



# Agenda Cover Memorandum

Meeting Date: October 28, 2013

Meeting Type: ☒ COW (Committee of the Whole) ☐ City Council ☐ Budget Workshop

Item Title: Property Tax Abatement Overview

Action Requested: ☐ Approval ☒ For Discussion ☐ Feedback Requested ☒ For Your Information

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## Background:

An abatement is a reduction in the level of taxation. At the request of Finance Chairman Dan Knight, this memo will serve as a primer on property tax abatements, as applied to General Obligations (G.O.) backed bonds, prior to next month's determination of the property tax levy.

## **I. Property Taxes Levies**

There are essentially two kinds of property taxes levied relating to the City: taxes proactively levied by the City and those that are levied automatically unless the City requests otherwise.

### **A. Taxes Proactively Levied By The City**

#### **1. Taxes Under Direct Control of the City**

Proactively levied property taxes include those that fall under the direct financial control of the City. These include the corporate levy (which goes into the General Fund to pay a portion of the City's normal operations), Special Service Areas (SSAs), municipal waste, IMRF, and Social Security.

#### **2. Taxes Under Direct Control of another Board**

With respect to proactively levied property taxes that do not fall under the direct financial control of the City: the Police Pension Board, the Firefighters' Pension Board, and the Library Board each submit a levy request to the City Council. The City Council then decides upon the amounts to be levied by the City on their behalf.

### **B. Taxes Levied Automatically Without A City Request**

Taxes levied automatically, without an annual City request, include Road & Bridge, TIFs, and any General Obligation (G.O.) backed bonds that are not abated (see below). The Road & Bridge tax is one that is township related. TIFs are Tax Increment Financing districts and any "increment" over the base EAV is taxed automatically.

## **II. Property Tax Bill Appearance**

The corporate levy, municipal waste levy, IMRF levy, Social Security levy, Police Pension levy, Firefighters' Pension levy, and the levy to pay all G.O. backed bonds that are not abated are all rolled into the City of Park Ridge line on a property tax bill. The Library levy, Road & Bridge levy, SSAs levies, and TIF levies, when applicable, have their own lines on a property tax bill.

### III. Property Tax Abatements - Historical

When the City issues a bond whose primary or alternate revenue source is backed by the full faith and credit of the City of Park Ridge, i.e. is a G.O. or Alt. G.O. bond, Cook County gets a copy of the bond payment schedule. The County will automatically levy property taxes to pay the principal and interest payments unless the City tells the County that it has another revenue source and that the levy is not needed.

The City annually tells the County not to levy for a specific bond by passing an abatement ordinance for that bond.

The City does not abate the Series 2012B bond to finance the outstanding liability of the City's ERI and IMRF payments. The City abates the Series 2012A bond, as the sewer rates were raised to pay for the sewer system's capital improvements and, so, no taxes are needed to make the payments. Similarly, the Series 2004B bond, which will soon be refunded, is paid for using water rates. The remaining bonds (Series 2004A, 2005A, 2006A and 2006B) are Uptown TIF bonds backed by the City's general obligations, have historically been fully abated. Since the Uptown TIF does not generate enough money to pay all of the financial obligations that it has incurred and the City abated the TIF bonds, the bond's alternate revenue source, G.O. has kicked in, meaning that the City's General Fund has had to loan the difference. The Series 2004A bond will be paid off in December.

### IV. Uptown TIF Bonds – Future Abatement Choices

The above brings us to the main question of this agenda item: How much, if any, to abate the remaining three Uptown TIF bonds? Some of the many possible scenarios are described below.

#### A. No Property Tax Increase

##### 1. Fully Abate

This is the scenario that the City has historically chosen. There are pros and cons to this position. The pros are that it is consistent with prior practice and that it allows for a future change without jumping from one scenario to another each year. A con is that, according to the City's bond consultant, the rating agencies and the bond market would prefer to see the Council raise the difference between the TIF revenues and obligations through a specific property tax levy for those obligations, rather than raising the same amount through the City's corporate levy. Apparently, a specific levy sends a signal that the City is aware of its debt obligations and is willing and able to raise taxes, if necessary, to meet those obligations.

