Tax Policy and Land Use Strategy Paper

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Introduction

GO TO 2040 recognized that tax policy plays a significant role in the region's economic growth and development patterns. State statute and policies structure the ways that municipalities can generate 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 the tax structure. In Illinois, municipalities receive revenue through state sharing of several sources, and can raise revenues through mechanisms like fees, fines, licenses, and taxation. Municipalities in the region vary in their degree of reliance on these revenue sources.

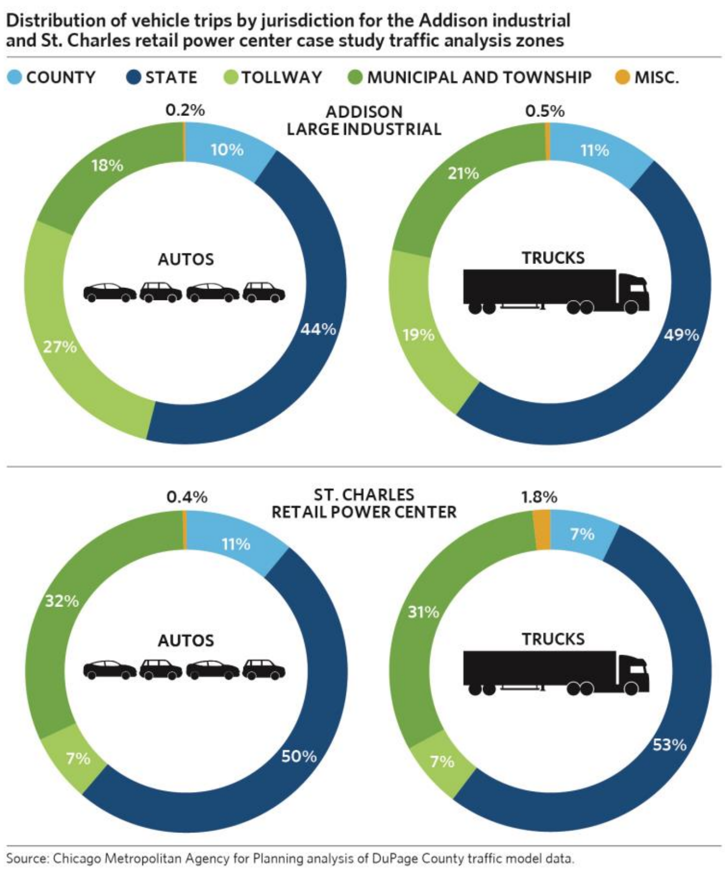
It is important to ensure that all communities in the region have the ability to generate revenue that supports the land uses that those communities have identified as important to their economic, quality-of-life, and other goals. The structure of municipal taxes, and the potential for revenues that can be generated from these taxes, can influence land use decisions and development projects that municipalities pursue. 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.

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 seeks to supplement the strong body of work on retail and sales tax to better understand the ability of different development types to generate the revenue necessary to support the 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, and every community has a complex of land uses that are vital to creating its identity and quality of life. Rather, this document recognizes that the current system often results in a great fiscal impact for retail in comparison to other land uses, and explores policies and strategies that may allow communities to pursue a greater diversity of development types that suit community and regional goals.

The framework proposed in this strategy paper is informed by interviews with experts and stakeholders from within and outside the region, including members of various CMAP committees, as well as review of literature. Based on findings from this strategy paper, policy recommendations or strategies in the area of tax policy may be developed for ON TO 2050.

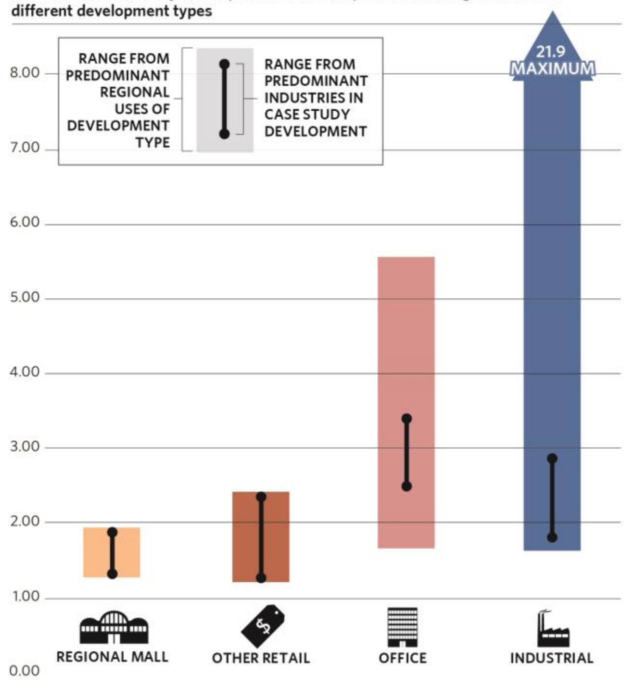
The link between tax policy and land use in GO TO 2040 and subsequent work

After approval of GO TO 2040 in October 2010, CMAP assembled the Regional Tax Policy Task Force, an advisory group consisting of representatives from local and state government, business, civic organizations, and academia. Among other issues, the Task Force discussed the balance of fiscal and economic impacts generated by nonresidential land uses. CMAP conducted a study on the fiscal and economic impacts of various development types. This report revealed wide variation in the fiscal impact of different developments based on type, density, infrastructure requirements, service needs, and other factors. In addition, it was found that the fiscal structure of a municipality also had an effect on the fiscal impact of development. The case study analysis revealed that some development types may not generate sufficient municipal revenue to fund services and infrastructure attributable to the development. Finally, the analysis provided an initial review of the multijurisdictional nature of the infrastructure required to support development and identified the need to assess the impacts that different land uses have on the transportation system and the jurisdictions that manage that network. The following chart provides an overview of initial analysis on the distribution of vehicle trips by jurisdiction and vehicle type for two of the case studies.



This 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 the chart to the right 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.

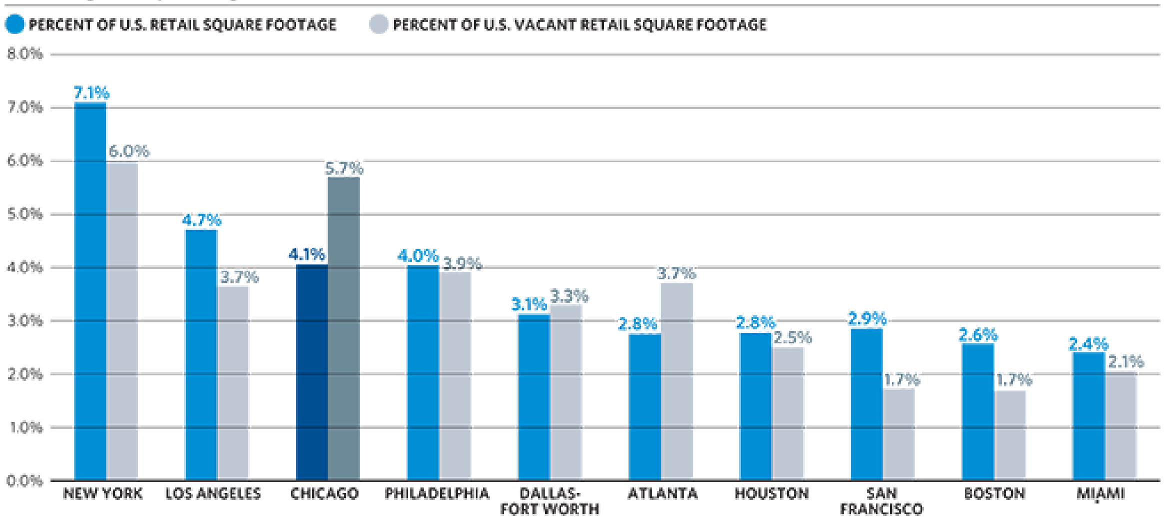
Employment multipliers by development type, ranges from predominant industries in case study developments and from predominant regional uses of different development types



Sources: Chicago Metropolitan Agency for Planning analysis of Economic Modeling Specialists Inc. data, 2012, downloaded August 12, 2013.

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; property tax classification in Cook County; and reform of the sales tax base. Shown below, CMAP also reviewed the condition of the retail market in the region as compared to 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.

