



The Civic Federation

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The Civic Federation is an independent, non-partisan government research organization working to maximize the quality and cost-effectiveness of government services in the Chicago region and State of Illinois.

The Civic Federation is an independent, non-partisan government research organization that provides analysis and recommendations on government finance issues for the Chicago region and State of Illinois. Founded in 1894, its membership includes business and professional leaders from a wide range of Chicago area corporations, professional services firms and institutions.

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ENACT PUBLIC EMPLOYEE PENSION REFORMS

The State of Illinois has unfunded employee pension liabilities of nearly \$97.5 billion¹ and many local governments are either straining under the cost of employee pensions or facing the possibility that the funds will run out of money to pay retirees.

The Civic Federation supported reforms passed by the General Assembly in November and December 2013 that will reduce pension benefits for some State and Chicago Park District employees and retirees. The reforms of Public Act 098-0599 for the four State pension funds include an actuarially sound employer pension contribution schedule, a limitation of the automatic annual annuity increase for both current employees and retirees, a pensionable salary cap, phased-in increases in the retirement age and a one percentage point decrease in employee contributions to the plan, among other reforms. While the changes are projected to stabilize the funds and reduce the State's contributions by \$160 billion over the long term, they are currently being challenged in court.

On January 7, 2014, Governor Pat Quinn signed Senate Bill 1523 into law after the General Assembly passed it in November. This legislation will put the Park District on a schedule to increase its funded level to 90% by 2049, decrease the automatic annual increase for current employees and retirees, increase the early retirement age, increase employee contributions on a phased-in basis and guarantee Park District funding levels. While no lawsuits challenging the legislation have yet been filed, they are expected in the coming months.

The Civic Federation has long advocated for many of the changes included in these two bills, which will make pensions more affordable now and in the future and will ensure that employees and retirees will have sustainable pensions over the long term.

However, the General Assembly and Governor still have much work to be done with regard to local pension funds in crisis. Many are so severely underfunded they may run out of money if nothing is done to further reduce benefits or increase contributions (e.g., the Chicago Municipal Fund was only 38.0% funded on a market value basis for FY2012 and if nothing is changed could run out of funds within the next decade). For other funds, the employer contribution level has become so high that it threatens to crowd out spending on government services. The City of Chicago is one such government; it faces a \$600 million increase in its pension contribution in 2015 due to a 2010 State law that mandates increased funding to the Police and Fire Funds .

The Civic Federation urges the General Assembly to pass further legislation to reduce benefits for current employees of local governments facing a pension funding crisis and to increase employer and employee contributions. With the passage of the State and Chicago Park District pension reform packages, governments now have two templates for reform and must decide what portion of their expenditures or revenues they can afford to devote to pension costs and then adjust benefits to match that level. Swift action is needed in order to ensure the financial viability of our local governments as well as the retirement security of local employees and retirees.

¹ This is the market value for the five state retirement systems in FY2013. State Retirement Systems' FY2013 Actuarial Valuations.

Reforms For All State of Illinois Funds and Local Government Funds in Crisis

The Civic Federation urges the General Assembly to enact further critical reforms to State and local government pension funds, including the following:

1) Reduce Benefits for Current Employees and Retirees

Local governments will continue to have difficulty funding the pension promises they have made to their employees unless they move to reduce pension benefits for current employees in future pension reform legislation. The Civic Federation encourages the General Assembly, Governor and local government officials to work together to pass legislation that will ensure that pension benefits are financially sustainable for workers, retirees and taxpayers.

2) Require Employer and Employee Contributions to Relate to Funding Levels

The employer contributions for eight major local government pension funds in the Chicago area are simply a multiple of past employee contributions, with no relationship to the funding status or actuarial liabilities of the plan. Most employee contributions are a fixed percentage of payroll.

The Civic Federation recommends that **employer and employee contributions for all funds be tied to actuarial liabilities and funded ratios, such that contributions are at levels consistent with the actuarially calculated annual required contribution (ARC).**

The Civic Federation believes that employees need to share in the rising costs of public pension plans and recommends that employer and employee contributions be restructured such that employees pay a proportion of required contributions, similar to the new structure of the CTA contributions. A **proportional relationship should be set** whereby, for example, the employer pays 50% and the employees pay 50% of the annual required contribution. Whether the proportion is 50%/50%, 60%/40%, or some other ratio, **it is critical that both parties pay a share of required contributions, and that those contributions relate to the fiscal health of the fund.**

3) Grant Local School Districts, Universities and Community Colleges Responsibility for Both Pension Funding and Benefit Decisions

The Civic Federation supports the State of Illinois **developing a reasonable plan for dealing with the transition of normal costs for non-State employees to their actual employers.** The Federation agrees that the responsibility for contributing to a worker's pension should rest with the employer who determines the worker's salary. However, any proposal must provide an adequate transition period to allow local school districts to handle the additional costs and should include a provision for how the State and local district will distribute funding for current and future unfunded pension liabilities. In order to ensure that unwanted pension benefit enhancements are not granted by the State after the local employer takes control of funding the normal cost of their employees' pensions, the Civic Federation additionally recommends that the General Assembly grant local school districts, universities and community colleges the authority to determine benefit levels for their employees.

