

### Property Tax Part III: Property Tax Extension Limitation Law

Assuming a well-designed system, the property tax is an effective and efficient means of raising local revenues. The virtues of the tax include the stability and reliability of the revenue stream, the ease of administering the tax which contributes to compliance, and the intrinsic connection between the source of the revenue (property) and what is being provided in return (public services). The property tax extension limitation law (PTELL) limits the growth in property tax revenues for certain units of government unless voters approve a referendum allowing additional revenues. Constraining a local governments’ ability to generate revenue from one source may result in a reliance on a less efficient source of revenues. Local governments unable to increase property tax revenues may increase reliance on other sources of revenue, like a municipal non-home rule sales tax or additional general state aid for school districts. In addition, communities unable to raise enough revenue to provide the public services necessary to attract residents and businesses put the entire region at a disadvantage from an economic development standpoint.

While the purpose of PTELL was to increase voter participation in the property tax system, voters in Cook, DuPage, Kane, Lake, McHenry, and Will counties did not have the opportunity to vote on a referendum to implement PTELL. Unlike the rest of the counties in the State, which were allowed to hold a referendum on its implementation, PTELL was imposed in these northeastern Illinois counties by state statute. In the chapter on reforming state and local tax policy, GO TO 2040, northeastern Illinois’ comprehensive regional plan, includes an analysis of the property tax and provides the following implementation action area, to be executed by the Regional Tax Policy Task Force:

<p><b>Evaluate property tax classification and the property tax extension limitation law</b></p> <p>Lead Implementers: Task Force, CMAP Board, State, Cook County</p>	<p>Evaluate the property tax classification system in Cook County and propose reform, where appropriate. Special attention should be paid to impacts on businesses and households as well as residential and commercial location decisions. Evaluate the impacts of PTELL on local government revenues and services and propose reform, where appropriate. Prepare detailed recommendation.</p>
---	---

This interim report will provide a brief overview of PTELL and its effects. See [“Property Tax Part I: Overview of the Property Tax System”](#) for a general overview of the property tax system.

#### Overview of PTELL

The Property Tax Extension Limitation Law (PTELL)<sup>1</sup> was first enacted in 1991 for taxing districts in DuPage, Kane, Lake, McHenry, and Will counties. The law was proposed in response to concerns about how fast growth in collar county property values was affecting property tax bills. Taxing districts in Cook County were added to the statute for the 1994 assessment year. In 1996, the statute was amended to authorize the remaining counties 96 counties in Illinois to hold a referendum on whether to implement PTELL. Between 1996 and 2003, 42 counties have held referendums. These referendums passed in 33 of the counties, including Kendall County. No referendums have been held since 2003.

The statute requires that non-home rule taxing districts in PTELL counties limit the annual increase in property tax extensions to the lesser of five percent or the increase in the Consumer Price Index for all urban consumers. The law allows increases above this amount to account for new properties added to the tax rolls. Most taxing districts in PTELL counties are subject to the limitation because most taxing

<sup>1</sup> 35 ILCS 200/18-185 through 35 ILCS 200/18-245

districts do not have home rule authority. Home rule authority for some Illinois local governments was implemented when the current state constitution was adopted in 1970. All municipalities with populations greater than 25,000 are automatically granted home rule status.<sup>2</sup> If a municipality's population drops below that threshold, a referendum must be held to determine whether to maintain home rule status. Municipalities with smaller populations may adopt home rule status by referendum, and large municipalities may choose to reject home rule status by referendum. Cook County has also been granted home rule status through the state constitution, and is currently the only home rule county in the State. Other Illinois counties can become home rule if they adopt, by referendum, a county executive form of government with home rule.<sup>3</sup> School districts, townships, and special districts do not have home rule powers.

The following simple example shows how PTELL affects a taxing district's extension for a unit (K-12) school district with less than 500,000 residents that levies a property tax for educational purposes.

