

TAX FACTS



Taxpayers' Federation of Illinois

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The Cook County Property Tax Dilemma....

By J. Thomas Johnson

Tom Johnson has been President of the Taxpayers' Federation of Illinois since April 2006. He was a Partner at both KPMG LLP and Grant Thornton LLP specializing in state and local taxes. Prior to his 20 years in Public Accounting he served Illinois state government as Director of Local Government Affairs and then Director of the Illinois Department of Revenue.

The continual controversy surrounding the property tax burden of the homeowner in Cook County has taken an extraordinary amount of political space to search for solutions. I thought it would be appropriate that we place some sunlight on what we believe are important developments in Cook County that help explain the current situation. (For the record this author is a resident of Cook County and one who shares in that "tax burden" and is eligible for the general and alternative homestead exemption available to homeowners in the County.)

The primary sources of this "sunlight" are two different reports. One commissioned by the Illinois Tax Foundation, the research arm of the Taxpayers' Federation of Illinois, was authored by Ron Hagaman, formerly with the Illinois Department of Revenue's Property Tax Administration Bureau. Ron's study reviewed various Cook County property tax trends over the 20 year period 1985-2005. His full report can be accessed at <http://www.taxpayfedil.org/secure/reveal/admin/uploads/documents/RonHagamanBook.pdf>. The other report was the annual report "Estimated Full Value of Real Property in Cook County" prepared by The Civic Federation. The most recent edition was issued in September, 2008 and presented full value trends between 1997-2006. It can be accessed at http://www.civicfed.org/articles/civicfed_276.pdf

INSIDE THIS ISSUE

Notes from the inside	2
Effective Tax Rates	5
Spring Symposium	8

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NOTES FROM THE INSIDE . . .

By J. Thomas Johnson

This issue of Tax Facts is devoted to two separate property tax articles. The first attempts to place more sunlight on the reasons for the shifting property tax burden in Cook County. Since Cook County is the only county in the state that classifies for property tax purposes there is more information available as to the burden each class of property bears of the total burden and how that changes overtime. What is less understood are the forces that cause this burden shift. Hopefully this article puts another perspective on that reality. Although I authored this article I want to thank Ron Hagaman for his work on this subject that he completed for the Illinois Tax Foundation and Laurence Msall and Lise Valentine of the Civic Federation for the work they do each year reporting on and evaluating the trends in the Cook County property tax base. There is not as much attention focused on this issue in other counties, because the commercial and industrial base is a much smaller percentage of the total value in both suburban and downstate counties.

The second article reports the findings of our most recent Property Tax Effective Tax Rate Study. As you can tell the effective rates on residential property have continued to fall in many communities, exceptions are noted. In many cases where rates have fallen it has largely been impacted by the effect of the Property Tax Extension Limitation Law (PTELL). We will be reporting on the history of the development of PTELL in a future edition of Tax Facts. This analysis is based on property tax payments in 2006 based on values in 2005. (It takes far too long to obtain property tax data due to the length of our Illinois property tax cycle.) Obviously, recent reductions in home values will not be reflected in our analysis until the property tax bills are issued in 2009 and 2010.

The Cook County Property Tax system is unlike any of the other counties in the State of Illinois because the County has exercised its authority under the Illinois Constitution to adopt a classification system. This system allows the county to value different classes of property at different levels. The constitution limits the class differentials to no more than 2 1/2 to 1. In other words the highest class cannot be assessed at more than 250% of the level of the lowest class. The classification system does in this case identify residential property as the favored class and commercial and industrial property as the class to which the burden is shifted. (I doubt if you would ever find a classification system that was designed to do the opposite, i.e. shift the burden to the homeowner residential class.)

