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The use of business property tax incentives in Cook County, Illinois

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Local governments use a variety of policies to encourage business retention, formation and relocation within their borders. Economic development policies include streamlining permit approval processes, flexibility with regard to zoning variances, and providing infrastructure to aid a specific business' operation. In other cases, local governments offer monetary tax breaks that substantially reduce the effective tax rates targeted businesses pay. In the Chicago metro region, municipal governments offer a host of different abatements and programs, such as Tax Increment Financing (TIF) and Enterprise Zones (EZ), to qualified commercial property owners that lower their property tax bills or increase the amount of services they receive relative to the taxes they pay.

This brief documents the extent of property tax abatement, TIF and EZ use in Cook County, Illinois. During the 2012-2014 period, we find that roughly 2,300 to 2,600 parcels of commercial or industrial property in Cook County (2.5 to 2.7 percent of all county parcels with for-profit business activity) annually received a reduced assessment. At the same time, approximately 36,000 commercial or industrial parcels (39 percent) were located in TIF districts and 30,000 parcels (32 percent) were located in EZs.

Tax relief represents an opportunity cost for local governments that forego revenue they could have collected and used for other public purposes. We estimate the cost of the incentives in terms of foregone revenue to local governments and find that about $250 million, or 5.3 percent of the $4.7 billion of commercial and industrial property taxes local governments (including school districts) in Cook County extended in 2014 were not collected as a result of property tax abatements. In the same year, total property tax extensions within Cook County TIF districts were more than twice the amount of these abatements: $644 million. This figure represents funds that were spent in the districts on infrastructure of firm-specific subsidies but that were potentially redirected from other taxing jurisdictions and from other public purposes.

We also find that these three different tax incentives often are bundled together and used in conjunction with each other. In 2014, almost 40 percent of all commercial or industrial parcels receiving property tax abatements were also located within a TIF district and more than 53 percent of parcels receiving abatements were located in an Enterprise Zone. The high incidence of overlap raises questions about what local governments are getting in return from twice- and thrice-subsidized businesses. Because some of the programs work at cross purposes, this finding also suggests that the agencies administering the various business assistance programs in the county could improve their coordination.

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What are incentives, how do they work, and who uses them?

Local governments offer incentives with the intention of creating public benefits, primarily through job retention and creation and the growth of the local tax base. The spillover effects of new construction or of a factory remaining in operation can include ancillary construction, the removal or redevelopment of deteriorated property, property appreciation, and the in-migration of new businesses to take advantage of the agglomeration effect produced by the concentration of similar businesses. The expectation is that incentives lower the taxes or other private redevelopment expenses of the business property owner enough to make a Cook County location competitive with alternative locations.

Some incentives are negotiated directly with businesses and property owners while others are made available "as a right" if they meet eligibility criteria, such as operating in a designated zone or district. Many are "tax expenditures" in that local governments agree not to collect taxes to which they have a legal claim. An example would be a property tax abatement that lowers a portion of a property owner's tax bill by reducing the assessment ratio or the bill itself. While not a tax abatement or expenditure *per se*, TIF diverts property tax revenue from a city's general fund and from other overlapping taxing entities such as school districts to a smaller, sub-local jurisdiction—a TIF district. In this sense it resembles other incentives in that local governments are forgoing tax revenues to which they are otherwise entitled by providing the incremental property tax revenue above a baseline to businesses and property owners within the district.

In Illinois any local government that extends a property tax can also abate it (up to a certain amount) for select property owners. Cook County operates its own form of abatement within what is called its "classification system." Since 1973, Cook County has assessed properties with different land uses at different assessment rates. Cook County's current assessment system includes ten major classes coded from 0 (exempt parcels) to nine (multi-family incentive parcels) with dozens of sub-classes. In general owner occupied residential parcels are assessed at ten percent of market value while most business parcels are assessed at 25 percent of market value. Special classes of assessments are used to reduce tax payments for certain desired land uses.

