



The Civic Federation

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THE CIVIC FEDERATION 2020 LEGISLATIVE PRIORITIES

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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 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 nearly \$134 billion¹ 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 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 March 2016, pension funding and benefit reforms enacted in 2014 for Chicago's Municipal and Laborers' Pension Funds were struck down by the Illinois Supreme Court.³ Public Act 98-0641 made changes to pension benefit levels for current retirees and employee members of the two funds and increased employee and employer contributions to the funds. The Illinois Supreme Court again found the reforms to be in violation of the Illinois Constitution's pension protection clause. Of note, the Court ruled that members of the Funds are entitled to receive the benefits they were promised and "not merely to receive whatever happens to remain in the Funds." How the courts could enforce funding if any of the pension funds were to go insolvent is unclear.

In recent years, the State has attempted to accommodate increased pension contributions by significantly increasing income taxes, implementing various initiatives to generate near-term savings to the detriment of the funds' long-term health and maintaining a multi-billion dollar backlog of unpaid bills. Local governments, including Chicago, have also instituted various taxes and fees, sold assets or laid off first responders in some cases.

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 reduce benefits that were in place when current employees were hired—even though the State

¹ Illinois Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems: Financial Condition as of June 30, 2018*, available at <http://cgfa.ilga.gov/Upload/FinConditionILStateRetirementSysApril2019.pdf>

² Illinois Supreme Court opinion is available at <http://www.illinoiscourts.gov/OPINIONS/SupremeCourt/2015/118585.pdf>.

³ Illinois Supreme Court opinion is available at <http://www.illinoiscourts.gov/Opinions/SupremeCourt/2016/119618.pdf>.

⁴ Illinois Constitution, Article XIII, Section 5.

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 evolved 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 order to secure the financial sustainability of the State, its local governments and the pension systems themselves, the General Assembly should vote to place a constitutional amendment on the ballot no later than the 2020 general election that would limit the pension protection clause and allow for reasonable, moderate changes to current employee and retiree benefits.

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, universities and community colleges 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. A first step toward this change in responsibility was created as part of the State of Illinois' FY2018 budget, which created a Tier III "hybrid" plan for new employees in the Teachers' Retirement System and State Universities Retirement System that will be funded by school districts, universities and community colleges. However, the plan has still not taken effect due to implementation issues.

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 pensions, the Federation additionally recommends that the General Assembly grant local school districts, universities and community colleges the authority to determine pensionable 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 contributed 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 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. More recently, Governor JB Pritzker proposed a partial pension holiday for the State's pensions as part of his FY2020 recommended budget. Following an unexpected influx of State revenue in early 2019, that plan was abandoned. 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.

Require Actuarial Review of Proposed Pension Changes

In recent years, savings from proposed pension changes have been included in the State's budget without adequate actuarial review. In many cases, the intended savings are not achieved because of aggressive assumptions or flaws in actuarial methodology. Before including savings in the budget, all proposed pension changes should be thoroughly actuarially analyzed to show they will have the intended budgetary effects and to show the long-term effects on the pension funds.

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.

The Civic Federation urges 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 Benefit Enhancements

The 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 6,919, 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 101st General Assembly to enact the following government consolidation initiatives this year:

Consolidate Local Police and Fire Pension Funds

There are more than 650 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.

In 2019, Governor JB Pritzker established a series of task forces to study Illinois' financial condition, one of which was directed to explore the feasibility of and make recommendations for consolidation of pension funds, beginning with downstate public safety funds. Civic Federation staff will work to analyze the recently released findings and recommendations.

As detailed in a September 2017 Illinois Municipal League (IML) memo⁶ and follow-up memos issued in July 2018⁷ and February 2019,⁸ practical reforms to the current system of downstate

⁵ United States Census Bureau 2017 Census of Governments.

⁶ Memo available at iml.org/page.cfm?key=18750.

⁷ Memo available at iml.org/page.cfm?key=20479.

⁸ Memo available at iml.org/page.cfm?key=21310.

police and fire pension funds could include the following proposals.⁹ According to the IML, the following proposals are intended to collectively achieve greater efficiencies, reduce duplicative administrative costs and result in savings to municipalities and taxpayers that can then be reinvested in the funds to increase the level of funding they enjoy and to further stabilize the funds for the long term future.

