

August 23, 2011

The Honorable Rahm Emanuel
Mayor, City of Chicago
City Hall – 121 N. LaSalle Street, 5th Floor
Chicago, Illinois 60601

Mayor Emanuel:

When you established the TIF Reform Panel, you did so challenging us “to create accountability systems that will ensure our TIF investments go to projects that have real return for taxpayers—new jobs and new economic development.” With this charge in mind, the panel is pleased to present:

“Findings and Recommendations for Reforming the Use of Tax Increment Financing in Chicago: Creating Greater Efficiency, Transparency and Accountability”

Tax increment financing is not an end in itself, but a crucial tool for supporting quality businesses, creating more jobs and building strong neighborhoods. The City should not use TIF to accomplish these goals without a sharper mission, more transparent processes and stronger oversight.

These economic development goals and the objectives of greater transparency and accountability drove our deliberations and shaped our recommendations. Adoption of the recommendations in the report will produce clear metrics that are predictably applied. Examination of these metrics will make it possible for members of the public to hold the City of Chicago accountable for sound, ethical decision-making and a fair return on their investment in the future of their city.

We strongly believe that increasing public confidence in the use of tax increment financing is critical to the City of Chicago’s effort to support an enviable quality of life for all residents and to secure its position as a preeminent global city. Moreover, increased public confidence is a prerequisite for optimal use of this important economic development tool. The importance of tax increment financing today is clear; tomorrow it will be the essential tool, as job deficits linger and federal and state resources are continually scaled back. This context demands the adoption of a broader economic development plan and the continued use of its central tool—tax increment financing.

Implementation of the reforms described in our report will require increased resources. We recommend that the City use a small percentage of available TIF funds to pay for the personnel and technology needed to produce the metrics, analyze them, make all necessary documents public, and to monitor the on-going use of TIF resources.

Finally, after implementing the proposed reforms, we urge the City to make sure that it is achieving maximum impact from use of TIF by exploring and adopting the best

innovations from around the country and the world. This will ensure that the City of Chicago can take full advantage of TIF's market-driving potential.

Government needs the full confidence of the people that it serves. We hope that implementation of these recommendations moves Chicago closer to that ideal. That is the spirit with which we undertook our important task and we appreciate the opportunity to serve.

We would like to thank all those that took the time to share their views at the public hearing, submitted comments in writing and participated in interviews. We appreciate the candid input. The recommendations reflect much of what we heard, and we are pleased that so many people are committed to helping make Chicago the local, national and global leader it can be.

Carole Brown
Chair
TIF Reform Panel

Findings and Recommendations for
Reforming the Use of Tax
Increment Financing in Chicago:
Creating Greater Efficiency,
Transparency and Accountability

Submitted by the TIF Reform Panel

August 23, 2011

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Executive Summary

The TIF Reform Panel was formed by Mayor Rahm Emanuel for the purpose of reviewing the City's use of Tax Increment Financing (TIF), making recommendations for improving the transparency and efficiency of the City's use of TIF, and identifying ways to strengthen the ability of TIF to meet the City's economic development goals. Chaired by Carole Brown, the panel included small business leaders, finance experts, City officials and urban policy leaders. The panel held a public hearing, received public comments on the City's website, sought input from members of City Council, interviewed a broad range of stakeholders and experts, and thoroughly examined the use of TIF in other cities to craft this report's recommendations. The panel's goals were to develop a comprehensive TIF policy, recommend metrics to track the performance of TIF districts and projects, improve the transparency of the City's use of TIF, and propose ways to link TIF spending to a broader City financial strategy.

Chicago contains 163 TIF districts, which cover 30% of the City's area and comprise about 10% of its property tax base. TIF generates roughly \$500 million in incremental tax revenue each year, and by state law this money may only be spent on certain development and infrastructure related expenses within district boundaries. Despite the extent of the City's use of TIF, TIF projects, districts and processes have lacked sufficient transparency and oversight. The City has not established a formal policy governing the establishment of TIF districts and the use of TIF funds, and information about TIF districts, projects and processes has not been made easily available to the public.

Although the City has successfully used TIF to encourage economic and community development in underperforming areas, many improvements are possible. The following six recommendations would significantly improve the transparency, efficiency, results and oversight of the City's use of TIF:

- 1. Establish the City's TIF Goals.** The Mayor's Office should develop a multi-year Economic Development Plan that is then submitted to the City Council for consideration. The Economic Development Plan should guide all future TIF district designations and project allocations.
- 2. Allocate Resources.** The City should create a multi-year Capital Budget that is then submitted to City Council for consideration. The Capital Budget should detail the funding of City infrastructure needs, including those articulated in the Economic Development Plan. All TIF infrastructure allocations and porting decisions should be made in accordance with the Capital Budget.
- 3. Monitor Performance.** The City should establish metrics for its use of TIF. These metrics will be used to benchmark (1) TIF district and project performance in aggregate; (2) alignment with the Economic Development

Plan; (3) achievement of district-specific goals appropriate for district type(i.e., industrial, commercial, residential or mixed use); (4) programmatic characteristics (TIF-NIP, TIFWorks, SBIF, etc.) and (5) project-specific characteristics. The City should compile data for and report on these metrics on a regular basis.

- 4. Increase Accountability.** The City should make the justification for public funding of private projects more explicit, monitor projects more systematically to ensure recipients of TIF funding meet their obligations and ensure there are consequences for not delivering expected returns on public investment.
- 5. Take Action.** The City should set and manage to performance thresholds for districts and projects. Every five years TIF districts should be subject to strategic reviews which lead to continuation of the district, revision of the district strategy or more significant change.
- 6. Enhance Oversight and Administration.** The Mayor should empower an internal body with clear accountability for all aspects of TIF, and ensure that the staff and organizational capacity exist to execute recommendations and provide effective oversight.

TIF REFORM PANEL MEMBERS

Carole Brown (Panel Chair), Managing Director, Barclays Capital

Hon. Carrie M. Austin, Alderman, 34th Ward and Chairman, Budget & Government Operations, City of Chicago

Adela Cepeda, Owner and President, A.C. Advisory, Inc.

Bruce J. Katz, Vice President, Brookings Institution and founding Director, Brookings Metropolitan Policy Program

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Introduction

Tax increment financing (TIF) is a tool intended by state law to encourage economic development by providing public support* to encourage investment in targeted areas that meet certain conditions of blight, decay or underperformance. Revenue for that support is generated from property taxes collected on the incremental growth in the Equalized Assessed Valuation (EAV) of the property in the targeted area. Definitions of TIF-related terms may be found in the glossary in Appendix C.

With 163 active TIF districts, Chicago is home to one of the most extensive TIF systems in the country. Together, these districts generate roughly \$500 million in additional property tax collections each year. TIF has historically been a critical source of capital investment in Chicago to build public infrastructure, schools, and parks, and to encourage business growth throughout Chicago. The magnitude of these numbers requires Chicago to ensure that TIF revenues are used effectively, with appropriate guidelines and performance standards in order to maximize impact.

To date, the City of Chicago has not published a comprehensive policy that would govern the establishment of TIF districts and oversight of TIF expenditures. Moreover, taxpayers have not been provided with an easy means to access information about the TIF process or to evaluate the performance of the City's TIF investment.

On May 19, 2011, Mayor Rahm Emanuel announced the formation of the TIF Reform Panel. The TIF Reform Panel was charged with reviewing Chicago's use of Tax Increment Financing and making recommendations to bring transparency, accountability, and efficiency to the use of TIF in Chicago.

"This committee has a simple task: to create accountability systems that will ensure our TIF investments go to projects that have real return for taxpayers - new jobs and new economic development."

- Mayor Rahm Emanuel, May 19, 2011

Chaired by Carole Brown, the TIF Reform Panel, which included small business leaders, finance experts, elected and appointed officials, and urban policy leaders from think tanks, academia, and foundations met regularly for three months to:

- Articulate an overarching TIF policy and guiding principles
- Develop performance criteria to enable City staff to evaluate the success and/or need for reform of TIF districts and projects

* Public support can take the form of a grant, loan, or investment in public infrastructure that encourages private investment.

- Recommend ways the City can improve transparency, so taxpayers can easily access and understand the processes, performance and outcomes of TIF
- Identify in what ways TIF expenditure should be linked to the City’s finances and budgeting process, starting with the 2012 budget

The overall objective of the TIF Reform Panel was to make recommendations to help the City make more effective use of TIF as an economic development tool and to ensure that the City and taxpayers could better understand and evaluate the return on investment of TIF expenditures.

Throughout the TIF Reform Panel’s deliberations, the City of Chicago maintained a website for public submission of TIF-related comments. Residents from across the City submitted ideas, suggestions, and concerns about TIF through the website. Additionally, an open public hearing was held on July 28, 2011 to allow taxpayers to share their comments with the TIF Reform Panel. Approximately 250 individuals attended the public hearing, all of whom were given the opportunity to speak. Nearly 60 individuals provided testimony.

The work of the panel was supported, on a pro bono basis, by the Civic Consulting Alliance and Ice Miller LLP. Together with members of the panel, the team conducted more than 40 interviews with TIF experts throughout the country, finance leaders, economic development experts and City of Chicago staff members who had worked with TIF. Additionally, the team researched the practices and outcomes of TIF in six U.S. cities and counties: Allegheny County, Atlanta, Dallas, Kansas City, Minneapolis, and Washington, D.C.* Ice Miller LLP provided an assessment of current Illinois law regarding TIF. (Please see Appendix D.)

This report includes four sections:

1. **Chicago TIF Today:** A review of current Chicago TIF uses and impact, governance roles and processes, and TIF project and district tracking and management.
2. **Context for Recommendations:** Strategic, process, performance, and transparency issues, and the TIF Reform Panel’s vision for TIF in Chicago.
3. **Recommendations:** Approaches to help the City better manage TIF performance, improve supporting processes, and increase transparency and accountability.
4. **Expanding Impact:** Ideas the City could consider for increasing the impact of TIF as a powerful economic development tool.

* A complete list of interviews and benchmark cities can be found in Appendix A.

Chicago TIF Today

To provide a foundation for TIF policy recommendations, the TIF Reform Panel examined the different types of districts and projects, as well as how impact is currently measured against the objectives of State legislation.

State of Illinois Legislation

Chicago's use of TIF operates pursuant to Illinois state law, which specifies that TIF funds be used for three purposes, to:

1. Remediate blight,
2. Prevent an area (known as a "conservation" area) from deteriorating into a blighted situation, or
3. Foster industrial development (an "industrial park conservation area").

To designate a new TIF district within the State of Illinois, municipalities must demonstrate either blight* or conservation.† Additionally, the municipality must also apply a "but-for test" to any proposed TIF district, demonstrating that the physical and economic conditions in the district would not be addressed without public action. That is, it must be shown that "but for" the public investment provided through TIF funding, redevelopment or development would not otherwise occur.

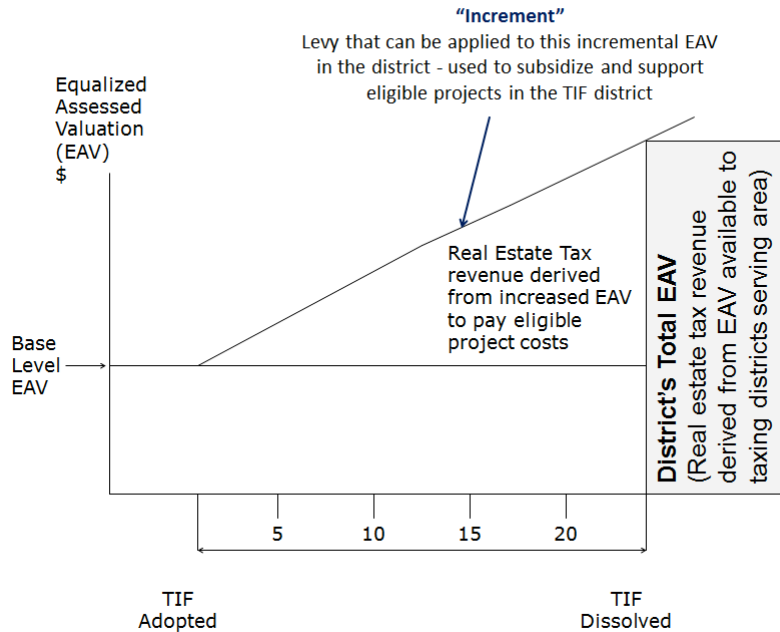
Once a TIF district is designated, the then-current Equalized Assessed Value (EAV) of the property in the district is established by the Cook County Assessor's Office. The then-current EAV of the property in the district is set as a base level of EAV for the TIF district. For the 23-year duration of the TIF district, taxes on the base level of EAV are distributed to the overlapping taxing bodies (such as Cook County, Chicago Public Schools or the Chicago Park District) just as they would be in a non-TIF area of the city. Any growth in the EAV of the property in the district above that base level of EAV is considered "increment;" property

* Blight is defined as the significant presence of five of a set of conditions laid out by Illinois law: dilapidation, obsolescence, deterioration, presence of structures below minimum code standards, illegal use of individual structures, excessive vacancies, lack of ventilation/light/sanitary facilities, inadequate utilities, excessive land coverage and overcrowding of community facilities, deleterious land use, the need for environmental clean-up, lack of community planning, or a lack of growth in "Equalized Assessed Value" (EAV, a measure of property values) for three of the previous five years. Lack of EAV growth is defined as either declines in EAV, or a growth rate below that of the balance of the city.

† Conservation is defined as the significant presence of three of these factors in an area in which most of the buildings are over 35 years old.

taxes collected on the increment go into a separate account that is used to pay for public and private TIF-related projects in that district.

Chart A: How TIF Works



Property tax revenues collected through TIF may only be spent on costs that qualify as "redevelopment project costs" under Illinois law, which are defined as reasonable or necessary costs that are incurred (or estimated to be incurred) or that are incidental to a redevelopment plan or project. These include costs associated with property rehabilitation and renovation (such as property assembly, administrative and consulting costs, and financing), job training, business relocation, new low-income housing units, and public works projects. A more complete list appears in Appendix B.

State Senate Bill 540 was introduced in February 2011 and at the time of this report, its final form continues to be unclear. The bill is likely to propose additional reporting to the State Comptroller and to place restrictions on the use of TIF funds. Potential impacts include limiting EAV in TIF districts as a percent of total municipal EAV, limiting porting of funds to adjacent districts and requirements for returning surplus. This report addresses a number of these topics.

Current Chicago TIF Objectives

Working within these state legislative guidelines, the City of Chicago employs TIF as a means to encourage public and private investment in blighted neighborhoods. The City establishes TIF districts to serve local needs and to drive economic development.

Specifically, Chicago uses TIF as a tool to:

- Promote economic development through job creation
- Encourage neighborhood infrastructure improvements that benefit people and businesses. (Funds have traditionally been used to build and repair roads and infrastructure, clean polluted land, and put vacant properties back to productive use, usually in conjunction with private development projects.)
- Expand the pool of affordable housing units
- Enhance property values
- Increase the tax base

Individual TIF districts have different goals based on community needs. These goals are articulated in each district's redevelopment plan.

TIF Districts

Although TIF districts have existed in Chicago since 1983, use of TIF expanded significantly in the late 1990s and early 2000s. In fact, about 40% of all TIF districts in Chicago were authorized in the five-year period from 1998 to 2002. Today approximately 10% of the Chicago EAV base is in TIF districts, and TIF districts cover 30% of the area of the city.

Most TIF districts in Chicago are area-wide. These districts are designed to help revitalize a targeted geography. Compared to other municipalities that use TIF (in Illinois and elsewhere around the country, including Atlanta, Kansas City and Washington, D.C.), Chicago has a greater proportion of area-wide TIF districts. Area-wide TIF districts have broader goals, including but not limited to:

- Reinforcing an area's role as a viable industrial location for companies (e.g. providing transportation links such as highway access or repairing streets)
- Increasing employment opportunities in a district by supporting new industrial and commercial projects and by assisting efforts that redevelop existing buildings for new industrial purposes
- Eliminating unnecessary streets, alleys and railroad right-of-ways and existing industrial land by creating buffers and transitional areas near residential neighbors
- Enhancing a common neighborhood identity by establishing streetscape and common design guidelines, improving local transit facilities, and funding infrastructure upgrades involving street surfaces and utilities
- Creating housing, parking, and institutional development within the district
- Facilitating the assembly of vacant and underutilized land, and

- Establishing an improved system of roadways, waterways, utilities and other infrastructure that serves existing businesses and future development projects.

In contrast, some TIF districts are project-specific; with borders and goals drawn narrowly around the needs of the redevelopment, project-specific TIFs are designed to support a particular private development project.

TIF districts in Chicago can be classified into four categories, three that focus on supporting a single type of economic activity and a fourth, the most common, which is designed to spur multiple types of development within a single area:

- Industrial development districts (22% of all TIFs)
- Residential development districts (11%)
- Commercial development districts (9%)
- “Multi-purpose,”* districts, combining elements of industrial, residential, and commercial efforts (58%)

In 2009, Chicago spent \$365 million of TIF funds on project expenses and financing costs. That year, TIF districts collected \$473 million in property tax increment and interest.[†] At the end of that same year, \$1.5 billion remained in TIF accounts. At any point in time, approximately two-thirds of this balance is obligated to existing projects or allocated for future projects.

TIF Projects

To encourage public and private investment, Chicago uses TIF to fund a wide range of projects. Since 1983, the City has allocated more than \$3.7 billion to private, public, and neighborhood-based projects.[‡] These projects can be classified into three broad categories with total spending in each as follows:

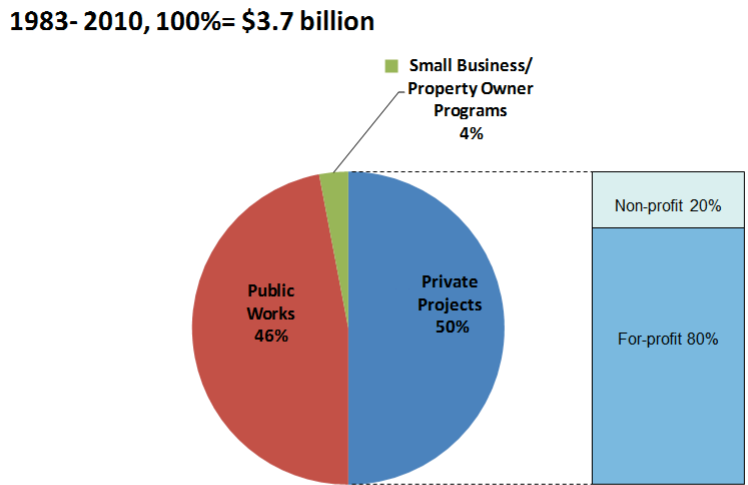
* The Department of Housing and Economic Development calls these “mixed use” districts, but they are labeled “multi-purpose” in this report to avoid confusion between “mixed use” districts and “mixed use” projects.

[†] Actual revenue received by the City in FY 2009. The total 2009 TIF levy as determined by the Cook County Assessor’s Office was \$520 million, but that figure does not include appeals or unpaid property taxes. FY 2009 data used in instances where the relevant TIF accounts for 2010 were still being closed during the TIF Reform Panel’s deliberations.

[‡] Funds are considered allocated to a project when they have been approved by City Council or (in the case of some public projects) approved by the TIF Task Force. More details on the approval process can be found on pages 24-26. Not all funds allocated will necessarily be spent. This figure does not include any financing costs or TIF administration costs incurred by the City.

1. **Private Development** (50% of total allocations since 1983). \$1.8 billion of Chicago’s total TIF allocation has been used for incentives to private developers (residential, commercial, industrial, institutional, mixed use).
2. **Public Works** (46%). \$1.7 billion of Chicago’s total TIF allocation has supported public works projects, including parks, schools, streets and other infrastructure, and public buildings.
3. **Small Business, Workplace and Property Owner Programs** (4%). Approximately \$145 million of Chicago’s total TIF expenditure has been allocated to funds that can be used to improve small business and residential properties and support workplace training.

Chart B: TIF Allocations by Project Type

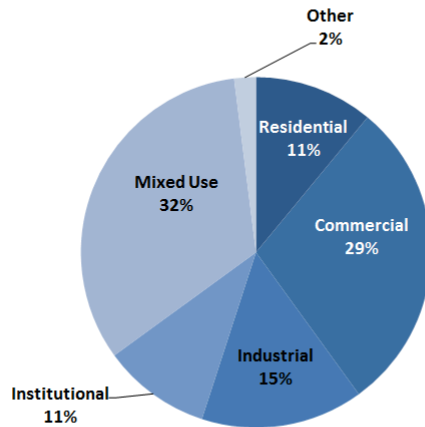


Private Development Projects

Private development projects are established through “redevelopment agreements” (RDAs). RDAs are agreements between the City and private developers that outline the terms by which the City will use TIF proceeds to support a private development project in exchange for economic and community development commitments from the developer.

Chart C: TIF Allocations, Private Projects

1983- 2010, 100%= \$1.8 billion



Since the inception of TIF in Chicago, the City has entered into 257 private development agreements, detailed in Table A.

