

To: Leonard J. Flood, Director of Finance
From: Timothy Sexton, Assistant Director of Finance
Date: November 21, 2006
Subject: Proposed 2006 Property Tax Levy

INTRODUCTION

The 2006 Proposed Property Tax Levy for the Village of Lombard is presented for your review and recommendation to the Village Board. The recommendation is summarized on **Attachment A** and is explained in detail in this report. The tax levy has been prepared in accordance with the requirements of the Property Tax Extension Limitation Act (Tax Cap) and the Truth in Taxation Act.

EAV ASSUMPTIONS

The following is a comparison of the projected 2006 estimated Equalized Assessed Valuation (EAV), including increases in both the base EAV as well as increases due to new construction/annexations for the Village of Lombard, as compared to the 2005 actual EAV.

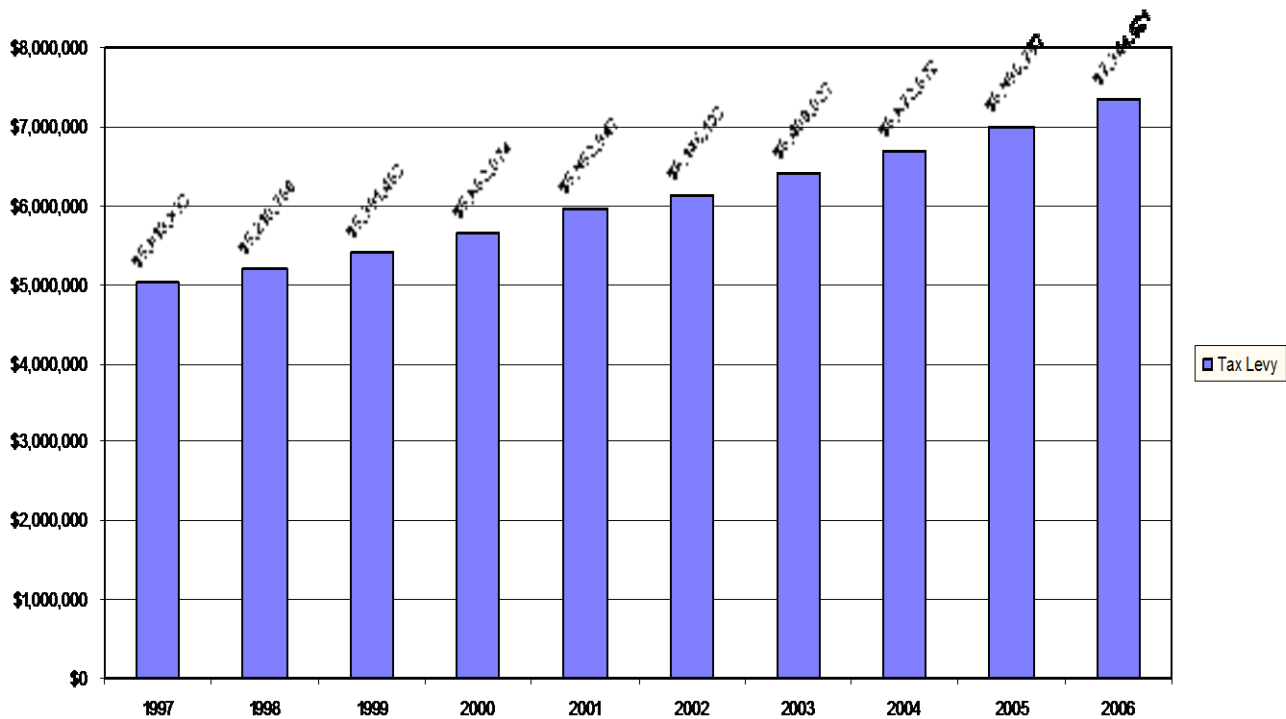
	<u>2006 Est.</u>	<u>2005 Actual</u>	<u>Incr. Over PY</u>	<u>Percent</u>
Base EAV	\$1,505,471,912	\$1,396,561,379	\$108,910,533	7.80%
New Construction/ Annexations	\$23,520,292	\$17,781,910	\$5,738,382	32.27%
Total	<u>\$1,528,992,204</u>	<u>\$1,414,343,289</u>	<u>\$114,648,915</u>	<u>8.11%</u>

Attachment B shows a history of EAV growth in the Village over the last ten years.

