

**PROPERTY TAX RELIEF TASK FORCE  
TIF District Subcommittee**

Meeting Minutes  
September 25, 2019  
1:00pm

James R. Thompson Center  
100 West Randolph Street  
Suite 2-025  
Chicago, Illinois

The TIF Districts Subcommittee met on September 25, 2019.

**MEETING START**

Meeting scheduled to start at 1:00pm

**AGENDA**

**I. Welcome/Roll Call**

- a. Senator Gillespie welcomed the committee and called the meeting to order around 1:05pm CDT.
- b. Roll Call was taken. Quorum was met at a later time in the meeting.

Name	Present
Representative Deanne Mazzochi	No
Representative Frances Ann Hurley	Yes
Representative Grant Wehrli	Yes
Representative Katie Stuart	Yes
Representative Kelly Burke	No
Representative Kelly Cassidy	No
Representative Lamont Robinson, Jr.	Yes
Representative LaToya Greenwood	No
Representative Mary Flowers	No
Representative Mary Edly-Allen	Yes
Representative Monica Bristow	Yes

Name	Present
Representative Rita Mayfield	Yes
Representative Sam Yingling	No
Representative Sara Feigneholtz	Yes
Representative Stephanie A. Kifowit	Yes
Senator Ann Gillespie	Yes
Senator Cristina Castro	No
Senator Dan McConchie	Yes
Senator Donald DeWitte	No
Senator Laura Murphy	Yes
Senator Mattie Hunter	Yes
Senator Rachelle Crowe	Yes

**II. Presentation: EdRed Sarah Hartwick, Executive Director**

- a. Sarah Hartwick introduced Justin Attaway of Skokie School district #69 and Ares Dalianis from Franczek Law.
- b. Dalianis spoke about a number of aspect regarding TIFs. Dalianis described the life of a TIF District, pointed out that TIF districts are primarily concentrated around Cook and the surrounding counties, and gave example of suburban towns with TIF districts raising tens of millions of dollars. Dalianis cited a report from the Cook County Clerk’s Office indicating that TIFs accounted for about 8% of

property taxes in Cook County, up from prior years. Dalianis pointed out this is money that does not go to public bodies.

- c. Dalianis referred to a list of the twelve suburban municipalities that collected the most in TIF Revenue and another list of the TIF Eligibility factors. Dalianis mentioned the claim that these eligibility factors are subjective, and said it was a fair criticism, citing blighting and conservation areas as examples factors easily abused. Dalianis recommended making the factors stricter.
- d. Dalianis described trends in TIF districts, namely the TIFing of farmland, areas suffering chronic flooding, and re-TIFing. Dalianis said few members of the public understand TIFs. As an example of TIFs receiving tax money from other districts, he cited Wheaton TIF #2, which takes \$3.1 million.
- e. Justin Attaway said that a number of TIFs in the area of his school district have been around since the 1990's and suggested tightening the eligibility criteria, a mandate for the distribution of TIF surpluses to taxing bodies first such that they are made whole before the money is used for projects outside the TIF's original scope, a change in the reporting date from November to July to allow the district more planning time, and a strengthening of the Joint Review Board through its providing cost benefit analyses and additional public hearings.
- f. Hartwick closed by saying that TIFs can be work as economic development tools, but that they raise taxes in school districts.

**III. Presentation: Illinois Municipal League, Brad Cole, Executive Director**

- a. Brad Cole said that TIFs are needed for the development and re-development of communities, and that communities have been able to attract people to TIFs districts. Cole characterized the arrival of such people to communities as a positive to schools, giving the Glen in Glenview as example. Cole pointed out that TIFs have been properly applied in municipalities that follow good government principles and local officials who work together. Cole said that the failure of TIFs does not implicate TIFs as a whole, since their success (development) depends on a number of factors. Generally, Cole said that the Illinois Municipal League supports TIFs as a development tool.

