

NAPERVILLE COMMUNITY UNIT SCHOOL DISTRICT 203
203 WEST HILLSIDE ROAD
NAPERVILLE, ILLINOIS 60540-6589

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MEMORANDUM

To: Dr. Alan Leis
Superintendent of Schools

From: Dave Zager
Assistant Superintendent for Finance

Subject: Water Street Tax Increment Financing District.

Date: June 12, 2007

The City of Naperville has identified the Water Street area downtown for potential redevelopment in consort with the Water Street Vision Statement adopted in 2006. The redevelopment concept includes public improvements, such as centralized parking and Riverwalk extension, that exceed the typical infrastructure improvements typically found in such a project. The City is considering using a Tax Increment Financing (TIF) district to provide some of the funding for these improvements.

The Water Street TIF would be bounded by the river to the north, Aurora Avenue to the south, Webster Street to the west and Main Street to the east (with two outlying parcels along Main St.). The formation of a TIF district would establish a base Equalized Assessed Valuation (EAV) for the district in the first year (the 2006 EAV is \$2,954,300). The total property tax rate for the area is applied to each year's subsequent EAV. The property tax paid above the base EAV is deposited into the TIF fund. The taxing bodies receive property tax consistent with the base EAV for each year of the TIF (up to 23 years).

The creation of this TIF will affect the Naperville School District. There will be a financial affect and there will likely be some residential construction affecting future enrollment.

The TIF will result in a "frozen" EAV for the Water Street parcels as far as future property tax proceeds (for the duration of the TIF) for Naperville 203. Over a 23 year period (the maximum life for the TIF), the area would have produced an estimated \$4.7 million in taxes to the school district without any development. This amount is estimated to be reduced to \$2.166 million with the TIF in place. The difference of \$2.54 million is not lost to the school district. Under current property tax law, the difference will most certainly be made up by the remaining properties in the school district. So, while the school district will not lose any of these property tax collections, the remaining taxpayers will pay a little more to make up for this amount going to the TIF fund.

The TIF district will see an increased value (beyond the typical re-assessments) due to new construction and development. This increase in the EAV due to new construction will provide additional money into the TIF fund. This property tax will not be replaced to the school district

for the life of the TIF. The development that generates this property tax may never have taken place without the TIF.

Realistically, it can be assumed that some development of that area would take place over the next 23 years. One can only speculate as to the extent of that development, however, and the City staff is confident it would never have approached the scope and amount of the development with the TIF in place.

The consultants hired by the City of Naperville estimate that the EAV for the TIF will approach \$36 million at the conclusion of the 23 year life. If there were no development in the area without the TIF in place, this would be over \$25 million higher than the “natural” growth in EAV. When the TIF ends in 2030, the Naperville School District would realize this difference as new construction and receive an estimated increase of \$900,000 in property taxes.

The residential development proposed would be attached condos/multifamily. Using the student yield tables, the 63 residential units would generate an additional 22 students to the District. The student yield table indicates 14 would be elementary and 4 each middle school and high school. If the residential units are two-bedroom, the yield would be 11 students. The 1999 TIF law provides a minimum of reimbursement from the TIF fund to the school district equating to the computed tuition cost for the District – about \$9,000 per student right now. There are other possibilities of distribution of TIF proceeds to the School District as well, but those have not been fully explored.

The financial structure of the TIF and distribution of funds collected through the TIF go a long way to minimize or eliminate any loss of revenue to the School District. The District #203 taxpayer will have a slight increase in taxes paid to make up for the loss of revenue diverted to the TIF in proportion to the natural increase in EAV of the TIF parcels. The City staff have been open to any measures to mitigate financial impact to the School District. Among these measures are distribution of TIF surplus not used for TIF purposes to the underlying taxing bodies, distribution of funds to District #203 for students residing in the TIF, and minimizing the duration of the TIF (ending it prior to the maximum 23 years allowed under law).

From the perspective of Naperville CUSD #203, the creation of any TIF within the tax base is a concern. The District is largely dependent on property tax revenue for the education of students. Any erosion of the tax base, or diversion of taxes from growth in the tax base, has the potential to harm the District mission. If the creation of a TIF is truly needed for future tax base growth and the future gain offsets the present loss, then the next best thing is to minimize the financial impact and shorten the term of the TIF as much as possible.

