

JANUARY 2022

AUDIT OF THE CITY'S COMPLIANCE WITH THE TIF SUNSHINE ORDINANCE AND TIF SURPLUS EXECUTIVE ORDER

CITY OF CHICAGO
OFFICE OF INSPECTOR GENERAL



WILLIAM MARBACK
INTERIM INSPECTOR GENERAL FOR THE CITY OF CHICAGO

DARWYN JONES
DEPUTY INSPECTOR GENERAL FOR AUDIT & PROGRAM REVIEW

TABLE OF CONTENTS

I. EXECUTIVE SUMMARY	3
A. CONCLUSION	3
B. FINDINGS	3
C. RECOMMENDATIONS	3
D. DPD AND OBM RESPONSES	4
II. BACKGROUND	5
A. TIF PROJECT APPROVAL PROCESS	8
B. THE TIF SUNSHINE ORDINANCE	8
C. THE TIF SURPLUS EXECUTIVE ORDER	9
1. How Balances Affect Surplus Funds	10
2. How a Surplus is Declared	13
3. OIG Tax-Increment Financing Districts Dashboard	15
III. FINDINGS AND RECOMMENDATIONS	16
FINDING 1: THE CITY HAS NOT PROVIDED THE PUBLIC WITH ALL DATA REQUIRED BY THE TIF SUNSHINE ORDINANCE.	16
FINDING 2: WHILE THE CITY DECLARED A SURPLUS IN ACCORDANCE WITH THE EXECUTIVE ORDER, IT LIMITED THE AMOUNT CONSIDERED FOR SURPLUS DECLARATION.	21
IV. OBJECTIVES, SCOPE, AND METHODOLOGY	24
A. OBJECTIVES	24
B. SCOPE	24
C. METHODOLOGY	24
D. STANDARDS	26
E. AUTHORITY AND ROLE	26
APPENDIX A: DISTRICT MAPS, NARRATIVES, AND REDEVELOPMENT AGREEMENT INFORMATION WEBSITE	27
APPENDIX B: CITYWIDE TIF MAP AND PROJECT LOCATIONS WEBSITE	28
APPENDIX C: CHICAGO DATA PORTAL	29
APPENDIX D: TIF BUDGET AND BALANCE INFORMATION	30

ACRONYMS

CDOT	Chicago Department of Transportation
DPD	Department of Planning and Development
OBM	Office of Budget and Management
OIG	Office of Inspector General
TIF	Tax Increment Financing

City of Chicago
Office of Inspector General

AUDIT OF THE CITY'S COMPLIANCE WITH THE TIF SUNSHINE ORDINANCE AND TIF SURPLUS EXECUTIVE ORDER



The City does not provide all of the TIF-related data items required by the Sunshine Ordinance to the public, but has substantially improved since October 2019.

While project budgets and other items are regularly available, others—including sustainable developments requirements—are not.



The City declared a surplus of 86% of unallocated funds across all TIF districts for fiscal year 2020, more than the 25% required by the TIF Surplus Executive Order.



However, a lack of consistency in reviewing projects, and the allowance of stagnant unspent funds limits the amount considered for surplus declaration annually.

I. EXECUTIVE SUMMARY

The Office of Inspector General (OIG) conducted an audit of the City's compliance with the Tax Increment Financing (TIF) Sunshine Ordinance and the TIF Surplus Executive Order. The audit had two objectives:

1. To determine if the Department of Planning and Development (DPD) is meeting the requirements of the TIF Sunshine Ordinance, Municipal Code of Chicago § 2-45-155, which requires the City to make certain data related to TIF projects and districts publicly available.
2. To determine if DPD and the Office of Budget and Management (OBM) comply with Executive Order 2013-3, Declaration of TIF Surplus Funds in TIF Eligible Areas, which requires the City to annually declare at least 25% of the City's unallocated TIF balance as "surplus" to be remitted to taxing bodies affected by TIF.

A. CONCLUSION

OIG concluded that the City does not provide the public with all of the data required by the TIF Sunshine Ordinance. We also concluded that the City declared a TIF surplus in accordance with the Executive Order in 2020, but limited the amount to be considered for surplus declaration. This limitation was a result of recording errors, a lack of consistency in reviewing projects, and the allowance of stagnant unspent funds.

B. FINDINGS

DPD does not provide the public with all of the data required by the TIF Sunshine Ordinance. The City hosts three separate websites that contain publicly available data on TIF projects and districts. These include the *Citywide TIF Map and Project Locations* website, which was substantially updated over the course of the audit. However, none of the websites contain all the data required by the ordinance. Items such as sustainability requirements and economic disclosure statements are still missing for many projects.

Regarding surplus declaration, in 2020, the City declared a TIF surplus in compliance with the TIF Surplus Executive Order. There is room for improvement, however. The City limited the amount of funds to be considered for surplus declaration because of budgetary recording errors, lack of project close-out review, and unspent infrastructure funds. Additionally, because the City's timeline for vetting TIF projects can vary significantly, some funds are held year over year for projects that may not be executed.

C. RECOMMENDATIONS

OIG recommends that DPD upload the missing items required by the TIF Sunshine Ordinance and make all TIF data available on a single website, develop a reliable system for managing project progress and documentation, and ensure that staff responsible for uploading data have access to

the system. OIG also recommends that OBM and DPD regularly review planned TIF expenses with the requesting departments and consider developing a deadline system to prevent funding for anticipated projects from being withheld indefinitely. Finally, OIG recommends that OBM and DPD develop guidelines for what expenses may be considered project commitments, and that the departments release an annual TIF surplus statement describing in detail how the City calculates a surplus, and identifying the districts that provided the surplus funds.

D. DPD AND OBM RESPONSES

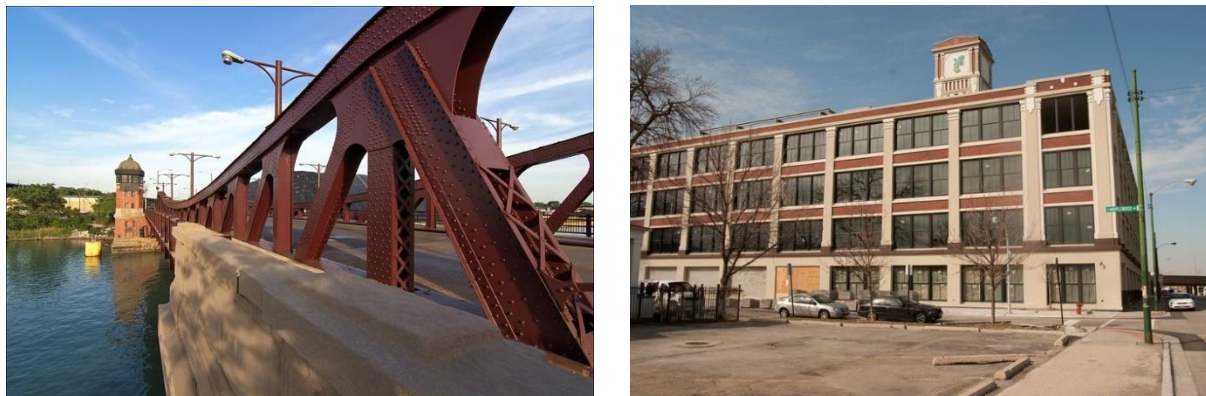
In response to our audit findings and recommendations, DPD stated that it has uploaded many of the missing records and plans to conduct quarterly audits of the required documents. The Department also began efforts to create a centralized website and will address the need for automated information uploads during the design. Additionally, DPD relaunched its internal project management system, allowing data and documents to automatically upload to the Open Data Portal in the interim. OBM agreed to create guidelines related to the categorization of projects and to develop an annual report providing information on TIF surplus calculations and the sources of surplus. OBM stated that, in 2022, there will be four additional TIF positions, which will allow the City to perform a thorough analysis of all proposed and current TIF projects. Finally, OBM will establish quarterly reviews of proposed and obligated projects.

The specific recommendations related to each finding, and DPD and OBM's responses, are described in the "Findings and Recommendations" section of this report.

II. BACKGROUND

Tax Increment Financing (TIF) is the City of Chicago's primary funding vehicle for economic development. The Department of Planning and Development (DPD) administers the City's TIF program. TIF uses local property taxes to finance public and private projects designed to reduce urban blight by improving infrastructure, expanding the tax base, and/or fostering economic development.¹ TIF may fund public improvements directly or provide reimbursement grants to private entities for a portion of their redevelopment costs. Figure 1 provides an example of past projects that used each method.

FIGURE 1: Repairs to the 100th Street bridge (public improvement) and redevelopment of the Green Exchange building (private development) were both funded in part by TIF



Source: “E 100th Street Bridge” by [the dorsch](#) is licensed under [CC BY-NC-SA 2.0](#); “The Green Exchange Building from Diversey” by [Justin Goh](#) is licensed under [CC BY-NC 2.0](#).

In addition to redevelopment agreements supporting projects by private developers and TIF-funded infrastructure and municipal facility improvements, there are two other categories of TIF projects in Chicago: intergovernmental agreements supporting projects by or with public entities; and TIF-funded programs that provide job training, small-business grants, and similar initiatives.

