

**MEMORANDUM
FINANCE DEPARTMENT**

TO: Mr. Thomas E. Thomas, City Manager
SUBJECT: 2013 Budget – Truth-in-Taxation

Number: 038-12
Date: 11-16-2011

Schedule

Staff has completed initial review of the department budgets. Refinement of the proposed budget will continue until council adoption in March, 2012. Major deadlines are:

December 19	Adopt property levy
February 20	City Manager budget presentation
February 25	Saturday budget review
March 3	Saturday budget review
March 12	Public hearing on budget ordinance
March 19	Adopt budget ordinance

General Fund

The budget review has focused on the general fund. The preliminary 2012/2013 budget shows a projected gap in General Fund revenue and expense of approximately \$1.7 million. This budget gap assumes a property tax levy that increases by 1.28%, which is the projected change in assessed property values. This results in no change in the property tax rate. The assumed increase in the property tax levy does not require a public hearing because it does not exceed last year's tax levy extension by more than 105%. Council must determine whether or not to hold a public hearing on the tax levy at least twenty days before adoption. This decision should be made November 21, so adoption of the tax levy ordinance on December 19 will meet the requirements of the truth-in-taxation law. Staff recommends that council confirm that a public hearing on the December property tax will not be needed because the levy increase will not exceed five percent.

All departments are working to identify ways to prepare a balanced budget and at the same time maintain a high level of service to the public. At this time, the assumed levy for general fund operations will increase 2.48% or \$80,760. The police pension levy will increase \$18,184 or 0.84%. The fire pension levy will decrease -\$27,604 or -1.38%. The option included in this memo assumes that levies for the Library fund and Park fund will increase 2.00%.

Other general fund tax revenues are based on recent fiscal 2012 management reports and Illinois Municipal League projections.

General Fund Revenue

	FY2012 Budget	FY2013 Proposed	Difference	Percent Change
Property Taxes	3,252,532	3,334,026	81,494	2.5%
Property Tax/Fire Pension	2,005,883	1,978,545	-27,338	-1.4%
Property Tax/Police Pension	2,151,993	2,170,664	18,671	0.9%
Municipal Utility Tax	1,992,383	2,032,070	39,687	2.0%

Hotel/Motel Tax	370,000	371,000	1,000	0.3%
Gasoline/Diesel Tax	270,000	250,000	-20,000	-7.4%
Local Option Sales Tax	2,264,364	2,133,000	-131,364	-5.8%
Franchise Tax	432,018	431,000	-1,018	-0.2%
Gas Use Utility Tax	82,213	85,000	2,787	3.4%
Telecom infrastructure	1,190,000	1,240,000	50,000	4.2%
Food Beverage Tax	808,741	830,000	21,259	2.6%
State Income Tax	3,121,440	2,984,047	-137,393	-4.4%
Replacement Tax	2,337,670	2,334,838	-2,832	-0.1%
Sales Tax	2,672,657	2,645,378	-27,279	-1.0%
Use Tax	477,971	566,748	88,777	18.6%
Auto Rental Tax	4,000	5,632	1,632	40.8%
Pull Tabs Tax	6,587	6,587	0	0.0%
Total	23,440,452	23,398,535	-41,917	-0.2%

Personnel costs are sixty-six percent of general fund expenditures. They are projected to increase by 3.8% (up \$856,754) due to rising cost of health insurance and pensions. Other significant increases include capital (up \$175,156) due mainly to communication equipment and computer software; and supplies (up \$165,095) due to public works supplies, communication and computer equipment.