4) Prohibit Benefit Enhancements Unless They Are Fully Funded, Will Expire in Five Years and the Plan is Over 90% Funded

Benefit enhancements are a major source of increased liabilities for pension funds. Employee groups often advocate for benefit enhancements with the expectation that investment returns or tax increases will finance the enhancements. But years of enhancements have led to pension benefits that are now unaffordable for many governments and threaten to crowd out spending on public services.

The Civic Federation urges the General Assembly to **prohibit retirement benefit enhancements for any state or local government pension plan that is less than 90% funded.**

Any enhancements granted for a healthy fund (over 90% funded) **should only be permitted on a pay-as-you-go basis whereby employer and/or employee contributions are increased sufficiently to fully fund the enhancements.**

Public Act 94-0004, Illinois' 2005 pension reform law, requires that every new benefit increase made to one of the five state retirement systems must identify and provide for additional funding to fund the resulting annual accrued cost of the increase. The Act also requires that **any benefit increase expire after five years, subject to renewal.** The Civic Federation supports extending this reasonable control on benefit enhancements to the local public pension funds through a change in the state statutes governing these funds.

5) Prohibit Funding Holidays and Borrowing for Employer Pension Contributions

Public Act 96-0889 reduced the Chicago Public Schools' required employer pension contribution for FY2011, FY2012 and FY2013 to an amount estimated to be equivalent to the normal cost.² It also delayed the year that the pension fund must reach a 90% funded ratio from 2045 to 2060.

Prior to the passage of P.A. 96-0889, the CPS required contribution for FY2011 was calculated to be \$586.9 million, or almost double the FY2010 amount. P.A. 96-0889 reduced the District's required FY2011 contribution to \$187.0 million, which is \$120.5 million, or 39.2% less than the prior year contribution.³ In FY2014, the year when the reduced payment provision sunsets, the District's pension payment will increase to \$600.0 million, an increase of \$404.0 million over the scheduled FY2013 pension contribution. The three-year partial payment reprieve, while sparing the District additional pain in the previous three fiscal years, contributed to the District's enormous FY2014 budget deficit of nearly \$1 billion and will intensify pension funding problems in outlying years.

The State of Illinois borrowed \$3.5 billion to make its FY2010 pension contributions and \$3.7 billion in FY2011. Pension holidays and borrowings both fail to deal with pensions as an ongoing operating cost and effectively push costs onto future taxpayers. The Civic Federation

² "Normal cost" is an actuarially-calculated amount representing that portion of the present value of pension plan benefits and administrative expenses which is allocated to a given valuation year.

³ Actuarial projection by Goldstein & Associates for Kevin Huber, Executive Director of the Public School Teachers' Pension and Retirement Fund of Chicago, March 31, 2010.

urges the Illinois General Assembly to **prohibit funding holidays and borrowing for employer pension contributions.**

6) Tie Pension Obligation Bond Issuance to Pension Reforms

The Civic Federation recommends that **no state or local government be permitted to issue pension obligation bonds unless comprehensive pension benefit reforms have first been enacted. Furthermore, all proceeds must be used to reduce unfunded liabilities, never to pay current employer contributions.**⁴ We supported the issuance of \$1.1 billion in pension obligation bonds for the Chicago Transit Authority because Public Act 95-0708 also required major benefit and contribution reforms. The Civic Federation does not support putting more money into pension funds without fixing some of the underlying problems causing chronic underfunding.

7) Require Publication of Cost-Benefit Studies for any Early Retirement Initiative Proposals

Early retirement programs are designed to reduce current payroll expenses by encouraging senior employees to retire early, but they often create substantial additional pension costs.

The Civic Federation recommends that the state and local governments be **required to conduct and publish comprehensive cost-benefit analyses before being permitted to implement early retirement programs** because these programs increase pension costs and effectively shift the price of government services from current taxpayers to future taxpayers.

Governance Reform For All Public Employee Pension Funds

The number and composition of pension boards of trustees should be changed in order to achieve economies of scale and to ensure that the trustees are well prepared for their role as fiduciaries of millions of dollars in invested assets.

