Committees

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July 21, 2017

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# FY18 budget impacts on state finances, regional transportation, and local governments ——

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The Illinois General Assembly enacted a series of budget bills on July 6, 2017, overriding the Governor's veto and ending the state's two-year budget impasse. Among changes to income tax deductions and credits, Public Act 100-0022 permanently increases the personal income tax rate from 3.75 to 4.95 percent and the corporate income tax rate from 5.25 to 7 percent, effective July 1, 2017. On the expenditure side, the Fiscal Year (FY) 2018 appropriations in Public Act 100-0021 reduce general funds (General Revenue Fund, Common School Fund, and Education Assistance Fund) spending, including a 5 percent across-the-board cut to most state agencies. Public Act 100-0023, which enacts other policy changes to implement the budget, provides for special fund transfers and pension system reforms that are assumed to reduce general funds expenditures. The passage of a FY18 budget has thus far staved off a further downgrade of some of the state's bonds to "junk" status. Such an action by credit rating agencies would increase public borrowing costs and further constrain state finances. But, the state — and many local jurisdictions — still incur high interest rates to issue bonds, increasing the cost of capital projects and services at all levels.

Sections

Limited measures to address bill

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backlog and pension liabilities **Restarting construction and flat** 

transportation appropriations

Mixed effects on state disbursements to local governments

**Looking forward** 

and local taxes

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#### Limited measures to address bill backlog and pension liabilities

The income tax increase included in the FY18 budget will not produce an instant infusion of cash for the state. In fact, the Comptroller's office has indicated that it will take time to receive new revenues and pay off the state's bills. As of July 14, 2017, Illinois's tab of unpaid bills, or the general funds payable backlog, stood at \$14.9 billion. This figure includes payments owed to local governments and the Regional Transportation Authority (RTA), among other agencies that provide critical services in northeastern Illinois.

Expenditure reductions also include \$1.5 billion in assumed general funds savings from changes to the state's retirement systems. The Commission on Government Forecasting and Accountability reported that unfunded pension liabilities for the state's five retirement systems increased by \$33 billion from FY12 to FY16, reaching \$129.8 billion and a funded ratio of 37.6 percent at the end of FY16. Among others, FY18 contributions to the retirement systems will include \$6.4 billion from general funds and \$250 million from the Road Fund, most of which will go toward paying down unfunded liabilities.

#### Restarting construction and flat transportation appropriations ← h3: 16pt @ 1.5em

Because lawmakers did not pass a budget by June 30, 2017, the Illinois Department of Transportation (IDOT) shut down construction projects statewide. A previous CMAP Policy Update discussed the potential impact of the shutdown, which lasted for a week. The suspension of work in the middle of construction season affected 900 active projects across Illinois. The American Road and Transportation Builders Association estimated the shutdown will cost the state \$34 million. Now that an FY18 budget is in place, IDOT has informed contractors that construction can resume. However, not all projects will restart immediately, as contractors may need to prepare work sites, mobilize crews, and rent equipment again. Stopping and restarting projects will likely extend the time needed to complete a project, prolonging congestion due to the ongoing construction.

While most other state agencies saw reductions to their budgets in Public Act 100-0021, the appropriations package maintains funding for IDOT consistent with FY17 levels. State and federal pass-through funds are included in the budget for metropolitan planning and research purposes, supporting CMAP and the 15 other metropolitan planning organizations in Illinois. The budget further provides appropriations close to FY17 levels for Amtrak (\$52.0 million), RTA free and reduced fare reimbursement (\$17.6 million), and PACE Paratransit (\$8.4 million). However, the budget also includes a reduction in funding for the region's transit system. Public Transportation Fund (PTF) distributions, which includes the state's statutorily required 30 percent match to the RTA sales tax and Chicago real estate transfer tax (estimated at \$424.4 million), will fall by 10 percent for FY18 only.

Relatedly, funds accruing to the PTF will no longer pass through the General Revenue Fund (GRF), potentially resulting in more timely payments. In addition, the budget shifts some expenditures from GRF to the Road Fund, including the first \$100 million accruing to the PTF and \$131 million in debt service assistance for the RTA's Strategic Capital Improvement Program bonds.

The FY18 budget continues underinvestment in the system and does not address the state's long-term transportation investment needs. The region's federal and state transportation revenues have grown slower than construction costs due to improved vehicle fuel economy and changing driving patterns. The state needs to modernize traditional funding mechanisms, adopt new revenue sources, and broadly use performance-driven criteria for transportation investments. The FY18 budget package does not incorporate any of these critical reforms.

#### Mixed effects on state disbursements to local governments and local taxes

Illinois disburses various state revenues to local governments based on criteria outlined in state statute. Additionally, the state collects many locally imposed sales and excise taxes on behalf of local governments. Public Act 100-0023 includes several changes that will reduce the revenue available to the local governments that rely on those sources.

Municipalities and counties in Illinois receive a share of the state's income tax revenues through the Local Government Distributive Fund (LGDF) based on their population relative to the state's total population. Municipalities and counties will continue to receive 10 percent of all income tax generated under the rates in effect before January 2011; thus, the additional revenues generated by the income tax increase will all accrue to the state. In addition, Public Act 100-0023 implements a temporary change to LGDF disbursements, reducing payments by 10 percent for revenues generated during FY18.

Under the Act, local income tax disbursements will no longer pass through the GRF, and will instead directly go to the LGDF. The change is intended to result in municipalities and counties receiving these funds during the month they are collected, rather than two months later. To the extent that the Illinois Office of the Comptroller has sufficient cash at hand, August disbursements will include revenues generated from both June and August 2017, and September disbursements will include revenues generated from both July and September 2017. In subsequent months, disbursements will return to normal.

Statewide, 6,545 local governments (such as counties, townships, municipalities, school districts, community colleges, and special districts) receive personal property replacement tax disbursements based on statutory criteria. The disbursements totaled \$1.5 billion in FY17. The FY18 budget appropriates \$103.5 million for community college operating costs out of these revenues, thereby reducing the remainder available for disbursement to local governments under the regular criteria.

Furthermore, starting in FY18, the state will begin charging a 2 percent service fee for collecting the RTA sales tax, home rule and non-home rule sales taxes on behalf of counties and municipalities, Metropolitan Pier and Exposition Authority sales tax, several other local taxes, as well as state sales tax disbursements to the RTA. Previously, the state had charged various administrative fees on a smaller set of taxes collected on behalf of local governments, such as the county motor fuel tax, municipal telecommunications tax, and automobile renting tax. The new fees, which the Illinois Department of Revenue estimates at \$60 million per year, will be transferred to the Tax Compliance and Administrative Fund. Due to the service fee, local governments and the RTA will receive less of the sales tax revenues they generate.

Most of these provisions affecting local governments result in a reduction in revenues, thus further constraining local government resources, particularly at the municipal level. However, Public Act 100-0023 includes a provision that allows home rule municipalities to issue bonds backed with state disbursements. This opportunity will likely lower borrowing costs for municipalities able to take advantage of the provisions. Home rule municipalities could issue these bonds in lieu of general obligation bonds, or use the provision to refinance general obligation bonds.

Overall, many of these policy changes make reductions to state disbursements to local governments, while failing to enact reforms to disbursement criteria to enhance the efficiency and the equity of the system and facilitate positive regional economic outcomes. Home rule municipalities now have a new statutory tool to lower financing costs, but many small non-home rule municipalities that already face significant resource constraints will not be able to take advantage of this development.

**Looking forward** Although Illinois has ended its two-year budget impasse, the adopted budget plan for FY18 does not address long-term transportation investment needs nor does it provide necessary reforms to modernize or improve equity in the state tax system. GO TO 2040 recommends broadening tax bases, including expanding the income tax base to retirement income and the sales tax base to additional services. In addition, to adequately support the state's transportation infrastructure, the state will need to enact new and enhanced revenues, such as an increase in and long-term replacement of the state motor fuel tax

Resource constraints at the state level are having an effect on local governments and the communities they serve. State government provides funding to support transportation, housing, environmental, and community development programs, among other services that are vital to supporting quality of life in the region. To mitigate future impacts of declining state resources, local governments may need to consider such options as employing innovative revenue sources and collaborating with other local governments to share services or consolidate.

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Expenditure reductions also include \$1.5 billion in assumed general funds <u>savings</u> from changes to the state's retirement systems. The Commission on Government Forecasting and Accountability <u>reported</u> that unfunded pension liabilities for the state's five retirement systems increased by \$33 billion from FY12 to FY16, reaching \$129.8 billion and a funded ratio of 37.6 percent at the end of FY16. Among others, FY18 contributions to the retirement systems will include \$6.4 billion from general funds and \$250 million from the Road Fund, most of which will go toward paying down unfunded liabilities.

#### Restarting construction and flat transportation appropriations

Because lawmakers did not pass a budget by June 30, 2017, the Illinois Department of Transportation (IDOT) shut down construction projects statewide. A previous CMAP Policy Update discussed the potential impact of the shutdown, which lasted for a week. The suspension of work in the middle of construction season affected 900 active projects across Illinois. The American Road and Transportation Builders Association estimated the shutdown will cost the state \$34 million. Now that an FY18 budget is in place, IDOT has informed contractors that construction can resume. However, not all projects will restart immediately, as contractors may need to prepare work sites, mobilize crews, and rent equipment again. Stopping and restarting projects will likely extend the time needed to complete a project, prolonging congestion due to the ongoing construction.

While most other state agencies saw reductions to their budgets in Public Act 100-0021, the appropriations package maintains funding for IDOT consistent with FY17 levels. State and federal pass-through funds are included in the budget for metropolitan planning and research purposes, supporting CMAP and the 15 other metropolitan planning organizations in Illinois. The budget further provides appropriations close to FY17 levels for Amtrak (\$52.0 million), RTA free and reduced fare reimbursement (\$17.6 million), and PACE Paratransit (\$8.4 million). However, the budget also includes a reduction in funding for the region's transit system. Public Transportation Fund (PTF) distributions, which includes the state's statutorily required 30 percent match to the RTA sales tax and Chicago real estate transfer tax (estimated at \$424.4 million), will fall by 10 percent for FY18 only.

Relatedly, funds accruing to the PTF will no longer pass through the General Revenue Fund (GRF), potentially resulting in more timely payments. In addition, the budget shifts some expenditures from GRF to the Road Fund, including the first \$100 million accruing to the PTF and \$131 million in debt service assistance for the RTA's Strategic Capital Improvement Program bonds.

The FY18 budget continues underinvestment in the system and does not address the state's long-term transportation investment needs. The region's federal and state transportation revenues have grown slower than construction costs due to improved vehicle fuel economy and changing driving patterns. The state needs to modernize traditional funding mechanisms, adopt new revenue sources, and broadly use performance-driven criteria for transportation investments. The FY18 budget package does not incorporate any of these critical reforms.

