

Client Alert

Current Issues Relevant to Our Clients

August 7, 2015

Tax Freeze Passes Illinois Senate

Tax freeze legislation recently passed by the Illinois Senate would impact every taxing district in the State if it ultimately becomes law. Senate Bill 318 amends the Property Tax Extension Limitation Law (“PTELL”) and four other laws. (The amendments to the other laws do not have any general impact on PTELL.) This Client Alert describes the changes to PTELL made by Senate Bill 318 and its impact on taxing districts currently subject to PTELL (“current PTELL districts”) and taxing districts, including all home rule units, not presently subject to PTELL (“new PTELL districts”). The treatment of both current PTELL districts and new PTELL districts depends on whether the majority of each taxing district’s 2015 equalized assessed valuation is outside or within Cook County. The following is a summary of the key PTELL-related provisions of Senate Bill 318.

How the Tax Freeze Works

- The tax freeze is implemented by (a) subjecting all new PTELL districts to the provisions of PTELL for a limited number of levy years and (b) reducing the “extension limitation” applicable to both current and new PTELL districts to 0% for those levy years.
- The extension limitation is presently (a) the lesser of 5% or the percentage increase in the Consumer Price Index during the 12-month calendar year preceding the levy year or (b) the rate of increase approved by referendum.
- The extension limitation is one of the components used in the calculation of a taxing district’s limiting rate. This rate is then used to limit the aggregate amount of property taxes extended for a taxing district. The other components of the limiting rate calculation (the district’s equalized assessed valuation, the district’s aggregate extension base – the amount of taxes subject to PTELL extended for the prior levy year for the district, any boundary changes and the amount of “new property” and “recovered tax increment value” included in the district’s equalized assessed valuation) could cause the district’s limiting rate to increase or decrease from the prior levy year. The extension limitation as defined by Senate Bill 318 would not, however, cause the limiting rate to increase unless the voters of the district approved an extension limitation above 0% by referendum.

When the Tax Freeze Would Be Effective

- Current PTELL districts and new PTELL districts, including all home rule units, outside of Cook County would be subject to the tax freeze and all of the other provisions of PTELL for levy years 2016 and 2017. New PTELL districts outside of Cook County would cease to be subject to PTELL beginning with levy year 2018 unless the County Board of the County in which the taxing district is located called and the voters of the County approved a referendum making the taxing districts in the County subject to PTELL.
- Current PTELL districts and new PTELL districts within Cook County (all of the new PTELL districts would be home rule units) would be subject to the tax freeze and all of the other provisions of PTELL for levy years 2017 and 2018. New PTELL districts within Cook County would cease to be subject to PTELL beginning with levy year 2019.

Public Safety Purposes Taxes

- Special purpose extensions made for public safety purposes are subject to unique treatment under Senate Bill 318.
- Public safety purposes extensions made for new PTELL districts are completely excepted from each district’s aggregate extension. Extensions for such purposes would not be subject to the tax freeze or included in or limited by the limiting rate.
- Public safety purposes extensions made for current PTELL districts are excepted from each district’s

aggregate extension for the years that the district is subject to the freeze, but would be subject to a special limiting rate calculation for levy years 2016 and 2017 that would permit the amount of such extensions to grow by the percentage increase in the Consumer Price Index. Senate Bill 318 does not provide for a special limiting rate calculation for levy year 2018 for current PTELL districts within Cook County. Public safety purposes extensions for those districts for levy year 2018 would not be subject to the tax freeze or included in or limited by the limiting rate.

Impact Upon the Issuance of Non-Referendum Bonds

- Senate Bill 318 does not change the authority for current PTELL districts to issue non-referendum property tax supported bonds. As under current law, only limited bonds, alternate bonds and bonds to refund referendum approved bonds or bonds issued prior to the effective date of PTELL may be issued without referendum approval.
- The Consumer Price Index growth factor in the amount of the debt service extension base supporting limited bonds is not changed by the tax freeze.
- New PTELL districts are authorized to issue unlimited tax non-referendum bonds in accordance with applicable law until March 1, 2016.
- Beginning on March 1, 2016 and while subject to PTELL, new PTELL districts can issue alternate bonds and non-referendum unlimited tax general obligation bonds to refund referendum approved bonds or bonds issued prior to March 1, 2016.
- Non-home rule new PTELL districts that wish to issue non-referendum limited bonds supported by a property tax for levy year 2016 or 2017 will need to limit the bond and interest tax extension for such years to the amount of their debt service extension base.
- The amount of the debt service extension base for new PTELL districts is equal to the extension, if any, for the payment of debt service on non-referendum bonds for the levy year in which the district first becomes subject to PTELL. Therefore, the base year for new PTELL districts outside of Cook County is levy year 2016 and for new PTELL districts within Cook County is levy year 2017.
- Home rule new PTELL districts would have more flexibility to issue non-referendum bonds because of their home rule powers, but they would be unable to extend a special tax in excess of their debt service extension base for the levy years during which they are subject to PTELL.

Current Status of Senate Bill 318

- Senate Bill 318 is the only tax freeze bill that has been passed by one of the chambers of the General Assembly. The House Executive Committee has scheduled a hearing on the Bill for Wednesday, August 12. We will keep you informed of further developments with regard to tax freeze legislation.

For More Information

If you have any questions regarding this subject, please contact any of our Illinois Public Finance attorneys.

This document has been prepared by Chapman and Cutler LLP attorneys for informational purposes only. It is general in nature and based on authorities that are subject to change. It is not intended as legal advice. Accordingly, readers should consult with, and seek the advice of, their own counsel with respect to any individual situation that involves the material contained in this document, the application of such material to their specific circumstances, or any questions relating to their own affairs that may be raised by such material.

To the extent that any part of this summary is interpreted to provide tax advice, (i) no taxpayer may rely upon this summary for the purposes of avoiding penalties, (ii) this summary may be interpreted for tax purposes as being prepared in connection with the promotion of the transactions described, and (iii) taxpayers should consult independent tax advisors.

© 2015 Chapman and Cutler LLP. All rights reserved.

Attorney Advertising Material.