

State Shared Municipal Revenue — Updated MFY 2017 Forecasts

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In this article, we present revised MFY 2017 forecasts for local government tax revenue sources administered by the State of Illinois. Although the underlying economic analysis and its impact on state-shared municipal revenue sources remain largely unchanged since the December 2015 estimates, we are modifying our forecast, primarily as a result of the recently identified over-allocation of Corporate Personal Property Replacement Taxes (CPPRT) and subsequent under-allocation of Local Government Distributive Fund (LGDF), together with the associated adjustments that will impact MFY 2017 distributions. The forecasts assume that the over-allocation into CPPRT was corrected going forward starting with April 2016 distributions. We further assume that a new diversion of \$100 million from CPPRT to community colleges and K-12 schools included in the state’s “stopgap budget” will occur, although there is a lack of clarity as we go to press. The original proposal by the Administration had been to make downward adjustments for errors prior to April 2016 distributions over a two-year period starting with January 2017 disbursements. However, recent conversations with Administration officials indicate that \$100 million of this repayment will be made between July and December 2016 with a remaining \$70 million downward adjustment being made in State Fiscal Year 2018. The underlying economic analysis and its impact on state-shared

municipal revenue sources remain largely unchanged since the December 2016 estimates.

ECONOMIC OVERVIEW

The outlook for the Illinois economy remains relatively unchanged since we issued our initial MFY 2017 revenue forecasts. The state as a whole experienced sustained economic growth during MFY 2016 which translated into strong revenue growth. The underlying growth rate for personal income tax is forecast to be slightly higher than in 2016. Corporate profits forecasts have been revised downward and are now anticipated to be flat. This translates into no economically-driven growth in corporate and personal property replacement taxes for MFY 2017.

While Illinois’ economy has strengthened over the past year and will continue to do so in MFY 2017, it is important to recognize that challenges remain including a weak manufacturing sector and the state’s current fiscal problems. In a recent report, *Moodys.com* identifies the state’s budget problems as one of the biggest risks to economic forecasts for Illinois.¹ It is important to note that while Illinois is forecast to experience stronger economic growth in MFY 2017 compared

SUMMARY TABLE – DISTRIBUTIONS

	MFY 2014 ACTUAL	MFY 2015 ACTUAL	MFY 2016 ACTUAL	MFY 2017 ORIGINAL FORECAST	MFY 2017 REVISED FORECAST
CPPRT (\$ thousand)	\$1,406,875	\$1,372,283	1,390,078	\$1,426,600	\$1,100,000
LGDF (Per Capita)	\$96.70	\$97.11	\$106.78	\$102.00	\$102.50
State Use Tax (Per Capita)	\$17.06	\$19.26	\$23.02	\$23.50	\$23.50
Motor Fuel Tax (Per Capita)	\$24.56	\$24.03	\$25.63	\$25.90	\$25.90
Total Per Capita	\$139.08	\$139.72	\$155.43	\$151.40	\$151.90

with MFY 2016, the state's economy will grow at a lower rate than the nation as a whole.

ASSUMPTIONS

The following analysis projects revenue for MFY 2017. The analysis is based on forecasts of sustained but moderate economic growth along with the following assumptions:

- All MFY 2017 allocations will be made in a timely manner.
- Income tax refund rates remain unchanged throughout the forecast period. The rates used are 17.25 percent for Corporate Income and Corporate Personal Property Replacement Taxes and 11.2 percent for Individual Income Tax.
- LGDF will be paid to municipalities within 60 days of being vouchered.
- CPPRT tax administration expenses are appropriated at \$124.5 million.
- No municipal government revenue fund sweeps occur during the forecast period.
- \$100 million will be diverted from the CPPRT Fund to Community Colleges and K-12 during July-December 2016 and no new diversions will be approved.

accounting error, they made adjustments to correct the formula going forward, beginning with April 2016 distributions. IDOR staff indicate that April distributions were adjusted downward by \$106.5 million. This resulted in MFY 2016 CPPRT Fund distributions of \$1,390.1 million.

Distributions for May, the first month of MFT 2017, were adjusted downward by \$64.6 million.

When we combine the impact of the allocation correction with the assumption that \$100 million will be transferred out of CPPRT in MFY 2017, our MFY 2017 forecast is revised downward from \$1,426.6 million to \$1,100.0 million. Given the uncertainty surrounding the situation, we recommend that municipal officials be conservative in projecting CPPRT receipts.

