

The Property Tax Limitation Law

As proposed in SB 318 and HB 4247

STIFEL

ICCCFO Fall Conference

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Introductory Considerations

The Illinois Property Tax Limitation Law (“PTELL” or “Tax Caps”)

This presentation is intended to be a basic summary and primer per the State Law below:

35 ILCS 200/18-185

SB 318 (not yet signed into Illinois Law)

HB 4247 (not yet signed into Illinois Law)

This presentation does not represent legal or municipal advice – Stifel recommends that districts consult with their legal and other advisors as deemed appropriate

PTELL is currently in effect in 39 counties

SB 318 and HB 4247 would impose PTELL statewide

Because SB 318 and HB 4247 have not been signed into law, the information provided in this presentation may not accurately reflect whatever “tax freeze” legislation (if any) is enacted into law

Overview

- ❑ Intent is to limit the growth of property taxes
 - ❑ Caps the **total dollar amount** certain property taxes may increase from year to year
 - ❑ Such property taxes can only increase by CPI or 5% (whichever is less) **PLUS** any new property added to the tax rolls each year.
 - ❑ **Property Taxes x (1 + CPI) = Next year's max revenue**
 - ❑ **\$1,000,000 x 1.02 = \$1,020,000 (assumes 2% CPI)**
 - ❑ Slows the growth of property taxes when property values and assessments are increasing faster than inflation
 - ❑ Increases the growth of property taxes when property values and assessments are increasing slower than inflation
 - ❑ Under SB 318 and other “property tax freeze” bills **for levy years 2016 and 2017 the rate of growth would be zero** and NOT the lesser of CPI and 5%

Overview (continued)

- ❑ Taxes for bond payments (non-referendum bonds) are also impacted by PTELL
- ❑ Total taxes extended to pay NON-REFERENDUM bonds in the levy year that Tax Caps go into effect creates Debt Service Extension Base (“DSEB”)
 - Under Tax Caps, maximum annual tax levy for new non-referendum bonds may not exceed the DSEB
- ❑ Non-referendum bonds issued prior to the date Tax Caps go into effect (and bonds issued to refund such bonds) are outside Tax Caps but count against the DSEB
- ❑ Referendum-approved bonds (and bonds issued to refund such bonds) are outside Tax Caps

Purpose

PTELL *does not*


- Cap or limit individual property tax assessments – EAV is not capped
- Cap or limit individual property tax bills
- Cap or limit property taxes extended by “home rule” taxing districts
 - Under SB 318 and HB 4247, “home rule” units would also be capped for 2016 and 2017
- Cap or limit certain special purpose property taxes (such as taxes extended to pay pre-Tax Cap, non-referendum bonds or voter approved bonds)

Background


- ❑ Enacted by the Illinois Legislature
 - ❑ 1991 – mandatory for the 5 counties bordering Cook County
 - ❑ 1995 – extended mandate to Cook County
 - ❑ 1996 – extended as option to all other Illinois counties with voter approval
 - ❑ 2015? – extended to the entire State under SB 318 or HB 4247

- ❑ Law in 39 of 102 Illinois Counties representing approximately 80% of the State's population
 - ❑ 6 by Legislative mandate
 - ❑ 33 by voter approval
 - ❑ Defeated in 10 counties
 - ❑ Only one county has voted since 2002 (Jersey defeated 2015)
 - ❑ Cumberland County attempted to remove caps but was defeated

