



The Civic Federation

Research * Information * Action * Est. 1894

CIVIC FEDERATION POSITION ON THE COOK COUNTY PROPERTY TAX SYSTEM

Recommendations for Reform

December 20, 2010

The Civic Federation • 177 N. State Street • Chicago IL 60601 • civicfed.org

The Civic Federation is an independent, non-partisan government research organization working to maximize the quality and cost-effectiveness of government services in the Chicago region and State of Illinois.

ACKNOWLEDGEMENTS

The Civic Federation would like to thank the members of its Property Tax Committee for their many hours of thoughtful debate and deliberation on the Cook County property tax system. Particular gratitude is extended to Committee Co-Chairs Whitney Carlisle and Timothy Moran for their stewardship of the project and to active participants Alicia Berg, Mark Davis, Peter Glick, Al Hanna, James Kane, Steve Legatzke, Tom McNulty, Scott Saef, Theodore Swain, and Bob Vihon.

Copyright © 2010
The Civic Federation
Chicago, Illinois

TABLE OF CONTENTS

EXECUTIVE SUMMARY	2
PURPOSE	4
SUPPORT FOR THE PROPERTY TAX.....	5
1. MOVE TOWARD A TRULY <i>AD VALOREM</i> TAX	6
1.1 REDUCE OR LIMIT HOMESTEAD EXEMPTIONS	6
1.2 IF HOMEOWNER RELIEF IS DESIRED, PROVIDE IT THROUGH A MEANS-TESTED STATE-LEVEL CIRCUIT BREAKER ...	7
1.3 DEVELOP MORE CURRENT AND ACCURATE ASSESSMENTS	9
1.4 REDUCE OR LIMIT INCENTIVE CLASSES	10
1.5 LIMIT AND NARROWLY DEFINE EXEMPT PROPERTY (CHARITABLE, RELIGIOUS, EDUCATIONAL, ETC.)	11
1.6 FURTHER REDUCE THE SPREAD BETWEEN ORDINANCE LEVELS OF ASSESSMENT OR ELIMINATE CLASSIFICATION ALTOGETHER	12
1.7 OPPOSE ACQUISITION-BASED ASSESSMENT BECAUSE IT WOULD NOT BE BASED ON CURRENT MARKET VALUE ..	12
2. SIMPLIFY THE PROPERTY TAX SYSTEM.....	13
2.1 CONSOLIDATE THE COOK COUNTY PROPERTY TAX EXTENSION AND COLLECTION FUNCTIONS	14
2.2 SIMPLIFY HOMEOWNER EXEMPTIONS TO MAKE THEM MORE PREDICTABLE AND TRANSPARENT	14
2.3 REDUCE THE ADMINISTRATIVE BURDEN OF TAX LEVYING, EXTENSION AND DISBURSEMENT BY REDUCING THE NUMBER OF LOCAL GOVERNMENTS.....	15
3. DO NOT “SWAP” THE PROPERTY TAX FOR ANOTHER REVENUE SOURCE FOR PUBLIC K-12 EDUCATION.....	16
4. APPLY THE PROPERTY TAX EXTENSION LIMITATION LAW STATEWIDE	18
5. IMPROVE THE SPEED AND EFFECTIVENESS OF THE PROPERTY TAX APPEALS SYSTEMS.....	19
5.1 ADEQUATELY FUND AND EFFICIENTLY ADMINISTER APPEALS SYSTEMS SO AS TO RESOLVE APPEALS IN A TIMELY FASHION	19
5.2 ALLOW TAXING DISTRICTS TO LEVY “RECAPTURE LEVIES”	19
6. IMPROVE TRANSPARENCY	20

EXECUTIVE SUMMARY

The purpose of this report is to articulate the Civic Federation's position on the Cook County property tax system. The report expresses the Federation's vision for a better property tax system and serves as a framework against which proposals to change the Cook County property tax system may be evaluated.

The report identifies positive and negative features of the current system as well as unintended consequences. It should be read in conjunction with four descriptive primers recently published by the Civic Federation.

The Civic Federation believes that the property tax is an important component in the overall structure of taxes that support local government. The most significant positive features of the property tax are its reliability as a revenue source for local government and its visibility to taxpayers.

The Civic Federation also believes that the *ad valorem* ("according to value") nature of the property tax should be preserved. The assessment of real estate based on estimated market value is beneficial because objective benchmarks for value exist (e.g., sales prices of similar properties) and uniformity can be achieved by reference to those benchmarks. Property tax reforms should move in the direction of the *ad valorem* nature of the tax by removing elements not related to value. The following are examples of ways to achieve this goal:

1. Reduce or limit homestead exemptions.
2. If homeowner relief is desired, provide it through a means-tested state-level circuit breaker.
3. Develop more current and accurate assessments.
4. Reduce or limit incentive classes.
5. Limit and narrowly define exempt property (charitable, religious, educational, etc.).
6. Further reduce the spread between ordinance levels of assessment or eliminate classification altogether.
7. Oppose acquisition-based assessment because it would not be based on current market value.

The Civic Federation believes that a tax system should be simple enough that taxpayers can understand it, collectors can effectively administer it and lawmakers can be held accountable for it. The Cook County property tax system is excessively complex and difficult for ordinary taxpayers to understand. The following recommendations would simplify the tax system:

1. Streamline the Cook County property tax extension and collection functions.
2. Simplify homeowner exemptions to make them more predictable and transparent.
3. Reduce the administrative burden of tax levying, extension and disbursement by reducing the number of local governments.

The Civic Federation opposes proposals to reduce property tax funding for public education in exchange for increased state support through income, sales, or other revenues ("tax swaps"). The

locally controlled and collected property tax is the most stable source of revenue for school districts, and the State's fiscal crisis has shown it to be an unreliable funding partner. In order to assist low property wealth and high tax rate school districts, the Federation recommends raising the General State Aid foundation level or targeting other state funds to supplement the poorest districts on a smaller scale.

The Federation recommends applying the Property Tax Extension Limitation Law ("tax caps") statewide in order to reduce confusion for taxpayers and taxing districts and to allow for more equitable calculation of the General State Aid formula for school districts.

The speed of the property tax appeals system should be improved by reducing case backlogs. The effectiveness of the appeals system in distributing tax burden on an *ad valorem* basis could be improved by allowing taxing districts to make "recapture levies" to recover certain amounts refunded due to taxpayer appeals.

Finally, the Civic Federation recommends improved transparency and public access to information from all the offices in the property tax system in order to allow the public to better understand the system and guard against abuses.

PURPOSE

The purpose of this report is to articulate the Civic Federation's position on the Cook County property tax system. The report expresses the Federation's vision for a better property tax system and serves as a framework against which proposals to change the Cook County property tax system will be evaluated.

