

The Property Tax in District 304

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Overview of Property Tax Topic

- Historical background
- Property tax terminology
- The property tax calendar
- The assessment process
- The levy, rate-setting and billing process
- The property tax in District 304
 - In the District's revenue budget
 - Compared to other districts
 - Impact on property owners
 - Trends and outlook
- Questions

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Commentary on Illinois Property Taxes

- Which Illinois governor said?
“The rate of taxation is nominally higher in Illinois than in the neighboring states, and, if continued, will operate injuriously to the prosperity of the State.”

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The Answer

- Governor Edward Coles-- served 1822-1826.
- The property tax was allowed to fund local government in the four Illinois constitutions since statehood (1818, 1848, 1870 and 1970).
- It has several desirable characteristics:
 - Produces sufficient revenue to fund local government
 - Is steady and dependable compared with other taxes
 - Keeps control of revenue at the local level (county, township, city, school district).
- But it's a highly visible tax, and billed in large installments twice a year, and therefore an easy political target.

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Property Tax Terms-I

- **Assessment**-The process of valuing real property for tax purposes.
- **Assessed valuation**-The taxable value placed on the property by the local assessor.
- **Equalization-Adjustments** (called multipliers) applied to local and county assessments to bring about the legally-required average assessment level of 1/3 of fair market value--producing the final Equalized Assessed Valuation (EAV)).
- **Extension**-The process by the county clerk calculates a school district or other government agency's tax rate. This calculation determines the total property tax billing on the agency's behalf.
- **Levy**-The amount of the agency's annual request for property tax funds. The levy is usually made for more than the extension process is likely to produce to allow for possible changes in EAV before the rates are computed and tax bills sent out.

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Property Tax Terms-II

- **Tax base**-The final equalized assessed valuation (EAV) of the school district to which the tax rate is applied to generate revenue.
- **Tax cap**-Shorthand for the Property Tax Extension Limitation Law (PTELL) which limits the annual increase in an agency's property tax extension to a federal CPI figure plus taxes from new property.
- **Tax rate**-The amount of property taxes billed (extended) expressed as a percentage of an agency's total or a property owner's equalized assessed valuation (EAV.) It is calculated by the County Clerk based on an agency's levy request, its EAV and legal limitations, and is usually expressed as a percentage. A tax rate of 2.50% or 2.50 generates a tax of \$2.50 on each \$100 of a property's EAV or \$25.00 on each \$1,000 of EAV.
- **Tax year**-the calendar year in which property is assessed during the early months and the levy is adopted during December. That year's taxes are collected and distributed during the following year in the spring and fall.

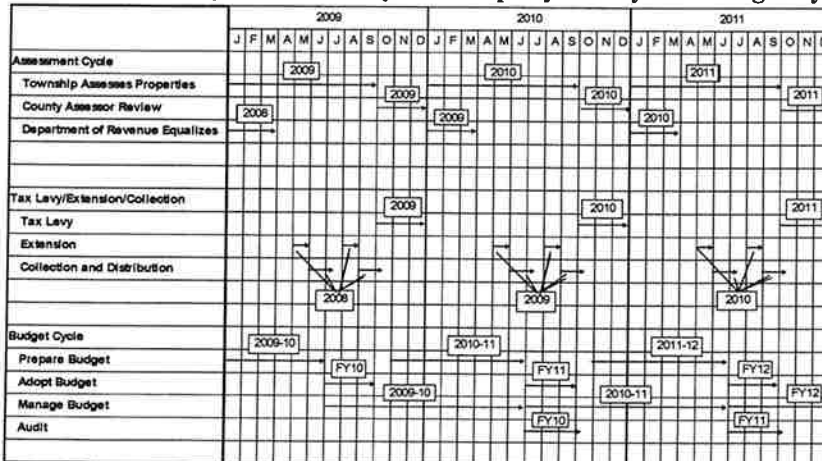
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Two Parts of the Cycle

- Part I- The assessment of property determines its valuation for tax purposes and how the tax burden will be distributed among owners.
- Part II- The levying, collection and distribution of taxes determine the amount of income for the school district and the amount of tax bills.
- The assessment, billing and spending cycle for a tax year occurs over three calendar years.
 - 2010 tax year assessments were made in the first half of calendar 2010.
 - 2010 tax levies were adopted by boards of education in December 2010.
 - 2010 taxes were billed and collected in calendar 2011.
 - 2010 taxes are being spent during the 2011-12 school year.
- Billing taxes a year in arrears goes back to a tax forgiveness year during the Great Depression.

