

Frequently Asked Questions about Local Government Distributive Fund

Q1. What are Local Government Distributive Funds (LGDF)?

A1. Income Tax Local Government Distributive Funds, now known as Local Government Distributive Funds or “LGDF” are locally generated income taxes collected by the state and set aside and distributed to municipalities and counties on a per capita basis. Instituted in 1969 in exchange for local governments not imposing their own income tax, the Local Government Distributive Fund guarantees municipalities a share of state income tax receipts. The state merely acts as the collection entity.

LGDF allocations are funds that local governments rely on every year and that has been promised to them. This is not a gift from the State or extra money for the State to use. Municipalities and counties budget each year for these per capita dollars and use them for operating costs and essential services.

Q2. Why are they important to local communities?

A2. The Local Government Distributive Fund is a critical lifeline for communities that provides essential resources to support public safety, transportation, storm/wastewater infrastructure, community health and other programs and services that protect and contribute to the safety and welfare of residents. LGDF impacts the lives of all Illinois residents on a daily basis. LGDF dollars fund everything from the salaries of police officers and firefighters to garbage pick-up and from road repairs and maintenance to large scale infrastructure projects and flood prevention. That money allows municipalities and counties to rely less on property taxes, which is a good thing considering Illinois residents pay among the highest property tax rates in the nation. If LGDF funding is cut, municipalities and counties will either have to reduce services, increase taxes or both.

Q3. What has been happening with LGDF distributions to municipalities and counties in recent years?

A3. Illinois has made steady cuts in LGDF over the past decade, keeping more tax revenue for the State instead of allocating a full share of LGDF money back to municipalities and counties. Instead of LGDF payments as promised at a level equaling 10% of total income tax dollars, they’ve dwindled to a mere 6.06%, forcing local governments to make tough financial decisions in the face of budget shortfalls.

Q4. How is this affecting municipalities/local governments?

A4. It’s different for each local government, but all municipalities and counties have been impacted. As LGDF distribution payments decreased, communities have been left with limited revenue options: cut services or raise local property taxes or fees. It is particularly dire for communities that can least afford to receive less LGDF each year. Those that don’t have a lot of revenue generators or have a low retail tax base and high equalized assessed values face significant financial hardship that impacts the safety and welfare of residents and local businesses.

Q5. Aren’t local governments able to make adjustments and tighten their belts?

A5. For the past several years municipalities and counties *have* been making adjustments as LGDF payments have fallen from 10 percent to 6.06 percent of total income tax collections. During these

difficult and uncertain times caused by the pandemic, local governments have been making the tough decisions, tightening our belts and implementing significant cost-cutting measures to balance budgets, which we must do every year.

In addition, communities have had to contend with a barrage of unfunded mandates in recent years, including decreases to Personal Property Replacement Tax (PPRT) revenue, increased sales tax collection fees that reduce local revenue and public safety pension costs that have steadily increased every year even as municipalities put more money into them due to compounded interest and COLA increases. All of this means less money available for local services that benefit our taxpayers.

Q6. Doesn't the Federal money provided by the American Rescue Plan Act (ARPA) alleviate the problem?

A6. The money allocated from ARPA is a one-time disbursement and has restrictions on how it can be spent, which is tied to COVID or resulting lost revenue. It can help with one-time expenses due to COVID but it doesn't solve the long-term structural problems that exist or serve as a substitute for LGDF. Until the proper funding levels of LGDF are restored, local governments will find themselves in the same challenging position each year of trying to balance budgets and providing services for our constituents.

Q7. What would municipalities do if the money was restored?

A7. Local governments would make investments in our communities that would actually save taxpayer money in the long term. We'd invest in things like:

- Infrastructure – roads, bridges, water, sewer, stormwater
- Public safety – implementing police reforms (training costs, body cams), funding growing public safety pension costs
- Economic development – help our local business community rebuild post-COVID
- Reduce property tax burden

Q8. What can Lawmakers do?

A8. Sign on and support SB 3010 / HB 4169, legislation that would restore LGDF payments to local communities back up from 6.06 to 8 percent of total income tax collections. This legislation is a step in the right direction and calls for continuing appropriations related to income tax distribution to local governments to provide assurance that collected income tax receipts will be distributed as promised. As able, lawmakers should find ways to permanently restore LGDF to the full funding level of 10% pledged to local governments to allow for stability and certainty in budgeting and responsibly funding basic services to Illinoisans in every area of the State.

Supported by: DuPage Mayors and Managers Conference, Lake County Municipal League, McHenry County Council of Governments, Metropolitan Mayors Caucus, Metro West Council of Government, Northwest Municipal Conference, South Suburban Mayors and Managers Association, Southwest Conference of Mayors, West Central Municipal Conference, Will County Governmental League and Illinois State Association of Counties.