
EAV White Paper

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Rockford Area Economic Development Council
Leadership Council
Staff Contact: Jimsi Kuborn, Vice President of Investor Relations

EMAIL JKuborn@RockfordIL.com PH 815.969.4259

Executive Summary

Purpose

The aim of this white paper is to:

1. Educate citizens on the different components of their tax bill in a simple format (Section 1)
2. Present the problems our community faces with regard to low/dropping Equalized Assessed Value (Section 2)
3. Present possible solutions for leaders and residents to prioritize and take action (Section 3)

This white paper is supported by the Rockford Area Economic Development Council's Leadership Council.

This document's creation is the preliminary step in the process of improving the property value/tax situation (and future investment) in our Region.

Vision for future

The Rockford Region will have a competitive tax rate and a growing Equalized Assessed Value. The growth will have been achieved by responsible businesses and citizens who share their portion of property taxes, developers and residents selling buildings and homes at fair and competitive prices, and a strong but fair County Board of Review.

Winnebago County will have a highly functional relationship with the state Property Tax Appeal Board (PTAB) sharing best practices and resolving issues quickly and collaboratively.

Our taxing bodies will use tax dollars responsibly and for the purpose of remaining Leaders in their line of work. Realtors will support all neighborhoods and promote our community assets. Appraisers will be recognized for their best practices; finding strong comparables by doing detailed walk-throughs of properties which will contribute to fair transactions between buyers, sellers, and lenders.

Lenders, both local and national, will have confidence in our community, will be creative problem solvers in a highly regulated environment and will take reasonable risks that benefit them and the community.

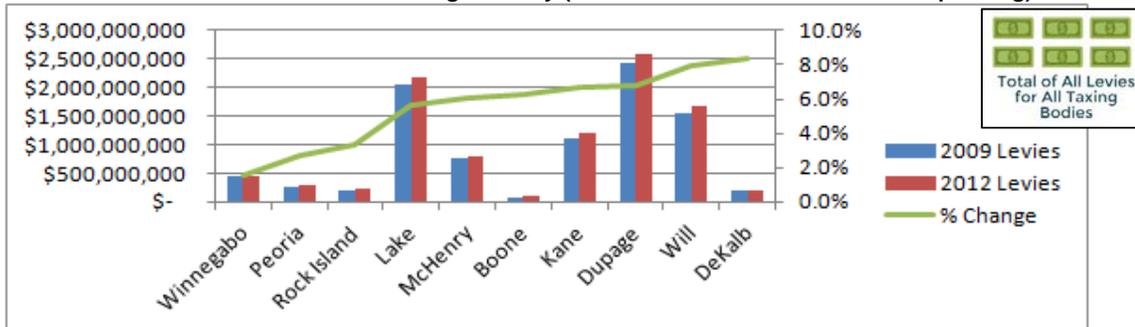
Residents and business owners will see their property values sustainably appreciate, making Rockford an attractive place to make real estate investments.

Education (Section 1)

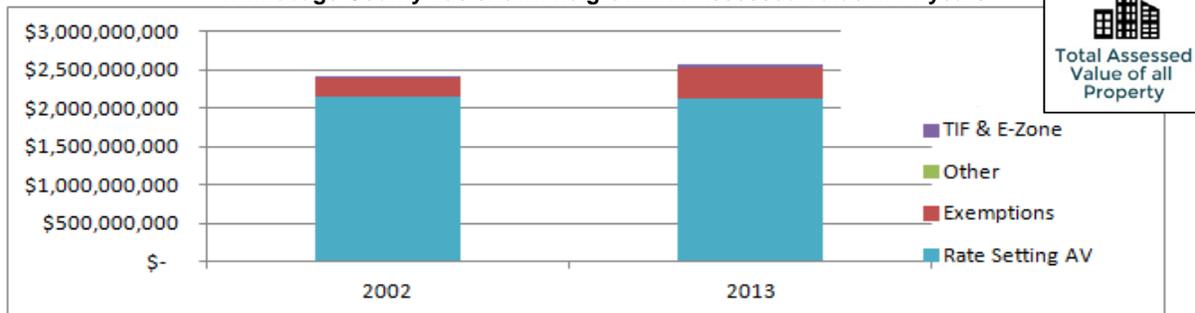
The following two diagrams show how your tax bill is calculated



Peer counties tax levies vs. Winnebago County (We show stable levies and lower spending)



Winnebago County has shown no growth in Assessed Value in 11 years



In 11 years Winnebago County has also shown exemptions increases and tools such as TIF's/Enterprise Zones have little impact. (Mostly related to execution, see table 1 in appendix)

The tax rate is impacted negatively when Assessed Values decrease and positive when Assessed Values increase. The tax rate is also negatively impacted when Levies increase (they rarely decrease). For example, if Levies stay the same and Assessed Values increase, your tax rate would go down. It is important to note that inflation and innovation impact a Taxing Body's ability to hold a Levy stable (no increase) for a period of time.

