

Agenda
Meeting Date: November 6, 2019
Finance Committee

Time: 6:00 p.m.

Trustee Mengoni, Chairman
Trustee Flores
Trustee Sarro

- 1) Discussion Tax Levy
- 2) Resolution for West Cook County Solid Waste Agency
- 3) Other

MEMORANDUM

TO: Joe Mengoni, Finance Committee Chairman
FROM: Sue Scarpiniti, Finance Director
DATE: November 5, 2019
SUBJECT: 2019 Tax Levy Estimate

Tax Levy Background Information:

The *Truth in Taxation Act* requires the Village to determine its proposed tax levy at least twenty days prior to final adoption. The annual tax levy sets the amount of money needed to be collected in local property taxes to support Village operations for the upcoming budget year. The final approved tax levy must be filed with the Cook County Clerk's Office before the last Tuesday in December (Dec 30th due to the holidays). Discussion and adoption of an estimated tax levy now will allow the Village sufficient time to approve the final tax levy at the December 16th Village Board Meeting and hold any necessary public hearings in accordance with state laws. A public hearing is only required if the total 2019 estimated tax levy request is greater than 105% of the 2018 tax extension.

All Cook County taxing districts operate under the Property Tax Extension Limitation Law (PTELL), commonly referred to as tax caps. The tax cap, in essence, only limits the rate at which the Village's property tax levy may increase from year to year but it does not cap the amount of additional property taxes an individual owner may be responsible to pay. The limitation at which the Village's operating levy can be increased annually is established by the increase in the consumer price index for all urban consumers (CPI-U) from the previous calendar year plus any increases in new property growth for the current calendar year.

The 2019 tax levy will be another complex levy due to current state legislation, Cook County's interpretation of previously enacted legislation, anticipated changes to the Village's EAV resulting from closed businesses in 2018 & 2019, and ongoing limitations imposed by the tax caps. As such, some general comments regarding the levy are noteworthy before proceeding into a detailed discussion of our levy.

PA 096-1495 – Pension Reform:

Pension reform became effective with the Village's 2011 tax levy and created sweeping legislative changes that impacted all suburban and downstate police and fire pension funds. The most noteworthy of these pension changes included the creation of a second tier of reduced benefits for new public safety employees hired after January 1, 2011, dramatic changes to the tax levy calculation methods for the minimum levy

contribution, and penalties for municipalities that do not make the minimum levy contribution.

With the state intercept rules now fully enforceable, the Village must stay diligent in funding the full annual required contribution (ARC) to the police and fire pension funds or face significant loss of vital state shared revenues. Rapidly growing pension and post-employment benefit costs continue to be the most pressing financial challenges facing the Village today.

Although the most recent actuarial valuation is not yet available, I fully anticipate another substantial increase in the Village’s annual pension funding requirement. A detailed chart showing the minimum contribution requirements for the past six years and an estimate for the Village’s upcoming contribution is provided below.

Village's Annual Required Contributions

Fiscal Year Ending	Police Pension Fund		Firefighters' Pension Fund		Grand Totals		
	Amount	% Change	Amount	% Change	Amount	\$ Change	% Change
ESTIMATED 4/30/21	1,848,000	3.98%	1,360,000	7.93%	3,208,000	170,651	5.62%
4/30/20	1,777,288	9.39%	1,260,061	4.95%	3,037,349	212,033	7.50%
4/30/19	1,624,735	6.99%	1,200,581	12.33%	2,825,316	237,979	9.20%
4/30/18	1,518,549	21.14%	1,068,788	14.36%	2,587,337	399,199	18.24%
4/30/17	1,253,517	5.15%	934,621	6.23%	2,188,138	116,277	5.61%
4/30/16	1,192,086	9.14%	879,775	13.80%	2,071,861	206,569	11.07%
4/30/15	1,092,237	28.95%	773,055	38.86%	1,865,292	461,558	32.88%

Rapidly growing pension liabilities and the lack of significant revenue raising ability continues to place substantial pressure on the Village’s annual operating budget.

HB 664 – Property Tax/Tax Sales Registration:

HB 664, originally created to address deposits for tax sales registrations, ultimately grew into legislation that raised the homestead and senior exemptions in Cook County; and, consequently, lowered the equalized assessed values (EAV) of properties. *EAV is a vital component used to calculate tax bills.*

PA 94-976 – Update to PTELL:

Public Act 94-976 was made effective for all referenda and tax levies passed after March 21, 2006 and eliminated any self-imposed tax rate ceilings on the three types of levies subject to ceilings (corporate, fire protection and police protection); resetting those ceilings back to the statutory maximums. This legislation, however, did not allow for a corresponding increase in the total tax cap so the ceiling increases provided limited, if any, benefits to taxing agencies.

