

# **Changes to the Local Government Fund, as enacted by FY12-13 state operating budget**

July 15, 2011

## **Forward**

The enacted fiscal year 2012-2013 biennial budget (Am. Sub. H.B. 153, 129<sup>th</sup> General Assembly) makes important changes to the funding of the state's general-purpose revenue sharing funds, the Local Government Fund (LGF) and the Public Library Fund (PLF). The changes to the LGF are reflected in the accompanying Excel spreadsheets and are discussed below.

## **Overview of prior law and new law**

### *Prior law*

Under the law in effect prior to the FY 12-13 budget, each month the LGF received an amount equal to 3.68 percent of tax revenue received by the state General Revenue Fund during preceding month. The amount of money deposited in the LGF in a particular month is distributed during that month by the Department of Taxation to the 88 county undivided local government funds, except for a portion of the LGF distributed by the Department to over 500 municipalities that qualify for a direct distribution from the LGF. Formulas in state law determine how the LGF is allocated among the county undivided LGFs and among the over 500 municipalities that receive a direct distribution. The portion of the LGF distributed to the county undivided LGFs is subsequently distributed by county officials among the subdivisions (cities, villages, townships, the county government, and park districts) located in the county, using a prescribed statutory formula or an "alternative" method adopted by that county in the manner provided by state law.<sup>1</sup>

### *New law*

For the August 2011 through June 2013 period, the budget temporarily replaces the LGF's "percentage of revenue" funding method. Instead of receiving allocations tied to the amount of GRF tax revenue received each month, the LGF receives a designated percentage of the specific dollar amounts received by the fund during the fiscal year 2011 (July 2010 through June 2011) "base year" period. In fiscal year 2012, the county undivided local government funds shall also receive a specific dollar amount that partially mitigates that year's net funding reduction; furthermore, in fiscal years 2012 and 2013 smaller counties shall benefit from a minimum distribution provision. (See below for a more detailed explanation of these various changes.)

Beginning in July 2013 the "percentage of revenue" funding approach goes back into effect. In July 2013, a one-time calculation of new funding percentages is to be performed. The new funding percentage shall replace the 3.68 percent rate that was in statute. The new funding percentage will be obtained by dividing fiscal year 2013 LGF deposits by total GRF tax revenues received during fiscal year 2013.

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<sup>1</sup> A proposed change in the method by which county undivided LGF monies are to be distributed among subdivisions was not included in the final version of the budget and thus not enacted into law.

## **Detail on Local Government Fund changes**

### *Amounts distributed from LGF*

Prior to the recently enacted budget, the LGF received 3.68 percent of state GRF tax revenues. For the August 2011 through June 2012 period, the enacted budget provides base funding of the LGF at an amount equal to 75 percent of the amount received during August 2010 through June 2011.<sup>2</sup> For the July 2012-June 2013 period, the base funding level for the LGF is 50 percent of the amount received during July 2010-June 2011.

There are two notable augmentations to the base-level funding described above. During fiscal years 2012 and 2013 each county undivided local government fund will receive no less than the smaller of \$750,000 or the amount received during fiscal year 2011. This minimum distribution provision will result in approximately \$1.3 million of additional LGF distributions during FY 2012, and \$5.1 million during FY 2013. In addition, for the August 2011 through June 2012 period all 88 county undivided local government funds will receive a proportionate share of \$49.27 million.

### *Allocation among recipients*

During the August 2011-June 2013 period each county undivided local government fund will receive the same percentage share of the fund as it received during FY 2011. However, if the computed distribution results in a county undivided LGF receiving in FY 2012 or 2013 an amount smaller than \$750,000 or what it received in FY 2011 (whatever amount is less), then such county undivided LGF will received an enhanced distribution. The enhancement is equal to the amount necessary to result in that year's minimum distribution amount.<sup>3</sup>

### *Resumption of "percentage of revenue" funding beginning in FY 2014*

"Percentage of revenue"-based funding is to resume in July 2013. The funding percentage is based on a one-time calculation: LGF deposits in FY 2013 will be divided by FY 2013 state GRF tax revenues to yield the new LGF funding percentage to be used beginning in FY 2014.

