CMAP

NOV. 28, 2017

# PROPERTY TAX BURDEN IN THE CHICAGO REGION

The tax structure affects a government's ability to attract and retain businesses and provide public services for its residents. Each of the hundreds of local governments in northeastern Illinois differs in its tax base, service and infrastructure needs, and ability to generate local revenue, which can create inequities in residential property tax burden. Some residents with lower ability to pay have higher tax burdens. Areas with high tax burdens may need reinvestment to build the tax base, while more structural solutions may aid other parts of the region. Previous CMAP analyses decoded the region's property tax system, highlighting how property tax rates are determined as well as how the classification system in Cook County affects tax rates. This Policy Update examines effective property tax rates and assesses inequities in the amount residential property taxpayers pay.

The analysis indicates that Cook County's property tax assessment classification system results in a higher tax burden on commercial and industrial property taxpayers relative to residential properties. This system creates a barrier to reinvestment in some disinvested areas in Cook County, with high rates potentially limiting investment and keeping the tax base from growing at the same rate as public service needs. At the same time, many residents experience high property tax burdens relative to their income levels.

Structural solutions—including the gradual phasing out of Cook County's classification system—can address these inequities. Reforming current tax policies to be more efficient and supportive of reinvestment will improve services and quality of life, keep the region competitive, and promote tax base growth. Growth in the tax base over time will reduce the tax burden on residents, mitigating the increased residential rates that would occur due to phasing out classification.

### Property taxes in the Chicago region

The property tax is the largest source of revenue for local governments in the Chicago region. Most counties, townships, municipalities, school districts, and special districts impose a property tax on their residents. County assessors assess properties and then apply an assessment ratio to the market value of all properties. This ratio is required to equal 1/3 of market value across all property types. To ensure a consistent median assessment ratio of 1/3, the State calculates an equalizer for each county that is then applied to the assessed values to produce the Equalized Assessed Value (EAV) for each property. Each taxing district's tax extension—the amount of property tax revenue that each taxing district is allowed to collect—is divided by a property's EAV to establish property tax rates.

Cook County uses an assessment approach that differs from the rest of the state. In Cook, commercial and industrial property is assessed at 25 percent of market value compared to 10 percent for residential property, effectively shifting property tax burden to commercial and industrial property taxpayers. This is referred to as property tax assessment classification.

### Effective property tax rates

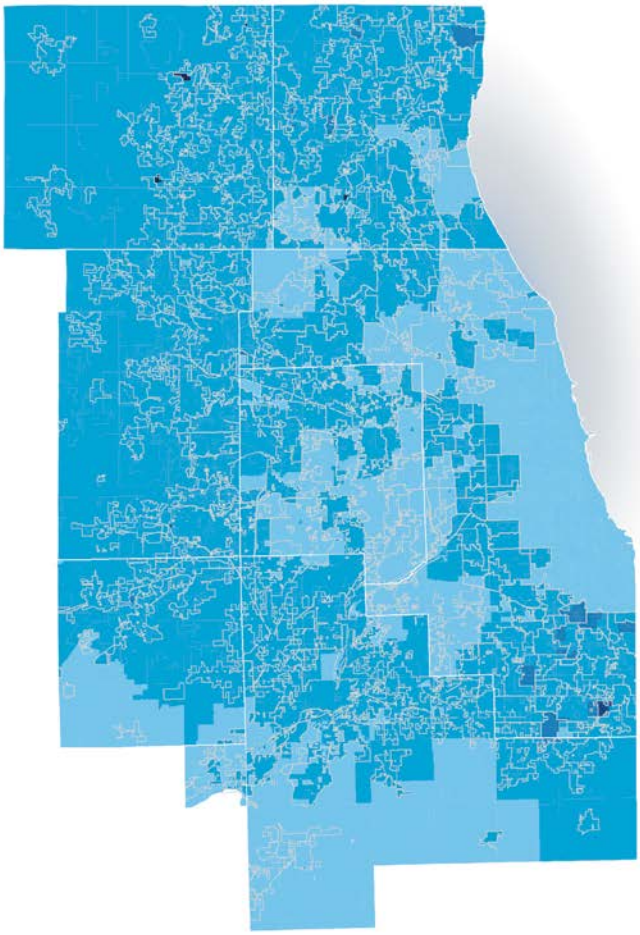
The maps below show effective, composite property tax rates for the seven-county region. Effective property tax rates are property tax extensions as a percentage of market value, rather than EAV, allowing for comparison across counties and property classes. Composite rates are a sum of the rates levied by each local taxing district, such as counties, townships, municipalities, school districts, and special districts. Generally, school districts encompass the largest portion of the overall rate.