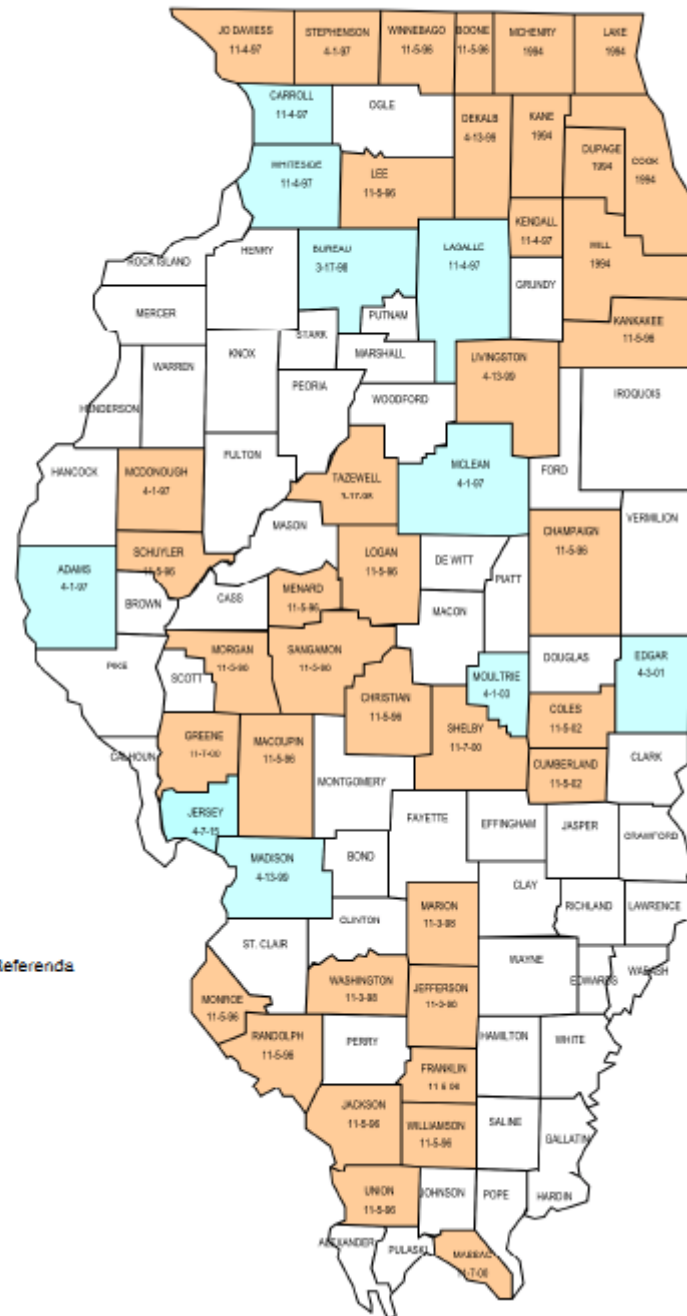
Current PTELL Map

 Counties with tax caps:

- Boone
- Champaign
- Christian
- Coles
- Cook
- Cumberland
- DeKalb
- DuPage
- Franklin
- Greene
- Jackson
- Jefferson
- Jo Daviess
- Kane
- Kankakee
- Kendall
- Lake
- Lee
- Livingston
- Logan
- Macoupin
- Marion
- Massac
- McDonough
- McHenry
- Menard
- Monroe
- Morgan
- Randolph
- Sangamon
- Schuyler
- Shelby
- Stephenson
- Tazewell
- Union
- Washington
- Will
- Williamson
- Winnebago

 Counties which have defeated Tax Cap Referenda

- Adams
- Bureau
- Carroll
- Edgar
- Jersey
- LaSalle
- Madison
- McLean
- Moultrie
- Whiteside



As of April 7, 2015 (Consolidated Election)

Districts Eligible for Tax Caps

- ❑ Prior to SB 318, a district will be subject to PTELL under one of the following conditions:
 - ❑ For a district that has **all of it's EAV within one county**, the district will be subject to PTELL if county voters approve PTELL.
 - ❑ Districts that **have EAV in two or more counties** are treated differently. **Both** of the following conditions must be met before the district becomes subject to PTELL.
 - ❑ **All** counties in which the district is located **must have held a PTELL referendum** (regardless of whether or not it passed),
AND
 - ❑ A **majority of the district's EAV must be located in Cook or collar or counties where voters have approved PTELL.**

If these two conditions are met, the entire district becomes subject to PTELL, even the portion of the district in any county where voters rejected PTELL
- ❑ Under SB 318 **all** districts become capped for levy years 2016 and 2017
- ❑ Under other “property tax freeze” bills there is no PTELL end date for districts

Potential Impact on District

Restricts the district's financial capacity to:

Generate Revenues

by

Limiting the Total Dollar Amount of
the Taxes Extended by the district
for Operations

This is called the district's

“Aggregate Extension Base”

Borrow Funds

by

Limiting the Total Dollar Amount
of the Taxes Extended by the district
for “Non Voted Debt”

This is called the district's

**“Debt Service Extension
Base” (DSEB)**

Calculating Aggregate Extension Base (Example)

