

VILLAGE OF HOMEWOOD



BOARD AGENDA MEMORANDUM

DATE OF MEETING: November 12, 2024

To: Village President and Board of Trustees

Through: Napoleon Haney, Village Manager

From: Amy Zukowski, Director of Finance

Topic: 2024 Real Estate Tax Levy Discussion

PURPOSE

Staff will discuss the annual real estate tax levy process with the Board of Trustees and provide explanations and recommendations on levy amounts. Based on the anticipated discussion and recommendations, a Truth in Taxation Hearing will be published and held prior to the December 10, 2024 Board meeting. The final real estate tax levy ordinances will be agendized on the December 10, 2024 Board meeting for approval.

PROCESS

A tax levy is the amount of money a taxing body can request from the collective group of property owners (through property tax) in a specific area or district. Once the tax levy amount is calculated, the taxing body will perform an “extension.” A tax extension is the process used to collect the amount from the taxpayers. Generally, property taxes are collected from residents and businesses within the taxing district. For non-home rule communities like Homewood, tax levies have certain restrictions, limitations, and parameters that are set by the State of Illinois through rules contained in the Property Tax Extension Limitation Law (PTELL).

PTELL does not “cap” individual property tax bills, neither does it cap property assessments; rather, PTELL limits non-home rule taxing districts by allowing a tax levy to only increase, from the prior year, using the following parameters:

- The tax levy is allowed to increase from the previous year’s final tax extension levy based on the lesser of 5% or the increase in the consumer price index (CPI) for the year preceding the levy year and,
- An increase to capture property taxes for new construction within the district for the preceding calendar year.

It is important to note that all taxing agencies levy for their share of property taxes.

VILLAGE OF HOMEWOOD



Homewood’s Upcoming Levy

Using the PTELL guidelines, the actual CPI for the preceding year is 3.35%. Because the CPI is less than 5%, the Village is able to capture the full 3.35% increase under the PTELL parameters. The Village will also need to estimate the change for new construction, which adds to the overall Equalized Assessed Valuation (EAV). The Village estimates a conservative 0.5% increase; however, with the 187th/Dixie Highway (Southgate) Tax Increment Financing (TIF) District coming to an end, we are able to capture an additional 1.0% of new construction as the Southgate TIF comes back on the tax rolls. The Village is estimating a total of 1.5% of new construction. As a reminder, a good portion of the property tax dollars collected in the Southgate TIF, over the prior years, went into the Village’s TIF fund. Now that the TIF has expired, these collected property tax dollars will be distributed to the various taxing districts, including Homewood.

Portion of the Levy that Falls Under PTELL

The Village’s 2024 levy will see a total 4.85% increase (3.35% for change in CPI and 1.5% for new construction). The Village’s total tax levy under the PTELL is **\$7,066,009**. Once the levy is approved by the Village Board and extended or issued to the property owners and tax dollars are received, the funds are distributed between General Fund operations and the Village’s pension funds (police, fire, and Illinois Municipal Retirement Fund –IMRF- covering all non-police and non-fire personnel).

Police & Fire Pension Funding as a Component of the Levy

Per the PTELL and State of Illinois Property Tax Code, municipalities are allowed to levy for pension funding requirements. Under the State Pension Code, the Village is to fund the Police & Fire Pension Funds at the required statutory minimum. The required statutory minimum is based on the State of Illinois’ mandate that our Police & Fire Pension Funds be 90% funded by 2040. The Homewood Police Pension Fund is currently funded at 55.9%, while the Homewood Firefighter’s Pension Fund is currently funded at 72.7%. The State’s Consolidated Pension Fund requirements are designed to accomplish the “90% by 2040” funding mandate.

The Village engaged with a creditable actuary (Lauterbach & Amen LLP of Naperville, IL) to calculate both a recommended and alternative contribution amount for both funds. On page one of the attached signed Municipal Compliance Reports for both Pension Funds, you can find the recommended and alternative contribution amounts.

	<u>Police Pension Fund</u>	<u>Fire Pension Fund</u>
Recommended (<i>assumes 100% funded by 2040</i>)	\$2,877,391	\$953,951
Alternative (<i>assumes 90% funded by 2040</i>)	\$2,325,490	\$761,160

Lauterbach & Amen Levy Recommendations 2024

VILLAGE OF HOMEWOOD



The State Consolidated Pension Funds (police & fire), hired a creditable actuary (Foster & Foster Actuaries and Consultants of Naperville, IL) to calculate the statutory minimum amounts for each consolidated fund. This amount will vary from Lauterbach & Amen’s calculations due to standard differences in actuarial assumptions.

	<u>Police Pension Fund</u>	<u>Fire Pension Fund</u>
Statutory Minimum (<i>assumes 90% funding by 2040</i>)	\$2,672,405	\$906,897
<i>Foster & Foster Actuaries and Consultants</i>	\$2,629,870	\$852,739

Homewood’s Police & Fire Pension Board – Levy Funding Request

The Homewood Police and Fire Pension Funds submitted letters requesting that the “recommended” contributions as calculated by Lauterbach & Amen be used in the 2024 tax levy calculation. The respective letters are attached.

