

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%

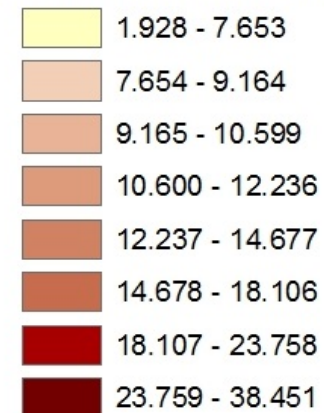
Cook County multiplier 2.72 in 2014

Business in highest tax rate location taxed >25% MV

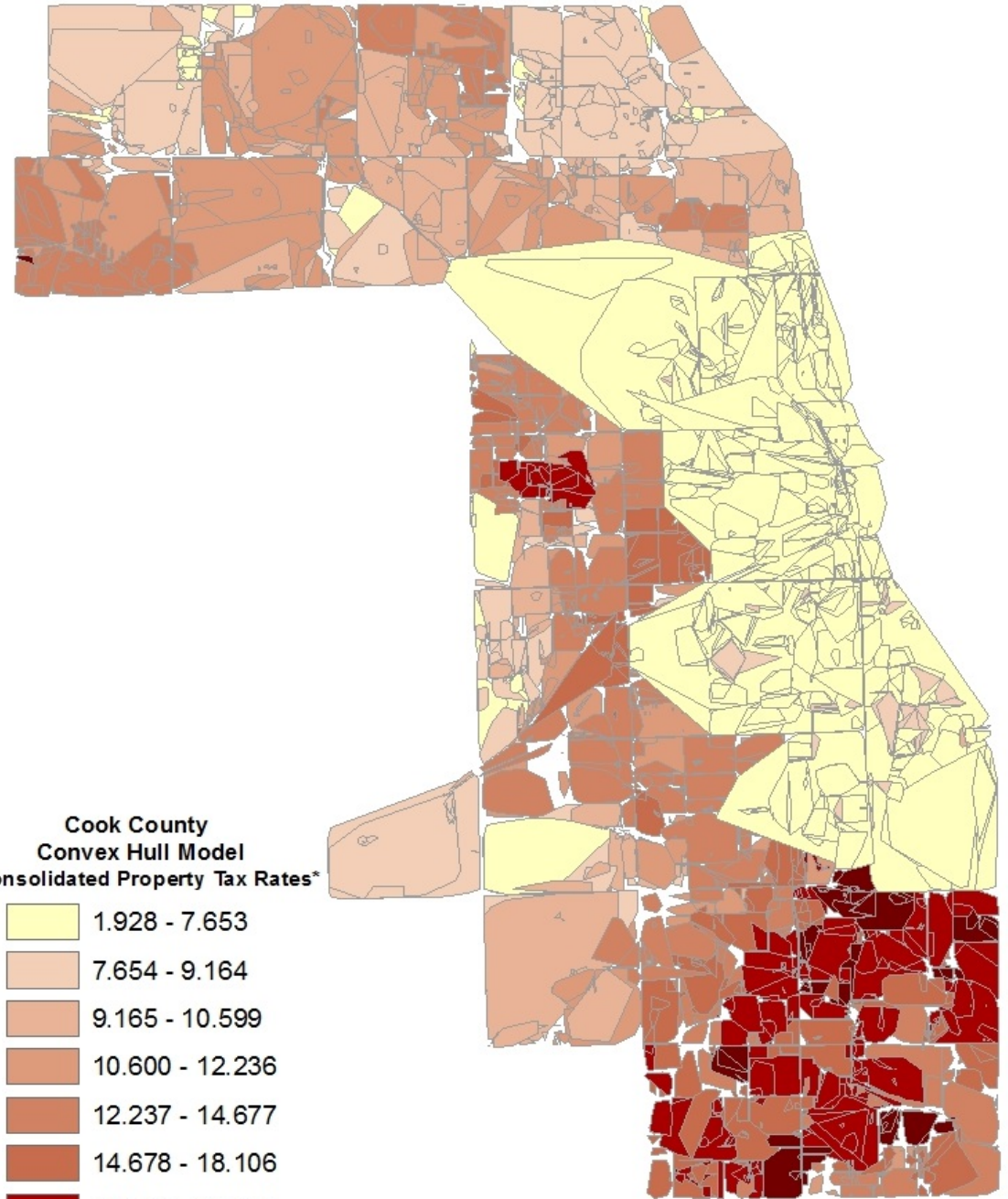
433 Tax Increment Financing Districts

17 Enterprise Zones

Cook County
Convex Hull Model
Consolidated Property Tax Rates*



*Statutory Rates not adjusted for mix of property classes;
although classes have varying assessment ratios



