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Executive Overview and Summary: The Economic Effects of the 7% Assessment Cap in Cook County

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Executive Overview

1. This study examined the effect of the 7% assessment cap in Cook County. We calculated what property owners paid with the expanded homestead exemption amount (EHEA) and what they would have paid without it.
   - Owners of parcels that were eligible for the EHEA often paid hundreds of dollars less because of the EHEA, saving 14.2 percent, on average, in the first year for Chicago homeowners.
   - Tax rates increased over what they would have been to compensate for the fall in the tax base.
   - All properties that were not eligible for the EHEA paid more because of it, roughly one-third of eligible properties actually paid more because of the EHEA in 2005 (roughly one-quarter if senior freeze parcels are ignored).
   - Because the EHEA reduces tax burdens only by shifting them to other properties, eligible properties that appreciate rapidly and are located in areas where ineligible properties constitute a large fraction of the tax base receive the greatest benefits. Ineligible properties in areas where eligible properties grow rapidly and constitute a large portion of the tax base suffer the largest tax increase.
   - The benefits of the EHEA varied widely, with eligible properties in some areas getting very large benefits while other eligible properties—in the same and other areas—received virtually no benefit.
   - Similarly, the effect on ineligible properties varied widely across the county.

2. We find that because of the EHEA:
   - the 2003 Chicago aggregate tax rate was 4.1 percent higher.
   - 2004 tax rates in the North suburbs were 6.6 percent higher.
   - projected 2005 tax rates in the South suburbs are 5.8 percent higher.

3. We also find that in the first year of the EHEA:
   - eligible properties in Chicago paid $128 million less but ineligible residential properties, apartments, commercial properties and others paid $30 million, $14 million, $60 million and $24 million more, respectively.
   - eligible properties in the North Suburbs paid $123 million less but ineligible residential properties, apartments, commercial properties and others will pay $27 million, $7 million, $49 million and $40 million more, respectively.
   - eligible properties in the South Suburbs are projected to pay $72 million less but ineligible residential properties, apartments, commercial properties and others will pay $22 million, $4 million, $26 million and $20 million more, respectively.

4. Because some properties were ineligible and others received a homestead exemption too small to compensate for the increase in tax rates
   - More than 52 percent of Chicago Class 2 (residential with 6 units or fewer) parcels paid more because of the EHEA in 2003. Over 344,000 ineligible Chicago parcels in all classes paid higher taxes because of the EHEA.
   - More than 33 percent of Class 2 parcels in the North suburbs paid more because of the EHEA in 2004.
   - We project that more than 49 percent of Class 2 parcels in the South suburbs paid more because of the EHEA in 2005.

5. If the EHEA is not renewed, the average first year cost to eligible properties would be $334 in Chicago, $305 in North suburbs, and $125 in South suburbs. If the EHEA is not renewed the average first year savings to ineligible Class 2 properties would be $142 in Chicago, $246 in the North suburbs, and $138 in the South suburbs.

6. Timing of the benefits is such that property owners in the North and South suburbs paid more in 2003 to subsidize benefits for Chicago homeowners, and property owners in the South suburbs paid more in 2004 to subsidize benefits for Chicago and the North suburbs.

7. If the legislature removed the $20,000 EHEA cap beginning in 2006, we project the average additional first year benefit beyond the current EHEA to eligible properties would be $315 in Chicago, $190 in North suburbs, and $101 in the South suburbs. The average additional first year cost to ineligible class 2 properties would be $135 in Chicago, $181 in the North suburbs, and $135 in the South suburbs.

8. If the legislature increased the assessment growth rate necessary to trigger the EHEA from seven to nine percent beginning in 2006, we project the average additional first year cost to eligible properties would be $9. Similarly, additional costs in most North and South suburban areas would be very small and corresponding additional benefits to ineligible parcels would be very small.

9. We find that the fall in tax base brought about by the EHEA required school districts to increase their tax rates an average of five percent to maintain spending. Tax rate limits prevented six school districts from increasing tax rates enough to compensate for the fall in tax base.

