



VILLAGE OF LIBERTYVILLE BOARD OF TRUSTEES

COMMITTEE OF THE WHOLE MEETING

AGENDA

November 12, 2019

7:00 P.M.

**Village Hall Board Room
118 W. Cook Avenue
Libertyville, IL 60048**

1. Roll Call
2. Financial Forecast and Property Tax Levy Assumptions
3. Other Items
4. Public Comment
5. Adjournment

Any individual who would like to attend this meeting but because of a disability needs some accommodation to participate should contact the ADA Coordinator at 118 West Cook Avenue, Libertyville, Illinois 60048 (847)362-2430

M E M O R A N D U M

TO: Mayor and Village Board

FROM: Nicholas A. Mostardo, Finance Director

DATE: November 12, 2019

SUBJECT: Discussion of 2019 Tax Levy, Five-Year Financial Plan, and 2020-2021 Village Budget

The Village Board has scheduled a Committee of the Whole meeting to be held at 7:00 p.m. on Tuesday, November 12, 2019 to discuss the 2019 Tax Levy, Five-Year Financial Plan, and preparation of the FY 2020-2021 Village Budget. The Village Board reviews the annual tax levy and updates to the Five-Year Financial Plan each November, which provide staff with direction in preparing the Village budget. The following information provides detailed information regarding each of these topics.

2019 Tax Levy

Since 1991, the Village has been required to comply with the Property Tax Extension Limitation Law (PTELL) that limits the amount of property tax increase to the lesser of the annual consumer price index increase or 5% above the prior year levy. For the 2019 tax year, the consumer price index used for the tax cap calculation is 1.9%. The maximum levy under the tax cap has been calculated using estimated equalized assessed value (EAV) information provided by the County Assessor. For 2019, the EAV is estimated to increase by 1.3% and includes new growth of \$9,540,609. Based on the tax cap formula, the maximum 2019 tax extension is \$6,579,351. Added to this is the bond and special recreation levies of \$4,189,003 (\$1,696,586 after abatement of alternate revenue bonds) and \$194,000, respectively. The majority of the bond levy is for the road bonds (\$1,415,992.50). The total levy requested amounts to \$10,962,354 (\$8,469,937 after abatements).

Village staff requested Actuary Michael Zurek of Nyhart calculate the public safety pension levy requirement using the Scale RP-2014 (2018 update) mortality tables. Due to a combination of favorable mortality updates and investment returns, the recommended contributions to the Police and Fire Pension Funds reflected decreases from the prior year. In these instances, it has been the Village Board's past practice to maintain the current year contribution into the next tax levy year. For the 2019 tax levy, staff is recommending a contribution level of \$2,058,130 for the Police Pension Fund and \$1,487,098 for the Fire Pension Fund. Based on the actuarial reports, the funding level of the Police Pension Fund has increased from 55.9% to 58.1% on an actuarial basis. The funding level of the Fire Pension Fund has increased from 69.3% to 71.6% on an actuarial basis.

In future years, the Village may wish to consider using generational, rather than scaled, mortality assumptions to calculate its annual public safety pension fund contributions. This generational approach is likely more sustainable in the long term, but will cause a higher contribution level, most notably in the first levy year after implementation. While mortality assumptions are a factor within the control of the Village, the financial markets are not; thus, it will be important that they be monitored closely. Even though the actuary utilizes five-year smoothing of investment returns, a downturn in the market could have a negative impact on the Village's tax levy requirement.

Based on the information above, the Village Board has several options to consider for the 2019 tax levy which include:

- 1) A levy which maximizes the allowable growth under the tax cap (1.9%) would result in a total increase of 2.2% in the Village portion of a homeowner's property tax (a \$23 increase on a \$500,000 home). The Village would receive an additional \$240,772 in total property tax revenues based on the allowable 1.9% CPI increase and new growth in assessed valuation in the Village during the past year. Based on the tax year 2018 actual extension, revenue to the General Fund would increase by \$170,618, revenue to the public safety pension funds remains nearly flat, and the bond fund would increase by \$70,173.
- 2) A levy which would capture 1.0% of the allowable 1.9% PTELL CPI growth would result in a total increase of 1.5% in the Village portion of a homeowner's property tax (a \$16 increase on a \$500,000 home). The Village would receive an additional \$182,662 in total property tax revenues based on the allowable CPI increase and new growth in assessed valuation in the Village during the past year. Based on the tax year 2018 actual extension, revenue to the General Fund would increase \$112,508, revenue to the public safety pension funds remains nearly flat, and the bond fund would increase by \$70,173.
- 3) A levy which would capture only new growth would result in a total increase of 0.7% in the Village portion of a homeowner's property tax (a \$7 increase on a \$500,000 home). The Village would receive an additional \$118,095 in total property tax revenues based on the new growth in assessed valuation in the Village during the past year. Based on the tax year 2018 actual extension, revenue to the General Fund would increase \$47,941, revenue to the public safety pension funds remains nearly flat, and the bond fund would increase by \$70,173.

The total impact of the \$20 million road bonds issued is \$185 for a property with a value of \$500,000, regardless of which option is selected.

It is also important to note that the increases of 2.2%, 1.9%, and 0.7% in the three options above are driven in part by the issuance of new Limited Tax General Obligation Bonds in June, 2019. Funds from this bond issuance are supporting a limited amount of stormwater sewer improvements as well as repairs to aging Village facilities. Since the debt service on the new bonds is slightly higher than the old bonds being replaced, it was anticipated that a home valued at \$500,000 would experience a one-time increase of \$8. Net of the new debt issuance, the dollar increase in the tax levy for a typical home under each option would be 1.4% (\$15), 0.7% (\$7), and -0.1% (-\$1), respectively, less than the 1.9% CPI used to prepare the tax levy.

