

SIGNIFICANT NON-CAPITAL LEGISLATION APPROVED IN SPRING 2019

The spring legislative session closed with the successful passage of an operating budget and other notable pieces of legislation, in addition to a suite of measures to boost capital infrastructure investments. This analysis provides a synopsis of these measures and a brief discussion of ongoing policy priorities for the implementation of ON TO 2050. Two companion policy analyses examine [transportation](#) and [other infrastructure](#) in Rebuild Illinois, and implications for ON TO 2050 implementation.

Operating budget passed

In the final days of session, the General Assembly passed a \$79.71 billion operating budget, \$38.46 billion of which are General Funds,¹ [Public Act 101-0007](#), and a budget implementation bill (BIMP), [Public Act 10-0010](#), that are largely in line with the administration's revenue projections. However, projections rely on a number of new and still-unproven revenues which are explored in this memo. The approved package closely matches Governor Pritzker's original [budget proposal](#), which does not deviate significantly from FY2019 spending.

The operations appropriations maintain funding for the Illinois Department of Transportation (IDOT), Illinois Department of Natural Resources (IDNR), Illinois Environmental Protection Agency (IEPA), and Department of Commerce and Economic Opportunity (DCEO) consistent with FY2019 levels. State and federal pass-through funds included in the budget for metropolitan planning and research purposes are also maintained, supporting CMAP and the 15 other metropolitan planning organizations in Illinois. The budget further provides appropriations close to FY2019 levels for Amtrak (\$50 million), RTA free and reduced fare reimbursement (\$17.6 million), and Pace Paratransit (\$8.4 million). Pace Paratransit funds will all come from the Road Fund; previously, about half came from the General Revenue Fund (GRF). The Public Transportation Fund (PTF), which includes the State's statutorily required 30 percent match to the Regional Transportation Authority (RTA) sales tax and Chicago real estate transfer tax, remains at FY2019 levels, which continue a 5 percent reduction. In addition, [Public Act 10-0010](#) continues the 5 percent reduction to the Local Government Distributive Fund (LGDF) from FY2019. The budget also includes \$29 million to the Department of Human Services (DHS) to issue grants in support of the 2020 Census, focusing on historically [undercounted populations](#).

In May, Governor Pritzker announced the State had collected an additional \$1.4 billion from individual and corporate tax revenues. This influx of funds was used to address the shortfalls of the FY2019 budget.

However, a General Funds bill backlog of approximately \$6.5 billion remains and accrues interest at a rate of 9 to 12 percent per year. Other funds have backlogs as well. In FY19, the State paid [\\$140 million](#) in interest. Public Act 101-0030 authorizes the State to issue \$1.2 billion in bonds to help pay down this backlog, speeding the pay down process at a comparatively better interest rate, yet establishing a different long term liability. The issue of prompt payment remains a serious challenge throughout the state, including for regional partners such as the RTA.

General Funds changes include sales tax shift

As part of Rebuild Illinois, the portion of state sales tax revenue attributable to motor fuel purchases will be incrementally shifted from the GRF and the Common School Fund to the Road Fund, a change that will be phased in between fiscal years 2022 and 2026. The state may have pursued this change to head off concerns about sales tax on motor fuel violating the recent Safe Roads Amendment to the state constitution. This will provide additional resources for the State's transportation needs and related debt service, but will reduce funding available for other State programs and services. The impact is dependent on the price of gas, and based on historic prices and expected drops in fuel consumption, the shift could range from \$400 to \$800 million annually. The portion of state sales tax on motor fuel that is disbursed to local governments would not be affected, nor would revenues accruing to the Build Illinois Bond Fund.

[Public Act 101-0032](#) repeals the Commercial Distribution Fee (CDF), a 14.35 percent surcharge on heavy truck registrations, which had previously been directed to the GRF. The CDF generated \$55 million in fiscal year 2019. In addition, [Public Act 101-0010](#), the operating budget implementation bill, made changes to the funds that flow into the PTF. An additional \$50 million annually will be directed to the PTF from the Road Fund rather than the GRF, which will largely offset the decreased GRF revenue resulting from the CDF repeal.

