The Right Tool for the Job?

An Analysis of Tax Increment Financing

by the

Developing Neighborhood Alternatives Project

March 2003
The Right Tool for the Job?

An Analysis of Tax Increment Financing

VOLUME 1
ANALYSIS and RECOMMENDATIONS

By the Developing Neighborhood Alternatives Project

A collaborative undertaking of

Center for Economic Policy Analysis
The Heartland Institute
Jewish Council on Urban Affairs
Statewide Housing Action Coalition

We thank the Woods Fund of Chicago, the Chicago Community Trust, and the John D. and Catherine T. MacArthur Foundation for providing primary support for this project. Additional support was provided by the Wieboldt Foundation and the Alphawood Foundation. The conclusions herein are solely the responsibility of the individual authors, and do not necessarily reflect the opinions of the funders.

© 2003 Developing Neighborhood Alternatives Project. Nothing in this report should be interpreted as necessarily representing the views of the sponsoring organizations nor as an attempt to aid or hinder the passage of legislation.
The Right Tool for the Job?

An Analysis of Tax Increment Financing

By the
Developing Neighborhood Alternatives Project

Introduction

Tax increment financing (TIF) has become the most commonly used economic development tool in many cities throughout the United States. It is widely heralded as “one of the last remaining fiscal devices for repairing areas of the city afflicted by urban decay.” But TIF is also a controversial tool, accused by some of failing to create promised new jobs, subsidizing gentrification, and trampling community visions and private property rights. If you are concerned about economic development, poverty, community renewal, or private property rights, you need to understand TIF.

Tax increment financing depends on the expected growth (or increment) in property tax revenues from a designated geographic area of a municipality. This increment is kept separate from general city revenue and instead is spent – usually only in that specific area – for goods and services calculated to spur growth in property values, such as infrastructure (roads, sidewalks, sewers, etc.), government condemnation and acquisition of property for transfer to developers, and other, more direct subsidies to

---

1 A joint project of the Center for Economic Policy Analysis, Heartland Institute, Jewish Council on Urban Affairs, and Statewide Housing Action Coalition. For more information about the project and its members, see the back cover of this report.


The managers of TIF districts can use their legal claim to future property tax revenues as backing for debt to spend money in advance of redevelopment projects. Alternately, they can wait and spend the increment only after it is realized, in the interim using zoning, selective code enforcement, and other police powers to promote desired private expenditures. Either way, TIF districts rely on government power to raise capital for the redevelopment process. For this reason, TIF demands careful scrutiny by citizens.

Report Outline

This report provides the basis for public understanding and discussion of TIF. Our goal was to look at TIF from a community standpoint by showing how to measure TIF’s effects on a community and analyzing TIF law from the standpoint of what it does to a community. Specifically, this involves analyzing who benefits from TIF, who pays for those benefits, and whether TIF promotes or hinders justice and fairness in a community.

In Part 1, we summarize data on the effects of five TIF districts in Chicago, including changes in the number and types of businesses, number and types of jobs, housing prices, and other measures of economic and social change. These data provide a template for examining TIF districts. While it is impossible to draw general conclusions from five case studies, these data show how to develop an overall picture of the effect of TIF and how to address the question of whether TIF districts actually generate new jobs and businesses, or merely move jobs and businesses from one location to another. Since the interpretation of this data depends on an understanding of the nature of the property tax and related issues, some discussion of these issues is included in this section.

In Part 2, we present an analysis of TIF from a community perspective. We ask how requirements of the TIF process can determine what kinds of communities are chosen as TIF sites, how success is defined, who has input into TIF planning and implementation, and what kind of development is most likely to be encouraged. This analysis is less quantitative than Part 1, which involved counting jobs and documenting housing prices, but it is no less important.

---

3 For a complete list and description of eligible TIF expenditures, see Appendix 1.

4 The Neighborhood Capital Budget Group gives a similar explanation in its Winter 2001 TIF Handbook: “‘TIF’ stands for ‘Tax Increment Financing,’ a special tool that the City of Chicago can use to generate money for economic development in a specific geographic area. TIFs allow the City to re-invest all new property tax dollars in the neighborhood from which they came for a 23-year period. These ‘new’ revenues – also called ‘increment’ – arise if new development takes place in the TIF, or if the value of existing properties rises, resulting in higher tax bills. These funds can be spent on public works projects or given as subsidies to encourage private development. But TIFs also make it much easier for the City to acquire private property and demolish buildings to make way for new construction.”
Part 3 asks whether TIF conforms to popular notions of justice, fairness, and community self-determination, and Part 4 presents a series of recommendations to improve TIF, a brief overview of principal findings, and concluding remarks.

Appendix 1 records the steps that must be followed to create a TIF in Illinois. It also contains an explanation of a technicality in how the tax increment is calculated that allows municipalities to maximize the increment they receive, and even to receive an increment in some cases when total assessments within the TIF district decline. Appendix 2 describes the methodology and data sources used for this report.

Appendix 3, available separately as Volume 2 of this report, contains detailed profiles of the five TIF districts that were used to produce the data reported in Part 1.

Our findings can be briefly stated:

1) The template for analysis illustrated by the five TIF districts provides a way to address TIF’s effect on jobs, businesses and housing in a community. The districts studied for this report do not support the claim that TIF causes a net increase in jobs or the number of businesses. Rather, economic activity that would have occurred outside the TIF district moves inside the district, and less economic activity seems to take place overall than would have occurred in the absence of the TIF district. This is consistent with what we would expect from our analysis of TIF law.

2) TIF favors development that dramatically increases land value, thereby favoring new construction over rehabilitation of existing homes and commercial buildings. It favors large businesses over small, higher-income housing over lower-income housing, and changes in land use that can increase value.

3) TIF often involves only certain groups in the decision making process. Those who have access to the process gain more benefits than those who do not. Often, the benefits for the groups with access come at the expense of groups with less access.

4) TIF defines a community based on what it lacks, and focuses on bringing in outside residents and businesses. Existing residents and businesses seldom reap benefits from TIFs, and they are sometimes forcibly moved out of the way to make room for new, TIF-funded businesses and TIF-subsidized residents.

5) Our recommendations include seeking development alternatives to TIF, helping communities learn about the effects of TIF, making the TIF planning process more transparent, and making sure that, in communities where TIF exists, the benefits are distributed more fairly.
PART 3

Measuring the Effects of TIF

In Chicago and throughout Illinois, more and more property tax dollars are being set aside each year for TIF districts. In the state of Illinois, more than 700 TIF districts now exist. About 60 percent of them, or 424, were created during the 1990s. In 1999 alone, 91 districts were created.

Chicago contributes to this trend. For the past four years the City has created TIF districts at the rate of more than one per month. In tax year 2000 (taxes payable in 2001), $127.7 million went into Chicago TIF funds. This represents a 37 percent increase over the previous year, and a 257 percent increase from 1993. Altogether, Chicago taxpayers have put over $630 million into TIF funds.

Despite its increasing use, the actual effects of TIF are unclear. Supporters of TIF point to the new construction and rehabilitation funded by TIF dollars, along with jobs at TIF-subsidized facilities, as evidence of the program’s success. Opponents object that many of the costs of this success are unseen: Bonds that taxpayers will be paying off for decades to come, no improvement or even worsening of conditions for residents and businesses who are displaced by subsidized newcomers, and possible violations of the rights of community residents.

At the core of the discussion is the question of whether or not TIF “works.” But a successful TIF means different things to different people. To some, a TIF is successful if it creates jobs, brings new businesses into the community, and spurs new construction in the neighborhood. To others, TIF works when it empowers local residents whose plight made the community eligible for TIF in the first place. In this case, evaluating TIF means asking if these residents have better employment prospects, improved access to affordable housing, more safety, and other values.

We don’t have to choose between these competing notions of success. Studying data from TIF districts and neighborhoods surrounding them, studying the decision-making structure of TIF districts, and talking to community members, business owners, and others about what actually happened when their neighborhoods became TIF districts are ways of shedding light on whether TIFs succeed by either definition. In this part of the report, we will focus on the first definition of success: What does TIF do to employment, businesses, and housing in the neighborhood? The data we collected help develop an overall picture of the effect of TIF on a community. We will address some specific community-level concerns in Part 2.

Choosing Five TIF Districts to Study

The Developing Neighborhood Alternatives project worked with the Center for Labor and Community Research (CLCR) to perform case studies on five Chicago TIF districts. The DNA partners and CLCR chose which TIF districts would be evaluated and what data would be gathered. The data gathering was performed by CLCR.
Empirical data for the ten-year period from 1989-1998 for five TIF districts and the areas immediately surrounding them were collected and analyzed. The districts are identified in Table 1, and maps of the districts and other details are contained in the profiles in Appendix 2. The criteria used to select TIF districts included the following:

1. The district had been in existence approximately 10 years (or longer) in order to provide enough time for development patterns to emerge. We also favored districts created near 1990 so census data could be used in analysis.  

2. The district was created to promote commercial or residential development rather than industrial development. The use of TIF for industrial development is also controversial, but the criteria for evaluating changes in such districts are different than for commercial and residential development.

3. The districts were geographically and economically diverse.

| Table 1  
The Five TIF Districts  
Chosen for This Study  
| Roosevelt-Homan  
95th and Stony Island  
| Chatham Ridge  
Near South  
| Lincoln-Belmont-Ashland |

We also analyzed the area within four blocks, or about half a mile, of TIF district boundaries. In most TIF districts, impacts spill over into surrounding areas. In order to understand the total net impact of TIF, therefore, one must compare changes within the district to changes in the immediately surrounding area. In addition, we obtained data for the city of Chicago as a whole, to provide a further basis for comparison.

Data were found for five measures of economic progress: equalized assessed value (EAV), business creation and loss, job creation and loss, the rate of property turnover, and change in housing sales prices. Many of the data on business establishments and jobs were not available in electronic databases, and so were collected and tabulated by hand. Although the five selected TIF districts represent a small percentage of the existing districts in the city of Chicago, our analysis found fairly consistent patterns of outcomes that can be explained by referring to the design and implementation of TIF.

**Change in Equalized Assessed Value**

The goal of TIF is to increase the market value, and thus the equalized assessed valuation (EAV), of real estate within the TIF district. That is, without an increase in EAV, the TIF cannot function, since there will be no money, or “increment,” available for development costs. The greater the increase in EAV, the more money can be spent by TIF district managers.

Generally, the largest and quickest increases in EAV result from new construction and substantial

---

5In the end, other sources of data were found besides the census; however, when selecting TIF districts for the case studies, we wanted the census to remain an open option for data.

6For an explanation of the data sources, please see Appendix 2.
rehabilitation, so these are the activities favored by TIF.\textsuperscript{7} New construction and rehab can have a spillover effect and increase the value of non-rehabbed real estate. TIF district managers can also employ special marketing activities and improvements in city services to increase market values.

The change in EAV in the five case study districts, compared to the change in EAV for the entire City of Chicago, appears in Table 2. In every case, EAV increased more rapidly in the TIF districts than in the city as a whole.

\begin{table}[h]
\centering
\begin{tabular}{|l|c|c|c|c|}
\hline
 & 95th and Stony Island & Chatham Ridge & Lincoln-Belmont-Ashland & Near South & Roosevelt-Homan \\
\hline
\hline
Percent change in EAV since creation & 382.8\% & 1,478.3\% & 467.2\% & 117.0\% & 184.0\% \\
\hline
Percent change in Chicago EAV over same time period & 75.2\% & 148.6\% & 34.6\% & 34.6\% & 75.2\% \\
\hline
\end{tabular}
\caption{Change in EAV in Case Study TIF Districts from Year of Creation to 1998 Versus Change in EAV for Entire City of Chicago}
\end{table}

Because EAV is so important, TIFs are generally evaluated according to how well they increase it; the more the TIF increases EAV, the more successful it is judged to be. Indeed, EAV is the only number related to TIF districts that is regularly reported. While some attempts have been made to evaluate TIFs on criteria besides their effect on land value, looking at EAV remains the most common way of judging the success of a TIF district.

A 1997 study by the Civic Federation provides an example.\textsuperscript{8} TIF districts in Chicago and some suburbs are analyzed, and the study includes data on why the districts were created, how much revenue came into the districts, how that revenue was spent, and the overall change in EAV of the districts. While this study helps establish a framework to discuss how well TIF is meeting its stated goal of increasing EAV, it does not step beyond this goal to ask if it is worth meeting, and what effect TIF might have beyond this immediate goal.

A 1998 review of TIF in Chicago, released by the City, has a somewhat broader set of data for evaluation, but it fits into the same general pattern as other studies that evaluate TIF based on how it

---

\textsuperscript{7}See the list of eligible TIF district expenditures in Appendix 1. In state law, these are found in 65 ILCS 5/11-74.4-3(q).

\textsuperscript{8}“Assessing the Impact of Tax Increment Financing in Northeastern Illinois” (Chicago, IL: Civic Federation, March 1997).
While higher EAV may show that people with money are becoming more willing to pay for the particular type of “desirability” now found in the neighborhood, it does not show if people who lived in the community before are realizing the benefits of this increased desirability.

However, there are problems with this type of analysis. First, EAV is an imperfect measure of community health. While it can provide a snapshot of how much investors are willing to pay for real estate in an area, and an increase in EAV can indicate either new development or increased willingness by investors to pay for existing properties, increased EAV does not necessarily correlate with improvement in the lives of community members.

In other words, while higher EAV may show that people with money are becoming more willing to pay for the particular type of “desirability” now found in the neighborhood, it does not show if people who lived in the community before are realizing the benefits of this increased desirability. For example, the EAV may rise because locally owned businesses are making more sales and realizing more income, while homeowners are obtaining higher incomes and so are able to improve their houses. Or the EAV may rise because large, national chain businesses have replaced locally owned businesses and captured their market base, while new, expensive residential developments are being purchased by new residents with higher incomes. This drives up housing costs across the community without increasing the income of current residents.

---

Increased EAV and market values, whatever the cause, provide a financial benefit to property owners, since their homes are now worth more money. However, this can bring with it increased property taxes and, in the absence of higher incomes, a strain on lower-income property owners. Senior citizens and owners with disabilities, especially those who have low incomes, are eligible for several programs that shield them from higher property taxes. Other owners may use home equity loans or reverse mortgages based on the rising value of their homes to offset higher property taxes and other living expenses, or they can sell and move out of their neighborhood. Moving disrupts community connections: networks of neighbors who have become friends and baby sitters, local churches and service organizations that have come to rely on homeowners’ gifts or volunteer service, and so forth. Putting a price on the value of these connections, to the individual or to the community, may be impossible.10

Renters – even if they are seniors and their incomes are low enough to qualify for the state senior-citizen circuit breaker – face increased housing costs without the benefit of increased equity in any property they own. At most, the senior-citizen circuit breaker pays only for the portion of rent attributable to property taxes, but the maximum allowable benefit is so low that the program is of limited help to most households. Current renters may have no choice but to leave the community without any compensation to help them relocate to another community.