Many parties impact a property tax bill and the low property values that our region is currently experiencing. The following are the key players/processes in determining the Equalized Assessed Value (in no particular order):

Township Assessor

Every Township has an Assessor that is elected and is responsible for estimating the value of real estate (technically called Fair Market Value) within its boundaries. That value is converted into an Assessment (technically called Equalized Assessed Value – EAV) by multiplying the Fair Market Value x 33.33%. It is the Assessor's main goal to have uniform estimates across all homes to fairly spread the tax bill across all properties.

In our Region, the Fair Market Value of the property is based on a Sales Ratio Study which looks at the sales of similar properties over the last three years (essentially historical data is used).

A Township Assessor can use up to three approaches to determine value: the Sales (Fair Market) approach, Cost approach, and Income approach. Other regions incorporate these three approaches into a CAMA (Computer Assisted Mass Appraisal) system. In this way, a property that generates a higher income than others may yield a higher Assessed Value.

Supervisor of Assessment

Every County has a Supervisor of Assessment that assists in the performance of the Township Assessors' duties. They also assist the County Board of Review in their processes. They maintain records on various real estate tax exemptions and assist property owners with the filings of those exemptions.

Board of Review

Every County has a Board of Review made up of 3-5 people, generally with some background in real estate or the appraisal business. When a property owner wants to appeal the Assessed Value placed on their real estate by the Township Assessor, they appeal before the Board of Review. There is a formal Real Estate Value Protest Process in place so both parties understand the criteria (described later in this document). As a part of this process, the Board of Review considers evidence presented by both the appellant (the property owner who appeals) and the Township Assessor, and they make a decision if the value of the property should be reduced, maintained, or increased. If the parties don't agree on the outcome, the appellant can escalate the request to the State Property Tax Appeal Board (PTAB). *See Tables 2 & 3 in the Appendix for details on appeals.*

State Property Tax Appeal Board

If a property owner is dissatisfied with the decision of the Board of Review on their tax appeal, they may appeal to the State Property Tax Appeal Board (PTAB). The PTAB is comprised of independent members appointed by the Governor.

Taxing Bodies

Taxing bodies are defined as organizations that have been given the power to Levy a tax. Taxing bodies cover various boundaries or districts. A property tax bill will display which taxing bodies an individual real estate owner is paying taxes to and in what amount on their individual bill. Commonly seen taxing bodies include: the County, Forest Preserve, Township, City, Park District, Library, Water Reclamation District, School District, Community College, as well as other miscellaneous taxing bodies depending on the location of the property.

A common misconception is that the taxing bodies are solely responsible for the tax bill. While they are the entities responsible for setting the tax Levy, they are not the only participants in determining the tax bill.

Tax Levy

A Tax Levy is the amount of money a taxing body budgets for a year that needs to be raised from real estate taxes. There is a process that is used by each taxing body (including a time for individuals and businesses to ask questions about the Levy) and when this is complete the Levy is transmitted to the County Clerk. The actual dollar amount billed to real estate owner in the taxing district is referred to as the Tax Extension. The Tax Extension can be lower than the Tax Levy due to tax rate limitations mandated by the Property Tax Extension Limitation Law (Tax Caps).

Appraisers

When real estate is purchased (by an individual or business), the Lender hires an appraiser to provide an analysis regarding the value of the property by comparing similar properties. The lender does this to determine the collateral amount and risk of the loan. The appraiser's role is to act as an independent third party that has knowledge and information about the property and market being reviewed. An appraisal is comprised of historical data/information which can be problematic in rising and falling real estate markets (appraisers can use judgement in these situations). Each Lender has its own set of criteria that determines which appraisers they use.

It is important to note that a Lender's appraised value can be different than the Township's Fair Market Value. This gap is a point of controversy.

Realtors

Our real estate community is our salesforce (for both individuals and businesses). The role of a listing agent is to generate a Comparative Market Analysis (CMA) report to suggest the best selling price, to negotiate the best price for the seller and guide them through the sales process. The role of the buyer's agent is to negotiate the best purchase price for the buyer and guide them through the sales process.

