

## How School Districts Over Tax Their Residents

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The purpose of this article is to explain how school districts, in particular, legally levy more taxes than what they state when they are attempting to get voters to approve a tax increase. This is a case study of one school district. However, these are the same tactics that can be used by any districts and has been used by many to date. This is allowed by the deliberate loopholes placed into law by a complacent legislature.

A discussion of how any taxing body obtains revenue from its taxpayers has to begin with PTELL. The State of Illinois established a Property Tax Extension Levy Limit (PTELL) which controls the amount of money which may be raised by taxing bodies which are not Home Rule governments. PTELL binds all school districts. At its most basic level, PTELL calculates the maximum amount of property tax revenue which may be raised in any year, using a complicated four step formula<sup>3</sup>. However, the method is further complicated by an allowance for increasing the revenue by the amount expected to be received as the result of a successful referendum.

Before PTELL, taxing bodies (excepting Home Rule units) were limited by the maximum tax rate set by law in any given Fund. Approved tax rate was set against the taxable valuation of each property in the district. As taxable values rose, taxing bodies could raise more revenue. These additional funds allowed districts to keep their tax rate at or below the maximum.

However, a problem arose when housing values rose faster than personal income. The higher valuations provided an apparent windfall to the taxing bodies. Unfortunately, it left the taxpayer with a heavier burden. This was especially true for those on fixed incomes.

Taxpayer complaints resulted in the legislature adopting what are commonly called tax caps, but, which are limits to the amount of money which a taxing body can raise in a Tax Year. This is the PTELL legislation.

The statutory maximum tax rates in any Fund remained. This belt (PTELL) and suspenders (Maximum Tax Rate) is unique among the States.

Illinois taxing bodies retained the right to have their voters approve by referendum increases in the maximum tax rate in any Fund. However, the amount of additional revenue which might be raised in any tax year was limited by PTELL.

When a referendum is passed a District has 5 years to implement the increased tax rate. Doing this is called **phasing in** the increase.

We are now ready to discuss a specific example. In November 2002 the voters of this school district approved their referendum which asked for a rate increase in the maximum rate of the Education Fund from \$1.710 to \$2.160 or 0.45 per \$100 assessed value. The ballot question did not indicate that the District was currently extending taxes in the Education Fund significantly below the current maximum rate. In addition, no reference was made or had to be made regarding the increases in Valuation in the District which would mute the effect on the tax rate. Nor did it indicate that the increase authorized would be used in Funds other than the Education Fund

The total Assessed Valuation of properties within the District was increasing at a rate of eleven percent per year. In addition to inflationary increases in value of existing properties, new construction of property of all types had an effect on the District's taxable Assessed Valuation.

In Lake County, the Township Assessors mark property to market annually and use an assessment ratio of one third of market value. Failure to do that causes the County wide Board of Review to apply a "Township Multiplier" to reach that ratio. The County's stated objective in so doing is to present to the State Board of Review its properties which may receive a County wide equalization factor of 1.0.

State law generally requires that all properties be valued at one third of estimated market value. The State uses sales ratio studies to determine if those properties sold had been assessed properly. Based on those studies it assigns the Equalization factor to all properties in each County. Each County has a distinct and separate equalization factor to bring, generally, the properties therein in line with State law.

Before getting into the numbers, let's define a few terms.

- Funds – the books of the taxing body are kept by Fund Accounting. Each Fund has a specific statutory purpose, receives funding from certain sources and expends it for that purpose as permitted by State Law.
- Fiscal Year – the fiscal year for any primary or secondary School District runs from July 1 to June 30 of the following year.
- Valuation Year – all properties are valued, and a final valuation set in each Calendar Year.
- Tax Year - Taxes are extended against the Valuation of the Valuation Year. Taxes are extended and then collected in the following year. For instance, Tax year 2001 collects property taxes in 2002.
- Levy – The dollar amount the District requests in each fund from the County for the upcoming tax year. The Levy is net of other expected sources of revenue such as State and Federal Aid
- Extension - The actual dollar amount the District is authorized to receive in any Fund after the County ensures the District does not receive more than the maximum tax rate for that Fund. The Total Extension is the sum of the individual Fund extensions. In sum, it must be no greater than that permitted under the Tax Cap (see below).
- The Total Tax Rate – The sum of the individual tax rates set for each Fund. This includes those Funds which are restricted as to maximum tax rate and the rate derived for Funds outside of the Tax Cap, such as Bonds and Interest and IMRF. This is the rate calculated by the County that ensures the District does not receive more money that allowed.
- Maximum Tax Rate –The sum of the maximum tax rates in the restricted funds plus the Tax rates For the other Funds
- The Actual Tax Rate – The rate extended all taxable property in the District. It will likely be lower than the Maximum Tax Rate because of the Tax Cap, the effect of new construction and reassessment and several other minor factors.
- Tax Cap (PTELL) - Allows school districts to increase property taxes by the lower of the <sup>4</sup> Consumer Price Index (CPI) or 5% annually, plus taxes for new construction.

