

Property Tax Relief Taskforce

PTELL Subcommittee

Meeting Minutes

Thursday, September 26, 2019

2:00 PM

James R. Thompson Center
100 West Randolph Street
IDOR Media Room (7th Floor)
Chicago, IL 60601

The Property Tax Relief Taskforce – PTELL Subcommittee met on September 26, 2019.

I. Welcome/Roll Call

- a. Meeting scheduled to start at 2:00 PM. IDOR staff called the meeting to order around 2:00 PM and welcomed members. Roll call was taken. Quorum was met.

Name	Present
Representative Terra Costa Howard	Yes
Representative Marcus C. Evans, Jr.	No
Representative Amy Grant	No
Representative Bob Morgan	Yes
Representative Mike Murphy	No
Representative Diane Pappas	No
Representative Mark L. Walker	Yes
Representative Sam Yingling	Yes
Senator Laura Fine	Yes
Senator Don Harmon	No
Senator Linda Holmes	Yes
Senator Dan McConchie	Yes
Senator Craig Wilcox	Yes

II. Approve Previous Meeting Minutes

- a. Minutes from previous subcommittee hearing were brought up for approval. Representative Walker motioned to amend the previous meeting minutes to reflect Senator Linda Holmes and Representative Marcus Evans in attendance. Senator Holmes seconded the motion.
 - i. **VOTE – unanimous approval.**
- b. Representative Walker motioned to approve the amended minutes. Senator Holmes seconded.
 - i. **VOTE – unanimous approval.**

III. Guest Presentations

- a. Chicago Teachers Union – Kurt Hilgendorf. Kurt Hilgendorf introduced himself as the legislative/policy director for the Chicago Teachers Union. His testimony highlighted the following points:
 - i. School funding in relation to PTELL is complex due to multiple variables. Chicago recently underwent its triannual tax reassessment for 2018, which resulted in a 12.5% increase in EAV and a 27.4% increase in TIF collections, but a CPI increase of only 1.9% (cap for Chicago Public Schools). Tax cap increases much more slowly than EAV increases. TIF increases gap in revenue collection by capping available EAV. Chicago Public Schools only captured 50% of EAV growth in latest three-year reassessment cycle. Chicago Public Schools constitute about 52% of Chicago's property taxes, but it has only 65% of adequacy in the state's school funding formula, so every dollar counts. Recent reforms in other states based on evidence-based funding models involve a much higher state contribution to public education. Illinois needs to increase its funding levels at a faster rate in order to make up for lost funding in past due to PTELL. A graduated income tax system would bring in additional dollars to the state that could be dedicated to increased education funding, which in turn brings greater relief to property owners. Chicago Public School employees are required to live within the city limits, so any changes to local property taxes affects them as well. Referenda for increased school funding are only patch-work fixes. Some districts pass them and benefit, while others do not. Chicago Public Schools last experienced a referendum in the 1960s. PTELL allows taxing bodies to levy for new property in the first year of that property's existence, which effectively creates a higher EAV. The General Assembly should consider adding an additional period of time to that extension, such as when a property is reassessed and the EAV increases. Helps to broaden the growth in property values and overall tax base. PTELL contains a similar procedure for TIF districts when they expire. Allows for a full assessment of the EAV growth before the extension limit is placed on property. The General Assembly should think about adding a period of time to this extension as well. The General Assembly should consider the impact of TIFs, tax abatements, and other economical development incentives, which are misused and increase property taxes on other properties. Biggest increases/burdens are placed on residential properties.
 - ii. Senator Wilcox asked why more referenda have not been passed in the Chicago Public School system. Hilgendorf indicated that he did not have any reason why such referenda were never considered, but he outlined that the Chicago Public Schools have experienced financial difficulty off and on during the last forty years. Wilcox asked Hilgendorf if he is aware that school referenda are a common occurrence outside of Chicago. Hilgendorf answered that he is aware of this, having grown up in Pontiac

