The launch of this Illinois Municipal Policy Journal is the end result of an initial idea to produce high-quality research and provide a forum for data analysis that can support and advance real-life experiences in local government and public administration at the municipal level. Public approval of state and national elected officials is in an ever-worsening downward spiral while the demand for programs and services is perhaps at an all-time high, with many of those programs and services then falling on municipal leaders to provide. Shared revenue budget reductions from the state and federal governments, unfunded legislative mandates, growing needs for social services, aging infrastructure and insufficient capital improvement plans, and myriad other wants and needs from constituencies drive local elected officials to do more and more with less every day.

Together with our partners, after many months of planning, writing, organizing and editing, we offer this Journal as a resource and outlet for dialogue and examination of critical areas of interest. Our goal is to provide timely information in an accessible format that will enable elected officials – at all levels – to better understand important municipal concerns and to assist local elected officials by sharing best practices and strategic ideas they can adopt and implement. Our publication schedule begins as an annual effort, with the anticipation of producing semi-annual editions in the near future.

I am enthusiastic about the impact our work will have on communities throughout Illinois and, perhaps, the nation. It is quite rewarding to be part of this project and to have contributed in some manner to its success.

We hope the Journal is of value to you, whether as a practitioner or an academic in the field, and we look forward to bringing you many more editions in the future. Thank you.

BRAD COLE
PUBLISHER
It is with great excitement and anticipation that we share this inaugural issue of the Illinois Municipal Policy Journal (IMPJ), a culmination of efforts by the Illinois Municipal League, the School of Public Service at DePaul University, and the Chaddick Institute for Metropolitan Development. The vision for this journal is to provide state and municipal policy makers a research-based publication with a wide range of articles from distinguished researchers, yet written in a manner suitable for practical application. We believe this ambitious goal has been met due, in no small part, to the superb research and analytical efforts of our authors.

This issue contains articles spanning a variety of topics of particular importance to municipalities today including: Home Rule; capital budgeting; Special Service Areas; shared services; economic development; bicycle codes; and the modernization of government to improve efficiency. The article contributors represent a broad spectrum of research professionals and practitioners from institutions around the state including Northern Illinois University, Illinois Institute of Technology, DePaul University, John Marshall Law School, the University of Illinois at Chicago, and the University of Illinois at Springfield. All articles have been peer-reviewed and present a variety of conclusions and recommendations that we hope will inform future decision making by public servants in Illinois.

The collaboration to produce IMPJ brought together three prominent institutions dedicated to the exploration and advancement of municipal policymaking. First, the Illinois Municipal League, founded in 1913 as the formal voice of Illinois municipalities, provides education and advocacy to its members based throughout the state. The School of Public Service at DePaul University was founded in 1970 to train professionals in fields of public service including public administration, public policy, international public service, and nonprofit management. Finally, the Chaddick Institute for Metropolitan Development, also at DePaul, brings together students and professionals in planning, design, and development to share expertise on urban planning issues through events, workshops and research. The expertise and leadership provided by these three groups has yielded a diverse and robust inaugural issue.
The Illinois Municipal Policy Journal will be published annually and the editorial team will continue to seek out topics representing the diverse issues and ideas that confront municipal governments in our state. As we move forward, we hope that IMPJ will prove to be an invaluable resource, providing research-based analysis to help guide policy decisions at both the local and state levels.

Again we applaud the hard work and dedication of the contributors and the editorial team to bring you this, our inaugural edition of the Illinois Municipal Policy Journal.

NICK KACHIROUBAS
MANAGING EDITOR

JOSEPH SCHWIETERMAN
SENIOR EDITOR
I travel often throughout the country in my role as executive director of the National League of Cities. I’m fortunate to be able to take a firsthand look at many of the amazing and innovative things that cities, towns and villages are doing to make their communities better. I also see the challenges they face, from the opioid epidemic to the strained relationship between the police and the communities they serve.

The political climate in Washington has been so toxic that dysfunction has become the norm. When the federal government gets mired in partisanship and politics, we see local leadership stepping up to actually get things done. Local leaders don’t have the option to sit back and do nothing. Trash needs to get collected, our kids need to go to school and have safe parks to play in, and businesses need the conditions that enable them to grow and thrive.

Policies that were traditionally enacted at the state and federal level are increasingly happening on the municipal level. The Economic Policy Institute found that 29 localities have adopted minimum wages above their state minimum wages. Municipalities are taking the lead in setting standards for paid sick and parental leave, plastic bag bans and LGBT protections. Unfortunately, municipal action in many of these areas has led to increased preemption efforts, a clear violation of home rule authority.

Local leaders have a number of tools in their municipal tool belt. From budget authority to zoning to transit, local leaders are creating tailor-made solutions to the challenges their communities face. Much like how the late U.S. Supreme Court Justice Louis Brandeis described states as the “laboratories of democracy,” municipalities today are fittingly called the “laboratories of innovation.” They are able to try new ideas that might be hard to implement at the state or national level.

There’s a strong need for research that speaks to these challenges, and to share the ideas that are formulated in our local laboratories of innovation. Look at finance. The Great Recession hit municipal budgets hard, and recovery is coming slowly. The National League of Cities published its 2016 “City Fiscal Conditions” report, which found that while city finances are improving, revenues have not yet reached pre-recession levels and city budgets must confront mounting challenges, such as infrastructure investments. We’ll use
this research as we advocate for city priorities, and it helps us tell the bigger story of the fiscal health of cities.

The Illinois Municipal League is a leader in the effort to share research, best practices and solutions to the challenges facing cities. The Illinois Municipal Policy Journal is an important resource for academics, but also for local officials and others who are invested in the success of our nation’s municipalities. I look forward to learning about new scholarship on the municipal issues that matter to all of us.

CLARENCE E. ANTHONY, EXECUTIVE DIRECTOR
NATIONAL LEAGUE OF CITIES
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Substantial support exists for the notion that institutional fragmentation and duplication is adding to the cost of government in Illinois. Several other states are actively encouraging local government to adopt innovative practices to cut costs through shared-service arrangements. This article reviews deliberations of the Governmental Consolidation and Unfunded Mandates Task Force chaired by Lt. Gov. Evelyn Sanguinetti in 2015 and discusses efforts underway by local government groups to streamline service delivery. The results include practical examples of how Illinois organizations can work together to boost efficiency and reduce overlap.

INTRODUCTION

Illinois has long been recognized as having the most government units of any state and has been criticized as being relatively inefficient and heavily dependent on property taxes in financing local public services. Many explanations have been offered for the multiple governments, not the least of which are tax rate and debt limits on local funds. When a rate limit is reached and additional services are perceived to be needed, an additional unit of government with taxing and borrowing authority is created. This new government does not necessarily match boundaries of existing governments, so a patchwork quilt pattern of governments emerges that makes it difficult for residents and taxpayers to know which government is responsible for a specific service. This often results in a loss of transparency.

Another consequence of this arrangement of multiple government units is that it may discourage private business investment and employment creation, as suggested by the relatively slow recovery in Illinois during the post-recession period compared to other states. If the perception is that the delivery of local services is inefficient and coupled with high property taxes, business investors may locate to other states.

Not only does Illinois already have more units of government than any other state, the number – especially special districts – has increased in recent years. Efforts are underway, however, by local governments to find ways to
Shared Services as a Response to Government Fragmentation

share personnel, specialized equipment, and other resources to eliminate
duplication and improve efficiency. This article briefly examines the structure
of governments in Illinois, reviews deliberations of the Governmental
Consolidation and Unfunded Mandates Task Force chaired by Lt. Gov. Evelyn
Sanguinetti in 2015 (Task Force), and discusses efforts underway by local
government groups to streamline service delivery and reduce costs.1 While the
results from these efforts are not all available at this time, they have operated
for several years with clear evidence of quality maintenance and cost savings.

GOVERNMENTAL FRAGMENTATION

Reducing the number of governments in Illinois to reduce costs was clearly a
stimulus and a motivation for creating a bipartisan Task Force, which included
both state and local elected officials as well as public members. If the initial
expectation was consolidation and elimination of governments by government
mandate, this did not occur. However, a moratorium on new governments was
imposed, aimed at reducing the growth in number of units.

Instead, the Task Force worked to remove obstacles preventing local public
officials and voters from lowering costs by collaborating and, perhaps,
ultimately reducing the number of governments involved. The Task Force held
16 meetings with testimony from 33 experts and analyzed responses from
more than 500 local public officials including 87 recommendations. In its final
report issued in December 2015, the Task Force made 27 recommendations to
the General Assembly for changes in the statutes or administrative rules.

The overlapping governmental structure in Illinois has been studied for
decades (Snider & Anderson, 1968; Chicoine & Walzer, 1985; Walzer & Burns,
2013) with continued calls for changes recognizing the importance of local
control and input following the public choice literature (Buchanan & Tullock,
municipalities of 25,000 or larger and those with a successful referendum. The
Home Rule option removed certain debt and tax rate limits which allowed
expansion of services with less need to create additional units of government.

In 2012, the Census of Governments (COG) estimated that Illinois had 6,963
independent units of local government, not all of which have property taxing
authority. By comparison, the same source identified 6,386 independent units
in 1972, shortly after the Constitutional Convention. Thus, the removal of tax
and debt limits for some cities did not prevent a statewide increase in number
of governments.
However, the large number of government units is hardly the only issue facing Illinois. The two main counts of governments by the Illinois Office of the Comptroller (IOC) and the Census of Governments differ. The COG counts only those with independent authority (6,963) whereas the IOC includes all registered government units (8,500) and testimony presented to the Task Force suggests not all governments are registered so the actual number may be higher.\(^2\) According to the 2012 Census of Governments, Texas (5,147) and Pennsylvania (4,897) have the next largest numbers, but trail Illinois by large margins.

A common comparison among states is the number of governments per 100,000 residents. Illinois, with 54.1 governments per 100,000 people, is far higher than Texas (19.1) and Pennsylvania (38.4) with possible significant governmental fragmentation leading to duplicity in service delivery and inefficiencies in local public spending. At the same time, some bordering states including Wisconsin (54.6), Iowa (63.3), and Missouri (62.6) have higher government concentrations while Indiana (41.4) and Kentucky (30.5) are substantially below Illinois.

Comparisons of government concentration adjust for neither levels of service nor population concentrations, both of which can affect the optimal number of governments. More and better services may mean additional governments but high population concentrations, such as in Cook and surrounding counties, mean smaller ratios of government per 100,000 residents for comparable services. Thus, the effects of governmental structure and opportunities for shared services must be examined in more detail, along with their effects on property taxes.

**PROPERTY TAXES**

Illinois is ranked 2\(^{nd}\) highest among states in \textit{mean} property taxes on owner-occupied housing in 2015. Compared with neighboring states such as Indiana, residents in Illinois pay 2.32\% of their house value annually in property taxes rather than .86\% in Indiana, 1.96\% in Wisconsin, or 1.49\% in Iowa (Tax Foundation). Other measures broader than owner-occupied housing have Illinois with the highest \textit{median} property tax rate in the nation with an effective tax rate of 2.67 (Corelogic). These differences between states can foster outmigration, especially in counties bordering neighbor states.

Costs of government also are a factor in location decisions made by both families and businesses. For example, local public expenditures in Illinois increased 23.8\% between 1992 and 2012 compared with 12.6\% in Indiana,
and 17.5% in Wisconsin. Thus, increasing costs and relatively high property tax rates may well contribute to the outmigration of families from Illinois to adjacent states in recent years.

The effects of governmental fragmentation on local spending in Illinois have been studied many times with inconsistent findings. A simple correlation between governments per 10,000 residents and per capita aggregate expenditures of all local governments by county level was not found to be significant (Walzer & Burns, 2012). However, number of governments per 10,000 is strongly related to population density since less populated areas have higher government concentrations with the same level of service. When a more sophisticated measure of governmental structure, such as a Herfindahl Index, used to measure firm concentration in the industrial organization literature, is examined, a strong positive relationship between fragmentation and per capita expenditures was reported (Chicoine & Walzer, 1985) and these figures were reaffirmed in recent analyses for Illinois.

**COLLABORATION AND SERVICE-SHARING**

Other states are undertaking efforts to modernize their system of local governments, some of which resemble Task Force efforts in Illinois. While the approaches differ, a common feature is a recognition that the most successful outcomes involve facilitating and encouraging local governments to find ways to deliver services more efficiently and at the same time, maintain or increase the satisfaction of taxpayers receiving them. In other words, top-down strategies mandating consolidations are not as effective as incentivizing local governments to find more effective and less costly arrangements to provide services. A reduction in number of governments is a likely outcome of these collaborations.

Task Force deliberations identified many examples of service-sharing arrangements underway in Illinois (Kim, 2015), in New York (DiNapoli, 2009), and in Ohio (skinnyohio.org) among other states (Walzer & Chockalingam, 2016). These activities range from increased communications among local agencies to incentives for collaboration in service delivery or attempts to eliminate units of local governments, as in Indiana.

There is considerable professional literature on service-sharing principles and techniques in state and local government agencies that is useful for Illinois. One example is in the Village of Glencoe, where the village and park district have put together a shared services agreement. County governments are of growing
importance, especially in rural areas, experiencing population and economic declines that make providing essential services more difficult. Zeemering and Delabbio (2013) provide a checklist of important considerations in implementing effective service-sharing at the county level. Based on this study of counties across the U.S., the authors argue that leadership from the top; trust, reciprocity, and transparency; and clear goals with measurable results are essential for successful collaboration.

On a broader level, Burns and Yeaton (2008) describe a variety of factors important in service-sharing arrangements based on a survey of administrators in more than 45 federal, state/provincial, and local public agencies. While somewhat dated, the main points identified as success factors are still useful today. The authors carefully distinguish between shared services and centralization with the latter implying one central administrator in one location. Shared services, on the other hand, mean that one provider of the service is responsible for multiple participating agencies, so more than one administrator influences the delivery of the services making the form of governance important for successful implementation. Increased use of telecommunications technology can offer significant opportunities for dispatching, data storage, and other elements in delivering public services as is shown in the following case studies.

A common stimulus for shared services is a recognition that current services can be provided at a lower cost by sharing specialized resources. Providing at least the same level of service is crucial in creating service-sharing programs because otherwise taxpayers in the cooperating units of government are unlikely to support the efforts and, thus, could prevent achieving the potential cost savings. Governance arrangements are crucial to the success whereas in the centralized approach these issues may not be as obvious.

Based on their survey of public administrators involved in service-sharing programs, Burns and Yeaton report five issues most often mentioned as requisites for success. These are: strong project management skills; senior-level support; effective communication; strong change management; and a phased-in approach to implementation. While detailed information about these characteristics is not readily available for the following case studies, they achieved significant cost savings by sharing services.

**DISCUSSION OF CASE STUDIES**

The Task Force report includes examples of collaboration illustrating successful shared-service arrangements. However, the case studies focused solely on
what was successful, but not why they succeeded. Burns and Yeaton (2008) provide a useful framework with “Success Factors” to evaluate shared services arrangements and excerpts from three case studies in Illinois help identify factors contributing to successful outcomes. Following is a discussion of shared-service arrangements in Illinois (see Figure 1 and Table 1).

**FIGURE 1**
Participants in Notable Shared-Service Initiatives in Metropolitan Chicago

**ORGANIZATIONS INVOLVED**

The **GovIT Consortium** arose from an IT assessment by 14 communities, located along the North Shore of suburban Chicago. One recommendation is to review shared services for cost savings as well as to improve services. An RFP was prepared in conjunction with five core communities, plus several other interested groups, based on specific resources and needs. The initial five municipalities eventually created the GovIT Consortium and transitioned their services to a common provider.

The **Municipal Partnering Initiative DuPage Region (MPI)** began when public works departments in Lombard, Downers Grove, and Woodridge began discussing the development of a joint bid process for public works projects in an effort to control costs. The effort later expanded, and today the MPI includes 14 entities, with six communities leading the bidding process.
**TABLE 1**  
Three Notable Shared-Service Initiatives in Illinois

<table>
<thead>
<tr>
<th>PROJECT</th>
<th>Municipal Partnering Initiative (MPI), DuPage Region</th>
<th>GovIT Consortium</th>
<th>Tri-City Ambulance (TCA) Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>INITIATIVE</td>
<td>Joint bidding program specifically for public works</td>
<td>Shared services for IT between 5 communities</td>
<td>Emergency Medical Services provided by an outside vendor</td>
</tr>
</tbody>
</table>
| PROCESS | • Modeled after similar program involving local government managers in the northern suburbs  
• Bid documents standardized, evaluation process evaluates the opportunity and if the bid document was effective | • IT assessment completed, recommendation to share services  
• RFP prepared for 5 core communities, plus other interested groups  
• Vendor selected, services transitioned to common provider | • Fire districts set up a board with authority to contract for paramedic services  
• TCA owns the ambulances, licensed paramedics provided by an outside vendor |
| NUMBER OF ORGANIZATIONS | 3 Public Works departments, expanded to 14 entities | 14 cities in initial assessment, 5 eventually transitioned services to a common provider | 3 cities: Batavia, Geneva, and St. Charles, and 2 neighboring fire districts |
| OUTCOMES | **Small communities achieved economies of scale.**  
• Reduction in staff time due to combined bidding process  
• Staff learned alternative project methods  
• Most contracts lowered costs for participating communities  
○ Ex: $89,000 savings for 4 communities participating in sewer lining contract | **Shared environment allowed access to specialists previously unaffordable.**  
• Communities leveraged economies of scale to purchase software licensing and agreements  
• Lowered costs for shared offsite backup, email archiving, staff time  
• Some communities invested savings in upgraded systems, with improved equipment and long term savings | **Reduced overtime, training, and benefits costs for all communities.**  
• Each district decreased staff time for personnel issues, as paramedics are not employees of TCA  
• Cost for fully-trained paramedic is $70,000, versus $100,000 for new employee including insurance, pension, other benefits |
Tri-City Ambulance Service was created to bring emergency medical services closer to Batavia, Geneva, and St. Charles as well as two neighboring districts. Tri-City Ambulance contracts with a private company to staff ambulances with licensed paramedics, but the ambulances are owned by Tri-City. The closest available ambulance responds to medical calls, regardless of the community where the patient is located.

SUCCESS FACTORS

Strong Project Management Skills. Burns and Yeaton claim that shared-service initiatives require an unambiguous governance structure for smooth operations. The GovIT Consortium is a separate legal entity with formal by-laws and membership agreements enabling them to make joint purchases. Tri-City Ambulance also has a board that governs the system, with two representatives from each municipality and one representative each from Batavia and Countryside Fire District and Geneva Township.

Clearly-defined goals for implementation are important for success according to Burns and Yeaton, and also Zeemering and Delabbio who list clear goals and measurable results as one of their three preconditions for success (2013). MPI has established timelines for communities to participate in the joint bidding process, and these deadlines ensure the projects stay on track. The MPI standardized the bid documents to address needs in participating communities and has a standard template for bid documents to ensure consistency. It also has an evaluation process at the end of each contract to confirm the services represent worthwhile opportunities for joint procurement and to evaluate the effectiveness of the bid document. The GovIT Consortium has evaluated data from the start of the vendor relationships to develop expectations for service, and the vendors report actual response times per task to ensure performance measures are met.

Senior level support means someone is willing to champion the project, sell the concept to constituencies, and make sure that resources are available to support the project (Burns and Yeaton, 2008). In the case of Tri-City Ambulance, that support comes in several forms. Local elected officials see the benefit of cost savings, not only in wages but also in pensions, insurance, and training costs. In addition, firefighters historically cooperated when dealing with incidents that require more resources than one department has available. The resulting relationships among upper level staff helped create a culture within each department where shared services are the rule rather than the exception,
paving the way for a formalized shared-services agreement. MPI modeled its organization on the Municipal Partnering Initiative that exists among local government managers in Glenview and other northern suburbs.

While this initiative was specifically designed for public works, having a model used by senior administrators in the area helped to gain acceptance for the project. It also made sure they used pre-screened best practices in determining procurement methods and other essentials for the organization. Successes in other programs also helped to gain program credibility among elected officials, administrative staff, and public works staff.

**Effective communication.** Burns and Yeaton note that organizations should establish a governance structure that facilitates appropriate communication. The chief of the St. Charles Fire Department, the lead agency for Tri-City Ambulance, noted that communication was a larger issue than money in determining the success of Tri-City Ambulance. Communications had to be set up as part of the relationship and established as an essential part of the culture since they found that, otherwise, agreements begin to fall apart if one group does not feel that they are being heard. GovIT Consortium not only established a board to help facilitate communication, it also developed a structure to incorporate responses to high priority issues as well as a systematic process to deal with maintenance issues likely to generate misunderstandings within the consortium.

**Strong change management and phased-in approach to implementation.** Although these factors are sometimes separated in the literature, they appear to have been intertwined in the organizations discussed here. All of the organizations anticipated concerns about these initiatives and worked to educate stakeholders about the process and anticipated results as well as the implementation plan. For both Tri-City Ambulance and the GovIT Consortium, these initiatives led to significant restructuring in how services were provided by each municipality. Strong change management, including a phased-in approach to implementation and transparency regarding specifics and timeline of the process, led to successful initiatives in spite of the challenges involved in the resulting reduction in staff.

Other initiatives involving consolidation or service-sharing are under discussion in Illinois. The City of Evanston merged with a coterminous township and is demonstrating cost savings, following a 2014 referendum by voters.
A group in McHenry County advocated a reduction in number of townships with widespread support in an opinion poll, but county board actions prevented it from being placed on the ballot; the city of Naperville is discussing taking responsibility for township-maintained roads under a proposed intergovernmental agreement. School districts in Champaign County reorganized services to reduce costs and several similar efforts are under discussion throughout the state.

Kim (2015) provides a more complete analysis of shared services in northeastern Illinois based on a survey of 273 municipalities (42% response). On a five-point scale, respondents rated their experiences with sharing services at a four (success), and the vast majority (99%) reported they were ultimately beneficial and would continue to use them. Many of these shared agreements had been ongoing for more than ten years, with intergovernmental agreements most commonly used for a diversity of public services.

OPTIONS FOR ILLINOIS

Several states preceded Illinois with statewide task forces or commissions designed to modernize local governments, taking different approaches designed to meet unique issues in their states. A more complete discussion of these approaches is contained in Walzer and Chockalingham (2016). However, what seems to be especially important to successful implementation are encouragement and incentives for local governments to engage in collaboration leading to modernization of local service delivery. Persistence is also key to positive final results.

Two states, Ohio and New York, took especially positive approaches to encourage and facilitate modernization efforts by local governments. Ohio has focused on providing information and examples that local groups can replicate across the state and in other states using a website, SkinnyOhio.org. This site shares innovative approaches for shared services that local governments can implement. It also provides a “Savings Idea Center” and a “Performance Audit Database” that suggest ways local governments in Ohio have collaborated for cost savings, plus the associated results. The site is updated regularly with opportunities to build networks of local governments interested in streamlining the delivery of services. It also allows state agencies to monitor need for changes that can help local governments in their efforts.

The user-friendly website not only provides basic information on cost-saving approaches but also provides contact information for users interested in
replicating the techniques. The website has a *Think It, See It, and Do It* format that guides readers through a “get ideas,” “see results,” and “get started” process. The state Auditor’s Office in Ohio has a Local Government Innovation Fund that supports communities interested in designing more efficient and effective service delivery systems (Office of the Ohio Auditor, 2016). Local governments can receive an award of up to $100,000 to implement programs. Thus, in addition to providing knowledge and contacts, Ohio also incentivizes local governments with funds for implementation.

The State of New York uses an alternative approach and is proposing a municipal consolidation and efficiency competition that challenges counties, cities, and villages to create innovative consolidation action plans that offer significant and permanent property tax reductions. The consolidation partnership that proposes – and can implement – the greatest permanent property tax reduction qualifies for a $20 million award (State of New York, 2016). This incentive is part of a $70 million initiative to “…incentivize local government consolidations, reorganizations, and efficiencies that result in taxpayer savings.” These actions can include service-sharing arrangements as well as consolidations. Most importantly, as is the case in Ohio, these financial incentives trigger local actions to implement the ideas raised in statewide task forces and commissions.

**TABLE 2**

Suggestions to Improve Shared-Service Efficiency

1. **Avoid Duplication.** Illinois leads all states in number of governments. The number has increased substantially over the past 50 years — despite the Home Rule Authority provided to some governments.

2. **Reduce Fragmentation Costs.** Substantial support exists for the notion that institutional fragmentation is adding to the costs of governments operating on a county level, which suggests a need for a closer examination of the benefits that greater collaboration has on service delivery, shared services, or in some cases consolidating governmental units.

3. **Identify Potential Efficiencies.** The literature on shared services, particularly Burns and Yeaton (2008), highlights factors contributing to the success of shared services. This analysis is consistent with the case studies in the Task Force Report showing how Illinois organizations can achieve savings, maintain service levels, and increase efficiencies.

4. **Draw from other States’ Experiences.** New York and Ohio are among the states with programs to accelerate implementation and provide resources to encourage local governments to adopt innovative practices.
CONCLUSIONS

The findings from this study offer four insights into factors that hamper the efficiency of governments in Illinois (Table 2). Despite the evidence supporting these findings, the issue of overlapping governments and high property taxes in Illinois is not likely to disappear quickly. The issues will likely be addressed on at least two main fronts. Small governments in sparsely-populated areas with population and economic declines must find more efficient ways to deliver high quality services if they are to prosper, or even remain viable. This situation will force local leaders to find new and useful approaches involving more coordination and collaboration in delivering services. Some of these efforts will probably involve reducing the number of governments actively providing services.

