

2020

Quarterly Report and Recommendations from the IRFC

July 30, 2020



Toni Preckwinkle
President, Cook County Board of Commissioners

Roll Call



Opening Remarks





Agenda

- Opening Remarks
- Approval of the Minutes
- Quarterly Report to the IRFC
- Review of the Proposed Methodological Improvements
- Next Steps
 - Vote on interim meeting
- Public Comment
- Adjournment

Quarterly Report to the IRFC





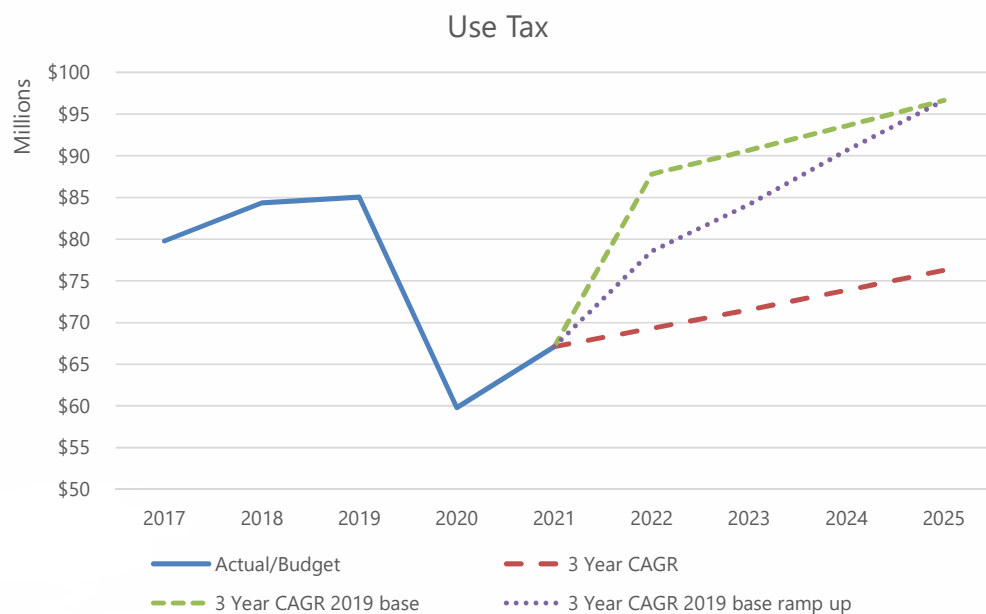
Updates to Online Materials

- Links to Legistar
 - Minutes
 - Videos
 - Agendas
- Bios added
- Presentations
- Forecast Summaries
- Quarterly Report Materials
 - Updates to Methodologies
 - Updated Revenue Dataset



Methodological Updates – Split CAGR

- All 3-year compound annual growth rates are computed using actuals from 2017-2019
 - For Use Tax, this was 3.25%.



- “3 Year CAGR” assumes a permanent shift down in demand.
 - The 3.25% growth rate is applied to the 2021 budget value
- “3 Year CAGR 2019 base” assumes a full bounce back in 2022.
 - The 2022 estimate is 3.25% greater than the 2019 actual as if 2020/21 did not happen
- “3 Year CAGR 2019 base ramp up” estimates a more gradual recovery.
 - It is halfway between the two previous projections in 2022, 66% of the way in 2023, 85% in 2024, and 100% in 2025.

Update on Recommendations of the IRFC



Principals of the IRFC



| Recommendation | Principal |
|--|--|
| <i>The Commission recommends consistently and transparently documenting the basic economic models and processes driving the County's revenues, which depend on numerous distinct factors...</i> | <i>Document Economic and Operational Drivers</i> |
| <i>The Commission recommends that the County's models be improved by striving for consistency around source economic indicators and data.</i> | <i>Pursue Consistency in Modeling</i> |
| <i>The Commission recommends the County continues to systematically take advantage of monthly revenues data and other operational details to improve its revenue forecasts</i> | <i>Systematically Track Monthly Operational and Revenue Data</i> |
| <i>The Commission recommends that the County prepare clear and thorough documentation of current and historical County tax rates and other policies that drive County revenues</i> | <i>Catalogue Historical Rates and Policies</i> |
| <i>The Commission recommends that the County develop a process by which alternative forecasts are prepared and reviewed</i> | <i>Review Alternative Scenarios</i> |
| <i>The Commission recommends that the practice of forecasting new revenues based on a systematic comparison of County to other jurisdictions, in terms of population, income, tax policies and other relevant factors, be strengthened</i> | <i>Benchmark Forecasts against other Jurisdictions</i> |
| <i>The Commission wishes to clarify that its scope of review includes all County revenue sources</i> | <i>Strive for Greater Collaboration</i> |