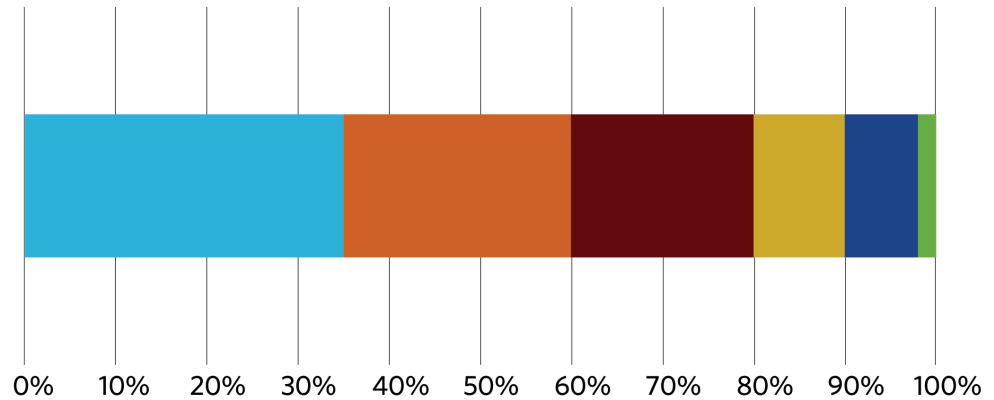
Recreational cannabis legalization will expand revenues and require regulation

The Cannabis Regulation and Tax Act, [Public Act 101-0027](#), allows cannabis possession, consumption, and use for persons aged 21 and over beginning January 1, 2020. The law provides for many state regulations for possession, use, cultivation, and dispensing; but this section will focus on various provisions contained in the law pertaining to state and local taxation, and local regulations. In addition to licensing fees and fines for businesses cultivating or dispensing cannabis, growers are subject to a 7 percent gross receipts tax. Consumers will be subject to state excise taxes, at rates of 10 percent for products with lower THC levels, 25 percent for products with higher THC levels, and 20 percent for infused products. Revenues generated from these state fees and taxes to go the Cannabis Regulation Fund (CRF). After funding is utilized by the State to implement, administer, and enforce the Cannabis Regulation and Tax Act and expunge of previous cannabis offenses, disbursements are made as depicted in the chart below. It is unclear how much revenue will actually accrue to the CRF and will be available for these purposes.

Distribution of revenues from the Cannabis Regulation Fund after other statutory requirements are fulfilled

- General Revenue Fund
- Investment in high-need and underserved communities
- Substance abuse treatment and prevention
- Local Government Distributive Fund
- Budget Stabilization Fund
- Public education on drug use

Source: Chicago Metropolitan Agency for Planning analysis of the Cannabis Regulation and Tax Act.



The new law provides counties and municipalities with some taxation and regulatory authority. Counties may impose sales taxes on cannabis by ordinance, with maximum rates of 3.75 percent for unincorporated areas and 3 percent for incorporated areas. Municipalities may impose sales taxes by ordinance up to 3 percent. If counties and municipalities impose these taxes, the resulting maximum aggregate local tax rate is 6 percent in incorporated areas and 3.75 percent in unincorporated areas.

As of January 1, 2020, only currently operating medical dispensaries will be allowed to sell cannabis recreationally under “early approval” licenses. On an ongoing basis through 2022, the State will issue up to 500 licenses for new recreational dispensaries. While licensing for dispensaries, cultivation centers, transporters, and processors is the purview of the State, local governments may impose additional business registration requirements for recreational cannabis businesses. Such local licensing may be used, in addition to zoning ordinances, to restrict the number of cannabis businesses in operation.

Any unit of local government may, through zoning ordinance, restrict the sale of recreational cannabis by restricting the zoning types that allow for retail sales. Within the region, Naperville and Oak Brook have indicated they do not plan on updating village zoning code to allow for recreational cannabis sales. Other regional municipalities, such as Joliet, La Grange, Lombard, Oak Park, and Tinley Park are bringing the topic to their governing boards over the summer of 2019 to discuss next steps for zoning changes. For municipalities seeking to update zoning to allow for retail sales, the law allows for the regulation of operating hours, location, and the number of businesses that may be allowed. Additionally, typical zoning specifications can be applied, such as parking requirements, signage, minimum distances between cannabis businesses and sensitive locations through conditional use permits, and the regulation of on-premises consumption within a zoning type.

