

**The Potential Financial Impact of Recent Decisions
by the Illinois Property Tax Appeal Board**



**ESTIMATED PROPERTY TAX REFUND AND TAX BURDEN SHIFT FIGURES
AND COMMENTARY**

February 21, 2002

Copyright © 2002 The Civic Federation

TABLE OF CONTENTS

Executive Summary	1
Study Results	2
Background	2
Construction of the Models	3
Conclusion	5
Scenario 1: Median Levels	6
Scenario 2: Ordinance Levels	8
Appendix.....	10

Executive Summary

The case of *Cook County Board of Review v. Illinois Property Tax Appeal Board (Appeal of the Robert Bosch Corp., etc., case no. 001183)*, currently in the First Circuit of the Illinois Appellate Court, deals with a precedent established by the Property Tax Appeal Board that could fundamentally alter Cook County's property tax system. If upheld, the Property Tax Appeal Board decision could result in significant reductions in local government revenue and then in significant increases in Cook County homeowners' tax bills.

The Illinois Property Tax Appeal Board (PTAB) is a state level tribunal originally created in 1967 to smooth out disparities in property tax assessments among downstate counties. All counties in Illinois except Cook assess property at a uniform rate of 33.3% regardless of usage. Cook County classifies property by its usage and assesses these classes at different levels (16% for residential, 36% for industrial, 38% for commercial, etc.). In order to apply a uniform level of assessment, the PTAB uses a survey conducted by the Illinois Department of Revenue (IDOR) that compares actual sale prices to assessed values in order to determine the median level of assessment. In every county except Cook, the PTAB's use of the county wide median level of assessment is no longer an issue, in part because all property is presumably assessed at the same level. Since the extension of the PTAB's jurisdiction into Cook County in 1996, however, it has had to wrestle with the vexing issue of the appropriate application of the IDOR's median levels of assessment in Cook County's classification system. In doing so it has encountered vigorous objections from officials in Cook County, who question among other things the statistical accuracy of the IDOR's study.

In August of 2001, the PTAB, for the first time, upheld the argument that the limitation on assessment level differentials contained in the Illinois Constitution should be applied to the IDOR's determination of the median level of assessment for Cook County's residential class of property in order to provide relief in a valuation case involving business class property. In earlier cases, the PTAB had ruled that it would apply the IDOR's class medians, rather than the ordinance levels of assessment, in all valuation cases coming before it. That precedent would reduce the industrial assessment level from 36% to 33.77% for tax year 1998, and the commercial from 38% to 30.41%. However, while appeals to those cases were still pending, the PTAB upheld an argument made by the Lurie Company that the maximum assessment level in Cook County could exceed not 25.2% that year because the IDOR's studies reported that the median level of assessment for residential property was 10.08%. These PTAB decisions granted significant reductions in assessments and refunds of taxes for Cook County business properties. Although these PTAB rulings (which are currently on appeal) impact only the property specifically included in the appeal, the potential exists for significant additional challenges based on the precedent of the *Appeal of the Lurie Company* if it is upheld.

Study Results

Recent Civic Federation analysis indicates that pending decisions by the PTAB could result in potentially large losses in local government revenue, and subsequently, in significant tax burden shifts onto homeowners. The Civic Federation's projections indicate that, if the decision stands in the *Appeal of the Lurie Company*, the case raising the constitutional issue, and is applied to all property in the county, the Chicago Board of Education could face a maximum, annual revenue loss of \$107 million. The City of Chicago's comparable loss could be another \$43 million; Cook County could lose \$49 million, and the Chicago Park District \$16 million. The maximum potential cost to the taxing agencies in the City of Chicago could exceed \$265 million. The maximum potential cost to all taxing agencies in Cook County could exceed \$500 million. The likely result of an Appellate Court ruling upholding the PTAB decision is that residential properties would pay a higher percentage of the overall property tax burden. The Civic Federation projections indicate that to compensate for the refunds resulting from these decisions, Cook County homeowners may see an 8% or greater increase in their property tax burden.