Table A: Redevelopment Agreements (RDAs) in Chicago TIF Districts, 1983 to 2010

Project Description	# For-profit RDAs	# Non-profit RDAs	Total Public Allocations
Residential	62	5	\$209,878,504
Commercial	75	3	\$523,967,470
Industrial	32	-	\$282,145,026
Institutional	5	10	\$187,242,617
Mixed Use	51	5	\$596,844,440
Hotels/Other	8	1	\$34,955,753

- Residential Projects:** TIF has also been used to support the construction and renovation of housing units across the city. Of the RDAs for which data are available, 54% of the residential projects supported by TIF are made up entirely of affordable housing units, while 43% include a mix of affordable and market-rate units. Senior housing is a significant goal of many TIF districts, with 26% of districts providing either affordable or mixed income housing units for seniors.

- **Commercial Projects:** Commercial projects include neighborhood-based developments that attract and retain permanent jobs and bring additional retail and grocery options to Chicago communities. Examples include Chatham Market in the 83rd/Stewart TIF, the Six Corners shopping center in the Irving/Cicero TIF, the Food 4 Less in the 69th/Ashland TIF, and the Shop and Save in the Archer/Central TIF. This category also includes investments intended to attract large employers to the city, such as the United Airlines or MillerCoors RDAs in the LaSalle Central TIF.
- **Industrial Projects:** Since 1983, TIF dollars have been used to upgrade 32 manufacturing facilities, with the goal of creating and keeping industrial jobs within the city. Recipients include Nabisco, Blommer Chocolate, S&C Electric, Steiner American Linen, Fed-Ex, and others.
- **Institutional:** Institutional RDAs support organizations such as hospitals, colleges and universities, and cultural centers. Public investment in this area has been heavily weighted towards medical centers; Mercy Hospital and Rush University Medical Center have together received over 70% of all TIF dollars distributed in institutional RDAs since inception. Other recipients include Loyola University, the Greater West Town Training and Economic Development Center, Breakthrough Urban Ministries, and the TACH Development Corporation.
- **Mixed use Projects:**^{*} Many of the private projects supported by Chicago TIF are mixed use developments that incorporate elements of retail space, office space, residential units, and occasionally industrial properties. Mixed use projects include renovations and upgrades to downtown office buildings like the Reliance Building or the Carbon & Carbide Building, and historic preservation and revitalization of theater-district buildings like the Chicago Theater and the Oriental Theater. Mixed use projects also include the development and renovation of properties in the Cabrini Green area and mixed residential/retail developments in the Uptown neighborhood.
- **Hotels/Other:**[†] A small number of RDAs has supported the renovation of aging hotels and other projects difficult to categorize. This category also includes allocations for the Central Loop Improvement Fund (CLIF) and the Green Roof Improvement Fund (GRIF), two programs through which building owners in the Central Loop could upgrade their buildings.

^{*} “Mixed use” projects include any project DHED explicitly categorized as mixed use, or any project that DHED categorized in multiple other categories.

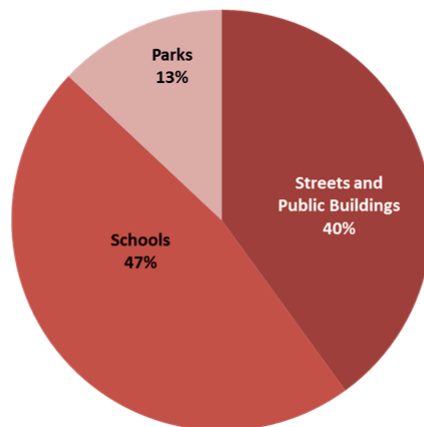
[†] This category includes projects specifically categorized by DHED as “other” or “hotels,” as well as any project not categorized at all by DHED.

Public Works Projects

Between 1983 and 2010, 47% of all TIF allocations were directed to public works projects for improvements to public infrastructure such as streets, public buildings, schools, transportation, and parks (Chart D). In recent years, the proportion of TIF funding used for public works projects has increased.

Chart D: TIF Allocations, Public Works

1983- 2010, 100%= \$1.7 billion



- **Streets and Public Buildings:** Since first implemented in 1983, \$690 million in TIF funding has been spent on improvements to streets, lighting, infrastructure, public transportation, and public buildings. Some of these projects are designed to support specific TIF RDAs; for example, improving streets or ramps in industrial zones to improve truck clearance. Other projects have been designed to improve overall infrastructure to stimulate economic development more broadly. Many of these projects have been executed by the Chicago Department of Transportation (CDOT), and \$73.7 million dollars in this category have been transferred to the CTA through various intergovernmental agreements, or IGAs. TIF dollars in this category have also funded improvements to libraries, police stations, and cultural centers.
- **Schools:** By the end of 2010, TIF had provided more than \$813 million in funding for capital projects in the Chicago Public Schools. \$666 million in TIF funds were used for the \$1.1 billion Modern Schools Across Chicago program, which built 27 CPS schools throughout Chicago. Outside of the Modern Schools program, TIF funds have also provided support, for example, to the Teacher’s Academy in the 24th/Michigan

TIF, Jones College Prep School in the Near South TIF, and Juarez Community Academy in the Pilsen TIF.

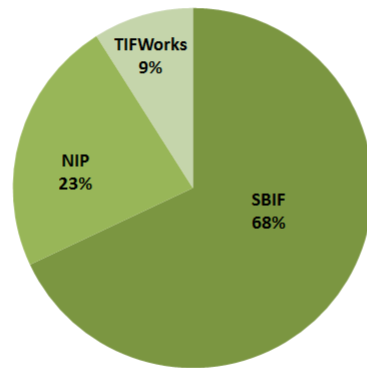
- **Parks:** By the end of 2010, \$233.3 million in TIF funds had been allocated to support Chicago parks. Millennium Park may be the best known example of TIF-funded park development and accounts for 40% of that sum, but TIF dollars have also supported the renovation of neighborhood parks across the city; a few examples include Jesse Owens Park in the Stony Island/Burnside TIF, Fuller Park in the 47th/Halsted TIF, Dunbar Park in the Bronzeville TIF, and Bromann Park in the Bryn Mawr/Broadway TIF.

Small Business, Workplace Training and Property Owner Projects

Roughly 4%, or \$145 million in TIF funding, has been allocated to programs supporting property renovations undertaken by eligible small businesses and residential property owners as well as workplace training for improved competitiveness.

Chart E: TIF Allocations - Small Business, Workplace Training, and Property Owner Programs*

1983- 2010, 100%= \$145 million



- **Small Business Improvement Fund (SBIF):** SBIF provides TIF dollars to help small business owners repair and remodel their commercial or industrial properties. Through SBIF, business owners can receive a grant to cover between 25% and 75%

* Includes funds spent and allocated to these programs.

of the costs of eligible renovations such as new windows or flooring, ventilation and electrical work, new signage, and building expansions. Current City policy establishes a maximum grant amount of \$150,000. Historically, the average grant has been approximately \$35,000.

By the end of 2010, 615 SBIF grants worth a total of \$24.0 million had been distributed to small businesses in Chicago TIF districts. An additional \$74.1 million has been allocated for distribution to small businesses over the remaining life of the districts.

- **Neighborhood Improvement Fund (TIF-NIF or TIF-NIP):** Through TIF-NIP, residential property owners can access small grants to make repairs and improvements to the exteriors of their properties, as well as essential health and safety repairs inside. Currently, grants range in size from \$12,500 to \$100,000 and are based on the number of units in a building. Applications for TIF-NIP funds are processed by non-profit agencies in the neighborhoods.

By the end of 2010, \$13.5 million in TIF funds had been distributed to approximately 7,000 Chicago property owners. An additional \$19.8 million has been allocated for future distribution.

- **TIFWorks:** In certain TIF districts, organizations can apply for TIF funding for training of existing employees. To be eligible, organizations must demonstrate that the training will increase competitiveness and/or fill a workplace need. These grants can be made to businesses, non-profit employers, labor organizations or educational institutions. Since inception in 2003, TIFWorks has funded the training of 14,000 Chicagoans employed by 350 businesses and other eligible organizations.

Impact of TIF in Chicago

The TIF Reform Panel reviewed the impact of TIF spending relative to the City’s objectives outlined on pages 9 to 10 of this report. The panel considered the following metrics, including data collection requirements, when developing its recommendations.

Table B: TIF Objectives and Associated Metrics

Objective	Measurement
Enhance property values	Growth in property value (TIF district versus average City-wide EAV growth)
Increase the tax base	Stimulation of private investment (private dollars invested in a TIF district for every public TIF dollar)
Promote economic development through job creation and retention	Creation of jobs (both temporary / permanent and created / saved)
Expand the pool of affordable housing units	Development of affordable housing units
Encourage neighborhood infrastructure improvements	Investment in public works

- Growth in Property Value:** The growth in a district’s Equalized Assessed Value (EAV) demonstrates the district’s growth in property value. If a TIF district incentivizes redevelopment and economic activity, the property value in the district will generally grow faster than the growth rate of the city as a whole.* As Table C indicates, a significant majority of TIF districts saw property values rise at a higher rate than non-TIF areas during the same period of time.

* In analyzing EAV for individual districts it is important to be mindful of the limits of this measurement. Higher EAV growth may be impacted by circumstances independent of TIF investment, and low EAV growth may still be a better outcome than if TIF investment had not occurred. A general trend of higher EAV growth in TIF districts, versus non-TIF Chicago, is to be expected from an effective use of TIF funds. However, EAV figures need to be interpreted in the context of each individual district.

Table C: TIF District EAV Growth Compared to City-wide EAV Growth*

District Type [†]	# Districts Analyzed	Districts with EAV Growth < City EAV Growth	Districts with EAV Growth 0-100% above City EAV Growth	Districts with EAV Growth > 100% above City EAV Growth
Commercial	11	18%	45%	37%
Residential	13	8%	8%	84%
Industrial	31	42%	19%	39%
Multi-purpose	63	17%	40%	43%

- **Stimulation of Private Investment:** The ability of TIF to increase the tax base can also be measured by the amount of total private dollars leveraged (for tax generating investment) for each dollar of public expenditure. The most accurate barometer would combine direct private investment associated with TIF-funded projects and post-TIF independent private investment to determine how successful TIF is in stimulating new private-sector investment. The figures below represent only the direct private investment associated with TIF-funded projects. Data on additional post-TIF independent private investment is not currently formally tracked by the City.

* Comparisons between TIF district EAV growth and City-wide EAV growth - Measured from year of district inception (not earlier than 1993 and excludes districts with a zero starting balance).

[†] Some of the variation in district EAV growth compared to city EAV growth can be explained by the kinds of land uses. Industrial districts, for example, may naturally have lower growth rates because of the expense and time required to remediate them. Project-specific residential districts that generate new or renovated housing units often have a small EAV base to begin with, making relative growth easier to achieve.

Table D: Private Dollars Leveraged per Dollar of TIF Expenditure by Project Type, 1983-2010

Project Type (1983-2010)	Total Private \$ Invested	Average Leverage Ratio Private \$ per Public \$
Residential	\$1,496,724,696	\$7.13
Commercial	\$2,886,727,549	\$5.49
Industrial	\$1,063,442,612	\$3.77
Institutional	\$1,224,425,252	\$6.54
Mixed Use	\$2,686,139,466	\$4.50
Hotels/Other	\$247,250,772	\$7.07

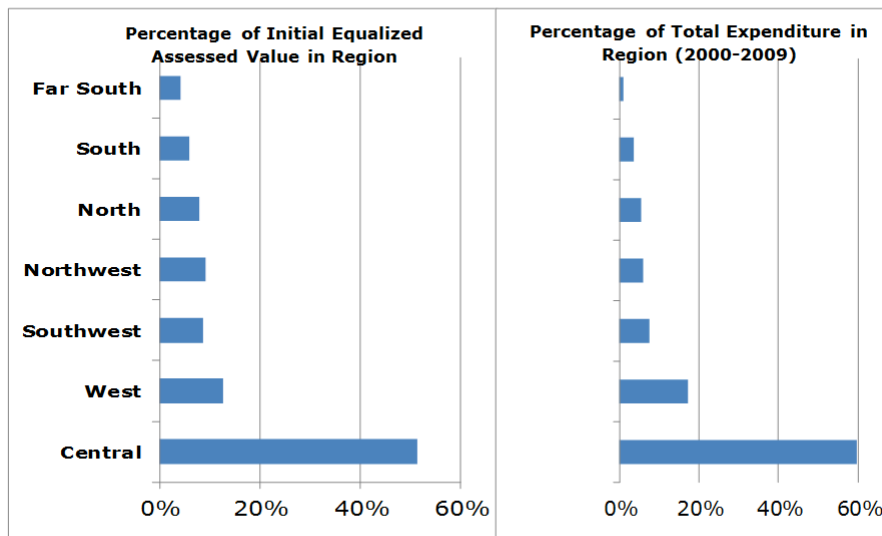
- Creation of Jobs:** For many TIF projects, job creation – including temporary construction jobs and permanent commercial and industrial jobs – is a critical measure of success. Since 1983, as part of their RDA commitments with the City, private developers committed to creating 43,639 permanent jobs in conjunction with TIF-funded projects, according to the City’s Department of Housing and Economic Development (DHED). Actual jobs created are not tracked beyond the period of payment disbursement, and therefore are not known.
- Development of Affordable Housing Units:** Since inception, \$295 million of TIF funds have been used to support development and rehabilitation of 11,400 affordable housing units. So far in 2011, DHED has committed a further \$29 million to the creation and preservation of 1,089 affordable housing units.
- Investment in Public Works:** While harder to quantify, TIF dollars have contributed to neighborhood infrastructure by providing funding for streets, public buildings, parks, and schools. TIF has also supported other public goals, such as the preservation of historic buildings.

Geographic Concentration

Responding to public comments, the panel also analyzed TIF investment in downtown districts compared with neighborhood districts.

Chart F: Spending and Initial Equalized Assessed Value by City Region – Percentage of Initial EAV (at year of district formation) in Region and Percentage of Total TIF Expenditure over a 10 Year Period.

2000-2009 Spending by TIF by Region



While downtown districts have historically generated more TIF revenues than districts in other parts of the city, the amount of TIF revenues generated in a particular TIF district is driven by EAV growth in property within the district. This, in turn, is driven by the types of redevelopment projects, the rate of EAV growth across the district, and the size of the district's initial EAV – a small percentage increase in property value on a large initial EAV will create a large amount of increment.

Areas populated by high-rise, commercial buildings, even when they are in need of extensive redevelopment, will have greater potential for EAV growth than a similarly sized area comprised of single-family residential properties. Therefore, a relatively small percentage increase in property values in a dense business district often creates substantially more increment than a relatively large percentage increase in other districts.

Downtown TIF districts generate more TIF funds than other districts; consequently, more TIF spending occurs in downtown districts than in other districts. But the EAV growth of downtown TIF districts does not directly affect the incremental growth of neighborhood TIF districts. Moreover, the City's ability to port funds may allow TIF funds from a TIF district

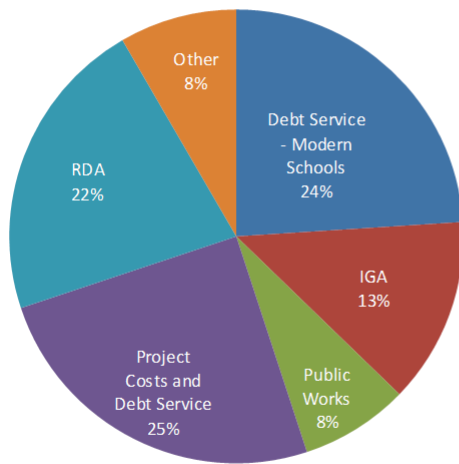
that has realized significant EAV growth to support redevelopment projects in less “increment-rich” neighborhoods in adjacent districts.

Porting Funds

While current state law limits the ability to spend tax increment collected in a TIF district outside of that district, municipalities may “port” funds from one district to an adjacent district to support a specific project. The rationale for porting funds is that a project in one TIF district can benefit residents in a nearby TIF district. For example, a new grocery store or a school built in one TIF district would likely serve residents from many surrounding areas. Chart G shows the total amount of TIF dollars ported within Chicago, in the last five years, grouped by purpose.

Chart G: Porting: Amount and Type 2006-2010

Total Amount Ported: \$195 million



Debt Service – Modern Schools –
Repaying principal and interest on debt incurred to fund Modern Schools capital spend

IGA – Intergovernmental Agreement between the City and sister agency to fund a capital project

Public Works – City infrastructure such as roads, sewers, and sidewalks

Projects Costs and Debt Service –
Payment of project administration and approval costs and interest on TIF loans for capital projects

RDA – Redevelopment agreement between the City and a private developer

Other – Includes City acquisition of land or building for redevelopment and Small Business Improvement Fund (SBIF)

Source: Comptroller’s Office Data

From 2005 to 2009, the City annually ported approximately 5% of total increment collections to adjacent districts. In 2010, porting increased to around 15%, a level the City expects to continue through at least 2013. The increase is caused in part by ongoing debt service associated with public works projects like Modern Schools Across Chicago.

Effect of TIF on Overlapping Taxing Districts and Taxpayers

The City of Chicago has 7 primary overlapping property tax districts:^{*}

- City of Chicago (including the Library and School Building and Improvement Funds)
- Cook County
- Cook County Forest Preserve District
- Metropolitan Water Reclamation District of Greater Chicago
- Chicago Board of Education
- Chicago Park District
- City Colleges of Chicago

The City of Chicago and Cook County are “home rule” governments whose ability to levy property taxes is not limited by state law or by TIF but only by self-imposed ordinances that can be amended by their governing bodies. TIF does not restrict the amount of property tax revenue received by the City of Chicago or Cook County.

The other five overlapping districts listed above are not home rule and are thus subject to the state Property Tax Extension Limitation Law (PTELL, commonly known as “tax caps”), which in general limits their annual property tax extension increase to the lesser of 5% or the increase in the Consumer Price Index.[†] Before the application of the PTELL to Cook County in tax year 1994, TIF may have restricted the tax extensions of non-home rule governments that sought to maximize their property tax revenues.[‡] Now it is the PTELL and not TIF that restricts the maximum tax extensions of non-home rule units of government in Chicago.

The tax extensions of the Chicago Board of Education, Chicago Park District, City Colleges of Chicago, Metropolitan Water Reclamation District, and Cook County Forest Preserve District are not reduced by TIF. Incremental property value generated within TIF districts is excluded from the tax base of the City’s General Fund and of all overlapping taxing bodies,

^{*} Additional overlapping property tax districts in some parts of the city include Special Service Areas and Mosquito Abatement Districts.

[†] Additional amounts can be extended on the current year value of new property, annexed property, recovered TIF increment and expired incentives, minus any disconnected property, as well as for certain funds that are not subject to PTELL (e.g., some bond funds).

[‡] Statutory rate limits sensitive to changes in taxable value were in place before the PTELL but those limits have been increased and taxable value has risen so rate limits no longer restrict property tax extensions of overlapping taxing districts in Chicago.

but the effect of TIF is not to restrict the revenue collected by the overlapping taxing districts but rather to increase the tax rates billed to taxpayers.*

Schools, parks, and other overlapping taxing districts may collect the same amount of taxes as they would without TIF districts – and in fact benefit from the public projects that TIF helps to fund – but the existence of TIF districts increases the individual tax burden on property owners both inside and outside of TIF districts.† While all property taxpayers, both in the City of Chicago and those outside the City paying taxes to the same overlapping districts (Cook County, Cook County Forest Preserve, Metropolitan Water Reclamation District), have higher property tax rates as a result of TIF, the City actually collects a lesser amount for the benefit of its general corporate fund—if one assumes that in the absence of TIF, the City would not directly levy additional dollars to fund economic development projects.

This indirect cost of TIF to all the taxpayers of Chicago requires that it be used selectively and with the appropriate safeguards to ensure the highest return on their investment.

TIF Governance Roles and Processes

Governance Roles

Use of TIF in Chicago is governed by a review process that involves a diverse set of stakeholders including elected officials, City staff, Mayoral appointees, and representatives from the other taxing bodies that levy property taxes in Chicago. These groups are responsible for general oversight of TIF districts and projects and for managing all the processes related to designating districts and approving projects.

The roles and responsibilities of the various public individuals and entities related to TIF, including the key processes and procedures used to make decisions about where TIF districts are located and how TIF is used, are summarized in Table E.

* The exception to this case would be a TIF-assisted new property that fails the “but for” test (it would have been built even without the use of TIF). New construction is exempt from the PTELL so taxes on any new construction that would have been built without TIF can be considered a revenue loss for the overlapping taxing jurisdictions.

† Calculations of TIF impact are complicated by the PTELL, the state school aid formula, and the existence of intergovernmental agreements that provide TIF revenues for public projects such as the Modern Schools Across Chicago school construction program.

