

# The Illinois Government Finance

# LEADER

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# Connections between economic development and land taxation

By Jeffrey Chapman and Rex L. Facer II

Recent court decisions have made economic development and tax policy front-page news. The recent U.S. Supreme Court decision in *Kelo v. City of New London* raised a public outcry when it allowed local governments dramatic latitude in acquiring private property for economic development purposes. This case had a fiscal aspect as well, for it illustrated how financial pressures can lead local governments to seek alternatives to direct investment for economic revitalization and redevelopment.

Economic development was also the focus of a major lower court decision on state tax policy. In *Cuno v. DaimlerChrysler*, the 6th Circuit Court of Appeals found that Ohio's investment tax credit, intended to attract businesses from other states, violated the Commerce Clause of the U.S. Constitution (Hellerstein 2005). These and other, similar cases raise many questions about the connections between economic development and tax policy.

## The relationship between economic development and infrastructure spending

Infrastructure, that vast network of capital-intensive services including roads, water provision, sewer services, and electrical supply, is critical to current and future economic activity. However, serious economic examination of the link between infrastructure spending and economic productivity only began in the late 1980s. Aschauer (1989, 194-197) argued that declining infrastructure spending resulted in less economic growth. More recently, Bougheas et al. (2000, 520) reported findings that "highlight the importance of infrastructure accumulation" for productivity gains.

Other researchers have pointed out that the most significant recent changes in infrastructure spending have

occurred at the state and local levels, rather than the federal level. Gramlich (1994, 1178) argued that federal infrastructure spending has been fairly consistent over time, but state and local spending has decreased. Holtz-Eakin (1993) cautioned that while public expenditures on infrastructure may be important, they may not directly affect economic productivity. He argued that differing state and local needs may account for many infrastructure spending disparities, and that maintenance of existing infrastructure assets may be more important than new spending for capital acquisition. Boarnet (1997) considered efficient pricing for infrastructure use as important as its actual provision.

Nevertheless, the American Society for Civil Engineers (ASCE) is sufficiently concerned about the condition of infrastructure in the U.S. to assign it a grade of “D.” ASCE (2005) argues that the country needs to spend about \$1.6 trillion over the next five years to improve the situation.

### **The relationship between infrastructure spending and local tax systems**

The mechanisms for funding infrastructure and its role in state and local spending are complex. Research in this area deals with such topics as fiscal illusion (i.e., when the complexity of the revenue system obscures the true cost of public goods and services) and specific capital financing strategies used to fund infrastructure. However, there has been little research on the impact of local tax structures on infrastructure spending.

Economists have long argued that the value of publicly provided goods and services, such as infrastructure and its maintenance, are reflected in the value of the property served by those goods. Accordingly, a tax that captures the value of these public goods and services may be an important revenue source for funding them. However, in the last 30 years, local governments have moved away from such a tax, the property tax, to other sources of revenue. In many communities, this shift has produced an increased reliance on state aid, local sales tax revenues, and user fees.

In analyzing infrastructure spending in Utah, it is clear

that the local revenue structure affects per capita operating and maintenance spending and new capital acquisition expenditures. Preliminary analysis indicates that communities are more likely to increase per capita infrastructure spending when it is financed by property taxes, all other funding sources held constant. It also appears that as per capita sales tax revenue increases, per capita spending for infrastructure services declines.

### **How constrained are local revenue systems?**

One reason that local government revenue structures affect spending on infrastructure is that the states impose various constraints on local revenue sources. Although the past ten years have seen no dramatic changes in the roles of the property tax, intergovernmental aid, or the sales tax in overall local government revenues, the ratio of total revenues to personal income has fallen about 7.5 percent. This real decline highlights the increasing pressure on local governments to identify new revenue sources.

Yet, local governments face serious constraints when they seek to change their revenue systems. States impose intergovernmental restrictions, such as limits on sales tax rates that localities can impose. Less tangible but equally important is political opposition to tax increases. The third factor is the set of tax and expenditure limitations that many states have enacted, ranging from Proposition 13 in California in 1978 to the more recent taxpayer bill of rights enacted in Colorado, which drastically limited increases in government spending.

These constraints have forced local governments to become more innovative in their revenue-raising methods. An entire cottage industry of financial advisors, bond attorneys, and other public and private sector innovators has emerged to help local governments find ways of loosening or circumventing these limitations. Some strategies may have increased economic efficiency, although they give rise to equity concerns (for example, the movement toward the increased use of fees and charges); others are nearly invisible to the taxpayer. In nearly all cases, local governments have been seeking to use land as a revenue-generating device—trend that shows no sign of abating.

## Alternative financing

Two types of debt traditionally have financed infrastructure projects: general obligation (GO) bonds, backed by the full faith and credit of the issuing locality; and revenue bonds, backed by income from the capital project. Both types of debt have significant restrictions on their use, such as voter approval requirements and caps on maximum indebtedness. These debt limitations, the difficulty in raising property taxes, and the fear of political opposition have increased the use of alternative capital finance methods based on land use.

One longstanding method, tax increment financing (TIF), utilizes the increases in property value to help finance redevelopment projects. Originally designed as a financial instrument to eliminate blight and provide affordable housing, this instrument has become increasingly popular in many states for a variety of projects. Forty-seven states and the District of Columbia now allow this technique.

