ILLINOIS TAX FACTS

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A Fresh Look at Illinois Property Taxes

By Mike Klemens

Mike Klemens, President of KDM Consulting Inc., does tax policy research for the Taxpayers' Federation of Illinois.

Nobody likes to pay property tax. It has consistently been ranked in surveys as the country's most hated tax, and that's certainly true in Illinois. This disdain prompted a proposed property tax "freeze" to become entangled with efforts to resolve the ongoing state fiscal crisis, even though the local property tax plays no role in the state budget issue. Studies of Illinois' "out of control" property taxes have been trotted out to bolster the case for a freeze. Turns out it's not that simple; it depends on where in Illinois you live and how you measure property tax burden.

The *50-State Property Tax Comparison Study: For Taxes Paid in 2016*, conducted and published by the Lincoln Institute of Land Policy and the Minnesota Center for Fiscal Excellence (Minnesota's equivalent of TFI) takes a scholarly approach to property taxation. The study's construction allows us to do two things:

(1) within Illinois - we can compare property taxes in Chicago, the northeastern Illinois suburbs, and outside the metropolitan region, and

(2) outside of Illinois - we can identify factors behind property tax differences (higher and lower) in cities across the country. This year's

TAXPAYERS' FEDERATION OF ILLINOIS

NOTES FROM THE INSIDE. . .

By Carol S. Portman

We revisit a familiar question in this month's *Tax Facts*: How high are property taxes in Illinois? Mike Klemens looks at the *50-State Property Tax Comparison Study* conducted by the Lincoln Institute of Land Policy and the Minnesota Center for Fiscal Excellence to answer that question. He takes it one step further, and uses the study's findings to answer an even tougher question: Why? Not surprisingly, the answer is not simple.

Some things are clear. The Cook County classification system produces a savings for Chicago homeowners at the price of higher tax bills for commercial and industrial property owners. As Mike notes, even though homeowner property taxes are on the rise in Chicago, they are still lower than in the other two Illinois cities studied, Aurora and Galena. Property values are higher in Illinois than in surrounding states, although they fall to average when large cities on the coasts are included. Those higher property values tend to drive up tax bills while holding down effective tax rates.

Most interesting to me is the study's attempt to explain *why* taxes in any given city are higher or lower than in the other 72 cities studied nationwide. In Aurora the heavy reliance on the property tax over other revenue sources is the biggest driver of its effective tax rate. High per capita spending by local governments in Chicago drives up the effective tax rate there.

The bottom line here is that relative to other states, Illinois property taxes do indeed tend to be high (most of us would say we didn't need a study to tell us that!), except for Chicago homes and apartments. A number of factors contribute to a city's effective tax rate, however, and those interested in lowering tax burdens might do well to understand the underlying influencing factors.

edition of the annual study attempts to measure how median home value, property tax reliance, local government spending, and favorable treatment of homesteads contribute to effective property tax rates.

We will present what the *50-State Study* says about property taxation in Illinois from these two perspectives. In Part I we will present what the study says about property taxes in different parts of Illinois. In Part II we will present what the study says about the reasons for property tax differences between Illinois cities and those in other states.

Perspective

Before we turn to the *50-State Study* results, let's put the "out of control" Illinois property tax in context. Over the last five years, property taxes billed have increased an average of 2.1 percent per year in nominal dollars (less than 1 percent annually accounting for inflation). See **Table 1** (Remember taxes are one-year behind, so 2015 taxes were billed in 2016). While the 2.1 percent annual increase may not seem "out of control," these five years included the real estate crash and over that same period property values fell an average of 3.5 percent a year, leaving homeowners with plummeting property values and increasing tax bills. To make up for the declining values, property tax rates increased 33 percent over that five-year period. By way of comparison, when real estate values were booming during the previous five-year period, property taxes billed increased 27 percent, and the tax rate fell 11 percent.