Background

The State of Illinois created the PTAB in 1967 to provide downstate taxpayers with an alternative to the courts when challenging a property tax assessment from a local Board of Review. In 1995 legislation was enacted that extended the PTAB's jurisdiction into Cook County. Since its extension into Cook County, one key issue faced by the PTAB has been the appropriate application of the IDOR's median levels of assessment to the various classes of property in Cook County. Cook County officials have voiced vigorous opposition to their application in any class of property except residential.

The Governor with the advice and consent of the State Senate appoints the Board's five Members. The Members serve six-year terms, and no more than three may be from the same political party. The Governor designates a chairman. The current board members are: Max E. Coffey, Chairman (*Charleston*), Homer R. Henke (*Moro*), Sharon U. Thompson (*Dixon*), Mark W. Peterson (*Lincolnshire*), and Brent S. Bohlen (*Springfield*). Each PTAB decision must be approved and endorsed by a majority of the Board. None of the current board members are from Cook County.

On August 2, 2001, the PTAB issued three decisions that adopt the argument that the Illinois State Constitution (Article IX, Section 4 (b)) prohibits a differential greater than 2.5 to 1 between assessment levels for different classes of property. These decisions create a new level of assessment determined by multiplying the lowest median level of assessment (as determined by the IDOR's Assessment/Sales Ratio Studies) by 2.5. Since residential property (at 10.08% in 1998 according to the IDOR) is the lowest median, the highest level of assessment allowable under the PTAB's new rulings is 25.20%. On August 4, 2001, three more decisions establishing the maximum level of assessment in Cook County at 25% were handed down. These decisions are currently being appealed by the Cook County State's Attorney's office. All but one has been stayed. The Appellate

Court has consolidated the one constitutional level case currently proceeding, *Appeal of the Lurie Company*, with a median level case, *Appeal of the Robert Bosch Corporation*.

The decision by the PTAB in the *Lurie* case conflicts with a trial court ruling in the Cook County Circuit Court known as *In re Application of Rosewell; American Can Co., Objector* (1989). In the *American Can* decision, the trial judge made detailed findings about the insufficiency of the Assessment/Sales Ratio Studies for determining business class median assessment levels, and further ruled that the Constitutional limitation on assessment level differentials did not give rise to any individual taxpayer rights. Essentially, the trial court in *American Can* held that the State Constitutional limitation of assessment level differentials being no greater than 2.5 to 1 to be a limitation only on the County Board in establishing the County's ordinance levels of assessment. Therefore, that provision was not viewed as authority for a court to change assessment levels in taxpayer litigation on the basis of purported de facto levels of assessment of other classes.

In April 2001, The Civic Federation's Task Force on Reform of the Cook County Property Tax Appeals Process III examined those earlier PTAB decisions directly applying the IDOR's studies' median levels of assessment by class in property tax assessment appeals. However, the Task Force was sensitive to the potential disruption to Cook County's property tax assessment system if the 2.5 to 1 limitation was enforced based on the median level of assessment for residential property. Therefore, the Federation proposed limiting the use of the IDOR's median levels of assessment in appeals to only appeals of residential assessments. The intended interpretation of this language was that if a non-residential property owner appealed an assessment, he could not rely on the IDOR's studies. That would include business class cases using the Constitutional limitation argument, even though that argument is premised upon the residential median data.

Construction of the Models

The potential for disruption of the Cook County property tax system (both in terms of immediate instability in governmental revenues, and over time in tax burden shift) is of great concern both to taxpayers and to taxing agencies. Therefore, The Civic Federation has produced estimates of the maximum potential revenue loss to some major local governments and the resulting tax burden shift among the various classes of property using its unique property tax model.

The Civic Federation conducted an initial analysis of these decisions in September 2001 using information from the 1998 tax year. Those projections are included in the appendix to this report and are based on the same tax year for which the decision of the PTAB in the *Lurie* case applies. The results in the main text of this report utilize information from tax year 2000 (see pages 6-9). The 1998 and 2000 models yield figures representing the maximum potential impact for a given tax year. Because not every property sought this type of assessment level relief in either tax year, the actual impact will be lower for both years. However, if the rulings stand, the number of properties

seeking the same relief granted in the *Lurie* case should increase, and the actual figures on property tax refunds and tax burden shift will approach those figures presented here. Furthermore, the localized impact of a large tax refund from even a single major property can have devastating consequences for the budget of a taxing agency.