**IV. Presentation: Illinois Education Association-NEA, Larry Frank**

- a. Larry Frank summarized his written testimony, hereinafter attached. Frank said that TIFs had sometimes helped school districts and, other times, failed. The real effects of TIFs, Frank continued, are to be found in their interaction with Property Tax Extension Limitation Law (PTELL). Frank agreed with a prior presenter that few of the public understand TIFs and that more outreach needs to be done, outlined the five-point plan described in the written testimony and recommended the 2007 Civic Federation report on TIFs.

**V. Questions**

- a. Senator Gillespie said that TIFs in industrial areas had succeed more that TIFs in other areas and asked for the panel's comments on this difference. Cole responded to the question with two examples showing the role of TIFs in the re-development of existing property, that of the closure of Rantoul Air Base outside Champaign and that of Carbondale. Carbondale's TIF re-development was not an industrial, but rather an urban area. Even if such re-development did not involve industry directly, the development that results from them involves construction, labor, and manufacturing. Frank said that it should be considered which TIFs help

schools and urban areas, considering that, for schools, an increase of residents brings with it and increase in expenses. Cole said that it is not only school districts but other tax districts that are affected by the creation of TIFs. Local discretion, Cole said, should guide the creation of TIFs; local municipalities have the final say. Dalianis said that PTELL limits the ability of school districts to raise taxes without limiting TIFs in the same way. If school districts wish to raise taxes above a certain threshold, they must go to referendum, Dalianis said, but no such requirement for a referendum exists for the creation of TIFs, nor does a Joint Review Board have the power to block the creation of a TIF.

- b. Senator Mattie Hunter asked the panel who is responsible for overseeing the municipalities' decisions to make TIFs. Dalianis responded that the joint review board submits reports with the comptroller, but that they lack any ability to block or alter proposed TIFs. Hunter said it was time for oversight of TIF to change. Cole stated that the oversight of municipal leaders takes place at the ballot box.
- c. Representative Sam Yingling asked why TIFs lasted 23 years and what would come of shortening that length. Dalianis said that the length may have originated from the average length of a bond issuance (twenty years) and that if the length were adjusted, developers would adjust and so could the length of bond issuances. Dalianis said that the incremental EAV would be brought back onto the tax roll sooner as a result. Cole stated shortening the length of TIFs would result in fewer dollars going toward the projects TIFs support.
- d. Yingling asked why not give schools the ability to opt out from TIFs. Dalianis said such an option would incentivize sensible TIF creation. Cole said the final on TIF creation should remain with municipal leaders and that municipalities offer sound arguments for TIF creations. Cole said that if school districts were allowed to opt out of TIFs why not allow municipalities to opt out of the motor fuel tax when they have their own road fund.
- e. Gillespie asked the panel to speak on the performance of TIFs in residential areas. Cole said that such TIFs attract more families with students, which is what he said most school districts want. Yingling said some say that school districts provide much of the money for TIFs, and, for that reason, they should be allowed a veto on the creation of TIFs. How, Yingling asked, are school districts any less qualified to make the decision than municipal leaders, since school boards are also elected. Cole said that school districts overlap multiple municipalities, so giving them veto-power would give them say over what happens in a wide area.
- f. Representative Grant Werhli said that, as a result of municipalities overlapping multiple school districts, residential TIFs generally affect school districts negatively, as in Aurora, school district #204.
- g. Representative Katie Stuart said that municipal elections have not brought about the end of TIFs and that though certain TIFs attract students to school districts, those school districts also need more money to teach those students. TIFs, Stuart said often bring more students faster than more funds can arrive.
- h. Hunter asked the panel to speak about a comment Dalianis had made about abatement. Dalianis responded that he was speaking about the incremental EAV available to all public bodies at the end of life of a TIF and it is decided how much of the EAV they want to capture. Dalianis spoke about surplus payments, saying that municipalities have the ability to declare surplus payments from TIF;

they are uncommon though permissible. In the event that a surplus is declared, Dalianis said, it can be redistributed to the taxing bodies.

- i. Senator Laura Murphy said that it is not uncommon for surpluses to be declared; she said she could cite several examples.