Proportion of U.S. total retail rentable building area and U.S. vacant retail rentable building area in Chicago and peer regions, 2015

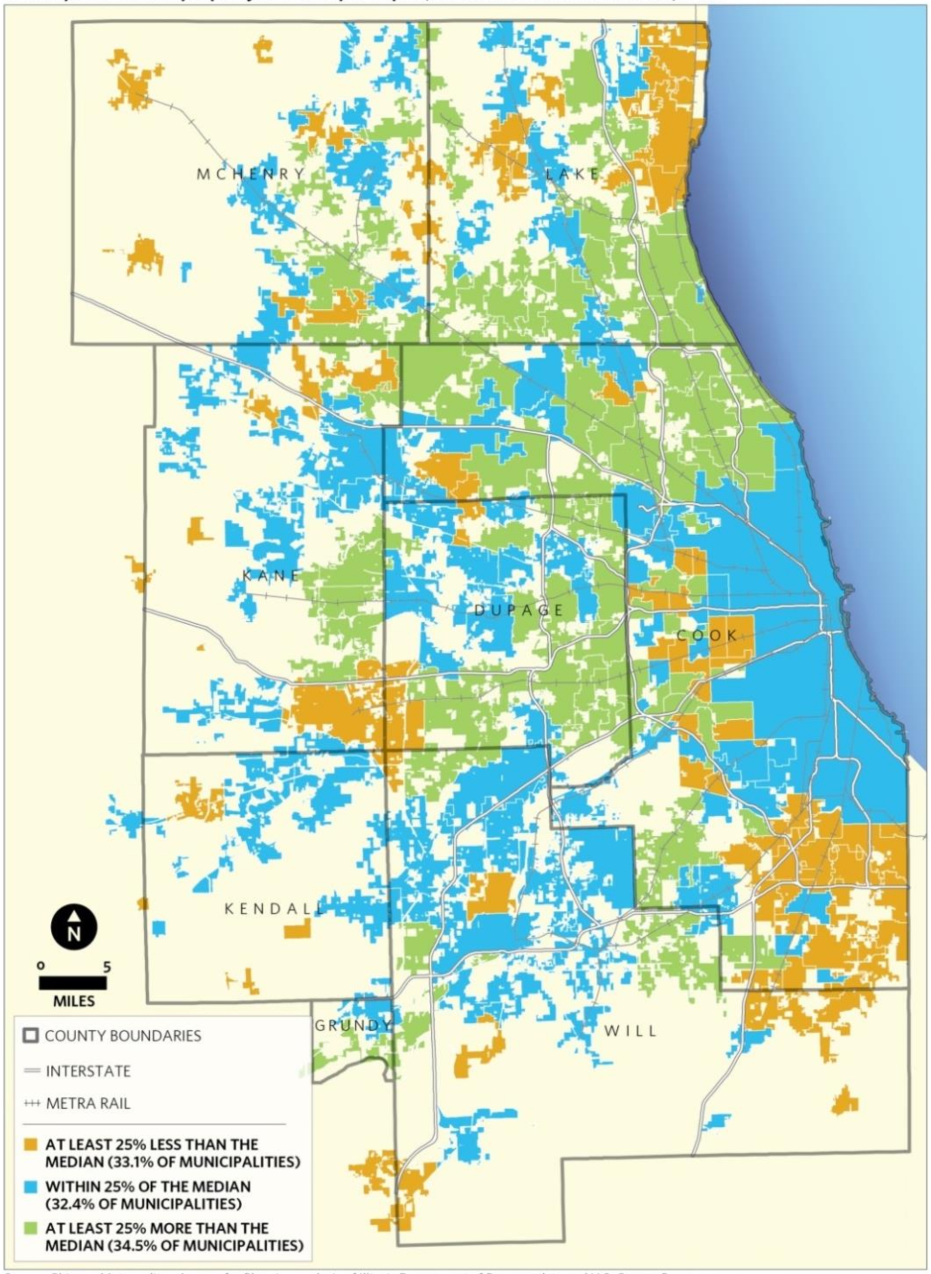


Note: The regions above are made up of adjacent CoStar retail market areas, which were combined to approximate typical U.S. Census Metropolitan Statistical Areas (MSAs). The aggregated areas may be somewhat smaller or larger than the equivalent Census MSA regions. For example, the Chicago CoStar region includes Rockford, IL, Kenosha, WI, and northwestern Indiana.

Source: Chicago Metropolitan Agency for Planning analysis of CoStar data, second quarter 2015.

GO TO 2040 also recommended developing [indicators on tax capacity](). 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. The following maps provide 2013 property and sales tax capacity per capita. While there will always be communities with smaller tax bases than others, implementing the recommendations of GO TO 2040 can help reduce the proportion of communities with a low tax capacity. A key aspect of this is to identify avenues 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.

Municipal sales and property tax base per capita, difference from the median, 2013



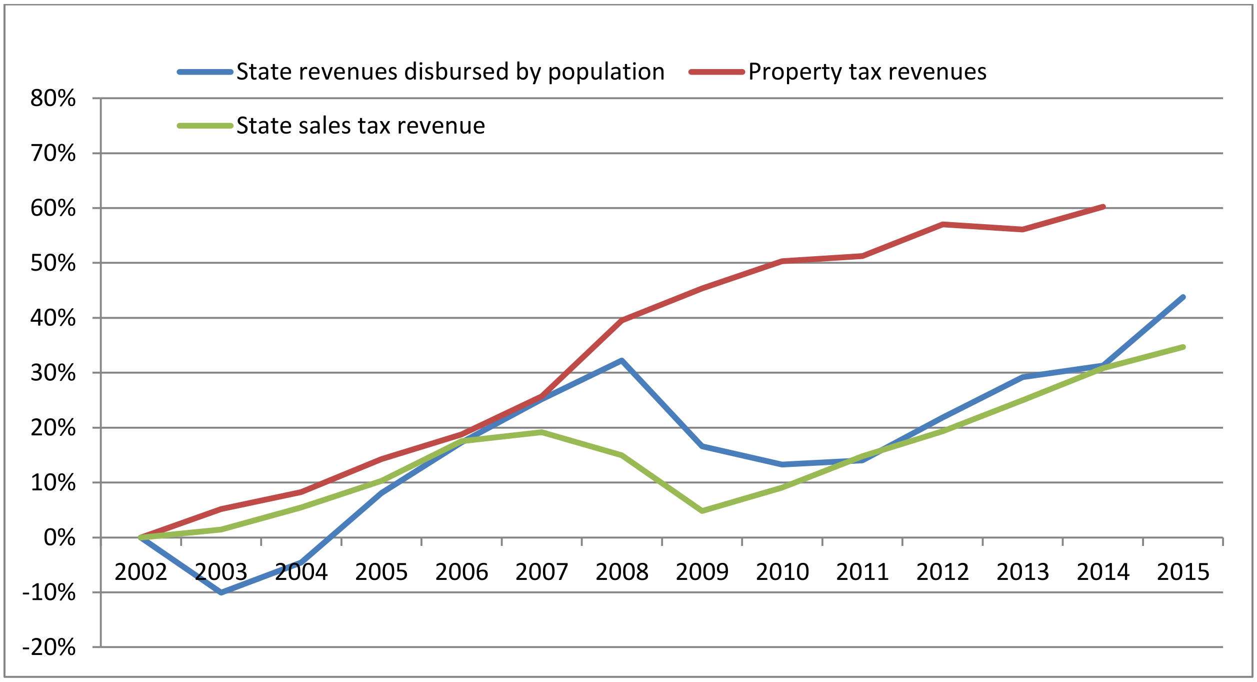
Source: Chicago Metropolitan Agency for Planning analysis of Illinois Department of Revenue data and U.S. Census Bureau, 2008-12 American Community Survey five-year estimates.

Major municipal revenue sources

The amount of tax revenue municipalities collect is dependent on the composition of the tax structure. 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.[1] During this time period, sales tax, income tax, and user fees and charges increased as municipal revenue sources.[2] During this period, local governments were responding to general taxpayer distaste for property taxes.

While municipalities have some flexibility in choosing the revenue sources they rely on, the stability of a given revenue source varies. Stable revenues allow municipalities to maintain public services as well as existing tax rates and levies. Relying on a volatile revenue source may increase the chance that a municipality has to reduce public service levels or increase tax rates in any given year. The following chart provides an overview of aggregate revenue stability across several types of local revenues.

Figure 1. Growth in municipal property tax revenue, state sales tax disbursed to municipalities, and state revenues disbursed by population to municipalities in northeastern Illinois, 2002 - 15



Source: Chicago Metropolitan Agency for Planning analysis of Illinois Department of Revenue data.