Business Parcels Receiving Incentives

Incentive	Number of Business Parcels			Estimated Value
	2012	2013	2014	2014
Industrial Abatements	1,967	1,971	2,070	\$195,000,000
Commercial Abatements	383	410	457	\$ 55,200,000
Parcels in TIF Districts	35,629	35,619	36,593	\$644,000,000
Parcels in EZs	30,670	30,567	30,373	
Abatements in TIF Districts	873	819	925	
Abatements in EZs	1,306	1,274	1,333	
Abatements in Combined TIF/EZ	687	630	645	
Industrial Parcels	26,238	26,016	25,832	
Commercial Parcels	66,639	66,519	66,378	

Drucker, J., R. Funderburg, D. Merriman, and R. Weber. 2018. The Use of Business Property Tax Incentives in Cook County, Illinois. Institute of Government and Public Affairs, University of Illinois. Available at: <https://igpa.uillinois.edu/report/Business-Taxation>.

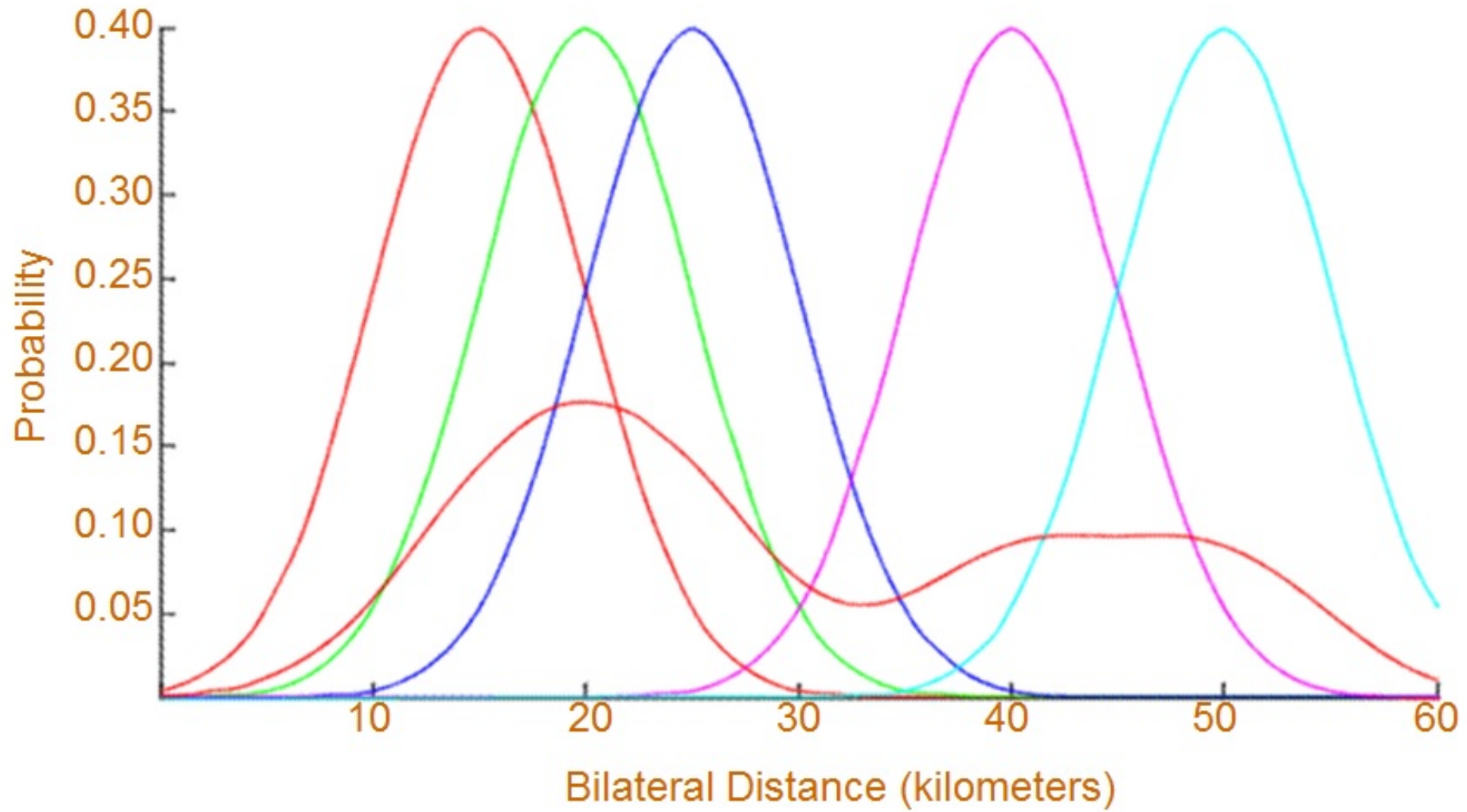
Spatial Statistics Tests

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

Approach

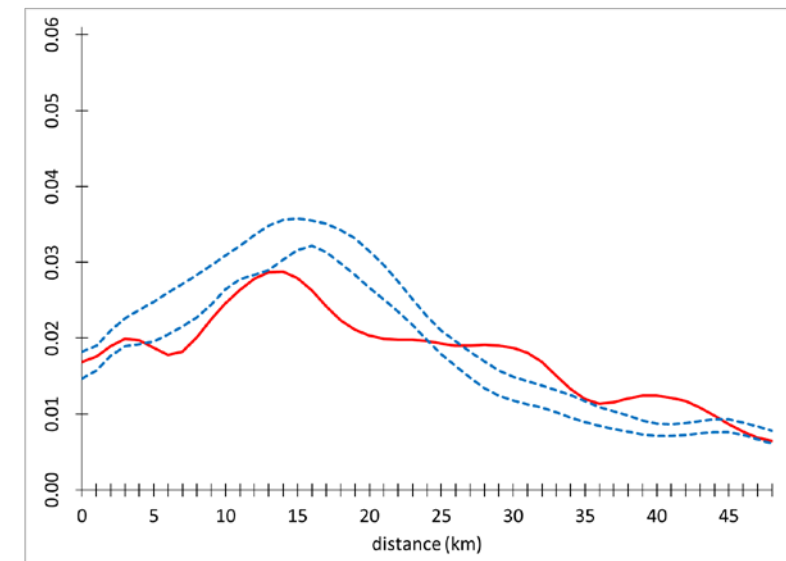
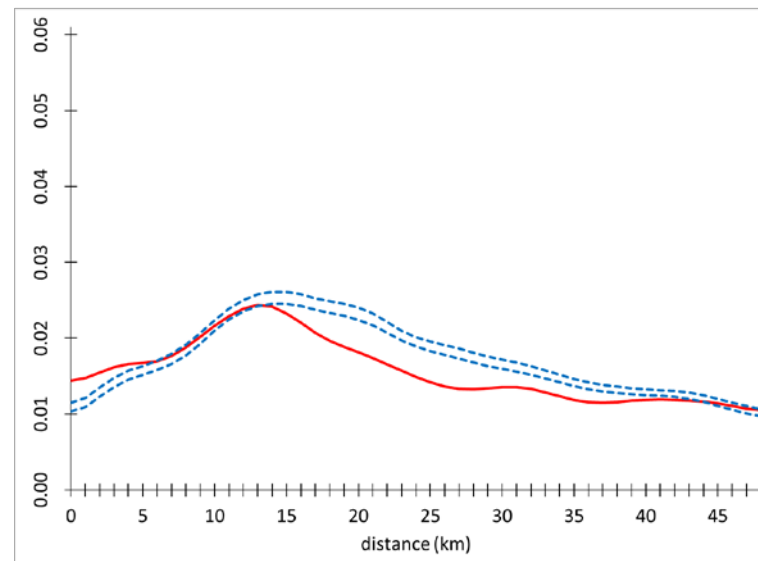
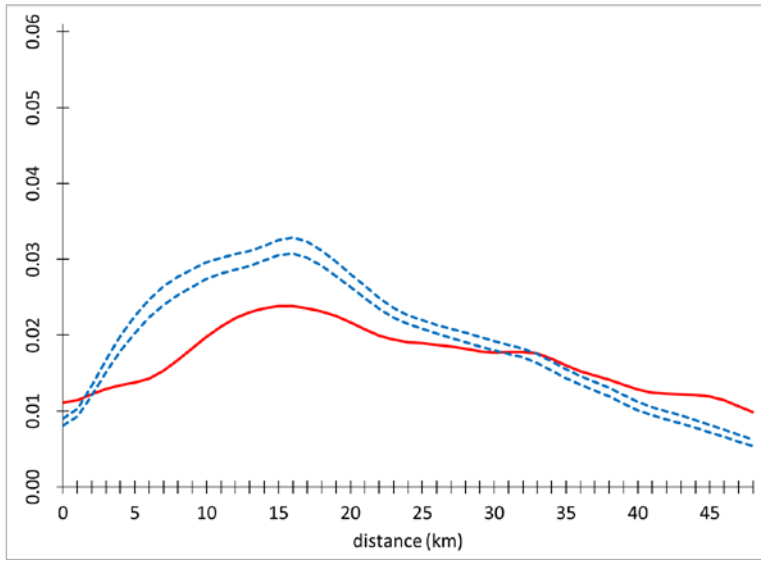
1. Calculate bilateral distances between all pairs of abatement awards for an industry (commercial or industrial)
2. Estimate the kernel density of bilateral distances for the particular abatements (with and without property assessed values as weights)
3. Construct 1,000 counterfactuals from Monte Carlo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