Consolidation into the Illinois Municipal Retirement Fund (IMRF), with the regular IMRF pension formula applying to all new employees hired after a certain date.

Consolidation of the various downstate police and fire pension funds into the IMRF, maintaining all characteristics of the funds but under management and administration of IMRF.

Consolidation of investments (only) by the transfer of assets and investment authority from all local pension funds into the IMRF, maintaining the local pension boards for each fund.

Consolidation of all downstate police pension funds into one Downstate Police Pension Fund, with one statewide pension board that would carry out all aspects of the fund's management, thereby eliminating the local pension boards.

Consolidation of all downstate firefighter pension funds into one Downstate Firefighter Pension Fund, with one statewide pension board that would carry out all aspects of the fund's management, thereby eliminating the local pension boards.

Optional voluntary consolidation of investment authority for downstate public safety pensions into the IMRF, exempting employer pension contributions from PTELL tax caps.

Merge the Chicago Teachers' Pension Fund with the Teachers' Retirement System

Consolidating the Chicago Teachers' Pension Fund with the downstate and suburban Teachers' Retirement System would eliminate the current inequitable funding structure under which Chicago taxpayers pay for most of the cost of Chicago teacher pensions as well as downstate and suburban teachers' pension costs. It would achieve some cost efficiencies as duplicative functions were eliminated.

Under a consolidation plan, the State would assume responsibility for the unfunded liability of CTPF, while CPS would fund the normal cost. Over time, the normal cost for each district would be shifted to that district.

Currently the State pays for normal costs and toward the unfunded liability for TRS, but only the normal cost for CPS. The State picking up the normal cost of Chicago teachers' pensions was established as part of Public Act 100-465, the new school aid formula enacted in 2017, but cannot be considered pension parity. Rather, the Civic Federation believes the State should pay for the unfunded liability of the pension fund, and CPS should be responsible for the normal cost.

⁹ The proposals herein were introduced to the 101st General Assembly as Senate Bills 1106 through 1111 and House Bills 1566 through 1571. Summaries of the legislation are available at iml.org/page.cfm?key=21310.

It is reasonable for the State of Illinois to continue to assume financial responsibility for the unfunded liability of all school districts because:

- The State created the current expensive and unsustainable situation that has led to \$75.3 billion in unfunded liability and a funded ratio of 40.7% for TRS¹⁰ and \$12.0 billion in unfunded liability and a funded ratio of 47.9% for CTPF;¹¹ and
- Paying these enormous costs is beyond the capability of local districts to readily absorb. This is particularly true as they rely heavily on property taxes to fund their operations and many are subject to the property tax extension limitation law (PTELL), which limits most levy increases to 5% or the rate of inflation, whichever is less. Rather, all school districts should begin to cover the normal cost for all of their teachers' pensions.

The Civic Federation continues to recommend consolidation of the two teachers' retirement systems because the State assuming responsibility for the CTPF's unfunded pension liabilities would end a source of education funding inequity in Illinois.

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.¹² 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 Any Township to be Dissolved by Referendum

The Illinois Constitution appears to permit dissolution of townships by referendum.¹³ However, because of confusion surrounding procedures, past efforts have been difficult or delayed.

Public Act 100-107, signed into law in 2017, clarified various rules with regard to township consolidation, including authorizing dissolution of coterminous townships by referendum. Additional legislation in the years since has established dissolution within only specific counties. While these are good first steps, the Civic Federation sees no public policy reason why the intent of the Illinois Constitution should not be reflected in Illinois law. As such, the Federation encourages the Illinois General Assembly to pass legislation to authorize dissolution of *any* township via referendum.

¹⁰ Teachers' Retirement System of the State of Illinois, *Annual Financial Report Summary for the Fiscal Year Ended June 30, 2018*, p. 6.

¹¹ Public School Teachers' Pension and Retirement Fund of Chicago, *Actuarial Valuation Report as of June 30, 2018*, p. 1.