Overall, sales taxes tend to be less stable than property tax revenues. Property taxes, for example, 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 expansionary economic periods, cities that are able to

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

[2] 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.

tax sales and earnings have a higher growth rate than cities that are more reliant on property tax revenue as a revenue source.[3] On the other hand, during recessionary periods or other eras when the retail industry is challenged, municipalities with high retail tax reliance are impacted negatively. In 2010 for example, municipal sales tax receipts decreased by 8.4 percent from the previous year in the United States.[4] As such, an overreliance on highly elastic tax sources like the sales tax can make revenues more unstable. In comparison, property taxes offer more stability than sales or income tax revenue sources.[5]

Municipalities in northeastern Illinois vary in terms of their reliance on different tax revenues. As seen below, 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 alike.

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 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 on these revenues heavily. More information about these revenue sources can be found in the Appendix to this document. The following chart provides an overview of variation in municipal reliance on several types of sources in 2014.

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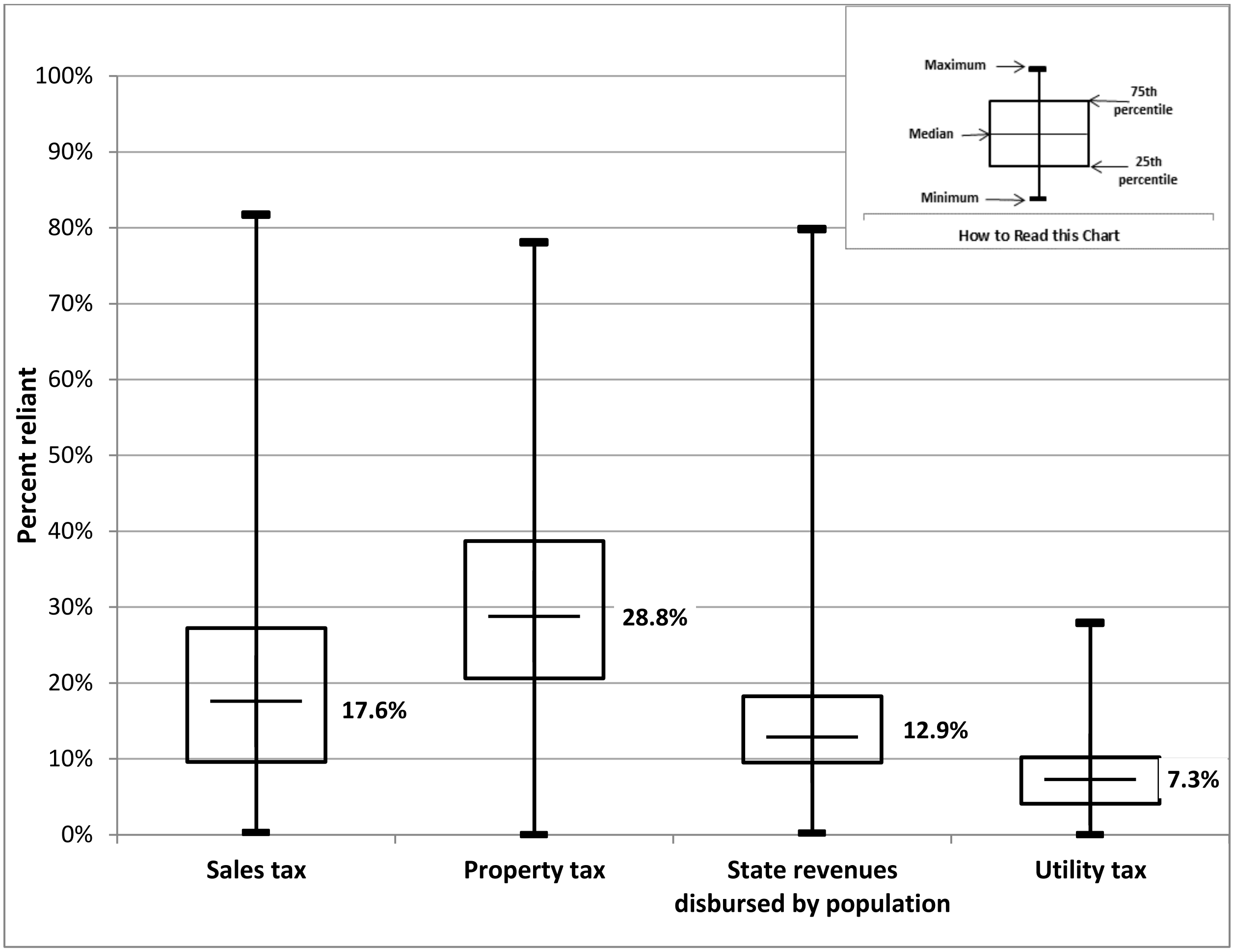
[3] Pagano, Michael A. "City Fiscal Structures and Land Development." Discussion paper for The Brookings Institution Center on Urban and Metropolitan Policy and CEOs for Cities (2003).

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

[5] 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 2. 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 boxed area of each revenue source.
Source: CMAP analysis of Illinois Office of the Comptroller data

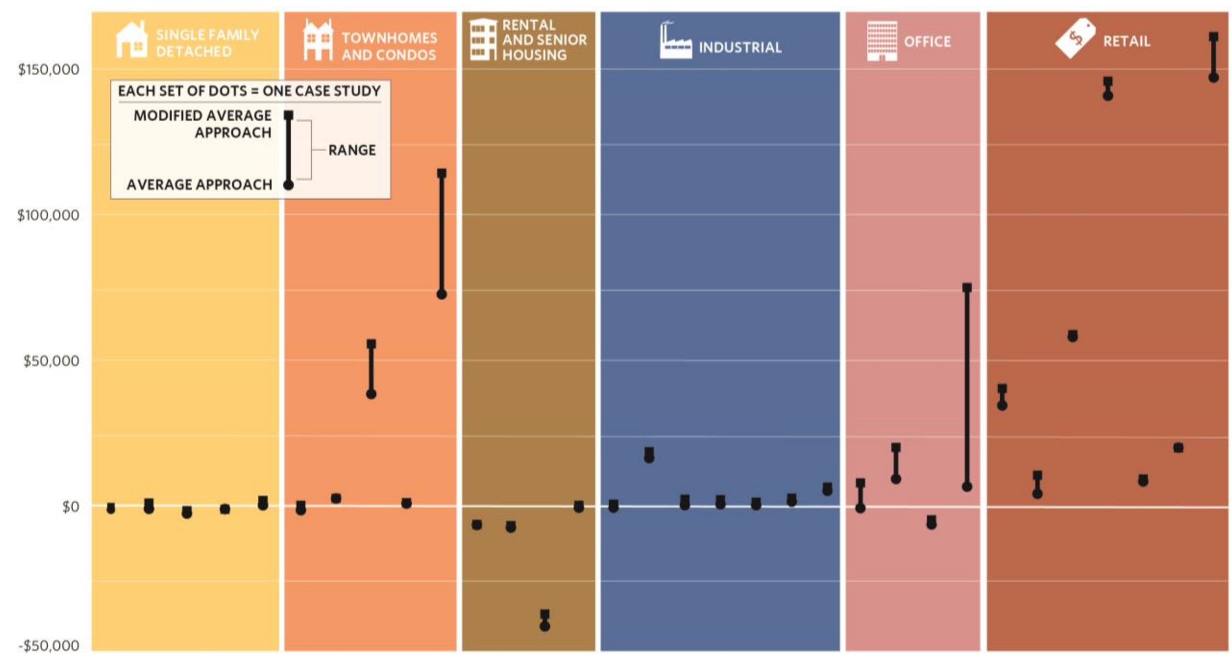
Municipal approaches to funding land uses

This section will delve into how municipalities support the land uses those communities have identified as important to their economic, quality-of-life, and other goals. 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 31 case studies in northeastern Illinois indicates that retail tends to generate greater fiscal impacts as compared to other development types.[6] However, high-density developments in areas with existing infrastructure, including residential and office, may also produce high levels of revenue per acre, even exceeding the revenues found in the retail case studies. The following provides

[6] Chicago Metropolitan Agency for Planning, *Fiscal and Economic Impact Analysis of Local Development Decisions*, January 2014.

an overview of the municipal net fiscal impact per acre for 31 case studies. Given the range in fiscal impact, communities in the region have different strategies and challenges around supporting a range of development types.

Figure 3. Municipal net fiscal impact per acre by project and land use



Bottom of range represents the average cost approach, top of range represents the modified average cost approach.
Source: Chicago Metropolitan Agency for Planning analysis of SB Friedman data

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 accrue where sales are generated, municipalities may prioritize sales-tax generating land uses, leading to development of retail in excess of capacity.

Retail development also tends to result in significant municipal costs for police, fire, and emergency response, as well as public works and infrastructure costs. However, the revenues generated by retail development, which in addition to sales tax revenue may include property tax or utility tax revenue, are more than sufficient to cover these costs for occupied retail development. Moreover, more sales tax revenues often accrue to municipalities than is necessary for providing municipal services to the related sales tax-generating development. 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.