Normal Kernel Density

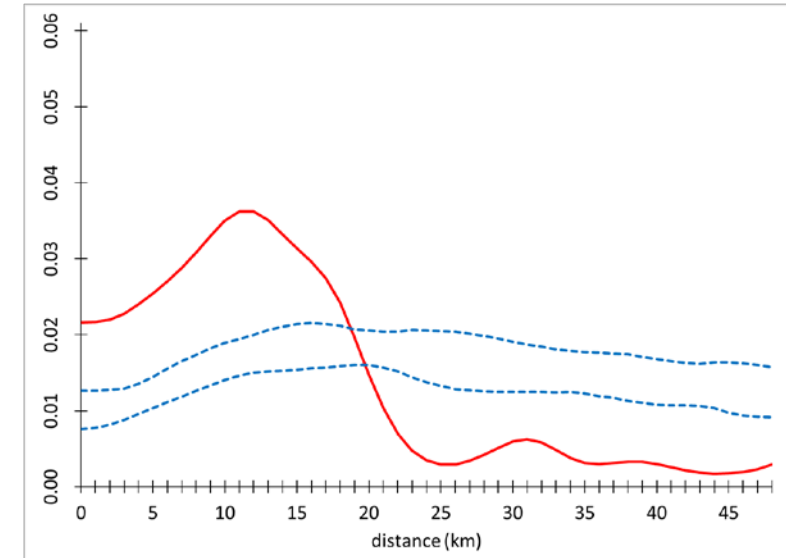
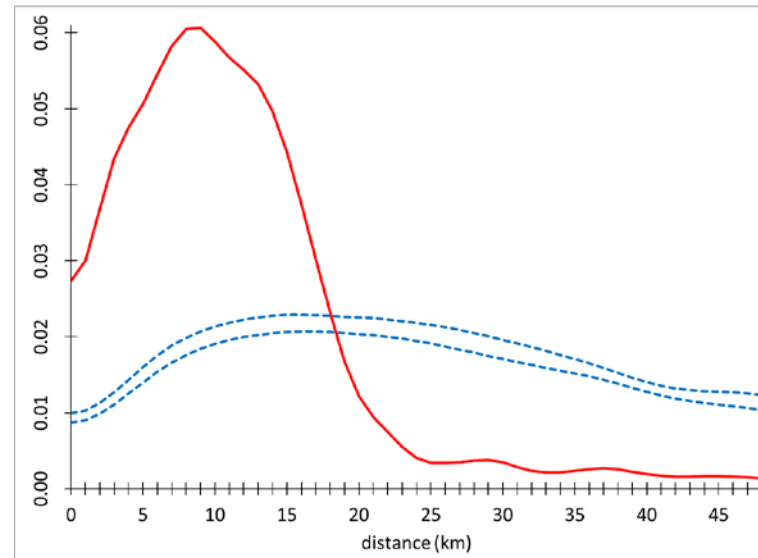
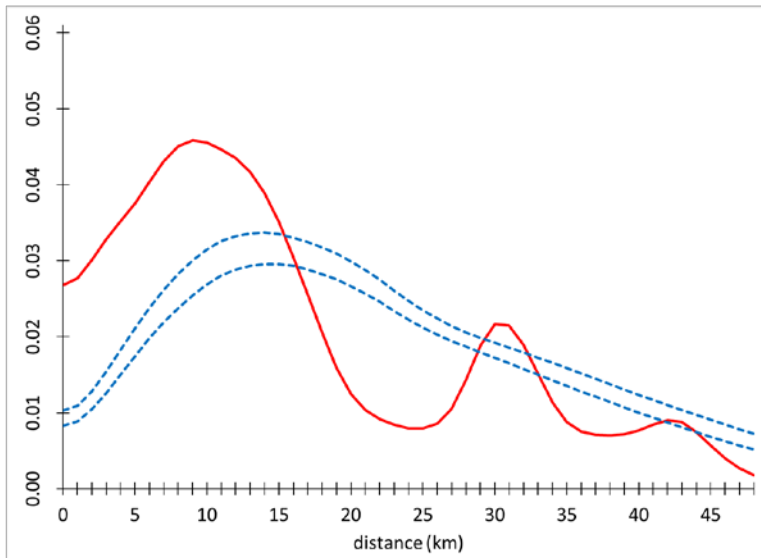


Are Abatements Clustered?