At the other end of the spectrum, densely populated areas are positioned to achieve economies of scale with direct collaborations, resource-sharing, and other techniques as reported in this article. We are likely to see more of these initiatives in the future based on past successes. This means that efforts by the Illinois Lt. Governor’s Office, SkinnyOhio, Center for Governmental Studies (NIU), and other groups can help speed up the process. Actions may not always mean eliminating governments - or even reducing personnel - but may focus on providing additional services with current resources. It is essential that local agencies and taxpayers have accurate and useful information as well as technical resources to advise and guide them through local initiatives.

School district consolidations are likely to continue, especially in areas with population declines. Small class sizes, shortage of teachers in specific disciplines, increased access to telecommunications, and shrinking budgets have caused school districts such as in Champaign and surrounding counties to successfully reorganize.

The outcome, then, is that interest in modernization of governmental services will continue and successes will likely be driven more by local initiatives rather than state efforts. Nevertheless, as the Task Force identified, state statutes and regulations can be obstacles, so efforts to remove them, as well as provide incentives, should continue.

Counties will probably be key players in many rural efforts as small communities either contract for services such as patrols by sheriff’s office personnel or perhaps organizing countywide delivery of EMT services. Road districts, for many years, have organized by county to share equipment or
jointly purchase materials for projects. Other best practices are in place but currently are not well-publicized. Of course, the political reality remains that some local government officials may be reluctant to share the power that comes with such arrangements.

The Task Force in Illinois, as with previous commissions, generated serious interest in modernizing and streamlining local delivery of services. The same approaches will not work in every part of the state, which makes it paramount that local public officials have a clear understanding of the options and approaches available to them. The Task Force generated extensive knowledge about ways to become more efficient while still maintaining the quality of services. High effective property tax rates, combined with sometimes confusing multiple layers of local governments created under very different circumstances, will require not only an understanding of the issues but also incentives for change.

The Task Force recommendations to the General Assembly did not pass as submitted although some concepts were incorporated into other legislation. While the Task Force has dissolved, the ideas and recommendations will continue. Most important, however, is that local governments seriously evaluate their local service delivery systems as well as alternative structures. Additional statewide incentives either to provide better information or funding for local government partnerships that take action will help speed the implementation process that at least has been started.

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1 The Center for Government Studies at NIU was a consultant to the Task Force collecting and analyzing data on unfunded mandates and local public finance issues but had no decision-making role regarding policy or recommendations.

2 Testimony presented to the Task Force Hearings by the Illinois Association of Drainage Districts.

REFERENCES

Shared Services as a Response to Government Fragmentation


USE OF SPECIAL ASSESSMENTS BY MUNICIPAL GOVERNMENTS IN THE CHICAGO METROPOLITAN AREA: THE TAMING OF LEVIATHAN?

REBECCA HENDRICK
UNIVERSITY OF ILLINOIS AT CHICAGO

Special assessments are often described as being prone to abuse, misuse, and overuse by local governments. Their “hidden nature” can foster a perception that governments use them in exploitive ways to finance unnecessary and even undesired capital improvements. As in other areas of taxation, governments using special assessment are sometimes likened to the biblical Leviathan creature that devours everything to feed itself. This study, using data on assessments in metropolitan Chicago and approximately 40 interviews with local officials, shows that municipal governments that use this financial tool do not, in fact, exemplify Leviathan behavior.

INTRODUCTION

Generally speaking, special assessments are a method of funding capital improvements and sometimes services that directly benefit particular property owners rather than all property owners or citizens within a local jurisdiction. Special assessments (SAs) exist in all states and usually take the form of property taxes that are levied in addition to the general property tax to finance benefits that are not shared with properties that are not subject to the SA. Ideally, SAs are levied according to the level of benefit that accrues to the property from capital improvements and services, and they can be apportioned on any basis that reasonably measures benefits and allocates costs. Some SAs are ad valorem and levied according to property values, but others are based on the physical characteristics of the property (e.g., frontage or square footage) and thus are not based on value. Most importantly, SAs are not constrained by state level property tax limitations on local government (Orrick & Datch, 2008).

Having freedom from tax limitations provides an opportunity for local governments to grow their revenues and spending possibly beyond what is desired by the public or necessary to fulfill their public service obligations. Studies that have examined SA use in California conclude the state’s strict property tax limits due to Proposition 13 – which dates back to the 1970s – have driven high use of Mello-Roos SAs in many parts of the state since 1978 (Do & Sirmans, 1994; Sexton, et al., 1999; Chapman, 1988; Lewis,
1998). Some attribute the high use of SAs in Florida to the state’s Growth Management Act of 1985, which required all new developments to provide and account for supporting public facilities, and the state’s subsequent population boom. (Scutelnicu, 2014). The perception of many observers is that because accounting for SAs is outside of government’s existing budget structure, they avoid routine examination by auditors and legislators and give governments more flexibility and independence in decisions about these funds compared to other funds (Caruso & Weber, 2006). SAs have been described as a hidden method of taxation and lacking accountability (Allen & Newstreet, 2000; Brooks, 2007), and prone to misuse and abuse (Ayers, Egger, & Vonasek, 2014; Citizens Research Council of Michigan, 1983).

There are many who claim that given the opportunity and the incentive, governments will take advantage of creative and hidden methods of taxation to finance more capital improvements and services than would be possible through regular and visible methods of taxation. This characterization of government as a Leviathan that exploits opportunities to devour more revenues in order to increase spending has been attributed to James M. Buchanan and others (Buchanan, 1967; Brennan & Buchanan, 1980; Oates, 1979). (Using the Biblical term “Leviathan” to describe a government violating its social contract with the people to satisfy a relentless appetite for expansion stems from the work of Thomas Hobbes, the 17th-century English philosopher). Buchanan and other scholars argue that Leviathan tendencies of government are facilitated by taxpayer’s fiscal illusion about the true cost of services. As government tax structure becomes more complex and revenue sources are more hidden from taxpayers, as with SAs, taxpayers are more likely to underestimate the cost of services, which allows government to increase revenue beyond what taxpayers are willing to pay (Buchanan & Wagner, 1977; Mueller, 1987).

Using data from the State of Illinois on SA levies by municipal governments in the Chicago metropolitan area, interviews with government officials, and information from government documents, this study describes SAs in Illinois and some of their regulations. It also identifies four primary purposes of SAs observed from the data, and presents trends and information on the level of SA use by these governments. The study also shows that these governments do not demonstrate what can be described as “Leviathan” behavior with respect to SAs. Rather, the evidence shows that governments are risk averse to using SAs widely and they are sensitive to the public’s perception of SAs. In this case, the visibility of the SA tax levy and benefits to property owners seems to reduce their illusion about the true costs and benefits of public improvements, which
tames the Leviathan. Evidence also shows, however, that many officials lack enough accurate knowledge of SAs to be able to use them to their full advantage to satisfy government’s Leviathan tendencies.

WHEN ARE SPECIAL ASSESSMENTS?

In Illinois, municipal governments can establish several types of special taxing districts (STD) that use SAs. One common type is a special service area (SSA) in which a separate ad valorem tax is levied on the value of real property or other basis that reasonably reflects the special services that are extended within the SSA (called a “special tax role SSA”). (Special Service Area Tax Law; 35 ILCS 200/Art. 27). Special service areas can be used to deliver “all forms of services that pertain to the government and affairs of the municipality” (35 ILCS 200/27-5). Theoretically, SSAs can be used to deliver ongoing services, such as a higher level of police patrol to a particular area of the jurisdiction, but are most often used for capital improvements. Much of the burden for administering and enforcing property tax SSAs lie with the counties because they are responsible for administering and enforcing general property taxes in the state. Most important, municipal and county governments can create SSAs unless 51% of both the property owners and registered voters in the proposed district file a formal objection to the SSA. In other words, taxpayers in Illinois can only avoid SSAs if they are specifically disapproved, rather than simply not approved, by a majority. This is a relatively low bar for use of a special taxing district by local governments compared to other states where STDs must be approved by a majority (usually) of taxpayers who are affected by the special levy (Wang & Hendrick, forthcoming). Because gaining the approval of a majority of beneficiaries is more difficult than avoiding a veto, municipal and county governments in Illinois have much more freedom to establish STDs to fund services and capital improvements than those in other states.

Special assessments (SA) are a less commonly used STD in Illinois. The special taxes in these districts are not levied on an ad valorem basis and are considered to be restricted to spending on capital improvements only (Local Improvement Act; 65ILCS 5/9-2-1 et seq.; Special Assessment Apportionment Law: 35 ILCS 200/28). Special assessment taxes in Illinois are levied based upon some other measure of benefit than property value, such as length of frontage to the improvement, square footage of property, or number of building sites (Bayer, et al, 2012). SAs are also much costlier for the local government to establish because the circuit court must confirm the benefit and levy of the special tax, and the local government must administer and enforce the SA rather than
simply using the county ad valorem property tax collection system. In this case, the SA can only be created upon the court determining in favor of a petitioner over objections that may be raised about the legal process used for creating the SA, disputes about benefit and shares, or other reasons.

Most state enabling statutes for STDs, including Illinois, generally provide that special taxes and assessments bear the same lien priority as general property taxes (higher than private liens and mortgages), and may be enforced in the case of delinquency or nonpayment in the same manner as the collection of delinquent property taxes (Orrick & Datch, 2008, 3-4). Establishing and confirming the special benefits of SSAs on individual properties is far easier than SAs unless it is a special tax role SSA which requires that there be a “rational relationship between the amount of the tax levied against each lot, block, tract and parcel of land in the special service area and the special service benefit rendered” (35 ILCS 200/27-75). This standard is still far less rigorous than the determination of benefit standard that applies for SAs (65 ILCS 5/9-2-15).

Similar to most states, Illinois allows local governments to issue bonds for SSA and SA projects. Our investigation of suburban municipalities in the Chicago area suggests that governments typically issue “special obligation” bonds or “alternate general obligation (GO)” bonds for credit enhancement purposes. Both types of bonds are repaid with SSA or SA taxes, but unlike alternate GO bonds, special obligation bonds are not secured by the full faith and credit of the municipality in the event that the special tax revenues fall short. Thus, governments are not technically liable for special obligation debt, although they may feel a moral or strategic responsibility to repay such debt if the SA or SSA taxes are not adequate. Similar to non-payment of a mortgage or property taxes, the debt establishes a lien on the property of individual property owners who are liable for the SA/SSA debt. Compared to alternate GO bonds that must be reported as lawful debt obligation by the government, however, special obligations bonds do present certain advantages to governments in securing financing for development projects.

Another important factor that affects the ability and incentive for governments to use SSAs and SAs in Illinois, as is true of STDs in many other states, is that these taxes are not subject to the state’s property tax limitations laws. In Illinois, property taxes in non-home rule governments are bound by millage rate limits on different services and the Property Tax Extension Limitation Law, which limits property tax levy increases of non-home rule governments to the lesser
of five percent or the rate of inflation (35 ILCS 200/Art. 18 Div. 5). But non-home rule governments have no limitation on the taxation levels of SSAs or SAs, except to the extent set forth in the ordinances establishing the SSA or SA.

**DATA FOR STUDY**

Two primary types of data were used to determine to what extent, how, and why both SAs and SSAs were used by municipal governments in the Chicago metropolitan area. Data on ad valorem SSA use are available from the Illinois Department of Revenue that collects property tax data from all local governments in Illinois. The data include all the separate SSA tax levies and extensions, SSA assessed values, and the jurisdiction's equalized assessed values (EAV) for all local governments in the state. This data was gathered for 264 (of 267) suburban municipalities from 1988 to 2012. Unfortunately, the State of Illinois does not collect information about non-ad valorem SA use since these are administered and implemented by the local governments, but the investigation shows that SSAs are much more common among municipal governments in the region than non-ad valorem SAs.

The state also does not collect information on the purpose of any type of SSA, so in-depth information about the use, implementation, and attitudes about both SSAs and SAs was gathered from specifically chosen municipal governments in the region using a two-stage, discriminate sampling strategy. In stage one, jurisdictions were chosen based on a combination of seven characteristics that were believed to be factors affecting the use of these tools, such as population, population growth, percentage residential EAV, county in the region, home rule status, whether the jurisdiction is established and built out or whether its development is recent and it is not built out. Interviews were then requested from two or more governments within each classification that had been relatively high users of SSAs and relatively low users from 2006 to 2012. In stage two, more governments for interviewing were identified in each category to get a more complete picture of the primary purposes of SSAs that were identified in the sample of governments from stage one. Government representatives in each classification in stage two were interviewed until no new information was encountered from interview questioning. The interviews were conducted from January to August 2015 and included finance directors, village managers, and several directors of economic development. The interviews were open-ended and asked officials about specific and general uses of SSAs and SAs, issuance of bonds, adoption and implementation, policies about these tools, perceived costs and benefits, and other issues.
In addition to interviewing government officials, the investigation also looked at budgets, CAFRs, and Official Statements from these governments and other governments from within classifications that were under-represented in the interviews. These data were supplemented with other online information about SA/SSA use and the government or public’s perception of these tools in all chosen governments. In total, the qualitative data for this study consist of interviews with 25 governments, one of which is just outside the six-county region, one interview with the executive director of the primary council of government (COG) in DuPage County, and document and online information for an additional 12 governments in the region.

HOW ARE SPECIAL ASSESSMENTS USED?

Based primarily on the qualitative data, four primary uses or purposes of SSAs and SAs can be identified, which corresponds to whether the financing methods are pay-as-you-go or borrowing. These purposes are explained in detail here. Table 1 shows examples of these uses for each primary purpose.

PRIMARY PURPOSE 1

SSAs (ad valorem) are used to maintain common areas in residential subdivisions (most often) and commercial and industrial areas, especially for stormwater maintenance and drainage, and may only become active when the residents or business owners fail to maintain the common areas. Such uses are often established prior to development and in conjunction with annexation of land as part of a planned unit development (PUD) agreement between a developer and municipality. The agreement requires the eventual property or business owners maintain the common areas after the development is complete, but when property and business owners do not fulfill this obligation, the municipality steps in to implement the SSA. Although it is much more difficult to establish SSAs after the fact, several jurisdictions encountered situations where SSAs were set up after development was completed and all properties sold to individual owners. Several other municipal governments were examined in which some property and business owners preferred to have the common areas maintained by the government rather than the home or business owners’ association, and most of the land area in several municipalities where covered entirely by SSAs (mostly dormant)⁵.
TABLE 1
Examples of Special Service Areas and Special Assessments
For Each of Four Primary Purposes

<table>
<thead>
<tr>
<th>PURPOSE</th>
<th>EXAMPLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>#1: SSA to maintain common areas</td>
<td>Mettawa’s Woodland Falls residential subdivision (SSA #3, $22,000 proposed budget) has an assessment to maintain and repair water transmission mains, sanitary sewer trunk lines and lift stations (including force mains), storm sewer mains, street, curb, gutter, traffic signal, street lights, stormwater management consisting of detention and/or retention basins, bicycle and equestrian trails and public sidewalks. Mettawa also has SSAs in several business parks for this purpose. St. Charles’ SSA #5 and SSA #7 are manufacturing districts in which assessments are established to maintain common areas and storm water detention areas including maintenance and repair of the storm sewer. Requested extension for #5 is $10,522 and $4,535 for #7 that has no storm sewer responsibilities. St. Charles also has residential SSAs for this purpose.</td>
</tr>
<tr>
<td>#2a: SA or SSA on developed property without annexation</td>
<td>Elmwood Park residents can request to establish an SSA to have their alleys improved. The improvements consist of the installation of a concrete alley and storm sewers (for drainage), new concrete garage aprons, with the option of using permeable pavers (green alley). The village covers the cost of initial engineering and 50 percent of construction costs. Evanston has an alley repaving program in which residents pay 50 percent of the costs but uses SAs. Riverwoods uses SSAs to install municipal water systems to provide Lake Michigan water to residents.</td>
</tr>
<tr>
<td>#2b: SSA on developed property with annexation</td>
<td>Glen Ellyn annexed the Lambert Farms subdivision in 1999 and received a loan from the Illinois EPA for $1,508,839 to extend sanitary sewer lines to homes in the subdivision. This loan is being repaid with SSAs levied on residents until 2022.</td>
</tr>
<tr>
<td>#3: Developer incentive</td>
<td>Lincolnshire issued $15 million in SSA bonds in 2004 to construct the infrastructure for Sedgebrook retirement and nursing home. This is an example of using SSAs for one property owner. Streamwood also lists SSAs as part of their tax incentives and development assistance programs. All public infrastructure improvements to support the Timber Trails subdivision in Western Springs were financed with bonds that are being retired through SSAs.</td>
</tr>
<tr>
<td>#4: BIDs</td>
<td>Highland Park has an SSA, in conjunction with a TIF, in the Ravinia Business District to help finance marketing and special events within the district.</td>
</tr>
</tbody>
</table>

Specific services provided by municipalities under this broad purpose and within the PUD agreement focus on maintenance, repair, and replacement of “open space, common areas, landscaped areas, and natural areas” rather than the maintenance, repair, and replacement of infrastructure such as sidewalks, streets, and lighting. It is also interesting that maintenance and management of stormwater facilities is the most common specific use among the 18 governments in the sample that use SSAs for this primary purpose. Compared to other uses of SSAs, the benefits of good stormwater management often spill over to areas outside of the SSA and possibly to the entire jurisdiction and region. In other words, the benefits of stormwater maintenance and management are not always special to the property owners who are paying the SSA.

The Chicago region has a particular geography and weather pattern that requires good stormwater management. Flooding and poor stormwater management have been a significant threat to governments and many property owners in the region (Hendrick, 2011), and these threats are increasing as a result of climate change (Chicago Metropolitan Agency for Planning, 2008). The common and shared benefits of good stormwater management were apparent from legislation passed by the Illinois General Assembly in 1988 that gave the five non-home rule counties in the region the authority to implement county-wide stormwater ordinances. The Kane County Stormwater Ordinance (1997), for instance, requires all municipalities in the county to set up dormant SSAs for new development and may partially explain the relatively high number of governments in this county with at least one active SSA. Although the region’s planning agency and other regional experts advocate the use of utility enterprises (similar to water and sewer funds) rather than SSAs for stormwater management, the trend towards using SSAs for this purpose continues (DuPage County, IL 2007; Chicago Metropolitan Agency for Planning, 2008). In this case, reliance on SSAs for this purpose may be based more on historic “English ditch law” that required farmers to pay for drainage of their land hundreds of years ago than considerations of whether this method of financing is appropriate for stormwater management.

Evidence shows that use of SSAs for this purpose is the most common among the four purposes, and is most prevalent in jurisdictions that developed after 1980 and are not serviced by municipal storm sewers. The financing of services and benefits for this use is primarily pay-as-you-go. In other words, the property taxes collected finance the maintenance of operations in the SSA rather than to pay off debt for infrastructure improvements. Several municipalities, in fact, discussed having to establish miniature budgets for each SSA that they manage.
for this primary purpose. The amount taxed on most properties for this purpose, however, is not very great. In the Village of Elburn in Kane County, homes in the Prairie Valley subdivision paid $0.06 per $100.00 of EAV (about $60 for a $300,000 home) in 2013 to maintain common areas in the subdivision.7

**PRIMARY PURPOSE 2**

SSAs and SAs (non ad valorem) are used with and without annexation to finance new or significantly upgraded infrastructure. This can include water and sewer systems (to eliminate private wells and septic tanks), lighting, paving of alleys, parking facilities, stormwater facilities, and even roads in existing residential (usually) or commercial areas in which land use has been established previously. This purpose differs from the first purpose primarily in that land use within the STD was well-established prior to the creation of the STD. The improvements financed by these tools are expected to be capitalized back into the property values of properties and even profits of enterprises that are affected (Shoup, 2014, 414). This purpose would include building facilities that increase stormwater capacity and reduce flooding, which enhances the properties rather than simply maintaining them as with the first purpose. Many governments will also issue bonds for all, or a portion of the improvements if they are costly in order to spread out the payments for property owners over a long period of time. Similar to the other purposes, the liability for repayment of bonds within the STD lay with the property owner and not the municipality. This situation often creates a great deal of confusion for property owners who must contend with separate tax liabilities that can hinder and complicate the sale of property.

This primary purpose can also be divided into use with annexation and use without annexation. Of the 17 sampled governments that use SSAs or SAs for this purpose, six used it with annexation. In many cases, the annexation was driven by the desire of residents in nearby unincorporated areas to discontinue their wells and receive water provided by city wells or from Lake Michigan. When an area is annexed, all properties must be brought up to the codes and standards of the annexing government and can include improvements to streets, stormwater maintenance, and other infrastructure in addition to water and sewer systems.

Evidence showed that, without annexation, SSAs and SAs for this primary purpose have been used mostly in residential areas for installation of new water and sewer lines followed by upgrade of alleys, street lighting, and street
improvements. Many governments with SSAs or SAs for this purpose financed a portion of the improvements through general revenues. Government subsidies ranged from 25% in Beach Park, to 60% in Clarendon Hills, and the improvements can be requested and agreed upon by property owners, or they can be a government-initiated (e.g., the Park Ridge Alley Paving / Reconstruction Program and the Brookfield Alley Paving Program). Of the 37 governments sampled, only seven governments had used or were currently using SAs for this purpose, and several of them talked about replacing their SAs with SSAs. The greater cost of implementing SAs compared to SSAs, especially in the case of non-payment of the property tax levy or charge, was documented in six of the sampled governments. This raises the question of why a government would use an SA rather than SSA.

The investigation also revealed an important rule of thumb about when to use one or the other: Ad valorem SSAs should be used when the properties within the STD are similar and for ongoing goods and services; non ad valorem SAs should be used when the properties are dissimilar and there are different land uses within the STD. More generally the evidence shows that it is easier to identify the proprietary benefits that accrue to a set of properties that have clear boundaries, similar land use, and comparable property values compared to areas without clear boundaries, mixed land use, and a wide range of property values. Jurisdictions with more recent growth and development have more of the former characteristics due to the prevalence of residential subdivisions, shopping centers, and business parks. By comparison, older jurisdictions are more likely to be laid out on a grid and have residential, commercial, and industrial uses mixed within the same block.

Three governments were also observed where officials were concerned about the need to consider what level and quality of goods and services have been provided using either SAs or SSAs versus general taxes in the past in order to judge whether the use of these tools is fair in particular cases. For this reason, debates about whether tools are fair seem to occur quite often over improvements to areas that are already developed and where land use has been established. These debates seem to be particularly contentious in jurisdictions that have been developed at different times and, therefore, have varying qualities of infrastructure. In these cases, questions about what constitutes a unique benefit for properties in an STD relative to the rest of the jurisdiction and even past time periods are more difficult to resolve to everyone’s satisfaction.
PRIMARY PURPOSE 3

SSAs are used to repay bonds the municipality issues to build basic infrastructure (e.g., streets, water, sewer) to support new commercial and/or residential development. These SSAs are primarily a tool for attracting development or redevelopment to an area within the jurisdiction compared to the prior purpose in which major improvements are not expected to increase the number of residents or businesses in the area. Similar to purpose two, bonds for which the government is not liable are often issued in conjunction with this purpose, but similar to purpose one - the SSA is established with only a few liable property owners initially. As the primary property owner, the developer is responsible for paying principal and interest on the bonds initially, but that responsibility will transfer to new property owners as individual parcels are sold.

When new development or major redevelopment occurs that is privately motivated, there are three primary alternatives for financing the basic infrastructure to support the development (Ayers et. al, 2014): 1) the developer pays out of personal funds and secures borrowed money for which only the developer is obligated; 2) the municipality finances the infrastructure and assumes obligation for the borrowed money; 3) use of land-secured financing in which all property owners in the development become obligated to pay some portion of the infrastructure (Misczynski, 2012). Prior research on suburban Chicago municipalities shows that many governments have a policy that public improvements that support development and redevelopment pay for itself, which eliminates option two for these governments (Hendrick, 2011).

Option two is the riskiest for the government if the development fails because the government is obligated to repay the debt in this case. Option one is the next riskiest for the government because, although they are not liable for any debt associated with the development, they may have little control over what happens to a failed development in the future. With option three, however, the government can resort to tax the sale of the property to secure new ownership if the developers fail to pay the property taxes that secure the debt.

Developers are also attracted to these tools because they reduce upfront capital and interest costs, which improves cash flow, and reduces liability and debt on their balance sheets after the properties are sold (see Orrick & Datch, 2008; Scutelnicu, 2014, and Scutelnicu & Ganapati, 2012). Several governments observed also presented these types of SSAs as examples of public-private partnerships. For instance, there is the Metra Station Development project that
is a collaboration between Park Forest, Olympia Fields, and Matteson. Also, the Lake Villa Downtown Plan, and the Westmont Redevelopment Plan and Program all involve SSAs that are presented as public-private partnerships in the proposals that are available online. It is also not uncommon for such SSAs to be used with other economic development and development incentive tools such as tax incremental financing districts and sales tax abatements, tax credits, and business improvement districts (BIDs) in commercial areas.

