



To: Finance Committee
From: Timothy Sexton, Director of Finance
Date: November 21, 2008
Subject: Proposed 2008 Property Tax Levy

INTRODUCTION

The 2008 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

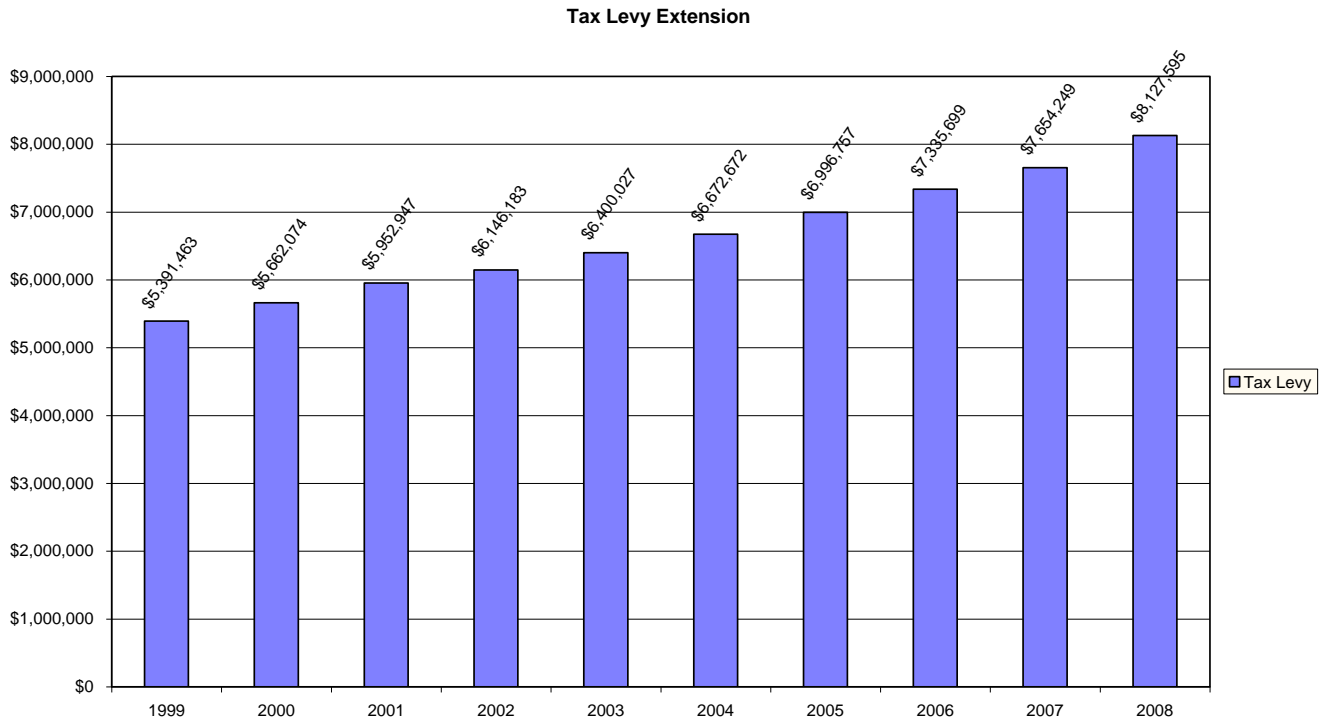
The following is a comparison of the projected 2008 estimated Equalized Assessed Valuation (EAV), including increases in both the base EAV as well as increases due to new construction/annexations for the Village of Lombard, as compared to the 2007 actual EAV.

	2008 Est.	2007 Actual	Incr. Over PY	Percent
Base EAV	\$1,708,924,293	\$1,611,611,151	\$97,313,142	6.04%
New Construction/ Annexations	\$34,178,486	\$29,522,890	\$4,655,596	15.77%
Total	<u>\$1,743,102,779</u>	<u>\$1,641,134,041</u>	<u>\$101,968,738</u>	<u>6.21%</u>

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

2008 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 2008, the total proposed tax levy for the Village of Lombard is \$8,127,595, an increase of \$473,347 or 6.18% over the prior year’s extended levy. **Attachment C** compares the 2007 extended levy to the 2008 proposed levy in detail. Below is a ten-year comparison of property tax extensions.



*2008 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, 2008 are included with this report.

The actuarial analysis indicates that the tax levy requirement for the Police Pension Fund for 2008 is \$1,712,424, an increase of \$228,839 or 15.42% over the prior year’s extended levy. The Police Pension levy has an increase this year due to less than expected investment returns during FYE 2008, which were 2.73% compared with the actuarial assumed rate of return of 7.50%. In addition, there was one disability awarded during FYE 2008.