Municipal policies around non-sales tax generating development

Retail vacancy is high in northeastern Illinois. According to CoStar data for the first quarter of 2016, the Chicago Costar region (which includes Rockford in Illinois, Kenosha in Wisconsin, and northwestern Indiana) has the highest retail vacancy rate, 7.7 percent, of the 10 largest U.S. metropolitan areas.[7] Excess retail development can result in underutilized 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.[8] Vacancy rates are also influenced by factors such as corporate restructurings or relocations, changing building configurations, changing consumer preferences, economic shifts, and other factors.[9]

In some communities, some of these retail vacancies may be driven by policies requiring that businesses in commercial corridors have a certain percentage of their sales be taxable.[10] 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.

Consumer services

The Illinois sales tax base excludes most services. Illinois includes 17 services in its sales tax base, primarily utilities. Nationally, the median state sales tax base includes 55 services. The following table provides an overview of the median number of services taxed by states, by type of service, in comparison to Illinois.

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

[8] Chicago Metropolitan Agency for Planning, *Fiscal and Economic Impact Analysis of Local Development Decisions*, January 2014, 6.

[9] 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

[10] 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/16/2012/03/130918-ULI-winnetka-TAP.pdf; Tim Hadac, "Get real about Harlem's retail mix: consultant," *The Regional News*, June 18, 2015.

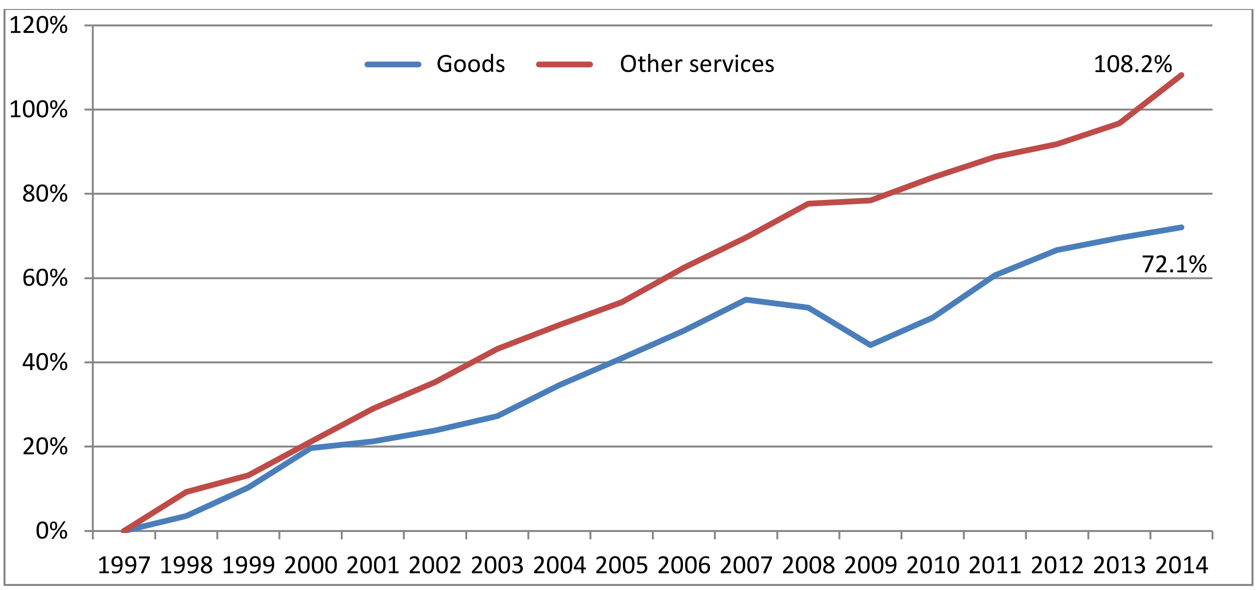
Figure 4. Number of services included in sales tax base, national median compared to Illinois, 2007

	Utilities	Personal services	Business services	Computer services	Admissions and amusements	Professional services	Fabrication, repair, installation	Other	Total
National median	10	4	7	2	10	0	6	7	**55**
Illinois	12	1	1	1	0	0	1	1	**17**

Source: CMAP analysis of Federation of Tax Administrators, 2007, http://www.taxadmin.org/number-of-services-taxed-by-category-and-state---july-2007

While consumer services are excluded from the sales tax base, as well as from commercial areas in some communities, the market for consumer services is rising. As illustrated below, 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 lower fiscal impact.

Figure 5. Growth in goods and services expenditures in Illinois since 1997



Note: Goods includes all goods, plus food services and accommodations, to better reflect expenditures already in the sales tax base. Other services include communications, education, personal care, clothing services, and household maintenance.
Source: Chicago Metropolitan Agency for Planning analysis of U.S. Bureau of Economic Analysis data

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, and market factors such as leasing and purchase price, competition, and existing land uses. The municipal tax base framework can also influence the mix of land uses and resulting employment, services, and amenities available to residents. For example, municipalities may not prioritize land uses that do not contribute, or contribute less than other uses, to municipal revenue. Having a more expansive tax base would improve stability of municipal revenue, allow municipalities to more reliably maintain services and existing rates, and provide more amenities or options for residents. Increased revenue predictability would also allow municipalities to better plan for the future.

An overreliance on any one revenue type may result in or from a disproportionate amount of a development type that generates it being built. An excess of certain development types related to the dependent tax revenue source may result in higher vacancy rates for that development type. Municipalities must still service vacant buildings, resulting in increased municipal costs. Furthermore, municipalities in a competitive environment may incent businesses to relocate within the region, resulting in zero net benefit regionally. An overreliance on any particular revenue source and its resulting land use type can also make communities more vulnerable to shocks that impact the dependent revenue.

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 would be to expand the sales tax base to include additional services. In addition to helping communities create a more balanced land use mix, there would be other benefits to expanding the sales tax base to additional services. Expanding the sales tax base would improve the stability of municipal revenues because there would be less vulnerability to changes in consumption patterns. Stable revenues allow municipalities to maintain public services as well as existing tax rates and levies. Relying on a volatile revenue source may increase the chance that a municipality has to reduce public service levels or increase tax rates in any given year.

In addition, horizontal equity – the theory that similar taxpayers should have a similar tax burden - would be improved by moving toward taxing similar households and businesses in similar ways, regardless of their consumption choices. Likewise, efficiency is improved by minimizing economic distortions through exerting less influence over consumer choice by taxing a broader range of goods and services.

Any changes to the sales tax base would have to ensure that problems relating to "cascading taxes" would be mitigated. Under the current system, a business usually passes the cost of sales taxes on a business input 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 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 region increased from 395 million to 449 million square feet of RBA between 2000 and 2016.[11] According to regional CoStar data for the fourth quarter of 2015, the office vacancy rate was 13.1 percent. As seen in the Fiscal and Economic Impact Analysis of Local Development Decisions report discussed above, office development has the highest levels of employment as well as the highest wages in comparison to other development types. 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 generate more transportation costs.

Office development can generate several revenue types: property tax on the office development; telecommunications tax on telephone, cell phone, paging, and telegraph services;[12] 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. Prior CMAP research examining four case studies found that corporate office developments have the highest returns in fiscal impact when compared to medical office, warehouse and distribution, and small scale industrial developments.

State income tax revenue generated by office development 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.[13] States like Kansas, Kentucky, Ohio, 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 a discussion on 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.[14] 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;[15] they may impose a local income tax at a

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[11] Chicago Metropolitan Agency for Planning analysis of CoStar data

[12] Simplified Municipal Telecommunications Tax Act, 35 ILCS 636

[13] 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).

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

[15] 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.

higher rate with a referendum vote.[16] The average income tax rate is 1.75 percent in Cuyahoga County, although several areas such as the City of Cleveland have higher rates. Residents who work and live in the same municipality pay approximately 3 percent of their income towards the municipal income tax. For residents who work and live in separate municipalities, the total municipal tax rate is split between the place of work and place of residency. Municipal income tax in Cuyahoga County grossed $969 million in 2013.[17]

Interviews with local 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. Financial and regulatory incentives are provided to attract businesses.

In 2012, localities in Cuyahoga County signed the Cuyahoga County Business Attraction and Anti-Poaching Protocol where communities pledge that they would not incent businesses already in the County to move from one community to another.[18] Communities compete for business by showcasing amenities rather than by explicitly offering 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: 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, may result in a less diverse land uses and fewer service and employment options for residents. As seen in Ohio municipalities, enabling local governments to impose a local income tax on employees and residents of the community creates an incentive for them to pursue office developments, which are typically associated with jobs that provide higher wages than retail or other development types. The pursuit of income tax revenue created a competitive environment for office developments in Ohio, such that

[16] Ohio Department of Taxation, *Ohio's Taxes 2013: A Brief Summary of Major State & Local Taxes in Ohio*, 2013, http://www.tax.ohio.gov/Portals/0/communications/publications/brief_summaries/2013_Brief_Summary/2013_Brief_Summary_Ohio_Taxes.pdf.

