

# DOWNTOWN PROSPERITY, NEIGHBORHOOD NEGLECT:

## *Chicago's Black and Latino Workers Left Behind*



**AN ANALYSIS OF U.S. CENSUS DATA COVERING  
NEIGHBORHOOD WORKERS AND THEIR COMMUNITIES**

**GRASSROOTS  
COLLABORATIVE**

OCTOBER 8, 2013

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# ABOUT THE GRASSROOTS COLLABORATIVE

Grassroots Collaborative blends various styles of organizing that build on deep relationships between and across race, geography, language, and methodology to win economic and racial justice.

The Collaborative focuses on winning greater racial and economic equity for low and moderate income working families in Chicago by initiating a long-term campaign for progressive policy reform. The Collaborative connects the issues of jobs, education, and housing to race, revenue, Tax Increment Financing (TIFs), and bank and corporate accountability.

## ABOUT THIS REPORT

Our work set out to understand the visible disparities between downtown and struggling Chicago neighborhoods and the systematic causes of different economic realities across race within the same city. We start the report by looking at property taxes, TIF, budget deficits, and the policies implemented to eliminate those deficits. Then we look at the impact of those policies and the economic activity resulting from TIF. To add context, we include an analysis of economic trends in Chicago neighborhoods. We conclude with policy recommendations sorely needed to steer our city towards a path of shared prosperity for all city residents.

## METHODOLOGY

This report's jobs analysis is based on Longitudinal Household-Employer Dynamic data from 2002 to 2011, the most recent available from Census Bureau. Our analysis defined downtown as the eleven zip codes that overlap the city's designation of the central area including: 60601, 60602, 60603, 60604, 60605, 60606, 60607, 60610, 60611, 60654, and 60661.<sup>1</sup> Our neighborhood analysis utilized data from the Decennial 2000 Census and the American Community Survey 2007 to 2011 5-year estimate. To produce an analysis of racial disparities, we included an examination of racial majorities across 56 zip codes located within Chicago city proper as classified by the Census Bureau and then compared variables of interest. In 2008, the zip code boundaries for 60610, 60622, 60642, and 60654 shifted and data was aggregated to 2000 year boundaries to keep comparisons consistent to the same geography.

# Executive Summary

Job creation and re-location, subsidized by over \$1.2 billion from Chicago taxpayers, disproportionately benefits non-Chicago residents. From 2002 to 2011, downtown economic activity brought a net gain of 52,404 jobs to downtown Chicago. However, only 1 of 4 of those new jobs was filled by a Chicago resident.

Downtown job gains and losses are racially disparate – white communities gain, while Black and Latino communities lose. From 2002 to 2011, Black majority city zip codes suffered a median loss of 620 downtown jobs per zip code and Latino majority city zip codes suffered a median loss of 381 downtown jobs per code; meanwhile, white majority city zip codes each added a median of 509 downtown jobs during the same period.

Jobs are moving to downtown and leaving Chicago's neighborhoods. Between 2002 and 2011, there was a net loss of 10,121 jobs across Chicago's neighborhoods.

As Chicagoans experienced deepened job losses, unemployment grew disproportionately in communities of color. The ten zip codes with the highest unemployment are 70% or more Black or Latino, based on Census data estimates from 2007 to 2011.

Economic opportunities for Chicago's low and middle wage earning families are disappearing from the city. From 2002 to 2011, Chicago added 129,054 new jobs paying \$40,000/year and above to its job pool. During the same period, there was a loss of 182,938 jobs that paid below \$40,000/year.

Black and Latino families are at a higher risk of living in poverty than their white counterparts. From Census data gathered from 2007 to 2011, the percentage of Black families living in poverty was about 5 times higher than the percentage of white families living in poverty, while the percentage of Latino families was about 4 times that of white families.

From 2000 to 2011, the city experienced a loss of 188,893 residents, 74.2% of whom were Black.

## RECOMMENDATIONS FOR THE MAYOR AND CITY COUNCIL:

### **Create good jobs for Chicagoans and ensure that all city residents benefit from downtown jobs.**

- Require that entities receiving city public subsidies create jobs for Chicago residents, track that entity's fulfillment of that commitment, and claw back subsidies when they fall short.
- Create living wage requirements with all city subsidy programs.
- Implement a commuter tax to compensate the city for its public safety costs, transportation costs, infrastructure costs, and TIF subsidies, and ease the burden on Chicago-resident taxpayers, for whom the benefits of downtown job growth have been disproportionately small.

### **Make sure that subsidies lead to equity for all, not benefits for a small few.**

- Implement "Robin Hood" porting to take TIF money from wealthy downtown areas and invest them into truly blighted communities.
- Develop a fixed formula that declares a surplus in prosperous TIF districts and returns a set portion back to local taxing bodies.

### **Ensure that tax dollars be spent on quality public services, not private developers and financiers.**

- Call for a review of City of Chicago's and Chicago Public Schools' interest rate swap deals with Wall Street big banks, and renegotiate these agreements down from costs of \$74.1 million and \$36 million every year.

### **Raise standards for lowest-wage workers.**

- Push for an increase in the city minimum wage to ensure that working families can share in the economic benefits of Chicago's status as a global city.

### **Reduce the tax burden on low- and middle- income families while addressing Illinois' structural deficit.**

- Work with state officials to amend the Illinois constitution to allow a graduated income tax to relieve the disproportionate burden on low- and middle-income families, and create the revenue needed to support education and the critical safety net.

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# Introduction

National and local economies have experienced an anemic recovery from the Great Recession, which began in December of 2007 after excessive risk taking by the financial sector crashed the economy.<sup>2</sup> Despite economists' declarations that the Great Recession "ended" officially in June 2009, communities across the country, including Chicago, are still struggling to recover. Steady but slow job growth has convinced decision makers that status quo policies, such as no-strings-attached subsidies and corporate tax breaks, are working, and should be left unchanged. But a closer look at employment data reveals that this remains a time of crisis for most Chicagoans, one which requires a reassessment of policies that affect our current economic condition and shape our future.

The Great Recession brought record job losses and massive numbers of foreclosures to communities across Chicago, with downtown a notable exception. While neighborhoods across the city saw cuts to programs and services during the economic downturn, beautification efforts, infrastructure improvements, and publicly-funded private development deals in the central area of the city went on uninterrupted. As a result, downtown Chicago is thriving.

