

**DATE:** November 8, 2017

**TO:** Honorable Mayor Jerry Smith  
City Council

**FROM:** Anne Marie Gaura, City Manager  
Molly Talkington, Finance Director

**SUBJECT:** Establishing an Estimated Annual Tax Levy Ceiling for the Tax Year 2017.

## **I. Summary**

Chapter 35, Section 200/18-60, of the Illinois Compiled Statutes requires that “not less than 20 days prior to the adoption of its aggregate levy, the City Council shall determine the amounts of money estimated to be necessary to be raised by taxation for that year upon the taxable property in its district”. By passing this estimated proposed tax levy, the City Council will set a ceiling of the maximum levy that can be requested this levy year.

Additionally, it must be noted that this estimated levy is a ceiling, and not a floor. The City can later pass a levy that is lower than the estimated levy, but cannot pass a levy that is higher than the estimated levy without further Truth in Taxation requirements. The Truth in Taxation Statute requires presentation that compares the prior year levy to the current year levy. This means that any levy that is more than 105% of the amount extended in the prior year is subject to a Public Hearing. A Truth in Taxation ‘black box notice’ will be timely published. The Public Hearing on the Tax Levy will be at the November 27, 2017, Committee of the Whole meeting, the First Reading of the Ordinance will be at the November 27, 2017, City Council meeting, and the Second Reading of the Ordinance will be at the December 11, 2017, City Council meeting.

## **II. Background**

State and federal law mandates that the City provide certain pension benefits to all its 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. FICA and IMRF rates are set by the state and/or federal governments and are basically a function of expected payroll.

At the September 21, 2017, Finance Advisory Committee (FAC) meeting, Foster & Foster Actuaries and Consultants’ Heidi Andorfer, Consulting Actuary, presented the City’s actuarial reports for Police and Fire Pension Funds. Ms. Andorfer also presented the results of an investment return study that shows lowering the investment return assumption for both Police and Fire Pension funds would increase the funding need from

the 2017 levy. However, lowering the investment return assumption would align this assumption closer to the Police and Fire Pension fund investment managers' targeted returns for the funds, 6.5% target and 7.0% respectively. In the long term, the closer alignment of the assumption and investment targets would alleviate annual increases to the City's unfunded liability in both funds. At their October 5, 2017, meeting, the FAC recommended lowering the investment rate assumption to 7.0% and adjusting the annual property tax levy to pay for the funding need.

Other factors to consider when levying the 2018 tax levy is Moody's downgrade in the City's bond rating to A1 (May 2017). While this rating is still a good rating, the negative outlook tells us that Moody's has a long range concern and they have placed a greater emphasis on pension liabilities and stable funding sources. Property tax is considered a very stable revenue source. However, the City has a reliance on volatile revenues such as sales taxes to support operations and debt service.

The City's Financial Policies include the Revenue and Expenditure Policy that outlines the City's desires 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 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 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 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.

Staff has calculated the recommended levy to fully fund Police and Fire pensions as included in the financial policies point 1a. However, IMRF pension, part of 1a, has not been fully funded through the 2017 levy. As well, the remaining funding priorities for the levy (1b through 1e) have no funding as part of the 2017 levy. The burden to support those priorities has been shifted to other revenue sources.



The following explains the amounts of each specific levy for this year:

1. Funding the Police and Fire Pension Funds based on the actuarial valuation received on May 1, 2017, from Foster & Foster Actuaries and Consultants. The funding level used is the Entry Age Normal Method that began with the 2016 tax levy. By using the Entry Age Normal Method, this is a first step in reducing the City's large pension liability in the hopes of having a positive impact on the Aa3 bond rating from Moody's. The proposed funding for the Police and Fire Pensions is \$2,680,967 and \$3,183,910, respectively. The actuarial reports from Foster & Foster were on the FAC's September 21, 2017, meeting agenda.

The proposed funding for the Police Pension is \$301,348 greater than the minimum amount required by the State of Illinois. As well, the Fire Pension funding is \$368,549 greater than the minimum required by the state. This is a positive for the City since the state's funding requirement is not consistent with best practices established by actuarial organizations and the Government Finance Officers Association, the largest membership organization for public finance professionals.