For example, Cook County authorizes a classification of 6B (industrial tax abatements) if industrial property owners undertake new construction, substantial rehabilitation, or re-occupancy of a previously abandoned property.[1] The county also offers a 6C classification to owners of industrial properties that were environmentally contaminated but have been successfully remediated. Owners of commercial parcels may be eligible for 7A and 7B incentives if the parcel is located in an area designated as in need of commercial development; utilizes new or previously vacant structures; and will substantially increase tax revenue and employment in the area.[2] Class 8 is offered to owners of new or substantially renovated commercial or industrial property located in areas determined by the Cook County Assessor to be blighted or "experiencing severe economic stagnation."[3]

In order for a parcel to receive one of these incentive classifications, the property owner must file an application with the Cook County Assessor. In addition, the authorizing municipality in which the parcel is located (or the county, if the parcel is located in an unincorporated area) must approve an ordinance stating that the parcel is eligible and supporting the application. By law, industrial and commercial parcels are assessed at 25 percent of their market value. However, those parcels receiving a 6, 7, or 8 incentive class designation are assessed at 10 percent for the first 10 years, 15 percent for the 11th year, and 20 percent for the 12th year. These incentives also can be renewed, in which case the assessment remains at 10 percent for an additional 10 years. The number of renewal period requests is unlimited.

We compiled data from the Cook County Clerk on parcels receiving an incentive classification or located within a TIF district or Enterprise Zone. As Table 1 shows, 1,647 commercial or industrial parcels received Class 6 abatements in 2012 (1.8 percent of the nearly 93,000 for-profit commercial and industrial parcels in Cook County), 68 parcels received Class 7 abatements, and 635 received Class 8 abatements. The counts grew slightly in 2013 and 2014.

Looking only at the population of potential providers of these abatements, we see that Cook County municipalities used them frequently. In 2012, 115 Cook County municipalities had industrial equalized assessed value (EAV) within their borders, and of these, 78 municipalities (68 percent) hosted at least one industrial parcel with a 6B incentive. Commercial property tax abatements (7A and 7B) were less widely used. In 2012, 128 Cook County municipalities had commercial EAV but only 38 (30 percent) of these had commercial parcels with 7B incentives. In both cases, these counts differ only slightly in 2013 and 2014.

[1] Information on the eligibility criteria and structure of these incentives can be found at http://www.cityofchicago.org/city/en/depts/dcd/supp_info/economic_developmentincentives.html http://www.cookcountyassessor.com/PdfForms/Incentive-Forms.aspx. In 1984, the County created two classes: 6A and 6B, which were rolled into one (6B) in 1990.

[2] Class 7A incentives are available to commercial (retail) property owners who undertake projects with development costs lower than $2 million, and Class 7B incentives are available for projects that have development costs greater than $2 million.

[3] The Assessor determines which areas meet this standard, but properties located in any of certain distressed townships (Bloom, Bremen, Calumet, Rich, and Thornton) or any property that was tax delinquent and obtained through the Cook County Tax Reactivation Project are automatically eligible.

Table 1:
Number of Business Parcels in Cook County Receiving an Incentive Designation

Incentive	Number of business parcels		
	2012	2013	2014
Class 6A	7	4	5
Class 6B	1,623	1,625	1,698
Class 6C	17	20	27
Class 7A	67	68	75
Class 8	635	660	718
TIF	35,629	35,619	36,593
EZ	30,670	30,567	30,573

Municipalities located in Cook County also have relied heavily on Tax Increment Financing since the state enabling legislation was passed in 1977.[4] In 2014, there were 434 active TIF districts in the County, and 36,593 individual parcels fell within these districts (Table 1). TIF districts are enabled by state law, which sets out the process for TIF district designation and lists which types of public and private expenditures may be financed lawfully through TIF. The sponsoring municipality must then pass an ordinance to complete the designation process. In Illinois, the lifespan of a TIF district is 23 years, with the option of an extension for another 12 years.

