CMAP

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BEYOND TRANSPORTATION: OTHER CAPITAL BILL MEASURES COULD SUPPORT ON TO 2050 COMMUNITY AND ENVIRONMENT RECOMMENDATIONS

The capital package provides funding for natural resources, affordable housing, and projects throughout the region for a wide variety of purposes that extend beyond investments in transportation.

Capital revenues and proposed expenditures approved by the Illinois General Assembly and signed by Governor Pritzker were established in four separate pieces of legislation in the summer of 2019: Public Acts 101-0029 (capital appropriations), 101-0030 (bonding authorization), 101-0031 (revenues for other infrastructure projects), and 101-0032 (transportation revenues). These are collectively known as the Rebuild Illinois program.

In addition to funds that will come from project-specific appropriations, communities throughout northeastern Illinois will have to contemplate changes introduced by measures such as an historic expansion of gaming and reforms to sales tax collection. This analysis provides a synopsis of this legislation and a brief discussion of ongoing policy priorities for the implementation of ON TO 2050, excluding transportation infrastructure investments. A companion policy analysis examines transportation infrastructure in the capital package, and implications for ON TO 2050 implementation.

Rebuild Illinois resources may aid implementation of ON TO 2050 natural resources and housing priorities

Public Act 101-0029 invests in a wide range of projects and programs in areas that support the three plan principles in ON TO 2050. These appropriations will be supported by bond issuances. Public Act 101-0029 appropriated $2.7 billion in Build Illinois Bond funds for local infrastructure and other projects and $5.9 billion from the Capital Development Fund for natural resources infrastructure, and State of Illinois and higher education facility improvements. The topic areas below highlight some of the largest non-transportation investments in the suite of legislation passed as part of the capital funding package.

Investments in water infrastructure

Public Act 101-0029 funds statewide programs for wastewater facilities and sewerage, stormwater drainage, flood prevention, water supply, and other water infrastructure projects, in addition to numerous appropriations for projects in specific communities.

The Water Revolving Loan Program funds projects through the Water Pollution Control Loan Program and the Public Water Supply Loan Program (PWSLP). The capital package provides $100 million for the fund, which will be made available through one or both of the loan programs over the next six years. Another $100 million is appropriated specifically for the PWSLP to fund drinking water projects. PWSLP projects are ranked and selected based on their relative public health benefits and violation of the Safe Drinking Water Act. The program has additional incentives for small communities, low-income communities and green infrastructure projects. Projects funded through the program have primarily included water main replacements, water storage improvements, and transmission upgrades in recent funding years. In FY2019, the PWSLP programmed $300 million, 90 percent of which were located in northeastern Illinois. Given the growing need to replace lead service lines, new funding allocated through the PWSLP is not expected to meaningfully increase the capacity of the program. In FY2019 alone, the total amount of project applications exceeded available funds by more than $400 million.

Public Act 101-0029 appropriates $85 million from the Anti-Pollution Bond Fund and $25 million from Build Illinois Bond Fund to the Illinois Environmental Protection Agency (IEPA) for the purposes of providing grants to local units of government for addressing water quality issues and sewage treatment works. It is unclear how this bucket of funding will be programmed across the state. Additionally, $55 million of Build Illinois Bond Funds are allocated for specific line-item projects in northeastern Illinois communities, including sewer replacements, water main improvements, and flood mitigation efforts among other water infrastructure investments.

Additional funding appropriated for open space investments

The capital package appropriates $1.8 million for the acquisition, preservation, and stewardship of open spaces and natural areas in northeastern Illinois. Another $101 million in funding will be available statewide, though it is unclear how much of these additional funds will come to the region. Of the statewide funds, $23 million will come from the Open Space Lands Acquisition and Development (OSLAD) Fund—which funded $28.9 million in grants in 2019, the first time grants were made from the fund since 2015. OSLAD grants require a 50 percent local match, which limits the number and types of communities that can apply if local funding is unavailable for smaller and low-resourced communities. The capital package appropriated $25 million from the Open Lands Trust Fund, which has not awarded any funding since 2014, and $10 million from the Natural Areas Acquisition Fund (NAAF), which restores high quality natural habitat. NAAF has been nearly dormant since 2010, awarding less than $1.5 million over the last nine years. The remaining $43 million to be available statewide will be made available from the Capital Development Fund through IDNR.

