FINDING ECONOMIC DEVELOPMENT STRATEGIES THAT WORK: EVIDENCE FROM THE SUBURBS OF METROPOLITAN CHICAGO

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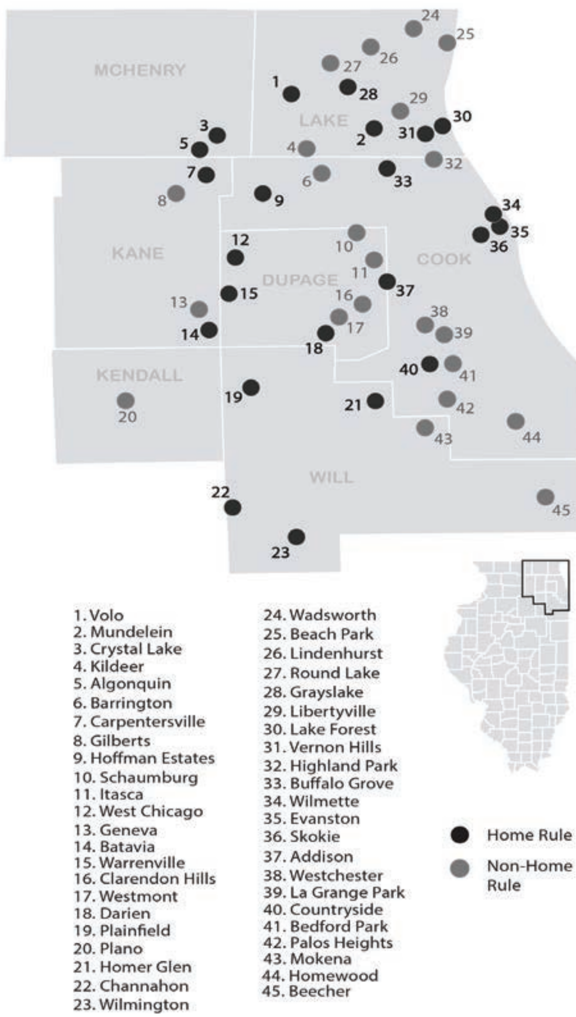
This study explores incentives suburban governments offer to foster economic development. Drawing from survey responses from 45 municipalities and interviews with local administrators in metropolitan Chicago, the study shows many creative strategies, ranging from sales-tax-sharing arrangements to downtown building improvement programs being used to give communities an edge in a highly competitive market. Communities are particularly satisfied with tax increment financing (TIF) districts in the central business districts. However, few appear comfortable developing TIF for projects without a commercial component; many are looking for alternatives to this pervasive strategy.

Most municipal officials are probably keenly aware that the economy in Illinois has not expanded as rapidly as it has in other parts of the United States since the Great Recession of 2008 through 2009. In response, many are vigorously pursuing strategies to foster economic development. Because a healthy rate of economic growth is essential to sustaining high levels of service, economic development strategies appear to have been assigned a high priority by municipal leaders.

To better understand the efforts being made to stimulate economic development, this issue briefly reviews the results of a survey of municipal officials in metropolitan Chicago. The impetus of the survey (as well as the original research inquiry beginning in 2016) was the authors' interest in providing municipal administrators—particularly economic development staff—with insights on strategies other communities in the region are employing. Such information can help refine strategies and direct limited resources to the most worthwhile projects.

The project focuses on municipalities in Cook, DuPage, Kane, Lake, McHenry and Will counties, but it excludes Chicago due to the city's massive size and differing characteristics. In late 2016, 159 municipalities were asked to participate in a survey focusing on their economic development programs. Forty-five communities, nearly equally divided between home rule and non-home rule, responded before the cutoff in February 2017, resulting in a 29% response rate. Although most respondents represented suburban municipalities, some (such as Evanston) are often described as "city suburbs" or even "cities" in their own right, and others have a largely rural quality. However, all have economies linked to the metropolitan region. For editorial convenience, we describe them in the analysis below as "suburbs."

