



Meeting Location

City of DeKalb Police Department
Training Room, 2nd Floor
700 W. Lincoln Highway
DeKalb, Illinois 60115

AGENDA

Finance Advisory Committee

September 12, 2018

5:00 p.m.

1. Call to Order
2. Roll Call for Attendance
3. Public Participation
4. Approval of Minutes
5. 2018 Property Tax Levy Overview.

Documents:

[2018 Property Tax Levy Overview.pdf](#)

6. Continuation of the Five-Year Financial Plan Discussion.
7. Confirmation of the Next Finance Advisory Committee Meeting and Date
 - 7.a. Wednesday, September 26, 2018, at 5:00 p.m. at the DeKalb Police Department, Training Room, 2nd Floor.
8. Adjournment

This meeting will be video recorded.

The Finance Advisory Committee's role (as listed in Chapter 54 "Financial Administration", Section 54.16 "Finance Advisory Committee", is to provide well-reasoned, financially sound recommendations to the City Council. Meetings and reporting shall be on a project-by-project basis or as otherwise assigned by the City Council. The Finance Advisory Committee shall work in cooperation with the City Council and the City Manager to analyze the City's financial policies, long term financial stability, options for greater efficiencies, and possible revenue and expenditures modifications.

DATE: September 6, 2018

TO: Mike Peddle, Chair
Financial Advisory Committee

FROM: Molly Talkington, Interim City Manager

SUBJECT: 2018 Property Tax Levy Overview.

I. Summary

The City Council shall determine the amounts of money estimated to be necessary to be extended by taxation annually. For the 2018 levy year (taxes payable in 2019), this memorandum outlines options for the Finance Advisory Committee to review and provide a recommendation to the City Council.

II. Prior Council and FAC Action

- The 2018 property tax levy was [adopted](#) by City Council on December 11, 2017 and the Corporate debt was [abated](#).
- On [January 30, 2018](#), FAC reviewed the Fiscal Year (FY) 2019 Budget Schedule, Five-Year Financial Plan draft, approved a Committee Operations Policy.
- On [February 27, 2018](#), FAC reviewed City Council's Goals, recommended revisions to the Five-Year Financial Plan, and recommended revisions to these policies:
 - Capital Equipment Replacement Fund (01-03),
 - Accounting, Auditing, and Financial Reporting Policy (01-05), and
 - Capital Asset Policy (01-06).
- On [March 27, 2018](#), FAC reviewed Police and Fire Pension funding illustrations and recommended revisions to the Investment Policy (01-08).
- On [April 24, 2018](#), FAC reviewed City Council's Goals, recommended revisions to the Five-Year Financial Plan, and recommended revisions to these policies:
 - Budget Policy (01-01),
 - Fund Balance Policy (01-02), and
 - Revenue and Expenditure Policy (01-04).

- On [May 15, 2018](#), FAC reviewed and recommended revisions to the Debt Management Policy (01-07).
- On [June 26, 2018](#), FAC reviewed the Year-to-Date Revenue and Expenditures for the General and Water Funds through April 2018 and the Five-Year Financial Plan
- The City's [Comprehensive Annual Financial Report](#) and the Police & Fire Pension [Actuarial reports](#) were presented to FAC on August 7, 2018.

III. Background

State and federal laws mandate that the City provide certain pension benefits to all full-time employees. The City of DeKalb, like most municipalities, uses its annual property tax levy to help finance these costs. An independent actuary calculates the levies for Police and Fire pensions in accordance with legal requirements. FICA and IMRF rates are set by the state and/or federal governments as a function of payroll projections.

The City's Financial Policies include the Revenue and Expenditure Policy that outlines the City's desire to maintain a diversified and stable revenue base to reduce the impacts of fluctuations in any one revenue source. The specific principles for the property tax levy are as follows:

1. The City prefers to keep its property tax rate as low as possible. The following components shall be followed in priority order each year when establishing the property tax levy:
 - a. Levy for Police, Fire and Illinois Municipal Retirement Fund (IMRF) pensions per actuary calculations. If the actuarial reports indicated a higher employer contribution is needed, said increase will need to be added to the City's overall previous year levy request to avoid underfunding problems.
 - b. Levy for Federal Insurance Contributions Act (FICA).
 - c. Levy for general obligation bond principal and interest less abatements.
 - d. Levy to support General Fund operations including Police, Fire, Public Works, Community Development, Finance, Human Resources, Information Technology, and Administration. The annual increase for this component should not exceed the rate of inflation.
 - e. Levy to fund additional personnel as determined by the City Council.

