

# **Equitable Financial Incentives**

# PRIORITIZING EQUITABLE INVESTMENT

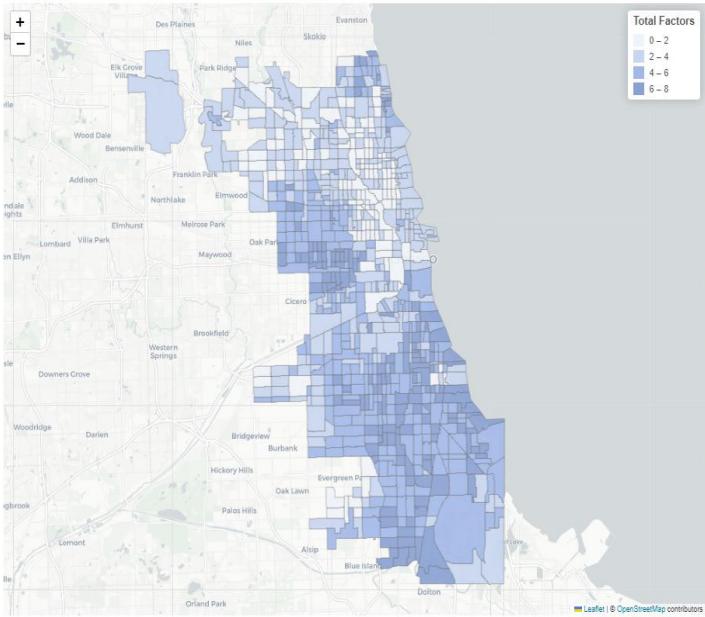
**Equity should be at the center of how development is supported across the city. Every neighborhood in Chicago should provide residents with the opportunity to thrive. And financial incentives should be used to make investments to ensure all communities have good jobs, access to transit, parks and open space, affordable housing, retail, and entertainment. By understanding how these resources have been used, we can better advocate for changes that root programs and processes in equity and lead to more resources in areas with greater factors of disadvantage.**

# PROJECT OVERVIEW

MPC's Equitable Financial Incentives research was designed to better understand how equity is centered in the way the City of Chicago uses financial incentives to attract investments to communities. We looked at **how and where six incentives have been used in Chicago and whether the funding has gone to areas that are considered economically disadvantaged**. Our definition of disadvantage was based on socio-economic factors that indicate longstanding symptoms of disinvestment.

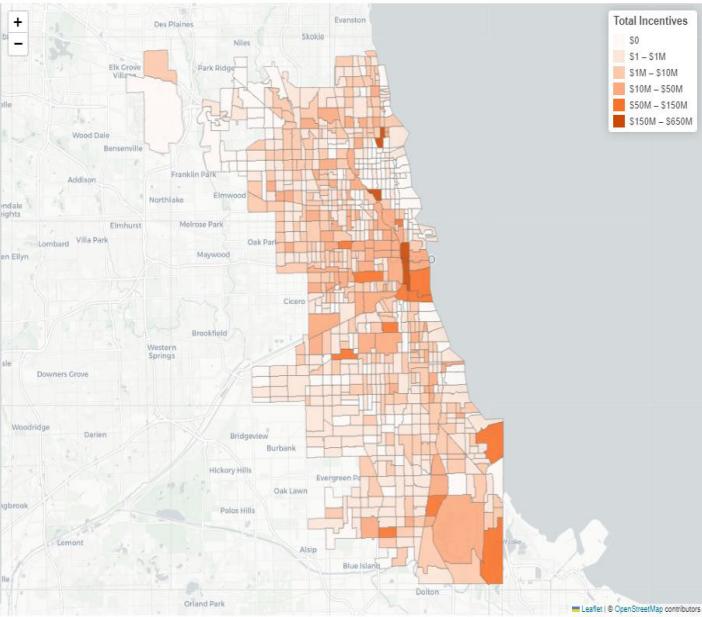
MPC conducted this research with the guidance of an Advisory Group. With their experience and expertise, we developed recommendations for rooting the process and outcomes for financial incentives in equity to better address longstanding issues of inequitable investment in Chicago's communities. The Advisory Group met eight times from 2021 through 2022, with time spent reviewing the research findings as well as discussing ways to improve incentive programs. These recommendations are being tested out with public users via our Equitable Financial Incentives website at [equitableincentives.org](http://equitableincentives.org).

