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Memo

To: David Lothspeich
From: Bridget Lane
CC: Leslie Murphy
Date: 10/17/2005
Re: Streetscape Financing Workshop

Introduction

The Village of Long Grove is considering options for a Downtown streetscape improvement project to be completed in conjunction with the county's plans to improve Old McHenry Road. BDI was asked to make a preliminary review and revenue estimate of financial tools and techniques that could be used to cover the cost of the project. BDI was also asked to provide information on how other communities have paid for similar projects.

Project Costs

K-Plus Engineering, LTD has estimated the streetscape costs as:

Description	Amount
Streetscaping	\$2,410,173*
Landscaping	\$1,237,100
Com Ed Utility Burial	\$1,475,000***
TOTAL	\$5,122,273

Notes:

* based on Lake County DOT providing granite curbs along Old McHenry Road

*** assumes Village easement / franchise agreements requires that other utilities relocate at no cost to the Village for public improvements

It is possible to defer the landscape costs so the immediate streetscape costs could be reduced to just under \$4 Million. To complete the Com Ed utility burial, Downtown property owners would pay an additional \$20,000 to \$40,000 to connect their property.

Broad Funding Categories

General Funds

Although there is an existing fund balance of \$4.6 Million, the Village currently is operating at an annual deficit of approximately \$90,000 on a budget of just over \$2 Million. Within the next few years, it is anticipated that sales tax revenue from the new Menard's will again allow the Village to balance its budget. It is unlikely that the Village elected officials would choose to pay a significant proportion of Downtown streetscape costs with existing funds because the \$4 Million cost would drain reserves.

General Obligation Bonds

Although interest costs are rising, if one assumes a 20 year term and a 5% interest rate, \$4 Million in bonds would require annual interest and principal payments of approximately \$321,000. With the Village currently in deficit spending, paying for general obligation bonds would merely add to the deficit. Under these conditions, underwriters are unlikely to look favorably on a bond issue that does not have a new revenue source to secure bond repayment.

Non-Home Rule Sales Tax

After an authorizing referendum passes, Illinois legislation allows non-home rule communities to impose a sales tax of up to 1% to be used for infrastructure costs. Both Lake Forest and Itasca have recently successfully passed referendums to impose non-home rule sales taxes. These taxes would not apply to groceries or medicine and most communities also exempt autos and other large purchases (perhaps art or furniture in Long Grove). In 2004, Long Grove's 1% municipal share of collected sales tax revenue was \$343,814. After subtracting the \$27,451 attributable to food, a category not taxed under the home rule sales tax, it would be reasonable to estimate potential revenue from a 1% non-home rule sales tax at \$315,000. If, as in many communities, the non-home rule sales tax levy was set at a more easily passed ½%, the revenue would be approximately \$168,000. It should be noted that only \$152,500 of the Villages 2004 municipal sales tax was attributable to Downtown Long Grove businesses. With the extensive network of roads necessary to serve Long Grove's estate size lots, it is likely that a referendum would only pass if the Village made two assurances--committing Downtown's sales tax revenue to the streetscape project and proposing to fund other infrastructure projects throughout the Village.

Grants

Long Grove has investigated grant funding for the streetscape and was awarded funding that has gone toward design. Additional funding was secured but will not be accepted due to the higher cost and conditions attached to that funding. Because Long Grove desires to keep its traditional crossroads traffic pattern, it is unlikely to secure additional grants designed to move traffic more quickly.

Bank Loans

The Federal Government as part of its regulation of banks requires them to reinvest in their communities. Many banks partially satisfy this requirement by creating low interest loan funds to support projects that enhance the viability of their community. One common use of these funds is helping property owners improve the appearance of their buildings and land. Façade

improvement programs are often bank supported. For example, Oak Park's Community Development Corporation has a 30 year track record of ten banks working together on a micro loan program that offers up to \$50,000 to local businesses at prime rate. That program is often used to match a Village grant program for façade improvement and ADA compliance. In Long Grove's streetscape improvement program, low interest bank loans could be particularly important to fund the \$20,000 to \$40,000 private property hook-ups to the newly underground utilities. Such bank loan programs require ongoing, pro-active marketing to local businesses and owners must have collateral to support the requested loan.

