

# **THE REGULATION OF LOCAL PUBLIC SERVICES BETWEEN AUTHORITY AND MARKET: UNITED STATES AND TAX INCREMENT FINANCING. THE CASE OF CHICAGO**

*Francesco Boccia - Letture consigliate su TIF: "The regulation of local public services between authority and market: United States and tax increment financing. The case of Chicago" – Ricerca di Lori Healey e John F. McCormick 1999*

## **Introduction**

Throughout the late 1800s and early 1900s, the Chicago Stockyards provided jobs for thousands of residents and fueled the local economy, earning the city nickname "Hog Butcher to the World". But as traditional meatpacking and butchering industries declined rapidly in the late 20<sup>th</sup> century, the South Side's Stockyards closed production in 1980, leaving vast parcels of vacant and blighted land and buildings. At the time, few federal resources were available to rebuild the area's infrastructure; the soil was unstable, many roads were privately owned and unusable, and the land was divided into small lots. These factors made large-scale redevelopment for modern industries impossible.

Through a series of industrial and commercial tax increment financing (TIF) districts, the city has successfully brought this once-thriving industrial center back to life. TIFs provided the funding mechanism to clean up the stockyards and prepare land for redevelopment. The stockyards Industrial Park is now home to modern industrial facilities for companies like Culinary Foods, Inc., Luster Products, and OSI Industries, while a new retail center has brought stores and services to a once-underserved area. In this age of dwindled state and federal funding, the Chicago Stockyard have become a national model for urban economic development.

## Tax Increment Financing

Tax Increment Financing is technique for financing a capital project from the stream of revenue generated by the project. It can be an important community development tool for attracting the development that will generate new taxes.

Federal economic development money available in 1997 was down 56 percent from its 1980 level, and what little founding is available usually is offered on a short- term annual basis, which makes it too unreliable to support multi-year revitalization and development programs. In response to these cutbacks, many areas began using TIF. Another advantage of using TIF over federal economic development money is that it allows for more project flexibility and local control.

TIF was first enacted in Illinois in 1977 after the drastic reduction of state and federal economic development funds. For an area to be eligible for TIF in Illinois, the structures in it must have some of the following problems:

- Age
- Obsolescence
- Illegal use of individual structures that are below minimum code standards
- Excessive vacancies
- Overcrowding of facilities
- Lack of ventilation, light, and/or sanitary facilities
- Inadequate utilities
- Excessive land coverage
- Deleterious land use or layout
- Lack of physical maintenance
- Lack of community planning
- Dilapidation or deterioration

Even though the TIF law was established in 1977 in Illinois, Chicago approached the program cautiously and did not create its first TIF district until 1984. When Mayor Richard M. Daley took office in 1989, there were only 12 TIF districts in the city. Many of them were not well monitored, and as a result, had not been generating much in terms of private investment. Mayor Daley's administration embraced TIF as a tool for reaching Chicago's economic development goals. From 1990 to 1997, the city adopted 32 more TIF districts. By the end of 1999, there will be more than 75 TIFs in Chicago.

In terms of sheer scope and scale, Chicago's use of TIF to retain and attract industry is unprecedented in urban America. Through TIF, Chicago has become one of the strongest industrial markets in the country.

### **Mechanics of Tax Increment Financing**

State enabling legislation defines two key legal parameters for TIF designation. First, in most states, TIFs can only be used to redevelop areas where a sufficient number of the properties are considered "blighted." In Indiana, for example, the authorizing statute defines a "blighted area" as one in which "normal development and occupancy are undesirable or impossible" due to "lack of development, cessation of growth, deterioration of improvements, age or obsolescence of the area, character of occupancy, substandard buildings," or presence of "other factors that impair values or prevent a normal use or development of property" (Indiana Code § 36-7-1-3).

The municipality, in concert with developers and consultants, will write up an eligibility study to demonstrate that the area in question meets the state's definition of blight, documenting the deterioration, the age of the building stock, zoning and land use designations, vacancies, and changing property values.

In some states, non-blighted areas may be designated as TIF districts so long as they serve other legislated goals, such as industrial job creation or military base conversion. In Michigan, for example, the original TIF legislation limited funds to roads, sewers, and other "pure public good" infrastructure expenses until the statute was amended in 2000 to include land acquisition and improvements for private businesses and incubators (Wisniewski 2000).