Table E: Governance Roles for Chicago TIF

Group	Current Role
<p>City Council</p> <p>50 Aldermen</p>	<ul style="list-style-type: none"> • Provide final approval for TIF district designations and private projects, SBIF/NIP allocations, and transfers to other governmental agencies • Represent local and City-wide stakeholders • Often instrumental in initiating districts in their ward, seeking public input on projects, and assisting developers in accessing TIF funding • Review private projects with DHED prior to TIF Task Force submission
<p>Joint Review Board</p> <p>Representatives from all taxing bodies involved with TIF* and a public member appointed by the Board</p>	<ul style="list-style-type: none"> • Review districts before designation • Recommend approval or disapproval of districts
<p>Community Development Commission</p> <p>15 members, appointed by the Mayor and confirmed by the City Council, including Commissioner of Chicago Dept. of Housing and Economic Development (DHED)</p>	<ul style="list-style-type: none"> • Approve district designations, private projects, SBIF/NIP allocations, and transfers to other government agencies
<p>TIF Task Force</p> <p>Leadership of DHED, Office of Budget and Management (OBM), Finance, Comptroller, and Mayor’s Office (economic development)</p>	<ul style="list-style-type: none"> • Prioritize TIF spending and review TIF projects • Provide final approval on public works projects to be completed by the City
<p>Department of Housing and Economic Development</p> <p>TIF Staff</p>	<ul style="list-style-type: none"> • Monitor and ensure compliance of private projects, SBIF/NIP allocations, and transfers to other government agencies • Provide recommendations on public works spending in context of TIF district requirements • Ensure affordability of projects and fit with district plans • Underwrite private projects

* Includes Cook County, City Colleges of Chicago, Chicago Park District, Chicago Public Schools, and City of Chicago.

<p>Supporting Departments</p> <p>Office of Budget and Management, Chief Financial Officer, Comptroller</p>	<ul style="list-style-type: none"> • Confirm financial viability of projects • Monitor district finances
<p>Sister Agencies (CPS, Chicago Park District) and Chicago Dept. of Transportation</p>	<ul style="list-style-type: none"> • Provide input about feasibility and need for projects within their purview • Confirm project required in their capital/maintenance plan • Confirm TIF as the appropriate funding source

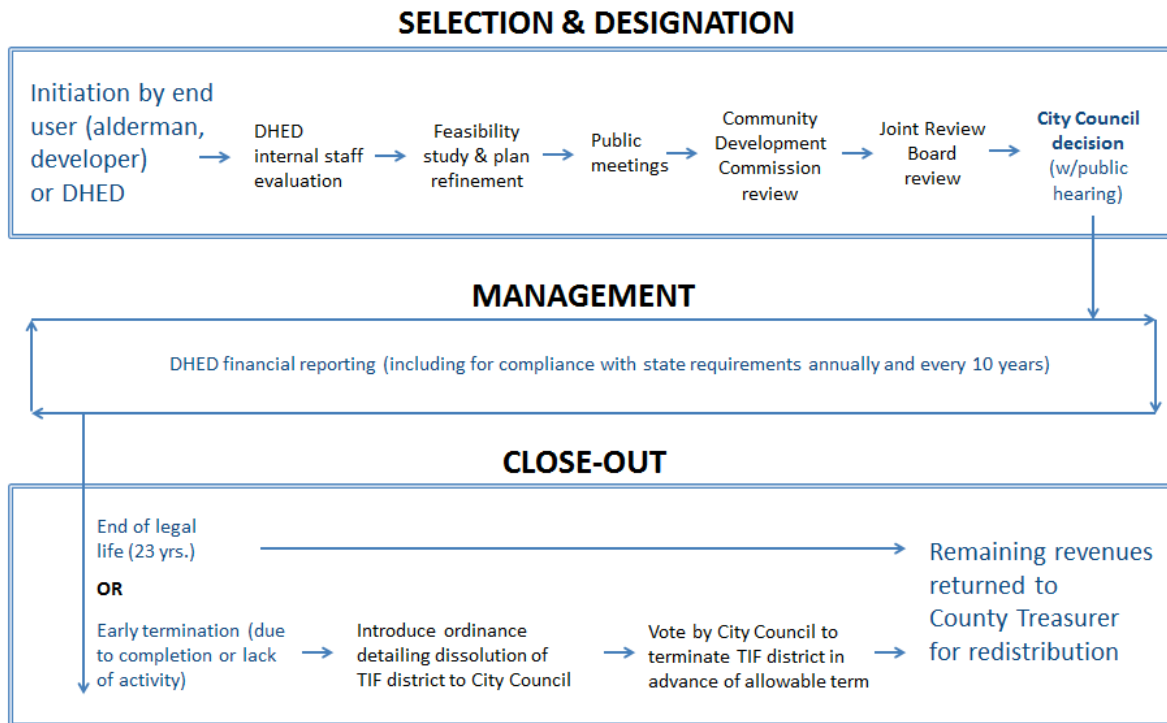
Processes and Procedures

There are existing processes for the designation, management and close-out of districts and projects that involve multiple City Departments and conclude with City Council approval. The project processes differ for different types of projects.

District-Level Processes

Designating a New District: To begin collecting tax increment and supporting development in a particular area, the City must go through a formal process to designate a new TIF district. The request to establish a new TIF district can be initiated from a variety of sources – the Department of Housing and Economic Development (DHED), an alderman, a developer, or a combination of all of them. At this stage a district redevelopment plan articulating economic development goals is created.

Chart H: Current TIF Processes: Creating, Managing and Closing a TIF District



The TIF designation currently starts with an informal internal evaluation of the opportunity by DHED. If this initial review suggests that the area would meet the statutory qualifications to become a TIF district and that tax increment financing would help stimulate development, DHED engages a consultant specializing in TIF to help prepare an independent eligibility study and redevelopment plan for the district. This eligibility study includes:

- a parcel-by-parcel survey of the presence of the required blight or conservation conditions
- a history of the area and description of current social conditions
- a housing impact study for districts with residential populations
- an outline of district goals and their connection to neighborhood objectives

Part of this process involves defining the borders of the TIF district; only parcels that are contiguous and that are anticipated to benefit from the district may be included.

If the consultant’s eligibility study demonstrates that the area qualifies for TIF district designation, DHED may elect to move the district forward in the process. At this stage, the alderman or aldermen in the impacted wards may also elect to hold a public hearing to solicit input from their constituents. Upon aldermanic signoff, the proposed TIF district must then be approved by the Community Development Commission (CDC), after a review process that includes a public hearing, and the Joint Review Board (JRB), which represents

all the overlying taxing districts impacted by the TIF district. City Council makes the final decision about designating a new TIF district.

Tracking Districts: The state mandates that the City comply with reporting requirements for districts, including an annual report for each district covering collections, expenditures by statutory category, existing private projects, and balance of funds. Every year the Department of Housing and Economic Development (DHED) submits these reports to the state and publishes them on its website in PDF form for the public.

Public Act 096-1335, an Illinois state bill signed into law on July 27, 2010, requires that DHED review each TIF district within 10 years of its establishment to evaluate its progress towards goals; these reviews have not yet been conducted. The report must evaluate the amount of revenue generated within the district, all expenditures made by the government for economic development within the district, the status of all planned TIF projects within the district and the amount of private and public investment within the district. In addition to state-mandated district-level tracking, DHED has in the past prepared district-level and ward-level brochures about TIF and TIF performance for aldermen to distribute to their constituents.

Closing a TIF District: A TIF district can be closed in two ways. First, a district expires automatically after 23 years, the statutorily-determined lifespan for a TIF district.* If the City decides that it would like additional time to help a district achieve its goals, it may petition the state legislature to extend the lifespan of that district for up to 12 years.

In the next 5 years (from 2012 to 2016) 16 TIF districts will expire. In 2009, these districts represented approximately 20%, or \$80 million, of Chicago's TIF collections. Once these districts expire, the unencumbered balance will be returned to the City's general fund and the corporate funds of the overlapping taxing bodies.

As noted earlier, without action, the effect of these expiring TIFs on the City General Fund would be to reduce the total amount of property tax revenue received by the City. In the case of the TIFs mentioned above, the City would receive approximately \$16 million rather than the full \$80 million. If the City allows a TIF District to expire without adjusting its General Fund levy, revenues to the City go down. When a TIF District expires the City can consider increasing its levy to capture the 80% of revenues now diverted to the overlapping taxing districts without increasing tax rates billed to taxpayers. In the next five years, this would result in moving \$80 million from the TIF Fund to the General Fund.

* Five districts in Chicago – Ryan/Garfield, Central Loop, Edgewater, Chinatown, and West Ridge/Peterson – have expired at the end of their 23-year life.

A TIF district can also be terminated by the City prior to maturity if it has either achieved all of its goals or if an extended period of inactivity or lack of investment indicates that additional development is unlikely. The recommendation to terminate a TIF district prior to maturity is generated from DHED in consultation with the Mayor's Office and the Department of Finance, and must be approved by ordinance by the City Council. All outstanding project-related and financing costs must be paid before the district can be closed.*

When a TIF district expires or is closed, any funds that remain in its balance are returned to the Cook County Assessor's Office. The County then distributes the TIF funds to the overlapping taxing districts based on the same taxing proportions that apply in non-TIF districts.†

Declaring and Distributing a Surplus: By state statute, at the end of each year any balance in a district that is not already encumbered by current projects or earmarked for future planned or anticipated projects should be declared as surplus and returned to the overlapping taxing districts. Because active districts have a variety of potential projects in various stages of the proposal and approval process, as well as a number of public infrastructure improvements needed to attract private investment, in practice most funds are encumbered, and declaring and distributing a surplus is a relatively uncommon event.

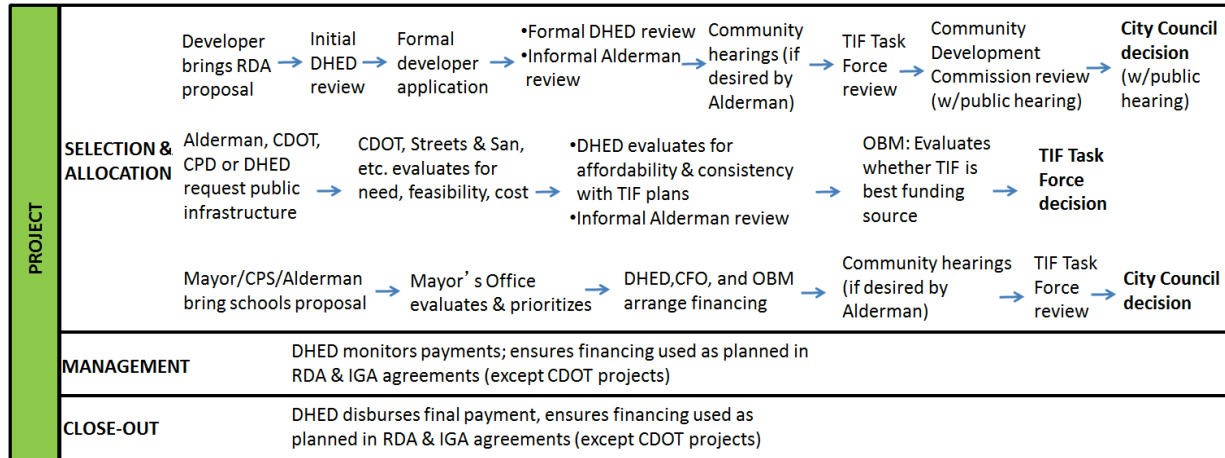
To declare a surplus, a proposal must be approved, in succession, by the Department of Housing and Economic Development, the TIF Task Force, and City Council. As when a district closes, once a surplus is declared the funds are returned to the Cook County Assessor's Office, which then distributes the funds pro rata to the relevant taxing bodies.

* Six districts in Chicago – 26th/Kostner, Addison/Kimball, Bloomingdale/Laramie, 43rd/Damen, Fullerton/Normandy, and Calumet/Cermak – were closed before the end of their 23-year term.

† Tax district ratios (share of property tax by taxing body) are Chicago Public Schools 50%, City of Chicago 20%, Cook County 10%, Chicago Park District 8%, Metropolitan Water Reclamation District 6%, City Colleges of Chicago 4%, Chicago Public Library 2%.

Project-Level Processes

Chart I: Current TIF Processes: Starting, Managing and Closing a TIF Project



Allocating Funds to a Private Project: The City’s current process for allocating TIF funds to a private developer can be initiated by a variety of sources. Once initiated, the task of evaluating whether the proposed project should receive City support begins with a preliminary evaluation by DHED to assess its merits and the applicability of TIF or other sources of economic development support. The plan for a potential project could go through a number of iterations during this early development stage before DHED (often in conjunction with the relevant alderman) determines whether to proceed. Many project proposals are rejected during this stage of the process, or the proposals change significantly based on these conversations.

If the developer decides to continue to pursue TIF support after the initial review process, he or she submits a formal application which includes a complete financial analysis of the proposed project. DHED’s assessment of this application includes, among other things, an evaluation of how consistent the proposed project is with the goals of the district redevelopment plan, and whether it meets the “but-for” test.* DHED also negotiates funding terms with the developer at this stage. Some aldermen conduct community hearings to solicit feedback about the proposal from affected constituents in their ward. A draft term sheet formalizes terms and conditions for development, including but not limited to job creation on the part of the developer and the mix of private and public funding to be spent on the project.

* The “but-for” test demonstrates the necessity of public funding for a project. A detailed definition can be found in the glossary.

Once a term sheet has been negotiated, DHED submits the proposal to the TIF Task Force. Currently, the TIF Task Force must concur that the project fits with the goals of the TIF district. They also must determine that there are sufficient funds available for the project to proceed. If the Task Force approves the project, it moves to the Community Development Commission, which votes on the proposal in a public hearing. Proposals that are approved by the CDC move to the City Council, which also votes in a public hearing. City Council approval is the final step in approving a project by a private developer.

Allocating Funds to Neighborhood-based Programs: Neighborhood programs (like SBIF and NIP) must pass through a series of assessments by the TIF Task Force, the Community Development Commission, and City Council to determine whether these programs will meet the redevelopment goals of the district. In the approval process, City Council allocates a lump sum of funds to be distributed to small business and property owners over the multi-year life of a TIF district. There is not a consistent set of criteria used by the City Council to determine how funds are allocated to these neighborhood-based programs. Moreover, City government is not directly involved in the allocation of funds to particular small business owners or property owners; instead, the City contracts with independent, non-profit agencies to process applications and distribute funds.

Allocating Funds to Other Government Agencies: Historically, the City has used TIF funds to support certain capital projects of sister agencies like Chicago Public Schools or the Chicago Park District. Generally the projects of sister agencies supported by TIF are evaluated using a process similar to the process described for private developers. The negotiated agreements are articulated in intergovernmental agreements (IGAs) between the City and the relevant agency.

Allocating Funds to a Public Infrastructure Project: The City has also allocated TIF funds to certain public infrastructure projects initiated by members of City Council or City departments like the Department of Transportation (CDOT). In a process similar to the one described above, DHED and OBM works with the relevant department, evaluates the request to determine its feasibility, estimates its cost, and provides an expert opinion about the relative merit of the project compared to other proposed uses in the district. The TIF Task Force then evaluates the request for its consistency with the TIF district redevelopment plan and for the appropriateness of TIF as the best funding source. Unlike the governmental transfers described above, the TIF Task Force has final approval for these public infrastructure expenditures. They do not require approval from the Community Development Commission or City Council.

Tracking Projects: DHED tracks and audits all TIF expenditures to ensure that funds are released and that expenditures are made consistent with the terms outlined in the RDA, IGA or department plan (in the case of public infrastructure projects). The City is also required by statute to prepare an annual report for all TIF districts within the City, which is filed with the Illinois State Comptroller.

In most cases, DHED monitors expenditures only while the City is still making payments. There is no periodic monitoring of projects to assess outcomes once projects have been completed, but in a few cases, specific metrics are outlined in the contract, such as a requirement that a company create a certain number of jobs for a certain number of years. In these cases, DHED will continue to track the project after the last payment has been made to ensure compliance. The application of these non-financial milestones has historically lacked consistency or consequences, particularly after funds have been disbursed.

Public Transparency

Information about TIF districts, projects, and processes has been limited since TIF was first used in 1983. However, more comprehensive information related to TIF has been available on the City of Chicago website since City Council passed the TIF Sunshine Ordinance in 2009. The Department of Housing and Economic Development has also prepared materials about ward-by-ward TIF activity for aldermen to use in communication with their constituents. DHED's website includes:

- Redevelopment plans and approval ordinances for every TIF district (PDF)
- Basic annual financial report for each TIF district including balance, collections, expenditures by statutory category, and current private projects (PDF)
- Web pages for every TIF district aggregating relevant information, including a district map and a description of goals
- Redevelopment agreements (RDAs) for private projects (PDF)
- Three-year district-level projections about collections, known and expected project expenditures, and ported funds. This information is a recent addition, developed through the Open Data Initiative. (searchable)

The Cook County Clerk's Office makes additional data about TIF available to the public. The County's TIF website includes:

- FAQs about TIF, and a "TIFs 101" primer for the public
- Maps of TIF districts in Chicago and suburban Cook County
- Reports about tax increment collected by TIF districts back to 2006 (PDF)
- Search function that enables taxpayers to see if their Property Identification Number (PIN) is in a TIF district, and how their property tax dollars are being distributed

Although there has been a significant increase in the amount of publically available TIF information in recent years, there is significant room to improve the presentation, aggregation and ease-of-use of TIF data. The recommendations section includes specific suggestions on improving transparency.

Context for Recommendations

The panel reviewed the processes that support TIF designation and allocation decisions and the outcomes achieved since 1983 by the City's use of TIF. Additionally, the panel solicited public input through interviews, an open public hearing, meetings with community groups and aldermen representing the views of their constituents, and review of the comments posted on the City's web-based TIF forum.

From those many sources, the panel identified contextual, performance, process and transparency concerns that the City must address to ensure that TIF reaches its full potential as a powerful tool for economic development.

Strategic Context

As the previous discussion illustrates, while the TIF process involves a number of different areas of City government, TIF allocations and TIF district designations have historically occurred independently of any City-wide economic development or financial strategy. In addition, the decision to allocate TIF funds to a specific project is made without reference to a comprehensive capital plan for the City and its sister agencies. Moreover neither a City-wide economic development strategy nor a City capital plan currently exists. While strategic components, such as the Five-Year Affordable Housing Plan, do develop goals for TIF usage within the context of larger aims, no City-wide economic development plan or capital budget has yet been created.

Therefore, the development of TIF district goals and decisions to allocate TIF funds to projects are not explicitly linked to the City's long-term plans. District-specific redevelopment plans often establish goals for job creation and increased EAV. To be eligible for TIF funding, projects must meet the goals set out in the district re-development plan. However, plans are designed to span a 23-year period, and thus, most district-specific goals are outlined in the broadest possible terms to allow for many possible project types over the life of the TIF, without reference to long-term City goals.

Finally, although TIF is an economic development tool that contributes to the health and vitality of the City, allocation of TIF funds and the financing mechanisms used to deliver TIF funds are sometimes applied with limited involvement from the City's Finance department. With greater involvement of the Chief Financial Officer's office, about types of financing and deal structures, there may be additional opportunities to maximize the impact of TIF dollars.

Process and Governance

Historically, the City's management processes and governance of TIF have emphasized statutory compliance rather than evaluation of outcomes. Many of the building blocks for effective processes are in place and the recent formation of the TIF Task Force has strengthened governance of TIF spending. However, there is need for clarification of the

roles of different bodies in TIF governance, strengthening the oversight function and implementing long-term monitoring to ensure that developments deliver the outcomes the City expects. These changes will require additional staff in the City dedicated to TIF and reorganization of some functions.

Performance Metrics and Standards

Performance data related to TIF is limited, and the data most easily accessed focuses primarily on TIF projects and related EAV growth. Moreover, the data tracked are not collected in a way that will identify opportunities to improve performance at the district level, or to facilitate more nuanced interpretation of performance at the project level.

Additionally, the TIF data that the City has previously made public focuses primarily on how much TIF funding was allocated rather than on performance and outcomes of those allocations. On the special web page and at the public hearing, many residents suggested that tailored performance thresholds be established for TIF districts and projects.*

Transparency and Accountability

TIF is a complicated mechanism that is difficult to explain. The manner in which the City has historically presented information on TIF has done little to change the public's skepticism about the TIF decision-making and funds allocation processes.