Evidence shows, however, that use of ad valorem SSAs for this primary purpose is sometimes unpopular with the public, realtors, governments, and even developers. Online information shows advertisements from developers that their homes are not built with SSAs, and several government officials claimed proudly that their homes are not sold with SSAs. Many municipalities also reported that the developers they dealt with were very sophisticated and probably well aware of SSAs for this purpose, but simply did not request their use from the government. Several other governments had specific policies against using SSAs for this purpose. There are several reasons for this unpopularity of SSAs, which have relevance for the Leviathan explanation of government behavior.

Although SSAs for this purpose are less risky for governments than securing debt under their own authority or contracting with the developer to build supporting infrastructure (even with letters of credit), the public’s poor perception of SSAs is greatly influencing many governments. Although the cost, resale, and mortgage price of properties affected by SSAs for this purpose should be lower than properties without SSAs, property owners do not perceive the tax payment in this manner (Do & Sirmans, 1994). Rather, they clearly see an additional tax burden on their properties that can be substantial relative to the regular tax burden. According to a 2008 SSA disclosure report from the Village of Huntley, homes in the same subdivision are charged equally for the bond payments (Huntley 2009). In the Southwind subdivision, for instance, one property worth about $225,000 in 2008 ($72,000 EAV) paid about $1400 in SSA property taxes, which is approximately $2 per $100 of EAV. The regular tax rate on this property in 2008 was about $6.7 per $100 EAV.

It is apparent in many cases that the public does not perceive these SSAs as a debt that will be paid off eventually but rather perceives them as permanent taxes. Several government officials reported that they were aware of subdivisions in which the SSA tax levy was greater than the municipal government’s regular tax levy and felt that this was undesirable. Evidence also showed reports of
homeowners having to pay off their SSA debt in order to facilitate the sale of their home. Thus, it is the perception of property owners who are now aware of the full costs of public facilities supporting their property that are driving the behavior of government rather than government’s Leviathan tendencies.

PRIMARY PURPOSE 4

SSAs are used to finance Business Improvement Districts (BID) that provide services and some infrastructure improvements to a designated commercial area. Although BIDS may be established in conjunction with purpose three, they can also be implemented independently in established commercial areas where no significant improvements are occurring. An excerpt from the 2014 Adopted Budget and Financial Plan from Elgin explains specific purposes of BIDs and how they are administered (City of Elgin, 2014).

An SSA (for a BID) is an economic development tool that provides commercial districts the financial means to create and maintain clean, attractive and competitive districts beyond basic city services. A nominal tax assessment is put on each property within a specified district which provides locally managed funding for services and programming. These typically include area maintenance landscaping, minor capital improvement financing, retail attraction and promotion programs, security planning and coordination, parking improvement strategies, façade improvement rebates and special events. The SSA is professionally managed by a service provider, such as a development group, chamber of commerce, or other economic development agency.

The Elgin BID is administered by the Elgin Downtown Neighborhood Association. The Ravinia Business District in Highland Park (administered by the Ravinia Business District Advisory Committee) and the Joliet City Center (administered by the Joliet City Center Partnership) are other examples of municipalities in the region using SSAs to finance BIDs.

SSAs TRENDS AND LEVELS IN THE CHICAGO REGION

Using data on SSAs from IDOR, trends on the level of SSA use by 265 municipal governments in the Chicago region from 1988 to 2012 can be reported. Overall, the data show the use of these tools is not very high in terms of the number of governments that have SSAs, the number of SSAs per government, and the level of taxes collected by these governments. This finding is consistent with
other studies showing that SA spending for infrastructure improvements or collection of SA revenue is very low compared to general fund expenditures or revenue collections in the entire government (Brooks, 2007; Stumm & Mann, 2004; Hendrick & Wang, working paper). However, this behavior is not what one would expect from a Leviathan.

Figure 1 shows trends in the percentage of municipal governments with at least one SSA in the six counties in the region from 1988 to 2012. The total number of municipalities in each county is listed below the chart. The figure illustrates that implementation of SSAs is consistently lowest in Will County for the entire time period and also consistently low in Cook County compared to the other four counties. Use of SSAs is consistently highest in DuPage and Kane County, and it increases significantly from 1988 to 2012 in McHenry and Lake County.

**FIGURE 1**
Percent of Municipalities with at Least One SSA (1988 – 2012)
By County in Metropolitan Chicago

Number of municipalities by county: DuPage (29), Cook (118), Kane (22), Lake (46), McHenry (25), Will (25).
Figure 2 shows the median SSA tax effort defined as SSA extended per $100,000 EAV in the jurisdiction for municipalities in each county that had at least one SSA from 1988 to 2012. The measure indicates how much the government extends in all SSAs relative to the value of its entire property tax base and so it reflects the government’s reliance on SSAs. The figure reveals a significant increase in SSA tax effort during that time period in both Lake and McHenry, consistently low or declining SSA effort in Kane, DuPage and Cook, and mostly low SSA effort in Will County with the exception of 2000 to 2007 when the tax effort was much higher. For all municipalities in the region for all years, the median and mean SSA tax effort is about $29 and $104 per $100,000 EAV respectively. This figure is very low when compared to the median and mean regular property tax extension of $744 and $896 respectively, and it shows how little these governments rely on SSAs for revenue. Also as a point of comparison, consider the median and mean capital spending per $100,000 EAV is $183 and $867 respectively with 25% of the governments having zero capital spending at any time.\textsuperscript{9}

FIGURE 2
Median Tax Effort for Municipalities with at Least One SSA (1988 – 2012)
By County in Metropolitan Chicago
Finally, Figure 3 maps the average number of SSAs from 2006 to 2012 for each municipality in the region. The averages are reported in four categories with light gray indicating no SSAs and dark gray indicating governments that averaged nine or more SSAs during the time period. The percentage of governments in each category is as follows: no SSAs (37%), 1 – 4 SSAs (27%), 5 – 8 SSAs (10%), 9 or more SSAs (4.5%). This figure shows that municipalities north and west have greater SSAs than municipalities south and southwest of the City of Chicago.

**FIGURE 3**
Chicago Municipalities & Counties: Number of SSAs, Avg. 2006-2012
Although the rate of population growth and development in Will County from the 1970’s through 2010 is similar to that of Lake, Kane, and McHenry Counties, SSA use in Will County is quite low. Unfortunately, IDOR data does not indicate how SSAs are used for the four purposes as described previously. However, given the pattern of growth in Will County, the low use of SSAs by its municipal governments suggests that few use SSAs as an incentive for development compared to municipalities in the other three counties. Low use of SSA in Will County may also indicate that its municipalities are not establishing SSAs to maintain common areas of developments to the same extent as the other three counties, or that not many of the dormant SSAs in Will County have become active.

Evidence from the investigation of individual municipalities indicates that municipalities in Will County are avoiding SSAs, especially for new development, based on shared information about the negative experiences of other municipalities in the region with using SSAs. Many government officials throughout the region who provided input to this research project noted the great difficulties that some had with SSAs with failed developments during the Great Recession. Officials from several governments in the region had very negative views of SSAs and their governments had policies against using them to finance development due, in part, to the experiences of other municipalities. One government official from Will County also confirmed that municipal governments in the county had negative view of SSAs. Another official who was familiar with SSAs from his previous position noted the government officials in the area may not have enough familiarity with SSAs to promote their use for different purposes.

The research also found that SSA use by municipal governments is greater in jurisdictions with higher income per capita, higher change in population, and lower population density. Larger governments also have more SSAs but lower SSA tax effort. It is also apparent from the data that non-home rule governments have higher use of SSAs, but this is explained by the greater concentration of SSAs in less urban areas of the region where fewer governments are home rule. Further statistical investigation shows that, all other things being equal, non-home rule governments are not more likely to use SSAs than home rule governments, which is not what you would expect from a government with Leviathan tendencies (Hendrick and Wang, working paper). Rather, you would expect Leviathan governments that are under many property tax constraints to more actively pursue alternative revenue sources than governments with few constraints.
GOVERNMENT AS LEVIATHAN

In all, the evidence of SA and SSA use by Chicago municipalities does not paint a picture of government as a Leviathan. Although there are many situations in which use of these tools is appropriate, very few municipal governments in the region levy more than a few SSAs or SAs, and the revenue from these taxes constitute a very small portion of governments’ revenue and capital spending. This evidence does not show a pattern of governments exploiting these tools in order to increase spending. One explanation for the low use of SSAs and SAs may be that government officials do not understand how to utilize these tools. Many of the officials’ statements and printed materials examined in this study contained inaccurate claims and demonstrated incomplete knowledge about both tools. Evidence from this study also revealed instances where government officials had good knowledge of these tools, but did not make elected officials aware of this option. Several government officials commented on the importance of governments becoming more familiar with the tools and learning how to use them in their particular situation, and the problem of “getting over the hurdle of using SAs the first time.”

Clearly, an uninformed or misinformed government cannot be expected to adequately exploit these tools in a Leviathan manner, which may account for low use in some governments. However, this does not account for low use in governments where officials are knowledgeable and inform elected officials about these tools. In this case, evidence from this study indicates that low use of SSAs and SAs is also explained by government officials’ keen awareness of the perception of property owners of their property tax burden and the extent to which these tools make the burden of public improvements very visible to property owners. Many government officials interviewed were well aware of the property tax burden on residents and the extent to which SAs and SSAs make their tax burden seem higher than if the cost of the basic infrastructure was aggregated into their regular property taxes. Five of the governments interviewed expressed a preference not to use SAs or SSAs for significant infrastructure improvements because of the visible property tax burden these place on property owners. Several government officials also expressed an unwillingness to use these tools in areas of the jurisdiction that are struggling with declining property values and unfinished subdivisions because of the Great Recession.

Interviews with government officials and news reports about citizens fighting the imposition of these taxes on their property and, hence, improvements to
their property demonstrated the political risks of using this approach. These officials were fully aware of the potential “political nightmare” associated with implementing these tools in existing residential areas. They were also aware of the political problems of providing disparate services to different parts of the jurisdiction and appearing to advocate favoritism for properties in an STD compared to the rest of the jurisdiction. We found the politics surrounding these tools is a significant stumbling block for using these tools in many cases. As a means of easing the political risks associated with these tools, four of the sampled governments require some level of approval for an SA to be established, rather than simply avoiding disapproval by potential beneficiaries as is required by state law.

Overall, this study concludes that municipal governments in the Chicago region are risk averse, guided strongly by precedence and the public’s perception of SAs and SSAs, and often do not have enough knowledge of or experience with these tools to take full advantage of them to increase funding for capital improvements and services. The importance of public perception to the behavior and comments of government officials in this study indicates that these tools make taxpayers more aware of the benefits and, more importantly, more aware of the costs of these benefits. This greater awareness is taming the Leviathan. On the other hand, many government officials that were interviewed expressed much interest in knowing more about these tools and their use by municipal governments in the region, which indicates that Leviathan may only be sleeping.

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1 Special district governments, such as fire protection or library districts, are separate local governments and not established or owned by a government in the same manner as an STD. Tax incremental finance districts (TIF) and business improvement districts (BIDs) are other types of STDs that can be established by a government.

2 Home rule is automatically granted to municipalities in Illinois with populations greater than 25,000, but smaller municipalities can obtain home rule and larger municipalities can rescind it through referendum. Home rule governments in Illinois may do anything except that which is prohibited by state law, but non-home rule governments may only do that which is allowed by state law.

3 The U.S. Census of Governments collects data on all local government finances, including non ad valorem SAs, every five years. We examined SA use among Chicago municipalities in 1997, 2002, 2007, and 2012 and compared this to their SSA use in the same years.
Governments that were low users of SAs and SSAs were not as likely to agree to an interview as high users, which may bias the information received about why governments use or do not use these tools. However, many officials commented at length on why other governments they worked for or in the region do not use them.

Only active SSAs with a tax levy are shown in the IDOR database.

Cook County is the only home rule county in Illinois. Its stormwater management is coordinated through the Metropolitan Water Reclamation District which is a separate government entity.

Properties are assessed at only 1/3 of the total value of the property. For more information about Elburn’s policies, visit http://www.elburn.il.us/index.aspx?NID=210

A BID is a defined commercial area within which businesses are required to pay additional taxes or fees to fund projects and special services within the district's boundaries. BIDs are often financed using an SSA, but other public or private revenue streams such as sales taxes or TIFs can be used.

Data on capital spending comes from the Illinois Office of the Comptroller.

REFERENCES


Use of Special Assessments by Municipal Governments


FISCAL RECOVERY AFTER THE GREAT RECESSION: REVIEWING THE PERFORMANCES OF METROPOLITAN CHICAGO COMMUNITIES

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This study evaluates the comprehensive financial statements of 109 municipalities in the Chicago region to explore trends in revenues, employment, and other metrics. The results show that both employment and the total equalized assessed value of property remain significantly below the levels before the Great Recession. Municipal fund balances, property tax revenues, and retail sales, however, have recovered and in many cases are far higher than they were a few years ago. While local government revenues are gradually bouncing back, emerging constraints will require municipalities to expand their “financial toolbox” to capture sufficient revenues to sustain infrastructure reinvestment.

INTRODUCTION

The Great Recession, while officially lasting only from December 2007 to June 2009, put enormous stress on municipal governments. The downturn’s effects, together with worsening fiscal problems faced by the State of Illinois government, have had far-reaching consequences that add complexity to the work of municipal officials. In many locales, it is difficult to separate local economic issues from the statewide issues stemming from Springfield’s fiscal woes.

This study seeks to provide new insights into the financial health of Illinois communities by reviewing audited data from 110 towns, villages, and cities in the Chicago region. (The analysis excludes Chicago for reasons noted below). The analysis includes a review of: i) data on municipal revenues, expenses, and other variables reported in the comprehensive annual financial reports (CAFR) for these 110 communities and, ii) trends in retail sales in these communities, as reported by the state. Together, these data offer a rich perspective on the evolving fiscal position of a wide spectrum of municipalities.
BACKGROUND

The impetus for this research effort began with a collaboration launched in 2009 between AECOM and the Chaddick Institute at DePaul University, to study the policy implications of the Cook County sales-tax increase enacted the previous year.¹ For suburban municipalities in this action, the increase created sizeable sales-tax differentials across county boundaries, which gave consumers a greater incentive to alter their buying habits to reduce the sales-tax burden. The AECOM/Chaddick analysis showed that communities in suburban Cook County were experiencing a proportionately greater decrease in sales compared to other jurisdictions in the metro area as a result of the sales-tax increase (Schwieterman, et al., 2009).

These initial study results laid the groundwork for more detailed analysis of municipal finances for 107 municipalities in Cook, DuPage, Lake, McHenry, Will, Kane, and Kendall counties in 2012, which resulted in the creation of a large dataset of information from comprehensive annual financial statements. This included assembling a dataset of government revenues and expenditures, capital spending, general fund balance, sales-tax collections, equalized assessed value (EAV), and municipal employment. This study drew attention to weakness in traditional public-sector revenue streams—a topic that remains timely today.

For the present study, the analysis is expanded to 109 municipalities in these same counties, with the final sample most heavily represented by Cook (36 municipalities) and DuPage (30), and the remainder in Kane (10), Lake (14), McHenry (7), and Will (12). The sample includes some of the region’s most prominent commercial centers, such as Downers Grove, Evanston, Naperville, Tinley Park, and Vernon Hills. To account for the fact that some municipalities straddle two or more counties, the analysis tabulates sales-tax collections across jurisdictional boundaries. The sample is heavily weighted toward suburban municipalities that have published CAFR on a recurring basis going back to 2001. Furthermore, the analysis also considers data on retail sales obtained from the Illinois Department of Revenue’s Standard Industrial Classification Code Reporting sales tax receipt database, with the municipal-tax (MT) data field evaluated from 2002 to 2014.

While the analysis intentionally excludes the City of Chicago, which is worthy of its own study due to its enormous size and severe budgetary issues (see Hendrick, Luby, and Mason, 2010), it also does not include a significant number of smaller “non-home rule” municipalities, including many with populations
less than 15,000. Notable past research on the financial condition of Illinois communities includes works by Hendrick (2004) and a research team led by Sohl (2009), both of whom have articles on related topics for this issue.

**PUBLIC-SECTOR EMPLOYMENT**

Estimates of municipal employment include jobs in all classifications typically associated with municipal government, such as general administration, fire and police, planning, and utilities. The results show that this public-sector employment rose between 2001 and 2007 at a robust 1.7% annualized rate (Figure 1). The Great Recession then created enormous budget pressure, which, together with retirements, led to a sharp reversal. Employment fell at a 2.3% annualized rate between 2008 and 2013.

The cumulative effect of this has been enormous. Municipal employment in 2014 stood at 22,334 positions, which is more than 3,000 below the peak of 25,451 in 2007. The average municipality in the sample lost about 30 workers. Employment in 2014 was even lower than that in 2001 (22,995 positions), despite population gains and general economic growth. Between 2013 and 2014, municipal employment increased only 0.8%. On a more positive note, as shown in Figure 1 below, rising general fund balances suggest that the modest addition of jobs in recent years is financially sustainable.

**FIGURE 1**

Trends in Total Public Sector Employment

Source: U.S. Census & Comprehensive Annual Financial Report-Unaudited Statistical Section
Perhaps the simplest conclusion that can be drawn from these data is that municipal employment will likely remain well below pre-Recession levels for many years. As populations rise, these results also suggest that the productivity of municipal workers is rising accordingly.

**MUNICIPAL DEBT**

Measurements of primary government debt include financial obligations linked to each municipality, as well as any component unit for which the elected officials of the primary government are responsible, such as the public library in many communities. The results show that primary government debt has increased substantially at the municipal level throughout the region. Between 2001 and 2014, this debt increased at an annual rate of 4.7%, with more volatility than any of the other metrics evaluated in this report (Figure 2). A considerable portion of this increase, particularly between 2001 and 2006, is attributable to tax increment financing (TIF), a tool that typically involves the issuance of bonds.

**FIGURE 2**

Trends in Total Outstanding Debt in Observed Communities

![Bar chart showing trends in total outstanding debt from 2001 to 2014](source: U.S. Census & Comprehensive Annual Financial Report-Unaudited Statistical Section)
After years of uninterrupted growth, there was a modest decline between 2010 and 2011 and then a leveling off. On a per capita basis, the amount of debt residents now are obligated to pay (before adjustments for inflation) has increased, growing from $795 to $1,305 between 2001 and 2014. Nevertheless, although such a rise may be disturbing, the vast majority of it occurred in the years prior to 2008. Since then, the overall annual rate of growth has been just 0.3%. Although TIF was the primary tool to finance new infrastructure before the Recession, that has changed. Declines in construction, combined with concurrent falls in real estate values, have created a difficult environment for municipal finance.

**MUNICIPAL REVENUE, EXPENDITURES, AND CAPITAL IMPROVEMENTS**

Municipal revenues have fully recovered from the Great Recession, reaching levels previously unseen during the observed period (Figure 3). This suggests that communities, on the whole, have found ways to offset the declines in real estate values with new forms of revenues. As might be expected, expenses also reached a peak in 2014.

**FIGURE 3**

Trends in Municipal Revenue and Expenditures

![Graph showing trends in municipal revenue and expenditures over time from 2001 to 2014.]

*Source: U.S. Census & Comprehensive Annual Financial Report-Unaudited Statistical Section*
The revenue/expenditure gap during the downturn between 2008 and 2011 brought enormous stress to local governments. Overall, however, there has been a clear positive trend in recent years, with deficits gradually falling. Still, it should be acknowledged that expenditures have generally exceeded revenues, even in non-recession years, with the proportional gap reaching its peak in 2003, when expenses outpaced revenues by 22.2%. By comparison, the gap in 2014 was below 5%.

Capital spending has followed a different path (Figure 4), seeing gradual growth between 2003 and 2007 averaging 0.9% annually. Between 2009 and 2014 the trend reversed, with capital spending declining at a 5% annual rate. Investment levels have now stabilized at about two-thirds of what they were during the peak year, 2006.

**FIGURE 4**
Trends in Total Capital Improvements Funding

![Bar chart showing trends in total capital improvements funding](source)

In addition to the absolute decline in capital-improvement spending evident on this figure, capital-improvement spending has also declined markedly as a share of municipal spending (Figure 4). As a percentage of the overall budget, capital-improvement spending represented 17.4% of total municipal spending in 2006. By comparison, the 2014 share was just 10.8%. In both absolute and relative terms, therefore, funding for capital improvements has been on
an unfavorable trajectory since 2009. As noted above, these trends mirror declining reliance on TIF, as well as dramatic reductions in construction of new residential units and commercial space. Capital-improvement spending since the Great Recession has remained lower than it was in any year prior to 2010 during the period studied.

The most notable lesson from these trends is that municipalities will likely continue facing difficulties increasing funding for capital-improvements through traditional means. This will create new incentives for innovative strategies, such as private-public partnerships, value-capture arrangements, and developer contributions to infrastructure – a topic returned to below. While many of these ideas still relate to real estate, experience suggests that municipalities will also need to look differently at utilities (electricity, natural gas, stormwater, wastewater, and drinking water).

**MUNICIPAL GENERAL FUND BALANCE**

General fund balances, when expressed on a per capita basis, have seen relatively large increases between 2001 and 2014, with particularly dramatic growth since 2009. Numerous municipalities have, impressively, seen annual increases above 10% in their general fund balances (Figure 5). Additionally, in 2014, none of the observed municipalities reported a negative general fund balance, which is an improvement upon years prior to 2012, when several municipalities reported negative balances.

**FIGURE 5**

Trends in Per Capita General Fund Balances

Source: U.S. Census & Comprehensive Annual Financial Report-Unaudited Statistical Section
The trend in per-capita debt has followed an up-down-up pattern, falling from $1,162 to $1,062 between 2007 and 2009 (a 4.4% annualized rate of decrease), only to recover substantially, growing to $1,500 per municipal resident in 2014. Of all the metrics considered in our analysis, this one is among the most favorable.

**MUNICIPAL EQUALIZED ASSESSED VALUES**

Measurement of EAV includes the total value of all properties located within the municipality, regardless of whether they are residential, industrial, commercial, or any other categorization. Not all municipalities report this metric. Those that do not were omitted from the calculations.

EAVs in the Chicago region have increased annually at a rate of 2.5% between 2001 and 2013, although the trend turned negative after 2008, falling – disturbingly – at an annual rate of 7.6% between 2009 and 2013 (Figure 6). Today, valuations remain well below those prior to the Recession.

**FIGURE 6**

Trends in Equalized Assessed Values

Source: U.S. Census & Comprehensive Annual Financial Report-Unaudited Statistical Section
Despite these trends, there has been sluggish but nonetheless persistent growth in property-tax collections (Figure 7). Among the 72 municipalities that report aggregate property-tax revenues and EAV values, we found that valuations decreased at an annual rate of 7.6% (the same as the complete sample), while property-tax revenues increased at a rate of 1.4%. Although this indicates that municipalities have, to some extent, raised their property-tax rates in order to offset the decline in property values, the extent of increases appears to have been relatively small, likely due, in part, to statutory limits on maximum property-tax rates. Once these maximum rates are reached, municipalities can only grow revenue through increases in property value. News reports for 2016 suggest that the property value trend appears finally to be tilting in the positive direction, which, of course, bodes well for municipal finance.

**FIGURE 7**
Trends in Property Tax Revenue in 72 Communities

Municipal leaders concerned over property values will likely take little solace in knowing that over the entire period from 2001 to 2013, EAVs have appreciated at a 2.5% annual rate. Although property values have, in general, stabilized since 2013, the modesty of the growth has created enormous stress in some locales, particularly those that are near their statutory tax-rate limits. While preliminary data from 2016 points to more significant growth in values, the pace of home construction in the region, as well as retail and office development, appears to remain well below pre-Recession thresholds.
MUNICIPAL RETAIL SALES

The upward trajectory of sales is a particularly positive trend for communities reliant on sales taxes. Although annualized growth over the entire period from 2001 and 2014 has been a modest 2.0%, growth rates have averaged 4.5% between 2009 and 2014 (Figure 8). Retail sales totaled $68.4 billion in 2014, more than $3 billion higher than any other year analyzed in the study. While many municipalities are capitalizing on this trend by tactically pushing sales-tax levels upward, it is important to note that this strategy is more difficult for non-home rule municipalities.

FIGURE 8
Growth in Retail Sales, 2001-2014

For all types of communities, however, the market for retail space is significantly more complex than it was a decade ago, in part due to the impact of Internet spending and the dramatic growth in the amount of retail space per capita. This year, there has been surprising weakness in retail brands, including Nordstrom, the Gap, Banana Republic, Sears, Macy’s, and JC Penney. While well-located retail shopping centers are performing, the national pace of store closings for 2014 and 2015 is only about half of the modern-day high set in 2009; retail appears poised for a significant shake-out, particularly in secondary locations. Please refer to the article “Retail...
Construction in Illinois: Why the Slump?”, appearing on page 123 and prepared by the authors of this report, for additional perspective.

ANALYSIS AND IMPLICATIONS

The dataset used to generate these charts is a versatile tool that can help local officials and development professionals improve their understanding of the financial landscape. It can help these stakeholders monitor the relative performance of their community to that of neighbors or the region as a whole, offering “benchmarks” to gauge financial health more accurately.

Too often, local officials, especially those serving on village boards on a volunteer or part-time basis, remain unaware of the lessons from communities outside their village’s boundaries. Unlike corporate board members, who continuously monitor how their company’s revenues, costs, and profits are faring against the backdrop of peer organizations, officials on municipal boards are often not presented with information allowing for such comparisons, partially since data are so difficult to obtain. By helping fill the void, the dataset can be used to encourage decision makers to act decisively when results move in a negative direction. (Officials interested in such comparisons are encouraged to reach out to the research team from AECOM and the Chaddick Institute, who plan to continuously update the data fields as new information becomes available.)