**VI. Presentation: Illinois Tax Increment Association, Thomas Henderson**

- a. Thomas Henderson said he wanted to address issues which had the focus of the Illinois TIF Reform Act. Henderson said that farmland is never truly qualified to TIF since farm blight does not count as a blighting factor. Henderson walked through a number of changes in the TIF Reform Act, like strengthening the joint review boards and tightening requirements. Henderson said that joint review boards should be strengthened, and the requirements tightened. The same bill, Henderson said, included feasibility studies. Regarding school districts, Henderson said, under TIF Reform Act, if a TIF demonstrably increases the number of students in a district while decreasing the tax dollars that go to that district, then the school district has the ability to request from the TIF the difference between the money they need and the sum they receive from the state.
- b. Henderson spoke about the conferences held by the Illinois Tax Increment Association. Henderson he tells municipalities that there is was an option for municipalities to terminate TIFs or impose claw backs that would allow municipalities to recuperate funds in the event that TIFs fail to create the jobs they were intended to create.

**VII. Presentation: Northwest Suburban Teachers Union, John Braglia**

- a. John Braglia said that he sees the power of TIFs to revitalize an area, such as was accomplished in Elgin, but said he was concerned that the number and dollar draw of TIFs is extreme. The Glen, Braglia said in reference to a point made earlier by Cole, was not comparable to Rantoul Air Base. Braglia said that even when areas are blighted, TIFs may not be appropriate, and that TIFs for businesses that are already successful were especially troubling. Schools, Braglia said, are admittedly responsible for much of the property taxes in an area (67% in his area), but that TIFs still affect school funding, though schools have no say over whether such a TIF is created. Braglia gave the Motorola TIF as an example. Braglia said that schools must have a say and that the failures of the Allstate and Sears TIFs should be considered. Braglia said that municipalities have the final say over surpluses; some municipalities award them others do not.

**VIII. Questions**

- a. Representative Stephanie Kifowit asked how referendum affect TIFs, especially for properties that aren't frozen and are voting for these referendum. Henderson said the TIF base is frozen in a referendum but would clarify that with staff. Henderson further said that a good public servant will seek consensus with the Joint Review Board and school districts. Braglia said school districts are unable to recoup lost TIF funds like municipalities that can raise sales taxes. Kifowit said that the valuation of residential property for TIFs is greater than that for commercial property and less variable. Kifowit suggested analyses of TIFs involving taxes besides property taxes.
- b. Gillespie asked what money municipalities can draw from the TIF. Henderson replied that parts of salaries of employees whose work concerns a TIF directly can be paid from TIF but not the entirety of that salary and that the money must be

returned to the TIF Fund. TIFs, Henderson said, may be terminated or surpluses may declared when related bonds are paid off.

- c. Kifowit asked about TIFs within other TIFs. Braglia said that such TIFs were one of the sorts that the union wanted to eliminated.
- d. Kifowit asked about the sharing of funds between TIFs. Henderson said he was not very familiar with this practice, but thought that the funds would usually have to be paid back. Braglia said the practice of sharing between funds might be more common north of I-80.
- e. Braglia said that there needs to be more oversight over TIFs. Henderson said that at least the Joint Review Board must be consulted before a TIF report is filed.

**IX. Presentation: Presentation: Illinois Economic Development Association, Rob French**

- a. Rob French relinquished his spot to Bryan Gay, President and CEO of Invest Aurora, Martin Lyons the finance director for the city of Aurora, and Mark Williams Economic Development manager for the city of Rockford.
- b. Lyons said that micro-TIFs can be used to improve existing TIFs, as they have in Aurora, where a number of the TIFs were underperforming. Lyons also gave examples of vacant buildings which had been developed with the help of TIFs much to benefit of nearby school districts, and with new fund distribution models that vary with the profitability of the businesses that benefit from the TIF. Aurora's policy is to wait to establish a TIF in an area until they have a development in hand. Aurora has also adopted quarterly meetings with school districts.
- c. Williams said that Rockford had been suffering extreme population decline, above average unemployment, and losses in property value. The mayor of Rockford, said Williams, wants very much to keep property taxes where they are, since they already burden some residents. Since Rockford does not qualify for home rule, Williams says it is limited in its ability to tax. Rockford has half as many TIFs as the Chicago area and it is now focusing on pay-as-you-go TIFs and urban redevelopment. Williams said that downtown TIFs in Rockford have increased foot-traffic, jobs, and provided other benefits that the downtown could not have experienced without the TIFs. Williams gave several other examples of TIFs, including residential ones. TIFs, Williams said, have also benefitted the Rockford airport, now recognized as an especially fast growing airport in terms of freight.

