



## **Time To Throw A TIF:** *Invisible, unaccountable taxes you've never heard of*

**Chicago, IL**—Bob and Rita Smith\* are generous people. Every year, they give about \$2,000 to wealthy, politically connected real estate developers doing business in their Wilson Yard neighborhood. Bob and Rita live frugally, work hard to save for retirement, and struggle to make ends meet each month—and yet, they keep on giving to the wealthy developers, year after year.

Bob and Rita don't even realize they are doing this. Their money is being taken in a secretive way, courtesy of Chicago Mayor Richard J. Daley, the very man they have been voting for since 1989.

And Bob and Rita are not alone. Millions of Cook County residents are paying for more than they realize. In 2007, \$892 million of Cook County's property tax dollars went to a mysterious diversion of funds. No, not to schools. Not to snow cleanup. Not to any other public service or group. Confused?

This diversion of funds is not listed on your property tax bill, but it exists. It diverts money away from your schools, but you don't know how much. It diverts money away from your parks, but you can't tell where it's going instead. It's not even included in Cook County's annual budget.

How does your hard-earned money get diverted to private developers so that they can build super-expensive projects in your neighborhood without your input? It's all through something called Tax Increment Financing, more commonly known as a "TIF."

Cook County Clerk David Orr recently produced a 2007 TIF report, which revealed an 11.5 percent jump in revenue from TIF districts. In terms of raw tax dollars, this means Cook County taxpayers contributed more than \$892 million to TIF districts in 2007 alone.

Last year, 402 active TIF districts collected more than \$892 million tax dollars from hard-working, tax-burdened and financially strapped Chicagoans. On top of this, so far 15 new TIF districts (11 suburban, 4 in Chicago) have been planned in 2008. Yet very few people have a clear understanding of what TIFs are and information about them is difficult to find. The public deserves to know more about how their money is being spent.

Quite simply, TIFs need transparency.

### **What is a TIF? Some Background**

Government creates a TIF district by first defining an area as "blighted" and then putting a freeze (or cap) on the amount of property taxes going into a district's services, such as schools, parks or public libraries. Any additional money accumulated above the capped amount

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instead goes into a TIF fund, created for the purpose of redeveloping the “blighted” area. Any “new” revenue resulting from higher assessments or new development drops into the TIF account.

The freeze lasts 23 years (unless extended or terminated) and the city controls all of the additional, “new” money pushed into a TIF fund—all without much oversight.

Ben Jarovsky of the *Chicago Reader* frequently writes about TIFs and their effect on taxes, explaining how “costs rise while revenue remains fixed, the schools, parks, county, etc., have to raise their tax rates to compensate for the money going into the TIFs.” Jarovsky continues, “From Daley’s standpoint, the beauty of the program is that other taxing bodies do the heavy lifting while he controls the cash.”<sup>1</sup>

TIF funds are not included on property tax bills or the annual budget, which only adds to the lack of accountability in handling the incredible amount of money flowing into them. “And because TIF funds aren’t included in the city’s annual budget or broken down on tax bills,” Jarovsky adds, “he [Mayor Daley] can act like they don’t exist. Last year Daley stated in his annual budget address that he was levying about \$720 million in property taxes. In fact, as the new figures show, the city extracted more than \$1.2 billion.”

That’s no small difference – especially in the current tight financial times confronting Chicagoans.

### **Taking Funds Away from Your Community: The Tax Shift**

In essence, TIFs raise taxes and divert funding. For example, the Central Loop TIF collected an estimated \$110 million in 2007, meaning that about \$55 million could have gone to the schools if not for the Central Loop TIF.<sup>2</sup>

Public schools take the largest cut out of property taxes and therefore lose the most when government creates a TIF district. As a consequence, school districts shift more of their tax burdens onto properties outside TIF districts.<sup>3</sup> One would think advocates of increased school funding might start taking a closer, more critical look at TIFs. Cook County Commissioner Mike Quigley reported that “10 cents of every property tax dollar collected in Chicago goes to TIF districts [in 2007]... that’s more than for streets and sanitation. That’s more than Cook County collects in Chicago. The tax shift is huge, but almost no one knows it. There is almost no transparency and accountability for hundreds of millions of TIF dollars, dollars that don’t get run through the budget process. It’s the antithesis of transparent and accountable government.”<sup>4</sup>