2006 PROPOSED PROPERTY TAX LEVY

The Village’s tax levy is made up of two component areas: the Corporate Levy and Special Levies. The Village has not had a bonded debt tax levy since 1994. For 2006, the total proposed tax levy for the Village of Lombard is \$7,344,521, an increase of \$347,765 or 4.97% over the prior year’s extended levy. **Attachment C** compares the 2005 extended levy to the 2006 proposed levy in detail. Below is a ten-year comparison of property tax extensions.

Tax Levy Extension



*2006 is the proposed levy amount prior to extension

I SPECIAL LEVIES:

POLICE AND FIREFIGHTERS’ PENSION FUNDS:

Since 1992, the Village has used an independent actuary to determine the annual tax levy requirements for both the Police and Firefighters’ Pension Funds. The Village’s actuary, Mr. Timothy Sharpe, has completed the annual actuarial analysis for the Police and Firefighters’ Pension Funds. Copies of the actuarial reports for June 1, 2006 are included with this report.

The actuarial analysis indicates that the tax levy requirement for the Police Pension Fund for 2006 is \$1,484,636, an increase of \$19,376 or 1.32% over the prior year’s extended levy. The Police Pension levy does not have a significant increase this year due to having one less active member in the fund as of May 31, 2006. There were also

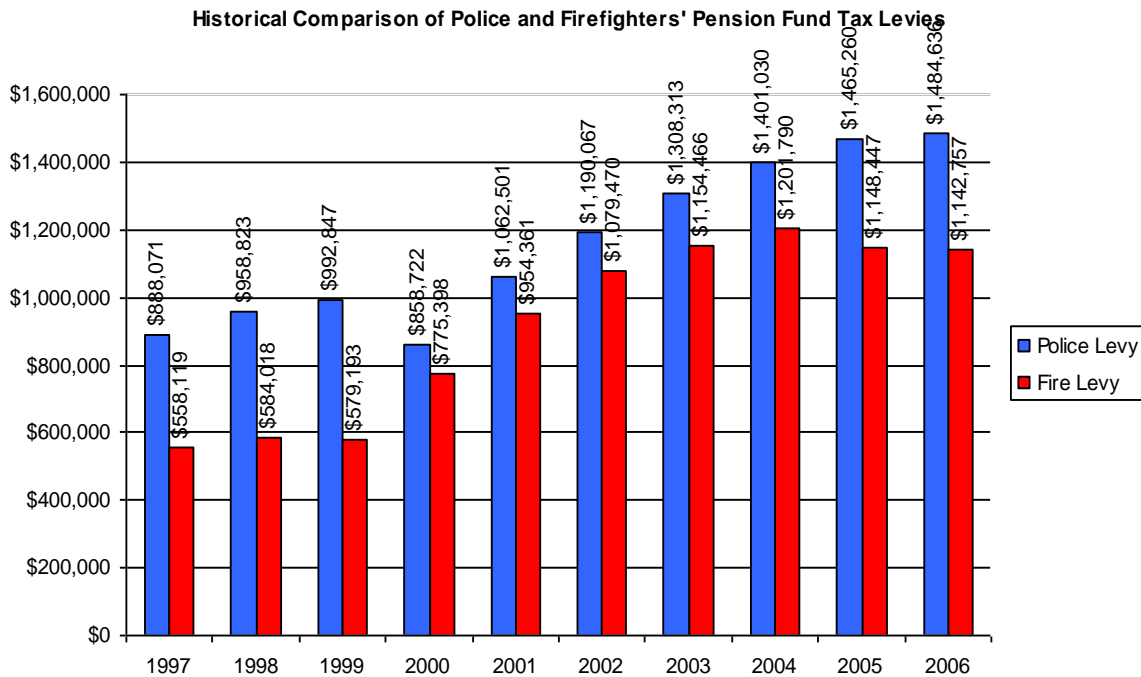
three pensioners who passed away during the year, two retired police officers with no surviving spouse, and one surviving spouse who was receiving a pension.

The tax levy requirement for the Firefighters' Pension Fund for 2006 is \$1,142,757, a decrease of \$5,690 or 0.50% less than the prior year's extended levy. The main reason for the decrease in the Firefighters' Pension levy was having three fewer active members in the fund as of May 31, 2006 (which in addition to the three fewer members from the previous year raised the total to six fewer members). In July 2004, the Illinois legislature passed a new firefighters' pension bill to expand pension benefits for firefighters. Included in this legislation was a provision that exempted from the tax cap any increases in the tax levy due to the new benefits of this legislation. Therefore, of the \$1,142,757 tax levy for the Firefighters' Pension Fund, \$1,099,815 is included in the calculation for the tax cap, and \$42,942 is exempt from the tax cap.