Executive Summary:

The Economic Effects of the 7% Assessment Cap in Cook County

The policy: In July 2004, a new state law allowed county boards to impose a seven percent cap on annual increases in residential property tax assessments. The assessment cap was designed to reduce the burden of large tax increases caused by rapid appreciation in home prices. The Cook County Board immediately implemented the cap, which takes the form of an expanded homestead exemption for owner-occupants. In this report we analyze some of the effects of the new policy.

Property in Cook County is reassessed on a three year cycle: the City of Chicago was reassessed in tax year 2003; the North suburbs were reassessed in tax year 2004; the South suburbs were reassessed in tax year 2005; and the cycle starts again in Chicago in tax year 2006.[1] Under the new law: eligible homeowners who experience increases in assessed value of less than seven percent get a homestead exemption of $5,000 ($4,500 in 2003); homeowners who experience property appreciation greater than seven percent receive an expanded homestead exemption that effectively caps assessment increases at seven percent; the maximum value of the expanded homestead exemption is $20,000. The assessment cap law is due to expire over the next three years, starting with Chicago in tax year 2006, and the legislature is considering whether to extend it in its present form, revise it, or allow it to end.

The basic result is a shift in tax burdens: A change in property tax policy that reduces the payments of one group will raise the payments of other groups, if local government spending remains constant. The expanded homestead exemption is such a policy and will result in a shift

[1] These years and all of the years referenced in the remainder of this report are "tax years," the "as of" year for property value assessments. For example, tax year 2003 represents assessments as of January 1, 2003, but the corresponding property taxes are billed in calendar year 2004. Because of this lag between the assessment year and the billing year, the new law affected the Chicago tax bills issued just months later.

in tax burdens, rather than an overall decline in tax burdens. There are some restrictions on how much a local property taxing unit of government in Illinois can increase tax rates, but generally the tax rates will go up in order to maintain total tax collections and the level of government services. In the case of the expanded homestead exemption, the reduction in taxes for eligible homeowners is paid for by an increase in taxes for other taxpayers.

Who are those other taxpayers? Some are other homeowners who, because they experience increases in property values of less than seven percent, qualify for the $5,000 "floor" on the homestead exemption, not the expanded amount. Some are senior citizens who qualify for the more advantageous "senior freeze" on assessments, but still have to pay the higher tax rates. Tax bills will increase for owners of rental housing or apartment buildings and this might be passed on to tenants in the form of higher rents. Owners of commercial and industrial properties and of vacant land will have higher tax bills because of the higher tax rates and their unchanged assessments. Note that even though this list of ineligibles is a very diverse group, within a particular geographic area all will experience the same *percentage* increase in their tax burdens, because the shift is driven by an across the board increase in tax rates.

Moreover, the across the board increase in tax rates will affect eligible households, so the benefit from the expanded homestead exemption will be partially offset by paying higher rates on the remaining taxable property value. There will even be some eligible homeowners who are net losers, with an expanded exemption above the minimum but not high enough to offset the increase in rates. For example, in a bedroom community where the average increase in property values is 30 percent, an individual homeowner with property appreciation of only 20 percent will have their assessment capped at 7 percent, but will see tax rates go up by a more than offsetting amount to pay for the *relatively* more generous value of the assessment cap to their neighbors.

How we estimate the tax shift: In this report we measure the impact of the seven percent assessment cap law by calculating property taxes with the expanded homestead exemption in place compared to an alternative policy where all homeowners get just a flat $5,000 ($4,500 in 2003) exemption. Just as the benefits and burdens of the expanded homestead exemption vary across types of property, they vary geographically due to different property mixes and different appreciation rates in different local areas. The benefits and burdens of the assessment cap also vary over time due to the triennial assessment cycle and differential appreciation rates.

Our calculations use extensive data provided by the Cook County Assessor, the Cook County Clerk, and the Illinois Department of Revenue to estimate the property tax payment due on each Cook County parcel with and without the expanded homestead exemption for the years 2003 and 2004. We also project property values, and from that tax payments, with both policies for the years 2005 through 2008. We use these calculations to provide estimates of gains and losses because of the expanded homestead exemption. We examine alternative policies over time and across different sub-areas of the county.