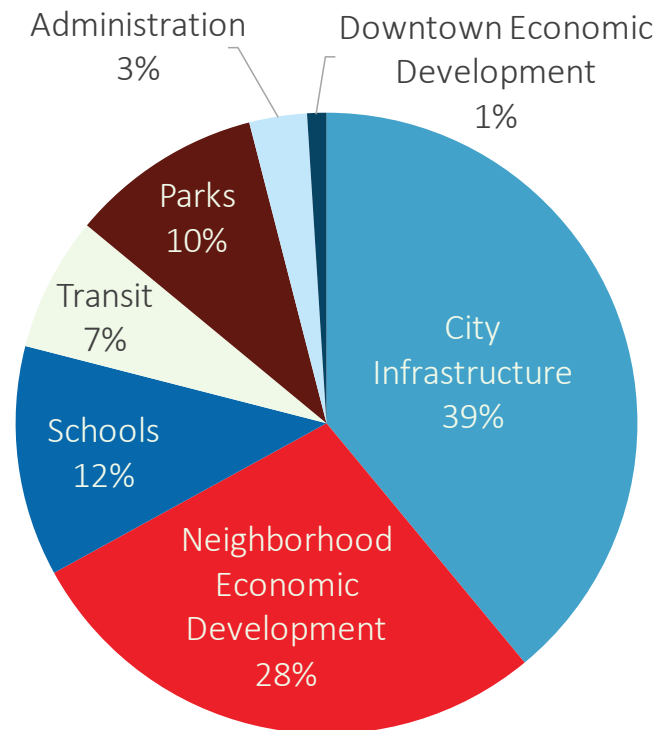
As of December 2020, the *Chicago Data Portal* listed 327 TIF-supported private development projects since 1986, totaling \$3.3 billion in public subsidies.² However, as Figure 2 shows, most TIF funds in Chicago are not spent on private projects, but on public improvements such as

¹ For more a more detailed explanation of how TIF works, including how it affects local property taxes, see City of Chicago Department of Planning and Development, “Tax Increment Financing Program Guide,” 2020, accessed June 29, 2021, https://www.chicago.gov/content/dam/city/depts/dcd/general/2020_tif_program_guide.pdf; Cook County Clerk, “2018 TIF Report – TIF FAQs,” July 31, 2019, pdf p. 9-16, accessed June 29, 2021, <https://www.cookcountyclerk.org/sites/default/files/pdfs/2018%20TIF%20Report.pdf>.

² City of Chicago, *Chicago Data Portal*, Tax Increment Financing (TIF) Projects, accessed December 8, 2020, <https://data.cityofchicago.org/Community-Economic-Development/Tax-Increment-Financing-TIF-Projects/mex4-ppfc>. We filtered this data to remove projects supported by intergovernmental agreements, which represent public development projects.

parks, transit facilities, schools, and infrastructure, with nearly 40% going to infrastructure projects.

FIGURE 2: Most 2019 Chicago TIF funds were spent on public improvements

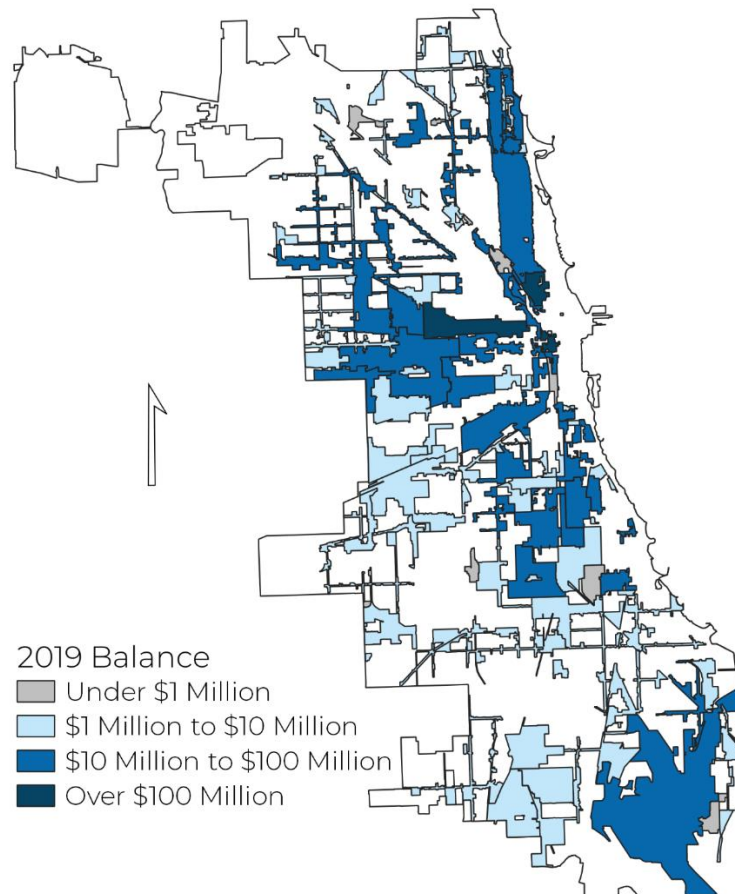


Source: City of Chicago 2020 Tax Increment Financing Program Guide.

Chicago utilizes TIF far more extensively than any other large U.S. municipality. In 2019, there were 140 active TIF districts, covering about 25% of the City's area. These districts collected \$926 million that year and accrued a total fund balance of \$1.8 billion.³ Figure 3 shows the coverage and balance of each district at the end of 2019.

³ The City terminated four of these districts during 2019: Harlem Industrial Park, Irving Park/Elston, Pershing/King, and South Works Industrial.

FIGURE 3: TIF districts cover approximately 25% of Chicago and districts with balances over \$100 million are clustered near downtown

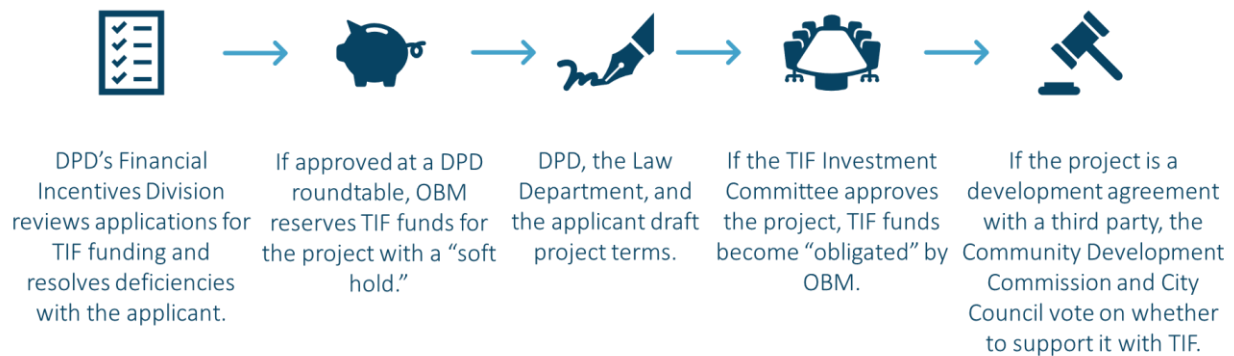


Source: *Chicago Data Portal*. Note the map shows 136 districts, as it does not include the 4 districts terminated in 2019.

A. TIF PROJECT APPROVAL PROCESS

Figure 4 shows the approval process for TIF project proposals.

FIGURE 4: TIF projects require the approval of DPD, the TIF Investment Committee, the Community Development Commission, and City Council



Source: DPD description and documentation of the TIF project approval process.

The TIF Investment Committee reviews public and private projects requesting TIF support based on details collected by DPD. Its decisions are published on the *Chicago Data Portal*.⁴ The TIF Investment Committee comprises staff in the following positions:

- deputy mayor for neighborhood and economic development
- deputy mayor for infrastructure and services
- chief equity officer
- chief financial officer
- comptroller
- budget director
- DPD commissioner (advisory role)

Once approved by the TIF Investment Committee, third-party development agreements requesting TIF funding must ultimately be approved by an appointed review body—the Community Development Commission—and then by City Council.

B. THE TIF SUNSHINE ORDINANCE

To increase TIF transparency, City Council passed the TIF Sunshine Ordinance in 2009.⁵ This legislation requires the City to post certain data publicly. In 2013, Council amended the

⁴ City of Chicago, "Chicago Data Portal," Tax Increment Financing (TIF) Investment Committee Decisions, accessed July 21, 2021, <https://data.cityofchicago.org/Community-Economic-Development/Tax-Increment-Financing-TIF-Investment-Committee-D/nm3d-wkdd>.

⁵ City of Chicago, Municipal Code, § [2-45-155](#).

ordinance to require specifically that the *Chicago Data Portal* provide a searchable database of TIF-funded projects.⁶

TIF information is available on three different websites:

- The *District Maps, Narratives, and Redevelopment Agreement Information* website provides district information arranged by geographic regions throughout the City.⁷ Each TIF district has its own page with a short narrative on its history and redevelopment goals, as well as a list of projects within the district and links to key data.
- The *Citywide TIF Map and Project Locations* website features an interactive map that shows the location of each TIF district, as well as both redevelopment and public infrastructure projects.⁸ When a user clicks on a project, the portal presents related information in a pop-up window. Users can access project documentation directly through this window and can overlay wards and other geographic subdivisions onto the map.
- The *Chicago Data Portal* contains more than 200 datasets of financial and project information related to TIF.⁹ Some datasets—e.g., district balance sheets—have not been updated since 2011, and certain data points—e.g., account balances—are missing for some years. Starting in mid-2019, however, the City began adding new TIF-related datasets, including information from annual reports for each TIF district, TIF Investment Committee decisions, TIF properties acquired and sold by the City, and vendors paid using TIF dollars. The *Chicago Data Portal* also houses a regularly updated list of TIF-funded public and private development projects. Although several of the TIF Sunshine Ordinance’s required data points are also on the website, OIG reviewed these datasets and determined they were not relevant to the ordinance’s requirements or contained only a small portion of the projects in the audit scope.