TABLE 1. INCREASED STATEWIDE PROPERTY TAX BILLINGS			
YEAR	TOTAL TAXES BILLED	$ INCREASE	PERCENT INCREASE
2011	26,187,486,829	272,126,478	1.05
2012	26,766,182,466	578,695,637	2.21
2013	27,128,941,225	362,758,759	1.36
2014	27,706,994,500	578,053,275	2.13
2015	28,745,388,566	1,038,394,065	3.75
Source: Illinois Department of Revenue			

How the 50-State Study is Done

The key measure for the *50-State Study* is the calculated Effective Tax Rate (ETR), the tax bill divided by the market value for hypothetical properties in the largest city in each state. In New York and Illinois, where property in the largest city is taxed differently than in the rest of the state, the study adds the second largest city, Buffalo and Aurora respectively. Washington, D.C. is also included, bringing the large-city sample to 53. The study also looks at taxation in a rural city in each state, where property values are not influenced by a metropolitan area. That city in Illinois is Galena.

The study looks at hypothetical properties of different types and with different fixed values. This methodology allows researchers to determine how property of a given value would be taxed in different states because of differences in laws. For homesteads the study also looks at the median valued property in each city, accounting for differing housing values from city to city. This methodology illustrates how a typical homestead property would be taxed in each city. The study considers assessment levels, equalization factors, taxation of personal property, homestead exemptions and similar benefits, and local tax rates.

Part I

Differences within Illinois

In Illinois, because it analyzes cities in three different parts of the state, the 50-State study allows comparison among properties in Chicago, its suburbs, and downstate.

Table 2 displays the property tax paid and effective tax rate for a $150,000 home in each of the three Illinois cities included in the study. Aurora has the third highest rate among the 53 large cities in the study, while Chicago is 21st highest, and slightly below the 53-city average effective tax rate. Galena stands at seventh highest among the 50 rural cities selected. The conclusion is that Aurora is high, Galena is almost as high, and Chicago is slightly below average, compared with other cities around the country.

TABLE 2. HOMESTEAD PROPERTY TAXES, $150,000 PROPERTY			
RANK	CITY	NET TAX	EFFECTIVE TAX RATE
Urban			
3	Aurora	$5,501	3.667%
21	Chicago	$2,051	1.367%
Rural			
7	Galena	$3,298	2.170%

Table 3 displays the property tax paid and effective tax rate for a $1 million commercial property in those same cities. (The study assumes there are an additional $200,000 in fixtures on the property that go untaxed in Illinois but are taxed in many other states.) Chicago has the third highest effective tax rate, while Aurora is almost as high, ranking sixth highest among large cities in the study. Galena at 21st is middle of the pack of 50 rural cities and just slightly above the rural average.

TABLE 3. COMMERCIAL PROPERTY TAXES, $1,000,000 PROPERTY			
RANK	CITY	NET TAX	EFFECTIVE TAX RATE
Urban			
6	Aurora	$41,217	3.435%
3	Chicago	$46,288	3.857%
Rural			
21	Galena	$24,615	2.051%

Table 4 displays the property tax paid and effective tax rate for a $1 million industrial property. (The study assumes there is another $1,000,000 in machinery and equipment, fixtures and inventories – personal property that is not taxed in Illinois but is taxed in many other states.) Aurora at 11th highest and Chicago at 14th are both at the high end of large cities. Galena is middle of the pack, slightly below the rural average.

TABLE 4. INDUSTRIAL PROPERTY TAXES, $1,000,000 PROPERTY			
RANK	CITY	NET TAX	EFFECTIVE TAX RATE
Urban			
11	Aurora	$41,217	2.061%
14	Chicago	$38,445	1.922%
Rural			
22	Galena	$24,615	1.231%

Table 5 displays the property tax and effective rate for a $600,000 apartment property. (The study assumes there is another $30,000 in fixtures – personal property that is not taxed in Illinois but is taxed in many other states.) Aurora is third highest while Chicago falls to 40th position. The study attributes Chicago's place as follows: "Growing underassessment substantially influenced the effective tax rate reduction for apartments in Chicago." Chicago had been 27th the previous year. Cook County Assessor Joseph Berrios' spokesman said apartment sales were depressed during the real estate crash but jumped in 2014. As properties are reassessed (which happens every three years in Cook County), assessed values—and therefore taxes paid—are expected to return to their "normal" level. Galena had the 11th highest effective tax rate among the rural cities.

