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Tax Increment Financing – A Bad Deal for Taxpayers

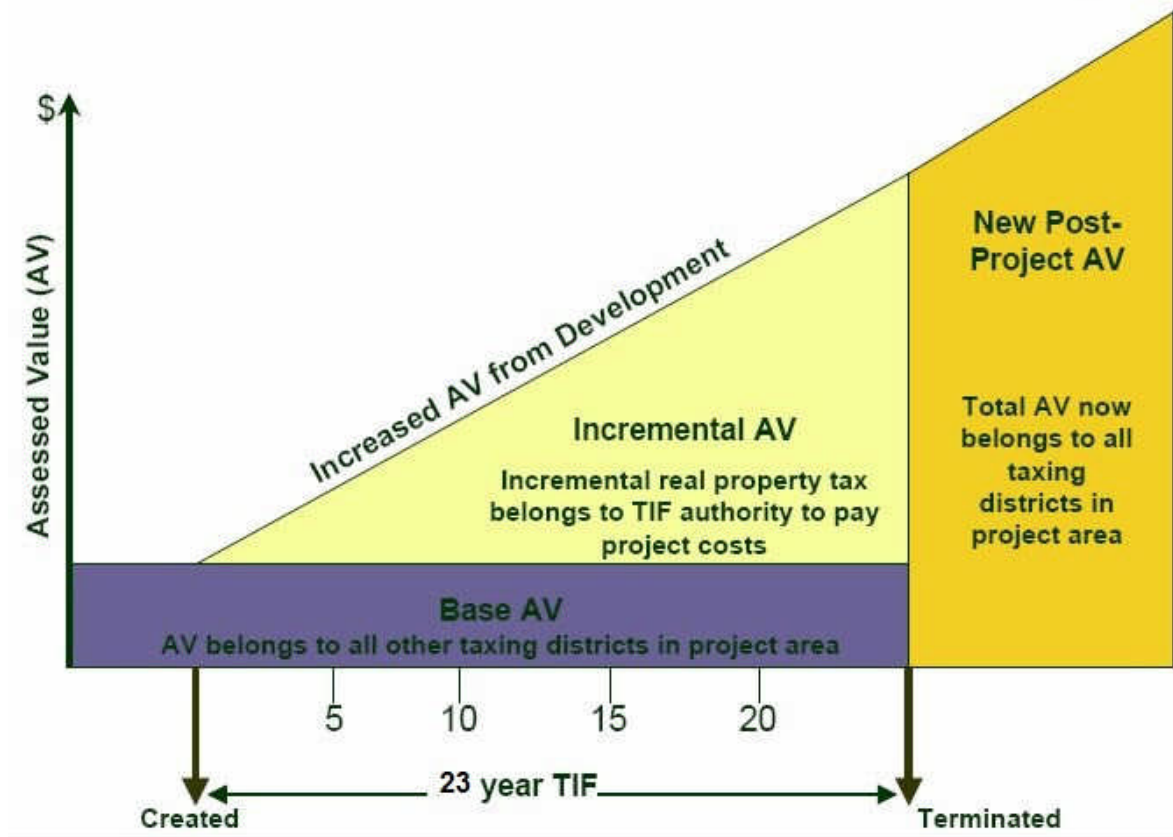
by Tom Tresser – www.tifreports.com – tom@tresser.com

Tax Increment Finance (TIF) is in the news. It should be. As esoteric as the subject might be, you should care about this program if you own property in Cook County.

When a TIF district is created the property taxes generated by all the properties in the district are "frozen" and for the next 23 years the taxing bodies that rely on property taxes for their operation continue to receive ONLY that "frozen" amount of revenue. Any amount above that frozen number –the increment – is diverted into the bank account of the TIF district.

Here's a diagram of how this works over time:

TIF Assessed Value (AV) Over Project Life



TIFs are a program originally designed to spur development in areas that are depressed, run down and where the market would not normally countenance investment. We're talking about severe blight. The TIF program allocates public dollars to private businesses in order to create projects that would not have

happened unless that money was made available.