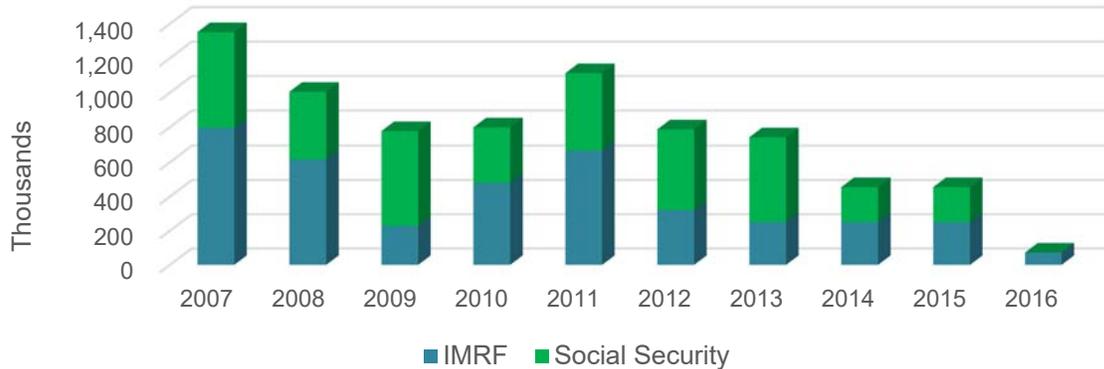
An adjustment to the investment return assumption to bring the current assumption of 7.50% rate of return more in line with the targeted rate of return for the pension funds would further address Moody's concerns by avoiding future increases to the unfunded liability when the funds do not reach the current 7.50% investment return assumption. The Police and Fire Pension funds' targeted rate of return by their financial advisors is outlined in the GASB 68 requirements as 6.50% and 6.98%, respectively. The below table shows the funding requirements at the 7.0% investment rate of return assumptions:

	<b>2017 Levy 7.00% Return</b>	<b>Difference to 2017 Levy at 7.50% Return</b>	<b>Difference 2017 Levy at 7.00% Return to 2016 Ext Levy</b>
Fire Pension	\$3,463,310	\$279,400	\$473,310
Police Pension	\$2,987,254	\$306,287	\$484,350
<b>Total</b>	<b>\$6,450,564</b>	<b>\$585,687</b>	<b>\$957,660</b>

2. The City has not fully funded the IMRF and Social Security (FICA) employer contributions since the 2007 levy. This has been a deviation from the financial policy. The chart, on the following page, shows the IMRF and Social Security levies over time.



### Historical IMRF and Social Security Property Tax Levy Funding



The chart shows a downward trend in funding from the levy, meaning other revenue sources funded the remaining need annually. Also, the chart shows a two-year attempt to restore funding in the 2010 and 2011 levy years. However, beginning with the 2012 levy forward, levy support for IMRF and Social Security declined. In 2007, IMRF funding was \$795,624 and Social Security funding was \$556,575. As of the 2016 levy, IMRF funding was \$72,506, a \$723,118 reduction from the 2007 levy. No funding for Social Security was included in the 2016 levy.

For the 2016 levy, the focus was on funding the Police and Fire Pension levies without increasing the overall tax levy. Therefore, the IMRF and Social Security levies were again reduced to cover the additional need of the Police and Fire Pensions. During FY2017, other City revenues are absorbing an estimated \$1.3 million for IMRF and Social Security. Continuing minimal funding in the 2017 levy means the other City revenues will absorb an additional \$1.8 million as shown on the table below.

	<b>2016 Extended Levy</b>	<b>2017 Levy at Full Funding</b>	<b>Difference to 2016 Ext Levy</b>
IMRF	\$72,506	\$1,071,286	\$998,780
Social Security	\$0	\$798,408	\$798,408
<b>Total</b>	<b>\$72,506</b>	<b>\$1,869,694</b>	<b>\$1,797,188</b>

	<b>2017 Levy at Minimal Funding</b>	<b>Difference to 2017 Full Funding</b>	<b>Difference 2017 Min Funding to 2016 Ext Levy</b>
IMRF	\$72,480	(\$998,806)	(\$26)
Social Security	\$0	(\$798,408)	\$0
<b>Total</b>	<b>\$72,480</b>	<b>(\$1,797,214)</b>	<b>(\$26)</b>



The establishment of a multi-year plan to bring these levies in line with the financial policies and to alleviate the financial burden on other sources would be a realistic approach.

