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# Democratizing Tax Increment Financing Funds *through Participatory Budgeting*



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# Introduction

Tax Increment Financing (TIF) is the most popular economic development financing tool in the United States. For the last twenty years, for example, the City of Chicago has relied almost exclusively on TIF to pay for infrastructure, finance development, and attract businesses. The City currently hosts over 160 TIF districts, and few developers proceed without asking for TIF assistance to finance land acquisition, demolish existing buildings, install infrastructure, or relocate tenants.

From the perspective of residents in low-income neighborhoods, however, these large-scale, subsidized development deals often look like they produce few community benefits. Power usually resides in the hands of those who control the land and financing. Deal-making often takes place between a private developer and municipality behind closed doors, with few opportunities for the taxpayers footing the bill to participate. Moreover, past experiences with such projects have often involved additional hardships for residents, including displacement, congestion, and low-wage/non-union retail and service jobs.

Community organizations face an important decision: to oppose TIF and the projects it subsidizes or to harness the power of TIF to serve residents in their service areas. With power, oversight, and guidance, it may be possible for community organizations to redirect TIF toward improving the physical quality of schools, building affordable housing, and assisting small businesses with a commitment to working in and hiring from their neighborhoods. In order for TIF to be used where it is most needed, advocates need to persuade local decision-makers to reorient their allocation policies or, better yet, create alternative decision-making structures that allow those most affected by development to shape its nature and location.

For such ends, the use of Participatory Budgeting (PB) holds tremendous promise. PB is a structured process that allows residents to directly decide how public funds are spent in their neighborhoods. It does not require that participants be citizens, permanent residents, or of voting age. Community members identify spending ideas and priorities and select representatives from their neighborhoods to transform the initial ideas into concrete project proposals. Residents then vote on which projects to fund, and the municipality implements the top projects.

In 2014, Chicago was the site of the country's first PB process to allocate TIF funds. The community organization Blocks Together worked with residents and businesses in the neighborhood of West Humboldt Park to develop a process that would allow residents to directly decide how to spend \$2 million in TIF funds for projects that might never have received funding through the usual channels. This yearlong process resulted in deep engagement of residents, and six community-developed projects will be implemented over the next few years.

This PB - TIF Tool Kit is made necessary because, unfortunately, TIF data is not easily obtained or interpreted, and PB is a relatively new community engagement and decision-making strategy in the United States. Resources for community organizations, such as the Neighborhood Capital Budget Group's excellent TIF Almanac<sup>i</sup>, were drafted before PB was introduced in North American cities.

As such, this PB - TIF Tool Kit provides valuable information for organizations and residents interested in maximizing the community benefits from TIF through more participatory decision-making processes. The Tool Kit will help community groups make a strong case to their political representatives and access funds to meet local needs. It may allow them to proceed without having to hire the services of TIF consultants.

Our hope is that community groups in Chicago and elsewhere can use the Tool Kit as a starting point for organizing more grassroots methods of allocating TIF funds in their neighborhoods.

The Tool Kit includes the following:

- 1) Basic information on the mechanics of TIF and PB in Chicago and in other cities in the U.S.;
- 2) A case study of Blocks Together's use of PB to decide on spending priorities for the Chicago/Central Park TIF District in West Humboldt Park;
- 3) Advice on how community residents can determine neighborhood spending priorities and research past TIF allocations in their neighborhoods.

## SECTION I: BACKGROUND INFORMATION ON TAX INCREMENT FINANCING AND PARTICIPATORY BUDGETING

# Part 1: To TIF or not to TIF? That is the question.

### What is Tax Increment Financing?

Tax Increment Financing (TIF) is a tool that local governments use for financing physical and economic development. A local government designates an area for improvement and drafts a redevelopment plan of improvements it expects to see take place within the boundaries of this “**TIF district.**” The local government subsidizes developers to make these improvements through different funding techniques, such as “pay as you go” funding or bond issuances. As property values in the area rise and taxes there increase, the local government uses the growth in property tax revenues to pay off the initial and ongoing development expenditures.

### TIF district designation

TIF law is created at the state level through enabling legislation that allows any municipality in the state to use TIF. State enabling legislation sets out requirements for the physical boundaries of the proposed redevelopment project area and for the criteria that must be met in order for the municipality to designate a district. In Illinois, for example, the Tax Increment Allocation Redevelopment Act says that the project area must be at least one and one-half

acres in size, must be contiguous, and must contain only properties that will be “substantially benefited” by the proposed TIF plan. In addition, the project area must exhibit a certain number of wide-ranging factors indicating a need for new investment or construction to improve the area.

Most states require that the project area meet both a “**blight**” and a “**but for**” requirement:

- **Blight:** The blight requirement is a leftover from the urban renewal statutes from the 1960s and 1970s. Blight was defined as a condition of neighborhoods that threatens “public safety, health, morals, or welfare.” Although the definition is still fuzzy, a blighted area is typically one where the physical environment is older, deteriorated, vacant or abandoned, overcrowded, or sparsely developed compared to the rest of the municipality. Property values may be declining or not increasing as fast as the municipal average. Some states allow for the blight requirement to be bypassed when other conditions are present. For example, industrial areas or military bases that have been decommissioned may not need to be blighted in order to be designated as a TIF district. The Illinois TIF law requires documentation that blighted conditions are present “to a meaningful extent” and are distributed throughout the project area. However, these distribution requirements are also undefined, so there are no clear or consistent criteria for meeting them.
- **But for:** The municipality must also prove that the money from the TIF district is the reason that the area will develop and result in improvements and that without the funds the area would not be able to develop. In other words, “but for” the TIF assistance, developers would not invest in the area. Even more so than the blight requirement, this is a condition that is difficult to prove, and there are no legal criteria for doing so. However, municipalities typically



document how long the key properties in the proposed redevelopment area have been abandoned or vacant; whether and what kinds of efforts have been previously attempted to improve the area; whether the key properties are marketable, and if they have been on the market, for how long and with what results; and the assessed value of key properties relative to comparable properties.

The municipality must provide evidence that the ‘blight’ and ‘but for’ conditions have been met by drafting an “**eligibility study**,” which may be completed by either municipal planners or outside consultants retained by the municipality. In most cases, the City Council must then approve an ordinance designating the TIF district.

### **Allocating funds to projects in the TIF district**

Once a TIF district is designated, the value of all of the parcels of properties within its boundaries are determined and added up.<sup>ii</sup> The cumulative value of all parcels at the moment of TIF designation is known as the “**base value**” or “initial assessed value” and must be certified by the agency in charge of property assessment and valuation (in Chicago, it’s the Cook County Assessor). The base value is the amount that will form the baseline for the TIF and will be used to measure incremental property taxes as redevelopment occurs. In most states, including Illinois, the base value is “frozen”—it does not increase—during the lifespan of the TIF. In some states, such as Minnesota, the base increases with the rate of inflation.

TIF legislation provides municipalities with powers to implement the TIF plan within the agreed-to boundaries. These powers may include the ability to: acquire property through purchase, donation, lease, or eminent domain and to dispose of such property; demolish or remove existing buildings or structures; renovate or construct any building, public facility, or structure; install, repair, construct, or relocate streets, utilities, and site improvements; collect fees, rents, and charges for the use of property; and incur eligible redevelopment project costs. Monies generated in the TIF district are intended to stay in that TIF district—although in some cities, including Chicago, funds from one district can be “**ported**” to another adjacent district in special cases.

How does a municipality decide which eligible uses to fund? Either public officials (planners working in government agencies or elected legislators such as aldermen) make requests or private/non-profit

developers make requests to the municipality. Every municipality has its own decision-making process for allocating TIF funds, and most give significant freedom to decide to the government agency in charge of planning and development. Developers requesting TIF funds must make an argument and show how public investment will lead to increases in value for the property in question and nearby parcels.

#### Eligible TIF uses in Illinois

- Studies, administration, and professional service
- Property acquisition, demolition, site preparation, and environmental site improvements
- Rehabilitation, construction, repair, and remodeling of existing buildings
- Construction of public works and improvements
- Job training implemented by businesses located in the redevelopment project area
- Financing
- Approved capital costs of the overlapping taxing district
- Relocation
- Paying in lieu of taxes
- Reimbursing school districts for increased costs caused by TIF-assisted housing developments
- Job training for advanced vocational or career education incurred by other taxing bodies
- Construction of new housing units for low income and very low income households

In theory, after the designation of the TIF district, other developers, households, and businesses should be attracted to the district. They may be attracted because the municipality has used its powers of clearance, relocation, utility installation, and street repair to improve the district. They may be attracted because the municipality subsidizes a private developer's acquisition of property, thereby reducing the developer's own investment and lowering its mortgage payments. They may be attracted because the municipality offers low-interest financing, which lowers the project's financial risk and makes it more viable.<sup>iii</sup>

After public and private investment in the district, property values may increase. The difference between the base value and new assessed value is called the "**tax increment.**" Instead of channeling the taxes on this increment to the city's general fund and to other taxing bodies with jurisdiction over the area (such as schools, library districts, the county), these funds go to the city where they are used to finance any debt it took on when making improvements.

Without TIF, each overlapping taxing body would levy its own individual tax rate on the assessed value available in its jurisdiction, and the municipality would be just one of several taxing bodies that receive revenues. With TIF, however, any increase in the property values of the district over its lifespan instead go into a separate fund to pay for TIF activities. Taxes on the base value of the properties will remain the same and will continue to be paid to the local taxing bodies. Therefore, the various taxing bodies that overlap within a TIF district will only receive taxes paid on the base value, while the increased revenue goes to uses that are designated by the TIF ordinance until the end of the life of the TIF. At that point, all taxing bodies in the area will once again receive taxes paid on the full property values. The lifespan of TIF districts varies across states, but in Illinois it is 23 years, with the possibility of a 12-year extension.

