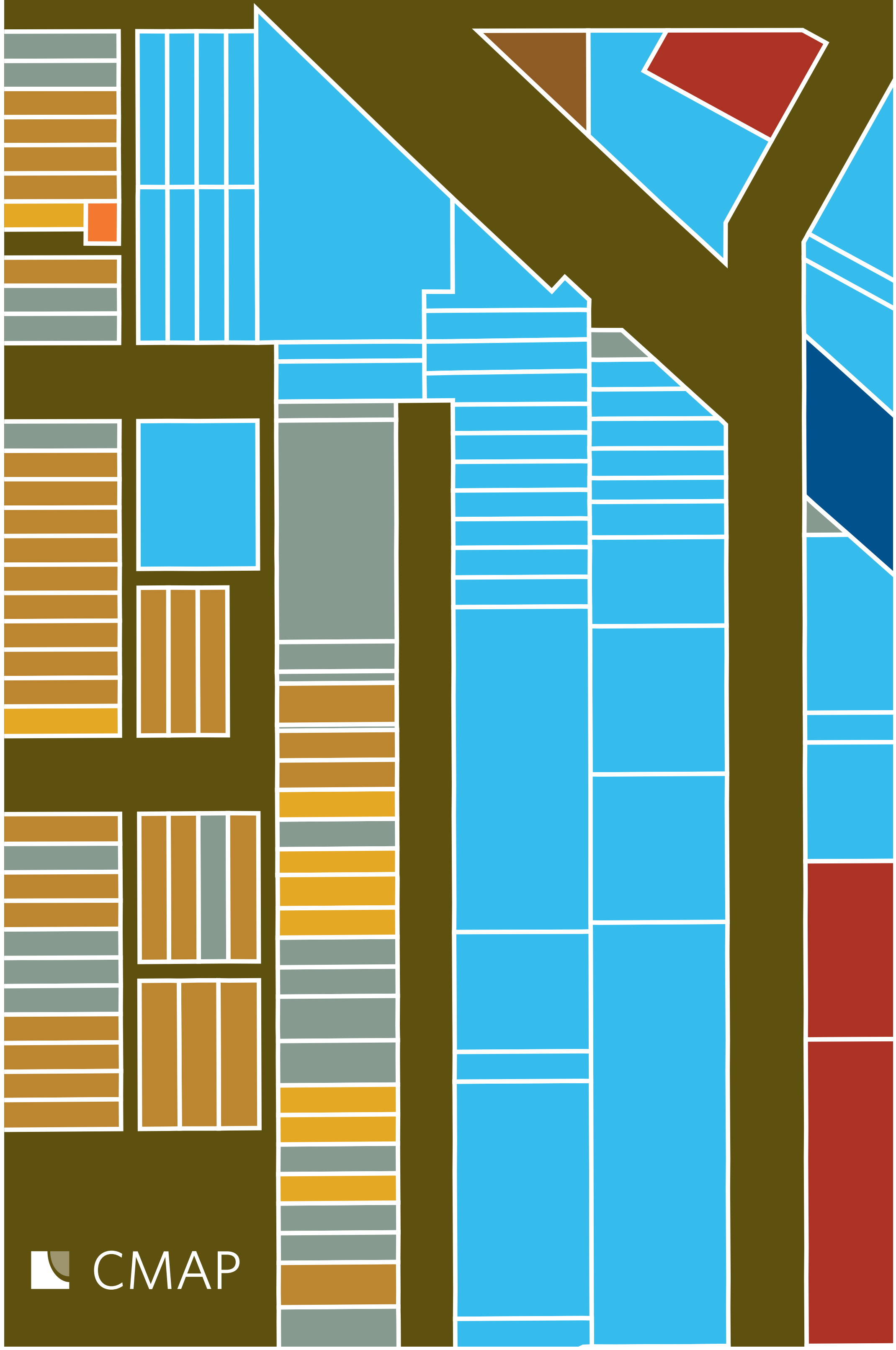
CHICAGO METROPOLITAN AGENCY FOR PLANNING | **ON TO 2050** STRATEGY PAPER

Tax Policies and Land Use Trends



CMAP

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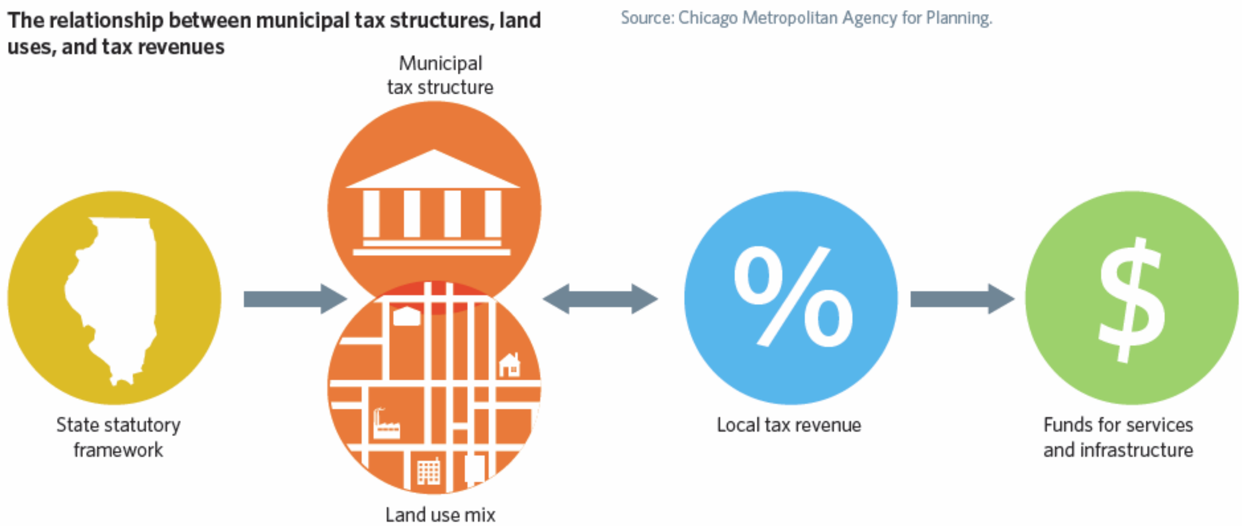
Introduction

Municipal tax structures play a significant role in local and regional economic growth and development patterns. The potential for revenues generated by various taxes—sales, property, and utility, among others—can influence municipalities' land use decisions and development projects, which in turn affects their budgets and regional development. This document explores policies and strategies to enable communities to achieve balanced tax structures so that they can pursue a greater diversity of development types to suit local and regional goals, while recognizing that the current system often results in greater fiscal impact for retail compared with other land uses. Based on findings from this strategy paper, CMAP may develop policy recommendations or strategies on tax policy for ON TO 2050.

GO TO 2040 recognized that tax policy plays a significant role in the region's economic growth and development patterns. State statute and policies govern how municipalities can generate local revenues. Communities depend on local revenues to fund the public service and infrastructure investments that attract and retain residents and businesses. However, the amount of tax revenue municipalities collect depends on the composition of their tax structures. Illinois municipalities receive revenue through state sharing of several sources, and can raise revenues through mechanisms like fees, fines, licenses, and taxation. Many of these revenues vary based on a municipality's land use mix. Municipalities in the region also vary in their degree of reliance on any one of these revenue sources.

It is important to ensure that all communities in the region have the ability to generate revenue that supports the land uses that those communities have identified as important to their economic, quality-of-life, and other goals. Municipal tax structures, and the potential for revenues that can be generated from these taxes, can influence local land use and development decisions (see Figure 1). Cumulatively, these local land use decisions have strong impacts on the regional economy. Moreover, because local tax revenue is based to some extent on land use, development decisions have budgetary implications. The connection between tax policy and land use means that a balanced tax structure is integral to support a wide array of land uses.

Figure 1.



This strategy paper will inform how ON TO 2050 addresses the nexus between tax policy and land use, building on the substantial body of work completed since GO TO 2040. Specifically, this paper supplements CMAP's 2014 analysis[1] of the fiscal impacts of development, to better understand both the extent that different development types generate the revenue needed to support associated development, and the impacts of local tax structure on local land use mix. The intent of this document is not to identify a strategy for any individual land use to support itself. Every community has a complex mix of land uses that are vital to creating its identity and quality of life.

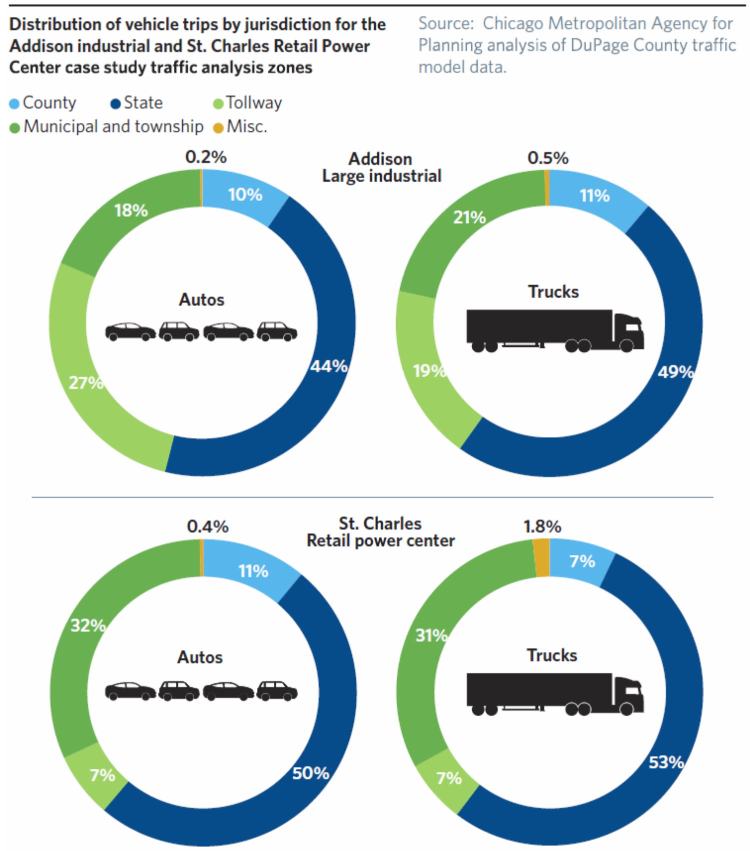
The first section of the paper summarizes content discussed in GO TO 2040 and subsequent work related to tax policy, land use, and the linkage between the two areas. The following section reviews different approaches municipalities employ to fund expenditures related to retail, office, industrial, and residential development. The final section suggests a framework for addressing the intersection between tax policy and land use, and next steps for adopting these strategies into ON TO 2050. This proposed framework is informed by interviews with experts and stakeholders from within and outside the region, including members of various CMAP committees, as well as a literature review.

[1] Chicago Metropolitan Agency for Planning, *Fiscal and Economic Impact Analysis of Local Development Decisions*, January 2014, http://cmap.is/2mfrlPw.

The link between tax policy and land use in GO TO 2040 and subsequent work

GO TO 2040 recommended assembling a task force to address issues related to state and local tax policy. In 2011, CMAP convened the Regional Tax Policy Task Force, an advisory group consisting of representatives from local and state governments, businesses, civic organizations, and academia. The recommendations and findings of the Task Force were the basis for future work, as well as recommendations in the 2014 update of GO TO 2040.

Figure 2.

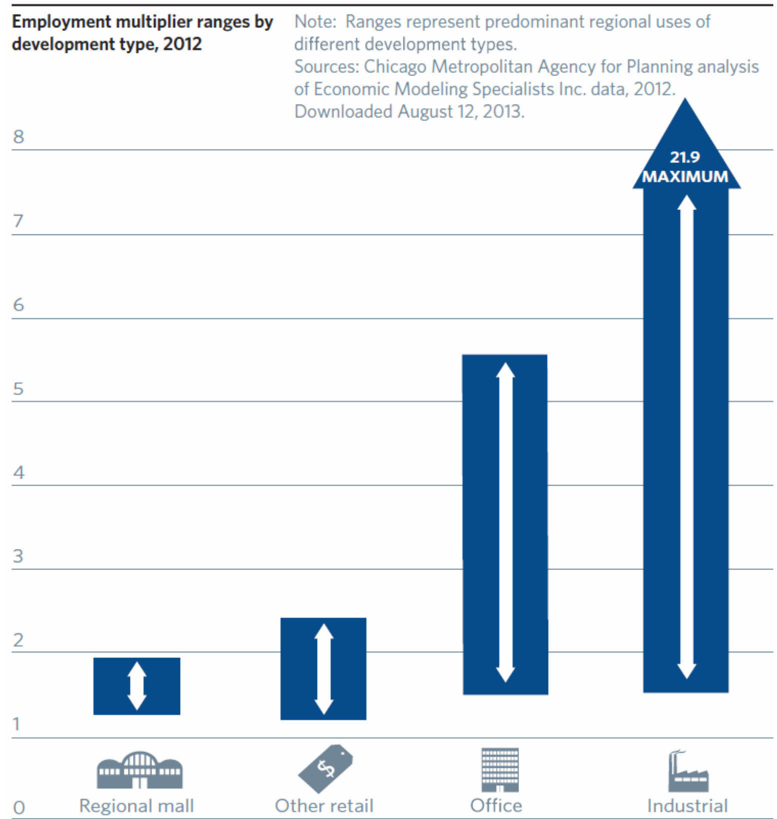


Among other issues, the Task Force discussed the balance of fiscal and economic impacts generated by nonresidential land uses. CMAP subsequently conducted a study on the fiscal and economic impacts of various development types. The fiscal impact analysis assessed the revenue flowing to a municipality from a development, minus the public services and infrastructure costs of that development borne by the municipality. The economic impact analysis examined how developments affect regional employment and wages. The report, "Fiscal and Economic Impact Analysis of Local Development Decisions," revealed wide variation in the fiscal impact of different developments based on type, density, infrastructure requirements, service needs, and other factors. In addition, the fiscal structure of a municipality had an effect on the fiscal impact of its development. The case study analysis also revealed that some development types may not generate sufficient municipal revenue to fund services and infrastructure related to the development.

Finally, the analysis provided an initial review of the multijurisdictional nature of the infrastructure required to support development. Traffic generated by non-residential developments can be highly dependent on state and county roads. The report identified the need to assess the impacts that different land uses have on the roadway system as well as the jurisdictions that manage that network. Figure 2 provides an overview of initial analysis on the distribution of auto and truck trips by jurisdiction for two of the case studies.

That analysis also focused on the strong regional economic benefits that a variety of land uses can provide, particularly office and industrial development. The analysis illustrated in Figure 3 echoed findings in CMAP's work prior to and since GO TO 2040: Land uses that have the strongest regional benefits may not provide a strong local fiscal benefit due to the state tax structure. The chart compares the number of additional jobs that each job with a new development can support in the regional economy for different development types.