Taken as a whole, the results paint a portrait of a municipal sector responding vigorously to a downward shock in revenues. The dramatic fall in employees following the start of the Great Recession adds significant complexity for those seeking employment in the municipal sector. The reduction in hiring has affected many other sectors, including universities offering programs in law enforcement, public administration, and social work. Although inflows have largely rebounded since the Recession, it appears that municipalities will remain cautious in adding personnel. However, rising fund balances suggest that some additional hiring might be around the corner.

While the analysis suggests that a partial recovery in municipal finance is underway, our experience yields a mixed outlook for at least four reasons.

1. IMPACT OF THE INTERNET

Although municipalities have long focused on access to lifestyle and quality-of-life amenities for their residents, factors linked to the growth of the Internet are gradually changing the nature of how “place” is defined, with looming
fiscal consequences. The challenge begins with the reality that a majority of local government revenues tend to be place-based (i.e., linked to location; e.g., property tax) and transaction-based (e.g., sales tax, which is accounted for by point of sale). While the Internet’s impact on retail spending is already a concern, its ability to blur what was once a clear line between where people work and where they live suggests that economic activity (transactions) will be increasingly disconnected from “place,” with working and shopping from home (or other places) being among the most prominent examples. Over time, this disconnect will add to pressure on municipal finances.

2. STATUTORY LIMITS ON TAXES

Revenues are often constrained by statutory limits on tax levies, with notable examples being caps on property-tax rates and distinctions based on home-rule status. Although larger home-rule cities have a greater level of flexibility, smaller communities face greater apparent constraints. As the current market is framed by modest growth in property values, practical constraints on growth in municipal revenues are apparent. Adding to this puzzle is the reality that a majority of municipal revenues are “fund based” (i.e., the “General Fund”), which often limits the ability of a municipality to optimize investments across funds, resulting in fragmentation and inflexibility.

3. UNCERTAINTY OVER INFRASTRUCTURE

The traditional reliance among municipalities on TIF to fund infrastructure has heightened interest in new real estate development. Our analysis, however, suggests that retail markets, particularly in the suburbs, are increasingly saturated with commercial space, reducing the number of new projects that can drive this method of financing. With core funding for capital improvements already constrained by limited revenue growth, the current environment reinforces the need for new approaches to fund local infrastructure. While the funding gap for infrastructure is growing, the definition of what qualifies as “substandard” arguably varies from community to community more than it has in the past. This leaves local officials with incomplete knowledge about how to set priorities and possibly improve sharing in costs and benefits of investment.

4. THE IMPACT OF UTILITY DEREGULATION AND THE EMERGENCE OF RENEWABLE ENERGY AND MICROGRIDS

Although a small number of Illinois municipalities have turned to stormwater utility fees to reduce pressure on general fund revenues, our experience suggests
that factors linked to deregulation of electricity markets may necessitate that communities look similarly at fees in the sector. The emergence of renewable energy sources and microgrids have the potential to create both disruptions as well as opportunities for local units of government.

While grappling with these issues, municipal officials will feel pressure to pursue “shared services” with other governments (see related article on page 15). Achieving this will require overcoming problems stemming from traditional accounting systems that make it difficult to efficiently share or allocate costs between municipalities, particularly in infrastructure reinvestment. Nonetheless, it is encouraging that emerging technologies are allowing for more efficient and transparent ways of allocating costs between locales. In the midst of the profound changes made evident in the trends outlined in this study, municipalities must continue to expand their financial toolbox to keep their “fiscal house” in order.

Chris Brewer and Joe Vitone are Vice President, Economics and Planning, and Analyst, respectively, at AECOM; Joe Schwieterman is Director of the Chaddick Institute for Metropolitan Development at DePaul University

1 In March 2008, the Cook County Board increased the county sales tax rate from 0.75% to 1.75%, on the heels of a smaller mass transit tax increase that occurred in April 2008. For Chicago, these increases boosted the overall city tax rate to 10.25%, the highest rate of any major city in the U.S. at that time.

REFERENCES


CAPITAL BUDGETING STRATEGIES
IN GOOD TIMES . . . AND BAD

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This study, drawing upon interviews with officials from 33 communities across the state, explores the opportunity for improving capital budgeting among municipal governments. The results illustrate the dramatic changes underway in capital budgeting in the wake of the Great Recession and the State of Illinois’ deepening fiscal crisis while highlighting practices and strategies now being used. By reviewing exemplary examples from throughout the state, the study offers practical guidance for municipalities seeking to improve this form of budgeting in good times and bad.

INTRODUCTION

Capital budgeting is widely recognized as being vital to effective and efficient municipal services. During good economic times, this can be challenging, but manageable. During bad times, however, the challenge can seem overwhelming. This raises several important questions: How do municipalities meet capital needs in times of fiscal stress or uncertainty? What types of “best practices” should local leaders follow to overcome the obstacles associated with this type of budgeting?

To help answer these questions, this study pursues two objectives. First, it illuminates the capital budgeting problems that have become pervasive among municipalities in the state. Second, it shares insights from the professionals who continuously deal with this problem to help others grapple with this often-neglected issue.

The principle methodology used to meet these objectives involves evaluating the results of key informant interviews. Over a six-year period, 44 municipal government officials from 33 municipalities in the state took part in structured interviews. (See Figure 1 for a map showing the locations of these communities.) Eight officials were interviewed in the spring or summer of 2010 and the remaining 36 were interviewed this past summer.

Among those interviewed were mayors, village and city managers, and budget and finance officials. This information is supplemented with descriptions of “best practices” obtained from publications by the Government Finance
Officers Association (GFOA) and the International City/County Management Association (ICMA).

**FIGURE 1**
State Map Highlighting Municipalities Interviewed

- **2010 INTERVIEWS**
  Aurora, Downers Grove, Lombard, Pekin, Macomb, Naperville & Normal.

- **2016 INTERVIEWS**
These results are summarized in four sections below. The first section broadly examines the major capital budgeting challenges facing municipalities reported by the respondents. The second section evaluates how the Great Recession and the state’s fiscal situation have affected the budgeting process. The third section considers the capital budgeting strategies that municipalities are using. Together, the results show that—despite persistent problems—many municipalities are responding vigorously to generate the capital they need.

MAJOR CAPITAL BUDGETING CHALLENGES

Insufficient revenue to meet capital needs is, not surprisingly, widely regarded as the largest capital budgeting challenge facing Illinois communities. The causes of the insufficient revenue include resistance to tax increases, backlogs in capital maintenance, the high costs of capital projects, and competing demands for the use of municipal revenues.

When asked about insufficient revenue, some of the municipal officials described the struggle to raise taxes or user charges in their communities. “People want services but they don’t want to pay for them,” noted a former Moline official. Several people reported that property taxes are already high, primarily due to school district taxes, which hinders the ability of the municipal government to raise taxes.

Other government representatives indicated they are currently coping with the problems caused by past underinvestment in capital infrastructure. Many officials cited a decrease in the ability of their municipalities to keep up with capital needs during the Great Recession, while others stated that their backlog dates to pre-recession years.

A related issue voiced quite often is the age and condition of the existing infrastructure and the high price of capital replacement. “Our aging infrastructure is outdated and creates issues during very heavy rains,” asserted a representative of Forest Park. Several others commented on the high price of equipment, such as a ladder fire truck which they said costs about $1 million.

Another factor that contributes to the lack of sufficient revenue for capital is the need to finance other costs such as salary increases, employee health care, pensions, and federal and state mandates. “The growth in police and fire pension contributions have resulted in less funds for capital, which is one of the first things we cut,” noted a current Moline official. “The city’s police and
fire pension contributions have increased from $2.5 million in 2006 to $8.9 million in 2017.”

That sentiment was echoed in other interviews. “We transfer funds from the general fund at year-end to be used for capital,” noted a Barrington representative. “As unfunded mandates increase, less is available for capital.” The interviewees expressed concerns about various mandates from state and federal governments, such as dispatch consolidation, Americans with Disabilities Act requirements, prevailing wage rate provisions, proposed new water testing requirements, and Freedom of Information Act requirements.

**THE IMPACT OF THE GREAT RECESSION**

The Great Recession only lasted officially from 2008-09, but its effects were felt for much longer, resulting in significant declines in revenues or sluggish growth. This had a major impact on the ability of municipalities to finance capital maintenance and to replace aging infrastructure, equipment, and fleets. Capital spending often was deferred as communities struggled to maintain services and pay staff.

Among the municipalities that were especially hit hard was Joliet. “Our revenues dipped for about five years,” recalled a representative from that community. “We were constantly cutting and freezing positions and eliminating positions through attrition. In 2007 we received more revenue than we are receiving now. We stopped doing capital for a while. Our casino revenue went from $36 million to $18 million now. Some revenues are coming back, such as those associated with our warehouse district.”

The troubles could also be seen in Decatur. “The city finished in the black but equipment was not replaced, infrastructure projects were deferred, and cash reserves were depleted,” remembered a representative from that community. There were also troubles in Bloomington as one official stated that the city faced serious financial issues in 2008, including negative fund balances in the general fund, the capital improvement fund, the vehicle replacement fund, and others. The official stated the city’s overall cash reserves dropped to an equivalent of about 30 days of operations. However, over a period of four to five years, the city has replenished its reserves to over $15 million.

Municipalities recognize the trajectory of their growth may have been permanently changed by the Great Recession. Some are experiencing rising sales tax and property tax revenues and have now surpassed pre-recession
revenue levels, while others have not experienced a full recovery and must adjust plans accordingly.

**IMPACT OF THE STATE GOVERNMENT FISCAL PROBLEMS**

The far-reaching effects of the fiscal problems facing the State of Illinois was another pervasive theme. During 2015, there was a delay in state funding to municipalities for motor fuel taxes, casino and video gaming taxes, use taxes, and 911 surcharges on phone bills. Plus, Governor Bruce Rauner proposed that the state should cut the income tax revenues that are shared with local governments by 50%, which drew harsh backlash from communities.

The results of the state budget impasse were mixed. Most of the interviewees said their communities had sufficient cash reserves to withstand the delay in the receipt of state revenues. Some municipalities delayed capital projects until the state funds were released. Many of the interviewees said their communities are still waiting to receive state grants they were awarded during the past couple of years. Some projects have been put on hold while others have continued with the local government fronting the state funds. Some officials noted that the state fiscal situation and uncertainty make it harder to attract new businesses to Illinois.

As a result of the future uncertainty in state revenues, some municipalities are taking a more conservative approach to budgeting, such as cutting departmental budgets or increasing fund balances. A Champaign official said “increasing the fund balance will give us time to make well-thought-out decisions.” That sentiment was echoed by an official from Naperville. “We are focusing more on what we need to do to be strong and proactive,” the western suburb representative said. “We have adopted a goal to pay down our debt and be less reliant on borrowing. We passed a 0.5% home rule sales tax but left capacity to go higher if we need to.” In West Chicago an official stated, “If the state cuts our revenues, we would redirect revenue for capital purposes to operations.”

**MUNICIPAL CAPITAL BUDGETING PRACTICES & STRATEGIES**

This section addresses capital budgeting practices and strategies that are being used by municipal governments in the state (see Table 1 and Table 2 for notable examples). These approaches can help municipalities plan for the future, involve and communicate with the public, and identify funding sources for capital projects.
An important part of capital budgeting is the identification and prioritization of capital projects. Best practice calls for the creation of an integrated multi-year capital improvement plan (CIP), which includes a list of capital projects for each year, along with the estimated costs and funding sources for each project (Marlowe, Rivenbark, & Vogt, 2009). Typically the first year of the CIP is adopted as the capital budget.

An integrated CIP has multiple benefits. It can be used to align capital investments with a community’s comprehensive plan and facilitate coordination among departments. A CIP can identify in advance the need for debt-financing or the accumulation of cash reserves, as well as opportunities for grants. It also can serve as a means to communicate with the public. A
Highland Park official stated the CIP helps make the public aware of the total amount of infrastructure investment and provides a description of each project that will be undertaken.

Most CIPs span for five to six years, although some Illinois municipalities have longer plans. For example, the City of Naperville has a 20-year plan and the Village of Barrington has a 25-year plan. “Five years is not sufficient for large projects with respect to infrastructure planning as well as financial planning,” noted an official from Champaign, which has a 10-year capital improvement plan.

Some governments have experienced challenges in implementing their CIPs. During the Great Recession, some municipalities funded essential projects and deferred others. An official from Rantoul surmised that the projects in the out years are often a wish list, with projects being deemed negotiable.

It is hard to forecast the availability of federal or state funding for street projects, but, “we still want to keep those projects listed as needs,” according to a Plainfield representative. Several of the officials who were interviewed said that their municipalities have multi-year master plans for particular functions, such as water and sewer, but do not have an integrated plan that includes all functions.

<table>
<thead>
<tr>
<th>TABLE 2</th>
<th>Examples of Capital Budgeting Strategies</th>
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<tbody>
<tr>
<td>WEST CHICAGO:</td>
<td>The City of West Chicago over a period of nine months engaged residents in the development of the West Chicago Strategic Plan. This plan identifies community priorities, strategic objectives, and action items, including high-priority capital investments.</td>
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<tr>
<td>Tie capital plans to the community’s strategic plan</td>
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<tr>
<td>KEWANEE:</td>
<td>Kewanee distributed a survey to help identify residential priorities. An official explained, “We are targeting the alignment of resources with customer needs. The citizens want us to place our emphasis on streets, sidewalks, and stormwater.”</td>
</tr>
<tr>
<td>Solicit input from stakeholders</td>
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<tr>
<td>BLOOMINGTON:</td>
<td>Bloomington officials go into quadrants of the city to discuss how the CIP addresses neighborhood needs, what projects in the plan are the most relevant to that quadrant, and how the projects will be financed. Following approval of the CIP, city officials plan to continue to communicate with neighborhoods and others about major construction activities.</td>
</tr>
<tr>
<td>Communicate with the public</td>
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</tbody>
</table>
“In the past we put together a list of things we would like to do and thumbnail estimates of costs without a true plan to coordinate water, sewer, or streets,” noted a Kewanee representative. “We lacked transparency – no one had the ability to see when a street would be fixed. There was no accountability – we didn’t say what we would do and so it was hard to hold us accountable. We would fix something and then later do the related sub infrastructure. Now we are putting together a five-year CIP to improve the process.”

The preparation of the CIP consists of three major stages: (1) the development of proposed capital projects, (2) the review and prioritization of capital projects and an analysis of the municipality’s ability to finance those projects, and (3) the review and approval of the CIP by the municipal legislative body.

Typically, professional staff plays the lead role in proposing capital projects. They may respond to mandates or needs identified by the public or elected officials and also conduct their own professional analysis. For existing assets, staff may consider the age of the asset, its repair history, its condition, and the need for a replacement. For new assets, staff may take into account the community’s development patterns and the capacity of existing infrastructure, as well as capital projects that are needed to support the community’s comprehensive plan or strategic plan. The staff then prepares a description of each of the proposed projects, along with the estimated costs and funding sources. In some municipalities, the staff is asked to rank the proposed capital projects within their respective departments.

The next major step is to review the departmental requests, prioritize projects, and assess the ability of the municipality to finance projects. This usually is the responsibility of the city/village manager or the mayor in consultation with the finance official and other key staff, such as the public works director. Some municipalities use special committees to assist in the process. For example, the City of Lombard has a public works committee, which includes eight residents and one village trustee as chair, which reviews the CIP and provides input regarding priorities. In West Chicago, 50% of the city council members serve on an infrastructure committee that compiles the five-year CIP.

Some municipal officials stressed the value of using technology to assist in the capital planning process. “Our capital planning software allows us to input different versions of a project and see the overall impact,” noted a Champaign official. “This helps us determine whether we can afford the project or need to make revisions.” Several other officials commented on the value of using geographic information systems (GIS) to assist in capital planning.
Following the preparation of the CIP, the municipal legislative body is responsible for the review and approval of the CIP and for the adoption of the capital budget (typically the first year of the CIP). Professional staff will help educate the elected officials about the proposed CIP through presentations, meetings, or tours and by providing maps, pictures, and information sheets about the proposed projects. Most of the officials interviewed for this study indicated that the legislative body for the most part adopts the CIP as proposed by staff; however, some elected officials may make additions or revisions to specific projects that have the most direct impact on their constituents. Some municipalities have workshops or meetings with elected officials early in the capital planning process to obtain input about their priorities, which can help lessen the changes that are needed later in the process.

2. INVOLVE THE PUBLIC IN MEANINGFUL DISCUSSIONS ABOUT LONG-RANGE GOALS

Municipalities can also solicit input from the public during the development of the capital plan. This can help ensure the plan reflects the priorities of the community and can help educate people about capital needs and the importance of capital funding. Participation can also help avoid public discontent after the completion of a project (Canally and Casey, 2007). GFOA recommends that governments develop a communications plan prior to any major capital program (GFOA, 2014A).

The opportunity for public input during the capital budgeting process is different for each community. Most, if not all, municipalities have one or more public meetings or hearings on the municipal budget, including the capital budget. Some officials said that the public rarely becomes involved unless there is a particular issue that concerns them, such as flooding. Other officials said they receive input from neighborhood or interest groups, citizen boards and commissions, or other committees. For example, Chatham has a parks committee, made up of residents, that provides input on park priorities. Rockford has a separate capital allocation by ward in which each city council member puts together a neighborhood road improvement plan for his or her ward, with assistance from staff and input from residents.

Some municipalities make a concerted effort to communicate with the public. For example, the City of Bloomington has been conducting public outreach and education prior to the city council’s final vote on a new five-year CIP. “We want the public’s support for financial solutions needed to address existing and future needs,” explained a Bloomington official. “As our primary
stakeholders and owners, we want the public to understand what our capital needs are and how our plan impacts them and the community’s economic development . . . Without their support, we cannot be as aggressive as we need to be regarding investing in capital infrastructure . . . Public support helps our elected officials have the will and ability to address the community’s capital needs at a policy level . . . When we updated the comprehensive plan, the word we most frequently heard from the public was infrastructure, due in no small part to our efforts to raise the public’s awareness of infrastructure issues.”

Municipal governments use a variety of means to communicate with the public. For example, Highland Park conducts neighborhood meetings jointly with its government partners, makes extensive use of social media such as Facebook and Twitter, distributes a monthly hard copy and electronic newsletter, and releases weekly electronic news blasts. Other municipalities use approaches such as hosting strategic planning public meetings (Plainfield), focus groups (Geneva), and neighborhood/ward meetings (Springfield); offering tours of city streets and hiring a Latino ombudsperson to interact with the public (West Chicago); posting short videos about stormwater management on the village’s website, along with information about a stormwater advisory referendum, and including a comparison of costs of two potential revenue sources (Downers Grove); placing an information insert into the local newspaper six times per year including one insert that solicits requests for capital projects (Carbondale); speaking to community groups (East Peoria); and surveying residents (Geneva, Kewanee, and Lombard).

3. ESTABLISH A DEDICATED REVENUE SOURCE

Municipalities use a variety of revenue sources to finance capital projects, with the most common being property taxes, sales taxes, and water and sewer charges. Some governments use debt, while others seek to minimize the use of debt. Still, many interviewees stressed the importance of having one or more revenue sources specifically dedicated to capital. “We have a constant dialogue about the importance of keeping dedicated revenues,” acknowledged a Springfield official. “People can see the projects and see that we are doing what we said we would do . . . The revenues are dedicated by ordinance, which could be changed, but it makes it more difficult to use those funds elsewhere.”

One of the most frequently used dedicated revenues is the sales tax. A local sales tax can generate significant revenue, depending on the level of retail activity in a jurisdiction. However, sales tax revenues also can be sensitive to
downturns in the economy, as was seen during the Great Recession. Non-home rule municipalities have to obtain voter approval for a sales tax and are limited to a maximum rate of 1.0%; however, home rule municipalities can initiate a sales tax without a voter referendum and are not subject to a legal limit on the rate. Several interviewees indicated that they would like to see the state lower the home rule population threshold to 5,000 (it currently is 25,000).

Some non-home rule communities have had successful referendums. For example, Forest Park initiated a 0.5% sales tax in 2005 and added another 0.5% in 2014. “This was the only way to get streets and alleys done,” according to a local official. “It is paid largely by people coming to town to shop at a big box store and the auto dealers.”

Rockford also has had successful non-home rule sales tax referendums. “Our non-home rule sales tax has to be approved every five years,” noted a Rockford official. “The community recently approved it for the third time. We first pitched it with a five-year CIP, which allowed people to understand how the money would be spent. During the first reauthorization, we provided a document that said here is what we said we would do and here’s what we did. People can see that it is doing a lot of good. We also emphasized that out-of-town patrons of shops and restaurants should help pay for the roads that they use.”

Historically, many municipalities have used a portion of the water and sewer fees for capital purposes. GFOA recommends that governments adopt formal policies on charges and fees, including what types of factors should be considered when establishing the charges (e.g., affordability, inflation) and whether the government seeks to recover the full costs of providing the service. GFOA also recommends the charges should be reviewed and updated periodically (GFOA, 2014B).

Officials described various challenges associated with water or sewer fees. One official said that water and sewer fees in his municipality have been kept artificially low. An official from Geneva said that the city’s water fund had been struggling due to water conservation, which prompted the city to revise the rate structure. The water rate was previously based on consumption, but it now includes a monthly fee and a consumption charge. In a couple of cities, the city council voted for annual incremental increases in fees to avoid the resistance that is associated with large increases.

Stormwater management has become increasingly important in some municipalities. Downers Grove has instituted a stormwater utility fee, along
with a plan for investing in stormwater capital improvements. There has been some discussion about whether the charge should be replaced with property tax revenues. Another official said that his community discussed a stormwater fee but that the city council decided not to put it in place due to concerns that large retailers with lots of impervious surfaces might leave the community.

Some municipalities have decided to use their state-shared motor fuel tax revenues solely for capital, while others use it for operations or both capital and operations. Some home rule municipalities have imposed a separate local motor fuel tax to fund capital projects. Among the officials interviewed for this study, the local MFT rate ranged from two to five cents.

Other revenue sources that were identified by some interviewees as being dedicated to capital included telecommunications taxes, food and beverage taxes, utility taxes, video gambling revenue, casino revenue, fire/ambulance fees, and dispatch service fees.

4. ESTABLISH CAPITAL REPLACEMENT FUNDS

Some municipalities use a capital replacement fund for fleet and equipment. A typical structure is for the departments that use the fleet and equipment to pay a fee that is designed to generate funds for the maintenance and future replacement of the vehicle or equipment. This system is often operated through an internal service fund, which is used to accumulate the funds. Capital replacement funds also can be used for other types of capital, such as information technology or facilities.

A capital replacement fund represents a systematic way for a government to save for the future replacement of capital assets. Charging a fee for the use of the asset also helps identify the true cost of services provided by the operating departments. However, several officials said their governments had difficulties managing the replacement funds during the Great Recession. The government spent some of the capital funds for other purposes or deferred contributions to the fund in order to pay for operating expenditures.

5. GRADUALLY BUILD UP CAPITAL RESERVES TO EASE THE BURDEN OF NEEDED FUTURE INVESTMENTS

Some municipalities build cash reserves to be used for capital purposes. This can be a more conservative approach than financing through debt. However, in some cases, the size of a capital project or the emergency nature of a project may necessitate borrowing for at least a portion of the project costs (Marlowe,
Capital Budgeting Strategies in Good Times . . . and Bad

Rivenbark, & Vogt, 2009). Also, like capital replacement funds, capital reserve funds may be vulnerable during economic downturns.

Capital reserves are typically set up as a separate fund and are specified to be used for a particular project, type of function (e.g., transportation), or for capital in general. For example, Lombard has separate reserve funds for fleet, technology, and facilities. Several officials said their municipality has been setting aside funds for a major water or sewer project. An official from Sterling said that the city has been putting $400,000 to $500,000 per year into the sewer fund for the future replacement of a sewer plant. He added the city now has about $10 million of the estimated $30 million costs and will likely use bonds for the remainder. The City of West Chicago, for another example, has been saving funds for a water tower.

**CONCLUSION**

Municipal officials must balance the need for capital funding with operational needs and a desire to keep taxes and user charges at reasonable levels. Such a “balancing act”, however, is more difficult in the wake of the Great Recession and the worsening fiscal situation of the State of Illinois.

Collectively, however, municipal governments in the state have made considerable progress in adopting strategies to deal with looming capital-investment deficits. This includes adopting such “best practices” as the creation of integrated multi-year capital improvement plans and seeking input from and educating the public. Municipal officials also are implementing new funding strategies, such as designating particular revenues for capital and establishing capital replacement funds and capital reserves.

The uncertainty facing the state government nonetheless heightens the need for municipal officials to be prudent in their budgeting. Local governments need to be fiscally solvent, which includes the ability to pay bills as they become due, but they also need to demonstrate “service solvency,” i.e., the ability to provide the level and quality of services needed to ensure the general health and welfare of the community (Groves, Godsey, & Shulman, 1981).

