Chicago Metropolitan Agency for Planning

GOVERNMENT FINANCE RESEARCH CENTER

Current and future use of homestead exemptions in Cook County

Summary

In April 2023, Cook County prioritized three research questions regarding Illinois' homestead exemptions for further study. This memo addresses two of those questions:

- What are the public purposes of Cook County's homestead exemptions? How is success evaluated?
- How does the use of exemptions shift the property tax burden between residential and business properties? Between homeowners and renters? How and why do these shifts vary by taxing district?

The sections below summarize efforts to answer these questions as well as their implications for future policy change. Broadly, the use of exemptions reshapes the local property tax base in communities throughout Illinois such that a portion of homeowners' tax burden is shifted to other taxpayers through higher rates. This design can have greater effect in some communities than others depending on two primary factors: the value of exemptions as a share of the residential tax base (reflecting both the rate of uptake and local home values), and residential property as a share of the total tax base (or more simply, the local land use mix). This analysis shows that areas of Cook County with a more balanced mix of land uses and lower residential property values — including many communities in the South Suburbs — see greater tax burden shifts and higher composite tax rates as a result.

Homestead exemptions are specifically permitted by the Illinois Constitution[1] and primarily enabled by amendments to the Property Tax Code.[2] But Illinois statutes do not establish what these tools are intended and designed to achieve. A review of past state-level studies and recent legislative proposals suggests that the state lacks a clear and consistent direction for the future of its tax relief programs. If Cook County determines that homestead exemptions have unwanted effects, examples from other states can provide models for reforms. One of the most significant factors shaping exemptions' effects — and the tax savings for homeowners — is which unit of government bears the cost of providing them. Potential changes would need to consider more deliberately what these tools are designed to achieve in Illinois to better align their program design and funding with their public purposes.

[1] Illinois Constitution 1970, Article IX, Section 6.

[2] 35 ILCS 200/15.

Contents

Reviewing Illinois' current homestead exemptions

Despite the benefits of the property tax as a source of public revenues, issues with the visibility, volatility, and incidence of tax bills can strain households and businesses. To respond to calls for tax relief, governments regularly offer exemptions that are applicable to all homeowners' primary residence (homesteads) as well as exemptions targeted to specific groups, such as people with disabilities, veterans, and seniors. These exemptions reduce the assessed value of property by either a fixed amount, percent, or incremental growth above a set base.

Homestead exemptions and credits are the most common type of property tax relief offered nationwide, with at least 33 states offering programs roughly comparable to Illinois' general homestead, senior homestead, and senior freeze exemptions.[3] Under broader definitions, the number rises to as many as 48 states. The overwhelming majority of states also offer exemptions to people with disabilities and veterans. A 2015 analysis by the Lincoln Institute of Land Policy found that 59 percent of these programs give a flat dollar reduction in the property value subject to taxation, similar to many of those offered in Illinois. The remainder were evenly split between percentage exemptions and property tax credits or other more complicated formulas.[4]

Academic perspectives vary on homestead exemptions as a form of property tax relief. Recent research has demonstrated that exemptions provide a substantive benefit to lower-income homeowners and can offset the regressivity innate to many property assessment systems.[5] However, research has also found evidence that reducing the tax burden of homeowners through exemptions leads to higher school district and municipal property taxes.[6] In Minnesota, evidence suggests homestead exemptions provide virtually no property tax relief to homeowners because of the behavioral response of local governments; municipalities maintain their level of expenditures and may even raise capital spending in response to the reduction of taxable value in the tax base.

Differential tax treatment has significant equity implications among residents. If the tax burden is shifted away from owners of single-family homes and condominiums, the burden of property tax will fall more on owners of apartments and other rental units. These owners can then pass on any increases in their property tax bills to tenants in the form of higher rents. As renters tend to have less household income than owners, any increase in rent will cut into resources for other household expenditures and be disproportionately burdensome.

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[3] Homestead credits reduce tax bills directly, rather than reducing taxable values like homestead exemptions. These tools can have similar effects and are discussed together in some academic research. See Adam H. Langley and Joan Youngman, "Property Tax Relief for Homeowners" Lincoln Institute of Land Policy, November 2021, https://www.lincolninst.edu/publications/policy-focus-reports/property-tax-relief-homeowners.

[4] Lincoln Institute of Land Policy. 2015. *Significant Features of the Property Tax*. Tax Savings from Property Tax Exemptions and Credits in 2012.

[5] Ihlanfeldt, Keith, and Luke P. Rodgers. "Homestead exemptions, heterogeneous assessment, and property tax progressivity." National Tax Journal 75.1 (2022): 7-31.

[6] Rockoff, Jonah E. "Local response to fiscal incentives in heterogeneous communities." Journal of Urban Economics 68.2 (2010): 138-147. Sun, Jingran, Robert Bland, and Linfeng Yue. "The impact of property tax exemptions on the effective property tax rate: evidence from 41 Texas cities." Quality & Quantity 57.3 (2023): 2211-2230.

Differential tax treatment also affects businesses' site location and usage decisions. Exemptions can shift the property tax burden from owner-occupied housing (i.e., single-family homes and condominiums) to the owners and tenants of commercial or industrial properties. Even if the local government raises the same amount of property tax revenue, businesses would pay more in taxes. If exemptions shift the tax burden from single-family homes to commercial and industrial properties, these property types may have a harder time paying their bills and may be tempted to relocate.

Taxing jurisdictions that have access to other revenues in addition to the property tax (e.g., through Illinois' school aid formula) may be able to ward off a tax rate hike. However, those unable to do so would have less latitude to absorb the reduction in taxable assessed value, and their tax rates may be less competitive with those of other places in the region. Higher tax burdens could dissuade potential businesses from locating in places negatively affected by homestead exemptions. As such, exemptions are not just an equity issue but are a concern for economic development as well.

Cook County has identified the real and potential effects of homestead exemptions as an issue in the administration of its property tax system. Moreover, state property tax reform commissions demonstrate a recurring awareness in Illinois of their tradeoffs but limited action to improve their use, as described in a later section of this report. Cook County's efforts to review or reform the exemptions could set a direction for their future use statewide. Its residential property accounted for 27 percent of the state's total equalized assessed value in tax year 2021, and its high effective tax rates are often cited as a hindrance to homeownership, economic development, and community wealth creation.

The different types of homestead exemptions in Cook County

Cook County currently offers eight types of exemptions for homeowners that reduce the final taxable value of their primary residences.[7] Their eligibility requirements, benefits, and other details are summarized in **Figure 1**. All exemption applications are reviewed by the Cook County Assessor's Office (CCAO), and most (other than the home improvement exemption) are applied by the Cook County Clerk to equalized assessed values (EAV).

[7] This memo does not address non-homestead exemptions for religious, charitable, and other uses nor benefits offered primarily to income-producing properties like abatements and special assessments for affordable housing. It also does not include the Natural Disaster exemption that applies to residential structures rebuilt following a natural disaster.

Figure 1. Summary of homestead exemptions in Cook County as of tax year 2022

Exemption type	Eligibility	Benefit	Application	Renewability
General homestead 35 ILCS 200/15-175	(1) Either owns or has a contract which makes them responsible for the real estate taxes of the residential property AND (2) occupies the parcel as their principal place of residence throughout the duration of the tax year	Reduces EAV by $10,000	(1) Photo ID (or other documents) that verifies their identity and occupancy and (2) proof of property tax liability	Apply once with automatic renewal
Senior homestead 35 ILCS 200/15-170	(1) Either owns or has a contract which makes them responsible for the real estate taxes of the residential property, (2) occupies the parcel as their principal place of residence throughout the duration of the tax year, AND (3) is 65 years old or older	Reduces EAV by $8,000	(1) Photo ID (or other documents) that verifies their identity and occupancy and (2) proof of property tax liability	Apply once with automatic renewal
Senior freeze 35 ILCS 200/15-172	(1) Either owns or has a contract which makes them responsible for the real estate taxes of the residential property, (2) occupies the parcel as their principal place of residence throughout the duration of the tax year, (3) is 65 years old or older, AND (4) has an annual household income of $65,000 or less	Freezes EAV	(1) Proof of age, identity, and occupancy, (2) proof of property tax liability, (3) total household income verification OR proof of enrollment in eligible programs	Reapply annually
Persons with disabilities 35 ILCS 200/15-168	(1) Either owns or has a contract which makes them responsible for the real estate taxes of the residential property, (2) occupies the parcel as their principal place of residence throughout the duration of the tax year, AND (3) has or a disability during the tax year	Reduces EAV by $2,000	(1) Proof of disability verified by an eligible government agency and (2) proof of identity and occupancy	Apply once with automatic renewal
Returning veterans 35 ILCS 200/15-167	(1) Either owns or has a contract which makes them responsible for the real estate taxes of the residential property, (2) occupies the parcel as their principal place of residence throughout the duration of the tax year, and (3) is a returning veteran who was honorably discharged from active duty in armed conflict during the tax year	Reduces EAV by $5,000	(1) Proof of honorable discharge OR proof of active duty and (2) proof of identity and occupancy	Reapply annually
Veterans with disabilities[8] 35 ILCS 200/15-169	(1) Either owns or has a contract which makes them responsible for the real estate taxes of the residential property, (2) occupies the parcel as their principal place of residence throughout the duration of the tax year, (3) assessed value of residential property is less than $250,000, (4) was honorably discharged from the armed services, AND (5) has at least a 30% service-connected disability certified by the U.S. Department of Veterans Affairs	Disability of 70% and above: makes property 100% exempt Disability of 50-69%: reduces EAV by $5,000 Disability of 30-49%: reduces EAV by $2,500 Disability of 0-29%: no reduction in EAV	(1) Department of Defense DD Form 214, (2) Disability Certification Letter from the VA, and (3) proof of identity and identity A non-remarried surviving spouse of a veteran with a disability must provide the disabled veteran's death certificate and proof of ownership	Reapply annually

[8] Veterans with disabilities may also be eligible for full exemption on specially adapted housing provided by federal or charitable funds (35 ILCS 200/15-165). Recipients must own their primary residence with an assessed value of $100,000 or less. Related data appear in Illinois Department of Revenue records for only tax years 2008 and 2012.

Longtime homeowner 35 ILCS 200/15-177	(1) Has owned and occupied the parcel as their principal residence for 10 continuous years, (2) has a total household annual income is $100,000 or less, AND (3) experienced a property assessment increase that exceeded the maximum amounts set by the state legislature	Reduces EAV by the amount that exceeds a 7-10% increase based on income, with no maximum benefit	The CCAO monitors and alerts the eligible properties, at which point the property owners can choose to apply	Annual
Home improvement 35 ILCS 200/15-180	Contingent upon the County Assessor's building permit and field visit	Exempts up to $75,000 in certified assessed value (prior to equalization) resulting from capital improvements for four years	No application required	Automatic upon Assessor's building permit and field visit

Homeowners may claim multiple exemptions, although rules for doing so are scant. Some of the public guidance regulating the "stacking" of exemptions include:

- Recipients of the longtime homeowner exemption are not eligible to combine the exemption with the general homestead exemption or the senior freeze.[9]
- An applicant who receives a senior freeze may be ineligible to receive a senior exemption if the value of their residence decreased or if tax rates increased.[10]
- The veterans with disabilities exemption cannot be combined with the returning veterans, the persons with disabilities, or specially adapted housing exemptions.[11]

It is possible for a single homeowner to claim up to four exemptions from among the general homestead, senior, persons with disabilities, returning veterans, veterans with disabilities, and home improvement exemptions.[12] Non-remarried spouses of senior, disability, or veteran exemption recipients are also eligible to continue receiving exemptions if the recipient passes away or moves into a care-taking facility.

History of property tax relief for homeowners in Cook County

The current menu of homestead exemptions is an artifact of decisions made over the past 50 years to reduce the tax burden on Illinois homeowners and temper sudden increases in property values. Early steps include the first property tax rate limits for municipalities and school districts (1961) and property tax revenue limits (1991 for the collar counties; 1994 for Cook County). The first homestead exemptions (for seniors and disabled veterans) came into effect in 1970, shortly followed by the home improvement exemption (1975) and general homestead exemption (1978). Homestead exemptions in one form or another have since become the state's default option for addressing many taxpayers' concerns.

The historical record suggests that exemptions emerged in Illinois as a response to financial conditions and political pressures in the 1970s, during another inflationary period in U.S. history. But news coverage and commentary at the time show that the first authorization of the general homestead exemption spurred sharp debates over its purpose and utility from the

[9] "Long-Time Occupant Homestead Exemption (LOHE)," Lincoln Institute of Land Policy, n.d., https://www.lincolninst.edu/residential-tax-relief/long-time-occupant-homestead-exemption-lohe-illinois-2018.
[10] "Frequently Asked Questions About Assessments," Cook County Assessor's Office, n.d., https://www.cookcountyassessor.com/frequently-asked-questions-about-assessments.
[11] "Frequently Asked Questions About Assessments."
[12] "How Is Property Taxed in Illinois?," Illinois Legal Aid Online, n.d.

start. Governor James Thompson based his initial 1978 veto of the general homestead exemption at $1,000 partially on the fact that it would not do enough to address inflation; it was later signed into law at $1,500.[13] A 1980 article on the exemption's first increase to $3,000 suggested voters were getting either "meaningful property tax relief or a cruel hoax" depending on who they listened to.[14] But an unattributed position paper defended the 1980 increase at length as a better "short-term solution" to inflationary assessments than other proposals for tax and/or spending limitations.

The legislature has increased the exemption levels with some regularity since enactment. For example, the EAV reduction under Cook County's general homestead exemption rose from the original $1,500 limit in tax year 1978 to:

- $3,000 in 1980
- $3,500 in 1986
- $4,500 in 1991
- $5,000 in 2004
- $5,500 in 2008
- $6,000 in 2009
- $7,000 in 2012
- $10,000 in 2017

Cook County has also implemented other statutory authorities provided by the Illinois General Assembly to offset the tax effects of soaring property values, including those caused by gentrification. This includes creating the homeowner exemption for long-term properties in 2001,[15] which was effectively superseded in 2004 by a 7 percent annual assessment growth cap from the expanded alternative general homestead exemption (also called the "neighborhood preservation homeowner exemption").[16] To replace the cap, the legislature created the longtime occupant homestead exemption (effectively removing its maximum value for some homeowners) and increased the value of the general homestead exemption to offset its phased expiration by 2013.[17]

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[13] Letter from Governor James Thompson to member of the Illinois Senate, August 1, 1978.

[14] Jeff Brody, "Property tax cut in homestretch," *The State Journal-Register*, Springfield, IL, January 27, 1980. Other editorials took shot at the increases in local administrative costs and argued that exemptions reduce revenues "without any rhyme or reason" (Chicago Tribune editorial, "Equity, not exemptions needed," January 29, 1979).

[15] Authorized by the Longtime Owner-Occupant Property Tax Relief Act (35 ILCS 250/) and implemented by Cook County Code of Ordinances §74-36. The exemption limited a homeowner's year-to-year assessment increase. The reduction amount equaled the portion of EAV which exceeded their prior-year EAV multiplied by 150 percent of the district's average assessment increase. To be eligible, the homeowner must own their primary residence for a minimum of ten years (or five years for certain government or nonprofit housing programs). The homeowner was ineligible if the property had a fair market value exceeding $300,000 or substantial improvements which resulted in an increase above the $45,000.00 allowance.

[16] The Alternative General Homestead Exemption created a range of assessment reduction from $4,500 to $20,000 to prevent increases in taxable value greater than 7 percent each year. To be eligible, the applicant was required to own their principal residence for ten years (or five years under certain government or non-profit housing programs) and to have a total household annual income of $100,000 or less.

[17] Illinois has used additional mechanisms to provide relief, particularly for eligible seniors and people with disabilities, including a credit on individual income tax returns, a senior citizens real estate tax deferral, and a now-defunct circuit breaker grant program, as well as City of Chicago's temporary Homeowner Assistance Program (offering 3 percent simple interest loans) and Property Tax Relief Program (providing grants between $25 and $200 based on income and assessment increases).