## Front-funding TIF improvements

Even though the increment is flowing to the municipality and not the overlapping taxing bodies, local governments may not have the money in hand to pay for eligible expenses in the TIF district. Developers and city contractors need the funds in the present even though they will only be generated in the future by the increase in property values. Because of this cash flow problem, local governments use different techniques to “front fund” the TIF expenses.

The first way is “**pay-as-you-go**” funding in which developers cover the up-front costs and are later reimbursed from the incremental funds. In general, pay-as-you-go is used for riskier projects in younger TIF districts, as this form of payment involves less direct obligation on the part of municipalities if property values do not increase enough.

The second way involves front-funding projects through the issuance of bonds. Bonds are loans or debt that the city takes on to pay its expenses. Most TIF bonds are “**revenue bonds**,” meaning that the municipality borrows money from investors but does not legally commit its taxing power to repaying it so that it would not raise taxes to pay this debt. Instead, a revenue bond is secured only by the specific income stream generated by the projects they are being used to fund. In the case of a TIF project, then, it is only the new tax increments that are committed to the bond’s repayment and will cover the principal and interest. Bonds are less likely to be used for small projects because of the legal and financial costs involved in underwriting these complicated transactions.

## Is TIF an innately inequitable tool?

Many community organizations avoid working with TIF because they believe that this tool is, at its core, inequitable or unfair. Even though TIF has provided money for infrastructure and economic development at a time when other sources of funds have dried up, many believe that TIF has worsened inequalities and spatial segregation along racial and income lines. In particular, criticisms of TIF revolve around the following issues:

**Harms schools and other taxing districts:** As noted earlier, property tax revenues generated within the TIF district are unavailable to overlapping jurisdictions for the lifespan of the district. Overlapping jurisdictions may be county governments, school districts, library districts, or other special purpose districts with jurisdiction over property in the area. In certain parts of the city of Chicago, for example, up to fifteen overlapping districts are affected by TIF, including the Chicago Board of Education, the Chicago Park District, Community College District, Mosquito Abatement District, Chicago Transit Authority, Urban Transportation District, Forest Preserve District, The Metropolitan Sanitary District of Greater Chicago, the Cook County Health and Hospital Governing Commission, and Cook County. These taxing bodies must wait until the end of the life of the TIF district—23 years—to levy taxes on the growth in the tax base within the TIF boundaries. This means that the amount of revenue for these taxing bodies from property in a TIF district will remain the same for 23 years, even if there is a demand for their services to increase.

If all or some of the increase in property values in the district would have occurred without the use of TIF, then TIF is diverting funds that would have otherwise gone to these overlapping taxing bodies. It is taking money away from important public purposes—

like education and parks—and giving it to private property owners and real estate developers.<sup>iv</sup> School districts and other jurisdictions across the country have sued or have threatened to sue municipalities over TIF, claiming they are being denied access to revenues that are rightfully theirs.

**Increases tax rates:** TIF is often misrepresented as a new tax or tax abatement, but property owners within the district only pay their “normal” tax burden—no more, no less. However, overlapping jurisdictions, such as school districts, may choose to raise tax rates to pay for the “loss” of a portion of their tax base and/or increased demand for expenditures due to TIF. If this is the case, TIF may not negatively affect the budgets of the other taxing bodies as much as it shifts the burden of financing local services to the property owners in the entire municipality. In other words, all taxpayers pay more for local services when overlapping jurisdictions share their tax base with TIF districts because the different taxing jurisdictions are forced to “max out” their tax rates.

**Causes gentrification:** Fear of rapid residential appreciation and displacement has prompted popular protest against the use of TIF across the country. Because TIF depends on increased property values to create the financing for new development, the use of TIF prompts fear among existing residents—particularly renters and owners who may be unable to pay higher rents or property tax bills because of constraints on their incomes. This is also the case for existing businesses in the proposed district who fear that they will be pushed out as municipalities seek to attract larger ones from outside the area. TIF has been used to lure national chains and big-box format stores that, in many instances, have cut into the sales of locally owned businesses.

**Accelerates existing economic disparities:** Funds for new development in a TIF district are generated from increasing property values. In low income neighborhoods, the amount of increment generated, especially in the initial years of the TIF lifespan, may be modest and only able to fund small projects. In areas with higher initial property values, or where values are already beginning to increase due to other factors, larger amounts of increment may be used to finance more ambitious projects. If the benefits of TIF are felt differentially, this may exacerbate the concentration of investment in more prosperous areas. Although TIF law is written to target “blighted” areas, in practice the looseness of the designation requirements means that even wealthy areas are eligible. There is a concern that the benefits may be more substantial for more prosperous areas and less so for areas in greater need.

**Subject to abuse:** Because TIF involves allocating property tax dollars to development projects and the processes for allocating funds are not transparent, municipalities are able to exercise bias and favoritism in handing out these funds. Typically, municipalities reactively make deals whose financial details are open to negotiation and depend heavily on the political power of the parties involved. In Chicago, for example, the district’s alderman decides whether the developer is entitled to just the increment that their proposed project will create or the entirety (or a portion) of the increment generated by the whole TIF district. If a developer enjoys the support of a city council member with jurisdiction over the TIF district (perhaps because they have made contributions to their reelection campaign), they increase their chances of being awarded more TIF increment.

Community organizations, particularly those that develop real estate, are eligible to request TIF funds. However, the process is often stacked against them. Uncertainty about the amount of the allocation combined with a cumbersome application process will

discourage all but the most connected of organizations from applying for funds. One developer in Chicago estimated that it can take anywhere between one and four years to negotiate the terms of a single TIF redevelopment agreement. In most cases, such organizations are advised to hire consultants, which can add major expenses to the process. Keeping the process complicated and secretive creates barriers to entry for community organizations hoping to receive funds for smaller projects and those that serve low-income households.



# Part II: Using TIF for community benefits

Because of these problems, some groups have argued that TIF districts should be eliminated or that a moratorium be placed on any new designations. Others have argued that TIF is not innately inequitable and that if these districts were better managed, responded to community demands, or had special programs for community organizations, the problems associated with TIF would not exist. This section outlines ways in which municipalities could make decisions about the TIF increment that would better address community needs and demands.

## Examples of possible community demands for TIF funds

### Infrastructure

- That the character of streetscape improvements supports a community vision
- That public improvements genuinely improve the area at large
- That there is reinvestment in street lighting and sidewalks

### Housing

- That a certain number of housing units be affordable
- That the terms of affordability meet the incomes of community residents
- Workforce development
- That a percentage of revenue in commercial TIF districts be dedicated to job training

### Open Space

- That a certain amount of green or open space is created or preserved with a new development
- That there is reinvestment in neighborhood parks

### Commercial

- That retail development serves community needs and addresses residents' budget constraints

### Industrial

- That TIF funds be used for public improvements and job training

Source: <http://tiger.uic.edu/cuppa/gci/cs/tif/leverage/model.html>

Please note: These are some examples of possible community demands or needs and not an exhaustive list.

## Community benefit provisions in Redevelopment Agreements

Some municipalities make deals with developers that may contain **community benefit provisions** outlining outcomes that need to materialize in exchange for public funding. This assumes that local governments are aware of the problems and issues facing specific neighborhoods and residents living there and that they are able to act in a representative manner when negotiating with private developers.

The terms of the individual deals funded in a TIF district are found in contracts called “**Redevelopment Agreements (RDA)**.” RDAs provide assurances that development will proceed in a way envisioned by the plan and describe the different parties’ legal responsibilities. Such agreements may contain a development schedule, specific commitments of funds that are allocated at each milestone in the development process, and descriptions of terms to ensure the project’s timely completion. They are contracts intended to protect the municipality and developer from accusations that funds are being improperly used.

The RDAs may require the developer to adhere to existing regulations (e.g., hiring a mandated number of women- or minority-owned contractors) or may layer on higher standards of community benefit provision. In Chicago, for example, redevelopment agreements may contain a separate section on community benefits, which lays out the number of jobs that must be created, the number of women- and minority-owned contractors that must be involved in the construction of the project, any amenities or infrastructure that the developer must provide, and requirements for building affordable housing. When TIF is used to finance market-rate housing development, for example, the City of Chicago requires that at least 20 percent of the units built be affordable to households making 80 to 120 percent of the area median income.

While these provisions may reflect and respond to genuine community needs, they are proposed and approved by the local government, often with little—if any—community input. They are generally proposed and drafted by consultants and planners only. Moreover, there has historically been little monitoring to ensure that the community benefit provisions are met before money changes hands.

## Community Benefits Agreements

The specific provisions of an RDA are negotiated by the city and the developer, and there is a strong chance that the final community benefits requirements will be weaker or less than what actual community members would desire. The city, after all, has an incentive to negotiate deals that appeal to developers and thinks that if it places too many restrictions on them, developers will walk away. Moreover, local government planners often feel obligated to elected officials, whose campaigns may include contributions from the same developers seeking TIF assistance.

As a result, some community members and organizations believe that **Community Benefits Agreements (CBA)** are a better way to proceed with public-private development projects. CBAs are legal contracts that are not part of any RDA. Instead, they are separate documents signed by a developer and a set of non-governmental organizations whose support is necessary to obtain key public approvals or subsidies.

