Bond Proposal $1.25 Billion
City of Chicago
Fiscal Year 2024

April 2,2024

City of Chicago
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COFA
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Bond Proposal

INTRODUCTION

The new administration of the City of Chicago has proposed a $1.25 billion bond plan to fund economic development and affordable housing projects. The plan aims to create thousands of residential units, support small businesses, and boost job growth. This marks a shift from the city's traditional funding approach, as it involves winding down the tax increment financing (TIF) program, which has been the primary economic development tool for the City of Chicago for nearly 40 years.

The proposal would provide $250 million annually over five years with the spending split between the Department of Planning & Development and the Department of Housing. The $1.25 billion would be repaid through 2061 at a total cost of $2.4 billion due to financing costs, according to the city.[1] City officials believe the revenue returning when TIFs expire can be done without raising property taxes. The annualized debt service will be approximately $81 million by 2039, the city will see an annual revenue increase of over $300 million as TIF districts close out.[2]

The Mayor of Chicago stated that these bonds are crucial and will provide the City with much-needed resources to invest in our neighborhoods. The Mayor further mentioned, "This new direction will allow for greater flexibility than the City’s Tax Increment Financing program and provide assistance for new businesses, restaurants, affordable housing, and cultural facilities where they are needed most – not just where there is a healthy TIF district."

The plan has not been approved. However, on March 22, the Finance Committee had a hearing to discuss the proposal. Before the next hearing, the City Council Office of Financial Analysis (COFA) wanted to provide some context on the proposed initiative.

There are significant concerns about the criteria used to decide which TIF districts should be extended or retained. Another issue is the level of Council involvement without bypassing Council approval. There is worry about the annual $81 million allocated to debt services and increasing operational commitments. COFA is also concerned about the impact on bond ratings and the need for clarity on the rate of return. These concerns will be discussed in more detail later in the analysis.

The City Council Office of Financial Analysis supports the proposal for the $1.25 billion bond proposal; however, they recommend enhancing transparency and accountability, which will be discussed.

BACKGROUND

The City of Chicago's new administration has proposed a development plan that involves allowing many of the city's Tax Increment Financing (TIF) districts to expire. The funds from these expired districts would then be used to pay off the city's debt. The administration introduced the plan at a recent City Council meeting, seeking to borrow $1.25 billion for affordable housing and other development projects across the

[1] Crain’s Chicago Business. https://www.chicagobusiness.com/politics/city-council-sifts-through-johnsons-borrowing-plan
[2] Crain’s Chicago Business. https://www.chicagobusiness.com/politics/city-council-sifts-through-johnsons-borrowing-plan

city. The TIF program was initially approved by the Chicago City Council in 1983 and first implemented in 1984. Since then, over 170 districts have been created, with 147 of them active at the beginning of 2016.[3]

Tax Increment Financing (TIF) is a tool used to stimulate redevelopment, support infrastructure expansion, and encourage partnerships between the government and the private sector. It aims to revitalize urban centers and increase the value of the tax base. However, TIFs can lead to competition between urban areas and different levels of government for funding. It can be challenging to accurately assess the increase in tax revenues directly linked to TIF projects, and the lack of transparency in TIF financing can lead to public suspicion. Additionally, TIFs are sometimes used as a slush fund to support questionable legacy projects. They can also contribute to gentrification, making neighborhoods unaffordable for original residents, and may fund projects that would have been built anyway, violating the "but for" principle.

An example of questionable Tax Increment Financing (TIF) usage is Navy Pier. Navy Pier did not qualify for TIF funding, yet funding was directed to the attraction. When a TIF is formed, the Equalized Assessed Value (EAV) for the TIF district is frozen for the life of the TIF. Any tax revenue that exceeds the frozen value goes into the TIF fund. Problematic issues such as "porting" occur when funds are transferred to an adjoining TIF in another neighborhood. Allowing TIF districts to expire and returning the money to the general fund would repay the debt over time. The new proposed plan to borrow $1.25 billion would be a major shift from how the city currently funds development. The new administration's goal is to use the recoupled tax money from expiring TIFs to pay for the debt.

The plan would provide $250 million ($125 million to both departments) every year for five years to the Department of Planning and the Department of Housing. The City estimates expiring TIF districts will yield approximately $2.2 billion in additional revenue in the next 15 years.[4] In addition, the City plans to use its share of the money from expiring TIFs to fund the debt plan over 37 years, which will have a price tag of $2.4 billion. Over the five years, the bond proceeds would be evenly split at $625 million for the Department of Planning and Housing.