The 2017 property tax levy, as set by Council, deviated from this policy. The City's levy was set to target the same overall rate by increasing the funding through the growth in the equalized assessed valuation (EAV). The 2017 rate-setting EAV was \$529,629,464, which is a \$25,767,635 or 5.1% increase over the 2016 EAV. For all levies (Corporate, Pensions, Debt, Library, and Special Service Areas) the overall target rate from 2016 was 1.6629 and the 2017 overall rate was extended at 1.6187. The rate, as set, was lower



than the target rate specified by City financial policies and failed to fully fund the minimum contributions contemplated by those policies. Since the levy is a dollar amount, staff estimates what that figure needs to be to reach the target rate based on the County figures for estimated EAV.

Each levy type is discussed below. Examples are given as to how the levies could be set in the amounts as directed by the City's Financial Policy or how they could be set to target a specified tax rate.

1. The City could fund the Police and Fire Pension Funds based on the actuarial valuation as reviewed on August 21, 2018 by Foster & Foster Actuaries and Consultants (and as contemplated by the financial policies). The City receives two actuarial reports annually: one for Police Pension and one for Fire Pension. The recommended employer contribution for this year is higher than the recommended contribution from last year (\$220,408 higher for the Police Pension Fund and \$126,422 higher for the Fire Pension Fund). This is because the investment rate of return assumption was lowered from 7.5% to 7.0% and the payroll growth assumption was lowered from 4.5% to 4.0%. The employer required funding is \$6,582,770 (\$3,079,438 for Police Pension and \$3,3503,332 for Fire Pension).
2. The City has not fully funded the IMRF and Social Security (FICA) employer contributions since the 2007 levy. This is a deviation from the City's current financial policy. The IMRF employer amount for Fiscal Year (FY) 2019 is \$770,656 and Social Security is \$624,709 or \$1,395,365 for both.
3. The City may continue to levy an amount equivalent to the debt payment for the 2013A bond series principal and interest for the library expansion plus one percent that is applied by the County to ensure full collection of the levy amount. The 2018 levy amount is \$5,492,838 prior to abatement for the City's corporate debt. The abatement amount is \$4,998,721 leaving \$494,117 (\$489,225 plus one percent of \$4,892) as the final levy amount specific to the library expansion debt.
4. The Corporate levy supports the General Fund operations for the City. The 2017 levy did not include any funding for these critical operations. Therefore, other, more volatile revenues support General Fund operations. General fund operations are the core City functions of Public Safety, Public Works, Development and Administration.
5. The Library dollars are included in this levy. The DeKalb Public Library is a component unit of the City and therefore the City is required to levy on their behalf each year. The DeKalb Library Board will raise the levy amount to capture the growth in EAV, so the taxpayers will see the same rate of 0.3872 as 2017 for the 2018 levy. At the 4% County estimated growth, this would result in a levy of \$2,132,754. Further information on the Library's levy (including details on their proposed abatement) is detailed later in the report.



6. Special Service Areas (SSA) are created for a specific purpose in a limited area of the City. For example, The Greek Row Special Service Area (SSA) #6 was created in 2004 to finance operating costs for street lighting placed upon private properties that benefit the properties and neighborhood. The current SSAs in the City are shown on the table on the following page.

SSA	Levy Amount
Heritage Ridge #3	\$1,000
Knolls #4	\$5,501
Greek Row #6	\$16,400
Heartland Fields #14	\$2,500

The Greek Row levy has been estimated to increase from \$15,765.49 to \$16,400 or \$634.51 or 4% for the 2018 levy to capture the DeKalb County's estimate of EAV growth of 4%. The levy should have increased annually with the increase in electricity. Now, this levy is being increased to its maximum rate of 0.2500% to fund a greater portion of the total expenses.

The County's estimated increase in the EAV for the City is \$550,814,643, an increase of \$21,185,179 or 4.0%. This is a preliminary growth estimate. The County typically finalizes the estimated EAV in October. If Council elects to tie the property tax levy amount to the estimated growth in the EAV, existing properties with no major improvements should pay the same property tax rate for the City of DeKalb as the prior year. About 9.5% of a resident's current tax bill goes to the City.

