The Civic Federation

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THE CIVIC FEDERATION
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The Civic Federation ● 10 N. Dearborn Street ● Chicago, IL 60602 ● civicfed.org

The Civic Federation is an independent, non-partisan government research organization working to maximize the quality and cost-effectiveness of government services in the Chicago region and State of Illinois.

The Civic Federation is an independent, non-partisan government research organization that provides analysis and recommendations on government finance issues for the Chicago region and the State of Illinois. Founded in 1894, its membership includes business and professional leaders from a wide range of Chicago area corporations, professional service firms and institutions.

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INTRODUCTION

The Civic Federation is an independent, nonpartisan government research organization established in 1894 by several of Chicago's most prominent citizens, including Jane Addams, Bertha Honoré Palmer and Lyman J. Gage. Our founders sought to direct the resources of Chicago's business and civic community toward improving the City's political, moral and economic climate. Although the Federation's work has evolved over the past century, our commitment to improving government remains the same.

The Civic Federation's mission is to provide objective research, analysis and recommendations that:

- Champion efficient delivery of high-quality government services;
- Promote sustainable tax policies and responsible long-term financial planning;
- Improve government transparency and accountability; and
- Educate and serve as a resource for policymakers, opinion leaders and the broader public.

A large part of this mission is to effect positive policy changes by working with public officials. To that end, the Federation will actively support legislation to advance the highlighted priorities below and the other important financial reforms outlined in this document.

ENACT PUBLIC EMPLOYEE PENSION REFORMS

The State of Illinois has unfunded public employee pension liabilities of over $100 billion[1] and many local governments are either straining under the cost of employee pensions or facing the possibility that the funds will run out of money to pay retirees.

In May 2015, the Illinois Supreme Court struck down reforms passed by the Illinois General Assembly in 2013 that reduced pension benefits for some State employees and retirees.[2] The reforms of Public Act 98-0599 for the four State pension funds included an actuarially sound employer pension contribution schedule, a limitation on the automatic annual annuity increase for both current employees and retirees, a pensionable salary cap, phased-in increases in the retirement age and a one percentage point decrease in employee contributions to the plan. These reforms were ruled a violation of the Illinois Constitution's pension protection clause.

In July 2015, the pension funding and benefit reforms enacted in 2014 for the City of Chicago's Municipal and Laborers' Pension Funds were struck down in Cook County Circuit Court.[3] Following the verdict, the City of Chicago announced it would appeal the ruling and the Illinois Supreme Court said it would hear the case. While the City of Chicago says that its arguments for the constitutionality of its reforms are different from the police powers argument used by the State of Illinois, it remains to be seen whether the Illinois Supreme Court will allow any changes to existing public pension benefits for any pension fund.

Illinois' pension system is currently broken and unsustainable. In recent years, the State of Illinois has attempted to accommodate increased pension contributions by significantly increasing income taxes and maintaining a large backlog of unpaid bills that reached nearly $9 billion in fiscal year 2012. Even these actions could not generate enough funding to cover the costs of the pensions. Options to consider moving forward include new revenue structures (see page 11) and a constitutional amendment to amend the State's pension protection clause (see below).

The Civic Federation continues to support legislation by the General Assembly to enact the following pension reforms for State and local governments:

Approve a Proposed Constitutional Amendment Limiting the Pension Protection Clause

The Illinois Constitution states that, "membership in any pension or retirement system of the State, any unit of local government or school district, or any agency or instrumentality thereof, shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired."[4] The Illinois Supreme Court has ruled that this protection applies to both accrued benefits for retirees and future benefits for existing employees. This has left the State unable to

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[1] Illinois Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems Financial Condition as of June 30, 2014,* p. 26. http://cgfa.ilga.gov/Upload/FinConditionILStateRetirementSysFeb2015.pdf
[2] Illinois Supreme Court opinion is available at http://www.illinoiscourts.gov/OPINIONS/SupremeCourt/2015/118585.pdf.
[3] Cook County Circuit Court opinion and order is available at http://chicagotonight.wttw.com/sites/default/files/article/file-attachments/Chicago%20Pension%20Ruling.pdf.
[4] Illinois Constitution, Article XIII, Section 5.

reduce benefits that were in place when current employees were hired – even though the State has been unable to afford that level of benefits, jeopardizing essential government services and the solvency of the pension funds.

In the early 1900s, state courts considered pensions to be gratuities from the government that could be changed or repealed at any time. This legal approach changed over time in most states to provide more protection to employees. Most pension benefits are now covered by contract or property rights theories that generally protect previously accrued benefits. The protection of benefits that are not yet accrued varies significantly by state. In general, this means that legal protections are strongest for current retirees. Even for current retirees, however, some courts have provided lesser levels of protection for COLAs.

