



ASSESSING THE FACTS

SPRING 2009

PROPERTY ASSESSMENTS DOWN... TAXES, UP?

New Contact Information

I have sold my house and now live full time, in retirement, in Door County, WI. I can be reached at:

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Please feel free to contact me with any questions, ideas or issues that may come up in the course of your work.

Web Sitings

Need a calculator? Go to www.bloomberg.com/invest/calculators/ They have a calculator for mortgages, auto loans, spend or save the 401(k) money, loan comparisons, rent versus buying, mortgage qualifier, should my spouse work and dozens more.

Note: I have received a significant amount of very positive feedback from taxpayers, board members of taxing bodies and others regarding the following explanation of the Illinois property tax system appearing in the recent West Deerfield Township newsletter. Please feel free to use this if you like. Be sure to customize it for your own jurisdiction where appropriate.

Yes, it is the most likely scenario. And yet, the majority of people still cling to the belief that if and when assessments begin to fall in response to the real estate market, their tax bills will also go down. Please don't fall prey to this long held belief because of the potential financial ramifications it can have on household budgets. So, how can this happen? And, will assessments ever go down?

First, a little background information for perspective. Real estate valuation estimates for property tax purposes always lag behind the current market, a lag of 18 months from the assessment date and 28-30 months from the time taxpayers receive assessment change notices. Why?

Illinois law requires all assessment officials, from township assessors to the Illinois Department of Revenue, to determine the valuation of property as of January 1 of the tax year. So when taxpayers are notified of their valuation change in September or October, those values are already 9-10 months behind current market activity and trends.

Contributing further to valuation lags is the statutory requirement to use sales that occurred during the *three years* immediately preceding the January 1 assessment date. This works in the taxpayer's favor during increasing markets because assessments cannot catch up to the market, but against property owners in a down market because market values have to fall just to get to the level of the assessments and then fall even more to get below assessments before they will be lowered. This multi-year requirement tends to smooth the effects of market swings, thereby providing a modicum of stability to the assessment system.

Values for the 2009 tax year will be determined as of January 1, 2009 using sales from 2006, 2007 and 2008. The question on most taxpayers' minds is, will assessments go down for 2009? Let's take a look at what has been going on.

At the end of 2007, our office compared every arm's length, fair market transaction that occurred in the township to the assessment placed on each of those properties during the 2007 general reassessment year. (Distressed sales such as foreclosures are not used as they do not conform to the definition of fair cash value required by law.) We calculated the sales ratios and found that on average, the sales were still approximately 3-4% *higher* than the assessments' market equivalent. In other words, there was still an under-assessment problem despite the decline in market value during the last half of 2007.

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TAXES UP (FROM PAGE 1)

Given the system outlined above, this makes sense. Since assessments were lagging behind the appreciating market of 2003-2007, values would have to fall some just to get to the current level of the assessments. Assessments were 15% to 20% below the market during the good years; in 2007 they were only 3-4% below market. The rate of assessment increases slowed in 2008 to 2.79% in West Deerfield Township.

Only in 2008 did sales finally reach and fall below current assessments with any consistency. But remember, when determining whether properties are over- or under-assessed for 2009, those 2008 sales will represent only a portion of the sales that will be used. Actually, they will likely be less than 1/3 of the sales since the number of properties sold in 2008 dropped off dramatically relative to the sales volume in 2006.

Suppose, *hypothetically*, after studying the sales from 2006 through 2008, that the county applies a negative multiplier lowering the assessments on all property in the township. Will taxes follow suit? In all likelihood, the answer is no. Remember, the purpose of the assessment is to determine everyone's portion of the tax burden. Look at the assessment as your slice of the tax pie. Changing everyone's assessment using a multiplier, also known as an equalization factor, adjusts assessments to the appropriate level of market value but does not change your proportion of the burden, your slice of the pie.

Only a change in spending will cause a change in the tax bill. If history serves as a gauge, the taxing bodies such as schools, park districts, municipalities, townships, etc. will ask for increases in their levies from the prior year. When they do this, regardless of the direction or magnitude of the universal change in assessments, taxes will go up.

Let's look at a simplified example to see how this works. Suppose there is only one taxable property, your house, and one taxing body, you pick the one whose services you want.

In year 1 the taxing body needs \$5,000 to provide you with their services. Since yours is the only property, your tax bill has to be \$5,000.