¹² Illinois Constitution, Article V, Sec. 1-18.

¹³ Illinois Constitution, Article VII, Sec. 5.

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.

Building on the eventual consolidation of the offices of the Cook County Recorder of Deeds and the Cook County Clerk before December 2020,¹⁴ 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 redemption and map divisions; the part of the current-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. 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.

However, 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.¹⁵

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 was concerned that the District appeared 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 focused 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. In the

¹⁴ For more information, please see the Civic Federation blog post, "Cook County Electorate Approves Ballot Measure to Merge Recorder of Deeds and County Clerk."

¹⁵ 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.

2008 report, 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 increased transparency and accountability in Port District operations, including availability of some financial information on the website, along with board meeting dates, agendas and minutes. Administration and operation of the Harborside International Golf Center has been privatized. Beginning in 2018, the Port District has held an annual public “State of the Port” address and presentation.

However, the Board continues to spend a significant amount of time in “executive session” during scheduled meetings without citing appropriate statutory authority, and the process around the recent issuance and termination of a request for proposal to select a master lessee was haphazard and lacked public detail.

Recently, the Chicago Metropolitan Agency for Planning (CMAP) announced a three-phase project of their Local Technical Assistance program to “better understand how IIPD fits into the fabric of the surrounding areas, and how IIPD may best optimize its resources and assets to promote future freight movement, economic development, conservation, and active transportation/recreation.”¹⁶ With the assistance of CMAP, the Illinois Department of Transportation and a consulting firm, the District announced a master planning process in September 2019 that is expected to take approximately two years.

While the Civic Federation is encouraged by the increase in transparency and will continue to monitor developments related to the planning process, the Federation continues to call for the dissolution of the Illinois International Port District due to ongoing serious concerns. The Federation’s 2008 report recommends that the City of 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.

ENACT POLICIES TO RATIONALIZE THE PROPERTY TAX SYSTEM

In recent years, State and local lawmakers have called for property tax relief through various proposals for a statewide property tax “freeze” in recent years. However, exceptions for items such as pensions and debt service, the complexity of Illinois’ property tax system and other factors mean that, if a property tax freeze were enacted, local governments could be hamstrung in preparing their budgets, and individual property tax bills could continue to rise.

¹⁶ *A Planning Priorities Report for the Illinois International Port District*, cmap.illinois.gov/programs/lta/IIPD-PPR.

In 2019, Governor Pritzker established a task force to review the entirety of the state's property tax system, study best practices in other states and make short- and long-term recommendations to reduce local reliance on property taxes. The task force's report has not yet been released.¹⁷

Rather than implementing a statewide freeze, the following proposals could be enacted to simplify the property tax system in Illinois and provide relief to taxpayers who need it most.

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.¹⁸ 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 1994.¹⁹ 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.²⁰

The 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. It would reduce confusion for taxpayers and taxing districts if the same property tax limitations were applied in all counties, and it would limit property tax increases in inflationary real estate markets.

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.

¹⁷ Additional information on the Illinois Property Tax Relief Task Force is available at <https://www2.illinois.gov/rev/research/taxresearch/Pages/Property-Tax-Relief-Task-Force.aspx>.

¹⁸ 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. Some funds are exempted from PTELL so it does not necessarily limit a district's entire extension.

¹⁹ 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.

²⁰ Illinois Department of Revenue, *History of PTELL*, January 2016.

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.

Provide Relief to Low Income Homeowners through a Means-Tested Circuit Breaker Program

The Civic Federation understands that the inexact relationship between the market value of real estate and annual income can put strain on some homeowners, especially those experiencing an income disruption due to unemployment or underemployment. Unlike business property owners, homeowners cannot pass on their costs to customers, owners, or suppliers.

The most effective way to target property tax relief to homeowners with the least ability to pay is a means-tested “circuit breaker” administered by the State of Illinois through the state income tax. A property tax circuit breaker is a program designed to provide relief when a person’s property tax liability exceeds a certain percentage of their annual income.²¹ The State of Illinois Department of Revenue is best positioned to verify income and to administer tax relief efficiently. Revenue would be required to fund a refundable income tax credit targeted at low income homeowners and renters.