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Property Assessment Cycles / Property Tax Cycles / Budget Cycle



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The Tax Cycle Calendar

- January 1 is the record date for assessments.
- Assessment work takes place during first part of year.
- Property owners are notified of assessments in summer or fall, and may first appeal informally to assessor.
- County and state-level appeals and final equalization take place during the late summer and fall.
 - Everything runs much later (up to a year or more) in Cook County due to number of parcels, high rate of appeals.
- Schools adopt levies in December for the tax year just ending.
- Tax bills are sent and schools receive tax revenue during the following calendar year.

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The Assessment Process

- Conducted by township and county officials.
- Constitutional assessment level is 1/3 of fair market value (FMV). Each county must reach that level at the end of the assessment process each year before tax rates are calculated and bills sent out.
- Property is reassessed every 4 years (3 in Cook County) or when its condition changes.
 - 2011 is a general reassessment year outside of Cook County.
 - In Cook County, one third of the County is reassessed each year.
- Township assessors' work is reviewed and multipliers are applied at county level (except in Cook County) to assure consistent assessments 1/3 of FMV among the county's townships.
- Finally, each county's assessments are reviewed, compared to sales data, and a multiplier is applied by Illinois Department of Revenue to assure overall county-wide consistency at 1/3 of FMV.

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Assessment Procedures

- Valuations for tax purposes reflect the property's condition on January 1.
- Changes during the year are reflected in the following year's assessment.
- Data bases, sampling and sales information are employed as well as visits to the individual property when necessary (as in major changes.)
- Three-year averaging dampens the immediate effects of increases and decreases of property values on valuations and tax bills. This "look back period" spreads the impact of the real estate price downturn on school revenues over several tax years, and similarly will spread out the impact of a subsequent upturn. The look back period for 2011 is 2008, 2009 and 2010.
- Business property considers the income flow to the owner (as from rents,) as well as as the cost and FMV of real estate and buildings.
- Farms are assessed by State according to ability to produce income.
- The state assesses railroads and some other properties. State assessment of railroad property goes back to a court decision argued in 1860 by Abraham Lincoln, representing a railroad.

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District 304's Tax Base Makeup

Component	District 304 %	Kane County %
Residential	73.9	77.2
Commercial	16.4	13.9
Industrial	9.1	7.1
Farm	.5	1.7
Railroad	.1	.1

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Appeals and Objections

- Appeals begin after property owners are notified of assessments.
- Assessments may be appealed first to the local assessor, then at County Board of Review and then to the State Property Tax Appeal Board (PTAB), in Circuit Court or by a tax objection process.
- Schools and other agencies receive notices of proposed reductions in excess of \$100,000 of valuation. In some areas, this may include large residences.
- Schools often monitor appeals of large non-residential assessments and intervene when the potential benefits exceed the costs. District 304 does participate in some of these appeals.
- Except in rare cases of egregious error or misclassification, schools usually do not challenge residential assessments.
- Taxpayers may also file objections to an agency's levy or other aspects of the rate setting and billing process, seeking a reduction in taxes. These can be settled in court or by negotiation.

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The Problem of Large Appeals

- Many large business taxpayers regularly file assessment appeals using attorneys and other experts in tax appeals and much data.
- Schools and other agencies counter with arguments based on available data and law.
- Appeals are complex and sometimes take years to resolve. Some appeals and objections are settled by negotiation.
- If the business wins, refunds can be millions of dollars and go back many years. Residential property bears a higher tax burden.
- District 304 joins with other Geneva agencies to monitor and intervene in appeals. At stake is about \$300,000 a year in property tax revenue.
- Just assessments of commercial and industrial property keep residential taxes as fair as possible.

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Equalization

- Sales are compared to assessments over multi-year period.
- Outside Cook County, multipliers are applied by County officials to correct (equalize) assessments at 1/3 of FMV for each township then the State calculates a multiplier for the entire county.
- In Cook County, the State calculates a county-wide multiplier.
- If average assessments are at the 1/3 of FMV level, the multiplier is 1.00. If they are less than 1/3, the multiplier is greater than 1.00; if they are above 1/3 of FMV, the multiplier is more than 1.00.
- The 2010 Kane County multiplier was 1.00.
- State equalization is the final step in calculating the EAV of an individual property.
- The school district now knows amount of its property tax base (EAV) and can plan its levy and budget its tax revenue for the next school year.