Downtown development was a priority throughout the Richard M. Daley administration and became official policy after the passage of the Central Area Plan in 2003.<sup>3</sup> The plan prioritized the development of downtown jobs, housing, and new public services and facilities.<sup>4</sup> Built around the coordination of the Department of Housing and Economic Development, the Department of Transportation, and the Department of the Environment, the plan articulated the complete needs of a neighborhood, incorporating educational facilities, recreational spaces, accessible jobs, and retail services. Notably this plan was limited to Downtown.<sup>5</sup>

The City supported this plan primarily through Tax Increment Financing (TIF) and grants. From 2004-2008, the city spent \$1.2 billion from TIF funds in the central area.<sup>6</sup> Many of the recipients were corporations interested in renovating, moving, or expanding their offices.<sup>7</sup> TIF proponents argue that corporate giveaways are required if cities wish to expand private development. City officials argued that luring corporate headquarters to downtown Chicago would result in an anchor of economic stability and growth through subsequent job creation and secondary economic activity.

However, studies show that there are more important factors than corporate subsidies that predict long-term success for local economies. These factors include the skills of the local workforce, access to supplies, and access to markets.<sup>8</sup> Educational attainment is the strongest determining factor of overall economic performance in the long run.<sup>9</sup>

To the detriment of a great number of Chicagoans, city government has simply failed to adequately address the public service needs of city residents in recent years. The city cannot expect to develop a well-educated workforce if its schools are persistently underfunded, unstable, or being closed en masse. Neither can the basic needs of Chicago residents be met when public resources are diverted to funding projects for prosperous private developers.

It is with this in mind that we took a fresh look at public investment in downtown Chicago via the TIF program, and evaluated its impact on the rest of the city. Chicago's neighborhoods are notoriously segregated, and development policy has mirrored this by creating segregated economies. Focusing TIF expenditures on downtown, cutting public services in neighborhoods, depleting public resources for public use, and neighborhood destabilization are all symptoms of an unequal system with the wrong priorities. We must implement TIF reform, budget reform, and policies that increase quality of life in neighborhoods, in order to become a city where all residents are considered and included in the city's economic prosperity and future.

# Property Tax System and TIF Explanation

TIF plays a key role in the economic development of our city. TIF is an economic tool, originally intended to invest local property tax dollars to address blighted communities, that derives its revenue from the property tax system. Understanding the basics of TIF and the property tax system is important to understanding TIF's impact. Chicago's property tax structure is complicated; therefore, our explanation will focus on the broad design of the system as a whole and its interaction with TIF.

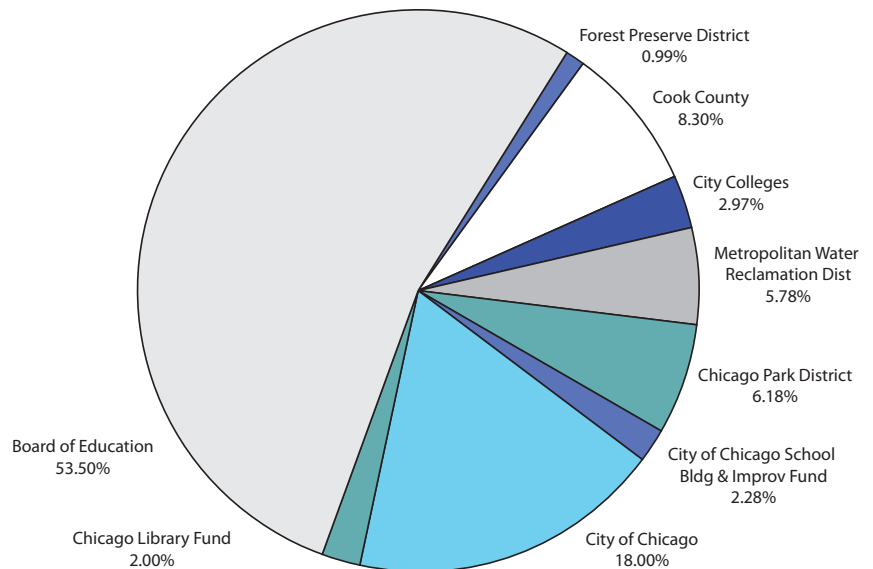
Everyone who lives in the city pays property taxes, either directly as a homeowner or indirectly through rent. Property taxes go toward the funding of vital public services to keep our city and county functioning. Property taxes are determined through appraising the value of a property, multiplying that amount by an assessment standard of ten percent of the property value, multiplying that by a state equalization factor to reduce inequalities between regions, resulting in the Equalized Assessed Value (EAV) of a property.<sup>10</sup> Exemptions, such as those for seniors, can be applied at this point to reduce the amount of the EAV that will have taxes applied to it.

Local government entities that provide services in a specific geography are called "local taxing bodies." Local taxing bodies submit their estimate of revenue needs to the Cook County Clerk, and request a percentage of the EAV. For the Chicago

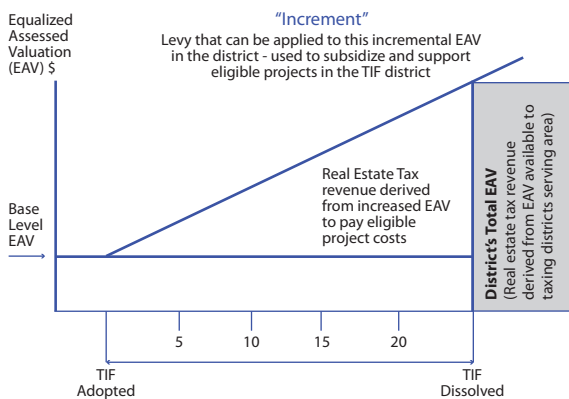
Board of Education (an example of a local taxing body), the individual agency rate (estimate of revenue needed) was 3.422% for 2012.<sup>11</sup> All the individual agency rates of local taxing bodies are then consolidated into a composite tax rate. In 2012, Chicago's composite tax rate was 6.396%.<sup>12</sup> The Cook County Clerk's Extension office then determines the actual amount to be collected, called the tax extension, and charges those rates accordingly to property owners.

Chicago residents pay their property taxes to Cook County, which in turn distributes these funds to local taxing bodies. Below is a chart showing the local taxing bodies and their share of property taxes in 2012 from the Cook County Clerk's Annual Report.<sup>13</sup>

## Typical Division of Property Taxes Among Taxing Bodies



## Typical TIF District Creation and Revenue Generation



TIF revenue is derived from taxes on property within city-designated TIF districts. When a district is created, a cap is placed on the EAV that can be taxed for local taxing bodies and any future increase in EAV goes toward the TIF district's fund (highlighted in graph below).<sup>14</sup>

Any non-home rule individual agency rate (rates for local taxing bodies like schools or parks that are not managed by locally-elected officials) can only increase to keep up with inflation.<sup>15</sup> Any increase in property taxes above that rate is collected and deposited into a separate account for the TIF district. This money is then under the discretion of the city's Department of Housing and Economic Development, which is under the Mayor of Chicago, and any action requires approval of the city's fifty aldermen. The Mayor's strong influence over the city's legislative matters also extends to TIF.

