

MEMORANDUM

DATE: February 14, 2011

TO: Deborah Birutis, Village President

CC: Curt Barrett, Village Manager

FROM: Nadine Alletto, Finance Director *ma*

RE: The Effect of New Construction on Property Tax Rates

As you are aware, the Village of Winfield, as a non-home rule community, is subject to the Property Tax Extension Limitation Law (PTELL), which limits the inflationary increase in property tax extensions on existing property in the Village to 5% or the CPI, whichever is less. The intent of this law is to protect property owners from large tax bill increases by limiting the increase in the taxing district's property tax extensions. The property tax extensions are the total amount of property taxes the Village would collect in a given tax year, not including debt service levies which are not subject to the tax caps and are therefore not included in the calculations in this memo.

It is important to note, however, that the Village can actually receive more than a 5% or CPI increase in a given tax year because the PTELL allows the taxing districts additional increases for new construction and annexations.

One might ask then what effect does new construction and annexations have on property owners of the Village since the law allows for increases in these instances? The answer is new construction and annexations have no effect to the property tax rate. A property owner would pay the same in property taxes in either case. What it does do for the Village is allow for additional revenues to be collected. The reason for this is because the property tax rate that is applied to a property owner's tax bill is determined using the current assessed valuation of the Village less the value of any new construction or annexed properties. This tax rate is then applied to the total assessed value of the properties in the Village, which has been increased due to the value of the new construction and annexed properties, allowing for additional property tax dollars to the Village than if there was no growth. I will use the Village's 2009 Property Tax Levy as an example:

For Tax Levy Year 2009, the County set the allowable increase in the Village's property tax extensions at 0.1%, which was the CPI rate.

The Village's property tax extension for 2008 was \$764,709 (total property taxes collected, not including debt service), which was then multiplied by 0.1% to equal \$765,474. (Assuming no

changes in property values from 2008, this would have been the total amount of property taxes the Village would have collected in 2009).

This amount was then divided by the current equalized assessed valuation of the Village, which did not include the value for any new construction or annexations. In 2009, this adjusted EAV was 375,034,320. This determined the Village's tax rate (not including debt service) at .2042 per \$100 of equalized assessed value. Since the rate was calculated without using the value of the new construction or annexations, this rate would be the same whether there was a lot of new growth in the Village or if there was none.

This tax rate is then applied to the current value of all of the property in the Village of Winfield, which now includes the value of the new construction and annexations. Total EAV for 2009 was \$389,033,367, which included \$13,999,047 in new construction and annexations, allowing for additional property tax revenues to be collected by the Village.

No Growth/Annexations

Tax rate= \$.2042 per \$100 of EAV

Total EAV= \$375,034,320

Property Taxes on a property value of \$300,000 = $\$300,000 / 100 * .2042 = \underline{\$204}$

Total property tax revenues (excluding debt) = $\$375,034,320 / 100 * .2042 = \underline{\$765,820}$

New Growth/Annexations (totaled \$14 million):

Tax rate= \$.2042 per \$100 of EAV

Total EAV= \$389,033,367

Property Taxes on a property value of \$300,000 = $\$300,000 / 100 * .2042 = \underline{\$204}$

Total property tax revenues (excluding debt) = $\$389,033,367 / 100 * .2042 = \underline{\$794,406}$

As you can see in the above examples, the property owner pays the Village the same in property taxes to the Village with or without growth.

Attached are the following appendices which support the information contained in this memo:

Appendix A: 2009 Tax Rate Calculation

Appendix B: 2009 Value of New Construction

Appendix C: 2009 Value of Annexations

Appendix D: 2009 Final Property Tax Extensions

Appendix E: Excerpts from the PTELL Technical Manual

Appendix F: Excerpt from PIO-62, PTELL Overview from IDOR

UNDER THE TAX LIMITATION ACT, THE LIMITING RATE FOR YOUR DISTRICT IS CALCULATED USING THE FOLLOWING FORMULA:

PRIOR YEAR'S EXTENSION PLUS 1.0010% *CPI*
(FINAL BASE AGGREGATE EXTENSION)

DIVIDED BY

(*) →

CURRENT ASSESSED VALUATION MINUS NEW CONSTRUCTION
AND MINUS ANY NEWLY ANNEXED PROPERTY
(ADJUSTED 2009 CURRENT EQUALIZED VALUE)