TABLE 5. APARTMENT PROPERTY TAXES, $600,000 PROPERTY			
RANK	CITY	NET TAX	EFFECTIVE TAX RATE
Urban			
3	Aurora	$24,730	3.925%
40	Chicago	$7,377	1.171%
Rural			
11	Galena	$14,769	2.344%

ABOUT THE STUDY

The 50-State Property Tax Comparison Study is conducted annually by the Lincoln Institute of Land Policy and the Minnesota Center for Fiscal Excellence to provide data on property taxes that are comparable across cities. The researchers are knowledgeable, and the study does not attempt to determine whether a property tax system is "good" or "bad." Instead it asks readers to recognize the strengths of the property tax – stability, less regressivity than the sales tax, and local autonomy, together with its major drawback, differing tax bases that offer local governments widely varying abilities to generate revenue. The authors remind us that property taxes are one aspect of the balance between competitiveness and the quality of public services that local officials must deal with. The full study is available at https://www.lincolninst.edu/sites/default/files/pubfiles/50-state-property-tax-comparison-for-2016-full.pdf.

How do Illinois cities compare?

When ranked with cities in other states, Illinois property taxes tend to be high, but not uniformly so. In the case of Aurora, on all four hypothetical properties illustrated in Tables 2 through 5, the effective tax rate is among the highest of the cities studied. Galena is middle of the pack on commercial and industrial and high, but not the highest, in homestead and apartments. Chicago is more muddled. Apartments are low, commercial is high, and industrial and homesteads are in the middle. Because the *50-State Study* accounts for Illinois' non-taxation of personal property, the effective tax rates on commercial and industrial properties tend to be lower than in other studies.

Why do we see such differences among these three Illinois cities?

These three cities in Illinois operate under two different taxing schemes, one in Cook County and the other for the rest of the state. The *50-State Study* notes that many cities provide advantages to certain properties by assessing them at a lower level, imposing a lower rate of taxation on them, or having exemptions or credits available only to certain classes of property. In Illinois, Cook County assesses residential, apartment and vacant property at 10 percent of market value and commercial and industrial property at 25 percent of market value. In the rest of the state all properties are assessed at 33.3 percent of market value. This means Cook County taxes on commercial and industrial properties are higher, and residential and apartment properties are lower, than would otherwise be the case—essentially shifting the property tax burden from one class of property owners to another.

The *50-State Study* measures the effect of classification on different types of property by computing the ratio of commercial effective tax rates to those for homesteads and the ratio of apartment effective tax rates to those for homesteads. For the commercial-homestead classification ratio, Chicago, with its classification system, is high – sixth highest among the 53 cities with a ratio of 3.115. That means a commercial property pays more than three times the effective tax rate of a residential one. In Aurora, commercial properties and homesteads are taxed almost evenly, with a ratio of 1.108. The 53-city average was 1.672, meaning that Aurora provides a significantly lower preference to homeowners than the national average.

The *50-State Study's* measures for the apartment-homestead classification ratio was very different. Aurora was again middle of the pack at 1.108, 25th highest and, as with commercial properties, well below the national average. Chicago, meanwhile, stood at the very lowest point, 53rd, with a ratio of 0.827. The extremely low ratio is no doubt the result of the underassessment of apartments discussed in Table 5 on page 4. And it means that Chicago is shifting property taxes off apartment properties onto homesteads.

An insight – Illinois Housing Prices are Higher than in Neighboring States

The *50-State Study* also looks at the impact of housing prices by computing many of the same statistics for the median valued homestead (instead of the fixed value $150,000 homestead we cited earlier) in each city. This methodology allows researchers to use more realistic property values in different cities. Chicago's median home value was $238,500, which placed it 15th highest among the largest cities, Aurora's was $169,400, and Galena's was $152,000.

