Property Tax Part II: Assessment Classification

Cook County assesses commercial and industrial property at a higher percentage of market value than residential property. On the whole, this results in a higher property tax burden for business taxpayers, although the magnitude of the impact varies from place to place. This classification system does not exist in the collar counties, where businesses and residents with similar property market values typically share similar tax burdens. 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:

Evaluate property tax classification and the property tax extension limitation law Lead Implementers: Task Force, CMAP Board, State, Cook County	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.

This interim report will examine some of the implications of property tax classification. While isolating the impact of classification on individual taxpayers, development decisions, or the movement of people and businesses is difficult, it is clear that commercial and industrial properties are subject to high property tax rates in many Cook County communities, and these rates are partially attributable to classification. This is an important public policy issue for the metropolitan region because these higher rates not only affect existing taxpayers and service delivery, but also can serve as a barrier to future business development and overall economic activity.

Furthermore, GO TO 2040 places a strong emphasis on encouraging development in existing communities, where infrastructure to support it is already available. According to CMAP's analysis of infill opportunities, there are over 100,000 acres of land within existing municipal boundaries that are available for redevelopment. A significant percentage of this acreage is located in Cook County, which contains a large share of the region's highways, public transit, and freight assets. In CMAP's current partnership with local governments via the Local Technical Assistance Program[1], a number of municipal officials in Cook County have indicated that high property tax rates, which are partially attributable to classification, present a major barrier to business attraction and retention. Eliminating or phasing out the classification system may make Cook County more economically competitive and lead to a more level playing field with communities with lower property tax rates outside of Cook County.

Overview of Classification

State statute requires that properties be assessed at 33 1/3% of their market value,[2] except in counties allowed to apply property classification. The Illinois State Constitution of 1970 authorized counties with more than 200,000 residents to apply different assessment ratios depending on the type of property, as

[1] CMAP is partnering with local communities identified for planning assistance through the agency's new initiative sponsored by the U.S. Department of Housing and Urban Development (HUD) as part of the federal interagency Partnership for Sustainable Communities. For details on this program please see: http://www.cmap.illinois.gov/moving-forward/livable-communities-in-detail/-/asset_publisher/Q4En/content/local-technical-assistance

[2] 35 ILCS 200/9-145

long as highest class does not exceed 2.5 times the level of assessment of the lowest class.[3] Counties that would like to apply property classification must enact an ordinance.[4] These provisions allowed Cook County to enact an ordinance to legally classify property for assessment purposes, a practice it had been employing for many years prior to its legal authorization. Currently, Cook County is the only county in the State that has enacted an ordinance providing for property classification.

The classes as well as the levels of assessment for each class have changed since the first ordinance was enacted in 1974. The most recent amendment reduced levels to 10 percent for residential property and 25 percent for commercial and industrial property beginning with the 2009 tax year.[5] For multi-family residential properties, this change was phased in between 2009 and 2011. In addition to general residential, commercial, and industrial categories, classification includes various incentive classes that reduce the level of assessment on certain properties for a period of years. The following chart provides a recent history of classes and assessment levels.

Cook County Assessment Classifications

Class	Description	2008	2009	2010	2011
1	Vacant	22%	10%		
2	Farm, single family or residential building with 6 units or fewer	16%	10%		
3	All other multi-family residential property	20%	16%	13%	10%
4	Not-for-profit	30%	25%		
5a	Commercial	38%	25%		
5b	Industrial	36%	25%		
6b	Industrial development incentive 1st 10 years and for any subsequent 10-year renewal periods Year 11 Year 12	 16% 23% 30%	 10% 15% 20%		
C	Industrial or commercial incentive for brownfield redevelopment	1st 10 years: 16% Year 11: 23% Year 12: 30%	1st 10 years: 10% Year 11: 15% Year 12: 20%		
7a/7b	Commercial incentive for development				
8	Commercial or industrial incentive for development in areas in communities in need of revitalization 1st 10 years and for any subsequent 10-year renewal periods Year 11 Year 12	 16% 23% 30%	 10% 15% 20%		

[3] Illinois State Constitution, Article IX, Section 4
[4] 35 ILCS 200/9-150
[5] Cook County Ordinance Number 08-O-51