Second, states require the municipality to demonstrate that the area in question could not be redeveloped "but for" the use of TIF. Herein lies the counterfactual that most economic development incentives must address. This provision requires municipal officials to attest to the fact that

- A) the redevelopment would not occur without incentives;

- B) other available sources of incentive, such as a combination of bonds, abatements, and tax revenues, would not be sufficient to attract private investment.

There is no definitive case law or statutory authority on the "bur for" condition (Redfield 1995; Peddle 1997), an absence that is somewhat understandable given the methodological hurdles one would need to traverse in order to prove the counterfactual *ex ante* (Persky, Felsenstein and Wiewel 1997; Bartik 1991). If these conditions are met, however, a TIF district may be formed by municipal ordinance after notice is given and a public hearing is held to discuss the redevelopment plan.

Once an area becomes designated as a TIF district, the initial assessed property valuation for the district is held constant for a designated period. In most states, the lifetime of a TIF is around 20 years, while in some others, there is no limit on how long a TIF district can be in existence. The sum of the initial assessed values of the properties in the district forms "the base" against which growth will be measured.

The municipality or authority then uses its powers of eminent domain, land assembly and sale, site clearance, relocation, utility installation, and street repair to improve the district and make it more attractive to potential business and developers. As private investment is attracted to the area, the assessed value of property and its taxes are expected to rise. The difference between the base value and new assessed value is the "tax increment".

Instead of channeling the increments to the municipality's general fund and to other taxing bodies with jurisdiction over the area (such as school and park districts), they are diverted to the TIF authority and used to finance any debt the authority accumulated when making improvements. In other words, any increase in the assessed property values of the district over the next 20-plus years will pay for TIF activities, while taxes on the base value of the properties will remain the same and will continue to be paid to the local taxing bodies.

Without TIF, each overlapping jurisdiction would levy its individual tax rate on the assessed value available in its district, and the municipality would be but one of several that receives revenues. In order to realize an increase in property values and produce the coveted TIF increment, the municipality must find ways of paying for the up-front costs of those improvements that will make the TIF district attractive to new development. Some of these expenditures are for infrastructure, while others are for developer incentives. TIF districts do not generate funds for incentives or infrastructure immediately; instead increments trickle in over the life span of the district.

TIF increments, therefore, are committed before they are generated. Tax revenues and expenses flow in and out at different times, even though the municipality must meet all obligations as they come due. Thus, TIF is, in essence, a means of smoothing cash flows in a development project because most expenses come up front while tax revenues and corporate profits come in further down the road. This mechanism provides the municipality with the legal means and security to borrow against the future property tax revenues for current spending.

Municipalities prefer TIF because it provides the public redevelopment agency with its own budget funded with earmarked funds for economic development; it does not have to compete with other city departments at budget time. Proponents also argue that TIF also enables municipalities to keep tax rates low because the development increases the taxable base.

Municipalities rely on two primary methods of "front funding" expenditures from the expected increments. Under the first method, the municipality floats revenue bonds for the total amount of the redevelopment, dedicating the expected tax increments to pay the debt service. Revenue bonds allow municipalities to circumvent constitutional and statutory debt limitations as well as voter referenda.

Some TIF bonds, however, do carry a general obligation or general fund pledge and are tax-exempt, allowing investors to earn a slightly higher than normal return. In Colorado, TIF bonds can also be secured by a captured sales tax pledge or a blended structure of property and sales tax increment.

For many years TIF debt comprised a small, unrated, and obscure segment of the bond market, but as the mechanism's popularity has grown, so too has the amount of bonded debt (Johnson 1999). Once a municipality develops a track record of development that generates incremental tax revenues, it can secure insurance, higher ratings, and, therefore, cheaper debt.

The second method of front funding—commonly known as "pay-as-you-go"—requires the private developer to pay initially for the costs of the project. The municipality then reimburses, as the developer annually as it receives the incremental property taxes. Because developers require initial sums of money larger in amount than the increments trickling in, they often turn to banks to fill their financing gaps and pay for TIF-eligible costs such as land acquisition.

Lenders require some assurance that the municipality will assist the borrower to pay its debt service. The beauty of TIF lies in its promise that subsidized development will eventually pay for itself through increased property values. Unlike redistributive programs, which involve a transfer of resources from those who contribute them to those who need

them, TIF is a mechanism that explicitly ties the level of contribution to the level of compensation (Peterson 1981).

## **When is Tax Increment Financing Used?**

The short answer is all the time. Each municipality, however, has its own political process for designating TIF districts and distributing the increment generated within the district. Even before the TIF designation, the local redevelopment authority or planning department must draft a "redevelopment plan" a wish list of the future redevelopment projects in the district.