##### 2. Abate Just Enough to Erase Current Deficit, But Lower The City Levy By A Like Amount

In this case the City would not abate the amount needed to cover the next year's Uptown TIF bond deficit. However, to keep property taxes at the same level, the City would lower its corporate (General Fund) levy by a like amount. There would be no additional net property tax levy. Note, the current TIF debt owed to the City would either stay on the books, if it has a possibility of ever being paid down, or would be written off.

#### B. Property Tax Increase

##### 1. Abate Just Enough to Erase Current Deficit

In this case the City would not abate the amount needed to cover the next year's Uptown TIF bond deficit, but it would not change the City's corporate levy. This would lead to a property tax increase. The City Council is left with the decision to increase City Services and/or restore depleted fund balance with this additional revenue. Restoring fund balance would help with the City's bond rating and possibly lower future borrowing costs.

##### 2. Abate Just Enough to Erase Current Deficit And Pay Down the City's Loan to the Uptown TIF

In this case the City would not abate the amount needed to cover the next year's Uptown TIF bond deficit. In addition, the City would not abate an additional amount needed to begin to pay down the Uptown TIF debt to the City. The City's corporate levy would not change. This would increase property tax revenues more than Scenario B1 above. The City Council is left with the decision to increase City Services and/or restore depleted fund balance with this additional tax revenue. Restoring fund balance would help with the City's bond rating and possibly lower future borrowing costs.

#### Attachment:

- Bond Schedules

	City of Park Ridge, Illinois			City of Park Ridge, Illinois		
	Ser. 2012A Debt Schedule as of 10/23/2013			Ser. 2012B Debt Schedule as of 10/23/2013		
<b>Dated</b>	February 1, 2012			February 1, 2012		
<b>Issue</b>	General Obligation Bonds			Taxable General Obligation Bonds		
<b>Series</b>	Series 2012A			Series 2012B		
<b>Original Par</b>	\$5,415,000			\$2,130,000		
<b>Earliest Call</b>	12/1/2021 @ 100					
<b>Maturity</b>	December 1,			December 1,		
<b>Ratings</b>	Aa2			Aa2		
<b>Credit Enhancement</b>						
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<b>Total Due</b>	\$5,415,000	\$1,455,025	\$6,870,025	\$1,890,000	\$148,100	\$2,038,100
<b>Total Paid</b>	\$0	\$208,600	\$208,600	\$240,000	\$45,893	\$285,893
<b>Payment Date</b>						
06/01/2012		52,150	52,150		11,653	11,653
12/01/2012		78,225	78,225	240,000 0.60%	17,480	257,480
06/01/2013		78,225	78,225		16,760	16,760
12/01/2013		78,225	78,225	230,000 0.80%	16,760	246,760
06/01/2014		78,225	78,225		15,840	15,840
12/01/2014	295,000 2.00%	78,225	373,225	240,000 1.10%	15,840	255,840
06/01/2015		75,275	75,275		14,520	14,520
12/01/2015	305,000 2.00%	75,275	380,275	255,000 1.35%	14,520	269,520
06/01/2016		72,225	72,225		12,799	12,799
12/01/2016	310,000 3.00%	72,225	382,225	270,000 1.60%	12,799	282,799
06/01/2017		67,575	67,575		10,639	10,639
12/01/2017	320,000 3.00%	67,575	387,575	280,000 2.10%	10,639	290,639
06/01/2018		62,775	62,775		7,699	7,699
12/01/2018	325,000 3.00%	62,775	387,775	300,000 2.35%	7,699	307,699
06/01/2019		57,900	57,900		4,174	4,174
12/01/2019	335,000 3.00%	57,900	392,900	315,000 2.65%	4,174	319,174
06/01/2020		52,875	52,875			
12/01/2020	345,000 3.00%	52,875	397,875			
06/01/2021		47,700	47,700			
12/01/2021	360,000 3.00%	47,700	407,700			
06/01/2022		42,300	42,300			
12/01/2022	370,000 3.00%	42,300	412,300			
06/01/2023		36,750	36,750			
12/01/2023	380,000 3.00%	36,750	416,750			
06/01/2024		31,050	31,050			
12/01/2024	390,000 3.00%	31,050	421,050			
06/01/2025		25,200	25,200			
12/01/2025	405,000 3.00%	25,200	430,200			
06/01/2026		19,125	19,125			
12/01/2026	415,000 3.00%	19,125	434,125			
06/01/2027		12,900	12,900			
12/01/2027	425,000 3.00%	12,900	437,900			
06/01/2028		6,525	6,525			
12/01/2028	435,000 3.00%	6,525	441,525			

