Why the Levy Should Be Easy for Trustees – But a Little Harder for Directors!

October 20, 2022
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Various State Laws Govern Libraries

- **Library Districts** are governed by the Illinois Public Library District Act (75 ILCS 16/1-55)
- **Municipal Libraries** are governed by the Illinois Local Library Act (75 ILCS 5/1-16)
- Non-home rule governmental units are also subject to the Local Government Debt Reform Act and some are subject to the Property Tax Extension Limitation Law (PTELL or tax caps).
- Libraries that are part of Home Rule units of government have greater flexibility, but must coordinate with their municipal government

Am I subject to Tax Caps?  
Do I share my levy calculation with a municipal library?
Are You Subject to Property Tax Extension Limitation Law?

Tax caps might be the most restrictive part of setting your levy

- Cook and the collar counties
- Elsewhere by countywide referendum
- Home Rule entities are exempt (municipal libraries only)

<table>
<thead>
<tr>
<th>Tax-Capped County</th>
<th>District (Capped)</th>
<th>Municipal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non Tax Capped County</td>
<td>(Not Capped)</td>
<td>Home Rule (Not Capped)</td>
</tr>
</tbody>
</table>
Some Definitions to Start Are Important

- The **LEVY** is your request to the County to tax
- The **EXTENSION** is what the County puts on the tax bills
- **COLLECTIONS** and distributions depend on who pays
Property Tax Levy: Some Definitions to Start Are Important

**Limiting Tax Rate** (Tax capped only):
The calculated total allowable tax rate for all capped (operating) funds.

**CPI (Consumer Price Index):**
A measure of the overall change in consumer prices based on a representative basket of goods and services over time (inflation)

**Equalized Assessed Value:**
The taxable value of property in the District, approximately equal to 1/3 of the market value.

**New Property:**
The EAV of property newly added to the tax rolls.

**Tax Rate:**
Tax amount divided by Equalized Assessed Value (expressed as $/$100EAV.)

**Fund Maximum Rate** (Does not apply to Home Rule):
A maximum extension rate for a given fund (Corporate, Building, Audit)
The Levy
So, Why Is the Levy Easy for Trustees?

• If the objective is to maximize tax revenue, you simply have to ensure that the levy exceeds the maximum allowable extension

• For tax capped entities, the extension increase limit is inflation plus a tax on new property

• For non-capped entities (and not home rule), extension increase limit is determined by individual fund rate caps, so increase in EAV is most important

• For home rule libraries, no limits, so a matter of operational and political considerations

• Over 5%, must do Truth in Taxation
Capped? You Can Closely Approximate the Extension

- Work from total dollars – not exact, but awful close

Prior Year EXTENSION

\[ \times \]

(1+CPI)*

\[ + \]

Tax on New Property

\[ = \]

Total Extension

\[ \times \]

(1.050)

\[ + \]

$2.184 \text{ million} \times 0.00336 \text{ or } 0.5\%

\[ = \]

$1,553,117

- Check for new property
  - Probably not going to vary much, except for TIFs and abatements
  - Add an additional fudge factor to be conservative
Not Capped? EAV Is the Limiting Factor

• Important to estimate growth in EAV (including New Property)

• Districts may levy in one or more funds
  ➢ Capped Funds
    ✓ Corporate ($0.15), Library Building and Sites ($0.02), Audit ($0.005), [Working Cash ($0.05)]
    ✓ EAV x Maximum Tax Rate = Maximum Extension
  ➢ Uncapped Funds: Levy what you need
    ✓ Social Security, IMRF, Liability

• Add a fudge factor in case you underestimate EAV

\[
\text{Tax Amount} \times 1.062 = \text{Tax Rate} = \frac{\text{EAV} \times 1.062}{\text{EAV}}
\]
Questions You Can Ask

• Capped Districts
  ➢ Are we increasing our levy enough to capture both CPI and new property?
  ➢ Is there any new property we are overlooking for next year?

• Uncapped Districts
  ➢ How much do we think our EAV is going to increase next year and are we increasing our capped fund levies by the same percentage?
Seems Pretty Easy. So, Why’s It Harder For a Director?

