Lightfoot administration pushing TIF renewals to funnel billions in tax dollars into hot neighborhoods

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The gleaming new office tower at 1375 W. Fulton St. wasn't just a beacon for Chicago's ballooning tech industry; it was a model for equitable development that would spark the entire city's post-pandemic economic recovery, Mayor Lori Lightfoot vowed during a May 2021 ribbon-cutting ceremony.

"For us to recover from the social and economic crises that COVID spawned, we couldn't afford to take any shortcuts or half measures," the mayor said at the grand opening event for the life sciences firm Portal Innovations, which was opening offices at the site. "We needed to create dynamic, inclusive economic growth that uplifts our neighborhoods."

A year later, more than 91% of the building's property taxes are feeding into a fund that benefits Fulton Market and the Near West Side, two of the fastest growing neighborhoods in the city.

The fund is scheduled to dissolve at the end of 2022, which would send a windfall of hundreds of millions of dollars to the city of Chicago, Chicago Public Schools and other local governments. But instead, the Lightfoot administration is maneuvering to keep the local fund alive so it can pool another $1 billion or more for projects on the Near West Side during the next decade.

The Kinzie Industrial Corridor tax-increment financing (TIF) district, which in 2020 pulled nearly $72 million in property taxes into the fund dedicated to West Loop and Near West Side capital projects, is one of nearly a dozen such districts city planning officials are pushing to keep alive through 2034 instead of letting them expire this year as scheduled. The 11 districts, all created more than 20 years ago, would otherwise be required under state law to expire and release their unspent funds back to local governments.

Illinois' controversial TIF program lets cities freeze the level of property taxes that are delivered to local governments within specific areas, and divert all new tax growth into special funds that city administrators can tap for construction projects in those areas for 23 years. Developed as a tool to kick-start private development in struggling neighborhoods, the program has drawn criticism for often helping areas that are already economically vibrant and attractive to developers. Critics say those TIF districts accumulate wealth in fast-growing areas, such as the Cortland/Chicago River TIF that Mayor Rahm Emanuel muscled into existence in 2019 to divert up to $1.3 billion into infrastructure surrounding the massive Lincoln Yards development on the city's North Side.

In areas like Fulton Market, whose Kinzie Industrial TIF was created in 1999, the overwhelming majority of property tax revenues now flow back into the same neighborhood instead of paying for schools, parks and municipal services across the city.

Lightfoot brandished reforms in 2020 that brought some new transparency to the city's use of TIF, and her administration has let many more TIF districts expire than it has created new ones.

Still, the city's planning department and local aldermen have backed multiple extensions to keep the engine running in hot neighborhoods like the Near North Side, and the City Council is on the verge of extending districts in the West Loop, Pilsen and nearly a dozen other neighborhoods.

The renewals are examples of how the TIF program has exceeded its original purpose, according to David Merriman, a professor of public policy at the University of Illinois at Chicago who studies Chicago's use of TIF districts.

"Looking at Pilsen and Fulton Market, both of those areas are hot," Merriman said. "I'm not saying there shouldn't be any public action there, but why the heck do you need to do it in a TIF?"

"Nobody thinks those areas are stalled," he added. "Private developers already want to invest there."

The 11 districts poised for renewal collected nearly $158 million in combined revenues and declared about $509 million in their collective fund balances at the end of 2020, Cook County Clerk's Office records show. If the districts were allowed to expire, that money would all be returned to the city's general fund and its school system, park district and other taxing bodies.

If those TIF districts weren't renewed, local governments could tax property at a lower rate and raise the same amount of money. That would amount to about $120 in tax savings for a single year for the owner of a Chicago property valued at $250,000, according to an Illinois Answers Project analysis.

A spokesman for Lightfoot defended the planned renewals in a statement to the Illinois Answers Project on Wednesday.

"TIF is an important tool for economic development, and under the Lightfoot Administration the system has been reformed to support equity, transparency, and accountability," Lightfoot press secretary Cesar Rodriguez said. "Many districts have been terminated or allowed to expire because they did not advance the goals of the city."

Kinzie TIF's growing cash haul

Since 2019, city planning officials have green-lit more than $178 million in TIF funds to help pay for about $469 million in infrastructure spending though the Kinzie Industrial Corridor district alone, which hugs the Metra and CTA Green

Line tracks from Halsted Street all the way to Kedzie Avenue, according to city records.

"This extension really builds on many of the plans and studies that have been completed in these years," Ryan Slattery, an analyst with the Chicago Department of Planning and Development, said in a July webinar on the TIF extension. He rattled off a list of school renovations, public transportation projects, affordable housing initiatives and streetscape projects in the pipeline for funding.

"We anticipate the future TIF-funded projects in the area to include both pending and potential future projects if the extension is approved," Slattery added.