Once a TIF district is established, any increase in property tax revenue in the area (from either new development or appreciation) is sequestered and must be used to promote economic development within the TIF district. Existing and new property owners in that district are eligible to apply for an allocation of TIF funds, which are administered by the municipality in whose jurisdiction the TIF district lies. TIF funds can be allocated to projects such as infrastructure that benefit a larger area or to cover costs for specific redevelopment projects that benefit a specific private property owner.

In use in Illinois since 1982, Enterprise Zones (EZs) are another form of business tax relief aimed at stimulating economic growth and area-wide revitalization. Municipalities designate these zones to cover contiguous properties totaling from one-half of a square mile to 15 square miles if the area as a whole is considered "economically depressed" (based on unemployment or poverty rates, the potential for employment creation, vacancies, and major business closures in the local labor market area). Location within an EZ entitles business owners there to state and local tax incentives including: sales tax deductions on building materials, sales tax exemptions on machinery and equipment, relief from real estate transfer taxes, income tax credits for investments in qualified properties, and exemptions of utility taxes. Business owners must apply to the Illinois Department of Commerce and Economic Opportunity and provide evidence of new or retained jobs in the EZ to be eligible for these tax benefits. There are 19 EZs in Cook County, with 30,373 business parcels located in them in 2014.

The use of incentives is not uniform across Cook County. Table 2 (pg. 4) demonstrates that, on average, the municipalities that use abatements and TIF tend to be those with lower median incomes, larger shares of minority residents, and higher shares of commercial uses. Such a finding is consistent with the idea that these incentives are targeted toward commercial property owners in areas with redevelopment needs. Municipalities that use industrial and commercial abatements typically have higher property tax rates (as a share of EAV). However, property tax rates in communities that use TIF are about the same as in those that do not use TIF. The municipalities that use industrial abatements and TIF are concentrated in the south and west suburbs. The majority of municipalities using commercial abatements are in the south suburbs.

How much do incentives cost the public sector?

Property tax abatements like Cook County's incentive classes and the exemptions and deductions available through the state's Enterprise Zone program represent opportunity costs both for the municipal governments that grant them and for other taxing jurisdictions that count the recipient properties as part of their base. TIF is not technically a tax abatement because property owners within a TIF district only pay their "normal" tax burden. However, select property owners in these districts receive a portion of their property taxes (and those of others in the district) back in the form of subsidies for redevelopment and benefit directly from infrastructure investments. This represents an opportunity cost if that incremental revenue would have been generated in the absence of TIF, in which case it could have been used to fund other public services.

How much do Cook County governments spend on these business property tax incentives? This is a surprisingly difficult question to answer as, until recently, local governments have not been legally required to track and report information on tax expenditures.[5]

[4] Information about Cook County TIF districts can be found on the web site of the Office of the Cook County Clerk at https://www.cookcountyclerk.com/agency/tifs-tax-increment-financing, including maps of TIF districts at https://www.cookcountyclerk.com/service/tif-maps.

[5] This may change as, in August 2015, the Governmental Accounting Standards Board (GASB) promulgated GASB statement 77 requiring local governments to disclose tax expenditures affecting their revenue-raising abilities in their annual

Table 2: Characteristics of Cook County Municipalities by Incentive Use, 2012

	Industrial Abatements		Commercial Abatements		TIF	
	Use	Do Not Use	Use	Do Not Use	Use	Do Not Use
Mean Income	$24,131	$32,906	$25,241	$32,228	$24,386	$35,769
Share Minority	57.50%	40.00%	66.60%	40.70%	63.60%	31.00%
Residential Share	28.10%	55.40%	40.40%	52.50%	29.30%	66.10%
Tax Rate	13.30%	11.00%	17.30%	11.00%	11.20%	11.40%
North Part of County - including Chicago (# of municipalities)	6.09% (7)	1.74% (2)	2.61% (3)	5.22% (6)	6.96% (8)	0.87% (1)
South Part of County (# of municipalities)	35.65% (41)	13.91% (16)	28.70% (33)	20.87% (24)	40.87% (47)	8.70% (10)
West Part of County (# of municipalities	23.48% (27)	19.31% (22)	1.35% (5)	38.26% (44)	27.83% (32)	14.78% (17)

