O2019-5859 **Allocating portion of Chicago Real Property Transfer Tax to combat housing instability and homelessness**

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Intro Date: July 24, 2019

Headline: This ordinance would impose an additional tax on all real estate transfers over $1 million in price, with 70% of revenue earmarked for homeless services.

Background: This would be in addition to the existing transfer taxes of $3.75 per $500 for the Corporate Fund and $1.50 per $500 for the City's contribution to the CTA. The existing taxes were projected to raise $440 million and $64 million, respectively, in the 2019 Appropriation Ordinance. Unlike the proposed tax, the existing real estate transfer taxes are imposed on the entire purchase price.

Summary: The proposed tax would be $6 per $500 (i.e., 1.2%) of the amount the transfer price that exceeds $1 million, and would be paid by the buyer. The tax would take effect on September 1, 2020. No less than 70% of all revenue from the proposed tax would be placed in a newly created Homeless Transfer Tax Fund, which could only be used for Department of Family and Support Services and Department of Housing programs designated to prevent and end homelessness. This fund could not be used to reduce spending on homelessness programs from other funding sources. The City Council would determine the exact distribution of spending from the Fund from among eligible uses.

This ordinance is identical to proposed ordinance O2019-1334, with the following exceptions:

- 5859 defines "Area Median Income."
- 1334 would earmark all revenue from the increased transfer tax to the Homeless Transfer Tax Fund, whereas 5859 would earmark no less than 70% of revenue from the increased transfer tax to that fund.
- 5859 clarifies that certain entities organized for the purpose of providing affordable housing would qualify for charitable exemption from transfer taxes.
- 1334 would take effect July 1, 2020, whereas 5859 would take effect September 1, 2020.

Immediate Fiscal Impact: Would raise approximately $145 million in 2020, of which $102 million would be earmarked for homeless services. This estimate is contingent on provisions addressing potential evasion (see Additional Considerations #3).

Long-Term Fiscal Impact: Would raise approximately $436 million per year in 2021 and thereafter, of which $305 million would be earmarked for homeless services. This estimate is contingent on provisions addressing potential evasion (see Additional Considerations #3).

Additional Considerations:

1. COFA's revenue estimates are based on 2018 sales data provided by the Cook County Assessor. The potential revenue was calculated by taking the total sale value, subtracting $1 million times the number of sales (because the first $1 million of any sale would be exempt from the tax), and multiplying the resulting sum by 1.2%. The 2020 revenue estimate is based on one-third of a year of sales.

2. The Assessor was able to provide annual data from 2012-2018. It shows that this is an unstable revenue source. It is very sensitive to the business cycle, and a very small number of large deals can skew the results for a whole year.

YEAR	# OF DEEDS	TOTAL SALE VALUE
2012	1294	$21.7 billion
2013	1771	$48.2 billion
2014	2031	$127.0 billion
2015	2016	$47.5 billion
2016	2322	$156.3 billion
2017	2353	$59.7 billion
2018	2197	$38.6 billion

3. COFA's revenue estimates do not take into account the fact that the ordinance as written could offer loopholes for real estate entities to evade the tax. In the short-term, some transactions may be accelerated to close prior to September 1, 2020. In the long-term, single deals may be broken up into multiple transactions, each of which would be less than $1 million. It is already common for large commercial buildings to be divided into many PINs, so purchasers might evade the tax by buying each PIN on a separate deed rather than listing them altogether on the same deed, even though they are all part of the same deal.

4. The last transfer tax increase for real estate sales in Chicago was an additional $1.50/$500 to provide funding for the CTA, which took effect on April 1, 2008. Unlike the tax increase in the present proposed ordinance, that increase applied to the entire sale price. According to

data provided by the Illinois Department of Revenue, the number of sales per month in Chicago was 33.3% lower in Chicago from April, 2008 through December, 2009, and the total value of those sales was 58.1% lower. However, during those same periods, sales were 30.7% lower and total value was 52.6% lower in suburban Cook County, which did not have a transfer tax increase. This suggests that the tax increase may have lowered sales by an additional 2.5% and values by an additional 5.5%. However, COFA would caution against drawing firm conclusions about the effect of the tax, since it took effect during the same year that the real estate market underwent a historic collapse nationwide.