For North Riverside, each levy category is subject to a tax rate limitation that is statutorily set for a specific purpose. Noted on the next page are the current tax rate maximums the Village may levy without voter referendum.

Fund/Purpose	Maximum Tax Rate	2018 Tax Rate
Corporate (General Fund)	.4375	.0554
Fire Protection	.6000	.0911
Police Protection	.6000	.0664

By freezing our aggregate tax levy over the past twenty plus years, the Village's individual tax rates are well below these statutory ceilings. However, recent fluctuations in EAV due to the loss of commercial businesses and a continued low tax cap environment has caused the Village's individual tax rates to be limited or reduced by the County proportionately across all levy items.

Currently, the Village does not levy property taxes to fund its police and fire pensions. Although these levies are not subject to tax rate ceilings, the Village would be required to pass a public referendum in order to begin levying taxes for these specific purposes. As a result, no discussion of these two levies will be part of our 2019 tax levy process.

With pension costs continuing to rise and the Village's limited ability to raise more general revenues to fund these increases, I continue to urge the Board to consider a more stable method of funding the public pensions – one that is longer term in nature. Should the Village Board be interested in pursuing this avenue of funding, a separate discussion outside the tax levy process would be prudent for inclusion of a property tax referendum question earmarked to fund the pensions at the next general election.

PA 93-0715 (Now PA 95-0644) – Assessment Caps:

Public Act 93-0715 was passed effective for the three years 2004-2006 and provided a measure where Cook County assessments were capped at 7% annually. PA 95-0644 extended those caps through 2009 and again through 2014. While it's unclear whether Cook County has any legislative authority to cap assessments beyond 2014, previous evidence exists that the County continues to adopt an assessment cap methodology.

In order for the Village to exceed the 7% assessment cap in the upcoming year, our EAV would need to rise to over \$285 million, without new construction growth. This amount is well above our 2018 EAV of approximately \$266 million.

Although the assessment cap is applied on individual homeowner bills and is not part of the tax cap extension calculation, the real impact for the Village would come in terms of a reduction in the actual collections as compared to the total amount levied.

SB 2575 – Pensions in the Tax Cap Calculation:

Although SB 2575 died in committee in 2010, this proposed legislation was very significant for tax capped communities such as North Riverside as it sought to remove pension levies from limitations when calculating the levy extension. Regardless that North Riverside does not levy a property tax for the funding of our public pension systems, this issue will become increasingly vital in future years as we will be forced to find alternate funding sources to stabilize our growing pension debt. As such, pension

reform remains a prominent legislative issue and the Village must stay an active advocate for future reform measures that target the removal of pensions from the tax cap calculation of non-home rule municipalities.

PA 100-0401 – Exemption Increases:

PA 100-0401 increased individual homeowner and senior exemptions. Homeowner exemptions went from \$7,000 to \$10,000 while senior exemptions increased from \$5,000 to \$8,000. As tax exemptions increase, the Village's overall EAV is lowered.

Pension Consolidation:

In February 2019, Governor Pritzker appointed a Pension Consolidation Feasibility Task Force to research consolidation of the State's approximately 650 locally administered police and fire pension funds. The task force released its report on October 10, 2019 and recommended the consolidation of all suburban and downstate police and fire pension **ASSETS** into two new funds – one for police and one for fire. If approved by the State Legislature, this would effectively pool the assets of all local public safety pension funds into the separate statewide funds using a model similar to IMRF. The new funds would be fully operational by July 1, 2023. Benefit administration would not be included in the initial consolidation plan at this time, but the Task Force did recommend the continued review of this aspect for future consideration.

Equalized Assessed Valuations (EAV):

The Village's 2018 EAV was determined by the County to be \$266,382,792, a decrease of 1.65% over 2017, with 2017 being a reassessment year. This decrease was mainly attributed to increased commercial appeals and reductions due to artificially inflated reassessment values in 2017.