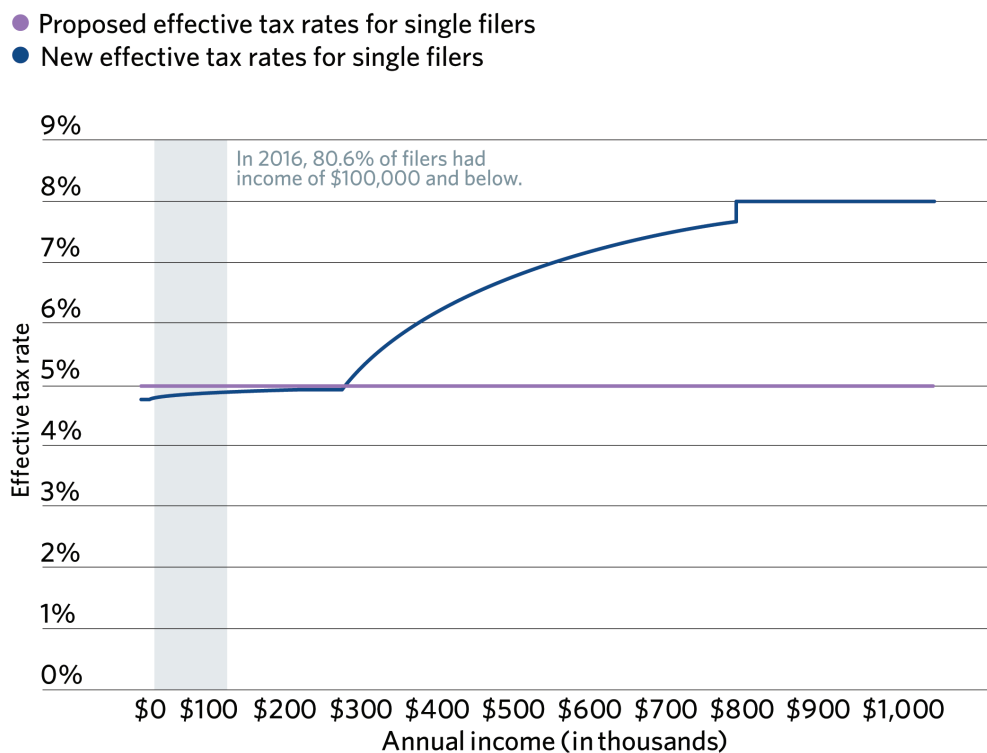
Income tax reform proposed via constitutional amendment

This spring, General Assembly passed a [Senate Joint Resolution Constitutional Amendment](#) to strike out the state constitutional requirement that income taxes be imposed at a non-graduated rate. The constitutional amendment question will appear on the November 2020 general election ballot where 60 percent of those voting would have to approve the measure for it to be enacted. Should voters approve the change, the Illinois Income Tax Act, [Public Act 101-0008](#), would go into effect creating a graduated individual income tax structure. The following chart shows effective tax rates resulting from the rate schedule in the legislation for single filers, and reflects the proposed shift from graduated rates to a flat rate at the highest income levels.

Effective income tax rates as of January 2021 if voter referendum passes, as compared with current tax rate

Note: Current rate is 4.95% for all filers. If the new tax rates are approved, for single filers, income between \$10,000-\$100,000 would be taxed at 4.9%; income between \$100,000-\$250,000 at 4.95%; income between \$250,000-\$750,000 at rates ranging from 7.75%-7.85%; and income above \$750,000 at a flat 7.99%. Rates differ for joint filers with incomes over \$350,000.

Source: Chicago Metropolitan Agency for Planning analysis of Public Act 101-0008 and Illinois Department of Revenue data, 2016.



Endnotes

¹ Office of Management and Budget, Executive Office of the Governor, “Table I-A Operating and Capital,” <https://www2.illinois.gov/sites/budget/Pages/default.aspx>, accessed August 27, 2019.

312-454-0400
info@cmap.illinois.gov
www.cmap.illinois.gov

Visit the online version at
<https://cmap.is/spring-2019-non-capital-bill>