Even though the City makes a large amount of data about TIF available to the public, this data is not presented in an easy to access or understand format. Mostly presented in large PDF formats, it can be cumbersome to search and challenging for non-expert users to comprehend. As a result, interested stakeholders, including community groups based in TIF districts, developers and community-based organizations interested in TIF funding, academics, and members of the general public have expressed that they cannot currently access and manipulate City provided TIF information in ways that would be useful to them.†

* One user suggested, "performance standards and measures need to be made public prior to the awarding of TIF money."
<https://webapps.cityofchicago.org/TIFForumWeb/posts/list/5804.page>

† Several online comments provided suggestions about how to improve transparency. One comment proposed that "All PDF's should be searchable, with the ability to copy data onto a clipboard to post into other documents. I have found that in some instances, PDFs print blank pages, you can't copy data to be pasted, or search documents for keywords."
<https://webapps.cityofchicago.org/TIFForumWeb/posts/list/4804.page>

Future Vision

In the context of these challenges, the panel agreed on a set of principles to guide its recommendations:

- TIF can be a powerful tool for economic and community development. While many past investments have led to transformational change, the full benefits of TIF have yet to be realized.
- TIF will be most effective when funds are allocated to purposes that advance the City's overall strategic goals and are consistent with the City's economic development plan and long-term capital strategy.
- If meaningfully targeted to the needs of a given TIF district, neighborhood-specific goals in a district's redevelopment plan can drive decisions about projects and specific metrics for that district. Each district's priorities should be reflected in the goals of projects supported by TIF funding in each district.
- Clear metrics for individual projects, districts, and projects/districts in aggregate will make it possible to assess district and project performance. Some metrics (such as increases in property value) should be tracked for all TIF investments, while others should be assessed according to the type of district or the category of project.
- Transparency of TIF performance and processes will improve accountability by providing the public with sufficient information and means to understand and evaluate TIF outcomes.
- Evolving community needs and economic development priorities require flexibility in the use of TIF, which should not diminish accountability for proposed outcomes and agreed-upon commitments. Rather than specifying the exact manner in which TIF funds are allocated, accountability should be driven by clear expectations of outcomes, tracking of their achievement, and consequences if they are not met.

Recommendations

As stated earlier, TIF is a powerful investment tool that should continue to support economic development in the City; however, to date, the City of Chicago has not published a comprehensive policy to govern the establishment of TIF districts and the oversight of TIF expenditures. The following recommendations are designed to help the City create a TIF policy that ensures maximum return on TIF dollars while bringing efficiency, accountability, and transparency to the City's use of TIF.

After gathering, reviewing, and evaluating data from a variety of sources (public input, interviews, etc.)^{*}, the TIF Reform Panel developed a set of recommended reforms designed to improve the manner in which the City (i) establishes goals; (ii) allocates resources; and (iii) monitors performance. These reforms will (iv) increase accountability for TIF spending and (v) set expectations for the City to take decisive action. To deliver these reforms the City must (vi) enhance the oversight and administration of TIF processes and expenditures, including empowering a new internal governing body to provide oversight, leadership and ownership for Chicago's TIF fund in the aggregate.[†]

- 1. Establish the City's TIF Goals.** The Mayor's Office should develop a multi-year Economic Development Plan that is then submitted to the City Council for consideration. The Economic Development Plan should guide all future TIF district designations and project allocations.
- 2. Allocate Resources.** The City should create a multi-year Capital Budget that is then submitted to City Council for consideration. The Capital Budget should detail the funding of City infrastructure needs, including those articulated in the Economic Development Plan. All TIF infrastructure allocations and porting decisions should be made in accordance with the Capital Budget.
- 3. Monitor Performance.** The City should establish a series of metrics for its use of TIF. These metrics will be used to benchmark (1) TIF district and project performance in aggregate; (2) alignment with the Economic Development Plan; (3) achievement of district-specific goals appropriate for district type (i.e., industrial,

^{*} To view online comments or listen to the TIF Reform Public Hearing in its entirety visit www.cityofchicago.org/tiftaskforce

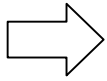
[†] This body will replace the recently created ad hoc TIF Task Force (includes the Commissioner of the Department of Housing and Economic Development, the Director of the Office of Budget and Management, the Chief Financial Officer, and Deputy Mayor for Economic Development (who also chairs the Mayor's Economic, Budgetary, and Business Development Council), as well as the City Comptroller who serves in an advisory capacity) is currently charged with oversight. A permanent internal governing body must have clear accountability, leadership, decision rights and a better defined position in the organizational structure of the City.

commercial, residential or mixed use); (4) programmatic characteristics (TIF-NIP, TIFWorks, SBIF, etc.) and (5) project-specific characteristics. The City will compile and report these metrics on a regular basis.

- 4. Increase Accountability.** The City should make the justification for public funding of private projects more explicit, monitor projects more systematically to ensure recipients of TIF funding meet their obligations and ensure there are consequences for not delivering expected returns on public investment.
- 5. Take Action.** The City should set and manage to performance thresholds for districts and projects. Every five years TIF districts should be subject to strategic reviews which lead to continuation of the district, revision of the strategy, or more significant change.
- 6. Enhance Oversight and Administration.** The Mayor should empower an internal body with clear accountability for all aspects of TIF, and ensure that staff and organizational capacity exists to execute recommendations and provide effective oversight.

Taken together, these reforms will bring efficiency, accountability, and transparency to the City's use of TIF and will help it to meet its long-term economic needs and objectives.

Establish the City's TIF Goals



The Mayor's Office should develop a multi-year Economic Development Plan that is then submitted to the City Council for consideration. The Economic Development Plan should guide all future TIF district designations and project allocations.

Overview. The City should create an Economic Development Plan that outlines local development goals, objectives and milestones. The Economic Development Plan will provide City officials with a platform to create long-term economic development goals and priorities. As the City's objectives change over time, the Economic Development Plan will evolve as well. The Economic Development Plan would provide input to TIF decision making by guiding investment priorities.

By developing a plan that takes a long-term view and provides a vision for Chicago's growth and prosperity, City leaders can apply a more focused approach to the designation of TIF districts and allocation of funds to TIF projects. The Economic Development Plan will serve as a guideline for all future TIF district designations and project allocations. For a TIF district or TIF project to be approved, the district or project must demonstrate that it advances the Economic Development Plan.

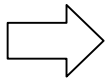
Responsibility. The Economic Development Plan should be prepared under the leadership of the Mayor's Office and submitted to City Council for consideration. The plan should be updated on a regular basis. As part of the TIF designation and allocation application, the City should demonstrate how a potential TIF district or project meets the goals and objectives of the Economic Development Plan.

Efficiency. Utilizing the Economic Development Plan for all TIF district designations and project allocations will maximize the impact of TIF investments, since TIF dollars will be allocated directly to projects that align with the City's desired economic development strategy.

Accountability. The City should make available via its website district Redevelopment Plans, the Economic Development Plan and TIF project RDAs. Moreover, the City should certify as part of the designation process that future TIF districts align with the Economic Development Plan. By making this information publically available, the City will enable interested stakeholders to evaluate the City's use of TIF funds.

Transparency. The Economic Development Plan is a public document that articulates the City's long-term economic development goals and priorities.

Allocate Resources



The City should create a multi-year Capital Budget that is then submitted to City Council for consideration. The Capital Budget should detail the funding of City infrastructure needs, including those articulated in the Economic Development Plan.

Overview. Future TIF spending should be incorporated into the City's comprehensive capital budget to ensure that TIF investment is coordinated with other funding sources available to the City and that TIF is the appropriate funding source for proposed projects. Including TIF funds in a multi-year Capital Budget for the City will help to ensure that future spending will be less reactive and will assist the City in better optimizing the allocation of scarce resources among itself and its sister agencies.

By providing a clear directive as to how TIF resources should be allocated, the City can ensure that TIF investment will:

- Be systematically coordinated with other funding sources available to the City
- Undergo the same scrutiny as other funding sources
- Be appropriately used as a funding source.

As TIF projects are considered for approval, the **projects should be selected according to their ability to advance the goals of the City's Capital Budget** in addition to fitting in with the district redevelopment plan.

As part of this capital planning process, **decisions about porting funds between districts should be made and communicated.** Although porting funds is frequently an effective way of maximizing the impact of TIF for Chicago, it should be used only when high-impact opportunities arise. Before porting takes place the City should be required to demonstrate how porting would advance the objectives of the Capital Budget plan, the interests of the districts involved, and the economic development priorities articulated in the City's plan. The City should make the decision transparent and explain its rationale publicly before transferring funds.

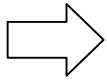
Responsibility. The capital budgeting process should be led by the Office of Budget Management. The City Department of Finance is responsible for assessing the most appropriate way for the City to fund its capital needs. The City should submit the Capital Budget to City Council for consideration.

Efficiency. TIF funding is unique within City capital spending because it accumulates within a specific location for a specific purpose: delivering economic and community development. However, TIF planning should be part of the City's overall capital spending program and its incorporation into the Capital Budget will ensure the appropriate use of this funding source.

Accountability. Because future TIF allocations must be budgeted, the City can ensure that TIF spending undergoes the same scrutiny as other funding sources. The TIF application should include a certification that the proposed project was included in the capital budget.

Transparency. The Capital Budget should be posted on the City's website. As stated above, applications for TIF project funding would include a certification that the proposed project was included in the capital budget and TIF project RDAs should also be posted on the City website. The City should communicate porting decisions in advance, allowing time for public comment and reaction. The City should make public all Intergovernmental Agreements (IGAs) related to TIF, to aid public understanding of the flow of such capital funds across City agencies.

Monitor Performance



The City should establish metrics for its use of TIF.

Overview. *To ensure that TIF is meeting expectations* and to provide public information about the status of TIF districts and projects, each year the City should publish data for the following **metrics** measuring overall TIF performance:

Table F: Recommended Metrics for Tracking TIF Districts and Projects in Aggregate

Element	Metric	Description and Purpose
Overview	Total number of TIF districts created - categorized by blighted, conservation, or industrial jobs recovery	Statutory rationale for district creation
	Total funds collected	Collections in TIF districts for the year
	Total TIF spending by appropriate district and project categories	Snapshot of TIF spending by category
Impact	Incremental EAV growth of TIF districts as a percent of City average for each year and versus growth in the prior period	Measure of relative property values and tax contribution of TIF districts – should expect to see higher growth than non-TIF areas
	Private investment – total \$ of investment attracted	Total private investment in TIF projects. Reflects the scale of private investment generated by TIF.
	Jobs – total new jobs created and existing jobs retained	Jobs created/retained as defined in TIF project commitments. Total job impact of TIF.
	Affordable housing – total units/square feet	Affordable housing as defined in TIF project commitments. Total affordable housing impact of TIF.
Efficiency	Ratio of private to public investment	Total dollars of private investment divided by the public contribution to private TIF agreements. Shows how efficient TIF has been in encouraging private investment.
	\$ spent per job attracted/retained	Total new or retained jobs associated with TIF projects, divided by the public TIF contribution to those projects

To demonstrate correlation with the Economic Development Plan, the City should compile and report metrics that reflect the priorities of the Economic Development Plan. For

example, if creating high quality jobs is a priority the City should also track wages of TIF jobs versus the City average.

To evaluate and compare district performance consistently, the City should track performance against its specific TIF economic development goals (jobs, private investment, EAV growth) and community development goals (local priorities, housing, elimination of blight, neighborhood anchors). In addition, every district should be measured according to a set of metrics that cascade down from the aggregate level. The panel recommends that the City compile and report data for the following district-level metrics:

Table G: Recommended Metrics for Tracking Individual TIF Districts

Element	Metric	Description and Purpose
Overview	Cash in and out of the district	Basic financial health and magnitude of the district
	Spending by type of project	Summary of TIF spending in the district
	Private developer investments by type	Summary of private investments leveraged by TIF funding in the district
	Public investments by type	Summary of public investments funded by TIF in the district Summary of non-TIF public investment in the district
Impact	Incremental EAV growth of district as a percent of City average for each year	Scaled indicator of how successful the district has been. If the district community and economic development strategy is successful this figure should generally be higher than 100% (though it could be successful and below 100% if EAV erosion would have occurred absent TIF funds)
	Private investment – total \$ of investment attracted	Sum of all private investment on TIF projects - scale of district private investment
	Jobs – total new jobs created and existing jobs retained; wages	Sum of new/retained jobs in the district – scale of district job impact
	Affordable housing – total units/square foot	Sum of all affordable housing units created or renovated through TIF projects – scale of affordable housing impact

Efficiency	Ratio of private to public investment	Private investment on TIF projects divided by the public investment on those projects – compares efficiency of TIF spending in attracting investment across districts
	\$ spent per job attracted/retained	Public investment in job-creating/retaining TIF projects divided by number of jobs – compares efficiency of TIF spending on jobs across districts

Each district should be tracked on consistent metrics that allow comparison across all districts in the City. Some metrics will be less significant for certain types of districts (e.g. affordable housing in an industrial district). Reporting should also enable staff to outline specific district goals and show progress toward them.

To ensure that targeted TIF programs (e.g. SBIF, NIP) are being administered according to the City’s overall goals, the City should make district-level commitments to these programs and track their performance. The City should compile and report the following metrics for TIFWorks, SBIF and NIP programs:

Table H: Recommended Metrics for TIFWorks, SBIF and NIP

Program	Metric	Description and Purpose
TIFWorks (workplace training)	Number of people receiving training	Scale of TIFWorks in the district
	\$/trainee	Cost and efficiency of training
	Average graduate wage versus City average	Impact on career of trained workers
Small Business Improvement Fund (SBIF)	Total # of SBIF projects, jobs created/retained and \$ spent	Scale of SBIF program in a district
	Ratio of private to public investment	Use of private funds in supporting SBIF projects
	\$ spent per job attracted/retained Wages	Efficiency in increasing employment
Neighborhood Improvement Program (NIP; also known as NIF)	Total # of NIP projects, units and \$ spent	Scale of NIP in a district
	Average income of recipients as percent of Area Median Income	Success in targeting homes that may not undergo improvement without TIF
	Ratio of private to public investment	Use of property owner funds in supporting NIP projects

To evaluate and compare project performance consistently, the City should track performance against the strategy and objectives of a given TIF district while demonstrating that expenditures comply with the requirements for TIF funding. It should be demonstrated that TIF is the right source of funding for all approved projects, and that those projects are consistent with the comprehensive Capital Budget.

The panel recommends that the City compile and report the following project-level metrics:

Table I: Recommended Metrics for Tracking TIF Projects

Type of Project	Metric
General (all)	<ul style="list-style-type: none"> • Cash In/Cash Out: \$XX/\$YY • Ratio of Private to Public \$ invested (current and projected at completion): X:Y • Expenditures by type: \$XX • EAV of properties: \$XX
Residential	Permanent housing units created or rehabilitated (affordable and total)
Industrial/Commercial	Jobs created/retained
Public infrastructure	<ul style="list-style-type: none"> • Park space rehabilitated • Schools constructed or maintained • Project-specific public infrastructure metrics (e.g. number of green alleys, miles of bike lane) Other public infrastructure metrics (e.g. park space rehabilitated, schools constructed or maintained, etc.)
Ratio of private to public investment	Use of private funds in supporting SBIF projects

Responsibility. The new TIF Administration Division of the Department of Housing and Economic Development* will be responsible for compiling and reporting TIF performance metrics.

Efficiency. Applying the metrics discussed above to the management of TIF will provide an objective framework to assess the performance of TIF districts, projects, programs and processes. These metrics should be used to facilitate decision making about TIF districts and projects, enhancing the credibility of the City’s use of TIF.

* Please refer to “Recommendations/Enhance Oversight and Administration” for a further discussion of recommended organizational changes.

Accountability. The metrics described above should be reported regularly on the City’s website. Information should be offered at each stage of a TIF district’s life: at designation, while ongoing, and at close-out. At the designation stage, district-level information should include a list of projects currently under consideration, the district development plan and its economic and neighborhood goals, and eligible project cost information. In addition, Aldermen representing wards where a new district is proposed should hold at least one public hearing prior to the approval of that new district.

Transparency. The City should publish a basic district performance dashboard (see Chart J) providing an overview of the district, reporting basic financial information, and showing performance measured against the key district metrics described above.

The City should also compile a project-level dashboard (see Chart K) to ensure projects are achieving their stated objectives and the objectives of the district in an efficient fashion. Prior to TIF project approval, the City should ensure that the relevant project thresholds are incorporated into the redevelopment agreement, and that the project advances the strategy and objectives of the district.

Chart J: Sample District Performance Dashboard

District Management Dashboard (Annual)

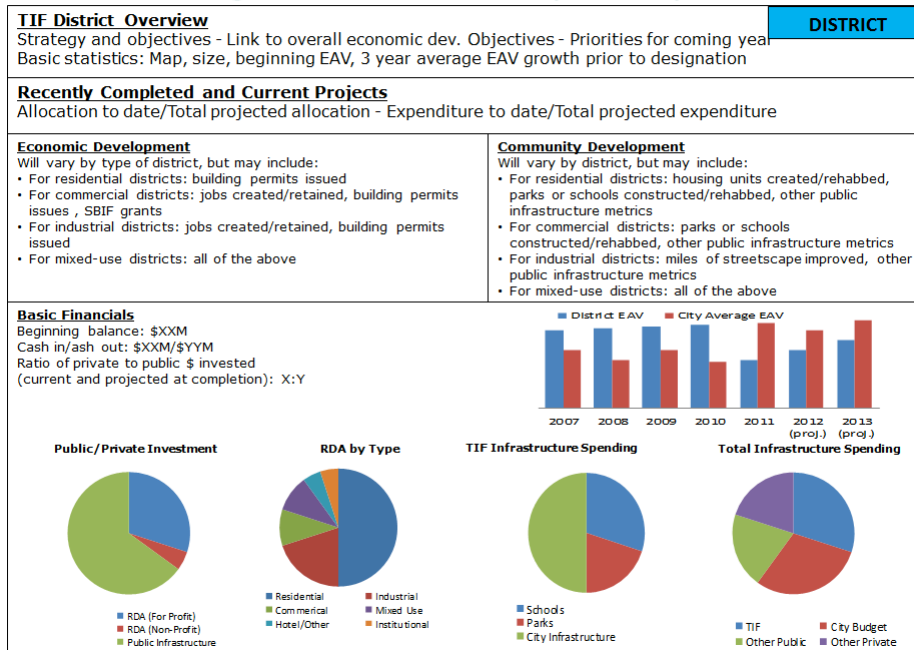
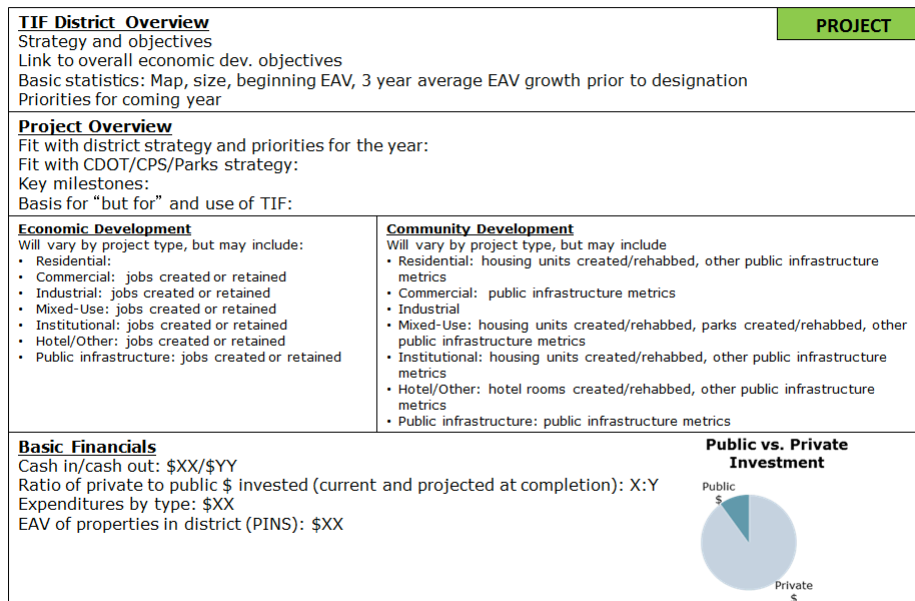
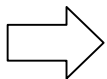


Chart K: Sample Project Management Dashboard

Project Management Dashboard



Increase Accountability



The City should make the justification for public funding of private projects more explicit, monitor projects more systematically to ensure that recipients of TIF funding meet their obligations and ensure there are consequences for not delivering expected returns on public investment.

Overview. The previous section outlined a set of consistent metrics the City will use to manage TIF decision making, track achievement of thresholds, and achieve a greater level of transparency. Collecting and publishing this information will enable Chicago residents to better understand the use of TIF funds, the performance of TIF districts, and the rationale for TIF decisions. Transparency will raise awareness and allow the public to determine whether the City is using TIF as a well-managed, strategic economic development tool.

However, testimony at the public hearing and submissions to the website make it clear that the public also demands greater accountability from the recipients of TIF investment. To that end, the City should take steps to ensure that TIF funding is needed definitively for private projects, that the City is monitoring performance against commitments and that there are consequences for accepting public money and not delivering promised outcomes.

The first step to delivering greater accountability is to **strengthen, standardize and communicate justification that private TIF projects meet the “but-for” test**. As part of TIF statutory requirements, every private project must provide available justification that the “but-for” test has been met. It must be shown that private projects would not proceed in their proposed form and/or location without TIF investment.

The “but-for” test should be a challenging hurdle to meet. A particular challenge is that the higher the leverage of the project (ratio of private to public investment), the harder it becomes to prove the investment would not occur without TIF spending. The City should publish the “but-for” justification for approved projects.