LOCAL GOVERNMENT DISTRIBUTIVE FUND

MFY 2016 LGDF receipts were strong, in spite of the fact that the CPPRT over-allocation resulted in LGDF distributions being understated in both MFY 2015 and 2016. Legislative and economic factors led MFY 2016 per capita receipts of \$106.78 slightly exceeding our original forecast of \$105 per capita. On the legislative side, the LGDF formula was adjusted upward in January 2015 to account for the tax

TOTAL CPPRT FUND DISTRIBUTIONS								
	2010	2011	2012	2013	2014	2015	2016	2017
May	\$261,078	\$160,495	\$187,346	\$183,351	\$262,146	\$226,241	\$288,434	\$218,871
July	\$210,065	\$163,017	\$173,818	\$236,948	\$256,143	\$227,937	\$236,956	
August	\$21,577	\$21,404	\$43,506	\$28,629	\$26,864	\$24,515	\$31,932	
October	\$239,883	\$314,063	\$290,293	\$180,321	\$187,191	\$225,834	\$238,203	
December	\$55,544	\$253,335	\$41,933	\$68,990	\$68,283	\$60,111	\$58,176	
January	\$157,835	\$129,826	\$178,699	\$183,242	\$231,119	\$200,370	\$189,405	
March	\$61,551	\$71,818	\$49,951	\$57,347	\$68,588	\$57,199	\$76,069	
April	\$229,054	\$260,567	\$274,425	\$290,544	\$306,541	\$350,076	\$270,903	
Total	\$1,236,587	\$1,374,525	\$1,239,971	\$1,229,372	\$1,406,875	\$1,372,283	\$1,390,078	\$1,170,000

CORPORATE PERSONAL PROPERTY REPLACEMENT TAXES (CPPRT)

For MFY 2015 and most of MFY 2016, CPPRT Fund distributions were artificially high as the Illinois Department of Revenue (IDOR) had been making incorrect deposits into the Fund starting in April 2014. IDOR's current estimate of the misallocation is \$168 million over a two-year period. Our original MFY 2016 forecast of \$1,457.8 million had assumed that the higher than anticipated revenue observed in MFY 2015 and the first half of the MFY 2016 was a result of economically-driven growth. Once IDOR acknowledged this

rate reductions. This led to a one time bump in May and June disbursements associated with final payments for tax year 2014. On the economic side, final tax payments were greater than anticipated due to increases in capital gains realizations and other non-wage income in 2014 that led to higher final payments for Tax Year 2014.

Because much of these gains in MFY 2016 were caused by one-time factors, municipalities should not anticipate similar growth rates in MFY 2017. Underlying growth will be primarily driven by income tax receipts from wages and salaries. Underlying growth in non-withholding revenue will

STATE SHARED MUNICIPAL REVENUE CONTINUES ON PAGE 8

be weaker than in MFY 2016 as will revenue associated from corporate profits. The corporate income tax component of LGDF revenue received by municipalities in MFY 2017 will be based on a combination of tax year 2015 and 2016 corporate profits – which is estimated to be flat.

The cumulative impact of these factors lead us to revise our MFY 2017 LGDF per capita up to \$104.00, reflecting anticipated back payments of \$2.00 per capita. We assume these back payments will begin with January 2017 distributions.

MUNICIPAL/COUNTY SHARE OF ILLINOIS USE TAX

MFY 2016 Use Tax distributed to municipalities came in at \$23.02 per capita, slightly higher than our forecast of \$22.20.

MFY 2016 is the first full year where Amazon collected and remitted tax to the IDOR. As a result, we assume that this growth rate will not be sustained in MFY 2017. Driven by continued growth in on-line sales, our MFY 2017 per capita forecast is \$23.50.

MUNICIPAL SHARE OF MOTOR FUEL TAX

Total MFY 2016 Motor Fuel Tax per capita came in at \$25.63, slightly below our forecast of \$25.80. Assuming no fund sweeps and that gasoline prices remain below \$4 per gallon, the Motor Fuel Tax forecast for MFY 2017 remains unchanged at \$25.90 per capita.