<b>Credit Enhancement</b>  <b>Dated</b>  <b>Issue</b>  <b>Series</b>  <b>Original Par</b>  <b>Earliest Call</b>  <b>Maturity</b>  <b>Ratings</b>  <b>Credit Enhancement</b>	<u>City of Park Ridge, Illinois</u> Ser. 2006A Debt Schedule as of 10/23/2013			<u>City of Park Ridge, Illinois</u> Ser. 2006B Debt Schedule as of 10/23/2013		
	June 1, 2006			June 1, 2006		
	General Obligation Bonds			General Obligation Bonds		
	Series 2006A			Taxable Series 2006B		
	\$10,530,000			\$10,055,000		
	12/1/2016 @ 100			12/1/2014 @ 100		
	December 1,			December 1,		
	Aaa (Aa2)			Aaa (Aa2)		
	Ambac Insured			CIFG Insured		
	Principal	Interest	Total	Principal	Interest	Total
<b>Total Due</b>	\$10,530,000	\$3,805,750	\$14,335,750	\$10,055,000	\$2,016,795	\$12,071,795
<b>Total Paid</b>	\$0	\$3,664,500	\$3,664,500	\$0	\$4,058,705	\$4,058,705
<b>Payment Date</b>						
12/01/2006		261,750	261,750		289,908	289,908
06/01/2007		261,750	261,750		289,908	289,908
12/01/2007		261,750	261,750		289,908	289,908
06/01/2008		261,750	261,750		289,908	289,908
12/01/2008		261,750	261,750		289,908	289,908
06/01/2009		261,750	261,750		289,908	289,908
12/01/2009		261,750	261,750		289,908	289,908
06/01/2010		261,750	261,750		289,908	289,908
12/01/2010		261,750	261,750		289,908	289,908
06/01/2011		261,750	261,750		289,908	289,908
12/01/2011		261,750	261,750		289,908	289,908
06/01/2012		261,750	261,750		289,908	289,908
12/01/2012		261,750	261,750		289,908	289,908
06/01/2013		261,750	261,750		289,908	289,908
12/01/2013	100,000	4.25% 261,750	361,750	785,000	5.70% 289,908	1,074,908
06/01/2014		259,625	259,625		267,535	267,535
12/01/2014	100,000	4.25% 259,625	359,625	1,345,000	5.75% 267,535	1,612,535
06/01/2015		257,500	257,500		228,866	228,866
12/01/2015	100,000	4.25% 257,500	357,500	1,710,000	5.75% 228,866	1,938,866
06/01/2016		255,375	255,375		179,704	179,704
12/01/2016	100,000	4.25% 255,375	355,375	1,815,000	5.75% 179,704	1,994,704
06/01/2017		253,250	253,250		127,523	127,523
12/01/2017	100,000	5.00% 253,250	353,250	2,355,000	5.75% 127,523	2,482,523
06/01/2018		250,750	250,750		59,816	59,816
12/01/2018	385,000	5.00% 250,750	635,750	2,045,000	5.85% 59,816	2,104,816
06/01/2019		241,125	241,125			
12/01/2019	2,990,000	5.00% 241,125	3,231,125			
06/01/2020		166,375	166,375			
12/01/2020	3,135,000	5.00% 166,375	3,301,375			
06/01/2021		88,000	88,000			
12/01/2021	3,520,000	5.00% 88,000	3,608,000			

