, the RMTC Task Force was uniquely positioned to comment on the strengths and weaknesses in MOWD's TIFWorks program design, to advocate for a greater emphasis on manufacturing, on training the unemployed and to urge more flexibility in the allocation of funds to non-profit training providers. The substitute ordinance that resulted from the advocacy of all the partners is a substantial improvement over the original bill, not only for CBOs and non-profit trainers, but also for employers and workers.

Overview of Dominant Manufacturing Sectors

Sector (SIC)	Firms in TIFs	"Concentration"	Total Workers	Average Ees./Firm	% Total TIF Ees.
Metals (33,34,35)	414	37%	16,308	39	28%
Food (20)	114	33%	14,379	126	25%
Transportation (37)	16	25%	4,382	274	8%
Electronics (36)	49	38%	3,857	79	7%
Printing (27)	122	18%	3,590	29	6%
Paper (26)	46	35%	3,457	75	6%
Rubber (30)	46	35%	3,015	66	5%
Woods (24, 25)	83	34%	2,916	58	5%
Total	**890**	**32%**	**51,904**	**58**	**90%**

Steve Heller is Executive Director of the Regional Manufacturing Training Collaborative (RMTC), a PRAG initiative in partnership with community-based organizations engaged in sectorally-focused skills training for multi-barriered populations, preparing them for careers in targeted manufacturing sectors.
E-mail to sheller@luc.edu

Policy Research Action Group
Loyola University Chicago
Lewis Towers, 10th Floor
820 N. Michigan Avenue
Chicago IL 60611

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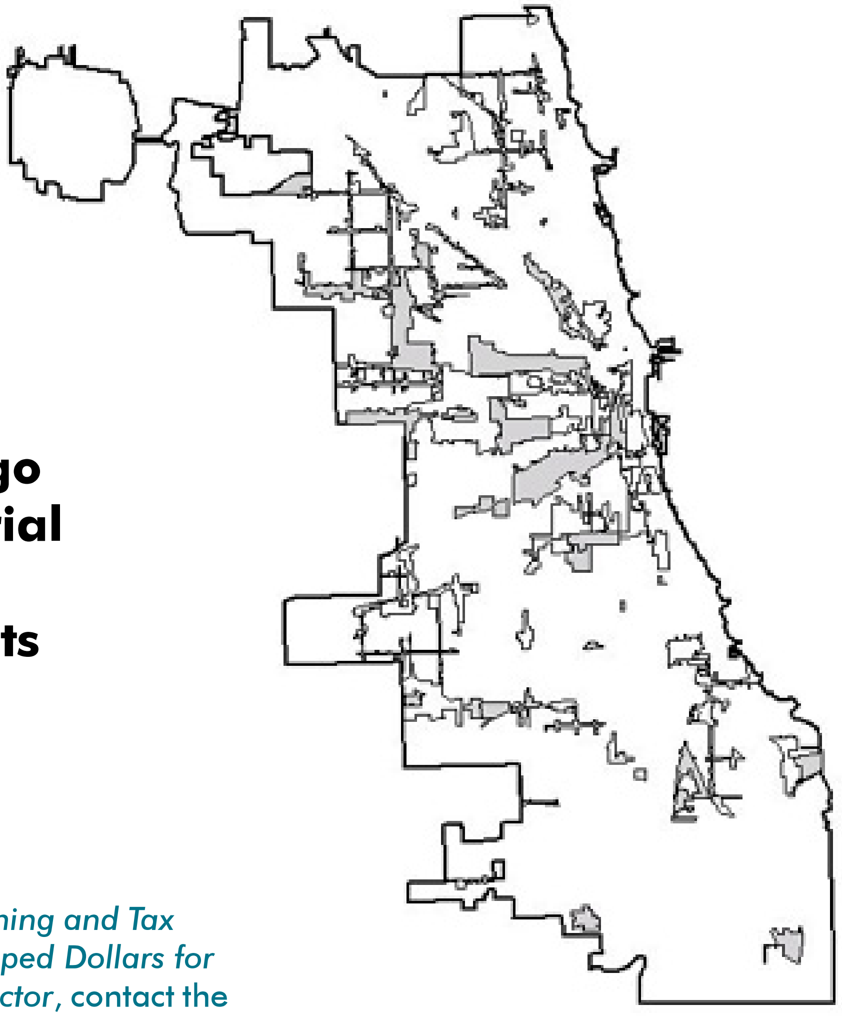
Chicago Industrial TIF Districts



(Industrial districts are shaded grey areas)
Map prepared by NCBG, 2002

To obtain a copy of *Job Training and Tax Increment Financing: Untapped Dollars for Chicago's Manufacturing Sector*, contact the Policy Research Action Group
312-915-8622, or kide@luc.edu.