FIGURE 1
RESPONDENTS TO ECONOMIC DEVELOPMENT SURVEY



After reviewing survey responses, the researchers selected eight municipalities for interviews to better understand programs outside of TIF: Batavia, Bedford Park, Crystal Lake, Grayslake, Highland Park, Homewood, Libertyville and Mundelein. These communities were chosen to provide a geographically diverse mix of responses in the Chicago metropolitan region. Representatives took part in semi-structured telephone interviews that focused primarily on the effectiveness of economic development programs that do not involve TIF districts. A summary of the findings appears below.

FINDING 1:

NEARLY ALL THE MUNICIPALITIES SURVEYED HAVE FUNCTIONAL ECONOMIC DEVELOPMENT PROGRAMMING AND DEDICATED STAFF SUPPORTING THEM

On average, responding communities employ approximately one full-time-equivalent (FTE) worker devoted to economic development per 18,000 residents. Proportionally, fewer are employed in home rule communities (one employee per 20,408 residents) than in non-home rule communities (one per 15,625; Table 1). However, due largely to their smaller populations (16,654 vs. 30,818), non-home rule communities tend to have smaller staffs devoted to this function. Only 22% of responding non-home rule municipalities (5 of 23) have more than one FTE worker dedicated to economic development efforts, compared to 41% of home rule municipalities (9 of 22).

Perhaps unsurprisingly, those percentages are much higher in communities utilizing TIF: for example, that 41% of home rule communities with more than one FTE worker dedicated to economic development jumps to 56% among communities with at least one TIF district (9 of 16). Similarly, only 8% of non-home rule municipalities that employ TIF have no staff dedicated to economic development (1 of 12), compared to 36% of non-home rule municipalities that do not employ TIF (4 of 11).

These figures do not include staff members who indirectly support economic development, such as planning and mayoral office personnel. As a result, they may understate the human resources devoted to the task by a considerable margin.

TABLE 1
FULL TIME STAFF MEMBERS EMPLOYED PER MUNICIPALITY IN SAMPLE

	HOME RULE MUNICIPALITIES	NON-HOME RULE MUNICIPALITIES
Average number of FTEs employed by municipal staff	196 *230 among those w/ TIF*	97 *136 among those w/ TIF*
Average number of FTEs dedicated to economic development efforts per municipality	1.27 *1.51 among those w/ TIF*	1.27 *1.11 among those w/ TIF*
Average number of residents in a municipality per FTE dedicated to economic development efforts	20,408 *17,543 among those w/ TIF*	15,625 *14,306 among those w/ TIF*
Share of municipalities with 0 FTEs dedicated to economic development efforts	23% (5 of 22) *With TIF: 19% (3 of 16)*	22% (5 of 23) *With TIF: 8% (1 of 12)*
Share of municipalities with 1 or fewer FTEs dedicated to economic development efforts	59% (13 of 22) *With TIF: 44% (7 of 16)*	78% (18 of 23) *With TIF: 67% (8 of 12)*

Regardless of home rule status or population, providing financial and human resources for economic development is the norm. Furthermore, the interview responses suggest that officials believe if their municipality did not devote resources to this function, it would be in a disadvantaged position relative to its peers.

FINDING 2:

MOST SUBURBAN MUNICIPALITIES CONSIDER ENHANCING THE TAX BASE THEIR FOREMOST ECONOMIC DEVELOPMENT PRIORITY; NONETHELESS, THEIR PROGRAMS ARE NOT ALWAYS DESIGNED WITH THIS AS THE HIGHEST PRIORITY

Survey participants rated the “highest priority intent” of their economic development programs. The options presented to them were based on those used in previous literature ("Introduction to Economic Development," 2015) that categorized the programs' goals by (a) job creation, (b) job retention, (c) tax base enhancement or (d) quality of life improvement. Although these responses may not capture all goals, they can be used to determine whether goals and actions tend to converge or diverge.