#### Mixed effects on state disbursements to local governments and local taxes

Illinois disburses various state revenues to local governments based on criteria outlined in state statute. Additionally, the state collects many locally imposed sales and excise taxes on behalf of local governments. Public Act 100-0023 includes several changes that will reduce the revenue available to the local governments that rely on those sources.

Municipalities and counties in Illinois receive a share of the state's income tax revenues through the Local Government Distributive Fund (LGDF) based on their population relative to the state's total population. Municipalities and counties will continue to receive 10 percent of all income tax generated under the rates in effect before January 2011; thus, the additional revenues generated by the income tax increase will all accrue to the state. In addition, Public Act 100–0023 implements a temporary change to LGDF disbursements, reducing payments by 10 percent for revenues generated during FY18.

Under the Act, local income tax disbursements will no longer pass through the GRF, and will instead directly go to the LGDF. The change is intended to result in municipalities and counties receiving these funds during the month they are collected, rather than two months later. To the extent that the Illinois Office of the Comptroller has sufficient cash at hand, August disbursements will include revenues generated from both June and August 2017, and September disbursements will include revenues generated from both July and September 2017. In subsequent months, disbursements will return to normal.

Statewide, 6,545 local governments (such as counties, townships, municipalities, school districts, community colleges, and special districts) receive personal property replacement tax disbursements based on statutory criteria. The disbursements totaled \$1.5 billion in FY17. The FY18 budget appropriates \$103.5 million for community college operating costs out of these revenues, thereby reducing the remainder available for disbursement to local governments under the regular criteria.

Furthermore, starting in FY18, the state will begin charging a 2 percent service fee for collecting the RTA sales tax, home rule and non-home rule sales taxes on behalf of counties and municipalities, Metropolitan Pier and Exposition Authority sales tax, several other local taxes, as well as state sales tax disbursements to the RTA. Previously, the state had charged various administrative fees on a smaller set of taxes collected on behalf of local governments, such as the county motor fuel tax, municipal telecommunications tax, and automobile renting tax. The new fees, which the Illinois Department of Revenue estimates at \$60 million per year, will be transferred to the Tax Compliance and Administrative Fund. Due to the service fee, local governments and the RTA will receive less of the sales tax revenues they generate.

Most of these provisions affecting local governments result in a reduction in revenues, thus further constraining local government resources, particularly at the municipal level. However, Public Act 100-0023 includes a provision that allows home rule municipalities to issue bonds backed with state disbursements. This opportunity will likely lower borrowing costs for municipalities able to take advantage of the provisions. Home rule municipalities could issue these bonds in lieu of general obligation bonds, or use the provision to refinance general obligation bonds.

Overall, many of these policy changes make reductions to state disbursements to local governments, while failing to enact reforms to disbursement criteria to enhance the efficiency and the equity of the system and facilitate positive regional economic outcomes. Home rule municipalities now have a new statutory tool to lower financing costs, but many small non-home rule municipalities that already face significant resource constraints will not be able to take advantage of this development.

# Looking forward

Although Illinois has ended its two-year budget impasse, the adopted budget plan for FY18 does not address long-term transportation investment needs nor does it provide necessary reforms to modernize or improve equity in the state tax system. GO TO 2040 recommends broadening tax bases, including expanding the income tax base to retirement income and the sales tax base to additional services. In addition, to adequately support the state's transportation infrastructure, the state will need to enact new and enhanced revenues, such as an increase in and long-term replacement of the state motor fuel tax and an implementation of additional user fees such as express toll lanes.

Resource constraints at the state level are having an effect on local governments and the communities they serve. State government provides funding to support transportation, housing, environmental, and community development programs, among other services that are vital to supporting quality of life in the region. To mitigate future impacts of declining state resources, local governments may need to consider such options as employing innovative revenue sources and collaborating with other local governments to share services or consolidate.

Sections

Limited measures to address bill backlog and pension liabilities

Restarting construction and flat transportation appropriations

Mixed effects on state disbursements to local governments and local taxes

**Looking forward** 

Sections

Limited measures to address bill backlog and pension liabilities

transportation appropriations Mixed effects on state

disbursements to local governments

Restarting construction and flat

**Looking forward** 

and local taxes

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# Stormwater Management Opportunity Planning



Stormwater Management Opportunity Planning

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Localized stormwater flooding is a common concern among the region's municipalities, yet many lack the resources to identify opportunities and strategies to address flooding issues. For example, a village may be aware of an area that floods regularly, but they may not know the cause or the drainage area that flows to the flooded area. One strategy for addressing this is to better integrate stormwater management into decisions about land use and development. The location and form of our development patterns play a large role in the amount of stormwater runoff generated and can be a key part of the solution.

To better position communities to improve stormwater management, CMAP has developed an approach to help identify problem areas and causes and begin to articulate discrete, on-the-ground opportunities for improvements that can reduce flooding. The purpose of this approach is to present a cost-efficient planning tool to assess flooding issues, inform stakeholders and decision makers about potential flood mitigation options, particularly green infrastructure (GI) and land use solutions, and to incorporate those solutions into land use and transportation decisions. CMAP is using this approach in local planning projects though the <u>Local Technical Assistance (LTA) Program</u>.

With support from the MacArthur Foundation, CMAP created a step-by-step guide to the spatial analysis and a stormwater planning data inventory to assist partners in planning efforts. The guide, Stormwater Management Opportunity Planning: Spatial Analysis Methodology, details the four main tasks of the approach, including data collection and development of a GIS database, data analysis to identify flooding problems and opportunities in a community, prioritization of implementation, and preparation of a draft plan.

Given the severity of urban flooding in Northeastern Illinois, and the large, watershed-scale challenge of addressing overbank flooding, this methodology concentrates more on localized drainage problems and less on riverine flooding. This approach is not meant to identify specific engineered structural (grey infrastructure) solutions to the identified problems, which require advanced engineering analysis by the municipality, county stormwater management agencies, or other entities.

For additional information on the publication, contact Kate Evasic (<a href="kevasic@cmap.illinois.gov">kevasic@cmap.illinois.gov</a> or 312-386-8782).



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# **Stormwater Planning Data Inventory**

Local and regional analysis of flooding issues relies upon regularly-updated geospatial information about a variety of indicators — including land cover/use characteristics, topography, and soils. The Stormwater Planning Data Inventory, a list of useful datasets, is shown below. Some of these datasets are used in the Stormwater Management Opportunity Planning: Spatial Analysis Methodology. Each record includes the most recently available vintage and provides a link to download or request the data.

Source	Data Download / Request	Age	Description
EPA	National Hydrography Dataset "Plus"	2012	Hydrologic data framework which incorporates the National Hydrography Dataset, the National Elevation Dataset, and the National Watershed Boundary Dataset. Includes HUC12 boundaries.
Counties	Streams and Water Bodies  Download/Request: Cook, DuPage, Kane, Kendall, Lake,  McHenry, Will	Various	Hydrographic lines and polygons created and/or hosted by County GIS departments.
ISGS; Counties	Light Detection and Ranging (LiDAR) Digital Elevation Model (DEM) data	Various	High-resolution LiDAR-derived elevation grids.
Counties; Municipalities	Building Footprints  Download/Request: Chicago, DuPage, Lake, Will	Various	Overhead extent of building footprint as extracted or digitized from aerial photos. Footprints are known to exist for those areas with download/request links. For other areas, contact counties or municipalites to determine availability.
CMAP	ArcHydro Modeling Outputs	2017	Includes hydrologically-corrected DEM, flow direction, flow accumulation, drainage lines, catchments, and depressions. See data packages for additional information.
CMAP	Land Use Inventory	2013	Comprehensive parcel-based Land Use Inventory, containing 59 different use classes for over 2.5 million parcels.

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# Stormwater

Integrating better stormwater management decisions into local planning, municipal operations and budgeting decisions, data and information sharing, and transportation planning and programming will be essential to tackling stormwater management in our region.

#### Where is CMAP involved on Stormwater?

### **Stormwater Management Opportunity Planning**

Urban flooding is a common concern among the region's municipalities, yet many lack the resources to identify opportunities and strategies to address flooding issues. CMAP has developed an approach to help identify problem areas and begin to articulate discrete, on-the-ground opportunities for improvements that can reduce flooding. CMAP is incorporating this approach in local planning projects though the Local Technical Assistance (LTA) Program.

#### **Stormwater Utilities**

Storm sewers, culverts, and a host of other stormwater infrastructure components need repair, but funding for capital improvements is scarce. CMAP has outlined the legal authority and key components of a establishing a stormwater utility to respond to these challenges.

#### **Calumet Stormwater Collective**

CMAP is an active member of the Calumet Stormwater Collaborative, which was formed in 2014 to improve stormwater management through investments in and coordination of green infrastructure solutions.

#### **Stormwater Planning Data Inventory**

The Stormwater Planning Data Inventory includes a list of datasets that can inform local and regional analyses of flooding issues.



#### Why is Stormwater a challenge to our region?

Stormwater management and flood prevention in northeastern Illinois can be particularly challenging due to the region's flat topography and broad floodplains. Agricultural and urban development has not fully considered the long-term consequences of altering the region's landscape. As a result, the existing grey and green infrastructure designed to handle runoff is currently inadequate and requires significant investment in order to reduce negative impacts of flooding on private property, local infrastructure, regional transportation, an natural resources. Future development poses new challenges due to the reduction of the landscape's ability to absorb precipitation and the continuing pressure to develop flood prone areas. In addition, studies have indicated that climate change has been leading to an increase in the severity and frequency of extreme storms and that this will be particularly true in the upper Midwest, including the Chicago region.

Stormwater crosses jurisdictional boundaries and the amount of stormwater runoff generated is heavily influenced by land use and transportation. The design of our streets and roads, which are a large contributor to stormwater runoff and are also in public ownership, can play a key role in reducing the negative impacts of future storm events. Land use and development, and the corresponding regulations, can help prevent new development and redevelopment from contributing to the problem and could potentially offer shared solutions for existing neighborhoods. Figuring out ways to better manage stormwater can also help the regional economy by reducing the stress flooding can cause on municipal budgets, the use of clean water and wastewater treatment costs, and private property damage and loss.



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## **Programs**

CMAP operates several important programs that help implement the goals of GO TO 2040 throughout our region.

#### **Local Planning Programs**

#### **Local Technical Assistance (LTA)**

CMAP has initiated 112 LTA projects with local governments, nonprofits, and intergovernmental organizations to address local issues at the intersection of transportation, land use, and housing, including the natural environment, economic growth, and community development.

#### **Local Ordinances and Toolkits**

CMAP provides model plans, ordinances, codes, and other tools to municipalities interested in pursuing policies that are aligned with GO TO 2040 recommendations.