**X. Presentation: Chicago Teachers Union: Kurt Hilgendorf, Legislative and Policy Director**

- a. Kurt Hilgendorf spoke on a number of issues including the concentration of TIFs in wealthy areas, faults in their role as job creators, and their draw on tax money that would otherwise go to schools. His written testimony can be found attached.

**XI. Presentation: UIC, Urban Planning and Policy, Rachel Weber**

- a. Rachel Weber presented the findings of research undertaken by her and other academics on the success of TIFs at creating Jobs. Her written testimony can be found attached.

**XII. Presentation: Peg Agnos, South Suburban School Districts**

- a. Peg Agnos said she wanted to speak to difficulties with TIFs in the South Suburbs. TIFs are especially prevalent in South Suburban Cook County and have

increased homeowner taxes, including those paid by people living outside of TIF areas. Agnos said TIF reports may need to be more detailed. TIFs must be reviewed for success or failure. TIFs should terminate automatically through sunset provisions, as opposed to the present state of affairs, where the municipality must act to terminate a TIF at the end of its intended life. Instead of benefiting from the transfer of funds from other TIF Areas, Agnos said TIFs must stand on their own merits. The permissibility of transfers between funds encourages the creation of new TIFs and discourages the distribution of surpluses.

- b. The panel and spoke again on the subject of how referenda affect TIFs. Hilgendorf and Weber said that TIFs experience a pro-rata increase in funds with the increase property taxes.
- c. Williams said that in response to comments about oversight, he can say that he must file the TIF report each year and that he posts it online. Weber said these are filed with the Department of Revenue and that there are compliance issues.
- d. Yingling said that, considering the fact that TIFs currently redirect money from school districts without their consent, it must be determined what percentage of school funds can be redirected before a TIF requires the consent of the school district. Gillespie added that not only the school districts but also the taxpayers must be considered. Agnos said that the impact of TIFs on the evidence based funding formula must also be considered, specifically the local capacity target, since the formula is new.

### **XIII. New Business**

- a. No new business to report.

### **XIV. Public Comment**

- a. Gillespie called for any public comment, but none was offered.

### **XV. Adjourn**

- a. Having no further business, the task force adjourned.

ILLINOIS EDUCATION ASSOCIATION TESTIMONY  
TAX INCREMENT FINANCING  
SEPTEMBER 25, 2019

The Illinois Education Association supports public policies that foster economic growth. We also support public policy that ensures that schools continue to be funded adequately and fairly. For us, it is the impact of TIFs on school funding, at the local level that causes concern.

“One size fits all” is not a reasonable approach to TIFs. From a school district perspective, the use of the parcel that is inside the TIF, the business that comes to the community to repurpose parcel, has a very direct impact on the district. For example, suppose the TIF is used for middle and low income housing. That sort of use will undoubtedly bring more families into the district and will require an increase in the resources the district requires to educate the students in attendance. It will, because the evidence based funding model operates, for the most part, on a per pupil basis, increase the state contribution to the district and will result in at least a sort of reshuffling of the total amount of money distributed through EBF. That use of a TIF has the unintended consequence of impacting the state funding of all of the districts in the state. If we think about the impact on the local school district, we find that for some period of time, usually some 20 to 30 years, the district will be forced to spread a reduced number of dollars over the students served resulting in a reduction in the educational goods and services available to each child. That was never the intent of TIFs. While that impact is ameliorated to some extent in some TIF contracts in which the district is able to bargain for at least a part of the taxes lost to the TIF, it is certainly not the case in all.

