

THE IMPACT OF TAX INCREMENT FINANCING (TIF) IN THE CHICAGO REGION – RESULTS FROM TWO RECENT STUDIES

PRESENTED AT
TIF SUBCOMMITTEE, STATE PROPERTY TAX RELIEF TAX FORCE
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Who we are and why we do this kind of research

IGPA Policy Initiative on Business Taxation

IGPA Policy Initiatives bring together experts from across the University of Illinois' three campuses to study issues important to the State of Illinois.

Business tax incentives lower taxes paid by target business in order to promote public goals. Such policies include business property tax relief, tax increment financing, Enterprise Zones, and Illinois' High Impact Business Program. Together these incentives represent a substantial investment in Illinois' infrastructure and businesses.

IGPA's Business Tax policy initiative brings together experts in economics, planning, and public finance to evaluate the effects of such policies on the health and productivity of state and local businesses and the state government. Researchers seek to measure the direct effect on firms and property owners that receive tax incentives as well as the indirect effects on nearby firms and property owners that do not receive incentives.

Principles of “smart” incentive policy

- Recognizes that incentives interact with taxes, regulations, transfer payments to governments, and other policies to grow and steer economic activity.
- Targets areas and businesses facing barriers to growth but that are otherwise economically viable.
- Results in subsequent positive changes – in employment, property values.
- Is efficient to administer. Doesn't entail steep administrative and transaction costs in the form of staff time and payments to lawyers, consultants, and bond underwriters.
- Is transparent. Taxpayers understand the costs and benefits attributable to the incentives.

Study 1: The use of business property tax incentives in Cook County, Illinois

- Research question: What is the magnitude of incentive use in Cook County? How much do incentives cost the public sector in terms of foregone revenues?
- Which incentives? Property tax abatements (Class 6, 7, and 8, which reduce property tax assessment ratio from 25% to 10% for 10 years or more), TIF, and Enterprise Zones
- Data from 2012-2014 from the Cook County Clerk's Office and the Illinois Department of Revenue.
- Find full study here: <https://igpa.uillinois.edu/>

Foregone revenue due to commercial and industrial property tax abatements, 2012-2014

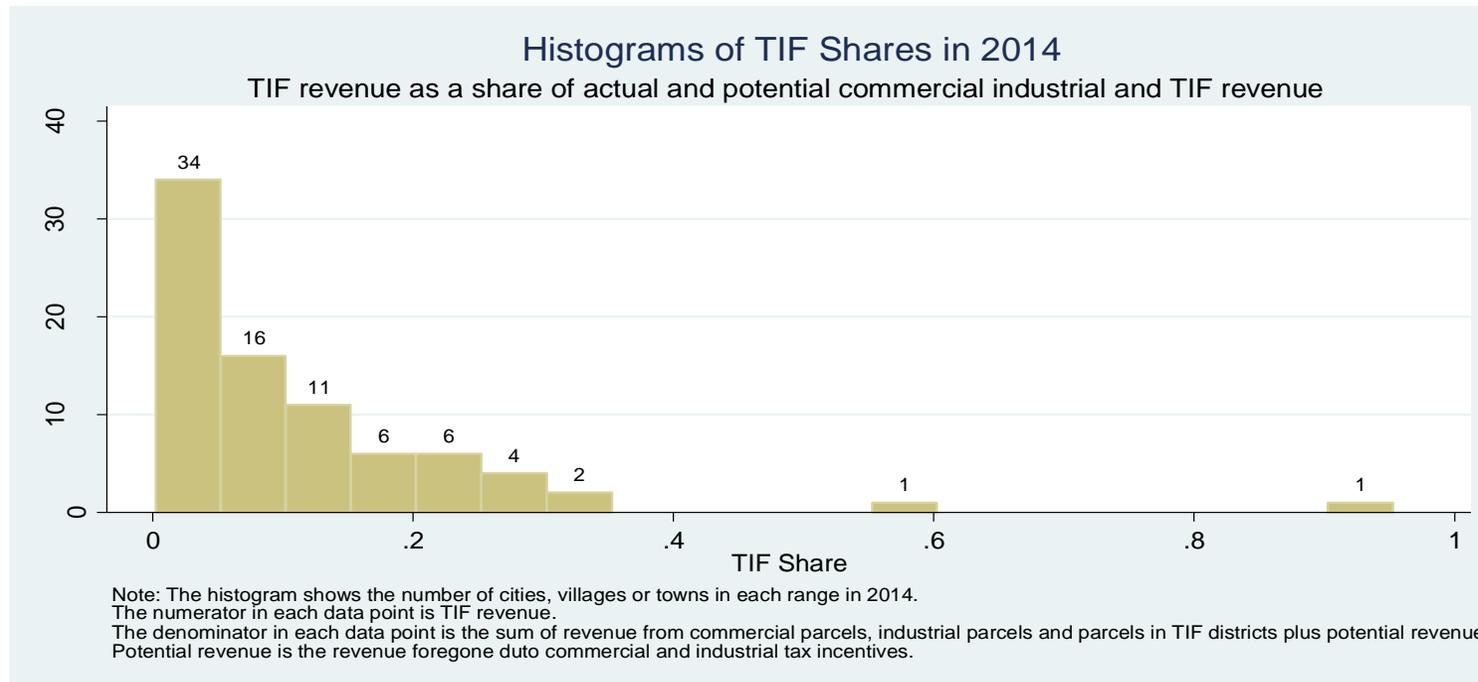
Total revenue foregone due to incentives						
Year	Municipal Commercial Value Foregone	Municipal Industrial Value Foregone	Non-Municipal Commercial Value Foregone	Non-Municipal Industrial Value Foregone	Total Commercial Value Foregone	Total Industrial Value Foregone
2012	\$8,077,791	\$29,509,951	\$31,022,209	\$139,490,050	\$39,100,000	\$169,000,000
2013	\$8,907,732	\$33,271,938	\$35,492,268	\$154,728,062	\$44,400,000	\$188,000,000
2014	\$10,817,139	\$35,038,741	\$44,382,862	\$159,961,259	\$55,200,000	\$195,000,000
Total	\$27,802,622	\$97,820,629	\$110,897,338	\$454,179,371	\$138,700,000	\$552,000,000