1) Consolidate Local Pension Funds

The Civic Federation recommends that the General Assembly consolidate local pension funds. There are over 600 local pension funds in the state, each with its own governing board, most of which are police and fire funds for individual municipalities. While these funds may enjoy local control over investing and disability decisions, we believe that the **overall investment performance and administrative efficiency generated by economies of scale would greatly improve if funds were consolidated into the Illinois Municipal Retirement Fund.**

⁴ For example, only \$7.3 billion of the State of Illinois' \$10 billion pension obligation bond issuance in 2003 went toward reducing unfunded liabilities. Public Act 93-0002 specified that \$300 million be used to reimburse the State for part of its FY2003 pension contributions and \$1.86 billion be used to make the entire employer contribution for FY2004. The remaining \$522.7 million was for payment of fees, commissions and interest related to the bonds. See Commission on Government Forecasting and Accountability, "Report on the 90% Funding Target of Public Act 88-0593," January 2006, p.31.

2) *Reform Pension Boards of Trustees to Balance Stakeholder Interests and Safeguard Assets*

The mission of a public pension fund board of trustees should be to ensure effective benefit administration and safeguard the fund's assets through prudent investment oversight. Unfortunately, many pension boards also act as advocates on behalf of fund members, lobbying for benefit enhancements that ultimately increase the funds' liabilities.

As outlined in the Civic Federation's *Recommendations to Reform Pension Boards of Trustees Composition in Illinois* in 2006, the membership of most Illinois public pension boards does not reflect a balance of interests. The employer, employees, retirees and taxpayers all have a stake in the management of the fund. Furthermore, we are concerned that not all pension board members have adequate financial knowledge or training for their role in setting policies and overseeing millions of dollars of investments. We urge the General Assembly to undertake state and local pension governance reform that will:

- **Balance employee and management representation so that employees and retirees do not hold the majority of seats;**
- **Develop a tripartite structure that includes independent citizen representation on pension boards; and**
- **Include financial experts on pension boards and require financial training for non-experts.**

We commend **Representative Elaine Nekritz** (D-Northbrook) for introducing these reforms in House Bill 3400 in February 2007 and we ask the 98th General Assembly to consider them again.

Financial Reporting and Disclosure Recommendations For All Public Employee Pension Funds

The minimal reporting currently required of pension funds by Illinois state statutes does not give citizens or other interested observers a complete picture of what the public pension situation means for future taxpayers and future budgets.

1) *Require Reporting of Basic Projections*

The Civic Federation believes that the state pension code should be amended to **require state and local pension funds to report four basic measures of fiscal health**. These are measures that can easily be calculated by the funds' actuaries and included in their actuarial reports. They should also be published for public access on the state Department of Financial Regulation's Division of Insurance website:

- 1) Projected funded ratios for the next 30 years;
- 2) Projected unfunded liabilities for the next 30 years;
- 3) Projected required employer contributions for the next 30 years; and
- 4) Projected date of insolvency (the year when the pension fund is projected to run out of money to pay retiree benefits).

These measures should be calculated and reported two ways: first according to current state laws governing employer contributions to the funds (i.e., under the current state funding policy) and second under a state funding policy equal to normal cost plus a closed 30-year amortization of the unfunded liability (i.e., what it would take to reach 100% funded in 30 years). Actuarial assumptions for such factors as wage increases, turnover and investment return will differ among the funds, so the measurements should also include a disclosure of all underlying actuarial assumptions and methods.

2) Require Benefit Enhancement Reporting

The Civic Federation recommends that all pension funds be **required to describe any benefit enhancements granted in a given year in their annual financial reports and to calculate the effects of those enhancements on the fund's total liabilities**. Taxpayers deserve to know the costs of benefit enhancements.

CREATE AN ILLINOIS MUNICIPAL PROTECTION AUTHORITY

One way to address municipal distress related to pensions and other financial stressors would be for the General Assembly to create a quasi-judicial structure that provides local governments and their employees with a venue, encouragement and supervision to aid in finding creative, voluntary solutions for financially challenged local governments.

IMPA's mission would be to provide a supervised forum to assist with the determination of the following issues resulting from underfunded essential government services for local governments:

- What essential government services and post-employment benefits are affordable and sustainable;
- What cost-cutting measures are necessary to achieve affordable services and benefits;
- What recommendation, if any, for a tax increase is necessary to provide additional funding;
- What contribution increases are necessary by both public employers and employees;
- What intercept of state revenues is necessary to pay required services, indebtedness and benefits so that essential government services can be provided and the municipality can maintain access to the municipal debt market at relatively low cost;
- Whether arbitration (voluntary or mandatory) should be engaged in for contractual or labor disputes;
- Whether services or costs of the municipality should be transferred to other governmental bodies;
- Whether certain services should be consolidated with other governmental bodies or transferred to a regional authority;
- Whether the municipality should be authorized to file for Chapter 9 proceedings under the Federal Bankruptcy Code; and
- Whether, given the findings of IMPA, the municipality's plan of a debt adjustment can be prepackaged or prenegotiated.

