CITY OF URBANA, ILLINOIS
FINANCE DEPARTMENT

M E M O R A N D U M

TO: Mayor Diane Wolfe Marlin and City Council Members

FROM: Elizabeth Hannan, Finance Director
Alyana Robinson, Financial Analyst

DATE: November 10, 2021

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. The recommended estimated levy, which would maintain the current $1.3499 City tax rate, is 104.36% of the 2020 extended levy. The City is not required to provide notice and hold a public hearing, which would be triggered only if the increase were 5% or more.

Proposal for Estimated Tax Levy:

Property Tax Levy Process: The process for levying property taxes is summarized in the following table. This process is dictated by State statute.

Item	Date	Requirements
Estimated Levy – Committee	November 15, 2021	
Estimated Levy – Council	November 22, 2021	Must be approved at least 20 days prior to final levy approval. (This is 28 days.)
Publish Truth in Taxation Notice	Not required.	Required if the estimated levy is more than 105% of the previous year's extended levy. Must be advertised 7 – 14 days prior to the public hearing, if required.
Public Hearing	Not required.	Required if the estimated levy is more than 105% of the previous year's extended levy. Must be held before the levy is adopted by the City Council.
Final Tax Levy & Abatements – Council	December 13, 2021	Must be adopted in time to meet filing deadline below.
City Clerk Files Levy with County by	December 28, 2021	Must be filed by 4th Tuesday in December.

Because the City Council will have already reviewed the proposed tax levy in November, staff will place the final tax levy on the regular City Council agenda for December 13 without an additional committee meeting.

Estimate of Equalized Assessed Valuation (EAV): Staff will use a preliminary estimate of the EAV based upon the County assessor's preliminary abstract of assessments, which does not include any reductions that may be made by the Board of Review. The estimate is $631,737,010. This EAV would be an increase of 4.36% from the EAV upon which the extended levy for 2020 was based.

Tax Rate: The Mayor recommends a tax rate for this year's levy of $1.3499, which is the current City of Urbana tax rate. The rate was decreased from $1.355 beginning with the 2017 tax levy. While the City's portion of the total tax levy is only about 13% of the total, this is important to trying to achieve a tax rate competitive with neighboring communities and can affect property values and economic development opportunities.

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 benefits are dictated by State statute and the current funding policy reflects a balanced approach to covering the City's long-term pension obligations while avoiding higher costs that could arise from failing to address unfunded liabilities and affect the City's ability to provide services in the long-term. The City Council approved the updated Financial Policies on June 18, 2018 (2018-06-023R), and a related memo on this subject is attached for reference. The policy can also be found in the annual budget on page 32.

Because of higher than anticipated investment earnings, the Fire Pension Fund has completed the transition to the 20-year 100% funding path early and the levy will increase modestly by about 5.5%. The recommended levy for the Fire Pension Fund is $1,360,056. The Police Pension Fund is still on the transition path. This is the fourth year of a five-year transition to a new, higher level of funding designed to achieve 100% funding within 20 years. The recommended levy for the Police Pension Fund is $2,304,350, which is an increase of 16.7%.

Pursuant to State law, 8.12% of the total funding requirement will be met by using personal property replacement tax (PPRT) revenues. The total funding requirements and portions from PPRT are detailed below.

Taxes for these funds would be levied as follows:

	Police Pension Fund	**Fire Pension Fund**
Funding requirement per policy	$2,508,000	$1,480,253
PPRT portion (8.12%)	($203,650)	($120,197)
Levy amount for 2021	$2,304,350	$1,360,056

Urbana Free Library: The Mayor recommends a levy of $3,704,000, which is an increase of about 5% over the 2020 tax levy. Property tax revenue is responsible for the vast majority of recurring revenues for the Library General Fund. This increase is needed to allow the Library to maintain current services, based upon the FY2022 budget.