The Department of Planning and Development would use: $400-500 million for neighborhood development grants: $82-115 million for small business support: and $57.5 – 90 million for jobs and workforce training.[5] The Department of Housing would use: $360-390 million for the construction and preservation of affordable rental homes: $210-240 million for the construction and preservation of homeownership, or

[3] City of Chicago Planning and Development.
https://www.chicago.gov/city/en/depts/dcd/supp_info/frequently_askedquestions.html

[4] Mayor Brandon Johnson pitches borrowing $1.25 billion for housing and development.
https://www.wbez.org/stories/johnson-pitches-125-billion-borrowing-plan/3b300404-a57d-43f4-8eb3-9b2140541460

[5] Mayor Brandon Johnson pitches borrowing $1.25 billion for housing and development.
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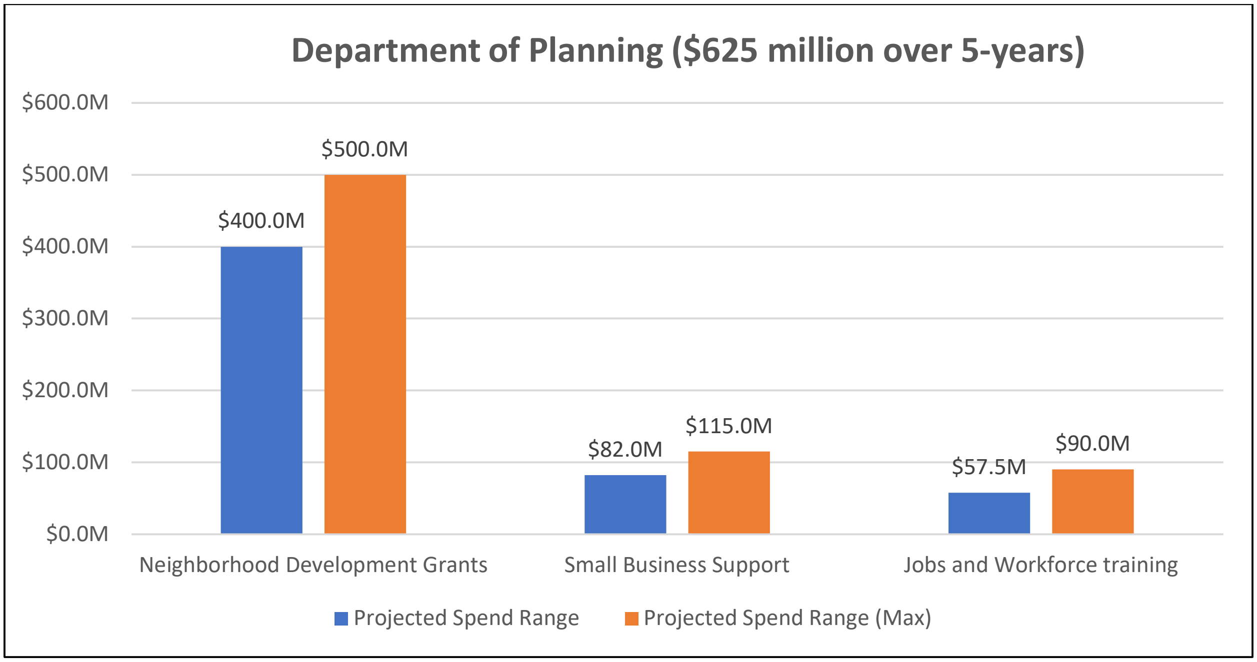
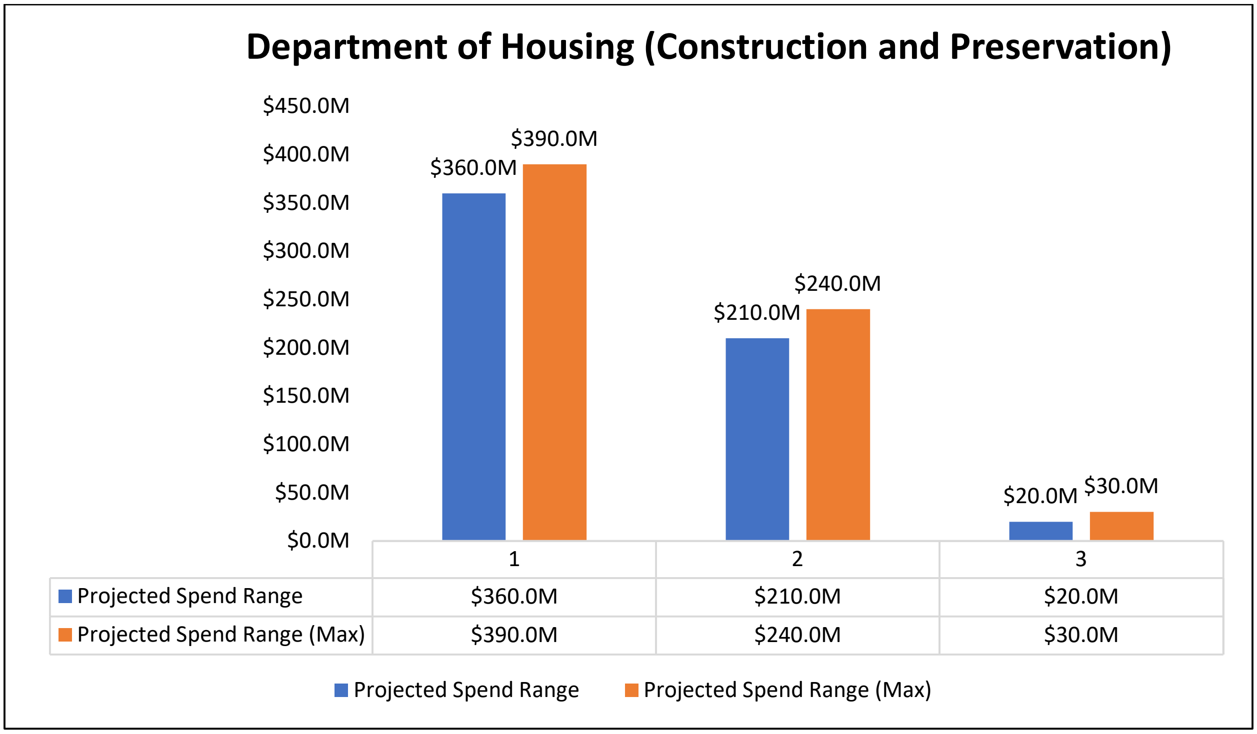
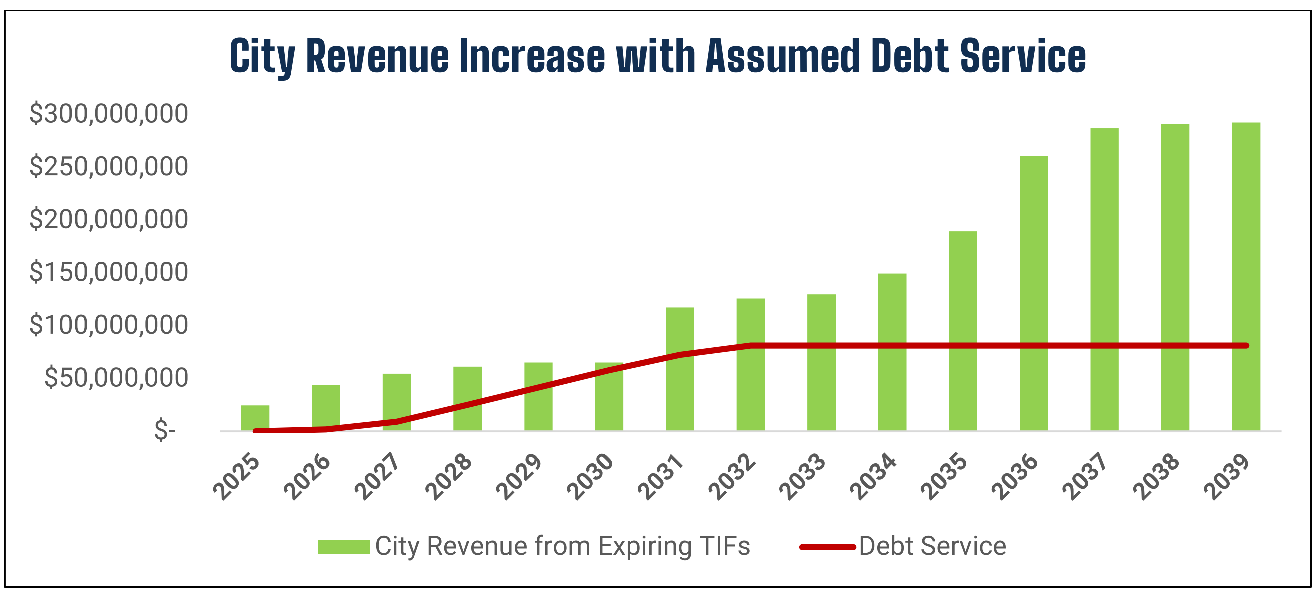
affordable owner-occupied housing: and \$20 – \$30 million for the preservation of single-room occupancy structures.[6]