The City of Naperville, should it decide to proceed toward the creation of the Water Street TIF, will form a Joint Review Board made of the underlying taxing bodies (including Naperville CUSD #203). This Board functions in an advisory capacity, initially producing a recommendation regarding the creation of the TIF. The school district will receive one vote on this Board. Other representatives of the school district may attend. The tentative schedule indicates the first meeting for the Joint Review Board to be about August 28. Prior to this meeting, the Board of Education might wish to develop a position regarding the TIF to be shared at the meeting. This position could include a statement of estimated impact on the educational program from the TIF, the financial impact, and a recommended course of action for the TIF – such as mitigating financial impact or shortening the life of the TIF.

Water Street TIF Analysis for Naperville CUSD #203:

(DZ 06-01-2007)

The chart below represents the estimated tax dollars that will go into the TIF fund based on Naperville #203 tax rate. The estimate is without new development, the "status quo" EAV should increase each year. The school district will not lose any tax money (as long as re-assessment exceeds CPI) - the overall tax rate will increase to make up for it; i.e. the other taxpayers through-out the District will make up the difference that is diverted to the TIF fund.

To the extent the EAV goes up even more due to development, it would be hard to say if that would have happened without the existence of the TIF and the subsidy of the taxpayer to the developer. This incremental EAV increase above the "natural" increase is not a loss to the District if it would never have happened without the TIF.

<u>"Natural"</u> <u>TIF Increase</u>	<u>Year</u>	<u>"Natural"</u> <u>TIF EAV (1)</u>	<u>No TIF, tax to</u> <u>District</u>	<u>Nap 203</u> <u>Rate (2)</u>	<u>Tax to #203</u> <u>after TIF</u>	<u>Tax to TIF</u> <u>District</u>	<u>District</u> <u>EAV (3)</u>	<u>Tax Rate</u> <u>Make-Up</u>
	2006	2,954,300	\$120,160	\$4.0673	\$120,160	\$0	4,315,697,791	\$0.0000
10%	2007	3,249,730	\$128,416	\$3.9516	\$116,742	\$11,674	4,583,061,170	\$0.0003
10%	2008	3,574,703	\$137,244	\$3.8393	\$113,424	\$23,819	4,865,129,534	\$0.0005
10%	2009	3,932,173	\$146,670	\$3.7300	\$110,195	\$36,475	5,264,007,025	\$0.0007
10%	2010	4,325,391	\$156,752	\$3.6240	\$107,064	\$49,688	5,583,527,412	\$0.0009
10%	2011	4,757,930	\$167,527	\$3.5210	\$104,021	\$63,506	5,920,621,419	\$0.0011
5%	2012	4,995,826	\$170,907	\$3.4210	\$101,067	\$69,841	6,276,255,597	\$0.0011
5%	2013	5,245,617	\$174,343	\$3.3236	\$98,189	\$76,154	6,651,449,655	\$0.0011
5%	2014	5,507,898	\$188,584	\$3.4239	\$101,152	\$87,432	6,984,022,138	\$0.0013
5%	2015	5,783,293	\$192,073	\$3.3212	\$98,117	\$93,956	7,333,223,245	\$0.0013
5%	2016	6,072,458	\$195,627	\$3.2215	\$95,174	\$100,453	7,699,884,407	\$0.0013
4%	2017	6,315,356	\$197,348	\$3.1249	\$92,319	\$105,029	8,007,879,783	\$0.0013
4%	2018	6,567,971	\$199,085	\$3.0311	\$89,549	\$109,536	8,328,194,974	\$0.0013
4%	2019	6,830,689	\$214,498	\$3.1402	\$92,771	\$121,727	8,661,322,773	\$0.0014
4%	2020	7,103,917	\$216,386	\$3.0460	\$89,988	\$126,398	9,007,775,684	\$0.0014
4%	2021	7,388,074	\$218,290	\$2.9546	\$87,289	\$131,001	9,368,086,712	\$0.0014
4%	2022	7,683,597	\$220,211	\$2.8660	\$84,670	\$135,541	9,742,810,180	\$0.0014
4%	2023	7,990,940	\$238,131	\$2.9800	\$88,038	\$150,092	10,132,522,587	\$0.0015
4%	2024	8,310,578	\$240,226	\$2.8906	\$85,397	\$154,829	10,537,823,491	\$0.0015
4%	2025	8,643,001	\$242,340	\$2.8039	\$82,835	\$159,505	10,959,336,431	\$0.0015
4%	2026	8,988,721	\$244,473	\$2.7198	\$80,350	\$164,123	11,397,709,888	\$0.0014
4%	2027	9,348,270	\$269,995	\$2.8882	\$85,325	\$184,669	11,853,618,283	\$0.0016
4%	2028	9,722,201	\$272,371	\$2.8015	\$82,766	\$189,605	12,327,763,015	\$0.0015
4%	2029	10,111,089	\$274,768	\$2.7175	\$80,283	\$194,485	12,820,873,535	\$0.0015
			\$4,706,265		\$2,166,727	\$2,539,538		\$0.0012
<u>TIF Expires</u>	2030	10,515,532	\$282,058	\$2.6823	\$282,058			

