

2/20/2012

19-R-12

A RESOLUTION

**Supporting the Northwest Municipal Conference
2012 Legislative Program**

WHEREAS, the City of Evanston is a member of the Northwest Municipal Conference ("NWMC"); and

WHEREAS, the NWMC works with its members to develop its annual legislative program, which serves as a comprehensive platform on legislative issues, in order to protect and benefit the interests of its member municipalities, residents, and businesses in our communities and the region; and

WHEREAS, the NWMC 2012 Legislative Program, attached hereto as Exhibit A and incorporated herein by reference, focuses on issues vital to the City of Evanston, including protecting local government revenues, online sales tax collection, and sales tax sourcing rules, as well as addressing labor-related cost drivers, such as pension reform, preventing abuse of the Public Safety Employees Benefit Act, and balancing the interest arbitration process; and

WHEREAS, the NWMC will actively pursue these legislative priorities to the benefit of the City of Evanston and all members of the NWMC,

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF EVANSTON, COOK COUNTY, ILLINOIS, THAT:

SECTION 1: The foregoing recitals are found as fact and incorporated herein by reference.

SECTION 2: The City of Evanston hereby expresses its support for the NWMC 2012 Legislative Program.

SECTION 3: The City of Evanston will actively support the NWMC 2012 Legislative Program both locally and in federal and state capitols.

SECTION 4: A copy of this Resolution shall be forwarded to the NWMC, to all state and federal legislators representing the City of Evanston, to the Office of the Governor, and to department directors in the City of Evanston.

SECTION 5: This resolution shall be in full force and effect from and after the date of its passage and approval in the manner required by law.


Elizabeth B. Tisdahl, Mayor

Attest:


Rodney Greene, City Clerk

Adopted: March 26, 2012

EXHIBIT A

NWMC 2012 Legislative Program

Northwest Municipal Conference Legislative Program

Ensure the Fiscal Stability of Illinois Communities

Protect Local Government Revenues

Revenues are the lifeblood of stable communities, enabling local governments to provide for the needs of residents and businesses. Communities that are able to support these needs are attractive places for economic development. Local government revenues must not be viewed as an alternative source of revenue for the state but as the long standing commitment to ensuring healthy and strong communities upon which to base the state's economy. We offer four recommendations vital to protecting local government revenues.

1. Prevent any diversions of the Local Government

Distributive Fund (LGDF)

The LGDF, which was instituted in 1969 in exchange for municipalities not imposing their own income tax, is a significant source of operating revenue. The threatened loss of this vital revenue would lead to additional cutbacks in critical services, including public safety.

- ***We recommend that the LGDF remain intact and local governments share in any natural increases in income tax revenues. We further recommend that any reductions in the corporate income tax require an appropriate adjustment to the LGDF formula to keep local governments whole.***

2. Ensure prompt payment of LGDF to local governments

Although the state income tax increase slightly improved the timeliness of LGDF payments to local governments, the payment cycle still runs several months in arrears. This delay places a strain on local government cash flow.

3. Restore the diversion of Personal Property Replacement Tax (PPRT) funds

Although the amount of PPRT funds diverted to pay for a state obligation (regional school superintendents) was approximately 1% of the total distributions, this practice sets a disturbing precedence that must not only be avoided but reversed. Unless action is taken to completely restore the diverted funds, this move will long be remembered as the beginning of "death by a thousand cuts".

4. Promote ability to reduce the cost of local government while avoiding increased taxpayer burdens

- ***We recommend legislation to require the direct deposit of LGDF to local governments. We recommend restoring the previous funds in the FY 2013 budget and protecting this fund from future diversions.***

Local government leaders are actively rising to the fiscal challenges we face by exploring innovative ways to reduce the cost of local government. Several groups are currently studying various methods to share local services which could increase service delivery efficiencies and create economies of scale that would greatly benefit taxpayers. Some of these efforts may require legislative actions to facilitate these innovations, providing our legislative leaders with the opportunity to not only protect local government revenues but also reduce expenses.

At the same time we pursue innovation, we strongly oppose any attempts to irresponsibly place additional burdens on local taxpayers through unfunded mandates. Oftentimes, the state's desire to address a situation or provide a benefit comes at the direct expense of fiscally strapped local governments and their taxpayers. These stealth tax increases significantly raise the costs of operating local governments. Unfunded mandates combined with the state diverting revenues from local governments are a recipe for disaster that must be avoided at all costs.

