



# Chicago Metropolitan Agency for Planning

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January 20, 2012

The Honorable Christopher S. Canning  
President  
Northwest Municipal Conference  
1616 East Golf Road  
Des Plaines, Illinois 60016

Dear President Canning:

Thank you for your letter dated January 4, 2012. I appreciate your interest in the work of the Regional Tax Policy Task Force. Your letter was distributed to the Task Force as well as to the members of the Board of CMAP.

The creation of the Task Force was a recommendation of the GO TO 2040 plan, which was adopted by the CMAP Board in October of 2010. The GO TO 2040 Plan defined the purpose of the Task Force as follows:

*“Broadly speaking, the Task Force will be charged with addressing issues central to state and local fiscal policy, viewed through the lens of the regional economy, sustainability, equity, and the connections between tax policies and development decisions. Recommendations might propose reforms to state law and/or suggest regional or subregional actions for improving the efficiency, equity, and transparency of the tax system. GO TO 2040 fully recognizes that state and local tax policy is a complex topic that requires prudence, since certain policy changes can lead to shifting burdens across residents, businesses, and governments.”*

With respect to some of the points that you identified in the letter, I would like to comment as follows:

### CMAP and its “Advocacy Role”

Your letter expresses concern about a focus on “advocacy” and the role of CMAP. This is, I believe, an issue that needs to be raised with the CMAP Board itself. The Task Force was requested to provide advice and counsel to the CMAP Board. The Task Force was a voluntary group of people that had no legal standing and will be disbanded once it offers its recommendations to the Board.

### Board Members

Gerald Bennett, Chair  
Frank Beal  
Alan Bennett  
Susan Campbell  
Roger Claar  
Michael Gorman  
Elliott Hartstein  
Al Larson  
Andrew Madigan  
Marilyn Michelini  
Heather Weed Niehoff  
Raul Raymundo  
Rick Reinbold  
Rae Rupp Srch  
Dan Shea

### Non-voting Member

Leanne Redden

### Executive Director

Randy Blankenhorn

The law that created CMAP, Public Act 095-0677, defines the agency as:

“...a unit of government whose purpose it is to effectively address the development and transportation challenges in the northeastern Illinois region.”

The law directs the Board to develop a Regional Comprehensive Plan. Further, the law states that the Plan shall include:

“Recommendations for legislation as may be necessary to fully implement the Regional Comprehensive Plan.”

Before making any additional recommendations for legislative change, the CMAP Board wanted to seek advice from the Task Force, which represented a variety of points of view, on the subject of tax policy.

Since the Board has your letter, I am certain it will take into account your perspective on its proper role as it proceeds with the task of carrying out its responsibilities.

Finally, the Task Force did spend time discussing the use of the word “advocacy” in one of the drafts of the report. Based on a proposal introduced by three members of the Task Force, the word “advocacy” was dropped from the report. This requested amendment to the draft was agreed to by all members of the Task Force.

#### Task Force Role in Shaping Recommendations

The Task Force also discussed the language in the report’s letter of transmittal which reads, “the members of the Task Force bring a wide range of expertise and experience with respect to the issues of tax policy. In no way are the observations and recommendations contained in this report directly or indirectly endorsed by the governments or organizations that each of the members are affiliated.”

All Task Force members, including representatives of businesses, academic institutions, civic organizations, and local governments, agreed that this language was satisfactory, given the Task Force’s singular charge of advising the CMAP Board. There is no expectation by the Task Force that the report should be, or was, endorsed by any governmental body, association, business enterprise, university, or other institution. Clearly, any of these organizations and institutions may let the CMAP Board know whether they agree or disagree with any or all parts of the report.