**Factors that indicate economic advantage or disadvantage**  
This index includes 10 socio-economic factors that define longstanding symptoms of disinvestment.



## Where incentives have gone

Total investments from incentives between 2010-2021.



Example of the interactive map. For additional information, visit the website at [equitableincentives.org](http://equitableincentives.org).

## PROJECT GOALS

This research was designed to accomplish the following goals:

- ▶ **Provide basic information about six public funding sources that are classified as incentives.** Information exists in multiple locations and often does not provide a simple, clear definition of how and where the incentive can be used, what some of the intended outcomes are, as well as additional background on the incentive, and easy links for applying or finding out more information.
- ▶ **Understand how equity has or has not been a driver of incentive use.** Although equity is not typically an explicit goal of many incentive programs, narratives within the media and amongst community organizations and stakeholders frequently question the fairness of these programs, particularly since they rely on public resources. MPC believes that investments should prioritize equity.
- ▶ **Provide a clear, accessible picture of where and how incentives have been used in Chicago for the past 10 years.** This information is not readily accessible to the average resident. Often data is provided on each incentive individually, which makes it difficult to understand the total amount used in any one area. MPC believes that this information should be aggregated and accessible to everyone so we all have a better understanding of how and where financial incentives are being provided.
- ▶ **Determine whether incentive use aligns with socio-economic factors that can indicate areas of advantage and disadvantage.** This research provides a simple framework for showing how much and how often financial incentives have been used in areas that have factors that indicate disadvantage. MPC believes that creating an index and tracking incentive use is critical to crafting recommendations and policies with a sharper focus on areas of disadvantage.
- ▶ **Identify recommendations to improve incentive programs in collaboration with advisors.** The Advisory Group and other external reviewers provided clear direction: Incentive programs should be refined to ensure that local and small business owners and entrepreneurs are able to access the resources and that use is tied to equitable outcomes for neighborhoods and residents. MPC's recommendations focus on strategies to achieve this.

## HIGH LEVEL FINDINGS

Equity is not typically an explicit goal of development incentive programs, but in a city of constrained resources, like Chicago, it is central to many public narratives that question the fairness of pulling funds away from other needs in favor of developments, particularly when they are located in markets where conditions already seem favorable to investment. Given the importance of equitable development in creating thriving communities, this research provides a simple framework for understanding how development incentives are used in Chicago, and whether their use aligns with areas that would benefit from additional support based on MPC's factor index.

The goal of this project was not to provide recommendations on how to do away with all incentive programs. Nor was our goal to examine whether incentives, like Tax Increment Financing and others, produce benefits in the geography where they are used comparable to other areas. MPC heard from Advisory Group members and external reviewers that project goals should be focused on ensuring equity in the process and outcomes around the use of financial incentive programs. By refining the programs and making the data more transparent and usable for advocacy organizations and government stakeholders, progress can be made on promoting development in historically disinvested communities.

