An Assessment of Tax Increment Financing as a Tool for Economic Development

A Report Commissioned by the *City of Evanston*

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Executive Summary

Evanston has used Tax-Increment Financing (TIF) as its primary economic development tool over the past thirty years and it is one of the most prolific users of TIF among Cook County municipalities. The city currently has six active TIF districts and one proposed district that is pending approval. This study is a timely opportunity to evaluate Evanston's past experiences with TIF and propose solutions to maximize the effectiveness of TIF as an economic development tool.

We began our study with an evaluation of Evanston's past experiences with TIF in order to assess the effectiveness of general TIF policy, specific TIF districts, and TIF-funded projects. We paired our Evanston-specific research with case studies of TIF districts elsewhere in Illinois and in other states. Lessons learned from our primary research were reinforced by findings presented in scholarly articles, practitioner reports, and interviews with industry professionals. We found that cities can use TIF to achieve their economic development goals by following these best practices: (1) align TIF plans with the city's overall economic development plan (2) use TIF to catalyze rather than create market demand (3) define a clear and objective TIF approval process (4) leverage competitive market forces (5) use TIF resources to benefit the broader community (6) shift risk to the private sector (7) implement metrics to monitor performance, and (8) create an advisory board of community stakeholders.

For TIF policy in general, we recommend that Evanston closely align the creation of TIF districts and expenditures of TIF funds with the city's overall economic development goals. TIF should be used as a financing tool that leverages public investment to support specific objectives in the city's strategic plan. Evanston should enact a rigorous, but efficient, process to approve and monitor TIF districts and the city should also create provisions to hold private-sector beneficiaries of TIF funds accountable for performance. Evanston should structure TIF deals to ensure that the private sector bears most of the risk of development projects. Finally, when considering proposals to use TIF funds to subsidize development directly, the city should ensure that the evaluation process is competitive and transparent.

To improve the newly-created Dempster-Dodge TIF district, Evanston should assess the current state of retail supply and demand on the city's west side and analyze how market forces have contributed to the decline of Evanston Plaza. In proposing solutions for the district, the city should consider the interplay with the surrounding neighborhood and synchronize redevelopment projects with the West Evanston TIF district. In the near term, the city should create a plan to help stabilize the shopping center and explore means of providing direct assistance to help new businesses lease space at the site.

While finalizing plans for the proposed Chicago-Main TIF district, Evanston should assess the viability of the district's financial goals and ensure that projections accurately reflect current market conditions. The city should focus TIF expenditures on projects that benefit the larger community, such as streetscape and infrastructure improvements. Evanston should ensure that the goals of the proposed development at Chicago Avenue and Main Street are aligned with the city's overall economic development goals and do not negatively impact the market for office space elsewhere in the city. Finally, if the city decides to subsidize development, the city should protect itself by employing financing strategies that shift risk to the private sector.

I. Introduction

During the recession of the early 1980s, several notable companies in Evanston shut down or relocated. As a result, the city was burdened with several obsolete, underutilized, or vacant commercial properties and struggled to create an environment that would draw employers to the city. To encourage economic development, Evanston began using Tax Increment Financing (TIF) in 1985 as a means to pay for infrastructure improvements, attract private investment, and eliminate blight. Since that time, the city has created seven TIF districts of varying size and scope: Downtown II, Southwest, Howard-Hartrey, Washington National, Howard-Ridge, West Evanston, and Dempster-Dodge.

The overarching goal of TIF is to transform areas affected by adverse physical and market conditions into economically viable districts. For an area to be designated as a TIF district, the municipality must show that the area suffers from blight, or shows signs of becoming blighted. Additionally, the municipality must conclude that an area is not attractive to private development 'but for' the intervention of TIF monies. Examples of conditions afflicting structures or land considered for possible TIF designation include obsolescence, deterioration, inadequate utilities, deleterious layout, and lack of community planning.

The assessed value of properties within a newly-formed TIF district is frozen at a 'base' level that continues to be taxed by the existing taxing jurisdictions. Over the life of a TIF district (23 years in Illinois), any increase in assessed value above the base level is dubbed the 'value increment' or simply, 'increment'. The value increment may arise from new development within the district, increased assessed values of existing properties, or a combination of both effects. The value increment is taxed and the revenue that is generated remains within the TIF district rather than being distributed to the other taxing jurisdictions, for example, school districts. This revenue is the 'tax increment' that can be used to fund TIF-eligible projects such as public infrastructure improvements, streetscape upgrades, site preparation, and other development costs. Municipalities can either borrow against anticipated future tax increment to fund projects or use a 'pay-as-you-go' system to pay for projects after some tax increment has been generated.

Since Evanston first began using TIF more than 25 years ago, the city has become one of the most prolific users of TIF amongst Cook County municipalities. While Evanston's TIF districts have generally been considered successful, TIF is now being viewed with increasing public scrutiny nationwide. Researchers have questioned the effectiveness of TIF as an economic development tool and critics have alleged that TIF is an unfair and wasteful use of tax revenues.

The purpose of our project is to examine Evanston's TIF program and make recommendations for ways the city can more effectively use TIF as an economic development tool. Since Evanston recently approved the Dempster-Dodge TIF district and has proposed a new district surrounding Chicago Avenue and Main Street, this is a timely opportunity to analyze previous TIF projects and search for lessons that could be applied to TIF districts now and in the future.

In order to arrive at our recommendations, we investigated the historic use of TIF in Evanston as well as the use of TIF in other locations throughout the country. Our approach included examination of academic articles and practitioner reports in order to identify best practices. We also examined official city documents and conducted personal interviews with TIF experts and city officials to obtain perspective on Evanston's TIF policy. In this report, we present several case studies of TIF districts both within and outside of Evanston. Our research led us to eight findings that describe how municipalities can increase the effectiveness of TIF. Finally, we conclude with specific recommendations for Evanston to improve its use of TIF as an economic development tool.

II. Case Studies

In this section, we first examine TIF districts within Evanston and then examine several TIF districts in other municipalities. All general conclusions drawn from case studies suffer from an inability to run controlled experiments and determine what would have occurred if TIF had not been used. Although these examples do not offer a perfect prediction of how policies may play out within Evanston, they suggest alternative ideas for consideration and lessons to inform TIF policy in Evanston.

The TIF Landscape in Evanston

Evanston has created a total of seven TIF districts, each of which is still active with the exception of Downtown II, which closed in 2008. We examined all of the districts, with the exception of the newly-created Dempster-Dodge TIF district, to search for compelling lessons that can be used in evaluating future TIF proposals or in making general improvements to the city's current TIF policies.

A summary of the key details of each TIF district is presented in **Table 1**, followed by brief descriptions of the Howard and Hartrey, Howard and Ridge, West Evanston, and Dempster-Dodge TIF districts. We then present more in-depth description and analysis of the districts that we consider most relevant for further study: Downtown II, Washington National, and the Southwest TIF district.