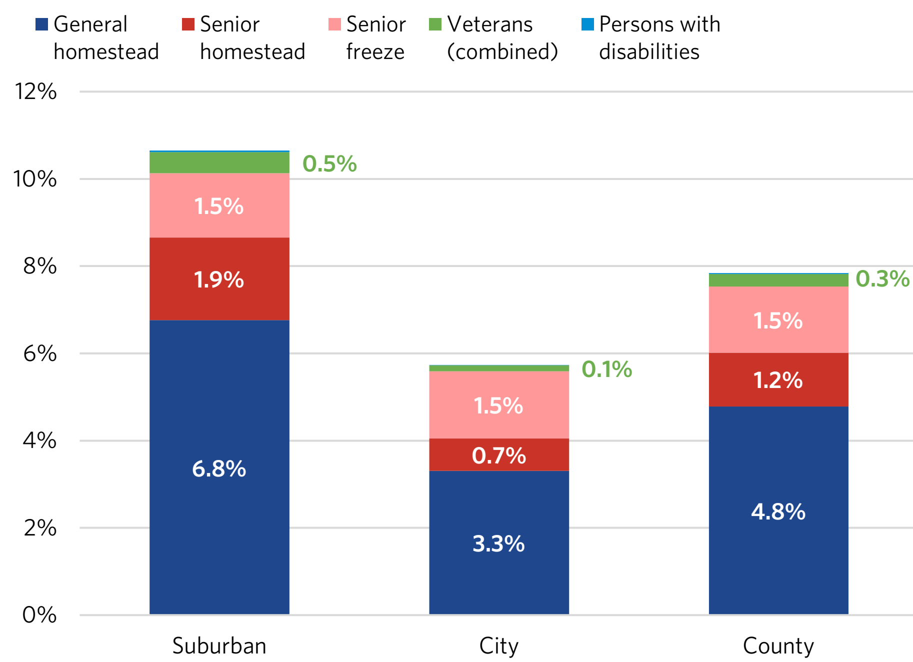
Prevalence of exemptions in Cook County

According to tax year 2021 data from the Cook County Clerk, total homestead exemptions equaled $16.7 billion (nearly 8 percent) of Cook County's total EAV. Given its widespread applicability and automatic renewal, the general homestead exemption is the most common and makes up approximately $10.2 billion in EAV (4.8 percent of the County's total EAV). The general homestead exemption is followed by the senior homestead exemption and senior freeze, which together account for $5.9 billion (2.7 percent). In comparison, the exemptions claimed by veterans and people with disabilities combined account for $653 million (0.3 percent).

In terms of both value and share of total EAV, exemptions are more prevalent in suburban Cook County than in the City of Chicago (**Figures 2, 3, and 4**). Notably, the senior homestead exemption represents a far greater share (2.7 times) of total suburban EAV than in the City. This points to a greater percentage of the suburban population qualifying for the age-restricted senior homestead exemption, but notably a smaller share of the suburban population qualifying for the income-restricted senior freeze. This may be due to the prevalence of wealthier seniors residing in the suburbs relative to those living in the City of Chicago.

Figure 2: Exemptions — especially the general and senior homestead exemptions — account for a greater share of the tax base in Cook County's suburban communities than the City of Chicago.

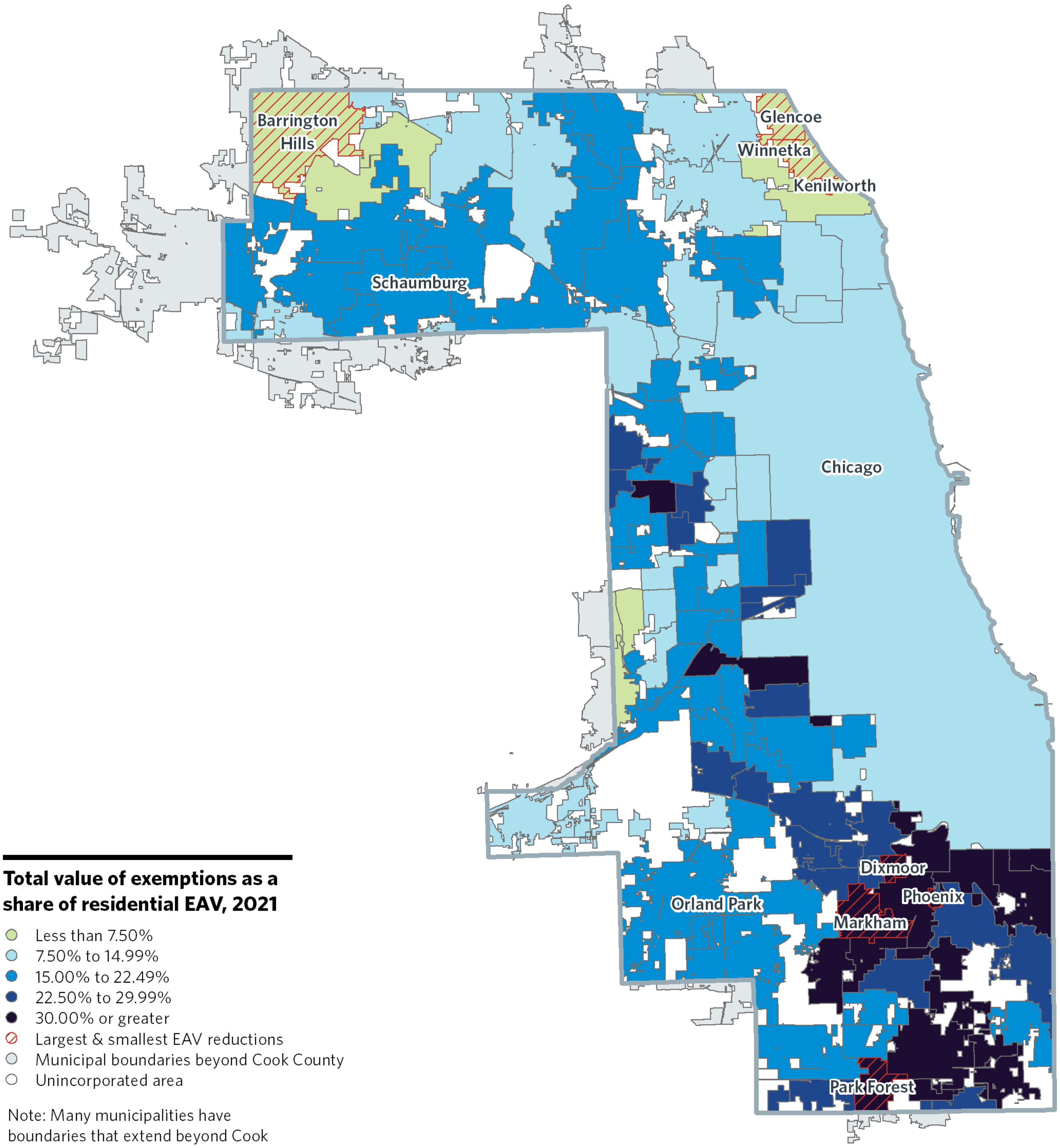
Homestead exemptions as a share of total EAV in Cook County by exemption type and geography, tax year 2021



Source: CMAP analysis of Cook County Clerk data

Note: Percentages that round to 0.0 percent are not labeled.

Figure 3: Reductions in municipal EAV due to homestead exemptions are greatest across Cook County's South Suburbs and lowest in the northernmost suburbs of the County.

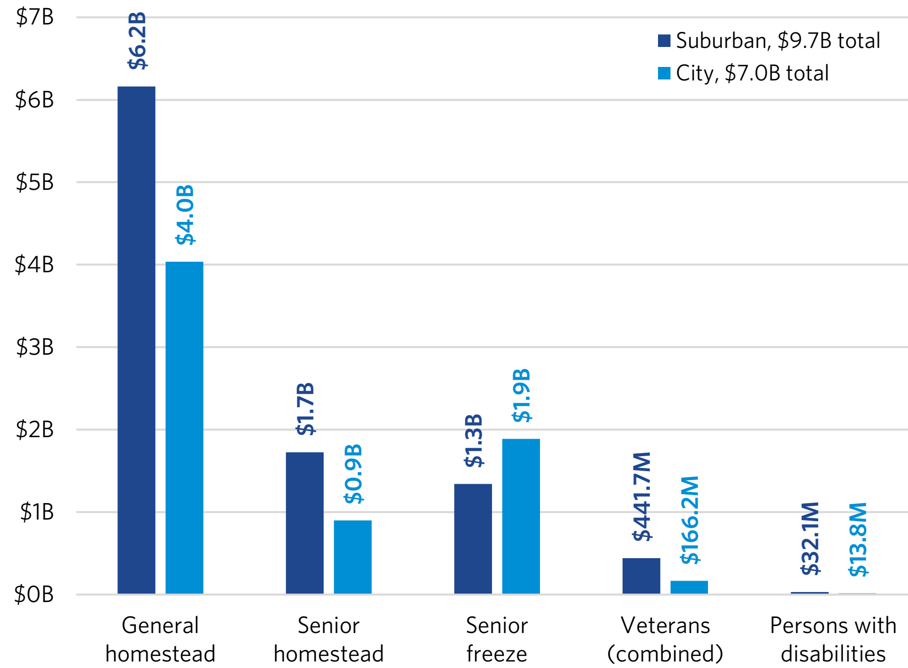


Note: Many municipalities have boundaries that extend beyond Cook County. This analysis does not account for property located in neighboring counties.

Source: Chicago Metropolitan Agency for Planning and Government Finance Research Center analysis of Cook County Assessor data

Figure 4: Key differences in the value of exemptions between suburban Cook County and the City of Chicago may point to broader socioeconomic patterns as well as residents' eligibility and uptake.

Exempted EAV in Cook County by exemption type and geography, tax year 2021



Source: CMAP analysis of Cook County Clerk data

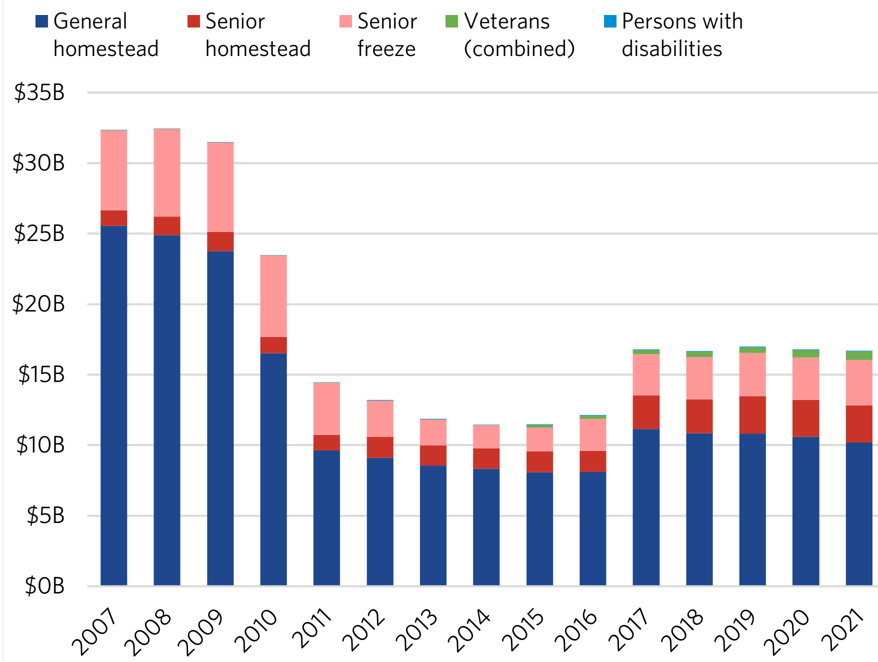
Exemption use in Cook County over time, 2007-2021

The use of exemptions in Cook County has changed over time, due to market shifts and the legislative reforms discussed above. **Figure 5** reveals three recent phases of exemption use:

- The values of both the general homestead and senior freeze exemptions were relatively high between 2007 and 2010 — likely the result of both rapid increases in home values during the mid-2000s and the implementation of the 7 percent cap on assessment increases to mute their property tax effects.
- Exemption values came down significantly between 2011 and 2016. This reduction was likely due to the drop in housing values following the Global Financial Crisis, the resulting fall in households who qualified for the 7 percent cap, and its phased expiration by 2013. Depreciation also likely caused a decrease in the value of the senior freeze exemption.
- Exemption values subsequently increased and stabilized between 2017 and 2021. This reflects the passage of PA 100-0401, which increased the County's maximum reduction under the general homestead exemption from $7,000 to $10,000 in tax year 2017. This legislation also expanded eligibility for the senior freeze exemption by raising the household income limit from $55,000 to $65,000.

Figure 5: Trends in the total EAV reductions due to homestead exemptions reflect both real estate market shifts and the legislative changes in their availability, eligibility, and value.

Value of residential exemptions by type in Cook County, tax years 2007-2021



Source: CMAP analysis of Cook County Clerk data (adjusted to 2021 constant dollars)

The exceptions to this trend are the combined veteran exemptions, which have been on a steady rise (from a relatively small base) since 2015, and the senior homestead exemption, which has grown in spurts since 2007. Despite increases in the assessment reduction under these exemptions — for example, PA 100-0401 also increased the senior exemption from $5,000 to $8,000 in tax year 2017 — total EAV reductions are still about half of what they were a decade prior, adjusting for inflation.

Analyzing the tax effects of homestead exemptions

How do these exemptions affect local governments and taxpayers in Cook County? Exemptions made $15.8 billion of EAV in incorporated Cook County unavailable for governments to tax.[18] Applying the current tax rates in each tax code to the amount of EAV exempted, the total "value" of exemptions in Cook County was approximately $1.6 billion in 2021.[19] Of this amount, about $7,845,000 would have been collected via Cook County's own tax levy, with the rest going to other types of taxing districts (schools, municipalities, water and sewer, etc.) roughly in proportion to their share of the property tax. This "value" represents the total amount in local tax burden that was displaced and shifted among taxpayers by the use of homestead exemption but not the final savings to homeowners. It makes up approximately 10 percent of all property tax revenues collected from incorporated areas in Cook County (not including tax increment financing district revenues).

[18] This figure was calculated by summing the value of exemptions for every tax code in incorporated areas in Cook County. The project team focused its analysis on Cook County's municipalities to help demonstrate patterns and effects in different areas. While point statistics would vary, many if not all of the underlying dynamics are expected to hold for other types of taxing districts.

[19] A tax code is defined as a group of properties that is assessed property taxes by the same set of taxing bodies. In other words, tax codes are the unique assemblages of multiple and often overlapping taxing jurisdictions.

A reduction in taxable EAV does not mean that local taxing jurisdictions necessarily forego this property tax revenue, nor do they reduce their levels of service by $1.6 billion. Instead, taxing jurisdictions submit their budgets, and if they maintain their levies to cover services, they would instead increase the tax rates applied to their exemption-reduced tax bases. As a result, exemptions would increase the cost of the property tax for all Cook County taxpayers by about $1.6 billion. Even owners of exemption-eligible units pay a higher tax rate on the portion of their unit's value that is not eligible for the exemption. Exemptions can also shift the tax burden to properties that are not owner-occupied.

To quantify the tax effects of exemptions in Cook County, the project team developed a simulation model to analyze the 132 municipalities with a majority of their EAV in Cook County for tax year 2021. The model replicates the fiscal structure of each municipality (e.g., different property types by EAV, different agencies that are part of tax codes) and then removes exemptions to see how tax rates change and tax burdens shift among taxpayers, while holding each taxing district's levy constant.

As with all models, this simulation is a simplification of real processes and should be treated as an approximation. It does not account for dynamic behavioral or feedback effects. How exemptions affect taxpayer willingness to own property in Cook County or if municipalities pre-emptively alter their levies to accommodate exemptions cannot be determined. Similarly, the model does not incorporate the effect of exemptions on the provision of public goods or services (e.g., school quality).

The model outcomes examined include:

Burden shift in comparison to a zero-exemption scenario. For each municipality in Cook County, the team estimated the scenario of zero homestead exemptions — the hypothetical situation of eliminating or rescinding all of the types of homestead exemptions. The team then compared the outcomes from the zero-exemption scenario with the current tax structure.[20] The changes reflect the burden shift, the extent to which taxes are imposed on some property owners instead of others.

Increase in composite tax rate. One way to reflect the tax burden shift is by the increase in composite tax rate. By exempting a portion of the EAV in Class 2 properties, homestead exemptions necessitate larger overall tax rates to secure the amount of the tax levy. The model estimates the composite tax rate that would yield the same total property tax levy in the absence of homestead exemptions and subtracts that rate from the current tax rate.

[20] For ease of modeling and presentation, the project team considers all homestead exemptions to reduce the property taxes due to the municipality. Since the total levy across all taxing jurisdictions is fixed in the model, this simplification does not affect the simulation outcomes reported and analyzed, only how they are apportioned to different taxing bodies. Another way to describe this characteristic of the model is that the total changes throughout Cook County are consistent regardless of how they are divided among smaller constituent jurisdictions. For scenarios that involve changing the total municipal tax levy or composite tax rate, the assumption of proportional changes ensures the same feature.

Burden shift by property class. The team measured the shift in which properties bear the tax burden by comparing the shares of the total property tax paid by major land use classifications in the zero-exemption scenario and in the current tax structure. Homestead exemptions apply to Class 2 properties, so the burden shift caused by exemptions is negative for Class 2 properties and is positive for other residential and for non-residential properties.