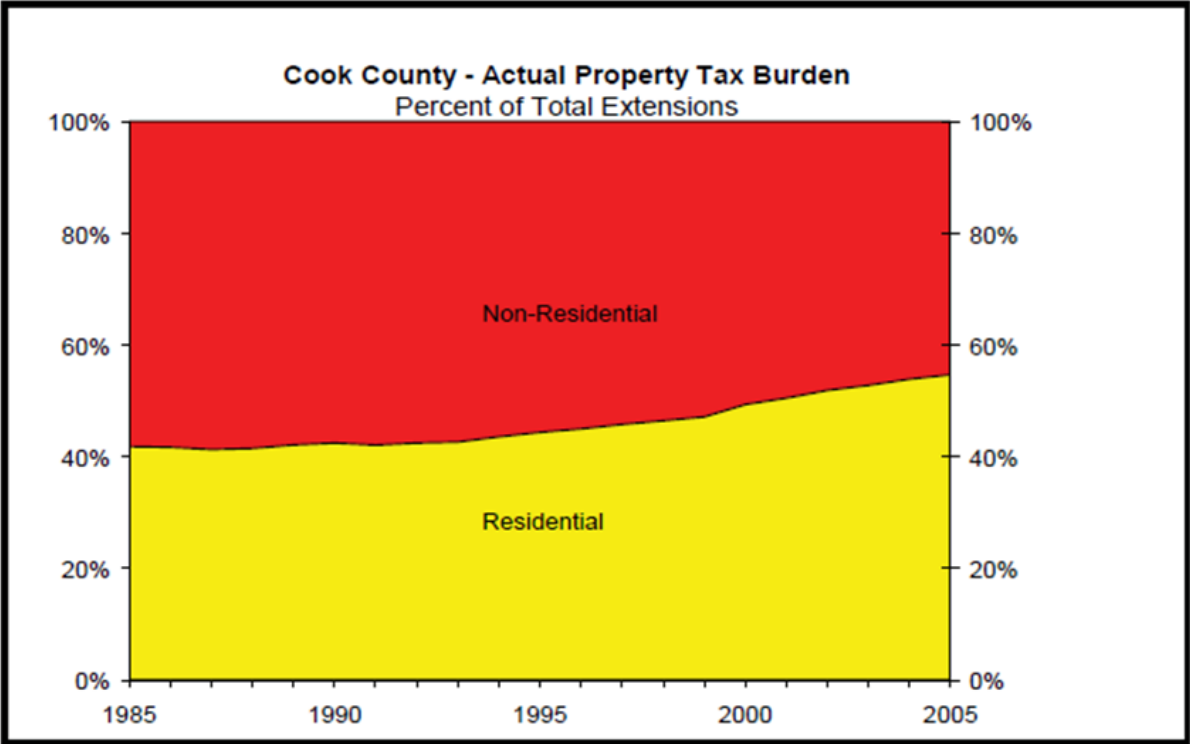
Although any county with a population of 200,000 or more is permitted to adopt a classification system under Illinois' Constitution, only Cook County has done so for one simple reason. For a classification system to work, i.e., to give enough relief to the favored homeowner class to make it worthwhile, you need enough value in the other unfavored classes to shift the tax burden to. No other county in Illinois has enough commercial/industrial or other non-residential value to make a classification system work. In other words, the residential value is such a large portion of all other counties' value that a "little" homeowner relief would put a prohibitive burden on the commercial/industrial class.

In a classification system the % of the overall tax burden that any class represents of the total will stay constant only if its % of the tax base remains constant. If it's % of the base changes over time then its % of the tax burden will correspondingly change. One of the dangers of a classification system is that if the portion of the total base that the 'burdened' class represents starts to decline then there is seemingly a more pronounced impact on the favored class as this change is reflected in the tax base. More impact, more controversy.

There is no argument that the burden shift that the classification system was designed to produce has started to erode. The tax burden the residential

class bears of the total burden has increased over time. The graph to the right reflects the change in the burden between 1985 and 2005.

The question is why has this occurred. The immediate assumption is that there has been more inflation in the residential housing market during this 20 year period than in the other classes, especially in the last ten years. (We note that this graph does not reflect the most recent downturn in the housing market, largely due to the fact that property taxes paid in Cook County is based on values determined as much as 22 months prior to the final payment date.) However, the Civic Federation’s Study suggests there must be other reasons. The chart below reflects that the % of Cook