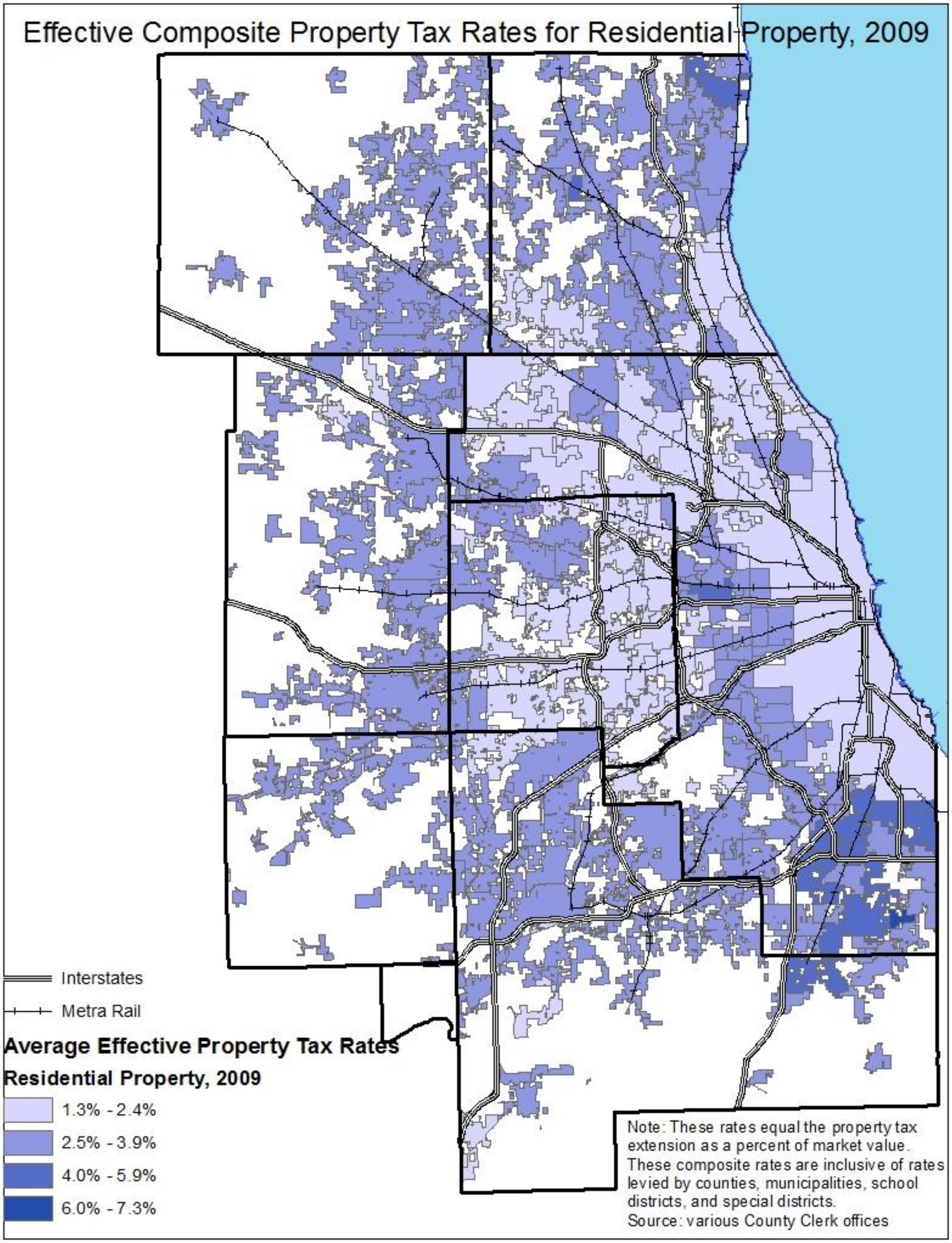
9	Multifamily incentive for new or redeveloped buildings with 35% of units leased at rents affordable to low- or moderate-income persons or households. Incentive for 10-year period and renewable upon application for additional 10-year periods.	16%	10%
S	Multifamily incentive for Section 8 contract renewal. Incentive is for the term of the contract under the mark up to market option and for any additional terms of renewal.	16%	10%
L	Landmark incentive 1st 10 years and for any subsequent 10 year renewal periods (commercial properties are not renewable) Year 11 Year 12	16% 23% 30%	10% 15% 20%
Source: Cook County Ordinances Sec. 74-63 and 74-64; Cook County Assessor			