City leaders have forecasted revenues or expenditures after 2022 for only four of the 11 districts they plan to renew: the Pulaski Industrial district, 24th/Michigan, Madden/Wells and Woodlawn.

But the TIF districts' annual revenues are likely to skyrocket if they are renewed — especially after Cook County Assessor Fritz Kaegi's 2021 reassessment of Chicago, which sent city properties' taxable values soaring.

With property assessments on the rise, Lightfoot's administration is setting a high target for its future spending in the Kinzie Industrial TIF. A pending ordinance before the City Council would free up the Lightfoot administration to spend up to $1.3 billion through the district on infrastructure projects through 2034.

By creating the Kinzie TIF district in 1999, city leaders froze the area's taxable value at less than $145 million — the amount that the city, Chicago Public Schools and other agencies can tax every year. But in 2020, the district's properties were assessed at a combined $1.2 billion. The property taxes from all the remaining growth were dropped into the TIF fund, which can only be spent on local capital projects.

'Doing Robin Hood'

Lightfoot campaigned on a platform of reining in the use of tax-increment financing, which began in Chicago under Mayor Harold Washington and exploded under Mayor Richard M. Daley. She pushed through a series of reforms in early 2020 designed to apply a "rigorous analysis" to new TIF proposals.

Unlike her predecessors, Lightfoot has been hesitant to create new TIF districts.

Her administration has pushed just one new district through the City Council, serving the LeClaire Courts public housing redevelopment on the Southwest Side. Another pending proposal would designate a special 16-mile-long “transit TIF” to help fund a southern extension to the CTA Red Line.

Since 2019, city leaders have let seven TIF districts expire and voted to sunset another eight districts early. Once districts expire, their accumulated revenue is released back to the city’s general fund and other taxing bodies, and new tax dollars are set back on course to those local governments.

But the City Council has also moved at the mayor’s direction to tack 12-year extensions onto five existing districts, including one of the most lucrative in the city.

The city’s Near North TIF district, which spans parts of River North and the Cabrini Green area, pulled in more than $39 million in 2020 alone, county records show. Following an extension the council approved last year, the district is set to keep amassing property tax revenues until 2033.

Ald. Walter Burnett (27th), who represents the area, supported the renewal, saying it would be tapped to prop up redevelopment efforts around Cabrini.

Now, Burnett is putting his weight behind the effort to extend the even larger Kinzie Industrial Corridor TIF, which lies entirely inside his ward.

He defended the move to keep the flourishing Fulton Market neighborhood inside the district, calling it a critical piece of the city’s plan to boost the number of affordable units in flashy new apartment high rises. The city’s updated affordable housing rules require developers to charge affordable rents on at least 20% of new units in wealthy areas, or pay a penalty. City officials say developers can’t be asked to surpass the threshold without public financing.

The city’s Fulton Innovation District plan, codified in 2021, sets a goal for all new housing in the northern part of Fulton Market to include at least 30% affordable units.

“It’s important that we have 30% affordable housing in that Fulton Market area,” Burnett said. “With all that development going on, we need to…keep it diverse.”

The alderman listed multiple other projects in the district, including a new Metra station planned at Ashland and Ogden avenues, an expensive endeavor he called "very important — not just for the Kinzie area, but for the whole West Side." He added that the western reaches of the TIF district in East Garfield Park include "a lot of vacant land," including some officials are eyeing for a potential expansion to The Hatchery, a celebrated nonprofit incubator dedicated to cultivating West Side restaurant and grocery businesses.

Burnett noted that the city has spread some of the Kinzie TIF's wealth to the neighboring Midwest TIF district, which encompasses poorer neighborhoods like Garfield Park and North Lawndale. City records show that in 2020, the Kinzie TIF ported $5.1 million — about 7% of its revenue from that year — into the Midwest TIF for a streetscape project.

"I'm doing Robin Hood, man," Burnett said. "I'm trying to use the money to pay for the folks who really need it."

'A catch-all development gimmick'

Nathan Ryan, an organizer with the progressive group Grassroots Collaborative, doesn't dispute that The Hatchery and Metra riders deserve public funds. But TIF districts, which accumulate money that would otherwise be sent to Chicago Public Schools, shouldn't be their ticket, he said.

"By state statute, the TIF program is to help blighted, low-income communities — it is not intended as a catch-all development gimmick," Ryan said. "Looking at Fulton Market, where is the blight? Is this really for a low-income community, or is this about continuing to lubricate the gears for developers?"

City planning officials boast that most the money generated by Chicago's 130-plus TIF districts have gone to public projects since 2019. And new monthly reports stemming from Lightfoot's 2020 reforms show the overwhelming majority of the approximately $178 million in TIF spent in the Kinzie district since 2019 went to school construction or CTA projects like the construction of a new Green Line station at Damen Avenue.

