



MEMORANDUM

DATE: November 17, 2014

TO: Mayor Lahr
Board of Trustees

FROM: Matt Formica
Village Administrator

RE: 2014 Tax Levy

Please find attached a summary sheet of the 2013 property tax extension (funds received in 2014), the proposed 2014 levy (funds to be received in 2015) and the FY 15/16 estimated budget for property tax revenues.

Annually, the Village must adopt its property tax levy. The levy adopted in 2014 will result in property tax receipts for the Village in the year 2015 and during FY 15/16. The Village must comply with the state adopted Property Tax Extension Limitation law (PTELL), which limits the increased dollars the Village can request in its property tax levy. Under the tax cap law, the Village is entitled only to increased dollars equal to the consumer price index for the previous year (1.5% for the 2014 levy) plus new dollars generated from new property (construction of new buildings/annexations in the previous assessment year) which appears on the tax rolls for the first time (these additional new property dollars can only be included in the first year after the construction is added to the tax base). The law allows the additional revenues from new construction so that the districts serving this new construction receive additional revenues to pay for the increased service levels generated by the construction. The generation of these additional new property dollars has no effect on the property tax bills of unchanged homes and businesses.

The process described above requires that a public hearing be held if the levy amount is greater than 5% from the preceding year. Despite some new building construction activity, this year's proposed levy is below the 5% maximum and, therefore, a public hearing process is not required.

The Truth in taxation law establishes procedures taxing districts must follow when developing the annual tax levy. The law requires that the Board determine an estimate of the proposed tax levy amount prior to passage of the tax levy ordinance. If the Board concurs with the proposed

levy, the normal tax levy ordinance will be prepared and presented for consideration at the December 8th meeting.

Background

Over the past 25 years, the Village has been able to stabilize or reduce the tax rate. Since 1985, the Village's tax rate has reduced from .966 to .348 in 2013. This reduction occurred during the 1990s when the Village saw significant growth and the resulting rise in the Village's equalized assessed valuation (EAV). The past few years the Village's tax rate has slightly increased. This is a result of declining property values. In order for the Village to continue to collect the same amount of dollars needed to provide essential public services, when property values are declining the tax rate increases as a result.

The Village's tax levy has a relatively small impact on overall property tax bills. The Village's share of tax bills is less than 3%. This is due to the Village's continued commitment to strong cost containment and a conservative fiscal approach. Property tax dollars are used for general municipal purposes including, police protection, streets maintenance, insurance, pension and retirement costs, and miscellaneous municipal purposes. The water and sewer utility fund is an enterprise fund that operates as its own independent business funded solely by user fees.

Recommended Tax Levy

The attached chart includes the following columns:

- 1. 2013 Tax Extension** – This details the actual property tax dollars being received by the Village in the current fiscal year from the 2013 levy. The total extension amount is the base line for calculating the 2014 levy under the tax cap law.
- 2. Proposed 2014 Levy** – This details the proposed 2014 property tax levy under the tax cap, including distribution of the additional levy dollars permitted amongst the various municipal uses.

Please note that the proposed levy includes an additional \$24,000 in the corporate line item above the amount the Village estimates it should receive based upon our estimates of the value of new construction. This dollar cushion is placed in the levy in case the Village has underestimated the amount of new property that will be added to the tax base by the assessor. If there is additional new property value, as

determined by the assessor, additional revenues could be realized up to this \$24,000 amount. Inclusion of this cushion assures the Village will receive all of the revenues it is entitled to from new construction under the tax cap law.

As shown in the attached chart, it is estimated that the Village is entitled to \$46,537 in additional property tax revenue in FY 15/16 under the provisions of the tax cap law. These dollars are included in the levy amount \$1,152,906 (2014 levy) - \$1,106,369 (2013 tax extension) - \$24,000 (cushion) = \$22,537.

- 3. Estimated Budget** – This details staff’s estimate of the actual revenues that will be received as a result of the levy. As you will note, the estimated budgeted revenue is less than the proposed levy amount. The difference is the \$24,000 cushion discussed above because the budget estimate is based upon the Village’s estimate of new property.