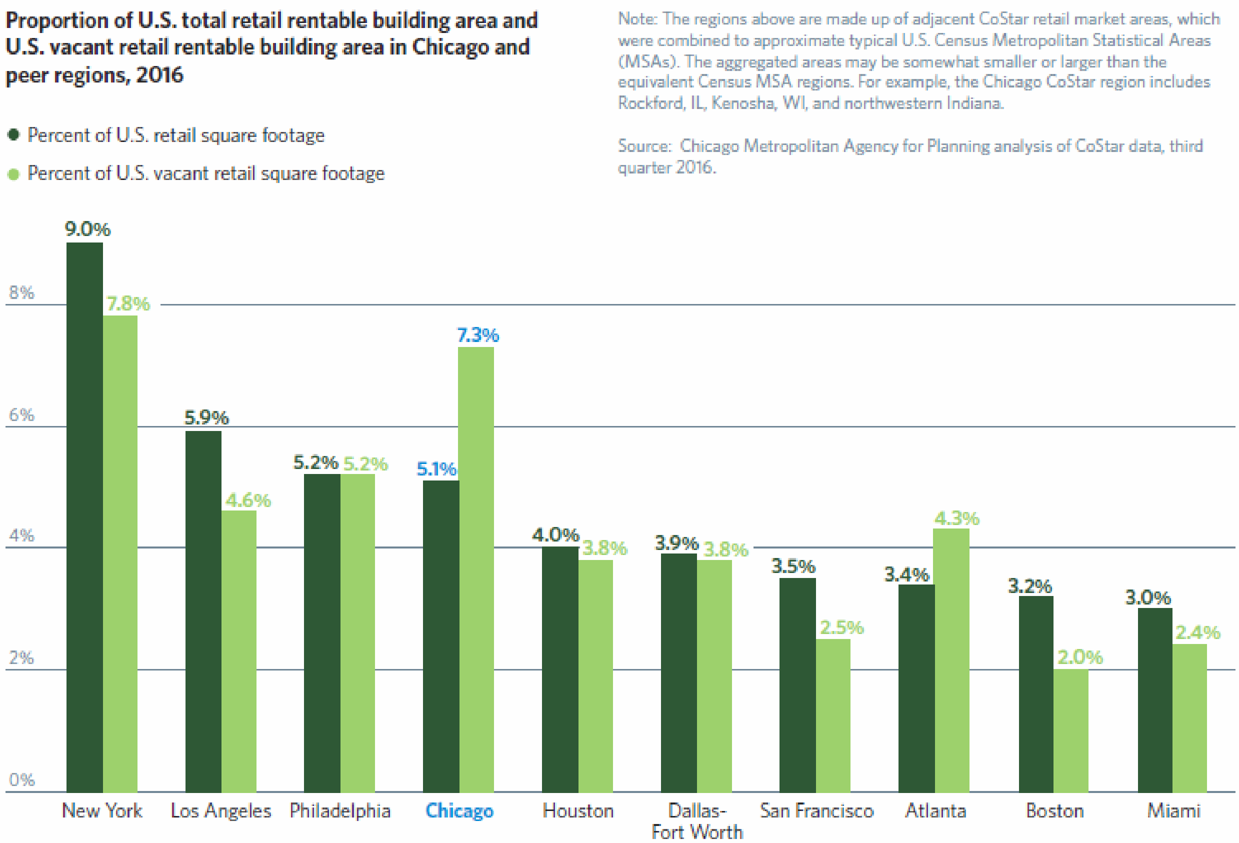
Figure 3.



In subsequent work, CMAP has conducted research on land use and tax policy, addressing topics such as municipal reliance on various revenue types; the prevalence and locations of sales tax rebates; sales tax and potential impacts on development; and reform of the sales tax base. In addition, CMAP analyzed property tax classification in Cook County, including a discussion of the GO TO 2040 update's recommendation to enact reforms that phase out the policy.[2] As shown in Figure 4, CMAP also reviewed the condition of the retail market in the region compared with the nation and our peer regions. Overall, a municipal preference for retail land uses may lead to overbuilding of retail and, in combination with economic and market factors, lead to a disproportionate amount of vacant retail space in the region. In addition, CMAP has worked with municipalities through the Local Technical Assistance program to help communities with land use and tax policy strategies, including those related to retail development.

[2] Chicago Metropolitan Agency for Planning, "Municipal Reliance on Property, Sales, and Income Taxes and Their Relative Stability," February 6, 2015, http://cmap.is/2naSFgX; "Sales Tax Rebate Database Analysis Highlights Prevalence of Rebate Agreements in Metropolitan Chicago," January 29, 2014, http://cmap.is/ 1fTnBZu; "Sales tax rebates remain prevalent in northeastern Illinois," May 11, 2016, http://cmap.is/ 2lAV3Bg; "Cook County property tax classification effects on property tax burden," updated November 7, 2014, http://cmap.is/ 1EuWMaW.

Figure 4.



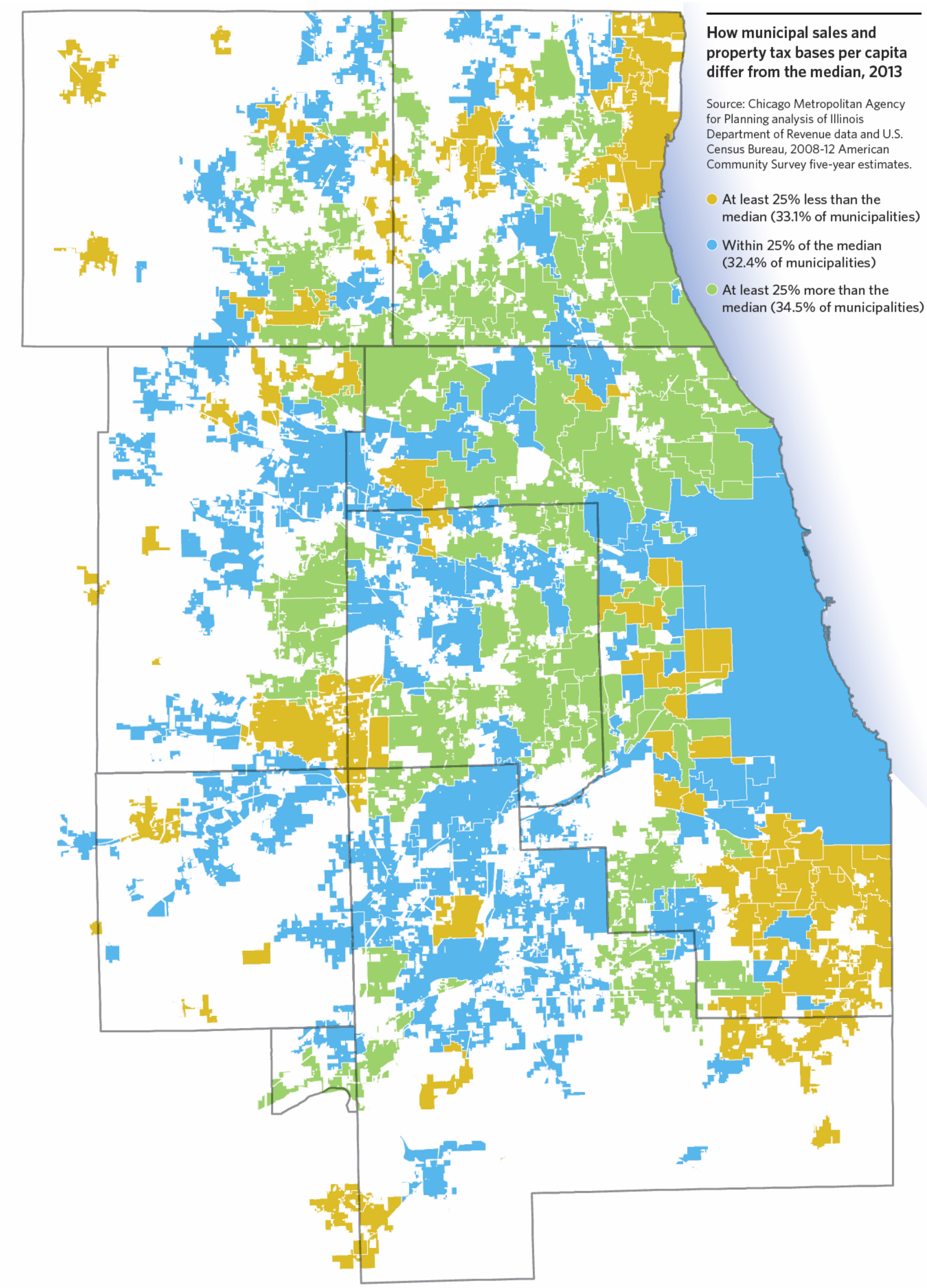
GO TO 2040 also recommended developing indicators on tax capacity.[3] Municipal reliance on land use-driven taxes, such as property and sales tax, can result in some communities having a lower base from which to draw tax revenues. A low tax base can contribute to high property tax rates, which can discourage economic development. As a result, some communities with low tax bases fall into a cycle of low economic growth. They may be unable to attract investment, provide high-quality services, and/or properly maintain infrastructure. Figure 5 shows how municipal property and sales tax bases, per capita, compare with the regional median, as described in the 2014 update of GO TO 2040. Because most municipalities depend on revenues like property and sales taxes to fund basic services, CMAP compared tax base across the region by measuring the sum of a municipality's equalized assessed value and total retail sales, per capita.

While there will always be communities with lower tax bases than others, implementing the recommendations of GO TO 2040 can help reduce the proportion of communities with a low tax capacity, minimizing variance between communities. For example, the 2014 update of GO TO 2040 recommended that the state enact tax policy reforms that benefit the region by encouraging decisions that make effective use of land and generate sustainable economic

[3] Chicago Metropolitan Agency for Planning, "Using Indicators to Chart Progress toward a More Equitable Regional Tax System," August 19, 2013, http://cmap.is/ 2lAXV12.

development.[4] One of the key strategies here is to identify opportunities in the tax structure that can provide sufficient revenue to support a variety of land uses and afford communities more options to grow and thrive.

Figure 5.



[4] Chicago Metropolitan Agency for Planning, *GO TO 2040 Update Appendix: Implementation Action Areas*, October 2014, http://cmap.is/2040-implementation-action-areas.

Major municipal revenue sources

The amount of tax revenue that municipalities collect is dependent in part on the composition of their tax structure, meaning the major revenue sources that municipalities can implement. Since the end of World War II, municipalities in the United States have diversified their tax structures, generally decreasing their reliance on property taxes as a municipal revenue source. Between 1970 and 1994, reliance on the property tax as a source of revenue declined in 42 states as local governments responded to general taxpayer distaste for property taxes.[5] During this time period, sales tax, income tax, and user fees and charges increased as municipal revenue sources.[6]

While municipalities in Illinois have some flexibility in choosing their revenue sources, the stability of a given revenue source varies. Overall, sales tax revenues tend to be less stable than property tax revenues. For example, property taxes lag real estate value growth because of property assessment valuations and equalization policies, whereas sales and income tax revenues respond quickly to changes in consumption and employment. During periods of robust economic growth, cities that are able to tax sales and earnings have a higher growth rate than cities that are more reliant on property tax revenue.[7] On the other hand, during recessionary periods or other eras when the retail industry is challenged, municipalities with high retail tax reliance experience negative impacts. In 2010, for example, municipal sales tax receipts decreased by 8.4 percent from the previous year in the United States.[8] As such, an overreliance on highly elastic tax sources like the sales tax can make revenues more unstable. By comparison, property taxes offer more stability than sales or income tax revenue sources because property tax revenues are driven by individual taxing bodies' levy requests.[9]

Stable revenues such as those generated by a property tax allow municipalities to maintain public services as well as existing tax rates and levies even during difficult economic periods. Relying on a volatile revenue source such as a sales tax may increase the chance that a municipality must reduce public service levels or increase tax rates in any given year. Figure 6 provides an overview of aggregate revenue stability across several types of local revenues.

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[5] Brunori, David. "Metropolitan Taxation in the 21st Century," *National Tax Journal* 51 (1998): 541-551.

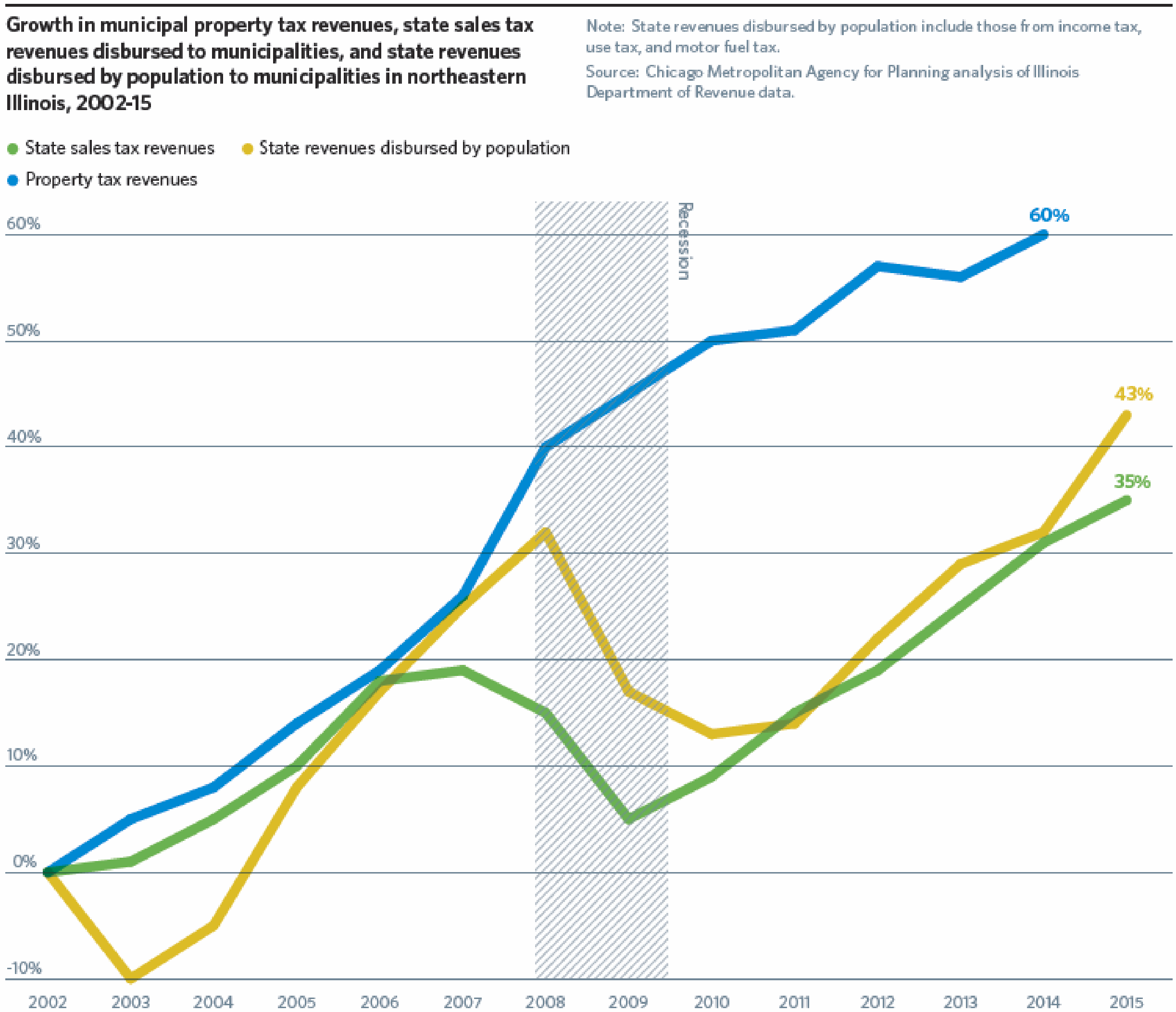
[6] Pagano, Michael A. "City Fiscal Structures and Land Development," Discussion paper for The Brookings Institution Center on Urban and Metropolitan Policy and CEOs for Cities (2003); Wassmer, Robert W., "Comments: Thoughts on Innovative Financing Options for Urban Governments," *Proceedings. Annual Conference on Taxation and Minutes of the Annual Meeting of the National Tax Association* 90 (1997): 387-392.

[7] Pagano, Michael A. "City Fiscal Structures and Land Development." Discussion paper for The Brookings Institution Center on Urban and Metropolitan Policy and CEOs for Cities (2003).

[8] McCarron, John. "On sale." *Planning* 78 (2012): 16-19.

[9] Pagano, Michael A. "City Fiscal Structures and Land Development." Discussion paper for The Brookings Institution Center on Urban and Metropolitan Policy and CEOs for Cities (2003).

Figure 6.



Municipalities in northeastern Illinois vary in terms of their reliance on different tax revenues. As seen in Figure 8, property taxes are often the most heavily relied upon revenue source for municipalities. If high reliance on property tax revenue translates to high property tax rates, other issues may arise. High tax rates can prompt a cycle where new businesses do not locate in the community, resulting in a tax base that grows more slowly than the cost of public services, which can lead to even higher tax rates for businesses and residents.

Sales tax revenues are a major revenue source for many communities in the region. Municipalities also receive several state revenue sources—income, use, and motor fuel tax revenues—on a per capita basis. These revenue sources tend to be a major funding source for communities that are primarily residential and have few businesses. Municipalities may impose taxes on utilities, such as telecommunications, natural gas, and electricity. It is uncommon for utility taxes to be a major source of revenue, but a few smaller communities do rely heavily on these revenues. More information about these revenue sources can be found in the Appendix. Figure 8 provides an overview of variation in municipal reliance on several types of sources in 2014.

