

**EFFECTIVENESS OF TAX INCREMENT FINANCING IN CHICAGO
A CASE STUDY OF FIVE TIF DISTRICTS**

Executive Summary

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The following is an executive summary of an analysis of five TIF districts in the city of Chicago: North Loop, West Ridge/Peterson, Division/North Branch, Near South (formally known as Central Station), and 95th/Stony Island. These five TIFs were selected because they had previously been examined in the Civic Federation's 1997 report, "Assessing the Impact of Tax Increment Financing in Northeastern Illinois." The purpose of the present report is to provide an analysis of the fiscal impacts of each of the five aforementioned TIF districts, relying on additional data that were not available for the Civic Federation study.

The report investigates six key questions about TIF development:

- i. What impact has TIF development had on property values as compared with what would have happened if there had been no TIF development?*
- ii. What are the incremental and net incremental tax revenues generated by TIF development?*
- iii. Are the incremental tax revenues sufficient to repay the TIF bonds plus interest?*
- iv. What is the long-run gain to taxpayers from the TIF project?*
- v. Do other government taxing bodies gain or lose from tax increment financing?*
- vi. What is the public rate of return on the TIF investment and how does it compare with the return granted to private investors?*

**1. Analysis of Assessed Valuation:
Before and After TIF Development**

Summary Tables S-1A and S-1B show that for all five TIFs examined, assessed values underperformed relative to the City before the TIF and outperformed relative to the City after the TIF. These results support the conclusion that TIF development was the major force behind the increase in property values within each TIF district.

**Summary Table S-1A
PRE-TIF ASSESSED VALUE PERFORMANCE RELATIVE TO CITY**

TIF District	Change in AV Before-TIF (Annual Rate)	Change in City-Wide AV (Annual Rate)	Difference
Division/North Branch	+0.1%	+5.3%	-5.2%
Near South	+2.0%	+5.3%	-3.3%
95th/Stony Island	+1.2%	+5.4%	-4.2%
West Ridge/Peterson	-2.9%	+4.1%	-7.0%
North Loop	+0.9%	+2.3%	-1.4%

**Summary Table S-1B
POST-TIF ASSESSED VALUE PERFORMANCE RELATIVE TO CITY**

TIF District	Change in AV After-TIF (Annual Rate)	Change in City-Wide AV (Annual Rate)	Difference
Division/North Branch	+32.0%	+3.6%	+28.4%
Near South	+8.8%	+3.6%	+5.2%
95th/Stony Island	+6.6%	+4.0%	+2.4%
Peterson/West Ridge	+9.0%	+5.0%	+4.0%
North Loop	+13.9%	+4.9%	+9.0%

**2. Analysis of Tax Revenues:
With and Without TIF Development**

Summary Table S-2 compares the total projected property tax increment with and without TIF development over the 23-year period during which TIF designation may exist. Table S-2 shows the net increase in taxes resulting from TIF development, equal to the difference between the tax increment with TIF development and the tax increment without TIF development. Table S-2 clearly demonstrates large increases in tax revenues resulting from TIF development.

**Summary Table S-2
Total Tax Increment With and Without TIF Development**

TIF District	Tax Increment With TIF Development	Tax Increment Without TIF Development	Net Increase in Tax Revenues Due to TIF Development
Near South	\$137,492,392	\$50,896,344	\$86,596,049
Division/North Branch	\$5,976,115	\$121,162	\$5,854,953
95th/Stony Island	\$5,205,212	\$472,205	\$4,733,006
West Ridge/Peterson	\$13,481,354	\$323,685	\$13,157,669
North Loop	\$561,341,004	\$24,990,026	\$536,350,978

3. Net Present Value of TIF Fund

Summary Table S-2 showed that there has been a substantial tax increment resulting from TIF development for each of the five TIF districts examined in this report. A critical question is whether the incremental tax revenues are sufficient to finance the initial public investment plus interest paid to TIF bondholders. Using the effective interest rate on the TIF bond or note as the discount rate, Summary Table S-3 compares the present value of the incremental tax revenue to the value of the debt. Present value calculations take into consideration the fact that the tax dollars received in the future are worth less than dollars invested at present.

Since no debt was issued for the 95th/Stony Island TIF, it is not included in this analysis. In the four other cases, the TIF fund has a positive net present value, which is another way of saying that the incremental tax revenues are more than enough to cover the initial public investment plus interest over the 23-year life of the TIF district.

Summary Table S-3
Net Present Value of TIF Fund

TIF District	Present Value of Future Tax Increment	Value of TIF Debt	Net Present Value of TIF Fund
Near South	\$35,891,620	\$27,205,000	+\$8,686,620
Division/North Branch	\$3,239,949	\$2,615,000	+\$624,950
West Ridge/Peterson	\$4,816,957	\$3,000,000	+\$1,816,957
North Loop	\$233,059,341	\$58,000,000	+\$175,059,341

4. Long-Run Net Gain to Taxpayers from TIF Project

While Table 3 clearly shows that the net present value of the TIF fund is positive, Table 2 shows that even in the absence of TIF development there may have been some increase in tax revenues. The net increase in tax revenues (above what would have been generated in the absence of the TIF) are therefore less than the incremental tax revenues used to repay the TIF debt.