For a more nuanced, and general discussion of the interaction of TIF districts and school funding please refer to the Final Report of the TIF Reform Task Force, published by the Illinois General Assembly on June 1, 2018. One of the findings of the report is that the effect of TIFs on school districts is, especially under the Evidence Based Funding Formula, very much a product of local property values and the local school population. One might summarize that section of the report as asserting that one size does not fit all with regard to TIFs and schools or, stated a bit differently, that the use of TIF increment financing as it exists in Illinois has a very different effect on school districts. We believe, since public schools are the recipient of a large part of Illinois property tax revenue, that a study of the impact of the TIF on local school districts ought to be a part of the decision-making process before a TIF is approved.

Also, consider the interaction of the TIF and PTELL. Under PTELL, each taxing district is allowed to extend taxes by an increase that is equal to the annual increase in the consumer price index expressed as a percentage or 5 percent whichever is less. In any case, the implementation of a TIF effectively reduces the EAV or the taxable value of the parcels within the boundaries of the school district. Since the PTELL formula calculates the annual increase, the county clerk must increase the tax rates on all parcels outside the TIF in order to ensure that taxing districts are able to extend the amount to which the law entitles them. Thus, all properties outside the TIF realize an increase in their tax rate. In essence, the TIF provides for an increase in local property taxes absent voter approval, a concept which is in direct contrast to the intent of PTELL. Further, see the previously mentioned TIF Reform Task Force Report for a more nuanced and general discussion of this topic.

Further, this reduction of the property tax base has been exacerbated by practices used by municipalities to upgrade their physical plant. A simple Google search will reveal cases in which success stories are shared explaining how municipalities can use TIFs to provide for necessary, new infrastructure, for new municipal buildings. The municipality often purchases a parcel of land on which to build the new facility. This parcel, of course, now comes off the tax base. Once again, because PTELL allows all local governments to an increase and since the total property tax base is reduced as the local government purchases a parcel on which to build, the result is a rate increase for all other taxpayers in the district and is a rate increase over which they have no control.

In short, we would like to see changes in the TIF structure. We believe TIFs should be sensitive to the type of business that is brought in to restore the blighted property to a more desirable use. If the business is likely to increase the number of families and children our schools serve, then a sharing of the taxes from the increased value of that parcel ought to be shared with our schools and the district should not be required to provide for 20 to 30 years of increased operating costs from existing revenue.

We believe that taxpayers ought to have some voice in the implementation of TIFs and that they ought to be provided information about the impact of the imposition of TIFs on their tax bills.

We believe that the extension of TIFs ought to be eliminated. If the parcel and the increased taxes are removed from school district revenue for 50 or more years, the impact of the revenue loss is, for all practical purposes, permanent for a lifetime.

The concept of TIFs as such is not an unreasonable way to provide economic incentives for the repurposing of blighted property. However, it is time to rethink the notion of TIFs as a one size fits all approach, the notion of the extension of TIFs, the interaction of the TIF statute and PTELL, and to study TIFs to understand the impact the districts have on local taxpayers. We do not believe that the use of TIF districts is necessarily a public policy that results in lower property taxes.

Finally, as you consider the value of TIF increment financing it is worth reading two policy pieces by Illinois authors. Dr. David Merriman of the University of Illinois at Chicago, himself no stranger to the discussion of public finance and policy, in a policy paper the Lincoln Land published in January 2019, notes that the effect of any TIF project is sensitive to the local financial disposition. He concludes that one cannot say that TIF projects are good or bad but rather that some work and some do not. He offers these five suggestions for the improvement of the use of TIF increment financing: 1. Track and monitor TIF use so that state legislators can understand how TIFs actually work, 2. Allow opt-outs for local governments that are adversely effected, 3. Review “but-for” efficiency so that state legislatures may place reasonable limits on the utilization of TIFs, 4. Enable more transparency, and 5. Conduct comparative research in an attempt to understand which TIF expenditures actually contribute to economic growth. In a report published in 2007, the Civic Federation of Chicago notes that TIF districts do not increase taxes. However, given that municipalities use the TIF funds as a source from which to develop infrastructure and further economic goals, taxes would increase if the same development had been done outside of TIF funding. The effect of TIFs, the report notes, is focused on taxpayers.