To make it easier for the public to understand the rationale for TIF funding for a project, the City should adopt standard categories of justification and make available the analyses it undertakes to determine whether a project requires TIF assistance. For example, justification could include:

- **Economic Viability** – The “but for” test must show that the developer returns are so dependent on the TIF funds, that the project would not proceed without it. This is oftentimes the hardest “but-for” rationale to prove.
- **Location** – The test could demonstrate that the project would not proceed without TIF funding in a specific district the City has targeted for economic development.
- **Affordable Housing** – TIF funding could enable a development to provide a greater number of affordable housing units than it would otherwise achieve.

- **Historic Preservation** – TIF funding could enable a development to maintain architecturally significant elements that would be lost if the project proceeded without public money.
- **Competition** – In some instances (e.g., corporate headquarters) TIF funding would not impact whether the project proceeded, but might impact whether it proceeded in Chicago. In other words, in the absence of TIF funding, the project would locate in a different city.

The “but-for” test is difficult to prove as it requires assumptions about the future that are inherently uncertain and TIF funding is always just one of many factors affecting expected returns that the private developer will be evaluating. These proposals demand a higher level of “but-for” analysis and justification from the City in order to improve transparency and accountability.

In addition to ensuring the “but-for” test has been met, the City should **implement a system of long-term monitoring for all private TIF projects**. Every redevelopment agreement the City enters into requires commitments from private developers on specific outcomes (e.g., more and better jobs, affordable housing, workforce development efforts, energy efficiency improvements) that the recipient must deliver in exchange for TIF funding.

The City currently has little leverage to hold private developers accountable for the success of projects after funds have been disbursed. The City has been able to ensure that TIF funds are spent as planned, but commitments are often expected after the bricks and mortar investment is complete. The City should support the Department of Housing and Economic Development in implementing a system for long-term monitoring of TIF projects, which would ensure that the private enterprises that accept TIF funds deliver on their commitments.

To deliver true accountability, **consequences for failing to deliver should be developed, agreed to, and enforced**. Currently, RDAs include terms outlining consequences when private developers do not deliver agreed-upon results; however, in the absence of long-term monitoring these consequences are typically not enforced. If a private developer accepts public money for a project, it is vital that they take responsibility for delivering their commitments and that the City holds them accountable for this. Long-term monitoring will provide the information required, but the City must be willing to enforce agreements and where necessary claw back TIF funding.

The City will need to exercise its judgment in determining when funds should be returned. Many commitments, such as new jobs, can be impacted by circumstances beyond the control of developers. Because circumstances change, determining whether a TIF recipient has taken appropriate steps will require assessment of all of the facts.

Responsibility. The Department of Housing and Economic Development is responsible for confirming the “but-for” standard has been met and for implementing a long-term

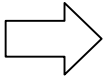
monitoring system. Consequences should be managed by the internal governing body, and the appropriate legal and financial officers of the City would be involved in execution.

Efficiency. These reforms will ensure that the City is using TIF funding where needed and that expected benefits are delivered.

Accountability. These changes require that the recipients of TIF funding are accountable and provide the City with the tools to manage public investments.

Transparency. Standardized “but-for” justifications should be made public once a project is approved for TIF funding, and the City should publish data on the TIF recipients that are not in compliance with commitments. Both of these items should be part of standard project-level reporting conventions.

Take Action



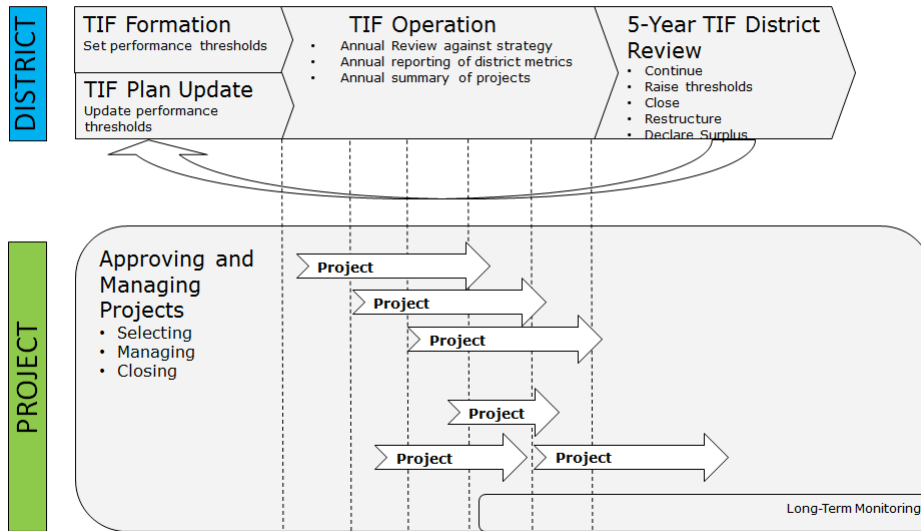
The City should set and manage to performance thresholds for districts and projects. Every five years TIF districts should be subject to strategic reviews that lead to continuation of the district, revision of the strategy or more significant change

Overview. Performance on the metrics outlined in the previous section is impacted by several factors including age of the district, type of district, and/or geographic location. However, the City must act on the metrics being tracked, to manage tax dollars efficiently while maximizing return on investment. This can be achieved by formulating performance thresholds to evaluate each metric on the program, district and project levels. Acceptable performance would be evidenced by meeting or exceeding the thresholds, and while each threshold would have to take into account the underlying characteristics of the specific district or project, the results could be used to justify subsequent investment decisions when reporting to stakeholders, including the public.

As part of its TIF review process, ***the City should establish and publish performance thresholds*** for all of the metrics adopted as part of this reform. These thresholds should be included as part of the district and project dashboards and summarized in the TIF Annual Report. The City should use these performance thresholds to establish future investment criteria. For example, a 15-year-old TIF district that has achieved or exceeded the threshold level for every district metric might be deemed a success. Future investments within that district would then have higher targets for job creation or EAV to warrant investment. Conversely, that same district may have to show lower unobligated balances for those monies to be deemed “surplus” and returned to the overlapping districts.

In addition, these ***performance thresholds should be applied to the strategic review of each TIF District.*** These reviews should be conducted every five years, with each 10-year review coinciding with the statutory requirements for reporting. The level of detail required for the five-year review will be determined by the governing body and will depend on the performance of the district, as monitored annually. The review should assess whether the district is meeting its performance objectives and delivering on its strategy.

Chart L: Proposed TIF District Review Processes



The results of this five-year review would then lead to one or more of the following courses of action:

- Continue – If the district is meeting threshold performance and the original justification for the district exists, there may be no changes required.
- Revise thresholds – When a district is successful – meeting thresholds and delivering on its strategy – the conditions in the district may have improved significantly. In such instances the bar for justifying the use of public funds may have risen, and the City may set higher thresholds for that district.
- Close the district – If the district is not meeting its performance objectives (as evidenced in part by unmet thresholds), it should be considered for closure. If the district has met its strategic objectives and the original intent of the TIF district no longer applies, it should also be considered for closure.
- Update the TIF redevelopment plan - If the district is meeting performance criteria but the strategy for that community has changed (or it has not delivered on its strategy), a new strategic plan should be formulated.
- Declare a surplus – When a district is performing well (consistently exceeding thresholds) and delivering on its strategic goals, the collection of increment may exceed the demand for projects that advance district goals and Chicago’s economic development priorities. In these cases declaring a surplus should be considered.
- Prepare for Expiration – Prior to the end of a district’s 23-year life-cycle, the City should consider adjusting the General Fund levy to keep property tax revenues constant. If the district has potential to continue to meet its strategic objectives, the City should consider applying for up to a 12-year extension from the State.

The City should **produce an Annual Report on strategy and performance**, which will be far more comprehensive than the current financial annual reporting. This report will detail spending and activity in each district, results achieved and performance on the districts' general and specific metrics against the plan.

Responsibility. The TIF governing body would have responsibility for establishing performance threshold levels, conducting strategic reviews and recommending action. The TIF Administration Division of the Department of Housing and Economic Development* will be responsible for compiling and reporting the thresholds and producing the TIF Annual Report.

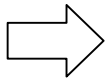
Efficiency. Adopting criteria for performance via these thresholds will help the City push the metrics to action points that will allow it to manage tax dollars efficiently while maximizing return on investment.

Accountability. Threshold criteria will be articulated by the TIF governing body and published on the City's website. Future actions will also be reported against previously established criteria. In addition, based on the performance thresholds the City should establish and adhere to higher investment criteria for higher-performing districts.

Transparency. The City should make all data related to outcomes available via its website. In addition, performance thresholds will be included on the district and project dashboards. Threshold criteria for action steps will be articulated and published on the website. Future actions will also be reported against previously established criteria.

* Please refer to "Recommendations/Enhance Oversight and Administration" for a further discussion of recommended organizational changes.

Enhance Oversight and Administration



The City should enhance the oversight and administration of TIF districts, projects and processes.

Overview. The recommendations in this report greatly increase the City’s monitoring and reporting related to TIF, require more active performance management and call for enhanced oversight. To be successful in these goals, the City should empower an internal body appointed by the Mayor with clear accountability for all aspects of TIF. In addition the City should increase staff to administer these reforms ensuring that the City has the resources necessary to execute recommendations and support effective oversight.

The City should empower an internal body to provide oversight and set thresholds.

The recently created ad hoc TIF Task Force* is currently charged with oversight. The Mayor should appoint a permanent internal governing body with clear accountability, leadership, and authority relative to TIF. This entity would review proposed TIF projects and enact the recommendations in this report, including but not limited to review of TIF district performance and district and project compliance with approved policy and issuance of a five-year TIF performance report (described further above). This internal body, which should contain senior leadership and cross-functional expertise, should convene regularly. It should oversee the issuance of a TIF Annual Report detailing TIF financial performance, accomplishments, strategy for the future and priorities for the each subsequent year (described further below).

TIF oversight should be strengthened by improving communication and coordination with the Community Development Commission (CDC). The City should regularly advise the CDC of all TIF projects by district. At present the CDC only reviews private developer agreements, but it should also receive reports on all TIF district spending. In addition, the CDC should approve the TIF Annual Report.

In addition to the oversight role played by this internal body ***dedicated staff should be identified and supported to administer the City’s use of TIF and implement the reforms described herein.*** A TIF Administration Division (TIF Admin) should be created within the Department of Housing and Economic Development. TIF Admin would have primary responsibility for annual TIF reporting, supporting meetings of the senior internal body responsible for senior oversight and guiding districts in achievement of their goals.

* The TIF Task Force includes the Commissioner of the Department of Housing and Economic Development, the Director of the Office of Budget and Management, the Chief Financial Officer, and the Deputy Mayor for Economic Development (who also chairs the Mayor’s Economic, Budgetary, and Business Development Council), as well as the City Comptroller who serves in an advisory capacity.

Currently, the City uses approximately \$9.3 million from TIF funds to pay all administrative costs associated with TIF (including City staff and external services). This represents 2.7% of TIF expenditures. The Panel supports **increasing the amount of TIF funds allocated to administering TIF to pay the costs of implementing the reforms recommended herein**. It is estimated that the cost of increased transparency and reporting, implementation of long-term monitoring, more extensive community outreach, and more detailed district planning would add an additional 2%. This, combined with already planned program enhancements (e.g., expansion of TIFWorks, improved marketing of TIF) would bring the total administrative and management budget for TIF in Chicago to less than 5% of the total expenditure. No General Fund monies would be used to fund TIF administrative activities.

In addition to the new staff functions, the City should **clarify the roles of supporting departments**. Supporting financial departments should be held responsible for developing the comprehensive Capital Budget and optimizing the financial structure of TIF. The Mayor's Office would oversee the development of the economic development plan for the City, which would be used to guide TIF decision making. The Office of Budget and Management would take a more active role in comprehensive capital planning and ensuring TIF spending fits within existing plans. The CFO would be responsible for developing a sound financing strategy for the City's use of TIF.

In this proposed model the departments would have operational responsibility and accountability. The internal body would be empowered to enact this report's reforms; the CDC would continue to provide oversight; and the ultimate responsibility for representing the views of Chicago citizens would remain with the Aldermen. Increasing staff support would facilitate the increased accountability and flow of information required for effective TIF governance.

Expanding Impact

There are a number of opportunities that the City could consider to expand the impact of TIF. Before these opportunities can be considered, the City should adopt the recommendations contained in this report, thereby providing the basis for accountability for TIF performance and increased public confidence in the City's use of TIF as a tool for economic development. The panel does not endorse any particular expansion in use, but does see a number of potential opportunities to augment the impact of TIF. These opportunities would require further evaluation and would need to be implemented within the context of the City's Economic Development Plan and Capital Budget.

If these conditions are met, the City should evaluate 1) options which are currently allowable under Illinois state law but have not been practiced in Chicago, 2) options that provide different funding delivery vehicles that might require a change in state law, and 3) changes to City policy and strategy regarding the goals and role of TIF in economic development that may also require changes to state law.

1. Utilize Full Range of Currently Allowable Uses

Provide low-interest loans to developers. Currently the City offers TIF funds as grants via two main mechanisms – developer notes and pay-as-you-go. A third approach, offering loans instead of or in addition to grants, could greatly expand the impact of TIF funding. However, the City would need to be careful that repayments and interest are applied only to TIF purposes, according to the specifications of the TIF Act.

Batch TIF developer notes. TIF grants from the City are dependent on project completion and/or meeting milestones. Many private developers take out loans or issue bonds against the future cash flow of TIF funds from the City. There are two issues with this arrangement: (1) smaller businesses, particularly in blighted neighborhoods, may not be able to raise the capital necessary to bridge this waiting period and (2) the cost of borrowing and the complexity of individual bond creation may be greater than necessary. One solution might be to batch these loans into City-managed developer bonds. This would allow greater participation in TIF by smaller private developers in neighborhoods with limited access to credit and deliver lower interest rates and fees than individual loans and bond issuances. The City of Chicago should only take this action to address market inefficiencies, not to replace the function of existing lenders.

Allow the City to participate in private development upside. Where appropriate, consider structuring public investment in private TIF projects such that the City may participate in upside potential. Sample uses of this investment structure could include developments where sale prices or rents significantly exceed the expected values in the "but for" analysis, small equity stakes in early stage enterprises and proceeds from sales of developments prior to all RDA commitments being met.

Create specialized districts via strategic TIF investments (e.g., innovation, manufacturing). TIF strategy can target the development of innovation districts that foster and nurture new media, business incubators, technology parks and similar projects. Similarly, TIF could focus its strategic development of industrial districts on sub-sectors of manufacturing that demonstrate strong growth and emerging longevity: specifically, small, nimble manufacturing companies.

Use TIFWorks to encourage manufacturing workforce development.

The City should devote a certain percentage of funds from the TIFWorks program to developing the next generation of the manufacturing workforce. Given that manufacturing plays a crucial role in fostering innovation and creating better-paying jobs for workers of all skill levels, the City should actively work to ensure that the workforce needs of its manufacturing sector can be met now and in the future. Specially designated TIFWorks manufacturing funds could cover workforce training costs for urban manufacturers located within the City's TIF districts. To ensure efficient use of City resources, smaller manufacturers should be encouraged to form consortia that collaborate on the development and implementation of TIFWorks-funded manufacturing training efforts.

Act as an "incubator of incubators." With small businesses and entrepreneurs serving as engines of job growth, many cities have become home to business incubators. The City's role could be as an "incubator of incubators," supporting the different models and clusters of firms incubated to graduate and occupy space in innovation districts. TIF funds can be used to acquire, rehabilitate and wire building space for the individual incubators as well as provide a steady stream of revenue to support the management of the incubators. Given the need to prepare firms for export potential, particular focus should be given to embedding state-of-the-art technology to link entrepreneurs to potential customers in global markets.

2. Employ new delivery vehicles and mechanisms for TIF funding and investment (upon changes to state law)

Pool tax increment from multiple TIF districts to support programs with a city-wide benefit (such as those that address a particular problem, like lack of affordable housing or food deserts.)

Pay redevelopment project costs across all TIF districts. This practice could have the effect of spreading TIF costs and giving access to more resources to districts in which the increment has not yet accrued sufficiently to use toward development incentives.

Create a venture fund from TIF increment to make funds available for businesses throughout the city, not tied to any particular geographic location. All projects would still need to meet the goals related to jobs and economic development, set for all proposed

TIF projects. Such a venture fund could be structured to enable the City to reap economic benefits when supported businesses grow and succeed.

Allow broader use of porting. For example, one approach could be “Robin Hood” porting, which allows a city to transfer TIF funds from a district that has a surplus to a district where less-than-average increment has been generated. Dallas offers a form of Robin Hood porting through its transit-oriented development TIF program.

Evaluate district consolidation opportunities. An alternative mechanism to broader porting could be the consolidation of contiguous districts. Fewer, larger districts would make it easier to allocate TIF funds to the City’s economic development priorities and would be easier to manage and monitor. Despite the attraction of consolidation there are significant barriers – differences in district ages would make it a complex process and it would need to be shown that the original intent of districts was not being lost.

3. Develop new strategies for TIF investment to build Chicago’s post-recession economy (upon changes to state law)

Emphasize investment in key industries such as green development, clean technology, and energy efficiency. The pre-recession use of TIFs, in Chicago and elsewhere, was focused on stimulating housing and consumption-related (e.g., retail) investments. Sector-specific approaches should be taken to increase investments in the targeted growth of new industries. All such investments should be made in the context of the City’s overall economic development strategy.

Impact regional development. The multi-year economic development plan will analyze opportunities in the context of the greater Chicago region. To fully support this broader perspective on economic development, TIF strategy may benefit from a more regional approach to some projects. If so, this may require consideration of changing the law to enable multiple municipalities to pool TIF resources to advance regional projects.

Expand allowable uses of TIF beyond bricks and mortar. Currently, non-bricks-and-mortar investment is possible in limited ways, such as job training programs, and preliminary analysis indicates that more uses may be possible, even within the current law. To expand fully beyond current limitations, however, changes in law may be required.

Utilize TIF to address vacant lots and abandoned buildings throughout the city. A clear message from the public hearing was the desire to see TIF money used to address vacant land and buildings in blighted neighborhoods. These are visual reminders of economic stagnation, magnets for crime, and a drag on surrounding property value, as well as a drain on City services. A key barrier to more activity in this area is the exclusion of new construction from allowable uses set by state law (other than for affordable residential units). A change in law to allow more new construction and

demolition/reconstruction would open up significant opportunities for the City to make high-impact improvements in particularly blighted districts. Allowing the broader use of TIF funds for new construction could be applied to specific types of districts and projects.

APPENDICES

- Appendix A: Benchmarks and Interviews
- Appendix B: Illinois State Law
- Appendix C: Glossary
- Appendix D: Analysis of Illinois TIF Act – Provided by Ice Miller LLP

Appendix A: Benchmarks and Interviews

The panel's research included conducting extensive benchmarking of several other U.S. cities, including:

- Allegheny County, PA
- Atlanta, GA
- Dallas, TX
- Kansas City, MO
- Minneapolis, MN
- Washington, DC

Additionally, the following individuals and TIF experts contributed their expertise and ideas through interviews:

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Paul Zalmezak, Coordinating Planner, Development Finance Division, Chicago Department of Housing and Economic Development

Appendix B: Illinois State Law

The parameters of Chicago's tax increment financing program are governed by Illinois state law, which specifies that TIF funds are to be used for one of three purposes, to:

1. Remediate blight
2. Prevent an area (known as a "conservation" area) from deteriorating into a blighted situation, or
3. Foster industrial development (an "industrial park conservation area").

Illinois law establishes a range of conditions that qualify an area for TIF designation, including: dilapidation, obsolescence, deterioration, presence of structures below minimum code standards, illegal use of individual structures, excessive vacancies, lack of ventilation/light/sanitary facilities, inadequate utilities, excessive land coverage and overcrowding of community facilities, deleterious land use, the need for environmental clean-up, lack of community planning, or a lack of growth in "Equalized Assessed Value" (a measure of property values) for three of the previous five years.

To designate a new TIF district, municipalities must demonstrate either blight (defined as the significant presence of five of these conditions) or conservation (the significant presence of three of these factors in an area in which most of the buildings are over 35 years old). Additionally, the municipality must also apply a "but-for test" to any proposed TIF district, addressing how the blighted conditions in the district will not be addressed without public action – that "but for" the public investment provided through the TIF, effective redevelopment or development will not occur.

In addition to determining the types of areas and efforts that qualify for TIF designation, state law determines the kinds of expenses that can be paid for with TIF dollars, including:

- Costs of studies and professional services for TIF districts and projects (e.g. engineers, accountants, and City administration costs)
- Property assembly costs, including purchasing land, buildings, or renovation rights
- Rehabilitation and renovation of existing properties
- Job training and day care for the employees of businesses in a TIF district
- Relocation of private businesses, in cases in which moving an existing business is necessary for a TIF project to move forward
- New low-income housing units
- Public works including streets and infrastructure, schools, parks, public transportation, and other municipally-sponsored capital projects
- Financing costs, such as debt service for TIF-related bonds or repaying developers for the interest they incur on TIF-related loans

Appendix C: Glossary

Affordable housing. Housing is considered “affordable” when housing costs equal 30% or less of a family or individual’s income.