#### Determination of “consensus”

The recommendations of the report are meant to represent areas of consensus by the Task Force. In contrast, the section entitled “Summary of Tax Policy Issues” is meant to give a balanced overview of the discussions that took place over the course of the nine meetings. It should be clear from this section that many issues were not resolved by the Task Force. When the Task

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Force had areas of disagreement, no recommendation was offered. The intent was for the Task Force to convey to the CMAP Board the areas where there was agreement and areas where there was disagreement. It is now up to CMAP to determine what to do with that information.

#### Looking at the whole picture in regard to regional tax needs

The Task Force was not charged with examining every issue of state and local finance, much less all the drivers of economic development decisions. The specific charge to the Task Force was articulated in the GO TO 2040 plan, which states that the Task Force should examine specific elements of the state and local tax structure.

Many of the other drivers mentioned in your letter (public pensions, labor arbitration, etc) did not fall under the scope of the Task Force's work. This is not to minimize the importance of these issues. Rather, this Task Force had a specific, limited charge and it was not asked to analyze every single issue that influences our tax policies. Some members of the Task Force thought the methods and processes used by the Task Force were beneficial and that CMAP might consider employing a similar process to address other complicated policy issues.

#### Perceived bias in the recommendations

The recommendations represent a consensus view of the Task Force, not a "small minority" of members. The language in the recommendations was discussed extensively by the Task Force. Members were given an opportunity to suggest changes, and all recommended changes were re-circulated to the full group for further discussion. The document went through several drafts, and the result was one that has been agreed to by all members of the Task Force.

With respect to the specific bullet points in your letter, I would offer the following:

- Your letter states: *"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."*

Response: The full recommendation does not assume the revenues are "excessive". It does say that they have contributed to some extreme divergences in local tax capacity around the region. This is a fact, backed up by the data. The recommendation acknowledges that local communities are entitled to sales tax revenues, given they have planned based on the rules in place. The recommendation states that "new approaches to allocation should encourage regional cooperation and broader development goals, but avoid redistributing existing revenues and acknowledge that local governments have planned for their future based on the current revenue sharing policies." The Task Force agreed that this language fairly captured the consensus of the group.

- Your letter states: *"Recommendation 2, under PPRT – "support and encourage the consolidation of some of the units of government" assumes a predisposition toward*

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*consolidation without full consideration of larger impacts (consolidation also appears under other sections)".*

Response: The importance of streamlining and consolidating governments was brought up often in Task Force conversations about tax policy and specifically about the PPRT, since this revenue source flows to many special purpose units of government. The Task Force agreed that the CMAP Board should address this issue. All the recommendations include the caveat that the "details matter" and that changes often have "unintended consequences" - this is covered in the language that introduces the recommendations. I agree with you that careful consideration of all of these issues is vital.

- Your letter states: *"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."*

Response: The Task Force strongly agreed that the motor fuel tax allocation system should be analyzed further. Much of the conversation focused on population being a poor proxy for this allocation because it does not account for commercial or industrial activity. Language to this effect was included in the final report.

- Your letter states: *"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".*

Response: The Task Force believed that it is vital for the region to pursue funding for regional infrastructure, given the significant need to bring the system to a state of good repair and to fund capital projects. Your comment suggests that there is a connection made in the report between the regional funding piece and "the revenues (that) accrue above and beyond this specific need", which is language from the sales tax sharing recommendation. However, the report does not state or assume any connection between the regional needs and the recommendation about the sales tax.

#### Concerns With Staff Analysis Section

The remainder of your letter addresses concerns on the staff analysis section. The report clearly states that "the analysis is supplemental material prepared by CMAP staff, and does not necessarily reflect the views or opinions of all the members of the Task Force." The Task Force agreed that this disclaimer is adequate.

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I have asked the CMAP staff to prepare a separate document responding to the points you have raised in this section of your letter.

I do appreciate your interest in addressing this important subject. Reasonable people can disagree on matters of public policy. The meetings of the Task Force often included lively, but civil, discussion of differing points of view. That was what the CMAP Board expected, when it put together representatives from governments that supply the public goods and services we value, the firms and families that pay the taxes that allow us to enjoy those benefits, and experts who have studied the issues in detail.