A second problem with using EAV growth to measure TIF’s success is that there is no standard to determine how much EAV growth is too little, and how much is enough. The criterion stated in TIF law is whether an area is growing slower than the average EAV growth for the entire municipality. The municipal average is not a meaningful number, though, because it is a composite of growth rates from many different neighborhoods. Almost always, developments with new construction or substantial rehabilitation have EAV growth that is much faster than all other properties. These unusually high growth rates raise the average rate of EAV growth for the entire municipality even though, in terms of land area, they make up a small minority of a municipality’s acreage. Neighborhoods without new construction are in the majority, but because their growth rate is typically below the average growth rate for the municipality as a whole, they will meet this standard of “blight.”

Redevelopment, in short, cannot be simply extracted from the fabric of the community and evaluated on its own. Other measures of output must be found that capture more of what TIF actually does to the residents of communities that become TIF districts. Four such measures are business creation and loss rates, the type and number of businesses, type and number of jobs, and housing prices.

---

10For a more thorough examination of the burdens imposed when people are forced by circumstances to move and give up community networks, see Arthur Lyons, Tenants in Community (Chicago, IL: Center for Economic Policy Analysis, 1990).
Change in Number of Business Establishments

Data concerning the change in number of business establishments for the five TIF districts in our case study and for the city of Chicago as a whole appear in Table 3.¹¹

<table>
<thead>
<tr>
<th></th>
<th>Roosevelt-Homan</th>
<th>95th and Stony Island</th>
<th>Chatham Ridge</th>
<th>Lincoln-Belmont-Ashland</th>
<th>Near South</th>
<th>City of Chicago</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within TIF district</td>
<td>14</td>
<td>10</td>
<td>17</td>
<td>(5)</td>
<td>(5)</td>
<td>---</td>
</tr>
<tr>
<td>Surrounding area</td>
<td>(70)</td>
<td>(20)</td>
<td>(10)</td>
<td>115</td>
<td>96</td>
<td>---</td>
</tr>
<tr>
<td>Net change</td>
<td>(56)</td>
<td>(10)</td>
<td>7</td>
<td>110</td>
<td>91</td>
<td>5,581</td>
</tr>
<tr>
<td>Percent change</td>
<td>(13.7)%</td>
<td>(4.1)%</td>
<td>2.6%</td>
<td>16.3%</td>
<td>15.1%</td>
<td>10.8%</td>
</tr>
</tbody>
</table>

The five TIFs fall into two groups. The first group – Roosevelt-Homan, 95th and Stony Island, and Chatham Ridge – had an increase in the number of businesses within the TIF district boundaries and a decline in the area surrounding the districts. The second group – Near South and Lincoln-Belmont-Ashland – had the reverse pattern, with a small decline in businesses within the TIF boundaries and a substantial increase outside. According to planning documents for each of the districts, the three districts in the first group were designed to promote and assist commercial developments, predominantly anchor businesses such as Home Depot and a Jewel Supermarket. The second group had a major, if not dominant, focus on housing.

In two of the three commercially-oriented districts, the increased number of businesses inside the TIF district was insufficient to offset the decrease in businesses in the surrounding area. The third district, Chatham Ridge, had a net gain in the number of business establishments of 2.6 percent, less than the city of Chicago’s net 10.8 percent increase during the same period.

The two TIF districts that initially included significant housing development – Lincoln-Belmont-Ashland and Near South – had small net losses in number of business establishments within the TIF district, but sizable net gains in the surrounding areas. The net increase in number of business establishments for these TIFs and their surrounding areas was greater than the city’s rate of increase.

While we will return to these data later, in our discussion of the community-level effects of TIF, we can observe here that TIFs cannot be credited with consistently increasing the number of businesses in a

¹¹Complete data on business creation and loss for each TIF district appear in Appendix 2. The appendix contains more information on how many businesses were started and how many were shut down or moved along with the net changes presented in the tables here.
community. Chicago experienced a 10.8 percent rate of growth in businesses during this period, but two of the five TIFs we examined experienced reductions in the number of businesses inside their borders. This may be partially explainable by the fact that these two districts focused on residential development. Of the remaining three districts, even though they were designed to promote commercial development and they had increases within their borders, two of the three gained fewer new businesses than were lost in the neighborhoods immediately surrounding the TIF district.

Change in Number of Business Establishments by Type

Next, we looked at changes in the types of businesses that operate in TIF districts and their immediate neighborhoods. These data help show how a neighborhood may be changing; for example, a neighborhood previously heavy with industrial or manufacturing jobs may shift to more retail businesses.

We formed two groups of businesses: Production and commercial. Production includes construction and manufacturing industries, which historically were the major employers in Chicago but have been declining in recent decades. Commercial includes businesses in retail, finance, insurance, real estate, and other services. Changes in the number of businesses in these two categories appear in Tables 4 and 5.

The data show that all of the TIF districts and their surrounding areas lost construction and manufacturing businesses, though four of the five lost these businesses at a slower rate than the city of Chicago. Four of the five districts gained commercial businesses, though only two gained them at rates exceeding the city of Chicago.

Table 4
Change in the Number of Production Establishments in TIF Districts, Surrounding Areas, and City of Chicago, 1990-2000
(numbers in parentheses indicate negative change, or declines)

<table>
<thead>
<tr>
<th></th>
<th>Roosevelt-Homan</th>
<th>95th and Stony Island</th>
<th>Chatham Ridge</th>
<th>Lincoln-Belmont-Ashland</th>
<th>Near South</th>
<th>City of Chicago</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within TIF district</td>
<td>(3)</td>
<td>(1)</td>
<td>1</td>
<td>0</td>
<td>(20)</td>
<td>---</td>
</tr>
<tr>
<td>Surrounding area</td>
<td>(2)</td>
<td>(9)</td>
<td>(1)</td>
<td>(21)</td>
<td>(17)</td>
<td>---</td>
</tr>
<tr>
<td>Net change</td>
<td>(5)</td>
<td>(10)</td>
<td>0</td>
<td>(21)</td>
<td>(37)</td>
<td>(75,312)</td>
</tr>
<tr>
<td>Percent change</td>
<td>(19.23)%</td>
<td>(28.57)%</td>
<td>0.00%</td>
<td>(19.44%)</td>
<td>(39.36%)</td>
<td>(30.02%)</td>
</tr>
</tbody>
</table>

12 These two groups do not include all business categories. Agricultural, transportation, wholesale, and government establishments were also part of the overall totals shown in the previous section. Adding together the numbers for changes in production establishments and changes in commercial establishments in this section will not result in the total change in establishments for a TIF area shown in the previous section. Data were categorized this way to focus on shifts from manufacturing jobs to retail/service jobs.

13 Complete data on business creation and loss for each TIF district are in Appendix 2.
### Table 5
Change in the Number of Commercial Establishments in TIF Districts, Surrounding Areas, and City of Chicago, 1990-2000
(numbers in parentheses indicate negative change, or declines)

<table>
<thead>
<tr>
<th>Within TIF district</th>
<th>Roosevelt-Homan</th>
<th>95th and Stony Island</th>
<th>Chatham Ridge</th>
<th>Lincoln-Belmont-Ashland</th>
<th>Near South</th>
<th>City of Chicago</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within TIF district</td>
<td>14</td>
<td>11</td>
<td>15</td>
<td>(5)</td>
<td>29</td>
<td>---</td>
</tr>
<tr>
<td>Surrounding area</td>
<td>(67)</td>
<td>(4)</td>
<td>(8)</td>
<td>135</td>
<td>99</td>
<td>---</td>
</tr>
<tr>
<td>Net change</td>
<td>(53)</td>
<td>7</td>
<td>7</td>
<td>130</td>
<td>128</td>
<td>47,919</td>
</tr>
<tr>
<td>Percent change</td>
<td>(14.72)%</td>
<td>4.07%</td>
<td>3.27%</td>
<td>25.49%</td>
<td>30.19%</td>
<td>6.32%</td>
</tr>
</tbody>
</table>

The Roosevelt-Homan TIF district is something of an outlier, having lost both types of businesses. Roosevelt-Homan was created in response to Sears leaving the area, which took many retail and service businesses with it. However, in the last year or two additional changes have occurred in the district that are attracting new service businesses. Most notably, the completion of some housing developments has led to Dominick’s opening a grocery store without a cash subsidy from the TIF, and the old Sears headquarters has been redeveloped into offices. Adjacent business development and creation of various empowerment and enterprise zones are also contributing to more recent business creation.

The TIF district at 95th and Stony Island, which shows a four percent increase in commercial businesses over ten years, was enacted solely to support construction of a regional mall. While that mall has been successful, it apparently has had the effect of replacing or relocating existing businesses rather than stimulating overall business growth in the community.

In short, TIF may have been successful in these districts in slowing down the loss of construction and manufacturing businesses, though not successful enough to offset the regional (and national) trend away from such businesses. The districts’ record on attracting or creating new retail and service businesses was uneven – in three cases, neighborhoods with TIF districts lagged behind the city. Once again, we see that the two districts focused on housing brought in more businesses that those focused on commercial development. A likely explanation for this is new businesses were drawn to the increased demand for services in these areas. In the neighborhoods where TIF focused on commercial development, no new demand for retail and service businesses was created, so little business expansion resulted.

### Change in Number of Jobs

Along with examining the number of business establishments in selected neighborhoods, the case studies also measured changes in the total number of people employed by these establishments to get an idea of the local job picture. Of the five TIF districts examined, four gained and one lost jobs between 1990
and 2000. However, all of the areas immediately surrounding these TIF districts experienced job losses, and those losses more than offset the number of jobs gained within each TIF district. The net decline in jobs was greater, and in three cases dramatically greater, than the decline experienced by Chicago as a whole. The data appear in Table 6.\textsuperscript{14}

Table 6 supports, but does not prove, the claim that TIF districts simply shift employment from outside districts to inside districts, with no net increase in job opportunities. The fact that the net decrease in employment for districts and their immediate neighborhoods over the ten year period was worse in three cases – far worse than what the City of Chicago experienced during the same period – strongly challenges those who would defend TIF on job-creation grounds.

\begin{table}[h]
\centering
\begin{tabular}{|l|c|c|c|c|c|c|}
\hline
 & Roosevelt-Homan & 95th and Stony Island & Chatham Ridge & Lincoln-Belmont-Ashland & Near South & City of Chicago \\
\hline
Within TIF district & 289 & 305 & 374 & 121 & (501) & --- \\
\hline
Surrounding area & (2,280) & (1,370) & (635) & (1,133) & (82) & --- \\
\hline
Net change & (1,991) & (1,065) & (261) & (1,012) & (583) & (45,158) \\
\hline
Percent change & (35.2)\% & (20.8)\% & (7.8)\% & (17.0)\% & (5.5)\% & (3.8)\% \\
\hline
\end{tabular}
\caption{Change in the Number of Jobs in TIF Districts, Surrounding Areas, and City of Chicago, 1990-2000 \textit{(numbers in parentheses indicate negative change, or declines)}}
\end{table}

\textbf{Change in Number of Jobs by Type of Industry}

Examining the changes in the number of jobs by industry in an area gives a more specific picture of how the job market in a TIF neighborhood changed. For example, if the number of jobs stayed approximately the same after a TIF was put in place, but higher-paying jobs in sectors such as construction and manufacturing were lost and replaced by lower-paying jobs in sectors such as retail, income is leaving a neighborhood.

In the districts examined for this report, TIF seems to accelerate the citywide shift from jobs in production sectors. Tables 7 and 8 present the data.

\textsuperscript{14}Complete data on changes for each TIF district are in Appendix 2.
Table 7
Change in the Number of Jobs in Production Sectors in TIF Districts, Surrounding Areas, and City of Chicago, 1990-2000
(numbers in parentheses indicate negative change, or declines)

<table>
<thead>
<tr>
<th></th>
<th>Roosevelt-Homan</th>
<th>95th and Stony Island</th>
<th>Chatham Ridge</th>
<th>Lincoln-Belmont-Ashland</th>
<th>Near South</th>
<th>City of Chicago</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within TIF district</td>
<td>(13)</td>
<td>6</td>
<td>1,413</td>
<td>0</td>
<td>(944)</td>
<td>---</td>
</tr>
<tr>
<td>Surrounding area</td>
<td>76</td>
<td>(1,126)</td>
<td>(888)</td>
<td>(982)</td>
<td>(229)</td>
<td>---</td>
</tr>
<tr>
<td>Net change</td>
<td>63</td>
<td>(1,120)</td>
<td>(525)</td>
<td>(982)</td>
<td>(1,173)</td>
<td>(75,941)</td>
</tr>
<tr>
<td>Percent change</td>
<td>20.32%</td>
<td>(54.32)%</td>
<td>(37.15)%</td>
<td>(56.89)%</td>
<td>(53.51)%</td>
<td>(30.27%)</td>
</tr>
</tbody>
</table>

Table 8
Change in the Number of Jobs in Commercial Sectors in TIF Districts, Surrounding Areas, and City of Chicago, 1990-2000
(numbers in parentheses indicate negative change, or declines)

<table>
<thead>
<tr>
<th></th>
<th>Roosevelt-Homan</th>
<th>95th and Stony Island</th>
<th>Chatham Ridge</th>
<th>Lincoln-Belmont-Ashland</th>
<th>Near South</th>
<th>City of Chicago</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within TIF district</td>
<td>276</td>
<td>283</td>
<td>377</td>
<td>121</td>
<td>1,385</td>
<td>---</td>
</tr>
<tr>
<td>Surrounding area</td>
<td>(2,494)</td>
<td>(388)</td>
<td>(109)</td>
<td>(45)</td>
<td>224</td>
<td>---</td>
</tr>
<tr>
<td>Net change</td>
<td>(2,218)</td>
<td>(105)</td>
<td>268</td>
<td>76</td>
<td>1,609</td>
<td>30,783</td>
</tr>
<tr>
<td>Percent change</td>
<td>(45.30)%</td>
<td>(5.32)%</td>
<td>15.15%</td>
<td>2.02%</td>
<td>27.20%</td>
<td>3.24%</td>
</tr>
</tbody>
</table>

Four out of the five TIF districts and their surrounding areas lost construction and manufacturing jobs at a faster rate than did the City of Chicago. Three of the five districts and their surrounding areas either lost jobs in the commercial sector or gained jobs at a slower pace than the rest of the city. Except for Near South, none of the five analyzed in this study created enough commercial sector jobs to offset the loss of jobs in production industries. While Near South was an exception to this pattern, Table 6 shows there was still a net decline in jobs in that TIF district and the surrounding area due to declines in government employment.
Change in Number of Residential Property Sales

Fluctuations in the number of residential property sales is often an indicator of how rapidly a community is changing. A high number of home sales means many new residents are moving in, and, unless significant new residential construction has occurred, also means existing residents are moving out. Our analysis focused on residential property sales and did not include commercial, industrial, or apartment buildings, since there are fewer transfers for these properties and sales do not necessarily reflect higher turnover in unit occupants. Occupancy rates and the cost per square foot of commercial property would provide more complete information, but that information was not readily available. Table 9 shows the data.\(^\text{15}\)

Three of the districts show large increases in the number of residential sales between 1989 and 1998, suggesting there was a significant change in the composition of the residential bases. This is in sharp contrast to the average for the city of Chicago, which reported an increase of 11.56 percent over the same period. The remaining two districts show small decreases in the number of residential sales.

