

Restoring Chicago's Fiscal and Economic Health

March 21, 2015



Authors: Ron Baiman, Bill Barclay, Luis Diaz-Perez, Caitlyn Prosapio, June Zaccone

Executive Summary

Chicago's next Mayor confronts economic stagnation, unemployment, budget and pension shortfalls. A lack of good jobs, the root of neighborhood economic and social dislocation, cannot be addressed through more or better policing, education or human services, needed as they are. Overcoming 26 years of neoliberal policy under the Richard M. Daley and Rahm Emmanuel administrations requires a program to create jobs, fund pensions and the City's budget. This effort will require new taxes and other funding measures.

Because financial trading is Illinois' most profitable industry, it makes sense to expect the financial sector to contribute substantially to the state and city where it prospers most. Today it does not. Thus, a transactions tax on LaSalle St. Exchanges (A LaSalle St. Tax or LST) represents the most principled, direct and effective mechanism to generate the revenues essential to overcoming Chicago and the region's most intractable fiscal and economic challenges. The authors estimate a nominal fee applied to trading on the Chicago exchanges could yield between \$11 and 12 billion annually to the public purse which can be applied to bolstering services, infrastructure modernization, and shoring up pensions, deficits and debt. They also explain in detail why claims that an LST that raises this much revenue would induce traders, the exchanges, or their electronic trading platforms, to relocate out of Chicago and Illinois are factually unsupportable.

A Chicago mayor allied with downstate Illinois legislators facing underfunded schools, concerned farmers and depressed economic conditions, would support a tiny, politically popular sales tax. Leadership committed to economic revitalization and fairness will move this issue forward, using it to apply hard, principled and necessary political pressure on a reactionary administration in Springfield, and in the public arena more broadly. The LST is an essential solution to the lack of revenue at both the City and State levels, as well as a potent platform for strategic coalition building.

This document also illustrates how the tax burden in Chicago and the state has shifted increasingly onto the poor and middle classes. Whether through the abuse of the Tax Increment Finance (TIF) regime or the pernicious effects of an imbalanced property tax structure, Chicago's squandering of public resources has contributed substantially to today's crises. For example, in each year between 2007 and 2012, revenue diverted to TIF funds was significantly more than the pensions' total employer costs. Moreover, in 2000, the four main pension funds backed by the city of Chicago were not in financial trouble. Chicago's pension crisis only emerged when TIF revenues soared. TIF revenue in 2000 was below \$200,000,000 but exceeded \$500,000,000 by 2007. TIF revenue alone can more than fund Chicago pensions.¹ The authors conclude that TIF financing in Chicago should be radically restructured or terminated.

This authors also favorably consider several other measures to raise public revenue, some of which have the added virtue of diminishing the burdens that disproportionately fall on Chicago's poor and middle class tax payers. Those measures include progressively restructuring the real estate tax, a commuter tax, a city income tax on non-residents and other more targeted alternatives.

CPEG offers this overview to highlight how leveraging Chicago's strategic position can enable policy that capably addresses the inadequacies of Chicago's tax system. Such an approach will help overcome one of the most serious political economic problems of the 21st century: runaway inequality, which largely results from wealth being especially concentrated as it is in the financial sector headquartered in Chicago.

¹ Good Jobs First, "Putting Municipal Pension Costs in Context: Chicago," April, 2014, p. 4.

Table of Contents

Introduction	4
Constructive Revenue Raising Options for Chicago	5
A LaSalle Street Tax to Meet Human Needs	9
Chicago TIFs	15
Shifting Metropolitan Chicago's Tax Burden	18
Appendix A: LST FAQ	21
Appendix B: Slides	23
Appendix C: Property Tax Burden Shift	29

I) Introduction

Chicago's next Mayor confronts several crises: economic stagnation, unemployment, budget and pension shortfalls. The lack of good jobs, which lies at the root of neighborhood economic and social dislocation, cannot be addressed through more or better policing, education or human services, needed as they are. Overcoming 26 years of neoliberal policy under the Richard M. Daley and Rahm Emmanuel administrations, requires a program to create jobs, shore up pensions and the City's budget, efforts which will require new taxes and other funding measures. Public policy initiatives such as our proposed jobs program are essential to reversing years of increasing inequality, poverty and middle class decline in Chicago and across the Midwest.²

Public Revenue Raising Options that Will Improve Rather than Worsen Chicago's Economic Problems

Offered four choices on ways Chicago could solve its \$30 billion pension shortfall, respondents to a recent *Chicago Sun-Times* (5/11/2014) poll on revenue raising options for the City of Chicago found:

Raising property taxes ranked dead-last, chosen by only one percent of the Chicago voters surveyed. The favored remedies— both at 25 percent — were a “commuter tax” on suburbanites working in Chicago, and the transaction tax on LaSalle Street exchanges. Close behind — at 21 percent — was a city income tax. That's somewhat surprising, since a city income tax would have to be paid by many of those polled³.

Though we will suggest a number of other measures to raise public revenue, we believe the three options favored by Chicagoans in the poll are among the City's most principled and effective major public revenue raising alternatives. These alternatives address the two central challenges facing Chicago, other large cities, and the nation as a whole:

- Unseen in nearly 100 years, today's accelerating inequalities of income and wealth are abetted, not at all remedied, by highly regressive state and local taxation systems.⁴
- De-industrialization and accelerating suburban sprawl renders city cores, such as Chicago's, in the position driving the wider regional metropolitan economy that depends on the city's infrastructure and services without commensurately sharing the tax burden required to pay for them. This long recognized problem is particularly acute in Chicago, where racial and economic segregation intensifies poverty and lack of opportunity.⁵ This means that even as median incomes for city residents continues to fall below those of its outlying suburbs, Chicagoans continue paying a disproportionate share of the metropolitan tax burden.⁶

² See for example:

http://www.ctbaonline.org/sites/default/files/reports/ctba.limeredstaging.com/node/add/repository-report/1385495360/R_2010.10.29_FINAL%20Funding%20Our%20Future-CTBA%20Report%20.pdf and later CTBA reports.

³ <http://chicago.suntimes.com/?p=166144> .

⁴ See: <http://www.itepnet.org/whopays3.pdf> . Note that Illinois, and by implication Chicago, is has one of the most regressive tax systems among almost 50 states with regressive tax systems.

⁵ See for example this excellent 2/4/2015 article Steve Bogira and Mick Dumke of the *Chicago Reader*: <http://www.chicagoreader.com/chicago/still-separate-unequal-and-ignored/Content?oid=16347785>

⁶ Op. Cit.

II) Constructive Revenue Raising Options for the City of Chicago

1) A Transactions Tax on LaSalle Street Financial Exchanges

A transactions tax on LaSalle Street exchanges, or “LaSalle Street Tax” (LST) would directly address the problem of increasing inequality of wealth and income that is most pronounced in cities where the wealthiest 1% flourish amidst declining standards of living, fewer living-wage job opportunities, increasing poverty and decaying social conditions. This tax would apply to financial traders whose financial wealth comes at the expense of “Main Street” impoverishment, as the 2008 financial crash made clear. It makes no sense to not tax the beneficiaries of an industry that grew up and developed in Chicago, and is currently the city’s most profitable industry. The financial sector is, to quote Willie Sutton, “where the money is”—in Chicago, in Illinois, and across the U.S. and global economies. Taxing the 1%, or the 0.01%, in this way simply means taxing finance, in a practical, direct, and very modest way at the local level.

We find factually unsupportable the notion that traders could trade these products somewhere else, or that the Exchanges or their electronic trading platforms could easily move out of Illinois. Same with the related claims that to prevent the traders, the exchanges, or their switches, from moving out of state and to avoid significant ‘trading suppression,’ the LST must not collect more than a few cents per contract – which would only raise about \$100 million. Instead, we believe it is possible to design an LST that will not induce sufficient volume suppression to induce the Exchanges to relocate, while raising \$10 - \$12 billion (See Section II of this report).

The proposed LST would constitute a minimal tax for most traders, levied at a much smaller percentage of trading value than financial transactions taxes implemented at trading exchanges around the world.⁷ The recent *Chicago Sun-Times* poll illustrates, as confirmed in other polls, that the tax is immensely popular politically, yielding substantial benefit to Chicago and the Illinois economy.⁸

The political advantages to organizing around this policy platform offers the greatest promise for generating social reform. Our seemingly intractable problems across what amount to many spheres of life can only be resolved with additional resources. Without reactivating the economy, Chicago can only expect to limp into a bleaker future, as institutions, the New Deal and the New Deal coalition wither. Revitalization in education, transportation, the economy and employment require it. The only constituency naturally opposed to a breakthrough LST is the financial sector and its lobby in Illinois.