Table 3: Revenue foregone due to Class 6, 7, and 8 abatements, 2012-2014

Total revenue foregone due to incentives						
Year	Municipal Commercial Value Forgone	Municipal Industrial Value Foregone	Non-Municipal Commercial Value Foregone	Non-Municipal Industrial Value Foregone	Total Commercial Value Foregone	Total Industrial Value Foregone
2012	$8,077,791	$29,509,951	$31,022,209	$139,490,050	$39,100,000	$169,000,000
2013	$8,907,732	$33,271,938	$35,492,268	$154,728,062	$44,400,000	$188,000,000
2014	$10,817,139	$35,038,741	$44,382,862	$159,961,259	$55,200,000	$195,000,000
Total	$27,802,622	$97,820,629	$110,897,338	$454,179,371	$138,700,000	$552,000,000

Moreover, the incentives are provided by different levels of government and may interact in complicated ways.

We calculate foregone revenue from these incentives using data assembled on Cook County property tax classifications and TIF districts.[6] First, we estimated the monetary benefit to parcels classified as 6, 7, or 8 by assuming that these parcels were assessed at 10 percent rather than the usual 25 percent of market value[7]. Using the appropriate municipal and aggregate tax rates for each parcel in each year, we calculated the tax savings to the parcel (and the cost to the government) and summed the tax savings across all parcels with the same classification. Table 3 provides information about the cost to those municipalities that use incentives. Municipal property tax collections on industrial parcels were reduced by $35 million in 2014. That year, municipal governments collected about $10.8 million less in commercial property taxes than they would have if all parcels had been assessed at the normal rate of 25 percent of market value. Non-municipal governments, including school districts and the Cook County government, also had their collections reduced -- by $44 million and $160 million for commercial and industrial properties, respectively. In one year (2014), total property taxes foregone from these incentive classes were about $250 million, and in the three years we examined (2012-14), local governments sacrificed approximately $700 million in property tax revenue.

The intensity of abatement use can be measured by the share of all potential industrial or commercial property tax revenue that local governments forego by granting incentives. At $250 million, the foregone revenue from abatement classes constitutes about 5.3 percent of the $4.7 billion of commercial and industrial property taxes Cook County governments extended in 2014.[8] About one-quarter of all Cook County municipalities forego 10 to 20 percent of this revenue through these programs. As shown in Figure 1 (pg. 6, right-hand panel), a typical municipality that offered industrial incentives forgave 20 to 30 percent of the total industrial property tax revenue that it otherwise could have collected. Abatements in a handful of municipalities

financial reports. However, as presently constituted GASB 77 may not require the disclosure of all foregone TIF revenues in financial reports.

[6] Our methods are similar but not identical to those used in the Chicago Metropolitan Area Planning 2013 report, *Examination of Local Economic Development Incentives in Northeastern Illinois*

[8] As noted earlier the assessment ratio for class 6,7 and 8 parcels is 10 percent for the first ten years and then rises toward 25 percent during the 11th and 12th year unless renewed. We do not have data on the year these incentives were granted and thus cannot determine the precise assessment ration in 2014. Our calculations may therefore be viewed as an upper bound on the cost of the incentive classifications.

