

CMAP Regional Tax Policy Task Force: Guiding Principles for Recommendation Development

The Regional Tax Policy Task Force was created by the CMAP Board, the governing body of the Chicago Metropolitan Agency for Planning. GO TO 2040 recommended that the CMAP Board establish a Task Force to advise it on state and local tax policy reforms that would advance the Plan's goal for sustained regional economic competitiveness.

GO TO 2040's priorities are to create more livable communities, enhance the region's economic climate, invest strategically in the regional transportation system, and improve the efficiency of governance. The Task Force was charged with evaluating state and local fiscal policy issues through the lens of the regional economy and the connections between tax policies and development decisions with a focus on improving the efficiency, fairness, and transparency of the tax system.

The Task Force exists to advise the CMAP Board and has no statutory or independent authority. The following are a *set of principles for consideration* to guide the Task Force's recommendations, which will be presented to the CMAP Board in early 2012.

1. A System that Leads to Financially Sustainable Local Governments

GO TO 2040 is built on the premise that the region is both a collection of independent local governments as well as a single economic entity that is competing with other metropolitan areas throughout the world.

One of the central goals of GO TO 2040 is to promote livable communities in the region. "Livability" originates through planning and development decisions made at the local level by communities, developers, and individuals. For the region's communities to be successful in making decisions that will enhance livability, local governments must have the financial resources necessary to undertake their responsibilities. Additionally, communities unable to raise the revenue required to provide the public services necessary to attract residents and businesses put the entire region at a disadvantage from an economic development standpoint. Likewise, it is important to make sure that fiscally sustainable communities are able to maintain their financial position.

Ensuring that all the general-purpose local governments within the region are financially sustainable and have the resources to maintain services will benefit the region. Recommendations to consider include:

- **Modifying how the State shares revenues with local governments** to ensure that all communities are able to provide necessary public services
- Modernizing and **expanding the sales tax base** to generate revenues that will remain stable even as consumer preferences and consumption dynamics shift
- **Expanding the income tax base** to include retirement income
- **Increasing the state motor fuel tax and indexing it to inflation** to ensure that revenues keep pace with transportation infrastructure needs

2. A System that Generates Sufficient Revenue to Meet Regional Needs

While GO TO 2040 emphasizes more efficient investments given limited resources, the region still faces a backlog in infrastructure rehabilitation or "state of good repair" needs for transportation, water, and

other infrastructure. Our transportation infrastructure is integral to the region's prosperity, yet it has fallen behind other industrialized parts of the world, many of which have invested significantly to create and preserve modern systems.

GO TO 2040's analysis of needed expenditures shows that relying solely on existing federal, state, and local revenue sources will not result in much progress toward addressing the substantial transportation needs of individuals and businesses across the region. Achieving the goal of a modern, world-class system requires serious action from all levels of government. Recommendations to consider include:

- **Ending the 55/45 state transportation funding split** and ensuring that state funding is based on actual infrastructure needs
- **Increasing the state motor fuel tax and indexing it to inflation** to ensure that revenues keep pace with transportation infrastructure needs
- **Dedicating a portion of state sales tax revenues to regional needs** such as strategic infrastructure or economic development investments

3. A System that Enhances the Region's Economic Competitiveness

Strengthening the region's economy is one of the principal purposes of GO TO 2040. Metropolitan Chicago has tremendous assets, but recent trends show an economy that is losing momentum relative to other places in the United States and across the globe. There is no single explanation for these troubling trends, but the size of the tax base, the magnitude of tax rates, and the means by which tax dollars are allocated all play a role in businesses' investment decisions. Enhancing the region's attractiveness to businesses and residents and improving the region's economy will require improvements that make the tax system more efficient. Recommendations to consider include:

- **Expanding the sales tax base** to lower tax rates to create a more efficient and economically competitive tax system
- **Reforming Cook County's property tax classification system** to reduce distortion in the region's tax system
- **Modifying how the State shares revenues with local governments** to ensure that communities are able to provide public services while reducing intraregional competition among communities
- **Amending the personal property replacement tax** to make Illinois' business taxes more competitive with other states.

4. A System that Supports Reinvestment and the Principles of Livability

GO TO 2040 emphasizes greater livability through reinvestment in our existing communities. This represents a change from the last several decades, which overall has been a story of outward expansion and utilization of vast amounts of land that has required huge investments in infrastructure. State and local tax policy is one of many factors driving this dynamic. Local governments have an incentive to orient land use planning and decision-making to maximize local tax revenues rather than livability or reinvestment.

GO TO 2040 places a strong emphasis on encouraging development in existing communities, where infrastructure to support it is already available. According to CMAP's analysis of infill opportunities, there are over 100,000 acres of land within existing municipal boundaries that are available for redevelopment. A significant percentage of this acreage is located in Cook County, which contains a

large share of the region's highways, public transit, and freight assets. Recommendations to consider include:

- **Modifying state sales tax revenue sharing criteria** to encourage reinvestment, while not penalizing communities for past planning decisions
- **Reforming Cook County's property tax classification system** to reduce the tax burden for businesses while taking into account that eliminating the policy would likely shift the burden back upon residential property taxpayers

5. A System That Improves Transparency and Accountability for the Taxpayer

States, metropolitan regions, and local governments can all enhance their business climates through transparency in taxation and accountability to taxpayers. Members of the Task Force have echoed the concerns voiced by many taxpayers about the large number of governmental units in northeastern Illinois, which total over 1,200. From the perspective of enhancing regional economic competitiveness, this system increases complexity for the taxpayer and exemplifies an unplanned and untargeted expenditure of taxpayer dollars. Current policies that allocate state revenues to local governments have helped to foster, and now help to maintain, our highly decentralized system of local governance. This structure also may not promote accountability to taxpayers to the extent that it may result in the expenditure of taxpayer dollars without corresponding levels of service provided in return.

Recommendations to consider include:

- **Modifying state revenue sharing criteria for the state sales tax, motor fuel tax, and personal property replacement tax** while recognizing that maintaining overall levels of these revenues is important for communities that have planned based on the rules of this system