



Proactive Options for Municipal Revenue Generation

Creating a sustainable fiscal future for Chicago

July 2015

As Chicagoans, we have big dreams about what our city could be like--and big problems in funding critical programs and institutions upon which we all rely.

If Chicago is to continue to offer a wide array of services and programs to its residents, and if our city is to grow in new ways in the coming decades, we have to face the facts: we must find ways to generate new revenue.

The City Council Progressive Reform Caucus believes we must approach this challenge with a focus on efficiency and fairness. That means **asking Chicago's wealthiest residents and corporations with the most means to pay their fair share** so that the burden of higher taxes does not disproportionately impact working Chicago families and middle class homeowners.

Solutions to Chicago's budget challenges require the Illinois General Assembly to pass an amendment creating a graduated state income tax. We also continue to call on Springfield to pass a Financial Transactions Tax, which could generate an estimated [\\$12 billion](#) annually for the State, some of which could be directed toward fulfilling Chicago's pension obligation.

However, with Springfield at an impasse, Chicago leaders must work together to identify additional paths to fair revenue generation. The following are a selection of some of the possible options we as aldermen must consider--but this is by no means the total list, and we look forward to working with our colleagues and the Mayor's Office to implement a fair, efficient approach to our city's finances.

City Revenue Options

The Progressive Caucus' main priorities for making revenue at the City level fairer and more effective without State intervention include TIF reform, the institution of a Bad Business Fee, and modernizing the sales tax and levying a luxury tax on non-essential, high-value purchases like fur coats, high-end jewelry and boats above a certain price point.

We also encourage the Emanuel Administration and our City Council colleagues to consider other options, such as a Stormwater Stress Tax to make sure big box stores and other large stressers on our sewer system pay fair rates, conservation pricing to charge bulk utility users at a higher rate, rideshare regulation, collecting on unpaid

fees and fines in a fair and efficient way, and moving to reduce the City’s costly “true-up” payments on the parking meter deal. We have also identified several protections on working families and seniors we hope will be included in any property tax increase proposal.

We believe strongly that the Office of the Inspector General must be empowered to begin implementing **substantive, regularly scheduled forensic and performance audits of every City department**--and that accountability mechanisms must be implemented to ensure that the findings of those audits lead to real changes to save taxpayer dollars.

Tax Increment Finance Reform

Chicago’s system of Tax Increment Financing, or TIF, siphons needed property tax revenue away from resource-starved areas like our public school system, parks and libraries. The Progressive Caucus was encouraged by the Emanuel Administration’s recent agreement to close seven TIF districts that were not serving blighted areas--something the Caucus has long called for. But there is more to do. The TIF system requires a **full audit** to identify additional districts that can be closed, so that funds can be returned to the original taxing bodies from which they were drawn, like our school system and park district. And while the Progressive Caucus is glad the Emanuel Administration has decided to sign into law a requirement that some surplus TIF funds be put back into the system, we believe a higher percentage, possibly as much as 50 percent, can be redirected every year. We also continue to push for clearer standards by which to define ‘blighted’ areas that need TIF support. And we renew our call to allow CPS to opt out of TIF to reduce the fiscal impact of the program on our public schools. Depending on how it is executed, **TIF reform could free up at least \$400 million annually.**

Sales Tax Modernization - Service Taxes

In 2012, the Office of the Inspector General’s Saving and Revenue Options Report identified use of service taxes as a major potential source of revenue. At the time of the report, Illinois taxed only 17 services, most related to utilities, while the average number of taxed services across the 49 other states was 56.

The Inspector General identified another source of fair revenue that could be generated if the following services were taxed at 2.25 percent:

- Accounting, tax prep, bookkeeping services \$13.9 mil
- Portfolio management \$25.8 mil
- Legal services \$50.8 mil
- Dentists \$13.9 mil
- Offices of real estate agents and brokers \$16.9 mil

Even with only modest growth in use and cost of these services, the economic benefit to the City of Chicago could be substantial. **According to the Inspector General, this could potentially raise \$450 million annually.**

Luxury Tax

A luxury tax could be placed on non-essential goods or expensive goods sold within in the City of Chicago. Such a tax could be placed on items such as high-end jewelry, furs, or other high-value, non-essential items for

sale, as well as services such as pet grooming, travel services, plastic surgeons, investment counseling and architects. A luxury tax in the City of Chicago would not only raise revenue, but can also alleviate some of the burden of the sales tax from working families to those Chicagoans with more means to pay.