As mentioned in previous years, the Village's 2008 reassessment was artificially inflated and did not properly reflect the poor economy nor the housing market environment that ultimately followed. Because properties are only reassessed every three years in Cook County, the Village's 2008 reassessment resulted in the 2009 and 2010 EAVs also being artificially high. The two reassessments that followed in 2011 and 2014, corrected the inflated assessed values to properly reflect the deflated housing market and depressed state of the economy. The Village's EAV declined nearly 39% over that period of time (2008-2014). This decrease was offset substantially by the opening of Costco in late 2013 as the Village's EAV stabilized somewhat during that very tumultuous time.

New construction values decreased 75% in 2018 and represented only a fraction (.07%) of the Village's total EAV. The 2017 tax year represented the last year of significant new construction growth for the Village as the full tax benefit from the redevelopment of Costco and the outlining out lots was entirely captured.

Levy Year	EAV	% Change	State Multiplier
2008*	\$374,583,297	10.1%	2.9786
2009	328,652,199	-12.3%	3.3701
2010	327,421,844	-0.4%	3.3000
2011*	272,281,337	-16.8%	2.9706
2012	251,590,936	-7.6%	2.8056
2013	235,821,475	-6.3%	2.6621
2014*	235,683,860	-.06%	2.7253
2015	229,627,725	-2.57%	2.6685
2016	240,866,127	4.89%	2.8032
2017*	270,860,519	12.45%	2.9627
2018	266,382,792	-1.65%	2.9109

Furthermore, in 2009, Cook County Commissioners implemented the “10/25 Ordinance” which dropped assessment levels for residential properties from 16% to 10% and 32-38% to 25% for commercial properties. To offset this change in assessment levels, the state’s multiplier increased to even out the assessment levels of Cook County properties and bring them in line with the rest of the State. The purpose of the state multiplier is to proportionately distribute property taxes resulting from an inequitable assessment process, property classification, and exemption provisions within Cook County as compared with the rest of the State. Although the “10/25 Ordinance” was originally intended to influence the 2009 tax levy only, Cook County continues to calculate tax bills as if it is still in effect.

The Village’s estimated 2019 EAV is projected to continue to decline in anticipation of continued tax appeals by major businesses, the reduction in assessment values due to vacancies and property reclassifications of Carson’s, Tony’s Finer Foods & Toy R Us, and the lack of significant new construction growth in the Village. The state multiplier for 2018 also decreased 1.7% from 2.9627 to 2.9109 and further diminished the Village’s overall EAV.

While previous tax years included sizeable growth from new business developments, the 2019 levy will not as construction activity from Hobby Lobby & Urban Air will not be completed until early 2020. For these reasons, I have projected the village’s overall EAV in 2019 to decline approximately 2.46% over 2018, with .04% new property growth.

When the Village submits a levy request for property taxes, the levy amount is divided by the available tax base to arrive at the tax rate necessary to provide that amount of tax revenue. If the amount of EAV for parcels change from year to year based on any combination of factors such as the triennial reassessment, exemption status, decrease in the state multiplier, or shifts in the level of assessment values, property tax payments can become disproportionate. This disproportionate distribution of property taxes results in a shifting of tax burden among property owners within the tax base.

2019 Consumer Price Index (CPI-U):

State law limits the maximum composite dollars that a taxing agency can increase its tax levy request over the preceding year based on a tax cap formula (commonly referred to as PTELL). PTELL allows the prior's year total taxes billed to be increased in the current year by an amount equal to the lesser of 5% or the rate of inflation. The rate of inflation is measured by the annual percent increase in the national consumer price index for all urban consumers (CPI-U) at December 31st of the previous calendar year.

Provided below is a chart that depicts the CPI index for tax cap purposes since 2005.

Calendar Year	December CPI-U	% Change	Levy Year	Year Taxes Paid	Fiscal Year Financed
2005	196.800	3.4%	2006	2007	2008
2006	201.800	2.5%	2007	2008	2009
2007	210.036	4.1%	2008	2009	2010
2008	210.228	0.1%	2009	2010	2011
2009	215.949	2.7%	2010	2011	2012
2010	219.179	1.5%	2011	2012	2013
2011	225.672	3.0%	2012	2013	2014
2012	229.601	1.7%	2013	2014	2015
2013	233.049	1.5%	2014	2015	2016
2014	234.812	.8%	2015	2016	2017
2015	236.525	.7%	2016	2017	2018
2016	241.432	2.1%	2017	2018	2019
2017	246.524	2.1%	2018	2019	2020
2018	251.233	1.9%	2019	2020	2021

As you can see, the tax cap formula will limit the Village's 2019 tax levy request to 1.9%. The 2019 CPI is slightly below the 24 year historical tax cap average of 2.2%. A low rate of inflation, as witnessed over the past several years, only adds to the fiscal challenges facing the Village - as the estimated amount of new property tax revenue generated will be minimal.