Table 1: Summary of Evanston TIF Districts

TIF District	Year begin/end	Size (acres)	Beginning Equalized Assessed Valuation (EAV)	2011 EAV	Major Projects	Bond Proceeds (total amount borrowed)
Downtown II	*1985/2008*	35	$1,835,672	$145,470,000* *at the time of closing	Church St. Plaza, Hilton Garden Inn, Maple Ave. Garage, Optima Residences	$23,144,579
Southwest	*1990/2013*	13	$1,007,606	$8,223,329	Sam's Club, Ward Manufacturing	$2,100,000
Howard and Hartrey	*1992/2015*	24	$7,034,353	$23,747,973	Retail center: Target, Jewel-Osco, Best Buy, Office Max	$9,069,445
Washington National	*1994/2017*	21	$25,727,379	$103,106,568	Park Evanston, Whole Foods, Sherman Plaza/Garage	$52,061,429
Howard and Ridge	*2004/2027*	11	$5,978,279	$11,808,477	415 Howard St. apartment building	None
West Evanston	*2005/2028*	116	$37,477,570	$45,084,553	Church St. Townhomes, Greenwood Lofts, LSL Industries	None
Dempster-Dodge	*2012/2035*	16	$10,816,879	N/A	N/A	None

Howard and Hartrey

This TIF district was established to redevelop the former Bell and Howell distribution facility at the intersection of Howard Street and Hartrey Avenue. The site was attractive for redevelopment due to the proximity to major roads (Howard Street and McCormick Avenue) and to residential neighborhoods, but the existing structures needed to be demolished and the surrounding infrastructure required updates.

The project's $9 million budget provided for land acquisition and assemblage, utility improvements, street improvements, and other costs required to prepare the site for a developer. The site is now home to a large retail center that includes Target, Jewel-Osco, Best Buy, and Office Max.

Financially, this project has been a resounding success. With three years remaining on its 23-year life, the equalized assessed value (EAV) has risen by approximately 240 percent, and the district has generated over $500,000 in additional sales tax revenue for the City of Evanston since inception. In terms of community benefits outside of tax revenue, the impact is less clear. Although the center employs many people, the jobs offered are primarily low-skill and low-wage. Also, we could not determine what percentage of employees are Evanston residents.

Howard and Ridge

This TIF district was created to revitalize a blighted commercial corridor along Howard Street. To date, the major project in the district is the apartment building at 415 Howard Street.

Since 2011, Evanston has used TIF funds in conjunction with Community Development Block Grant (CDBG) funds to purchase and rehab three properties along Howard Street and actively market them to entrepreneurs with a lease-to-own option.

Although it has seen some appreciation in EAV, this district raises many questions. It shows the challenges of a TIF located along a long, thin border with another community (the City of Chicago). The short depths of the lots in this district make it difficult to assemble a parcel that is attractive for developers. Also, the large retail center on the Chicago side of the street is primarily car-oriented, while the TIF district on the Evanston side of the street is intended to be pedestrian-friendly. The contrast in usage presents a challenge in coordinating projects.

West Evanston

The West Evanston TIF district contains a wide swath of the western half of the city alongside the abandoned Mayfair Railroad right-of-way. The area is home to Evanston Township High School and the Dodge Avenue and Church Street intersection, widely considered to be the "heart" of the city's West Side. A number of the parcels within the district suffer from poor layouts, difficult ingress/egress, and general neglect, which together have created eyesores along the western gateways to the city.

Projects undertaken within the district have been infrequent and are also relatively small by comparison to Evanston's other TIF districts. This TIF district demonstrates some of the challenges associated with a very large zone. Investments at one end are so distant from the other that it is difficult to catalyze change within the entire district. This effect is compounded by the fact that the district does not form a single community. Further difficulty arises from the significant presence of single family homes within the district, which add complexity to addressing blight compared to a commercial context. We believe that finding ways to address blight in a residential setting requires further study.

Dempster and Dodge

The newest TIF district in Evanston is a shopping center known as Evanston Plaza. It is located on the southwest corner of the Dempster and Dodge intersection and is anchored by a Dominick's grocery store. Over the past twenty years, the mall has struggled to attract and retain tenants.

The shopping center was recently purchased at a foreclosure auction by Bonnie Management for $8.1 million. The property suffers from deferred maintenance and extensive vacancies. There is concern in the community over what will become of it after Dominick's lease expires in 2020.

The TIF district's short term goals include using up to $2 million in TIF funds to finance site improvements and public infrastructure to attract tenants, contingent upon a written plan from Bonnie Management that outlines their leasing plan to market vacant space. As of December 2011, there are no specific plans to spend additional funds except to set aside money for potential redevelopment and improvements in the event that the anchor tenant is lost.

<u>Case Studies in Evanston</u>

Southwest TIF District

The Southwest TIF district encompasses a small area situated on the western side of the city. The TIF resulted in a successful retailer, and may have had an impact on the adjacent Main Street Commons shopping center. For these reasons we feel that it offers lessons for the newly-created Dempster-Dodge TIF district.

The area making up the Southwest TIF district became blighted following the abandonment of the Mayfair Railroad right-of-way in the 1980s. The railroad left behind a number of poorly configured parcels that were filled in by various commercial and light industrial businesses.

The city established the TIF district to attract retail offerings that would appeal to the residents of nearby neighborhoods and to attract, as well as retain, industrial companies that were compatible with the surrounding neighborhoods. The largest project within the Southwest TIF district is Sam's Club. Construction was completed in 1992 after using TIF funds to combine parcels and clear away blighted structures. The largest industrial project is Ward Manufacturing, which constructed a new facility within the TIF district after relocating from its previous downtown site.

Financially, the TIF has been successful. The area's EAV was about $1 million when the TIF district was created and has increased well beyond its original goal of achieving $3 million by 1994 to reach $8.2 million as of 2011. The private sector invested about $5 million in the TIF, while Evanston's investment was only $2 million. Rather than closing the TIF district early, the city reached an agreement that left the TIF open but transferred some surplus funds (totaling over $6 million since 2000) to the school districts. This compromise keeps options open for funding future developments in the TIF district, while sharing tax revenues arising from successful development with the school districts.

This TIF district appears to demonstrate the effectiveness of TIF funds in addressing physical and structural challenges that impede development. It is plausible that the assemblage of parcels and demolition of outmoded structures would not have occurred "but for" the TIF, which literally and figuratively cleared the path for Sam's Club. The resulting retail development brought jobs to the site, although it is difficult to quantify the economic impact on existing retailers elsewhere in the city. Increased traffic to the area as a result of Sam's Club may have helped catalyze the redevelopment of the adjacent strip center, Main Street Commons. However, the Sam's Club was built in the early 1990s whereas the strip mall was not rehabbed until 2004. Because several years elapsed between construction of the Sam's Club and redevelopment of the strip mall, there is not necessarily a direct connection between the two projects, although it is plausible that Sam's Club made the area attractive to other retailers.

In our analysis of the redevelopment plan for the TIF, we observed that broad goals were established for the site. However, the plan did not state exactly what type of businesses should be attracted to the area, nor was the TIF budget extremely detailed. In this case, the lack of planning specifics did not impede financial performance, as the district far exceeded projections.