I thank you for your contribution to the discussion.

Sincerely,

A handwritten signature in cursive script that reads "Frank Beal". The signature is written in dark ink and is positioned to the right of the word "Sincerely,".

Frank Beal  
Chair-Tax Policy Task Force

FB/stk  
attachment

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

## CMAP Staff Response to Specific Analysis Questions

During the Task Force process, a significant amount of data and analysis was provided to the Task Force members to facilitate discussion. This analysis was encouraged by the Task Force members, many of whom spend their careers analyzing matters of state and local public finance. The objective was to present helpful information in a limited period of time so that the Task Force had the necessary background to draw conclusions. Over the life of the Task Force, staff received supportive comments from the members about the quality of the analysis. Few comments were ever received indicating any level of concern with the data or analysis conducted.

Nearly all of your concern over staff analysis focuses on **one table in the report**. The table shows differing fiscal impacts of four different land uses: retail power center, auto dealership, office and industrial. The intent of the table is to illustrate the incentives at play when local governments aim to attract or retain different kinds of businesses. The table clearly indicates that local governments have a powerful incentive to attract and retain retail establishments like power centers and auto dealerships. Office and industrial land uses typically provide net positive revenues, but not at the level of the retail uses. These dynamics are not only well supported by the academic literature, but also a wealth of on-the-ground evidence about municipal decision-making.

Generating this kind of analysis requires extensive research and data collection. It also requires making numerous assumptions, and these are clearly stated in the supporting documentation that CMAP has forwarded to the Village of Northbrook. Here are some general comments that are important to keep in mind about this analysis:

- The intent of the analysis was to understand the potential fiscal and economic impacts of each land use under average economic conditions. As such, revenue estimates from this analysis are likely to exceed comparisons to current revenues due to the larger economic downturn.
- Wherever possible, the analysis also sought to reflect current development standards in creation of the prototypical development programs for each land use. Therefore, retail/auto sales were assumed to be in the higher ranges needed to justify new construction, and property value comparisons were limited to new developments with normal occupancies. This should result in revenue estimates that are higher than the average of all properties of a given land use in a municipality, but do reflect the higher sales and values that accrue to new development.
- The expenses and revenues generated are meant to reflect regional averages and were created using regional datasets. The ability to sample numerous communities throughout the region was not possible given the budgetary constraints of the study. A case study or similar fiscal impact methodology is likely to return different results that are more applicable to specific types of communities but less generalizable at a regional scale.

CMAAP appreciates and would be interested in seeing any additional analysis that brings to light the dynamics at play among these kinds of establishments and the net tax revenues generated. It is important for the region to have as much information at their disposal as possible about economic and fiscal consequences of different land use decisions.

Responses to the specific comments about the staff analysis follow.

*NWMC Questions, Revenue:*

- 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.

**CMAAP Response:** For the purposes of this analysis, all development programs were normalized to a 30 acre site. The total annual sales for the 30 acre site were estimated to be approximately \$153.5 million for a set of three dealerships that included a single, 75,000 square foot CarMax superstore and two national brand dealers. The annual sales figures for prototypical car dealerships were taken from the both the consultant's knowledge of auto dealer sales in the region and the annual reports of CarMax and automotive manufacturers. These averages will not reflect the experience of every community. Given larger economic conditions, it is likely that most 2010 sales per dealership in the region will fall short of the average sales estimates from this analysis.

- 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%.

