

DATE: November 20, 2017

TO: Honorable Mayor Jerry Smith
City Council

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

SUBJECT: 2017 Levy and 2018 Collection of Taxes In and For the Corporate and Municipal Purposes of the City of DeKalb for the Fiscal Year 2018.

I. Summary

Chapter 35, Section 200/18-60 of the Illinois Compiled Statutes requires that “not less than twenty (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”. At the November 13, 2017 City Council meeting the amount of the estimated levy was passed at 105.2% of the 2016 levy or \$13,237,341 before tax abatements, exclusive of amounts to be levied which are attributable to the costs of conducting elections required by the general election law. This would limit the increase in the tax levy to the estimated growth in the equalized assessed valuation (EAV), the taxable property, of the City of DeKalb.

At the Joint City Council and Finance Advisory Committee (FAC) meeting on November 16, 2017, City Council provided additional feedback on the estimated property tax levy and specifically to keep Police and Fire Pension funding at the 7.0% investment return rate.

II. Background

State and federal law mandates 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 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. Reducing the investment return rate helps to ensure the pension projections are more in line with actual returns. At the October 5, 2017, the Financial Advisory Committee 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 Illinois Municipal Retirement Fund (IMRF) pensions per actuarial 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.

At the November 13, 2017 meeting, City Council approved the estimated levy to equal 105.2% of last year's levy, resulting in an overall levy of \$13,237,341. Staff has prepared two options for adoption of the 2017 property tax levy that are viable under the Truth in Taxation notice at 105.2% of the 2016 extended with abatements levy. While the two options are viable under Truth in Taxation, these options do not fund at the level set under



1a of the City's current financial policy. Funding for IMRF is minimal and is carried forward from the prior year's deviation from the current financial policy. The two options are:

1. **Adhere to the FAC's Recommendation:** Fully fund Police and Fire pensions through property tax at a lower investment return rate of 7.0% and keep minimal funding for Illinois Municipal Retirement Fund (IMRF), or
2. **Implement a Lower Tax Levy:** Eliminate the minimal funding for the IMRF from the tax levy (\$72,506), reduce funding for Police and Fire pensions at the 7.0% investment return rate by \$445,970. The funding for IMRF and the portion of the Police and Fire pensions will be absorbed by other General Fund sources at the loss and/or reduction of other core City services.

Below discusses each levy type. The effect of the two funding options are illustrated after the levy types are discussed.

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 bond rating from Moody's. The actuarial 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 Financial Advisory Committee's September 21, 2017 meeting agenda.

The FAC recommended to levy at a lowered investment return rate of 7.00%, a decrease of 0.50% from 7.50%. At the November 16, 2017 meeting, City Council supported the investment return rate reduction. This increases the funding level for both funds to \$2,987,254 and \$3,463,310, respectively, in the Police and Fire Pension funding.

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 FAC recommended levy did not include an increase in the IMRF levy of \$72,506 and kept the Social Security level unfunded. The Social Security levy remains unfunded. Other revenues sources in the General Fund will continue to pay for the remaining pension obligations of \$1.8 million.
3. Continue to keep the debt payment for the 2013A bond series principal and interest for the library expansion. The 2017 levy amount is \$482,350.
4. 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. The 2017 levy will include \$824,070, which will be put towards Police and Fire Pensions and will reduce the amount under those levies. Therefore, 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.

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 voted to hold their levy amount at the same level from 2016 at \$2,298,500.
6. 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 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. After abatements and by tying the approved estimated levy increase to the growth in the EAV, existing properties with no major improvements should pay the same property tax for the City of DeKalb as the prior year. About 9.5% of a resident's current tax bill goes to the City. A homeowner of a \$150,000 (market value) or \$50,000 (taxable value) has a 2016 tax rate of 1.6629% or \$831 annual payment ($\$8,378,541 \text{ Extended } 2016 \text{ Levy} / \$503,861,829 \text{ EAV} = 0.016629$).

The below information shows the income (tax levy extension after abatement of City debt service obligations) and expenditure distribution by each property tax levy adoption option, the potential impact on a homeowner, and the impact on the General Fund balance:

1. **Adhere to the FAC's Recommendation:** Fully fund Police and Fire pensions through property tax at a lower investment return rate of 7.0% and keep minimal funding for IMRF.

Option 1	Amount
Income (extended levy)	
Corporate, Police Pension, Fire Pension, IMRF, and FICA	\$6,523,070
Special Service Areas	\$30,000
Library	\$2,298,500
Debt Service after abatement (Library related)	\$482,350
Income (extension) Total	\$9,333,920



Option 1	Amount
Expenditures	
Police and Fire Pensions	\$6,450,564
IMRF (excluding funding already shifted to General Fund)	\$72,506
Special Service Areas	\$30,000
Library	\$2,298,500
Debt Service after abatement (Library related)	\$482,350
Expenditures Total	\$9,333,920

Option 1	Amount
Income minus Expenditures	\$0.00
Therefore, Police and Fire Pension obligations are fully funded at the 7.0% investment return rate and leaves the minimal IMRF property tax levy funding of \$72,506 intact.	