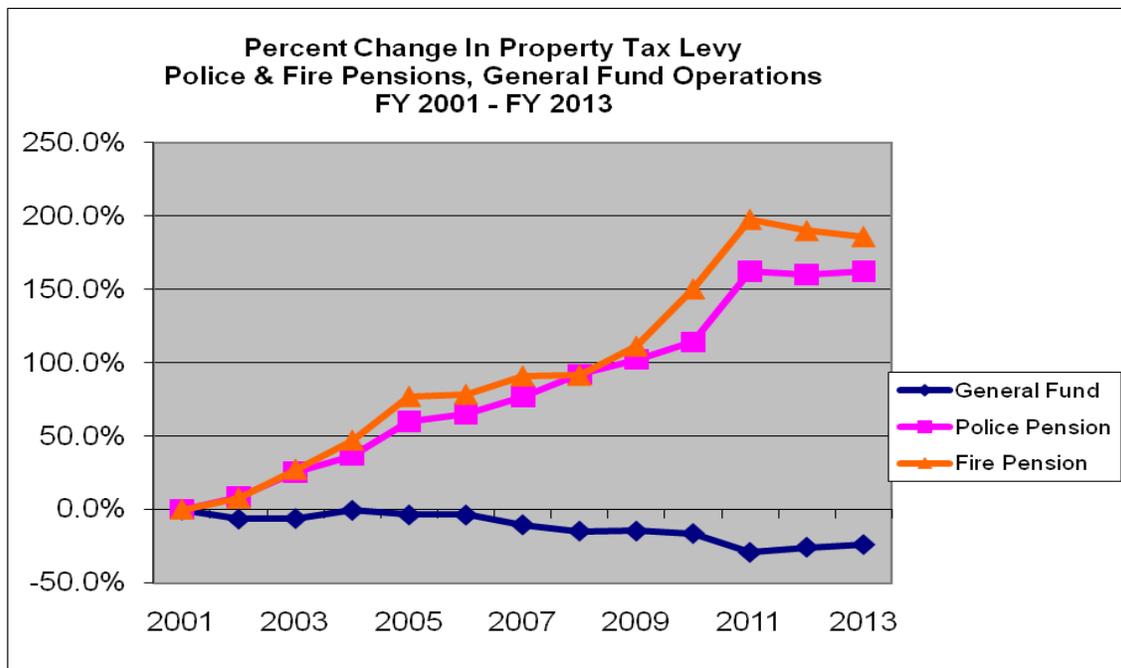
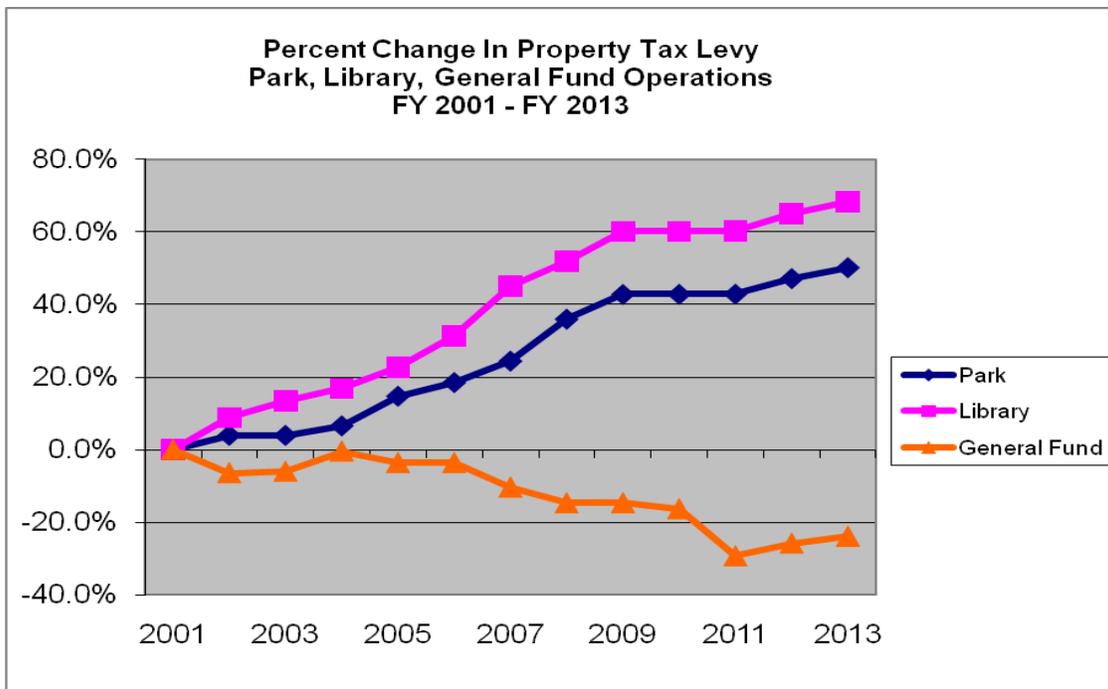
	FY2012 Budget	FY2013 Proposed	Difference	Percent Change
Personnel Services	22,683,761	23,540,515	856,754	3.8%
Supplies	1,350,504	1,515,599	165,095	12.2%
Services	8,070,583	8,046,628	-23,955	-0.3%
Other	177,037	173,010	-4,027	-2.3%
CED Loan/Program Costs	68,290	51,690	-16,600	-24.3%
Capital	49,844	225,000	175,156	351.4%
Transfers	270,729	275,836	5,107	1.9%
Other	1,975,390	2,064,330	88,940	4.5%
Total	34,646,138	35,892,608	1,246,470	3.6%

