The Property Tax Limitation Law

As proposed in SB 318 and HB 4247

STIFEL

ICCCFO Fall Conference

October 14, 2015
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.
    - \( \text{Property Taxes} \times (1 + \text{CPI}) = \text{Next year’s max revenue} \)
    - \$1,000,000 \times 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
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)

<table>
<thead>
<tr>
<th>Property Type</th>
<th>Total EAV</th>
<th>Rate Setting EAV</th>
<th>PTERR Values</th>
<th>Overlapping County</th>
<th>Overlap EAV</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>County</td>
<td></td>
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<tr>
<td>Farm</td>
<td>50,597,721</td>
<td>50,736,145</td>
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<td>Residential</td>
<td>199,649,232</td>
<td>188,574,855</td>
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<td>Commercial</td>
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<td>48,030,663</td>
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<td>Industrial</td>
<td>1,587,749</td>
<td>1,524,735</td>
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<tr>
<td>Mineral</td>
<td>0</td>
<td>0</td>
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<td></td>
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<tr>
<td>State Railroad</td>
<td>212,228</td>
<td>212,228</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Local Railroad</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>County Total</td>
<td>305,022,203</td>
<td>287,411,537</td>
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<td></td>
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<tr>
<td>Total + New Property</td>
<td>305,100,245</td>
<td>253,497,577</td>
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</tr>
</tbody>
</table>

Calculating Aggregate Extension Base

Total $ Extended for All Funds
Less $ Extended for Bond & Interest = $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

<table>
<thead>
<tr>
<th>Fund</th>
<th>Max Rate</th>
<th>PTELL</th>
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<td>No Limit ***</td>
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<tr>
<td>Audit</td>
<td>0.05</td>
<td>0.05</td>
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<tr>
<td>B&amp;I</td>
<td>No Limit</td>
<td>No Limit/DSEB**</td>
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<tr>
<td>WC</td>
<td>Limit by Formula</td>
<td>Limit by Formula</td>
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<tr>
<td>PHS</td>
<td>0.05</td>
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<tr>
<td>Ed</td>
<td>0.75</td>
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<td>Liab. /Judge</td>
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<tr>
<td>Soc. Sec.</td>
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</table>

*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

District Debt Service
Annual Payments on all Outstanding Debt

Voted Debt
Requires Voter Approval
General Obligation Bonds
(Outside of PTELL)
Payable from Bond and Interest Fund
(Included in the DSEB)
PHS – Working Cash – Funding Bonds

Non-Voted Debt
Does Not Require Voter Approval
Not Subject to Limits
Exempt from Legal Debt Limitations
Alternate Revenue Bonds
Payable from Operating Funds
(Included in the Aggregate Extension, not DSEB)
Debt Certificates and Leases
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

<table>
<thead>
<tr>
<th>EAV Year</th>
<th>Fiscal Year</th>
<th>EAV</th>
<th>Growth</th>
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<td>2016</td>
<td>$79,784,637</td>
<td>0.0%</td>
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<tr>
<td>2015</td>
<td>2017</td>
<td>$79,784,637</td>
<td>0.0%</td>
</tr>
<tr>
<td>2016</td>
<td>2018</td>
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<tr>
<td>2017</td>
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<td>0.0%</td>
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<tr>
<td>2018</td>
<td>2020</td>
<td>$79,784,637</td>
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</tr>
<tr>
<td>2019</td>
<td>2021</td>
<td>$79,784,637</td>
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</tr>
<tr>
<td>2020</td>
<td>2022</td>
<td>$79,784,637</td>
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<tr>
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<td>2023</td>
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</tr>
<tr>
<td>2022</td>
<td>2024</td>
<td>$79,784,637</td>
<td>0.0%</td>
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<tr>
<td>2023</td>
<td>2025</td>
<td>$79,784,637</td>
<td>0.0%</td>
</tr>
<tr>
<td>2024</td>
<td>2026</td>
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<td>0.0%</td>
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<td>2025</td>
<td>2027</td>
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<td>2031</td>
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<td>2030</td>
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<td>2031</td>
<td>2033</td>
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<tr>
<td>2032</td>
<td>2034</td>
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### Existing Total Debt Service

<table>
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<tr>
<th></th>
<th>2009 D/S</th>
<th>2013B D/S</th>
<th>2015 D/S</th>
<th>Total B&amp;I D/S</th>
<th>Required Tax Rate</th>
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<tr>
<td>2014</td>
<td>650,007</td>
<td>99,388</td>
<td>117,288</td>
<td>749,395</td>
<td>0.939</td>
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<tr>
<td>2015</td>
<td>532,000</td>
<td>99,388</td>
<td>117,288</td>
<td>748,675</td>
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<td>2016</td>
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<td>286,538</td>
<td>110,238</td>
<td>700,620</td>
<td>0.878</td>
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<td>2017</td>
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<td>284,788</td>
<td>112,531</td>
<td>701,264</td>
<td>0.879</td>
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<td>286,788</td>
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### DSEB Debt Service

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<td>699,700</td>
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<tr>
<td>2032</td>
<td></td>
<td></td>
<td></td>
<td>705,298</td>
</tr>
</tbody>
</table>

**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%) $689,368.40
2014 (CPI +1.5%) $699,700.37
2015 (CPI +0.8%) $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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