**Chicago Teachers Union  
TIF Hearing Testimony  
9/25/19**

Good afternoon, Sen. Gillespie and members of the subcommittee. My name is Kurt Hilgendorf. I am the Legislative and Policy Director at the Chicago Teachers Union. Thank you for having me today.

Let me be clear from the beginning. The CTU supports broad-based economic development, increased employment, and economic growth that benefits the city as a whole rather than just a small subset of people. Tax increment financing, as used in Chicago, has not met those tests in a consistent way.

TIF forces tradeoffs that should not happen – private development versus public service provision, small groups of beneficiaries versus the city at large – and justifies austerity budgets predicated on artificial revenue constraints. Today I'll talk about a few of the real questions with TIF in Chicago: What is the scale of TIF in Chicago? Who makes decisions and who benefits? How does TIF impact school funding? And what is a potential fix that has already gained traction in the IL General Assembly?

The City of Chicago TIF program is massive. Nearly 1/3 of the city lies in a TIF district. According to the most recent Cook County Clerk report on TIF, the city collected \$841 million in TIF in 2018, an increase of \$181 million over 2017. The city's 2018 tax reassessment meant an increase of 12.5% of EAV, but TIF collections increased 27.4%. That stat points to the continued concentration of wealth in TIF districts in and near the city's core. In fact, excepting the North Side transit TIF, the 9 largest TIF districts in terms of collections are all in or around downtown.

How many of you think Chicago's City Hall is blighted? We're across the street from a TIF district. And while this building (Thompson Center) might meet some people's definition of "blight", it's a stretch to call downtown Chicago, home to some of the most valuable real estate on the planet, in need of development. But under the state's TIF definitions, the city was able to set up a TIF district in the heart of the Loop. Last year, the LaSalle Central TIF district alone collected \$100 million in revenue.

When it comes to decision making, the TIF program can charitably be described as opaque, including who made the decisions on what projects got TIF funds. Generally speaking, the Mayor, in consultation with local aldermen choose the projects. There are tests for what TIF is supposed to be used for, like "blighted" neighborhoods and the "but for" test. But those projects don't always get open votes, and the process is easily bent to whatever desired outcome the decision-makers have in mind. Several examples point to the way the system encourages misuse.

Is Lincoln Park blighted? How about the South Loop? Nope – neither. But two TIF districts worth north of \$2 billion in property tax collections were established in these two locations earlier this year. The Lincoln Yards TIF, in Lincoln Park, was rammed through the city council because the minimal legal tests would not have been met even one council meeting later, thereby costing the city \$1.3 billion in subsidies to one of the wealthiest developers in the city. The

Illinois TIF law includes a “but for” provision, that development would not happen but for the presence of the TIF. Some places of the city, yes, that’s true, but not in these two locations. The public dollars became nothing more than corporate welfare.

Even worse, the resulting economic activity doesn’t actually benefit the city as a whole. According to a 2013 study by the Grassroots Collaborative, of the more than 50,000 jobs created downtown between 2002 and 2011, only 1 in 4 went to a Chicago resident while at the same time jobs in neighborhoods across the city plummeted.

The impact on schools is also negative. Because of the way TIF districts cap available EAV, and because of the way the PTELL tax cap interacts with property value growth, the Chicago Public Schools are constrained in their local tax collections. The tax cap increases much more slowly than increases in EAV, and TIF exacerbates the gap between potential collections and actual collections. Moreover, because CPS and the City government are both controlled by the city’s Mayor, CPS has not contested the creation of new TIF districts, unlike school districts in other parts of the State. The Chicago Public Schools constitute about 52% of the city’s property tax collections. As such, about 52% of TIF funds come from what would go to schools. And given that CPS is at 65% of adequacy under the State’s school funding formula, every additional dollar is vital to ensuring that students get what they need.