Two of the three districts reporting large increases in home sales, Lincoln-Belmont-Ashland and Near South, had development agreements focusing on the construction of housing. Roosevelt-Homan, the third district in this group, also included housing in its original conception. The 95th and Stony Island district did not have housing in its original purpose and the shopping mall has not spurred increased housing sales beyond its boundaries.

<table>
<thead>
<tr>
<th></th>
<th>Roosevelt-Homan</th>
<th>95th and Stony Island</th>
<th>Chatham Ridge</th>
<th>Lincoln-Belmont-Ashland</th>
<th>Near South</th>
<th>City of Chicago</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within TIF district</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>18</td>
<td>55</td>
<td>---</td>
</tr>
<tr>
<td>Surrounding area</td>
<td>23</td>
<td>(6)</td>
<td>(8)</td>
<td>253</td>
<td>52</td>
<td>---</td>
</tr>
<tr>
<td>Net change</td>
<td>23</td>
<td>(5)</td>
<td>(8)</td>
<td>271</td>
<td>107</td>
<td>2,542</td>
</tr>
<tr>
<td>Percent change</td>
<td>67.65%</td>
<td>(4.55)%</td>
<td>(12.50)%</td>
<td>146.49%</td>
<td>972.73%</td>
<td>11.56%</td>
</tr>
</tbody>
</table>

The data suggest that TIFs, particularly when they include development agreements with housing components, lead to an increase in the sales of homes, suggesting a more rapid rate of community change.

\(^{15}\)Complete data on residential property sales for each TIF district are in Appendix 2.

\(^{16}\)See Appendix 2 for explanation of data sources and methodology.
Change of Housing Sales Prices

Increasing sales prices for homes is another indicator of community change. If the price of housing goes up significantly faster than the average price for the rest of the city, then the demographics of a community could be significantly altered. Rapidly rising sales prices ultimately lead to increases in property taxes. A secondary effect of changing the economic demographics of a community is that services, such as grocery stores, begin to cater to the more affluent new residents, perhaps to the inconvenience of longer-term, lower-income residents.

The residential property sales prices in the areas surrounding all the TIF districts analyzed went up substantially during the period between 1989 and 1998. Unfortunately, property sales data for all of the years and areas covered by our case studies were not available. The following tables compare what data we have on price increases in five classes of residential property in the TIF districts and their surrounding areas with the city as a whole.

| Table 10 |
| Sales Price Change for Single-Family Detached Houses |
| Up to 1,000 sq. ft. in Five TIF Districts and Surrounding Areas, and the City of Chicago |
| 1989 – 1998 |

<table>
<thead>
<tr>
<th></th>
<th>Lincoln-Belmont-Ashland</th>
<th>Near South</th>
<th>Roosevelt-Homan</th>
<th>95th and Stony Island</th>
<th>Chatham-Ridge</th>
<th>City of Chicago</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989 avg price</td>
<td>$122,483</td>
<td></td>
<td>$42,218</td>
<td>$52,600</td>
<td>$69,115</td>
<td></td>
</tr>
<tr>
<td>1989 median price</td>
<td>$115,500</td>
<td></td>
<td>$44,250</td>
<td>$52,900</td>
<td>$65,500</td>
<td></td>
</tr>
<tr>
<td>Increase in average</td>
<td>$120,667</td>
<td></td>
<td>$14,540</td>
<td>$24,415</td>
<td>$36,582</td>
<td></td>
</tr>
<tr>
<td>Increase in median</td>
<td>$122,000</td>
<td></td>
<td>$19,750</td>
<td>$19,000</td>
<td>$36,500</td>
<td></td>
</tr>
<tr>
<td>Average % increase</td>
<td>98.5%</td>
<td>N/A</td>
<td>N/A</td>
<td>36.2%</td>
<td>46.4%</td>
<td>52.9%</td>
</tr>
<tr>
<td>Median % increase</td>
<td>105.6%</td>
<td>N/A</td>
<td>N/A</td>
<td>44.6%</td>
<td>35.9%</td>
<td>55.7%</td>
</tr>
</tbody>
</table>
### Table 11
Sales Price Change for Single-Family Detached Houses
Between 1,000 and 1,800 sq. ft. in
Five TIF Districts and Surrounding Areas, and the City of Chicago
1989 – 1998

<table>
<thead>
<tr>
<th></th>
<th>Lincoln-Belmont-Ashland</th>
<th>Near South</th>
<th>Roosevelt-Homan</th>
<th>95th and Stony Island</th>
<th>Chatham-Ridge</th>
<th>City of Chicago</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989 avg price</td>
<td>$134,605</td>
<td>$58,632</td>
<td>$59,389</td>
<td>$90,252</td>
<td></td>
<td>$90,252</td>
</tr>
<tr>
<td>1989 median price</td>
<td>$127,000</td>
<td>$57,000</td>
<td>$60,000</td>
<td>$85,500</td>
<td></td>
<td>$85,500</td>
</tr>
<tr>
<td>Increase in average</td>
<td>$158,831</td>
<td>$22,763</td>
<td>$17,626</td>
<td>$46,169</td>
<td></td>
<td>$46,169</td>
</tr>
<tr>
<td>Increase in median</td>
<td>$138,000</td>
<td>$22,900</td>
<td>$31,400</td>
<td>$49,600</td>
<td></td>
<td>$49,600</td>
</tr>
<tr>
<td>Average % increase</td>
<td>118.0%</td>
<td>N/A</td>
<td>N/A</td>
<td>56.6%</td>
<td>29.7%</td>
<td>51.2%</td>
</tr>
<tr>
<td>Median % increase</td>
<td>108.7%</td>
<td>N/A</td>
<td>N/A</td>
<td>40.2%</td>
<td>52.3%</td>
<td>58.0%</td>
</tr>
</tbody>
</table>

### Table 12
Sales Price Change for Properties with 2 to 6 Units in
Five TIF Districts and Surrounding Areas, and the City of Chicago
1989 – 1998

<table>
<thead>
<tr>
<th></th>
<th>Lincoln-Belmont-Ashland</th>
<th>Near South</th>
<th>Roosevelt-Homan</th>
<th>95th and Stony Island</th>
<th>Chatham-Ridge</th>
<th>City of Chicago</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989 avg price</td>
<td>$36,750</td>
<td>$38,685</td>
<td>$105,006</td>
<td></td>
<td></td>
<td>$105,006</td>
</tr>
<tr>
<td>1989 median price</td>
<td>$32,500</td>
<td>$39,600</td>
<td>$89,000</td>
<td></td>
<td></td>
<td>$89,000</td>
</tr>
<tr>
<td>Increase in average</td>
<td>$59,400</td>
<td>$56,567</td>
<td>$89,542</td>
<td></td>
<td></td>
<td>$89,542</td>
</tr>
<tr>
<td>Increase in median</td>
<td>$58,750</td>
<td>$51,650</td>
<td>$71,000</td>
<td></td>
<td></td>
<td>$71,000</td>
</tr>
<tr>
<td>Average % increase</td>
<td>N/A</td>
<td>161.6%</td>
<td>146.2%</td>
<td>N/A</td>
<td>N/A</td>
<td>84.3%</td>
</tr>
<tr>
<td>Median % increase</td>
<td>N/A</td>
<td>180.8%</td>
<td>130.4%</td>
<td>N/A</td>
<td>N/A</td>
<td>79.8%</td>
</tr>
<tr>
<td>Table 13</td>
<td>Sales Price Change for Condominiums in Five TIF Districts and Surrounding Areas, and the City of Chicago 1989 – 1998</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Lincoln-Belmont-Ashland (within TIF)*</td>
<td>Lincoln-Belmont-Ashland (outside of TIF)</td>
<td>Near South**</td>
<td>Roosevelt-Homan</td>
<td>95th and Stony Island</td>
<td>Chatham-Ridge</td>
</tr>
<tr>
<td>1989 avg price</td>
<td>$191,591</td>
<td>$113,571</td>
<td>$244,729</td>
<td>$105,412</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1989 median price</td>
<td>$190,500</td>
<td>$121,000</td>
<td>$222,000</td>
<td>$76,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in average</td>
<td>$52,159</td>
<td>$193,332</td>
<td>$20,140</td>
<td>$61,464</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in median</td>
<td>$44,500</td>
<td>$121,000</td>
<td>$37,70</td>
<td>$58,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average % increase</td>
<td>27.2%</td>
<td>170.2%</td>
<td>8.2%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Median % increase</td>
<td>23.4%</td>
<td>100.0%</td>
<td>17.0%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

* No sales prior to 1997 – increase over only 1 year
** No sales prior to 1995 – increase over only 3 years.

<table>
<thead>
<tr>
<th>Table 14</th>
<th>Sales Price Change for Attached Row Houses or Townhouses in Five TIF Districts and Surrounding Areas 1989 – 1998</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Lincoln-Belmont-Ashland</td>
</tr>
<tr>
<td>1989 avg price</td>
<td>$460,940</td>
</tr>
<tr>
<td>1989 median price</td>
<td>$469,900</td>
</tr>
<tr>
<td>Increase in average</td>
<td>($67,540)</td>
</tr>
<tr>
<td>Increase in median</td>
<td>($79,900)</td>
</tr>
<tr>
<td>Average % increase</td>
<td>N/A</td>
</tr>
<tr>
<td>Median % increase</td>
<td>N/A</td>
</tr>
</tbody>
</table>

* No sales prior to 1996 – increase over only 2 years.
These data provide only ambiguous evidence on whether TIF fuels gentrification (the displacement of lower-income residents by more prosperous newcomers). In two of the three TIF districts for which we have data on sales prices for single-family detached homes (in both size categories), prices rose by *less* than the average for the City of Chicago. On the other hand, in both districts for which we have data on the sales prices for properties with 2 to 6 units, prices rose *more* than the average for the City of Chicago. In both districts for which we have data on the sales prices for condominiums, prices rose *less* than the average for the City of Chicago; and in both districts for which we have data on the sales prices for attached row houses or townhouses, prices rose by *less* than the average for the City of Chicago.

The two TIF districts where housing was part of the development plan – Lincoln-Belmont-Ashland and Near South – reported housing price increases that were significantly greater than the city average in three of the five classes of housing. In a fourth class – condominiums – Lincoln-Belmont-Ashland saw a smaller increase in sale prices than the median for the City of Chicago, but the area immediately surrounding the TIF district saw significantly higher price increases (100 percent versus the city average of 76.5 percent). Near South, however, saw a much smaller increase in condominium prices (17 percent) than the city average.

We can draw some preliminary conclusions regarding the impact of TIF on housing prices. First, in districts that do not make new housing part of the redevelopment plan, housing prices increased less than the city average, while districts that included housing tended to see greater-than-average price increases. Buildings with 2 to 6 units in both TIF districts for which we have data saw price increases much greater than the city average, suggesting that lower-income residents *who rent* may face a higher chance of being displaced by newcomers.

**Summary of Part 1**

The five TIF districts studied for this report do not support the claim that TIF causes a net increase in jobs or the number of businesses. Combining data on the number of businesses and jobs inside the TIF borders as well as in the immediate neighborhood reveals a pattern of economic activity moving from outside the TIF district to inside the district. Conversely, we’ve seen that using TIF to redevelop housing stock may reduce business and job creation inside the district but boost the business presence in the surrounding neighborhoods.

This impact of TIF was observed by Richard Dye and David Merriman in their study of suburban TIFs in the Chicago metropolitan area.¹⁷ They found that although TIF districts often experience rapid EAV increases, the communities in which they are located experience growth that is similar to or slower than

---

¹⁷Richard Dye, supra note 2.
the EAV growth in other communities. Thus, it would seem TIF concentrates existing development rather than spurring new development. This is consistent with the results of a previous study of TIF districts in Northeastern Illinois by Dye, where he found “the presence of a TIF district in a municipality in a given year seems to have no statistically significant impact on the growth rate of assessed property value for the entire municipality.”


Economic activity that would have occurred outside the TIF district took place inside the district.

The movement of economic activity from surrounding neighborhoods into the TIF district, or vice versa, could be a zero-sum game, where the benefits/costs to some simply cancel out the costs/benefits to others. If so, this would hardly be an argument in favor of TIF, but the data raise questions about whether TIF actually creates a negative-sum game. The losses generated by subsidizing some players and penalizing others can cause less economic activity to take place overall than would have occurred in the absence of TIF. This possibility is discussed in more detail in Part 2.

The effects of TIF on housing are less clear than its effect on businesses and employment. High numbers of home sales in and near TIF districts suggest significant community change through the influx of new residents and possibly the loss of existing residents, and the rapid increase in sale prices for buildings with rental units suggests that lower-income renters may find it difficult to stay in their community. In three of our case study districts, we found housing sales grew dramatically during a time when sales were declining in the city of Chicago. In two districts, housing costs rose much more rapidly than the city of Chicago average. This is consistent with the need for TIF to generate significant increases in EAV. However, in TIFs that concentrated on funding commercial development, most housing prices did not seem affected.

---

PART 2

TIF Law and Obstacles to Community Development

The case studies help us understand that TIF may not work as planned, but they do not explain why. TIF, as many proponents have pointed out, is a tool. Like any tool, it is better suited to some tasks than others. The case studies illustrate failures that an analysis of the attributes of TIF would predict. In this part of the study we look more closely at those attributes.

