FINANCIAL CHALLENGES FOR THE NEXT CHICAGO MAYOR AND CITY COUNCIL

Options and Recommendations

March 12, 2019

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.*
INTRODUCTION

MAJOR FISCAL PROBLEMS FACING THE NEXT CHICAGO MAYOR AND CITY COUNCIL

Issue #1: Funding the City’s Enormous Pension Shortfall
Issue #2: A Persistent Structural Budget Deficit
Issue #3: High Debt Burden

SUMMARY OF FINANCIAL MANAGEMENT OPTIONS FOR THE CITY OF CHICAGO

SUMMARY OF CIVIC FEDERATION STRUCTURAL AND PROCESS REFORM RECOMMENDATIONS

CONCLUSION

REVENUE OPTIONS FOR THE CITY OF CHICAGO

CITY OF CHICAGO INCOME TAX
Pros and Cons of Creating a Chicago Municipal Income Tax
Considerations for Creating a Chicago Municipal Income Tax

COMMUTER TAX
Pros and Cons of a Commuter Tax

DOWNTOWN CONGESTION FEE
Pros and Cons of Congestion Fees
Congestion Fee Case Studies from Other Cities
Considerations for Implementing a Congestion Fee

EXPANDING THE STATE SALES TAX TO SERVICES WITH LOCAL SHARE
Pros and Cons of Expanding the State Sales Tax to Services

FINANCIAL TRANSACTION TAX
Pros and Cons of a Financial Transaction Tax
Considerations for Implementing a Financial Transaction Tax

STATE GRADUATED INCOME TAX WITH LOCAL SHARE
Pros and Cons of a Graduated Income Tax
Considerations for Implementing a Graduated Income Tax

GRADUATED (OR PROGRESSIVE) REAL ESTATE TRANSFER TAX
Pros and Cons of a Graduated Real Estate Transfer Tax

RECREATIONAL MARIJUANA TAX
Issues for Consideration if Recreational Marijuana is Legalized

NEW GAMING TAXES
Potential New Forms of Gaming in Illinois
Chicago Casino
Gaming Expansion Possibilities for Chicago
Pros and Cons of Casino Gaming in Chicago

THE PROPERTY TAX
How Will the City Spend Property Taxes in Fiscal Year 2019?
The City’s Authority and Capacity to Raise Property Taxes and their Impact
The Impact of a Property Tax Increase on Individuals and Businesses
The Property Tax Option

REINSTITUTING THE CITY EMPLOYER’S EXPENSE TAX (HEAD TAX)
Pros and Cons of Head Taxes

SUPPLEMENTAL RIDESHARE FEE LINKED TO CONGESTION AND PUBLIC TRANSIT AVAILABILITY
Surcharge Based on Congestion in Transit-Accessible Areas
Considerations for Implementing a Congestion and Transit-Based Rideshare Charge

ELIMINATING OR REDUCING THE STATE INCOME TAX EXEMPTION FOR RETIREMENT INCOME WITH LOCAL SHARE
Pros and Cons of Eliminating the Income Tax Exemption for Retirement Income
Considerations for Eliminating the Exemption of Retirement Income from Taxation
EXPENDITURE REDUCTION OPTIONS FOR THE CITY OF CHICAGO................................................................. 49
  alternative service delivery .................................................................................................................. 49
  reasons for privatization ...................................................................................................................... 51
  reasons to terminate privatization ...................................................................................................... 51
  arguments for and against service privatization ................................................................................. 51
  consolidating city pension funds ........................................................................................................ 52
  sustainable collective bargaining agreements ....................................................................................... 54
BORROWING OPTION FOR THE CITY OF CHICAGO.............................................................................. 56
  pension obligation bonds ...................................................................................................................... 56
OTHER FINANCIAL MANAGEMENT OPTIONS FOR THE CITY OF CHICAGO................................ 56
  a public bank for the city of chicago ................................................................................................ 56
    the bank of north dakota ................................................................................................................... 57
    a chicago municipal public bank .................................................................................................. 58
    pros and cons of public banks .......................................................................................................... 58
    considerations for creating a chicago public bank ....................................................................... 59
  using tax increment financing surplus to relieve budgetary pressure ............................................. 60
    considerations for tax increment surplus ....................................................................................... 62
CIVIC FEDERATION RECOMMENDATIONS ....................................................................................... 63
  reform the practice of aldermanic privilege ....................................................................................... 63
  reform the aldermanic menu program ............................................................................................... 64
  best practices for debt issuance ......................................................................................................... 65
  city government structural reforms ................................................................................................ 66
    make the city clerk and treasurer’s offices appointed rather than elected .................................... 66
    reduce the size of the city council ................................................................................................... 68
  conduct a cost of services study ......................................................................................................... 70
  develop a comprehensive land use plan ............................................................................................ 70
  develop a formal long-term financial plan for city operations and pension funds ......................... 72
    examples of long-term financial planning practices in other cities .............................................. 74
  improve transparency of securitized debt issuance ......................................................................... 78
  improve the city’s capital improvement plan ..................................................................................... 79
  annually reassess the garbage collection fee .................................................................................... 83
  include finance general costs in city department budgets ............................................................... 84
  require livestreaming of city council committee meetings .............................................................. 84
  strengthen the city council’s office on financial analysis (cofa) ......................................................... 85
APPENDIX............................................................................................................................................. 88
INTRODUCTION

In April 2019 Chicago voters will elect a new Mayor and City Council. The City’s incoming political leadership will immediately face three major fiscal challenges:

1. Funding the City’s massive pension shortfall, including the upcoming transition to actuarially based funding;
2. A persistent structural deficit; and
3. A chronically high debt burden.

Addressing these urgent fiscal needs will crowd out spending for other desired goods or services absent enormous tax increases, state financial assistance and/or massive new borrowing efforts. Unfortunately, there is little or no money for new programs without the infusion of vast new revenues or deep spending cuts. The fiscal challenge will be especially daunting because of the possibility of an economic recession in the near future. Unfortunately, the City and the State of Illinois are not adequately prepared for the budgetary impact of a recession, particularly if it is deep or long lasting.¹

The purpose of this report is twofold:

- To present information about various spending reduction, operational efficiency, borrowing and revenue enhancement options that City policymakers might consider in the coming months or years to address Chicago’s fiscal challenges. These options are presented for informational purposes only. Some of these concepts have been discussed during the Chicago municipal election campaign by candidates and other stakeholders. However, the Civic Federation has not endorsed or taken a position on these ideas to date.

- To highlight structural and process reform recommendations that the Civic Federation has endorsed in our public statements, including our annual analyses of the City of Chicago budget.

It is important to note that many of the ideas presented in this report will require approval of legislation by the Illinois General Assembly and the Governor. This is appropriate as the State of Illinois created or contributed to many of the problems faced by the City of Chicago, such as pension funding shortfalls and a lack of capital funding. In addition, many proposals, if accepted, might have to be implemented in stages due to the enormity of the City’s fiscal challenges.

Chicago faces a number of social, economic and financial problems in addition to the three key fiscal issues identified above. These include:

- Crime, violence and criminal justice reform;
- Population loss;
- Public corruption;
- A lack of affordable housing;
- Uneven patterns of economic development;
- Education performance and quality; and
- Pressing financial issues facing the Chicago Public Schools, the City Colleges and the Chicago Park District and Chicago Transit Authority.

While acknowledging their importance, this report will not address these other critical problems. There are many other organizations in Chicago and Illinois that focus their research efforts on these issues. These organizations are listed in the appendix of this report.

**Major Fiscal Problems Facing the Next Chicago Mayor and City Council**

This section of the report describes the three major fiscal challenges facing the next Mayor of Chicago and the incoming City Council. While these issues took many years to develop, they must begin to be addressed in the next few years to stabilize the City’s finances. It will not be an easy task and will require significant local political will and assistance from the Illinois General Assembly and Governor.

**Issue #1: Funding the City’s Enormous Pension Shortfall**

The City of Chicago’s four pension funds combined have nearly $28 billion in unfunded pension liabilities. The following exhibit shows actuarial value funded ratios for each of the four pension funds. The actuarial value funded ratios for all four City pension funds decreased or were flat in FY2017, the last year for which complete data are available. The Fire Fund decreased to 20.1%, the Police Fund was flat at 23.7%, the Municipal Fund decreased significantly to 27.4% and the Laborers’ Fund declined to 48.3%. A low and falling funded ratio is cause for serious concern as
it raises questions about the ability of the government to adequately fund its retirement systems over time.

To address the precarious financial position of its pension funds, the City secured state legislation in 2016 for the Police and Fire funds and in 2017 for the Municipal and Laborers’ Funds implementing new 40-year pension funding schedules. The funding schedule provides for five years of increasing payments laid out specifically in the state statute, leading to an actuarially-calculated payment schedule with a 90% funding goal for the subsequent 35 years.

Chicago has implemented reliable funding streams that provide sufficient funding for the first years of the funding plan for each pension fund. This includes $543 million in property tax increases, approximately $174.1 million in new water and sewer utility taxes and approximately $147.1 million from a 911 surcharge on telephones, which frees up corporate fund revenue to fund pension contributions to the Laborers’ Fund. However, by FY2023, the City will need at least $1.2 billion in additional recurring revenues to finance the upcoming pension funding ramp, according to the City’s FY2018 Annual Financial Analysis. Unfortunately, even these enormous infusions of revenues will not fully fund the pensions.

---

^2 While the City projects that it will generate $174.1 million from the water and sewer utility tax in FY2019, $50 million will not be used to make the FY2019 pension contribution, but rather will be set aside in escrow to help make future years’ contributions. See City of Chicago, FY2019 Budget Overview, p. 40.
The City has to date released no detailed plan for how it will afford a projected doubling of its contributions to the pensions over the next five years due to the transition to actuarially-based funding other than floating the possibility of issuing $10 billion in pension obligation bonds.\textsuperscript{3} Funding City pensions is the single most pressing fiscal issue Chicago faces. The next Mayor and City Council must address it as soon as possible.

**Issue #2: A Persistent Structural Budget Deficit**

A structurally balanced budget is one in which recurring revenues equal or exceed recurring expenditures. It provides financial stability for a government in the long-term.\textsuperscript{4} A budget that is not structurally balanced is one which is balanced through the use of one-time revenues such as fund balance, asset lease proceeds or borrowing. Using non-recurring, one-time revenues to repeatedly fund budgets masks serious systemic financial problems and is not a sustainable practice.

The City of Chicago unfortunately continues to have a chronic structural budget deficit. In its *Annual Financial Analysis 2018* released in July 2018, the City of Chicago projected that without changes to expenditures and revenues, its Corporate Fund deficit, which does not include most pension contributions, would be $97.9 million in FY2019, $251.7 million in FY2020 and $362.2 million in FY2021.\textsuperscript{5} However, these projected gaps do not include the required increased contributions to the Police and Fire Funds, which will need to be funded on an actuarial basis in property tax levy year 2020.\textsuperscript{6} The City has been forced to repeatedly close its annual budget gap with one-time revenue sources, such as tax increment financing (TIF) surpluses.

Chicago has made considerable efforts to reform its operations through management efficiencies and innovative programs in the past six years and has significantly reduced its operating deficit, which was as high as $654.7 million in FY2011.\textsuperscript{7} It has also dramatically reduced its reliance on one-time revenue sources from years past, particularly ending the deleterious practice of raiding long-term asset lease reserves. However, the imbalance between operating expenditures and recurring revenue sources is projected to continue to grow absent action to reduce expenditures or increase revenues. The continued practice of using significant one-time revenue sources, especially fund balance and TIF surplus, only exacerbates the ongoing structural deficit and leaves the City particularly vulnerable in the event of unexpected costs or an economic recession.

**Issue #3: High Debt Burden**

The City of Chicago has a relatively high debt burden according to three commonly-used fiscal indicators: 1) amount of total net direct debt, 2) long-term direct debt per capita and 3) debt service appropriations. The large and steady upward trend in debt over time is a cause for great concern for the City of Chicago. It threatens to further reduce the City’s credit rating, make

\textsuperscript{3} City of Chicago, Mayor Rahm Emanuel, Strengthening Chicago’s Pensions, Pension Booklet, December 12, 2018


\textsuperscript{6} Actual pension payments will be due in 2021.

\textsuperscript{7} City of Chicago, *Annual Financial Analysis 2018*, p. 25.
future borrowing more expensive, possibly limit available capacity for additional borrowing and crowd out spending on other important priorities.

Between FY2008 and FY2017, the last year for which complete information is available from the City’s audited financial statements, Chicago’s total net direct debt rose by 56.9%, or $3.5 billion. This represents an increase from $6.1 billion in FY2008 to $9.6 billion ten years later.
In the ten years between FY2008 and FY2017, direct debt per capita rose by 68.6% from $2,115 to $3,565. The per capita ratio declined from $3,354 to $3,318 between FY2015 and FY2016. However, it rose again in FY2017 to $3,565.

Chicago’s debt service appropriations in FY2019 are projected to be 21.3% of total local fund net appropriations, or $1.9 billion out of expenditures of $8.9 billion. Since FY2015 debt service appropriations have risen by 8.1%, less than the 20.7% increase in total net appropriations. The large increase in net appropriations is due in large part to increased pension fund contributions. The debt service ratio has averaged 22.7% over the five-year period analyzed. The rating agencies consider a debt burden high if this ratio is between 15% and 20%.8

City of Chicago Debt Service Appropriations as a Percentage of Total Net Appropriations: FY2015-FY2019

<table>
<thead>
<tr>
<th></th>
<th>Debt Service</th>
<th>Total Net Appropriation</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2015</td>
<td>$ 1,743,440,463</td>
<td>$ 7,339,188,000</td>
<td>23.8%</td>
</tr>
<tr>
<td>FY2016</td>
<td>$ 1,794,543,572</td>
<td>$ 7,837,956,000</td>
<td>22.9%</td>
</tr>
<tr>
<td>FY2017</td>
<td>$ 1,938,455,902</td>
<td>$ 8,218,266,000</td>
<td>23.6%</td>
</tr>
<tr>
<td>FY2018</td>
<td>$ 1,886,630,393</td>
<td>$ 8,579,435,000</td>
<td>22.0%</td>
</tr>
<tr>
<td>FY2019</td>
<td>$ 1,884,599,917</td>
<td>$ 8,856,121,000</td>
<td>21.3%</td>
</tr>
<tr>
<td>Five-Year $ Increase</td>
<td>$ 141,159,454</td>
<td>$ 1,516,933,000</td>
<td></td>
</tr>
<tr>
<td>Five Year % Increase</td>
<td>8.1%</td>
<td>20.7%</td>
<td></td>
</tr>
</tbody>
</table>


---

In addition, the City approved $4 billion in debt funding to date for its multi-year O’Hare 21 modernization plan and has not indicated how much of the remaining plan costs will be funded through borrowing. While O’Hare debt is a different type from the City’s direct debt, if the entire O’Hare plan is debt funded, the airport’s total debt outstanding would be $14.5 billion by 2022, with the possibility of even more debt if the airlines promote additional projects. Moody’s Investors Service has critiqued the O’Hare 21 funding plan because “it will increase leverage and airline costs above those of the airport’s peers, weakening O’Hare’s competitive position and airlines’ profitability at the airport if growth fails to materialize.”

The upward trend in debt burden over time is not projected to end soon. It is a serious cause for concern for the City of Chicago. A high debt burden combined with the City’s other enormous long-term liabilities, particularly pensions, will continue to put pressure on the budget and constrain the City’s finances.

**Summary of Financial Management Options for the City of Chicago**

The various financial management options for the City of Chicago discussed in this report are listed below along with an indication of whether each option would require authorization by the State of Illinois through legislation or if the City can implement them using its existing home rule authority. The Civic Federation takes no position on these options and takes no position on

---

9 Moody’s Investors Services. “City of Chicago IL O’Hare Airport Ent.: Chicago O’Hare Airport’s capital plan is credit negative,” April 5, 2018.
them in this report in order to advance candidates’ and residents’ discussions of Chicago’s financial future.

<table>
<thead>
<tr>
<th>SELECTED CHICAGO FINANCIAL MANAGEMENT OPTIONS</th>
<th>METHODS OF AUTHORIZATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Management Option</td>
<td>Authorization</td>
</tr>
<tr>
<td></td>
<td>State Statute</td>
</tr>
<tr>
<td><strong>Revenue Options</strong></td>
<td></td>
</tr>
<tr>
<td>City Income Tax</td>
<td>X</td>
</tr>
<tr>
<td>Commuter Tax</td>
<td>X</td>
</tr>
<tr>
<td>Downtown Traffic Congestion Fee</td>
<td></td>
</tr>
<tr>
<td>Expanding Sales Tax to Services (with Local Share)</td>
<td>X</td>
</tr>
<tr>
<td>Financial Transaction Tax</td>
<td>X</td>
</tr>
<tr>
<td>Graduated Income Tax (with Local Share) - Requires Approval of State Constitutional Amendment</td>
<td>X</td>
</tr>
<tr>
<td>Graduating (or Progressive) Real Estate Transfer Tax</td>
<td>X</td>
</tr>
<tr>
<td>Recreational Marijuana Tax</td>
<td>X</td>
</tr>
<tr>
<td>New Gaming Taxes (Chicago Casino, Video Poker, Sports Betting)</td>
<td>X</td>
</tr>
<tr>
<td>Property Tax</td>
<td>X</td>
</tr>
<tr>
<td>Reinstating the City Employer's Expense Tax (Head Tax)</td>
<td>X</td>
</tr>
<tr>
<td>Rideshare Fee Linked to Congestion and Public Transit Availability</td>
<td>X</td>
</tr>
<tr>
<td>Tax on Retirement Income (with Local Share)</td>
<td>X</td>
</tr>
<tr>
<td><strong>Expenditure Reductions</strong></td>
<td></td>
</tr>
<tr>
<td>Alternative Service Delivery</td>
<td>X</td>
</tr>
<tr>
<td>Consolidating City Pension Funds</td>
<td>X</td>
</tr>
<tr>
<td>Sustainable Collective Bargaining Agreements</td>
<td>X</td>
</tr>
<tr>
<td><strong>Borrowing</strong></td>
<td></td>
</tr>
<tr>
<td>Pension Obligation Bonds</td>
<td>X</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td></td>
</tr>
<tr>
<td>Chicago Public Bank</td>
<td>X</td>
</tr>
<tr>
<td>Reevaluate Use of TIF to Relieve Budget Pressure</td>
<td>X</td>
</tr>
</tbody>
</table>
Summary of Civic Federation Structural and Process Reform Recommendations

Below is a summary of major structural and process reform recommendations that the Civic Federation has endorsed in our public statements, including our annual analyses of the City of Chicago budget.

<table>
<thead>
<tr>
<th>CIVIC FEDERATION STRUCTURAL AND PROCESS REFORM RECOMMENDATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reform the Practice of Aldermanic Privilege</td>
</tr>
<tr>
<td>Reform the Aldermanic Menu Program</td>
</tr>
<tr>
<td>Best Practices for Debt Issuance</td>
</tr>
<tr>
<td>City Government Structural Reforms</td>
</tr>
<tr>
<td>Conduct a Cost of Services Study</td>
</tr>
<tr>
<td>Develop a Comprehensive Land Use Plan</td>
</tr>
<tr>
<td>Develop a Formal Long-Term Financial Plan for City Operations and Pension Funds</td>
</tr>
<tr>
<td>Improve Transparency of Securitized Debt Issuance</td>
</tr>
<tr>
<td>Improve the City’s Capital Improvement Plan</td>
</tr>
<tr>
<td>Annually Reassess the Garbage Collection Fee</td>
</tr>
<tr>
<td>Include Finance General Costs (Pension, Healthcare, etc.) in City Department Budgets</td>
</tr>
<tr>
<td>Require Livestreaming of City Council Committee Meetings</td>
</tr>
<tr>
<td>Strengthen the City Council’s Office on Financial Analysis (COFA)</td>
</tr>
</tbody>
</table>

Conclusion

In sum, the City of Chicago faces a number of serious financial challenges in the next few years. Many of the potential solutions to these problems will be politically difficult and require the incoming Mayor and City Council to make very tough decisions. It is important to note that many of these will also require approval from the Illinois General Assembly and Governor.

The following sections of this report outline some of the revenue enhancement, expenditure reduction and borrowing options that City leaders may explore in order to address these problems. The report concludes with structural and process recommendations the Civic Federation has long proposed to improve financial and policy transparency in City of Chicago operations.
REVENUE OPTIONS FOR THE CITY OF CHICAGO

The following section presents a number of revenue options that might be pursued by the City of Chicago as it addresses its financial challenges.

Please note that the Civic Federation does not endorse or take a position on any of these ideas. The Federation does not support tax increases in the abstract. Furthermore, the Federation believes that any new taxes or increases to existing taxes would need to be tied to a long-term financial plan that balances the City’s budget and stabilizes its finances over the long-term.