Figure 7.

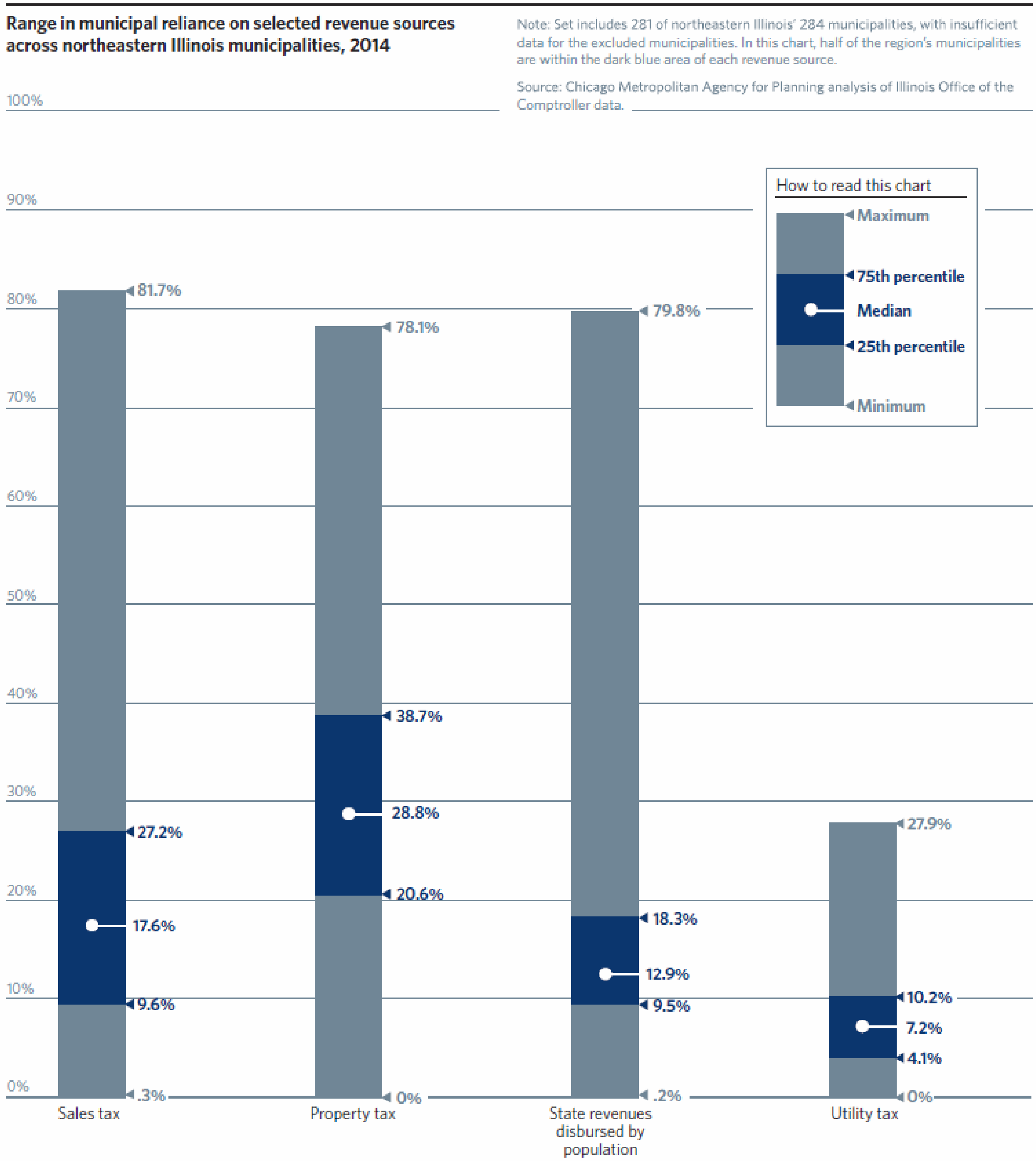
How do municipalities raise revenue?

In addition to receiving disbursements of various state revenues, the 139 home rule and 146 non-home rule municipalities in northeastern Illinois have the authority to impose a wide range of taxes, fees, and other sources, including:

- Property tax
- Sales tax
- Utility taxes (electricity, gas, water, telecommunications)
- Motor fuel tax*
- Real estate transfer tax*
- Hotel/Motel tax*
- Parking tax*
- Licenses
- Permits
- Fees
- Charges for programs or services
- Fines

*Only home rule municipalities may impose these.

Figure 8.



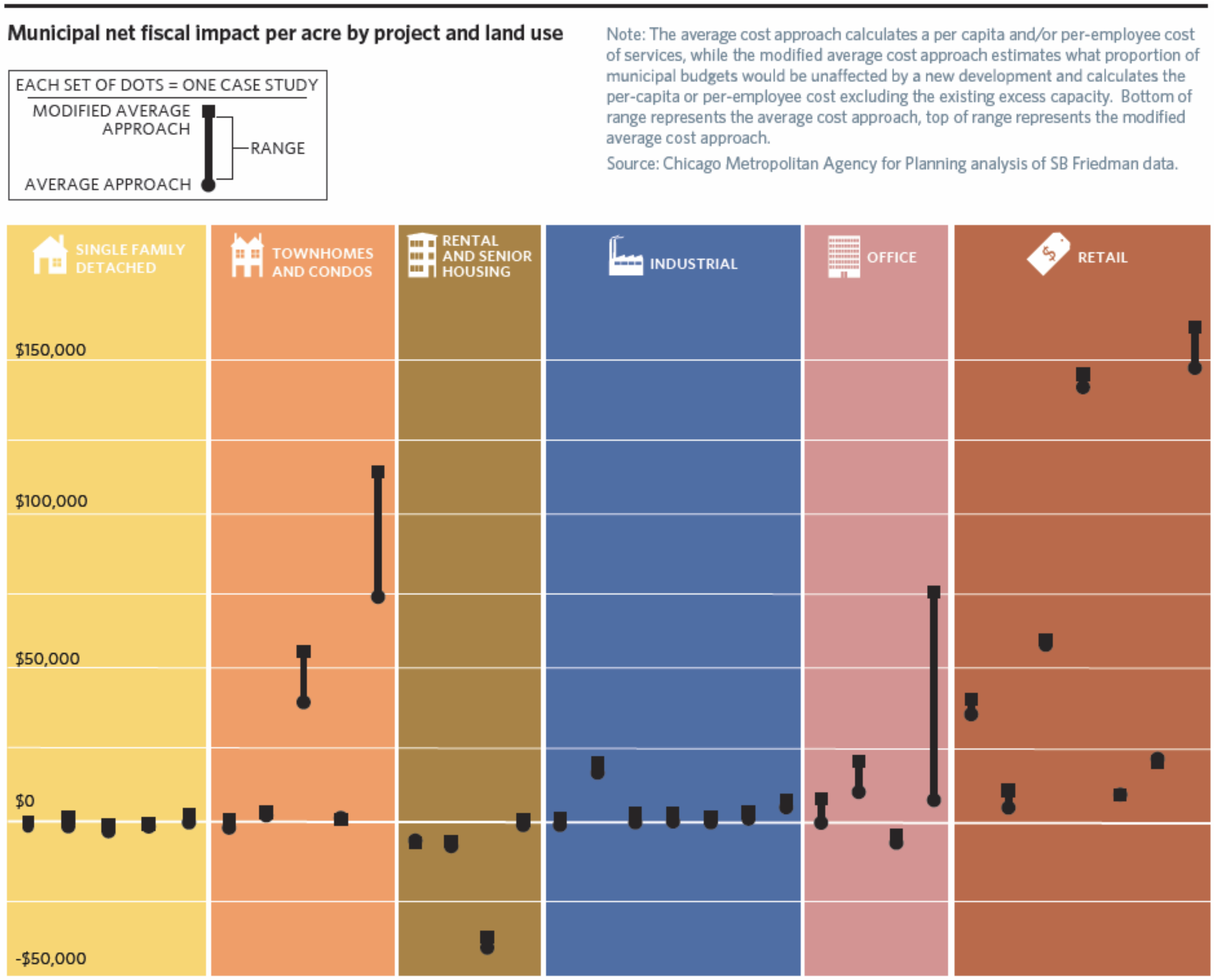
Range in municipal reliance on selected revenue sources across northeastern Illinois municipalities, 2014
Note: Set includes 281 of northeastern Illinois' 284 municipalities, with insufficient data for the excluded municipalities. In this chart, half of the region's municipalities are within the dark blue area of each revenue source.
Source: Chicago Metropolitan Agency for Planning analysis of Illinois Office of the Comptroller data.
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
How to read this chart
Maximum
75th percentile
Median
25th percentile
Minimum
81.7%
27.2%
17.6%
9.6%
.3%
Sales tax
78.1%
38.7%
28.8%
20.6%
0%
Property tax
79.8%
18.3%
12.9%
9.5%
.2%
State revenues disbursed by population
27.9%
10.2%
7.2%
4.1%
0%
Utility tax

Municipal approaches to supporting land use types

This section will delve into how municipalities support the land uses that communities have identified as important to their economic, quality-of-life, and other goals, focusing on retail, office, industrial, and residential development. Fiscal impact refers to the revenue flowing to a municipality from a development, minus the costs of public services and infrastructure of that development borne by the municipality. The fiscal impact of development varies depending on land use, density, market value, jurisdictional tax rates and policies, and existing infrastructure capacity. Previous CMAP analysis examining 32 case studies in northeastern Illinois indicates that retail tends to generate greater net fiscal impacts as compared with other development types.[10] However, high-density developments in areas with existing infrastructure, including residential and office, also may produce high levels of revenue per acre, even exceeding the revenues found in the retail case studies. Figure 9 provides an overview of the municipal net fiscal impact per acre for 32 case studies. Given the range in fiscal impact, communities in the region have different strategies and challenges around supporting a range of development types.

[10] Chicago Metropolitan Agency for Planning, *Fiscal and Economic Impact Analysis of Local Development Decisions*, January 2014, http://cmap.is/2mfrlPw.

Figure 9.



Retail and consumer services development

Previous CMAP analysis has indicated that occupied retail development tends to draw a very high proportion of revenues from sales taxes, and often generates more sales tax revenue alone than other land uses generate in total revenue. Most of these revenues come from municipalities' share of the state sales tax. Because sales tax revenues are determined by the location of sales, municipalities may prioritize sales-tax generating land uses, leading to development of retail in excess of potential market demand.

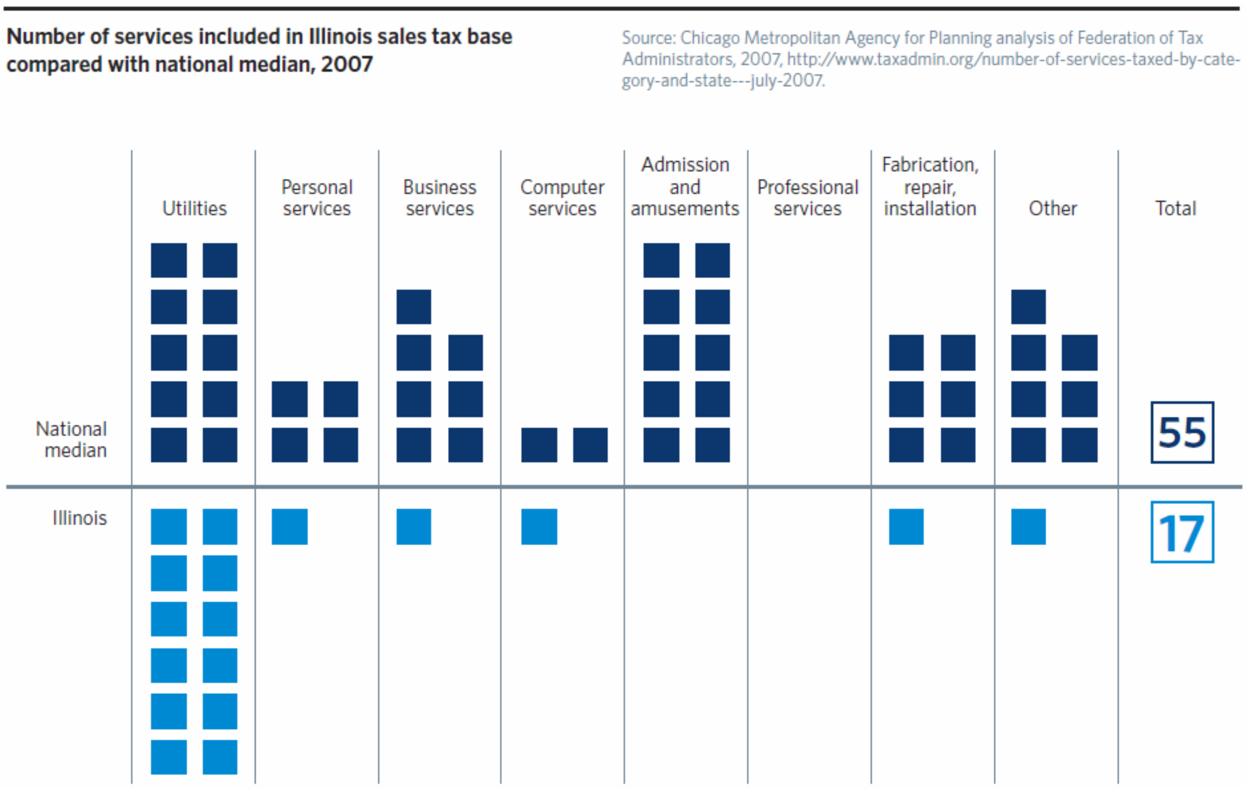
Retail development may also generate property tax or utility tax revenue in addition to sales tax revenue. The tax revenues generated by retail development often significantly exceed the costs for a given retail development, which include police, fire, and emergency response costs, as well as public works and infrastructure costs. As such, some communities are able to rely primarily on sales tax revenue to provide municipal services for all developments, including residential, and may impose little or no property taxes.

Some retail development focuses on consumer services, such as barbershops, dry cleaners, and gyms, which do not generate significant sales tax revenue. While many consumer services businesses include retail sales, most services sales are not included in the Illinois sales tax base. As a result, developments that include significant amounts of consumer services businesses do not generate high levels of sales tax revenue.

