

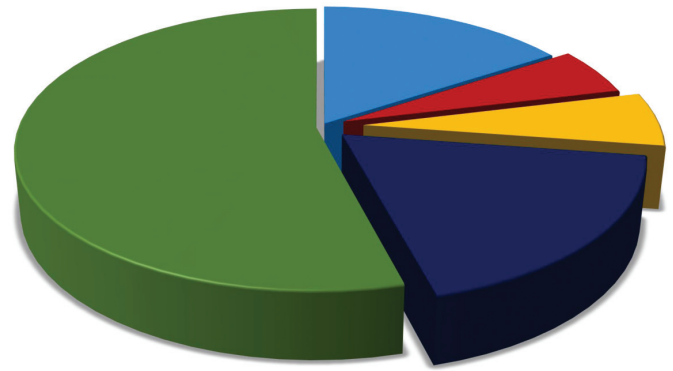
State Shared Municipal Revenue — MFY 2016 Revised Estimates and MFY 2017 Forecasts

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In this article, we present a year-to-date review of local government revenues administered by the state of Illinois, describe what factors underlie tax performance, develop Municipal Fiscal Year (MFY) 2016 revised estimates and use these revised estimates as the starting point to develop MFY 2017 forecasts for the Local Government Distributive Fund (LGDF), Use Tax, Motor Fuel Tax (MFT) and Corporate Personal Property Replacement Tax (CPPRT). These estimates and forecasts assume current law, and will obviously be subject to change if the state fiscal year 2016 or 2017 budget deviates from past practices.

ECONOMIC OVERVIEW

Reflecting the improving labor market and economy in general, Illinois municipal governments have experienced relatively strong growth in major tax revenue sources during the first half of MFY 2016. Forecasts for MFY 2017 are that economic growth will exceed that in MFY 2016. Continued healthy consumer spending is expected to remain the primary driver of economic growth, supported by further gains in personal income, high levels of consumer confidence, and looser lending standards. Consensus forecasts suggest that the trade sector will remain a major drag on Gross Domestic Product (GDP) growth, albeit by less than during the previous year. A strong U.S. dollar will contribute to continued soft U.S. exports. In terms of the most significant measure of U.S. economic activity, real GDP for MFY 2017 is forecast to grow at 2.6 percent, slightly higher than the 2.4 percent estimate for 2016. The GDP price index is forecast to increase 1.8 percent, translating into nominal GDP growth in MFY 2017 of 4.4 percent, compared with 3.4 percent in MFY 2016.



REVENUE OVERVIEW

All state-administered municipal revenue sources have experienced very strong performance so far this fiscal year. The following analysis projects revenue for the rest of MFY 2016 and provides forecasts for MFY 2017. The analysis is based on the previously mentioned economic forecasts along with the following assumptions:

- All MFY 2016 municipal Use Tax and Motor Fuel Tax allocations will be distributed by the end of the MFY.
- Income tax refund rates remain unchanged throughout the forecast period. The rates used are the current formula rates of 15.11 percent for Corporate Income and Corporate Personal Property Replacement Taxes and 9.75 percent for Individual Income Tax.
- LGDF will be paid to municipalities within 60 days of being vouchered.
- CPPRT tax administration expenses remain at State Fiscal Year 2015 levels.
- No municipal government revenue fund sweeps occur during the forecast period.

TABLE 1: Summary Table – Distributions to Municipalities

	MFY 2014 ACTUAL	MFY 2015 ACTUAL	MFY 2016 ORIGINAL FORECAST	MFY 2016 REVISED ESTIMATE	MFY 2017 FORECAST
Income Tax (Per Capita)	\$96.70	\$97.11	\$99.00	\$105.00	\$102.00
State Use Tax (Per Capita)	\$17.06	\$19.26	\$19.40	\$22.20	\$23.50
Motor Fuel Tax (Per Capita)	\$24.56	\$24.03	\$23.80	\$25.80	\$25.90
Total Per Capita	\$139.08	\$139.72	\$142.20	\$153.00	\$151.40
CPPRT (\$ thousand)	\$1,406,875	\$1,372,283	\$1,380,000	\$1,457,000	\$1,426,600