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How Schools Monitor Their Tax Bases

- Communications with assessment and tax billing officials.
 - Securing information on new and planned construction from building, planning departments.
 - Following residential, commercial, industrial property to ascertain its economic health and market value.
 - Learning how assessor uses multi-year averaging, and how that practice will determine valuations during general downturns and upturns in property values.
- Monitoring and participating in Tax Increment Financing (TIF) and other developments that reduce tax revenues.
 - Participation in TIF Advisory Councils
 - Negotiation on scope of TIFs and benefits to school district

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District 304's Tax Base Trends

(Showing Equalized Assessed Valuation)

Tax Year	Total Tax Base	New Property
2006	\$1,292,597,417	\$38,961,051
2007	1,408,160,114	37,470,097
2008	1,485,045,968	19,836,918
2009	1,475,438,394	14,521,784
2010	1,413,069,345	10,743,856

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Geneva's Tax Base per Pupil

- The EAV per pupil is a measure of the District's property tax wealth and its ability to fund a high quality program.
- District 304's EAV per pupil (EAVPP) was about \$269,000 in 2009-10, an increase of \$11,000 from the previous year.
- That is equivalent to about \$800,000 in property market value behind each student's education.
- The District ranks #16 in EAVPP among the State's 390 unit districts.
- The high EAVPP means that the District receives only a minimal level of general state aid.

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Tax Levy Adoption Procedures

- Levies are made for the tax year just ending.
- The Board adopts an estimated levy at least 20 days prior to adoption of the final levy (30 days in Cook Co.)
- It publishes a Truth in Taxation Notice if proposed levy is greater than 105% of the previous year's extension, excluding debt service levies.
- A hearing is held, if necessary, then Board adopts the levy and files it with the County Clerk by the last Tuesday in December.
- The money (extension) is received from late June into the fall of the following calendar year.

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The Levy and the Budget

Shown for the 2011 levy and the 2012-13 school year

- In the fall, budget projections for the following school year are made, based on enrollments, staffing and program changes, estimated salary costs and other budget items for each district fund.
- Long-term projections are updated, since taxes to be received for 2011 form the basis for future years' tax revenues.
- Projected June 2012 balances for each fund are examined for their adequacy in light of projected long-term needs.
- Revenue projections from state, federal and local sources are updated based on available information. Changes in valuations, new property and their effect on tax revenues are also taken into consideration.
- The need for and likely receipts of property tax money for each fund is determined based on these projections.
- A tentative levy for each fund is discussed by the Board of Education and refined accordingly. The final levy must be adopted and filed with the County Clerk by the fourth Tuesday in December.

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The Meaning of the Levy

- The levy is a statement of need for tax revenue, and not necessarily the amount that will be received.
- The levy places an upper limit on the amount that can be billed for each fund.
- It is commonly established high enough to cover anticipated taxes from new property, and to assure receipt of the needed amount, in the event that assessment data change after the levy is adopted.
- It is the first step in the property tax determination process; the final amounts and rates are calculated by the County Clerk in the following spring.
- Those calculations are subject to the Property Tax Cap.

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Tax Cap (PTELL) Limitation

(PTELL=Property Tax Extension Limitation Law)

- The tax cap restricts the amount that a district's tax revenues (extension) can increase over the previous year.
- The allowable growth is linked to the annual December increase in the Consumer Price Index (CPI), but not more than 5%. The CPI:
 - Was .1% for 2009 taxes collected in 2010 for 2010-11 school year
 - Increased to 2.7% for 2010 taxes collected in 2011 for 2011-12.
 - Decreases to 1.5% for 2011 taxes collected in 2012 for 2012-13.
- The limit applies to schools, parks, municipalities that do not have "home rule" (including Geneva) and other government agencies.
- The tax cap does not limit the growth in individual property tax bills-- it acts on the growth in some taxing unit's tax revenues.
- Debt service levies are established at predetermined amounts needed to pay the year's principal and interest and are not capped.

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Formulas for Property Tax Billings and Rates

- The formula to determine a unit's tax revenue is:

Revenue = Wealth x Effort or

Extension = Tax base (EAV) x Tax Rate or

Tax Rate = $\frac{\text{Maximum allowed extension}}{\text{EAV}}$

In a tax-capped county, such as Kane:

The extension limit is controlled by the CPI.

The EAV is determined by the assessment process.

— The tax rate is then calculated by the County Clerk during the extension process at the end of the tax cycle.

- The formula to determine a resident's tax bill component for each unit and the total bill:
 - Amount of bill = Property's EAV x Tax Rate

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Revenue and Rate Determination-Step 1 Performed by the County Clerk

- Increase the 2009 operating tax extension by the December 2008 to 2009 CPI% increase, but not more than 5% (numerator). That increase was 2.7%. The result is the 2010 maximum allowed extension.
- Divide the 2010 maximum allowed extension (numerator) by the 2010 EAV, reduced by the amount of "new property" that went on the rolls in 2010 (denominator).
 - The subtraction of the new property in the denominator adjusts the rate to capture the taxes from new property.
- The result is the 2010 "limiting tax rate" for the operating funds. Now the EAV and rate that determine revenue and tax bill amounts are known.
- Multiply the 2010 EAV by the limiting tax rate to compute the operating tax extension.
- Add the amount necessary to pay principal and interest on bonds and compute the total tax rate for the school district.

