THE CIVIC FEDERATION
2007 Legislative Priorities

The Civic Federation is an independent, non-partisan government research organization founded in 1894. The Federation's membership includes business and professional leaders from a wide range of Chicago-area corporations, professional service firms and institutions.

1. PUBLIC EMPLOYEE PENSIONS

The five State of Illinois retirement systems have suffered from decades of underfunding and have some of the lowest funded ratios among the fifty states. Many of the local government pension funds in northeastern Illinois have similarly dismal outlooks and rapidly escalating unfunded liabilities. There is no indication that these trends will reverse, or even slow, unless substantial changes are made to the pension plans both in terms of benefits provided and contributions made.

The Civic Federation urges the General Assembly to enact the following reforms designed to ***improve the long-term financial health of both state and local pension funds***:

1. Reform public pension boards of trustees to balance stakeholder interests and safeguard assets, as outlined in our *Recommendations to Reform Public Pension Boards of Trustees in Illinois.* We urge the General Assembly to address flaws in the current governance structure of pension boards in Illinois by taking action to:
   a. Balance employee and management representation on pension boards so that employees and retirees do not hold the majority of seats;
   b. Develop a tripartite structure that includes independent citizen representation on pension boards, and
   c. Include financial experts on pension boards, and require financial training for non-experts.
2. Reduce benefits for new employees: establish a two-tiered system. Current benefit levels have become unaffordable for many governments. Annual cost of living increases should be limited to the lesser of 3% or inflation, and other changes to formulas and retirement ages should be made.
3. Prohibit any new benefit enhancements for plans that are less than 90% funded.
4. Permit benefit enhancements in funds that are over 90% funded only if those enhancements will be fully covered by increased employer and/or employee contributions.
5. Require employer contributions to relate to funding levels by requiring additional contributions when funded ratios drop below 90%. Consider requiring all local government pension funds to adopt the funding model of the Illinois Municipal Retirement Fund, which requires employer contributions to be funded at levels consistent with the actuarially required contribution. At a minimum, adjust property tax multiples for employer contributions every three to five years to reflect actuarially determined funding needs.
6. Require the Chicago Transit Authority Pension Fund to file an annual report with the Illinois Department of Financial and Professional Regulation, as do other local pension funds.
7. Provide the Chicago Transit Authority with more flexibility in collective bargaining by removing certain benefit and work rule concerns from the purview of collective bargaining agreement requirements.
8. Do not reduce the State pension contributions, as was done in FY2006 and FY2007. Fulfill the funding schedule as originally required by P.A. 88-0593.

177 N. State Street, Suite 400 Chicago, Illinois 60601 ● Telephone (312) 201-9066 Fax (312) 201-9041 E-mail civicfed@civicfed.org

2. PROPERTY TAX HOMESTEAD EXEMPTION

The Civic Federation urges the General Assembly to ***renew the Alternative General Homestead Exemption (also known as the "7% cap") for three additional years***. Based upon an analysis of the effects of the exemption on actual and prospective changes in Cook County tax bills, The Federation supports extending the exemption through tax years 2006-2008 at the current maximum exemption level of $20,000 in taxable value. Although it is not a replacement for comprehensive reform of the property tax system, the "7% cap" has contributed residential stability to the Cook County property tax system by both limiting and smoothing annual increases in the taxable value of homestead properties. The "7% cap" has effectively served as a shock absorber, mitigating the effects of rapid appreciation in the residential real estate market on the taxable value and resultant taxes of rapidly appreciating owner-occupied homes. The Civic Federation believes that the benefits of the Alternative General Homestead Exemption outweigh its costs in terms of tax burden shifted to non-homestead properties and homestead properties that are appreciating slowly. But property valuation is only one element affecting property taxes. Of even greater significance is the demand that local governments, particularly school districts, place on property tax payers to fund their operating costs.

3. REGIONAL TRANSPORTATION AUTHORITY ACT

The Civic Federation continues to call on the General Assembly to address the long-term structural funding problems of the three northeastern Illinois transit service agencies by ***reviewing and revising the RTA Act's funding formula set in 1983***. All government policies should be re-evaluated at reasonable intervals to ascertain whether they still fulfill their original purpose, and whether there are better or more efficient ways to achieve that purpose. A review of the RTA funding formula should be based on an analysis of the efficiency and effectiveness of transit services currently being provided, as well as the future transit needs of the region. It should not be used as a reason for cannibalizing certain transit agencies for the benefit of others. Any changes to the RTA Act should include a sunset clause because no formula should be frozen in time; legislative assumptions and outcomes should be revisited at timely intervals.

4. TAX INCREMENT FINANCING DISCLOSURE

The Civic Federation urges the General Assembly to ***require that Tax Increment Financing Districts be required to submit annual financial reports to the State Comptroller in the same manner that local governments are so required***. The TIF District data should be made available in searchable electronic format on the Comptroller's web site, as is the data for local governments. This would allow for greater transparency, public oversight, and comparison of TIF district revenues and expenditures.

5. PROPERTY TAX ASSESSMENT APPEALS

The Civic Federation continues to support changes to the process of property tax assessment appeals. The process must balance the financial stability of Cook County taxing agencies with the rights of taxpayers to seek redress from inaccurate property tax assessments. To achieve that necessary balance, and to improve the functioning of the Property Tax Appeal Board (PTAB) as an administrative review agency, changes must be made to the PTAB to accommodate the County's unique classification system. We recommend ***removing the level of assessment issue from consideration in PTAB cases***. This approach would preserve the right to appeal to the PTAB for all property classes, but would limit commercial and industrial appeals to findings of full market value. Additional modifications to the procedures at the PTAB are also needed to improve the functioning of the tribunal. Additionally, taxing agencies should be authorized to file a supplemental levy to recoup funds withheld from their current year property tax extensions to pay for previous year's refund orders. Under current practice, taxing agencies are forced to forego legally extended property tax revenue even though they are not responsible for incorrect assessment.

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6. REQUIRE LARGE COUNTIES TO PRODUCE TIMELY ANNUAL AUDITS

State law requires counties with a population over 10,000 but under 500,000 to produce a audited financial statements within six months of the close of the fiscal year and submit a financial report to the State Comptroller (55 ILCS 5/6-31003). The state's four largest counties, Cook, DuPage, Lake, and Will, are effectively exempted from these audit requirements. ***The Civic Federation urges the General Assembly to amend 55 ILCS 5/6-31003 so as to eliminate this exemption.*** There is no sound public policy reason for exempting large counties from producing timely annual audits and submitting financial reports to the State Comptroller.

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

The Governmental Accounting Standards Board Statements 43 and 45 will require many state and local governments and pension funds to report liabilities for Other Post Employment Benefits (OPEB), namely retiree health insurance, beginning with their fiscal year 2006 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 urges the General Assembly to pass legislation ***enabling these entities to create irrevocable trusts for the prudent pre-funding of retiree health insurance obligations***.

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