Under Chapter 9 of the Federal Bankruptcy Code, a state may authorize local governments to use federal bankruptcy procedures to adjust their debts, burdensome contractual obligations, unaffordable judgments or asserted liabilities including labor contracts and post-employment obligations. By creating IMPA, **the state is able to offer an alternative to bankruptcy which will allow local governments an opportunity to solve their critical problems related to providing essential government services.** These problems may include unaffordable costs or liabilities that imperil municipal services such as unbearable obligations and liabilities, judgments, labor and post-retirement benefits, without subjecting all of their other operations to the jeopardy of a bankruptcy proceeding.

Implicit in its mission is that IMPA will develop criteria for measuring the financial health of local governments and publicly comment on whether costs of operation including services, labor and pension and Other Post Employment Benefits (OPEB) obligations can be paid from reasonably available sources without impairing a local government's primary mission of providing essential services. The goal of IMPA is to have all participating municipalities fully fund essential government services and make sustainable contributions to pensions and OPEB by a specified date in order to maintain the credibility of Illinois municipalities in capital markets.

REQUIRE THE STATE OF ILLINOIS TO DEVELOP, PUBLISH AND IMPLEMENT A CAPITAL IMPROVEMENT PLAN

The State of Illinois needs to make major capital improvements to its infrastructure in order to promote the state's economic vitality. However, the State has failed to prepare and publicly disclose a comprehensive multi-year Capital Improvement Plan (CIP) that prioritizes projects based on objective criteria. The General Assembly approved a \$31 billion capital spending plan in 2009 despite the absence of a CIP. The Civic Federation strongly believes that the public deserves serious evaluation of how State money will be used and prioritized **before**, not after, the funds are appropriated.

The Civic Federation agrees with the National Advisory Council on State and Local Budgeting that **all governments should develop a five-year capital improvement plan (CIP) that identifies priorities, provides a timeline for completing projects and identifies funding sources for projects.** The CIP should be updated annually and have formal approval by the governing body.⁹ A formal capital improvement plan includes the following information:

- A five-year summary list of projects, expenditures per project and funding sources per project;
- Information about the impact of capital spending on the annual operating budget for each project;
- Brief narrative descriptions of individual projects, including the purpose, need, history and current status of each project; and
- The time frame for fulfilling capital projects and priorities.

Above all, the capital improvement plan should be predicated on a publicly disclosed needs assessment and prioritization process. In addition, the CIP should be made publicly available for

⁹ National Advisory Council on State and Local Budgeting. Recommended Practice 9.6: Develop a Capital Improvement Plan.

review by elected officials and citizens. It should be published in the budget or as a separate document. The CIP should be also made available on the government's website. The Civic Federation urges the General Assembly to pass legislation requiring the State to develop, publish and implement a Capital Improvement Plan that is regularly updated and is actively used in the State's planning and budgeting processes.

A good CIP model for the State of Illinois to follow is the State of North Carolina's Capital Improvement Plan. North Carolina passed a law in 1997 requiring the preparation and publication of a CIP that is fully integrated with State financial planning and debt management processes. It includes:

- An inventory of facilities owned by State agencies;
- Criteria used to evaluate capital improvement needs;
- A 6-year Capital Improvement needs inventory; and
- A 6-year CIP.

The plan is submitted to the North Carolina legislature every 2 years.¹⁰

ESTABLISH A CONSENSUS REVENUE FORECAST PROCEDURE FOR THE STATE OF ILLINOIS

The Civic Federation recommends that the State of Illinois establish a process under which the executive and legislative branches will develop a consensus revenue forecast prior to the publication of the Governor's budget. The State currently lacks a unified revenue projection and the varying estimates on the amount of resources available limit the effectiveness of the State's budget process.

An important first step in preparing a government budget is the preparation and publication of revenue estimates for the upcoming fiscal year. The estimates provide the basis for the spending decisions that are subsequently incorporated into the budget. For many decades in Illinois, the revenue estimates have been determined by the executive branch. However, for the past three fiscal years there has been an ongoing dispute between the Governor and the General Assembly regarding which revenue estimates to use as the basis of the state's annual spending plan. This is in contrast to many states where the executive and legislative branches develop a consensus revenue estimate that guides the development of the Governor's budget.