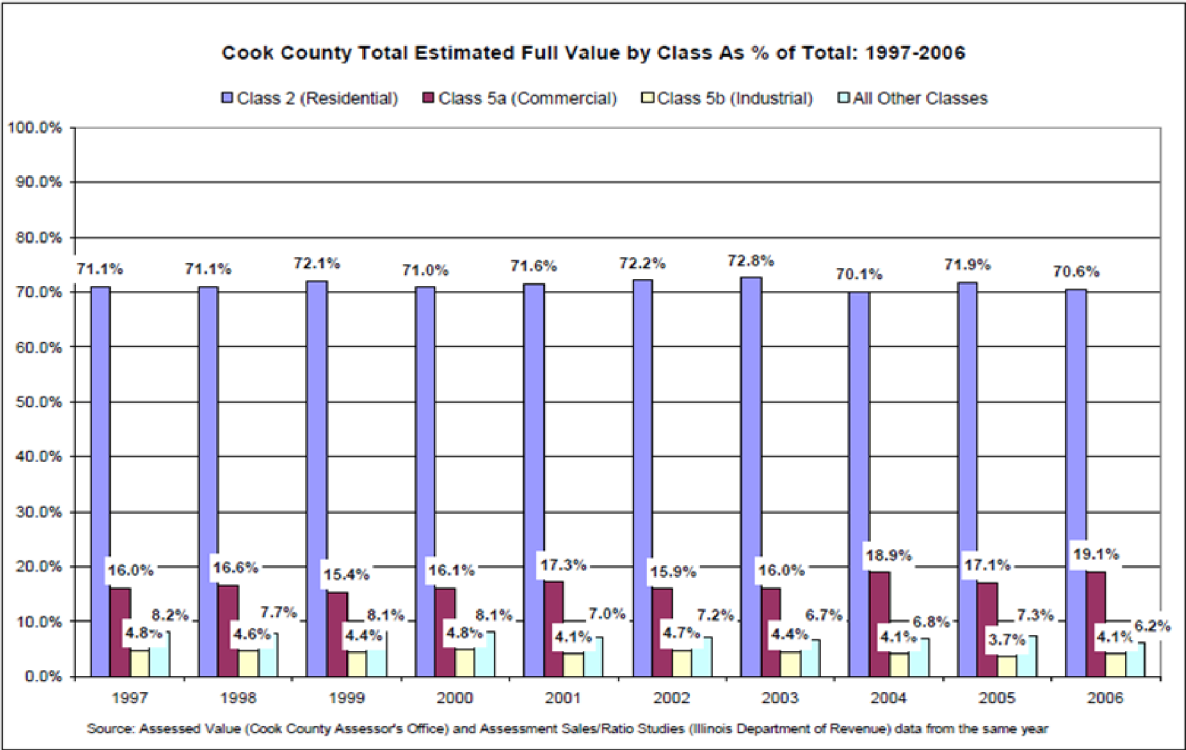
Source: Trends Affecting the Property Tax Burden; authored by Ron Hagaman; May 2008

County’s full value that is represented by residential property has remained relatively constant over this 10 year period while the burden shift reported earlier has occurred.

There have been variations among the other classes, in fact the commercial property full values have increased most dramatically from 16% of the

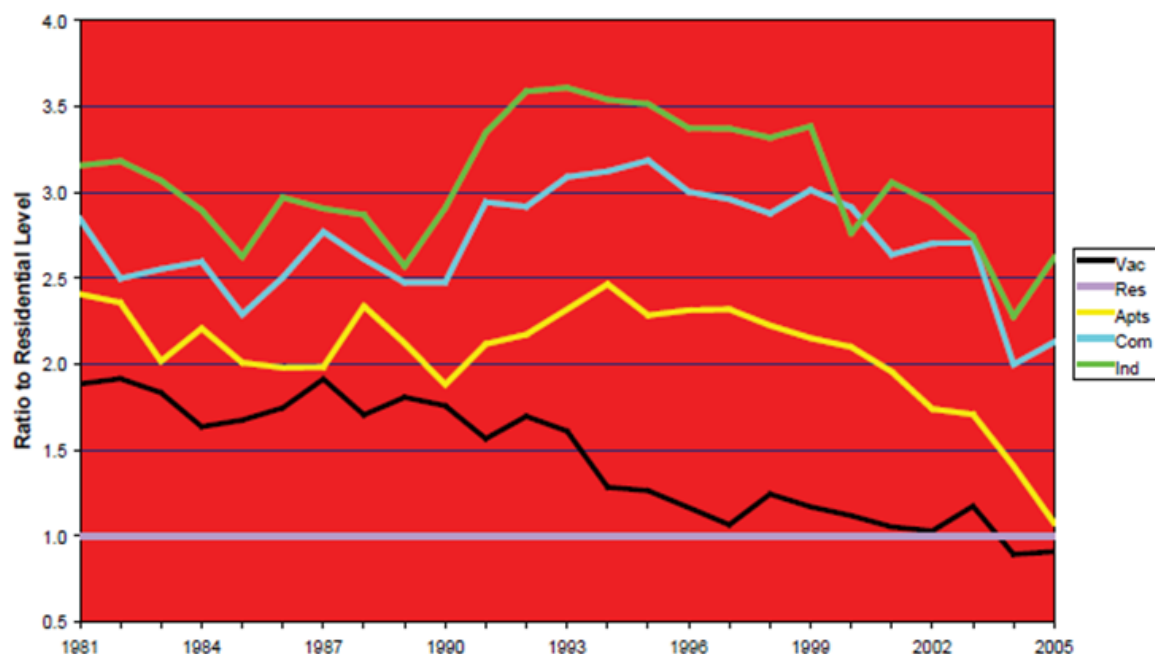
county’s total value to 19% (a 20% increase in share). So what could be the cause? There are two primary reasons in our opinion.

