

Tax Increment Financing and Chicago Public Schools Construction Projects

Introduction

Tax Increment Financing (TIF) is one of Chicago's leading financing tools for development. TIF districts create a development fund based on the property taxes generated in the TIF district. When the TIF district is formed, all the properties in the district have the property value amount on which taxing bodies draw their revenues (the baseline) frozen for 23 years. Any new tax revenue created above the property value baseline amount (the increment) is diverted into the TIF development fund, used to finance community development projects in both the public and private sector. State law requires TIFs to be used for the development of blighted or deteriorating communities. In recent years, the city of Chicago has expanded its use of TIFs to increasingly include sections of the city that are economically developed and stable. Currently, TIF districts cover over 30% of the city.

The effects of TIFs are controversial. On the one hand, critics of TIFs note that each district diverts revenues from the public school taxing body, thus depriving them of revenues that would have otherwise gone to them. TIFs capture about \$500 million in tax revenues each year, about half of which is diverted from the public school system. Critics have also pointed to the revenues given to large corporations, such as Boeing and United Airlines to finance the expenses of moving their headquarters to the downtown Loop, as an abuse of the intent of TIF. On the other hand, city officials and TIF proponents claim that the TIF is the only game in town for financing local development projects. They emphasize the public works projects and new school construction to demonstrate the benefits of the TIF program. Since 1983, 46% of TIF revenues have been allocated for public works projects, with 47% of those revenues going towards Chicago Public Schools construction projects.

This white paper examines the nature of TIF funded public school construction projects. The paper begins by

categorizing the types of schools receiving TIF revenues for construction projects and where they are located in the city. Next, student and community demographics of these schools are examined to get a sense of the socio-economic characteristics of the groups benefiting from the allocation of TIF revenues.

Types of schools receiving TIF funds

Table 1 displays the types of schools receiving TIF funds for school construction projects. Each school was classified according to five categories: Neighborhood Attendance Area schools, REN2010 schools (including charter and contract schools), Selective Enrollment schools, schools with some form of exclusive enrollment process (includes selective enrollment, charter, lottery, classical schools, and career academies) and schools with a mix of both attendance area and exclusive enrollment components.

Altogether, there are 28 schools that have received TIF funds totaling \$857.81 million.¹ Half of the schools are part of the city's Modern Schools Across Chicago plan focusing on the construction of new school buildings. One of the most significant trends in the allocation of TIF revenues to finance school construction projects is the prioritization of schools with some form of an exclusive admissions policy. Schools with some form of exclusive enrollment process (including mixed component schools) account for 52% of all TIF funds spent on schools. This indicates that neighborhood area attendance schools are getting shortchanged. Although 69% of all Chicago Public Schools are neighborhood attendance area schools, they received 48% of all TIF funds, or a third less than what would be expected if the allocation of TIF revenues were proportionate. Even if mixed enrollment component schools were combined with neighborhood schools, this brings of the total amount TIF funds spent on neighborhood area attendance schools to 58%.

Table 1: Schools Receiving TIF Funds by Total Benefit Amount and Type of School*

School	TIF Funds Received in millions	Neighborhood Schools	REN 2010 School**	Selective Enrollment School	Schools with Exclusive Enrollment	Mixed Component Schools ***
Albany Park Multicultural Academy	\$45.35	*				
Austin Business & Entrepreneurship Academy High School	\$37.77		*			*
Back of the Yards High School	\$19.8	*				
Beidler Elementary School	\$1	*				
Brighton Park Elementary	\$25.42	*				
Canter Elementary School	\$0.15	*				
Collins Academy High School	\$30.3		*		*	
Coonley Middle School	\$2.2					*
DePriest Elementary School	\$33.16	*				
Hernandez Middle School	\$42.36	*				
Jones Academy High School	\$67			*	*	
Juarez High School	\$16.8	*				
Lane Technical High School	\$1.89			*	*	
Lloyd Elementary School	\$0.75	*				
Lorca Elementary School	\$35	*				
Mather High School	\$30.98	*				
National Teachers Academy	\$79.34	*				
Orozco Fine Arts and Science Elementary	\$0.25	*				
Payton College Prep	\$11.13			*	*	
Peterson Elementary School	\$18.05	*				
Prieto Math & Science Academy	\$39.4	*				
Raby School for Community & Environment	\$22		*		*	
Simeon High School & Career Academy	\$22.18				*	
Skinner West Elementary School	\$42.29					*
South Shore International College Prep	\$72.2				*	
Uplift Community School	\$4.94		*		*	
Westinghouse College Prep	\$129.3			*	*	
West Ridge Elementary School	\$26.8	*				
Total TIF Funds Received	\$857.81	\$414.6	\$95.0	\$209.32	\$360.94	\$82.26
Total TIF Funds Received as % of all TIF Funds Given to Schools****		48.3%	11%	24.4%	42%	9.6%