# Budget Impact

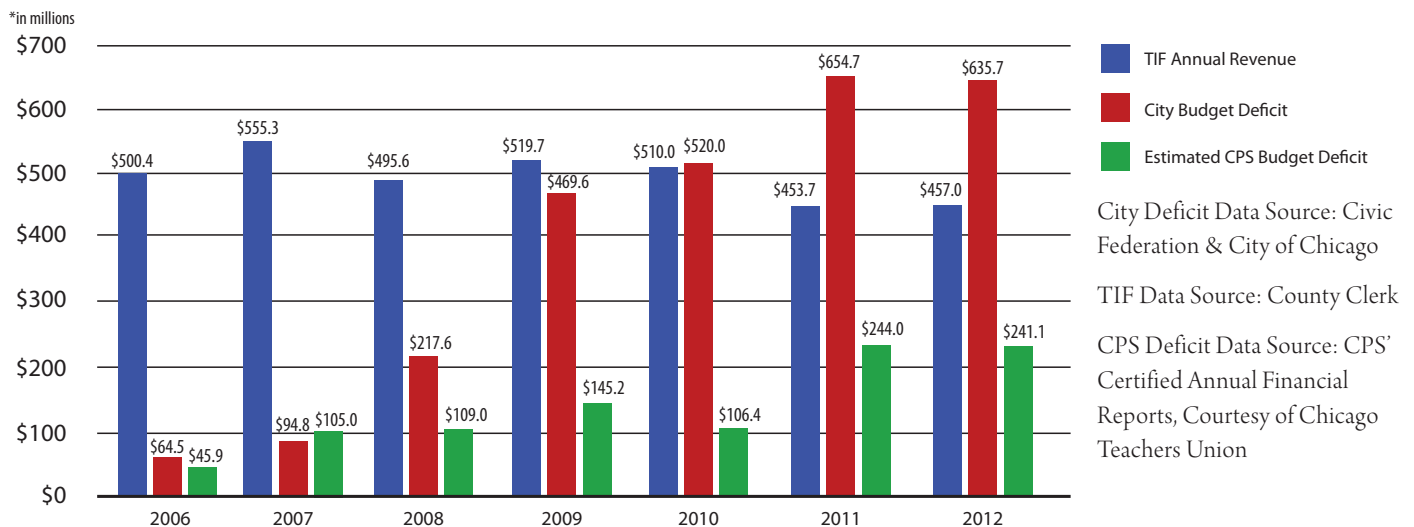
Since 2005, budget deficits have become a recurring crisis for the City of Chicago and Chicago Public Schools. Arguments rage over the extent to which, and the ways in which, TIF districts impact public budgets. Critics argue that TIFs deprive taxing bodies of money that they would otherwise receive. Proponents say that TIFs take tax money that only exists as a result of the economic development spurred on by TIFs. There is widespread agreement among academics and local policy groups that TIF districts raise property tax rates for people who live in and outside of a TIF district, and that TIFs limit the money available to taxing bodies by limiting the extension rate applied.<sup>16</sup> Moreover, in cases where a TIF district exists in an area where development would occur without TIFs (like the LaSalle Central TIF District), the district is operating against its original purpose and serving only to divert vital property tax dollars from local taxing bodies.

Written into the TIF statute is a process by which the city can declare a TIF surplus and return property taxes back to the overlapping taxing bodies according to a pro-rated schedule based on the taxing bodies' percentage of the consolidated tax rate.<sup>17</sup>

At the larger scale, local taxing bodies' performance versus that of the TIF system can be seen through their budgetary changes over time. City of Chicago and Chicago Public Schools are key local taxing bodies that control spending over services that Chicagoans use every day. This chart compares each body's growing annual deficits to TIF's annual revenue.

## TIF Annual Revenue Compared to City and CPS Budget Deficits

TIF Annual Revenue vs. City Expected Deficit and CPS Expected Deficit from City 2006 - 2012<sup>18 19</sup>



In 2010, Mayor Daley declared a \$180 million TIF surplus to help close an unprecedented \$654.7 million budget gap for fiscal year 2011. This brought \$38.5 million to the City's budget and \$90 million to CPS.<sup>20</sup>

Mayor Emanuel's first city budget, for fiscal year 2012, came with a \$635.7 million deficit. The Mayor was also dealing with CPS budget problems which had its own expected deficit of \$241.1 million.<sup>21</sup> Despite originally saying TIF could not be a solution to solving the budget deficit, he subsequently acknowledged that TIF money should not stay idle while budget deficits were harming the city, and he eventually declared a \$61.7 million TIF surplus to allocate \$12 million to the city and about \$30 million to CPS.<sup>22</sup>

Mayor Emanuel's surplus declaration still left large holes in the city and CPS budget. In an attempt to further reduce the budget deficit, the Mayor also renegotiated contracts with labor unions to cut labor costs for the city, initiated a cost sharing agreement with Cook County, and implemented efficiencies to cut overhead expenses.

Even with all these efforts, the budget gaps for the city and CPS were not filled. To close the deficit completely, the Mayor cut funds for public safety and social services provided by the city, cut educational programs provided by CPS, and increased city fees for Chicago's residents.

The Mayor's cuts eliminated jobs for Chicago residents, decreased resources for police staffing, reduced library hours, and closed half of the mental health clinics in the city. The Mayor-appointed Board of Education also cut \$87 million dollars from afterschool and academic programs that were seen as non-essential. This put youth on the street and exposed them to a greater risk of violence. The cuts to mental health services have also led to Cook County Jail overcrowding, an outcome that does not help the person needing mental health services nor Chicago taxpayers who have to pay more to hold the person in a prison cell.<sup>25</sup>

### Budget Cuts that Directly Impacted Quality of Life in Chicago Neighborhoods

CUTS FOR FISCAL YEAR 2012	AMOUNT
City of Chicago Offices	\$24.3 million
Police Department	\$82 million
Chicago Public Libraries	\$6.6 million
Mental Health Clinics	\$2.2 million
CPS Cuts (afterschool and academic programs)	\$87 million
<b>TOTAL</b>	<b>\$202.1 million</b>

Source: Chicago 2012 Budget Overview<sup>23</sup> and Chicago Tribune<sup>24</sup>