**Effective composite property tax rates in northeastern Illinois, 2014**

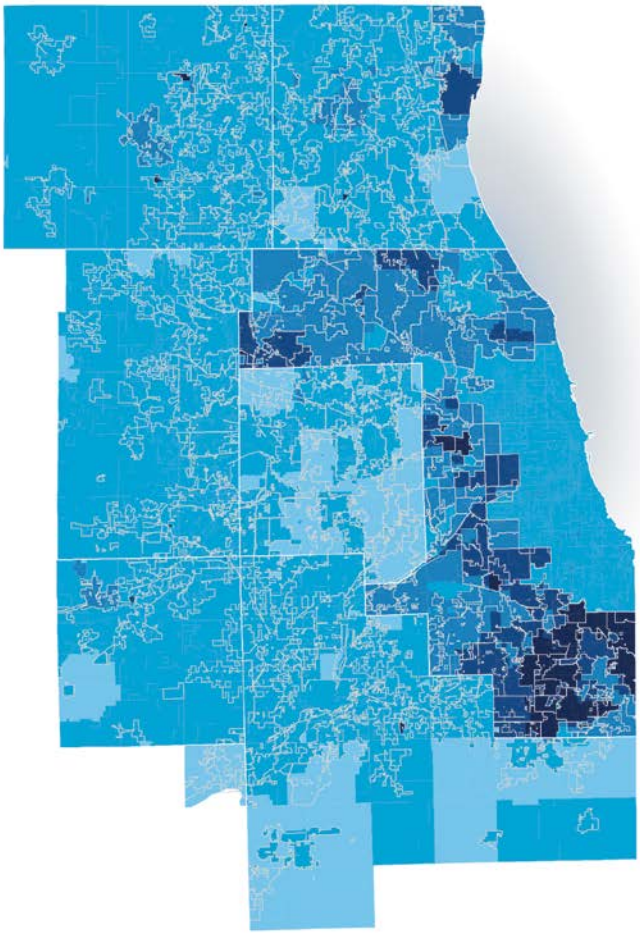
Source: Chicago Metropolitan Agency for Planning analysis of Illinois Department of Revenue data; and County Assessor and County Clerk offices of Cook, DuPage, Grundy, Kane, Kendall, Lake, McHenry, and Will counties.

- Less than 2.5%
- 2.5% - 4.99%
- 5% - 7.49%
- 7.5% - 9.99%
- 10% or greater
- Municipal boundary

**Residential property**



**Commercial and industrial property**



Effective rates are primarily less than five percent across the region for both residential property and commercial/industrial property. The lowest residential, commercial, and industrial property tax rates are primarily found in DuPage and Will counties. Small areas scattered throughout the region have effective rates above 5 percent, sometimes driven by the existence of Special Service Areas that levy property taxes in order to provide services or infrastructure to specific areas.

However, effective commercial and industrial property tax rates rise to more than 10 percent in large portions of Cook County, particularly in south suburban Cook. Generally, all other counties in the region maintain composite industrial and commercial property tax rates below 5 percent. This differential is partially a result of Cook's classification system. Under classification, industrial and commercial properties are assessed at a higher percentage of market value relative to residential properties, shifting the property tax burden to commercial and industrial property taxpayers.

Overall property tax bases that are low relative to local needs also drive high commercial and industrial property tax rates in some parts of Cook County. Very high commercial and industrial property tax rates in these areas limit economic development potential unless communities can afford to provide incentives to reduce the overall tax burden. Because the higher non-residential tax rates created by the classification system may limit economic development and growth, the system may also be contributing to high overall property tax rates.