Illinois is considered to have among the most stringent pension protections. It is one of a handful of states, including New York and Arizona, with specific constitutional provisions barring benefit reductions.

In the interest of protecting the future solvency of the State's pension funds and stabilizing the State's finances, the Civic Federation urges legislators to approve a proposed amendment to the Illinois Constitution for the November 2016 statewide ballot. The proposed amendment should specify that the pension protection clause applies only to accrued benefits, giving the State legislature the discretion to make adjustments to future benefits for existing employees.

Grant Local School Districts, Universities and Community Colleges Responsibility for Both Pension Funding and Benefit Decisions

The Civic Federation supports a reasonable plan for transitioning the normal cost for non-State employees from the State of Illinois to their actual employers. The Federation agrees that the responsibility for contributing to a worker's pension should rest with the employer who determines the worker's salary. However, any proposal must provide an adequate transition period to allow local school districts to handle the additional costs and should include a provision for how the State and local districts will distribute funding for current and future unfunded pension liabilities.

In order to ensure that unwanted pension benefit enhancements are not granted by the State after the local employer takes control of funding the normal cost of their employees' pensions, the Civic Federation additionally recommends that the General Assembly grant local school districts, universities and community colleges the authority to determine benefit levels for their employees.

Prohibit Benefit Enhancements Unless They Are Fully Funded, Will Expire in Five Years and the Plan is Fully Funded

Benefit enhancements are a major source of increased liabilities for pension funds and have led to pension benefits that are now unaffordable for many governments. The Civic Federation urges the General Assembly to prohibit retirement benefit enhancements for any state or local government pension plan that is less than fully funded. Any enhancements granted for a healthy fund (100% funded) should only be permitted on a pay-as-you-go basis whereby employer and/or employee contributions are increased sufficiently to fully fund the enhancements.

Public Act 94-0004, Illinois' 2005 pension reform law, requires that every new benefit increase made to one of the five state retirement systems must identify and provide for additional funding to cover the resulting annual accrued cost of the increase. The Act also requires that any benefit increase expire after five years, subject to renewal. The Civic Federation supports extending this reasonable control on benefit enhancements to the local public pension funds through a change in the state statutes governing these funds.

Prohibit Funding Holidays and Borrowing for Employer Pension Contributions

Pension holidays and borrowings, including those approved for Chicago Public Schools in FY2011-FY2013 and the State of Illinois in FY2010-FY2011, fail to deal with pensions as an ongoing operating cost and effectively push costs onto future taxpayers. The Civic Federation urges the Illinois General Assembly to prohibit funding holidays and borrowing for employer pension contributions.

Require Publication of Cost-Benefit Studies for any Early Retirement Initiative Proposals

Early retirement programs are designed to reduce current payroll expenses by encouraging senior employees to retire early, but they often create substantial additional pension costs. The Civic Federation recommends that the State and local governments be required to conduct and publish comprehensive cost-benefit analyses before being permitted to implement early retirement programs because these programs increase pension costs and effectively shift the price of government services from current taxpayers to future taxpayers.

Reform Pension Boards of Trustees to Balance Stakeholder Interests and Safeguard Assets

The mission of a public pension fund board of trustees should be to ensure effective benefit administration and safeguard the fund's assets through prudent investment oversight. Unfortunately, many pension boards also act as advocates on behalf of fund members, lobbying for benefit enhancements that ultimately increase the funds' liabilities.

As outlined in the Civic Federation's Recommendations to Reform Pension Boards of Trustees Composition in Illinois in 2006, the membership of most Illinois public pension boards does not reflect a balance of interests. The employer, employees, retirees and taxpayers all have a stake in the management of the fund. Furthermore, we are concerned that not all pension board members have adequate financial knowledge or training for their role in setting policies and overseeing millions of dollars in investments. We urge the General Assembly to undertake state and local pension reform governance that will:

- Balance employee and management representation so that employees and retirees do not hold the majority of seats;
- Develop a tripartite structure that includes independent citizen representation on pension boards; and
- Include financial experts on pension boards and require financial training for non-experts.

Require Public Pension Funds to Report Basic Measures of Fiscal Health

The Civic Federation believes the state pension code should be amended to require state and local pension funds to report four basic measures of fiscal health. These are measures that can easily be calculated by the funds' actuaries and included in their actuarial reports. They should also be published for public access on the state Department of Financial and Professional Regulation's Division of Insurance website:

1) Projected funded ratios for the next 30 years;
2) Projected unfunded liabilities for the next 30 years;
3) Projected required employer contributions for the next 30 years; and
4) Projected date of insolvency (the year when the pension fund is projected to run out of money to pay retiree benefits).

