

Board of Commissioners of Cook County
Finance Committee Meeting
July 18, 2017

Testimony of Christopher R. Berry

Thank you for allowing me to testify today. More importantly, thank you for your attention to this urgent issue of equity in Cook County.

A well functioning system of taxation is a cornerstone of good government and economic prosperity. When the system is administered fairly and transparently, taxes are one of the principle means by which each of us contributes to the public good. But when taxes are levied unfairly, they can be a means of injustice or even tyranny. A couple of weeks ago, we celebrated Independence Day, which marks our national rebellion against "taxation without representation." Unfortunately, in Cook County today we have an unfair, non-transparent assessment system that amounts to "taxation without explanation." I will make four basic points to explain the heart of the problem.¹

I. Assessments Are Regressive

The root problem is that assessments in Cook County are regressive: less expensive homes are assessed at higher rates than more expensive homes. To evaluate the quality of assessments, the standard practice in the industry is something called a sales ratio study. Simply put, we look at the homes that sell in a given year and compare their sale price to their assessed value at the time of the sale. If the system is fair and accurate, the assessed value should closely track the market value.

As Figure 1 shows, assessments in Cook County are neither fair nor accurate. (The figure is based on 170,000 homes that sold in Cook County between 2011 and 2015. The data come from the CCAO.) Less expensive homes are systematically assessed at higher levels than more expensive homes, and the difference is quite dramatic. For instance, the average \$100,000 home was assessed at 11.4%; the average \$1,000,000 home was assessed at 7.8%. In other words, the assessment ratio for the \$100,000 home is 46% higher. According to statute, both homes should be assessed at 10%.

Because assessments are the basis of property taxation, assessment regressivity influences the effective tax rates paid on residential property. Figure 2 shows the effective tax rate (tax bill as a percent of market value) according to home price. Because it is only sensible to compare tax rates in the same jurisdiction, Figure 2 uses data only from Chicago. Again, the downward sloping line indicates regressivity: less expensive homes pay higher property tax rates. For instance, the average \$100,000 paid an effective tax rate of 1.61%; the average \$1,000,000 paid an effective tax rate of 1.16%. In other words, the rate for the \$100,000 home is 39% higher.

¹ A more extensive discussion can be found on the website of the Center for Municipal Finance at the University of Chicago.

