THE WINNETKA PUBLIC SCHOOLS
DISTRICT 36
A Community of Learners

Informational Memo: Preliminary 2015 Levy Discussion

TO: School Board
Superintendent Kocanda

FROM: Greg Kurr, Chief Financial Officer

October 20, 2015

Overview & Background

In accordance with Truth in Taxation regulation, if an increase in the current year levy request exceeds 5% of the prior year extension a public notice and hearing is required before the levy is approved by the Board for filing with the County. Even if the requested increase is less than 5%, it has been the Board's position, in the spirit of openness with the community, to proceed with a public notice and hearing. As part of this process, the Board must approve a Tentative Levy for publication at its November 17, 2015 Board meeting.

The process of determining the 2015 Levy is more complicated than normal due to the effect of the levy reduction provided in the 2014 Levy. As a result of this reduction in 2014, more regulatory options are available to calculate the 2015 Levy and potentially subsequent levies.

In order to enable the Board to gain a better understanding of the impacts of these options, philosophical and financial, Administration thought it would be helpful to begin the discussion of them at the October 20, 2015 Board meeting. The material provided with this memo is intended to facilitate this process. In large measure, making the decision the choice between the options will require balancing the interests and needs of the District and the taxpayers.

However, the material provided is preliminary in nature. Due to the unique calculations that are involved, Administration has and intends to further review them with County personnel to help insure compliance. The estimated financial effects are high level and intended to show simplified relative not absolute results of the scenarios. With the recent completion of the FY16 budget and pending completion of the FY15 audit, financial projections will be prepared to refine the projected financial effects of the scenarios.

Options for Discussion:
The Financial Sub-Committee met on Wednesday, October 14, 2015, to review 2015 Levy options and scenarios. It was determined that four options would be presented to the full Board to initiate the discussion. These options are in no way exhaustive, but they do provide a prioritized start. Due to the complexity of the analysis and time needed for discussion, the Board is participating in a work session prior to the regular Board meeting, as suggested by the Financial Sub-Committee.

OPTION A: If the 2012 levy extension is used for the 2015 calculation, along with an estimate of approximately $12 million of New Property;

- It is estimated that the District would receive approximately $1.4 million of additional property tax revenue, primarily in FY17.
- The simplified estimate of relative financial effects for FY17 would suggest that operating results for that year, including approximately $700k of estimated Life Safety project costs, would result in estimated net revenue for the year of approximately $300k. However, while this approach likely would provide stable operating results in FY17, it would;
    - Eliminate any future ability to access the amount of the 2013 levy extension as a potential base for calculation of the 2016 levy
    - Result in a more recently typical approximate 1.4% increase in 2015 levied property taxes.
    - Likely increase the negative impact of any implementation of pending legislation on future operations of the District
    - Likely reduce the opportunity for a reduction in property taxes in the 2019 levy, through the intended but less likely ability to maximize the pay down debt in 2017

OPTION B-1: If the 2013 levy extension is used as the base for the 2015 calculation along with an estimate of approximately $12 million of New Property;

- It is estimated that the District would receive approximately $2.8 million of additional property tax revenue for operations, primarily in FY17. For the 2015 levy, the tax rate increase for existing taxpayers would be approximately 4% versus the CPI rate of increase of 0.8% for 2015.

- This approach would likely guarantee the availability and use of the 2013 levy base, since it is unlikely that a legislated "Levy Freeze" approach would use the 2014 levy extension as the base amount.
- The simplified estimate of relative financial effects for FY17 would suggest that reserves would be increased in the neighborhood of $1.7 million. The relative certainty of having additional reserves would;
    - Lessen the risk of significant potential loss of revenue due to adverse impacts of pending legislation
    - Provide opportunity to pay for more of the facility improvement needs out of available versus borrowed funds
    - Provide a greater opportunity for a reduction in property taxes through the 2019 levy resulting from the intended maximum level of advanced payment of debt in 2017

OPTION B-2: Same as above PLUS a Tax Abatement or Rollback

- A modified version of Option B-1 would use the 2013 extension base for the 2015 levy and request the maximum available tax revenue, with a commitment to evaluate the uses of either a tax abatement or rollback adjustment. Under what appears to be the preferred method of abatement, the situation can again be reviewed for feasibility and magnitude in March 2016 when a tax abatement opportunity is possible. For analysis purposes the tax reduction is assumed to be $1.5 million. This approach would provide a higher level of revenue for the District for potential adverse effects of pending legislation and other factors mentioned above. This approach also buys time to hopefully see how proposed legislation is resolved. If the resolution is adverse, the District would have additional funds to address the financial effects. If the resolution is favorable, with sensitivity to taxpayer interests, the District would commit, as part of this approach, to refund levied debt service taxes to the taxpayers in a similar manner to that used in 2013; in effect lowering their tax rate.