Consumer services

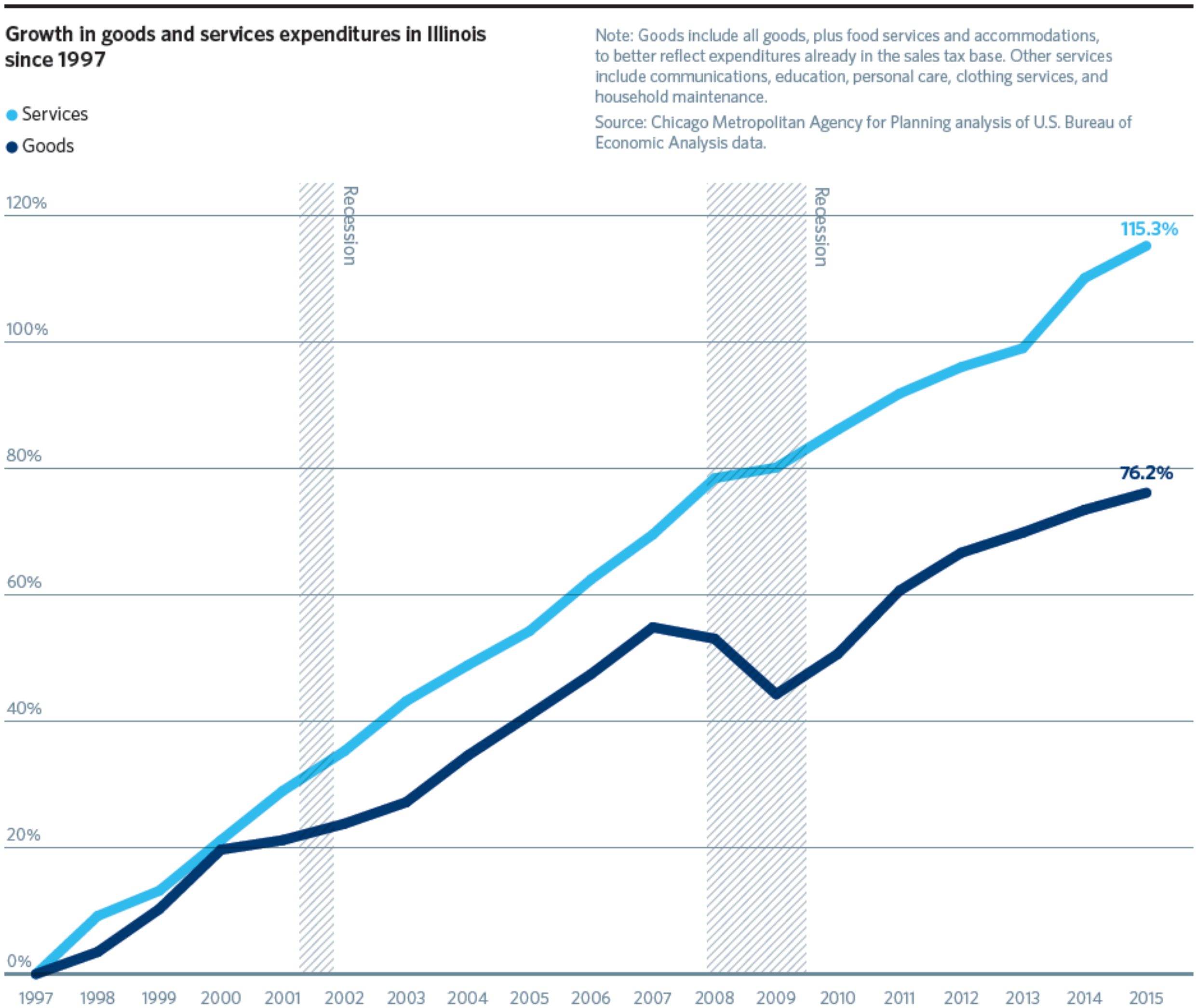
The Illinois sales tax base excludes most services, with the exception of 17 services, most of which are utilities. Nationally, the median state sales tax base includes 55 services. Figure 10 provides an overview of the median number of services taxed by states, by type of service, compared with Illinois.

Figure 10.



While consumer services are excluded from the sales tax base, as well as from commercial areas in some communities, the demand for consumer services is rising. As illustrated in Figure 11, in Illinois, consumer expenditures on goods rose 72.1 percent between 1997 and 2014. During that same period, consumer expenditures on services such as communications, education, personal care, clothing services, and household maintenance rose 108.2 percent. Despite increasing market demand, many communities are making land use decisions that have the potential to exclude consumer services businesses due to a potential for lower tax revenue. However, the validity of this concern is questionable, as consumers may seek one-stop locations where they can fulfill their goods and services needs in a single trip.

Figure 11.



Municipal policies around non-sales tax generating development

Retail vacancy is high in northeastern Illinois. During the first quarter of 2016, the Chicago CoStar region (which includes the seven-county CMAP region as well as Rockford in Illinois, Kenosha in Wisconsin, and northwestern Indiana) had the highest retail vacancy rate, 7.7 percent, of the 10 largest U.S. metropolitan areas.[11] Excess retail development can result in underused retail spaces that a community must continue to provide services to, while receiving minimal or no fiscal benefits. Previous analysis has indicated that individual local development decisions may cumulatively lead to retail overbuilding in regional submarkets or the region as a whole.[12] Vacancy rates are also influenced by corporate restructurings or relocations, changing

[11] CoStar, *The CoStar Office Report: National Retail Market, First Quarter 2016*, 2016.

[12] Chicago Metropolitan Agency for Planning, *Fiscal and Economic Impact Analysis of Local Development Decisions*, January 2014, 6, http://cmap.is/2mfrlPw.

building configurations, changing consumer preferences, socioeconomic shifts, and other factors.[13]

In some communities, retail vacancies may be driven by policies requiring that businesses in commercial corridors have a certain percentage of their sales be taxable.[14] Some communities do not allow consumer services businesses in commercial areas at all. Sometimes, these policies are implemented as part of planning objectives to create a vibrant downtown area, and may simply require that non-sales tax generating businesses such as medical or legal offices be located above the first floor. In other areas, the policies may exist to ensure the generation of a certain level of sales tax revenue.

Strategies for improving the region's balance of land uses

Land use diversity is dependent on a variety of factors, such as local zoning, infrastructure, transportation, demographics, as well as market factors such as leasing and purchase price, competition, and existing land uses. The municipal tax structure also can influence the mix of land uses and resulting employment, services, and amenities available to residents. For example, municipalities may not prioritize land uses that contribute less revenue than other uses.

Relying on a variety of land uses and revenue sources would improve stability of municipal revenue, allow municipalities to more consistently maintain services and existing tax rates, and provide more amenities or options for residents. Increased revenue predictability also would allow municipalities to better plan for the future. An overreliance on any one revenue type may result in, or arise from, a disproportionate amount of the development type that generates it. As appears to be the case with retail development, an excess of certain development types spurred by the desire for potential fiscal benefits may result in higher vacancy rates for that development type. Municipalities in a competitive environment may provide incentives to encourage businesses to relocate within the region, resulting in zero net benefit regionally.

Under the current tax structure, it may make fiscal sense for communities to exclude certain types of businesses. However, it is important to ensure that all communities have the ability to generate revenue to support land uses that provide local and regional economic and quality of life benefits. As identified in GO TO 2040 and the Regional Tax Policy Task Force, a potential solution is to expand the sales tax base to include additional services. In addition to helping communities create a more balanced land use mix, another benefit of this approach is decreased volatility of municipal revenues from changes in consumer preferences and consumption patterns. Likewise, taxing similar households and businesses in more similar ways, regardless of their consumption choices, would help ensure comparable tax burdens.

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[13] Chicago Metropolitan Agency for Planning, "Non-residential vacancy" based on analysis of CoStar data, Regional Economic Indicators, 2015, http://www.cmap.illinois.gov/economy/regional-economic-indicators/trends.

[14] Anecdotally, there are several instances of this phenomenon. For example, Urban Land Institute Chicago, *Winnetka Commercial Districts*, 2013, http://chicago.uli.org/wp-content/uploads/sites/16/2012/03/WinnetkaFinal.pdf; Tim Hadac, "Get real about Harlem's retail mix: consultant," *The Regional News,* June 18, 2015.

Taxing a broader range of goods and services also improves efficiency: This approach minimizes economic distortions because consumers would purchase goods or services to maximize their own welfare, rather than as a response to tax burdens.

Any changes to the sales tax base would have to ensure that problems relating to "cascading taxes" be mitigated. Under the current system, a business usually passes the cost of sales taxes for a business input (e.g., an office chair or cash register) on to the customer. Then, the customer pays a sales tax on their purchase, resulting in a tax on a tax, or "cascading taxes." If additional business inputs, such as accounting services, were added to the sales tax base, the cascading nature of the sales tax would be amplified.

Office development

Office rentable building area (RBA) in the CMAP region increased from 414 million to 451 million square feet between 2000 and 2016.[15] According to regional CoStar data for the third quarter of 2016, the office vacancy rate was 13.3 percent, which is higher than the national average (11 percent) and higher than rates in peer CoStar regions.[16] However, the office market in Chicago has recovered more quickly than peer regions since the recession.[17] This growth could be due to the region's growth in healthcare and financial industries. Prior CMAP research indicates that office development has the highest levels of employment as well as the highest wages compared with other development types.[18] The costs of supporting office development vary based on infrastructure and service needs. The type of office use and characteristics of its tenants also impact municipal expenses. For example, medical offices are associated with higher emergency service calls than non-medical offices. Likewise, offices where employees typically drive to work during peak morning and evening commute periods generate more transportation costs.

Office development can generate several revenue types: property tax on the office development; telecommunications tax;[19] and local utility taxes on the distribution, supplying, furnishing, or selling of natural gas, electricity, and other utilities. Office tenants who purchase prepared meals and goods within the municipality contribute to sales tax revenue. In CMAP's 2014 study on the fiscal and economic impacts of municipal development decisions, research examining four case studies found that corporate office developments generate the greatest fiscal benefits

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[15] Chicago Metropolitan Agency for Planning analysis of CoStar data.

[16] Ibid.

[17] Chicago Metropolitan Agency for Planning, "Non-residential vacancy," Regional Economic Indicators, http://cmap.is/ 2n2nfKy. CMAP analysis of CoStar data. 2016.

[18] Chicago Metropolitan Agency for Planning, *Fiscal and Economic Impact Analysis of Local Development Decisions*, January 2014, http://cmap.is/2mfrlPw.

[19] Simplified Municipal Telecommunications Tax Act, 35 ILCS 636.

for municipalities when compared with medical office, warehouse and distribution, and small scale industrial developments.

State income tax revenue accrues to the state, which disburses a portion of that revenue back to municipalities and counties on a per-capita basis. Unlike Illinois, 17 states provide some or all local governments with the authority to impose a local income tax.[20] States like Kentucky, Ohio, Michigan, and Pennsylvania give broad authority to municipalities to impose local income taxes. Municipalities with this ability have a different tax structure than communities in the Chicago region. Below is an account of one Ohio county's experience with office development and income taxes.

Example from Cuyahoga County, Ohio

In 2014, Cuyahoga County in northern Ohio had 1.2 million residents and Cleveland, the County's largest city, had approximately 390,000 residents. The Cleveland metropolitan region had approximately 145 million square feet of office RBA in the first quarter of 2016, with a vacancy rate of 12.1 percent.[21] Cities and villages in Ohio are able to impose a municipal income tax of up to 1 percent on top of the state income tax;[22] they may impose a local income tax at a higher rate with a referendum vote.[23] The average income tax rate is 2 percent in Cuyahoga County, although several areas such as the City of Cleveland have higher rates.[24] Residents who work and live in separate municipalities may have an income tax burden in both the jurisdictions, although the municipality of residence is authorized to offer a credit or partial credit to its residents. Municipal income tax in Cuyahoga County grossed $969 million in 2013.[25]

Interviews with Cuyahoga County-area economic developers and planners suggest that many municipalities in Ohio often seek office development, particularly of higher-earning jobs, to guarantee ample income tax revenue. Some experts observed intense competition for office development among municipalities, particularly in suburban communities, which often provide financial and regulatory incentives to attract businesses.

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[20] Joseph Henchman and Jason Sapia, "Local Income Taxes: City- and County-Level Income and Wage Taxes Continue to Wane," *Fiscal Fact*, no. 280 (August 31, 2011).

[21] CoStar, *The CoStar Office Report: National Office Market, First Quarter 2016*, 2016.

[22] Townships and counties, in comparison, are not able to impose a local income tax. Rather, townships rely primarily on property taxes, fees, and county support for revenue. Counties rely on a variety of sources, including sales tax revenue.

[23] Ohio Department of Taxation, *Ohio's Taxes 2013: A Brief Summary of Major State & Local Taxes in Ohio,* 2013, http://cmap.is/2lAT2oY.

[24] Ohio Department of Taxation, *Municipal Income Tax: Tax Rates and Amounts Collected, by Municipality, Calendar Year 2013*, Table LG-11, http://cmap.is/2iopjdv.

[25] Ohio Department of Taxation, Municipal Income Tax: Tax Rates and Amounts Collected, by Municipality, Calendar Year 2013, http://cmap.is/2iopjdv.

Due to heavy competition, in 2012, localities in Cuyahoga County signed the Cuyahoga County Business Attraction and Anti-Poaching Protocol where communities pledged that they would not entice businesses already in the county to move from one community to another.[26] Communities compete for businesses by showcasing amenities rather than by offering explicit incentives to companies to move from one part of the county to another.

In addition to increased competition for office development, some interviewees also observed a lack of retail development or other services. Rather, communities may pursue retail development as part of a larger neighborhood planning goal to attract residents. These residents contribute to retail activity as well as provide local income tax revenue.

Land use diversity and tax base framework: More lessons from Ohio

As discussed earlier, the municipal tax base framework may influence local governments' land use decisions and ultimately impact a community's mix of land uses and resulting services, employment, and amenities. Frameworks that rely disproportionately on one or a few revenue sources, or exclude specific revenue sources like property tax, may result in less diverse land uses and fewer service and employment options for residents. Enabling municipalities to impose a local income tax on their employees and residents creates an incentive to compete with other municipalities for office developments, which are typically associated with jobs that provide higher wages than retail or other development types. In Cuyahoga County, Ohio, the competition for office developments became so intense that the County developed a non-competitive agreement to encourage intraregional cooperation among localities for business development.

In addition, municipalities in Ohio do not impose sales tax. Some local experts observed that because of this tax structure, retail development is a lower priority. Instead, retail land uses are developed as an amenity to attract households and businesses. In some instances, this results in communities with less than a desirable amount of services or retail. County governments, on the other hand, receive sales tax revenue, so retail development is a priority at the regional scale. Comparatively, many Illinois municipalities rely on sales tax revenue as a major source of municipal funding, and some may have a supply of retail land use that is higher than what the market demands. These examples suggest that land use mix, tax base and statutory revenue framework are linked, regardless of which land use type a state's tax framework may cause municipalities to prioritize.

Industrial development

Industrial development in the CMAP region includes manufacturing, warehousing, construction and trades, and distribution users, among others. Since 2005, the existing industrial building square footage in the CMAP region grew by almost 3 percent. At 7.8

[26] Cuyahoga County, "Business Attraction & Anti-Poaching Protocol," http://regionalcollaboration.cuyahogacounty.us/pdf_regionalcollab/en-US/AntiPoachingProtocol.pdf.

percent, the seven-county region's industrial building vacancy rate is at its lowest since 2001; this is also lower than the region's retail and office vacancy rates.[27]

Depending on the specific business tenants, industrial development provides significant regional economic benefits. Figure 3 illustrates the potential in industrial land uses for sizable employment multipliers and higher wages, particularly compared with retail development.

Most of the municipal revenues generated through industrial development accrue from property tax and utility taxes. However, property tax revenue for industrial development tends to be comparatively lower than other types of development. While industrial buildings are large, they tend to be simple structures that are assigned low assessed values. Most of the value is in the equipment, which is not included in the property tax base. Industrial development can generate sales tax revenue if sales are sourced to that location, but this is uncommon.

Previous fiscal impact analysis indicated that revenues are barely sufficient to cover the costs of most industrial developments.[28] However, across the region, the ability of municipalities to pay for infrastructure, services, and maintenance necessary for industrial developments varies widely. The primary factor in this variance is which jurisdiction maintains associated truck routes. Trucks cause heavier wear and tear on roadways, and incur higher costs for the municipality if the designated truck routes are municipal roads, rather than state or county roads. Since municipal jurisdiction over possible truck routes varies considerably, so does the potential negative fiscal impact for municipalities with industrial development.

In some areas of the region, communities struggle to attract economic development. Sometimes, municipalities and other taxing districts offer property tax abatements or even utility tax rebates to attract industrial development. In communities in Cook County, where commercial and industrial property are subject to higher assessment levels than residential property, many industrial properties receive a Class 6b designation that reduces the assessed value of the property for 12 years, and this designation can be renewed.[29] These abatements and incentives further reduce the fiscal benefits of these developments and the revenue available to the municipality. As a result of these factors, many communities lack a mechanism to cover the cost of services to industrial development, or simply to break even.

Examples from northeastern Illinois

Among communities with substantial industrial development, the challenges of attracting development while sufficiently funding infrastructure and services vary greatly. The following provides an overview of how three municipalities in the region are tackling these issues.

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[27] In 2015, the vacancy rates for retail and office development in the seven-county region was 8.4 percent and 14 percent, respectively. Source: Chicago Metropolitan Agency for Planning analysis of CoStar data.

[28] Chicago Metropolitan Agency for Planning, *Fiscal and Economic Impact Analysis of Local Development Decisions*, January 2014, http://cmap.is/2mfrlPw.

[29] Cook County Code of Ordinances, Sec. 74-63 (7); Section 74-64 (7).

Chicago Heights

The City of Chicago Heights is a home rule community in south Cook County that relies primarily on property tax revenue. Industrial space represents 16.5 percent of total land use area and 81 percent of all non-residential square footage.[30] The challenges of attracting and retaining industrial development vary across the city, as certain areas are located within school districts with relatively high property tax rates. Business attraction efforts focus on industrial development to increase employment opportunities. The City believes this may have the effect of attracting more residents, which, in turn, may create a market for additional retail development.