Tax Extension Detail Report

Equalization Factor 1.0000

\$ Extended for Bond & Interest Payments

Property Type	Total EAV	Rate Setting EAV	PTELL Values		Overlapping County	Overlap EAV
Farm	50,807,721	50,709,145	Annexation EAV	0	County	6,086,040
Residential	199,649,232	188,874,855	Disconnection EAV	0	Total	6,086,040
Commercial	50,765,265	48,090,563	Recovered TIF EAV	0	* denotes use of estimated EAV	
Industrial	1,587,749	1,524,736	Agg. Ext. Base	.00		
Mineral	0	0	Limiting Rate	0.000000		
State Railroad	212,238	212,238	% of Burden	0.00%		
Local Railroad	0	0	TIF Increment	15,810,668		
County Total	303,022,205	287,411,537	New Property	2,556,930		
Total + Overlap	309,108,245	293,497,577	New Property (Overlap)	0		
			Total New Property	2,556,930		

Fund/Name	Levy Request	Maximum Rate	Calc'd Rate	Actual Rate	PTELL Factor	Limited Rate	% Burden Rate	Total Extension	Total Extension w/Overlaps	Percent
002 EDUCATION	5,954,050	1.84000	2.02865	1.84000	1.00000	1.84000	0.00000	\$5,288,372.28	\$5,400,355.42	46.1741
003 BOND & INTEREST	2,225,459	0.00000	0.75826	0.75826	1.00000	0.75826	0.00000	\$2,178,326.72	\$2,225,474.73	19.0282
004 OPER.-BLDG. & MAINT.	1,617,950	0.50000	0.55127	0.50000	1.00000	0.50000	0.00000	\$1,437,057.69	\$1,467,487.89	12.5473
005 I.M.R.F.	454,500	0.00000	0.15486	0.15486	1.00000	0.15486	0.00000	\$445,085.51	\$454,510.35	3.8862
030 TRANSPORTATION	647,200	0.20000	0.22051	0.20000	1.00000	0.20000	0.00000	\$574,823.07	\$586,995.15	5.0189
031 WORKING CASH	161,800	0.05000	0.05513	0.05000	1.00000	0.05000	0.00000	\$143,705.77	\$146,748.79	1.2547
033 SPECIAL EDUCATION	129,450	0.04000	0.04411	0.04000	1.00000	0.04000	0.00000	\$114,964.61	\$117,399.03	1.0038
035 LIABILITY INSURANCE	701,350	0.00000	0.23896	0.23897	1.00000	0.23897	0.00000	\$686,827.35	\$701,371.16	5.9969
047 SOCIAL SECURITY	446,550	0.00000	0.15283	0.15283	1.00000	0.15283	0.00000	\$439,251.05	\$448,552.35	3.8352
057 LEASE/RENTAL	161,800	0.05000	0.05513	0.05000	1.00000	0.05000	0.00000	\$143,705.77	\$146,748.79	1.2547
Totals (Capped)	0		0.00000	0.00000		0.00000	0.00000	\$0.00	\$0.00	0.0000
Totals (Not Capped)	12,502,109		4.25970	3.98492		3.98492	0.00000	\$11,453,119.82	\$11,695,643.66	100.0000
Totals (All)	12,502,109		4.25970	3.98492		3.98492	0.00000	\$11,453,119.82	\$11,695,643.66	100.0000

