



Tax Increment Financing

Hidden in plain sight

The TIF Problem

Although tax increment financing (TIF) has been around for over thirty years, many people do not understand how it works. They do not know how TIF affects their communities or their pocketbooks. Most people have no idea that a significant portion of their property taxes are flowing into the hands of real-estate developers instead of their schools, public libraries or parks.

By law, TIFs are intended to promote economic development in blighted areas. Government is supposed to create a TIF district by first defining an area as “blighted” and then putting a freeze (or cap) on the amount of property taxes going into a district’s services, such as schools, parks or public libraries. Any additional money accumulated above the capped amount goes into a TIF fund, created for the purpose of redeveloping the “blighted” area. Any “new” revenue resulting from higher assessments or new development is directed into the TIF account.

During the lifetime of a TIF, which can extend up to 23 years, no additional revenue gained from any increase in property values goes toward the usual public services, such as schools, libraries, or parks. TIFs can be cancelled before hitting the 23-year mark, and they can also be extended by another 12 years.

Since the late 1970s, TIFs have steadily increased in number. According Cook County’s 2008 TIF report, the county added 19 new TIFs in the 2008 tax year: 5 in Chicago and 14 in the suburbs.¹ Suburban Cook County

TIF revenue increased by 13 percent to \$380 million, but Cook County overall had its first ever decline, by nearly 11 percent, due to the closing of the Central Loop TIF, which had brought in \$111 million in 2007.² Some of the largest Chicago TIFs include Near South (\$55 million), LaSalle Central (\$26 million), and Canal Congress (\$20 million). The largest suburban TIFs include Hoffman Estates-Sears (\$30 million) and Glenview-Naval Air Station (\$26 million).³ Despite the decline in TIF revenue in 2008, 412 active TIFs in Cook County still generated \$875 million from taxpayers.

Graphic 1: Cook County’s Largest City and Suburban TIFs Revenue Intake for 2008

TIF District	TIF Tax Dollars
Near South	\$55 million
LaSalle Central	\$26 million
Canal Congress	\$20 million
Hoffman Estates-Sears	\$30 million
Glenview-Naval Air Station	\$26 million

Source: Cook County Clerk’s Office

An incredible amount of money is involved in TIF, yet the process of creating TIF districts goes widely unnoticed by taxpayers footing the bill for TIF developments. Additionally, many TIF developments take root in areas that are not exactly “blighted,” including Chicago’s Lincoln Park and the business center of Chicago, its downtown Loop. When it comes to the widespread disregard of the law regarding development in blighted areas and the

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procedure for deciding to establish and manage a TIF development, there is an unacceptable lack of transparency within tax increment financing.

This lack of transparency can lend to the abuse of how TIF funds are spent. Mayor Daley, for example, has thrown around the possibility of using TIF funds to balance the City of Chicago's FY2011 budget. Whether or not this occurs, it highlights how elected officials can use TIF funds for their own ends instead of the legal purpose of promoting economic growth in blighted communities.

TIF was not meant to fill in as a revenue generator to balance city budgets or to be used at the whim of elected officials in a budget bind. This use of TIFs, in fact, exacerbates the inherent problems and irresponsible spending that leads up to massive budget deficits.

Why Do You Want to Know?

Communities have a high stake in understanding how TIFs work. When TIFs are created, tax revenue that would have otherwise gone to public services, like schools, parks, and libraries, is diverted into the TIF fund. Chicago Public Schools (CPS), in particular, with its current \$975 million budget deficit, does not receive any additional tax revenue generated from an increase in property taxes over a TIF's duration.⁴ Where does that leave CPS and taxpayers? With all the talk of cutting teachers, increasing class sizes, eliminating after school programs and sports, people justifiably ask: What about all that TIF money being diverted from our schools? In 2008, Chicago raked almost \$500 million away from schools, parks, libraries, and other taxing bodies via its 160 TIF districts.⁵ In 2007, the city diverted about \$555.3 million.⁶

This raises questions about government accountability and public control with regards to the TIF process. Much of the time, people do not even know they live in a TIF district, especially in Chicago.⁷ For example, do taxpayers in University Village near the University of Illinois Chicago (UIC) realize they live in a TIF district (Roosevelt/Union TIF)? One resident in that area, "Bob," a friend

of Ben Joravsky—who covers TIFs for the *Chicago Reader*—did not realize he lived in a TIF district.⁸ He paid \$9,177.95 in property taxes last year, but who got what out of that \$9,177.95?⁹