The workability of TIF is threatened by four of its attributes: the “but for” clause, restrictions on public access to the planning process, unlocking the use of eminent domain, and placement of authority outside the community. As a consequence, TIF districts tend to be “negative-sum games,” which means they consume or destroy more value than they produce. As long as these attributes are part of TIF, using TIF for effective community development will remain a very difficult task.

The “But For” Clause

The central legal clause that determines if an area can be designated as a TIF district is commonly known as the “but for” clause. This clause states that before any TIF can be put in place, the municipality must find:

that the redevelopment project area on the whole has not been subject to growth and development through investment by private enterprise and would not reasonably be anticipated to be developed without the adoption of the redevelopment plan. (65 ILCS 5/11-74.4-3 (n)(1))

The clause assumes municipalities can correctly identify land that would experience no appreciable growth in real estate value without public intervention. That is, only if the public sector intervenes would land values increase. Under this assumption, the taxes on an increase in land value represent revenue that would not exist otherwise, and therefore TIF has no real cost: It pays for itself with the revenue it creates.

If the “but for” clause did not exist, the TIF mechanism could still function; however, municipalities would have to explain why increased property tax revenues should fund TIF activities rather than any other purpose (school districts, municipal operating expenses, county budgets, etc.). With the “but for” clause, no such explanation is needed – TIF is assumed to create its own revenue, and therefore it is sensible that this revenue be used to fund TIF activities.
TIF law has several criteria attempting to ensure that only land meeting the “but for” clause receives TIF designation.¹⁹ These criteria are supposed to prove the existence of blight severe enough that the designated area would not have growth in property value, thereby fulfilling the “but for” clause. However, municipalities have found these criteria to be very flexible and have used them to designate a wide variety of land, from empty farmland to built-up downtown areas, as eligible for TIF. In fact, there is no objective way to determine if a particular area will or will not develop over the course of TIF’s 23-year life span.

In TIF law, “blight” is a purely physical condition. All of the criteria are concerned with the condition of land and buildings. The problem it identifies is that land is not properly developed; the solution, then, is to develop the land.

An area can be designated either a “blighted area” or a “conservation area” to become a district. A blighted area must meet five of thirteen criteria explained in TIF law; a conservation area must meet three of the same thirteen criteria. While this presents the appearance of objectivity in designating TIF districts, the facts that only some of the criteria must be met and that the criteria themselves are fairly flexible means TIF districts can be established in a wide range of areas.

Many recent redevelopment plans reflect the fact that the chief factor for determining eligibility has become whether or not the land looks the way the municipality wants it to look.

Increasingly, municipal government officials are calling an area “blighted” because it does not conform to their vision of how that land should be used. The criteria are broad enough to allow government officials to create their own version of the “but for” clause, changing it from saying that the land will not develop without public intervention to saying that the municipalities’ vision for the area would not be realized without public intervention. Thus, on the near south, near north and near west sides of the city, lower-income residents are being relocated to make room for communities that include some, but never all, of the previous residents. On the southwest side, several TIF districts were created around Midway Airport because while there were many businesses in the area, Chicago city officials did not feel these businesses presented the image they wanted for an area that serves as a gateway to Chicago. TIF provides government officials with the tool they need to implement their vision – even when that vision might be realized at the expense of ideas held by existing community residents.

Many recent redevelopment plans reflect the fact that the chief factor for determining eligibility has become whether or not the land looks the way government officials want it to look.²⁰ In later sections, we will discuss both how that perspective shapes the type of development that is performed and what happens when a government’s vision for an area clashes with the plans of community residents.

The “but for” clause suffers from a second difficulty apart from whether the individual criteria are met or not. Suppose the clause is true and the area in question would not develop without public assistance.

---

¹⁹ See 65 ILCS 5/11-74.4-3. These criteria are listed in Appendix 1.

²⁰ See, for example, the redevelopment plans for the Midway Industrial Corridor TIF and the Lincoln Avenue TIF.
This must mean that developers believe it is not economically feasible to build on the land. A business, residential, or industrial development on that spot would not generate enough income or sales to justify construction.

Now suppose a TIF is established to promote development anyway. Through the TIF, government subsidizes new businesses or residences in an area that does not have enough economic demand to support them. For example, a theater or retail chain may choose to open a store in a community even though, before the subsidy was offered, its executives did not believe sales in that location would be high enough to justify the new venture. A housing developer might be persuaded to invest in new housing in the community even though, without the subsidy, he may not believe enough people would be interested to make the investment a profitable one.

Economic demand is not increased simply because something new is constructed. If a new movie theater is built, people generally do not increase the number of times they see movies; rather, they change the distance they travel to go to the movies. Instead of creating more moviegoers (or increasing demand in any other market segment), TIF subsidies make it more feasible for a new movie theater to compete with existing theaters.

There is not sufficient demand for all the new theaters being constructed, but TIF makes it feasible for them to enter the marketplace anyway. The end result can be seen across the region when new theaters with the advantage of public subsidy stay in place while older theaters, whose costs are not publicly subsidized, close down. On a regional basis, new resources have not been created. They have simply been shifted from somewhere else into TIF districts.21

This same problem plagues other types of construction. Whenever the “but for” clause is met, TIF puts new businesses and housing developments into direct competition with existing business, helping to ensure the demise of the latter. If there were enough demand to support the new development without significantly harming other businesses or housing markets elsewhere in the region, then the “but for” clause was not actually met and TIF was not needed.

Taxing bodies other than the TIF district lose revenue they would otherwise have received in both cases. If the “but for” clause is not met and development would have occurred, taxing bodies surrender to the TIF district revenue they would have obtained. If the “but for” clause was genuinely met, tax revenue from businesses and residential areas outside the TIF declines or does not increase because demand for goods, services, and housing is siphoned off by the subsidized TIF development.

It may be argued that even if TIF does not add anything to the regional economy, it still provides benefits by shifting resources into distressed areas. However, the ultimate benefit of such a shift is questionable for a number of reasons. First, this argument simply ignores the areas losing resources. We have not seen a single TIF feasibility study or planning document that attempts to identify the locations

21 For more discussion of TIF and movie theaters, see the section titled “Why TIF Is a Negative Sum Game” later in Part 2.
from which customers will come for TIF-subsidized development. Nor are there any analyses of the impact this shift in economic activity will have on the area losing customers. Instead, TIF development is commonly described as if it is all new, when this is patently not true. New theaters, grocery stores, retail outlets, housing, and other economic activities attract people who previously went somewhere else. The error is compounded when analysts apply “multiplier” effects to the TIF activities.

Second, simply because more jobs are located in a community does not necessarily mean that more neighborhood residents are being employed. If a company relocates into a TIF district from a nearby municipality, it may keep the same employees it had and not raise the employment level of the new neighborhood. Alternately, if the former employees are let go or leave because they cannot make the longer commute, then even though employment in the TIF community increases, employment elsewhere decreases and we are back to the first problem.

**Restrictions on Public Access**

TIF law shapes the ability of residents to participate in the TIF planning and implementation processes. The central avenue for resident participation in the TIF process is a single public hearing required by law. Before this hearing, the law requires municipalities to

> make available for public inspection a redevelopment plan or a separate report that provides in reasonable detail the basis for the eligibility of the redevelopment project area. [65 ILCS 5/11-74.4-5]

This means that by the time public input is sought, most of the major decisions about the TIF have already been made: municipal officials have decided that TIF is the tool they want to use in the neighborhood in question, the boundaries of the proposed district have been drawn, a general budget has been created, and redevelopment goals have been decided upon.

At this point, the public’s role is reactive – all they can do is say whether or not they approve of the TIF plan as drawn up. Even though some communities have successfully organized to obtain changes in proposed TIF plans, the struggle has always been difficult.\(^{22}\) The timing and structure of TIF hearings force residents to approach their own city government as outsiders to the process, rather than having been invited in from the beginning, and only the strongest succeed. Citizens must either agree with the TIF or be prepared to organize aggressively for a different program or legislative process that they think will better support their goals for development.

Any public involvement before the public hearing is entirely at the discretion of the municipality. It decides who will be allowed to participate in consultations and negotiations over where TIF should be

\(^{22}\) In Pilsen, for example, public input and pressure led to TIF boundaries being adjusted to include fewer residential areas.
used and what terms will be given to developers. This means that lobbyists, individuals, and organizations with access to planning officials or elected representatives have the best chance of having their input received in the early stages of the planning process.

Individuals and organizations concerned with TIF are therefore divided into two groups – those who understand the workings of government and know how to influence it, and those who are unfamiliar with municipal processes or have few resources to influence them. The interviews reported as part of the case studies in Appendix 2 give examples of each type of group and their differing perceptions of the effectiveness of the community process. In general, those individuals and organizations in the first group are the ones most likely to have significant input into the TIF process. This is at least in part because they have access to public officials and are involved much earlier in the process. People who come in later have a harder time getting their concerns heard.

Public involvement after the TIF is created continues to be at the discretion of the municipality. TIF developers and organizations can receive many benefits – such as job training money, development subsidies, use of eminent domain to assemble land, and purchase of land at less than the municipality’s cost – but the municipality decides which groups will receive which benefits. The groups with greater access to public officials have the best chance to shape goals of the redevelopment agreements, and there are few provisions guaranteeing or increasing access for people who do not already have it. Outsiders remain outside, while the insiders prosper.

An example of this took place in the 95th and Western TIF district, where the City entered into a redevelopment agreement to build a Borders bookstore in a spot that displaced about a dozen smaller, mostly locally owned businesses.23

The detailed case studies in Appendix 2 provide another example: in the 95th and Stony Island TIF, a local optometry doctor was interested in expanding into the proposed TIF-funded commercial shopping plaza. The optometrist was promised a location in the development, but later, when he saw businesses moving into the plaza, the doctor found no space had been reserved for his business. After further research the doctor found that only one business in the plaza was locally owned and operated, with the rent being unmanageable for most small businesses.

In both examples, businesses without access to the TIF lost benefits, while those who could access the planning process received public assistance. As is often the case with TIF, the organizations with access were larger businesses with a national presence; the businesses who did not have access were smaller, locally owned businesses.

The complaint that small businesses miss out on TIF benefits is not new: A Chicago program called the Small Business Investment Fund was created to address such concerns. But while the SBIF helps spread some TIF benefits around, it does not replace the large-scale development that generally occurs

---

in TIF districts. The SBIF only makes up a small percent of TIF expenditures. The majority is still dedicated to the larger-scale developments that characterize TIF districts. In fact, such developments will be even more necessary in districts with a SBIF because these districts will need significant property value growth to pay for SBIF grants. Thus, small businesses still face the risk of having to compete with or being displaced by larger businesses.

Opening TIF up to smaller businesses and organizations currently outside the political process is made especially difficult because of the basic mechanics of TIF. Even if public processes allowed broader participation in TIF implementation, TIF would still be burdened with the “but for” clause and the need to generate large property tax increases. Thus, a small business who is able to be more involved in the entire TIF process still may be put into competition with a larger business because the larger business provides property tax increases that the small business cannot.

This is not to say that broader public participation in TIF would not have some positive benefits, but those benefits would be hamstrung by TIFs own severe limitations. True reform would require the process to be so open that community residents could choose whether or not TIF was right for their neighborhood, and have other options to help them realize their individual visions.

Unleashing Eminent Domain

The exclusion of some groups from the TIF process is particularly of consequence because of new powers TIF places in the hands of planners. One of the most notable of these powers is eminent domain. This is the power by which government can force property owners to sell their real estate, either at a negotiated price or at a price determined by the courts. TIF makes it easier for government officials to use eminent domain to impose their vision on a community. Government officials, and those on whose advice they rely, decide which businesses and residential units will be in a community and which will have to leave.

Eminent domain gives the municipality legal power to impose its vision in a community.

While eminent domain is not tied exclusively to TIF – it can be used without a TIF district being in place – TIF makes it easier for municipal officials to use eminent domain for two reasons. First, TIF provides a dedicated stream of revenue that can be used for land purchase. Second, TIF makes it easier to meet the legal standard for eminent domain. Without TIF, governments normally must show in each case that the purpose for which they want to acquire the land serves the public interest. However, because a TIF district is designated as blighted or about to become blighted, there is a legal presumption that any municipal involvement within district boundaries meets the public-interest requirement. Inside TIF, for example, the municipality need not make a separate showing that forcibly acquiring land for an outlet of a national grocery chain better serves the public interest than expanding a locally owned market.

24See 65 ILCS 5/11-74.4-4(c).

25See Village of Wheeling v. Exchange National Bank of Chicago, 213 Ill. App. 3d 325 (1st Dist. 1991), where the Illinois First District Appellate Court agreed with the Village of Wheeling that a TIF ordinance established a prima facie case for acquisition of the property through eminent domain.
The use of eminent domain by TIF districts has caused conflict in the case studies presented in Appendix 2 as well as in other communities across Chicago. For example:

! In the South Loop, five small business owners found out their properties had been targeted for acquisition through eminent domain after the City had already initiated the process. These businesses had been in the South Loop for an average of 20 years.

! In Jefferson Park, a business owner became concerned when, in a public meeting, planners put forth their idea to turn his auto shop into a public place.  

! On the Near West Side, the City wanted to develop a drug store and chose a bid to develop a Walgreen’s store over a bid from a local pharmacist. The local pharmacy, unable to buy a parcel of land for expansion because the City had acquired it through eminent domain for resale to Walgreen’s, closed.

These examples illustrate how TIF can turn eminent domain into a threat to the property rights of some business- and land-owners by forcing them to sell their land even if they do not wish to. A second and different concern is that eminent domain can be used to hurt disenfranchised groups if the process for using the tool is not open to public participation. In this latter case, even if property rights are not a primary concern, the use of eminent domain in TIF is problematic. Low-income residents and smaller businesses are less likely to be represented in TIF planning, meaning they are more likely to be on the short end of any eminent domain equation. They are more likely to be forced out of a neighborhood and not be included in its new future.

**Placing Authority Outside the Community**

TIF revenue comes directly from taxes paid by property owners within the district boundaries. This tax revenue must, with very few exceptions, be spent in ways that are supposed to benefit district residents. Yet there is no TIF-specific body through which residents and property owners can express their ideas and engage in political dialog about what their benefit is. Instead, all decisions about spending TIF money are made at the level of the mayor’s office and city council.

TIF creates a significant split between people who decide and people who bear the consequences of the decisions. Even the largest TIF districts are tiny in comparison to the entire city. TIFs are small even compared to individual wards, yet they often cross ward boundaries. TIF money is raised from and is supposed to benefit a very small part of the city, but decisions about what constitutes a benefit to that small piece of geography are made on the basis of citywide political forces.

