INTRODUCTION

Chicago’s Tax Increment Financing (TIF) program began in 1984 with the goal of promoting business, industrial, and residential development in areas of the city that struggled to attract or retain housing, jobs, or commercial activity. The program is governed by a state law allowing municipalities to capture property tax revenues derived from the incremental equalized assessed value (EAV) above the base EAV that existed before an area was designated as a TIF district (the tax increment) and use that money for community projects, public improvements, and incentives to attract private investment to the area. The intention is that the effective use of tax increment funds helps expand the tax base, thus increasing the amount of tax increment generated in the district for re-investment within the district and ultimately increasing the property tax base for taxing districts.

TIF Revenue

TIF Revenue 2005-2014

At the start of 2005, the City had 138 TIF districts, 130 of which were generating incremental tax revenue. Between 2005 and 2011, the City created 36 new TIF districts. From 2012 to 2014, four new TIFs were created. During the 2005-2014 period, the City repealed five districts pursuant to state law and terminated 15 others. In most cases, the statutory term of a TIF is 24 years, and 11 districts have expired to date.

During 2014, the City received incremental property tax revenue from 142 of 154 TIF districts, totaling $401.6 million. The chart on the next page presents the total revenue received by the City’s TIF districts over the past 10 years. The total amount of TIF revenue grew steadily from 2005 through 2008 as new TIFs were added and as property values in TIF districts increased in line with the trend seen in property values citywide. The first TIF district to expire was the largest TIF district designated to date, the Central Loop TIF. The expiration of that district in 2008 explains the decline in TIF revenues in 2009.

The increase in revenues seen in 2011 is attributable in part to the increase in the composite tax rate in that year. As explained in the Property Tax Funds section of this document, the composite tax rate in Chicago increased as property values began to reflect the decline in the real estate market brought on by the recession. In each TIF district, the amount of TIF revenue depends on the amount of incremental EAV in the district and the composite tax rate, which is applied to that EAV. In 2011, on a citywide basis, the increase in the tax rate outweighed any decrease in EAV in the city’s TIF districts, resulting in increased TIF revenues. In 2012, however, the relative impact of the decrease in EAVs began to outweigh the impact of the increase in the tax rate, and overall TIF revenues decreased. This trend continued into 2013 which also saw overall revenue impacted by the closing of 10 TIFs in the prior year. Revenue in 2014 was again impacted by further EAV declines as well as the expiration of the Near West and Stockyards Industrial Commercial TIFs and the termination of the 89th/State TIF in 2013. Similarly, revenue for 2015 is expected to decline due to the closing of six TIF districts in 2014, most notably the Near South TIF.

26 Closings occur during the year in which they are shown, and surplus revenue is generally returned and incremental EAV becomes available to taxing districts in the following budget year.

27 Property values are reassessed by the County every three years, based on three prior years of sales. Due to the timing of reassessment, EAVs did not begin to reflect recessionary sales and valuations immediately following the economic downturn. When EAVs decrease and levies stay relatively the same, tax rates increase.
Property values in parts of the City are rebounding while values in other areas are slower to recover. As the chart below shows, citywide EAV peaked in tax year 2009 at $84.6 billion and declined 26 percent, to $62.4 billion by 2013. It has since grown to $64.9 billion in 2014.

The amount of EAV in TIFs has been declining since 2009. The decline reflects the general decline in property values during the recession as well as the closing of 20 TIF districts since 2012. From 2013 to 2014 TIF EAV declined nearly 12 percent due largely to the expiration of the Near South TIF, which helped boost the growth in the City’s EAV over the same period.

Three new TIF districts were created in 2014 – 107th/Halsted, Foster/California, and Washington Park – and these districts are expected to generate incremental property tax revenue in future years.

TIF Project Bonds and Notes

The City has issued bonds and notes financed with future TIF revenues to fund certain TIF projects. The proceeds of bonds and notes are used to pay for TIF-eligible improvements in the districts, and the debt service is then paid with subsequent TIF revenue. Such financing allows the City to undertake larger projects sooner, rather than having to wait for annual TIF revenues to accumulate. The chart below shows the years in which bonds were issued and the

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28 The amounts in the chart represent the increment from taxes levied in the prior year, as this revenue is collected during the subsequent year. Note that the tax revenue amounts include not only property tax increment dollars, but also a small amount of sales tax increment revenue collected in certain TIF districts. Sales tax increments were authorized in a limited number of TIFs and have been disallowed in new TIFs since 1987. Sales tax increment revenue contributed approximately $1.06 million to total TIF revenues each year during the 2005 to 2014 period.
amounts thereof. In 2007 and 2010, the City issued bonds as part of the Modern Schools Across Chicago program (MSAC), which is discussed in more detail below. The City issued bonds in the Pilsen Industrial Corridor district in 2004. These bonds were refunded in 2014, in the amount of $35.7 million. The proceeds paid for improvements at Juarez Community Academy High School.