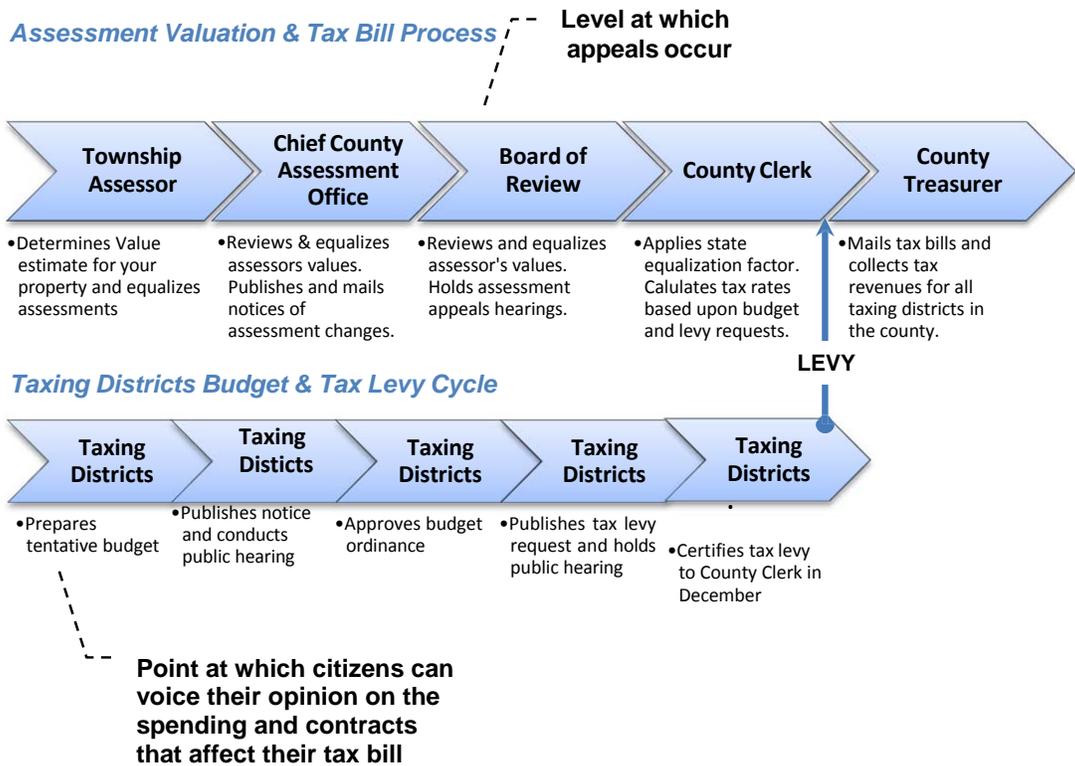
Elements that influence the CMA report include (but are not limited to): historical comparable sales (that includes foreclosures and short sales), the performance of the school districts, and historical unemployment rates. Perception of the Rockford region also impacts the CMA which continues to weigh negatively on real estate values (although improvements are being seen).

Lenders

Lenders are made up of Banks, Credits Unions, Mortgage Companies, Insurance Companies and individual investors. Lenders make money by charging interest and fees on loans. Lenders rarely give loans in an amount equal to the Appraised Value. Appraisals are discounted by a certain percentage to lower the Lender's risk. Loans to individuals can require appraisals to be discounted by 2% to 40% depending on risk. Loans to businesses can require appraisals to be discounted by 15% to 50% depending on property type and risk. The higher the appraisal is discounted, the more cash the buyer has to bring to the deal. After the 2008 real estate correction, many Lenders reverted back to lower risk underwriting practices (by force through regulation or on their own) causing buyers of real estate to bring more cash to the deal.

The Tax Process

The Township Assessor's assessment of real estate values and the Taxing Bodies Levy process run independent of one another until the 2nd year of the property tax cycle when the County Clerk extends taxes.



The Real Estate Value Protest Process

Real estate property owners have the right to appeal their Assessment to the County Board of Review within 30 days after assessments are published. A formal complaint may be based on any of the following claims:

- The assessor's market value is higher than actual market value. This claim can be supported if the property has recently been purchased on the open market, if a professional appraisal is supplied or if the appellant supplies convincing evidence from sales of comparable properties that the value is too high
- The assessed value is at a higher percentage of market value for the property than the prevailing township median level, as shown by an assessment /sales ratio study
- The assessment is based on inaccurate information, such as an incorrect measurement of a lot or building.
- The assessment is higher than those of similar neighbouring properties
- The assessment is based on a factual error(s)
- The assessment was made on an illegal basis
- Uniformity

The appellant must provide a list of comparable properties as evidence that their Fair Market Value is higher than the market value. They do this by providing information on recent sales of comparable properties. They are allowed to choose which properties they present as evidence and may choose to include foreclosed, distressed, or short sale properties as a comparable.

Please see Tables 2 & 3 in the Appendix for trends regarding assessment appeals in Winnebago County.