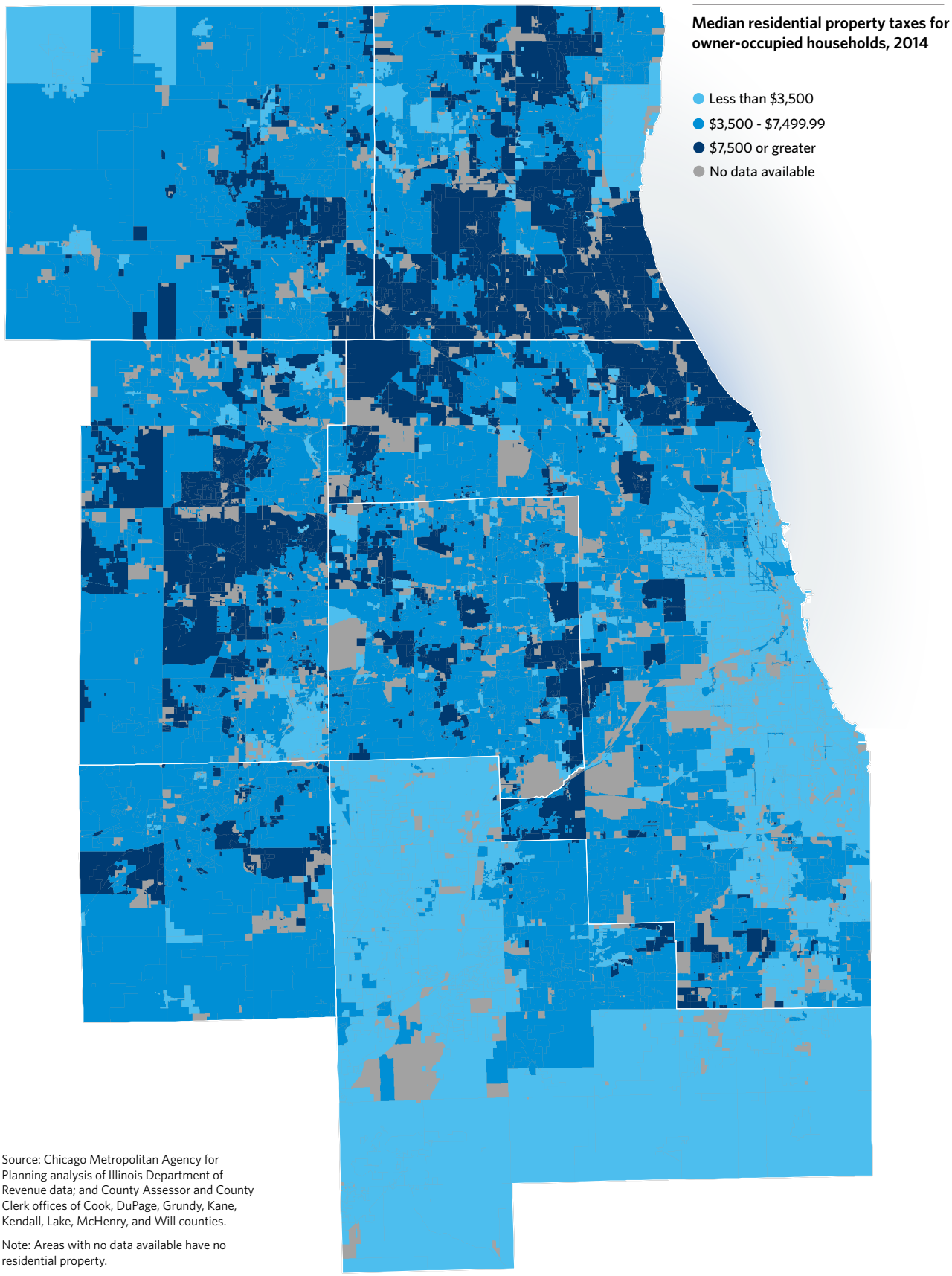
Differential assessment by property type creates a tax rate that is dependent on the preponderance of a particular property type in a taxing district. In areas where the commercial and industrial property tax base is relatively smaller, classification leads to an overall increase in property tax rates for all property owners. In contrast, in counties without classification, the tax burden on residential, commercial, and industrial property owners is similar, with marginal burden differentials being driven by residential exemptions. This may attract businesses and economic development, growing the overall tax base—which in turn lowers the property tax rate for all property owners while maintaining sufficient levels of tax revenue to fund public services.

**Residential tax burden**

The following map illustrates median residential tax burden, which is the median amount of property tax paid per household. Median tax burden was estimated using residential effective rates multiplied by median residential property value in each tax code. Median residential tax burden varies across counties and communities in the region, with comparatively lower rates in Will County and the city of Chicago. Property tax burden derives from a combination of community choice, land use mix

and occupancy, and community needs. In some communities, resident demand for high levels of public services drives overall higher property tax burden. Substantial infrastructure, service, or other needs can also generate a higher property tax burden. Further, communities with high vacancy rates may generate a higher burden on remaining taxpayers to raise sufficient funds for basic services.