Industrial



Commercial

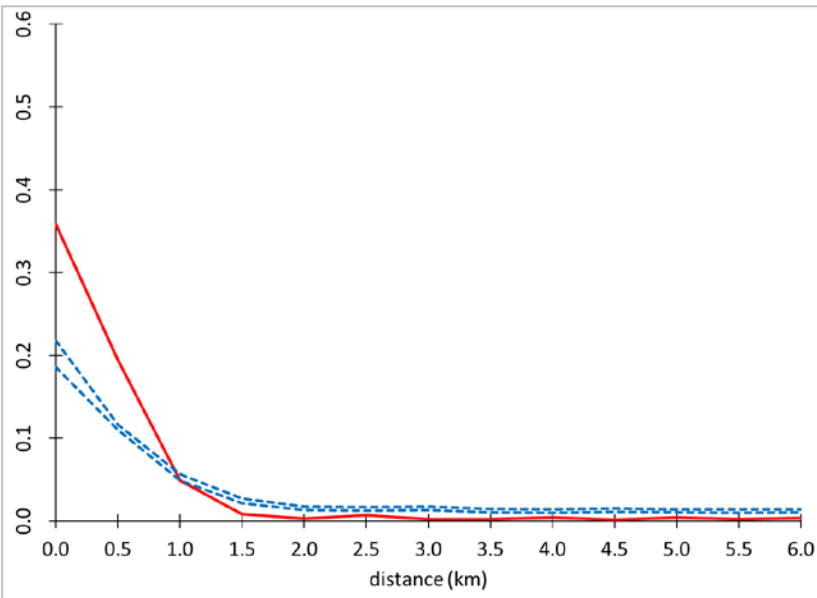


Properties with Chicago

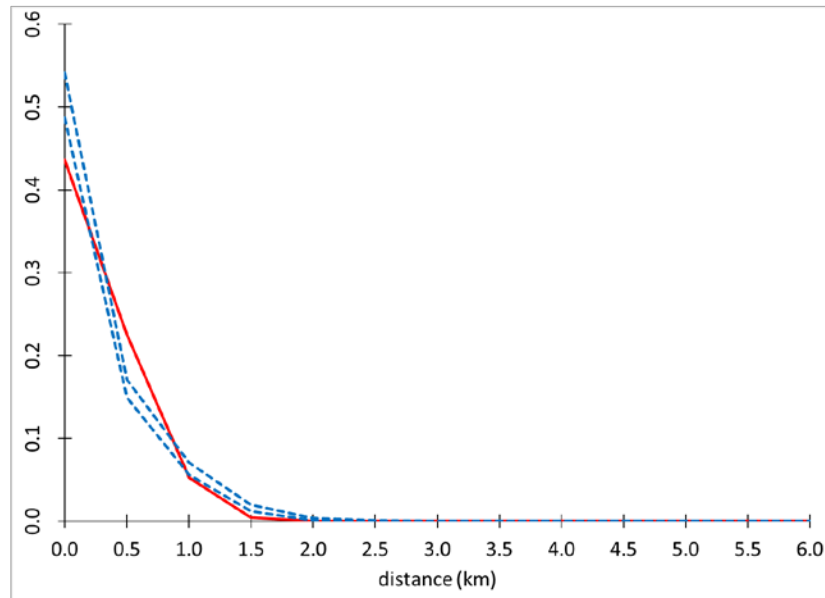
Properties without Chicago

Assessed Values without Chicago

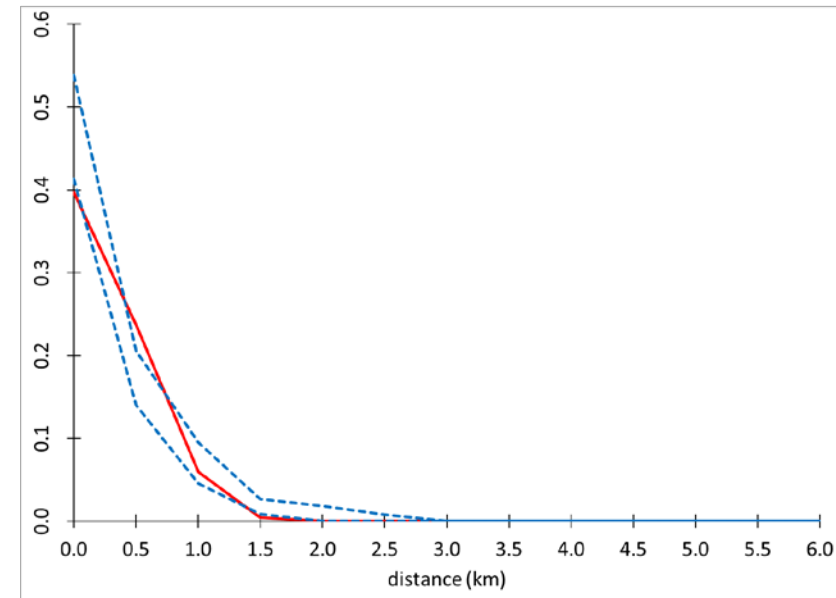
Are Abatements Concentrated Near Municipal Borders?



