OFFICE OF THE INSPECTOR GENERAL

City of Chicago

REPORT OF THE INSPECTOR GENERAL'S OFFICE:

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REVIEW OF WORLD BUSINESS CHICAGO AND THE TIF APPROVAL PROCESS

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To the Mayor, Members of the City Council, the City Clerk, the City Treasurer, and the residents of the City of Chicago:

The Inspector General's Office (IGO) has conducted a review of World Business Chicago's (WBC) involvement in the City's approval of Tax Increment Financing (TIF) proposals. WBC is a City-funded economic development organization. WBC routinely submits to the City letters in support of corporations applying for TIF funds. The City, in turn, relies on WBC's letters as evidence of community support for the proposed TIF projects. The IGO has determined that WBC lacks an effective conflicts of interest policy necessary to ensure the integrity of the organization's recommendations to the City. The IGO further recommends that, as currently configured, WBC should discontinue its practice of submitting letters in support of specific TIF subsidies and the City should not rely on WBC's letters as evidence of community support because (1) WBC is headed by the Mayor and is dependent upon the City for the majority of its funding it therefore is not an independent organization; (2) WBC engages in minimal analysis of the merits of the TIF proposals for which it advocates; and (3) WBC directors who are active officers or directors of corporations each owe a fiduciary duty to their own companies, creating possible conflict of interest in WBC's evaluation of and advocacy for certain TIF proposals.

In 2009, WBC staff advocated for the approval of significant TIF subsidies for two major corporations—CME Group and United Air Lines—despite the fact that the companies' executives were then serving on WBC's board of directors. WBC did not disclose the apparent conflict of interest to the City and had no policy mandating disclosure or otherwise governing this conflict. The IGO makes no finding of wrongdoing on the part of WBC, United, or CME Group. But given the persistent concerns regarding transparency in the City's TIF program, the IGO recommends, at a minimum, that the Office of Budget and Management (OBM) or the Mayor as WBC Chairman require WBC to adopt a rigorous conflict of interest policy. This policy should require WBC to disclose potential conflicts when making recommendations for City action—including the approval of TIF funds—in which its employees, volunteers, officers, or directors have a financial interest.

WBC's unique ties to the City in both its structure and mission and its integral role in the TIF approval process make efforts to ensure transparency and integrity in its operations especially important. WBC's letters in support of specific TIF applications are issued by an organization funded by the City and chaired by the Mayor, and urge the Department of Housing and Economic Development (HED) and the Community Development Commission (CDC)—two components of the City both governed by Mayoral appointees—to approve City TIF subsidies for private corporations. The corporate nature of WBC's governing board further calls into question the organization's ability to effectively recruit a broad range of businesses to Chicago and to advocate for TIF assistance for businesses that would best serve the goals of the TIF program. Given this current structure and lack of an effective conflicts policy, the IGO concludes that WBC should discontinue its practice of submitting letters in support of specific TIF subsidies, and the City should not consider WBC's recommendations as evidence of community support for specific TIF subsidies.

As always, I welcome ideas your ideas comments, suggestions, questions, and criticisms.

Respectfully,

Joseph M. Ferguson
Inspector General
City of Chicago

I. INTRODUCTION: WORLD BUSINESS CHICAGO

World Business Chicago (WBC) was established in 1999 as an initiative of Mayor Richard M. Daley. The organization is chaired by the Mayor of Chicago and governed by a board of influential Chicago business leaders.[1] Today, WBC has a staff of approximately 15. The City's annual grant to WBC constitutes approximately 60% of WBC's total revenue, while the WBC board of directors raises the remaining 40% in private grants.[2] Each year since 2003, the City, through the Office of Budget and Management (OBM), has awarded WBC a grant, P.O. 6346, which in 2011, totaled $1.4 million. In 2010, WBC was awarded P.O. 22157, a grant of $8.4 million administered by the OBM for the management of Chicago Career Tech, a technology training program for displaced white-collar workers.[3]

From the outset, WBC was intended to be a pro-business group of Chicago business leaders who would collaborate with City government to spur economic growth in Chicago. WBC relies on its board members to reach out directly to prominent business executives to encourage them to choose a Chicago location. Board members are further expected to raise money for WBC. As a "public/private partnership," WBC works to attract and retain jobs, market the City of Chicago as a business-friendly destination, and provide economic and industry data, including state and local governmental incentives. Often the first organization to meet with potential businesses looking to relocate to Chicago, WBC provides those businesses with site-location assistance and facilitates meetings with various governmental representatives to outline the types of governmental assistance available.

