

Analysis of SB 318

Two-Year Property Tax Freeze

Issue Overview

Governor Bruce Rauner is making pursuit of a property tax freeze a key part of his “Turnaround Agenda.” While such a policy has no direct impact on the state budget, the Governor believes that Illinois’ reputation as a high property tax state undermines economic growth and contributes to population out-migration. According to the administration, the loss of businesses and taxpayers is creating a “death spiral” that will only make addressing the state’s financial crisis more difficult.

Since the spring of 2015, the Illinois House has held almost weekly votes on permanent property tax freeze amendments that would affect all local governments in Illinois. These amendments were adopted onto bills, but the bills were not approved by the House because they lacked the necessary 71 votes for passage. The Governor and House Republicans oppose these bills because they do not include other provisions from the Governor’s “Turnaround Agenda” designed to reduce costs imposed on local governments. Governor Rauner and House Republicans believe that limitations to local government revenues should be coupled with operating cost reductions. Calling for frequent votes on these permanent property tax freeze bills serves a political purpose by allowing the House Democrats to compel the House Republicans to repeatedly appear as if they oppose property tax relief.

SB 318 - Senate Democrats Seek a Compromise

SB 318 is an attempt by Senate President John Cullerton (D-Chicago) to compromise with the Governor on the property tax freeze issue while also addressing high profile education funding issues. The bill was approved by the Senate on August 4 by a vote of 37-1-18. Following the Senate vote, the bill was assigned to the House Executive Committee on August 5 where it remains at present.

Two-Year Property Tax Freeze with Exemptions

SB 318 proposes a two-year, temporary property tax freeze on all taxing districts (home rule and non-home rule).

As passed by the Senate, the two-year property tax freeze within SB 318 would apply to all taxing districts outside of Cook County in levy years 2016 and 2017. Cook County taxing districts would experience the freeze in levy years 2017-2018. At the request of the Illinois Municipal League (IML), the bill includes an exemption from the freeze for public safety-related expenditures, as well as bond payments during the two-year freeze period. The freeze would be accomplished by setting the extension limitation at 0%. This limitation can be exceeded through

voter referendum. Taxing districts would continue to receive proportional increases in extensions for new property, annexed property and expiring TIF district increments. The rate at which new value can be taxed would be limited by the freeze. The intent of the bill is for the two-year freeze to function in the same manner as PTELL based upon a scenario where the Consumer Price Index (CPI) is 0% for two consecutive years.

Elementary and Secondary Education Funding Reform

The bill also proposes a significant alteration to the school funding formula. Under SB 318, a bipartisan commission is tasked with the goal of recommending a more equitable alternative state aid formula by December 31, 2016. This would presumably allow the General Assembly and Governor sufficient time to discuss and adopt a new formula during the 2017 spring session in advance of the June 1, 2017, repeal of the current state aid formula.

SB 318 also includes some financial assistance for the Chicago Public School System by having the State assume responsibility for funding the normal cost of the annual payment to the Chicago Teachers' Pension Fund. The cost of reimbursements for retiree health insurance would also be absorbed by the State. Both of these costs would be paid as continuing appropriations.

The inclusion of school funding reforms is noteworthy because a re-conceptualized state aid formula may reduce the reliance that Illinois' school funding has on property tax revenue. Depending on the outcome of a new approach to funding education, there could be a reduction in the overall property tax burden since school funding is the most significant driver of property tax increases.

Going Forward

The fate of the bill in the House remains uncertain, but there have been no indications that House Democratic Leadership is interested in moving SB 318 forward as drafted. In addition to some opposition among the Democrats, House Republicans continue to withhold support because the legislation does not include other provisions from the Governor's "Turnaround Agenda," such as local control over collective bargaining and exemptions from the prevailing wage law.

For the moment, SB 318 continues to languish in the House Executive Committee and the deadline for taking action on the bill has been extended multiple times. As with any issue, however, events can change subject to further negotiations and attempts to reach a deal. The IML remains opposed to a permanent property tax freeze. If a temporary property tax freeze appears likely to advance, the IML intends to exercise influence to limit any harmful consequences.