TIF Expenditures

Between 2005 and 2014, the City spent $4.0 billion in TIF funds (including the proceeds from bonds issued to fund TIF projects) on a range of projects in TIF districts across Chicago. Expenditure data for these years, categorized at a high level into financing, public improvement, site preparation, administration, development, and job training costs, can be found online in the audited annual financial reports for each TIF.

The chart on the following page presents TIF funds committed 2009 to-date as follows:

- Infrastructure, includes the construction, repair, and maintenance of City streets, sewers, bridges, bike lanes, and other critical infrastructure.
- Sister Agencies, includes projects undertaken by Chicago Public Schools, Chicago Park District, and CTA, as further described below.
- Planning and Administration, includes the cost of studies, program administration, and professional services for the TIF program.
- City Facilities, includes the construction and maintenance of City facilities such as libraries, police stations, and fire stations.
- Economic Development, includes redevelopment projects throughout the city.
- SBIF/NIP/TIF Works, includes Small Business Improvement Funding, Neighborhood Improvement Program funds, and job training programs.
- Residential Development, includes the construction of low income and affordable housing, rehabilitation of homes, and funds for the Chicago Housing Authority.

TIF Funding Provided to Sister Agencies

Since the start of its TIF program, the City has provided or is committed to providing $1.26 billion to CPS for school-related projects, $369.4 million to the Park District for park and open space projects, and $476.5 million to the CTA for track and station renovations and related projects.

TIF funding provided to CPS for school-related projects has benefitted 91 schools in 54 TIF districts citywide. This funding supports capital work at schools in TIF districts, including Amundsen High School, Budlong Elementary, Clemente High School, Franklin Elementary, Hope College Preparatory High School, and Tilden High School, among others. A significant portion of the TIF funds provided by the City to CPS has been through MSAC, a capital improvement program established to fund the construction and renovation of 23 schools over seven years. The City has committed to providing $781.4 million in TIF funds to MSAC over the life of the program.

TIF funding provided to the Park District for parks and open-space projects has benefited 73 parks in 43 TIF districts citywide to date, including Hadiya Pendleton Park, the Morgan Park Sports Center, Dvorak Park, Steelworkers Park, and the Quad Communities Arts and Recreation Center.

The CTA has received TIF funding for station and track improvements, as well as other transit projects, in 17 TIF districts citywide to date. Major projects include the Loop Link (bus rapid transit service), a new Cermak Green Line Station, rehabilitation of the Medical District Blue Line Station, the Quincy Station rehabilitation, and track improvements along sections of the Blue Line O’Hare Branch from Damen to Clinton.

Under certain circumstances, the City may transfer TIF revenue from one district to an immediately adjacent TIF district, or to pay costs involving public property adjacent to certain TIF districts, for a specific project. Transfers have been used to pay debt service on bonds issued to fund school construction, including MSAC projects, as well as to fund major Chicago Park District projects and CTA track and station improvements. Between 2005 and 2014, a total of $560.3 million was transferred between TIFs.

29 The 2014 Annual Financial Analysis listed the City’s commitment to MSAC at $763.1 million and accounted for the projected full value of an interest subsidy on Build America Bonds that were issued in connection with the MSAC 2010 series. The interest subsidy was reduced as part of the 2013 Balanced Budget and Emergency Deficit Control Act. Further annual reductions are expected through 2024. The rate of future reductions is unknown at this time therefore the subsidy is not accounted for in future debt service payments.
TIF Surpluses and Closings

**Surplus Declaration**

On an annual basis, the City will declare a portion of the funds in an active TIF as surplus, returning the proportionate share of the funds to the applicable local taxing districts. Such surplus declaration occurs during the budget process and is pursuant to Executive Order No. 2013-3, a policy to consistently return unneeded TIF revenues to the taxing districts according to set criteria.