#### **Regional Transporation Programs**

#### **Surface Transportation**

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**Congestion Mitigation and Air Quality Improvement** 

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## **Transportation Alternatives**Feris commoloris nullab id u

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**Other Programs** 

#### **Training**

CMAP provides training for municipal officials and others who want to learn about tools for planning, GIS, economic development, data analysis, and more.

#### Municipal Survey

To inform agency work and track the progress of GO TO 2040 implementation, CMAP conducts a biennial survey of municipal governments.

#### Resources

CMAP publishes many reports, plans, guides, and papers that cover a wide range of relevant topics.

Livability
Climate Resilience
Community Development
Energy
Housing

Land Use
Local Food
Open Space
Stormwater
Water Supply

Mobility
Freight
Roads
Strategic Investment
Transit
Walking & Cycling

Industry Clusters
Innovation
Regional Economic Indicators
Tax Policy
Workforce

**Economy** 

i i io budget iiiipacts oii state finances, regional CMAP transportation, and local governments □ | Updates & N Updates & News | Policy Updates | FY18 budget impacts. The Illinois General Assembly enacted a series of budget bills on July 6, 2017, **Developing ON TO 2050** July 21, 201 July 21, 2017 **About CMAP** overriding the Governor's veto and ending **Programs & Resources** the state's two-year budget impasse. Among **FY18** FY18 budget impacts on changes to income tax deductions and **Committees** credits, Public Act 100-0022 permanently Data & Analysis state state finances, regional increases the personal income tax rate from **Updates & News** transportation, and trans 3.75 to 4.95 percent and the corporate income **Contact Us** tax rate from 5.25 to 7 percent, effective July local governments local 1, 2017. 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The new fees, for collecting the RTA sales tax, home rule for collect which the Illinois Department of Revenue and non-h and non-home rule sales taxes on behalf of estimates at \$60 million per year, will be counties and municipalities, Metropolitan counties a transferred to the Tax Compliance and Pier and E Pier and Exposition Authority sales tax, Administrative Fund. Due to the service fee, several other local taxes, as well as state sales several oth local governments and the RTA will receive tax disbur tax disbursements to the RTA. Previously, the less of the sales tax revenues they generate. state had charged various administrative fees state had c Most of these provisions affecting local on a smaller set of taxes collected on behalf of on a small governments result in a reduction in local governments, such as the county motor local gover revenues, thus further constraining local fuel tax, m fuel tax, municipal telecommunications tax, government resources, particularly at the and autom and automobile renting tax. The new fees, municipal level. However, Public Act 100which the Illinois Department of Revenue which the 0023 includes a provision that allows home estimates at \$60 million per year, will be estimates rule municipalities to issue bonds backed transferred to the Tax Compliance and transferre with state disbursements. This opportunity Administrative Fund. Due to the service fee, Administr will likely lower borrowing costs for local governments and the RTA will receive local gover municipalities able to take advantage of the less of the less of the sales tax revenues they generate. provisions. Home rule municipalities could Most of these provisions affecting local Most of th issue these bonds in lieu of general obligation governments result in a reduction in governme: bonds, or use the provision to refinance revenues, thus further constraining local revenues, general obligation bonds. government resources, particularly at the governme: Overall, many of these policy changes make municipal level. However, Public Act 100municipal reductions to state disbursements to local 0023 includes a provision that allows home 0023 inclu governments, while failing to enact reforms rule municipalities to issue bonds backed rule munic to disbursement criteria to enhance the with state disbursements. This opportunity with state efficiency and the equity of the system will likely will likely lower borrowing costs for and facilitate positive regional economic municipalities able to take advantage of the municipal outcomes. Home rule municipalities now provisions. Home rule municipalities could provisions have a new statutory tool to lower financing issue these bonds in lieu of general obligation issue thes costs, but many small non-home rule bonds, or use the provision to refinance bonds, or municipalities that already face significant general obligation bonds. general ob resource constraints will not be able to take Overall, m Overall, many of these policy changes make advantage of this development. reductions to state disbursements to local reductions **Looking forward** governments, while failing to enact reforms governme: Although Illinois has ended its two-year to disburs to disbursement criteria to enhance the budget impasse, the adopted budget plan efficiency efficiency and the equity of the system for FY18 does not address long-term and facilitate positive regional economic and facilit transportation investment needs nor does outcomes. Home rule municipalities now outcomes. it provide necessary reforms to modernize have a new statutory tool to lower financing have a new or improve equity in the state tax system. costs, but many small non-home rule costs, but GO TO 2040 recommends broadening tax municipalities that already face significant municipal bases, including expanding the income tax resource constraints will not be able to take resource c base to retirement income and the sales tax advantage of this development. advantage base to additional services. In addition, to **Looking forward** Looking for adequately support the state's transportation Although Illinois has ended its two-year Although infrastructure, the state will need to enact budget impasse, the adopted budget plan budget im new and enhanced revenues, such as an for FY18 does not address long-term for FY18 d increase in and long-term replacement of the transportation investment needs nor does transporta state motor fuel tax and an implementation it provide necessary reforms to modernize it provide of additional user fees such as express toll or improve equity in the state tax system. or improve lanes. GO TO 2040 recommends broadening tax GO TO 20 Resource constraints at the state level are bases, incl bases, including expanding the income tax having an effect on local governments and the base to retirement income and the sales tax base to ret communities they serve. State government base to additional services. In addition, to base to add provides funding to support transportation, adequately support the state's transportation adequately housing, environmental, and community infrastructure, the state will need to enact infrastruc<sup>\*</sup> development programs, among other services new and enhanced revenues, such as an new and e that are vital to supporting quality of life in increase in and long-term replacement of the increase ir the region. To mitigate future impacts of state motor fuel tax and an implementation state moto declining state resources, local governments of additional user fees such as express toll of addition may need to consider such options as lanes. employing innovative revenue sources and Resource constraints at the state level are Resource ( collaborating with other local governments to having an effect on local governments and the having an share services or consolidate. communities they serve. State government communit provides f provides funding to support transportation, housing, e housing, environmental, and community Terms & Conditions Careers Sitemap Contact Us © developme development programs, among other services that are vi that are vital to supporting quality of life in the region the region. To mitigate future impacts of declining state resources, local governments declining may need to consider such options as may need employing employing innovative revenue sources and collaborat collaborating with other local governments to share services or consolidate. share serv Terms & Conditions Careers Sitemap Contact Us ©

lanes.