In year 2 the real estate market plunges and your property value falls by 30% (or pick any percentage you want) but the value is down significantly. What has happened is that the taxing body's entire assessment base has gone down by 30% but your proportion of that base has not changed. Your property still remains the only taxable property. At the same time values have fallen, the taxing body determines it needs \$6,000 (a 20% increase) to provide you with their services. What is your tax bill? It has to be \$6,000 because that is what they asked for from the property tax and you are the only taxpayer. Your taxes are up even though your assessment went down by a significant amount.

In year 3 the real estate market rebounds and values skyrocket by 40%. Your assessment notice indicates this trend and your valuation is up 40%. But the taxing body has found they only need \$5,000 to operate this year. What happens to your tax bill? Your tax bill will go down from \$6,000 to \$5,000 despite the fact that your assessment went up 40%. Again, your proportion of the taxes didn't change so the only action affecting your bill is the change in spending, in this case a 16.67% decline from the previous year's spending request.

Whether it's one property or 12,000 properties and 20 taxing bodies instead of one, nothing changes. As long as assessments increase or decrease in unison, the percentage doesn't matter; your proportion of the tax burden does not change. The only thing that can change your bill, when all assessments have changed by the same percentage, is a change in spending. Tax bills in a declining market will not go down until the taxing bodies all cut spending from the levels of the prior year.

2007 was our last general reassessment year (formerly known as the quadrennial). In 2008, West Deerfield Township did not reassess most property. Instead, the county multiplier adjusted all assessments to the appropriate level. This procedure will be followed again for 2009. The Chief County Assessment Officer and/or the Illinois Department of Revenue will study the sales and the assessments and determine whether a multiplier, changing all assessments equally, will need to be applied to the township's assessments. As we have seen above, this action, whether it is an

increase or a decrease to all assessments, will not affect your tax bill. Only a change in spending by the taxing bodies will cause a change in the actual tax bill. What will the taxing bodies do in this economy for tax year 2009? My office does not know. Those questions need to be directed to those entities. There will be a complete list of the taxing bodies you support through your tax dollars on the 2008 tax bill that will come out the first week in May 2009.

QUANTIFYING RISK - THE ALTMAN Z SCORE

Capitalization rates used in the income approach to value are expressions of perceived risk. They represent the purchasers' impressions of the likelihood that they will not receive the returns, in the form of tenants' rents and property appreciation, from a given property. But how can we get into the heads of market participants to determine their view of risk. The Altman Z score can help us assess the risk associated with tenants.

The Altman Z-score is a multi-variable formula that measures the financial health of a company and predicts the probability of bankruptcy within two years. The measure was developed by Edward I. Altman, a NYU financial economist. Studies measuring the effectiveness of the Z-score have shown the model to be accurate with >70% reliability. From about 1985 onwards, Z-scores have gained acceptance by auditors, management, accountants, courts, and database systems used for loan evaluation. The Z score combines five common business ratios, found on corporate balance sheets, (see the Formula Forum) and uses a weighting system to determine the likelihood of bankruptcy within two years. The weighting system was originally developed from data on publicly held manufacturers, but has since been modified for private manufacturing, non-manufacturing and service companies. This measure can help determine tenant risks for investors.

DECISIONS, DECISIONS: FROM THE PROPERTY TAX APPEAL BOARD

Donald Wickman v. Illinois PTAB, Ill App 2nd, No. 2-08-029. PTAB case Nos. 06-01972.01 through 06-01972.015.

This case involves what constitutes evidence of a timely filing of an appeal to the Property Tax Appeal Board. The following excerpts are taken directly from the Appellate Court's written ruling.

Petitioner Donald Wickman, the owner of various parcels of commercial real estate, seeks review of the decision of the PTAB, which dismissed his appeals from the Kane County Board of Review's (BOR) assessment of the property.

The BOR issued its notices of assessment on March 12, 2007. Thereafter, Wickman mailed a petition to the PTAB seeking review of the assessments. The PTAB sent the BOR written notice of the appeals. The notice indicated that Wickman's petition was postmarked April 12, 2007. The BOR moved to dismiss the appeals because they were not filed within 30 days after the date of written notice of the assessment as required under section 16-160 of the Property Tax Code (Code). (35 ILCS 200/16-160). Wickman responded that the petition was placed in the mail on April 11, 2007...and that the appeal was timely. The record on appeal includes a photocopy of the envelope in which the petition was mailed to the PTAB. A postage meter imprint dated April 11, 2007, appears on the envelope as does a postmark (or "cancellation mark") applied by the United States Postal Service (USPS).

