



**CITY OF URBANA, ILLINOIS
FINANCE DEPARTMENT**

MEMORANDUM

TO: Mayor Diane Wolfe Marlin and City Council Members

FROM: Elizabeth Hannan, Finance Director

DATE: November 7, 2019

SUBJECT: **Estimated Property Tax Levy**

Introduction: The first step in the property tax levy process is approval of an estimated tax levy, which establishes the total amount of taxes the City Council plans to levy. The estimated levy is used to determine whether the City is required to provide public notice and hold a public hearing prior to approving the final tax levy. The City Council must approve an estimated levy at least 20 days prior to adoption of the final levy. This estimated levy includes a large increase to account for the possibility that hospital properties could be added to the tax rolls before the levy is extended in the spring. Since the recommended estimated levy is \$10,325,152, which is 131.09% of the 2018 extended levy, the City would be required to provide notice and hold a public hearing.

Proposal for Estimated Tax Levy:

Property Tax Levy Process: The process for levying property taxes is summarized in the following table.

Item	Date	Requirements
Estimated Levy – Committee	November 12, 2019	
Estimated Levy - Council	November 18, 2019	Must be approved at least 20 days prior to final levy approval. (This is 28 days.)
Publish Truth in Taxation Notice	November 30, 2019	Must be published 7 – 14 days prior to public hearing, if required. (This is 9 days.)
Public Hearing	December 9, 2019	Hearing must be held prior to approval of tax levy, if required.
Final Tax Levy & Abatements – Council	December 16, 2019	Must be adopted in time to meet filing deadline below.
City Clerk Files Levy with County by	December 23, 2019	Must be filed by last Tuesday in December, but December 24 & 25 are holidays for the County, so must file by December 23.

Because the City Council will have already reviewed the proposed tax levy in November, the final tax levy will be placed on the regular City Council agenda for December 16 without an additional committee meeting.

Estimate of Equalized Assessed Valuation (EAV): Staff has developed a preliminary estimate of the EAV both with and without hospital properties included. The lower estimate, without hospital properties included, is \$601,135,021, of which an estimated \$8.8 million is related to new construction. This EAV would be an increase of 2.98% from the EAV upon which the extended levy for 2018 was based. In reality, the increase is expected to be about 5.5% because the OSF properties were included in 2018 extended levy, but are not expected to be included in the 2019 levy.

The higher EAV, with hospital properties included at \$148.75 million, is \$749,885,021. For estimation purposes, however, staff adds an additional 2%, resulting in a total of \$764,882,721, since the levy amount cannot be increased, but can easily be decreased prior to extension to achieve the desired tax rate.

Enterprise Zone (EZ): EZ abatements reduce the assessed value on which the tax levy will be extended, but result in higher property values on which taxes will be collected in the future. Staff estimates that exemptions for the EZ will be about \$4.9 million, approximately 50 percent more than the amount for the 2018 extended tax levy. This is due to the success of EZ incentives for commercial and residential construction, which will ultimately result in a larger tax base.

Tax Rate: The Mayor recommends a tax rate for this year’s levy of \$1.3499, whether or not the hospital properties are included. The \$1.3499 rate is the current City of Urbana tax rate, which decreased from \$1.355 for the 2017 tax levy.

The Mayor elected to recommend maintaining the lower tax rate, rather than increasing it back to \$1.355, because it seems likely that this will be sustainable in future budgets, with planned revenue increases to close the City’s budget gap. This provides a modest measure of property tax relief to property owners.

At this rate, City taxes for an owner-occupied home are estimated as follows –

Property Value	City Property Tax at \$1.3499*
\$100,000	\$369
\$150,000	\$594
\$200,000	\$819
\$250,000	\$1,044

*City property tax = EAV (property value / 3), less owner occupied exemption (\$6,000), divided by \$100, multiplied by tax rate

Purposes for Which the City Levies Taxes: The City levies taxes for “corporate purposes” (the General Operating Fund), the Library, and Police and Fire pensions. The levies for specific purposes are approved by the City Council when the final tax levy Ordinance is approved.

Pension Levies: Levies for Police and Fire Pension Funds are based on the funding plan approved by the City Council in the City’s Financial Policies. The City Council approved the updated Financial Policies on June 18, 2018 (2018-06-023R). This is the second year of a five-year transition to a new, higher level of funding designed to achieve 100% funding within 20 years.

Recommended funding for the Police Pension Fund is \$1,840,000, and recommended funding for the Fire Pension Fund is \$1,261,000. Pursuant to State law, 8.12% of the total funding requirement will be met by using personal property replacement tax (PPRT) revenues.

