ILLINOIS TAX FACTS

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The Seven Percent Solution Falls Victim to the Real Estate Crash

By Sonia Vasdev and Mike Klemens

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Mike Klemens who retired last year as Manager of Policy and Communications with the Illinois Department of Revenue, does tax policy research for the Taxpayers' Federation of Illinois.

Cook County homeowners are seeing their property values go down and their tax bills go up – the latest twist in the complex and confusing world of Cook County property taxation.

To a Cook County homeowner the result is shocking. Homeowners are seeing an unprecedented decline in the value of their homes – a loss over which they have no control and which affects the financial future of many. At the same time homeowners are seeing large increases in the amount of their property tax bill.

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NOTES FROM THE INSIDE. . .

By Carol S. Portman

This edition of Tax Facts looks at the property tax break for some Cook County homeowners that was sometimes call the "7 Percent Solution", and its premature demise. The article could very well be entitled *Beware of Unintended Consequences.* Many Cook County taxpayers have been angered to see their property bills rising, while their home values are falling. Some have suggested that limitations put in the AGHE by the legislature caused some homeowners' taxes to increase, but this is not the case. The article makes clear what is really happening.

What the AGHE did do – for select property owners – was to break the tie between a property's value and the amount of taxes its owner paid. It broke that tie in such a way that when property values crashed – something unforeseen at the time of enactment – the tax relief evaporated.

Perhaps the lesson here is that we need to be careful when we stray from sound tax policy and enact tax relief that shifts tax burden from certain taxpayers onto others. Sound tax policy provides solutions that stand the test of time and do not unravel like the 7 Percent Solution.

Also in this issue is an excerpt from a series of articles written by Doug Whitley, president of the State Chamber of Commerce and a former President of TFI and Illinois Revenue Director, urging cooperation between the public and private sectors to get Illinois' economy moving again.

Here's what happened last year (2011 property taxes paid in 2012) to a home valued at $200,000 in 2003, before the boom and bust:

- A Palatine homeowner would have seen his/her taxable value drop from $91,000 to $82,000, while the tax bill increased from $5,500 to $6,600.
- An Orland Park homeowner would have seen his/ her taxable value drop from $92,000 to $70,000, while the tax bill increased from $5,000 to $6,150.
- A Chicago homeowner would have seen his/her taxable value drop from $125,000 to $113,000, while the tax bill increased from $5,400 to $5,500.

When homeowners ask "Why?" the finger is pointed at the state multiplier, at the state Legislature, or at the expiration of the law in Chicago for 2012.

The reality is that the mechanism created during the booming housing market to ease the burden on (some) homeowners – the Alternative General Homestead Exemption (the AGHE best known as the "7 percent solution") has operated as drafted, though not as foreseen. The AGHE allowed no more than 7 percent annual growth in taxable value and that 7 percent growth has now caught up with the "true" taxable value that has declined sharply since 2009. When that happened the AGHE disappeared.

This is the story of the "Vanishing Exemption."

A HISTORY OF THE AGHE

The AGHE (nicknamed the 7 Percent Solution) was instituted for the 2003 tax year in Chicago (Triad 1), for the 2004 tax year in north suburban Cook County (Triad 2) and for the 2005 tax year in south suburban Cook County (Triad 3). It was twice extended and expires in 2012 in Chicago, 2013 in the north suburbs, and 2014 in the south suburbs. The law was passed during the real estate boom, when property values were soaring. All counties were given the option to enact the AGHE, but only Cook County did so.

Under the AGHE the assessor continued to assess properties at market value, but the value upon which taxes were paid was limited to 7 percent growth over the previous year. This was accomplished by calculating an AGHE that would reduce the taxable value to the 7 percent annual growth. The AGHE had a statutory minimum of the current regular Homestead Exemption (currently $6,000) and a maximum that varied over the life of the program.

As the program was constructed, it impacted each property differently and the assessor had to calculate the AGHE for each parcel. Because the program did not reduce total taxes imposed, it resulted in a shift in taxes from AGHE-eligible properties onto those that were not eligible. Many homeowners paid less, but some paid higher taxes as did all commercial and industrial property owners. Tax rates were 4.1 to 6.6 percent higher than they would have been without the AGHE, again depending on the composition of the tax base. Generally, the largest savings were for properties with market values of about $400,000 (the 80th percentile).

It is worth noting that the AGHE that was supposed to slow the growth in taxes ended up reducing a homeowner's taxes in the first year (the year that a homeowner would typically see the largest tax increase) in each of our examples. In other words, the program that was supposed to ease the property tax hit on each property ended up overshooting its mark and actually reducing property taxes.

In the north and south triads, which have been reassessed since the real estate values tumbled, the seven percent annual growth has caught up with the assessed value, and the AGHE has vanished before the law expired there with 2014 and 2014 tax bills. In Chicago the vanishing coincides with the expiration of the law with the 2012 tax bills that Chicagoans will pay later this year.

The homeowner's view

The clearest way to see what is happening is with examples – in this case a hypothetical home in each triad of Cook County valued at $200,000 (the countywide median for 2003). These examples assume that:

- the properties were assessed at 10 per-cent of market value,
- each property received the average residential reassessment by the Cook County Assessor each year, and
- none of the property owners challenged his/her assessment.

The examples take into effect the state multiplier and calculate the amount of the AGHE that a property would receive and then apply the tax rates for Village of Palatine in Triad 2, Village of Orland Park in Triad 3, and City of Chicago in Triad 1.

The calculations appear in Tables 1, 2, and 3.