The report identifies positive and negative features of the current system as well as unintended consequences. It should be read in conjunction with four descriptive primers recently published by the Civic Federation. These primers provide the factual basis for the Civic Federation position presented in this document:

Cook County Property Tax Appeals: A Primer on the Appeals Process with Comparative Data for 2000-2008

Published November 17, 2009

<http://www.civicfed.org/civic-federation/publications/cook-county-property-tax-appeals-primer-appeals-process-comparative-da>

The Cook County Property Assessment Process: A Primer on Assessment, Classification, Equalization and Property Tax Exemptions

Published April 5, 2010

<http://www.civicfed.org/civic-federation/publications/cook-county-property-assessment-process-primer-assessment-classificati>

The Cook County Property Tax Extension Process: A Primer on Levies, Tax Caps, and the Effect of Tax Increment Financing Districts

Published October 5, 2010

<http://www.civicfed.org/civic-federation/publications/cook-county-property-tax-extension-process-primer-levies-tax-caps-and->

The Cook County Property Tax System and Fundamental Principles of Taxation: A Primer that Applies Fundamental Tax Principles to the Cook County Property Tax System

Published November 22, 2010

<http://www.civicfed.org/civic-federation/publications/cook-county-property-tax-system-and-fundamental-principles-taxation>

SUPPORT FOR THE PROPERTY TAX

The Civic Federation believes that the property tax is an important component in the overall structure of taxes that support local government. The most significant positive features of the property tax are its reliability as a revenue source for local government and its visibility to taxpayers.

The property tax is a stable revenue source for local government services (including schools) and its high collection rate makes it a reliable pledge for bond security. Revenue stability is important because predictable income allows for better service-delivery planning. Excessive revenue fluctuation characteristic of elastic, non-property tax revenues disrupts a government's ability to provide a reliable level of service.

There is a high collection rate for the property tax because real estate is difficult to hide and liens can be placed against delinquent properties. The Cook County Treasurer holds annual tax sales, where delinquent taxes are sold to buyers who pay the tax in exchange for a lien against the delinquent property. Collection rates for property taxes are typically between 97%-99% countywide in Cook County.¹

The property tax is relatively inelastic, meaning that the revenue it generates does not change dramatically during the course of the business cycle. In general, corporate and personal income taxes are the most elastic, sales taxes are moderately elastic and property taxes are the least elastic taxes.² Tax caps and rate limits prevent Cook County property tax revenues from growing more rapidly than the economy during periods of economic expansion, and the interaction of these limitations also slows the decline in property tax revenues during periods of economic contraction.³

The property tax is a highly visible tax, meaning that Cook County property owners are typically aware of the total amount of property tax they pay because they are explicitly billed twice a year.⁴ In contrast, the sales tax is less visible because it is paid incrementally with each consumer purchase. Only a person who recorded and summed the tax amounts from every receipt would know the total amount of sales tax paid over time.

Visibility provokes taxpayer interest in the cost of local government services supported by the property tax and this interest serves to better align those services with the demands of

¹ Civic Federation, *Cook County Property Tax Extension Process*, October 5, 2010, p. 36.

<http://www.civiced.org/civic-federation/publications/cook-county-property-tax-extension-process-primer-levies-tax-caps-and->

² John L. Mikesell, *Fiscal Administration: Analysis and Applications for the Public Sector*, 6th edition (Belmont, CA: Wadsworth/Thomson Learning, 2003), 300-301. For an illustrative graph of fluctuations in personal income tax, corporate income tax and sales tax receipts for the State of Illinois, see Commission on Government Forecasting and Accountability, *Monthly Briefing: September 2010*, p. 8.

<http://www.ilga.gov/commission/cgfa2006/Upload/0910revenue.pdf>.

³ Civic Federation, *Cook County Property Tax Extension Process*, October 5, 2010, pp. 19-23.

⁴ Unfortunately the property tax is not very visible to renters, who indirectly pay property taxes through their rent but are not separately billed for the tax. See the explanation of tax incidence in Civic Federation, *The Cook County Property Tax System and Fundamental Principles of Taxation*, November 22, 2010, p. 10.

constituents. The visibility of the property tax is valuable because it encourages citizen involvement and monitoring of government expenditures.

Finally, the property tax is valuable because it encourages productive use of land by imposing an operating cost on real estate ownership. If there were no ongoing cost to owning land, owners would have less incentive to make productive use of the land.⁵

1. MOVE TOWARD A TRULY *AD VALOREM* TAX

The Civic Federation believes that the *ad valorem* (“according to value”) nature of the property tax should be preserved. The assessment of real estate based on estimated market value is beneficial because objective benchmarks for value exist (e.g., sales prices of similar properties) and uniformity can be achieved by reference to those benchmarks. Property tax reforms should move in the direction of the *ad valorem* nature of the tax by removing elements not related to value. The following are examples of ways to achieve this goal.

1.1 Reduce or limit homestead exemptions

Homestead exemptions reduce the taxable value of a homeowner’s primary residence. Illinois statute currently authorizes ten homestead exemptions available to different types of homeowners. There is a General Homestead Exemption for all homeowners, as well as special exemptions targeted at senior citizens, disabled persons and veterans. Eight of the exemptions exempt a portion of equalized assessed value from taxation, one exempts a portion of assessed value (the Disabled Veterans’ Exemption) and one exempts a portion of cash (i.e., market) value (the Homestead Improvements Exemption).⁶

Four of the ten exemptions exempt a flat amount of equalized assessed value (EAV). The other six exemptions exempt varying amounts of EAV, assessed value, or cash value. Four of the ten homestead exemptions were enacted in 2007 and all of the other exemptions have been modified over the years since 1970.⁷

The total value of homestead exemptions in Cook County has grown substantially in recent years. In 1999, homestead exemptions removed 5.0% of gross EAV in Cook County from the final taxable value. In 2008, homestead exemptions exempted 12.6% of gross EAV from taxation. This increase in the value of homestead exemptions is due primarily to dramatic growth in the Senior Citizens Assessment Freeze Exemption and expansion of the General Homestead Exemption through the introduction of the Alternative General Homestead Exemption. The

⁵ William J. McCluskey, Michael E. Bell and Lay-Cheng J. Lim, “Rental Value Versus Capital Value: Alternative Bases for the Property Tax,” in *Challenging the Conventional Wisdom on the Property Tax*, eds. Roy Bahl, Jorge Martinez-Vazquez and Joan Youngman, (Cambridge, MA: Lincoln Institute of Land Policy, 2010), pp. 121, 132.

⁶ Civic Federation, *The Cook County Property Assessment Process: A Primer on Assessment, Classification, Equalization and Property Tax Exemptions*, April 5, 2010, pp. 18-19. Available at <http://www.civicfed.org/civic-federation/publications/cook-county-property-assessment-process-primer-assessment-classificati>

⁷ Civic Federation, *The Cook County Property Assessment Process: A Primer on Assessment, Classification, Equalization and Property Tax Exemptions*, April 5, 2010, Appendix E.