### Fee and Tax Increases for Chicago Residents in 2012

FEE TYPE	AMOUNT	INCREASE PER FAMILY
Water Increase	\$147 million	\$120 set to double fee by 2014
CPS Property Tax Increase	\$150 million	\$84
<b>TOTAL</b>	<b>\$297 million</b>	<b>\$204</b>

Source: Chicago 2012 Budget Overview<sup>26</sup> and Chicago Sun-Times<sup>27</sup>

Any fiscal solution that increases a flat fee or tax places a disproportionate burden on lower income households. Families with smaller incomes have to sacrifice out of an already limited budget while wealthy families have more discretion about what non-essential spending can be limited.<sup>28</sup>

When considered together, it becomes clear that siphoning off tax revenue through TIF, along with cuts to social services and hikes in overall fees and taxes, combine to disproportionately harm lower income households and neighborhoods. Despite claims to the contrary, Mayor Emanuel has yet to enact meaningful TIF reform that would bring about equity, accountability, and planned economic benefit for working Chicago. He has not even enacted any measures from his own TIF taskforce report released in 2012 that would increase transparency, allow for more public participation, or effectively allocate TIF money as part of a long-term development strategy.

# Impact on City and Neighborhoods

This study assesses the economic impact of downtown development and job creation with a focus on five factors impacting city residents: job creation, employment, unemployment, income levels, and poverty.

## JOB CREATION = JOB TRANSFERS

A closer look at the downtown economy reveals that the jobs created by TIF projects should more accurately be called “job transfers.” Most of the new downtown corporations did not bring new jobs, but simply moved offices or condensed their footprints. Seven out of ten projects in the LaSalle Central TIF district were executed with the intent to relocate business headquarters; however of these seven, three headquarters relocated from out-of-state, one from the suburbs, two from within the city.<sup>29</sup> The city gave United Airlines two different TIF deals for two locations blocks away from each other.<sup>30</sup> The River Point Tower TIF project secured the interest of the William Blair investment firm, the firm responsible for undervaluing the Chicago Parking Meter deal, to move blocks away from their original location, but eventually cancelled the deal.<sup>31</sup> Mayor Emanuel agreed to finalize the River Point Tower TIF deal without any tenant lined up to anchor the project in 2012. The project does now have a tenant to anchor the project. In January of this year, the law firm of McDermott Will & Emery signed a letter of intent to move in 2017 its offices to River Point Tower, about half a mile away from its current office.<sup>32</sup>

Downtown saw a net increase of 52,404 jobs from 2002 to 2011. Yet in Chicago as a whole, the net job increase was only 42,283, indicating that, while downtown jobs were growing, 10,121 jobs were lost across neighborhoods.

## NET JOB LOSSES FOR CITY RESIDENTS

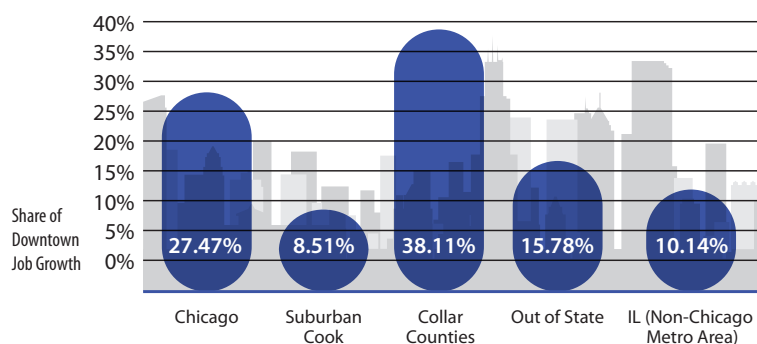
Even though the city gained 42,283 jobs, Chicago residents experienced a net loss of 53,884 jobs from 2002 to 2011. This means that, in this period at least, downtown job growth primarily benefited workers who lived outside the city limits. This is partially explained by the fact that only 1 of 4 new jobs located in downtown went to Chicago residents (27.47%). In 2002, Chicago residents held 56.22% of all downtown jobs; by the end of 2011 that share decreased by 2.38 percentage points to 53.84%.

The collar counties, including DuPage, Kane, Kendall, Lake, McHenry, and Will, benefited most from the growth of downtown jobs considering the original share of jobs they possessed. Nearly 4 out of every 10 new downtown jobs created went to workers living in the collar counties.

A deeper look into Chicago’s limited gains shows racial disparities among those Chicago residents who benefited most from downtown job growth. An overview of racial majorities across zip codes within the city shows that, in a city made of neighborhoods, some areas benefit more than others from downtown corporate recruitment.

During the boom of downtown development, Black-majority zip codes each lost a median of 620 downtown jobs, Latino-majority zip codes each lost a median of 381 downtown jobs, while white-majority zip codes gained a median of 509 jobs each. Zip codes without a clear racial majority gained a median of 253 jobs each.

## Share of Downtown Job Growth 2002-2011



Source: LEHD Data via On The Map Census Website

## Median Downtown Job Change Across Different Racial Majority Zip Codes

CHICAGO ZIP CODES				
Racial Majority (50%+) ACS 2007-2011 Estimate	Black	Latino	White	No Majority
<b>Median Downtown Job Change</b>	-620	-381	509	253