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 and fire protection, and public works services. The recommended levy for corporate purposes is $1,159,411. This is a decrease of about 17% from the 2020 extended tax levy. When the final levy is extended, this component of the levy will be reduced to achieve the desired tax rate, as discussed below.

Over time, the corporate tax levy has decreased significantly as funding for pensions and the library have increased. In 2016, after pension funding was reduced to balance the General Fund budget and avoid budget reductions under a previous administration, the corporate levy was as high as $2.3M. Staff estimates that the extended levy for 2021 is likely to be less than $1M, although the final amount will not be known until the County Clerk applies reductions to achieve the desired tax rate and extends the levy in the spring.

Abatements: Staff will prepare an Ordinance authorizing the County Clerk to abate (reduce) the tax levy to maintain the current tax rate based on the final EAV (which is not known when the City Council approves the levy). 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. This allows the City to maximize property tax revenue at the current tax rate.

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.

All general obligation debt (GO) is backed by the City's taxing authority and the County Clerk is directed to levy for debt service when the bonds are issued. Since GO debt has lower cost of borrowing due to the lower risk, GO debt is often used for financing, even when another source of funds will be used to pay the debt service. This results in a need to abate the debt service payments annually.

Fiscal Impact: The tax levy is likely to result in a decrease of about $300,000 in revenue available for basic City services. This will be factored into the updated financial forecast used for determining strategy for the budget for FY2023. The City will 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 2021 to City Council on November 22 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 22.

Recommendation: Forward this resolution establishing the estimated property tax levy for 2021 for approval at the City Council Meeting on November 22.

ATTACHMENT

CITY OF URBANA, ILLINOIS
FINANCE DEPARTMENT

M E M O R A N D U M

TO: Mayor Diane Wolfe Marlin and City Council Members

FROM: Elizabeth Hannan, Finance Director

DATE: May 24, 2018

SUBJECT: **Funding for Police and Fire Pensions**

Introduction: The purpose of this memo is to discuss a recommendation for addressing funding for Police and Fire pensions. Todd Schroeder, an actuary with Lauterbach & Amen, will be present to discuss the recommended funding plan and transition.

Discussion:

Components of a Pension Funding Policy: There are several basic components of a pension funding policy.

1. Actuarial Cost Method: The technique used to allocate the total present value of future benefits over an employee's working career.
2. Amortization Policy: The length of time and structure selected for increasing or decreasing contributions to systematically eliminate any unfunded liability or surplus.
3. Asset Smoothing: The technique used to recognized gains or losses in assets over a period of time to reduce the effects of market volatility and stabilize contributions.

Government Finance Officers Association (GFOA) Best Practices: The GFOA recommends the following –

1. Amortization Policy: Local governments should target 100% funding over a closed period of not more than 20 years.
2. Actuarial Cost Method: GFOA recommends using an actuarial cost method designed to fully fund the long-term cost of promised benefits, consistent with the objective of keeping contributions relatively stable and equitably allocating costs of the employee's period of active service. One method that meets this requirement is the "entry age normal – level percent of pay" method.
3. Asset Smoothing: Asset smoothing should be unbiased relative to the market and provide for smoothing to occur over fixed periods of five years or less.

City's Pension Funding History: Historically, the City has funded Police and Fire pensions based on the State law in effect prior to 2010, which required 100% amortization of unfunded pension liability by 2033. The funding amounts were calculated based on an entry age normal, level dollar formula, which is more aggressive than the level percent of pay formula. (At that time, the law did permit municipalities to use the level percent of pay calculation.) The City has always employed asset smoothing, consistent with best practices, so that issue is not explicitly discussed below.

Beginning in 2014, funding was reduced in two steps. First, when taxes were levied in 2014, the City Council approved a tax levy based on a level percent of pay formula, while still maintaining the 100% amortization by 2033. For the 2014 tax levy, this reduced the City's contributions by about $568,000 relative to the funding requirement under the previous method. This change was consistent with the best practices described above.