For more information on the myriad of taxes and fees already imposed by the City of Chicago, see the Civic Federation’s annual report on Selected Consumer Taxes in the City of Chicago.10

City of Chicago Income Tax

Local income taxes may be imposed as a percentage of salaries or wages, a percentage of state or federal income taxes or as a flat charge per week. The tax may be paid by individuals or employers. Some jurisdictions permit exemptions for low income taxpayers or military personnel.11 The income tax base can include:

- Earned income from wages, salaries, tips and other forms of taxable employee pay;12
- Proprietary income from privately owned businesses;
- Corporate income; and/or
- Personal income, which includes compensation from salaries, wages and bonuses; dividends and distributions from investments; rental income; and business profit sharing.13

The income tax base can be narrow or broad. The narrowest base for local income taxes includes earned and proprietary income only, as is the case in Pennsylvania. The broadest tax base includes personal, proprietary and corporate income, as in New York City.14

The Illinois Constitution provides that home rule units of governments such as the City of Chicago may only impose a local income tax if that authority is granted by the General Assembly, and it has not done so to date.15 The City of Chicago Inspector General’s Office estimated in 2011 that a 1% municipal income tax could raise approximately $500 million.16

---

15 Illinois Constitution, Article VII Local Government, Section 6 (c): Powers of Home Rule Units.
16 This figure was calculated by assuming that a 1% city income tax would be imposed on Chicago’s share of the adjusted gross income used by the state to calculate state income taxes in in 2009. Office of the Inspector General,
According to the Tax Foundation, in 2011 approximately 4,943 local government jurisdictions in 17 states impose local option income taxes. These were primarily municipalities and counties. Nearly 60% of these jurisdictions are in Pennsylvania.

Local income tax rates vary widely. In most jurisdictions, the local income tax is levied on residents as well as nonresidents who work in the taxing jurisdiction. The nonresident tax rate is typically lower than imposed on residents. The exhibit below shows a sample of local income tax jurisdictions.

![Pie Chart showing local government jurisdictions levying income tax by state in 2011](image)


17 As of April 2011, the states permitting local option income taxes and the number of jurisdictions in each authorized to levy income taxes are Alabama (4), California (1), Colorado (3), Delaware (1), Indiana (91), Iowa (297), Kansas (535), Kentucky (218), Maryland (24), Michigan (22), Missouri (2), New Jersey (1), New York (4), Ohio (774), Oregon (2), Pennsylvania (2,961) and West Virginia (3). Joseph Bishop-Henchman and Jason Sapia, Tax Foundation, "Local Income Taxes: City-and-County Level Income and Wage Taxes Continue to Wane," August 31, 2011.
rates for select jurisdictions in 2011. Most jurisdictions impose a flat rate income tax. New York City, however, has implemented a graduated rate.

<table>
<thead>
<tr>
<th>City</th>
<th>State</th>
<th>Resident Tax Rate</th>
<th>Non-Resident Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Birmingham</td>
<td>Alabama</td>
<td>1.00%</td>
<td>1.00%</td>
</tr>
<tr>
<td>Wilmington</td>
<td>Delaware</td>
<td>1.25%</td>
<td>1.25%</td>
</tr>
<tr>
<td>Indianapolis</td>
<td>Indiana</td>
<td>1.62%</td>
<td>0.485%</td>
</tr>
<tr>
<td>Louisville</td>
<td>Kentucky</td>
<td>2.20%</td>
<td>2.20%</td>
</tr>
<tr>
<td>Detroit</td>
<td>Michigan</td>
<td>2.50%</td>
<td>1.25%</td>
</tr>
<tr>
<td>Kansas City</td>
<td>Missouri</td>
<td>1.00%</td>
<td>1.00%</td>
</tr>
<tr>
<td>Newark</td>
<td>New Jersey</td>
<td>1.00%</td>
<td>1.00%</td>
</tr>
<tr>
<td>New York City</td>
<td>New York</td>
<td>2.987% to 3.876%</td>
<td>None</td>
</tr>
<tr>
<td>Columbus</td>
<td>Ohio</td>
<td>2.50%</td>
<td>2.50%</td>
</tr>
<tr>
<td>Philadelphia</td>
<td>Pennsylvania</td>
<td>3.928%</td>
<td>3.4985%</td>
</tr>
</tbody>
</table>


**Pros and Cons a Local Income Tax**

The arguments against local income taxes include:

- A local income tax may be a disincentive to live, work or do business in a city imposing the tax. Mitigating this impact might involve extending the tax to nonresidents or imposing a county or regional income tax rather than a municipal tax;¹⁸
- It may be easy to avoid a local income tax that is only imposed on residents by moving out of the jurisdiction;
- A local income tax base will be shared with federal and state income taxes, which may lead to a high composite tax rate;
- The 2017 federal tax reform act limits deduction of local taxes, increasing the relative burden on taxpayers;
- Because income taxes are elastic, there may be significant fluctuations in revenue. In economic downturns income tax revenues may fall precipitously, forcing governments to find alternative funding sources;
- A local income tax can export the tax burden to nonresidents who do not fully utilize city services; and
- A local income tax applied to corporate income may negatively impact economic development if it is perceived to create an unfavorable business climate.¹⁹

There are several arguments in favor of a local option income tax:

---


• They can replace or reduce the need for increasing other more regressive taxes such as property or sales taxes;
• Income taxes are an elastic revenue source that yield greater amounts of revenue as the economy grows;
• The use of income taxes could contribute to revenue diversification, thereby lessening reliance on other revenue sources such as property taxes;
• Income taxes can generate significant amounts of revenue; and
• If imposed on nonresidents who work in a jurisdiction, local income tax revenue can be used to help pay for municipal services and infrastructure used by those nonresidents.

Considerations for Creating a Chicago Municipal Income Tax

Implementing a Chicago municipal income tax would require the passage of legislation by the Illinois General Assembly or alternatively a constitutional amendment authorizing local option income taxes. It is reasonable to assume that the municipal tax would piggyback on the structure of the State income tax, whether that remains a flat rate tax or if it is changed to a graduated rate. The following issues would need to be addressed:

• What would constitute the municipal income tax base?
• Would the tax be applied only to residents or to nonresidents who work or do business in the City as well? If so, would the resident and nonresident tax rates be the same or different?
• Would the municipal income tax be administered and collected by the State of Illinois or by local authorities?
• What exemptions would be permitted? and
• If the municipal income tax base includes corporate income, how would nexus be established for taxable business activity?

Commuter Tax

Recent proposals have called for the establishment of a commuter tax as a way to address the City’s unfunded pension liabilities and other financial challenges. A commuter tax is a tax imposed on the wages of nonresidents who work in one municipality but live elsewhere. The City of Chicago does not currently have a commuter tax and would need to seek a change in state statute to allow for such a tax to be imposed. Up until 2014 the City of Chicago imposed an Employer Expense Tax, also known as a “head tax” on employers with more than 50 employees, regardless of whether the employee is or is not a Chicago resident. The “Head Tax,” however, is not a commuter tax.

According to the U.S. Census Bureau, in 2015 there were a total of 420,998 Chicago residents who worked outside City boundaries and 594,611 non-Chicago residents working within City boundaries. Of the 420,998 Chicago residents who work outside the City of Chicago, 107,352

---

20 For more information on the City Income Tax and Employer Expense Tax, see pp. 10 and 43 of this report.
of those residents make $1,250 per month or less. Of the 594,611 residents who work in Chicago but live outside of Chicago, 107,076 residents make $1,250 per month or less.

**Pros and Cons of a Commuter Tax**

Opponents of a commuter tax argue that:

- A commuter tax provides a strong incentive for businesses to locate in the suburbs;
- The creation of commuter tax on nonresidents of Chicago could cause neighboring municipalities to impose their own commuter taxes, which could disproportionately impact low income Chicago residents who are employed in neighboring municipalities;
- Other cities that have imposed a commuter tax, such as Philadelphia, Cleveland and Detroit, are considered to be economically stagnant;
- Suburban commuters already contribute to the local economy by paying sales and restaurant taxes on goods purchased and on parking taxes if they commute by motor vehicle;
- Employers and office landlords already pay property taxes for the office space they occupy; and
- Such a tax may violate the uniformity clause of the Illinois Constitution.

Proponents of a commuter tax argue that:

- An income tax on commuters is one of the fairest ways to raise revenue because it requires nonresidents who benefit from City services, such as police and fire protection and city infrastructure, to help pay for the cost of those services; and
- Nonresidents who work in the City likely earn more than City residents, making them more able to pay taxes.

**Downtown Congestion Fee**

Congestion charges are one way to alleviate traffic congestion and related issues such as pollution. According to the Federal Highway Administration, there are four types of congestion pricing strategies:

1. **Varily priced lanes**: variable toll rates on separated lanes within a highway, such as Express Toll Lanes or High Occupancy Toll lanes;
2. **Variable tolls on entire roadways**: tolls placed on both toll roads and bridges, as well as on existing toll-free facilities during rush hours;
3. **Cordon charges**: either variable or fixed charges to drive within or into a congested area within a city; and
4. **Area-wide charges**: per-mile charges on all roads within an area that may vary by level of congestion.

---

This section focuses on cordon charges that could be imposed and implemented by the City of Chicago within the central area of Chicago.

**Pros and Cons of Congestion Fees**

Opponents of congestion pricing argue that:

- A congestion fee is unfair to low-income residents traveling downtown and to residents who live in the central area;
- Business and retail owners often argue that congestion pricing leads to fewer shoppers in the city center; and
- Implementation would require significant capital start-up costs for technology including sensors or cameras on the roads and in-car transponders to track vehicle movement in the central area, as well as annual operating costs. According to the City of Chicago Inspector General report, the operating costs for running a congestion pricing system range from 20% of gross revenue in Singapore to 35% of gross revenue based on a New York City proposal.25

Proponents of cordon area congestion fees argue that:

- Congestion fees have been proven to reduce traffic, improve travel times and improve air quality;
- Analysis of a congestion charge implemented in London shows no change in retail activity due to the congestion charge, apart from larger external economic factors and consumer trends;26
- Congestion pricing could result in more people turning to public transit rather than vehicle usage for trips into the central area, which could benefit the CTA, Metra and Pace with increased ridership and revenue; and
- The City of Chicago could benefit from revenue from the congestion charge that could then be used to maintain roads and improve public transit systems. For example, according to estimates from a 2012 City of Chicago Inspector General report on savings and revenue options for the City of Chicago, the net revenue from congestion pricing would potentially be $210 million after accounting for annual costs.27

**Congestion Fee Case Studies from Other Cities**

Central city congestion-based fees have been implemented in cities around the world including London, Stockholm, Singapore, Durham, England and several cities in Italy. Congestion pricing has not been implemented by any cities in the U.S. but New York City has proposed congestion

---

27 This is assuming the rate charged would be $5 per day and assuming a 20% reduction in vehicle trips to the central area after implementation of the charge. City of Chicago Office of the Inspector General, *Savings and Revenue Options 2012*, September 2012, p. 76.
pricing, San Francisco conducted a feasibility study and Los Angeles is currently considering a congestion charge as an infrastructure project funding source. The experiences of London and Stockholm are examined here.

London: London charges a per-day fee of £11.50 for vehicles to enter or travel within the congestion charge zone between the hours of 7:00 a.m. and 6:00 p.m. Monday through Friday. Individuals and companies can enroll in an auto pay option for a reduced charge of £10.50 for each day the vehicle travels within the congestion charge zone. An annual registration fee of £10.00 is also charged. Residents who live within the congestion charging zone are eligible to apply for a 90% discount on one vehicle. There are also discounts and exemptions for certain vehicles including taxicabs, buses and motorcycles. Private hire vehicles were originally exempt but will be charged the fee beginning on April 8, 2019. London also charges a daily £10.00 emissions charge (called the T-Charge) for vehicles that do not meet minimum emissions standards.

Results from the London Congestion Charge: Prior to implementation of the congestion charge, London experienced severe congestion with average traffic speeds slower than 8 miles per hour and Londoners lost an estimated £2-4 million per week in time due to congestion. According to the Federal Highway Administration, the congestion charge, together with improvements in public transit financed with revenues from the charging system, led to a 15% reduction in traffic in central London. The majority of prior vehicle users transferred to using public transit, travel delays were reduced by 30% and excess waiting time on buses fell by around one-third.

Stockholm: Stockholm first implemented a cordon congestion charge in 2006 as a seven-month trial with little political or popular support. However, following the trial period, 52% of voters through a referendum voted in favor of keeping the congestion charges in place. Stockholm’s system consists of 18 charging points of entry into the cordon area around the inner city. Stockholm’s topography allows for these specific charging points because of the City’s waterways and bridges. The cost for passing a charging point in either direction, coming in or out of the zone, is £10.00.

References:
28 An update on San Francisco’s feasibility study conducted by the San Francisco County Transportation Authority can be found at https://www.sfcta.org/sites/default/files/content/Executive/Meetings/board/2018/10-Oct-23/Cordon%20Pricing%20Incentives%20Strategies.pdf (last accessed March 6, 2019).
29 A presentation on Los Angeles’ 28 by 2028 project with discussion of congestion pricing as a revenue source can be found http://metro.legistar1.com/metro/attachments/e48e3ad9-7f42-4011-849c-5666ed4f0cc6.pdf (last accessed March 6, 2019).
30 A map of London’s Congestion Charge Zone is available at https://tfl.gov.uk/modes/driving/congestion-charge/congestion-charge-zone.
going out, is between 1-2€. The rates vary based on the time of day, with higher rates for higher volume travel times and a maximum amount charged per vehicle per day of 6€. \[34\]

**Results from the Stockholm Congestion Charge:** Since implementation of the cordon charge, traffic across the cordon area has been reduced by approximately 20%. \[35\] Travel times improved, with delays on major arterials falling by one-third during the morning peak period and by one-half during the afternoon peak period. \[36\] The reduced congestion increased reliability of travel times. It also resulted in a decrease in air pollutants between 10% and 14% in the inner city and a decrease in carbon dioxide emissions from traffic of 2-3% within the whole metropolitan area. \[37\]

**Considerations for Implementing a Congestion Fee**

There are a number of factors the City of Chicago would need to consider if it were to implement a central area congestion fee.

**Cordon Area Boundaries:** The City would need to determine the boundaries of the central cordon area where the congestion fee would be charged. The City of Chicago’s 2009 Central Area Action Plan defined the central area of Chicago as including the following neighborhoods: Central Loop, South Loop, Near South, Chinatown, River South, Southwest Loop, West Loop, Near West, River North, Streeterville, Near North and Cabrini Green Area. \[38\] The congestion charge area could include some or all of these neighborhoods, or the central Loop only.

**Public Opinion:** In the experience of other cities that have implemented cordon congestion charges, public opinion of these charges typically started off very low, but improved significantly after education and awareness campaigns and seeing the results of their implementation. The City of Chicago would need to educate residents, businesses and commuters about how the congestion charge would be implemented and what impact it would have on residents, workers and City government.

**Implementation and Operating Cost:** The City would need to consider the cost associated with management of the congestion charge, including but not limited to capital start-up costs, tolling technology and sensors, signage, public awareness and communication efforts, administration and enforcement. The City of Chicago Inspector General’s 2012 Savings and Revenue Options report estimated that the City would need to pay an upfront capital cost of $300 million,

---


annualized to $40 million per year, plus approximately $100 million in operating costs annually.\textsuperscript{39}

**Revenue Usage to Improve Public Transit:** In order to generate enough support for a new charge of this kind, the City would need to articulate a clear plan for how the congestion fee revenue would be used. Because the purpose of a congestion fee is to reduce the number of drivers and encourage the use of alternate transportation modes such as public transit, the revenue from the fee should be used for improving public transit, and specifically the frequency and reliability of rail and bus services. As more people switch to public transit to avoid paying the congestion charge, the City of Chicago would need to consider how well equipped the regional transit agencies (CTA, Metra and Pace) are to handle increased volume and make the necessary investments to absorb more riders and improve travel times.

**Exemptions and Discounts:** The City of Chicago would need to determine how to handle charging residents who live within the central area and determine which types of vehicles might be exempt from the fee or receive a discount. For example, London exempts taxicabs, buses and motorcycles from its congestion fee and provides a discount for certain vehicles for people with disabilities. Residents within the London congestion charge zone qualify for a 90% discount from the charge.

**Needed Statistics:** The most recent public data available from a 2009 Chicago Plan Commission report provides figures from 2000 about the number of trips into and out of the City of Chicago’s central area. According to that report, over 578,000 people traveled into the central area of Chicago in 2000, and approximately 227,000 of those trips were via motor vehicles.\textsuperscript{40} The City needs updated statistics about the number of people traveling into and out of the neighborhoods that make up the central area by transit mode and how many of each type of vehicle travels into the central area daily.

**Daily Charges:** The City would need to determine the fee price and structure including the following factors:

- What fee should be charged?
- Should the fee be a fixed rate like that of London’s or variable pricing tiers based on traffic volume or times of day like Stockholm’s?
- What impact would different fee structures have on revenue and traffic volume?
- What types of vehicles should be charged the fee?
- Should the fee be charged for both entrances into and exits from the central area?
- Should the fee be charged on the weekends?
- What relationship, if any, should the fee have to the fares for public transportation in the region?

\textsuperscript{39} This estimate assumes that the cost of operation is 27.5\% of total revenue of $375 million. This estimate was based on congestion pricing calculations in Singapore and New York City. City of Chicago Office of the Inspector General, *Savings and Revenue Options 2012*, September 2012, p. 76.

Expanding the State Sales Tax to Services with Local Share

Illinois’ sales tax is applied on a much narrower basis than in other states, according to a revenue study issued by the Illinois General Assembly’s research arm, the Commission on Government Forecasting and Accountability (COGFA), which leads to greater volatility and higher rates.\(^{41}\) While the statewide sales tax rate is a moderate 6.25\%, the combined sales tax rate in the City of Chicago is one of the highest of any major municipality in the United States at 10.25\%.\(^{42}\) The remaining 4.0 percentage points are charged by local taxing authorities. Of the State’s 6.25 percentage points, 1.25 percentage points are distributed to local governments, counties and mass transit districts.\(^{43}\) The City of Chicago receives 2.25 percentage points of the composite 10.25\% rate: 1.0\% through the statewide rate distributed to municipalities and 1.25\% through the City’s home rule taxing authority. The remainder of the sales tax goes to other government bodies.

One reason the Illinois sales tax base is so narrow is that the State excludes most services from being subject to the sales tax. Out of the 168 total services taxed by American states, Illinois currently taxes only 17.\(^{44}\) Most of these are related to the delivery of utility services, such as gas, electricity and telecommunications. The remaining services are the Retailers Occupation Tax on prepaid phone cards, photograph processing and canned (as opposed to custom-designed) software; a 5\% tax on hotel operations and automobile renting; and a $30 annual fee on coin-operated amusement devices. The City of Chicago could work with the State of Illinois to extend the sales tax to apply to the same services currently taxed by other states, but not by Illinois. The State of Wisconsin, for example, taxes fourteen services not taxed in Illinois including entertainment; cable and internet; landscaping; parking and towing; repair of personal property; and contracts for the future performance of services.\(^{45}\) A recent analysis by COGFA estimated that a sales tax on these services could generate about $588 million per fiscal year at the State’s 5.0\% rate.\(^{46}\)

**Pros and Cons of Expanding the State Sales Tax to Services**

Opponents would argue that:

- Implementation of the tax expansion would be administratively complicated:
  - A broad-based service sales tax exempting only business-to-business services could take at least 18 to 24 months to implement fully.\(^{47}\)

---


\(^{47}\) Communication between the Civic Federation and Illinois Department of Revenue, December 9, 2016.
Even after legislative action is taken to authorize taxing services, the complexity of collecting the tax may require new rules for sourcing and other administrative guidelines;
Some of the new procedures may require review and approval by the legislature’s Joint Committee on Administrative Rules;
Other delays due to technology acquisition for businesses that do not currently collect sales taxes and connectivity with the Illinois Department of Revenue’s existing systems should also be assumed. Finally, there is a one-month lag between collecting sales taxes and remission to the State.

- Expanding the sales tax to services could be overly burdensome to consumers in a State where some types of taxes in Illinois are among the highest in the nation, such as the property tax;
- It could also be burdensome to the small businesses that would need to comply; and
- There are concerns about the legality of taxing some but not all services because this approach could violate the taxation uniformity clause of the Illinois Constitution.48 At least one Illinois Supreme Court case suggests that the uniformity clause prohibits adding individual services to the current sales tax laws incrementally.49

Proponents of expanding the sales tax to services would argue that:

- One of the basic principles of government finance is that a tax should generally have as broad a base and as low a rate as possible in order be stable and efficient;
- Consumer spending habits have changed; the sale of goods has declined relative to services as a proportion of total consumer spending;50
- Taxing services would be in line with faster growing segments of the economy; and
- Expanding the sales tax to cover consumer services could help lead to long-term stabilization of the finances of the State of Illinois and local governments that receive a portion of the sales tax including the City of Chicago.51

Financial Transaction Tax

Financial transaction taxes are levies imposed on the purchase and/or sale of securities. The tax may be assessed on the buyer, the seller or both. It may be imposed ad valorem as a percentage of the value of the security or as a flat fee. Financial taxes on derivatives, including futures options, can be imposed on the value of the security or on the market value of the derivative. In some cases, the tax is levied on an asset’s resale value rather than the original value.52

---

48 Illinois Constitution, Art. IX, Sec. 2.
49 Fiorito v. Jones, 39 Ill.2d 531, 236, N.E. 2d 698 (Ill. 1968).
51 Experts generally advise against assessing sales taxes on business-to-business services, as the taxes “pyramid” into much higher rates as services are delivered through the supply chain. The pyramiding can lead to arbitrary tax discrepancies depending on which services are vertically integrated within a firm as well as other distortions. Fred Nicely and Liz Malm, National Conference of State Legislators, Broadening the Sales Tax Base Dos and Don’ts.
The U.S. federal government imposed a federal financial transaction tax between 1914 to 1966 on the value of stock sales and transfers. Currently, the Securities and Exchange Commission is partially financed with fees on the sale of securities and futures transactions. The European Union and many other nations, including the United Kingdom, France, India, Italy and South Korea levy taxes or fees on financial transactions.\textsuperscript{53}

Chicago has the world’s largest futures exchange. In 2017 the Chicago Mercantile Exchange (CME) reported a net income of $4 billion while the Cboe’s net income was $401 million. Both organizations reported big income gains due to the recent federal tax reform.\textsuperscript{54}

Many Chicago political and opinion leaders have proposed implementing a financial transaction tax on contracts traded at Chicago’s futures and options exchanges operated by the CME and Cboe Global Markets. It is commonly referred to as a “LaSalle Street” tax. Imposing such a tax would require state legislation. Current state law prohibits local governments, including home rule governments such as Chicago, from levying taxes on stock, commodity or options transactions.\textsuperscript{55}

In 1973 Mayor Richard J. Daley and the City Council approved a financial transaction tax, but backed down due to strong opposition from the exchanges.\textsuperscript{56} More recently, legislation proposed by Illinois State Representative Mary Flowers in 2013 would have imposed a financial transaction tax at the rate of 0.01\% of the value of transactions.\textsuperscript{57} In 2017 Illinois State Senator Omar Aquino introduced a bill that would have imposed a levy of $1 on agricultural commodity contracts and $2 on all other contracts; Democratic gubernatorial candidate and former State Senator Daniel Biss campaigned on a similar proposal in 2018.\textsuperscript{58} This proposal has been estimated as potentially generating $10 to $12 billion per year in revenue by proponents.\textsuperscript{59} The Chicago Teachers Union has proposed using revenue from a transaction tax as a way to finance underfunded employee pensions.\textsuperscript{60}

\textbf{Pros and Cons of a Financial Transaction Tax}

Opponents of the “LaSalle Street” tax argue that:\textsuperscript{61}

\textsuperscript{55} 35 ILCS 820/1 Stock, Commodity, or Options Transaction Tax Exemption Act.
\textsuperscript{57} House Bill 1554, Creates the Financial Transaction Tax, Rep. Mary Flowers, 98th General Assembly 2013 and 2014.
\textsuperscript{60} Becky Schlikerman, “CTU chief says transaction tax would save pensions, make traders ‘heroes’,” \textit{Chicago Sun-Times}, May 6, 2014.