Ordered and median municipalities. Since there are a large number of municipalities in Cook County, it is useful to focus on a smaller group as a manageable way to illustrate the overall distribution. For various outcome measures, the team first ordered all municipalities (e.g., from high to low) and identified the median municipality. This is the municipality in the middle of the distribution — with respect to the particular measure, half of Cook County municipalities have a figure that is larger, and half have a figure that is lower. Sets of municipalities that occupy the high and low extremes are displayed along with the middle.

Effect on composite tax rates

Unlike sales and income taxes, the property tax base is known by policy makers at the time they adopt their budgets, so each jurisdiction's property tax rate is calculated as the ratio of the district's budgeted revenues to that district's total tax base. Each entity with taxing authority over a parcel within its boundaries applies a separate rate to the property value. The composite rate sums the separate levies, each producing revenue for a separate fund and each the product of distinct political and administrative processes. Because a local government's primary decision factor is its revenue request, in practice its tax rate changes almost every year.

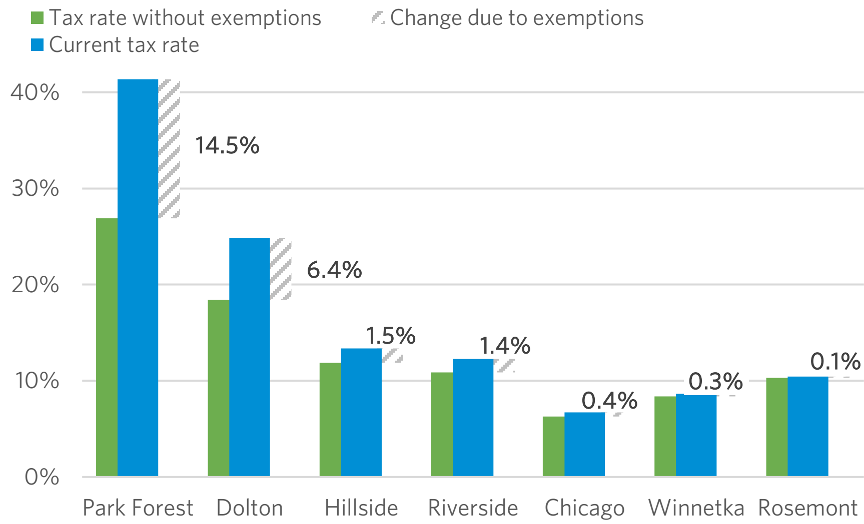
The model shows how the use of homestead exemptions can raise property tax rates, including the rate applied to the portion of a home's assessment not covered by the exemption. This is because there is less EAV available to tax to maintain current revenues and public services.

How much do exemptions affect tax rates? The model measured the difference between the hypothetical case without exemptions and the actual composite tax rates. This is a *de facto* "increase." In other words, composite tax rates are higher than they would be without exemptions. This is not a tax hike *per se*. Taxing jurisdictions are not soliciting voter input through referendum and are not constricted by the property tax extension limits like the Illinois Property Tax Extension Law Limit (PTELL) because they are not increasing their levies. Rather the increase is a compensatory effect of not being able to tax the portion of owner-occupied EAV that receives exemptions.

To illustrate this dynamic, **Figure 6** shows increases in composite tax rates for seven municipalities in Cook County. The increases due to exemptions range from 14.45 and 6.42 percentage points in municipalities like Park Forest and Dolton on the high end to increases of 0.26 and 0.12 percentage points in Winnetka and Rosemont on the low end. For example, taxpayers in Dolton would pay an 18.4 percent tax rate without exemptions but removing the residential EAV eligible for exemptions from the base means that taxpayers in Dolton instead pay a 24.9 percent tax rate. This is a difference of about 6.4 percentage points.

Figure 6: Illinois' homestead exemptions provide tax savings to some property owners by raising the composite tax rates on all properties. The extent of this increase varies within Cook County.

Composite property tax rates with and without homestead exemptions, tax year 2021



Source: UIC analysis of Cook County Assessor's Office PTAXSIM data.

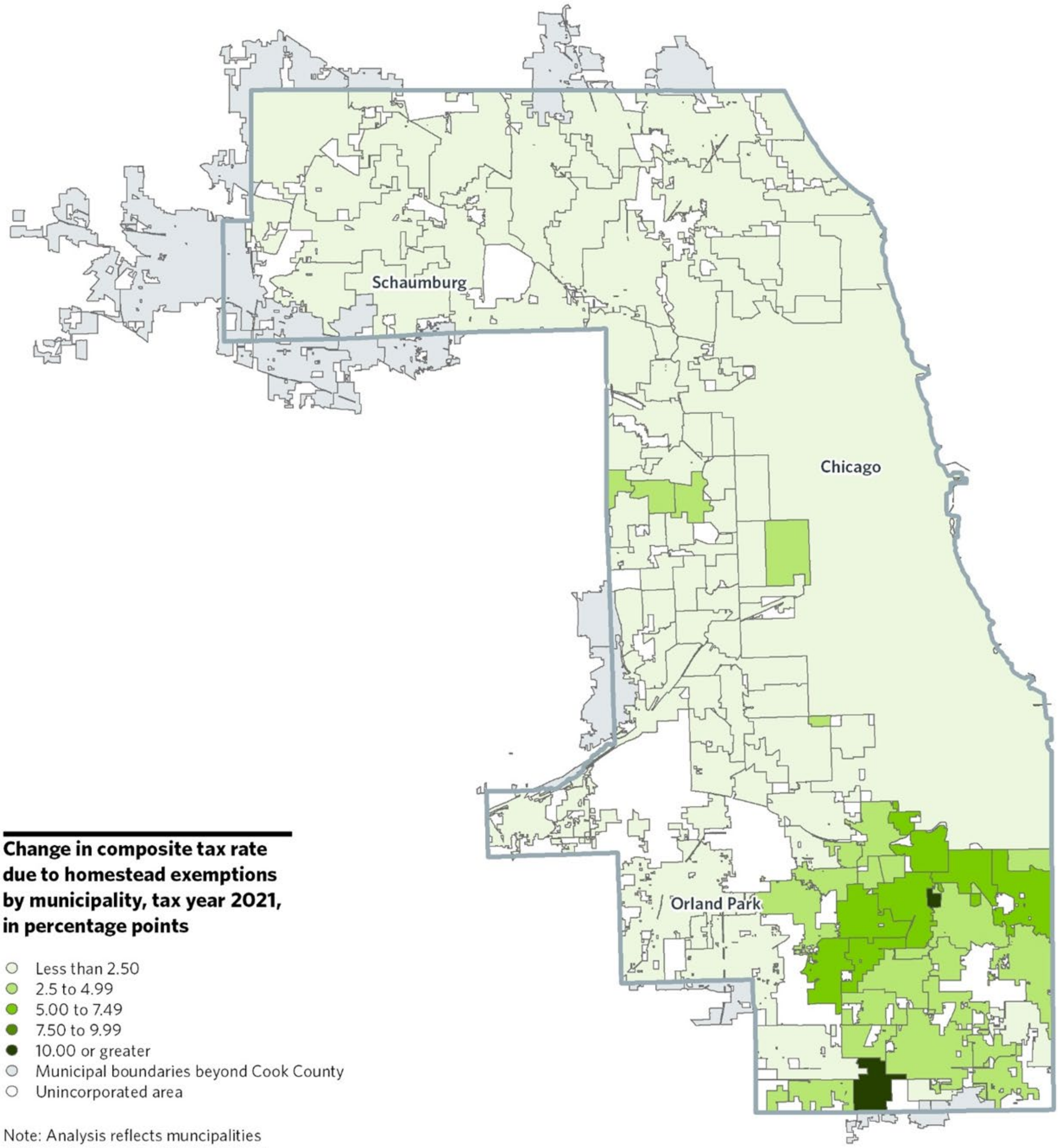
How representative are these seven municipalities of others in Cook County? The median tax rate increase for all municipalities in Cook County in 2021 was 1.4 percentage points. **Table 1** displays some of the municipalities that are at the high and low ends of the distribution, as well as those near the median.

Table 1: Change in composite property tax rates due to exemptions, tax year 2021

Municipality	With exemptions	Without exemptions	Difference (pp)
Park Forest	41.36%	26.91%	14.45
Phoenix	29.81%	16.19%	13.62
Riverdale	30.65%	23.89%	6.76
Hazel Crest	24.25%	17.79%	6.46
Dolton	24.85%	18.43%	6.42
Hillside	13.36%	11.85%	1.51
Prospect Heights	11.38%	9.94%	1.44
Median (Chicago Ridge)	**12.26%**	**11.07%**	**1.40**
Orland Hills	10.61%	9.23%	1.38
Riverside	12.26%	10.89%	1.37
Winnetka	8.64%	8.38%	0.26
Rosemont	10.43%	10.31%	0.12
McCook	12.91%	12.80%	0.11
Bedford Park	13.27%	13.17%	0.10
Hodgkins	10.01%	9.92%	0.09

Note: Includes homestead, senior freeze, longtime homeowner, disabled individual, and veteran exemptions.
Source: UIC analysis of Cook County Assessor 's Office PTAXSIM data.

Figure 7: Spatial patterns show the disproportionate increases in composite property tax rates that result from the use of exemptions in the South and West Suburbs.



Note: Analysis reflects muncipalities with a majority of equalized assessed value within Cook County and does not account for properties located in neighboring counties.

Source: UIC Government Finance Research Center analysis of Cook County Assessor's Office data

The map in **Figure 7** reveals that there is a spatial pattern to these effects. Exemptions disproportionately increase tax rates for taxpayers living in the South Suburbs. The median composite tax rate increase due to exemptions is 1.4 percentage points, but rates in parts of the South Triad increase substantially more. In municipalities like Park Forest and Dolton, tax rates are already higher than average because their tax bases are low relative to expenditures. In places where property values are low, each tax break (for example, the $10,000 reduction under the general homestead exemption) removes a relatively larger share of total EAV, leaving less taxable value to help cover local levies and more ground to make up with tax rate hikes.

Effect on tax burdens

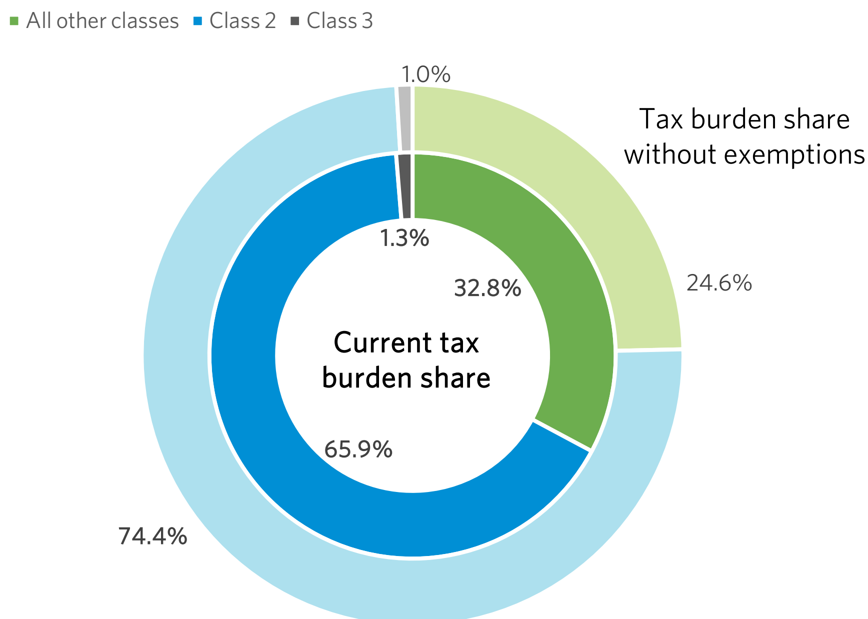
In addition to raising tax rates, exemptions also affect the burden of the property tax — that is, which property or land use types are proportionately more and less responsible for paying the levy. In any municipality, owners of different types of property will pay different shares of the levy in the aggregate. In a suburban bedroom community, for example, owners of single-family homes pay the bulk of budgeted expenditures. In a school district with more mixed land uses, the tax burden of paying for public education is divided between different kinds of owners. The project team does not presume a particular distribution of the tax burden among different property types or even that an ideal distribution exists. Whether and how the taxes paid by property owners relate to the benefits they receive from public expenditures is a matter of judgment and policy determination.

The project team estimated the effects of what would happen to the proportion of the levy paid by different property types if exemptions were eliminated. Exemptions incur within-district changes in the composition of the local property tax base. Specifically, exemptions decrease the share of owner-occupied, Class 2 property in the tax base (because less residential EAV is available to tax) and increase the share of municipal property taxes paid by owners of both rental and commercial-industrial properties.

As **Figure 8** demonstrates, Class 2 properties currently contribute 65.9 percent of the levy in South Suburban Dolton. If homestead exemptions were eliminated, Class 2 properties would account for a higher share at 74.4 percent of the total levy, a difference of 8.5 percentage points. This difference — considered the "burden shift" — is redirected by exemptions from owner-occupied residential properties to commercial, industrial, and multi-family property owners within the municipality's jurisdiction.

Figure 8: Homestead exemptions provide tax savings to Class 2 residential properties by shifting a portion of their tax burden to other taxpayers — primarily commercial and industrial properties.

Share of property tax levy paid in Dolton by different classes of property with and without homestead exemptions, tax year 2021



Source: UIC analysis of Cook County Assessor's Office PTAXSIM data.

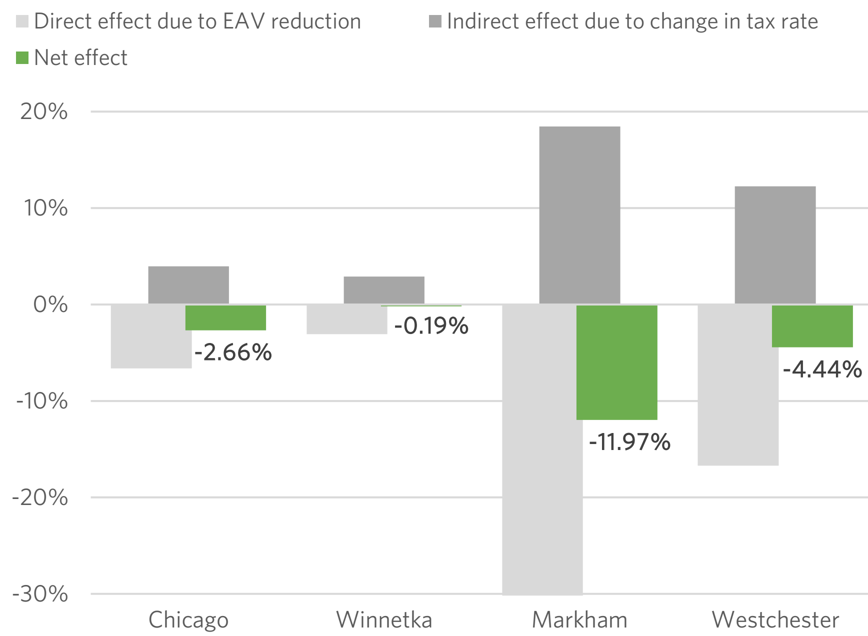
One can think of the combined impact of the initial burden shift and the subsequent increase in tax rates as exemptions' direct and indirect effects (respectively) on homestead properties. **Figure 9** illustrates these effects for four municipalities. The light gray bar is the initial decline in Class 2 properties' share of the local tax burden as exemptions reduce their taxable value, while the dark gray bar represents the subsequent increase as the composite tax rate rises for all properties. The negative green bar represents the net effect: the final shift in tax burden away from Class 2 properties. This illustration shows that the decrease in the share of the municipal levy paid by Class 2 properties due to exemptions is much larger in South Suburban Markham (where the shift is almost 12 percentage points) than in North Suburban Winnetka (where the shift, at a fifth of one percentage point, is barely perceptible).

Figure 9: The net effect of exemptions on who pays for local services and infrastructure depends on both the initial reduction in local residential properties' taxable value and the change in tax rates.

Direct and indirect effects of homestead exemptions on Class 2 properties' share of municipal property tax levy, tax year 2021

Note: Direct effect refers to initial decline in Class 2 properties' share of the local tax burden as exemptions reduce their equalized assessed value (EAV). Indirect effect refers to the subsequent increase as the composite tax rate rises for all properties.

Source: UIC analysis of Cook County Assessor's Office data.