2014 Levy	**100% by 2033, Level Dollar Amount (Used Prior to 2014)**	**100% by 2033, Level Percent of Pay (Used for 2014 Levy)**	**Difference**
Police	$2,039,106	$1,619,190	($419,916)
Fire	$1,265,542	$1,117,736	($147,806)
Total	**$3,304,648**	**$2,736,926**	**($567,722)**

When taxes were levied in 2015, the City Council approved a tax levy based on the minimum amount required by State law, which is amortization of 90% of the unfunded liability by 2040. The State's calculation also uses the projected unit credit method, which tends to understate unfunded liability in earlier years, resulting in lower payments in early years and rapid increases in unfunded liability and contributions in later years. This resulted in an additional reduction in funding, reducing the City's contributions by about $1.28 million compared to the method used in 2014. This change was not consistent with the best practices described above.

2015 Levy	**100% by 2033, Level Percent of Pay (Used for 2014 Levy)**	**90% by 2040, Projected Unit Credit (Used for 2015 Levy)**	**Difference**
Police	$2,203,886	$1,209,795	($994,091)
Fire	$1,253,825	$970,292	($283,533)
Total	**$3,457,711**	**$2,180,087**	**($1,277,624)**

In total, over this two-year period, pension contributions were reduced by well over $1 million. While this allowed the City to balance its budget and pay for wage increases without significant reductions in service levels, the long-term implications of the new approach to pension funding implemented in 2015 are concerning. Pension costs can be expected to increase over time, with increases rapidly accelerating as we move closer to 2040. This funding strategy was also employed for tax levies in 2016 and 2017. When the FY2018 budget was proposed, the Mayor identified this a significant financial issue that would need to be addressed.

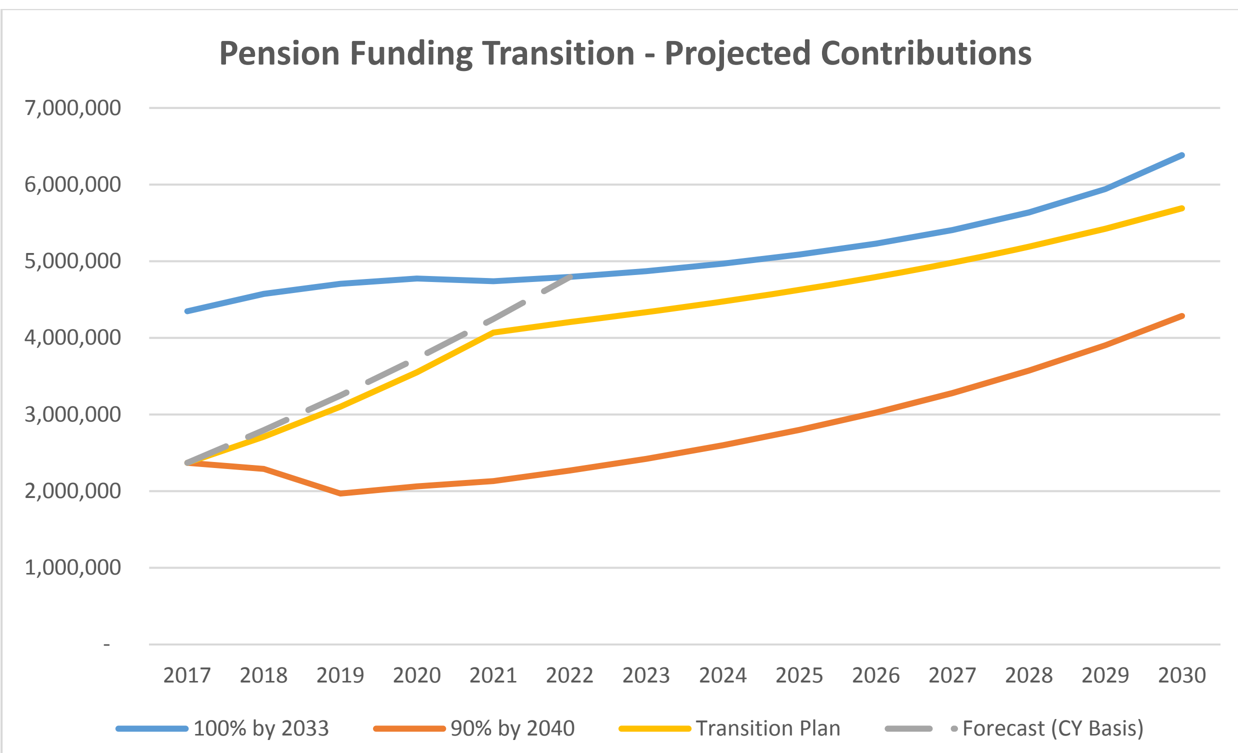
Impact of Funding Decisions on Unfunded Liability: The City's unfunded pension liability has increased from $15.4 million to $19.1 million for the Police Pension Fund and from $5.5 million to $9.6 million for the Fire Pension Fund, since 2014. This is a total increase of $7.8 million in the City's unfunded pension liability, over a relatively short period.

