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Center for Governmental Studies Northern Illinois University

Issue:
Tax Caps—A Look at the Arguments

What is the Property Tax Extension Limitation Law (PTELL)?

The Illinois legislature passed the *Property Tax Extension Limitation Law* in 1991. It is commonly called 'tax caps'. The law was passed in response to a concern from Illinois residents about the rapid increase in their property tax bills.

Under PTELL, county boards have the ability to allow voters to determine if property tax extension increases should be limited. By a majority vote, the county board can require a referendum on PTELL. If the referendum passes, property tax extensions are then limited to the rate of inflation or 5%, whichever is less. Extensions are the amount of revenue a local government receives from property taxes in a given year.

The major advantage of PTELL is the possible slowing of property tax increases.

The major disadvantage is the possible reduction of government services.

What will the ballot for the referendum say?

"Shall the Property Tax Extension Limitation Law, which limits annual property tax extension increases, apply to non-home rule taxing districts with all or a portion of their EAV located in the "*County Name*" County?"

What does this mean?

In order to understand the referendum, there are three terms that need to be defined. "Property tax extension" is all the tax money a taxing district collects from property taxes in a given year. The "home rule" status of cities **does not apply** to their school districts, parks, and other taxing districts. The third term needing a definition is "EAV". This stands for Equalized Assessed Value, which is the value estimated and set for taxing purposes for each individual taxable piece of property. EAVs are set by the township assessor subject to various state and local multipliers.

What units of local government in a county are typically dependent on property tax revenue?

Units of local government dependent on property tax revenue include:

- *Municipalities (Cities and Villages)*
- *Counties*
- *Townships*
- *Community Colleges*
- *Library Districts*
- *School Districts*
- *Park Districts*
- *Fire Protection Districts*
- *Sanitary Districts*
- *Road and Bridge Districts*

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How are property taxes calculated?

In simple terms, property taxes are calculated by taking one-third of the market value of the property (the EAV) and then applying the tax rate to that value in hundreds of dollars.

If we have a PTELL, does this mean my property taxes will no longer increase?

No. PTELL only affects the rate of increase in the total property tax revenues of local governments, but the rate of increase will be limited to the rate of inflation or 5%, whichever is less. However, individual property tax bills may increase by differing rates. For example, property values (EAVs) will increase by different rates within the county depending on the demand for property. Some areas can be expected to experience greater demand than others.

Are all local governments subject to PTELL?

No. Municipalities with home rule status are not subject to PTELL. Also, the law may not affect a unit of local government whose territory is in two or more counties. This would be the case when the majority of its property value falls in another county that does not have a PTELL in effect. Also, any unit of local government whose property extends into another county is not subject to PTELL if the other county does not have tax caps and has never placed tax caps on the ballot.

Can a local government's extension rise faster than 5% or the rate of inflation?

Generally, yes. There are some circumstances where this can occur. For example, a referendum in a taxing district can allow voters to choose a higher extension. Also, new property does not count toward the tax cap limitations in its first year on the tax rolls, thereby increasing the extension beyond the capped limit.

Are there any types of property whose increases in valuation are not subject to PTELL?

Yes. For example, increases in value for property located in TIF districts and extensions for special service areas are not counted toward the tax cap limitations on extension.

Are there any unintended consequences of this law on tax rates?

Some research on tax caps has shown that units of local government respond to them by increasing taxes by the maximum allowable amount every year, whether the extra revenue is needed or not. For example, there is evidence that in the year prior to imposition of a cap (i.e., in the year the base for the cap is established) larger than normal increases in levies and extension occur to maximize the initial cap base. Tax caps tend to make taxing authority a *use it* or *lose it* proposition. If a taxing district fails to raise taxes in one year but needs extra revenue a succeeding year, the district can only raise taxes by the amount allowed under the tax cap law for that year (the rate of inflation or 5%, whichever is less). This creates a situation whereby taxing districts may raise taxes to the maximum amount possible every year to make sure they are better able to respond to any eventualities that may arise.

What effect can tax caps have on services provided in a county?

The effect tends to vary depending on the circumstances of the county.

In a county where growth is relatively slow and the demand for services is stable, tax caps are not a major disruption for service providers.