One of the unique features of the decision by the PTAB in the *Lurie* case is that the maximum allowable assessment level is determined anew each year by using the results of the study conducted annually by the IDOR. As a result of the findings of this study, the PTAB will calculate the maximum allowable assessment level on an annual basis. Multiplying the lowest class median level of assessment by 2.5 generates the maximum allowable assessment level. The figures of the 1998 models utilize a maximum allowable assessment level of 25.2% (the same level used in the *Lurie* case). For tax year 2000, the models utilize a maximum allowable assessment level of 25.33%. Multiplying the lowest class median level of assessment from the IDOR study (10.13 for residential property in tax year 2000) by 2.5 generated this figure.

Another factor complicating the modeling is that the potential revenue losses and tax burden shifts will depend not only on the number of properties seeking assessment level relief at the PTAB, but also on where the property's value exists in relation to the maximum allowable assessment level. Since the PTAB, under its rules, will not grant assessment level relief absent proof of full market value, two scenarios have been modeled based upon the available information from tax year 2000. One of these assumes that the established market values of non-residential properties are currently at the full values imputed from the IDOR's median levels; and the other assumes they are at the full values imputed from the ordinance levels. As a result, the figures generated by Scenarios 1 and 2 should be read as the range of maximum potential impacts of applying the 2.5 to 1 limitation to the IDOR's median levels of residential assessments. The results of Scenario 1 are cited in this report as the refund amount or tax burden shift.

The technical assumptions upon which each scenario is based are listed before the results. **The fundamental assumptions are that every eligible property successfully appeals its assessment and that the imputed full values of these properties are not changed.** In other words, every property in a particular taxing agency is assumed to receive only an assessment level reduction. It is impossible to quantify how full values may be adjusted, if they are, and if so when that might occur.

It should be noted that the revenue-loss and the tax-shift scenarios are mutually exclusive, and would occur sequentially in time. In other words, if the new PTAB ruling prevails, then until the initial assessment levels are adjusted to reflect it, the potential liability for refunds keeps building up. After the adjustment, the revenue-loss consequences are replaced by the tax-shift consequences.

Finally, limitations on time and resources prevented the modeling effort from being applied to all of the approximately 500 taxing agencies in Cook County. The models were run for the group of taxing agencies in the City of Chicago. The total property tax extension of these 8 agencies is \$3.8 billion, which comprises 48% of the

\$7.9 billion in property taxes extended in tax year 2000. The remainder of the potential refund amount was extrapolated by assuming the refunds in the other taxing agencies would be proportional.

Conclusion

The unexpected mandatory refunds resulting from these decisions should be of great concern to Cook County taxing agencies. The maximum potential annual cost to the group of taxing agencies in the City of Chicago could exceed \$265 million. The maximum potential cost to all taxing agencies in Cook County could exceed \$500 million. Because many of these agencies have few if any other forms of revenue, large refunds could cause serious budget crises. Even if these agencies have other forms of revenue, dedication of property tax revenues to non-discretionary items such as pensions and debt service means that taxing agencies will not be able to lessen property tax levies to avoid increasing the tax burden of homeowners. The Civic Federation projections indicate that to compensate for the loss in tax base resulting from these decisions, Cook County homeowners may be presented with an 8% or greater increase in annual property tax bills.

The Civic Federation takes no position on the merits of the legal arguments involved in any of these cases. However, the very existence of these cases is evidence of the problems with Cook County's property tax system. As the results demonstrate, the potential for a serious fiscal crisis is on the horizon.

Scenario 1: Lowering Assessments from the Median Levels to a Maximum 25.33%

A. Revenue Losses

Maximum potential revenue losses (out of current collections): for tax year 2000 for which taxes have already been extended and paid, and for which the PTAB has ordered refunds based on a 25.33% maximum assessment level.