Problems (Section 2)

1. Lagging Equalized Assessed Value Growth

Growth in the equalized assessed value, or tax base, is lagging peer communities and not offsetting the combination of inflation in costs (taxing bodies) and the decreases to the EAV such as an abundance of foreclosed properties impact on market value, exemptions and protests.

2. Lack of Transparency

There is a lack of transparency in the Rockford Region at many levels and for many reasons. Transparency is defined as “the full, accurate and timely disclosure of both processes and information”. Many processes of key players in the EAV discussion (outlined in the Education Section of this document) are complex and disjointed. Some of these processes are impacted by laws and regulation. Some of these processes are so burdensome that they are ineffective or require the parties working in them to be elite problem solvers. Leaders in charge of these processes have run into barriers trying to fix the unresolved issues and that lack of success/frustration has caused ineffective “quick fixes” or the problems to be buried. Transparency is hurt or strengthened by the credibility/results and trust of its Leadership.

3. Lack of Integrated Processes amongst Key Players in EAV

Integrated process innovation is defined as taking a holistic approach to processes that emphasize unity and collaboration. It considers the interactions between different operations as its priority, rather than optimizing them separately. As rapid changes in industry, market, labor, culture and population emerged in the Region, many organizations in the Rockford Region fell prey to diminishing processes to conserve costs or at best maintaining older processes. Collaboration and innovation continued in pockets but not broadly in the community. As a result, the amount of work required to catch up on integrated process innovation is at times overwhelming.

4. High Level of Residential Real Estate Tax Payers Compared to Peer Regions

As the Rockford Region lost major employers and more vacant commercial and industrial buildings became obsolete, the percentage of business tax burden decreased and the percent of the residential tax burden increased. At the same time, the Assessed values of both business and residential properties began to fall. When Assessed values in a community fall, tax rates increase to meet tax requirements/levy's (even if levies stay the same or increase). With fewer businesses to absorb tax requirements/levies, a greater part of the tax burden is spread to individuals. Without an aggressive regional marketing plan to attract new businesses to the region (even with incentives), the individual tax burden will continue.

5. Lower Return on Investment than Peer Communities

While low real estate values may seem like an attractive attribute to investors of the Rockford Region, the benefit is somewhat offset by high real estate taxes (see Table 4 in the Appendix showing Winnebago County tax rate in relation to the State of Illinois) and lack of appreciating values after the purchase. In other words, the high real estate taxes and lack of real estate appreciation in the Rockford region causes investors (individual and business) to get a lower return

on investment than other peer communities. For example, a business invested \$3,000,000 into a building for its renovation/expansion in 2015 but its Appraised (Lender) and Assessed Fair Market Value (Township Assessor) valued it at \$1,000,000; just one-third of the cost of the improvements. In this example, the business investor spent \$3,000,000 that ended up being worth \$1,000,000 with a low probability of appreciation and higher taxes than in peer communities. Of course there are many other factors that impact a real estate investment in the Rockford Region such as infrastructure, incentives, utility benefits, industry benefits, labor pools to name a few. Unfortunately, selling the “other benefits” of investing in the Rockford Region’s real estate pools require elite collaborative sales communication and marketing efforts which the Rockford Region isn’t sustainably executing.

6. Long term, economic development tools such as TIF’s and Enterprise Zones have been ineffective

Low property values affect our TIF district’s (tax increment financing) and Enterprise zone’s effectiveness to act as tools of redevelopment. One of the anticipated benefits of putting a TIF district or Enterprise zone in place is to stimulate business growth, job creation and/or an increase in property or sales taxes within its boundaries. A TIF freezes the base of the assessed values of the properties for 23 years within its boundaries at a certain point in time. The increase in taxes due to an increase in assessed value is considered the increment. This increment is used to fund development projects. TIFs are effective if property values are going up. If property values are decreasing, there is little increment to use or to help fund future development projects. Taxing bodies operate on the base assessed value for 23 years. Not until after 23 years have passed (if the TIF is not renewed) can they account for the increase in assessed value into their budgets. (See Table 5 in the Appendix)

Scenario:

A property sits vacant for 15 years before a developer invests and renovates the property. The developer invests \$3 million with some TIF assistance for additional funds for improvements from the City and generates income off the improved office space through rents.

In looking at the value of the property after the \$3+ million renovation, the property is valued by the Assessor’s Office closer to \$1 million. The improvements do not get valued at its construction cost because its new value is considered according to the sale of comparable properties in the area. Because the sale of comparable properties are low, the new investment is valued low as well. The taxes between the building while vacant and after its renovation do not produce a large increment change. These small increments in taxes are the funds that go into the TIF district to help fund future projects. With lower than anticipated increments and property values, these districts are performing flat or at a loss.

