

Revenue projections

Fiscal year 2009/10 is over and the books are closed. Revenues came in at:

	09/10 Budget	Actual	Difference	10/11 Budget
Income	\$3,626,000	\$2,998,580	(\$627,420)	\$3,122,100
State Sales	\$3,500,000	\$3,488,267	(\$11,732)	\$3,500,000
Home Rule	\$1,550,000	\$1,302,406	(\$247,593)	\$1,400,000

We have the Dempster Development agreement with Bredeman Automotive group that provides that the City refund up to the first \$400,000 in sales taxes generated by the auto sales at their location. This \$400,000 comes in as sales tax revenue from their auto sales and then the City refunds the \$400,000 back to Bredeman's. The Uptown TIF agreement with District 64 requires us to pay them a percentage of the sales tax, which this year amounts to \$526,817. In the FY2010/11 budget, these payments (expenditures) are listed and mentioned on page 112 under Economic Development, General Contractual Services. Neither of these transactions has been shown as a revenue or expenditure in prior fiscal years budget. Auditors have recommended that we account for these revenues and expenditures in our budget and the 2010/11 budget has them recorded for the first time. Thus, my sales tax revenue projections of \$3,500,000 (page 54 of the budget) include the additional revenue of \$926,817 (\$526,817 +\$400,000) that was never in prior budgets. This adjusts the true projected sales tax revenues to \$2,573,183. This is 30% less than last fiscal year's actual income tax revenue.

Income tax, State sales tax and Home Rule sales tax revenue sources are those that grow or shrink with the economy. There are typically 4 types of forecasting utilized for these types of economy dependent revenues: expert, trend, deterministic and econometric. We can do trend analysis, but in this most recent economic downturn we rely mostly on others that utilize all of these methods. Although we review national trends reported in the *Wall Street Journal*, *Governing Magazine* and *National League of Cities website*, we rely mostly on Illinois reporting agencies. These include the Illinois Commission on Government Forecasting & Accountability (CGFA), which is the bi-partisan commission that both the state Legislature and Senate rely on for financial predictions. They formed this commission as a check against the Governor's Office of Management & Budget (GOMB), which is an administrative office of the Governor. The Illinois Municipal League also forecasts revenues.

Predictions for 2010/11 are:

	<u>Income per capita (each \$1 times 37,775 population)</u>
CGFA	\$81.68 (2.9% increase over actual of \$79.38)
GOMB	\$83.59 (5.3% increase over actual of \$79.38)
IML	\$77.00
City Manager	\$82.65

*Note CGFA and GOMB use the State fiscal year July1-June 30.

This week I spoke to Larry Frang of the Municipal League, who is the person conducting the IML revenue estimates. In his article in the IML Review magazine for April, he estimated the March 2010 income tax would be -15% and April would be -9%. Actual revenues were -4% for March and -3% for April for a total of \$79.38 per capita for the fiscal year. Although the last few months are better than he predicted, he is not changing his \$77/capita estimate for next year, because he was not conservative enough in his forecasted number for last year. Forecasters are rarely criticized for being too conservative as opposed to when they have a robust prediction.

The above quoted estimates for CGFA and GOMB come from the March 16, 2010 report titled FY2011 Economic forecast and Revenue Estimates. (p. 30 comments)

<http://www.ilga.gov/commission/cqfa2006/Upload/03162010econforecastrevestFY2010-2011.pdf>

I was extremely conservative on the State sales tax because that is the most volatile area. People may earn money (thus pay income taxes) but they don't necessarily spend the money they earn until they feel comfortable that the economy has settled and they feel secure in their future income. City revenues from statewide sales tax had a surprising increase of 16% over last month and Home Rule sales tax for April was 15% higher, than April 2009.

In the end, regardless of what is estimated as revenues in a City budget, every City administration has the responsibility to closely monitor their actual revenues against predicted revenues and determine with their Mayor and City Council if expenditure changes are warranted.