Turning to the merits, Wickman argues that his appeals were filed on April 11, 2007 and were therefore timely. He notes...this dates appears on the postage meter mark on the envelope enclosing the petition and that it is undisputed that the petition was placed in the mail on that date. He also insists that April 11, 2007, is the "postmark date" for the petition and that the petition "was therefore timely as a matter of law." Wickman further contends that the USPS postmark is indecipherable and that, in any event, it has no bearing on the timeliness of his appeals.

Section 1.25 of the Statute on Statutes provides, in pertinent part, with regards to the reception of written filings:

"(2) if mailed but not received by the State or political subdivision, or if received but without a cancellation mark or with the cancellation mark illegible or erroneous, shall be deemed filed with or received by the State...which it was

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FORMULA FORUM

The Altman Z-Score

The Altman Z-score uses data easily found on the balance sheets of companies. These statistics are published in the annual reports of all publicly held companies, whether manufacturers, service companies or non-manufacturers. The original score was determined using the following formula:

$$\text{Z Score} = 1.2 * T1 + 1.4 * T2 + 3.3 * T3 + .6 * T4 + .999 * T5, \text{ Where:}$$

The numerical coefficients such as 1.2, 1.4, 3.3, etc. are the weighting factors.

T1 = Working capital / Total Assets. Measures liquid assets in relation to the size of the company.

T2 = Retained earnings / Total Assets. Measures profitability that reflects the company's age and earning power.

T3 = Earnings Before Interest and Taxes (EBITDA) / Total Assets. This recognizes that operating earnings are important to a company's viability in the long-term.

T4 = Market value of Equity / Total Liabilities. This adds a stock market dimension to the formula. It shows a security price fluctuation as a possible red flag.

T5 = Sales / Total Assets. This is a standard measure for turnover.

Interpretation of the Z score: Above 3.0 - the company is considered 'safe' from bankruptcy. A score between 2.7 and 2.99 indicates caution should be exercised. A score between 1.8 and 2.7 indicates there is a good chance of the company going bankrupt within 2 years of the date of the financial figures. A score below 1.80 indicates that the probability of financial catastrophe is very high.

Go to <http://www.ironwoodadvisory.com/zscore.htm> to find a calculator that figures Z scores for companies. This site will modify the results depending on whether the company is public or private and whether it is a manufacturing firm or not.

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required or authorized to be directed on the date it was mailed, but only if the sender establishes by competent evidence that the writing or payment was deposited, properly addressed, in the U.S. mail on or before the date on which it was required or authorized to be filed or was due." 5ILCS 70/1.25 (West 2006).

The Appellate Court's findings: A postmark functions as a cancellation mark and the terms are sometimes used interchangeably. A postmark is "an official marking on a piece of mail", Webster's Third New International Dictionary. The high court of a sister state (Ohio) has noted that "[p]rivate meter postmarks are official postmarks imprinted under license from the USPS and metered mail is entitled to all privileges applying to the various classes of mail." It has also been held that marks imprinted by private postage meters serve the same purpose and have the same effect as cancellation marks. Chevron U.S.A. v. Department of Revenue 154 P.3d 331, 334-35 (Who. 2007)

The Court continued: We need not decide whether the postage meter mark is or is not a cancellation mark within the meaning of section 1.25 of the Statutes on Statutes. Wickman's appeals would be timely in either event. If the postage meter mark is a cancellation mark, it is the only legible one on the envelope; it would establish the filing date as April 11, 2007. If...the postage meter is not a cancellation mark, then there is not legible cancellation mark on the envelope, and the timeliness of the appeals would be governed by subsection (2) of section 1.25, which provides that a writing is deemed filed on the date it is mailed, if the sender establishes by competent evidence that the writing or payment was deposited, properly addressed, in the U.S. mail on or before the date on which it was required or authorized to be filed or was due. There is no dispute that the envelope was properly addressed, and Wickman established by affidavit that the envelope was deposited in the U.S. mail on April 11, 2007. Wickman's appeals were timely.