



CITY OF PARK RIDGE

MEMORANDUM

DATE: April 11, 2014
FROM: Kent Oliven, Finance Director [koliven@parkridge.us; (847) 318-5216]
RE: Summary Of City Finances Relating To The Uptown TIF

I. Current Uptown TIF Finances

A. Defining The Problem

As the Uptown TIF Fund debt defied early projections by growing, the City Council hired Kane, McKenna and Associates, Inc. to review the situation. The resulting 85 page report was presented at the February 11, 2013 City Finance Committee of the Whole meeting, and both the report and the presentation can be viewed in that meeting's section of the City's website. The report showed that the Uptown TIF related obligations would be more than \$20 million more than the Uptown TIF property tax revenues. That estimate has increased to over \$30 million for two reasons. First, bond yields increased dramatically in the second half of 2013, thus reducing the amount of savings available from refunding existing TIF bonds when they become callable. Second, the EAV unexpectedly fell within the Uptown TIF district since Kane McKenna report was released, which will have a compounding effect.

In the past year, City management has had multiple discussions to discuss the issues from the Kane, McKenna report and the City's subsequent Uptown TIF Strategic Plan with staff from each of the three tax bodies with Uptown TIF intergovernmental agreements (IGAs) – School District 207, School District 64, and the Park Ridge Park District.

B. TIF Property Taxes Never Materialized As Projected

The Uptown TIF had originally been projected to collect over \$73 million in property taxes. The new projection is a 47.5% reduction in that amount for the following reasons:

1) Cook County's Assessment Level Reduction

Cook County unilaterally reduced assessments levels for the tax year 2009 and thereafter, which resulted in lower property valuations and, thus, incremental property tax receipts. [The intergovernmental agreements were never modified for such a large change in circumstances.]

2) Falling Property Values

Then property values started to fall. As of the most recent tax year (2012) sixty-seven Uptown TIF parcels now fall below their base EAV, meaning that they generate monies for the taxing bodies but no increment at all for the Uptown TIF to pay debt or intergovernmental obligations. Additionally, Uptown TIF EAVs have dropped over 27.2% in the last three tax years, one third more than the 20.3% decrease in the rest of the City. Although the City's fiscal year is not over yet, it appears that this decrease in property value will result in a decrease of property taxes going into the Uptown TIF by over 45% in the last three fiscal years (FY11 to FY14). This is the exact opposite of the original assumptions.

All taxing bodies have felt the impact on the reduction in property taxes. Remember, however, that a reduction in property tax revenues has a much larger impact on a TIF district than it does on any taxing body because a TIF is designed to capture all incremental property taxes above the base, or original, EAV.

C. TIF Costs Have Risen

1) Bonds

Annual Uptown TIF bond payments have been over \$2.5 million for this fiscal year and the prior three. In six of the next eight fiscal years TIF debt payments will go up an average of over \$400,000 per year over the previous year's payment, peaking in a debt service payment of \$4.875 million in FY22. These bonds were back-end loaded as it was expected that enough tax increment would begin to accumulate. As this debt is backed by the City's General Obligation, the City has no choice in making all Uptown TIF debt service payments in full and on time.

2) IGAs

Although not a requirement under the IGAs, in the past the City staff had attempted to calculate new property payments. Early analysis concludes that these calculations may have been done incorrectly and may have led to excessive payments to the taxing districts. Over the last five years these new property payments to each IGA taxing body has increased by a cumulative 982%. Note that these payments have increased in each of the last three years even though the EAV was decreasing.

The intergovernmental agreement payments of both new property and new students made in FY13 topped \$1.1 million. As the Uptown TIF does not generate enough money to pay its bond obligations, all of these payments ultimately came from the City of Park Ridge's General Fund property tax revenues.

II. City's Responses To The Problem

A. Erosion of General Fund's Fund Balance

The City just wrote off the entire \$5+ million Uptown TIF advance (debt) from the General Fund accumulated through FY12. An additional FY13 Uptown TIF deficit of \$1.3 million will soon be expensed by the General Fund. These write-offs will decrease the City General Fund's fund balance by half. Because of the write-off, the City's General Fund will have expensed \$4.1 million of intergovernmental payments, including over \$2.2 million to SD64.

B. Debt Downgrades

The Uptown TIF obligations caused the City's debt rating to be both downgraded and put on negative outlook in 2012. This increased City borrowing costs for debt issued that year.

On March 25, 2014 Moody's issued another report affirming the Aa2 rating and again assigned a negative outlook. [See the attached public version.] The following report quote summarizes the findings: "The negative outlook reflects the risks associated with the narrow liquidity position in the General Fund and the negative fund balance in the Uptown tax increment financing (TIF) district. Although management is implementing the necessary policies to balance TIF operations and rebuild General Fund liquidity, the positive results have yet to be demonstrated in audited results. If actual operating results in fiscal 2013, 2014 and 2015 negatively deviate from current expectations by a significant magnitude, the city's credit rating will likely face downward pressure."

The prior downgrade and any future downgrade will increase City borrowing costs and could decrease any potential savings from refunding Uptown TIF bonds when they come due.

C. Cost Cuts

The Uptown TIF financial burdens have forced the City to dramatically cut costs. In FY10 the city laid off 11% of its full-time workers, or 31 full-time positions. In 2014 the layoffs continued, as three Library employees were recently laid off. In addition, the City has canceled or delayed numerous capital projects, delayed filling of open positions, and has had many years of minimal expenditure growth.

D. Property Tax Increases

In addition to cutting costs, the City has been forced to increase the General Fund's property tax levy to pay the growing Uptown TIF related obligations. In the December 2013 property tax levy, facing the dramatic increases in Uptown TIF debt service payments outlined above, the City decided to directly levy for Uptown TIF bonds that the Uptown TIF was not expected to generate. Therefore, the debt service levy increased 417.71% over the prior year's debt service levy, with some of that increase being new and some being a reclassification of Uptown TIF monies previously paid by the General Fund. [This increase does not even cover any future School District 64 New Property payments (if any), which would still be levied from the General Fund.] As part of the FY15 budget process the December 2015 debt service property tax levy projection was presented as needing to increase another 117.23%, the largest part of the projected City property tax increase of 16.38%. Such an increase would make a compounded two year debt service increase of \$2,654,234 or 1025%.