
Turning the Corner – A Case Study in Taxpayer Concentration

When taxpayer concentration or other type of concentration is present it becomes a major concern for credit analysts. Concentration is present when one entity comprises a significant portion of a tax base, is a significant user of a utility or is a company employing a significant number of people in a community. Concentration can negatively impact a rating, even preventing investment grade status, or prevent a bond issuer from qualifying for top grade bond insurance. Whenever taxpayer concentration, user concentration or employer concentration is present, concerns arise as to what happens if that entity goes away.

In the City of Zion, Illinois, that worst-case scenario came to pass in 1998 when Commonwealth Edison (now Exelon) announced the closure of its nuclear power plant located in the City. In tax year 1993 the various Commonwealth Edison parcels comprised approximately 60% of the City's total equalized assessed valuation (EAV) with the single largest parcel of property on which the plant stands having an EAV of some \$230,000,000.

In 2000, in order to insure the orderly, phased reduction in EAV of this parcel of property, the City and the various overlapping bodies executed an agreement with Commonwealth Edison. In accordance with that agreement, the EAV of this parcel for the current year (2003) stands at \$20,000,000. The final two reductions will occur in 2004 and 2005 to an agreed level of \$10,000,000.

During this transition, the City has encouraged new businesses through economic development in order to diversify its tax base. Over a 14-year period, property valuation in the City has shifted from primarily industrial property (65% of the total EAV to 17%) to primarily residential (25% of total EAV to over 66%). During this same period commercial property has increased from 9% to over 15% of the total. This year the total EAV, even with the continuing phased impact of the Commonwealth Edison Agreement, reversed the downward trend and achieved an increase of some 2%.

Zion is a success story accomplished through planning and intergovernmental cooperation. Over the past several years the best the City was able to do was qualify for insurance that was rated AA. This year the City was able to qualify its Series 2004 Taxable General Obligation Alternate Bonds for AAA rated insurance for the first time. We want to congratulate Zion on turning the corner with respect to the difficult issues of taxpayer concentration.

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Illinois School Finance Consultant Hired

Jerry Gordon, the recently retired long term Superintendent of Bloomingdale School District No. 13, has joined the team at Speer Financial, Inc. and will specialize in school financings. Jerry is also a former Assistant Superintendent for Business and brings a fresh perspective, a practical expertise and a new dimension of understanding for providing creative financial solutions to local school districts.