The National Advisory Council on State and Local Budgeting (NACSLB) recommends that governments develop a process for achieving consensus on revenue estimates prior to budget development. This removes forecasts from being an object of dispute and ensures the implementation of a more efficient, stable budget process. A formal consensus process also ensures a critical review of the assumptions underlying forecasts. The development of a consensus forecast requires a process that is transparent, consistent and trusted by all parties involved.

¹⁰ North Carolina Office of State Budget and Management. *North Carolina Capital Improvement Program: Implementation of the Capital Improvement Planning Act*. Six Year Summary FY2007-FY2013. April 2007.

The NACSLB notes that the process for achieving a revenue forecast will vary by government. Options include collaboration between the executive and legislative branches, using academic or private sector economists to develop the forecast or some combination of both approaches.¹⁴

According to the National Conference of State Legislatures, 22 states develop a consensus revenue forecast that usually includes representation from the executive and legislative branches. In 17 states the executive branch alone prepares the revenue forecasts and in the remaining 11 states there are varying degrees of executive-legislative cooperation in producing the estimates.¹⁵ Four examples of states that have developed a formal consensus revenue forecast include Connecticut, Kansas, Michigan and Wyoming. These states have guidelines for establishing a common estimate that include deadlines for publishing the agreed amount, independent analysis of the projections and steps for updating the estimates the fiscal year progresses.

Governor Quinn's Budgeting for Results Commission stated in its November 2012 report that it will survey consensus revenue forecasting practices in other states in order to recommend a similar process for Illinois.¹⁶

CREATE A NEW GOVERNING BOARD FOR THE COOK COUNTY FOREST PRESERVE DISTRICT

The Civic Federation commends **Senator Don Harmon** (D-Oak Park) and **Representative Elaine Nekritz** (D-Northbrook) for their leadership in sponsoring legislation to create a separate governing board for the Cook County Forest Preserve District. We urge the 98th General Assembly to pass legislation like HB1505, introduced by Rep. Nekritz in February 2012.

On March 17, 2008, the Civic Federation and Friends of the Forest Preserves published a report calling for the removal of the beleaguered Cook County Forest Preserves from the control of the Cook County Board of Commissioners.¹⁷ The report found that the County's dual board structure whereby the Cook County Board of Commissioners also serve as Forest Preserve District Commissioners creates an inherent conflict of interest and inhibits proper oversight of the Forest Preserves of Cook County.

The Civic Federation and Friends of the Forest Preserves are calling for a new, separate forest preserve board with members that are elected in a **non-partisan election** with a **board president elected among and by the members** of the forest preserve board. A separate board will allow voters to elect Commissioners on the basis of candidates' positions, credentials, experience and interest in the forest preserves.

Currently the Forest Preserve District of Cook County is organized as a separate local government with independent property tax authority, but it shares a board of commissioners with

¹⁴ See Recommended Budget Practice 9.2d: Achieve Consensus on a Revenue Forecast. National Advisory Council on State and Local Budgeting. *Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting*. 1999, p. 48.

¹⁵ www.ncsl.org.default.aspx?tabid=12637

¹⁶ State of Illinois, Budgeting for Results Commission, *2nd Annual Report*, November 1, 2012, p. 8.

¹⁷ The Civic Federation and Friends of the Forest Preserves, "Forest Preserve District of Cook County: A Call for a Separate Board of Commissioners," Chicago: March 17, 2008. http://www.civicfed.org/articles/civicfed_269.pdf

Cook County government. This structure has created an **inherent conflict of interest** for the Commissioners, who have not effectively separated the interests of Cook County and the Forest Preserve District. Many of the current Commissioners have shown a keen interest in promoting economic development and other uses of District property that conflict with the District's core mission to preserve natural land. The Commissioners have frequently placed themselves in the irreconcilable position of choosing Cook County's mission over the forest preserves' needs. The Civic Federation and Friends of the Forest Preserves' report documents many such instances where the County's needs trumped the interests of the forest preserves, including the transfer of \$13.3 million in District capital funds to the County in 2007 to help alleviate the County's budget deficit.

The report found that the County and District's "double-duty" Commissioners spend the vast majority of their time dealing with County issues. These weighty concerns leave little time for the Commissioners to focus on the forest preserves. Commissioners meet far less frequently to discuss Forest Preserve District matters than they do to discuss County matters and provide **less comprehensive oversight**. A separate board of commissioners would be able to focus their attention fully on the forest preserves. At the same time, the County would benefit from having the undivided attention of its Commissioners on pressing financial, health and public safety issues.

The report's findings have led the Civic Federation and the Friends of the Forest Preserves to the unanimous conclusion that **the District has suffered from financial and land management problems because of the conflicts of interest and lack of oversight created by the dual board structure**.