Some argue TIFs eventually benefit communities’ schools and parks by expanding the tax base. This isn’t the case, however. If extended, a TIF continues to feed itself. For example, the 15-block north Loop TIF district generates less money in property taxes now than in 1984 when it was originally created.<sup>5</sup> The Loop TIF produced \$5,407,659 in 1982, but only about \$3.5 million in 2006 “because the assessment remains frozen at \$54.5 million and the tax rate has dropped to 6.28 percent.”<sup>6</sup> And the difference isn’t even adjusted for inflation. Granted, some TIFs have been successful.

The public has every right to be upset about the current TIF procedure. One needs to look no further for an example of public outcry than the Uptown neighborhood, where Cook County has created the Wilson Yard TIF. In opposition to this TIF, residents have formed Fix Wilson Yard, Inc., and claim City Hall has abused the use of the TIF by “diverting hundreds of million of dollars in property

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tax revenues into favored real estate projects.”<sup>7</sup>

The nonprofit group has also established a website, [www.fixwilsonyard.org](http://www.fixwilsonyard.org), explaining the stretch of problems with the Wilson Yard TIF, which was “created in 2001 to address the supposed blight and decaying properties and infrastructure in Uptown.” And now, years later, “Alderman Shiller and developer Peter Holsten are now breaking ground on a development that contains no confirmed retail tenants but will instead be dominated by two ten-story towers of densely packed low income housing that will poorly serve its residents and undermine the safety and economic progress of the neighborhood surrounding it.” The community thinks the city has irresponsibly allocated taxpayer dollars to the Wilson Yard TIF, with the commitment for it soaring to “\$52 million, over 33% of the cost of the entire project.” Instead of “spurring economic development and increasing city revenues, this investment of taxpayer dollars will actually impede commercial growth and decrease property values.” The construction cost of each low-income unit now reaches higher prices than what many condos on the private market go for in Uptown.<sup>8</sup>

This slew of problems has compelled Fix Wilson Yard to file a lawsuit against the City of Chicago and the developers for abuses to the Illinois TIF Act. “When you have a city with a significant budget crisis and underpaid pensions, it’s time to stop frittering away the taxpayers’ dollars,” Thomas Randall, the attorney representing Fix Wilson Yard, remarks. “You’ve got a group of citizens who are tired of it and are ready to fight City Hall.” *Crain’s* covered a press conference held on December 3, 2008 in the Daley Plaza Center, citing the complaint that “Uptown residents will be irreparably harmed by the illegal diversion of substantial tax revenues

from public bodies to private development projects like Wilson Yard.”

Uptown residents, and others in Chicago and across Illinois, deserve more sunshine in the TIF process. Meanwhile, the government needs to be held accountable when creating TIFs, making contracts with developers, and handling these significant amounts of tax dollars.

#### **TIFs Take**

TIFs, quite simply, take. If they do give anything back, it isn’t much, and will unlikely ever make up for the loss endured by taxpayers. Also, many TIFs have strayed far from their original intent. Rather than following the law, Chicago has developed TIF districts in not only blighted areas (the only place where the law gives government the authority to establish a TIF) but in the wealthiest of areas. A 2007 TIF report from Cook County Clerk David Orr reveals the extent of the city’s blatant disregard of a TIF’s purpose:

Since 1984 TIF districts located downtown, on the Gold Coast, and on the near east and west sides have collected more than \$1.35 billion that would have otherwise gone to the schools and other strapped taxing bodies. The Central Loop TIF, the granddaddy of them all, has reaped \$875 million alone. Meanwhile, as you might expect, TIF funds established in truly deserving neighborhoods are puny by comparison. Englewood’s two TIFs have gathered only about \$20 million between them, though one of them dates back to 1989. Woodlawn’s TIF fund has collected under \$10 million

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after six years; Pullman's has less than \$20,000 after seven.<sup>10</sup>