Properties with Chicago

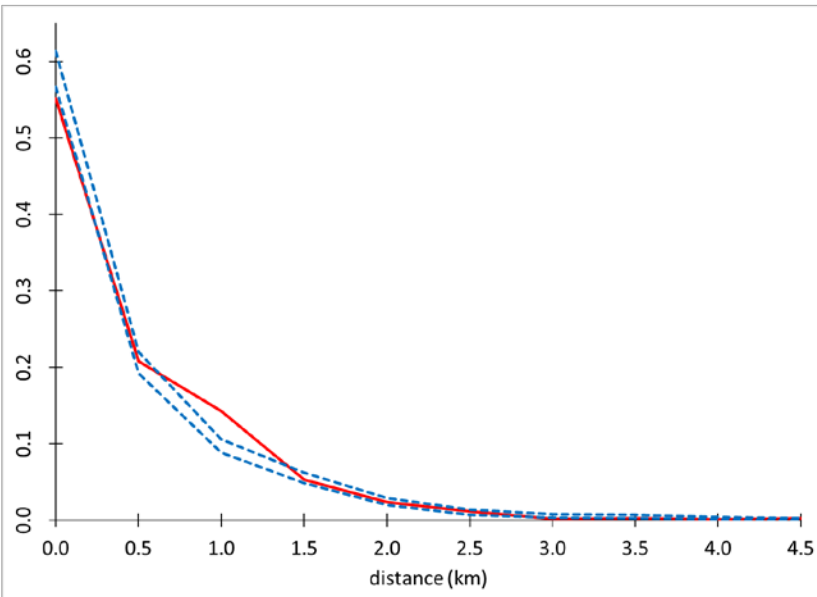


Properties without Chicago

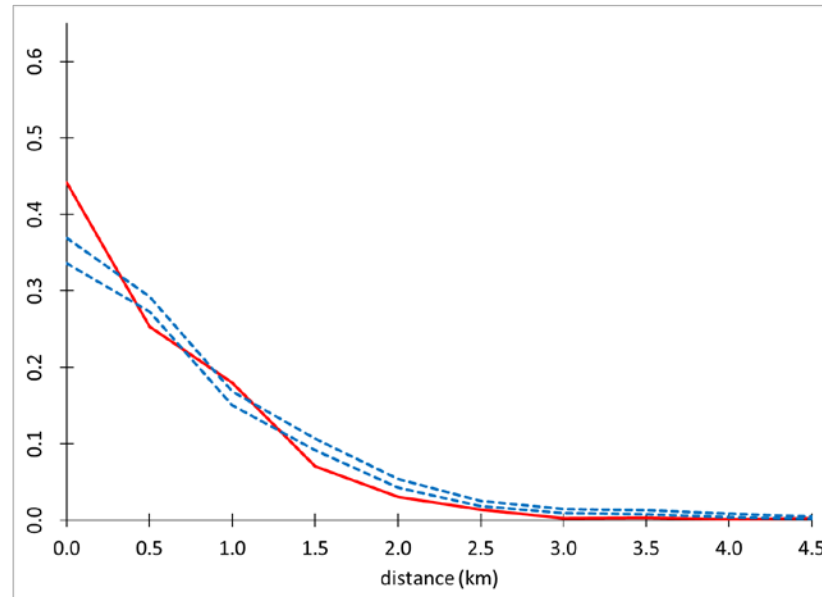


Assessed Values without Chicago

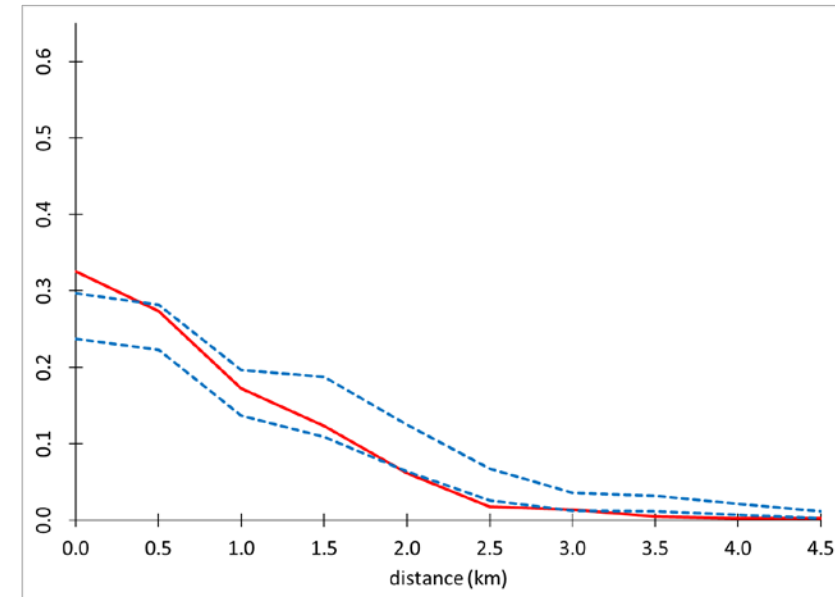
Are Abatements Concentrated Near TIF Districts?