[17] Ohio Department of Taxation, Municipal Income Tax: Tax Rates and Amounts Collected, by Municipality, Calendar Year 2013, http://www.tax.ohio.gov/tax_analysis/tax_data_series/individual_income/publications_tds_municipal/LG11CY13.aspx

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

Cuyahoga County developed a non-competitive agreement to encourage intraregional cooperation 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 lower priority. Instead, retail land uses are developed only 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 the 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.

Industrial development

Industrial development in the CMAP region includes manufacturing, warehousing, and distribution users, among others. Since 2005, the existing industrial RBA in the CMAP region grew by almost 3 percent. At 7.8 percent, the 7-county region's industrial vacancy rate, or the amount of existing RBA that is unoccupied, is at its lowest since 2001; this is also less than the region's retail and office vacancy rates.[19]

Most of the municipal revenues generated through industrial development accrue from property taxes and utility taxes. 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. In addition, industrial development can generate sales tax revenue if sales are sourced to that location, but this is uncommon.

At the same time, there is significant variation across the region regarding the ability of municipalities to pay for infrastructure, services, and maintenance necessary for industrial developments. In many cases, industrial development is very expensive for municipalities to maintain. In previous fiscal impact analysis, it was found that revenues are barely sufficient to cover the costs of most industrial developments, depending upon the jurisdiction maintaining 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. As a result, the extent that this is an issue for the region's communities varies considerably.

In some areas of the region, communities struggle to attract economic development. Sometimes, municipalities and other taxing districts offer property tax abatements or even

[19] In 2015, the vacancy rates for retail and office development in the 7-county region was 8.4 percent and 14 percent, respectively. Source: Chicago Metropolitan Agency for Planning analysis of CoStar data.

utility tax rebates in order 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.[20] These abatements and incentives further reduce the fiscal impact 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.

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.

Chicago Heights

The City of Chicago Heights is a home rule community located 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, specifically.[21] 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. This may have the effect of attracting more residents, which, in turn, may create a market for additional retail development.

In order to mitigate the effects of property tax classification in Cook County, the City often awards Class 8 incentives to commercial and industrial properties. In addition, TIF districts are common for larger commercial and industrial developments.

The City funds services and infrastructure through corporate fund revenues. In addition to property taxes, Chicago Heights uses utility taxes on electricity and natural gas to help fund the costs of services and infrastructure attributable to industrial developments. The City also imposes 3 cents per gallon motor fuel tax. Capital development fees are imposed on new development to pay for the expansion of the water and sewer system.

Franklin Park

The Village of Franklin Park is a built-out, non-home rule community located 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 supporting the region's strongest concentration of freight and manufacturing employment. Redevelopment often results in significant infrastructure needs, such as traffic signals and signal interconnects. In

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

[21] 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.

addition, existing infrastructure is in need of repair and enhancement. Oftentimes, older roads in industrial areas are insufficient to deal with 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 6 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 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.[22] The Village was using 30 percent of its road maintenance budget for these three-quarters of a mile of roadway. 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. In order to fund the reconstruction, Cook County provided a loan to the Village through the BUILT in Cook HUD Section 108 Loan Program. The loan will be repaid through a Special Service Area (SSA) property tax by the property owners in the areas. The State and the Village are also providing funding for the $6.5 million reconstruction project that is expected to be complete in 2016.

Romeoville

The Village of Romeoville is a home rule community located 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.

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

This diverse fiscal structure has allowed the Village to effectively 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 is occurring on undeveloped land has provided the Village with several development-specific tools that might be unavailable to built-out communities. Regarding new infrastructure improvements and expansions associated with a development, the Village requires payment from developers, often in the form of recapture agreements. The Village recovers costs from developers when the infrastructure is constructed and also from new developers that will benefit from the infrastructure after construction is complete. In 2014 and 2015, the Village collected nearly $5 million in developer contributions.[23] Retail developments may receive a sales tax rebates to refund some costs back to the developer over time. The Village has also made use of TIF in order to fund infrastructure improvements related to development. In addition, the Village ensures that development fees and permits 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. Long-term maintenance costs across a community that are not specific to a particular development may benefit from the availability of a broader revenue source.

Development-specific revenues

Municipalities can utilize a number of different mechanisms for collecting revenues from specific industrial developments to use for 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 can also apply to services such as road maintenance and operations. However, communities that struggle to attract industrial development or that require significant site improvements to be competitive may have difficultly requiring additional funds from developers and businesses.

Home rule municipalities also may impose road impact fees.[24] 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

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

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

or safety requirements. To impose an impact fee, a government must follow a series of procedures to calculate the fees and ensure that they are not used to cure existing deficiencies.

For a mechanism to generate revenue from a group of neighboring properties, SSAs can be created by municipalities to fund both infrastructure and services through a property tax imposed on property owners within the SSA boundaries.[25] Similarly, TIF districts can be used to fund infrastructure improvements through property tax revenue generated from incremental increases in property tax base.[26] However, these districts only last 23 years, require a finding that the area is blighted or in need of conservation, and the funds cannot be used for most services.

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 serves as a consistent source of revenue from industrial development. However, personal property was removed from the 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 PPRT 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 go to taxing districts in areas that were heavily industrial in the 1970s and/or had high property tax extensions in the 1970s. The largest share of PPRT accrues to school districts, or 52.3 percent of PPRT revenues statewide. If just the portion that currently goes to municipalities were to be redistributed, that would only have accounted for $290 million in PPRT revenue statewide in FY 2015.

Another state revenue source commonly used by municipalities for infrastructure improvements is state motor fuel tax disbursements. Municipalities receive a portion of state MFT revenues based on their share of the state population.[27] 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

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

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

[27] 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.

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.[28] In addition to these metrics, other criteria such as employment or development density may better take communities with substantial industrial development into account. However, changing the disbursement criteria may also result in some communities receiving less revenue than under the current criteria.

In addition, 58 communities in northeastern Illinois 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. Additional internet sales may increase truck traffic on the entire roadway system, including roads serving warehousing and distribution businesses, and residential customers receiving deliveries. Currently, a portion of use tax is disbursed to municipalities based on their share of the state population, totaling approximately $200 million statewide in FY2015.[29] As illustrated in the following chart, overall use tax revenue has been increasing over the past decade, 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.

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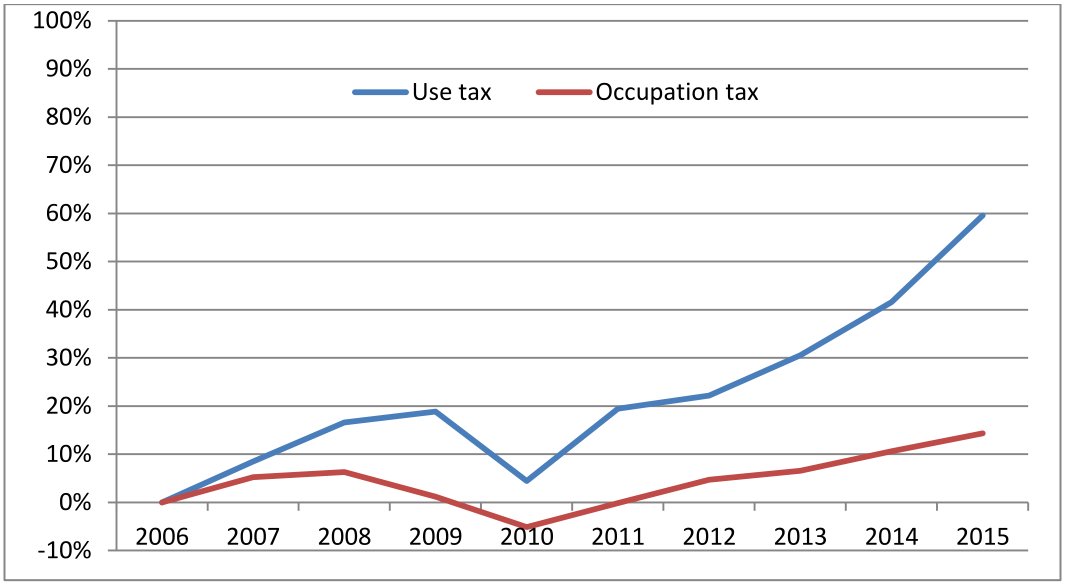
[28] Chicago Metropolitan Agency for Planning, "Evaluation of State Transportation Revenue Sharing with Local Governments," June 18, 2014, http://www.cmap.illinois.gov/about/updates/policy/-/asset_publisher/U9jFxa68cnNA/content/evaluation-of-state-transportation-revenue-sharing-with-local-governments

[29] According to the Illinois Department of Revenue, state statute requires purchasers to pay use tax on items purchased for use in Illinois. If the seller does not collect the tax, the purchaser is required to pay it directly to Illinois. 20 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 is disbursed to municipalities and counties other than City of Chicago, based on population.