Until 1980, the City of Chicago would have been able to enact a “tax on speculation” such as the LST. But, in that year, Tom Donovan, then President of the Chicago Board of Trade, lobbied the state legislature to strip Chicago of “home rule” authority in this one area, where otherwise the City relies on

⁷ <http://www.imf.org/external/np/seminars/eng/2010/paris/pdf/090110.pdf> , Table 1.

⁸ <http://chicago.suntimes.com/?p=166144> .

this authority to levy all other kinds of sales taxes.⁹ Thanks to Mr. Donovan's labors, the very well-off consumers of financial trading services were legislatively exempted from paying a sales tax like those paid by practically every other Chicago consumer.

Financial transaction tax supporters range from Nobel Prize winning economists, including James Tobin who first devised the policy tool, and members both of Congress and the Illinois legislature, to Angela Merkel, the Archbishop of Canterbury and Bill Gates. CPEG is part of a broad local coalition favoring an LST that includes the Chicago Teacher's Union (CTU) and many elements across organized labor, community groups, economists, health care professionals and numerous others. State Rep. Mary Flowers' HB0106, the Illinois "Financial Transactions Tax Act," is the most recent effort to capture the enormous opportunity available to all Chicagoans afforded by a miniscule tax on trading. The legislation would assess a \$1 per contract fee on all agricultural futures and futures options traded on the Chicago Mercantile Exchange (CME) and the Chicago Board of Options Exchange (CBOE), and a \$2 per contract excise fee on all other futures and future options and stock index options traded on these two exchanges. We estimate this approach could raise \$10 to \$12 billion a year for Illinois.¹⁰

A Chicago Mayor who allies himself with downstate Illinois legislators facing underfunded schools, concerned farmers and depressed economic conditions, would support a tiny, and highly politically popular sales tax. The tax would raise substantial funds while falling narrowly on the very wealthy out-of-state financiers who use the Chicago trading exchanges. Revenues from this tax would have an enormously positive economic impact, beyond what any other revenue-raising program might yield, sufficient for overdue infrastructure modernization and bolstering public services. From this platform, Chicago's next Mayor can lead the local, and hence national struggle, to overcome the financial sector. Coalitions between urban and rural constituencies can be built to pass HB0106 or other similar legislation. A Mayor committed to economic revitalization and fairness will move this issue forward, using it to apply hard, principled and necessary political pressure on a reactionary administration in Springfield, and in the public arena more broadly. The LST is an essential solution to the lack of revenue at both the City and State levels, and a potent platform for strategic coalition building.

2) Use of Tax Increment Finance (TIF) District Funds

Another option is to rely on funds held in Tax Increment Financing (TIF) accounts as part of their restructuring or closure.¹¹ In each year between 2007 and 2012, TIF revenue was significantly more than the six main pension plans total employer costs.¹² Moreover, in 2000, the four main pension funds backed by the city of Chicago (Police, Firefighters, Municipal, and Laborers) were not in financial trouble. Although early retirement played a role, Chicago's pension crisis only emerged when TIF revenues soared. The result is that the pension funds managed by the City of Chicago are more underfunded

¹⁰ See: <http://www.cpegonline.org/wp-content/uploads/2015/02/LST-for-IL-QandA.pdf> for a description of the details of HB0106.

¹¹ http://www.goodjobsfirst.org/sites/default/files/docs/pdf/chicago_pensions_0.pdf

¹² Op. cit. p. 4. The six main pension funds are the: Public School Teachers' Pension and Retirement Fund of Chicago, Municipal Employees' Annuity and Benefit Fund of Chicago, Laborers' & Retirement Board Employees' Annuity & Benefit Fund of Chicago, Policemen's Annuity & Benefit Fund of Chicago, Firemen's Annuity and Benefit Fund of Chicago, and Park Employees' Annuity and Benefit Fund of Chicago.

today than they were when Mayor Emmanuel took office. This despite the biggest bull market of the 21st century. TIF revenue in 2000 was below \$200 million but exceeded \$500 million by 2007. TIF revenue alone can more than fund Chicago pensions.¹³

It is also important to note that the estimated \$30 billion Chicago pension shortfall is an actuarial estimate of future liabilities based on assumed rates of return and inflation. We have shown elsewhere that Illinois' similarly estimated 2013 shortfall of \$ 94.6 billion could be more than 70 percent paid off by eliminating \$880 million in egregious Illinois business tax breaks and putting these revenues in a fund with similar rate of return and inflation assumptions.¹⁴ Prorating this calculation for Chicago's \$30 billion pension liability suggests that 100 percent could be paid off under similar assumptions by putting \$375 million a year into a fund for 33 years. There would be no reason for public pension obligations to be front loaded by 33 years if payouts were constitutionally guaranteed and this guarantee was fully backed by the courts.

3) Commuter Tax, City Income Tax on Non-Residents or Head Tax

Chicago's tax base needs to be broadened beyond the lower and middle class households now carrying the brunt of State and City taxation.¹⁵ As suburbanites earn the majority of the total income earned by those employed in Chicago, *a commuter tax applied to non-residents* has the virtue of both introducing equity in the tax system and generating additional public revenue. Though not common in Illinois, as of April 2011, more than 4,900 cities imposed non-resident local income taxes, including San Francisco and cities throughout Indiana, Ohio, and Kentucky.¹⁶ Such a commuter tax could also take the form of a restructured Chicago "head tax" repealed last year.¹⁷

4) Shifting and Progressively Restructuring the Property Tax

Progressive taxes that shift the burden of property taxes back to commercial property and to luxury residential property can raise money while possibly giving low-income small home owners a break, or at least not raising property taxes for them. From 1981 to 2012 there has been a 44 to 62 percent *increase* in the residential share of Cook County property tax revenue and a corresponding reduction from 38 to 28 percent in the commercial property tax share.

It is highly unlikely this massive shift of the property tax burden to home owners is due to a disproportionate increase in the value of residential property relative to that of commercial property. Rather, as leaked memos from the Cook County Assessor's Office suggest, a supposed "revenue and burden share neutral" change in assessment method in 2008 has, in itself, caused a lowering of effective property tax rates for commercial property relative to residential property.

¹³ Op. cit., p. 4.

¹⁴ http://www.cpeonline.org/wp-content/uploads/2013/07/Pension-Hearing-July-2013_2.ppt .

¹⁵ See: <http://www.itepnet.org/whopays3.pdf> . Note that Illinois, and by implication Chicago, has one of the most regressive tax systems among the 50 states.

¹⁶<http://taxfoundation.org/article/local-income-taxes-city-and-county-level-income-and-wage-taxes-continue-wane> .

¹⁷ http://articles.chicagotribune.com/2011-11-02/business/chi-city-council-votes-to-eliminate-head-tax-20111102_1_head-tax-50-worker-threshold-city-council-votes .

Alternatively, a property tax reduction or moratorium on further increases for low-and middle- income home owners would alleviate the burden on homeowners whose major wealth accumulation is typically in their family home that is also largely the only form of wealth taxed in Anglo-American countries.¹⁸

5) Other Options for Constructively Increasing Public Revenue for the City of Chicago

Other choices for raising revenue might include (see Appendix B: “Rebuilding Chicago for Sustainability”):

- Expanding the scope of the Chicago sales tax to other goods and services and making it more progressive by raising the rates for high-end goods and services relative to low-end goods and services.
- Prevailing upon Illinois to enact a graduated income tax that can raise more revenue and at the same time enable a tax cut for lower and middle income Illinoisians (and Chicagoans). See for example the plan that has promoted by the Center for Tax and Budget Accountability (CTBA).¹⁹
- A Cook County real estate transfer tax at the time of sale, exempting the first \$500,000 for a principal residence, with no exemption if the real estate is non-residential or not the principal residence. Revenue goes to the municipality that generated it.
- Increases in transportation taxes that contribute to environmental sustainability such as:
 - A gasoline tax of around 1 cent per gallon that sunsets once prices climb back over a predetermined threshold. Everyone pitches in to fight the crisis. While prices are down, everyone can do their part
 - Charging fleet operators for lacking a minimum number of EE and alt fuel vehicles
 - Third car tax, with rebates per bicycles registered with the City Clerk
- Environmental taxes such as:
 - Penny bottle and can tax – every bottle, every can
 - Newspaper tax, perhaps one cent per paper
 - Rent additional garbage carts
 - Surcharge on large home appliances not Energy Star rated
- “Sin taxes” on food and drinks containing high fructose corn syrup. Such a measure could improve the health and well-being of Chicago’s residents, especially children.