To mitigate the effects of property tax classification in Cook County, the city often awards Class 6 or 8 incentives to commercial and industrial properties. These designations reduce the assessed value of property for industrial development (Class 6) and development in areas in need of revitalization (Class 8) for 12 years, and can be renewed.[31] In addition, Tax Increment Financing (TIF) districts are common for larger commercial and industrial developments.

The City funds services and infrastructure through general revenues, including property tax revenues, a 1 percent home-rule sales tax, utility taxes on electricity and natural gas, and various state disbursements. The City also imposes a three-cents per gallon motor fuel tax. New developments must pay capital development fees for the expansion of the water and sewer system.

Franklin Park

The Village of Franklin Park is a built-out, non-home rule community in west Cook County near O'Hare Airport. Industrial development is the most prevalent land use type in the community, making up 35 percent of total land use. The Village's industrial areas are part of a complex of industrial development located around O'Hare Airport and support the region's strongest concentration of freight and manufacturing employment. Redevelopment often results in additional infrastructure needs, such as traffic signals and signal interconnects. In addition, existing infrastructure is in need of repair and enhancement, due in part to older roads in industrial areas often being insufficient to handle heavier trucks.

The Village is primarily reliant on property tax revenues, which made up just over half of its municipal revenue in 2014. The Village also has a one percent non-home rule sales tax, which is the maximum rate allowed for a non-home rule municipality, as well as a six percent telecommunications tax, also the maximum rate allowed under state statute. A March 2016 home rule referendum failed, which means that the municipality will continue to be unable to enact revenue sources like parking fees and motor fuel taxes. The Village has no other local

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[30] Chicago Metropolitan Agency for Planning (CMAP) Parcel-Based Land Use Inventory, 2010, and CMAP analysis of CoStar data, first quarter of 2016. Non-residential developments for this analysis include commercial, retail, and industrial development.

[31] Cook County Code of Ordinances, Sec. 74-63 (12); Sec 74-64 (12).

utility taxes. To remain competitive with neighboring communities in DuPage County that have a lower industrial property tax burden, Franklin Park does not impose impact fees.

To mitigate the effects of property tax classification in Cook County, the Village often awards Class 6b incentives to industrial properties, and will renew them if the taxpayer is planning to make a significant investment in the business. These incentives reduce the property tax base available to the Village, but along with Enterprise Zone state tax reductions, are considered important for business attraction and retention.

The Village would like to find additional ways to fund necessary infrastructure improvements. One successful project involved assembling several types of funding sources. In the Cullerton Street Industrial Area, the roads were in extremely poor condition due to heavy trucks, negatively affecting usability.[32] The Village was using 30 percent of its road maintenance budget for these roadways, which totaled three-quarters of a mile. The roads were originally constructed in the 1960s by a private developer, and were not built to the Village's standards. A court order forced the Village to take over ownership of these roads in the 1990s. To fund the reconstruction, Cook County provided a loan to the Village through the BUILT in Cook HUD Section 108 Loan Program.[33] The loan will be repaid through a Special Service Area (SSA) property tax by the property owners in the area (for more information about SSAs, please see Figure 12.) The State and the Village also provided funding for the $6.5 million reconstruction project, which was completed in 2016.

Romeoville

The Village of Romeoville is a home rule community in Will County. With almost a quarter of its total land area devoted to industrial uses, the Village is home to the fifth-largest amount of industrial space in the region. The Village is adjacent to I-55 and I-355, has available land for development, and has substantial warehousing and distribution development. Romeoville primarily relies on property tax revenues, which brought in almost 29 percent of its municipal revenue in 2014. It also has a 1.5 percent local sales tax, a local motor fuel tax (6 cents for motor fuel and 7 cents for diesel), and utility taxes for electricity, gas, telecommunications, and water.

This diverse fiscal structure, and a greater proportion of recently constructed infrastructure than other parts of the region, has allowed the Village to provide services and infrastructure in the community at the levels necessary for industrial development that produces substantial truck traffic. Broad funding sources, such as the local motor fuel tax and state motor fuel tax disbursements, fund roadway maintenance.

The fact that much of the development of all types in Romeoville is occurring on undeveloped land has provided the Village with several development-specific tools that might be unavailable

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[32] Illinois Municipal League, Cullerton Street Industrial Area, http://www.iml.org/file.cfm?key=8944, accessed June 9, 2016.

[33] For more information, see Cook County, BUILT in COOK - Cook County HUD Section 108 Loan Program, http://cmap.is/2ios6Dl.

to built-out communities. For new infrastructure improvements and expansions associated with a development, the Village requires payment from developers, often in the form of recapture agreements. This way, the Village recovers costs from developers when the infrastructure is constructed and from new developers who will benefit from the same infrastructure. In 2014 and 2015, the Village collected nearly $5 million in developer contributions.[34] Retail developments may receive sales tax rebates to refund some costs back to the developer over time. The Village also has made use of TIF to fund infrastructure improvements related to development. In addition, the Village ensures that development fees and permit schedules reflect the full cost of development approvals.

Strategies for funding industrial-related infrastructure costs

Market trends, tax rates, development and redevelopment costs, and the cost and condition of supportive public infrastructure all affect a community's ability to attract industrial development and generate sufficient revenue to fully serve those developments. In addition to having higher costs, built-out communities may have fewer opportunities to pursue payments from developers. While all municipalities have development-specific mechanisms available to them to fund infrastructure improvements and maintenance, these can be balanced with broader sources of revenue, which can address long-term maintenance costs across a community that are not specific to a particular development.

Development-specific revenues

Municipalities can use a number of different mechanisms for collecting revenues from specific industrial developments to fund services and infrastructure. Communities can create agreements with developers and businesses to capture the cost of initial and future infrastructure improvements. This ad hoc approach also can apply to services such as road maintenance and operations. However, communities that require significant site improvements or struggle to attract industrial development — perhaps because of high property taxes, insufficient infrastructure, or other challenges — may have difficulty requiring additional funds from developers and businesses.

Home rule municipalities also may impose road impact fees.[35] The impact fee must be specifically and uniquely attributable to the costs generated by the development, and cannot be used to remedy existing deficiencies or to upgrade existing facilities to meet new environmental or safety requirements. To impose an impact fee, a government must follow a series of procedures to calculate the fees and ensure that they will not be used to cure existing deficiencies.

To generate revenue from a group of neighboring properties, municipalities can create SSAs, which levy a property tax on property owners within the SSA boundaries to fund both

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[34] Village of Romeoville, Annual Operating Budget FY 2016-2017, http://www.romeoville.org/DocumentCenter/Home/View/1065.

[35] Road Improvement Impact Fee Law, 605 ILCS 5/5-901.

infrastructure and services.[36] Similarly, municipalities can create TIF districts to fund infrastructure improvements through property tax revenue generated from incremental increases in property tax base.[37] Municipalities can establish a TIF district via ordinance. However, these districts only last 23 years and require a finding that the area is blighted or in need of conservation, and the funds cannot be used for most services.

Figure 12. Special Service Areas (SSA)

A Special Service Area (SSA) is a taxing mechanism imposed on property owners in a contiguous area within a municipality or county to fund special services and infrastructure. Municipalities and counties can approve SSAs by ordinance, although the ordinance adoption process ends if a majority of voters and property owners within the SSA boundaries submit a petition opposing the SSA.

The Illinois Municipal Code defines special services as services related to the government, municipality, and counties.[38] Common services and projects include support services such as downtown economic development activities, infrastructure projects such as storm sewers, and land and building improvements such as rehabilitation.[39] SSAs are found in downtowns or other commercial areas, industrial areas, and residential areas.

The SSA boundary encompasses households and businesses that pay for and benefit from the services or project. The assessment is tied to the cost of the project or service, including debt service, construction, engineering, legal, and service fees. The assessment can be imposed as a property tax based on the assessed value of properties (ad valorem), divided equally, or tied to factors such as the number of bedrooms in a house, square footage of a building or even whether a dwelling is single- or multi-family. As of 2014, the CMAP region had 470 ad valorem SSAs.[40]

Broad-based revenues

Industrial development provides broad regional benefits, but the costs to local jurisdictions may not match the revenues available to those jurisdictions. Particularly for communities that have service and infrastructure needs related to existing industrial development, the implementation of a revenue source not connected to a specific development or area might be helpful.

In many other states, property tax revenues generated from personal property, such as machinery and equipment, serves as a consistent source of revenue from industrial development. However, personal property was removed from the Illinois property tax base in the late 1970s, and the revenues generated were replaced by a statewide tax on business income, public utilities, electricity distributors, and telecommunications services. All taxing districts in the state that collected a property tax and had personal property in the base in 1977 (or 1976 for Cook County districts) receive annual Personal Property Replacement Tax (PPRT)

[36] Special Service Area Tax Law, 35 ILCS 200/27.

[37] Tax Increment Allocation Redevelopment Act, 65 ILCS 5/11-74.4.

[38] Illinois Municipal Code, 35 ILCS 200/27-5.

[39] S.B. Friedman Development Advisors, "Special Service Area," http://www.sbfriedman.com/sites/default/files/downloads/What%20is%20an%20SSA.pdf.

[40] Illinois Department of Revenue, 2014 Property Tax Statistics.

disbursements from the state based on each district's share of total personal property tax collections that year.

Many areas that have added substantial industrial since 1977 may not benefit from the current PPRT structure. Revenues, totaling $1.4 billion in Fiscal Year (FY) 2015, go to taxing districts in areas that were heavily industrial in the 1970s and/or had high property tax levies in the 1970s. The largest share of PPRT revenues accrue to school districts, or 52.3 percent of PPRT revenues statewide. Just $290 million in PPRT revenue was disbursed to municipalities in FY 2015, reflecting their historically (and presently) low property tax extensions relative to other types of taxing districts. Thus, redistributing this revenue among municipalities to match current development patterns would not be sufficient to address local infrastructure needs.

Another state revenue source commonly used by municipalities for infrastructure improvements is state motor fuel tax (MFT) disbursements. Municipalities receive a portion of state MFT revenues based on their share of the state population.[41] However, a common concern among municipalities with substantial industrial and commercial development, but few residents, is that the revenue is insufficient for their needs. In fact, CMAP's Regional Tax Policy Task Force recommended in 2012 that the CMAP Board should review the distribution method for the state MFT, specifically mentioning that a method based on municipal population does not account for commercial or industrial activity.

CMAP completed some initial analysis on this topic in 2014, comparing MFT disbursements to local governments in the region with road mileage and average annual daily traffic.[42] In addition to these metrics, other criteria such as employment or development density may better account for communities with substantial industrial development. Changing the disbursement criteria also may result in some communities receiving less revenue than under the current criteria. However, helping areas with significant industrial and commercial development improve their roadways would benefit the regional economy, providing jobs to residents of all communities.

Sixty northeastern Illinois communities also impose a local motor fuel tax to fund transportation infrastructure. This can be particularly useful for ensuring that businesses with heavy trucks are paying their fair share toward roadway improvements. However, current law only allows home rule municipalities to impose local fuel taxes.

Another potential strategy would leverage additional use tax generated from increases in internet sales to fund local transportation improvements. Use tax is paid on items purchased out of state or delivered from out of state for use in Illinois. The growing prevalence of internet

[41] In addition to municipalities, townships receive revenues based on mileage of township roads, counties with more than 1 million residents (Cook County) receive a specific proportion of the revenues, and all other counties receive revenues based on the proportion of motor vehicle license fees received.

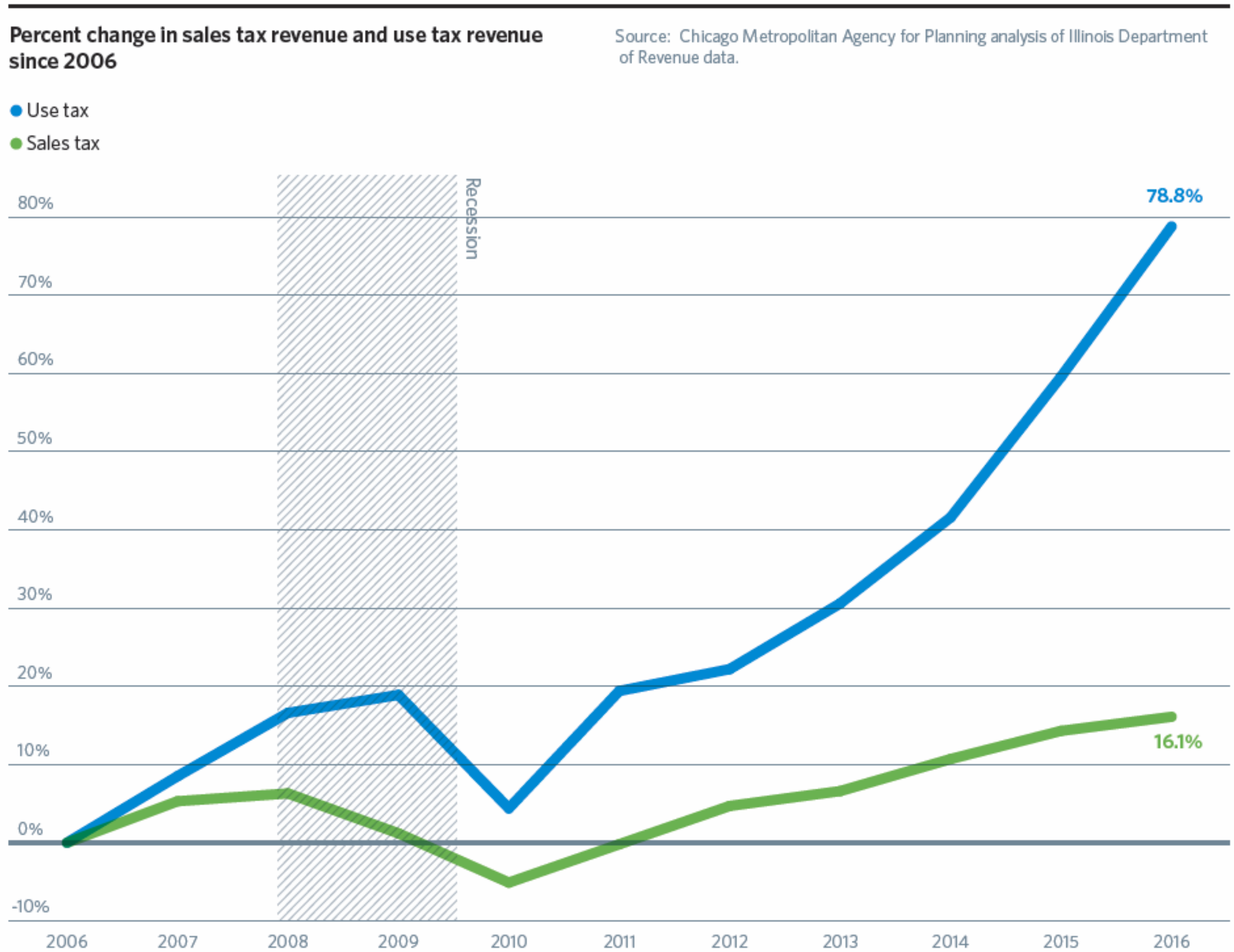
[42] Chicago Metropolitan Agency for Planning, "Evaluation of State Transportation Revenue Sharing with Local Governments," June 18, 2014, http://cmap.is/policy-update-6-18-14.

sales may increase truck traffic on the entire roadway system, including roads serving warehousing and distribution businesses, and residential customers receiving deliveries. If areas with warehousing and distribution are unable to maintain and enhance their transportation infrastructure, it would have an impact on the distribution industry as well as the entire regional transportation network.

Currently, a portion of use taxis disbursed to municipalities based on their share of the state population, totaling approximately $200 million statewide in FY 2015.[43] As illustrated in Figure 13, overall use tax revenue has been increasing over the past decade, at more than double the rate of sales tax revenue. Incremental revenue increases could be disbursed based on new criteria to ensure that communities with significant warehousing and distribution industries would receive this revenue.