The first two graphs below depict how the Department of Planning and the Department of Housing will spend the funds over 5 years. The third graph looks at the increase in city revenue with the assumed debt. The last two charts review the city revenue from expiring TIFs (2025 – 2039) and the cumulative city revenue from expiring TIFs.

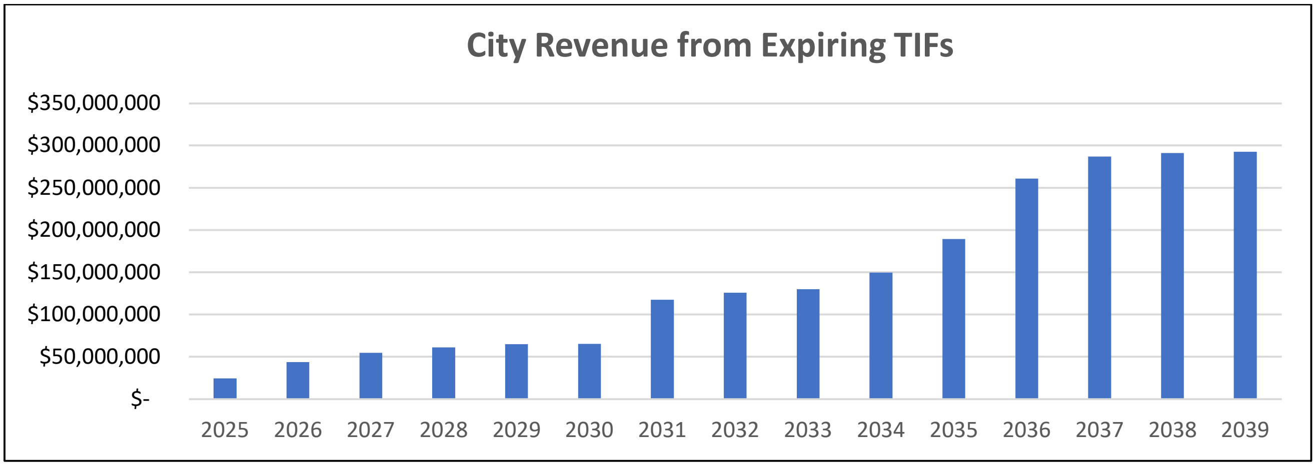


[6] Mayor Brandon Johnson pitches borrowing \$1.25 billion for housing and development. https://www.wbez.org/stories/johnson-pitches-125-billion-borrowing-plan/3b300404-a57d-43f4-8eb3-9b2140541460