**CMAAP Response:** You are correct, the analysis incorrectly accounted for home rule tax in auto sales, which is not the case. Thank you for pointing this out and we will make the correction. If a 1% rate is applied to auto dealerships, estimated annual automotive sales taxes will reduce to approximately \$1,535,000, and the Net Fiscal Impact will reduce to \$1,515,000 - \$1,726,000. This would move Auto Dealerships to second place in terms of Net Fiscal Impact, but still above Corporate Office and Industrial uses and within the range covered by a Retail Power Center. It should be added that the "low" and "high" tax revenues are generated from a single retail/auto sales, property value, or utility usage estimate that is then multiplied by the regional minimum and maximum average tax rates by county. Since only the state base sales tax sharing rate of 1% applies to auto sales, there is now no sales tax range for this land use. An updated table with all land use types is shown below. This change will be reflected in the final document.

|                          | Retail Power Center |   |                    | Auto Dealership    |   |                    | Corporate Office  |   |                    | Industrial       |   |                  |
|--------------------------|---------------------|---|--------------------|--------------------|---|--------------------|-------------------|---|--------------------|------------------|---|------------------|
|                          | From                | - | To                 | From               | - | To                 | From              | - | To                 | From             | - | To               |
| <b>Revenues</b>          |                     |   |                    |                    |   |                    |                   |   |                    |                  |   |                  |
| Sales                    | \$1,713,000         | - | \$1,936,000        | \$1,535,000        | - | \$1,535,000        | N/A               | - | N/A                | N/A              | - | N/A              |
| Property taxes           | \$ 132,000          | - | \$ 606,000         | \$88,000           | - | \$ 297,000         | \$ 601,000        | - | \$1,917,000        | \$120,000        | - | \$182,000        |
| Telecom Taxes            | \$2,000             | - | \$3,000            | \$1,000            | - | \$1,000            | \$42,000          | - | \$60,000           | \$3,000          | - | \$5,000          |
| Electricity Taxes        | \$15,000            | - | \$18,000           | \$6,000            | - | \$7,000            | \$52,000          | - | \$61,000           | \$9,000          | - | \$10,000         |
| Natural Gas Taxes        | \$4,000             | - | \$5,000            | \$1,000            | - | \$2,000            | \$11,000          | - | \$15,000           | \$3,000          | - | \$5,000          |
| <b>TOTAL REVENUES</b>    | <b>\$1,866,000</b>  | - | <b>\$2,568,000</b> | <b>\$1,631,000</b> | - | <b>\$1,842,000</b> | <b>\$ 706,000</b> | - | <b>\$2,053,000</b> | <b>\$135,000</b> | - | <b>\$202,000</b> |
| <b>Expenses</b>          |                     |   |                    |                    |   |                    |                   |   |                    |                  |   |                  |
| General Fund             | \$86,000            |   |                    | \$34,000           |   |                    | \$190,000         |   |                    | \$37,000         |   |                  |
| Fire                     | \$70,000            |   |                    | \$27,000           |   |                    | \$218,000         |   |                    | \$28,000         |   |                  |
| Police                   | \$141,000           |   |                    | \$55,000           |   |                    | \$267,000         |   |                    | \$41,000         |   |                  |
| <b>TOTAL EXPENSES</b>    | <b>\$297,000</b>    |   |                    | <b>\$116,000</b>   |   |                    | <b>\$675,000</b>  |   |                    | <b>\$106,000</b> |   |                  |
| <b>NET FISCAL IMPACT</b> | <b>\$1,569,000</b>  | - | <b>\$2,271,000</b> | <b>\$1,515,000</b> | - | <b>\$1,726,000</b> | <b>\$31,000</b>   | - | <b>\$1,378,000</b> | <b>\$29,000</b>  | - | <b>\$96,000</b>  |

- 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.

**CMAF Response:** This approach reflects a trend toward institution of home rule and other taxes beyond the base sales tax rate, particularly in communities with a significant agglomeration of retail businesses. For example, as retail revenues in a community rise, the likelihood that they will utilize a home rule sales tax rises. While only 35% of municipalities in the region have a home rule sales tax, that number rises to 50% for communities that generate sales equivalent to a single retail power center, and increases as the volume of retail sales in a community increases. Finally, using an average of all tax rates instead of only enacted rates produces minimal impact on the total revenues from property, electric, telecom, and natural gas taxes.