These measures should be calculated and reported two ways: first according to current state laws governing employer contributions to the funds (i.e. under the current state funding policy) and second under a state funding policy equal to normal cost plus a closed 30-year amortization of the unfunded liability (i.e. what it would take to reach 100% funded in 30 years). Actuarial assumptions for such factors as wage increases, turnover and investment return will differ among the funds, so the measurements should also include a disclosure of all underlying actuarial assumptions and methods.

Require Public Pension Funds to Report Benefit Enhancements

The Civic Federation recommends that all pension funds be required to describe any benefit enhancements granted in a given year in their annual financial reports and to calculate the effects of those enhancements on the fund's total liabilities. Taxpayers deserve to know the costs of benefit enhancements.

CONSOLIDATE LOCAL GOVERNMENT UNITS IN ILLINOIS FOR GREATER EFFICIENCY AND EFFECTIVENESS

The State of Illinois has by far the highest number of local governments in any state, at 6,963, according to the United States Census Bureau.[5] The multiplicity of local units of government, many of which are funded predominantly by property taxes, is often cited as a reason for high property tax rates in Illinois. The Civic Federation urges the 99th General Assembly to enact the following government consolidation initiatives this year:

Consolidate Local Pension Funds

There are over 600 local pension funds in the state, each with its own governing board, most of which are police and fire funds for individual municipalities. While these funds may enjoy local control over investing and disability decisions, the Federation believes that overall investment performance and administrative efficiency generated by economies of scale would greatly improve if funds were consolidated into the Illinois Municipal Retirement Fund.

[5] United States Census Bureau 2012 Census of Governments, "Government Organization Summary Report: 2012," September 26, 2013, p. 1. Available at http://www2.census.gov/govs/cog/g12_org.pdf.

Merge the Offices of the Illinois Comptroller and Treasurer

The Illinois Constitution currently divides the State's main fiscal operations between two offices: the Illinois Treasurer is responsible for collecting and investing state revenue while the Illinois Comptroller is responsible for paying bills from those accounts.[6] Several states have already combined those operations for greater efficiency including Wisconsin, Michigan and Minnesota.

The Civic Federation supports an amendment to the Illinois Constitution to merge the offices of the Illinois Comptroller and Treasurer.

Authorize Townships to be Dissolved by Referendum

The Illinois Constitution appears to permit dissolution of townships by referendum (Illinois Constitution, Section 5: Townships). However, township laws only provide for the dissolution of all the townships in a county, not the dissolution of individual townships (60 ILCS 1/25-5 Discontinuance of Township Organization). Illinois statute states that 10% of registered voters in each township must petition for a referendum on continuance of township government. Elimination of township government then requires approval "with a majority of the votes in at least three-fourths of the townships that contain at least a majority of the population in the county."

Because of the confusion, efforts to dissolve township government in Evanston were delayed. Public Act 98-0127, sponsored by Senator Daniel Biss, was signed into law on August 2, 2013 and allowed voters to decide that the township government of Evanston should be abolished and all of its rights, powers, duties, assets, property, liabilities, obligations and responsibilities be transferred to the coterminous municipality. A referendum to eliminate Evanston township passed in March 2014 and the township ceased operations as of April 30, 2014. In August 2015, Governor Rauner signed Public Act 99-0474, allowing voters in the Belleville township to vote on whether to dissolve that township.[7]

The Civic Federation sees no good public policy reason why the intent of the Illinois Constitution that township residents be able to dissolve township government should not be reflected in Illinois law. As such, the Federation encourages the Illinois General Assembly to pass legislation to clarify township dissolution procedures and allow dissolution via referendum.

Consolidate Property Tax Administration Roles in Cook County

Administration of the Cook County property tax function is primarily handled by three different elected county officials (Assessor, Clerk and Treasurer), leading to taxpayer confusion about whom to contact with questions or complaints about the tax. The lines of responsibility are nearly impossible for ordinary taxpayers to discern and politicians exploit this fact to their political advantage.

The Civic Federation recommends that a unified property tax administration office be created. The new office would merge the Treasurer's office; the County Clerk's tax extension, tax

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[6] Illinois Constitution, Article V, Sec. 1-18.

[7] http://www.ilga.gov/legislation/publicacts/fulltext.asp?Name=099-0474&GA=99

redemption and map divisions; the part of the Recorder's office dealing with property records; and the Auditor's property functions. It would be an appointed rather than an elected office.

