
City of Harvey can't afford USD 15m loss in revenue

By Gunjan Banerji

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The **City of Harvey**'s failure to pass a property tax levy for FY16 puts additional fiscal strain on an already onerous balance sheet, while the end-game for the distressed city remains unknown, said policy and legal experts.

The **Illinois** city has battled financial and political woes for years, including a Securities and Exchange Commission investigation over a bond sale and millions in unpaid bills to the **City of Chicago**. Now, discord between Mayor Eric Kellogg (D) and the city council could lead to a USD 15m loss in operating funds for FY16.

Harvey filed a levy with the **Cook County** Clerk's office, but it was signed solely by the mayor and lacked city council approval, a Cook County Clerk spokesperson said. Mayor Kellogg claims that it is legally valid, the spokesperson said. The city did not respond to request for comment.

The invalid 2016 property tax ordinance does not affect the security of the city's existing bonds, said Glenn Weinstein, a partner and member of Pugh, Jones and Johnson's public finance law practice. When Harvey issued bonds, it also levied taxes sufficient to pay debt service for all outstanding years, according to offering documents.

Cook County collects property taxes levied by the city to pay debt service and holds the money in a tax escrow account, according to offering documents for the 2007 bonds. However, this does not mean that bonded debt will remain isolated from the city's distress.

Distress clear through opaque financials

The loss in property tax revenue will amount to USD 15.3m in FY16, according to the invalid ordinance seen by *Debtwire Municipals*.

It's difficult to absorb this decrease in operating revenue, said Laurence Msall of the Civic Federation. The city will have to make some very serious changes moving forward, whether it's through cuts, increased revenue, or short-term borrowing (contingent on access to the debt markets), Msall said. Local news reports indicate that Kellogg could layoff roughly half of the city's police, firefighters and other workers.

The city has a cumulative USD 221,957 interest payment due on its Series 2008 and Series 2002 bonds due on 1 February 2016. City leaders have issued around USD 90m of debt since 2002, according to audited FY11 financials seen by *Debtwire Municipals*.

Harvey has failed to submit audits in a timely manner, but even amid its murky financial disclosure, it's clear the municipality needs help. Comptroller Leslie Munger is currently working on audits for FY13 and beyond, said a spokesperson for comptroller. The office received the FY12 audit, and has copies of the city's FY10 and FY11 audits, which end on 30 April.

The city ended FY13 with a USD 20m deficit in its general fund balance, according to unaudited financials for the year.

A tranche of USD 12.7m Series 2007A bonds maturing in 2032 last traded on 8 January at 77.37 yielding 8%, according to *Electronic Municipal Market Access*.

Illinois remains absent

The Cook County suburb's solutions rest on consensus among aldermen and the mayor, which seems unlikely since council members did not appropriate for a 2016 levy – a very drastic step from the city council, Msall said.

And Illinois' political gridlock could further hamper the city's progress.

"It's not a great time to need the state of Illinois' help," Msall said.

The state is an outlier in its failure to require basic financial information from local governments, Msall said.

Illinois lacks statutes to help struggling entities when their financial liabilities grow unmanageable. The state does not have a centralized mechanism that allows for a third party to step in amid spiraling fiscal distress, Weinstein and Msall said.

Governor Bruce Rauner (R) has made municipal bankruptcy a pillar of his turnaround agenda. HB 4214 was introduced last year.

Msall said that the Civic Federation has supported a separate Illinois Municipal Protection Act, which entails a state oversight authority. The legislation has not yet been enacted or passed by the General Assembly, but the organization seeks sponsorship of the legislation.

Despite the state's own political gridlock, Illinois would be the appropriate entity to handle local assistance and provide oversight, Msall said.

But the lack of formal restructuring legislation would not stop a creditor from filing suit and asking the courts to ensure that property taxes are set aside for debt service as stipulated, Weinstein said. However, unless there is a default in payment or a covenant violation, bondholders can't do much.