Copies of the <sup>1</sup> PTAX 253 Reports for this District were FOIA'ed from the Lake County Clerk's Office, Tax Extension Division. These reports show the actual rates and the actual extensions, dollar amounts, the district has requested and received since the passage of referendum in November 2002. Below is the table showing the actual extensions received by District 127 from those reports. This is by tax year. Bonds and Sedol IMRF are excluded from the table below. Bonds are for the new school and the county sets the rate. Sedol is set by the State and is the Special Education District of Lake County. This fund is a sort of make-up fund where Districts can put extra money into Special Education Teachers retirement since some did not put enough into the fund earlier. I believe the teachers must be 50 or 55 and older. The rest of the funds are levied by the District. I have rounded down to whole dollars for ease of reading throughout this entire article.

**Table 1**

Extension Year	2001	2002	2003	2004	<sup>2</sup> 2005
Education	\$10,803,851	\$14,557,386	\$16,373,753	\$18,569,617	\$24,806,382
Operations	\$1,714,005	\$1,954,064	\$2,178,519	\$2,344,648	\$3,235,615
IMRF	\$14,049	\$47,085	\$313,706	\$506,444	\$754,976
Transportation	\$842,953	\$941,717	\$1,045,689	\$1,125,431	\$1,617,807
Working Cash	\$56,196	\$47,085	\$435,703	\$468,929	\$647,123
Fire Prevention			\$252,708	\$9,378	\$754,976
Special Ed	\$112,393	\$156,952	\$174,281	\$187,571	\$323,561
Tort	\$56,196	\$62,781	\$505,416	\$581,472	\$754,976
Lease			\$435,703	\$468,929	\$754,976
Social Security	\$14,049	\$47,085	\$313,706	\$506,444	\$754,976
Relocation			\$148,139	\$468,929	\$215,707
<b>Totals</b>	<b>\$13,613,692</b>	<b>\$17,814,155</b>	<b>\$22,177,323</b>	<b>\$25,237,792</b>	<b>\$34,621,075</b>

<sup>2</sup>This is the levy approved by the District 127 School Board on 12/15/2005. For information, the Equalized Assessed Valuation would have to increase by 22.5% and the new maximum tax rate for the Education Fund (2.16%) assigned for this amount of money to be collected. If the EAV increases by its annual average over the past three years -- 11.17% -- the new maximum rate in the Education Fund would raise just over \$22.5 Million dollars. This excessive levy request provides an example of a District attempting to sop up every possible dollar for its own use. When the levy is reduced to the legal extension by the County, Board approved programs will be unfunded. This provides a strong temptation for the District to use its so called reserve funds for this purpose. This is deficit financing. At some time these reserves will have to be reconstituted at taxpayer expense.

Table 2 shows the actual tax rates for each fund produced by the extensions above along with the percent increase. Table 3 shows the underlying assessed valuations and growth over this same time period.

**Table 2**

	2001/2002	2002/2003	2003/2004	2004/2005	Rate Increase Since 2001/2002	Percent increase
Education	1.538	1.855	1.879	1.980	0.442	28.7366%
Operations	0.244	0.249	0.250	0.250	0.006	2.4590%
IMRF	0.002	0.006	0.036	0.054	0.052	2600.0000%
Transportation	0.120	0.120	0.120	0.120	0.000	0.0000%
Working Cash	0.008	0.006	0.050	0.050	0.042	525.0000%
Fire Prevention			0.029	0.001	0.001	
Special Ed	0.016	0.02	0.020	0.020	0.004	25.0000%
Tort	0.008	0.008	0.058	0.062	0.054	675.0000%
Lease			0.050	0.050	0.050	
Social Security	0.002	0.006	0.036	0.054	0.052	2600.0000%
Relocation			0.017	0.050	0.050	
<b>Total Rate</b>	<b>1.938</b>	<b>2.270</b>	<b>2.545</b>	<b>2.691</b>	<b>0.753</b>	<b>38.8545%</b>