A	Equalized Assessed Value of all property	\$100,000,000
B	Equalized Assessed Value of new property only	\$1,000,000
C	Levy request	\$4,500,000
D	Rate (C/A)	4.5000%
E	Maximum statutory rate	4.0000%
F	Extension (prior to PTELL) (E * A)	\$4,000,000
G	Prior year extension	\$3,750,000
H	CPI	2%
I	PTELL extension on base property (G + (G * H))	\$3,825,000
J	<b>Limiting rate (I/(A-B))</b>	<b>3.8636%</b>
K	PTELL extension on new property (J * B)	\$38,636
L	<b>Total extension (I + K)</b>	<b>\$3,863,636</b>

In the example, Equalized Assessed Value (EAV) totals \$100 million, with \$1 million being new property, which includes the EAV added by new improvements to a parcel of land or additions to existing improvements. The school district is requesting a \$4,500,000 property tax levy for its education fund. Such a tax levy would result in a tax rate of 4.5 percent. However, most types of units of government are subject to longstanding state statutes that dictate the maximum property tax rates that can be levied for each fund type. For the education fund of a unit school district with less than 500,000 residents, state statute does not allow more than a 4.0 percent tax rate.<sup>4</sup> Under the maximum rate, the extension would have been \$4,000,000.

For a school district in a non-PTELL county, this would be the final rate and extension. However, in a PTELL county, the growth in the extension from the prior year is constrained. In the example, the prior year extension totaled \$3,750,000. The Consumer Price Index was 2 percent, which is less than 5 percent. Thus, the extension, excluding new property, cannot grow by more than 2 percent. To

<sup>2</sup> Illinois Legislative Research Unit, *1970 Illinois Constitution Annotated for Legislators, Fourth Edition*, updated 2005.

<sup>3</sup> Ibid.

<sup>4</sup> 105 ILCS 5/17-3

determine the final rate, or the limiting rate, the prior year extension increased by 2 percent is divided by the EAV, minus new property. The final rate equals 3.8636 percent. This rate is applied to the total EAV, including new property, to get a final property tax extension of \$3,863,636. This extension is 3.4 percent lower than the extension would have been without PTELL.

Statutory maximum property tax rates had long been the method limiting a taxing district's ability to generate property tax revenues.<sup>5</sup> However, in PTELL counties, the slower growth in property tax extensions relative to EAV has meant that maximum rates are not usually a factor in limiting property taxes. In the example, the extension would be limited to \$3,863,636 regardless of the maximum rate.

Taxing districts under PTELL have a number of means to generate property tax revenue beyond what is authorized under PTELL. Funds used to pay off bonds approved by referendum are excluded from PTELL. In addition, taxing districts may hold a referendum asking for approval of a higher tax rate than what would be allowed under PTELL. The new rate approved is imposed for the number of years approved by voters, up to four years. Alternatively, a taxing district can hold a referendum on allowing a higher extension growth rate than the growth allowed under PTELL. Lastly, for counties that are subject to PTELL through the approval of a referendum, PTELL may be rescinded via referendum.

### Effects of PTELL

The purpose of PTELL was to limit taxing districts' ability to increase property tax extensions without voter participation. Research has indicated that PTELL has limited growth in property tax extensions and that the impact of the constraint grows stronger over time.<sup>6</sup> In 2008, aggregate property tax extensions for northeastern Illinois taxing districts were 4.3 percent or \$862.6 million lower than without PTELL. However, PTELL's impacts may have extended beyond this original intent. Given a particular level of public services, constraining one revenue source for a local government will result in the need to increase a different revenue source. In other words, instead of reducing overall revenues, it is possible that local governments subject to PTELL may be increasing reliance on other revenue sources.

### Property Tax Revenue Reliance

In general, municipalities, as well as counties, have more revenue sources at their disposal than most other taxing districts, such as special districts and school districts. In an environment of constrained property tax revenues, municipalities may increase reliance on other sources of revenue, such as state revenue sharing, non-home rule sales taxes, telecommunications taxes, utility taxes, and fees. Special districts may come to be relatively more dependent on the personal property replacement tax than they otherwise would be, or may increase charges for services. These revenue sources may not be as stable or efficient as the property tax.