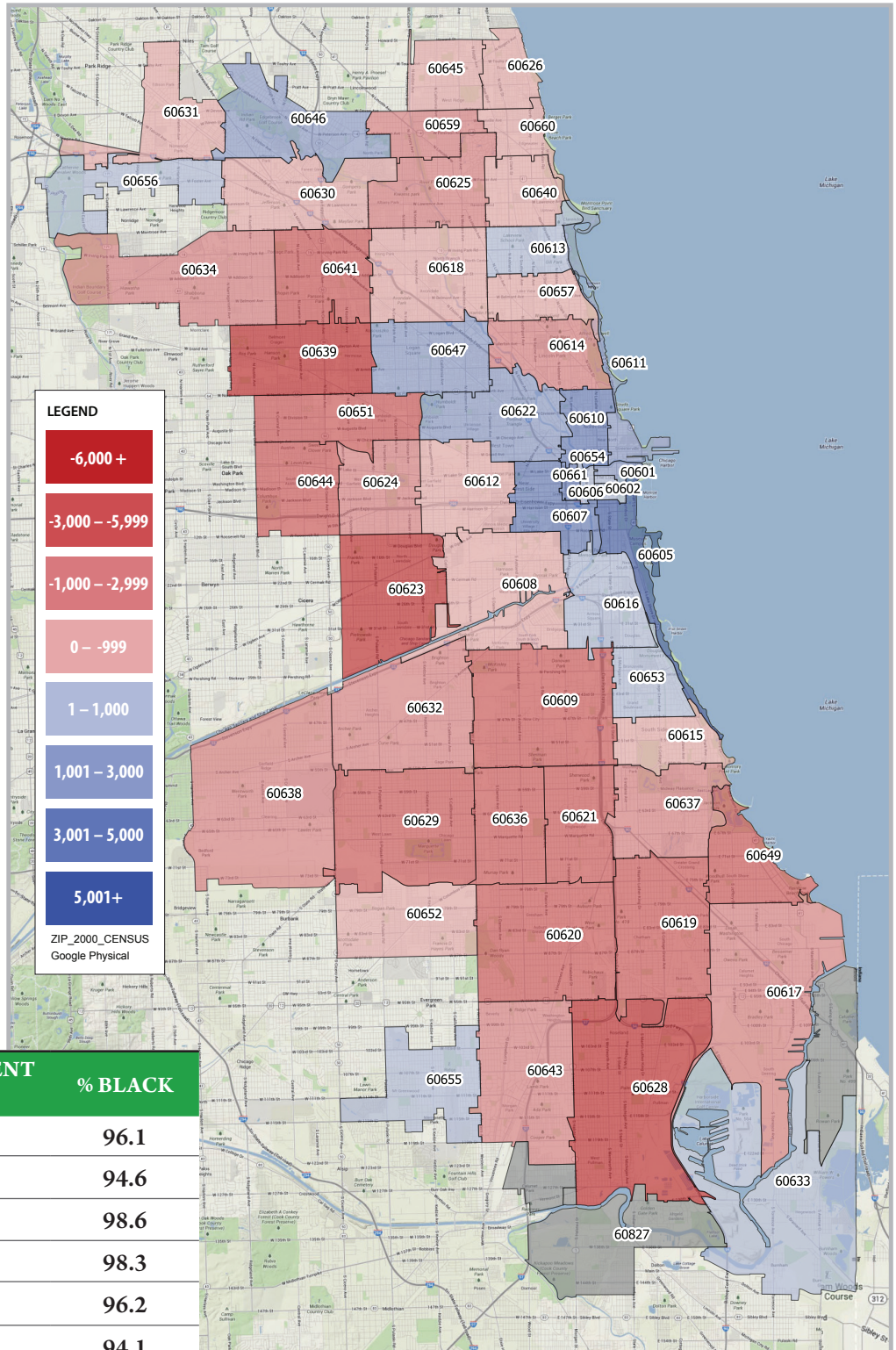


## Overall Number of People Who Gained or Lost Any Jobs According to Zip Code

### CITY UNEMPLOYMENT – A RACIALLY DIVIDED REALITY

As of August 2013, the Chicago area unemployment rate was 9.2%, or 1.9 percentage points higher than the national rate.<sup>33</sup> From 2002 to 2011, 65% of the city's zip codes experienced a net jobs loss.

Most people who lost jobs resided in neighborhoods that were largely Black or mixed Black and Latino. The ten zip codes with the highest unemployment rates also have the highest concentrations of Black residents.



ZIP CODE	UNEMPLOYMENT RATE	% BLACK
60636	34.7	96.1
60644	25.8	94.6
60620	24.6	98.6
60621	24.1	98.3
60624	23.4	96.2
60653	22.1	94.1
60637	20.9	79.2
60619	19.6	97.7
60609	18.6	29.8*
60651	18.5	67.6

\*60609 had a composite Black and Latino population of 72.5%  
Source: American Community Survey 2007-11

## INCOME AND POVERTY LEVELS

Downtown development increased the amount of higher paying jobs in the city during the same time that a greater number of middle and low-income Chicagoans saw their economic opportunities reduced. From 2002 to 2011, workers who lived in the city experienced a net increase of 129,054 jobs paying \$40,000/year and above, or about \$19.23/hour and above (based on a 40 hour work week). Simultaneously, city residents also lost 182,938 jobs that paid below \$40,000/year.

Growth of high wage jobs that hired Chicagoans was accompanied by a decimation of minimum-wage and middle-class jobs also held by Chicago residents. The best way to decipher the impact during the last decade for Chicago's households can be interpreted from the median household income.

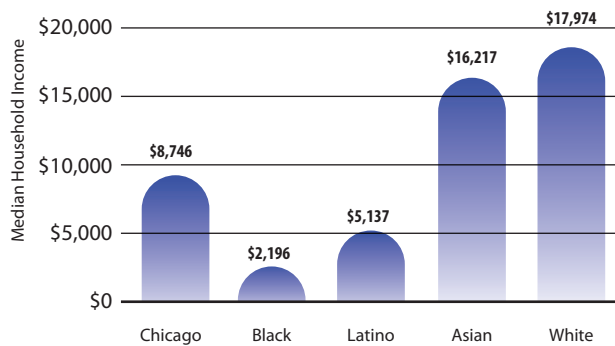
On the whole, Black households earn the least of any demographic group. In 2000, Black households earned slightly more than half of what White households were making. This gap increased in 2011, when most Black households were earning less than half of most White households.

## Median Household Income Change In Chicago By Race

	2000 DECENNIAL	2007-2011 ACS ESTIMATE
<b>Chicago Household Median Income</b>	<b>\$38,625</b>	<b>\$47,371</b>
<b>Asian Household Median Income</b>	<b>\$40,519</b>	<b>\$56,736</b>
<b>Black Household Median Income</b>	<b>\$29,086</b>	<b>\$31,282</b>
<b>Latino Household Median Income</b>	<b>\$36,543</b>	<b>\$41,680</b>
<b>White Household Median Income</b>	<b>\$49,222</b>	<b>\$67,196</b>

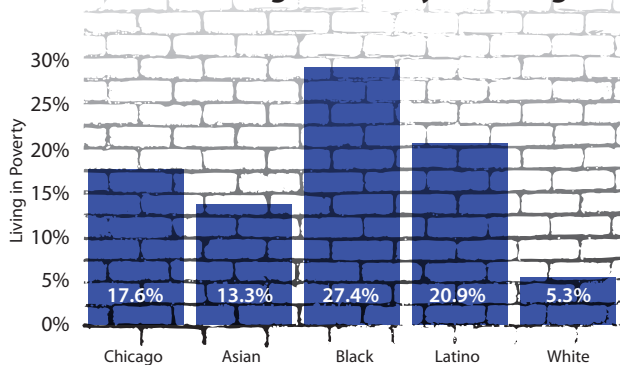
Source: Decennial Census 2000 and American Community Survey 2007-11

## Median Household Income Change



Source: Decennial Census 2000 and American Community Survey 2007-11

## Families Living in Poverty in Chicago



Source: American Community Survey 2007-11

\*Poverty levels here are defined by the Census' classification of Families in Poverty using Federal Poverty Guidelines.