[8] See Table 11 http://www.revenue.state.il.us/AboutIdor/TaxStats/PropertyTaxStats/2014/

(e.g., Richton Park, Phoenix, and Homewood) reduced revenue from industrial real estate by more than 50 percent. Commercial equalized assessed valuation (EAV) is about three times as large as industrial EAV in Cook County and is more widely distributed across the county's municipalities. Along with its greater size and dispersal, commercial abate ments are less frequently used than industrial abatements so that a typical municipality offering commercial incentives forgave less than 5 percent of the total commercial property tax revenue that it otherwise could have received. Only a few municipalities (Ford Heights, Flossmoor) reduced their potential commercial property tax revenue by more than 10 percent when they used these abatements.

Revenue from TIF districts is not foregone but is redirected to developers and property owners who benefit from infrastructure in that district. The revenue collected in TIF districts may result from appreciation in any type of real estate, whether it is residential, commercial, or industrial. For TIF districts, therefore, we calculated the total property tax revenue in each district by municipality. In 2014, 81 Cook County municipalities hosted TIF districts with positive revenue. This revenue totaled a little more than $644 million, the majority of which was generated in the city of Chicago.

Figure 2 (pg. 6) measures TIF intensity as TIF revenue divided by all potential commercial and industrial revenue plus TIF revenue (in other words, the estimated total property taxes if TIF or abatements did not exist). In the majority of municipalities that use TIF, the revenue sequestered in TIF districts was 10 percent or less of total business property tax revenue in 2014[9]. TIF revenue comprised a substantially larger share in a few villages with small non-residential tax bases, including Glencoe (93.1 percent), Phoenix (58.7 percent), and Willow Springs (34.9 percent), and in some municipalities that hosted more commercial land uses, including Hoffman Estates (28.7 percent) and Rosemont (28.3 percent). In these municipalities, at least one-quarter of potential business tax revenue accrued to TIF districts instead of to the overlapping taxing jurisdictions.

Our calculations can be thought of as an "upper bound" on the cost of these incentives since some of the development that is incentivized by lower assessments or TIF subsidies would not have happened in the absence of the incentives. In those rare cases where no development would have occurred without the incentives (known as the "but for" criterion), the incentives can be thought of as having zero cost —or even a negative cost if the incentives pay for themselves and more. Moreover, we assume that all of the TIF revenue generated within a district is spent down even though, in reality, TIF revenue may not be equivalent to TIF expenditures if a district runs a surplus. Furthermore, some TIF spending is not used as a business tax incentive but instead pays for public goods, such as parks or infrastructure, and substitutes for other forms of public spending. Finally, we cannot calculate the cost of the Enterprise Zone program as we lack information on the specific deductions, credits, and exemptions used by businesses within the zones.

How do different incentives interact?

Tax abatements, TIF, and Enterprise Zones are quite different tools in many respects. Each has a different set of eligibility criteria for use. TIF and EZs are focused on a specific geographic area, but, unlike EZs, TIF can be used to enhance non-business (i.e., residential) property and public investments in infrastructure (e.g., parks, schools). The increment is commonly allocated to a developer, who is responsible for transforming an important site encompassing multiple parcels of property. In many cases, the developer sells the redeveloped site to new owners once their project is occupied.

In contrast, commercial and industrial business tax abatements are targeted to owners of a specific parcel or parcels. They are not contingent on the scale of new development, although they increase in absolute value (but not relative value) as the eligible property appreciates. They are aimed at a more narrowly defined parcel, the enhanced value of which may or may not induce extensive positive spillover effects. The TIF investment, even targeted to a particular site, is expected to benefit the entire TIF district, whereas no such justification of benefit beyond the parcel owner is required for abatements. Similar to TIF, the tax incentives provided by EZs are intended to create new jobs or capital investment in the area as a whole. Whereas TIF districts should cause property value appreciation, EZs are expected to induce job creation and wages for zone residents, construction or relocation of new business establishments in the zone, and increases in business activity for firms already in the zone.