A notable trend in budgeting is placing more emphasis on results rather than focusing primarily on the size of monetary allocations (Osborne and Hutchinson, 2004). Ideally, that would be done through a community planning process that results in a comprehensive plan that develops the community’s vision for the future and a strategic plan that identifies goals and strategies.
Those plans can be used to guide the development of a multi-year integrated capital improvement plan (GFOA, 2008).

The planning process also needs to include the development of financial policies, which can promote long-term and strategic thinking (GFOA, 2015). Capital budgeting strategies can address items such as the definition of capital, how capital will be financed (including when debt is allowed and what levels of debt are allowable), and key provisions of the capital planning and budgeting process.

Moline stands out for having a financial plan that addresses these issues (Table 3). The city maintains a 90-day undesignated fund balance reserve in the General Fund to ensure an adequate cash flow cushion against the volatility in local sales tax revenues. It seeks to increase the annual growth of expenditures in the CIP in accordance with the consumer price index.

<table>
<thead>
<tr>
<th>TABLE 3</th>
<th>Sample items from the City of Moline’s Long-Term Financial Plan</th>
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<tbody>
<tr>
<td>Maintain Undesignated Fund Balance</td>
<td>Establish and maintain a 90-day undesignated fund balance reserve in the General Fund to ensure an adequate cash flow cushion against the volatility of the amount of local sales tax revenues generated from retail sales caused by uncontrollable state and national economic conditions.</td>
</tr>
<tr>
<td>Fund Capital Improvements</td>
<td>Provided that the 90-day fund balance target is satisfied, use any excess or unexpected revenues to fund capital improvements, particularly street and alley improvements as a priority. Such revenues shall not be expended on personnel or other operating costs.</td>
</tr>
<tr>
<td>Increase Expenditures Proportionately with CPI</td>
<td>Increase the annual growth of expenditures in the Capital Improvement Program by the same increase as the consumer price index. This will ensure the continued re-investment of municipal funds into public infrastructure needs.</td>
</tr>
<tr>
<td>Assess Financial Health by Condition of Capital Assets</td>
<td>Recognize the condition of the city’s capital assets, particularly the quality of its streets, alleys, water mains, sanitary sewer lines and storm water drainage systems as an indicator of whether the city’s financial health is improving or deteriorating.</td>
</tr>
</tbody>
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Through enhanced capital planning, continual communication with elected officials and the public, and the development of prudent financial policies, municipal governments can chart a course to meet their capital-investment needs during both good times and bad.

_Beverly Bunch is Professor in the Department of Public Administration and in the Center for State Policy and Leadership at the University of Illinois Springfield. She has worked for the Government Finance Officers Association (GFOA), the City of San Antonio budget office, and the Texas Bond Review Board. The author would like to thank the municipal officials in Illinois who participated in interviews for this research._

1 The 2010 municipalities were selected based on a convenience sample and the 2016 interviewees were selected based on a random sample of Illinois municipalities with populations of 5,000 or more. The random sample was supplemented with additional interviews to obtain more regional representation.

2 Some Illinois municipalities do not have a multi-year CIP. In those communities, the elected officials will vote on proposed capital projects for the upcoming fiscal year.

**REFERENCES**


TAXES AND TRUST: LESSONS FOR LEADERS AS ILLINOIS’ CONSTITUTIONAL HOME RULE AUTHORITY APPROACHES ITS FIFTIETH YEAR

JOSEPH A. KEARNEY
CORRAL, KEARNEY & CHO, LLP

This briefing offers a summary of major political, policy and legal landmarks related to Home Rule in Illinois. It shows that the state’s 1970 constitution automatically conferred what are regarded as some of the broadest and strongest powers in the nation upon municipalities of more than 25,000 residents. As the 50th anniversary of Home Rule approaches, there has been appreciable scholarship on the topic. Most notably, though, are efforts – both successful and not – by communities lacking the population necessary for the automatic conferral of power to seek implementation of home rule through referenda. A few communities have even held successful referenda to opt out of home rule.

MICHIGAN - A CASE FOR HOME RULE

The City of Detroit, MI has become a national lightning rod in recent years as debate rages over its troubled public finances, management practices, and the prospect of municipal bankruptcy (Sheckford, 2016). The debates are often boiled down to bite-sized nuggets palatable to those on both sides of a policy issue. In a given week, some might cite Detroit as an example of mismanagement by public officials. Others might use it as a warning about what will happen in city “x” in state “y” if revenues and expenses are not brought into balance. In the midst of such declarations, it is not uncommon for observers to claim that a municipality is “on the road to Detroit” if expenditures are not decisively reduced. The media has been largely complicit in these representations, perhaps because, particularly in the age of the Internet, a dire headline linking a local town to Detroit’s name along with a stark photo of crumbling industrial infrastructure is bound to engender “clicks” (Dvorkin, 2016).

However, missing from these debates is a critical piece of the story: home rule, or, more accurately, a lack thereof in Michigan’s case. Michigan was one of the earliest adopters of home rule authority for its municipalities (Faulhauber,
However, in the late 1970s, when many municipalities in Illinois were beginning to enjoy their own strong home rule powers granted through the 1970 Illinois Constitution, Michiganders headed to the polls to severely limit the authority of their municipalities through a constitutional amendment (Kearney, 2014; Faulhauber, 2000). The Michigan amendment prohibited local governments from adding new (or increasing existing) taxes without voter approval and also required voter approval of any new debt (Faulhauber, 2000). Thus, while Michigan municipalities in theory retained constitutional home rule, they were denied some of the most important powers generally associated with home rule in many states throughout the country.

Arguments could be made that such a system encourages municipal leaders to “sell” to the populace every project that would require funding, either via bond or tax. In some respects, this is, of course, “democracy in action,” directly involving citizens in government business. For instance, resolving to develop a new city park, political leaders and administrators might hold a series of “town hall” meetings at which citizens could voice concerns ahead of a subsequent referendum where funding would be requested. However, parks and more discretionary expenditures aside, what if tax revenues were to dwindle to the point where residents have to choose, for instance, between funding the police department and funding the fire department? Or, purchasing needed fire trucks versus authorizing garbage pickup? Michigan cities like Detroit faced these types of conundrums in the wake of the 1978 vote that stripped its municipalities of the two arguably most important home rule powers (Kearney, 2014). Absent political will to raise taxes or otherwise generate revenue in the face of declining resources and tax base, Michigan municipalities have desperately turned to other means.

However, the Michigan Supreme Court has not sided with municipalities seeking to creatively raise funds through other mechanisms. For instance, that court has held that “usage fees” can be raised to a certain extent by Michigan municipalities without running afoul of their limited home rule authority (Bolt v. City of Lansing, 1998). The definition of a usage fee, however, can be narrow. In the Bolt case, the City of Lansing determined that the city’s stormwater infrastructure was not sufficient to meet the needs of residents and businesses and required both maintenance and upgrades (Bolt v. City of Lansing, 1998). Popular support at the time was insufficient to either raise taxes or float a bond to perform these tasks (Bolt v. City of Lansing, 1998). Convinced the work was necessary and likely familiar with home rule case law, city leaders levied what they termed a “stormwater usage fee” upon businesses that benefited from the
existing stormwater infrastructure (Bolt v. City of Lansing, 1998). A lawsuit was filed and the court ultimately held in the plaintiff’s favor, characterizing the funds collected by the City of Lansing through the usage fee program as taxes in disguise (Bolt v. City of Lansing, 1998).

THE RELATIONSHIP TO ILLINOIS

Why is any of this relevant for communities in Illinois? Many elected officials and staff in the state regard home rule as a good thing, because home rule cities, villages and towns face fewer obstacles to achieving progress than their non-home rule equivalents. However, in a fashion not dissimilar from Michigan and as will be discussed in detail later, voters in Illinois have, on a few occasions, voted to approve referenda that strips their local governments of home rule authority entirely. Likewise, a significant number of referenda have been held by communities not included within the initial constitutional grant. Some have been successful, but most have not.

Rhetoric such as “blank checks” and “trust” inevitably emerges in these referenda, with citizens sometimes questioning the motives of their elected government. Given the lack of political will in the state legislature at present, it is likely that subsequent efforts to gain—or maintain—home rule will be strictly local. Indeed, efforts this year to expand home rule to smaller communities have appeared to stall in Springfield as a joint resolution to that effect appears to have been placed in the Rules Committee (Illinois General Assembly, 2016).

HOME RULE IN ILLINOIS

The remainder of this briefing offers four findings supported by legal and policy research that can provide elected officials and managers with a brief overview of the development of home rule in Illinois, including some legal challenges to that power. The analysis below also provides readers with a review of ballot efforts to both strip and grant home rule authority in Illinois.

FINDING 1

Through a grant in the state constitution, Illinois home rule communities enjoy some of the strongest powers in the nation, as set forth by the constitution’s framers and largely upheld in the courts since 1970. However, municipal leaders and staff in communities that are currently not home rule must decide for themselves if pursuing home rule is an important goal.
Students of the history of home rule will certainly remember that, absent contrary legislation or constitutional provisions, municipalities are political subdivisions of the state and, as such, can only exercise the authority the state expressly grants to them. This came to be known in the United States as “Dillon’s Rule,” named after an Iowa Supreme Court justice known for taking a hard line against local units of government attempting to exercise authority in the 1800s (Eisenman and Friedman, 2004). Such onerous constraints were posed by Dillon’s Rule that the City of Chicago required an act of the legislature to enable its first zoning ordinance in 1923 (Schwieterman, 2006). The rule was so stringent that representatives of the City of Chicago were forced to travel to Springfield to lobby the legislature to allow the City to issue permits to peanut vendors on Navy Pier (LePawsky, 1935). A floor debate during the 1970 Constitutional Convention also referenced a similar “colorful” example of Chicago later having to approach the legislature to approve the shade of emergency lights to be procured for police squad cars (Lousin, 2010).

Dillon’s Rule applied to all Illinois municipalities until the drafters of the 1970 Illinois Constitution included broad and strong home rule provisions that applied immediately to communities of over 25,000 residents, and others by future referenda (Kearney, 2014). Dillon’s Rule continues to apply today to non-home rule communities, and even seemingly minor ordinance drafting can cause such a community to exceed its authority (Kearney, 2014). One of the most important sections of the home rule provision in the 1970 constitution reads,

“[a] home rule unit may exercise any power and perform any function pertaining to its government and affairs including, but not limited to, the power to regulate for the protection of the public health, safety, morals and welfare; to license; to tax; and to incur debt., (Ill. Const. of 1970, art. VII § 6(a)).

The provision is remarkably blunt and brief, given the significant power it transfers to municipalities. However, since the constitution’s ratification, the home rule powers granted in the constitution have been roundly litigated, with courts interpreting everything from “pertaining to [a municipality’s] affairs” to whether a municipal enactment was legally a “tax” or not (and, conversely if a tax was “legal” or not). In the vast majority of these cases, the courts, including the Illinois Supreme Court, have been clear: the framers of the Illinois Constitution intended home rule powers to be broad and strong (Scadron v. City of Des Plaines, 1992).
Yet, it is important to note that powers granted to municipalities are not without limitation. The constitution also provides that the state may at any time preempt a municipality’s reach on any issue, provided that this preemption is express and clear in the legislation itself (City of Chicago v. Stubhub!, Inc., 2011). That said, the constitution also provides that preemption of a municipal tax must pass with a supermajority of three-fifths of the legislature (Ill. Const. art. VII. § 6). Given the political deadlock today, it is safe to assume that most municipal taxes remain safe for the near future.

FINDING 2

The fear of new taxes and resident tax burden can prevent communities from gaining home rule. Historically, perception of abuse of home rule taxation power has led several communities to vote to rescind home rule, though these have been isolated cases.

As can be seen in Figure 1, below, the number of communities with home rule generally grew at an appreciable clip during the first four decades of home rule’s existence in Illinois. Interestingly, a record 49 communities became home rule

**FIGURE 1**
Number of Communities in Illinois Gaining Home Rule by Decade

![Graph showing number of communities gaining home rule by decade](source: Illinois Secretary of State (2012); Swanson (2015))
during the decade of 2000-2010. A further analysis of Illinois Secretary of State data shows that 75% of these occurred between 2000-2007, which speaks to both new municipalities exceeding 25,000 residents due to population shifts, as well as others seeking to resolve challenges related to that growth, along with land use issues and intergovernmental agreements (Illinois Secretary of State, 2012). Likewise, growth in home rule status appeared to cool during the recessionary period of 2008-2010 (Illinois Secretary of State, 2012).

During the initial burst of automatic home rule grants and subsequent referenda in the 1970s, excitement about new home rule powers greatly outweighed distrust (Banovetz, 1983). During that timeframe, in fact, 88 communities of less than 25,000 residents held home rule referenda and 60% of those resulted in home rule status (Banovetz, 1983). Illinois, however, was not immune to the undercurrent of government mistrust and dissatisfaction with taxes. During the late 1970s and early 1980s, so-called “Taxpayer Revolts” began to brew around the country (Buchanan, 1979). Citizen groups such as National Taxpayers United of Illinois (NTUI), located for many years in the Chicago suburb of Berwyn, began in the late 1970s to advocate throughout the state not only against higher taxes, but also against home rule (Gorman, 1979). Calling it “home ruin,” the founder of that organization would regularly ask citizens of both home rule and non-home rule communities whether they could “trust” elected officials with the “blank check” represented by home rule powers (Gorman, 1979).

Efforts like those of NTUI enjoyed early success in Illinois, causing citizens from four municipalities to petition, through a ballot initiative, to formally rescind home rule status—Lisle (1977), Villa Park (1980), Lombard (1981) and Rockford (1983) (Banovetz, 2002). Then the second-largest municipality in Illinois, Rockford’s home rule rescission raised perhaps the most concern out of the four in municipal circles (Banovetz, 1983). Though its population at that time was nearly 140,000, activists were only required to gather 10,800 signatures to get the measure on the ballot (Biondo, 2013). It is not hard to imagine a voter with even an average aversion to additional taxes easily voting for such a provision, particularly if it is presented in a vacuum with no warnings of what might occur in several years or decades time. Quantification of any negative externalities affiliated with Rockford’s vote to date would probably require an intensive study, as would the outcome of any policy measure. However, a foreshadowing of the challenges which lay ahead for Rockford was perhaps felt by the city’s already non-home rule school district the following year. A Chicago Tribune article at the time noted that Rockford schools faced
a complete shutdown of extracurricular activities, absent the passage of a tax increase referendum (Papajohn, 1984). One resident interviewed stated, “it doesn't take much to knock down a tax around here,” (Papajohn, 1984).

In Rockford’s case, the home rule negation ballot initiative also coincided with a recent doubling of a tax that was unpopular in some circles (Little, 1984). Lisle voters, on the other hand, voted out home rule the year after the village board approved construction of a new city hall building, despite many citizens believing another city structure could be renovated for less money (Cherry, 1988). In both cases, though there certainly were national policy forces at play, the elected officials were unable to make their cases in the political arena.

The experiences of Lisle and Rockford show that voters have the capacity to punish elected officials for a prior unpopular action (particularly those involving finances) by negating home rule, under the arguably misguided principle that each citizen, and not the officials they elect, is best situated to decide every issue facing the municipality. This is in essence the “trust” idea set forth by NTUI and other like-minded organizations discussed above. In reality, as every elected official and municipal staff member knows, the average citizen has neither the time nor the inclination to participate in every decision that a home rule community makes on a day-to-day basis. Thus, a good argument can be made that a vote against home rule is a vote against efficiency and efficacy. However, there is nothing in the constitution to prohibit a municipality from regaining home rule after having voting against it (Ill. Const. art. VI, § 6).

FINDING 3

Communication with stakeholders is critical for communities weighing the possibility of pursuing home rule status through a voter referendum, and once secured, home rule can offer officials and administrators powerful tools to tackle large infrastructure and budget challenges.

An excellent example of this can be found in the municipality of Highwood, a northern suburb of Chicago located in Lake County. Highwood’s village manager noted recently that his municipality held two home rule referenda over the past 20 years—one in 1997 and the latter in 2006 (Coren, 2016). The first was unsuccessful because, as the mayor at the time noted, officials wrongly believed that the need for home rule was a “no-brainer” (Coren, 2016). Officials and administrators did not make this mistake the second time, holding community meetings and interviewing business owners to communicate what home rule represented for the community (Coren, 2016). Also, all of the
surrounding municipalities had home rule at the time and had sales tax rates higher than that of Highwood’s, further strengthening the case (Coren, 2016). Residents were sold in part by the fact that a potential home rule sales tax would disproportionately impact visitors to the town’s many noted restaurants, broadening the tax base (Coren, 2016). The village manager noted that Highwood successfully used home rule last year to fill a budget hole related to the operations of the fire department and also to issue bonds for a historic $5 million capital project initiative to replace 100-year-old road infrastructure.

Communication also featured prominently into more recent home rule referenda. Of the three ballot initiatives to institute home rule in 2015, for instance, only one was successful, perhaps in part because it was tied to a critical issue—water (Swanson, 2015). Shorewood officials communicated to voters that underground reservoirs from which residents drew their well water were becoming depleted. The officials launched a campaign for home rule, stating that with home rule, they could generate enough tax revenue to fund a pipeline to receive Lake Michigan water from a neighboring community. The referendum passed and the community began efforts to fund the pipeline almost immediately (Swanson, 2015). The Village of McLean, however, was unsuccessful in tying its referendum to the replacement of an aging water tower (Village of McLean, 2015).

Two other referenda were pushed by officials seeking to implement a “crime free housing” ordinance to better hold landlords accountable for criminal behavior occurring on their property (Bustos, 2015). Although home rule certainly would allow a community to pass such an ordinance (provided that the state has not preempted the area, as discussed earlier), it is possible that voters were cautious about the other powers—particularly taxation—that home rule granted. Another factor may be opposition from Illinois REALTORS®, an organization which lobbies on behalf of realtors throughout the state, and which generally opposes home rule due to an opposition to the raising of transfer taxes made possible under home rule (Sievers, 2015). See Table 1, for a brief accounting of statistics behind the 2015 home rule referenda throughout the state. Truly, a “charm offensive” is required for municipalities seeking home rule status, as evidenced by the efforts of officials in Homer Glen, who were able to maintain home rule status in the face of an automatic referendum which occurred after the municipality’s population dropped below 25,000 (Reilly, 2012).
CONCLUSION

As this briefing shows, it is important for elected officials and staff at municipalities within the state to be aware of some of the forces that can conspire both for and against home rule. History reminds us that, at the end of the day, it is a highly political issue, and rightly so: home rule is one of the strongest tools a municipality can wield in the pursuit of its objectives on behalf of its residents.

Despite the severe hardship faced by many in Detroit, it is perhaps too simplistic to conclude that this city could have avoided bankruptcy if it had not been stripped years ago of certain home rule powers. However, at a time when a significant portion of the electorate feels disaffected with the state’s affairs, and a legislature that has ground to a halt, it is certain that many home

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**TABLE 1**

Results of 2015 Home Rule Referenda in Illinois

<table>
<thead>
<tr>
<th>MUNICIPALITY</th>
<th>POPULATION (2010)</th>
<th>COUNTY</th>
<th>EXAMPLES OF REFERENDUM ISSUES</th>
<th>RESULT IN 2015</th>
<th>OPPOSED BY ILLINOIS REALTORS?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broadview</td>
<td>7,937</td>
<td>Cook</td>
<td>Taxes</td>
<td>Fail</td>
<td>Y</td>
</tr>
<tr>
<td>McLean</td>
<td>830</td>
<td>McLean</td>
<td>New water tower; new funding sources to offset sewer and water costs</td>
<td>Fail</td>
<td>Y</td>
</tr>
<tr>
<td>New Baden</td>
<td>3360</td>
<td>Clinton</td>
<td>Crime free housing ordinance</td>
<td>Fail</td>
<td>Y</td>
</tr>
<tr>
<td>Shiloh</td>
<td>12,455</td>
<td>St. Clair</td>
<td>Crime free housing ordinance; food and beverage tax</td>
<td>Fail</td>
<td>Y</td>
</tr>
<tr>
<td>Shorewood</td>
<td>15,615</td>
<td>Will</td>
<td>Infrastructure for provision of Lake Michigan water</td>
<td>Pass</td>
<td>N</td>
</tr>
</tbody>
</table>

*Sources: Illinois Board of Elections, Bustos, supra, Sievers, supra, Village of McLean*
rule communities shudder to think what might be if they had to bring every decision to a ballot referendum, or to Springfield for approval.

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MEASURING THE STRENGTH OF ILLINOIS’ MUNICIPAL RESERVES: DO COMMUNITIES HAVE THE FLEXIBILITY TO WRESTLE WITH UNFORESEEN EVENTS?

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CENTER FOR GOVERNMENTAL STUDIES AT NORTHERN ILLINOIS UNIVERSITY

This study explores the fiscal condition of Illinois communities by evaluating levels of unrestricted net assets for municipalities with 10,000 to 50,000 residents that issue financial reports using generally-accepted accounting principles. Recognizing that reserves available for discretionary use are critical to dealing with unforeseen events and responding to unmet needs, it uses multivariate analysis to identify relationships between poverty rates, Home Rule status, the structure of government, and other variables on reserve levels. The report also outlines important steps communities can take to bring reserves to more financially healthy levels.

INTRODUCTION

The 2008-09 recession affected Illinois cities in profound ways, resulting in losses in employment, slow growth or shrinking retail sales taxes, and lower housing values. A sharp downturn in economic activity reduced assessed values and ultimately spurred unwelcome reductions in property tax revenues. Over a relatively short period, higher unemployment coupled with escalated demands for public services put upward pressure on costs that in many instances had to be financed from a shrinking base of revenues. Adding to the stress, the State of Illinois was operating without a truly balanced budget for many years and went for more than 18 months without a budget at all, which created additional uncertainty in revenues. At this writing, the state is working with only a short-term budget.

The adverse economic and fiscal changes have not affected all municipalities to an equal extent. Illinois has many local governments that are not only fiscally healthy but have high to very high levels of discretionary reserves. These communities have the capacity to do more than support necessary capital investments (capital assets net of accumulated depreciation and related debt). Some have also set aside (restricted) reserves to complete designated projects and have funds available to cover unforeseen events such as another economic downturn, natural disasters, and new initiatives. It is not uncommon for such communities to invest in value-added activities (i.e., training, updating assets, etc.) that can bolster the quality of life.
There is growing literature on the financial condition of local governments (Hendrick, 2004; Hendrick & Crosby, 2013; Kloha, Weissert & Klein, 2005; Lipnick, Rattner & Ebrahim, 1999; Maher, 2013; Rivenbark, Roenigk & Allison, 2009; Sohl, Peddle, Wood & Kuhn, 2009; Stone, Singla, Comeaux & Kirschner, 2015; Wang, Dennis & Tu, 2007). Nevertheless, the literature lacks detailed assessments of unrestricted reserves, which provide management with added flexibility to influence or withstand economic changes. Furthermore, prior research generally considers reserve levels (“indicators”) in either a disaggregated manner or within scales (i.e., Brown's 10-point scale) and focus heavily on the general fund reserves. Some local governments in Illinois have already begun reporting pension liabilities in their financial statements and, therefore, provide a holistic view of total liabilities contributing to the surplus or deficit in their unrestricted net position. Many others, however, do not, which makes research difficult.

This analysis takes a preliminary step to identify determinants of discretionary reserves across Illinois municipalities using full accrual-based data (see Stone, et al., 2016, p. 106, for an overview of this approach). The premise of this analysis is that municipalities should have at least some minimum amount of discretionary reserves so that they have added flexibility in operating and investing or combating contingencies. The higher the unrestricted reserves, the more financially healthy the municipality appears to be (Maher, 2013; Lipnick, Rattner & Ebrahim, 1999).

While one aspect of fiscal condition is assessment, we recognize that no single indicator can be used in isolation to truly determine fiscal condition (Kloha, et al., 2005; Maher, 2013; Mead, 2006; Hendrick, 2013; Sohl, et al., 2009; & Wang, et al., 2007). Furthermore, a single year-end assessment of financial statements is not sufficient to determine a municipality’s overall fiscal situation (Lipnick, et al., 1999). There is a wide spectrum of factors to consider, including revenue and expense trends as well as composition, liquidity, debt, management practices, timing of adopting the new pension reporting requirements, the economic environment, and other factors. However, there is one common indicator that is regularly assessed: reserves.

This paper uses a parsimonious approach to analyze reserves, particularly unrestricted reserves, across Illinois municipalities. It begins by examining the 2015 fiscal year’s level of discretionary reserves for those small to mid-size Illinois municipalities (populations of 10,000 - 50,000) reporting to the Illinois Office of the Comptroller using generally accepted accounting principles (GAAP).
These communities are important to study since they accurately present their unrestricted net position (UNP) to deal with contingencies. Second, a multivariate analysis identifies demographic, economic, and management factors correlated with the level of discretionary reserves available. Third, the findings from the analyses are used to highlight a need for additional research and to provide insights that can enhance the fiscal condition of municipalities across the state.

**DISCRETIONARY RESERVES – AN IMPORTANT COMPONENT OF MEASURING FISCAL CONDITION**

The Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*, revised the manner in which local governments should report fund balances. Consequently, in 2009 the Government Finance Officers Association (GFOA) also revised its best practices for maintaining levels of reserves. The former best practice focused on *unreserved fund balances* in the General Fund, whereas the new recommendation focuses on the newly classified *unrestricted fund balance* (or the sum of the committed fund balance, assigned fund balance, and the unassigned fund balance) still within the General Fund, and preferably some entities may need to focus more on the *unassigned* portion of the *unrestricted fund balance* (Gauthier, 2009).

