



Robert J. Schillerstrom
Chairman
DuPage County Board

Ad Hoc Committee on Residential Exemptions

Committee Report
September 2004

Committee Members:

Chairman: ***Grant Eckhoff***
Vice-Chairman: ***Tom Bennington***
 Yolanda Campuzano
 Kyle Gilgis
 Linda Kurzawa
 Pat O'Shea
 Brien Sheahan
 Jim Zay

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Introduction

DuPage County Board Chairman Robert Schillerstrom established an Ad Hoc Committee on Residential Exemptions on July 13, 2004 in response to legislation adopted by the General Assembly and signed into law by the Governor on July 12, 2004, Senate Bill 2112 (Public Act 93-715). The legislation offered real tax relief to Illinois homeowners by increasing the General Homestead, Senior Citizen, and Home Improvement Exemption levels as well as income eligibility for the Senior Citizen Assessment Freeze program.

Another key provision of the legislation permits counties to opt into an “alternate residential exemption calculation” that would cap owner-occupied residential net taxable assessments at 7% for a period of three years only. Counties have six months from the date the legislation was signed (until January 12, 2005) to formally adopt the 7% provision. If no action is taken during this time, the regular increase in the General Homestead Exemption provided for in the legislation automatically takes effect.

Chairman Schillerstrom formed the Ad Hoc Committee, led by District #4 County Board Member Grant Eckhoff, to review the impact a 7% assessment cap would have on residential property owners, taxing districts, senior citizens, renters, and commercial/industrial property owners. The Committee was requested to make a formal recommendation on this issue to Chairman Schillerstrom within 45 working days.

Background

Senate Bill 2112 contains a number of provisions that offer tax relief to residential property owners statewide. Specifically the legislation:

- 1) Increases the maximum allowable household income for the Senior Citizen Assessment Freeze program from \$40,000 to \$45,000 effective for the 2004 tax year (for taxes payable in 2005);
- 2) Increases the Home Improvement Exemption maximum amount to a market value of \$75,000, up from \$45,000, effective for the 2004 tax year (for taxes payable in 2005);
- 3) Increases the additional Senior Citizen Homeowner Exemption from \$2,000 to \$3,000, effective for the 2004 tax year (for taxes payable in 2005);
- 4) Increases the General Homestead (Residential) Exemption from \$3,500 to \$5,000 of assessed value, effective for the 2004 tax year (for taxes payable in 2005) **or the county may consider a second option, Item No. 5);**
- 5) The implementation of a 7% annual assessment cap on all owner-occupied residential property. If adopted, this provision would replace the \$5,000 General Homestead exemption, providing homeowners instead with a minimum exemption of \$5,000 up to a maximum exemption of \$20,000.

The committee notes that the 7% provision was originally intended for Cook County only and was drafted to address a number of issues that are unique to Cook, including the frequency of the reassessment process, its' classification system plus dramatic increases in property values due to redevelopment. However, in order to gain wider support for the bill, the legislation was later amended to permit all counties to opt into this "alternate" exemption proposal within a six-month period.

It is critical to note that almost all homeowners will benefit from the increase already provided in Public Act 93-715 that raises the General Homestead Exemption from \$3,500 to \$5,000.

Public Hearings

The Ad Hoc Committee on Residential Exemptions held two public hearings; the first on July 27 at the York Township Offices in Lombard and the second on August 18 at the Wheaton City Hall. In addition, the committee sought written input from all 350 taxing bodies in DuPage County, including municipalities, townships, school, park, library, and fire protection districts, as well as from business and community leaders.

Because this is a complex issue, the committee requested that DuPage County Clerk Gary King provide background information at both public hearings regarding how taxes are levied in DuPage County and the assessment process. The County's Supervisor of Assessments, Craig Dovel, was present at both hearings to provide additional information. DuPage County Board member Debra Olson (District #4) also attended the second public hearing.

Mr. King's presentation to the committee examined a number of issues including:

- Property Tax Variables – Assessed Value, Exemptions, Tax Rate
- Effects of Exemptions
- Tax Rate Calculations
- Cook County's Classification System
- Changes Contained in PA 93-715
- Comparison Summary of Taxes Paid by Homeowners prior to PA 93-715, after the enactment of PA 93-715 and if a 7% Assessment Cap was applied

DuPage County's nine Township Assessors appraise the value of taxable property based upon statistical data of actual property sales and other market indicators. The assessment as required by state statute equals one-third of the property's fair market value. Once the assessed value is determined, any exemptions (residential, senior homestead) are subtracted to equal the total billing value. The total billing value is then multiplied by the tax rate to compute an individual parcel's property tax bill. (The tax rate is calculated based upon the total taxable

assessed value of the district divided by the levies submitted by the units of government in that district).

Mr. King stressed to committee members that the approval of additional exemptions (such as a 7% assessment cap) decreases the total amount of net taxable assessed valuation, thereby increasing the tax rate. Reducing the value of taxable property merely shifts the tax burden from one group of homeowners to another who do not benefit from the new exemption. It also increases the tax burden on commercial/retail properties that do not receive exemptions. Under Public Act 93-715, the tax levy does not change – taxing districts are still entitled to levy the same amount subject to the Property Tax Extension Limitation Law (PTELL – Tax Cap).