First, although the Constitution limits the differential in class assessment levels to be no more than 250%, the Cook county actual assessment levels had reached a differential of 360% in the early 1990’s according to the sales ratio studies



Source: Assessed Value (Cook County Assessor's Office) and Assessment Sales/Ratio Studies (Illinois Department of Revenue) data from the same year

Cook County - Ratio of Adjusted Single-Year Level of Assessments of All Classes to Adjusted Single-Year Level of Residential Class



Source: Trends Affecting the Property Tax Burden; authored by Ron Hagaman; May 2008

Residential parcels now represent 84% of total parcels up from 81%. The chart below depicts this shift in parcel count.

Some of the change in parcel count was due to a reclassification of certain parcels in 2000 out of the apartment class into the residential class, but the reclassification of value occurred as well. Obviously, the value of each parcel varies dramatically not only between different residential properties

annually reported by the Illinois Department of Revenue.

In the past decade assessment levels for commercial and industrial property have fallen to within the permitted differential. The chart above excerpted from the Hagaman report reflects this relationship. As assessment levels fall in one class there is a shift in burden to the other classes. One could appropriately argue that what had transpired in the late 80's and early 90's was in fact an extraordinary shift of the burden inappropriately in the first place to commercial/industrial, now finally corrected.

The second reason that may contribute to the shifting burden is the growth in the number of residential real estate parcels and the decline in the number of commercial/industrial parcels. During the period between 1995 and 2006 the change in parcel count make up was significant.

but certainly between the average value of residential versus commercial property, however the trend may help explain the shifting burden.

It appears that the change in tax burden has been more impacted by the change in the overall distribution of property type in the County as well as an effort to reduce the overburdened commercial

and industrial class rather than the presumed differential in residential inflation levels.

It will be interesting to see

how the property tax burden is distributed in the future with the changes that have recently occurred in the residential market.

Cook County Number of Parcels				
	1995	2006	# Change	% Change
Residential	1,263,000	1,491,000	+228,000	18%
Commercial/ Industrial	102,000	94,000	-8,000	-8%

Effective Tax Rates for 60 Illinois Communities

By J. Thomas Johnson

A home's effective property tax rate is the percentage of home value paid in property taxes on an annual basis. The Illinois Tax Foundation, in association with the Taxpayers' Federation of Illinois, is pleased to release its effective tax rate calculations for eighty-nine communities throughout Illinois for property taxes paid in 2006. This is the most recent data available. Most counties provide the data to the Illinois Department of Revenue about a year after taxes are paid, and Cook County data is often not available until several months later.

In the past we had data available for 60 communities and have updated our analysis for those and 29 additional communities where data is now available.

The calculation of an effective property tax rate for a community requires the following data analysis:

Step 1 – Obtain the adjusted median level of assessment for residential property for the township

in which the community is located from the Department of Revenue.

Step 2 – Multiply this value by the county's "multiplier" to determine the community's equalized assessment level for residential property. The Department of Revenue assigns a multiplier to each county to equalize assessments across the state, correcting for variations from the required median level of 33 1/3%. When assessments in a county do not need to be adjusted, the county is given a multiplier of 1.

To determine the effective tax rate for your property, divide your total property tax bill by the property's fair cash value as of January 1st of the tax year.

Total Property Tax Bill
Fair cash value of Property (on January 1st of Tax Year) = **Effective Tax Rate**

Step 3 – Subtract the standard homestead exemption from the equalized assessed valuation in all counties other than Cook. In Cook

County, the median alternative homestead exemption for the appropriate triad is used for the first time. Our last study was for property taxes paid in 2003 prior to the existence of the Cook County alternative homestead exemption. The result of this calculation is the adjusted equalized assessment level.

