

NORTHWEST MUNICIPAL CONFERENCE

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January 4, 2011

Mr. Frank Beal, Chair
Regional Tax Policy Task Force
Chicago Metropolitan Agency for Planning
233 South Wacker Drive, Suite 800
Chicago, IL 60606

Dear Mr. Beal:

I am writing on behalf of the forty-two members of the Northwest Municipal Conference, located throughout Cook, DuPage, Lake, Kane and McHenry counties. I would like to begin by recognizing you and your fellow CMAP Regional Tax Policy Task Force members for engaging in the extremely challenging mission of trying to identify regional approaches to tax policy. Since its inception, CMAP has played a key role in integrating a multitude of previously separate planning issues such as transportation, land use and economic development. This integration of issues is a task that has earned CMAP broad respect. Determining CMAP's role in regional tax policy is a much more difficult task that is fraught with peril.

Although we have a number of major concerns with the draft report currently under consideration, which I will express below, we must begin with our strong disagreement with the primary conclusion of the report. The draft report states that CMAP should play a "leadership role in advocating" regional tax policy. While we believe there may be a role for CMAP to provide unbiased data and analysis on regional taxation matters, we also believe that assuming an advocacy role oversteps the original intent for the creation of this planning organization.

We believe there may be value in having CMAP maintain and enhance its "staff resources and analytical capacity" with regard to tax policy. Having a respected organization like CMAP serve as an unbiased resource to provide timely analysis of tax policy issues helps provide a better understanding of the regional and localized benefits and impacts of potential changes in state and regional tax policy that fulfills a role currently absent in the Chicago region.

However, pushing CMAP into a "leadership role in advocating" regional tax policy exceeds the expectation that our communities had when we supported the creation of CMAP. Unfortunately, as your Task Force has discovered during your process, changes to tax policy in many cases create groups of "winners" and

“losers”. Assuming an advocacy role would place CMAP and its Board in the position of not only having to sacrifice its valuable position as an unbiased and trusted resource in this field but could also place the organization in the uncomfortable position of advocating tax policy changes that may work against the interests of many of its dues paying members. We fear this could lead to conflicts that diminish CMAP’s well respected standing and distract from the mission of integrating planning to better the Chicago region.

Therefore, we strongly urge the Task Force to disavow the recommendation that CMAP should play a tax policy advocacy role and instead position CMAP as the premier resource for unbiased data collection and analysis with regard to tax policy.

As for our additional major concerns, I present them divided by subject as follows.

Task Force role in shaping recommendations

In the draft report’s transmittal letter, it states: “In no way are the observations and recommendations contained in this report directly or indirectly endorsed or supported by the governments or organizations with each of the members are affiliated.” We believe this statement undermines the entire report. Members of the Task Force were selected from a representative cross section of esteemed interest groups and academics, businesses with a large stake in tax policy and appropriate governmental units. Since each Task Force member signing on to the report is also adding the name of the organization they represent to the transmittal letter, it is inconsistent to completely disavow the perspectives of the named organizations.

Determination of “consensus”

At the beginning of the “Recommendations” section, it is stated that this “represents a consensus view of the Task Force”. Yet at no point in the Task Force process has any official determination of a consensus been reached. While during discussions there have been a number of topics where a number of Task Force members have agreed with various perspectives that have been articulated, we are not aware of any official headcounts or votes occurring to determine if there is a true consensus on the individual topics.

Further, we would like to know how a consensus will be reached prior to the advancement of this draft report to the CMAP Board. As you know, a four-fifths

majority is required for official CMAP Board actions. Is this the same standard being utilized by the Task Force to determine a consensus? Or is some more loosely defined standard being applied? We would like this clarified prior to any actions that present this report as a consensus opinion of the Task Force.

Looking at the whole picture in regard to regional tax needs

It has been raised throughout the entire process that focusing exclusively on the tax side of the equation misses a critical component of what drives the needs of local governments in regard to taxation. Without an in-depth evaluation (or at the very least strong acknowledgement) of the role that federal and state mandated obligations (such as public pensions, labor arbitration, prevailing wage laws, insurance, etc.) play in driving local tax policymaking decisions, the report is simply incomplete and the recommendations are devoid of the real world perspective needed to present the whole picture. The inclusion of the line “CMAP Board’s tax policy efforts should also acknowledge that the way tax revenues are spent by the State and local governments has consequences for the region and its economy” falls far short of providing that critical perspective.