---


Because the distribution of power and influence at the city level is so different from what it is at the level of neighborhood-sized districts, residents of TIF districts are effectively excluded from discussions about what is supposed to be their own benefit. TIF earmarks money for the district, but it establishes no forum through which localized small businesses and different groups of residents can confront or work with each other to develop their own visions and compromises. Instead, citywide and national interests with ready access to the mayor’s office wind up making decisions that are imposed on the TIF community from without.

In other words, TIF provides a dedicated stream of revenue through which municipal officials and the people who influence them can execute their vision, even if this vision directly conflicts with the visions of community residents. Sometimes, community residents do not even know what the money is being used for until after it is spent.

It is as if the influential neighbors up the street could tax you and then go grocery shopping on your behalf. It’s your money and it’s being spent for your benefit, but someone else is deciding what groceries you must consume. This is how the residents of TIF districts often feel.

Note the difference between this and the normal case of citywide taxes. Residents of small neighborhoods, including TIF residents, pay citywide taxes, and the money goes into a common pool, which is allocated citywide. In TIF, by contrast, money is raised only from a small district and then allocated back to it, but decisions are controlled by the same forces who dominate citywide politics. It is as if the influential neighbors up the street could tax you and then go grocery shopping on your behalf. It’s your money and it’s being spent for your benefit, but someone else gets to decide what that benefit is – what groceries you are required to accept. This is how the residents of TIF districts often feel.²⁸

A good example of how this plays out in the real world is the Near North TIF district, which includes the Chicago Housing Authority’s Cabrini-Green development. The area is changing rapidly, and community residents have a broad and sometimes conflicting set of ideas for the area’s future. The central question was, as the area changed, which residents would be allowed to stay, and which would be forced to leave? As part of their TIF plan, Chicago city officials decided to tear town much of the public housing and replace some, but not all of the units. Some of the residents would be forced to leave the community, while others would have the chance to come back.

The offer of replacement units did not ease public housing residents’ qualms about the development. Some former Cabrini residents are concerned the relationships they will form in the new community will be more negative than the relationships they had previous to the demolition, or relationships they have formed in communities to which they have moved since the demolition. As one former Cabrini resident said, “I know that the first time something goes wrong, our neighbors will complain and blame the people from the projects ... If garbage is dropped, they will blame us and we’ll be the ones losing our

²⁸See the discussions in Appendix 2 about community participation in the Chatham Ridge and Near South TIF districts for information from our interviews with community organizations on this topic.
homes.” As decision making was taken away from these residents, their community was effectively taken as well.

Other examples of conflicting visions for a community can be seen across Chicago: in the Howard-Paulina district, city officials wanted to tear down a beauty school that had been in the community for years to improve the sight-lines of a new grocery store; the beauty school wanted to remain at the same location. In Woodlawn, some community organizations created a development plan that called for retail and commercial transit-oriented development centered on the 63rd Street el; the City’s plan called for the demolition of a mile of track, followed by townhome and condominium development on and near 63rd Street.

In each of these instances, municipal government officials intervened in communities where residents had different, occasionally conflicting visions of their community’s future. In each instance, the officials used their power to decide these conflicts, so some visions would be realized while others were dashed. In each instance, the final decision about which visions would be realized were made outside of the community.

Why TIF Is a Negative Sum Game

There clearly are benefits to be realized from TIF. The question is, who receives these benefits and who pays for them? Though TIF is often claimed to create new revenue and be a free program, in reality there is no such thing as a free lunch – there is only a lunch that someone else pays for. Because it encourages activities that do not create genuine value for willing buyers, TIF is worse than a no-win game. It is what economists call a “negative sum game.”

The biggest winners from TIF are interests based outside the community and pre-TIF landowners whose land is not taken by eminent domain. TIF provides a mechanism whereby public subsidies are used to prop up real estate prices. If a piece of land will not develop, it is because the expenses of buying and developing the land outstrip any profits that can be made. In such instances, the land may be overpriced – development might be economically feasible, but only if the purchase price of the land were lower.

The simplest response to such a situation is for the buyer to pay less for the site. This may not be completely satisfactory to the seller, but with land as with any other investment, there is always the

---


30 The demolition of the el track was begun before the Woodlawn TIF was in place, and was not done with TIF money. However, subsequent development, including some residential development touted by proponents of demolishing the track, was funded by TIF.

31 If the lowered purchase price is beneath the Assessor’s market value for the property, the new owner may be able to get a reduced property tax assessment through the appeals process, thus further lowering development costs. Without TIF, this is the way the market is expected to work, but TIF not only subsidizes higher prices for real estate, it also requires higher property taxes.
possibility of loss. It is not the responsibility of the public sector to prevent such losses. Yet that is precisely what happens in many TIF districts. The local government pays an above-market price for a property, clears it, and then resells the site to a selected developer for less than the cost of acquisition and clearance.\textsuperscript{32} Property owners throughout the city who see this happening are encouraged not to reduce their prices in order to make a deal, but rather to hold out and wait for government intervention. A neighborhood’s potential to be declared a TIF district, then, can stifle economic development.

Moreover, the “but for” clause of TIF legislation means the TIF district did not have enough economic demand to support new business development. If new businesses are subsidized and developed anyway, they can only survive by taking business away from existing establishments. Thus, TIF means existing businesses pay for some of the subsidy received by new competitors twice – once through higher property taxes, and again with the loss of some of their customers. The gain of a new business does not set off this double loss to existing businesses.

Older theaters throughout the metropolitan area are closing down as publicly funded new theaters are being built.

For example, in suburban Evanston, a new movie theater was developed with TIF funds. Shortly thereafter, two movie theaters, one in Skokie, another in Evanston, announced they were closing.\textsuperscript{33} While many of the factors behind these closings may not be related to TIF, it cannot be ignored that older theaters throughout the metropolitan area are closing down as publicly funded new theaters are being built. One consultant estimated that “Each time a megaplex opens, an average of two or three multiplexes close.”\textsuperscript{34}

Winners and losers are also created by TIF in the area of residential property. In cases like the Lincoln-Belmont-Ashland and Near South TIF districts, where TIF activities contribute to rising residential property values, current property owners who want to sell may benefit, but perhaps not those with modest incomes who wish to stay in the neighborhood or who rent. Tenants must pay substantially more to stay in the same apartment or move. In either case, the owner of the apartment building benefits.

Direct displacement of homeowners occurs when the municipality acquires property through condemnation and forces people to leave. Displaced home owners are paid for their property, but based on current, pre-redevelopment prices. This may or may not be enough to permit purchase

\textsuperscript{32}That the price is “above-market” is shown by the facts that the transaction does not occur without government intervention and that the developer will not agree to purchase the land from the government except for less than the government’s cost of acquisition and clearance.

\textsuperscript{33}Not long after a movie theater in northern Evanston closed, the City of Evanston paid for a study on possible re-use of the shuttered building. This presents a vivid example of how TIF can merely shift resources in a municipality or region, upgrading one area at the expense of another and imposing unanticipated costs on the municipality.

of another home in a comparable neighborhood, including moving costs; but it certainly does not compensate for stresses caused when children are forced to change schools and other community ties are broken.

Tenants who are displaced when their apartment building is lost to condemnation typically receive relocation costs, and sometimes also a portion of their first year’s rent in the new location; but they receive nothing else to compensate for losing their community or for long-run increases in housing costs beyond the first year. Beneficiaries of direct displacement are developers who eventually receive the condemned property from the City. They avoid the need to negotiate with individual sellers, and they often obtain the property for less than the City’s acquisition cost.

Indirect displacement occurs when TIF activities cause housing costs to rise too quickly for some residents. These residents, typically low-income owners and renters, can no longer afford to remain where they have been. Regardless of how long they may have been in the neighborhood and what they may have endured during its period of decline, TIF’s failure to provide them with enough income to remain in the community means they cannot enjoy the fruits of redevelopment but instead must leave their community behind.

The City of Chicago has touted the redevelopment of the Bryn Mawr and Belle Shore apartment buildings in the Bryn Mawr-Broadway TIF district as an example of how TIF can create viable affordable housing. The redevelopment plans mandate that a certain number of units in each building be maintained as affordable to low-income or very low-income individuals for a period of years. While this creates new affordable housing, the act of creating it does not happen without cost.

The money to pay for the apartment renovations will come from rising property values in the area. As the redevelopment of these buildings was beginning, some residents were reporting annual rent increases of 15 percent or more, compared to inflation of only about three percent. The rent increases were pricing apartments beyond many tenants’ reach, and they were being forced to move out of the community. So TIF is forcing some tenants out of the neighborhood to pay for the newly subsidized apartments of other tenants.

Finally, TIF makes losers out of library, school, and park districts. TIF provides a dedicated stream of revenue to the municipality for the purposes set out in the TIF plan. According to TIF theory, this is “free money” since the land inside the TIF district would not have increased in value without public intervention. The other tax districts, therefore, are said to lose nothing they would otherwise have had.
However, as discussed earlier, the “but for” clause virtually guarantees that TIF money comes from surrounding communities rather than being created by TIF activities. The revenue that is shifted into TIF districts would have gone to taxing bodies such as the board of education, county government, and community colleges, goes instead to the TIF fund. These bodies then must pay for the benefit realized by the municipality.

TIF – in addition to reducing the revenue stream of schools, parks, and other taxing bodies – can also impose new direct costs on these bodies. Development in the TIF district may result in increased demand for services. Residential development, for example, could increase enrollment at the local schools without providing increased operating revenue. The municipality may develop a new park in a TIF district, but the park district will not necessarily receive any increased revenue to pay for park maintenance.

TIF legislation and regulations provide few opportunities for access and input by the public, and often invite public participation only after major decisions have been made. To make up for lost revenues, these taxing bodies must either cut services throughout the area they serve or increase their tax levy. If the levy is increased without a corresponding increase in the tax base, the tax rate for this body will increase. These costs will be absorbed by property owners in all parts of the taxing body, and only a small portion will be paid by those in or near the TIF district. Thus, people outside the TIF often end up paying for activities inside the district from which they will never benefit.

Summary of Part 2

The legal rules for establishing TIF districts are so flexible and almost capricious that they give government officials and developers arbitrary authority over long-time community residents, an arrangement that poses a significant risk to the freedoms of the latter. The “but for” clause is a legal fiction with little basis in economic reality. Elected officials are free to create TIFs almost at will.

TIF legislation and regulations provide few opportunities for access and input by the public, and often invite public participation only after major decisions have been made. This means the voices, interests, and ideas of the largest part of the community are missing from the planning process. Economic development plans produced without this input cannot be as successful as those created spontaneously by markets or democratically through a truly open political process.

35 Additionally, many TIFs were already increasing in value before they were designated, meaning the taxes of future property value increases are tied up in TIF instead of being distributed to other taxing bodies. A recent report from the Neighborhood Capital Budget Group, Who Pays for the Only Game in Town?, details this fact.

36 TIF law allows municipalities to reimburse taxing bodies for the funds they would have received from the increment. This reimbursement is done solely at the discretion of the municipality, except where it concerns school districts. The TIF Reform Act of 1999 created a formula that reimburses school districts according to the number of new enrollees brought into schools through TIF action. However, the formula contains exceptions for municipalities with populations over 1,000,000, that is to say, only for Chicago, that go a long way to ensure Chicago will not be forced to make contributions to its school district.
The losers are small business owners, landowners who face condemnation, and low-income renters who are forced to leave the community to find affordable housing.

TIF, by making it easier to use the power of eminent domain to condemn and take properties that stand in the way of someone’s vision of development, poses a threat to the owners of homes and commercial buildings. This power lifts a small group of elected and unelected officials and developers above the usual checks, balances, and limitations that discipline other agents in both the public and private sectors.

Although its advocates say the revenue from TIF is “free,” we recognize that there is no such thing as a free lunch. TIF simply shifts the cost of lunch to someone other than the eater. Among the winners created by TIF are property owners and business owners who help design and implement the TIF plan. Often these are individuals and companies based outside the community, and increasingly they are national corporations. The losers are small business owners, landowners who face condemnation, and low-income renters who are forced to leave the community to find affordable housing.
PART 3

TIF, Communities, and Justice

Consider the following questions:

C What is TIF’s impact on a community’s institutions, character, and web of formal and informal ties among its members?

C Do the new sources of authority and legal tools created by TIF conflict with generally accepted democratic principles or ethics?

C What makes a government program just or fair? How does TIF measure up to traditional standards of justice and contemporary notions of fairness?

C Does TIF only help some at the expense of others, or does it genuinely enhance everyone’s quality of life?

These questions suggest the report of TIF outputs in Part 1 is incomplete. It provides quantitative data, but it did not give community residents and public officials all the tools they need to evaluate TIF (or a specific proposed TIF district) from the perspective of its impact on the community. In order to complete our toolbox, we need to speak more clearly about the concepts of community and justice.

The Concept of Community

A community is a group of people who share a common set of beliefs or who are organized to achieve a common goal. Often, but not always, communities involve a bond of geography—people interact with one another in a particular place. Part of human nature seems to require that we contribute positively to our communities and have that contribution recognized by others.

Members of a community are connected by innumerable bonds of friendship, kinship, loyalty, safety, recreation, religion, and more. These bonds give rise to networks that give meaning to daily life as well as provide physical benefits such as income, housing, security, and transportation. The loss of these networks can be devastating; community connections can affect matters such as crime, cultural life, and local economies, and all of these can be negatively impacted if community ties are lost.

The importance of community connectedness is difficult to measure because it does not consist of hard numerical data. The numbers compiled for the case studies in this report—number of business
establishments and jobs, number of property transactions – are more readily available, but not necessarily more important than the strength of community connections. When people choose to remain in a community for a long period of time, it is often because of the quality of bonds they have formed. Breaking those bonds means weakening a community, though it is a measure of community strength that usually will not show up on paper.

Businesses, too, suffer when their ties with customers are broken. Locally owned businesses do not have the brand recognition of national chains and often cannot afford to invest much in advertising. For retail establishments, surviving a relocation can be very difficult.

A recurring mistake in many discussions involving community is attributing a single shared vision to a group of people. Who speaks for the community? Most communities are made up of diverse groups with different, sometimes conflicting, visions about the future. Debate over how these visions should be implemented ought to be healthy and friendly, with decisions made democratically. However, too often certain voices in communities are not heard, and their vision is not seriously considered as a possibility.

In many geographical communities, there are sub-communities in varying degrees of conflict with each other. These groups may be defined on religious or ethnic bases, occupations, preferences for recreation, or some other type of behavior. One particularly troublesome conflict arises from differences in wealth.