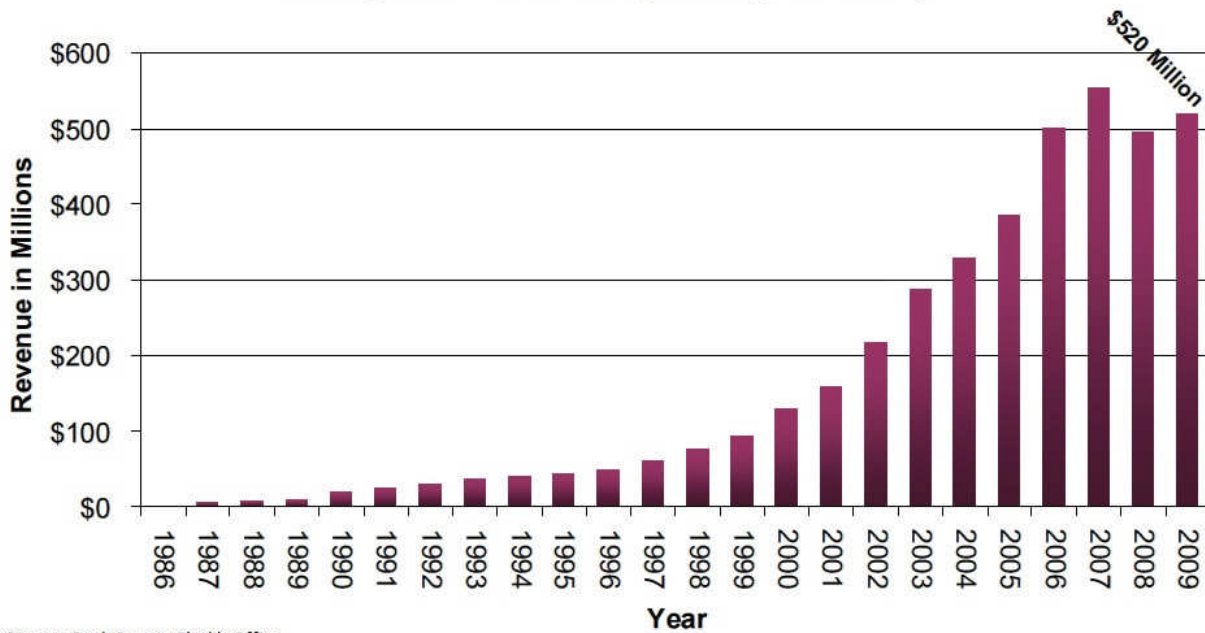
But this is Cook County. This is Chicago.

In 2009 420 TIF districts across the Chicago area siphoned \$839 million in property taxes from the units of government (the County, the City, Chicago Public Libraries, Chicago Park District, Chicago City Colleges, local townships) that rely on property tax for operation.

\$519 million was from properties inside the City of Chicago. That's just for one year. At the end of 2009 all the TIF accounts for the city held a combined total of \$1.5 billion in unspent funds.

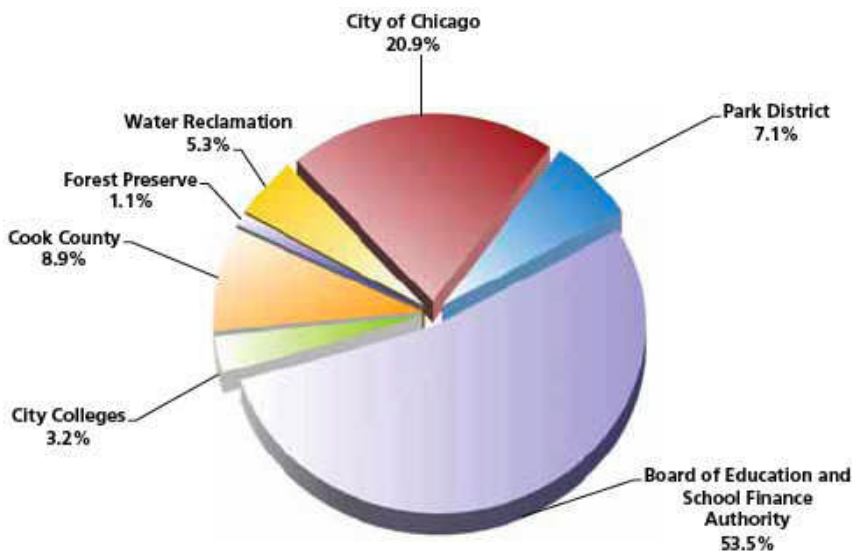
TIFs have been a real growth industry over the past ten years. See the chart below:

Chicago TIF Revenue by Year (1986-2009)



Source: Cook County Clerk's Office

Now – here's the main point that affects your property taxes. As mentioned, most of our local government relies on our property taxes to operate. See the pie chart to see how this works:



Since all the units of local government know how this game is played and can see how much money they ARE not getting due to TIFs, they have to ratchet up their own share of property taxes every year.