Special Service Assessment

When the property owners desire streetscape enhancement beyond the basic sidewalk, curbs, gutters and lighting standards of a Village, they are often asked to pay up to 50% of the cost of the enhancements. Repayment of principal and interest is made over up to 20 years to fund the bonds that pay for the added streetscape features. Unlike the Special Assessment District recently proposed for Long Grove's Downtown marketing and management, this Special Service Area (SSA) is not renewable and one vote of effected property owners and residents authorizes the annual debt service payments for the life of the bond.

With the Village's Downtown property currently having an equalized assessed value of \$5.75 million, the annual charge to the property owners for an estimated annual bond debt service for half of the streetscape costs, \$160,000, would be 2.3%. Added to the Special Assessment District levy for marketing and management, the current annual downtown property taxes levy would rise from 6.89% to 11.69%. Unlike the Special Assessment District, as property values increase this bond repayment stays constant so the levy percent declines. If the improvements result in higher sales and property values than would occur without the streetscape, the SSA payments are an investment that increases the owners' overall return on their Downtown Long Grove property. Still, at least in the short term, this substantial property tax increase would negatively impact the profitability of businesses that are already challenged by the declining sales documented by the Village's sales tax revenue research.

Tax Increment Financing

To promote economic growth that would only occur if a community invests in an extraordinary project like Long Grove's proposed streetscape improvement; the Illinois legislature authorized the creation of Tax Increment Financing (TIF) Districts. These TIF Districts have no impact on the taxes paid by property owners. Rather, they freeze the revenues paid to all taxing districts as of a specific date and reserve any incrementally higher owner property taxes paid each year to fund improvements within the district boundaries. After the term of the tax increment financing ends, a period of up to 23 years, the other taxing districts begin receiving the base plus their share of the increment that has developed over the life of the TIF District. TIF has strict qualification guidelines that reserve it as a tool for areas that are experiencing problems that are impeding properties' increase in value. The other taxing districts support TIF when they anticipate that the improvements made from their investment of their tax share will so significantly increase the value of the property that the lost revenue will quickly be recouped after the TIF ends. TIF Districts created to fund a specific improvement typically commit to dissolving once that improvement's cost is paid.

Downtown Long Grove and nearby commercial property is likely to qualify as a TIF district because it needs major infrastructure investment and it is difficult for private owners to pay those high costs and still have profitable projects. Additionally, Downtown Long Grove was platted in a manner that makes it difficult to develop and it is comprised of older properties that, although desirable to preserve, are expensive to service and improve.

If the Village were to choose TIF as a streetscape financing option and include only the properties where streetscape is to be built, the 2004 equalized assessed value of the properties is slightly less than \$5.8 million. The taxes paid on that property are approximately \$397,000. If those taxes were to increase 7% per year, the tax increment would flow as this table illustrates:

Year	Taxes	Increment	75% of Increment
1	\$397,000	\$0	\$0
2	\$424,790	\$27,790	\$20,842
3	\$467,269	\$70,269	\$52,701
4	\$513,996	\$116,996	\$87,746
5	\$565,395	\$168,395	\$126,296
6	\$621,935	\$224,935	\$168,701
7	\$684,129	\$287,129	\$215,346
8	\$752,541	\$355,541	\$266,656
9	\$827,796	\$430,796	\$323,096
10	\$910,575	\$513,575	\$385,181
11	\$1,001,633	\$604,633	\$453,474
12	\$1,101,796	\$704,796	\$528,596
13	\$1,211,975	\$814,975	\$611,231
14	\$1,333,173	\$936,173	\$702,129
15	\$1,466,490	\$1,069,490	\$802,117
16	\$1,613,139	\$1,216,139	\$912,104
17	\$1,774,453	\$1,377,453	\$1,033,089
18	\$1,951,899	\$1,554,899	\$1,166,173
19	\$2,147,088	\$1,750,088	\$1,312,566
20	\$2,361,797	\$1,964,797	\$1,473,597
21	\$2,597,977	\$2,200,977	\$1,650,732
22	\$2,857,775	\$2,460,775	\$1,845,581
23	\$3,143,552	\$2,746,552	\$2,059,914
		Net Present Value at 5%	\$7,085,851

To estimate how this tool might cover the cost of the streetscape, the shaded entry, the net present value of 75% of estimated revenue at the same 5% interest as the assumed bond rate, was calculated. Although this \$7 million represents the bonding potential of this estimated TIF income stream and seems to more than cover the \$4 million streetscape cost, nine years of interest would need to be capitalized before the revenue is sufficient to pay the \$321,000 annual principal and interest payments. When expenses associated with administering the bonds are included, the period of capitalized interest could extend even further. This long period of revenues below would be a concern to bond underwriters and might lead to a requirement that the Village provide a general revenue guarantee. An analysis by TIF bonding experts would be

needed to determine how these conditions impact interest rates and whether this targeted TIF actually covers the streetscape costs.