Figure 6. Percent change in sales tax revenue and use tax revenue since 2006



Source: CMAP analysis of Illinois Department of Revenue data

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.[30] 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.

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. The amount 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 EAVs per acre than lower density residential developments.[31] 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.

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

[31] Chicago Metropolitan Agency for Planning, Fiscal and Economic Impact Analysis of Local Development Decisions, January 2014.

Another mechanism that municipalities can use to pay for new infrastructure is a Special Service Area (SSA).[32] A SSA is a taxing mechanism imposed on property owners in a contiguous area within a municipality or county to fund special services. The Illinois Municipal Code defines special services as services related to the government, municipality, and counties.[33] 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.[34] SSAs are often found in downtowns or other commercial areas, but municipalities may also 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.

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 construction, engineering, legal, and service fees, and 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. Owners inside the SSA boundary pay an additional assessment to service the bond debts for the infrastructure for a period of time, typically 20 to 40 years, with the assessment typically increasing every year. As of 2014, the CMAP region had 470 ad valorem SSAs.[35]

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 5-year estimates for 2010-14, more than 18,000 residents lived in the Village. The Village, which relies primarily on property tax revenue, had four special service areas (SSAs) in 2014. The Village, which experienced a surge in residential development in the early 2000s, developed three SSAs after homeowners' associations were unable to pay for necessary infrastructure improvements.[36] The SSAs fund the roadway, water, and sewer infrastructure construction costs for the developments. The Village covers infrastructure maintenance costs. The Village opted to

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

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

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

[35] Illinois Department of Revenue, 2014 Property Tax Statistics

[36] Jason J. King, "Some in Round Lake to Pay More to Look Good," *Daily Herald*, October 22, 2002.

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.[37]

In their 2017-22 Capital Improvement Program, the Village estimates that $2.6 million of replacement and repair is required for its roadways.[38] However, current funding levels will require the Village to spread these projects out over time. To increase revenues in the short-term, Round Lake is considering issuing bonds. The Village is also hoping develop their retail base and increase their residential population to support the retail activity. Currently, the Village has a low sales and property tax base 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%). 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.[39] 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, in comparison to 13 miles under its care in the 1970s. [40] 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.[41] In the past decade, permit fees provided over $1 million in annual revenue, although this amount plummeted during the recession when housing construction stalled. Revenue from permits, fees, and licenses have increased again in recent years, but the municipality perceives that this revenue source will become less prominent since the pre-recession period now that the Village has become more built out.

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

[38] Village of Round Lake, FY2017 budget, http://www.eroundlake.com/files/documents/2017Budget1315031030051616PM.pdf

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

[40] 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

[41] 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.

Paving and plowing expenses for public roads accounted for 34 percent of total expenditures in 2013.[42] With aging roads, the recommended road infrastructure maintenance program called for $3.5 million of annual maintenance, which would create a revenue shortage of $2 million dollars.[43] 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.[44] Many of the roads intended for privatization were located within local subdivisions that primarily serve those subdivisions, rather than the general community. Homeowner associations of the subdivisions would have to pay for maintaining and servicing newly privatized roads. Residents living along roads intended for privatization that did not belong to homeowner 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, there would no longer be a need to vacate them.[45] 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 increase revenue through economic development measures that increase commercial activity and in turn, revenue from retail. The Village has created a downtown master plan, establishing a TIF district in downtown, creating a business district, and also a special service area specifically for public water. Due in part to the increased economic activity, Long Grove estimates that revenues increased by 40 percent between the FY 2014 budget and the approved FY 2017 budget.

Nevertheless, challenges continue to persist. Small homeowner 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.[46] 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.[47] With additional revenue from

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[42] 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

[43] Ibid.

[44] 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

[45] 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

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

[47] Ibid.

economic development pursuits, the village is still maintaining roads, although at a rate lesser than recommended.[48]

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 are able to 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 or impact fees with developers and businesses to offset the costs of building or improving infrastructure or providing a disproportionate increase in services, such as emergency calls. Impact fees typically cover the initial costs of infrastructure rather than the full life-cycle cost. In Illinois, impact fees are typically used for new road infrastructure, specifically, and municipalities must still find revenue sources for maintenance and services.[49]

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 developments may incur additional costs due to service and fire calls, and that communities have adopted various strategies to reduce this impact.[50] In some cases, additional financial and regulatory incentives may be necessary to offset the cost of certain residential types or in locations that may be difficult to develop in.

Municipalities choose SSAs as a method to finance projects and services because the costs are incurred by property owners directly impacted rather than all residents, potentially making this method more politically palatable. An additional benefit of SSAs is lower costs because municipalities sell bonds to raise money for the infrastructure projects at interest rates more favorable than a builder can obtain.

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[48] Ibid.

[49] Katz, Peter, "The Missing Metric," *Government Finance Review*, August 2013.

[50] Chicago Metropolitan Agency for Planning, *Fiscal and Economic Impact Analysis of Local Development Decisions*, January 2014.

Some municipalities and homeowners, however, have expressed concern that SSAs may impact home sale prices and tax assessments. Developers and sellers of property within the SSA boundary may decrease the purchasing price of the 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.[51]

Improper administration of the SSA may also 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, distribution network, 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 underutilized 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.

Strategic framework

In general, strategies in ON TO 2050 will refine and expand upon GO TO 2040 recommendations. However, the region should also research and assess new concepts. The

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[51] 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

following provides a general policy framework for addressing the intersection between tax 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 that municipalities play in fostering the region's success through their land use decisions. Municipalities make reasonable fiscal decisions given the current state frameworks for communities to generate revenue. But, this framework does not necessarily support positive regional economic outcomes that better support other land uses could achieve. The strategies below outline options to promote best practices within the current framework and evaluate options for 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 facilitate municipal support for all land use types. 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. While some communities in Illinois prioritize retail development in order to accrue sales tax revenues, findings from Ohio, where municipalities can levy a local income tax and may prioritize office development, indicate that changing the tax structure may simply change which development type is heavily emphasized. A particular land use may not generate substantial municipal revenues, but it can still be important for a community's and the region's, 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 support their economic vitality, quality of life, and other goals.
>
> **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 will begin work on an assessment of the multijurisdictional transportation impacts of retail agglomerations, followed by studies on industrial and office development. Transportation utilization and expenditures related to clusters of businesses will be analyzed to determine how transportation impacts are distributed across multiple jurisdictions.

Focus on improving the economy. Local economic development incentives should focus on local and regional economic gain. Specifically, ON TO 2050 should include strategies to reduce the use of incentives for developments that provide minimal regional economic benefits. Many municipalities provide economic development incentives to businesses if they increase local tax revenues or help achieve livability goals such as reinvestment in infill or encouraging mixed use development. 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. As previously explored by CMAP, the Denver region also has a similar agreement that was implemented in 1987.[52] ON TO 2050 should encourage all the region's communities 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. Vacancy can be attributed to many factors, including an overreliance on tax revenue related to development that is not market supportable. Community plans should focus on development types and/or volumes that are market supportable. To achieve this goal, communities should engage in collaboration efforts to attract businesses and development to their market area. For example, Select Chicago Southland works to attract retail development to ten communities across the south suburbs. In addition, through Local Technical Assistance and research, CMAP and its partners should help municipalities incorporate market analysis into municipal planning efforts.
>
> **Coordinate economic development efforts.** An outward-facing, regional strategy that leverages regional assets to attract new businesses and nurture existing industry clusters would bring substantial benefits to the regional economy. Northeastern Illinois' leaders should continue existing efforts to develop a regional 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 and policies should ensure that incentives provided for development are in line with established community goals and are only provided if desired outcomes are met. CMAP and its partners, such

[52] Chicago Metropolitan Agency for Planning, *Reorienting State and Regional Economic Development: Lessons Learned from National Examples*, 2014, http://www.cmap.illinois.gov/documents/10180/229846/FY14-0061%20Economic%20Development%20Report.pdf

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, as well as ensuring that communities are able to invest in their 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 disinvestment analyses to provide a range of strategies, from near-term technical assistance to longer term changes to state and policy frameworks. Next steps include:

Develop strategies for improving municipalities' technical capacity. The barriers to implementing planning recommendations vary, and can range from a lack of technical knowledge of staff or elected officials, low staffing levels, and/or 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 will also include coordination 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, 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.