TABLE 2: Monthly LGDF Allocations Per Capita

	MFY 2009	MFY 2010	MFY 2011	MFY 2012	MFY 2013	MFY 2014	MFY 2015	MFY 2016
May	23.76	5.03	0.00	0.00	15.60	5.32	5.57	5.30
June	8.14	19.95	7.38	8.49	5.57	9.24	9.74	10.84
July	0.00	6.50	12.67	11.51	8.65	17.06	15.11	17.93
August	9.01	0.00	7.55	9.30	12.57	5.80	5.63	7.44
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	
March	9.28	5.34	6.02	8.13	5.18	9.19	8.15	
April	0.00	4.20	6.87	5.18	17.52	9.75	12.15	
	86.85	64.62	85.57	71.64	105.39	96.70	97.11	80.84

*Note that these monthly amounts correspond to the month the municipality received the payment. We assume that payment will be made in a timely manner for the last half of MFY 2016.

LOCAL GOVERNMENT DISTRIBUTIVE FUND

In spite of the state fiscal constraints, during the current municipal fiscal year LGDF payments to local governments have been made within 60 days of being vouchered. Through November, LGDF vouchered for disbursement grew by 14.2 percent compared to the same period in MFY 2015. The amount is higher for both legislative and economic reasons.

The legislative reason involves the timing of changes around the January 1, 2015, decrease in income tax rates and the associated increase in LGDF allocation rates that gave municipalities a one-time bump in May and June disbursements. The economic reason is that final tax payments allocated in May and June 2015 were greater than anticipated due to higher capital gains in Tax Year 2014. Some portion of this higher than anticipated revenue should be considered one-time rather than ongoing and should not be built into the underlying trend.

These factors, combined with the improving labor market, have boosted year-to-date total LGDF allocations from \$76.81 to \$80.84 per capita over the same period in MFY 2015. As a result, we are revising the MFY 2016 estimate from \$99.00 to \$105.00 per capita.

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 withheld from wage

income. Underlying growth in non-withholding revenue will 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. Corporate profits will be largely flat in tax year 2015, increasing by 4 percent in tax year 2016, resulting in an estimated average growth in corporate profits of approximately 1.5 percent for MFY 2017. Taking all these factors together, we forecast LGDF per capita at \$102.00 for MFY 2017.

MUNICIPAL/COUNTY SHARE OF ILLINOIS USE TAX

Year-to-date, the municipal/county share of the Illinois Use Tax has increased by 23.4 percent compared with the same period in MFY 2015. This huge increase has been driven primarily by the fact that Amazon started collecting use tax in February 2015. Another contributing factor is the continued strong growth in on-line sales.

This extremely strong year-to-date growth leads us to revise our 2016 estimate for Use Tax distributed to municipalities from \$19.40 to \$22.20 per capita.

The increase in Use Tax arising from Amazon is built into the new base for MFY 2017 leading to a lower growth rate when compared with MFY 2016. Driven by higher consumer spending and continued strong growth in on-line sales when compared to MFY 2016, our MFY 2017 forecast stands at \$23.50 per capita.

STATE SHARED MUNICIPAL REVENUE CONTINUES ON PAGE 6

	MFY 2009	MFY 2010	MFY 2011	MFY 2012	MFY 2013	MFY 2014	MFY 2015	MFY 2016
May	0.99	0.89	0.66	1.16	1.05	1.01	1.17	1.79
June	1.27	1.06	1.32	1.29	1.3	1.27	1.55	1.88
July	1.17	1.09	1	1.21	1.2	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	1.3	1.4	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	
January	1.21	0.91	1.44	1.18	1.29	1.52	1.79	
February	1.08	0.81	1.12	1.19	1.36	1.43	1.71	
March	1.56	1.4	1.77	1.82	1.94	2.25	2.59	
April	0.99	0.83	1.08	1.16	1.35	1.19	0.91	
	14.44	11.91	13.73	14.71	15.92	17.06	19.26	12.79

STATE SHARED MUNICIPAL REVENUE CONTINUES

MUNICIPAL SHARE OF MOTOR FUEL TAX

MFY 2015 Motor Fuel Tax fell short of expectations because the state’s fund sweep reduced distributions to municipalities by \$13.4 million in April 2015. In the absence of the sweep, the MFY 2015 figure would have been \$25.21. As a result of the sweep, the actual MFY 2015 figure was \$24.03 per capita – a difference of \$1.18 per person. The MFY 2016 revised estimate and MFY 2017 forecast assume that there will be no further fund sweeps.