The Police and Firefighters' Pension Funds will see a net combined increase of \$13,686 or 0.52 % over last year's extended levy. A comparison of the annual requirements for this year and last year is shown on **ATTACHMENT D**.

The annual actuarially determined tax levy requirement for the Police Pension Fund, expressed as a percentage of payroll, decreased from 28.96% for 2005 to 28.37% for 2006. The Firefighters' Pension Fund tax levy requirement, expressed as a percentage of payroll, decreased from 25.66% for 2005 to 25.45% for 2006.

The chart on the following page displays a history of the Police and Firefighters' Pension Fund tax levies over the past ten years. The Village's overall tax levy has increased since 1997 by \$2,325,688 in actual dollars or 46.34% in ten years. As depicted in the chart below, the combined levies for the Police and Firefighters' Pension Funds alone have increased by \$1,181,203 or 81.7% in the same period. The net effect is that 50% of new tax levy dollars over and above the 1997 levels are going to fund the increases in the Police and Firefighters' Pension Fund levies. Also, the 2006 Police and Firefighters' Pension Fund levies are lower than they otherwise would have been due to the frozen positions (one for Police and six for Fire). However, due to the referendum that was approved earlier in this year, these positions have either been filled or are in the process of being filled. This will most likely cause a significant increase in the levy next year, especially for the Firefighters' Pension Fund.



LIABILITY INSURANCE:

The 2006 Proposed Tax Levy for Liability Insurance is \$1,089,741, or \$475,937 less than the 2005 levy. An actuarial study was conducted in order to determine the Village's reserve requirements for Liability Insurance, which was determined to be \$1,654,000 as of 12/31/07. In addition, the Village's financial policies require that an additional 10% of expenditures, or \$172,871, be maintained to cover additional unanticipated insurance costs or reserve requirements. Therefore, in addition to the actuarially determined reserve requirements of \$1,654,000, an additional \$172,871 should be reserved, bringing the required account balance to \$1,826,871. The levy amount needed to maintain this account balance is \$1,089,741. The main reason for the significant decrease in the levy is that the Village had very low claims experience during FYE 2006, which led to a much higher account balance than anticipated. Assuming the claims return back to their historical level, the Liability Insurance levy will likely need to be increased back to last year's level for next year's tax levy.

IMRF/SOCIAL SECURITY:

ILLINOIS MUNICIPAL RETIREMENT FUND (IMRF): The Village's contribution rate, expressed as a percentage of payroll, increased from 9.61% in 2005 to 10.74% in 2006. The Village has received information from IMRF that indicates that the Village's rate for 2007 will decrease from 10.74% to 10.08%. In addition, IMRF has estimated the Village's 2008 rate to be 10.10%. The decrease for 2007 is directly attributable to higher interest earnings on IMRF investments. There have been no major changes to IMRF benefit levels in many years. The IMRF costs for next year are estimated at

\$710,124, an increase of \$41,140 over the extended levy last year. Although the rate is decreasing in 2007, a number of positions that have been frozen over the last several years have either been filled or are in the process of being filled, leading to an increase in IMRF costs.

SOCIAL SECURITY/MEDICARE: The 2006 proposed levy for Social Security/Medicare is \$686,752. This is an \$89,899, or 15.06%, increase over the amount proposed last year. This increase is also attributed mainly to the filling of previously frozen positions.

The contribution rate for the Village expressed as a percentage of payroll is 6.20% for Social Security and 1.45% for Medicare, for a total of 7.65%. This amount, combined with the 10.08% of payroll for IMRF, means that the total pension cost for non-sworn Village personnel, expressed as a percentage of payroll, is 17.73% as compared to 28.37% for sworn Police and 25.45% for sworn Fire personnel. For sworn Police and Fire personnel hired after 1986, the Village also contributes 1.45% for Medicare in addition to the pension costs above.

Attachment E shows the historical comparison of IMRF, Social Security and Medicare rates and wage bases since the 1997 tax levy year. Over the last ten years, combined levies for these three levies have increased by \$451,975 or 47.83% as compared to the increases in the combined Police and Firefighters' Pension Fund levies of \$1,181,203 or 81.7% over the same period.