They often involve a coalition of community groups such as unions, tenant organizations, clergy, affordable housing groups, environmental organizations, and block groups. While they may specify many of the same provisions that are found in RDAs, they can go beyond those typically found there. For example, community organizations can request higher levels of environmental clean-up than those required by existing legislation, donations to local social service and education programs, parking benefits for residents, and contributions to job training programs. In many ways, the sky is the limit as everything is negotiable.

### **Staples Center Community Benefits Agreement in Los Angeles**

In Los Angeles, a coalition of unions, community, and housing activists called the Figueroa Corridor Coalition for Economic Justice formed in response to fears that they would be displaced by the Los Angeles Sports and Entertainment District development—a multipurpose project that included a hotel, a 7,000-seat theater, a convention center expansion, a housing complex, and entertainment and retail. The developer of the project, Anschutz Entertainment Group (AEG), had requested millions in subsidies and zoning changes from the city, which forced the public sector into an awkward position of supporting a project that could potentially harm thousands of low-income individuals of color. While coalition members initially had trouble contacting the developer, several factors pushed AEG into direct negotiations with the coalition, including the developer's need to line up city approvals quickly in an election year, the coalition's participation in an environmental review, and evidence that City Council would not approve the project without union support.

After a 100-hour negotiating process that took place over five months, the parties reached an agreement, announcing their deal on May 31, 2001 and working together over the next several months to secure city approvals and public subsidies for the project. The agreement itself was a legal document specifying the developer's cooperation with and financial contribution to measures designed to benefit the coalition members and their constituents. It included affordable housing development, parking rights, living wage commitments, and job training programs. In exchange, the coalition signed a separate "Cooperation Agreement" pledging not to oppose the developer's project. The CBA was later incorporated into the development and disposition agreement between AEG and the Los Angeles Community Redevelopment Agency.

Sources: <http://www.forworkingfamilies.org/resources/staples-cba>

## Progressive advocacy around the use of TIF funds

In some instances, municipalities have extended the use of TIF to include more community-based programming, such as small business assistance.

Without strong leadership, pressure from constituents, and the presence of supportive financial institutions, however, such programs are likely to be one-offs. For instance, in Chicago SBIF and NIP are only available in certain TIF districts and constitute a small portion of overall TIF funding.

As such, community organizations have put pressure on municipal governments to allocate more TIF funding for community-oriented projects that help existing businesses and residents. They have done so through traditional organizing techniques: using the media and direct actions to draw attention to the inequitable behavior of local governments; postering and lawn signs in support of specific projects; and trying to ultimately change the regulations that govern TIF. In Portland, Oregon, for example, community organizations successfully fought for a TIF Set-Aside Implementation Plan, whereby 30 percent of new districts' revenue must be set-aside in an affordable housing fund.<sup>v</sup>

### Chicago's TIF-Funded Community Programs

The City of Chicago runs several programs intended to spread the benefits of TIF to small property owners in the city's many TIF districts. These include:

- The Small Business Improvement Fund (SBIF): TIF revenues reimburse small business owners for repairing or rehabilitating their properties within eligible TIF districts. Applicants must pay for these costs up front and submit receipts to the city after the work is completed. The average grant is for \$40,000.
- The Neighborhood Improvement Program (NIP): TIF revenues reimburse home owners for repairs in eligible TIF districts. The program provides home repair grants for single-family residences (1-4 units) that are generally used for exterior repairs and energy conservation investments. Homeowners earning up to 100 percent of the area median income are eligible.

In both cases, the City contracts with a third party operator (Somercor for SBIF; Neighborhood Housing Services for NIP) to administer the programs.

Source: <http://somercor.com/sbif/>

Community groups can also put pressure on local governments by trying to restrict the use of TIF for projects they believe undermine community benefits. A community group in St. Louis, Missouri, Organizing for Reform and Empowerment (MORE), has been trying to get a municipal ballot initiative that would, if approved, amend the city charter to prohibit tax incentives, including TIF, to companies that engage in unsustainable energy production.<sup>vi</sup> Although they got it on the ballot, the courts ruled in favor of a coal company to permanently take it off, arguing that any restrictions on eligibility for economic incentives would violate state-level TIF and business district laws.

### **TIF Advisory Councils**

In many states, municipalities are required to form an oversight or review board for the TIF district, consisting of representatives of each of the affected taxing jurisdictions. In some states, these boards have veto power over the TIF designation or activities within the district. In other states, however, no such body exists—or if it does, its decisions lack authority.

To overcome this problem, some municipalities or elected officials have convened Advisory Councils to provide advice on TIF designation and increment allocation. The members of such Councils are often merchants, property owners, or community organization representatives from the area.

For example, Blocks Together reinvigorated a dormant TIF Advisory Council in 2008 after conducting research on the Chicago/Central Park TIF district that covered a portion of their service area. As is the case with most advisory councils, community members needed to demand that these structures be in place. Blocks Together worked with the community to build knowledge and awareness around how TIFs work and what powers

an advisory body could have. Once the community was informed and their political consciousness was developed, they saw the need to have more oversight over the TIF funds. They then approached the alderman and convinced him to support an Advisory Council for the Chicago/Central Park TIF district. The Council was comprised of twelve people including representatives of neighborhood business and housing organizations, the Local School Council and Park Advisory Committee, business owners, and homeowners. The group met monthly and reported out on the results of community surveys conducted to determine neighborhood needs. It advised the alderman on whether or not to provide funding to particular TIF projects.

Most Advisory Councils follow a consultative model that allows members to weigh in on decisions. However, the ultimate authority lies with the mayor, alderman, or city planners. Community input and advice, therefore, can be ignored.

# Part III: What is Participatory Budgeting?

In 1989, the Brazilian city of Porto Alegre developed a new model of democratic participation, which has become known internationally as "participatory budgeting" (PB). Through this process, community members directly decide how to spend part of a public budget. In other words, the people who pay taxes decide how those tax dollars are spent.

This sounds simple, but the process is fairly involved. Budgets are complex, and it takes time and support for people to make wise spending decisions. For this reason, PB generally involves a year-long cycle of public meetings. Community members discuss local needs, develop project proposals to meet these needs, and then invite the public to vote on which projects get funded.

In Porto Alegre, as many as 50,000 people have participated each year to decide as much as 20 percent of the city budget. Since 1989, PB has spread to over 1,500 cities. This innovative model has become popular across Latin America, Europe, Africa, and Asia, and the United Nations has named PB a best practice of democratic governance. Cities, counties, states, schools, and housing authorities have used it to give local people control over public spending.



## How does PB work?

PB processes follow four basic steps: Idea Collection, Proposal Development, Voting, and Implementation. During Idea Collection, community members come together in neighborhood assemblies to learn about the process and the budget and begin identifying broader needs of the community. In this phase, residents volunteer ideas as well as their time by signing up as Budget Delegates.

During Proposal Development, Budget Delegates work with their communities, government officials, and other experts to take the needs and ideas identified during the Idea Collection phase and turn them into full-fledged project proposals that meet city standards for feasibility and have price estimates for implementation. Budget Delegates often do observational research of their communities and draw upon other available reports and data to develop these proposals. Once proposals are finalized, they are put on a ballot and presented to the community for a public vote.

The Voting phase of PB differs from traditional voting processes; it is open to all members of the community, not just to registered voters. Many PB processes choose to include youth, undocumented residents, and others who are excluded from standard elections. After the votes are tabulated, the projects that receive the most votes are funded until the money runs out. Projects are then implemented by the city and the process repeats.

Despite its global popularity, PB is new to North America. In 2009, the Participatory Budgeting Project (PBP) helped launch the first process in the United States with \$1.3 million of discretionary capital funds in Chicago's 49th Ward. In 2011, PB spread to four wards in Chicago, and in 2015 aldermen in seven Chicago wards are deciding on capital projects using PB. In the United States and

Canada, PB is now being used in Toronto, Montreal, Guelph, Dieppe, Chicago, New York City, Vallejo, Long Beach, San Francisco (California), Boston, Cambridge (Massachusetts), and Greensboro (North Carolina).

In each of these cases, different funding sources are allocated through PB. Before 2014, however, PB had never been used with TIF funds despite efforts to democratize this financing tool and make TIF spending decisions more accountable to existing residents and small businesses. Thanks to the community organization Blocks Together, the West Humboldt Park neighborhood of Chicago was the site of the country's first PB process to allocate TIF funds.

## SECTION II: THE CASE OF BLOCKS TOGETHER PB-TIF PROCESS

# Part I: Background and organizational structure of Blocks Together

Blocks Together (BT) is a membership-based community organization in the West Humboldt Park neighborhood on Chicago's West Side. BT's members are individuals who work, worship, live, access services, or go to school in West Humboldt Park. They represent a community that is predominantly African American and Latino. Members range from ages 13 years and older, which allows for intergenerational learning and organizing.

Since 1995, BT has helped residents work together for systematic changes that bring concrete improvements to their lives. BT serves as a resource for community-designed and -led campaigns and also helps residents gain skills in research, recruitment, public speaking, grass-root fundraising, and strategic planning around issues that directly impact urban communities. BT conducts its' work through a structure of committees including the youth council, education committee, and the housing and economic justice committee. These committees organize around social justice issues relating to education, housing, economic justice and the criminalization of youth.

BT's organizing focuses on addressing systemic inequalities and building local leadership. Organizing campaigns emerge from informal conversations and collective visioning that use popular political education strategies to analyze issues. Through this

process, residents see how existing policies and systems work and how they can best intervene to bring about change. BT connects the experiences of campaigns with activities that develop leaders' analyses of the current political climate and institutional power. By developing a detailed understanding of how public policies, practices, and history have shaped issues facing the community, community members can better advocate for their needs.