Step 4 – Obtain the community's aggregate tax rate. This information is provided by city in the Department of Revenue's annual property tax report. The Department now provides this information for additional communities allowing us to add the 29 new communities to our study. The aggregate tax rate is the sum of property taxes extended for cities, counties, townships, fire protection districts, park districts, school districts, sanitary districts, airport authorities, and a host of other governmental entities.

Illinois Tax Facts

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Step 5 – Multiply the adjusted equalized assessed value by the aggregate tax rate. This is the tax bill on the property.

Step 6 – Divide the tax bill by the full fair market value of the home.

This report reflects the percentage change in effective tax rates between 1998 and 2005. Many counties, especially Cook County, experienced significant decreases in effective tax rates.

A very straight-forward explanation of this phenomenon is that property values increased faster than government property tax revenue needs (or allowed under the Property Tax Extension Limitation Law (PTELL), and thus tax rates decreased. The property tax base is defined as the equalized assessed valuation (EAV) of property in Illinois. Between 1998 and 2005, EAVs increased on average by more than 65%. With such strong growth, local governments were able to lower tax rates and still increase revenues significantly. Taxes billed between 1998 and 2005 increased by almost 45%.

	EAV	Taxes Billed
2005	\$303,038,486,000	\$21,139,352,000
1998	\$182,725,993,240	\$14,636,685,464
Increase	\$120,312,493,000	\$ 6,502,667,000
% Increase	65.8%	45.3%
Avg. Annual Increase	8.23%	5.66%

A second factor that has contributed to the decline in effective property tax rates has been the Property Tax Extension Limitation Law (PTELL). The General Assembly enacted PTELL for the collar counties (DuPage, Kane, Lake, McHenry, and Will) in 1991. Cook County was added in 1994. Several downstate counties enacted PTELL by referendum in following years. An examination of the relationship between PTELL status and effective tax rate for cities used in this study reveals the following: of cities in PTELL counties, 18 experienced a decrease in their effective tax rate and 12 experienced an increase.

Of cities in counties without PTELL, only 1 experienced a decrease in their effective tax rate while 24 experienced an increase in their effective tax rate.

Certainly, this “big picture” argument does not mean that individual homeowners were not feeling the pinch of property taxes. When the homes they owned increased greatly in value, their property tax bills increased, even if their effective rate declined. Legislators are correct to be sensitive to such circumstances, however, the Taxpayers’ Federation of Illinois supports programs such as the property tax “circuit breaker” program, which assists low-income individuals with high property tax bills as the most effective policy to address these concerns.

The use of valuation exemptions tend to simply transfer the tax burden to other taxpayers and are often not designed to target the benefits to those taxpayers with the greatest need.

In the two charts that follow, we reflect the effective tax burden on a home with a \$250,000 fair market value. (In the past studies a \$100,000 fair market value was used.) Although that value is close to the median value of owner-occupied homes in Illinois, this value may not reflect the median home value in particular communities. Nevertheless, the effective tax rate would generally be reflected in all home values in the community unless the value of the homestead exemption of a particular home varies considerably from the median exemption level. This would occur more frequently in Cook County where the median alternative homestead exemption value approached \$18,000 compared to downstate counties where homesteads were eligible for the \$5,000 standard homestead exemption.

The first chart reflects the effective rates for 1998 and 2005 and the change in rates that have occurred over that seven year period where we have the historical data. The second chart reflects the effective tax rates in 2005 for 29 more communities where the date is now available for the first time. Future reports will reflect changes in effective tax rates as well.

Effective tax rates and estimated 2005 property taxes (collected in 2006) on a \$250,000 home in 60 Illinois cities