But-for test. Analysis to determine whether a TIF project or district requires public investment. To designate a new TIF district in the State of Illinois, a municipality must demonstrate that the physical and economic conditions in the area would not be addressed if not for the funding provided by TIF. It must be shown that “but-for” the public investment provided through TIF, effective redevelopment would not occur. Within a TIF district, a similar test applies to proposed projects: for a proposed TIF project to receive TIF funding, it must be shown that the project would not occur in the desired form and location if not for the support provided by TIF funds.

Blight. A significant presence in a given area of at least five of a set of conditions laid out by Illinois law: dilapidation, obsolescence, deterioration, presence of structures below minimum code standards, illegal use of individual structures, excessive vacancies, lack of ventilation/light/sanitary facilities, inadequate utilities, excessive land coverage and overcrowding of community facilities, deleterious land use, the need for environmental clean-up, lack of community planning or a lack of growth in “Equalized Assessed Value” (EAV, a measure of property values) for three of the previous five years.

Central Loop Improvement Fund (CLIF). TIF program through which low-interest loans were offered to Central Loop businesses that would not otherwise qualify for TIF funding.

City Chief Financial Officer. City official responsible for establishing and implementing long-term financial plans and policies for the City and for managing the City’s overall debt profile.

City Council. Chicago’s legislative body, made up of 50 aldermen, one from each Chicago district. It meets once a month to vote on all proposed loans, grants, bond issues, mayoral appointees and other financial appropriations. City Council provides final approval for TIF district designations, private projects, SBIF/NIP allocations and transfers to other governmental agencies.

Commercial development district. A TIF district formed to fund commercial real estate development. The 60th/Western TIF district, a 150-acre district created in 1996, aims at making Western Avenue between 59th and 63rd streets a top shopping destination for residents of Chicago Lawn and adjacent communities. The Irving/Cicero TIF district, another commercial development district, aims at combatting disinvestment in the area’s retail sector by funding land assembly and preparation initiatives, improvements to streets and rehabilitation and renovation costs.

Community Development Commission. Group made up of 15 members appointed by the mayor and confirmed by City Council. The CDC reviews and recommends action to the City Council on the establishment of new Tax Increment Financing districts, Redevelopment Area designations and appointment of members to Community Conservation Councils.

Conservation area. An area where most of the buildings are over 35 years old and there is significant presence of at least three of the following factors: dilapidation, obsolescence, deterioration, presence of structures below minimum code standards, illegal use of individual structures, excessive vacancies, lack of ventilation/light/sanitary facilities, inadequate utilities, excessive land coverage and overcrowding of community facilities, deleterious land use, the need for environmental clean-up, lack of community planning or a lack of growth in "Equalized Assessed Value" (EAV, a measure of property values) for three of the previous five years.

Cook County Assessor's Office. Responsible for setting fair and accurate values for 1.8 million parcels of Cook County property. Also works with other government agencies to stimulate economic development, job creation and the construction of affordable housing.

Debt service. The repayment of principal, interest and other costs on loans or other incurred debt.

Department of Housing and Economic Development (DHED). Responsible for promoting economic development by helping existing businesses grow and by attracting new industry to the City. The department also leads Chicago's affordable housing, housing preservation and community-based homebuyer assistance programs, as well as the City's zoning, land use planning, sustainability and historic preservation initiatives.

Encumbered. Funds are considered "encumbered" when they are committed for current, planned or anticipated projects.

Equalized Assessed Value (EAV). The final taxable value of a property or area, assuming that no tax exemptions are applied. The Cook County Assessor's Office is responsible for 'assessing' properties in Cook County, a process designed to place a value on pieces of property for tax purposes. To ensure that property is assessed fairly throughout the State of Illinois, the assessed value of property is multiplied by an equalization factor, yielding the property's equalized assessed value. The equalization factor is used to ensure that the property values calculated for taxing purposes are determined fairly throughout Illinois.

Green Roof Improvement Fund (GRIF). TIF program through which grants were given to Central Loop businesses to design and implement rooftop gardens.

Increment. When a TIF district is created, the Estimated Assessed Value (EAV) of property in the district becomes 'frozen.' Taxes collected on this base level of EAV continue to be distributed to the overlapping taxing districts. However, for the lifetime of the TIF district, any growth in the EAV of property in the district is considered "increment." Property taxes collected on the increment goes into a separate account that is used to pay for public and private TIF-related projects in that district. Illinois state law places limits on the purposes for which these revenues may be used.

Industrial development district. A TIF district formed to fund industrial real estate development and job creation. One example of an industrial development district is the Stockyards Southeast Quadrant TIF, a district that was created to strengthen the economic well-being of businesses in the area. Area projects have included soil remediation and

analysis, public works, and upgrades to area utilities. Another industrial development district is the 105-acre 73rd/Kedzie TIF district. The district was designed to promote job retention and creation at Nabisco's bakery, which occupies more than half of the district. The district also supports job training programs and improvements involving land assembly and parking.

Industrial park conservation area. An area within one and a half miles of a municipality that, within the last six months, has had unemployment levels greater than 6% and greater than 100% of the national average. The area must also be located adjacent to a blighted or conservation area, and contain vacant land suitable for use by any manufacturing, industrial, research, or transportation enterprise.

Intergovernmental agreement (IGA). A compact between multiple government bodies binding one or multiple parties to a set of stipulations.

Metrics. Measures by which data are evaluated and tracked.

Monitoring. Before distributing funds to private developers, the Department of Housing and Economic Development (DHED) monitors all TIF projects to ensure that the terms of the redevelopment agreement have been met. For example, an employer might promise to create a certain number of jobs in exchange for TIF funding; DHED is responsible for ensuring that these commitments have been met.

Multi-purpose district. A TIF district formed to fund some combination of commercial, industrial and/or residential real estate development.

Neighborhood Improvement Fund/Neighborhood Improvement Program (NIF/NIP). TIF program offering grants to help residents and landlords make improvements to their residential buildings.

Office of Budget and Management (OBM). Responsible for preparing and implementing the City's annual budget. Also evaluates the efficiency of all City operations, and drives management reforms that enhance the City's financial condition.

Porting. The practice of taking TIF funds collected in one TIF district and spending them in an adjacent district.

Redevelopment agreement (RDA). An agreement between the City and a private developer stipulating the terms of public support for a private project. Through RDAs, the City is often able to bind developers to certain commitments: for example, a developer may promise to create a certain number of jobs or maintain some quantity of affordable housing units. An RDA may contain estimated project costs, conditions for receiving public funds and other details.

Residential development district. A TIF district formed to fund residential real estate development. The 47th/State TIF district, a residential development district created in 2004, has served to facilitate the Chicago Housing Authority's redevelopment of the Robert Taylor Homes housing complex as a pedestrian-scale, mixed-income, residential community. In the 47th/State district, TIF funds have been used to support the development of owner-occupied

housing units and aid land assembly efforts for new development projects. In the Madden/Wells TIF district, nearly 300 rental and for sale residential units at the Oakwood Shores apartment complex were made possible through \$6.6 million in TIF assistance.

Small Business Improvement Fund (SBIF). A TIF program offering grants to small businesses to subsidize certain capital improvement costs.

Senior housing. Housing units reserved for individuals 55 years old and older.

Surplus. By state statute, at the end of each year any balance in a TIF district that is not already encumbered by current projects or earmarked for future planned or anticipated projects should be declared as surplus and returned to the overlapping taxing districts. Additionally, when a TIF district is dissolved, all remaining unencumbered funds are returned to the overlapping taxing districts.

Tax increment financing (TIF). A financing tool that encourages economic development in economically challenged communities through the creation of "TIF districts."

TIF district. An area within which some property taxes are put in a fund used to finance development projects. An area must be shown to be blighted, a conservation area, or an industrial park conservation area to qualify for TIF district status.

TIF Task Force. An internal committee created by the previous Mayor to review TIF projects and provide final approval on public works projects completed by the City. The committee is comprised of the Commissioner of the Department of Housing and Economic Development, the Director of the Office of Budget and Management, the Chief Financial Officer, and the Deputy Mayor for Economic Development (who also chairs the Mayor's Economic, Budgetary, and Business Development Council), as well as the City Comptroller who serves in an advisory capacity.

TIFWorks. A TIF program used to fund the training of Chicago workers. Most TIFWorks funding is used to train incumbent employees.

Analysis of Illinois TIF Act

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BACKGROUND

You asked us to provide a breakdown of the TIF legislation in Illinois. Specifically, you asked us to describe (i) the requirements under Illinois law for (a) establishing a TIF District, (b) allocating the tax increment generated after the TIF District is established, (c) extending the TIF District and (d) “porting” the tax increment from one TIF District to another and (ii) the allowable uses for the tax increment.

You also asked us to discuss the City of Chicago’s use of TIF, as well as any components of the Illinois TIF legislation that the City does not currently utilize. In addition, you asked us to discuss any additional City ordinances governing the establishment of TIF Districts or the allocation of TIF funds. As a last point, you asked us to discuss possibilities for amending the TIF legislation in order to expand the scope.

The following is a summary of our findings, along with a more detailed analysis. We used the Tax Increment Allocation Redevelopment Act, 65 ILCS 5/11-74.4-1, *et seq.*, relevant case law, the Municipal Law and Practice in Illinois (IICLE, 2000, Supp. 2003) (Chapter 27 – Tax Increment Allocation Financing) and our experience interpreting the TIF legislation for municipalities throughout Illinois as sources for our analysis. Should you have any additional questions, please do not hesitate to contact us.

I. SUMMARY

Tax Increment Financing or TIF is a local economic development tool created under state law to enable units of local government, such as the City of Chicago, to encourage and facilitate public and private investment in the development or redevelopment of areas located within the municipality that meet certain conditions of blight, decay or underperformance. The TIF structure enables a municipality to stimulate new private investment in the development or redevelopment of an area. The investment is accomplished by providing financial support to redevelopment projects that address "blighted areas" or treat and improve "conservation areas" and "industrial park conservation areas". The source of revenue for the investment is the incremental growth in property tax revenue that is generated within the area as a result of the redevelopment projects.

Once a TIF redevelopment project area (or a "TIF District") is established, the initial assessed value of each parcel within the area is determined and established as the "base" amount. The new, additional property tax revenue generated from increases in the assessed value of the property in the TIF District over the "base" amount is collected into a special fund (the "Special Tax Increment Allocation Fund") while the TIF structure is in place. This new property tax revenue, rather than being available to all of the taxing bodies that overlay the TIF District, is available to the municipality to invest in the TIF District by reimbursing TIF eligible public and private redevelopment project costs.

In Illinois, a TIF District can be established pursuant to the following four statutes: (i) the Tax Increment Allocation Redevelopment Act, 65 ILCS 5/11-74.4-1, *et seq.* (the "TIF Act"), (ii) the Industrial Jobs Recovery Law, 65 ILCS 11-74.6-1, *et seq.*, (iii) the County Economic Development Project Area Property Tax Allocation Act, 55 ILCS 85/1, *et seq.*, and (iv) the County Economic Development Project Area Tax Increment Allocation Act of 1991, 55 ILCS 90/1, *et seq.* The TIF Act is the statute that has been used most frequently by Illinois municipalities and will be the primary structure discussed herein. The Industrial Jobs Recovery Law authorizes TIF for redevelopment of certain vacant industrial buildings, environmentally contaminated areas, or areas with chronic unemployment. The other two TIF statutes are available in limited circumstances to certain counties.

The TIF Act outlines a number of requirements that must be satisfied for an area to qualify for tax increment financing. The two threshold requirements involve (i) qualifying the area as a blighted area, a conservation area, or an industrial park conservation area, or some combination of these qualifications, based on the physical and economic conditions in the area which are present to a meaningful extent throughout the proposed redevelopment project area and (ii) finding that the area as a whole has not been subject to growth, thereby demonstrating that these conditions would not be addressed without some local action or "but for" the public or private investment provided through the TIF Plan. Along with meeting these requirements, the municipality must also prepare a written redevelopment plan that describes the actions that the municipality intends to take to improve the area and the budget, including an estimate of the project costs payable from the TIF. The municipality must create an interested persons registry and must make the redevelopment plan available for public inspection. Municipal officials and a

Joint Review Board, made up of representatives from the municipality and the local taxing bodies that overlay the area, must review the redevelopment plan to provide their input and make a recommendation to the municipality. Following this, a public hearing must be held so that residents and other interested parties can express their thoughts on the redevelopment plan. Once these steps are completed, the municipality approves establishment of the TIF District by approving three ordinances: (i) Approving the TIF Plan; (ii) Designating the Redevelopment Project Area; and (iii) Adopting Tax Increment Financing.

The TIF Act provides that the revenue generated in a TIF District can be used to pay or reimburse redevelopment project costs – costs that are reasonable or necessary costs incurred or estimated to be incurred or that are incidental to a redevelopment plan and a redevelopment project. The TIF Act specifies several eligible uses, but also provides that the list is not inclusive of all eligible costs. Generally (with some restrictions), the revenue may be used for costs relating to the administration of the TIF redevelopment project, studies, surveys and plans, property acquisition, demolition and site preparation, the rehabilitation or renovation of existing public or private buildings, the construction of public works or improvements, job training, relocation expenses, financing costs (including interest write-down), the marketing of sites within the TIF District and professional services, such as architectural, engineering, legal, and financial planning. Specifically excluded are costs of construction of new private buildings and municipal buildings providing certain services unrelated to the TIF District. Again, the threshold requirement is that the cost qualify as a redevelopment project cost under the TIF Act.

While the TIF Act expressly prohibits the cost of construction of new privately-owned buildings as eligible redevelopment project costs, it does not have any such prohibition against the cost of construction of new publicly-owned buildings that have a private-use if the building is a public works, is for a public purpose and is not being used for any of the restricted uses for publicly-owned buildings as described in the TIF Act.

Typical projects include (i) the redevelopment of substandard, obsolete, or vacant buildings, (ii) financing general public infrastructure improvements, including streets, sewer, water, and the like, in declining areas, (iii) the development of residential housing in areas of need, (iv) cleaning up polluted areas, (v) improving the viability of downtown business districts, (vi) providing infrastructure needed to develop a site for new industrial or commercial use and (vii) rehabilitating historic properties.

The TIF Act also enumerates specific powers for municipalities once the TIF District has been established. If the municipality is home-rule, the municipality could also exercise any power within the TIF District that it could otherwise exercise pursuant to its home-rule authority. However, because such home-rule authority does not extend to the Special Tax Allocation Fund, we believe that a municipality – home-rule or non-home rule – can only allocate or expend the funds in the Special Tax Allocation Fund pursuant to the specific authority provided for in the TIF Act to make such allocations or expenditure. Therefore, the municipality's authority to exercise control over the funds in the Special Tax Allocation Fund and allocate the TIF increment is limited to the authority specifically enumerated in the TIF Act.

One power specifically enumerated in the TIF Act is the power of the municipality to use tax increment from one TIF District to reimburse redevelopment project costs in another TIF

District that is either contiguous or is separated by only a public right of way. While the TIF Act requires contiguity to "port" tax increment from one TIF District into another, an argument can be made that porting can effectively be performed across numerous contiguous TIF Districts.

Under the TIF Act, a TIF District can exist for up to 23 years and the TIF Act requires a municipality to provide certain information about the TIF District annually during the life of the TIF and to provide certain other information not later than 10 years after the TIF District is established. A TIF District may be dissolved earlier by the establishing municipality after all redevelopment project costs (including any financing obligations) have been paid. A TIF District may be extended beyond the 23 year term for up to an additional 12 years. However, such extension requires the approval of the Illinois General Assembly and is accomplished by amending the TIF Act. Once the TIF District is dissolved, the full tax base for the area becomes available to all taxing bodies for their benefit throughout the future.

There are powers under the TIF Act that have not been used by the City of Chicago that should be explored to facilitate economic development. For example, providing low-interest loans to developers instead of grants is worthy of consideration. However, care must be taken to ensure that uses of TIF funds and any returns or repayments received are also used consistent with the TIF Act.

We recommend that efforts be taken to amend the TIF Act to expand the scope of tax increment financing as a tool for economic development. Certain states, such as Indiana, have a broader scope of potential uses. However, while amending the TIF Act to expand the scope would be useful, legislation has been recently proposed in the Illinois General Assembly that would have the opposite effect of limiting the use of TIF in Illinois.

II. ESTABLISHING A TIF DISTRICT

The TIF Act authorizes Illinois municipalities to use TIF if they have a redevelopment project area that qualifies as a "blighted area," a "conservation area," an "industrial park conservation area," or a combination of these areas. A proposed redevelopment project area must be at least one and one-half acres in size, must be contiguous, and must contain only properties that will be "substantially benefited" by the proposed redevelopment plan and project.

The requirements for qualifying as a "blighted area," a "conservation area," or an "industrial park conservation area" are outlined under the section "Requirements for Classifying the Project Area" with more detail provided in the Appendix. Qualifying under these requirements generally serves to substantiate that there are physical conditions and economic deficiencies in the redevelopment project area that need to be addressed for public interest purposes. In addition to qualifying under the above-mentioned requirements, the municipality must also demonstrate that 'but for' the public investment to be provided through the TIF, effective redevelopment or development to address the conditions in the project area would not occur.

A municipality may conduct a formal feasibility study in the process of establishing the eligibility of the proposed redevelopment project area for TIF, but the TIF Act does not expressly require a feasibility study except in one specific instance. If one of the purposes of the proposed redevelopment project area can be reasonably be expected to result in the displacement of residents from ten or more inhabited residential units, the municipality must conduct a feasibility study which includes a housing impact study. If a municipality does conduct a feasibility study, the TIF Act requires that a copy of the ordinance or resolution it adopts to authorize the study be sent to the taxing districts that overlay the proposed TIF District.

Once the threshold requirements of (i) qualifying the proposed redevelopment project area as a "blighted area," a "conservation area," or an "industrial park conservation area" and (ii) demonstrating that the project for the proposed redevelopment project area would not occur "but for" the TIF public investment, are satisfied, the municipality can initiate the process to formally establish the proposed redevelopment project area as a TIF District.

In doing so, the TIF Act requires the municipality to (i) prepare a written redevelopment plan that describes the project and the municipality's objectives, (ii) create an interested persons registry, (iii) make the redevelopment plan available for public inspection, (iv) provide notice of the public hearing, (v) convene a Joint Review Board of affected taxing districts, (vi) conduct a public hearing, and (vii) adopt an ordinance formally approving the redevelopment plan, designating the redevelopment project area and adopting TIF for said TIF Redevelopment Plan and Area.

The TIF District can be established for a specific project or can be established as an "area-wide" TIF District. The latter is more commonly used in the City.

Redevelopment Plan

- The redevelopment plan must include:

- An itemized list of estimated redevelopment projects and project costs;
- Evidence indicating that the redevelopment project area on the whole has not been subject to growth and development through investment by private enterprise;
- An assessment of any financial impact of the redevelopment project area on or any increased demand for services from any taxing district affected by the plan and any program to address such financial impact or increased demand;
- The sources of funds to pay costs;
- The nature and term of the obligations to be issued;
- The most recent equalized assessed valuation of the redevelopment project area;
- An estimate as to the equalized assessed valuation after redevelopment and the general land uses to apply in the redevelopment project area; and
- A commitment to fair employment practices and an affirmative action plan.

If a municipality desires to propose a redevelopment plan for a redevelopment project area that would result in the displacement of residents from 10 or more inhabited residential units or for a redevelopment project area that contains 75 or more inhabited residential units (absent the municipality certifying it will not displace 10 or more inhabited residential units), the municipality must (i) prepare a housing impact study that is to be incorporated into the redevelopment plan and (ii) hold a public meeting before it gives notice of the public hearing. The TIF Act requires certain information to be included in the housing impact study and also require the study to be incorporated into the redevelopment plan.

If the proposed redevelopment project area is an industrial park conservation area, then (i) the affected parcels must be zoned as industrial no later than at the time the municipality designates the area; and (ii) the municipality must qualify as a "Labor Surplus Municipality" whereby any time during the 6 months prior to designating the area, the unemployment rate was over 6% and also 100% or more of the national average unemployment rate for that same time. If the property is to be annexed to the municipality, the terms, of the annexation agreement must also be included in the plan.

Interested Parties Registry

The TIF Act requires municipalities to create an "interested parties registry" for activities related to redevelopment project areas and to establish a reasonable process for registering for the registry. At a minimum, the process must allow for a renewable period of registration of not less than three years and for notification to registered organizations and individuals. Notice that the registry is available and that interested persons may register to receive information on the proposed redevelopment plan and redevelopment project area must be printed in a newspaper of general circulation in the municipality.