While it is indeed significant that some Chicago residents secured good paying jobs, the greater number of jobs lost at middle-class wages not only dampens that success, but serves to deepen the divide between Black workers and all other workers as the income gap widens.

Cuts in the public sector significantly weakened the earning power of Black households due to Black workers making up the largest racial group among the public sector. 42.2% of public sector workers who lived in Chicago were Black, higher than any other racial group.<sup>34</sup> Mayor Emanuel's approach of addressing budget issues by closing schools and health clinics, therefore, hits the city doubly: first through the loss of community centers of learning and of key services, and second through the elimination of a key source of middle-class employment for Black Chicagoans.

From 2000 to 2011, there was a 1% increase in families living in poverty in Chicago. Black and Latino residents were at a higher risk of living in poverty than their white counterparts. The percentage of Black families living in poverty was about 5 times higher than the percentage of white families living in poverty, while the percentage of Latino families was about 4 times that of white families.

# Neighborhood Trends that Impact Economic Success

## HOUSING

Zip codes that have households paying more than 30% of their income in rent are qualified as “Housing Burdened.”<sup>35</sup> This is the standard federal measure to assess whether or not local housing is affordable for occupants. Zip codes with more Black and Latino households were more likely to be housing burdened, while zip codes with more white households had lower levels of housing burden.

Black-majority zip codes bore the highest average housing burden. Areas with no clear racial majorities have a lower renter burden. The data suggests a relationship between racial segregation and access to affordable housing for renting households.

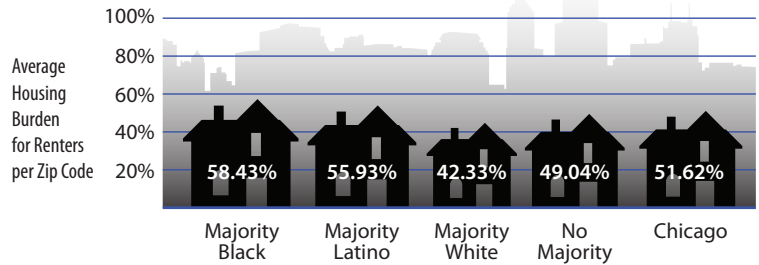
With 51.62% of all Chicago renters experiencing housing burden, affordable housing for renters is a key city-wide issue that could further destabilize neighborhoods without an effort to increase affordable renting stock that meets the needs of the city.

## DISPLACEMENT

With significant loss of economic opportunities and facing pressure to find affordable housing, 195,275 residents left the city between 2000 and 2011.

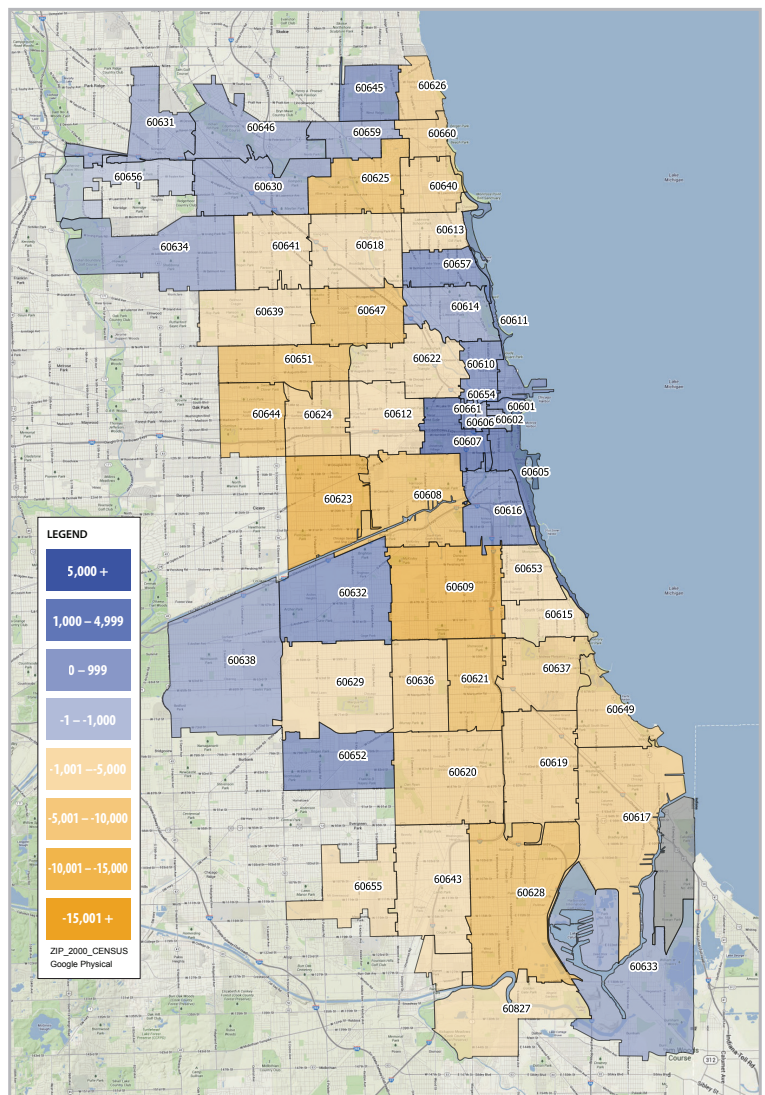
180,000 of those displaced between 2000 and 2010 were Black residents.<sup>36</sup> Repeated disruptions and school closings in Black communities, cuts in transportation services in predominantly Black neighborhoods, and massive foreclosure rates disproportionately affecting Black communities all came together during this same period.<sup>37</sup> Together, these factors decreased the quality of life in Black communities and pushed Black families out from the city.