Source: Chicago Public Schools “Comprehensive Annual Financial Report For the Year Ended June 30, 2011” prepared by the Office of School Financial Services.

* The total benefit amount is based on the TIF Capital Inter-Governmental Agreement (IGA) between the city and CPS. As of June 30, 2011, payment of the full amount was pending for 20 schools (13 of those schools had received partial payment). However the total benefit agreed upon in the IGA reflects how CPS and the city intend to allocate TIF revenues for schools.

** All REN2010 schools are charter schools except Raby School for Community and Environment.

*** These schools have mixed components: neighborhood attendance school and some form of an exclusive enrollment school. Since it is indeterminate whether TIF funds went to support a specific component or the entire school, I separated these schools from either the exclusive enrollment or neighborhood school categories. Austin High School is a mixed school with neighborhood area attendance and charter school components. Both Coonley Middle School and Skinner West Elementary are mixed schools with neighborhood attendance area and exclusive enrollment components.

**** Because it is possible to classify a single school in more than one category, the total amounts of all five school categories surpasses 100% of all school TIF funds.

Based on this evidence, CPS’s top priority for the allocation of TIF revenues to school construction projects is to support selective enrollment schools. The city’s nine selective enrollment schools were created by Mayor Richard Daley to help retain middle-class families who he believed would leave CPS and the city in pursuit of what they perceive as better schools in the suburbs. Though selective enrollment schools account for 1% of all CPS schools, they received 24% of all TIF funds spent on school construction projects. Selective enrollment schools have rigorous admissions standards and all children across the Chicagoland area are eligible to apply. Since they are not required to accept neighborhood children and must draw from all four CPS socioeconomic tiers, selective enrollment schools may not directly benefit the children of those taxpayers paying into the TIF district in the form of access to better school conditions.

Location of schools receiving TIF funds

As the following map reveals, the location of schools receiving TIF funds is spread throughout the city. However, taking 30th Street on the Southside as the city’s physical halfway point, 78% of schools receiving TIF funds are concentrated in the northern half of the city (this does include some of the most economically starved neighborhoods on the Westside). Schools in the southern half of the city, which includes some of the city’s most economically depressed neighborhoods, are neglected by the current allocation of TIF funds for school construction projects. This suggests that the original goal of the TIF program to help develop blighted or economically neglected communities is not the current goal of the TIF program.

School demographics

The race and ethnic makeup of each school receiving TIF funds in Table 2 is one indicator of the student population benefitting from TIF development funds. There is information for 27 out of the 28 schools receiving TIF funds for the 2011-2012 school year. The Back of the Yards Area High School was excluded from the CPS Racial Ethnic Survey in 2011-2012 because it was still under construction at that time.

Using the simple indicator of race and ethnicity as a percent of the student population composing each school receiving TIF funds, a few observable patterns emerge. First, Latinos compose 44% of all CPS students. However, schools with a Latino population that are at or above this proportion received only 27% of all TIF revenues going to school construction projects. In

contrast, the proportion of White students in the CPS system is 9%. And yet schools with a White student population at or above this proportion received 23% of all TIF revenues. In addition, schools with exclusive enrollment processes tend to have a higher proportion of White students relative to the general CPS student population CPS. Exclusive enrollment schools also have more race and ethnic mixing than the CPS system as a whole.