BT is firmly committed to the idea that collective leadership from those most affected by an issue is the way to build lasting change. Members, therefore, lead at every level of the organization, serving on committees and sitting on the Board of Directors. At the committee level, members develop strategic plans for campaigns and determine implementation processes. The Board of Directors, which oversees the organization, is composed of the most dedicated members from each committee (including youth members) who are elected by the full membership at a bi-annual community convention. Potential board members demonstrate commitment to the issues and community, have been involved in multiple committees, have been involved for more than six months, and have participated in fundraising initiatives. BT's community-led board participates in working groups, discusses the issues impacting the community, and, through power analysis, collectively decides how to move forward on campaigns and identify short-term and long-term goals.

## Part II: The emergence of a PB process (2008–2014)

Since 2008, Blocks Together has focused on addressing issues related to disinvestment and economic injustice in the West Humboldt Park community. Specifically, BT has educated residents to understand how municipal revenues have been spent, with the goal of changing how public investment decisions are made. BT members have long argued that TIF and other incentives be allocated through criteria that prioritize:

- (1) a demonstrated direct benefit for current community members;
- (2) transparency in funding allocation and application processes; and
- (3) spatial equity, where communities with the greatest needs receive more funds than those with fewer pressing needs.

Through its housing campaign, BT members began to push back on local school closures and the neighborhood disinvestment that was occurring due to budget cutbacks. Spurred into action by the school closure issue, residents sought to determine where current property taxes were being used and why the tax base was insufficient to sustain local schools. Using a participatory action research method, residents researched the TIF districts in the neighborhood and their impact on the community. Their analysis of the data led them to believe that the community benefits of this city program were limited in West Humboldt Park. Meanwhile, substantial funds were being redirected from the schools and other local taxing bodies, which had implications for the quality of services in the neighborhood.

In order to build more popular knowledge around how TIF works, BT began a community engagement campaign. BT organized “TIF BBQ’s and Coffees” hosted by residents to help organize and educate other community members on the mechanics of TIF and its effect on available local resources. Given the growing community interest, BT began hosting “TIF Town Hall” meetings that brought the larger community together to learn about TIF districts and their potential impact.

To begin engaging with elected officials around local economic development needs, BT worked with residents to research current and past TIF expenditures. A “TIF Report Back” meeting was held, and a planner from the City of Chicago Department of Planning and the alderman were invited to review the past expenditures and current obligations and answer questions. Residents probed decisions to allocate funds to specific developers and companies and questioned the job creation numbers that were provided as justification for these decisions.

BT members and West Humboldt Park residents advocated for the reinstatement of the Chicago/Central Park TIF Advisory Panel, which was initially created to advise local officials on TIF spending decisions. The alderman agreed, and the panel’s first task was to administer a community-wide survey to identify priority areas for spending. Residents identified the need for additional affordable housing, job training, and education in the community.

Affordable housing had long been a priority of BT members. In 2009, members campaigned to use Chicago/Central Park TIF district funds for an affordable housing development project, working with elected officials and a local community development corporation to create more affordable housing. As a part of the campaign, BT members called for the creation of a Community Benefits Agreement (CBA) to ensure that a specific development project would

remain affordable over time and guarantee local hiring during the construction phase. The developer refused to sign the agreement and, consequently, members worked with the alderman to stop the project and withhold support for the necessary zoning modification. As a result, the \$2 million of TIF funds that had been set aside for this housing project were left unspent.

In 2011, the Chicago/Central Park TIF was re-evaluated by the City of Chicago’s Department of Planning (DoP). Residents urged the DoP to reallocate funds to job training and daycare services, which would have a more direct impact on the community. Residents began to envision different ways that TIF funds could better address community needs. At the November 2013 “TIF Report Back” meeting with residents, the alderman, and a DoP representative, BT proposed a community-driven process to allocate the \$2 million in available TIF funds that were left over from the canceled affordable housing development.

# Part III: West Humboldt Park PB-TIF timeline

Blocks Together initiated conversations with the Participatory Budgeting Project (PBP) and the Great Cities Institute (GCI) at the University of Illinois at Chicago (UIC) to discuss implementing a participatory budgeting (PB) process in the community. PBP and GCI had been working with aldermen across the city on PB processes with aldermanic “menu money”—the \$1.3 million in discretionary capital improvement funds that each of the 50 aldermen receive. BT members also visited other organizations throughout the country to learn how this process could be used with TIF funds and other large sources of public revenue.

Residents supported the idea of a PB process to decide how to spend the \$2 million in available TIF funds. The hope was that this process would be an alternative to the top-down decision-making typically used for TIF funds and that the funded projects would better reflect the needs of the community. This would be the first time in the city’s history, and the first time in the nation, that a PB process was used to decide how TIF funds are spent.

In January of 2014, BT members organized a small meeting with Alderman Walter Burnett to request his support in using PB with the TIF funds. He agreed and committed the funds to a PB process.

In February 2014, residents from BT’s housing and economic justice committees began to design a PB process that was tailored to TIF funds instead of menu monies that other Chicago aldermen use for PB. Menu money, for example, has more restrictions on its use than TIF funds. Both can be used for capital and infrastructure projects, but as mentioned above, TIF funds can also be used for



job training, supportive services for housing, affordable housing, and small business assistance.

BT organized information sessions about the TIF program for new members and researched past expenditures, gaining a greater understanding of the redevelopment goals stated in the Chicago/Central TIF district Redevelopment Plan (see Researching TIF section). From March through June 2014, members recruited other residents and local businesses to be a part of the leadership committee, developed messaging, created a timeline, and coordinated with the Department of Planning and the alderman. The process was broken down into four main phases that are described in detail below.

## **PHASE ONE: IDEA COLLECTION**

### **Town Hall**

On July 1, 2014, BT organized the first PB Town Hall meeting to kick off the PB process. Leading up to this meeting, BT members organized an outreach campaign that included knocking on hundreds of doors, posting lawn signs throughout the community, and using social media to turn out community residents to the event. The meeting was organized in partnership with Alderman Burnett, PBP, and GCI. At the meeting, over 100 residents were re-introduced to TIF, learned how PB works, discussed community needs, and brainstormed ideas for neighborhood improvements. The ideas fell into four of the categories identified as priorities by the TIF Redevelopment Plan: affordable housing, job training, public works, and small business. The most frequently stated needs and ideas were for additional job training and small business development.

### Eligibility criteria for voting and project submission

After the Town Hall meeting, 18 residents worked on the leadership committee to develop criteria to evaluate and rank project ideas. Given the complexity of TIF funding requirements and the vague nature of some of the ideas generated at the Town Hall meeting, the leadership committee developed an application process. The application process included eligibility requirements for individuals to submit a proposal, the criteria projects had to meet in order to be on the ballot, and a request for projects (RFP) form. In order to be eligible to submit a proposal, applicants had to:

- Be at least 14 years of age or older.
- Live or own a business within the Chicago/Central Park TIF district.
- Be an incorporated business or non-profit organization or, if submitted by an individual, include a fiscal sponsor that was an incorporated business or non-profit organization.

Projects had to:

- Be budgeted for \$500,000 or less.
- Clearly connect to the community benefits they claimed the project would bring to the residents of West Humboldt Park.
- Fall under one of the four prioritized categories identified in the Redevelopment Plan including:

**Affordable Housing:** The project must serve residents/families living within the Chicago/Central Park TIF district that make less than \$25,000 a year. Residents with nonviolent criminal records could not be excluded from services.

**Job Training:** The project must serve residents living within the Chicago/Central Park TIF district and provide training that will lead to employment.

**Public Works:** The project must be used for capital infrastructure and beautification projects for the neighborhood or used on construction for public buildings.

**Small Business:** The project must provide support for established or emerging community-owned businesses or support for a startup or expanding business within the Chicago/Central Park TIF district.

## PHASE TWO: PROPOSAL DEVELOPMENT

### **Outreach to community residents and organizations for project proposals**

A second Town Hall meeting with approximately 25 participants was held on August 14, 2014 to release the RFP to the community and explain the application process. The RFP was also distributed via email listservs and made available on BT's website. Project proposals were given a deadline of September 14, 2014 by 5:00pm.

### **Technical assistance for project applicants**

Every Thursday from August 21 through September 11, 2014, BT, PBP and GCI held trainings and technical assistance workshops to assist residents in the development of project proposals for the ballot. These training workshops were essential in building the capacity of residents to submit complete proposals with eligible project ideas that met the criteria developed by the leadership committee and the legal requirements of the TIF redevelopment agreement. Workshops included topics such as:

- How to write a proposal with goals and outcomes
- How to articulate the community benefit of the project
- How to use data to make a case for the community need for the project
- How to develop a budget

West Humboldt Park community residents submitted a total of 13 project proposals. After a vetting process, 11 of these 13 projects made it to the ballot. Two projects were determined to be ineligible uses of TIF funding.

## **PHASE THREE: PUBLIC VOTE**

### **Project Expos**

Three Project Expos were held at the end of October and early November in 2014 at locations throughout the community. At the project expos, residents and business owners that submitted project proposals for the ballot presented their ideas to the community. They developed poster displays and, in a “science fair”-type format, talked with residents about their project ideas, received feedback, and campaigned for votes. A total of 75 residents participated in the project expos.

