



## Civic Federation Position Statement

January 14, 2004

### **Senate Bill 1498**

### **Neighborhood Preservation Homeowners Exemption**

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Philip Zinn\*

\* *Executive Committee*

Based upon a thorough review of recently available information, The Civic Federation offers the following **qualified support** for the Neighborhood Preservation Homeowners Exemption now contained in Amendment #2 to Senate Bill 1498. This support is based on our weighing of the costs and benefits of the proposal, and it is **contingent** upon the Cook County Assessor's Office taking full advantage of this opportunity to move forward with reform of the property tax assessment process in Cook County to bring about greater transparency and clarity.

There are multiple benefits to the current proposal, which must be weighed against the potential costs. The Civic Federation is keenly aware of the problems caused by rapidly escalating residential property tax assessments and the need to provide relief to overburdened property tax payers. In addition to providing relief to gentrifying areas, smoothing out increases in tax liabilities for homestead properties provides additional benefits. First, Senate Bill 1498 allows for a more accurate representation of the market value of the property without causing great hardship among homeowners. The Federation would like to congratulate the Cook County Assessor for proposing this move toward greater clarity in the property tax system. Rather than continue to provide tax relief through the assessment process, the process proposed in Senate Bill 1498 would more transparently represent the amount of property tax relief being provided to homeowners. Second, smoothing out the increases in tax liabilities of homestead properties may eliminate triennial assessment shocks to the residential real estate market, which is an important part of the local economy.

The General Assembly must be cognizant of the fact that reducing – even temporarily – the tax burden for one group of properties increases the tax liabilities of all other property owners. The degree to which the tax burden is shifted is the counterbalance to the benefit provided to homestead properties. A review of the Assessor's Office's data indicates that countywide there would be an average 3.3% increase in the tax burden on other types of property over a period of eight years. However, such a shift during that time period will be mitigated by other factors and may be eliminated. Senate Bill 1498 will provide an effective mechanism for the Cook County Assessor to significantly improve the transparency and equitable assessment of all classes of property in Cook County. There will, however, be localized effects resulting from the mix of property types within certain taxing districts. In general, the larger the amount of qualifying property, the greater the shift will be. However, to the extent that the tax burden cannot be completely shifted, the benefit to residential property will be limited.

#### **Detailed Analysis**

In order to quantify the costs of adopting Senate Bill 1498, the Federation conducted an extensive review of information from both the Cook County Assessor's Office and outside sources. The Civic Federation greatly appreciates the efforts of the Cook County Assessor's Office to provide detailed estimates based on reasonable assumptions. The estimates are based on the assumption that assessment increases in 2004, 2005, and 2006 reassessment increases will be the same as reassessment increases in 2001, 2002 and 2003; and the reassessment increases in 2007, 2008, 2009 and 2010 will be one-half the 2001, 2002 and 2003 levels respectively. The Assessor's Office estimates, however, do not include a detailed analysis of the new exemption on the tax extension process.



Therefore, the Federation has used the estimated reassessment increases provided by the Assessor's Office to prepare a more detailed analysis of the implications of the exemption for the tax extension process for a representative sample of 25 school districts. These districts were selected to provide a range of demographic, geographical and economic characteristics, with special attention paid toward including many districts already experiencing difficulty with statutory rate limits.

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Based on an analysis of the 25 school districts' tax extensions with and without the new exemption (the full analysis is available upon request), it is the Federation's conclusion that although some districts will be impacted, that impact will not be devastating and will likely be limited to those districts already experiencing problems with rate limits. The magnitude of the impact will be largely dependent upon the way in which such districts construct their property tax levies. Because these districts are also subject to tax caps, the final composite tax rate will be further reduced after the statutory rate limits are applied. The result will be that although the total property tax extension is not changed by implementing the new exemption, certain districts may lose property tax revenue for certain rate limited funds (e.g. the education fund). The Federation warns that this new exemption could increase the pressure on taxing agencies to levy in other funds to circumvent statutory rate limits. It is also necessary to recognize that the amount of bonded debt taxing agencies can assume, which is determined in part by the Equalized Assessed Value (EAV) of the agency, will be less than it otherwise would have been. The degree to which bonding authority is lessened depends on the amount of EAV that is exempted from taxation and the amount of time before the full value of the property is returned to the tax rolls.

As with all predictions, these estimates are essentially an educated guess. Because of all the uncertainties surrounding this proposal, we cannot guarantee that actual experience will closely approximate the projections. While there is a general confidence that the assumptions utilized in making the estimates are reasonable, the dimensions of the proposed changes demand that the impact of the proposed exemption be closely monitored if implemented to ensure that potentially harmful results are identified.

#### **Conclusion**

Finally, it must be recognized that Senate Bill 1498 is not a comprehensive reform of the property tax system, and it is not likely to provide the kind of freeze in tax bills that may be expected. The Federation's support is contingent upon the use of this tool to move toward comprehensive property tax reform. Progress must be made toward not only ending over-reliance on property taxes, but also toward reforming a classification system that places a disproportionate tax burden on business property. To that end, if adopted, we intend to monitor the implementation of the exemption to determine if the benefits are being realized and to determine if the costs are larger than anticipated. Furthermore, to the extent that the taxable value of most homestead property will increase every year, the tax liability of many homeowners will also increase every year. Annual increases in taxable value are absolutely necessary to prevent greater tax burden shifts and substantial losses in revenues over time. However, they also mean that the benefits of the exemption will decrease over time and in many cases be eliminated.