What the homeowner doesn't see

The Cook County homeowner trying to understand how his/her tax bill is going up while his property value is declining gets no insight from looking at his/her tax bill. The amount of the AGHE does not appear on their bills, only the tax savings associated with it. To see how the AGHE is vanishing, a Cook homeowner needs to look at consecutive years' tax bills, dividing the savings shown on the bill by the total tax rate in order to see the value of the AGHE and determine how it is declining.

The countywide view – actual numbers and amount of AGHE

Countywide, both the number of homeowners receiving an AGHE greater than the minimum, since the program was fully phased in in 2005, first grew through 2007, then held more or less steady, and then tumbled precipitously in 2010 and 2011. More than three quarters of the remaining AGHE exemptions are in Chicago (Triad 1).

YEAR	NUMBER	TOTAL $ VALUE
2005	781,288	$8,251,660,431
2006	803,499	11,695,825,234
2007	780,139	12,519,923,865
2008	776,015	11,686,560,746
2009	753,681	9,420,718,662
2010	561,511	4,919,584,303
2011	218,840	1,135,095,471

Countywide impact viewed by Triad

Because the amount of the AGHE above the minimum $6,000 homestead exemption has to be backed out of state school aid calculations – a provision designed to prevent additional state school aid from being diverted to Cook County schools – the value of the AGHE must be reported by school district. This can be seen by looking at the largest school district in each triad: Township High School District 211 (Palatine) in Triad 2, Consolidated High School District 230 (Orland Park) in Triad 3, and Chicago Public School District 299 in Triad 1.

Continued on page 6

TABLE 1. CITY OF CHICAGO (Triad 1)										
YEAR	REASSESSMENT	ASSESSED VALUE	EQUALIZATION FACTOR	EAV	7% LIMIT	CALCULATED AGHE	STATUTORY MAXIMUM	TAXABLE VALUE	TAX RATE	TAX BILL
2002		$20,000	2.4689	$49,378	$44,878	$4,500		$44,878	7.277	$3,266
2003	37	27,400	2.4598	67,399	48,019	19,379	20,000	48,019	6.433	3,089
2004	1.65	27,852	2.5757	71,739	51,381	20,358	20,000	51,739	6.28	3,249
2005	1.74	28,337	2.7320	77,416	54,977	22,438	20,000	57,416	5.981	3,434
2006	36.69	38,733	2.7076	104,875	58,826	46,049	33,000	71,875	5.302	3,811
2007	1.97	39,497	2.8439	112,324	62,944	49,380	26,000	86,324	4.994	4,311
2008		39,497	2.9786	117,644	67,350	50,295	20,000	97,644	4.816	4,703
2009	-4.15	37,857	3.3701	127,583	72,064	55,519	20,000	107,583	4.627	4,978
2010	0.16	37,918	3.3000	125,129	77,109	48,021	16,000	109,129	4.931	5,381
2011		37,918	2.9706	112,639	82,506	30,133	12,000	100,639	5.455	5,490

Source: TFI calculations from Department of Revenue data

TABLE 2. VILLAGE OF PALATINE (Triad 2)										
YEAR	REASSESSMENT	ASSESSED VALUE	EQUALIZATION FACTOR	EAV	7% LIMIT	CALCULATED AGHE	STATUTORY MAXIMUM	TAXABLE VALUE	TAX RATE	TAX BILL
2003		$20,000	2.4598	$49,196	$44,696	$4,500		44,696	8.993	$4,020
2004	30.47	26,094	2.5757	67,210	47,825	19,386	20,000	47,825	8.289	3,964
2005		26,094	2.7320	71,289	51,172	20,116	20,000	51,289	8.107	4,158
2006		26,094	2.7076	70,652	54,755	15,898	20,000	54,755	8.090	4,430
2007	29.5	33,792	2.8439	96,100	58,587	37,513	33,000	63,100	7.158	4,517
2008		33,792	2.9786	100,652	62,688	37,964	26,000	74,652	6.974	5,206
2009	-8	31,088	3.3701	104,771	67,077	37,694	20,000	84,771	6.836	5,795
2010	-11.5	27,513	3.3000	90,794	71,772	19,022	20,000	71,772	7.666	5,502
2011		27,513	2.9706	81,731	76,796	4,935	16,000	75,731	8.629	6,535

Source: TFI calculations from Department of Revenue data

TABLE 3. VILLAGE OF ORLAND PARK (TRIAD 3)										
YEAR	REASSESSMENT	ASSESSED VALUE	EQUALIZATION FACTOR	EAV	7% LIMIT	CALCULATED AGHE	STATUTORY MAXIMUM	TAXABLE VALUE	TAX RATE	TAX BILL
2004		$20,000	2.5757	$51,514	$46,514	$5,000		$46,514	8.463	$3,936
2005	28.91	25,782	2.7320	70,436	49,770	20,666	20,000	50,436	7.629	3,848
2006		25,782	2.7076	69,807	53,254	16,553	20,000	53,254	7.589	4,041
2007		25,782	2.8439	73,321	56,982	16,340	20,000	56,982	7.293	4,156
2008	16.29	29,982	2.9786	89,304	60,970	28,334	33,000	60,970	6.804	4,148
2009	-6.63	27,994	3.3701	94,343	65,238	29,105	26,000	68,343	6.708	4,584
2010		27,994	3.3000	92,380	69,805	22,576	20,000	72,380	6.969	5,044
2011	-16.1	23,487	2.9706	69,771	74,691	-4,921	20,000	63,771	8.238	5,253

Source: TFI calculations from Department of Revenue data

AGHE exemptions above minimum, by school district

District		2008	2009	2010	2011
Palatine	number	50,704	46,240	30,639	5,556
Triad 2	$ amount	$829 m	$572 m	$240 m	$26 m
Orland Park	number	40,579	39,066	30,316	1,615
Triad 3	$ amount	$767 m	$636 m	$332 m	$10.5 m
Chicago	number	264,845	272,076	216,453	169,576
Triad 1	$ amount	$3,417 m	$3,261 m	$1,862 m	$852 m

Continued from page 4

For homeowners in the Palatine and Orland Park school districts, the AGHE has already vanished. The number of taxpayers receiving an extra benefit in the Palatine district fell from 50,704 to 5,556 and the amount of the exemption fell from $829 million to $26 million. The number of taxpayers receiving an extra benefit in the Orland Park district fell even more steeply, from 40,579 to 1,615 and the amount of the exemption fell from $767 million to $10.5 million. From these examples, the AGHE has largely vanished already in Triads 2 and 3.