To examine how PTELL may affect local governments' property tax utilization, average property tax revenues as a percent of total revenues for home rule municipalities was compared with the average for non-home rule municipalities. In the CMAP region where all counties are subject to PTELL, municipalities offer a good comparison because those without home rule status are subject to PTELL and the rest are not, whereas all other taxing districts are subject to PTELL (with the exception of Cook County, which is home rule). The analysis examined FY2010 revenues as reported to the Illinois Office of

---

<sup>5</sup> See <http://tax.illinois.gov/localgovernment/Propertytax/NewMaxRates.pdf> for a compilation of statutory maximum rates.

<sup>6</sup> Dye, Richard F., Therese J. McGuire, and Daniel P. McMillen, 2005. "Are property tax limitations more binding over time?" *National Tax Journal* (58) 215-225, [http://ntj.tax.org/wwtax%5Cnjrec.nsf/D396EA3A3FD6CBA18525701C005E26B3/\\$FILE/Article%2003-McGuire.pdf](http://ntj.tax.org/wwtax%5Cnjrec.nsf/D396EA3A3FD6CBA18525701C005E26B3/$FILE/Article%2003-McGuire.pdf).

the Comptroller in 260 municipalities in northeastern Illinois, 144 non-home rule and 116 home rule.<sup>7</sup> On average, non-home rule municipalities generated 29.5 percent of their general, special, capital, and debt service revenues from the property tax while home rule municipalities generated 34.7 percent of these revenues from the property tax, in FY2010. When municipalities that did not levy a property tax were removed from the sample, non-home rule municipalities averaged 31.0 percent and home rule municipalities averaged 35.3 percent. The following table provides a summary of these results.

### Reliance on Property Taxes for Municipalities

	All Municipalities Analyzed		Municipalities with a Property Tax	
	Number Analyzed	Average Revenues From Property Tax	Number Analyzed	Average Revenues From Property Tax
Home Rule	116	34.7%	114	35.3%
Non-Home Rule	144	29.5%	137	31.0%

Includes general, special, capital, and debt service funds.

Source: Illinois Office of the Comptroller, FY2010

While not as strong, similar differences existed when only municipalities that do not provide park, fire, or library services were compared. There are 53 non-home rule municipalities and 46 home rule municipalities in the region that do not provide park, fire, or library services. All of these services are instead provided by special districts. Of these municipalities, the average percent of revenues generated from the property tax was 26.0 percent for non-home rule municipalities and 30.2 percent for home rule municipalities. After removing municipalities that did not levy a property tax, the averages were 27.6 percent for non-home rule municipalities and 30.9 percent for home rule municipalities. This analysis indicates that home rule municipalities, which are not subject to PTELL, utilize the property tax as a revenue source more than non-home rule municipalities, on average. The following table provides a summary of these results.

### Reliance on Property Taxes for Municipalities with Separate Park, Fire, and Library Districts

	All Municipalities Analyzed		Municipalities with a Property Tax	
	Number Analyzed	Average Revenues From Property Tax	Number Analyzed	Average Revenues From Property Tax
Home Rule	46	30.2%	45	30.9%
Non-Home Rule	53	26.0%	50	27.6%

Includes general, special, capital, and debt service funds.

Source: Illinois Office of the Comptroller, FY2010

This phenomenon has also played out in other states where limitations on the property tax have been enacted. Property tax limitations have been enacted in 46 states and take several forms, including limiting growth in EAV, limiting growth in property tax levies, and setting maximum property tax rates.<sup>8</sup> One well-known property tax limitation is a 1978 California law requiring that property tax rates not exceed 1 percent and that EAV growth be limited to the lesser of inflation or 2 percent. Upon change of ownership, properties are reassessed at current market values. The law also effectively removed property taxes from local control and required that property tax revenues be disbursed to taxing districts according to statute. Known as Proposition 13, it has had numerous consequences for local government finances over the past 33 years.

<sup>7</sup> The CMAP region has 284 municipalities in total: 129 home rule and 155 non-home rule.