If the Village were to create a larger TIF District that includes all of the properties in the B1a zoning area where development might occur if there were enhanced streetscape and water, the current property value would total slightly more than \$9.6 million. At that size, with a 7% annual increase in value, the TIF would provide \$66,500 the first year and grow to about double the amount analyzed above. However, if this TIF were to cause a significant project to occur anywhere in the larger district, the increase in valuation could substantially add to the available tax increment funds. For example, a new 75,000 square foot grocery anchored shopping center might be worth \$21 million, have an equalized assessed value of \$7 million, and pay annual property taxes estimated at \$475,000. If constructed on vacant, currently agricultural land, all of the \$475,000 annual property taxes on that new shopping center would be incremental revenue and available to support projects within the district. This larger TIF budget, beginning at as much as \$541,500, would cover the principal and interest payments on streetscape bonds and allow for projects throughout the whole district, including water and infrastructure for other developments. Because Long Grove's Elementary School is adjacent to the TIF District, its revenue potentially could be added to the district and be eligible for payments to cover capital improvements to the building and grounds.

Summary

Any Village facing the task of funding a project costing twice its annual budget has a tremendous challenge. Long Grove's elected officials will make difficult decisions if they choose to fund the high quality Downtown streetscape that has been designed. It will be important that the funding provide not only for the initial project but also have a mechanism to insure that property owners can connect to the new utilities and any nearby development can match the high standards of the project.

Other Communities

This table documents how other communities have funded their downtown streetscapes.

Community	Estimated 2005 Population	Streetscape Cost	Fund Sources
Downers Grove	59,000		Federal Grant (TEA 21), IDOT, SSA, TIF
Wheaton	56,000		TIF, SSA
Des Plaines	60,000		GO Bonds, TIF
LaGrange	15,000		GO Bonds, TIF
Oak Park	51,000		Development Corporation, TIF, SSA
St. Charles	34,000		SSA's, TIF
Skokie	61,000		TIF, General Fund
Northbrook	34,000		General Fund
Glencoe	8,900		
Bloomingtondale	22,000		Association Fund, Potential TIF
Lisle	22,000		

Conclusions

This Table summarizes the options described above as available to Long Grove.

Source	Revenue Potential		Comment
	High	Low	
General Funds	0	0	Not expected to be used
General Obligation Bonds	0	0	Not expected to be used
Non-Home Rule Sales Tax	\$152,500	\$76,250	Requires referendum
Grants	0	0	Not expected to be used
Bank Loans	0	0	Expected to fund utility hook-up
Special Service Assessment	\$160,000	0	Owners must vote to assess this tax
Tax Increment Financing	\$7 million +	\$0	Requires eligibility study
Total	\$854,000	\$115,950	

With a cost of \$4 Million and estimated annual bond repayment of approximately \$321,000, funding the streetscape without a Tax Increment Financing District will be very difficult. Assuming the best case, the high revenue potential options from both non-home rule sales tax and the special service assessment are the chosen funding alternative; the maximum revenue potential is roughly estimated at \$312,500. Annually, this estimate already falls \$8,500 short of the amount necessary to repay the bonds' interest and principal before any administrative costs of the bonds and any reserves for potential revenue shortfalls. If the Village wants to obtain attractive interest rates on revenue bonds, the annual principal and interest payment can generally not consume more than 75% of the expected revenues, or about \$235,000 annually in this example. Consequently, a reasonable estimate of the annual short fall resulting from this assumed best case funding without TIF is approximately \$100,000.

This review has provided preliminary, rough estimates of streetscape funding possibilities. If the Village chooses to proceed, additional studies are necessary to verify estimates and the administrative costs of the funding choice. BDI submits this document in response to our letter agreement and is ready to answer any questions that you, the elected officials or the residents of Long Grove may have.