PUBLIC BENEFIT:

State statute provides that the Village can levy to the maximum rate of \$.05/\$100 of EAV for the Public Benefit Fund to pay for a portion of the Village's share of special assessment projects. For the last four years, due to the uncertain economic conditions and the need for revenue to stabilize the General Fund, the Village Board approved a staff recommendation to levy \$.025/\$100 in Public Benefit and the rest in the General Corporate Levy for the 2002, 2003, 2004 and 2005 tax levies. For the 2005 tax levy (FYE 2007), it has been determined that the corporate fund has sufficient revenues to fund operations without this additional amount. Therefore, it is the recommendation of staff that the Village transfer the additional \$.025 of EAV, or approximately \$357,829, from the General Fund to the Public Benefit Fund. Staff is also recommending that the Village levy to the maximum rate of \$.05/\$100 of EAV for the Public Benefit Fund for the proposed 2006 tax levy. The amount of this year's Public Benefit levy is \$764,496.

CORPORATE LEVY:

General Corporate Levy: The 2006 proposed General Corporate Levy totals \$1,466,015, an increase of \$272,309 or 22.81% above last year's extended levy.

There are three major factors resulting in this significant increase in the Corporate Levy. First, the overall levy increased 4.97% over the prior year, due to the CPI increase of 3.4% and the new growth for the year. Second, there was a decrease in the

Firefighters' Pension levy that is subject to the tax cap, and only a slight increase in the Police Pension Fund, due to the various reasons previously discussed. Finally, although we are levying the full Public Benefit amount this year, there is an even larger decrease in the Liability Insurance levy. All of these factors contributed to the significant increase in the Corporate Levy.

HELEN M. PLUM MEMORIAL LIBRARY:

The library is required to have its levy adopted by the Village of Lombard Board of Trustees. The library has provided the Village with its proposed tax levy request as follows:

Corporate	\$2,608,706
Audit	1,015
Liability Insurance	0
TOTAL	<u>\$2,609,721</u>

TAX RATES:

The tax cap limits our base tax levy increase over the prior year's extended levy to 5% or the national CPI as reported for December prior to adoption of the levy. For tax year 2006 the December 2005 national CPI was 3.4%. In addition to this amount, we levy for new construction and annexations that are expected to add an additional 1.6% in 2006, bringing our total increase allowed under the tax cap to 4.97%. This addition for new growth benefits the Village only for the first year it goes on the tax rolls. Next year this amount is rolled into our prior year's extension, which is capped by the CPI increase.

Based on this proposed levy, tax rates for the Village next year are expected to decrease from .4916/\$100 of EAV to .4775/\$100 of EAV. As mentioned earlier, the Firefighters' Pension Fund is now allowed to levy for the additional costs associated with the July 2004 fire pension legislation, with these costs being exempt from the tax caps. So in addition to the tax cap levy of .4775/\$100 of EAV, the Firefighters Pension Fund will also levy .0028/\$100 of EAV, making the total Village levy .4803 /\$100 of EAV.

For the typical homeowner with a \$300,000 house, the Village's share of the tax bill on that property is expected to drop by approximately \$14 from \$470 to \$456.

A ten-year comparison of tax rates can be found in **Attachment F**. As this comparison indicates, the projected 2006 property tax rate for the Village of Lombard of .4803/\$100 of EAV is .1114/\$100 of EAV or 18.83% lower than it was ten years ago.

IMPACT OF THE PROPERTY TAX EXTENSION LIMITATION ACT:

The proposed 2006 Property Tax Levy for the Village of Lombard has been developed in order to comply with the provisions of the Property Tax Extension Limitation Act. An increase due to new growth of 1.6% has been provided for in the calculations. However, if this new growth estimate or the increase in the current tax base EAV is not realized, it may be necessary to

reduce our levy at a later date. Toward the end of March 2007, the DuPage County Clerk will notify us if we are required to reduce our tax levy further as a result of our final extended 2006 tax levy. At that time we will be given the opportunity to decide if we want proportional reductions in all levies or if the reduction (if any) should come from one or more levies as selected by the Village Board. This decision, if necessary, would be made next spring by the Village Board.

TRUTH IN TAXATION CALCULATION:

For purposes of complying with the statutory requirements of the Truth in Taxation Act, we must compare our 2005 Aggregate Extended Levy to our 2006 Proposed Levy. If the amount of the increase in the levy is 5% or greater, a public hearing must be held by the Village Board. The 2005 Aggregate Extended Levy for the Village and Library combined was \$9,483,172. The 2006 proposed levy for the Village and the Library combined is \$9,954,242, an increase of \$471,073 or 4.97%. Therefore, no public hearing is required this year.

The Finance Committee's recommendation on the 2006 Property Tax Levy will be on the agenda for Village Board consideration and approval with waiver of first reading at their December 7, 2006 meeting.