



Legislation Details (With Text)

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12/19/2017	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: Erik Hallgren, Financial Services Supervisor

BOARD/COMMISSION REVIEW:

N/A

BACKGROUND:

The City is required to approve and file with the DuPage and Will County clerks a tax levy ordinance by the last Tuesday in December if the municipality chooses to raise revenue through real estate taxes. 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 20)**
- ✓ Publish for a public hearing. **(November 19)**
- ✓ Hold hearing on tentative annual budget; pass ordinance approving annual budget. [File with county clerks within 30 days of approval, but before tax levy ordinance is filed.] **(December 5)**
- ✓ Estimate the amount of taxes to be levied at least 20 days prior to approval. **(November 7)**
- ✓ Determine whether a Truth-in-Taxation hearing is required. **(November 7)**
- ✓ Publish notification in the newspaper of Truth-in-Taxation hearing not less than 7 days and no more than 14 days prior to date of the Truth-in-Taxation hearing. **(December 10)**

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

- Hold truth-in-taxation hearing; adopt levy. **(December 19)**

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 2016 extension to the 2017 levy, the proposed 2017 levy is 121.7% of the previous year's levy, therefore requiring the City to hold a truth-in-taxation hearing.

City Council set a truth-in-taxation public hearing for the City's tax levy at the November 7, 2017 City Council meeting. The truth-in-taxation hearing notice was published on December 10, 2017 in the *Naperville Sun*.

DISCUSSION:

Financial Principles and Prior Actions

In 2015, the City implemented three financial principles intended to guide future financial decisions and promote the long-term financial success of the community.

- Principle #1 - The City will pass a structurally balanced operating budget annually;
- Principle #2 - The City commits to continuous improvement in the delivery of necessary and cost-effective services; and
- Principle #3 - The City will actively seek to increase its reserves to 25% and reduce its debt by 25% in the next eight years.

The financial principles and the associated assumptions were accompanied by several action items, including the implementation of a 0.50% Home Rule Sales Tax, the pass-through of the refuse and recycling collection fee and the abatement of \$2 million on property taxes. The actions taken by City Council had positive and immediate impacts on the City's finances.

- **Cash Reserves** - *Reversing the historical usage of reserves to maintain a balanced budget*
 - From 2002 through 2015, the City drew its total cash reserves down from \$180 million to \$71 million, a 60% reduction. Since the implementation of the principles, cash reserves have begun to be replenished, with both utility funds working towards 30-day reserve targets and the General Fund working towards its 25% cash reserves target, with a current reserve level of 21%. This followed the assumption of holding expenses in line with revenues to minimize the usage of cash for operating expenditures.
 - In the General Fund, this was a direct impact of the refuse and recycling fee pass-through. In the Utility Funds, this was a direct impact of the rate studies and the alignment of costs of service to customers. These actions all followed the assumption of aligning charges appropriately with the cost of service.
- **Debt Reduction** - *Reducing the amount of general corporate debt annually*
 - When the principles were implemented in 2015, the City had \$121 million in general corporate debt. The 0.50% home rules sales tax followed the assumption of being utilized to pay debt directly and reduce the annual borrowing for capital spending. The City's debt at the beginning of 2018 will have been reduced by 16% to \$102 million. This is a reduction from \$823 of debt per capita to \$694 of debt per capita in four years.
- **Expenditure Review** - *Continuing to provide high-quality services at low-costs for residents*
 - The CY2018 General Fund operating budget request is a 0.7% decrease from CY2017.

The \$121 million request was reduced despite outside pressures, including a \$1 million reduction in state revenues and a 16% increase in actuarial-required public safety pension costs. Both the state reductions and pensions did not align with the assumptions of status quo from Springfield and moderate pension growth.

- The City has been able to maintain a 0.9% average annual increase in annual operating expenditures over the last ten years while the Chicago area consumer price index (CPI) growth rate was 1.6% over the same timeframe. The City's cost containment efforts have far exceeded the assumption of a 3% annual growth in expenditures. During the CY2018 budget cycle, there was a reduction of \$3.9 million from the initial staff request, including \$2.5 million in reductions from the staff review process and \$1.4 million from service level reductions.
- Total City staff was reduced by 7.3 FTEs during the CY2018 budget cycle, bringing the total staff to 949 FTEs, the lowest level since the City has been substantially built out. Overall, the City has reduced staff by 12.3% since 2007.
- **Capital Expenditures - *Planning for the future through infrastructure investment***
 - Staff annually reviews future capital needs against the capacity of the City from a financial perspective and ability to manage projects. During CY2018, staff recommended the deferral of \$10 million in capital investment to align with the City's debt reduction goals. To align with the City's objective of reducing debt and minimizing the risk to our bond rating, the City is limited to approximately \$7.25 million in annual borrowing.
- **Property Taxes - *Balancing service levels with the tax burden of residents***
 - 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 resident's total tax bill, staff attempts each year to minimize the impact the City has on a resident's overall property tax bill.
 - Due to the high-quality services provided by the City, the community's equalized assessed value (EAV) continues to grow at an exceptional rate of 4%. The average homeowner has seen the value of their home rise from \$380,000 to \$395,000. Since 2015, the City has seen an increase of \$940 million in valuation increases, of which \$240 million is from new development requiring City services.
 - Since the creation of the financial principles, the incremental increase in value due to appreciation and new growth has been used to reduce the property tax rate from 0.8081 to 0.7021. This action differed significantly from the original assumption at the time of the principles' creation of maintaining a flat property tax rate. Since the implementation of the financial principles, the City portion of an average homeowner's property tax bill has gone down from \$995 to a projected \$848 with this levy. The projected \$848 tax bill for the average homeowner is a \$38 increase from last year.