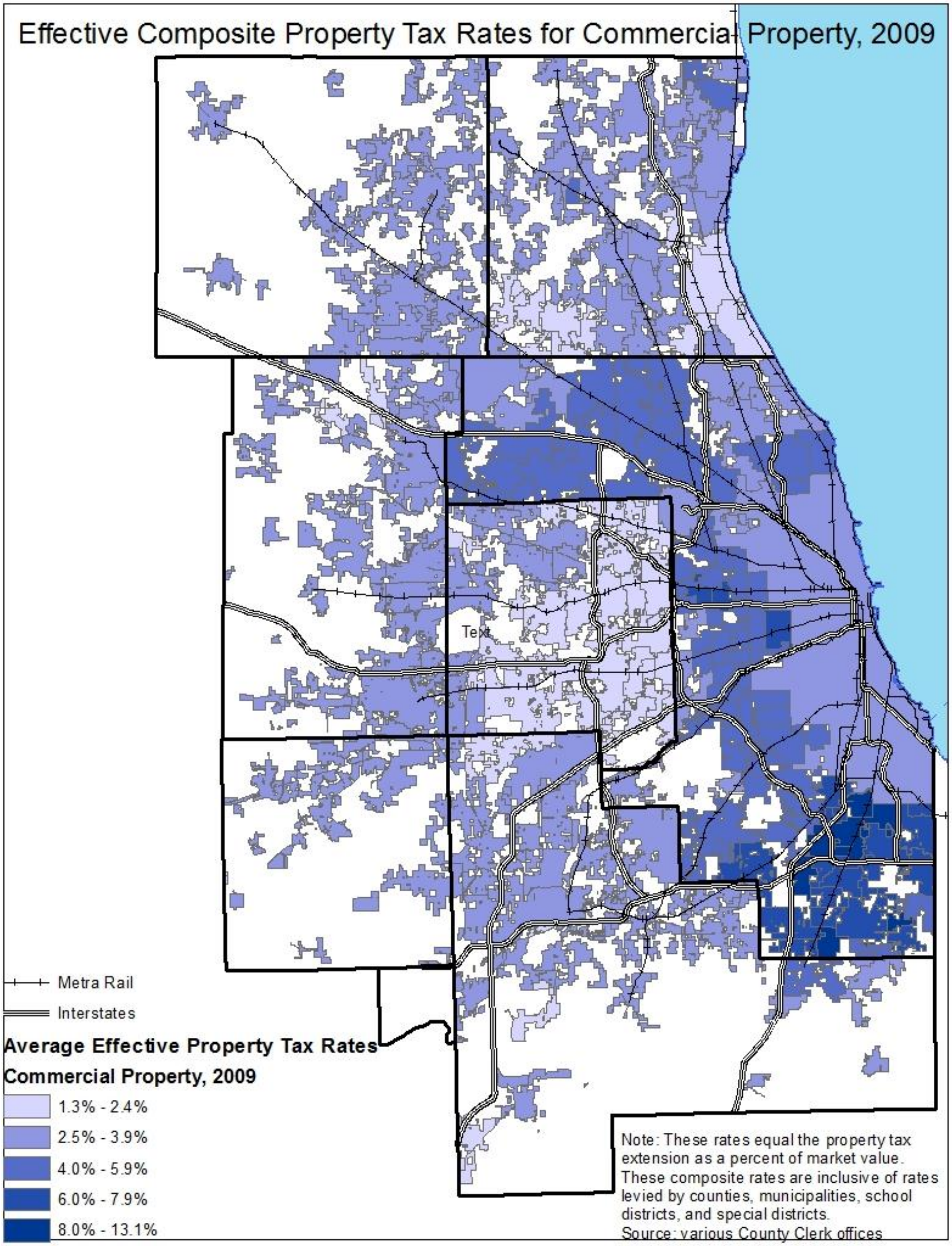
Effect on Property Tax Rates

Due to classification, Cook County property taxpayers pay a different effective tax rate depending on the class of property. While property tax rates are calculated as the tax levy divided by the Equalized Assessed Value (EAV), *effective* tax rates refer to the property tax levy as a percent of *market value*. Examining property taxes through a property's actual market value rather than the EAV allows for analysis across property classes and analyzes tax rates and extensions from the perspective of the taxpayer. Assuming "all else equal" in terms of local tax levy and market value, and assuming no other exemptions or deductions, a taxpayer with commercial or industrial property in Cook County pays more than they would in a county without classification. Meanwhile, a taxpayer with residential property in Cook County pays less than they would in a county without classification.