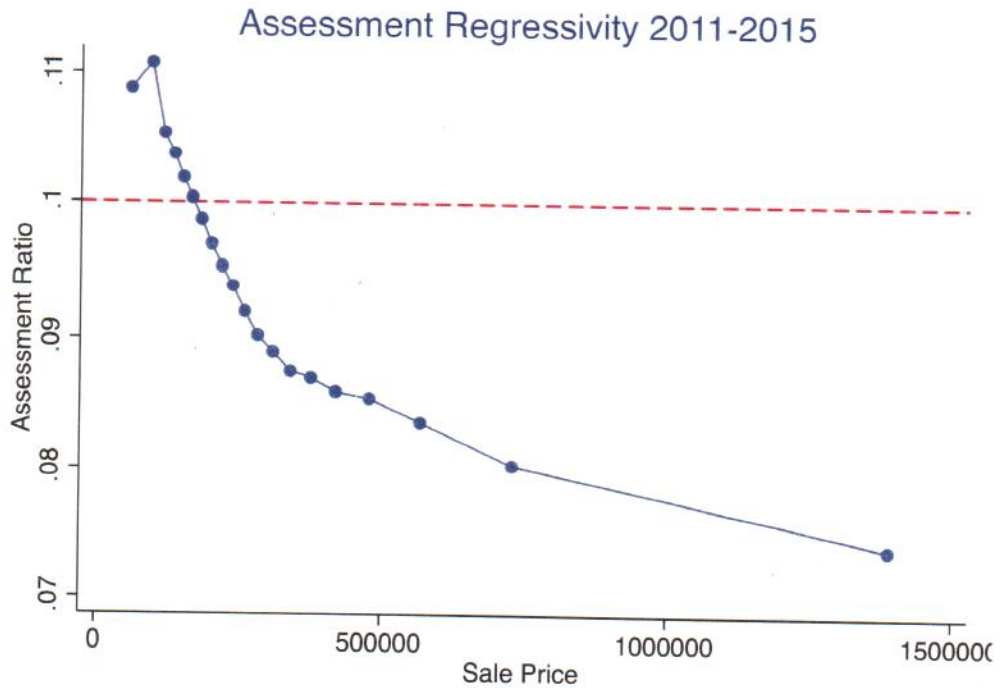


Figure 1: Less expensive homes are assessed at higher rates

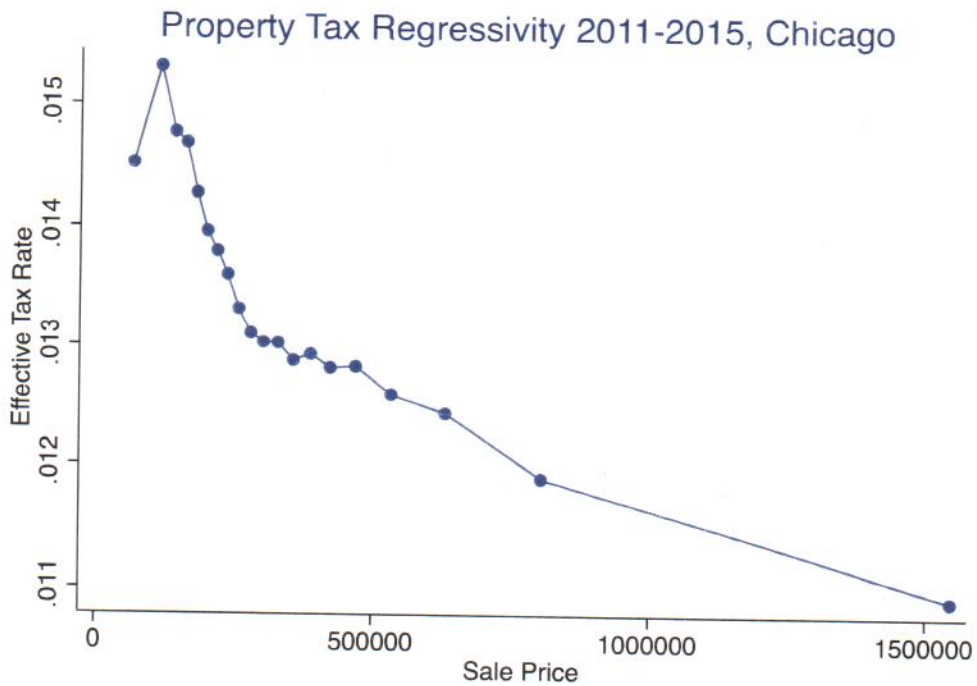


Figure 2: Less expensive homes pay higher property tax rates

II. Minority Neighborhoods Are Disproportionately Over-Assessed and Over-Taxed

As I said, the owners of less expensive homes are systematically over-assessed. Moreover, homes located in minority neighborhoods are assessed at higher rates than homes in predominantly white neighborhoods. Figure 3 show the average assessment ratio according to neighborhood (i.e., 2010 census tract) racial composition. Predominantly minority neighborhoods are assessed at higher rates on average. For instance, the average home in a neighborhood that is 80% or more white was assessed at 8.6%, while the average home in a neighborhood that is 80% or more non-white was assessed at 9.9%. The average assessment ratio was 15% higher in the predominantly non-white neighborhoods. A simple regression analysis shows that the relationship between assessment ratios and neighborhood race is statistically significant, and holds even after controlling for individual home value. In other words, given two homes of the same value, the one in the minority neighborhood is assessed at a higher rate on average.

I have described this as an example of institutional racism. I want to be very clear about what I mean. *Institutional racism* describes a situation in which the rules and practices of an institution generate outcomes that are racially discriminatory, even if no individual person is motivated by racial animus. I am not suggesting that Joe Berrios, or anyone in his office, is a racist. I am saying, as the data plainly show, that the assessment system as it currently exists in Cook County leads to racially discriminatory assessments and taxes.