Ever wonder why your home or property keeps getting assessed and higher and higher rates and why your property taxes go up and yet the actual market value of your property has DECLINED lately. Now you know a major factor behind that trend.

If you have the stomach and stamina to wade through the scholarly article, "Creation vs. Capture: Evaluating the True Costs of Tax Increment Financing" published in Volume 6, #4 of The Journal of Property Tax Assessment & Administration by Sherri Farris and John Horbas, the senior research analyst and Director of Research, respectively, at The Cook County Assessor's Office at the time of publication, you will have an advanced education on TIFs. [<http://www.cookcountyassessor.com/forms/CreationvsCapture.pdf>]

Here's the most relevant conclusion from this report:

Chicago Tax Rate

If the property value for all Chicago TIF districts had been included in the base for tax year 2006, the city composite tax rate would have been 11 percent lower. This rate was estimated by returning all EAV currently allocated to TIF to the general tax base, and recalculating tax rates for each of the taxing agencies, and then the composite rate including all of them. The rate for 2006 with all TIF EAV returned to the tax base would have been 4.732 percent, whereas the actual 2006 rate was 5.302 percent. This means that including TIF EAV would also have reduced individual tax bills by 11 percent in 2006. It is important to note

In plain language this translates to:

Eliminate TIFs in Chicago and REDUCE your property tax bill by at least 11 percent.

I don't know about you, dear reader, but I could've used that 11 percent over the last decade or so.

OK, so now you get a sense of how big the TIF program is and how it impacts our tax bills.

You can also appreciate how this program is starving those units of government that rely on property taxes for their operation.

Putting charges of corruption and waste aside that estimate that fully ten percent of all government spending in Illinois is wasted due to corruption and waste, you can see that local units of government are not getting what they should to operate. Groups as diverse as the Chicago Teachers Union, a parents group called RAISE YOUR HAND Coalition and The

Sweet Home Chicago Coalition for Affordable Housing are all angling for hundreds of millions of dollars in TIF funds for their preferred programs.

Finally, The TIF Program is notoriously corrupt and opaque to citizen review. The Chicago Reader has been documenting TIF abuse for years. Here are just a few of the most appalling stories of abuse:

- Grossinger Auto sold its old property on Wells Street and still got \$8.5 million in TIF money approved by Alderman Vi Daley to move into the hottest retail zone in the city.
- Willis Insurance (with 2009 revenues of \$3.3 billion) got \$3.8 million in TIF funds to help pay for its move to the Sears Tower.
- The Chicago Mercantile Exchange got \$15 million for rehabbing its HQ (2010 revenues of over \$2.9 billion).
- In Lincoln Park, Children's Hospital is considering TIFing its old site to help subsidize the transfer of its old site to a private developer.

Other major corporations which have received tens of millions of your property tax dollars as gifts include Quaker Oats, United Airlines, Career Builder, CNA Insurance, MillerCoors and UPS!

Back in November of 2009 Cook County Clerk David Orr held a press conference and said "Too often, Chicago's policy has been to collect millions in a piggy bank and decide how to spend it later," Orr said. "Now, the city is plugging its budget hole with TIF money but TIFs were not created to be a safety net when the economy went sour. The TIF system is broken and it needs to be fixed."

But TIFs have not been fixed. Nor are they likely to be. So 250 citizens protested the TIF rip off in front of and inside Grossinger's Auto on March 19. David Orr was there and said "There is an enormous myth that Chicago is broke," Orr told the gathering crowd, "but there is currently 1 billion dollars in TIF funds, with \$500 million added annually... we need to call for a moratorium on TIFs. The wealthy say we must all share the pain, but they need to share the wealth! ...We want businesses to do well, but they don't have to take it all!"

Bottom line:

- TIFs are taxes
- TIFs push your property taxes up even if you don't live in a TIF district
- TIFs are a slush fund controlled by the Mayor and Aldermen and are extremely difficult to monitor (in Chicago and across Cook County – they are always created and governed at the municipal level)
- TIFs starve the local units of government wherever they are created

Tax Increment Financing. A big story and destined to get bigger.

Tom Tresser is a long-time Lincoln Park resident. He is an educator and organizer dedicated to protecting the Commons. He was a co-leader of No Games Chicago (<http://www.nogameschicago.com>) and is working on a new online report dedicated to investigating and exposing TIF abuse at <http://tifreports.com>. He can be reached at tom@tresser.com.



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