Capital funds expand affordable housing resources

Both the operating budget and the capital package allocate new resources for affordable housing initiatives across the state and in the region. Public Act 101-0029 appropriates $200 million from the Build Illinois Bond Fund to the Illinois Department of Revenue (IDOR) for the Illinois Housing Development Authority (IHDA). These funds will be available statewide for the purpose of making affordable housing grants, loans, and investments for low-income families, low-income senior citizens, low-income persons with disabilities, and at risk displaced veterans. In addition to funds made available to IHDA, the legislation also appropriates an additional $37 million to a number of non-profit, civic, and private institutions in the region for the purposes of both social services targeted towards housing issues, as well as land acquisition and construction of affordable housing.

Many measures have revenue and local planning implications

Public Act 101-0031 enacts several new revenue and funding sources to support capital investments in infrastructure such as public facilities, green infrastructure, affordable housing, and local economic development projects. Many of the new revenues will be used to support the Capital Projects Fund. Under Public Act 101-0030, the Capital Projects Fund will be used to repay general obligation bonds, such as those that supply the Capital Development Fund, and Build Illinois Bonds. This legislation will have ramifications not only for state and local revenues, but also local planning decisions. This section will address some larger policy changes, including significant expansions to gaming and modernization of the sales tax.

Expansion of gaming and casinos may yield additional state and local revenues

Public Act 101-0031 creates new one-time and ongoing revenues from the expansion of existing casinos and electronic gambling, the establishment of up to six new casinos in the state, and the legalization of sports betting, among other changes. The Governor's office estimates that new ongoing revenues from casino gaming, video gaming, and sports wagering will be $350 million annually at full implementation. However, with siting and other considerations involved with the development of new casinos, it is unclear how long it will take to reach full implementation. Given the magnitude of the gambling expansion, it is also unclear if the revenue projections properly reflect market demand.

Revenues from gaming and wagering are not consistent and sustainable sources of capital funding. CMAP analysis has shown that many of the unproven revenue sources from the previous capital bill did not live up to initial estimates. After the passage of Illinois Jobs Now! in 2009, eight years lapsed before revenue projections from video gaming were realized, primarily due to communities opting out of electronic gambling. Gaming and casino revenues identified in Rebuild Illinois are equally susceptible to implementation factors that may delay or reduce revenue projections. One such factor is demand for gambling and other gaming activities. Rebuild Illinois will add up to 13,200 gaming stations between new casinos and increased limits on electronic gaming terminals, yet tax revenue collected at Illinois' casinos have decreased by 14 percent in the last five years. Future revenues will be dependent on the sustained use of new gaming facilities and terminals, with such a substantial expansion of gaming it is unclear how the multiple new options will fare as they compete for some of the same customers.

New casinos licensed in northeastern Illinois

The legislation allows for the licensing of up to six new casinos. Of the six, three will be located in northeastern Illinois— a casino in the City of Chicago and riverboats in Waukegan and a designated area of south Cook County. Locations for the new facilities are yet to be determined, though the casino to be located within the City of Chicago is subject to final determination by the Illinois Gaming Board after the submission of a commissioned feasibility study. Prior to submitting an application to the state, casino developers may negotiate a revenue sharing agreement with the host municipality or county where the facility will be located. The bidder selected for the Chicago casino will also have the right to install electronic gaming stations in both Midway and O'Hare airports.

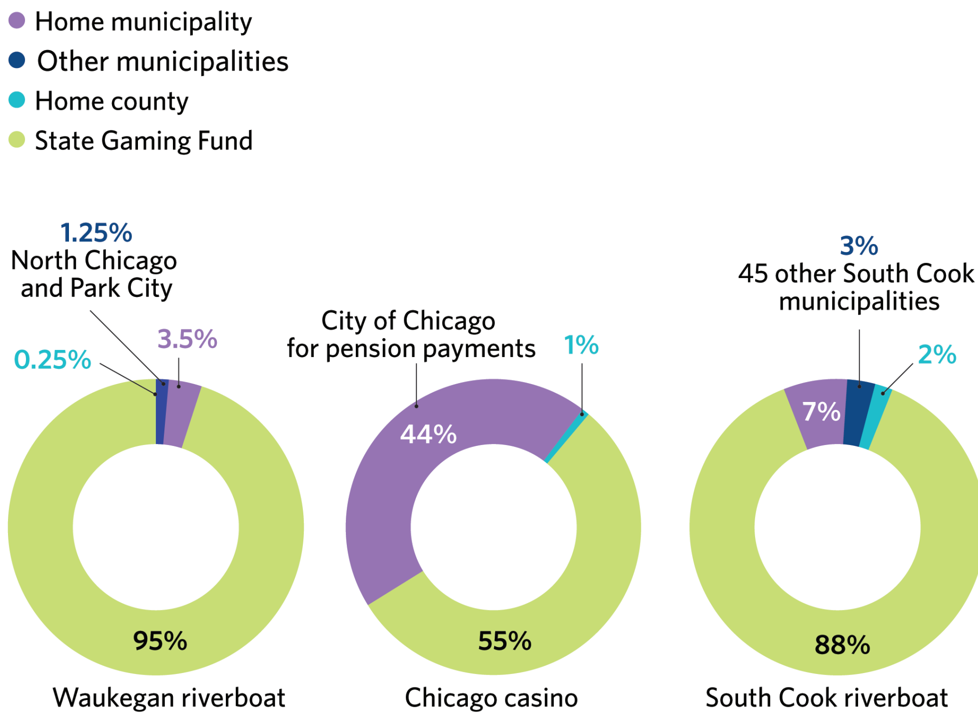
When applying for a license to operate one of the new casinos, Public Act 101-0031 requires the owner to work in good faith with the host municipality or county to negotiate the permanent location and any necessary zoning accommodations. Additionally, the corporate authority of the municipality or county must hold a public hearing to discuss the negotiated details of the casino proposal and pass a resolution by majority of the corporate authority or board, thereby mitigating siting and zoning setbacks.