II. WORLD BUSINESS CHICAGO AND THE TIF APPROVAL PROCESS

One of the key governmental incentives that WBC cites to attract business development to Chicago is the City's TIF program. Within its 150-plus TIF districts, the City is permitted to reimburse businesses for certain statutorily eligible redevelopment costs.[4] To apply for TIF assistance, a developer must submit an application to the Department of Housing and Economic Development (HED). Once HED determines that the project meets the criteria for TIF assistance, HED will work with the developer to advance the application to the Community Development Commission (CDC), a review body of 15 members appointed by the Mayor and confirmed by the City Council. The CDC provides recommendations regarding TIF proposals to the City Council, which must provide formal legislative approval for all TIF assistance.

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[1] On July 12, 2011, as this report was being finalized, Mayor Emanuel was announced as Chairman of WBC along with the addition of 35 new board members. The Mayor also announced changes to WBC's structure, none of which appear to address the issues raised here.

[2] Information provided in this report was gathered in part during a May 2010 IGO interview of a senior, WBC managerial employee. Additional information may be found at the World Business Chicago website, http://www.worldbusinesschicago.com.

[3] Chicago Career Tech, "About Us" http://www.chicagocareertech.com/about-us/.

[4] *See* 65 ILCS 5/11-74.4-3(q).

WBC documents obtained by the IGO reveal WBC's close involvement in negotiating TIF assistance for select corporations. WBC works with mostly large, established companies seeking to develop or renovate real estate in the central business district or surrounding areas. A senior manager of WBC described the organization's role as that of a "business advocate," which attempts to highlight the strengths a business will provide to Chicago. WBC does not appear to have a formal vetting process for deciding whether to work with a particular company or whether to advocate for a particular project. WBC records do not reveal any comparative or cost-benefit analysis of the relative merits of TIF funding for a particular project. Rather, WBC staff limit their evaluations to the narrow question of whether a proposed project meets the basic legal requirements for TIF funding, an evaluation also performed by the City itself.

The documents further establish WBC's close partnership with HED in the TIF process. WBC is included in the negotiation of the terms of TIF assistance for the companies with which it works, arranges meetings between corporate representatives and City employees and officials, and works with City officials to reach agreement on specific terms of TIF deals.

As part of the TIF process, WBC routinely submits formal letters to HED in support of businesses' applications for TIF funding. These letters are in turn submitted to the CDC as evidence of community support for a proposed TIF redevelopment agreement. From 2005 through 2010, WBC submitted to HED approximately 12 letters of support for TIF applications from various entities, including Accretive Health, ArcelorMittal USA, Block 37, CareerBuilder.com, CME Group, CNA, MillerCoors, NAVTEQ, United Air Lines, Willis Group, and The Ziegler Companies.[5] WBC's letters of support are each signed by WBC's executive director and follow a standard template. They state that they are written "on behalf of World Business Chicago," and detail the prospective public benefits of the TIF subsidies, citing positive economic impacts such as job retention and creation. WBC records reflect these letters are issued without any formal action by WBC's board of directors.

On two occasions, WBC did not disclose an apparent conflict of interest with respect to its letter of support for a TIF application submitted to the City. In 2009, WBC provided letters of support for the TIF applications of CME Group and United Air Lines, which had its Chairman and CEO, respectively, on the WBC board at the time the letters were written. In each case, WBC's letter advocated for the City's administrative and legislative approval of the corporation's TIF funding proposal without disclosing that the Chairman/CEO of the corporation that would receive the benefit was a member of the WBC board of directors.