Source: Housing and Economic Development Bond - Financial Model



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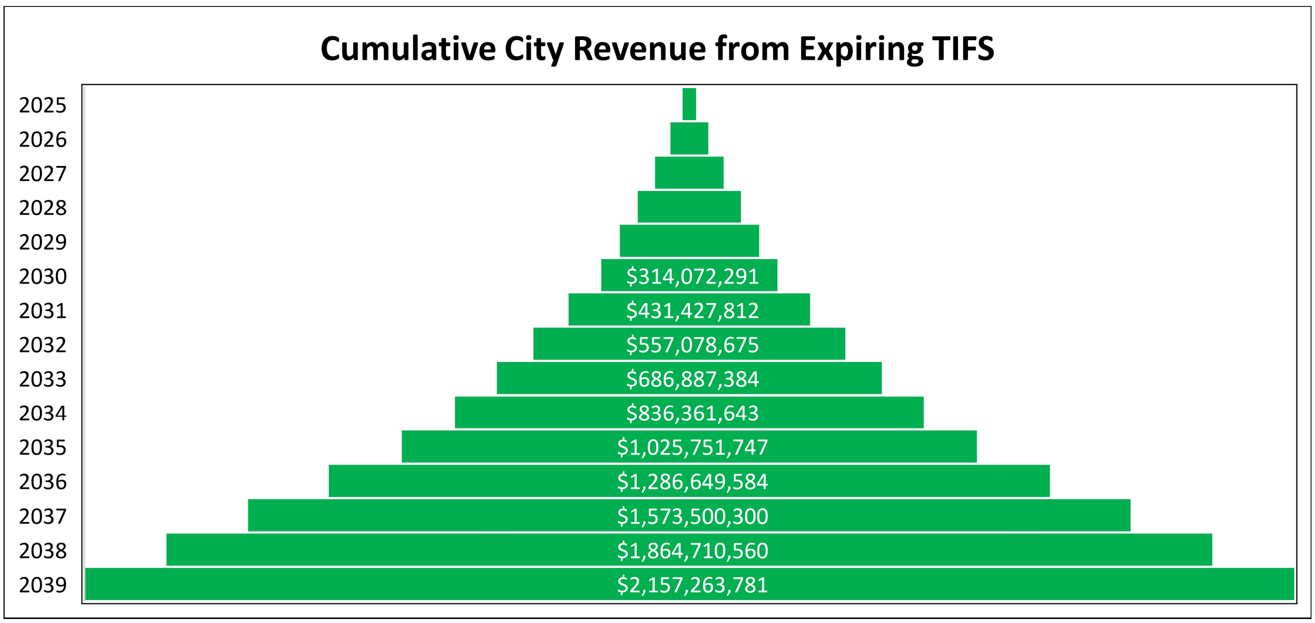

Source: Housing and Economic Development Bond - Financial Model

PROS AND CONS OF THE BOND PLAN

The current administration's proposal to issue $1.25 billion in bonds for economic development and affordable housing would greatly benefit the city of Chicago and is economically sound. The idea was first proposed during the previous administration with plans to utilize the upcoming increase in revenue from the expiration of tax increment financing districts. This proposal would allow the city to access additional funds now, rather than waiting for the slow expiration of the TIFs. Like many other municipalities and local governments, Chicago is experiencing a significant decline in revenue as the federal pandemic funds are depleted.

The proposal has the advantage of not requiring any tax increases to fund it. Existing property tax revenues will be reallocated from a Tax Increment Financing (TIF) bucket to the city's general fund. The bonds will be specifically designated for affordable housing and economic development throughout the city, prioritizing areas in greatest need. Unlike TIF funds, the bond proceeds can be used in any part of the city requiring investment. The timing of the proposal is opportune due to the favorable interest rates on municipal bonds, creating a crucial window for capitalizing on this opportunity, according to the Administration. In addition, both the Department of Planning and Development and the Department of Housing have committed to creating an online portal for upcoming bond projects and holding regular meetings on the program's progress, which will enhance transparency.

The current administration is facing a confidence issue, with criticism from the public, the business community, and several Alderpersons about migrant costs, spending, and transparency related to the American Rescue Plan. There are concerns about how the funding will be used for affordable housing and economic development and what safeguards will be in place to ensure transparency.

TIF is not the most equitable tool, as quoted by Ciere Boatright, the current Administration Planning and Development Commissioner, she said "Bringing in economic development bonds will help attract investment – private investment, philanthropic investment and other – to those neighborhoods that deserve the quality development that we have not seen in the past. Another concern about this proposal is the city will be adding to an already massive pile of debt. According to an analysis by the Civic Federation in 2024 (this year), paying off debt will make up 17% of all city spending.

SUPPORT

COFA lends its support to several key components of the bond proposal, recognizing their potential to enhance the City's financial flexibility and stimulate beneficial developments. Firstly, COFA endorses the reimagining of TIF fund utilization, which grants the departments greater discretion in project selection and location. By allowing TIF districts to expire, an estimated $2.2 billion could be redirected into the City's coffers over 15 years, a move that COFA views favorably.

Additionally, COFA supports the strategic use of nontaxable STSC Bonds, particularly when not backed by the City's credit, as they offer opportunities for expansion without added financial risk. Importantly, COFA appreciates assurances from the Chief Financial Officer that the bond deal will not impact existing debt, pension payments, or the Capital Improvement Plan. Furthermore, COFA sees the potential for maintaining the bond rating by pairing the debt with recurring revenues from TIF district expirations, a move deemed prudent and sustainable.

