



## Civic Federation Position Statement

November 17, 2003

### **Neighborhood Preservation Homeowners Exemption**

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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. However, at this time we are **unable to support** this particular proposal because a lack of available information and no formal legislative language to which we can refer prevents us from fully analyzing the consequences of this property tax exemption.

Although the Civic Federation has the ability to model the impacts of changes to the Cook County property tax system, our approach uses aggregate numbers and examines the effects of changes to entire classes of property. Property tax exemptions are inherently individualized and not aggregate entities. Since the current proposal would create a homestead exemption with a fluctuating value based on increases experienced by individual properties, the actual impact of the exemption would result from the specific experiences of millions of individual properties. It is simply not possible to say with certainty what the effects of this exemption would be without taking each property into account.

However, based upon an initial review and analysis of the available information, we strongly encourage a cautious approach to a change of this magnitude. Two factors that must be better understood before implementing this exemption are the resulting shift in the tax burden and the potential loss of revenue resulting from the interaction between the exemption and the statutory rate limits of local governments.

#### **Potential Impact**

Using information provided by the Cook County Assessor's Office in an attempt to discern the impact of the proposed exemption, it was assumed that the same exemption had been implemented during the last reassessment of the City in tax year 2000.<sup>1</sup> Growth in the gross EAV of residential property between tax year 1999 and 2000 was limited to 7% for the major taxing agencies on a City of Chicago tax bill. The composite tax rate increased from 7.8% to 8.1%. Homeowners received a 6% reduction in tax burden, and all other classes of property experienced a 4.1% increase. It was not possible to determine the shift in tax burden between residential properties resulting from the increased tax rate.

None of the taxing agencies on a city property tax bill lost any revenue from the implementation of the exemption. However, some of the "space" under the rate limits was lost. For example, the statutory rate limit in the Education Fund of the Chicago Public Schools is 3.349%. The actual 2000 tax rate was approximately 2.836%. After implementing the exemption it increased to 2.952%. This seems to indicate that in future years, implementation of the exemption could impact the available rate limit for some taxing agencies.

Until there is greater clarity regarding the actual effects of such a dramatic change, the Federation will be unable to support this legislation.

<sup>1</sup> Our original projections applied the exemption to the entire amount of Class 2 (residential property). However, the Assessor's Office indicates that only 60% residential property receives a homestead exemption. If the exemption figure they provide is accurate, the following results would be obtained.