In Chicago (Triad 1) the exemption declined significantly between 2008 and 2011, dropping by 75 percent from $3.4 billion to $852 million, but had not yet vanished in 2012, when the law expired. If the AGHE had been renewed, with the 2012 reassessments (taxes paid in 2013) Chicago homeowners would have seen their AGHE benefits vanish, just like their suburban neighbors.

One More Twist

There is yet one more twist to come. The AGHE contains a provision that in the year after the AGHE no longer applies, homeowners whose household income is $30,000 or less, get a one-time $5,000 additional exemption. That means that in our Orland Park example the AGHE “vanished” for 2011 taxes payable in 2012. It will stay vanished for taxes payable in 2013 and 2014, and then reappear for the taxes payable in 2015, and then vanish again. For a Chicago homeowner who was not among the 100,000 whose AGHE has already vanished, the provision will work more as intended, and may extend the AGHE for some lower income homeowners one more year.

Tax shifts and losers

In looking at the effect of the AGHE what matters for the homeowner is the size of his/her property tax bill, which depends both on the taxable value of his property and the tax rate paid.

A 2006 study conducted by the University of Illinois' Institute for Government and Public Affairs (IGPA), ***The Economic Effects of the 7% Assessment Cap in Cook County*** observed that: "In the case of the expanded homestead exemption, the reduction in taxes for eligible homeowners is paid for by an increase in taxes for other taxpayers." That study found that tax rates were from 4.1 to 6.6 percent higher because of the AGHE. The IGPA study concluded that in 2006 – when the AGHE was fully phased in – 65 percent of homeowners paid less tax because of the AGHE and 35 percent of homeowners paid more tax. The study also documented shifts onto non-residential properties.

While homeowners whose AGHE is vanishing are trying to understand why their tax bills are rising, the other property owners who have seen their property taxes decline (or grow less quickly) do not understand what is happening or why their neighbors are upset.

Conclusion

The AGHE worked as was intended and held homeowners' property tax assessments to a 7 percent annual increase. The law accomplished its goal by providing an additional amount of homestead exemption to eligible properties sufficient (within certain limitations) to keep the annual rate of increase of taxable value to 7 percent. The downturn in the housing market has meant that the 7 percent annual growth allowed under the law has caught up with taxable value, so the exemption has largely vanished.

The effects of the vanishing exemption have already been felt by eligible homeowners in the north and south triads, and – had the law not expired – would have been felt in the City of Chicago when the 2012 reassessment is reflected on 2013 tax bills.

Taxpayers who benefited from the AGHE when it was implemented (65 percent of Cook County homeowners) are now seeing higher (and to them unexplainable) property tax increases; at the same time all other property owners (including 35 percent of homeowners) are seeing lower property tax bills.

Illinois Tax Facts

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Sometimes it is easier to see what's happening in a picture. Charts 1, 2, and 3 display the information for Tables 1, 2, and 3, but make it easier to see what happened.

- The blue line shows the Equalized Assessed Value (EAV) for each year, before the homestead exemption.
- The green line shows where EAV would go with the 7 percent annual limitation that was the heart of the bill.
- For each year, the distance between the blue and green lines is the property's calculated AGHE.
- Except – remember this is Cook County property tax so it's not simple – that there were different statutory maximums for the AGHE each year. Because of the maximums, in some years the AGHE could not be large enough to get the EAV all the way down to the green line. The red line shows the value of the property upon which taxes were paid, after statutory maximums in the law were applied.

What happened is pretty clear from Charts 1 – 3. From 2004 through 2009, while property values were increasing, the law worked as anticipated and the homeowner paid tax on lower value than he/she would have without the AGHE. Then with the assessment reductions in 2009 and 2010 and a declining multiplier, the difference between the blue and green lines (the value of the AGHE) declined and vanished in Triads 2 and 3.