- (1) The EAV's for Water Street are substantially below market - adjust up 5 more years, then match rest of District.
- (2) The tax rate is as projected, assumes 2.5% CPI, 4 operating rate referendums over term.
- (3) Total EAV as projected, decline to 1% to 2% over CPI for re-assessments.

TIF Analysis with the Re-development added to above:

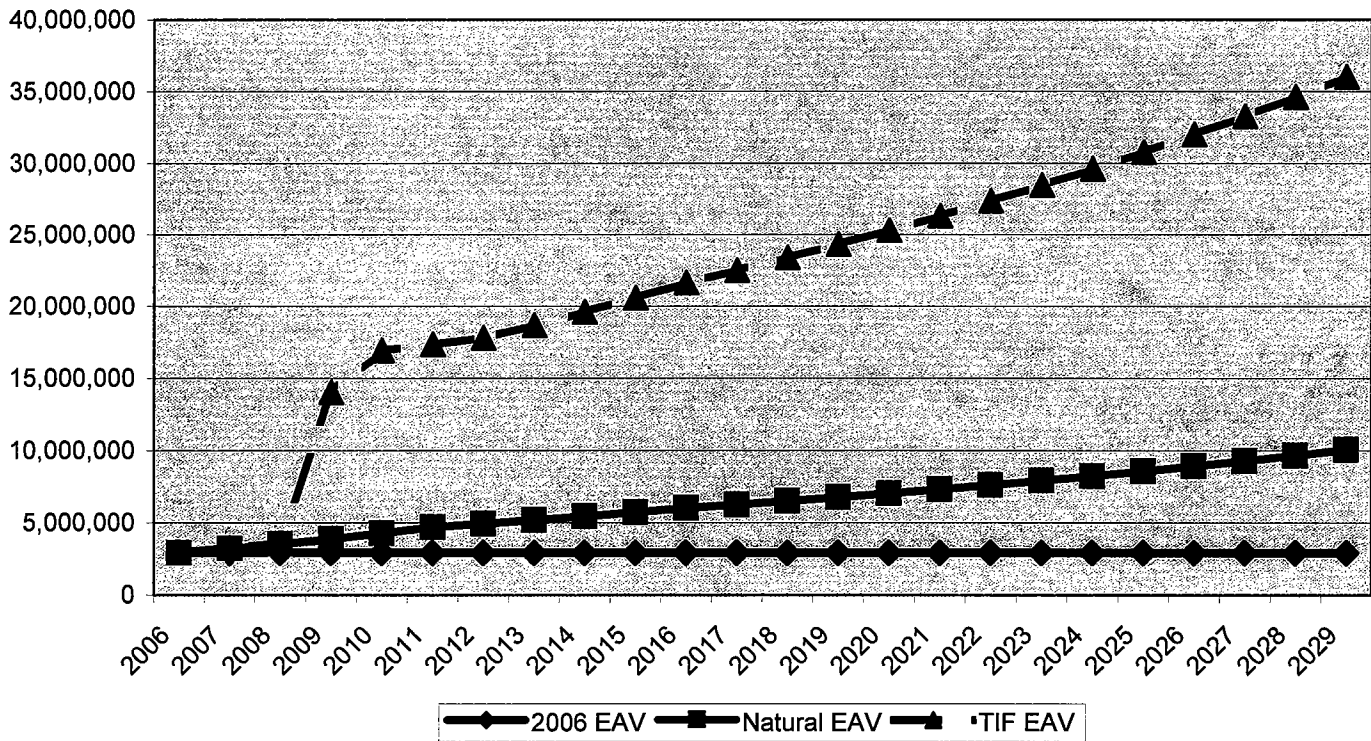
Year	"Natural" TIF EAV	Development	No TIF, tax to District	Nap 203 Rate	Tax to #203 after TIF	Tax to TIF District	\$ to TIF All Taxing Units	Cumulative \$ to TIF (All Tax)
2006	2,954,300	2,954,300	\$120,160	\$4.0673	\$120,160	\$0		
2007	3,249,730	3,249,730	\$128,416	\$3.9516	\$116,742	\$11,674	\$16,214	\$16,214
2008	3,574,703	3,574,703	\$137,244	\$3.8393	\$113,424	\$23,819	\$33,082	\$49,296
2009	0	14,050,538	\$524,085	\$3.7300	\$110,195	\$413,890	\$574,847	\$624,143
2010	0	16,926,531	\$613,417	\$3.6240	\$107,064	\$506,354	\$703,269	\$1,327,412
2011	0	17,357,444	\$611,156	\$3.5210	\$104,021	\$507,135	\$704,354	\$2,031,766
2012	0	17,799,130	\$608,908	\$3.4210	\$101,067	\$507,842	\$705,336	\$2,737,101