Respondents indicated enhancing the tax base was their highest priority goal, with 54.5% of home rule municipalities and 79.2% of non-home rule municipalities surveyed. However, when participants were asked to categorize the *type of economic development, non-TIF programs in place*, the majority of programs were designed to improve quality of life.

This discrepancy can be partially attributed to most programs' multiple priorities. For example, a municipality initiating a TIF district may ultimately be pursuing all four goals—job creation, job retention, tax base enhancement and quality of life improvement. Increasing sales tax revenues and fostering employment may loom large, but infrastructure improvements in the district may be primarily considered as being made to bolster quality of life.

Even so, these results, together with some of the remarks from our interviews, suggest a lack of clarity about overall economic development goals can become an issue. Therefore, municipal policymakers and executive staff should think carefully about their programs' highest priorities to ensure that outcomes reflect these priorities.

FINDING 3:

TAX INCREMENT FINANCING DISTRICTS ARE THE MOST COMMONLY REPORTED ECONOMIC DEVELOPMENT ACTIVITY IN SUBURBAN MUNICIPALITIES

As might be expected, TIF is the most pervasive type of program employed by communities in the sample. Almost two-thirds (63%, 28 of 45) reported having at least one TIF district, and 36% (16 of 45) reported having more than one. At the same time, 37% (17 of 45) reported not using this financial tool at all. Altogether, the 28 municipalities utilizing this mechanism had a combined total of 57 districts, an average of 1.3 per community. Evanston reported having the most active districts (six).

TABLE 2

ECONOMIC DEVELOPMENT STRATEGIES IN HOME RULE VS. NON-HOME RULE MUNICIPALITIES

	HOME RULE MUNICIPALITIES	NON-HOME RULE MUNICIPALITIES
Number of municipalities	22	23
Average municipal population	30,818	16,654
Number of municipalities w/ TIF	16 (73%)	12 (52%)
Total number of TIFs	35	22
Average number of TIFs per municipality with at least one TIF	2.2	1.9
Number of municipalities with "quality of life" as highest priority for economic development efforts	7 (32%)	3 (13%)
Average planned improvement per TIF	$35,081,903 *(median: $22,750,000)*	$58,776,202 *(median: $25,000,000)*
Average to-date public contribution	$4,668,486 *(median: $1,311,678)*	$15,749,238 *(median: $1,246,413)*
Average to-date private contribution	$18,292,294 *(median: $3,335,996)*	$57,733,546 *(median: $2,517,998)*
Ratio of private-to-public average to-date contribution per TIF	3.9:1 *(2.5:1 median ratio)*	3.7:1 *(2.0:1 median ratio)*
Total average amount spent to-date per TIF	$20,438,110 *(median: $5,603,959)*	$63,794,332 *(median: $5,603,959)*

Average calculated using only responses from municipalities that listed some contribution amount; those that did not enter any amount were not included in the calculation.

However, the study revealed TIF districts are more prevalent in the home rule communities surveyed than in the non-home rule communities. Among those with home rule, on average, each community contains 1.7 TIF districts, compared to just 1.0 in non-home rule communities. Furthermore, home rule communities tend to rely more heavily on private contributions, boasting a median private-to-public investment ratio of 2.5 to 1, compared to a 2.0 to 1 ratio in non-home rule communities. Private contributions also tend to be larger, with a median of $3.3 million in private contributions per TIF in home rule communities, compared to $2.5 million in non-home rule ones. However, TIF projects in non-home rule communities tended to be larger in scope. According to survey respondents, the average (median) planned improvement for TIFs in non-home rule communities was $25 million, compared to $22.7 million in home rule communities.