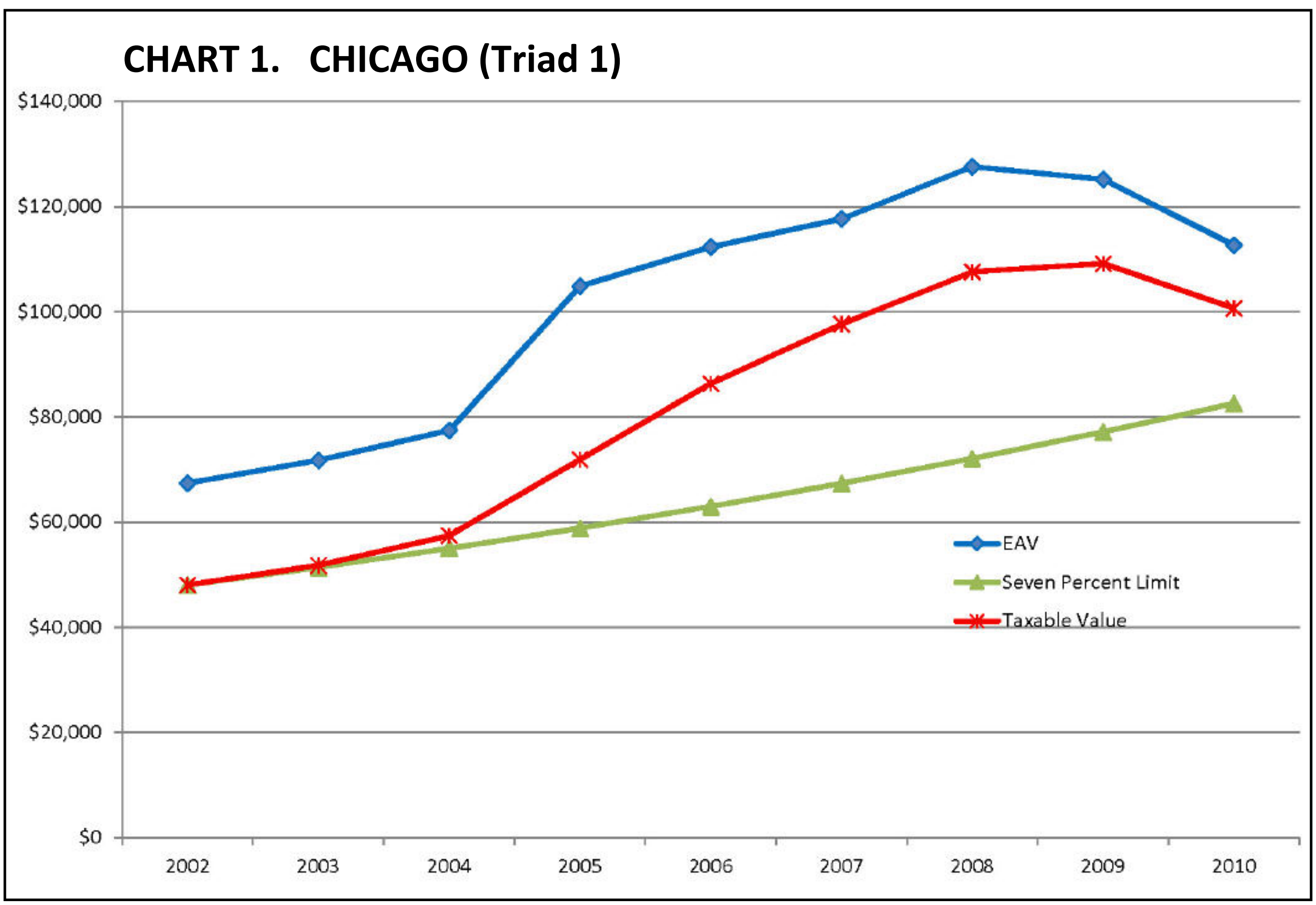


CHART 2. VILLAGE OF PALATINE (Triad 2)