As demonstrated in **Table 2**, the median burden shift away from Class 2 property was approximately 4.5 percentage points in 2021. In all Cook County municipalities, the shift to commercial and industrial property is greater than it is to Class 3 (multi-family residential property). In other words, non-residential uses bear most of the cost of homestead exemptions.[21] While tax rates rise for all property owners, the overall shift to multi-family properties is limited by the small share of such properties in many suburban communities as well as by how higher rates interact with the different assessment ratios on residential and non-residential land uses under Cook County's classification system. More analysis is needed to understand how the burden shift ultimately affects renters. Without information on rents, it is difficult to conclude how much of the increased tax bill on multi-family properties (and rental commercial properties) is passed through to tenants.

As with the increase in composite tax rates, industrial, commercial, and multi-family property owners most affected by the burden shifts are spatially concentrated in the South Suburbs, although the effects are a little more evenly distributed (and extend to some Western Suburbs) than for the increase in composite tax rates.

[21] Reclassifying properties as "owner-occupied" and "renter-occupied" using minor property classifications (instead of major Classes 2 and 3) reveals the effect on renters to be greater than initial estimates. Compared to the analysis of major classes, in West Suburban Maywood and River Grove, the burden shifts by about one percentage point more from owner-occupied to renter-occupied homes. In other words, decisions about classification can obscure important differences in how burdens shift across tenure types due to exemptions.

Table 2: Change in the share of property tax burden due to exemptions for single-family, multi-family, and commercial and industrial properties, tax year 2021

	Single-family share without exemptions	Single-family share with exemptions	Difference in share of property tax burden due to exemptions		
			Single-family	Multi-family	Commercial and industrial
Calumet Park	57.03%	43.17%	-13.86	2.22	11.66
Riverdale	55.26%	42.86%	-12.40	2.90	9.49
Markham	60.60%	48.63%	-11.97	0.04	11.95
Harvey	49.33%	37.86%	-11.47	0.45	11.11
Burnham	55.34%	43.90%	-11.44	0.75	10.68
Median (Burbank)	**79.74%**	**75.22%**	**-4.52**	**0.31**	**4.22**
Schaumburg	43.17%	38.70%	-4.47	0.38	4.11
Elk Grove Village	36.03%	31.59%	-4.44	0.13	4.31
Westchester	73.41%	68.97%	-4.44	0.00	4.44
Palos Hills	81.36%	77.00%	-4.36	0.67	3.70
Inverness	96.1%	95.8%	-0.29	0.00	0.29
Glencoe	94.1%	93.9%	-0.21	0.01	0.20
Winnetka	93.9%	93.7%	-0.19	0.03	0.15
Barrington Hills	96.9%	96.8%	-0.11	0.00	0.12
Kenilworth	97.0%	97.0%	-0.08	0.01	0.07

Note: Single-family is all Major Class 2 properties. Multi-family is Major Class 3 and 9. Commercial and industrial is all other properties. Exemptions include the homestead, senior freeze, longtime homeowner, disabled individual, and veteran.
Source: UIC Analysis of Cook County Assessor's Office PTAXSIM data.

How do exemptions affect individual taxpayers?

The marginal cost of public expenditures for a household is often referred to as the household's "tax-price" of public spending. The tax price ultimately becomes the liability of each individual property owner and taxpayers. As **Table 3** illustrates, residential property owners who do not claim exemptions experience an increase in their tax bills due to exemptions. Moreover, those who do claim them may see greater savings reported on their tax bills than they actually experience — because the value of each exemption as it appears on the homeowners' tax bills fails to account for the increase in composite tax rates from a diminished tax base.

The project team examined properties that had similar assessed values to control for the vast differences in average and median property values across municipalities. It specifically examined properties in three municipalities: one with low average home values (Dolton), high average values (Glencoe), and a diverse mix of values (Chicago). The team identified the current (tax year 2021) bills of Class 2 properties with an assessed value near $15,000 (between $14,500 and $15,500) and compared them to the results of the simulation if the general homestead exemption were eliminated in these three municipalities. Taxpayers within each municipality pay identical composite tax rates in each scenario.

Table 3: Estimated impact of the general homestead exemption on Class 2 properties with assessed values of $15,000 in Chicago, Dolton, and Glencoe, tax year 2021

Class 2 properties	Municipality	Current tax bill	Tax bill without general homestead exemption	Difference	Perceived savings
Taxpayers who do not claim general homestead exemption	Chicago	$3,026	$2,771	+$255	$0
	Dolton	$10,839	$8,909	+$1,931	$0
	Glencoe	$4,307	$4,194	+$113	$0
Taxpayers who do claim general homestead exemption	Chicago	$2,642	$3,034	-$392	-$672
	Dolton	$9,368	$9,679	-$311	-$2,792
	Glencoe	$4,146	$4,968	-$821	-$955

Note: To smooth variation and eliminate idiosyncratic observations, hypothetical tax bills were generated for properties with similar assessed values in tax year 2021 (between $14,500 and $15,500). Data reflect only results with and without the general homestead exemption. "Perceived savings" refers to the value that taxpayers would see on their actual tax bill equal to their exempt EAV multiplied by the composite tax rate.
Source: UIC analysis of Cook County Assessor's Office PTAXSIM data.

The results above show that Class 2 taxpayers who did not claim the general homestead exemption would have smaller tax bills if that exemption were eliminated. Importantly, these results vary widely by municipality. The taxpayer in Dolton would pay an increase almost ten times higher (with a difference of $1,931) than the owner of a similarly valued house in Chicago ($255) and almost twenty times as much as the taxpayer in Glencoe ($113).

Taxpayers who do claim the general homestead exemption are not benefiting as much from the exemption as it first appears. The difference between the stated savings on individuals' tax bills due to exemptions and the true savings for taxpayers varies by municipality. The owner of a home in Dolton with a $15,000 assessed value sees a benefit of $2,792 from the general homestead exemption on their tax bill. However, they only enjoy a decrease of $311 in their final tax bill when accounting for the higher composite tax rate caused by the homestead exemption. Meanwhile, the owner of a home with a $15,000 assessed value in Chicago sees a more realistic savings on their actual bill. The $672 they are told they are saving is not so far off from the actual $392 savings due to the increased composite rate. In Glencoe, homestead exemptions result in the largest savings, cutting the taxpayer's bill by $821 — close to what they are told they are saving at $955.

As mentioned above, the tax savings of those who claim exemptions comes at the expense of those who do not or cannot claim them. Issues of uptake can have important equity effects. For example, previous research shows that white homeowners of higher-valued homes tend to disproportionately claim exemptions.[22] Homeowners who fail to claim all qualifying exemptions may see substantially higher tax bills. This is also likely for many owners of rental properties and

[22] Keith Ihlanfeldt. "Property tax homestead exemptions: An analysis of the variance in take-up rates across neighborhoods." *National Tax Journal* 74, no. 2 (2021): 405-430.

commercial-industrial properties that are not eligible. Moreover, exemptions have very little negative impact on taxpayers in municipalities with high residential property values like Glencoe, but much more in municipalities like Dolton, where both owners who do and do not take exemptions experience large effects.

What explains the differential tax effects of exemptions?

The exact amount by which tax rates increase or burdens shift depends on the share of the residential tax base consumed by exemptions, which itself is a factor of the number of households claiming the exemption and the average home values in the municipality. It also depends on the mix of land uses in each taxing district.

Exemption share. Exemptions will have a greater effect in places where many homeowners take them and where their value is high relative to the residential tax base. The rate of exemption uptake in Cook County is high, especially for single-family homeowners. Roughly 70 percent of these properties take the general homeowner exemption. Future analysis could look at patterns and potential drivers of who does and does not claim exemptions in Cook County. Academic research has found that rates of exemption uptake are positively correlated with home value and places that allow online and mail-in applications, as opposed to a required in-person visit.[23]

As can be seen in **Table 4**, municipalities with higher exemption shares also will be those where the denominator is lower (i.e., those with lower-valued owner-occupied homes). The general homestead and senior homestead exemptions both reduce final taxable values by a flat, statutorily defined dollar figure and will naturally result in a larger percentage reduction for lower-valued homes. As a result, exemptions offset a greater share of total residential EAV in communities with lower average property values, such as in Phoenix and Park Forest. Municipalities such as Kenilworth and Winnetka have some of the highest shares of residential EAV in Cook County. For these municipalities, total exemptions accounted for around 3 percent of both total and residential EAV in 2021. The exemption share will change because of the addition of new properties, the destruction of old properties, and changes in the value of existing properties.

[23] Keith Ihlanfeldt. "Property tax homestead exemptions: An analysis of the variance in take-up rates across neighborhoods." *National Tax Journal* 74, no. 2 (2021): 405-430.

Table 4: Municipalities with the largest and smallest reductions as a share of residential EAV due to exemptions and median property values

	Value of exemptions as a share of residential EAV	Median property value for Class 2 residential
Cook County	12.2%	$198,900
Municipalities with the largest reductions as a share of residential EAV due to exemptions		
Dixmoor	46.0%	$37,200
Phoenix	45.4%	$35,000
Park Forest	44.4%	$61,000
Markham	39.1%	$52,600
Municipalities with the smallest reductions as a share of residential EAV due to exemptions		
Glencoe	3.8%	$708,800
Barrington Hills	3.7%	$599,600
Winnetka	3.2%	$829,300
Kenilworth	2.9%	$1,016,600
Note: Property value refers to the fair market value of property for tax purposes in tax year 2021. Source: UIC analysis of Cook County Assessor's Office PTAXSIM data.		

Land use mix. The tax effects of exemptions also depend on the taxable value of the non-homestead properties; the greater the relative share of non-residential land uses available to carry the higher rate, the greater the burden shift (and the greater the value of the exemption is to the homestead properties). The contemporary mix of different land uses is the result of accumulated historical developments and policies, including zoning and tax policies, redlining (racially discriminatory lending), and sorting across the region caused by differences in demographics and public service quality.

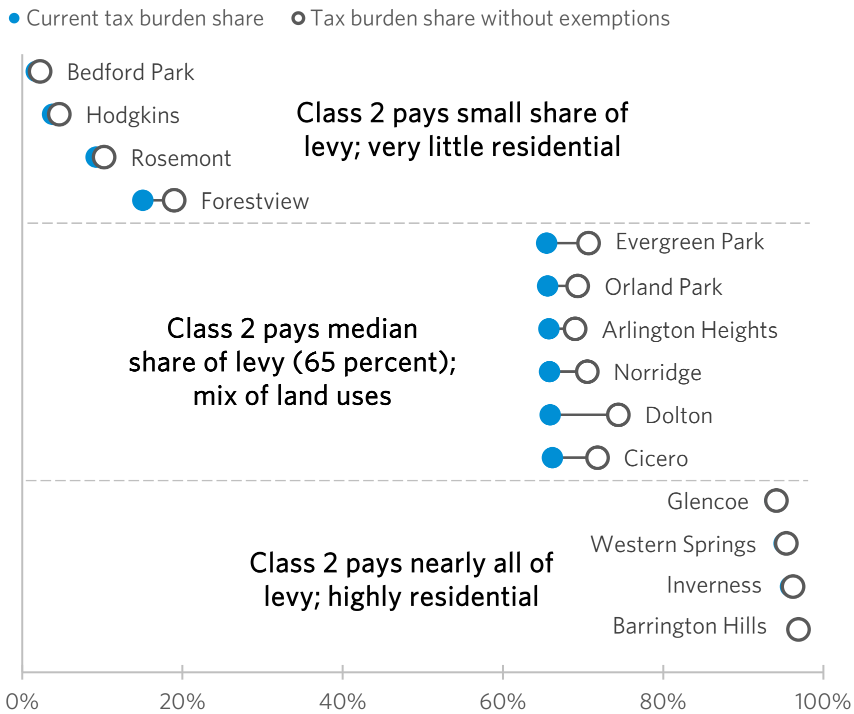
Exemptions do not have much effect in homogeneously residential communities. In those cases, there are few other land uses to take on the greater burden. In communities of higher-valued residences such as Winnetka and Kenilworth, tax rates will not need to increase very much to compensate for exemptions because the non-exempt portion of the tax base is large. In communities of lower-valued residences, exemptions will reduce taxable values substantially, but then the tax rate applied to those same residences will need to increase by a similarly large amount to maintain local governments' tax levies.

The impact of homestead exemptions on total EAV will also be marginal in municipalities where commercial and industrial properties comprise a greater share of the tax base. For example, industrial suburbs like Bedford Park and McCook have some of the lowest shares of residential EAV in Cook County. For these municipalities, exemptions comprised only 0.6 percent of *total* EAV in tax year 2021. However, they were equal to 16 percent (McCook) and 32 percent (Bedford Park) of *residential* EAV because of the municipalities' lower-valued homesteads.

In contrast, it is municipalities with a more diverse mix of land uses but low average residential property values where the burden shifts and tax rate increases are the greatest. This group is most vulnerable to the negative consequences of exemptions, such as their potentially chilling effect on economic development.

Figure 10: The extent of the tax burden shift away from Class 2 properties due to exemptions depends on local conditions like the mix of residential and non-residential land uses.

Share of municipal property tax levy paid by Class 2 properties with and without homestead exemptions, tax year 2021



Source: UIC analysis of Cook County Assessor's Office PTAXSIM data.

In Cook County, these municipalities are concentrated in the South Suburbs. In Park Forest, for example, 78 percent of the total municipal EAV is in Class 2 residential properties, leaving the remaining 22 percent of properties by value to absorb the additional tax burden. Due to low average property values, exemptions remove nearly 54 percent of the municipality's residential EAV from taxation, the second greatest share in Cook County. Model estimates show that Park Forest has a composite tax rate more than 14 percentage points greater than where it would need to be to collect the same amount of property tax revenue in the absence of exemptions.

Other South Suburban municipalities with comparable characteristics also have large tax rate increases due to exemptions. The modeled tax rate increases in Riverdale (6.8 percentage points), Dolton (6.4), and Markham (6.2), while still very large compared to most of Cook County, are less than half the size of those in Park Forest and Phoenix. In Riverdale, Dolton, and Markham, exemptions account for smaller shares of residential EAV (40 percent, 34 percent, and 39 percent, respectively) than in Park Forest and Phoenix, and there is a larger non-Class 2 property base to absorb the shift in tax burden (45 percent of municipal EAV in Riverdale, 28 percent in Dolton, and 45 percent in Markham). For example, Markham hosts logistics and e-fulfillment centers, and Riverdale has manufacturers and steel fabricators that will take on a greater burden due to exemptions (although these owners may themselves be the recipient of property tax relief from commercial and industrial incentives).

Zero-dollar tax bills

The application of homestead exemptions causes some residential properties in Cook County to have zero tax liability. The total value of exemptions for which these properties are eligible exceeds the taxable value in the absence of exemptions.** While frequently cited as a negative effect of exemption use, zero-dollar tax bills are *not* an important factor in determining property tax revenues or overall tax structures. These are all relatively low-valued properties and would owe only small amounts of property taxes in the absence of exemptions. One might even take the position that the owners of these properties do not receive all the tax relief that homestead exemptions are designed to provide, exactly because their properties do not contain enough value against which to apply the full exemptions.

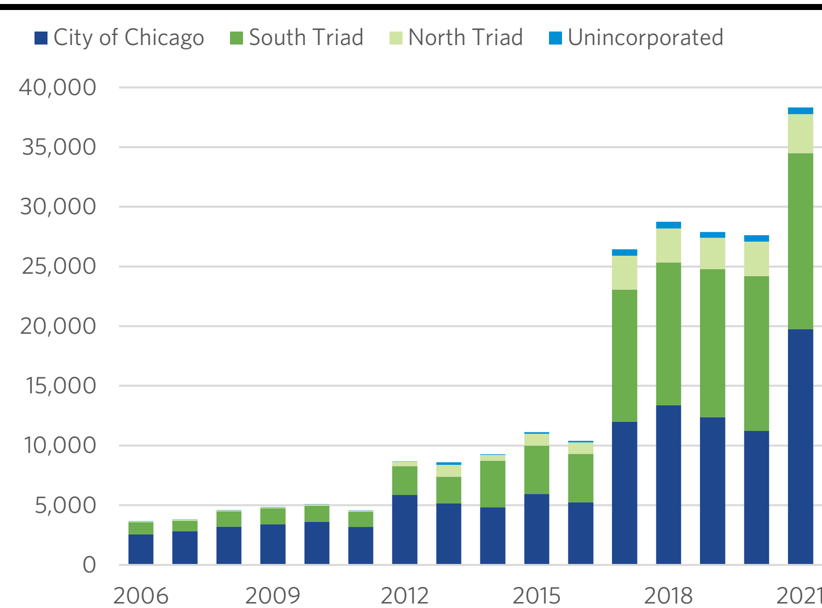
Two reasons why these properties might be of concern are:

- The combination of low property values and property tax exemptions may lead these properties — and their owners — to be uninvolved in the local tax and spending decisions. There may be rationales to prevent zero-dollar tax on grounds of local participation.
- Zero-dollar tax bills may reflect other substantive issues in the property tax system. They are a symptom — not a cause — of large discrepancies in property value across fragmented taxing districts. Most are located in areas with a narrower tax base and few revenue options. Some zero-dollar tax bills also result from the application of multiple types of exemptions, and it is not clear whether policymakers intended to permit exemptions to be "stacked" such that negate taxable property value is negated entirely.