After the development plan has been approved and the boundaries designated, individual developers must apply and be approved for an allocation of increment by the local administration and city council. In most municipalities, the applicant must describe the particular project in detail, providing specific figures for total development costs, sources and uses of funds, and expected job creation impact.

If the authority or city council decides that the project will further TIF objectives and has sufficient front funding from other sources, it will enter into a redevelopment agreement with the individual developer or business tenant that spells out the details of the subsidy for a specific project.

Unlike the federally funded categorical programs that preceded it, TIF can be used for most kinds of projects that demonstrate financial feasibility and promise increases in property value. In general, the only significant restrictions imposed by state statutes are those directing TIF to certain redevelopment areas, defining "blight" and limiting the project term (Paetsch and Dahlstrom 1990).

Because of its flexibility, this tool has enabled municipalities to channel funds to infrastructure improvement, industrial expansion, downtown redevelopment, historic preservation, firm-specific subsidies, and military base conversion.

States can also delimit the eligible costs that the TIF increment can subsidize. These typically include the cost of demolition, parcel assembly, land preparation, historic rehabilitation and other façade improvements, planning studies, and, occasionally, workforce development and training. Most TIF legislation also allows municipalities to offer subsidized, below-market rate financing from the increment. By providing financing for the total development costs, TIF reduces the amount of equity investment required of the developer for the project.

Lower mortgage payments lower the project's total leverage and financial risk, therefore making it appear more viable. Indeed, reducing the up-front costs of development (primarily those costs related to land development) can make an immediate and substantial impact on a

developer's bottom line. In this sense, TIF can be more attractive to the developer (and also more costly to the local government) than conventional abatements that reduce a developer's tax burden over time.

## **The public investment decision**

The decision point for the municipality in allocating the increment is that the subsidized project must create substantial increases in the value of the property. After all, it is the difference between the value of the property in its undeveloped state and the value of the same property after it has been redeveloped that is the basis for the operation of this mechanism.

In practice, property owners and developers seeking increments must demonstrate that their investments will equal or exceed the sum of discounted future increases in property tax revenues. For example, if the owner of a manufacturing plant were to consider building a new 100,000 square foot warehouse in a TIF district in Chicago, the City would embark on the following analysis. The City would identify the current ownership and use of the parcels within the TIF district being slated for redevelopment. Let's assume that they currently are being used as a parking lot and generate \$40,000 in annual property taxes in the base year (i.e., the year the TIF is designated).

The City then would estimate how much property taxes the manufacturer would pay if the proposed warehouse were constructed and became fully operational. In this case, the difference between the taxes generated as a parking lot and those potentially generated as a warehouse would amount to \$238,510 in the first year. In theory, this increment would be available to use for economic development expenditures in the TIF district.

Although it provides a good snapshot, this calculation does not take into account the estimated lifetime of the TIF or the time value of money. In Illinois, TIF districts are designated for a period of 23 years. The City would make assumptions about the rate at which one could reasonably expect property tax revenues to increase if the facility were built. Looking at comparable warehouses, it might assume a 12 % increase every three years (in Cook County, property taxes are reassessed every three years).

Moreover, the City will want to take into account the various risks, opportunity costs, and contingencies that arise when relying on any kind of payment or income that is generated in the future. Because the City wants to figure out what the value of receiving income in the future is worth today and because it does not know what kind of front funding mechanisms will be used at the onset, it cautiously discounts the future increments by an amount roughly equivalent to the cost of capital, inflation rate, and the perception of future risks.

If the City relied on an 8% discount rate, the present value of the increment would total approximately \$3.2 million over 23 years. For the savvy local official, this figure would represent the upper limit of assistance available to the manufacturer to build the warehouse. The City may pay for the site assembly, demolition or environmental remediation with leveraged TIF funds. If the City planned to go to the bond market for the front funding (an unlikely event given the small size of the issuance), it would subtract the cost of debt service and other fees from the stream of increments to get a better estimate of the upper limit of assistance.

This example makes several assumptions. The first is that there is only one proposed redevelopment project in the TIF district that needs all the incentives and generates all the increment. In reality, and especially after the initial designation occurs, a queue of projects seeking assistance forms. Some of these projects may be part of the original redevelopment plan, and they are typically given priority. Second, increments are generated by all properties in the district that appreciate in value over time. Any property appreciation within the TIF district can be used to fund other, unrelated projects as long as they fall within the designated boundaries.

