



Legislation Text

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**CITY COUNCIL AGENDA ITEM**

**ACTION REQUESTED:**

Conduct a Truth-in-Taxation hearing for the 2021 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 15)**
- ✓ Estimate the amount of taxes to be levied at least 20 days prior to approval. **(November 16)**
- ✓ Determine whether a Truth-in-Taxation hearing is required. **(November 16)**
- ✓ Publish notice for a public hearing on the tentative annual budget. **(November 28)**
- ✓ Hold hearing on tentative annual budget and pass ordinance approving annual budget. **(December 7)**
- ✓ 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 12)**

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

- Hold Truth-in-Taxation hearing and adopt levy. **(December 21)**

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 2020 extension to the initial, unabated 2021 levy, the proposed 2021 levy is 116% of the previous year's levy, therefore requiring the City to hold a Truth-in-Taxation hearing.

The City Council received the estimated tax levy and set a Truth-in-Taxation hearing at its November 16, 2021 meeting. The Truth-in-Taxation hearing notice was published on December 12 in the *Naperville Sun* newspaper.

**DISCUSSION:**

The 2021 property tax levy recommendation supports the City of Naperville 2022 annual operating budget, which was approved by the City Council on December 7, 2021. A key policy decision throughout the budget development process is the establishment 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 predominant funding source for Naperville Public Library and Naper Settlement operations.

As in the past, this year's recommended property tax levy takes advantage of growth in the equalized assessed valuation (EAV) of the community. Assuming 4% growth in EAV, the proposed tax levy is estimated to produce a property tax rate of 0.6794. That estimated rate represents a 2% reduction to the 2020 extended rate of 0.6949. Actual tax extension rates are dependent on final EAV, so the 2021 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 financial principles and meets the service needs of the community while simultaneously advancing the priorities laid out in the Bridge to 2023 Priorities Plan.

**Property Tax Levy Ordinance**

The first ordinance attached to this agenda item is for approval of the 2021 property tax levy, which will be used to fund the 2022 operating budget approved at the December 7, 2021 City Council meeting.

The initial 2021 property tax levy for the City of Naperville is requested at \$62,695,482. This amount includes all corporate and special purpose levies but does not include any abatements related to the utility or special fund debt service.

The total property tax levy is derived from a variety of sources, as detailed below:

**General Corporate**

The general corporate portion of the levy request is utilized to operations supported by the City's General Fund which provides Fire, Police, and Public Works services to the community. The \$6.75 million levy request supports just 5% of the City's total General Fund operating expenses; however, this amount represents a key component of the City's revenue diversification model as property taxes are historically the City's most stable revenue source.

**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 \$16.95 million. Following approval of the 2021 property tax levy ordinance, City Council will be asked to approve an ordinance to abate \$8.27 million from the debt service levies. This represents the portion of debt service paid for through other sources, such as the Water Utilities Fund and the Electric Utility Fund.

Illinois Municipal Retirement Fund (IMRF) Pension Levy

The portion of the tax levy allocated to IMRF is based on the actuarially calculated percentage provided to the City by IMRF. The 2021 rate is 8.58%, a 20.9% decrease from the 2021 rate. The 2021 levy amount totals \$2.21 million and represents the General Fund portion of the total estimated IMRF obligation.

Public Safety Pension Levies

Per the actuarial valuation reports, the total required contribution for public safety pensions in 2022 increased \$638,746 to \$18.71 million. Required contributions to the Fire pension increased 3.5% to \$10.62 million and required contributions to the Police pension increased 3.5% to \$8.09 million. In 2022, \$1.17 million in Food and Beverage Tax revenue will be used to fund the annual pension obligation. The remaining \$17.57 million will be funded through the property tax levy.

Naper Settlement Levy Request

The Naper Settlement portion of the levy is based on the request made by the Naperville Heritage Society. The Settlement receives more than 85% of its annual funding through property taxes. The Heritage Society requested a levy of \$3,907,616, an increase of 39.7% from the prior year.