Principals of the IRFC - Advanced Since 4/29



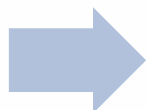
| Principal | Action Taken |
|--|--|
| <i>Document Economic and Operational Drivers</i> | <i>Not Advanced since 4/29/2020</i> |
| <i>Pursue Consistency in Modeling</i> | <i>Not Advanced since 4/29/2020</i> |
| <i>Systematically Track Monthly Operational and Revenue Data</i> | <i>Revenues on monthly basis continue to be updated. The online Revenue Dataset has also been updated.</i> |
| <i>Catalogue Historical Rates and Policies</i> | <i>Submitted an Application to UIC CUPPA to advance this principle through their CAPSTONE Project.</i> |
| <i>Review Alternative Scenarios</i> | <i>Began development of initial phase model and considering alternative scenarios as part of the recommendations advanced today.</i> |
| <i>Benchmark Forecasts Against Other Jurisdictions</i> | <i>Incorporated into Cannabis and Online sales tax revenue forecasts</i> |
| <i>Strive for Greater Collaboration</i> | <i>The OCFO is committed to this principal</i> |

Review of the IRFC's Recommendations



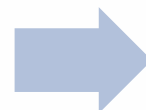
Meeting of the IRFC
7/1/2020

- Captured comments in reference to the presentation in meeting notes.



Follow up meetings
7/13 to 7/15

- Eliminated addressed items
- Performed additional discovery on unaddressed recommendations
- Solicited Commissioners on additional Recommendations



Meeting of the IRFC
7/30/2020

- Establishment and approval of methodological improvements

Proposed Methodological Improvements

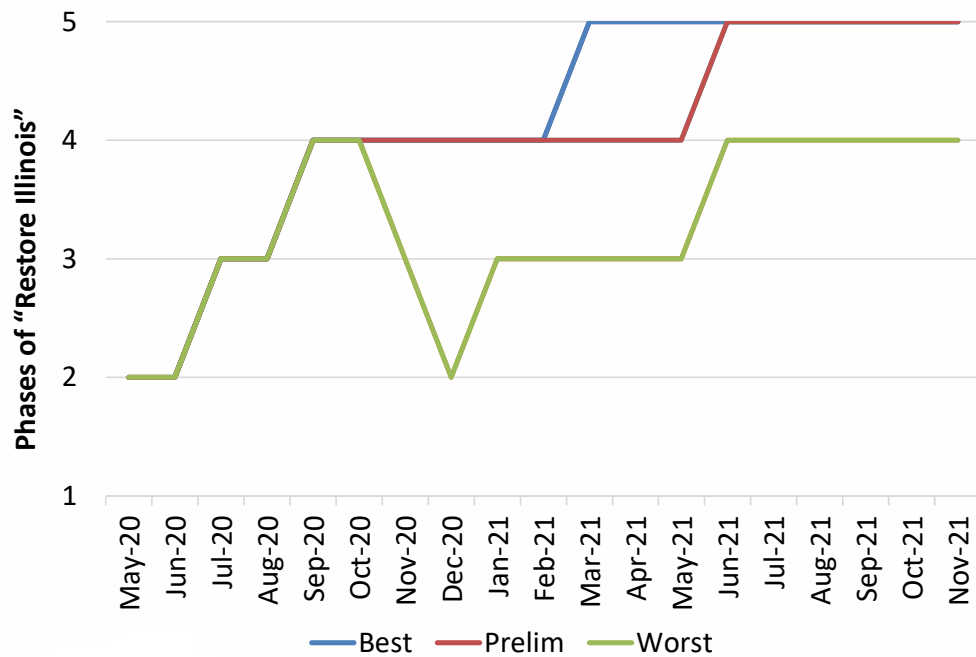


1. Be consistent in the reporting of additional scenarios, and communicate it with the public by stress testing major revenues and reporting the results.
2. Incorporate most recent data into sales tax estimate and update forecast accordingly.
3. Update Online Sales Tax Estimate and consider the use of Personal Income to scale down from national numbers.
4. Incorporate assumptions on 2020 and 2021 convention attendance into Hotel Accommodation Tax Revenue
5. Incorporate GMP and GDP estimates into menu of LTFP methodologies
6. Begin tracking of dispensary and production licenses for Cannabis Tax.

