

FAQ: The Tax Levy Process

On Monday, November 17, the Big Hollow School Board approved the proposed 2008 District 38 tax levy. This vote will appear in the Board minutes. But what is the significance of this action? Here are answers to some frequently asked questions regarding the tax levy process.

What IS the tax levy?

Basically, the tax levy is the District's formal request for property tax revenues. For Big Hollow, the tax levy process begins in October. The District projects its revenue needs for the upcoming school year and proposes a permissible tax rate that, combined with potential state and federal revenues, will come closest to meeting those revenue needs. Since Big Hollow and all other Lake County public school districts must file their levies with the county before the fourth Tuesday in December, determining the tax levy rate requires some guesswork. This is because a given school district's equalized assessed valuation, or EAV, will not be known until the following spring—in the case of the 2008 levy, spring 2009. It is equalized assessed valuation (EAV) multiplied by tax rate that determines a school district's total property tax revenues.

In 2007, our **proposed** tax levy tax rate was **3.629**, while our **actual** tax levy rate amount was **2.903**, a difference of 0.726. The difference between the proposed rate and actual rate arises because of the tax cap.

What is the tax cap?

Tax-cap legislation, or PTELL, passed in 1991. Essentially, PTELL says that the total amount of property tax revenue collected by taxing entities such as Big Hollow cannot grow each year by more than 5% or the rate of inflation as measured by the CPI (Consumer Price Index), whichever is less. PTELL is referred to as a "tax cap," but it does not "cap" either individual property tax bills or assessments. Rather, PTELL slows the growth of total property tax revenues collected by the School District. While tax-cap legislation restricts the growth of property tax revenues, it does not correspondingly restrict the annual growth of school expenditures which, due to increasing enrollment, mandated programming, building repairs, etc., may grow much more rapidly.

In dollar terms, that 0.726 difference between the 2007 proposed rate and the actual rate represents an additional \$3,046,679 the Big Hollow School District could have received for 2008-09 school year given the tax rates "on the books" but did not receive because of PTELL.

Which School District operational funds rely on property tax revenues?

The operational funds affected by the tax levy are Education, Operations & Maintenance (O&M), Transportation, Special Education, TORT, IMRF, Social Security and Working Cash. Tax-cap legislation limits property tax revenue growth for these funds.

With respect to the Education and O&M funds, Big Hollow voters established the maximum tax rate for these, via referendum, during the 1980s. The **Education** rate approved by voters and currently “on the books” is 1.90 and the **O&M** rate is 0.35. As discussed above, however, the rate “on the books” has eroded over time because of PTELL. The actual levied rate is substantially lower.

The state establishes the maximum rates for several other operational funds, including Special Ed, Transportation and Working Cash.

The **Special Ed** fund covers a portion of what the District pays to educate Special Ed students who reside in our District, whether they attend Big Hollow or a school outside the District. The maximum rate is 0.02.

The **Transportation** fund pays for the cost of contractual services (buses) and fuel. The maximum rate is 0.12.

The **Working Cash** fund is analogous to a household’s bank account. Monies from this fund are transferrable to shore up other funds. For example, a shortfall in Transportation could be offset by a transfer from Working Cash. The maximum rate is 0.05. The \$10-million bond passed by referendum in February 2008 (see School Bonds, below) gained the District a one-time infusion into the Working Cash fund.

Per the Illinois State Board of Education (ISBE), none of the above funds can end the year with a deficit balance.

Several funds are levied based on anticipated need.

IMRF covers the District’s share of required payments for noncertified staff’s pensions. The District’s portion changes every six months.

Social Security covers the District’s portion of required payments for noncertified staff.

TORT is now separate from the Ed Fund and covers liability and insurance.

The two remaining items covered by the property tax levy are SEDOL IMRF and School Bonds.

SEDOL IMRF covers the state-mandated payment for all member districts of Special Education District of Lake County. The District has no control over this amount. SEDOL dictates what portion each District will pay. This fund is exempt from the tax cap.

School Bonds covers the amount required to repay voter-approved, District-issued bonds for construction, working cash, etc. This number varies each year based on the District’s EAV. As the District’s total EAV grows, the rate should decline. This fund is also exempt from the tax cap. The present rate is 1.031.

