

URBANA SCHOOL DISTRICT #116

BUSINESS OFFICE MEMO

TO: Dr. Don Owen, Superintendent

FROM: Carol Baker
Chief Financial Officer

DATE: November 11, 2016

RE: Adoption of Proposed 2016 Tax Levy

Each year, the school district must approve and file a property tax levy with the County Clerk. This memo is to inform the Board of Education on how I arrived at the recommended tax levy. I am requesting approval of the proposed levy to allow me to proceed with advertising the tax levy information prior to the public hearing and final approval at the December business meeting.

The Property Tax Extension Limitation Law (PTELL), commonly known as tax caps, was passed in 1996 to slow the growth in tax extensions (revenues). Tax caps do not “cap” individual property tax bills or assessments. Instead, they cap extensions, or the amount of taxes we can receive. They allow a limited inflationary increase on existing property, plus an additional amount for new construction. Tax extensions can increase by only 5% or CPI, whichever is less. Because each year’s cap is based on what was received the previous year, if we elect not to take advantage of the full increase allowed, we lose that revenue for every succeeding year.

Tax caps protects the taxpayers from large increases in years when EAV is rising rapidly. However, the legislation also protects taxing bodies in times of decreasing EAV. When EAV declines, the tax rates must increase to allow the District to receive the limited inflationary increase allowed under tax caps. This is what occurred in 2014 when the hospitals became exempt and EAV declined causing our tax rate to increase .68.

In 1996, the Board adopted a tax levy that increased the district’s tax rate by 20 cents in our operating funds. This increase was enacted to provide the district with flexibility in dealing with the effects of tax caps over the first five years. This is now our 20th levy under tax caps.

2016 LEVY

The 2015 CPI is 0.7%, therefore our prior year extensions (excluding debt service) can increase no more than 0.7%. In addition, under tax caps we are allowed access to the full growth from any new construction. New construction can be captured in full only once, and if not, that revenue is lost forever.

The 2016 new construction figure will be unusually high due to recovered TIF parcels that will be coming on the tax rolls again. In addition, we have many uncertainties related to the hospital charity care case awaiting a decision at the Illinois Supreme Court. It is unlikely that a decision will be made in time to impact the 2016 levy, but it is still possible. We should prepare for this possibility by levying an adequate

amount to capture this potential new construction. This will provide us the flexibility to obtain the maximum tax revenue available under tax caps. We also have the ability to abate/lower our debt service tax rate until February 28th, 2017 to offset any increase in our operating levies. With special attention to impact of the hospital situation.

If no Supreme Court decision is made in time, there will be no negative consequence because tax caps restricts us to getting no more than we are legally entitled to, even if we over levy. The tax levy history chart shows how levies are historically much larger than the actual tax dollars received.

All of the information we are basing our levy decision on are estimates at this time, and therefore we cannot predict the actual tax rates. The final calculation of the District's rate will be completed by the County Clerk by April 2017. This tax rate calculation uses a final EAV after the Board of Review adjustments have been completed, and the multiplier and other factors are applied. Unfortunately, we must file our levy before any of these figures are known.

The required timelines for the tax levy include a tax levy truth-in-taxation hearing when the proposed increase in the aggregate tax levy is more than 105% of the prior year's tax extension. It is necessary to publish the black box ad and hold this truth in taxation hearing this year since the expected increase in assessed valuations and new construction exceed 5%.

The tax levy needs to be filed with the County Clerk prior to the last Tuesday in December. I will provide the proposed levy at the meeting for discussion and possible changes.