MONTHLY LGDF DISTRIBUTION PER CAPITA									
	2009	2010	2011	2012	2013	2014	2015	2016	2017
May	\$23.76	\$5.03	\$0.00	\$0.00	\$15.60	\$5.32	\$5.57	\$5.30	\$6.25
June	\$8.14	\$19.95	\$7.38	\$8.49	\$5.57	\$9.24	\$9.74	\$10.84	\$9.68
July	\$0.00	\$6.50	\$12.67	\$11.51	\$8.65	\$17.06	\$15.11	\$17.93	\$13.64
August	\$9.01	\$0.00	\$7.55	\$9.30	\$12.57	\$5.80	\$5.63	\$7.44	\$6.52
September	\$5.25	\$7.08	\$15.15	\$5.97	\$6.61	\$8.88	\$9.32	\$16.60	
October	\$5.05	\$4.82	\$0.00	\$0.00	\$8.48	\$5.52	\$10.75	\$0.00	
November	\$0.00	\$0.00	\$0.00	\$7.73	\$5.32	\$5.38	\$0.00	\$5.81	
December	\$14.60	\$4.60	\$7.41	\$5.32	\$5.28	\$9.39	\$9.48	\$10.20	
January	\$4.37	\$7.09	\$9.83	\$10.00	\$8.31	\$11.18	\$11.20	\$6.73	
February	\$7.38	\$0.00	\$12.68	\$0.00	\$6.28	\$0.00	\$0.00	\$5.26	
March	\$9.28	\$5.34	\$6.02	\$8.13	\$5.18	\$9.19	\$8.15	\$9.87	
April	\$0.00	\$4.20	\$6.87	\$5.18	\$17.52	\$9.75	\$12.15	\$10.80	
Total	\$86.84	\$64.61	\$85.56	\$71.63	\$105.37	\$96.71	\$97.10	\$106.78	\$104.00

MONTHLY USE TAX DISTRIBUTIONS PER CAPITA									
	2009	2010	2011	2012	2013	2014	2015	2016	2017
May	\$0.99	\$0.89	\$0.66	\$1.16	\$1.05	\$1.01	\$1.17	\$1.79	\$1.72
June	\$1.27	\$1.06	\$1.32	\$1.29	\$1.30	\$1.27	\$1.55	\$1.88	\$2.02
July	\$1.17	\$1.09	\$1.00	\$1.21	\$1.20	\$1.39	\$1.43	\$1.85	
August	\$1.08	\$0.92	\$0.95	\$1.18	\$1.25	\$1.23	\$1.52	\$1.76	
September	\$1.32	\$1.22	\$1.23	\$1.30	\$1.40	\$1.63	\$1.69	\$1.99	
October	\$1.11	\$0.97	\$1.02	\$1.04	\$1.16	\$1.41	\$1.44	\$1.84	
November	\$1.39	\$0.87	\$0.99	\$1.24	\$1.29	\$1.31	\$1.56	\$1.68	
December	\$1.27	\$0.94	\$1.15	\$0.94	\$1.33	\$1.42	\$1.90	\$1.93	
January	\$1.21	\$0.91	\$1.44	\$1.18	\$1.29	\$1.52	\$1.79	\$1.95	
February	\$1.08	\$0.81	\$1.12	\$1.19	\$1.36	\$1.43	\$1.71	\$1.92	
March	\$1.56	\$1.40	\$1.77	\$1.82	\$1.94	\$2.25	\$2.59	\$2.74	
April	\$0.99	\$0.83	\$1.08	\$1.16	\$1.35	\$1.19	\$0.91	\$1.69	
Total	\$14.44	\$11.91	\$13.73	\$14.71	\$15.92	\$17.06	\$19.26	\$23.02	\$23.50

MONTHLY MOTOR FUEL TAX DISTRIBUTIONS PER CAPITA									
	2009	2010	2011	2012	2013	2014	2015	2016	2017
May	2.24	2	2.17	2.06	1.94	1.72	1.84	\$2.33	\$2.28
June	2.61	2.73	2.1	2.02	2.16	2.54	2.59	\$2.18	\$2.26
July	1.98	1.45	1.98	1.88	1.82	1.75	1.95	\$1.42	
August	2.19	2.41	2.15	2.19	2.13	2.05	2.18	\$2.52	
September	2	2.02	2.09	2.15	2.13	2.4	1.48	\$2.43	
October	1.83	1.66	2.41	1.92	1.85	1.7	2.01	\$1.64	
November	2.49	1.68	1.76	2.14	2.03	2.18	2.17	\$2.13	
December	1.7	2.73	2.25	2.26	2.16	1.88	2.2	\$2.46	
January	2.43	2.06	2.15	2.1	2.07	2.5	2.52	\$2.26	
February	2.39	2.39	2.33	2.02	2.01	2.21	2.37	\$2.18	
March	2.33	1.88	1.88	2.06	1.71	2.03	1.8	\$2.20	
April	2.14	2.05	2.13	2	2.02	1.6	0.92	\$1.89	
Total	26.33	25.06	25.4	24.8	24.03	24.56	24.03	\$25.63	\$25.90

¹ <http://cgfa.ilga.gov/Upload/2016MoodysEconomyILforecast.pdf>, Accessed May 24, 2016.

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