The Civic Federation

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THE CIVIC FEDERATION
2013 LEGISLATIVE PRIORITIES

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The Civic Federation ● 177 N. State Street ● Chicago, IL 60601 ● civicfed.org

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

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

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ENACT PUBLIC EMPLOYEE PENSION REFORMS

The State of Illinois has unfunded employee pension liabilities of nearly $83 billion[1] and many local governments are either straining under the cost of employee pensions or facing the possibility that the funds will run out of money to pay retirees.

The Civic Federation supported reforms passed by the General Assembly in 2010 that reduce pension benefits for state and local public employees hired on or after January 1, 2011. The reforms included raising the retirement age, limiting the maximum pensionable salary and reducing automatic cost of living adjustments for annuities.

The Civic Federation has long advocated for many of these changes, which will make pensions more affordable in the future. However some pension funds are so severely underfunded that they may still run out of money if nothing is done to further reduce benefits or increase contributions (e.g., the Chicago Municipal Fund was only 40.6% funded on a market value basis for FY2011 and if nothing is changed will run out of funds by 2025). For other funds, the employer contribution level has become so high that it threatens to crowd out spending on government services (e.g., the State of Illinois' total pension-related expenses for FY2013 represent 22.0% of total state-source General Funds revenues).

The Civic Federation urges the General Assembly to pass further legislation to reduce benefits for current employees of the State and local governments and to increase contributions. Governments must decide what portion of their expenditures or revenues they can afford to devote to pension costs and then adjust benefits to match that level. Swift action is needed in order to ensure the financial viability of our state and local governments as well as the retirement security of state and local employees and retirees.

Funding Reforms

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

1) Reduce Benefits for Current Employees and Retirees

The State of Illinois and local governments will continue to have difficulty funding the pension promises they have made to their employees unless they move to reduce pension benefits for current employees in future pension reform legislation. State officials have discussed several possible ways of reducing current employee and retiree benefits in a manner that is constitutional. The Civic Federation encourages the General Assembly, Governor and local government officials to pass legislation that will ensure that pension benefits are financially sustainable for workers, retirees and taxpayers.

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[1] This is the actuarial ("smoothed") value for the five state retirement systems in FY2011. Market value unfunded liabilities were $83.1 billion. Commission on Government Forecasting and Accountability, "Report on the Financial Condition of the Illinois State Retirement Systems: Financial Condition as of June 30, 2011," pp. 24-25.

2) *Apply Automatic Annual Increase Reforms to Current Retirees and Employees Hired Before January 1, 2011*

Public Act 96-0889 reforms reducing automatic annual annuity adjustments were not applied to current retirees or employees hired before January 1, 2011. It remains unclear how the State can comply with statutory pension funding requirements and also pay for other costs of running State government. In light of fiscal realities, the Civic Federation therefore recommends that current retirees and employees receive the same annual benefit increases as workers hired after January 1, 2011: 3% a year or one-half of the increase in the CPI, whichever is less, and that the benefits be increased by a simple interest rate.

3) *Require Employer and Employee Contributions to Relate to Funding Levels*

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

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

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

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

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

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

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

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

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

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

6) *Prohibit Funding Holidays and Borrowing for Employer Pension Contributions*

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

Prior to the passage of P.A. 96-0889, the CPS required contribution for FY2011 was calculated to be $586.9 million, or almost double the FY2010 amount. P.A. 96-0889 reduced the District's required FY2011 contribution to $187.0 million, which is $120.5 million, or 39.2% less than the prior year contribution.[3] In FY2014, the year when the reduced payment provision sunsets, the District's pension payment will increase to $534.2 million, an increase of $338.2 million over the scheduled FY2013 pension contribution. The three-year partial payment reprieve, while sparing the District additional pain in the current fiscal year, will only intensify the District's enormous pension funding problem in outlying years.

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

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[2] "Normal cost" is an actuarially-calculated amount representing that portion of the present value of pension plan benefits and administrative expenses which is allocated to a given valuation year.
[3] Actuarial projection by Goldstein & Associates for Kevin Huber, Executive Director of the Public School Teachers' Pension and Retirement Fund of Chicago, March 31, 2010.

7) Tie Pension Obligation Bond Issuance to Pension Reforms

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

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

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

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

Governance Reform

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

1) Consolidate Local Pension Funds

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

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

The mission of a public pension fund board of trustees should be to ensure effective benefit administration and safeguard the fund's assets through prudent investment oversight.