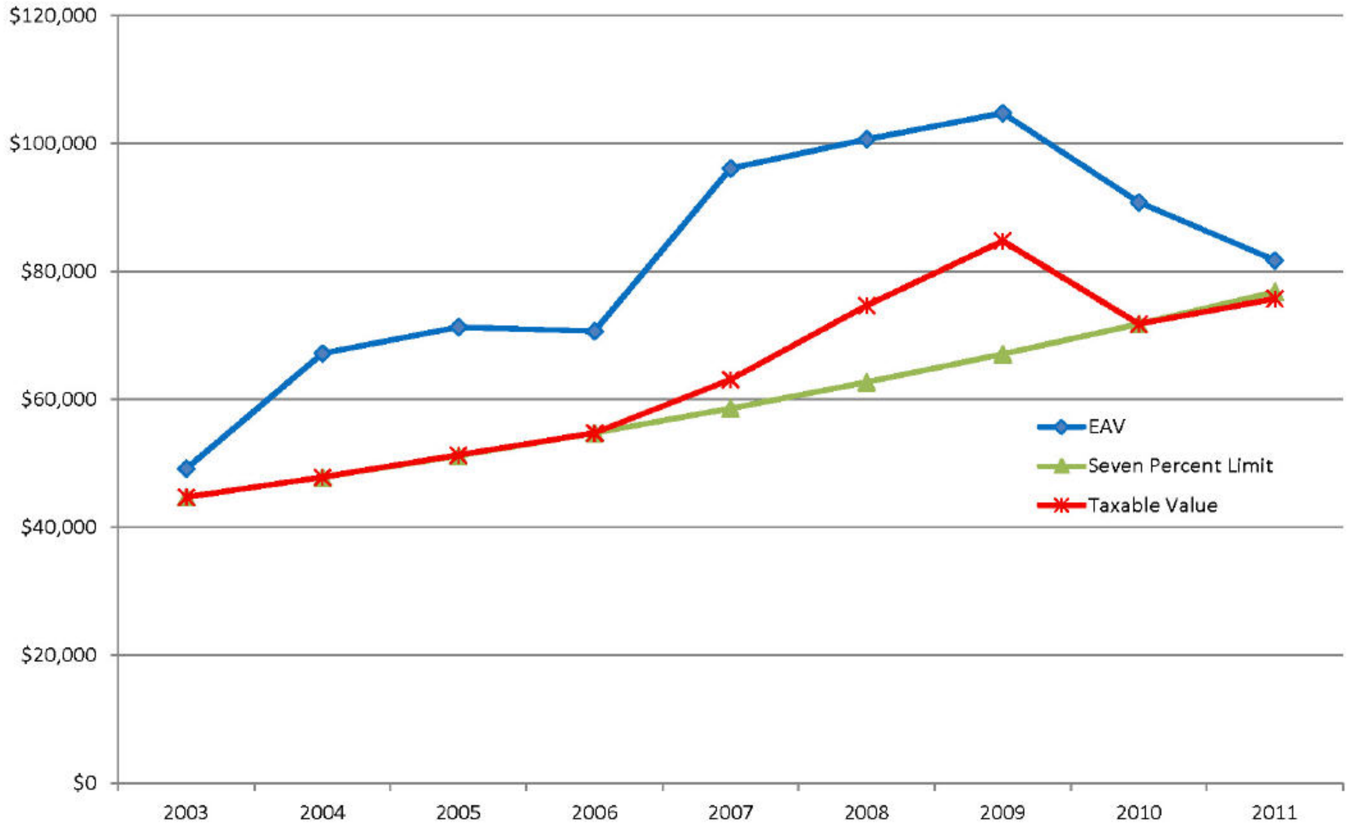
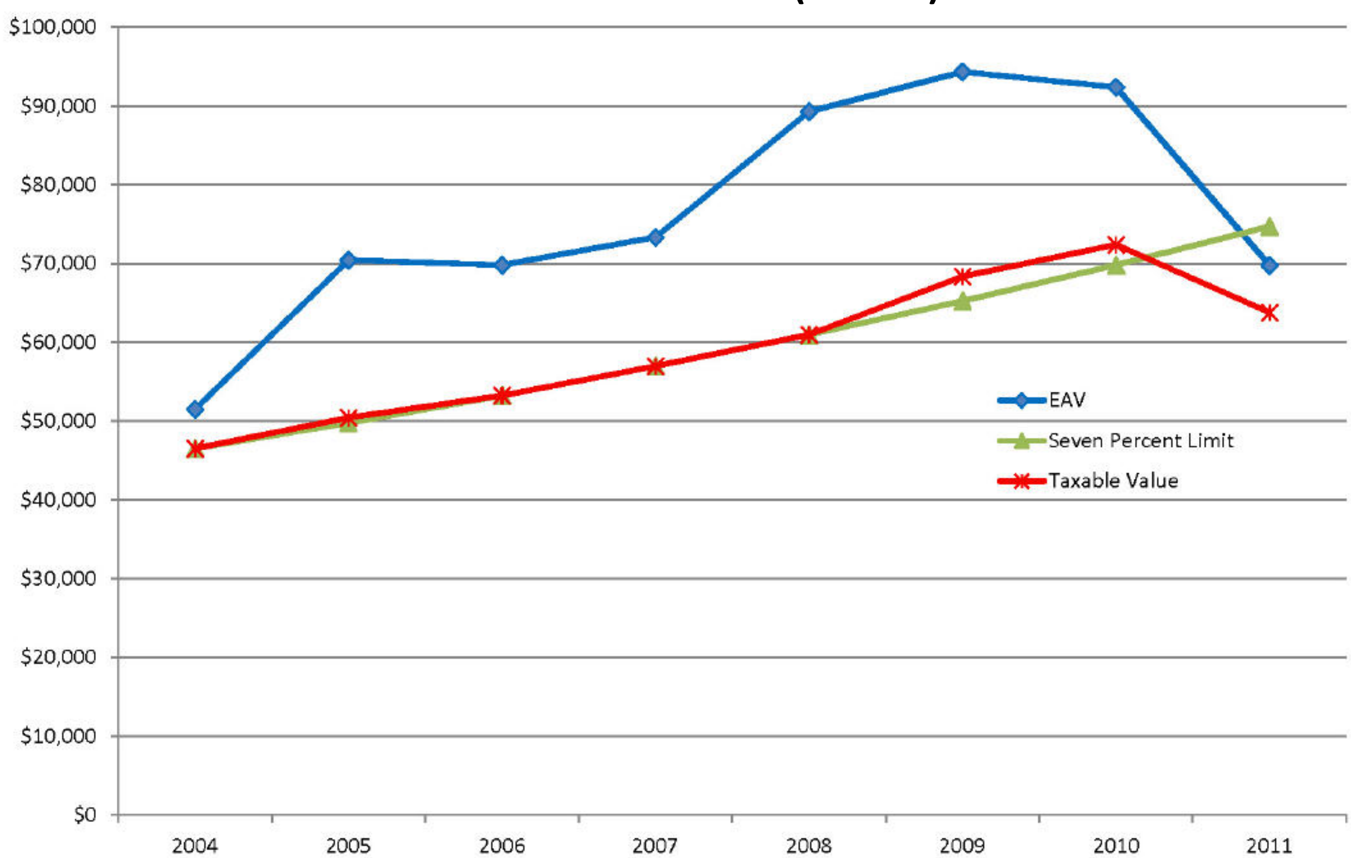