Of course, much criticism has been directed at this form of financing (Byrne, 2009). A recent *Illinois Municipal Policy Journal* article points to the need to exercise caution and continually reassess TIF districts (Ermasova & George, 2017). Nevertheless, municipalities remain bullish about them. Of the TIFs, 24.5% (14 of 57) were reported to be "extremely effective," compared to 24.5% "somewhat effective" and 24.5% "neutral" (neither effective nor ineffective). Significantly, only 3.5% were reported as either "somewhat ineffective" (1 of 57) or "extremely ineffective" (1 of 57). A larger share of TIFs in home rule communities (31%, 11 of 35) was reported as extremely effective, compared to just 14% (3 of 22) of TIFs in the non-home rule municipalities.

The highly structured and rigid nature of these districts appears to make them appealing. Municipalities must designate specific parcels for inclusion, provide evidence of blight and prepare development plans. The nature of these tax districts—while controversial in many communities—forces municipal policymakers to formulate specific goals and objectives. The result is often a formal framework that makes a district's performance more clearly defined than certain other development strategies.

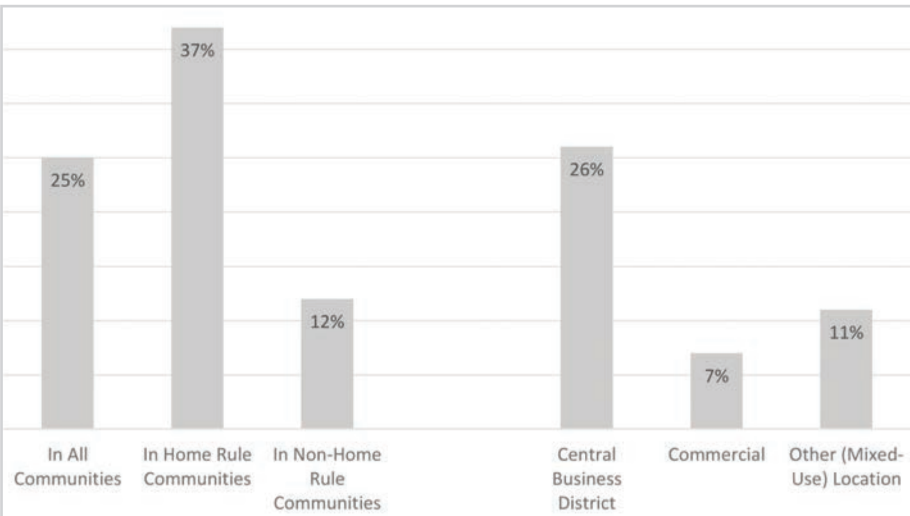
FINDING 4:

TAX INCREMENT FINANCING DISTRICTS THAT ENCOMPASS CENTRAL BUSINESS DISTRICTS WERE RATED PARTICULARLY EFFECTIVE AMONG RESPONDENTS

Survey respondents could classify TIF districts as predominantly oriented toward (a) a central business district, (b) commercial, (c) industrial, (d) housing or (e) mixed-use. Those in central business districts were found to be most prevalent, accounting for 47% (27 of 57) of TIFs, well above the number classified as commercial (23%, 13 of 57) and mixed-use (16%, 9 of 57). It is important to note, however, that nearly all of the mixed-use districts have a commercial component. Commercial development—whether in the central business district or elsewhere—appears to be a necessary component of a taxing district's creation.

Moreover, TIFs involving central business districts are rated more highly than those in other areas. Of the 27 examples reported in the survey, 26% (7 of 27) are rated as "extremely effective" and another 26% as "somewhat effective." Conversely, of those oriented toward commercial use, just 7% (1 of 13) are rated as "extremely effective," with 46% (6 of 13) considered "somewhat effective." However, the projects in central business districts appear to be slightly smaller in scale; the median total planned improvements of TIF projects in central business districts was $25 million, and the median of total planned improvements for all TIF projects reported was $26.7 million.