Other states have moved to allow for consolidation of property tax administration roles. Minnesota state law allows its counties' Auditor and Treasurer positions to be combined and made either an appointed or elected position.[8] Additionally, the offices of Assessor and Auditor, Treasurer, or Auditor-Treasurer may be combined, subject to rules about compatibility of offices and restrictions as to holding other elected positions.

According to an opinion of the Cook County State's Attorney's Office, creating a unified Office of Property Tax Administration would require legislation be passed by the Illinois General Assembly and could not be done solely via County referendum or administratively.[9]

Dissolve the Illinois International Port District

The Civic Federation calls upon the Illinois General Assembly and Governor to dissolve the Illinois International Port District because the District is failing to fulfill its principal mission.

In a 2008 report, the Civic Federation analyzed the Illinois International Port District's finances and activities, contrasting them with five comparable ports along the Great Lakes – St. Lawrence Seaway. As a result of this investigation, the Federation is concerned that the District appears to be focused on golf rather than shipping and port operations. Harborside International Golf Center is the Port District's only major construction project since 1981. In contrast, the Federation found that none of the five other ports in the study focus their operations predominantly on recreational activities or entertainment facilities. Port authorities in other cities derive most of their revenues from activities associated with the normal operations of a port, such as leases, rentals, contracts and grants.

Of additional concern to the Civic Federation is the fact that the District has seriously lacked transparency and openness to the public when compared to other ports and governments. The Civic Federation found that the District did not make information about its finances, Board members or Board meetings publicly available on its website.

The Civic Federation has since observed greater transparency and accountability in Port District operations since the administration of Chicago Mayor Rahm Emanuel and current Port District Chairman Michael Forde. Board meeting dates, agendas and minutes are now published on the District's website along with some financial information. In July 2013, Mayor Emanuel announced plans to privatize the Port District. No public developments have been made toward this goal since a potential bidder withdrew from negotiations in October 2013.

Due to ongoing serious concerns, the Civic Federation continues to call for the dissolution of the Illinois International Port District. The Federation's 2008 report recommends that the City of

[8] If the position is made appointed, a referendum must be held. Minnesota House of Representatives Research Department, "County Offices: Combining or Making Appointed," November 2011.
[9] Office of Tax Administration Report, Prepared by Representatives of the County Board President, Cook County Assessor, Cook County Clerk, Cook County Treasurer and State's Attorney.

Chicago assume control of port operations because the City has a clear stake in turning the Port of Chicago into a more vibrant center of maritime commerce and regional economic and industrial development. By reassuming the control of port lands it gave up over fifty years ago, the City of Chicago could provide access to greater financial resources and professional staff that would benefit the port and its mission. After the District has been dissolved, the City of Chicago should consider transferring the District's open lands to the Forest Preserve District of Cook County and its golf courses to the Chicago Park District.

EXPAND INCOME AND SALES TAX BASE AS PART OF COMPREHENSIVE PLAN THAT ALSO INCLUDES COST REDUCTIONS

The State has an unpaid bill backlog of approximately $6 billion and unfunded pension liabilities exceeding $100 billion. As previously discussed, the Illinois Supreme Court struck down the State's 2013 pension reform law as a violation of the Illinois Constitution's pension protection clause. This decision limited the options available to governments throughout the State of Illinois for stabilizing severely underfunded pension systems while balancing annual budgets. Given these fiscal realities, the Civic Federation has concluded that existing State revenue and spending structures do not provide a sustainable basis for funding essential government services and ongoing liabilities.

The Civic Federation urges the State of Illinois to expand its income and sales tax bases in the context of a multi-year plan that also includes achievable spending limits, additional assistance for local governments and the creation of a rainy day fund equal to 10% of General Funds revenues (see page 13).[10]

Broaden Illinois Income Tax Base by Eliminating Tax Exemption for Retirement Income

Unlike the federal government, which taxes certain levels of Social Security and other retirement income, Illinois exempts all retirement income from the State's income tax base.[11] Out of the 41 state that impose an income tax, Illinois is only one of three that exempts all pension income and one of 27 that excludes all federally taxable Social Security income.[12] The Illinois Comptroller reports that this exemption of federally taxable retirement income reduced individual income tax revenues by nearly $2.3 billion in FY2014.[13] The cost of this exemption will increase over time due to a population shift in Illinois, with the number of senior citizens expected to grow from 1.7 million in 2010 to 2.7 million by 2030.[14]

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[10] For more on the Civic Federation's five-year plan to stabilize the State of Illinois' finances, see the Institute for Illinois' Fiscal Sustainability's State of Illinois FY2016 Budget Roadmap.

