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Title: Conduct a Truth-in-Taxation hearing for the City’s property tax levy (Item 1 of 3)

Sponsors:

Indexes:

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Attachments: 1. Truth in Taxation Notice - Citywide

Date	Ver.	Action By	Action	Result
12/15/2020	1	City Council	closed	Pass

CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:

Conduct a Truth-in-Taxation hearing for the City’s property tax levy (Item 1 of 3)

DEPARTMENT: Finance Department

SUBMITTED BY: Rachel Mayer, Finance Director

BOARD/COMMISSION REVIEW:

N/A

BACKGROUND:

If the City of Naperville chooses to raise revenue through property taxes it is required to approve and file a property tax levy ordinance by the last Tuesday in December with DuPage County and Will County. Several statutorily-required steps must occur prior to filing the levy. The completed steps to date include:

- ✓ Make tentative annual budget available for public inspection. **(October 19)**
- ✓ Estimate the amount of taxes to be levied at least 20 days prior to approval. **(November 4)**
- ✓ Determine whether a Truth-in-Taxation hearing is required. **(November 4)**
- ✓ Publish for a public hearing on the tentative annual budget. **(November 15)**
- ✓ Hold hearing on tentative annual budget and pass ordinance approving annual budget. **(December 1)** [File with county clerks within 30 days of approval, but before tax levy ordinance is filed.]
- ✓ Publish notification in the newspaper of Truth-in-Taxation hearing not less than seven days and no more than 14 days prior to date of the Truth-in-Taxation hearing. **(December 6)**

The remaining step this year in the property tax levy process is:

- Hold truth-in-taxation hearing and adopt levy. **(December 15)**

Per Illinois state statute, municipalities are required to publish and hold a Truth-in-Taxation hearing if the amount of the requested levy is more than 105% of the prior year's general corporate and special purpose tax extensions, plus any amount abated prior to the extension. When comparing Naperville's tax year 2019 extension to the initial, unabated 2020 levy, the proposed 2020 levy is 120% of the previous year's levy, therefore requiring the City to hold a Truth-in-Taxation hearing.

The City Council set a Truth-in-Taxation public hearing at its November 4, 2020 meeting. The Truth-in-Taxation hearing notice was published on December 6 in the *Naperville Sun* newspaper.

DISCUSSION:

The 2020 property tax levy recommendation supports the approved City of Naperville 2021 annual operating budget, which was approved by the City Council on December 1, 2020. A key policy decision throughout the budget development process is the determination of the annual property tax levy amount. Property taxes are the primary funding source for long-term obligations of the City, such as public safety pensions, IMRF pensions and debt service payments. Property taxes are also the predominate funding source for the Library and Naper Settlement operations.

This year's budget recommendation includes a property tax levy which takes advantage of growth in the equalized assessed valuation (EAV) of the community. Assuming 4.5% growth in EAV, the proposed tax levy is estimated to produce a property tax rate of 0.6871. That rate is nearly flat to the 2018 extended rate of 0.6870 and a reduction from the 2019 extended rate of 0.6937. Actual tax extension rates are dependent on EAV, so the final 2020 extended rate may be slightly higher or lower depending on final EAV, which is not determined until after the tax levy filing deadline.

The property tax levy recommendation adheres to the City's established three financial principles and meets the service needs of the community's citizens while simultaneously advancing Naperville's goals and ends policies.

Property Tax Levy Ordinance

The first ordinance attached to this agenda item is for approval of the 2020 property tax levy, which will be used to fund the 2021 operating budget approved at the December 1, 2020 City Council meeting.

The initial 2020 property tax levy for the City of Naperville is requested at \$62,126,976. *This amount does not include any abatements related to the utility or special fund debt service.*

The total property tax levy is determined from a variety of sources:

Naperville Public Library Levy Request

The library portion is based on the request made by the Library Board. The Naperville Public Library is more than 95% funded by property taxes. The Library Board requested a levy of \$14,935,000, which is the same as the prior year.

Naper Settlement Levy Request

Naper Settlement receives more than 70% of its annual funding through property taxes. The Naper Settlement, Naperville Heritage Society and Naper Settlement Museum Boards requested City

Council approve a levy in the amount of \$2,796,952, which is the same as the prior year.

Public Safety Pension Levy

Per the actuarial valuation report, the total required contribution for public safety pensions in 2021 increased \$1.07 million to \$18.07 million. Required contributions to the Fire pension increased 5.6% and required contributions to the Police pension increased 7.2% from the prior year. Starting with the 2016 tax levy, City Council authorized the partial funding of public safety pension obligations with Food & Beverage Tax proceeds. For 2021, \$1.01 million will be used to fund the pension liability. The remaining \$17.06 million will be funded through the property tax levy.