- with a parent who is a retired elementary school teacher. He also spoke to the difficulty of such referenda passing in the suburbs and downstate.
- iii. Senator Fine inquired how PTELL would be impacted if the evidence-based formula were fully funded. Would school referenda under PTELL be disallowed? Hilgendorf answered that he is not aware of any prohibition on a school district seeking additional funding via referendum when it is fully funded under the evidence-based formula. Such additional funding though may place the district lower on the priority list for funding through the evidence-based formula in future years. The current funding level through the formula is maintained (“hold harmless”) but is not necessarily increased the following year. Holmes asked if this would serve as a disincentive for a school districts to seek additional funding through referendum? Hilgendorf acknowledged that this could act as a disincentive and said he viewed it as a trade off for increased funding through the evidence-based formula. Fine expressed there might have been a piece of legislation in the previous session that prohibits a district seeking additional funding through a referendum if it were fully funded through the evidence-based formula. Hilgendorf reiterated that his understand is that there is no limit or prohibition on school districts seeking additional funding via a referendum, even if they are fully funded through the evidence-based formula.
 - iv. Representative Walker asked what the effect on property taxes would be if PTELL is eliminated. Hilgendorf indicated that the effect would vary from school district to school district. For Chicago, if the levy rate did not change, property taxes would still increase in order to realize the current amount of funding. Some districts have a flat rate. Some revenue is not capped by PTELL, such as revenue for pension costs.
 - v. Wilcox expressed that within PTELL counties capturing new growth is a detriment to current taxpayers. Some suburban school boards don’t capture new growth purposely in order to serve as a tax break to existing homeowners who have already paid for infrastructure and public safety costs in years past (that are currently benefitting everyone and spurring new growth). Asked for this to be included as a topic of discussion in the next subcommittee hearing.
- b. Illinois ASBO, Executive Director/CEO – Michael Jacoby. Michael Jacoby introduced himself as the Director/CEO of the Illinois Association of School Business Officials and advised that his remarks might reflect his experiences as the business official for the Geneva public school system, which includes some years prior to PTELL. His testimony highlighted the following points:
- i. PTELL is just an inflationary adjustment for schools by controlling the existing EAV set to the Consumer Price Index. New property comes into the equation initially at a different rate and is not capped until after one year. PTELL is also a taxpayer protection. It helped control property tax rate increases when the aggregate EAV increased beyond the inflation. It did lead to stagnant school budgets that were limited to only CPI/inflationary increases. PTELL also protects the students in districts

that experience a loss of property wealth. PTELL provides a steady revenue flow to school programs and services despite an economic downturn or loss in some property values. The evidence-based funding formula provides a school district with a benchmark in where it stands against other school districts in the state in terms of its local funding resources/capacity. In addition, in terms of its projections for all school districts reaching 90% adequacy, the funding formula factors in a continual inflationary element that is keeping pace with any new dollars added to the formula overall. Freezing property taxes would place all the pressure for equity and inflationary adjustments on any new funding in the funding formula. This would lock in the inequities that are already in place and result in school districts relying on property tax rate increases to provide basic funding. Using the Consumer Price Index for PTELL purposes might not be the best gauge of expenses/costs to a school district because 80% of the cost for a school district is salary/benefits, not consumer items. The Employment Cost Index would be a better fit for PTELL inflationary measurement. Commercial/industrial assessments are not conducted uniformly in Illinois. This practice needs to be reviewed and standardized. Larger commercial and industrialized parcels often have the legal/staff resources to contest/lower their assessments before the board of review; however, others eventually assume these costs (e.g. homeowners) at their expense in higher property taxes. Inequity exists and needs to be studied further for possible remedies. A common misbelief is that PTELL limits the growth on an individual property, which it does not. PTELL limits aggregate growth within a taxing body's jurisdiction. Some property owners may see an increase in their value and property taxes, while others see a decrease. Homeowners will pick up the slack of any commercial or industrial property that closes. Jacoby referenced a number of charts that had been passed out to the committee by Representative Walker and said they reflect a few different factors: growth in suburbs and other areas, particularly in the 1990s and early 2000s, not just a rate being applied to existing EAV; referendum debt; and non-referendum debt. A CPI of 3%, compounded annually, will double the overall extension in 17 years. This contributes to significant growth by itself.

- ii. Representative Walker commented that the charts seem to reflect an 85% cumulative CPI increase in some areas. Jacoby indicated that the suburbs and higher populated downstate areas reflect both the CPI increase and high growth. Other factors are represented as well.
- iii. Representative Walker inquired about educational/teacher union contracts. Do such contracts place school districts into a structural deficit automatically since they are usually negotiated at levels higher than the CPI? Jacoby answered that this is true for school districts that rely heavily on local property taxes for their revenue and negotiate salary and other benefits that exceed the CPI rate. Used Geneva as an example where 85% of revenue came from property taxes.