In our case, the City of Chicago could use a portion of the increment generated by the warehouse to pay the demolition costs for a strip mall sited down the street. In Chicago, the increments are not infinitely portable across the city; they must be used in the district in which they were generated or in an adjacent TIF district. In Milwaukee and other cities, the increment can be used to pay down costs incurred in any TIF district in the city.

Third, and perhaps most importantly, it is likely that the future tax revenues in the TIF district (the \$3.2 million from our example) will include, in no small part, property appreciation that was not in any way induced by the initial TIF-subsidized investments. Therefore, TIF, as many critics have argued, has the potential to "capture" increment to which the municipality has no singular claim (Dye 1997; Hissong 2001; Jolin, Legenza and McDermott 1998). This perspective challenges that which fully attributes all of TIF increment to the subsidized redevelopment projects. The "but for" provision in the enabling legislation, proponents would argue, ensures that TIF was responsible for the increment in the first place.

## **TIF - funded redevelopment**

TIF has been used for a wide range of redevelopment projects around the country. Chicago has spent approximately \$60 million of TIF funds to rehabilitate and restore the historic buildings in its downtown theatre district and, on a very different kind of project, used \$11

million to help the Ford Motor Company build a supplier park on a brownfield site on the City's southwest side (Neighborhood Capital Budget Group 1999).

Philadelphia is planning to use TIF for a \$174 million mixed-use family entertainment center at Penn's Landing, one mile east of downtown (Higginbotham 2000). Kansas City wooed big box retailers like Home Depot with land preparation and developer incentives, while San Diego built mixed retail-residential developments. Smaller cities and towns are using TIF to revitalize the sagging main streets and downtown shopping areas depopulated by malls in the 1980s. New Ulm, Minnesota helped Kraft Foods to expand its Velveeta facility in town (State of Minnesota 1996). Following Hurricane Andrew in 1993, the city of Homestead, Florida was rebuilt using

\$54 million in TIF for everything from signage to a new community center (McEntee 1998).

Compared to most state and federal programs, TIF is considered a very flexible tool. The TIF process can be initiated any time a development opportunity presents itself, and TIF can be used for a variety of reimbursable costs (Paetsch and Dahlstrom 1990). In Chicago, for example, community-based economic development organizations have received TIF funding for workforce development to complement the City's focus on industrial retention and expansion.

One such organization, the Local Economic and Employment Development (LEED) Council, recently assisted Federal Express in securing \$1.4 million of TIF funds to reconstruct a seawall on its property, after which the company signed an agreement that committed Federal Express to hiring its new employees through LEED's placement services (Barancik 1998). Federal Express front-funded the money for job training, and the City agreed to reimburse the company when tax increments were generated.

LEED was able to provide follow-up support and encouragement to program graduates to help ensure that they not only remained on the job but advanced up the ladder to higher-paying jobs. TIF works especially well with these kinds of one-time allocations, especially when the employer is willing to commit its own funds up front and be paid back after time.

The design of TIF also works well with large, expensive projects that promise quick and substantial spikes in tax increment. Most municipalities are reluctant to use their bonding authority on smaller (under \$1 million) projects. This is because the amount of deficit financing needed for small projects--for a new roof or small parking lot for an existing business--is not likely to clear the minimum threshold for new issues or justify the high transaction costs (e.g. \$50,000 for bond counsel).

TIF is also a useful tool in instances where land uses are up-zoned; i.e. when property moves from less-intensive usage to more-intensive usage. Such a move is likely to produce an

immediate increase in taxable area. If increments generated are sufficient to pay for the wish list of redevelopment projects in the district, the TIF designation may be retired early and new property taxes can revert back to the overlapping jurisdictions.

From the example of the new warehouse, it should be clear why TIF operates well in areas where property values are initially low relative to other parts of the municipality or are growing at a slower pace. Government-owned (i.e., tax exempt) property, abandoned buildings, or derelict sites in appreciating neighborhoods are especially ripe for TIF-financed in-fill development. In these cases, the base value of the property (the value in the year of the TIF designation) is low enough so that when the property values start to grow in subsequent years, a substantial amount of increment can be generated.

However, TIF designation is also a signaling mechanism to developers and speculators that the municipality expects property values to increase in the designated district. If the municipality is unable to act quickly, developers may flock to the proposed district, purchasing property and driving the prices up. The municipality's ability to quickly designate the TIF district is critical to locking in the lowest base value.