Total \$ Extended for All Funds

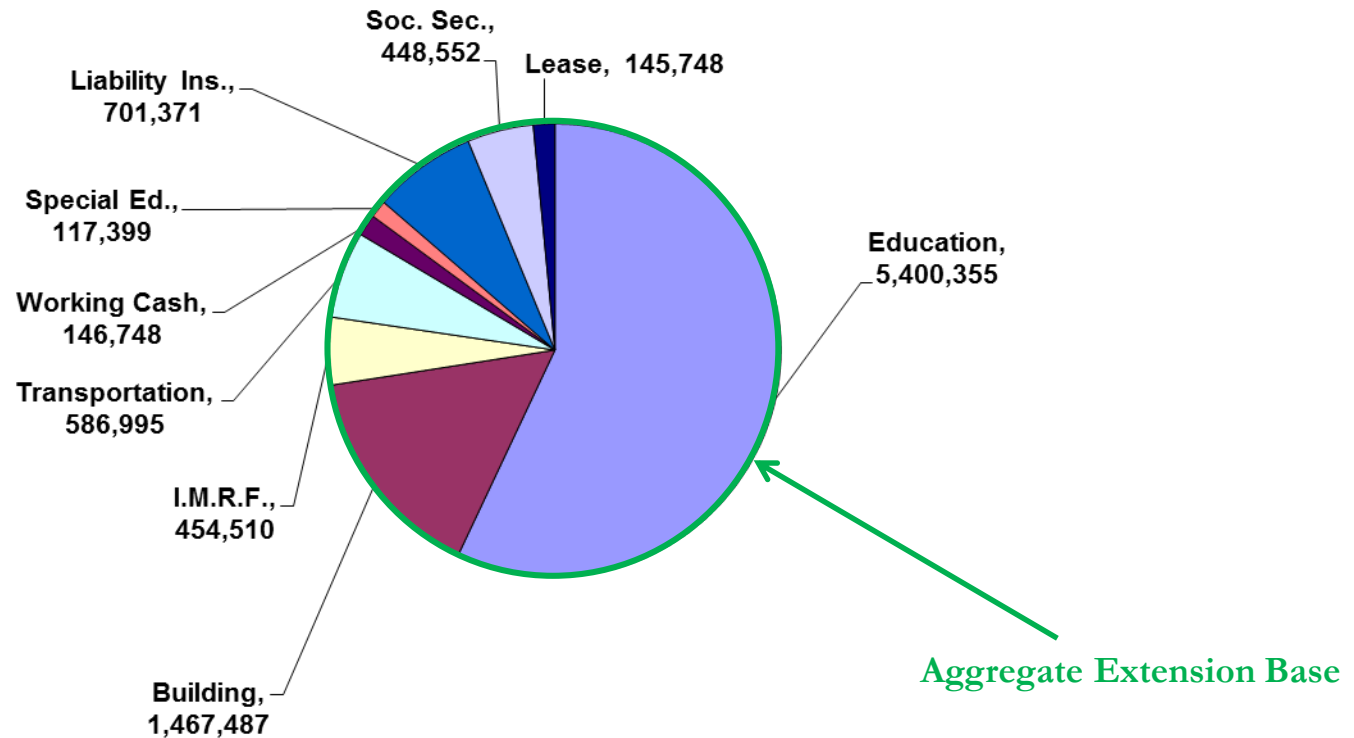
Less \$ Extended for Bond & Interest =

Aggregate Extension Base

\$9,470,468.93

Aggregate Extension Base (Example)

- The total amount of annual revenues available to the district for operations is like a \$9,470,468 pie
- District allocates how big a slice of that pie can be given to each fund



Aggregate Extension Base

- ❑ Pie grows by the lesser of 5% or CPI
 - ❑ SB 318 and other “property tax freeze bills” set growth at 0% for 2016 and 2017 levies
- ❑ District can decide how to allocate the pie within the PTELL maximum rates
- ❑ Aggregate Extension Base is set by December 2015 levy in SB 318 and HB 4247
- ❑ Under SB 318 and HB 4247 operating revenues will be the same for fiscal years 2017-2019, except for additions to EAV such as new construction or roll-off of TIF EAV

Fund	Max Rate	
	Not Capped*	PTELL
O&M	0.10	No Limit ***
Audit	0.05	0.05
B&I	No Limit	No Limit/DSEB**
WC	Limit by Formula	Limit by Formula
PHS	0.05	0.10
Ed	0.75	No Limit***
Liab. /Judge	No Limit	
Soc. Sec.	No Limit	

*Maximum unless increased by referendum

**DSEB for non-referendum bonds, with no limit on voted bonds

***Total of all rates subject to PTELL cannot exceed Limiting Rate

Aggregate Extension Base Formula

- ❑ Using a formula prescribed by the Law, the County Clerk calculates the limiting tax rate for the taxing districts subject to PTELL. The aggregate rate for all operating funds cannot exceed this rate. The rate for bond and interest payments is in addition to the limiting rate.
- ❑ The limiting rate formula is:

$$\frac{A \times (1+I)}{CEAV-NP-AX-TIF+DIS}$$

A= aggregate extension base (prior year total taxes billed for the funds subject to PTELL.

I= inflationary increase (CPI or 5%, whichever is less or voter approved amount)

CEAV= current EAV of district (including the multiplier)

NP= new property

AX= current EAV of any annexations

TIF= recovered tax increment value after a TIF expires

DIS= current EAV of any disconnections

Potential Impact on District

Restricts the district's financial capacity to:

Generate Revenues

by

Limiting the Total Dollar Amount of
the Taxes Extended to the district
for Operations

This is called the district's

“Aggregate Extension Base”