REQUIRE ALL COUNTIES TO HOLD BUDGET HEARINGS

The Civic Federation urges the General Assembly to **require that all counties hold at least one public hearing prior to approving the annual budget**. Currently, state statutes require Cook County, municipalities with over 500,000 residents and school districts residing in these cities to hold public hearings prior to passage of the budget (see Cook County Appropriations, 55 ILCS 5/6-24; Municipal Code – Budget hearing, 65 ILCS 5/8-2-6; School Code, 105 ILCS 5/34-46). We believe that all counties should hold public budget hearings as a matter of transparent and open governance.

EXTEND THE PROPERTY TAX EXTENSION LIMITATION LAW STATEWIDE

The Property Tax Extension Limitation Law (PTELL) is intended to limit the growth of the overall agency levy to 5.0% or the rate of inflation, whichever is less.²⁰ PTELL is often called "tax caps." Although the principle of PTELL is simple, its application is complex.

PTELL was passed in reaction to rapid population growth in the collar counties and was applied to those counties beginning with tax year 1991. When PTELL is applied to a county, all non-

²⁰ 35 ILCS 200/18-185 to 35 ILCS 200/18-249. The only year in which CPI was higher than 5.0% was tax year 1991 (payable in 1992). As described later in this section, some funds are exempted from PTELL so it does not necessarily limit a district's entire extension.

home rule taxing districts in that county are subject to it. Cook County was made subject to PTELL beginning in tax year 1994.²¹ In 1996 all counties in Illinois were given the opportunity to hold referenda on whether the non home-rule taxing districts in those counties should be subject to PTELL. Currently 39 counties are under PTELL (33 by referendum and Cook and the collar counties by statute). Nine of the 63 counties not under PTELL have held referenda that failed.²²

The Civic Federation believes that the Property Tax Extension Limitation Law has been an effective limitation on local government property tax revenues and has protected taxpayers from larger tax increases that would have been possible without PTELL while the real estate market was rising. Although adding PTELL adds complexity to the extension process for those counties not already under PTELL, the Federation recommends that PTELL be extended statewide for three reasons. First, it would reduce confusion for taxpayers and taxing districts if the same property tax limitations were applied in all counties. Second, it would limit property tax increases in inflationary real estate markets. Third, it would allow for more equitable calculation of the General State Aid formula. An alternative General State Aid formula is used for school districts in tax-capped counties in order to adjust for the effects of this property tax limitation on school districts' maximum local revenues. This adjustment shifts dollars away from districts in non-capped counties.²³

ALLOW TAXING DISTRICTS TO LEVY "RECAPTURE LEVIES"

The Civic Federation commends **Representative Michael J. Zalewski** for his leadership in sponsoring legislation to allow taxing districts to levy recapture levies. We urge the 98th General Assembly to pass **HB2901**, introduced by Rep. Zalewski in February 2013.

When a property taxpayer wins an assessment appeal after property taxes have been paid, the taxing districts are required to refund a portion of the paid tax to the taxpayer. This can create a financial strain for local governments, especially those that are subject to tax caps, because the refund is paid out of current collections and the district cannot levy more revenue to make up the shortfall. A solution to this problem would be to permit taxing districts to re-levy the amount of refunds paid out in the following tax year. This "recapture levy" would not be extended against most properties that had received refunds, however, so as not to impair their refund.

The recapture levy **would allow the taxing district to recover revenue from a previously levied legal tax extension to which any rate limits and tax caps had already been applied and thus would not constitute a tax increase.** The opportunity to recover refunded tax revenues through a recapture levy would also allow taxing districts to focus resources on their core mission rather than becoming involved in the assessment appeals process. Currently, the

²¹ Cook County government itself is home rule so it is not subject to PTELL, but all non-home rule taxing districts within Cook County are subject to PTELL.

²² <http://www.revenue.state.il.us/LocalGovernment/PropertyTax/PTELLcounties.pdf>

²³ Taxpayers Federation of Illinois, *Tax Facts*, April 2010, <http://www.taxpayfedil.org/secure/reveal/admin/uploads/documents/April%202010%20Tax%20Facts%20NEW.PDF> and June 2010, <http://www.taxpayfedil.org/secure/reveal/admin/uploads/documents/June%202010%20Tax%20Facts%20FINAL.PDF>

potential revenue loss resulting from assessment reductions granted after taxes have been paid motivates taxing districts to intervene in large appeal cases, hiring attorneys and appraisers to argue on their behalf. The public would be better served if assessments were defended by representatives of the offices involved in the assessment process, while taxing districts focused their resources on efficiently delivering their core government services rather than intervening in assessment appeals.

The Civic Federation is equally concerned both with the rights of taxpayers to seek redress for inaccurate property tax assessments and with the financial stability of taxing districts. The Federation supports allowing taxing districts to levy “recapture levies” for refunds that result from assessment reductions provided that taxpayers who receive the refunds are not affected by the recapture.