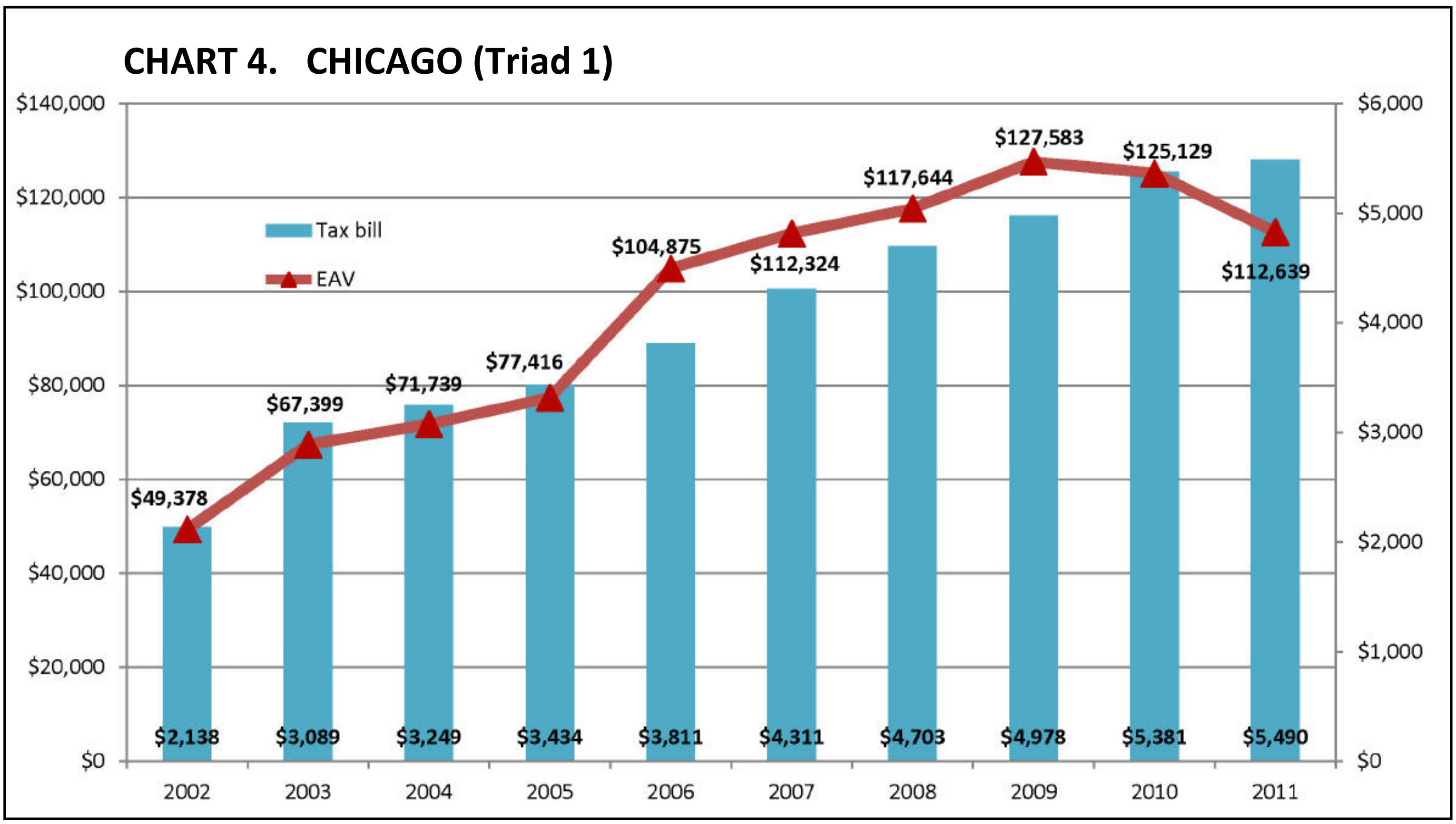
CHART 3. VILLAGE OF ORLAND PARK (Triad 3)



WHY HOMEOWNERS ARE MAD

The homeowner does see his tax bill increasing – a lot in these examples – at the same time that his property values are declining. Again this is most clearly seen visually in charts 4, 5, and 6, where the actual EAV (true value) appears as the red line graph and the amount of the tax bill appears as the blue bar. In each example as property values have fallen in the most recent years, the homeowner's property tax bill continues to rise.

As property tax values fall, property tax rates calculated by Cook County increase in order to meet the tax levy passed by the taxing districts. As the rates increase and the AGHE declines, the homeowner sees the property tax bill rise.