21
• Imposing a transaction tax on derivatives or transactions will drive customers to other jurisdictions that do not impose the tax;
• Most trading is done electronically today, so the exchanges can easily leave Illinois. The CME estimates a move would put at risk the 100,000 jobs in the industry and the $50 million paid annually in state taxes by traders;
• Farmers and energy companies use financial markets to hedge their risks and stabilize prices. If costs increase due to new transaction taxes, they will pass along these higher costs for food and fuel to consumers;
• Most transaction taxes in other jurisdictions are imposed on equities, not derivatives. Nations which have attempted to tax derivatives such as Sweden and Canada lost money and their financial markets as a result of imposing the tax; and
• Having states or local jurisdictions impose transactions rather than the national government would create a variety of different tax rate regimes and policy disincentives.

Proponents of a financial transaction tax argue that it is reasonable because: 62

• The tax would be relatively low. Average contracts are more than $225,000, so a $1 or $2 tax per contract would amount to less than 2/1000 of 1% of a contract’s value. The proposed tax would not therefore be large enough to have a significant impact on trading activity;
• Most trading that would be taxed is done by large banks, hedge funds and other affluent financial institutions or individuals. These wealthy firms and individuals can readily afford to pay the tax. This is particularly true as they were big beneficiaries of the recent federal corporate tax cuts; and
• Many nations tax financial transactions and it has not diminished or harmed economic activity in these markets.

Considerations for Implementing a Financial Transactions Tax

Creating a financial transaction tax would require State legislation to implement the tax as current state law prohibits such a tax. Chicago would have to be granted specific authorization to impose the tax. The law would need to specify what types of transactions would be taxed and whether the tax would be based on a percentage of value or as a flat rate.

State Graduated Income Tax with Local Share

The Civic Federation has not taken a position on whether the Illinois Constitution should be amended to allow for a graduated income tax. The following discussion is for informational purposes only, given the ongoing debate about a move to a graduated rate by Illinois Governor J.B. Pritzker and the General Assembly.

62 Fair Economy Illinois, “Tax LaSalle Street to Meet Human Needs,”
Of the 41 states with broad-based personal income taxes, Illinois is one of eight with a flat tax rate. The Illinois Constitution requires everyone to pay a single statutory rate, regardless of taxable income. The other 33 states and the federal government have graduated income tax rates, with higher rates applied to higher income levels.

The State of Illinois’ current individual income tax rate is a flat 4.95% and the corporate income tax rate is 7.0%. Some of the income tax revenue collected by the State is distributed to local governments via the Local Government Distributive Fund (LGDF). Of the local distributive share, approximately 20% goes to the City of Chicago. Therefore, if the State were to generate additional funds via the income tax it could decide to share some part of the proceeds with local governments, including Chicago.

Of seven nearby states, two also have flat income tax rates and five have graduated rates. A graduated income tax means that higher earners pay a higher percentage tax on the next or marginal dollar they earn. It does not mean that their entire income is subject to the highest tax rate.

Comparing income tax systems across states is not easy. States with graduated rates have various numbers and sizes of brackets—income ranges that are taxed at the same rate. Each taxpayer pays the same rate on income in the first bracket; after that, income up to another threshold amount is taxed at a higher rate. The marginal tax rate is the rate applied to the last taxable dollar earned and is the top rate paid by each taxpayer. The effective tax rate paid by a taxpayer in a graduated income tax state is therefore lower than the highest marginal rate they pay for their last dollars of income. Within a state, there may be different brackets for single individuals and married couples.

Even states with flat tax rates have numerous exemptions, deductions and credits that alter the effective tax rate, the actual percentage of income paid in taxes. Some states, including Indiana, Iowa, Kentucky, Michigan and Missouri—but not Illinois—allow local governments to impose their own income taxes. Moreover, income taxes are only one of the many revenue sources that make up a state’s overall tax structure.

---


64 In addition to these rates, corporations pay a Personal Property Replacement Tax (PPRT) of 2.5%, which was not effected by the income tax rate changes. The PPRT, which was created by the Illinois General Assembly in 1970 to replace a tax on the personal property of businesses that was abolished pursuant to the 1970 Illinois Constitution, is mainly a revenue source for local governments.
The following chart shows the top and bottom income tax rates in nearby states.

Since the Illinois General Assembly raised the individual income tax rate to 4.95%, Illinois now has a higher rate than either of the neighboring flat tax states: Indiana and Michigan. Insofar as Illinois competes with neighboring states on the basis of income tax rates, it is now at a disadvantage.

High earners in Illinois face a lower marginal tax rate than taxpayers in any of the nearby graduated income tax states. On the other hand, for low income taxpayers, who make up a much larger share of the population, Illinois’ flat tax rate is higher than the lowest brackets of all but one graduated income tax state.

The amount of revenue that would be generated by a graduated income tax depends on the tax rates and brackets. Governor Pritzker recently released a proposal for a graduated income tax that would raise $3.4 billion, mostly by raising taxes on filers with taxable income over $250,000, but not significantly reducing the tax on lower income filers.

In 2018 the Civic Federation applied the individual income tax brackets and rates used by Iowa and Wisconsin, as well as a hypothetical three percentage point spread to estimate how much additional revenue could be generated by a graduated income tax. The analysis estimated that Illinois would collect approximately $7.3 billion more with Iowa’s system, $3.7 billion with
Wisconsin’s and an estimated $1.0 billion additional dollars with the hypothetical three percentage point spread.65 If this revenue were distributed to local governments using FY2019 distribution percentages, an additional $58 million to $420 million would flow to local governments, of which approximately 20%—or about $11 million to $84 million—would go to the City of Chicago.

**Pros and Cons of a Graduated Income Tax**

Opponents of a graduated income tax argue:

- The flat tax is fairer because every resident pays the same proportion of their income;
- Imposing very high marginal rates could drive high-earners out of the state;
- It could hurt the economy by dis-incentivizing additional work by high income people;
- From an economic perspective, a graduated income tax rate is more volatile during economic downturns because high-wealth individuals’ income is very cyclical; and
- Some observers have noted that the State and many local governments have budget crises now and cannot wait several years for revenue that might not even be approved by the voters of Illinois.

Proponents of a graduated income tax argue:

- It could generate additional much-needed revenue for the state while at the same time providing tax relief to low income residents of Illinois, who are most burdened by the current high flat tax rate;
- Since low and middle income people spend proportionally more of their wages on goods and services, a lower tax burden on those residents could spur economic growth by allowing them to spend more; and
- Reducing the tax burden on low income people could help keep them in the state at a time when Illinois is losing more of its population than neighboring states.

**Considerations for Implementing a Graduated Income Tax**

Implementing any graduated income tax would take time and involve two parts: a constitutional amendment and legislation establishing new tax rates. An amendment would require approval by a three-fifths vote of each chamber of the General Assembly and could then be placed on the ballot in the next general election occurring at least six months after the legislature’s vote. In that election, the amendment would need the approval of either three-fifths of those voting on the question or a majority of those voting in the election.

Therefore, the soonest that a graduated income tax amendment could appear on the ballot in Illinois would be the general election of 2020, meaning that any additional revenue would not begin to flow until late 2021 at the earliest.

Voters in Illinois, legislators and Governor Pritzker will all need to weigh in on a number of policy choices associated with a graduated income tax rate:

- How many brackets should there be?
- What should the highest marginal rate be and on what income should it apply?
- How many and what income-level residents should be subject to higher effective tax rates?
- Should there be a limit on the spread between the tax rates on different income brackets? How much new revenue from the tax should be shared with local governments?
- Is Illinois’ income tax competitive with neighboring states or with other large-economy states such as New York and California?

The answers to these questions will determine what kind of an impact the change to a graduated income tax would have on the economy of the State and local governments’ finances.

**Graduated (or Progressive) Real Estate Transfer Tax**

Recent proposals have called for the City of Chicago to transition from the current flat rate real estate transfer tax to a graduated or progressive real estate transfer tax by imposing a higher rate on more expensive homes to pay for affordable housing, the removal of lead pipes in homes and police and fire pensions. However, none of these proposals were approved by the Chicago City Council to be placed on the ballot for the February 2019 municipal election. In order for the City of Chicago to implement a graduated real estate transfer tax it must first be approved by voters via referendum.\(^6\)

A real estate transfer tax is imposed upon the privilege of transferring title to, or beneficial interest in, real property. The tax is currently imposed by the State of Illinois, Cook County and the City of Chicago. The City imposes the tax as both a municipal and home rule real estate transfer tax. The tax is imposed by the State at a rate of $6.00 per $500 in property value transferred (1.2%). The State imposes a real estate transfer tax of $0.50 per $500 in value (0.1%). The County imposes a real estate transfer tax of $0.25 per $500 in value (0.05%). The City of Chicago imposes the tax at a rate of $3.75 per $500 in value (0.75%) plus a supplemental amount of $1.50 per $500 in value (0.3%) for a total City rate of $5.25 per $500 in value. The buyer is responsible for paying the $3.75 portion and the seller is responsible for paying the $1.50 portion of the City tax. The $1.50 per $500 in value portion of the City’s real estate transfer tax is transferred to the Chicago Transit Authority. The State and Cook County real estate transfer taxes are also owed by the seller.

There are various exemptions to the real estate transfer tax. For example, the City of Chicago exempts sales under $500, bankruptcies and Enterprise Zone transfers from the tax. The FY2019 City of Chicago budget estimates that the transfer tax will generate approximately $160.0 million.\(^7\)

State and local governments in 38 states including the District of Columbia impose some form of a real estate transfer tax and 19 of those states have only a statewide tax on the transfer of real

---

\(^6\) Public Act 95-708

Transfer tax rates range from 0.01 percent in Colorado to as high as 4 percent in parts of Pennsylvania. Four states and the District of Columbia apply different rates on different classes of property. Major cities in the U.S. that have some form of a graduated real estate transfer tax include San Francisco, Baltimore and New York City.

In November 2018 voters in the City of Evanston approved a referendum to increase the rate of the real estate transfer tax and became the first city in Illinois to have a graduated real estate transfer tax. Evanston’s real estate transfer tax is now $5.00 per $1,000 in value for homes below $1.5 million, $7.00 per $1,000 in value for homes valued between $1.5 million and $5.0 million and $9.00 per $1,000 value for sales over $5.0 million. The new rates went into effect January 1, 2019.

**Pros and Cons of a Graduated Real Estate Transfer Tax**

Opponents of a graduated real estate transfer tax argue that it would:

- Reduce real estate transactions;
- Increase the closing costs of home sales;
- Make housing unaffordable;
- Not be a reliable source of revenue, particularly during an economic downturn;
- Be avoidable by lowering the price of a home;
- Lead buyers to decide to purchase in areas with lower rates and contribute to urban sprawl; and
- Be arbitrary if they are in excess of the costs associated with transferring title.

Proponents of a graduated real estate transfer tax argue that it would:

- Place less of a burden on home buyers in more modest income neighborhoods and charge more tax to wealthier homebuyers who can afford it;
- Help fund a variety of government services; and
- Take advantage of growing property values in more prosperous areas.

**Recreational Marijuana Tax**

Illinois legalized the sale and use of medical marijuana in 2013. It is among 32 states that permit the use of marijuana and cannabis derivatives for medicinal purposes. As of October 2018 there were 55 licensed dispensaries in the state and over 46,000 qualified patients. Since 2015 wholesale sales were approximately $125 million while retail sales by licensed dispensaries totaled $221 million. In 2016 Illinois effectively decriminalized personal possession of 10

---

69 City of Evanston, Ordinance 148-0-18
71 Illinois.gov, “Medical Cannabis Pilot Program Update,” October 3, 2018, [https://www2.illinois.gov/sites/mcpp/Pages/update10032018.aspx](https://www2.illinois.gov/sites/mcpp/Pages/update10032018.aspx)
grams or less of marijuana. Offenders caught with minor amounts of cannabis now face fines of $100 to $200 rather than possible jail time.\textsuperscript{72}

Registered medical cannabis cultivation centers and dispensaries in Illinois pay a 7% privilege tax. These proceeds are used to fund the cost of regulating the industry.\textsuperscript{73} Consumers of medical marijuana pay a 1% sales tax; this is the same rate imposed on pharmaceuticals.\textsuperscript{74}

Ten states and Washington, D.C. have legalized the recreational use of marijuana. There is strong public support for legalizing the recreational use of marijuana in the U.S. and Illinois. According to a 2018 Pew Research Center poll, 62\% of Americans favor legalization.\textsuperscript{75} The Paul Simon Public Policy Institute at Southern Illinois University found that 66\% of Illinoisans favored legalization and taxation of cannabis in a 2017 survey.\textsuperscript{76} Governor J.B. Pritzker and Chicago Mayor Rahm Emanuel have endorsed legalization and 68.2\% of Cook County voters supported the legalization of cannabis in an advisory referendum in the March 2018 primary election.\textsuperscript{77}

It is likely that the legalization of recreational marijuana will be considered by the Illinois General Assembly in 2019. Governor JB Pritzker called for legalizing recreational marijuana in his first budget address, projecting that legalization could bring in up to $170 million in licensing fees in FY2020.\textsuperscript{78} The Governor’s revenue estimate is based on selling thousands of licenses to cannabis proprietors for one-time fees of $100,000.\textsuperscript{79} State Senator Heather Steans and Representative Kelly Cassidy, the primary legislative sponsors of cannabis legalization have proposed:\textsuperscript{80}

- Allowing personal possession of up to 30 grams of marijuana for residents;
- Allowing households to grow up to five plants indoors;
- Banning public consumption of cannabis;
- Outlawing impaired driving;
- Revoking driver’s licenses from teens caught using cannabis;
- Permitting local governments to ban marijuana; and

\textsuperscript{72} Monique Garcia. “Rauner reduces punishment for minor pot possession from jail to citation,” \textit{Chicago Tribune}, July 29, 2016.


\textsuperscript{76} Southern Illinois University, “Poll: Large majority of voters back marijuana legalization, decriminalization,” March 27, 2017, \url{https://news.siu.edu/2017/03/02717par17044.php}.


• Allowing landlords to restrict or ban cannabis usage.

Senator Steans introduced a shell bill in January 2019 that could be the vehicle for legalization later in the legislative term.81

A recent study from the Illinois Economic Policy Institute estimated that the market for legal cannabis in Illinois could be as much as $1.6 billion by 2020.82 Estimates of the potential revenue that could be generated by taxes on marijuana vary:

• The Tax Foundation estimates that a 25% excise tax on recreational cannabis could yield up to $354 million per year;83
• Illinois State Senator Heather Steans and State Representative Kelly Cassidy, have estimated that excise taxes on legal recreational marijuana could generate from $350 to $700 million;84 and
• The Illinois Economic Policy Institute estimates that if the State imposed a 26.25% excise tax on recreational cannabis in addition to the current 6.25% sales tax, up to $525.3 million in recurring revenue could be generated. Of that amount approximately $505.1 million would be earmarked for the state government and $20.2 million for local governments. These figures presume there are no local option cannabis taxes in addition to state taxes.85

**Issues for Consideration if Recreational Marijuana is Legalized**

There are a number of issues that must be addressed if Illinois considers the legalization of recreational marijuana related to regulation, taxation and public health and safety.

**Regulation**

The State has established a regulatory regime for medicinal marijuana. Eligible patients must be diagnosed with one of 41 medical conditions and then apply for the program with a medical recommendation. Marijuana may be substituted for opioids. Once approved, patients are authorized to purchase medical cannabis from a licensed dispensary. The Department of Financial and Professional Regulation awards licenses to dispensaries, while the Department of Agriculture awards permits to cultivation centers to legally grow cannabis.86 Legal recreational

---

marijuana, however, would require a different and more extensive regulatory framework as the market of consumers and suppliers will be much larger, resulting in a much broader societal impact. Regulatory administration costs could be significant.

The regulatory issues that will need to be addressed with recreational cannabis legalization are:

- How much marijuana would individuals be allowed to possess? Senator Steans and Representative Cassidy have proposed allowing for adults over the age of 21 to possess up to 30 grams of cannabis.  
- Would individuals be allowed to grow marijuana for personal use? Could they provide others with marijuana they have grown?
- The sale and consumption of marijuana is illegal under federal law. Therefore, the industry has had to operate on a cash basis as private banks are prohibited from handling proceeds from any enterprise that is illegal at the federal level. In Colorado certain financial institutions do operate as banks for the industry, but they exist only at the sufferance of the federal government. How would the recreational marijuana industry handle financial transactions?
- Would local governments be allowed to ban or limit the number of establishments selling cannabis?
- Where would licensed operators be located?
- Is the current marijuana regulatory regime enough to supervise the industry and prevent organized criminal activity?
- What would be the costs of an expanded cannabis regulatory regime?

The Imposition and Distribution of Taxes

A major argument for the legalization of marijuana is the revenue potential for cash strapped governments. This raises a number of questions about taxes on cannabis sale and consumption:

- What kind of taxes would the State impose on the sale and use of marijuana? Would the current regime of a privilege tax on sellers and a sales tax on consumption that exists for medicinal marijuana be extended to recreational marijuana?
- At what rate would the State tax marijuana?
- If a local government banned cannabis establishments would it still be allowed to share in state tax revenues from marijuana sales?
- Would the State share marijuana tax revenues with local governments and/or allow home rule governments to impose their own marijuana taxes?
- What is the tipping point at which cannabis taxes incent black market sales to consumers?

---

Public Health and Safety

Legalization of marijuana could lead to increased consumption and a corresponding public safety impact regarding problems such as driving under the influence. This will likely lead to greater law enforcement expenses. The Illinois Sheriff’s Association opposes legalization for these reasons. Currently there is no breath test for driving under the influence of marijuana, only a relatively new saliva swab test. The kits costs about $30 each, while the machine needed to test the saliva, as well as blood and urine, costs approximately $4,000. The technology for these tests has not yet been approved so it cannot yet be used as evidence in court.

Another regulatory issue is where would consumption of marijuana be allowed? Would it be for use only in private homes or would it also be allowed in clubs or other venues?

There are also public health concerns about increased marijuana usage. The potency of marijuana has increased over time and many cannabis products contain very high levels of Tetrahydrocannabinol (THC). This could have serious adverse medical effects on users. Thus, regulation would need to establish maximum THC concentration levels in legal cannabis products. Also, educational and public safety efforts would be needed to prevent potentially harmful marijuana use among children and teenagers.

Presumably current prohibitions on cigarette smoking due to the impact of second-hand smoke would be extended to marijuana. This would require legislation to ban smoking cannabis in public places, schools, concert venues and federal and/or state lands.

Finally, adequate funds would have to be set aside to deal with the social and financial costs of marijuana abuse or dependency.

New Gaming Taxes

Illinois currently authorizes the following types of gaming:

- A state lottery;
- Riverboat casino gaming;
- Video gaming; and
- Horse racing.

---

State law authorizes ten riverboat casino licenses and Chicago is prohibited from hosting a casino. Municipalities may prohibit video gaming by ordinance, as can counties for their unincorporated areas. Chicago currently prohibits video gaming.

Each form of gaming is taxed at different levels. The tax base for each of the major gaming revenues is shown below.