Properties with Chicago

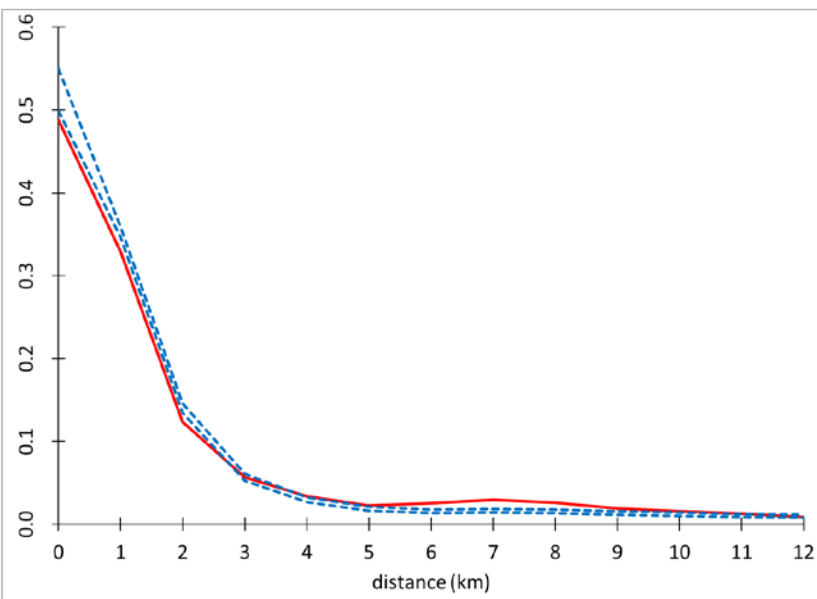


Properties without Chicago

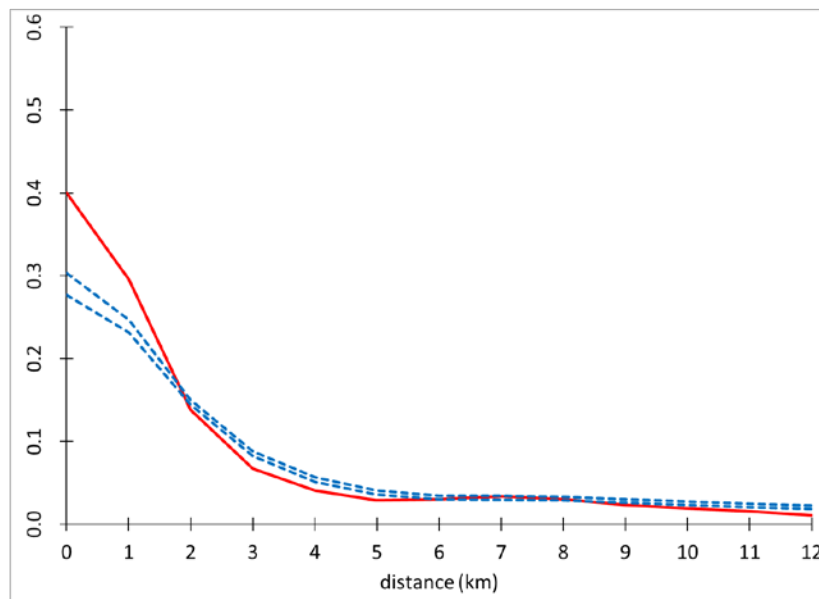


Assessed Values without Chicago

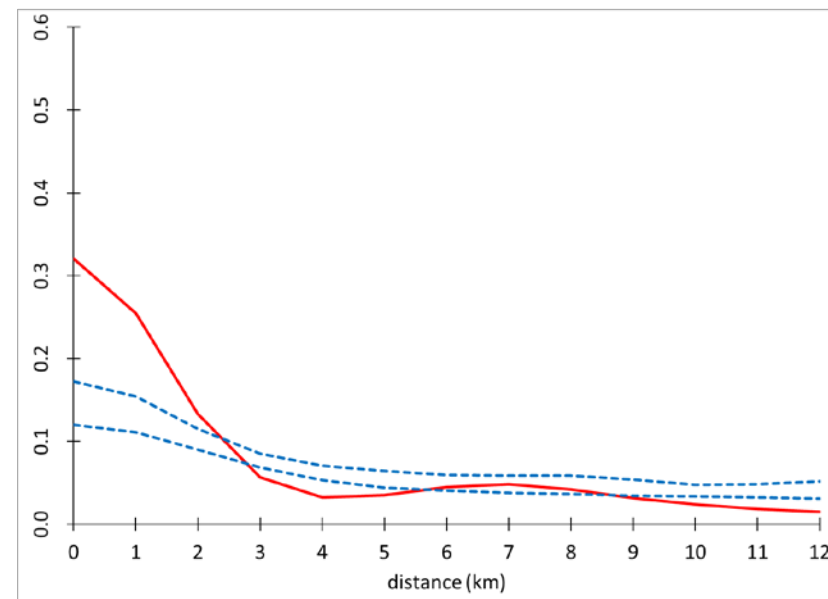
Are Abatements Concentrated Near Enterprise Zones?