➤ ***We recommend that legislators work with local governments to facilitate cost saving innovations while avoiding the temptation to pass unfunded mandates on to the backs of local taxpayers.***

Exercise Caution While Addressing Sales Tax Sourcing Issues

Municipal leaders make decisions with long term implications to ensure sufficient revenues for their communities. One major decision is to dedicate land use within the municipality for intensive retail development in order to capture sales tax revenues. Planning for economic development of this nature requires each community's leaders to achieve a balance of the infrastructure and public services investments to support this growth, the revenue streams anticipated from the expected growth and the requirements to protect nearby residents impacted by the resulting retail center environment. In short, municipalities that have attracted significant levels of sales tax generating development have done so after fully considering the tradeoffs needed to ensure it is the proper fit for that community. Lower local property and other taxes for residents is often the benefit that mitigates the external impacts. Two potential legislative actions in 2012 could produce unintended consequences for local government revenues. Both have the potential to require changes in the sales tax sourcing rules that determine where the revenues generated from a taxable sale are distributed. Even a seemingly minor change in the sourcing statutes could have a major impact upon the fiscal position of those municipalities that have made the long term decision to pursue retail development.

In Congress, the Marketplace Fairness Act has been introduced to allow states to enforce and collect local sales and use taxes on transactions conducted online. Currently, many online retailers utilize the "nexus" argument to avoid collecting and remitting the same taxes that would be collected on a transaction conducted in a "bricks and mortar" location. Unlike previous versions of legislation to

authorize the collection of sales taxes from online transactions, the Marketplace Fairness Act (as introduced) would not require changes to state sales tax sourcing laws.

In Illinois, several municipalities outside the Regional Transportation Authority's (RTA) service area have reached sales tax rebate agreements with companies to funnel the paperwork from their transactions through small offices to avoid collection of higher sales tax rates within the Chicago region. This arrangement allows these companies to charge a lower tax rate, giving them an unfair competitive advantage, and diverts sales taxes revenues away from the rightful local government where the actual transaction transpires.

- ***We support legislation to authorize the collection of sales taxes on all online transactions but our support is conditional as to whether the legislation will require any changes to sourcing rules.***
- ***We support eliminating these sales tax diversions to ensure that revenues are distributed to the rightful local governments but express opposition to any legislation that undermines current sales tax sourcing rules to divert revenues away from the physical location of the transaction.***

Place Municipalities in Primary Position on Liens During Foreclosure Sales

One of the biggest impacts of the recession has been the extraordinary volume of residential buildings that have foreclosed upon by the lenders. During far too many cases, these properties become abandoned leaving no one to maintain them during the foreclosure process. Left untended, these abandoned houses quickly deteriorate and become a blight upon the surrounding neighborhood, depressing nearby home values. In order to avoid this result, municipalities step up to maintain these properties when the lender or former owners fail to do so. Maintaining these abandoned properties requires the expenditure of municipal funds to secure the structure, mow grass, remove dangerous trees and turn off water or provide heat during cold weather to avoid damages from bursting pipes. These municipal costs are not always reimbursed when the foreclosure sale is concluded. Currently, municipal liens get in line with other creditors, leaving taxpayers at risk of not recouping the expenditures if sufficient proceeds are not generated from the sale.

- ***We recommend legislation to place municipal liens in a primary position during foreclosure sales.***

Address Labor Related Cost Drivers Complete Comprehensive Public Safety Pension Reforms

Public safety pension reforms adopted in 2010 were a significant first step toward getting this exponentially growing cost driver under control. Extending the

amortization deadline for funding the pension funds and adjusting the benefits for newly hired employees has mitigated some of the upward pressure these pensions placed upon local budgets. However, the work of public safety pension reform is not complete. The Pension Fairness for Illinois Communities Coalition, which spearheads this effort, presented a five part platform for comprehensively addressing the problem. It is time to revisit the three unresolved planks in that platform to complete this vital work. In addition, the 2010 reforms changed the actuarial methodology in a manner that may produce unintended consequences.

1. Require a more equitable employee contribution toward the cost of the pension

Currently, public safety employees contribute approximately one-third toward the cost of their pensions while taxpayers contribute the remaining two-thirds. For the long term stability of any pension fund, the ratio of employer to employee contribution to the normal cost of the pension should be one-to-one. On top of the two-thirds contribution, taxpayers are also responsible for funding any unfunded liabilities, including those resulting from underperforming investment returns managed by the individual employee-controlled pension boards. Legislation in the form of Senate Bill 512 is under consideration for employees in state pension funds. Senate Bill 512 provides employees three options: 1) require a higher employee contribution toward their current pension, 2) maintain their current contribution level with the pension benefits going forward matching those of newly hired employees, or 3) allow the employee to opt into a defined contribution plan.