DISTRICT NAME: VLG OF WINFIELD

FINAL BASE AGGREGATE EXTENSION (NUMERATOR) = 765,473.57

(DIVIDED BY)

ADJUSTED 2009 CURRENT EQUALIZED VALUE (DENOMINATOR) = 375,034,320

2009 LIMITING RATE = .2042 (*)

RATE REDUCTION FACTOR

IF THE CLERK'S EXTENDED RATE, BASED ON YOUR LEVY, IS GREATER THAN THE LIMITING RATE, A REDUCTION MUST BE MADE USING A RATE REDUCTION FACTOR CALCULATED AS FOLLOWS:

2009 LIMITING RATE = .2042

(DIVIDED BY)

2009 CLERK'S RATE = .6808

RATE REDUCTION FACTOR = 29.9942

APPENDIX B

COMPILED BY GARY A. KING, COUNTY CLERK, ON MARCH 18, 2010
2009 DU PAGE COUNTY VALUATION REPORT

PAGE 2
DISTRICT NUMBER: 3800000
DISTRICT NAME: VLG OF WINFIELD

*****NEW CONSTRUCTION*****

TOWNSHIP	RESIDENTIAL	FARMS	COMMERCIAL	INDUSTRIAL	RAILROAD	TOTAL
WAYNE	N/A	N/A	N/A	N/A	N/A	
BLOOMINGDALE	N/A	N/A	N/A	N/A	N/A	
ADDISON	N/A	N/A	N/A	N/A	N/A	
WINFIELD	1,928,990	N/A	87,940	N/A	N/A	2,016,930
MILTON	994,660	N/A	56,550	N/A	N/A	1,051,210
YORK	N/A	N/A	N/A	N/A	N/A	
NAPERVILLE	N/A	N/A	N/A	N/A	N/A	
LISLE	N/A	N/A	N/A	N/A	N/A	
DOWNERS GROVE	N/A	N/A	N/A	N/A	N/A	
TOTAL	2,923,650		144,490			3,068,140

DU PAGE TIF INCREMENT NEW CONSTRUCTION VALUE: N/A

DU PAGE PRIOR YEAR EXEMPT VALUE: N/A

TOTAL DU PAGE NEW CONSTRUCTION

OVERLAPPING NEW CONSTRUCTION VALUE:

- COOK N/A
- DE KALB N/A
- KANE N/A
- KENDALL N/A
- MC HENRY N/A
- WILL N/A

TOTAL OVERLAPPING NEW CONSTRUCTION

GRAND-TOTAL NEW CONSTRUCTION

10,930,907
3,068,140

14K New
389 Total

389-14 = 375
4%

3,068,140

APPENDIX C

COMPILED BY GARY A. KING, COUNTY CLERK, ON MARCH 18, 2010
2009 DU PAGE COUNTY VALUATION REPORT

PAGE 3
DISTRICT NUMBER: 3800000

DISTRICT NAME: VLG OF WINFIELD

DISCONNECTED VALUE

ANNEXED VALUATION

DU PAGE: 10,930,907 N/A

OVERLAP COUNTIES:

COOK:	N/A	N/A
DEKALB:	N/A	N/A
KANE:	N/A	N/A
KENDALL:	N/A	N/A
MC HENRY:	N/A	N/A
WILL:	N/A	N/A

TOTAL OVERLAPPING VALUE

10,930,907

GRAND TOTAL

APPENDIX D

EAV INCLUDES GROWTH

3800000
VLG OF WINFIELD

TOWNSHIPS: BLOOMINGDALE
WINFIELD
MILTON
DUPAGE COUNTY

211,860
259,007,806
133,254,871
389,033,367
389,033,367
392,474,537

2009 TIF VALUATION

RES: 360,898,340
FARM: 27,287,430
COMM: 690,230
IND: 388,876,000
T-RE: 389,033,367

RR: 157,367

GTOT: 389,033,367

LIMITING RATE: .2042
RATE REDUCTION: 29.9942

TAX BURDEN:

LEVY	AMOUNT	PLUS	LIMIT	EXTD	RATE	TAXES EXTENDED	TAX LIMITATION ACT	DISTRICT ADJUSTMENT		
						AMOUNT	RATE	EXTENSION	RATE	EXTENSION
CORPORATE	367,361.00	371,034.61	.4375	.0954		371,137.83	.0287	111,652.58		
*BOND & INT - LIMITED	60,465.00	61,069.65		.0157		61,078.24	.0157	61,078.24		
IMRF	209,058.00	211,148.58		.0543		211,245.12	.0163	63,412.44		
POLICE PROTECTION	1,627,019.00	1,643,289.19	.6000	.4225		1,643,665.98	.1267	492,905.28		
POLICE PENSION	365,892.00	369,550.92		.0950		369,581.70	.0285	110,874.51		
AUDIT	10,630.00	10,736.30		.0028		10,892.93	.0008	3,112.27		
SCHOOL CROSSNG GUARD	41,341.00	41,754.41	.0200	.0108		42,015.60	.0032	12,449.07		
TOTAL CAP FUNDS	2,621,301.00	2,647,514.01		.6808		2,648,539.16	.2042	794,406.15		
*TOTAL NON CAP FUNDS	60,465.00	61,069.65		.0157		61,078.24	.0157	61,078.24		
GRAND TOTAL	2,681,766.00	2,708,583.66		.6965		2,709,617.40	.2199	855,484.39		

tax rate determined by excluding new growth

Revenues collected taking tax rate multiplied by total EAV divided by 100 (per \$100 of EAV)





Summary

The PTELL may not apply to some of a taxing district's funds.

The most common exceptions are taxes billed by special service areas and extensions for certain bonds. Payments for bonds issued without voter approval are subject to strict limitations.

PTELL taxing districts do not get less money; they just cannot raise as much from property taxes as they would be able to without the PTELL.

Generally, the yearly increase in taxes a district may bill for PTELL funds is limited to the rate of inflation. The law does allow amounts greater than inflation to be billed in each of the following situations:

- *  New property (generally new construction) is added to the tax rolls.
- *  The taxing district annexes property.
-  Voters approve one of four referenda allowed under the PTELL to increase the taxes billed.
-  A Tax Increment Financing (TIF) district expires. (The amount that had been available as the TIF increment is then available to the taxing district.)

The county clerk makes these allowances when the tax rate is computed.

PTELL taxing districts can ask voters to approve an increase greater than the PTELL allows.

A taxing district may determine that it needs to raise more of its budget from local property taxes than the PTELL allows. In this case, it must seek voter approval using one or more of the four referenda options allowed by the PTELL. The four options are listed below.

- 1 Increase the extension limitation⁵ (Section 18-205)
- 2 Increase the limiting rate⁵ (Section 18-190)
- 3 Levy for a new tax rate (Section 18-190)
- 4 Increase the debt service extension base (Section 18-212)

A PTELL taxing district must use one of these referenda options. It **may not** use any other proposition found in Illinois statutes, including those questions asked using Sections 18-120 and 18-125 of the Property Tax Code.

Any referenda authorized by the PTELL are exempt from the limit of three public policy questions for a taxing district at an election.

⁵ Supplemental ballot information is required.

Key Terms

Limiting rate

The limiting rate is the district's maximum aggregate tax rate for funds under the PTELL. The sum of all tax rates for funds subject to the PTELL cannot exceed the limiting rate. The limiting rate formula is below.

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

Where:

- A = aggregate extension base (prior year total taxes billed for funds subject to the PTELL)
- I = inflationary increase (CPI or 5 percent, whichever is less; or other amount approved by voters for the levy year)
- CEAV = current EAV of district used in setting preliminary rates
- NP = new property
- AX = current EAV of any annexations
- TIF = recovered tax increment value (after the TIF expires)
- DIS = current EAV of any disconnections



The limiting rate formula allows a taxing district to receive additional taxes in proportion to the value of property annexed, new property construction, and the TIF increment the year that the TIF expires. If property is disconnected from the district, the extension is reduced proportionally.

Note If a new taxing district is created or does not have an aggregate extension base, the taxing district must hold a referendum as prescribed by Section 18-210 of the Property Tax Code to set its aggregate extension. It is not required to hold a referendum under Section 18-190. The limiting rate will be calculated in subsequent years.

The county clerk makes several computations to implement the PTELL. First, the clerk computes the tax rate needed for each fund to produce the amount of taxes requested. The tax rate for the fund cannot exceed any statutorily prescribed maximum rate ceiling. Next, the individual fund rates are added to determine a preliminary aggregate rate for the district. Finally, the clerk calculates the PTELL "limiting rate" and compares the preliminary aggregate rate to the limiting rate. If the aggregate rate exceeds the limiting rate, then each rate is reduced proportionally unless the taxing district instructs the county clerk to reduce the rates in another way. If a taxing district does not want rates reduced proportionally, it should pass a resolution or ordinance that gives specific instructions to the county clerk (e.g., to reduce the corporate rate to a dollar amount or to a percentage of the levy). If specific instructions to the clerk (e.g., to reduce the corporate rate to a dollar amount or to a percentage of the levy). See Section 18-195 of the Property Tax Code.