## **Evaluating Tax Increment Financing**

Judging the success of TIF is difficult, given the measurement problems involved. Municipal officials are quick to attribute new developments and increases in property values to their own economic development policies. Local officials point to TIF-funded parking garages and office buildings, public improvements, and demolitions as evidence of the tool's success. The City of Chicago, for example, attributes the creation of 9,500 jobs and retention of another 25,000 jobs to its aggressive use of TIFs in industrial areas (City of Chicago Department of Planning and Development 1998).

In contrast, most academics agree that determining the causal effect of tax abatements, low-interest loans, enterprise zones, or TIF is difficult because of the need to "control" by reasonable assumption or appropriate statistical technique for what would happen without the program (see, for example, Bartik 1991; Persky et al. 1997). Those studies that use appropriate statistical methodology for dealing with causation have found mixed results. Man and Rosentraub (1998) found TIF had a positive effect on median housing values in Indiana. In Dardia's study of California (1998), he found that TIF had a substantial and positive impact on development.

However, Dye and Merriman's (2000) comparison of TIF-adopting and non-adopting municipalities in 247 municipalities around metropolitan Chicago found a negative impact of TIF adoption on the growth in municipal-wide property values. They found that where there was a positive effect on growth in property values within the TIF district, it was more than

offset by a negative impact on the non-TIF portion of the same city. Anecdotal evidence supports the view that TIF is frequently used to move existing retail to different parts of the same region (Redfield 1995). In such cases, the municipality's real revenues will increase only by the net change in property taxes and wages (i.e., minus the substitution effect).

The debate about the independent influence of TIF on development and property values is at the heart of the controversies around the impact and benefit distribution of this financing mechanism. For example, if TIF has no independent effect on property values, then school districts and other overlapping tax jurisdictions are justified in arguing that TIF "captures" revenues that would otherwise be going to them.

Property taxes support the operations of many taxing jurisdictions in addition to those of the municipality, including school, park, and library districts. Because TIF redirects property tax revenues away from overlapping jurisdictions for over 20 years, these affected taxing bodies lose all the taxes derived from normal inflationary pressures and reinvestment. On the other hand, without the use of TIF as a development incentive, there may not be any or much new revenue to distribute in the first place.

Everything hinges on the "burden" question. Even if TIF can be said to independently increase property values, it is possible that existing residents may not be prepared for the higher tax burden that comes with it. For example, small business tenants may be unable to pay inflated rents, and larger industrial users and "big box" retailers may be the only ones that can afford the higher prices. Because there is no mechanism through which these owners or renters may give or withhold their consent to the TIF designation, businesses gentrified out by spiraling property values and taxes may be forced to submit to a potentially coercive arrangement.

Fear of rapid development, aggravated by the municipality's desire to move ahead on TIF designation quickly in order to lock in the lowest base, has prompted popular protest against the use of TIF. Residents in Richmond Heights, a middle-class suburb of St. Louis, attempted to stall a TIF-funded shopping mall project through voter referenda. Mexican immigrants waged protests against a proposed industrial TIF district in their Chicago neighborhood, fearing they would be displaced by rising property values. Because of the premium placed on speed and the cooption of political opposition, TIF is especially popular in municipalities with strong pro-growth mayors and city councils or those without strong opposition to development.

TIF encourages municipalities to spend now for projects that will be paid off with future increments. In doing so, municipalities take on the risk that those increments may never materialize. The fiscal exuberance of the 1990s was fueled by rapidly appreciating urban property values, and many municipalities found themselves sitting on small gold mines of tax revenues with the discretion to use them for pet development projects.

As the economy slows and the sheer number of TIF districts tests the financial management skills of local bureaucrats, the speculative roots of TIF are being exposed. When the Kellogg Corporation announced plans to close its Battle Creek, Michigan plant, for example, the City's Downtown Development Authority had to scramble to cover more than \$60 million in TIF bonds it had issued (Ward 1999). In California and Colorado, several TIF bonds have defaulted (Johnson 1999). Even those TIF bonds secured with strong back-up pledges may falter when the local economy starts to decline.

Moreover, the flip side of the flexibility that this local funding source offers is a concomitant lack of accountability. TIF has been subject to misuse in certain instances, where expenditures have been made for golf courses, luxury car dealerships, fireworks displays, parades, marketing efforts, and the normal operating expenses of local governments.

