



MEMORANDUM

DATE: December 29, 2015

TO: Mayor Marturano
Board of Trustees

FROM: Matt Formica 
Village Administrator

RE: 2015 Tax Levy

Please find attached a summary sheet of the 2014 property tax extension (funds received in 2015), the proposed 2015 levy (funds to be received in 2016) and the FY 16/17 estimated budget for property tax revenues.

Annually, the Village must adopt its property tax levy. The levy adopted in 2015 will result in property tax receipts for the Village in the year 2015 and during FY 16/17. 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 (.8% for the 2015 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

concur with the proposed levy, the normal tax levy ordinance will be prepared and presented for consideration at the December 14th 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. 2014 Tax Extension** – This details the actual property tax dollars being received by the Village in the current fiscal year from the 2014 levy. The total extension amount is the base line for calculating the 2015 levy under the tax cap law.
- 2. Proposed 2015 Levy** – This details the proposed 2015 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 \$25,000 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 \$25,000

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 will receive \$42,449 in additional property tax revenue in FY 16/17 under the provisions of the tax cap law. These dollars are included in the levy amount \$1,172,587 (2015 levy) - \$1,130,137 (2014 tax extension) - \$25,000 (cushion) = \$17,450.

- 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 \$25,000 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 \$302,440, an increase of 3% or \$8,847, based upon the recently

completed actuarial report. Since 2007, the Village's obligations for Police Pension have increased 123%, (\$135,532 in 2007 vs. \$302,440 in 2015).

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 15.05% and is increasing to 15.25% in 2016.

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 \$89,298. This is a decrease of \$11,710, or 11.5% from last year. Since 2007, the Village's obligation for IMRF employee retirement benefits has decreased 23% (\$135,532 in 2007 vs. \$89,298 in 2015).

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 \$65,908, down \$7,819 from last year, a 10.6% decrease. This is \$57,303 less than the 2007 tax extension, a 46.5% reduction.

	2009	2015	% Change
IMRF			
Community 1	\$55,000	\$93,889	70% ↑
Community 2	\$113,967	\$149,500	31% ↑
Community 3	\$118,617	\$132,153	11% ↑
Lindenhurst	\$112,356	\$89,298	27% ↓
Social Security			
Community 1	\$60,000	\$191,797	220% ↑
Community 2	\$299,500	\$345,105	15% ↑
Community 3	\$140,000	\$167,146	19% ↑
Lindenhurst	\$97,041	\$65,908	32% ↓

d. Liability Insurance

This levy supports the corporate fund share (55%) of the property, casualty, liability and unemployment insurance premiums. The proposed levy amount is \$116,658, up \$3,616 from last year.

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 \$25,000 cushion) is \$598,283. This is up \$49,518 from 2014.

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 .370 and .383 per \$100 EAV. The Township Tax Assessor is estimating a 5.1% increase in the EAV. This is the first increase in EAV over the last few years. As a result, it is likely the Village's tax rate will stay the same or go down 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 2015 levy will increase .8% from 2014.

Property Tax Freeze Option

Mayor Marturano has asked that this year we prepare an alternative scenario that would freeze the 2015 tax levy at the 2014 tax extension level. From a business perspective, there are several factors the Village should consider when evaluating this option:

1. As stated several times above, the Village has historically had a philosophy of capturing all new construction and annexations coming on the tax rolls for the

first year. These new dollars can only be included in the tax levy in the first year they are added to the tax base. As a result, not capturing new construction and annexations will have a compounded financial effect in future years and would represent a change in the Village's past philosophical approach.

2. The Village Board should consider whether or not it will maintain the past philosophical approach of fully funding its pension obligations. While we have been successful over the past few years in reducing the Village's IMRF and Social Security obligations through significant reductions in non-police personnel, it will be difficult to maintain this trend. Police Pension costs will continue to significantly increase. In the long-term, freezing the total tax levy will require the Village to either change its approach to funding its pension obligations or reductions will need to be made to the dollars allocated to the General Fund.
3. As you know, the General Fund (Corporate Fund) has very limited and economically sensitive revenues. We are currently seeing continued declines in the Simplified Municipal tax (\$550,000 in 2010/2011 to \$336,000 in 2014/2015), along with uncertainty in other major revenue streams. The property tax represents a stable revenue stream to the General Fund. A freeze could mean reductions in future year's property tax revenue to the General Fund.

Attached are the proposed tax levy charts for the Village's typical approach and the requested property tax freeze scenario.

If the Board wishes to utilize the typical approach, then a tax levy determination should be made in the amount of \$1,172,587.32.

If the Board wishes to utilize the property tax freeze approach, then a tax levy determination should be made in the amount of \$1,130,137.60, the 2014 tax extension amount.

Once a tax levy determination is made, we will prepare the usual tax levy ordinance for consideration at the December 14th Village Board meeting.

TYPICAL TAX LEVY

	<u>2014 Tax Extension</u> <u>FY 15/16</u>	<u>Proposed 2015 Levy</u> <u>FY 16/17</u>	<u>Estimated Budget</u> <u>FY 16/17</u>
Corporate Fund	548,765	598,283 ¹	573,283
IMRF	101,008	89,298	89,298
Police Pension	293,593	302,440 ²	302,440
Social Security	73,727	65,908	65,908
Insurance	113,042	116,658	116,658
Total	1,130,137	1,172,587	1,147,587

¹ This number includes \$25,000 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 The Police Pension amount is per the actuarial valuation recently completed by an outside actuary.

OPTIONAL TAX LEVY FREEZE

	<u>2014 Tax Extension</u> <u>FY 15/16</u>	<u>Proposed 2015 Levy</u> <u>FY 16/17</u>	<u>Estimated Budget</u> <u>FY 16/17</u>
Corporate Fund	548,765	555,833	555,833
IMRF	101,008	89,298	89,298
Police Pension	293,593	302,440	302,440
Social Security	73,727	65,908	65,908
Insurance	113,042	116,658	116,658
Total	1,130,137	1,130,137	1,130,137