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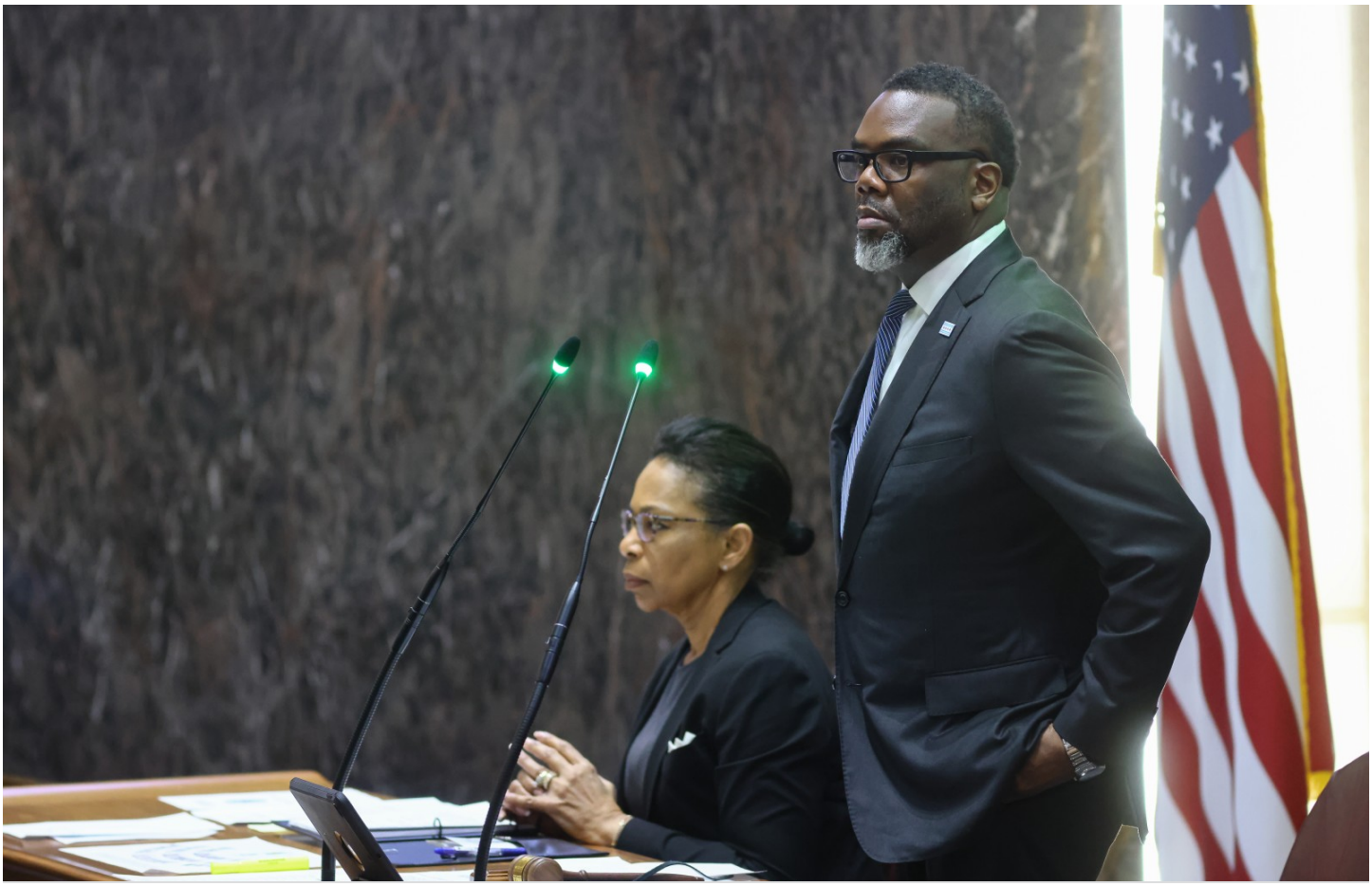