Perceived bias in the recommendations

While the draft report attempts to avoid controversial recommendations on specific taxation areas, we perceive a degree of bias not supported by the Task Force during discussions creeping into the text. A few examples include:

- Recommendation 2, under Sales Tax Revenue Sharing – “the revenues accrue above and beyond this specific need” assumes the desired sales tax revenues are excessive and the host community may not be rightfully entitled to them
- Recommendation 2, under PPRT – “support and encourage the consolidation of some of the units of government” assumes a predisposition toward consolidation without full consideration of larger impacts (consolidation also appears under other sections)
- Recommendation 2, under MFT – “review the efficiency of allocating state motor fuel tax revenue” assumes the current system is inefficient for local governments to determine their own needs
- Recommendation 3, CMAP should “pursue a source of regional funding ...either through new revenues or through repurposing increased revenue streams.” After the passage of a major income tax increase earlier this year, it is highly unlikely the General Assembly and Governor would approve another revenue increase or new revenue source. Most likely, any

regional revenue would be repurposed, such as “the revenues (that) accrue above and beyond this specific need”.

Again, these perceived biases do not appear to reflect the discussions during the course of the Task Force’s work. In some cases, these reflect the opinions of a small minority of Task Force members yet are being misrepresented as the consensus of the members.

Stronger disclaimers needed for “Staff Analysis” section

During the December 9 meeting, the concern was raised multiple times by numerous Task Force members that the “Analysis of Existing State and Local Tax Policy Conditions” was not a product of the Task Force itself and a strong degree of separation from the report itself was necessary to avoid this section being misconstrued as a guide to future policy decisions. While we appreciate the clarification that this is a “staff analysis”, the addition of a one-line disclaimer is inadequate.

Short of removing this section from the report entirely, we strongly recommend this section be clearly separated from the report itself and that additional language be included, both up front and throughout this section, to ensure that any readers of the report in no uncertain terms understand that these materials are not a product of the Task Force, that they do not represent a comprehensive analysis of the regional tax policy universe and that these were only intended to facilitate the discussion and not intended as a guide to future policy decisions.

Concerns with data and assumptions utilized in “Staff Analysis” section

During the Task Force process, a significant amount of data and analysis was provided to the Task Force members to facilitate discussion. We have concerns regarding both the data and underlying assumptions utilized to produce this section.

With an issue as complex as regional tax policy, a comprehensive evaluation of potential options and regional and local impacts requires a broad level of study that incorporates a wealth of data that includes a variety of often competing perspectives. Throughout the process it did not appear that this level of comprehensiveness was presented, which may in turn have led to the qualifying statements in the opening of the “Recommendations” section that “details matter” and the “Task Force did not have the time or resources to draft specific proposals”.

A group of municipal finance professionals is currently conducting an analysis of the data and assumptions contained in this section. On behalf of this group, Northbrook Finance Director Jeff Rowitz has reached out to the Task Force's staff to obtain further information to complete this analysis. Unfortunately, Mr. Rowitz has been informed that several key pieces may not be available until late January, which is after the date the Task Force will be meeting to provide final consideration of the draft report.

We would like, as part of the report, to be able to fully comment on the data and assumptions utilized. In absence of this completed analysis, we have attached the group's initial analysis of the data and assumptions. This is intended to provide an indication of where the concerns of the municipal finance professionals lie in regard to this section.

NWMC recommendations regarding the draft report

In the Northwest Municipal Conference's response to the Go To 2040 plan, we specifically noted concerns with the proposed effort to engage in regional tax policy:

“Nonetheless, the Conference urges CMAP to be cautious in pursuing structural reforms. Tax structure and fiscal policy are complex subjects and reform will require thorough examination to reach fair outcomes that ensure the fiscal stability of local governments. Municipalities have invested in and planned for their communities based on current fiscal structures. Consequently, the Go To 2040 plan needs to carefully consider the outcomes, both positive and negative, of potential changes to fiscal policies.”

Considering the admittedly limited level of analysis conducted by the Task Force, based upon what may prove to be less than complete or even inaccurate data and potentially flawed assumptions, we believe that further work is required. We respectfully recommend that a team of municipal and other finance professionals be engaged to provide a comprehensive and unbiased set of data assumptions to this renewed Task Force effort. Without a rock solid set of data and assumptions, our concerns and doubts regarding the very reliability of the Task Force recommendations will be impossible to overcome. This additional work should help create a better understanding as to how local budgetary obligations and constraints impact local decision making in regard to tax policy.

Therefore, we respectfully recommend that the Task Force defer taking any action on this draft report, reject the premise that CMAP should assume an advocacy role and instead reexamine the effort to determine recommendations that more accurately reflect the conditions and needs of all local governments throughout the region.

Ultimately, we believe these recommendations, coupled with a clearly defined process to determine the consensus of support for the final Regional Tax Policy Task Force report to the CMAP Board, will produce a product that both the individuals and the organizations they represent will be able to lend their names.