Bob's property tax bill stated the following: Chicago Public Schools, \$4,997.18; Chicago Park District, \$651.97; and the City of Chicago, \$1,942.38. The bill also informed him zero dollars went into the Roosevelt/Union TIF. However, in reality, 95 percent of his taxes—or about \$8,719—went to the TIF, which means the schools really got \$250, the parks \$33, and the city \$97.¹⁰ Although defined down to the penny, clearly, Bob's tax bill was inaccurate. When people do know they live in a TIF district, how can they tell whether TIF dollars are being put to good, honest use? For example, why did Chicago create the Jefferson Park TIF and spend \$1.4 million to turn a commercial strip into empty lots at the 5200 block of West Lawrence—at the expense of other public services?¹¹

People care strongly about their schools, libraries and parks. They care about what happens in their community and their homes. They work hard and expect a good portion of their paychecks go to these public services. Taxpayers deserve better, more honest TIF transparency.

Where Is the Blight?

TIFs take in a significant amount of tax dollars from communities, and sometimes they are developed in "blighted" areas. Often, however, they are not. When TIF developments are created in affluent areas, this goes entirely against the reason why TIF was established in the first place: to help generate development in low-income, blighted communities.

As a result of loopholes in Illinois state law, almost any community can qualify for a TIF district—including places one can hardly call "blighted," such as Chicago's Lincoln Park area or the downtown Loop.¹² David Orr's 2008 Cook County TIF report calls to attention that neighborhoods collecting the most in "blight-fighting" TIF money are also the wealthiest.¹³ As Ben Joravsky writes, "the

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Roseland/Michigan TIF on the far south side collected \$834,203¹³ in 2008. In contrast, the top TIF taker was the Near South TIF, just south of the Loop, which brought in \$54.7 million.¹⁴ The LaSalle/Central TIF, running through the center of Chicago's business district—took second place, taking in nearly \$26 million.¹⁵ Clearly, Illinois state law needs a stricter definition of "blight" and more public oversight and public control in the TIF process.

"It Creates Economic Growth and Wealth"

Some argue that TIFs help generate economic growth and produce more wealth for communities. Although the main intention behind TIF districts is to create economic growth in a designated area, research proves this isn't always the case.

Professors Richard Dye and David Merriman completed a study for the Lincoln Institute of Land Policy, which found that areas of municipalities that use TIF do not grow more rapidly—and perhaps more slowly—than municipalities that do not use TIF.¹⁶ Their study specifically found property values in municipalities adopting TIFs grew at the same rate as or even less rapidly than in non-TIF-adopting municipalities.¹⁷

This evidence surprised people who assume TIF causes growth, and understandably the findings sounded threatening to those benefitting from TIF, such as developers, local economic development officers who spend earmarked funds, and TIF consultants getting paid for documenting findings of "blight."¹⁸ So Professor Dye and Merriam worked on a second study, focusing on "whether the targeting causes the growth or merely signals that growth is coming," and "whether the growth in the targeted area comes at the expense of other parts of the same municipality." Dye and Merriam found the same results: Non-TIF areas of municipalities that use TIF do not grow more rapidly—and perhaps more slowly—than municipalities that do not use TIF, and property values in municipalities adopting TIFs grew at the same rate as or even less rapidly than in non-TIF-adopting municipalities.¹⁹ TIFs, in other words, do not always produce an increase in economic growth.

Why Change the TIF Process?

Since most people have little to no idea how TIF districts affect their community, incorporating more transparency into the TIF process would provide one basic step in advancing more public understanding and oversight. As Cook County Clerk David Orr has stressed, only when every municipality includes TIF districts in their budget will the general public have a better understanding of how TIFs affect them.

In April 2009, a TIF sunshine ordinance submitted by aldermen Manny Flores (1st Ward) and Scott Waguespack (32nd Ward) passed in Chicago requiring the city provide "full documentation of TIF deals" posted online in a "comprehensive and usable fashion" and "post every specific agreement, amendment, attachment, order, audit, and record for every use of money from Chicago's roughly 160 TIF districts."²⁰

Although the ordinance was a genuine step in the right direction, the city could do more. Its first attempt at posting information left much to be desired. The information is not presented in a user-friendly fashion, and unless someone is willing to dig and knows what they are looking for—which is unlikely for most people—detailed, clear information about TIF districts in Chicago is still hard to come by.