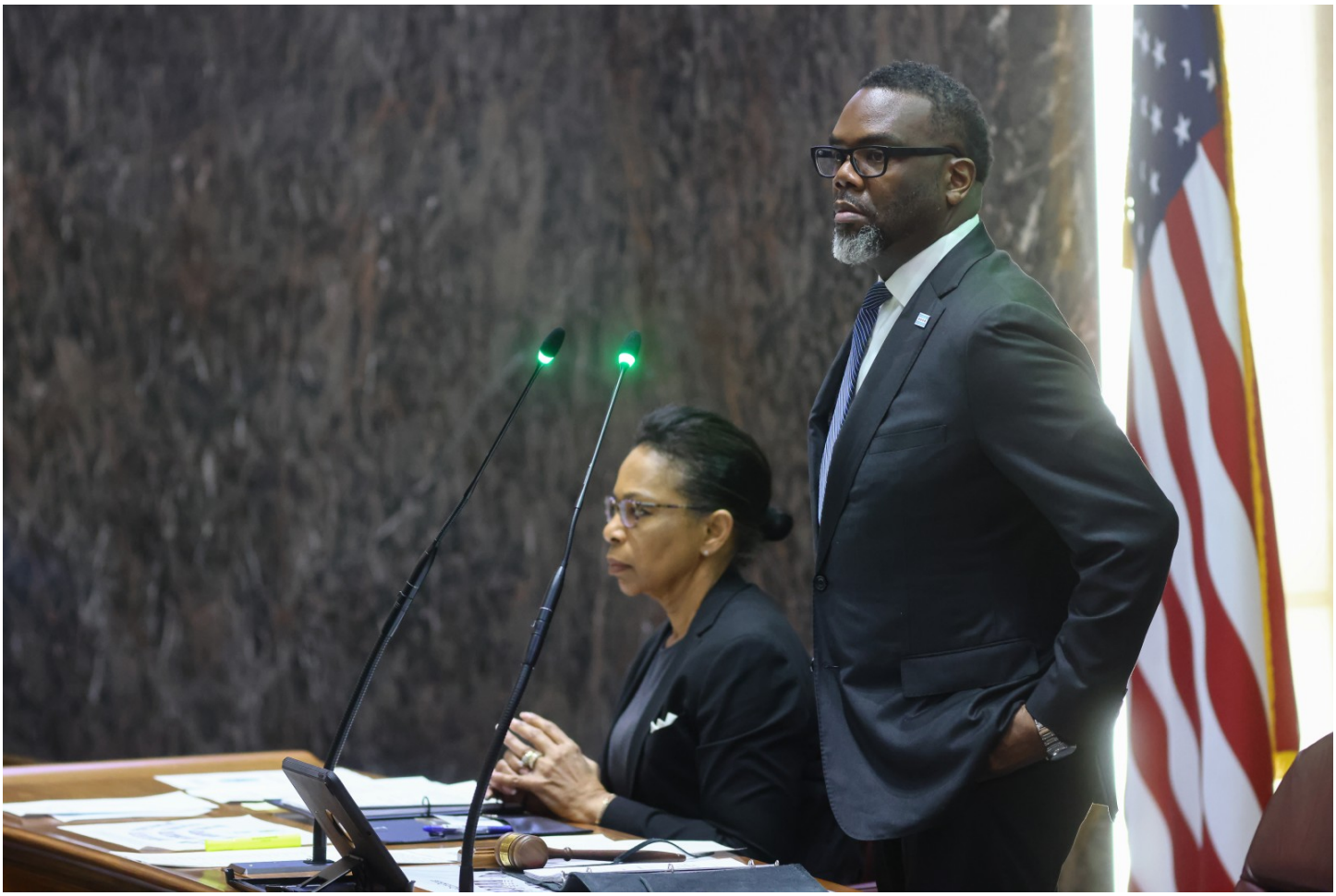
By Mariah Woelfel, Tessa Weinberg