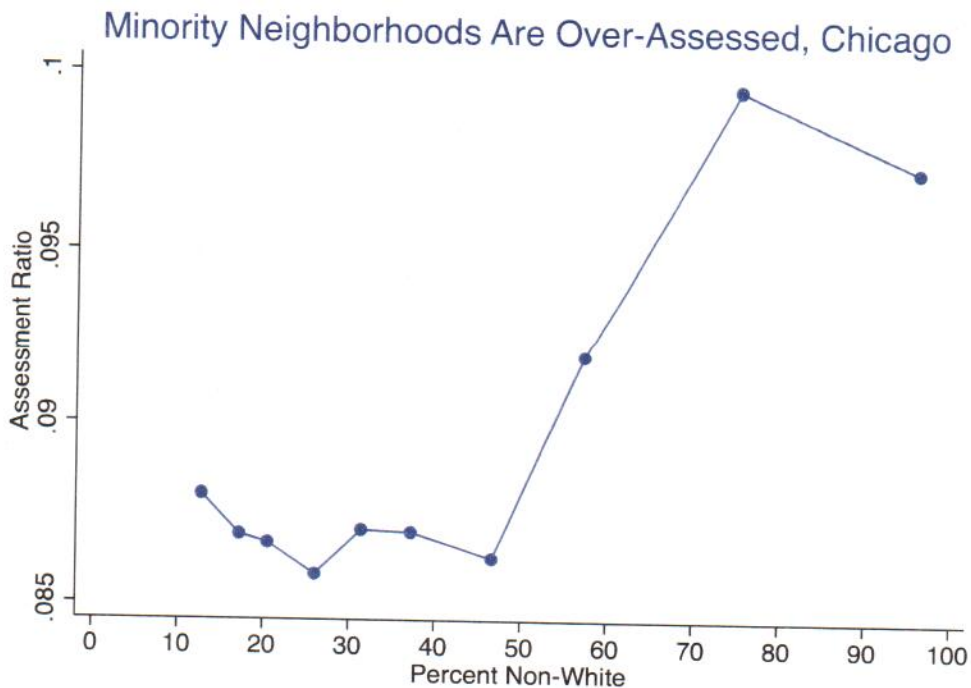


Figure 3: Homes in minority neighborhoods are assessed at higher rates

III. Appeals Do Not Remedy Regressivity—They Make It Worse

When confronted about regressivity, the CCAO has responded that the opportunity for a homeowner to appeal an assessment will remedy the situation. This is simply false as a matter of fact. Regressivity is worse after the appeals process than before. The reason is simple: the people who have been over-assessed are not the ones who are most likely to appeal. In part, this is because owners of more expensive homes are much more likely to appeal than owners of less expensive homes, regardless of whether they were actually over-assessed. This is not to blame the people who appeal. When 80% of homeowners who appeal are ultimately granted a reduction, it is not hard to understand why so many appeal. Given my limited time, I don't want to say much more about the appeals process—it's not the main event—but I will be happy to take your questions later. The important point is that appeals make regressivity worse, not better.

IV. Taxation without Explanation

Many of you may be asking the same question: *Why* is the system so regressive? The answer is that we don't know because the CCAO refuses to fully disclose its methodology. We know that they use some sort of statistical model but that nearly all assessments are changed by the CCAO through a secret process known as "hand checking." Even now the CCAO is fighting a court order to divulge the details of its hand checks. It is outrageous that citizens should have to sue their government to find out how their taxes are calculated.

V. CCAO's Misleading Response to the Tribune Stories

In the minutes I have remaining, I'd like to comment on some of CCAO's recent statements about these issues. Unfortunately, some of their statements have been misleading or patently false.

