Debt Disclosure Report – 2021

-With Debt to Property Value Analysis-

EXECUTIVE SUMMARY

Background:

The Debt Disclosure Ordinance was enacted by the Cook County Board in 2009 at the request of Treasurer Maria Pappas. It was part of her effort to promote transparency and better inform the taxpayers who elected her.

There are 547 local governments in Cook County that set 2,200 different taxing district levies — each of which is a specific amount of taxes to be collected. Every year, those governments are required to provide the Treasurer with their most recent audited financial statements and related reports.

In addition, those governments must report all outstanding debts, which are typically in the form of bonds or short-term credit lines, as well as all current pension and post-employment benefit obligations. The governments also must report how much money they are short of what's needed to be able to pay out future pension and other post-employment benefits, like healthcare subsidies, as unfunded liabilities.

To calculate the overall debt owed by each taxing district, outstanding bond and credit balances are added to unfunded pension and post-employment benefit liabilities.

Each taxing district also must report the amount of its annual levy and total annual revenue that includes each government's additional sources of money, including funds from other taxes, fees, government transfers and grants.

In addition, the taxing districts now must report their number of current full-time equivalent employees and number of retirees receiving local government pension benefits.

Once all of that information is received each year by the Treasurer's Office, a report is posted on the Office's homepage, and the debt totals of relevant local governments also are listed on each property tax bill. New this year is an on-line function allowing every property owner in the county to find the amount of debt attributed solely to their specific property or properties.

A New Way to Gauge Taxpayer Debt:

Analyses of government debt are done by many watchdog groups and government agencies across the country. Typically, they add up the total debt, divide it by the number of people living in the area where the debt is incurred, and express the results as debt per capita, or debt per person.

But the local government debt burden does not fall equally on each and every person in a jurisdiction, particularly in Illinois where the bulk of local debt is paid off with property taxes. Because the debt is primarily funded with property taxes, the load borne by individuals, families or businesses depends on the value of the property or properties they own and where they are located.

That's because property values are used to determine how much of the overall property tax levy is billed to specific property owners. Local governments set the levies, or the overall amount of taxes to be collected, in each of their districts. How much of that overall levy is paid by any one individual property owner is determined by the value of their property, relative to the value of all the property within the taxing district. For example, if someone owns a property valued at $100,000, and all of the property in the district is valued at $100 million, that person is responsible for 1/1000 of the total tax bill.

So, to calculate the relative debt burden borne by all property owners in a specific village or city, we added up the debt of all taxing districts within the borders of the municipality that was being evaluated. Next, we compared that debt load to the total value of a property within the village or city. The result is a debt-to-property value ratio expressed in percentage terms.

In areas with low debt-to-property value percentages, smaller tax increases are typically sufficient to pay off the debt over time. In those with higher debt-to-property value percentages, it often takes far bigger increases to cover the debt payments.

The lowest debt-to-property value ratio is in Inverness, where the debt load of about $122 million represented less than 7% of the village's total property value of less than $1.8 billion. The highest debt-to-property value ratio was in Rosemont, where the total debt load of nearly $749 million was about 48% of the city's total property value of nearly $1.6 billion.

Nevertheless, the property tax on homes in Rosemont is only 3.1% higher than the property tax on homes in Inverness. That relatively low tax burden in Rosemont, despite its high debt load, is an outlier that's likely the result of that particular village's diverse tax base, which allows it to cover debt with non-property tax revenue.

Most of the other cities and villages with high debt to value ratios were in less thriving areas with predominantly minority populations and less broad tax bases. Take Riverdale, which had the second highest debt-to-property value ratio. There, residential property owners are paying taxes that are two-and-a-half times higher than their counterparts in Inverness. The taxes, expressed in the amount per $100,000 of value, can be found in the presentation under "Percent of Debt to Property Value" tables.

The Burden:

One point worth noting in the "Percent of Debt to Property Value" tables is that the annual property taxes in some municipalities are so high that homeowners end up paying far more in taxes over the course of a 30-year mortgage than they paid for the home itself (not including mortgage interest). Take Park Forest, where the annual taxes per $100,000 of home value are $6,558. That means that the buyers of homes in that village would pay twice as much in taxes over 30 years than they paid for their homes in the first place. Other municipalities with taxes topping $5,000 per $100,000 — meaning homeowners in those cities and villages would pay as much in taxes over 20 years as they did for their homes — are Riverdale, Ford Heights, Country Club Hills and Harvey.