Properties with Chicago

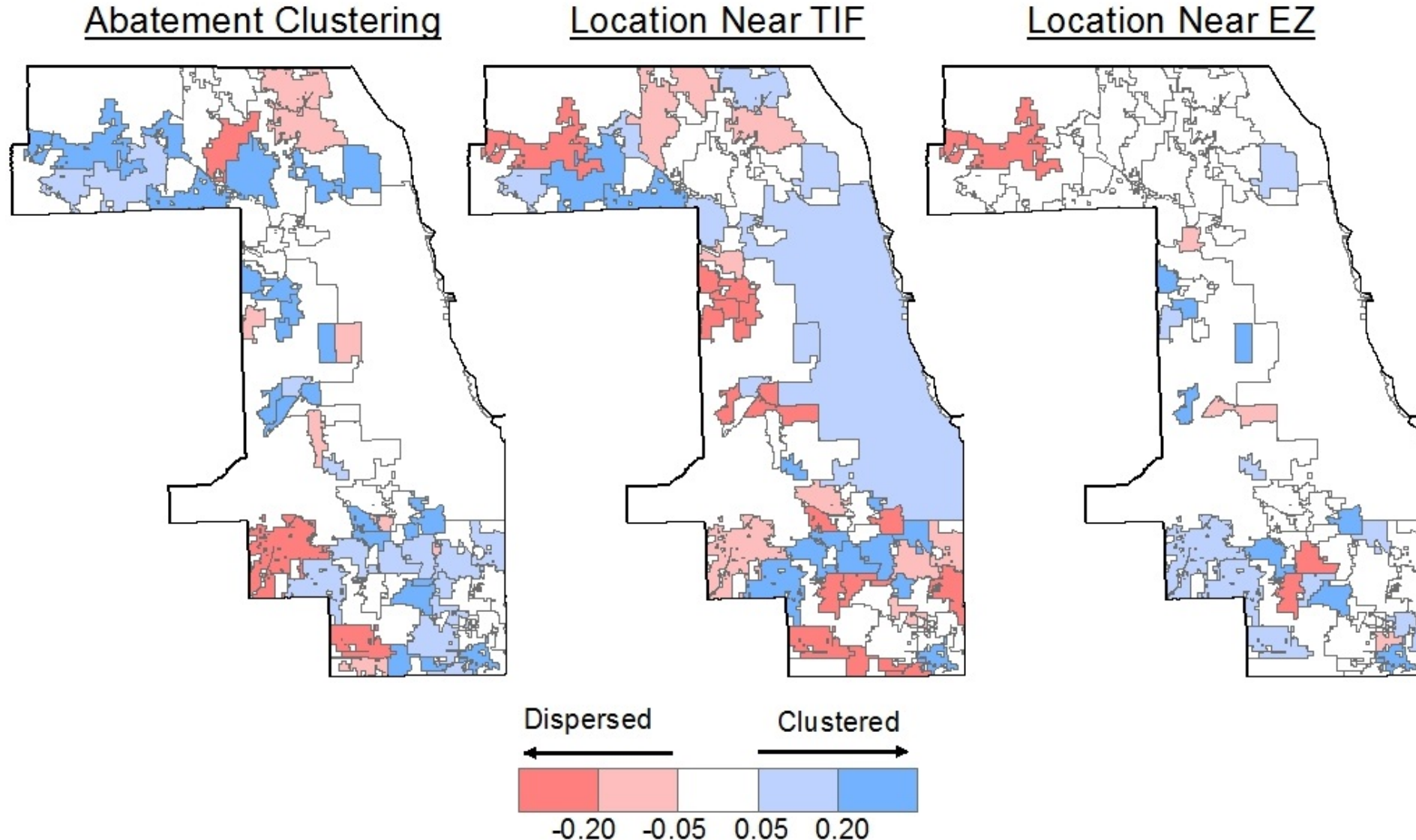


Properties without Chicago



Assessed Values without Chicago

Local Indicators of Strategy



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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