



**CITY OF URBANA, ILLINOIS
FINANCE DEPARTMENT**

MEMORANDUM

TO: Mayor Diane Wolfe Marlin and City Council Members

FROM: Elizabeth Hannan, Finance Director

DATE: November 9, 2017

SUBJECT: **Estimated Property Tax Levy**

Introduction: The first step in the property tax levy process is approval of an estimated tax levy, which establishes the total amount of taxes the City Council plans to levy. The estimated levy is used to determine whether the City is required to provide public notice and hold a public hearing prior to approving the final tax levy. The City Council must approve an estimated levy at least 20 days prior to adoption of the final levy. Since the recommended estimated levy is 103.85% of the 2016 levy, the City will not be required to provide notice and hold a public hearing.

Proposal for Estimated Tax Levy:

Property Tax Levy Process: The process for levying property taxes is summarized in the following table.

Item	Date	Requirements
Estimated Levy – Committee	November 13, 2017	
Estimated Levy - Council	November 20, 2017	Must be approved at least 20 days prior to final levy approval. (This is 28 days.)
Publish Truth in Taxation Notice	Not required	Must be published 7 – 14 days prior to public hearing, if required
Public Hearing	Not required	Hearing must be held prior to approval of tax levy, if required.
Final Tax Levy – Committee	December 11, 2017	
Final Tax Levy & Abatements – Council	December 18, 2017	
City Clerk Files Levy with County by	December 22, 2017	Must be filed by last Tuesday in December, but December 26 is a holiday for the County, so must file by December 22.

Estimate of Equalized Assessed Valuation (EAV): Staff has developed a preliminary estimate of the EAV of \$555,870,844. This EAV would be an increase of 1.81% from the EAV upon which the extended levy for 2016 was based. For estimation purposes, however, staff will use a higher EAV of \$566,988,261, since the levy amount cannot be increased, but can easily be decreased prior to extension to achieve the desired tax rate.

Tax Rate: The Mayor recommends a tax rate for this year’s levy of \$1.3550 per \$100 of taxing value, which is the same as the current tax rate. The City’s tax rate is currently about 13% of the total tax rate for City residents. At this rate, City taxes for an owner-occupied home are estimated as follows –

Property Value	City Property Tax*
\$100,000	\$370
\$150,000	\$596
\$200,000	\$822
\$250,000	\$1,048

*City property tax = EAV (property value / 3), less owner occupied exemption (\$6,000), divided by \$100, multiplied by \$1.355 tax rate

Purposes for Which the City Levies Taxes: The City levies taxes for “corporate purposes” (the General Operating Fund), the Library, and Police and Fire pensions. The levies for specific purposes are not approved by the City Council until the final tax levy Ordinance is approved.

Pension Levies: Required levies for the Police and Fire Pension Funds are based upon actuarial valuations prepared for the Illinois Department of Insurance (DOI). The actuarial reports determine the minimum contribution required to comply with State law. This calculation is based upon amortization of 90% of the unfunded liability by 2040. An 8.12% portion of the funding requirement is met by allocation of personal property replacement tax (PPRT) revenues, consistent with the Illinois law. The minimum requirement is \$1,349,734 for the Police Pension Fund, an increase of 11.9% from \$1,206,588 in 2016. The minimum requirement is \$1,108,652 for the Fire Pension Fund, an increase of 8% from \$942,805 in 2016. The increase in contributions is about \$219,000 for the Police and Fire Pension Funds combined.

This year, the Police Pension Fund requested funding of \$2,651,251 and the Fire Pension Fund requested funding of \$1,696,284, based upon a report provided by the actuary engaged by the pension funds. Those requests were based upon amortization of 100% of the unfunded liability by 2033. Accommodating those requests would result in increased funding of about \$2.2 million over the 2016 funding level and about \$1.98 million over the recommended funding level. This level of funding cannot be achieved at the current tax rate without significant budget cuts, including significant staffing reductions.

As part of reviewing the FY2018 proposed budget, the City Council discussed the need to increase pension funding to avoid higher long-term costs. The Finance Director is currently working with the actuary to come up with options for review by the City Council. Trustees for both pension boards are aware that the City is working on developing a recommended funding policy that would be more aggressive than funding the state minimum to begin to close the funding gap. Staff expects to be able to recommend a change in the policy on pension funding sometime in 2018, which would be implemented in the 2018 tax levy.

