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Housing Bulletin—Will Property Taxes Decline with House Prices?

By Dennis Rodkin

Now that we have pretty much accepted that our homes are worth less than they used to be, a question comes up: If the value of my home is dropping, will my property tax bill do the same?

Short answer: Not now, not for a few years, and very likely not at all.

For the long answer, it's important first to grasp a few basics of how residential property tax bills work in Illinois.

Briefly: A county assessor establishes the assessed valuation of your property (that is, the approximate, basic worth of your house and lot). By design, the assessed valuation is usually well below half the property's fair market value. The sum of all assessable property (not only residential property) within a taxing body's boundaries is one half of the equation that determines property tax bills.

The other half is the total amount of all the levy requests (that is, budgets) of all the taxing bodies—the city or village, the school districts, the library board, the fire safety district, and other entities—within which your property sits. Your tax bill is the proportion of those combined budgets for which your assessed valuation is responsible (relative to its size within the total assessed valuation).

So: the first reason your tax bill won't go down right away is that the taxing bodies generally have not been asking for less money. Because they are paying higher prices for fuel, construction materials, and other things, school districts and other entities may not yet be in a position to ask for less money, even if they are scaling back programs or staff. "Unless you actually start to see lower levy requests from schools or other taxing bodies, the trend is not going to be downward," says Craig Dovel, the supervisor of assessment for DuPage County. (About three-quarters of the property tax you pay goes to schools.)

On the other side of the property tax equation—the assessed valuation of your home—assessment officials in three populous counties (Cook, DuPage, and Lake) all say that, for the most part, the past year's declines in property values won't have an impact this year and may not show up until your 2010 tax bill. That's because in Illinois, assessors use real-estate market data from the preceding three years in their estimate of a property's worth, and the current three-year window still includes one or two years of rising values.

"We're always looking backwards," says Martin Paulson, chief county assessment officer in Lake County. The tax bill you pay in 2008 is based on property values from 2005, 2006, and 2007—and in at least two of those, we were still in an upward-moving real-estate market. "The market was quite active in 2005 and still pretty robust in 2007," Dovel says. "We're still [taxing] based on those years."

In Cook County, a few isolated patches have already seen reductions in their assessed valuations. According to Eric Herman, director of communications for Cook County assessor James Houlihan, the assessed valuation of single-family homes is down 4.8 percent in a section of Berwyn, and in one Cicero neighborhood, apartment buildings are down 4.1 percent. More typical, Herman says, is Lemont, where the assessed valuation of homes is up 16.7 in 2008 property tax bills.

Lemont homeowners' tax bills didn't go up by that much. Illinois' Property Tax Extension Limitation Law, which took effect in the collar counties in 1992 and Cook County in 1995, limits increases to property-tax bills to 5 percent *or* to the annual change in the Consumer Price Index, whichever is less. That law, known as PTELL, was designed in part to protect Chicago-area homeowners from big tax jumps following steep upticks in home values. Protection also comes from the timing of assessments. In Cook County, one-third of the county is reassessed each year on a three-year rotation, while the five other metropolitan counties reassess all property every four years, with the possibility of adjustments in the interim.

As a result, a steep single-year rise in property values usually gets softened in the tax bill by the smaller increases—or lack of increase—in other years. (Of course, there is always the potential that sharp increases would occur in three consecutive years, but that would be ameliorated by the 5-percent limitation.) The multi-year assessment approach also protects taxing bodies when home values are down. They won't be compelled to slash their budgets next year because of what happened to real estate this year.

To get a feeling for what might happen in next year's bills, assessors have been using 2008 data on home sales, attaching them to the data for 2006 and 2007. At this point, Dovel says, "it looks like assessed valuations will be pretty stagnant for 2009." Lake County's Paulson says his estimate is about the same.

There is no telling for sure where home values will go in the next year, but if the present downward trend continues, then your 2010 bill—the one that reflects home values in 2007, 2008, and 2009—would likely be the first one where large numbers of Chicago-area homeowners would find that their assessed valuation has gone down. "Right now, it looks like we're headed that way, but that time is a long way off," Paulson says.

Even farther off: the time when school districts and others cut their budgets so much that property tax bills, not just properties' assessed valuation, go down.

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