Sincerely,



Christopher S. Canning
President, Northwest Municipal Conference and
President, Village of Wilmette

attachment

cc: CMAP Tax Policy Task Force
CMAP Board
Dave Bennett, Metropolitan Mayors Caucus

**Comments on
CMAP Regional Tax Policy Task Force
Draft Report to the CMAP Board dated 12/19/11**

Revenue estimates:

1. They estimate an "auto dealership" would provide \$2,686,000 - \$3,035,000 in local sales taxes. When reading their consultant's methodology, it says that they have assumed this fictional "dealership" would include a CarMax, Lexus, and Toyota dealerships. Even so, the revenue estimate seems much too high. In order to generate that much local sales tax, these three dealerships would have to generate between \$268 and \$300 million per year in sales. To put this in perspective, this is roughly three times the combined 2010 revenue of the Cadillac, Rolls Royce, Bentley, and Toyota dealerships in Northbrook. It is also roughly three times the total revenue of the CarMax, Mercedes and Infiniti dealers in Glencoe during 2010.
2. The consultant's report says that they have calculated an average home rule tax rate of 0.87% but there is insufficient detail to determine how they came up with that. Regardless, the home rule tax does not apply to auto sales, but it appears they have included it in their estimates. If that is the case, then their revenue estimate is overstated by at least 87%.
3. The average tax rates for property, sales, telecom, electric, and natural gas taxes were determined using "only communities that actually chose to enact any of these taxes". This serves to inflate the average and also seems inconsistent with their overall methodology of spreading things across the entire region.
4. The property tax estimates were determined by averaging EAV and tax rate data from Cook and DuPage counties. This does not take into consideration that Cook and DuPage assess commercial property differently.
5. The sales tax estimates for the retail power center are based on sales per square foot as reported in the Urban Land Institute's *Dollars & Cents of Shopping Centers 2008*. Since this guide was published in 2008, it appears the data is based on pre-recession figures. Estimates should be based on current sales figures.
6. Page 47 of the report says, "Any of these options could include a multi-year phase-in period or a provision that would prevent a municipality's disbursement from dropping for a set period (hold harmless)". A true "hold harmless" would prevent a municipality's disbursement from ever dropping.

7. Page 47 also discusses a potential option of disbursing sales tax by population, and estimates a per capita rate of \$122. The table below demonstrates the devastating impact this would have on sample communities.

	2010 State Sales Tax Distribution	Distribution @ \$122 per capita	Annual Lost Sales Taxes	Lost Sales Taxes as % of Total State Distribution	Lost Sales Taxes as % of General Fund Budget
Northbrook	8,382,707	4,046,740	4,335,967	52%	12%
Schaumburg	26,747,486	9,055,694	17,691,792	66%	21%
Glenview	12,336,353	5,452,424	6,883,929	56%	13%
Vernon Hills	10,805,248	3,063,786	7,741,462	72%	43%

8. The report assumes that municipalities losing sales tax revenue through the various redistribution formulas can increase property taxes to make up for the loss. In addition to being politically unpopular, why should residents of communities with significant retail development pay significantly higher property taxes to subsidize other communities? Plus, what about non-home rule municipalities that lack the ability to increase property taxes without a referendum?

Expenditure estimates:

1. The report uses a formula based on expenditures per capita plus jobs. This methodology is theoretical and seems unrealistic in practice. Calculating service costs in this manner would assume we could hire fractional employees. Even if it were rounded to full employees, it does not take into consideration that three or four employees are needed to cover one police or fire position 24/7.
2. This methodology determines that the cost of providing service to an office building is more than double the cost of servicing a retail power center. This is another example of theory not matching with reality. This is inconsistent with our experience.

3. This methodology looks at the fictional development in isolation and does not take into consideration current staffing levels and demands. A new 30 acre commercial development could stretch current resources to the point of having to add an entire new shift. For example, Northbrook's Willow Festival shopping center would qualify as a retail power center (though slightly larger at approximately 40 acres) as defined in the report. In the planning process, Northbrook determined that upon final buildout of Willow Festival the resources of their police department would be stretched to the point of having to reorganize patrol beats and add four additional police officers.
4. The expenditure numbers used were taken from Annual Financial Reports filed with the State Comptroller and only include the categories for General Administration, Fire, Police, and Public Safety but do not include Public Works (when one of the main purposes of CMAP is to provide transportation planning).
5. The expenditure numbers used only consider operations and ignore capital. Capital equipment is a required expense of providing public services. Police can't answer calls without cars and radios, paramedics can't respond without ambulances, and firefighters need fire trucks.
6. The expenditure numbers do not include debt service. Debt is often issued for major capital equipment needed to provide services, as well as public improvements related to commercial development.
7. It appears that the expenditure numbers do not include special revenue funds. Special revenue funds are often used to fund required pension contributions, which should be considered an operating cost of providing services.
8. The costs to maintain regional infrastructure seem overstated. On page 46 they say the average per mile cost to resurface a road is \$400,000 and the average per mile cost of reconstruction is \$5 million. Based on our recent experience, resurfacing is more like \$300-\$350,000 per mile and reconstruction is about \$3 million.