Another interesting trend shows that predominately Black schools are, for the most part, proportionately represented in the allocation of TIF funds. Black students compose 42% of all CPS students while 55% of all TIF revenues going towards CPS school construction projects had a Black student population at or above the CPS proportion. It should be emphasized that since the purpose of the TIF program is to promote development in economically disadvantaged neighborhoods, the distribution of TIF funds should not be proportionate to the racial and ethnic makeup of the school. Rather, since Black and Latino neighborhoods are more likely to be blighted and more in need of economic development, predominately Black and Latino schools should be receiving revenues that are higher than their proportional makeup of all CPS schools.

Map of TIF-Funded School Construction
Total benefit amount: \$857,810,000

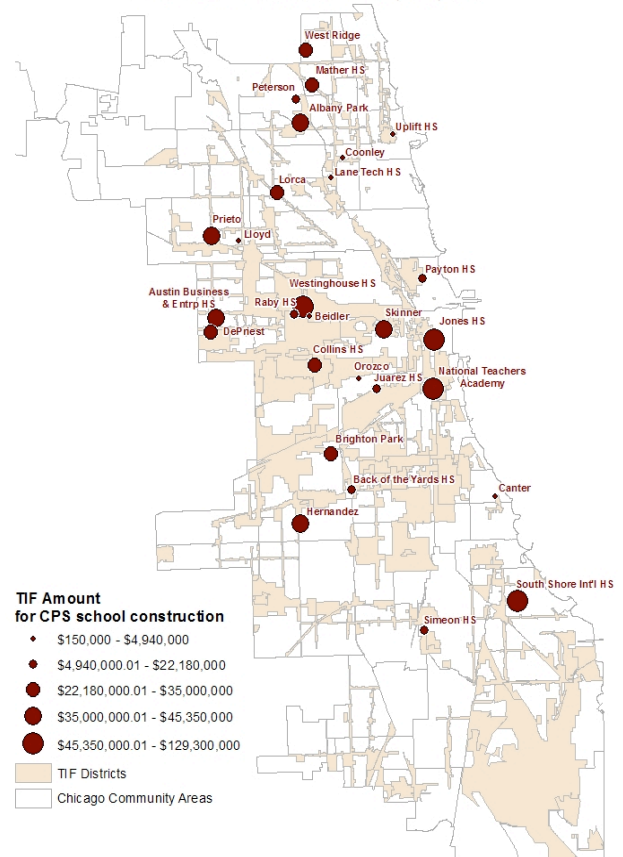


Table 2: Race and Ethnic Makeup of Each School Receiving TIF Funds

(All bolded numbers reflect those schools that have an above average CPS proportion from each race and ethnic group.)

School	TIF Funds Received (in millions)	% White	% Black	% Latino
All CPS Schools	\$857.81	8.8	41.6	44.1
Albany Park Multicultural Academy	\$45.35	8.6	5.6	71.1
Austin Business & Entrepreneurship Academy*	\$37.77	0	98.7	.9
Beidler Elementary School	\$1	0	95.3	3.9
Brighton Park Elementary	\$25.42	1.7	1	95.8
Canter Elementary School	\$0.15	.5	92.3	4.5
Collins Academy High School*	\$30.3	0	91.8	.7
Coonley Middle School*	\$2.2	53.2	2.3	34.1
DePriest Elementary School	\$33.16	.2	94.8	3.4
Hernandez Middle School	\$42.36	1.1	2.1	96.5
Jones Academy High School*	\$67	27.1	24.8	31.9
Juarez High School	\$16.8	1.1	2.3	94.6
Lane Technical High School*	\$1.89	29.4	8.7	47.1
Lloyd Elementary School	\$0.75	.9	2.8	94.8
Lorca Elementary School	\$35	4.7	2.4	90.6
Mather High School	\$30.98	22	14.3	37.1
National Teachers Academy	\$79.34	0	95.9	2.5
Orozco Fine Arts and Science Elementary	\$0.25	.5	.9	97.8
Payton College Prep*	\$11.13	34.1	24.7	24.9
Peterson Elementary School	\$18.05	24.3	4.9	35.4
Prieto Math & Science Academy	\$39.4	1.4	2.9	95.4
Raby School for Community and Environment *	\$22	.2	97.9	1.7
Simeon High School & Career Academy*	\$22.18	0	99.3	.3
Skinner West Elementary School*	\$42.29	17	42	11.6
South Shore International College Prep	\$72.2	0	96.5	0
Uplift Community School*	\$4.94	1.5	81.3	11.3
Westinghouse College Prep*	\$129.3	1.2	68.1	25.8
West Ridge Elementary School	\$26.8	24.1	11.6	44.4