FIGURE 1
PERCENT OF TAX INCREMENT FINANCING PROJECTS WITH WHICH MUNICIPAL OFFICIALS ARE "EXTREMELY SATISFIED" BY LOCATION AND PROJECT TYPE



Few respondents reported having created TIF districts primarily for industrial and housing-related purposes. In fact, only two districts fell into each of these categories. The small sample makes it impossible to evaluate their effectiveness, but such low prevalence suggests planners are reluctant to harness this form of financing solely for these types of projects. Municipalities seeking to encourage this type of development through TIF apparently feel a need to add commercial use into the mix.

FINDING 5:

OUTSIDE OF TAX INCREMENT FINANCING, QUALITY OF LIFE PROGRAMS ARE THE MOST WIDELY USED STRATEGY TO FOSTER ECONOMIC DEVELOPMENT

Due to the documented problems associated with TIF, interview respondents expressed eagerness to learn about other economic development strategies, including those oriented toward quality of life. Nearly two-thirds (64%) of the respondents reported having at least one program unrelated to TIF that had quality of life improvement as its primary goal. (As noted earlier, this may be a somewhat oversimplified assessment due to the need for respondents to select one of four possible responses, job creation, job retention, tax base enhancement or quality of life, even when projects had multiple goals.) Nevertheless, it appears that quality of life goals are often subservient to other goals, particularly in non-home rule communities. For example, 32% (7 of 22) of home rule municipalities surveyed said "quality of life" was their highest priority for economic development efforts, compared to 13% (3 of 23) of non-home rule municipalities.

The interviews also illuminated how quality of life programs work in practice. The interviewee from Batavia noted the community's downtown streetscape program is designed to attract more people to the area and provide the area with a more distinctive artistic element. Investments in a pedestrian-friendly zone and multiple sidewalk and street enhancements have helped achieve these goals, which have added to the area's role as an arts and events center and has, in turn, attracted a large number of residents and visitors. There has also been a "multiplier effect": people visiting the zone for one purpose, then spending time and money on other activities, such as shopping or eating. Art created in the zone can now be found around town, improving the entire community's culture and "feel." When asked how the city regarded its initial investment's success, administrators readily pointed to a six-story mixed-use facility that will include apartments, commercial space and public parking on formerly underutilized property. When completed, this facility will be the largest project in the redevelopment zone.

A second example is Crystal Lake's Three Oaks Recreation Area (Three Oaks), which was the product of a $15 million investment by the city that transformed a vacant gravel pit into a public amenity that includes a public beach, a splash pad, nature trails, fishing, a restaurant and other attractions. The city pursued the project during the Great Recession, thus securing attractive pricing from contractors. Three Oaks, which has spurred a variety of nearby redevelopment projects, has consistently attracted residents and visitors interested in boating, fishing and swimming areas as well as public events. As in the Batavia redevelopment, Three Oaks visitors patronize nearby establishments, creating the "multiplier effect."

A third example is Highland Park's Ravinia business district's special service area (SSA). Business and municipal leaders supported the SSA's creation to attract traffic from the nearby Ravinia Festival, which is known for its 3,400-seat pavilion, lawns and amenities that serve large crowds during major musical performances. Many individuals who visited the festival were unaware of the nearby Ravinia business district. To rectify this situation, the SSA provides an annual levy of $90,000 used to market the zone's amenities and fund special events that attract residents and visitors who, in turn, support its restaurants and other businesses. Municipal leaders stated that financing from the service area has given their community a high degree of marketing exposure. Recently, a microbrewery and small boutique hotel have expressed interest in doing business in the district.

FINDING 6:

PROGRAMS TO ENHANCE THE TAX BASE ARE THE SECOND MOST PERVASIVE ECONOMIC DEVELOPMENT STRATEGY EMPLOYED BY THE SURVEYED COMMUNITIES, BEHIND ONLY TAX INCREMENT FINANCING

Almost two-thirds of respondents (64%) reported having at least one tax base enhancement program. A common feature among many such programs is sales tax sharing with local businesses. These programs are also rated highly effective.