[11] 35 ILCS 5/203

[12] Chicago Metropolitan Agency for Planning, Charting Progress Toward a More Efficient Regional and State Tax System via Indicators, July 18, 2013. http://www.cmap.illinois.gov/about/updates/-/asset_publisher/UIMfSLnFfMB6/content/charting-progress-toward-a-more-efficient-regional-and-state-tax-system-via-indicators

[13] Illinois Comptroller, *Tax Expenditure Report, Fiscal Year 2014*, p. B-1.

[14] Illinois Comptroller, *Tax Expenditure Report, Fiscal Year 2013*, p. 7

Excluding Social Security income, all other federally taxable retirement income exempted by Illinois as of 2012 totaled $39.7 billion.[15] If income from individuals with a total adjusted gross income of less than $50,000 were also excluded from this tax base, the total untaxed income in Illinois totaled an estimated $30.8 billion in FY2012.

The Civic Federation recommends that the State of Illinois broaden its income tax base by eliminating the tax exemption for retirement income, excluding Social Security income and all income from individuals with taxable income of less than $50,000. This will facilitate the rollback of individual income tax rates and enhance the State's fiscal stability by providing access to a faster growing portion of the State's income tax base.

Expand Illinois Sales Tax Base to Include Select Services

According to a recent revenue study issued by the Commission on Government Forecasting and Accountability, Illinois' sales tax base is much narrower than other states leading to greater volatility and higher rates.[16]

All of Illinois' neighboring states tax some services – ranging from 26 taxable services in Michigan and Missouri to 76 taxable services in Wisconsin. Taxing certain services, so long as business-to-business services are excluded to avoid pyramiding, would not make Illinois an outlier. Expanding the base would also provide much-needed resources to distressed municipalities because local governments receive 1.25% of the State's 6.25% sales tax rate.

The Civic Federation recommends that the State of Illinois explore taxing consumer services to expand the sales tax base.

CREATE A LOCAL GOVERNMENT PROTECTION AUTHORITY

One way to address municipal distress related to pensions and other financial stressors would be for the General Assembly to create a quasi-judicial structure that provides local governments and their employees with a venue, encouragement and supervision to aid in finding creative, voluntary solutions for financially challenged local governments.

The Local Government Protection Authority's (LGPA's) mission would be to provide a supervised forum to assist with the determination of the following issues resulting from underfunded essential local government services:

- What essential government services and post-employment benefits are affordable and sustainable;
- What cost-cutting measures are necessary to achieve affordable services and benefits;
- What recommendation, if any, for a tax increase is necessary to provide additional funding;
- What contribution increases are necessary by both public employers and employees;

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15 Internal Revenue Service, SOI Tax Stats – Historic Tables, Illinois 1999-2012. http://www.irs.gov/uac/SOI-Tax-Stats-Historic-Table-2 (last visited on February 7, 2015).

16 Commission on Government Forecasting and Accountability, *Illinois Revenue Volatility Study, Public Act 98-0682*, December 31, 2014, p. 66.

- What intercept of state revenues is necessary to pay required services, indebtedness and benefits so that essential government services can be provided and the municipality can maintain access to the municipal debt market at relatively low cost;
- Whether arbitration (voluntary or mandatory) should be engaged in for contractual or labor disputes;
- Whether services or costs of the municipality should be transferred to other governmental bodies;
- Whether certain services should be consolidated with other governmental bodies or transferred to a regional authority;
- Whether the municipality should be authorized to file for Chapter 9 proceedings under the Federal Bankruptcy Code; and
- Whether, given the findings of LGPA, the municipality's plan of a debt adjustment can be prepackaged or prenegotiated.

Under Chapter 9 of the Federal Bankruptcy Code, a state may authorize local governments to use federal bankruptcy procedures to adjust their debts, burdensome contractual obligations, unaffordable judgments or asserted liabilities including labor contracts and post-employment obligations. By creating LGPA, the state is able to offer an alternative to bankruptcy which will allow local governments an opportunity to solve their critical problems related to providing essential government services. These problems may include unaffordable costs or liabilities that imperil municipal services such as unbearable obligations and liabilities, judgments, labor and post-retirement benefits, without subjecting all of their other operations to the jeopardy of a bankruptcy proceeding.

Implicit in its mission is that LGPA will develop criteria for measuring the financial health of local governments and publicly comment on whether costs of operation including services, labor and pension and Other Post Employment Benefits (OPEB) obligations can be paid from reasonably available sources without impairing a local government's primary mission of providing essential services. The goal of the LGPA is to have all participating municipalities fully fund essential government services and make sustainable contributions to pensions and OPEB by a specified date in order to maintain the credibility of Illinois municipalities in capital markets.

