

***Itasca School District 10
Pre-Levy Information Packet
2004 Levy***

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Superintendent*

Overview

The purpose of this document is to prepare the Board of Education for adopting the 2004 Tax Levy for taxes payable in 2005. First, it is important to understand that a levy is akin to a “request” for access to property tax dollars. Before the tax cap legislation, a school district could request tax dollars to meet their need and receive those dollars.

Effective October 1, 1991, Public Act 87-17 (the tax cap legislation) limits the increase in property tax extension (payment to district) to 5% or the percent increase in the National Consumer Price Index (CPI); whichever is less. Increases above 5% or the CPI come only from assessment of new construction and/or a successful referendum approved by the voters. Therefore, we can levy (request) any amount. However, the amount we receive is limited to CPI plus full application of our tax rate to new construction.

The Truth in Taxation legislation (House Bill 1048) still remains in effect. That law requires that the school district notify, via a specific format in the local newspaper, the public if the levy is greater than 5%.

Why would we levy (request) more than a 5% increase since the tax cap limits our tax revenue to 5%? Because to gain access to the tax revenue generated by new construction we must levy (request) it. So, the problem is our inability know the value of new construction on all the property throughout the district. Therefore, we ask for more than we really need (balloon levy because it’s “inflated”) so that we have access to every possible dollar generated by new construction.

Example of Levy Process and the Impact of Tax Caps

Let me attempt to give an example of the levy process and the “double whammy” effect of the tax cap.

Let’s say we have one, big building in the district that houses all the students and their families. It is the only building in District 10. It’s a very big mega-residence that was recently sold to a new owner at the price of \$30,000,000. Now, let’s levy (request) our tax revenue from all (the only) property in the district.

The levy is applied against the Equalized Assessed Valuation (EAV) of a property. The EAV is one-third the market value of the property. So, in our case, the EAV of all the property in our district is \$10,000,000 (one-third of \$30,000,000).

District 10 has a tax rate approved by the voters at the last referendum (I have no idea when that was, but certainly not in the last 25 years). For the sake of our example, let’s say our approved tax rate is \$2.00. That means that we get \$2.00 for every \$100 of EAV of the property in our district. So let’s calculate our tax revenue.

EAV (\$10,000,000) divided by 100 (because our rate is *per* \$100) times our Rate (\$2.00) equals \$100,000 times \$2.00 equals \$200,000. Therefore, our tax revenue for the year is \$200,000.

In year two, the property value (value of existing property) went up 5% as determined by the township assessor (last year’s actual figure). We still only have one building. However, now, instead of having an EAV of \$10,000,000, it is worth \$10,500,000 because of the 5% general increase in property value. In the same year, the CPI is 2.4% (last year’s actual figure). Now, let’s go get our year-two tax revenue.

EAV (\$10,500,000) divided by 100 times our rate of \$2.00 yields tax revenue for year two of \$210,000. HOWEVER, we now must apply the tax cap legislation. Since the CPI was 2.4%, that is the limit on the increase in tax revenue we can receive by law. Therefore, our actual year-two tax revenue is calculated by taking the prior year’s revenue (\$200,000) and increasing it by 2.4% which yields year-two tax revenue of \$204,800. The cap has just lost us access to \$5,200 forever. It also changes our taxing rate. We received \$204,800 from \$10,500,000 in EAV. That means our actual rate for year three is 204,800 divided by 10,500,000 yielding a “limiting” rate of \$1.95.

Now, let’s look at year three when a second mega-residence was constructed. The market value of the new building is \$30,000,000 which

yields an EAV of \$10,000,000. For existing property, it happens to be a quadrennial reassessment year, so the value of existing property increases by 9% (the actual figure last year in Bloomingdale Township). Let's calculate our tax revenue. Let's do existing property first.

The EAV of our existing mega-residence went up 9% from \$10,500,000 to \$11,445,000. We would like to apply our new, limiting tax rate of \$1.95 to determine our revenue. \$11,445,000 divided by 100 times our limiting rate of \$1.95 would yield tax revenue on existing property of \$223,177.50. However, the CPI for year three is 1.9% (the actual CPI for the 2004 levy). Therefore, our year-three tax revenue on existing property is limited to last year's tax revenue (\$204,800) plus CPI of 1.9% for a total of \$208,691.20. We have just lost \$14,486.30 forever. That loss does not even count the loss created by the limiting tax rate of \$1.95 being used instead of the \$2.00 we are entitled to use!

But we have new property! Let's get our tax revenue from that. The EAV of the new mega-residence is \$10,000,000. We can apply our year-three rate to the EAV without the tax cap since this is new construction. What's our year-three rate? We work backward. On existing construction this (third) year, we received \$208,691.20 generated from \$11,445,000 in EAV. We calculate the rate by dividing the tax revenue by the EAV. Doing so, our year-three tax rate for new construction is \$1.82. So, to calculate the tax revenue from new construction we take the EAV divided by 100 times \$1.82 which yields tax revenue on new construction of \$182,000. Hmmmm? Didn't the same valued property just two years ago yield \$200,000? I think we just lost another \$18,000 forever.