<b>Dated</b> <b>Issue</b> <b>Series</b> <b>Original Par</b> <b>Earliest Call</b> <b>Maturity</b> <b>Ratings</b> <b>Credit Enhancement</b>	<b>City of Park Ridge, Illinois</b> Ser. 2005A Debt Schedule as of 10/23/2013			<b>City of Park Ridge, Illinois</b> Ser. 2004A Debt Schedule as of 10/23/2013			<b>City of Park Ridge, Illinois</b> Ser. 2004B Debt Schedule as of 10/23/2013		
	April 15, 2005			August 1, 2004			August 1, 2004		
	General Obligation Bonds			General Obligation Bonds			General Obligation Bonds		
	Series 2005A			Series 2004A (sold undifferentiated)			Series 2004B (sold undifferentiated)		
	\$7,005,000			\$4,910,000			\$11,860,000		
	6/1/2015 @ 100			Non-Callable			12/1/2013 @ 100		
	December 1,			December 1,			December 1,		
	Aaa (Aa2)			Aaa (Aa2)			Aaa (Aa2)		
	MBIA Insured			AMBAC Insured			AMBAC Insured		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
<b>Total Due</b>	\$6,905,000	\$2,941,444	\$9,846,444	\$95,000	\$1,900	\$96,900	\$8,775,000	\$2,820,028	\$11,595,028
<b>Total Paid</b>	\$100,000	\$2,187,987	\$2,287,987	\$4,815,000	\$1,096,019	\$5,911,019	\$3,085,000	\$3,924,783	\$7,009,783
<b>Payment Date</b>									
12/01/2004					54,444	54,444		160,151	160,151
06/01/2005					81,666	81,666		240,227	240,227
12/01/2005					81,666	81,666		240,227	240,227
06/01/2006					81,666	81,666		240,227	240,227
12/01/2006		102,756	102,756		81,666	81,666	400,000 3.00%	240,227	640,227
06/01/2007		160,556	160,556		81,666	81,666		234,227	234,227
12/01/2007		160,556	160,556		81,666	81,666	410,000 3.00%	234,227	644,227
06/01/2008		160,556	160,556		81,666	81,666		228,077	228,077
12/01/2008		160,556	160,556	725,000 3.00%	81,666	806,666	425,000 3.00%	228,077	653,077
06/01/2009		160,556	160,556		70,791	70,791		221,702	221,702
12/01/2009		160,556	160,556	900,000 3.00%	70,791	970,791	435,000 3.00%	221,702	656,702
06/01/2010		160,556	160,556		57,291	57,291		215,177	215,177
12/01/2010		160,556	160,556	925,000 3.25%	57,291	982,291	455,000 3.25%	215,177	670,177
06/01/2011		160,556	160,556		42,259	42,259		207,783	207,783
12/01/2011		160,556	160,556	1,110,000 3.50%	42,259	1,152,259	470,000 3.50%	207,783	677,783
06/01/2012		160,556	160,556		22,834	22,834		199,558	199,558
12/01/2012	100,000 4.00%	160,556	260,556	1,155,000 3.63%	22,834	1,177,834	490,000 3.63%	199,558	689,558
06/01/2013		158,556	158,556		1,900	1,900		190,677	190,677
12/01/2013	100,000 4.00%	158,556	258,556	95,000 4.00%	1,900	96,900	545,000 4.00%	190,677	735,677
06/01/2014		156,556	156,556					179,777	179,777
12/01/2014	100,000 4.00%	156,556	256,556				525,000 4.00%	179,777	704,777
06/01/2015		154,556	154,556					169,277	169,277
12/01/2015	100,000 4.00%	154,556	254,556				550,000 4.00%	169,277	719,277
06/01/2016		152,556	152,556					158,277	158,277
12/01/2016	100,000 4.15%	152,556	252,556				570,000 4.00%	158,277	728,277
06/01/2017		150,481	150,481					146,877	146,877
12/01/2017	100,000 4.20%	150,481	250,481				595,000 4.00%	146,877	741,877
06/01/2018		148,381	148,381					134,977	134,977
12/01/2018	235,000 4.25%	148,381	383,381				625,000 4.13%	134,977	759,977
06/01/2019		143,388	143,388					122,086	122,086
12/01/2019	245,000 4.50%	143,388	388,388				655,000 4.25%	122,086	777,086
06/01/2020		137,875	137,875					108,168	108,168
12/01/2020	705,000 4.50%	137,875	842,875				685,000 4.35%	108,168	793,168
06/01/2021		122,013	122,013					93,269	93,269
12/01/2021	935,000 4.50%	122,013	1,057,013				715,000 4.50%	93,269	808,269
06/01/2022		100,975	100,975					77,181	77,181
12/01/2022	975,000 4.50%	100,975	1,075,975				750,000 4.50%	77,181	827,181
06/01/2023		79,038	79,038					60,306	60,306
12/01/2023	1,485,000 4.50%	79,038	1,564,038				790,000 4.63%	60,306	850,306
06/01/2024		45,625	45,625					42,038	42,038
12/01/2024	1,825,000 5.00%	45,625	1,870,625				825,000 4.75%	42,038	867,038
06/01/2025								22,444	22,444
12/01/2025							945,000 4.75%	22,444	967,444