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Revenue Base</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Riverboat Casino Wagering Tax</strong></td>
<td>A graduated rate of 15% to 50% based on adjusted gross receipts</td>
</tr>
<tr>
<td><strong>Riverboat Casino License Fees</strong></td>
<td>$25,000 application fee; $5,000 annual operator fee; $50,000 background fee; $5,000 annual gambling device supplier fee</td>
</tr>
<tr>
<td><strong>Casino Admission Fees</strong></td>
<td>$2/person if admissions in 2004 were $1 million or less; $3/person if admissions in 2004 were over $1 million or if casino did not operate in 2004</td>
</tr>
<tr>
<td><strong>Video Gaming License Fee</strong></td>
<td>Annual Fee; Variable rate from $50 to $10,000</td>
</tr>
<tr>
<td><strong>Video Gaming Tax</strong></td>
<td>30% of net terminal income</td>
</tr>
<tr>
<td><strong>State Lottery</strong></td>
<td>Net proceeds (after prizes, commissions and administrative costs paid)</td>
</tr>
</tbody>
</table>

Local governments are authorized by statute to receive the following distributions of riverboat casino and video gaming taxes and fees:

**Riverboat Casino Revenues:**
- 5% of each casino’s monthly adjusted gross receipts are provided to the municipality where it is located;
- $1 of the admission fee goes to the municipality where the casino is located; and
- 2% of the adjusted gross revenue may be awarded by appropriation to Cook County to improve criminal justice.

**Video Gaming Revenues:**
- One-sixth of video gaming tax proceeds are provided to the Local Government Distributive Fund for distribution to municipalities and counties that allow video gaming;
- Non-home rule units may impose a fee of up to $25 per year for operation of a video gaming terminal; and
- Home rule units of government may impose fees on video gaming terminals.

---

In 2018 total Illinois gaming revenues totaled $1.357 billion. Of that amount, 53.9% or $732.0 million was from State Lottery revenues, 25.6% or $347.0 million was from video gaming and 20.0% or $272.0 million was from riverboat casinos. Only 0.4% or $6.0 million was derived from various horse racing taxes and fees.

### Illinois Gaming Revenue 2018 ($ Millions)

<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>State Lottery</strong></td>
</tr>
<tr>
<td><strong>Riverboat Casinos</strong></td>
</tr>
<tr>
<td><strong>Video Gaming</strong></td>
</tr>
<tr>
<td><strong>Horse Racing</strong></td>
</tr>
<tr>
<td><strong>Total Gaming revenues:</strong></td>
</tr>
</tbody>
</table>

**Potential New Forms of Gaming in Illinois**

Three new types of gaming are under consideration for taxation in Illinois: fantasy sports, sports wagering and internet gaming. If approved and a regulatory regime is established that conforms to federal law, taxes and fees could then be imposed on some or all of these.96

1. Legislation establishing state regulation and taxation of **fantasy sports games** is being considered in Springfield.97 Fantasy sports revenues would derive from license fees, renewal fees and a privilege tax on fantasy sports game receipts.

2. In *Murphy v. National Collegiate Athletic Association*, the U.S. Supreme Court in 2018 overturned the federal Professional and Amateur Sports Protection Act that had

---


97 See Illinois House Bill 3313.
prohibited states from authorizing and licensing **sports gambling**. This paves the way for Illinois to authorize and tax sports betting, as it was included in Illinois Governor Pritzker’s State budget proposal.

3. Legislation to regulate and tax **internet gaming** is being considered by the General Assembly. It would authorize taxation on internet based wagering that conforms to the federal Unlawful Internet Gambling Enforcement Act. If this is approved, revenues could be gained from license fees, application fees and a tax on gross gaming revenues.

**Chicago Casino**

There have been discussions of allowing a casino to be built and operated in Chicago for many decades. Mayor Richard M. Daley floated ideas for a casino and a Riverboat Gambling/Family Entertainment Complex in the early 1990s. In 2004 he proposed a land based casino. Mayor Rahm Emanuel recently indicated his support for a city-owned casino whose profits could be used to help pay for Chicago’s massive pension liabilities. Both mayors voiced support for city ownership of a casino. Legislators have proposed a city casino coupled with slot machines at O’Hare and Midway airports and/or at horse racing tracks. Many other communities in Illinois would also like to have a casino, including Rockford, Danville and several south Cook County suburbs, raising interest in a deal that would authorize a number of new casinos in addition to a Chicago casino. However, none of these conversations have yet been translated into reality.

A large Chicago casino with thousands of gaming positions could generate up to $500 million annually in gross revenue. However, it is important to note that the regional gaming market is saturated and that a Chicago casino would essentially cannibalize activity from nearby casinos in Illinois and Indiana.

**Gaming Expansion Possibilities for Chicago**

Expanding existing gaming formats into Chicago and/or allowing the City to tap into revenues from new gaming formats would be ways in which the City could generate new recurring revenues. These include:

- **Allowing video gaming in the City of Chicago.** This would require state legislation, City Council authorization and possibly a referendum. The City would then receive its share of video gaming tax proceeds from the State’s Local Government Distributive Fund and it possibly could collect an annual fee on video gaming terminals.

---

99 Bill Ruthart, “Mayor Rahm Emanuel to call for legalized weed, Chicago casino and constitutional amendment to fund public pensions,” *Chicago Tribune*, December 1, 2018.
• Ensuring that Chicago and other local governments receive a share of any new state
taxes on fantasy sports games, sports betting and internet gaming.

• Authorizing a Chicago casino. This option raises a number of issues:
  o Would the casino be owned by the City and operated by a professional casino
    management company or would the casino be owned and operated by a gaming
    company like the other Illinois riverboat casinos?
  o Where would the casino be located?
  o How much funding would be set aside to deal with the social costs of gaming
    addiction? and
  o Is the current Illinois gaming industry regulatory regime robust enough to oversee
    a mega casino enterprise in Chicago and prevent organized criminal activity?

Pros and Cons of Casino Gaming in Chicago

Opponents of casino gaming in Chicago argue that: 102

• A casino would simply cannibalize gaming activity from other communities;
• Governments would incur additional costs due to the presence of a casino in their
  jurisdiction. These costs include expenditures for casino regulation, police, fire protection
  and infrastructure; and
• There are social costs of casinos that result from higher crime rates and problem
  gambling. These negative impacts are associated with additional public expenditures on
  public and private law enforcement to combat higher crime rates and the costs of treating
  problem and pathological gamblers and dealing with the myriad impacts they generate on
  other members of society.

Proponents of casino gaming in Chicago argue that: 103

• The casino makes a variety of local expenditures, including wages paid to local
  employees and taxes paid to local governments;
• Visitors from outside the community bring in dollars to spend on lodging, food and
  beverages, entertainment and other items; and
• These expenditures contribute to the local economy by creating wealth and other
  subsidiary benefits such as employment.

The Property Tax

Increases to the property tax have been proposed as a possible method of paying for upcoming
increases in statutory pension contributions by the City of Chicago. It is a significant source of
revenue and can be raised through the City’s own home rule authority. However, Mayor Rahm
Emanuel and the City Council have already increased the City’s levy by over 70% over four
years to fund increased contributions to Police and Fire pensions. Does the City have the

102 Ricardo Gazel, "The Economic Impacts of Casino Gambling at State and Local Levels," *Annals of the American
Academy of Political and Social Science* 556 (1998).
103 Ricardo Gazel, "The Economic Impacts of Casino Gambling at State and Local Levels," *Annals of the American
Academy of Political and Social Science* 556 (1998).
capacity to further increase the levy? The answer to that question is complicated and additionally involves actions by other local governments.

**How Will the City Spend Property Taxes in Fiscal Year 2019?**

The City of Chicago’s property tax levy is spent mainly on pension contributions, debt service and funding library operations. There are three significant additional uses of property tax revenue: levies on behalf of the City Colleges of Chicago, levies on behalf of the Chicago Public Schools and Tax Increment Financing (TIF) district revenue spent on economic development.

The City’s FY2019 levy (payable in 2020) will increase to $1.44 billion, a 1.9% increase. Approximately 63.0% of the FY2019 levy, or $905.5 million, will be used for pension payments. The $27.0 million increase in FY2019 property tax revenue is generated by the City capturing new property growth and TIF expirations, and will be used for debt and the Chicago Public Library. Of the proposed FY2019 property tax levy, $427.0 million will be used for long-term debt service payments. Property taxes levied for debt service reflect the City’s borrowing activities and bond payment schedule.

The remainder of the proposed FY2019 property tax levy includes $105.2 million in property taxes levied for the Chicago Public Library, which is a department of city government. The City provides funding for debt service payments on bonds issued for the library’s capital program and for short-term borrowing to support the library’s operating expenses. The City also levies
property taxes on behalf of City Colleges, to which $36.5 million will be dedicated in FY2019, increasing the total gross levy to $1.47 billion.\(^4\)

The City of Chicago and the Chicago Public Schools have an intergovernmental agreement through which the City levies taxes to pay for some of the school district’s capital needs. According to the debt service schedule for bonds covered by the intergovernmental agreement, City of Chicago payments for school bonds will be $112.5 million in FY2019. Unlike the City Colleges bond levy, it is not listed as a line item in the City budget revenue estimates.

The City of Chicago receives and distributes property tax revenue for tax increment financing (TIF) districts within City boundaries. This revenue is not appropriated as part of the City budget, but is spent by the City according to the Redevelopment Plan for each TIF. There were 144 active TIFs in Chicago in FY2018.\(^5\) The City collected $660.0 million in TIF revenue in tax year 2017 (payable 2018), in addition to its levies for pensions, debt service, the library and City Colleges.

The City’s Authority and Capacity to Raise Property Taxes and their Impact

The property tax is a significant source of revenue for most municipalities in Illinois. Two key questions city leaders will need to answer in the coming year are: how much capacity do property taxpayers have to pay significantly more tax and would an increase make the City’s property tax rate uncompetitive compared to surrounding communities?

Chicago’s Property Tax Authority

The City of Chicago is a home rule unit of government exempt from state legal limits on property tax increases. However, the City has a self-imposed property tax limit that mirrors the state Property Tax Extension Limitation Law, limiting the annual increase in the aggregate property tax extension to the lesser of 5% or the rate of inflation.106

Despite the self-imposed cap, the City has occasionally exceeded its self-imposed limit since it was put into place in 1993, most recently in FY2008. In October 2015 the City adopted annual increases to the property tax through 2018 to make increased contributions to the Police and Fire pension funds. The City amended the FY2015 property tax levy along with the passage of its FY2016 budget. The amendment increased the:

- FY2015 property tax levy from $831.5 million to $1.15 billion, which was a $326.9 million, or 38.0%, increase over FY2014 levels;
- FY2016 property tax levy to $1.26 billion, a 9.7% increase;
- FY2017 levy to $1.32 billion, a 4.8% increase; and
- FY2018 levy to $1.41 billion, a 6.7% increase.

These increases were not exceptions to the City’s self-imposed limit because extensions for pensions are not included in the limit.

The City’s combined property tax extension made up 24.4% of the average property owner’s tax bill in tax year 2017, with another 55.2% going to the Chicago Public Schools. The remaining portions go to all of the other overlapping taxing districts, including the other governments within the city limits, County governments and the Metropolitan Water Reclamation District. The tax year 2017 composite tax rate in the City of Chicago was 7.266%, an increase from the year prior.

Chicago’s Property Tax Capacity

The Property Tax is an ad valorem tax, meaning it is related to value. Thus, when the value of a government’s tax base increases, it gives a government the capacity to generate larger amounts of revenue through the property tax without raising rates since there is more value to tax.

106 The City ordinance is Municipal Code Chapter 3-92. The state Property Tax Extension Limitation Law is 35 ILCS 200/18-185 et seq. The “aggregate extension” includes everything except property tax extensions for Special Service Areas, several kinds of bonds, and a few other exceptions. On November 13, 2007, the City passed an ordinance to exclude the Library levy from the definition of “aggregate extension.”
An important factor in examining the City’s capacity to raise property taxes is whether such a rise would make its property tax rates uncompetitive relative to other communities in the region. A property tax rate that is out of line with surrounding communities could impact a municipality’s ability to attract and keep residents and businesses.

To compare property taxes across jurisdictions and over time, the Civic Federation examines effective property tax rates, which provide an apples-to-apples comparison of how much of a property’s value is actually paid in taxes annually. As shown in the chart on the next page, in tax year 2016, Chicago at 1.69% had among the lowest residential effective property tax rates in the region—including the collar counties—and lower commercial effective tax rates at 3.61% than any of the other selected communities in Cook County. The commercial effective rate was higher than most of the selected collar county rates, however because of classification.\(^\text{107}\)

Thus, from a comparative perspective, the City of Chicago appears to have the capacity to increase property taxes on residential properties and not lose its competitive edge in effective tax rates. It has less room for increases to effective tax rates for commercial properties. The design of the Cook County property tax system, which sets taxable value higher for commercial and industrial properties than for residential properties means that it is likely that any increase to the

City of Chicago’s property tax levy would fall disproportionately on commercial properties, rather than residences.

### Effective Property Tax Rates
**Tax Year 2016**

<table>
<thead>
<tr>
<th>Cook County</th>
<th>Residential</th>
<th>Commercial</th>
<th>Industrial*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harvey</td>
<td>6.90%</td>
<td>15.44%</td>
<td>--</td>
</tr>
<tr>
<td>Chicago Heights</td>
<td>5.20%</td>
<td>11.71%</td>
<td>--</td>
</tr>
<tr>
<td>Oak Park</td>
<td>3.12%</td>
<td>8.60%</td>
<td>--</td>
</tr>
<tr>
<td>Elgin</td>
<td>3.07%</td>
<td>6.77%</td>
<td>7.55%</td>
</tr>
<tr>
<td>Schaumburg</td>
<td>2.47%</td>
<td>5.86%</td>
<td>6.55%</td>
</tr>
<tr>
<td>Arlington Heights</td>
<td>2.44%</td>
<td>5.73%</td>
<td>6.40%</td>
</tr>
<tr>
<td>Orland Park</td>
<td>2.42%</td>
<td>5.96%</td>
<td>--</td>
</tr>
<tr>
<td>Elk Grove Village</td>
<td>2.30%</td>
<td>5.40%</td>
<td>6.03%</td>
</tr>
<tr>
<td>Evanston</td>
<td>2.22%</td>
<td>5.37%</td>
<td>6.00%</td>
</tr>
<tr>
<td>Barrington</td>
<td>2.09%</td>
<td>4.33%</td>
<td>4.84%</td>
</tr>
<tr>
<td>Glenview</td>
<td>1.86%</td>
<td>4.36%</td>
<td>4.87%</td>
</tr>
<tr>
<td>Chicago</td>
<td>1.69%</td>
<td>3.61%</td>
<td>--</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DuPage County</th>
<th>All Types of Property</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elk Grove Village</td>
<td>2.66%</td>
</tr>
<tr>
<td>Wheaton</td>
<td>2.35%</td>
</tr>
<tr>
<td>Naperville</td>
<td>2.13%</td>
</tr>
<tr>
<td>Oak Brook</td>
<td>1.06%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Kane County</th>
<th>All Types of Property</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elgin</td>
<td>3.37%</td>
</tr>
<tr>
<td>Carpentersville</td>
<td>3.29%</td>
</tr>
<tr>
<td>Aurora</td>
<td>2.87%</td>
</tr>
<tr>
<td>Geneva</td>
<td>2.82%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Lake County</th>
<th>All Types of Property</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waukegan</td>
<td>3.88%</td>
</tr>
<tr>
<td>Fox Lake</td>
<td>3.29%</td>
</tr>
<tr>
<td>Buffalo Grove</td>
<td>2.90%</td>
</tr>
<tr>
<td>Lake Forest</td>
<td>1.69%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Will County</th>
<th>All Types of Property</th>
</tr>
</thead>
<tbody>
<tr>
<td>Romeoville</td>
<td>3.11%</td>
</tr>
<tr>
<td>Joliet</td>
<td>3.10%</td>
</tr>
<tr>
<td>Peotone</td>
<td>2.49%</td>
</tr>
<tr>
<td>Naperville</td>
<td>2.42%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>McHenry County</th>
<th>All Types of Property</th>
</tr>
</thead>
<tbody>
<tr>
<td>Woodstock</td>
<td>3.60%</td>
</tr>
<tr>
<td>Harvard</td>
<td>3.47%</td>
</tr>
<tr>
<td>Algonquin</td>
<td>3.09%</td>
</tr>
<tr>
<td>Barrington Hills</td>
<td>2.40%</td>
</tr>
</tbody>
</table>

*Chicago and South Triad industrial effective tax rates unavailable. (See Methodology)
The Impact of a Property Tax Increase on Individuals and Businesses

As a very visible tax that is not directly linked to a taxpayer’s ability to pay, the property tax and property tax increases tend to be unpopular with the general public. However, it is a very reliable source of revenue to most governments as it does not fluctuate significantly with economic cycles as other sources such as income and sales taxes do. Therefore, a major question with the property tax is whether it would be sensible to raise the levy by hundreds of millions of dollars more, given that between FY2014 and FY2018, the City’s property tax levy increased by 71.2%, mainly to pay for statutorily-required increases in Chicago’s contributions to its Police and Fire pensions.

The amount of property tax individual residential, commercial or industrial property owners pay in the City is only partially determined by Chicago’s own levy. Decisions made by other overlapping governments, particularly Chicago Public Schools, which have also raised their levies by hundreds of millions of dollars in the last few years also impact the total composite tax rate. Additionally, the value of property within the city limits, or the tax base, also impacts how much the composite property tax rate grows or shrinks.

A tax rate is calculated by dividing each government’s levy by the equalized assessed value of property within its taxing jurisdiction.

\[
\text{TAX RATE} = \frac{\text{LEVY}}{\text{EAV (PROPERTY TAX BASE)}}
\]

Then each government’s rate is summed to generate the composite tax rate for a geographical area. Thus, a significant increase in a municipality’s tax base (the denominator) after reassessment may in some cases offset even a significant increase in governments’ levies (the numerator). However, in the case of a jurisdiction with a shrinking tax base, it could be the case that no government increases its levy but the tax rate still goes up because the denominator of the tax rate equation was smaller.

Property in the City of Chicago was reassessed by the Cook County Assessor’s Office during 2018. Appeals to the assessments at the Cook County Board of Review are ongoing and once complete, the final tax rates will be released. This will likely be during the summer in 2019 for the second installment of property tax bills to go out August 1. While some uncertainty surrounds the reassessment, it is likely that EAV will grow in 2018 given recent trends in the value of real estate. One of the uncertain factors is that the former Cook County Assessor used a new assessment model for residential properties in 2018 in response to widespread criticism that the Office was over-assessing low value properties and under-assessing high value properties. All other properties were reassessed using existing procedures. News reports have described some homeowners seeing increases in their assessments up to 60%.\(^\text{108}\) However, some of the increases will likely be offset by decreases in assessments in low property value areas and by

homeowners successfully appealing their valuation either at the Assessor’s Office or at the Board of Review. Note that this is before any new levy increases would be factored in.

A large increase in EAV due to reassessment combined with a more moderate increase to property taxes by local governments in 2018 could result in a flat to slight decline in the City’s tax rate for 2018, which could indicate some flexibility for an increased levy in FY2020 or a revised FY2019 levy. However, it is important to recognize that the impact of such a levy increase would be different for different taxpayers.

Given the *ad valorem* nature of the property tax, it is not directly related to income. So while an increase in a homeowner or business owner’s assessed value of real estate is an increase in wealth, it does not necessarily mean an individual taxpayer has more income or revenue from which to pay taxes. If a homeowner’s income grows at a slower rate than their property tax bill or they experience economic hardship, it is possible that they may need eventually to sell their home and move to a lower value residence or a different jurisdiction with lower tax rates. The State of Illinois increased the homeowner’s and senior citizens’ property tax exemptions in Cook County starting in 2017 in an attempt to offset some of the impact of increasing property taxes by reducing the taxable value of residences. But since the Cook County property tax system is a zero-sum game, this means that the reduction in tax liability to residences means other types of property, including apartments and commercial and industrial property had to make up the difference.

Therefore, if a homeowner’s effective tax rate is flat in a growing real estate market, while the percentage of the home’s value they pay in tax is flat, the total amount of tax paid has gone up.

*The Property Tax Option*

The Civic Federation sees a mixed picture for the City of Chicago’s ability to increase property taxes in the coming years while still remaining competitive regionally. From an effective tax rate perspective, so long as the tax base keeps growing, it is possible that some moderate increases to the city’s levy—so long as they are not paired with outsized increases by other governments—could result in a relatively flat effective tax rate and therefore a continued competitive property tax environment, compared to the region as a whole. However, it is important to remember that large increases to the tax base mean individual taxpayers can face much larger tax bills as a dollar amount and may not perceive their tax burden as being flat, impacting the political ability of the new Mayor and City Council to increase the levy.

Reinstituting the City Employer’s Expense Tax (Head Tax)

An employer’s expense tax or “head” tax is imposed on businesses at a flat rate based on the number of employees at that firm. Typically larger firms are targeted with this tax. Head taxes in the U.S. are relatively rare.

Denver imposes an occupational privilege tax on both employees and employers. The tax applies to businesses operating in the City and individuals who receive compensation of at least $500 per month. The employee rate is $5.75 per month and the employer rate is $4.00 per month per taxable employee. The tax applies not only to residents or business domiciled in the City but also to any employee working in the City and any owner, partner or manager engaged in business in Denver.

Seattle had a head tax from 2006 to 2009 before eliminating it. The city approved a new head tax in May 2018 that would have levied a tax of approximately 14 cents per employee per hour worked within the city. The measure was projected to raise roughly $45 million over five years to be used to build affordable housing and fight homelessness. However, the law was repealed after one month due to strong opposition from the business community, including large employers such as Amazon and Starbucks.