Illinois Municipal Retirement Fund (IMRF) Pension Levy

The portion of the tax levy allocated to IMRF is based on the actuarial calculated percentage provided to the City by IMRF. The 2021 rate is 10.85%, a 1.8% decrease from the 2020 rate. The 2021 levy amount totals \$2.74 million and represents the General Fund portion of the total IMRF obligation.

Debt Service Levy

The debt service levy is based on the City's actual annual debt service requirements. As required per statute, City Council approves a levy for the entire value of the general obligation (GO) bonds debt service, including those for general corporate borrowing, water/wastewater and electric utility borrowing, and borrowing related to special purposes. The City is required to levy for all GO debt as part of the initial levy. The amount for all GO debt service is \$18.05 million. A second ordinance is attached to abate \$8,624,089. This is the portion of debt service that is paid by other funds, such as the Water/Wastewater Utility Fund and the Electric Utility Fund.

General Corporate

The general corporate portion of the request is utilized to support City operations, including services to residents and businesses. The \$6.54 million levy request supports 5.0% of the City's total General Fund operating expenses.

The initial total tax levy is estimated at \$62.13 million. The chart below shows the 2019 extension compared to the 2020 initial request; these are the figures utilized to calculate the truth-in-taxation requirements.

	2019 Extension	2020 Initial Request
General Corporate	5,506,624	6,543,160
Debt Service	9,560,214	18,052,070
IMRF Pension	2,652,717	2,743,559
Fire Pension	9,247,253	9,748,334
Police Pension	6,803,177	7,307,901
Naper Settlement	2,831,552	2,796,952
Library	15,089,193	14,935,000
TOTAL	\$ 51,690,730	\$ 62,126,976

Property Tax Abatement Ordinance

A second ordinance is also attached to this agenda item for consideration by the City Council. The

ordinance is for abatement of a portion of debt service owed by other funds on outstanding G.O. bonds. Taxes abated will be offset by separate property tax levies for: SSA 21, SSA 23 and SSA 25; user fees in the Electric Utility and Water/Wastewater Utility Funds; and revenues dedicated to debt service from the Food and Beverage Fund, Home Rule Sales Tax, Water Street TIF, and Debt Service Fund cash balance. The breakdown of the abatement is as follows:

Funding Source	Bond Series	Amount
Electric Fund	2012	1,184,080
	2016 (refunding)	1,105,200
	2020	711,106
Subtotal		\$3,000,386
Water/Wastewater Fund	2016 (refunding)	559,650
	2020	1,658,676
Subtotal		\$2,218,326
Downtown Parking Fund	2016 (refunding)	311,500
	2020	4,144
Subtotal		\$315,644
SSA #21	2010D	166,725
	2012	57,760
Subtotal		\$224,485
Food and Beverage Fund	2016 (refunding)	590,380
Subtotal		\$590,380
SSA #23	2016 (refunding)	65,000
Subtotal		\$65,000
Water Street TIF	2016	543,453
Subtotal		\$543,453
SSA #25	2016 (refunding)	68,000
Subtotal		\$68,000
Debt Service Cash Balance	2016 (refunding)	1,348,415
Subtotal		\$1,348,415
Home Rule Sales Tax	2016 (refunding)	250,000
Subtotal		\$250,000
GRAND TOTAL		\$8,624,089

Final Property Tax Levy Amount

Taking the initial total tax levy of \$62.13 million and combining it with the \$8.62 million in abatements from utility and special funds results in a total property tax levy of \$53,502,887. The net effect is a \$1.81 million increase in the proposed levy amount. Combined with the City's projected 4.5% EAV growth, this total is estimated to reduce the City's property tax rate from 0.6937 to 0.6871; however, the final rate extended to property owners is dependent on final EAV.

	2019 Extension	2020 Levy w/Abatements	Change (%)
General Corporate	5,506,624	6,543,160	18.8
Debt Service	9,560,214	9,427,981	(1.4)
IMRF Pension	2,652,717	2,743,559	3.4
Fire Pension	9,247,253	9,748,334	5.4
Police Pension	6,803,177	7,307,901	7.4
Naper Settlement	2,831,552	2,796,952	(1.2)
Library	15,089,193	14,935,000	(1.0)
TOTAL	\$51,690,730	\$53,502,887	3.5%

FISCAL IMPACT:

The final total property tax levy will be \$53,502,887, with an estimated tax rate of 0.6871. The City continues to have the lowest property tax rate of our comparable communities and strives each year to maintain an appropriate property tax rate. While the City component makes up only 10% of a property owner's total tax bill, staff attempts each year to minimize the impact the City has on the overall property tax bill.

Since implementation of the financial principles in 2015, the incremental increase in value due to appreciation and new growth was used to reduce the property tax rate from 0.8081 to the 2020 levy estimate of 0.6871. During the timeframe, the City portion of an average homeowner's property tax bill decreased from \$995 to a projected \$865.