Assumptions

- Assessed values of all properties are the same as for 2000.
- The tax rates for all taxing districts and the Cook County multiplier are the same as for 2000.
- An appeal is filed at the PTAB for every property with a class median level of assessment (as determined by the IDOR) that exceeds 25.33%.
- Every appealing taxpayer is able to establish at the PTAB that the full market value of his property is the same as (but not greater than) its assessed value divided by the median level of assessment for its class (as determined by the IDOR).

Results

Chicago Taxing Agencies	Refund Amount
Cook County	\$49,334,351
Forest Preserve	\$4,071,519
Metro Water Reclamation Dist.	\$24,528,806
City of Chicago Library Fund	\$4,654,545
City of Chicago	\$43,201,823
Chicago Board of Education	\$107,168,528
School Finance Authority	\$6,410,593
Community College Dist. #508	\$8,954,838
Chicago Park District	\$16,061,196
Aquarium & Museum	\$432,261
Subtotal	\$264,818,460
All Other Cook County Taxing Agencies (Est.)	\$291,686,256
Total	\$556,504,716

Scenario 1: Lowering Assessments from the Median Levels to 25.33%

B. Tax Burden Shift

Potential countywide tax burden shift: for tax year 2000 if the maximum assessment level of 25.33% had been applied to all classes for which the applicable class median level of assessment (as determined by the IDOR) exceeds that percentage.

Assumptions

- Assessed values of all properties are the same as for 2000.
- The tax rates for all taxing districts and the Cook County multiplier are allowed to adjust to the assessment level changes.

Results

Class	% Change in Tax Burden
1 (Vacant)	7%
2 (Residential)	8%
3 (Multi-Family)	7%
4 (Non-Profit)	-10%
5a (Commercial)	-9%
5b (Industrial)	-16%
6 (Incentive)	7%
7 (Incentive)	11%
8 (Incentive)	15%
9 (Incentive)	7%

Scenario 2: Lowering Assessments from the Ordinance Level to 25.33%

A. Revenue Losses

Maximum potential revenue losses (out of current collections): for tax year 2000 for which taxes have already been extended and paid, and for which the PTAB has ordered refunds based on a 25.33% maximum assessment level.

Assumptions

- Assessed values of all properties are the same as for 2000.
- The tax rates for all taxing districts and the Cook County multiplier are the same as for 2000.
- An appeal is filed at the PTAB for every property with an Ordinance-prescribed level of assessment that exceeds 25.33%.
- Every appealing taxpayer is able to establish at the PTAB that the full market value of his property is the same as (but not greater than) its assessed value divided by the applicable Ordinance level of assessment for its class.

Results

Chicago Taxing Agencies	Refund Amount
Cook County	\$118,379,068
Forest Preserve	\$9,769,715
Metro Water Reclamation Dist.	\$58,904,393
City of Chicago Library Fund	\$12,210,814
City of Chicago	\$113,336,413
Chicago Board of Education	\$281,147,777
School Finance Authority	\$16,817,661
Community College Dist. #508	\$23,494,982
Chicago Park District	\$42,135,221
Aquarium & Museum	\$1,134,002
Subtotal	\$677,330,046
All Other Cook County Taxing Agencies (Est.)	\$746,069,114
Total	\$1,423,399,160

Scenario 2: Lowering Assessments from the Ordinance Level to 25.33%

B. Tax Burden Shift

Potential countywide tax burden shift: for tax year 2000 if the maximum assessment level of 25.33% had been applied to all classes for which the Ordinance level exceeds that percentage.

Assumptions

- Assessed values of all properties are the same as for 2000.
- The tax rates for all taxing districts and the Cook County multiplier are allowed to adjust to the assessment level changes.

Results

Class	% Change in Tax Burden
1 (Vacant)	18%
2 (Residential)	20%
3 (Multi-Family)	-10%
4 (Non-Profit)	-1%
5a (Commercial)	-24%
5b (Industrial)	-18%
6 (Incentive)	19%
7 (Incentive)	30%
8 (Incentive)	39%
9 (Incentive)	18%

Appendix

Summary of Results of the 1998 Tax Year Model

Scenario #1: Lowering Assessments from the IDOR Median Levels to a Maximum 25.2%

A. Maximum Potential **Revenue Losses** (out of current collections): for tax year 1998 for which taxes have already been extended and paid, and for which the PTAB has ordered refunds based on a 25.2% maximum assessment level.