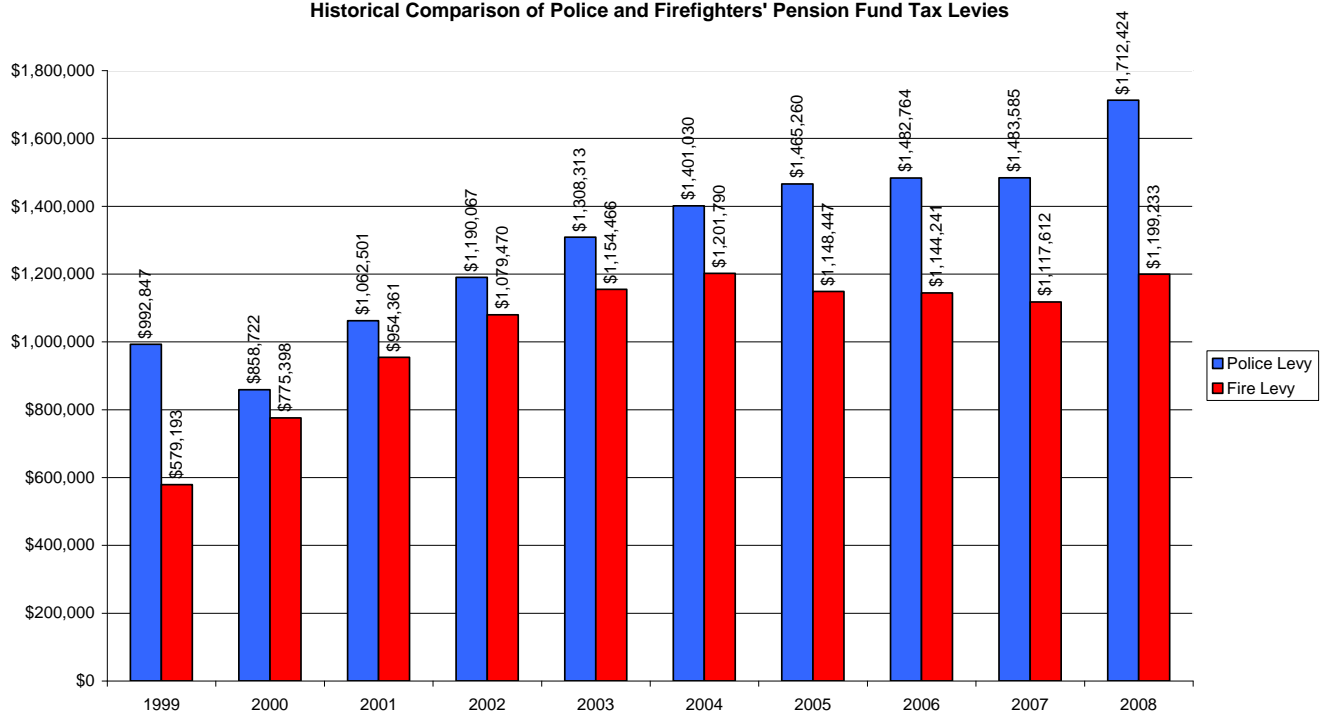
The tax levy requirement for the Firefighters' Pension Fund for 2008 is \$1,199,233, an increase of \$81,621 or 7.30% more than the prior year's extended levy. The Firefighters' Pension Levy has an increase this year due to less than expected investment returns during FYE 2008, which were 1.89% compared with the actuarial assumed rate of return of 7.50%. 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 \$1,199,233 tax levy for the Firefighters' Pension Fund, \$1,154,168 is included in the calculation for the tax cap, and \$45,065 is exempt from the tax cap.

The Police and Firefighters' Pension Funds will see a net combined increase of \$310,460 or 11.94 % 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, increased from 26.76% for 2007 to 29.65% for 2008. The Firefighters' Pension Fund tax levy requirement, expressed as a percentage of payroll, increased from 22.42% for 2007 to 23.21% for 2008.

The chart below 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 1999 by \$2,736,132 in actual dollars or 50.75% in ten years. As depicted in the chart below, the combined levies for the Police and Firefighters' Pension Funds alone have increased by \$1,339,617 or 85.22% in the same period. The net effect is that 48.96% of new tax levy dollars over and above the 1999 levels are going to fund the increases in the Police and Firefighters' Pension Fund levies.