Throughout Cook County, few Class 2 properties have zero tax liability — fewer than 1 percent of properties in tax year 2021. But the share or zero-dollar tax bills has been growing over time, with significant jumps corresponding to legislative increases in the value of exemptions (see **Figure 11**). These properties are located primarily in the City of Chicago and in the South Triad. Relatively few are located in the North Triad, given the area's higher average home values. The incidence of zero-dollar tax bills in some municipalities is much higher than average. In tax year 2021, the share of Class 2 properties with zero tax liability was 23 percent in Ford Heights, 19 percent in Phoenix, 16 percent in Dixmoor, 15 percent in Markham, and 14 percent in Harvey.

Figure 11: The number of zero-dollar tax bills has risen since increases in the value of homestead exemptions took effect in tax year 2017, particularly in the Chicago and the South Triad.

Class 2 properties with zero-dollar tax bills by Cook County property tax reassessment triad, tax years 2006-21



Note: Data represent only Class 2 properties with at least $150 in equalized assessed value. Illinois county clerks may cancel all tax on properties below this value (35 ILCS 200/18-40).

Source: UIC analysis of Cook County Assessor's Office PTAXSIM data.

*** Zero-dollar tax bills due to exemptions are distinct from properties for which the taxable value is small enough that the Cook County Clerk waives the property tax entirely. Illinois statutes permit county clerks to exclude any property in any year that has an EAV less than $150 from the imposition and collection of the property tax (35 ILCS 200/18-40). The Cook County Clerk has done so at least for tax years 2006 through 2021.*

Understanding the public purpose of homestead exemptions

Illinois' homestead exemptions result in property tax savings for homeowners that in practice are funded by a tax burden shift to businesses and renters through higher tax rates. This is the primary feature — not a bug — in their program design, and it can have unintended effects, as discussed above.

Given these effects, Cook County is now questioning if and how the use of exemptions might change. Options could include reforms to their eligibility requirements, benefit calculations, administration, funding sources, geographic availability, and applicable taxes. Potential reforms would need to consider more deliberately what these tools are meant to achieve so their program designs better balance the desired outcomes and expected tradeoffs.

Notably, state statutes do not establish the public purpose of the exemptions, nor do they provide an economic rationale for their various design elements like income caps, eligible home values, or exemption levels.[24] The original policy intention behind each exemption is not clear, which creates challenges today evaluating their performance and weighing their broader effects on property tax rates and local fiscal conditions.

Despite criticisms, homestead exemptions can be used to advance a variety of state and local objectives if paired with other policies and equipped for improvement over time.[25] Both policy research and Illinois' own historical record point to a variety of potential uses, including:

- **Lowering local tax bills:** Property tax bills require large, direct, infrequent, and visible payments that can strain households and businesses. Many taxpayers find them more painful than even a higher burden paid through hundreds of small transactions or payroll withholdings.[26] Homeowners also tend to be "watchful citizens" with greater involvement in local politics and an interest in minimizing the risk posed by local tax and spending decisions to their primary financial asset — their homes.[27] Exemptions are used nationwide to address homeowners' demands for lower local tax bills.
- **Improving tax progressivity**: Inherent challenges in assessing very high value and very low value properties can undermine vertical equity (i.e., properties with different levels of value experience different effective tax rates) and further disadvantage people with lower incomes or less wealth. In some cases, well-structured exemptions (particularly

[24] The Illinois Constitution specifically permits the General Assembly by law to grant homestead exemptions and rent credits as well as to completely exempt certain types of property from taxation (Illinois Constitution 1970, Article IX, Section 6). Exemptions are then enabled primarily by amendments to the Illinois Property Tax Code (35 ILCS 200/). The enabling statutes do not require corresponding legislation by county governments, which have jurisdiction over granting and administering exemptions to eligible applicants. Related tools have appeared elsewhere in state statue, including the Longtime Owner-Occupant Property Tax Relief Act (35 ILCS 250/) and the Senior Citizens Real Estate Tax Deferral Act (320 ILCS 30/).
[25] Langley and Youngman, "Property Tax Relief for Homeowners."
[26] Ronald Fisher, "Property Taxes for Local Finance: Research Results and Policy Perspectives" Lincoln Institute of Land Policy, January 2009, https://www.lincolninst.edu/publications/working-papers/property-taxes-local-finance.
[27] Willim A. Fischel, The Homevoter Hypothesis (Cambridge, MA: Harvard University Press, 2002).

flat-dollar reductions available to all homeowners) have been shown to help offset the effects of inaccurate assessments and make the property tax more progressive.[28]

- **Sheltering people at risk**: Residents may lose access to housing if they are unable to pay their tax bills due to a financial setback or a rapidly appreciating market. This is especially true for marginalized residents like people with disabilities or seniors on fixed incomes, as well as those who have historically faced challenges accessing financial services like veterans. Exemptions targeted to certain subgroups — together with other credits, deferrals, or payment options — can help to promote housing security for at-risk groups.
- **Promoting redevelopment**: Aging properties can fall into disuse, disrepair, and disinvestment when homeowners are unable to maintain or modify them in line with shifting market demand. Flat-dollar exemptions can counteract this cycle by providing relatively more relief to lower-valued and depreciating homes, while those for new construction or capital improvements can lower the tax burden on new investments. Exemptions may need to be tailored to accomplish this goal in weak market areas, where broader challenges like a declining tax base, greater service costs, and higher tax rates further discourage would-be residents and investors Similar tools may be used to encourage climate retrofits and specially adapted housing for residents with disabilities.

A clearer public purpose could guide choices in how homestead exemptions are designed, administered, and funded. In Cook County, property tax classification and other policies already do much to offset the potential tax burden on residential properties.[29] Distinguishing the particular role for exemptions in this mix could help to determine what changes would ensure they are fit for purpose. Academic research supports the ideas listed above.[30] But more work is needed to understand how large of a reduction is required to have the desired effects in different contexts.

In lieu of a definitive legal or academic rationale for exemptions, the project team took a three-pronged approach to understand Illinois' current approach: a) reviewing the conclusions and recommendations of prior reviews of the state's property tax system; b) analyzing recent legislative proposals that would deepen, broaden, or diversify the homestead exemptions; and c) assessing the purpose and design of homestead exemptions in other states. The following sections summarize key findings from this work.

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[28] Ron Rakow. (2023). Comparative measures of property tax equity in Suffolk County, Massachusetts. Journal of Property Tax Assessment & Administration, 20(1). Retrieved from https://researchexchange.iaao.org/jptaa/vol20/iss1/2.

[29] Chicago Metropolitan Agency for Planning, "Property tax burden in the Chicago region," November 2017, https://www.cmap.illinois.gov/updates/all/-/asset_publisher/UIMfSLnFfMB6/content/property-tax-burden-in-the-chicago-regi-2. Chicago Metropolitan Agency for Planning, "Cook County property tax classification effects on property tax burden," November 2014, https://www.cmap.illinois.gov/updates/all/-/asset_publisher/UIMfSLnFfMB6/content/cook-county-property-tax-classification-effects-on-property-tax-burden.

[30] See for example: Ihlanfeldt, Keith, and Luke P. Rodgers. "Homestead exemptions, heterogeneous assessment, and property tax progressivity." *National Tax Journal* 75, no. 1 (2022): 7-31 and McMillen, Daniel, and Ruchi Singh. "Assessment regressivity and property taxation." *The journal of real estate finance and economics* 60 (2020): 155-169.

Illinois' shifting approach to property tax relief

The Illinois General Assembly (ILGA) has repeatedly studied the state's property tax system and made recommendations for reform since exemptions first went into effect. While their policy prescriptions vary, these task forces and commissions have come to similar conclusions about structural issues in how Illinois funds public services and schools in particular. Homestead exemptions have featured to varying but lesser extents. These state-level studies include:

- State of Illinois Tax Reform Commission, 1982 (Furman Commission)
- Governor's Commission on Education Funding, 1996 (Ikenberry Commission)
- Governor's Commission on Property Tax Reform, 1998 (Bramlet Commission)
- Illinois General Assembly's Property Tax Reform and Relief Task Force, 2009
- Illinois General Assembly's Property Tax Relief Task Force, 2019[31]

While property tax relief is frequently cited as an organizing principle, these five reports tend to focus more on ways to rebalance the sources of tax revenue, restructure education funding, limit or offset the proliferation of taxing districts, and improve the administration of the property tax. When discussed, exemptions are usually not a prominent aspect of their final recommendations. Some reports outline the unintended effects that exemptions have on tax rates and tax burdens as well as the potential of alternative "circuit breakers" to give more tailored relief.[32] But related strategies are generally not a main focus — suggesting that other aspects of the property tax system are consistently judged to be of higher priority.

The December 1982 report of the Furman Commission provides recommendations regarding homestead exemptions and introduces the idea that they can be used to improve progressivity. At multiple points, the report asserts that "exemptions for the elderly and homestead property taxpayers reduce horizontal equity" (i.e., homes with similar values become more likely to see very different tax bills) and that the resulting tax benefits are not well-connected to different homeowners' actual ability to pay. The Furman Commission concluded that "exemptions and preferential treatment" move the property tax further away from a true *ad valorem* tax. It ultimately recommends that the state "provide for sunset legislation relating to all statutory exemptions" and make "review and positive action… mandatory for retaining them."

The Furman Commission also looked at an alternative approach of using a state-level circuit breaker to do more to "lessen regressivity." It recommended that the state consider replacing the general and senior homestead exemptions with a "state grant (circuit breaker) type of program to protect low-income owner-residents and low-income senior citizens." But the report does not give further detail beyond this topline recommendation. These findings preceded a later shift toward means-tested programs like the senior freeze and longtime homeowner exemption.

Subsequent commissions and task forces highlighted similar issues with exemptions but did not provide the same level of specificity or recommendations as the Furman report. The Ikenberry

[31] A draft report of the Illinois General Assembly's most recent Property Tax Relief Task Force was never formally published but is widely available online. Although final conclusions and recommendations were never adopted, the draft report provides a look into members' primary concerns.

[32] Circuit breakers prevent a property tax "overload" by crediting back the portion of property tax payments that exceed a certain share of household income to better account for a household's ability to pay.

Commission, charged with developing an action plan for reforming education funding in Illinois, identified "granting substantial property tax relief" as a central principle in its 1996 report. But none of its nine recommendations for relief address homestead exemptions.[33] Two years later, the Bramlet Commission's report looked at the possibility of a "tax swap" to rebalance the state and local revenue mix. It ultimately concluded that a simple and straightforward plan was infeasible until multiple structural problems were addressed.[34] Core to the debate were mechanisms that might deliver tax relief to both residential and commercial properties through an expanded income tax. But it fails to mention either exemptions or alternative programs like a circuit breaker.

More recently, the 2009 ILGA task force again reviewed (although superficially) the impacts of exemptions on regressivity and tax rates. As context for its final recommendations, the report states, "some [task force members] assert that homestead exemptions do not target relief to the poorest households; they prefer that the amount of the homestead exemption be based on household income, or a combination of income and property value." The report highlights the illusory relief that exemptions can provide when the displaced tax burden is shifted back onto residential properties themselves or reduce revenues in communities with rates already at maximum levels. In lieu of changes to the homestead exemptions, it ultimately recommends an expanded circuit breaker program[35] and an increase to the qualifying income under the Senior Real Estate Tax Deferral Program.

Ten years later, the 2019 ILGA task force reached the similar conclusion that "savings can be illusory" but stopped short of recommending any significant overhaul. Its unpublished draft report instead discusses raising exemption values in the collar counties to match those authorized for Cook County and providing an unspecified "10 percent state rebate on the total amount of the property tax bill" to those that qualify for a homestead exemption. No further detail is provided on this rebate.

Recent legislative attention on homestead exemptions

Proposals to reform the state's homestead exemptions today continue to reflect historical debates over their utility and drawbacks. Between January 2019 and March 2023, nearly 200 bills were introduced in either house of the General Assembly to make changes. Introduced bills are not a consistent measure of lawmakers' attention or intensity of feeling on this particular issue — only eight have actually passed into law. But reviewing these legislative attempts to reform exemptions reveals some of the current thinking on their role and purpose.

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[33] Recommendations focus instead on establishing both minimum and maximum property tax rates for education and increasing the state's share of school funding.

[34] Issues cited included that a swap would provide greater relief to businesses than households, that a swap would not prevent property taxes from increasing, that a geographic balance of relief and new revenue would be unlikely, and that a proliferation of taxing jurisdictions would complicate any swap.

[35] Between 2000 and 2012, the Illinois Department of Aging offered a circuit breaker grant program for residents over age 65 years and people with disabilities earning below specified income thresholds (up to $45,657 for three or more occupants). It gave approximately a quarter-million grants each year, averaging about $200 per grant. Annual funding peaked in calendar year 2005 at $59.6 million before decreasing to just over $24 million in the fiscal year 2011 state budget. By fiscal year 2013, state funding had been discontinued. Authorization for the program remains in place under the Senior Citizens and Persons with Disabilities Property Tax Relief Act.

Taken together, recent legislative activity suggests that Illinois lawmakers are eager to offer greater property tax relief to homeowners they believe warrant assistance. They highlight residents who may be owed a debt by society, adversely impacted by market conditions beyond their control, or straining to meet basic needs. If adopted, these bills would also increase the number and value of exemptions in Cook County and fuel the associated tax effects discussed above. The extent of these effects would depend on specific design choices like their eligibility requirements or exemption levels. The introduced bills reviewed for this analysis do not specify a guiding public purpose or economic rationale. The following subsections summarize recent proposals.

Deepening benefits and broadening access to existing exemptions

Perhaps the most likely and substantial change to anticipate is an increase in the value of the general homestead exemption, given recent inflation. Available to all owner-occupied primary residences, it accounts for approximately two-thirds of the total EAV reduction in Cook County due to exemptions. Its maximum value has been increased eight times since first introduced for tax year 1978 — about every 3.5 years on average. It was last increased from $7,000 to $10,000 for tax year 2017, resulting in a total EAV reduction that was $2.9 billion (28.5 percent) greater than the year prior. Increases to the general homestead exemption tend to accompany those for the senior homestead exemption and senior freeze as well. But few recent bills pursue changes to these largest and broadest programs. Introduced bills have mostly proposed to bring all counties on par with the maximum values set for Cook County across the three exemptions. Some have suggested going further by raising the senior homestead exemption to $10,000 in Cook County (currently $8,000) and in the case of one proposal, raising the general homestead exemption to $50,000.

Most related bills focus on expanding eligibility, raising awareness, or lowering administrative hurdles so more people can use programs that make up relatively small portions of current activity. Lawmakers also frequently seek to target aid toward groups that speak to social values like honoring military service. The exemption types most often cited in legislation include:

- **Senior freeze:** Proposals regularly try to raise the income cap on the means-tested senior freeze (currently $65,000) to between $70,000-$85,000 (most frequently $75,000) and tie the new limit to inflation. Other bills would prevent the exemption amount from dropping if a recipient moves and allow applicants to make deductions from their qualifying income for Medicare premiums, required minimum distributions from a retirement annuity, or wages paid to a household member with disabilities.
- **Veterans with disabilities:** At least 27 bills would extend benefits to surviving spouses of qualifying veterans with disabilities, including those who die in the line of duty, while their application is being reviewed, or prior to the spouse relocating to Illinois. Several would adjust the maximum exemptions offered at different disability ratings (as assigned by the U.S. Department of Veterans Affairs) — for example, giving a $1,000 exemption to those with a service-connected disability between 10-30 percent or fully exempting those more than 60 percent disabled. Others would remove the requirement that the home must have an EAV under $250,000.
- **Longtime homeowner exemption:** One bill would flatten the income cap to $85,000 (currently either $75,000 or $100,000) and lower the maximum assessment increase to 5 percent (currently 7-10 percent depending on income).

Recent bills focus less on maximizing the participation of already-eligible residents. To improve public awareness, lawmakers have suggested requiring real estate brokers and agents to supply homebuyers with exemption applications and county officials to develop a communications policy around certain real estate transfers where active exemptions would need to be renewed or ended. During the COVID-19 pandemic, Public Act 101-0453 (2019) temporarily halted the need for Cook County residents to reapply annually for the senior homestead exemption. Similar bills have been introduced to drop renewal requirements under the general homestead exemption and more specifically for certain veterans with disabilities and surviving spouses, people with visual impairments expected to last longer than 12 months, and seniors who consent to having income tax data shared with their county assessor, among others.