The Urgent Need for an Independent, Publicly Funded Chicago Budget “Score Keeper”

Reliable Chicago budget data are very hard to obtain. There is an urgent need to establish a non-partisan public budget “score keeper” agency such as the Illinois “Commission on Government Forecasting and Accountability”, or New York City’s “Fiscal Policy Institute.” Efforts to establish such an agency in Chicago deserve the full support of the Mayor.²⁰ Currently, it is almost impossible for analysts outside City Hall (including Aldermen) to understand the city budget. This makes serious budgetary oversight and public debate nearly impossible. In this sense, any reluctance to make detailed budget proposals at this time is justified. As reliable independent Chicago budget data are

¹⁸ See Thomas Piketty. 2013. *Capital in the 21st Century*, Chap. 15.

¹⁹ <http://www.ctbaonline.org/reports/case-creating-graduated-income-tax-illinois>.

²⁰ <http://www.chicagoreader.com/chicago/why-alderman-pawar-works-with-mayor-emanuel/Content?oid=12076843> .

either unavailable, or “available” in such nontransparent and difficult to understand formats as to make reliable analysis nearly impossible, it makes perfect sense to refrain from attempting a detailed independent budget analysis.

II) A LaSalle Street Tax to Meet Human Needs

A LaSalle Street Tax (LST) such as the one proposed in HB0106 would apply a \$1/contract fee on all agricultural futures and futures options and a \$2/contract fee on all other futures and future options and stock index options traded the Chicago Mercantile Exchange (CME) and the Chicago Board Options Exchange (CBOE) – see Appendix A: “A LaSalle Tax Q & A.” Using publicly available data we estimate that from 2010 to 2013 such a tax would have generated an average of \$ 11.8 billion per year for the state of Illinois (or for Chicago if the state’s 1980 stripping of “home rule” power for a Chicago LST tax were rescinded) under a no-diminishment-of-trading assumption – see last row in Figure 1 below.

**Figure 1: 2010 – 2013 Agricultural and Non-Agricultural Contracts Subject to LST
Average Value of Contract, Number of Contracts Traded, Total Unsuppressed LST Revenue**

YEAR	2010	2011	2012	2013	Average
Average Non-Ag Contract Value	\$376,848	\$340,217	\$313,133	\$312,677	\$335,719
Average Ag Contract Value	NA	\$74,628	\$71,618	\$74,929	\$73,725
Average Contract Value	\$293,122	\$281,160	\$309,252	\$260,293	\$285,957
Total Contracts Traded	3,286,822,896	3,681,185,412	2,605,232,280	3,536,454,526	3,277,423,779
Non-Ag Contracts Traded	2,556,570,079	2,862,624,492	2,388,851,082	2,757,254,341	2,641,324,999
Ag Contracts Traded	730,252,817	818,560,920	216,381,198	779,200,185	636,098,780
Total Unrepressed LST Revenue	\$11,686,785,950	\$13,087,619,808	\$9,988,166,724	\$12,587,417,734	\$11,837,497,554

Sources: All volume data from World Federation of Exchanges annual reports. The 2013 Annual Report is here: <http://www.world-exchanges.org/insight/reports/2013-wfe-annual-report>.

From 2010 to 2013 the size of the average taxable agricultural contract was \$73,725. A \$1 LST fee would have amounted to a 1.36 thousands of a percent (0.0013564%) sales tax on these products. Similarly, the average taxable non-agricultural contract was \$335,719 so that a \$2 LST would amount to a mere 5.96 ten-thousands of a percent (0.0005957%) sales tax on these products. These rates can be put in context by comparing them with the 6.25% sales tax paid by Illinois residents when purchasing other goods and services²¹ Some argue practically any LST would cause the CME and CBOT to relocate out of Illinois, and that a maximum viable LST that could still manage not to drive away the Exchanges would be but in the range of 1 -3 cents on a dollar generating only \$38 to \$100 million.²²

²¹ <http://www.americangaming.org/industry-resources/state-information/illinois> . If financial traders had to pay a 6.25% sales tax on their trading purchases, the LST would raise %6.25 of \$ 800 Trillion in nominal trading value or about \$ 50 Trillion, almost three times total U.S. GDP. Nobody is suggesting a LST sales tax at this level, but this does not mean that a ridiculously low LST of \$ 0.01 per contract makes sense! – see discussion below.

²² <http://chicago.suntimes.com/politics/7/71/367925/lasalle-street-tax-fairy-tales> .

The CME Group owns the CME and CBOT and would not pay the LST which is assessed on traders, not the exchanges. Traders at the Chicago exchanges cannot trade these products somewhere else. Neither can the exchanges or their electronic trading platforms easily move out of Illinois.

The products that are proposed to be taxed are not traded on any other exchange. In addition, some of the products that would be taxed, such as the S&P 500 index futures and options, are exclusively licensed to these two exchanges. While another exchange could seek regulatory approval to trade some of the other products, doing so would take a lengthy period of time.

Moving trading liquidity from one market to another would be a difficult achievement, defying the classic *collective action problem*. To induce an individual trader to move, a critical mass of other traders must also move at the same time for there be a sufficient number of other traders to trade with, or adequate “liquidity” at the new exchange to support trading. Once one exchange has captured all the volume in a product, later entry is extremely difficult even when such an effort is backed by major financial institutions.

Taking the CME Group’s electronic trading platforms out of state is similarly fraught with difficulty. The expense of relocating all the hard-wired trading infrastructure would have to be justified economically, and a critical mass of affected traders and the Exchanges would have to organize to move all their switches and lines together *at the same time* without major disruptions to most of the traders for whom a \$1 or \$2 fee per trade would be at most an unnoticeable statistical error. Moreover, hard-wired preferred access points closest to the new switch location for the most impacted “High Frequency Traders (HFTs – see below) would have to be collectively adjudicated between these traders and the Exchanges – a process that could be laden with challenges as it would expose the privileged access to the current switching locations that these traders have invested in over the years.

Significantly, we have a real life experiment testing the impact of a \$1 or \$2 per contract fee difference as to where traders choose to trade. In 2011 the Electronic Liquidity Exchange (ELX) opened for trading, offering many of the same products traded on the CME and CBOT – but with one significant difference: ELX charged \$1.25 – 2.00 less in clearing and settlement fees to trade the same contracts as the CME and CBOT. ELX had another advantage: the exchange had the backing of JP Morgan Chase, Morgan Stanley, and Goldman Sachs. What happened? ELX’s best volume was achieved when their monthly trades in some contracts almost equaled the daily trades in the same contracts on the CME. Clearly the \$1 - \$2 difference was not enough to overcome the collective action problem that would arise when trying to move liquidity from an existing liquid market to a new, illiquid market.

Although the exchanges would not pay the LST, they make their money from fees on trading volume. Presumably they could be affected by an LST that causes a significant trading “volume suppression,” or reduction in trading. Trading volume suppression from an LST might also affect LST revenue. Critics claim that to prevent the traders from abandoning the exchanges, to keep their switches from moving out of state and to avoid significant trading suppression, the LST cannot be higher than a few cents per contract, versus the proposed \$1-\$2 per trade, which would only raise about \$100 million for the state. *We believe an LST can be designed that will not induce sufficient volume suppression to compel the*

exchanges to relocate. Instead, they will stay and their traders will contribute on the order of our \$ 11.8 billion estimated tax yield from unsuppressed trading – see Figure 1.

We have explained why the claim by our critics that it would be relatively easy for traders to relocate is incorrect. We also have explained that both real world experience and reasoned considerations suggest that it would likely be very costly, profoundly challenging, both organizationally and politically, for either traders, established trading exchanges or their switches to relocate.

It is reasonable to assume that the \$1 or \$2 LST fee will not have a significant trading volume impact on the vast majority of traders *not* making a large number of trades per day, or per month.²³ Would a farm family hedging the soybean crop with contracts worth between \$30,000 to \$50,000 risk falling prices before harvest because of an additional \$1 to hedge 5000 bushels? Would the pension fund manager using S&P 500 futures to quickly invest new inflows of money be deterred by the \$2 LST on a contract worth more than \$100,000? The LST would still leave the commissions charged for the trade well below where they were only a decade ago. What about the speculator who may take the other side of the trade with the farmer or the pension fund? For these traders, a \$1 or \$2 fee is not likely to be a critical factor in deciding whether to buy or sell a contract costing tens, or hundreds of thousands of dollars. As shown in Figure 2 below, the amount of the proposed LST is less than the smallest price change or “Tick Size” (the smallest amount a trader could gain or lose on these contracts) so it would provide very little incentive to trade elsewhere even if the same products were available on another exchange. Indeed, there is little evidence that Financial Transaction Taxes (FTTs) that are considerably higher than the proposed LST \$ 1 or \$2 per contract excise fee have resulted in significant volume suppression in large and established exchanges.²⁴ Finally, the \$1 or \$2 dollar increase in fees for traders would leave the trading commissions charged well below where they were only a decade ago and there is no indication that trading was suppressed at that time.