The CFO's testimony indicated potential property value and population growth resulting from these investments reinforce COFA's confidence in the proposal's long-term benefits. Lastly, COFA applauds the commitment from DPD and DOH to establish a transparent online portal for bond projects and to hold regular hearings on the program's progress, promoting accountability and community engagement throughout the process. Overall, COFA views these components as integral to the bond proposal's success in fostering responsible financial management and inclusive development for the City of Chicago that is not constrained by specific TIF district boundaries or lack of incremental revenue.

CONCERNS

COFA has concerns regarding several aspects of the current proposal, particularly the framework for determining which TIF districts should remain in place or be extended. The lack of clarity on the criteria for these decisions raises questions about transparency and accountability. Additionally, there are concerns raised by the Council regarding their level of involvement in the selection process for specific projects. While the CFO assured that any spending outside of the proposal would require Council approval, representatives from DPD and DOH suggested that existing programs receiving significant funding from the bond proposal may not need Council approval. COFA echoes the Council's concerns about the need for greater Council involvement in project consent, especially considering that most of the spending will occur within existing programs, potentially bypassing Council approval.

Furthermore, the Council expressed apprehension about the annual $81 million towards debt services and balancing this with rising pension costs and growing operational obligations. COFA shares these concerns, particularly regarding the potential impact of the bond proposal on the City's bond rating when coupled with escalating pension and operational costs. While the proposal ties new debt to recurring revenues from expiring TIFs, COFA remains cautious, especially given the need for expanded sources of revenue, such as taxes on services or an expanded tax base, to support the proposal's flexibility and ability to utilize STSC when possible.

Another significant concern raised is the lack of clarity regarding the expected return on investment for the proposal. The CFO clarified that any new increment from the proposal was not factored into current calculations due to the economic complexity of making such determinations. Council members expressed a desire for a deeper understanding of the potential new revenue levels generated by the proposal. These concerns underscore the importance of transparent and comprehensive analysis in evaluating the long-term impacts of the bond proposal on the city's financial health and overall well-being.

RECOMMENDATIONS

COFA puts forth several recommendations aimed at enhancing transparency and accountability in the implementation of the bond proposal. Firstly, COFA suggests shifting from the currently proposed bi-annual reporting to quarterly reporting, ensuring the Council has more frequent updates and oversight. Additionally, COFA advocates for greater transparency in the project selection process, along with Council approval for significant projects, even if they fall under existing departmental programs, to ensure thorough scrutiny. Moreover, COFA emphasizes the importance of increased transparency in determining the factors influencing the possible retention of some of the TIF districts. Furthermore, COFA recommends examining previous large development projects to gauge the potential return on investment for the City, providing valuable insights into the feasibility and effectiveness of future endeavors. Lastly, COFA calls for projections on the potential new levels of revenue generated from these projects, offering a clearer understanding of the expected financial outcomes, and aiding in informed decision-making even if they are conservative estimates. These recommendations collectively aim to foster greater transparency, accountability, and informed decision-making throughout the implementation of the bond proposal, ultimately ensuring the effective utilization of resources for the benefit of the City of Chicago and its residents.

CONCLUSION

COFA extends its overall support to the bond proposal, recognizing its potential to bolster Chicago's financial flexibility in how it funds major developments. Endorsing the reimagining of TIF fund utilization and strategic use of nontaxable STSC Bonds, COFA sees opportunities for greater discretion in project selection, potentially redirecting an estimated $2.2 billion that is not constrained to the specific TIF district boundaries. Assured by the Chief Financial Officer that existing debt, pension payments, and the Capital Improvement Plan will remain unaffected, COFA acknowledges the potential for maintaining the City's bond rating by pairing debt with recurring revenues from TIF district expirations. Additionally, COFA lauds commitments to transparency from DPD and DOH, with plans for a transparent online portal and regular progress hearings. These components are seen as integral to fostering responsible financial management and inclusive development for Chicago, regardless of TIF district boundaries or incremental revenue constraints. COFA looks forward to further review of the proposal once the anticipated Substitute Ordinance is filed, and more information is made available from the Departments in response to some of the questions raised by the Committee on Finance members during the subject matter hearing on the proposal.