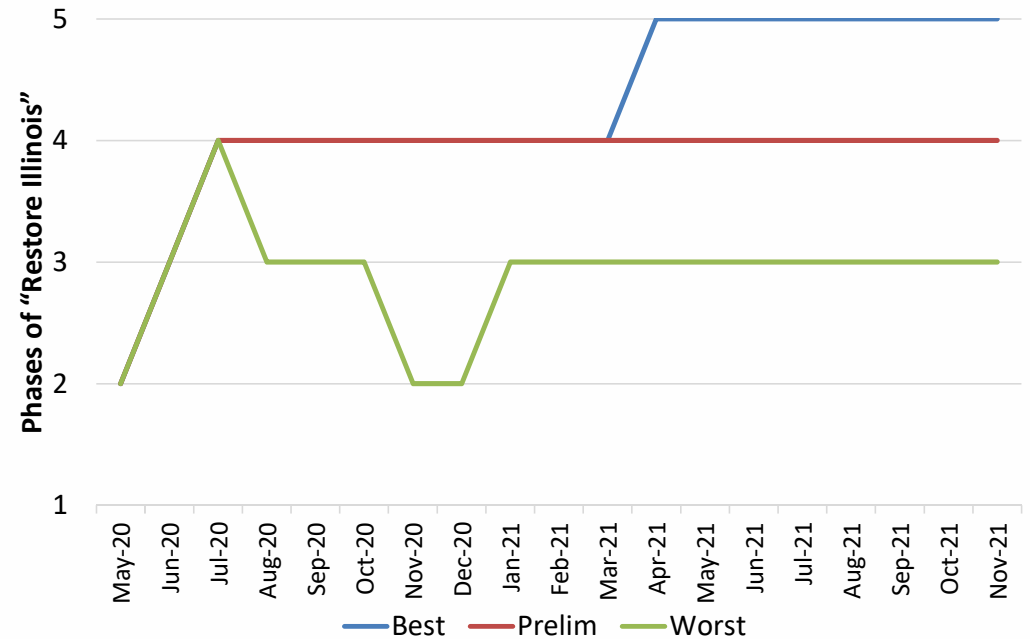
Methodological Improvement 1 – Alternative Scenarios



Original Scenarios



Proposed Scenarios



Be consistent in the reporting of additional scenarios, and communicate it with the public by stress testing major revenues and reporting the results.

Methodological Improvement 2 - Continuous Improvement on Sales Tax Estimate



- A. Incorporate most recent data into sales tax estimate and update forecast accordingly
- Review Phase 2 results for April/May and adjust SIC Categories accordingly.
 - Consider adjusting differences between SIC categories in each phase.
 - Examine national sales trends and its relation to County revenues by SIC Code
 - Incorporate results and do stress testing per MI1 above.

Assumptions In SIC Analysis

| | Phase 2 | Phase 3 | Phase 4 | Phase 5 |
|-------------------------------|-------------|-------------|-------------|---------------|
| Start* | April 2020 | June 2020 | August 2020 | June 2021 |
| End* | May 2020 | July 2020 | May 2021 | November 2021 |
| General Merchandise | -47% | -35% | -24% | -4% |
| Food | 13% | 10% | 7% | 1% |
| Drinking and Eating Places | -49% | -37% | -24% | -4% |
| Apparel | -89% | -67% | -45% | -7% |
| Furniture & H.H. & Radio | -65% | -49% | -32% | -5% |
| Lumber, Bldg, Hardware | 0% | 0% | 0% | 0% |
| Automotive & Filling Stations | -43% | -32% | -21% | -3% |
| Drugs & Misc. Retail | -10% | -8% | -5% | -1% |
| Agriculture & All Others | 0% | 0% | 0% | 0% |
| Manufacturers | 0% | 0% | 0% | 0% |
| TOTAL | -33% | -24% | -16% | -2% |

* Reflects Date of Sale

Methodological Improvement 3 – Online Sales Tax



Current Method (Original)

Base Assumptions

| | |
|-------------------------------|--------------|
| E-Commerce Growth | 13% |
| Total US E Commerce sales* | 589,301 |
| County share of US population | 1.60% |
| Share Subject to Tax** | 85.6% |
| Potential sales | 8,067 |
| Compliance | 60% |
| Sales tax Rate | 1.75% |
| Revenue before admin fee | 84.70 |
| Admin fee | (1.27) |
| TOTAL | 83.43 |