C. THE TIF SURPLUS EXECUTIVE ORDER

As used in the context of the City’s TIF program, the term “surplus” means unused funds subject to being released to the City and overlapping taxing bodies. In 2013, Mayor Rahm Emanuel issued Executive Order 2013-3, “Declaration of TIF Surplus Funds in TIF Eligible Areas,” which required the City to declare on a regular basis surpluses in TIF district accounts. The Order aimed to end the annual practice of holding over most or all funds for unidentified future projects. The Order requires all TIF districts to declare 25% of all “TIF funds anticipated for future use” as a

⁶ The documents and database can be accessed through a TIF homepage: <https://www.chicago.gov/city/en/depts/dcd/provdrs/tif.html>.

⁷ City of Chicago Department of Planning and Development, “District Maps, Narratives, and Redevelopment Agreement Information,” accessed July 21, 2021, https://www.chicago.gov/city/en/depts/dcd/supp_info/view_tif_districtmapsbyregion.html. See Appendix A for an image from this website.

⁸ City of Chicago Department of Planning and Development, “Citywide TIF Map and Project Locations,” accessed July 21, 2021, <https://webapps1.chicago.gov/ChicagoTif/>. See Appendix B for an image from this website.

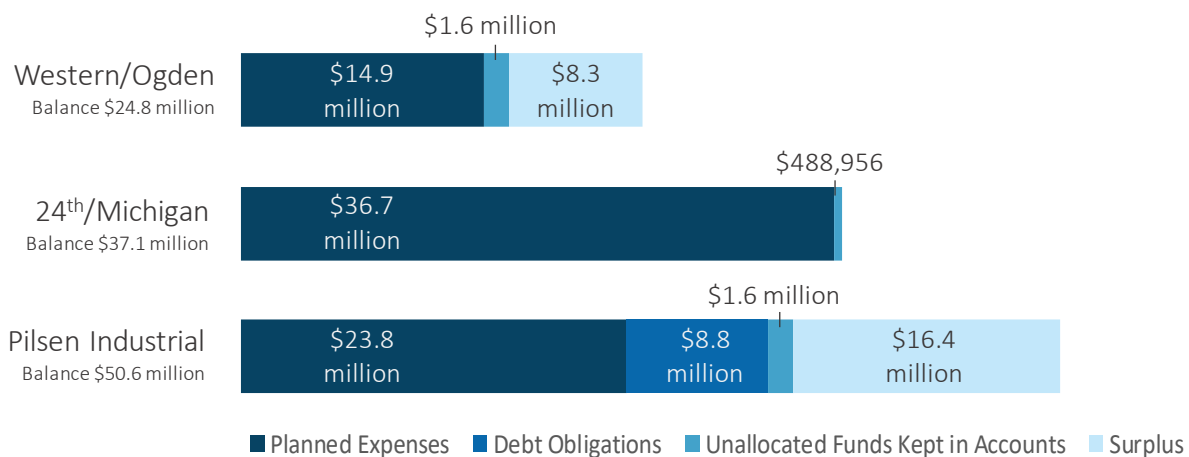
⁹ City of Chicago, “Chicago Data Portal,” accessed July 21, 2021, <https://data.cityofchicago.org/>. See Appendix C for an image from this website.

surplus, unless the district is less than 3 years old, has less than \$1 million in account balance, was created for a single project, or has helped fund Modern Schools Across Chicago projects. The Order allows a district to consider future planned expenses, revenue volatilities, tax collection losses, and similar contingencies before calculating its surplus, but substantially limits its discretion to hold back unallocated funds.

1. How Balances Affect Surplus Funds

Projects approved or considered for TIF funding are listed in the five-year projections for each district published on DPD's website.¹⁰ The projections catalog funds for planned expenses that are being held for public infrastructure and private development projects. These holds determine whether and how much funding the City will declare as a surplus from each TIF district at year's end. A surplus is determined by subtracting planned expenses for future projects from a TIF district's fund balance, as shown in the examples in Figure 5.

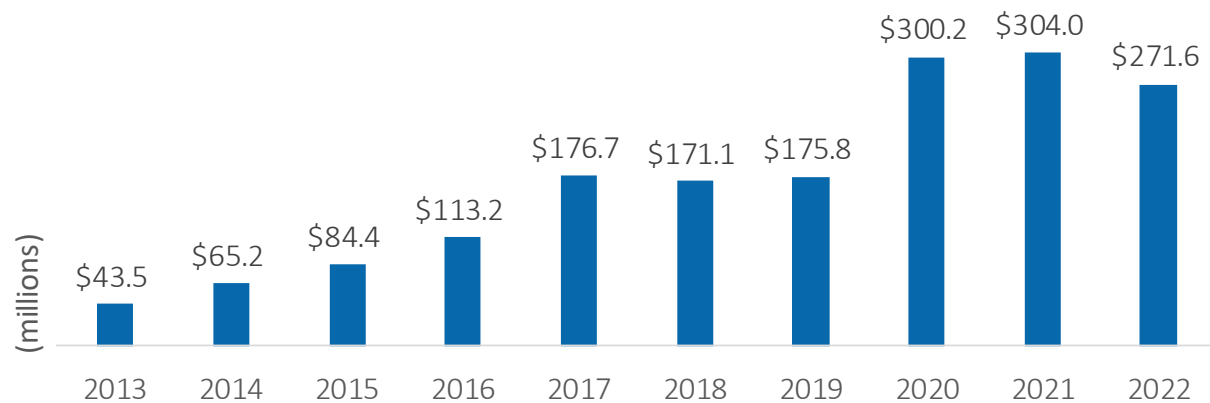
FIGURE 5: A TIF surplus is taken from the portion of a district's balance that has not been obligated



Source: 2019 City of Chicago TIF District Annual Reports via the *Chicago Data Portal*.

Figure 6 charts the increasing amounts of TIF surpluses the City has projected in recent years, culminating in a record \$304 million surplus projected in 2020 for budget year 2021.

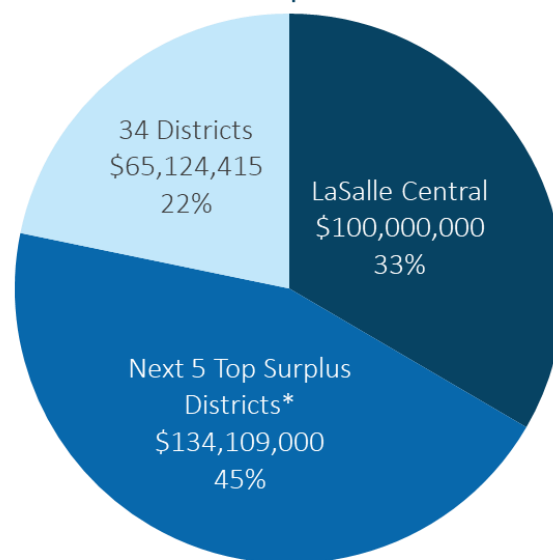
¹⁰ City Of Chicago, "TIF District Programming 2020-2024," accessed July 21, 2021, https://www.chicago.gov/content/dam/city/depts/dcd/tif/TIF_District_Programming_2020_2024_Final.pdf.

FIGURE 6: Chicago projected a \$304 million TIF surplus for 2021, a record high amount

Source: City of Chicago, “2022 Budget Overview,” accessed 11/12/2021, https://www.chicago.gov/content/dam/city/depts/obm/supp_info/2022Budget/2022OverviewFINAL.pdf. Projected surplus amounts may differ from a surplus actually declared, which is given in TIF District Annual Reports. OIG’s analyses used the declared surplus for 2020, rather than the projected surplus.

The majority of the TIF surplus comes from a small handful of districts located near downtown, as shown in Figure 7. This is largely attributable to the fact that the downtown districts, which generally have the highest TIF balances, are in the process of being “frozen” by the City. Most of their funds will be declared as a surplus and no new projects will be started within the districts, except for public infrastructure.

Figure 7 also shows that, in 2019, the City declared a surplus for the following fiscal year in only 40 TIF districts. A single district—LaSalle Central—contributed \$100 million, or about one-third of the total surplus declared Citywide.¹¹

FIGURE 7: A single district contributed one-third of the total TIF surplus declared for 2020