Similarly, low residential tax burdens may suggest relatively low residential property values. Lower property tax levies or overall lower property tax rates resulting from a strong tax base can also drive lower residential property tax burden. In some areas, residential burden is disproportionate to income levels.

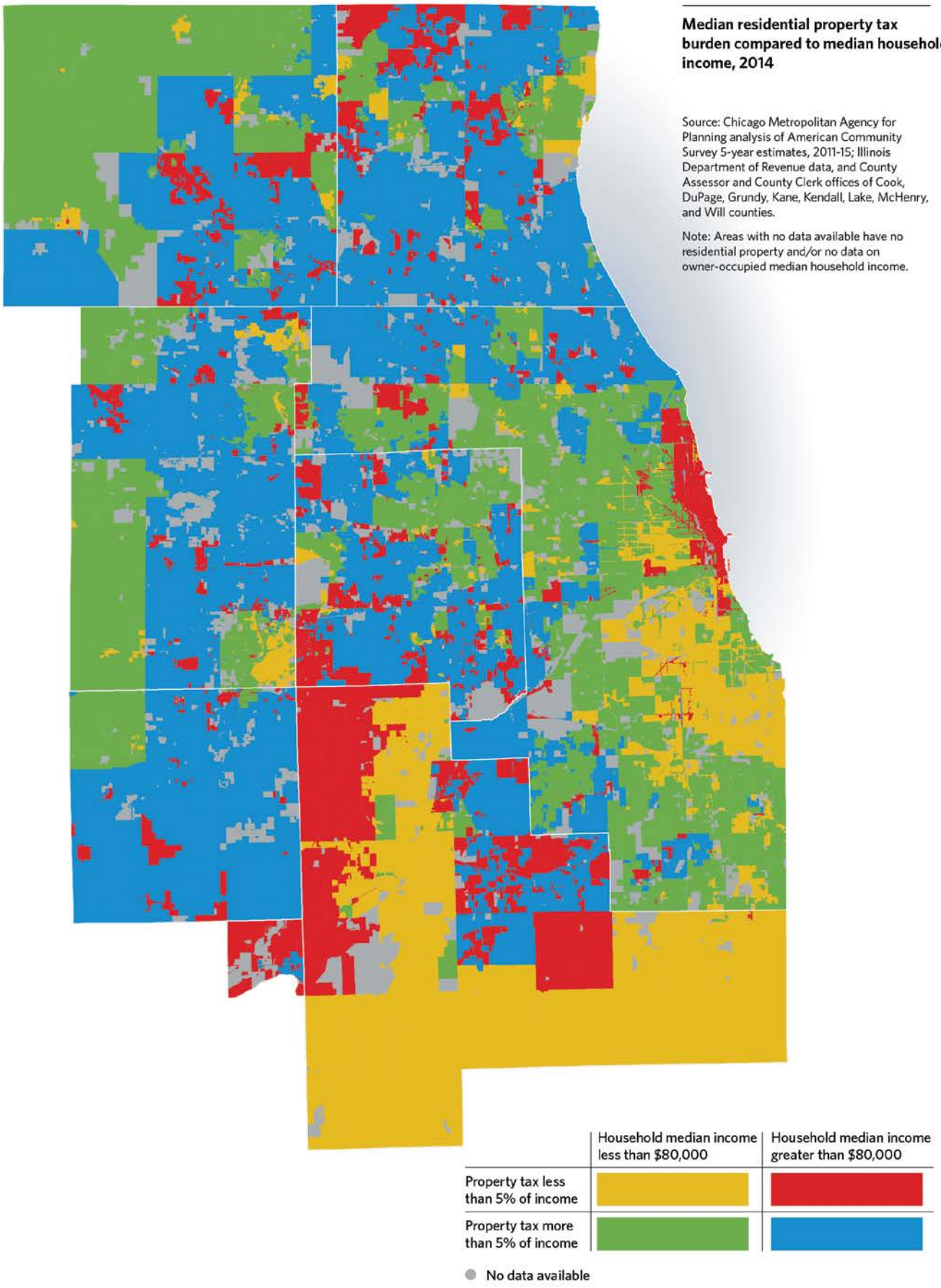



Source: Chicago Metropolitan Agency for Planning analysis of Illinois Department of Revenue data; and County Assessor and County Clerk offices of Cook, DuPage, Grundy, Kane, Kendall, Lake, McHenry, and Will counties.