Feb 20, 2024, 8:10pm CT



Hall, Thursday, Feb. 15, 2024. Johnson is planning to pitch a $1.25 billion borrowing plan to pay for affordable housing, and wants to use expiring TIFs to pay it back. Anthony Vazquez / Chicago Sun-Times, File Photo



Mayor Brandon Johnson listens to comments from city council members during a City Council meeting at City Hall, Thursday, Feb. 15, 2024. Johnson is planning to pitch a $1.25 billion borrowing plan to pay for affordable housing, and wants to use expiring TIFs to pay it back. Anthony Vazquez / Chicago Sun-Times, File Photo

Politics

Mayor Brandon Johnson pitches borrowing $1.25 billion for housing and development

Johnson says his signature development plan would rely on letting dozens of the city's controversial TIF districts expire, and that money would be used to pay back the debt.

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Chicago Mayor Brandon Johnson is expected to introduce a plan at Wednesday's City Council meeting to borrow $1.25 billion to fund affordable housing and other development projects throughout the city — marking the first major development proposal from the freshman mayor.

In a major shift away from how the city currently funds development, Johnson plans to pay for the massive borrowing package by knocking out another priority: letting dozens of the city's controversial tax increment financing, or TIF, districts expire. TIF districts siphon tax dollars away from the city's general funds to pay for local development projects, and Johnson plans to use the recouped tax money from expiring TIFs to pay for the debt.

"TIF is not and has not been historically the most equitable tool," Ciere Boatright, Johnson's Planning and Development Commissioner, said in an interview with WBEZ. "Bringing in economic development bonds will help attract investment — private investment, philanthropic investment and otherwise — to those

The borrowing plan, first reported last year by Crain's Chicago Business, would provide $250 million every year for five years, according to the city. But, interest would also cost the city an estimated $2.4 billion over 37 years. Officials say they could pay for that, in part, with an estimated $2.2 billion in recouped tax revenue from expiring TIF districts.

The plan requires the approval of the City Council. Lissette Castañeda, who is expected to be confirmed as the city's Housing Commissioner, told WBEZ the administration hopes to pass the spending plan by the end of March. The city has published a website detailing the proposal.

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The borrowing plan takes potentially the furthest step yet in longstanding efforts from multiple Chicago mayors to reform the TIF process and rely on more proactive investment into the city's infrastructure needs, such as Former Mayor Lori Lightfoot's Invest South/West program.

The plan is modeled after a pitch by commissioners from Lightfoot's administration. Last year, former Housing Commissioner Marisa Novara and former Commissioner of Planning and Development Maurice Cox sent Johnson a letter outlining a version of this new borrowing plan, urging him to start weaning the city off TIFs by letting them expire, and then using those dollars to pay off the debt.

But Johnson's proposal may face headwinds in council — in part due to the tight March turnaround — and as Johnson faces numerous questions regarding the city's finances. That includes an impending financial cliff in the city's efforts to support migrants, criticism over a perceived lack of cooperation with state officials, as well as hundreds of thousands of dollars in unspent federal COVID-19 relief funds, which Johnson has vowed to spend.

Johnson will introduce the plan the same day Gov. JB Pritzker makes his annual budget address. Pritzker is expected to announce $182 million in migrant funding, even as he has expressed dissatisfaction with Johnson's hesitancy to dedicate more money to the crisis.

What Johnson says the borrowing plan would pay for

The bond proceeds would be split evenly at $625 million each for the city's Department of Planning and Development and Department of Housing.

The Department of Planning and Development would use: $400-500 million for neighborhood development grants; $82.5-115 million for small business support; and $57.5-90 million for jobs and workforce training, according to the city.

The Housing Department would use: $360-390 million for the construction and

and preservation of homeownership, or affordable owner-occupied housing; and $20-30 million for the preservation of single-room occupancy structures.

The new revenue would fund a mix of both existing and new programs, officials said. Examples include financing the construction and rehab of more affordable rental developments in areas that may not be located in a TIF district or creating a new program that would provide low-interest loans to businesses.

Research from the DePaul Institute for Housing Studies found the city is short about 119,000 affordable housing units. Currently, the city's main source of funding for affordable housing comes from the federal government in the form of low income housing tax credits, but those tax credits alone aren't enough to fully fund an affordable housing development, so the city often relies on a mix of other sources, including tax increment financing, to fill the gap.

TIF dollars are restricted to areas in which a TIF district is created, and the most successful TIF districts are those in areas where property taxes are on the rise — making it difficult for lower-income areas to benefit from the TIF program.

The bond proceeds would be another source of funding that could be tapped instead of TIF dollars — without being restricted to the boundaries of a TIF district.

but this is actually coming to any place in the city that really needs this investment," Castañeda said.

Castañeda and Boatright did not give specific details about which projects would benefit from the new funding source, emphasizing that the city already has programs in place that this funding model would support.

