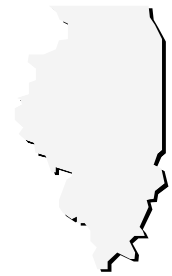
UNIVERSITY OF ILLINOIS EXTENSION

LOCAL GOVERNMENT TOPICS



TAX CAP ISSUES FOR DOWNSTATE COUNTIES: 2002 UPDATE

Since 1996, voters in many Illinois downstate counties have been faced with the issue of imposing property tax caps on most governmental units in their counties. In the last six years, 31 downstate counties have voted to impose tax caps while 9 counties (including McLean County in 1997) have rejected the option. Tax caps are designed to limit the increase in property tax extensions from a combination of rate increases and increases in assessed value. The state first imposed property tax caps (technically known as the Property Tax Extension Limitation Law [PTELL]) on the Collar Counties (DuPage, Kane, Lake, McHenry, and Will Counties) in 1991 and then on Cook County in 1995.

How are tax caps adopted?

The state has *not* mandated caps for downstate counties as it has for Cook and the Collar Counties. However, legislation approved in 1996 allows county boards in downstate counties to place the tax cap issue on the ballot. In tax cap referenda, the actual question on the ballot is "Shall the Property Tax Extension Limitation Law (35 ILCS 200/18-185 through 18-245), which limits annual property tax extension increases, apply to non-home rule taxing districts with all or a portion of their EAV in (County Name)?"

If caps are approved by the voters, they become effective the next year. (This means that caps approved in 2002 would apply to the 2003 levies for taxes payable in 2004.) Jurisdictions that span more than one county (such as community college districts) are only subject to the cap if all their component counties hold a referendum and if the referendum is approved by counties that comprise a majority of the district's equalized assessed valuation.

What limits do tax caps impose?

The caps limit property tax increases in a jurisdiction to either 5.0 percent or the rate of inflation (around 2.0 percent in recent years), whichever is less. New construction and annexation are exempt from the caps, as are taxes to repay previously issued bonds. Home rule jurisdictions (generally municipalities with populations over 25,000 and the Cook County government) are the only local governments not subject to limits. Therefore, if approved, the caps will apply to school districts as well as other taxing districts, including townships, counties, park districts, and a myriad of other local government districts.

The caps can be exceeded by referendum. Although the original law did not provide for the removal of tax caps by referendum, the law was amended to allow counties to vote to reverse their decisions on tax caps.

How did tax caps originate?

Property tax caps first came about as a response to rapidly rising property tax bills in the Chicago suburbs in the late 1980s and early 1990s. For many years, the state has tried to limit increased property taxes by limiting the property tax rates that most local governments can charge. These rate limits were relatively ineffective in controlling property tax increases in the suburbs because the increases were caused by rapidly rising assessed values, not increased tax rates. This process was accentuated by the increased reliance on local property taxes for public education during this period. Many downstate counties would not have benefited from tax caps, however, because local property values were often increasing less rapidly than the limit imposed by the caps.

Property tax caps (PTELL) can be viewed as a means dealing with this perceived problem since they limit overall increases, not just rate increases. It should be noted that PTELL applies to the aggregate extensions of a particular jurisdiction. It does not guarantee that an individual parcel will not have its property taxes increased by more than the limit. Such increases could occur because of reassessment where the values placed on some parcels may increase relative to others in a jurisdiction.

What are advantages of tax caps?

The advantage of tax caps is that they provide a relatively effective tool for controlling the growth of property tax extensions. They have been called a "blunt instrument" in the sense that they may not be well-targeted to deal with special problems. Nevertheless, they appear to have been effective in limiting property tax growth in the Collar Counties since 1991. They are based on the assumption that for some reason, local governments have lacked the fiscal discipline *not* to increase property taxes in a time of rising property values. Proponents of caps also note that local governments subject to the limits always have the option of holding a referendum if more funds are needed.

What are disadvantages of tax caps?

Opponents of caps note that the conditions that prevailed in the suburbs of Cook and the Collar Counties have not existed in most downstate areas. In fact, many downstate counties lost assessed value through the 1980s and into the 1990s. They are only now beginning to recover from this decline. Imposing caps now would make it difficult for many districts to recover from these problems. Caps will also create special problems for districts with growing service needs that are not caused by annexation or new construction. Caps are not imposed on a jurisdiction-by-jurisdiction basis; instead, they are approved for the whole county. This blanket approach means that some districts that oppose caps will still be subject to them.

There is also a short-run perverse impact of caps. Many local governments have raised property tax rates in anticipation of future caps. This strategy may cause property taxes to rise *more* in the short-term because of caps.

This material written by:
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