Gaming, Capital Improvement and Economic Development

Gaming and general fund carry-over dollars are the primary sources of discretionary funding for capital and economic development projects. The gaming fund distributes discretionary gaming dollars to other funds for capital, economic development, street maintenance and miscellaneous projects. Use of gaming revenue is determined by council policy. Detail of the proposed gaming allocations and capital projects is included in the five-year capital improvement plan. The plan also includes projections for the city enterprise funds to address the aging infrastructure of the water and wastewater systems.

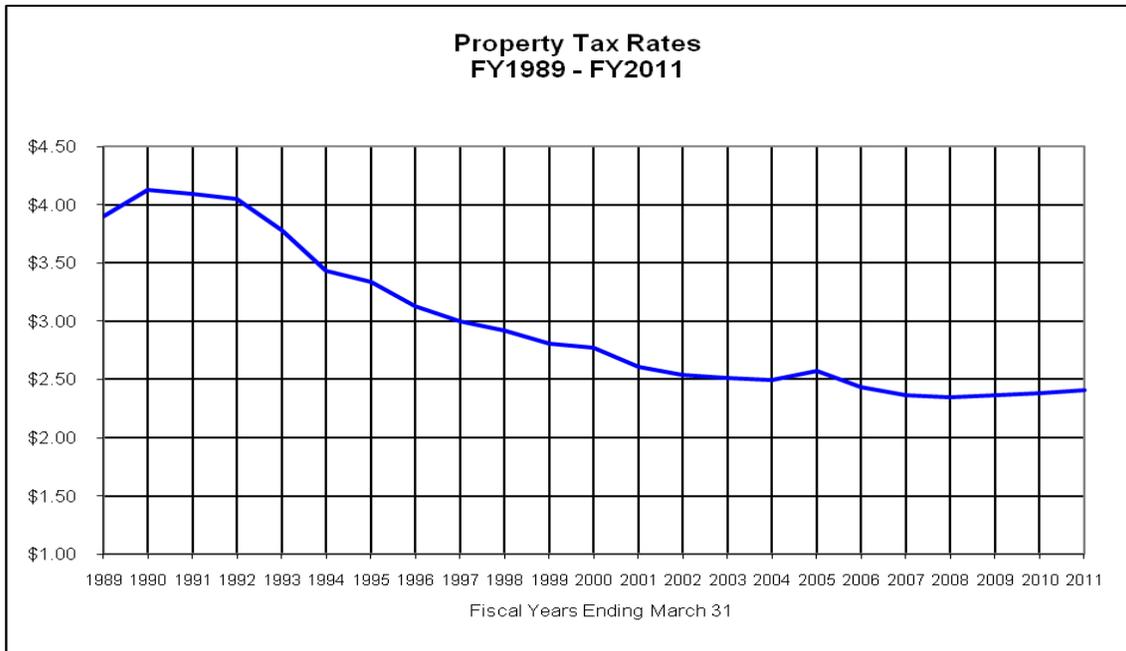
Property tax levy

Cost increases have created pressure to increase the property tax levy. These increases are primarily attributed to payroll related costs, library operations and park operations. The following charts illustrate the cumulative percentage increases for these levies since 2001.