The below information shows the income (tax levy extension after abatement of City debt service obligations) and expenditure distribution for property tax levy adoption proposals, the potential impact on a homeowner, and the impact on the General Fund balance for the Corporate, Police Pension, Fire Pension, IMRF, and Debt levies ("Base Levy"):

Base Levy:

1. Financial Policies 1a Levy – 100% Funding for Police Pension, Fire Pension, and IMRF

Base Levy – Taxed on All Properties	Amount
Income (extended levy)	
Corporate (Core City Operations)	\$0
Police Pension	\$3,079,438
Fire Pension	\$3,503,335
IMRF	\$770,656
Debt Service after abatement (Library related)	\$494,117
Income (extension) Total	\$7,847,543



Base Levy – Taxed on All Properties	Amount
Expenditures	
Police Pension	\$3,079,438
Fire Pension	\$3,503,335
IMRF	\$770,656
Debt Service after abatement (Library related)	\$494,117
Expenditures Total	\$7,847,543

Base Levy – Taxed on All Properties	Amount
Income minus Expenditures	\$0
Potential Impact on Homeowner of \$150,000 Market Value Home	Base Levy
2018 Projected Tax Rate	1.4247%
Increase/(Decrease) to 2017 Tax Rate	0.1979%
Potential Annual Tax Amount	\$712
Increase/(Decrease) to 2017 Annual Tax Amount	\$99

2. Equalized Assessed Valuation Growth

The tables below represent the most likely EAV growth of 4% as estimated by the County and an optimistic growth assumption of 6%. The difference between the most likely levy and the optimistic levy shows the impact of growth. If the City Council chose to levy to target the same rate as 2017 and capture the growth in the EAV, staff would recommend forecasting and budgeting with the most likely levy but adopting the property tax levy at the optimistic level. The property tax levy is an amount and using an estimated EAV to calculate the target rate allows for fluctuation in the final outcome.

By adopting the optimistic levy, the higher EAV estimate sets the highest amount the levy can be assessed at. Since the EAV growth is an estimate, there is a brief window of time when the City can file an abatement with the County before the levy is extended (final). When the Council is asked to adopt the 2018 levy, staff will present two ordinances; one to adopt the levy and one to authorize the City Manager to abate the levy to bring it in line with the desired tax rate. By levying at the optimistic level, any growth over the most likely estimate could be captured up to the optimistic level and the associated abatement is in keeping with the City Council's ultimate goal to capture the growth without increasing the overall property tax rate.

Base Levy – Taxed on All Properties	Most Likely Amount	Optimistic Amount
Income (extended levy)		
Corporate (Core City Operations)	\$0	\$0
Police Pension	\$2,925,420	\$2,990,396
Fire Pension	\$3,349,314	\$3,414,290
IMRF	\$0	\$0
Debt Service after abatement (Library related)	\$494,117	\$494,117
Income (extension) Total	\$6,757,559	\$6,887,512



Base Levy – Taxed on All Properties	Most Likely Amount	Optimistic Amount
Expenditures		
Police Pension	\$3,079,438	\$3,079,438
Fire Pension	\$3,503,335	\$3,503,335
IMRF	\$770,656	\$770,656
Debt Service after abatement (Library related)	\$494,117	\$494,117
Expenditures Total	\$7,847,543	\$7,847,543

Base Levy – Taxed on All Properties	Most Likely Amount	Optimistic Amount
Income minus Expenditures	(\$1,089,984)	(\$960,031)
<p>This table shows a comparison of the financial outcome to the City whether levying at the most likely level or at the optimistic level. Even at the optimistic level, expenditures for these limited expenses alone (public safety pensions, IMRF and debt service after abatement) exceed tax levy revenue. In both examples, other revenues in the General Fund will be needed to absorb the Police and Fire Pension obligation increase. In addition, other revenues will be needed to cover the additional IMRF funding not provided through the tax levy.</p>		

Potential Impact on Homeowner of \$150,000 Market Value Home	Base Levy
2018 Projected Tax Rate	1.2268%
Increase/(Decrease) to 2017 Tax Rate	0.0000%
Potential Annual Tax Amount	\$613
Increase/(Decrease) to 2017 Annual Tax Amount	\$0
<p>The calculation of the rate would be the same for most likely and optimistic since both examples capture the projected EAV growth.</p>	

Library Levy:

The Library operations levy is adopted by the Library Board and is recommended to City Council for adoption. This year the Library Director has stated the estimated levy will be calculated to capture the growth in EAV. Below is the levy breakdown at the most likely level of 4% EAV growth and at the optimistic level of 6% EAV growth and impact to the homeowner.

Library Operations Levy – Taxed on All Properties	Most Likely Amount	Optimistic Amount
Income (extended levy)	\$2,132,754	\$2,173,769

Library Operations	Most Likely Amount	Optimistic Amount
Expenditures	\$2,132,754	\$2,173,769



Potential Impact on Homeowner of \$150,000 Market Value Home	Library Levy
2018 Projected Tax Rate	0.3872%
Increase/(Decrease) to 2017 Tax Rate	0.0000%
Potential Annual Tax Amount	\$194
Increase/(Decrease) to 2017 Annual Tax Amount	\$0
The calculation of the rate would be the same for most likely and optimistic since both examples capture the projected EAV growth.	