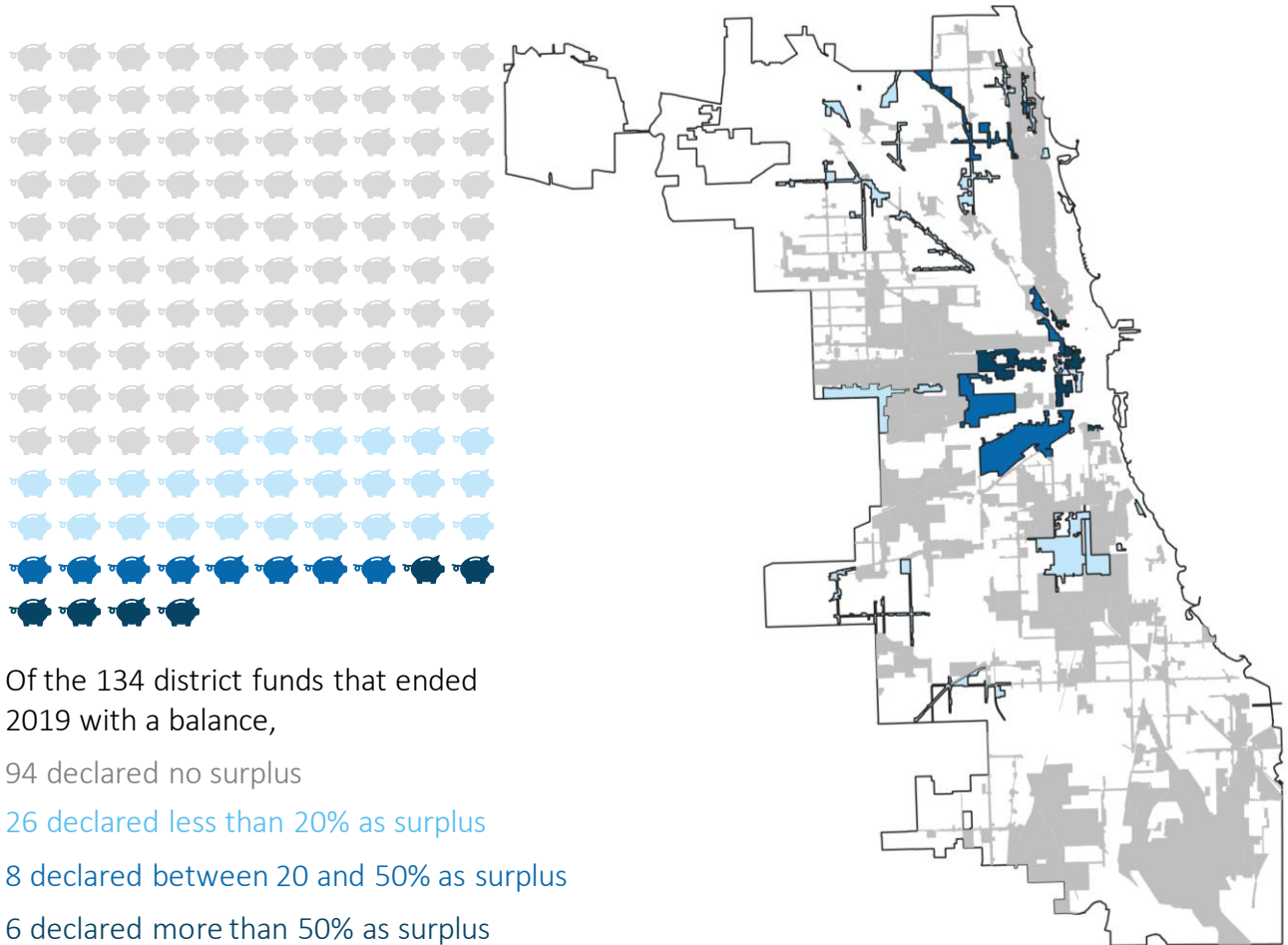
*These are Chicago/Kingsbury, Central West, River West, Pilsen Industrial Corridor, and River South.

Source: OIG visualization of the 40 TIF districts that declared surplus in 2020 based on data from City of Chicago TIF District Annual Reports via the Chicago Data Portal.

¹¹ DPD updates district-level surplus data yearly. Surplus amounts for 2020 and beyond are available on OIG’s TIF Surplus Dashboard at <https://informationportal.igchicago.org/tax-increment-financing-districts/>.

Figure 8 shows that most districts do not declare a surplus, and that the amount of a declared surplus (as a percentage of a district's total balance) can vary greatly. Districts that do not declare a surplus tend to have planned projects or other obligations.

FIGURE 8: Most TIF districts do not declare a surplus



Source: 2019 City of Chicago TIF District Annual Reports via the *Chicago Data Portal*.

Notably, even some districts with large balances do not declare a surplus. As Figure 9 shows, four of the ten highest-balance districts did not contribute to the City's 2020 declared surplus.

FIGURE 9: Some high-balance districts did not declare a 2020 surplus

TIF District	District's 2019 Balance	District's Surplus Declared for 2020	% of District's Balance Declared Surplus
Kinzie Industrial Corridor	\$124,495,431	\$0	0%
LaSalle Central	\$118,187,536	\$100,000,000	85%
Near North	\$104,925,148	\$0	0%
River South	\$86,803,226	\$14,548,000	17%
Red Purple Transit	\$71,128,072	\$0	0%
Central West	\$63,966,180	\$36,992,000	58%
River West	\$52,791,189	\$21,124,000	40%
Pilsen Industrial Corridor	\$50,562,328	\$16,445,000	33%
Canal/Congress	\$44,056,903	\$3,822,000	9%
North Branch (North)	\$42,147,655	\$0	0%

Source: 2019 City of Chicago TIF District Annual Reports via the *Chicago Data Portal*.

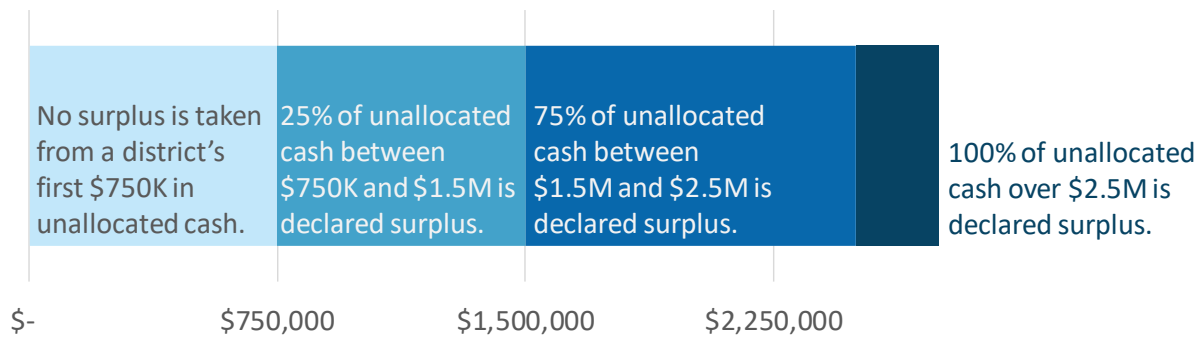
See Appendix D for more information on TIF balances and revenue.

2. How a Surplus is Declared

A surplus may comprise the balance remaining when a district expires or is repealed, or may be declared annually as part of a district's regular accounting and budget process. The TIF Act requires municipalities, on an annual basis, to declare as a surplus and distribute to affected taxing districts any "moneys not required, pledged, earmarked, or otherwise designated for payment and securing of the obligations and anticipated redevelopment project costs."¹²

DPD and OBM collaborate on calculating and declaring the annual TIF surplus. First, DPD produces a list of planned expenses and "soft" funding holds it has placed for proposed projects. The Department then provides this list to OBM, which subtracts the identified obligations from each district's TIF balance to find its unallocated funds. OBM then uses the formula in Figure 10 to determine how much of each district's unallocated cash will be declared as a surplus in the following fiscal year.

¹² [65 ILCS 5/11-74.4-7](#).

FIGURE 10: OBM's surplus determination formula

Source: Documentation and explanation of the surplus determination process provided by OBM.

In some cases, OBM chooses not to declare a surplus in a given district if it foresees unpredictable future expenses there. For example, the City expects TIF to pay for environmental remediation at the Michael Reese Hospital site in the Bronzeville district, but does not yet know how much this will cost. A surplus is calculated as part of the annual budget development process, and the mayor will announce the amount of a TIF surplus, if any, the City intends to declare in the district when the budget proposal is released, usually in October. The City intends to declare a \$271.6 million TIF surplus for 2022.¹³

OBM sends the declared annual TIF surplus amount to the Cook County Clerk between January and May of the following year. Going forward, the Department plans to remit the surplus no later than January. OBM remits funds remaining in closed TIF districts in June. Although the City alone determines whether and how much to declare as a TIF surplus, the amount is split among several government entities. The County Treasurer is responsible for returning the share of a surplus owed to each taxing body. In 2020, the City projected it would receive about a quarter of the total TIF surplus, amounting to \$74.1 million.

The City's portion of this comparatively large surplus was used in part to balance its 2020 budget, which faced a shortfall of roughly \$800 million. The City described this as a very aggressive surplus that left only a small amount of funds sitting unused in TIF districts' accounts. While reclaiming surplus funds helps relieve short-term budget pressures, some TIF observers like the Civic Federation contend this is not consistent with the legislative intent for TIF's purpose. A surplus is not a reliable source of revenue. Moreover, repeatedly declaring large surplus amounts suggests that TIF districts do not need this revenue to meet their redevelopment goals and should therefore be either terminated or reduced in size.¹⁴

¹³ City of Chicago Office of Budget and Management, "2022 Budget Overview," September 2021, 62, accessed December 1, 2021, https://www.chicago.gov/content/dam/city/depts/obm/supp_info/2022Budget/2022OverviewFINAL.pdf.

¹⁴ The Civic Federation, "How the City of Chicago Uses Tax Increment Financing Surplus," *Civic Federation Blog*, May 17, 2019, accessed October 23, 2020, <https://www.civiced.org/civic-federation/blog/how-city-chicago-uses-tax-increment-financing-surplus>.

3. **OIG Tax-Increment Financing Districts Dashboard**

OIG identified an opportunity to increase transparency in the TIF surplus process by making the currently available data more accessible. We took data related to the TIF surplus from the *Chicago Data Portal* and formatted it as an interactive map showing individual surplus and account balance amounts for each active district, as well as aggregate amounts across the entire TIF program. Currently, data from 2017 to 2020 is available at: <https://informationportal.igchicago.org/tax-increment-financing-districts/>; we will update the map as the City releases new data.

III. FINDINGS AND RECOMMENDATIONS

FINDING 1: The City has not provided the public with all data required by the TIF Sunshine Ordinance.

The City does not provide the public with all data required by the TIF Sunshine Ordinance.¹⁵ Upon initial OIG review in October 2019, the availability of individual data items ranged from 22% to 99%. DPD improved data availability during the course of the audit—as of March 2021, it ranged from 77% to 100%. Figure 11 breaks down availability of data by category. The absence of required data makes the TIF program less transparent, thereby jeopardizing the public trust. Additionally, available data is not centralized but posted across multiple websites. Such dispersal may confuse users or lead them to miss important pieces of information.