Total MFY 2016 year-to-date Motor Fuel Tax share for municipalities has increased by 2.99 percent compared with the same period last year. Consumption of motor fuel is anticipated to continue to grow moderately for the remainder of the MFY provided gasoline prices remain low. As a result, we revise our estimate upward from \$23.89 to \$25.80 per capita.

It should be noted that Motor Fuel Taxes have not been distributed since August 2015 because of the absence of appropriation authority. Distributions will resume now that these funds have been released (12/07/15).

Our estimates assume that municipalities will receive these delayed payments in MFY 2016.

Assembly and then signed into law by the Governor. Our estimates assume that municipalities will receive these delayed payments in MFY 2016.

We base the MFY 2017 forecast on a few assumptions. First, there will be no further fund sweeps. Second, gasoline prices will stay below \$4 per gallon causing a very modest increase in demand which will be largely offset by new auto purchases coming in the form of more fuel efficient vehicles - \$4 appears to be the threshold above which drivers modify their behavior. Total MFY 2017 Motor Fuel Tax is forecast at \$25.90 per capita.

	MFY 2009	MFY 2010	MFY 2011	MFY 2012	MFY 2013	MFY 2014	MFY 2015	MFY 2016
May	2.24	2	2.17	2.06	1.94	1.72	1.84	2.33
June	2.61	2.73	2.1	2.02	2.16	2.54	2.59	2.18
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	
January	2.43	2.06	2.15	2.1	2.07	2.5	2.52	
February	2.39	2.39	2.33	2.02	2.01	2.21	2.37	
March	2.33	1.88	1.88	2.06	1.71	2.03	1.8	
April	2.14	2.05	2.13	2	2.02	1.6	0.92	
	26.33	25.06	25.4	24.8	24.03	24.56	24.03	14.64

TABLE 5: CPPRT Distributions

	MFY 2009	MFY 2010	MFY 2011	MFY 2012	MFY 2013	MFY 2014	MFY 2015	MFY 2016
May	289,961	261,078	160,495	187,346	183,351	262,146	226,241	288,434
July	232,152	210,065	163,017	173,818	236,948	256,143	227,937	236,956
August	126,895	21,577	21,404	43,506	28,629	26,864	24,515	31,932
October	207,224	239,883	314,063	290,293	180,321	187,191	225,834	238,203
December	66,922	55,544	253,335	41,933	68,990	68,283	60,111	
January	150,639	157,835	129,826	178,699	183,242	231,119	200,370	
March	55,536	61,551	71,818	49,951	57,347	68,588	57,199	
April	267,707	229,054	260,567	274,425	290,544	306,541	350,076	
	1,397,036	1,236,587	1,374,525	1,239,971	1,229,372	1,406,875	1,372,283	795,525

CORPORATE PERSONAL PROPERTY REPLACEMENT TAXES (CPPRT)

MFY 2016 year-to-date CPPRT increased by 12.9 percent over the same period last year. In March and April 2015 (when the final tax returns and quarterly estimated tax payments started coming in), CPPRT receipts showed unusually strong growth, which was driven by higher tax payments by trusts and estates due to high capital gains. However, we do not anticipate this strong growth continuing for the remainder of the fiscal year.

The MFY 2016 estimate is revised to grow at an annual rate of 6.23 percent, to stand at roughly \$1.457 billion.

MFY 2017 CPPRT is forecast at roughly \$1.426 billion, a decline of -2.14 percent. This negative growth rate is purely due to much higher CPPRT payments distributed in MFY 2016 that were significantly above trend.

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