- iv. Senator Wilcox asked about using the Employment Cost Index versus the Consumer Price Index. Would the preference be to use ECI for private industry employee or the ECI for state/local government employees? Jacoby indicated he preferred to use the ECI for state/local government employees since the taxing bodies like school districts are governmental entities. Senator Wilcox further inquired if switching to the ECI would act as an incentive for school boards to negotiate higher growth rates in salaries, which in turn would lead to higher rates/levies in property taxes. He indicated that the CPI was chosen as a protection of the taxpayers who lived in areas with little or no economic/income growth and said it was preferred by the private industry. Jacoby responded that the ECI is a national figure and would need to be adjusted to reflect Illinois. He also answered that school boards should be negotiating contracts which they can afford.
 - v. Senator Wilcox asked for confirmation about pension costs being picked up by the state and not being reflected as a cost to the school districts in their current year budgets. Jacoby confirmed this point.
 - vi. Representative Walker announced that Hilgendorf will answer his previous question about contracts and structural deficits. Hilgendorf answered that there are other factors than just the negotiated numbers in the contract. Other factors contributing to overall costs are turnover rates in staff, class sizes, declining/increasing enrollments and corresponding staff numbers, and support services/programs. The evidence-based funding model has some built in factors that reflect these statewide realities.
 - vii. Representative Walker asked if there is a reasonable forecast that reflects the growth in the labor cost in education. Hilgendorf answered it is complicated. There are two parts. One is the effect of teacher shortages. Substitute teachers are less expensive than permanent staff teachers. The other is the number of people employed and the different positions filled by these individuals. Reasonable estimates can be made. Chicago Public Schools has experienced years of zero growth. There have been furloughs. More experienced teachers retire or leave service and are replaced by new, inexperienced teachers at a lower salary.
- c. ED RED, Executive Director – Sarah Hartwick
- i. Sarah Hartwick introduced herself as the Executive Director of ED RED, a suburban public school district advocacy organization. It represents 80 members in Cook and Lake Counties, consisting of public school districts, special education cooperatives, and intermediate service centers. All members are covered by PTELL and all four tiers are reflected in its membership. Briefly commented on some common testimony points that were already provided by others. Indicated she can answer questions on those and turned over the testimony to Stacy Mallek of Arlington Heights School District 25, one of ED RED’s members.

- d. Arlington Heights School District 25 – Assistant superintendent for Business/Chief School Business Official – Stacy Mallek. Stacy Mallek introduced herself. Her testimony highlighted the following points:
- i. District 25's average max levy was 1.8% each year over the last ten years. 83% of District 25's revenue is from local property taxes. Received \$142,000 extra as a Tier 3 school district. PTELL does provide stability in terms of budget planning for several years into the future. District 25's property taxes have increased 16.7% over the last eight years, averaging 2.1% per year. This includes new property and a TIF district. Costs don't grow at the same rate as our revenue. Teacher salaries are tied to CPI, so overall growth has been about 16% in the last eight years, which reflects the CPI increase in property taxes. However, employee benefits have grown 34% in those eight years. Cuts to benefits have been made, but growth is still high (4.3% per year), especially in medical and dental costs that are outside the control of the district. District 25 spent \$581,000 on special ed transportation eight years ago, but it spent \$1.82 million on that service last year. This represents a 120% increase over the eight years (15% per year). Special ed tuition increased by 38% during the past eight years. Bussing and utility costs increased as well. These are all beyond the control of the district. Any reform should look at the entire property tax system. While the PTELL annual increase occurs every year, the burden on individual properties is always changing. For instance, the decrease in value of a commercial property increases the share of what homeowners must contribute aggregately in a given year.
 - ii. Sarah Hartwick of ED RED followed up with the following points: Per Senate Bill 690, property taxes would be frozen at current levels if the evidence-based formula were fully funded in a given year; however, Tier 3 and Tier 4 school districts would not necessarily receive additional money to pay for some of the outside costs (that are beyond their control). PTELL has slowed property tax growth over the years as well as provided stability to school districts and their students during difficult economic times. Schools are connected to property taxes in various ways. PTELL is just one specific area. Testimony has been provided to other subcommittees as well.
 - iii. Senator Holmes inquired about levying to the max and then refunding/abating some of the money back to taxpayers. Do you know if this has actually occurred? Stacy Mallek answered yes, she is aware of this occurring in various districts. It occurred in one district where she used to work. The property owners do not necessarily get a check in the mail, but they do get credited for other items on their property tax bill, such as payments toward bond debt. Sarah Hartwick acknowledged that districts are creative in how to reimburse taxpayers. Some extra funds may be placed in reserves and then used to make one large payment on a particular project or debt, which allows the district from having to bill and collect these additional funds.