### **The vote**

BT held three voting days on November 13–15, 2014 in multiple locations throughout the TIF district. Any resident that lived in the Chicago Central Park TIF District that was 14 years or older could vote. BT members oversaw the voting process and the tallying of the ballots to make sure it was fair and unbiased and allowed project teams to view the vote counting process. A total of 292 residents took to the polls, selecting four winning projects. These included:

- **Green Roofs on Chicago Avenue:** This project will replace the existing flat roof on four Chicago Avenue properties with a “living” green roof. The main goal is to demonstrate how to retrofit old, conventional roofs with environmentally friendly roofs that will diminish the urban “heat island” effect and reduce cooling costs.
- **Skate Park on Chicago Avenue:** This project will build a skateboard park along Chicago Avenue in Kells Park. The project was developed by youth in West Humboldt Park to help promote exercise, reduce obesity, and provide a space for youth from diverse backgrounds to come together in a positive way.
- **Culinary Institute:** This project will be a culinary training institute at a locally owned and operated business, the Turkey Chop. The culinary institute will teach residents essential culinary skills and food and sanitation standards necessary for a career in the culinary arts.
- **Small Business Microloans:** This project is a microloan program for small businesses in the West Humboldt Park community. This program will be designed specifically for low-income community members and, unlike the City’s SBIF and NIP, will not require upfront capital from participants.

Two additional projects—those that received the fifth and sixth most votes—were added after two projects pledged to share funds with them. These include:

- **Hair Braiding Institute:** To provide training to residents to learn hair braiding techniques and small business regulations.
- **Chicago Avenue Beautification project:** To repair the facades on a number of businesses along the Chicago Avenue corridor.

Once the polls closed on the final day of voting, the organization held a celebration ceremony to announce the winners of the vote. The winning projects were also announced through BT's and PB Chicago's listervs, website, and social media.

## PHASE FOUR: IMPLEMENTATION

### Project implementation

After the vote, BT and residents began working with the City of Chicago to develop the procurement and contracting guidelines to implement the winning projects. It became apparent from the length of time devoted to this phase that procurement and payment practices will need to be modified to accommodate the winning projects. BT has proposed administrative changes to reflect the fact that the residents, business owners, and fiscal agents who are leading the projects West Humboldt Park may not have the requisite equity or debt to invest in their projects up front and then wait to be reimbursed by the city. As such, BT members are advocating for changes to the contract payment process to provide more access to TIF funds for all low-income communities and community-based organizations as a way to address some of the barriers to entry discussed above.

BT proposed that the projects receive their allocations as grants that are paid out in three installments instead of an out-of-pocket expense that would be reimbursed by the city. The payment process BT proposed included requiring the winning projects to: select the vendors and/or consultants that would work to implement the projects, develop the necessary contracts and sub-contracts with vendors and/or consultants, and provide the City of Chicago with executed contracts prior to receiving the first installment. The second installment would be disbursed after the

City of Chicago received receipts from the first installment, and a similar procedure would be followed for the third installment.

The project winners are continuing to refine their proposals and budgets in preparation for a meeting with staff from the City’s Department of Planning and Development. As of January 2016, BT members and the project winners are still negotiating with the City of Chicago Department of Planning and Development to develop a payment process that can be implemented in a low-income community with less access to upfront capital.

## Part IV: Evaluation of voter composition and PB experience

UIC's Great Cities Institute coordinated an evaluation process to determine who participated in the West Humboldt Park PB vote and why they chose to participate, what new knowledge or skills participants gained as a result of their participation, and which outreach techniques were most effective in encouraging participation. 191 surveys were administered to participants for a response rate of 65 percent and the PB process was observed systematically over the pilot cycle. Overall, the majority of PB vote respondents indicated that they heard about the vote through word of mouth (64%), seeing a flyer (22%), or from Blocks Together (14%).

Researchers compared the participant survey responses to 2010 Census and 2008-2012 American Community Survey data of the Chicago/Central Park TIF district. Overall, the PB vote saw high rates of participation by African Americans, low-income individuals with lower levels of education, and youth and young adults. Specifically, the data shows that African Americans were overrepresented at the PB vote (95%) when compared to the TIF district demographics (70 percent of district residents). Latinos (5%) were underrepresented and Whites (3%) were proportionately represented at the PB vote when compared to the TIF district demographics (27% Latino, 3% White).



How would you identify your race and/or ethnicity? (n=172)	PB Vote	TIF Profile 2010 Census
American Indian/Alaska Native	1%	0%
Asian	0%	0%
Black or African American	95%	70%
Hispanic or Latino/a	5%	27%
Native Hawaiian/Other Pacific	0%	0%
White	3%	3%
Other*	1%	

The majority of PB vote respondents (70%) indicated that their household incomes were at or under \$25,000 a year, compared with 54 percent of TIF district population. Twenty-seven percent of PB vote respondents indicated that they were between the ages of 18 to 24 years of age compared to 17 percent of the TIF district population. The majority (55%) of PB vote respondents indicated that they had a high school diploma/equivalent or less, compared with 65 percent of the TIF district population. The majority of PB vote respondents were also renters (81%) that had lived in the neighborhood for eight years or longer (70%). Of those that responded, men (52%) participated at slightly higher rates than women (47%).

What is the estimated yearly income of your household? (n=157)	PB Vote	TIF Profile 2008 ACS
Less than \$10,000	39%	26%
\$10,000 to \$14,999	19%	9%
\$15,000 to \$24,999	12%	19%
\$25,000 to \$34,999	10%	10%
\$35,000 to \$49,999	11%	13%
\$50,000 to \$74,999	4%	11%
\$75,000 to \$99,999	1%	7%
\$100,000 to \$149,999	1%	3%
\$150,000 or more	3%	2%

What is the estimated yearly income of your household? (n=164)	PB Vote	TIF Profile 2010 Census
18 to 24 years old	27%	17%
25 to 34 years old	12%	21%
35 to 44 years old	14%	17%
45 to 54 years old	21%	18%
55 to 64 years old	21%	14%
65 years and older	5%	13%

In addition to the specific demographic data on the profile of PB participants, the evaluation data and observations of the PB process in West Humboldt Park revealed that:

- **Overall, participants exhibited high levels of satisfaction with their involvement in PB.** 72 percent of PB vote respondents indicated that the proposals on the ballot were either “good” or “great,” and 76 percent of respondents indicated that the PB process overall was either “good” or “great.”
- **Participants reported high degrees of learning about the needs of their community, the interests of their neighbors, and the city budgeting process.** 85 percent of respondents indicated that they felt that they had a better understanding of the needs in their community after voting.
- **Blocks Together engaged residents who do not typically participate in local elections in their community.** Forty-five percent of PB vote respondents indicated that they were either not eligible to vote (6%), that they never or rarely vote (16%), or that they sometimes vote (23%).

BT, Alderman Burnett, and community residents are working on implementing PB as an annual cycle for the Chicago/Central Park TIF district. BT plans to work with other communities to inspire them to take ownership over their public funds and work with the City and their alderman to help residents maximize the impact of TIF funds to support greater community and economic development.

## SECTION III: TAKING ACTION

Despite the achievements of the Blocks Together (BT) PB - TIF process, it may be difficult to replicate unless certain conditions are in place and specific steps taken. This section lays out some of the lessons learned from the pilot process and other participatory budgeting processes and offers recommendations for community organizations and members considering using PB to distribute TIF funds.

### Part I: Popular education

Not every resident in a community is aware they can participate in a PB process from the outset. Furthermore, in most communities there are uneven degrees of capacity and interest among residents. This may create challenges in their ability to develop project proposals from the ideas generated at the initial town hall meetings. Significant popular education, capacity building training, and technical assistance for organizations are needed to meaningfully engage residents to develop project proposals that are eligible for TIF funds.

Community organizations may want to adopt a “**popular education**” approach—the organizing method favored by BT—to working with residents towards implementing a PB process. “Popular education is education as a practice (or praxis) of freedom. It is an approach to education where participants engage each other and the educator as co-learners to critically reflect on the issues in their community and then take action to change them.”<sup>vii</sup>

“Praxis is not simply action based on reflection. It is action that embodies a commitment to human well-being, the search for truths, and respect for others. It is the action of people who are free, who are able to act for themselves.”<sup>viii</sup> This approach is centered on the belief that those most impacted by issues and systems must take the lead in changing the conditions to which they are subjected.

### Principles of practice

- **Continuous learning and education:** Prioritizing continuous learning and education will help organizations and residents in their search for knowledge and information about their community and the systems shaping it, their larger city, and the nation.

Education takes the form of cyclical conversations where all participants engage in critical analysis and connect their personal experiences, knowledge, and skills to systemic socio-economic and political conditions. The educator is not an expert that simplifies complex information so that it can be passed on easily to participants. Instead, the educator’s role is to co-create this cyclical process that raises the critical consciousness of all participants by asking questions for deeper analysis by the group while reflecting upon and connecting with the experiences and theories of all members of the group.

- **Shared governance:** Following BT’s lead, organizations can ensure that members are not only engaged but are designing and leading campaigns. BT staff, for example, see their role as acting as a resource for their members by ensuring they have the tools and information necessary to carry out their missions and visions. Importantly, they engage in dialogue with their members that reflects upon and analyzes the root

causes that are shaping the practices, policies, and rules created to reproduce the oppressive environments in which they find themselves.

Through this on-going process, the members and residents engaged with BT transformed the way they saw their role in the community and their relationship to government—from recipients of services to investors and active citizens with ownership of and rights in the community. They determined the direction of the campaigns and the design of the PB process initiated by BT staff rather than simply “buying-in” to the PB process.

### **Popular education practices**

It is critical to facilitate discussions that help residents understand the root causes of their situations, make connections to their experiences, and understand the WHO (systems, policies, practices) and the WHAT (vision, goals) for which they are fighting or advocating for. As a result, residents strengthen their analytical skills and capacity while applying them in campaigns and in taking direct action. They engage in continuous learning as they are simultaneously in action, intentionally applying theory and what they have learned into practice.