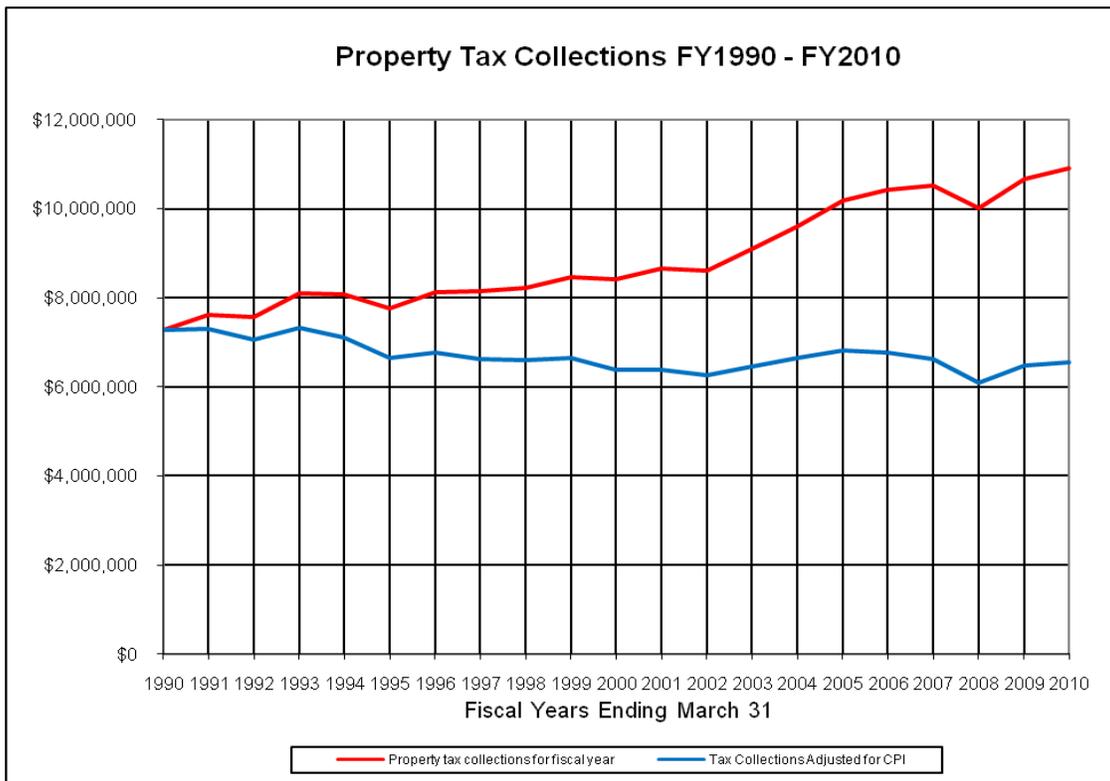


Increases in property values create corresponding decreases in the property tax rates. The following chart shows changes in the municipal property tax rate for property taxes collected in fiscal years since 1989. It shows that the City of Rock Island has made a consistent effort to control the property tax levy through levy decreases, no changes in the levy and modest levy increases. Property tax rates peaked in 1990 at \$4.13. The property tax rate will have declined

