

NAIOP BACKGROUND

NAIOP, the Commercial Real Estate Development Association, is the nation's leading organization for developers, owners and related professionals in office, industrial and mixed-use real estate. With more than 13,000 members in 56 chapters throughout the United States, NAIOP's powerful membership has enabled the industry to become one of America's leading economic engines. NAIOP advances responsible, sustainable development that creates jobs and benefits the communities in which our members work and live.

The Chicago Chapter of NAIOP has over 450 members who are a leading voice of commercial real estate in the Chicago area which supports more than 56,000 jobs and \$2.6 billion in personal earnings in the State. Our members represent the top real estate development and brokerage firms in the country who are on the cutting-edge of today's emerging development opportunities.

NAIOP CHICAGO POLICY POSITIONS AND STATEMENTS

Economic Development

- Economic development, or the creation of jobs as the result of private industry investment, is based upon many factors evaluated by the prospective employer, including natural market conditions, geographic location, regulatory/tax environment, responsible governmental funding of core services, current and overall forecasted tax corporate and personal tax burden, infrastructure investment the economic outlook for the prospective area. In too many of these critical factors, Illinois is failing.
 - From 1995 through 2010, Illinois has experienced an out-migration of over 855,000 people representing a compounded loss of \$294.9B in net income and \$52B in state and local tax revenue. (1) This has undoubtedly decreased funds available to the State and local governments to provide core services, including the infrastructure improvements that boost economic development. Additionally, it has negatively impacted the economic outlook for employers, further decreasing interest in investment in Illinois.
 - Because of the onerous debt compiled by Illinois State and local governments, employers are wary of making investments in Illinois as they assume higher future taxes to alleviate the debt.
 - Illinois has the worst credit rating among the fifty states in the Union, and the annual interest costs on State of Illinois debt exceed \$1B per year. (2)
 - The State of Illinois has over \$100B in unfunded employee pension debt, approximately \$7B in unpaid bills to State vendors and \$56B in unfunded government-worker health-care, or OPEB, liabilities. (3)
 - Additional local governmental liabilities are, arguably, enormous and further add to an employer's concerns about investing in Illinois. In just Cook County

alone, the combined debt among local governments is nearly \$87B, or \$32,000 per person. (4)

- The State of Illinois has not passed an authentically balanced budget since 2001. Instead of living within its means, Illinois continues to borrow money, insert those borrowed funds into the budget to supplement cash flow and, in turn, claim the budget is balanced. For example, in 2014, the State passed a budget that includes \$1.58B in spending beyond anticipated revenues, and that deficit is expected to rise to \$4.13B in 2015. (5) In part, economic development growth relies upon an employer's trust that State and local governments are stable, and this prolonged inability by the State to pass a balanced budget (14 years) significantly damages Illinois' competitive edge in the market place.

Therefore, NAIOP Chicago:

- Urgently supports considerable changes to the budgeting process in Illinois to authentically pass a balanced budget and a responsible spending limit as mandated by the Illinois Constitution.
- Supports structural changes to Illinois' public employee retiree compensation systems to:
 - Offer 401(k) style retirement plans to new State employees and to offer a transition to 401(k) styled plans for current employees should they choose to convert. Colorado, Ohio, South Carolina and Florida mandate defined contribution retirement plans, much like 401(k)'s, and several other states offer them to their employees. (6)
 - Increase retiree contributions toward State sponsored health care to levels in line with the private sector or, at a minimum, in line with those offered by other states. On average, states pay 46% of a retiree's health premiums, but in Illinois, the State pays for 80-90% of these premiums. (7)
- Supports genuine and across the board policy changes to make Illinois competitive again, such as lower corporate tax & personal income tax rates, workman's compensation reform and a furthered shift of available capital investment toward infrastructure improvements so that Illinois, through its EDGE program, is not beginning negotiations with prospective employers from a weak position but from a strong one.
- Supports changes to the Illinois EDGE program to enthusiastically reach out to prospective employers in all industries, including those in the technology, logistics, transportation, distribution and produce industries. While NAIOP certainly supports increased investment in manufacturing, NAIOP believes the EDGE program is not broad enough to seek investment among non-manufacturing companies.
- Encourages the Governor and Legislative leaders to personally participate in EDGE and traditional outreach to prospective employers considering an investment in Illinois as these companies, large or small, are seeking assurances from the State's leaders that significant matters of fiscal concern in the State can be solved responsibly.