¹⁵ OIG sought data for 94 private projects that received TIF funds between 2009 and September 2018, as well as for TIF districts active during 2019. We did not review data accuracy, only availability.

FIGURE 11: DPD has improved transparency, but required data remains unavailable on the City's websites

Source: OIG analysis of public data provided by DPD. Chart does not include Economic Disclosure Statements or Sustainability Matrices, which we explain in text below.

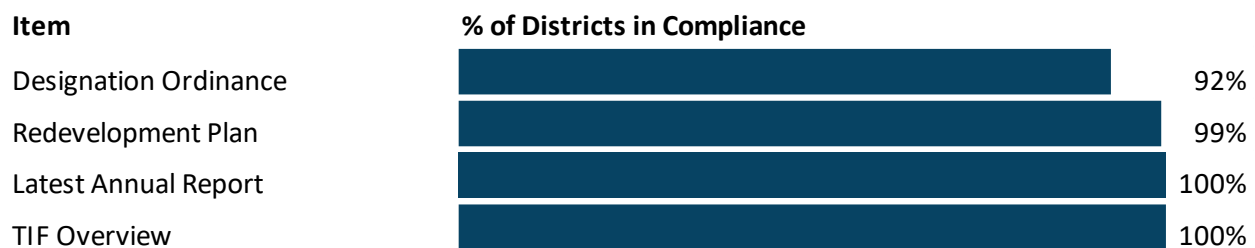
In March 2021, 98% of the projects OIG reviewed had an ordinance available, a major improvement from the 22% availability in October 2019. By contrast, the availability of economic disclosure statements—not shown in the chart above—was more complicated. Rather than making the statements available on the website itself, DPD included statements for 66% of projects within their redevelopment agreement ordinances, which can be hundreds of pages. DPD does not provide notice on its public-facing website that the statements are included in the ordinances. Economic disclosure statements are important because they can reveal whether any

factors would bar a developer from receiving public funds, such as debt owed to the City or relationships with officials reviewing the project.

The Sunshine Ordinance also requires that all projects started after the implementation of the City's Sustainable Development Policy on July 1, 2014, make their sustainable features matrix publicly available. The sustainable features matrix is a form that requires developers to commit to implementing a certain number of environmental sustainability features in their proposals. Of the 25 projects subject to the Sustainable Development Policy that provide data on the *Citywide TIF Map and Project Locations* website or the *District Maps, Narratives, and Redevelopment Agreement Information* website, none included the required matrix.

Finally, the Sunshine Ordinance requires TIF districts themselves to make certain data available, including the district's designation ordinance, redevelopment plan, overview summary, and annual reports. Figure 12 illustrates that, as of January 2020, the vast majority of districts active in 2019 had all required data available on the *District Maps, Narratives, and Redevelopment Agreement Information* website, although some districts' designation ordinances were missing.

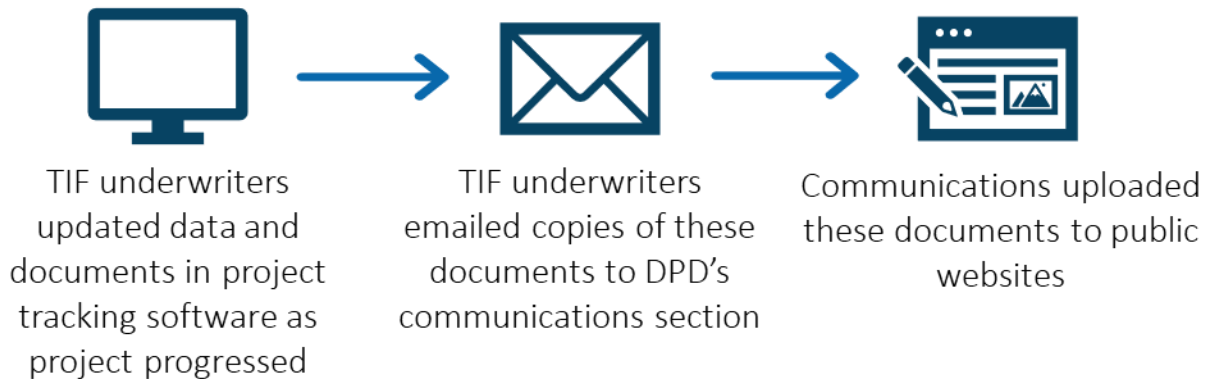
FIGURE 12: District-level information was generally available as of January 2020



Source: OIG analysis of public data provided by DPD.

While DPD's TIF website provides links to all three TIF data websites, there is no guidance as to the specific data each website contains or to the fact that the data is not complete on any given website. Therefore, users must navigate between the three websites to collect the most complete information required by the Sunshine Ordinance. Even assuming a user manages to figure out the need to visit multiple websites, this creates a frustrating experience and risks damaging the credibility of the City's commitment to providing TIF information in a transparent manner.

DPD stated that the main causes for the missing TIF data were difficulties with its internal project tracking software—which the Department used to store data and track project progress—and the fact that data stored on that software was not previously automatically uploaded to its public-facing websites. Figure 13 below illustrates how DPD stored and uploaded TIF data at the time of our analysis.

FIGURE 13: Responsibility for publicly posting TIF data was divided between two DPD teams

Source: Information provided by DPD.

TIF underwriters analyzed TIF funding applications and tracked the progress of active projects. According to DPD, the following issues affected the process:

1. Underwriters did not update project data regularly because the project tracking software was slow and did not run well on DPD's computers. Instead, underwriters updated data for several projects in bulk. Updating in this manner can lead to delays in data being released to the public. DPD stated that it has since updated the project tracking software, improving ease of use and performance.
2. As a result, managers asked underwriting staff to track project progress on separate reports in real time, decreasing the usefulness of the project tracking software.
3. The project tracking software had few controls to ensure the completeness and accuracy of project data, and DPD did not perform regular checks of the data.
4. The project tracking software did not automatically publish TIF data to the City's public-facing websites. Instead, underwriters emailed data to DPD's communications section, which uploaded it using data asset management software. Communications did not review the data for completeness or accuracy; it considered such review to be the underwriting team's responsibility.

DPD acknowledged that updating its public-facing website in this way could introduce version control errors and had been a source of frustration for staff. DPD stated it had proactively improved the process during the course of the audit with updates to its project tracking software.

RECOMMENDATIONS

1. DPD should locate all missing TIF data and make it publicly available. The Department should also define procedures to review this data regularly to ensure that it is up-to-date and accurate.
2. DPD should ensure that all data is centralized and available to the public on a single website. For example, the Department may consider consolidating the information and

closing its *District Maps, Narratives, and Redevelopment Agreement Information* or *Citywide TIF Map and Project Locations* websites.

3. DPD should develop a reliable system for consistently storing TIF-related data and tracking project progress in real time. This could entail either increasing the speed, accessibility, and usefulness of its current project tracking software, or developing an entirely new system. DPD should also implement a written policy regarding system use and distribute it to all relevant staff, and define routine monitoring procedures to ensure data is complete and accurate.
4. DPD should ensure that its communications section or underwriting staff retrieves and uploads data to its public-facing website directly from the project tracking system. The Department should develop procedures to ensure that the latest versions are uploaded.

MANAGEMENT RESPONSE

1. *"DPD anticipates that a significant number of records will have been updated in advance of the publication of this report. We have already addressed many of the deficiencies and will continue to work through the missing records - particularly with regards to the Sustainability Matrix and Economic Disclosure Statements (EDSs). Specifically, regarding the EDSs, DPD has resolved seven of the missing documents and identified a technical issue that has resulted in the remaining 24 projects failing to load the documents. We are in the process of addressing this issue and anticipate that it will be resolved shortly. Additionally, DPD has created a schedule to conduct a quarterly internal audit of its compliance with the Sunshine Ordinance. This process has been implemented and the first review will begin in early January."*
2. *"In Q3 2021, [the Financial Incentives Division of DPD] started the process of creating a centralized website for the City's financial incentives, including TIF. It is anticipated that this site will consolidate many of the various sources of information required by the Sunshine Ordinance in a single location."*
3. *"While elements of this recommendation may have previously been accurate, DPD rolled out a major overhaul and relaunch of its internal project management system on November 10, 2020. This included mandatory training for all staff members as well as the creation of a standing drop-in training sessions that continue to be offered monthly. DPD does acknowledge that it does not have a written policy regarding the use of this system but is committed to creating and adopting one before the end of the first quarter."*
4. *"While DPD's previous Project Tracker system did automatically update the Citywide TIF Map and Project Location and associated tables in the Open Data Portal with data on a nightly basis, it still required manual uploads of the relevant documents. This functionality was, however, introduced with the relaunched PROMA system in November 2020 and both required data and materials are automatically uploaded. DPD does acknowledge, however, that the individual District Maps, Narratives, and Redevelopment Agreement Information pages must still be manually updated. It is, however, anticipated that the development of the new website referenced in DPD's response to Recommendation 2 will address this issue."*

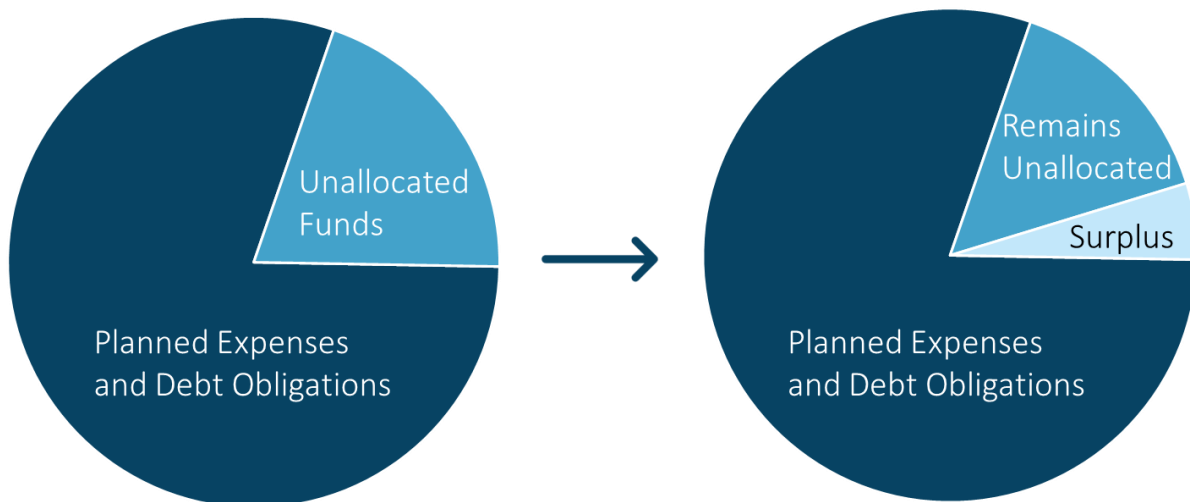
FINDING 2: While the City declared a surplus in accordance with the Executive Order, it limited the amount considered for surplus declaration.