- 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.

**CMAF Response:** DuPage and Cook were used as “bookends” because they have the highest and lowest average base property tax rates in the region. DuPage EAVs and tax rates were used for the low end, and Cook tax rates and EAVs were used for the high end. The EAVs and tax rates from the two counties were not combined. The differential assessment practices helped to illustrate the range of property taxes that a prototypical new development might generate.

- 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.

**CMAP Response:** As noted above, the intent of the analysis was to illustrate the fiscal costs and benefits of new development in an average economic period. Utilization of 2010 figures will likely provide an artificially low range of potential retail sales.

- 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.

**CMAP Response:** This section of the report includes a staff analysis of different sales tax disbursement methods. This was an analysis requested of the staff by the Task Force. The sentence suggests that any new method might be phased in. The Task Force never came to a conclusion on the definition of “hold harmless” and these words do not appear in the recommendations.

- 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.

**CMAP Response:** This was a staff analysis requested by the Task Force. Disbursing the sales tax by population is not a recommendation of the report.

- 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?

**CMAP Response:** This report does not make this assumption anywhere. An earlier interim product to the Task Force analyzed what increases or decreases in property tax rates would be necessary to make sales tax disbursement changes revenue neutral. This part of the analysis does not appear in the final report and is not a recommendation of the report.

*NWMC Questions, Expenses:*

- 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.

**CMAP Response:** The average cost approach was used to estimate expenses. This approach involves creation of per capita and per worker service costs related to development. More detailed analysis using municipal service calls are related to the marginal cost approach. Because there is no systematic database available that outlines service calls and other necessary

data by community for various land use types, applying this approach at a regional scale was beyond the scope, budget and timeline allocated for the project.

- 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.

**CMAF Response:** The expenses were developed using the CAFRs of municipalities with a preponderance of each land use. While every effort was made to account for outliers and create regional averages, the expenses by land use may also reflect larger policy decisions that prototypical communities have made about acceptable levels of service and expenditures.

- 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.

**CMAF Response:** As discussed above, the marginal cost approach was not in the scope. The average cost approach reflects long term service cost averages, and therefore existing/future capacity deficiencies are not specifically addressed. While in reality costs are lumpy in nature, and a new project could require significant capacity increases if existing services are at/near capacity, the goal was to isolate the long term average service cost and not account for specific situations where a community's services are at/near capacity.

- 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 CMAF is to provide transportation planning).

**CMAF Response:** The chosen categories were utilized to create a set of "core" operating services that a new development might generate a need for. Due to the broad nature of services and special revenues that can be included in public works, neither expenses nor revenues from this set of services were included in the analysis. Were it to be included, this would reduce revenues for all land uses and some accounting would need to be made for one-time contributions to public works facilities that are commonly made at the time of development.

- 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.

**CMAF Response:** The scope of analysis was to compare annual operating revenues with annual operating costs. One-time capital costs as well as one-time revenues (such as permits and impact fees) were not within the scope of the analysis.

- 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.

**CMAF Response:** As indicated above, the analysis focused on ongoing operating revenues and excluded both costs and revenues associated with one-time capital expenditures. Additionally, the Debt Service field in the comptroller reports was only completed by approximately 13% of municipalities for general fund expenditures, with zero reporting of debt service for specific expense categories (police, fire, etc). Given this low reporting rate, it is likely that debt service has been folded into general or other expenditure areas for a number of municipalities.

- 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.

**CMAF Response:** Expenses for police and fire did include expenditures from special revenue funds if this detail was provided within the comptroller data. The analysis includes property and sales taxes as the primary annual operating revenues from the hypothetical developments. Because special revenues, debt service and enterprise funds are typically funded by user fees and other special revenues, neither the revenue nor the cost components were not included in the analysis.

--end--