

## ASSESSING THE FACTS

SPRING 2009

PROPERTY ASSESSMENTS DOWN...  
TAXES, UP?

Yes, it is the most likely scenario. And yet, the majority of people still cling to the belief that if and when assessments begin to fall in response to the real estate market, their tax bills will also go down. Please don't fall prey to this long held belief because of the potential financial ramifications it can have on household budgets. So, how can this happen? And, will assessments ever go down?

First, a little background information for perspective. Real estate valuation estimates for property tax purposes always lag behind the current market, a lag of 18 months from the assessment date and 28-30 months from the time taxpayers receive assessment change notices. Why?

Illinois law requires all assessment officials, from township assessors to the Illinois Department of Revenue, to determine the valuation of property as of January 1 of the tax year. So when taxpayers are notified of their valuation change in September or October, those values are already 9-10 months behind current market activity and trends.

Contributing further to valuation lags is the statutory requirement to use sales that occurred during the *three years* immediately preceding the January 1 assessment date. This works in the taxpayer's favor during increasing markets because assessments cannot catch up to the market, but against property owners in a down market because market values have to fall just to get to the level of the assessments and then fall even more to get below assessments before they will be lowered. This multi-year requirement tends to smooth the effects of market swings, thereby providing a modicum of stability to the assessment system.

Values for the 2009 tax year will be determined as of January 1, 2009 using sales from 2006, 2007, and 2008. The question on most taxpayers' minds is, will assessments go down for 2009? Let's take a look at what has been going on.

At the end of 2007, Cook County compared every arm's length, fair market transaction that occurred in the township to the assessment placed on each of those properties during the 2007 reassessment year. (Distressed sales such as foreclosures are not used as they do not conform to the definition of fair cash value required by law.) They calculated the sales ratios and found that on average, the *sales* were still approximately 3-4% *higher* than the assessments' market equivalent. In other words, there was still an under-assessment problem despite the decline in market value during the last half of 2007.

Given the system outlined above, this makes sense. Since assessments were lagging behind the appreciating market of 2003-2007, values would have to fall some just to get to the current level of assessments. Assessments were 15% to 20% below the market during the good years; in 2007 they were only 3-4% below market. The rate of assessment increases slowed in 2008 to 2.79% in Hanover Township.

Only in 2008 did sales finally reach and fall below current assessments with any consistency. But remember, when determining whether properties are over-or under-assessed for 2009, those 2008 sales will represent only a portion of the sales that will be used. Actually, they will likely be less than 1/3 of the sales since the number of properties sold in 2008 dropped off dramatically relative to the sales volume in 2006.

Suppose, *hypothetically*, after studying the sales from 2006 through 2008, that the county applies a negative multiplier lowering the assessments on all property in the County. Will taxes follow suit? In all likelihood, the answer is no. Remember, the purpose of the assessment is to determine everyone's portion of the tax burden.

Look at the assessment as your slice of the tax pie. Changing everyone's assessment using a multiplier, also known as an equalization factor, adjusts assessments to the appropriate level of market value but does not change your proportion of the burden, your slice of the pie.

Only a change in spending will cause a change in the tax bill. If history serves as a gauge, the taxing bodies such as schools, park districts, municipalities, townships, etc. will ask for increases in their levies from the prior year. When they do this, regardless of the direction of magnitude of the universal change in assessments, taxes will go up.

Let's look at a simplified example to see how this works. Suppose there is only one taxable property, your house, and one taxing body, you pick the one whose services you want.

**In year one** the taxing body needs \$5,000 to provide you with their services. Since yours is the only property, your tax bill has to be \$5,000.

**In year two** the real estate market plunges and your property value falls by 30% (or pick any percentage you want) but the value is down significantly. What has happened is that the taxing body's entire assessment base has gone down by 30% but your proportion of that base has not changed. Your property still remains the only taxable property. At the same time values have fallen, the taxing body determines it needs \$6,000 (a 20% increase) to provide you with their services. What is your tax bill? It has to be \$6,000 because that is what they asked for from the property tax and you are the only taxpayer. Your taxes are up even though your assessment went down by a significant amount.

**In year three** the real estate market rebounds and values skyrocket by 40%. Your assessment notice indicates this trend and your valuation is up 40%. But the taxing body has found they only need \$5,000 to operate this year. What happens to your tax bill? Your tax bill will go down from \$6,000 to \$5,000 despite the fact that your assessment went up 40%. Again, your proportion of the taxes didn't change so the only action affecting your bill is the change in spending, in this case a 16.67% decline from the previous year's spending request.

Whether it's one property or 12,000 properties and 20 taxing bodies instead of one, nothing changes. As long as assessments increase or decrease in unison, the percentage doesn't matter; your proportion of the tax burden does not change. The only thing that can change your bill, when all assessments have changed by the same percentage, is a change in spending. Tax bills in a declining market will not go down until the taxing bodies all cut spending from the levels of the prior year.

2007 was our last general reassessment year (formerly known as the quadrennial). The Illinois Department of Revenue will study the sales and the assessments and determine whether a multiplier, changing all assessments equally, will need to be applied to the county's assessments. As we have seen above, this action, whether it is an increase or a decrease to all assessments, will not affect your tax bill. Only a change in spending by the taxing bodies will cause a change in the actual tax bill. What will the taxing bodies do in the economy for the tax year 2009? My office does not know. Those questions need to be directed to those entities.