Schools and other taxing bodies can get operating revenues back through a TIF surplus declaration. However, the opaque nature of TIF fund availability due to vague language in the TIF law makes those surplus declarations hard to predict, and the Mayor has the authority to declare a surplus, reinforcing the issues outlined above.

CTU proposed a fix to TIF issues via HB 3720 from the 99<sup>th</sup> General Assembly. Passed through the House on a 75 vote bi-partisan roll call, the bill did three things:

1. HB 3720 would tighten up the definition of “anticipated redevelopment project costs” by requiring signed agreements or actual contracts on upcoming projects. Often, TIF funds would be excluded from surplus calculations if a nebulous project had been proposed and funds could accumulate for years with no actual redevelopment project attached, which serves to increase a potential slush fund and reduce surplus calculations. This bill would thus bring transparency to TIF calculations and potentially increase annual TIF surplus distributions. All municipal obligations for financing redevelopment and project costs incurred would be paid before a surplus declaration is made. In other words, nothing in this law would put existing projects at financial risk.
2. The bill creates a new eligible expense category in the law so that TIF funds could be used for school-based social services like social workers and school nurses, and for special education services. This measure addresses both deep cuts to special education and the dire need for trauma-informed social services for thousands of students across the state.
3. The bill would require municipalities with population greater than 1,000,000 (i.e. City of Chicago) to annually calculate and spend its entire TIF surplus distribution on costs of

its public school district. This provision was included prior to the passage of the new school funding model.

The transit TIF is another potential model. Established to receive matching federal funds for CTA rail improvements, this TIF returns to CPS the proportional amount of incremental funds the TIF collects, meaning those dollars go back to schools citywide.

DRAFT

**Professor Rachel Weber, Institute of Government and Public Affairs  
Presentation to State Property Tax Relief Task Force**

**Introduction:**

I am here representing a group of my colleagues, all professors at the U of I. We have decades of experience analyzing economic development incentives and public finance and have published over thirty peer-reviewed articles on TIF alone. We work together under the auspices of the university's Institute of Government and Public Affairs (IGPA).

We have neither a reason to sing the praises of TIF nor an axe to grind. We're interested in measuring the costs and benefits associated with different public policies and discussing the "best practices" for incentive design and use that have emerged from our research.

TIF is a development finance tool -- one of several that state and local governments have at their disposal. TIFs operate against the backdrop of fiscal structure and interact with it, sometimes in ways that have unexpected consequences. Because property owners have an incentive to ask for public assistance whenever they can, administrators need to limit the use of TIF to situations where they are effective at creating public benefits that the private sector wouldn't on its own. Situations where TIFs can be effective include: removing a site-specific impediment to development that is preventing private market from investing in a particular area or providing credit to developers in areas with a history of redlining and racial discrimination. If they don't and they are throwing public money where private money would have gone, TIFs have the potential to capture revenues from other taxing bodies.

In the past I've presented some of my research on the impact of TIF on the finances of school districts in Illinois. Today, I'll present some work on the cost/magnitude of use in Cook County and study of the impact of incentives on economic activity.

**STUDY 1:**

- What is the magnitude of incentive use in Cook County? Undertook a study to measure which municipalities use what tools and how much does it cost the public sector (opportunity costs).

**Key findings:**

Collected data from the Clerk and tabulated and geocoded parcels classified as 6, 7, or 8 abatements (otherwise known as classification, which cut assessment ratio to 10 percent rather than the usual 25 percent of market value), TIF, and Enterprise Zones.

- We found that 2,300-2,600 commercial or industrial parcels (depending on year) cut their property tax bill in half as a result of classification (most are 6B, followed by 8).

Using municipal and aggregate tax rates for each parcel in each year, we calculated the tax savings to the parcel (and the cost to the government) and summed the tax savings across all parcels with the same classification.