Do municipalities use the three types of economic development tools as substitutes or complements? Our data suggest that municipalities target their different business incentive programs to the same users and that they do not use the incentive programs exclusively as substitutes. In 2014 for example, 925 parcels in Cook County were in a TIF district and also had an incentive classification in that year (819 in 2013; 873 in 2012). Similarly, 1,333 parcels were in an EZ in 2014 and also had an incentive classification in 2014 (1,274 in 2013; 1,306 in 2012). This last result appears to be intentional; in addition to the state taxes exempted and abated, a location in an EZ entitles the property owner to "special consideration under the Class 6B - Industrial Program."[10]

[9] Many TIF districts contain some non-business parcels so some of the TIF district revenue does not come from business property taxes.

[10] "Enterprise Zone Incentives" https://www.illinois.gov/dceo/ExpandRelocate/

Figure 1

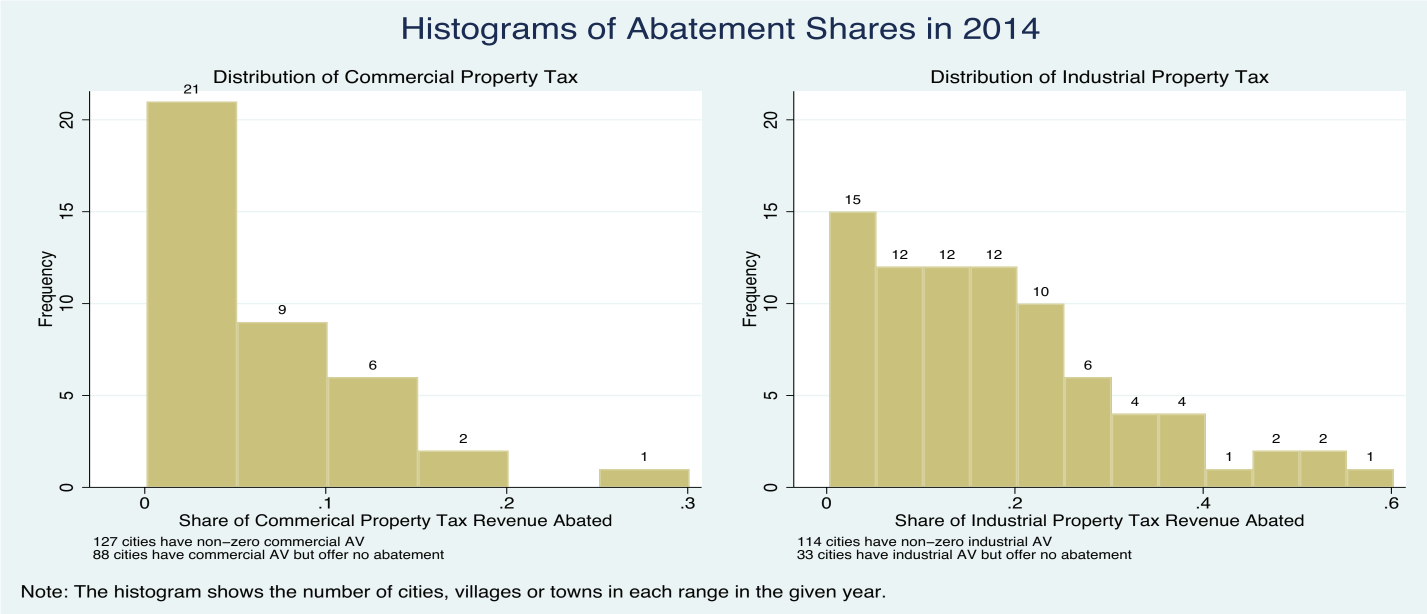

Figure 2

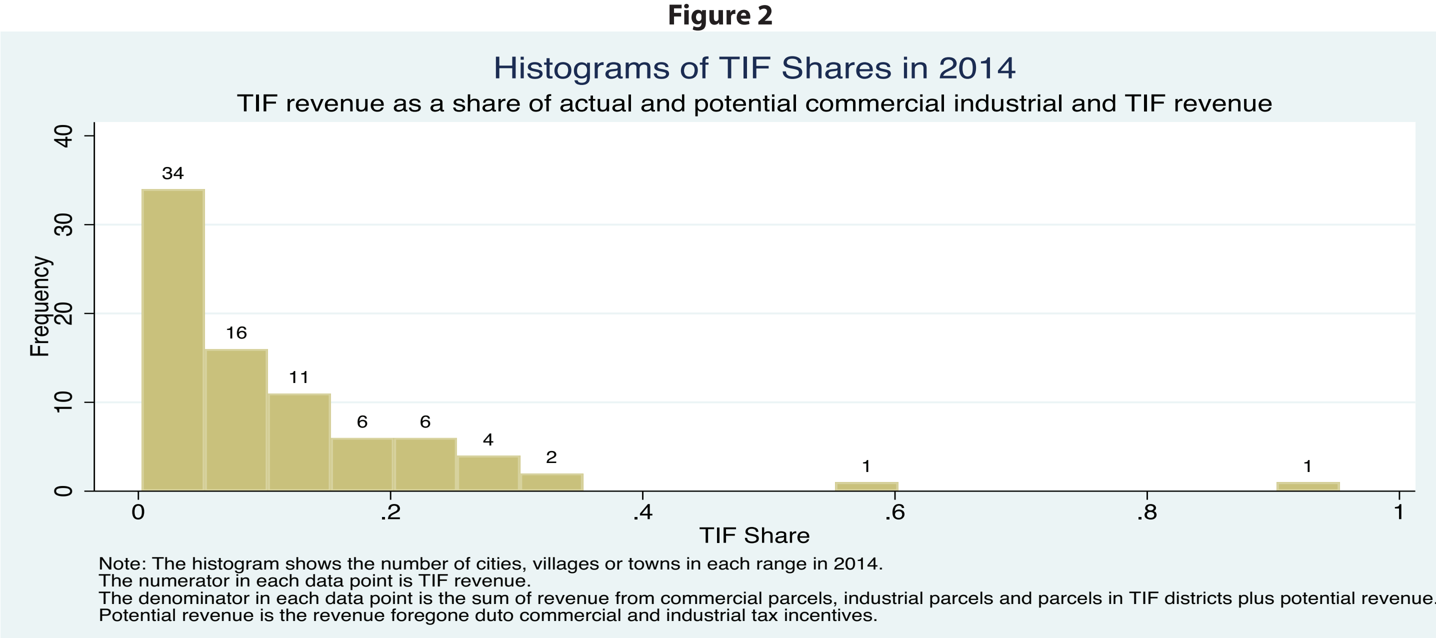

Table 4: Examples of combined use of commercial and industrial property tax abatements and TIF (2014)

<table>
<tr><th colspan="2"></th><th colspan="3">Intensity of TIF Use</th></tr>
<tr><th colspan="2"></th><th>High (>20%)</th><th>Medium (15-5%)</th><th>Low (<5%)</th></tr>