Since the 7% assessment cap provision was crafted with Cook County in mind, it is important to understand the differences between Cook County's property tax classification system and the uniform level of assessment utilized in DuPage County. A classification system assesses commercial and industrial properties at a higher percentage of market value than residential parcels. Cook County assesses residential property at 16%, commercial property at 36%, and industrial property at 38%. The level of assessment for all property types in DuPage County is 33 1/3% of market value. In addition, DuPage County adjusts the assessed value of all parcels on an annual basis while Cook County uses a reassessment cycle of 3 years.

The relationship between the amounts of residential to other property types also varies greatly between the two counties. In Cook County, roughly 54% of assessed value comes from residential parcels, with 46% derived from commercial/industrial parcels. In contrast, DuPage County's residential parcels equal 74% of assessed value and 26% of commercial/industrial parcels.

Information provided by the Supervisor of Assessment's Office indicates that 12% of owner-occupied homeowners in DuPage County would receive a tax savings of \$100 or more should a 7% assessment cap be applied. These homeowners typically own homes with a market value of \$350,000 or more and reside in areas with average assessment growth above 10%. However, 68% of homeowners would see an increase in their property tax bills under the 7% residential assessment cap scenario.

According to the data presented by the County Clerk's Office, residents who own lower priced homes (\$350,000 or less), especially in lower growth areas, would likely pay more as would senior citizens who participate in the Senior Citizen Assessment Freeze program and commercial/industrial property owners if a 7% provision were applied.

Another group that would be adversely affected are those who rent apartments. A portion of monthly rent payments includes an amount to cover the cost of property taxes. When property taxes rise on these properties, landlords pass along these increases in the form of higher rents.

At both hearings, representatives of taxing bodies and local chambers of commerce testified against the implementation of a 7% assessment cap, citing concerns about a potential loss of revenue and the economic hardship that would result from a shift in the tax burden to commercial/retail properties. Over 25 local taxing districts submitted letters to the committee in opposition to the implementation of a 7% assessment cap. Two homeowners testified at the first hearing in support of the 7% assessment cap stating their belief it would provide property tax reductions.

Findings

At first blush any proposal that would appear to provide property tax relief seems appealing. However, after conducting two public hearings and listening not only to the public but also to County experts on the subject, it has become clear that the 7% cap on assessments will not benefit the vast majority of residents and businesses in DuPage County. The first fact to realize is that the assessment cap will not restrict the amount of money that a taxing body collects. As a result, no tax relief will be given to taxpayers as a whole.

The second significant fact is that although local taxing bodies rely on property taxes, the assessment cap would limit the contribution of those individuals whose property values rise the most and shift the tax burden to those individuals whose property values rise the least. Thus, the assessment cap increases the regressivity of an already regressive, as compared to income, taxing system.

Third and finally, a portion of the tax burden would also be shifted to local commercial/retail property owners. Since the assessment cap expires in three years, most businesses likely would not relocate even if other counties do not adopt the assessment cap. However, since the legislation could be renewed by the state legislature, the assessment cap could become long-term. In such a case, businesses might consider relocating outside of the county, thereby negatively impacting the long-term economic and financial health of the county.

The committee again notes that the 7% provision was originally intended for Cook County only. Cook County has had and continues to have a significantly different real estate tax classification system than DuPage County. Although the details of the differences between the two systems are beyond the scope of this report, it is sufficient to say that the differences are

significant enough that the legislation affects the counties differently. Those differences make the 7% assessment cap appealing in Cook County. However, for the reasons outlined above, the option of using the Cook County legislation in DuPage County is analogous to trying to fit a square peg in a round hole.

Recommendation

The committee notes that Public Act 93-715 provides a number of property tax relief measures for homeowners, including the increased General Homestead Exemption level of \$5,000. These tax relief measures will take effect without action of the committee or the County Board.

The committee also notes that reducing the actual tax rate levied by units of government, something DuPage County has done for the past 11 years, provides the only true measure of property tax relief for our citizens

However, capping the tax assessment increase of a minority of owner occupied residences while (i) shifting the tax burden to the majority of homeowners and commercial property owners and (ii) altering the assessment process for a period of three years will not offer meaningful property tax relief. Enactment of a 7% assessment cap would serve to move DuPage County closer to a classification system that would be detrimental to the county's business community. Any deterrents in attracting or retaining businesses would negatively impact our real estate tax base.

The vast majority of DuPage homeowners will benefit from the increased General Homestead Exemption level of \$5,000 contained in Public Act 93-715 versus a minority of homeowners who would see any significant savings under a 7% assessment cap provision.

Based on these factors, which indicate that a 7% assessment cap would actually increase property taxes for the majority of real estate taxpayers in DuPage County (both residential and commercial property owners), the committee recommends against the adoption of the 7% assessment cap provision.