²³ As indicated below estimates HFT trades range from 18% to 50% of overall trading *volume* but as these are done by a relatively small number of HFT traders who sometimes execute thousands of trades a second, the number of HFT *traders* is relatively small compared to the overall number of traders.

²⁴ <http://www.imf.org/external/np/seminars/eng/2010/paris/pdf/090110.pdf> . Table 1, p. 148-9 shows financial transaction tax rates for 24 countries as of 2010. All of them are orders of magnitude (as a percent of nominal trading value) larger than the \$1 or \$2 dollar LST fee and their little indication of a massive volume suppression affect. The one case, often cited by Financial Sector Lobbyists, where the tax was repealed due to volume suppression, is that of Sweden, where a relatively high financial transactions tax was imposed on a small exchange trading in products for which traders had numerous other lower tax exchange options, see for example: <http://www.ft.com/intl/cms/s/0/b9b40fee-9236-11e2-851f-00144feabdc0.html#axzz3U0FuvyvR> . See also point (6) of: <http://www.cpegonline.org/wp-content/uploads/2015/02/LST-for-IL-QandA.pdf> .

Figure 2: Smallest “Tick Sizes” for LST Taxable Products

	Livestock	Grains	
Tick Sizes - Ag Contracts	\$10/contract	\$12.50/contract	
	Interest rate	Equity	Energy
Tick Sizes - Non-Ag Contracts	\$6.25 - \$31.25 depending on the product	\$12.50 - \$25	\$10/contract

Source: Tick sizes are from CME contract specifications: <http://www.cmegroup.com/trading/products/>

The traders who would be significantly affected by the LST would be “High Frequency Traders” (HFT) speculative traders who make a very large number of short-term (sometimes thousands of times a minute) trades. For example, Citadel Trading, founded by CEO Ken Griffin, a major contributor to the campaigns of Rahm Emanuel and Bruce Rauner, has made astronomical profits from extremely high speed submission, cancellation and trading of the products available for trading on the Chicago markets and elsewhere. Extremely high-speed means hundreds of bids and offers in as little as a second. When HFT first appeared in large amounts, the argument was advanced that this activity would make the markets more liquid, allowing the farmer, the pension fund manager or the traditional speculator to buy and sell more quickly and at better prices. This claim has increasingly been challenged, and it faces a particular obstacle in derivative markets such as Chicago’s. There is no new wealth created in the trading of derivatives. Wealth is simply transferred from one participant to another: The money I make on a trade, you lose (and vice versa). So, if HFT firms are profitable – and many are – those profits are coming at the expense of someone else.

While public data on HFT trading shares and profits are hard to come by, recent (2012) estimates indicate that HFT trading is in the range of 50 percent of stock trading with indications that this HFT trading volume share is declining.²⁵ A 2012 comprehensive academic study of HFT trading and profits indicated that:

- (1) HFT firms don't trade much with each other, such HFT-HFT trades represented only 18% of total HFT trading volume;
- (2) HFT firms make profits from other market participants;
- (3) On balance HFT firms take rather than provide liquidity. The latter point suggests that HFT - non-HFT trading would simply be replaced by non-HFT – non-HFT trading if HFT traders were not available; and,
- (4) Average HFT profits per trade for this 2010 sample of HFT trading in E-mini S&P 500 futures were \$1.11, and median per trade profits \$0.53.²⁶

This suggests a \$1 or \$2 LST could result in volume (and LST revenue) suppression in the range of 9 percent to 25 percent, putting the least efficient HFT traders out of business. A significant suppression of HFT trading is also suggested by the current level of Chicago CME Group Exchange fees (as indicated in Figure 3 below).

²⁵ http://www.nytimes.com/interactive/2012/10/15/business/Declining-US-High-Frequency-Trading.html?_r=1& ,

²⁶ Op. cit. p. 44.

As this could conceivably be a sufficient level of trade volume suppression to induce the traders, or Exchanges to attempt to move, it might be politically expedient to restructure the LST to avoid this unlikely, though perhaps possible, outcome.²⁷ For one thing, trading volume elasticity for non-HFT traders from a few dollars LST excise fee for contracts costing tens or hundreds of thousands of dollars (see Figure 1 above) is likely to be very close to, if not equal to zero. Our policy preference, like that of many other supporters, would be to suppress HFT trading as we believe it is fundamentally detrimental to the broader economy, though it may be difficult for the local financial transactions tax like the LST to accomplish this goal.²⁸

If retaining much of HFT trading is taken as a policy goal, an alternative way to structure the LST would be to tier the rate by holding time. For example, very short-term positions, perhaps those held less than a minute, could pay \$0.10, with the LST rate stepped up as the holding period increased. With the appropriate tiered LST rate structure, it would be possible to raise a similar amount of revenue while the rate, calculated against the contract value and holding time, would still favor longer term positions.²⁹

This would not be our first choice for a comprehensive LST because it would probably not significantly reduce HFT activity. Another approach would be to design an LST for Chicago only, setting the levels of the tax at perhaps \$0.25 and \$0.50 for agricultural and non-agricultural contracts, respectively. At current trading volumes – and these levels would likely be maintained with a lower LST – the revenue raised would be between \$2.5 - \$3.0 billion annually.

²⁷ Unlikely as the data suggests that HFT traders would not like to relocate unless they could get other (relatively unaffected by the LST) traders to move as well as HFT traders prefer not to trade with each other as they make more money by trading with non-HFT traders. The same consideration suggests that non-HFT traders may *not* be so keen to relocate to an Exchange with an even higher share of HFT traders and may be *positively* disposed to see the HFT traders go out of business or move elsewhere.

²⁸ <http://www.cpegonline.org/workingpapers/CPEGWP2010-2.pdf>. As a matter of broad public policy, we believe that that a national, or international, a Financial Transactions Tax (FTT) should be designed in the opposite manner with a higher taxes on contracts held for *less* time, so as to suppress HFT trading. We believe an Illinois LST could provide a significant political impetus to enact an federal FTT that would be structured in this way.

²⁹ Alternatively, if the state is willing to accept a smaller take, the LST could be reduced to \$0.50 and split half and half between Chicago and the State of Illinois so that each receives \$0.25 per contract.

Figure 3: CME Group Trading Transaction Fees and Commissions

	Ag	Non-Ag	
CME Customer Fees - Clearing and Settlement	\$0.69/side	\$0.40 - \$0.80/side	
CBOT Customer Fees - Clearing and Settlement	\$0.65 - \$1.89/side	\$0.50 - \$1.50/side	
There is a range of fees depending on the specific product			
Member fees may be half or less than customer fees			
	Deep Discount	Retail FCMs	Full Service FCMs
Commissions	\$0.60 - \$2.99/side	\$7 - \$10/side	\$30 - \$50 round turn

Sources: For CME product fees see: <https://www.cmegroup.com/company/files/2015-fee-changes-summary.pdf>; for CBOT product fees see: https://www.cmegroup.com/company/files/CBOT_Fee_Schedules.pdf

Conclusion

We urge the next Mayor of Chicago to work aggressively to pass legislation establishing an Illinois LST. Such a tax could be a major source of revenue of the order of magnitude of billions of dollars for both the City and State. The Mayor should condition his support of an LST on Chicago receiving a substantial share of LST revenue, perhaps about 25 percent, based on a per-capita allocation. Alternatively, the mayor could propose a lower LST rate with the revenues allocated to Chicago. Downstate Illinois legislators confronting under-funded schools, economic stagnation and diminished public services can become natural supporters of an LST that could significantly resolve Chicago and Illinois' ongoing structural budget gaps.³⁰

Claims that such a tax would cause traders, the Chicago Exchanges, or their electronic trading platforms, to relocate have little factual or rational economic basis. In the unlikely event an LST could potentially have a large enough trading volume suppression impact on high frequency traders to somehow induce a relocation of trading, the LST could be restructured so that it would cause insignificant trading volume suppression and still raise revenue for Chicago and Illinois on the order of \$10 billion to \$12 billion. There is no rational economic or political reason to cap the LST at 1-3 cents per contract and \$ 100 million in total revenue, as some would have it.

Financial trading is Illinois' most profitable industry and the sector should contribute substantially to the State and City where it has developed and prospered. The proposed LST would be a minimal, almost

³⁰ http://www.ctbaonline.org/sites/default/files/reports/ctba.limeredstaging.com/node/add/repository-report/1385495360/R_2010.10.29_FINAL%20Funding%20Our%20Future-CTBA%20Report%20.pdf .

negligible tax, for most traders, still much smaller than financial transactions taxes implemented at trading exchanges around the world.³¹

As the recent *Chicago Sun-Times* poll shows, the tax is politically popular. It remains the policy option offering the greatest potential for promoting long-term economic stability and prosperity in Chicago, the state and region.³²

³¹ <http://www.imf.org/external/np/seminars/eng/2010/paris/pdf/090110.pdf> , Table 1.