Given the information contained in the Five-Year Financial Plan, which includes the continued subsidy for the Sports Complex and the ongoing need to supplement modest growth in other recurring revenue sources, staff is recommending the first option above, which includes the CPI increase and new growth component allowed under the tax cap. The Village's tax rate will still remain one of the lowest in Lake County.

Since the change in the aggregate levy after abatements is less than 5% (2.93%), a formal Truth-in-Taxation hearing and newspaper notification will not be required during the levy adoption process. However, in keeping with past practice, the Village holds a public hearing concerning the proposed tax levy to afford stakeholders an opportunity to provide comments prior to its formal adoption.

Timber Creek Special Service Area #1 Tax Levy

In July 1994, the Timber Creek Special Service Area (SSA) was established to provide a funding mechanism to maintain outlots A, C, and E, including the directional sign and retention basins within the subdivision. The 2019-2020 Budget includes \$20,034 in expenditures for the Timber Creek SSA and includes the maintenance of the common areas and retention pond. There are no significant changes in expenses planned for the 2020-2021 Budget. The proposed levy of \$21,140 will remain the same for tax year 2019. The fund balance in this fund is estimated to be \$77,461 as of April 30, 2020.

Concord Special Service Area #2 Tax Levy

In June, 1997, the Concord at Interlaken SSA was established. The purpose of the SSA was for expenses and reserves to maintain the perimeter landscaping screening, fence, water detention basins, signage, and outlot A within this subdivision. The budget includes appropriations in the amount of \$19,385 for maintaining these areas. The proposed levy of \$23,040 (\$256 per lot) will remain the same for tax year 2019. This levy is assessed evenly on a per lot basis over the entire 90 lots in the subdivision as approved by the Village Board in November, 1999. The fund balance in this fund is estimated to be \$65,025 as of April 30, 2020.

Update of the Village Five Year Financial Plan

Attached to this memorandum is the updated Five-Year Plan. At the Committee of the Whole meeting, Staff will review the Plan with the Village Board and discuss in detail the assumptions and recommendations contained within the Plan. Following these discussions and input from the Village Board, the plan can be finalized and used not only as the guide for the FY 2020-2021 budget preparation process, but as a financial tool during future budget discussions. While the Plan focuses on the General Fund, which funds the bulk of the Village's primary operations, the Plan includes discussion of other relevant funds as well.

Preparation of the 2020-2021 Village Budget

In 1991, the Village Board adopted the Budget Officer system, which required a change in the preparation schedule for the annual budget document. Since that time, the Village Board has held a Committee of the Whole meeting to informally discuss the Village Budget and provide direction to the staff on the preparation of next year's budget.

1) Budget Format and Schedule

Staff will continue to utilize and refine the current budget format, including department goals, program measurement data, capital planning, and statistical information as part of each department budget. The Staff has also prepared and attached a schedule of meetings and activities related to the preparation of the 2020-2021 budget. Staff would like to review the budget schedule with the Village Board so that it can be finalized. This schedule was previously reviewed by the Finance Committee in October, 2019.

2) Budget Assumptions

The Five-Year Plan includes a comparison of 2019-2020 budget year-end estimates and 2020-2021 budget projections. The Five-Year Plan includes the following assumptions, which the Village Board can discuss and amend, as desired. These assumptions provide the framework within which the Staff must prepare their 2020-2021 budget.

- Sales tax will show a 1% increase from the FY 2019-2020 year-end estimate forward to the FY 2020-2021 fiscal year and then increase at a rate of 1% for future years. The Places for Eating Tax revenue remains flat beginning with fiscal year 2020-2021.
- Licenses, fees, and other revenues have annual increases estimated at between 0% – 3% annually.
- Overall salary expenditures are estimated to increase at 3.25% per year which includes a market adjustment, scheduled step increases, and current union contract increases.
- Benefits, including pension contributions, are assumed to increase at 5% annually.
- Contractual, utilities, commodities, and repairs/maintenance expenses are assumed to increase at 2% annually.
- Transfers to capital improvement funds in FY 2020-2021 will be increased due to the need to provide resources to the Stormwater Sewer Fund and the Park Improvement Fund. Following FY 2020-2021, transfers are mostly limited to fleet replacements.
- The Plan assumes the need to fund 100% of the Sport Complex annual debt service as an operating transfer from the General Fund.

In an effort to provide the Village Board with a more in-depth examination of future Village finances, staff will be discussing alternative forecast scenarios in the Five-Year plan outside of the base scenario outlined above. This was made possible by the recent implementation of new financial modeling software.

The November 12, 2019 Committee of the Whole meeting will provide an important opportunity for Staff to obtain Village Board direction and input as we move toward preparing the 2019 tax levy and FY 2020-2021 Budget. Please contact Director Mostardo if you would like any additional information prior to the meeting on November 12, 2019. After receiving policy direction from the Village Board, Staff will update estimates and projections for a public hearing on the tax levy scheduled for November 26, 2019.

cc: Administrative Staff

Attachments: 1. Five-Year Financial Plan (FY 2021 – FY 2025)
2. Tax Levy Scenarios for Levy Year 2019
3. FY 2020 – 2021 Budget Schedule