AUTHORIZE TOWNSHIPS TO BE DISSOLVED BY REFERENDUM

The Illinois Constitution appears to permit dissolution of townships by referendum (Illinois Constitution, Section 5: Townships). However, township laws only provide for the dissolution of all the townships in a county, not the dissolution of individual townships (60 ILCS 1/25-5 Discontinuance of Township Organization). Illinois statute states that 10% of registered voters in each township must petition for a referendum on continuance of township government. Elimination of township government then requires approval “with a majority of the votes in at least three-fourths of the townships that contain at least a majority of the population in the county.” Because of the confusion, recent efforts to dissolve township government in Evanston have been delayed. **Public Act 98-0127**, sponsored by **Senator Daniel Biss**, was signed into law on August 2, 2013 and will allow voters to decide whether the township government of Evanston should be abolished and all of its rights, powers, duties, assets, property, liabilities, obligations and responsibilities be transferred to the coterminous municipality. An earlier non-binding referendum on the subject in Evanston passed. **Rep. Karen May** introduced legislation in the 97th General Assembly that would have permitted referenda to abolish townships in all counties with populations over 50,000 (HB4987).

The Civic Federation sees no good public policy reason why the intent of the Illinois Constitution that township residents be able to dissolve township government should not be reflected in Illinois law. As such, the Federation **encourages the Illinois General assembly to pass legislation to clarify township dissolution procedures and allow dissolution via referendum.**

CONSOLIDATE PROPERTY TAX ADMINISTRATION ROLES IN COOK COUNTY

Administration of the Cook County property tax function is primarily handled by three different elected county officials (Assessor, Clerk and Treasurer), leading to taxpayer confusion about whom to contact with questions or complaints about the tax. The lines of responsibility are nearly impossible for ordinary taxpayers to discern and politicians exploit this fact to their political advantage.

The Civic Federation recommends that a **unified property tax administration office be created**. The new office would merge the Treasurer’s office; the County Clerk’s tax extension,

tax redemption and map divisions; the part of the Recorder's office dealing with property records; and the Auditor's property functions. It would be an appointed rather than an elected office.

Other states have moved to allow for consolidation of property tax administration roles. Minnesota state law allows its counties' Auditor and Treasurer positions to be combined and made either an appointed or elected position.²⁴ Additionally, the offices of Assessor and Auditor, Treasurer, or Auditor-Treasurer may be combined, subject to rules about compatibility of offices and restrictions as to holding other elected positions.

According to an opinion of the Cook County State's Attorney's Office, creating a unified Office of Property Tax Administration would require legislation be passed by the General Assembly and could not be done solely via County referendum or administratively.²⁵

REQUIRE SCHOOL FINANCIAL MANAGEMENT ACCOUNTABILITY REFORMS

In March 2007, the Civic Federation reviewed Illinois school district financial management and accountability oversight structures and procedures for the Accountable Schools Task Force of the Metropolitan Mayors Caucus. The Federation's report also identified best practices and recommended practices in financial management and accountability from national organizations and governments across the nation. In addition, the Civic Federation offered several policy recommendations regarding **steps Illinois should take to ensure greater financial accountability from its school districts by adopting features of the best practices and recommended practices that are most applicable to the financial management of school districts.**

We commend **Representative Lou Lang** (D-Skokie) for introducing these reforms in **House Bill 4194** in December 2007 and we ask the 98th General Assembly to consider the following school financial management accountability reforms:

Budgeting

a) Budget Format

Executive Summary: Require a "plain English" executive summary of the budget that includes:

1. School district major goals and objectives;
2. A discussion of major financial factors and trends affecting the budget such as changes in revenues, enrollment and debt;
3. A description of the budget process;
4. An overview of revenues and expenditures for all funds;
5. An explanation of significant financial and demographic trends;
6. Budget forecast for 3-5 years in the future;
7. Student enrollment trends, including a future forecast;

²⁴ If the position is made appointed, a referendum must be held. Research Department, Minnesota House of Representatives, "County Offices: Combining or Making Appointed." November 2011.

²⁵ Office of Tax Administration Report. Representatives of the County Board President, Cook County Assessor, Cook County Clerk, Cook County Treasurer and State's Attorney.

8. The number of personnel by type as well as a discussion of personnel changes;
9. Changes in debt burden; and
10. Relevant performance statistics.