1. Assumptions

- Assessed values of all properties are the same as for 1998.
- The tax rates for all taxing districts and the Cook County multiplier are the same as for 1998.
- An appeal is filed at the PTAB for every property with a class median level of assessment (as determined by the IDOR) that exceeds 25.2%.
- Every appealing taxpayer is able to establish at the PTAB that the full market value of his property is the same as (but not greater than) its assessed value divided by the median level of assessment for its class (as determined by the IDOR).

2. Results

Chicago Taxing Agencies	Refund Amount
Cook County	\$ 62,834,290
Forest Preserve	\$ 5,011,429
Metro Water Reclamation Dist.	\$ 30,484,608
City of Chicago Library Fund	\$ 5,916,289
City of Chicago	\$ 57,727,469
Chicago Board of Education	\$ 132,971,303
School Finance Authority	\$ 8,534,325
Community College Dist. #508	\$ 11,178,201
Chicago Park District	\$ 20,414,154
Special Service Area #1	\$ 232,178
Total	\$ 335,304,245

Scenario #1: Lowering Assessments from the IDOR Median Levels to a Maximum 25.2%

B. Potential Countywide **Tax Burden Shift**: for tax year 1998 if the maximum assessment level of 25.2% had been applied to all classes for which the applicable class median level of assessment (as determined by the IDOR) exceeds that percentage.

1. Assumptions

- Assessed values of all properties are the same as for 1998.
- The tax rates for all taxing districts and the Cook County multiplier are allowed to adjust to the assessment level changes.

2. Results

Class	% Change
1 (Vacant)	9%
2 (Residential)	10%
3 (Multi-Family)	9%
4 (Non-Profit)	-9%
5a (Commercial)	-10%
5b (Industrial)	-19%
6 (Incentive)	9%
7 (Incentive)	9%
8 (Incentive)	13%
9 (Incentive)	9%

**Scenario #2: Lowering Assessments from the Ordinance Level to a
Maximum 25.2%**

A. Maximum Potential **Revenue Losses** (out of current collections): for tax year 1998 for which taxes have already been extended and paid, and for which the PTAB has ordered refunds based on a 25.2% maximum assessment level.

1. Assumptions

- Assessed values of all properties are the same as for 1998.
- The tax rates for all taxing districts and the Cook County multiplier are the same as for 1998.
- An appeal is filed at the PTAB for every property with an Ordinance-prescribed level of assessment that exceeds 25.2%.
- Every appealing taxpayer is able to establish at the PTAB that the full market value of his property is the same as (but not greater than) its assessed value divided by the applicable Ordinance level of assessment for its class.

2. Results

Chicago Taxing Agencies	Refund Amount
Cook County	\$121,834,297
Forest Preserve	\$9,717,050
Metro Water Reclamation Dist.	\$59,154,031
City of Chicago Library Fund	\$12,636,396
City of Chicago	\$123,298,089
Chicago Board of Education	\$284,008,773
School Finance Authority	\$18,228,167
Community College Dist. #508	\$23,878,259
Chicago Park District	\$43,601,880
Special Service Area #1	\$456,484
Total	\$696,813,427

**Scenario #2: Lowering Assessments from the Ordinance Level to a
Maximum 25.2%**

B. Potential Countywide **Tax Burden Shift**: for tax year 1998 if the maximum assessment level of 25.2% had been applied to all classes for which the Ordinance level exceeds that percentage.

1. Assumptions

- Assessed values of all properties are the same as for 1998.
- The tax rates for all taxing districts and the Cook County multiplier are allowed to adjust to the assessment level changes.

2. Results

Class	% Change
1 (Vacant)	20%
2 (Residential)	21%
3 (Multi-Family)	-10%
4 (Non-Profit)	0%
5a (Commercial)	-23%
5b (Industrial)	-17%
6 (Incentive)	19%
7 (Incentive)	19%
8 (Incentive)	28%
9 (Incentive)	19%