<tr><td rowspan="3">Intensity of Commercial and Insustrial Incentive Use</td><td>High (>20%)</td><td>City of North Lake (27.3 %, 21.0%)</td><td>None</td><td>None</td></tr>
<tr><td>Medium (15-5%)</td><td>Village of South Holland (46.3%, 11.2%)
Village of Bedford Park (65.3%, 9.5%)</td><td>Village of Homewood (9.5%, 8.2 %)
Village of Midlothian (10.6%, 6.5%)</td><td>Village of Glenview (0%, 6.1%)
Village of Burnham (0%, 5.6%)</td></tr>
<tr><td>Low (<5%)</td><td>City of Harvey (80.0%, 4.1%)
Village of Dolton (58.7%, 4.6%)</td><td>City of Countryside (5.5%, 3.0%)
Village of Orland Park (6.5%, 1.6%)</td><td>City of Elgin (3.8%, 0.7%)
Village of Kenilworth (0%, 0%)</td></tr>
<tr><td colspan="5">* The first number in parentheses after each city name is the share of potential commercial and industrial property tax revenue going to TIF districts. The second number is the share of that revenue going to abatements through Class 6, 7, of 8. To obtain the first figure inside the parentheses, we calculate TIF revenue divided by the sum of property tax revenue from TIF districts, commercial parcels, industrial parcels, and the potential property tax revenue that would have been earned if commercial and industrial abatements had not been offered. To obtain the second figure inside the parentheses, we divide into the same denominator the potential property tax revenue that would have been earned if commercial and industrial abatements had not been offered.</td></tr>
</table>