This approach to working with community can be challenging because it is generative in nature, meaning that the issues, campaigns, and actions taken are created while you implement, not in advance of their implementation. This requires flexibility in the project timeline and framing the work as ongoing, long-term community capacity building and change, not short-term actions, projects, or “wins.” Organizations can provide informal conversations, facilitate discussion circles, teach-ins, and workshops to build capacity and connect with other communities’ struggles.

- **Informal conversations:** Informal conversations help residents understand who they are fighting and advocating alongside. Relationships solidify and learning occurs through listening and sharing. Informal conversations occur in more relaxed settings like block parties. They are vehicles for relating to people where they are while also contextualizing critical issues by connecting peoples' experiences to their histories and current policies operating in their community.

For example, BT staff have ongoing informal conversations with all of their members, and it is often through these conversations that important issues in the community are first raised. Throughout the TIF-PB process, BT members conducted informal conversations at BBQs and block parties where they talked with other residents about what TIFs are, how TIF funds were spent in the past and their impact or lack of impact on the community. They talked about and how TIF could be used as well as about how PB works and how residents could get involved.

- **Circles:** Circles are tools for strengthening the unity of the group, building trust, resolving conflict, and creating a space for healing and peace. During circles, people share their personal stories and listen to others' stories in an environment that fosters respect, confidentiality, healing, trust, and truth telling.
- **Teach-ins:** Teach-ins are introductory presentations used to introduce and inform residents about an issue or potential strategy or action. For example, BT held a teach-in on PB to show residents what a typical PB process looked like. The teach-in included a breakdown of the typical phases of a PB process and a suggested timeline, how PB could impact the neighborhood followed by a discussion on

what the group's vision was for moving forward to obtain their goals.

- **Workshops:** Workshops are shaped by the needs of the campaign and the community as they emerge and not based on a pre-set curriculum. For example, BT developed a workshop called the “Players Club” to develop understanding among residents and members of the different legislative bodies, city agencies, and public officials that oversee TIF funds and are in control of the decision-making. The workshop was designed to facilitate residents’ understanding of who they needed to talk with in order to address challenges and inequalities in the TIF program.

Another example took place after the PB Town Hall meeting as BT staff worked with residents to develop project proposals for the vote. Several residents asked for more clarity on how to write the “community benefit” section of their project proposals. As a result, BT and GCI provided training on how to conduct research for specific projects and how to use that data to write a compelling argument describing the community benefits.

# Part II: Organizing for PB in your community

## **How do I put PB on the agenda?**

To start gathering support, organize a public event about PB to explain how it works, where it has worked, and what benefits it could bring to your community. The PB Project can help provide speakers and materials. Ask organizations and universities to co-sponsor the event in order to build up more support and resources. Invite government officials and community leaders to respond to the presentations and to say whether and how they think PB could work locally. You can also try proposing PB at other community meetings, writing editorials or blog posts, and asking elected officials or candidates to take a stance. Bit by bit, this public outreach can add up and spark local interest.

## **Who should be at the table for initial discussions?**

When you begin to introduce the idea of PB to your community, talk with as many interested organizations and parties as possible. This includes government representatives and elected officials, local nonprofits, block clubs, religious institutions, political groups, foundations, universities, schools, and activists. The knowledge and relationships of these groups will determine how far your efforts will go.



## How do I pitch PB to attract interest?

Different people get excited about PB for different reasons, but these six angles attract the most interest:

- **Democracy:** Ordinary people have a real say—and they get to make real political decisions. Politicians build closer relationships with their constituents, and community members develop greater trust in government.
- **Transparency:** Budgets are policy without the rhetoric—what a government actually does. When community members decide spending through a public vote, there are fewer opportunities for corruption, waste, or backlash.
- **Education:** Participants become more active and informed citizens. Community members, staff, and officials learn democracy by doing it. They gain a deeper understanding of complex political issues and community needs.
- **Efficiency:** Budget decisions are better when they draw on residents' local knowledge and oversight. Once they are invested in the process, people make sure that money is spent wisely.
- **Social Justice:** Everyone gets equal access to decision-making, which levels the playing field. Traditionally underrepresented groups often participate more than usual in PB, which helps direct resources to communities with the greatest needs.
- **Community:** Through regular meetings and assemblies, people get to know their neighbors and feel more connected to their city. Local organizations spend less time lobbying and more time deciding policies. Budget assemblies connect community groups and help them recruit members.

## How do I deal with resistance?

When government officials and other decision makers first hear about PB, they often raise the following doubts:

*That's the Elected Official's Job: Voters elect government officials to make the tough decisions, so shouldn't budgeting be their responsibility?*

Elected officials are responsible for investing our tax dollars, but if they share this responsibility with community members, they can better represent local needs and desires. PB helps officials do their jobs better by putting them in closer touch with their constituents and by injecting local knowledge and volunteer energy into the budget process.

*There's No Money: Budgets are being cut across the board, so how could there be money to launch PB?*

Fortunately, PB does not require a new pot of money, just a change to how existing budget funds are decided. You will need some resources to carry out the PB process, but this investment saves money down the road, as participants discover new ways to make limited budget dollars go farther.

*The Process Will Be Co-Opted: If budget decisions are opened up to the public, won't the "usual suspects" and powerful community groups dominate?*

This is a valid concern for any kind of public participation, and PB is not immune. But if you involve all segments of the community in planning the process and reduce the barriers to participation for marginalized people, you can prevent any one sector from taking control. Regardless, when people are given real responsibility to make budget decisions, they tend to rise to the occasion and think about the broader community.

### **What pot of money will the community allocate?**

PB usually starts with “discretionary funds”—money that is not set aside for fixed or essential expenses but is instead allocated at the discretion of decision makers. While this is typically a small part of the overall budget, it is a big part of the funds that are available and up for debate each year.

There are many sources of discretionary money, and TIF is only one of them. It could come from the capital budget (for physical infrastructure) or operating budget (for programs and services) of your city, county, or state. Aldermen or other officials could set aside their individual discretionary funds, as they have in some Chicago wards. These officials may also have control over special allocations like Community Development Block Grants. Housing authorities, schools, universities, community centers, and other public institutions could open up their budgets. The funds could even come from non-governmental sources like foundations, community organizations, or grassroots fundraising if this money is oriented towards public or community projects. Some PB processes mix funds from different sources to build up a bigger budget pot.

### **How much money is enough to do PB?**

Almost no pot of money is too small to start. PB has worked with a few thousand dollars and with many millions. Most processes involve 1-15 percent of the overall budget. PB usually starts out as a pilot project with a small budget. If the process is successful, it can build the political will to increase the pot of money. With TIF funds, for example, each district has its own amount of funds to

spend on projects in the district. As described in the next section, you should find out how much is available in these accounts.

How much money you need depends on what it will be used for. If students are allocating the money to school activities, a couple thousand dollars will go a long way. If residents are deciding on significant physical improvements for public parks, streets, and buildings, you'll probably want at least a million dollars. Capital projects typically require more money than programs and services since they are built to last multiple years.

Regardless, you'll want funds that are renewable from year to year so that PB isn't just a one-year fling. And in the long run, the more money, the more you can do.

### **What other resources will I need?**

Creating a new experiment in democracy is not easy. It requires months of planning to design a sound process and for community residents to take ownership of it. Successful PB processes draw on the expertise and resources of dozens of organizations and agencies. Bringing all these people to the table is not easy—and getting them to agree on a plan is even harder.

Once your process gets going, you will need an extensive outreach and communications effort. Without the financial and human resources to conduct outreach, print materials, and run scores of public meetings, community participation will be limited. Usually, the elected official, city, or agency pays most of these expenses. Foundations and other funders can also help cover costs—especially at first when the work is greatest. Other specific tips include:

- **Develop partnerships:** Developing partnerships with other local community-based organizations or institutions will provide additional resources and outreach networks to the PB process and can add training and technical assistance capacity for residents developing project proposals. In addition, developing partnerships with city agencies and departments that will be involved in approving or implementing the project proposals early on may also provide residents with additional technical assistance and reduce barriers to implementation later on.
- **Engage with schools:** Engaging with schools to increase youth participation, including holding town hall meetings and voting opportunities at schools during school hours.
- **Bring PB to the people:** Bringing PB to the people to increase the number of PB participants and to increase participation with marginalized populations. The PB processes that take place in wards with menu money have shown that holding pop-up or “mobile” idea collection and voting opportunities that take place during other community events or in high-foot places like a public transit stop, community center, or grocery store can significantly increase the participation of youth, low-income individuals, and people of color.
- **PB cycle timeline:** The PB cycle timeline should be as long as needed to allow for more capacity-building opportunities for residents that are interested in participating in various stages and in submitting a successful project proposal.