[43] According to the Illinois Department of Revenue, state statute requires purchasers to pay use tax on items purchased for use in Illinois when they are delivered from or purchased from out of state and brought into Illinois. If the seller does not collect the tax, the purchaser is required to pay it directly to Illinois. Twenty percent of the state's Use Tax revenue is disbursed as follows: 20 percent to the City of Chicago; 10 percent to the Regional Transportation Authority; 0.6 percent to the Madison County Mass Transit District; $37.8 million to Build Illinois Bond repayment; and the remainder to municipalities and counties other than City of Chicago, based on population.

Figure 13.



Residential development

According to the most recent American Community Survey estimates, approximately 3.1 million households occupied 3.4 million housing units in the region, up from 2.9 million households and 3.1 million housing units in 2000.[44] Expenses related to residential development depend on the community. New residential development may require significant new infrastructure such as roads, sidewalks, and utilities. In contrast, residential development in infill areas with existing infrastructure has less of an impact on capital and service costs. All units of government, from school, fire, park, and library districts to municipalities, townships, and counties, feel the impacts of residential development on delivering public services.

Revenue generated by residential developments may come from property tax, utility tax, state per capita revenue sharing, and local fines and fees, such as building permit fees.[45] The amount

[44] U.S. Census Bureau 2000 Decennial Census and American Community Estimates 5-year survey 2010-14.

[45] Per-capita revenue sharing includes the state motor fuel tax revenue, use tax revenue, and individual and corporate income tax revenue, which are based on municipal share of the state population.

of local revenue derived from residential property is dependent on what taxes, fines, or fees the municipality imposes, as well as their rates, and county-level assessment practices. The density of the residential developments also impacts revenue. Previous CMAP research using case studies found that higher density residential developments like condominiums and townhomes have larger equalized assessed values per acre than lower density residential developments.[46] Similarly, the market value of a residential neighborhood impacts the amount of revenue provided by the property tax. Households also contribute to municipal revenue if they purchase products in the municipality and contribute to sales tax revenue.

Another mechanism that municipalities can use to pay for infrastructure is a Special Service Area (SSA), described in Figure 12.[47] The taxing mechanism is often found in commercial areas, but municipalities also may use them to fund projects in residential neighborhoods, such as maintaining roadways. Some SSAs are activated only if a homeowners association dissolves or fails to maintain infrastructure.

Examples from northeastern Illinois

Communities use various funding mechanisms to pay for infrastructure costs related to residential development, including special service areas and sales tax revenue from retail development projects. The two case studies below illustrate how communities attempt to finance road repair and maintenance while maintaining community priorities.

Village of Round Lake

The Village of Round Lake is a non-home rule community in Lake County where single-family homes account for half of total land use. Based on American Community Survey five-year estimates for 2010-14, more than 18,000 residents lived in the village. The Village covers infrastructure maintenance costs. The Village, which relies primarily on property tax revenue, had four special service areas (SSAs) in 2014. In the early 2000s, Round Lake experienced a surge in residential development and developed three of the SSAs to issue more than $20 million in bonds to finance roadway, water, and sewer infrastructure improvements related to two new subdivisions.[48] Another SSA was created to pay for common area expenses after the area's homeowners association could no longer fund the service.[49] The Village opted to impose non-ad valorem SSA taxes so that residences of all sizes pay the same or similar rates, as the service and maintenance needs are not tied to the value of the property. In 2014, the four SSAs in Round Lake generated $1.6 million in revenue.[50]

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[46] Chicago Metropolitan Agency for Planning, *Fiscal and Economic Impact Analysis of Local Development Decisions*, January 2014, http://cmap.is/2mfrlPw.

[47] Special Service Area Tax Law, 35 ILCS 200/27.

[48] Village of Round Lake, Annual Financial Report For Year Ended April 30, 2015, http://www.eroundlake.com/files/documents/2015AuditReport1314103327020516AM.pdf.

[49] Village of Round Lake. Ordinance 02-O-47, "An ordinance establishing Village of Round Lake Bright Meadows Special Service Area Number One." December 17, 2002.

[50] PTAX 251 for County of Lake, State of Illinois. Tax Year 2014.

In their 2017-22 Capital Improvement Program, the Village estimates that $2.6 million of replacement and repair will be required for its roadways over the six-year period.[51] However, current funding levels will require the Village to spread these projects out over time. The Village also hopes to develop its retail base and increase its residential population to support the retail activity. Currently, the Village has a low sales and property tax base per capita relative to other municipalities in the region.

Village of Long Grove

In the Village of Long Grove, a non-home rule municipality in Lake County, most residential roads are private. The majority of its total land use is residential (53.4 percent), followed by agricultural (15.6 percent). As of 2010, all residential property was single-family development. In 2014, sales tax revenue was the largest revenue source, accounting for about a third of total municipal revenue, followed by state motor fuel tax; the Village does not impose a property tax. Since a policy decision made in the 1970s, most new development has occurred along private roads, which are maintained by property owners and homeowner associations.[52] This policy ultimately controls the miles of public roads that the Village is required to maintain. The 1970s decision also included a policy to establish strong homeowner associations that are legally permitted to collect dues to finance private roadway maintenance.

Even with the policy limiting the growth of public roads, the Village was responsible for 31 miles of public roads as of 2010, compared with 13 miles under its care in the 1970s.[53] Maintenance and services for local roads are financed mainly through the motor fuel tax, non-restricted taxes (sales, income, telecommunications, and miscellaneous), fees, permits, and licenses.[54] Over the past decade, permit fees provided more than $1 million in annual revenue, although this amount plummeted during the recession when housing construction stalled. Revenue from permits, fees, and licenses has increased in recent years, but the municipality perceives that this revenue source will become less prominent now that the village has become more built out.

Paving and plowing expenses for public roads accounted for 34 percent of total expenditures in 2013.[55] To address aging roads, the recommended road infrastructure maintenance program called for $3.5 million in annual maintenance, which would create a revenue shortage of $2

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[51] Village of Round Lake, FY 2017 budget, http://www.eroundlake.com/files/documents/2017Budget1315031030051616PM.pdf.

[52] Duaa Eldeib, "Long Grove Plan May Pave Way to Privatize Public Roads," McClatchy - *Tribune Business News*, Jan 14, 2014.

[53] Village of Long Grove, "Town Hall Meeting IV, Infrastructure Funding Presentation," 2013, http://www.longgrove.net/sites/default/files/Town%20Hall%20Meeting%20Presentation%20IV%2010072013.pdf

[54] The Village of Long Grove had four non-ad valorem SSAs as of 2014. These SSAs brought in approximately $489,000 through extensions in FY 2014.

[55] Village of Long Grove, "Town Hall Meeting IV, Infrastructure Funding Presentation," 2013, http://www.longgrove.net/sites/default/files/Town%20Hall%20Meeting%20Presentation%20IV%2010072013.pdf.

million dollars.[56] To address the funding gap, the Village reduced municipal services. The municipality also proposed a property tax in 2014 for road repair, but the referendum did not pass.

Additionally, the Village attempted to privatize a number of roads, which would have reduced the amount of miles the municipality was required to maintain, significantly diminishing the funding gap.[57] Many of the roads intended for privatization were within, and primarily served, local subdivisions, rather than the general community. The proposal was for homeowners associations of these subdivisions to pay for maintaining and servicing newly privatized roads. Residents living along roads intended for privatization who did not belong to homeowners associations could either vacate or establish a special service area to fund the maintenance and repair of these roads.

The privatization ordinance was retracted after Long Grove ultimately decided that they could not vacate roads in disrepair, and that once these roads were brought to an acceptable condition, they would no longer need to vacate them.[58] Furthermore, according to interviews, residents did not seem supportive of creating SSAs in residential areas to support road-related projects.

The Village has since tried to raise revenue through economic development measures that increase retail development. The Village created a downtown master plan, established a TIF district in its downtown, and created a business district and a special service area specifically for public water. Due in part to increased retail activity, Long Grove estimates that revenues were up 40 percent between the FY 2014 budget and the approved FY 2017 budget.

Nevertheless, challenges persist. Small homeowners associations may have a difficult time paying for road maintenance for their private roads. In one small HOA, for example, approximately half of its homes went into foreclosure.[59] The loss of revenue from dues from the foreclosed homes has made it difficult for the HOA to pay for their road maintenance, and the Village was asked to provide assistance.[60] With additional revenue from economic development pursuits, the Village is still maintaining roads, although at a rate lesser than recommended.[61]

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[56] Ibid.

[57] Duaa Eldeib,"Protests fail to undo privatization of Long Grove roads," *Chicago Tribune*, December 11, 2013, http://www.chicagotribune.com/news/ct-long-grove-roads-met-20140101-story.html.

[58] Village of Long Grove, "Timeline of Planning for Village-Wide Infrastructure Maintenance," 2014, http://www.longgrove.net/sites/default/files/Timeline%20Planning%20for%20Village%20Infrastructure%20Maintenance%2004022014.pdf.

[59] James Hogue, telephone interview with Village Planner of Long Grove, March 10 and June 22, 2016.

[60] Ibid.

[61] Ibid.

Strategies for funding residential development-related costs

Communities can impose development-specific revenues or special assessments to finance residential development-related costs. Their choice of funding mechanism is impacted by community priorities for land uses, market demand for development types, the level and type of taxes and fees that property owners in communities are willing to pay, and larger community concerns about equity. Some communities rely on retail development to provide revenues for the entire municipality, but this is not possible in all communities.

Development-specific revenues

Similar to other development types, costs related to residential development can be funded by development-specific revenues. New residential developments can be funded by special agreements with or impact fees from developers and businesses to offset the costs of building or improving infrastructure or providing a disproportionate increase in services, such as schools or emergency calls. Impact fees typically cover the initial costs of infrastructure rather than the full life-cycle cost. In Illinois, impact fees typically are used for new road infrastructure, specifically, and municipalities still must find revenue sources for maintenance and services.[62]

As discussed in previous sections, such fees must be directly related to costs generated by the development. As with other development types, communities may not be able to impose impact fees if market factors make developers unwilling to shoulder the added costs. Communities that seek to offer a diversity of housing choices must balance their desire to have a mix of residential developments with the need for the municipality to finance any extra costs associated with these units as well as the ability and willingness of developers to pay for extra costs. Initial CMAP analysis and interviews have indicated that some senior housing developments may incur additional costs due to service and fire calls, and that communities have adopted various strategies to reduce this impact, such as fines for false alarms.[63] Additional financial and regulatory incentives may be necessary to offset the cost of certain residential types. Incentives may also be necessary in locations where market factors make development difficult.

Municipalities and developers choose SSAs as a method to finance projects and services because the costs are incurred by property owners who are directly affected rather than by all local residents, potentially making this method more politically palatable. An additional benefit of SSAs is lower costs: As public entities, municipalities can sell bonds to raise money for infrastructure projects at interest rates that are often lower than what private companies can obtain.

Some municipalities and homeowners, however, have expressed concerns that SSAs may impact home sale prices and tax assessments. Developers and sellers of properties within the

[62] Katz, Peter, "The Missing Metric," *Government Finance Review*, August 2013, http://www.gfoa.org/missing-metric.

[63] Chicago Metropolitan Agency for Planning, *Fiscal and Economic Impact Analysis of Local Development Decisions*, January 2014, http://cmap.is/2mfrlPw.

SSA boundary may decrease the purchasing price of their property to compensate for the special assessment. The lower purchasing price then impacts property tax assessments. Alternatively, buyers may misunderstand or not be fully aware of the actual cost of the property taxes. Also, re-selling properties in SSAs may also be more difficult than re-selling property outside of SSAs.

The question of who should actually bear the cost of new development, maintenance and services, and improvements is a fundamental issue with SSAs and similar financing mechanisms. Some communities are concerned about the equity implications of passing on costs to owners when developers or the larger municipality also stand to benefit from investments. Developers benefit financially from the project through sales and leasing opportunities. New residents also provide financial benefit to communities through increased tax revenues and additional support for the local economy through purchased goods and services.[64]

Improper administration of the SSA also may lead to inequitable distribution of costs. For example, in Lake Zurich, an SSA was created for wetland maintenance. However, homeowners outside of the SSA boundary were found to be contributing to the runoff harming the wetland. As such, the SSA boundaries had to be re-drawn to include more homeowners.

Revenues generated from commercial development

Residential development does not always generate sufficient revenue to cover needed municipal services. Thus, municipalities may rely on or may desire retail development and its sales tax revenue to fund services, roads, and other infrastructure costs. However, retail development will only occur if there is demand, which requires an ample number of households in a particular market area. The market area for a retail development often encompasses multiple communities. Retailers consider competing factors such as the distribution network, competition, infrastructure, access, and zoning. As a result of these factors, not all communities may have the ability to attract or sustain retail development. In addition, municipalities that prioritize retail land use in excess of market capacity may have underused or vacant retail property that has negative fiscal and economic impacts on the community as well as the region. In cases when commercial development is not appropriate or successful, municipalities should consider other strategies to support residential development and other community goals.

ON TO 2050 framework

In general, strategies in ON TO 2050 will refine and expand upon GO TO 2040 recommendations. However, the region also should research and assess new concepts. The following provides a general policy framework for addressing the intersection between tax

[64] Beyard, Michael D., Michael Pawlukiewicz, and Alex Bond, *Ten Principles for Rebuilding Neighborhood Retail*, Urban Land Institute, 2012, http://uli.org/wp-content/uploads/2012/07/TP_NeighborhoodRetail.ashx_1.pdf.

policy and land use, as well as next steps for integrating these strategies into ON TO 2050. CMAP should work with partners and stakeholders, including working committees, municipalities, transportation implementers, and others, to complete new research and further refine strategies.

Each of these strategies recognizes the critical role municipalities play in fostering the region's success through their land use decisions. Municipalities make reasonable fiscal decisions given the current state laws guiding how communities generate revenue. However, this framework does not necessarily support the most positive regional economic outcomes. The strategies below promote best practices within the current framework and evaluate changes that can promote better regional economic outcomes.

Employ a balanced local revenue mix and land use mix. ON TO 2050 should include strategies that allow all municipalities to support their desired land use mix. Communities plan for land use and economic development based on livability goals established by stakeholders, in addition to considering fiscal needs associated with desired land uses. Locality-specific revenues have the potential to influence development priorities; thus, establishing a balance of revenue types may ensure a balance of priorities. Some communities in Illinois prioritize retail development to generate sales tax revenues. Findings from Ohio, where municipalities can levy a local income tax and, as a result, may prioritize office development, indicate that leaning too heavily on any one particular source in the tax structure may simply change which development type is emphasized. A particular land use may not generate substantial municipal revenues, but it can still be important for community and regional economic and quality-of-life goals. Next steps include:

> ***Support expanding the sales tax base.*** To help communities allow for a more balanced land use mix, CMAP should continue to support the GO TO 2040 recommendation to expand the sales tax base to include additional services. Under the current tax structure, many communities exclude non-sales tax generating businesses from commercial areas. Likewise, communities without sales tax generating businesses are left with fewer options to raise municipal revenues. It is important to ensure that all communities have the ability to generate revenue that supports the land uses that those communities have identified as important to their goals.

Collaborate to improve the economy. Local economic development incentives should focus on local and regional economic gain. Specifically, ON TO 2050 should support the use of incentives for developments that provide regional economic benefits, including increasing employment, reinvesting in infill sites, or encouraging mixed-use development. While many local incentives are employed for these purposes, others are used to attract businesses that already intend to locate within the region, and are choosing from specific sites within a particular market area. In these circumstances, communities offering the incentive are competing with neighboring communities to increase local tax revenues. However, these practices run contrary to collaborative planning efforts and do not result in local or regional economic benefit. In addition, previous CMAP research has indicated that economic development that creates higher wage jobs and induces employment regionwide, such as industrial development, may not have a large effect on local tax revenue.