The City of Chicago imposed a head tax from 1973 to 2014, utilizing its home rule authority. Mayor Emanuel and the City Council phased out the tax between 2012 and 2014. The tax was imposed on businesses with more than 50 employees that performed 50% or more of their work service per calendar quarter in the City. Employees had to earn more than $4,300 in a calendar quarter to be considered taxable. The tax was imposed at a rate of $4 per employee per month. Exemptions from the tax were provided for:

- Domestic service in a private home;
- Newspaper delivery when the individual is under the age of 18 years;
- Employees who are immediate family (father, mother, spouse, son or daughter);
- Insurance Company Personnel;
- Not for Profit, Educational and Charitable Organizations;
- Agricultural Labor;
- Independent Contractors; and

---


• Partners.

In 2009 and 2010, approximately 2,700 Chicago companies paid the tax, contributing approximately $35 million in revenue. In July 2012, the tax was reduced to $2 per employee and then it was repealed in 2014.\textsuperscript{116}

\textbf{Pros and Cons of Head Taxes}

Opponents of head taxes argue that:

• They are a disincentive for employers to hire workers because they are a tax on employment. The impact is particularly burdensome for medium sized businesses;
• If businesses decide to halt expansion plans or move to different jurisdictions to avoid paying the head tax, then the taxing municipality is left with fewer jobs and economic growth than it would have had otherwise.\textsuperscript{117} Amazon cited the proposed Seattle head tax as a reason to pause its headquarters construction plans;\textsuperscript{118} and
• Because head taxes can be a larger share of the cost of lower paid workers, they might have a negative impact on decisions to hire these workers.\textsuperscript{119}

Proponents of head taxes argue that:

• Businesses, especially large employers, generate demands for municipal services, such as public safety, schools, transportation, infrastructure and refuse collection;
• Large scale business activity can trigger increases in housing costs, making housing less affordable for longtime or low income residents; and
• Finally, businesses often receive generous tax incentives from the public treasury in return for locating in a community and providing long-term economic benefits. Thus, it is reasonable to ask that companies assist in defraying increased costs and recouping lost revenues accruing from incentives. In any event, taxes are rarely the primary factor in business locational decision making.

\textbf{Supplemental Rideshare Fee Linked to Congestion and Public Transit Availability}

The City of Chicago currently has a ground transportation tax that applies to both taxicabs and transportation network providers (rideshare services such as Uber and Lyft). Those charges are passed on to customers in their ride fee. The City charges licensed taxicabs a monthly fee of


44
$98.00 per vehicle per month plus $22.00 per month for the Wheelchair Accessible Vehicle Fund. Transportation network providers are charged a per-ride rate of $0.60 per rideshare ride for handicap accessible vehicles and $0.70 per ride for non-handicap accessible vehicles. The City of Chicago shares a portion of the revenue from the ground transportation tax on transportation network providers with the Chicago Transit Authority, up to $16 million annually as part of an incremental $0.20 increase in the rideshare tax that took place in 2018 and 2019.

Studies have shown that while transportation network providers fill transit gaps, they increase congestion and add mileage to the streets. While there are 7,000 licensed taxicab drivers in Chicago, there is no limit to the number of registered transportation network providers. As of 2017, the City had 117,000 registered rideshare vehicles, with about 67,000 of them “active,” meaning they provided at least four trips per month. According to a July 2018 Schaller Consulting study, private rideshare rides added 2.8 new vehicle miles on the road for each mile of personal driving removed, which equates to an increase in the amount of driving for the single ride of 180%. Shared rides (e.g. Uber Pool, Lyft Line) resulted in 2.6 new vehicle miles for each mile of personal driving removed from the road.

An October 2017 study by the University of California-Davis Institute of Transportation Studies found that in seven major metropolitan areas including Chicago, ridesharing led to an average reduction in bus ridership of 6% and an average reduction in light rail usage of 3%. The study found that between 49% and 61% of ridesharing trips would not have been made if the ridesharing apps not been available. Instead, people would have walked, biked, or taken public transit. The Schaller Consulting study also found that about 60% of rideshare users in large cities would have taken public transportation, walked or biked, or would have not made the trip if the transportation network provider were not available. About 40% of rideshare users would have used a personal vehicle or a taxicab if the transportation network provider had not been available for the trip.

There are several potential policy solutions to the increased congestion from transportation network provider vehicles:

- Limiting the number of low-occupancy vehicles;
- Instituting a cap on the number of registered transportation network provider vehicles;
- Ensuring frequent and reliable bus and rail service;
- Congestion pricing; and
- Banning the number of low-occupancy vehicles on certain roads during certain times.

---


**Surcharge Based on Congestion in Transit-Accessible Areas**

Similar to cordon area congestion pricing, there may be another potential solution to reducing congestion during peak travel times while taking into consideration the availability of alternative transit modes. The City of Chicago could consider implementing an additional surcharge on transportation network provider rides performed during high congestion travel times when either the origin or destination of the ride is easily accessible to a CTA rail or bus stop and located within a highly congested area. It would be charged in addition to the existing ground transportation surcharge on rideshares.

The purpose of implementing this tax would be to encourage rideshare users who could otherwise take the train or bus to take public transit and thereby reduce demand for cars on the road. The rationale behind applying the charge only to transportation network providers and not taxicabs is that the volume of registered rideshare vehicles far surpasses that of taxicabs. The charge would only kick in when the trip could be completed easily by train or bus to or from a congested area. However, there would need to be considerations for rides that begin or end in areas designated as transit deserts.

**Considerations for Implementing a Congestion and Transit-Based Rideshare Charge**

If the City of Chicago were to consider implementing this type of rideshare surcharge, there are several issues that would need to be addressed:

- Would the surcharge be charged for rides starting and/or ending within certain congestion zones or based on proximity to CTA rail or bus stops?
- Should the surcharge only apply to rideshare trips starting and/or ending downtown or should it apply in all congested areas of the city?
- Would the City provide exemptions for transportation network provider rides that begin or end in areas designated as transit deserts?
- Should the surcharge only be charged during weekday peak travel times (i.e. morning and afternoon rush hour) or additional times of high demand for rideshare rides (e.g. large events such as Lollapalooza)?
- Should the surcharge be a flat per-ride fee or based on time and distance traveled?
- How can the City prioritize improving the reliability and frequency of both bus and rail public transit with the revenue raised from the surcharge? Should the total net revenue collected from the surcharge be transferred to the CTA or only a portion?
- What kinds of rideshare vehicles should be exempt from the surcharge?
- Since there is an existing $5.00 surcharge for rides to and from Midway and O’Hare airports, McCormick Place and Navy Pier, should those locations be exempt?

**Eliminating or Reducing the State Income Tax Exemption for Retirement Income with Local Share**

Of the 41 states that impose an income tax, Illinois is one of three that exclude all pension income and one of 27 that exclude all federally taxable Social Security income. The Illinois State Personal Income Taxes on Pensions and Retirement Income: Tax Year 2014, April 3, 2015. At the federal level, between 15% and 100% of Social Security benefits are excluded from taxation. Generally, Social Security benefits are not taxable if they...
Comptroller reports that the exclusion of federally taxable retirement income reduced individual income tax revenues by $2.3 billion in FY2015, when the tax rate was 5%. In years when the personal income tax rate is at or near 5%, this exclusion is the largest of all of the State’s tax breaks and the cost is expected to increase rapidly over time as the population ages.

Historically, retirement income has grown at a much higher annual rate than regular income. Between 2007 and 2016, retirement income in Illinois (excluding federally taxable Social Security benefits) grew at an average annual rate of about 4.7%, while other personal income increased on average by only 0.9% per year.125

Including this high-growth component in the income tax base would provide for a more sustainable revenue source for the State. At the current personal income tax rate of 4.95%, the additional State revenue from taxing the federally taxable portion of retirement income is estimated to be $2.5 billion in FY2020 and is projected to grow to $3.0 billion in FY2024. The proposal would also provide local governments with an estimated $162 million in FY2020, growing to $196 million in FY2024, of which approximately 20% would flow to the City of Chicago, increasing revenue by over $30 million in state fiscal year 2020.126

Pros and Cons of Eliminating the Income Tax Exemption for Retirement Income

The State of Illinois added the retirement income exemption a few years after first implementing an income tax in 1969. The following are some arguments for and against taxing retirement income.

Opponents of eliminating the income tax exemption for retirement income argue:

- The rationale for exempting retirement income was that many retirees have a fixed income, cannot afford to pay additional taxes and would therefore have to forego other necessities such as medicine and groceries;
- Retirees have planned for retirement with the exemption in mind and cannot adjust their plans to accommodate being taxed on that income;
- AARP Illinois has argued that retirees should not be singled out to balance the State’s budget and noted that retirees pay other taxes, including property and sales taxes;127 and
- Not taxing retirement income is an incentive that helps keep retirees in the state.

Proponents of eliminating the income tax exemption for retirement income argue:

represent a taxpayer’s only income. If base income is up to $25,000 for an individual or $32,000 for joint filers, then no tax is owed. Base income is the sum of half of Social Security benefits plus all other income. Internal Revenue Service, Publication 915, “Social Security and Equivalent Railroad Retirement Benefits, 2018,” January 9, 2019, pp. 2-4.


• It would provide fairness between senior citizens who cannot retire and are taxed on their income, as opposed to wealthier seniors who have been able to retire and whose retirement income is not taxed;
• Exemptions for the lowest income seniors could offset concerns about affordability;
• With significant financial difficulties facing both the State of Illinois and local governments, all revenue options need to be on the table, particularly those that feature a growing base, such as retirement income;
• All Illinoians who are currently working have had their income taxes raised to balance the State’s budget so it cannot be argued that retirees would be singled out to help local and state budget crises; and
• There is no evidence that the lack of income taxes on retirement keeps people in the state.128

Considerations for Eliminating the Exemption of Retirement Income from Taxation

Since retirement income was originally taxed when the State of Illinois implemented the income tax, if the State decided to eliminate or reduce the exemption for retirement income, it would only have to pass a law repealing all or some of the exemption. For the City of Chicago to receive a significant portion of the revenue from the taxation of retirement income in Illinois, that law would have to provide for a share of the new revenue to be diverted to the Local Government Distributive Fund. Additionally, a public information campaign would likely be necessary to inform persons with retirement income that they will need to file a state income tax form. Retirees who do not have federally taxable income would not be taxed by the state either. Lawmakers would need to answer the following questions:

• What kinds of protections need to be in place for low income retirees? Should some kind of additional exemption be provided to those seniors?
• How much of the new revenue will be distributed to local governments? Can the State afford to share more of the revenue than it did when it raised the personal and corporate income taxes in 2011 and in 2017?

EXPENDITURE REDUCTION OPTIONS FOR THE CITY OF CHICAGO

The following action presents a number of expenditure reduction options that might be pursued by the City of Chicago to address its financial challenges.

**Alternative Service Delivery**

Alternative service delivery (ASD) refers to any process that shifts some or all of the functions, risks or responsibilities for delivering a service from the primary government to the private sector or another public entity. When the function is transferred to the private sector it is commonly referred to as privatization. Alternative service delivery can take many forms such as an asset sale or lease, contracting out the management of an asset or service, franchising, vouchers and a variety of other structures. Managed competition, a method of alternative service delivery, provides for government employees to competitively bid against private contractors to provide services.

The term Public-Private Partnership or P3 is often used synonymously with alternative service delivery and privatization. Some definitions of P3 distinguish it from other forms of privatization in that the private sector is providing services for an extended period of time while others point to the sharing of the risk and reward potential in the delivery of the service.

The City of Chicago’s long-term lease transactions involving the Skyway, downtown parking garages and metered parking system are often cited as groundbreaking P3 transactions. However, privatization does not have to involve long-term lease concession agreements as was done in those high-profile transactions. It can also mean outsourcing a routine service or function, such as residential waste collection or the privatization of ambulance services. Since 1990 the City of Chicago has privatized a number of different services and programs such as airport parking operations, custodial services and tree planting.

The City has taken steps toward more modest alternative service delivery options by privatizing parts of the City’s “Blue Cart” recycling program. The City has also adopted an ordinance regarding the privatization of City assets and services in an effort to improve transparency.

---

surrounding privatization. Currently, the City is exploring a privately funded high speed rail service to O’Hare International Airport.

While alternative service delivery is not a panacea for a government’s financial problems and can present risks, it can be a useful tool to increase efficiency and reduce costs. Competition from private, nonprofit and even other public entities can help reduce operational inefficiencies that can develop in a system of monopoly service provision by a single government.

The Civic Federation has developed the following criteria to evaluate alternative service delivery proposals:

- A competitive bidding process for operator selection must be used. Transferring responsibility for service delivery to a private firm or nonprofit organization can be beneficial only if there is a marketplace of competitive, qualified vendors or service providers;
- There must be strong and sustained management oversight by the government. The government must protect the public interest by including management oversight provisions in any concessionaire or service contracts;
- All potential costs must be considered including direct and indirect costs, transition costs, short-term and long-term costs, oversight costs, the impact on outstanding debt and future grant eligibility and long-term impacts on rates or charges. Governments should be cognizant that substantial overhead costs may continue to exist even in a contractual environment and therefore should identify which costs are truly avoidable through outsourcing;
- When transferring responsibility for service delivery by means of a long-term lease or sale, governments must carefully consider the policy implications of matters such as limitations on competition and eminent domain. For example, the long-term leasing of a toll road should not preclude a government’s ability to plan for future transportation needs in the vicinity of that toll road, including the ability to plan, acquire land and construct new roads;
- There should be a full and deliberate public discussion and review of significant proposals and there must be requirements for public reporting of financial and operational results;
- Any proceeds generated from asset sales or leases must be appropriately used. The proceeds should not be used for recurring expenditures or as a temporary fix to a structural fiscal challenge. Proceeds should be used to invest in capital facilities, establish long-term reserves that generate interest earnings or reduce existing obligations, such as long-term debt or unfunded pension obligations; and

---

134 City of Chicago, Ordinance 2015-5434.
135 Bill Ruthart and John Byrne, “Chicago taps Elon Musk’s Boring Company to build high-speed transit tunnels that would tie Loop with O’Hare,” Chicago Tribune, June 14, 2018.
Communities should also examine what are core public functions and what are non-essential services. This was one of the issues in the metered parking concession agreement. There are also non-legal considerations and these value judgments will cause variation among cities in what they define as a core public function.

**Reasons for Privatization**
Governments implement privatization strategies for a number of reasons:

- Saving money by reducing overhead and labor costs;
- Enhancing revenue;
- Shifting risk from the government to the provider;
- Improving service quality;
- Managing peak workloads more efficiently and cost-effectively;
- Shedding non-core functions and activities to focus efforts on government’s core services and programs;
- Obtaining and utilizing skills, competencies and services that would be too expensive to acquire otherwise; and
- Avoiding upfront large scale capital investments.

**Reasons to Terminate Privatization**
Governments sometimes re-evaluate their decision to privatize a service or function and opt to re-instate full public control. The primary reasons governments terminate a privatization agreement are:

- The vendor or manager has not fulfilled the terms of a contract;
- Changes in the labor market have made it more attractive to hire in-house staff;
- There is a need to manage and supervise sensitive matters; or
- A lack of competition has resulted in an unqualified pool of contractors, uncooperative contractors or exorbitant prices.

**Arguments For and Against Service Privatization**
The following provides a brief summary of the reasons often presented as arguments for and against privatization.

Arguments in Favor of Privatization

- **Efficiency**: The private sector tends to operate more efficiently than the public sector. The public sector is constrained by layers of authority, mandatory civil service regulation, collective bargaining contracts and formal bid procedures. In contrast, private organizations have strong incentives to perform as they must make a profit, satisfy shareholder demands and/or avoid bankruptcy;

- **Cost Savings**: Privatization can save money through the elimination of work rule constraints or because of the advantages afforded by economies of scale; and
• **Better Quality of Service:** The private sector can more quickly take advantage of technological improvements than the public sector. In addition, the private sector focuses its efforts on performance, as it must meet profit goals. The public sector, in contrast, is constrained by limited funds for technology and usually lacks a focus on performance in service delivery or in personnel.

Arguments Against Privatization

• **Lack of Accountability/Corruption:** Unless adequate management oversight and evaluation procedures are implemented, there is the potential for corruption to emerge. This can take the form of rewarding contracts to unqualified vendors or paying for fraudulent billings;

• **Political Considerations:** Privatization contracts can be used to reward political allies or to skirt civil service rules or procurement procedures. Many have criticized privatization contracts as a new form of patronage;

• **Equity Concerns:** Many public services, such as public health or education, are provided as a social good regardless of ability to pay. Providing them through the private sector can raise concerns over equitable distribution and delivery of these goods or services;

• **Lack of Competition:** Privatizing a service for which there is not a pool of qualified vendors or managers is not as likely to yield cost savings or improved efficiency; and

• **Lack of Control:** If a government cedes full control over service delivery standards and qualifications and/or pricing, the result can be diminished benefits and higher prices.

**Consolidating City Pension Funds**

The City of Chicago’s employees belong to four separate pension funds. The Chicago Park District is the only park district in the state with its own pension fund and Chicago Public Schools teachers are the only teachers in the state with their own retirement fund. All other municipal employees, teachers and park district employees in the state belong to the consolidated Illinois Municipal Retirement Fund (IMRF) and Teachers’ Retirement System (TRS). However, all municipalities with a certain number of police or firefighters have their own police and fire pension funds with the result that there are over 650 of them across the state.

It makes little governance or financial sense to have separate pension funds for the City of Chicago and other municipalities. The City’s pension funds are severely underfunded and have not benefitted from the amount of local control allowed them. Public pension benefits and funding in Illinois are controlled via state statute, but local pension fund trustees make decisions on investments, actuarial and demographic assumptions and, in the case of police and fire funds, decisions on disability claims.

Multiple groups in Illinois, including the Civic Federation, have begun to call for consolidation of police and fire funds across Illinois to take advantage of economies of scale, reduce administrative and duplicative expenditures and open up greater investment opportunities. Additionally, consolidation could render police and fire pension board decision-making more

---

138 Qualifying City Colleges of Chicago employees belong to the State Universities Retirement System.
transparent since following the actions of one large consolidated entity would be less time consuming and more informative than attempting to keep track of the actions of over 600 local boards, many of which may not maintain an online presence.

The Illinois Municipal League has developed several possible alternatives for consolidating police and fire funds and they have been introduced as legislation in the General Assembly. The Pension Fairness for Illinois Communities coalition of local government groups, local governments and civic organizations in support of consolidation released a white paper in 2017 that estimated administrative savings under consolidation at $33 million per year or over $1 billion over 30 years.

An Anderson Economic Group analysis conducted on behalf of the Illinois Public Pension Fund Association (IPPFA), which is opposed to consolidation, concluded that easing investment restrictions on public safety funds with assets less than $10 million without consolidation would increase returns by over $400 million over 20 years. The analysis did not explore the possible returns if all police and fire funds were consolidated and their assets pooled for investment. However, such a pool of billions of dollars in assets could access even higher yielding investments and lower fees, potentially earning more.

A separate report for IPPFA by Anderson Economic Group analyzed transition costs and administrative savings and found that, depending on market timing, the transition could result in a $125 million gain to a $154 million loss. They also estimated annual administrative savings at 25% or $21 million annually. Therefore, even in the worst case scenario of transition costs, they would be offset by administrative savings within 10 years. The Civic Federation does not see this as a compelling argument against consolidation, particularly since all other downstate and suburban municipal employees already belong to a consolidated pension fund, the IMRF, which also is one of the best funded in the state.

As noted above, only Chicago teachers have their own pension fund in Illinois. All others belong to the state-funded Teachers’ Retirement System. This has resulted in an inequitable arrangement under which Chicago taxpayers fund most of the Chicago teachers’ pensions—making contributions to the large unfunded liability through the Chicago Public Schools’ Budget—while also contributing to downstate and suburban teachers’ pensions through taxes paid to the State of Illinois. Downstate and suburban taxpayers fund their teachers’ pensions through state taxes, but not through their local school districts’ budgets. They also only contribute to the annual cost (normal cost) of Chicago teachers’ pensions, not the unfunded liability. The Civic Federation has long deplored the State’s abdication of its intention to fund Chicago teachers’ pensions

---

140 Senate Bills 1006-1012 and House Bills 1566-1571.
proportionally to how it funds TRS. The Federation continues to call on State lawmakers and the Governor, as well as the new Mayor and City Council to work together to consolidate the Chicago Teachers’ Pension Fund (CTPF) with TRS.144

Finally, the City of Chicago’s Municipal and Laborers’ Funds and the Chicago Park District Pension Fund should explore consolidation into the IMRF like all other municipal and park district employees in the state. Under the IMRF structure, the City and District would have separate accounts for their employees, but their assets would be pooled for investment. The members of the Municipal Fund who are non-teacher employees of CPS, who make up approximately half of that fund’s membership, would additionally join all of the State’s other school administrative staff in the IMRF.

**Sustainable Collective Bargaining Agreements**

In FY2019, the City of Chicago plans to spend approximately $3.8 billion on personnel services across all local funds, of which $2.2 billion, or 57.5%, will be dedicated to public safety. In the Corporate Fund, which is the operating fund of the City, the $2.88 billion personnel services appropriation represents 75.3% of the total Corporate Fund budget of over $3.8 billion. With over 90% of the City’s workforce being unionized, personnel costs and collective bargaining agreement provisions must be part of any discussion of how to balance the budget and make costs sustainable over the long run.

In 2017 all of the City’s collective bargaining agreements expired and all 44 contracts were up for renegotiation. The City has come to agreement with some of its labor partners since the expiration of these contracts. However, the collective bargaining agreements (CBAs) representing the police and fire unions, which constitute the majority of the City’s unionized workforce, are not yet finalized. The labor agreements that have been finalized include modest increases in salaries and increased contributions to healthcare premiums, which should be replicated in the Police, Fire and other remaining contracts.