**Selections** То Тор levels. Illinois. construction. FY18 only. sources. regular criteria. lanes.

state finances, regional transportation, and local governments The Illinois General Assembly enacted a series of budget bills on July 6, 2017, overriding the Governor's veto and ending the state's two-year budget impasse. Among changes to income tax deductions and T Share increases the personal income tax rate from 3.75 to 4.95 percent and the corporate income tax rate from 5.25 to 7 percent, effective July 1, 2017. On the expenditure side, the Fiscal Year (FY) 2018 appropriations in Public Act 100-0021 reduce general funds (General Revenue Fund, Common School Fund, and Education Assistance Fund) spending, including a 5 percent across-the-board cut to most state agencies. Public Act 100-0023, which enacts other policy changes to implement the budget, provides for special fund transfers and pension system reforms that are assumed to reduce general funds expenditures. The passage of a FY18 budget has thus far staved off a further downgrade of some of the state's bonds to "junk" status. Such an action by credit rating agencies would increase public borrowing costs and further constrain state finances. But, the state — and many local jurisdictions — still incur high interest rates to issue bonds, increasing the cost of capital projects and services at all This Policy Update will discuss how the new budget addresses the state's backlog of unpaid bills and pension liabilities, and impacts transportation and local governments in the CMAP region and across Limited measures to address bill backlog and pension liabilities The income tax increase included in the FY18 budget will not produce an instant infusion of cash for the state. In fact, the Comptroller's office has indicated that it will take time to receive new revenues and pay off the state's bills. As of July 14, 2017, Illinois's tab of unpaid bills, or the general funds payable backlog, stood at \$14.9 billion. This figure includes payments owed to local governments and the Regional Transportation Authority (RTA), among other agencies that provide critical services in northeastern Illinois. Expenditure reductions also include \$1.5 billion in assumed general funds savings from changes to the state's retirement systems. The Commission on Government Forecasting and Accountability reported that unfunded pension liabilities for the state's five retirement systems increased by \$33 billion from FY12 to FY16, reaching \$129.8 billion and a funded ratio of 37.6 percent at the end of FY16. Among others, FY18 contributions to the retirement systems will include \$6.4 billion from general funds and \$250 million from the Road Fund, most of which will go toward paying down unfunded liabilities. Restarting construction and flat transportation appropriations Because lawmakers did not pass a budget by June 30, 2017, the Illinois Department of Transportation (IDOT) shut down construction projects statewide. A previous CMAP Policy Update discussed the potential impact of the shutdown, which lasted for a week. The suspension of work in the middle of construction season affected 900 active projects across Illinois. The American Road and Transportation Builders Association estimated the shutdown will cost the state \$34 million. Now that an FY18 budget is in place, IDOT has informed contractors that construction can resume. However, not all projects will restart immediately, as contractors may need to prepare work sites, mobilize crews, and rent equipment again. Stopping and restarting projects will likely extend the time needed to complete a project, prolonging congestion due to the ongoing While most other state agencies saw reductions to their budgets in Public Act 100-0021, the appropriations package maintains funding for IDOT consistent with FY17 levels. State and federal passthrough funds are included in the budget for metropolitan planning and research purposes, supporting CMAP and the 15 other metropolitan planning organizations in Illinois. The budget further provides appropriations close to FY17 levels for Amtrak (\$52.0 million), RTA free and reduced fare reimbursement (\$17.6 million), and PACE Paratransit (\$8.4 million). However, the budget also includes a reduction in funding for the region's transit system. Public Transportation Fund (PTF) distributions, which includes the state's statutorily required 30 percent match to the RTA sales tax and Chicago real estate transfer tax (estimated at \$424.4 million), will fall by 10 percent for Relatedly, funds accruing to the PTF will no longer pass through the General Revenue Fund (GRF), potentially resulting in more timely payments. In addition, the budget shifts some expenditures from GRF to the Road Fund, including the first \$100 million accruing to the PTF and \$131 million in debt service assistance for the RTA's Strategic Capital Improvement Program bonds. The FY18 budget continues underinvestment in the system and does not address the state's long-term transportation investment needs. The region's federal and state transportation revenues have grown slower than construction costs due to improved vehicle fuel economy and changing driving patterns. The state needs to modernize traditional funding mechanisms, adopt new revenue sources, and broadly use performance-driven criteria for transportation investments. The FY18 budget package does not incorporate any of these critical reforms. Mixed effects on state disbursements to local governments and local taxes Illinois disburses various state revenues to local governments based on criteria outlined in state statute. Additionally, the state collects many locally imposed sales and excise taxes on behalf of local governments. Public Act 100-0023 includes several changes that will reduce the revenue available to the local governments that rely on those Municipalities and counties in Illinois receive a share of the state's income tax revenues through the Local Government Distributive Fund (LGDF) based on their population relative to the state's total population. Municipalities and counties will continue to receive 10 percent of all income tax generated under the rates in effect before January 2011; thus, the additional revenues generated by the income tax increase will all accrue to the state. In addition, Public Act 100-0023 implements a temporary change to LGDF disbursements, reducing payments by 10 percent for revenues generated during FY18. Under the Act, local income tax disbursements will no longer pass through the GRF, and will instead directly go to the LGDF. The change is intended to result in municipalities and counties receiving these funds during the month they are collected, rather than two months later. To the extent that the Illinois Office of the Comptroller has sufficient cash at hand, August disbursements will include revenues generated from both June and August 2017, and September disbursements will include revenues generated from both July and September 2017. In subsequent months, September 2017. In subsequent months, disbursements will return to normal. disbursements will return to normal Statewide, 6,545 local governments (such Statewide, 6,545 local governments (such as counties, townships, municipalities, as counties, townships, municipalities, school districts, community colleges, and school districts, community colleges, and special districts) receive personal property special districts) receive personal property replacement tax disbursements based replacement tax disbursements based on statutory criteria. The disbursements on statutory criteria. The disbursements totaled \$1.5 billion in FY17. The FY18 budget totaled \$1.5 billion in FY17. The FY18 budget appropriates \$103.5 million for community appropriates \$103.5 million for community college operating costs out of these revenues, college operating costs out of these revenues, thereby reducing the remainder available for thereby reducing the remainder available for disbursement to local governments under the disbursement to local governments under the regular criteria. Furthermore, starting in FY18, the state Furthermore, starting in FY18, the state will begin charging a 2 percent service fee will begin charging a 2 percent service fee for collecting the RTA sales tax, home rule for collecting the RTA sales tax, home rule and non-home rule sales taxes on behalf of and non-home rule sales taxes on behalf of counties and municipalities, Metropolitan counties and municipalities, Metropolitan Pier and Exposition Authority sales tax, Pier and Exposition Authority sales tax, several other local taxes, as well as state sales several other local taxes, as well as state sales tax disbursements to the RTA. Previously, the tax disbursements to the RTA. Previously, the state had charged various administrative fees state had charged various administrative fees on a smaller set of taxes collected on behalf of on a smaller set of taxes collected on behalf of local governments, such as the county motor local governments, such as the county motor fuel tax, municipal telecommunications tax, fuel tax, municipal telecommunications tax, and automobile renting tax. The new fees, and automobile renting tax. The new fees, which the Illinois Department of Revenue which the Illinois Department of Revenue estimates at \$60 million per year, will be estimates at \$60 million per year, will be transferred to the Tax Compliance and transferred to the Tax Compliance and Administrative Fund. Due to the service fee, local governments and the RTA will receive less of the sales tax revenues they generate. Most of these provisions affecting local governments result in a reduction in revenues, thus further constraining local government resources, particularly at the municipal level. However, Public Act 100-0023 includes a provision that allows home rule municipalities to issue bonds backed with state disbursements. This opportunity will likely lower borrowing costs for municipalities able to take advantage of the provisions. Home rule municipalities could issue these bonds in lieu of general obligation bonds, or use the provision to refinance general obligation bonds. Overall, many of these policy changes make reductions to state disbursements to local governments, while failing to enact reforms to disbursement criteria to enhance the efficiency and the equity of the system and facilitate positive regional economic outcomes. Home rule municipalities now have a new statutory tool to lower financing costs, but many small non-home rule municipalities that already face significant resource constraints will not be able to take advantage of this development. **Looking forward** Although Illinois has ended its two-year budget impasse, the adopted budget plan for FY18 does not address long-term transportation investment needs nor does it provide necessary reforms to modernize or improve equity in the state tax system. or improve equity in the state tax system. GO TO 2040 recommends broadening tax GO TO 2040 recommends broadening tax bases, including expanding the income tax bases, including expanding the income tax base to retirement income and the sales tax base to retirement income and the sales tax base to additional services. In addition, to base to additional services. In addition, to adequately support the state's transportation adequately support the state's transportation infrastructure, the state will need to enact infrastructure, the state will need to enact new and enhanced revenues, such as an new and enhanced revenues, such as an increase in and long-term replacement of the increase in and long-term replacement of the state motor fuel tax and an implementation state motor fuel tax and an implementation of additional user fees such as express toll of additional user fees such as express toll lanes. Resource constraints at the state level are Resource constraints at the state level are having an effect on local governments and the having an effect on local governments and the communities they serve. State government communities they serve. State government provides funding to support transportation, provides funding to support transportation, housing, environmental, and community housing, environmental, and community development programs, among other services development programs, among other services that are vital to supporting quality of life in that are vital to supporting quality of life in the region. To mitigate future impacts of the region. To mitigate future impacts of declining state resources, local governments declining state resources, local governments may need to consider such options as may need to consider such options as amplating inpatration ration in courses and amplating inportation retropus courses and Terms & Conditions Careers Sitemap Contact Us © Terms & Conditions Careers Sitemap Contact Us ©

□ | Updates & News | Policy Updates | FY18 budget impacts. July 21, 2017 FY18 budget impacts on FY18 budget impacts on state finances, regional transportation, and local governments **Sections** Limited measures to address bill backlog and pension liabilities Restarting construction and flat transportation appropriations Mixed effects on state disbursements to local governments and local taxes **Looking forward** 100-0021 reduce general runds (General Revenue Fund, Common School Fund, and Education Assistance Fund) spending, including a 5 percent across-the-board cut to most state agencies. Public Act 100-0023, which enacts other policy changes to implement the budget, provides for special fund transfers and pension system reforms that are assumed to reduce general funds expenditures. The passage of a FY18 budget has thus far staved off a further downgrade of some of the state's bonds to "junk" status. Such an action by credit rating agencies would increase public borrowing costs and further constrain state finances. But, the state — and many local jurisdictions — still incur high interest rates to issue bonds, increasing the cost of capital projects and services at all levels. This Policy Update will discuss how the new budget addresses the state's backlog of unpaid bills and pension liabilities, and impacts transportation and local governments in the CMAP region and across Illinois. Limited measures to address bill backlog and pension liabilities The income tax increase included in the FY18 budget will not produce an instant infusion of cash for the state. In fact, the Comptroller's office has indicated that it will take time to receive new revenues and pay off the state's bills. As of July 14, 2017, Illinois's tab of unpaid bills, or the general funds payable backlog, stood at \$14.9 billion. This figure includes payments owed to local governments and the Regional Transportation Authority (RTA), among other agencies that provide critical services in northeastern Illinois. Expenditure reductions also include \$1.5 billion in assumed general funds savings from changes to the state's retirement systems. The Commission on Government Forecasting and Accountability reported that unfunded pension liabilities for the state's five retirement systems increased by \$33 billion from FY12 to FY16, reaching \$129.8 billion and a funded ratio of 37.6 percent at the end of FY16. Among others, FY18 contributions to the retirement systems will include \$6.4 billion from general funds and \$250 million from the Road Fund, most of which will go toward paying down unfunded liabilities. Restarting construction and flat transportation appropriations Because lawmakers did not pass a budget by June 30, 2017, the Illinois Department of Transportation (IDOT) shut down construction projects statewide. A previous CMAP Policy Update discussed the potential impact of the shutdown, which lasted for a week. The suspension of work in the middle of construction season affected 900 active projects across Illinois. The American Road and Transportation Builders Association estimated the shutdown will cost the state \$34 million. Now that an FY18 budget is in place, IDOT has informed contractors that construction can resume. However, not all projects will restart immediately, as contractors may need to prepare work sites, mobilize crews, and rent equipment again. Stopping and restarting projects will likely extend the time needed to complete a project, prolonging congestion due to the ongoing construction. While most other state agencies saw reductions to their budgets in Public Act 100-0021, the appropriations package maintains funding for IDOT consistent with FY17 levels. State and federal passthrough funds are included in the budget for metropolitan planning and research purposes, supporting CMAP and the 15 other metropolitan planning organizations in Illinois. The budget further provides appropriations close to FY17 levels for Amtrak (\$52.0 million), RTA free and reduced fare reimbursement (\$17.6 million), and PACE Paratransit (\$8.4 million). However, the budget also includes a reduction in funding for the region's transit system. Public Transportation Fund (PTF) distributions, which includes the state's statutorily required 30 percent match to the RTA sales tax and Chicago real estate transfer tax (estimated at \$424.4 million), will fall by 10 percent for FY18 only. Relatedly, funds accruing to the PTF will no longer pass through the General Revenue Fund (GRF), potentially resulting in more timely payments. In addition, the budget shifts some expenditures from GRF to the Road Fund, including the first \$100 million accruing to the PTF and \$131 million in debt service assistance for the RTA's Strategic Capital Improvement Program bonds. The FY18 budget continues underinvestment in the system and does not address the state's long-term transportation investment needs. The region's federal and state transportation revenues have grown slower than construction costs due to improved vehicle fuel economy and changing driving patterns. The state needs to modernize traditional funding mechanisms, adopt new revenue sources, and broadly use performance-driven criteria for transportation investments. The FY18 budget package does not incorporate any of these critical reforms. Mixed effects on state disbursements to local governments and local taxes Illinois disburses various state revenues to local governments based on criteria outlined in state statute. Additionally, the state collects many locally imposed sales and excise taxes on behalf of local governments. Public Act 100-0023 includes several changes that will reduce the revenue available to the local governments that rely on those sources. Municipalities and counties in Illinois receive a share of the state's income tax revenues through the Local Government Distributive Fund (LGDF) based on their population relative to the state's total population. Municipalities and counties will continue to receive 10 percent of all income tax generated under the rates in effect before January 2011; thus, the additional revenues generated by the income tax increase will all accrue to the state. In addition, Public Act 100-0023 implements a temporary change to LGDF disbursements, reducing payments by 10 percent for revenues generated during FY18. Under the Act, local income tax disbursements will no longer pass through the GRF, and will instead directly go to the LGDF. The change is intended to result in municipalities and counties receiving these funds during the month they are collected, rather than two months later. To the extent that the Illinois Office of the Comptroller has sufficient cash at hand, August disbursements will include revenues generated from both June and August 2017, and September disbursements will include revenues generated from both July and

□ | Updates & News | Policy Updates | FY18 budget impacts.