## Average Housing Burden for Renters across Chicago Zip Codes



Source: American Community Survey 2007-11

## Net Population Change According to Zip Code



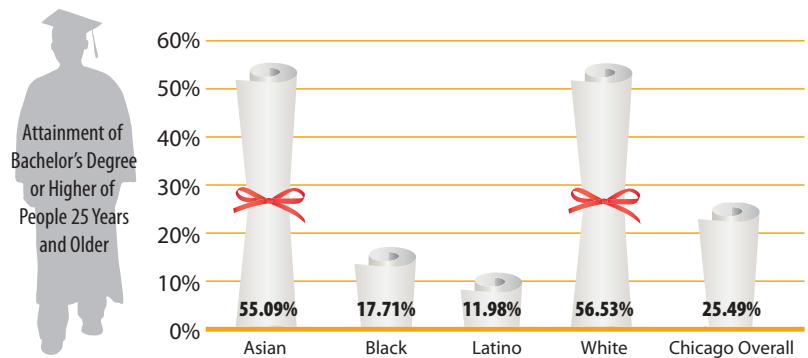
Overall, downtown gained population while neighborhoods lost

## EDUCATION

To guarantee long-term economic prosperity, Chicago's municipal government must do its best to create a highly educated and diversely-skilled local workforce. The economic shift to professional service, education, and healthcare industries requires that workers obtain either college degrees, or training in specialized fields.<sup>38</sup> The most recent data shows that 74.51% of city residents currently do not have a college degree, with Blacks and Latinos disproportionately represented among this group.

When the city attempts to increase employment opportunities through corporate headquarter recruitment, the jobs offered require higher education credentials, thereby creating a barrier for a significant number of city residents who lack a college education. Because current Black and Latino residents disproportionately lack bachelor degrees, they most likely will be tracked for low-wage jobs. Income disparities in Chicago will most likely worsen without complementary strategies to address barriers to higher education and to create good jobs at every level of the economic ladder.

## Bachelor's Degree or Higher – Attainment across Race and City



Source: American Community Survey 2007-11

# Economic Path to Wealth Concentration and Inequality

## TIF ABUSE AND DISPARITIES

While public investment from TIF has resulted in a boom for downtown Chicago, an office vacancy rate of 14.9%, coupled with a downturn in demand, suggests that the area has reached its saturation point.<sup>39</sup> Given that the original intent of the TIF program was to address or prevent blight, the downtown area, which is clearly not under threat of blight, should be disqualified from receiving TIF dollars. Yet the most TIF money is spent in the city's central TIF districts. At this moment, two large Downtown TIF deals are moving forward under Mayor Emanuel. River Point Tower, located in the West Loop at 444 W Lake, will cost taxpayers \$30 million dollars to create new office space without any tenant. Another \$55 million dollars will be spent to buy land for a sports stadium for a private institution, DePaul University in the rapidly-developing South Loop.<sup>40</sup>

Emanuel's campaign included the idea that "government is not an employment agency."<sup>41</sup> Like Mayor Daley before him, however, he allows hundreds of millions of tax dollars to be spent on downtown corporations, essentially making government a wealth consolidating agency for private developers.

Downtown investment comes with grandiose promises of job creation, but lack of public monitoring and accountability, little is known about the actual numbers and actual types of jobs created by these projects. Much more transparency from the Mayor's office is required, especially considering the amounts of taxpayer money at stake. New office construction only serves to subsidize companies moving blocks from their original Loop locations and does not add jobs to Chicago's economy. Our assessment serves in part to fill this information gap and to reveal what city officials seek to conceal: that downtown investment has resulted in alarmingly uneven job growth.

The city has also touted the public benefits of TIF to schools to allow for new school construction and renovations that would otherwise not be available without TIF funding. An analysis of TIF spending for schools showed that communities with the highest socio-economic status received 36% of the TIF money spent for education, enhanced disparities and allocated money to already prosperous communities.<sup>42</sup> Latino communities received the least amount of TIF money for school construction.<sup>43</sup> 24% of TIF money was spent for selective enrollment schools, schools that only make up 1% of all CPS schools.<sup>44</sup>

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## **SWAPS**

Immediately before the Great Recession, major banks invented a financial product- the interest rate swap- that, for a time, served to ease the wild unpredictability of the market and assuage investors' fears of potential losses. With the interest rate swap, banks claimed to absorb market risk, promising stability to clients. However, after the economic recession led the Federal Reserve to set extremely low interest rates, these deals were turned completely upside down.<sup>45</sup> Now the City of Chicago and Chicago Public Schools are stuck with loans that borrow money from banks at an interest rate 3 to 5 points higher than the original cost to the banks. Every year the City pays \$74.1 million and CPS pays \$36 million to big banks like Bank of America and the Royal Bank of Scotland.<sup>46,47</sup> Taxpayers bailed out these big banks, only to pay the price a second time with those banks gouging municipalities in the wake of the economic crisis that they are responsible for.

Renegotiating these swaps with Wall Street could save the City and CPS tens of millions of dollars every year — money that could keep schools and clinics open.

## **CANCELATION OF HEAD TAX AND LACK OF COMMUTER TAX**

As unpopular as it was towards the end of its existence, the Head Tax accounted for \$23 million in revenue for 2009 and 2010.<sup>48</sup> It was originally implemented by Mayor Richard J. Daley as a way to get revenue from workers who came into Chicago to work, but lived in the suburbs. Now that this tax is gone, the city gains no significant revenue from the increase of suburban employment, even though this increase comes directly from Chicago taxpayers' pockets.

The city of Detroit collects commuter tax from residents leaving the city to work in the suburbs.<sup>49</sup> In Chicago's case, a commuter tax would be levied on residents who leave the suburbs to work in the city, as a means to compensate the city for the infrastructure and service costs needed to handle the commuter traffic.

Chicago's TIF program and its massive expenditures to develop downtown and improve infrastructure have created new jobs that overwhelmingly went to people who live outside of the city. The over \$1 billion spent in TIF, just from 2004 to 2008, and other city service expenditures must be balanced and paid for by those who use them and not left on the backs of Chicago taxpayers.

# Destabilization of Neighborhoods

## **SCHOOL CLOSINGS**

In 2013, 46,000 school children, majority Black, were impacted when Chicago Public Schools closed 50 schools.<sup>50</sup> Studies have shown that students transferred due to school closings were at a greater risk of dropping out.<sup>51</sup> This was particularly true when consolidated schools significantly increased the student-to-teacher ratio, preventing the ability of new teachers to build a solid relationship with new students at a key time in their transition to a new school and classroom.<sup>52</sup>

The impact of these record-breaking closings on Black students and the low-income neighborhoods where they occurred will be seen over time. But such massive disinvestment to communities already on the edge threatens to disrupt the learning of thousands of children, who already face numerous hurdles to learning.

## **DESTRUCTION OF PUBLIC SECTOR JOBS**

Public sector jobs provided accessible employment for city residents and a local buffer to the foreclosure crisis.<sup>53</sup> Cuts to public sector jobs from 2006 to 2011 had a disproportionate impact on Black and Latino communities, contributing to higher foreclosure rates.<sup>54</sup>

Public sector jobs are strong pillars of employment for Black workers and help to close racial income disparities.<sup>55</sup> As the city administration calls for more cuts to government services, these cuts harm Black neighborhoods through loss of access to services and loss of good wage jobs. As the mayor approves new downtown TIF projects that increase the financial obligations for the city and then chooses to cut city jobs or privatize services to balance the budget, this set of decisions leads to a systematic destruction of economic opportunity for the city's current residents, and for Black residents in particular.