Property Tax Policy

- The State of Illinois has the second highest property tax rates and the ninth highest per capita tax burden in the United States. (8) The residential property tax burdens in Lake, DuPage, Kendall, McHenry, Kane and Will Counties rank near the top nationally as listed below: (9)
 - Lake County, IL 17th
 - DuPage County, IL 23rd

- Kendall County, IL 28th
- McHenry County, IL 29th
- Kane County, IL 30th
- Will County, IL 33rd

And while Cook County residential property tax rates are, arguably, kept artificially low, the resulting burden on commercial property tax liabilities is extraordinary and contributory to the net out-migration of over 855,000 Illinois residents from 1995-2010.
(10)

Therefore, NAIOP Chicago:

- Opposes SB 16 and/or subsequent legislation that increase the property tax burdens on Illinois businesses and residents. This measure that would increase property taxes in most suburban or collar county communities, therefore further negatively impacting business investment, job growth and an already difficult market for development or re-development
- Supports the reduction or reliance upon property taxes, particularly in Cook County and in the Collar Counties, for the purposes of funding education. Cook, Will, Lake and DuPage Counties maintain some of the highest property tax rates in the United States on commercial properties, largely due to their necessity to fund education through these means. This embedded system, especially in Cook County, places a significantly negative impact on Illinois' ability to attract and maintain new business.
- Opposes any specific or enabling legislation that would permit the City of Chicago or Cook County to further raise property taxes for the purposes of funding the pension deficits in Illinois. Any increase in these taxes will further deplete Illinois' ability to attract or maintain business investment.

Metropolitan Water Reclamation District of Greater Chicago (MWRD) Watershed Management Ordinance (WMO)

- Naiop Chicago has supported moderate reforms through the WMO that do not overly burden re-development in Cook County, because responsible storm water management and the preservation of water quality are beneficial to residents and businesses alike in suburban Cook County.
- However, after careful review of the 2013 WMO, NAIOP Chicago has concluded that the WMO as adopted in 2013 goes too far in too many ways and will drastically slow the rate of re-development in suburban Cook County, which will, in turn, negatively impact the Cook County economy, dampen investment, slow the rate of job creation and, critically, reduce property tax revenues in Cook County.
- Because many current projects were "grandfathered" under the WMO, the effects of the new WMO will not likely be felt for another 1-2 years. Meanwhile, NAIOP Chicago is in the early stages of conducting its own engineering and economic impact analysis of the new WMO and analyzing the impacts of the WMO on actual, current redevelopment projects. Based on this analysis, NAIOP Chicago intends to partner with MWRD to identify reasonable modifications to the MDO, which will serve to better balance storm water management and water quality protection with redevelopment in suburban Cook County.
- NAIOP Chicago recognizes the benefit that wetlands play with respect to depressional storage and water quality (in separate sewer areas), however, we feel that the US Army Corps of Engineers should be tasked with regulating wetlands. NAIOP Chicago believes that the

permitting responsibility and determination with respect to jurisdictional determination belongs with the Corps and not the district. It is our belief that enforcement of buffers that extend across property lines and established man made detention basins being classified as isolated wetlands in the future are two potential areas of concern that need to be more fully vetted.

Workman's Compensation Reform

- Workman's Compensation insurance rates in Illinois are approximately three times higher than those in Indiana and two times higher than those in Wisconsin.
- For example, employers in the concrete industry in Illinois pay \$16.01 per \$100 of payroll, but that cost for \$100 of payroll in Indiana is \$5.21. (11) This significantly increases the overall costs of road construction, the construction of new industrial and commercial buildings and home construction in a state that is, arguably, much less competitive because of its existing debt and taxation policies.

Therefore, NAIOP Chicago:

- Supports Workman's Compensation reforms that move Illinois more in line with the costs of the same insurance in neighboring states while maintaining the assurances that injured workers are not encumbered by a process that disallows their deserved benefits.
- Changes in State policy that would, therefore, allow providing insurance companies to reduce costs that would help create a more positive environment for business investment in Illinois.

Endnotes:

1. *Internal Revenue Service and "Policy lessons from Illinois' exodus of people and money" – Illinois Policy Institute by J. Scott Moody and Wendy P. Warcholik.*
2. *Standard & Poor's Rating Services, the State of Illinois Comptroller and the "Nation's worst credit rating costs Illinois millions more interest payments" report by Benjamin VanMetre, Illinois Policy Institute.*
3. *The Illinois Comptroller and the Illinois Policy Institute.*
4. *The Illinois Policy Institute's "The Hidden Bill: Chicago's \$86.9B Debt Liability" report.*
5. *Illinois Public Act 096-1496 and the Illinois Policy Institute.*
6. *The Center for Retirement Research at Boston College.*
7. *Illinois Policy Institute's 2015 "Special Report – Budget Solutions".*
8. *Illinois Policy Institute "Progressive Tax Facts" report – 2014*
9. *Tax Foundation Property Taxes on Owner-Occupied Housing report*
10. *Internal Revenue Service and "Policy lessons from Illinois' exodus of people and money" – Illinois Policy Institute by J. Scott Moody and Wendy P. Warcholik*
11. *2014 rates quoted by Gnade Insurance of Illinois.*