In an effort to better control personnel costs and align benefits provided by the City with industry norms, the City should give serious consideration to the findings in the Office of the Inspector General’s report issued in May 2017 that highlights a number of the costly provisions in the City’s collective bargaining agreements without taking a position, “on the relative merits of any particular change to the existing agreements.” 145

Those provisions for the police CBAs include:

- Duty availability pay, which are quarterly lump sum payments to sworn public safety employees understood to compensate such employees for the fact that they are often called to duty on their days off, which cost the city at least $56.3 million in FY2016;

---


- Compensatory time buybacks for working non-Fair Labor Standards Act (FLSA) overtime, which can accumulate throughout a member’s career and at the wage or salary rate when the time is cashed in, rather than when it was accumulated, which for a total of 630 retiring CPD members cost over $23 million between 2013 and 2017; and
- Quarterly differential for sergeants, lieutenants and captains, which was originally intended to compensate supervisors for overtime when those positions did not receive overtime. However, now they do receive overtime. They payments cost at least $9.3 million in FY2016.

The costly provisions for the firefighters’ CBA include:
- Duty availability time (see above for description);
- Minimum manning requirements, which require the City to maintain a floor number of firefighters, but are not based on an independently verifiable standard; and
- Holiday on furlough, which allows firefighters who are scheduled to be on vacation during a paid holiday to be paid both for the holiday as if they had been working and for the vacation day, among other provisions.

The provisions described above are financially-related, but collective bargaining agreements also cover non-economic issues such as disciplinary procedures. While outside the Civic Federation’s area of focus in this report, any changes the City might seek to make to controversial non-economic provisions of the sworn officer collective bargaining agreements might end up being balanced with financial concessions elsewhere given the nature of collective bargaining. Additionally, the newly finalized consent decree with the U.S. Department of Justice provides for a monitor to oversee reform of the Chicago Police Department and says, “[i]n negotiating Successor CBAs and during any Statutory Resolution Impasse Procedures, the City shall use its best efforts to secure modifications to the CBAs consistent with the terms of this Consent Decree, or to the extent necessary to provide for the effective implementation of the provisions of this Consent Decree.” However the decree also provides, “Nothing in this Consent Decree shall be interpreted as obligating the City or the Unions to violate…the terms of the CBAs.”

Additional ideas for possible savings in all future collective bargaining negotiations the City undertakes include additional cost sharing measures in the healthcare area, such as increased co-pays and greater use of co-insurance, and in the number of firefighting apparatuses and firefighters that must be on each apparatus.

The City will face increased financial pressure in future years due to its debt service expenses and commitment to begin funding its pensions on an actuarial basis. With personnel related costs making up the largest share of the City’s expenses, the collective bargaining agreements are the ideal place to begin identifying ways to better manage personnel related expenses.

---

146 One coalition of community, policy and civil rights groups advocating for changes to the Chicago police contract, the Coalition for Police Contracts Accountability, has a list of 14 changes to union contract provisions they believe would increase police accountability, for example.
BORROWING OPTION FOR THE CITY OF CHICAGO

Pension Obligation Bonds

The City of Chicago is facing budgetary pressure due to its four pension systems, which are collectively underfunded by $28 billion. Despite increasing revenues for the funds in recent years, the City faces future contribution schedules that jump by a total of $1.0 billion – essentially doubling the current contribution to $2.1 billion in budget year 2023. To address these pressures, the City recently floated the idea of issuing pension obligation bonds. In a presentation to City Council in December 2018, Mayor Emanuel proposed issuing $10 billion of bonds, the proceeds of which were projected to raise the pensions’ collective funded ratio from 26% to 50%.

Chicago would see near-term budgetary savings through a pension obligation bond because the increased assets in the funds would reduce unfunded liabilities, lowering the contribution needed to amortize the pension debt. In the long run, savings to the City would depend on investment returns surpassing debt costs over the life of the bonds. The performance of the invested funds depends on market conditions and is impossible to predict.

The last taxable bonds issued under the City’s General Obligation credit in 2017 had an interest rate of 7.045%. However, for the pension obligation bonds the City has proposed to issue debt from securitized revenues, as it has recently done with the Sales Tax Securitization Corporation. The City has not yet detailed the structure of debt service payments on the bonds, and whether they would be back-loaded.

The Civic Federation urges extreme caution in moving forward with the proposal. In the event the City does move forward with this proposal or any other proposal that includes taxpayer risk, the Civic Federation encourages maximum transparency including releasing data publicly, holding multiple public hearings and establishing guardrails for a borrowing of billions of dollars for non-capital expenditures.

OTHER FINANCIAL MANAGEMENT OPTIONS FOR THE CITY OF CHICAGO

Two additional financial management issues that represent neither revenue nor expenditure options are discussed below. The Civic Federation takes no position on the creation of a public bank for the City of Chicago.

A Public Bank for the City Of Chicago

A public bank is a financial institution owned and operated by a government on behalf of its citizens. It can be used to provide loans to governments for economic development projects and/or invest in infrastructure projects. Profits from investments can be returned to the government treasury. Recently public banks have also been promoted as depository institutions for the emerging marijuana industry which currently operates on a cash basis as federal law

---

prohibits private banks from handling proceeds from an industry that is illegal at the federal level.

Public banks have long history in the U.S. In the 19th century many states, including Illinois, operated public banks. However, most of these were closed by 1900. In 1919, after reformers of the Nonpartisan League swept state elections, North Dakota created a state bank which still exists today. In 2016, the U.S. territory of American Samoa was authorized to open a Territorial Bank with limited services. In 2018 the Federal Reserve Bank of San Francisco granted the Territorial Bank access to the U.S. payments system which will allow it to offer customer services such as debit cards and checking.150 Legislators and candidates in several states have endorsed public banks in recent years, including Governor Phil Murphy of New Jersey and U.S. Representative Alexandria Ocasio-Cortez of New York.151 However, Los Angeles voters rejected amending their City’s charter to create a public bank in November 2018 by a vote of 55.8% to 44.2%.152

**The Bank of North Dakota**

The Bank of North Dakota is viewed as a model by many public bank advocates. The Bank is professionally managed and operated and is governed by the State Industrial Commission, a board composed of the Governor, the Attorney General and the Agriculture Commissioner. A seven-member Advisory Board reviews the Bank’s operations, management and procedures. The state Department of Financial Intuitions provides audit oversight but does not exercise regulatory authority.

All state funds from the collection of taxes and fees are deposited in the Bank, unless authority is granted for specific investments. Other funds are provided by corporate accounts, municipal and county governments and individuals. The Bank’s deposits are secured by the full faith and credit of North Dakota, not the Federal Deposit Insurance Corporation (FDIC). It invests only in AAA rated securities backed by the federal government or its agencies.153 Bank profits are used for three purposes:

1. Transfers to the General Fund as authorized by the legislature;
2. Mission-driven loan programs for economic development and infrastructure approved by the legislature; and
3. Maintaining the Bank’s capital level, which is designated to be a Tier One capital level of 10%.

---

The Bank of North Dakota is not intended to compete with commercial banks. While it does provide student loans, it does not offer credit cards, ATM services, personal or business loans to the public. The Bank does provide partial funding for home mortgages, businesses, economic development, infrastructure or agricultural projects in cooperation with commercial banks. Individuals can secure student loans directly from the Bank. However, if individuals or businesses seek other types of loans, they must work with and through local commercial lenders. The private financial institution makes requests to access Bank credit programs, not the individual borrower.\(^{155}\)

A Chicago Municipal Public Bank

Ameya Pawar, Chicago’s 47th Ward Alderman and candidate for City Treasurer, has proposed creating a municipally owned bank in the Windy City. Monies from the City’s retirement systems, state linked-development deposits and the City Treasurer’s financial portfolio would fund the bank. The bank would focus on targeting city funds for economic development, investing in affordable housing and refinancing student loans.\(^{156}\)

Pros and Cons of Public Banks

Opponents of public banks argue that problems with public banks include corruption, financial risk, high startup capital costs and competition with existing commercial banks.

- One of the biggest concerns about public banks is the possibility of politics and corruption influencing its management and operations. Illinois and Chicago have long been known as centers of public corruption. Since 1976, federal prosecutors have convicted 1,706 public officials of corruption in the northern Illinois federal judicial district, the most from any judicial district in the nation.\(^{157}\) Given Chicago’s long history of corruption, there would be a possibility of political interference in bank decisions that would seriously impact the ability of the institution to make financially sound decisions. Allaying those concerns would require strong oversight and professional, non-political management.

- There are financial risks involved in the operation of a public bank. Deposits at the Bank of North Dakota are not insured by the Federal Deposit Insurance Corporation. If Chicago followed that model, the City or State would have to provide financial guarantees. Also, there can be a great deal of risk regarding the potential for loan defaults if the public bank directly provides consumer loans. The bulk of losses related to the 2008 subprime mortgage crisis in Germany were from loans provided by that nation’s state banks.\(^{158}\)

- Another key issue in creating a public bank is the need for startup capital. This can be very expensive. For example, a feasibility study commissioned by the State of

---

Massachusetts estimated a state public bank would require approximately $3.6 billion in startup capital.\textsuperscript{159}

- Finally, depending on how it is set up, a Chicago public bank could compete with existing commercial banks. The Bank of North Dakota does not compete with private banks; rather, it works cooperatively with them.

Supporters of public banks:

- See them as a catalyst for the promotion of social goals such as the development of affordable housing, refinancing of student debt and economic development in underserved communities. They argue that a public bank’s decisions would focus on the values and needs of local communities, unlike private banks which focus on investor profits, charge high interest rates and fees and often take risks with public funds.\textsuperscript{160}
- Public banks can provide below-market interest rate loans to state and local governments, consumers, students and businesses, potentially reducing costs millions or even billions of dollars.
- They also can provide banking services to citizens who currently do not have access to these services.\textsuperscript{161}

\textit{Considerations for Creating a Chicago Public Bank}

If Chicago decides to create a city-owned public bank, there are several issues that must be carefully considered by the Mayor and City Council. The discussions about a public bank must be transparent and will require adequate time and research to understand the legal, financial and administrative issues inherent in creating this institution so that citizen and taxpayer interests are protected.

- \textit{State versus Municipal Public Bank:} The State of Illinois may be much better positioned to create a public bank than the City of Chicago. It would have readier access to larger amounts of startup capital and a model for such a bank exists in North Dakota. A state public bank also could provide benefits to communities throughout Illinois that could benefit from its services.
- \textit{Legal Issues:} There are undoubtedly legal issues involved in establishing a municipal bank. State charter authorization would likely be required and the bank would be regulated by the Illinois Department of Financial Institutions. There may be other legal issues as well. For example, California state law provides that city bonds can only be used for infrastructure projects. So, startup capital for a city public bank would have had to be provided from general funds or philanthropy.\textsuperscript{162}
- \textit{Financial Issues:} A number of specific financial issues would need to be addressed:
  - Would the public bank deposits be FDIC insured? If not, how would they be guaranteed?
  - Would the bank provide direct loans to consumers?

\textsuperscript{160} Public Banking Institute, “What is a Public Bank,” \url{http://www.publicbankinginstitute.org/}.
\textsuperscript{161} Public Banking Institute, “What Problems Do Public Banks Solve,” \url{http://www.publicbankinginstitute.org/what_are_the_problems_public_banks_are_trying_to_solve}.
How would bank finances and operations be audited?
Would capital reserves be available to use for purposes other than economic development, infrastructure, student loans or loans such as transfers to the City General Fund?
How much startup capital would be needed? Any public bank proposal for Chicago should require a feasibility study to figure out startup capital needs. It might be more financially feasible for the State of Illinois to create a public bank than for the City of Chicago to create a municipal bank.

**Administrative Issues:** The City would need to create mechanisms for adequate oversight, governance and management of the bank to ensure that its operations are professional and transparent and that undue political pressure is not exerted on its decision making. The Bank of North Dakota model provides for professional management of operations and oversight by state officials and an advisory committee.

### Using Tax Increment Financing Surplus to Relieve Budgetary Pressure

Tax Increment Financing (TIF)\(^{163}\) is a powerful economic development tool for the City of Chicago, particularly at a time when capital and development funding from the State of Illinois and federal government has been scarce. One out of every four properties in the City is in a TIF district and in 2017 the City of Chicago collected over $660 million in TIF revenue, nearly one-third of the total property tax revenue.

It is important to recognize here that the major impact of TIF in counties subject to the Property Tax Extension Limitation Law (PTELL or “tax caps”) like Cook County is to raise tax rates for all taxpayers higher than they would otherwise have been. **TIF does not freeze or take away tax revenue from overlapping governments such as the Chicago Public Schools.** This is because tax capped governments set their levies independent of taxable value, mostly basing annual property tax increases on inflation instead.\(^{164}\)

Revenue generated in a TIF district is intended to be used for redevelopment costs within the district such as land acquisition, site development, public works improvements, and debt service on bonds to fund improvements within the district. By law, money in the tax increment financing district is pledged to be spent on bond obligations to directly pay eligible TIF expenses. According to the City of Chicago, since the start of the TIF program in 1984, the City has provided:


\(^{164}\) The full impact of TIF on overlapping governments requires a number of different caveats. First, the Transit TIFs have a completely different relationship with CPS: [https://www.cookcountyclerk.com/sites/default/files/pdfs/2017%20Transit%20TIF%20RPM1%20Fact%20Sheet_0.pdf](https://www.cookcountyclerk.com/sites/default/files/pdfs/2017%20Transit%20TIF%20RPM1%20Fact%20Sheet_0.pdf). Second, if an observer assumes that new construction within the TIF would have occurred even if the TIF did not exist, then it is possible that an overlapping government could have lost out on levying for that new property outside of the property tax cap. However, TIF dissolution brings both new construction and existing property growth back to the school district outside the tax cap, along with a boost in available tax revenue, some of which would not be available to the government without the TIF. See Civic Federation, Tax Increment Financing (TIF): A Civic Federation Issue Brief, November 12, 2007, [https://www.civicfed.org/civic-federation/publications/tax-increment-financing-tif-civic-federation-issue-brief](https://www.civicfed.org/civic-federation/publications/tax-increment-financing-tif-civic-federation-issue-brief).
• $1,360.0 million for school related projects;
• $377.0 million to the Chicago Park District for park and open space projects; and
• $931.0 million to the CTA for track and station renovation and related projects.¹⁶⁵

According to the terms of the TIF Act, if there is excess money in the fund annually after funds have been pledged, it is considered to be surplus. Surplus funds must be calculated annually and distributed to overlying taxing districts. The funds must be distributed on a proportional basis; they cannot be directed to a single or select group of overlying taxing districts.¹⁶⁶

On November 8, 2013, Mayor Emanuel signed an executive order making it an official practice to annually identify and declare a TIF surplus in districts that meet certain criteria. Under Executive Order No. 2013-3, the City declares a surplus in TIF districts that are older than three years, were not created for a single redevelopment project, do not support debt service costs on Modern Schools Across Chicago (MSAC) bonds, and have a balance of at least $1 million.¹⁶⁷ In addition to declaring an annual TIF surplus through the Executive Order, the Mayor froze new spending in downtown TIF districts in 2015 and terminated 17 TIF districts since 2011, actions that have generated additional surplus.¹⁶⁸ Finally, the Mayor has also committed to capturing the increased property taxes generated in the TIF districts from the four-year increase in the levy to

¹⁶⁶ 65 ILCS 5/11-74.4-7
fund the Police and Fire Pension Funds as TIF surplus.\textsuperscript{169} The following chart shows the annual TIF surpluses declared in Chicago between FY2009 and projected for FY2019.

\begin{center}
\begin{figure}
\centering
\includegraphics[width=\textwidth]{annual_tif_surplus_declaration_chicago.png}
\caption{Annual TIF Surplus Declaration by the City of Chicago: FY2009-FY2019 (in $ millions)\footnote{Source: City of Chicago, 2018 Annual Financial Analysis, p. 111 and City of Chicago; 2019 Budget Overview, p. 14.}}
\end{figure}
\end{center}

In FY2019 the City will declare a surplus in Tax Increment Financing (TIF) districts of $175 million and will receive $42 million as its share of the distribution of those funds. The City will use its share of funds in FY2019 to help address the City’s budget deficit. Approximately $97 million will be disbursed to the Chicago Public Schools (CPS) and the remainder to the other overlapping tax districts in FY2019. Since 2009 and including the proposed surplus for FY2019, the City will have declared a total of more than $1.2 billion in TIF surplus with approximately half going to Chicago Public Schools.\textsuperscript{170}

\textbf{Considerations for Tax Increment Surplus}

It is important to note that Mayor Emanuel’s Executive Order and principles for TIF surplus declaration have provided some rules and regularity to what had previously appeared to be an ad hoc process. Additionally, annual surplus funds have assisted other local governments in balancing their budgets.

However, repeatedly accumulating and declaring surplus in the TIF system also has a number of downsides. First, it can raise concerns that the TIF district does not need its revenue for

\textsuperscript{169} City of Chicago, FY2019 Budget Overview, p. 46.
\textsuperscript{170} City of Chicago FY2019 Budget Overview, p. 14.
redevelopment projects. Such a situation could indicate that either the district does not have achievable redevelopment goals and should be terminated or that it generates more revenue than is needed and some parcels should be released from the TIF district so that their EAV (taxable value) may be returned to the general tax base. Several other Cook County municipalities have successfully conducted such TIF “carve outs.”

Second, the purpose of TIF is not to temporarily reduce short-term financial pressures facing the City, Chicago Public Schools and other local governments. TIF districts do not have unlimited resources, and they are the major source of economic development funding for the City of Chicago. Spending that revenue elsewhere, regardless of “surplus” designation, necessarily reduces the City’s capacity to engage in economic development.

Finally, TIF surplus—whether or not it is declared annually and according to a policy—is not a sustainable, recurring revenue source for the City of Chicago or other governments for the reasons described above. Surplus distributions should not be used to close budgetary deficits, but instead should be directed to reserves or to nonrecurring expenses.

CIVIC FEDERATION RECOMMENDATIONS

This portion of the report presents structural and process reform recommendations that the Civic Federation has previously and continues to endorse in public statements, including annual analyses of the City of Chicago budget.

Reform the Practice of Aldermanic Privilege

Aldermanic privilege, also referred to as aldermanic prerogative, is a practice that grants individual aldermen in Chicago veto power over zoning, land use, permitting and development matters within their respective wards. Aldermanic privilege is not codified within the municipal code or within the City Council Rules of Order and Procedure. It is an unwritten practice that has existed in Chicago for many decades. In 1954 the Chicago Home Rule Commission observed that aldermanic privilege led to “allegations of political favoritism and of an uncoordinated system [whereby] changes…were made according to no plan or design.”171 The practice of aldermanic privilege continues simply because aldermen expect deference on issues that they deem important in their ward. This unfettered control has resulted in a number of aldermen being “sent to jail for taking bribes in exchange for influencing zoning changes or for the issuance of building permits.”172

The transparency surrounding zoning and development decisions has improved over the years with the introduction of local zoning advisory boards and public hearings on proposed zoning changes, but the ability of individual aldermen to block legislation affecting their ward continues and its relationship to past corruption continues to impact the trust resident have for elected officials.

171 Joseph P. Schwieterman and Dana M. Caspall, The Politics of Place: A History of Zoning in Chicago, p. 106
In an effort to limit the control aldermen have within their wards over affordable housing options, an ordinance was introduced in July 2018 that would limit aldermen’s ability to block affordable housing development within their wards. The ordinance was referred to the Committee on Housing and Real Estate where it currently remains. The issue of affordable housing and aldermanic privilege was brought to the forefront following the denial of a zoning change to allow for an affordable housing project that was initially approved by a local zoning advisory committee, the Department of Planning and Development and the Plan Commission, but was ultimately voted down by the Committee on Zoning, Landmarks and Building Standards. Thus, aldermanic control over projects causes uncertainty for developers and businesses.

While aldermen are the local representatives of their wards and should provide input on various matters related to their wards, there should be a transparent process established by the City Council and codified in the municipal code that continues to ensure aldermen and their constituents have an opportunity to provide input on zoning, development and other matters, but does not subject developers and businesses to an ad hoc and opaque approval process.

**Reform the Aldermanic Menu Program**

The Chicago Department of Transportation’s Aldermanic Menu Program, which is a subprogram of the Neighborhood Infrastructure Capital Improvement Program, allocates $1.32 million annually to each of the 50 aldermen in Chicago. The funds distributed to each alderman are meant to provide for capital improvements to repair and replace streets, sidewalks and alleys, street lighting and make other infrastructure improvements.

The City’s current process for allocating scarce funding for infrastructure projects causes serious systemic issues, which disproportionately affect certain parts of the City. In addition, the Aldermanic Menu Program does not follow Government Finance Officers Association (GFOA) best practices for multi-year capital planning. GFOA best practices for multi-year capital planning include four basic steps: identify needs; determine financial impacts; prioritize capital requests; and develop a comprehensive financial plan.

The Inspector General’s 2017 audit of the Aldermanic Menu Program concluded with the following findings:

- It underfunds residential infrastructure needs and results in significant funding disparities relative to need between wards;

---

173 City of Chicago, Ordinance 2018-6119.
174 See City of Chicago, Ordinance 2017-2220; Maya Dukmasova, *Chicago Reader*, “How’s Chicago supposed to desegregate when developments with affordable housing can be blocked by alderman on a whim?,” January 5, 2018; and Maya Dukmasova, “Lost battle on affordable housing means war on aldermanic prerogative will continue.,” June 26, 2018.
175 City of Chicago, Office of the Inspector General, Chicago Department of Transportation Aldermanic Menu Program Audit, April 2017.
From 2012 through 2015 the City permitted aldermen to designate $15.1 million of Menu funds for projects unrelated to core residential infrastructure; and

At least $825,292 was spent on projects falling outside the appropriate ward boundaries and project selection submission deadlines were not met.