By FY 2015, many local governments in Illinois, reporting finances in compliance with accounting principles generally accepted in the U.S., were required to recognize and disclose liabilities (payables) to a defined benefit pension plan, among other changes to pension reporting. Thus, taxpayers are beginning to see the impacts of reserves after all liabilities are considered.

**DATA AND METHODS**

Unrestricted net position balances were standardized by dividing the UNP by the annual average months’ worth of expenses (total expenses divided by 12 months) for FY 2015, in each local government with a population between 10,000 and 50,000 that reported finances using GAAP. The assumption is that a municipality should be able to access at least two months’ worth of controllable expenses in the event of another recession or an unforeseen event and still pay all obligations.

Going forward, the number of months’ worth of expenses in the UNP is referred to as “levels of discretionary reserves” or simply “levels of reserves”.

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The computed levels of reserves were then compared to variables pertaining to
the economy (change in population and assessed values), fiscal environment
(property taxes per capita), and operating environment (form of government
and government fragmentation). The regression equation is associated with
19.9% of the variation in UNP levels, which is statistically significant using
the F-Ratio. However, the significance of the intercept indicates there are
other factors to be considered in future research. Please refer to Table 1 for a
summary of the variables considered.

**TABLE 1**
Variables Considered and Relationship to Unrestricted Net Position

<table>
<thead>
<tr>
<th>VARIABLE</th>
<th>SOURCE</th>
<th>RELATIONSHIP TO UNP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Months’ Worth of Expenses in Unrestricted Net Position (UNP)</td>
<td>Calculated based on 2015 CAFRs</td>
<td>-</td>
</tr>
<tr>
<td>% Change in EAV, 2009-2014</td>
<td>Illinois Dept. of Revenue, Property Tax Statistics</td>
<td>Not Significant</td>
</tr>
<tr>
<td>2014 State Sales Tax Revenue Per Capita</td>
<td>Illinois Dept. of Revenue, Sales Tax Statistics</td>
<td>Not Significant</td>
</tr>
<tr>
<td>2013 City Manager or Administrator</td>
<td>Documents and websites from each municipality</td>
<td>Not Significant</td>
</tr>
<tr>
<td>City Employment Scale</td>
<td>Calculated from U.S. Census Bureau (USCB), 2012 Census of Gov’t Employees and Payroll</td>
<td>Not Significant</td>
</tr>
<tr>
<td>County-level Government Structure Index</td>
<td>Calculated: USCB, 2012 Census of Governments</td>
<td>Significant -Negative</td>
</tr>
<tr>
<td>Years With Home Rule Status</td>
<td>Office of the Illinois Secretary of State</td>
<td>Significant -Negative</td>
</tr>
<tr>
<td>2014 % Below Poverty</td>
<td>USCB, 2014 American Community Survey 5-Year Data.</td>
<td>Significant -Negative</td>
</tr>
</tbody>
</table>

** Significant 5% confidence level; * Significant 10% confidence level
Additional analysis was also conducted to evaluate the effects of Home Rule (HR). Figure 1 summarizes the 159 municipalities included in the analysis, subdivided by HR versus non-HR and grouped by ranges of reserves (number of months’ worth of expenses in discretionary reserves). For instance, the first bar to the left reflects the total number of municipalities (51, or 32.1%) in our sample that have no (zero or negative amounts) months’ worth of expenses reserved in their UNP. Also, a larger portion of municipalities with no reserves have HR status (33 of the 51).

**FIGURE 1**
Size of Reserves by Home Rule vs. Non-Home Rule Status
*Number of Municipalities with Populations 10,000-50,000*

![Figure 1: Size of Reserves by Home Rule vs. Non-Home Rule Status](source)

Source: Compiled by authors using data from local government 2015 Comprehensive Annual Financial Reports (CAFRs).

More than half (57.3%) of the sample municipalities maintain moderate or better levels of UNP. Another 17 cities (10.7%) had positive balances, but these were below the desired two-month mark so are classified as low in subsequent analyses. Municipalities below this level may need to reconsider their net position, but since the measure is for only one year, it may not accurately represent their reserve position. Also, slightly more than half (55%) of the municipalities have HR status and had a less favorable position in the low-to-no ranges as well as the high-to-very high ranges.
FACTORS ACCOUNTING FOR DIFFERENCES IN DISCRETIONARY RESERVES

A cursory review of the data suggests that regional differences in socioeconomic conditions may be partially responsible for the differences in fiscal outcomes. Municipalities in relatively prosperous regions may fair better than those with long-term declines in population and employment. Likewise, differences may be explained by the internal structure of governments, such as whether the entity has a full-time manager or relies primarily on part-time elected personnel, perhaps with limited financial experience.

A variety of idiosyncratic factors also appear to come into play. For instance, one municipality incurred a $15 million loss to its reserves by settling a lawsuit, yet even after accounting for that charge, its UNP remained negative. Another municipality, which has the highest level of reserves observed in this sample, accounts for an airport in its financials. These issues can affect reserve levels in ways unique to each community.

Such issues are explored below using multiple regression analysis that evaluates the factors affecting UNP in a sample of municipalities, with the caveat that the results should be revisited once all municipalities have had a chance to adopt the new pension and other post-employment benefit (OPEB) reporting requirements. The discussion is not intended to evaluate the fiscal position of any specific community or to criticize management approaches. Rather, its goal is to shed light on differences between cities with high levels of reserves and those that could face difficulties when an adverse economic or natural situation occurs. In the regression model, the number of months’ worth of expenses reserved in savings is the dependent variable. Table 1 lists the variables used in the regression and their observed relationship to UNP. The regression results appear in the Appendix (Table 2).

The results show that increased populations and higher property tax burdens are related to lower fiscal reserves. One might expect a municipality’s economic base to be crucial in explaining fiscal health due to the fact that business closings or job reductions can shrink the tax base. High unemployment can also create upward pressure for government expenditures on services. Several variables may account for these factors. Nevertheless, the results show that neither the change in the number unemployed (between 2000 - 2009) nor change in per capita income (between 2009 - 2014) are statistically related to levels of UNP. Nor are changes in equalized assessed valuations (2009 - 2014), which initially were thought to reflect declining revenue-raising powers. However,
population change (2000 - 2010) and the property tax burden (property tax revenue per capita) are significantly related, in a negative way, to UNP. The reasons for this latter finding are complex: although Illinois’ population has declined as a whole, some communities within the state have gained residents (from other Illinois communities). Increased populations, in these cases, may have prompted more investment in infrastructure and capital assets, or adding services and programs funded in part by increased debt, property taxes, or drawing down reserves.

A higher concentration of poverty is also found to have a negative impact on reserves. Cities with relatively high concentrations of residents facing poverty are likely to provide additional services, despite having a lower tax base. A high proportion of these observations came from Cook County (Figure 2).

**FIGURE 2**

Average Unrestricted Net Position by Level of Poverty Concentration

*In Months of Reserve, Sorted by Quartile*

![Bar chart showing average unrestricted net position by level of poverty concentration in months of reserve, sorted by quartile. The chart shows a decrease in net position from highest to lowest poverty concentration.](chart-image)

*Source: Compiled by authors using data from local government financial statements and data from the U.S. Census Bureau, 2014 American Community Survey 5-Year Estimates.*

Municipalities located within a county with a high number of units of government are associated with lower levels of unrestricted reserves. This conclusion was drawn by constructing a Herfindahl Index measure of government concentration, where a higher index value reflects more
governmental fragmentation (i.e., a larger number of local governments) in the county. Governmental fragmentation is found to be negatively correlated with UNP, indicating that municipalities where more government units provide services had lower reserve balances. This finding may lend credence to the view that a local government’s ability to operate within its fiscal means (or its choice to do so) is diminished when more units of government are operating. It is not known whether this result is due to affordability, management practices, or diffused transparency and accountability, but the relationship warrants further analysis. It suggests that the structure of governments in the county where a municipality is located may affect the costs of services in a significant way. On one hand, if other units of government, such as special districts and townships, deliver more services, it may relieve a municipal government of the need to cover those costs. At the same time, though, smaller governments may suffer from reduced economies of scale. Thus, one might expect a negative relationship between levels of UNP and governmental fragmentation.

Several findings related to these issues are noteworthy.

**Finding 1**

*Municipalities with Home Rule status are associated with lower levels of reserves.*

Past research on governmental fragmentation suggests HR authority minimizes the need to create additional units of local government because they are not bound by state-imposed limits on taxation and debt (Chicoine & Walzer, 1985). Because they have more flexibility in adjusting to changing economic conditions, HR municipalities might be anticipated to have a higher level of UNP, when everything else is held constant. Somewhat unexpectedly, HR municipalities (adjusted for number of years with HR) have statistically significant lower levels of UNP. Presumably, this position reflects municipalities responding with high levels of discretion to local priorities. Local priorities may have called for comparable management practices, regardless of the formal structure of management. The management expertise and resources within a city are also important to fiscal health because well-informed decision making can avoid serious problems later.

To evaluate this, a variable was developed with a designation of 0 if the municipality has neither an administrator nor manager; a 1 if it has an administrator but not a council-management government; and a 2 if it has a council-management form with a manager. This variable is, of course, an
imprecise estimate of management proficiency because neither capacity nor experience of the management team is measured. No statistically significant correlation was found between a council-manager government and levels of UNP. This finding suggests that local priorities and/or conditions are more important than the type of government used.

FINDING 2

Broadening a government’s scope of services tends to result in lower reserves, but the differences may be offset by other factors, such as declining populations and/or lower concentrations of poverty.

Scope of services is measured using an employment scale based on the 2012 Census of Government Employment and Payroll data. One point is assigned for each of 17 governmental functions (e.g., police, fire protection, libraries, highways, etc.) where a municipality has at least one full-time-equivalent employee. This variable is significantly and negatively correlated with level of reserves, but had no relationship after controlling for other factors in the regression analysis. Municipalities that deliver a broader range of services are expected to have lower reserves because they face additional current operating expenses and are exposed to greater risks of adverse events. Likewise, these municipalities face pressure to maintain current service levels during economic downturns, or at least minimize service reductions.

In the 2008–09 Recession, municipalities with broader service responsibilities may have borrowed or drawn down their reserves to fund current operations and to mitigate service reductions. Earlier, evidence was found to show that increases in population and higher concentrations of poverty tend to result in lower levels of reserves. Consideration of these variables could explain why the analysis shows that scope of services is less important. This may be especially true in areas with higher concentrations of vulnerable populations who depend on more expensive services – for example, public healthcare or public transportation versus bike-trail maintenance or brush-removal programs. Thus, the scope (number of different types) may be the same, but the cost of the package of services may be higher.

WHAT CAN WE LEARN FROM THESE RESULTS?

The findings described above provide useful insights for helping to understand why some municipalities have higher levels of discretionary reserves six years after the recession.
First, despite the deficiencies in reserves at some municipalities, more than half have UNP levels equal to more than two months’ worth of expenses, a level considered prudent. At the same time, 61% of the municipalities that have a negative level of UNP are located in Cook County. This finding is consistent with the work of Hendrick (2004), who found a high concentration of fiscally-strained municipalities in southern Cook County more than a decade ago. The current situation does not seem to be related to adverse changes in economic conditions such as unemployment, but could be related to poverty in large parts of the county.

Second, local conditions and priorities, as well as professional practices used by municipalities, tend to override the effects of the type of government. One reason for this may be that municipalities with low or no reserves and run by a council and manager may consider it essential to maintain local programs in spite of a poor economy. Conversely, municipalities with high levels of reserves, but without a council-manager form of government, may still have adopted professional practices despite not having that legal designation. Sohl (2012) found municipalities with higher levels of discretionary reserves were more likely to have a formal policy in writing pertaining to reserves. Further research pertaining to policies adopted with regards to unrestricted reserves would be beneficial.

Finally, in Home Rule municipalities, local leaders seem to have adjusted taxes and debt to reflect economic conditions, poverty, and other factors. Those with more severe conditions tend to maintain a lower level of UNP. This is especially true when there is a higher reliance on property taxes and more government fragmentation. The HR cities also had larger average decreases in Equalized Assessed Valuation (EAV), which helps explain their lower reserves. Nevertheless, there are exceptions. Some municipalities, in spite of a declining population and the lack of HR power, may have adjusted their budgets (i.e., cut costs) to allow for high reserves. Such communities could enjoy the benefits of greater revenue diversification or may employ other strategies not considered in the analysis.

SUGGESTIONS FOR FUTURE RESEARCH

Discussions about the fiscal condition of large cities such as Detroit and Chicago often raise the unsettling question about whether they can withstand another economic downturn or financial setback. The descriptive research in this article provides a preliminary assessment for understanding Illinois municipalities’
preparedness in terms of reserves for contingencies. The findings suggest that many mid-size Illinois municipalities appear to be in a solid financial position, but some clearly do not have enough reserves to weather a serious setback. The following concerns are raised from this research.

1. Financial information would be more useful if it were complete, timely, consistent with GAAP, and captured in a machine-readable format. The fiscal data used in this research was extracted manually from each municipality’s annual audit because it was not collected in a single data repository. Reserves should be monitored regularly and holistically with reliable and machine-readable information. In addition, not all local governments were current in their reporting or used GAAP; more than a dozen local governments had to be excluded from the dataset for these reasons. Illinois could work towards more timely reports, when required, and report on a GAAP basis where pension and OPEB liabilities are included as a component of the statement of net position. These are critical components of fiscal health.

2. Spatial analysis would be helpful to more fully understand the fiscal impacts of the many layers of government in Illinois. More sophisticated analyses using refined data are needed for serious generalizations or to suggest policies. For instance, governmental fragmentation is captured at the county level. Assessing the impact on a given municipality would be more accurate using the number of local governments overlapping with the municipality. This requires spatial analysis and was not feasible for this initial assessment of reserves.

3. Reevaluating levels of discretionary reserves once all municipalities have implemented the pension and OPEB reporting requirements would allow for a more thorough evaluation of the condition of Illinois cities. Ongoing monitoring of reserves in conjunction with the data presented here is necessary due to the variation in reporting pensions and OPEB. By FY 2016, the remaining municipalities should be reporting their net pension liabilities along with deferred outflows of resources in their government-wide financial statements. Yet, some may receive extensions so it will be important to reassess these findings beyond FY 2016. Also, the GASB’s required reporting for other post-employment benefits will impact local governments beginning in FY 2017 (some have already started to report these amounts within their financial statements as well).

4. Municipalities could benefit from clearer guidance on the levels of reserves that they should strive to maintain. The GFOA’s current recommended best practices for maintaining levels of reserves should be revisited and
adjusted, possibly to account for individual types of reserves (restricted versus unrestricted) as well as the size of the municipality and other factors such as economic indicators, revenue diversification, and types of services needed in that geographical area. We considered access to discretionary reserves as favorable for this assessment but recognize that some levels of discretionary reserves that are very high are not favorable. Very high levels of reserves could indicate taxpayers were either overcharged and/or did not receive services they were promised. More guidance is needed from the GFOA to help local governments determine what constitutes a healthy level of reserves, beyond the obvious that negative levels are unfavorable.

5. Conducting detailed comparative case studies would foster a more context-sensitive understanding of why some municipalities maintain higher reserves than others. Such case studies could illustrate the subtle role of municipal leadership and training as well as the technical factors that shape policy involving discretionary reserves. This research could also explore the relationships between HR, property taxes, and levels of reserves, as well as the relationship between governmental fragmentation and levels of reserves. The results would foster a greater understanding of why some communities plan for contingencies while others operate with dangerously low levels of reserves.

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1 Implementation of the new pension reporting was effective for fiscal years beginning after June 15, 2014, yet some municipalities adopted the new standard earlier than required.

2 Cities that did not report funds to the Office of the Comptroller using generally accepted accounting principles (GAAP), or those who received qualified or adverse audit opinions, were excluded from the analysis.

3 Gauthier states, “GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months [italics not in original] of regular general fund operating revenues or regular general fund operating expenditures.” Gauthier also states other funds, besides the general fund, are being explored as a component of the recommended minimum level of reserves.

4 Density of local governments within a given county.

5 For a more complete definition and methods of construction see www.businessdictionary.com/definition/Herfindahl-index.html.com/definition/Herfindahl-index.html.
The U.S. Census Bureau conducts a Census of Governments, but data for smaller municipalities is only available in five-year increments.

REFERENCES


## APPENDIX

### TABLE 2
Results of Multiple Regression Analysis

<table>
<thead>
<tr>
<th>VARIABLE</th>
<th>REGRESSION COEFFICIENT</th>
<th>STANDARDIZED COEFFICIENT</th>
<th>T-VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>28.47</td>
<td></td>
<td>2.99***</td>
</tr>
<tr>
<td>% Change in EAV, 2009-2014</td>
<td>0.00</td>
<td>0.00</td>
<td>0.04</td>
</tr>
<tr>
<td>2014 Sales Per Capita</td>
<td>0.00</td>
<td>0.04</td>
<td>0.45</td>
</tr>
<tr>
<td>2000-2009 % Change in Unemployed</td>
<td>0.01</td>
<td>0.07</td>
<td>0.78</td>
</tr>
<tr>
<td>City Manager or Administrator Present (Ordinal)</td>
<td>1.11</td>
<td>0.05</td>
<td>0.62</td>
</tr>
<tr>
<td>City Employment Scale (0-13, 1 point each for having 1+ FTE in 13 gov. functions)</td>
<td>-0.41</td>
<td>-0.10</td>
<td>-1.07</td>
</tr>
<tr>
<td>2014 Property Tax Revenue Per Capita</td>
<td>-0.01</td>
<td>-0.20</td>
<td>-2.20**</td>
</tr>
<tr>
<td>2012 County-Level Government Structure Index (1 is Most Fragmented)</td>
<td>-21.97</td>
<td>-0.20</td>
<td>-1.94*</td>
</tr>
<tr>
<td>Years of Home Rule Status</td>
<td>-0.08</td>
<td>-0.18</td>
<td>-1.91*</td>
</tr>
<tr>
<td>2000-2010 Population Change</td>
<td>-0.04</td>
<td>-0.18</td>
<td>-2.10**</td>
</tr>
<tr>
<td>2014 % Below Poverty</td>
<td>-0.22</td>
<td>-0.20</td>
<td>-2.23**</td>
</tr>
</tbody>
</table>

Observations: 159 Illinois municipalities with populations between 10,000 and 50,000. *=significant at 10% confidence level; **=significant at 5%; ***=significant at <1%. Adj. R-squared = .199, SEE = 8.003, F = 4.725***, all variables have VIFs below 2.0.
FRAMEWORKS FOR GROWTH: HOW LOCAL INSTITUTIONS AND STATE GOVERNANCE INFLUENCE ECONOMIC DEVELOPMENT POLICY

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This study explores how economic development policy is affected by the choice of “venue” in which decisions are made. Using case studies of four communities, it suggests that when the delegation of economic development responsibility increases within a municipality, such as from the elected council to an appointed commission, or when the state government does little to equalize resources, spending tends to be more heavily oriented toward providing targeted technical and financial assistance to businesses rather than general infrastructure and services. The study provides insights for officials to consider when developing policies for local economic development.

INTRODUCTION

Few challenges have grown more significant to local government in recent times than economic development. For the past 40 years, much of the economy has been deregulated and competition between communities has intensified. These and other shifts have left municipalities in need of new strategies to promote development.

This raises a series of questions. Should economic development focus on infrastructure and basic services, or on specialized assistance to prospective businesses? What should the community hope to achieve from its efforts? Should responsibilities for economic development reside with city council members or a non-elected authority?

Answering these questions is critical at a time when many municipal governments are suffering from reduced intergovernmental spending. Municipal governments must spend resources wisely, as cutbacks by both state and federal agencies have limited the “fiscal toolbox” available to local officials. Mistakes in economic development policy can fuel a backlash among voters, leaving long-range development plans to linger.
To help answer these questions, this study analyzes how the choice of “venue” in which economic development policies are created affects municipal policy. It asks whether shifting responsibility for policy decisions from a city council to a subcommittee or community development corporation will result in a long term shift in policy choices. Similarly, it explores whether the “rules of engagement” established by the state affect the policies chosen by cities. If a state has measured steps to pool resources or equalize spending across cities, for example, municipalities could be expected to set policies in vastly different ways than those in states with a more laissez-faire approach.

To explore these concepts, the study draws upon the author’s detailed case study analysis of four Midwestern cities: Hibbing and Ely, Minn., and Sterling and Rock Falls, Ill. Analysis of these communities – all of which have between 3,000 and 20,000 residents and are in rural areas relatively far from major cities – illustrates the many factors that affect community development decisions. The study develops hypotheses about the factors affecting development policy while drawing upon a wide body of scholarly research, including studies by Baumgartner & Jones (2009), Pagano (2003), and Pralle (2003).

The methodology behind these case studies includes interviews with community leaders and analysis of official records and local media materials. Members of city councils, mayors, boards and commissions handling economic development, as well as business leaders and former public officials, were among those interviewed, with some of the conversations occurring as far back as 2006. Each was asked to identify their priorities for their home community. In addition, high-priority projects were tracked from inception to completion or failure and analyzed with respect to funding, political support, partners (inside or outside local government), and speed and effectiveness of delivery.

The Minnesota communities provide a valuable contrast to the Illinois pair due to the higher level of centralization of policy in Minnesota. The State of Illinois shares significant resources with local government but does not allocate those resources based on need. While Illinois supports its cities with population-based sharing of income tax and point-of-origin-based sharing of sales and motor vehicle excise taxes, Minnesota emphasizes financial equalization through need-based municipal aid. Statewide, there is general purpose “Local Government Aid” in Minnesota, calculated on the basis of tax capacity. The effort to equalize resources is particularly pronounced in the Minneapolis-St. Paul metropolitan region and the northeastern iron-ore-producing region. This is due to Minnesota’s Fiscal Disparities Act, which redistributes 40% of
post-1971 growth in the commercial tax base from wealthier municipalities to poorer ones within these two regions.

Another noteworthy aspect in northeastern Minnesota is the degree to which economic development policy is centralized through the Iron Range Resources and Rehabilitation Board (IRRRB), a state agency created in 1941 under Governor Harold Stassen and funded through mining production taxes. This board manages a wide range of programs, ranging from economic development grants to school construction and infrastructure improvements.

Finally, the two states differ with respect to policy on Home Rule (HR), with Minnesota offering far fewer revenue-raising powers than Illinois. HR cities in Minnesota are weak compared to their Illinois counterparts, lacking even authority to levy sales tax after a successful local referendum, a power that non-HR communities in Illinois can freely exercise. In Minnesota, communities must first seek an act of the state legislature, and these taxes are typically time-limited. To date, only around 50 Minnesota cities and counties have attained this authority.¹

A key reason for studying how institutional arrangements affect economic development is that institutional reform can be inexpensive compared to the alternatives. Evidence is growing that some municipalities in Illinois are financially strained by the need to provide resources to compete for business development with other local governments. Many are highly aggressive and willing to offer generous subsidies to attract new businesses, sometimes in ways that are unproductive for a region as a whole. Moreover, there is growing political pressure in Illinois to promote greater tax revenue equalization, which, as is noted below, has significant consequences that policymakers need to understand.

The current system in Illinois clearly puts pressure on municipalities to maximize the impact of economic development, a situation that results in significant inter-city competition. The consequences of this can be expensive. Chicago Metropolitan Agency for Planning (CMAP, 2013), the federally designated metropolitan planning organization for northeastern Illinois, has noted that, while such competition can foster economic development resources, it puts local governments in a weak bargaining position with private businesses. This can lead to municipalities getting into “bidding wars” for even relatively small developments. Communities in states that work to equalize resources, one might expect, engage in fewer or less vigorous bidding wars.
The competition between municipalities, as well as between states, is playing out at a national level. A web-interactive study by *The New York Times* released in 2012, titled “United States of Subsidies,” concludes that local governments in this country spend approximately $80 billion a year on economic development subsidies. This is compared to a total of $20 billion spent by all countries in the European Union, whose rules limit the scope for economic development funding and require substantial developer impact fees, often to upgrade existing infrastructure (Thomas, 2011). Thus, economic development accounts for nine percent of all U.S. local government spending, a percentage that puts Illinois near the national average. In Minnesota, spending on economic development averages a mere five percent.

Another factor that affects local policy is how municipalities assign responsibility for decisions within their communities. Sterling and Hibbing have arrangements in which significant economic development policymaking occurs away from the respective city councils. Sterling channels much of its activity through a semi-private development corporation. Hibbing does so through the community’s Economic Development Authority, whose seven-member board includes only three elected officials. In contrast, much of the power for decision making resides at a city council level in Ely and Rock Falls.

**LITERATURE REVIEW**

Before turning to the case studies, it is useful to review the expanding literature on the topic. As this research notes, economic development policy has changed sharply from 30 years ago, when policy was often dominated by the pursuit of big manufacturers through policies often described by critics as “smokestack chasing” (Eisinger, 1988). Such policy has now been replaced by more diverse strategies that include such mechanisms as property tax abatement, tax increment financing, and site-specific infrastructure spending.

Despite all the change, one thing remains constant. The U.S. political system, with its orientation toward federalism, emphasizes a widespread devolution of authority to local government. This framework leaves local government vulnerable to the exit of businesses and allows companies (and individuals) to relocate to lower-tax, lower-cost jurisdictions (Peterson, 1995).

