The Soft Housing Market and Your Property Taxes

By Ali ElSaffar, Oak Park Township Assessor

"The housing market is falling. Does that mean my property taxes are going to fall?"

In the context of the slowdown in the housing market and the increasing numbers of mortgage foreclosures, the above question is becoming increasingly common in Assessors' offices across the country. Although tax relief would be welcome given the difficulties homeowners are currently facing, the design of our property tax system means that such relief is unlikely.

"The housing market is falling." There is no doubt that those trying to sell their homes are experiencing difficulties right now. Fewer homes were sold in the last year compared to prior years, and in some areas of the country, home prices have fallen. But for purposes of property tax assessment, the important question is whether the value of homes has fallen *compared to the last time* they were reassessed.

In Cook County, all properties are reassessed once every three years. Oak Park, and all Cook County suburbs from the Will County border up to North Avenue ("the southwest suburbs") were last reassessed in 2005, and will be reassessed again in 2008. (Please note that 2008 reassessments will not show up on tax bills until the fall of 2009.) State law requires that the values set at reassessment reflect the values in effect on the first day of the reassessment year. This means that the change in the assessed value of properties in the southwest suburbs will reflect the change in values between January 1, 2005 and January 1, 2008.

Oak Park provides a good example of what has happened to the housing market in the southwest suburbs. The median price of Oak Park single family homes increased in 2005 and 2006, but stagnated in 2007. Thus notwithstanding the slowdown in the housing market in 2007, the increases from 2005 and 2006 mean that there has been a net increase in home values since the last reassessment on January 1, 2005. As a result, Oak Park's assessed values and the assessments in most other southwest suburbs will have a net increase at the 2008 reassessment.

This is not to say that the slowdown in the market will have no effect on reassessment. Valuation increases associated with 2008 reassessment will be lower than they were during the 2002 and 2005 reassessments, when home values were rising rapidly. Nonetheless, housing values are higher than they were in 2005, and as a result, assessed values will increase.

"Are my property taxes going to fall?" A common misconception about the property tax system is that increases or decreases in home values lead to corresponding increases or decreases in property taxes. Thus if a house rises or falls 10% in value, it is assumed that the taxes on the house will rise or fall by 10%. But this assumption confuses property taxes with income taxes.

Under an income tax system, taxpayers pay a portion of their taxable income to the government. In Illinois, the income tax rate is fixed at 3%, and can only be changed by the state legislature. The income tax system results in higher income taxes when incomes rise, and lower taxes when incomes fall. The income tax system also results in higher government revenue during economic expansions and lower revenue during recessions.

Unlike income tax revenue, property tax revenue usually changes very little as a result of fluctuations in the economy or the housing market. Indeed, property tax revenue almost always increases, typically rising by about the annual rate of inflation. This stability arises because the property tax rate, in contrast to the income tax rate, is variable.

After a reassessment, the property tax rate adjusts to the new assessed values, typically falling in proportion to the rise in values. Thus if a community's assessed values doubled as a result of reassessment, its property tax rate would be cut in half. In this simplified example that assumes no increase in government spending, the higher assessed values are offset by the lower tax rate.

The property tax system is good for the schools and local governments that depend on property tax revenue because it provides these important institutions with a stable and reliable source of income. But stability in tax revenue usually means stability in tax bills, which can be troublesome for taxpayers in certain circumstances. Those who lose a job or face other economic hardships often find little relief under the property tax system.

"How will the reassessment affect my property taxes?" The fact that revenue from the property tax system is stable does not necessarily mean that individual tax bills will be stable after reassessment. Each individual tax bill represents just one small share of the total tax burden. At reassessment, each property's share of the tax burden can change, and such changes can lead to dramatic increases in tax bills. To understand whether a property's valuation increase results in a change in its share of the tax burden, an analogy can be helpful.

Every ten years, a census is taken to determine the population of the United States and each individual state. These population figures determine the size of each state's delegation to Congress; the larger a state's percentage of the nation's population, the larger its congressional delegation. The size of a state's congressional delegation changes if the census reveals that its *share* of the national population has changed.

California's population growth, for example, has been above the national average over the last several decades, and its congressional delegation has grown as a result. Illinois' population growth, on the other hand, has been below the national average and its delegation has shrunk. States with population growth rates that match the national growth rate have no change in their congressional delegations. Thus to know the effect of a census on a state, it is necessary to compare the population growth rate of the state to the growth rate of the entire country.

A similar comparison is necessary to understand the effect of reassessment on a property. If a community's assessed values doubled as a result of reassessment, an individual property with an assessed value that doubled would experience no change in its share of the tax burden. Properties that *more* than doubled in value, however, would see increases in their shares of the tax burden, whereas properties with increases that did not reach the level of doubling would see their shares of the tax burden fall.

Conclusion. Annual inflation-level increases in the spending of schools and local governments will put upward pressure on the overall property tax burden, regardless of the 2008 reassessment.

The reassessment will affect each property differently, depending on the relation between the property's assessment increase and the assessment increases of the whole community.

Differences in assessment increases for individual properties make it difficult to generalize about the effect of a reassessment on individual properties. Nonetheless, it is fair to say that the slowing housing market, coupled with new state legislation, should limit post-reassessment tax increases for most homeowners. The result should be moderate property tax increases when the 2008 reassessment hits tax bills in the fall of 2009.