- iv. Senator Holmes inquired about why employee benefit costs have increased so much in comparison to employee salaries. Stacy Mallek answered that medical insurance and pharmacy costs are subject to market trends, which are beyond the employer's control. The school district tries to get the best deal possible when it bids out to potential providers.
- v. Senator Holmes expressed the political tension that exists as an elected official between keeping property taxes as low as possible (e.g. property tax freeze) but also ensuring that local governments have the revenue they need to provide the services and programs for their communities. Sarah Hartwick acknowledged many people simply don't understand the consequences that a property tax freeze could have on local services and programs. Similarly, school referenda commonly are defeated but then residents are shocked to see cuts in programs and services afterward. Senator Holmes provided an example using East Aurora and West Aurora. East Aurora's referendum was simply placed on the ballot and defeated; whereas, West Aurora introduced the referendum to the residents and allowed for a public educational/input process over an extended period of time. It resulted in voter approval. She hopes that people take the time to understand the effects of property tax freezes.
- vi. Senator Fine inquired about school boards levying to the max because they can't recapture the money (that is lost). What would recapturing the money look like? Stacy Mallek provided an explanation of how money would be considered lost and the need to recapture it as a future date. Sarah Hartwick expressed that it is a technically difficult concept to grasp and that Senator Harmon had a piece of legislation addressing it six or seven years ago. Essentially, a school district would need to identify a specific dollar amount it chose not to collect in a given year in the past and then utilize some mechanism in the current year to collect all or part of that same dollar amount.
- vii. Senator Wilcox expressed a counter to the concept of recapture. PTELL acts as an incentive for school districts and others to levy to the max, even if their budgets don't require it. He argued it led taxing bodies to have larger reserves than necessary. School districts can seek a referendum in order to capture any additional funding that it deems necessary in the current year. Representative Walker indicated he has asked school districts why they have levied to the max when they don't need the additional revenue. Common responses are "Because we can" and "Because of PTELL. We will lose our money if we don't levy it now." It is a practice that is too common. Sarah Hartwick responded that some school districts, particularly Tier 3 and Tier 4, build up large reserves for certain reasons, such as stagnant or inadequate state funding, increased costs not covered by state funding, and overall instability to meet on-going expenses. It is possible that some reserves are too large, but we need to have discussions about what is an acceptable level of such reserves.
- viii. Representative Walker referenced Senator Harmon's bill and inquired about taking away the penalty for not levying the max (i.e. allowing

recapture to some degree). Would that result in property taxes increasing or decreasing? Sarah Hartwick answered that there may be some relief in the immediate future, but that there would be more pressure in the long term to return to property taxes as a principal funding source, such as when there is less state money available or more mandates without a funding source from the state. Stacy Mallek agreed generally that there may be some relief in the early years, but that the long term would reflect an increase in property tax revenue. School districts would simply delay the collection or recapture of current year amounts into the later years. Senator Wilcox indicated that election cycles have an impact on decisions. Districts may not levy to the max during an election year but will do so in non-election years. Has asked for data to see if a correlation does exist.

- ix. Senator McConchie expressed that his constituents complain about Illinois' high property taxes. What's an alternative? Sarah Hartwick provided some ideas in response: we should examine what leads to higher costs and an over reliance on property taxes; some individuals have suggested eliminating the structure altogether and creating a new funding scheme for schools; the impact that TIFs and other factors have on higher property taxes. Stacy Mallek suggested that we should look at certain services that are performed at the school level and determine if those should continue. District 25 has some positions currently unfilled like psychologist, social worker, and speech pathologist. Maybe these services could be reimbursed through insurance, such as the family's medical insurance, when a student seeks or needs them.
- x. Senator McConchie conveyed a story about a constituent selling his home and the difficulties involved. Higher property taxes, in the \$10,000-\$12,000 range, discouraged many potential buyers from even looking at the home for sale. Very few younger buyers looked at the home. The constituent eventually did sell the home, but for approximately \$40,000 less than what he had expected.
 1. Senator McConchie further expressed two frustrations he has with how Illinois funds education: 1) Property taxes are levied regardless of income level or status at the time. An individual owner is expected to pay the levied amount whether he/she is making a \$1 million at the time or is currently unemployed; 2) Home values and related property tax amounts are greatly influenced by geographical boundaries. This creates inequities and a sense of "haves/have nots" in and among communities.
- xi. Senator Fine inquired about busing and what impact would there be if it were provided on a sliding scale (similar to school lunch programs), as opposed to mandating free busing (and associated costs) in circumstances where it really is not necessary. Stacey Mallek responded that part of busing is based on demographics of a school district. For a large part of the community, free busing allows students to get to school every day who might otherwise not get there by other means. Some families choose to pay for busing out of convenience.

IV. New Business

- a. Representative Walker asked that the subcommittee outline its ideas involving PTELL which will eventually be developed into the subcommittee recommendations. He listed a number of ideas, including:
 - i. Expand PTELL, decrease PTELL or eliminate PTELL altogether?
 - ii. Allow referenda that would reduce property taxes in PTELL covered bodies?
 - iii. Reduce the incentive for taxing bodies to levy the maximum possible.
 - iv. Allow expansion of home rule authority for municipalities in order to seek alternative funding sources.
 - v. Reduce the way and amount of how new growth is captured in PTELL calculations.
 - vi. Require county board approval for an increase approved by another taxing body within its jurisdiction, such as park district, library district, or school district. Need to determine the county board's role in non-PTELL counties.

V. Public Comment

- a. None

VI. Adjournment

- a. Subcommittee recessed to the call of the Chair.