Funding Recommendation: The Finance Director has worked with the City's actuary to review various funding strategies in the context of the City's financial situation. Based on a balance between City's financial situation, consideration of the long term impact of various funding strategies, and best practices, the following strategy is proposed –

1. Amortization Policy: Amortize 100% of the unfunded liability over a 20 year period, with a five year transition, beginning with the 2018 tax levy
2. Actuarial Cost Method: Use an entry age normal, level percent of pay method.
3. Asset Smoothing: Continue the current practice of smoothing assets over a five-year period.
4. Review of Funding Policy: Because contributions will become more volatile as we move closer to being fully funded, the City should review the funding policy before taxes are levied in 2028, which is half way through the 20-year period for amortization of unfunded liability.

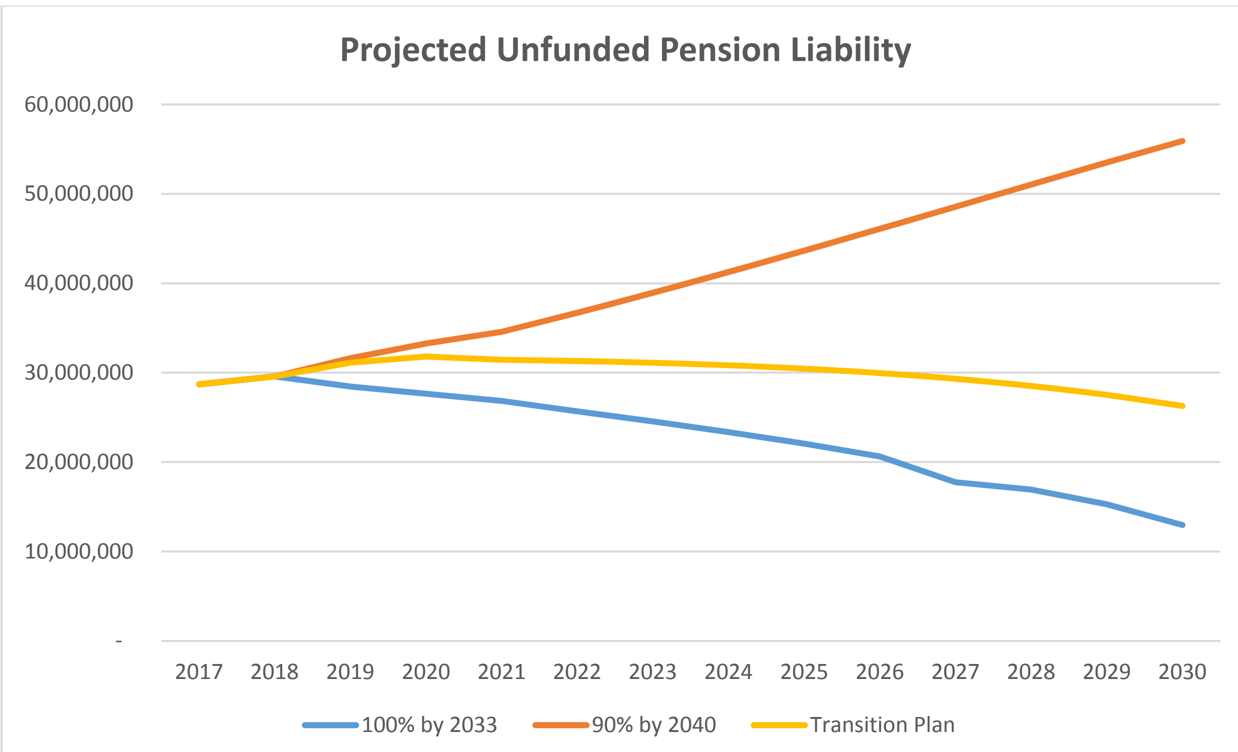
The Finance Director reviewed this recommendation with the Mayor, and then with the Police and Fire Pension Boards on April 27. Both boards passed motions supporting this funding policy and indicated that they view it as significant progress towards adequately funding the City's pension obligations. They expressed thanks for the City's willingness to address this issue, particularly given the City's current financial situation.