Still, critics like Ryan say the spending amounts to an "abuse" of a program designed to boost poor neighborhoods that otherwise would have no way to pull themselves up.

"What's egregious about this is, if the city wants to build affordable housing, roads, bridges, a food incubator…they could spend it from a normal budget expenditure," Ryan said. "The money doesn't have to come from Black and Brown schoolchildren. There are other places to look for money."

If the Kinzie TIF did not exist in 2020, Chicago Public Schools would have received about $40 million in additional property tax revenues that year, records show.

Even with Lightfoot's reforms, the TIF system has been widely panned for lacking transparency.

While the City Council routinely votes to approve high-dollar TIF expenditures, many smaller projects are green-lit out of the public eye by the city's TIF Investment Committee, which comprises top officials in the mayor's office and the city's planning and finance departments.

Even for projects that need City Council approval, aldermen often complain of being kept outside the loop by the planning department, as they did before voting this month to unlock $13.5 million in TIF funds to rehab a half-dozen grocery stores on the South and West sides.

Pilsen alderman seeks TIF expansion

While the Kinzie Industrial Corridor TIF is the largest district up for renewal, it is not the only one that includes red-hot real estate.

The Pilsen Area TIF district, created in 1998, mostly comprises industrial property surrounding the Chicago River south branch between Canal Street and Western Avenue. But it also traces a mile of the Cermak Road commercial strip and pokes up to include portions of the booming 18th Street corridor. The Pilsen district scooped up nearly $26 million in tax increment revenue in 2020 alone, with more than $233 million shoveled into the district during its lifetime. It declared a $64.5 million fund balance at the end of 2020.

The area's alderman, Ald. Byron Sigcho-Lopez (25th), is no fan of the city's TIF program nor of Lightfoot's stewardship of it. But he said he supports the renewal of the Pilsen TIF district, arguing that it has helped empower neighborhood-led development that would otherwise be channeled by the Lightfoot administration, because aldermen often are allowed sway in TIF spending.

"I've been very critical of the use of TIF funding, because we have not been prioritizing the needs of our communities over the agenda" of the mayor's office, Sigcho-Lopez said. "But in this case, where we have this level of funding, but we also have such a huge need, we believe that with more local participation we can perhaps redefine those priorities."

The alderman noted that the city's housing department was able to tap $10 million from the Pilsen TIF district to buy an embattled developer out of a coveted 6 acre plot at 16th Street and Peoria Avenue, where officials now propose an affordable housing development. And the rest of Pilsen's buildings — particularly its school facilities — need attention too, Sigcho-Lopez added.

"We are one of the oldest neighborhoods in the city," he said. "We have many infrastructure needs."

In fact, Sigcho-Lopez said he is lobbying city planning officials to grow the footprint of the Pilsen Area TIF district so that more properties, both public and private, can benefit. He noted that the Pilsen Food Pantry, which lies just outside the existing district, is pushing for an expansion.

"There have only been certain areas that are eligible for this, but we have small businesses in the area that are not getting any support," he said.

While city leaders see new spending targets, fiscal watchdogs and researchers are urging policymakers to pump the brakes.

Deep in its 69-page analysis of Lightfoot's 2023 budget proposal, the nonprofit Civic Federation praised the mayor's decision to declare an unprecedented $395 million TIF surplus to help balance the city's budget without raising taxes.

The surplus drew money from 17 of the city's most lucrative TIFs, including about $79.5 million from the Kinzie Industrial TIF district, according to city budget records. The Kinzie district's contribution was second only to a more than $155 million pulled from the gargantuan LaSalle Central TIF district, which declared about $197 million as a fund balance at the end of 2020 and is not scheduled to expire until 2028.

Researchers with the Civic Federation wrote in the budget report that the existence of such an overabundance of cash is reason for city leaders to "reevaluate" the use of TIF.

"These large declarations of TIF surplus are not guaranteed every year, but the repeated accumulation of surplus in a TIF does signal that the TIF district does not need its revenue for redevelopment projects," the report reads. "Such a situation indicates that either the district does not have achievable redevelopment goals and should be terminated or that it generates more revenue than is needed and some parcels should be released from the TIF district."

Keeping the districts alive longer than they're needed has downstream consequences, Civic Federation President Laurence Msall said.

"When you create a TIF, you don't forgo tax revenue — you just collect it into a separate fund, and then the other governments are forced to raise the money they need in the broader districts," Msall said. "So it's not just the people in that TIF who pay the increase. It's everybody in that government.

"The question is, is this just an elaborate way to raise property tax revenue without most people fully understanding who's being impacted?"