2018 Property Tax Levy Presentation

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Presented October 16, 2018 & November 13, 2018

Property Tax Levy Considerations

- ***<u>Discussed throughout the year</u>***
- **Important for the community to gain a greater understanding**
  - **NLSD122's extension increase is under 5%. Not required to hold a public hearing. Do Anyway.**
  - **This presentation is shared annually with the community.**
- **Budgeted for passing the Levy – Property taxes are 79% of the District's operating revenue.**
- **Reality of the Levy**
  - **Demonstrate our efficient spending**
  - **Explain how Levy is calculated**
  - **Illustrate what would happen if the CPI was not levied for (Household Savings/District Loss)**
  - **Illustrate what would happen if the new property increase was not levied for (Household Savings/District Loss)**
  - **Illustrate what would happen if the property tax levy was held flat with no increase. (Household Savings/District Loss)**
- **Abating**
  - **What if NLSD122 abated $1,000,000 of debt service? (Household Savings/District Loss)**

Other Levy Considerations

Without increased property tax revenue; must <u>consider</u>:

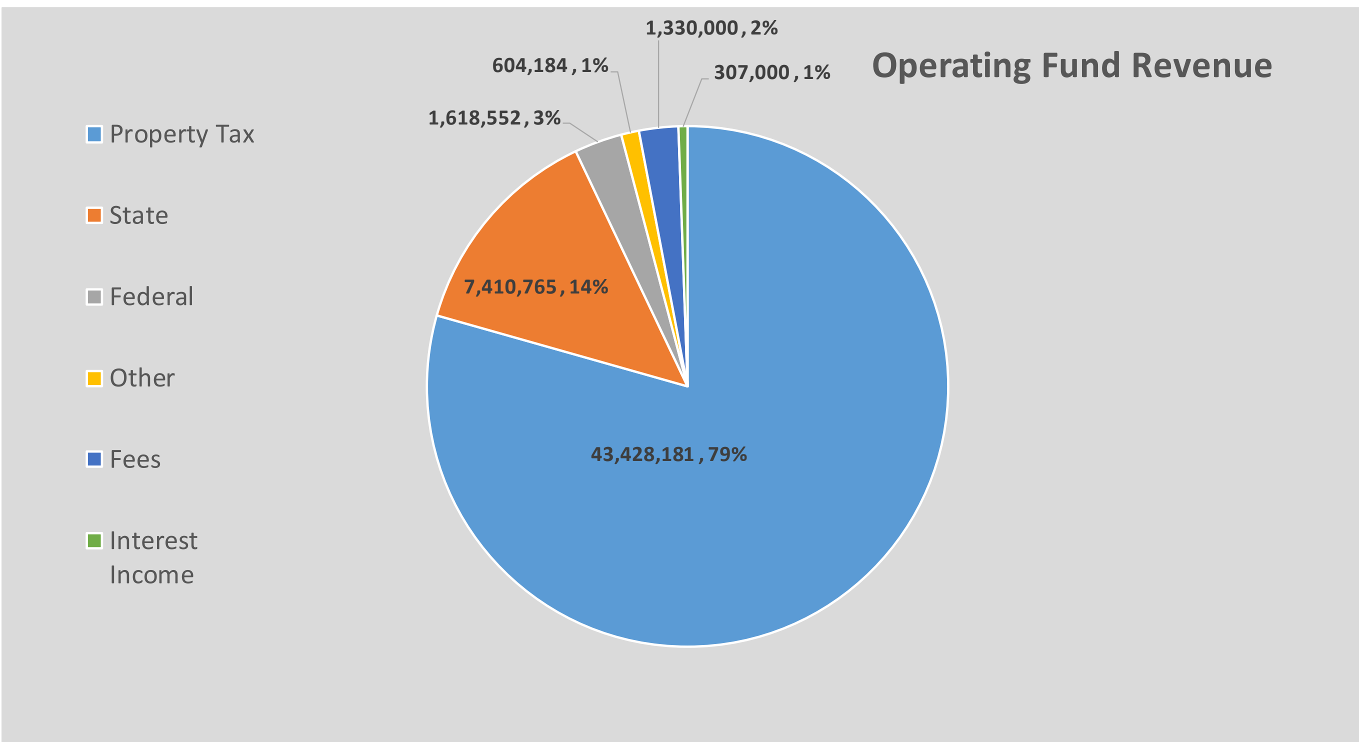
- **Budget Cuts**
- **Deferred Facility Maintenance and Renovations**
- **Reduction of Fund Balance**
- **Need for additional new debt**