Senior Citizens Assessment Freeze Exemption had the highest rate of growth, increasing by 979.6%, or \$4.7 billion of EAV between 1999 and 2008.⁸

Homestead exemptions, especially the Alternative General Homestead Exemption (commonly known as the “7% cap”) and other exemptions added in recent years, have contributed to the departure of the property tax from an *ad valorem* tax. The Civic Federation recommends the reversal of this trend. Homestead exemptions should be reduced or limited and any homestead exemption should be the same amount for all eligible recipients rather than a varying amount as with the “7% cap.”⁹ This will improve the horizontal equity of the Cook County property tax, meaning that similar properties will have more similar taxable value.¹⁰

1.2 If homeowner relief is desired, provide it through a means-tested state-level circuit breaker

Many people believe that a fair tax system is one in which those persons most able to bear the cost contribute the most toward government services. In other words, tax burden should be related to one’s ability to pay.¹¹

Historically, ability to pay was often measured according to the amount of productive land and property (e.g., livestock, equipment, buildings) someone owned, since wealth was derived from such tangible assets. A tax on property was an effective way to tax those persons most able to pay the tax. In modern developed societies, current income is usually considered a better gauge of ability to pay because most individuals earn wages rather than produce food and significant amounts of wealth take the form of intangible assets such as stocks and bonds. The introduction of federal and state income taxes during the 20th century reflected this growing belief that income was the best proxy for ability to pay. However, there are ongoing debates as to whether total net wealth or household consumption would be superior modern measures of ability to pay.¹²

In recent years various income-related homeowner exemptions have been proposed in order to address the fact that annual income does not necessarily rise or fall with the market value of one’s home. Currently, eligibility for the Long-Time Occupant Homestead Exemption and the Senior Citizens Assessment Freeze Homestead Exemption is dependent on total household income.¹³ Cook County applicants are required to sign an affidavit certifying their household

⁸ Civic Federation, *The Cook County Property Assessment Process: A Primer on Assessment, Classification, Equalization and Property Tax Exemptions*, April 5, 2010, pp. 22-24.

⁹ See page 14 of this report for the importance of fixed rather than variable-amount homeowner exemptions.

¹⁰ Civic Federation, *The Cook County Property Tax System and Fundamental Principles of Taxation*, November 22, 2010, pp. 12-14.

¹¹ Civic Federation, *The Cook County Property Tax System and Fundamental Principles of Taxation*, November 22, 2010, p. 6.

¹² See for example Robert Murray Haig, *A History of the General Property Tax in Illinois* (Champaign: University of Illinois, 1914) and John L. Mikesell, *Fiscal Administration: Analysis and Applications for the Public Sector* 6th edition (Belmont, CA: Wadsworth/Thomson Learning, 2003), 289.

¹³ Civic Federation, *The Cook County Property Assessment Process: A Primer on Assessment, Classification, Equalization and Property Tax Exemptions*, April 5, 2010, Appendix E.

income level to the Cook County Assessor's Office.¹⁴ The application form states that it is subject to audit by the Assessor's Office.

The Civic Federation understands that the inexact relationship between the market value of real estate and annual income can put strain on some homeowners, especially those experiencing an income disruption due to unemployment or underemployment. Unlike business property owners, homeowners cannot pass on their costs to customers, owners, or suppliers.¹⁵ The Civic Federation believes that it is reasonable to deviate from the *ad valorem* basis of taxation in order to provide property tax relief to low-income homeowners and renters.¹⁶ Income level is the best criterion to use for property tax relief in order to target it to persons with the least ability to pay. Other criteria such as age, disability, veteran's status, or length of time in the home give relief to some people who have more income than others and are thus not preferred criteria for relief.

The Civic Federation believes that the most effective way to target property tax relief to homeowners with the least ability to pay is a means-tested "circuit breaker" administered by the State of Illinois through the state income tax. A property tax circuit breaker is a program designed to provide relief when a person's property tax liability exceeds a certain percentage of their annual income.¹⁷ As of 2008, 33 states including Illinois had programs that operated as circuit breakers but only 12 states provided the circuit breaker to people of all ages.¹⁸ In Illinois, applicants must be at least 65 years old or disabled in order to apply for the income-based grant.¹⁹

The State of Illinois Department of Revenue is best positioned to verify income and to administer tax relief efficiently. In contrast, the current system of Cook County-administered relief creates an additional layer of application paperwork and audit procedures for a unit of government that is less well-equipped to verify household income.

One revenue source that the State could use to fund a property tax circuit breaker for people of all ages is the current 5% property tax credit on state income taxes.²⁰ This non-refundable credit reduces the state income tax liability of eligible homeowners by an amount equal to 5% of property taxes paid in that tax year. It does not apply to renters and because it is non-refundable it does not benefit people with low or no income tax liability. The Illinois Comptroller estimates that this credit totaled \$506.7 million in FY2008.²¹ The credit could be eliminated and the

¹⁴ See for example the Senior Citizens Assessment Freeze Homestead Exemption application form at <http://www.cookcountyassessor.com/forms/SRFRz.pdf> (accessed November 4, 2010).

¹⁵ Civic Federation, *The Cook County Property Tax System and Fundamental Principles of Taxation*, November 22, 2010, p. 10.

¹⁶ Renters indirectly pay property taxes through their rent. Civic Federation, *The Cook County Property Tax System and Fundamental Principles of Taxation*, November 22, 2010, p. 10.

¹⁷ John H. Bowman, Daphne A. Kenyon, Adam Langley and Bethany P. Paquin, "Property Tax Circuit Breakers: Fair and Cost-Effective Relief for Taxpayers," (Cambridge, MA: Lincoln Institute of Land Policy, 2009), p. 5.

¹⁸ John H. Bowman, Daphne A. Kenyon, Adam Langley and Bethany P. Paquin, "Property Tax Circuit Breakers: Fair and Cost-Effective Relief for Taxpayers," Lincoln Institute of Land Policy (Cambridge, MA: Lincoln Institute of Land Policy, 2009), p. 8.

¹⁹ 320 ILCS 25.

²⁰ <http://www.revenue.state.il.us/publications/pubs/pub-108.pdf>.

²¹ Illinois Comptroller Daniel W. Hynes, "Tax Expenditure Report: Fiscal Year 2008," November 2009, p. B-1.

revenue used to redistribute property tax relief from people of all income levels to those of the lowest income levels.²²

Revenue from the elimination of the 5% property tax credit or from other state sources could be used to fund a refundable income tax credit targeted at low-income homeowners and renters. Property taxpayers and renters with low or no income tax liability would still receive property tax relief if they filed income tax returns because the credit would be refundable.

The Civic Federation believes that it is very important to minimize homeowner exemptions and narrowly target them to the lowest-income homeowners and renters. Exemptions should not be granted to homeowners who have the ability to pay their full *ad valorem* tax liability because property taxes in Cook County are a zero-sum game, meaning that tax relief provided to one property owner must be paid for by all other owners because it affects both the total EAV upon which the rate is based and the proportion of total EAV for each property.²³

1.3 Develop more current and accurate assessments

Illinois state statute requires assessment officials to determine the “fair cash value” of each parcel. This is defined as “the amount for which a property can be sold in the due course of business and trade, not under duress, between a willing buyer and a willing seller.”²⁴ The fair cash value (market value) is not the actual sales price but an estimate. Market value is conceptual and can be represented but not directly observed.²⁵ Sales prices of similar properties provide an objective basis for estimating a parcel’s market value, and the sales comparison approach to valuation is effective when there are sufficient sales to provide a reliable basis for comparison.²⁶

In mass appraisal systems data on the characteristics of parcels, actual prices of parcels that sold and other factors affecting sale prices are entered into computer models that can estimate market values of all parcels. The Cook County Assessor uses such a computer-assisted technique and three to five years of sales data to value most residential properties.²⁷ There were more than 1.5

²² Cook County Assessor James Houlihan suggested the 5% property tax credit as a funding source for an expanded circuit breaker in his October 2009 report “Targeting Property Tax Relief: A Design to Expand Illinois’ Circuit Breaker.” <http://www.cookcountyassessor.com/forms/CCAOCircuitBreakerReport100808.pdf>. The Property Tax Reform and Relief Task Force chaired by State Senator Terry Link also recommended an enhanced circuit breaker program in its December 2009 report. <http://tax.illinois.gov/LocalGovernment/PropertyTax/TaskForceReport.pdf>

²³ For a detailed explanation of the zero-sum nature of Cook County property taxes, see Civic Federation, *Cook County Property Tax Extension Process*, October 5, 2010, p. 36 ff.