The main potential concern regarding the performance of this TIF is difficult to assess: Did the jobs and economic activity within the Southwest represent new net growth to Evanston, or did they merely involve shifting demand around? Sam's Club and the redevelopment of Main Street Commons clearly represented new businesses for Evanston. Despite this, however, there is the possibility that the development of new retail businesses outpaced demand on Evanston's west side, saturating the market and eventually leading to the decline of Evanston Plaza at the intersection of Dempster Street and Dodge Avenue. While these connections are difficult to prove, it is essential to consider the risks that they present when subsidizing growth in one part of the city at the potential expense of decline in another. It is our opinion that these questions of demand be thoroughly investigated by independent sources.

Downtown II and Washington National TIF Districts

We combined these two TIF districts for an in-depth study due to their physical proximity, similar land uses, and intertwined history. Together, the two districts comprise a large portion of the downtown area. Because of their downtown location and their redevelopment goals, these TIF districts are similar in nature to the proposed TIF district surrounding the Chicago Avenue and Main Street intersection.

In 1984, Northwestern University approached the city to discuss the creation of a high-tech research park. One year later, a TIF district was created with the goals of expanding the city's tax base, creating up to 4,000 new jobs, and enhancing Northwestern's status as a leading research and teaching institution. After some development occurred, demand for additional research park space dried up and the project was transformed into the Downtown II TIF district to shift toward revitalizing the city's downtown core.

In the mid-1990s, the city sought proposals for new commercial development in the area. After receiving six proposals, the bid by the Arthur Hill Company was ultimately chosen. The project was completed in 2001 and the resulting development today includes the Century Theatre, Hilton Garden Inn, Maple Avenue Garage, Optima Horizons residences, and various restaurants and retail shops.

While the Downtown II TIF developments were underway, the Washington National TIF district was created with the initial goal of redeveloping the former headquarters of the Washington National Insurance Company, once located at the corner of Church Street and Chicago Avenue. Attempts were made to sell or repurpose the existing facility but deals never transpired due to the building's inefficient layout and decaying condition. However, since the site was centrally located, its development potential compelled the city to embark on an ambitious revitalization plan.

It was determined the "highest and best use" for the parcel was a mixed-use development highlighted by a luxury apartment building and commercial space. Residential use would create new housing and pedestrian activity for downtown businesses to capitalize on. The development encountered its share of skeptics. Those who were opposed cited the project's negative effect on school funding, minimal job creation, size and scope of the building, and lack of affordable housing.

The John Buck Company was selected to redevelop the site and used TIF funds in the amount of $3.2 million to demolish the building. The site is now home to the Park Evanston, a 283-unit apartment building; 40,000 square feet of commercial space, including a Whole Foods market; and a 400-space parking garage.

The next major project occurring in the Washington National TIF district was the construction of Sherman Plaza, which commenced in 2005. The site, which was previously a defunct city parking garage, was redesigned as a mixed-use site with retail, high-rise condominiums, and a new parking garage. The finished product boasts a 12-level, nearly 1600-space parking facility, 150,000 sq. ft. of commercial storefronts, and a 250-unit condominium building.

These two TIF districts are notable for their financial success and for their role in shaping and maintaining the vibrancy of downtown Evanston. Their success at driving high density developments in underused or declining parcels resulted in substantial EAV appreciation. Furthermore, they demonstrated the viability of high-density, high-rise residential property, Class A offices, and top tier retail locations in Evanston.

Although it is difficult to dissect these projects and assign responsibility for their success, there are several characteristics that we consider noteworthy. All the projects were the product of a bold, clear vision that corresponded with market demand and demographic trends. At the same time, the city recognized the need for more than the original research park proposed in Downtown II and changed course to form a new vision, in conjunction with a competitive bidding process that helped to ensure a development that was both supported by market demand and appropriate with the vision for Evanston.

It is important to note that the project ultimately selected was significantly smaller in scale and required less public subsidy than the alternative option. Furthermore, although there was concern that Downtown II would simply draw jobs and businesses out of Evanston's original downtown, this fear was effectively avoided through the selection of projects that primarily brought new offerings to Evanston rather than duplicating existing businesses.

Case Studies Outside of Evanston

In order to better understand the numerous applications of TIF, we examined several interesting TIF projects outside of Evanston. The projects chosen as case studies faced similar challenges to those faced by Evanston and offer unique and innovative approaches. In presenting the case studies, we provide background on the projects, discuss their outcomes, and draw important lessons regarding which TIF applications are most successful.

Gallery Place, Washington, D.C.

In 1998, the D.C. City Council approved TIF legislation and one year later Gallery Place became the first project approved for TIF funding in the District. Gallery Place is a one million sq. ft. mixed-use development, combining retail, office space, and condominiums. The project received $75 million in TIF financing (plus $7 million in property tax abatements and $2 million in infrastructure improvements) from the city. The successful Gallery Place is viewed as playing a vital role in the revitalization of downtown Washington D.C. and it is an example of a project that was vetted through a thorough and effective approval process.

At the time this project was undertaken in Washington D.C., all TIF applications had to be certified by the city's CFO as having met certain criteria prior to being presented to the City Council. The first criterion verified that a gap existed between the amount of private financing available for a project and the total project cost; the CFO would only certify TIFs with a proven gap. Conceptually, this is similar to the "but for" test used in Illinois, but it requires closer scrutiny of the project to ensure that there is truly a financing gap for the proposed development. Certification also requires proof that the project offers sufficient benefit to the community and is aligned with the city's overall economic goals and development plans. Lastly, it must also be demonstrated that the project will generate sufficient revenue to cover its debt.

The project is generally considered a financial and economic development success for catalyzing the revitalization of downtown Washington D.C. and for returning $15 million to the city above debt payments. Its success is generally attributed to its alignment with a well-researched economic development plan. A clear and well-developed vision helped to ensure that the project was not only a financial success, but that it also supported the city's goals. In this case, the goals of the city were to develop this particular area of the city and, specifically, to promote multi-use projects that would increase the number of downtown residents and shoppers.

Furthermore, it is plausible that the project benefited from making a single person (in this case, the CFO) accountable for analysis and forward progress, thus putting his/her reputation on the line and encouraging a thorough review as well as adequate follow through. Lastly, a structured approval process ensured stakeholders, such as area businesses, that objective analysis had been completed before the project became certified, thus building trust and generating greater buy-in than would have been possible otherwise.

Peninsula Town Center, Hampton, Virginia

After many successful years as the largest tax generator in the City of Hampton, Virginia, the Coliseum Mall declined in the late 1990s, losing much of its business to newer developments in neighboring communities. The property owner created an ambitious plan to redevelop the entire site into an outdoor, pedestrian-friendly shopping and entertainment district with the feel of a traditional central business district, and received $93 million in TIF funds to help with the project. Although this project struggled to fill retail spaces after the market crash of 2008, this is an example of a project that succeeded in generating public benefits and placing most of the financial risk on the private sector.

