



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

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Meristem Advisors<sup>LLC</sup>

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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)

	District	Municipal
Tax-Capped County	(Capped)	Not Home Rule (Capped)
Non Tax Capped County	(Not Capped)	Home Rule (Not Capped)



# 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

## LEVY



## EXTENSION



## COLLECTIONS



# 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	\$1,472,125
X	X
(1+CPI)*	(1.050)
+	+
Tax on New Property	\$2.184 million x 0.00336 or 0.5%
=	=
Total Extension	\$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)]
    - ✓  $EAV \times \text{Maximum Tax Rate} = \text{Maximum Extension}$
  - Uncapped Funds: Levy what you need
    - ✓ Social Security, IMRF, Liability
- Add a fudge factor in case you underestimate EAV

$$\frac{\text{Tax Amount}}{\text{EAV}} = \text{Tax Rate} = \frac{\text{Tax Amount} \times 1.062}{\text{EAV} \times 1.062}$$

# 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

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

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

For More Information: <https://www.cyberdriveillinois.com/departments/library/ARR/finances/taxes.html>

# 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
- Tax levy filed with county clerk(s)

For More Information: [https://www.ila.org/content/documents/days\\_and\\_dates\\_2019-2020.pdf](https://www.ila.org/content/documents/days_and_dates_2019-2020.pdf)

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# QUESTIONS:

or contact:



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