Cook County Commissioner Quigley has also sounded the alarm on TIF abuse, stressing their original conception as redeveloping only blighted areas. He points out, "The use of TIF by wealthy communities and in areas that are not blighted is an abuse of the intent of TIF. It also keeps blighted areas blighted because they do not receive the 'leg up' they were supposed to receive."<sup>11</sup>

By law, TIFs are supposed to be limited to blighted communities. Yet, with little to no oversight, Chicago has used the TIF as a way to push money into upscale projects: "...the city's even spending \$46 million in TIF dollars to rehab buildings on Loyola University's north lakefront campus, a public subsidy for a private institution that doesn't pay property taxes," Joravsky says.<sup>12</sup> Chicagoans cannot afford more reckless spending from their government.

Something needs to change. Transparency would allow for public scrutiny and oversight in the TIF process. Most people have little to no understanding of TIFs, where they're located, and how much of their property taxes flow into these TIF districts. On top of this cloudy knowledge, the city lacks any accountability regarding TIFs while handling an enormous amount of tax dollars. Adding to all of this, the city has blatantly disregarded the law. TIFs are only supposed to be used in blighted areas in need of redevelopment, yet the city has established TIFs in wealthy neighborhoods.

### **TIFs Need Transparency**

TIFs need transparency. As mentioned above, people have a very difficult time understanding what a TIF actually is and have no idea how much of their property taxes are flowing into TIF funds. TIF

information is not published on property tax bills. It's not listed in the city budget. There is no easy way to find out how much money has gone into a TIF district or how much from your property tax bill supports TIFs. The details surrounding a TIF fund are practically invisible to the public.

The first step to bringing more public understanding and oversight to TIFs starts with implementing transparency. All information about a TIF, including its name, any parties involved (such as developers and vendors who get the TIF), the amount of spending, who authorized the TIF creation, all contracts, and the TIF's purpose, should be posted on a local government's official website. A complete, detailed, clear, and user-friendly list should be easily accessible to the public so they understand where each and every property tax dollar is going and who is managing and involved the project.

Both County Clerk Orr and Commissioner Quigley have taken a stand on TIFs and called for more transparency. Orr remarked, "Because so much tax revenue has been going into TIFs, they have become the subject of controversy and debate. I believe much more information needs to be made available to the public to assist taxpayers in making their own judgments on TIFs."<sup>13</sup> Orr has produced a comprehensive report and taken a first step to bringing more clarity and transparency to TIFs. More information will be available on the clerk's website, including maps, a primer, and information about TIF distribution. In his 2007 TIF report, Orr "encouraged municipalities to release easily accessible information on TIFs and joins others, including the Civic Federation and Cook County Commissioner Mike Quigley, in calling for greater transparency and full public disclosure on TIF expenditures during each of their annual budget processes." This is a promising start.

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“Municipalities need to do more to promote easily accessible information on TIFs, their budgets and expenditures,” Orr concluded. “Otherwise, the average citizen will remain locked out, unable to get the information he or she needs to make a reasonable judgment of how well TIF money is being spent and how TIFs impact the taxing bodies in their community.”

Orr is right, and so is Quigley. Cook County has taken some good first steps in the right direction by producing the 2007 TIF Report. To move forward, Cook County and all other municipalities should implement TIF transparency as policy. Once transparency is implemented, the public and elected officials can dig deeper into the inherent problems with TIFs, how they have been mishandled, and how they have affected or burdened different communities.

The Orr 2007 TIF Report marked advancement towards promoting and establishing more transparency for TIFs. Legislation also passed in the form of HB3434, which asked the Illinois Department of Revenue to “to study feasibility of printing TIF information online, to provide more transparency about the projects and revitalization efforts and showing the impact on taxing districts’ tax rates and the effect on a property owner’s tax bill.”