To stimulate construction, the city created The Peninsula Town Center Community Development Authority (CDA) for the purpose of assisting with two aspects of the project: (1) construction of a 750-space parking structure within the project and (2) on-site utilities and infrastructure associated with the project including streets, sidewalks, utilities, and drainage. These improvements were paid for with bonds, backed by projected revenue from sources including:

- Incremental property and sales tax revenues within the district
- A special real property tax in the amount of $0.25 per $100 of assessed value
- A retail special assessment in the form of a 0.5% tax on retail sales in the district
- A back-up real property special assessment to make up any shortfall between the debt service on the bonds and the revenue sources listed above

This deal structure protected the city and shifted risk to the private sector. Rather than issuing bonds backed solely by projected tax increment, which would leave the city vulnerable if the increment did not materialize, the CDA raised bond funds based upon the projected revenue described above. This structure has the dual benefit of ensuring that the bond market believes revenue projections are reasonable and, more importantly, relieving the city of obligation for repayment or risk to credit ratings in the event of default.

Construction of the project proceeded smoothly and was met with generally favorable reviews by the community. The new site is much more visually attractive than the old mall. A number of upscale retail tenants signed leases, as well as restaurants and sports bars. The area was transformed into a family-friendly destination that drew shoppers from the entire peninsula, not just Hampton.

As a result of general economic conditions, the developer had difficulty fully leasing the property in a timely manner and defaulted on its construction loan, sending the property into foreclosure. Although the developer and the bank lost money on the project, the city was protected by the structure of the deal. The backup assessment ensures that there will always be enough tax revenue to cover the debt service on the bonds. The owner of the mall, whether it is the original developer, the bank, or a new investor, will always have to pay the property taxes. Therefore, the TIF bondholders will always be paid.

Lynnhaven Mall, Virginia Beach, Virginia

The Lynnhaven Mall TIF district in Virginia Beach, Virginia was designed to attract investment and combat competition facing the aging mall from newer shopping centers. Specifically, the TIF provided $11.5 million to pay for remodeling the parking garage (completed in 2000), upgrading water drainage, and improving public transit and roadways in and around the mall area. This commitment from the city is the stated reason that the developer was willing to commit an additional $100 million to reinvent the commercial space. This project is another example of alternative financing structures and municipal risk mitigation.

Rather than taking on a debt obligation through a municipal bond, this project was financed through a note between the city and the developer. The note required the developer to pay the TIF-eligible expenses upfront and then be reimbursed by tax revenue over a 14-year period, provided that they met certain criteria. The project was completed as planned and is heralded as a success by Virginia Beach city officials and local press who agree the TIF district served as a catalyst for private funds that enabled much-needed mall redevelopment.

The most important and relevant component of this project is the note financing. Traditional bond financing allows a developer to receive gap funding from public sources. The structure of this deal required the developer to obtain private financing for the entire project, including municipal infrastructure. Through the note, the city reimbursed the developer for TIF-eligible costs over a multiyear period, with interest. By making the repayment contingent upon performance, the developer had an incentive to complete the project as required by the note.

One risk of this structure is that it avoids the safeguard that bond markets can provide, in which pro forma financial statements are shared with public bond markets, who will only issue credit after assessing the risks of the project and the viability of the projections. By keeping the financing as a private contract between the developer and the city, there is a greater risk of accepting an overly-optimistic pro forma. On the other hand, case studies in both Hampton, Virginia and Houston, Texas show that this safeguard is not foolproof, and that even pro formas accepted by the bond market may ultimately be incorrect.

Market Square, Houston, Texas

This TIRZ (Tax Increment Reinvestment Zone, as TIF is referred to in Texas) project was originally created in 1996 in order to rehab the Rice Hotel, an elegant historic building that had been empty for 18 years and needed so much remediation that no developer was interested in it. Through tax increment financing, the city purchased and completely renovated it, creating vibrant ground level retail spaces, 905 new residential condos, and a well-used function hall. Rather than closing this TIRZ after the initial project was completed, it was amended and expanded five times, to include additional areas of downtown, address aging infrastructure, and generally improve an area of Houston that had seen little growth in decades. This district is an example of the benefits of research into demand, alignment with economic development goals and partners, and a process that builds community buy-in.

Before approving the TIRZ, a significant economic study was conducted demonstrating the demand for and viability of additional residential units in downtown Houston. After building confidence in demand, the city drafted a proposal outlining detailed plans for the site and a line-item budget. With the plans established, they then sought approval for the project through Houston's unique system.

In Houston, rather than an all-encompassing city council approval, the various taxing authorities (Houston Independent School District (HISD), Port of Houston, etc.) can independently decide whether or not they will opt in to each TIRZ project and at what rate. The authorities that opt-in have the right to nominate a member to the board that oversees the TIRZ. This process ensures that stakeholders truly believe that the entire community will benefit from the expenditures, creating substantial buy-in for the approved zones.

This TIRZ unquestionably played a role in what has been a remarkable turnaround in downtown Houston. The Rice Hotel development has survived the ups and downs of market cycles and maintained a high level of occupancy. The nearby parks have been much heralded, heavily used, and have transformed significantly blighted corners of the city into vibrant pockets of activity.

It is more difficult to isolate how large a role the TIRZ played and what changes would have occurred without it. What does seem clear is that this project benefited substantially from a strong understanding of demographic trends and market demand as well as coordination with other city projects and redevelopment efforts. Furthermore, the unambiguous nature of the blight that they initially set out to mitigate helped to ease the process of building community support, while also offering clear benefits.

Houston Pavilions, Houston, Texas

In 2005, the board and other taxing authorities approved an expansion of the Market Square TIRZ, adding two blocks east of Main Street the development of the Houston Pavilions. Despite growing nightlife and residential development, downtown Houston had seen very limited retail development for 20 years. The Pavilions were a significant prize for downtown, bringing a 556,000 sq. ft. primarily retail space. City officials were confident that, without a subsidy, the development would have landed in a suburban location, and put together a package of $14.3 million in incentives to lure the development to downtown. We have chosen this example due to many similarities to Evanston's proposed TIF district encompassing the intersection at Chicago Avenue and Main Street, albeit the Houston Pavilions is on a larger scale. Both TIF projects involve underdeveloped areas near downtown and near major public transit corridors. Furthermore, both were designed in collaboration with a specific developer. This case study is an example of the risks associated with attempting to use public money to go against rather than align with market forces.

In early 2011, as the project continued to struggle to lease commercial space, $3.3 million in funds were released to the developer early. Originally, the project was not supposed to receive these funds until the developer had leased 70 percent of the retail space. Instead the city offered the funds to the owner of the 62 percent leased project as an interest-only loan, with the balance to be forgiven when the project reached the initial benchmark of 70 percent. Unfortunately, this goal was never met, and the project struggled to maintain even 50 percent occupancy. The Houston Pavilions went into receivership in late 2011.

The insolvency of the developer clearly reflects negatively on the project, but it does not necessarily make this a poor use of TIRZ funds. The timing of the development overlapped with the most severe real estate crash in United States history, and it was hardly alone in struggling to fill retail spaces. In the long term, the original developer may be gone, but the positive impact on the city of Houston could remain.

Although this is a new project and the problems are still being sorted out, it may offer a cautionary tale of what can occur when city subsidies attempt to create a market that does not exist. Previous TIRZ funding in Houston was grounded in significant studies showing demand. In contrast, this project attempted to go directly against 20 years of history demonstrating that there was no market for downtown retail in Houston. The developer's pro forma required premium commercial rents that were not supported by historical precedent in downtown Houston or in any areas of similar residential density.