To reflect the reality that property values vary by city, the study compares rankings for tax rate and tax bill on median valued homes. Among large cities Aurora had the third highest tax rate and the fifth highest tax bill—a high tax jurisdiction, whether you are looking at the tax rate or the tax bill. Among rural cities Galena's tax rate and tax bill were similarly close, with the seventh highest effective tax rate and the sixth highest tax bill. However, Chicago saw more difference, with the 20th highest tax rate and 13th highest tax bill. This reflects the relatively higher value of a home in Chicago. The pros and cons of higher property values are a subject for another discussion.

Given that we often compare Illinois to our surrounding states, it is worth noting that property values are significantly higher here than in neighboring states. As will be discussed in Part II, higher property values tend to reduce tax rates, but the much higher Illinois property values push the bills up compared to neighboring states. This effect is diluted when looking past neighboring states to properties on the two coasts, which tend to be higher valued.

An example, from the study: Chicago, at 1.49 percent, has a much lower Effective Tax Rate

TABLE 6. SURROUNDING STATES

CITY	STATE	MEDIAN VALUE HOME	EFFECTIVE TAX RATE
Aurora	Illinois	$169,400	3.72%
Chicago	Illinois	$238,500	1.49
Detroit	Michigan	$42,600	3.15
Indianapolis	Indiana	$123,500	1.08
Louisville	Kentucky	$145,000	1.27
Kansas City	Missouri	$138,400	1.49
Des Moines	Iowa	$119,500	2.30
Milwaukee	Wisconsin	$114,000	2.67

than Des Moines, at 2.30 percent. But, because houses are twice as expensive in Chicago, the owner of a median valued home will pay $3,544 in Chicago vs. $2,748 in Des Moines. Given that median home values are highest in Chicago and Aurora, the same pattern would be true comparing both Chicago and Aurora to cities with lower median valued homes.

Part II

Attempt to answer the big question: Why?

The *50-State Study* attempts to determine why homestead property taxes vary across cities in different states, and to quantify the impact of various influences. To identify factors correlated with differences in effective property tax rates, the study combines the largest cities in each state (plus Aurora, Buffalo and Washington D.C., as before) with the 50 largest cities in the U.S., if not already included, for a total of 73 cities. It identifies four factors using a statistical analysis of data it has gathered, along with federal census data. The factors are:

- property tax reliance – a city's property tax as a percent of own-source revenue, which measures the ability to raise revenues by other taxes and fees,
- median home value – higher values act to reduce the rate because there is more value to tax,
- level of local government spending – local government spending per capita, a measure of the amount of money that needs to be raised to support cities, counties, schools and other units of local government, and
- classification - the degree to which homesteads are given preferential tax treatment.

The study concludes that these four factors account for three quarters of the variation in effective tax rates across cities.

The *50-State Study* presents its findings for each of the four factors in two ways. First, for each factor the study gives the relative ranking among the 73 cities used in the study. The higher the ranking the greater the influence on the Effective Tax Rate. Second, the study attempts to quantify how much each factor contributes to the city's ETR. A positive number means that factor has increased taxes in that city, and that the ETR would be lower by that amount if the city's reliance on that factor were at the national average. If the number is negative, the ETR would have been that much higher if the city's reliance were at the national average.

The 50-State Study presents data for a median valued home and a $1 million commercial property for Chicago, Aurora and 71 other U.S. cities

Factors that Affect Effective Property Tax Rates

<u>How to read Tables 7 – 10</u>. Looking at the median valued Chicago home of $238,500 discussed below, had local government spending been at the national average, the ETR would have been 1.17 percent (1.49 percent minus 0.32 percent). In other words, as indicated in the table, the factor is contributing 0.32 percent to the current

ETR. Similarly, had Chicago's median home been valued at the national average its ETR would have been 1.66 percent (1.49 percent plus 0.17 percent).