Availability of Redevelopment Plan and Notice of Public Hearing

Before a municipality holds the required public hearing and not less than 10 days prior to setting a date for the public hearing, it must make the proposed redevelopment plan or a separate report that provides in reasonable detail the basis for the proposed area's eligibility as a redevelopment project area available for public inspection. The TIF Act requires notice of the public hearing both by publication and by mailing. Notice must be published twice with the first publication made thirty days or less, but at least ten days before, the public hearing. These notices must be published in one or more newspapers having a general circulation within the affected taxing districts. Not less than 45 days prior to the date set for the public hearing, the redevelopment plan or eligibility report, notice of the public hearing which includes an invitation to submit comments to the municipality, and the time and place of the first meeting of the Joint Review Board must be sent by certified mail to each affected taxing district that overlays the project area and to the Illinois Department of Commerce and Economic Opportunity (DCEO). After the public hearing date is set, the municipality must also, not less than 10 days prior to the hearing, mail certified notice of the public hearing to the person or persons in whose name the general taxes for the last preceding year were paid on each lot, block, tract or parcel of land lying within the redevelopment project area. Notice of the public hearing and the availability of the redevelopment plan or eligibility report must also be sent by US Mail and within a reasonable time after setting the date for the public hearing to those individuals or organizations that have registered on the municipality's interested parties registry and to all residential addresses that, after a good faith effort, the municipality determines are located outside of the proposed redevelopment project area and within 750 feet of the boundaries of the proposed redevelopment project area. For redevelopment project areas with redevelopment plans or proposed redevelopment plans that would require removal of 10 or more inhabited residential units or that contain 75 or more inhabited residential units, the municipality shall make a good faith effort to mail a notice of the public hearing to all residential addresses located within the redevelopment project area.

The TIF Act requires that all mailed and published notices include:

- the time and place of the public hearing;
- the boundaries of the proposed redevelopment project area by legal description and by street location when possible;
- a notification that all interested persons will be given an opportunity to be heard at the public hearing;
- a description of the redevelopment plan or redevelopment project for the proposed redevelopment project area if a plan or project is the subject matter of the hearing; and
- such other matters as the municipality deems appropriate.

Convene a Joint Review Board

Prior to holding a public hearing on the redevelopment plan, the TIF Act requires that the municipality convene a Joint Review Board to review the public record and the proposed

redevelopment plan and make a recommendation to the municipality to approve or disapprove the proposed redevelopment plan and designation of the redevelopment project area. In making its recommendation, the Joint Review Board assesses whether the proposed redevelopment plan and project area satisfy the plan requirements, the eligibility criteria, and the objectives of the TIF Act, all discussed above. The TIF Act provides that the Joint Review Board is to hold its first meeting at least 14 days after the mailing of notice of the public hearing to the affected taxing districts and make a written report to the municipality detailing its review within 30 days of its first meeting. If the Joint Review Board does not make such a report, the TIF Act provides that (a) its failure to make a written report shall not cause any delay in the TIF process and (b) the taxing bodies will be presumed to have concurred with the municipality's findings.

The Joint Review Board must be made up of (i) a representative selected by each community college district, local elementary school district, and high school district or each local community unit school district, park district, library district, township, fire protection district, and county that will have authority to levy taxes on the property within the proposed redevelopment project area at the time it is designated, (ii) a representative selected by the municipality, and (iii) a member from the public, chosen by a majority of the other members (if the proposed plan will result in displacing residents from 10 or more inhabited residential units or includes 75 or more inhabited residential units, the public member must be a resident of the proposed redevelopment project area, or if the majority of residential units involved are occupied by very low-, low-, or moderate-income households, the public member must be a person who resides in very low-, low-, or moderate-income housing in the area; provided, however, if no person meeting these requirements is available or willing to serve, the public member can be any person selected by a majority of the Joint Review Board).

If the Joint Review Board's recommendation is to disapprove the proposed redevelopment plan and designation of the redevelopment project area, the municipality will have 30 days within which to resubmit the redevelopment plan. If the municipality is not able to obtain a recommendation from the Joint Review Board to approve the proposed redevelopment plan, the municipality may choose to proceed with the proposed redevelopment plan upon a three-fifths vote of the corporate authorities responsible for approval of the redevelopment plan.

The TIF Act also provides that the municipality shall annually submit a TIF Annual Report to the State Comptroller no later than 180 days after the close of the municipal fiscal year or as soon thereafter as the municipality's audited financial statements for that fiscal year becomes available. An annual meeting of the Joint Review Board is then required to review the effectiveness of the redevelopment plan and status of the redevelopment project area up to that date.

Hold the Public Hearing

The TIF Act requires the corporate authorities of the municipality to conduct public hearing that includes a detailed description of the proposed redevelopment plan and project and a discussion of any contemplated financing. The TIF Act also requires that all interested persons be given an opportunity to be heard at the hearing.

Introduce TIF Ordinances

Not sooner than 14 days and not later than 90 days following the final adjournment of the public hearing, the municipality must introduce an ordinance approving the redevelopment plan and project and an ordinance designating the redevelopment project area. The TIF Act requires the municipality to make the following findings before adopting an ordinance approving a redevelopment plan and project:

- 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;
- the redevelopment plan and project conform to the comprehensive plan for the development of the municipality as a whole or, for municipalities with a population of 100,000 or more, regardless of when the redevelopment plan and project were adopted, the redevelopment plan and project either (a) conform to the strategic economic development or redevelopment plan issued by the designated planning authority of the municipality or (b) include land uses that have been approved by the planning commission of the municipality; and
- the estimated dates of completion of the redevelopment project and of retirement of all obligations incurred to finance redevelopment project costs are not later than December 31 of the year in which the payment to the municipal treasurer of tax increment is to be made with respect to ad valorem taxes levied in the 23rd (or the 35th, if the life of the TIF District has been extended by the state legislature) calendar year after the year in which the ordinance designating the redevelopment project area was adopted.

In connection with the adoption of an ordinance involving a redevelopment plan for an industrial conservation area, the municipality must also make a finding that (i) the affected parcels have been zoned as industrial no later than at the time the municipality designates the area; and (ii) the municipality qualifies as a "Labor Surplus Municipality" whereby any time during the 6 months prior to designating the area, the unemployment rate was over 6% and also 100% or more of the national average unemployment rate for that same time.

Municipalities also typically adopt the three ordinances to establish the TIF District at this stage as previously described in Section II. The ordinance adopting the TIF District generally also establishes the "special tax allocation fund," which is the fund designated to receive the incremental revenues derived from the redevelopment project area.

Establishing the Base Equalized Assessed Valuation for the TIF District

Pursuant to the TIF Act, after the municipality adopts an ordinance adopting the TIF and establishing the TIF District, the municipality is to transmit a certified copy of the ordinance, a legal description of the redevelopment project area, identification of the year to be used in determining the total initial equalized assessed value of the redevelopment project area, and a list of the parcel or tax identification number of each parcel of property included in the redevelopment project area to the county clerk. The county clerk then determines "total initial

equalized assessed value" of the taxable real property within the project area – also known as the “base value”.

Amending the Redevelopment Plan

Before the TIF Ordinance is Adopted:

- Changes that do not (i) add additional parcels of property to the proposed redevelopment project area, (ii) substantially affect the general land uses established in the proposed redevelopment plan, (iii) substantially change the nature of or extend the life of the project, or (iv) increase the number of low-income or very-low-income households being displaced, can be made without further public hearing. However, the taxing districts and each registrant on the interested parties registry must be notified of the changes by the municipality by mail and a notice must be published not less than ten days before the adoption of the changes by ordinance. Changes that do any of the things enumerated above can be made only after the municipality gives notice, convenes a Joint Review Board, and conducts a public hearing in accordance with TIF Act procedures.

After the TIF Ordinance is Adopted:

- Changes that (i) add additional parcels of property to the TIF District, (ii) substantially affect the general land uses in the redevelopment plan, (iii) substantially change the nature of the redevelopment project, (iv) increase the total estimated redevelopment project costs set out in the plan by more than 5% after adjustment for inflation from the date the plan was adopted, (v) add additional redevelopment project costs to the itemized list of redevelopment project costs set out in the redevelopment plan, or (vi) increase the number of low or very low income households to be displaced from the redevelopment project area, can be made only after the municipality gives notice, convenes a Joint Review Board, and conducts a public hearing in accordance with TIF Act procedures. Other changes may be made without further public hearing. However, the taxing districts and each registrant on the interested parties registry must be notified of the changes by the municipality by mail and a notice must be published not less than ten days after the adoption of the changes by ordinance.

III. REQUIREMENTS FOR CLASSIFYING THE PROJECT AREA

Definition of "Blighted Area"

Under the TIF Act, a "blighted area" can be any improved or vacant area within the boundaries of a redevelopment project area located within the territorial limits of the municipality where:

(1) If the area is improved, the improvements include industrial, commercial, and residential buildings or other improvements that are detrimental to the public safety, health, or welfare because of a combination of 5 or more factors, each of which must be (i) present, with that presence documented, to a meaningful extent so that a municipality may reasonably find that the factor is clearly present within the intent of the TIF Act and (ii) reasonably distributed throughout the improved part of the redevelopment project area. The possible factors include (see the Appendix for a more complete description of each factor):

- Dilapidation
- Obsolescence
- Deterioration
- Presence of structures below minimum code standards
- Illegal use of individual structures
- Excessive vacancies
- Lack of ventilation, light, or sanitary facilities
- Inadequate utilities
- Excessive land coverage and overcrowding of structures and community facilities
- Deleterious land use or layout
- Environmental clean-up
- Lack of community planning
- Declining or relatively inadequate total equalized assessed value in 3 of the last 5 calendar years

(2) If the area is vacant, the sound growth of the redevelopment project area is impaired by a combination of 2 or more factors from Group A below or one factor from Group B below, each of which (in either case) is (i) present, with that presence documented, to a meaningful extent so that a municipality may reasonably find that the factor is clearly present within the intent of the Act and (ii) reasonably distributed throughout the vacant part of the redevelopment project area. The TIF Act expressly provides that in defining a blighted area, the term "vacant land" means any parcel or combination of parcels of real property without industrial, commercial, and residential buildings that has not been used for commercial agricultural purposes within five years before the designation of a redevelopment project area unless the parcel is included in an industrial park conservation area or has been subdivided.

Group A:

- Obsolete platting of vacant land
- Diversity of ownership of parcels of vacant land
- Tax and special assessment delinquencies or tax sales
- Deterioration of structures or site improvements in neighboring areas adjacent to the vacant land
- A need for environmental remediation, provided the remediation costs constitute a material impediment to the development or redevelopment of the redevelopment project area
- Declining or relatively inadequate total equalized assessed value in 3 of the last 5 calendar years

Group B:

- Area consists of one or more unused quarries, mines, or strip mine ponds
- Area consists of unused railyards, rail tracks, or railroad rights-of-way
- Area is subject to chronic flooding that adversely impacts on real property in the area
- Area consists of an unused or illegal disposal site containing earth, stone, building debris, or similar materials that were removed from construction, demolition, excavation, or dredge sites
- Area qualified as a blighted improved area immediately prior to becoming vacant, unless there has been substantial private investment in the immediately surrounding area

Definition of "Conservation Area"

Under the TIF Act, "conservation area" means any improved area within the boundaries of a redevelopment project area located within the territorial limits of a municipality in which 50 percent or more of the structures in the area have an age of 35 years or more. Such an area is not yet a blighted area, but because of a combination of 3 or more of the following factors is detrimental to the public safety, health, morals or welfare and such an area may become a blighted area:

- Dilapidation
- Obsolescence
- Deterioration
- Presence of structures below minimum code standards
- Illegal use of individual structures
- Lack of ventilation, light, or sanitary facilities
- Excessive vacancies
- Inadequate utilities
- Environmental clean-up
- Deleterious land use or layout
- Excessive land coverage and overcrowding of structures and community facilities
- Lack of community planning
- Declining or relatively inadequate total equalized assessed value in 3 of the last 5 calendar years

Definition of "Industrial Park Conservation Area"

Under the TIF Act, an "industrial park conservation area" is an area within the boundaries of a redevelopment project area located within the territorial limits of a municipality that is a "labor surplus municipality" (as defined below) or within one and one-half miles of the territorial limits of a municipality that is a labor surplus municipality if the area is annexed to the municipality. An industrial park conservation area must:

- be zoned as industrial no later than the time at which the municipality by ordinance designates the redevelopment project area;
- include vacant land suitable for use as an "industrial park" (as defined below); and
- include a blighted or conservation area contiguous to such vacant land.

A "labor surplus municipality" is one in which, at any time during the six months before the time at which the municipality by ordinance designates the redevelopment project area the unemployment rate was over 6 percent and was also 100 percent or more of the national average unemployment rate for that same time as published in the United States Department of Labor Bureau of Labor Statistics publication entitled "The Employment Situation" or its successor publication. In the event that there are no available unemployment rate statistics for the municipality, the municipality's unemployment rate is deemed to be the same as that in the principal county in which it is located.

An "industrial park" is an area suitable for use by any manufacturing, industrial, research, or transportation enterprise, including but not limited to factories, mills, processing plants, assembly plants, packing plants, fabricating plants, industrial distribution centers, warehouses, repair overhaul or service facilities, freight terminals, research facilities, test facilities, or railroad facilities.

IV. POWERS GRANTED TO MUNICIPALITY

While the TIF Act outlines specific powers for municipalities once the TIF District has been established, a home-rule municipality can arguably exercise any power regarding the TIF District that it could otherwise exercise pursuant to its home-rule authority. In other words, the City of Chicago, as a home-rule municipality, would not need to rely on the TIF Act in order to "make and enter into all contracts with property owners, developers, tenants, overlapping taxing bodies, and others necessary or incidental to the implementation and furtherance of its redevelopment plan and project," – one of the specific powers outlined in the TIF Act, because the municipality could exercise that power pursuant to home-rule authority. Likewise, the City of Chicago could exercise a power that is not specified in the TIF Act in connection with a redevelopment plan or project, so long as it is a power that the municipality could otherwise exercise under home-rule authority.

However, while home-rule authority could be a useful tool in facilitating the execution of a redevelopment plan or the completion of a redevelopment project, there are limits to its use in connection with the TIF Act. Because a home-rule municipality has no home-rule authority to otherwise control incremental tax revenues from other taxing districts or to control the Special Tax Allocation Fund holding such revenues under the TIF Act, we believe that a municipality – home-rule or non-home rule – can only allocate or expend the TIF increment in the Special Tax Allocation Fund as specifically outlined in the TIF Act. In other words, because the Special Tax Allocation Fund and the process for funding it is established by legislation and consists of TIF increment from taxing districts other than the municipality, the municipality cannot rely on its home-rule authority to exercise control over and expend the proceeds in the Special Tax Allocation Fund. The municipality's authority to exercise control over the Special Tax Allocation Fund and allocate the TIF increment is limited to the authority specifically outlined in the TIF Act.

The specific powers for municipalities under the TIF Act are as follows. A municipality may:

- approve redevelopment plans and redevelopment projects, and designate redevelopment project areas in accordance with the TIF Act;
- make and enter into all contracts with property owners, developers, tenants, overlapping taxing bodies, and others necessary or incidental to the implementation and furtherance of its redevelopment plan and project;
- within a redevelopment project area, acquire by purchase, donation, lease, or eminent domain; own, convey, lease, mortgage, or dispose of land and other property, real or personal, or rights or interests therein; and grant or acquire licenses, easements, and options with respect thereto, all in such manner and at such price the municipality determines is reasonably necessary to achieve the objectives of the redevelopment plan and project; provided, however, that (i) any agreement relating to the development of property "owned by a municipality" must be done by the adoption of an ordinance by the municipality and (ii) any conveyance, lease, mortgage, or other disposition of land "owned by a municipality" or any agreement relating to the development of "such

municipal property" must make public disclosure of the terms of the disposition and all bids and proposals made in response to the municipality's request for the same;

- within a redevelopment project area, clear any area by demolition or removal of any existing buildings and structures;
- within a redevelopment project area, renovate, rehabilitate, or construct any structure or building, as permitted by the TIF Act;
- install, repair, construct, reconstruct, or relocate streets, utilities, and site improvements essential to the preparation of the redevelopment project area for use in accordance with a redevelopment plan;
- within a redevelopment project area, fix, charge, and collect fees, rents, and charges for the use of any building or property owned or leased by the municipality or any part thereof or any facility therein;
- accept grants, guarantees, and donations of property, labor, or other things of value from a public or private source for use within a redevelopment project area;
- reimburse other taxing bodies for capital projects;
- acquire and construct public facilities within a redevelopment project area, as permitted by the TIF Act;
- incur redevelopment project costs and reimburse developers who incur redevelopment project costs, provided that no such costs (other than certain preliminary costs) are to be incurred unless mentioned in a redevelopment plan as approved or amended prior to their being incurred;
- make payments in lieu of taxes (as defined in the TIF Act) to all affected taxing districts on a pro rata basis and measured in collections of real property tax revenue in the redevelopment project area; and
- use incremental revenues derived from one redevelopment project area to pay for redevelopment project costs in another redevelopment project area that is either contiguous or is separated by only a public right of way.

Porting

The power to use revenues derived from one TIF District to pay for redevelopment project costs in another redevelopment project area that is either contiguous or is separated by only a public right of way is known as "porting". In assessing contiguity, courts have generally applied the definition of contiguity used in annexation cases, which requires that tracts of land, to be considered contiguous, must "touch or adjoin one another in a reasonably substantial physical sense." In one case where the municipality used streets as "strips" to join parcels to one another and to the "hub" of the TIF District, the court found that this method did not satisfy the contiguity standard.

While the TIF Act requires contiguity to port tax increment from one TIF District into another, it does not require that such porting only occur if there is insufficient tax increment available in the TIF District. As such, tax increment from one TIF District could be “ported” across TIF Districts that are contiguous to one another. In other words, in a situation where TIF District A is contiguous to TIF District B which is contiguous to TIF District C, the TIF Act does not specifically authorize increment from TIF District A to be used to pay project costs in TIF District C. However, because the TIF Act allows tax increment from TIF District A to be used to pay project costs in the contiguous TIF District B and does not require that TIF District B first have insufficient tax increment to pay such project costs on its own, the available tax increment from TIF District A could be used to pay the project costs in TIF District B which would in turn free up any tax increment in TIF District B so that it could be used to pay project costs in TIF District C. Arguably, this structure could be used to “port” available increment across numerous contiguous TIF Districts.

Developer Loans

As noted above, the TIF Act authorizes a municipality to make and enter into all contracts necessary or incidental to the implementation and furtherance of its redevelopment plan and project. This provision of the TIF Act provides authority to the municipality to enter into contracts to make loans to developers in connection with the redevelopment plan and project. In the case of a home-rule municipality, like the City, the loan to the developer could also be authorized under its home-rule authority.

As such, in addition to a municipality granting funds from the Special Tax Allocation Fund to developers to pay redevelopment costs, we have also seen situations where the municipality loans such funds to the developer and requires the funds to be paid back over time. To that end, the TIF Act also provides that contract provisions concerning loan repayment obligations terminate no later than the last to occur of the estimated dates of completion of the redevelopment project and retirement of the obligations issued to finance redevelopment project costs. In situations where a loan is provided to the developer rather than a grant, the developer must use the loan proceeds to pay eligible redevelopment project. The municipality may use the loan repayments to pay redevelopment project costs, to reduce outstanding obligations of the municipality incurred under the TIF Act for redevelopment project costs or for such other purposes as determined by the municipality.

Equity Interest in Redevelopment Project

The TIF Act does not specifically authorize a municipality to use the funds in the Special Tax Allocation Fund to acquire an equity interest in redevelopment projects. As such, if the objective is to use funds in the Special Tax Allocation Fund for such purposes, the acquisition of the equity interest in the redevelopment project would have to constitute an eligible redevelopment project cost. A municipality may be able to acquire an equity interest in a redevelopment project, but we are not aware of any situations where funds from a Special Tax Allocation Fund have been used by a municipality for such purposes.

However, as described above, the TIF Act does allow a municipality to fix, charge, and collect fees, rents, and charges for the use of any building or property owned or leased by the municipality or any part thereof or any facility therein within a redevelopment project area. The TIF Act does not discuss the manner in which fees, rents and charges may be determined. As such, a municipality could structure a redevelopment plan that involved buildings or property owned by the municipality that the municipality allowed the developer to use in connection with the redevelopment project. The municipality could charge a fee for such use and the fee could be structured to model an equity interest for economic purposes (in terms of being correlated to specific accounting outcomes).

Revenues from Municipal Property

The TIF Act provides that revenues received by the municipality from any property, building or facility owned, leased or operated by the municipality or any agency or authority established by the municipality, or from repayments of loans, may be used to pay redevelopment project costs or reduce outstanding obligations of the municipality incurred under the TIF Act for redevelopment project costs. The TIF Act also provides that the municipality may place such revenues in the Special Tax Allocation Fund. However, with respect to revenue received from the sale or other disposition of real property acquired by the municipality with the proceeds of obligations funded by tax increment allocation financing, the TIF Act provides that those revenues must be deposited in the Special Tax Allocation Fund. The TIF Act provides that the municipality may pay redevelopment project costs with the revenues or deposit the revenues in the Special Tax Allocation Fund, however it does not require the municipality to do so. Revenues are only required to be deposited into the Special Tax Allocation Fund in cases where the property generating the revenue was acquired with proceeds of TIF funded obligations. As such, the TIF Act gives the municipality flexibility as to how any revenues received by the municipality from loan repayments or from its otherwise-acquired property may be used by the municipality.