3. Continue to keep the debt payment for the 2013A bond series principal and interest for the library expansion. The 2017 levy amount is \$482,826.
4. Continue to abate all other debt payments and cover the costs out of the General Fund. While some revenue has been dedicated to cover a portion of the payments to 2012A and 2013B, it is not enough to make the full principal and interest payment. The additional two dedicated revenues are 1% of hotel/motel and 50% of Police fines revenue, estimated at \$85,300 combined to pay off a portion of the City's annual debt payments. Transfers from the General Fund cover the remaining payments. For FY2018 this transfer totals \$1,801,827.
5. The Corporate levy supports the General Fund operations for the City. In the 2016 levy, the funding levied under this went to support fully funding the Police and Fire Pensions as shown throughout this report. This means other more volatile revenues support General Fund operations. General fund operations are the core City functions of Public Safety, Public Works, Development and Administration. The projections in the Five-Year Financial Plan indicated a dramatic decline in fund balance and depletes it by 2023, if no changes are made to the General Fund structure. A Corporate property tax levy of \$900,000 could be considered for FY2019 and increased annually by 2.0% to stabilize the General Fund. By levying for operations, this would bolster the City's position with Moody's since this would shift a portion of the volatile revenue support of operations to a stable revenue source.
6. 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 voted to hold their levy amount at the same level from 2016 at \$2,298,500.
7. The Greek Row Special Service Area (SSA) #6 was created in 2004 to finance electrical costs of street lighting placed upon private properties that benefits the neighborhood. This levy is proposed for an increase from \$14,000 to \$21,000 to cover current electrical bills. The FY2017 estimate for electrical costs is \$20,300 with an increase expected in FY2018 to \$20,500.

The County's estimated increase in the equalized assessed value (EAV) for the City is \$530,164,571, an increase of 5.2%. Growth in the EAV from new construction within the estimated taxable property is \$11 million or 41.9% of the County's EAV estimate. This increase in new development and other building improvements alleviates a portion of the tax burden on existing tax payers since the tax base increased overall.

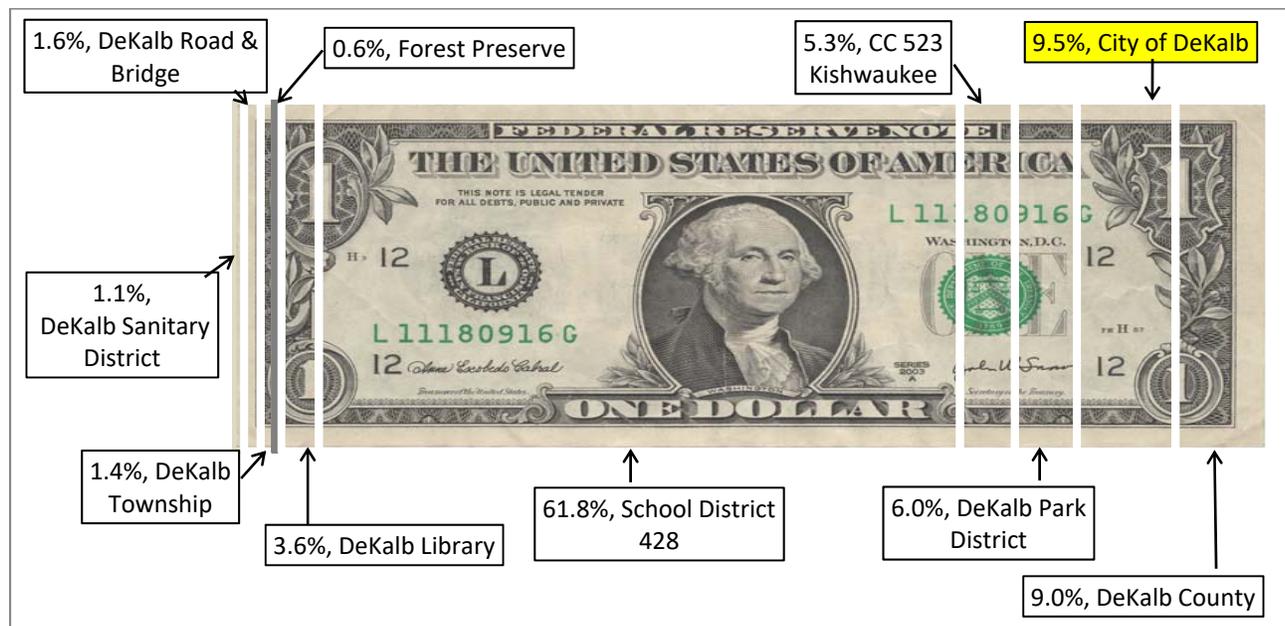
While residents live within the City limits, their property tax bill is comprised of no less than 10 separate taxing districts. Each taxing district determines the total dollar amount