Asked whether that includes programs such as Lightfoot's signature development program, Invest South/West, Boatright said there are projects within that program that are currently being evaluated for funding.

"There's a possibility that some of those projects can be funded," Boatright said. "I think what we're looking for is to have even more projects throughout our city, not just in those Invest South/West neighborhoods."

While officials emphasized equity would be a key factor they evaluate, projects funded by the new mechanism would also exist throughout the city, and not be limited to certain areas, like the South and West sides.

"Every single neighborhood needs different levels of investment and has different development goals," Boatright said.

Ald. Andre Vasquez, 40th Ward, said he supports moving away from TIFs and utilizing a model that allows for more equitable investment throughout the city. But, after being briefed on an early version of the proposal last year, he still had questions about how the city will determine which projects are prioritized — which will likely be a point of contention as the plan moves through city council.

"How does one determine which projects are being supported where they're at?" Vasquez said. "Because there is a very real concern that you're gonna have 50 alders all saying, 'Well, I should be at the top of the list.' And how is that figured out in a way that is a fair process?"

How the city says it would pay off this new debt

Development.

As those TIFs die off, money they were collecting for local projects will start flowing back to public taxing bodies, including the city of Chicago, Chicago Public Schools, forest preserves, libraries.

City officials estimate that expiring TIF districts will lead to roughly $2.2 billion in additional revenue coming back to the city in the next 15 years alone. The debt plan will, in its 37-year life span, cost about $2.4 billion.

Letting those TIF districts expire is a major change to previous mayoral administrations' practices. According to DPD, of the 72 TIF expirations that have occurred since 2008, 34 districts were extended for an additional 12 years.

The city plans to use its share of the money from expiring TIFs to fund the debt plan over 37 years.

"This proposal could be accomplished without either raising property taxes or cannibalizing other investments," an overview of the plan reads. "Additionally, since projects supported by the bonds are not reliant on TIF any new property taxes resulting from City investments will ...increase the overall size of the City's tax base rather than remaining sequestered within a TIF district."

well as growing pension obligations. In 2024, paying off debt will make up about 17% of all city spending, according to an analysis by the Civic Federation.

Pension contributions make up about 23% of all spending.

Vasquez said he wants to see a portion of the funds dedicated to contributing to the city's underfunded pensions.

"We don't want to get to the point where we're just borrowing money and just spending as opposed to paying off some of the debt and the pension debt, which has been weighing us down," Vasquez said.

Amanda Kass, an assistant professor with a doctorate in urban planning and policy at DePaul University said it is conventional to issue debt to fund a capital program of this scale, and said while taking on new debt could be a factor in the city's credit rating, it won't necessarily have a negative impact.

"The city's credit rating is impacted by many factors and the credit rating agencies are evaluating whether the debt can be repaid," Kass said. "The pitch is that this new debt would be paid for with the expiring TIFs, so, in theory, it's not really creating a new financial obligation."

Why the city wants to wean off TIFs

The Chicago City Council can designate, through state law, a TIF district in a certain area where taxes will be collected to help subsidize projects. When a TIF district is created, the amount of property taxes going to schools, libraries, parks, or other city services essentially gets frozen in time. That means those taxing bodies get roughly the same amount in property taxes from that area each year, for as long as the TIF exists.

As property values rise in that area, the increases generated from property taxes, known as the increment, get set aside in a TIF fund. That money can then be used for special projects within that TIF district.



private projects that include things such as infrastructure improvements, affordable housing, or economic development. But, when funds aren't spent at the end of the year, the city often reclaims the money to close its budget gaps.

When former Mayor Harold Washington created the city's first-ever tax increment financing district in 1984, it's unlikely he foresaw the sprawling TIF program that exists in 2024 Chicago.

"I think he opened a Pandora's Box, unknowingly," said Rachel Weber, a TIF researcher and professor of urban planning and policy at the University of Illinois-Chicago.

Weber said Washington was convinced that the financing tool, which had become common in California and Minnesota, would encourage development Downtown — in the area now known as the Magnificent Mile — without raising taxes on neighborhood residents.

But the program really flourished under Mayor Richard M. Daley, who became known as the "TIF king." By the time Daley left office, the city had roughly 160 TIF districts.