The IGO identified two relevant conflicts of interest policies applicable to WBC. The first is WBC's representation in its main operating grant that no *City employee* has a personal interest in or will participate in any decisions regarding WBC if that individual has a conflict of interest.[6] The second is a policy adopted by the WBC board in January 2010 to govern conflicts of interest of *WBC board members* regarding official board actions. That policy requires disclosure of any conflict that a board member may have with respect to a board vote. Neither

[5] During the relevant time period, WBC's letters were addressed to HED as well as HED's predecessors, the Department of Community Development and the Department of Planning and Development.
[6] P.O. 6346, § 3.9.

policy addresses potential conflicts that WBC board members or employees may have with respect to any WBC business with the City not requiring a formal board resolution.

A. WBC Letter in Support of CME Group's TIF Application

On August 26, 2009, the Executive Director of WBC sent a letter to the Acting Commissioner of the Department of Community Development (now HED) "in support of CME Group's application pertaining to the LaSalle Central Tax Increment Financing District." At that time, the chairman of CME Group was serving on WBC's board of directors. The CME Group had submitted an application to the Department of Community Development seeking TIF funding for the renovation of its corporate headquarters and trading space. WBC's letter of support begins by noting that "CME Group is at the heart of Chicago's financial sector prominence as the world's leader in risk-management" and that the company employed 1,750 people in Chicago and had committed to create another 900 jobs in Chicago over the next 10 years. The letter asserts that Chicago was "fortunate" that CME Group had decided to remain headquartered in Chicago following its 2007 merger with the Chicago Board of Trade. The letter notes that Atlanta's Intercontinental Exchange had also bid for the Chicago Board of Trade and that a successful bid "would have likely resulted in job losses for Chicagoans." "On behalf of World Business Chicago," the letter concludes, "we are very pleased to be working in conjunction with the Department of Community Development to support an incentive to retain and grow CME Group's world headquarters and 2,650 jobs in the City of Chicago."

As detailed in the Department of Community Development's Staff Report to the CDC, CME Group sought $15 million in TIF funds for the building renovations.[7] As part of that application, CME Group committed to maintain its corporate headquarters in its current location and to retain no less than 1,750 positions at the location for 10 years. CME Group further committed to create approximately 900 new positions by the 10 years' end. The Staff Report cites WBC's letter of support as well as a letter from the Second Ward Alderman as evidence of community support for the project and attached the letters as exhibits. Based on the Staff Report, the CDC provided initial approval of CME Group's application and formally recommended to the City Council that it authorize the Department of Community Development to negotiate a redevelopment agreement. To date, however, the redevelopment agreement to provide CME Group with TIF assistance has not been approved by City Council.

B. WBC Letters in Support of United Air Lines' TIF Applications

Also in August 2009, WBC's executive director issued a letter of support for United Air Lines, Inc. and its "application pertaining to the LaSalle Central Tax Increment Financing District and grant request for the company's operations center relocation." When WBC issued the letter, United's chairman and CEO had been serving on WBC's board of directors since 2008. In its letter of support, WBC notes that the relocation of United's operations center would bring at least 2,500 jobs to Chicago. WBC's letter asserts that the "direct positive economic

[7] City of Chicago Department of Community Development Staff Report to the Community Development Commission Requesting Developer Designation, Oct. 13, 2009, http://www.cityofchicago.org/content/dam/city/depts/dcd/tif/T_147_CMECDC.pdf.

impact that these jobs will bring far outweighs the amount of the public financial assistance package being offered." In closing, the letter states, "[o]n behalf of World Business Chicago, we are very pleased to be working in conjunction with the Department of Community Development to support this incentive package to attract United's operations center and 2,500+ jobs to the City of Chicago." In addition, WBC directly e-mailed a copy of the letter to the Chairman of the City Council's Finance Committee.