³² <http://chicago.suntimes.com/?p=166144> .

III) Chicago TIFs: An Unaccountable and Unproductive Diversion of Public Funds

Tax Increment Finance (TIF) districts divert rising property tax revenue from increased real estate values in designated areas, away from local government agencies to funds, essentially selected by the City executive. Segregated for the supposed purpose of addressing “blighting factors,” in practice these funds amount to pools of money applied to special projects authorized by the Mayor.

As currently structured, Chicago’s TIF program diverts funds from vital public services (education, parks libraries, general administration, security, infrastructure, etc.) without generating any net increase in economic development.³³ For example, in some wards, large amounts of TIF revenue have been used to subsidize private, big box retail outlets such as Target and Home Depot, which in many cases do not create *any* net new local jobs.³⁴ Another notorious example is the upward movement of \$500 million in TIF funds to the planned Marriot Hotel/De Paul Basketball arena that appears destined to *reduce* future property tax revenues, rather than increase them, which is supposed to be the major rationale for TIF projects.³⁵

Though public support for local economic development is essential, this function is not well-served by Chicago TIFs as currently structured. Chicago TIFs take away public funds without a pre-selected and vetted public goal for these funds, are not sufficiently transparent, and are not adequately accountable. Chicago TIF funds under Mayoral administrative control. Nor are private partners accountable through democratic processes. Without being tied to measurable economic development needs, TIFs creates an enormous, built-in incentive for TIF funds to become used to curry the favor of friends or wealthy private investors without regard to public priorities for these funds.

The Lester study³⁶ recommends: “First, it is best to tie TIF designation to actual redevelopment proposals with a private sector partner up front. This is a requirement by state statute in North Carolina, where TIF has been used only sparingly. Second, each TIF proposal should be coupled with careful cost-

³³ “Does Chicago’s Tax Increment Financing (TIF) Programme Pass the ‘But-for’ Test?: Job Creation and Economic Development Impacts Using Time-series Data,” by T. William Lester, *Urban Studies*, July 10, 2013, On-Line publication before print, see: <http://usj.sagepub.com/content/early/2013/07/09/042098013492228.abstract> .

³⁴ Three major TIF’s that cover a good part of the area of the 25th Ward (mostly Pilsen and Chinatown) and are mostly included within the 25th Ward can be identified from the city TIF site. These are the: Chicago-Pilsen or “Pilsen Industrial Corridor TIF” (PIC), the “Jefferson/Roosevelt TIF” (JR), and the “Roosevelt/Racine TIF” (RR). Together these three TIFs have diverted approximated \$167 M (\$111.5 M, \$ 40.9 M, and \$ 14.1 M, respectively) of property taxes since their establishment in 1998, 1999, and 2000 respectively. Major projects recently funded are: a) from the PIC TIF: Target \$5.3 M of \$32.7 M total cost of project, International Produce Mkt \$9 M of \$ 46.6 M total, and Stienor Industrial Linen Supply Company, \$3.56 M out of \$ 25.2 M total; b) from the RR TIF: Roosevelt Sq ABLA Housing \$ 11.5 out of \$ 86.7 M total: and c) from the JR TIF: Soo T retail development \$4.5 M out of \$20.3, and Home Depot \$ 5.4 M out of \$ 32 M. 1). For example, a major recent three year study of the overall job impact of a new Walmart on the west side of Chicago found that the Walmart eliminated as many local retail jobs in small stores that closed as it created in the new Walmart that opened, see: http://www.researchgate.net/publication/258134659_The_Impact_of_an_Urban_WalMart_Store_on_Area_Businesses_The_Chicago_Case . This makes sense because larger more “efficient” new retail outlets take market share away from smaller local retail stores and are able to sell more per employee than smaller competitors.

³⁵ See: <http://www.chicagoreader.com/chicago/mayors-south-loop-arena-project-speeds-ahead/Content?oid=12445510> .

³⁶ Op. Cit.

benefit analysis that projects and clearly articulates the job creation outcomes of the redevelopment proposal. Third...it is critical that public agencies considering TIF make all transactions as transparent as possible so that the public can clearly understand where their sequestered tax dollars flow and hold public officials accountable for their decisions.” (p. 25-6)

The public funds siphoned off of property taxes by TIFs are not “new” money but rather funds that would have otherwise been used for public services, which have to be, at least partially, *made up* by raising property tax rates for Chicago residents. This effect on Chicago residential property tax rates is compounded by the historic massive on-going shift of property tax burden from commercial to residential property tax payers in Chicago and Cook County (see next section of report).³⁷

There are few “claw back” agreements to enforce accountability if TIF recipients do not meet their economic development goals. For example, the infamous Republic Window and Door in the Goose Island TIF District agreed to “use commercially reasonable best efforts” to maintain 549 jobs through the end of the TIF agreement in 2019 in return for \$9 million in TIF subsidies from 1996 to 2000. Yet, the company suffered no penalty when it closed shop in 2008.³⁸

The notion TIFs are justified because a share of TIF funding is used for public infrastructure needs makes no sense, as without the TIF, all of the TIF funding could have served public infrastructure needs. For example, the presentation by a 2011 *New York Times* article of Chicago TIFs in a relatively benign light based on data showing that roughly half of TIF funding goes for “public” needs (however defined) thus cannot serve as a justification for Chicago TIFs.³⁹ This is particularly the case when, as Weber and Goddeeris point out, “base” property tax values above which increases in valuation are taxed for TIF purposes, are not adjusted for inflation and there are no limits on the size or scope of TIFs, as there are in 22 other states. In Maine for example, it is illegal to put more than 5 percent of a municipality’s land area and tax base value into a TIF. In 2002 16 percent of Chicago’s tax base was tied up in TIFs.⁴⁰

TIFs and Chicago Pensions⁴¹

Since 1986, \$5.5 billion has been diverted into Chicago TIF accounts. Diversions from 2007 to 2012 total nearly \$3 billion:

- 2012 - \$457,007,111
- 2011 - \$453,671,990
- 2010 - \$509,971,274
- 2009 - \$519,715,715
- 2008 - \$495,590,381
- 2007 - \$555,310,568
- TOTAL: \$2,991,267,039**

³⁷ Data from the Cook County Assessor’s Office indicates that the Residential share of overall Property Tax revenue in Cook County has gone from 42% in 1985 to 62% in 2012.

³⁸ See: <http://www.illinoispirg.org/blogs/tax-dollars-and-sense/ilp/case-study-republic-windows-and-doors> .

³⁹ http://www.nytimes.com/2011/08/07/us/07cnctif.html?pagewanted=all&_r=0 .

⁴⁰ “Tax Increment Financing: Process and Planning Issues,” Rachel Weber and Laura Goddeeris, 2007 Lincoln Institute of Land Policy Working Paper, p. 56-7, see: <https://www.lincolinst.edu/subcenters/teaching-fiscal-dimensions-of-planning/materials/goddeeris-weber-financing.pdf> .

⁴¹ Good Jobs First, April, 2014, op. cit.

In each of these years, TIF revenue was significantly more than the employers' total normal pension costs. It is important to realize the estimated \$30 billion pension shortfall is an actuarial estimate for 33 years⁴² of future liabilities based on assumed rates of return and inflation. In 2000, the four main pension funds backed by the City of Chicago were not in financial trouble. The pension crisis emerged when TIF revenues soared, although early retirement also played a role. TIF revenue in 2000 was below \$200 million and soared above \$500 million by 2007. *TIF revenue alone could more than fund Chicago Pensions.*⁴³

We have shown elsewhere that Illinois' similarly estimated \$ 94.6 billion shortfall could be more than 70 percent paid off by eliminating \$880 million in egregious Illinois business tax breaks Prorating this calculation for the Chicago \$30 billion pension liability suggests that 100 percent could be paid off under similar assumptions by putting \$375 million a year into a fund for 33 years in a fund with similar rate of return and inflation assumptions. There is no reason public pension obligations need to be front-loaded by 33 years if payouts are constitutionally guaranteed.

Conclusion

Lester sums up his comprehensive study of Chicago TIFs with:

These findings also support the position put forward by some urban theorists that, as cities seek new ways to become "entrepreneurial", they essentially cede power to private capital, which may or may not be located with the city limits. In the case of TIF, as Weber (2010) elucidates, as more and more tax revenue is sequestered, the standing of developers and footloose capital is strengthened as resources are shifted to accommodate their interests, while the provision of public goods such as basic education and shared infrastructure are rationed in the name of "fiscal crisis." Essentially, Chicago's extensive use of TIF can be interpreted as the siphoning off of public revenue for largely private-sector purposes. Although, TIF proponents argue the public receives enhanced economic opportunity in the bargain...the bargain is in fact no bargain at all.⁴⁴

We concur. TIF financing in Chicago should be radically restructured or terminated.