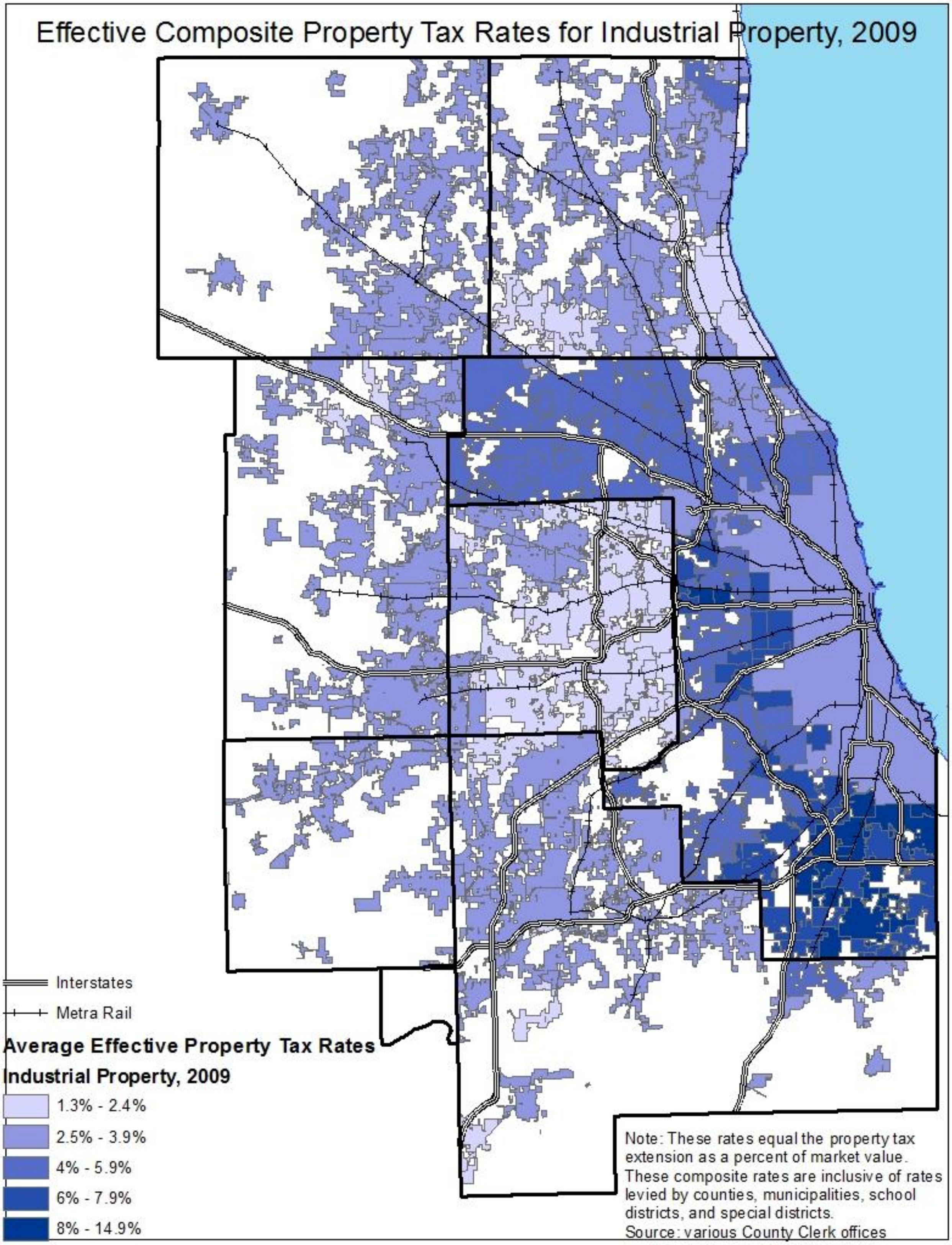
The following maps illustrate effective composite property tax rates levied for a typical or average taxpayer in each municipality in the region. The rates included on the map are inclusive of rates levied by counties, municipalities, school districts, and special districts, but exclude rates levied by special service areas. Where available, the rate paid by most taxpayers in a municipality is shown. Otherwise, the rate shown is the unweighted-average of the composite rates of each tax code located in the municipality.

The map providing rates for residential property shows effective rates below 4 percent across most of the region. Rates above 4 percent are primarily in southern Cook County. In the maps showing commercial and industrial property rates, effective rates remain the same in the collar counties (primarily under 4 percent) because they do not employ classification. However, for the majority of Cook County, commercial and industrial properties rates are more than 4 percent. Many of the areas of Cook County with residential effective rates above 4 percent show effective rates for commercial and industrial of more than 8 percent. At the same time, effective tax rates for commercial and industrial properties in the collar counties are all less than 8 percent.


Effective Composite Property Tax Rates for Residential Property, 2009
Interstates
Metra Rail
Average Effective Property Tax Rates
Residential Property, 2009
1.3% - 2.4%
2.5% - 3.9%
4.0% - 5.9%
6.0% - 7.3%
Note: These rates equal the property tax extension as a percent of market value. These composite rates are inclusive of rates levied by counties, municipalities, school districts, and special districts.
Source: various County Clerk offices



Effective Composite Property Tax Rates for Commercial Property, 2009
Text
Metra Rail
Interstates
Average Effective Property Tax Rates
Commercial Property, 2009
1.3% - 2.4%
2.5% - 3.9%
4.0% - 5.9%
6.0% - 7.9%
8.0% - 13.1%
Note: These rates equal the property tax extension as a percent of market value. These composite rates are inclusive of rates levied by counties, municipalities, school districts, and special districts.
Source: various County Clerk offices


Effective Composite Property Tax Rates for Industrial Property, 2009
Interstates
Metra Rail
Average Effective Property Tax Rates
Industrial Property, 2009
1.3% - 2.4%
2.5% - 3.9%
4% - 5.9%
6% - 7.9%
8% - 14.9%
Note: These rates equal the property tax extension as a percent of market value. These composite rates are inclusive of rates levied by counties, municipalities, school districts, and special districts.
Source: various County Clerk offices

Under classification, effective tax rates for all classes rise as the proportion of commercial and industrial property in a taxing district declines. The extent to which a taxpayer pays more or less under classification in a particular taxing district depends on whether a particular class of property dominates the property values in that taxing district. The following chart shows how the effect of Cook County's classification system on tax rates is dependent on the makeup of the taxing district.