### *Dealers in Intangibles Tax*

Beginning in 2012, the 5/8ths of dealers in intangibles tax revenue currently allocated to county undivided local government funds, will instead be directed to the state General Revenue Fund.<sup>4</sup> The change means all dealers in intangibles tax will go to the GRF, and reduces distributions to county undivided local government funds by an estimated \$11 million per year.

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<sup>2</sup>The July 2011 LGF deposits equal 3.68 percent of state GRF tax revenues. This is the only month of the FY12-13 biennium in which funding is based on the percentage-of-revenue approach.

<sup>3</sup> For a county whose FY11 distribution was less than \$750,000, its LGF distribution during August 2011-June 2013 will be the same as the amount received during such month of FY11; such a county will receive an enhanced distribution to ensure this result. For a county whose FY11 distribution was larger than \$750,000 but whose total FY12 scheduled "base" distributions will be less than \$750,000, during FY12 it will receive a monthly enhanced distribution equal to 1/11<sup>th</sup> of the difference between \$750,000 and its total regular FY12 LGF distribution. For a county whose FY11 distribution was larger than \$750,000 but whose total FY13 scheduled "base" distributions will be less than \$750,000, during FY13 it will receive a monthly enhanced distribution equal to 1/12<sup>th</sup> of the difference between \$750,000 and its total regular FY13 LGF distribution. Note that the computations discussed above are conducted without consideration of the funding supplement totaling \$49.27 million in fiscal year 2012. This means that each county subject to the minimum distribution requirement and thus receiving an "enhanced" distribution, will receive a share of the \$49.27 million funding supplemental in addition to its minimum ("base" plus "enhanced") distribution.

<sup>4</sup> Prior to the budgetary change, 5/8ths of revenue from dealers in intangibles went to the undivided local government funds of those counties in which the dealer did business. However, all revenue from "qualifying" dealers in intangibles was directed to the GRF even before the budgetary law change was enacted.

*Projected distributions, by calendar year*

Presented below is a schedule of LGF distributions during CY 2011-2013. And at the bottom of this document is a table showing the total monthly LGF distributions, for the January 2009 through June 2013 time frame. The figures below reflect *total* distributions from the LGF; that is, they reflect the combination of distributions made to the 88 county undivided local government funds and distributions made to municipalities that qualify for a direct distribution from the state LGF.

Aggregate LGF distributions in CY 2011 will be nearly equal to the amount received in CY 2010.<sup>5</sup> Several factors, when combined together, are sufficiently significant to overcome the effects of the 25-percent reduction in base LGF distributions that begin in August 2011, and thus result in nearly equivalent aggregate distributions during CY 2010 and 2011. These factors are: year-over-year revenue growth that caused an increase in distributions during the first seven months of CY 2011; supplemental distributions that amount to \$20.5 million during the last five months of 2011; and \$0.6 million in enhanced (“minimum”) distributions during the last five months of the year.

In CY 2012, total LGF distributions shall be 71.7 percent of the CY 2011 distributions. CY 2012 distributions are driven by quite different funding conditions occurring during the first and second halves of that year: the January through June 2012 period reflects a 25-percent year-over-year reduction partially offset by \$28.7 million in distribution supplements; and the July through December 2012 period reflects a 50-percent reduction relative to July through December 2010. Finally, the enhanced distributions required to meet the minimum county distribution requirement contribute to overall funding levels: such distributions total \$3.3 million during CY 2012.

The total January-June 2013 distributions will equal 50.7 percent of January-June 2011 distributions, and represent 61.4 percent of January-June 2012 distributions.<sup>6</sup> We have not developed estimates beyond June 2013 so full (12-month) distribution projections for 2013 are not available. Even so, because there is a restoration of “percentage of revenue” funding in July 2013, distributions during the last half of CY 2013 will increase to the extent GRF tax revenues grow.

Because of the FY12 \$49.27 million funding supplement and because of the minimum distribution provision, there will be some variability among recipients in the rate by which their distributions will change. See footnote five for a more complete explanation of this variability and refer the accompanying spreadsheets to find specific results for each recipient.

See the following page for a schedule of distributions and total distribution amounts, by month.

