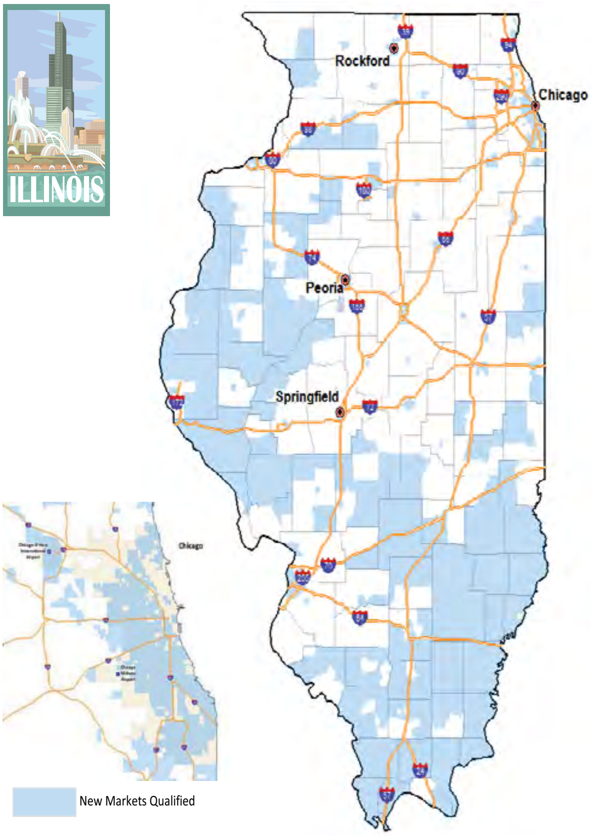
Illinois New Markets Development Program



Data Source: CDFI Fund

East St. Louis cutting, shrinking TIF districts in effort to balance budget

By ALAN J. ORTBALS

In an effort to shore up its flagging financial situation, on Sept. 16 the East St. Louis City Council voted to disband two of its seven tax increment financing districts and shrink three more.

In addition, city staff has been instructed to come up with a plan to reduce the size of TIF districts 1 and 3A. The council had previously taken action to borrow $2 million from its TIF funds to help balance the general fund budget.

Nearly the entire city of East St. Louis is in a TIF district, according to Patrice Rencher, executive director of the East St. Louis Financial Advisory Authority. She says nearly $20 million is in the TIF budget, which is a combination of money that has been carried forward from past years and payments expected when property tax bills are paid this year.

In recent years, the city has been hit with extraordinarily high multipliers, raising assessments on commercial and residential property by more than 50 percent over the past two years. Because of the TIF districts, the extra revenue generated by these skyrocketing assessments has been going to the TIF funds, not to the community's taxing bodies.

In 2005, PGAV Urban Consulting issued a report recommending that the city disband or shrink some of its TIF districts to allow property taxes to flow to the service providers.

"The council postponed action on it at that time," said Mike Weber, director of PGAV Urban Consulting in St. Louis. "Then we got a new administration in, went through several city managers and everything was just put aside for a year or year and a half. It was taken up again by the council last year and the council came close to deciding to go ahead and fulfill that recommendation...but they decided to look at some other strategies."

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>
> **Mike Weber**
> *Director*
> *PGAV Urban Consulting, St. Louis*

Weber says that if the council had acted in 2005, property taxes could have been reduced by somewhere between 19 and 24 percent, assuming that the taxing bodies would have reduced their tax rates accordingly. However, he says savings would have been more than wiped out by the huge multipliers that were applied to the city's property assessments.

"You have this tangled web of the multiplier, the TIF districts causing upward pressure on tax rates and a declining population base," said Weber. "I was told the other day that the school district's enrollment is down 2,000 students in the past three or four years. If they were to reduce their TIFs, it would free up tax base that would - so long as the taxing districts didn't try to take advantage of that windfall of tax base - cause a reduction in property tax rates. But this multiplier, it's just lurking in the wings ready to wipe it out."

Weber says one of the recommendations made in PGAV's 2005 report was to try to get the legislature to place a moratorium on multipliers in communities, like East St. Louis, that are under the Illinois Financially Distressed Cities Act. According to Weber, the real estate market in East St. Louis is dysfunctional and mass appraisal systems like multipliers skew reality. There are so few transactions and the values are so low that when properties are sold, they have an abnormally large impact on the multiplier.

"If you took TIF and all of these other issues into account, their general fund issues and so forth, the number-one problem in East St. Louis - in my mind - is the multiplier, and that's got to get resolved before these other things can be effective," Weber said.

Weber says when he was working on the report in 2004, his firm did some spot checks on tax bills to get an idea of what people were paying in property taxes.

"There are some modest neighborhoods with some decent homes - two bedroom, one bath, all brick bungalows - in reasonably good condition and their tax bills were about $5,600 at the time," Weber said. "Since then, if they didn't do anything about it, their tax bill would probably be over $10,000 by now. Are you going to hang onto a house and pay $10,000 in taxes in East St. Louis? I don't think so. Then the problem is you can't sell it to anybody. You have the flippers out there who may pick it up and put a coat of paint on it and sell it to an unsuspecting person who really doesn't know what the tax consequences are. I've been told that people are just walking away from their homes," he added.

Runaway property taxes are a symptom of fundamental problems in the community, according to Weber.

"What you have there is a city that used to be 65,000 to 70,000 people strong," Weber said. "It's now down below 30,000. Its land mass is still the same; the lineal miles of streets are still the same; the lineal miles of sewers are still the same; but yet its tax base has shrunk in half and its population base has shrunk by more than half. I'd hate to be in a leadership position having to deal with that."

East St. Louis mayor Alvin Parks and city manager Robert Betts did not return phone calls.