Is Tax Competition Strategic? Spatial Distributions of Business Property Tax Abatements in the Chicago Suburbs

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Research Questions

• What can the use of property tax incentives reveal about a city’s motivations?
  ➢ Reactive Perspective (Wilson, 1986; Zodrow and Mieszkowski, 1986)
  ➢ Leviathan Perspective (Brennan and Buchanan, 1980)
  ➢ Domestic Utility Maximization Perspective (Burbidge, Cuff, and Leach, 2006)
  ➢ Political Regimes Perspective (Stone, 1989)
  ➢ Business Imitating and Learning Perspective
  ➢ Spatial Trends Perspective

• Are business tax incentives bundled?

• Study spatial patterns of incentives in Cook County, Illinois to compile evidence as to whether abatements occur with strategic intent
Cook County Context

Most populated Illinois County (5.2 m residents)

County approves tax abatements
127 independent municipalities can initiate requests

Consolidated property tax rates range from 7 to 38%

On average, Illinois counties must assess 33% of MV
Cook County assesses residential 10%
commercial and industrial 25%
Cook County multiplier 2.72 in 2014

Business in highest tax rate location taxed >25% MV

433 Tax Increment Financing Districts

17 Enterprise Zones
## Business Parcels Receiving Incentives

<table>
<thead>
<tr>
<th>Incentive</th>
<th>Number of Business Parcels</th>
<th>Estimated Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012</td>
<td>2013</td>
</tr>
<tr>
<td>Industrial Abatements</td>
<td>1,967</td>
<td>1,971</td>
</tr>
<tr>
<td>Commercial Abatements</td>
<td>383</td>
<td>410</td>
</tr>
<tr>
<td>Parcels in TIF Districts</td>
<td>35,629</td>
<td>35,619</td>
</tr>
<tr>
<td>Parcels in EZs</td>
<td>30,670</td>
<td>30,567</td>
</tr>
<tr>
<td>Abatements in TIF Districts</td>
<td>873</td>
<td>819</td>
</tr>
<tr>
<td>Abatements in EZs</td>
<td>1,306</td>
<td>1,274</td>
</tr>
<tr>
<td>Abatements in Combined TIF/EZ</td>
<td>687</td>
<td>630</td>
</tr>
<tr>
<td>Industrial Parcels</td>
<td>26,238</td>
<td>26,016</td>
</tr>
<tr>
<td>Commercial Parcels</td>
<td>66,639</td>
<td>66,519</td>
</tr>
</tbody>
</table>

Spatial Statistics Tests

• Are Abatements Clustered?
• Are Abatements Concentrated Near Municipal Borders?
• Are Abatements Concentrated Near TIF Districts?
• Are Abatements Concentrated Near Enterprise Zones?
Approach

1. Calculate bilateral distances between all pairs of abatement awards for an industry (commercial or industrial)
2. Estimate the kernel density of bilateral distances for the particular abatements (with and without property assessed values as weights)
3. Construct 1,000 counterfactuals from Monte Carlo Simulation of what probability density would look like if abatements were awarded randomly
4. Is distribution more clustered than expectation under randomness?
Are Abatements Clustered?

Industrial
- Properties with Chicago
- Properties without Chicago

Commercial
- Properties with Chicago
- Assessed Values without Chicago
Are Abatements Concentrated Near Municipal Borders?

Properties with Chicago

Properties without Chicago

Assessed Values without Chicago
Are Abatements Concentrated Near TIF Districts?

Properties with Chicago

Properties without Chicago

Assessed Values without Chicago
Are Abatements Concentrated Near Enterprise Zones?

Properties with Chicago

Properties without Chicago

Assessed Values without Chicago
Local Indicators of Strategy

Abatement Clustering

Location Near TIF

Location Near EZ

Dispersed

Clustered

-0.20  -0.05  0.05  0.20
Conclusions

1) Multiple types of incentives are often awarded to the same businesses and properties
2) Statistically significant clustering of abatements at municipal scales for both industrial and commercial, but clearer for commercial
3) No evidence of concentration near borders
4) Some evidence of concentration near TIF districts and stronger evidence of concentration near EZs
5) Evidence suggests local strategies
QUESTIONS?

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