The Department of Revenue concluded tax bills should provide the following information:<sup>14</sup>

1. The simplest and least costly approach to meet the sponsors’ stated goals of taxpayer education, TIF transparency, and illustrating the effect of TIFs on tax rates is to enact legislation that requires specific TIF information and reports **be made available on**

**the Internet** at a state website and require counties to print this address on each tax bill. **The benefit to this approach is that property owners can obtain TIF information at little or no cost to the counties.**

2. Require a separate mailing at the county level that provides aggregated TIF information and include a state website address where additional information about TIF redevelopment projects and expenditures is located.
3. Require each municipality to compile the information and mail it directly to all property owners within the county. Information from the TIFs’ annual reports (e.g., the taxes directed to each TIF, amounts spent for current projects, future projects and expenses, amounts paid to developers, jobs created and retained and corresponding salaries, initial and current Equalized Assessed Value (EAV), overlapping taxing districts and rates) could be provided along with a link to a state web site address where additional information about TIF redevelopment projects and expenditures is located.

The Department also determined it is **feasible** (with some caveats) for counties to include the following items on individual on tax bills:

- TIF district name
- TIF district identification number
- A state website address where specific TIF information can be accessed
- The initial EAV of the taxpayer’s parcel if it is in a TIF district
- The current EAV of the taxpayer’s parcel if it is in a TIF district

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Further promoting the idea of increasing transparency in the TIF process, the Department of Revenue agrees TIF information should be made more accessible to the public. It is entirely feasible to implement transparency in the world of TIFs. Every county should print information on property tax bills and post it on the county's official website. It remains to be seen whether these recommendations will be put into law.

### Conclusion

As mentioned, the first step to bringing more public understanding and oversight to TIFs starts with implementing transparency. All information about a TIF, including its name, any parties involved (such as developers, vendors, etc.), the amount of spending, who authorized the TIF creation, contracts, and the TIF's purpose, should be posted on a local government's official website. A complete, detailed, clear, and user-friendly list should be easily accessible to the public so they understand what TIF fund each and every property tax dollar is flowing into and who is managing and involved in the project.

Encouraging leadership has emerged on this issue, most notably Cook County Commissioner Mike Quigley and Cook County Clerk David Orr. This is a good start. Full transparency in the TIF process would foster more government accountability and give the public the opportunity to better understand the TIF process.

There's too much money involved in TIFs for the public to have such a lack of knowledge about them and for the government to have no accountability in creating and managing them. \$892 million in tax dollars during 2007 is no small sum. TIFs need transparency.

Ultimately, once transparent, communities

and government can then get on track to tackling the inherent problems with the concept and utilization of TIFs.

### Notes

1 Ben Jarovsky, The True TIF Tally (Chicago Reader), November 22, 2007.

2 Ben Jarovsky, The TIF That Keeps on Taking (Chicago Reader), June 5, 2008.

3 Steve Stanek. County Commissioner Gives Illinois Lawmakers an Earful over TIF Abuse, Budget and Tax News, Heartland Institute, October 2007.

4 Steve Stanek. County Commissioner Gives Illinois Lawmakers an Earful over TIF Abuse, Budget and Tax News, Heartland Institute, October 2007.

5 Ben Jarovsky, Can You Spot the Blight? (Chicago Reader) June 9, 2006.

6 Ben Jarovsky, Can You Spot the Blight? (Chicago Reader) June 9, 2006.

7 Alby Gallun, "Residents sue to stop Wilson Yard project, claim TIF abuse" Crain's, December 03, 2008.

8 Fix Wilson Yard, Inc, [www.fixwilsonyard.org](http://www.fixwilsonyard.org)

9 Alby Gallun, "Residents sue to stop Wilson Yard project, claim TIF abuse" Crain's, December 03, 2008.

10 Ben Jarovsky, The True TIF Tally (Chicago Reader), November 22, 2007.

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12 Ben Jarovsky, Can You Spot the Blight? (Chicago Reader) June 9, 2006.

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13 David Orr, 2007 TIF Report, Office of Cook County Clerk, October 2008.

14 Department of Revenue, Report on the Feasibility of Printing Tax Increment Financing (TIF) District Information on Individual Tax Bills, August 2008 (<http://www.revenue.state.il.us/LocalGovernment/PropertyTax/TaxIncrement.pdf>).

*To learn more about TIFs and transparency efforts in Illinois visit the Institute's transparency policy website at Open Illinois.org.*