²⁴ 35 ILCS 200/1-50; see, also, Cook County Real Property Assessment Classification Ordinance, Cook County Code of Ordinances § 74-62(b) (“market value” defined in terms of a “fair voluntary sale”).

²⁵ International Association of Assessing Officers, *Standard on Ratio Studies*, (Kansas City: International Association of Assessing Officers, 2007), p. 7.

²⁶ International Association of Assessing Officers, *Standard on Mass Appraisal of Real Property*, (Kansas City: International Association of Assessing Officers, 2002 revised 2008), p. 8.

²⁷ <http://www.cookcountyassessor.com/propertyvaluation.aspx>.

million residential properties in Cook County in tax year 2008.²⁸ Other assessment techniques are used for other types of property.²⁹

Regardless of the assessment method used for a parcel, few properties are perfectly identical and the subjective element of valuation leads to differences of opinion among assessors and appraisers. It is rarely possible for assessors to physically evaluate each parcel, so they must rely on data collected through property transfer documentation, permitting and sample site visits. Uniform valuation of a large number of properties is facilitated by techniques such as multiple regression, which benefit from technological improvements that permit high volume statistical computations.

Cook County's 1.8 million parcels are divided into three districts for the purpose of property assessment. Each district is reassessed every three years. The Civic Federation supports efforts to move toward more current and frequent reassessments while recognizing that this may add to the cost of assessment administration. More frequent assessments in rising real estate markets would mitigate "sticker shock" felt by taxpayers when three years worth of appreciation is applied in a single year. In falling markets more current assessments would ensure that assessed values keep pace with declines in owners' property values. More accurate and current assessments should also reduce the volume of property tax appeals.

1.4 Reduce or limit incentive classes

Among the 14 major classes of property into which Cook County real estate parcels are categorized, eight of them are incentive classes.³⁰ Incentive classes are intended to encourage specific use or redevelopment of real estate by granting reduced assessment levels for certain periods of time to eligible parcels. The justification is cast in terms of the social utility of the goal for which the incentive is granted: e.g., industrial or commercial development of an economically depressed area; or the availability of housing for economically disadvantaged citizens.

The Cook County Board of Commissioners has added numerous incentive classes over the years, sometimes targeted at a single development.³¹ It is difficult if not impossible to objectively determine the degree of influence that these temporary assessment reductions have had on real estate decisions.

²⁸ Cook County Assessor, Final Abstract of 2008 Assessment. In this report "residential" means Class 2 properties, which include single family homes, condominiums, cooperatives and apartment buildings of up to six units. Larger apartment buildings (Class 3) are not included.

²⁹ For an explanation of the primary methods of assessment see Civic Federation, *The Cook County Property Assessment Process: A Primer on Assessment, Classification, Equalization and Property Tax Exemptions*, April 5, 2010.

³⁰ For descriptions of incentive classes, see <http://www.cookcountyassessor.com/specialassessmentproperties.aspx>. For major class codes, see <http://www.cookcountyassessor.com/forms/classcode.PDF>. For more on classification and classes of property, see Civic Federation, *The Cook County Property Assessment Process: A Primer on Assessment, Classification, Equalization and Property Tax Exemptions*, April 5, 2010, p. 9 ff.

³¹ For example, the Cook County Board of Commissioners created incentive class 8b on April 6, 2010 for MetroSouth hospital in Blue Island. See Cook County ordinance 10-O-21. See also *Chicago Tribune* editorial, "Rx for MetroSouth," December 15, 2009.

The Civic Federation understands that certain types of real estate development can improve the economy and quality of life in Cook County. However, the Federation believes that the proliferation of assessment level incentive classes should be slowed or reversed because it deviates from the *ad valorem* basis of taxation. There are other economic development programs available, such as Tax Increment Financing. As with homeowner exemptions, assessment reductions shift the burden of taxation onto other properties in a way that does not reflect the market value of all properties.

1.5 Limit and narrowly define exempt property (charitable, religious, educational, etc.)

Article IX Section 6 of the Illinois Constitution authorizes the General Assembly to exempt from taxation the following types of property: property of the State or local governments, property used for agricultural and horticultural societies and property used for school, religious, cemetery and charitable purposes.³² These exemptions may remove the entire value of a property from taxation or only a designated part of it insofar as the property (or part) meets the statutory and constitutional criteria.

Approximately 5% of parcels in Cook County are exempt.³³ The value of exempt parcels is unknown because they are not assessed. There is one recent example of an attempt to quantify the value of these property exemptions. At the request of the Cook County Board of Commissioners, the Cook County Assessor estimated the full market value of 54 tax-exempt hospitals in the county at \$4.3 billion to \$4.5 billion as of January 2006. This represented approximately 0.72% to 0.75% of full market value countywide.³⁴

The rationale for exempting these types of property from property taxation (in part or in total) is that they provide a public good that would be diminished if the owners were required to pay more in taxes.³⁵ Although the Civic Federation respects this argument, it notes that this exemption, like all other exemptions and reductions, shifts the property tax burden onto other properties. The value of the exemption should be quantified and its scope carefully examined. The Civic Federation believes that this exempt status should be reserved for those institutions that provide public benefit and should be narrowly applied so as to guard against excessive exemptions.

³² For more detail see Civic Federation, *The Cook County Property Assessment Process: A Primer on Assessment, Classification, Equalization and Property Tax Exemptions*, April 5, 2010, pp. 25-26.

³³ Cook County Assessor, Final Abstracts of Assessment 1999-2008.

³⁴ Cook County Assessor's Office, "Exempt Hospitals: Valuation Estimates and Appraisal Methodology," November 6, 2007. Available at <http://www.cookcountyassessor.com/LatestNews/LateNews.aspx?ID=171>

³⁵ The exemption violates the benefit principle of taxation by exempting from taxation certain organizations that nonetheless benefit from government services. For more on the benefit principle see Civic Federation, *The Cook County Property Tax System and Fundamental Principles of Taxation*, November 22, 2010, p. 3 ff.