Current Method (Corrected)

Base Assumptions

| | |
|-------------------------------|---------------|
| E-Commerce Growth | 13% |
| Total US E Commerce sales | 752,478 |
| County share of US population | 1.60% |
| Share Subject to Tax | 85.6% |
| Potential sales | 10,301 |
| Compliance | 60% |
| Sales tax Rate | 1.75% |
| Revenue before admin fee | 108.16 |
| Admin fee | (1.62) |
| TOTAL | 106.54 |

IRFC Proposed Method

Base Assumptions

| | |
|--------------------------------|---------------|
| Total National Retail Sales*** | 6,705,238 |
| Growth of total sales | 3.84% |
| Percent online | 13.09% |
| Total E-Commerce Sales | 877,614 |
| County share of US population* | 1.60% |
| Share Subject to Tax**** | 85.6% |
| Potential sales | 12,014 |
| Compliance | 60% |
| Sales tax Rate | 1.75% |
| Revenue before admin fee | 126.15 |
| Admin fee | (1.89) |
| TOTAL | 124.25 |

Source:

*Current Method Original, 2018 aggregate 2019 3rd Quarter
<https://www2.census.gov/retail/releases/historical/ecomm/19q3.pdf>

** Source: U.S. Census Bureau, 2017 Annual Retail Trade Survey

*** Source: U.S. Census Bureau April 2020 Advance Retail monthly sales <https://www.census.gov/retail/index.html#marts> 5

**** based on analysis of NAIC Data and our understanding of the county's share.

| METHOD (Scaled by Population) | FY 21 Estimate (millions) |
|----------------------------------|---------------------------------|
| Original | \$53.6 |
| Current | \$68.6 |
| Proposed | \$80.0 |

| METHOD (Scaled by Personal Income) | FY 21 Estimate (millions) |
|---------------------------------------|---------------------------------|
| Original | \$60.4 |
| Current | \$77.1 |
| Proposed | \$90.0 |



Methodological Improvement 4 – Hotel Accommodation Tax

- Group business represents 50% of all hotel business including weddings and conventions.
- International business is in the teens.
- There is a growing consensus in hotel industry that hotel occupancy won't reach 2019 numbers until 2024.
- Cannabis is helping tourism
- Business travel is basically non-existent, maybe after labor day
- AIR BNB is experiencing no decline in booking due to a shift to non-urban market.

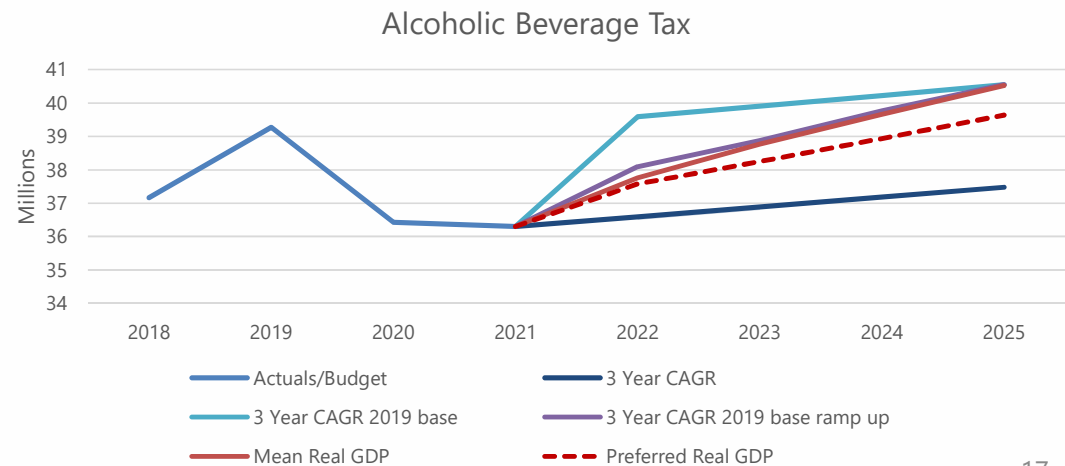
| Forecast Date | Methodology | 2020 Value | 2021 Value |
|-------------------|---------------------|---------------|---------------|
| FY 2020 Budget | Department Estimate | \$ 34,400,000 | \$ 35,218,000 |
| 5/5/2020 | Department Estimate | \$ 18,380,979 | \$ 29,750,000 |
| 6/26/2020 | Department Estimate | \$ 13,719,794 | \$ 28,500,000 |
| Budget Submission | Department Estimate | \$ 13,719,794 | \$ 19,500,000 |