Bad Business Fees

Instituting [a fee on bad businesses](#) collected based on failure to pay workers a living wage could produce revenue with which to subsidize public assistance needed by underemployed and underpaid citizens. A bad business fee could be charged as a fee per employee earning below a certain wage. Such a fee would also encourage businesses to return to the market and find their own cost-effective measures for providing benefits such as health insurance to their workforce.

The progressive tax reform coalition Americans for Tax Fairness [recently estimated](#) what failure to pay a living wage by large conglomerate companies such as Walmart are costing taxpayers annually. Using Walmart as the exemplary store to audit, it was determined that the chain costs approximately \$6.2 billion annually in public assistance.

Adjustments to Property Tax

There have been several hints from the Mayor's Office about a potential raise in the property tax rate for Chicago homeowners this year. While we recognize that Chicago has one of the lowest property tax rates in the region, we are concerned about the disproportionate impact such an increase could have on seniors and working families, especially if no other serious attempts at reform are made to tackle the waste and inefficiencies that still exist in the City budget.

It is our hope that any proposal to increase the property tax rate for Chicagoans also includes a measure to expand the Senior Homestead Exemption and the creation of a Low-Income Neighborhood Exemption to ensure that communities with significant low-income populations do not suffer. Another option might be the creation of an exemption for Chicago residents earning below a set income level, rather than providing exemptions based on percentage of income devoted to property taxes, and implementing a "circuit breaker" limiting the percentage of income that any Chicago pays in property taxes.

An additional possibility to consider is the creation of an Alternative Minimum Property Tax for Chicago's Central Business District. Too often, political insiders cut deals for reduced property taxes on multimillion dollar skyscrapers. These tax giveaways create undue pressure on the City budget. Under this plan, we can create a compromise where good faith legal arguments can still be made, but in which City can set a minimum valuation on property for tax purposes that will help stabilize the budget as well as comparative property values throughout the city. This number could be set based on annual expert analysis of real estate market rates.

The implementation of a Cook County real estate transfer tax exempting the first \$500,000 of a principal residence that would allow for increased taxation of luxury homes would raise revenue while ensuring that businesses and owners of multiple luxury homes contribute meaningfully and proportionately to tax revenues. This tax would provide no exemption from the tax if real estate is non-residential or not a principal residence. The revenue produced would go to the municipality that generated it.

Finally, we encourage the City to embark on a concerted campaign to negotiate with large tax-exempt institutions to forge more voluntary [Payment in Lieu of Taxes \(PILOT\)](#) agreements. Some universities in cities around the country, for example, have agreed to PILOTs with their municipalities which ensure that the universities contribute revenue needed to guarantee their home cities continue to be appealing places to live for students, staff and faculty, and which ensures that the relationship between local government of and the university is amicable and productive.

Regulating Rideshares

Creating productive and comprehensive rideshare regulations requires transparency at the City level and from the corporations themselves so lawmakers can access accurate figures. While rideshare companies are required to pay a ground use tax of \$0.30 per ride, the companies are not required to disclose their finances in the same way taxis are. This lack of transparency interferes with the public's ability to know that these taxes are being paid in full and collected in full by the City. Until the rideshare companies disclose how many vehicles they employ, there can be no estimating how much tax revenue the City could be collecting. The expanded use of infrastructure and contribution to pollution of rideshare companies will undoubtedly result in economic and health costs to the city and its citizens. Without accurate data to project the impact of the increased use of roads and pollutants, the City cannot adequately prepare for the financial and health burdens and risks.

The City should consider **freezing new rideshares until an environmental impact study can be completed** to calculate exactly how many rideshares are on the road and what can be done to reach a balance between taxis and rideshares.

Rideshare regulation can produce revenue for the City by requiring more stringent licensing (*i.e.*, requiring Uber, Lyft and other drivers to obtain the same level of licensing as taxi drivers, Chauffeur licenses). Under 9-115 of the Municipal Code, hours can be averaged, which allows rideshare drivers to seem as though they are not full-time workers. Removing the averaging hours allowance would mean all full-time rideshare drivers would have to obtain and pay for chauffeur's licenses. That [fee is \\$15](#), but also requires drivers to clear all City debts.