Also worth noting is that commercial property owners — who own just 7% of the property parcels in Cook County — pay tax bills that are much higher than those paid by homeowners. That's because Cook County's tax structure requires businesses to pay at least two-and-a-half times as much in property taxes as homeowners. So someone who buys a commercial property in one of the high-tax south suburban municipalities ends up paying as much in property taxes in less than a decade than they initially paid for the property. In Park Forest, the tax tab on a commercial property tops the price of the property, before mortgage interest, in six years.

A New Tool:

We also created a new functionality on the Treasurer's webpage. It allows property owners to search their property and see exactly how much debt is attributed to their particular piece of property. To do that, the Treasurer's Office:

1) Took the property value of the specific property and determined what percentage of the overall property value it represents in each taxing district that bills the property owner.

2) Multiplied the percentage of property value determined for the property in each district by the total debt in that district.

3) Added up the resulting figures from each district.

The resulting figure is the total amount of local government debt attributed to that property. That number will tell the owner of the property how much debt they are responsible for over time, in addition to their mortgage, maintenance and utility payments. And it will give each owner a sense of the financial condition of each of their local governments, particularly when it comes to the three types of government responsible for most of the debt: municipalities, the county and school districts.

Why it Matters:

Incurring bond debt for government building projects that have long lives is a widely accepted financial practice. Financiers figure it's OK to stretch out payments, including added interest costs, for the life of whatever is produced, like a building, road, bridge or sewer line expected to last decades. That type of borrowing is akin to taking out a mortgage to buy a house – with the same caveat: don't take on a loan you can't afford.

But borrowing for annual expenses, issuing new debt to pay off old debt and not paying what's truly required to fully fund pension systems — which is akin to taking out a loan because governments will have to pay even more into the pension fund later to make up the difference — are *widely criticized* methods of paying government expenses. The financiers figure it's a bad idea to be paying off debt for something you used in the past, like covering a grocery bill with a credit card and then paying months or even years of interest on top of the cost of the food you long ago consumed.

All of those criticized borrowing practices have been used, to one extent or another, by myriad governments across the Chicago region. Although the borrowing can initially make it appear that government is providing more services and employment at a low cost, eventually the bills come due. And the bills owed from issuing general obligation bonds and shorting pension payments at the local government level in Illinois are primarily paid with property taxes. So, higher debt nearly always means higher property taxes, whether those bigger tax bills come now or in years ahead.

One example: In 2015, the City of Chicago enacted a $543 million property tax increase, stretched out over five years, to prevent the city's four government worker pension funds from becoming insolvent as soon as 2030. But the pension fund balances continued to decline and it's possible further city property taxes will be needed to stop the flow of red ink.

The Correlation:

As part of this year's analysis, the Treasurer's Office calculated the correlation between higher debt and higher taxes. Across the county, there was a positive correlation of .61 between higher debt and higher taxes, suggesting that taking on more debt generally results in higher taxes.

The Big Picture:

This year's Debt Disclosure data shows that from the end of 2016 to early 2021, the total debt of all local government agencies in Cook County grew by $22.8 billion to $153.4 billion, or 16.6%. During that same period, the consumer price index (CPI) in the Chicago region grew by 8%.

During the last year, from early 2020 to early 2021, the total debt of all the government agencies grew by $1.2 billion, or by 0.8% compared to a CPI of 1.9% during that period. Debt grew less than during previous years because Cook County government reduced debt by nearly $1 billion to $23.9 billion. That was done by refinancing outstanding debt at lower overall cost and continuing to contribute more than required by state law to the county pension fund. The contributions required under that state law are widely viewed as insufficient.

By contrast, the debt of all other local government agencies in Chicago last year grew by nearly $1 billion, or about 1%, and the debt of all other government agencies in the Cook County suburbs grew by more than $1.1 billion, or about 4.7%.

What's in the Report/What's Online:

The Debt Disclosure Report includes this executive summary, as well as a presentation with further detail and analyses.

Both the report and the presentation can be found online at www.cookcountytreasurer.com, where more expansive local government debt breakdowns and each government's audited annual financial statements also are included. In addition, individual property owners can search their address to find the debt-to-property value breakdown on their specific property. We also have an interactive map to help taxpayers visualize debt across county municipalities.

Coming later:

Starting in 2021, the local governments are required under an amended Debt Disclosure Ordinance to report in detail all of the expenditures made from tax increment finance (TIF) districts. This will create a first-of-its-kind repository of all TIF expenditures in Cook County.

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