So, our total tax revenue for year three is \$208,691.20 from existing property plus \$182,000 from the new construction for a grand total of \$390,691.20. That's a nice increase. But wait. That new mega-residence sent District 10 the same number of kids as the old mega-residence, so our actual need for service increased by 100% while our tax revenue increased from \$204,800 to \$390,691.20 or 90.7%. So even the big increase from new construction didn't help us keep pace with need. (Of course, if the new construction were an office building that sent no kids instead of a mega-residence, we would be in much better shape.)

What about our tax rate for year four? In year three, which we just calculated, we received \$390,691.20 in tax revenue from \$21,445,000 in EAV. That yields a limiting tax rate for year four of \$1.82. So we will continue to get a smaller portion of future tax as a result of [1] a tax cap that does not allow us to receive all of the revenue generated by multiplying the EAV by our rate AND [2] a continually diminishing rate. That is the double-whammy of the tax cap.

District 10 Levy Factor Estimates and Calculations

Equalized Assessed Valuation (EAV) of existing property.

2003 EAV of \$473,003,367

Addison Township contributed about 93% of District 10's EAV in the 2003 levy: Bloomington Township the remaining 7%. An estimated increase in property value in the entire school district is 5%. If we apply a projected 5% increase, it would yield a...

2004 Projected EAV for existing property of \$496,653,535

Tax Revenue generated from existing property

2003 Extension (payment) of taxes to District 10 = \$7,611,570

Property Tax revenue growth on existing property is limited to the Consumer Price Index (CPI). The CPI in effect for the 2003 levy is 1.9%. Therefore we can calculate that the...

2004 Projected Extension of taxes to District 10 = \$7,756,189

Tax Rate

2003 Limiting Tax Rate of 1.6092

The 2004 limiting rate can be estimated by working backwards with projected figures. If the projected EAV of \$496,653,535 generates the projected tax revenue of \$7,756,189, that will yield the...

2004 Projected Limiting Tax Rate of 1.5618

If the EAV is higher than projected, this rate will be lower.

EAV of new construction

2003 EAV of new construction = \$8,028,860

This is a very important, yet unknown factor in the calculation of our tax revenue. We know that new construction from Bloomingdale Township is currently posted at \$680,890. It is unclear if any Doral property is included as expected. (Remember last year they posted \$7 million in new construction until late December 2003 when it was changed to \$3.5 million). Is that other \$3.5million still in play? As of this writing, I am working to find out. Addison Township does not provide that information. However, we know Addison Township had about \$4,500,000 in new construction last year down from \$5,500,000 the prior year. In 1997 there was \$10,000,000 of new construction in Addison Township. What's it going to be this year? For the lack of any better indicators, we should be conservative and guess that Addison Township new construction will be the same as last year. If so, our total...

2004 Projected EAV of new construction will be \$5,180,890.

Projected Tax Revenue from New Construction

IF the \$5,180,890 in new construction is true and ***IF*** the EAV grows at 5% and ***IF*** that growth yields a tax rate of 1.5618, then we can apply the estimated rate to the estimated new construction. Doing so yields a...

2003 Projected tax revenue from new construction of \$80,915

Total Tax Revenue

2003 Total tax Revenue (no bonds) = \$7,611,570

Applying the CPI to existing property yielded \$7,756,189 in tax revenue (middle of page 5). The projection model for calculating tax revenue on estimated new construction with an estimated tax rate yielded an estimated \$80,915 in tax revenue resulting from new construction. Therefore, by adding the two we get...

2004 Projected Total Tax Revenue of \$7,837,104. This represents a projected increase in tax revenue of 3%.

Unknown Variables

Percentage growth in existing EAV (increased property value)

The higher the growth, the lower our tax rate becomes

EAV of new construction in District 10

The higher the EAV of new construction, the higher our tax total revenue

Limiting Tax Rate for 2004 Levy

The higher the tax rate, the greater access to EAV

Limiting tax rate to apply to new construction

The higher the tax rate, the greater access to EAV from new construction

Possible multipliers to correct assessments

Depending on the multiplier it could enhance or detract from total EAV

Estimated Levy

At the November Board of Education meeting, the Board will be asked to approve the Estimated Levy for 2004. The concept of a “balloon levy” which was covered earlier in this packet applies in our situation. Although I have estimated tax revenue, one can see there are plenty of variables that can... VARY! So, remembering that a levy is a request (and it doesn’t hurt to ask), we ask for more than we know we will get. That way, we can access all the revenue available to us. If we ask for a 10% increase in each fund, we should be safe.

However, another factor comes into play in our levy. Our IMRF fund and our Transportation Fund both finished the year in the red. In order to enhance the chances of bring more money into those funds, I am suggesting a 50% increase in those two funds.

Therefore, the Estimated Levy is calculated by increasing the 2003 extension (payment) of taxes by 10% in each fund except the IMRF and Transportation Funds. The calculations appear below.

	2003 Ext	Req Inc	2004 Levy
Ed	6,063,430.16	10.0%	6,669,773
OM	959,250.83	10.0%	1,055,175
Trans	275,287.96	50.0%	412,918
IMRF	78,045.56	50.0%	117,068
SS	131,967.94	10.0%	145,164
Tort	25,524.18	10.0%	28,096
Spec Ed	78,045.56	10.0%	85,850
	7,611,570.19		8,514,044 11.86%
Bond	708,559.05		708,560
Total	8,320,129.24		9,222,604 10.85%

The levy is in the aggregate (total number) not by funds. So we will levy \$8,514,044 not counting debt (bonds) and \$9,222,604 including the bonds.