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 90% funded by property taxes. The Library Board requested City Council approve a levy of \$15,310,000, an increase of 2.5% from the prior year.

The initial total tax levy is requested at \$62,695,482. The chart below shows the 2020 extension compared to the 2021 initial request; these are the figures utilized to calculate the Truth-in-Taxation requirements.

	<b>2020 Final Extension</b>	<b>2021 Initial Request</b>
General Corporate	6,612,594	6,750,000
Debt Service	9,522,279	16,946,019
IMRF Pension	2,777,331	2,213,424
Fire Pension	9,849,024	10,049,006
Police Pension	7,382,878	7,519,417
Naper Settlement	2,831,789	3,907,616
Library	15,084,721	15,310,000
<b>TOTAL</b>	<b>\$54,060,616</b>	<b>\$62,695,482</b>

**Property Tax Abatement Ordinance**

Following the 2021 property tax levy ordinance, a second ordinance is presented for consideration by the City Council. This 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 funds available from other sources, including user fees in the Electric Utility and Water Utilities funds; separate property taxes received through Special Service Area (SSA) #23, SSA #25, and the Water Street TIF; revenues dedicated to debt service from the Food and Beverage and Home Rule Sales Taxes; and cash balance in the Debt

Service and SSA #21 funds. The breakdown of the abatement is as follows:

Funding Source	Bond Series	Amount
Electric Fund	2012	\$912,988
	2016 (refunding)	\$1,075,800
	2020	\$688,900
<b>Subtotal</b>		<b>\$2,677,688</b>
Water/Wastewater Fund	2016 (refunding)	\$565,650
	2020	\$1,633,750
<b>Subtotal</b>		<b>\$2,199,400</b>
Downtown Parking Fund	2016 (refunding)	\$300,900
	2020	\$4,000
<b>Subtotal</b>		<b>\$304,900</b>
SSA #21 Fund	2012	\$44,536
<b>Subtotal</b>		<b>\$44,536</b>
SSA #23 Fund	2016 (refunding)	\$98,939
<b>Subtotal</b>		<b>\$98,939</b>
SSA #25 Fund	2016 (refunding)	\$68,000
<b>Subtotal</b>		<b>\$68,000</b>
Water Street TIF Fund	2014	\$94,895
	2016	\$278,500
<b>Subtotal</b>		<b>\$373,395</b>
Debt Service Fund Balance	2020	\$1,500,000
<b>Subtotal</b>		<b>\$1,500,000</b>
Food and Beverage Fund	2020	\$500,000
<b>Subtotal</b>		<b>\$500,000</b>
Home Rule Sales Tax	2020	\$500,000
<b>Subtotal</b>		<b>\$500,000</b>
<b>GRAND TOTAL</b>		<b>\$8,266,858</b>

### Final Property Tax Levy Amount

Taking the initial total tax levy of \$62,695,482 and combining it with the \$8,266,858 in abatements from utility and special funds results in a total property tax levy of \$54,428,624. The net effect is a \$368,008 increase in the proposed levy amount. The tax levy, as proposed, is estimated to reduce the City's property tax rate from 0.6949 to 0.6794 (assuming 4% EAV growth); however, the final rate extended to property owners is dependent on final EAV.

	2020 Final Extension	2021 Levy w/Abatements	Change (%)
General Corporate	6,612,594	6,750,000	2.1

Debt Service	9,522,279	8,679,161	(8.9)
IMRF Pension	2,777,331	2,213,424	(20.3)
Fire Pension	9,849,024	10,049,006	2.0
Police Pension	7,382,878	7,519,417	1.8
Naper Settlement	2,831,789	3,907,616	38.0
Library	15,084,721	15,310,000	1.5
<b>TOTAL</b>	<b>\$54,060,616</b>	<b>\$54,428,624</b>	<b>0.7%</b>

**FISCAL IMPACT:**

The final property tax levy after abatements will be \$54,428,624, which is estimated to result in a tax rate of 0.6794.

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 components make 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.