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Revenue and Rate Determination-Step 2

Performed by the County Treasurer and School District

- Rate calculation, extension, billing and collection take place in the spring and complete the cycle of events for that tax year.
- Prepare and mail individual property tax bills using the tax rates for each government unit in which the property is located.
- Receive the payments and distribute the money to the taxing agencies.
- Property tax bills are due around the first June and September. Distribution to agencies takes place over the ensuing weeks.
- The school district will distribute the revenue to the operating and debt service funds.
- The 2010 tax cycle ends in fall of 2011. The tax year 2011 assessments are wrapping up and 2011 levies are about to be adopted. Assessors are preparing to begin the 2012 assessment cycle in January. And so the property tax cycle goes on.

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The Effects of Decreasing EAV

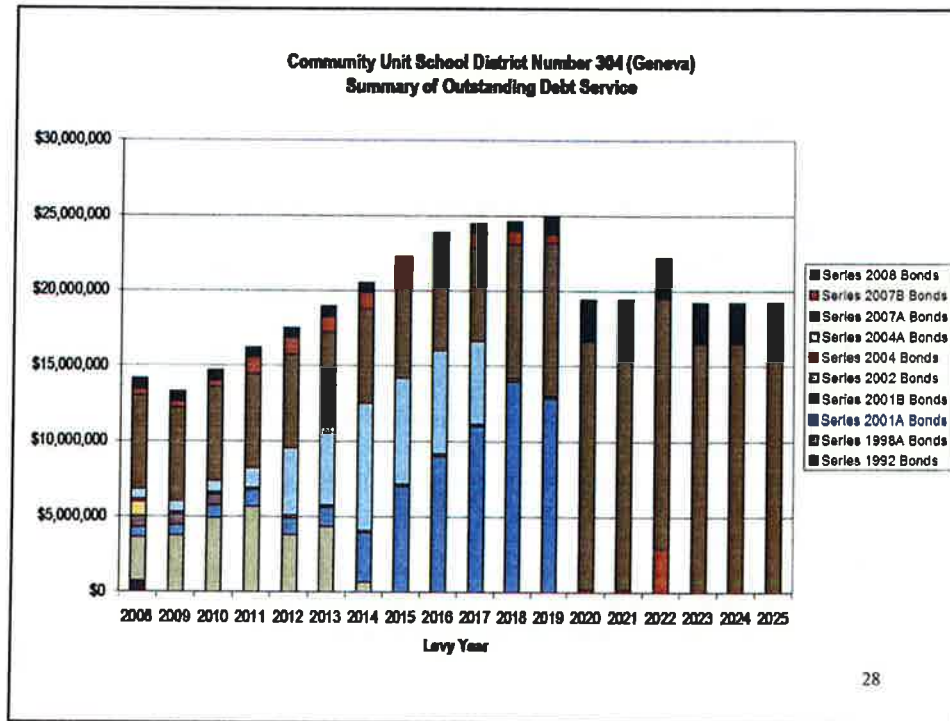
- The tax cap was enacted 20 years ago to limit the growth of agencies' revenues at a time when property values were increasing faster than the general rate of inflation. It acted by reducing the tax rate from year to year and thereby controlling the maximum allowed extensions
- When property valuations decrease, the PTELL formula allows the tax rate to ride up. Agencies' revenue growth is still limited by the CPI.
- Were the Board of Education to reduce its levy to provide tax relief, the law mandates that this lower amount would become the base from which the following tax year's revenue would be computed.
- The effects of the reduction would compound from year to year, causing a progressive and increasing drop in the District's major revenue source.
- If valuations continue to decline, tax rates could eventually reach the state legal limit for each fund and tax revenues would begin to decrease. This is not a near-term prospect for District 304.

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Managing Future Debt Service Levies

- Levies to pay principal and interest are calculated by the County Clerk to meet the obligations due in that tax year.
- The tax rate for debt service is calculated by dividing the needed levy by the current year's tax base. It is not capped.
- These taxes are deposited on the Debt Service Fund and cannot be used for operating purposes.
- Levies for each bond issue are calculated at the time the bonds are issued for each year until the issue is repaid.
- Outstanding bonds funded construction and modernization of the schools and were issued from 1998 to 2008.
- The repayment schedule was set so as to divide the costs of the improvements between present and future residents.