Village Staff Levy Funding Recommendation

Village staff recommends that the statutory minimum amount calculated by the consolidated funds actuary be used for the 2024 tax levy. This methodology is consistent with the 2023 tax levy where the consolidated funds actuarial amount was also used. The Village will continue to levy the consolidated funds actuary amount going forward in order to achieve the 90% funded target by 2040 per State Statute. Village staff also recommends funding more than the required statutory minimum amount in future years should Village finances allow.

2024 will also be the final year that the Village will engage with Lauterbach & Amen to calculate contribution amounts for both pension funds. Should the pension funds wish, they will be able to engage with an actuary of their own choosing to calculate a 100% funded recommendation.

Pension Levy Funding vs. Levy Funding for General Operations

After levying the statutory minimum for the Police and Fire Pension Funds, the remaining tax dollars from the levy are allocated towards IMRF Pension, Social Security, and Medicare employer costs (FICA), audit expenses, risk management insurance premium costs, and all other day-to-day operating expenses (including salaries) within the General Fund. Currently, the Village of Homewood’s tax levy provides only **10.0%** of General Fund revenue used to fund day-to-day operating expenses.

Tax Levy Pension Breakdown:

- The Village’s total tax levy is proposed to be issued for an amount of **\$7,066,009**.
- Approximately 56%, or **\$4M**, of the total tax levy will go towards all pension obligations, including Police Pension, Fire Pension, and IMRF.
- Of this 56% or \$4M pension amount, 87% or approximately \$3.5M goes exclusively towards Police and Fire Pension obligations.

VILLAGE OF HOMEWOOD



- The remaining 44% goes towards all other operational items, including FICA (Employer Social Security and Medicare payments).

Debt Payment Obligations and the Tax Levy

Debt payment obligations are allowed to be included in the tax levy; however, it is important to note that debt payments are not governed by the PTELL. The Village issued a non-referendum General Obligation Bond in the amount of \$2,611,269 in September 2024. The general obligation bond funds will be used to complete numerous capital infrastructure projects over the next several years. The principal and interest payments required to repay the 2024 bond issuance will be included in the next four tax levies. With this new debt, \$746,688 is added to the 2024 tax levy.

The Village did not have any debt service to include in the 2023 levy as the final principal and interest payments for the 2020 General Obligation Bond were captured through the 2022 real estate tax levy.

Final Tax Levy Including Debt Service

Homewood's final 2023 tax extension levy was for \$6,886,315. The upcoming 2024 levy is projected to be \$7,824,367. This is a 13.62% increase over the prior year's levy, due mostly to the return of our nominal, but consistent debt service. Because the proposed 2024 real estate tax levy is more than 5% greater than the prior year's tax extension, a Truth in Taxation Hearing is required.

Village's Portion of the Total Tax Bill

On the 2023 tax bills, the Village of Homewood's portion is approximately 10% of the total real estate tax bill. For example, if a resident's total property tax bill is \$8,000, only \$800 of the annual property taxes paid are allocated to cover the cost for quality amenities and high-level services that are provided by the Village of Homewood. Some examples of such services and amenities include police and fire public safety services, public works services including snow removal and tree removal/reforestation, and the downtown events series including farmers market. We anticipate that the Village's portion will increase slightly due to the addition of the debt service amount on the 2024 tax levy and an expected decrease in the total Equalized Assessed Valuation following resident tax appeals.

OUTCOME

The total 2024 real estate tax levy for the Village of Homewood will increase by 13.62%.

3.35% - increase in CPI

1.50% - capturing of new construction

8.77% - issuance of the 2024 General Obligation Limited Tax Bond debt service payments

13.62%

VILLAGE OF HOMEWOOD



It is recommended that the Village allocate the statutory minimum to both the Police and Fire Pension Funds as determined by the State Consolidated Funds actuary Foster & Foster Actuaries and Consultants of Naperville IL.

The remaining tax levy dollars will be allocated toward the IMRF pension fund, FICA costs, audit expenses, risk management insurance premium costs, and the day-to-day operating expenses of the Village.

FINANCIAL IMPACT

The final tax levy will be used to create and develop Homewood's next fiscal year's (FY 2025-2026) budget amounts.

- **Funding Source:** N/A
- **Budgeted Amount:** N/A
- **Cost:** N/A

LEGAL REVIEW

None required

RECOMMENDED BOARD ACTION

Discuss the 2024 Real Estate Tax Levy; approve staff's recommendation to use the State's Consolidated Funds Actuarial Calculation to meet the required statutory minimum, and direct staff to publish a Truth in Taxation Hearing notice in the local newspaper to be held prior to the December 10, 2024 Board meeting.

ATTACHMENT(S)

- 2024 Proposed Tax Levy
- Request from Homewood Police Pension Fund Board and Fire Pension Fund Board for 2024 tax levy dollars
- Homewood Police Pension Fund and Fire Pension Fund Signed Municipal Compliance Reports