

To: Leonard J. Flood, Director of Finance  
 From: Timothy Sexton, Assistant Director of Finance  
 Date: November 11, 2005  
 Subject: Proposed 2005 Property Tax Levy

**INTRODUCTION**

The 2005 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**

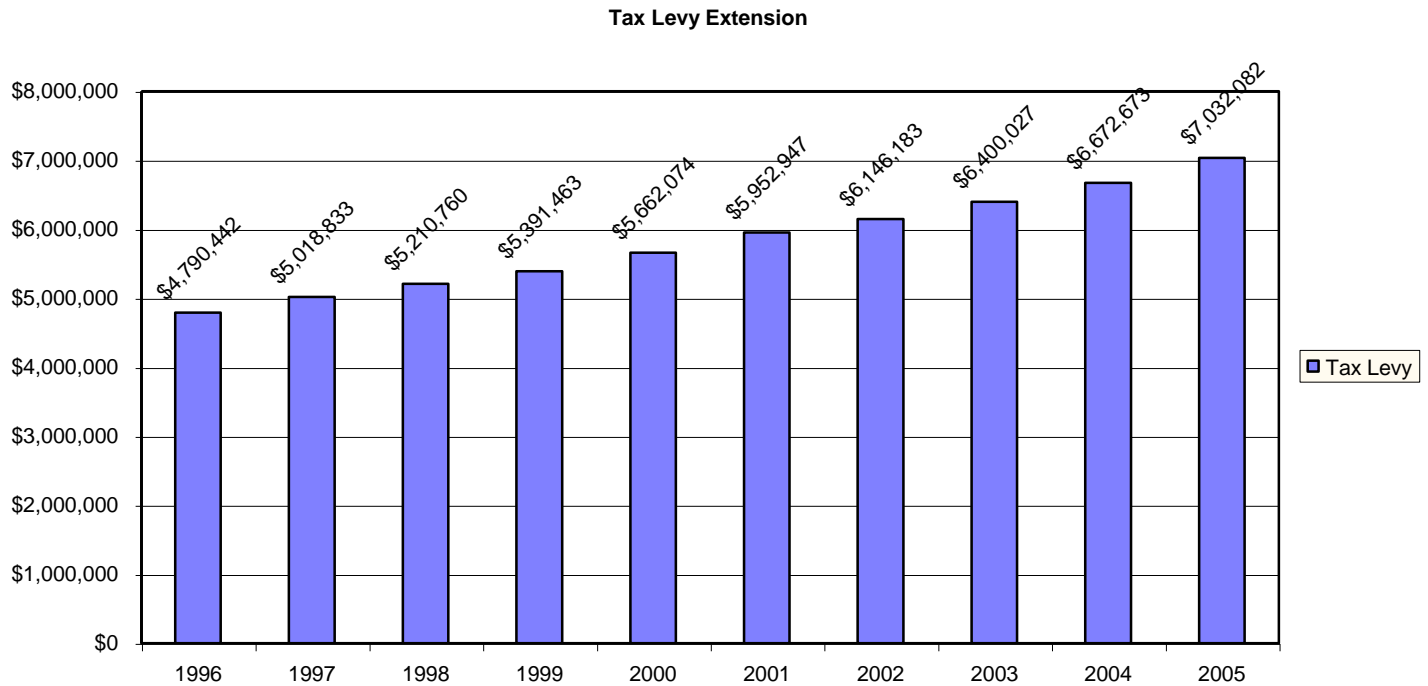
The following is a comparison of the projected 2005 estimated Equalized Assessed Valuation (EAV), including increases in both the base EAV as well as increases due to new construction/annexations for the Village of Lombard, as compared to the 2004 actual EAV.

	2005 Est.	2004 Actual	Incr. Over PY	Percent
Base EAV	\$1,414,081,185	\$1,314,201,845	\$99,879,340	7.60%
New Construction/ Annexations	\$25,453,461	\$24,885,540	\$567,921	2.28%
Total	<u>\$1,439,534,646</u>	<u>\$1,339,087,385</u>	<u>\$100,447,261</u>	<u>7.50%</u>

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

**2005 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 2005, the total proposed tax levy for the Village of Lombard is \$7,032,082, an increase of \$359,409 or 5.39% over the prior year’s extended levy. **Attachment C** compares the 2004 extended levy to the 2005 proposed levy in detail. Below is a ten-year comparison of property tax extensions.



\*2005 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, 2005 are included with this report.