REQUIRE THE STATE OF ILLINOIS TO BUILD A RAINY DAY FUND EQUAL TO 10% OF GENERAL FUNDS REVENUES AFTER UNPAID BILLS ARE ELIMINATED

All governments should place a portion of their general operating revenues in a general fund reserve or "rainy day" fund.[17] Rainy day funds are savings accounts that governments can use to address revenue shortfalls or unanticipated expenditures and to help stabilize tax rates. Governments that maintain adequate reserves are better positioned to deal with funding issues in bad times.

[17] Government Finance Officers Association, *Best Practice: Determining the Appropriate Level of Unrestricted Fund Balance in the General Fund*, October 2009.

Illinois has not maintained a functional rainy day fund, although a law was enacted in 2004 to build such a fund.[18] The law established a goal of maintaining 5.0% of General Funds revenues in an existing account called the Budget Stabilization Fund. Deposits into the fund would be triggered by projected revenue growth of more than 4% from the prior year. The fund has never received significant resources, however, because annual revenue projections have not met the threshold requirement to trigger deposits into the fund.

COGFA was recently charged with studying the volatility of Illinois' revenue sources and reviewing options for adequately funding a rainy day fund.[19] The commission concluded that raising the revenue goal to 10.0% of General Funds revenues from 5.0% made sense in light of recent revenue volatility.[20] COGFA examined two funding strategies – making deposits into the fund only when revenues are growing rapidly or making regular deposits regardless of revenue growth – and determined that each presented challenges. While funding mechanisms that depend on excess revenues can have wide variations in annual funding, regular funding puts annual pressure on the budget.

The Civic Federation supports COGFA's suggestion to establish a legislative framework to permit funding of a rainy day fund equal to 10% of General Funds revenues as soon as the State's existing backlog of unpaid bills is eliminated.

REQUIRE THE STATE OF ILLINOIS TO DEVELOP, PUBLISH AND IMPLEMENT A CAPITAL IMPROVEMENT PLAN

The State of Illinois needs to make major capital improvements to its infrastructure in order to promote the state's economic vitality. However, the State has failed to prepare and publicly disclose a comprehensive multi-year Capital Improvement Plan (CIP) that prioritizes projects based on objective criteria. The General Assembly approved a $31 billion capital spending plan in 2009 despite the absence of a CIP. The Civic Federation strongly believes that the public deserves serious evaluation of how State money will be used and prioritized before, not after, the funds are appropriated.

The Civic Federation agrees with the National Advisory Council on State and Local Budgeting that all governments should develop a five-year capital improvement plan (CIP) that identifies priorities, provides a timeline for completing projects and identifies funding sources for projects. The CIP should be updated annually and have formal approval by the governing body.[21] A formal capital improvement plan includes the following information:

- A five-year summary list of projects, expenditures per project and funding sources per project;
- Information about the impact of capital spending on the annual operating budget for each project;

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[18] Public Act 93-660, enacted on February 2, 2004.
[19] Public Act 98-0682, enacted on June 30, 2014.
[20] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Revenue Volatility Study, Public Act 98-0682*, December 31, 2014, p. 99.
[21] National Advisory Council on State and Local Budgeting, Recommended Practice 9.6: Develop a Capital Improvement Plan.

- Brief narrative descriptions of individual projects, including the purpose, need, history and current status of each project; and
- The time frame for fulfilling capital projects and priorities.

Above all, the capital improvement plan should be predicated on a publicly disclosed needs assessment and prioritization process. In addition, the CIP should be made publicly available for review by elected officials and citizens. It should be published in the budget or as a separate document. The CIP should also be made available on the government's website. The Civic Federation urges the General Assembly to pass legislation requiring the State to develop, publish and implement a Capital Improvement Plan that is regularly updated and is actively used in the State's planning and budgeting processes.

A good CIP model for the State of Illinois to follow is the State of North Carolina's Capital Improvement Plan. North Carolina passed a law in 1997 requiring the preparation and publication of a CIP that is fully integrated with State financial planning and debt management processes. It includes:

- An inventory of facilities owned by State agencies;
- Criteria used to evaluate capital improvement needs;
- A six-year capital improvement needs inventory; and
- A six-year capital improvement plan.

A plan is submitted to the North Carolina legislature every two years.[22]

ESTABLISH A CONSENSUS REVENUE FORECAST PROCEDURE FOR THE STATE OF ILLINOIS

The Civic Federation recommends that the State of Illinois establish a process under which the executive and legislative branches will develop a consensus revenue forecast prior to the publication of the Governor's budget. The State currently lacks a unified revenue projection and the varying estimates on the amount of resources available limit the effectiveness of the State's budget process.

