Economic Geography ›

Volume 86, 2010 - Issue 3

Original Articles

Selling City Futures: The Financialization of Urban Redevelopment Policy

Rachel Weber

Pages 251-274 | Published online: 22 Oct 2015

abstract

This article examines the specific mechanisms that have allowed global financial markets to penetrate deeply into the activities of U.S. cities. A flood of yield-seeking capital poured into municipal debt instruments in the late 1990s, but not all cities or instruments were equally successful in attracting it. Capital gravitated toward those local governments that could readily convert the income streams of public assets into new financial instruments and that could minimize the risk of nonpayment due to the actions of nonfinancial claimants. This article follows the case of Chicago from 1996 through 2007 as the city government subsidized development projects with borrowed money using a once-obscure instrument called Tax Increment Financing (TIF). TIF allows municipalities to bundle and sell off the rights to future property tax revenues from designated parts of the city. The City of Chicago improved the appearance of these speculative instruments by segmenting and sequencing TIF debt instruments in ways

that made them look less idiosyncratic and by exerting strong political control over the processes of development and property tax assessment. In doing so, Chicago not only attracted billions of dollars in global capital but also contributed to a dangerous oversupply of commercial real estate.

Key Words:

public finance | risk | real estate | Tax Increment Financing | capital switching

Acknowledgments

The author would like to thank her interview subjects for their cooperation and Andrew Greenlee, Jeremy Thompson, and Joanne Miller for their assistance with this article. Philip Ashton, Nik Theodore, three anonymous reviewers, and the editors of Economic Geography provided deep insight and sage advice.

Notes

1 RDAs are 100-plus page contracts approved by the city council and signed by the project developer. The bulk of RDAs are standard legal provisions governing the conduct of parties doing business with Chicago, but they also contain individualized terms for project financing as well as performance standards to which the City and the developer can be held. The RDAs that I reviewed were approved between 1996 and 2007 and represent about 12 percent of the total RDAs signed during this period.

2 These TIF districts tended to be initiated by the City (as opposed to developers), including the Stockyards, Reed Dunning, Goose Island, and the Sanitary and Ship Canal districts. The 15 bonded TIF districts (for which the City had issued $346.6 million of debt) generated 94 percent of the incremental tax revenues collected in all of Chicago's TIF districts in 1998 (Neighborhood Capital Budget Group 1998).

3 Almost all of Chicago's early TIF bonds sold uninsured and unrated. However, it became easier for the City to secure insurance and hence lower interest rates as it relied more on notes and resisted additional bond issuances. A TIF bond issuance in

1998, for example, carried the A-rated backing of ACA Financial Guaranty Corporation, which analysts agreed boosted the TIF bonds to "investment grade" (Shields 1998b). Insurance expands the universe of investors because some of the stigma of the unrated issuance is lifted.

4 This figure does not include projects financed by the Small Business Investment and Neighborhood Improvement Funds.

5 While laudable, city administration resisted additional public benefit obligations such as when, in 2006, the mayor vetoed what became known as the "Big Box Ordinance." This law would have required large-scale chain retailers to pay "living" wages (a minimum hourly wage of $10 and fringe benefits of $3 an hour). At the time, the retailer Target was the anchor tenant in several TIF-funded projects that were not yet complete, and it threatened to pull out of these deals if the ordinance became law. The mayor's veto placated Target and allowed the TIF projects to continue, albeit off schedule.

6 These figures are based on data provided by the Neighborhood Capital Budget Group (2006). On the other hand, bonds also come with significant coverage and debt service requirements, and the issuance costs can be higher than those for notes.

7 For example, the City increased its commitment from $41.6 million to $52 million in a $150.9-million mixed-use project on Chicago's North Side, called Wilson Yards, after the project experienced costly design changes, higher construction prices, and the loss of initial investors and retail tenants (Roeder 2008).