Expanding the scope of homestead exemptions

In the past several years, legislators have also proposed new exemptions that could significantly expand the scale and scope of these tools in Illinois. Most are comparatively low value (typically between $1,000-$5,000), but some would apply to broader swaths of Cook County taxpayers -- with uncertain consequences. While most are not expected to pass, they demonstrate legislators' search for ways to deliver property tax relief across a wide range of contexts. Proposed exemptions include:

- Active-duty military, law enforcement, rescue workers, those with a service-connected disability, and a surviving spouse or parent
- First-time homebuyers for properties worth more than $75,000
- Income-qualified seniors without household members in K-12 (school salary levies only)
- Primary residences (to receive a minimum $10,000 exemption on school levies)
- 'Middle-class taxpayers' with incomes up to 200 percent of the state median
- New homebuyers (subject to a countywide voter referendum establishing a community stabilization freeze)
- Landlords with a demonstrated financial burden due to a COVID-19 eviction moratorium
- Persons eligible for or receiving federal Supplemental Security Income
- Veterans of World War II
- Commercial properties with businesses operated by veterans with disabilities (to be taxed as residential properties)
- New residential construction in county-designated areas (to receive a 50 percent exemption for 10 years or until sold)
- Properties within a county-designated flood zone or where a stormwater retention basin has been constructed during the tax year
- Properties within the noise contour of O'Hare International Airport
- Properties within 1,000 feet of a new-build industrial or business park

Shaping the future of Cook County's homestead exemptions

Despite ongoing legislative attention and study, Illinois appears to lack a consistent direction for its property tax relief programs. The sections above show a recurring awareness of the potential tradeoffs of homestead exemptions but limited progress in resolving them. To the extent that Cook County wants to address these issues, the project team has identified three broad courses of action, including:

- **Responding to future legislative proposals:** Recent ILGA activity shows legislators' search for modifications and alternatives to the current exemptions. This churn is likely to continue in upcoming legislative sessions given the high inflation, rapid home appreciation, and property tax increases seen over the past three years. But the wide range of proposals points to the need for a better evidence base, defined principles for the use of exemptions, and stronger standards for evaluation and impact analysis prior to major program changes. The analysis above offers an initial approach to assess if proposals are fit for purpose and could shape their use over time.
- **Funding homestead exemptions differently:** One of the most significant factors shaping the impacts and benefits of exemptions is which unit of government bears the often-unrealized "cost" of providing them. When funded locally, the foregone revenue due to exemptions is typically made up through higher composite tax rates. But other levels of government can reimburse local taxing districts for all or part of the costs of these programs — in effect, providing tax relief to homeowners from other revenue sources while preventing property tax rates from climbing. National examples provide a range of alternative funding models.
- **Targeting aid through program redesigns:** A clearer public purpose could guide other choices in how new and existing homestead exemptions are designed. Options include changes to their eligibility requirements, benefit calculations, administration, geographic availability, and applicable taxes. For example, the state might consider provisions that limit the use of exemptions on municipal or school levies, shift the current programs to a local option, consider means-tested alternatives, or phase out exemptions for higher-valued homes. To constrain costs and mitigate the tax effects outlined above, these choices would need to limit some homeowners' access to tax savings through the larger, broad-based programs like the general homestead or senior homestead exemptions as well as the senior freeze. *Given Cook County's priorities, these options are not fully explored here and offer opportunities for future research.*

The following subsections provide more information and national examples for these paths, without making recommendations for a preferred alternative. Many of the ideas outlined below can be combined, workshopped, and analyzed further based on Cook County's goals.

Responding to future legislative proposals

Illinois' homestead exemptions are state-granted entitlements and tax benefits that can have significant, disparate effects for local communities. The project team's analysis, feedback from Cook County officials, and the state's historical record suggest that related ILGA actions often do not reflect an understanding of their full fiscal effects. Given a common desire to aid homeowners through exemptions, more work can be done to vet legislative bills so that policymakers have reliable information about their tradeoffs and how they can be improved.

Policy research has increasingly encouraged lawmakers to include public purpose statements, performance measures, impact analysis requirements, and provisions for regular evaluations when authorizing tax credits and business incentives.[36] This movement highlights some of the

[36] A 2018 review by CMAP outlined how 27 states and the District of Columbia require some form of evaluation for economic development incentive programs. In 2017, the Governmental Accounting Standards Board also issued

key questions that state and local officials can consider when crafting changes to the homestead exemptions, including:

- **Why is the action being proposed, and what do sponsors expect it to achieve?**
- **What are potential alternatives to accomplish this purpose?**
- **What are the likely tax effects and their significance?**
- **How will these effects vary within the state?**
- **How will the program(s) be evaluated and improved over time?**

Question 1. Why is the action being proposed, and what do sponsors expect it to achieve?

Understanding the purpose of homestead exemptions can help decisionmakers stress-test potential outcomes, monitor success, and determine the need for reforms. Without a sufficient anchor, exemption programs may be vulnerable to changing economic conditions and political demands or result in fiscal impacts out of scale with their goals.

A review of state and local policies outside Illinois could not identify examples that provide a defined public purpose, needs statement, or economic rationale for homestead exemptions. Some programs — particularly affordable housing incentives comparable to Cook County's Class 9 — include preambles or "legislative findings" that might be construed as a policy intent. But these are usually not well-constructed for program evaluation.

For example, the City of Philadelphia has a local ordinance establishing an exemption for repairs or reconstruction on deteriorated dwellings. It opens with an introduction stating, "the Council finds that: The great majority of Philadelphia's housing was built before 1939, and there are, in all neighborhoods in the City, numbers of occupied and vacant dwellings in need of repair and rehabilitation. It is in the City's interest to encourage such repair and rehabilitation, in order to preserve and improve the City's residential neighborhoods."[37] While still vague, the inclusion of such findings or principles (in either state or local legislation) offer guidance about the motivation for particular policies or programs.

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new guidance requiring state and local governments to disclose tax expenditures that affect their ability to raise revenue. Such requirements have led to the repeal or modification of various tax benefits. (Chicago Metropolitan Agency for Planning, "Lessons from state-level evaluations of economic development incentives," July 2018, https://www.cmap.illinois.gov/updates/all/-/asset_publisher/UIMfSLnFfMB6/content/lessons-from-state-level-evaluations-of-economic-development-incentives.)

[37] The Philadelphia Code § 19-1303.2. Authorization to Offer Exemption from Real Estate Taxes on Improvements to Residential Properties.

Question 2. What are potential alternatives to accomplish this purpose?

Like Illinois, many states are trying to tackle property tax affordability while preserving this tax as a relatively more reliable, transparent, and equitable way to fund local public services.[38] They offer models that could meet homeowners' needs while mitigating the negative tax effects of exemptions. These include reforms to the exemptions themselves, other improvements in administration of the property tax, or alternative tax relief programs like a circuit breaker, alongside broader action to expand the tax base.[39]

Policy research also focuses on tax policies that indirectly affect property taxes by either expanding local revenue options (state aid, revenue diversification) or reducing local spending requirements (service responsibilities, efficiency and service sharing, consolidation). These alternatives may require a broader package of reforms or tax swaps to implement.

Question 3. What are the likely tax effects and their significance?

The analysis summarized above (as well as the methodology for developing a simulation model described in the Appendix) provides guidance for estimating the potential impact of legislative proposals. Homestead exemptions can affect the property tax base, rate, and revenue of multiple, overlapping jurisdictions as they interact with the local context as well as tax burden shifts to other, nonresidential taxpayers. They may also indirectly affect local decision-making, tax collections, or other factors in the administration of the property tax.

Policy discussions should consider which taxing districts will be most affected by the removal of EAV from their tax base and how this will drive net effects for taxpayers. Related questions have important implications for the design and funding of Illinois' exemptions. The jurisdictions expected to be most affected by proposals can be invited to participate in deliberations.

Question 4. How will these effects vary within the state?

State legislatures often face a tension between setting neutral, evenhanded policies statewide and accounting for their uneven outcomes in different and diverse areas. Even at relatively local geographies (like Cook County), uniform policies can produce disparate results — particularly where local communities are highly fragmented or segregated. The project team's analysis shows that in practice, the benefits and costs of homestead exemptions can be shaped by hyper-local factors within each tax code like the strength of the tax base, disparities in uptake, socioeconomic and market conditions, and more.

Large metropolitan regions like northeastern Illinois are highly segregated due to historical patterns of discrimination, disinvestment, residential and business location choices, and the segmentation of local governments. Moreover, the landscape of property values and incomes is

[38] The property tax is considered to be relatively more progressive — or perhaps, less regressive — than other sources of local revenue like sales tax or user fees, although it is still debated in academic literature. (Joan Youngman. *A Good Tax: Legal and policy issues for the property tax in the United States*. Cambridge, MA: Lincoln Institute of Land Policy, 2016.)

[39] Work is already underway to enhance property assessment, customer service, and public education in Cook County. Further steps like increasing enrollment in the Senior Citizens Real Estate Tax Deferral Program or implementing monthly payment options could help to ease the strain on taxpayers.

highly uneven. These factors weigh heavily in determining whether exemptions will have larger or smaller effects in certain places. This project clearly shows the need to anticipate which parts of the state and County are likely to be most affected based on concentrations of households, land uses, taxing districts, and local revenue options.

Question 5. How will program(s) outcomes be evaluated and improved over time?

Regular evaluation of tax relief programs is a national best practice.[40] Several states — such as Connecticut, New Jersey, Oklahoma, Washington, and more — require periodic assessments of tax credits and incentives for economic development.[41] Many have statutes that explicitly require evaluation on a specific schedule. In Hawaii, the state must conduct an assessment every three years, whereas New Jersey and Oklahoma require one every four.[42] The team's review did not identify examples of similar evaluations for homestead exemptions. That few if any occur nationally may suggest that these tools are seen as an assumed feature of property tax systems, rather than a narrow or targeted exception. But similar standards could help to improve tax relief programs in line with lawmakers' goals and priorities.

Several states also incorporate sunset provisions that require the legislative body to decide to maintain, revise, or terminate each program following evaluation. For example, Oregon's state statute specifies that "any tax credit enacted by the Legislative Assembly on or after the effective date of this 2009 Act shall apply for a maximum of six tax years beginning with the initial tax year for which the credit is applicable, unless the Legislative Assembly expressly provides for another period of applicability."[43] Such measures provide legislators with regular information about program costs, benefits, and impacts — ultimately supporting informed decisions to make necessary adjustments or to end programs that are determined to be unsustainable or ineffective.[44]

Funding homestead exemptions differently

The local impacts and benefits of homestead exemptions are driven in part by which unit of government covers their often-unrealized "cost." These programs can be funded by local or state governments — or both jointly. **Figure 12** gives a simple illustration of how different

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[40] Josh Goodman, "Tax Incentive Evaluations Help States Limit Fiscal Uncertainty, Improve Effectiveness" (Pew Charitable Trusts, May 6, 2021), https://www.pewtrusts.org/en/research-and-analysis/articles/2021/05/06/tax-incentive-evaluations-help-states-limit-fiscal-uncertainty-improve-effectiveness.

[41] Josh Goodman, "How States Can Design Effective Tax Incentive Evaluation Plans" (Pew Charitable Trusts, April 30, 2020), https://www.pewtrusts.org/en/research-and-analysis/articles/2020/04/30/how-states-can-design-effective-tax-incentive-evaluation-plans.

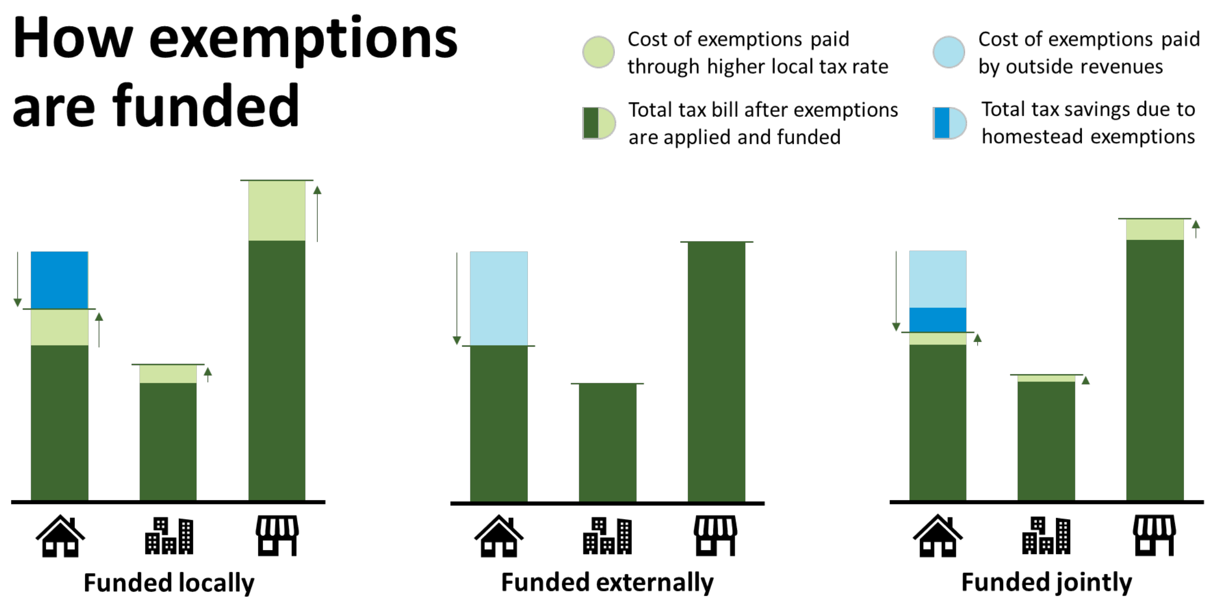
[42] "Review of Certain Exemptions, Exclusions, and Credits under the General Excise and Use Taxes, Public Service Company Tax, and Insurance Premium Tax," Hawai'i Revised Statutes, Part VI § 23-71, accessed September 5, 2023, https://www.capitol.hawaii.gov/hrscurrent/Vol01_Ch0001-0042F/HRS0023/HRS_0023-0071.htm. "New Jersey Economic Recovery Act of 2020," Pub. L. No. PL2020, c.156, § C.34:1B-276, accessed September 5, 2023, https://pub.njleg.state.nj.us/Bills/2020/PL20/156_.PDF. "Oklahoma Statutes," Title 62 § 62-7005, accessed September 5, 2023, http://webserver1.lsb.state.ok.us/OK_Statutes/CompleteTitles/os62.rtf.

[43] "Relating to Sunset of Tax Credits; and Providing for Revenue Raising That Requires Approval by a Three-Fifths Majority.," Chapter 913 § 53 (2009), https://olis.oregonlegislature.gov/liz/2009R1/Measures/Overview/HB2067.

[44] Goodman, "How States Can Design Effective Tax Incentive Evaluation Plans." Goodman, "Tax Incentive Evaluations Help States Limit Fiscal Uncertainty, Improve Effectiveness." "Lessons from State-Level Evaluations of Economic Development Incentives" (Chicago Metropolitan Agency for Planning, July 12, 2018), https://www.cmap.illinois.gov/updates/all/-/asset_publisher/UIMfSLnFfMB6/content/lessons-from-state-level-evaluations-of-economic-development-incentives.

funding models might affect property tax bills and savings across homeowners, renters, and business properties. When funded locally, each taxing district must independently cover the cost of the potentially foregone revenues. In most cases, the tax levy is simply redistributed across the reduced tax base and collected through higher composite tax rates, unless other levy and rate limits result in actual losses.[45] This funding model can have disparate effects across communities and undermine the initial savings for homeowners — as seen in parts of Cook County's south and west suburbs.

Figure 12: When funded locally, the foregone revenue due to exemptions is made up through higher tax rates. External sources can reimburse local taxing districts for all or part of their cost.



Other levels of government, typically states, can counteract these effects by reimbursing taxing districts for some or all of the revenue losses due to homestead exemptions. Doing so limits the tax burden shift to other property owners and in some areas, can increase the net savings to homeowners. But reimbursement is not the norm. In a 2015 analysis of tax exemption and credit programs, the Lincoln Institute for Land Policy found "only 28 percent of these programs included full state reimbursement to cover local revenue losses, while 57 percent had local governments bear revenue losses on their own. For 15 percent of programs, state and local governments shared the revenue loss in some way."[46] Nationally, state funding is more likely in broad-based programs for all homesteads or all seniors than those for smaller groups like veterans or people with disabilities.