The following chart illustrates the pension funding requirements (for both funds combined) under the old 100% by 2033 funding plan, the current 90% by 2040 plan, and the transition scenario. The gray, dashed line represents the pension funding that was incorporated into the 2018 Financial Forecast.



The transition plan shows contributions increasing rapidly over four years, and then reverting to a more steady level of growth. During the five-year transition period, the increases closely track with the Financial Forecast. Contributions under the 90% funded by 2040 scenario are beginning to grow more rapidly, but are still lower because in this scenario the obligations will never be 100% funded. The transition funding plan contributions remain less than the 100% by 2033 scenario because the time frame for funding the unfunded liabilities is extended.

The following chart illustrates the impact of the various funding scenarios on the unfunded pension liability, again for both funds combined.



As you can see, in the transition plan scenario, unfunded liabilities level off and then begin to decrease, although not as quickly as in the 100% funded by 2033 scenario. However, in the 90% by 2040 scenario, unfunded liabilities rapidly increase, reaching nearly $66 million by 2030. By 2030, unfunded liabilities are $13 million in the 100% by 2033 scenario, and $26.3 million in the transition plan scenario. Adopting the proposed approach results in an unfunded liability in 2030 that is $29.6 million less than it would be if we continue with the current approach.

Alternatives:

1. Adopt a revised set of Financial Policies, which are consistent with the recommended strategy for funding Police and Fire pensions, and adopt the annual budget, which anticipates levying taxes in 2018 consistent with the recommended approach.
2. Do not adopt this recommendation and provide further direction to staff on developing an alternative funding policy.

Recommendation: Direct staff to proceed with Alterative 1. The City Council will be asked to approve a revised policy on pension funding on June 18, when the budget is adopted, and staff will prepare the 2018 property tax levy consistent with the revised policy.

Fiscal Impact: This recommendation is consistent with maintaining the City's long-term fiscal health. As discussed when Council reviewed the 2018 Financial Forecast, we anticipate that a total of $2.5 million in budget reductions or revenue increases will be required over a period of several years. That recommendation was driven, in part, by the need to address pension funding issues.

RESOLUTION NO. __________

A RESOLUTION ESTIMATING THE TAX LEVY

(Fiscal Year 2021-2022)

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 2021 - 2022 upon the taxable property in the City of Urbana is $8,527,818.

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 $8,171,833.

Section 3.

The amounts estimated and proposed to be levied in Section 1 of this Resolution are hereby determined to be 104.36% 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:

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Phyllis D. Clark, City Clerk

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

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Diane Wolfe Marlin, Mayor