Why does Big Hollow knowingly levy for a higher amount than it will actually receive?

In Lake County, property value assessments for the current tax year are not complete until spring of the following year. For example, assessments for 2008 will not be available until spring 2009. However, every Lake County school district must file its levy with the county before the fourth Tuesday in December.

Because of this deadline, Big Hollow and our neighboring districts all complete their levy process between October and December. Remember, property tax revenues are the product of multiplying tax rate by equalized assessed valuation, or EAV. Therefore, Big Hollow must “estimate” what 2008 EAV for the District will be some five months before the numbers come out. Yes, the system is backwards!

If the District does not levy high enough and the new EAV numbers come in higher than the District anticipated, the District is only entitled to the amount for which it levied. By not requesting a high enough levy, the District could potentially lose funds.

How does Big Hollow School District estimate its total EAV for tax-levy purposes? District 38 has been in a growth phase for the past 10 years. Growth has slowed significantly since late 2006. To estimate EAV, the School Board looks at both recent history and current trends. By keeping a close watch on new home construction and commercial development, the District has a good idea of how many new entities will appear on the tax rolls for the first time. Remember that we all pay real estate taxes one year in arrears—i.e., we pay 2007 taxes in 2008. So homes built through 2007 will come into play for the first time in calculating 2008 EAV. The housing slowdown’s impact on EAV growth is thus offset a year.

The District also pays attention to news reports that property values are going down. However, unless properties are reassessed by the local assessor’s office, a property’s value—and collective EAV— will not go down.

Why does the Truth-in-Taxation Notice show a 43.7% increase in the levy from one year to the next?

The 43.7 % increase represents the difference between 2007 actual property-tax revenue and the 2008 levy request. However, the 2008 actual property tax revenue will be far less because of the tax cap. The following table illustrates how tax-cap legislation impacted the various funds.

Fund	<u>2007 proposed levy tax rate</u>	<u>2007 actual levy tax rate</u>
Education	1.90	1.564
IMRF	0.05	0.0011
O&M	0.35	0.1010

School Bonds	1.031	1.108
SEDOL IMRF	0.008	0 .008
Social Security	0.050	0.011
Special Ed	0.020	0.022
TORT	0.050	0.011
Transportation	0.120	0.061
Working Cash	0.050	0.008

Since the District typically levies at the maximum allowable rate, what would the District do with all the extra money if the proposed levy were actually approved?

There would be no extra money. The property tax levy does not meet the budgeted expenditures. Even if Big Hollow received the maximum levy amounts, expenditures would still outpace revenues.

The Special Education fund is an excellent example. The state-allowed maximum rate is 0.02. In terms of local property tax revenues, that rate generated \$92,353.57 for Special Ed in 2007. Special Ed expenditures for 2007 were \$2,732,859, a difference of \$2,640,505.52. Special Education is a state and federal mandate. Those who qualify for the program must receive the appropriate services. However, the state and federal governments pay only a minuscule amount of funding for these mandated programs. Special Education is an example of an “unfunded mandate” and it is one of many unfunded mandates imposed by the state and federal governments.

What happens next?

District 38 submitted our proposed tax levy to the Lake County assessor’s office in November. By the end of December, the County assessor’s office will receive proposed tax levies from all Lake County school districts. Next, township assessors will calculate property-value assessments, which upon completion, are sent to the County assessor’s office. At this point, it is the responsibility of the County assessor to finalize Big Hollow School District’s total EAV.

During this same time period, the County assessor’s office will also receive finalized information from the state pertaining to how tax cap limits will impact each school district. With all of this required information in place, the County assessor’s office will compute the maximum amount of local property tax revenue each school district is eligible to receive. District 38 will hear from the County assessor’s office the property tax amount to which it is entitled along with the difference between the assessor’s designation and the amount of revenue requested through the levy process. If Big Hollow’s levy amount is larger than the County assessor’s designated property tax revenue, Big Hollow will be required to make necessary adjustments in its tax levy request to match the County assessor’s finalized amount. The time commonly permitted to make these adjustments is one to three days.