⁴² http://www.cpegonline.org/wp-content/uploads/2013/07/Pension-Hearing-July-2013_2.ppt .

⁴³ Good Jobs First, "Putting Municipal Pension Costs in Context: Chicago," April, 2014, p. 4.

⁴⁴ Op. Cit. p. 26 .

IV) Shifting Metropolitan Chicago's Tax Burden off of Low and Middle Income Residents

Chicago, like many U.S. cities, is the hub of a wider metropolitan area that relies on the city proper as a key economic driver, but largely avoids sharing tax burden of maintaining viable City services and amenities. The response of current and past Chicago administrations, since the Harold Washington administration, has been to double down on taxing middle and lower income Chicagoans to maintain a viable city center. This is evident from the pattern of TIF diversions that have disproportionately benefited the city center and reduced funding of general public services, including city pensions.⁴⁵ This doubling down is also evident in the pattern of shifting property tax burden onto residents and away from commercial properties - see Figure 4 below.

The notion that the 44 to 62 percent increase in the share of residential property tax since 1981 and corresponding 38 to 28 percent drop in the commercial property tax share in the same period is due to a massive decline in the value of commercial property relative to residential is belied by evidence. Instead, as documents from the Cook County Assessors' Office show, a supposed miscommunication between the Cook County Assessor and the Board of Review likely caused a further increase in effective residential property tax *rates* and corresponding reduction in non-residential property tax rates (see Appendix C: "Property Tax Burden Shift to Residential as a Result of 2009 10/25 Change in Assessment Method"). This negligence has yet to be rectified.

In his political economic phenomenon *Capital in the 21st Century*, Thomas Piketty advocates⁴⁶ a comprehensive global wealth tax to remedy the increasing inequality of wealth and income characterizing the "patrimonial" society of late 21st century capitalism. Home ownership happens to also be the only major source of lower and middle-class family wealth in the U.S. Increasingly shifting the property tax burden onto residential homeowners simply adds insult to injury. The wealthy hold their wealth in finance which does not get taxed unless it gains value whereupon in the U.S. it is taxed at a lower rate than earned income. Alternatively, if this financial wealth generates returns, it may be taxed, though often not at the state level if it is derived from out of state investments, as the wealthy can easily chose to "reside" in a state with no income tax. *This is one of the reasons why an LST is so important. It is one of the few practical ways to begin, however modestly, to ask the truly wealthy to bear some of the burden that has been falling almost exclusively on lower and middle class tax payers.*

Another way to shift the real property tax burden away from lower and middle class homeowners would be to shield all future property tax increases in Cook County from residential tax payers, perhaps until the residential property share returns to its 44 percent of 1981. Based on 2012 total property tax extension revenue, this would represent about \$2.1 billion in increased property taxes that would not have to be paid by Chicago residents - see Figure 4 below. The policy should particularly target

⁴⁵ <http://www.chicagoreader.com/chicago/shadow-budget-tif/Content?oid=1251320> .

⁴⁶ See Chap. 15.

commercial property as these properties, unlike industrial properties, generally do not produce “export” income flows into the County/City but simply recycle existing income within the County/City.⁴⁷

Another possibility would be to restructure overall property taxes to make them explicitly progressive. Properties with higher assessed values get taxed at a higher rate. Again, the purpose would be to relieve lower and middle income homeowners from the burden of future property tax increases and perhaps even lower property taxes for the lowest value properties.

Finally, as the unfairness of the current property tax system is not just that it taxes the one form of wealth that is widely shared by the middle class, but due to arbitrary jurisdictional boundaries, inner city Chicago homeowners are disproportionately burdened with maintaining services for the entire metropolitan area. This problem can only be addressed by some form of tax sharing. This can include a progressive residential income tax that would tax commuters who make the majority of the money generated in Chicago, or simply a commuter tax. Such a commuter tax could also take the form of a restructured Chicago “head tax” repealed last year.⁴⁸ As of 2011, the \$4 per month tax paid by businesses with 50 employees for every employee earning over \$4,300 every three months brought in about \$23 million. Significantly raising this for high-profit, high-wage and place-bound businesses such as law, accounting, finance, and insurance firms would be one method of effectively and more progressively taxing suburbanites working in Chicago.

We urge the new Mayor to take advantage of Chicago’s strategic position to pursue these and similar policies to address these egregious imbalances in the Chicago tax system and confront one of the most serious political economic problems of the 21st century: rising and runaway inequality of wealth that is particularly concentrated in financial wealth.

⁴⁷For example see:

http://www.local881ufcw.org/pdfs/legislative_action_policy_and_research/impact_of_chicago_walmart.pdf for a good example of using an “economic base” export methodology to estimate job impact.

⁴⁸ http://articles.chicagotribune.com/2011-11-02/business/chi-city-council-votes-to-eliminate-head-tax-20111102_1_head-tax-50-worker-threshold-city-council-votes .

Figure 4: Cook County Property Tax Extension by Major Property Classes⁴⁹

Year	Total	Residential	Commercial	Industrial	Residential Share	Commercial Share	Industrial Share
2012	\$12,021,900,953	\$7,445,017,429	\$3,216,562,172	\$1,329,835,610	61.93%	26.76%	11.06%
2011	\$11,757,280,488	\$7,327,486,519	\$3,104,589,702	\$1,298,997,935	62.32%	26.41%	11.05%
2010	\$11,698,335,508	\$7,235,241,454	\$3,193,368,011	\$1,249,372,119	61.85%	27.30%	10.68%
2009	\$11,389,977,841	\$6,937,752,801	\$3,213,690,854	\$1,222,464,810	60.91%	28.22%	10.73%
2008	\$11,255,096,775	\$6,550,191,801	\$3,362,976,730	\$1,327,702,009	58.20%	29.88%	11.80%
2007	\$10,769,248,113	\$6,184,514,648	\$3,277,372,790	\$1,293,489,660	57.43%	30.43%	12.01%
2006	\$10,409,860,878	\$5,856,678,378	\$3,241,269,924	\$1,298,685,231	56.26%	31.14%	12.48%
2005	\$9,919,498,950	\$5,422,672,375	\$3,214,219,803	\$1,269,634,953	54.67%	32.40%	12.80%
2004	\$9,446,569,844	\$5,087,740,773	\$3,096,540,038	\$1,248,324,723	53.86%	32.78%	13.21%
2003	\$9,047,229,712	\$4,772,994,694	\$3,030,069,495	\$1,230,190,522	52.76%	33.49%	13.60%
2002	\$8,626,282,472	\$4,472,246,623	\$2,900,797,125	\$1,218,417,539	51.84%	33.63%	14.12%
2001	\$8,253,682,769	\$4,165,275,759	\$2,839,586,601	\$1,214,036,074	50.47%	34.40%	14.71%
2000	\$7,892,880,682	\$3,892,127,572	\$2,768,403,606	\$1,200,198,849	49.31%	35.07%	15.21%
1999	\$7,592,570,671	\$3,577,375,177	\$2,771,283,963	\$1,212,214,148	47.12%	36.50%	15.97%
1998	\$7,432,559,949	\$3,449,837,708	\$2,743,619,561	\$1,208,404,958	46.42%	36.91%	16.26%
1997	\$7,208,368,579	\$3,297,732,894	\$2,674,130,628	\$1,206,216,782	45.75%	37.10%	16.73%
1996	\$7,055,047,207	\$3,172,916,241	\$2,656,549,900	\$1,194,571,009	44.97%	37.65%	16.93%
1995	\$6,858,315,013	\$3,040,265,428	\$2,613,023,663	\$1,174,455,964	44.33%	38.10%	17.12%
1994	\$6,640,823,389	\$2,891,826,044	\$2,566,584,217	\$1,153,012,630	43.55%	38.65%	17.36%
1993	\$6,347,722,928	\$2,704,384,157	\$2,498,644,380	\$1,115,131,049	42.60%	39.36%	17.57%
1992	\$6,061,569,214	\$2,571,626,624	\$2,393,085,105	\$1,067,631,897	42.43%	39.48%	17.61%
1991	\$5,726,575,026	\$2,408,503,168	\$2,267,181,735	\$1,022,750,010	42.06%	39.59%	17.86%
1990	\$5,274,988,474	\$2,238,587,863	\$2,067,566,237	\$941,989,171	42.44%	39.20%	17.86%
1989	\$4,832,992,372	\$2,033,508,759	\$1,901,964,670	\$870,709,004	42.08%	39.35%	18.02%
1988	\$4,551,332,680	\$1,886,854,578	\$1,802,545,269	\$835,990,414	41.46%	39.60%	18.37%
1987	\$4,009,750,344	\$1,654,477,178	\$1,590,728,622	\$740,317,601	41.26%	39.67%	18.46%
1986	\$3,704,334,757	\$1,543,609,714	\$1,416,561,530	\$722,800,453	41.67%	38.24%	19.51%
1985	\$3,313,926,588	\$1,385,027,245	\$1,236,480,094	\$673,255,410	41.79%	37.31%	20.32%
1984	\$3,225,384,065	\$1,254,608,874	\$443,174,299	\$1,508,223,262	38.90%	13.74%	46.76%
1983	\$3,085,973,519	\$1,221,793,504	\$417,600,105	\$1,429,952,469	39.59%	13.53%	46.34%
1982	\$2,928,452,165	\$1,288,905,941	\$1,107,836,031	\$515,704,527	44.01%	37.83%	17.61%
1981	\$2,673,559,947	\$1,176,676,568	\$1,013,400,468	\$469,823,464	44.01%	37.90%	17.57%

⁴⁹ Shares do not add up to 100% as "Farms", "Railroads" and "Mineral" have been omitted.