The final total Property Tax Levy as proposed is \$48,686,811. This is a \$1.98 million increase in the proposed levy amount, and combined with the City's EAV increase, would increase the property tax rate 0.24%.

	CY17 Extension	CY18 Levy	Change (%)
General Corporate	5,260,791	1,290,000	-75.5%
Debt Service	8,647,967	12,381,970	43.2%
IMRF Pension	2,767,083	2,538,237	-8.3%
Fire Pension	6,821,025	8,381,201	22.9%
Police Pension	6,114,252	6,614,131	8.2%
Naper Settlement	2,960,445	2,898,272	-2.1%
Library	14,128,791	14,583,000	3.2%
TOTAL	\$ 46,700,354	\$ 48,686,811	4.3%

Staff will continue to research both revenue enhancement and expenditure reduction options into CY2018 with the potential of abating a component of the City's property taxes to maintain a flat property tax levy compared to CY2017. The City has until March of 2018 to finalize any property tax abatements.

Property Tax Levy Ordinance

The first ordinance attached to this agenda item is for the approval of the 2017 property tax levy, which will be used to fund the CY2018 operating budget approved at the December 5, 2017 City Council meeting.

The initial 2017 property tax levy for the City of Naperville was requested at \$56,856,960. This amount did not include any abatements related to the utility or special fund debt service. This property tax levy was determined from a variety of sources:

Naperville Library Levy Request

The library portion is based on the request made by the Library Board. The Naperville Public library is more than 94% funded by property taxes. The Library Board requested a levy of \$14.58 million, a 3.2% increase from last year.

Naper Settlement Levy Request

The Naper Settlement, Naperville Heritage Society and Naper Settlement Museum Boards requested City Council approve a levy in the amount of \$2.90 million, which is a 2.1% decrease from the prior year. The Settlement receives more than 71% of its annual funding through property taxes.

Public Safety Pension Levy

Per the actuarial report, the total required contribution for public safety pensions increased \$3.1 million to \$16.0 million. Required contributions to the Fire pension increased 30.4% and the Police pension increased 16.6% from the prior year. Starting with the CY2016 tax levy, the Council approved the partial funding of the public safety pension obligation through the use of Food & Beverage Tax proceeds. For the CY2017 tax levy, \$1 million will be used to fund this pension liability. The remaining \$15 million will be funded through the property tax levy.

IMRF Pension Levy

The portion allocated to the Illinois Municipal Retirement Fund (IMRF) is based on the actuarial calculated percentage given to the City by IMRF. The 2017 levy amount is a decrease of 8.3% from the 2016 extension and totals \$2.54 million.

Debt Service Levy

The debt service value is based on the City's actual annual debt service requirements. As required per state statute, City Council approves a levy for the entire value of the General Obligation (G.O.) 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 fully levy for all general obligation debt as part of the initial levy. This amount for all general obligation debt service is \$20.55 million. A second ordinance is attached to abate \$8,170,149. 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. Excluding pension obligations, the \$1.29 million supports 1.3% of the City's remaining operational expenses. This amount is 75% less than the prior year's funding request of \$5.2 million. This decrease is due to the increased funding required for public service pensions, the library and debt service.

Abate and Tax Levy

The total tax levy is estimated at \$56.86 million. The chart presented below shows both the initial levy request and the final levy after the utility and Special Service Area abatements are factored in.

	Initial Request	Final Levy
General Corporate	\$ 1,290,000	\$ 1,290,000
Fire Pension	\$ 8,381,201	\$ 8,381,201
Police Pension	\$ 6,614,131	\$ 6,614,131
IMRF Pension	\$ 2,538,237	\$ 2,538,237
Library	\$14,583,000	\$14,583,000
Naper Settlement	\$ 2,898,272	\$ 2,898,272
Debt Service	\$20,552,119	\$20,552,119
Subtotal	\$56,856,960	\$56,856,960
Special Revenue Abatement		(\$ 8,170,149)
TOTAL	\$56,856,960	\$48,686,811

Property Tax Abatement Ordinance

A second ordinance is also attached 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 and SSA #23, user fees in the Electric Utility and Water/Wastewater Utility Funds and revenues dedicated to debt service from the food and beverage fund. The breakdown of the abatement is as follows:

Funding Source	Bond Series	Amount
Electric Fund	2009	291,200
	2011A	924,230
	2012	1,662,222
	2016(refunding)	1,034,000

Subtotal		\$3,911,652
Water/Wastewater Fund	2009	655,200
	2010A	391,838
	2010B	968,730
	2011A	669,270
	2016	178,350
Subtotal		\$2,863,388
Downtown Parking Fund	2016(refunding)	349,000
Subtotal		\$349,000
SSA #21	2010D	163,650
	2012	81,084
Subtotal		\$244,734
Food and Beverage Fund	2016	690,375
Subtotal		\$690,375
SSA #23	2016	76,000
Subtotal		\$76,000
Water Street TIF	2016	35,000
Subtotal		\$35,000
GRAND TOTAL		\$8,170,149

FISCAL IMPACT:

The final total property tax levy will be \$48,686,811. This will result in an estimated tax rate of 0.7021. 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 resident's total tax bill, staff attempts each year to minimize the impact the City has on a resident's overall property tax bill.

Since the implementation of the financial principles in 2015, the incremental increase in value due to appreciation and new growth has been used to reduce the property tax rate from 0.8081 to 0.7021. During that timeframe, the City portion of an average homeowner's property tax bill has gone down from \$995 to a projected \$848.