Note: Areas with no data available have no residential property.

### Distribution of burden and income

The relationship between median residential tax burden (for homeowners) and median household income is nonlinear. In short, higher incomes do not equal higher tax burdens, or vice versa. Because the property tax system is based on property value, homeowners across income levels do not share a respective level of the tax burden. This mismatch is of concern when it limits affordability or the potential to reinvest in a given area. The following map depicts a spatial relationship between median residential tax burden and median household income in owner-occupied households.



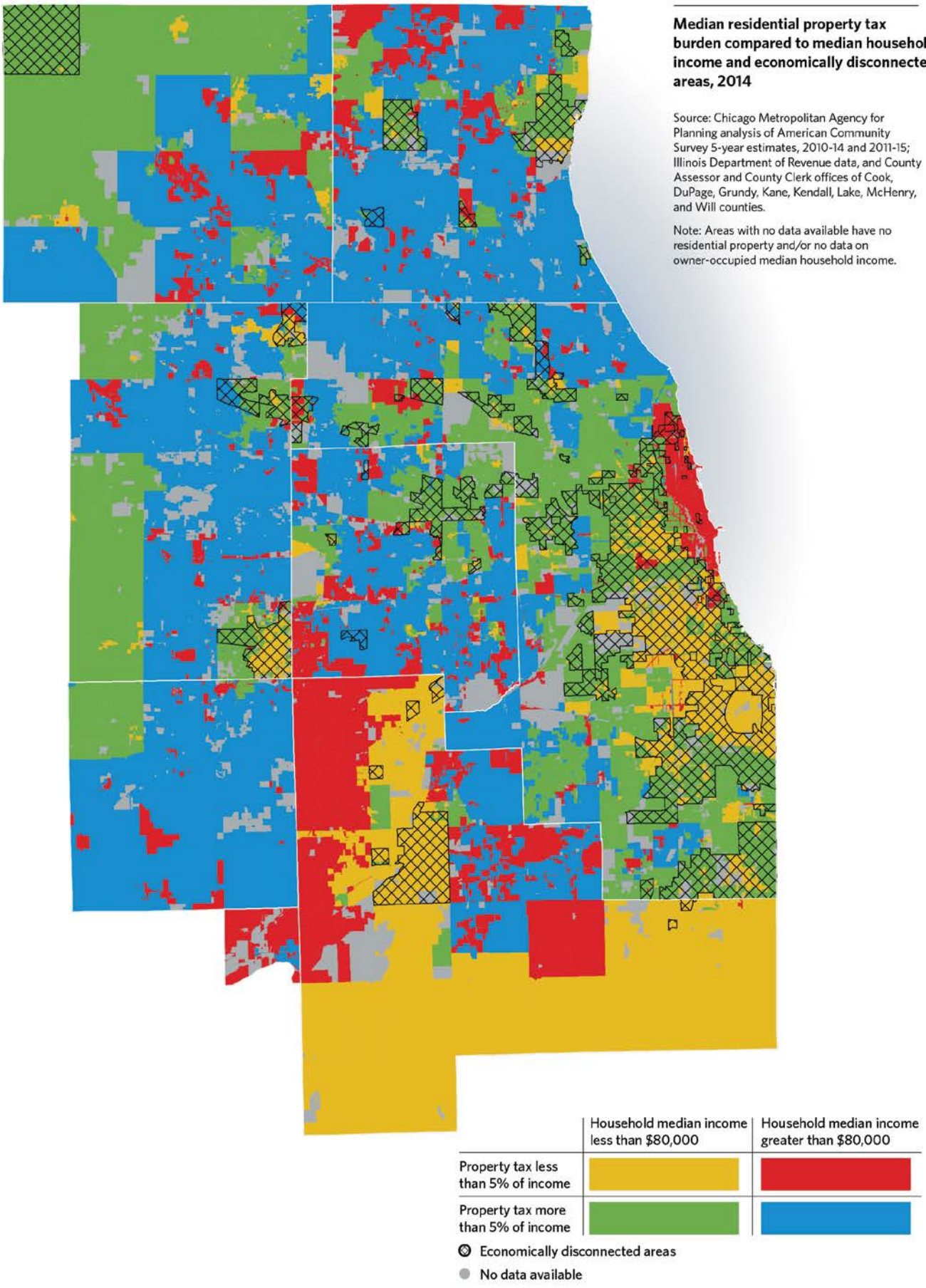

**Median residential property tax burden compared to median household income, 2014**

Source: Chicago Metropolitan Agency for Planning analysis of American Community Survey 5-year estimates, 2011-15; Illinois Department of Revenue data, and County Assessor and County Clerk offices of Cook, DuPage, Grundy, Kane, Kendall, Lake, McHenry, and Will counties.