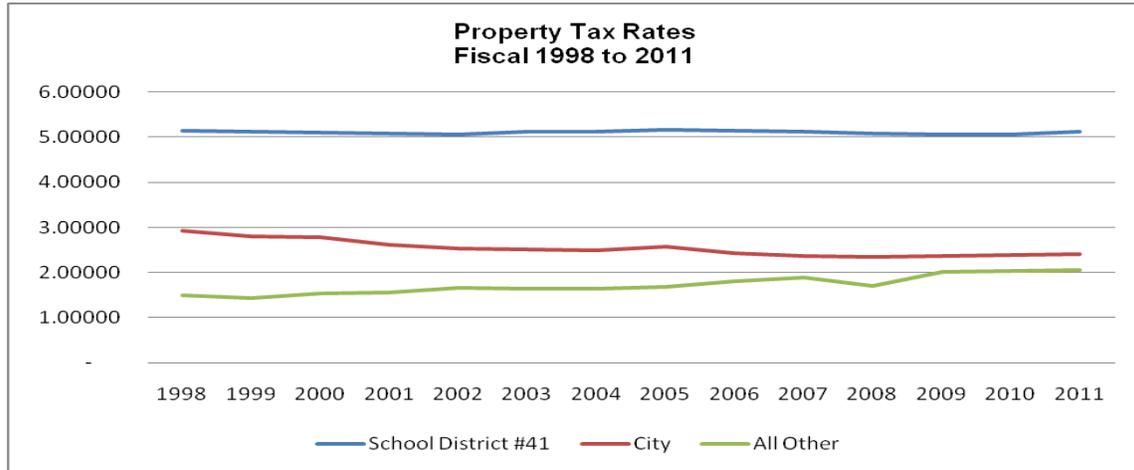
42% from that peak with adoption of the proposed levy.



The effort to lower property tax rates has reduced the property tax levy in constant dollars. Put another way, the property tax levy has not kept up with inflation. The amount of property tax that the City receives has declined in constant dollars. This decline is illustrated in the following chart.



The next chart compares city property tax rates to property tax rates for Rock Island/Milan School District #41 and the total of all property tax rates for all other taxing districts. The chart shows that the city has made a consistent effort to control the tax levy and reduce the property tax rate. Rock Island/Milan School District #41 continues to have the greatest share of the total city property tax rate and levy. The municipal portion of the total city property tax levy was 42% in fiscal 1991. It was 25% last year.



The proposed property tax levy increase will generate \$145,968 in additional revenue. The property tax rate will not change from \$2.4092 per \$100 of equalized assessed valuation.

Owners of a home with a \$100,000 market value (\$33,333 assessed value) can expect to see approximately \$10 increase in their property tax bill if their property value increases by the city average of 1.28%.

The city fiscal year begins April 1. The property tax levy must be passed in December. The levy increase can be decreased until March if it is determined that less is needed. This city has done this in past years.

Assumptions:		Tax			
Total Increase	1.28%	extension for	Proposed		
Park % increase	2.00%	collections in	levy		Percent
Library % increase	2.00%	FY 2012	Dec. 2011	Difference	Change
General fund		3,253,266	3,334,026	80,760	2.48%
Police Pension		2,152,480	2,170,664	18,184	0.84%
Firefighter's Pension		2,006,149	1,978,545	-27,604	-1.38%
Total General Fund		7,411,895	7,483,235	71,340	2.21%

Library		1,969,330	2,008,717	39,387	2.00%
Park		883,284	900,950	17,666	2.00%
		868,910	886,288	17,378	2.00%
Public Benefit		238,850	239,047	197	0.08%
Total		11,372,269	11,518,237	145,968	1.28%
Projected EAV		472,035,055	478,093,852	6,058,797	1.28%
Tax rate		2.4092	2.4092	-	0.00%

Recommendation:

Council confirm that a public hearing on the December property tax will not be needed because the levy increase will not exceed five percent.

Submitted by: Linda Johnson, Accounting Supervisor

Donald Reichert, Interim Finance Director

Approved: Thomas E. Thomas, City Manager