to levy on the property that 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 following chart shows the total 2016 tax bill percentage break-out for a current resident living in the City of DeKalb.

<b>AGENCY</b>	<b>RATE</b>	<b>AGENCY</b>	<b>RATE</b>
CC 523 Kishwaukee	0.66998	DeKalb Park	0.75586
City of DeKalb	1.20211	DeKalb Road & Bridge	0.20200
County	1.14289	DeKalb Township	0.17235
DeKalb Library	0.45619	Forest Preserve	0.07990
DeKalb Sanitary	0.14252	School District 428	7.81316
		<b>TOTAL TAX RATE</b>	<b>12.63696</b>



About 9.5% of a resident's current tax bill goes to the City.

Total dollars levied equal the EAV x Rate (EAV x Rate = 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 County's estimated EAV for the City shows an increase from the 2016 levy of 5.2%. The table, on the following page shows the levies with Police and Fire Pension funding at the 7.0% investment rate assumption.



<b>2017 ESTIMATED TAX LEVY</b>	<b>2016 Tax Levy Extensions</b>	<b>2017 Estimated Tax Levy before Abatements</b>	<b>2017 Tax Levy after Abatements</b>	<b>\$ Increase/Decrease over prior year</b>	<b>% Increase/Decrease over prior year</b>
<b>AGGREGATE LEVIED FUNDS</b>					
Corporate*	\$46	\$46	\$46	\$0	0.00%
IMRF	\$72,506	\$1,071,286	72,506	\$0	0.00%
Social Security	\$0	\$798,408	\$0	\$0	0.00%
<b>2017 ESTIMATED TAX LEVY</b>	<b>2016 Tax Levy Extensions</b>	<b>2017 Estimated Tax Levy before Abatements</b>	<b>2017 Tax Levy after Abatements</b>	<b>\$ Increase/Decrease over prior year</b>	<b>% Increase/Decrease over prior year</b>
<b>AGGREGATE LEVIED FUNDS (continued)</b>					
Public Library	\$2,298,567	\$2,298,500	\$2,298,500	(\$67)	0.00%
SSA #3-Heritage Ridge	\$1,000	\$1,000	\$1,000	\$0	-0.01%
SSA #4-Knolls	\$5,500	\$5,500	\$5,500	\$0	0.00%
SSA #6 - Greek Row	\$14,000	\$21,000	\$21,000	\$7,000	50.00%
SSA#14 Heartland Fields	\$2,500	\$2,500	\$2,500	\$0	0.00%
<b>Aggregate Levy Totals</b>	<b>\$2,394,120</b>	<b>\$4,198,241</b>	<b>\$2,401,053</b>	<b>\$6,933</b>	<b>0.29%</b>
<b>PUBLIC SAFETY PENSION LEVIES</b>					
<i>7.0% Interest Assumption</i>					
Fire Pension*	\$2,990,000	\$3,463,310	\$3,463,310	\$473,310	15.83%
Police Pension*	\$2,502,904	\$2,987,254	\$2,987,254	\$484,350	19.35%
<b>Public Safety Pension Totals</b>	<b>\$5,492,904</b>	<b>\$6,450,564</b>	<b>\$6,450,564</b>	<b>\$957,660</b>	<b>17.43%</b>
<b>DEBT SERVICE LEVIES</b>					
G.O. Bonds 2013A-Library	\$491,517	\$650,000	\$482,826	(\$8,691)	-1.77%
G.O. Bonds 2013B&2012A-Police	\$0	\$888,306	\$0	\$0	0.00%
G.O. Bonds 2010A - TIF	\$0	\$1,192,400	\$0	\$0	0.00%
G.O. Bonds 2010B&2010C-Refunding	\$0	\$345,623	\$0	\$0	0.00%
G.O. Bonds 2014-Refunding	\$0	\$0	\$0	\$0	0.00%
<b>Bond &amp; Interest Levy Totals</b>	<b>\$491,517</b>	<b>\$3,076,329</b>	<b>\$482,826</b>	<b>(\$8,691)</b>	<b>-1.77%</b>
<b>TOTAL</b>	<b>\$8,378,541</b>	<b>\$13,725,134</b>	<b>\$9,334,443</b>	<b>\$955,901</b>	<b>11.41%</b>

