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Call Laurence Msall at 312-201-9044 for more information.

PROPERTY TAX BURDEN ROSE IN 2007 FOR MANY NORTHEASTERN ILLINOIS COMMUNITIES

Effective Property Tax Rates in Chicago are Still Among the Lowest

CHICAGO – Many communities across northeastern Illinois experienced a slight increase in their property tax burden in 2007 as effective tax rates rose, according to an estimate released today by the Civic Federation. Chicago continues to have one of the lowest property tax burdens for residential, commercial, and industrial properties in northeastern Illinois. Tax year 2007 is the most recent year for which data is available.

Effective tax rates translate the tax rates that appear on property tax bills into rates that reflect the percentage of full market value of a property paid in taxes for a given year. They are a measure of property tax burden for homeowners and businesses. This report, produced annually by the Civic Federation, estimates the tax year 2007 effective tax rates for Chicago and 31 other municipalities in Cook, DuPage, Kane, Lake, McHenry, and Will counties.

“The purpose of this report is to provide apples-to-apples comparisons of property tax rates in communities throughout northeastern Illinois,” said Laurence Msall, president of the Federation. “Trend analysis indicates that effective tax rates for the 32 communities we track generally rose slightly or remained flat in 2007.” The notable exception to this trend is residential properties in the City of Chicago, whose effective tax rate before exemptions fell from 1.29% in 2006 to 1.25% in 2007.

The actual tax rate that appears on a tax bill is the sum of the tax rates for all the local governments serving that property. A local government tax rate is computed by dividing its tax extension by the tax base of equalized assessed property value. An effective tax rate translates the actual tax rate into a common measure of tax burden across communities.

The lowest effective tax rate among the communities studied was Oak Brook, with a rate of 0.79%, and the highest was Harvey, where industrial properties paid an estimated 10.06% of their full market value in property taxes. Differences in effective tax rates reflect variations in actual tax rates as well as levels of assessment. For example, Cook County commercial and industrial properties are assessed at higher levels than residential properties, so their estimated effective tax rates are higher than those of residences in the same community.

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Msall pointed out that communities are likely to continue to experience an increase in their effective tax rates in the coming years. “The most recent data is from 2007, and the real estate market has experienced a general decline from that point in time. As market values have stalled or dropped, we may see effective tax rates creeping up in future years for these communities,” said Msall. Increases in effective tax rates can happen when government tax extensions increase faster than the value of the property tax base, causing actual tax rates to rise. In many communities, however, the effect of the Property Tax Extension Limitation Law (“tax caps”) has been to hold down tax rates, as taxable value has grown faster than tax extensions.

While two-year trend analysis shows an increase in effective tax rates, the majority of communities analyzed have seen declines in their effective tax rates since 1999. Between 1999 and 2007, the City of Chicago’s effective tax rates fell by 16.9% for residential, 52.2% for commercial and 65.7% for industrial properties. Declines in effective tax rates over time are caused by declining actual tax rates, declining median levels of assessment, or both.

Effective rates are estimates based on the median level of assessment within a given community. Effective rates for individual properties may differ significantly from the estimate because of the number of variables that must be applied to compute the tax bill for any specific property, including any exemptions.

Exemptions lower the effective tax rate of a homestead property by varying amounts depending on the market value and exemption value. For example, the 2007 estimated effective tax rate for Chicago residential property not eligible for exemptions is 1.25% of full market value, but a \$300,000 home with Senior Citizen and Homeowner exemptions may have had an effective tax rate closer to 0.76% of its full value.

The study found wide variations in tax rates between communities. This is partially due to the fact that Cook County assesses residential, commercial, and industrial property at different statutory rates. Residential properties pay lower effective rates than commercial or industrial properties in Cook County. The other counties in the study assess all properties at the same level.

Some of the variation among communities also reflects differences in the wealth of the property tax base and the dependence of local governments on property tax revenues. Oak Brook has a low property tax rate due to the combination of high real estate values and low dependence on property tax revenue (Oak Brook generates significant local revenue from retail sales taxes). In contrast, Harvey has relatively low property values and relies heavily on property tax revenue to fund its local governments because it does not have strong revenues from other tax sources.

The effective tax rates report is available at the Civic Federation website, civicfed.org.

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The Civic Federation is a non-partisan government research organization founded in 1894. The Federation's membership includes business and professional leaders from a wide range of Chicago area corporations, professional service firms and institutions