DOING MORE WITH LESS: STATE REVENUE LIMITATIONS AND MANDATES ON COUNTY FINANCES

ILLINOIS COUNTIES

NO. OF COUNTIES • **102**

TOTAL POPULATION, 2015 • **12.9 MIL**

TOTAL LAND AREA • **55,519 MI²**

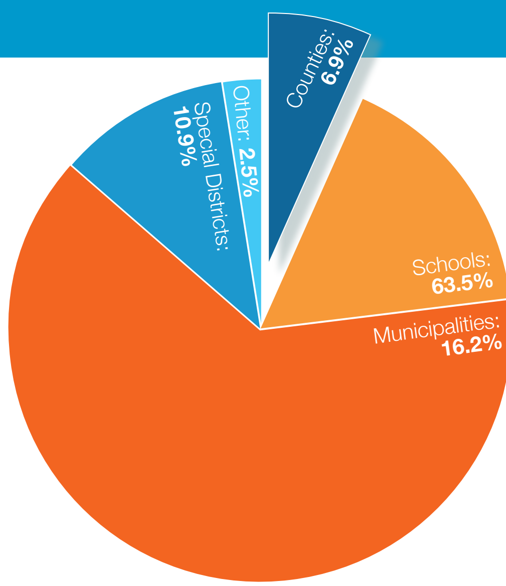
% PILT ENTITLEMENT LAND, 2016 • **1.4%**

TOP COUNTY GENERAL REVENUE SOURCE, 2013 • **PROPERTY TAXES**

Source: NACo County Explorer Data, 2016

FIGURE 1: PROPERTY TAX REVENUE DISBURSEMENT SHARE OF PROPERTY TAX COLLECTED STATEWIDE

Source: Illinois Department of Revenue, 2014 Property Tax Statistics



COUNTY REVENUE AUTHORITY

COUNTY OWN FUNDING

- **Property Taxes:** According to NACo's analysis of 2013 audited county financial statements, the primary source of general revenue for Illinois counties is property taxes. Under state statute, Illinois counties have the authority to levy taxes on real property. Illinois counties may not levy taxes on personal property, with the exception of Cook County, the only home rule county. Cook County may levy a Retailer's Occupation Tax on gross receipts from the sales of tangible personal property in increments of 0.25 percent. Counties assess most property at one third of fair market value. Counties with fewer than 3 million residents must reassess property every 4 years, while counties with more than 3 million residents – i.e., Cook County – must reassess property every 3 years. The majority of property taxes collected in Illinois go to schools (63.5 percent). Counties keep only 6.9 percent of collected property taxes (See Figure 1).

TABLE 1: STATE LIMITATIONS ON COUNTY REVENUES, AS OF NOVEMBER 2016

Property Tax Rate Limits	Yes; 0.75%
Limits on Property Assessment Increases	No
Limits on Property Tax Revenue (Levy) Increases	Yes; 5%
Personal Property Tax	No
Local Option Sales Tax Authority [Limit]	Yes [2%]
Authority to Create Special Tax Districts	Yes

- **Sales and Use Taxes:** Illinois counties have the authority to levy general occupation and use taxes along with retailer's or service occupation taxes, for specific purposes such as public safety and transportation, if approved by voters.

- **Other Taxes:** Counties in Illinois may also levy taxes on motor vehicle rentals, transient lodging, replacement cars provided by insurance companies and the transfer of real estate. Three counties – DuPage, McHenry and Kane – levy local gas tax.