\*2016 Extended Corporate Levy included Police & Fire Pension funding of \$357,171 and \$466,899 respectively. These amounts are shown in the Police and Fire levies for comparison.

Based on the prior table's information, the chart, on the following page, shows the impact on a resident's tax bill for tax dollars collected in 2018.



**PROPERTY TAX COMPUTATION CALCULATION  
COMPARISON BETWEEN 2016 AND 2017 FULL PENSION CONTRIBUTION  
7.0% Investment Assumption & Less New Development**

2016 Market Value			2016	2017	Difference	% Increase/ Decrease
\$ 100,000.00	Home					
	EAV		33,333	34,333	<b>\$0.56 - Per Day</b>	
	Tax Rate		1.2021%	1.76067%	<b>\$16.98 - Per Month</b>	
	Tax Bill		\$401	\$604	<b>\$204 - Annually</b>	<b>50.86%</b>
\$ 150,000.00	Home					
	EAV		50,000	51,500	<b>\$0.84 - Per Day</b>	
	Tax Rate		1.2021%	1.76067%	<b>\$25.47 - Per Month</b>	
	Tax Bill		\$601	\$907	<b>\$306 - Annually</b>	<b>50.86%</b>
\$ 200,000.00	Home					
	EAV		66,667	68,667	<b>\$1.12 - Per Day</b>	
	Tax Rate		1.2021%	1.76067%	<b>\$33.97 - Per Month</b>	
	Tax Bill		\$801	\$1,209	<b>\$408 - Annually</b>	<b>50.86%</b>

### III. Community Groups/Interested Parties Contacted

An independent actuarial has been utilized to calculate the results for the Fire and Police Pension Levy. The actuarial reports were discussed at the September 21, 2017, FAC meeting. Additionally, the actuarial reports and the FAC's recommendation of lowering the investment rate assumption to 7.0% and funded by the annual property tax levy were discussed at the Police and Fire Pension Board meetings in October. The Fire Pension Board supports the FAC's recommendation. The Police Pension supports lowering the investment rate assumption to 7.0% or lower. The Public Hearing on the Tax Levy will be at the November 27, 2017, Committee of the Whole meeting, the First Reading of the Ordinance will be at the November 27, 2017, City Council meeting, and the Second Reading of the Ordinance will be at the December 11, 2017, City Council meeting.

### IV. 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. Since staff estimates the levy amount will increase the overall levy by greater than 5%, there is a legal requirement to publish notice of the estimated levy in the newspaper and hold a public hearing. The Truth-in-Taxation notice is scheduled for publication on November 18, 2017. Of course, citizen input is welcome when the Council considers the estimated and final levy adoption.

### V. 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 that 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 and 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 County's estimated EAV shows an increase from 2016 of 5.2%.

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 FY2018 Budget. This levy will not affect the current FY2017 Budget.