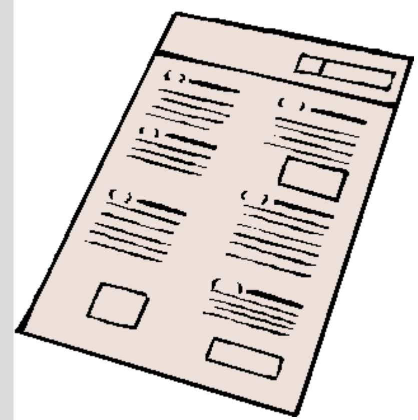
Potential Revenue Loss Issues:

- **The political landscape of Illinois creates much uncertainty for schools in Illinois.**
- **Delayed Transportation and Special Education Funding (several months late)**
  - **Several pending legislative proposals threaten NLSD122's financial future.**
    - **Future property tax freezes (various bills proposed each year)**
    - **Pension Reform (shifting of additional cost onto local districts)**
    - **State funding formula changes (*New Formula but not much new money*)**

The Annual Property Tax Levy

- ***Approving the levy is the most important financial action of the year***
- ***79% of the District's operating budget is funded by Property Taxes***





Illinois Property Tax Law

- **Property Tax Extension Limitation Law (PTELL)**
  - **Enacted in Will County in 1991**
  - **Regulates and limits the growth of property taxes**

- **School Funding is still based primarily on local property values. The more local property value, the less State funding.**
  - **Illinois funds about 14% of NLSD122's annual operating budget.**

Illinois Property Tax Law & <u>Inflation</u>

- **IL Property Tax law allows for an <u>annual inflation increase</u> in the levy.**
  - **Inflation increases costs over time**
    - **Something that cost $10,000 ten years ago would cost $11,720 today (assuming 1.6% annual inflation)**

- **Each year, a district can levy the same amount as last year <u>plus increase the levy by whatever inflation was</u> for the year.**
  - **After the new tax rate is calculated for the year, any new property is then taxed for the first time, generating new revenue as well.**

Recent History of Inflation

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
0.1%	2.7%	1.5%	3.0%	1.7%	1.5%	0.8%	0.7%	2.1%	2.1%

10-Year Average	1.6%

A school district's levy will change each year based on 3 variables:

1) **CPI: Increase to keep pace with inflation**
2) **New Property: Increase to fund education and offset reductions in State funding** (due to higher EAV)
3) **Any change in the district's annual debt schedule**

Property Tax Levy Calculation

- **2017 EAV = $1,318,882,976** (EAV = Equalized Assessed Valuation; about 1/3 of market value)
- **2018 Change in existing EAV = +2.90%** (Estimate per Will County)
- **$ 1,318,882,976 x 1.0290 = $1,357,195,115** (Adjusted Valuation Base)
- **2018 New Property Developed = $17,446,701** (Estimate per Will County)
- **$17,446,701 + $1,357,195,115 = $1,374,641,816** (2018 Expected Net EAV)

- **2017 Levy Extension = $43,425,541**
- **Inflation (CPI) = 2.1%**
- **$43,425,541 x 2.1% = $911,936** **(Revenue increase for inflation)**
- **$43,425,541 + $911,936 = $44,337,477** (New 2018 extension base)

- **$44,337,477 / $1,357,195,115 = $0.032668** (New Tax Rate for 2018)
- **$0.032668 x $17,446,701 = $569,957** **(Revenue increase for New Property)**

- **2017 extension ($43,425,541) + New Revenue ($911,936 + $569,957) = 2018 extension ($44,907,433)**

Property Tax Levy Calculation

- **2017 extension ($43,425,541) + New Revenue (<u>$911,936</u> + <u>$569,957)</u> = <u>2018 extension ($44,907,433)</u>**

- **Annual Debt Service = $10,972,620** (Based on previously approved debt)
  - Note that 20% of NLSD122's tax bill is to pay off previously approved debt ($637 on a $250K home)

- **2018 Operating extension ($44,907,433) + 2018 Debt Service ($10,972,620) = Total ($55,880,053)**

- **Certificate of Levy to be submitted to the County before the last Tuesday in December**
  - **<u>$ 44,907,433</u> : Expected final extension based on EAV and New Property estimates provided by Will County in October 2018 (EAV up 2.90% and New Property of $17,446,701).**

  - **<u>$45,560,804</u>: Amount to request on the certificate of tax levy. Since the District will never receive more revenue than it requests on the levy, it is best practice to request more than is expected just in case the new property for the year comes in higher than estimated. Once the final new property values are reported by the County in April, then the final extension amount is calculated for each district. Any extra amount requested on the levy is eliminated by the County. This strategy secures the district for up to $37.4M of new property for 2018.**