1.6 Further reduce the spread between ordinance levels of assessment or eliminate classification altogether

Illinois state statute requires that all real property be valued for the purpose of property taxation at 33 1/3% of its fair cash value in every county except Cook.³⁶ Cook County is the only county in the State of Illinois that sets different property tax assessment levels for different types of property.³⁷

The theoretical justification for use-based classification of property is usually stated in terms of the incidence of the resulting tax burden, with the owners of higher-assessment-level properties being assumed to have the ability to shift the incidence of the tax burden to others. Examples of such parties are commercial space users who pass the tax on to consumers, manufacturers who include taxes as a cost of production and multi-unit apartment owners who recover the tax cost from their tenants. By contrast, the homeowner absorbs the whole tax cost alone and cannot pass it on to someone else.

However, the primary justification for classification operative at the time of the 1970 Illinois Constitutional Convention was the preservation of the *de facto* classification system that had evolved in Cook County over many years dating back to at least the 1920s.³⁸

The Civic Federation believes that Cook County real estate should be uniformly assessed according to market value. No other county in Illinois legally assesses some properties at a lower percentage of market value than others. However, ending classification in Cook County would be very politically difficult because it would create a large tax increase for residential and other property currently assessed at the lowest ordinance level and a corresponding decrease for business and other property types currently assessed at higher ordinance levels.³⁹ The Civic Federation believes that the current difference between the highest and lowest ordinance levels of assessment (10% and 25%) should be narrowed gradually in order to phase out the Cook County classification system and begin assessing all property at uniform levels of assessment on an *ad valorem* basis. This would end the Cook County exception and make legal assessment levels consistent statewide.

1.7 Oppose acquisition-based assessment because it would not be based on current market value

Illinois state statute requires assessment officials to determine the “fair cash value” of each parcel. This is defined as “the amount for which a property can be sold in the due course of

³⁶ Illinois Property Tax Code, 35 ILCS 200/9-145. For more on classification see Civic Federation, *The Cook County Property Assessment Process: A Primer on Assessment, Classification, Equalization and Property Tax Exemptions*, April 5, 2010, pp. 9-12.

³⁷ The State of Illinois does also impose some statewide classification, most notably of farmland (35 ILCS 200/10-110 *et seq.*) and open space (35 ILCS 200/10-155 *et seq.*).

³⁸ Civic Federation, *The Cook County Property Assessment Process: A Primer on Assessment, Classification, Equalization and Property Tax Exemptions*, April 5, 2010, pp. 9-12.

³⁹ Civic Federation, *Report of the Civic Federation Task Force on Cook County Classification and Equalization*, June 1999. <http://www.civicroad.org/civic-federation/publications/report-civic-federation-task-force-cook-county-classification-and-equa>.

business and trade, not under duress, between a willing buyer and a willing seller.”⁴⁰ It is important to note that this “fair cash” or “market” value is not necessarily the actual sales price of a given property, but rather an estimation of what it would sell for on a given valuation date (January 1 in Cook County). In states such as Illinois that use the market value basis for assessment, adjusting the assessment of an individual parcel based on its sales price (“sales chasing”) is prohibited when other properties are not valued the same way.⁴¹ Market value is the most common standard for assessment in the United States.⁴²

In contrast, acquisition-based assessment values a property based on its purchase price (typically increased by an annual inflation factor after purchase). The most well-known acquisition-based assessment system is in California as a result of Proposition 13, a state constitutional amendment passed in 1978. Under Proposition 13, property is reassessed at a new market value (typically based on the purchase price) when ownership is transferred and subsequent annual assessment increases are limited to the change in the Consumer Price Index or 2%, whichever is less.⁴³

The Civic Federation opposes acquisition-based assessment because it violates basic uniformity (horizontal equity) by allowing two like properties to have radically different tax burdens based on the time and amount of the purchase.⁴⁴ Real estate taxation should be based on current market value, not on purchase price.⁴⁵ Under acquisition-based assessment a low-income person purchasing a home may well pay more than a wealthy person who purchased a similar home many years before. Such issues of equity are difficult to resolve under acquisition-based assessment. Market value assessment is more likely to distribute the tax burden based on ability-to-pay measured by long-term wealth.⁴⁶

2. SIMPLIFY THE PROPERTY TAX SYSTEM

The Civic Federation believes that a tax system should be simple enough that taxpayers can understand it, collectors can effectively administer it and lawmakers can be held accountable for it. The Cook County property tax system is excessively complex and difficult for ordinary taxpayers to understand. Decades of adding special treatments (e.g., exemptions and incentive

⁴⁰ 35 ILCS 200/1-50; see, also, Cook County Real Property Assessment Classification Ordinance, Cook County Code of Ordinances § 74-62(b) (“market value” defined in terms of a “fair voluntary sale”).

⁴¹ *Walsh v. Property Tax Appeal Board*, 181 Ill. 2d 228 (1998). In the Walsh case, the Illinois Supreme Court ruled that the uniformity clause of the Illinois Constitution was violated when some properties in Tazewell County were assessed based on their recent sales prices while other properties were assessed using the mass appraisal method.

⁴² John L. Mikesell, *Fiscal Administration: Analysis and Applications for the Public Sector*, 6th edition (Belmont, CA: Wadsworth/Thomson Learning, 2003), p. 396.

⁴³ Mark Haveman and Terri A. Sexton, “Property Tax Assessment Limits: Lessons from Thirty Years of Experience,” Lincoln Institute of Land Policy, (Cambridge, MA: 2008), p. 5.

⁴⁴ Civic Federation, *The Cook County Property Tax System and Fundamental Principles of Taxation*, November 22, 2010, p. 12.

⁴⁵ The International Association of Assessing Officers also rejects non-market value systems because they “deviate from the basic principle of ad valorem taxation and tend to be less equitable for all property taxpayers.” International Association of Assessing Officers, “Standard on Property Tax Policy”, revised January 2010, p. 13.

http://www.iaao.org/uploads/Standard_on_Property_Tax_Policy.pdf

⁴⁶ Nathan B. Anderson and Therese J. McGuire, “Property Taxation in Illinois: A Framework for Reform,” *State Tax Notes*, April 21, 2008, p. 212.

classes)⁴⁷ and revenue limitations (e.g., rate limits and tax caps)⁴⁸ have created a system that is fully understood by very few individuals and requires years of study. The complexity makes it difficult for many levying agencies to understand and forecast their revenue. Lawmakers routinely vote on property tax law changes without reliable estimates of their effects because comprehensive modeling is so time consuming and complicated. Tremendous private and public sector resources are devoted to deciphering, defending and appealing various elements of the property tax system. The following are three ways to simplify the Cook County property tax system.

2.1 Consolidate the Cook County property tax extension and collection functions

Administration of the Cook County property tax function is primarily handled by three different elected county officials (Assessor, Clerk and Treasurer), leading to taxpayer confusion about whom to contact with questions or complaints about the tax.⁴⁹ The lines of responsibility are nearly impossible for ordinary taxpayers to discern and politicians exploit this fact to their political advantage.