The National Advisory Council on State and Local Budgeting (NACSLB) recommends that governments develop a process for achieving consensus on revenue estimates prior to budget development. This removes forecasts from being an object of dispute and ensures the implementation of a more efficient, stable budget process. A formal consensus process also ensures a critical review of the assumptions underlying forecasts. The development of a consensus forecast requires a process that is transparent, consistent and trusted by all parties involved.

[22] North Carolina Office of State Budget and Management, *North Carolina Capital Improvement Program: Implementation of the Capital Improvement Planning Act*, Six Year Summary FY2007-FY2013, April 2007.

The NACSLB notes that the process for achieving a revenue forecast will vary by government. Options include collaboration between the executive and legislative branches, using academic or private sector economists to develop the forecast or some combination of both approaches.[23]

According to the National Conference of State Legislatures, 22 states develop a consensus revenue forecast that usually includes representation from the executive and legislative branches. In 17 states the executive branch alone prepares the revenue forecasts and in the remaining 11 states there are varying degrees of executive-legislative cooperation in producing the estimates.[24] Four examples of states that have developed a formal consensus revenue forecast include Connecticut, Kansas, Michigan and Wyoming. These states have guidelines for establishing a common estimate that include deadlines for publishing the agreed amount, independent analysis of the projections and steps for updating the estimates the fiscal year progresses.

EXTEND THE PROPERTY TAX EXTENSION LIMITATION LAW STATEWIDE

The Property Tax Extension Limitation Law (PTELL) is intended to limit the growth of the overall agency levy to 5.0% or the rate of inflation, whichever is less.[25] PTELL is often called "tax caps." Although the principle of PTELL is simple, its application is complex.

PTELL was passed in reaction to rapid population growth in the collar counties and was applied to those counties beginning with tax year 1991. When PTELL is applied to a county, all non-home rule taxing districts in that county are subjected to it. Cook County was made subject to PTELL beginning in tax year 1994.[26] In 1996 all counties in Illinois were given the opportunity to hold referenda on whether the non home-rule taxing districts in those counties should be subject to PTELL. Currently 39 counties are under PTELL (33 by referendum and Cook and the collar counties by statute). Nine of the 63 counties not under PTELL have held referenda that have failed.[27]

The Civic Federation believes that the Property Tax Extension Limitation Law has been an effective limitation on local government property tax revenues and has protected taxpayers from larger tax increases that would have been possible without PTELL while the real estate market was rising. Although adding PTELL adds complexity to the extension process for those counties not already under PTELL, the Federation recommends that PTELL be extended statewide for three reasons. First, it would reduce confusion for taxpayers and taxing districts if the same property tax limitations were applied in all counties. Second, it would limit property tax increases in inflationary real estate markets. Third it would allow for more equitable calculation of the General State Aid formula. An alternative General State Aid formula is used for school districts in tax-capped counties in order to adjust for the effects of this property tax limitation on

[23] National Advisory Council on State and Local Budget, Recommended Budget Practice 9.2d: Achieve Consensus on a Revenue Forecast.
[24] http://www.ncsl.org/documents/fiscal/fls10perez.pdf
[25] 35 ILCS 200/18-185 to 35 ILCS 200/18-249. The only year in which CPI was higher than 5.0% was tax year 1991 (payable in 1992). Some funds are exempted from PTELL so it does not necessarily limit a district's entire extension.
[26] Cook County government itself is home rule so it is not subject to PTELL, but all non-home rule taxing districts within Cook County are subject to PTELL.
[27] http://tax.illinois.gov/LocalGovernment/PropertyTax/PTELLcounties.pdf

school districts' maximum local revenues. This adjustment shifts dollars away from districts in non-capped counties.[28]

CREATE A NEW GOVERNING BOARD FOR THE COOK COUNTY FOREST PRESERVE DISTRICT

A report published by the Civic Federation and Friends of the Forest Preserves in 2008 found that the County's dual board structure whereby the Cook County Board of Commissioners also serve as a Forest Preserve District Commissioners creates an inherent conflict of interest and inhibits proper oversight of the Forest Preserves of Cook County.[29]

The Civic Federation and Friends of the Forest Preserves are calling for a new separate forest preserve board with members that are elected in a non-partisan election with a board president elected among and by the members of the Forest Preserve Board. A separate board will allow voters to elect Commissioners on the basis of candidates' positions, credentials, experience and interest in the Forest Preserves.