- **2018 Tax Bills: Increase of about 4.3%**
- **2014 Increase = 0.8%, 2015 Increase 0.9%, 2016 Increase 1.2%, 2017 Increase 3.4%** ***(lower annual increases in prior years)***
- **Prior years lower due to below average inflation and more stable debt payments**

NLSD122 2018 Tax Levy Estimate: Projected Tax Bills *(10/01/18)*

2017

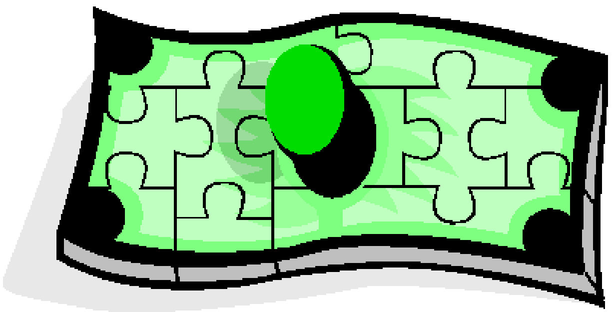
2017 Market Value	100,000	150,000	200,000	250,000	300,000	350,000	400,000	450,000	500,000
1/3 Assessment	33,333	50,000	66,667	83,333	100,000	116,667	133,333	150,000	166,667
Exemptions	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000
Total Net Value	27,333	44,000	60,667	77,333	94,000	110,667	127,333	144,000	160,667
Tax Rate	$ 4.0208	$ 4.02	$ 4.02	$ 4.02	$ 4.02	$ 4.02	$ 4.02	$ 4.02	$ 4.02
Tax Due	1,099	1,769	2,439	3,109	3,780	4,450	5,120	5,790	6,460

The expected average overall Equalized Assessed Value (EAV) for property in New Lenox increased 2.90% for 2018. The change in your individual tax bill will be dependent upon how much your assessment changed for 2018. The below tables provide estimated changes in tax bills based on various values and assessment changes. The amounts listed represent the amount due to NLSD122 only. Your total tax bill includes other taxing bodies.

Homes w/ 2018 Assessment Change of: 2.90%

2018 Market Value	102,905	154,357	205,810	257,262	308,715	360,167	411,620	463,072	514,524
1/3 Assessment	34,302	51,452	68,603	85,754	102,905	120,056	137,207	154,357	171,508
Exemptions	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000
Total Net Value	28,302	45,452	62,603	79,754	96,905	114,056	131,207	148,357	165,508
Tax Rate	$ 4.0651	$ 4.07	$ 4.07	$ 4.07	$ 4.07	$ 4.07	$ 4.07	$ 4.07	$ 4.07
Tax Due	1,150	1,848	2,545	3,242	3,939	4,636	5,334	6,031	6,728
$ Increase	$ 51	$ 79	$ 106	$ 133	$ 160	$ 187	$ 214	$ 241	$ 268
% Increase	4.7%	4.4%	4.3%	4.3%	4.2%	4.2%	4.2%	4.2%	4.1%

Assessment Appeal Process



Township Assessor

Board of Review

Property Tax Appeal Board (PTAB)