The fact that this project was focused on a single developer rather than a competitive bidding process may have contributed to the risk. Had the city chosen between multiple competing bids, it may have been possible to find a similar scale project that served the market better. In contrast, many of the successful projects in both Houston's and Evanston's history have been created through a competitive bidding process. It is further worth noting that the gaps in financing developers sought to fill with public funds in this instance (and in the majority of cases when public funds are used in private developments) are not coincidental, but represent the fact that experienced investors and lenders are concerned about the viability of a project.

Northwest Industrial Corridor TIF

Chicago's Northwest Industrial Corridor TIF district was created in 1998 with the objective of redeveloping a large area of blighted industrial sites, including a vacant 390,000 sq.ft. manufacturing building owned by a consortium of real estate investors. The owners had reached a tentative deal that would bring a Coca-Cola bottling and distribution facility to the site in exchange for $7 million in improvements and upgrades, but Coca-Cola's lease payments would not be high enough to justify the investment. They sought assistance from the city to plug this rent gap in their pro forma, and the city sought job creation guarantees in exchange. We have selected this study as an example due to interest expressed by City of Evanston officials in job creation, as well an example of outcome-contingent TIF subsidy.

In this instance, the owners were able to secure private financing to complete the improvements. However, a subsidy was needed to make the project financially desirable. An agreement was reached whereby the City of Chicago would provide the building's owners with an annual $215,000 property tax rebate for 15 years. This rebate would be subject to a number of conditions, including job creation at the site. The project plan called for Coca-Cola to create 240 jobs and defined the terms of a "Job Creation Default" in which Coca-Cola would be required to pay a penalty to the city on a sliding scale up to $215,000 annually if they failed to employ a minimum level of workers in any given year. As a result of this provision, Coca-Cola would cover the city's cost of the property tax rebate if it failed to uphold its end of the contract.

The project plan was approved, the site improvements were made, and Coca-Cola occupied the facility, employing 244 workers as of 2010. The watchdog group Illinois PIRG examined 21 TIF-related projects in the City of Chicago that promised to generate at least 200 jobs apiece, and this was the only project that received an overall "A" grade, based on outcomes and transparency.

This project is a positive example of outlining job-creation goals, monitoring metrics, and enforcement mechanisms in the project plan. As a pay-as-you-go incentive, the city had zero upfront cost for the project. This project's structure is a good example of risk mitigation for the city, as it requires no borrowing, limited deferred tax revenue, and contains a claw-back provision to hold the private sector accountable on an annual basis. The project plan's definition of a Job Creation Default is a very specific and measureable standard of performance.

Although this project has been touted as a success, even by the Illinois PIRG, a few key factors have been overlooked. First, it is not entirely accurate to state that 244 jobs have been created. As noted in the city's agreement with the developer, 120 jobs were transferred from Coca-Cola's previous facility on Cermak Road, and another 120 were consolidated from facilities in neighboring Alsip and Niles. Therefore, the net gain for the City of Chicago was only 144 jobs, while the greater metro area realized a net gain of only four jobs.

The financial structure of this project is very favorable for the city; however, it is important to recognize the difficulties of guaranteeing benefits and mitigating risks. Even in this generally-accepted success story, there is significant question as to what benefits the city received for its subsidy. Furthermore, this structure would not be practical in every situation. Coca-Cola's size and reputation indicate that if they were to back out of the project, they would pay their penalties and the city would not lose any money. However, if the tenant were a small, privately held manufacturer, as is the case with many Evanston businesses, stronger provisions would be required to address other contingencies. For example, the manufacturer could simply declare bankruptcy and fail to pay the penalty under the Job Creation Default provision, and the city would still be required to reimburse the property owner $215,000 annually while the facility sat empty. To summarize, we believe this example illustrates some positive practices in terms of metrics and accountability; however, it is not an ideal model for job creation.

III. Major Findings

1. *TIF has the greatest impact when used as part of a broader economic development plan.*

Municipalities spend a great deal of time and resources on crafting their strategic goals and economic development objectives. These goals and objectives are vetted through committees, receive community buy-in, and are approved by elected officials. After they are adopted, economic development staff and business groups work toward accomplishing the stated goals. It is logical to encourage development projects that conform to the established goals and fit with the community's development initiatives. TIF is a tactical tool that can be very useful in accomplishing a community's economic development goals, and TIF districts are more successful when they have additional city and non-profit support behind them. In contrast, TIF projects that are not in sync with the municipality's objectives and the interests of the broader community must swim upstream and are more likely to fail.

The formerly blighted Market Square area of Houston, Texas is an example of positive alignment between TIF and overall economic development goals. TIF was used to enact a research-supported first step of catalyzing new housing development in the downtown area and strengthening the community. This project successfully revitalized a decaying urban core and breathed new life into downtown Houston, catalyzing significant further growth and development. The project's chances of success would likely have diminished if the city had not been consistently pushing for more housing development downtown.

2. TIF produces greater benefits when it is used to catalyze rather than create demand.

TIF is more effective when it is used as a tool to catalyze market demand. This is best achieved by removing barriers to development and then stepping back and allowing the market to work. TIF can easily be used to steer a development project toward a particular parcel of land or encourage a particular type of structure. It is much more difficult to use TIF to create demand for a particular sector when developers have not expressed any interest in that sector. Municipalities need to listen to what the market is saying and work with developers to nudge development in the right direction.

The Peninsula Town Center in Hampton, Virginia is an example of catalyzing market demand. At the time of the redevelopment project, new mixed-use and retail developments in neighboring cities were drawing shoppers away from the original mall. It was clear that demand for a modern retail development existed, and the City of Hampton wanted to keep people shopping locally rather than losing them to neighboring cities. The former mall site was well-suited for redevelopment, but needed improvements in access and infrastructure. By paying for these improvements with TIF, the city provided the necessary stimulus to catalyze demand on this site. The new Peninsula Town Center has successfully attracted upscale retail tenants that lure shoppers even from beyond city limits.

An example of attempting to create demand *de novo* is the original goal of the research park area of the Downtown II TIF district in Evanston. Working in conjunction with Northwestern University, the city's plan to create a research park in an underutilized corner of the city was a bold idea, but it ultimately was only a moderate success, perhaps because of limited demand for the type of laboratory space created.

3. TIF is viewed more favorably by the community if a clear and objective approval process is in place.

TIF is often stigmatized, with some justification, as a giveaway to developers or a means of political patronage for favored vendors. TIF is less controversial, and likely to be more effective, when there is a structured and transparent approval process in place. Following an objective and scripted process encourages trust and demonstrates that any public subsidies are used responsibly.

Evaluating proposed TIF districts prior to governmental approval by a party who has a reputational stake in performing thorough and accurate analysis can mitigate the risk of controversy. An example of a well-structured and transparent process comes from Washington, D.C. The city's CFO is responsible for evaluating all TIF proposals in a well-defined certification process. The CFO and his staff determine how much private financing is available for the project and perform a gap analysis to evaluate whether city assistance is justified for the project. The CFO also evaluates the project's ability to pay its debt service. This process helps to ensure that projects are financially sound before being debated on their more subjective merits in the city council.