Borrow Funds

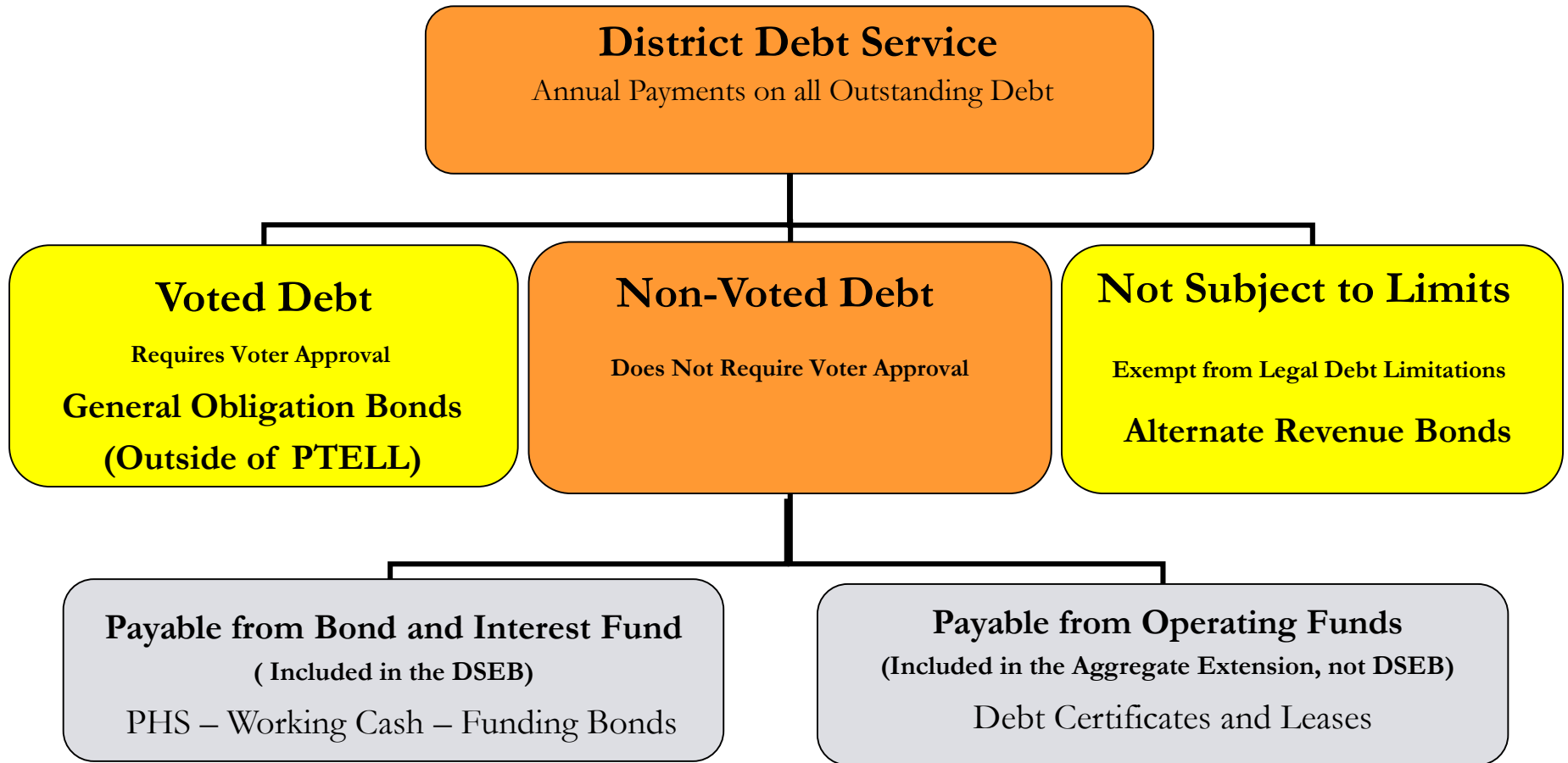
by

Limiting the Total Dollar Amount
of the Taxes Extended to the district
for “Non Voted Debt”

This is called the district's

**“Debt Service Extension
Base” (DSEB)**

Debt Service Extension Base



Debt Service Extension Base

- DSEB is set by the amount extended to pay non-voted bonds for:
 - 2015 Levy (Taxes Extended in 2016) (HB 4247)
 - 2016 Levy (Taxes Extended in 2017) (SB 318)
- Non-voted bonds issued prior to caps going into effect are grandfathered but count against DSEB
- DSEB grows by CPI, including in current tax freeze bills
 - May be adjusted by voters of the district

