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Illinois city will bond to support casino development

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Municipal bonds are part of an Illinois city's plan to help the local casino build a bigger venue at a new location.

In its current form, Aurora's Hollywood Casino occupies a barge tethered near downtown on the Fox River. The city wants to build a brand new casino resort about five miles away, near an outlet mall and an exit to Interstate 88, about 35 miles from Chicago.

The total cost of the project is estimated at $360 million. Aurora officials want to loan the casino operator, Penn Entertainment, $50 million up front.

The city's $50 million will come from a taxable bond issue, with the bonds paid back using revenues from the increment of one of Aurora's tax increment financing districts. In recent City Council meetings, alderpeople modified an existing TIF district, West Farnsworth TIF District #7, and approved a new micro-TIF next to it, the Farnsworth-Bilter TIF District, to support bond debt service.

The debt will be issued as general obligation bonds, with the intent that revenue from the TIF district will support debt service, according to a draft of the bond ordinance the city is expected to vote on later this month. Robert W. Baird & Co. is to be lead underwriter. Up to $58 million would be authorized.

The city plans to price the bonds mid-February and hopes to close at the end of the month, according to Aurora Chief Financial Officer Christopher Minick.

Aurora's redevelopment agreement with Penn stipulates that a minimum of $5,250,000 in incremental tax revenue must be provided beginning in 2026. The casino operator has an obligation to pay for any shortage of incremental revenue below $5,250,000. That guarantee applies as long as the bonds are outstanding, Aurora's Minick said.

"The Farnsworth-Bilter TIF area was comprised of a combination of vacant properties and various businesses," he said. "The area was determined to meet several factors for establishment of the TIF district and had not drawn any new economic development prospects prior to the casino development. Several businesses had closed or become underutilized. Additionally, various parcels were generating high volumes of calls for police services."

TIF districts work on the assumption that the development activity they help finance will increase property values — and, in some cases, sales tax revenues — in the area in question. By freezing property values at current levels, taxing those gains and spending the difference (or increment) on public or private development, the reasoning goes, local governments can incentivize economic activity in the present.

The districts can tap that incremental growth on a pay-as-you-go TIF basis, in which the city reimburses a developer for eligible expenses as the proceeds from the local TIF district's real estate tax increment come in.

Alternately, cities can issue upfront loans to developers using general funds or bonds backed by TIF district increments. The latter is what Aurora is doing.

"You don't see a ton of general fund financing anymore; it's almost exclusively bond-backed, and that's only because places tend to not have a lot of cash that they can commit," said Toby Rittner, president and CEO of the Council of Development Finance Agencies. "The third option would be, the developer funds the project themselves, and then pay them back from the tax increment as you go along. There are thousands of that type of transaction every year."

Proponents of TIF districts argue that the development necessary to improve blighted areas wouldn't happen without those public investments from TIF funds. Detractors contend that TIF districts allow officials to redirect tax gains that would otherwise go to local government bodies, and they can sometimes result in higher budget volatility.

"TIF can significantly constrain an organization's ability to generate tax revenues, [and] once a TIF is crafted, it can be very difficult to change the terms or cancel the agreement, especially if bonds have already been issued and the various interests in the flow of funds have been established," the Government Finance Officers Association warns on its website.

In a September 2018 report for the Lincoln Institute of Land Policy, David Merriman, director of the Fiscal Futures Project and professor of public policy at the Institute of Government and Public Affairs at the University of Illinois at

Chicago, noted that "most often TIF has been used in areas that were already moderately successful, and it has done little to stimulate growth in the most depressed areas."

Merriman also wrote that studies of TIF's effects on school finance suggest it should be used "cautiously" so as not to starve local school districts or other local governments of revenue.

"[TIF districts] typically change the location of development rather than create new development," Merriman told The Bond Buyer. "Often they subsidize development more than is necessary since the municipality that decides on the level of the subsidy gets some of the revenue from overlying governments like school districts."

In Aurora's case, the Batavia Unit District 101 school board in October signed an intergovernmental agreement which included a requirement that the board "refrain from actions or statements that could jeopardize the new TIF initiative." That agreement allowed Aurora to restructure the West Farnsworth TIF district and promised the school district 10% of the new micro-district's incremental property tax revenue.