**Table 3**

Underlying Assessed Valuation					Ave. Annual Increase	Increase Necessary To Support 2005 Levy
Tax Year	2001/2002	2002/2003	2003/2004	2004/2005		

<b>Actual EAV</b>	702,461,092	784,764,745	871,407,830	937,859,458		
<b>Increase (%)</b>						
<b>Year over Year</b>		11.7165%	11.0406%	7.6258%	11.1702%	22.4534%
<b>Total</b>				33.5105%		
<b>Effect of \$0.45</b>					<b>Total</b>	
<b>Additional</b>						
<b>Raised</b>		\$3,531,441	\$3,921,335	\$4,220,368	\$11,673,144	

As can be seen above, solely on the basis of the \$0.45 rate increase and in the absence of PTELL the District could have raised \$11.6 Million dollars. From the Table 2 above we can see that the District has increased their total tax rate by **0.753** per \$100 assessed value since the referendum passage. Of that amount 0.442 took place in the Education Fund and 0.311 took place in the remainder of the Funds. The District has yet to reach the Maximum Tax Rate in the Education Fund, but it is easily projected given the full requested Levy in the Education Fund and given the new Maximum Rate, the EAV would have to increase more than 22.4%.

The effect of applying the rate increase requested to the EAV was also examined. Over four years, an additional \$11.6 Million could have been raised.

Additional analysis is provided in the Table below

**Table 4**

<b>Effect of \$0.45</b>	<b>2002/2003</b>	<b>2003/2004</b>	<b>2004/2005</b>	<b>Total</b>
<b>Additional Raise Possible</b>	\$3,531,441	\$3,921,335	\$4,220,368	\$11,673,144
<b>Actual Ed Fund Increase</b>	\$3,753,535	\$1,816,367	\$2,195,864	\$7,765,766
<b>Actual All Funds Increase</b>	\$4,200,463	\$4,363,168	\$3,060,469	\$11,624,100
<b>Difference</b>	\$446,928	\$2,546,801	\$864,605	
<b>Change in Funds – Year to Year</b>				
<b>Educational</b>		\$1,816,367	\$2,195,864	
<b>Operations</b>		\$224,455	\$166,129	
<b>IMRF</b>		\$266,621	\$192,738	
<b>Transportation</b>		\$103,972	\$79,742	
<b>Working Cash</b>		\$388,618	\$33,226	
<b>Fire Prevention</b>		\$252,708	(\$243,330)	
<b>Special Ed</b>		\$17,329	\$13,290	
<b>Tort</b>		\$442,635	\$76,056	
<b>Lease</b>		\$435,703	\$33,226	
<b>Social Security</b>		\$266,621	\$192,738	
<b>Relocation</b>		\$148,139	\$320,790	

Several Facts emerge. The Education Fund received \$3.9 Million less than it would have gotten if the rate increase had been applied to it alone.

The bottom part of the Table is of great interest. Concentrating on 2003 and 2004, differential increases in the several Funds are shown. Certain facts emerge. Certain questions need to be

asked. Refer as well to the Percentage increases in Table 2 in the funds in existence throughout the period being examined.

Certain of the Funds did not exist until 2003. They show heavy expenditures. Referring to Table 1, Fire Prevention and Safety had a large expenditure in one year and flamed out in the next – only to increase extraordinarily in the Approved 2005 Levy. The category Lease occurred in 2003 and is scheduled to increase another fifty percent in 2005. Relocation Expenses are dropping.

Regarding the funds in existence, for the entire 2001-2004 period there are questions.

- What – for instance -- caused the massive rise in contributions to IMRF and to Social Security?
- What are the purposes of the Working Cash moneys? Are they truly a reserve for interfund borrowing and repayment, or are they to be spent to cover up deficits?
- Tort Immunity Funds have been used in other Districts to avoid the Maximum tax rate limits. Is that the purpose here?

To see the effect of the increase in valuation on the Ed Fund, it is examined from two perspectives. First, in the absence of a referendum, how much additional revenue could have been raised in that Fund? Second, how much more revenue was raised by releasing the former maximum tax rate?