In Cuyahoga County, Ohio, the competitive environment created by municipalities' pursuit of income tax revenue resulted in the development of a non-competitive agreement to encourage intraregional cooperation for business development. The Denver region implemented a similar agreement in 1987.[65] ON TO 2050 should encourage all the region's communities to explore ways to improve intraregional cooperation. Next steps include:

> ***Plan for market-feasible development across community boundaries.*** The region has atypically high retail vacancy rates, resulting in properties and infrastructure that must be maintained at a cost to local communities. Many municipalities rely on tax revenue generated by a specific development type. When that reliance drives municipal development decisions beyond what the market demands for that development type, it contributes to higher vacancy rates. Community plans should focus on development types and/or volumes that the market can support. To achieve this goal, communities that share a market should collaborate to attract businesses and developments to their area. For example, Select Chicago Southland works to attract retail development to 10 communities across the south suburbs. In addition, through the Local Technical Assistance program and research, CMAP and its partners should help municipalities incorporate market analysis into municipal planning efforts.
>
> ***Analyze the multijurisdictional nature of development.*** Revenue sources that take into account the multijurisdictional nature of retail development, as well as office and industrial development, should be pursued. CMAP has begun work on an assessment of the multijurisdictional transportation impacts of retail agglomerations, which will analyze transportation use and expenditures related to clusters of businesses to determine how transportation impacts are distributed across multiple jurisdictions; similar studies will focus on industrial and office development. Depending on the findings, potential strategies could include intergovernmental agreements to share the cost of infrastructure associated with these developments.
>
> ***Create a regional strategy to coordinate economic development efforts.*** Local economic development incentives may lead to intraregional competition, but could instead create local and regional benefits. An outward-facing, regional strategy that leverages regional assets to attract new businesses as well as nurture existing industry clusters would bring substantial benefits to the regional economy. Northeastern Illinois' leaders, such as the region's county board chairs, should continue existing efforts to develop a regional

[65] Chicago Metropolitan Agency for Planning, *Reorienting State and Regional Economic Development: Lessons Learned from National Examples*, 2014, http://cmap.is/%202lTAonC.

economic development strategy, and consider the implementation of a non-competitive agreement within the region.

Encourage communities to establish criteria for economic development incentives. Communities should be encouraged to establish their own criteria and policies governing the use of economic development incentives. Criteria should require that incentives provided for development are in line with established community goals, such as enhancing livability, reducing flooding, or improving the economy. Policies should ensure that incentives are evaluated according to criteria and provided only if desired outcomes are met. CMAP and its partners, such as the Urban Land Institute, should work together to establish model guidelines for communities and bring them into planning processes.

Improve tax and community capacity. Regardless of land use mix, many communities in the region have difficulty funding municipal operations and capital improvements due to fiscal challenges. Tax policy strategies developed for ON TO 2050 should focus on improving outcomes for communities with lower fiscal capacity. In addition, strategies should help to ensure that communities can invest in infrastructure without needing to attract a substantial sales tax base or pursue development that does not fit with other planning goals. This work should be completed in tandem with the ON TO 2050 inclusive growth, municipal capacity, and reinvestment and infill analyses to provide a range of strategies, from near-term technical assistance to longer term changes to state policy frameworks. Next steps include:

Develop strategies for improving municipalities' technical capacity. The barriers to implementing planning recommendations can range from a lack of technical knowledge among staff or elected officials, to low staffing levels, to constituent opposition to plans and projects. CMAP is embarking on an effort to explore how to assist municipalities in overcoming some of these barriers. This effort also will include working with partners that can assist communities in improving capacity.

Address tax policy and other structural issues. Some municipalities in the region with a low tax base or with poor fiscal condition may struggle to fund municipal operations and infrastructure over the long term. Strategies to help these communities should be developed, including reforming state tax policy while ensuring continuation of state support for local governments, phasing out assessment classification in Cook County, identifying opportunities to share or consolidate services, planning for market-feasible development, and planning for development patterns that are sustainable over the long term. To move forward, CMAP should work with stakeholders to create a campaign to implement these strategies. The campaign should include public education as well as legislative outreach.

Balance development-specific and broad revenue sources. Communities across the region use a mix of community-wide (broad) and development-specific revenue sources. ON TO 2050 should support communities with existing development that is creating infrastructure maintenance needs; communities in need of redevelopment and infrastructure improvements; and communities expanding infrastructure to serve new development on previously undeveloped land.

Development-specific revenues are important: They ensure everyone who benefits from a municipal service or public infrastructure help pay for it. ON TO 2050 should encourage communities to work with developers and businesses to ensure adequate funding for public infrastructure.

Using a range of revenue sources allows for revenue stability and may encourage revenue generation from beneficiaries outside a specific jurisdiction. For example, local motor fuel taxes generate revenue broadly from drivers who purchase motor fuel within a jurisdiction, including those whose trips originate in different jurisdictions.

ON TO 2050 could recommend leveraging additional use tax generated from increases in internet sales to fund local transportation improvements. Additional internet sales may increase truck traffic on the entire roadway system, including roads serving warehousing and distribution businesses, and residential customers receiving deliveries. The state could establish new criteria to disburse incremental revenue increases to municipalities with significant warehousing and distribution industries. Next steps include:

> ***Employ development-specific revenues.*** All communities should emulate the practice of other municipalities across the region that use agreements with developers to fund infrastructure improvements. Communities with existing development might work with new or existing businesses that would specifically benefit from improved infrastructure to establish a plan to fund those investments, including agreements with developers to recapture expenditures on prior infrastructure improvements. In addition, any community with a new development expected to have a significant impact on municipal operations or infrastructure costs could make an agreement for the developer to cover these costs. To execute effective agreements that ensure sufficient revenues, communities should carefully assess site-specific impacts of individual developments during the development process, as well as the infrastructure needs of the whole community through a capital improvement plan. Future LTA projects at CMAP could provide assistance with capital improvement plans or help communities ensure they have sufficient capacity to assess development impacts.
>
> ***Research local transportation revenues.*** Many municipalities in the region have large local road networks. CMAP should analyze how these municipalities provide for roadway maintenance and improvements, including the use of local transportation user fees.

Explore revenues for industrial-related infrastructure needs. Industrial development often has positive regional economic benefits, such as higher wages, but may incur high infrastructure costs for municipalities. Due to lack of revenue compared with other uses, and even an imbalance between infrastructure costs and revenues, many municipalities pursue other land uses instead of industrial development. To support the strong regional benefits of freight and manufacturing, CMAP and its partners should identify ways to encourage municipalities to plan for industrial development within their boundaries. These could include changes to the tax structure to encourage industrial development.

In addition, truck movements across multiple jurisdictions may create costs for communities with little or no industrial development. Ensuring that the region's roadway network, including local roads, serves industrial development and facilitates goods movement would benefit the regional economy. The tax system should have the ability to support industrial development more directly. CMAP should explore revenue sources related to infrastructure needs associated with industrial development, including use tax, motor fuel taxes, and other sources that municipalities can impose or collect.

In summary

The nexus of tax policy issues and land use and development strategies plays a pivotal role in shaping the region's communities. Using the framework outlined in this document, CMAP will develop recommendations for inclusion in ON TO 2050. Some aspects of the framework will be used to guide work over the next year. CMAP will continue to engage stakeholders, partners, and experts on priority policy changes that will further ON TO 2050's vision for northeastern Illinois.

Appendix: Major municipal revenue sources

Sales taxes

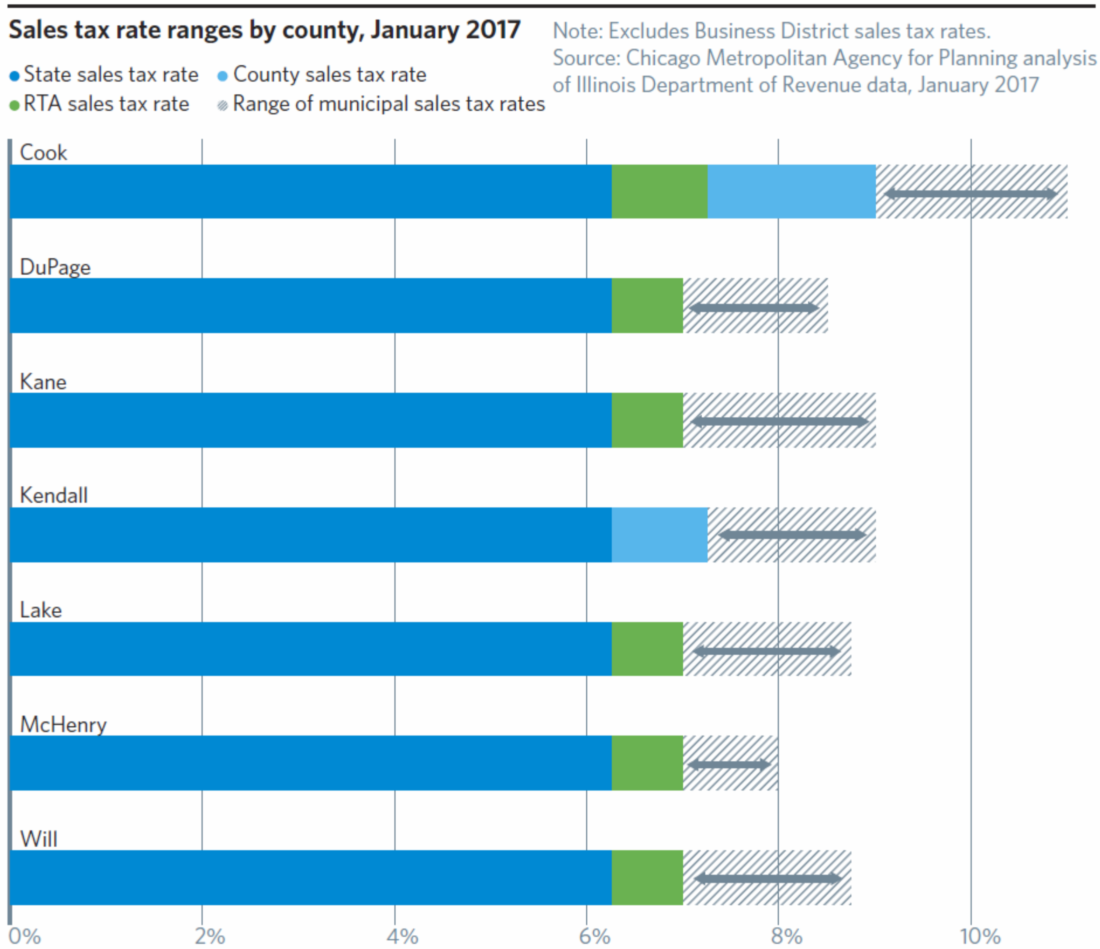
In Illinois, state sales tax is disbursed to municipalities and counties based on where sales are generated. In addition to receiving state sales tax revenues, counties and municipalities can impose local option sales taxes on general merchandise under certain circumstances. This structure provides revenues to areas with strong retail activity and helps to fund municipal services associated with those activities.

Municipalities receive 1 percentage point of the 6.25 percent rate on general merchandise sales within their borders and the full amount of the revenues from the 1 percent state rate on qualifying food, drugs, and medical appliances. Counties receive a quarter of a percentage point of the state rate on general merchandise sales within their borders, except Cook County's share, which is allocated to the Regional Transportation Authority.

Home rule units may implement local option sales taxes of any rate.[66] Non-home rule municipalities require a referendum to implement sales taxes, with a maximum rate of 1 percent. Non-home rule counties also require a referendum to implement a sales tax. In the region, 122 home rule and 48 non-home rule municipalities impose a sales tax. Municipal sales tax rates in the region range from 0.25 percent to 2.0 percent. After accounting for state, county, and Regional Transportation Authority rates, composite sales tax rates in the region are as high as 11 percent in some jurisdictions. Figure 14 provides an overview of the range of sales tax rates in the region.

[66] All municipalities with populations greater than 25,000 are granted home rule status and municipalities with smaller populations may adopt home rule status by referendum. The state constitution also grants home rule to counties that adopt a county executive form of government. Cook County is currently the only home rule county.

Figure 14.



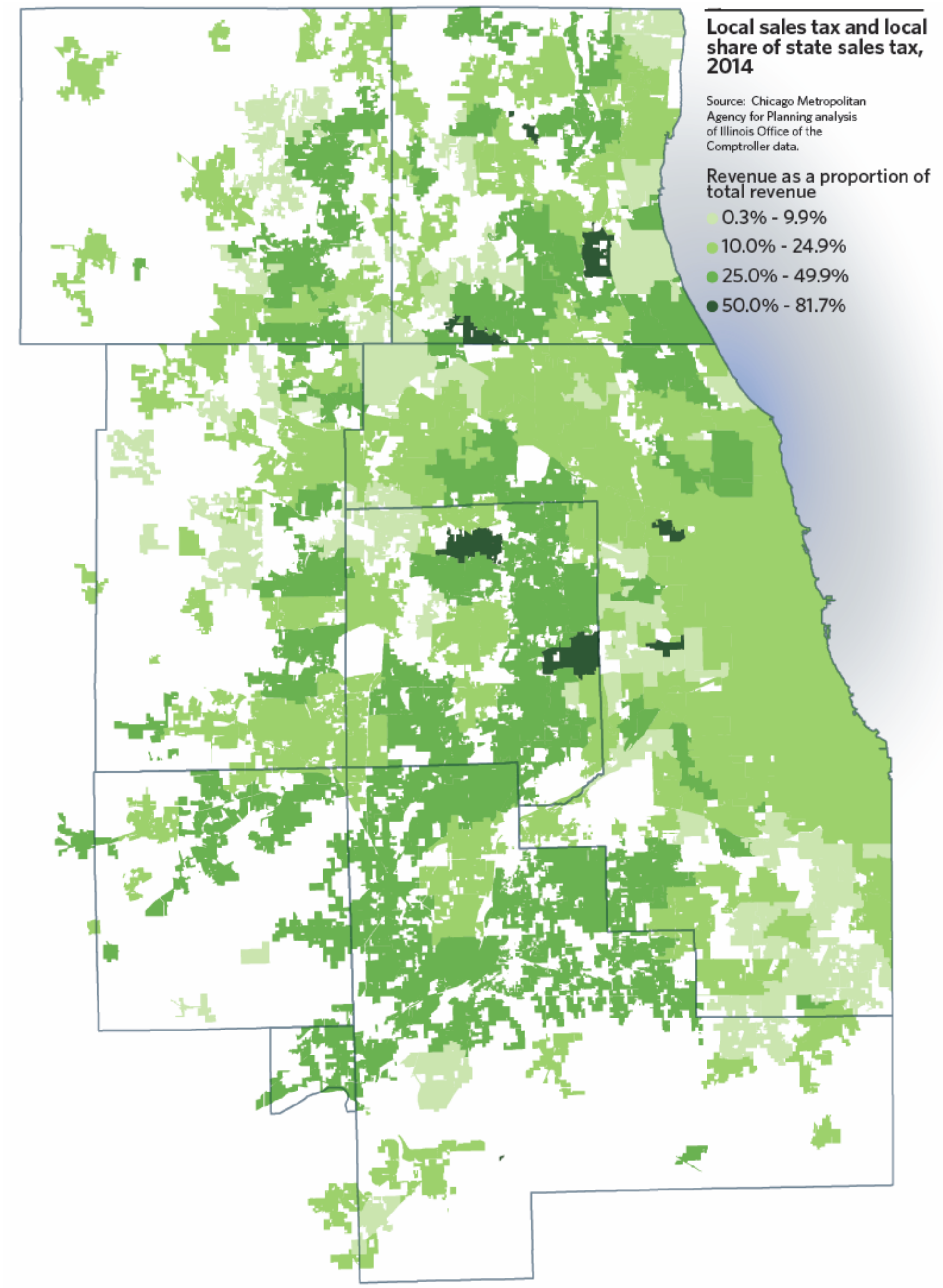
Municipalities with higher reliance on sales tax revenues tend to have larger sales tax bases per capita. This may indicate a preponderance of land uses dedicated to sales tax-generating activities. Potential land uses include retail properties, as well as office or industrial properties where sales are sourced. Retail location is driven by a combination of local-market demand for businesses, access considerations, proximity to other retailers, and local policy decisions that encourage retail and other sales tax-generating development. Local policy decisions encouraging retail land uses may result from the strong fiscal benefit that retail developments provide to municipalities.

Municipalities that rely more heavily on sales tax revenue were also more likely to have recently increased home rule or non-home rule sales tax rates.[67] Among municipalities that relied on sales tax revenue for more than 30 percent of their overall revenue in 2012, 29.6 percent increased or instituted local option sales tax rates between 2009-14, compared with 16.4 percent of municipalities that have lower sales tax reliance.