Houston's approval process has a unique feature that encourages consensus-building and community buy-in. The various taxing authorities, such as the school districts, have the right to opt-out of any TIF districts that they do not support, or opt-in at some rate less than 100% of the increment. If a particular taxing body opts-out, then less increment is available to finance the project. Since this could potentially derail a project, there is a strong incentive for the city (and developers) to propose TIF districts that have a clear benefit to the entire community. Additionally, any taxing body choosing to participate in a TIF district has a right to appoint a member of the board that oversees the TIF, giving them a voice in how TIF funds are spent. Together, the combination of transparency and representation of districts has the added benefit of removing one of the most common complaints about TIF districts: that they remove too much money from the schools. Instead, school districts have both a say in expenditures, and the ability to back out when they feel the original goal has been accomplished.

4. TIF projects tend to require less public subsidy if the city leverages competitive market forces to choose developers.

TIF has a greater chance of success when the developer is chosen through a competitive process. This is most practical in cases where the municipality already owns or controls the land. In these cases, earmarking a specific company to develop the site will appear to be obvious patronage. A competitive bidding process not only ensures that the smallest amount of gap financing is provided, but brings forth multiple ideas that can lead to the highest and best use for the site.

The City of Evanston was fortunate to see this occur at the Maple Avenue location in the Downtown II TIF district. After receiving an unsolicited proposal for the vacant southern portion of the research park, five more proposals quickly followed. The city was able to narrow their decision down to two, one from the John Buck Company (the developer of Park Evanston) and the other from the Arthur Hill Company. After allowing both parties to bid against one another, the city chose the smaller Arthur Hill project, both because they considered it to be on a more human scale and because it required considerably less city subsidy.

If a site is privately owned and the developer is seeking TIF assistance, the TIF certification process can be used to provide an objective assessment of the need for gap financing. The developer can be required to demonstrate why the private sector is unable to finance the entire project.

5. The most successful use of TIF resources provides benefits to the broader community.

Perhaps the most pure use of TIF is to finance infrastructure improvements in the vicinity of a targeted development site. These improvements add to the value of the site, yet they benefit the broader community as well, by improving traffic flow or beautifying the area. Infrastructure that serves a public good, such as roads, utilities, streetscape improvements, and public spaces are generally viewed with approval by the community. Infrastructure that only benefits a private site, such as an access road, for example, is potentially more controversial, especially if the road will become useless if the project fails.

The use of TIF funds as gap financing, such as write downs of land-acquisition costs or interest costs, has the potential to be viewed as a blatant giveaway to developers. In the cases where gap financing is used, it is essential to pair it with contracts in which the developers promise to bring specific benefits to the community, and with claw-back provisions in which the developer must return city funds if the developer is not able to meet the agreed upon benchmarks.

6. By having the private sector bear the risk of development in a TIF district, the city can protect its financial integrity.

TIF structures vary greatly by city and state, but the general principles of risk mitigation can be applied anywhere and to any project. Depending on the structure of a specific deal, the municipality can bear very little financial risk or a great deal of risk. It is in the city's best interest to evaluate and mitigate its risk. The riskiest situation for a municipality is to issue general obligation bonds backed only notionally by increment revenue. If the project fails and the increment does not materialize, the city is liable for debt service payments and must take the funds out of its general budget.

One example of good risk mitigation is the Peninsula Town Center in Hampton, Virginia. In this instance, $93 million in bonds were issued and backed by multiple sources of revenue including property tax increment, sales tax increment, a special sales tax, and a special property tax assessment on the *base* value of the site. In the event that these sources are not enough to cover the debt service, the city will levy a backup property tax assessment to make up the difference. In this structure, the project is always responsible for covering debt service on the municipal bonds. If it doesn't, the city can seize the property. This structure is being tested in 2012, because the property was unable to refinance its construction loan and was foreclosed on by the lender. Even though the developer lost its equity and the bank will lose money on the construction loan, the taxes will always be paid, under threat of a tax sale if necessary. Through this structure, the city's risk is mitigated.

The Lynnhaven Mall in Virginia Beach, Virginia is another example of a financing structure that puts the risk on the private sector. The mall owner made a large private investment in upgrading the appearance of the facility. The city of Virginia Beach agreed to pay for infrastructure improvements to make the surrounding area more attractive, but it did so using financing from a unique source: the developer itself. Rather than issuing TIF bonds, the city issued a note to the developer, to be repaid by incremental tax revenue. The developer in turn raised money for the entire project through privately issued debt, and ultimately had "skin in the game", which served as a performance incentive. This arrangement eliminated the risk that the developer would walk away from the project; if they did, the city would not have to repay the note. Furthermore, the note was structured so that the city's annual debt service would not exceed that year's tax increment revenue. Therefore, if the promised increment did not materialize, the city would not have to borrow from other sources to pay the note. This structure did come with a higher cost; the rate on the note was higher than the city could have obtained from a general obligation bond, but it mitigated the city's risk and established a public-private partnership that was mutually beneficial.

7. TIF success is less debatable when clear metrics are in place to track and monitor performance.

The long life of TIF districts seems to discourage their objective evaluation using quantifiable metrics. The officials who approved the TIF district will likely have moved on by the end of its 20+ year life and will generally bear no personal responsibility for its success or failure. The only metric that is usually measured by law is the tax increment. This is the most obvious and easiest metric to evaluate, and in Illinois and elsewhere, is required to be reported annually. However, it is difficult to prove that the increment would not have occurred without TIF. Agreeing upon clear metrics from the onset of a project offers the dual benefit of both expressing why a project deserves subsidy and ensuring that the project does not lose sight of those goals.

The Coca-Cola project within Chicago's Northwest Industrial Corridor TIF district is a good example of establishing defined metrics and measurements of success for the specified goal of job creation. Although the definition of job "creation" in terms of the broader region's economy is debatable, the project plan very clearly spelled out how many people were to be employed at the site and what penalties would be assessed if the tenant failed to employ a minimum number of workers. This manner of establishing a goal and then describing how it should be evaluated and enforced helps to increase transparency, gain public support, and mitigate the municipality's risk.

The city should not have to create these metrics on its own or restrict itself to narrowly-defined guidelines. This process can be a joint exercise between the city and the developer to craft sensible measures of success for each project. The key factor is follow-through in assessing progress and holding all parties accountable for performance. A claw-back provision could be exercised if developers fail to deliver on promises such as job creation, percent of minority/women-run businesses, and/or tenancy goals. Regular evaluation of all of a TIF district's stated goals may help make TIF less controversial and enhance the city's progress toward its strategic goals.

8. TIF can be managed more effectively when overseen by an advisory board of community stakeholders.

A common criticism of TIF districts is that they remove money from the normal city budgeting processes to an opaque setting in which they can become the "slush fund" for economic development. The best way to allay this concern is to provide opportunity for stakeholders and community members to be involved in the process of administering the TIF district. Having an advisory board of community stakeholders can make the approval process smoother and can help ensure that local community needs are understood and incorporated into the plans for using TIF to stimulate economic development. Furthermore, as the intended beneficiaries, these community members are often in the best position to hold developers accountable for promised community benefits.