At the same time, once TIF designation ends, the revenues that were formally used to repay the TIF bonds can then be entered in the general tax fund. Taxpayers, therefore, gain the net increase in tax revenues that results after the TIF bonds are repaid.¹

Summary Table S-4 shows the gain to taxpayers (on a present value basis), taking into consideration that the TIF debt must be repaid before tax revenues can be transferred to the general fund. As before, no calculation is made for 95th/Stony Island because the disbursement of public funds has not yet occurred.

As Summary Table S-4 shows, all four TIFs provide a net gain to taxpayers, even after accounting for debt service costs and any increase in tax revenues projected to occur in the absence of TIF development.

Summary Table S-4
Net Gain to Taxpayers from TIF Investment

TIF District	Gain to Taxpayers from TIF Project (Net Present Value)
Near South	\$13,076,259
Division/North Branch	\$671,744
West Ridge/Peterson	\$3,151,475
North Loop	\$220,743,376

¹ The increase in tax revenues is a gain to taxpayers because it provides funds without necessitating a future tax increase. Therefore, the burden on taxpayers is reduced.

5. Gains and Losses to Other Government Taxing Bodies

Summary Table S-2 showed that there would have been a property tax increment even in the absence of TIF development. To an extent, therefore, some portion of the incremental tax revenue going to fund the TIF can be thought of as having been diverted from other government taxing bodies (the school district, for example). However, once TIF designation ends, the other taxing bodies receive their share of the full increase in tax revenues due to TIF investment. Thus, the question becomes: how long after TIF designation ends before the other government taxing bodies recoup the tax revenues forgone during the life of the TIF.

Summary Table S-5 shows that for four of the five TIFs, the payback period occurs in two years or less, meaning that fairly soon after TIF designation ends, the other taxing bodies recoup all the forgone tax revenues, plus interest. Put differently, all tax revenues earned after the payback period represent a net gain to other government taxing bodies.

**Summary Table S-5
Payback Period for Other Government Taxing Bodies**

TIF District	Present Value of Tax Revenues Forgone During TIF	Payback Period (Years After TIF)
Near South	\$4,389,639	17.3 years
Division/North Branch	\$49,490	0.9 years
95th/Stony Island	\$88,335	2.0 years
West Ridge/Peterson	\$123,064	1.9 years
North Loop	\$7,646,788	1.1 years

6. Public Rate of Return on TIF Investment

TIF projects can be viewed as a stand-alone investment of public funds. The return on this investment is the net increase in tax revenues generated by the TIF project. Summary Table S-6 shows that the public rate of return on the TIF investment exceeds the private rate of return for the four projects in which public funds have been disbursed. This result reinforces the finding that these TIF projects have generated net gains for taxpayers.

**Summary Table S-6
Public Rate of Return on TIF Investment**

TIF District	Public Return on TIF Investment (Annual Rate)	Effective Interest Rate on TIF Debt (Annual Rate)
Near South	11.22%	9.25%
Division/North Branch	9.53%	8.34%
West Ridge/Peterson	13.36%	7.89%
North Loop	18.19%	7.75%
North Loop ²	12.53%	7.75%

² The latter North Loop return includes the \$55 million in General Obligation bonds issued prior to the area's designation as a TIF district. Although these bonds are not financed with incremental tax revenues from the TIF, a rate of return on the entire investment can be calculated and may be of interest to some readers.

Conclusions

The effectiveness of TIF development as a public investment was investigated through analysis of five TIF districts in the City of Chicago: Division/North Branch, Near South, North Loop, West Ridge/Peterson, and 95th/Stony Island. For these five TIFs, the following conclusions are warranted:

- TIF development creates a demonstrated increase in assessed property value, substantially in excess of what most likely would have occurred in the absence of such development.
- TIF development leads to a substantial increase in tax revenues, more than enough to pay off the TIF bonds plus interest.
- Some increase in tax revenues may occur even without TIF development. In that case, the net increase in tax revenues caused by TIF development is less than the incremental tax revenue used to finance the TIF bonds.
- Because the tax revenue benefits of TIF development persist after TIF designation ends, taxpayers reap a long-term benefit in the form of higher tax revenues without future tax increases.
- Although other government taxing bodies may forgo small increases in tax revenues during the life of the TIF, the large increases in tax revenues received at the end of the TIF usually offset the losses (plus interest) in less than two years.
- Viewed as a stand-alone investment, the public rate of return on TIF investment exceeds the private rate of return paid to TIF bondholders.