### Figure 1: Tax Increment Financing in California, 1998–1999 and 2003–2004

#### 1998–1999

93.5 percent of the 144 cities with populations of 50,000 or more have redevelopment agencies

28 redevelopment projects are more than 6,000 acres

The tax increment\* was nearly \$1.8 billion (implying nearly \$180 billion in new property value)

Redevelopment agencies had \$9.4 billion in unmatured tax allocation bonds

#### 2003–2004

91 percent of the 155 cities with populations of 50,000 or more have redevelopment agencies

33 redevelopment projects are more than 6,000 acres

The tax increment was more than \$3 billion (implying more than \$300 billion in new property value)

Redevelopment agencies had \$13.5 billion in unmatured tax allocation bonds

*Source: Compiled by the authors. \*The additional revenue from new development compared with the value prior to the TIF.*

Capturing the property tax increment attributable to government-sponsored redevelopment in order to service this debt makes economic sense if the new development would not have occurred without the formation of the tax district. Moreover, this debt does not have to be approved by voters, but rather by a group designated by the city government. Not even these two factors explain the extraordinary recent growth in the number and size of TIF districts, however, raising suspicion that this tool may be used more often to attract and subsidize economic growth than to eliminate blight. For example, in 2003-04, California had 33 TIF redevelopment projects, each of which covered more than 6,000 acres, a surprisingly large area to be declared “blighted” in any one jurisdiction (Figure 1).

Another popular tool in several states is the community facilities district (CFD), which usually funds new development. Landowners within a region form a CFD to issue debt to finance the infrastructure needed to develop raw land. District members’ votes are typically a function of the amount of property each landowner holds. The local government must approve CFDs, although they are not a formal part of the government and their debt issuance is not subject to approval by the general public.

A lien for CFD assessments is placed on each lot in the district, and the CFD tax liability appears on the property tax bill of each district member as a separate line item. Variations of this technique may utilize sales taxes, impact fees, and user charges. Many rapidly growing local governments encourage the formation of these districts to help finance their community’s growth. Nevertheless, CFDs can be very complex, and may fail if anticipated growth does not occur (Figure 2).

TIFs, CFDs, and other such techniques present an ethical dilemma to local government. Sometimes they are not fully understood by the political decision makers who authorize their use, let alone by members of the general public who will bear the burden of paying this debt in the future. Yet they remain a popular tool to finance crucial infrastructure that is basic to improving the economic well-being of the community.

## Figure 2 Goodyear, Arizona

In 1980 Goodyear, Arizona, had 2,750 residents, in 2000 the city had 19,700 residents, and it is projected to have 334,000 residents by 2030. To finance the infrastructure necessary for this enormous growth, Goodyear, in conjunction with private developers, established five CFDs. By 2002–2003, these districts had amassed more than \$26.5 million in general obligation bonds and \$17.7 million in assessment bonds.

Two of the districts alone have the ability to issue an additional \$275 million in these types of debt. For more information:

<http://www.ci.goodyear.az.us/index.asp?NID=376>.

## Could a land tax help finance infrastructure for economic development?

The land component of property value is another potential source of revenue to encourage economic development. Since the supply of land is fixed in the short run, an increase in a land tax will not affect the tax base. However, it will encourage more intensive use of the land and may slow urban sprawl. Unfortunately, the lack of empirical data makes it difficult to determine if this theory is accurate. One example

in the U.S. is the City of Pittsburgh, which in 1979-1980 restructured the tax on land to be five times that on improvements. Building activity showed a dramatic increase, although other factors may have contributed to the change as well (Oates and Schwab 1997). Pittsburgh later returned to a single-rate property tax system.

Increased use of a land tax poses significant problems. In particular, accurately assessing land can be challenging, although statistical and econometric techniques may help address this in the future. A second concern is that more intensive use of land value taxation will lead to denser development, exacerbating many of the problems associated with congestion. These effects must be weighed against the positive benefits of reducing long-distance commuting. A third problem concerns equity. Owners whose property has a high land/improvement ratio will face an increased tax liability.

This shift might be mitigated by adjustments in the tax rate, special exemptions or targeted tax credits.

A land tax has the important advantages of transparency and accountability. In particular, if land value increases because of government activities, there is strong justification for recovering at least some of those costs through a tax on the land component. We would even propose a name for this additional tax—a positive externality tax (PET). We recognize that, like any proposed increase in the property tax, such a shift would be politically controversial.

## Conclusions

Our current research analyzes relationships among economic development, infrastructure, and the tax system. The fiscal problems of local jurisdictions are made more complex by the use of intricate methods of infrastructure financing, such as TIFs and CFDs, to fund economic development. The use of financing mechanisms based on a land tax may be one part of a potential response to this challenge.

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## **SALES TAX**

### **A tale of two cities: Point of acceptance**

**By Chris Staron, NIU Graduate Intern, IGFOA**

In a competitive marketplace, businesses are always looking to improve their bottom line. Minimizing costs and maximizing profits is business 101. Some might even argue that it is the responsibility of a business to look for ways to save money. But, what do you do when companies are improving their bottom line at the expense of your municipality? What do you do when you see sales tax revenues leaving town? Places such as St. Charles, Carol Stream, and Elgin had to deal with dramatic losses in tax revenue when businesses entered into sales tax agreements without leaving these original communities. From roughly 2001 to 2004, these municipalities battled the loss of revenue through legislative action at the state level and incentive taxes at the local level. This article will chronicle the response to sales tax agreements, and attempt to draw attention to the link between businesses and public financial stability. Larry

Maholland, former City Administrator of St. Charles, and Stan Helgerson, Finance Director of Carol Stream, shared their stories and insight for this article.