These kinds of project expenditures go beyond the intent of state legislation, but municipal agencies lack uniform guidelines for choosing which projects receive funding, resorting to a reactive deal-making mode with prospective developers. The competition for scarce economic development funds has increased the pressure to create additional TIF districts, rather than improve existing ones. Like the tax abatements and industrial revenue bonds before them, TIF has become a general purpose economic development tool that is playing a key role in perpetuating the border wars for private investment (Peddle 1998; Anderson and Wassmer 1995).

### **TIF in Chicago**

The City of Chicago works with local aldermen, community groups, businesses, and developers to identify areas not living up to their potential. The city then examines the land to determine if it is eligible to become a TIF district. If it qualifies, the city creates a TIF redevelopment plan to revitalize the neighborhood and public hearings are held to provide input. Once the redevelopment plan is completed, the City Council formally votes of the creation of the TIF district.

When the City creates a TIF district, the amount of tax revenue the area currently generates is set as a baseline that will serve as the amount local governmental taxing bodies will receive from that area for the life of the TIF, which is 23 years. As vacant and dilapidated properties are developed, with TIF assistance, the value and tax revenue from those properties increases. The "increment" above the baseline is then captured and used solely for improvements and redevelopment activities in the TIF district. After the TIF expires, or when the city's investments are repaid, all property tax revenues are again shared by all of the local taxing bodies.

## **Financing**

The City of Chicago initially made a policy decision not to issue general obligation bonds to directly fund projects in its TIF districts. Other than four TIF Bonds issued in 1987 for commercial shopping centers that were supported by real estate tax increment, city sales tax, and state sales tax (the State of Illinois discontinued the sales tax TIF program after one year), the city was limited to offering “pay- as-you-go” TIF funding on yearly basis for individual projects.

Because individual companies and developers often need up-front funding to make their deal complete, other initiatives needed to be taken to keep Chicago competitive with other cities and states in attracting development.

In 1992, the city allocated approximately \$25 million from its larger, citywide general obligation bond issue for economic development funding. Funds from this allocation allowed the city to attract and retain large industrial companies like Culinary Foods, Luster Products, Eli’s Cheesecake, National Wine Service, and Farley Candy. After completion of these projects- with their proven real estate tax increment numbers- TIF bonds were issue in the Stockyards, Reed- Dunning, and Sanitary and Ship Canal TIF districts. Proceeds from these bonds then were used to repay the funds originally allocated from the 1992 general obligation bond.

Two of Chicago’s “mature” TIFs- the Near South and Central Loop TIFs- were deemed qualified for AAA-rated insurance through AMBAC. The Lincoln- Belmont- Ashland TIF was insurance companies in the future, realizing that the underwriters have higher requirements for the insurance (larger size, greater diversification, proven numbers, and overall higher increment coverage), rather than unenhanced TIF bonds.

The use of other forms of up- front funding, such as CD Float Loans and developer notes, provide time for projects to mature and become “bondable” (as they did in the North side’s Lincoln- Belmont- Ashland and Irving Cicero TIFs). Developer Revenue Notes place the project- completion risk upon the developer, his or her equity partners, and lenders.

Here, developers enter into redevelopment agreements, complete the project, pay for eligible cost, and are then pledged incremental revenues occurring over time a result of their project.

The developer, as holder of the securities and source of the incremental revenue stream, eliminates default risk. Costs of issuance expenses are minimal, and generally the need for a debt service reserve and capitalized interest are eliminated. Higher interest rates (equal to the developer’s borrowing costs) are mitigated by the municipality’s ability to call and refund these

securities at any time in the future. This is especially valuable when the city wishes to issue a Tax Increment Bond for the entire district at a lower interest rate, refunding one or more high interest developer notes.

The city has been proactive in using TIF to assist financing low- and moderate- income housing revenue bonds. While Chicago's TIF funding has mainly been limited to the 30 percent interest rate write-down provided by the state TIF statutes, new legislation raised the level of assistance to 70 percent of construction costs, which could trigger even more financing in this area.

In the Near North Redevelopment Project, the most recent TIF financing of \$55 million was issued on two series, had two letter of credit providers, and utilized a swap to provide an optimum interest rate. This TIF area covers Cabrini Green, once one of the poorest, most crime infested public housing projects in the country. Tax increment to fund the TIF area is provided by a large commercial shopping center and market-rate condominiums, which were constructed in the area after the TIF was established. Project funds will be used for parks, infrastructure, new schools, and a new housing project, which will consist of a mixture of market-rate, low and moderate income housing, as well as replacement housing for the Cabrini residents currently in soon to be demolished high rise buildings.