Methodological Improvement 5 – New LTFP Method



- In the long term, we can expect many revenue streams to grow at a similar rate to Gross Domestic Product
- We collected annual real GDP projections from multiple sources, and used both the most conservative (Federal Reserve) and the average of all projections
- This methodology applies these projected GDP growth rates to the 2021 budget values to get 2022-2025 projections to all revenue streams.
- Evaluate these 2 methods against current long-term forecast projections and select the most reasonable and conservative option

| | Survey of Professional Forecasters | | WSJ | CBO | Federal Reserve | Mean |
|-------------|------------------------------------|-------------|-------|-------|-----------------|--------------|
| | Moody's | Forecasters | | | | |
| 2020 | -5.9% | -5.6% | -5.6% | -5.8% | -6.5% | -5.9% |
| 2021 | 1.3% | 3.1% | 4.7% | 4.0% | 5.0% | 3.6% |
| 2022 | 6.3% | 4.1% | 3.2% | 2.9% | 3.5% | 4.0% |
| 2023 | 4.2% | 2.2% | 3.2% | 2.1% | 1.8% | 2.7% |
| 2024 | 1.9% | 2.2% | 3.2% | 2.3% | 1.8% | 2.3% |
| 2025 | 1.3% | 2.2% | 3.2% | 2.3% | 1.8% | 2.2% |



Sources:

Moody's: proprietary subscription, June 2020 Baseline

WSJ: July 2020, <https://www.wsj.com/graphics/econsurvey/>

CBO: July 2020, <https://www.cbo.gov/publication/56465>

Federal Reserve: June 2020, <https://www.federalreserve.gov/monetarypolicy/files/fomcprotabl20200610.pdf>

Survey of Professional Forecasters: May 15 <https://www.philadelphiafed.org/research-and-data/real-time-center/survey-of-professional-forecasters/2020/surfq220>

Methodological Improvement 6 - Cannabis Tracking



2014
55 licenses for dispensing organizations and 20 licenses for cultivation centers issued under Compassionate Use of Medical Cannabis Program Act

March 1, 2020
Early Approval Adult Use Dispensing Organization license applications due from existing medical cannabis dispensing centers (may also apply for a secondary site)

June 29, 2020

Early Approval Adult Use Cultivation Center license applications due from existing medical cannabis cultivation centers

July 1, 2021

More cultivation center licenses may be made available (no more than 30 available licenses)

January 1, 2020

Recreational cannabis legalized in Illinois

May 1, 2020

Up to 75 Conditional Adult Use Dispensing Organization licenses issued

July 1, 2020

Up to 40 craft grower licenses and infuser licenses issued (**deadline suspended by executive order**)

December 21, 2021

Up to 60 additional craft grower licenses and infuser licenses issued, up to 110 Conditional Adult Use Dispensing Organization licenses issued

Methodological Improvement 6 – cont.



- Medical cannabis became legal in Illinois on January 1, 2014
- Recreational cannabis became legal in Illinois on January 1, 2020
- Currently 22 licensed early approval adult use cultivation centers in Illinois (according to IL Department of Agriculture)
 - Two in Cook County
 - Up to eight more may be made available by 7/1/2021
 - Up to 40 craft grower and infuser licenses may be made available by the end of 2020, up to 60 more by 12/21/2021
- Currently 59 licensed adult use cannabis dispensaries in Illinois, out of 75 potential licenses (according to IL Department of Financial and Professional Regulation)
 - 24 in Cook County
 - Up to 185 more licenses may be made available by 12/21/2021

Next Steps





FY2021 Proposed Budget Calendar

| | |
|-------------|---|
| June 26 | Release Preliminary Forecast |
| July 1 | Provision of current estimates and methods |
| July 8 | Public hearing on 2020/2021 Preliminary Forecast |
| July 20-24 | Mid-Year Budget Hearings |
| July 30 | Approval of Methods and Quarterly Meeting |
| Aug | Additional meeting as required - Optional |
| Aug 31 | Issuance of Recommendations |
| July - Sept | Finalize FY2021 budget requests with Departments |
| October 8 | Present President's Executive Budget Recommendation |
| October 26 | Department and Public Hearings Start |
| October 30 | Quarterly Meeting |
| November 6 | Commissioner Amendments Due |
| November 19 | Board of Commissioners Vote on Appropriation Bill |

Proposed Methodological Improvements



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Vote on Interim Meeting



Discussion?



Adjournment