Historical Comparison of Police and Firefighters' Pension Fund Tax Levies



LIABILITY INSURANCE:

The 2008 Proposed Tax Levy for Liability Insurance is \$1,439,858, or \$106,090 less than the 2007 levy. The Village has an actuarial study conducted every other year in order to determine the Village's reserve requirements for Liability Insurance. The study performed this year determined the reserve requirements to be \$2,244,870 as of 12/31/09. In addition, the Village's financial policies require that an additional 10% of expenditures, or \$180,070, be maintained to cover additional unanticipated insurance costs or reserve requirements. Therefore, in addition to the actuarially determined reserve requirements of \$2,244,870, an additional \$180,070 should be reserved, bringing the required account balance to \$2,424,940. The levy amount needed to maintain this account balance is \$1,439,858, which is \$106,090 or 6.86% below last year's levy. As discussed during the tax levy process last year, the main reason for the significant increase in the 2007 levy was that the Village had very low claims experience during FYE 2005 and FYE 2006, which led to a much higher account balance than anticipated. However, claims during FYE 2007 returned to their historic norms, resulting in the tax levy increasing back to previous levels. The reason for the significant decrease in the levy this year is that the Village had low claims experience in FYE 2008, more in line with what the Village experienced during FYE 2005 and FYE 2006, again leading to a higher account balance than anticipated. To put the current year tax levy into perspective, the tax levies for Tax Year 2004, 2005, 2006 and 2007 were \$1,406,042, \$1,565,678, \$1,089,741 and \$1,545,948 respectively.

IMRF/SOCIAL SECURITY:

ILLINOIS MUNICIPAL RETIREMENT FUND (IMRF): The Village's contribution rate, expressed as a percentage of payroll, increased from 10.08% in 2007 to 10.18% in 2008. The Village has received information from IMRF that indicates that the Village's rate for 2009 will increase from 10.18% to 10.36%. In addition, staff has estimated the Village's 2010 rate to be 10.74%. There have been no major changes to IMRF benefit levels in many years. The IMRF costs for next year are estimated at \$797,140, an increase of \$27,448 or 3.57% over the extended levy last year. The estimated increase in the 2010 rate is the main reason for the increase in IMRF costs, along with regular salary increases.

SOCIAL SECURITY/MEDICARE: The 2008 proposed levy for Social Security/Medicare is \$749,952. This is a \$32,776, or 4.57% increase over the amount levied last year. This increase is also attributed mainly to regular salary increases.

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 10.36% of payroll for IMRF, means that the total pension cost for non-sworn Village personnel, expressed as a percentage of payroll, is 18.01% as compared to 29.65% for sworn Police and 23.21% 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 1999 tax levy year. Over the last ten years, combined levies for these three levies have increased by \$562,604 or 59.51% as compared to the increases in the combined Police and Firefighters' Pension Fund levies of \$1,339,617 or 85.22%% 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. The amount of this year's Public Benefit levy is \$871,550.

II CORPORATE LEVY:

General Corporate Levy: The 2008 proposed General Corporate Levy totals \$1,357,438, an increase of \$154,487 or 12.84% over last year's extended levy.

There are two major factors resulting in this increase in the Corporate Levy. First, the overall levy increased 6.16% over the prior year, due to the CPI increase of 4.1% and the new growth for the year. Secondly, there is a decrease in the Liability Insurance levy for the reasons previously discussed.

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	\$2,883,722
Audit	0
Liability Insurance	<u>5,000</u>
TOTAL	<u>\$2,888,722</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 2008 the December 2007 national CPI was 4.1%. In addition to this amount, we levy for new construction and annexations that are expected to add an additional 2.0% in 2008, bringing our total increase allowed under the tax cap to 6.1%. 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 .4638/\$100 of EAV to .4637/\$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 .4637/\$100 of EAV, the Firefighters Pension Fund will also levy .0026/\$100 of EAV, making the total Village levy .4663 /\$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 remain approximately the same at \$442.

A ten-year comparison of tax rates can be found in **Attachment F**. As this comparison indicates, the projected 2008 property tax rate for the Village of Lombard of .4663/\$100 of EAV is .1142/\$100 of EAV or 19.67% lower than it was ten years ago.

IMPACT OF THE PROPERTY TAX EXTENSION LIMITATION ACT:

The proposed 2008 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 2.0% 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 2009, the DuPage County Clerk will notify us if we are required to reduce our tax levy further as a result of our final extended 2008 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 2007 Aggregate Extended Levy to our 2008 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 2007 Aggregate Extended Levy for the Village and Library combined was \$10,376,891. The 2008 proposed levy for the Village and the Library combined is \$11,016,317, an increase of \$639,426 or 6.16%. Therefore, a public hearing is required and will be held prior to the December 4, 2008 Board of Trustees meeting.

The Finance Committee's recommendation on the 2008 Property Tax Levy will be on the agenda for Village Board consideration and approval with waiver of first reading at their December 4, 2008 meeting.