IV. Recommendations

Recommendations for General TIF Policy

1. Evanston should approve TIF districts only after specifying how they help the city achieve its economic development goals.

In order to ensure strategic alignment with the city's economic development goals, Evanston should create a detailed economic development plan for the proposed TIF district. This plan should define and prioritize the goals of the district and demonstrate that they are aligned with the city's overall goals. The plan should specify how expenditures of TIF funds will help to achieve these goals and also state how the city will leverage other resources. The city should ensure that the plan coordinates the efforts of city departments as well as private organizations, such as business improvement districts or neighborhood groups.

2. Evanston should implement a more rigorous process for TIF approval, oversight, and accountability.

Without a clear and unbiased TIF approval and management policy, stakeholders are left to speculate whether or not private funds could have been used in place of TIF monies. Consequently, residents and elected officials may question whether or not a particular project is an appropriate use of TIF funds. A rigorous process for approval, oversight, and accountability can lead to greater trust and better performance.

Approval

Evanston's TIF approval process should be spearheaded by a specific person within the city government who is responsible for certifying each TIF proposal before it is presented to the city council. This individual should be responsible for all due diligence, such as conducting an independent gap analysis to measure the amount of private funding available versus the total development costs, projecting economic impact (such as job creation) and tax increment, and outlining how the proposed TIF district furthers the city's strategic goals. Once the analysis has been conducted and reviewed, the individual should determine the appropriate TIF budget and certify that the proposed TIF district meets the city's criteria (not just the minimum requirements imposed by state law).

Additionally, the city should distribute a TIF guide with clear rules explaining the TIF certification process. The TIF guide should describe the specific financial metrics that are used to evaluate TIF proposals, define the "but for" test and explain how it will be applied to assess the viability of proposed projects, outline how the city of Evanston will enforce oversight and accountability throughout the life of the TIF district, and provide detail on the timing of the certification process. These rules should then be passed on to key stakeholders and developers, and posted on the city's website, to ensure full disclosure and transparency as well as efficient communication.

This process will ensure that each TIF project presented to the city council specifically furthers the city's strategic goals, and will help the city council answer the following questions: (1) Is this project an effective use of city resources? (2) Is the project aligned with the city's economic development goals?

Monitoring & Oversight

The city should develop measureable metrics, specific to each TIF project, to regularly measure project performance against stated goals. This can be accomplished through the creation of TIF dashboards, which may include an overview of TIF spending to date, a list of key performance milestones, and financial and strategic benchmarks. For example, if the goals of the project include creating a specific number of jobs within ten years, then the dashboards should include a chart measuring the number of jobs created to date versus the goal. This will ensure TIF monies are used effectively and that each project is consistently and regularly evaluated against the original objectives.

Furthermore, the city of Evanston should appoint a body of local stakeholders, such as local business owners, to participate in the oversight process by providing an assessment of how well the improvements are contributing to the needs of the surrounding community. The assessment should include a description of how well the infrastructure improvements service the surrounding TIF area, such as traffic flow and community spaces. This will help ensure that the TIF district benefits the broader community while also providing stakeholders with a forum to express opinions about its effectiveness.

Accountability

Throughout the life of the TIF district, Evanston should hold developers accountable for subsidies received by linking funding to the long-term project performance. Any incentives given to private property owners should include claw-back provisions to ensure that there is sufficient tax revenue to pay the debt service on any bonds that are issued.

The long-term monitoring provisions of TIF dashboards can be utilized to track performance and enforce agreements that hold developers responsible for performance. In addition to the city's own annual assessment, each developer should be required to provide their own annual report on the performance of their projects. The report should include job creation statistics (if job creation is a goal of the project), vacancy statistics, a summary of economic activity generated, and any other statistics deemed appropriate. If the project is not delivering on its promises, the city should enact specific financial consequences.

3. Evanston should shift financial risk to the private sector.

When crafting the financial incentives for specific projects, Evanston should create a structure that aligns incentives yet minimizes the city's risk. Evanston should consider structuring financing arrangements such that the private sector bears most, if not all, of the upfront costs of the project. This can be accomplished through negotiating a TIF-note arrangement with the developer. If the project achieves certain mutually agreed-upon standards of performance, then the city can reimburse the developer for TIF-eligible costs outlined in the deal. In this structure, the city makes little or no upfront investment and only provides a subsidy once a successful development is completed. Furthermore, it ensures that the developer has incentives to perform.

Another option is to finance the project with Special Service Area bonds. In this arrangement, the parcel that is being developed within the TIF district is taxed at a level sufficient to cover the debt service on the issued bonds. In future years, the city can abate the tax with TIF funds, provided that the developer achieves stated goals and the tax increment materializes.

Specific financing structures may vary from project to project, but the essential concept is that the developer is ultimately responsible for debt service payments and is incentivized to perform according to the plan. This structure shifts downside risk to the private sector and protects the city.

4. Evanston should maximize the usage of competitive market forces.

When a potential TIF development site is owned by the city, Evanston can maximize the chances of success by encouraging a highly competitive bidding process, whereby multiple developers submit proposals for a given project. Proposals should include specific short-term and long-term plans, a gap financing analysis, and an assessment on how the developer's project will further the economic and strategic goals of the city.

If a site is privately owned and the developer is seeking TIF assistance, the aforementioned TIF certification process should be used to provide a transparent assessment of the need for gap financing. The developer should be required to demonstrate why the private sector is unable to finance the entire project.

<u>Recommendations for the new Dempster-Dodge TIF District</u>

Recommendation: Determine the root cause of the decline of the shopping center.

The Dempster-Dodge parcel meets the definition of blighted by Illinois statute; however, it is not apparent that the root cause of the blight has been identified. It is possible that the existing physical structure is simply outdated, but it is also possible that the nature of demand for retail in the neighborhood has changed. If there was more clarity around the root causes of the center's problems, it would be easier to propose logical solutions.

Various stakeholders have identified problems with the shopping center, but many of these problems are *evidence* of blight, not necessarily *causes* of blight.

Although a detailed analysis of this center is not the purpose of this study, our research suggests that the west side of Evanston faces intense retail competition. The resurgence of the Main Street Marketplace shopping center, completed in 2006, appears to have adversely impacted Evanston Plaza. The two centers are only a half mile apart from each other and draw shoppers from the same residential neighborhoods. The rehab made Main Street Marketplace a more attractive center in terms of façade and appearance from the street. Anchor tenant Marshall's department store and the nearby Sam's Club are both 'destination' retailers that draw traffic from a wide area. This traffic benefits the smaller retailers in Main Street Marketplace, such as Starbucks and Wing Stop. The nearby public soccer fields also draw traffic. Since they share the parking lot, it is presumable that parents take their children to soccer and then pick up groceries or carry-out dinner from Main Street Marketplace.

The Jewel-Osco grocery store at Howard Street and Hartrey Avenue serves the mid-level grocery market in the southwest corner of the city and directly competes with the Dominick's at Evanston Plaza. The two stores are less than 1.5 miles apart and Dominick's has no competitive advantage in terms of price or quality.