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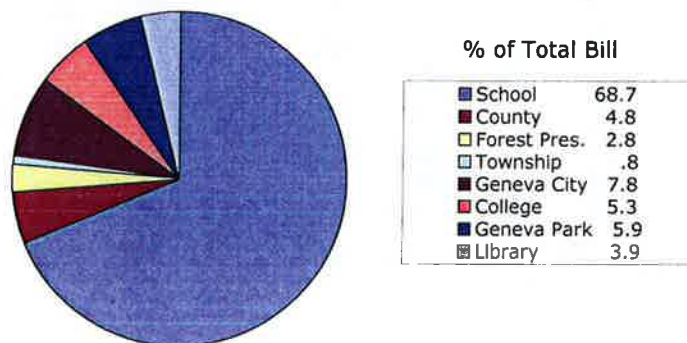


Controlling Debt Service Costs

- A portion of the District's future debt service obligations can be refunded to decrease debt service expenses.
- Only those bonds that were issued on a "callable" basis are eligible for refunding.
- Callable bonds are "refunded" by issuing new bonds at a more favorable interest rate to achieve savings, after the costs of refinancing are paid.
- Refunding decreases the debt service tax rate for both the near and long term.
- The District continuously works with its bond consultant to develop refinancing plans that can be activated quickly to achieve these savings.

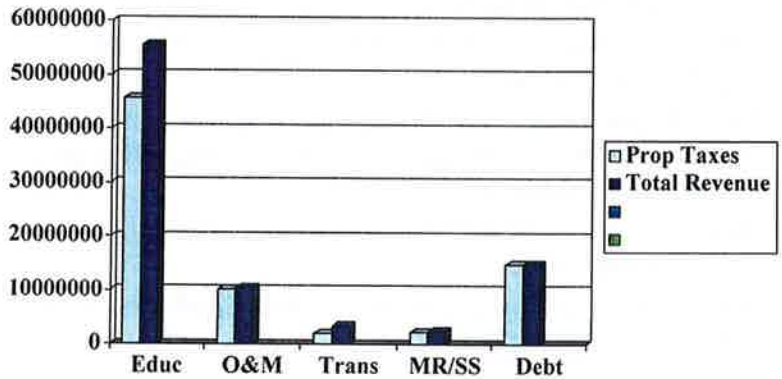
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Geneva 2010 Tax Bill Components



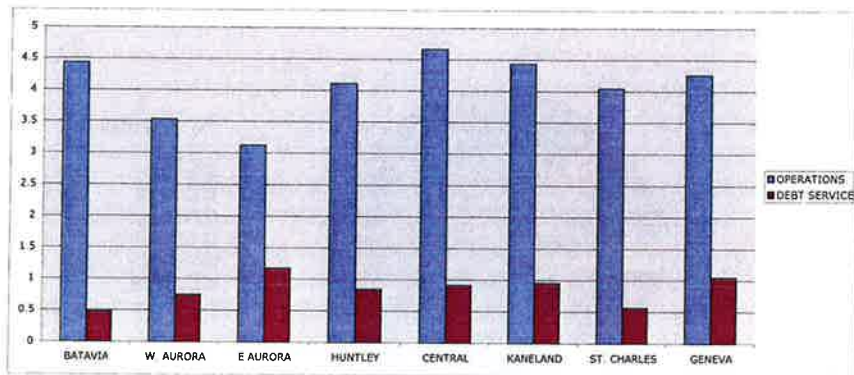
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Property Taxes in District 304's Budget \$ millions in FY12 revenue budget



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Kane County School District 2010 Tax Rates



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District 304's 2010 Tax Bill
for a home with an Equalized Assessed Valuation, after
exemptions, of \$100,000

<u>Component</u>	<u>Tax Rate %</u>	<u>Tax Bill</u>
Operating Funds	4.2555	\$ 4,256 (80%)
Debt Service	1.0483	1,048 (20%)
Total School	5.3038	\$ 5,304
Total All Agencies	7.7204	\$ 7,720

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Property Tax Prospects for 2011

- The assessor reports a continued drop in residential property valuations.
- Total District 304 tax base will also reflect commercial, industrial valuations and new property growth.
- The District's operating tax receipts will be controlled by the PTELL limit of 1.5%, down from 2.7% for 2010 taxes and will benefit from new property growth.
- The District's debt needs will increase by approximately \$1.5 million to meet scheduled obligations.
- Final tax rates and bills will reflect the combined effects of assessment changes, budget needs for 2012-13 and Board actions on the 2011 levy.

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