4. Levy Dollar Allocations:

a. Police Pension

From 2007 to 2010, the levy for Police Pension increased 34%. This was due to the additional police officer position created in the FY 08/09 budget year. In 2011, the levy for Police Pension increased 37%, from \$177,481 to \$243,304. Beginning in 2011, the General Assembly adopted legislation that changed the method of calculating the statutory minimum contribution for Police Pension. This change was designed to lower the required contributions by municipalities. Unfortunately, the law as written penalizes well funded pension funds. The Village is funded at 92%, one of the highest funded pensions in the entire State. Because of this change, we continue to see a substantial increase in our required contribution since 2010.

The Police Pension funds of many area municipalities have experienced significantly lower investment earnings as a result of the current economic climate. This is causing pension costs and the associated tax levy for police pension purposes to skyrocket. Fortunately, due to our small staff size, strong investment management, and long history of fully funding pension obligations, Lindenhurst is not in the same situation. In a report prepared by IML, Lindenhurst had the sixth strongest Police Pension fund in the entire state. This is good news for Lindenhurst as any increases in pension or insurance levies

means less dollars to the corporate fund. We recommend a levy amount for this year of \$299,507, an increase of 7% or \$19,736, based upon the recently completed actuarial report.

b. IMRF

The Illinois Municipal Retirement Fund is a retirement benefit provided to all full-time, non-sworn police employees and is a group managed pension benefit system. In 2014, the Village's contribution rate for IMRF was 14.76% and is increasing to 15.05% in 2015.

Fortunately for Lindenhurst, cost cutting measures including the elimination of certain positions has reduced our total payroll. As a result, our total IMRF obligation has gone down due to a reduction in total salaries. This levy supports the corporate fund share of wages. The proposed levy amount for IMRF is \$103,043. This is an increase of \$4,488 from last year.

c. Social Security

This levy is very similar to IMRF and is used to support all forms of corporate fund wages. The water and sewer enterprise fund supports its share through its fund contribution. The proposed levy amount for Social Security is \$75,213, up \$5,271 from last year. This is \$47,997 less than the 2007 tax extension, a 39% reduction.

d. Liability Insurance

This levy supports the corporate fund share (58%) of the property, casualty, liability and unemployment insurance premiums. The proposed levy amount is \$115,321, up \$19,945 from last year due to a 5.2% increase in the Village's insurance premiums.

e. Corporate Fund

After fully funding our corporate fund costs for pensions and insurance, all remaining dollars (if any) are placed in the corporate levy line item. This year's estimated budget (remember, levy includes an additional \$24,000 cushion) is

\$535,822. Unfortunately, this is a decrease of \$26,900 from than last year's actual extension, a 4.8% reduction.

Although it is difficult to predict within tenths of a cent, it is likely that the Village's tax rate will be between the current .348 and .353 per \$100 EAV. The Township Tax Assessor is estimating a 7.4% reduction in the EAV. As a result, it is likely the Village's tax rate will go up in order to maintain the same extension amount.

Essentially, this levy continues the Village's approach to holding the line on its property tax rate, our philosophy of fully funding the Village's pension obligations, and capturing all new construction coming on the tax rolls for the first year. Unfortunately, the Village's efforts to reduce its property tax rate, combined with the impact of the tax cap which limits the dollars we can receive in an environment of flat or decreasing economically sensitive revenues, creates difficulties in meeting increasing General operating fund costs.

Since 2008, the Village's tax levy has increased an average of less than 2% per year. Excluding new construction, the 2014 levy will increase 1.5% from 2013.

As per state statute, the Board needs to consider adoption of the annual levy ordinance in the amount of \$1,152,906.

RECOMMENDED TAX LEVY

| | <u>2013 Tax Extension</u> <u>FY 14/15</u> | <u>Proposed 2014 Levy</u> <u>FY 15/16</u> | <u>Estimated Budget</u> <u>FY 15/16</u> |
|------------------------|--|--|--|
| Corporate Fund | 562,722 | 559,822 ¹ | 535,822 |
| IMRF | 98,555 | 103,043 | 103,043 |
| Police Pension | 279,771 | 299,507 ² | 299,507 |
| Social Security | 69,942 | 75,213 | 75,213 |
| Insurance | 95,376 | 115,321 | 115,321 |
| Total | 1,106,369 | 1,152,906 | 1,128,906 |

¹ This number includes \$24,000 added to the levy to ensure that the Village receives all funds possible from new property under the tax cap. None of these dollars would be realized unless our new property estimate is too low.

² Per the actuarial valuation conducted by an outside actuary.