July 21, 2017

Administrative Fund. Due to the service fee, local governments and the RTA will receive less of the sales tax revenues they generate. Most of these provisions affecting local governments result in a reduction in revenues, thus further constraining local government resources, particularly at the municipal level. However, Public Act 100-0023 includes a provision that allows home rule municipalities to issue bonds backed with state disbursements. This opportunity will likely lower borrowing costs for municipalities able to take advantage of the provisions. Home rule municipalities could issue these bonds in lieu of general obligation bonds, or use the provision to refinance general obligation bonds. Overall, many of these policy changes make reductions to state disbursements to local governments, while failing to enact reforms to disbursement criteria to enhance the efficiency and the equity of the system and facilitate positive regional economic outcomes. Home rule municipalities now have a new statutory tool to lower financing costs, but many small non-home rule municipalities that already face significant resource constraints will not be able to take advantage of this development. **Looking forward** Although Illinois has ended its two-year budget impasse, the adopted budget plan for FY18 does not address long-term transportation investment needs nor does it provide necessary reforms to modernize



July 21, 2017

# local governments overriding the Governor's veto and То Тор

downgrade of some of the state's bonds

borrowing costs and further constrain state finances. But, the state — and many local

jurisdictions — still incur high interest

rates to issue bonds, increasing the cost of

capital projects and services at all levels.

This Policy Update will discuss how the

new budget addresses the state's backlog

of unpaid bills and pension liabilities,

and impacts transportation and local

governments in the CMAP region and

Limited measures to address bill backlog

The income tax increase included in the

FY18 budget will not produce an instant

infusion of cash for the state. In fact, the

Comptroller's office has indicated that it

will take time to receive new revenues and

pay off the state's bills. As of July 14, 2017,

Illinois's tab of unpaid bills, or the general

Regional Transportation Authority (RTA),

among other agencies that provide critical

funds payable backlog, stood at \$14.9

billion. This figure includes payments

owed to local governments and the

services in northeastern Illinois.

Expenditure reductions also include \$1.5 billion in assumed general funds savings

from changes to the state's retirement

systems. The Commission on Government Forecasting and Accountability reported that

unfunded pension liabilities for the state's five

retirement systems increased by \$33 billion from FY12 to FY16, reaching \$129.8 billion

and a funded ratio of 37.6 percent at the end of FY16. Among others, FY18 contributions to the retirement systems will include \$6.4 billion from general funds and \$250 million from the Road Fund, most of which will go

toward paying down unfunded liabilities.

Because lawmakers did not pass a budget by June 30, 2017, the Illinois Department

construction projects statewide. A previous

CMAP Policy Update discussed the potential impact of the shutdown, which lasted for a

week. The suspension of work in the middle of construction season affected 900 active

projects across Illinois. The American Road

and Transportation Builders Association estimated the shutdown will cost the state

\$34 million. Now that an FY18 budget is in place, IDOT has informed contractors that construction can resume. However,

not all projects will restart immediately, as

contractors may need to prepare work sites, mobilize crews, and rent equipment again. Stopping and restarting projects will likely

extend the time needed to complete a project,

reductions to their budgets in Public Act 100-

0021, the appropriations package maintains

levels. State and federal pass-through funds are included in the budget for metropolitan planning and research purposes, supporting

CMAP and the 15 other metropolitan planning

organizations in Illinois. The budget further provides appropriations close to FY17 levels

for Amtrak (\$52.0 million), RTA free and

the budget also includes a reduction in

Transportation Fund (PTF) distributions,

30 percent match to the RTA sales tax and Chicago real estate transfer tax (estimated at \$424.4 million), will fall by 10 percent for

Relatedly, funds accruing to the PTF will no

(GRF), potentially resulting in more timely

expenditures from GRF to the Road Fund,

longer pass through the General Revenue Fund

payments. In addition, the budget shifts some

including the first \$100 million accruing to the PTF and \$131 million in debt service assistance

for the RTA's Strategic Capital Improvement

The FY18 budget continues underinvestment in the system and does not address the state's

long-term transportation investment needs. The region's federal and state transportation revenues have grown slower than construction

costs due to improved vehicle fuel economy

mechanisms, adopt new revenue sources, and

transportation investments. The FY18 budget

broadly use performance-driven criteria for

package does not incorporate any of these

Mixed effects on state disbursements to

Illinois disburses various state revenues

to local governments based on criteria

outlined in state statute. Additionally,

the state collects many locally imposed

0023 includes several changes that will reduce the revenue available to the local

governments that rely on those sources.

Municipalities and counties in Illinois

receive a share of the state's income tax

revenues through the Local Government

Distributive Fund (LGDF) based on their

population. Municipalities and counties

will continue to receive 10 percent of all

income tax generated under the rates

additional revenues generated by the

in effect before January 2011; thus, the

income tax increase will all accrue to the

state. In addition, Public Act 100-0023

implements a temporary change to LGDF

disbursements, reducing payments by 10

disbursements will no longer pass through

the GRF, and will instead directly go to the

LGDF. The change is intended to result in

municipalities and counties receiving these

funds during the month they are collected,

rather than two months later. To the extent

generated from both June and August 2017,

and September disbursements will include

revenues generated from both July and

disbursements will return to normal.

September 2017. In subsequent months,

Statewide, 6,545 local governments (such

school districts, community colleges, and

special districts) receive personal property

as counties, townships, municipalities,

replacement tax disbursements based

totaled \$1.5 billion in FY17. The FY18

budget appropriates \$103.5 million for

community college operating costs out

of these revenues, thereby reducing the

remainder available for disbursement

to local governments under the regular

Furthermore, starting in FY18, the

service fee for collecting the RTA

state will begin charging a 2 percent

sales tax, home rule and non-home

rule sales taxes on behalf of counties

and municipalities, Metropolitan Pier

and Exposition Authority sales tax,

several other local taxes, as well as

state sales tax disbursements to the

RTA. Previously, the state had charged

various administrative fees on a smaller

set of taxes collected on behalf of local

governments, such as the county motor

fuel tax, municipal telecommunications

new fees, which the Illinois Department

tax, and automobile renting tax. The

of Revenue estimates at \$60 million

Tax Compliance and Administrative

governments and the RTA will receive

Most of these provisions affecting local

local government resources, particularly

at the municipal level. However, Public

Act 100-0023 includes a provision that

allows home rule municipalities to issue

bonds backed with state disbursements.

borrowing costs for municipalities able

This opportunity will likely lower

to take advantage of the provisions.

general obligation bonds.

Home rule municipalities could issue

these bonds in lieu of general obligation

bonds, or use the provision to refinance

Overall, many of these policy changes

to local governments, while failing to

of the system and facilitate positive

enact reforms to disbursement criteria

to enhance the efficiency and the equity

regional economic outcomes. Home rule

municipalities now have a new statutory

tool to lower financing costs, but many

small non-home rule municipalities

that already face significant resource

constraints will not be able to take

Although Illinois has ended its two-

budget plan for FY18 does not address

long-term transportation investment

reforms to modernize or improve equity

needs nor does it provide necessary

in the state tax system. GO TO 2040

recommends broadening tax bases,

including expanding the income tax

sales tax base to additional services.

In addition, to adequately support the

state's transportation infrastructure,

the state will need to enact new

and enhanced revenues, such as an

of the state motor fuel tax and an

Resource constraints at the state

level are having an effect on local

governments and the communities

funding to support transportation,

community development programs,

among other services that are vital to

supporting quality of life in the region.

To mitigate future impacts of declining

state resources, local governments

may need to consider such options

sources and collaborating with other

local governments to share services or

as employing innovative revenue

consolidate.

housing, environmental, and

they serve. State government provides

such as express toll lanes.

increase in and long-term replacement

implementation of additional user fees

base to retirement income and the

year budget impasse, the adopted

advantage of this development.

Looking forward

make reductions to state disbursements

governments result in a reduction in

revenues, thus further constraining

per year, will be transferred to the

Fund. Due to the service fee, local

less of the sales tax revenues they

generate.

criteria.

on statutory criteria. The disbursements

that the Illinois Office of the Comptroller

has sufficient cash at hand, August

disbursements will include revenues

percent for revenues generated during

Under the Act, local income tax

FY18.

population relative to the state's total

sales and excise taxes on behalf of

local governments. Public Act 100-

local governments and local taxes

and changing driving patterns. The state needs to modernize traditional funding

reduced fare reimbursement (\$17.6 million),

and PACE Paratransit (\$8.4 million). However,

funding for the region's transit system. Public

which includes the state's statutorily required

funding for IDOT consistent with FY17

prolonging congestion due to the ongoing

While most other state agencies saw

construction.

FY18 only.

Program bonds.

critical reforms.

of Transportation (IDOT) shut down

Restarting construction and flat

transportation appropriations

across Illinois.

and pension liabilities

rating agencies would increase public

to "junk" status. Such an action by credit

funds expenditures. The passage of a FY18

budget has thus far staved off a further

to most state agencies. Public Act 100-0023, which enacts other policy changes to implement the budget, provides for special fund transfers and pension system reforms that are assumed to reduce general

a series of budget bills on July 6, 2017,

Education Assistance Fund) spending, including a 5 percent across-the-board cut

The Illinois General Assembly enacted deductions and credits, Public Act 100-0022 permanently increases the personal income tax rate from 3.75 to 4.95 percent and the corporate income tax rate from 5.25 to 7 percent, effective July 1, 2017. On the expenditure side, the Fiscal Year (FY) 2018 appropriations in Public Act 100-0021 reduce general funds (General Revenue Fund, Common School Fund, and

FY18 budget impacts on state finances, regional transportation, and



transportation, and

local governments The Illinois General Assembly enacted

# **Т**о Тор

a series of budget bills on July 6, 2017, overriding the Governor's veto and ending the state's two-year budget impasse. Among changes to income tax Share

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Limited measures to address bill backlog funds payable backlog, stood at \$14.9

The income tax increase included in the FY18 budget will not produce an instant infusion of cash for the state. In fact, the billion. This figure includes payments owed to local governments and the

Comptroller's office has indicated that it will take time to receive new revenues and pay off the state's bills. As of July 14, 2017, Illinois's tab of unpaid bills, or the general Regional Transportation Authority (RTA), among other agencies that provide critical services in northeastern Illinois.

Expenditure reductions also include \$1.5 billion in assumed general funds savings

from changes to the state's retirement

systems. The Commission on Government Forecasting and Accountability reported that unfunded pension liabilities for the state's five

retirement systems increased by \$33 billion from FY12 to FY16, reaching \$129.8 billion and a funded ratio of 37.6 percent at the end of FY16. Among others, FY18 contributions to the retirement systems will include \$6.4

toward paying down unfunded liabilities.

billion from general funds and \$250 million from the Road Fund, most of which will go Restarting construction and flat transportation appropriations

Because lawmakers did not pass a budget by June 30, 2017, the Illinois Department of Transportation (IDOT) shut down construction projects statewide. A previous

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CMAP Policy Update discussed the potential impact of the shutdown, which lasted for a week. The suspension of work in the middle of construction season affected 900 active projects across Illinois. The American Road and Transportation Builders Association estimated the shutdown will cost the state in place, IDOT has informed contractors that construction can resume. However,

not all projects will restart immediately, as contractors may need to prepare work sites, mobilize crews, and rent equipment again. Stopping and restarting projects will likely extend the time needed to complete a project, construction.