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<sup>5</sup> The rates by which distributions will change from year to year will vary according to recipient. This is due to the funding supplement (\$49.27 million in FY12) and the minimum distribution provision. The portion of the LGF distributed directly from the state LGF to qualifying municipalities will not be augmented by the funding supplement and the direct distributions are not subject to a minimum distribution provision. This results in a different pattern of year-to-year change than the county undivided local government funds. Furthermore, those county undivided LGFs subject to the minimum distribution provision will experience varying degrees of year-to-year changes; all of these counties will receive less of a distribution decline than counties not subject to the minimum distribution provision. That said, the large majority of county undivided LGFs *not* subject to the minimum distribution requirement will experience the following funding levels: CY11 will be at 99.9% of CY10; CY12 will be 71.4% of CY11; and Jan-June 2013 will be 60.3% of Jan-June 2012.

<sup>6</sup> January-June 2013 would be exactly 50 percent January-June 2011 distributions if it were not for \$2.6 million in enhanced (“minimum”) county undivided LGF distributions to be made in the first six months of 2013.

### Schedule of monthly LGF distributions, CY 2011-2013

Note: The table does not reflect the enhanced (“minimum”) distributions to be provided to qualifying county undivided local government funds.

Month	Basis for CY 2011 distributions	Basis for CY 2012 distributions	Basis for CY 2013 distributions
January	3.68% of Dec 2010 revenue	75% of Jan 2011 distribution*	50% of Jan 2011 distribution
February	3.68% of Jan 2011 revenue	75% of Feb 2011 distribution*	50% of Feb 2011 distribution
March	3.68% of Feb 2011 revenue	75% of March 2011 distribution*	50% of March 2011 distribution
April	3.68% of March 2011 revenue	75% of April 2011 distribution*	50% of April 2011 distribution
May	3.68% of April 2011 revenue	75% of May 2011 distribution*	50% of May 2011 distribution
June	3.68% of May 2011 revenue	75% of June 2011 distribution*	50% of June 2011 distribution
July	3.68% of June 2011 revenue	50% of July 2010 distribution	Unknown % of June 2013 revenue (“Percentage of revenue”-based funding resumes this month. The specific percentage will be computed this month and used thereafter.)
August	75% of Aug 2010 distribution*	50% of Aug 2010 distribution	Unknown % of July 2013 revenue
September	75% of Sept 2010 distribution*	50% of Sept 2010 distribution	Unknown % of Aug 2013 revenue
October	75% of Oct 2010 distribution*	50% of Oct 2010 distribution	Unknown % of Sep 2013 revenue
November	75% of Nov 2010 distribution*	50% of Nov 2010 distribution	Unknown % of Oct 2013 revenue
December	75% of Dec 2010 distribution*	50% of Dec 2010 distribution	Unknown % of Nov 2013 revenue

\*In addition, during fiscal year 2012 each county undivided LGF will receive a proportionate share of an extra \$49.27 million to be distributed from the state LGF. On a monthly basis, this amounts to a total supplemental distribution of just under \$4.5 million from August 2011 through June 2012.

### Local Government Fund distributions, January 2009-June 2013

(amounts in millions)

Includes distributions to county undivided LGFs and directly to qualifying municipalities.

Excludes dealers in intangibles tax distributions.

Budget bill law changes take effect in **August 2011**.

	CY 2009 LGF distributions	CY 2010 LGF distributions	CY 2011 LGF distributions	CY 2012 LGF distributions	Jan-June 2013 LGF distributions
January	\$58.9	\$55.9	\$58.8	\$48.7	\$29.8
February	70.2	60.9	68.7	56.1	34.8
March	39.5	37.9	40.1	34.6	20.4
April	45.6	46.2	52.6	44.1	26.7
May	72.2	74.5	85.7	68.9	43.3
June	55.1	54.0	60.1	49.7	30.5
July	56.0	59.9	63.7	30.4	not estimated
August	45.2	47.6	40.3	24.2	not estimated
September	46.5	49.5	41.7	25.1	not estimated
October	54.8	58.9	48.8	29.9	not estimated
November	51.9	54.5	45.5	27.7	not estimated
December	<u>45.4</u>	<u>50.3</u>	<u>42.3</u>	<u>25.5</u>	not estimated
TOTAL	\$641.4	\$650.0	\$648.2	\$465.0	not estimated