If a county is growing rapidly and the demand for services is also growing rapidly, tax caps may have a negative effect on services. This can occur because the needed increase in revenues will lag behind the increase in demand for services. As revenues lag behind demand, the quality and quantity of services provided by the taxing districts will suffer. This problem will likely be very acute in high growth areas. In the tax collection process, there is a period of time before new residents begin to pay their property taxes even though their demand on services begins nearly immediately upon taking up residence.

A classic example of this lag in revenue problem occurs in school districts. When a family moves into a new house in an area, their children often begin attending school immediately. However, the school districts will not begin receiving property tax revenue from their new house for at least a year because the house is not yet on the tax rolls or not yet fully on the tax rolls. School districts can adjust if the rate of growth in its territory is slow. But rapid growth, without flexibility in taxing authority, can quickly put severe fiscal stress on a school district, which could force the district to tolerate crowded classrooms, go to split scheduling, decrease the number of programs offered, or a combination of these and other service reduction alternatives.

Does any evidence exist on the impact of PTELL in Illinois?

Yes. Counties that are subject to the "tax cap" have experienced lower rates of increase in property tax bills than other counties in Illinois. Additionally, voters have had more opportunities to approve referenda to increase support for local units of government.

There also is some evidence of unintended consequences of PTELL. In 1992, PTELL was implemented in the collar counties including DuPage, Lake, Kane, McHenry and Will counties. School districts provide good examples of the possible impact of "tax caps". One example is Bloom Township High School, located in southern Cook County, which shortened its school day so that classes now end at 1:00 PM. The Crete-Monee school district in Northeastern Will County rents the roof of its high school because the district could not afford to make repairs after the roof fell in from a winter storm.

The Rockford Park District, which is subject to the "tax cap", is finding it difficult to maintain its current facility, which includes a mix of softball fields, picnic shelters, soccer fields, park open space, and a boat dock.

While PTELL is not the sole cause for any of these circumstances, it is fair to say that PTELL impaired the ability of these districts to respond to changes in service demands, changes in economic conditions, and to emergency expense needs.

Are there any other concerns regarding tax caps?

Research has shown that tax caps seem to have a cumulative effect. As the years pass, the tax caps restrain revenue to a greater extent. If a taxing body develops fiscal problems, these problems are likely to increase over the years due to the lack of flexibility imposed by the tax caps.

Will local government property tax extensions have the opportunity to react to the law before they are capped?

Yes. When the law is passed it does not take effect for a certain period of time. For example, if a referendum were to pass in April 1999, the 1999 property tax extensions (those taxes that will be billed in 2000) will become the base for PTELL. The limits imposed by PTELL will then apply for the first time to the tax year 2000 extensions that will be billed during calendar year 2001. This gives local taxing districts the opportunity to raise taxes at above normal rates before PTELL is implemented. This can be done through their 1999 tax year levies. This is often what happens based on evidence from other counties. Impending PTELL constraints are often a motivation for large (or larger than normal) tax increases as local governments seek to maximize their initial extension base so as to better assure themselves of financial flexibility in the future.

Can a County reverse PTELL?

Yes. PTELL can be repealed in a county by referendum using the same process as that used for passage.

Are there alternatives to PTELL?

Illinois is in need of both property tax and school finance reform, neither of which is provided by PTELL. PTELLs have been created only to help slow the rate of growth in property taxes. Offering local communities and their governments more flexibility in financing local services, (e.g. impact fees, local option income tax) would allow local control to be preserved and allow a more stable and balanced revenue system to be developed. In the current session of the Illinois General Assembly, Representative Wirsing, Representative Wait, and Senator Burzynski have introduced legislation to address some of these alternatives.

Finally, to summarize PTELL, what are the advantages and disadvantages of PTELL?

The *advantages* of PTELL include:

- slowing the growth of property tax extensions in a county,
- allowing voters to have greater say in raising taxes,
- growth of property tax bills being more constrained than without a cap, assuming no other changes in political or economic conditions.

Some of the *disadvantages* of PTELL include:

- a potential negative effect on services provided by government,
- a tendency by taxing districts to raise taxes in the short run in order to compensate for limitations in the long run,
- the unnecessary creation of additional special service and tax increment financing districts that are not covered by the law, and
- an increased frequency in referenda for increases in tax extensions on the ballot.

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