Incremental revenue generated in TIF districts, 2012-2014

Year	City of Chicago	Suburban Cook County	Total TIF Increment
2012	457,007,111	266,279,117	723,286,228
2013	422,064,655	260,931,694	682,996,359
2014	371,791,298	272,073,571	643,864,870
Total	\$1,250,863,064	\$799,284,382	\$2,050,147,457

What share of a municipality's non-residential property tax base was in a TIF in 2014?

TIF revenue as a share of actual and potential commercial, industrial and TIF revenues



> In the majority of Cook County municipalities that had at least one TIF district, the revenue sequestered in TIF districts was 10 percent or less of total business property tax revenue in 2014.

Examples of combined use of commercial and industrial property tax abatements and TIF, 2014

		Intensity of TIF Use		
		High (>20%)	Medium (15-5%)	Low (<5%)
Intensity of Commercial and Industrial Incentive Classification Use	High (>20%)	City of North Lake (27.3%, 21.0%)	<i>none</i>	<i>none</i>
	Medium (15-5%)	Village of South Holland (46.3%, 11.2%) Village of Bedford Park (65.3%, 9.5%)	Village of Homewood (9.5%, 8.2%) Village of Midlothian (10.6%, 6.5%)	Village of Glenview (0%, 6.1%) Village of Burnham (0%, 5.6%)
	Low (<5%)	City of Harvey (80.0%, 4.1%) Village of Dolton (58.7%, 4.6%)	City of Countryside (5.5%, 3.0%) Village of Orland Park (6.5%, 1.6%)	City of Elgin (3.8%, 0.7%) Village of Kenilworth (0%,0%)

Study 2: What are the economic effects of TIF use in the Chicago region?

- Research question: Did municipalities that used incentives after the Recession experience greater employment gains than those that did not use incentives or used them less?
- Data on TIF and abatements for five-county Chicago region as well as urbanized regions in Michigan and Wisconsin
- Employment data from National Employment Time Series (NETS).

Employment Change 2011-2014(average)

	Municipalities that used TIF	Municipalities that did not use TIF
Illinois	4.61%	6.36%
Michigan	0.52%	-2.89%
Wisconsin	5.43%	-2.92%

Find full study here:

Joshua Drucker, Geon Kim, and Rachel Weber, "Did incentives help municipalities recover from the Great Recession?"

Evidence from Midwestern cities" <https://doi.org/10.1111/grow.12318>

Results of regression analyses

Between 2011 and 2014, Chicago-area municipalities that used TIF experienced a:

Decrease in employment (all sectors)

Decrease in office and retail sector jobs

Decrease in employment in new and existing establishments

Decrease in employment in relocating establishments from both outside and within the region

Decrease in establishments (all sectors)

relative to those municipalities that did not use TIF.

The effects of TIF were much more positive in Michigan and Wisconsin municipalities.

Employment Change by Industrial Sector

<i>Industrial sector</i>		manufacturing		office		wholesale and retail	
<i>Variable</i>		<i>Coeff.</i>	<i>Std. Err.</i>	<i>Coeff.</i>	<i>Std. Err.</i>	<i>Coeff.</i>	<i>Std. Err.</i>
Illinois	TIF	-0.1066	0.0753	-0.0886	0.0525 *	-0.1389	0.0537 **
	TIFREV	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	INCENT	0.0267	0.0776	0.0917	0.0485 *	0.0178	0.0321
Michigan	TIF	-0.0988	0.1373	0.0291	0.0401	0.0833	0.0374 **
	TIFREV	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	INCENT	0.3115	0.1276 **	0.0392	0.0387	0.0458	0.0376
Wisconsin	TIF	0.1115	0.0796	0.0842	0.0471 *	0.2275	0.0860 ***
	TIFREV	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	INCENT	0.0771	0.0675	-0.0223	0.0421	-0.0991	0.0627 †

Dependent variable: rate of employment change 2011-2014.

*** Significant at 99% confidence level. ** Significant at 95% confidence level.

* Significant at 90% confidence level. † Significant at 85% confidence level.