### **Sale tax rebate agreements allowed companies to move sales tax reporting without moving locations**

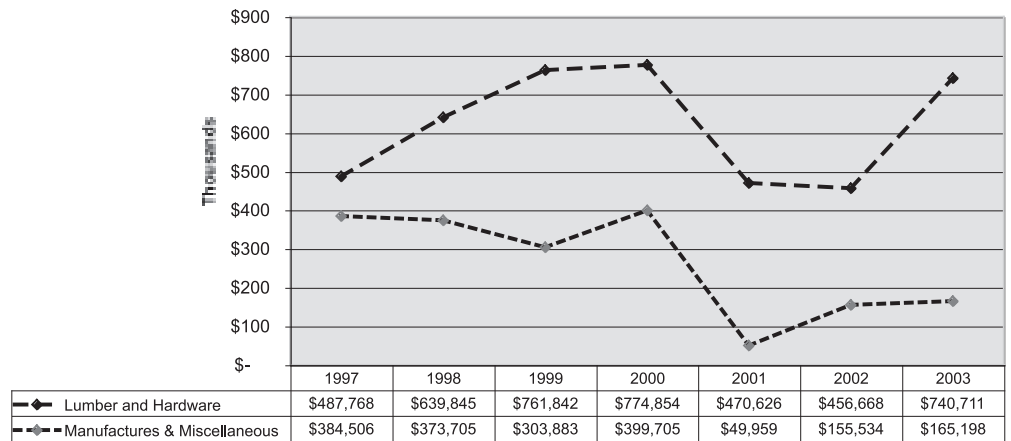
What were the characteristics of these sale tax rebate agreements? Illinois taxing procedures allowed companies great latitude to designate the location of their “cash register” for certain sales. Consequently, companies could conduct a physical sale in one location, and pay the sales tax at the “point of acceptance,” where the sale was processed. Thus, companies could move their sales tax reporting without moving locations. Larry Maholland stated that by engaging in this practice, the original municipal base bears “the traffic and all the other negative effects of a business. The police have to go there and deal with the people and problems they have. They are still protected by our fire department.” Companies were particularly prone to moving their “point of acceptance” when municipalities rebated large portions of their sales tax.

### **Harmful to originating communities**

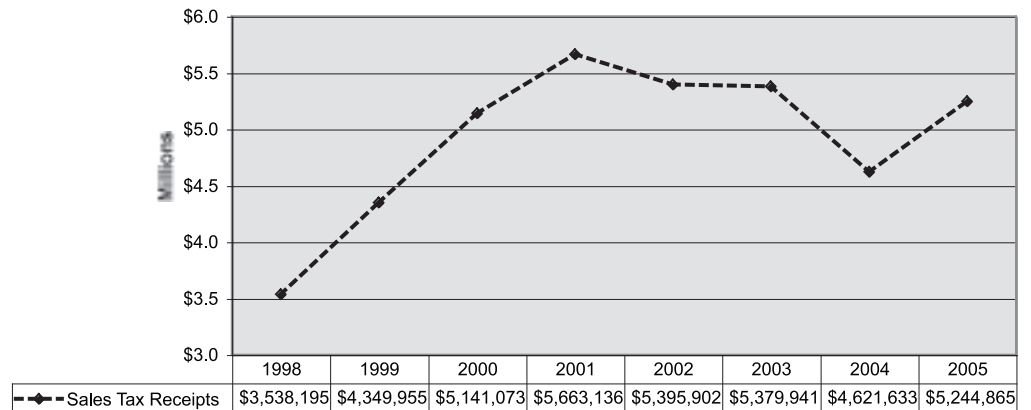
These rebate agreements, while beneficial to the companies’ bottom lines, were harmful to the originating communities. Maholland stated, “We noticed that our sales tax was down significantly... and as we looked we found that there were two [companies], the lumberyards that were way down and almost paying nothing.” Two major companies, Hines Lumber and Seigle’s, had entered into sales tax rebate agreements with secondary communities, effectively taking sales tax out of St. Charles. Hines Lumber moved their “point of acceptance” to Buffalo Grove, and Seigle’s moved theirs to Hampshire. Buffalo Grove and Hampshire were able to increase their tax base, but for the originating communities, this was a distressing problem. Quoting Maholland, “We had no idea as to why our sales tax was way down.” When the dust settled, the City of St. Charles was losing \$500,000 to \$1 million a year.

Carol Stream’s experience tells a slightly different story. Stan Helgerson said, “It was a fluke that we stumbled

**Chart 1: St. Charles sales tax receipts**



**Chart 2: Carol Stream sales tax receipts**



onto Pella. They had no intention of telling us at all.” While preparing its annual budget, the Village contacted its top ten sales tax providers “to see how they viewed their projections.” When the Village queried Pella Windows, The Village’s number one sales tax provider, they were met with some alarming news. Pella informed Carol Stream that they were planning on moving their “point of acceptance” outside of the Village. Pella wanted 85% of their sales tax rebated, or they were going to shop other communities for a better deal. The Village refused Pella’s request, stating that it would only consider rebating sales tax for new sources of revenue. Consequently, Pella went shopping for a willing partner and entered into a rebate arrangement with the City of Rockford. Rockford agreed to return 100% of the sales tax to Pella for the first five years. Carol Stream lost \$550,000 to \$600,000 per year, or roughly 3.6% of its operating budget. In Helgerson’s words, “They took a big bite

out of our operating budget,” especially considering that Carol Stream does not levy a property tax.

## **Turning to Springfield for help**

The originating communities had lost a portion of their tax base, but could not replace it with new businesses because none had physically left. Stuck in a precarious situation, these communities, led by Carol Stream and Elgin, turned toward Springfield and lawmakers. Helgerson was involved in helping push legislation through the state government. For a finance director, he took a unique leadership role with the legislation; however, the process was not an easy one. Helgerson stated, “The first go around we got shot down right away.” It took three years and a lot of hard work to pass the legislation that closed the “point of acceptance” loophole.

In 2004, HB 4705 was passed by the General Assembly and signed into law by the Governor, terminating future “point of acceptance” rebate deals. But why did the legislation take three years to pass? To start, the new law had to exempt home rule authority, which added a difficult obstacle from the start. In addition, not everyone wanted to end sales tax rebate agreements. The retailers’ lobby opposed legislation that would interfere with their business practices and profits.