Currently the Forest Preserve District of Cook County is organized as a separate local government with independent property tax authority, but it shares a board of commissioners with Cook County government. This structure has created an inherent conflict of interest for the Commissioners, who have not effectively separated the interests of Cook County and the Forest Preserve District. Many of the current Commissioners have shown a keen interest in promoting economic development and other uses of District property that conflict with the District's core mission to preserve natural land. The Commissioners have frequently placed themselves in the irreconcilable position of choosing Cook County's mission over the Forest Preserves' needs. One example of this was the transfer of $13.3 million in District capital funds to the County in 2007 to help alleviate the County's budget deficit.

The full report found that the County and District's "double-duty" Commissioners spend the vast majority of their time dealing with County issues. These weighty concerns leave little time for the Commissioners to focus on the Forest Preserves. Commissioners meet far less frequently to discuss Forest Preserve District matters than they do to discuss County matters and provide less comprehensive oversight. A separate board of commissioners would be able to focus their attention fully on the Forest Preserves. At the same time, the County would benefit from having the undivided attention of its Commissioners on pressing financial, health and public safety issues.

In 2013 Cook County Board President Toni Preckwinkle formed a blue ribbon commission of local leaders to develop the Next Century Conservation Plan to help provide vision and guidance to the Forest Preserve District for the next 25 years. The plan submitted by the commission in January 2014 and approved by the Cook County Board in February 2014 included the creation of a Conservation and Policy Council to focus on the financial and ecological health of the District.

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[28] Taxpayers Federation of Illinois, *Tax Facts*, April 2010 and June 2010, http://www.iltaxwatch.org/pages/show/tax_facts.

[29] The Civic Federation and Friends of the Forest Preserves, "Forest Preserve District of Cook County: A Call for a Separate Board of Commissioners," Chicago: March 17, 2008. http://www.civicfed.org/articles/civicfed_269.pdf

This is a positive step for the Cook County Forest Preserve District. However, the Civic Federation continues to believe that the District would ultimately be better served with the creation of a new separate governing body.

ALLOW TAXING DISTRICTS TO LEVY "RECAPTURE LEVIES"

When a property taxpayer wins an assessment appeal after property taxes have been paid, the taxing districts are required to refund a portion of the paid tax to the taxpayer. This can create a financial strain for local governments, especially those that are subject to tax caps, because the refund is paid out of current collections and the district cannot levy more revenue to make up the shortfall. A solution to this problem would be to permit taxing districts to re-levy the amount of refunds paid out in the following tax year. This "recapture levy" would not be extended against most properties that had received refunds, however, so as not to impair their refund.

The recapture levy would allow the taxing district to recover revenue from a previously levied legal tax extension to which any rate limits and tax caps had already been applied and thus would not constitute a tax increase. The opportunity to recover refunded tax revenues through a recapture levy would also allow taxing districts to focus resources on their core mission rather than becoming involved in the assessment appeals process. Currently, the potential revenue loss resulting from assessment reductions granted after taxes have been paid motivates taxing districts to intervene in large appeal cases, hiring attorneys and appraisers to argue on their behalf. The public would be better served if assessments were defended by representatives of their offices involved in the assessment process, while taxing districts focused their resources on efficiently delivering their core government services rather than intervening in assessment appeals.

The Civic Federation is equally concerned both with the rights of the taxpayers to seek redress for inaccurate property tax assessments and with the financial stability of taxing districts. The Federation supports allowing taxing districts to levy "recapture levies" for refunds that result from assessment reductions provided that taxpayers who receive the refunds are not affected by the recapture.

AUTHORIZE STATE AND LOCAL GOVERNMENT ENTITIES TO ESTABLISH TRUST FUNDS FOR THE ADVANCE FUNDING OF RETIREE HEALTHCARE

The Governmental Accounting Standards Board Statement 45 required state and local governments to report liabilities for Other Post Employment Benefits (OPEB), namely retiree health insurance, beginning with their fiscal year 2008 financial statements. Although most governments and pension plans currently fund OPEB on a pay-as-you-go basis, the substantial size of the liabilities reported may lead some to establish trust funds in order to pre-fund their obligations.

The Civic Federation urges the General Assembly to pass legislation enabling state and local government entities to create irrevocable trusts for the prudent pre-funding of retiree health insurance obligations. These trusts, in addition to new retiree healthcare provisions available under the federal Affordable Care Act, would allow governments maximum flexibility as they evaluate their post-employment benefit liabilities.

REQUIRE PUBLIC SCHOOLS TO REPORT ALL RECEIPTS FROM OUTSIDE FUNDING SOURCES TO THE SCHOOL DISTRICT

Public schools are permitted to raise revenues from non-public sources through fundraisers, grants and donations. However, the schools are not required to report these revenues to their school districts. This makes it difficult to measure the total financial resources available to public schools. The Civic Federation recommends that schools be required to report all receipts from outside funding sources to their school districts.