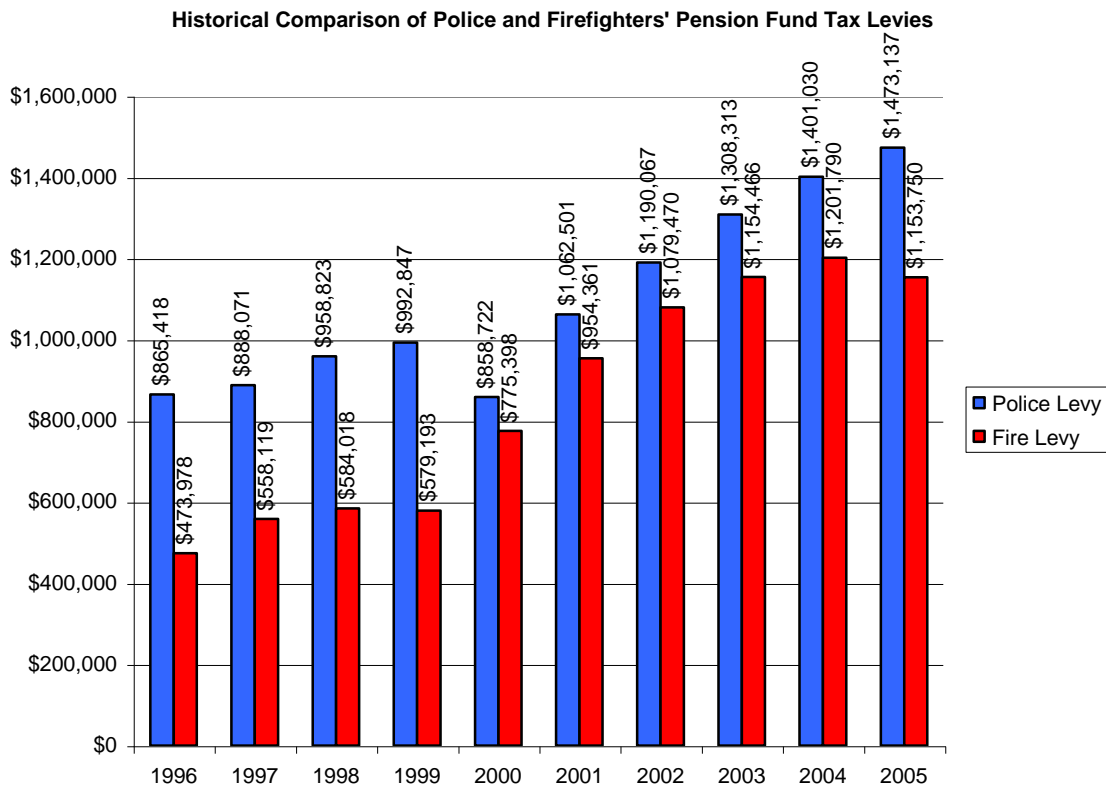
The actuarial analysis indicates that the tax levy requirement for the Police Pension Fund for 2005 is \$1,473,137, an increase of \$72,107 or 5.15% over the prior year’s extended levy. The tax levy requirement for the Firefighters’ Pension Fund for 2005 is \$1,153,750, a decrease of \$48,040 or 4.00% less than the prior year’s extended levy. There are several reasons for the decrease in the Firefighters’ Pension levy, including having three fewer active members in the fund as of May 31, 2005, increased investment earnings for the year, and more of the levy being exempt from the property

tax cap. 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 \$1,153,750 tax levy for the Firefighters' Pension Fund, \$1,110,395 is included in the calculation for the tax cap, and \$43,355 is exempt from the tax cap.

The Police and Firefighters' Pension Funds will see a net combined increase of \$15,666 or 0.60 % 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 29.31% for 2004 to 28.96% for 2005. The Firefighters' Pension Fund tax levy requirement, expressed as a percentage of payroll, decreased from 26.69% for 2004 to 25.66% for 2005.

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 1996 by \$2,241,640 in actual dollars or 46.79% in ten years. As depicted in the chart below, the combined levies for the Police and Firefighters' Pension Funds alone have increased by \$1,287,491 or 96.1% in the same period. The net effect is that 50% of new tax levy dollars over and above the 1996 levels are going to fund the increases in the Police and Firefighters' Pension Fund levies.



**LIABILITY INSURANCE:**

The 2005 Proposed Tax Levy for Liability Insurance is \$1,573,807, or \$167,765 more than the 2004 levy. An actuarial study was conducted last year in order to determine the Village's reserve requirements for Liability Insurance. Upon the recommendation of the Village's risk management consultant Mike Nugent, we decided to do the actuarial study every other year. Therefore, this year we increased the levy by the ten year average increase of 12.2%.