For fiscal year 2020, OBM declared a surplus of more than \$300 million, or 86% of unallocated funds across all TIF districts. This complied with the Executive Order, which defines a surplus as “no less than twenty-five percent [25%]” of a TIF district’s overall balance after consideration of planned expenses and debt obligations.¹⁶ Figure 14 summarizes the surplus declaration process.

FIGURE 14: A surplus is a percentage of a district’s TIF funds after consideration of planned expenses and debt obligations

1) OBM coordinates with departments to determine the amount of TIF funds required for planned expenses and debt obligations.

2) OBM calculates and declares a TIF surplus from the unallocated funds



Source: The surplus determination process as described by OBM.

The City declared a higher surplus in 2020 than required by the Executive Order and, thus, is in compliance with the Order. There is room for improvement, however. A review of two TIF districts found that recording errors, a lack of consistent project review, and the allowance of stagnant unspent funds inflated the amount of planned expenses and debt obligations. This, in turn, limited the amount of funds considered for surplus declaration. This limitation can affect the surplus calculation for multiple years. Specifically, OIG found:

¹⁶ Planned expenses and debt obligations include “current and future project commitments, project contingencies, revenue volatilities, tax collection losses, and current and future tax liabilities[.]” City of Chicago Office of the City Clerk, “Executive Order No.2013-3 (Declaration of TIF Surplus Funds in TIF Eligible Areas),” November 2013, accessed November 15, 2021, <https://www.chicityclerk.com/legislation-records/journals-and-reports/executive-orders>.

- A \$240,000 expense for a financial analysis study that was mistakenly duplicated in a TIF district's 2019 planned expenses. The funds were only spent once, but the additional \$240,000 was not considered for other projects or for designation as a surplus. OBM stated to OIG that it has since removed the duplicate study.
- \$155,006 in unspent funds dating from 2004 and a \$10,084 negative funds balance error dating prior to 2009, both for traffic intersection improvements. These reduced the amount of unallocated funds taken into account in the 2020 surplus declaration. OBM stated that it has since salvaged these funds.¹⁷
- \$96,110 planned for Divvy station expenses in 2013 that remained unspent in 2020. The Chicago Department of Transportation (CDOT) asked OBM not to salvage these funds in 2019, as it was still considered an active project.
- \$105,000 for traffic signal expenses that was approved by OBM as a "priority request" in 2010 but remained unspent as of 2020. OBM stated it intends to review this issue again with CDOT.

The City's process for vetting TIF projects varies significantly. This impacts the amount of funds available for designation as a surplus in situations where funds are held for a project over multiple years. OIG's review of the same two districts found the following:

- \$30 million transferred between districts for a major intersection reconfiguration project that has been under consideration since 1999.¹⁸ While the project would be a legitimate use of TIF funds, it has been pending for a very long time, and the \$30 million transfer represents a large sum of money with the potential to significantly impact that district's available surplus amount. This raises the concern that funds for some large projects may be held over for many years before definite plans are finalized, preventing the funds from being used for other viable TIF projects, or designated as a surplus and used for non-TIF public expenses.
- An \$800,000 neighborhood lighting improvement project that was withdrawn after 4 years when the vetting process determined the TIF district did not have adequate funds.
- A \$3 million street improvement project that took about 14 months to vet before being cancelled due to lack of available TIF funds. The allocated amount was returned to the district's balance.

These examples illustrate wide variability in the City's interpretation of the TIF Surplus Executive Order, specifically with regard to what it deems "project commitments" (i.e., the planned expenses and debt obligations withheld from surplus consideration) as opposed to "funds anticipated for future use" (i.e., funds available for surplus consideration). The Order does not define these terms, and neither OBM nor DPD have developed guidance clarifying their

¹⁷ Prior to 2016, OBM, DPD, and other departments overseeing TIF projects scarcely coordinated their efforts to close out completed or cancelled projects from planned TIF expenses and "salvage" funds by returning them to the district's account. Since then, these departments have begun to review records to identify inactive projects that are candidates for salvage. This review is ongoing.

¹⁸ The project is expected to cost \$250 million, with multiple sources providing portions of the funding.

meanings. Consequently, OBM and DPD cannot effectively assist other departments submitting requests for TIF funding. This can result in funding being held year after year for projects that have not been completely vetted and/or may never be executed.

RECOMMENDATIONS

5. OBM and DPD should supplement the TIF Surplus Executive Order with more specific guidelines for categorizing “current [or] future project commitments” (which cannot be declared as a surplus) and “funds anticipated for future use” (which can be declared as a surplus). These guidelines should make the distinction between the two terms clear enough for departments other than DPD and OBM to plan requests for TIF funding.
6. OBM and DPD should perform regular reviews of planned expenses in each TIF district for accuracy and the potential to salvage funds from old or cancelled projects. The departments should develop written guidance for conducting these reviews, which may include a model schedule and a review protocol.
7. OBM and DPD should regularly review planned TIF expenses with requesting departments. The departments should consider incorporating deadlines to ensure that funding for anticipated projects is not withheld indefinitely.
8. OBM should release an annual TIF surplus statement describing in detail how it calculates the surplus, and identifying which districts are the source of the surplus.

MANAGEMENT RESPONSE

5. *“OBM will review the two categories and create guidelines around how projects are categorized between “proposed projects” and “projects for discussion.”*
6. *“Both DPD and OBM continually review the status of currently existing and planned TIF projects. In addition, OBM performs a very thorough review in the months leading up to Surplus calculation each year. However, those reviews are manual and sometimes limited by personnel resources in DPD, OBM, and City Departments (e.g. CDOT). Starting in 2022, OBM will have an additional TIF position, and CDOT will have 3 additional TIF positions. Those 4 positions will assist in identifying potential TIF projects, tracking TIF project status, scheduling, monitoring payments, project closeouts and liquidating excess funds. By the end of 2022, all proposed and current TIF projects will have received a thorough analysis. OBM will establish quarterly reviews to discuss proposed projects that have not been brought forward to [the TIF Investment Committee] and status updates on current obligated projects.”*
7. *“This will be done as part of the reviews discussed in Item 6 above.”*
8. *“While TIF Surplus amounts are currently included in the TIF Projection Reports - OBM, in coordination with DPD will create an annual report specific to the surplus. The report will include information on the formula driven calculation of the TIF Surplus as well as the sources of the surplus.”*

IV. OBJECTIVES, SCOPE, AND METHODOLOGY

A. OBJECTIVES

The objectives of the audit were to determine if,

- DPD complies with the requirements of the TIF Sunshine Ordinance, § 2-45-155 of the Municipal Code of Chicago; and
- DPD and OBM comply with the requirements of Executive Order 2013-3, Declaration of TIF Surplus Funds in TIF Eligible Areas.

B. SCOPE

The audit's scope included the City's declaration of the TIF surplus for the 2020 fiscal year, which was calculated in 2019. OIG reviewed 2020 surplus calculations for all 140 TIF districts located within the city limits that were active during 2019. Our review of expenses in sampled districts considered cost projections as far out as 2023 and funding holds dating as far back as 2003. This portion of the audit included both private development projects and public-sector TIF investments, such as infrastructure projects or intergovernmental agreements.

Our assessment of publicly available TIF program data included all 94 TIF-funded private development projects initiated during the period of our review (January 2009 to September 2018). OIG considered all data for these projects on DPD's public-facing web platforms as of October 2019 (project-level) and January 2020 (district-level). We repeated this analysis for project-level items on the *Citywide TIF Map and Project Locations* website in March 2021 to account for updates to this platform. This portion of the audit did not include public-sector TIF investments.

The audit's scope did not include other aspects of the TIF program, such as general administration of TIF funds, TIF revenue collection, the effect of external economic forces on TIF, the appropriateness of particular TIF expenditures, the creation of TIF districts, or equity concerns related to TIF.

C. METHODOLOGY

For all audit objectives, OIG interviewed staff and leadership from DPD about TIF administration, project development, approval, and document retention, and staff from OBM about the calculation of the TIF surplus. These departments provided live walkthroughs of key data systems used in these processes, as well as data exports and process flows. These efforts enabled us to assess departments' internal control environments, risk assessment activities, information and communication, and monitoring to determine whether adequate controls were in place to ensure that a surplus was calculated in accordance with the Executive Order, and that TIF data was made available to the public in accordance with the MCC.