## **Originating communities kept moving forward**

Losing millions of dollars in sales tax revenue, the originating communities did not let the opposition stop them from moving forward. Helgerson and others continued to make frequent trips to Springfield to testify at hearings and meet with legislators.

They went to the Illinois Municipal League’s (IML) legislative committee, which endorsed the legislation and gave it the broad support it needed. In addition, Helgerson believes the City of Chicago’s support helped tip the scales in their favor. “We finally got the interest of the City of Chicago. That’s what helped us get the bill done. The city doesn’t do sales tax sharing,” which caused Helgerson to believe that businesses’ sales tax reporting was “leaving the city, cutting deals in the suburbs.” Even with the broader municipal support, HB

4705 had to deal with the retailers' lobby. To gain the support of the retailers' lobby, HB 4705 stated that, "On and after June 1, 2004," units of local government could not enter into rebate agreements where the "cash register" was moved from the location of the physical sale. Consequently, the agreements of Seigle's, Hines, Pella, and any other companies were still valid and legal. On the other hand, these communities and all others throughout the state were now protected from future rebate agreements.

### **A new tax on lumber in St. Charles**

The battle over the rebate agreements did not end with the passage of HB 4705. St. Charles, looking for a way to recoup the lost tax revenue, moved to enact a new tax. The City wanted to target the companies that had entered into these agreements; however, they did not want to raise taxes for citizens and other businesses because of the lumberyards' actions.

After considering its legality, the City decided to establish a "lumber tax." The new tax targeted sales of lumber, when the processing of the physical sale took place in St. Charles. In addition, it refunded tax receipts to companies who had not moved their "points of acceptance." While the tax was being debated in city council meetings, Hines and Seigle's were voicing their disapproval and threatening legal action.

Knowing that a legal challenge was nearly inevitable, why did St. Charles decide to go ahead with the controversial tax? Larry Maholland said it was because of the risk/reward analysis. He stated, "We knew that there was some risk there in terms of winning or being able to implement the tax... but the investment in arguing it [the case] wasn't that significant compared to the benefits... The risk/rewards were huge." In the battle over the constitutionality of the lumber tax, there would be no costs for depositions and similar expenses. Instead, the lawyers would primarily be arguing the law and its interpretation. Because the revenue had already left the City, and the legal costs were relatively low, the City believed it was not exposing itself to excess risk.

On the other hand, if the City won the case, it would be receiving around \$1 million a year from the tax. Unfortunately for the City, it lost the case, which was heard before the state's Sixteenth Judicial Circuit Court. The judge believed the tax was unconstitutional because it levied an "extraterritorial" tax, or a tax outside the boundaries of the City. The City has not given up on pursuing this issue, and is now in the process of pursuing an appeal.

Carol Stream also considered enacting a tax, which targeted the companies that moved their "point of acceptance." Helgerson stated, "We looked very hard at looking at doing something to figure out how we could do a tax, but our attorneys could not come up with a mechanism to put something in place." They did not feel that they would be able to target Pella constitutionally. Meanwhile, the Village still had to fill the hole in its budget. In order to do so, the Village enacted a half percent home rule sales tax and a home rule use tax on natural gas. Carol Stream had to raise taxes in order to recoup the lost money from Pella and others who entered into rebate agreements. To understand the impact this has had on the Village, Helgerson stated, "Our 2005 sales tax numbers just now reached our 2000 level. 2001 was our peak, so our sales tax is starting to come back to our earlier levels. But, we've added some new retailers to help that happen."

### **Being watchful of tax revenues & possible changes is important to the financial well-being of a community**

This story has attempted to demonstrate a few important things. First, businesses are intimately tied into the financial welfare of a community. The primary reason why communities have businesses, in the words of Larry Maholland, is "so you can produce revenue for your community and lower your tax rate." The diversification of tax revenue helps relieve some of the burden of property tax. Convenience is a factor; however, in the Chicagoland area, where retail locations are easily accessible, convenience plays a smaller role in business retention. Businesses also create jobs, which should not be overlooked. However, it boils down to producing revenue and supplying services for a community.

As this article has shown, a change in corporate tax receipts can cause a major problem for a community. Being watchful of tax revenues and possible changes to them is important to ensure the financial well-being of a community. St. Charles's and Carol Stream's awareness were key in addressing these problems. In Carol Stream's case, the Village was proactive in meeting with businesses while preparing the budget because it wanted to make sure that the tax base was solid. The Village could better prepare for the loss of tax revenue because it knew what was coming. By watching its tax returns, St. Charles was able to pinpoint the problem even though Hines and Seigle's had not informed it about relocating their "points of acceptance."

Second, these communities were willing to take action. They believed there was a problem with the system and acted to fix it. They did a lot of work to pass legislation that closed the tax loophole. They brought the issue to the IML's attention. In addition, these communities looked hard for targeted ways to recoup lost revenues.

Third, there is a point to be made here about economic competition and development. There were some municipalities and businesses that argued that the rebate agreements discussed in this article were merely part of healthy economic competition, with winners and losers.

But who are the winners in a rebate agreement? The businesses are the primary and biggest winners. They receive a large discount on their sales tax without having to move their business. They still enjoy the services and location of their original location. The secondary municipality is a small winner because it only receives a small portion of the original sales tax. The biggest loser is the original municipality because it has lost its sales tax revenue but must still provide services for the businesses. Larry Maholland stated, "You're basically taking all the taxes out of the public domain and turning them back to the private."

In addition, an important thing to remember is that no economic development or redevelopment is taking place. In most cases, the companies were providing no new services, building no new buildings, and creating no new jobs, and yet were receiving tax breaks.