Here are MPC's key findings from this research. These challenges are being addressed as part of the recommendations:

- ▶ **Incentive programs do not center equity in their processes or outcomes.** The allocation and distribution of incentives, broadly, does not consider factors of disadvantage or market types. Outcomes for promoting equity have not been defined, and the use of incentives, except for the Neighborhood Opportunity Fund, does not track with MPC's factor index. If the programs are redesigned to focus more on equity in awarding the incentives and in defining goals for incentive use, this map may shift to indicate greater alignment.
- ▶ **Incentives are difficult to access for applicants with resource constraints and limitations.** Many small businesses and developers do not have the time and money to devote to the process of obtaining incentives. There is a high barrier to entry with the administrative processes that applicants must navigate. Also, there are challenges around receiving money within the timeframe that is needed for projects to remain viable.
- ▶ **The outcomes and impacts of incentives use in Chicago are unclear.** There are no aligned outcomes and accountability measures that consider equity when awarding incentives. There is no consistent tracking and reporting on outcome metrics for all incentive programs as a whole.

## RECOMMENDATIONS FOR MORE EQUITABLE INCENTIVES USE

The 10 recommendations were developed through an iterative process and in response to the key findings. They are organized under five headings: ***Develop and Track Outcomes, Prioritize and Align Incentives to Achieve Equity, Ease Application Process, Streamline Funding and Communication, and Improve Accountability***. Below is a condensed version of our full recommendations. To review our recommendations in-depth and to let us know what you think of them, please visit our interactive website at [equitableincentives.org](http://equitableincentives.org).

### Develop and Track Outcomes

**1. Develop outcomes around increasing equity and align with citywide goals and values.** Define outcomes for how incentive use will build healthy, mixed-income neighborhoods across the city, aligned with goals and objectives of the We Will Chicago plan. Since all neighborhoods are different, this will require a baseline understanding of what is missing to help determine the outcomes that need to be targeted for each area as well as the data sources and metrics to be used to track progress. Citywide goals should be aligned with these outcomes along with standardized reporting on key data points to track progress on individual neighborhoods and across the city.

**2. Track outcomes in a transparent and effective way.** Develop an incentive dashboard to track and report on outcomes from projects that used incentives. To align with outcomes, these reports should be provided at the level of the city as well as individual neighborhoods.

### Prioritize and Align Incentives to Achieve Equity

**3. Identify priority areas to achieve city goals and objectives for equity.** Assign incentives based on what is needed for development in each neighborhood, with certain areas prioritized for incentive use due to their market conditions and socio-economic factors indicating disadvantage or advantage. A market typology aligned with socioeconomic development factors needs to be created to help structure which incentives are prioritized where.

**4. Align incentive use with priority areas and outcomes determined by criteria that includes equity.** Incentive programs should act as one large pot of pooled incentives, rather than different buckets, allowing for greater discretion in providing them to priority areas and areas of disadvantage. Incentives should also align around achieving the goal of healthy, mixed-income communities with outcomes that center both the needs of both the community and its residents.

## RECOMMENDATIONS (...)

### Ease Application Process

- 5. Fund and support a technical assistance liaison role.** Provide financial resources for City staff or an outside organization to provide technical assistance to less-resourced applicants. These applicants can be either nonprofit or for-profit entities. Resources should be provided via a funding source that is consistent and maintained over time.
- 6. Create a common, streamlined application for all incentives.** Refine the City's recently launched [Universal Financial Incentives Application](#) to make the process easier for all applicants. Expand the application to include more incentive programs beyond the four it currently hosts. The initial application should be shorter and provide questions to determine if applicants could use technical assistance and how quickly they need resources. The application should also be offered in languages other than English. The screener application should connect to a publicly available scoring rubric that allows for transparency in the project application and selection process.

### Streamline Funding and Communication

- 7. Provide quicker review and better communication around funding.** Increase capacity to review applications helping to shorten the timeline to receiving money for all applicants. The Department of Planning and Development should be fully funded to have the adequate staff capacity to complete reviews quickly and efficiently. If increased capacity is not possible, this may require the review assistance of external organizations as an alternative. Ensure clarity in providing information about timelines of when support will be received and the process for reimbursement. An internal tracking process with data on when applications are received, what happened for each applicant, when decisions were made, and when money was received will help determine how quickly the process moves and if improvements are necessary.
- 8. Provide bridge funding as part of the allocation for smaller awardees when resource needs and disbursement do not align.** Resource and manage a fund via an external organization, like a community development financial institution or a philanthropic organization, to allocate money to smaller awardees when funding is needed sooner than can be provided administratively. To not burden the awardee, the external organization would provide the resources to the City to allocate to the awardee and would be reimbursed by the City when the money becomes available.