As noted above, the estimated levy represents a ceiling that the City cannot later exceed with the amount actually levied without further Truth in Taxation notification requirements to meet. Budget review meetings, including discussion of the tax levy, began on November 6, 2017. The FY2018 Proposed Budget is available on the City's website (<http://www.cityofdekalb.com/267/Budget-Annual-Reports>) and in the Finance Department. The proposed levy included herein, for use as a ceiling, represents the most conservative approach. By approving this proposed levy, the City will have the greatest flexibility in determining what levy approach to take for the coming levy year when it determines the final dollars during the First Reading on November 27, 2017, and the Second Reading on December 11, 2017.

## **VI. Options**

1. Council can pass the Resolution setting the tax levy ceiling at \$13,725,134 before tax abatements. By passing this estimated proposed tax levy, Council will set a ceiling of the maximum levy that can be requested this levy year. It must be noted that this estimated levy is a ceiling, and not a floor. The City can later pass a levy that is lower than the estimated levy, but cannot pass a levy that is higher than the estimated levy without additional Truth in Taxation notification requirements to be met.
2. Council can decrease the ceiling in the estimated tax levy Resolution.

## **VII. Recommendation**

Approval of the Resolution establishing an estimated annual tax levy of \$13,725,134 before tax abatements, exclusive of amounts to be levied, which are attributable to the costs of conducting elections required by the general election law, is recommended. These dollars shall be raised by means of ad valorem property taxes levied for 2017 tax bills and collected in calendar year 2018.



**RESOLUTION 2017-**

**ESTABLISHING AN ESTIMATED ANNUAL TAX LEVY  
FOR THE TAX YEAR 2017 FOR THE CITY OF DEKALB,  
ILLINOIS.**

**WHEREAS**, THE City Council of the City of DeKalb, Illinois, finds it necessary to levy taxes for a twelve month period beginning January 1, 2018 through December 31, 2018: and

**WHEREAS**, the City of DeKalb, Illinois, is a home rule unit pursuant to the Constitution of the State of Illinois, (1970) Article 7, Section 6 (a); and

**WHEREAS**, the Constitution of the State of Illinois (1970) Article 7, Section 6 (a) grants to home rule units the power to: "...exercise any power and perform any function pertaining to its government and affairs including, but not limited to, the power to regulate for the protection of the public health, safety, morals and welfare, to license; to tax; and to incur debt,"; now

**THEREFORE BE IT RESOLVED BY THE CITY COUNCIL** of the City of DeKalb, Illinois, as follows:

**Section 1.** The Mayor and City Council Alderman for the City of DeKalb hereby estimate that \$13,725,134 before tax abatements, exclusive of amounts to be levied which are attributable to the costs of conducting elections required by the general election law, shall be raised by means of ad valorem property taxes levied for 2017 tax bills for calendar year 2018 collections. Based upon the foregoing, for purposes of the Truth in Taxation Act, 35 ILCS 200/18-55, et. seq., the Corporate Authorities of the City of DeKalb hereby determine the estimated levy of property taxes for 2017, to be collected in 2018, Thirteen Million, Seven-Hundred and Twenty-Five Thousand, One-Hundred Thirty Four Dollars (\$13,725,134) to be inclusive of all general and special purpose levies, special service area levies, and property taxes for debt services.

**Section 2.** That the City Clerk of the City of DeKalb, Illinois, is directed to file with the DeKalb County Clerk a copy of this Resolution certified by the Clerk under the corporate seal of the City, as provided by law. The City Council further directs that the proposed annual budget be made conveniently available for public inspection not less than ten days before the hearing on the same, by posting a copy of the budget at the office of the City of DeKalb Finance Department and on the City's website.

**Section 3.** That each section, paragraph, sentence, clause and provision of this Resolution is separable and if any provision is held unconstitutional or invalid for any reason, such decision shall not affect the remainder of this Resolution nor any part thereof, other than the part affected by such decision.

**Section 4.** This Resolution shall be in full force and effect upon its passage and approval according to law.

**PASSED BY THE CITY COUNCIL** of the City of DeKalb, Illinois at a Regular meeting held on the \_\_\_\_day of \_\_\_\_\_, 2017, and approved by me as Mayor on the same day.

**ATTEST:**

\_\_\_\_\_  
**SUSANNA HERRMANN**, City Clerk

\_\_\_\_\_  
**JERRY SMITH**, Mayor