Based on those findings, the City’s Inspector General issued the following recommendations related to the Aldermanic Menu Program:

- The City’s Department of Transportation (CDOT) infrastructure professionals should be responsible for analysis and decision-making regarding infrastructure and maintenance projects across the City. It should also follow best practices as it relates to multi-year capital planning and should include aldermanic input, but give CDOT the authority to make final decisions that are most cost-effective for the City;
- All funding should be allocated to core residential infrastructure projects and not diverted to parks, playgrounds, schools and other non-core infrastructure improvements; and
- If the City continues to allow aldermen the ability to select infrastructure projects, it should enforce uniform rules and regulations governing the program. This includes limiting projects to the alderman’s current ward boundaries and requiring aldermen to submit their projects within stated deadlines.

Best Practices for Debt Issuance

In April 2015 Mayor Emanuel addressed the Civic Federation Board of Directors detailing his plan to eliminate the costly practice of “scoop and toss” borrowing by 2019. The same month he announced the phase-out of the use of bond proceeds to fund routine legal settlements and judgments.

Scoop and toss debt financing reduces current year payments for outstanding bonds by pushing off large principal debt payments to future years. It provides budgetary relief in the beginning years as debt service expenses are reduced, but in the long-term it increases the total cost of borrowing. Essentially, it is a method of borrowing to pay for operations. Settlements and judgments are operational costs and should not burden future taxpayers.

The City’s Debt Management Policy was revised in 2016 to reflect the end of these practices. However, the phase-out was attained in part by a large bond issuance in January 2017 that included scoop and toss and a set aside for settlements and judgments sufficient to last the City for several years. In its proposed FY2018 budget, the City announced that it was able to end scoop and toss borrowing one year ahead of schedule.

The Civic Federation commends the City for eliminating scoop and toss and the use of bond proceeds for routine settlements and judgments, and for incorporating this prohibition into the City’s Debt Management Policy. The Civic Federation urges the next Mayor not to return to these costly practices in response to future financial pressures.

---

City Government Structural Reforms

**Make the City Clerk and Treasurer’s Offices Appointed Rather than Elected**

The Chicago City Clerk and Treasurer are both elected for four-year terms concurrently with the Mayor. State statute provides that clerk and treasurer positions in Illinois municipalities must be elected with the exception of municipalities with a population of less than 10,000. These smaller jurisdictions may adopt an ordinance to authorize the appointment of a treasurer. Vacancies in the offices of clerk or treasurer are filled by mayors with advice and consent of the city council.\(^\text{178}\)

The City Treasurer is the banker for the City of Chicago. The Treasurer’s Office receives all monies due to the City and keeps accounts of City funds, appropriations, debits and credits.\(^\text{179}\)

The City Clerk is the official custodian of City records and the City seal. The Office maintains and distributes information about City Council meeting notices and agendas, the City Council Journal of Proceedings, legislative information, City Council committee reports, the municipal code, claims against the City, aldermanic statements of financial interest and provides a web link to tax increment financing information posted by the Department of Housing and Economic Development. In addition, the Clerk’s Office also:

- Conducts community outreach to promote the City’s economic development programs;
- Serves as a resource to small businesses seeking funding; and
- Offers financial literacy programming for youth and adults.

**Arguments for Changing the Current Structure of the City Clerk and Treasurer’s Offices**

The following list outlines the reasons why the current structure of the City Clerk and Treasurer’s Offices should be changed:

1. Over time the Clerk’s Office has acquired responsibilities that are not directly related to the core functions of the position. The Office is primarily a recordkeeping agency, but it also collects certain license fees, provides information to consumers and is now responsible for the administration of the City’s municipal identification program *CityKey*. These activities

\(^{178}\) 65 ILCS 5/3.1-20-5.

\(^{179}\) Pursuant to Municipal Code (2-32-060) revenue policies, the City Treasurer receives all monies belonging to the City. At the end of each month, the City Treasurer issues a sworn statement to the Comptroller showing the state of the treasury at the date of such account and the balance of the money in the treasury. Pursuant to the City’s Municipal Code (2-32-010, 2-32-03), the Department of Finance provides core fiscal functions and manages the disbursement of City funds. The City Comptroller is the fiscal agent of the City and exercises general supervision over all City officers charged with the receipt, collection or disbursement of City revenues and all funds required to be in the custody of the City Treasurer.
have little to do with the traditional functions of a clerk’s office. The Treasurer also has acquired a number of responsibilities not directly related to investing funds or maintaining accounts. These include programs of community outreach, public education and funding for small businesses.

2. The Clerk and Treasurer are elective rather than appointive offices. The rationale for requiring an elected rather than an appointed official to head certain offices is that they are policy-making agencies. Making policy is political in nature and requires a large degree of discretion on the part of the relevant official. In a democratic society, policies should be subject to a review by the general public through the electoral process. However, the Chicago Clerk and Treasurer’s offices are ministerial in nature, focusing on administrative rather than policy issues. Their functions involve applying procedures or regulations as prescribed by law. Other key ministerial offices in the City government, such as the Comptroller, are appointed. The idea of appointing rather than electing municipal clerks and treasurers has been discussed for a long time in Illinois. Legislation was unsuccessfully proposed in the 57th General Assembly during the 1931-1932 biennium to allow the City Council to appoint the Clerk and Treasurer. As noted above, current state statute allows small municipalities to appoint the treasurer.

There may be cost savings from appointing municipal treasurers. A working paper for the National Bureau of Economic Research found that appointive treasurers in California cities reduce a city’s cost of borrowing by 13% to 23%. The paper concluded that in California appointed city treasurers tend to have higher levels of financial expertise and are able to reduce borrowing costs primarily through the refinancing of expensive debt at lower interest rates.

3. Both the Chicago Office of the Treasurer and the Finance Department have fiscal functions. The Treasurer is the City’s banker while the Chicago Finance Department manages all city fiscal matters, including the supervision of all officials charged with the receipt, collection and disbursement of city revenues as well as city funds in the custody of the city Treasurer. Specific Finance Department responsibilities include cash flow and debt management, processing vendor payments and payroll, maintaining official financial records and preparing financial reports, the administration of employee and annuitant benefit programs and risk management oversight. The office is headed by a Comptroller appointed by the Mayor.

The argument for an independent Treasurer’s Office is to help ensure that public monies will be managed independently of the influences of other officials. In essence, the independent official provides a check on possible wrongdoing or inefficiency resulting from the actions of

---

183 City of Chicago Code: 2-32-030 Comptroller Duties as Fiscal Agent.
other elected officials. The Civic Federation finds this argument unpersuasive. There is little evidence that the City Treasurer acts as a check on other officials and there are safeguards in place to prevent fraud and abuse such as the external audit process and the investigative authority of the City Inspector General’s Office and the U.S. Attorney’s Office. In addition, modern technology makes it easier to track funds and prevent misconduct.

Several municipalities have combined finance-related functions, including DeKalb, Illinois and Seattle, Washington. The argument for consolidating debt management (Finance Department) and investment (Treasurer’s Office) in the same department is that it permits governments to better align assets with liabilities so that it is easier to effectively leverage and manage financial risk. It can also increase the efficiency and effectiveness of financial operations and facilitate financial decision-making.

**Reduce the Size of the City Council**

Chicago has one of the largest city councils in the U.S. As the exhibit below shows, Chicago’s City Council is the second largest of the 15 largest American cities, with its size exceeded only by New York’s 51-member legislative body. The average council size for these top 15 municipalities is 18 members. In Chicago, there is one alderman per roughly 54,000 residents as compared to one council member per 160,297 New York residents and one council member per 252,841 Los Angeles residents. Only Jacksonville and Indianapolis have smaller council per

---

185 See Municipal Code - City of DeKalb Chapter 54, “Financial Administration,” A Seattle City Charter Amendment passed by the voters in 1991 eliminated the elective offices of Comptroller and Treasurer and combined the duties in a Department of Finance, [http://www.seattle.gov/cityarchives/Facts/comptroller.htm](http://www.seattle.gov/cityarchives/Facts/comptroller.htm). Subsequently, Seattle began a reorganization that created a new Department of Finance and Administrative Services to combine the functions from the former Fleets and Facilities Department and the former Department of Executive Administration with the revenue forecasting, debt management and tax policy functions that were previously performed by the former Department of Finance, [http://www.seattle.gov/fas/](http://www.seattle.gov/fas/).

186 Controller of the City of Los Angeles, *Follow-Up of Management Audit: City of Los Angeles Office of the Treasurer*, February 15, 2011. The audit recommended consolidation of all City treasury and revenue functions in one office to increase efficiency and reduce costs.
capita ratios. The FY2019 budget recommended a $21.4 million appropriation for City Council expenses. 187

A large council tends to focus more on constituent services and localized interests than on functioning as a legislative body that emphasizes policymaking and oversight. 188 Smaller bodies are more focused on traditional legislative functions. If most of the populous cities in the nation can operate successfully with smaller councils, it is difficult to understand why Chicago should be such an outlier.

The Chicago City Council’s size has been reduced over time. The Bureau of Public Efficiency, a nonpartisan government research organization which merged with the Civic Federation in 1932, proposed that the Chicago City Council be reduced from 70 to 50 members in 1919. Legislation permitting the change was approved by the General Assembly and submitted to the public for a referendum. The referendum failed, but was resubmitted and finally approved in 1923. 189

If the Council were reduced by half from 50 to 25 members, the population of Chicago wards would increase from approximately 54,000 to 108,000, which is much closer to the average council district population of 112,000 of major U.S. cities. This would help the shift from an “ombudsman” type of body to one that functions as a legislative partner to the executive branch. There could be some cost savings with a reduced Council. A 25% reduction in costs for the Council in FY2019 would equal approximately $5.4 million in savings. This would be a good first step, but the City should still work to find additional savings in Council operations in future years.

Conduct a Cost of Services Study

As the City explores alternative ways to deliver services more efficiently and effectively, it is essential to account for the full cost per unit of services currently provided in order to evaluate alternatives. The GFOA points to other important uses for data on the cost of government services including performance measurement and benchmarking, setting user fees and charges, privatization, competition initiatives or “managed competition” and activity-based costing and activity-based management. The GFOA states that the full cost of service includes all direct and indirect costs related to the service. Examples of direct costs include salaries, wages and benefits of employees, materials and supplies, associated operating costs such as utilities and rent, training and travel; and costs that may not be fully funded in the current period such as compensated absences, interest expense, depreciation or use, allowance and pensions. Indirect costs encompass shared administrative expenses within the work unit as well as support functions outside of the work unit (human resources, legal, finance, etc.).

In order for the City to properly evaluate the most efficient and effective way to deliver services as well as the setting of fees and charges intended to recover all or a portion of the cost of delivering those services, the City should conduct a cost of services study that follows best practices established by the GFOA and National Advisory Council on State and Local Budgeting.

Develop a Comprehensive Land Use Plan

The 77 different neighborhoods across the 50 aldermanic wards within Chicago vary greatly in terms of access to quality housing, jobs, schools, transportation, recreation and crime, among others. Furthermore the city’s population is in decline and it faces enormous financial challenges. These pressing issues did not happen by chance and will not be reversed by chance or one-off developments and headquarter relocations that have occurred in recent years. In order for Chicago to forge a prosperous path for all 77 neighborhoods moving forward, it must develop a comprehensive land use plan that takes into account the needs of current and future residents.

Chicago is the birthplace of modern day planning and is home to the American Planning Association, the Chicago Metropolitan Agency for Planning (CMAP), world class universities and some of the most renowned private planning and consulting firms in the world. Previous planning efforts have provided Chicago with miles of lakefront beaches, the forest preserves, Navy Pier, a thriving central business district and a number of other cultural assets that would not have otherwise been possible if they were not part of a larger plan for Chicago and the region. However, Chicago does not have a coherent and comprehensive long-range plan to guide the future growth and development of the City. In fact, it has not had a comprehensive land use plan since 1966.

A comprehensive plan is a long-term plan that guides a community’s growth and development over a 10 to 20 year period. The plan should be flexible and adaptive in nature to allow for revisions over time to meet the needs of the community and should include plans and recommendations to reach the desired vision of the community.

---

A comprehensive plan is composed of a series of distinct yet interrelated elements, as defined within the Illinois Local Planning Assistance Act (Public Act 92-0768). In summary, at a minimum the elements that must be addressed in a comprehensive plan include:\footnote{191 For a complete explanation of what each element in a comprehensive plan is see Public Act 92-0768.}

- Issues and opportunities;
- Land use and natural resources;
- Transportation;
- Community facilities;
- Telecommunications infrastructure;
- Housing;
- Economic development;
- Natural resources; and
- Public participation.

The comprehensive plan is not required to, but should also address:

- Natural hazards;
- Agriculture and forest preservation;
- Human services;
- Community design;
- Historic preservation; and
- The adoption of subplans as needed.

An added benefit of adopting a comprehensive plan by a local government in Illinois is that the local government may be eligible to receive greater preferences in terms of State of Illinois economic development, transportation, planning, natural resource and agricultural programs.\footnote{192 State of Illinois, Public Act 92-0768.}

Under the Illinois Municipal Code (65 ILCS 5/11-12-5(1)), a municipal plan commission is responsible for preparing and recommending a “comprehensive plan for the present and future development or redevelopment of the municipality.” Although the City of Chicago has had some form of a plan commission since 1909, it has not produced a comprehensive plan for City Council approval in over 50 years.

The chart below lists Chicago and selected peer cities and whether they have a comprehensive plan, when one was last adopted and whether or not the respective state requires a comprehensive plan be adopted. As the chart illustrates, the City of Chicago and New York City are the only two major U.S. cities that lack a comprehensive plan. The last comprehensive plan
the City of Chicago produced was in 1966. The City of New York has never adopted a comprehensive plan.  

Develop a Formal Long-Term Financial Plan for City Operations and Pension Funds

The City faces significant increases to pension contributions and debt service payments in coming years. Having a long-term financial plan in place allows governments to better forecast revenues and expenditures by making assumptions about economic conditions, future spending scenarios and other changes and would allow the City to articulate how it plans to overcome its future fiscal challenges.

The City of Chicago’s four pension funds combined have nearly $28 billion in unfunded pension liabilities. The City has already implemented $543 million in property tax increases, and raised approximately $174.1 million through the new water and sewer utility tax and approximately $147.1 million from the 911 surcharge on telephones, which frees up corporate fund revenue to fund pension contributions to the Laborers’ Fund. The $543 million in property tax increases the City has already implemented to help it address these liabilities, while necessary, will not resolve the City of Chicago’s financial challenges alone. The City still faces enormous debt obligations and will face ongoing difficulty in funding its large pension obligations, particularly once the “ramps” are over and the City must fund at an actuarially calculated amount. While these tax increases will help move the City of Chicago closer to financial stability, much more will need to be done in the future and the next Mayor and City Council will need to make difficult decisions, including additional budgetary cuts, savings and possibly more revenue.

The City’s Annual Financial Analysis (AFA), which was first released by the Emanuel Administration prior to development of the City’s FY2012 budget and has been released

---


194 While the City projects that it will generate $174.1 million from the water and sewer utility tax in FY2019, $50 million will not be used to make the FY2019 pension contribution, but rather will be set aside in escrow to help make future years’ contributions. City of Chicago, FY2019 Budget Overview, p. 40.
annually since then, serves as an important step toward the development of a formal long-term financial plan. The AFA provides useful information about the City’s past revenue and expenditure trends and future revenue and expenditure projections within the Corporate Fund, or the City’s general operating fund. However, while the AFA reports are an important part of long-term financial planning, they are limited by the fact that they only provide three years of future projections and they fail to identify possible actions and scenarios to address fiscal challenges.

The Civic Federation recommends that the next Mayor consider undertaking a more comprehensive long-term financial planning process like that of Baltimore and Minneapolis, both of which are described below. This would benefit all City stakeholders by identifying solutions to address the City’s future pension funding needs. However, doing so would require significant investment of time, staff and financial resources.

The City’s long-term financial planning process should include the following steps:

- First, the Mayor’s administration would articulate fiscal and programmatic goals and priorities informed by public input;
- The Mayor’s administration would evaluate financial and service data in order to determine how to accomplish the goals and priorities. Strategy development should incorporate the City’s existing departmental business and strategic plans as well as analyses and recommendations from the Office of the Inspector General, which often identify wasteful practices and recommend opportunities for better efficiency and cost savings;
- With input from representatives of all major City service areas, business and nonprofit leaders, residents and City Council members, the City would produce a long-term financial plan that includes the City’s financial policies, a financial condition analysis with 10 years of historical trend information, multi-year financial forecasts, a reserve analysis, an evaluation of debt and capital obligations and a series of action recommendations;
- The insights derived from the Long-Term Financial Plan would directly inform the development of a balanced and fiscally sustainable annual budget. The budget should then be regularly monitored through regular financial reports; and
- The Office of Management and Budget should present its quarterly financial updates at a public meeting so that the City Council can monitor financial performance throughout the year and adjust the long-term financial plan accordingly. The quarterly updates would help flag any foreseeable shortfalls and allow the Mayor’s administration to receive feedback from City Council.

At the very least, in the absence of implementation of a full long-term financial planning process, the Annual Financial Analysis should be expanded to include:

- A description of financial policies, service level targets and financial goals. Each policy should be reviewed using relevant forecasting data to determine if the policy is being followed, if the policy should be amended and if new policies should be added;
• A scorecard or rating of the financial indicators as part of the financial analysis that assesses whether the trend is favorable, warrants caution, is a warning sign of potential problems or is unfavorable;

• Possible strategies, actions and scenarios needed to address financial imbalances and other long-term issues, such as a discussion of the long-term implications of continuing or ending existing programs or adding new ones. These actions should include information on fiscal impact and ease of implementation; and

• Holding a public hearing on the Annual Financial Analysis for decision makers, the public and other stakeholders to provide meaningful input on a long-term financial strategy to address the City’s financial challenges.

Examples of Long-Term Financial Planning Practices in Other Cities

The Civic Federation provides the City of Chicago with the following examples of long-term financial planning elements utilized by the cities of Baltimore and Minneapolis that may be worth consideration for strengthening Chicago’s Annual Financial Analysis and financial planning process.

Baltimore

The City of Baltimore undertook a comprehensive long-term financial planning process to address ongoing structural budget shortfalls that resulted in severe spending cuts and tax increases as well as population loss.195 The Mayor and the City’s Budget Director led a long-term financial planning process that identified the root causes of the City’s financial challenges and took a multi-year look at resource needs and revenue projections, leading to a commitment to a long-term strategy to grow the City’s economy.196

The Mayor and the finance team focused on a ten year horizon in order to address the significant challenges of a declining population, stagnant tax base, deteriorating capital infrastructure and growing pension liabilities, which they knew could not be solved by looking at a five-year window.197

Ten-Year Financial Plan: The City of Baltimore worked with a consulting firm to create a ten-year plan called Change to Grow.198 A Ten-Year Financial Plan Background Report199 provided the data and analysis behind Change to Grow, including an analysis of Baltimore’s economic position, ten-year budget projections, scenario analysis, an in-depth description of the City’s key challenges (structural budget balance, tax competitiveness, infrastructure investment and

---

addressing long-term liabilities) and potential options the City could use address the key challenges.

**Scenario Analysis:** Baltimore presented three different scenarios in a visual format in its ten-year budget projections – a baseline, pessimistic and optimistic scenario – to demonstrate that the City still faced a budget deficit under all three scenarios without corrective action. The scenario analysis provided a launching point for the financial planning process and discussion about financial strategies, leading to implementation of the ten-year plan.

**Collaboration:** The ten-year financial planning process was led by the City’s Finance Department and Bureau of Budget and Management Research, supported by the consulting firm Public Financial Management, Inc., and involved the City Council, City department and division managers and members of the public. The strategy included the creation of three Guidance Committees one to focus on pensions, one on employee health benefits and one on the ten-year plan as a whole. The Guidance Committees, City administration, City Council, civic representatives and numerous stakeholders helped inform the planning process. Meetings with stakeholders included community and nonprofit leaders, regional and city business community representatives, City employee union leadership and neighborhood participants in a budget workshop.

**Communication:** Communicating to stakeholders and to the City at large the long-term effects of Baltimore’s financial challenges was key to Change to Grow’s success. The City used three different forecasts to demonstrate the potential scenarios that could occur, depending on the economy. The scenarios were developed by a consultant, which added to the objectivity of the forecast. The mayor made a presentation on the long-term plan and used the plan as a tool to bring about change. The long-term forecasts helped portray a financial crisis that outsiders knew generally to be a problem, but of which they may not have fully understood the severity and potential effects over time.

**Strategies:** Change to Grow presented actionable strategies and initiatives to address the City’s severe financial challenges. Through the planning process, the City identified four key areas on which to focus – structural budget balance, tax competitiveness, infrastructure investment and long-term liabilities – and changes the City would make to address those key areas. For example, to address the challenge of a structural budget balance, the City identified several strategies, some of which included: improving purchasing and contract management; reducing the size of

---


and modernizing the City’s vehicle fleet; consolidating real estate; investing in new technology to achieve cost savings; and streamlining the number of full-time positions.  

*Progress Tracking:* Baltimore has a Ten-Year Financial Plan initiative tracker on its website that tracks progress on the initiatives included in the Change to Grow plan.  

*Fiscal Report Card:* Part of Baltimore’s Ten-Year Financial Plan involves tracking several financial indicators over time on a fiscal report card including its budget stabilization reserve (rainy day fund), general fund balance, debt ratio and unfunded liabilities.