2005 Rank	1998 Rank	City	County	Median EAV As a % of Fair Market Value After Homestead Exemption	Aggregate Tax Rate	2005 Tax Bill on a \$250,000 Home	2005 Effective Tax Rate as a % of Fair Market Value	1998 Effective Tax Rate	% Change In Effective Tax Rate 1995-2005
1	5	Cairo	Alexander	52.12%	15.14%	\$19,727	7.891	2.677	195%
2	3	East St. Louis	St. Clair	25.90%	12.92%	\$8,365	3.346	2.865	17%
3	4	Kankakee	Kankakee	28.76%	11.51%	\$8,278	3.311	2.68	24%**
4	16	Zion	Lake	29.27%	10.81%	\$7,909	3.164	2.36	34%
5	1	Rockford	Winnebago	28.36%	10.82%	\$7,671	3.069	3.38	-9%
6	47	Galesburg	Knox	29.58%	10.26%	\$7,584	3.033	1.85	64%
7	6	Freeport	Stephenson	29.37%	9.94%	\$7,301	2.920	2.648	10%
8	27	Charleston	Coles	29.34%	9.61%	\$7,049	2.820	2.166	30%
9	13	Watseka	Iroquois	28.22%	9.86%	\$6,959	2.784	2.392	16%
10	14	Sterling	Whiteside	29.88%	9.26%	\$6,919	2.768	2.38	16%
11	19	Pontiac	Livingston	29.91%	9.23%	\$6,899	2.759	2.332	18%
12	7	Macomb	McDonough	27.58%	9.93%	\$6,845	2.738	2.618	5%
13	23	Rock Island	Rock Island	29.11%	9.40%	\$6,841	2.736	2.22	23%
14	2	Benton	Franklin	28.47%	9.59%	\$6,823	2.729	2.993	-9%
15	29	Decatur	Macon	29.57%	8.99%	\$6,648	2.659	2.151	24%
16	37	Belleville	St. Clair	26.93%	9.75%	\$6,567	2.627	2.033	29%
17	8	Danville	Vermilion	27.58%	9.48%	\$6,539	2.616	2.544	3%
18	51	Canton	Fulton	29.97%	8.60%	\$6,444	2.577	1.776	45%
19	25	Moline	Rock Island	29.06%	8.70%	\$6,322	2.529	2.196	15%
20	24	Vandalia	Fayette	30.36%	8.26%	\$6,272	2.509	2.203	14%
21	40	Waukegan	Lake	27.16%	9.17%	\$6,226	2.490	1.942	28%
22	21	Taylorville	Christian	29.12%	8.53%	\$6,213	2.485	2.322	7%
23	17	Ottawa	LaSalle	25.80%	9.58%	\$6,178	2.471	2.34	6%
24	11	Lincoln	Logan	29.46%	8.32%	\$6,124	2.450	2.462	-1%
25	36	Peoria	Peoria	28.86%	8.34%	\$6,015	2.406	2.037	18%
26	52	Robinson	Crawford	29.49%	8.12%	\$5,988	2.395	1.774	35%
27	12	Urbana	Champaign	28.66%	8.26%	\$5,915	2.366	2.448	-3%
28	32	LaSalle	LaSalle	28.50%	8.29%	\$5,908	2.363	2.123	11%
29	9	Mt. Vernon	Jefferson	29.71%	7.94%	\$5,899	2.360	2.539	-7%
30	38	East Peoria	Tazewell	28.44%	8.25%	\$5,864	2.345	1.993	18%
31	15	Dolton	Cook	17.96%*	13.04%	\$5,858	2.343	2.379	-2%
32	10	Carbondale	Jackson	27.66%	8.43%	\$5,828	2.331	2.526	-8%
33	41	Olney	Richland	29.54%	7.75%	\$5,724	2.290	1.925	19%
34	35	Bloomington	McLean	30.31%	7.52%	\$5,700	2.280	2.05	11%
35	20	Elgin	Kane	27.32%	8.32%	\$5,683	2.273	2.326	-2%
36	43	Normal	McLean	30.65%	7.34%	\$5,620	2.248	1.921	17%
37	30	Springfield	Sangamon	28.73%	7.81%	\$5,610	2.244	2.149	4%
38	46	Jacksonville	Morgan	28.76%	7.60%	\$5,463	2.185	1.855	18%
39	42	Pekin	Tazewell	29.17%	7.46%	\$5,439	2.175	1.921	13%
40	26	Alton	Madison	28.30%	7.57%	\$5,354	2.142	2.172	-1%
41	28	Champaign	Champaign	28.36%	7.55%	\$5,352	2.141	2.158	-1%
42	18	DeKalb	DeKalb	25.96%	8.22%	\$5,335	2.134	2.339	-9%
43	33	Crystal Lake	McHenry	28.96%	7.30%	\$5,285	2.114	2.087	1%
44	50	Effingham	Effingham	29.19%	6.96%	\$5,077	2.031	1.813	12%
45	48	Carmi	White	27.88%	7.28%	\$5,074	2.030	1.85	10%
46	44	Quincy	Adams	28.39%	7.14%	\$5,070	2.028	1.898	7%
47	22	Chicago Heights	Cook	17.34%*	11.48%	\$4,976	1.990	2.306	-14%
48	49	Joliet	Will	25.87%	7.38%	\$4,772	1.909	1.815	5%
49	31	Aurora	Kane	26.59%	7.14%	\$4,743	1.897	2.139	-11%
50	54	Morris	Grundy	25.78%	7.35%	\$4,736	1.894	1.769	7%
51	34	Cicero	Cook	18.18%*	10.23%	\$4,650	1.860	2.063	-10%
52	39	Libertyville	Lake	28.74%	6.34%	\$4,555	1.822	1.958	-7%
53	56	Edwardsville	Madison	26.57%	6.85%	\$4,553	1.821	1.67	9%
54	57	Oak Lawn	Cook	18.56%*	9.10%	\$4,224	1.690	1.525	11%
55	45	Wheaton	DuPage	27.04%	6.12%	\$4,134	1.654	1.886	-12%
56	53	Oak Park	Cook	17.74%*	9.13%	\$4,052	1.621	1.77	-8%
57	55	Streamwood	Cook	16.71%*	8.22%	\$3,433	1.373	1.671	-18%
58	58	Evanston	Cook	16.49%*	7.60%	\$3,134	1.254	1.511	-17%
59	60	Northbrook	Cook	16.08%*	5.67%	\$2,279	0.912	1.093	-17%
60	59	Chicago	Cook	14.81%*	6.05%	\$2,242	0.897	1.255	-29%