Wealth plays a significant role in determining who participates in community decision-making, since wealthier individuals and their family members can better afford the time and expense of campaigning for public office, can hire legal help or consultants to represent their views, and are in a better position to reward those who share their views and agree to help advance their causes. There is nothing nefarious about the advantages of the wealthy over the poor, but the reality of their existence and divergent values and backgrounds within every community places special obligations on would-be economic developers and planners.

These obligations include a responsibility to evaluate clearly the argument that TIF is meant to be a tool for economic redevelopment, not for developing communities. There are three responses to this.

First, economic redevelopment cannot be simply extracted from the fabric of the community and evaluated on its own. After all, what is the purpose of economic redevelopment if it is not to benefit the community? Economic redevelopment always has an effect on the surrounding community, and policy makers and community makers need to understand what that effect will be before they can make informed decisions.

Secondly, no matter the original intentions of the TIF statute, the language is broad enough to incorporate TIF in community development plans, and even now TIF is often described as part of a community development package. TIF advocates, in other words, sell the idea of creating new TIF districts by promising that their existence will benefit the community, and not just increase the value of the land which the community occupies.
Finally, as government-sanctioned development, TIF can create special hardships in a community because government can employ eminent domain, zoning restrictions, and other forms of coercion. Before employing any such tools, we should ensure that all community members, including the least powerful, have a full opportunity to present and defend their individual visions. We should recognize their rights to speak, to assemble, to petition their government, to have a say in the use of their tax dollars, to use their own property as they see fit, and ultimately to exercise as much control over their own destinies as is possible.

This may be a tall order, but it should stand as the goal of all decision-making procedures that can invoke government force to achieve a social goal. Otherwise, government runs the risk of serving only some interests and enabling, or even forcing, redevelopment that improperly closes local businesses and compels local residents to relocate. When a municipality does this, it takes away the affected individuals’ opportunities to realize their vision for the community.

**TIF and Community Development**

Although each TIF affects everyone in the entire local taxing body, the people who live in or near the TIF district are the most likely to experience the largest impacts. They are, therefore, regardless of income, the ones who most need to have a say in what TIF does. Since TIF is justified by concern for the local residents’ health, safety, and employment opportunities, local residents and their spokespeople should be allowed to participate in the planning process.

But TIF districts seldom operate this way. Instead, they concentrate the authority to make decisions in the hands of a small number of people defined to be “experts” (and often people with cash to invest). Often these people reside outside the affected neighborhood. Many residents are simply assumed, without proof, to be incapable or undeserving of participation in the process. Thus, TIF can deny residents the opportunity to contribute to their own community. The alternative is a process that seeks ideas from all groups in and near the community long before redevelopment plans and agreements are even drafted.

Community development is sometimes narrowly defined as only meaning physical development – the construction of buildings, streets, parks, etc. While physical surroundings are undeniably important to community life, other aspects must be considered as well. To truly develop, a community’s residents need access to jobs and the opportunity to care for themselves and their families from their own work. They need to be able to forge relationships with each other and to contribute their individual talents to their community. They need to have their contributions recognized.

A program focused only on physical development may be helpful in some ways and to some community members. But if it physically builds up the community while, at the same time, breaking down the social, economic, and cultural relationships that make up the community, it cannot be an overall success.
Every dollar spent in a TIF district must come from taxes on increased real estate values. The greater the TIF budget, the more the EAV of property must increase to pay for that budget. This means two things: first, TIF is going to favor physical development over other types of development; and second, TIF is going to favor large-scale projects that provide rapid increases in EAV over smaller-scale or longer-term projects.

The fact that TIF’s program structure favors physical development also means it is not particularly suited to other kinds of development, such as improved quality of and access to jobs. Better working conditions are not and cannot be at the core of the TIF mechanism. High unemployment is not a criterion to qualify for a TIF, and TIF funds are not tied to better jobs. Job gains are an indirect, rather than direct, result of TIF expenditures. TIF is focused on physical construction, and if that construction brings better working conditions to the area, that is a side effect.

Municipalities know the surest route to higher EAV, at least in the short-term, is to deal with larger businesses.

The case studies in Appendix 2 illustrate some of the difficulties of using TIF for adding new jobs or businesses to a community. Three of the case study districts – 95th-Stony Island, Chatham Ridge, and Roosevelt-Homan – had substantial commercial development. From 1990 to 2000, these districts had a combined net gain of 41 businesses within their boundaries. Much of this gain – 21 establishments – came in the retail sector.

By contrast, the areas surrounding these TIFs showed a net loss of businesses – combined, they lost 100 businesses, 64 in the retail sector. As discussed earlier, TIF by its nature is better suited to shifting resources around than to creating new jobs or businesses.

Municipalities know the surest route to higher EAV, at least in the short-term, is to deal with larger businesses. The dramatic increases in market value that provide significant TIF revenue in a short time come from large-scale projects, not from smaller, more targeted, and more gradual moves. The list of companies in new retail developments in the case study districts is almost wholly made up of national chains: Cineplex Odeon Theatres, Home Depot, Jewel (American Foods), Payless Shoes, and more. By contrast, some local merchants who tried to rent space in TIF-funded developments did not get in or found rents to be well above what they had been paying before. Elsewhere in the city, locally owned theaters, hardware stores, grocery stores, and shoe stores close or contract.

TIF provides many examples of what Jane Jacobs refers to as “cataclysmic money,” as compared to “gradual money.” Gradual money is a steady stream of funds that nourishes a community, helping the existing parts of it grow. Cataclysmic money is a sudden torrent of funds poured into a presumably distressed area that produces drastic and usually unintended changes. Gradual money works at the scale and pace of human life, while cataclysmic money sacrifices community life for quick payoffs to investors.

---

All of the TIF districts examined contain examples of cataclysmic rather than gradual development. The Near South TIF even includes direct displacement of both residents and businesses, moved to make way for the new community planned for the area. In the Lincoln-Belmont-Ashland TIF and surrounding neighborhood, organizations have noted recent increases in the costs of both rental and ownership housing, which could displace lower-income community residents.

TIF provides very few options for funding gradual development from within the community. Even some of the options it does provide are often tied to cataclysmic money. In the past two years, Chicago introduced two programs, the Small Business Investment Fund and the Neighborhood Investment Fund that are supposed to spread TIF benefits around to smaller businesses and existing community residents and could serve as a type of gradual money. Funds from these programs go to residents and businesses already within the community. However, the funds have limited uses – exterior work and repairs that will bring buildings up to code. They also do not generate enough increment on their own to justify a TIF. Thus, when the NIF and SBIF are used, it is in a TIF district that also has the more typical sort of TIF-funded development. This leaves a small amount of gradual money competing against a larger fund of cataclysmic money bringing drastic change to the neighborhood.

Over time, state law has been amended to address some groups’ concerns about the type of development TIF funds. Additional categories of eligible expenditures have been added that focus on non-physical types of development, namely job training and day care. Jobs have become a central issue in TIF development, with new development proposals carrying promises of job creation or retention and city reports touting job gains due to TIF. But the problem is inherent in the incentives and objectives of the TIF approach: So long as increased EAV remains the driving concern of TIF planners, other aspects of community building will be of secondary or fleeting concern.

### Justice and Fairness

A question that rises to the fore when considering the community perspective on development is whether a program is just or fair. Justice, unfortunately, is a fuzzy concept. It can be a personal virtue (as in Benjamin Franklin’s call to “wrong none by doing injuries, or omitting the benefits that are your duty”[^38]), an attribute of a procedure (as when we call our courts the “system of justice”), or an outcome of social interactions (as when we speak of a “just distribution” of wealth or privilege, usually implying that everyone has at least some minimum). We’re interested here in justice as a procedure, or, more specifically, a set of procedures for obtaining access to government powers.

[^38]: Justice is one of thirteen virtues listed in Franklin’s Autobiography.
Justice as a procedure is identified with a legal system called the Rule of Law. Its fundamental feature is that laws be applied equally to all, regardless of their status, wealth, or other circumstances. The Rule of Law, in other words, is the practice of equality in civil society.

The Rule of Law dates back to 1628, when King Charles of England was presented the Petition of Right, drafted by Sir Edward Coke and approved by the House of Lords, that provided “no man hereafter [shall] be compelled to make or yield any gift, loan, benevolence, tax or such like charge, without common consent by Act of Parliament.” The petition further forbade confiscation of estates, imprisonment, or execution without “due process of law.” The king signed the petition and received from parliament the money he had requested. This was “the decisive first step in the direction of modern freedom.”

| Requiring that the same laws be applied to everyone regardless of their situation imposes certain limits on how laws can be written. |

Requiring that the same laws be applied to all people regardless of their situation imposes certain limits on how laws can be written. According to the liberal tradition, just laws must nearly always be negative (telling people what they cannot do, rather than what they must do); general (abstract enough to apply to an unknown number of future instances); and permanent (not to be changed unless they conflict with other rules and the process for identifying and resolving such conflicts is built into the system). Just conduct, then, is the observation of these rules, and a just society is one that operates according to a system of such rules.

A different approach to justice with more modern roots is “justice as fairness,” a position developed by social philosopher John Rawls. According to Rawls, a just society is one whose rules we would approve of if we lacked foreknowledge about what station in life we were destined to occupy. Not knowing whose shoes we might have to walk in, Rawls believed, would lead us to choose a society where maximum equality of opportunity and condition would be the rule. Exceptions would exist only when those who are least well off stood to benefit the most.

How well does TIF conform with justice, whether as the Rule of Law or as fairness? Starting with the Rule of Law, we find some grounds for concern. TIF is a species of positive rather than negative law: It promotes a mechanism for public bodies to tell some owners that they must sell their property to others or risk having it taken by eminent domain. It offers tax-supported benefits to developers who promise to build specific projects. It creates economic and community plans that may not mesh with the plans and aspirations of everyone within the community. Positive law is not always unjust, but much more than negative law it creates opportunities for those who have political power to interfere with the freedom of those who have less power.

---


TIF is also at odds with the tradition that just laws must be general. What classical liberals had in mind when setting forth this criterion was the ideal, represented by the statue of justice wearing a blindfold, that public officials ought not to recognize the status of individuals or be biased by others’ opinions of the expected outcomes of specific cases that come before them. In this way, true equality before the law could be preserved. The administration of TIF districts is quite different from this model of justice. Many major decisions about TIF are made through direct consultation and negotiation between government officials and specific individual developers, a process that clearly does not ensure equal access and opportunity for everyone.

The third element of the Rule of Law is that laws should be relatively permanent and unchanging. This comports to our general feeling that “changing the rules in the middle of the game” is unfair. It also reflects the great importance of a stable legal system in making long-term investments possible. This is especially relevant to TIF, since the subject of TIF is long-term investments in land and buildings. TIF creates some certainty for new investors, by ensuring that the property tax increment will be used for improvements inside the district for a 23-year period, but it does so by causing greater uncertainty for owners of existing businesses and residents. The owners of existing businesses, who invested under one set of conditions, now find the rules changed as government subsidizes competitors to enter the market against them. Homeowners and renters, who moved into the neighborhood under one set of conditions, now find the community changed as government actions promote higher housing prices.

TIF also comes up short when we compare it to Rawls’ standard of “justice as fairness.” This standard requires the people who are designing and implementing TIF to imagine that the next day (or month or year) they might wake up and find that they now belong to a segment of the community that is negatively affected by the TIF. For example, a developer or city planner working to bring a national retailer into the community might wake up and find she is the owner of a small business located on land the retailer wants to use, or whose customer base the newly subsidized chain will take away. A government worker writing redevelopment agreements for new housing might suddenly find himself a resident of low-income housing in the community, or the owner of unsubsidized low-cost housing. If these switches (and others) occurred, how would TIF planners and developers currently on an “inside track” feel about the result? If an outcome that had seemed beneficial when they were in a position of power or authority now seems abusive or harmful, then that outcome and the process that generated it flunks the justice-as-fairness test. Being aware of and sensitive to the effects that TIF-funded developments might have on all segments of a community, not just those who form an insider’s circle or who have political clout, is a necessary part of making TIF a just process.

As we have shown, the planning processes leading to the creation and implementation of TIF are often structured to exclude lower-income individuals and small business owners from the decision-making process. This can lead to injustice. The harm is to our democratic institutions, which work best when all interests are represented and have input into decisions that affect them.
Summary of Part 3

Communities consist of people as well as places. Their residents are united by interests as well as geography, though often those interests do not exactly coincide. To celebrate community is not to justify all opposition to change or to romanticize old neighborhoods, but to recognize that current residents and business owners have the right to participate in decisions that affect their communities. They’ve earned that right. Decision-making procedures must be designed to give them meaningful participation.

Current residents and business owners have the right to participate in decisions that affect their communities. They’ve earned that right.

TIF threatens communities when it prevents people from being able to participate in collective decision-making at the community level and to be recognized for their contributions. It damages communities when it compels people to sell their property and leave the neighborhood, breaking the many invisible bonds that make neighborhoods safe and life worth living. And it undermines communities when it moves authority outside the neighborhood, giving it to people whose interests are different from those of the people affected by their decisions.

Justice is an admittedly fuzzy concept, but we’ve offered two definitions that win widespread support: justice as equal treatment under the Rule of Law, and justice as fairness. We find that TIF fails to meet the three historical tests of just laws: that they be negative, general, and unchanging. Our case studies show that TIFs also fail the test of justice as fairness because those who propose and implement them would seldom choose to change places with the small business owners who face subsidized competition, low-income renters who are forced to leave the community, or property owners whose buildings are condemned to make way for a more-favored developer.
PART 4

Summary and Recommendations

Summary of major findings

*TIF does not consistently create new, good-paying jobs for current residents.*

This study has found that the economic benefits of TIF have been overstated in City of Chicago and other studies. TIF may have been successful during the 1990s in slowing down the loss of construction and manufacturing businesses, though not successful enough to entirely offset the regional (and national) trend away from such businesses. TIFs were much less successful at attracting new service sector businesses, and in fact performed worse than the City of Chicago as a whole.

It is uncertain how many net new jobs TIF has actually created, if any, and how many have been shifted into TIF districts from other locations. There are no data showing how many local residents received TIF-subsidized jobs. Often, the jobs subsidized through TIF have relatively low pay and little chance of advancement.

The effects of TIF on housing are less clear than its effect on businesses and employment. High rates of home sales in and near TIF districts suggest many new residents are moving in, and the rapid increase in sale prices suggests lower-income renters may find it difficult to stay in their community. We found rapidly rising housing prices in some, but not all, categories of housing in the two TIF districts that focused on housing, but not in the other TIFs.