V. ALLOWABLE USES OF TAX INCREMENT

The TIF Act requires that the incremental tax revenue be allocated to, and when collected, paid to the City Treasurer for deposit into the Special Tax Allocation Fund for the purpose of *paying redevelopment project costs and obligations incurred in the payment of redevelopment project costs*. As such, a municipality can only use the Special Tax Allocation Fund to pay redevelopment project costs and obligations incurred in connection with the payment of redevelopment project costs. The TIF Act defines "redevelopment project costs" as the "sum total of all reasonable or necessary costs incurred or estimated to be incurred, and any such costs incidental to a redevelopment plan and a redevelopment project." As such, the threshold requirement for qualifying a cost as an eligible redevelopment cost under the TIF Act is that the cost be reasonable or necessary with respect to the redevelopment plan and redevelopment project. With respect to the determination of necessity, Illinois courts have found that great deference should be given to the determination of the municipality and that the courts should not interfere with a municipality's determination unless there is a showing of a clear abuse of discretion by the municipality.

The TIF Act does provide some specific examples of redevelopment project costs that are eligible to be paid from the incremental tax revenues in the Special Tax Allocation Fund. Those redevelopment project costs include, but are not limited to:

- Costs of studies, surveys, development of plans, and specifications, implementation and administration of the redevelopment plan, including but not limited to staff and professional service costs for architectural, engineering, legal, marketing (of sites within the redevelopment project area to prospective businesses, developers, and investors), financial, planning or other services. Provided however, annual administrative costs shall not include general overhead or administrative costs of the municipality that would still have been incurred by the municipality if the municipality had not designated a redevelopment project area or approved a redevelopment plan.
- Property assembly costs, including but not limited to acquisition of land and other property, real or personal, or rights or interests therein, demolition of buildings, site preparation, site improvements that serve as an engineered barrier addressing ground level or below ground environmental contamination, including, but not limited to parking lots and other concrete or asphalt barriers, and the clearing and grading of land;
- Costs of rehabilitation, reconstruction or repair or remodeling of existing public or private buildings and fixtures and leasehold improvements, and the cost of replacing an existing public building if pursuant to the implementation of a redevelopment project the existing public building is to be demolished to use the site for private investment or devoted to a different use requiring private investment;
- Costs of the construction of public works or improvements, provided however that such costs shall not include the cost of constructing a new municipal public building principally used to provide offices, storage space, or conference facilities or vehicle storage, maintenance, or repair for administrative, public safety, or public works personnel and that is not intended to replace an existing public building unless the

municipality makes a reasonable determination in the redevelopment plan, supported by information that provides the basis for that determination, that the new municipal building is required to meet an increase in the need for public safety purposes anticipated to result from the implementation of the redevelopment plan;

- Costs of job training and retraining projects, including "welfare to work" programs implemented by businesses located within the redevelopment project area;
- Financing costs, including but not limited to all necessary and incidental expenses related to the issuance of obligations and which may include payment of interest on any obligations issued under the TIF Act, including up to three years of capitalized interest and including reasonable reserves related thereto;
- To the extent the municipality by written agreement accepts and approves the same, all or a portion of a taxing district's capital costs resulting from the redevelopment project necessarily incurred or to be incurred in furtherance of the objectives of the redevelopment plan and project;
- An elementary, secondary, or unit school district's increased costs (as calculated pursuant to the TIF Act) attributable to assisted housing units located within the redevelopment project area for which the developer or redeveloper receives financial assistance through an agreement with the municipality or because the municipality incurs the cost of necessary infrastructure improvements within the boundaries of the assisted housing sites necessary for the completion of that housing;
- Relocation costs to the extent that a municipality determines that relocation costs shall be paid or is required to make payment of relocation costs by federal or State law or in order to satisfy the requirements of TIF Act;
- Payment to taxing districts in lieu of taxes;
- Costs of job training, retraining, advanced vocational education or career education, including but not limited to courses in occupational, semi-technical or technical fields leading directly to employment, incurred by one or more taxing districts, provided that such costs (i) are related to the establishment and maintenance of additional job training, advanced vocational education or career education programs for persons employed or to be employed by employers located in a redevelopment project area; and (ii) when incurred by a taxing district or taxing districts other than the municipality, are set forth in a written agreement by or among the municipality and the taxing district or taxing districts, which agreement describes the program to be undertaken, including but not limited to the number of employees to be trained, a description of the training and services to be provided, the number and type of positions available or to be available, itemized costs of the program and sources of funds to pay for the same, and the term of the agreement;
- Up to 30% of interest cost incurred by a developer or redeveloper related to the construction, renovation or rehabilitation of a redevelopment project provided that certain other requirements in the TIF Act are satisfied; and

- If the redevelopment project area is located in a municipality with a population of more than 100,000, the cost of certain day care services for children of employees from low-income families working for business located within the redevelopment project area.

As specified above, the redevelopment project costs specifically enumerated in the TIF Act are not inclusive of all eligible costs. In determining whether or not incremental tax revenues can be used to pay a particular cost, the threshold requirement under the TIF Act is that the cost be a reasonable or necessary cost incurred or estimated to be incurred or be a cost that is incidental to a redevelopment plan and a redevelopment project.

With respect to costs relating to the new construction, the TIF Act specifically provides that, unless explicitly stated, the cost of construction of new privately-owned buildings is not an eligible redevelopment project cost. The TIF Act also places limitations on when the construction of new publicly-owned buildings can be considered an eligible redevelopment project cost. As noted above, new construction of a publicly-owned building is an eligible redevelopment project cost if the new building is:

- replacing an existing public building that is being demolished under a redevelopment plan so that the site can be used for private investment or devoted to a different use requiring private investment;
- a public works^{*}, provided such costs cannot include the cost of constructing a new municipal public building principally used to provide offices, storage space, or conference facilities or vehicle storage, maintenance, or repair for administrative, public safety, or public works personnel and that is not intended to replace an existing public building (as described above) unless the municipality makes a reasonable determination in the redevelopment plan, supported by information that provides the basis for that determination, that the new municipal building is required to meet an increase in the need for public safety purposes anticipated to result from the implementation of the redevelopment plan; or
- all or a part of a taxing district's capital costs resulting from the redevelopment project necessarily incurred or to be incurred within a taxing district in furtherance of the objectives of the redevelopment plan and project as long as the municipality accepts and approves such costs by written agreement.

With respect to the last bullet point from above, the taxing district could be the City of Chicago or one of the overlapping taxing districts. In addition, the capital costs resulting from the redevelopment project necessarily incurred or to be incurred could also be equipment costs

* The TIF Act does not specifically provide a definition for "public works," but the Prevailing Wage Act in Illinois defines public works generally as all fixed works constructed by any public body or paid for wholly or in part out of public funds.

that the taxing districts have to incur as a result of, or in connection with, a redevelopment project.

Certain redevelopment project costs for new construction incurred outside of the redevelopment project area that is in furtherance of a redevelopment plan may also constitute eligible redevelopment project costs. For example, the construction of public works such as a sewer or water facility located outside of the TIF District that furthers the redevelopment plan may be constructed with increment from the TIF District. In this instance, certain allocation issues may have to be considered based on the amount of use of the sewer or water facility that is attributed to being outside the TIF District.

While the TIF Act expressly prohibits the cost of construction of new privately-owned buildings as eligible redevelopment project costs, it does not have any such prohibition against the cost of construction of new publicly-owned buildings that have a private-use if the building is a public works, is for a public purpose and is not being used for any of the restricted uses described above. Whether a building that has private-use constitutes a public works with a public purpose depends on the particular facts and circumstances of each case.

VII. DISSOLVING A TIF DISTRICT; REPORTING REQUIREMENTS

Dissolving a TIF District

Under the TIF Act, a TIF District can exist for up to 23 years at which time the TIF District dissolves by law (unless extended). A TIF District may be extended beyond the 23 year term for up to an additional 12 years, however, such extension requires the approval of the Illinois General Assembly through an amendment to the TIF Act. The General Assembly may require letters of support from each of the taxing bodies that overlay the TIF District before allowing for an extension. A TIF District may also be dissolved earlier by the establishing municipality through an ordinance after all redevelopment project costs (including any financing obligations) have been paid.

Once the TIF District is dissolved, the TIF Act requires that all surplus funds remaining in the Special Tax Allocation Fund be distributed to the overlapping taxing districts in the manner provided in the TIF Act. Upon termination of the TIF District, the full tax base, including the tax increment which had been used to pay for improvements in the TIF District, becomes available to all taxing bodies for their use throughout the future.

Reporting Requirements

The TIF Act requires a municipality to provide certain information for each TIF District established. The information must be provided to the State Comptroller and to all taxing districts overlapping the TIF District. In each case, the information must be provided no later than 180 days after the close of each municipal fiscal year or as soon thereafter as the municipality's audited financial statements become available. In any event, the information must be submitted to each of the taxing districts that overlap the TIF District before the annual meeting of the Joint Review Board. (The Joint Review Board must meet annually 180 days after the close of the municipal fiscal year or as soon as the redevelopment project audit for that fiscal year becomes available to review the effectiveness and status of the TIF District up to that date.) The information required to be submitted is as follows:

- Any amendments to the redevelopment plan or redevelopment project area;
- A list of the redevelopment project areas administered by the municipality and, if applicable, the date each redevelopment project area was designated or terminated by the municipality;
- Audited financial statements of the Special Tax Allocation Fund once a cumulative total of \$100,000 has been deposited in the fund;
- Certification of the Chief Executive Officer of the municipality that the municipality has complied with all of the requirements of the TIF Act during the preceding fiscal year;
- An opinion of legal counsel that the municipality is in compliance with the TIF Act;
- An analysis of the Special Tax Allocation Fund which sets forth:

(A) the balance in the Special Tax Allocation Fund at the beginning of the fiscal year;

(B) all amounts deposited in the Special Tax Allocation Fund by source;

(C) an itemized list of all expenditures from the Special Tax Allocation Fund by category of permissible redevelopment project cost; and

(D) the balance in the Special Tax Allocation Fund at the end of the fiscal year including a breakdown of that balance by source and a breakdown of that balance identifying any portion of the balance that is required, pledged, earmarked, or otherwise designated for payment of or securing of obligations and anticipated redevelopment project costs. Pursuant to the TIF Act, any portion of such ending balance that has not been identified or is not identified as being required, pledged, earmarked, or otherwise designated for payment of or securing of obligations or anticipated redevelopment projects costs shall be designated as surplus;

- A description of all property purchased by the municipality within the TIF District including: (i) street address, (ii) approximate size or description of property, (iii) purchase price, and (iv) seller of property;
- A statement setting forth all activities undertaken in furtherance of the objectives of the redevelopment plan, including:

(A) Any project implemented in the preceding fiscal year;

(B) A description of the redevelopment activities undertaken;

(C) A description of any agreements entered into by the municipality with regard to the disposition or redevelopment of any property within the TIF District;

(D) Additional information on the use of all funds received under the TIF Act and steps taken by the municipality to achieve the objectives of the redevelopment plan;

(E) Information regarding contracts that the municipality's tax increment advisors or consultants have entered into with entities or persons that have received, or are receiving, payments financed by tax increment revenues produced by the TIF District;

(F) Any reports submitted to the municipality by the Joint Review Board; and

(G) A review of public and, to the extent possible, private investment actually undertaken to date after November 1, 1999 and estimated to be undertaken during the following year. This review shall, on a project-by-project basis, set forth the estimated amounts of public and private investment incurred after November 1, 1999 and provide the ratio of private investment to public investment to the date of the report and as estimated to the completion of the redevelopment project;

- With regard to any obligations issued by the municipality, copies of any official statements and an analysis prepared by financial advisor or underwriter setting forth the nature and term of obligation and the projected debt service for the obligation, including required reserves and debt coverage;
- For Special Tax Allocation Funds that have experienced cumulative deposits of incremental tax revenues of \$100,000 or more, a certified audit report reviewing compliance with the TIF Act performed by an independent public accountant (for redevelopment plans or projects that would result in the displacement of residents from 10 or more inhabited residential units or that contain 75 or more inhabited residential units, notice of the availability of the information required, including how to obtain the report, must also be sent by mail to all residents or organizations that operate in the municipality that are on the interested parties registry; and
- A list of all intergovernmental agreements in effect during the fiscal year that the municipality is party to and an accounting of any moneys transferred or received by the municipality during that fiscal year pursuant to the intergovernmental agreements.

The TIF Act also requires that, not later than 10 years after the adoption by the municipality of the ordinance establishing the TIF District, the municipality must compile a status report concerning the TIF District containing:

- The amount of revenue generated within the TIF District;
- Any expenditures made by the municipality for the TIF District, including expenditures from the Special Tax Allocation Fund;
- The status of planned activities, goals and objectives outlined in the redevelopment plan for the TIF District;
- The amount of private and public investment within the TIF District; and
- Any other relevant evaluation or performance data.

The TIF Act requires the municipality to hold a public hearing on the report within 30 days of the report being compiled (20 days' public notice of the hearing must be provided). Also, beginning with fiscal year 2011 and each fiscal year thereafter, the municipality must detail the revenues generated from TIF Districts by source and the expenditures made by the municipality for TIF Districts in the municipality's annual budget.

VI. EXPANDING THE SCOPE OF TIF

The Illinois General Assembly would have to adopt amending legislation to expand the scope of tax increment financing under the TIF Act. An effort by the City to work with the General Assembly to have the scope of the TIF Act expanded could include:

- Directly allowing tax increment to be used to pay redevelopment project costs across TIF Districts in order to expand the pool of resources available in TIF Districts where the TIF structure has not provided sufficient economic incentive to spur development thus far;
- Allowing municipalities to structure "joint" TIF Districts in order to provide support for redevelopment projects that span across multiple municipalities (this is proposed in Senate Bill 540); and
- Allowing tax increment from multiple TIF Districts in a municipality to be pooled to support programs for specific types of redevelopment projects that provide a general benefit to the municipality or address a specific problem (i.e., lack of affordable housing or existence of food deserts).

We note that other states already have a more expanded scope. For example, in Indiana private projects can use TIF funds so long as the project is "in serving or benefiting" the TIF, which provides more flexibility for the use of tax increment. While there is a push to expand TIF legislation in some states (such as New York) and in the United Kingdom, an effort to expand the TIF legislation in Illinois (while prudent) may be difficult to accomplish as the discussion below on recent legislation illustrates.

VII. SENATE BILL 540

An effort is currently underway to amend the TIF Act. Senate Bill 540 was introduced in the General Assembly this past session and contained a number of matters concerning TIF procedures, some of which could be viewed as restrictive. This legislation did not pass the General Assembly before the session adjourned on May 31, 2011. It was held in the Senate Local Government Committee, however we expect it to resurface either this summer, during the Fall Veto Session, or next January. The following are the proposed provisions that could adversely impact the City's use of TIF:

- No more than 25% of the TIF District's project redevelopment costs may be used for residential purposes other than low-income housing or very-low-income housing (would restrict ability to use TIF for market-rate residential projects);
- Letters of support from all taxing districts are required for an extension (codifies current policy);
- For communities exceeding 25,000 population, not more than 35% of the equalized assessed valuation of all property within the municipality may be in a TIF (depending on

how much cushion the 35% limit provides, this could make it prohibitive to establish new TIF Districts in the City in significant numbers);

- Limitation on the transfer of TIF funds between TIF Districts (would limit ability to port across TIF Districts to fund redevelopment);
- Property taxpayer retains right to contest property tax assessment in TIF (could impact the amount of tax increment available);
- TIF may not proceed if the Joint Review Board, given absolute veto power, rejects the resubmitted plan by a 3/5 vote (could add another layer of approval resulting in TIF being prohibited in some instances);
- Accumulated TIF funds not designated for specific redevelopment or use must be classified as surplus, and all designated funds not used within 10 years must be classified as surplus (would impact presently "unknown" projects over the 23 or 35 year life of the TIF District and would impact the viability of District-wide TIF use); and
- State aid to schools reduced by TIF surplus allocations (could negatively impact Chicago Public Schools depending on the amount of surplus allocated back to the school district).

APPENDIX – CERTAIN CONDITIONS FOR CLASSIFYING PROJECT AREA

The following provides a more detailed description of the conditions that are required to be met in order to classify the project area as a "blighted area".

Dilapidation

An advanced state of disrepair or neglect of necessary repairs to the primary structural components of buildings or improvements in such a combination that a documented building condition analysis determines that major repair is required or the defects are so serious and so extensive that the buildings must be removed.

Obsolescence

Buildings or improvements that reflect the condition or process of falling into disuse. Structures have become ill-suited for the original use.

Deterioration

With respect to buildings, defects including, but not limited to, major defects in the secondary building components such as doors, windows, porches, gutters and downspouts, and fascia. With respect to surface improvements, that the condition of roadways, alleys, curbs, gutters, sidewalks, off-street parking, and surface storage areas evidence deterioration, including, but not limited to, surface cracking, crumbling, potholes, depressions, loose paving material, and weeds protruding through paved surfaces.

Presence of Structures Below Minimum Code Standards

All structures that do not meet the standards of zoning, subdivision, building, fire, and other governmental codes applicable to property, but not including housing and property maintenance codes.

Illegal Use of Individual Structures

The use of structures in violation of applicable federal, State, or local laws, exclusive of those applicable to the presence of structures below minimum code standards.

Excessive Vacancies

The presence of buildings that are unoccupied or under utilized and that represent an adverse influence on the area because of the frequency, extent, or duration of the vacancies.

Lack of Ventilation, Light, or Sanitary Facilities

The absence of adequate ventilation for light or air circulation in spaces or rooms without windows, or that require the removal of dust, odor, gas, smoke, or other noxious airborne materials. Inadequate natural light and ventilation means the absence of skylights or windows for interior spaces or rooms and improper window sizes and amounts by room area to window area

ratios. Inadequate sanitary facilities refers to the absence or inadequacy of garbage storage and enclosure, bathroom facilities, hot water and kitchens, and structural inadequacies preventing ingress and egress to and from all rooms and units within a building.

Inadequate Utilities

Underground and overhead utilities such as storm sewers and storm drainage, sanitary sewers, water lines, and gas, telephone, and electrical services that are shown to be inadequate. Inadequate utilities are those that are: (i) of insufficient capacity to serve the uses in the redevelopment project area, (ii) deteriorated, antiquated, obsolete, or in disrepair, or (iii) lacking within the redevelopment project area.

Excessive Land Coverage and Overcrowding of Structures and Community Facilities

The over-intensive use of property and the crowding of buildings and accessory facilities onto a site. Examples of problem conditions warranting the designation of an area as one exhibiting excessive land coverage are: (i) the presence of buildings either improperly situated on parcels or located on parcels of inadequate size and shape in relation to present-day standards of development for health and safety and (ii) the presence of multiple buildings on a single parcel. For there to be a finding of excessive land coverage, these parcels must exhibit one or more of the following conditions: insufficient provision for light and air within or around buildings, increased threat of spread of fire due to the close proximity of buildings, lack of adequate or proper access to a public right-of-way, lack of reasonably required off-street parking, or inadequate provision for loading and service.

Deleterious Land Use or Layout

The existence of incompatible land-use relationships, buildings occupied by inappropriate mixed-uses, or uses considered to be noxious, offensive, or unsuitable for the surrounding area.

Environmental Clean-Up

The proposed redevelopment project area has incurred Illinois Environmental Protection Agency or United States Environmental Protection Agency remediation costs for, or a study conducted by an independent consultant recognized as having expertise in environmental remediation has determined a need for, the clean-up of hazardous waste, hazardous substances, or underground storage tanks required by State or federal law, provided that the remediation costs constitute a material impediment to the development or redevelopment of the redevelopment project area.

Lack of Community Planning

The proposed redevelopment project area was developed prior to or without the benefit or guidance of a community plan. This means that the development occurred prior to the adoption by the municipality of a comprehensive or other community plan or that the plan was not followed at the time of the area's development. This factor must be documented by evidence of adverse or incompatible land-use relationships, inadequate street layout, improper subdivision,

parcels of inadequate shape and size to meet contemporary development standards, or other evidence demonstrating an absence of effective community planning.

Declining or Relatively Inadequate Total Equalized Assessed Value

The total equalized assessed value of the proposed redevelopment project area has declined for 3 of the last 5 calendar years prior to the year in which the redevelopment project area is designated or is increasing at an annual rate that is less than the balance of the municipality for 3 of the last 5 calendar years for which information is available or is increasing at an annual rate that is less than the Consumer Price Index for All Urban Consumers published by the United States Department of Labor or successor agency for 3 of the last 5 calendar years prior to the year in which the redevelopment project area is designated.