This does not show the rebate of prior years' taxes since that will be an abatement of the above tax levy. The rebate of \$992,500 would reduce the homeowner's payment obligation as follows:

Potential Impact on Homeowner of \$150,000 Market Value Home	Library Levy
Rebate Amount	(992,500)
Rebate Calculated Tax Rate	-0.1802%
One-Time Potential 2018 Tax Reduction	(\$90)

Special Service Areas:

As noted earlier in the report, Special Service Areas (SSA) are created for a specific purpose in a limited area of the City. These do not apply to all property owners within the City and are only added to the specific areas tax levies.

Heritage Ridge #3	Amount
Income (extended levy)	\$1,000

Heritage Ridge #3	Amount
Expenditures	\$1,500

Potential Impact on Homeowner of \$150,000 Market Value Home	Heritage Ridge #3
2018 Projected Tax Rate	0.0231%
Increase/(Decrease) to 2017 Tax Rate	-0.0009%
Potential Annual Tax Amount	\$12
Increase/(Decrease) to 2017 Annual Tax Amount	\$0

Knolls #4	Amount
Income (extended levy)	\$5,501

Knolls #4	Amount
Expenditures	\$4,500



Potential Impact on Homeowner of \$150,000 Market Value Home	Knolls #4
2018 Projected Tax Rate	0.0283%
Increase/(Decrease) to 2017 Tax Rate	-0.0011%
Potential Annual Tax Amount	\$14
Increase/(Decrease) to 2017 Annual Tax Amount	(\$1)

Greek Row #6	Amount
Income (extended levy)	\$16,400

Greek Row #6	Amount
Expenditures	\$18,000

Potential Impact on Homeowner of \$150,000 Market Value Home	Greek Row #6
2018 Projected Tax Rate	0.02501%
Increase/(Decrease) to 2017 Tax Rate	0.0001%
Potential Annual Tax Amount	\$125
Increase/(Decrease) to 2017 Annual Tax Amount	\$0

Heartland Fields #14	Amount
Income (extended levy)	\$2,500

Heartland Fields #14	Amount
Expenditures	\$3,000

Potential Impact on Homeowner of \$150,000 Market Value Home	Heartland Fields #14
2018 Projected Tax Rate	0.1353%
Increase/(Decrease) to 2017 Tax Rate	-0.0054%
Potential Annual Tax Amount	\$68
Increase/(Decrease) to 2017 Annual Tax Amount	(\$3)

IV. Community Groups/Interested Parties Contacted

An independent actuarial firm has been utilized to calculate the results for the Fire and Police Pension Levy. The actuarial reports were discussed at the August 7 FAC meeting. Citizen input is welcome at the FAC meeting and when the Council considers the estimated and final levy adoption.

V. Legal Impact

State statute requires that the City adopt a resolution estimating the amount to levy, comply with Truth-in-Taxation Act requirements, and adopt and file the levy before the last Tuesday of December. If the estimated tax levy is 105% or more than the prior year's extended rate, the City is required to comply with certain requirements set forth in the Truth-in-Taxation Law.



VI. Financial Impact

While residents live within the City limits, their property tax bill is comprised of no less than 10 separate taxing districts. Each taxing district determines the total dollar amount to levy on the property which resides within the taxing district boundaries. A tax rate is calculated based on this total dollar request and the total assessed value of property within the taxing districts boundaries. The tax rate is what a resident sees on their tax bill for each entity having authority to place a levy on their property. The EAV of an individual resident's property is multiplied by each tax rate to determine the amount of tax owed for the respective calendar year. The City of DeKalb is a home rule community and levies for dollars. The tax rate becomes a calculation based on the EAV (EAV x Rate = Total Levy Dollars).

The EAV is determined by the Township Assessors office, the dollars are requested by the City for the City's portion of a resident's tax bill. Therefore, the rate is a factor of these two amounts. The preliminary estimated EAV from the County is an increase from 2017 of 4.0%.

For informational purposes, the City's levy is comprised of the following categories: 1) General Corporate; 2) Debt Service; 3) IMRF; 4) Police Pension; 5) Fire Pension; and 6) Social Security. This levy will apply to the FY2019 Budget. This levy will not affect the current FY2018 Budget.

Also, the initial debt service levy includes the full amount of the City's outstanding debt including the Library's debt portion. The City's portion of the debt will be abated, and those obligations will be paid from other revenue sources within the City. The DeKalb Public Library is a component unit of the City and therefore the City is required to levy on their behalf each year.

VII. Recommendation

Staff is recommending the FAC review the property tax levy options and provide a recommendation for the City Council on the overall 2018 tax levy.