Balance development-specific and broad revenue sources. To ensure sufficient revenue to fund operations and infrastructure costs, communities across the region utilize a mix of broad and development-specific revenue sources. The strategies used to ensure sufficient funding would vary by community. ON TO 2050 strategies should address communities with existing development that is creating infrastructure maintenance needs, communities in need of redevelopment along with infrastructure improvements, as well as communities expanding infrastructure for development occurring on undeveloped land.

Development-specific revenues are important for ensuring that all those who benefit from a municipal service or public infrastructure are the ones who pay for it. ON TO 2050 should encourage communities to work with developers and businesses to ensure adequate funding for public infrastructure.

Broad revenue sources allow for revenue stability, provide long-term sources of funding for long-term maintenance and operations costs, and may facilitate the procurement of revenues from beneficiaries that are external to the specific jurisdiction. For example, local motor fuel taxes generate revenue broadly from drivers purchasing motor fuel within a jurisdiction, including businesses that originate in different jurisdictions. Alternatively, state motor fuel tax revenue disbursements to municipalities, which are currently based on population, could be reformed to consider additional factors such as communities with substantial business development and the resulting traffic, as well as equity.

Another potential strategy would leverage 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. Incremental revenue increases could be disbursed to municipalities based on new criteria to ensure that communities with significant warehousing and distribution industries would receive this revenue. Next steps include:

Employ development-specific revenues. Communities not already doing so should consider emulating the practice of other municipalities across the region that utilize agreements with developers to fund infrastructure improvements. Communities with existing development might work with businesses that would specifically benefit from improved infrastructure to establish a plan to ensure funding for those investments. Communities expanding infrastructure for new development might make agreements with developers to provide for new public infrastructure or recapture expenditures on prior infrastructure improvements. In addition, any community with a new development that is expected to have a significant impact on municipal operations or infrastructure could make an agreement for the developer to provide payment for future operations or infrastructure maintenance costs. In order to execute effective agreements that ensure sufficient revenues, communities should carefully assess site-specific impacts of individual developments, as well as the infrastructure needs of the whole community through a capital improvement plan.

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 use of local transportation user fees.

Explore revenues for industrial-related infrastructure needs. Industrial development often has positive economic benefits, such as higher wages, but may result in significant infrastructure maintenance needs, while providing little in local tax revenue. In addition, truck movements across multiple jurisdictions means that communities with little or no industrial development may still have significant infrastructure needs. Due to its regional benefits, the tax system should have the ability to support industrial development more directly. CMAP should explore broad-based, local revenue sources related to infrastructure needs associated with industrial development, including use tax, motor fuel taxes, and other sources.

Appendix: Major municipal revenue sources

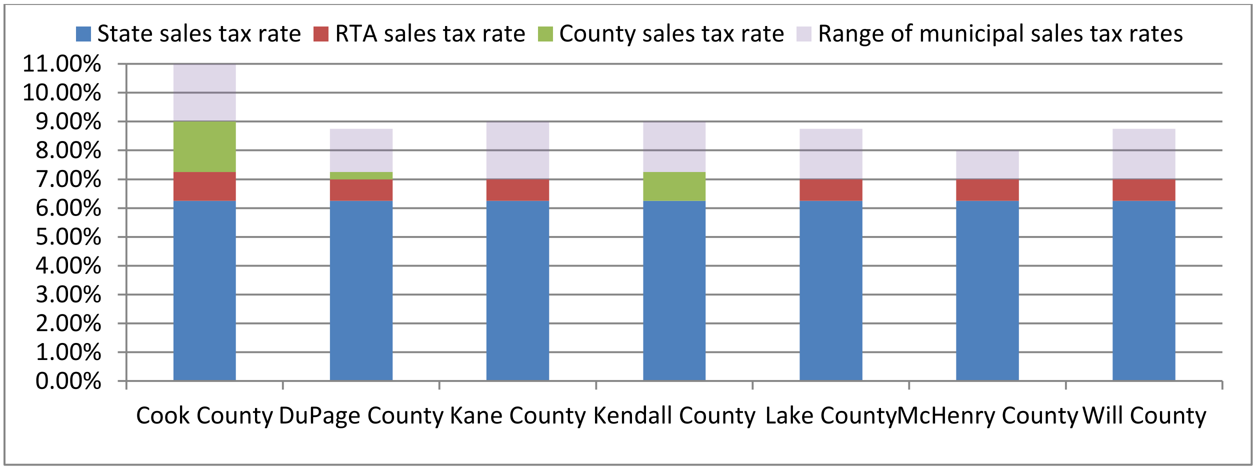
Sales taxes

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 retail sales taxes of any rate.[53] Non-home rule municipalities require a referendum to implement retail 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. The following chart provides an overview of the range of sales tax rates in the region.

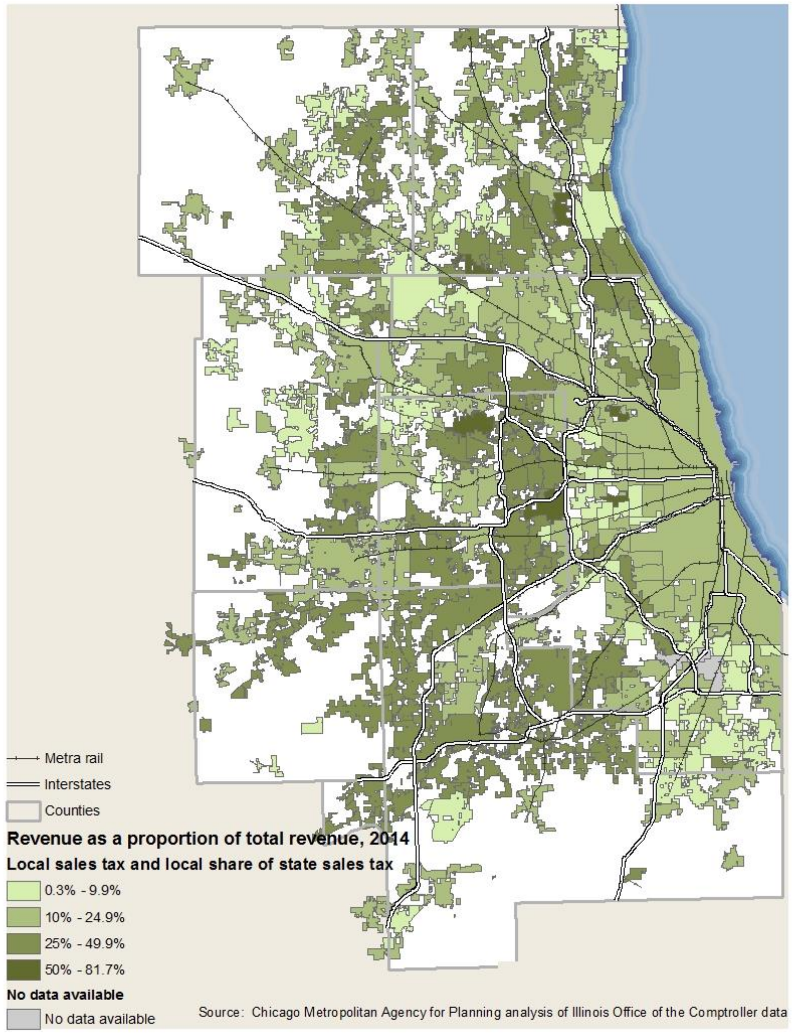
Figure 7. Sales tax rate ranges by county, May 2016



Note: Excludes Business District sales tax rates
Source: CMAP analysis of Illinois Department of Revenue data, May 2016

[53] 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.

Municipalities with higher reliance on sales tax revenues tend to have larger sales tax bases on a per capita basis. 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 within their borders. Local policy decisions to encourage retail land uses may result from the strong fiscal benefit that retail developments provide to municipalities.



