

# NORTHWEST HERALD

## Some local government use alternative revenue bonds to finance special projects

Published: Sunday, March 3, 2013 5:30 a.m.

By CHELSEA McDOUGALL - [cmcdougall@shawmedia.com](mailto:cmcdougall@shawmedia.com)

Lakewood officials say that without a controversial bond issuance, the RedTail subdivision wouldn't be what it is today: beautiful upscale homes nestled on a sprawling 18-hole golf course anchored by a small strip mall.

Rewind to the early 1990s, when the golf course's developers went belly up and disappeared. Village officials used their bonding authority to rescue the development by issuing alternate revenue bonds, which are backed by identified revenue the project could bring in. Property taxes are used as a backup if revenues don't cover the bond payments, an added security that results in lower interest rates.

At the time, Lakewood officials assumed that the golf course's membership would repay the debt the village incurred.

They were wrong.

RedTail wasn't self-supporting for a number of years. During the life of the bond from 1992 through 2010, Lakewood residents footed the bill – whether they golfed or not – for 11 of those years through an increase on their property-tax bills.

“No one liked paying the golf course tax. It was an unpopular tax,” said Village President Erin Smith, who was not on the board when the bonds were issued.

For the next two days, the Northwest Herald will explore this funding mechanism, also known as double-barreled bonds, used by many Illinois governments.

Alternate revenue bonds are not commonly used by local governments: The Northwest Herald found, through an analysis of annual financial reports submitted by local governments to the Illinois Comptroller, or through Freedom of Information requests or interviews, that about a dozen of the more than 100 McHenry County taxing bodies examined for this story self-reported using this type of funding mechanism at least once since 2000.

McHenry County College is contemplating issuing alternate revenue bonds if a \$42 million expansion proposal is given the green light.

Bond experts cited billions of dollars of bonds sold in the state and repaid without going to the taxpayers, and called Lakewood's “golf tax” an anomaly. The majority of alternate revenue bonds issued are doing exactly what they're supposed to, bond experts argue.

“I can say in 15 years of doing this, I don't think I've ever known one client to ever do that,” said Sean McCarthy, first vice president of Stifel, Nicolaus and Co., an oft-used bond underwriter based in St. Louis.

Others find them to be too risky and prefer a pay-as-you-go method of financing.

“We've taken a very conservative approach over the years,” Huntley Village Manager Dave Johnson

said. “Our concern is that if the projection analysis doesn’t work out the way you think, you put that burden on your taxpayers. That never been the village’s approach to making infrastructure improvements.”

The lion’s share of double-barreled bonds are used for infrastructure improvements such as water and sewer systems, or road repairs. A defined revenue most often is user fees or motor-fuel taxes, but can be sales taxes, impact fees and more.

Marengo has taken out more than \$4.6 million in double-barreled bonds since 2001, according to the financial reports on the Comptroller’s website.

Marengo City Administrator Gary Boden said that money has been used for infrastructure improvements, such as water or sewer projects, and the municipality hasn’t had to raise property taxes when it issued alternate revenue bonds. It has sought those, he said, because there was a reliable revenue source, and it keeps interest rates down, thus saving money for taxpayers.

In McHenry County, the bonds also have been used for nonessential capital improvements. In Woodstock, the municipality has used alternate revenue bonds for its new police station, a water park, a library, and the iconic opera house, and has not increased taxes to pay for any of it.

Since 2000, it has issued at least \$38 million in alternate revenue bonds, according to the financial reports on the Comptroller’s website. The municipality always has made annual payments on the bonds, sometimes retiring millions in just one year.

“It’s about financial management and making sure you can pay for it,” Roscoe Stelford, Woodstock’s finance director, said about the city’s use of alternate revenue bonds. “If the revenues don’t materialize or something happens like the housing market collapses, [you have to be able to] adjust so that you can compensate for those lost revenues.”

In Huntley, the village’s park district has used these bonds to renovate the former Huntley High School into a REC Center and to tear down and rebuild a new clubhouse and restaurant at Pinecrest Golf Course.

For some projects, Woodstock officials have dedicated impact fees, but after the housing market collapsed, the city has had to use other resources to repay the loans. That’s a common thread for many issuances.

“Although [governments] say it’s an alternate revenue bond, a lot of times it’s diverting money from other core functions of government,” said Brian Costin of the Illinois Policy Institute, a conservative, nonprofit think tank.

In Lakewood, residents didn’t always pay for the bonds: From 1998 to 2005, the course was self-support and residents didn’t pay an extra tax. During the repayment of Lakewood’s RedTail Golf Course, residents floated \$3.6 million, but for a number of years, the golf course covered \$3.2 million on its own. The bond was repaid in 2010.

It’s an embarrassment many village officials would rather get beyond.

“It’s paid off, and the golf course is making money,” Lakewood Village Trustee Gene Furey said. “We’d rather put that behind us.”

Still, the “golf tax” changed how Lakewood officials look at financing. The current board wouldn’t consider alternate revenue bonds for projects that are not critical, Smith said.

“Hindsight is always 20/20,” she said. “... Given the collapse of our global economy, we understand that even things once believed to be a very predictable revenue stream [can fail]. Everyone is a little more cautious. Things failed that none of us thought would fail.”

And she insists that the RedTail purchase wasn't a mistake.

“... There were many indirect benefits to purchasing RedTail,” Smith said. “There is a short-term benefit in terms of impact fees, and the ongoing benefit is the additional [equalized assessed valuation] that resulted from new construction – that helps fund infrastructure.”