To assess DPD's compliance with the TIF Sunshine Ordinance, OIG first identified the 94 TIF-funded private development projects initiated from January 2009 to September 2018, from the universe of 482 total TIF projects initiated during that time. We identified the data that the TIF Sunshine Ordinance requires to be posted online.¹⁹ We then reviewed the two primary websites on which the City posted such data—the *Citywide TIF Map and Project Locations* and the *District Maps, Narratives, and Redevelopment Agreement Information* websites—to determine which data was present.²⁰ Data that was not applicable to a project was not considered missing. Data related to projects that were entirely absent from the websites was considered missing.

OIG repeated this analysis for the *Citywide TIF Map and Project Locations* website 18 months later, after DPD had consolidated much of the TIF data and upgraded the web application.²¹ We revisited the *District Maps, Narratives, and Redevelopment Agreement Information* website in January 2021 and did not find substantial updates, unlike the *Citywide TIF Maps and Project Locations* website. We therefore did not perform an update of our availability assessment for this platform.

To assess DPD and OBM's compliance with the TIF Surplus Executive Order, OIG examined a targeted sample of two TIF districts in detail, North Branch (South) and Lake Calumet. We assessed whether each expense projected on the five-year TIF Activity Reports used to calculate the surplus for fiscal year 2020 was substantiated as a viable TIF-funded project in the amount and over the time period projected for it. To do this, we reviewed information available for each expense listed on the reports for these districts. This included allocations and actual expenditures from the City's budget system, capital improvement plans, redevelopment agreements, construction plans, and similar project and expense documentation. We also inquired with DPD about any missing or unclear items related to these projects. This result may be interpreted as an assessment of DPD and OBM's methodology, but cannot be extrapolated to the full population of TIF districts.

OIG then determined whether OBM had appropriately calculated each district's minimum amount of available unallocated cash projected over the next five years at the time it calculated the surplus. To do this, we first interviewed OBM about its methodology for calculating unallocated cash using the project funding holds on the TIF Activity Report, and then recalculated according to this methodology for a targeted sample of eight districts over each six-month period from 2019 through 2023. This result, too, may be interpreted as an assessment of OBM's methodology, but cannot be extrapolated to the full population of TIF districts.

¹⁹ See MCC § [2-45-155](#).

²⁰ City of Chicago Department of Planning and Development, "Citywide TIF Map and Project Locations," accessed July 21, 2021, <https://webapps1.chicago.gov/ChicagoTif/>; City of Chicago Department of Planning and Development, "District Maps, Narratives, and Redevelopment Agreement Information," accessed July 21, 2021, https://www.chicago.gov/city/en/depts/dcd/supp_info/view_tif_districtmapsbyregion.html.

²¹ City of Chicago Department of Planning and Development, "Citywide TIF Map and Project Locations," accessed July 21, 2021, <https://webapps1.chicago.gov/ChicagoTif/>.

Finally, OIG determined whether OBM appropriately calculated the surplus using the available unallocated cash. To do this, we recalculated the surplus for all TIF districts active in 2019 using OBM's methodology and the unallocated cash it had calculated for each. We then compared the resulting surplus against the requirements of the TIF Surplus Executive Order. This result is applicable to all TIF districts active in 2019.

D. STANDARDS

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

E. AUTHORITY AND ROLE

The authority to perform this audit is established in MCC § 2-56-030 which states that OIG has the power and duty to review the programs of City government in order to identify any inefficiencies, waste, and potential for misconduct, and to promote economy, efficiency, effectiveness, and integrity in the administration of City programs and operations.

The role of OIG is to review City operations and make recommendations for improvement.

City management are responsible for establishing and maintaining processes to ensure that City programs operate economically, efficiently, effectively, and with integrity.

APPENDIX A: *DISTRICT MAPS, NARRATIVES, AND REDEVELOPMENT AGREEMENT INFORMATION WEBSITE*

The image below is an example of a TIF District's page on the *District Maps, Narratives, and Redevelopment Agreement Information* website.

Stony Island Commercial/Burnside Industrial TIF

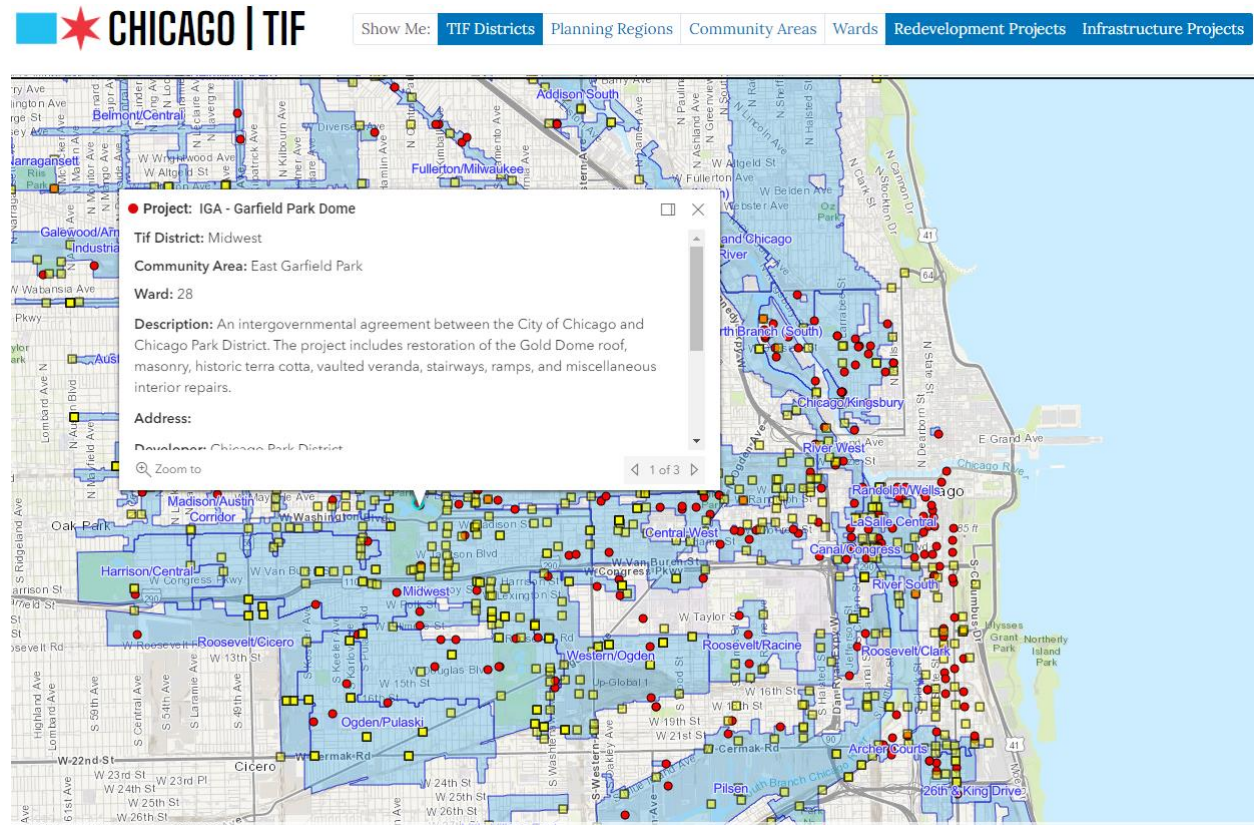
Designation: 1998 **Expiration:** 2034

The purpose of the Stony Island Commercial and Burnside Industrial TIF is to revitalize a pair of adjacent economic centers as a cohesive employment district that serves portions of the Burnside, Chatham, Pullman, Avalon Park and Calumet Heights communities. The Burnside Industrial Corridor at the time of the TIF's designation was characterized by viable businesses along with numerous obsolete and vacant structures and vacant land. The Stony Island commercial corridor was characterized by similar characteristics, with most commercial centered around 87th Street and Stony Island Avenue. The purpose of the approximately 611-acre TIF is to provide resources for the revitalization of both areas with job-generating investments that serve area residents and workers. Funds are targeted for property assembly and preparation activities, the rehabilitation of existing buildings, public works improvements, job training and relocation assistance.



APPENDIX B: CITYWIDE TIF MAP AND PROJECT LOCATIONS WEBSITE


The image below is an example of the *Citywide TIF Map and Project Locations* website with a TIF project selected on the map and the project's associated pop-up window on screen.



Source: OIG image capture, accessed June 8, 2021, <https://webapps1.chicago.gov/ChicagoTif/>.

APPENDIX C: CHICAGO DATA PORTAL

The image below is an example of a TIF-related dataset on the *Chicago Data Portal*.