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# The Path to Prosperity

A majority of Chicago residents did not directly benefit from new or re-located downtown jobs from 2002 to 2011. The city's prioritization of concentrating resources downtown poses a serious challenge for our entire city. It impacts our schools, our business climate, and our ability to foster safe and vibrant neighborhoods. We need strategies to improve access to good jobs and to improve job quality. Education, though critically important, is not the only solution to ending poverty.

What Chicago needs is a balanced approach that creates economic prosperity for all.

## RECOMMENDATIONS:

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### **Create good jobs for Chicagoans and ensure that all city residents benefit from downtown jobs.**

- Create a new qualification for TIF spending, whereby the creation of jobs specifies that city residents must benefit from new hires. Development agreements should stipulate what new jobs should be created with the subsidy and claw back provisions should be stipulated to settle disagreements between what is considered a new job versus a transfer.<sup>56</sup>
- Link public investment to good jobs. It makes bad economic sense to use public dollars to create poverty-wage jobs, or to use Chicago taxpayers' dollars to create jobs for workers in Oswego. Without this policy, city residents lose out twice – once through the loss of tax dollars that otherwise could be spent on meeting local needs without gaining direct employment, and twice through the creation of low-wage, no-benefits jobs that keep workers mired in poverty.
- Implement a commuter tax to compensate the city for its public safety costs, transportation costs, infrastructure costs, and TIF subsidies, in order to ease the burden on Chicago-resident taxpayers who have not received the majority of the benefits from downtown job growth. The Inspector General's analysis showed that a 1% commuter tax could potentially garner \$300 million for the city every year.<sup>57</sup> That amount alone could have covered the water fee increases, cuts to police budgets, cuts to mental health services, and other cuts by the Mayor.

### **Make sure that subsidies lead to equity for all, not benefits for a small few.**

- Create a process where LaSalle Central TIF, and any TIF district located in prospering neighborhoods, implements a "Robin-Hood Porting" measure to guarantee that resources intended to fix urban blight are actually invested in struggling neighborhoods.
- Develop a built-in process whereby a set portion of all downtown TIF money, as determined by a fixed formula, is declared as surplus and returned back to local taxing bodies. Returning property tax revenue to public taxing bodies will allow them to better fund important city services and prevent future fee increases for the city's most vulnerable residents.

### **Ensure that tax dollars be spent on quality public services, not private developers and financiers.**

- Call for a review of City of Chicago and Chicago Public Schools interest rate swap deals and renegotiate these agreements down from costs of \$74.1 million and \$36 million every year, respectively.<sup>58 59</sup> The City requires an interest rate swap on its bonds for protection, but the City and CPS have the ability to renegotiate these deals to adjust the interest rates to the current economic reality. San Francisco successfully renegotiated these deals when a budget crisis threatened to shutter a local museum.<sup>60</sup> As our city struggles to solve its own budget crises, Chicago taxpayers deserve a fair deal on interest rate swaps.

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### **Raise standards for lowest-wage workers.**

As the national economy struggles to recover, now is the time for Chicago to lead the effort to increase the minimum wage and jumpstart the local economy. A full economic recovery is not possible without a resurgent middle class, which is the best means to create more jobs and add expand economic activity.

To complement the momentum created in downtown economic activity and the increase in jobs earning more than \$19.23, and to bring more city residents into the cycle of economic prosperity, we must bring up the standard of all jobs in the wake of the Great Recession.

Four other cities in the nation increased their own local minimum wage as they noticed uneven development and growing segments of their cities struggling to with poverty.<sup>61</sup> It was an opportunity to multiply the impact of economic activity was taking place and improve the economic condition of all its residents.

- Push for an increase in the city minimum wage to ensure that working families can share in the economic benefits of Chicago's status as a global city.

### **Reduce the tax burden on low and middle income families while addressing Illinois' structural deficit.**

Illinois' flat income tax places a heavier burden on families and workers with lower income and assets. On average, Illinoisans earning in the lower income brackets (lowest 20%) pay 13.7% of their income in state and local taxes. The wealthiest 1% of Illinoisans pay only 5.3% of their income in the same taxes. Illinois' low and middle-income families continue to struggle from the gradual economic recovery and deserve to keep more of their money to provide for basic needs.

While Illinois' persistent budget shortfalls were temporarily ameliorated by the income tax increase (from 3% to 5%), that increase is scheduled to sunset at the end of 2014. The General Assembly must take action to create a longer term, fair tax reform in order to avert a loss of \$2 billion in state revenue. The General Assembly must pass a measure allowing the public to vote to amend the state Constitution, thereby allowing the creation of a graduated income tax rate.

Neighboring states like Wisconsin and Iowa have graduated rate income taxes. Setting graduated rates similar to those in Iowa would provide \$6.3 billion/year in additional revenue to Illinois. This would provide Chicago with expanded revenue to deal with budget crises and to invest in vital public services and programs.

- Work with state legislators to amend the IL Constitution and allow for a graduated income tax to relieve the disproportionate income tax burden on low and middle-income families and create badly needed revenue for vital public services.

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# Conclusion

City officials have successfully saved downtown, turning it into a vibrant center replete with housing and any amenity that could be desired. By any measure, Downtown cannot be considered blighted. Just as different city agencies aligned their priorities to focus on Downtown, there must be a neighborhood prioritization plan that targets the many needs of the local communities outside of Downtown. Without targeted economic development strategies, especially for Black and Latino workers, Chicago will continue to be a tale of two cities.

Despite being the third most populous city in the United States, Chicago continues to lag behind most when it comes to long range planning. Elected officials must come together with community, labor, and business to develop a comprehensive plan that works for all city residents and considers all communities in the city's economic recovery.

Chicago's home rule status gives the city space to be creative in its solutions to local problems. Alleviating poverty and its symptoms, such as violence, unemployment, and low education attainment, requires economic policies that invest in local infrastructure and improve the quality of life in our neighborhoods not just Downtown.

Chicago's elected leaders along with the City's department and agency leaders must make a choice. Continuing to maintain a singular focus on downtown development will continue to increase the levels of unemployment and poverty in our neighborhoods. Alternately, the city's leaders can choose to prioritize Chicago's neighborhoods – especially those which are majority Black and Latino. Working together with labor and community leaders, Chicago's public officials can chart a new course that improves the quality of life for all Chicago residents.



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