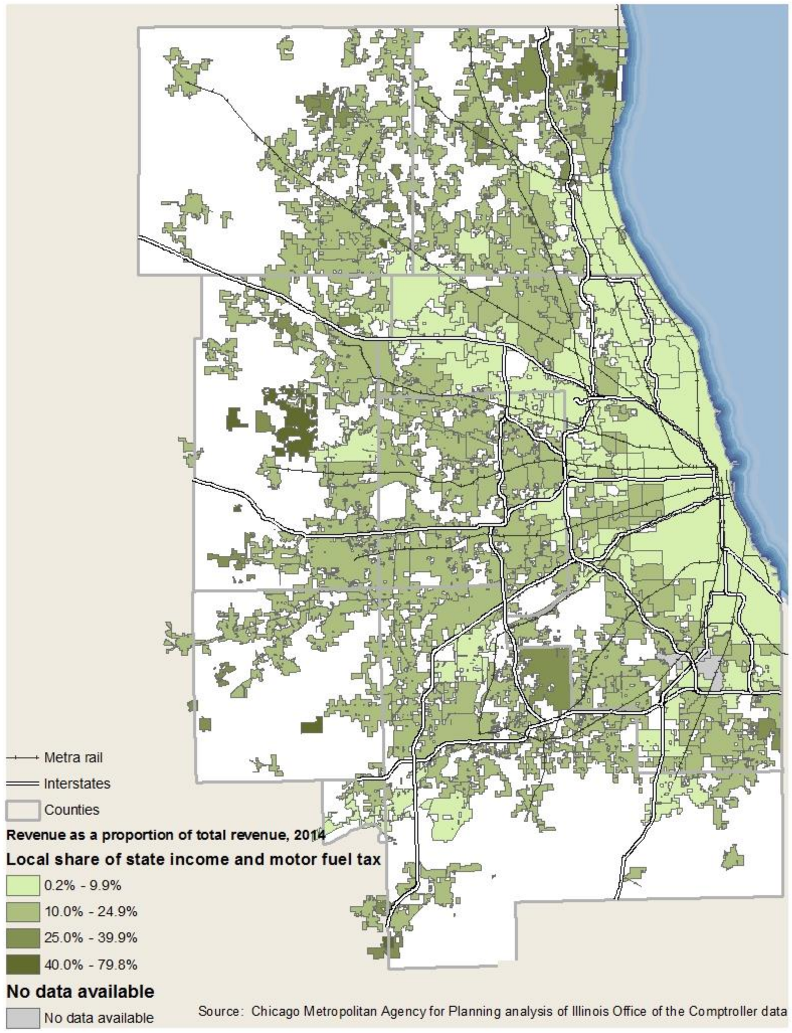
Municipalities that rely more heavily on sales tax revenue were also more likely to have recently increased home rule or non-home rule sales tax rates.[54] Among municipalities that relied on sales tax revenue for more than 30 percent of their overall revenue in 2012, 29.6 percent increased or instituted local option sales tax rates between 2009-14, compared to 16.4 percent of municipalities that have lower sales tax reliance

The map 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.

[54] Chicago Metropolitan Agency for Planning, "Municipal Reliance on Property, Sales, and Income Taxes and their Relative Stability," February 6, 2015, http://www.cmap.illinois.gov/about/updates/-/asset_publisher/UIMfSLnFfMB6/content/municipal-reliance-on-property-sales-and-income-taxes-and-their-relative-stability

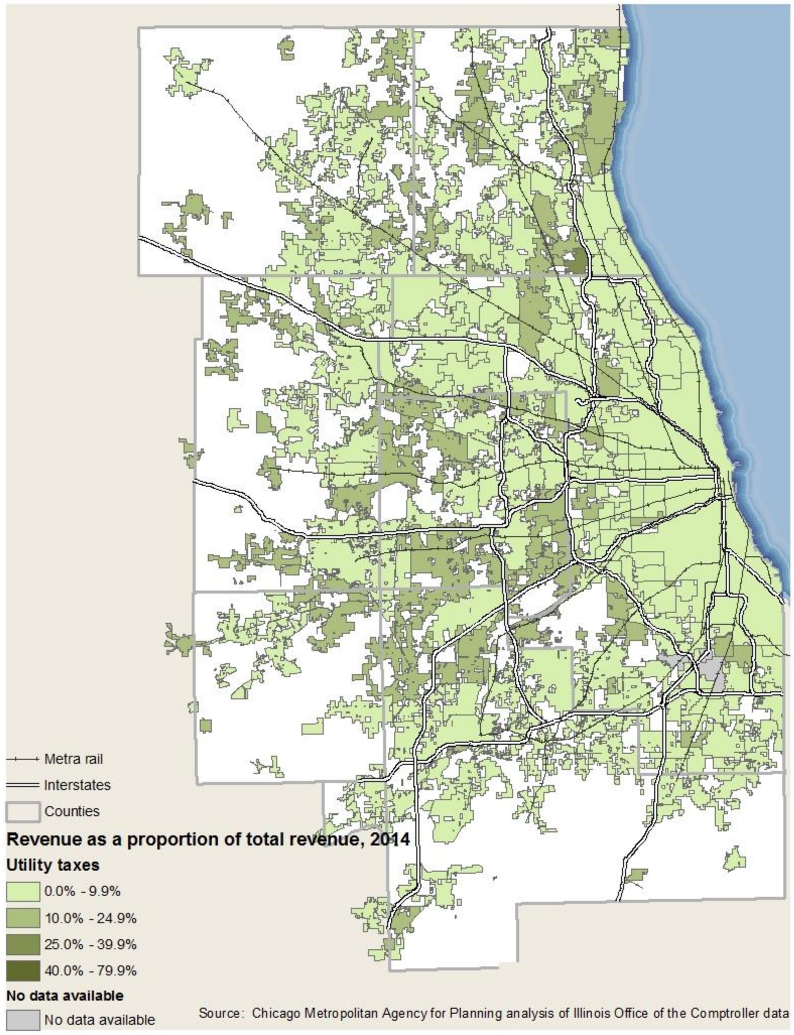
State revenues disbursed by population

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. In addition, 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. The following map provides an overview of the extent that municipalities rely on these revenues.



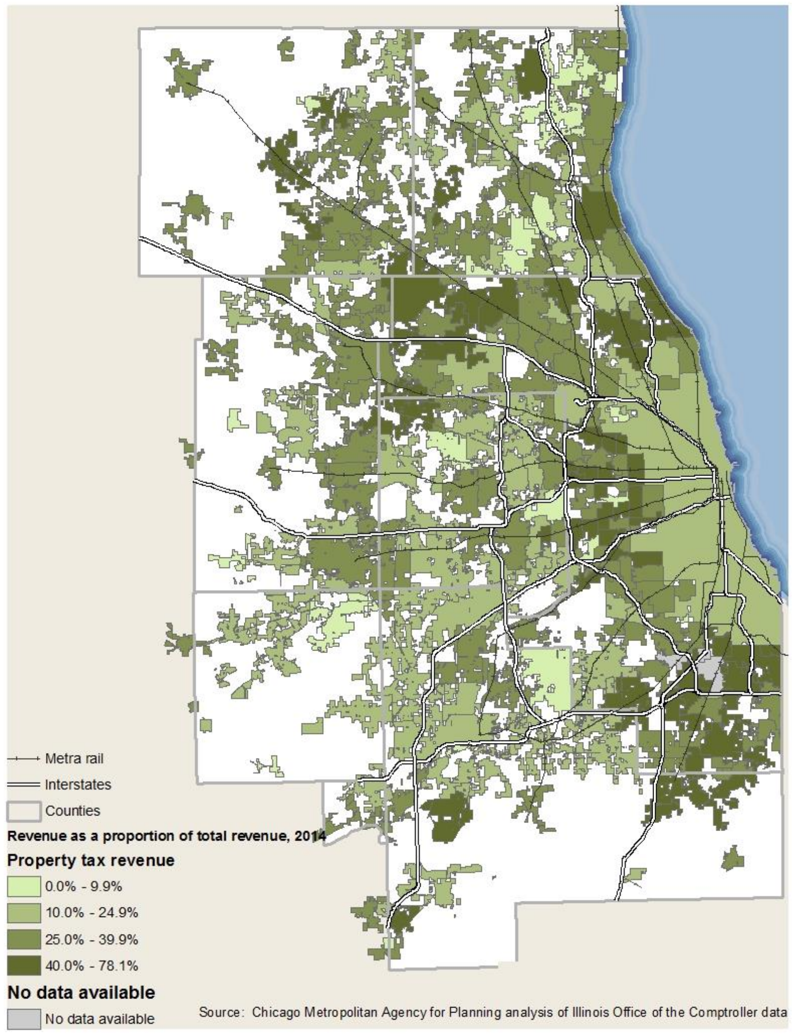
Local utility taxes

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. The following map provides an overview of the extent that municipalities rely on utility tax revenues.



Real property taxes

For 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 for the 7-county region totaled $21 billion in 2014.[55] 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 impose a property tax.[56] 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 being more reliant on property tax revenues in comparison to 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. The following map provides an overview of the extent that municipalities rely on property tax revenues.



[55] Illinois Department of Revenue, 2014

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