Adjustments to the calculated limiting rate are required in two specific situations.

- If a taxing district is located in two or more counties and estimated EAVs were used to extend taxes in the prior year, then the current year's aggregate extension base is reset to what it would have been if actual values had been used to extend taxes the prior year.
- If a taxing district is located in two or more counties and an adjustment under Section 18-135(c) of the Property Tax Code was made in the prior year, then the current year's aggregate extension base is reset to what it would have been if the adjustments were not required.

Key Terms

If separate statutes govern a particular fund (e.g., the corporate fund) and a taxing district has never levied under one of the applicable statutes, it must ask voters to approve a new rate before levying for the other fund.

Example:

Two separate statutes govern the corporate fund of a park district. A park district has levied for one fund at the rate of 0.100%, but has never levied for the additional corporate fund (equal to 0.250%). If the park district wishes to extend taxes using the additional corporate fund, then it must ask voters to approve a "new rate" for the additional 0.250% because it has never levied for that fund. If approved, it may then extend taxes for both funds at a combined rate of 0.350%.



New property

Under the PTELL, taxing districts receive an additional allowance in proportion to the new property in the district.

"New property" includes the assessed value of

- new improvements or additions to existing improvements on any parcel of real property that increased the assessed value of that real property during the levy year. It does not include maintenance and repair.
- property that was exempt during the prior levy year but reclassified and assessed as non-exempt during the current levy year.
- new improvements or additions to existing improvements that increase the assessed value of property during the levy year in an enterprise zone only to the extent taxes are not abated on this new property. To the extent taxes are no longer abated on this property, it is new property the first year the abatement ceases.

The value of the new property is limited to the actual assessed value added by the new improvement, multiplied by the state equalization factor (multiplier). The general homestead, senior citizens homestead, and senior citizens assessment freeze homestead exemption are not subtracted before the value of new property is determined.

Where there is a long-term building project and the assessor revalues the property each year based on the construction completed on the assessment date, the annual increase in value (amount of construction completed between the prior and current assessment dates) is considered new property.

For the first levy year, the dollar amount of new property for each PTELL taxing district must be reported to the county clerk by the supervisor of assessments or county assessor. The value reported to the county clerk must be the final value for the new property after final board of review action.

For subsequent levy years, the township assessors, multi-township assessors, supervisors of assessments, county assessors, and boards of review enter their assessment of new property located in PTELL taxing districts in the assessment books in separate columns specifically designated for new property.

APPENDIX F

voters approve a referendum in November 1998, districts in the county will first be affected for 1999 taxes, payable in 2000.

For taxing districts that overlap two or more counties, the PTELL applies to levies made after January 1 of the year immediately following the referendum that makes the district subject to the PTELL.

The PTELL does not apply to levies made after January 1 of the year immediately following a referendum that results in a taxing district no longer being subject to the PTELL.

Does the PTELL guarantee that individual tax bills will increase no more than the limitation?

No. The PTELL only limits increases in taxing districts' extensions. Individual tax bills may still increase or decrease. Some of the reasons tax bills could increase more than 5% or the CPI are below.

- The property is in a taxing district that is able to increase its extension by more than 5% or the CPI increase because it is a home rule municipality or an overlapping taxing district that is not subject to the PTELL.
- Voters approved an increase in tax rates or in the limitation.
- Voters approved a bond issue or an increase in the debt service extension base.
- New bonds were issued before the PTELL referendum.
- The property had been under-assessed in relation to other properties and is reassessed.
- The property had a homestead exemption or other exemption that was removed.
- The property has a greater share of the tax burden because the assessed value of other property was decreased.

Can the district receive more than a 5% or the CPI increase?

Taxing districts are allowed additional increases for new construction, annexations to the district, voter-approved increases in the limit itself, voter-approved increases in tax rates and voter-approved new rates, and the Tax Increment Financing district (TIF) increment when the TIF expires.

Are there other restrictions on extensions in the PTELL?

A taxing district subject to the PTELL may not levy for a fund it has never used unless it obtains voter approval.

Gives a boost in tax levy dollars above or tax cap.