TIF Pension Obligation Bond

Pension Obligation Bonds: A pension obligation bond means using general obligation bonds backed by revenue from TIF districts to cover pension payments.

Background

The concept of a TIF pension obligation bond has been explored by various groups and media outlets in recent years. Essentially, it means issuing general obligation bonds backed by revenue from expiring TIF districts to cover pension payments.

To provide a one-time $2 billion pension payment and reduce the City's and Chicago Public Schools' pension liability, the City could issue general obligation bonds backed by property taxes levied on the equalized assessed value (EAV) that is available to taxing districts after a TIF district ends. Currently, surplus funds are returned to the taxing districts after a TIF district ends, and the incremental EAV of the TIF becomes a part of the aggregate EAV that is available to all taxing districts. Taxing districts, including the City, have the ability to recover their portion of the revenue from the incremental EAV by adding it to their levy following a TIF district's dissolution. This additional revenue would be available to the City and CPS to cover debt service on the general obligation bonds if a TIF pension obligation bond is issued.

Revenue/Cost Impact

Due to the current schedule for expiration of TIF districts, capturing the EAV of expiring TIFs would provide insufficient revenue to cover bond payments for the first seven years of the bond. The City would need to explore alternative sources to cover payments.

One alternative would involve applying TIF surplus to cover bond payments. However, TIF surplus is both insufficient to cover payments and varies significantly from year to year. The City has returned $289.7 million in surplus TIF funds for distribution to local units of government over the past four years, an average of $72 million per year. The table below shows how TIF surplus has varied from year to year. It is important to note that nearly one third of the surplus returned has come from expiring TIFs and thus is one-time revenue. Currently, the City does not anticipate significant surplus from expiring TIF due in part to the limited number of expirations scheduled over the next few years.

TIF Surplus by Type by Year Distributed to Taxing Districts (in millions)

Surplus Source	2012	2013	2014	2015	Grand Total
Declared	$82.9	$25.0	$39.2	$39.5	$186.6
Expiration	$13.7	$8.4	$25.4	$44.4	$91.9
Repeal	$0.0	$0.5	$0.0	$0.0	$0.5
Termination	$0.0	$9.6	$0.6	$0.5	$10.7
Grand Total	$96.6	$43.5	$65.2	$84.4	$289.7

The ability of the City to use future TIF surplus to cover payments on a pension obligation bond relies heavily on continued EAV growth in the City's TIF districts and a willingness to freeze new TIF spending throughout the City. If TIF spending were restricted to current commitments and both the CPS and City shares of surplus were used for debt service, there could be as much as $20 million available for debt service in 2017, which would increase to

$70 million in 2018 and $90 million in 2019. However, the majority of the surplus would originate from neighborhood TIFs, accounting for 45 percent of the surplus initially and increasing to nearly 70 percent by 2019.

Another alternative would involve capitalizing interest in the initial years of the bond and structuring payments to increase over time as revenue becomes available from expiring TIF districts. However, capitalized interest—adding the interest accrued in the first years to the principal of the loan before beginning to make payments—is likely not an option for the seven year period before TIF revenues are sufficient to make the payments. In addition, capitalized interest would increase the overall cost of the bond, as interest would begin accruing on the capitalized interest.

If projections of future EAV growth do not materialize, property tax revenues from expiring TIFs would likewise not meet projected expectations, and the City would ultimately need to raise property taxes to meet the debt service due on the bonds. Recent history has shown how vulnerable property values are to volatility in the real estate market - between 2009 and 2013 total EAV in the City declined 28% and has only recent begun to reverse course, having grown less than 3 percent from 2013 to 2014.

Legal Authority

The City may issue general obligation bonds by vote of the City Council. It is within the City's home rule authority to increase its property tax levy, including the capture of its share of revenue from expiring TIF districts.