Appendix A

A LaSalle Street Tax Q & A.

(1) What is a LaSalle Street Tax?

A **LaSalle Street Tax (LST)**, (also called a **Financial Transactions Tax** or **Robin Hood** tax at the federal level) is a very small tax on the trading (buying/selling) of financial assets such as stocks, bonds, currencies and derivatives (futures and options) based on these assets. Essentially a sales tax, such as when we buy/sell shoes or computers.

(2) Why Illinois?

Illinois has two of the largest financial markets in the world, the Chicago Mercantile Exchange (CME) and the Chicago Board Options Exchange (CBOE). Each year the value of products traded on these two exchanges totals over \$800 trillion.

(3) How would an LST in Illinois work?

HB 0106, submitted by Rep. Mary Flowers, proposes a \$1/contract fee on all agricultural futures and futures options traded on these two exchanges and a \$2/contract fee on all other futures and future options and stock index options traded on these two exchanges. Average contract size at these exchanges is more than \$225,000. So this tax amounts to less than 1/1000s of a percent of average contract value.

(4) That doesn't sound like a very big tax - would the LST raise much money?

Yes, the tax rate is very low but, because the amount of trading is so large, the proposed LST would raise between **\$10 and \$12 billion per year** for Illinois at current trading volumes.

(5) Wow! But can the exchanges afford to pay this tax? Wouldn't they move?

The LST is not a tax on the exchanges, they don't trade. It is a tax on the buyers and sellers of futures and options contracts traded in the exchanges. The exchanges would simply act like the hardware or clothing store that collects the sales tax when you buy a hammer, clothes, etc. And then sends the tax to the State of Illinois.

(6) Are there any experiences with Financial Transaction Taxes in other parts of the world?

There are Financial Transactions Taxes on various financial markets in the United Kingdom, Switzerland, Hong Kong, Brazil, France, Singapore and other countries; in most cases the tax is at a higher rate than proposed under HB 0106. These are all large markets that have not been hurt by the tax and exchanges have not moved away.

(7) I don't know anyone who trades on the CME and CBOE. Who are they? Can they afford this tax?

Most people know few if anyone who trades on these exchanges, because the vast majority of trading is done by large banks, hedge funds -- financial institutions in general -- other large businesses, and wealthy individuals. None of these would be hurt significantly by the proposed LST. There would,

however, be a reduction in what is called “high frequency trading,” where traders buy and sell the same contract within seconds. However, reducing such trading will not harm the economy. In fact, these high frequency trades are considered destabilizing gambling, so it would amount to a ‘sin tax.’

(8) What about trading by pension fund managers – wouldn’t paying the tax hurt people planning for retirement and retirees?

HB 5929 contains an exemption for retirement funds so they would not pay the tax.

(9) Would these traders move to another exchange?

The products that are proposed to be taxed are not traded on any other exchange. In addition, some of the products that would be taxed, such as the S&P 500 index futures and options, are exclusively licensed to these two exchanges. While another exchange could seek regulatory approval to trade some of the other products, doing so would take some period of time. In addition, moving trading liquidity from one market to another is very difficult. Once an exchange has captured all the volume in a product, it is difficult for a later entry to establish a market that is attractive to traders. Finally, the amount of the proposed LST is less than the smallest price change (the smallest amount a trader could gain or lose) on these contracts so it would provide very little incentive to trade elsewhere even if the same products were available on another exchange.

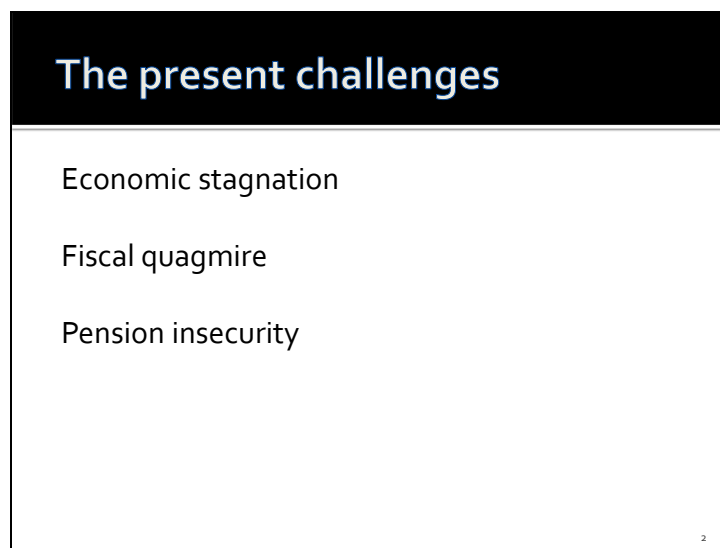
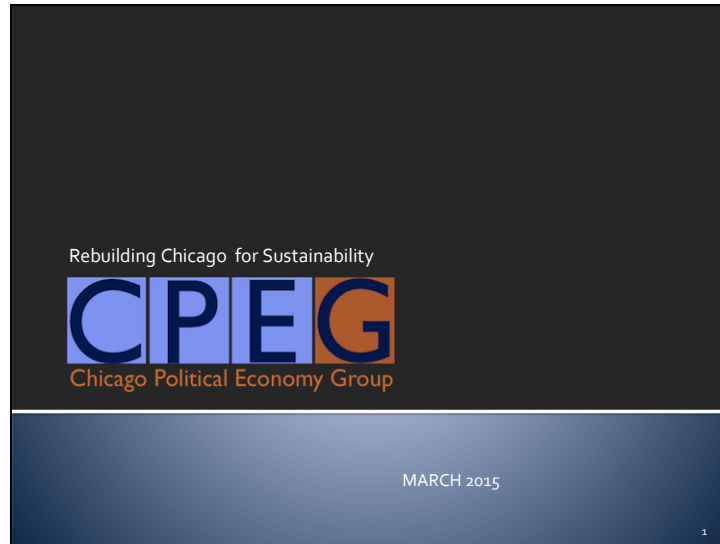
(10) You compared the LST to the state sales tax. That’s 6.25%, right? How does the LST compare?

The LST rate is much, much lower than the 6.25% for the Illinois state sales tax. While the LST rate would vary depending on the size of the different contracts, here are some representative figures. The size of an S&P 500 index futures contract is currently about \$92,500 (with the index is at 1850). If a trader bought and then later sold the index futures contract, the total tax on the \$92,500 would be \$4 (\$2 to buy and \$2 to sell), or 0.004% -- less than 1/10th of the sales tax that you pay. Another example: a soybean futures contract is for 5000 bushels. When soybeans are selling for \$7/bushel, the value of the contract is \$35,000. Since soybeans are an agricultural product, the LST for both buying and later selling a contract would be \$2 (\$1 to buy and \$1 to sell), or 0.006%, again less than 1/10th of the sales tax you pay.

(11) OK, how could we use the money raised by the LST?

There are many good uses of this revenue. Illinois could reverse decades of underfunding and understaffing of Human Services and human needs. It could boost funding for public education (today Illinois ranks last in state share of funding for education). It could be used, at least in part, to make up for the decades long failure of the Illinois legislature to keep their promise to fund the pensions of teachers and other public employees. Illinois could fund thousands of jobs preserving the environment, improving energy efficiency, rebuilding public infrastructure, etc.

Appendix B



Pension and fiscal triage

TIF reform

Transportation-related charges

Sustainable city charges

3

TIF reform

- Closest thing we have left to a rainy day fund
- TIFs require a forensic audit
- Chicago TIF programs need to be radically reduced and restructured
- The pension crisis emerged when TIF revenues soared
- TIF revenue in 2000 was below \$200,000,000 and soared above \$500,000,000 by 2007. TIF revenue alone could more than fund Chicago Pensions. (Good Jobs First, "Putting Municipal Pension Costs in Context: Chicago," April, 2014)

4

TIF reform

As more and more tax revenue is sequestered, the standing of developers and footloose capital is strengthened as resources are shifted to accommodate their interests, while the provision of public goods such as basic education and shared infrastructure are rationed in the name of "fiscal crisis." Essentially, Chicago's extensive use of TIF can be interpreted as the siphoning off of public revenue for largely private-sector purposes.