While most other state agencies saw

prolonging congestion due to the ongoing funding for IDOT consistent with FY17

0021, the appropriations package maintains levels. State and federal pass-through funds are included in the budget for metropolitan planning and research purposes, supporting

organizations in Illinois. The budget further

reductions to their budgets in Public Act 100provides appropriations close to FY17 levels

CMAP and the 15 other metropolitan planning for Amtrak (\$52.0 million), RTA free and reduced fare reimbursement (\$17.6 million),

and PACE Paratransit (\$8.4 million). However, the budget also includes a reduction in funding for the region's transit system. Public

Transportation Fund (PTF) distributions, which includes the state's statutorily required 30 percent match to the RTA sales tax and

Chicago real estate transfer tax (estimated at \$424.4 million), will fall by 10 percent for FY18 only. Relatedly, funds accruing to the PTF will no longer pass through the General Revenue Fund

(GRF), potentially resulting in more timely payments. In addition, the budget shifts some expenditures from GRF to the Road Fund, including the first \$100 million accruing to the PTF and \$131 million in debt service assistance

for the RTA's Strategic Capital Improvement Program bonds. The FY18 budget continues underinvestment in the system and does not address the state's long-term transportation investment needs.

The region's federal and state transportation revenues have grown slower than construction costs due to improved vehicle fuel economy and changing driving patterns. The state needs to modernize traditional funding mechanisms, adopt new revenue sources, and broadly use performance-driven criteria for

transportation investments. The FY18 budget package does not incorporate any of these critical reforms.

Mixed effects on state disbursements to local governments and local taxes

Illinois disburses various state revenues to local governments based on criteria outlined in state statute. Additionally, the state collects many locally imposed sales and excise taxes on behalf of

local governments. Public Act 100-0023 includes several changes that will reduce the revenue available to the local governments that rely on those sources.

Municipalities and counties in Illinois receive a share of the state's income tax revenues through the Local Government Distributive Fund (LGDF) based on their

population relative to the state's total population. Municipalities and counties will continue to receive 10 percent of all income tax generated under the rates in effect before January 2011; thus, the additional revenues generated by the

income tax increase will all accrue to the

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Most of these provisions affecting local

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FY18 budget



□ | Updates & News | Policy Updates | FY18 budget impacts... July 21, 2017

# finances, regional transportation, and local governments То Тор

impacts on state

The Illinois General Assembly enacted a series of budget bills on July 6, 2017, overriding the Governor's veto and

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Q Search CMAP CMAP **Developing ON TO 2050** □ | Updates & News | Policy Updates | FY18 budget impacts... □ | Updates **About CMAP Programs & Resources** July 21, 2017 July 21, 20 **Committees Data & Analysis FY18** FY18 budget **Updates & News Contact Us** impacts on state impa finan Q Search finances, regional transportation, and trans local governments local The Illino The Illinois General Assembly enacted a series of a series of budget bills on July 6, 2017, overriding the Governor's veto and overridin ending the state's two-year budget ending th Terms & Conditions Careers T Share То Тор То Тор Sitemap Contact Us © UUZZ permanentiy increases the personal UUZZ per income tax rate from 3.75 to 4.95 percent income ta and the corporate income tax rate from and the co 5.25 to 7 percent, effective July 1, 2017. 5.25 to 7 p On the expenditure side, the Fiscal Year On the ex (FY) 2018 (FY) 2018 appropriations in Public Act 100-0021 reduce general funds (General 100-002 Revenue Fund, Common School Fund, and Revenue 1 Education Assistance Fund) spending, Education including a 5 percent across-the-board cut including to most state agencies. 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CMAP

July 21, 2017

FY18 budget

## and local taxes The Illinois General Assembly enacted a series of budget bills on July 6, 2017, overriding the Governor's veto and ending the state's two-year budget impasse. Among changes to income tax deductions and credits, Public Act 100-0022 permanently increases the personal income tax rate from 3.75 to 4.95 percent and the corporate income tax rate from 5.25 to 7 percent, effective July 1, 2017.

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and impacts transportation and local across Illinois. and pension liabilities funds payable backlog, stood at \$14.9

new budget addresses the state's backlog of unpaid bills and pension liabilities, governments in the CMAP region and Limited measures to address bill backlog The income tax increase included in the FY18 budget will not produce an instant infusion of cash for the state. In fact, the Comptroller's office has indicated that it will take time to receive new revenues and pay off the state's bills. As of July 14, 2017, Illinois's tab of unpaid bills, or the general billion. This figure includes payments owed to local governments and the Regional Transportation Authority (RTA), among other agencies that provide critical services in northeastern Illinois. Expenditure reductions also include \$1.5

billion in assumed general funds savings from changes to the state's retirement \$129.8 billion and a funded ratio of 37.6

FY18 contributions to the retirement systems will include \$6.4 billion from paying down unfunded liabilities. Restarting construction and flat transportation appropriations

systems. The Commission on Government Forecasting and Accountability reported that unfunded pension liabilities for the state's five retirement systems increased by \$33 billion from FY12 to FY16, reaching of Transportation (IDOT) shut down construction projects statewide. A

percent at the end of FY16. Among others, general funds and \$250 million from the Road Fund, most of which will go toward Because lawmakers did not pass a budget by June 30, 2017, the Illinois Department the potential impact of the shutdown,

previous CMAP Policy Update discussed which lasted for a week. The suspension of work in the middle of construction season affected 900 active projects across Illinois. The American Road and Transportation Builders Association estimated the shutdown will cost the state \$34 million. Now that an FY18 budget is in place, IDOT can resume. However, not all projects will restart immediately, as contractors may need to prepare work sites, mobilize

has informed contractors that construction crews, and rent equipment again. Stopping and restarting projects will likely extend the time needed to complete a project, prolonging congestion due to the ongoing construction. While most other state agencies saw

reductions to their budgets in Public Act 100-0021, the appropriations package maintains funding for IDOT consistent with FY17 levels. State and federal pass-through funds are included in the budget for metropolitan planning and

research purposes, supporting CMAP and the 15 other metropolitan planning organizations in Illinois. The budget further provides appropriations close to FY17 levels for Amtrak (\$52.0 million), RTA free and reduced fare reimbursement (\$17.6 million), and PACE Paratransit (\$8.4 million). However, the budget also includes a reduction in funding

for the region's transit system. Public Transportation Fund (PTF) distributions, which includes the state's statutorily required 30 percent match to the RTA sales tax and Chicago real estate transfer tax

(estimated at \$424.4 million), will fall by 10 percent for FY18 only.

Relatedly, funds accruing to the PTF will no longer pass through the General Revenue Fund (GRF), potentially resulting in more timely payments. In addition, the budget shifts some expenditures from GRF to the

Road Fund, including the first \$100 million accruing to the PTF and \$131 million in debt service assistance for the RTA's

Strategic Capital Improvement Program bonds. The FY18 budget continues

underinvestment in the system and does not address the state's long-term transportation investment needs. The region's federal and state transportation

revenues have grown slower than construction costs due to improved

vehicle fuel economy and changing driving patterns. The state needs to modernize traditional funding mechanisms, adopt

new revenue sources, and broadly use performance-driven criteria for transportation investments. The FY18 budget package does not incorporate any of

these critical reforms.

Mixed effects on state disbursements to local governments and local taxes Illinois disburses various state revenues to local governments based on criteria

outlined in state statute. Additionally, the state collects many locally imposed sales and excise taxes on behalf of local governments. Public Act 100-0023 includes several changes that will reduce the revenue available to the local

governments that rely on those sources. Municipalities and counties in Illinois receive a share of the state's income tax revenues through the Local Government

Distributive Fund (LGDF) based on their population relative to the state's total population. Municipalities and counties will continue to receive 10 percent of all

income tax generated under the rates in effect before January 2011; thus, the

additional revenues generated by the income tax increase will all accrue to the state. In addition, Public Act 100-

0023 implements a temporary change

to LGDF disbursements, reducing payments by 10 percent for revenues generated during FY18.

Under the Act, local income tax

disbursements will no longer pass

through the GRF, and will instead directly go to the LGDF. The change

is intended to result in municipalities

and counties receiving these funds

during the month they are collected, rather than two months later. To

the extent that the Illinois Office of the Comptroller has sufficient cash

at hand, August disbursements will include revenues generated from both

June and August 2017, and September disbursements will include revenues

generated from both July and September 2017. In subsequent months,

disbursements will return to normal.

Statewide, 6,545 local governments (such as counties, townships,

municipalities, school districts,

community colleges, and special

districts) receive personal property

replacement tax disbursements based

totaled \$1.5 billion in FY17. The FY18

budget appropriates \$103.5 million for

community college operating costs out

of these revenues, thereby reducing the

remainder available for disbursement

to local governments under the regular

Furthermore, starting in FY18, the

service fee for collecting the RTA

state will begin charging a 2 percent

sales tax, home rule and non-home

rule sales taxes on behalf of counties

and municipalities, Metropolitan Pier

and Exposition Authority sales tax,

several other local taxes, as well as

state sales tax disbursements to the

RTA. Previously, the state had charged

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set of taxes collected on behalf of local

governments, such as the county motor

fuel tax, municipal telecommunications

new fees, which the Illinois Department

tax, and automobile renting tax. The

of Revenue estimates at \$60 million

Tax Compliance and Administrative

governments and the RTA will receive

Most of these provisions affecting local

local government resources, particularly

at the municipal level. However, Public

Act 100-0023 includes a provision that

allows home rule municipalities to issue

bonds backed with state disbursements.

borrowing costs for municipalities able

This opportunity will likely lower

to take advantage of the provisions.

general obligation bonds.

Home rule municipalities could issue

these bonds in lieu of general obligation

bonds, or use the provision to refinance

Overall, many of these policy changes

to local governments, while failing to

of the system and facilitate positive

enact reforms to disbursement criteria

to enhance the efficiency and the equity

regional economic outcomes. Home rule

municipalities now have a new statutory

tool to lower financing costs, but many

small non-home rule municipalities

that already face significant resource

constraints will not be able to take

Although Illinois has ended its two-

budget plan for FY18 does not address

long-term transportation investment

reforms to modernize or improve equity

needs nor does it provide necessary

in the state tax system. GO TO 2040

recommends broadening tax bases,

including expanding the income tax

sales tax base to additional services.

In addition, to adequately support the

state's transportation infrastructure,

the state will need to enact new

and enhanced revenues, such as an

of the state motor fuel tax and an

Resource constraints at the state

level are having an effect on local

governments and the communities

funding to support transportation,

community development programs,

among other services that are vital to

supporting quality of life in the region.

To mitigate future impacts of declining

state resources, local governments

may need to consider such options

sources and collaborating with other

local governments to share services or

as employing innovative revenue

housing, environmental, and

they serve. State government provides

such as express toll lanes.

increase in and long-term replacement

implementation of additional user fees

base to retirement income and the

year budget impasse, the adopted

advantage of this development.