The tax rate on the operation of the new casinos will vary based on the annual adjusted gross receipts (AGR) of each casino. For electronic gaming at new casinos, the rate may range from 15 percent on adjusted gross receipts of $25 million and under, up to 50 percent on AGRs in excess of $200 million. For table gaming, the rate is 15 percent for casinos with AGRs under $25 million and 20 percent above. A portion of each admission fee will also be distributed to local governments. Of taxes collected on AGRs, local disbursements vary by casino, as shown in the graphic below.

Local disbursements from taxes collected at new casinos in northeastern Illinois

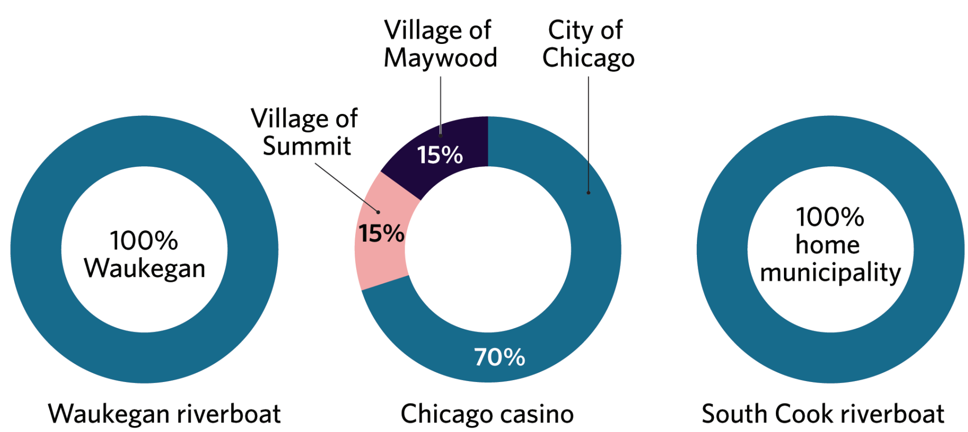
Note: Chicago casino revenue projections based on the Illinois Gaming Board's "City of Chicago Casino Financial Feasibility Analysis."

Source: Chicago Metropolitan Agency for Planning analysis of Public Act 101-0031.



Local disbursement of $1.00 from each admission fee collected at new casinos in northeastern Illinois

Source: Chicago Metropolitan Agency for Planning analysis of Public Act 101-0031.



Sports betting legalized

Public Act 101-0031 makes sports betting legal in Illinois, with revenues to be deposited into the Capital Projects Fund. The Illinois Gaming Board will award up to seven licenses to allow betting at venues with more than 17,000 seats. In addition to expected ongoing revenues, there are a number of one-time upfront fees to be collected. Licensing fees for new sports betting facilities will be $10 million, with an additional $1 million renewal fee every four years. For three eligible online sports wagering operators, the initial renewal fee is $20 million, which can then be renewed after four years for $1 million. Licensing revenues are scheduled to support ongoing capital costs. For sports betting facilities, 15 percent of gross wagering receipts will go into the Sports Wagering Fund, which in turn is transferred to the Capital Projects Fund monthly. In Cook County, an additional 2 percent will be collected for the purpose of enhancing the county's criminal justice system.