## **TIF Programs**

In order to bring some of the benefits of TIF to small businesses, homeowners, and small scale downtown projects, the city has initiated three new lender backed micro TIF investment fund programs. These unique initiatives target housing and business programs in some of Chicago's most needy areas, as well as small improvements to the central business district.

The Small Business Improvement fund (SBIF) reimburses businesses and building owners for TIF eligible investments that preserve building stock, improve neighborhood appearance or commercial value, and enable businesses to stay in the neighborhood, remain competitive, or expand. Businesses may be reimbursed for up to 50 percent of eligible costs with a maximum assistance of \$50,000 per project.

Businesses such as free standing fast food chains and branch banks are not eligible. Priority is given to businesses located at major intersections or major commercial corridors, projects resulting in the retention or creation of jobs, and historically significant buildings.

A pilot program in two South Side neighborhoods provides homeowners with TIF assistance for home repairs and improvements such as new roofs, entryways, windows, porches, exterior siding, and masonry work. Coordinated through the city's new TIF Neighborhood Investment

Program (TIF-NIP), the program provides a maximum grant amount of \$10,000 for single family homes, \$12,500 for two-flats, \$15,000 for three-flats, \$17,500 for four-flats, and a maximum of \$50,000 for buildings with five or more units.

Two programs in the downtown "Loop" business district provide local businesses with financial assistance for projects that contribute to the area's growth as an entertainment, retail, and financial district.

The Central Loop Improvement Fund (CLIF) uses TIF proceeds to help property owners improve their buildings according to the standards outlined in the city's two downtown vision plans. The plans encourage building owners to install pedestrian friendly improvements (such as new signs, awnings, facades, doors, and windows) as well as environmental remediation and upgrades to electrical and plumbing systems. The fund provides grants of up to \$150,000 or 50 percent of eligible costs.

The Central Loop Loan Program, a companion to CLIF, provides low interest loans of up to \$50,000 to retail, commercial, and service oriented businesses that are undertaking projects that benefit the city and employ Chicago residents, but do not qualify for TIF funds. Eligible projects include leasehold improvements and expenses involving inventory, working capital, equipment, and building rehabilitation. Loans last up to five years at 3 percent interest.

## **Special Considerations**

Tax increment financing can be a controversial subject. Misinformation about TIF districts can lead to a fear of higher taxes and the perception that TIF will take money away from other entities, particularly school districts. But in fact, additional taxes created by redevelopment of blighted land goes to relieve the tax burden of other properties in the city.

TIFs also work to create money for school districts and other taxing entities by developing a solid tax base that will help fund them for years to come. Local taxing bodies will realize a budget windfall after a TIF district expires. They will receive much higher revenues than they would have without the TIF funded development. Simply put, TIF does not take a bigger piece of the taxation pie, rather, it creates a bigger pie.

While Chicago's Loop/downtown TIFs have been criticized by some as unnecessary, they have been incredibly productive for all of Chicago. Most of the downtown success stories in recent years are due to TIF: the creation and retention of thousands of jobs, providing the funds for the reconstruction of the State Street retail district, and the needed funding efforts to save and restore several historic theaters from demolition. Such projects have been integral to the revitalization of Chicago's downtown and have played an essential role in the formation of a new Theater District.

## **Results**

By the end of 1998, Chicago's TIF program had created more than 9,800 jobs and retained more than 24,000. New housing units totaled more than 3,000.

New and rehabilitated office space topped 5.7 million square feet, and new and rehabilitated retail space was more than 2.5 million square feet. The city also had more than 1,300 TIF encouraged new hotel rooms, two 10 screen movie theaters, a newly created Chicago Theater District with 11,000 seats in rehabilitated downtown theaters, 4,600 spaces in new parking facilities, and a new 250 bed youth hostel and college dormitory.

A statistic which may best illuminate the success of Chicago's TIF program is the calculation of private return leveraged from public investment. For every one dollar of public funds spent on TIF projects, the private sector has invested almost five and a half dollars. By the end of 1998, Chicago had invested a cumulative \$526 million in TIF funds and benefited from \$2.82 billion in private investment.

The City of Chicago has put in place an overall TIF program that not only serves its taxpayers well, but provides a model that other cities have looked to follow. This Program has been successful by creating and following a policy that is aggressive and innovative in its utilization of TIF as an economic development tool, but conservative in its financing guidelines. Many of Chicago's neighborhoods are coming alive with new development and growth.