[67] Chicago Metropolitan Agency for Planning, "Municipal Reliance on Property, Sales, and Income Taxes and their Relative Stability," February 6, 2015, http://cmap.is/policy-update-2-6-15.

Figure 15 provides an overview of the extent that municipalities in northeastern Illinois rely on both state sales tax disbursements and local sales tax revenues. Across the region, state and local sales tax revenue is the largest revenue source for 78 municipalities.

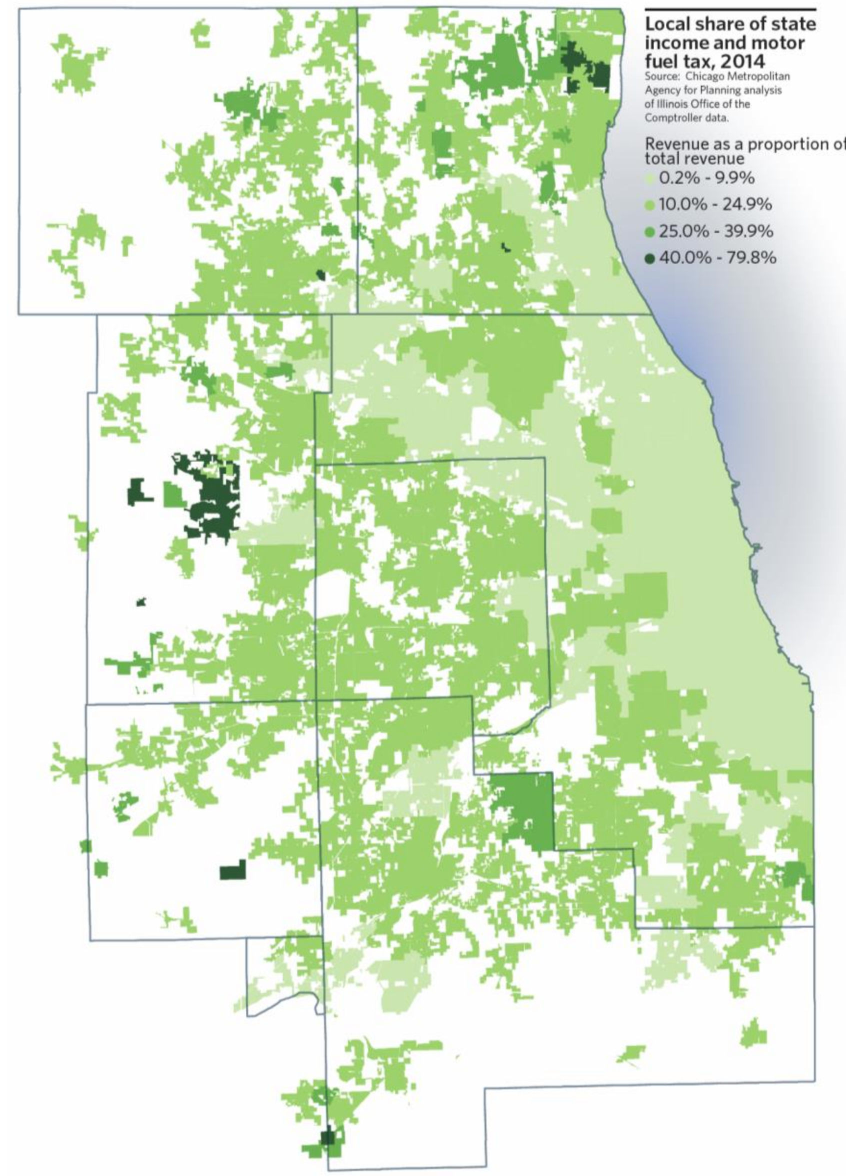
Figure 15.



State revenues disbursed by population

Municipalities and counties receive a share of state individual and corporate income tax revenue based on their share of the state population (for counties, this is based on unincorporated population only.) The share is equivalent to one-tenth of the revenue generated under the rates in effect before January 1, 2011. Other revenues disbursed to municipalities based on population include state motor fuel tax revenue and use tax revenue. These revenue sources tend to be a major source for communities that are primarily residential and have few businesses. In 2014, 29 municipalities relied on these disbursements as their largest revenue source. Figure 16 provides an overview of the extent that municipalities rely on these revenues.

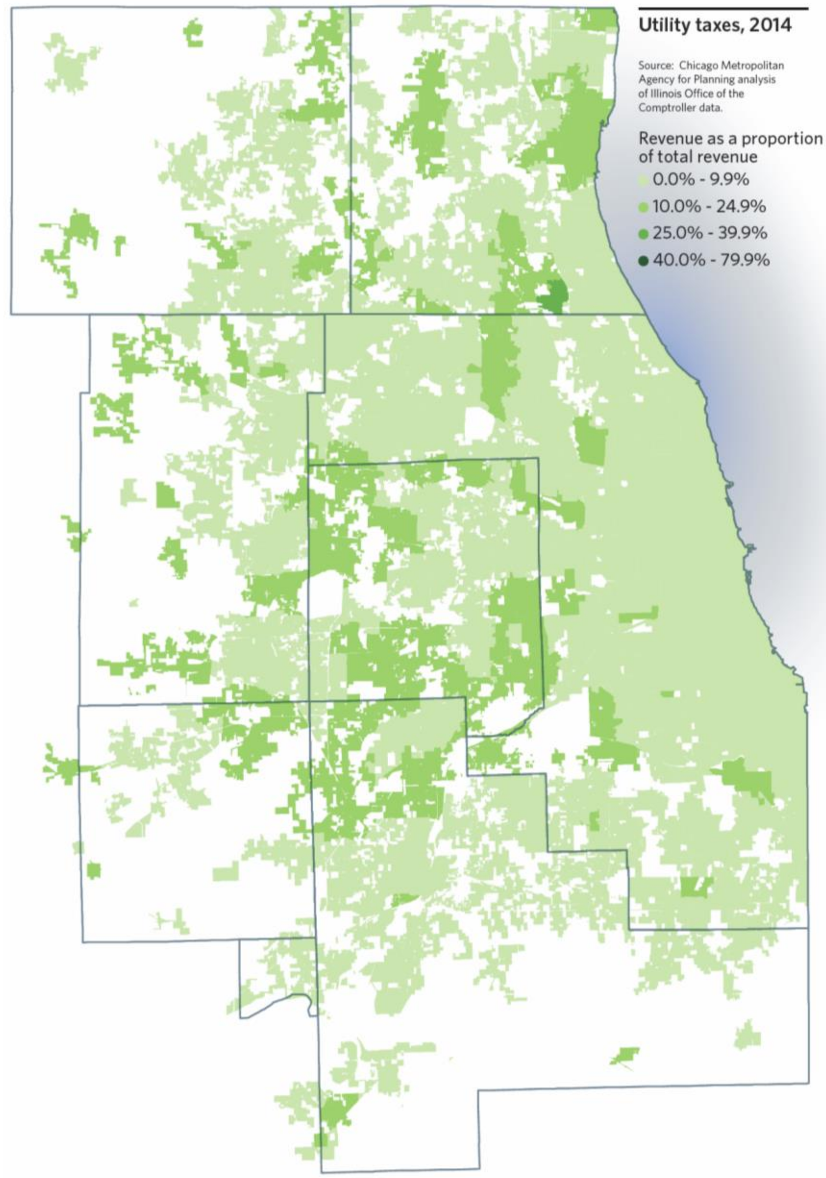
Figure 16.



Local utility taxes

Municipalities may impose taxes on utilities, such as telecommunications, natural gas, and electricity. It is uncommon for utility taxes to be a major source of revenue, but a few smaller communities do rely on these revenues heavily. Some communities may have few residents and retail establishments, but a handful of businesses that are heavy utility users. Figure 17 provides an overview of the extent that municipalities rely on utility tax revenues.

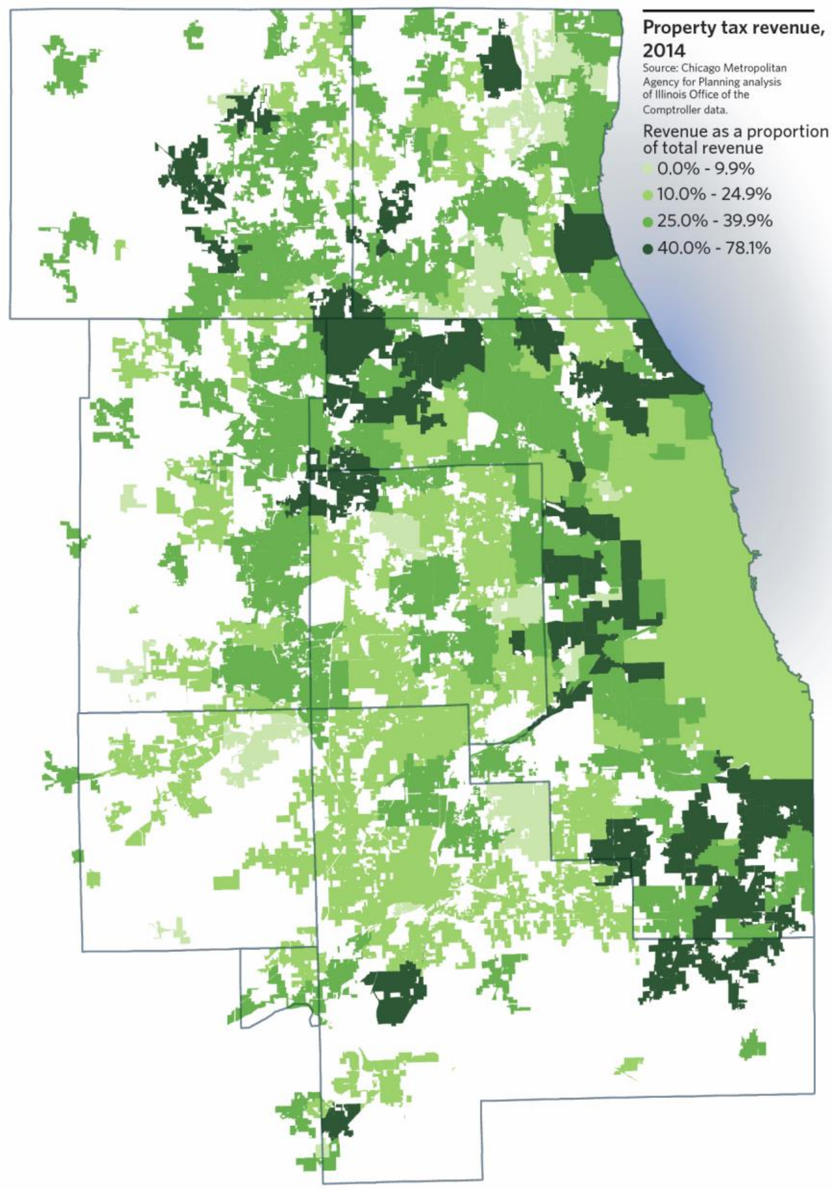
Figure 17.



Real property taxes

For the majority of governmental units in the region, including 172 of the region's 284 municipalities, property taxes are the largest source of funding. The property tax extensions, the amount of property tax revenue billed to taxpayers, for the seven-county region totaled $21 billion in 2014.[68] Individual taxing bodies, including counties, townships, municipalities, special districts, and school districts have their own levy rates that are individually determined by the relationship between their annual financial requests and the assessed value of property within their geographical boundaries. In northeastern Illinois, 18 out of 284 municipalities do not impose a property tax.[69] Municipalities in the CMAP region vary in terms of their reliance on property tax revenues, with municipalities that provide services such as fire protection and libraries typically more reliant on property tax revenues compared with communities where these services are provided by special districts. Most special districts, like fire, library, and park districts, as well as school districts, tend to rely heavily on property tax revenues. Figure 18 provides an overview of the extent that municipalities rely on property tax revenues.

Figure 18.



[68] Illinois Department of Revenue, 2014.

[69] Includes municipalities with Special Service Area property taxes only. Excludes municipalities with local library property taxes.

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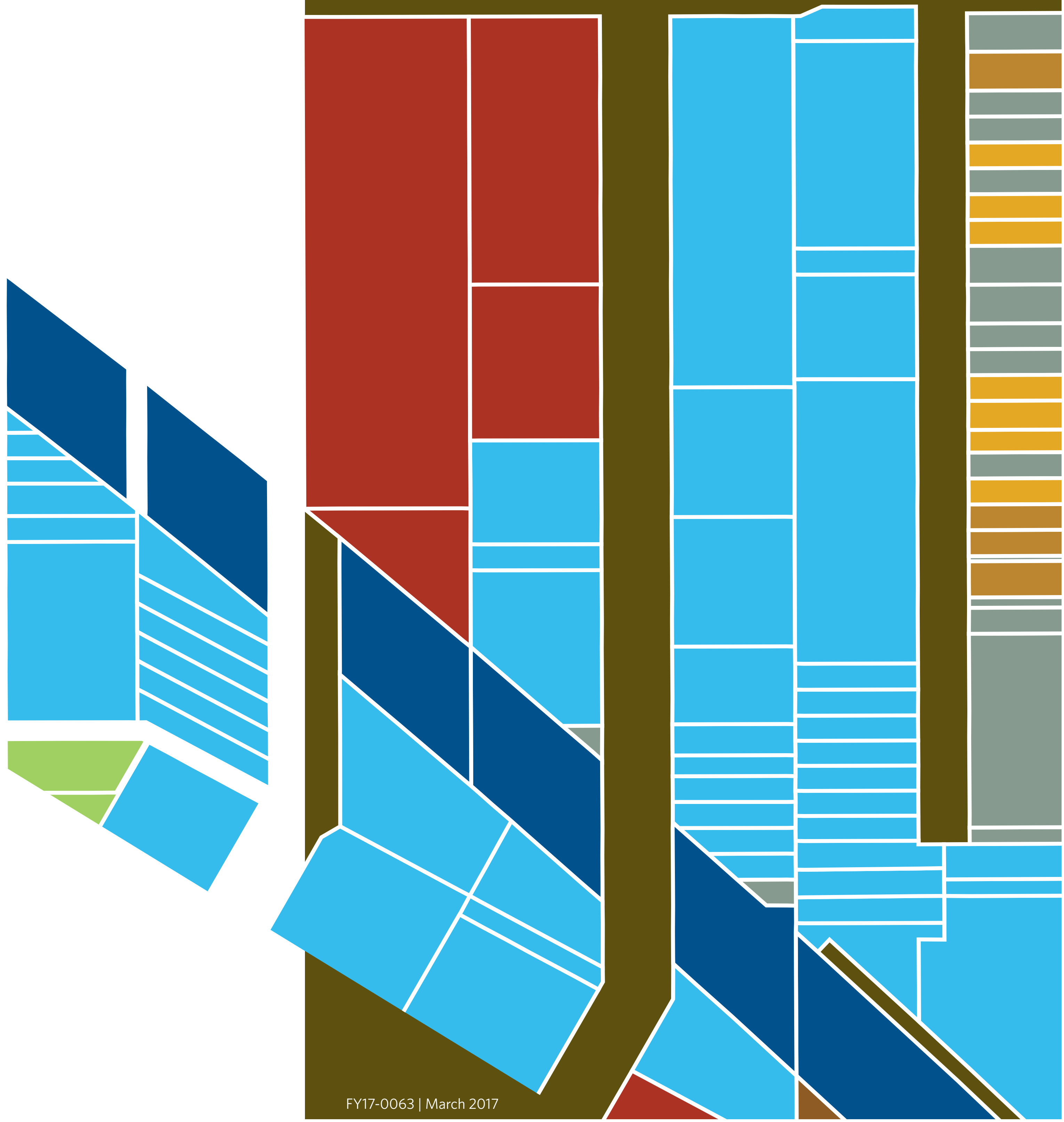
The Chicago Metropolitan Agency for Planning (CMAP) is our region's comprehensive planning organization. The agency and its partners are developing ON TO 2050, a new comprehensive regional plan to help the seven counties and 284 communities of northeastern Illinois implement strategies that address transportation, housing, economic development, open space, the environment, and other quality-of-life issues. See www.cmap.illinois.gov for more information.

ON TO 2050 strategy papers will explore potential new topics or refinements to existing GO TO 2040 recommendations. These documents and data-driven snapshot reports will define further research needs as the plan is being developed prior to adoption in October 2018.



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