Merriman said the school district "is taking a risk" with the agreement because it has given up some level of control.

Other area municipalities have created TIF districts to fund casino development, albeit not along the same lines as Aurora's deal. The village of Homewood in Chicago's south suburbs last June approved a redevelopment plan involving a casino that hewed to the pay-as-you-go model.

Under that deal, the casino operator, Wind Creek Hospitality, can apply for reimbursement of relevant development costs, but neither Homewood nor neighboring East Hazel Crest are required to make up any shortfall in incremental casino and parking garage tax revenues that may occur.

The Aurora City Council modified the West Farnsworth TIF district in its Dec. 12 meeting and approved the new TIF district in a final vote on Jan. 23. Penn plans for the new casino development to include 1,200 gaming positions, a retail sportsbook, an outdoor entertainment area, a new hotel with 220 rooms, bars, restaurants and a 12,000-square-foot event center, according to the Chicago Tribune.

The council's finance committee advanced the bond ordinance Jan. 25.

Local opposition to the new casino TIF district has coalesced into an online petition sponsored by Working Families Aurora, a political advocacy group that has backed progressive candidates in recent elections. Among the latter is Alderman-at-large John Laesch, the lone City Council vote against the new TIF district. Laesch did not respond to requests for comment.

The petition charges city officials with giving "a handout to the already wealthy that we cannot afford." It argues that property taxes are being "handed over to millionaires" rather than going to, say, local public schools. Penn reported $6.401 billion in revenues and $2.8 billion in outstanding debts in its 2022 annual report.

"It's a valid concern," said Rittner. "You absolutely want to make sure your cities are doing their due diligence and their but-for tests… We're not Pollyanna. If you're going to use public finance tools, you've got to make sure that you're including everybody in the community and you're talking about the impact. You just have to trust that the city's doing their due diligence, and that should all be open for the public to examine."

A but-for test is a standard that public officials have to meet to justify creating a TIF district, so named because they must be able to defend the statement, "This development would not occur but for the proposed TIF district."

A representative of Ryan, LLC, a Dallas-based tax services firm, reportedly said that Ryan's TIF study for the city showed Aurora met both the blighted and but-for tests. A spokesperson for Ryan confirmed that they did the TIF study but referred all questions to the city.

On its new casino website, Penn says that "the anticipated increase in tax revenues from the new facility is expected to provide revenues to not only service the bonds but to also generate millions of additional dollars annually to reinvest into the community."

UIC's Merriman said TIF districts today have evolved beyond their original purpose of helping blighted communities. But Rittner said the evolution he's seen has been "great" for municipalities.

"In the late '90s, around the country, [TIF] wasn't used in the most judicious manner," he said. "There wasn't a lot of analysis, there wasn't a lot of due diligence. Cities were pretty loose with their policies… But the evolution has significantly changed since the Great Recession. Because now cities have to look at these deals with more scrutiny. And the big thing that's changed is that pay-as-you-go approach. That's a total shift. Fifteen years ago, you wouldn't have seen a single city do pay-as-you-go financing."

He added that Aurora may be taking more risk with its approach, but "they must feel good about it." Aurora's Minick said they do.

"Borrowing for the obligation made a lot of sense given the structure of the redevelopment agreement and the ability to cover debt service on the bonds from incremental revenues," he said.

When Illinois first legalized casino gambling in 1990, the venues were limited to riverboats. At first they had to be actively sailing; later they were permitted to be permanently docked. A 2019 law expanded casino and other gambling in the state and eliminated the riverboat requirements, allowing Aurora and Penn Entertainment to pursue a new location unburdened by floatation requirements and with easier highway access to the region's gamblers.

S&P Global Ratings rates the city of Aurora AA with a stable outlook. The city also issued general obligation bonds in June 2023, and Series 2022A and 2022B bonds the year before, according to postings on the Municipal Securities Rulemaking Board's EMMA bond disclosure website.

Construction on the new casino began in November. The inland location is slated to open its doors in late 2025 or early 2026.