**Looking forward** 

make reductions to state disbursements

governments result in a reduction in

revenues, thus further constraining

per year, will be transferred to the

Fund. Due to the service fee, local

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July 21, 2017 FY18 budget □ | Updates □ | Updates & News | Policy Updates | FY18 budget impacts... impacts on state **Developing ON TO 2050** July 21, 20 finances, regional **About CMAP** transportation, and **Programs & Resources FY18 Committees** local governments impacts on state impa **Data & Analysis Updates & News** finances, regional finan **Contact Us** The Illinois General Assembly enacted transportation, and trans a series of budget bills on July 6, 2017, **Q** Search overriding the Governor's veto and local local governments ending the state's two-year budget impasse. Among changes to income tax The Illinois General Assembly enacted The Illino deductions and credits, Public Act 100a series of budget bills on July 6, 2017, a series o 0022 permanently increases the personal overridin overriding the Governor's veto and income tax rate from 3.75 to 4.95 percent ending the state's two-year budget ending th and the corporate income tax rate from Terms & Conditions Careers **T**o Top 7 To Top Sitemap Contact Us Sitemap Contact Us © UUZZ permanentiy increases the personal uuzz per (FY) 2018 appropriations in Public Act income tax rate from 3.75 to 4.95 percent income ta 100-0021 reduce general funds (General and the corporate income tax rate from and the co Revenue Fund, Common School Fund, and 5.25 to 7 percent, effective July 1, 2017. 5.25 to 7 Education Assistance Fund) spending, On the expenditure side, the Fiscal Year On the ex including a 5 percent across-the-board cut (FY) 2018 appropriations in Public Act (FY) 2018 to most state agencies. Public Act 100-100-0021 reduce general funds (General 100-002 0023, which enacts other policy changes Revenue Fund, Common School Fund, and Revenue I to implement the budget, provides for Education Assistance Fund) spending, Education special fund transfers and pension system including including a 5 percent across-the-board cut reforms that are assumed to reduce general to most state agencies. Public Act 100to most s funds expenditures. The passage of a FY18 0023, which enacts other policy changes 0023, wh budget has thus far staved off a further to implement the budget, provides for to implen downgrade of some of the state's bonds special fund transfers and pension system special fu to "junk" status. Such an action by credit reforms t reforms that are assumed to reduce general rating agencies would increase public funds expenditures. The passage of a FY18 funds exp borrowing costs and further constrain state budget has thus far staved off a further budget ha finances. But, the state — and many local downgrade of some of the state's bonds downgrad jurisdictions — still incur high interest to"junk" to "junk" status. Such an action by credit rates to issue bonds, increasing the cost of rating age rating agencies would increase public capital projects and services at all levels. borrowing costs and further constrain state borrowin This Policy Update will discuss how the finances. But, the state — and many local finances. new budget addresses the state's backlog jurisdictions — still incur high interest jurisdicti of unpaid bills and pension liabilities, rates to issue bonds, increasing the cost of rates to is and impacts transportation and local capital projects and services at all levels. capital pr governments in the CMAP region and This Policy Update will discuss how the This Police across Illinois. new budget addresses the state's backlog new budg Limited measures to address bill backlog of unpaid bills and pension liabilities, of unpaid and pension liabilities and impacts transportation and local and impa The income tax increase included in the governme governments in the CMAP region and FY18 budget will not produce an instant across Illi infusion of cash for the state. In fact, the Limited measures to address bill backlog Limited n Comptroller's office has indicated that it and pens will take time to receive new revenues and The income tax increase included in the The incor pay off the state's bills. As of July 14, 2017, FY18 budget will not produce an instant FY18 bud Illinois's tab of unpaid bills, or the general infusion of infusion of cash for the state. In fact, the funds payable backlog, stood at \$14.9 Comptroller's office has indicated that it Comptro billion. This figure includes payments will take time to receive new revenues and will take owed to local governments and the pay off the state's bills. As of July 14, 2017, pay off th Regional Transportation Authority (RTA), Illinois's tab of unpaid bills, or the general Illinois's among other agencies that provide critical funds pay funds payable backlog, stood at \$14.9 services in northeastern Illinois. billion. This figure includes payments billion. T Expenditure reductions also include \$1.5 owed to local governments and the owed to le billion in assumed general funds savings Regional Transportation Authority (RTA), Regional from changes to the state's retirement among other agencies that provide critical among ot systems. The Commission on Government services in northeastern Illinois. services i Forecasting and Accountability reported Expenditure reductions also include \$1.5 Expendit that unfunded pension liabilities for the billion in billion in assumed general funds savings state's five retirement systems increased from changes to the state's retirement from chai by \$33 billion from FY12 to FY16, reaching systems. The Commission on Government systems. \$129.8 billion and a funded ratio of 37.6 Forecastin Forecasting and Accountability reported percent at the end of FY16. Among others, that unfunded pension liabilities for the that unfu FY18 contributions to the retirement state's fiv state's five retirement systems increased systems will include \$6.4 billion from by \$33 billion from FY12 to FY16, reaching by \$33 bil general funds and \$250 million from the \$129.8 billion and a funded ratio of 37.6 \$129.8 bil Road Fund, most of which will go toward percent at the end of FY16. Among others, percent a paying down unfunded liabilities. FY18 conf FY18 contributions to the retirement Restarting construction and flat systems will include \$6.4 billion from systems v transportation appropriations general funds and \$250 million from the general fu Road Fund, most of which will go toward Road Fun Because lawmakers did not pass a budget paying down unfunded liabilities. by June 30, 2017, the Illinois Department paying do of Transportation (IDOT) shut down Restartin Restarting construction and flat construction projects statewide. A transportation appropriations transport previous CMAP Policy Update discussed Because lawmakers did not pass a budget Because l the potential impact of the shutdown, by June 30, 2017, the Illinois Department by June 3 which lasted for a week. The suspension of of Transp of Transportation (IDOT) shut down work in the middle of construction season construction projects statewide. A construct affected 900 active projects across Illinois. previous CMAP Policy Update discussed previous The American Road and Transportation the potential impact of the shutdown, the poten Builders Association estimated the which lasted for a week. The suspension of which las shutdown will cost the state \$34 million. work in the middle of construction season work in tl Now that an FY18 budget is in place, IDOT affected 900 active projects across Illinois. affected 9 has informed contractors that construction The American Road and Transportation The Ame can resume. However, not all projects Builders Association estimated the Builders A will restart immediately, as contractors shutdown will cost the state \$34 million. shutdown may need to prepare work sites, mobilize Now that Now that an FY18 budget is in place, IDOT crews, and rent equipment again. Stopping has inform has informed contractors that construction and restarting projects will likely extend can resume. However, not all projects can resun the time needed to complete a project, will restar will restart immediately, as contractors prolonging congestion due to the ongoing may need to prepare work sites, mobilize may need construction. crews, and rent equipment again. Stopping crews, an While most other state agencies saw and restar and restarting projects will likely extend reductions to their budgets in Public Act the time 100-0021, the appropriations package prolongin maintains funding for IDOT consistent construct with FY17 levels. 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July 21, 2017

FY18 budget

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across Illinois.

and pension liabilities

disbursements will no longer pass through the GRF, and will instead directly go to the LGDF. The change is intended to result in municipalities and counties receiving these funds during the month they are collected, rather than two months later. To the extent that the Illinois Office of the Comptroller has sufficient cash at hand, August disbursements will include revenues generated from both June and August 2017, and September disbursements will include revenues generated from both July and September 2017. In subsequent months, disbursements will return to normal. Statewide, 6,545 local governments (such as counties, townships, municipalities, school districts, community colleges, and special districts) receive personal property replacement tax disbursements based on statutory criteria. The disbursements totaled \$1.5 billion in FY17. The FY18 budget appropriates \$103.5 million for community college operating costs out of these revenues, thereby reducing the remainder available for disbursement to local governments under the regular criteria. Furthermore, starting in FY18, the state will begin charging a 2 percent service fee for collecting the RTA sales tax, home rule and non-home rule sales taxes on behalf of counties and municipalities, Metropolitan Pier and Exposition Authority sales tax, several other local taxes, as well as state sales tax disbursements to the RTA. Previously, the state had charged

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base to retirement income and the sales tax base to additional services. In addition, to adequately support the state's transportation infrastructure, the state will need to enact new and enhanced revenues, such as an increase in and long-term replacement of the state motor fuel tax and an implementation of additional user fees such as express toll lanes. Resource constraints at the state level are having an effect on local governments and the communities they serve. State government provides funding to support transportation,

including expanding the income tax

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**Looking forward** 

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fuel tax, municipal telecommunications tax, and automobile renting tax. The new fees, which the Illinois Department of Revenue estimates at \$60 million per year, will be transferred to the Tax Compliance and Administrative Fund. Due to the service fee, local governments and the RTA will receive less of the sales tax revenues they

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July 21, 2017

# FY18 budget impacts on state finances, regional transportation, and local governments

The Illinois General Assembly enacted a series of budget bills on July 6, 2017, overriding the Governor's veto and ending the state's two-year budget impasse. Among changes to income tax deductions and credits, Public Act 100-0022 permanently increases the personal income tax rate from 3.75 to 4.95 percent and the corporate income tax rate from 5.25 to 7 percent, effective July 1, 2017. On the expenditure side, the Fiscal Year (FY) 2018 appropriations in Public Act 100-0021 reduce general funds (General Revenue Fund, Common School Fund, and Education Assistance Fund) spending, including a 5 percent across-the-board cut to most state agencies. Public Act 100-0023, which enacts other policy changes to implement the budget, provides for special fund transfers and pension system reforms that are assumed to reduce general funds expenditures. The passage of a FY18 budget has thus far staved off a further downgrade of some of the state's bonds to "junk" status. Such an action by credit rating agencies would increase public borrowing costs and further constrain state finances. But, the state — and many local jurisdictions — still incur high interest rates to issue bonds, increasing the cost of capital projects and services at all levels.

This Policy Update will discuss how the new budget addresses the state's backlog of unpaid bills and pension liabilities, and impacts transportation and local governments in the CMAP region and across Illinois.

#### Limited measures to address bill backlog and pension liabilities

The income tax increase included in the FY18 budget will not produce an instant infusion of cash for the state. In fact, the Comptroller's office has indicated that it will <u>take time</u> to receive new revenues and pay off the state's bills. As of July 14, 2017, Illinois's tab of unpaid bills, or the <u>general funds payable backlog</u>, stood at \$14.9 billion. This figure includes payments owed to local governments and the Regional Transportation Authority (RTA), among other agencies that provide critical services in northeastern Illinois.