Because the financial outlook is very uncertain at this time and the Council has not yet reviewed funding options or an updated financial forecast, the Mayor recommends funding the minimum amount through the tax levy, and considering an additional contribution as part of the budget for FY2019, which provides more flexibility. Any additional contribution would reduce the unfunded liability and, therefore, reduce future contributions. This recommendation is fully compliant with State law.

Taxes for these funds would be levied as follows:

	Police Pension Fund	Fire Pension Fund
Funding requirement (DOI)	\$1,349,734	\$1,018,652
PPRT portion (8.12%)	(109,598)	(82,715)
Levy amount for 2017	\$1,240,136	\$935,937

Urbana Free Library: The Mayor recommends a levy of \$3,210,000, which is an increase of 3.26% over the 2016 levy. This increase is needed to allow the Library to maintain current services, based upon the FY2018 budget.

Corporate Purposes: Remaining revenues generated by property taxes at this rate would be allocated to the General Operating Fund, where they would be used to pay for basic City services, such as police protection. At the lower EAV with a \$1.3550 tax rate, this is expected to result in a decrease of about \$168,000 and total revenue of \$2,145,977. This decrease in corporate property tax revenue is a concern, particularly given that the City is addressing a structural deficit while trying to address funding for capital improvements and other high priority needs, including pension funding.

Abatements: Staff will prepare an Ordinance authorizing the County Clerk to abate (reduce) the corporate tax levy in the event the final EAV (which is not known when the City Council approves the levy) is lower than estimated. This allows the City to maintain a stable tax rate of \$1.3550. Levies for debt service were approved when bonds were issued in 2012 for Boneyard Creek improvements and 2014 for Windsor Road improvements. Those levies will be fully abated and the debt service will be paid from the TIF 2 and Local Motor Fuel Tax Funds.

Fiscal Impact: This tax levy will result in a reduction of about \$168,000 in General Fund revenues available to fund City services. This will be factored into the updated financial forecast used for determining strategy for the budget for FY2019.

Recommendation: Adopt this resolution establishing the estimated property tax levy for 2017.

RESOLUTION NO. 2017-11-072R

**A RESOLUTION ESTIMATING THE TAX LEVY
(Fiscal Year 2017 - 2018)**

WHEREAS, Section 18-60 of the Truth in Taxation Law, 35 ILCS 200/18-60, requires the corporate authority of each taxing district, not less than 20 days prior to the adoption of its aggregate tax levy, to estimate the amounts of money necessary to be raised by taxation for that year upon the taxable property in its district; and

WHEREAS, Section 18-70 of the Truth in Taxation Law, 35 ILCS 200/18-70, requires the corporate authority of each taxing district to give public notice of and hold a public hearing on its intent to adopt an aggregate tax levy, if the estimated amounts to be levied exceed 105% of the property taxes extended or estimated to be extended, including any amount abated prior to such extension, upon the levy of the preceding year.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Urbana, Champaign County, Illinois, as follows:

Section 1.

The amounts of money, exclusive of election costs, estimated and proposed to be levied for fiscal year 2017 - 2018 upon the taxable property in the City of Urbana is \$7,682,691.

Section 2.

The aggregate amount of property taxes for the City of Urbana, extended or estimated to be extended, including any amount abated by the corporate authority prior to such extension, upon the levy of the preceding fiscal year and exclusive of election costs, was \$7,397,953.87.

Section 3.

The amounts estimated and proposed to be levied in Section 1 of this Resolution are hereby determined to be 103.85% of the amounts extended or estimated to be extended for the preceding fiscal year.

This Resolution is hereby passed by the affirmative vote, the “ayes” and “nays” being called, of a majority of the corporate authorities (5 of 8 votes) of the City of Urbana, Illinois, at a meeting of said corporate authorities.

PASSED BY THE CITY COUNCIL this ____ day of _____, 2017.

AYES:

NAYS:

ABSTENTIONS:

Charles A. Smyth, City Clerk

APPROVED BY THE MAYOR this ____ day of _____, 2017.

Diane Wolfe Marlin, Mayor