7. Best property Comparable (type or value) Not Being Used

Both in Tax Fair Market values and Lenders appraisals, comparable sold properties (typically sold within the last 12 to 24 months) are at least partially used to determine value. In some cases, completely dissimilar buildings have been used by Appraisers and Assessors as a comparable. For example, retail buildings have been compared to pole barns as well as buildings of vastly different construction and eras. Active manufacturing buildings have had comparables used that include a vacant manufacturing building that had not been occupied in years and has since been demolished. The vacant manufacturing building was still used as a comparable when the State Property Tax Appeal Board (PTAB) was evaluating the appeal.

8. Impact of Real Estate Tax Exemptions for Individuals

Multiple real estate tax exemptions implemented by the State have impacted our Region's total collection of property tax. Individuals eligible for these exemptions receive a reduced property tax bill. Reductions in property tax bills decrease the total amount of property tax collected. Meanwhile, the amount needed for services provided by our taxing bodies (i.e. fire, police, schools) remains the same or increases. The result is an increase in the property tax rate to bring collection amounts back to a level that funds our taxing bodies. Little by little, those who first experienced the benefit of having an Exemption, as well as all taxpayers, will see their bill rise because the tax rate will need to adjust to fund services.

Types of exemptions and how they work:

- General homestead exemption
Up to \$6,000 EAV reduction of the increase in EAV above the 1977 value of your property.
- Homestead improvement exemption
An additional amount, up to \$25,000 reduction in assessed value for four years, if assessment increases due to a new improvement of an existing structure on homestead property or the rebuilding of residential structures following a catastrophic event.
- Senior citizens' homestead exemption
An additional \$5,000 reduction in EAV (this new reduction amount began with taxes payable in 2014) if you are 65 years or older during the tax year.
- Senior citizens assessment freeze homestead exemption
An exemption of any assessment increase above the base freeze assessed value established for your property if you are 65 years or older and meet household income requirements.
- Returning veterans homestead exemption
An additional \$5,000 reduction in EAV the year that you return from an armed conflict and the year after returning.
- Disabled veterans' homestead exemption
An additional reduction up to \$70,000 if the federal government has approved payment to construct or modify your home if you are a disabled veteran with a service-connected disability.
- Disabled veterans' standard homestead exemption
An additional reduction of \$2,500 in EAV if you are a disabled veteran with a 30% to 49% service-connected disability certified by the U. S. Dept. of Veterans' Affairs or for disabilities and from 50% - 69% in the amount of \$5,000 and a total exemption in EAV for a 70% or greater service-connected disability. Properties assessed for \$250,000 or more will receive no reduction for this exemption
- Improvements to residential property, accessibility
Accessibility improvements made to residential property shall not increase the assessed value of the property for a period of 7 years after the improvements have been completed

9. State Barriers

Some peer regions use a mixed approach to fund their Taxing Bodies' Levy's/services such as property taxes, State income tax, sales tax, or usage fees. Our region relies more on property taxes than some other regions. When our property values fell, we did not turn to other sources to make up the difference.

In 2010, State law required that compulsory sales, which include bank Real Estate Owned (REOs) and Short Sale properties, be used as comparable sales in evaluating property values. This affects our Equalized Assessed Value in that these lower values are incorporated into the total value; another factor that decreases property values. The ability to use these types of sales as comparables in the appeals process benefits the property owner who comes forward to reduce their assessment in order to lower their tax bill. Appellants are now able to use these foreclosures and short sales in the neighborhood as comparable sales. They then have a case for reducing their assessment to a value closer to that of the foreclosure or short sale price rather than reflecting a standard market sale.

Efforts by the Winnebago County Board of Review in 2014 have shaped the rules to use compulsory sales in a neighborhood to a matter of percentage rather than their actual value. These new stipulations now limit the extent to which a property owner can use a compulsory sale in their appeal. This is beneficial to overall property values as the foreclosures and short sales (compulsory) are less influential in the marketplace than they were from 2010-2014.

Possible Solutions (Section 3)

How to prioritize, execute and measure success

The current plan is to gather 5 groups of 3-4 RAEDC Leadership Council members and assign a Solution. These groups will sit with relevant parties (face to face) to collaborate and advance the solution. Metrics will be set by the group to determine success and updates will be given at the quarterly Leadership Council meetings.

1. Implement Intentional and Effective Strategies for Incentivizing Investment
 - a. Consider Residential Investment Incentives such as:
 - i. Location Based Scholarships
 - ii. Short Term Residential Abatements for Investment
 - iii. Short Term Business Abatements for Investment
2. Deconstruct the myth of the cost of doing business and of living in the region
 - a. Create a marketing campaign and sales process tools to quantify the benefits of buying and developing real estate in Rockford including Search Engine Optimization.
 - b. RAEDC influencing the DCEO to create State marketing campaign that compares the cost of doing business here vs. somewhere else
3. Shed light on the process
 - a. Transparency on appeals
 - i. For example, County publishes the top ten appeals for both commercial and residential properties as well as major cases before the PTAB that year
 - b. Transparency on Levies –Tax bills: illustrate those that have gone up, down or held

their levies.