Row	Hypothetical Taxing Districts in Cook County	1 (primarily residential)	**2** (50/50)	**3** (primarily commercial/ industrial)
A	Property Tax Levy (what is requested by taxing districts for service provision)	$1,000,000	$1,000,000	$1,000,000
B	Total Market Value of Taxable Properties	$100,000,000	$100,000,000	$100,000,000
B_1	Residential portion	$90,000,000	$50,000,000	$10,000,000
B_2	Commercial/Industrial portion	$10,000,000	$50,000,000	$90,000,000
C	Assessed Value (assuming 2009 levels of assessment)	$11,500,000	$17,500,000	$23,500,000
C_1	Residential portion (10% of B_1)	$9,000,000	$5,000,000	$1,000,000
C_2	Comm/Ind portion (25% of B_2)	$2,500,000	$12,500,000	$22,500,000
D	Equalized Assessed Value (assuming equalization factor=3)	$34,500,000	$52,500,000	$70,500,000
D_1	Residential portion (C_1 x 3)	$27,000,000	$15,000,000	$3,000,000
D_2	Comm/Ind portion (C_2 x 3)	$7,500,000	$37,500,000	$67,500,000
E	Rate (A/D)	2.9%	1.9%	1.4%
F	Extension			
F_1	Residential (E x D_1)	$782,609	$285,714	$42,553
F_2	Commercial/Industrial (E x D_2)	$217,391	$714,286	$957,447
G	Effective Rates			
G_1	Residential (F_1/ B_1)	0.9%	0.6%	0.4%
G_2	Commercial/Industrial (F_2/ B_2)	2.2%	1.4%	1.1%
Rate and Extension assuming no classification (as if taxing districts were not in Cook County)				
H	Effective Rate with no classification (A/B)	1.0%	1.0%	1.0%
I	Extension with no classification			
I_1	Residential (H x B_1)	$900,000	$500,000	$100,000
I_2	Commercial/Industrial (H x B_2)	$100,000	$500,000	$900,000

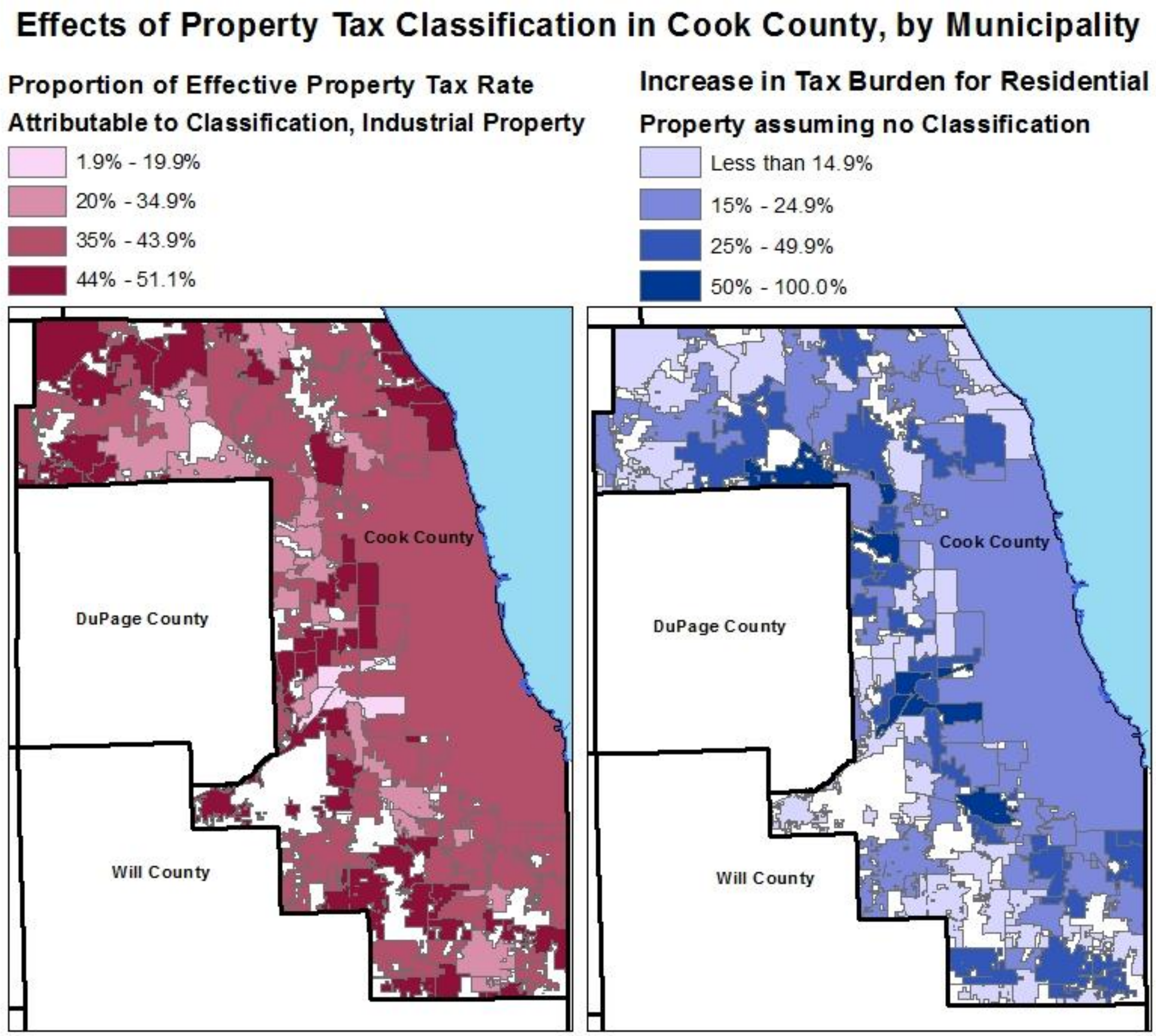
Taxing district 1 is primarily residential. As a result, eliminating classification would increase the effective tax rate for residential from 0.9 percent to just 1 percent, because the effect of reducing the tax burden for commercial/industrial is spread out among the large residential tax base. Moreover, because commercial/industrial makes up a small portion of the tax base, the overall extension increase for the residential portion of the tax base is smaller.