Cook County may be interested in limiting tax rate increases due to exemptions, particularly because they have concentrated effects in the South Suburbs. National examples offer a

[45] No examples were found where local taxing districts either budgeted for broad-based assessment reductions as a tax expenditure or backfilled foregone revenues from other funding sources like a local income tax.
[46] Langley, "How Do States Spell Relief?: A National Study of Homestead Exemptions and Property Tax Credits."

starting point for looking at alternative funding models. They combine choices in which exemptions to refund, what external sources to use, where to concentrate funding, which taxing districts to qualify for funding, and how to share costs — each with its own implications. For example, alternative funding could be targeted to provide more fiscal aid to disadvantaged or disinvested areas and improve the overall progressivity of the state and local tax structure. But improvements in vertical equity may be undermined if external funding is drawn from other, more regressive revenue sources like a flat income tax or sales tax.

Comparing tax relief efforts across state lines can be difficult. The design and administration of Illinois' exemptions falls broadly within the norm of more than 200 such programs nationwide. But the actual benefits to taxpayers (e.g., households' net savings) depend heavily on the design of each program and the significant differences in each city or state's financial structures.[47] A cursory look can misconstrue effects that are often contingent on hyper-local conditions not applicable to Cook County. Nonetheless, examining practices and recent debates nationally can offer some perspective on Illinois' current homestead exemptions. The following subsections discuss examples in Texas, New York, Maine, and Ohio.

Bearing the cost locally in Texas

Texas helps to demonstrate why Illinois decisionmakers might consider external or joint funding models alongside new or expanded exemptions. The state mandates significant tax savings for homeowners (seniors in particular) and authorizes other local option exemptions, without state funding to offset the side effects. State law requires all school districts to provide a $40,000 exemption on owner-occupied residences as well as an additional $10,000 exemption for seniors.[48] Any taxing unit (including city and county governments) also has the local option to offer a general exemption up to 20 percent of a property's appraised value (but not less than $5,000) as well as an additional school exemption not less than $3,000 for seniors.[49] Most major metropolitan counties (Harris, Dallas, Tarrant, Bexar, Travis) take both options.[50]

All homestead exemptions in Texas are funded by local governments. Like Illinois, the State of Texas has both mandated certain programs and authorized others, but each taxing unit is liable for managing the related tradeoffs. In particular, the local option for a general percentage exemption (rather than a flat dollar reduction) results in larger tax reductions for higher-valued homes. This is expected to amplify tax rate increases and burden shifts to non-residential properties, newer and younger homeowners, renters, and lower value or slower appreciating homes. Together with the state's lack of revenue diversification,[51] exemptions contribute to an

[47] Effective property tax rates vary widely across the U.S. due to four primary factors: the extent to which local governments rely on the property tax relative to other sources, the level of property value in local jurisdictions, the level of local government spending, and the use of classification to assess or tax homesteads at lower rates than other types of property. (Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence, "50-State Property Tax Comparison Study: Comparison Study for Taxes Paid in 2020," June 2021.)
[48] Texas Comptroller of Public Accounts, "Texas Property Tax Exemptions: Total and Partial Property Tax Code Exemption Available to Property Owners Who Qualify" May 2022.
[49] For school districts, both local option exemptions are in addition to the state mandated offerings.
[50] Special exemptions are also available for natural disasters, disabled veterans, and surviving spouses of first responders. Homeowners generally do not need to reapply to receive their exemptions.
[51] Texas has no individual or corporate income tax and received 46.7 percent of its total state and local tax collections from levies on real property in fiscal year 2020, compared to Illinois' 35.4 percent.

effective statewide property tax rate estimated to be two to three times higher than other states across the Sun Belt.[52]

Homestead exemptions continue to be an area of concern for the Texas legislature. Increased property values and tax burdens have pressured lawmakers to consider new forms of relief. Conversations have coalesced around two main strategies: increase homestead exemption benefits or "compress" local taxing needs by contributing more state funding to local schools.[53] These approaches initially divided the Texas state legislature in 2023. The Texas Senate voted to increase the tax-exempt portion of a home value from $40,000 to $100,000, while the House of Representatives passed a plan to contribute $12 billion to school districts.[54] Governor Greg Abbott initially supported the House's plan, arguing increased homestead exemptions will "evaporate" as home values rise.[55] By August 2023, the legislature passed a tax relief package that included portions of both proposals.

Replacing school revenues in New York

New York prioritizes homeowner property tax relief from school levies (the largest use of property taxes nationwide) but uses state income tax expenditures to effectively backfill local school budgets. Property tax exemptions and credits are available for homesteads, seniors, veterans, and people with disabilities.[56] The state funds two programs that provide most homeowners with some relief from school levies, while local governments are left to fund all other exemptions.[57] The state programs include:[58]

- The **School Tax Relief (STAR)** program, which gives an income tax credit to owner-occupants who earn less than $500,000 in annual income. The credit is equal in value to a property tax exemption from local school levies on the first $30,000 of the applicant's home. Until 2016, the basic STAR program operated as a state-reimbursed exemption available to households earning less than $250,000. But the state transitioned to an income tax credit, according to state officials, in response to households illegitimately claiming exemptions for multiple properties or breaching the income cap.[59]

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[52] Texas statute also prohibits any assessment other than 100 percent of appraised value. (Fritts, "Where Do People Pay the Most in Property Taxes?"). Katherine Loughead and Jared Walczak, "Unpacking the State and Local Tax Toolkit: Sources of State and Local Tax Collections (FY2020)" Tax Foundation, August 2022, https://taxfoundation.org/state-local-tax-collections/.

[53] Michael Adkinson, "Abbott Doubles down on Tax Cuts, Says Homestead Exemptions Backed by Patrick 'Evaporate,'" CBS Austin, June 5, 2023, https://cbsaustin.com/news/local/abbott-doubles-down-on-tax-cuts-sayshomestead-exemptions-backed-by-patrick-evaporate. t

[54] Joshua Fechter, "Texas House Approves Property Tax Bill with Changes the Senate Might Not Like," Texas Tribune, May 18, 2023.

[55] Adkinson, "Abbott Doubles down on Tax Cuts, Says Homestead Exemptions Backed by Patrick 'Evaporate.'"

[56] "Property Tax Exemptions," New York State, n.d., https://www.tax.ny.gov/pit/property/exemption/index.htm.

[57] "Basic/Enhanced School Tax Relief (STAR)," Lincoln Institute for Land Policy, accessed August 15, 2023, https://www.lincolninst.edu/residential-tax-relief/basicenhanced-school-tax-relief-star-new-york-2021.

[58] "Types of STAR," New York State, n.d., https://www.tax.ny.gov/pit/property/star/types.htm#:~:text=Enhanced%20STAR,the%202024%2D2025%20school%20year. "STAR Exemption Program," New York State, accessed August 15, 2023, https://www.tax.ny.gov/pit/property/star/star-exemption-program.htm.

[59] Joseph Spector, "Q&A: How STAR Exemption Is Changing," *Democrat & Chronicle*, May 11, 2016, https://www.democratandchronicle.com/story/news/local/2016/05/11/ny-star-property-tax-exemption-changes/84211702/.

- The **Enhanced School Tax Relief (E-STAR)** program, which offers an additional property tax exemption to income-qualified seniors, with the maximum value of the exemption adjusted to inflation annually. For tax year 2023-2024, E-STAR exempts the first $81,400 of an owner-occupant's assessed market value from school district taxes for seniors who earn $93,200 or less. Unlike the basic STAR program, the state reimburses school districts directly from general funds for all revenue losses due to the E-STAR program.

In fiscal year 2019, New York budgeted a combined $2.4 billion in funding to support both the STAR and E-STAR programs.[60] The shift to an income tax credit allowed the state to continue backfilling property tax savings but shifted the expense from budgeted allocations to reduced income tax collections, which are New York's largest source of government revenues.[61] [62] The budget for fiscal year 2016 states that these changes "shift the fiscal impact of the STAR program from the spending side to the revenue side of the State budget."[63]

Offsetting 'tax revenue losses' in Maine

Maine takes an alternative approach to joint funding by reimbursing local governments for a growing portion of exemptions' cost, which state statutes refer to as "property tax revenue losses." The state has a constitutional requirement to reimburse local governments for at least 50 percent of foregone revenue caused by exemptions, including the state's general homestead exemption as well as those for veterans and blind persons.[64] [65] In fiscal year 2023, Maine budgeted exemption reimbursements to municipalities at $100.7 million.[66] Exemption reimbursements are funded through "special other revenues," which are general fund revenues that are "are restricted by law to a specific use."[67]

In some instances, Maine has opted to go beyond the constitutional requirement to increase the proportion of tax revenue loss they reimburse. In particular, Maine takes a more progressive funding approach to the following exemptions:

- **General homestead**: For tax year 2023, municipalities receive reimbursement for 76 percent of the tax revenue loss due to the homestead exemption. Maine is currently increasing the portion it reimburses by 3 percentage points each year, with the ultimate

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[60] "Stand United to Fight for New York: FY 2019 Executive Budget" (New York State, 2018), https://www.budget.ny.gov/pubs/archive/fy19/exec/fy19book/BriefingBook.pdf.

[61] Katherine Loughead, Jared Walczak, and Eddie Koranyi, "Unpacking the State and Local Tax Toolkit: Sources of State and Local Tax Collections (FY 2020)" (Tax Foundation, n.d.), https://taxfoundation.org/data/all/state/state-local-tax-collections/.

[62] New York received 31.4 percent of total state and local collections from property taxes in 2020 (compared to 35.4 percent in Illinois). Notably, it collects a significantly greater portion of government revenues from individual income taxes — receiving 33.9 percent in 2020, while Illinois collected 21.9 percent.

[63] "Report on the State Fiscal Year 2016-17 Enacted Budget" (Office of the New York State Comptroller, May 2016), https://web.osc.state.ny.us/reports/budget/2016/2016_17_enacted_budget_report.pdf.

[64] This constitutional requirement applies only to exemptions enacted after 1978. (Constitution of Maine, Article IV, Part Third, Section 23.)

[65] "Maine Constitution," 4 Article IV § 23, https://www.maine.gov/legis/const/#a4.

[66] "Total Appropriations & Allocations: All Funds 2022-2023 Biennium" (Maine State Legislature, October 12, 2022), https://legislature.maine.gov/doc/9078.

[67] "Maine State Budget Primer 2021" (Maine Development Foundation, 2021), https://www.mdf.org/wp-content/uploads/2021/01/2021-Maine-State-Budget-Primer-Final.pdf.

goal of achieving full reimbursement. Scaling up their funding for the homestead exemption means that the state will reimburse municipalities 79 percent in 2024, 82 percent in 2025, and so forth until the reimbursement rate reaches 100 percent.[68]

- **Veteran**: Municipalities receive the constitutional 50 percent reimbursement, but if the tax revenue loss caused by veteran exemptions exceeds 3 percent of the municipality's total property tax levy, the municipality receives a 90 percent reimbursement for the tax revenue loss that exceeds the 3 percent portion.[69]

Maine has other property tax relief programs that are funded by local governments, such as a deferral for senior citizens and a property tax fairness circuit breaker.[70] A recent legislative change in Maine highlights the fiscal burdens that local governments can face when independently bearing the costs of exemption programs. In July 2023, the Maine legislature repealed the Property Tax Stabilization for Senior Citizens program, which had been enacted only a year earlier.[71] The program allowed senior citizens to freeze their taxes, with the intention of helping older Maine residents continue to age in their homes.

The repeal was pursued because local governments raised concerns about the program's costs, which were anticipated to increase significantly over time. A legislative advocate at the Maine Municipal Association argued, "if we're not being reimbursed 100 percent then businesses and younger homeowners would pick up that burden and that was the issue, setting municipalities up for failure because we're so dependent on the property taxes."[72] When compared to national trends, Maine is highly reliant on property tax revenue. In 2020, 44.6 percent of Maine's total tax collections came from property taxes — a proportion that only Alaska, New Jersey, and Texas surpassed.[73] Given this context, municipal concerns about unsustainable costs emphasized the essential role that property tax revenue plays in their ability to operate effectively and deliver services.

Reimbursing local governments in Ohio

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[68] "Duty of Assessor; Reimbursement by State," Pub. L. Title 36, Ch. 105, sub-chaps. 1-5, §685, (2021), https://www.mainelegislature.org/legis/statutes/36/title36sec685.html.

[69] "Estates of Veterans," Pub. L. Title 36, Ch. 105, sub-chaps. 1-2, §653, (2007), https://www.mainelegislature.org/legis/statutes/36/title36sec653.html.

[70] "Residential Property Tax Relief Programs," Lincoln Institute for Land Policy, accessed September 14, 2023, https://www.lincolninst.edu/research-data/data-toolkits/significant-features-property-tax/access-property-tax-database/residential-property-tax-relief-programs?field_tax_state_tid%5B%5D=6756&field_tax_year_tid%5B%5D=7451&field_rtrp_eligibility_criteria_value%5B%5D=No+Criteria.

[71] "In the Know: LD 290 'Property Tax Stabilization for Senior Citizens' Repealed by State Legislature; Two Tax Relief Programs Being Expanded," July 21, 2023, https://www.pressherald.com/2023/07/21/in-the-know-ld-290-property-tax-stabilization-for-senior-citizens-repealed-by-state-legislature-two-tax-relief-programs-being-expanded/.

[72] Marissa Bodnar, "Ask the I-Team: Why Was Maine's Property Tax Stabilization for Senior Citizens Program Repealed?," *Fox 23*, August 22, 2023, https://fox23maine.com/news/i-team/ask-the-i-team-why-was-maines-property-tax-stabilization-for-senior-citizens-program-repealed-maine-property-taxes-tax-low-income-elderly-homestead-exemption.

[73] Illinois receives 35.4 percent of its state and local tax collections from the property tax. (Loughead, Walczak, and Koranyi, "Unpacking the State and Local Tax Toolkit: Sources of State and Local Tax Collections (FY 2020).")

At first glance, Ohio more closely reflects Illinois in terms of its tax revenue and spending structure. The state and local governments have a balanced revenue mix, collecting 30 percent from the property tax in fiscal year 2020.[74] All properties in Ohio are assessed at 35 percent of market value and classified into two categories: i) residential or agricultural lands, and ii) all other property. The result is different effective tax rates for the two classes.

However, the state's homeowner tax relief programs look markedly different. Since the state implemented an income tax in the 1970s, a 10 percent credit (called a "rollback") has applied to the final property tax bills on all non-business properties, including residential with up to three dwellings. This was later supplemented with a further 2.5 percent rollback for owner-occupied homes only. (Unlike homestead exemptions, these credits reduce tax bills directly rather than reducing taxable values.) Beginning in 2007, the state also offers a flat $25,000 exemption for seniors and people with disabilities earning less than $34,200 for tax year 2022, as well as veterans with total and permanent disabilities.

The State of Ohio reimburses local governments for the 10 percent rollback, the 2.5 percent rollback, and the means-tested homestead exemption — effectively subsidizing property tax payments through income and sales tax revenue. Under this funding approach, Ohio homeowners apply for the rollbacks through their county governments, which pay for the initial outlay and are subsequently reimbursed by the State. In fiscal year 2019, the State of Ohio reimbursed counties, cities, school districts, and other taxing districts over $645 million for homestead exemptions and credits through general fund disbursements.[75]

To curb the expanding cost to state government, the Ohio General Assembly passed new restrictions in 2013.[76] Under these provisions, the state continues to fund the tax reductions on existing levies and their renewals, but not for new levies, replacement levies, or the additional portion of a renewal. The Ohio General Assembly also reinstated the income qualifications for seniors and people with disabilities that had previously been removed.

Like Texas, Ohio has recently experienced historic increases in property tax bills, with some counties jumping over 40 percent. Sharp increases are partly attributable to the interaction of a six-year reappraisal cycle with statutory levy and rate limits. Appraisals in 2023 were last updated in 2017, when economic conditions were markedly different. Most other states reappraise properties on a more frequent basis to better phase in increases over time and avoid triggering popular resistance. Recent legislative activity has focused on leveling out assessment increases, rather than expanding the use of rollbacks or exemptions. While some in Ohio have advocated for more frequent appraisals, smaller rural communities have expressed opposition due to the high costs associated with hiring a third party for the process.[77] Instead,

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[74] Loughead and Walczak, "Unpacking the State and Local Tax Toolkit: Sources of State and Local Tax Collections (FY2020)"

[75] "Budget in Detail: Main Operating Budget Bill (FY 2018- FY 2019)," n.d., https://archives.obm.ohio.gov/Files/Budget_and_Planning/Operating_Budget/Fiscal_Years_2018-2019/enacted/budgetindetail-hb49-en.pdf.

