Illinois Municipal League

SUMMARY OF HOW THE STATE FISCAL YEAR 2018 BUDGET IMPACTS MUNICIPALITIES
July 6, 2017

During a special session that began on June 21, 2017, and continued into early July, the General Assembly approved a budget package that was subsequently vetoed by the Governor and then enacted into law after the General Assembly overrode the Governor's veto this week. The Senate voted to override the veto on Tuesday, July 4, 2017. The House completed the override on Thursday, July 6, 2017. The enactment of a state fiscal year 2018 budget ends a two-year budget impasse.

The Illinois Municipal League (IML) was actively engaged in communicating our priorities with respect to the state budget and local revenues to the Governor's Office, legislative leaders and legislators during the spring and throughout the extended special session. Our message focused on protecting local government revenues, particularly Local Government Distributive Fund (LGDF) revenues.

The budget package consists of three bills. The first is an appropriation bill (SB 6), the second is a revenue bill (SB 9) and the third is a Budget Implementation (BIMP) bill (SB 42). The provisions within each bill that are of most interest to municipal government are summarized below:

SB 6 – Appropriation Bill
Sponsors: Sen. Steans, D-Chicago/Rep. G. Harris, D-Chicago

State Spending
SB 6 (linked here) spends $36.5 billion in state fiscal year 2018. The proposed expenditure level is $2.5 billion less than the $39 billion actually spent in state fiscal year 2017.

Local Government Pass-Through Funds
The bill fully appropriates local government pass-through funds (Motor Fuel Tax (MFT), casino/video gaming, Use Tax and 9-1-1 system revenues) at the same levels received in state fiscal year 2017. The appropriation of this money means that construction projects funded with MFT dollars will continue into the new state fiscal year. Achieving distribution of these pass-through funds was a high priority of IML's advocacy efforts.

Corporate Personal Property Replacement Tax (CPPRT) Diversions
The bill also includes a total of $297 million in diversions from CPPRT. These diversions continue a practice that has occurred for the last several years. IML has consistently opposed all diversions from this fund.

Downstate Mass Transit Funds
The bill also appropriates $339,820,600 for downstate public mass transit. This is the same amount that was appropriated in the stopgap budget for state fiscal year 2017.

SB 9 – Revenue Bill
Sponsors: Sen. Hutchinson, D-Olympia Fields/Rep. Davis, D-East Hazel Crest

Revenue Provisions
SB 9 (linked here) provides that, beginning on July 1, 2017, the state income tax rate shall be (i) 4.95% for individuals, trusts and estates and (ii) 7.00% for corporations. These new, higher rates would be permanent. The bill also increases the earned income tax credit and creates and/or makes changes to several other tax credits.

The bill does not include an expansion of the sales tax to cover services, a sugary beverage tax, a tax on retirement income or a tax on cable or satellite television. These possible taxes were discussed at various points during the budget process.

SB 42 – Budget Implementation Bill
Sponsors: Sen. Trotter, D-Chicago/Rep. G. Harris, D-Chicago

Local Government Distributive Fund Distributions
SB 42 (linked here) makes two changes to LGDF distributions. The first change is a 10% reduction in LGDF payments in state fiscal year 2018. IML has consistently opposed any cuts to LGDF.

The second change is the direct deposit of these funds into the Local Government Distributive Fund rather than requiring the money to first pass through the General Revenue Fund (GRF). Bypassing the GRF will result in municipalities and counties receiving two accelerated payments (one time only) for a total of 14 LGDF payments instead of 12 in state fiscal year 2018. This means that, despite the 10% reduction in LGDF payments during state fiscal year 2018, local governments should actually see a slight increase in distributions for this one year.

According to the Illinois Department of Revenue (IDOR), the intent of the bill appears to provide for the accelerated payments to be received in August and September. Both of the accelerated payments would be affected by the 10% reduction. Based upon the perceived intent, IDOR believes that municipalities will therefore receive two distributions in August and two in September. One distribution in each of these two months would be at a 100% level, while the second would see the 10% reduction. IDOR cautions, however, that it continues to analyze the legislation.

It should be noted that the accelerated payments may be contingent on the Comptroller having the cash flow to make the payments earlier than usual. The accelerated payments were specifically requested by IML.

The following example best illustrates the proposed change to LGDF by factoring in the 10% reduction and accelerated payment provisions. For the sake of simplicity, the example will use a monthly LGDF distribution to a municipality of $1,000 ($12,000 annually).

Under SB 42, the municipality would receive $900 per month in state fiscal year 2018 (10% reduction from prior year) for 14 months for a total of $12,600 annually. This would be a slight increase over the prior year ($12,600 instead of $12,000).

According to General Assembly legislative staff and legislative intent, the 10% reduction to LGDF distributions is only for state fiscal year 2018 and does not continue into future years.

Special Fund Sweeps
SB 42 also includes more than three pages of special fund sweep authority. While many of the sweeps do not impact funds earmarked for local government purposes, some would. A list of the special funds being swept is available here. The Comptroller and Treasurer are authorized to make the transfers in consultation with the Governor's Office of Management and Budget (GOMB). Any funds swept from surplus revenues existing in the special funds are unlikely to directly impact municipalities.

Sales Tax Collection Fee
SB 42 also provides that, beginning in state fiscal year 2018, 2% of sales taxes collected on behalf of municipalities by the state will be transferred to the Tax Compliance and Administrative Fund. This is essentially a service fee imposed by the state on local governments for the collection and remittance of sales tax revenue owed to local governments. IDOR estimates that a 2% administrative fee amounts to $60 million per year. IML is opposed to this service charge being applied to municipal revenues.

IML staff will monitor the implementation of the budget and the distribution of local funds. Should you have any questions, please contact our legislative staff at IMLLegislation@iml.org. Thank you.