

The GO TO 2040 comprehensive regional plan recommended the creation of a task force reporting to the Board of the Chicago Metropolitan Agency for Planning (CMAP) to analyze state and local tax policy issues. With members possessing a wide range of tax policy expertise and experience, the Regional Tax Policy Task Force held ten monthly meetings between April 2011 and January 2012. Its work culminated in a report with recommendations to the CMAP Board, including detailed staff analysis in support of those recommendations.

The CMAP Board received this report at its regularly scheduled monthly meeting on February 8, 2012. At that time, the Board began to consider how it will act on the Task Force recommendations, which are strictly advisory in nature. Until the Board acts on these recommendations, it is premature to draw conclusions about how this process will take shape. Tax policy is an important aspect of the GO TO 2040 plan's implementation, and whichever strategies the CMAP Board ultimately chooses will be pursued in the interests of what is best for our region as a whole.

## Task Force Recommendations

The Task Force's charge as defined by GO TO 2040 was to advise the Board by "...addressing issues central to state and local fiscal policy, viewed through the lens of the regional economy, sustainability, equity, and the connections between tax policy and development decisions." To view the Regional Tax Policy Task Force report to the CMAP Board, see [www.cmap.illinois.gov/regional-tax-policy-task-force](http://www.cmap.illinois.gov/regional-tax-policy-task-force). CMAP should continue to play a leadership role in facilitating a regional perspective on tax policy.

### 1. CMAP should continue to play a leadership role in facilitating a regional perspective on tax policy.

With the adoption of GO TO 2040, the CMAP Board has begun to address the tax policy issues that shape the region and influence the implementation of the Plan's goals. The Task Force endorses this commitment and encourages CMAP to take an active role in defining a regional perspective with respect to tax issues and appropriate changes in tax law.

CMAP's work focuses on the nexus of land use, transportation, and economic development, issues that are directly impacted by tax policies. CMAP should continue to maintain the staff resources and analytical capacity to execute its responsibilities effectively with respect to tax policy. It needs the capacity to move quickly as tax issues emerge in the legislative process. CMAP should work to develop a regional perspective, backed by rigorous research and analysis, on tax policies that are in the best interests of the region as a whole, as well as the governments that are an integral part of the region and the residents and businesses that pay the taxes.

### 2. CMAP should play a leadership role in addressing the following tax policy issues:

The following describes tax policy issues that should be addressed by the CMAP Board. These recommendations are offered as issues that should be addressed, but they are not an implicit or explicit endorsement for a particular solution.

#### Sales Tax Revenue Sharing

State law provides that local governments receive state sales tax revenues based on local point of sale. While these dollars are used to provide services and infrastructure to support the retail development, in some cases the revenues accrue above and beyond this specific need, even when sales tax rebates are employed. Intraregional moves from one community to another rarely result in new revenues or jobs for the region, and these tax rebate deals are not always disclosed to the taxpayer. The CMAP Board should analyze how sales tax rebates affect development and land use decisions, and it should support policies that enhance transparency in the rebate agreements that local governments make with businesses.

This method of distribution also contributes to some extreme divergences in local tax capacity around the region. These divergences can impede efforts to encourage redevelopment in some parts of the region. The CMAP Board should continue to analyze the effects of sales tax revenue sharing criteria and consider new approaches to the allocation of new or increased revenue streams. New approaches to allocation should encourage regional cooperation and broader development goals, but avoid redistributing existing revenues and acknowledge that local governments have planned for their future based on the current revenue sharing policies.

### **Personal Property Replacement Tax Revenue Sharing**

This tax is allocated across nearly all units of local government using a system based on the structure of local taxes and the economy in the late 1970s. Those who pay the tax see little relationship between their tax investments and the services provided, since the allocation system was established over 30 years ago. CMAP should support reform of this outmoded revenue sharing system. It needs to be revised to reflect the region's changing demographics and needs. CMAP should also support and encourage the consolidation of some of the units of government that rely heavily on the PPRT for a principal share of their revenue.

### **Motor Fuel Tax Revenue Sharing**

CMAP should review the efficiency of allocating state MFT among 375 units of government within the region, all of which are responsible for maintaining an effective and efficient transportation system. The distribution method based on municipal population, which does not account for commercial or industrial activity, should be included as a part of this review. Local governments should be encouraged to share services or consolidate, which may enhance coordination and planning for the region's transportation needs.

### **Income Tax Revenue Sharing**

CMAP should support the continuation of state income tax revenue sharing with municipalities and counties on the basis of population. This revenue helps to maintain fiscal stability for local governments and avoids a highly varied distribution of revenue across communities in the region.