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## THE LAW AND UTILITIES

### **New statute gives utilities increased rights over bankrupt users**

**by Britt Isaly**

Times are about to get tougher for your bankrupt residents, both private persons and businesses, who fail to pay their water, sewer or other utility bills. On October 17, 2005, the Bankruptcy Abuse Protection and Consumer Protection Act (“Act”) became effective with regards to improved bill collection rights by utilities against bankrupt utility users. This new law permits a utility to more efficiently request the bankruptcy trustee who administrates the bankruptcy proceedings to provide assurance that payments will be made to the utility.

#### **The new law allows utilities to now change or discontinue service**

Generally, the original Section 366 of the Bankruptcy Code provided that, except in certain circumstances, a utility may not alter, refuse, or discontinue service to, or discriminate against, the trustee in bankruptcy or a debtor who files for bankruptcy or when the debtor owes money to the utility for service rendered by the utility before the filing of the bankruptcy. The newly-revised Section 366 now permits a utility to alter, refuse or discontinue service if the utility has not received adequate assurance of payment of the bill within 30 days of the debtor filing its bankruptcy petition. “Adequate assurance” of payment is defined as a cash deposit, a letter of credit, a certificate of deposit, a surety bond, a prepayment of utility consumption, or any other form of security agreed upon by the debtor or trustee and by the utility. The amendment applies to Chapter 11 bankruptcies which are filed on or after October 17, 2005, and

clearly enhances utilities' rights against corporate debtors.

Resident utility users who file for bankruptcy under Chapter 7 (individual liquidation) or under Chapter 13 (Adjustments of Debts of an Individual with Regular Income) or the Trustee who administers the bankruptcy must still provide adequate assurance to a utility provider within 20 days after the date of the Order for relief and after notice and a hearing. However, in Chapter 11 filings, (applicable to corporations,) the utility is permitted to take action by altering, refusing, or discontinuing utility service unless it gets what the utility agrees is adequate assurance within 30 days of the bankruptcy petition filing date.

Most creditors, including municipal utilities, learn about a debtor's or business' bankruptcy when they receive a written court notice of the new bankruptcy filing within approximately 30 days after the debtor files his petition in bankruptcy. The notice, usually referred to as a "Section 341 Notice of Initial Meeting of Creditors," gives creditors deadlines for filing a proof of claim for any debts owed by the debtor, the date of the first meeting of creditors, and the names and phone numbers of the debtor's bankruptcy attorney and of the trustee in bankruptcy. If a public entity finds out about the bankruptcy, but never receives an official notice of it from the bankruptcy court, it can access the case through the court's website, and enter the name of the debtor to determine deadlines for creditors. The website for the Northern District of Illinois, Eastern Division, which serves the Chicago metropolitan area is [www.ilnd.uscourts.gov](http://www.ilnd.uscourts.gov); its clerk's docketing phone number is 312-435-5670.

### **Once bankruptcy is filed, pre-existing debt is administered by the Trustee**

First, when your entity's utility learns of a bankruptcy the bill should be adjusted so that the debtor no longer gets billed for pre-petition debt owed. This pre-petition debt is now in the hands of the Trustee for administration. The utility/creditor is prohibited under the automatic stay provisions of the Bankruptcy Code from continued contact of the debtor for pre-petition debt. (Note:

Past balances of residents who file for bankruptcy under Chapter 13 might be handled a bit differently, as Chapter 13 debtors usually pay off their past-due debts through the bankruptcy trustee as part of a repayment plan.)

Second, the municipality or utility may want to contact the case's bankruptcy trustee as soon as possible after learning of the resident's bankruptcy. The trustee's name and telephone number appear on the initial Notice of Bankruptcy filing. The utility should request adequate assurance, generally preferred in the form of a cash deposit, from the trustee pursuant to Section 366 of the Code.

### **In some cases a utility lien may be allowed to be file**

Additionally, when permitted by law, the entity may file a utility lien at the county's Recorder of Deeds' office, though this generally is not permissible once the bankruptcy has been filed, again due to the automatic stay provisions preventing actions by creditors against the debtor's property. Filing a utility lien gives the municipality's claim a higher priority in the bankruptcy creditor pecking order—and greater potential right to get paid by the trustee—than the claims of those creditors who have unfiled, unsecured debts. Third, after the pre-petition debt has been reduced to a claim against the bankruptcy, (and, again, the utility may not continue billing the debtor in bankruptcy for this pre-petition debt,) and after the utility requests adequate assurance for payment of future utility bills from the Trustee or the attorney for the debtor, new and future utility bills for post-petition service can be processed to the debtor for utility service in the ordinary course of business.

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## Part 4 in a 4 part series:

### Security Administration

by Neil Witek, PMP, CISSP, CISA, of of Remington Associates, LTD

Parts one, two and three of this series discussed the basic concepts of a firewall, why vulnerability assessments are a valuable tool to help minimize exposures and risk and the importance of inside monitoring through the use of intrusion detection/ prevention services. With all these layers and technologies, what IT administrator wouldn't feel safe? The answer is... the smart ones!

At some point in your life, you learned the elementary, yet often experienced law, that a chain is only as strong as its weakest link. An IT environment is certainly a good case study in multiple links that must all be hardened, linked together, tested, monitored—and sometimes repaired—just like a length of chain. More often than not, the hardening, linking and testing is the easy part. More honestly, this is usually the part most technically-minded engineers like to do and what most would consider “their job.”

“My job is to build castles and walls and moats and bridges, then to crush anything that attempts to pass through without the King's permission.” Sounds fun, right? How many techies do you know that would say, “My job is to write a security policy, educate my users on the policy, then monitor and audit what's actually happening to make sure the policy is enforced and is appropriate for our ever-changing environment?” Don't everyone yawn at the same time!