Full Budget

1. An organizational chart;
2. Formal Financial Policies;
3. Long Term Financial Plan or a summary of the LTFP; and
4. Capital Improvement Plan or a summary of the CIP.

b) Evaluation

1. Require performance measures for support service functions and programs such as facilities management, food service, administration, etc.

c) Disclosure

1. The Executive Summary should be made publicly available on the internet.
2. At least ten working days should be allowed for public review of the budget prior to the public hearing.
3. The school district Board should be provided with monthly financial reports that summarize financial operations and financial condition in an easy to understand format.

Internal Controls

1. Create a strong internal auditor function.
2. Implement more rigorous external audit requirements.
3. Require school district audit committees.
4. The Illinois State Board of Education should develop a comprehensive set of internal procedures for adoption by school districts.
5. School districts should submit formal, written internal control policies to ISBE.

Planning Formal Financial Policies, Long Term Financial Planning, Capital Improvement Plan

a) Formal Financial Policies

1. School districts should be required to adopt formal financial policies in the following policy areas:
 - Debt Capacity, Issuance and Management
 - Capital Asset Management
 - Reserve or Stabilization Funds
 - Requiring Periodic Budget to Actual Comparison Reports
 - Fees and Charges
 - The Use of One-Time Revenues
 - Risk Management
 - Purchasing
 - Vehicle Acquisition and Maintenance
2. Require formal approval of the financial policies by school district Board.
3. Make the formal financial policies publicly available in budgets and other documents.

b) Long Term Financial Planning

1. Develop a formal long term financial plan that is updated annually.
2. Include multi-year forecasts of revenues, expenditures and debt in the LTFP. The forecasts should extend over at least a three year period.
3. Make the long term financial plan publicly available by publishing it in the budget or as a separate document and on the government's website. The forecasts that are the foundation of the plan should be available to participants in the budget process before budgetary decisions are made.
4. Provide opportunities for stakeholder input into long term financial planning process.
5. Require annual formal approval of the LTFP by school district Board.

c) Capital Improvement Plan (CIP)

1. Develop a formal five-year Capital Improvement Plan that is updated annually.
2. Require that Capital Improvement Plans include:
 - o A five-year summary list of projects and expenditures per project as well as funding sources per project.
 - o Information about the impact of capital spending on the annual operating budget for each project.
 - o Brief narrative descriptions of individual projects, including the purpose, need, history and current status of each project.
 - o The time frame for fulfilling capital projects and priorities.
3. Require that Capital Improvement Plans be made available on the school district's website at least ten working days prior to a public hearing.
4. Each school district should hold a public hearing on the Capital Improvement Plan with opportunities for citizens to present commentary.
5. School district Capital Improvement Plans should be formally adopted by school district Boards.

Financial Management Training for School Board Members

1. The State of Illinois should require all school board members to complete at least six hours of training on their financial oversight, accountability and fiduciary responsibilities.
2. The training must be completed within a year of their election and could be provided by an Illinois State Board of Education-approved trainer.

Financial Management Accountability Oversight

1. An Office of State School District Financial Management Accountability within the Illinois State Board of Education should be created to monitor progress made by school districts in meeting the statutory requirements of approved reforms.
2. School districts failing to meet approved financial management reform standards within a reasonable, specified timetable would be placed under the direct oversight of the Office of State School District Financial Management Accountability.
3. School districts placed under state supervision would be required to develop a 3-year improvement plan to meet the reform standards.

ISBE would withhold funds from school districts failing to fulfill State financial management accountability requirements and would be empowered to remove and replace non-complying financial management administrators.

REQUIRE PUBLIC SCHOOLS TO REPORT ALL RECEIPTS FROM OUTSIDE FUNDING SOURCES TO THE SCHOOL DISTRICT

Public schools are permitted to raise revenues from non-public sources through fundraisers, grants and donations. However, the schools are not required to report these revenues to their school districts. This makes it difficult to measure the total financial resources available to public schools. The Civic Federation **recommends that schools be required to report all receipts from outside funding sources to their school districts.**

AUTHORIZE STATE AND LOCAL GOVERNMENT ENTITIES TO ESTABLISH TRUST FUNDS FOR THE ADVANCE FUNDING OF RETIREE HEALTH CARE

The Governmental Accounting Standards Board Statement 45 required state and local governments to report liabilities for Other Post Employment Benefits (OPEB), namely retiree health insurance, beginning with their fiscal year 2008 financial statements. Although most governments and pension plans currently fund OPEB on a pay-as-you-go basis, the substantial size of the liabilities reported may lead some to establish trust funds in order to pre-fund their obligations.

The Civic Federation was pleased to support the Metropolitan Water Reclamation District's proposal to establish a trust fund for retiree health care. Public Act 95-0394, enacted in August 2007, created such a fund for the District. The Civic Federation urges the General Assembly to pass legislation **enabling other entities to create irrevocable trusts for the prudent pre-funding of retiree health insurance obligations.**