The law should also mandate rideshare drivers to obtain and carry the same insurance requirements as taxi drivers. If rideshares paid the same amount as taxis in taxes and licenses, assuming there are at least 5,000 rideshare vehicles on the road, this would amount to more than \$7.8 million in additional revenue annually. In fact, City watchdogs estimate the number of rideshare vehicles on the road is likely far higher than that.

The lack of regulation on rideshare, combined with the strict regulations of taxis, is resulting in loss of jobs in Chicago and driving down the cost of taxi medallions. It is estimated that the City holds almost 100 unissued medallions due to their diminished value by the proliferation of ridesharing. Reviving the taxi industry's presence in the transportation market will drive the prices of medallions back up, and, in time, could alleviate the instance of default on loans made to medallion purchasers, and encourage banks to begin providing medallion loans again. Banks are increasingly wary of granting loans for the purchase of medallions due to the increase in default as medallions continue to decrease significantly in value.

Collecting Unpaid Fees and Fines Fairly

Chicagoans owe more than \$1.5 billion in unpaid red light, speed and parking tickets, according to a recent [report from DNAinfo](#). The Progressive Caucus has taken a firm stance against the proliferation of red light and speed cameras, even introducing an ordinance to sunset the contracts with the vendors of those cameras, because we believe the fines assessed on regular Chicagoans through those mechanisms are regressive and unduly burdensome.

According to DNAinfo's report, the vast majority, or \$1.3 billion of this uncollected debt, stems from unpaid parking tickets. Our recommendation, in addition to ending or limiting the red light and speed camera programs, is that the City re-offer a ticket amnesty program allowing drivers at a certain income and City debt level to, within a certain window of time, pay a reduced amount to clear their debt. Moving forward, the City needs to reassess the fine process to be less burdensome on low-income Chicagoans.

To add to this, Office of the Inspector General (OIG) reports note a wide range of opportunities to collect outstanding and unpaid fees due to mismanagement and deficiencies in billing. The recent OIG report auditing the Chicago Department of Transportation's management of the Loading Zone and Residential Disabled Parking Sign Process, for example, found that the City "failed to collect \$3.9 million, or 59.9% of the recurring loading zone fees invoiced in 2013...miscalculated...installation fees for 100% of a sample of 95 zones reviewed by OIG...[and] did not maintain complete data for 88.4% of installations."

Identifying current inefficiencies in the City and remedying them will not only raise revenue through proper collection of fines and fees, but it also has the potential to slash spending on operations.

Emissions Tax

Raising municipal taxes on pollutants affecting groundwater can be employed to produce revenue from uses such as petcoke, inefficient waste water treatment systems and inadequate toxic waste storage and treatment facilities.

Local Polluters

The City has largely failed to enforce Chicago Municipal Code 11-5, which mandates effective recycling programs be implemented in condominium buildings, co-operative buildings and residential buildings with more than four units. The penalty is a per-day offense ranging from \$25 to \$100, and violations are widespread.

Enforcing these fines could not only provide revenue, but would also benefit the City's environment by cutting down on landfill materials and engaging in more substantial production of recycled materials. Fines could be reported through 311 and ticketed by Streets and Sanitations or Ward Superintendents.

Zero Waste Program

Under a Zero Waste program, the City would require Chicago buildings to break down recyclable materials by category so they can be reprocessed and sold to recycling companies at profit. Creating this unified waste collection program would also reduce landfill waste and provide environmental benefits for residents. Other cities like Seattle and San Francisco have already implemented Zero Waste programs. **Implementing this program could raise as much as \$299 million over 10 years.**

Reduce True-up Payments Using the 2013 Parking Meter Deal Renegotiation

The [Metropolitan Planning Council](#) (MPC) has noted that there are a variety of ways where the City could potentially reduce the quarterly “true-up” payments (made for taking parking meters out of service for festivals, road work, and other closures) to Chicago Parking Meter, LLC potentially to zero, if not actually create more revenue for the City. Those include:

- Identifying and eliminating unmetered parking in areas where most spots are metered. In high demand parking areas - including the Loop - it is still possible to find unmetered parking spaces. To comply with the parking meter deal, the City would need to evaluate all parking in business districts and install meters where they make sense until the system-in-service is 100 percent. Beyond that, the spaces can be added to the “reserve” parking pool, of which the City receives 85 percent of the revenue.
- Performance Pricing. For several years, we have advocated for the City to move to dynamic pricing for parking. A 2013 MPC study of parking in Wicker Park and Bucktown found that parking was plentiful during weekdays and sparse on nights and weekends. The [worst time to find parking was 10 p.m. Fridays and Saturdays](#). By instituting dynamic pricing, the City could increase revenue from these meters during peak demand hours. This does present some risk if the change results in a loss, but it has the potential to help eliminate any true-up payment, saving taxpayer dollars.
- Encourage use of Mobile Pay. Under the renegotiated agreement, the City retains revenue generated by the system beyond \$2 million. According to the MPC, current revenue suggests that only a small percentage of transactions currently performed with cash or credit card would need to be performed with Mobile Pay for the City to gain revenue within the agreement.

Stormwater Stress Tax

A Stormwater Stress Tax could be assessed by square foot of impervious area--meaning that big box stores and major institutions with large parking lots would pay more for their larger impact on the drainage system.

The city of Ithaca, New York recently instituted a stormwater drainage tax requiring large institutions and stores to pay more--and which brought down small home bills for drainage from \$100 per year to just \$42 per year.

While it is difficult to project exactly how much revenue a Stormwater Stress Tax could generate annually, it is clear that this revenue measure could ease the burden on working families while asking large corporations and other major entities to pay their fair share.

Conservation Pricing

Conservation pricing would allow the City to charge bulk users of utilities like water, electricity, garbage collection and stormwater drainage at a higher rate, and can also help stem environmental waste.

Conservation pricing is commonly used for water and electricity, and can also further environmental goals of reducing waste. Through conservation pricing, larger users pay a higher price per unit, which means that large

entities like big box retailers, industry, and even universities and hospitals could potentially even subsidize lower rates for lower income Chicagoans.

Conservation pricing is best reverse engineered in order to avoid harming low-income users. Identifying bulk users, and the utilities most stressed by those users, to calculate a baseline over which the cost of use increases, is an effective way to ensure the price structure is progressive in nature. Setting a baseline of use that is well above average family use should ensure that utilities do not become an inelastic expense to Chicago's working families, while also requiring that bulk consumers like big box stores pay not only for their exaggerated resource use, but the stresses such use places on the environment.

Merge Chicago Board of Elections with Cook County Clerk's Office

We support moving the Board of Elections to the purview of Cook County Clerk's office, which is already equipped to handle electoral logistics, and has expressed willingness to absorb this entity. The different agencies involved have studied and worked on this joint effort, which **could save an estimated \$13 million annually**.

Investor Landlord Refuse Fee

This fee would aim to bring investor landlords renting out non-owner occupied single family homes and small apartment buildings in line with other landlords in the city. It would require that these building owners take responsibility for paying the cost of garbage collection for their profit ventures, much like other landlords.

Revenue Options Requiring Illinois General Assembly

We urge the Illinois General Assembly to work together to pass a full menu of revenue options to fully fund pension obligations to public employees. These items would also restructure the tax system to be fairer and to lighten the burden on working families. The Progressive Caucus is committed to working closely with legislators to create momentum and political will for the passage of:

- A Graduated State Income Tax
- A Graduated City Income Tax
- A Corporate Income Tax
- A Financial Transactions Tax

About the Progressive Reform Caucus

The Chicago City Council Progressive Reform Caucus is dedicated to creating a more just and equal Chicago, combating all forms of discrimination, and advancing public policies that offer genuine opportunity to all Chicagoans, especially those who have been left out of our society's prosperity.

The Progressive Reform Caucus includes Ald. Leslie Hairston (5); Ald. Roderick Sawyer (6); Ald. Susan Sadlowski Garza (10); Ald. Toni Foulkes (16); Ald. David Moore (17); Ald. Ricardo Muñoz (22); Ald. Chris Taliaferro (29); Ald. Scott Waguespack (32); Ald. Carlos Ramirez-Rosa (35); Ald. Nick Sposato (38); and Ald. John Arena (45).

For more information on the Progressive Caucus, please visit www.chicagoprogressivecaucus.com.