But in reality, an uneducated user, a missing policy or an issue left unmonitored are often serious weak links in IT security. To illustrate the point, consider your username and password.

## **First question**

Does your organization have a Password Management policy? This is a written document that educates users on why passwords are so important, what makes a strong password, the components of an acceptable password in your organization (at least 8 characters, upper and lower case with at least one number and can't be your name, user ID or the words "password" or "secret") and basic Do's & Don'ts (Don't write your password on a sticky note and stick it under your keyboard!)

## **Second question**

Was this document presented to ALL users, and is it presented to all new users as part of their orientation? What safeguards are in place to make sure this process happens on an ongoing basis?

## **Third question**

Is someone in your organization responsible for making sure that users are actually educated on this policy, that the policy is periodically reviewed and updated (for example when a new enterprise software application is deployed) and users are periodically reminded of the policy, specifically when it comes time to change their password?

For many of you, this may all seem like overkill, a time drain and pushing paper. No doubt, for some this very well may be true, but I believe it's by far the exception and not the rule. Almost any organization would benefit from just the basic awareness and training on password management and revisiting the plan twice a year. Several good Password Policies are freely available on the Internet that could easily be incorporated into new employee orientation.

Time and costs are usually not the issue preventing the adoption of strong policies, procedures and training. It's the misunderstanding of an organization's leadership in terms of the value these issues represent to the overall enterprise that more often represents the roadblock. \$1500 and two weeks to learn, configure and test a new firewall? Yep, we need that! Here you go and keep up the

good work. \$0 and two days to find a password policy, modify and create a printed document to give to HR and educate them on its importance? No way—we have more critical tasks to complete. This scenario could be applied to any number of Security Administration tasks, Password Management is just one of them.

The good news is, times are changing and, in general, the IT community is becoming more formal and disciplined in its approach. As an example, what was once considered a “best-practice” or just plain smart is now becoming law. The Health Insurance Portability and Accountability Act of 1996 (HIPAA) is a far reaching piece of legislation affecting almost every aspect of how the health care industry operates. On April 21, 2005, the “Security Rule” of HIPAA went into effect for most covered entities. This Rule is comprised of the Requirements, Standards and Implementation Specifications provisioned, by law, that each covered entity must adhere to to conduct business in the United States. 50% of the standards in the Rule relate to Administrative safeguards as apposed to Physical or Technical, a clear example of the industry’s acceptance that “paperwork” is a necessary and vital component of the overall security plan. Furthermore, it would be difficult to find an educated security administrator that felt any of the requirements in the Security Rule were anything more than good security practices and mostly common sense.

Take the time to revisit how mature your IT organization is in terms of Security Administration and identify where formal policies, procedures and training exist and where information may be incomplete or missing all together. Most importantly, be proactive in testing and reviewing your IT security “chain” before a link unrepentantly breaks and your left with a lot of unanswered questions because someone didn’t think the “paperwork” was worth the effort.

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### IGFOA Executive Board Meeting highlights

The Board met Friday, December 2, 2005 at the Double Tree Hotel in Alsip, Illinois. New policies enacted include:

- **Chapter Handbook** to help Chapters and the State Association to better coordinate and serve members. The new handbook contents are available at the Chapters' on-line bulletin board.
- **Operational Stability Plan** providing guidance for succession planning and continuity of staff and office/training facility.
- **Remote Meeting Attendance** allowing Board members to participate in meetings via teleconference and on-line.

Standing Committees' 2006 work plans were reviewed. **The Career Development Committee Curriculum Development Teams** are in high gear and preparing to offer 24 different seminars next year. The new IGFOA Training Plan spreadsheet was previewed.

**The Membership Committee** developed a membership recruitment and retention plan to focus on public sector members and includes:

- ◆ New member breakfasts and gathering at the Annual Conference.
- ◆ Regional "brown bag" lunches for government finance professionals.
- ◆ Complementary pass for new members to attend a chapter meeting.
- ◆ Discount for members renewing on-line and paying by credit.
- ◆ Reward for members that refer a new public sector member.

The 2005 **Conference Committee** chairs reported on the

success of the September Conference at the Springfield Hilton, reviewing feedback received through the on-line survey and from committee volunteers. A review of the “repeat” attendees at the Annual Conference showed that

- ◆ The IGFOA Annual Conference has experienced steady growth over the last four years with a near constant repeat rate during that time period.
- ◆ Over half of the attendees from the previous conference have decided to come to the next conference. The repeat rate has held constant at just over 55%.
- ◆ Between 2002 and 2005, 482 unique individuals have attended the conference.
- ◆ 83 people attended the conference in 2005 that had not attended a conference in the previous three years.
- ◆ Nearly a third of the people that attended the conference in 2002 have gone to all subsequent conferences.
- ◆ The 2005 conference had 37 more people than the 2002 conference setting the growth rate for the four years at 18%. Conference attendance has grown each of the past 4 years.

The **2006 Conference Committee**, Mark Nannini Social Chair and Dallas Whitford Program Chair, reported that renovations are well under way at the Pere Marquette in Peoria and the hotel will be ready well before the September 24-26, 2006 IGFOA Conference.

The **Legislative Committee** reported on successful efforts to encourage the General Assembly to override the Governor’s veto and enable municipalities to collect 1% instead of only 1/2% under the non-home rule sales tax. The Committee presented an overview of new laws at the November 30th Legislative Update and has posted the same at [http://www.igfoa.org/legislativecomm\\_update.html](http://www.igfoa.org/legislativecomm_update.html).