Potential Impact on Homeowner of \$150,000 Market Value Home	Option 1
2017 Projected Tax Rate	1.7607%
Increase(Decrease) to 2016 Tax Rate	0.0978%
Potential Annual Tax Amount	\$880
Increase(Decrease) to 2016 Annual Tax Amount	\$49
Therefore, the annual tax amount increases 5.9% over the prior year to fully fund Police and Fire Pensions at the 7.0% investment return rate and remains below the Truth in Taxation ceiling as published on November 18, 2017 in the Daily Chronicle.	

Effect on the General Fund Balance	Option 1
Percent of Expenditures with 5% Expenditure Reductions	31.64%
Projected Fund Balance	\$11,564,305
Percent of Expenditures with 2.5% Expenditure Reductions	28.11%
Projected Fund Balance	\$10,555,067
Percent of Expenditures to Meet the Financial Policy Minimum	25.00%
Projected Fund Balance	\$9,518,903

2. **Implement a Lower Tax Levy:** Eliminate the minimal funding for the IMRF from the tax levy (\$72,506), reduce funding for Police and Fire pensions at the 7.0% investment return rate by \$445,970. The funding for IMRF and the portion of the Police and Fire pensions will be absorbed by other General Fund sources at the loss and/or reduction of other core City services.

Option 2	Amount
Income (extended levy)	
Corporate, Police Pension, Fire Pension, IMRF, and FICA	\$6,004,594
Special Service Areas	\$30,000
Library	\$2,298,500
Debt Service after abatement (Library related)	\$482,350
Income (extension) Total	\$8,815,444



Option 2	Amount
Expenditures	
Police and Fire Pensions	\$6,450,564
IMRF (excluding funding already shifted to General Fund)	\$72,506
Special Service Areas	\$30,000
Library	\$2,298,500
Debt Service after abatement (Library related)	\$482,350
Expenditures Total	\$9,333,920

Option 2	Amount
Income minus Expenditures	(\$518,476)
Therefore, other revenues in the General Fund will absorb \$445,970 of the Police and Fire Pension obligation at the 7.0% investment return rate and the elimination of IMRF funding from the tax levy of \$72,506.	

Potential Impact on Homeowner of \$150,000 Market Value Home	Option 2
2017 Projected Tax Rate	1.6629%
Increase(Decrease) to 2016 Tax Rate	0.0000%
Potential Annual Tax Amount	\$831
Increase(Decrease) to 2016 Annual Tax Amount	\$0

Effect on the General Fund Balance	Option 2
Percent of Expenditures with 5% Expenditure Reductions	30.23%
Projected Fund Balance	\$11,045,829
Percent of Expenditures with 2.5% Expenditure Reductions	26.73%
Projected Fund Balance	\$10,036,591
Percent of Expenditures to Meet the Financial Policy Minimum	25.00%
Projected Fund Balance	\$9,518,903

III. 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 September 21, Financial Advisory Committee meeting. Additionally, the actuarial reports and the Financial Advisory Committee's recommendation of lower 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 Financial Advisory Committee's recommendation. The Police Pension supports lowering the investment rate assumption to 7.0% or lower. A public hearing on the tax levy will be held on November 27 at the City Council Committee of the Whole 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. At this time, the levy does exceed 5% and therefore a Truth in Taxation notice was in the Daily Chronicle on Saturday, November 18, 2017 and on the City's website. The City is also required to file the property tax levy with the County by the last Tuesday in December.

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 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 estimated EAV from the County shows an increase from 2016 of 5.2%. After abatements and by tying the approved estimated levy increase to the growth in the EAV, existing properties with no major improvements should pay the same property tax for the City of DeKalb as the prior year.

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.

VI. Options

Option 1, **Adhere to the FAC's Recommendation:** Fully fund Police and Fire pensions through property tax at a lower investment return rate of 7.0% and keep minimal funding for IMRF.

Option 2, **Implement a Lower Tax Levy:** Eliminate the minimal funding for the IMRF from the tax levy (\$72,506), reduce funding for Police and Fire pensions at the 7.0% investment return rate by \$445,970. The funding for IMRF and the portion of the Police and Fire pensions will be absorbed by other General Fund sources at the loss and/or reduction of other core City services.

Option 3, Levy a different dollar amount up to the original ceiling of \$13,237,341.



VII. Recommendation

The Finance Advisory Committee recommended to fully fund Police and Fire pensions at an investment return rate of 7.0% and maintain the minimal funding for the Illinois Municipal Retirement Fund in the 2017 property tax levy.