<sup>8</sup> Lincoln Institute of Land Policy, "Types of Property Tax and Assessment Limitations and Tax Relief Programs," 1998, <http://www.lincolninst.edu/subcenters/property-valuation-and-taxation-library/dl/mikhailov.pdf>.

Two major effects stemmed from local governments' attempts to increase non-property tax revenue streams in California. As a percent of total revenues for California cities, fee revenue increased from 25 percent in 1977-78 to 41 percent in 1995-96.<sup>9</sup> These fees have included fees on new developments, licensing fees, utility fees, and other charges. For special districts, fees as a percent of revenue increased from 7 percent to 46 percent of revenue in the same period. Similarly, special assessment districts, which are used to impose fees on property owners for specific public services or infrastructure, have increased since Proposition 13. Revenue generated from these districts grew 523 percent between 1983 and 1995. Another consequence has been that municipalities have expanded the use of tax increment financing districts in order to generate incremental revenue to fund public improvements.<sup>10</sup> TIF district activities were often oriented toward commercial rather than residential development in order to generate more revenues. In addition, TIF districts (also called redevelopment agencies) were sometimes used for undeveloped land, which can generate large amounts of incremental revenue. Between 1980 and 1996, the number of TIF districts in California grew from 197 to 399.

### State Funding to School Districts

Since property tax revenues under PTELL are more a function of the prior year extension than growth in EAV, school districts in PTELL counties are unable to capture all of the value from growth in EAV. The State uses an adjusted General State Aid (GSA) formula to account for this.<sup>11</sup> Instead of just using current year EAV in the GSA formula to determine a school district's local resources, the State determines if the EAV from the prior year increased by the amount that the extension can be raised is lower than the current year EAV. If it is lower, than it is used in lieu of current year EAV. Going back to the previous example, the extension increased from \$3,750,000 to \$3,863,636, or 3.0 percent. To determine local resources in the GSA formula, the State would increase the prior year EAV by 3.0 percent. If this amount is lower than the current year EAV of \$100 million, it is used in the formula. This typically means that the formula uses a lower EAV than if the school district were not subject to PTELL. As a result, the State must provide more funding to these school districts than they otherwise would have provided. Statewide, in 2011, 460 school districts are subject to PTELL out of 867 total school districts. Using PTELL-adjusted EAV in the formula resulted in 403 school districts benefitting from an additional \$680,429,216 in state funding.<sup>12</sup> This accounted for 14.8 percent of the total amount allocated for GSA in 2011.

---

<sup>9</sup> Sexton, Terri A., Steven M. Sheffrin, Arthur O'Sullivan, "Proposition 13: Unintended Effects and Feasible Reforms," *National Tax Journal* 52(1), 99-112, March 1999, [http://ntj.tax.org/wwwtax/ntjrec.nsf/80A9A9639CDB749585256AFC007F1910/\\$FILE/v52n1099.pdf](http://ntj.tax.org/wwwtax/ntjrec.nsf/80A9A9639CDB749585256AFC007F1910/$FILE/v52n1099.pdf).

<sup>10</sup> Chapman, Jeffrey I., "Proposition 13: Some Unintended Consequences," Public Policy Institute of California, 1998, [http://www.ppic.org/content/pubs/op/OP\\_998JCOP.pdf](http://www.ppic.org/content/pubs/op/OP_998JCOP.pdf).

<sup>11</sup> The State guarantees a minimum per pupil foundation level of funding, which was \$6,119 for the 2010-2011 school year. If school districts cannot provide this level of funding through their tax base, which includes the district's EAV as well as Personal Property Replacement Tax revenues, the State makes up the difference. These state funds provided to school districts are referred to as General State Aid.

<sup>12</sup> Illinois State Board of Education, PTELL presentation, February 2011, [http://www.isbe.state.il.us/board/meetings/2011/feb/PTELL\\_pres.pdf](http://www.isbe.state.il.us/board/meetings/2011/feb/PTELL_pres.pdf).