The Civic Federation recommends that a unified property tax administration office be created.⁵⁰ The new office would merge the Treasurer's office; the County Clerk's tax extension, tax redemption and map divisions; the part of the Recorder's office dealing with property records; and the Auditor's property functions. It would be an appointed rather than an elected office. Several previous proposals had called for merging the assessor's office into a unified property tax administration office.⁵¹ However, the Federation believes that this move could potentially compromise the integrity and independence of the property assessment process. Instead, assessment should be maintained separately from the property tax extension, redemption, collection and disbursement processes. Creating a unified Office of Property Tax Administration would require a county referendum.⁵²

2.2 Simplify homeowner exemptions to make them more predictable and transparent

Before the introduction of the Alternative General Homestead Exemption (commonly called the "7% cap") in 2004, the General Homestead Exemption was the same amount for all qualifying properties in Cook County. The 7% cap created a range from \$4,500 to \$20,000 of EAV that

⁴⁷ Civic Federation, *The Cook County Property Assessment Process: A Primer on Assessment, Classification, Equalization and Property Tax Exemptions*, April 5, 2010.

⁴⁸ Civic Federation, *Cook County Property Tax Extension Process*, October 5, 2010.

⁴⁹ There are also two additional agencies that hear property tax appeals, the Board of Review and Property Tax Appeal Board, as well as the courts. See Civic Federation, *Cook County Property Tax Appeals: A Primer on the Appeals Process with Comparative Data for 2000-2008*, November 17, 2009.

⁵⁰ This recommendation is made in Civic Federation, *Cook County Modernization Report: A Roadmap for Cook County Government*, October 25, 2010. <http://www.civicfed.org/civic-federation/publications/cook-county-modernization-report>.

⁵¹ See Cook County Commissioner Mike Quigley, *Reinventing Cook County*, Part I, December 2003, pp. 20-22 and Civic Federation Statement on House Bill 1346, Seventy-First Session, Illinois General Assembly (1959).

⁵² Illinois State Constitution Article VII Section 4(c) County Officers.

could be exempted from taxation and was to expire after three years. It has subsequently been extended twice and the exemption amounts have been adjusted.⁵³

The fact that the exemption amount is a range rather than a flat amount makes it more difficult for taxpayers to predict their final taxable value and verify that they are receiving the correct exemption amount. The Cook County Assessor's website provides a page describing the 7% cap calculation and the Cook County Clerk's annual tax rates report provides some sample tax bill calculations based on minimum and maximum exemptions, but the complexity of these explanations simply highlights the difficulty of computing the variable exemption amounts.⁵⁴

The variable amount of the 7% cap poses enormous prediction and modeling challenges because each exemption must be individually calculated. Over one million parcels were eligible for the 7% homeowner exemption in tax year 2009.⁵⁵ In order to evaluate the effects of the first three years of the 7% exemption and develop a position on the proposed renewal of 7%, the Civic Federation undertook an analysis that took over a year to complete and totaled 135 pages.⁵⁶ The Federation found that the effects of the 7% cap on a given community depend on the proportion of homeowners, the overall property wealth of the area, appreciation rates, tax levies and assessment levels. Furthermore, one must consider all these factors relative not only to other properties within the community, but also other properties in neighboring communities sharing common taxing agencies. There are also effects caused by the timing of implementation, since the "7% cap" took effect first in Chicago for tax year 2003, then for the North suburbs in 2004 and finally for the South suburbs in 2005. The interactions of these moving parts can create sometimes surprising effects.

This complexity is problematic because it makes it extremely difficult for lawmakers to know the ramifications of changes to homeowner exemption laws. The difficulty of accurately modeling the effects of changes to the 7% cap makes it prohibitively time-consuming for lawmakers to request and receive estimates of the effects of proposed changes to the law.

In order to simplify the system and make it easier for homeowners to understand their exemption amount and for analysts to model changes to the property tax system for lawmakers, the Civic Federation recommends that any exemption amounts be the same for all eligible recipients, not varying amounts.

2.3 Reduce the administrative burden of tax levying, extension and disbursement by reducing the number of local governments

There are 498 separate local governments that levy property taxes in Cook County and over 1300 separate taxing agencies for which tax rates must be calculated.⁵⁷ Most Cook County property

⁵³ Civic Federation, *The Cook County Property Assessment Process: A Primer on Assessment, Classification, Equalization and Property Tax Exemptions*, April 5, 2010, pp. 19-20.

⁵⁴ <http://www.cookcountyassessor.com/sevenpercentcalculation.aspx> and <http://www.cookcountyclerk.com/tsd/DocumentLibrary/2008TaxRates.pdf>.

⁵⁵ Cook County Assessor, Final Abstract of Assessment 2009.

⁵⁶ Civic Federation, *The Effects of the "7% Cap" on Property Taxes Paid in Cook County: 2002-2008*, March 26, 2007. <http://www.civicfed.org/civic-federation/publications/effects-7-cap-property-tax-paid-cook-county-2002-2008-including-projec>

owners pay taxes to roughly seven to fifteen units of local government.⁵⁸ In order to levy the correct amount of property tax revenue, the financial staff of each taxing agency must understand any tax limitations that apply to their unit of government and accurately estimate the amount of revenue to which the unit is entitled.⁵⁹ The Cook County Clerk's Office must calculate tax extensions for all these taxing agencies, communicate effectively with their finance staffs and make corrections or changes all within a very tight timeframe. The Cook County Treasurer's Office must correctly allocate and disburse tax revenue to the taxing agencies.

The administrative burden of levying, extending and disbursing tax revenues to hundreds of taxing agencies is one reason that the Civic Federation supports efforts to consolidate local governments in Cook County. The Property Tax Reform and Relief Task Force chaired by State Senator Terry Link also recommended consolidation of local taxing bodies in its December 2009 report.⁶⁰

3. DO NOT “SWAP” THE PROPERTY TAX FOR ANOTHER REVENUE SOURCE FOR PUBLIC K-12 EDUCATION

Roughly 30% of the 498 local governments that levy property taxes in Cook County are elementary or secondary school districts.⁶¹ Over 50% of a typical property owner's tax bill goes to school districts. Property taxes and public education are closely connected and the proper relationship between the two has been the subject of serious and ongoing debate in Illinois and throughout the United States for decades.⁶²

Numerous proposals have been made in Illinois to increase state financial support for K-12 education and simultaneously reduce property taxes for school districts. These arrangements are often called “swaps” because they lower one tax while increasing another, although the target is usually a net increase in revenue for public schools. One well-known recent example is commonly referred to as Senate Bill 750, which has circulated in various forms since 2007. One version of SB 750 would increase the state personal income tax from 3% to 5%; increase the state corporate income tax from 4.8% to 8%; expand the state sales tax base to include consumer services (excluding business, professional, housing and healthcare services); reduce property taxes by 25% by requiring school districts to abate property taxes in the same amount as state

⁵⁷ There were 498 local governments levying property taxes in Cook County in 2007 according to the Illinois Department of Revenue, <http://www.revenue.state.il.us/Publications/LocalGovernment/PtaxStats/2007/index.htm>. According to the Cook County Clerk's Office, there are over 1300 separate taxing agencies including entities such as Special Service Areas, Tax Increment Financing Districts and General Assistance levies for townships. Information provided by Bill Vaselopulos, Manager of Tax Extension and Accounting, Cook County Clerk's Office, July 29, 2010.