The impact of the tax caps has been especially severe in recent years as low CPI and declining property values have hit our tax levy at the same time as large pension increases. The 2020 tax levy could be even lower as CPI is trending at 1.7% thus far in 2019.

2019 Tax Levy Options:

When determining the amount of monies needed to be raised from property taxes, the Village must be conscious of two major limitations placed on taxing districts: rate limits and tax caps. As such, the following restrictions will be in place for estimating the 2019 tax levy request: 1) a 1.9% limit on the 2019 tax extension over the 2018 amount - the

tax cap; 2) the prior year equalized assessed valuation; and 3) statutory rate limits of certain individual levies. The tax cap law does allow the EAV of new construction from the 2019 calendar year to be added to the Village's prior year EAV for calculation purposes. New construction includes improvements or additions that increase the assessed value of the real property during the levy year.

With the addition of Costco to the Village's tax base in late 2013, new construction values soared in 2014 to \$4,556,544; the highest level in over 20 years. Tax year 2015 also reflected increased commercial construction activity with the redevelopment of the surrounding Costco outlots as \$1,413,856 in new construction value was added to the Village's total EAV base. Tax years 2016 to 2018 saw a leveling off of new construction values as most of the Village's past development activity has been concluded and fully taxed. Overall, it can take up to three years to realize the full EAV on new construction activity for tax purposes. New property estimates are expected to dip to approximately \$100,000 in 2019, a level more indicative of a community that is built out.

While collection rates for property taxes are consistently high, there is always a small portion of taxes that remains unpaid due to delinquencies and foreclosures. In order to comply with the state statute and set rates that will produce the amount levied by the Village, the Cook County Clerk typically adds an amount for "loss in collection" to the levy amount. This amount includes a 3% loss and cost factor to general operating levies and 5% to debt service levies and helps ensure any new growth not accounted for in the Village's original estimate will be captured as part of the levy process. Keep in mind, however, that the Village may not receive any more revenue than what is allowed under the tax cap.

The key component in determining the aggregate allowable levy amount for 2019 is the calculation of the limiting rate. The limiting rate formula allows for growth in aggregate extensions equal to the amount of the tax cap limit plus amounts for new construction. The aggregate rate extended for operating funds subject to the tax cap law cannot exceed the limiting rate. Any amount levied above the limiting rate or tax cap calculation will be proportionately reduced by the County unless otherwise directed. During the past five years, the Village was limited to a reduced portion of its approved tax levy request due to the tax caps as depicted below.

Levy Year	Levy Request With Loss Factor	Final Tax Levy Extension	County Clerk's Reduction Factor
2014	\$ 545,797	\$ 525,575	96.12%
2015	561,350	535,033	95.10%
2016	561,350	541,949	96.15%
2017	566,500	555,264	97.62%
2018	577,830	567,395	98.19%

The general formula for computing the 2019 limiting rate is as follows:

$$\frac{2018 \text{ aggregate extension (excluding Debt Service)} \times 1.019 \text{ (CPI)}}{(2019 \text{ estimated EAV} - 2019 \text{ estimated new property}) / 100}$$

$$\frac{\$567,395 \times 1.019}{(\$259,823,222 - \$100,000) / 100} = \frac{\$ 578,176}{\$2,598,232} = .2230$$

When calculating the limiting rate, the Village must estimate the 2019 EAV and new property values as these figures will not be finalized until the summer of 2020. These estimates were determined and based upon lengthy discussions of upcoming assessment trends with the Township Assessor's Office and review of historical data. Because the Village is primarily landlocked and any significant new construction values for tax purposes has already been captured, this year will be an extremely difficult one for the Village as there is no opportunity to raise substantial revenue from property taxes.

Given a declining EAV environment, it is recommended that the Village Board freeze our levy request at the 2018 level of \$561,000 (\$577,830 with loss and costs). Doing so, will allow the Village to potentially collect 100% of the levy request (approximately \$10,000 of additional tax collections) and negate any PTELL reduction provided actual EAV and new construction values are within projections. Levying anything larger than this amount would only result in a further reduction of the Village's levy to comply with the tax caps and limiting rates. A public hearing would not be required since there is no requested tax increase.