Several examples illustrate the importance being ascribed to this goal. Highland Park has entered into sales tax sharing agreements with larger sales-tax-producing vendors. Although the program has mostly been used with car dealerships making major investments in their properties, other businesses have benefitted as well. Each potential agreement is considered on a case-by-case basis with the percentage of sales tax shared varying by the investment being contemplated. Administrators see the program as a way to attract large businesses, including those redeveloping expansive properties that might otherwise remain underutilized. Crystal Lake reports having a similar program where sales tax is shared but only for "large ticket" retailers, including car dealerships. A car dealership that makes significant improvements to its property can receive 50% of the sales tax it generates over a 10-year period or a maximum of $1,000,000, whichever comes first.

Mundelein has a Business Incentive Grant (BIG) program for small businesses, who can apply annually for $125,000 allocated from the municipal budget for property improvements. The grant has a 50/50 match expectation. Local businesses can propose up to $50,000 in property improvements and receive up to $25,000 through the program. However, most grants are of a lesser amount, typically in the $10,000 to $25,000 range. A local administrator noted that local businesses have been able to use BIG funds to "pay for things that are not as sexy such as wiring, heating and piping." An underlying motive is to foster improvements that will raise property values, thereby increasing property tax collections over the long term.

Grayslake reports having a similar program focused on its central business area—the Downtown Business District Enhancement Project—which makes funding available for local businesses making improvements to their properties. The project has helped revitalize much of its downtown and encourages compliance with the village's architectural standards. The village board reviews proposals on a case-by-case basis and has final discretion over the grants awarded. The typical award usually covers 10% to 12% of the total project cost. Funding is dispersed *after* improvements have been completed and the building is deemed compliant with the village's architectural standards.

Homewood reports having a sales-tax-sharing program, but it has had mixed results. One of its goals was to redevelop a shopping plaza that had been largely vacant. Retailers were offered 50% of sales tax generated over a 15-year period or a total incentive of $3.5 million, whichever came first. Administrators cited a decline in retail sales and a lack of participation by other taxing bodies having jurisdiction over the property for the less-than-stellar performance.

Of course, a great deal of interplay occurs between the goals of creating and retaining jobs and expanding the tax base. For example, when discussing job creation and retention success, the Mundelein interviewee noted that by providing incentives to small businesses for property improvements, the BIG program helps keep jobs in their communities while enhancing the tax base over the long term. Communities with sales-tax-sharing programs involving large retailers consistently point to the benefits of retaining businesses to support the tax base—and lessening their incentive to relocate, which would result in job losses. This belief was expressed in the Crystal Lake, Highland Park and Libertyville interviews.

This is not to suggest that all programs are deemed successful. Bedford Park's job creation and retention program is one such example. The village offered companies a financial incentive ($5,000 per new hire) for businesses in the municipality that hire village residents in response to a posted job vacancy. The incentive was capped at 10 people per company per two years. Companies were to notify the village when job openings occurred. Administrators reported the program did not work as well as hoped, in part due to companies and residents not taking advantage of the program to the desired extent.

Other strategies leverage local strengths that cannot easily be replicated elsewhere. Batavia's municipal government, for example, owns its electric utility. Local administrators believe they have been able to keep a large manufacturer in the municipality by offering a long-term power contract with reduced rates. The city is able to provide these attractive rates due to the manufacturer's status as a high-demand and steady user of electricity, which allows the city to keep unit costs low when purchasing electricity from its supplier.

Although many communities have experimented with various strategies, the evidence suggests that TIF remains a stalwart, and it is often a default strategy, particularly when it comes to stimulating development in central business districts and commercial properties. Nevertheless, programs that employ other means to bolster the quality of life and enhance the tax base are quite pervasive. Although more analysis is needed to understand such programs' effectiveness, the benefits of having elected officials and administrators to share their experiences, learn from their neighbors, and experiment with new tactics will make economic development highly dynamic for years to come.

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