Table 4 (pg. 6) provides information about how some Cook County municipalities combined TIF and business property tax incentives. We estimate the amount of revenue foregone as a result commercial and industrial special assessment classifications (6, 7, and 8) and also note the amount of revenue generated by TIF districts. We normalize these amounts by dividing them by the total potential property tax revenue from commercial and industrial parcels in each municipality. Table 4 shows examples of municipalities that intensively used both types of incentives. For example, in North Lake more than 27 percent of total commercial and industrial property tax revenue goes to TIF districts and another 21 percent of commercial and industrial property tax revenue is foregone due to abatements.[11] Homewood and Midlothian use both types of incentives moderately. In contrast, neither type of incentive is used extensively in Elgin and Kenilworth.

The potential for the different kinds of incentives to be used by the same business property owners raises some concerns. First, municipalities may be concentrating these benefits in a small number of recipients. Second, the different incentives can work at cross purposes. Municipalities depend on property values within a TIF district appreciating to pay back any debt used to fund the initial developer subsidy or infrastructure investment. However, granting abatements to property owners within the TIF will reduce the property tax revenue collected by the municipality. Third, the underlying justification for up-front assistance for TIF-eligible activities is that subsidized properties will eventually pay more than their share of the subsidy by increasing in value and triggering spillovers so that nearby properties appreciate. If the property owners are also receiving tax abatements, however, it will take the municipality longer to pay off the cost of the initial improvements or other properties in the district will contribute a disproportionate share of their taxes to paying for them.

Conclusion

Our research reveals that Cook County municipalities rely heavily on available economic development programs. For municipalities with a commercial and industrial tax base, it is not unusual for property tax abatements and TIF, combined, to consume 10 percent or more of expected business property tax revenue. Moreover, some business property owners benefit from several of these programs at the same time. The frequent use of tax incentives represents a significant reduction of property taxes (or sales and income taxes in the case of EZ properties) that local governments might have otherwise devoted to other public purposes. Tax relief for an individual property owner may not impact the total amount of revenue collected by a local government if that government is able to increase the tax rate to pay for its budgeted expenses. Individual reductions in tax liability in this case, however, would be accompanied by a corresponding increase in tax liability for other property owners within the district, such as homeowners. The potential to shift the burden of tax liability across taxpayers and land uses makes it imperative to understand their implications for tax uniformity and fairness.

It is also important to observe what happens after incentives are granted. If subsidized business owners subsequently add jobs, make capital investments, or improve sales, the benefits of the incentives may outweigh their cost. In such cases the incentives may have been a critical part of the investment decision or they may have been incidental. Ascertaining whether the business actions would not have occurred absent the incentive can be a matter of intuition and judgment or can involve sophisticated statistical methods. Regardless, a detailed tracking of tax expenditures is a necessary first step in evaluating whether incentives are a smart fiscal and economic development policy. •

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Incentives/taxassistance/Documents/ezqa%202014.pdf, p.7.

[11] To obtain the 27 percent figure we calculate TIF revenue divided by the sum of property tax revenue from TIF districts, commercial parcels, industrial parcels, and the potential property tax revenue that would have been earned if commercial and industrial abatements had not been offered. To obtain the 21 percent figure we divide into the same denominator the potential property tax revenue that would have been earned if commercial and industrial abatements had not been offered.