- **We found they were worth about \$250 million in 2014. This is about 5.3 percent of the \$4.7 billion of commercial and industrial property taxes that local governments (including school districts) billed in Cook County.**

We also tabulated and geocoded those parcels located in TIF (and EZ).

- The value of the incremental tax revenues in TIF district was more than twice the amount of industrial and commercial incentives in Cook County at \$644 million in 2014. This is not revenue that was abated but rather redirected back to property and property owners in the district. Depending on how you calculate it, **the revenue sequestered in TIF**

**districts was 13 % of total property tax revenue in 2014 or closer to 6% if you include TIF value in the denominator.**

- **On average less than 10% of property taxes in TIFs.** But TIF revenue comprised a substantially larger share in a few villages with small non-residential tax bases, including Glencoe (93.1 percent), Phoenix (58.7 percent), and Willow Springs (34.9 percent), and in some municipalities that hosted more commercial land uses, including Hoffman Estates (28.7 percent) and Rosemont (28.3 percent).

#### *Overlap*

We also mapped classified parcels to see which were in TIF districts and Enterprise Zones. Even though they're intended to lead to different outcomes (TIF are intended to have area wide benefits whereas classification is targeted to specific business parcels; TIF intended to raise property values, classification and EZ intended to reduce taxes), these three different tax incentives often are "bundled" together and used in conjunction with each other.

- We found that in 2014, almost **40 percent of all commercial or industrial parcels receiving classification were also located within a TIF district.**

The magnitude of use (10-18% of tax base provided as relief or assistance) and high incidence of overlap raises questions about interactive effect of incentives and what County and local governments are getting in return -- particularly from twice- and thrice-subsidized businesses.

#### **STUDY 2:**

- How effective are incentives at increasing employment and business establishment or preventing decline? Particularly interested in the post-recession period to see if those municipalities that used incentives or used them more intensively (had a greater share of their tax base TIF-ed) recovered more quickly than that didn't use them.

We had access to a good data source that tracked jobs and the addresses of individual business establishments. In this case looked beyond Cook County to the 5-county Chicago region – 280 municipalities with some commercial and industrial property, 61% of which had at least one TIF district in 2011. We also looked at some of our Midwestern peers – municipalities in urbanized regions in Wisconsin and Michigan – for comparison. In total, looking at 6 metro areas and two categories of incentives - -TIF and abatements. I'll just talk about TIF now but you're welcome to read the full paper.

Conducted a regression analysis to see what factors are related to or cause changes in the dependent variable, in this case employment or establishment outcomes for the municipality (not just for the district). Control for other factors likely to lead to these outcomes (population, poverty rate) in order to isolate the effect of incentives. What did we find?

- Very different contexts for development. Variables that were significant in one state, not significant in other.
- Incentives' effects on incumbent or existing businesses was most influential – in all three states, the presence of TIF or abatements never affected relocating businesses from outside the region. More likely shifting around business activity within a region.
- Most concerning results were for Illinois. On average, TIF had negative effects in Illinois across the board. **Employment and establishments either declined or grew more slowly than in places that did not use TIF or did not use them as intensively.**
- Abatements were a different story. Positive effect for white-collar jobs and businesses in the office sector and on existing business establishments in Illinois.

#### **CONCLUSIONS: WHAT DO WE TAKE AWAY FROM THESE STUDIES?**

TIF, like all government policies and programs, needs to be periodically reviewed to see whether it is still an important part of the toolkit or whether it has outlived its usefulness.

Our recent work has demonstrated that there are significant costs but, on average, not necessarily significant economic development benefits from using these incentives. I recognize that job creation is not the only reason why municipalities use TIF anymore – we’ve looked at property values in the past – but we can’t measure intangibles like the aesthetic value of removing an eyesore or the morale boost of finally getting a Starbucks on that desolate corner.

But just looking at the characteristics of places we can measure – we don’t see a lot of benefit. It may be that, unlike in our neighboring states, the use of TIF is so ubiquitous that it doesn’t provide the competitive edge that it once did. At a time when municipal governments are under pressure to fund basic services, maybe municipal dependence on this tool no longer makes sense.

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