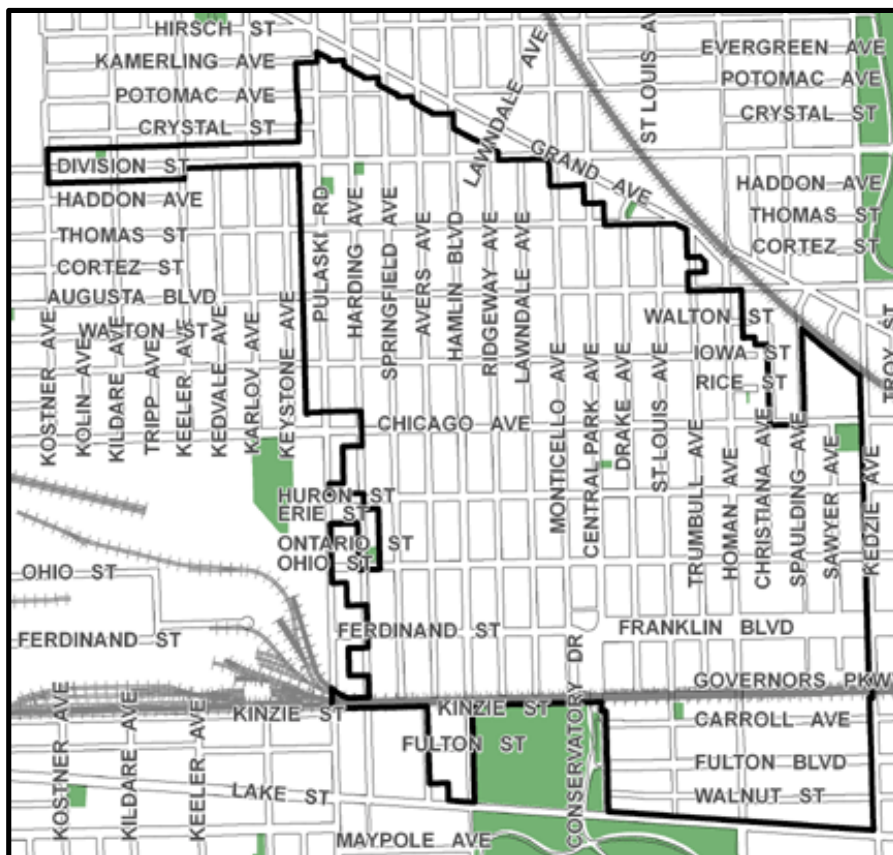
Starting PB in your city is a lot of hard work, but if you do it right, the payoff is tremendous. You can make government more transparent, budgeting more efficient, and public spending more fair. You can educate thousands of people on how government works, develop hundreds of grassroots leaders, and build stronger community networks. And in the end, you might even fend off those waves of budget cuts and replace them with a people’s budget.

## Part III: Researching TIFs

Research and popular education were critical pieces of BT's campaign for more equitable and democratic public investment and are a part of every successful PB process. In order to determine if your community organization should target TIF funds, it is important to understand the mechanics of TIF, how it is being applied in your neighborhood, and what are the current economic development activities and investment priorities of key private and public players. This requires acquiring information that may be publicly available but potentially complicated to access and interpret.

**Enabling legislation:** Obtaining the original legislation that allows municipalities to designate TIF districts and allocate funding is crucial. It is necessary to obtain the legislation, as elected officials are often confused about what the legislation permits and what it does not. For example, the Illinois Tax Increment Allocation Financing Act (Municipal Code, Chapter 24) was adopted in 1977, allowing municipalities in the state to establish TIF districts. The legislation includes elements of the designation process (including any required notices and public hearings) and, importantly, a listing of what public and private expenditures may be lawfully financed by TIF ("eligible uses"). Legislation must conform to state constitutions, which require that taxing districts spend public money for public purposes. The enabling legislation can often be found by typing the name of the state followed by "tax increment financing act/statute" into an online search engine like Google.

**Official boundaries:** The boundaries of a TIF redevelopment area (i.e., “district”) are not straightforward. As one can see from the map of the Chicago/Central Park TIF below, the boundaries of TIF districts are often highly irregular and the areas covered quite varied. Parcels that have already reached what may be considered the pinnacle of their property value growth, residential areas, and institutional buildings (that pay no property taxes) are often excluded from TIF districts. Political gerrymandering may also have an impact on the ultimate form of the district, as council members demand that boundaries be drawn to reflect their respective interests.



In order to determine which properties, businesses, and individuals are eligible for TIF funding, it is important to obtain a map and property records for the parcels within each TIF district. Many cities maintain these on their websites in forms that are easy to download or analyze using GIS (to use ArcView/GIS you will need to obtain the “shapefile” for the district). The City of Chicago’s TIF Portal maintains a web application that displays TIF districts overlaid on a base layer of streets and building footprints, which can be used to identify the specific properties that are located within TIF boundaries. If this data is not available online, the maps and parcel identification numbers can be obtained by making a request to your city’s planning department.

Redevelopment Plans (see below) are a primary source for descriptions of TIF boundaries. They are likely to include a detailed boundary map, a written legal description of the boundary, and a list of Parcel Identification Numbers (PINs) for all parcels of property that are included in the TIF district. If it is unclear whether a business or organization seeking TIF funds is inside the district, its status can be confirmed by checking the PIN list.

**Redevelopment plans:** In most cities, these plans are relatively generic. They repeat the language from the state enabling legislation that authorized municipalities to use TIF in the first place. They will discuss how the area has not reached its potential, how properties are blighted, and how public assistance is necessary to jumpstart development in the district. These documents are written **before** funds are spent and projects are built in the TIF district.

The key pieces of information to take away from these plans are the stated goals for the TIF district. The plans should articulate the future vision that the municipal government has for the



district. The city may wish to see more commercial or residential development occur, new infrastructure, or improved transportation circulation. The plan may include proposed zoning changes or an “acquisition map” of properties the city hopes to purchase. These goals may be stated in vague language, but they reveal what the city will consider to be the highest-priority uses for property and services in the district. The city does not have to stick to the plan; it can make exceptions in approving projects that do not conform to these goals if a project comes along that has sufficient political support. However, the likelihood of receiving TIF funds decreases the further a proposal gets from the goals written in the redevelopment plan.

A budget may be included in the redevelopment plan. This is an extremely flexible financial statement that lists the **expected** costs of the improvements proposed in the plan. These figures can be modified,

### Chicago/Central Park TIF

Designation: 2002 Expiration: 2026

According to the Redevelopment Plan for this TIF, “The Chicago/Central Park TIF district was created to foster commercial and residential improvements within a 678-acre section of the Humboldt Park community. Priorities include the revitalization of Chicago Avenue and Division Street shopping corridors with retail uses that are mutually beneficial to individual businesses. Funds are also targeted for land assembly and building rehabilitation and renovation projects, especially involving structures with architectural and historic value. The district is also intended to promote redevelopment opportunities on vacant lots, improve public transportation services, and provide assistance for job training, day care and other worker-assistance projects.”

The specific redevelopment goals for the district included:

1. Eliminate blight conditions such as vacant lots and homes.
2. Improvements to keep residential/homes and promote and build new residential development.
3. Design or encourage improvements to revitalize the commercial corridors of the Area and promote the Area as a place to do business.
4. Provide for expansion of institutional uses and recreational opportunities, where appropriate, to better serve Area residents.
5. Small Business Fund that provides support for small businesses.
6. Neighborhood Improvement Fund provides support for homeowner repairs.

Data retrieved from:

[http://www.cityofchicago.org/content/dam/city/depts/dcd/tif/plans/T\\_115\\_ChicagoCentralParkRDP.pdf](http://www.cityofchicago.org/content/dam/city/depts/dcd/tif/plans/T_115_ChicagoCentralParkRDP.pdf)

but they give a sense of how much money the city plans to allocate for things like direct subsidies to developers, administrative overhead and legal fees, infrastructure (parks, streets, schools), and other community benefits like job training.

**TIF annual reports:** It is relatively easy to identify a TIF district, its boundaries, and the goals a municipality has for the area. Tracking TIF funds is a different case entirely. Cities do not make it easy to “follow the money,” often because TIF can be used for so many different kinds of government expenditures and because local governments prefer to preserve their autonomy over discretionary spending. Obtaining an exhaustive list of all prior expenditures is also difficult because various government agencies, contractors, and private firms and developers spend TIF funds, and occasionally TIF funds are “ported” to other districts (increment generated in one TIF district is used in another district). Moreover, local governments use complicated methods to “front-fund” TIF expenditures (revenue bonds, notes), so the exact amount and date of each individual transaction may be hard to pin down.

Some municipalities make available expenditures by TIF district in an annual reporting statement or audit. In Illinois, local governments have to file these kinds of audits with the state, and in Chicago, year-end reports by district are publicly available on the city’s website. They include some valuable information—on property value changes in the district, increment generation, expenditures, and contracts disbursed for services. One may see all TIF payments to individual vendors (such as individual service providers, construction companies, contractors, and developers) in the reports.

Municipalities combine this information into lump sum totals for line items like “relocation costs” and “building repair” that can

give residents a sense of the categories of expenditures that have received the most money and those that have received the least. Information from these balance-sheet-like financial statements reveals both municipal priorities and market interest.

### Total TIF-Eligible Project Costs and Expenditures through 2011

Permissible Cost Category	Estimated Project Costs	Project Costs Expended Through 2011	
		Expenditures	Percent of Total
1. Professional Services	\$2,000,000 [1]	\$977,846	48.9%
2. Marketing of Sites	[1]	\$0	N/A
3. Property Assembly & Site Preparation	\$5,500,000	\$840	0.0%
4. Rehabilitation of Existing Public or Private Buildings	\$10,000,000	\$3,706,186	37.1%
5. Public Works or Improvements	\$50,665,000 [1]	\$43,117,329	85.1%
6. Job Training and Retraining	\$1,300,000	\$0	0.0%
7. Financing Costs	N/A [1]	\$93,289,748	N/A
8. Capital Costs	[1]	\$0	N/A
9. Increased Education Costs	[1]	\$0	N/A
10. Relocation Costs	\$635,000	\$0	0.0%
11. Payment in Lieu of Taxes	N/A [1]	\$0	N/A
12. Interest Costs	\$1,600,000	\$0	0.0%
13. Affordable Housing Construction	[1]	\$725,000	N/A
14. Day Care Reimbursements	\$1,300,000	\$0	0.0%
<b>TOTAL REDEVELOPMENT PROJECT COSTS [1]</b>	<b>\$73,000,000</b>	<b>\$141,816,949</b>	<b>194.3%</b>

Data retrieved from  
[www.cityofchicago.org](http://www.cityofchicago.org)

BT used this information to show where prior city investments had been focused and how other expenditure categories had received little to no investment. For example, in the ten-year report for the

Chicago/Central Park TIF (2002-2011), the city recorded no “job training” or “day care” reimbursements while “public works” and “professional services” received significant investment. Knowledge of past and future expenditures equipped the residents to argue for more diverse and community-led projects, which is what the PB process produced.