Eligible homeowners whose assessments would otherwise increase by more than seven percent benefit from the cap, some of them significantly. Taxpayers who do not qualify—owners of commercial or industrial property, apartment buildings, senior citizen homeowners who qualify for a different program that freezes assessments—experience an increase in tax burdens from higher tax rates. As noted, even some of the eligible homeowners will lose more from the increase in tax rates than they gain from the cap on their assessments. In this report we examine the average benefits and burdens for eligible and ineligible taxpayers broken down by reassessment-year triad, and by community area within the City of Chicago or municipality in the suburbs.

The overall results: In the body of the report we break down the tax shift from the assessment cap in many ways, but the overall results can be seen in the following table which presents the average benefits or burdens at the reassessment-year triad level:

Triad (Reassessment Year Area)	Percentage difference in tax payment from cap (**benefit +; burden –**)		
	2003	2004	2005
Eligible parcels (average for homeowners who qualify):			
Chicago	14.2%	11.2%	7.9%
North Suburbs	–0.3%	9.1%	6.3%
South Suburbs	–0.2%	–0.5%	6.4%
Ineligible parcels (other residential, commercial and industrial property, and apartment buildings):			
Chicago	–4.1%	–4.2%	–3.3%
North Suburbs	–0.3%	–6.6%	–5.3%
South Suburbs	–0.2%	–0.4%	–5.8%

[Source: Table 3.1 in the full report.]

In tax year 2003 when the assessment cap was first in effect in Chicago, eligible homeowners saved an average of 14.2 percent on their tax bill. That was the average—those with the highest rates of appreciation saved much more and those with the lowest rates of appreciation actually came out behind. Seventy-five percent of eligible Chicago homeowners benefited from the assessment cap in 2003 (see Table 3.2 in the full report). While a majority of Chicago homeowners benefited from the assessment cap in 2003, all non-homeowner Chicago property taxpayers—the ineligible parcels in the above table—were subjected to higher rates that cost them 4.1 percent more in taxes. In that same year, because Cook County, Cook County Forest Preserve, and Metropolitan Water Reclamation District tax rates went up countywide to compensate for the decrease in the tax base in the Chicago portion of the county, tax burdens for all taxpayers—both eligible homeowners and ineligible non-homeowners—in the North and South suburbs went up by a fraction of a percent. Reading across the first row of the table we see that the value of the expanded exemption was worth less to Chicago homeowners over time, mainly because their assessments can increase by another seven percent in 2004 and another seven percent in 2005.

In 2004, the North suburban triad was reassessed and the table shows our estimate that eligible homeowners there saw tax bills that were, on average, 9.1 percent lower than they otherwise would have been. Again, that benefit to some came with an increased burden to others—a 6.6 percent higher tax bill for commercial property owners and other ineligibles in the North suburbs and slightly larger county government portion of the tax bill for all those in the South suburbs. In tax year 2005 when the South suburbs were reassessed, eligible homeowners got an average 6.4 percent benefit and all other property owners there saw a 5.8 percent burden from higher tax rates. Note that the South suburbs had to wait longer to get the expanded exemption and, partly because their home values are not appreciating as rapidly as in other areas of the county, it was worth relatively less to them when they finally qualified.

A more detailed breakdown of the results is presented in the full report: Although we believe the percentage change in tax payments is the single best measure of the impact of the assessment cap, in the body of the report we also present average dollar changes in taxes and aggregate changes in taxes. In addition to reassessment-year triad, we break down the benefits and burdens by community areas in Chicago and municipal areas in the suburbs. We also look at differences by income levels and by housing value levels. Because those results are so detailed, in this executive summary we only mention what we present in the tables in the full report and give some of the highlights.

Parcel counts and descriptive statistics (Table 1). We examine the value of the expanded exemption for those who do qualify and find significant variation across the county in the share of parcels receiving the exemption and getting the minimum and maximum amounts. The average size of the expanded homestead exemption was larger in the North suburbs than in Chicago or in the South suburbs.