Districts' Use of Non-Voted Debt

- Fire Prevention and Safety Work
 - State statutes mandate work
- Working Cash Fund
 - Working Cash Fund Bonds may be used to help deal with delays and reductions in State funding and/or lack of local funding
- Funding Bonds
 - Can be used to fund operations or needed capital projects
- Without sufficient DSEB, these bonds could not be issued except by referendum

Example “DSEB” Levy

EAV Year	Fiscal Year	EAV	Growth	Existing Total Debt Service					DSEB Debt Service				
				2009 D/S	2013B D/S	2015 D/S	Total B&I D/S	Required Tax Rate	100% 2009 D/S	~50% 2013B D/S	Total DSEB D/S	DSEB with 0% CPI after 2015	Excess DSEB
2014	2016	\$ 79,784,637		650,007	99,388		749,395	0.939	650,007	49,694	699,701	699,700	0
2015	2017	\$ 79,784,637	0.0%	532,000	99,388	117,288	748,675	0.938	532,000	49,694	581,694	705,298	123,604
2016	2018	\$ 79,784,637	0.0%	303,845	286,538	110,238	700,620	0.878	303,845	143,269	447,114	705,298	258,184
2017	2019	\$ 79,784,637	0.0%	303,945	284,788	112,531	701,264	0.879	303,945	142,394	446,339	705,298	258,959
2018	2020	\$ 79,784,637	0.0%	303,495	286,788	114,038	704,320	0.883	303,495	143,394	446,889	705,298	258,409
2019	2021	\$ 79,784,637	0.0%	297,633	288,388	76,125	662,145	0.830	297,633	144,194	441,826	705,298	263,472
2020	2022	\$ 79,784,637	0.0%	301,220	289,588		590,808	0.741	301,220	144,794	446,014	705,298	259,284
2021	2023	\$ 79,784,637	0.0%	300,695	289,213		589,908	0.739	300,695	144,606	445,301	705,298	259,997
2022	2024	\$ 79,784,637	0.0%	301,148	287,213		588,360	0.737	301,148	143,606	444,754	705,298	260,544
2023	2025	\$ 79,784,637	0.0%	300,945	285,988		586,933	0.736	300,945	142,994	443,939	705,298	261,359
2024	2026	\$ 79,784,637	0.0%	299,876	290,488		590,364	0.740	299,876	145,244	445,120	705,298	260,178
2025	2027	\$ 79,784,637	0.0%	302,933	284,244		587,176	0.736	302,933	142,122	445,054	705,298	260,244
2026	2028	\$ 79,784,637	0.0%	300,210	81,700		381,910	0.479	300,210	40,850	341,060	705,298	364,238
2027	2029	\$ 79,784,637	0.0%	296,815			296,815	0.372	296,815		296,815	705,298	408,483
2028	2030	\$ 79,784,637	0.0%					0.000				705,298	705,298
2029	2031	\$ 79,784,637	0.0%					0.000				705,298	705,298
2030	2032	\$ 79,784,637	0.0%					0.000				705,298	705,298
2031	2033	\$ 79,784,637	0.0%					0.000				705,298	705,298
2032	2034	\$ 79,784,637	0.0%					0.000				705,298	705,298
Totals	Totals			4,144,759	3,054,319	530,219	7,729,296		4,144,759	1,527,159	5,671,918		

Original DSEB:	\$630,692.00
2009 (CPI +0.1%)	\$631,322.69
2010 (CPI +2.7%)	\$648,368.40
2011 (CPI +1.5%)	\$658,093.93
2012 (CPI +3.0%)	\$677,836.75
2013 (CPI +1.7%)	\$689,359.97
2014 (CPI +1.5%)	\$699,700.37
2015 (CPI +0.80%)	\$705,297.98

This example assumes DSEB set prior to 2009

Considerations

- ❑ Review operating levies
 - ❑ Review current levies to see if district is already at maximum levies
 - ❑ If EAV growth is underestimated and not captured in the base year, it cannot be recaptured later
 - ❑ Ensure all funds have a levy

Considerations

- Review Bond and Interest Levy
 - Does the district have outstanding Bonds that will produce a DSEB?
 - Is the DSEB bond payment schedule increasing year over year or decreasing to provide room for future borrowing?
 - Is the DSEB sufficient?
 - Future Life/Safety needs
 - Future Operational Needs (Working Cash Fund/Funding Bonds)

Summary

- ❑ Neither SB 318 nor HB 4247 has been enacted into law
- ❑ The final form of any “property tax freeze” bill, if any, is not yet known
- ❑ Understand the potential impact, as lead time, if a bill is passed, may be short

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