The **Technical Accounting Review Committee**, TARC, reported that in 2006 they will focus on

- ◆ Monitoring GASB activities and prepare responses as necessary.
- ◆ Developing an “Ask TARC” section on the IGFOA website with subsections for different GASB statements.
- ◆ Developing Q&A statements for GASB statements that highly impact Illinois governments. Statements to address this year:
  - GASB 44
  - GASB 45
  - GASB 10
- ◆ Completing the “Selecting an Auditor” information brochure and post to website.
- ◆ Serving as a resource to other committees.

Exploring ways IGFOA can offer distance learning opportunities to benefit members tops the **Technology and Communications Committee’s** 2006 work plan along with

- ◆ Ensuring that IGFOA complies with the new Personal Information Protection Act, PIPA
- ◆ Developing a disaster recovery plan
- ◆ Hosting a joint seminar with the Illinois GMIS and
- ◆ Monitoring and updating the IGFOA website.

**Peg Hartnett, newly elected Member-at-Large representing non-CFO members,** reported on suggestions discussed at the Assistants Roundtable during the 2005 Conference, including





- ◆ Facilitating networking with other non-CFOs. Include assistants, as well as, accountants and business managers.
- ◆ Developing ideas to educate non-CFOs on the various functions of the IGFOA, including the Executive

Board, Chapters and various committees. Facilitate ways to increase involvement in the IGFOA.

- ◆ Developing ways to educate the finance directors on the importance of allowing and encouraging the non-CFOs involvement in the IGFOA, from seminars to conference and involvement on various committees.

The Executive Board discussed and adopted the 2006 Budget while reviewing the draft seven-year financial plan for the Association. The 2006 Summary Budget is posted at <http://www.igfoa.org/budget.html>. Under administrative matters, the Board discussed avenues for IGFOA staff retirement benefits and 2006 performance priorities.

The Executive Board holds four regular meetings each year. In 2006 the Executive Board will meet

-  Friday, March 10
-  Thursday, June 1
-  Friday, September 8 and
-  Friday, December 1

The Executive Board recognized the following contributions to the Association during October and November:

General Recognition	
Commitment to assisting the public through charitable contributions	Chicago Metropolitan Chapter South Metropolitan Chapter
Perseverance in encouraging passage of increased authority to levy non-home rule sales tax and increase bidding limit	Bill Anderson, Anderson Consulting Services IGFOA Legislative Committee

Volunteer Contribution Recognition	
Teaching the Advanced Public Funds Investing course	Michelle Saddler, IMET Ned Connolly, Chandler Asset Management
Teaching the Basic Budgeting Seminar	Larry Maholland, retired, City of St. Charles Kathryn Booth, Village of Bartlett
Teaching the Basic Governmental Accounting Seminar	Brian LeFevre, Sikich Group LLC Pam Figolah, Village of Roselle Bill Hannah, Village of North Aurora
Speaking at the Legislative Update Seminar	Bill Stafford, City of Evanston Neil Witek, Remington Associates
Retirements	Bob Simpson

### Career Development seminars draw raves

If you missed the fall 2005 IGFOA Career Development seminars, you missed a lot!

Here’s what attendees had to say:

*Advanced Public Funds Investing Seminar: “Both Michelle and Ned did outstanding jobs presenting material. They were able to easily explain some complex material.”*

*Costing Local Government Services: “Very nice workshop, well planned, presented and helpful. Thanks.”*

Attendees at both the Basic Governmental Accounting Seminar and Basic Budgeting Seminar consistently rated those programs as meeting or exceeding their expectations. Don't miss out in 2006—download your own IGFOA Training Plan at [www.igfoa.org](http://www.igfoa.org) today!

## **Downstate IGFOA Winter Meeting and Training**

**The Den at Fox Creek, Bloomington, Illinois  
January 20, 2006 8:30 am to 3:00 pm**

**Registration and Continental Breakfast**  
8:30-9:00 am

**Wellness Programs: What are the benefits?**  
9:00-10:00 am

Tina Swanson, the Wellness Coordinator for the City of Bloomington, will discuss the aspects of wellness programs and the benefits to both employees and employers. She will also be available to answer questions.

**Risk and Insurance Management**  
10:00-10:50 am

A representative from Risk and Insurance Management will discuss safety and the programs that have been instituted in the City of Bloomington. The speaker will explain how similar programs can be established in your municipality to help you deal with safety issues and concerns.

**The Rising Costs of Insurance**  
11:10 am-noon

Bill Shock of James Upland & Company will present information on the rising cost of insurance and the importance of wellness and safety programs.

**Lunch and networking**  
12:15-1:30 pm

**Municipal Development Issues**  
1:30- 2:30 pm

Economic Development staff from the City of Champaign will discuss development related issues,

such as evaluating developer proposals, providing development incentives, etc., followed by discussion and questions.

## Legislative Update/IGFOA Update

2:30-3:00 pm

Marianne Shank will update us on what is happening in the legislature and with IGFOA.

Register at [www.igfoa.org](http://www.igfoa.org) today!

The screenshot shows the IGFOA website homepage. At the top, there is a navigation menu with links for Home, Membership, Chapter, Training, Programs, Publications, and News/Events. A search bar is located in the top right corner. Below the navigation menu is a banner image with the text "Learning Connecting Progressing". The main content area is divided into three columns: "Members", "Calendar", and "Highlights". The "Members" column includes links for "Sign-in here! Not a member? Join Today!", "Check out the Online Opportunities and more Opportunities at the 2006 Survey Book!", "Join Us - see the latest listings for professional government finance positions in Illinois", and "Members check out the Exchange Bulletin Board to post, search and provide information. Login to get the latest chat!". The "Calendar" column lists events from February 3, 2006 (South Peoria Chapter Meeting) to April 28, 2006 (Illinois Public Pension Institute). The "Highlights" column features several news items, including "Conference Program Call for Volunteers", "TIN Online Transaction in Illinois Assisted Germany", "GFOA Scholarships Available", "ILLINOIS PERSONAL INFORMATION PROTECTION ACT (PA 04-0038) Now in Effect!", "Resolve to Get Involved! Wait the Volunteer Opportunities or contact IGFOA today!", and "GFOA 2006 Annual Conference May 7-10, Montreal Canada".