The Department of Community Development Staff Report to the CDC details United's request for TIF and city grant funds.[8] The application sought TIF funds of just over \$24 million for building renovations and \$1.5 million for job training as well as a \$10 million grant based on the projected amount of new taxes generated by United employees relocating to Chicago, for a "per job subsidy" of approximately \$14,356/job." United committed to relocate and maintain a minimum of 2,500 positions in Chicago for ten years. The Staff Report cites letters of support from WBC, the Chicagoland Chamber of Commerce, and the Second Ward Alderman as evidence of community support and includes the letters as exhibits. The CDC provided initial approval of United's application and formally recommended to the City Council that it authorize the Department of Community Development to negotiate a redevelopment agreement. City Council approved the agreement and it was recorded in November 2009.[9]

The August 2009 letter was WBC's second letter of support for United. Three years earlier, in August 2006—before United's CEO joined the WBC board—WBC's executive director at that time, issued a letter to the Department of Planning and Development in support of TIF funding for United's relocation of its corporate headquarters to Chicago. WBC's executive director wrote that "[w]e have the opportunity to bring the company's worldwide headquarters back home, to downtown Chicago, and I am writing to encourage every effort to do so." The director went on to note that the relocation would "bring 350 good, high-paying jobs to the city" and closed by stating, "I am confident you will do everything possible to ensure a business-friendly welcome home for United. I stand by to assist in any way that World Business Chicago or I can." The Department of Community Development later submitted this letter to the CDC along with letters from the Ward Alderman and the Chicago Loop Alliance as evidence of community support for United's application for \$5 million in TIF assistance.[10] The redevelopment agreement was later approved by the CDC and adopted by the City Council in October 2007.[11]

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[8] City of Chicago Department of Community Development Staff Report to the Community Development Commission Requesting Developer Designation, Sept. 8, 2009. http://www.cityofchicago.org/content/dam/city/depts/dcd/tif/T_147_UnitedAirlinesCDC.pdf

[9] LaSalle Central Redevelopment Project Area United Air Lines Redevelopment Agreement. http://www.cityofchicago.org/content/dam/city/depts/dcd/tif/T_147_UnitedAirlinesRDA.pdf.

[10] City of Chicago Department of Community Development Staff Report to the Community Development Commission Requesting Developer Designation, Sept. 12, 2006. http://www.cityofchicago.org/content/dam/city/depts/dcd/tif/T_014_UnitedAirlinesCDC.pdf.

[11] Central Loop Redevelopment Project Area United Air Lines Redevelopment Agreement. http://www.cityofchicago.org/content/dam/city/depts/dcd/tif/T_014_UnitedAirlinesRDA.pdf.

III. <u>ANALYSIS AND RECOMMENDATION</u>

The IGO concludes that WBC lacks an effective conflicts of interest policy and, as a result, has advocated for the approval of two TIF subsidies for corporations of which WBC board members were officers or directors. The undisclosed fact that the TIF subsidies benefit the corporations of its sitting board members calls into question the organization's credibility, the reliability of its recommendations, and the weight that the City places on them.[12] Accordingly, the IGO recommends that, at a minimum, the OBM or the Mayor as WBC Chairman, require WBC, as a recipient of significant City funds, to adopt a rigorous conflicts policy to ensure the integrity of the organization's future recommendations to the City. But as detailed below, even that change may not be enough to justify the City's reliance on WBC's letters in the TIF approval process.

WBC's conflict of interest with respect to the approval of TIF funding for CME Group and United in 2009 is clear. WBC issued letters of support for the companies' TIF applications as evidence that those projects were supported by the community, and the CDC, in turn, relied on WBC's letters in approving the companies' applications. WBC did not disclose to HED or the CDC at the time it wrote the letters that both companies' executives sat on the board of WBC or that the CEOs were financially interested in the TIF proposals.

Despite the conflict, WBC's advocacy on behalf of its board members' companies was not covered by either of the two conflicts policies currently governing WBC. Because the letters did not require formal board action and did not involve a conflict on the part of a City employee, they did not violate the conflicts policy in WBC's operating grant and would not have violated the self-imposed conflicts policy later adopted by the board of directors.