**Redevelopment agreements:** Information on prior expenditures is useful. However, with annual reports one cannot directly attribute the line items to specific projects; in other words, the lump sum payments could have been made for basic street repairs, a public school, or for a private company’s parking lot. Each project is likely to have a different group of beneficiaries.

If you want to know more about the kinds of projects the city subsidized, you must obtain individual Redevelopment Agreements (RDA). When TIF funds are provided directly to developers or private firms as subsidies, the city must sign a contract that governs the disbursement of public funds. These contracts must be approved by City Council, so they are publicly available through the Journal of Proceedings and can now be obtained from the City’s website as PDFs. These contracts are called Redevelopment Agreements (RDAs) and are often hundreds of pages long. They are signed by the developer and only apply to their individual project (e.g., a new housing or retail development).

Similarly, Inter-Governmental Agreements (IGAs) are used when the city’s agency for planning and financing works with another government department to build infrastructure or provide services. IGAs allow other city departments to use the TIF revenue. Such is the case when transit improvements or school facilities are built with TIF funds in Chicago. It is a good idea to track down the location and amount of RDAs and IGAs signed by city agencies and developers for each TIF district of interest.

The important clauses in these contracts are those that lay out the terms of the deal: who is getting what and what are their legal obligations. Typically, the RDAs contain “term sheets” that describe the provisions of the agreement: the firm or developer that is receiving TIF funds, the amount and term of the funding, how that funding will be provided (as a grant or loan), the additional community benefit provisions that the city requires, and the conditions under which the agreement will be voided if its provisions are breached. These provisions may include performance requirements beyond the development itself, what are called, “clawbacks,” that require the developer to pay back some of the subsidy received if the performance requirements are not met, and other arrangements that may further community interests.

Community residents will want to take a look at the number of permanent jobs and temporary construction jobs *expected* to be created for a particular project—as BT did when it was evaluating different projects in the Chicago/Central Park TIF District. You can then try to gather data on the actual number of jobs created and retained in the time period following the signing of the RDA.

**Fund balances:** TIF balance sheets are financial statements that reveal how much money remains unused in particular TIF accounts. Some TIF districts generate more revenue than they spend, and the amount not spent on particular projects will sit dormant in the account until someone asks for it or the city decides to port or use it. Revenues build up in the accounts when funds earmarked for certain uses stall or do not proceed in accordance with their projected timeline. Communities can argue for using funds that are not being spent.

Enabling legislation in states such as Illinois and Michigan stipulate that “surplus” revenues within the TIF district be

distributed to all local taxing jurisdictions, such as schools. Any funds that remain within the TIF fund after developers have been compensated for eligible expenses and after bond obligations have been repaid may be considered surplus. They are intended to be given back annually to the county tax collector who will then redistribute them to the taxing jurisdictions. This provision is supposed to prevent local governments from amassing a large pool of uncommitted funds at the expense of the day-to-day operations of the overlapping jurisdictions.

However, municipalities frequently circumvent the requirement to return surplus TIF funds to overlapping jurisdictions. For example, they may place surplus funds in an “infrastructure fund” to retain them indefinitely and use them as projects arise. Or they will argue that funds may show up in balances but in reality are “committed” to projects that are in process even if they have not yet been spent down. Regardless, you can make an argument for more community spending as local governments are unlikely to bond and go into debt for smaller expenditures where there may not be a single developer involved. If there are future projects in the pipeline, aldermen or city representatives should be able to share information about what those projects are, and they should have a community meeting where those projects are announced.

TIF is not the only source of public investment in neighborhood projects and programs. To get a sense of the larger funding picture, you can also gather information on other government programs that may be available to meet community needs and that could potentially be allocated through a participatory budgeting process. These might include discretionary funds given to elected council members, capital improvement plans, and business improvement districts (called “special service areas” in Chicago).

## Knowing the difference between a law and a practice

There are many challenges related to community organizations demanding decision-making power over how public funds are being distributed. Understanding TIF and other budgetary practices takes time and effort, and many of the community-based think tanks and research institutes that once provided some of this information are no longer operating. Meanwhile, government financing has become increasingly complicated with new sources and instruments being developed by banks and Wall Street investors.

Even when community members come armed with the information provided above, they are still turned away at the door. Public officials and staff may be dismissive and disrespectful to community members. They may throw up artificial barriers to making change, arguing that modifying the standard operating procedures is beyond their control or not legally possible.

Most city government departments have developed specific programs and standard procedures for allocating public dollars. As mentioned above, several city programs in Chicago already allocate TIF funds to smaller community projects, including the Small Business Improvement Fund and the Neighborhood Improvement Program. But PB and other community-driven processes may unearth new and innovative project ideas that do not fit neatly into these existing programs or cannot follow existing practices for disbursing funds to vendors.

The initial response from city departments may be that these ideas are ineligible for funding simply because the city lacks familiarity with the project or it does not know how to disburse funds in less conventional ways. Similarly, as is the case with some of the projects developed by residents in West Humboldt Park, the project ideas may fit within structure of existing city programs but the

contracting mechanisms designed for those programs disqualify low-income community members and business owners who may not have the up-front capital or credit scores to invest in a new project or program. It is essential to be well informed about the guiding legal frameworks and aware that this tension may exist. Be prepared to ask to see the legal documentation that determines project eligibility and governs procurement practices. Being informed about how TIF works, the local ordinances and state legislation governing it, and the past practices of the local government will go a long way in determining if your project is truly ineligible or whether you should make the case for altering operating practices. Minor administrative barriers should not stand in the way of democratizing this important tool and spreading around the benefits of public spending.



# Conclusion

Participatory budgeting (PB) is a different way of engaging residents in local government and in managing public resources. Through their participation, residents learn how local government works, the constraints around the eligible and ineligible uses of different sources of public dollars, and the actual costs of projects. They learn first-hand about the challenges of trying to meet the many and varied community needs with a limited amount of public resources available. Through PB, local government is able to gather critical information about the most pressing community needs and rebuild trust through higher levels of transparency and accountability.

Throughout the world, PB has been used to make decisions around public dollars at schools, universities, public housing developments, nonprofit organizations, and municipalities. In Chicago, PB has primarily taken place in wards with local discretionary infrastructure dollars. These processes have been successful in addressing local infrastructure needs. However, many of the most pressing needs in low-income communities include job training, small business development and affordable housing. The West Humboldt Park (WHP) pilot process was the first experiment in Chicago that used PB to allocate TIF funds, opening up the use of PB to address community needs beyond infrastructure.

The WHP pilot successfully engaged the *unusual* suspects, residents that do not normally participate in community affairs. Through their participation, residents created community projects designed to meet critical needs, learned about their community and how local government works and developed additional civic knowledge and skills. While there is additional work to be done around the contracting and implementation of the winning projects in WHP, this pilot has provided a beginning blue print for

democratizing how TIF funds are allocated in Chicago and in other cities. By promoting civic engagement and government transparency while tapping into local knowledge and creativity, PB is an important tool for maximizing the community benefit of TIF funds as well as other discretionary public resources in any community.

# Endnotes

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[http://www.cdfa.net/cdfa/cdfaweb.nsf/ord/04e69da5ba83aa928825793600673d2f/\\$file/tif%20alm%207%2003.doc](http://www.cdfa.net/cdfa/cdfaweb.nsf/ord/04e69da5ba83aa928825793600673d2f/$file/tif%20alm%207%2003.doc)

ii See also <http://www.cookctyclerk.com/tsd/tifs/Pages/TIFs101.aspx>

iii They may be attracted because of the inherent desirability of the location. The “but for” requirement is intended to guard against this last scenario as it is the TIF-funded public incentives that are supposed to be the draw. If a developer would have been attracted to the site without assistance, it is less clear that the “but for” requirement has been met.

iv The impact of TIF on these overlapping bodies is mediated by tax caps (such as Illinois’ Property Tax Extension Limitation Law, or PTELL), transfers of TIF funds between government agencies, and each state’s school aid equalization formula.

v <https://www.portlandoregon.gov/phb/article/428250>  
<http://efiles.portlandoregon.gov/webdrawer/rec/4592422/view/TIF%20Set%20Aside%20Ordinance%20Packet%202011%20Policy%20Review.PDF>

vi [http://www.takebackstlouis.com/judge\\_rules\\_again\\_with\\_peabody](http://www.takebackstlouis.com/judge_rules_again_with_peabody)  
[http://www.takebackstlouis.com/take\\_back\\_st\\_louis\\_appeals\\_judge\\_s\\_ruling\\_on\\_b allot\\_initiative](http://www.takebackstlouis.com/take_back_st_louis_appeals_judge_s_ruling_on_b allot_initiative)

vii Practicing Freedom, <http://www.practicingfreedom.org/offerings/popular-education/>

viii Smith, M., <http://infed.org/biblio/b-praxis.htm>