### **Property Tax Classification System**

Cook County is the only county in the State that assesses commercial and industrial properties at a higher percentage of market value than residential properties. This results in a greater property tax burden on commercial and industrial property taxpayers than residential taxpayers. Moreover, the differential between Cook County and the collar counties creates a discontinuity in taxation within the region and impedes CMAP's overall development goals. CMAP should support policies that phase out this regional inconsistency, but over a period of years in order to allow residential taxpayers to adjust to the increased burden.

### **Property Tax Extension Limitation Law**

While this law adds complexity to the tax system, it provides a measure of assurance to taxpayers concerning the rate of increase of their tax liabilities. CMAP should continue to analyze PTELL, including the effects of using more flexible methodology for calculating the extension limitation or changing the index used for calculating the allowable increase in the extension, as well as the law's differential effect on non-home rule and home rule municipalities and counties.

### **State Sales Tax Base and Rate**

Combined state and local sales tax rates in the region are generally high compared to national averages. The sales tax is applied to the sale of goods, but only a few services. This system does not reflect changes in purchasing and consumption patterns that have occurred since the sales tax was enacted 80 years ago. CMAP should support tax policies that broaden the tax base by taxing more services as a way to respond to changing consumption patterns, with a focus on lowering tax rates.

### **Individual Income Tax Base and Rate**

Unlike the federal government and most other states, Illinois exempts retirement income from its income tax base. Broadening the base by treating retirement income for state individual income tax purposes the same way that the federal income tax does would provide a more stable revenue source as the region's demographics change. CMAP should pursue policies that lead to a broadening of the individual income tax base in conjunction with policies that lower tax rates in the State.

### **Transportation Funding**

The CMAP Board should continue its support of an increase in the state MFT as an efficient way to meet the substantial unmet transportation needs in the region through user fees. The CMAP Board should continue to

support the implementation of alternatives to the motor fuel tax and other forms of innovative financing to fund transportation infrastructure. It should also support the utilization of performance-based evaluation criteria for allocating state transportation funds.

### **3. CMAP should support policies that provide for regional needs.**

Many of the challenges to creating a competitive economy, such as modernizing the transportation system, cannot be solved only by the actions of individual local governments. The State, as well as the federal government, appears to be reducing its commitment to the needs of metropolitan areas. Northeastern Illinois should follow the lead of other regions around the country that are pursuing regional revenue sources for regional needs.

Other than the RTA sales tax, which provides funding for transit operations, the region does not have a dedicated source of local funding to provide for regional needs. Transportation infrastructure is integral to the region's prosperity, yet it has fallen behind other industrialized parts of the world, many of which have invested significantly to create and preserve modern systems. CMAP should pursue a source of regional funding to help finance regional infrastructure investments. This funding should be regionally sourced, either through new revenues or through repurposing increased revenue streams. CMAP should advocate for a funding mechanism and an administrative structure to support regional infrastructure needs, such as roads, rail, and freight infrastructure.

The region's economic competitiveness is also affected by the vast variability in economic condition among communities in the region. Some areas of the region have a larger economic base than other areas, which gives them a greater ability to generate tax revenues from economic activity occurring in their community. Communities without a large economic base are unable to raise the revenues required to provide the public services necessary to attract residents and businesses. CMAP should consider that when differentials in tax capacity are extreme, the entire region's capacity to attract and maintain business investment may be affected.

## **Important Caveats**

The Task Force's observations and recommendations are not directly or indirectly endorsed or supported by the governments or organizations with which members of the are affiliated. In their report, the Task Force members stated two "caveats": First, the details matter. The Task Force did not have the time or resources to draft specific proposals, let alone draft legislation. An idea, such as broadening the tax base, may be a sound principle, but it still matters how it is broadened and how the resources will be allocated. Second, the tax system is complex and interconnected. Changing it almost always has unintended as well as intended consequences. The CMAP Board should continue to analyze these issues and consider new solutions with future revenue streams that promote a more efficient and accountable system. Further, changing one part of the tax system almost always results in pressure to change another part. It is important to look at the whole as well as the parts. The CMAP Board's tax policy efforts should also acknowledge that the way tax revenues are spent by the State and local governments has consequences for the region and its economy.

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## **About CMAP**

The Chicago Metropolitan Agency for Planning (CMAP) is the official regional planning organization for the northeastern Illinois counties of Cook, DuPage, Kane, Kendall, Lake, McHenry, and Will. CMAP developed and now leads the implementation of GO TO 2040, metropolitan Chicago's first comprehensive regional plan in more than 100 years. To address anticipated population growth of more than 2 million new residents, GO TO 2040 establishes coordinated strategies that help the region's 284 communities address transportation, housing, economic development, open space, the environment, and other quality-of-life issues. See [www.cmap.illinois.gov](http://www.cmap.illinois.gov) for more information.

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