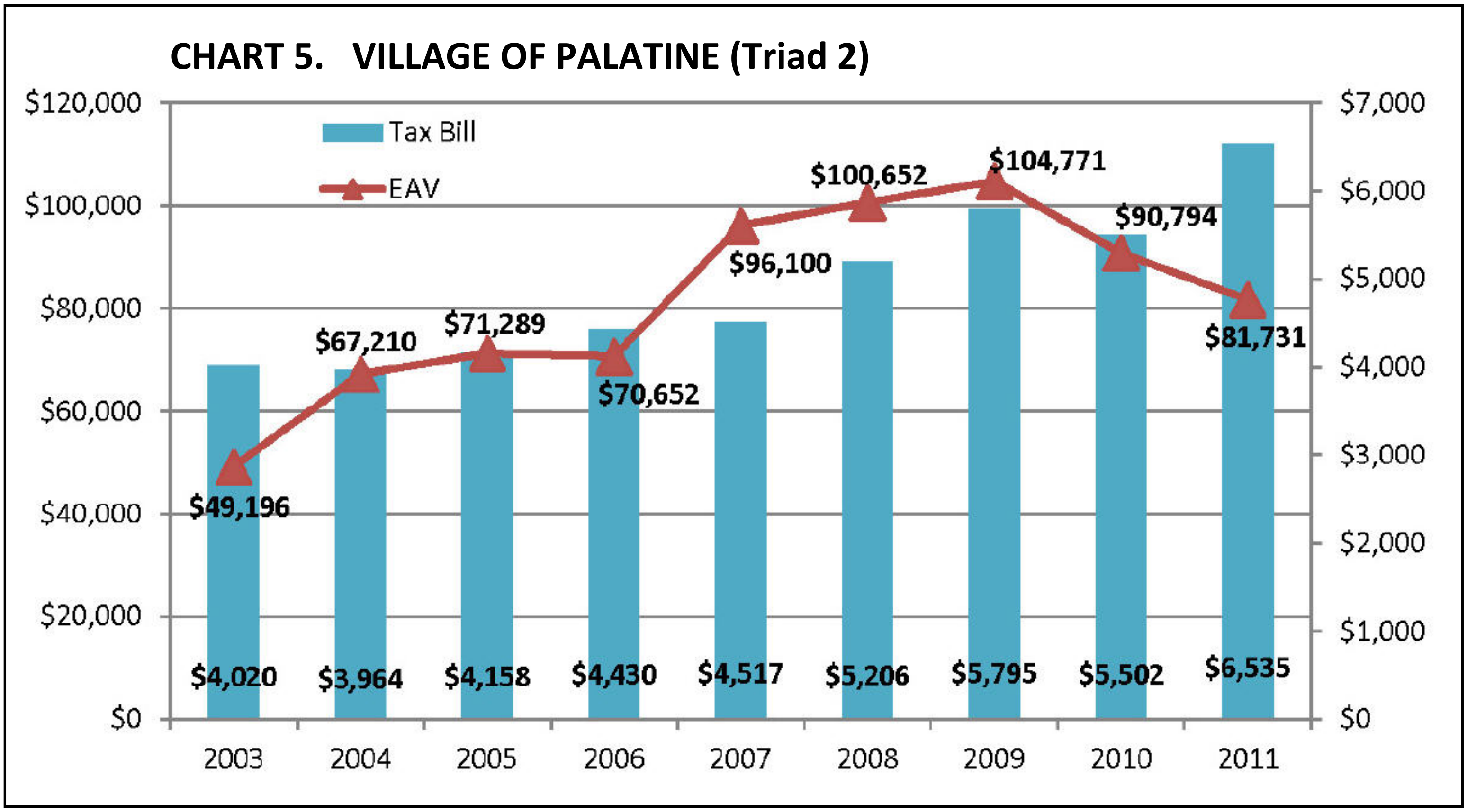


CHART 5. VILLAGE OF PALATINE (Triad 2)
Tax Bill
EAV
$120,000
$100,000
$80,000
$60,000
$40,000
$20,000
$0
$7,000
$6,000
$5,000
$4,000
$3,000
$2,000
$1,000
$0
$49,196
$67,210
$71,289
$70,652
$96,100
$100,652
$104,771
$90,794
$81,731
$4,020
$3,964
$4,158
$4,430
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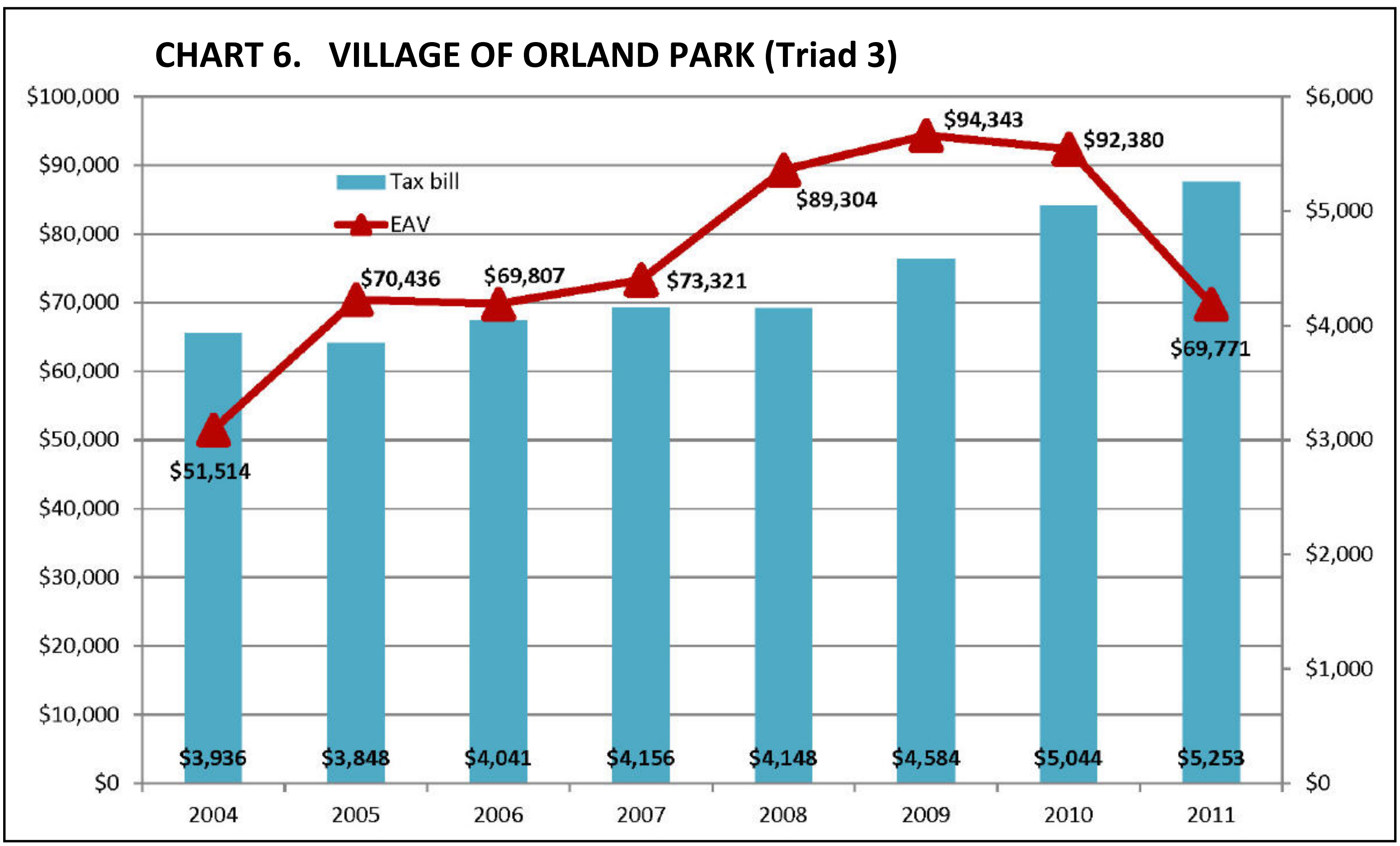
CHART 6. VILLAGE OF ORLAND PARK (Triad 3)
Tax bill
EAV
$100,000
$90,000
$80,000
$70,000
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$0
$6,000
$5,000
$4,000
$3,000
$2,000
$1,000
$0
$51,514
$70,436
$69,807
$73,321
$89,304
$94,343
$92,380
$69,771
$3,936
$3,848
$4,041
$4,156
$4,148
$4,584
$5,044
$5,253
2004
2005
2006
2007
2008
2009
2010
2011