In July of 2015, the Mayor proposed an ordinance which will codify Executive Order No. 2013-3. Under the Executive Order and the proposed ordinance, the City declares a surplus in TIF districts that are older than three years, were not created for single redevelopment projects, are not transferring funds to other TIF districts to pay MSAC debt service costs, and have a balance of at least $1 million. The amount of the surplus is at least 25 percent of the available cash balance in the TIF, after accounting for current and future project commitments and contingencies, revenue volatilities, tax collection losses, and tax liabilities.

The City’s TIFs had an aggregate balance of $1.38 billion in active TIFs at the start of 2015. However, $1.29 billion of this balance is reserved for payments due in connection with committed projects and projects in development.

**TIF Closings**

There are a number of ways in which TIF districts come to a close:

- A TIF district expires automatically after 23 or 24 years, depending on when it was established.

- The City can terminate a TIF district before its planned expiration if it has achieved its initial goals or if an extended period of inactivity or lack of investment has indicated that additional development is unlikely.

- The City must repeal a TIF district if no substantial redevelopment activity has been initiated during the first seven years of the district’s existence.

The table below indicates the amount of money returned to local taxing districts since 2010 as surplus, either from
existing TIF districts through the declaration of a surplus or from those that have closed through expiration, termination, or repeal. During this time, the City has received approximately 20 percent, the Park District approximately 6 percent, and CPS approximately 52 percent of all surplus dollars, with slight yearly variations based on each taxing district’s applicable share of the tax rate.

As part of ongoing reforms to the TIF program, the City has terminated 12 TIF districts and repealed two districts since 2011, including the termination of the following districts in 2014: 45th/Western Industrial Park Conservation Area, 134th and Avenue K, Kostner Avenue and the West Pullman Industrial Park Conservation Area. In addition six districts have expired since 2012, including the following districts in 2014: 95th Street and Stony Island, Near South, and Roosevelt-Homan. The City continues to evaluate the performance of each TIF district and will consider additional terminations as appropriate going forward, in accordance with the recommendations of the TIF reform panel.

TIF SURPLUS

|$ Millions, declared and from TIFs closed in prior years |
|---|---|---|---|---|---|
|Expiration|0.02|15.1|13.7|8.4|25.4|44.3|
|Repeal|0.0|73.3|0.0|0.5|0.0|0.0|
|Termination|0.02|0.0|0.0|9.6|0.6|0.5|
|Total|0.04|276.4|96.6|43.5|65.1|84.3|

After a TIF district ends, surplus funds are returned to the taxing districts, and the incremental EAV of the district becomes a part of the aggregate EAV that is available to all taxing districts. Taxing districts, including the City, have the ability to recover their portion of the revenue from the incremental EAV by adding it to their levy following a TIF district’s dissolution. Amounts recovered through this practice are not subject to the State-mandated property tax cap that applies to certain taxing districts, including CPS. This practice is further discussed in the Property Tax section of this document.

Additional TIF Informational Resources

Much more information on the City’s TIF program is available online. The amount of data and information available to the public regarding the TIF program has steadily increased in recent years. Currently, the following information can be found on the City’s website:

- A redevelopment plan for each TIF district. The redevelopment plan provides the basis for designating an area a TIF, including the area’s history, the existing land use at the time the TIF was designated, and the factors that qualified the area as eligible for tax increment financing. The plan also states the goals and objectives for the TIF and outlines the redevelopment budget.
- Redevelopment agreements (RDAs). An RDA exists for each project in a TIF that involves a private developer. The RDA includes the name of the developer and the terms of the agreement, the amount of TIF assistance, and the start and end dates of the agreement.
- Annual financial reports. These documents include the audited financial statements required by state statute. Each year, one such report must be submitted to the State Comptroller for each TIF district.
- Projection reports. These reports provide estimates of TIF revenues and obligations, including encumbered amounts, over a five-year period for each district generating incremental tax revenue.
- The TIF portal. This online portal provides an interactive map-based view of TIF districts by ward and the projects located in each TIF.
- TIF policy guidelines and applications for TIF assistance.
- Maps of the City’s TIF districts by geographic area, as well as of each individual TIF district.

In addition, through the City’s data portal, detailed financial information is provided in a searchable format, including the data used to create the projection reports noted above; balance sheets showing detailed statements of revenues, expenditures, and changes in fund balances over the previous year; and over 10 years of revenue and expenditure data for each district.