Source: Chicago Public Schools Office of Performance 2011-2012 Racial Ethnic Survey

* Designates selective enrollment schools or mixed schools with an exclusive enrollment component

Note: Asian students have been excluded because their small proportion of all CPS students, 3%, renders analysis problematic.

Neighborhood demographics

CPS conducts its own socio-economic analysis of communities across the city of Chicago. CPS divides the city into 4 socioeconomic tiers, with each tier representing a quarter of the school-age population. CPS combines school test scores and five other socio-economic indicators (single parent households, median family income, education attainment score, percent of population speaking a language other than English, and home ownership rates) to construct each Tier groups. The Tiers range from 1 to 4, with Tier 1 being the lowest socio-economic grouping and the Tier 4 being the highest socio-economic grouping.

According to CPS's Tier groupings, 36% of schools receiving TIF funds are situated in the highest socio-economic grouping – Tier 4. At the same time, 36% of schools receiving TIF funds are situated in Tier 1 neighborhoods. Alternatively, when combined, Tier 2 and 3 communities accounted for 28% of schools receiving TIF funds, even though they account for 50% of the school-age population. Additionally, schools with some form of exclusive enrollment component receiving TIF funds are more strongly concentrated in Tier 1 and Tier 4 neighborhoods.

In order to develop an understanding of the socioeconomic character of the neighborhood in which each school receiving TIF funds is situated, neighborhood level data (using the Census tract in which each school is located) was collected on selected socio-economic characteristics.² Overall, 25% of schools receiving TIF funds are in neighborhoods where the median income is higher than the city's median. Schools in which the neighborhood area had a higher median income relative to the median income of the city as a whole are aggregated together along with their other socio-economic characteristics in Table 3.

In almost all cases, each of these neighborhoods had a lower percent of its residents in poverty, lower unemployment rate, higher property values for houses and a higher percent of residents owning their own home relative to the city of Chicago. This indicates that at least 1 out of every 4 neighborhoods receiving TIF funds do not suffer from a lack of economic development. Additionally, the dominant type of school receiving TIF funds in relatively affluent neighborhoods is selective enrollment schools. It is interesting to note that selective enrollment schools tend to have more racial/ethnic and income diversity than the neighborhood in which the school falls.

Analysis

1. Economic Development

The city should be applauded for prioritizing construction projects benefitting the public school system. Some of these schools serve as a model of what visionary

public schools should look like. A prime example is the newly constructed Back of the Yards High School that incorporates many LEED green designs such as vegetated and reflective rooftops, efficient lighting systems, and recycled construction materials. Additionally, the school will provide students with new, up-to-date computer and science labs. However, given the extensive need across Chicago schools for bigger or additional classrooms, more up-to-date computer and science labs, library facilities, new roofs and new ceilings, some of the construction projects funded by the TIF are questionable. For instance, Lane Tech, a selective enrollment school situated in a Tier 4 neighborhood, received nearly \$2 million in TIF dollars to construct a new football stadium. Alternatively, \$2 million can finance the renovation of four high school science labs.³

This underscores the view critics hold of the TIF program. These critics charge that the TIF program has deviated from its original intent – to develop blighted neighborhoods that would not otherwise attract development dollars. The data indicates that at least a quarter of TIF funds are used to support development in economically viable communities. 1 out of 3 schools receiving TIF funds are in Tier 4 neighborhoods and 25% of neighborhoods receiving TIF funds have a higher median income than the citywide median income. Almost all of the neighborhoods with median incomes higher than the city's median income also have lower poverty rates, lower unemployment rates, higher property values and more owner-occupied houses than the city as a whole. Many of these Tier 4 neighborhoods receive TIF funds to support selective enrollment schools.