LIMITATIONS

- **Property Tax Limits:** Although property tax rates vary from county to county, the state constitution limits the rate to $0.75 per $100 of assessed value. The county may bypass this rate only if approved by a majority of voters in a referendum. Additionally, if the new levy exceeds the previous

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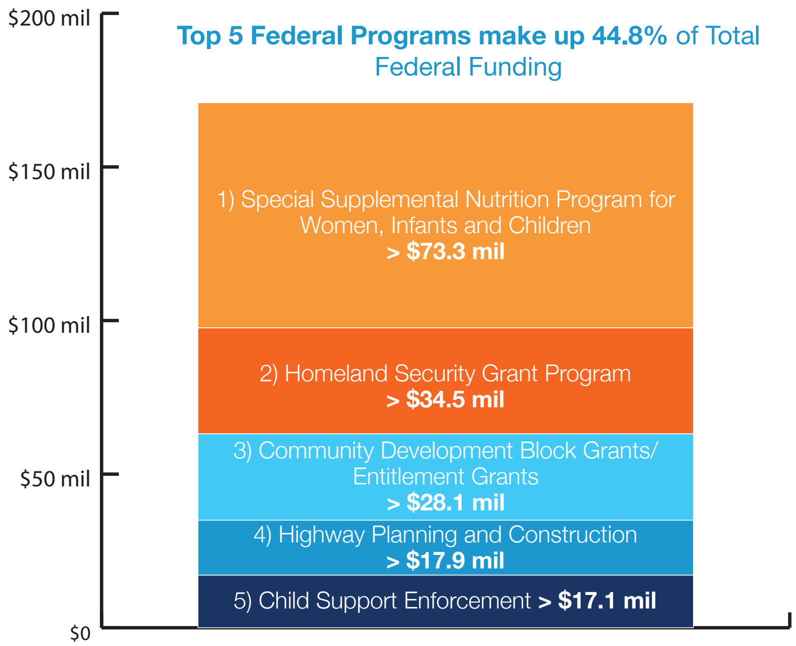
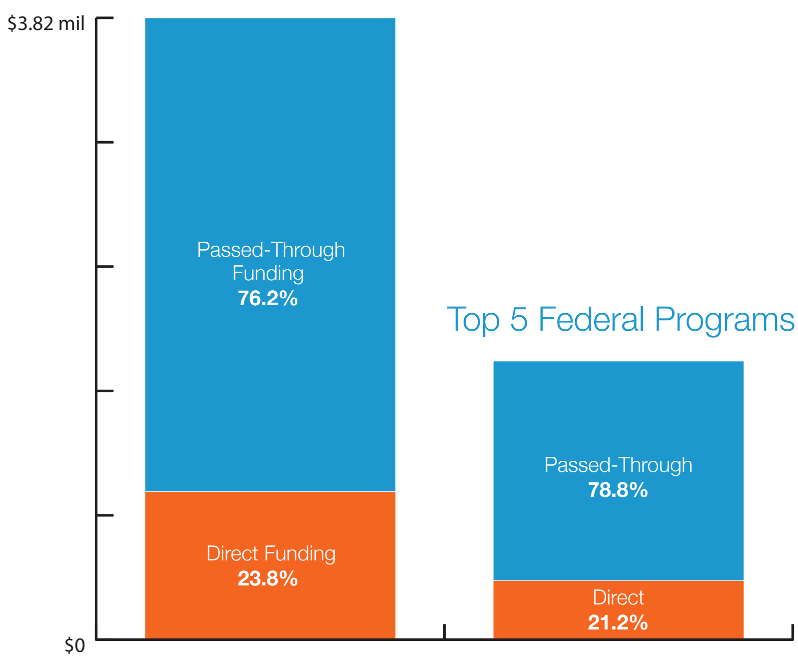
FIGURE 2: 63 OF ILLINOIS' 102 COUNTIES USED MORE THAN $382.3 MILLION IN FEDERAL DOLLARS IN FY2014: Counties that reported using more than $500,000 in federal dollars in FY2014.



Total Federal Funding: **$ 3.82 mil**



Source: NACo analysis of Federal Audit Clearinghouse data.

one by more than 5 percent, a county must also hold a special public hearing to announce the new increased levy. On top of this limit, the Property Tax Extension Limitation Law (PTELL) further limits 39 Illinois counties. According to PTELL, county property tax revenue may not grow by more than the lesser of 5 percent or the inflation rate. Counties, however, may exceed this limit with voter approval. Illinois also has a local option assessment limit which freezes homestead valuations; this limit only applies if imposed by voters on their specific, local governments.