The Civic Federation believes that it is very important to minimize homeowner exemptions and narrowly target them to the lowest income homeowners and renters. Exemptions should not be granted to homeowners who have the ability to pay their full *ad valorem* tax liability because property taxes in Illinois are a zero-sum game, meaning that tax relief provided to one property owner must be paid for by all other owners because it affects both the total EAV upon which the rate is based and the proportion of total EAV for each property.

²¹ John H. Bowman, Daphne A. Kenyon, Adam Langley and Bethany P. Paquin, “Property Tax Circuit Breakers: Fair and Cost-Effective Relief for Taxpayers,” (Cambridge, MA: Lincoln Institute of Land Policy, 2009), p. 5.

CREATE A SEPARATE 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.²²

The Civic Federation and Friends of the Forest Preserves continue to call 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. This was 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.

²² 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.

CREATE A LOCAL GOVERNMENT PROTECTION AUTHORITY

One way to address municipal financial distress 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 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 for additional funding;
- What contribution increases are necessary by both public employers and employees;
- 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 governments;
- 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.

The Civic Federation thanks Senator Sue Rezin for introducing this legislation in the 101st Illinois General Assembly as Senate Bill 1030, Amendment 1.

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.²³ 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.

Illinois has not maintained a functional rainy day fund, although a law was enacted in 2004 to build such a fund.²⁴ 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. In FY2017, stopgap measures passed by the General Assembly and signed by Governor Rauner drained the entirety of the fund. COGFA was recently charged with studying the volatility of Illinois’ revenue sources and reviewing options for adequately funding a rainy day fund.²⁵ 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.²⁶ 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. With very little public vetting, and heavy reliance on dubious revenues, the General Assembly approved a \$45 billion capital spending plan in 2019—despite

²³ Government Finance Officers Association, *Best Practice: Determining the Appropriate Level of Unrestricted Fund Balance in the General Fund*, October 2009.

²⁴ Public Act 93-660, enacted on February 2, 2004.

²⁵ Public Act 98-0682, enacted on June 30, 2014.

²⁶ Illinois General Assembly, Commission on Government Forecasting and Accountability, *Revenue Volatility Study*, Public Act 98-0682, December 31, 2014, p. 99.

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* 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.²⁷ A formal capital improvement plan includes the following information:

- A five-year summary list of projects and expenditures and funding sources per project;
- Information about the impact of capital spending on the annual operating budget for each project;
- 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.²⁸ 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.

Another possible model of project prioritization is the Virginia Department of Transportation's SMART SCALE. Virginia statute requires the use of an objective, weighted scoring system for each proposed transportation project that takes into account the project's impact on congestion, safety, accessibility, economic development, the environment and transportation-efficient land use. The resulting scores guide lawmakers' allocation of funding resources.

ESTABLISH A CONSENSUS REVENUE FORECAST PROCEDURE FOR THE STATE

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

²⁷ National Advisory Council on State and Local Budgeting, Recommended Practice 9.6: Develop a Capital Improvement Plan.

²⁸ North Carolina General Statutes, Chapter 143C - Article 8.

the varying estimates on the amount of resources available can 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. Development of a consensus forecast requires a process that is transparent, consistent and trusted by all involved parties. 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.²⁹

According to the National Conference of State Legislatures, nearly half of U.S. states develop a consensus revenue forecast that includes representation from the executive and legislative branches.³⁰ 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 projections and steps for updating estimates as the fiscal year progresses.

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. Statement 75 will update how these liabilities are reported, beginning with FY2018 reports. Although most governments and pension plans currently fund OPEB on a pay-as-you-go basis, a possible substantial increase in 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.

INCREASE TRANSPARENCY AND ACCESSIBILITY OF CRIMINAL JUSTICE DATA

Following publication of a Civic Federation report in November 2017 regarding the difficulty obtaining data about the makeup of the Cook County bond court and jail populations,³¹ the Cook County Office of the Chief Judge began reporting public data in quarterly bond court reports

²⁹ National Advisory Council on State and Local Budget, Recommended Budget Practice 9.2d: Achieve Consensus on a Revenue Forecast.