The reduction in tax burden for commercial/industrial gets smaller and the increase in tax burden for residential gets larger when classification is eliminated for taxing district 2. Since half of the market value in taxing district 2 is commercial/industrial, reducing the effective tax rate means that a larger proportion of the overall $1 million tax levy is shifted from commercial/industrial to residential than in taxing district 1. As a result, the residential rate in taxing district 2 also increases more than in taxing district 1 - from 0.6 percent to 1 percent. Also, the rate for commercial/industrial decreases less in taxing district 2 (2.2 percent to 1 percent) than in taxing district 1 (1.4 percent to 1 percent).

In taxing district 3, most of the market value consists of commercial/industrial property. As a result, these taxpayers were already paying most of the tax levy, thus eliminating classification does not have as large of an impact on the effective rate for commercial/industrial – from 1.1 percent to 1 percent. Because of the predominance of commercial/industrial property with a higher level of assessment, the residential effective tax rate was lower than the other taxing districts under classification – 0.4 percent. Thus, eliminating classification increases the residential rate more than in the other taxing districts.

In general, Cook County's classification system results in higher tax rates for commercial/industrial property taxpayers and lower tax rates for residential taxpayers than if all properties were assessed at the same level. However, these examples show that the impact of eliminating classification on effective tax rates varies by community. In some communities, especially where there is a large amount of commercial/industrial property, effective property tax rates for commercial/industrial property are primarily functions of the tax levy and not of classification's differential levels of assessment. In these same communities, low residential rates are a function of classification because the concentration of commercial/industrial property, which is assessed at a higher level, shoulders much of the tax burden. Therefore, eliminating classification would increase the residential tax burden in these communities more than in communities with relatively less commercial/industrial property.

The reverse is also true – communities with low concentrations of commercial/industrial property have effective tax rates for commercial/industrial property that may have resulted from classification and effective tax rates for residential that are primarily attributable to the actual tax levy. As a result, eliminating classification in these communities would not have as large of an impact on the residential tax burden or effective rates. The following maps illustrate how classification affects property tax rates in Cook County communities. The map on the left shows the extent that industrial tax rates are affected by classification and the map on the right shows the extent that residential property taxpayers would see an increase in property taxes without classification.



Implications for Economic Development

As shown in the tax rate maps earlier in this report, many Cook County communities have higher effective tax rates for commercial/industrial property taxpayers than communities in the collar counties. These higher rates are partially attributable to classification. In general, taxation, including property tax rates, affects economic development. Other factors both unrelated and related to taxation, such as the provision of government services and infrastructure, play a role in business location decisions. However, tax differences appear to have a larger impact on business activity within metropolitan regions rather than across them.[6] Businesses that can move relatively cheaply within a metropolitan region may do so in order to take advantage of lower tax rates. Given this, business development in Cook County may be affected by the classification system to the extent that it results in a greater tax burden for businesses.