TIF proponents claim that city governments have had to expand their TIF programs from developing blighted communities to become a general economic development tool use by city governments experiencing population loss, federal cutbacks in financial support for cities and new economic realities. What we see is a polarization in the distribution of TIF revenues going to support school construction projects in Tier 1 and Tier 4 neighborhoods while middle-income communities (Tiers 2 and 3) are experiencing limited support. This trend indicates that TIFs contribute to some level of neighborhood development on the bottom while concomitantly supporting gentrification and affluent communities at the top. Therefore even if the TIF is becoming a more general tool to finance city development, its impact is highly uneven and polarized.

2. Building Exclusive Schools

The types of schools that are funded by TIF revenues parallel polarization in the distribution of TIF funds for school construction projects. Over half of TIF revenues used for school construction projects went to schools with some form of an exclusive enrollment process or

Table 3: Selected socio-economic characteristics of schools in neighborhoods with a median income above the city’s median income

School Area	Median Household Income	% Poverty	% Unemployed	Housing Value (Median)	Owner Occupied Housing
City of Chicago	\$44,776	18.2%	9.7%	\$244,900	45.9%
Coonley*	\$62,821	5.4%	3.6%	\$531,500	53.6%
Lorca	\$49,295	11%	6.7%	\$359,300	46.1%
Jones*	\$75,457	8.1%	1.3%	\$302,300	42.8%
Lane Tech*	\$73,986	4.8%	1.4%	\$433,200	57%
Skinner*	\$98,677	5.9%	3.7%	\$355,600	68.7%
Peterson	\$56,512	10.2%	5.7%	\$365,300	43.5%
Mather	\$72,796	25.8%	5.3%	\$532,000	64.4%

Source: 2006-2010 American Community Survey 5-Year Estimates, U.S. Census Bureau

* Designates Schools with a Selective Enrollment Process or Components

component. That selective enrollment schools alone compose 1% of CPS schools and yet receive 25% of all TIF funds used for school construction projects indicates that the city strongly prioritizes these schools. Meanwhile, local neighborhood attendance area schools are shortchanged. These schools compose 69% of the CPS school system but only receive 48% of TIF revenues. This trend indicates an emerging two-tiered, unequal CPS education system where the city and CPS are prioritizing school construction projects for exclusive schools over inclusive neighborhood schools that accept all children in the district.

This trend also speaks to the role of CPS in the world-class city vision promoted by the Daley and Emanuel Administrations. The city favors schools that cater to more affluent residents or potential future residents by creating more selective and exclusive schools. The symbolic and ideological function of these schools indicates to current and prospective affluent residents that the city is looking out for their interest because it prioritizes special, high performing schools even though the public school system as a whole may be suffering.

In stark contrast to the prioritization of exclusive schools, schools that are specifically devoted to special education have received no TIF funds.⁴ And yet, the “crisis” of public education is in part due to the lack of resources going toward special education facilities and services. In addition, the lack of special education resources is also correlated with higher contact rates of juveniles with the criminal justice system. One way to redirect the school to prison pipeline, lower zero tolerance offenses, and boost school performance is to invest in special education schools.

Furthermore, prioritizing exclusive schools over inclusive neighborhood schools reflects the current school reform

agenda of creating more “choice” or “option” schools. The TIF program advances the school choice agenda despite the desires of many parents to have quality neighborhoods schools that their children can attend. This is especially pertinent given that schools with selective and exclusive enrollment processes do not have to accept children from the local neighborhood. That TIF funded schools construction projects are paid for by the property taxes of residents in the TIF district whose children may not be permitted to attend these schools demonstrates how the TIF program can work to finance exclusion on the backs of those excluded.

