

LGDF — Local Share of State Income Tax Revenue: A CRITICAL INVESTMENT IN ILLINOIS COMMUNITIES



LGDF IS A SUCCESSFUL FUNDING PARTNERSHIP

The Local Government Distributive Fund (LGDF) is a designated portion of state income tax revenues. Cities and counties currently receive a percentage of total state income tax revenues through this fund on a per capita basis.

Governor Richard Ogilvie enacted the state income tax in 1969. At that time, Governor Ogilvie needed the help of Chicago Mayor Richard J. Daley to achieve passage of the income tax through the Illinois General Assembly. The agreement between Mayor Daley and Governor Ogilvie ensured that enough legislators would support the income tax to win passage. A key element of the agreement was the establishment of revenue sharing, with local governments receiving a percentage of total income tax collections through LGDF. The Illinois Municipal League (IML) understands that this revenue-sharing policy was provided to local governments in lieu of allowing the imposition of local income taxes, which might vary from community to community.

REDUCTIONS IN LGDF CONTINUE

Until January 2011, 10% of total income tax collections was dedicated to LGDF for distribution to municipalities and counties. The percentage share of state income tax revenue was reduced from 10% to 6% following the enactment of the temporary income tax increase in 2011. The percentage share of state income tax revenue subsequently increased to 8% when the higher income tax rates declined in January 2015, based upon the schedule established by the temporary income tax law.



In July 2017, the income tax was permanently increased, and the local government share was reduced to 5.45% of individual income tax collections and 6.16% of corporate

income tax collections for State Fiscal Year (SFY) 2018. In SFY 2021, the

General Assembly removed their off-the-top reduction from recent years. This is not full funding of LGDF, but it is an increase from SFY 2020. For SFY 2022, the local government share is 6.06% of individual income tax collections and 6.845% of corporate income tax collections, which is no change from SFY 2021.



It should be noted that the income tax increases of 2011 and 2017 did not increase revenues for local governments because the state reduced the local share percentage and kept 100% of the additional revenues raised through higher taxes.



LGDF SUPPORTS CORE SERVICES AND HELPS KEEP LOCAL TAXES LOW

In addition to funding everyday core services for Illinois citizens, LGDF distributions play a role in keeping the local tax burden low. Without LGDF, communities across Illinois would need to explore increases to other fees or taxes – including property taxes. It is widely believed that Illinois has a high property tax burden, and property tax rates would undoubtedly be worsened if LGDF reductions continue or increase.

LGDF PROVIDES OUTSTANDING VALUE FOR ILLINOIS TAXPAYERS

Sound fiscal management and efficient services at the local level make LGDF dollars the best return on investment that taxpayers can get. It's also a direct return of taxpayer dollars to their communities for programs and services they expect and deserve.

Illinois cities have managed LGDF revenue responsibly while receiving just a small portion of total income tax collections. This presents a compelling argument to drive additional value for taxpayers by increasing LGDF revenue. Additional LGDF revenue could be spent in a manner that can be seen and experienced by local taxpayers. Because local government is the level of government closest to the people, municipal taxpayers have more input into how LGDF dollars are spent to benefit their communities. LGDF revenues can also be used to help offset the growing costs incurred from unfunded state mandates.

IML opposes any reduction to LGDF as it only amplifies the fiscal challenges local governments face.



Illinois cities receive 6.06 cents of each dollar collected through the state individual income tax.

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