**IMRF/SOCIAL SECURITY:**

**ILLINOIS MUNICIPAL RETIREMENT FUND (IMRF):** The Village's contribution rate, expressed as a percentage of payroll, increased from 8.71% in 2004 to 9.61% in 2005. The Village has received information from IMRF that indicates that the Village's rate for 2006 will increase from 9.61% to 10.74%. In addition, IMRF has estimated the Village's 2007 rate to be 10.79%. The increases for 2006 and 2007 are directly attributable to lower 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 \$671,011, an increase of \$109,933 over the amount proposed last year. The IMRF/Social Security account created a reserve specifically to mitigate the fiscal impact to the Village of a period of rising rates. For the last three years, the Village levied \$100,000 less than was actually needed for IMRF to draw down the balance of this reserve to the desired level, which it is now at. Therefore, this year it is proposed to levy the full amount needed. It is recommended that the proposed 2005 levy be set at \$671,011.

**SOCIAL SECURITY/MEDICARE:** The 2005 proposed levy for Social Security/Medicare is \$600,459. This is a \$13,905, or 2.37%, increase over the amount proposed last year.

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 10.74% of payroll for IMRF, means that the total pension cost for non-sworn Village personnel, expressed as a percentage of payroll, is 18.39% as compared to 28.96% for sworn Police and 25.66% 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 1996 tax levy year. Over the last ten years, combined levies for these three levies have increased by \$358,546 or 39.27% as compared to the increases in the combined Police and Firefighters' Pension Fund levies of \$1,287,491 or 96.1% 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 three 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 and 2004 tax levies. This staff recommendation will again be made to the Village Board for the 2005 tax levy. This gives the Village the greatest flexibility in dealing with the FYE 2007 Budget. If it is determined at a later time that the corporate fund has sufficient revenues to fund operations without this additional amount, the Village has the flexibility to transfer the funds from the General Fund to cover Public Benefit costs. The amount of this year's Public Benefit levy is \$359,880.

**CORPORATE LEVY:**

**General Corporate Levy:** The 2005 proposed General Corporate Levy totals \$1,200,038, an increase of \$28,328 or 2.42% above last year's extended levy.

There are two major factors resulting in this slight increase in the Corporate Levy. First, the overall levy increased 5.39% over the prior year, due to the CPI increase of 3.3% and the new growth for the year. Second, there was a decrease in the Firefighters' Pension levy that is subject to the tax cap, due to the various reasons previously discussed. Although the Corporate Levy increased slightly, a larger increase in health insurance costs is expected again in FYE 2007. In the current fiscal year, blended health insurance rates rose approximately 9% from the previous fiscal year. We are anticipating an increase of 10% to 15% in the coming year based on our experience and medical trends.

**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	\$2,472,094
Audit	2,600
Liability Insurance	<u>22,000</u>
TOTAL	<u>\$2,496,694</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 2005 the December 2004 national CPI was 3.3%. In addition to this amount, we levy for new construction and annexations that are expected to add an additional 1.8% in 2005, bringing

our total increase allowed under the tax cap to 5.1%. 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 .4983/\$100 of EAV to .4855/\$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 .4855/\$100 of EAV, the Firefighters Pension Fund will also levy .0030/\$100 of EAV, making the total Village levy .4885 /\$100 of EAV.

For the typical homeowner with a \$250,000 house, the Village's share of the tax bill on that property is expected to drop by approximately \$8 from \$390 to \$382.

A ten-year comparison of tax rates can be found in **Attachment F**. As this comparison indicates, the projected 2005 property tax rate for the Village of Lombard of .4885/\$100 of EAV is .0977/\$100 of EAV or 16.67% lower than it was ten years ago.

#### **IMPACT OF THE PROPERTY TAX EXTENSION LIMITATION ACT:**

The proposed 2005 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 1.8% 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 2006, the DuPage County Clerk will notify us if we are required to reduce our tax levy further as a result of our final extended 2005 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 2004 Aggregate Extended Levy to our 2005 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 2004 Aggregate Extended Levy for the Village and Library combined was \$9,048,214. The 2005 proposed levy for the Village and the Library combined is \$9,528,776, an increase of \$480,562 or 5.31%. Therefore, a public hearing is required and will be held prior to the December 1, 2005 Board of Trustees meeting.

The Finance Committee's recommendation on the 2005 Property Tax Levy will be on the agenda for Village Board consideration and approval with waiver of first reading at their December 1, 2005 meeting.