3. Reproducing Inequality

Schools receiving TIF funds are strongly concentrated in the north half of Chicago. Although this area includes many communities that lack capital investment, it also includes many of the most economically developed neighborhoods in Chicago. Meanwhile, the southern half of the city (arguably the area that the TIF was originally designed to uplift) is left behind. This is especially pertinent for Latino communities that are significantly underrepresented in the allocation of TIF revenues for school construction projects.

One of the problems with relying on TIFs to fund school construction projects is that TIFs revenues depend upon the property tax values of the real estate located within the boundaries of the TIF. Pre-existing under-development means that Black and Latino communities have a smaller property tax base in which to generate development revenues. Since TIF revenues are restricted to use within the district or adjacent district in which they are generated, Latino and Black schools tend to have weaker revenue streams to draw upon relative to White neighborhoods.

Therefore a circular logic prevails in that the presence of development attracts more development, while the lack of development goes on to justify continued lack of development. It is precisely this problem that the TIF was originally intended to mitigate.

The way tax increment financing works for school construction parallels the way schools are financed by local property tax revenues across the state. And yet, local property tax revenue streams are a fragmented, uneven and inequitable way in which to finance public schools as property tax dollars go onto support only those schools within the district in which they are generated. Schools in low property value districts take in fewer revenues to support public education relative to high property value districts. Locally generated revenue that are recycled back into the community of origin is a key mechanism through which government policy reproduces existing place-based inequalities and is crucial to understanding why urban and suburban public school systems are so uneven and inequitable.

The trend towards financing school construction projects based on locally generated TIF revenues will contribute to an even more fragmented and unequal public school system. Since TIFs operate at the level of the neighborhood, they partition the school district into smaller units. This further entrenches preexisting place-based economic inequalities in those communities already starved for economic development. A more equitable way of financing community development in general, and schools in particular, should be prioritized. This would involve pooling resources and distributing them based on need, not on ability to generate revenues.

Conclusion

This examination of the types of schools and communities benefiting from TIF revenues for school construction projects finds that the TIF program is contributing to income and race/ethnicity place-based inequality in the city of Chicago. The data on the schools receiving TIF funds for construction projects demonstrates how the TIF program has moved beyond its original purpose of developing blighted communities and has become a general financial tool to spur economic development for the city as a whole. And yet, TIF financial support for school construction projects is uneven and polarized between high and low-income communities, neglecting the middle. Another way in which we see the TIF program amplify inequality is seen in Latino communities that are severely underrepresented while White communities are overrepresented in TIF revenues allocated to school construction programs. Geographically, TIF contribute to inequality in Chicago due to the concentration of schools receiving TIF revenues for school construction projects in the upper half of the city. The type of schools funded by TIFs represent another dimension of how the

TIF program is contributing to uneven development in Chicago. School construction projects funded by TIF revenues favor exclusive schools (selective enrollment schools, charter schools and magnet schools, etc.) while underfunding inclusive neighborhood area attendance schools. This is directly playing a role in the move toward an inequitable, two-tiered public education system. Taken together, these outcomes of the tax increment financing program supporting school construction projects adds to the widening gap between affluent Chicagoans and everyone else.

Notes

- 1 I excluded the 26 schools given TIF funds to bring the schools in compliance with ADA accessibility standards. Altogether, these schools received over \$32 million.
- 2 Using information from the Census tract in which the school is situated does not provide a complete picture of the geographic area served by the school. It is often the case that schools will include students from more than one Census tract. The data in Chart 3 indicates a strong trend in the community's economic status.
- 3 The median cost of renovating high school science labs is \$527,000, based on a random sample of 56 schools from information provided by CPS's Office of Operations on their website: <http://www.csc.cps.k12.il.us/servlet/CIP?ASMT=Y>.
- 4 Currently, there are 12 pre K-12 schools devoted to special education. Even though TIF funds have not been used to support special education schools, many of the schools receiving TIF funds have special education programs.

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