

VILLAGE OF HOMEWOOD



BOARD AGENDA MEMORANDUM

DATE OF MEETING: November 14, 2023

To: Village President and Board of Trustees

Through: Napoleon Haney, Village Manager

From: Amy Zukowski, Director of Finance

Topic: 2023 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 need to be published and held prior to the December 12, 2023 Board meeting. The final real estate tax levy ordinances will be agendized on the December 12, 2023 Board meeting for approval.

PROCESS

A tax levy is the amount of money a taxing body can request from the collective group of property tax payers in a specific area. 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 tax payers. 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.

Homewood’s Upcoming Levy

The actual CPI for the preceding year is 6.45%; however, the Village will only be able to capture 5.0% of the CPI increase under the PTELL. The Village will also need to estimate the change for new construction, which adds to the overall Equalized Assessed Valuation (EAV). The Village generally estimates a conservative 1.0% increase; however, with the *Southwest Tax Increment

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Financing (TIF) District coming to an end, we are able to capture an additional 1.0% of new construction as the Southwest TIF comes back on the tax rolls. The Village is estimating a total of 2.0% of new construction.

**As a reminder, a good portion of the property tax dollars collected in the Southwest TIF went into the Village's TIF fund, now that the TIF has expired, these property tax dollars are distributed to the Village's general fund and to the various taxing districts.*

The 5.0% increase in CPI plus the 2.0% of new construction gives the Village a 7.0% total increase over the prior year's final tax extension levy. Because 7.0% is in excess of the 5.0% allowed under the PTELL, the Village will be required to publish and hold a Truth in Taxation Hearing prior to the December 12, 2023 Board meeting.

The 7.0% increase, once collected, is distributed between General Fund operations and the Village's pension funds (police and fire).

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 required to minimally 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 56.95%, while the Homewood Firefighter's Pension Fund is currently funded at 73.37%. 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% funding by 2041</i>)	\$2,672,405	\$906,897
Alternative (<i>assumes 90% funding by 2040</i>)	\$2,173,305	\$709,905

Lauterbach & Amen Levy Recommendations 2023

The new State consolidated pension funds (police & fire), hired a creditable actuary (Foster & Foster Actuaries and Consultants of Naperville, IL) to calculate the required statutory minimum amounts for each consolidated fund. This amount will vary from Homewood's amounts prepared by our actuary, Lauterbach & Amen due to standard differences in actuarial assumptions.

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Unfortunately, the State issued consolidated pension amounts have not been released and these actuarial reports are not expected to be received until the end of November. Municipalities must have the amounts to complete their respective levies. The widely held municipal assumption is that the State's contribution amounts will be somewhere between the recommended and alternative amounts listed above.

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 2023 tax levy calculation. The respective letters are attached.

Village Staff Levy Funding Recommendation

While unknown at this time, Village staff recommends that the statutory minimum amount calculated by the *consolidated funds actuary* be used for the 2023 tax levy. This methodology is consistent with the 2022 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.

Pension Levy Funding vs Levy Funding for General Operations

After funding the required 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 approximately 9.0% of General Fund revenue used to fund day-to-day operating expenses.

Village staff projects that approximately 50% of the total tax levy will go towards Police and Fire Pension obligations and 50% to all other operational items, including IMRF & FICA.

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 has no debt obligation to add to the 2023 real estate tax levy. The last principal and interest payments for the current 2020 General Obligation Bond issue were captured through the 2022 real estate tax levy and no new general obligation debt has been issued. With no new debt on the Village's books, over \$500,000 will be removed from the 2023 tax levy resulting in a small, but relevant, amount of property tax savings for our residents.

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Property Tax Levy Amounts

Homewood's 2022 levy approved on last December was for \$6,941,564. The upcoming 2023 levy is projected to be \$6,791,9159 due to the removal of the \$500,000 debt service amount.

Village's Portion of the Total Tax Bill

The Village of Homewood's levy is approximately 11% of the total real estate tax bill. For example, if a resident's total property tax bill is \$8,000, only \$880.00 of the annual property taxes paid are allocated to cover cost for quality amenities, and high-level services provided by the Village of Homewood's (i.e., downtown event series, farmers market, snow de-icing, salting and removal, tree removal/reforestation, police, fire, public works, and other municipal services).

OUTCOME

The total 2023 real estate tax levy for the Village of Homewood will increase by 7.0%. A 5.0% increase is due to the maximum increase in CPI the Village is allowed under the PTELL and 2.0% is due to the capturing of new construction. This increase will require a Truth in Taxation hearing prior to the December 12, 2023 Board meeting.

It is recommended that the Village allocate the required 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 the used to create and develop Homewood's next fiscal year's (FY 2024-2025) budget amounts.

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

LEGAL REVIEW

Not required

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RECOMMENDED BOARD ACTION

Discuss the 2023 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 12, 2023 Board meeting.

ATTACHMENT(S)

- Request from Homewood Police Pension Fund Board and Fire Pension Fund Board for 2023 tax levy dollars
- Homewood Police Pension Fund and Fire Pension Fund Signed Municipal Compliance Reports