The literature suggests that the more a community relies on locally generated funding sources (rather than the state), the pressure is greater to seek taxpaying businesses from outside the community and to retain existing businesses. CMAP’s observation of the Chicago area is not unique; businesses and
individuals across the country can easily “shop around” for the best deal, taking advantage of differing rules on wages, land use, and building permitting, as well as a highly mobile workforce (Sassen, 2001; Sassen, 2012). Eminent geographer David Harvey has even spoken of an “economic imperative” for local government to seek capital over social provision (Harvey, 1989). It adds up to a picture in which no city, no matter how large, appears to be safe from bidding wars. Small to medium-sized cities appear to be particularly vulnerable.

A paradox with economic development spending is that it is often politically unpopular when compared to spending on schools, streets and infrastructure, law enforcement, and other general-purpose activities. In some cases, voters even object when economic development policy is too successful, or promotes changes that occur too fast, as when it leads to more intense development than they desire. In areas that are growing rapidly, these disputes occur over issues such as gentrification and high-rise-friendly zoning (DeLeon, 1992). Communities that face an economy that is stagnant rather than flourishing (or overheating) can also face the burden of making their economic development policies popular among an often-skeptical populace. One of the most decisive drivers of development is having a widely shared vision of a community’s future among its leaders. Even apparently tax-poor and declining communities can deliver policy more effectively than their wealthier and faster-growing peers if their goals are clearly defined and shared (Pagano & Bowman, 1995). In contrast, disputes and divisions among community leaders can “kill” even the best-laid development plans. Communities may find themselves deadlocked over competing visions of economic development (Cook, 1993).

A notable implication of this is that efforts to explain economic development incentives based on rational choice theory from the field of economics may be prone to fail (Peters & Fisher, 2004). This can occur not only because many policies fail to meet their modeled or predicted targets, thereby promoting a citizen backlash, but also due to asymmetrical bargaining power between cash-strapped cities and private businesses, who play potential locations against one another. Research also shows that when state governments or regional institutions take steps to promote equality or interaction among municipalities, or provide other resources that support community and economic development, local governments gain a stronger bargaining position with the private sector when forging economic development deals (Savitch & Kantor, 2002). In poor communities, funds spent to equalize revenues can foster the so-called “flypaper
effect” in the form of higher local government spending (Deller, Maher & Lledo, 2007; Deller & Maher, 2005). Governments that might otherwise be weaker are also made stronger by the policy of regional governments to equalize this power, which is documented to be the case in the Minneapolis-St. Paul (Orfield, 1999) and Portland, Ore., areas.

Protecting financially weaker municipalities and enabling them to compete with their wealthier neighbors will also encourage them to focus on high-quality public services. More modest reform efforts pursued without changes in state law, such as city-county mergers, have, not surprisingly, less effect on changing the balance of power between communities (Savitch & Vogel, 2004).

**HYPOTHESES**

Against the backdrop of this theory, this section explores two hypotheses:

**HYPOTHESIS 1**

A decentralized governance structure that allocates state revenue simply based on population and the location of retail transactions, as is the case in Illinois, will generally lead to higher local spending for economic development than one which centralizes power and provides a safety net of state funding, as is the case in Minnesota.

When evaluating this hypothesis, it is important to keep in mind that citizens expect a certain level of services from government and have an expectation that their governments will meet these expectations in accordance with their preferences (Einstein & Kogan, 2016). When a city’s financial condition is stable and healthy, the incentive to use economic development as a means to expand the tax base is lower than in situations where a city’s financial situation is profoundly affected by the entry and exit of businesses.

**HYPOTHESIS 2**

At the local level, the relative unpopularity of direct business subsidies suggests that concentrating power in the city council will lessen expenditures on these subsidies. Conversely, delegating economic development policy away from an elected authority may tend to boost such subsidies, including direct financial and technical assistance to business.

Delegated power means a handoff of power to a board or commission that is only partially composed of city council members or has no council members
Funding for such a board and its activities may well be “firewalled” from the general fund. In the event that delegation goes as far as creating a separate development corporation, open meeting law requirements may not apply. Overall funding for loans or grants to private business would be expected to remain fairly stable from year to year.

When power over economic development policymaking is concentrated at the city council, policy is likely to be driven more by general citywide needs and by electoral politics. This will result, the hypothesis suggests, in less spending on direct assistance and focusing more heavily on building up community infrastructure and public services, and marketing the community as attractive to business for those reasons. Unpopular line items such as direct assistance to business tend not to be well funded, while popular line items such as public infrastructure and services tend to be better funded. In communities where power resides with the city council, there may be significant variations from year to year in spending on economic development and other items that are seen as nonessential to the city’s core mission.

**EVALUATING THE FOUR CASES**

As can be seen in Table 1, the case study encompasses one community in each “box” in the matrix, which classifies them on the basis of state policy and local delegation of responsibilities.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Municipal policymaking authority over economic development tends to be concentrated on city council</th>
<th>Significant economic development policy delegated to staff, board, commission and/or development corporation</th>
</tr>
</thead>
</table>

*Data source: US Census, American Community Survey 2010-2014*
HIBBING, MINN. (16,204)

Hibbing, part of the state’s mineral-rich Iron Range and with one of the region’s largest mines, offers an example of a community in a state where power tends to be centralized, and where a quasi-independent authority oversees development. Many years ago, the city council delegated economic development decision-making to Hibbing Economic Development Authority (HEDA), a seven-member board that includes only three elected officials, the mayor, city clerk, and one council member (Figure 1). This authority manages a revolving loan fund that is separate from the city’s general fund and directly assists local businesses with projects ranging from capital expenditure to worker training.

HEDA’s business model has changed little over decades despite several major shifts in the city’s politics, including the disqualification of the mayor and two council members in 1994 over open meeting law violations, and more recent shifts in voter preferences. A significant change occurred after the 2002 elections, which resulted in a city council composed heavily of members who favored an increased emphasis on assistance to business, including non-local as well as local firms. This was followed by an upset loss in 2010 of the bid for a third term by the mayor who had led the 2002 election’s emphasis on business.

Hibbing’s economic development spending in 2014 included a wide range of business subsidies to manufacturers and service industries alike, including vendors to the mining industry as well as site development. Spending reached $1.46 million, mostly for capital funds in business park TIF districts that benefited both long-term clients and new firms. This amount was almost 8.5 % of total current expenditures.

ELY, MINN. (3,405)

This community, also an Iron Range town with a rich tradition, is similarly affected by Minnesota’s centralized power. However, Ely has faced different economic challenges since mining left the area in 1967. Continuing IRRRB support is critical to this and other former iron-mining towns. But local policy frameworks are different: Unlike Hibbing, Ely concentrates most of the power for economic development in the city council, but this was not always this case. For many years, Ely delegated economic development policymaking authority (but not funding) to a regional joint powers board. In 2010, however, the city reactivated its statutory Economic Development Authority, with positions presently filled by the seven members of the city council.
FIGURE 1
Models of Economic Development in Four Case Study Communities

Upon revival of the EDA, Ely terminated the joint powers agreement and expanded an already ambitious program for infrastructure upgrades which in the past 15 years has seen an $11 million sewage plant (in partnership with state and federal authorities), $9 million spent on a public-works garage (in partnership with the county and with federal financial support), and a new library. This arrangement has also paid for a major renovation to City Hall and numerous improvements, often grant-assisted, to previously substandard streets and sewers. The city council’s policy on economic development has largely avoided targeted assistance and largely rested on ensuring property availability, both for lease and for new build-out – a policy that has stood as a consistent and popular goal through two decades of often-turbulent politics. Ely spent $244,000 on current economic development in 2014, approximately 6.4 percent of total current expenditures. Significantly, it covered the entire expenditure from rents and land sales.
ROCK FALLS, ILL. (9,087)

Rock Falls, in the productive agricultural region of north-central Illinois, serves as an example of a community in a state with decentralized powers but having a centralized local power arrangement. Overall, Rock Falls has a strong mayor-weak council government, and this city government has traditionally closely supervised economic and community development. City Hall has prioritized public services and both general purpose and business-oriented infrastructure, but with few instances of direct support to specific businesses.

The city’s involvement in economic development dramatically expanded after the 2001-02 recession, which caused massive job losses in Rock Falls as well as neighboring Sterling. That year, Rock Falls established a Community Development Corporation (CDC), and began providing $100,000 a year in support as the CDC took the lead on reclaiming the badly polluted but prime riverfront location of a bankrupt manufacturer. The Riverfront Tax Increment Financing district channeled both local resources and federal grants toward preparing the site with new infrastructure and opening it up to commercial, residential, and open-space development. The riverfront TIF district has already supported the development of a new hotel, and a $2.1 million bond issue is expected to provide for public facilities including an outdoor performing arts amphitheater.

With the CDC’s primary mission of reclaiming the riverfront site complete, Rock Falls ceased subsidizing it in early 2016, instead directly applying the funds to other economic development activity. Aside from this project, Rock Falls’ approach to economic development has centered on marketing its strong public utilities (including a hydroelectric plant) and, recently, city efforts to promote broadband Internet. Total economic development fund spending in 2014 was roughly $545,000, much of it preparing for the broadband project, compared to general fund spending of $6.3 million.11

STERLING, ILL. (15,057)

This northern Illinois city, across the Rock River from Rock Falls, is significantly larger in population and stronger in local tax base, serving as the region’s most important retail center. Compared with Rock Falls, it delegates much of its economic development policy away from the city council. Much of the day-to-day work is delegated through a council-manager system, while the management of key economic development assets is further delegated to non-profit groups. The most significant of these groups, Greater Sterling
Development Corp., leads business recruiting and development efforts and also manages a business incubator.

Sterling suffered even larger job losses than Rock Falls between 2001 and 2006, with Northwestern Steel & Wire collapsing, the Lawrence Hardware factory closing, and National Hardware merging with Stanley Works and outsourcing production. A large Walmart grocery distribution center and several smaller business expansions have softened the economic impact for this city (as well as Rock Falls). The community also worked to salvage the newer portion of the steelworks facility, which was reopened as Sterling Steel, Inc. by a former Northwestern Steel & Wire customer, Leggett & Platt. This was made possible through extensive legal and financial assistance from the city to deal with project management, a bond issue, and site remediation. The city hired Chicago law firm Bryan Cave to assist with the case, which not only facilitated Sterling Steel, but also supported the development of the Rock River Redevelopment Area, a TIF district that has reclaimed several hundred acres of the old factory site and provided infrastructure for Sterling Steel and several new businesses.

Sterling’s economic development spending has been significantly higher than that in Rock Falls. Sterling’s spending in 2014 totaled almost $2 million, mainly for infrastructure and reclamation in brownfield business-oriented TIF districts, compared to total general fund spending of just over $10.2 million. This represents similar per capita general fund spending for both communities, but with Sterling’s spending almost double Rock Falls’ per-capita economic development spending.

**LEARNING FROM THESE CASE STUDIES**

The case studies show why the competitive urge for economic development remains strong when power is decentralized, as it is in Illinois. Subsidies and tax breaks are heavily concentrated on retailers, warehousing, and logistics, even though they have far lower multiplier effects than subsidies to corporate headquarters and manufacturing facilities, in part because the former categories are more accessible and easier to recruit. In the Chicago area, tax-base-poor working class and lower middle class suburbs use these incentives most aggressively (less so by Chicago itself and more by wealthier suburbs). In downstate Illinois, such as in Sterling and Rock Falls, they are used even more widely; there, the stakes are raised by lack of access to the range of opportunities in large urban areas.
Frameworks for Growth

In Illinois, as in most other states having large metropolitan areas, relatively little *state funding* is devoted directly to economic development. According to the Council for Community and Economic Research, this amounts to just $210 per business establishment. Minnesota’s more centralized state government, in contrast, spends $1,039 per establishment, according to the same source.¹³ However, due to Illinois’ decentralized approach, its *local* business tax breaks are more numerous and competitive with neighboring states. When added together, the total tax breaks for economic development in Illinois and Minnesota are about the same on a per capita basis, amounting to $1.4 billion in Illinois versus $647 million in Minnesota.

The aforementioned 2012 *New York Times* study, which analyzed thousands of economic development incentives, found local government spending on economic development in Illinois to be $1.51 billion in 2011, versus just $239 million in Minnesota. On a per-capita basis, this represents $117 for Illinois, and a mere $45 for Minnesota. In fact, local “ED” spending amounts to a significant percentage of all local spending in Illinois, considering that general fund spending averages around $700 to $1,500 per capita in most municipalities (larger cities tend to spend more). Illinois essentially incentivizes economic spending by local government, due to the weakness of its revenue-sharing arrangements.

Minnesota’s Local Government Aid and its tax base sharing under the state’s Fiscal Disparities Act both afford a valuable opportunity to formally explore how state-level differences in policy affect local economic development spending. To examine their effects, a multivariate time-series regression was conducted of 841 Minnesota municipalities during 2006 through 2009 (excluding 16 small communities for which data were incomplete; the statewide total is 857). The regression demonstrated an enduring impact on economic development spending through a tumultuous period in spending and budgeting.

These findings showed that development spending in the Minneapolis-St. Paul metropolitan area was sharply lower than predicted, when taking into account socio-economic measures as well as basic measures of revenue such as tax capacity and property-tax levies (see Table 1). In both cases, the negative coefficient indicated around a $45 per-capita per-year lowering of economic development expenditure in the Metro Council and Trade Adjustment Assistance Act regions of the state.¹⁴ Thus, regions that are the most fiscally centralized of Minnesota have lower spending, consistent with the hypothesis stated earlier.
DISCUSSION AND LESSONS FOR ILLINOIS

The following three findings illustrate how state-directed fiscal policy and local administrative structures can shape economic development policy.

1. **When policy is delegated from the state to the municipality, or within the municipality from the elected council to an appointed board or commission, the more we can expect to see economic development policy oriented towards direct technical and financial assistance to businesses rather than general infrastructure and services.** Fewer centralized arrangements encourage spending on economic development but also risk creating “beggar-thy-neighbor” competition between neighboring cities, often for little real economic gain. The economic development authorities in Hibbing and Sterling both offer examples of the benefits of institutional stability in states with agencies tasked with bringing cohesion to economic development, with relatively stable results over a long period of time.

2. **More centralized arrangements at the state level that promote sharing of revenues and resources can result in significantly lower spending on direct assistance to business, depending on how incentives to local governments are structured.** The aforementioned quantitative analysis indicates that in the Minneapolis-St. Paul metropolitan area, spending on economic development incentives is low for such an economically active region. Review of financial statements shows that in both communities in which economic development policy making is more centralized within the city council, economic development spending is significantly lower than in the “delegated” cases. Spending in these “centralized” cases is more oriented toward general infrastructure.

3. **Communities should recognize that delegating power away from the city council will affect how economic development dollars are spent.** Interpreted broadly, these cases illustrate how the way that municipalities internally assign power affects outcomes. It behooves community leaders to think carefully about how much they want to insulate decision makers dealing with economic development from the electoral politics that can be associated with city hall. At a time when infrastructure spending is often persistently inadequate, the trade-offs associated the delegating authority should not be taken lightly. Similarly, the powerful patterns driven by state policies and fiscal structures strongly influence how local governments operate, and can significantly limit their freedom of action.
Frameworks for Growth

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1 The source of this information is the Minnesota House of Representatives Information Brief, Local Sales Taxes in Minnesota, updated December 2015. Note that Duluth, Minn., unilaterally adopted a one-percent local sales tax, with no expiration date, in 1973, before state restrictions on local sales taxes were adopted; this tax is still in effect.

2 See the SurveyUSA/Kansas Policy Institute poll of Wichita residents in April 2014 on proposed new economic development spending compared with other spending lines, at http://www.surveyusa.com/client/PollReport.aspx?g=79f09fe6-f6cb-4c05-a391-3b2639a6ce1c

3 Another example in smaller towns or rural areas, especially those desirable to second-home owners, is the backlash from residents against new construction, which can encourage cities to curb development (Nevarez, 2003).

4 Alternatively, the responsibility for promoting development may be left with those who resist change the most, as happened in the 1980s and 1990s on Maryland’s Eastern Shore following the improvement of highway links over Chesapeake Bay (Ramsay, 1996).

5 A notable example of the former is the dispersal of Chicago’s garment and printing industries in the 1970s and 1980s, which came about not entirely because of market forces, but also due to flawed assumptions about the market by city policymakers who effectively zoned these two major business sectors out of their concentrations in the south and west Loop, at significant economic cost (Rast, 2002).

6 The flypaper effect is a concept from the field of public finance that suggests that a government grant to a recipient municipality increases the level of local public spending more than an increase in local income of an equivalent size.

7 City of Hibbing 2014 Financial Statement.

8 The source of this information is the Minnesota State Auditor.

9 The source of this information is the Minnesota State Auditor.

10 The source of this information is the City of Ely 2014 budget summary; does not include enterprise funds.

11 The source of this information is this City of Rock Falls 2014 financial statement (total of broadband fund, spending on TIF districts and industrial development fund). It does not include spending on enterprise funds.

12 The source of this information is this City of Sterling 2014 financial statement (spending on TIF districts, industrial development fund). It does not include spending on enterprise funds or public hospitals (CGH Medical Center).


14 Not counting economic development grants to TAA communities from the region’s main economic development authority, the Iron Range Resources and Rehabilitation Board is
primarily supported by iron-ore-mining production taxes

REFERENCES


Frameworks for Growth


ISSUE BRIEF

IS IT TIME TO REEXAMINE YOUR BIKE CODE?
A REVIEW OF CYCLING POLICIES IN ILLINOIS MUNICIPALITIES

JENNA CALDWELL AND DANA YANOCHA
DEPAUL UNIVERSITY

This issue brief offers guidance for municipal governments seeking to update their municipal codes with contemporary “best practices”. Drawing upon the opinions of experts and evaluating the content of municipal codes in 29 Illinois municipalities, including a review of the policies governing riding on sidewalks, helmet laws, fines and enforcement, and development incentives, the study showcases notable innovations being used by Illinois communities to make bicycle travel safer and more convenient.

INTRODUCTION

Since 2005, the number of Illinois residents who commute by bicycle has surged by 61%. The most recent data from the League of American Bicyclists show that the percentage of Illinois commuters who travel primarily by bike matches the national average of 0.6% (The League of American Bicyclists, 2014). As the number of cyclists in Illinois increases, so does the need for improved bicycle policies. This article reviews the ordinances of Illinois municipalities to explore “best practices” for policymakers looking to increase bicycle ridership and safety in their communities.

To identify best practices, the authors evaluated municipal ordinances in communities with populations over 50,000. This evaluation focuses heavily on four sections of municipal code: 1) policies related to sidewalk riding; 2) rules governing helmet use; 3) enforcement and fines; and 4) development incentives provided through zoning ordinances. The authors also interviewed experts and national leaders in bicycle policy to gather perspectives on these ordinances and gain insights into some of the innovations underway on these topics.

Municipal officials reading this issue brief will not likely need convincing that taking a fresh look at their policies is important. Cycling has myriad health and environmental benefits. Research by de Hartog, Boogaard, Nijland &
Hoek (2010) suggests that the reduction in air pollution resulting from a shift from driving to cycling can decrease pollution-related mortality rates for communities. Illinois municipal leaders looking to increase the number of cyclists on the road can expect increased safety as well. In general, cities with a high bicycling rate among the population have shown to have a much lower risk of fatal crashes for all road users (Marshall & Garrick, 2011). This is likely due to the “safety in numbers” phenomenon, which hypothesizes that drivers change their behavior based upon their perceived probability of encountering a bicyclist (Marshall & Garrick, 2011).

REVIEWING MUNICIPAL CODES

Reviewing the wide range of policies contained in municipal codes provides insight into the many options governments have to cultivate bicycle ridership and promote safety: (Table 1)

SIDEWALK RIDING

Cyclists riding on sidewalks are often viewed as a hazard due to the potential danger they impose on pedestrians. In fact, 22 of the 29 municipal codes reviewed include provisions articulating “if and where” it is appropriate to ride on the sidewalk. Many communities prohibit sidewalk riding in central business districts and where otherwise marked, although some make exceptions for riders under a certain age (which varies from under 12 to under 15 years old). Several other cities, such as Cicero and Rockford, allow sidewalk riding only in residential zones.

Yet many communities choose not to enforce these rules. A notable exception is Chicago, where sidewalk riding accounts for a vast majority of bike-related citations. Of the 13,150 traffic-related tickets written to cyclists between 2006 and 2015, 11,217 (85%) were for sidewalk or non-bikeable road violations. Citations for sidewalk riding between 2013 and 2014 skyrocketed from 2,082 to 4,467 (Knight, 2015).

Although riding on the sidewalk in downtown Chicago is a ticketable offense due to the hazard it presents to pedestrians, the case for banning sidewalk riding is less clear in more suburban and rural settings. Such prohibition can deter people from feeling comfortable enough to travel by bike. In areas with lower population densities, experts feel, sidewalk riding can be a safe option for all active transportation modes.
Michael Keating, an attorney at Keating Law Offices, P.C. in Chicago, suggests municipalities create and distribute a bike map, which designates exactly where sidewalk riding is permitted. Unlike biking directions one might obtain from Google Maps or similar mapping sites, a municipal bike map (possibly accompanied by on-street signs) would detail specific stretches – perhaps along a narrow roadway without a protected bike lane – where cyclists are permitted and might feel more comfortable riding on the sidewalk.

Denver, Colo., is a leader in this area, having identified troublesome areas for cyclists and pedestrians in its “Denver Moves” plan, which prioritized the integration of active transportation into existing corridors throughout the city. The plan employs grade separations to allow cyclists and pedestrians to cross major roadways (either under or over) without interfacing with automobile traffic. The city also has “shared-use sidewalks,” which are wider paths serving both walkers and cyclists that are often located in areas with heavy vehicular traffic, high traffic speeds, and/or at complicated intersections with a history of accidents (Denver Parks & Recreation and Public Works, 2011). This innovative approach would be an excellent model for Chicago, Champaign, Evanston, and other municipalities with heavy congestion and high percentages of commuters traveling by bike on major roadways to emulate.

As a general rule, therefore, the analysis suggests that communities should be wary of outright bans on sidewalk riding unless they are highly urbanized and prepared to publicize their policies. Bans in less dense areas that are not enforced can leave the impression that cyclists can ignore bike regulations. Even in densely populated areas, enforcement and signage should accompany bans to be effective, a topic revisited below.

HELMET LAWS

None of the municipalities in the sample require all cyclists to wear helmets, although three of the 29, Cicero, Evanston, and Oak Park, require children below a certain age to do so. Experts on bicycling tend to feel strongly that, despite the safety benefits, mandatory helmet laws for all can deter people from cycling, thereby thwarting other goals. Having a universal requirement can also create complications for people interested in using bikeshare programs, especially those using them sporadically, making it difficult for people to give these programs a try if they have a low level of commitment.
Is it Time to Reexamine Your Bike Codes?