2. Consolidate existing individual police and fire pension funds into an IMRF type system

With over 650 individual public safety pension funds, the current system fails to take advantage of potential economies of scale to produce higher investment returns with lower operating costs. Currently, the Commission on Government forecasting and Accountability (COGFA) is charged with producing recommendations as to how to best consolidate these funds into a better system. There is a perfect model for multiple employer public pension systems - the Illinois Municipal Retirement Fund (IMRF).

➤ ***We recommend expanding Senate Bill 512 to require similar changes for public safety pensions.***

➤ ***We recommend consolidating the individual public safety pension funds into a single IMRF type system.***

3. Require a supermajority to approve any future pension benefit enhancements

Setting a higher threshold for adopting future pension benefit enhancements would make it more difficult to undo the reforms proposed and enacted. Speaker

Madigan has introduced HJRCA 5, which requires a three-fifths majority for pension benefit enhancements.

4. Restore the Entry Age Normal Funding Method

A change made to public safety pensions in Public Act 96-1495 changed the actuarial method for calculating required pension contributions from the previous Entry Age Normal (EAN) to a Projected Unit Credit (PUC) method. Although this change brings public safety pensions in line with the method used for state pension funds, PUC allows for lower initial contributions than EAN that will result in much higher pension contributions as governments get closer to the 2041 amortization deadline.

- ***We recommend the passage of HJRCA 5.***

- ***We recommend returning public safety pensions to the Entry Age Normal method.***

Prevent Abuse Through PSEBA Reforms

The Public Safety Employee Benefits Act (PSEBA) provides lifetime health insurance benefits to police and fire personnel (and their families) who suffer a catastrophic injury on the job. Providing PSEBA insurance benefits to those who are permanently injured while engaged in actively protecting the public and are no longer capable of supporting themselves and their family is not the issue we seek to address. The federal law upon which PSEBA is based defines catastrophic injury as “consequences of an injury that permanently prevents an individual from performing any gainful work”. The Illinois version of PSEBA omits this definition. Illinois courts have equated the award of a duty disability pension to a catastrophic injury, leaving determination of lifetime healthcare benefits to the discretion of local pension boards (governed by a majority consisting of current and former employees). There are numerous existing cases where the injury suffered, while significant enough to prevent the employee from returning to active duty as a firefighter or police officer, does not preclude the employee from obtaining other gainful employment. In fact, the very nature of PSEBA provides a perverse incentive, especially in cases where the employee is closer to retirement and facing the reality of paying for future healthcare insurance, to exploit a relatively minor injury into a condition that prevents the return to active duty. The cost of allowing these former employees who are otherwise gainfully employed to collect lifetime healthcare benefits at taxpayer expense is staggering. A single case often leaves local taxpayers liable for more than a million dollars in future healthcare insurance costs even while the former employee begins a second career.

Balance the Interest Arbitration Process

Police and fire employees' salaries and benefits have been escalating at rates that far exceed those of other municipal employees. While other employees have agreed to salary freezes and other measures to control costs during the current

economic downturn, the interest arbitration process has made it extremely difficult to negotiate reasonable contracts for public safety employees that reflect the community's ability to afford. It becomes very challenging to manage municipal staffing when one class of employees is sacrificing to balance the budget while those in public safety enjoy multi-year increases in salary and benefits.

➤ ***We recommend amending PSEBA to bring the term catastrophic injury in line with the federal definition.***

➤ ***We also recommend that current PSEBA beneficiaries who are eligible to enroll in other healthcare coverage to both report this eligibility and enroll in the alternative coverage.***

The current system is out of balance. Arbitrators determining police and fire contracts routinely review both the union and municipal offers and award salary and benefits based upon either one or the other with little attempt to reach a middle ground. Too often this ends up being the union offer with virtually no regard as to the ability of the taxpayers to afford the final total compensation package. While the interest arbitration system provides a means to work out labor management differences while avoiding public safety workers going on strike, the reality is that the rules are skewed toward the labor side of the equation. Compounding this imbalance are efforts to include management decisions such as determining manning levels in the arbitration process. Without some corrective steps, the interest arbitration process is eroding the ability for municipal leaders to effectively manage, and consequently afford, their public safety operations.

➤ ***We recommend requiring arbitrators to take into account economic factors such as the budgetary constraints facing local governments when determining the total compensation packages awarded through the interest arbitration process.***

➤ ***We further recommend that manning levels and other management decisions be excluded from the process.***