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

Unfortunately, many pension boards also act as advocates on behalf of fund members, lobbying for benefit enhancements that ultimately increase the funds' liabilities.

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

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

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

Financial Reporting and Disclosure Recommendations

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

1) Require Reporting of Basic Projections

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

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

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

2) Require Benefit Enhancement Reporting

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

CREATE AN ILLINOIS MUNICIPAL PROTECTION AUTHORITY

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

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

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

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

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

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

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

The Civic Federation agrees with the National Advisory Council on State and Local Budgeting that **all governments should develop a five-year capital improvement plan (CIP) that identifies priorities, provides a timeline for completing projects and identifies funding sources for projects.** The CIP should be updated annually and have formal approval by the governing body.[5] A formal capital improvement plan includes the following information:

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

Above all, the capital improvement plan should be predicated on a publicly disclosed needs assessment and prioritization process. In addition, the CIP should be made publicly available for review by elected officials and citizens. It should be published in the budget or as a separate document. The CIP should be also made available on the government's website. The Civic Federation urges the General Assembly to pass legislation requiring the State to develop, publish and implement a Capital Improvement Plan that is regularly updated and is actively used in the State's planning and budgeting processes.

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

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

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

The plan is submitted to the North Carolina legislature every 2 years.[6]

REQUIRE THE STATE OF ILLINOIS TO DEVELOP AN ECONOMIC DEVELOPMENT POLICY

The State of Illinois does not currently have a comprehensive policy on economic development incentives. Instead, the State has a wide variety of incentives reducing specific State or local tax burdens that are provided mostly upon request by corporations. This creates an uncertain tax environment for businesses in Illinois and, as witnessed during the fall 2011 veto session, can leave the State vulnerable to competition from other states that try to entice businesses with financial incentives to relocate or expand outside of Illinois.

In FY2011, the most recent year for which data are available, the State spent a total of $410 million on tax incentives for businesses.[7] According to 2009 Illinois Department of Revenue data, only 0.7% of the more than 450,000 corporations filing taxes in Illinois take advantage of these tax incentives.[8]

A transparent economic development policy would effectively curb economic brinksmanship by Illinois businesses by creating a predictable process for applying for and earning tax incentives. Such a policy would also help decide which tax incentives are most beneficial to the State.

The Government Finance Officers Association (GFOA) recommends that governments create an economic development policy that includes goals and objectives, a list of financial incentive tools and their limitations, an evaluation process applied to all approved incentives, performance standards and a process for monitoring and compliance. It is also important that the State communicate its policy to the public, along with complete data on companies that benefit from incentives and costs and benefits to the State.[9]

The Civic Federation recommends that the State of Illinois develop a comprehensive economic development incentive policy to allow the State to monitor the relative effectiveness of various incentive programs. Such a policy should be in place before the State renews, expands or creates any economic development incentives.

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[6] North Carolina Office of State Budget and Management. *North Carolina Capital Improvement Program: Implementation of the Capital Improvement Planning Act*. Six Year Summary FY2007-FY2013. April 2007.
[7] Illinois State Comptroller, *Fiscal Year 2011 Tax Expenditure Report*, August 2012, p. 8.
[8] Illinois Department of Revenue, *Business Income Taxes in Illinois*, July 19, 2011.
[9] Government Finance Officers Association, *Best Practices: Developing an Economic Development Incentives Policy*, October 17, 2008.

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

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

On March 17, 2008, the Civic Federation and Friends of the Forest Preserves published a report calling for the removal of the beleaguered Cook County Forest Preserves from the control of the Cook County Board of Commissioners.[10] The report found that the County's dual board structure whereby the Cook County Board of Commissioners also serve as Forest Preserve District Commissioners creates an inherent conflict of interest and inhibits proper oversight of the Forest Preserves of Cook County.