Source: Illinois Department of Revenue; calculations by Taxpayers' Federation of Illinois.

* Impacted by the Cook County Alternative Homestead Exemption.
** Red represents communities subject to PTELL

**Effective tax rates and estimated 2005 property taxes (collected in 2006)
on a \$250,000 home in select cities**

City	County	Median EAV As a % of Fair Market Value After Homestead Exemption	Aggregate Tax Rate	2005 Tax Bill on a \$250,000 Home	2005 Effective Tax Rate as a % of Fair Market Value
Park Forest	Cook	19.79%*	17.80%	\$8,806	3.523
Virginia	Cass	32.76%	9.41%	\$7,706	3.082
Kewanee	Henry	26.54%	10.37%	\$6,880	2.752
Vienna	Johnson	35.46%	7.55%	\$6,694	2.678
Lawrenceville	Lawrence	28.21%	9.34%	\$6,585	2.634
Sullivan	Moultrie	28.44%	9.21%	\$6,545	2.618
Geneva	Kane	26.78%	9.37%	\$6,270	2.508
Paris	Edgar	29.49%	8.35%	\$6,154	2.461
Greenville	Bond	27.56%	8.76%	\$6,036	2.415
North Chicago	Lake	27.08%	8.54%	\$5,782	2.313
Princeton	Bureau	29.02%	7.97%	\$5,779	2.311
Lockport	Will	26.63%	8.06%	\$5,365	2.146
Woodstock	McHenry	27.27%	7.86%	\$5,359	2.144
Lake Zurich	Lake	28.50%	7.33%	\$5,221	2.088
Oregon	Ogle	28.07%	7.41%	\$5,199	2.079
Belvidere	Boone	27.01%	7.20%	\$4,863	1.945
Plainfield	Will	27.42%	7.01%	\$4,803	1.921
Oswego	Kendall	26.15%	7.15%	\$4,672	1.869
Frankfort	Will	26.06%	7.14%	\$4,650	1.860
McHenry	McHenry	26.29%	6.97%	\$4,579	1.832
Yorkville	Kendall	26.15%	6.96%	\$4,550	1.820
Lombard	DuPage	27.04%	6.23%	\$4,211	1.685
Monmouth	Warren	30.02%	5.51%	\$4,138	1.655
Naperville	DuPage	27.15%	5.82%	\$3,947	1.579
Addison	DuPage	26.39%	5.55%	\$3,664	1.465
Elmhurst	DuPage	26.39%	5.19%	\$3,423	1.369
Palatine	Cook	15.72%*	8.11%	\$3,186	1.275
Des Plaines	Cook	16.13%*	6.97%	\$2,809	1.124
Glenview	Cook	15.80%*	6.02%	\$2,378	0.951

* Impacted by the Cook County Alternative Homestead Exemption

Source: Illinois Department of Revenue; calculations by Taxpayers' Federation of Illinois.

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