Last week, the CCAO circulated a release—to the press and to the members of this committee—claiming that a new study by the Lincoln Land Institute (LLI) had concluded that taxes in Cook County are fair, thereby refuting the *Tribune* stories. I am not going to mince words. The CCAO's statement was absolutely false and I believe deliberately misleading. What the LLI study actually showed was how the system would work *if assessments were accurate*. If assessments were accurate, property taxes would actually be progressive, because of exemptions for less expensive homes. The LLI study did not show or claim to show that assessments are accurate. Period. The authors of the LLI study have confirmed that CCAO's statement was false. I still have not seen a retraction from the CCAO, but it is due.

The CCAO also tried to discredit sales ratio studies (the type of analysis I've just shown you) by arguing that they are inadmissible in court. This is a non sequitur and again I believe deliberately misleading. A sales ratio is not considered evidence for an individual tax objection lawsuit, but that's not what's at issue here. Allow me to quote from the International Association of Assessing Officers (IAAO), the leading professional association in this field:

“Local jurisdictions should use ratio studies as a primary mass appraisal testing procedure and their most important performance analysis tool. The ratio study can assist such jurisdictions in providing fair and equitable assessment of all property.”²

For the CCAO to suggest that the *most important performance analysis tool* in their industry is somehow inappropriate in this context is clearly in violation of professional norms as announced by the IAAO.

But perhaps the CCAO’s most brazen misstatements have been their continued assertions that their assessments are “fair and accurate.” Indeed, Assessor Berrios has gone so far as to claim, in a press conference responding the Tribune stories, that it would be impossible to make the assessments any more fair or accurate. CCAO has not provided one shred of evidence to back up such claims.

VI. What Next?

What is to be done? One proposal is to bring in a “third party” to study, presumably at taxpayer expense, whether the system is regressive. But this issue has already been studied by multiple credible institutions, always with the same conclusion. In addition to the University of Chicago, which I represent, professors at the University of Illinois have studied the issue and concluded that the system is regressive.³ In fact, the Lincoln Land Institute actually published one of the UIC studies, which showed that the system in Cook County is regressive.⁴ The Illinois Department of Revenue (IDOR) publishes sales ratio studies every year. And every year since Joe Berrios took office those studies have shown that assessments in Cook County are regressive in violation of industry standards.⁵ (Why those studies have not resulted in any response by IDOR is another question.) And most recently, of course, the *Chicago Tribune* has published its own independent analysis, reaching the same conclusion.

If a person does not believe the consensus conclusion of the University of Chicago, the University of Illinois, the Lincoln Land Institute, the Illinois Department of Revenue, and the *Chicago Tribune*—without one shred of evidence to challenge that consensus conclusion having been provided by CCAO—what is another study going to accomplish? Frankly, to

² International Association of Assessing Officers (IAAO). 2013. *Standard on Ratio Studies*. Kansas City, MO: IAAO.

³ Daniel McMillen and Rachel Weber. “Ask and Ye Shall Receive? Predicting the Successful Appeal of Property Tax Assessments,” *Public Finance Review* 38 (January 2010), 74-101. “Thin Markets and Property Tax Inequities: A Multinomial Logit Approach,” *National Tax Journal* 61 (Dec. 2008), 653-671.

⁴ Daniel McMillen. “Assessment Regressivity: A Tale of Two Illinois Counties”, *Land Lines*, Lincoln Institute of Land Policy, Cambridge MA (January 2011), 9-15.

⁵ The standard measure of regressivity is the price related differential (PRD). According to IAAO standards, a PRD over 1.03 indicates regressivity. According to the sales ratio studies conducted by IDOR, Cook County assessments for residential property have been excessively regressive every year from 2011 through 2015, the most recent year available. I have not looked at pre-Berrios years. (See <http://tax.illinois.gov/AboutIdor/TaxStats>).

propose another study at this juncture seems like a transparent attempt to kick the can down the road, presumably until after the next election.

The taxpayers of Cook County do not need another study of the unfairness of their tax system. They live it every day. What they need now is leadership to fix the problem. I hope and believe that the Board of Commissioners of Cook County will be the ones to provide that leadership.

Thank you for your time.