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

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

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

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

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

DISSOLVE THE ILLINOIS INTERNATIONAL PORT DISTRICT

The Civic Federation commends **Senator Dan Kotowski** (D-Park Ridge) for having introduced **Senate Bill 329**, a bill that would have dissolved the Illinois International Port District and transfered its assets and responsibilities to the City of Chicago. The Civic Federation's June 30, 2008 research report on the Port District found that it had shifted its primary focus from port operations to the management of a golf course.[11] The golf course brings in over half of the District's annual revenue, but there is no evidence that those revenues have been reinvested to improve port facilities or promote commerce. Because **the District is failing to fulfill its principal mission, the Civic Federation calls upon the Illinois General Assembly and Governor to dissolve it.**

The Civic Federation analyzed the Illinois International Port District's finances and activities and contrasted them with five comparable ports along the Great Lakes – St. Lawrence Seaway. As a result of this investigation, the Federation is concerned that the District appears to be focused on golf rather than shipping and port operations. Harborside International Golf Center is the Port District's only major construction project since 1981. In contrast, the Federation found that none of the five other ports in the study focus their operations predominantly on recreational activities or entertainment facilities. Port authorities in the other cities derive most of their revenues from activities associated with the normal operations of a port, such as leases, rentals, contracts and grants.

Of additional concern to the Civic Federation is the fact that the District seriously lacks transparency and openness to the public when compared to other ports and governments. The Civic Federation found that the District did not make information about its finances, Board members, or Board meetings publicly available on its website.[12]

Due to these serious concerns, the Civic Federation calls for the dissolution of the Illinois International Port District. The Federation's report recommends that the City of Chicago assume control of port operations because the City has a clear stake in turning the Port of Chicago into a more vibrant center of maritime commerce and regional economic and industrial development. By reassuming the control of port lands it gave up over fifty years ago, the City of Chicago could provide access to greater financial resources and professional staff that would benefit the port and its mission. After the District has been dissolved, the City of Chicago should consider transferring the District's open lands to the Forest Preserve District of Cook County and its golf courses to the Chicago Park District.

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[11] The Civic Federation, "A Call for the Dissolution and Restructuring of the Illinois International Port District," Chicago: June 30, 2008. http://www.civicfed.org/articles/civicfed_273.pdf

[12] The Port District has subsequently published Board meeting dates, agendas and minutes on its website along with some financial information.

REQUIRE ALL COUNTIES TO HOLD BUDGET HEARINGS

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

AUTHORIZE TOWNSHIPS TO BE DISSOLVED BY REFERENDUM

The Illinois Constitution appears to permit dissolution of townships by referendum (Illinois Constitution, Section 5: Townships). However, township laws only provide for the dissolution of all the townships in a county, not the dissolution of individual townships (60 ILCS 1/25-5 Discontinuance of Township Organization). Illinois statute states that 10% of registered voters in each township must petition for a referendum on continuance of township government. Elimination of township government then requires approval "with a majority of the votes in at least three-fourths of the townships that contain at least a majority of the population in the county." Because of the confusion, recent efforts to dissolve township government in Evanston have been delayed. Evanston has requested an opinion from the Attorney General seeking clarity on how to move forward with dissolution of its township. Senator Jeffrey Schoenberg filed a bill in the 97th General Assembly to permit Evanston to proceed with dissolution (SB 2874), an action recently approved by Evanston voters in a referendum. Rep. Karen May has introduced legislation that would permit referenda to abolish townships in all counties with populations over 50,000 (HB4987).

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

REQUIRE SCHOOL FINANCIAL MANAGEMENT ACCOUNTABILITY REFORMS

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

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

Budgeting

a) Budget Format

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

1. School district major goals and objectives
2. A discussion of major financial factors and trends affecting the budget such as changes in revenues, enrollment and debt
3. A description of the budget process
4. An overview of revenues and expenditures for all funds
5. An explanation of significant financial and demographic trends
6. Budget forecast for 3-5 years in the future
7. Student enrollment trends, including a future forecast
8. The number of personnel by type as well as a discussion of personnel changes
9. Changes in debt burden
10. Relevant performance statistics

Full Budget

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

b) Evaluation

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

c) Disclosure

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

Internal Controls

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

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

a) Formal Financial Policies

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

b) Long Term Financial Planning

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

c) Capital Improvement Plan (CIP)

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

Financial Management Training for School Board Members

1. The State of Illinois should require all school board members to complete at least six hours of training on their financial oversight, accountability and fiduciary responsibilities.

2. The training must be completed within a year of their election and could be provided by an Illinois State Board of Education-approved trainer.

Financial Management Accountability Oversight

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

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

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

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

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

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

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