Median Valued Home

TABLE 7. CHICAGO $238,500 HOME			
Effective Tax Rate	1.49	26th	
Factor	Contribution	Rank	
Property Tax Reliance	0.00	33	
Median Home Value	-0.17	23	
Local Gov't Spending	0.32	9	
Classification	-0.15	8	Commercial-homestead
		73	Apartment-homestead

Chicago's effective tax rate and median home value are slightly above average. On the other hand, local government spending is fairly high, and Chicago significantly shifts taxes off homesteads onto commercial properties and even more significantly off apartments onto homesteads. The study finds that each of these factors contributes to the Chicago homestead ETR, as indicated in the Table, and moving closer or farther from the average would impact the ETR accordingly.

Aurora had a high ETR and high reliance on property tax revenues as shown in **Table 8**. Its median home values were middle of the pack and its local government spending was low. It shifted much less tax off homes onto commercial properties than the typical city. The study finds that each of these factors contributes to the Aurora homestead ETR, as indicated in the Table, and moving closer or farther from the average would impact the ETR accordingly.

TABLE 8. AURORA, $169,400 HOME			
Effective Tax Rate	3.72	2nd	
Factor	Contribution	Rank	
Property Tax Reliance	0.98	4	
Median Home Value	0.13	43	
Local Gov't Spending	-0.22	61	
Classification	0.19	69	Commercial-homestead
		34	Apartment-homestead

Commercial Property - $1 million property with $200,000 in fixtures

TABLE 9. CHICAGO		
Effective Tax Rate	3.86	3rd
Factor	Contribution	Rank
Property Tax Reliance	-0.01	33
Median Home Value	-0.20	23
Local Gov't Spending	0.47	9
Classification	0.54	8

Table 9 shows that Chicago's ETR on commercial property is high. The factors most influential here are the relatively high local government spending and the classification system, which together contributed 1.01 percent to the ETR, relative to other cities. The study finds that each of these factors contributes to the Chicago commercial ETR, as indicated in the Table, and moving closer or farther from the average would impact the ETR accordingly.

TABLE 10. AURORA		
Effective Tax Rate	**3.44**	**6th**
Factor	**Contribution**	**Rank**
Property Tax Reliance	**1.06**	**4**
Median Home Value	**0.15**	**43**
Local Gov't Spending	**-0.31**	**61**
Classification	**-0.26**	**69**

Aurora has a high ETR on commercial properties as well, driven almost entirely by its high property tax reliance. Its local government spending is on the low end, and compared to other cities, it shifts relatively little tax burden onto commercial properties. The study finds that each of these factors contributes to the Aurora commercial ETR, as indicated in the Table, and moving closer or farther from the average would impact the ETR accordingly.

Homestead Preference, Illinois and Elsewhere

The *50-State Study* clearly illustrates how the Cook County classification system shifts tax burden off homestead properties and onto commercial properties, relative to what happens in suburban Aurora and rural Galena. But, Chicago is not the most extreme in terms of the preference it provides to homeowners. The study measures the magnitude of the shift for the largest cities (not for rural cities) by dividing the effective rate for a $1 million commercial property by the effective tax rate for a median valued homestead. New York City's ratio is highest at 4.080, which means a New York City commercial property is paying more than four times as much tax as a similarly-valued homestead. Chicago's ratio of 3.115 is the 6th highest burden-shift in the country—more than twice the national average--while Aurora's ratio of 1.108 is hardly a shift at all, and ranks it 33rd of the 53 cities studied.

Besides classification, there are other ways to shift tax burden off homesteads. One way is with large homestead exemptions. Boston's is the lesser of $178,325 or 90 percent of a

Illinois Tax Facts

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property's market value, Honolulu's is $80,000, and Atlanta's is effectively $75,000, according to the study.