Expenditure reductions also include \$1.5 billion in assumed general funds <u>savings</u> from changes to the state's retirement systems. The Commission on Government Forecasting and Accountability <u>reported</u> that unfunded pension liabilities for the state's five retirement systems increased by \$33 billion from FY12 to FY16, reaching \$129.8 billion and a funded ratio of 37.6 percent at the end of FY16. Among others, FY18 contributions to the retirement systems will include \$6.4 billion from general funds and \$250 million from the Road Fund, most of which will go toward paying down unfunded liabilities.

#### Restarting construction and flat transportation appropriations

Because lawmakers did not pass a budget by June 30, 2017, the Illinois Department of Transportation (IDOT) shut down construction projects statewide. A previous CMAP Policy Update discussed the potential impact of the shutdown, which lasted for a week. The suspension of work in the middle of construction season affected 900 active projects across Illinois. The American Road and Transportation Builders Association estimated the shutdown will cost the state \$34 million. Now that an FY18 budget is in place, IDOT has informed contractors that construction can resume. However, not all projects will restart immediately, as contractors may need to prepare work sites, mobilize crews, and rent equipment again. Stopping and restarting projects will likely extend the time needed to complete a project, prolonging congestion due to the ongoing construction.

While most other state agencies saw reductions to their budgets in Public Act 100-0021, the appropriations package maintains funding for IDOT consistent with FY17 levels. State and federal pass-through funds are included in the budget for metropolitan planning and research purposes, supporting CMAP and the 15 other metropolitan planning organizations in Illinois. The budget further provides appropriations close to FY17 levels for Amtrak (\$52.0 million), RTA free and reduced fare reimbursement (\$17.6 million), and PACE Paratransit (\$8.4 million). However, the budget also includes a reduction in funding for the region's transit system. Public Transportation Fund (PTF) distributions, which includes the state's statutorily required 30 percent match to the RTA sales tax and Chicago real estate transfer tax (estimated at \$424.4 million), will fall by 10 percent for FY18 only.

Relatedly, funds accruing to the PTF will no longer pass through the General Revenue Fund (GRF), potentially resulting in more timely payments. In addition, the budget shifts some expenditures from GRF to the Road Fund, including the first \$100 million accruing to the PTF and \$131 million in debt service assistance for the RTA's Strategic Capital Improvement Program bonds.

The FY18 budget continues underinvestment in the system and does not address the state's long-term transportation investment needs. The region's federal and state transportation revenues have grown slower than construction costs due to improved vehicle fuel economy and changing driving patterns. The state needs to modernize traditional funding mechanisms, adopt new revenue sources, and broadly use performance-driven criteria for transportation investments. The FY18 budget package does not incorporate any of these critical reforms.

#### Mixed effects on state disbursements to local governments and local taxes

Illinois disburses various state revenues to local governments based on criteria outlined in state statute. Additionally, the state collects many locally imposed sales and excise taxes on behalf of local governments. Public Act 100-0023 includes several changes that will reduce the revenue available to the local governments that rely on those sources.

Municipalities and counties in Illinois receive a share of the state's income tax revenues through the Local Government Distributive Fund (LGDF) based on their population relative to the state's total population. Municipalities and counties will continue to receive 10 percent of all income tax generated under the rates in effect before January 2011; thus, the additional revenues generated by the income tax increase will all accrue to the state. In addition, Public Act 100–0023 implements a temporary change to LGDF disbursements, reducing payments by 10 percent for revenues generated during FY18.

Under the Act, local income tax disbursements will no longer pass through the GRF, and will instead directly go to the LGDF. The change is intended to result in municipalities and counties receiving these funds during the month they are collected, rather than two months later. To the extent that the Illinois Office of the Comptroller has sufficient cash at hand, August disbursements will include revenues generated from both June and August 2017, and September disbursements will include revenues generated from both July and September 2017. In subsequent months, disbursements will return to normal.

Statewide, 6,545 local governments (such as counties, townships, municipalities, school districts, community colleges, and special districts) receive personal property replacement tax disbursements based on statutory criteria. The disbursements totaled \$1.5 billion in FY17. The FY18 budget appropriates \$103.5 million for community college operating costs out of these revenues, thereby reducing the remainder available for disbursement to local governments under the regular criteria.

Furthermore, starting in FY18, the state will begin charging a 2 percent service fee for collecting the RTA sales tax, home rule and non-home rule sales taxes on behalf of counties and municipalities, Metropolitan Pier and Exposition Authority sales tax, several other local taxes, as well as state sales tax disbursements to the RTA. Previously, the state had charged various administrative fees on a smaller set of taxes collected on behalf of local governments, such as the county motor fuel tax, municipal telecommunications tax, and automobile renting tax. The new fees, which the Illinois Department of Revenue estimates at \$60 million per year, will be transferred to the Tax Compliance and Administrative Fund. Due to the service fee, local governments and the RTA will receive less of the sales tax revenues they generate.

Most of these provisions affecting local governments result in a reduction in revenues, thus further constraining local government resources, particularly at the municipal level. However, Public Act 100-0023 includes a provision that allows home rule municipalities to issue bonds backed with state disbursements. This opportunity will likely lower borrowing costs for municipalities able to take advantage of the provisions. Home rule municipalities could issue these bonds in lieu of general obligation bonds, or use the provision to refinance general obligation bonds.

Overall, many of these policy changes make reductions to state disbursements to local governments, while failing to enact reforms to disbursement criteria to enhance the efficiency and the equity of the system and facilitate positive regional economic outcomes. Home rule municipalities now have a new statutory tool to lower financing costs, but many small non-home rule municipalities that already face significant resource constraints will not be able to take advantage of this development.

# Looking forward

Although Illinois has ended its two-year budget impasse, the adopted budget plan for FY18 does not address long-term transportation investment needs nor does it provide necessary reforms to modernize or improve equity in the state tax system. GO TO 2040 recommends broadening tax bases, including expanding the income tax base to retirement income and the sales tax base to additional services. In addition, to adequately support the state's transportation infrastructure, the state will need to enact new and enhanced revenues, such as an increase in and long-term replacement of the state motor fuel tax and an implementation of additional user fees such as express toll lanes.

Resource constraints at the state level are having an effect on local governments and the communities they serve. State government provides funding to support transportation, housing, environmental, and community development programs, among other services that are vital to supporting quality of life in the region. To mitigate future impacts of declining state resources, local governments may need to consider such options as employing innovative revenue sources and collaborating with other local governments to share services or consolidate.

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FY18 budget impacts on state finances, regional transportation, and local governments

The Illinois General Assembly enacted a series of budget bills on July 6, 2017, overriding the Governor's veto and 1 Share 100-0022 permanently increases the 4.95 percent and the corporate income tax rate from 5.25 to 7 percent, effective

ending the state's two-year budget personal income tax rate from 3.75 to July 1, 2017. On the expenditure side, Fund) spending, including a 5 percent across-the-board cut to most state agencies. Public Act 100-0023. which enacts other policy changes to implement the budget, provides for special fund transfers and pension

system reforms that are assumed to

passage of a FY18 budget has thus far

the Fiscal Year (FY) 2018 appropriations in Public Act 100-0021 reduce general funds (General Revenue Fund, Common

of the state's bonds to "junk" status. would increase public borrowing costs

and further constrain state finances.

School Fund, and Education Assistance

reduce general funds expenditures. The staved off a further downgrade of some Such an action by credit rating agencies

But, the state — and many local

jurisdictions — still incur high interest of capital projects and services at all levels.

This Policy Update will discuss how the new budget addresses the state's backlog of unpaid bills and pension liabilities, and impacts transportation

rates to issue bonds, increasing the cost

and local governments in the CMAP

region and across Illinois.

Limited measures to address bill

backlog and pension liabilities

The income tax increase included in the FY18 budget will not produce an

instant infusion of cash for the state. In fact, the Comptroller's office has

indicated that it will take time to

receive new revenues and pay off the

state's bills. As of July 14, 2017, Illinois's tab of unpaid bills, or the general funds payable backlog, stood at \$14.9 billion. This figure includes payments owed to local governments and the Regional

other agencies that provide critical

services in northeastern Illinois.

Transportation Authority (RTA), among Expenditure reductions also include \$1.5 billion in assumed general funds

savings from changes to the state's retirement systems. The Commission on Government Forecasting and

Accountability reported that unfunded

pension liabilities for the state's five retirement systems increased by \$33

billion from FY12 to FY16, reaching

\$129.8 billion and a funded ratio of 37.6

percent at the end of FY16. Among others, FY18 contributions to the

retirement systems will include \$6.4

billion from general funds and \$250

million from the Road Fund, most of

which will go toward paying down unfunded liabilities.

Restarting construction and flat transportation appropriations

Because lawmakers did not pass a budget by June 30, 2017, the Illinois

Department of Transportation (IDOT) shut down construction projects

statewide. A previous CMAP Policy Update discussed the potential impact

of the shutdown, which lasted for a

week. The suspension of work in the middle of construction season affected

900 active projects across Illinois. The

American Road and Transportation Builders Association estimated the

shutdown will cost the state \$34

million. Now that an FY18 budget is in

place, IDOT has informed contractors

that construction can resume. However,

not all projects will restart immediately,

as contractors may need to prepare

work sites, mobilize crews, and rent

restarting projects will likely extend

the time needed to complete a project,

While most other state agencies saw

reductions to their budgets in Public

package maintains funding for IDOT

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federal pass-through funds are included

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(estimated at \$424.4 million), will fall

Relatedly, funds accruing to the PTF

Revenue Fund (GRF), potentially

resulting in more timely payments.

In addition, the budget shifts some

expenditures from GRF to the Road

Fund, including the first \$100 million

debt service assistance for the RTA's

underinvestment in the system and

needs. The region's federal and state

transportation revenues have grown

improved vehicle fuel economy and

changing driving patterns. The state

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reduce the revenue available to the

Municipalities and counties in

local governments that rely on those

Illinois receive a share of the state's

income tax revenues through the

Local Government Distributive

population relative to the state's

total population. Municipalities and

counties will continue to receive 10

percent of all income tax generated

under the rates in effect before

January 2011; thus, the additional

increase will all accrue to the state.

In addition, Public Act 100-0023

implements a temporary change

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Pier and Exposition Authority sales

tax, several other local taxes, as well

as state sales tax disbursements to

the RTA. Previously, the state had

on a smaller set of taxes collected

such as the county motor fuel tax,

municipal telecommunications tax,

fees, which the Illinois Department

of Revenue estimates at \$60 million

Tax Compliance and Administrative

receive less of the sales tax revenues

Most of these provisions affecting

reduction in revenues, thus further

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constraining local government

municipal level. However, Public

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**Looking forward** 

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does not address the state's long-

term transportation investment

The FY18 budget continues

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Strategic Capital Improvement Program

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Fund (PTF) distributions, which

Act 100-0021, the appropriations

equipment again. Stopping and

prolonging congestion due to the

ongoing construction.