[76] Jim Provance, "Ohio cancels property tax rollback," *Toledo Blade*, July 29, 2013, accessed July 13, 2023 < https://www.toledoblade.com/Politics/2013/07/29/Ohio-cancels-property-tax-rollback.html>.

[77] Mary Diduch, "Why Are Property Taxes Going up for Many Ohio Homeowners?," Mansion Global, June 15, 2023, https://www.mansionglobal.com/articles/why-are-property-taxes-going-up-for-many-ohio-homeowners-b0cf896d.

recent legislation has aimed to soften the impacts of rapidly rising costs by averaging the past three years of values instead of just one.[78]

Ohio is one of just six states that reimburse local governments for all homestead exemptions.[79] These states typically offer fewer exemption programs (between 1-3) compared to those where benefits are funded locally programs (between 8-10). But state-funded programs can be far-reaching, with benefits available to most or all owner-occupants. In contrast, some states limit external funding programs targeted to a small subset of the population, as in Nebraska which reimburses exemptions for veterans with total disabilities.

Alternatives for reimbursing the cost of Illinois' homestead exemptions

National examples show that homestead exemptions programs take many forms across the country. Some states reimburse local governments for these tax benefits and entitlements but try to limit the costs of doing so. Balancing these interests has led states to take differing approaches to the questions highlighted earlier, including which exemptions to refund, what external sources to use, where to concentrate funding, which taxing districts to qualify for funding, and how to share costs.

Drawing from examples of other states that refund all or a portion of the cost of exemptions, the project team identified alternatives that may warrant consideration given Cook County's objectives, including:

- **Focus on disinvested communities**: Reimbursements for homestead exemptions could offer a creative approach to support fiscally constrained communities. Many of those most effected by Illinois' current exemptions are in weak market areas with a history of disinvestment. Funding could be prioritized toward areas experiencing severe economic stagnation similar to other revitalization programs like the Class 8 incentive classification (primarily Bloom, Bremen, Calumet, Rich, and Thornton townships).
- **Offset the indirect tax effects:** One of the critical side effects of homestead exemptions is the potential for property tax rates to rise significantly when a community lacks a remaining tax base sufficient to carry the cost. A compensatory formula that helps to avoid disproportionate tax rate increases could help to preserve tax savings to homeowners while supporting wider economic and community development. For example, an external source could reimburse tax districts for the portion of exemption costs that would cause a tax rate increase to exceed the countywide median (1.4 percentage points in tax year 2021).
- **Prioritize taxing districts or recipients:** Illinois has a long history of granting property tax relief to subsets of the population that speak to social values like veterans and people with disabilities. This intent could be carried through to prioritizing external funding for exemptions. For example, reimbursements could go first to covering the costs of means-tested programs like the senior freeze and longtime homeowner exemption to maximize the tax savings in areas with lower incomes and less wealth held in real estate. Likewise,

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[78] Jennifer Edwards Baker, "Stop Record-High Property Tax Hikes, Local Leaders Urge State Lawmakers," Fox 19, June 20, 2023, https://www.fox19.com/2023/06/20/stop-record-high-property-tax-hikes-local-leaders-urge-state-lawmakers/.

[79] Other states include Kansas, Nebraska, Tennessee, Wisconsin, and Wyoming.

funding could be used to offer more fiscal flexibility to certain types of taxing districts like municipalities or schools that underpin basic public services.

There are numerous ways in which policymakers could select which jurisdictions receive assistance in bearing the local burdens of homestead exemptions and how much assistance each should receive, including options used in other states as described above. The determination ought to be predicated on the public purpose of homestead exemptions and the effectiveness of the option in ameliorating undesirable effects of implementation.

Possible approaches for selecting jurisdictions to receive assistance and/or determining reimbursement amounts include (see **Table 5**):

- Select by geography
- Select particular locations that are eligible for other assistance
- Limit assistance to particular types of taxing jurisdictions
- Consider only certain types of exemptions
- Determine the quantity of reimbursement as a preset portion of the tax burden shift caused by exemptions
- Set the quantity of reimbursement in order to meet a threshold criterion
- Impose multiple approaches or combine multiple criteria

Table 5: Potential approaches to determine reimbursement assistance

Method	Advantage(s)	Example
Geography	Simple to determine	All taxing bodies within the Southern Assessment Triad
Eligibility for other assistance	Simple to determine Policy consistency	Townships with automatic eligibility for the Cook County Class 8 real estate tax incentive
Jurisdictions	Simple to determine	Provide assistance to school districts only
Types of exemptions	Can fit to public purpose	Provide assistance based on senior homestead and senior freeze exemptions only
Portion of tax burden shift	Can fit to public purpose	Reimburse 25 percent of the anticipated shift in property tax burden due to exemptions
Threshold criterion	Can fit to public purpose Can relate to need	Reimburse so as to keep increase in municipal composite tax rate below five percent
Combined	Can customize closely to achieve goals	Reimburse 75 percent of anticipated property tax burden shift due to veterans exemption and 50 percent due to senior exemption

To calculate the cost of reimbursing homestead exemptions in Cook County, the project team relied on its simulation model and PTAXSIM data (see Appendix). Setting some or all exemptions to zero while holding each agency's levy constant creates a counterfactual without exemptions that increases each municipality's taxable base. The project team then summed the total dollar amount necessary to make the current recipients of homestead exemptions "whole" (i.e., preventing their property tax bills from increasing) through an external funding source — such as the County or the state of Illinois.

By way of example, refunding all homestead exemptions in Cook County would increase the taxable base, driving down composite tax rates and tax bills. To prevent an increase in tax bills for current recipients of homestead exemptions, the cost of this reimbursement would be approximately $1.385 billion. This figure differs from the estimated value of incentives mentioned above ($1.58 billion) because it accounts for the lower tax rates that would result if previously exempted EAV were available to tax. The team analyzed five potential alternatives and their "costs" using this methodology in **Table 6.**

Table 6: Cost of refunding Cook County's current homestead exemptions

Alternatives	Cost (in millions)
All homestead exemptions in Cook County	$1,385
Only the general homestead exemption	$930
Only the senior and senior freeze exemptions	$523
All homestead exemptions in the Southern Reassessment Triad of Cook County	$554
All homestead exemptions in Class 8-eligible townships	$196
Note: Calculations exclude unincorporated areas of Cook County. Source: UIC analysis of Cook County Assessor's Office PTAXSIM data.	

Moving forward

Cook County is asking if and how changes in the use of homestead exemptions can better support a range of public objectives. The project team's analysis shows that by design, these tools reduce homeowners' tax bills by shifting some of their tax burden primarily to commercial and industrial properties and secondarily to owners of multi-family apartments. However local outcomes vary widely. Exemptions can have unwanted effects on local tax rates that may discourage investment, unduly burden renters, or undermine the tax savings for households, particularly in weak market areas with lower property values and a mix of land uses. These countereffects appear greatest in disinvested areas of the south and west suburbs with weaker property values and a mix of land uses. Where these results warrant policy change, the team's review suggests that Illinois lacks a clear and consistent approach for reforming its property tax relief programs, but examples from other states provide potential models.

If Cook County wants to offset the unwanted tax effects of homestead exemptions, one critical factor is which unit of government bears the cost of providing them. External or joint funding models could help to provide the same tax relief to homeowners while backfilling local revenues from other sources to prevent property tax rates from climbing. To meaningfully shape these effects, funding would need to focus on larger, broad-based programs like the general and senior homestead exemptions, as well as the senior freeze. Targeting assistance (e.g., to taxing districts that see disproportionate effects or those already recognized as needing revitalization) could help to constrain the cost of reimbursement and provide disinvested communities with more fiscal options. Funding alternatives — along with other options for program redesigns — should reflect the evolving intent and purpose behind these tax benefits. The project team is available to help workshop and analyze potential reforms as Cook County determines how it wants to proceed.

Appendix: About the analysis

Drawing from previous research and our knowledge of how property taxes are calculated in Cook County, the project team created a simple simulation model to measure the effects of exemptions on a municipal basis. Our model replicates the fiscal structure of each municipality (different property types by EAV, different agencies that are part of tax codes) and then applies exemptions to see how tax rates change and burdens shift.

Data

This analysis uses the PTAXSIM (Property Tax Simulator) tool, a package written in R and made available publicly by the Data Science division of the Cook County Assessor's Office.[80] PTAXSIM serves two distinct functions in this research.

First, PTAXSIM is an effective way to obtain the property tax data required for evaluation and modeling.[81] The PTAXSIM database compiles property tax information from several different offices of Cook County government, matching and joining these datasets, "cleaning" the datasets (e.g., standardizing contents and matching formats), and identifying and correcting errors. The Cook County Assessor's Office Data Science staff regularly update PTAXSIM and its database contents. PTAXSIM currently provides access to relevant property tax data for calendar years 2006 through 2021.[82]

Second, PTAXSIM is designed to provide functionality to search and extract particular information from within the Cook County property tax data universe, and to simulate changes to the tax bills of individual properties under a variety of scenarios. (The latter functionality is the primary intended purpose of PTAXSIM.) The project team makes much less use of the simulation function for two reasons. The focus of our analysis is the aggregate impacts of property tax exemptions at jurisdictional scales rather than the tax bills of individual properties. Moreover, it is crucial for us to be able to precisely identify, deconstruct, and categorize those impacts, and a large portion of what the PTAXSIM package actually does in order to produce simulations either is not fully apparent or is not readily modifiable.

In addition to PTAXSIM, the project team uses data or descriptions of information from several other sources either directly or indirectly to verify the information from PTAXSIM. These sources include the Cook County Clerk, the Cook County Treasurer, the Illinois Department of Revenue, and the Oak Park Township Assessor.

Land use classifications

The project team uses the Cook County Real Property Classification Codes to distinguish among

[80] The Cook County Assessor's Office website offers a brief description and a link to access the PTAXSIM tool: https://www.cookcountyassessor.com/property-tax-simulator-tool. The R package, including thorough documentation and regular updates, is accessible via GitHub at https://github.com/ccao-data/ptaxsim.

[81] The project team has engaged in discussions with representatives of the Cook County Assessor's Office and several of the other Cook County and township offices that produce or use data concerning property taxes in order to clarify the contents of the PTAXSIM database, the procedures used to construct the database, and confirm the relationships between PTAXSIM and the various datasets it draws upon.

[82] Regarding PTAXSIM and all other data sources, this analysis uses the most current data that were available to us when the analysis was conducted.

types of property.[83] The major (1-digit) classes that comprise residential properties are Major Class 2 ("Residential"), Major Class 3 ("Multi-family"), and Major Class 9 ("Multi-family Incentive"). Commercial and industrial land uses are divided among major classes 5A, 5B, 6A, 6B, 6C, 7, and 8. Because these codes are designed to group properties according to how they are treated in the assessment process, the distinctions among them often reflect eligibility for particular property tax incentives rather than differences in land use or tenure.

Model

The first version of the model was created using Microsoft Excel, which provides a familiar interface for potential users and produces both tabular and graphical output. The model uses municipalities as the spatial unit for analysis, since they are readily identifiable, fiscally dependent on property taxes, and the most numerous of the types of fiscally independent local governments with substantial populations. This version of the model served as a template for designing the second version of the simulation model in R (see below).

The model represents a simplified version of the existing tax structure. It starts with the relationship between property values and the total levy, which are linked by the tax rate. The EAV (Equalized Assessed Value) of properties and the total levy within a municipality—summing across all taxing bodies that have jurisdiction within some portion of the geographical bounds of that municipality—are taken as given, or in other words are constant values within the model. Properties are grouped within major land use classifications to account for exemption eligibility and to be able to investigate differences according to land uses. The EAVs then are adjusted for properties that are located within Tax Increment Financing (TIF) districts, which operate by separating increases in property values that occur during the lifetime of the district from the main property tax system.[84] Finally, homestead property tax exemptions remove a portion of property EAV from taxation, which, according to the assumption that the total levy is maintained, requires that tax rates increase to compensate for the reduction in taxable value. The result is a representation of the existing relationships among property tax values, property tax rates, and exemptions.

Based on current-year data for a municipality, the model illustrates the status quo tax structure. Its main function is to facilitate comparison of the current tax structure with hypothetical scenarios. These scenarios are intentionally simple, described straightforwardly as changes to the total amount of exemptions or to a particular category of homestead exemption within the municipality. The scenario can also incorporate changes to the total tax levy or the composite tax rate (the summation of the tax rates of all taxing jurisdictions), removing the constraint of the total levy being fixed and instead assuming that all changes in taxation are proportional to the change in the total levy (i.e., the structure of the tax system is unaltered). The output is the revised property tax structure, contrasted with the current situation.

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[83] These codes may be accessed from the Cook County Assessor's Office at https://prodassets.cookcountyassessor.com/s3fs-public/form_documents/classcode.pdf.

[84] TIFs functionally sequester and retain these increases in value, or more accurately the tax collections attributable to these increases in value, within the TIF, rather than distributing them to other taxing jurisdictions.

[84] A close examination of the six municipalities reveals a very small proportion of homestead exemptions reported for Class 3 or Class 5 properties (about 0.02% in 2021).

For example, the table below display the tax collected by major property class in South Suburban Midlothian in 2021, the current situation, versus a scenario in which the total value of homestead exemptions in Midlothian were 25 percent smaller.

Table: Midlothian 2021 Scenario of 25 percent Decrease in Exemptions.

Major Class	EAV	Tax amount	Tax Share	Change in Tax amount	Change in Tax Share
1 vacant	1,935,523	261,534	0.85%	-15,886	-0.05%
2 residential	173,890,592	23,496,684	76.10%	448,319	1.45%
3 multifamily	5,710,516	771,624	2.50%	-46,870	-0.15%
4 non-profit	8,304	1,122	0.00%	-68	0.00%
5A commercial	41,373,689	5,590,552	18.11%	-339,580	-1.10%
5B industrial	1,162,643	157,100	0.51%	-9,543	-0.03%
6B industrial	0	0	0.00%	0	0.00%
6C brownfield	0	0	0.00%	0	0.00%
7A/7B commercial incentive	0	0	0.00%	0	0.00%
8 commerc./indust. incentive	4,431,547	598,806	1.94%	-36,373	-0.12%
9 multifamily	0	0	0.00%	0	0.00%
TOTAL	228,512,812	30,877,423	100.00%	0	0.00%

Sources: Exemption Simulation Model Version 1, using data from PTAXSIM version 0.6.0, May 25, 2023; Cook County Clerk 2021 Tax Rate and Exemption Reports and 2021 TIF Distribution Report.

As with all models, this model is a simplification of real processes and should be treated as an approximation. It does not account for dynamic behavioral or feedback effects. The project team cannot, for example, measure how exemptions affect taxpayer willingness to own property in Cook County or estimate how municipalities may pre-emptively alter their levies to accommodate exemptions. Similarly, our model does not incorporate the effect of exemptions on the provision of public goods or services (e.g., school quality). Other assumptions include:

- The input data for the model—from PTAXSIM and other Cook County offices—are accurate and complete.
- EAVs for PINs and total municipal levies are fixed. If a scenario includes a change in total levy or composite tax rate, the total municipal levy is no longer fixed and instead all changes in taxation are assumed to be proportional to the change in the total levy.
- All homestead exemptions apply to Class 2 properties.[85]
- The share of EAV that is sequestered within a TIF district is identical for each property located within the same tax code.[86]
- Changes to exemptions that are entered as part of a scenario are assumed to fall within TIF districts in the same proportion as current exemptions. (This assumption is needed because exemption scenarios in the model are specified at the jurisdictional scale, not for individual properties.)

[85] A close examination of the six municipalities reveals a very small proportion of homestead exemptions reported for Class 3 or Class 5 properties (about 0.02% in 2021).

[86] This assumption is necessary because data on historic or "frozen base" property values are not available on an individual property basis through PTAXSIM or directly from Cook County. PTAXSIM estimates the sequestered portion of EAV by applying the tax-code-wide distribution percentage (which is available from the Cook County Clerk) to each property within the tax code. The team follows the same procedure.

We constructed a second version of the exemption simulation model using R instead of Microsoft Excel. While retaining the same underlying premises and relationships, this version yields several valuable advantages over the first version:

- All municipalities in Cook County may be modeled simultaneously, rather than one at a time.
- The spatial units underlying the model are tax codes instead of municipalities. Tax codes are the fundamental unit of local property tax structure. Building the model from tax codes permits the model to be readily adapted to analyze taxing bodies other than municipalities.
- Updating the model to incorporate new or revised data is a much simpler and faster process.
- Drawing on the strengths of R as a programming language, this version is much more adjustable and adaptable for different kinds of scenarios or analyses, though taking advantage of this flexibility requires a user or analyst with facility in using R.