Video gaming expanded

Public Act 101-0031 increases the maximum number of video gaming terminals at a licensed location from five to six. Currently, a tax of 30 percent is collected on net terminal income, 83 percent of which is deposited into the Capital Projects Fund and the rest of which is deposited into the Local Government Video Gaming Distribution Fund. Starting July 1, 2019, an additional 3 percent tax will be collected on net terminal income, with another 1 percent to be added on July 1, 2020. Both increases will be deposited into the Capital Projects Fund.

Sales tax to remote sellers expanded and other sales tax revenues increased

Public Act 100-0587, enacted in 2018, required out-of-state retailers to collect the 6.25 percent use tax on sales to Illinois purchasers if such transactions total $100,000 or number more than 200 transactions as of October 1, 2018. This legislation was modeled after a similar law in the State of South Dakota and prevailed in a challenge from a remote seller case that was decided by the U.S. Supreme Court. This session, the State enacted a further reform to remote sales tax collection. The Leveling the Playing Field for Illinois Retail Act, Public Act 101-0031, will require, starting July 1, 2020, that these remote retailers charge Illinois consumers all state and local retailers occupation taxes, rather than just the state use tax, as well as other changes.

The changes are expected to result in an increase in overall state sales tax revenue, a portion of which accrues to the Build Illinois Bond Fund. The State of Illinois estimates that improved compliance via a new Illinois Department of Revenue (IDOR) sales tax rate database required in the Leveling the Playing Field for Illinois Retail Act — as well as changes to how third party retailers and marketplace facilitators determine whether to charge use taxes, in separate legislation, Public Act 101-0009 — will generate an additional $200 million in state sales tax revenue annually. In addition, Public Act 101-0031 puts a $10,000 cap on the sales tax exemption amount for vehicle trade-ins for sales taxes on vehicle purchases, estimated to generate $40 million annually.

Other provisions of the Leveling the Playing Field for Illinois Retail Act will primarily have local impacts. Remote sales will be taxed and sourced at the location where the purchase is shipped or delivered. Local governments with home rule and non-home rule sales taxes will experience revenue increases, including the RTA, counties, and municipalities. Municipalities' state tax disbursements will change, as revenues that had previously been state use tax, and disbursed by population, will now be state sales tax and disbursed by the location of delivery. Municipalities that have low levels of remote sales relative to their population may experience decreases in revenue. Conversely, municipalities with high levels of remote sales relative to their population may see increases in state disbursements. If ecommerce – which currently comprises approximately 10 percent of retail sales nationwide – continues to grow, this could substantially change how sales taxes are distributed in the region.

Ecommerce is changing which jurisdictions are experiencing the cost of supporting retail sales. Today, jurisdictions may house distribution facilities where goods originate or residences where they are delivered. This creates more truck traffic in these locations, along with the higher cost of wear and tear that trucks generate. To respond to ecommerce and the growing consumer preference for services over goods, ON TO 2050 recommends modernizing state disbursements of revenues to local governments. Allocating some revenues to the point of purchase for online sales is a step in the right direction to help communities address these costs.

State parking tax imposed and cigarette taxes expanded

Public Act 101-0031 implements a state parking excise tax, estimated to generate $60 million annually. Starting January 1, 2020, drivers parking in parking lots and garages will be subject to a 6 percent tax, and parking paid on a monthly or annual basis will be subject to a 9 percent tax. This structure is very similar to one already in place in Cook County. The funding package increased cigarette taxes by 5 cents per cigarette and electronic cigarettes will be taxed at a rate of 15 percent. These increases are expected to generate $160 million annually. Revenues will be deposited into the Capital Projects Fund, which is primarily used for buildings, natural resources, and local transportation, including for bond repayment purposes.

Moving forward

Rebuild Illinois is an important first step in establishing one time and dedicated funding to implement many ON TO 2050 recommendations. Modernizing the region's infrastructure, including water and sewer, stormwater, and other natural resources infrastructure investments, will lead to a region that is more resilient to the anticipated impacts of climate change, particularly flooding, and helps protect the residents of the region who are most vulnerable to environmental impacts. More investments in affordable housing will go a long way in ensuring that residents in our region have the ability to find a good, affordable and accessible home that fits each household's preferences, including proximity to jobs, transportation, and other amenities, throughout all stages of life.

While additional capital funding for our state is paramount, other legislative changes will have significant impact on the region. These reforms begin to implement ON TO 2050's recommendation that the state's tax structure ensure that communities have sufficient revenues to cover the cost of public services and infrastructure. Sourcing online sales where deliveries are made will help municipalities and counties maintain services and infrastructure as more goods are delivered straight to consumers rather than to retail stores. These changes will help local governments generate revenue to supports their ability to adapt to changing national and local economic conditions.

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