Nevertheless, the apparent conflict in these two situations raises serious concerns about the credibility and integrity of WBC's recommendations. The City routinely relies upon WBC's letters as evidence of community support for TIF projects. The City must be informed of any apparent conflict in order to fully evaluate the significance of WBC's recommendations with respect to TIF spending.

Ultimately, the City's reliance upon WBC's letters as evidence of community support for specific TIF proposals may be misplaced. WBC acknowledges that its role is that of a "business advocate," helping to promote individual businesses and advocate for public subsidies to those businesses as a means to promote economic development within Chicago. Aside from a basic evaluation whether a proposed project meets the statutory requirements for TIF funding, WBC

[12] Indeed, WBC's advocacy for City approval of TIF applications submitted by corporations whose CEOs serve on the WBC board may arguably constitute unregistered lobbying under the City's Ethics Ordinance. M.C.C. § 2-156-010(p), § 2-156-210. The Chicago Ethics Ordinance requires the registration of all lobbyists who, on behalf of another individual or for-profit entity, seek to influence any legislative or administrative action, including the award of public monies. *See* § 2-156-010(p), § 2-156-210. WBC's advocacy for City action is typically exempt from the City's Ethics Ordinance as lobbying activity on behalf of a *non-profit* entity. § 2-156-010(p). But to the extent that WBC employees advocated on behalf of corporate board members and not on behalf of WBC and its non-profit mission, they would, arguably, be subject to the City's lobbyist registration requirements.

does not appear to engage in any formal deliberative process in determining which businesses it works with or the relative merits of TIF funding for a particular project.[13]

Finally, the corporate nature of WBC's governing board raises additional questions regarding the organization's ability to effectively recruit a broad range of businesses to Chicago and to advocate for TIF assistance for businesses that would best serve the goals of the TIF program. Board members who are corporate officers or directors owe a fiduciary duty to the corporation he or she represents, a duty, which, at times, may be at odds with WBC's broader mission of business development for the City of Chicago. As noted in the IGO's October 2010 Budget Options Report, a possible disadvantage to funding WBC is the potential conflict for WBC's corporate board members in recommending City funding for firms that may in fact be direct corporate competitors.[14] Conversely, corporate board members may have incentives to support subsidies for firms that will not directly compete with their companies but which may not be in the City's economic development interest. Furthermore, WBC board members may be less inclined to reach out to competing corporations that may be considering a relocation or expansion in Chicago. Indeed, such action by an individual WBC board member to promote the activity of a competitor might well violate the individual WBC board member's fiduciary duty to his or her corporation.

The issues raised in this report raise the question of whether WBC should continue to advocate for TIF subsidies to specific corporations at all. The IGO believes that as currently configured, WBC's recommendations add little value to the TIF process. WBC should discontinue this practice and the City should not consider WBC's recommendations as evidence of community support.

[13] Indeed, WBC appears to have advocated for TIF projects that were not needed. In a recent interview appearing in *Crain's Chicago Business*, Paul O'Conner, Executive Director of WBC from 2006 to 2008, opined that TIF grants to several corporations, including United, were unnecessary:

> Ask Paul O'Connor whether corporate tax incentives are a good idea or just so much pork, and the former head of corporate recruiting for Chicago responds with a list of big deals that deserved the dough we threw at them, and deals that didn't.
>
> Boeing Corp. "of course" would have come here without the $30 million or so it got, he says. And United Airlines "probably," too—not only its headquarters, but its huge operations center, once the company learned the value of downtown talent.

O'Conner's statements questioning the merit of the United deals are cause for particular concern given his role as executive director of WBC at a time when the organization endorsed United's first TIF application. His successor at WBC also endorsed United's second TIF application after United's CEO had joined the WBC board.

[14] In its October 2010 Budget Options Report, the IGO examined the City's subsidy to WBC, noting both advantages and disadvantages of continued funding. Report of the Inspector General's Office: Budget Options for the City of Chicago, Oct. 2010, http://chicagoinspectorgeneral.org/wp-content/uploads/2011/02/IGO-Budget-Options-for-the-City-of-Chicago-October-2010.pdf.