⁵⁸ Illinois has more local governments than any other state in the nation. In October 2007 it had 6,994 local governments statewide according to the U.S. Census Bureau. http://www2.census.gov/govs/cog/all_ind_st_descr.pdf

⁵⁹ For more information about the complexity of tax limitation calculations, see Civic Federation, *Cook County Property Tax Extension Process*, October 5, 2010.

⁶⁰ <http://tax.illinois.gov/LocalGovernment/PropertyTax/TaskForceReport.pdf>

⁶¹ Civic Federation, *Cook County Property Tax Extension Process*, October 5, 2010, p. 4.

⁶² Daphne A. Kenyon, *The Property Tax—School Funding Dilemma*, (Cambridge, MA: Lincoln Institute of Land Policy, 2007).

funding for education is increased; and offset the increased tax burden on low and middle income families with a refundable tax credit.

The Civic Federation opposes such tax swap proposals. As described on page 5 of this report, the property tax is a relatively stable and reliable source of revenue compared to more volatile sources such as income and sales taxes. This makes it a very attractive revenue source for education because annual revenues are predictable.

Another benefit of the property tax is that it is locally controlled and collected. If the property tax were lowered in exchange for a greater share of income or other taxes collected by the State of Illinois, school districts would have to rely even more heavily on state transfers. The State of Illinois' fiscal crisis has led to significant payment delays making it an unreliable funding partner. For example, the State owed \$236.2 million to Chicago Public Schools as of July 30, 2010, which is a payment delay of over five months.⁶³ The Illinois State Board of Education reports that as of November 9, 2010 the State owes school districts statewide a total of \$1.198 billion (\$618.5 million for FY2010 and \$579.8 million for FY2011).⁶⁴

The property tax is a more effective way than the income tax to have businesses share in the cost of public education. Business income taxes are based primarily on profits so when businesses experience losses their income tax liability is dramatically reduced or eliminated. Businesses continue to pay property taxes regardless of profit, which is important because they continue to benefit from local government services even when profits falter. Businesses should contribute to public education funding because they benefit from having a well-educated local population from which to recruit employees.

The Civic Federation recognizes that there is great public concern about jurisdictional disparities in K-12 education resources. Many court cases and property tax reform initiatives nationwide have originated from charges that the property tax creates unacceptable inequality in the public school finance system.⁶⁵ Significant gaps in per-pupil spending persist in Illinois, with high property-wealth school districts able to spend sometimes twice or three times what low property-tax wealth districts can generate for their students. Tax rates in low property-wealth districts are often much higher than elsewhere because there is not enough EAV to drive down the tax rate. In order to assist low EAV/high property tax rate districts, the Civic Federation recommends increasing the General State Aid foundation level or targeting additional State funding on a smaller scale to supplement poorer districts and relieve the property tax pressure there. Increasing the foundation level would raise the minimum per-pupil spending without putting a ceiling on spending by high-wealth districts.⁶⁶

⁶³ Chicago Public Schools FY2011 Proposed Budget, p. 43.

⁶⁴ Information provided by Illinois State Board of Education Public Information Office, November 9, 2010.

⁶⁵ For a history of education-related property tax litigation see William N. Evans, Sheila E. Murray and Robert M. Schwab, "The Property Tax and Education Finance: Uneasy Compromises," in *Property Taxation and Local Government Finance*, ed., Wallace E. Oates, (Cambridge, MA: Lincoln Institute of Land Policy, 2001), pp. 210-235.

⁶⁶ For a comprehensive examination of the property tax and school funding debates, see Daphne A. Kenyon, *The Property Tax—School Funding Dilemma*, (Cambridge, MA: Lincoln Institute of Land Policy), 2007.

4. APPLY THE PROPERTY TAX EXTENSION LIMITATION LAW STATEWIDE

The Property Tax Extension Limitation Law (PTELL) is intended to limit the growth of the overall agency levy to 5.0% or the rate of inflation, whichever is less.⁶⁷ PTELL is often called “tax caps.” Although the principle of PTELL is simple, its application is complex.⁶⁸

PTELL was passed in reaction to rapid population growth in the collar counties and was applied to those counties beginning with tax year 1991.⁶⁹ When PTELL is applied to a county, all non-home rule taxing districts in that county are subject to it. Cook County was made subject to PTELL beginning in tax year 1994.⁷⁰ In 1996 all counties in Illinois were given the opportunity to hold referenda on whether the non home-rule taxing districts in those counties should be subject to PTELL. Currently 39 counties are under PTELL (33 by referendum and Cook and the collar counties by statute). Nine of the 62 counties not under PTELL have held referenda that failed.⁷¹

The Civic Federation believes that the Property Tax Extension Limitation Law has been an effective limitation on local government property tax revenues and has protected taxpayers from larger tax increases that would have been possible without PTELL while the real estate market was rising. Although adding PTELL adds complexity to the extension process for those counties not already under PTELL, the Federation recommends that PTELL be extended statewide for three reasons.⁷² First, it would reduce confusion for taxpayers and taxing districts if the same property tax limitations were applied in all counties. Second, it would limit property tax increases in inflationary real estate markets.⁷³ Third, it would allow for more equitable calculation of the General State Aid formula. An alternative General State Aid formula is used for school districts in tax-capped counties in order to adjust for the effects of this property tax limitation on school districts’ maximum local revenues. The Taxpayers’ Federation of Illinois has brought attention to the growing size of the General State Aid dollars used for the PTELL adjustment and how this adjustment shifts dollars away from districts in non-capped counties.⁷⁴

⁶⁷ 35 ILCS 200/18-185 to 35 ILCS 200/18-249. The only year in which CPI was higher than 5.0% was tax year 1991 (payable in 1992). As described later in this section, some funds are exempted from PTELL so it does not necessarily limit a district’s entire extension.

⁶⁸ The Illinois Department of Revenue’s Property Tax Extension Limitation Law Technical Manual is a comprehensive resource for information about the history and application of tax caps <http://www.revenue.state.il.us/LocalGovernment/PropertyTax/ptell.htm>.

⁶⁹ The collar counties are the five counties surrounding Cook County: Lake, Kane, McHenry, DuPage and Will.

⁷⁰ Cook County government itself is home rule so it is not subject to PTELL, but all non-home rule taxing districts within Cook County are subject to PTELL.

⁷¹ <http://www.revenue.state.il.us/LocalGovernment/PropertyTax/PTELLcounties.pdf>.

⁷² The state Property Tax Reform and Relief Task force created by Public Act 95-644 and chaired by State Senator Terry Link considered but did not reach consensus on extending PTELL statewide. See page 47 of the report at <http://tax.illinois.gov/LocalGovernment/PropertyTax/TaskForceReport.pdf>.

⁷³ Civic Federation, *Cook County Property Tax Extension Process*, October 5, 2010, p. 19 ff.

⁷⁴ Taxpayers Federation of Illinois, *Tax Facts*, April 2010, <http://www.taxpayfedil.org/secure/reveal/admin/uploads/documents/April%202010%20Tax%20Facts%20NEW.PDF> and June 2010, <http://www.taxpayfedil.org/secure/reveal/admin/uploads/documents/June%202010%20Tax%20Facts%20FINAL.PDF>.