2013	0	18,689,087	\$621,150	\$3.3236	\$98,189	\$522,961	\$726,335	\$3,463,437
2014	0	19,623,541	\$671,889	\$3.4239	\$101,152	\$570,737	\$792,690	\$4,256,127
2015	0	20,604,718	\$684,319	\$3.3212	\$98,117	\$586,201	\$814,168	\$5,070,295
2016	0	21,634,954	\$696,979	\$3.2215	\$95,174	\$601,805		
2017	0	22,500,352	\$703,112	\$3.1249	\$92,319	\$610,793		
2018	0	23,400,366	\$709,299	\$3.0311	\$89,549	\$619,750		
2019	0	24,336,381	\$764,214	\$3.1402	\$92,771	\$671,443		
2020	0	25,309,836	\$770,939	\$3.0460	\$89,988	\$680,951		
2021	0	26,322,229	\$777,723	\$2.9546	\$87,289	\$690,435		
2022	0	27,375,118	\$784,567	\$2.8660	\$84,670	\$699,898		
2023	0	28,470,123	\$848,412	\$2.9800	\$88,038	\$760,373		
2024	0	29,608,928	\$855,878	\$2.8906	\$85,397	\$770,481		
2025	0	30,793,285	\$863,410	\$2.8039	\$82,835	\$780,574		
2026	0	32,025,017	\$871,008	\$2.7198	\$80,350	\$790,657		
2027	0	33,306,017	\$961,937	\$2.8882	\$85,325	\$876,612		
2028	0	34,638,258	\$970,403	\$2.8015	\$82,766	\$887,637		
2029	0	36,023,788	\$978,942	\$2.7175	\$80,283	\$898,659		
			\$16,157,408		\$2,166,727	\$13,990,681		
2030	0	37,464,740	\$987,557	\$2.6360				

