

Federal, State and Municipal Programs Used to Stimulate Entrepreneurship in Distressed Areas of Chicago

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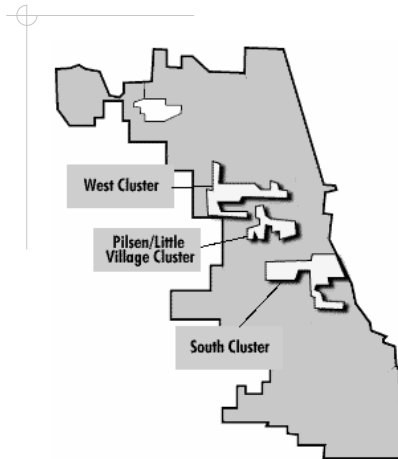
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Zone-based Programs:

- ◆ Empowerment zones
- ◆ Enterprise zones
- ◆ Tax increment financing (TIF) zones
- ◆ Industrial corridors
- ◆ Chicago West Side Entrepreneurship Center (CWSEC)

Chicago Empowerment Zone:



- ◆ Federal
- ◆ 1994: 1 of 6
- ◆ Strategic revitalization plan
- ◆ 14.3 miles²
- ◆ 199,938 residents
- ◆ 72% black; 24% Latino

Empowerment Zone Benefits:

- ◆ \$100M federal grant
- ◆ \$39M state and city commitments
- ◆ Priority consideration for federal programs
- ◆ Tax incentives for private investment/jobs
 - Approx. \$250M 10 yr. aggregate
 - (e.g. tax exempt financing, wage/training credits for zone residents; increased deduction for equipment; environmental cleanup; low income housing credits, education bonds)

Use of Empowerment Zone Benefits by Small Businesses (<50 employees):

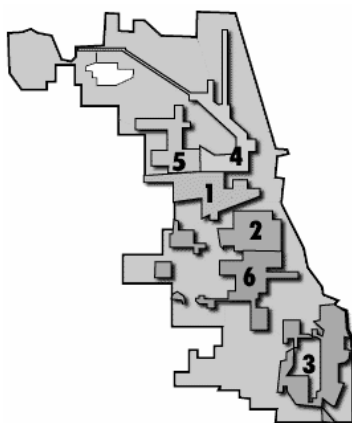
Among 9 of 21 urban empowerment zones:

- ◆ 12,854 small businesses (95%) / 585 large
- ◆ 10% (1,285) of small businesses participated
- ◆ 46% (269) of large businesses participated

Reasons small businesses didn't participate:

- ◆ Didn't know about it; employed "outsiders"; employed family; too complicated; no tax liability; investment was too small or large
(1999 GAO Report to Congress)

Chicago Enterprise Zones:

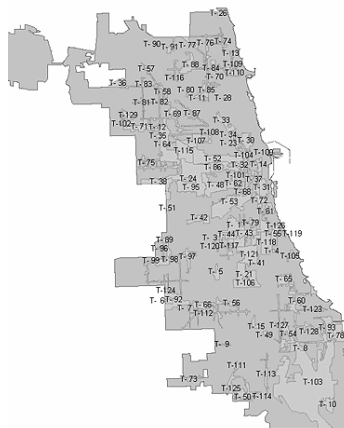


- ◆ State funded
- ◆ City selected
- ◆ "Declining areas"
- ◆ 30 year designation
- ◆ 1983-2001:
 - >190,000 new jobs
 - >23,000 firms assisted

Enterprise Zone Benefits:

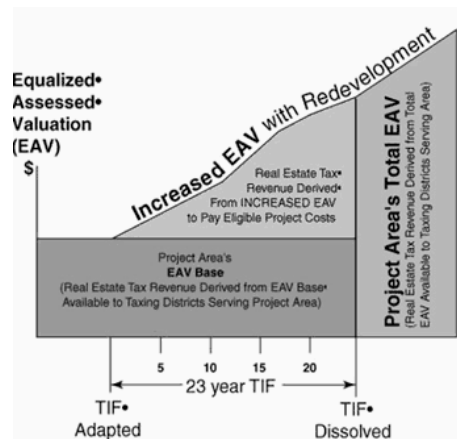
- ◆ Finance assistance (grants; 10k-750k loans)
- ◆ Sales tax exemption
- ◆ Property tax reduction
- ◆ Real estate transfer tax exemption
- ◆ Investment tax credit
- ◆ State jobs creation credit
- ◆ Equipment sales tax exemption
- ◆ Utility tax exemption
- ◆ Priority consideration for state programs

Chicago TIF Zones:



- ◆ City selected
- ◆ 129 zones
(1.5 acres min.)
- ◆ >25% of city acreage
- ◆ c. 13.5% of tax base
- ◆ 23 Year designation
- ◆ 1st TIF = "Loop"

How TIF works:



Benefits of TIF:

- ◆ Public improvements
- ◆ Development subsidies
- ◆ Interest subsidy
- ◆ Land acquisition
- ◆ Site preparation
- ◆ Building rehabilitation
- ◆ Priority consideration for city programs
(e.g. Micro loans; up to \$500K bank loans at 3%)

1984-1997 Results of TIF in Chicago According to City Reports:

- ◆ 1,100 housing units
- ◆ 4,912,600 ft² new commercial space
- ◆ 422,100 ft² rehabbed commercial space
- ◆ 791,800 ft² new industrial space
- ◆ 913,800 ft² rehabbed industrial space
- ◆ \$271,933,000 public investment
- ◆ \$1,713,980,000 private investment (86.3%)
- ◆ Retention of 22,150 jobs
- ◆ Creation of 6,400 new jobs
- ◆ \$270 million in incremental property taxes

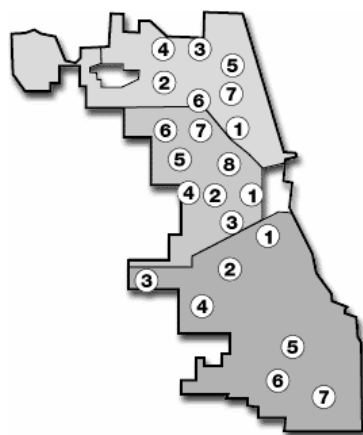
City of Chicago Report:

“It should be emphasized that all of these benefits are the direct result of the City’s use of tax increment financing. Without TIF, these project areas would not have been upgraded or redeveloped. In the absence of TIF, these areas would continue to be characterized by decline and disinvestment, and would continue to be neglected by the private sector development community”

Criticisms of TIF:

- ◆ Blight = "area not living up to its potential"
- ◆ School system, park district, county lose
- ◆ Tax base reduced if growth without TIF
- ◆ Cynical: Growth areas selected for TIF
- ◆ Cities with TIF have slower short term growth
- ◆ Unfair competition
- ◆ TIF growth from intra-city relocations
- ◆ Opportunity costs of inefficient resource use

Chicago Industrial Corridors:



- ◆ Municipal program
- ◆ 22 zones
- ◆ Community leaders
- ◆ Business leaders
- ◆ Corridor plans

Industrial Corridors:

Goals

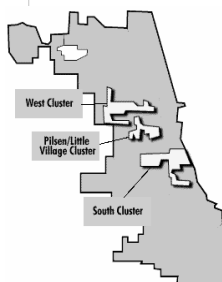
- ◆ Safety, accessibility, attractiveness
- ◆ Competitiveness

Benefits

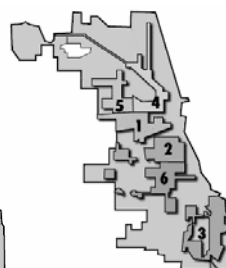
- ◆ Priority Consideration for city funding
- ◆ Site assistance

Zone Overlap:

Empowerment



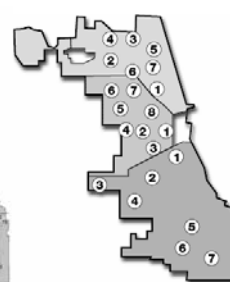
Enterprise



TIF



Industrial



Program Overlap:

	Empowerment Zone	Enterprise Zones	TIFs	Industrial Corridors
Commercial	X	X	X	
Industrial	X	X	X	X
Financing	X	X	X	
Infrastructure			X	
Site assistance	X	X	X	X
Tax incentives	X	X		
Community led	X			X

Chicago West Side Entrepreneurship Center CWSEC:

◆ State funded

◆ Initiated in 2003

◆ Partnership of:

- Department of Commerce and Economic Opportunity
- University of Illinois at Chicago
- Chicago Community Ventures

CWSEC Benefits:

- ◆ \$5,000 grants to pursue growth
- ◆ Consulting services
- ◆ Boot camps
- ◆ Links to partner resources

Strengths of Zone Programs:

- ◆ Resources, including some financing
- ◆ Good assistance with “bricks & mortar”
- ◆ BCG report: Money generally well spent
 - infrastructure, safety
- ◆ “Contiguous” communities fared well
- ◆ Flexibility
- ◆ “Rising tide that lifts all ships”

Weaknesses of Zone Programs:

- ◆ Measurement / baseline
- ◆ BCG report: Isolated/postindustrial neglect
- ◆ Not well publicized
- ◆ "Trickle down economics"
- ◆ Fragmentation / little coordination
- ◆ Little focus on start-ups
- ◆ Modest assistance
- ◆ Little job training or education
- ◆ Jobs often go to "outsiders"
- ◆ Gentrification=displacement

Recommendations:

- ◆ Coordinate and communicate efforts
- ◆ Devote great resources over long time period
- ◆ Focus more on start-ups and small businesses
- ◆ Emphasize job training for zone residents
- ◆ Emphasize affordable housing
- ◆ Control property tax increases