The study also looks at assessment limits that restrain how much the taxable value of a home can grow, even when market values are increasing, resulting in similarly valued properties paying significantly different property tax bills. New York City's limits have been in effect since 1981, do not reset when a property is transferred, and result in a 50 percent higher rate on a new home than one built before 1981. In California the well-known Proposition 13, which limits assessment growth until a property is sold, means that tax on a newly purchased home will be 35 to 40 percent higher than one that has not sold, according to the study. The study uses average duration of home ownership to calculate average annual homeowner savings of $2,036 in New York and $2,940 in San Francisco.

Observations

The *50-State Property Tax Comparison Study* lets us make a number of comparisons to national averages for cities in other states. Looking at taxes billed for the three Illinois cities included:

- ✓ Homeowners pay highest property taxes in suburban Aurora and lowest in Chicago.
- ✓ Commercial property owners pay highest taxes in Chicago, nearly as high in Aurora and lowest in Galena.
- ✓ Industrial property owners pay highest property taxes in Aurora, nearly as high in Chicago and lowest in Galena.
- ✓ Apartment property owners pay highest taxes in Aurora and lowest in Chicago.

The 50-State Study allows us other insights, including:

- In Chicago property taxes are pushed up by high local government spending and shifted from homesteads to commercial properties by the classification system.

- In Aurora property taxes are pushed up by high reliance on property taxes, while being held down by relatively low local government spending.

- Illinois does not tax personal property, which, relative to states that do, provides a significant property tax benefit to industrial and commercial properties.

- Underassessment of apartment properties in Cook County has resulted in a shift onto homes, commercial and industrial properties.

- Median home values are significantly higher in Illinois than in surrounding states, which contributes to higher tax bills

Conclusion

Over the last five years, Illinois' property taxes billed are "out of control" only if you consider a 1 percent real dollar annual increase to be excessive. However, as property values fell over the same period, property tax rates rose a whopping 33 percent. The *50-State Study*

CHICAGO IS DIFFERENT

While the *50-State Property Tax Comparison Study* concludes that a Chicago homeowner's effective tax rate is below the average for other large cities, it's not a good time to try and tell that to a Chicago resident. Chicago property taxes have skyrocketed recently. The property tax bill on an average single-family residence has increased 24 percent over the last two years, and is likely headed higher.

Chicago, with an abundance of commercial property upon which to shift residential taxes under Cook County's classification system, has historically held the lowest effective tax rate in studies done by TFI. (See Effective Property Tax Rates for 89 Illinois Communities, *Tax Facts*, November/December 2015.) It may well continue to hold that position, but it won't be as low as it used to be. According to Cook County Clerk David Orr, who "extends" taxes in the county, Chicago this year lost the distinction of having the lowest aggregate tax rate in Cook County, a position it held since 2008. That lowest rate is now enjoyed by homeowners in parts of the Village of Barrington.

The culprit was a 2015 front-loaded and phased four-year increase of $588 million in the City of Chicago property tax levy, together with a $272 million increase in the Chicago Public School 2016 pension levy. The *50-State Study* included only the first year of the two big jumps, 2015 taxes paid in 2016.

While the two-year increase in an average Chicago homeowner's taxes was 24 percent, the increase was 8 percent in Cook County's north suburbs and 6 percent in the south suburbs. However, for taxes paid in 2017 Chicago retained its position as having the lowest tax bill among the three triads. The average Chicago homeowner paid $3,996, compared to $7,118 for a north suburban homeowner and $5,179 for a homeowner in the south suburbs. Significant differences remain in average home property values which stand at $224,500 in Chicago, $299,100 in the north suburbs, and $163,000 in the south suburbs.

In a nutshell, Chicago's property taxes remain relatively low, but not as low as they used to be. And don't try and tell that to a Chicago homeowner.

illustrates that when compared with those in other states, Illinois homeowners pay high effective tax rates in Aurora and Galena and about average effective tax rates in Chicago. Finally, compared to neighboring states, higher home values in Illinois contribute to higher tax bills and lower effective tax rates.

Taxpayers' Federation of Illinois
430 East Vine Street, Suite A
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