• **Sales and Use Tax Limits:** Counties also face a sales tax limit of 1 percent in unincorporated areas and 0.25 percent in incorporated areas. Counties can expand the sales tax by an additional 1 percent, but only through a referendum and in 0.25 percent increments. Moreover, this additional 1 percent must be allocated for transportation, criminal justice or both.

• Alongside these limits on property and sales taxes, a reduction in the portion of the state income tax it distributed to counties is under consideration by the state due to state budget problems. Furthermore, the state has attempted to impose further limitations on county property tax and assessment systems while simultaneously foisting new responsibilities on counties. Thus far, counties have successfully countered these attempts.

SPECIAL DISTRICTS

• Illinois counties have the authority through referenda to create special taxing districts with their own property tax levies. Illinois also has a plethora of other special districts including library districts, fire districts, mosquito abatement districts, special education districts,and drainage districts. Counties can also create enterprise zones, generally in partnership with municipalities.

STATE AND FEDERAL FUNDING

Illinois counties receive funding from both the state and the federal government. According to the U.S. Census of Governments' most recent data, intergovernmental revenues from the state and federal governments comprised 28.7 percent of total county revenues in 2012.

STATE FUNDING

Counties receive funding from a variety of state sources. For example, the state distributes one tenth of its revenue from the state income tax to local governments, of which counties receive a portion. Illinois counties also receive a portion of the state's net revenues from its sales tax on motor fuel, food and prescriptions in addition to 20 percent of net revenues from the state's general sales tax.

FEDERAL FUNDING

Illinois counties receive federal government funding, either directly or passed-through other entities, such as the state government (called here, "passed-through funds"). According to the single audits submitted annually by counties that used more than $500,000 in federal dollars in a fiscal year, 63 of Illinois's 102 counties used more than $382.3 million in federal dollars in FY2014. Passed-through funds accounted for three-quarters (76.2 percent) of this total. Nearly half (44.8 percent) of the federal funding came from the top five federal programs used by Illinois counties (see Figure 2).

Other noteworthy federal programs that disburse funding directly to Illinois counties include the following: the Secure Rural Schools (SRS) program to support critical services in counties experiencing severely reduced federally restricted timber harvests revenues ($274,000 in 2015); the State Criminal Alien Assistance Program (SCAAP), to cover a portion of the costs for incarceration of undocumented criminal aliens ($2.1 million in 2015); and Payments in Lieu of Taxes (PILT), distributed by the federal government to Illinois counties as compensation for 490,000 acres of federal land located in county borders ($1.2 million in 2016).

CHALLENGES AND SOLUTIONS

CHALLENGES

Illinois counties struggle with providing services to their residents largely due to underfunding from the state. Some county level positions, such as assessor, public defender and regional school superintendent, are funded by the state in whole or in part; however, the inability of the state to meet these fiscal responsibilities forces counties to resolve the funding gap. As a result of this fiscal dilemma, many Illinois counties hesitate to participate in state grants to health departments. In the midst of this underfunding problem, the State of Illinois increased mandates on counties. In 2014, the state deprived counties of the power to determine juror pay, then increased the pay fivefold (from $4 to $25 for the first day and from $10 to $50 each additional day). The state has also increased financially burdensome mandates for transparency, electronic access to county information and Freedom of Information Act (FOIA) laws. The 101 out of Illinois' 102 counties which are not home rule counties do not have the means to solve their revenue problems; their revenue authority is derived solely from the state.

SOLUTIONS

Intergovernmental agreements are a very common way for Illinois counties to deal with revenue challenges. One of the largest examples is an emergency dispatch agreement sharing 3 dispatch points between McHenry County, 27 municipalities and 9 fire districts. Six counties also have transportation service agreements with municipalities and townships to create "dial-a-ride" services in rural and suburban areas where standard public transportation (e.g., buses) would not be effective.