Tax rate effects (Table 2). As already emphasized, if all local governments spend the same amount that they would have in the absence of the homestead assessment cap, the decline in property tax payments by some taxpayers must be balanced by an increase in the tax payments of others. The impact of the assessment cap for each individual parcel depends on the tax rate changes for all of the local governments to which they pay taxes—the municipality, the school district, the township, the special districts, and the county. In each of the local governments the tax rate effect depends on the mix of eligible and ineligible property, the appreciation rates for eligible property, and the applicability of other rules (like statutory fund rate caps and Property Tax Extension Limitation Law rate caps) to that agency. We calculate, for example that the Cook County government tax rate, expressed as the tax burden per $100,000 of taxable assessed value, rose from $553 to $579 (about 4.5 percent) in 2005 because of the expanded homestead exemption law. Tax rate increases for other units of local government differed, but often were of similar magnitudes.

Change in tax payments with and without the assessment cap (Table 3 at the assessment-year triad level and Table 4 at the municipal or community area level). We combine the changes in the tax base from the law with the changes in the tax rates and aggregate the resulting changes in tax payments to the Chicago community area, suburban municipality, or assessment-year triad level. We present the differences both in percentages and dollars per parcel. The average percentage tax shifts at the triad level were already examined in the table included with this summary. The more detailed results show that tax payments of parcels eligible for the expanded exemption were lowered ten percent or more in many Chicago community areas and as much as fifty percent in some. The tax savings for eligible parcels aggregated to the municipal level was generally smaller in the North suburbs and still smaller in the South suburbs.

Eligibility for and effects of the assessment cap by value of housing (Tables 5 and 6). Since the value of the cap depends on the value of the home as well as the appreciation rate, we also analyzed the effect of the expanded homestead exemption across housing value classes. We find that in Chicago the bottom and middle of the value distributions get the biggest percentage gains from the expanded exemption, but that these gains erode over time especially for the least valuable parcels. In the North and South suburbs the gains are smaller and also erode over time.

Extending the cap through 2008 (Tables 7 through 11). We use our projections of property appreciation rates to repeat the with-and-without assessment cap comparisons for the period from 2006 to 2008 (the same comparisons as were made for 2003-2005 in Tables 2-6). Generally the results show similar differences as in the earlier years. Lower projected house price appreciation rates in the South suburbs do result in a greater divergence in the value of the assessment cap compared to homeowners in the North suburbs. When we look at the effects across different housing value levels (Table 11), we project that in all three assessment triads the most and least valuable parcels will get very small percentage gains (or even losses) if the program is extended through 2008. This is because many low value homes do not appreciate enough to get more than the minimum $5,000 homestead exemption and many high value homes will have already appreciated enough to qualify for the maximum $20,000 amount.

Alternative assessment cap for 2006-2008 with no $20,000 ceiling (Table 12 at the triad level and Table 13 at the municipal or Chicago community area level). We simulated two alternative versions of an expanded homestead exemption for the years 2006 through 2008 and compared them to maintaining the program currently in place—with a seven percent allowable increase and a $20,000 ceiling on the exemption amount. We found that removing the $20,000 ceiling on the exemption would have mixed effects, increasing tax payments of eligible properties in some areas but reducing them in others. This result comes about because parcels that are not constrained by the current $20,000 ceiling will actually pay more taxes if the cap is lifted and property tax rates rise to compensate for the fall in the overall tax base. Commercial, industrial, apartment building, and other ineligible parcels unambiguously will pay higher taxes if the ceiling is lifted.

Alternative for 2006-2008 with nine percent assessment cap (Table 14 at the triad level and Table 15 at the municipal or Chicago community area level). We also simulated modifying the cap so that a parcel's assessment would have to grow by nine percent, rather than the current seven, to qualify for an expanded exemption. This resulted in small increases in the tax payments of eligible parcels in most areas. Ineligible parcels would receive a small tax cut were the assessment cap law modified in this manner.

Conclusion: Our analysis traces through the property tax shifts resulting from the expanded homestead exemption allowance given to some taxpayers. We quantify the tax increase experienced by ineligible parcels—commercial, industrial, apartment building, and other—as a result of the law and show that the size of the effect on ineligible parcels various significantly across the county and over time. More subtly, we show that eligible parcels also experience a range of impacts. We show that some expanded exemption recipients are much better off because of the policy but that others get little help or are even worse-off. We document the variance in these effects over time and space. We hope that the facts presented in this report will contribute to a thoughtful and reasoned public policy.