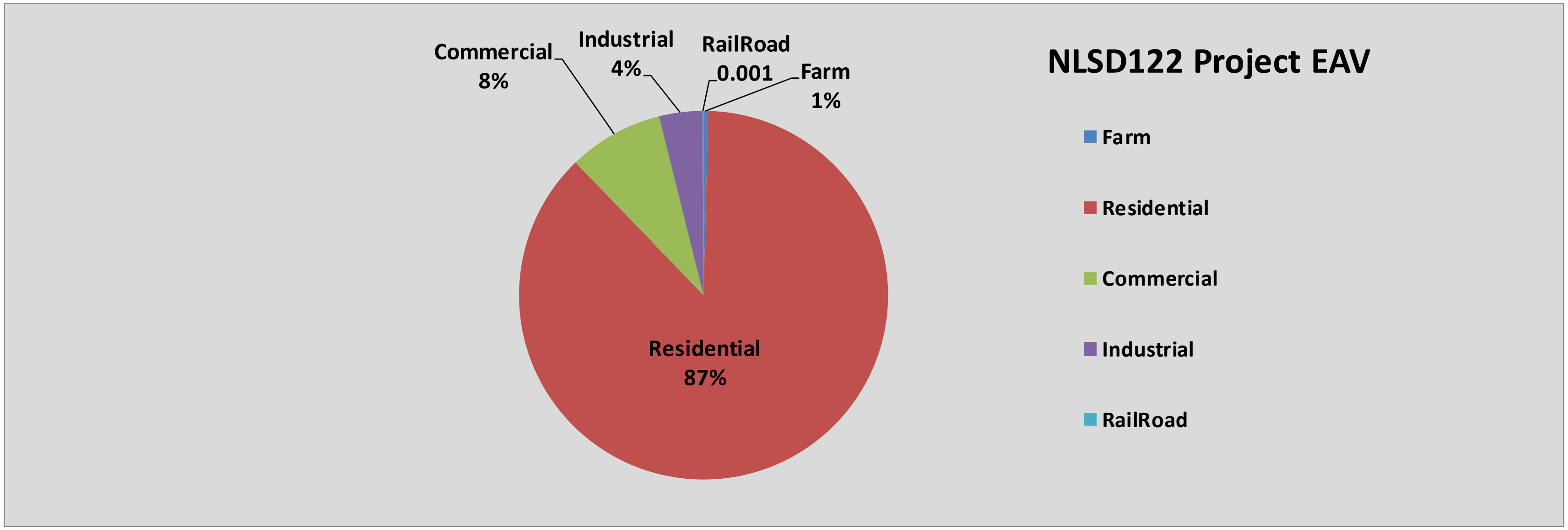
Circuit Court

Circuit Court (Complaint for Administrative Review Only)

You must review, understand, and agree with your assessed value each year. If you disagree, you must take timely action. Assessor sends out notices in August.

Property Values in New Lenox

- New Lenox relies primarily on residential property owners (87%).
- Future commercial and industrial growth will help to stabilize the debt service tax rate and therefore the overall tax rate.



Tentative Tax Levy Summary

This presentation illustrated that:

1) **Will County estimates that existing property values increased 2.90% overall in New Lenox for 2018.**
2) **Will County estimates that there will be about $17.4M of new property for 2018.**
3) **Inflation used for 2018 levy is 2.1% (2017 All Urban Consumer Price Index).**
4) **Levy extension increases for inflation (CPI) and new property.**
5) **New revenue attributed to the 2.1% inflation is <u>$911,936.</u>**
6) **New revenue attributed to the expected $17.4M of new property is <u>$569,957.</u>**
7) **Last year's 2017 operating tax extension was $43,425,541.**
8) **$43,425,541 + $911,936 + $569,957 = $44,907,433 (2018 expected operating extension).**
9) **NLSD122 has $10,972,620 of bond payments to make in 2018, so the total expected extension will be $55,880,053.**
10) **The operating extension is going from $43.4M to $44.9M. This is a 3.41% increase.**
11) **The total extension is going from $53.0M to $55.9M. This is a 5.38% increase.**
12) **Individual tax bills due to NLSD122 are expected to increase about 4.3% or about $133 for the year.**
    - **<u>$79 of the $133 increase is attributed to the scheduled bond payments increasing from $9.6M to $11.0M</u>**
    - ***Assumed an assessment change of +2.90% with a market value of about $250K.***

Tax Levy Scenarios

1) **What if the CPI was held at 0% for 2018?**
   - **NLSD122 loss = $912K+ annually**
   - **Average Homeowner saves $54 a year.**

2) **What if the operating property tax levy was held flat with no increase for 2018?**
   - **NLSD122 loss = $1.5M+ annually**
   - **Average Homeowner saves $86 a year.** ***(If operating levy remained the same, then the operating rate would decrease, however the debt rate would still increase)***

3) **What if NLSD122 abated $1,000,000 of debt service for 2018?**
   - **NLSD122 would lose $1,000,000 of reserves (primarily earmarked for maintaining the district facilities).**
   - **Average Homeowner gets a <u>one time</u> savings of $58 (Just for one year. Not in future years).**

     *all above scenarios assume a $250K home

Tax Levy Scenarios

- **FY19 Legal Budget approved in September 2018 and most recent 5 Year Projection presented in June 2018 both assumed that the 2018 Levy extension would receive the 2.1% CPI increase, would receive an increase for all new property and would not abate any debt service. The 2018 Levy will fund the second half of this school year and the first half of next school year.**

- **The financial future for school districts remains uncertain due to poor state finances and political issues in Illinois.**

- **The District has identified about *$50M+ of capital infrastructure needs* that need to be addressed over the next 10+ years. NLSD122 hopes to fund a significant portion of these capital needs with operating budget revenues as opposed to new bonds and additional debt.**