<table>
<thead>
<tr>
<th>MUNICIPALITY</th>
<th>POPULATION</th>
<th>% COMMUTE BY BIKE</th>
<th>COMPLETE STREETS PLAN*</th>
<th>BIKE PLAN*</th>
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<tr>
<td>Chicago</td>
<td>2,695,598</td>
<td>1.4%</td>
<td>2012</td>
<td>Part of CSP</td>
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<td>Aurora</td>
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<td>0.3%</td>
<td>N</td>
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<td>Rockford</td>
<td>152,871</td>
<td>0.4%</td>
<td>2019</td>
<td>2008</td>
</tr>
<tr>
<td>Joliet</td>
<td>147,433</td>
<td>0.2%</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Naperville</td>
<td>141,853</td>
<td>0.4%</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Springfield</td>
<td>116,250</td>
<td>0.3%</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Peoria</td>
<td>115,007</td>
<td>0.5%</td>
<td>2010</td>
<td>N</td>
</tr>
<tr>
<td>Elgin</td>
<td>108,188</td>
<td>0.1%</td>
<td>N</td>
<td>2008</td>
</tr>
<tr>
<td>Waukegan</td>
<td>89,078</td>
<td>0.2%</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Cicero</td>
<td>83,891</td>
<td>0.8%</td>
<td>N</td>
<td>N</td>
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<tr>
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<td>2.8%</td>
<td>2008</td>
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</tr>
<tr>
<td>Bloomington</td>
<td>76,610</td>
<td>0.4%</td>
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<td>2015</td>
</tr>
<tr>
<td>Decatur</td>
<td>76,122</td>
<td>0.3%</td>
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</tr>
<tr>
<td>Arlington Heights</td>
<td>75,101</td>
<td>0.3%</td>
<td>N</td>
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</tr>
<tr>
<td>Evanston</td>
<td>74,486</td>
<td>3.5%</td>
<td>2014</td>
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</tr>
<tr>
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<td>N</td>
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</tr>
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<td>73,366</td>
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<td>N</td>
</tr>
<tr>
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<td>68,557</td>
<td>0.2%</td>
<td>2014</td>
<td>2011</td>
</tr>
<tr>
<td>Skokie</td>
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<td>0.8%</td>
<td>2016</td>
<td>N</td>
</tr>
<tr>
<td>Des Plaines</td>
<td>58,364</td>
<td>0.3%</td>
<td>2011</td>
<td>N</td>
</tr>
<tr>
<td>Orland Park</td>
<td>56,767</td>
<td>0.2%</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Tinley Park</td>
<td>56,703</td>
<td>0.1%</td>
<td>2012</td>
<td>2012</td>
</tr>
<tr>
<td>Oak Lawn</td>
<td>56,690</td>
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<td>2014</td>
<td>N</td>
</tr>
<tr>
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<td>56,657</td>
<td>0.6%</td>
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</tr>
<tr>
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</tr>
<tr>
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</tr>
<tr>
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<tr>
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</tr>
<tr>
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<td>51,878</td>
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<td>2012</td>
<td>2008</td>
</tr>
<tr>
<td>FINES FOR CYCLIST VIOLATION*</td>
<td>SIDEWALK RIDING*</td>
<td>MANDATORY HELMET LAW</td>
<td></td>
<td></td>
</tr>
<tr>
<td>------------------------------</td>
<td>------------------</td>
<td>---------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$50-$500 + motorist violation fines</td>
<td>None in BD unless &lt; 12 y/o</td>
<td>None</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pursuant to §27-8 and/or impound</td>
<td>None in BD unless &lt; 14 y/o</td>
<td>None</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$50-$750 (GCV)</td>
<td>None in BD or malls</td>
<td>None</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Up to $750 (GCV)</td>
<td>None in BD</td>
<td>None</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$75</td>
<td>None in BD/ SC</td>
<td>None</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$30</td>
<td>None in BD</td>
<td>None</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$10-$50</td>
<td>None in BD</td>
<td>None</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$10-$25</td>
<td>-</td>
<td>None</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$25-$750 (GCV)</td>
<td>None in BD</td>
<td>None</td>
<td></td>
<td></td>
</tr>
<tr>
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<td>R-districts only</td>
<td>$16 y/o</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Up to $500 (GCV)</td>
<td>-</td>
<td>None</td>
<td></td>
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</tr>
<tr>
<td>$50 and/or impound</td>
<td>None in CBD</td>
<td>None</td>
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</tr>
<tr>
<td>$150-$500</td>
<td>None in CBD or Central Park</td>
<td>None</td>
<td></td>
<td></td>
</tr>
<tr>
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<td>None</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$10-$100</td>
<td>None in BD</td>
<td>$18 y/o</td>
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</tr>
<tr>
<td>$50</td>
<td>None in BD</td>
<td>None</td>
<td></td>
<td></td>
</tr>
<tr>
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<td>None</td>
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</tr>
<tr>
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<td>None in BD</td>
<td>None</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Up to $750 (GCV)</td>
<td>None in CX Core districts</td>
<td>None</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>None</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Up to $100 (TV)</td>
<td>None in BD</td>
<td>None</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Up to $100 (TV)</td>
<td>-</td>
<td>None</td>
<td></td>
<td></td>
</tr>
<tr>
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<td>None in BD</td>
<td>None</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$40-$250 (TV)</td>
<td>None in BD</td>
<td>None</td>
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</tr>
<tr>
<td>$25-$50</td>
<td>-</td>
<td>None</td>
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<td></td>
</tr>
<tr>
<td>$6 (GCV)</td>
<td>None in CBD</td>
<td>None</td>
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<tr>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$10-$100 (TV)</td>
<td>-</td>
<td>None</td>
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<td></td>
</tr>
<tr>
<td>$25 (HV)</td>
<td>None in BD unless &lt;15 y/o</td>
<td>&lt; 17 y/o</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Sources:** Municipal Codes; U.S. Census Commuting Characteristics by Sex (2014)
Is it Time to Reexamine Your Bike Codes?

Deerfield’s municipal code stands out as a best practice by requiring children under the age of 16 to wear a helmet at all times with the caveat that violation of the ordinance cannot be used as a defense in a civil case:

“A violation of this Section shall not constitute negligence, contributory negligence, assumption of risk, be considered in mitigation of damages of whatever nature, be admissible in evidence, or be the subject of comment by counsel in any action for the recovery of damages arising out of the operation of any bicycle, or participation in skateboarding or in-line skating, nor shall anything in this Section change any existing law, rule or procedure pertaining to any civil action,” (Deerfield, IL Municipal Code, 1997).

Deerfield’s helmet law is a good model for municipalities because it requires young adults to wear helmets, which law enforcement personnel can use as an educational tool, but does not make cyclists automatically accountable for injury in a collision if they are not wearing a helmet. Furthermore, requiring children to wear helmets is a good practice for cultivating early habits and sustaining helmet-wearing into adulthood when it is no longer required by law.

Additionally, helmet safety and proper use can be promoted outside of legislation, such as through public service announcements or supplying local bike shops and rental locations with signage and pamphlets. Further, Michael Keating recommends that municipalities improve or increase training of police officers on bike-specific ordinances, how traffic laws apply to cyclists, safety measures, and best practices for enforcement. Opportunities could arise, then, for law enforcement officers to educate cyclists about helmet safety without having to cite or penalize them.
FINES AND ENFORCEMENT

Fines for cyclists violating traffic laws vary significantly across municipalities, ranging from $1 to $750. Some communities rely on the general traffic code to determine fines while others, such as Bloomington, have created specific penalties for violations by cyclists. Chicago takes this idea one step further and lists explicit fines for breaking particular laws. Cyclists caught using a cell phone, for example, are fined up to $50. Other municipalities, such as Oak Park, also issue fines for specific violations. Parents or guardians of cyclists under the age of 17 who fail to comply with the city’s helmet law can be fined up to four hours of community service or $25.

Attorney James Freeman of Freeman Kevenides Law Firm in Chicago argues that increased enforcement is essential. If authorities dedicate resources to enforcing bicycle ordinances, cyclists are more likely to take ordinances seriously, which is currently not always the case. Keating argues that the level of enforcement is more likely to influence compliance than the amount of the fine. He argues that educating community police on bicycle safety practices is a prerequisite to any heightened enforcement policy.

Diversion programs, such as California’s well-known “Bicycle Traffic School” established in 2015, offer cyclists an alternative to a fine-based penalty and could influence future behavior to improve safety (A.B. 902, 2015). Palatine, IL offers such an option in the penalties section of its municipal bike code:

“Any person convicted of a violation of any provision of this article shall be punished by a fine of not less than five dollars or more than twenty-five dollars for each offense; or shall attend a lecture, bicycle safety class, view a safety film, or fulfill any other penalty imposed by the chief of police or person(s) so designated by him,” (Palatine, IL Municipal Code, 2016).

For many who rely on biking as an inexpensive transportation mode, having the option to attend a class to reduce or remove a fine could help make stepped-up enforcement seem less dramatic. In California, for example, where cyclists ticketed for traffic violations (i.e., running stop signs or red lights) pay the same fines as drivers, diversion programs offer an opportunity for cyclists to not only reduce their fines but learn – perhaps for the first time – about proper bike safety regulations (California Legislative Information, 2015).

Experts nonetheless acknowledge that issuing citations to cyclists requires political will. Even the City of Chicago, where the volume of cyclists is high,
Is it Time to Reexamine Your Bike Codes?

Issued just 13,150 traffic-related tickets to cyclists between 2006 and 2015, which averages four tickets per day. The vast majority, as previously noted, were for sidewalk violations (Knight, 2015). New York City, on the other hand, stands out for exemplary enforcement. In just three years, New York City police issued 51,841 tickets to cyclists, about 47 per day (Fanelli, 2015). Averaged annually, one ticket is issued for the equivalent of every five cyclists who commute in that city, compared to a mere one in 35 in Chicago (The League of American Bicyclists, 2014).

With the number of bicycle commuters in Illinois on an upward trajectory, it behooves local policymakers to adopt a package of policies that simultaneously promote cycling, improve safety, and encourage compliance. One option to fulfill each of the aforementioned opportunities is to implement bike-specific policies, such as the Idaho Stop Law. The Idaho Stop Law, enacted in 1982 in the State of Idaho, allows cyclists to treat stop signs as yield signs and red traffic lights as stop signs (Pedestrian and Bicycles, 1982). It addresses the fact that many cyclists will behave in ways that maintain their energy and momentum without compromising safety.

The law has decreased the number of intersection accidents between cyclists and motorists in cities where the policy has been adopted (Leth, Frey, & Brezina, 2014). Research by Caldwell (2016) suggests as many as 95% of riders in Chicago, in fact, fail to fully observe stop signs, although many exercise caution and practice the Idaho Stop. This research also shows that adopting the Idaho Stop Law has the potential to make cyclist behavior more predictable for motorists, ensuring safer roads for everyone and making intersections flow more efficiently for all road users. The Idaho Stop is ultimately a “bike friendly” policy that can encourage people to use this environmentally friendly mode.

INCENTIVES

Several municipalities have integrated incentives into their zoning codes that reward commercial developments for meeting community or environmental goals, such as reducing traffic congestion or encouraging cycling. “Incentive zoning” can take several forms, but often allows municipalities to effectively negotiate with developers to include desired criteria in their site plans. Displayed visually in Figure 1, the following are four examples in Illinois where incentives are used to promote cycling.

*The City of Evanston* offers developers “incremental increases in floor area ratio (FAR) and building height” if plans include certain public-benefit features
Is it Time to Reexamine Your Bike Codes?

**FIGURE 1**
Municipal Incentives to Promote Bicycle Facilities and Travel

**WINNEBAGO COUNTY**
Offers developers additional building units (up to 1%) within a planned unit development if they provide bicycle facilities, including paths and bicycle racks.

**EVANSTON**
Developers are offered incremental increases in floor area ratio (FAR) and building height if plans include certain public-benefit features for bicycle travel.

**OAK PARK**
Offers reduction of up to 25% in required off-street parking spaces for developments with bicycle parking or storage lockers.

**CHAMPAIGN**
Includes bicycle parking minimums in the city’s zoning code, and denotes recommended numbers of bicycle parking spaces by establishment type for new developments.
Is it Time to Reexamine Your Bike Codes?

identified by the city. Evanston’s Plan Commission and City Council consider the degree to which the proposed features benefit the public to determine whether it justifies an FAR incentive. One such feature is “the degree to which the facility or feature lessens automobile traffic congestion and supports carpooling, public transit, pedestrian and bicycle usage,” (Evanston, IL Municipal Code, 2015).

The City of Oak Park’s zoning ordinance allows the Zoning Officer to authorize parking credits for encouraging more sustainable transportation choices, including efforts (in most cases by an employer) to incentivize mass transit, carpooling or car sharing, or instituting off-peak schedules to reduce travel during the morning commute. Significantly, credits of up to a 25% reduction in the number of required off-street parking spaces can be given if a proposed development provides bicycle parking or makes provisions to accommodate bicyclists, such as providing bicycle storage lockers (Oak Park, IL Municipal Code, 2002).

Winnebago County, which encompasses the city of Rockford, offers incentives for integrating cycling infrastructure into commercial projects. Developers may receive additional building units within a planned unit development (PUD) if they provide “bicycle facilities, including paths and bicycle racks,” (City of Rockford, 2007).

The City of Champaign includes recommended minimums for bicycle parking in its zoning code, noting that insufficient bicycle parking increases riders’ fear of theft and can be a serious barrier to cycling as a consistent mode of transportation. The city emphasizes that bicycle parking should be such that a U-lock can be used in all situations, and be conducive to bikes with varying frame and wheel sizes. The “Bicycle Vision” chapter of Champaign’s complete streets plan denotes minimum numbers of bicycle parking spaces by establishment type: one space per 3,000 ft² of retail or office space; one space for every one to two apartments in a multi-unit residence; six percent of the number of students and three percent of the number of employees of a college or university; ten percent of the number of students and three percent of the number of employees of a primary or secondary school; etc. (Champaign, IL Municipal Code, 2016).

Several other communities included in this study focus on roadway enhancements, including Complete Streets plans designed to support extensive non-motorized travel, instead of (or in addition to) providing developer incentives. A few municipalities have developed focused Bike Plans that are
taken into consideration when considering zoning changes or approving planned unit developments.

**CONCLUSIONS**

Every community must independently determine what types of bicycle regulations are appropriate based on its characteristics, transportation network, and current ridership. The analysis above, however, offers several notable best practices:

**CONCLUSION 1**

_Municipalities can avoid a contentious relationship with the cycling community regarding enhanced enforcement by following Palatine’s example of providing an alternative to paying a fine._

Such “diversion programs” make it clear that the goal of enforcement is to promote safe cycling rather than to generate revenue, and can help build awareness of local bike laws as well.

**CONCLUSION 2**

_Recognizing that circumstances may prevent communities from adopting diversion programs, fines for cyclists should be kept relatively low – proportionate to the nature of the infraction – where diversion programs are not offered._

Law enforcement personnel are more likely to enhance enforcement when fines are low. Moreover, the conversation about safety with law enforcement, in some instances, is more important in promoting safety than the citation itself. Many advocates believe the best way to protect cyclists is to enforce existing laws, including those that penalize motorists who, for example, do not respect bike lanes or obstruct them through illegal parking.

**CONCLUSION 3**

_Many communities with mandatory helmet laws for youth and teenagers should consider replicating Deerfield’s approach, which protects cyclists in legal and insurance proceedings after accidents._

The analysis indicates that helmet requirements for youth are relatively common but are not meaningfully enforced in many communities. Helmet requirements for adults remain a rarity. Failing to wear a helmet should not be treated as
a negligence in legal proceedings after accidents. Rather, communities may find more success in promoting education around helmet wearing, such as by encouraging children to adopt the practice early on.

CONCLUSION 4

Providing zoning code incentives can help encourage new development projects to integrate bike-friendly infrastructure into their designs.

The evidence suggests that there are few “downsides” to providing bonuses to developers willing to make investments in bicycle facilities and safety enhancements as part of their site plans. Even including simple language in ordinances can signal to the real estate sector that a community values efforts to make bicycle travel a more convenient and safe experience.

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ISSUE BRIEF

RETAIL CONSTRUCTION IN ILLINOIS: WHY THE SLUMP?

CHRIS BREWER, JOE VITONE, AND JOE SCHWIETERMAN
AECOM TECHNICAL SERVICES INC. AND DEPAUL UNIVERSITY

This issue brief evaluates the pace of new retail construction in urbanized regions of the state since 1982 and offers practical guidance to municipal officials concerned about the sluggish pace of retail construction over the past several years. After reviewing the trends for both metropolitan Chicago and downstate regions, it considers how the Internet and other factors are encouraging major retail brands to reassess their growth strategies.

INTRODUCTION

Most municipalities in Illinois have economic development plans that focus in large measure on recruitment of new retail businesses—a segment of the economy that has been extraordinarily volatile over the past decade. Newly-released statistics show that the retail real-estate sector faces a difficult moment. Dramatic expansions of suburban retail space between 2004 and 2009, Internet buying, and other factors have left many communities with saturated markets for “brick and mortar” facilities.

The sections below evaluate trends in retail construction for metropolitan Chicago and downstate regions using data from CoStar Group (a Washington, DC-based commercial real estate information and marketing provider) and retail sales estimates from the U.S. Census Bureau. The analysis also considers retail statistics for municipalities and counties from the Illinois Department of Revenue.

TRENDS IN METROPOLITAN CHICAGO

Between 1982 and 2006, the construction of new retail real-estate exhibited an erratic up-and-down pattern in the Chicago metropolitan region (Figure 1). Following strong gains in the 1980s, construction peaked in 1990 before falling sharply after the start of the 1990-91 recession. After hitting another high in 2000, construction ebbed again, and then followed a U-shaped pattern before peaking again in 2007.
The heavy construction leading up to 2007 can be partially attributed to larger-format chains such as Walmart, Target, and warehouse clubs, including Costco and Sam’s Club, taking advantage of dramatic changes in spending preferences. Only 2.8% of general retail dollars nationwide were spent at such chains as Costco, Sam’s Club, Walmart and Target in 1992, but by 2014, this share had increased to 11.9% (USCB, 2016).

Another notable trend involves drug stores and pharmacies, most notably CVS and Walgreens, which offer an increasingly large array of products and services. The average size of these stores grew while the number of locations rose exponentially. Furthermore, building material stores, particularly Home Depot, Lowe’s, and Menards, also followed a rising trajectory, transforming the home-improvement supply business.

As history would show, access to low-cost debt as well as competitive battles for market shares were also part of the mix. Some retailers kept older stores “dark” to prevent competitors from relocating into a market. Such a phenomenon resulted in construction that greatly outpaced the underlying growth in retail sales.
The Great Recession then brought austerity to the sector, spurred by tight credit markets and slumping consumer spending. Many communities that had grown accustomed to seeing retail projects move forward suddenly found their dockets for new construction not only empty, but existing shopping centers weakened by the under-performance or failure of anchors. Between 2011 and 2015, new retail construction sunk to levels not seen since the early 1980s.

The erratic pattern that resulted from these factors is evident in statistics published in Walmart and Target's financial statements. From 2000 to 2007, Walmart added an average of 32.7 million square feet of space annually (8.7% annual growth), while Target contributed 13.1 million square feet (9.1% annual growth), despite national retail sales growth averaging just 4.3%. Since 2008, Walmart has grown at only a 2.6% annual rate (the same rate as national retail sales), while Target has grown just 1.1% annually. Early this year, Walmart announced that it would be closing 154 stores nationwide, including all Walmart Express locations, and a significant number of neighborhood markets.

Auto sales were among those hardest hit in the past decade, falling by 26% from 2007 to 2009 nationwide. Although auto-related sales have recovered dramatically since 2014, the geographic distribution of dealerships took on a different pattern, resulting in material shifts in sales tax revenues. Over-optimistic outlooks, meanwhile, set the stage for an initial wave of bankruptcies among prominent retailers, including Levitz, Sharper Image, Circuit City and Linens ‘n Things. Office Depot, Lowe’s and J.C. Penney scaled back significantly, and, as noted below, many aging indoor malls suffered an uncharitable fate as sales faltered at anchors.

The aftermath has left communities rethinking their approach to retail. Vacancy rates now differ greatly across communities. The severity of this can be seen by looking at three high-income “primary clusters” in metropolitan Chicago: i) the area within an eight-mile radius of Downers Grove, which includes Naperville and Oak Brook; ii) the North Side of Chicago, including the Gold Coast and Lincoln Park neighborhoods, as well as the Magnificent Mile; and iii) the area within an eight-mile radius of Barrington, including Lake Zurich and Palatine. These high-income areas support about 105.7 million square feet of space, some 20% of the entire retail inventory across the Chicago region.¹

Vacancy rates average 7.5% in the Downers Grove radius area, but reach 10% in the Barrington area. Yet the vacancy rate is a mere 4.4% on the North Side of Chicago – despite this area having far more inventory per capita than the other regions. The national average for retail vacancy rates is about 11.2%.
Such retail vacancies have been fueled by store closings. Nationwide, announced store closures in 2014 and 2015 totaled 12,955, about half as many closures as occurred in 2009 alone (13,262). While closures have decreased since then, they remain distressingly high in many locales.

The downturn in construction since 2008 is not unique to retail, as the recovery in housing starts and construction of new office space has been similarly challenged. Still, the pace of industrial space construction in metropolitan Chicago is approaching pre-Recession levels. The rebound is linked in large measure with the emergence of Will County as an inland port of national importance, and facilities created to support the growth of Internet retail spending.

**TRENDS IN DOWNSTATE ILLINOIS**

Some of the same trends seen in the Metropolitan Chicago region are evident in four downstate counties that have more than 200,000 square feet of retail space: Champaign, McLean (Bloomington), Peoria, and Sangamon (Springfield) counties, as shown in Figure 2. These counties cumulatively experienced a faster decline in construction during the Great Recession than the Chicago area. Whereas construction in the Chicago area fell by only about half from 2008 to 2009, it fell in Champaign and McLean County by more than 75%.

Peoria County had the unusual pattern of having virtually no construction in 2007 before seeing a spike in 2008. Since then, construction has gradually

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<tr>
<td>VACANCY</td>
<td>7.5%</td>
<td>4.4%</td>
<td>10.0%</td>
</tr>
</tbody>
</table>
fallen, save for a modest rebound in 2011. Much of the up-and-down pattern in this county may be attributable to the dramatic reductions in employment at Caterpillar that began in 2009.

FIGURE 2
Retail Space Construction Trends in Selected Downstate Counties
*Square Feet of New Construction*

McLean County has also faced above-average volatility, perhaps due in part to the anticipated closing of the city’s Mitsubishi automotive plant (completed this year). Champaign and Sangamon counties have been, in relative terms, more stable, apparently due to muted construction prior to 2008 and the continuity of economic activity afforded by the University of Illinois at Urbana-Champaign and state government, respectively. In Sangamon County, construction was actually higher in 2012 and 2013 than it was during the 2007-08 period. Even so, construction in these two counties fell to modest levels at the end of the observed period.
IMPACT OF THE INTERNET

Internet buying accounted for just 0.2% of all non-food service retail sales in 1998 but rose to 6.4% by 2014 (USCB, 2016). The share of total retail sales from e-commerce has been growing by an average of about 10% per year. Changes in consumer behavior have prompted department stores, such as Best Buy, Kohl’s, Target, and Walmart to boost their online presence (albeit with purported marginal success) and to reduce traditional store square footage. Although this reallocation of a brand’s retail sales from brick-and-mortar to online platforms can succeed, it often has negative implications for municipalities relying on retail sales taxes.

Diversion to online shopping is forcing retailers to develop new distribution and sales channels, thus blurring the boundaries between traditional brick-and-mortar store retail and Internet retailing. “Omni-channel” retail is emerging, with the goal of providing consumers a consistent, integrated experience across retail channels. For example, some traditionally online-only retailers are opening small brick-and-mortar stores while other traditionally offline retailers are integrating online and in-store sales. While growth in e-commerce sales has increased demand for large scale fulfillment and distribution centers located close to major metropolitan areas, some anticipated changes in store layouts to meet growth in online fulfillment have yet to emerge.

THE CHANGING FOOTPRINT OF MAJOR CHAINS

Considering the turbulence in this sector, it behooves municipal officials to be cognizant of major moves undertaken by national chains:

MACY’S

The effect of Internet buying on Macy’s has garnered particular attention. Although the initial rollout of Macy’s as a national brand in 2003 marked the demise of more than ten regional department store brands (including Marshall Field’s), the company did not initially close many stores. Recently, however, the tide has turned, with store counts diminishing, and another 100 closures nationally announced during the summer of 2016.

THE GAP AND KOHL’S

Kohl’s experienced robust expansion from 2000 to 2007, adding an average 6.4 million square feet of retail space per year. The Gap saw similar growth
adding about two million square feet annually. Since 2008 though, Kohl’s has added just 1.7 million retail square feet per annum, on average, while Gap has eliminated approximately 212,500 square feet of store space each year. Both retailers are attempting to aggressively move into online sales.

SEARS AND KMART

The pivot of Sears and Kmart towards a Real Estate Investment Trust (REIT) structure heightens concerns for the eventual need to reposition a large number of regional malls anchored by these chains (Carlyle, 2015). Sears and Kmart have been closing stores consistently since 2013. Media reports in the fall of 2016 speak to anxiety over additional store closures and bankruptcies of mall properties with space occupied by such stores as Nine West and Claire’s, as well as Sears (Banjo, 2016).

OFF-PRICE STORES

As some chains suffered, off-price stores, such as T.J. Maxx and Marshall’s, are reportedly doing well. Even full-price chains have invested in off-price stores, such as Nordstrom Rack or Macy’s Backstage.

BANKRUPTCIES AND ACQUISITIONS

The bankruptcy of Radio Shack, the effort by Office Depot and Staples to merge (which did not gain SEC approval), and the closure of Sports Authority were emblematic of the challenges facing traditional retailers. The loss of Blockbuster, for example, has removed what would otherwise be a typical anchor store in neighborhood-sized retail centers.

LESSONS FOR MUNICIPAL LEADERS

With hindsight, the frenetic 2005 - 2008 period was an anomaly, fueled by easy credit and traditional big box retailer battles for market share, as well as over-optimism. Many retailers expanded at a far higher rate than national retail sales would support, spurring a boom that could not last. The ensuing lag in retail construction is now testing the patience of some economic development officials and planners.

Municipal leaders should remain mindful of several trends that stand out:

First, communities with older retail centers (and older shopping malls in particular) should anticipate closures at weaker locations by Macy’s, Sears,
Kmart, and other department stores. Similarly, communities with retail development concentrated along “older” commercial corridors built in the 1970s and 1980s (such as Ogden Avenue in Downers Grove or Harlem Avenue and 159th in Tinley Park) are faced with both opportunities and challenges for redevelopment and revitalization. In communities that are largely “built-out”, strategies to sustain revitalization of older commercial corridors should be a priority. Experience suggests that revitalization may include improvements to public amenities, enhanced walkability, changes to transportation infrastructure, and provision of mixed use development.

Second, the grocery business will remain a driver of change. The Chicago region has undergone enormous change in the grocery business, with Dominick’s leaving the market, and Whole Foods and Mariano’s entering the market and expanding. While a number of Dominick’s locations have reopened as other grocery retailers, there is a general sense that a final shakeout is still looming in 2017.

Finally, municipalities should remember that, despite the weakness in traditional retailing, spending at hotels, night spots, off-price retailers, and service-oriented businesses, such as cellular phone stores as well as fast food eateries and restaurants – all of which generate sales tax – is projected to remain strong.

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1 Income date is obtained from Esri, an international supplier of geographic information system (GIS) software, web GIS and geodatabase management applications
2 For information about the store closing, see The Balance, available at https://www.thebalance.com/all-store-closings-2891887

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