Without a destination anchor tenant or other driving force, Evanston Plaza shifted to a convenience center that only serves the immediate surrounding neighborhood. Revitalization plans should focus on means of drawing more traffic to the site. Following the model of the Southwest TIF district, a large discount retailer might be first lured to the site, which would in turn draw shoppers that would support the growth of small businesses. Alternatively, establishing a community-oriented purpose at the site and downsizing the retail space might be successful.

Recommendation: Create a specific plan for short-term stabilization.

The TIF district provides for up to $2 million in funding for capital improvements over the next 8 years in order to boost occupancy and attract quality tenants. If the city does not expeditiously create a plan to spend these funds, it may lead to a risk that the increment will become viewed as a "slush fund" for projects that do not necessarily support the short-term goal of attracting quality tenants to the shopping center. This would be detrimental not only to the Dempster-Dodge TIF district, but to other TIFs that are proposed in the future.

Rather than offering funds only to the developer, the city should explore earmarking some of the $2 million to subsidize new tenants. This could be a means of catalyzing demand for retail space and may be a more effective way to leverage public funds to stimulate private investment. The center's owner is under no obligation to accept TIF funds and may be skeptical of making capital improvements unless there is proven demand.

Creating a detailed budget and identifying the desired effects of the expenditures will increase the chances of achieving the near-term objectives as well as reduce skepticism in the community.

Recommendation: Address issues in the surrounding neighborhood.

Evanston Plaza occupies only one corner of the Dempster-Dodge intersection. The other three corners are located within the West Evanston TIF district. These two TIF districts should not be viewed in isolation. Any plan to improve the shopping center should be matched by plans to address the immediate neighborhood surrounding the center.

Our research has shown that some members of the community view the surrounding area as unappealing for retail. Whether or not this perception is accurate is irrelevant. As long as it is perceived as such, demand will be negatively impacted.

Both the near-term fixes and the long-term redevelopment plans for the site should not ignore the surrounding area. For example, the vacant fast food restaurant north of the center detracts from the appearance of the neighborhood. Perhaps a significant investment in Evanston Plaza will have a spillover effect that leads to a redevelopment of that restaurant. However, it seems that stimulating improvements in both properties simultaneously would be more efficient and faster.

Redevelopment plans for Dempster-Dodge should be closely coordinated with nearby projects in the West Evanston TIF district.

Recommendations for the proposed Chicago-Main TIF District

This district has not yet been approved, but the current proposal defines four main areas of spending:

- *Upgrade of public infrastructure*: Plans outlining these goals were written into the Chicago Avenue Corridor plan in 2000 and are awaiting funding. TIF offers a way to pay for upgrades to 100+ year old sewage pipes and to improve the aging streetscape.
- *Open space/parks*: Although some open space currently exists, it has neither been well designed nor maintained, and currently sees limited use.
- *Transit-oriented development*: This site is situated at a busy intersection of two arterial roads, and contains both a CTA and Metra stop connecting it to the larger region. Together these appear to provide the conditions needed for effective transit-oriented development.
- *Private development of the vacant parcel at Chicago and Main*: This site has the potential for a large scale development, but at the time this report was written the owner was facing a $12 million dollar financing gap on the proposed project.

Recommendation: Assess the viability of the project's financial goals.

Projections of EAV increases in the district are in line with the performance of other Evanston TIF districts. However, past performance of other districts may not be indicative of future success, given current market conditions. Furthermore, although a large area along Chicago Avenue and Main Street will benefit from TIF funds, the driving force for tax increment in the district is the single project on the vacant lot. Depending on a single project to drive growth in EAV is somewhat risky and should be thoroughly vetted.

Recommendation: Focus TIF expenditures on projects that benefit the broader community.

Upgrading infrastructure and improving green spaces are both effective and non-controversial uses of TIF funds. The Chicago Avenue corridor and the Main Street business district would clearly benefit from such improvements. However, subsidizing development at the vacant lot at Chicago Avenue and Main Street carries risk.

Recommendation: Ensure the goals of the proposed project at Chicago Avenue and Main Street are valid and aligned with the city's overall goals.

The goal of creating Class A office space at the site should be validated. The nearby Metra and CTA stops help to tell a convincing story: workers will be able to easily access the site from both downtown Chicago and the North Shore. However, it is not clear that this alone is enough to stimulate demand at the site. After all, these two train stations have been there for decades, and no office development has sprouted, even during boom years. A study conducted by Kellogg students in the Winter Quarter 2012 Real Estate Lab questioned the level of demand for office space at the site. The current proposal calls for 90,000 square feet of office space; there are currently only a handful of tenants that occupy more than 10,000 square feet in Evanston. The size of the project will make it challenging to attract a suitable anchor tenant. This is the stated reason that the developer has been unable to secure private financing to date. The fact that lenders have been unwilling to provide construction financing should alert the city to use caution when directing stimulus funds to the project.

Class A office space at this site is somewhat at odds with Evanston's goal of strengthening its downtown core. Constructing a large office building seems to be more logical in a downtown location. This would also fit the concept of using TIF to catalyze demand rather than attempting to create demand *de novo*.

Recommendation: Mitigate Risk.

If the city does move forward with the TIF district and desires to stimulate development of the vacant lot, it should shift as much financial risk to the private sector as possible. If the city intends to provide gap financing, it should first objectively evaluate why, and to what extent, a gap exists.

If the city decides to provide gap financing, it could use a pay-as-you-go structure to provide tax abatement or subsidize rents on an annual basis. This prevents the city from making a large upfront investment and requires the developer to perform to a minimum level prior to releasing funds.

Alternatively, the city might consider issuing Special Service Area bonds that are backed by a guaranteed stream of tax revenue. In this structure, the city is not entirely dependent on tax increment revenue. If the project fails, the property owner is still on the hook for paying the debt service. This structure aligns the developer's incentives with those of the city.

Appendix: List of Interviewees

- Phillip Baugher
  Administrative Assistant
  Office of City Manager
  Evanston, IL

- Ralph De Leon
  Division Manager – TIRZ Program
  Office of Economic Development
  Houston, TX

- Carolyn Dellutri
  Executive Director
  Downtown Evanston
  Evanston, IL

- Hitesh Desai
  Accounting Manager
  City of Evanston
  Evanston, IL

- Louis Gergits
  Finance Manager
  City of Evanston
  Evanston, IL

- Aleksandr R. Granchalek
  Vice President
  William Blair & Company
  Chicago, IL

- Tony Kahan
  Partner
  KB Real Estate
  Northfield, IL

- Monte Large
  Real Estate Agent - Commercial Leasing
  WulfeUrban, a division of Wulfe & Co.
  Houston, TX

- Martin Lyons
  Assistant City Manager/CFO
  City of Evanston
  Evanston, IL

- Johanna Nyden
  Planner/Coordinator
  Dept. of Community and Economic Development
  City of Evanston
  Evanston, IL

- Keenan Rice
  President
  MuniCap, Inc.
  Columbia, MD

- Anton Sinkewicz
  Executive Director
  East Downtown Management District
  Houston, TX

- Kent Swanson
  Senior Vice President/CFO
  Newcastle Limited
  Chicago, IL

- Donald N. Wilson
  4th Ward Alderman
  Evanston City Council
  Evanston, IL