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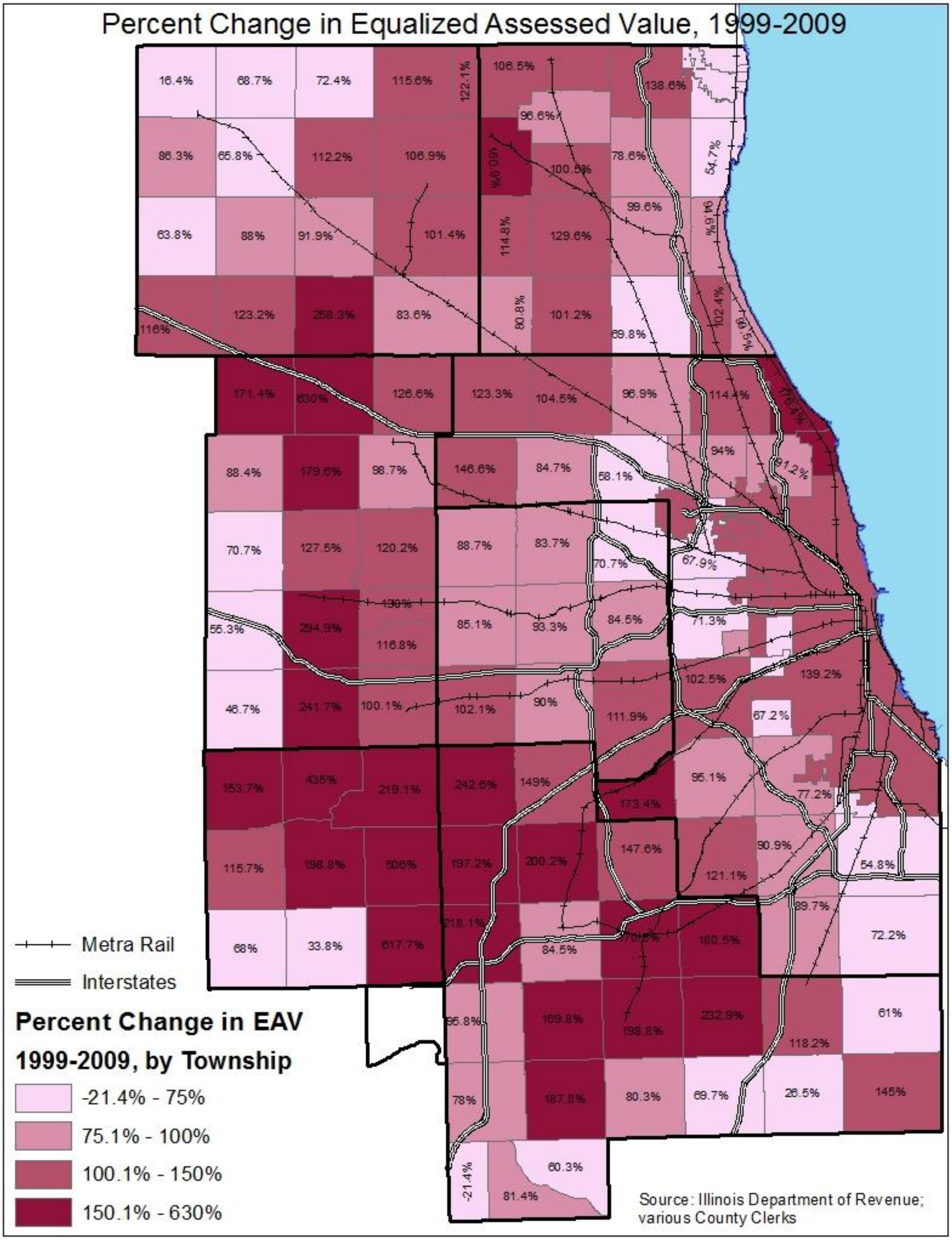
[6] Wasylenko, Michael, "Taxation and Economic Development: The State of the Economic Literature," New England Economic Review, March/April 1997.

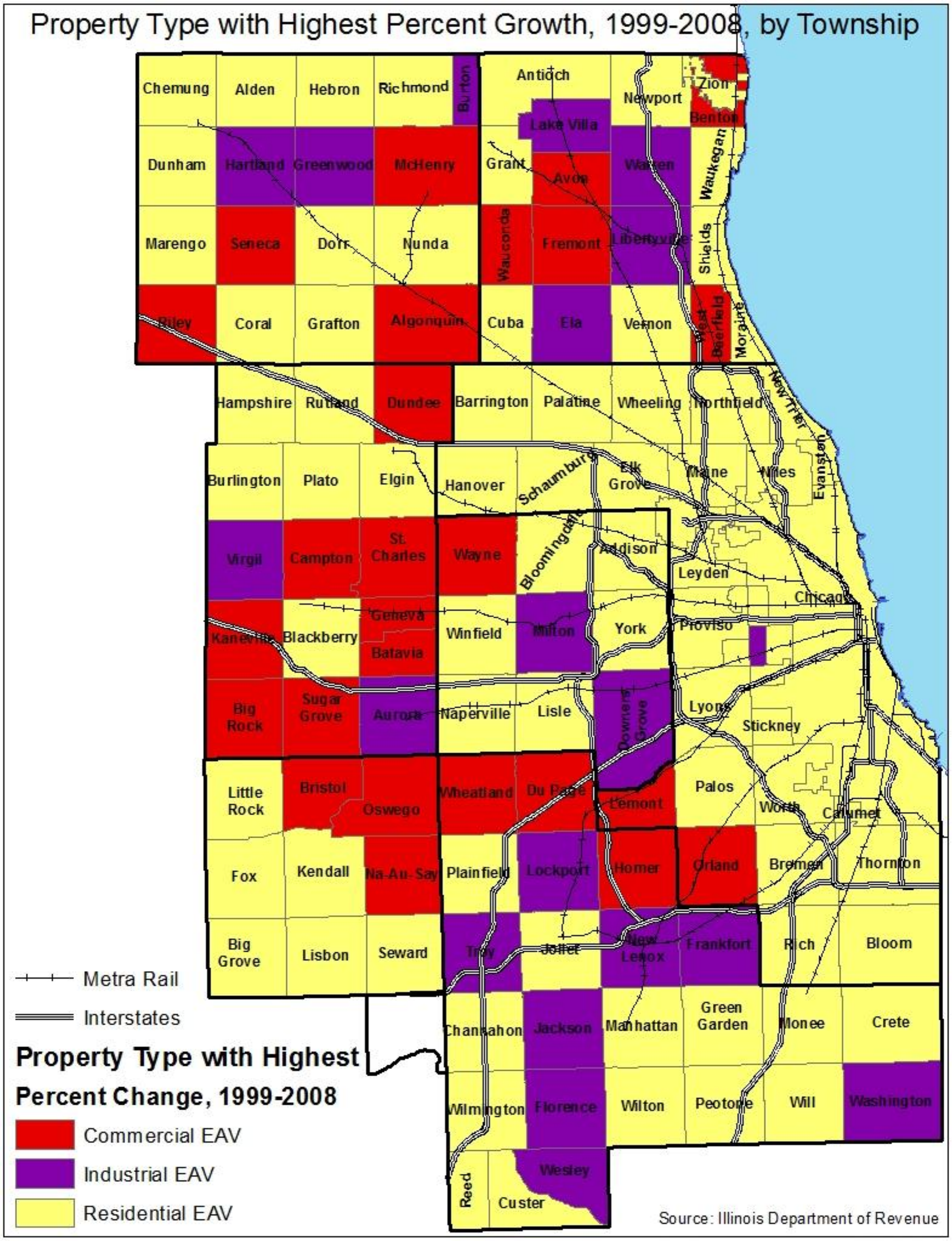
There has not been conclusive empirical evidence that classification, which has been done in some form since the 1920s in Cook County,[7] has affected economic development.[8] However, while engaged in local planning efforts, CMAP staff has interacted with community officials that believe economic development in their communities have been negatively affected by classification. Many businesses find that locating in areas with high property taxes would be a risk without adequate financial returns. In addition, many communities have used the classification system as an opportunity to pursue Cook County businesses to relocate to collar county communities.