5. IMPROVE THE SPEED AND EFFECTIVENESS OF THE PROPERTY TAX APPEALS SYSTEMS

Given the difficulty of achieving uniformity in assessments, it is important to have an efficient and effective system whereby owners can appeal their valuations if they believe they have not been assessed fairly or uniformity has been violated. Taxpayers deserve prompt adjudication of their appeals and are harmed by excessive case backlogs in the property tax appeals systems.

5.1 Adequately fund and efficiently administer appeals systems so as to resolve appeals in a timely fashion

There are multiple levels of appeal available to property taxpayers who wish to challenge their assessments.⁷⁵ Unfortunately, it can take many months or even years for appeals to be adjudicated at some levels. For example, the Cook County Board of Review is typically able to conclude its review process in roughly 10 months but set a record for tax year 2009 when it did not close until September 2010 (a review period of 12 months).⁷⁶ It had received approximately 430,000 appeals for tax year 2009, compared to 280,000 for the previous year.⁷⁷

The Property Tax Appeals Board (PTAB) also has a large caseload, with 33,421 open appeals as of September 2010 compared to 24,109 in September 2009.⁷⁸ The PTAB's website currently indicates that appeals mailed after August 11, 2010 have not yet been processed.⁷⁹

The Civic Federation recommends that appeals backlogs be reduced. Agencies that hear appeals need to be adequately staffed and efficiently administered in order to promptly process appeals.

5.2 Allow taxing districts to levy “recapture levies”

When a property taxpayer wins an assessment appeal after property taxes have been paid, the taxing districts are required to refund a portion of the paid tax to the taxpayer. This can create a financial strain for local governments, especially those that are subject to tax caps, because the refund is paid out of current collections and the district cannot levy more revenue to make up the shortfall. A solution to this problem would be to permit taxing districts to re-levy the amount of refunds paid out in the following tax year. This “recapture levy” would not be extended against the properties that had received refunds, however, so as not to impair their refund.

The recapture levy would allow the taxing district to recover revenue from a previously levied legal tax extension to which any rate limits and tax caps had already been applied and thus would not constitute a tax increase. The opportunity to recover refunded tax revenues through a recapture levy would also allow taxing districts to focus resources on their core mission rather than becoming involved in the assessment appeals process. Currently, the potential revenue loss

⁷⁵ See Civic Federation, *Cook County Property Tax Appeals: A Primer on the Appeals Process with Comparative Data for 2000-2008* (Chicago: November 17, 2009).

⁷⁶ Statement by Bill Vaselopoulos Tax Extension Manager for Cook County Clerk David Orr, at the 2009 Tax Rates Report press conference, November 8, 2010.

⁷⁷ Ibid.

⁷⁸ Presentation by Louis Apostol, Executive Director of the Property Tax Appeals Board, to the Taxpayers' Federation of Illinois, October 14, 2010.

⁷⁹ <http://www.state.il.us/agency/ptab/> visited November 9, 2010.

resulting from assessment reductions granted after taxes have been paid motivates taxing districts to intervene in large appeal cases, hiring attorneys and appraisers to argue on their behalf. The public would be better served if assessments were defended by representatives of the offices involved in the assessment process, while taxing districts focused their resources on efficiently delivering their core government services rather than intervening in assessment appeals.

The Civic Federation is equally concerned both with the rights of taxpayers to seek redress for inaccurate property tax assessments and with the financial stability of Cook County taxing districts. The Federation supports allowing taxing districts to levy “recapture levies” for refunds that result from assessment reductions provided that taxpayers who receive the refunds are not affected by the recapture.

A recapture mechanism does not merely ensure that taxing districts receive what they have lawfully levied; it also ensures that taxpayer appeals contribute to the basic principle of an *ad valorem* tax system in which accurate valuations equitably distribute the burden of the property tax. Assessment appeals to the Cook County Assessor and Board of Review contribute to the accuracy of assessments without affecting taxing district revenues because they occur prior to the extension and collection of taxes. Appeals at those administrative levels redistribute the tax liability among taxpayers without altering the total. A recapture mechanism contributes to accurate distribution of tax burden according to value in the same way at the level of the Property Tax Appeals Board or the courts, where appeals are settled after taxes are due and thus result in refunds. A recapture levy, with protection for the taxpayers who received the refunds, redistributes the refund amount across the entire tax base and produces the same redistribution as an administrative appeal. All taxpayers benefit from the availability of this process to ensure the distribution of tax burden according to value.

6. IMPROVE TRANSPARENCY

In recent years more information about the property tax system has been made available on the internet by the Cook County offices of the Assessor, Clerk and Treasurer as well as the Illinois Department of Revenue. However, many important parts of the property tax system are still opaque and it remains difficult to get comprehensive data about important features of the system. Tax Increment Financing, multiple regression, the “7%” homeowners’ exemption and the senior freeze exemption calculation are examples of topics that still need more explanation and data provided by the governments involved. Computerization of the system has increased the need for transparency because many calculations are now done through software rather than by hand.

The Civic Federation believes that public access to information from all of the offices in the property tax system is essential to allowing the public to understand the system and to guard against abuses. The Civic Federation urges tax officials to enhance public access to data, processes, methods, practices, evaluations, reviews and other procedures used in any aspect of property tax assessment or administration, limited only by privacy interests of individual taxpayers. The International Association of Assessing Officers (IAAO) Standard on Public Relations states that “All records should be made available for public review unless confidential information is involved. Public access to assessment records is crucial to good public relations,

and measures should be taken to ensure a climate of openness and transparency.”⁸⁰ The IAAO further states that an assessor should be prepared to explain all aspects of the assessment process to any taxpayer in detail.⁸¹ Assessors and other officials in the property tax system should also assist legislative policymakers by serving as sources of information.⁸²

⁸⁰ International Association of Assessing Officers, *Standard on Public Relations*, (Kansas City: International Association of Assessing Officers, 2010), p. 7.

⁸¹ The IAAO *Standard on Mass Appraisal of Real Property* states that “The [assessor’s] staff should also be prepared to support individual valuations as required, preferably through comparable sales. At a minimum, staff should be able to produce a property record and explain the basic approach (cost, sales comparison, or income) used to estimate the value of the property. A property owner should never merely be told that “the computer” or “the system” produced the appraisal. Generally, the staff should tailor the explanation to the taxpayer’s knowledge and expertise. Equations converted to tabular form can be used to explain the basis for valuation. Cost tables can be used to explain values based on the cost approach. In all cases, the assessor’s staff should be able to produce sales or appraisals of similar properties in order to support (or at least explain) the valuation of the property in question. Comparable sales can be obtained from reports that list sales by such features as type of property, area, size and age. Alternatively, interactive programs can be obtained or developed that identify and display the most comparable properties.” International Association of Assessing Officers, *Standard on Mass Appraisal of Real Property*, (Kansas City: International Association of Assessing Officers, 2008), p. 11.

⁸² International Association of Assessing Officers, *Standard on Property Tax Policy*, (Kansas City: International Association of Assessing Officers, 2010), p. 5.