• Director must allocate the levy across the Library’s various funds to ensure they are neither over- nor under-funded
• Due to fund rate caps, it may be necessary to move levy dollars around, or increase the levy, in order to maximize funding.
• The Director must decide how, and which, funds need to be reduced if the levy exceeds the extension limitation
• The Director must be sure that the Levy is consistent with the Budget and Appropriation Ordinance
• The Director is responsible for any publication, posting and filing requirements
## Law Allows You to Levy for Various Purposes

<table>
<thead>
<tr>
<th>Fund</th>
<th>Restricted</th>
<th>Levy</th>
<th>Max Rate</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>General</td>
<td></td>
<td>X</td>
<td>0.15/0.60</td>
<td></td>
</tr>
<tr>
<td>Building and Maintenance</td>
<td></td>
<td>X</td>
<td>0.02</td>
<td>Auth. Annually</td>
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<tr>
<td>Social Security*</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IMRF*</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liability*</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit*</td>
<td>X</td>
<td>X</td>
<td>0.005</td>
<td></td>
</tr>
<tr>
<td>Working Cash</td>
<td>X</td>
<td>X</td>
<td>0.05</td>
<td>4 years only</td>
</tr>
<tr>
<td>Debt Service</td>
<td></td>
<td>X</td>
<td></td>
<td>Levy voted Bonds Only</td>
</tr>
<tr>
<td>Special Reserve</td>
<td>X</td>
<td></td>
<td></td>
<td>Requires a Plan</td>
</tr>
<tr>
<td>Construction</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Endowment</td>
<td>X</td>
<td></td>
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</tbody>
</table>

*Levy authority goes away if not used for three consecutive years but can be reauthorized.

Should I Levy For and/or Maintain Multiple Funds?

Advantages

• Allows you to levy above the General Fund maximum rate
• Identify clearly what you are using funds for
• May avoid accumulation of excess fund balance (e.g., special reserve)
• Protection against errors in EAV estimates

Disadvantages

• Restricted Funds are limited as to authorized uses and cannot be transferred out
• Excess accumulations subject to tax objections

NOTE: Once not levied for three years may require a referendum to restore
Levy Allocations Matter For Capped Library Districts

- Counties will first reduce levies to individual fund maximums if necessary
- If the reduction puts you under the cap, you’ve permanently lost money
  - Build a cushion into your special fund levies to avoid this
- If you are still over the cap, a proportionate reduction is made to all funds
  - This may give you even less than you want in your General Fund, or possibly other funds
- A Direction For Abatement of Taxes tells the County to reduce Fund levies using a different method, for example:
  - Proportionate to all funds except the General Fund
  - Only the General Fund
  - All Funds except General, FICA and IMRF
Additional Concerns for Capped Municipal Libraries

- IF: You have your own limiting rate calculation
  - If so, all of the foregoing applies
- IF: You are part of the Municipality’s limiting rate calculation
  - Calculate what you should get
  - Coordinate with Village on fund reductions so you are not penalized if they go over their limit more than you do
  - Follow up with an exact calculation after the levy comes out and adjust for next year
- Sometimes being lumped with the Village can be a benefit if the Village is under-levying – but sometimes it can cost you dearly
Truth In Taxation Hearing

- Required if your Levy increases by more than 5% over the prior year Extension
  - Even if you’re home rule – but then you may be folded into the municipal government
- Excludes debt service levies
- Requires publication of the hearing between 7 and 14 days prior in a paper(s) of general circulation in the District
  - Numerous requirements for the notice (placement, content, size, etc.)
- Not a catastrophe if you err, BUT the county cannot extend taxes in excess 5% more than the prior year unless certification of the hearing has been made
New Law: 35 ILCS 200/18-190.7 Effective May 23, 2022

• Allows capped Library Districts to recapture amounts not levied in the prior year

• Effective Levy Year 2022

• Capped districts only

• You MUST file a certification with the County Clerk that you did not file for the maximum amount within 60 days of passing the levy

  ➢ Problem: How do you know if you filed for the maximum? File a certification every year as a safety precaution?
  ➢ No Truth in Taxation this year? Definitely file.

• Changes in the Law to clarify may be coming
The Annual Budget and Levy Cycle
For District Libraries, the Levy Cycle Starts With the Appropriation of Funds (B&A Ordinance)*

- Library Posts a Tentative B&A and publishes notice of hearing ➔ 30 days before hearing
- B&A Hearing
- Board adopts B&A Ordinance ➔ By Fourth Tuesday in September
- Board adopts Tax levy ➔ By first Tuesday in December
- Tax levy published and filed with county clerk(s) ➔ By fourth Tuesday in December

The Appropriation is an Allowance for Expenditures

- Sets a maximum on what can be spent AND establishes an upper limit for the Levy
- Is not the budget
  - The Budget sets an expectation for actual expenditures
  - Budgeting process is related, but separate

* On a practical level, there is a mismatch in timing between the Appropriation (current fiscal year) and receipt of the levy revenue (next fiscal year).
Budget and Levy Adoption

Different Requirements for Different Types of Libraries

• Municipal Libraries
  ➢ Board submits appropriation request to municipality for inclusion in their B&A
  ➢ Budget notice and hearing
  ➢ File levy requirements with municipality
  ➢ Municipality adopts Tax levy
  ➢ Tax levy filed with county clerk(s)

• District Libraries
  ➢ B&A Hearing notice
  ➢ B&A hearing
  ➢ Board adopts B&A Ordinance
  ➢ Board adopts Tax levy
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QUESTIONS:

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