Development in northeastern Illinois has expanded outward into the collar counties. As a result, the property tax base grew faster in Kane, Kendall, and Will counties than in Cook County between 1999 and 2009. However, EAV growth throughout the region varied considerably, with EAV in some communities within the same county growing faster than their neighbors. In addition, several collar county communities on the Cook County border have experienced higher EAV growth than neighboring Cook County areas. The following map illustrates EAV growth rates for northeastern Illinois by township.

[7] The Civic Federation. "The Cook County Property Assessment Process." April 2010.
[8] Dye, Richard F., Therese J. McGuire, and David F. Merriman. "The Impact of Property Taxes and Property Tax Classification on Business Activity in the Chicago Metropolitan Area." Lincoln Institute of Land Policy. 1999.


Percent Change in Equalized Assessed Value, 1999-2009
Metra Rail
Interstates
Percent Change in EAV 1999-2009, by Township
-21.4% - 75%
75.1% - 100%
100.1% - 150%
150.1% - 630%
Source: Illinois Department of Revenue; various County Clerks

The property tax base may be growing at faster rates in certain areas for several reasons. Population growth in suburban and exurban areas may have resulted in increases in residential property values. In addition, business and economic activity may have accelerated in these areas. The following map illustrates which property class exhibited the largest growth in each township between 1999 and 2008.



The townships that have experienced the highest percentage growth in commercial or industrial EAV are primarily located in the collar counties. Just three out of the 46 townships that experienced more commercial or industrial EAV growth than residential EAV growth were in Cook County.

In addition, it appears that higher commercial and industrial property tax rates in Cook County may have driven down commercial rental rates. In an analysis of several pairs of border communities,[9] rental rates in Cook County communities have been lower on average over the past 15 years than rental rates on the other side of the Cook County border. This phenomenon may be the market correcting for higher property tax rates. However, this means that property developers may receive lower rents from lessees in Cook County. This may discourage property development or redevelopment in Cook County. In addition, this likely results in lower commercial and industrial property values in Cook County. Lower property values mean that the property tax base is also lower. Given a particular tax levy, a smaller tax base translates to higher property tax rates. To the extent that higher tax rates for commercial and industrial properties and lower rental rates may affect business location or property development decisions, Cook County may be at a disadvantage for future development.

Cook County has 55,512 acres of land that are either vacant parcels or underutilized commercial and industrial properties.[10] These parcels provide the opportunity to redevelop within existing communities rather than develop in areas where infrastructure is not already available. Higher property tax rates in Cook County, where there are significant opportunities for infill development, may be an obstacle for future sustainable development in the region. Eliminating classification would lower property tax rates in many communities with available infill and may make these parcels more attractive for development.

While sustaining and expanding economic development is dependent on a variety of factors, tax rates matter. Currently, and in the future, businesses in high tax rate areas may choose to locate in northeastern Illinois but outside of Cook County communities with high tax rates to reduce their tax burden. Eliminating the classification system would put a greater tax burden on residential property owners. However, keeping a system that may result in relatively low growth in the property tax base would put a greater tax burden on both residents and businesses.

[9] Buffalo Grove and Wheeling, Burr Ridge, Elmhurst and Northlake.

[10] CMAP, "Infill Regional Snapshot," March 2008, http://www.cmap.illinois.gov/documents/20583/b5a220e4-a7fe-4909-8cde-bb922883b2a9.