Include historical data for 3 – 5 years

- c. Media Campaign to educate the current tax payers on “ How the tax bill is set - the taxing districts’ levies – contracts/budgets/setting the levy” and “Who plays a role in determining your property’s value” and “How Protests Make Everyone Else Pay More”
- d. Create a “hotline” for Realtors to present highly illogical real estate tax situations that are urgent (they will “kill a sale”)

4. Influence Local and State

- a. Gather several key players in the EAV issue to innovate and collaborate on local process improvements (create truly transparent processes where people/business have a say)
- b. Process alignment/improvement with PTAB (Property Tax Appeal Board) through conversations with State legislators
- c. Research how Board members are placed on PTAB, get a local person to be appointed
- d. Create teams to visit each Taxing Body to propose flat levies for the next 3 years
- e. Freeze property tax while the problem is being addressed and do a temporary Sales Tax Increase
- f. Get all of Winnebago County to share expenses like the Airport and Park District
- g. Work with key players to train key members and staff on overcoming roadblocks (helping them become more elite problem solvers) and directing them to critical resources
- h. Develop a more consistent County-wide approach in assessing property

5. Study peer communities to get ideas, best practices and metrics

Appendix

Table 1

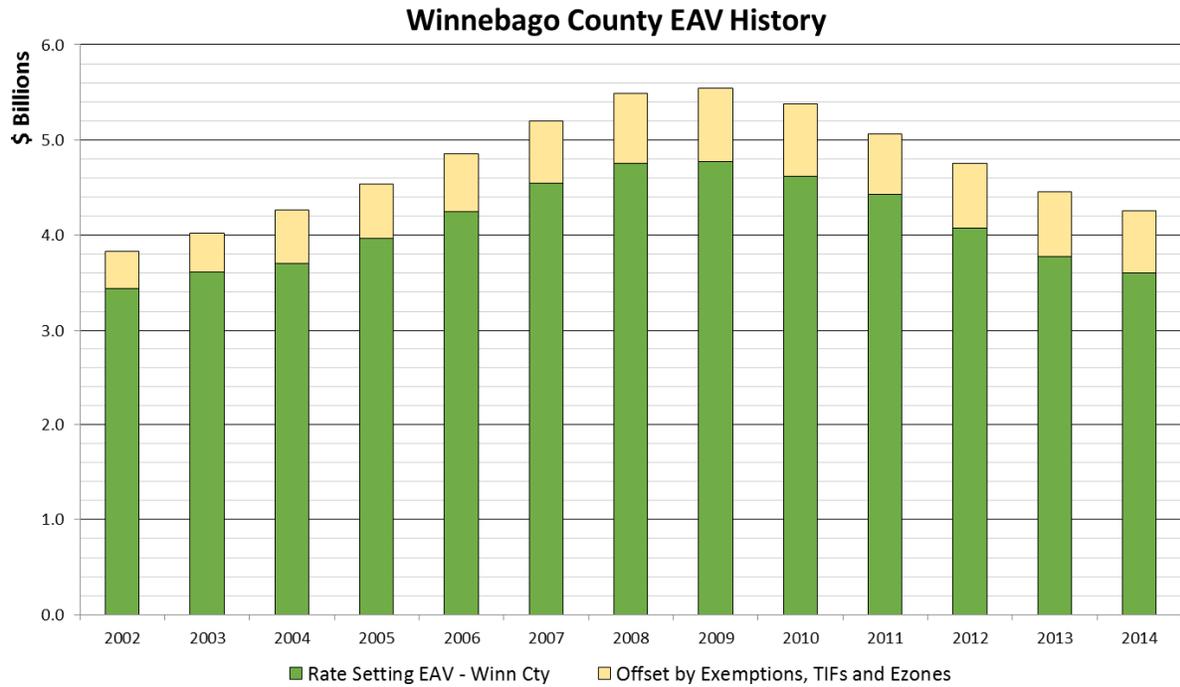


Table 2

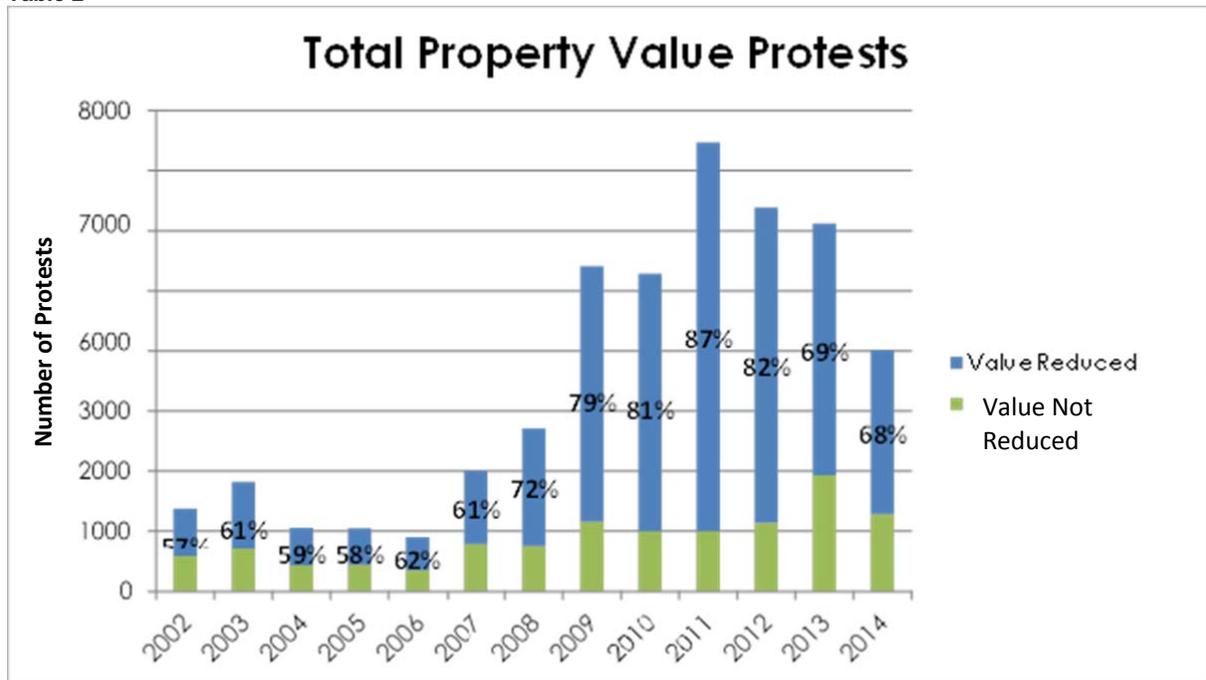


Table 3

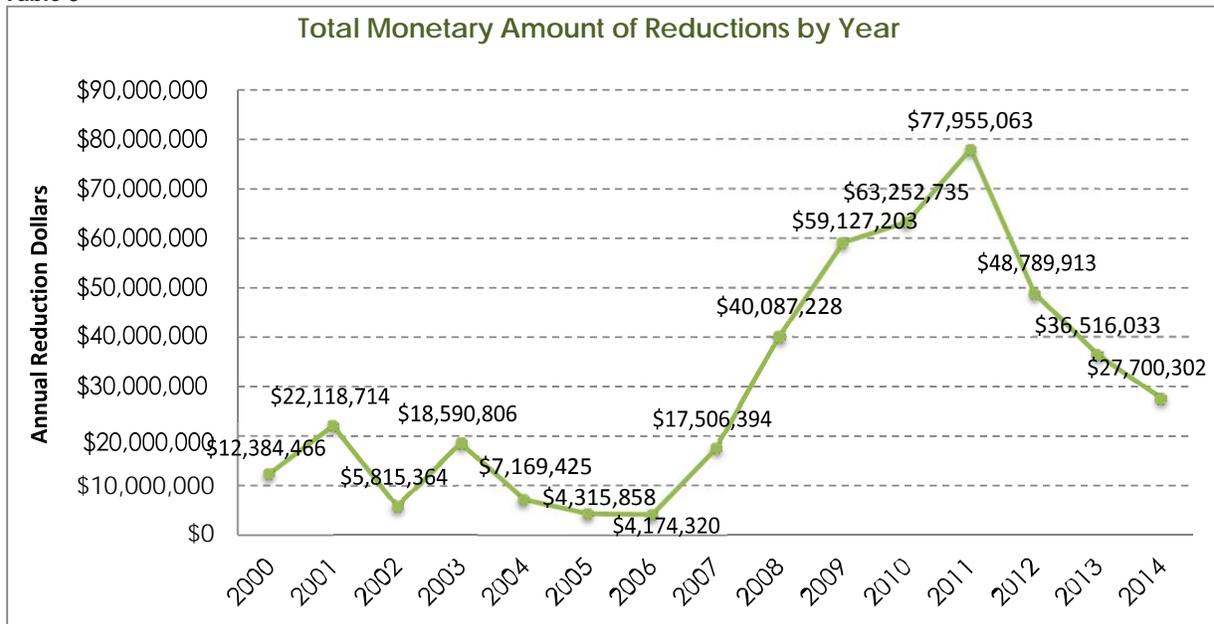
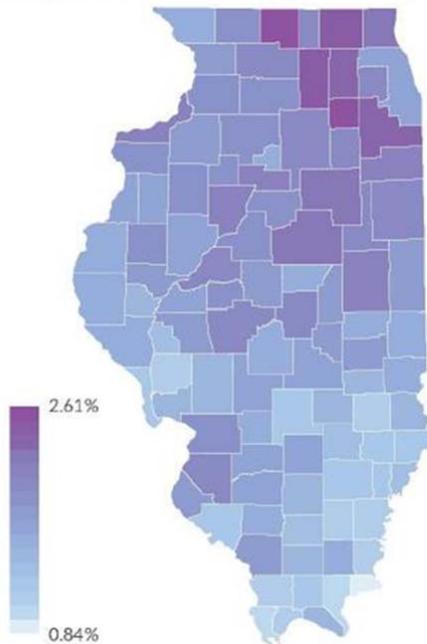