Note: Areas with no data available have no residential property and/or no data on owner-occupied median household income.

Some parts of the region have both higher incomes and higher tax burdens. This primarily occurs in the collar counties, particularly in Kane, Kendall, and Lake counties. Some residents in parts of the region that have lower median incomes, such as south Chicago and parts of Will County, have a lower share of the tax burden.

However, not all residents in the region are taxed relative to their ability to pay. For example, residents of Chicago along the northern lakeshore have higher income levels but lower burden levels. In contrast, many economically disconnected areas have relatively high tax burdens and relatively low incomes. This is particularly true in economically disconnected areas in south Cook, as well as in the Waukegan area and the West Side of Chicago. The following map illustrates tax burden by income level in the region compared to economically disconnected areas.




**Median residential property tax burden compared to median household income and economically disconnected areas, 2014**

Source: Chicago Metropolitan Agency for Planning analysis of American Community Survey 5-year estimates, 2010-14 and 2011-15; Illinois Department of Revenue data, and County Assessor and County Clerk offices of Cook, DuPage, Grundy, Kane, Kendall, Lake, McHenry, and Will counties.

Note: Areas with no data available have no residential property and/or no data on owner-occupied median household income.

Economically disconnected areas strongly overlap with areas experiencing persistent, long-term disinvestment. The classification system in Cook County reinforces disinvestment in economically disconnected areas by elevating commercial and industrial property tax rates and discouraging businesses from locating in these areas. This lack of investment then affects community-wide property tax rates. For example, areas of suburban Cook County with weak commercial and industrial tax bases also have a higher residential tax burden. Without a strong commercial and industrial tax base, the property tax burden is borne mostly by residents.

In the city of Chicago, where the commercial and industrial tax base is larger, economically disconnected areas fare better than their suburban counterparts, in part because they are a segment of the overall property tax base in a larger jurisdiction. The larger commercial and industrial tax base ensures a lower burden on residents. However, pockets of the city struggle with industrial and commercial vacancy and would benefit from phasing out the classification system, which would further lower rates and subsequently attract investment.

Tax system reforms, including phasing out Cook County's classification system, can promote a more equitable tax system, allowing for improved outcomes in lower capacity communities. Phasing out the classification system would remove a strong barrier to reinvestment in many economically disconnected and disinvested areas, promoting local economic development.

**Looking forward**

Most Illinois residents experience relatively high property tax burdens due to a high local reliance on property taxes, particularly for school districts. Past reform proposals have included reducing local school district property tax rates by increasing state funding for education via higher income tax rates. For the Chicago region to achieve sustainable regional prosperity, the tax system must support inclusive growth and the development potential of all communities, particularly economically disconnected areas. ON TO 2050 will support creating a more equitable tax structure that improves outcomes for all communities and ensures all communities are able to provide their residents with access to economic opportunity.

GO TO 2040 and subsequent ON TO 2050 analyses encourage an equitable tax system that supports effective land use and economic development. Efforts to foster strong economic opportunity must include the development of tax policies, including phasing out Cook County's property tax classification system, that support successful communities and regionally beneficial land uses. CMAP also intends to help municipalities gain capacity in economic development planning and to encourage communities to work together on multijurisdictional economic development efforts. These efforts could have the effect of lowering property tax rates if they help increase the tax base.

Such efforts should be supplemented with focused reinvestment in critical areas, particularly in disinvested and economically disconnected areas, to increase the tax base. In many communities, high commercial and industrial tax rates serve as a barrier to attracting development, even when infrastructure and infill opportunities are plentiful. The tax system should not deter reinvestment projects that promote reinvestment and infill development. CMAP will continue to identify state tax solutions to reduce tax burdens in disinvested areas. Federal, state, and county incentives can support development in weak markets. Local governments should leverage federal, state, and subregional resources to identify development opportunities and create an environment that is more amenable to reinvestment.

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