## Updates at [www.igfoa.org](http://www.igfoa.org)

Your Illinois GFOA website is constantly being updated. Here's more of what's new on-line at [www.igfoa.org](http://www.igfoa.org):

### New Resources posted at the IGFOA on-line Resource Center

Find these and more at

[http://www.igfoa.org/resource/resource\\_search.asp](http://www.igfoa.org/resource/resource_search.asp)

- ▶ Lake County Forest Preserve District: Debt Issuance Guide
- ▶ Village of Glen Ellyn: Vehicle Use Policy

- ▶ Village of Gurnee: Request for Proposal (RFP): Financial Advisory Services
- ▶ Village of Lombard: Non-home rule sales tax review

### **Check out the newest IGFOA Members' Bulletin Board: IGFOA Technical Accounting Exchange**

Faced with an accounting quandary? Post a query to the IGFOA Technical Accounting Exchange. Share information and inquiries about technical governmental accounting matters. The exchange is moderated by the IGFOA Technical Accounting Review Committee. To reach the Bulletin Board use the Members' Login at [www.igfoa.org](http://www.igfoa.org)

### **Develop a department-wide training plan**

The IGFOA Curriculum Development Plan covers fundamental through advanced local government finance topics designed to meet the needs of both new and experienced local government finance professionals.

The IGFOA Training Plan worksheets, available for download at [www.igfoa.org](http://www.igfoa.org), provide an easy, fill-in-the-blanks form to develop individual training plans for staff and summary plans for the entire finance department. Many of the introductory and basic classes are also appropriate for non-finance staff. With an articulated professional development schedule, your organization is able to stay on top of new regulations and evolving technologies, sharpen its public finance skills, implement best practices, plan for retirements, and network with other finance professionals.

If you have any questions regarding the curriculum worksheet or specific seminars, contact the IGFOA at 630-663-0019 or [confer@igfoa.org](mailto:confer@igfoa.org).

**Get the latest pension news from Illinois Public Pensions**

**Subscribe to the quarterly pension management and investment newsletter created exclusively for the decision-makers of Illinois pension funds.**

**To subscribe, visit <http://www.igfoa.org/IPPnewsletter.html>**

## **Chapter officers update**

### **Chicago Metro Chapter 2006 Officers**

#### **President/Chapter Representative**

Susan Griffin  
Village of Lake Bluff

*“Greatness is more than potential. It is the execution of that potential, beyond the raw talent. You need the appropriate training. You need the discipline. You need the inspiration. You need the drive.”*

—Unknown

#### **First Vice President**

Jeff Martynowicz  
Village of Lake Zurich

#### **Second Vice President**

David Erb  
Village of Mount Prospect

#### **Secretary**

Elizabeth Spencer  
City of Highland Park

#### **Treasurer**

Doug Cooper  
Village of Hinsdale

#### **Past President**

Pam Figolah  
Village of Roselle

### **South Metro Chapter 2006 Officers**

#### **President**

Barbara Richards  
City of Darien

#### **Vice President**

AnnMarie Mampe  
Village of Orland Park

#### **Treasurer**

Kevin Wachtel  
Village of Palos Park

#### **Secretary**

Stephanie Rodas  
Village of Park Forest

**Legislative Committee Chair**

Michelle Saddler  
Illinois Metropolitan Investment Fund

**Membership Committee Chair**

Todd Sholeen  
Charter One Bank

**Social Committee Chair**

Ken McConnaughay  
Morgan Stanley Dean Witter

**Chapter Representative (Past President)**

Bob Sterkowitz  
Moraine Valley Community College

**Note: Downstate Chapter officers run for two years and officers were elected in August 2005.**

*“Anyone who stops learning is old, whether at twenty or eighty. Anyone who keeps learning stays young. The greatest thing in life is to keep your mind young.”*

—Henry Ford

**Welcome to the IGFOA Executive Board**

Peg Hartnett  
Assistant Finance Director, Village of Bloomingdale  
Member-at-large representing non-CFO members

Ron Eldridge  
Comptroller, City of Urbana  
Chapter Representative, Downstate Chapter

Bob J. Sterkowitz  
Chief Financial Officer/Treasurer, Moraine Valley  
Community College

Chapter Representative, South Metro Chapter  
Susan Griffin  
Finance Director, Village of Lake Bluff  
Chapter Representative, Chicago Metro Chapter

## **2006 IGFOA calendar**

### **Downstate Chapter Winter Conference**

Friday, January 20 The Den at Fox Creek, Bloomington, Illinois

### **South Metro Chapter Luncheon Meeting**

Friday, February 3

### **South Metro Chapter Social Event**

Friday, February 10

### **Internal Controls Seminar**

Thursday, February 16

### **Intermediate Governmental Accounting Seminar**

Thursday, March 2 and Friday, March 3

### **Accounts Receivable Seminar**

Thursday, April 20

### **Illinois Public Pension Institute**

Friday, April 28

### **WGFOA/IGFOA Joint Conference: Debt Management**

Thursday, June 8 and Friday, June 9

Wisconsin Dells

*Check [www.igfoa.org](http://www.igfoa.org) for details and registration!*



## **Mark your calendar...**

For the 100th GFOA Conference in Montreal May 7-10.

The Illinois Reception will be Sunday, May 7 from 4-6 pm.

*Watch for details, or visit [www.gfoa.org](http://www.gfoa.org).*