CHICAGO DATA PORTAL

Tax Increment Financing (TIF) Funded RDA and IGA Projects
Information on TIF-funded Redevelopment Agreements (RDA) and Intergovernmental Agreements (IGA) approved by City Council since the »

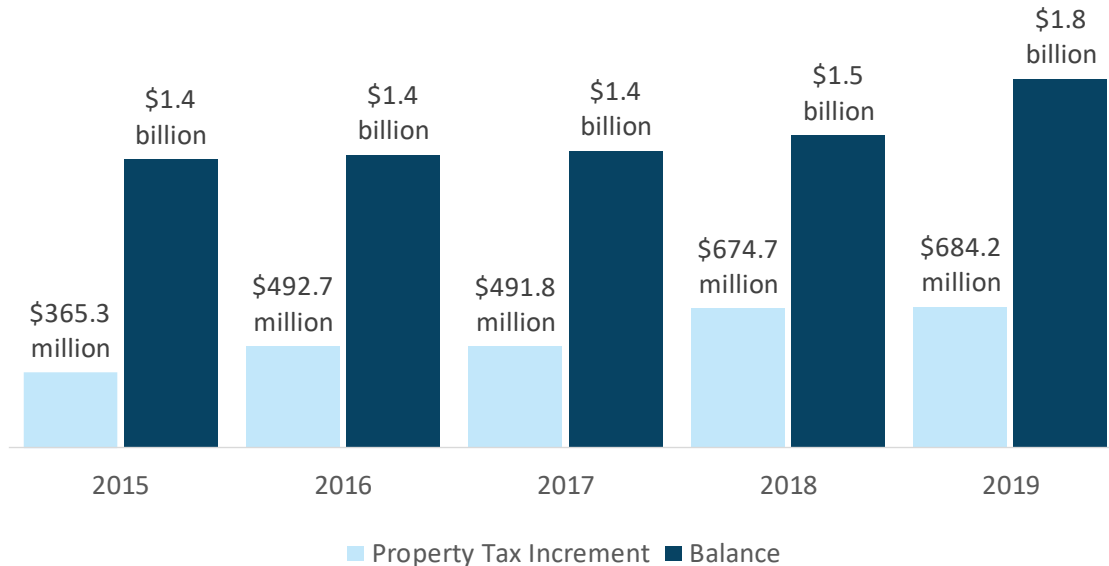
PROJECT NAME	ADDRESS	DEVELOPER	PROJECT DESCRIPTION	CDC DA...
Pulaski Promenade	4150 S Pulaski Rd	IBT Group L.L.C.	Located in the Archer Heights community area, the project inc...	07/10/2012
Cedar Concepts	4100 S Packers Av	Chemical Compositions, LLC	Located in New City, the 59,000-square-foot complex will man...	12/13/2011
Randolph Tower - II	188 W Randolph St	Randolph Tower City Apartments, Inc.	Located in the Loop, the project consists of the conversion an...	03/09/2010
North and Pulaski Sr Housing	3939 W North Av	Sacramento and Thomas Corporation	Located in Humboldt Park, the project entails construction of ...	10/09/2012
4901 W. Irving Park Rd.	4901 W Irving Park Rd	Irving Park Property Holdings, LLC	Located in Portage Park, the project includes a 71,330 square f...	12/08/2015
Montclare SLF - Lawndale	4339 W 18th Pl	Montclare Senior Residences SLF of Lawnda...	Located in North Lawndale, the project will provide 120 housi...	03/10/2015
IGA - CPD - Humbolt Park Batting Cages	1400 N Sacramento Av	Chicago Park District	\$325,000 from the Division Homan TIF will be provided to the ...	03/29/2017
Whole Foods Distribution Center	10700 S Doty Av East	Chicago Neighborhood Initiative	Located in the Pullman Community, the Whole Foods Distribut...	04/12/2016
Pullman Park Retail	900 E 111th St	Pullman Park Development LLC	Located in Pullman, the developer proposes to construct appr...	11/13/2012
North Pullman - Method TIF	720 E 111th St	3418 N. Knox LLC/Alpina Manufacturing	Located in Pullman, the development includes a 150,000 squa...	08/06/2013
IGA - MPEA - Cermak Road Streetscape P...	2161 S Prairie Av	Metropolitan Pier and Exposition Authority	Intergovernmental agreement with Metropolitan Pier and Exp...	06/05/2013
Merrimac Park	6343 W Irving Park Rd	Chicago Park District	An intergovernmental agreement between the City of Chicago ...	04/25/2012
Home Depot - NW Industrial Corridor	1919 N Cicero Av	Home Depot U.S.A., Inc.	The project includes the demolishing of existing industrial buil...	02/05/2002
McCrory Senior Apartments	1637 W Washington Bv	Brinshore Development, LLC	Located in the Near West Side community area, the project inc...	05/10/2016
Park 484 (madigan Fields) (4247)	4700 W 67th St	Chicago Park District	Park 484 is located at 4701 W 67th Street, within the West Law...	12/09/2013
IGA - CBE - ADA - Lawndale	3500 W Douglas Bv	Chicago Public Schools	An intergovernmental agreement between the City of Chicago ...	04/13/2011
IGA - CBE - ADA - Mollison	4415 S Dr Martin Luther ...	Chicago Public Schools	An intergovernmental agreement between the City of Chicago ...	04/09/2008
IGA - CPD - Park 0561 - 1611 - 1629 S. Wa...	1629 S Wabash Av	Chicago Park District	Intergovernmental Agreement between the City of Chicago an...	12/14/2011
550 W Adams - USG	550 W Adams St	550 Adams LLC	The project consists of construction of an 18-story, 471,000 sq...	04/13/2004
Laborer's Union	1841 N Monitor Av	Construction Laborers' District Council Trai...	Located in the Austin community, the project constructs a 55,0...	03/14/2006
River Village - Site G - Pointe	847 N Kingsbury St	Kingsbury Larrabee, LLC	Located in the Near North community, the project includes co...	06/08/2004

Source: OIG image capture, accessed June 8, 2021, <https://data.cityofchicago.org/Community-Economic-Development/Tax-Increment-Financing-TIF-Funded-RDA-and-IGA-Pro/mex4-ppfc/data>.

APPENDIX D: TIF BUDGET AND BALANCE INFORMATION

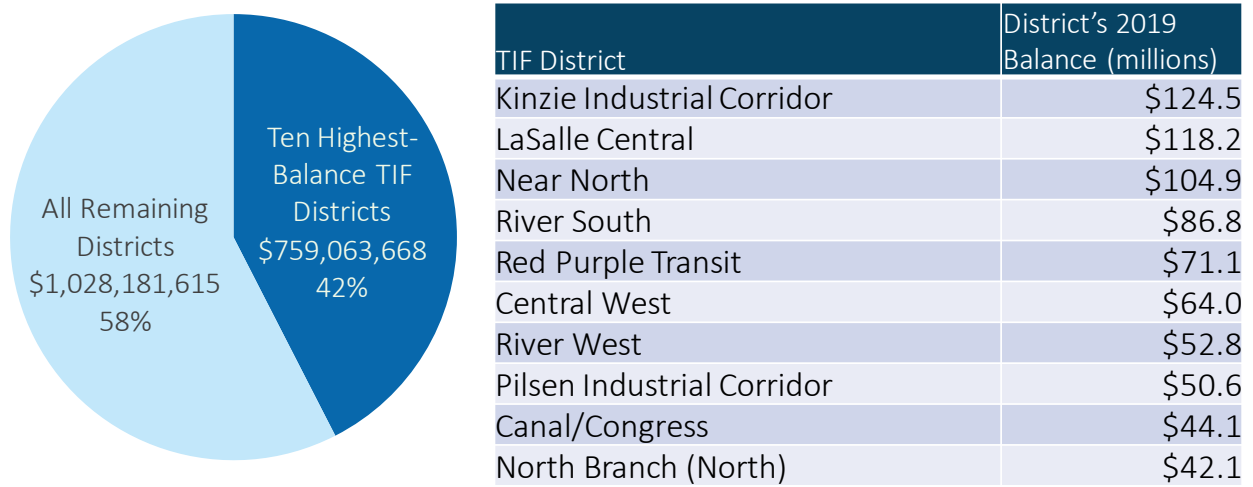
As property values and tax collections have risen, Chicago TIF districts have amassed large revenues, growing to a total available TIF balance of \$1.8 billion at the end of 2019, as shown in Figure 15 below.

FIGURE 15: The total TIF balance reached \$1.8 billion at the end of 2019



Source: City of Chicago TIF District Annual Reports.

Not all districts end the year with money in their fund balances, and those that do might have balances that vary from a few thousand dollars to over \$100 million. As Figure 16 below illustrates, the City's overall TIF balance tends to be concentrated in a few high-value districts, most of which are located in or near downtown.

FIGURE 16: The majority of the TIF balance is concentrated in a small number of districts

Source: 2019 City of Chicago TIF District Annual Reports via the *Chicago Data Portal*. Data includes 140 districts in total, 136 of which were active at the end of 2019 when balance was determined.

The City of Chicago Office of Inspector General (OIG) is an independent, nonpartisan oversight agency whose mission is to promote economy, efficiency, effectiveness, and integrity in the administration of programs and operations of City government. OIG achieves this mission through,

- administrative and criminal investigations by its Investigations section;
- performance audits of City programs and operations by its Audit and Program Review section;
- inspections, evaluations and reviews of City police and police accountability programs, operations, and policies by its Public Safety section; and
- compliance audit and monitoring of City hiring and human resources activities by its Compliance section.

From these activities, OIG issues reports of findings and disciplinary or other recommendations to assure that City officials, employees, and vendors are held accountable for violations of laws and policies; to improve the efficiency and cost-effectiveness of government operations; and further to prevent, identify, and eliminate waste, misconduct, fraud, corruption, and abuse of public authority and resources.

OIG's authority to produce reports of its findings and recommendations is established in the City of Chicago Municipal Code §§ 2-56-030(d), -035(c), -110, -230, and -240.

PROJECT TEAM

Zach McNealy, Performance Analyst

Benjamin Spies, Chief Performance Analyst

PUBLIC INQUIRIES

Communications: (773) 478-8417 | communications@igchicago.org

TO SUGGEST WAYS TO IMPROVE CITY GOVERNMENT

Visit: igchicago.org/contact-us/help-improve-city-government

TO REPORT FRAUD, WASTE, AND ABUSE IN CITY PROGRAMS

Call OIG's toll-free hotline: (866) 448-4754 / TTY: (773) 478-2066

Or visit: igchicago.org/contact-us/report-fraud-waste-abuse/

Cover image courtesy of the Department of Assets, Information and Services.

Alternate formats available upon request.