The Village should resume its original tax strategy for the 2020 tax year as new construction values are expected to increase in the upcoming years with the opening of Hobby Lobby and Urban Air in early 2020 as well as additional redevelopment opportunities for the vacated properties of Carson's and Sears Auto Center. This strategy will allow the Village to maximize our tax collections and capture additional revenue beyond the tax cap limits in those years.

As a reminder, the 2016 Alternate Revenue Bonds carry an additional non-capped debt service tax levy for the Village. The debt service levy was established by the previously adopted bond ordinance. Accordingly, the County Clerk will automatically extend property taxes in the amount of \$242,300 for the 2019 tax year, unless otherwise directed. Since the Village pledged sales tax dollars to the cover this debt, an abatement order directing the County to forgo levying property taxes will need to be approved and filed with the County Clerk no later than February 28, 2020.

VILLAGE NORTH RIVERSIDE

RESOLUTION NUMBER _____

**A RESOLUTION APPOINTING CERTAIN CHIEF EXECUTIVES,
ADMINISTRATORS/MANAGERS, AND MEMBERS OF THE VILLAGE
BOARD/CITY COUNSEL TO THE POSITION OF DIRECTOR AND ALTERNATE
DIRECTOR OF THE WEST COOK COUNTY SOLID WASTE AGENCY**

**ADOPTED AND APPROVED BY THE
PRESIDENT AND BOARD OF TRUSTEES
OF THE VILLAGE OF NORTH RIVERSIDE, ILLINOIS
THIS _____ DAY OF NOVEMBER, 2019**

RESOLUTION NO. _____

**A RESOLUTION APPOINTING CERTAIN CHIEF EXECUTIVES,
ADMINISTRATORS/MANAGERS, AND MEMBERS OF THE VILLAGE
BOARD TO THE POSITION OF DIRECTOR AND ALTERNATE DIRECTOR OF THE
WEST COOK COUNTY SOLID WASTE AGENCY**

WHEREAS, more than thirty years ago, the units of local government as members and associate members (“Members”) of the West Cook County Solid Waste Agency (“Agency”) banded together in an effort to protect the environment and control the rising cost of the transfer and disposal of the municipal solid waste generated by their citizens; and

WHEREAS, the Members were also intent on minimizing their potential legal liability regarding the disposal of their municipal solid waste and assist in the Agency’s effort to increase recycling of significant portions of the waste stream; and

WHEREAS, in order to accomplish these goals the Agency routinely provides recycling and other alternatives for its Members and the Agency has developed the Regional Disposal Project (“RDP”) in which many Members participate; and

WHEREAS, the Agency has negotiated with numerous waste haulers and, most recently, entered into its third ten year contract successfully and substantially reducing waste disposal costs, limiting price increases and literally setting the market in our area; and

WHEREAS, the Agency has accomplished the goal of the limitation of environmental liability by providing for environmental audits of disposal facilities, requiring surety bonds, environmental insurance for disposal facilities and indemnification by the contractor and its parent company; and

WHEREAS, the Agency is governed by its Board of Directors who, along with four Alternate Directors, are required to be periodically appointed by Agency Members and who are required to be mayors/presidents, managers/administrators, or elected members of the City/Town Council or Village Board.

NOW, THEREFORE, be it resolved by the President and Board of Trustees of the Village of North Riverside, Cook County, Illinois as follows:

SECTION 1: The foregoing preambles are hereby incorporated into this Resolution as though fully set forth herein.

SECTION 2: The Village Board hereby appoints the following individuals as the representative of the Village of North Riverside to the West Cook County Solid Waste Agency Board of Trustees:

<u>NAME</u>		<u>OFFICE HELD</u>
1. Hubert E. Hermanek	Director	Village President
2. Guy Belmonte	Alt Director	Village Administrator

SECTION 3: It is further hereby certified that, at the time hereof, each of the foregoing individuals is the mayor/president, manager/administrator, or an elected member of the City/Town Council or Village Board

SECTION 4: All Resolutions in conflict herewith are hereby repealed to the extent of such conflict.

SECTION 5: This Resolution shall be in full force and effect from and after its passage and approval as provided by law.

ADPOTED by the President and Board of Trustees of the Village of North Riverside, Cook County, Illinois this _____ day of November 2019, pursuant to a roll call vote, as follows:

AYES: _____

NAYS: _____

ABSENT: _____

ABSTAIN: _____

ADOPTED AND APPROVED this _____ day of November 2019.

Hubert E. Hermanek
Village President

ATTEST:

Kathy Ranieri, Village Clerk