Efficiency

- **NLSD122 provides a quality education at an efficient cost.**
  - **State average elementary cost per pupil is $12,860 per student** (FY17 AFR).
  - **NLSD122 cost per pupil is $10,928 per student** (FY17 AFR).
    - **NLSD122 spends $1,932 less than the State average (15% less).**
- **NLSD122 provides tax payer relief every year by keeping operating expenses significantly below the State average.**
- **If NLSD122 spent the State average of $12,860 per student, the annual budget would be increased $9.1M. This would represent an increase of $530 to the average annual tax bill (estimate $250K home).**
- **NLSD122 keeps costs as low as possible while providing quality schools and services.**
- **The annual cost of living adjustment (CPI/Inflation) and new property levy increases are required to maintain the financial stability of the district into the future.**
- **Levying for CPI and new property allows the District to keep current programs and services in place as well as appropriately take care of the District's buildings *without the need for costly bond referendums in the future*.**

Key Takeaway

- Great public schools help to prepare students for the future (especially students with extra needs).
- Great public schools are good for the community (attracts people to the area, property values increase, local economy improves, the cycle repeats).
- The current Illinois school funding system relies heavily upon local property taxes to fund schools. (NLSD122 = 79% revenue from property tax, 14% from State, 4% Federal, 3+% other local fees).
- Keep property taxes lower by <u>effectively managing expenditures and debt.</u>
    - NLSD122 proactively controls expenditures:
        - Implemented $9.4M of expenditure reductions over the past several years.
        - Currently spend about 15% less than the State average per student.
        - Average expenditure increase of about 1% per year over the past 10 years.
    - NLSD122 manages its debt each year to minimize its impact on taxpayers:
        - Paid off $11.1M of principle on debt over the past 6 years
        - Saved $2.7M of interest cost by refinancing debt at lower rates and paying off sooner
        - Paid off $16M of Capital Projects with existing cash reserves over the past 6 years
        - 5 Year Financial plan to continue paying off debt and funding capital projects with cash

Key Takeaway

- ✓ **The current manner in which Illinois public school facilities are typically funded is inefficient for local taxpayers. School Districts must typically issue bonds to fund new buildings, renovations, and critical ongoing maintenance.**
- ✓ **If a school district's facilities are neglected, they will deteriorate, become obsolete and fall apart. Critical maintenance and updates are needed. Deferring maintenance and upkeep only makes the problem worse and costs more in the long run. (Approximate value of all NLSD122 facilities and equipment is nearly $200M. These assets must be protected and cared for).**
- ✓ **Capital improvements are a necessity and must be planned for. Since there is no specific funding source in place for school districts to pay for these projects, the most common strategy is to pass referendums and/or sell bonds. Once the bonds are paid back over time, the project cost is typically at least doubled due to years and years of interest expense.**
- ✓ **If the projects can be paid for in full at the time of completion, the expensive and inefficient debt interest expense can be avoided. Ultimately, this may mean that taxes are a little higher now so that total taxes over time can be less. There currently is no funding source for maintaining facilities in Will County (no facility sales tax, no capital grant program). NLSD122 has made the necessary expenditure reductions to its annual every day operating budget to create an operating surplus each year that can be used to pay for critical capital investments.**
- ✓ **The capital projects must be completed. Delaying the work makes the problem worse. We can either pay cash for them now or finance the projects and pay principle AND interest on the project later (likely doubling the cost to the taxpayer).**

Our Financial Strategy

- ✓ **Balance the annual operating budget.**
- ✓ **Maintain healthy fund balances (stability and cash available to pay bills all year).**
- ✓ **Maintain efficient operations in order to generate an operating surplus of funds each year.**
- ✓ **Use the annual operating surplus to pay off capital projects and avoid the need for debt.**
- ✓ **Continue to pay down existing debt (follow the previously approved and scheduled debt schedule).**
- ✓ **Look for ways to restructure debt with the goal of reducing total interest cost and/or providing taxpayer affordability and sustainability.** ***(NLSD122 has already saved millions of dollars doing this)***
- ✓ **Seek out new revenue sources to help pay for the millions of dollars in upkeep needed each year to keep the district facilities in proper condition.**
  - ✓ **Consider a Will County Facility Sales Tax ($2M+ per year) (requires County approval).**
  - ✓ **Ask the State to fund the next round of Capital Construction Grants ($7M).**
  - ✓ **Advocate for a new financial model for funding IL school construction (state and federal grant programs that pay for projects without the need to pay investors interest).**

We have demonstrated proven success following this strategy and intend to continue along this path for many years to come (discussed each January/Feb).

Questions?

- **Please contact us anytime:**

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Final questions and comments regarding the property tax levy will be taken at the November 13th public hearing *(6:30pm located at NLSD122 Admin Center).*