All information about a TIF, including its name, any parties involved (such as developers or vendors), the amount of spending, who authorized the TIF creation, contracts, and the TIF's purpose should be posted on a local government's official website. A complete, detailed, clear, and user-friendly list should be easily accessible to the public so they can understand where their property tax dollars are going and who is involved in the project.

Whether on purpose or not, the city's reporting still leaves many confused about TIF. Without comprehensive reporting, transparency cannot help solve any problems with the TIF process or provide better public understanding about how government manages incredible amounts of tax dollars for TIF developments. The

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sunshine ordinance is a good idea, but so far, the city's implementation of it needs serious improvement and reporting needs to be more clearly documented in an easy-to-understand format.

Solution: Transparency, Public Control, and Stricter Definition of Blight

TIF transparency would foster more government accountability, improve public understanding, and help enforce ethical behavior for everyone involved in TIF management and financing. The public needs more authority over when, how and if a TIF can develop in their neighborhoods; the state needs to make a stricter, more sound definition of "blight" and only allow low-income, truly blighted areas to create a TIF.

TIF transparency reform would include the following:

- All TIF districts would be printed on tax bills and published on all local government websites, clearly describing where TIF districts are located, how much money is going into them, and how much individuals are contributing to them in taxes. For example, Cook County David Orr has created a search tool on the County's site where a taxpayer can enter his Permanent Index Number (PIN), which is printed on tax bills, into an online database, see if he lives in a TIF district, and review how the County divided payments among taxing districts.²¹
- In addition, all information about a TIF, including its name, any parties involved (such as developers or vendors), the amount of spending, who authorized the TIF creation, contracts, and the TIF's purpose would be posted on a local government's official website. A complete, detailed, clear, and user-friendly list should be easily accessible to the public so they can understand where their property tax dollars are going and who is involved in the project.
- Also, in order to stop the exploitation of TIF, increasing public involvement and control over TIF developments would include allowing a community to

vote on whether a TIF can be created. A developer would be required to outline specific goals for the TIF project, define project costs by providing specific spending line items, and adhere to that plan or have the TIF shut down by public vote. Overall, TIF needs a comprehensive oversight process.

- Lastly, Illinois needs a more sound, stricter definition of "blight," and any city/county aiming for TIF must have proof of blight.

Conclusion

TIFs have a critical economic impact on communities throughout Illinois, and yet many people are unaware how significant that impact really is. TIF districts collect a large amount of tax dollars and divert funds from public services, including schools, parks and libraries. In general, Illinois taxpayers have little understanding about the TIF process, whether any exist in their communities, and how much of their tax dollars are going into TIF funds instead of their schools, for example.

It's likely that only a small percentage of people know that Chicago collected almost \$500 million from its TIF districts in 2008, or that it took in over \$555 million in 2007. Could that money have been better used? Who is in charge? It's unknown to most.

In order to end the exploitation and lack of public control in the creation of TIF districts, reform starts with making the entire process of deciding to develop a TIF, creating it, and managing the TIF district more transparent. Second, the public needs more control, allowing them to vote on whether to create a TIF district in their community. Lastly, state law must eliminate the loopholes concerning the definition of "blight" so that only truly blighted, low-income neighborhoods are allowed to have TIFs built with tax dollars.

Too much money comes out of hardworking taxpayers' pockets for there to be such minimal public knowledge about TIF. Taxpayers deserve to have more transparency and control over the process.

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Endnotes

1 David Orr, *Cook County Clerk*, "Clerk Orr Launches Online TIF Property Search Tool, 2008 Report: TIF Revenue Totals \$875 million, Dips 1.9 percent," November 10, 2009, www.cookcountyclerk.com.

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21 David Orr, *Cook County Clerk*, "Clerk Orr Launches Online TIF Property Search Tool, 2008 Report: TIF Revenue Totals \$875 million, Dips 1.9 percent," November 10, 2009, www.cookcountyclerk.com.