Table 4 – Winnebago County in relation to other counties in the State

Residential Effective Property Tax Rates Vary Widely among Counties

Aggregate Real Estate Taxes Paid as a Percent of Aggregate Housing Value of Owner-Occupied Housing Units (5-Year Estimate, 2009-2013)



On average, the residential effective property tax rate in Illinois (using a five year average from 2009 to 2013) was 1.92 percent, though county-specific values vary around this mean. The highest residential effective rate occurred in Kendall County at 2.61 percent, while the lowest was in Hardin County at 0.84 percent. Cook County, the home of metropolitan Chicago, had an effective property tax rate of 1.68 percent.

Within a county, individual homeowners' effective rates may differ from these county averages. For example, a home in Cook County could have drastically different effective property tax rates depending on where it sits—a recent study found that a \$250,000 home in Chicago in 2010 had an effective property tax rate of 1.28 percent, while a home with the same market value in Park Forest (also in Cook County) had an effective rate of 5.68 percent.

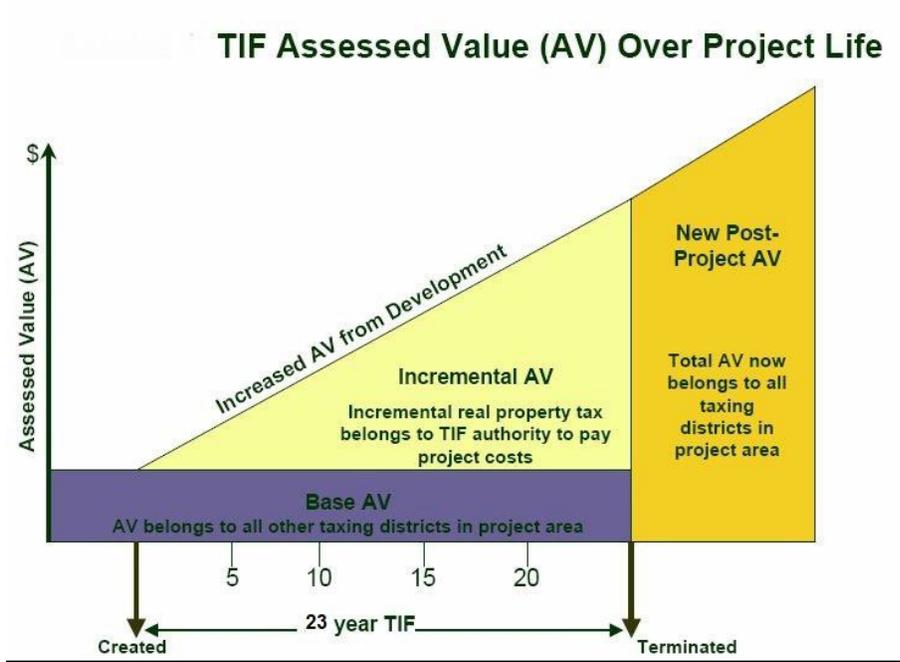
It's important to note that an effective property tax rate is not the same as the millage rate (that is, the statutory property tax rate levied by a local government).

Note: "Residential Effective Property Tax Rate" is calculated by dividing the total real estate (property) taxes paid in a county by the county's total housing value (owner-occupied units only). The American Community Survey data used here is based on 5-year estimates (2009 to 2013). This data does not include commercial property.

Source: Census Bureau, American Community Survey; Taxpayers' Federation of Illinois, Tax Facts, Volume 66, No. 3 (Summer 2013).

Source: Taxpayers' Federation of Illinois, "Tax Facts", July/August 2015

Table 5



Source: Sunlight Foundation (sunlightfoundation.com)