**Minneapolis**

The City of Minneapolis serves as another model in long-term financial planning. Minneapolis’ financial planning process involves several key elements such as a performance-based budgeting process, a commitment to transparency through an open data initiative, and quality communication of financial planning, described below.

*Policies:* The City’s most recent budget policies include a policy to prepare a five-year financial forecast. The City also maintains public participation policies that promote a well-informed community and encourage public input in the decision-making process. One is a policy to make budget and financial statements available to residents in various formats; the other is to use various methods to ensure public input in the budgeting process such as informational hearings, surveys, resident-based review committees and community meetings.

*Integrated Plans:* The City of Minneapolis’ budgeting calendar and information provided in the budget explain clearly how the City’s budgeting process incorporates strategic and business planning, capital long-range planning, and departmental performance measurement review. The City uses long-term financial planning to provide departments with a five-year estimate of their budgets, which the departments then use to create a five-year business plan. The strategic plan is tightly linked with the budgeting process, as described in the Strategic Planning section of the budget. The department business plans are developed based on citywide strategic vision and goals and with the direction of the projections of financial resources over a four year period.

---

209 http://www.ci.minneapolis.mn.us/council/about/WCMS1Q-074458 (last accessed March 6, 2019).
These business plans communicate the future direction of each department, and performance measurement helps assess whether current strategies are yielding expected results.\textsuperscript{212}

\textit{Program Budgeting:} Minneapolis moved from traditional incremental budgeting to program budgeting in 2012, which allows the City to direct resources to programs that provide the greatest value, help explain why a program exists, and funds activities by service function rather than department.\textsuperscript{213} City departments prepare business plans based on the City’s strategic goals with a rolling five-year planning horizon which reflect the anticipated allocation of general City revenues, including property tax and state aid revenue, as well as special revenues other than grant funds. This financial direction is based upon the City’s shared revenue distribution policy which aligns the revenue growth of City departments and independent boards. The financial direction is updated annually with each budget release. City departments update their major financial projections prior to their final submission to the Mayor and Council.\textsuperscript{214}

\textit{Financial Transparency:} The City of Minneapolis recently launched a Financial Transparency Platform on the City’s open data website.\textsuperscript{215} The Financial Transparency site provides a user-friendly, interactive tool that allows the public to explore financial data online in various graphical formats.\textsuperscript{216} The Platform allows users to view trends across several years and manipulate graphs to view various types of expenditure and revenue breakdowns in different formats such as bar and line graphs and pie charts.

\textit{Financial Plan:} The City of Minneapolis produces a Five-Year Financial Direction that provides projections for the City’s General Fund, pensions, capital and debt. The purpose of this financial plan is to provide guidance for decision making on available planned resources in the City’s General Fund. The City uses the financial projections for the next fiscal year as the basis of the next year’s budget. The financial plan includes the following:

- Historical performance of general fund balance;
- Discussion of future funding to meet capital goals and pension funding obligations;
- Description of pressures affecting the City’s future planning efforts that will require policy decisions;
- Assumptions on which the five-year projections are based;
- General Fund revenue projections; and
- Projections within each of the City’s special funds and enterprise funds.

\textsuperscript{212} City of Minneapolis 2017 Council Adopted Budget, Strategic Planning Section, p. 81, \url{http://www.ci.minneapolis.mn.us/www/groups/public/@finance/documents/webcontent/wcmsp-192483.pdf} (last accessed March 6, 2019).
\textsuperscript{213} Minneapolis Financial Management web page, \url{http://www.ci.minneapolis.mn.us/council/about/WCMS1Q-074458} (last accessed March 6, 2019).
\textsuperscript{214} City of Minneapolis 2017 Council Adopted Budget, Financial Policies Section, p. 85.
\textsuperscript{215} The Minneapolis Financial Transparency site, \url{https://minneapolismn.opengov.com}.
\textsuperscript{216} More information is available at \url{http://www.minneapolismn.gov/finance/transparency}.
Improve Transparency of Securitized Debt Issuance

Since late 2017, the City of Chicago has issued $2.6 billion of debt under a new credit structure called the Sales Tax Securitization Corporation (STSC). The STSC is a special purpose nonprofit corporation that is a blended component unit of the City. The year-old entity is a lockbox designed to intercept sales tax revenue in order protect bondholders in the event of a bankruptcy, which is not currently available to municipalities under Illinois law. The purpose of issuing debt under the STSC is to save on interest cost over the City’s other credit structures, including its junk-rated General Obligation credit.

The City Council created the STSC in October 2017 after legislation was passed by the Illinois General Assembly allowing all home rule municipalities to create a special purpose corporation for issuing bonds paid for from revenues collected by the State (including the sales tax). The majority of sales tax revenues are now directed to the STSC and are first used to pay for debt service and the STSC’s operating expenses. After debt service requirements are satisfied, the City receives the remaining sales tax revenues. The assignment of sales tax revenues to the STSC will continue until there are no secured obligations outstanding for the STSC.

Total sales tax revenue generated through the STSC is expected to be $576.6 million in FY2019. City-collected sales tax revenues are not diverted to the STSC, including the use tax on non-titled personal property, the restaurant tax and the private vehicle use tax.

Both Fitch and Kroll have given the STSC AAA ratings. While S&P initially assigned the STSC a AA rating, on October 26, 2018 it downgraded the entity to AA-, saying that the rating is constrained until the City’s General Obligation credit improves. Additionally, since sales taxes are collected and distributed by the State the new entity may still be affected by investor perceptions of Illinois.

Nevertheless, the STSC has issued debt at a substantially lower interest cost than the City’s General Obligation bonds. The four transactions have refunded all $563.4 million of the City’s outstanding sales tax-backed bonds and $2.1 billion of General Obligation bonds. The deals have achieved a total of $146.7 million in net present value savings over the refunded debt.

219 City of Chicago 2018 Annual Financial Analysis, p. 44.
221 City of Chicago FY2019 Budget Overview, p. 178.
222 City of Chicago FY2019 Budget Overview, p. 28.
226 Communication between the Civic Federation and the City of Chicago, March 1, 2019.
In December 2018 the Emanuel administration proposed an ordinance to create second securitized debt structure, the Dedicated Tax Securitization Corporation (DTSC).\textsuperscript{227} The new entity would securitize revenues collected by the State of Illinois other than sales taxes. The Emanuel Administration proposed using the DTSC to issue pension obligation bonds to increase the funded levels of the City’s four pension systems.

The Civic Federation is encouraged that the City has found a creative way to manage the cost of its high debt burden. However, the City should carefully explain to the public the long-term risks associated with securitizing large portions of its revenue sources. These include the impact on flexibility of revenue and the implications of prioritizing bondholders over taxpayers, employees and pensioners in the event of an economic downturn.

\textbf{Improve the City’s Capital Improvement Plan}

The City of Chicago has released a FY2018-2022 Capital Improvement Plan (CIP).\textsuperscript{228} The CIP provides a plan for five years of capital programming. The purpose of a CIP is to establish priorities that balance capital needs with available resources, pair capital projects with funding sources, help ensure orderly repair and maintenance of capital assets and provide an estimate of the size and timing of future debt issuance. The first year of a CIP is the capital budget for that fiscal year. Developing a CIP is an important financial accountability measure because capital projects are costly and must be paid for over a number of years that the funds are borrowed.

Chicago’s FY2018-FY2022 CIP proposes $8.7 billion in planned projects. Of that amount:

\begin{itemize}
  \item Water and sewer bonds will fund $3.2 billion, or 36.8\%, of total capital spending;
  \item Aviation debt will provide $2.7 billion, or 31.3\% of all capital funding;
  \item City issued general obligation bonds will be used for $873.8 million, or 10.1\%, of all projects;
  \item Federal funds will be used to finance $729.5 or 8.4\% million in projects;
  \item City and other funds, derived from various fees and resources, will account for $294.4 million, or 3.4\%, of all five-year CIP spending; and
\end{itemize}

\textsuperscript{227} Ordinance for the Implementation of Pension Fund Stabilization Bonds, O2018-9961, December 12, 2018.
\textsuperscript{228} The FY2018-FY2022 Capital Improvement Plan is available on the City’s website, https://www.cityofchicago.org/content/dam/city/depts/obm/supp_info/CIP_Archive/2018-2022%20CIP%20Book.pdf
Additional amounts will be derived from the State of Illinois and tax increment financing districts.

The next exhibit shows the distribution of Chicago FY2018-FY2022 CIP funds by program. The largest component of the capital program will be nearly $3.2 billion for sewer and water infrastructure construction and rehabilitation. Aviation projects will total nearly $2.7 billion, or 31.4% of all funding. The next largest capital program will be for infrastructure, which will total
approximately $2.5 billion, or 28.9% of funding. Smaller amounts will be used for facilities and greening projects.

The following exhibit evaluates the City of Chicago’s CIP format based on best practice guidelines from the National Advisory Council on State and Local Budgeting, the Government Finance Officers Association and Civic Federation budget analyses of local government budgets. This review is based on the FY2018-FY2022 capital improvement program posted online on the City’s website. The CIP includes a summary list of projects, expenditures per project, funding sources and the time frame for completing projects. It is made available for public inspection on the City’s website. However, the plan does not include a narrative description of the CIP process or individual projects. There is no discussion of how capital needs are determined or how they are prioritized. There is no discussion of the capital plan’s impact on the operating budget. There appear to be few opportunities for stakeholders to provide input into the CIP process. While aldermen do have authority over the distribution of specific aldermanic menu projects in their wards, they do not formally approve the CIP.

229 See National Advisory Council on State and Local Budgeting Recommended Practice 9.6: Develop a Capital Improvement Plan, the Government Finance Officers Association and Civic Federation Budget Analyses of Local Government Budget – various years.
# City of Chicago Capital Improvement Program Checklist

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does the government prepare a formal capital improvement plan?</td>
<td>Yes</td>
</tr>
<tr>
<td>How often is the CIP updated?</td>
<td>Annually</td>
</tr>
<tr>
<td>Does the capital improvement plan include:</td>
<td></td>
</tr>
<tr>
<td>• A narrative description of the CIP process?</td>
<td>No</td>
</tr>
<tr>
<td>• A five year summary list of projects and expenditures by project that includes funding sources for each project?</td>
<td>Yes</td>
</tr>
<tr>
<td>• Information about the impact and amount of capital spending on the annual operating budget for each project?</td>
<td>No</td>
</tr>
<tr>
<td>• Brief narrative descriptions of individual projects, including the purpose, need, history and current status of each project?</td>
<td>No, but there is an overview of planned projects</td>
</tr>
<tr>
<td>• The time frame for fulfilling capital projects?</td>
<td>Yes</td>
</tr>
<tr>
<td>Are projects ranked and/or selected according to a formal prioritization or needs assessment process?</td>
<td>Not in the CIP</td>
</tr>
<tr>
<td>Is the capital improvement plan made publicly available for review by elected officials and citizens?</td>
<td>It is published in a separate document.</td>
</tr>
<tr>
<td>• Is the CIP published in the budget or a separate document?</td>
<td>Yes231</td>
</tr>
<tr>
<td>• Is the CIP available on the Web?</td>
<td></td>
</tr>
<tr>
<td>Are there opportunities for stakeholders to provide input into the CIP?</td>
<td></td>
</tr>
<tr>
<td>• Is there stakeholder participation on a CIP advisory or priority setting committee?</td>
<td>Unclear</td>
</tr>
<tr>
<td>• Does the governing body hold a formal public hearing at which stakeholders may testify?</td>
<td>No</td>
</tr>
<tr>
<td>• Is the public permitted at least ten working days to review the CIP prior to a public hearing?</td>
<td>Unclear</td>
</tr>
<tr>
<td>Is the CIP formally approved by the governing body of the government?</td>
<td>No</td>
</tr>
<tr>
<td>Is the CIP integrated into a long term financial plan?</td>
<td>Unclear</td>
</tr>
</tbody>
</table>

---

**Recommendation to Improve the City’s Capital Improvement Plan**

The Civic Federation has long advocated that the City of Chicago implement a capital improvement plan based on best practices. This would require increasing the transparency of Chicago’s CIP and enhancing public and City Council participation in the CIP process. Improving the CIP process would require:

- Including short narrative descriptions of individual projects, including the purpose, need, history and current status of each project;
- Requiring the City Council to hold a formal public hearing at which stakeholders could testify;
- Allowing the public to have at least ten working days to review the CIP prior to a public hearing;
- Having the City Council formally approving the CIP; and
- Integrating the CIP into a long term financial plan.

**Annually Reassess the Garbage Collection Fee**

As part of the FY2016 budget approval process the City of Chicago for the first time imposed a waste removal fee of $9.50 per month on 600,000 residents currently receiving waste removal services provided by City of Chicago employees. The $9.50 fee on certain households is estimated to generate $61.2 million in FY2019. The City of Chicago estimated that it will spend $230.9 million on residential solid waste removal services in FY2018. However, a City of Chicago Inspector General report issued June 21, 2018 states that the City overestimated the cost of providing those services by approximately $45.2 million. Even with the overestimation in expenses tied to garbage collection, the residents receiving the service are not paying the true cost.

According to the U.S. Census Bureau, in fiscal year 2012 solid waste revenues ranged from 4.0% of waste removal expenses in Houston to more than 95% of expenses in Dallas, Los Angeles, Phoenix, San Antonio, San Diego and San Jose. The $9.50 fee imposed by the City of Chicago for waste removal services will only cover approximately 33% of the costs associated with the delivery of municipal waste services. Therefore, the remaining 67% must be paid for by other sources of revenue within the budget.

Although the City committed itself to not increasing the $9.50 monthly fee until after 2019, the Civic Federation recommends that the City annually evaluate the fee as part of the budget approval process because the fee is tied directly to a service being provided and could free up revenue that can be used to cover increased pension contributions or a number of other pressing financial issues facing the City.

---

232 Information provided by City of Chicago budget staff, November 7, 2017.
Include Finance General Costs in City Department Budgets

The City does not include all direct costs in departmental budgets including all employee benefits, pensions, facilities expenses and liability expenses. Finance General costs, which are currently measured by fund only, ideally should be accounted by department to show the full cost of services. Indirect costs such as support function expenses (human resources, legal, finance) should also be calculated and made available in the budget. The GFOA recommends that such shared costs be apportioned by a systematic and rational allocation methodology and that the methodology be disclosed.234

Currently, the City typically budgets the following categories of appropriations for City Departments:

- Personnel Services;
- Contractual Services;
- Travel;
- Commodities and Materials; and
- Specific Items and Contingencies.

The Personnel Services category of expenditures within operating departments only includes expenses related to salaries. Specifically it includes line item expenditures such as salaries and wages, salary adjustments and savings from unpaid time off. It does not include any fringe benefits or pensions. The City has a separate cost center for each fund called “Finance General” where a variety of costs are lumped together including the following items:

- Health Maintenance Premiums;
- Claims and Administration for Hospital and Medical Care;
- Term Life Insurance;
- Claims and Costs of Administration for Worker’s Compensation; and
- Unemployment Insurance.

Corporate Fund personnel services included in Finance General are budgeted at $395.5 million for FY2019.235 In addition, the general financing cost center includes Medicare and Social Security Taxes, Professional Services for Information Technology Maintenance and reimbursements and subsidies to other funds.

Require Livestreaming of City Council Committee Meetings

Unlike other major governments in the Chicago region, such as Cook County and the Metropolitan Water Reclamation District, the City of Chicago does not broadcast its committee meetings or annual departmental budget hearings online. Broadcasting committee meetings online improves the transparency of operations and the accountability of its members and staff to the public.

The City of Chicago serves nearly 2.7 million people in 77 communities that cover approximately 228 square miles. The sheer size of the service area and the number of people the City serves can make it very difficult for many interested parties to attend the meetings in person. The livestreaming and archiving of all meetings would therefore help the City reach more of its constituents and improve the transparency and accountability of the elected and appointed officials.

The following chart identifies other major local governments in Chicago that livestream board and committee meetings.

<table>
<thead>
<tr>
<th>Government</th>
<th>Livestream Full Board Meetings</th>
<th>Livestream Committee Meetings</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of Chicago</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Chicago Public Schools</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Chicago Transit Authority</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Chicago Park District</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Cook County</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Cook County Health*</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Cook County Forest Preserve District</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Metropolitan Water Reclamation District</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

*Cook County Health and Hospitals System changed its name to Cook County Health in October 2018.


Strengthen the City Council’s Office on Financial Analysis (COFA)

The Council Office of Financial Analysis (COFA) was established in 2014 to provide financial information to the City Council independent of the Mayor’s Office of Budget and Management. Among COFA’s several powers and duties, the Office is authorized to produce an annual budget options report of potential cost saving reforms and efficiencies, a financial analysis of the Mayor’s proposed budget, a review of the Annual Financial Analysis and a summary and analysis of the City’s annual financial audit. COFA is also responsible for producing an annual report on the Office’s activities. These reports are not made public.

COFA’s duties and powers were expanded in May of 2018 to include fiscal impact statements for all ordinances that would increase or decrease annual appropriations and ordinances involving the sale or lease of assets with revenue greater than $15 million. Another proposed ordinance introduced in January 2019 would further expand the City Council’s authority over COFA by allowing any member of the City Council to request analyses from COFA, by allowing any City Council member to request an expedited fiscal impact statement without the approval of the Chairman of the Committee on Budget and Government Operations and by giving the COFA

238 City of Chicago Substitute Ordinance 2017-7866.
Oversight Committee\(^{239}\) sole authority of oversight and management over COFA.\(^{240}\) COFA was allocated a budget of $309,376 in FY2019, including $282,216 for salaries for four staff members.\(^{241}\)

By comparison, New York City has an Independent Budget Office that provides nonpartisan information about the City’s budget and finances including an independent revenue and expenditure forecast and an analysis of the Mayor’s Preliminary Budget and Executive Budget. The Independent Budget Office also publishes an annual list of “Budget Options,” which are savings and revenue-generating options and include an estimate of fiscal impact and arguments that proponents and opponents might make for or against each budget option. The Independent Budget Office produces numerous reports and posts all of its reports on its website.\(^{242}\) While the Independent Budget Office has a much larger budget than COFA at $5.5 million and staff of 38,\(^{243}\) it is an example of an established and well-utilized independent office for financial analysis.

Expanding the Council Office of Financial Analysis to include fiscal impact statements was a positive step. The Civic Federation also supports the recently introduced effort to expand the authority of the City Council to request analyses and the authority of the Oversight Committee over COFA. However, there are other ways COFA can be strengthened, both in utilization and transparency, using New York City’s Independent Budget Office as a model.

First, the Council Office of Financial Analysis should have its powers and duties expanded to include analysis of any financial transaction undertaken by the City, including an analysis of bond issuances. The City Council should also work to pass the proposed ordinance that would allow analysis requests to be submitted by any City Council member without approval of the Chairman of the Committee on Budget and Government Operations.\(^{244}\)

Second, COFA’s reports should be made public. Currently it is difficult to analyze how the City Council utilizes the Council Office of Financial Analysis because COFA’s reports are not made available online. Unlike New York City’s Independent Budget Office, COFA does not have a website. COFA and the City Council should establish a COFA website or a web page on the City of Chicago’s website where COFA’s reports can be posted and easily accessed by both Council members and the public.

The City Council should work with COFA to assess whether COFA has a sufficient budget and personnel to meet enhanced responsibilities. If deemed insufficient, the City Council should

\(^{239}\) The Council Office of Financial Analysis Oversight Committee consists of seven members: the chairman of the committee on the budget and government operations; the chairman of the committee on finance; three members of the city council, serving as ex officio members; and two members who are either an officer, former officer, or economic advisor to a labor union, a business corporation or a civic or public interest advocacy organization involved in budgetary issues.


\(^{241}\) City of Chicago FY2019 Annual Appropriation Ordinance, p. 53.

\(^{242}\) See http://www.ibo.nyc.ny.us/index.html.

\(^{243}\) City of New York Adopted Budget for Fiscal Year 2019, Expense, Revenue and Contract Budget, p. 145E.

increase the COFA budget to allow for the staffing levels necessary to make COFA a meaningful asset to the City Council.
APPENDIX

The list of organizations in this appendix is non-exhaustive and is intended to provide additional sources of information on certain topics not specifically addressed in this report.

Crime

UCAN, http://www.ucanchicago.org/
Northwestern University, Pritzker School of Law, Bluhm Legal Clinic, https://www.law.northwestern.edu/legalclinic/
Loyola Center for Criminal Justice Research, Policy, and Practice, https://www.luc.edu/ccj/

Uneven Patterns

Chicago CRED, https://www.chicagocred.org/
Chicago Metropolitan Agency for Planning, https://www.cmap.illinois.gov/
Great Cities Institute at University of Illinois at Chicago, https://greatcities.uic.edu/
Institute for Housing Studies at DePaul University, https://www.housingstudies.org/
Center for Neighborhood Technology, https://www.cnt.org/
Heartland Alliance, https://www.heartlandalliance.org/
Sargent Shriver National Center on Poverty Law, https://www.povertylaw.org/

Population Loss

Alden Loury, https://www.wbez.org/staff/Alden+Loury
Eve Ewing, https://ssa.uchicago.edu/ssascholars/e-ewing

Public Corruption

Reform for Illinois, https://www.reformforillinois.org/
Center for Illinois Politics, https://www.centerforilpolitics.org/
Affordable Housing

Heartland Alliance, https://www.heartlandalliance.org/
Sargent Shriver National Center on Poverty Law, https://www.povertylaw.org/

Education

Access Living, https://www.accessliving.org/

Financial Issues

Civic Federation, https://www.civicfed.org/