### Improve Accountability

- 9. Require centralized reporting across all programs that use financial incentives.** Provide a comprehensive overview of all incentive programs to create a broad picture of total incentive use and what it is accomplishing. This may require consistency in reporting mechanisms, including what is being tracked and how data is being reported.
- 10. Develop a civic oversight committee to annually review incentive use across the different programs.** Convene a civic oversight committee to serve as an accountability body to ensure that resources are being allocated based on criteria determined for priority areas and that they are accomplishing equitable outcomes. Particularly for TIF districts, there should be periodic reviews and additional reporting requirements to confirm that the districts are meeting their goals.

## BACKGROUND & DEFINITIONS

### Why are financial incentive programs for development important?

Public and private funding are drivers of development. The ability to finance projects in communities that can provide new businesses, retrofit existing ones, and provide much-needed public services such as employment training can greatly affect the quality of life of residents. There are limitations on the influence the public sector can have on where the private sector chooses to invest. Publicly controlled financial incentive programs can provide a way to resource projects in areas where investment does not currently flow as frequently or as much. They can also provide resources to local business owners, nonprofits, and organizations that may not be able to receive funding from other private sources.

### Project Definitions

#### SOCIO-ECONOMIC FACTORS INDEX

MPC developed a simple index with factors representing the challenges that Chicago faces that development should help address. The project identified 10 socio-economic factors that form an index to identify specific areas for equitable development. This index includes both longstanding indicators of disinvestment in Chicago, with additional consideration of where development is also most efficient (i.e. areas with greater density should be prioritized due to more residents benefiting from development). These factors are also consistent with literature and other cities' definitions of variables related to disadvantage. The following variables define areas of disadvantage during the baseline period of this study:

1. Lower income (2010 Census)
2. High poverty (2010 Census)
3. Predominantly renter (2010 Census)
4. Lower value of homes (2010 Census)
5. Greater share of nonwhite population (2010 Census)
6. Higher vacant home rates (2010 Census)
7. More subsidized housing (HUD)
8. Higher density (2010 Census)
9. Fewer businesses (City of Chicago Business Counts, 2010)
10. Less development activity (City of Chicago Building Permits)

Each factor was split at the median of all census tracts. Tracts that were above the median on factors 2, 3, 5, 6, 7, and 8 were assigned a value of +1. Tracts that were below the median on factors 1, 3, 9, and 10 were also assigned a value of +1. Thus, tracts were ranked on a scale of 0 (least in need of investment) and 10 (most in need of investment). MPC used 2010 census data, as that was the start of our time basis for tracking and aggregating incentives. Incentive use was collected for years 2010–2021.

#### FINANCIAL INCENTIVE

Financial incentives are monetary benefits typically used to fund development that otherwise would not occur. An economic development incentive is cash or near-cash assistance given on a selective basis to attract, expand, or retain business operations. They can also be used to provide other types of services. An incentive should be used to encourage an action that would not have happened on its own, without support. Each incentive program has its own authorizing agency and reporting requirements.