OPTION C: If the 2014 levy extension is used for the 2015 calculation along with an estimate of approximately $12 million of New Property;

- It is estimated that the District would receive approximately $1 million of additional property tax revenue, primarily in FY17.
- Estimated FY17 District operations would likely result in near breakeven results with minor deficit spending for the year of approximately $100k, based on a simplified estimate of relative

financial effects for the year. However, while this approach likely would provide stable operating results in FY17, it would;

- Eliminate any future ability to access the amount of the 2013 levy extension as a potential base for calculation of the 2016 levy
- Insulate taxpayers from a potential higher increase in taxes that result from the use of other alternative levy process options
- Likely increase the negative impact of any implementation of pending legislation on future operations of the District
- Likely reduce the opportunity for a reduction in property taxes in the 2019 levy, through the intended but less likely ability to pay down debt in 2017

In order to analyze the potential financial effects of levy request options that are available for the 2015 levy, Administration prepared a simplified analysis of estimated financial impacts on a cash basis. The analysis assumes a general 4% increase in FY16 operating expenses, plus an estimated $700k cost of anticipated Life Safety projects in FY17. The resulting estimated expenditures are deducted from budgeted FY16 net operating revenues plus the estimated increases in property tax revenues provided by the various levy scenarios to obtain net estimated relative results for analysis purposes.

Considerations:

1. Generally the formula used to determine a levy results in an increase in property tax revenues for a district. In connection with the 2014 levy, the District asked for $3 million less in property tax revenues, resulting in a net levy extension less than the previous year's 2013 extension.

2. General Rule; If the current year levy and extension is less than the previous levy year's extension, in the following levy year a district can use any of the three previous years' extensions, generally the highest, as the base extension for applying the current year's CPI and New Property factors in determining the current year levy. For the 2015 levy, the highest extension available for use as the base extension is from 2013. This provision exists to enable districts to recover some of the lost property tax revenue resulting from a year in which there was an abnormally low levy extension.

3. Specific Consideration; If the 2015 extension is higher than the 2014 extension, the ability to use the higher 2013 extension as a base extension for the 2016 levy, is lost.

4. As is typical in a levy calculation, the amount of New Property, a significant factor, is currently unknown. The effects of a range of historic possibilities are provided along with the most likely amount based on discussion with the Village regarding construction permit trends. However, this trend discussion is by no means scientific or definitive, it is merely an indicator which could significantly vary from actual, particularly given the fact that the effect is subject to countywide adjustment.

5. Potential Legislative Impact; Generally Negative
    - Administration believes a "Levy Freeze" concept is likely. The form, timing and duration is currently unknown. If the 2014 extension is used as the base, the effect on the District would be significant. The same effect would occur if the 2015 levy was at a "Forced" 2014 levy extension level and became the base for the "freeze". If the 2012 or the 2013 levy extension were used for the base in the 2015 or 2016 levy calculation, and either one of these years were used as the base for the "freeze", the financial effect on the District would be mitigated; to a much lesser mitigating extent if the 2012 extension were used. However, if either the 2012 or in particular the 2013 levy extensions were used, higher increases in the tax rate to the taxpayer would occur.
    - "Levy Freeze" Proposal; One legislative proposal suggests that the 2017 levy would be frozen at the 2016 extension level giving districts reasonable time to plan for the effects. A more reasonable and expected, but not a guaranteed approach.
    - "Pension Cost Reallocation"; This is a concept of reallocating a greater percentage of the pension costs from the state to the local districts; a concept directly opposite to what CPS is doing. If implemented, there could be a significant negative impact on the operations of the District.
    - In general, the state legislature is looking for ways to shift costs from the state to local governmental bodies. A philosophy which will, in one form or another, adversely impact the future operations of the District and in part cause it to use its reserves. Unlike many districts, the District and its community is fortunate to have reserves to shelter the need for potential expenditure and service reductions and/or operating referendums to cover the increased net costs. The current question is whether the ability to gain additional or preserve current reserves through maximizing the District's levy, with an increased current cost to the taxpayer, should be foregone to provide a current taxpayer benefit. This benefit is created through a lower levy which could potentially result in incurring increased future taxpayer cost through subsequent tax rate increases from the annual levy process or

referendum to address the anticipated legislatively increased future operating costs.

Preliminary Recommendation

Administration's preliminary recommendation, subject to following up on open items and input from the Board's discussion of the matter, is to use the 2013 Levy extension as the base for the 2015 Levy determination, using the modified version described under B-2 above.

Attachments

2015 Levy Options Analysis
2015 Levy Estimated Relative Financial Impacts