Modern industrial facilities are replacing abandoned factories, while new shopping centers are appearing in city neighborhoods that have not seen commercial or retail development in more than a generation. In most cases, these improvements would not be possible without TIF. Chicago's TIF program has become a key ingredient in rebuilding Chicago and awakening its neighborhoods.

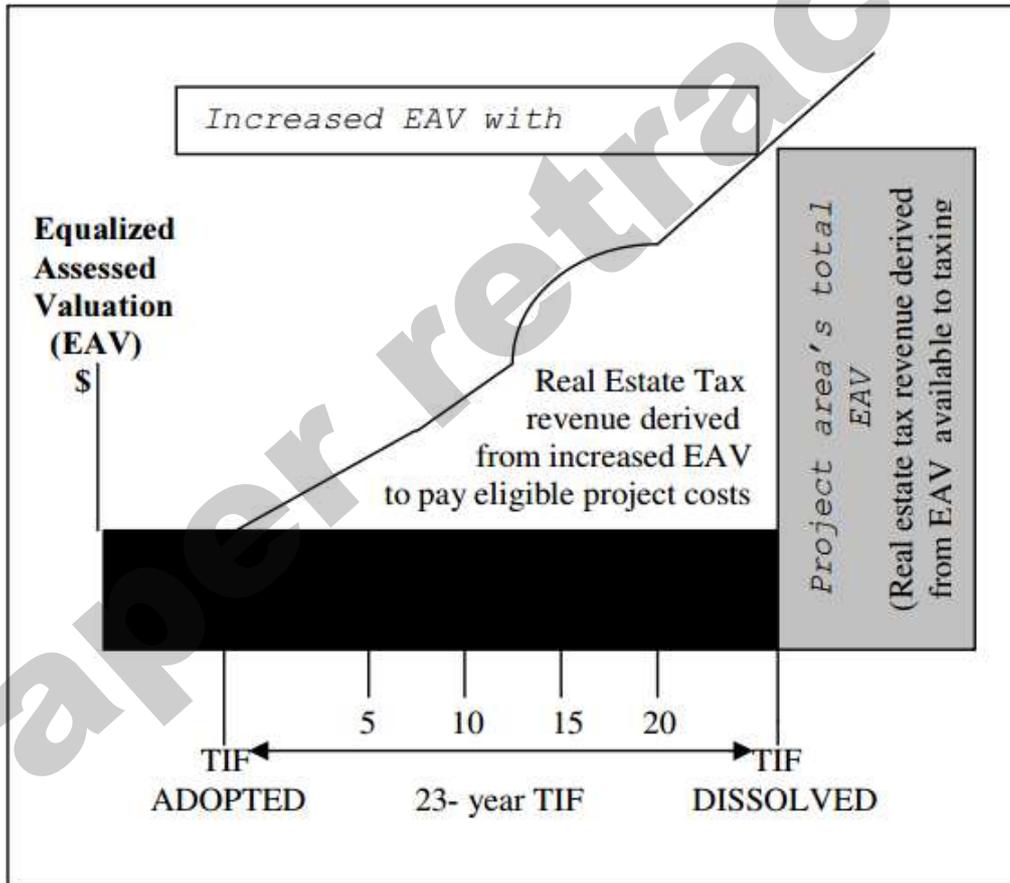
## EXHIBIT 1

### CHICAGO CUMULATIVE TIF RESULTS 1984-1998

TIF Districts:	64 at end of 1998 (More than 75 by end of 1999)
<b>PUBLIC/PRIVATE INVESTMENT</b>	
Total public investment	\$526,925,838
Total private investment	\$2,821,990,004
Total investment	\$3,348,915,842
Leverage ratio	\$5.36/\$1
<b>EMPLOYMENT</b>	
New jobs created	9,875
New jobs retained	24,108
Total jobs	33,983
<b>RESIDENTIAL DEVELOPMENT</b>	
New rental units	1,506
New owner-occupied units	1,415
New student housing beds	757
New youth hostel beds	250
Total housing units (excluded student housing/hostel)	2,921
<b>COMMERCIAL DEVELOPMENT</b>	
New office space	4,73 million square feet
Rehabilitated office space	1,08 million square feet
New retail space	2,36 million square feet
Rehabilitated retail space	198,400 square feet
New parking spaces	4,615
Rehabilitated theater seats	10,920
New movie theaters	2
<b>INDUSTRIAL DEVELOPMENT</b>	
New industrial space	3,98 million square feet
Rehabilitated industrial space	1,03 million square feet
Total industrial space	5,01 million square feet

## EXHIBIT 2

### HOW TIF WORKS



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