³⁰ Erica MacKellar, *Revenue Estimating in the States*, National Conference of State Legislatures, ncs1.org.

³¹ For more information, please see Civic Federation report, *The Impact of Cook County Bond Court on the Jail Population: A Call for Increased Public Data and Analysis*.

with information about the types of bond orders, rates of pretrial release and the Cook County jail population. While these reports are limited—for example, they do not provide enough historical information to make comparisons over time and they do not include data that would allow evaluation of the fairness of individual judges’ decisions—they are a significant improvement over the lack of publicly available information in past practice. Additionally, the Office of the Chief Judge released a report in May 2019 with data examining changes before and after the implementation of a September 2017 policy directing bond court judges to set affordable bail amounts.³² The Civic Federation will continue to recommend improvements to the Chief Judge’s data and reports.

There are two additional areas for significant improvement in disclosure of criminal justice data: Cook County jail information and statewide pretrial data on bond court decisions and pretrial jail confinement across Illinois.

Cook County Jail Data

Following the Civic Federation’s November 2017 report, the Cook County Sheriff began posting Daily Reports with aggregate jail population numbers on the Sheriff’s Office’s website. The Civic Federation recommends that the Cook County Board of Commissioners enact legislation requiring the Sheriff’s Office to produce publicly available, comprehensive analyses of the jail population and trends that are updated on a regular and frequent basis.

Special Reports on the Jail

The Civic Federation recommends that the Cook County Board of Commissioners enact legislation to require the Sheriff’s Office, with cooperation from the Chief Judge’s Office and the Cook County Health System, to produce and post on its website reports on the length of time pretrial defendants spend in jail and on electronic monitoring, the prevalence and severity of detainees’ mental health problems and the criminal backgrounds of pretrial detainees.

Analysis of the Impact of Jail Population Reduction on Jail Costs

The Civic Federation recommends that the Cook County Board of Commissioners enact legislation requiring Cook County budget officials in cooperation with the Sheriff and the Chief Judge to examine the feasibility of cost savings and efficiencies over time as a result of the reduction in the jail population. The population of the Cook County Jail has decreased by approximately 40% since 2013 but the Office of the Sheriff has not realized any significant cost savings to date. The analysis should take into account the costs of community corrections, including electronic monitoring under the Sheriff and pretrial services supervision by the Chief Judge. This type of analysis would hold Cook County government officials accountable and allow for more informed discussions about the effective use of taxpayer resources.

³² For more information, please see the Cook County Office of the Chief Judge’s report, *Bail Reform in Cook County: An Examination of General Order 18.81 and Bail in Felony Cases*.

Statewide Pretrial Data Collection System

Some other states have begun to increase transparency of criminal justice data. Most notably, Florida passed a law requiring the collection of case-level criminal justice data into a single repository. The data will be made available to the public in a database. Illinois currently collects information on individuals in the criminal justice system through a “complicated patchwork of data systems.”³³ While information is collected by several Illinois agencies at various key decision points of a case, such as arrests, case dispositions and sentencing data, there is no statewide collection or reporting of bond court and pretrial release decisions.

Over the past several years, the Civic Federation has worked with other criminal justice organizations to draft and introduce legislation that would require reporting of bond court and jail population data from every county in Illinois. House Bill 2689, sponsored by Rep. Jehan Gordon-Booth, would require each county sheriff and circuit court clerk in the State to submit data to the Illinois Criminal Justice Information Authority (ICJIA). ICJIA would then compile aggregate reports. HB 2689 was introduced in February 2019, but did not make it out of the Rules Committee before the end of the spring 2019 legislative session. The Civic Federation thanks Rep. Gordon-Booth for introducing this legislation in the 101st General Assembly and will work with the bill’s sponsor, ICJIA and other partners to push this legislation forward and advocate for a statewide pretrial data collection system.

³³ Loyola University Chicago Center for Criminal Justice Research, Policy and Practice & Northwestern Pritzker School of Law Bluhm Legal Clinic, *Criminal Justice Data Guide: State-level collection, reporting and availability of criminal justice data in Illinois*, June 2018.