"He would brag about how much he loved using TIFs," Weber said. "And it

In 2017, Chicago had as many TIF districts as the other nine largest U.S. cities combined, according to a Lincoln Institute of Land Policy report. In 2022, the city had 127 TIF districts that accumulated a whopping $1.3 billion, which makes up 41% of property tax revenue collected by the city of Chicago, according to the most recent annual TIF report from the Cook County Clerk's Office.

The proliferation of TIFs has made the financing tool an expected way of doing business that David Merriman, the University of Illinois System's Institute of Government and Public Affairs interim director, describes as "golden handcuffs."

"It forces the city and the developers to work together. And the trouble has been, I think, that often developers have enticed the city to give them TIFs when they could have really done the development without the governmental participation," said Merriman.

Critics have said that money could be better spent if it were redistributed to schools, parks and the city of Chicago. The highest-generating TIF districts are in areas where property values (and taxes) will continue to rise (meaning more money will funnel into the TIF fund). But critics say the districts aren't as effective in distressed areas that need development and investment most.

"Not all TIFs are created equal — they only accumulate increment if property values rise," Novara, Lightfoot's Housing Commissioner, said in an interview with WBEZ. "And so the quote- 'richest TIFs' are in the areas where increment is rising the fastest, and long disinvested areas then, to the degree they have TIFs, are not generating as much resources, which they desperately need ... So it really perpetuates a lot of the inequities that we're trying to solve for."

As TIFs expire, the geographically eligible areas available for projects would also grow more limited, and "as a result, TIF is likely to become an even more skewed and inequitable funding source for key investments," an overview of the bond plan reads.

While Boatright called the bond strategy a "game changer," TIFs won't be disappearing from the city's economic development toolbox.

"In some cases, we're going to extend those TIFs. And so the city is not anti-TIF."

Ald. Maria Hadden, whose 49th ward covers Rogers Park on the North Side, said the TIF program hasn't been effective in her area "that's pretty economically depressed."

"The areas that could be [in a TIF] — they do have to be contiguous. So we weren't able to draw a TIF that was contiguous, that had properties that were of a high enough revenue-generating based on the taxes that they pay, in order to generate revenue over the 23 year time period."

Johnson's looming financial challenges

Johnson did not rock the boat with his first, $16.6 billion budget, which was seen by many as a status quo spending plan. Johnson took the common step of relying on a TIF surplus to close the city's estimated $538 million budget gap.

He also continued a Lightfoot-enacted pension strategy that has been popular with credit rating agencies and fiscal experts, where the city pays above the necessary amount towards its overwhelming pension debt.

But Johnson has big financial goals to fund his key campaign promises, as the



mounts a campaign to increase the city's real estate transfer tax when property valued at more than $1 million is sold. Both funding strategies allow Johnson to pay for priorities without raising property taxes.

Castañeda said the borrowing strategy can work hand in hand with the revenue that the tax increase, known as Bring Chicago Home, would generate if passed.

"The bond dollars can lead in creating units and the dollars from Bring Chicago Home can make them deeply affordable and pay for services," Castañeda said.

Johnson has perhaps fought the hardest battles when it comes to funding the migrant crisis. Just months into office, Johnson had to convince the City Council to dedicate $50 million in emergency funding to get through the month of June.

In December, Johnson faced criticism for dedicating $95 million in federal COVID-19 relief funds for migrant housing costs. That was on top of roughly $150 million dedicated to the crisis in his annual budget.

Under Johnson's leadership, the city has run 28 migrant shelters, but Johnson has continuously cautioned that it may only get the city to the summer before a financial cliff. He has called on the federal government to step up.

State, county and city officials have agreed that it will require roughly $321 million in additional funding to care for migrants through the end of the year. The state and county have promised to cover $250 million of that burden, but Pritzker's office has accused Johnson of not following through on an initial commitment to funding the remaining $70 million.

An S&P Global Ratings analysis on the budgetary challenges migrants have posed for cities warned additional federal funding to aid cities like Chicago would be unlikely, and that the city's currently positive credit rating could be in jeopardy down the line.

"If support from the state and federal governments does not materialize as expected, the impact on Chicago's bottom line could be sizable," the February analysis read. "How the city manages these pressures, particularly when faced

effect on its credit quality."

Mariah Woelfel and Tessa Weinberg cover Chicago government and politics.

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