#### EQUITABLE DEVELOPMENT

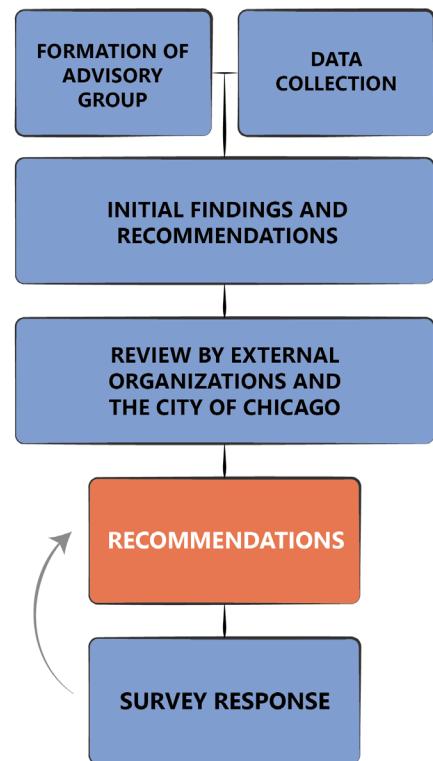
Equitable development is both outcomes-based and process-based. It is an approach to urban planning that seeks to meet the needs of historically underserved communities, such as low-income residents and communities of color, by reducing disparities and fostering places that are healthy and vibrant. This is accomplished by prioritizing the positive outcomes that people want to see in their neighborhoods and limiting negative impacts like displacement. Equitable development requires an approach to policies, structures, and incentives that center community voices and provide opportunities for local residents' full participation in planning for new development.

## PROCESS & DATA SOURCES

### Advisory Group and External Reviewers

Although initial scoping and data gathering occurred from 2019 – 2020, research for this project began in earnest in 2021. The Metropolitan Planning Council (MPC) assembled an [Advisory Group](#) to help guide the research and inform recommendations. The Advisory Group met eight times from 2021 through 2022, with time spent reviewing the research findings as well as discussing ways to improve incentive programs. This group played a critical role by regularly engaging in discussion with each other and MPC, asking challenging questions to shape the research, findings, and recommendations. The Advisory Group included individuals representing a wide range of sectors, expertise, and perspectives to provide a complete picture of incentives and new thinking about how their use can become more equitable.

This research was previewed with a group of organizations that received funding from The Chicago Community Trust's Catalyzing Neighborhood Investment program area. This group provided input on the initial findings and recommendations. MPC also presented its research to the City of Chicago's Offices of Equity and Racial Justice, and Economic and Neighborhood Development, and the Department of Planning and Development (DPD). DPD is the department that manages financial incentive programs in Chicago.



### Data Compilation

Incentive programs were selected for this project based on the initial scope of work that was created in 2019. This scope included the identification of multiple types of programs beyond the final six selected. MPC initially compiled a broader list that included the Enterprise Zone Program, Federal Opportunity Zones, and multiple bond programs, such as Industrial Development Revenue Bonds, General Obligation Bonds, and Revenue Bonds, as well as others. The organization finalized the list of six incentives based on the availability of public data. MPC believes there is potential to expand this review in the future to include additional incentive programs, including funding provided as part of the Chicago Recovery Plan.

Data for this project was compiled from the following sources:

#### Tax Increment Financing (TIF):

- [City of Chicago Data Portal - TIF RDA & IGA Projects](#) (redevelopment projects)
- [City of Chicago GIS Data Base](#) (infrastructure projects) - point data was manually extracted
- Data period: 2010-2021

#### Small Business Improvement Fund (SBIF):

- City of Chicago Data Portal: Financial Incentive Projects – [Small Business Improvement Fund](#)
- [Small Business Improvement Fund website](#).
- Data period: 2010-2021

#### Neighborhood Opportunity Fund (NOF):

- City of Chicago Data Portal – [Neighborhood Opportunity Fund](#)
- Data period: 2017-2021

### **Property Tax Abatements (PTAs)**

- City of Chicago Data Portal: Financial Incentive Projects – [Property Tax Abatements](#)
- Data period: 2011-2021

### **New Markets Tax Credits (NMTC):**

- U.S. Department of Treasury Community Development Financial Institutions - [Research and Data](#)
- Data period: 2010-2019

### **Community Development Block Grants (CDBG):**

- U.S. Department of Housing and Urban Development [Data Portal](#)
- Data period: 2010-2019