With 63 residential units (attached) the student yield would be 22 students (14 Elementary, 4 each MS and HS) with three bedroom units (2 bedroom would be 1/2 of this) . At \$9,000 tuition cost = \$198,000.

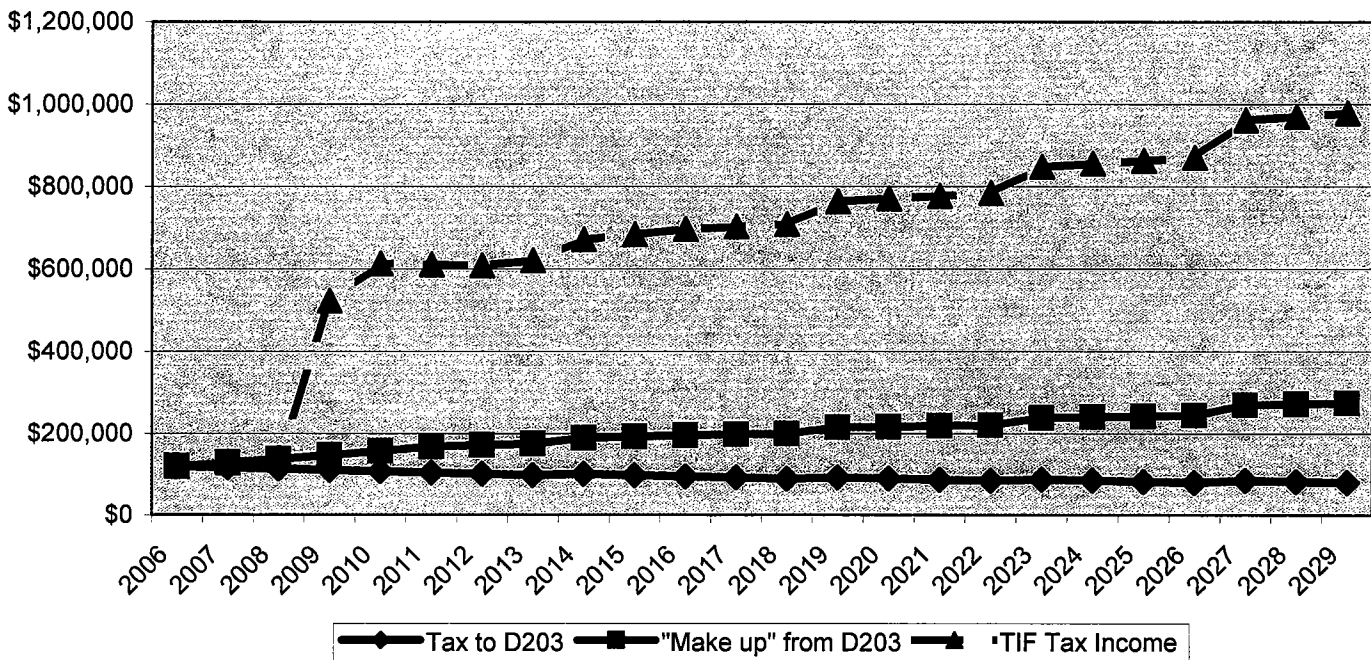
The feasibility study assumes funding for \$4.5million developer notes for improvements.

An alternative might be to require the developer to finance the TIF improvement, and pay back dollar for dollar over an estimated 8 or 9 years, rather than the full 23 years.

EAV Water St TIF



Tax Dollars Water St TIF





Naperville

Dr. Alan Leis
Superintendent
Community Unit School District #203
203 W. Hillside Road
Naperville, IL 60540

June 12, 2007

Re: Proposed Water Street Tax Increment Financing District

Dear Dr. Leis:

Thank you for the opportunity to meet with Dave Zagar and yourself on the proposed Water Street Tax Increment Financing (TIF) District. I believe the conversation was open and honest about the city's objectives for the Water Street area and the School District's thoughts about the potential impacts with the implementation of a TIF. It is our goal to ensure an environment of open communication with the School District and other taxing bodies as we step through the TIF process.

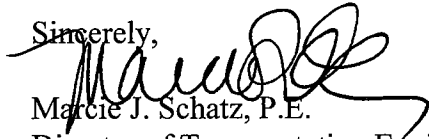
In November 2006, the City Council adopted the Water Street Vision statement which outlines the vision for a consolidated riverfront development which is pedestrian friendly, provides sufficient parking to meet the needs of the area, and includes the extension of the Riverwalk. We believe that comprehensive redevelopment of the area consistent with the Vision Statement is not achievable without a significant public financing component. We also believe that without comprehensive redevelopment, the properties in the area will not achieve their maximum Equalized Assessed Valuations, reducing future benefit to all taxing bodies.

The establishment of a TIF requires compliance with a rigorous process outlined within the State statute. In order to establish a TIF, certain qualifications criteria must be met. The preliminary qualifications report has determined that the area qualifies as a TIF under the conservation area criteria within the statute.

The attached flowchart outlines the process that the City will follow as the consideration of a TIF continues. Completed steps have been highlighted. The City Council has passed an Interested Parties Ordinance and staff has met with the affected taxing bodies. The next steps include the development of a draft TIF redevelopment plan and eligibility report, review by the City Council and the Joint Review Board. The Joint Review Board is responsible for making a recommendation to the City Council on the designation of a TIF area as well as the content of the redevelopment plan. In accordance with the statute, District #203 will sit on the Joint Review Board with representatives of other taxing bodies.

I want to relay to you that the city takes the consideration of the implementation of a TIF in the Water Street area very seriously. If established, the Water Street TIF would be the first TIF district within the city of Naperville. Your input is a critical part of the process. As discussed in our meeting, we are happy to meet at any time throughout this process, so please feel free to contact me at 420-6087 at any point to discuss any thoughts or questions you may have.

Sincerely,

A handwritten signature in black ink, appearing to read "Marcie J. Schatz". The signature is fluid and cursive, with a long horizontal stroke at the end.

Marcie J. Schatz, P.E.

Director of Transportation Engineering and Development