Taxes for these funds would be levied as follows:

	Police Pension Fund	Fire Pension Fund
Funding requirement per policy	\$1,840,000	\$1,261,000
PPRT portion (8.12%)	(\$149,408)	(\$102,393)
Levy amount for 2019	\$1,690,592	\$1,158,607

Urbana Free Library: The Mayor recommends a levy of \$3,483,000, which is an increase of 6.44% over the 2018 levy. Property tax revenue is responsible for 85% of recurring revenues for the Library General Fund. This increase is needed to allow the Library to maintain current services, based upon the FY2020 budget. The increase offsets reductions in other revenue sources, and increased expenditures for health insurance and a compensation study.

Corporate Purposes: Remaining revenues generated by property taxes would be allocated to the General Operating Fund, where they would be used to pay for basic City services, such as police protection. The recommended levy for corporate purposes is \$3,992,953. As discussed above, the levy is significantly higher than the expected result as a precaution to ensure that additional revenue from hospital properties can be captured, in the unlikely event they are added to the tax rolls. If that does occur, those funds would be reserved pending a final outcome in the dispute over hospital property taxes.

At the lower EAV with a \$1.3499 tax rate, this is expected to result in a decrease of \$299,900 and revenue of \$1,782,523 for the General Fund. This decrease in corporate property tax revenue was expected due to increased pension funding. The increased pension funding was anticipated as we ramp up pension funding based on the City’s current funding policy.

Abatements: Staff will prepare a Resolution authorizing the County Clerk to abate (reduce) the tax levy in the event the final EAV (which is not known when the City Council approves the levy) is lower than estimated, resulting in a higher tax rate. This Resolution, which will be presented with the final tax levy, will direct the County Clerk to abate the corporate purpose levy to produce a final tax rate of \$1.3499.

Staff does not recommend reducing the tax rate if hospital properties are added to the tax rolls because of the uncertainty about whether those taxes would be paid, or if paid, whether

they would be refunded. For the 2018 levy, the extension was based on an EAV that included OSF properties that were later removed from the tax rolls. The abatement reduced the tax rate by about 0.5 cents, resulting in a lower tax rate for the City. However, the OSF revenues will never be received by the City, resulting in a shortfall in General Fund revenue of \$188,340.

Levies for debt service were approved when bonds were issued in 2012 for Boneyard Creek improvements and 2014 for Windsor Road improvements. Those levies will be fully abated and the debt service will be paid from the TIF 2 and Local Motor Fuel Tax Funds.

Fiscal Impact: The tax levy is likely to result in a decrease of \$299,900 in revenue available for basic City services, which is consistent with the FY2020 financial forecast. This will also be factored into the updated financial forecast used for determining strategy for the budget for FY2021. The City will also be continuing on the path towards fully funding Police and Fire pensions, consistent with the City's current policy on pension funding.

Alternatives:

1. Forward this resolution establishing the estimated property tax levy for 2019 to City Council on November 18 with a recommendation for approval.
2. Direct staff to make changes to the resolution and forward the amended version to City Council for approval on November 18.

Recommendation: Forward this resolution establishing the estimated property tax levy for 2019 for approval at the City Council Meeting on November 18.

RESOLUTION NO. 2019-11-046R

A RESOLUTION ESTIMATING THE TAX LEVY

(Fiscal Year 2019 - 2020)

WHEREAS, Section 18-60 of the Truth in Taxation Law, 35 ILCS 200/18-60, requires the corporate authority of each taxing district, not less than 20 days prior to the adoption of its aggregate tax levy, to estimate the amounts of money necessary to be raised by taxation for that year upon the taxable property in its district; and

WHEREAS, Section 18-70 of the Truth in Taxation Law, 35 ILCS 200/18-70, requires the corporate authority of each taxing district to give public notice of and hold a public hearing on its intent to adopt an aggregate tax levy, if the estimated amounts to be levied exceed 105% of the property taxes extended or estimated to be extended, including any amount abated prior to such extension, upon the levy of the preceding year.

NOW, THEREFORE, BE IT RESOLVED by the City Council, of the City of Urbana, Illinois, as follows:

Section 1.

The amounts of money, exclusive of election costs, estimated and proposed to be levied for fiscal year 2019 - 2020 upon the taxable property in the City of Urbana is \$10,325,152.

Section 2.

The aggregate amount of property taxes for the City of Urbana, extended or estimated to be extended, including any amount abated by the corporate authority prior to such extension, upon the levy of the preceding fiscal year and exclusive of election costs, was \$7,876,330.

Section 3.

The amounts estimated and proposed to be levied in Section 1 of this Resolution are hereby determined to be 131.09% of the amounts extended or estimated to be extended for the preceding fiscal year.

This Resolution is hereby passed by the affirmative vote, the “ayes” and “nays” being called, of a majority of the corporate authorities (5 of 8 votes) of the City of Urbana, Illinois, at a meeting of said corporate authorities.

PASSED BY THE CITY COUNCIL this Date day of Month, Year.

AYES:

NAYS:

ABSTENTIONS:

Charles A. Smyth, City Clerk

APPROVED BY THE MAYOR this Date day of Month, Year.

Diane Wolfe Marlin, Mayor