## **Data Categorization**

Categorization information is displayed on the interactive maps. Categorization varies between specific incentives and was determined using the following methodology:

### **Tax Increment Financing (TIF):**

- Public vs Private – Categorized using the ‘project name’, ‘project description’, and ‘developer name’ columns. Public is defined as developed by a government department or agency for public use or primarily accessible to the public. Private is defined as all other development.
- For Profit vs Non-Profit (Developer Type) – Categorized using the ‘developer’ column. For profit or non-profit are organizations designated 501c3 as defined by the [Office of the Illinois Secretary of State](#). Not determined is used if available information to determine a developer’s status was not publicly available.
- Type - [CMAP Community Snapshots](#) to define categories: Residential, commercial, industrial, institutional, transportation, mixed-use, plus additional categories for Park and Infrastructure projects.

### **Small Business Improvement Fund (SBIF):**

- Type – Categorized as defined in the ‘PROPERT\_T’ column in the downloaded data. Categories are Commercial, Industrial, Manufacturing, Mixed-Use, Office, Retail, and Warehousing.

### **Neighborhood Opportunity Fund (NOF):**

- Type – Categorized as defined by City of Chicago thresholds; Small Projects (up to \$250,000) and Large Projects (\$250,001 - \$2.5M). Categories are Commercial, Industrial, Manufacturing, Mixed Use, Office, Retail, and Warehousing. Use categories are: New Construction, Rehabilitation, and Retention.

### **Property Tax Abatements (PTAs) :**

- Type – Categorized as defined in the ‘Property Type’ and ‘Abatement Type’ columns within the downloaded data. Categories are Commercial, Industrial, Manufacturing, Mixed Use, Office, Retail, and Warehousing. Use categories are: New Construction, Rehabilitation, and Retention.

### **New Markets Tax Credits (NMTC):**

- For Profit vs Non-Profit (Developer Type) – Categorized based on company/entity names. For profit or non-profit are organizations designated 501c3 as defined by the [Office of the Illinois Secretary of State](#). Not determined is used if available information to determine a developer’s status was not publicly available.
- Type – Categorized as defined in the ‘Purpose of Investment’ column within the downloaded data.

### **Community Development Block Grants (CDBG):**

- Type – Categorized as defined in the ‘Grouping’ column within the downloaded data. Categories are: Housing, Public Services, Acquisition, Economic Development, Public Improvements, and Other.

## Data Transformation Methodology

Each of the data sources listed above were collected at the project level during the study time-period. Each project, and the corresponding dollar amount utilized by each incentive, is associated with a specific address, which allowed project investment totals to be mapped and aggregated to a finer geography than is typical for most studies on financial incentives. The exception was the TIF infrastructure dataset. Since the projects were not a single point but could span several blocks, a central point of the address range was selected for purposes of mapping. As a result, some census tracts may slightly overestimate the value of TIF infrastructure and some may slightly underestimate it.

All projects were mapped using ArcGIS software, and summarized and aggregated to Chicago census tracts, which allow for a more nuanced comparison with other socioeconomic variables across areas. Although residents do not typically identify their neighborhood according to a census tract, a census tract's area is smaller than Chicago's 77 designated community areas, and can be thought of as a rough approximation of a "neighborhood." Each financial incentive had its own unique classification for projects (e.g. type of project—commercial, industrial, etc.—size of project—small vs. large, etc.), and data were aggregated by each of these subcategories to allow website users to understand the distribution of incentives in greater detail across small areas. The data transformation process resulted in a final dataset comprised of N=1,998 census tracts with data on each financial incentive, as well as additional variables listed below.

## PROJECT CONTACTS

This project was a joint effort between MPC's Land Use and Planning and Research team and included the support and dedication of multiple staff members, research assistants, advisors, and external reviewers. For more information on this research and recommendations, please contact the following:

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Learn more about the [project contributors](#).

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