*Rising property values is an inadequate measure of economic development.*

The goal of TIF is to increase assessed property values, thereby generating increased tax revenues to pay development costs. TIF generally funds large-scale development (favoring new construction over rehabilitation) and large businesses (often based outside the community) because they tend to be the shortest and surest route to a quick increase in property tax revenues. Other visions of progress, such as affordable housing, promotion of locally-owned businesses, benefits to local residents, and respect for property rights, are not likely to be a part of the vision promoted through TIF.

TIF defines a community by the physical assets it lacks, rather than by the human resources it already has. The TIF solution, not surprisingly, is often to invest in new streets and sidewalks, demolition of older structures, and other physical improvements rather than to nourish and support existing but struggling institutions within the community. New buildings can be harmful to a community when the
buildings they replace housed vital small businesses that cannot afford the rent required to pay off the costs of new construction.

**TIF districts often exclude community members from deliberations and violate conventional ideals of justice.**

TIF can have a negative impact on communities by broadening municipal powers and funding the use of those powers, allowing municipalities to employ eminent domain, zoning changes, and other forms of coercion without ensuring that all community members, including the least powerful, have a full opportunity to present and defend their individual visions. The freedoms of speech, to assemble, and to petition government are critical to democracy and to healthy communities, yet they are often violated when TIF districts exclude community members from their deliberations or invite them in after it is too late to affect the most important policy matters.

The procedures by which TIF districts are created and operated violate popular perceptions of justice. TIF fails to meet the three historical tests of the Rule of Law: Just laws should be negative, general, and unchanging. The rules adopted for TIF districts, in contrast, are often positive (they tell people what they must do), negotiated behind closed doors by individual developers and government officials, and they change the “rules of the game” that other property owners follow and reasonably expect others to have to follow.

TIF fails the test of fairness suggested by philosopher John Rawls: If developers and public officials were to switch places with people in the community, would they still be happy with the way TIF dollars were being handled? Would the owner of a business moving into a location with the help of a subsidy want to switch places with a business owner being forced from his or her location? Or with a small business forced to compete with a larger, publicly-subsidized business? Too often, the answer is no.

**TIF creates winners and losers, rather than win-win solutions.**

Among the winners created by TIF are those property owners and business owners who help design and implement the TIF plan. Often these are individuals and companies based outside the community, and increasingly they are national corporations. The losers are small business owners, landowners, and residents forced to move and sever community ties because of property condemnation, and residents who must leave the community to find affordable housing.

Communities can and must change over time, but existing businesses, residents, and residences are all valuable community assets that have a right to be where they are and to mature and change at their own pace. Sound economic planning doesn’t squander these assets or seek from the very beginning to replace them.
Recommendations

1. **Seek out alternatives to TIF.**

Our principal recommendation to communities seeking to spur economic growth is that they should carefully consider alternative strategies before choosing TIF. Tax increment financing has not been proven to be effective at generating either jobs or new businesses. It has an ambiguous effect on housing markets, determined partly by how TIF districts are designed, but usually seems to harm low-income renters and homeowners.

Presently, municipalities often settle on using TIF without considering alternative paths. Most efforts to create TIF districts are initiated by municipal bureaucrats and administrators. They in turn commission consultants to create the eligibility study and redevelopment plan, all with the purpose of creating a TIF district. They simply do not study alternatives or solicit genuine community reaction. Success is then measured by adoption of the TIF plan.


2. **Provide better information to the public about the effects of TIF.**

Until now, limited data have been collected and reported to the public about the impact of TIF in Chicago. This project has shown that such analysis is possible and enlightening. Additional analysis would be a simpler task for government bodies who have more resources at their disposal than the groups in this project.

Analysis of the impact of TIF on employment, business creation, housing, and local residents of the community should be performed annually on new and existing districts, for areas inside the districts as well as surrounding neighborhoods. These reviews should include comparisons of data for the neighborhood before and after TIF implementation, and should also include criteria evaluating TIF
based on how it changes the lives of community residents. New TIF creation should be limited until evaluations of existing districts are complete.

3. **Make TIF decision-making procedures more inclusive and fair.**

Much of the damage done by TIF occurs because public access is limited and too late in the process to affect key decisions. Decisions involving TIF should be open and transparent. Municipalities receive considerable powers through TIF, so special review procedures are justified to ensure these powers are used well.

Rather than hiring consultants to write redevelopment plans, a municipality could open up the process to community organizations, allowing them to submit redevelopment plans for their community. If necessary, the municipality could pay for technical assistance to help groups include necessary elements in their redevelopment plans, using money that currently goes to the city’s consultants.

The municipality could work with community organizations to help them hone their redevelopment plans, then help get them passed through city council if that is what the community decides it wants. This would allow community members to have a voice in the shaping of TIF right from the start, and could help allay fears that the TIF will not serve existing community residents. If the community decides TIF is not right for their goals, they would be able to look at other programs that might be more compatible with their plans.

4. **Distribute the benefits of TIF more fairly.**

Those with access to the TIF decision-making process are often those in a position to enjoy the benefits (e.g., land acquisition, new infrastructure, low-interest loans to developers), while those without access bear the costs (e.g., forced relocation, subsidized competitors, rapidly increasing property tax assessments). The opportunities for insider deals and unfair profiting at the public expense are obvious.

The fact that TIF creates winners and losers, rather than being a “win-win” process, is a major problem that can be only partially addressed by reforms limited to TIF. Communities are better off focusing on “win-win” strategies that create widespread benefits by removing obstacles to work, investment, and communication. Such strategies, described in detail in the books cited under Recommendation 1, are often asset-based; that is, they focus on building up what already exists in the community instead of
removing and replacing parts of it. Asset-based development reflects and enhances the existing character of the neighborhood.

The potential for abuse or unfairness in a TIF district could be minimized if companies that benefit from redevelopment agreements were required to hire locally and pay wages and benefits sufficient to allow community residents to stay in their community, if they so choose. Local business owners in the community should have a right to formulate plans for their community, rather than having to simply react to plans that might adversely affect them by raising rents or subsidizing new competitors.

Companies wishing to receive benefits from TIF should be required to sign agreements to create specific numbers of jobs at specified wage levels. If they do not meet the terms of their agreement, they should be required to return money to the municipality and/or hand over responsibility for the development project to someone else. Such contracts may be difficult to negotiate and enforce, but they are necessary to protect the public’s interest when subsidies are being offered.

**Conclusion**

The five TIF districts studied for this report do not support the claim that TIF causes a net increase in jobs or the number of businesses. We also found evidence that TIF districts often exclude community members from important decisions, favor certain kinds of development (large businesses over small, and higher-income housing over lower-income housing), and violate conventional ideas of democracy, justice, and fairness.

Our recommendations are that communities seek alternative strategies to TIF; require disclosure of the effect of TIF on jobs, businesses, housing, and taxpayers; make the TIF planning process more transparent and open to community input; and impose performance requirements on businesses that accept benefits from TIF districts.

TIF will continue to be an economic development tool used in Chicago and many other communities across the country, if only because of the powerful interest groups that find they can profit from it. It is incumbent on elected officials, community leaders, and active citizens to ensure that this tool is not used recklessly in ways that harm the rights and freedoms of those who, for whatever reason, are not part of the negotiations.

**Afterword**

The four organizations that produced this report – the Center for Economic Policy Analysis (CEPA), Heartland Institute, Jewish Council on Urban Affairs (JCUA), and Statewide Housing Actions Coalition (SHAC) – expect to continue to conduct research on TIF and share it with our audiences. We invite the reader to contact us at the addresses on the back cover of this report.
Creating a TIF

To understand how TIF law shapes the development process, it is useful to know the steps required for creating a TIF.\(^{42}\) Laying out the process is complicated by the fact that the process can vary among municipalities and within the same municipality over time because of flexibility allowed by state law and changes in the law. For instance, municipalities generally have consultants prepare redevelopment plans and eligibility studies at the municipality’s request. This is not because of anything required by TIF law, but simply because municipalities have decided to hire the consultants rather than have their planning departments do the work.

The steps described below are listed as they are in the law, at this point without regard to how things may be done in practice in various municipalities. Some of these steps were altered by the TIF reform act of 1999. Since the five TIF districts in our case studies were all created early in the 1990s, where appropriate we describe the law as it is now and as it was when the districts were created.

1. **Conception of a TIF**

   The idea for a TIF district generally comes about in one of two ways: either a developer approaches a municipality (in the person of an elected representative or the city’s planning department) with an idea for a TIF-funded project, or the municipality decides to place a TIF district in a certain area in order to attract development proposals within those boundaries.

   A community organization also might want a TIF in their neighborhood, and may start exploring on their own the steps for creating one.

2. **Determining Eligibility**

   The feasibility of the proposed area for a TIF district must be explored in an eligibility study: The “eligibility study” demonstrates how the proposed redevelopment project area (RPA) fits the legal requirements of land eligible for a TIF district. Specifically, the eligibility study helps show how the proposed district meets the “but for” clause of TIF law. This clause, which is a key bone of contention in many TIF debates, states that TIF can only be used for development that would not occur but for TIF intervention.

   Municipalities may, and in some cases must, initiate an eligibility study by ordinance. According to the TIF reform of 1999, if the proposed area has 75 or more housing units or if the development to take
place will displace the residents from ten or more inhabited housing units (referred to as a “housing impact TIF”), the municipality must initiate an eligibility study by ordinance.

In non-housing impact TIFs, and in all TIFs prior to 1999, no ordinance is required to initiate a feasibility study. The study can be initiated and carried out by any group or individual looking to see if a specific area might qualify as a TIF district. An area is TIF-eligible if it falls into either one of two broad categories: it is a blighted area or a conservation area. To qualify as a blighted area, the land in question must contain five of the 13 characteristics listed below. The 1999 TIF reform act added definitions for each of these terms; before that, the law listed these criteria without definition.

- dilapidation
- deterioration
- obsolescence
- presence of structures below minimum code standards
- illegal use of structures
- excessive vacancies
- lack of ventilation, light, or sanitary facilities
- inadequate utilities
- excessive land coverage
- deleterious land-use or layout
- environmental clean-up
- lack of community planning
- slower-than-average growth in equalized assessed value.

To qualify as a conservation area, the land must meet three of the above thirteen criteria and half of the buildings in the area must be more than 35 years old.

3. The municipality must create an interested parties registry

This step was added by the TIF reform act of 1999. If the municipality has not already done so, it must establish a registry through which individuals and organizations can sign up to receive information about the TIF as it goes through the creation process. Community residents may sign up to receive notices about several communities, including communities that do not have TIF districts planned for them at present. As later steps are undertaken (such as release of the redevelopment plan and scheduling of the public hearing), people on the interested parties registry will receive mailed notification of these steps.

Registration in the interested parties registry must last for at least three years. If the municipality sets a time limit on registration, it must notify individuals and organizations before their registration expires. The municipality may choose to make registration permanent.
4. A plan outlining the proposed redevelopment must be prepared

The redevelopment plan broadly outlines the type of development the municipality wants to promote in the district, as well as how much money the municipality intends to spend. It usually discusses the broad type of development (i.e., commercial, industrial, or residential) but does not discuss specific building plans or identify developers and businesses who might or will work in the district.

TIF law does not specify who must prepare the plan. Generally, plans are prepared by consultants hired by municipalities, but they could be prepared by any group wanting to shape redevelopment in their community.

5. Decision to proceed

The municipality must decide if it wants to promote the proposed TIF and its redevelopment plan: If the TIF process is to continue, the municipality will need to become involved at this point. This does not mean that they need to adopt the plan as originally written, but they must be interested enough in investigating the idea to arrange a public hearing and provide the notifications required by law, as described in following steps.

6. Housing impact study

In certain areas, the municipality must prepare a housing impact study: This step was created by the TIF reform act of 1999. If the proposed TIF district encompasses 75 or more inhabited residential units, or if redevelopment plans call for the displacement of residents from ten or more occupied units, it is defined as a “housing impact TIF.”

For housing impact TIFs, the municipality must present a study outlining the intended housing impact as part of the redevelopment plan. The study must include a listing of what type of housing units are in the proposed district and the racial and ethnic makeup of the inhabitants of the units. It also must identify which units will be removed and what replacement housing and relocation assistance will be provided. Residents within the proposed TIF boundaries and listed taxpayers for properties within the district must receive notice of a hearing on the housing impact by mail. This housing impact hearing is in addition to the required public hearing on the TIF as a whole.

7. Schedule hearings and notify other governments

The municipality must set a date for a public hearing: Municipalities are required to hold at least one public hearing on the proposed redevelopment plan, but they may hold more if they so choose. Before the hearing takes place, the municipality must send the redevelopment plan or eligibility study to all taxing bodies receiving property tax revenue from the RPA. The report must also be available for public inspection, which generally means it is available at a municipal office.
8. Housing impact hearing

If the TIF district is a housing impact TIF, as defined in Step 6, the municipality must hold a public hearing to discuss the housing impact with local residents. The hearing must be held at least 14 business days before the public hearing on the entire redevelopment plan.

9. Send out notice of hearings

The municipality must send out notices of the public hearing: The municipality must put a notice of the public hearing in a general newspaper. The municipality must also mail a notice to each taxpayer listed in official records (the “taxpayer of record”) for properties in the proposed district.

10. Joint Review Board meeting

State law requires creation of a Joint Review Board (JRB). The JRB consists of one representative from each taxing body that might be affected by the proposed TIF, including from the municipality proposing the TIF. By majority vote, these members of the JRB need to add a public member to the board. In the case of a housing impact TIF (as described in step 6) the public member must currently live within the proposed boundaries of the TIF district.

The JRB reviews the redevelopment plan and decides if they will recommend for or against its passage. They may accept public testimony if they choose. If they recommend against adoption of the plan, the municipality has two options: they can either work with the JRB for the next 30 days to address the JRB’s concerns, or they can try to approve the plan despite the JRB’s reservations. To do this, the municipality needs to have three fifths of their legislative body vote in favor of the plan. Previous to the TIF reform act of 1999, the JRB served in an advisory capacity only, and their recommendations could be overridden with a simple majority of the municipality’s legislative body.

It the TIF district is implemented, the JRB meets annually to review TIF expenditures and related activities.

11. The public hearing takes place

The municipality must hold the public hearing: The municipality must hold a hearing where the public has a chance to provide their input on the proposed plan. If a public hearing was held and then the TIF plan was amended to add more property or change the nature of planned redevelopment (e.g., change the proposed type of development in an area from commercial to public use), a second public hearing must be held.