--Good Jobs First, "Putting Municipal Pension Costs in Context: Chicago," April, 2014, p. 26

5

Transportation taxes

- **Sunsetting gasoline tax** – everyone pitches in while prices are down, we can all do our part
 - 1 cent per gallon
 - Yield: \$XX
- **Fleet charges** for not operating a minimum number of EE and alt fuel vehicles
- **Third car tax**
 - Rebates per bicycles registered with the City Clerk



6

Sustainability charges



Penny per bottle and can tax –
every bottle, every can
Yield: \$XX

Newspaper tax
One cent per paper
Yield: \$XX



Rent additional garbage carts
Yield: \$?



Surcharge: Large home
appliances not Energy Star
rated
Yield: \$?

7

Ending mismanagement

Deep forensic financial audits
The fox has been guarding the henhouse
for 26 years

Conclude sweetheart arrangements
Yield: \$XX over – # years
Which deals are particularly onerous

Cost cutting without further damaging
programs
Yield: \$XX

**Stop papering over deficits – end the
addition to commercial paper**
Restructure commercial loans where
feasible

Openness – where is the Treasurer putting
our money?

8

Ending mismanagement

- We have \$8 billion in outstanding GO bond debt – **Emanuel added \$1 billion in less than one full term without indicating the purpose!** Only later we learn to cover expenses like legal claims.
 - Using debt to pay off legal settlements reflects a lack of foresight – these multimillion dollar expenses should come from the corporate budget.
 - Additional bond issues come after serious downgrades – out of control with our checkbook!
- **End the Infrastructure Trust** – Benefits from retrofitting should belong to the people not Goldman Sachs. We have to get financial interests that the incumbent represents out of our pockets.
- It is likely **financial management and money management** are areas ripe for reform. Look at LA's \$200 million in bankers' fees. What can we expect from a Chicago with a Comptroller on the lam and Rahm Emanuel at the helm?
- **Out-of-control parking charges** - *They are not meters, they are \$2 an hour monsters devouring 'parking charges' or 'parking extortion'*

9

Strategic goals

- **Rework pensions** for new and future pensioners
- **Restructure debt** institutional holders need to take a haircut in this downturn too.
- **Financial Transaction Tax** – the key economic policy issue of the day

10

LaSalle St. sales tax

Using publicly available data CPEG estimates a LaSalle St. tax would have generated an average of \$11.8 B/year between 2010 to 2013

- In response to such a tax traders could not easily trade these products somewhere else nor could the Exchanges or their electronic trading platforms easily move out of Illinois
- CME and CBOT do not pay the LST which is assessed on traders, not the exchanges.
- Products that are proposed to be taxed are not traded on any other exchange.
- Moving trading liquidity from one market to another is very difficult - a classic *collective action problem*.
- Relocating hard-wired trading infrastructure would have to be justified economically. Affected traders and the Exchanges would have to organize to *move the switches and lines together at the same time* without major disruptions to most of the traders for whom a \$1 or \$2 fee per trade would be at most an unnoticeable statistical error
- ELX's best monthly volume trades almost equaled the daily trades in the same contracts on the CME despite lower fees.

Appendix C

Property Tax Burden Shift to Residential as a Result of 2009 10/25 Change in Assessment Method

Calculating the Tax Burden Shift in Theory

1985: Residential tax burden: 42%

2008: Residential tax burden: 62%

Non-residential tax burden is remainder

X (non-residential tax burden) + y (residential tax burden) = 100% (total tax base)

*assumption: majority of the non-residential tax burden is commercial/industrial property

2008: Commercial level of assessment: 38%

2009: Commercial level of assessment: 25%

2008: Residential level of assessment: 16%

2009: Residential level of assessment: 10%

To find the change as a proportion:

Divide 2009 level of assessment by 2008 level of assessment.

$$10/16 = .625$$

$$25/38 = .658$$

$$.658X + .625Y = 100\% \text{ (total tax base)}$$

$$X = 38\%$$

$$Y = 62\%$$

$$.658(38\%) + .625(62\%) = 63.75\%$$

The 63.75% represents the percentage of the total tax base that would remain had the Assessor kept the market values the same and reduced the assessments. However, he did not do this.

If we multiply out the above equation, we get $25.00 + 38.75 = 63.75$.

25.00 is the "X" factor and 38.75 is the "Y" factor. By dividing each of these factors by the total (63.75), we can solve for the new percentages of tax burden:

$$25/63.75 = 39.22$$

$$38.75/63.75 = 60.78$$

Residential tax burden shifts to 60.78 % and non-residential shifts to 39.22%

Conclusion: If the market values that were previously in place were determined to be correct and the assessments were changed to represent the new levels of assessment, we would have seen a very slight shift of tax burden onto the non-residential properties.

10/25 in Practice:

Assessments were (more or less) frozen in place for the North and South Tri-areas and Market Values were increased to reflect the new levels of assessment.

*This action, if it stood alone, would not shift the property tax burden onto either group of properties. The assessments had not moved.

However, the Board of Review issued Assessed Value decisions based on 38% of a Market Value that was determined by the Board for properties in the North and South Tri-areas. These values, issued over the past 1-2 years, were supposed to be valid decisions for 3 years. Appellants are now looking to have that market value restored at the new (25%) level of assessment.

Background of Commercial Appeals:

The most reliable way to calculate a value for an income producing property is to capitalize projected or realized income in order to derive a Fair Market Value. This can be done a number of different ways, but most of these ways follow this general pattern:

Income: The total amount of income that a property can expect to receive from rents collected. Typically, an allowance is made here for vacancy and collection loss.

- Expenses: Deductions to the income that come from generally accepted payments made for such items as utilities, management fees, janitorial services, etc.

Net This is the income that is left after the expenses have been deducted. It

=Operating should be noted that this amount is taken before debt service payments

Income have been made, and for taxation purposes, before property taxes have been paid, as well. Abbreviated N.O.I.

(Divided by) The capitalization rate is the time it takes to recapture the total market

Capitalization value from the net income received. It is represented by as a decimal. For

Rate example, if a building produced a net income of \$100,000 annually and

+ the Fair Market Value was \$1,000,000, the cap rate would be .1. The Tax

Tax Load load is a decimal added to the cap rate to account for the property taxes not being deducted from the N.O.I.

= FMV FMV is the Fair Market Value of a property.

To Recap:

Income – Expenses = N.O.I.

N.O.I./ (Cap + Load) = FMV

The Tax Load is calculated by multiplying the State Equalizer by the aggregate tax rate for the area by the level of assessment.

The Tax Burden Shift in Practice:

Consider a commercial property that produces \$100,000 in N.O.I. In 2008, the Board of Review may have conducted an analysis using this N.O.I. and divided it by a cap rate of 10% (.10) and a load of 7.564% (.07564) to come up with a market value of 569,346 ($100,000 / .17564 = 569,346$). In this case, the load would have been calculated by multiplying last years state equalizer (2.8439) by last year's level of assessment for commercial properties (38%) and by the aggregate tax rate in the area (assume 7%). The assessment would be 216,351.

In 2009, the appellant asks for his Market Value to be restored and to be given an assessment based on 25% of last year's Market Value. However, doing so would be incorrect because last year's Market Value was computed using a tax load calculated with a 38% level of assessment. In other words, the tax load was too high.

The policy at the Board of review is to compute a new tax load and compute a new market value. For the same property, the new tax load would be $2.8439 \times .07 \times .25 = .0498$, assuming tax rate and equalizer remained constant. The new market value would be calculated by dividing the N.O.I. by the new cap and load: $100,000 / .1498 = 667,556$. Taking 25% of this new number would result in an assessment of 166,922

The new assessment represents a reduction in assessed value of 22.85%.

If all commercial properties saw a 23% decrease in assessed value, the commercial tax burden would drop from 38% to 29.3% ($38\% \times .77 = 29.3\%$). The residential tax burden would be left to pick up the remaining burden, which would be approximately 70.7%.

70.7% is an increase from the 62% of about 14% ($70.7 - 62 = 8.7$; $8.7 / 62 = 14\%$). More simply put, the changes caused by 10/25 would result in the average residential tax bill increasing by 14% if the tax levies remain unchanged.

In practice: The average residential tax bill is approximately \$5,313. Adding 14% to this bill would raise the tax bill to \$6,056, an increase of \$743.