**Table 5**

Tax Year	2001	2002	2003	2004	Total Change
Education Fund					
Increase at old maximum rate resulting from Valuation increase					
<b>Increase</b>		1,349,795	1,498,821	1,613,118	4,461,735
<b>Extension</b>	10,803,851	12,153,646	13,652,468	15,265,586	
Increase at actual rate resulting from Valuation Increase					
<b>Increase</b>		2,403,740	2,721,285	3,304,031	8,429,056
<b>Net Increase</b>		1,053,944	1,222,464	1,690,913	3,967,321

The referendum passage generated just under four million dollars for the Ed Fund.

This is a quick tip for any referendum question. Find out what the Actual Rate is in the current tax year. Then subtract the new maximum rate on the ballot. This will give you how much the increase in the education fund the District is really planning. The other funds cannot be estimated this way and as such will cost you even more than what you have just calculated. Here are 2 quick formulas to get a better estimate than what the ballot question claims.

1. Ballot Maximum Rate – Current Tax Year Actual Rate = Actual Education Fund Increase
2.  $((\text{Your Houses Market Value} * .3333) - 5000) * (\text{Actual Education Fund Increase} / 100) = \text{Your increased property tax}$

These formulas only apply for the maximum first year's increase in the following tax year after referendum approval. As your valuation increases you will be further burdened with a higher property tax. If those increases are greater than the district as a whole you bear and even heavier burden.

If the District phases in the tax increase, which they legally can and do, you will pay much more than what you have calculated. To illustrate this, the 0.45 increase in District 127 should have cost an owner of a \$200,000 home approximately \$277, \$284 and \$289 over the last 3 years. Instead, it has cost them \$204, \$374, \$464. The gap is ever widening and you will always pay this increased amount each and every year forward. Remember as well that as your valuation increases and the tax rate does not fall, your burden rises. This is especially troublesome for people on fixed income or whose assets are not liquid.

When voters approve an Education fund tax rate increase, they do not understand that other funds can, and usually are increased as well. The District shown in this example even created three new funds as shown in Table 1.

This provided them the following additional \$7.2 million as shown below. These amounts were calculated using the extension amounts from Table 1 excluding the Education Fund.

**Table 6**

2002	2003	2004	Total Increase
\$446,928	\$2,993,729	\$3,858,334	<b>\$7,298,991</b>

In conclusion, the laws governing referenda are complex. They allow the Districts to tell voters only one aspect of how much a referendum will cost the taxpayer. They also only have to tell them the cost for the first year. The Districts know that once the referendum is passed, they will have the ability to raise the levy rate over 5 years. This is completely legal, although very unfortunate for the unsuspecting taxpayers who do not find out the true cost of the referendum until several years later. This District is not the first to do this and it certainly won't be the last. This can and will most likely happen in any district that passes a tax referendum.

**Sources:**

<sup>1</sup> District 127 PTAX 253 Reports

Tax Year 2001: <http://educationmatters.us/d127/taxlevy2001.pdf>

Tax Year 2002: <http://educationmatters.us/d127/taxlevy2002.pdf>

Tax Year 2003: <http://educationmatters.us/d127/taxlevy2003.pdf>

Tax Year 2004: <http://educationmatters.us/d127/taxlevy2004.pdf>

<sup>2</sup> This is the actual levy approved by the District 127 School Board on 12/15/2005:

<http://educationmatters.us/d127/2005levy.pdf>

<sup>3</sup> Formulas used to calculate an extension for each tax year.

1.  $(\text{Prior Year Capped Rate} + \text{Rate Increase}) / \text{Prior Year Capped Rate} = \text{Increase Factor}$
2.  $(\text{Prior Year Extension Base} * \text{Increase Factor}) = \text{Adjusted Extension Base}$
3.  $(\text{Adjusted Extension} * \text{CPI}) / (\text{EAV} - \text{New Construction} - \text{Annexations} + \text{Disconnections} - \text{Dissolved TIF's}) = \text{Limiting Rate}$
4.  $\text{EAV} * \text{Limiting Rate} = \text{Current Maximum Allowable Extension}$

Note: All 4 formulas must be used for each tax year and in the order given.

<sup>4</sup> CPI Table by Year

Tax Year	CPI
1991	5.0 year of initiation
1992	3.1

1993	2.9
1994	2.7
1995	2.7
1996	2.5
1997	3.3
1998	1.7
1999	1.6
2000	2.7
2001	3.4
2002	1.6
2003	2.4
2004	1.9
2005	3.3
Current to be used for bill mailed May 2006	

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