Promote Economic Growth to Deal with Five Alarming Trends: A Proposal from Doug Whitley

By: Doug Whitley

Doug Whitley, President and CEO of the Illinois Chamber of Commerce and former president of the Taxpayers' Federation of Illinois and former Illinois Department of Revenue Director, has identified five demographic and economic trends that he says Illinois leaders need to recognize as they seek a solution to Illinois' fiscal woes.

What he labels "Five Alarming Trends" include:

1. ***Slowing population growth, below the national average. Whitley points out that between 2000 and 2010 Illinois' population increased 3.3 percent, well below that national average of 9.7 percent. All neighboring states saw a higher growth rate than did Illinois.***
   He also points out that within Illinois many rural areas are losing population and that only four counties saw significant population growth: Will, Kane, Kendall and McHenry.

2. ***Loss of jobs, citing among others a 2012 Brookings Institute study that pointed out that Illinois needed to create more than half a million new jobs to reach its prerecession level.***

   He also noted that between 1997 and 2012 manufacturing jobs declined 24 percent and between 2000 and 2012 construction jobs fell by 30 percent.

   Currently the work force (number of residents over the age of 16 who are working or eligible to work) is growing faster – even with the slow population growth – than the number of new jobs.

3. ***Aging population, following the national trend. Whitley says that the number of Illinoisans 60 and older is projected to increase from 2 million today to more than 3.6 million by 2030, a 77 percent increase so that one in five Illinoisans will be over 60.***

   The aging of the population will put increased demands on the state for services, particularly since 52 percent of seniors report they have no retirement savings beyond Social Security.

4. ***Rising poverty, again following the national trend. Whitley points out that a third of Illinois' population lives in or near poverty and that between 1989 and 2011 median family income – adjusted for inflation – has declined for all demographic groups,***

but most steeply for African American and Latinos.

5. ***Growing Tax Burden: Whitley poses the question of how Illinois will meet these demographic and economic changes with fewer people actively working.***

Whitley goes on to offer a solution – the encouragement of job growth in Illinois. This is excerpted from Whitley's solution.

These trends and the resulting problems – from depleted revenues to the public pension crisis – make it evident that Illinois must act in order to avoid a downward spiral of job losses and economic decay.

Some leaders believe the answer is to help Illinois residents by increasing taxes and providing more services. Others say we must make drastic, across-the-board cuts to stanch the fiscal bleeding. By pursuing policies that foster job creation, however, we can let the economy do much of the heavy lifting.

Imagine if we were able to close the "jobs gap" suggested by the Brookings Institute and add 500,000 more people to Illinois' workforce – the tax revenue and economic benefits generated would be tremendous.

Illinois' elected leaders need to come together and find a way to make that goal a reality. We cannot be complacent about small job growth numbers. If we continue on the current path, our businesses and residents will be taxed out of Illinois or will continue to look beyond our state for greener pastures and peace of mind.

We should establish a reputation as a state full of highly educated and hard-working people. Illinois should want to be recognized as a land of opportunity that will be a magnet for employers, job seekers, entrepreneurs, and innovators.

We need employers to stop asking, "Why does our government make it so hard to do business in Illinois?" and start attracting jobs, investments and human resources to our state. Without a robust economy and restored focus on fiscal responsibility, we won't be able to make needed public investments in areas such as quality education and infrastructure. It's a recipe for financial disaster and a horrific legacy to leave to younger generations.

Populist pandering by touting another increase in the minimum wage, asking publicly traded corporations to post their tax returns on the Internet, or raising taxes on Illinois businesses that engage in international trade is not business friendly and won't grow jobs.

Illinois needs a better program. One that opens doors, speeds response time, demonstrates support for private initiatives, provides leadership, gets results, works efficiently, and is generally dedicated to making things happen to encourage investments and job growth in Illinois. Success begets success. That is why we must address employers' needs, recognize achievements and create momentum that compels people to want to be a part of growth initiatives occurring in Illinois.

Creating a better business climate and promoting job opportunities for Illinois citizens should be a bi-partisan goal, because the results are in the best long-term interests of every Illinois voter, taxpayer, employer and family.

More than one-quarter of our state's residents are 18 years of age or younger. To help ensure a brighter future for them – and to make Illinois an attractive place for them to live and work – our priority must be to pursue policies that assure Illinois is dedicated to being a robust, job-making machine.

ILLINOIS GENERAL ASSEMBLY CALENDAR MAY 2013

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
			SESSION 1	SESSION 2	SESSION 3	4
5	SENATE PM SESSION 6	SESSION 7	SESSION 8	SESSION 9	SESSION Senate-Deadline HB out of Committee House-Deadline SB out of Committee 10	11
12	13	SESSION 14	SESSION 15	SESSION 16	SESSION 17	SENATE SESSION 18
SESSION 19	SESSION 20	SESSION 21	SESSION 22	SESSION 23	SESSION Senate-Deadline 3rd Reading HBs House-Deadline 3rd Reading SBs 24	HOUSE SESSION 25
HOUSE SESSION 26	SENATE PM SESSION HOUSE SESSION 27	SESSION 28	SESSION 29	SESSION 30	SESSION ADJOURNMENT 31	

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