12. The TIF plan introduced as ordinance

The TIF plan must be introduced as ordinances to be approved: The TIF plan is introduced to the municipality’s legislative body, usually as three separate but related ordinances. The ordinances must
serve the following purposes: 1) Adopt the redevelopment plan as the municipality’s plan for the area; 2) Designate the boundaries of the RPA; 3) Approve use of tax increment financing in the RPA. The ordinances have the same degree of specificity about TIF plans as the redevelopment plan.

In Chicago, these ordinances are generally referred to the Finance Committee before a vote by the entire council. The Finance Committee may, but need not, accept public testimony as part of their deliberation.

13. The ordinances must be voted on

If the council approves the TIF ordinances and the mayor signs them into law, the TIF district is created. Generally speaking, the district can remain in existence for up to 23 years. However, state TIF law contains provisions for certain districts to exist for 35 years if the municipality’s legislative body so votes.

14. Establish base valuation for TIF district

The county clerk must establish a base valuation for the TIF district: The county clerk maintains the official records of the assessed value and tax levies for each jurisdiction in the county. Once a TIF district is approved, the clerk adds up the assessed values of all property within district boundaries. This total will serve as the base value of the TIF throughout its life, unless district boundaries are later amended.

15. Tax codes assigned

The municipality and/or county clerk may divide up the TIF district into smaller units with different tax codes. There are two primary reasons this may occur. First, the TIF may partially overlap with another taxing body, such as a special service area. The section of the TIF district overlapping this body will have a different tax rate than the section that does not overlap. These two sections are assigned separate tax codes. Or the municipality may ask the county clerk to divide the TIF district into smaller tax codes to isolate an area where property value has decreased. This helps maximize the amount of increment a TIF district will receive. For a more detailed discussion of how tax codes function, see Appendix 3.

16. File annual report

The municipality sends an annual report to the Illinois Comptroller’s office: This requirement, created by the TIF reform act of 1999, applies to all Illinois municipalities except Chicago. The report contains audited information about the revenues and expenditures for each of the municipality’s districts.

Once all of the above steps have been taken, the TIF district is in place. The municipality then must set about accomplishing the goals and tasks described in the redevelopment plan.
After the TIF is in Place

Though the specific redevelopment goals of individual TIFs will vary, in the end all TIF districts have one common goal: to obtain increment. Expenditures made by a municipality must be repaid in the form of incremental tax revenues; if this revenue is not obtained, nothing can be done in the district. All of the uses of TIF listed below, then, are centered on generating increment in the district boundaries.

The uses listed below are not presented in the order they occur, for there is no definite order. The municipality can create their own plan for how the TIF tool will be used. Instead, we group activities by whether they are revenues or expenditures.

Revenues

Each year, the current value of the TIF district is compared to the base value established by the County Clerk. If the district has increased in value, the taxes on the amount of the increase are paid into a special fund for use in that district. If the value of the district has remained level or decreased, no money will be set aside for TIF-funded development.

1) The municipality may borrow money to spend in the district. If a municipality wants to pay for expensive activities soon after the TIF district is created, they must borrow money against the expectation of future TIF revenue. There are two sources from which a municipality may borrow:

   a) The municipality may choose to issue bonds for the TIF district: In this case, funds are solicited from private investors. The investors lend on the expectation that they will receive back not only their original principal, but also interest. The steps in issuing a bond include:

      i) The municipality must enlist underwriters for the bond.

      ii) The municipality must prepare a general statement outlining the bond issue: This statement will include information about how the municipality will repay the bond.

      iii) The bond must be approved by municipal ordinance.

   b) The municipality may borrow from their general revenue fund. Money from the current year’s municipal budget can be allocated to TIF projects. Members of the city council determine conditions of the loan, including whether the TIF district is expected to repay the amount advanced to it with interest.

2) In pay-as-you-go districts, incremental revenues are distributed at the end of each year to the TIF district: Incremental TIF revenue, rather than being committed ahead of time to repay loans, can be used for TIF projects as it is obtained. Most TIF districts created in Chicago in the last few years have been pay-as-you-go.
**Expenditures**

Allowable costs are specified in the law as follows:

a) Costs of studies, surveys, and development of plans: Contracts for these services cannot be for longer than three years, and payment cannot be based on a percentage of increment realized by the district. Municipalities cannot use TIF funds to pay for administrative costs that would have been incurred even if the redevelopment plan had not been improved.

b) Property assembly costs: This includes the cost of purchasing land, demolishing existing structures and clearing the land, environmental remediation, and other site preparation measures.

c) Costs of rehabilitation, reconstruction, or repair of existing buildings.

d) Costs of public works: This includes almost any infrastructure work the municipality wishes to perform, including improvements to roads, sewer, and water systems. However, as of the TIF reform act of 1999, the municipality may generally not use TIF money to develop new municipal facilities unless:

i) they are replacing one demolished as part of the redevelopment plan; or

ii) the nature of redevelopment in the district requires new public facilities; for example, due to an increased residential population in a district, a new police station may be needed.

e) Job training cost: The training to be provided must be related to some business located in the RPA.

f) Costs related to the issuance of bonds and other financing costs.

g) Capital costs incurred by other taxing districts as a result of the redevelopment plan: As a result of redevelopment within a TIF district, a taxing district besides the municipality may see an increased demand for certain services, or a need for new infrastructure, but due to the TIF they will not receive new revenue from increases in district property values. The municipality may, at its discretion, reimburse taxing districts for all or a portion of these costs.

Districts created after the TIF reform act of 1999 must reimburse school districts if they subsidize new housing in the district. The amount of the reimbursement is determined by a formula in the law that is based on the number of new students brought into the school district.

This section of the TIF law contains certain exceptions for municipalities with populations over 1,000,000 that gives these municipalities greater discretion in deciding how much revenue, if any, should be shared with the school district.

h) Relocation costs for residents and/or businesses displaced by redevelopment activities.
i) Payment in lieu of taxes: At the discretion of the municipality, it may arrange to reimburse taxing districts for revenue they are not receiving due to the TIF to pay for increased costs besides capital costs.

j) Developer's interest costs: Up to 30 percent of the interest in a developer's financing costs may be reimbursed through the use of TIF funds. The TIF reform act of 1999 allowed for up to 75 percent of interest costs may be paid with TIF funds for the development of low-income and very low-income housing.

k) Costs of developing low-income housing: In addition to the increased amount of interest costs that may be paid for the development of low-income and very low-income housing, the TIF reform act of 1999 allowed for up to 50 percent of the construction costs of housing (including rehabilitation and renovation) in this category may be paid by TIF funds.

l) Day care costs: Municipalities with a population of more than 100,000 may pay for a portion of the operating costs of facilities providing day care for employees working at businesses within the RPA.

Costs involving subsidies to private businesses or developers require redevelopment agreements. Individual municipalities can set their own procedure for entering into redevelopment agreements; TIF law does not specify a process.

**Tax Codes and TIF Districts**

The common perception of how TIF works is that the increment is determined by the change in value of the district as a whole. If the value of the whole district increases, the tax on that increase will go to the TIF fund for that district. However, in many cases calculations of increment are not performed for an entire TIF district, but rather they are done separately for several smaller pieces of the district.

To help us understand how this works, we will use a hypothetical example of TIF district A. TIF district A partially overlaps a Special Service Area (SSA). The district is divided into two sections, and each section receives a separate tax code, which is simply a number giving it a distinct identity. The section overlapping the SSA is given the tax code of 2.

Suppose the initial EAVs for the district are as follows:

<table>
<thead>
<tr>
<th>Tax Code</th>
<th>Initial EAV</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$300,000</td>
</tr>
<tr>
<td>2</td>
<td>$100,000</td>
</tr>
<tr>
<td>Total</td>
<td>$400,000</td>
</tr>
</tbody>
</table>
For this example, we will say that the overall tax rate for bodies covering this district is four percent. The special service area adds an extra one percent, so the total tax rate for tax code 2 is five percent. After five years, the EAVs for the district are as follows:

<table>
<thead>
<tr>
<th>Tax Code</th>
<th>New EAV</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$390,000</td>
</tr>
<tr>
<td>2</td>
<td>$90,000</td>
</tr>
<tr>
<td>Total</td>
<td>$480,000</td>
</tr>
</tbody>
</table>

Due to the different tax rates for the tax codes, the incremental tax revenue for the entire district cannot be calculated; rather, each code must be calculated separately, as follows:

<table>
<thead>
<tr>
<th>Tax Code</th>
<th>Initial EAV</th>
<th>New EAV</th>
<th>Increment</th>
<th>Tax Rate</th>
<th>TIF Tax Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$300,000</td>
<td>$390,000</td>
<td>$90,000</td>
<td>0.04</td>
<td>$3,600</td>
</tr>
<tr>
<td>2</td>
<td>$100,000</td>
<td>$90,000</td>
<td>---</td>
<td>0.05</td>
<td>---</td>
</tr>
</tbody>
</table>

Overall, the district showed an increase in value of $80,000. Due to the arrangement of the tax codes, though, the increment was calculated based on an increase of $90,000 in tax code 1. Tax code 2 served to isolate some declining property values, allowing more tax revenue to go into the TIF fund than otherwise would have.

Realizing this, some municipalities have created new tax codes in TIF districts where there is only one tax rate. The tax codes can be used to separate areas of declining value, allowing the TIF fund to collect as much revenue as possible.

In fact, the arrangement of tax codes makes it possible for a TIF district with no actual increase in revenue still to collect revenue. One notable example of this is the 35th-Halsted district. In tax year 1998, the value of this district had decreased from its base value of $80.9 million to $74.9 million, a decrease of 7.4 percent. Yet because of the arrangement of tax codes, the City still managed to collect nearly $35,000 in increment for that year.

In tax year 2000, the arrangement of tax codes helped the City claim nearly $3.4 million more in incremental revenues than they would have collected without the specially arranged tax codes. Without those codes, that $3.4 million would have been distributed to the other taxing bodies in Chicago.
APPENDIX 2

Data Sources and Methodology

Below we list the sources of data for the case studies, as well as explaining some of the limitations of the data we encountered.

Geographic boundaries: Using Sidwell maps and maps from the City’s redevelopment plans for each TIF district, we compiled a list of Permanent Index Numbers (PINs) and addresses for the areas within each TIF district and for a four-block radius surrounding each TIF district. The list of PINs and addresses served as the basis for our other data requests we asked for data that fell within these addresses.

Brief history of each TIF district: This is based on a review of redevelopment agreements in each district. The Neighborhood Capital Budget Group’s TIF Encyclopedia provides a helpful list of redevelopment plans for each TIF district, as well as other notes on activities in various districts.

Community participation: We conducted several interviews with individuals in each TIF district. We talked to representatives of businesses and community organizations, as well as individual residents. In most interviews, we asked the interviewee who else we should talk to in order to get a complete portrait of what was happening in the neighborhood, and we followed up to the extent that resources allowed.

Number and type of business establishments: We obtained these by reviewing Dun & Bradstreet’s comprehensive business listings for each year from 1990-2000. These listings provide business name, address, the U.S. government’s standard industrial classification (SIC) code, and number of employees. These data were used to obtain the totals of establishments and employees, as well as the breakdowns by type of industry.

To make the charts on birth and death of businesses, we compared the list of businesses in 1990 to the list of businesses in 2000 to determine which businesses that had been in the area in 1990 were no longer present, and which new businesses had arrived. The birth and death of the businesses is presented as it would be seen from the community perspective in reality, some businesses might have moved to the community from other locations or moved out of the area but not ceased operations.

Property transactions, sale prices, and property tax collections: This data was provided by the Cook County Assessor. The Assessor was not able to provide data for 1992, which is why “n/a” appears for that year in the tables reporting this data. The most recent data available during our data collection phase was for 1998; we decided to get data for 1989 because we wanted to get a ten-year span, and 1988 was not available.

Data was compiled based on the PIN numbers we had gathered. Mean and median figures are our own calculations.
**Current EAV of TIF districts in Chicago:** This data is from the Cook County Clerk’s office. Each year they release a report with the EAV of each TIF district, broken down by individual tax codes. Our calculations using these numbers provide the estimated loss from tax codes given in Appendix 3.

**Number of TIF districts in Chicago:** This is from a review of City Council Journals.

Other sources, such as news articles and books, are identified in footnotes within the report.
About the Developing Neighborhood Alternatives Project

Developing Neighborhood Alternatives (DNA) is a unique joint research and education project funded by the Woods Fund of Chicago, the Chicago Community Trust, and the John D. and Catherine T. MacArthur Foundation.

DNA brings together four organizations with diverse perspectives and expertise to address issues surrounding tax increment financing; these organizations are identified below. Although we acknowledge and deeply appreciate the confidence placed in us by the funders, we make the traditional but true disclaimer that the opinions and conclusions herein are those of the authors alone, and may or may not represent the views of board members and staff of the funders.

! Our **goal** is a “win-win” outcome where the benefits of TIF are retained without its drawbacks. This means learning from past successes and mistakes.

! Our **unique perspective** is to view the comprehensive effects of TIF on many aspects of neighborhood development, not only on real estate values.

! Our **method** is to conduct original research about the effects of TIF on economies, communities, and taxing bodies, and then to use that understanding to improve TIF policies and practices in Illinois.

! Our **resources and expertise** come from four civic and community organizations. Two are public policy research institutes. One works closely with community groups, and one is a statewide coalition of grassroots citizen organizations.

! Our **impact on public policy and public opinion** will be through production of a peer-reviewed study of TIF, high-level meetings with opinion leaders and policy makers, and educational products that can be spun off from the study and widely distributed to community leaders and activists.

The four organizations that collaborated on this project and the people responsible for representing their groups in research and writing are:

<table>
<thead>
<tr>
<th>The Heartland Institute</th>
<th>Jewish Council on Urban Affairs (JCUA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>19 South LaSalle Street #903</td>
<td>618 South Michigan Avenue #700</td>
</tr>
<tr>
<td>Chicago, Illinois 60603</td>
<td>Chicago, Illinois 60605</td>
</tr>
<tr>
<td>Joseph L. Bast</td>
<td>Stacey Flint</td>
</tr>
<tr>
<td>312/377-4000</td>
<td>312/663-0960</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Center for Economic Policy Analysis (CEPA)</th>
<th>Statewide Housing Action Coalition (SHAC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>202 South State Street #1302</td>
<td>11 East Adams #1501</td>
</tr>
<tr>
<td>Chicago, Illinois 60604</td>
<td>Chicago, Illinois 60603</td>
</tr>
<tr>
<td>Arthur Lyons and Jason Hardy</td>
<td>Judy Meima</td>
</tr>
<tr>
<td>312/786-1825</td>
<td>312/939-6074</td>
</tr>
</tbody>
</table>