



COOK COUNTY INDEPENDENT REVENUE FORECASTING COMMISSION

July 1, 2020

5:30PM-7PM

Microsoft Teams

MINUTES

Present: Chairman Ammar Rizki, Dr. David Merriman, Dr. Paula Worthington, Karen Walker

1. Logistics

Dean Constantinou Manager of Financial Planning and Analysis within the Office of The chief Executive Officer called the roll. All commission members were present.

2. Opening Remarks

Chairman Rizki expressed gratitude for the work of the commission during challenging times. He expressed that forecasting was made more challenging by the coronavirus and that the the current outlook is looking bleaker than our initial projections

3. Approval of the Minutes from the Meeting of 04/29/2020

A motion was made by Dr. David Merriman, seconded by Dr. Worthington, to approve the minutes from the meeting of 04/29/2020. The motion was approved unanimously

4. Preliminary Estimates for FY 2020 and FY 2021

Review of Preliminary Estimate

Dean Constantinou started with an overview of the 2020 budget, then moved on to discuss our economically sensitive revenues and explained how the underlying assumptions of preliminary estimates incorporated guidance from the Governor Pritzker's five phase "Restore Illinois" Plan.

Dr. Worthington clarified that this methodology assumes both the phases will proceed as indicated and that the economic relationship between the economic activity in a given phase and will impact County's revenues as estimated.

Chairman Rizki confirmed that these are the concerns we are currently facing and that we are currently using a middle of the road projection. He explained that that County was hoping that economic activity will be in a good swing by summer of next year, but there is no way to know.

Dean Constantinou explained in further detail about how state reporting of sales tax revenue by SIC code was used to develop the projection the Sales tax projection.

Dr. Worthington asked whether we have discussed the possibility of pent-up demand as we progress through phases. Dean Constantinou expressed that this would require significant assumptions and that more data may be needed.

Dr. Merriman asked about the assumption that the sales tax falls at the same rate as retail sales. Some academic work suggests that a good chunk of the sales tax comes from business-to business sales and other non-retail sales.

Dean Constantinou expressed that we would be receiving the first data representative of the effect of social distancing policies this month and that he may need to develop a different methodology if this data is off the mark.

Dr. Worthington indicated that the County should look at last 12-24 months of retail sales on the national level vs sales tax base in Cook County to develop a sense of how changes in retail sales on a national level translate down to the County's revenues.

Online Sales Tax Method

Dean Constantinou explained the methodology the County used to estimate Online Sales Tax in FY 2021.

Chairman Rizki commented about the expected compliance rate and indicated that this is expected to be lower because of initial troubles as the collection process is set up. Contact with ILDOR will continue, and compliance rates may be adjusted.

Dr. Merriman elaborated, stating that changes in consumer spending habits due to COVID-19 may increase online purchases, balancing out some of the loss expected from the traditional sales tax.

Chairman Rizki commented that not only might this make up for a loss in brick and mortar sales, it might also mean more sales overall.

Dr. Worthington indicated that the commerce department figure for April 2020 indicated a 12.6% increase relative to the period before. She recommends framing this as the share that e-commerce currently accounts for in the retail sales base. This is currently 11-12%, but will likely go up. She indicated that County estimate is conservative, but likely within the correct ballpark. She also recommended considering scaling by our share of the US personal income (1.8%) rather than population (1.6%).

Karen Walker suggested that the County's approach is conservative and cautioned that there are a number of elements that could change dramatically. A change in the share subject to tax or in the compliance rate could impact the eventual revenue collection.

Chairman Rizki expressed that this ultimately hinged on the actions of the Illinois Department of Revenue

Economic Pressures on Amusement/Hotel Tax

Kenneth Harris from the Department of Revenue presented the County's estimates on Hotel and Amusement tax.

Karen Walker recommended reviewing the assumptions for the Amusement tax in May and June of 2021. Kenneth Harris clarified that this would be the beginning of Phase 5 and that teams may not sell tickets far in advance, but that there might be a rush of tickets when fans can return to games. He expects sports stadiums to fill once they are allowed to.

Commissioner Rizki clarified that the worse case scenario is continued oscillation between Phase 2 and 3 next summer which would mean another year of revenue loss in amusement tax..

Kenneth Harris mentioned the possibility that sports teams do not offer refunds, and instead allow ticket holders to apply their tickets to 2021. This would mean less loss in 2020, but less gain in 2021.

Dr. Worthington asked what share of the hotel tax comes from hotels downtown that host conventions.

Kenneth Harris confirmed that downtown hotels were the major drivers of hotel tax, but did not have information about whether those hotel reservations were for conventions vs tourism or business.

Dr. Merriman brought up the fact that Cook County's revenue for conventions might be impacted by the fact that other states may be doing relatively better or worse with regard to COVID-19 (especially Florida).

Kenneth Harris brought up the fact that Chicago is currently a finalist to host the eastern NHL playoffs. This would mean reservations in the McCormick complex and increased consumer confidence.

Economic Pressures on home-Rule Taxes/Fees

Kenneth Harris presented the estimates of other home rule taxes.

Cannabis

Dean Constantinou presented the method used to estimate cannabis tax.

Dr Worthington commented that in states that legalized cannabis early, there were friendlier and more expansive supply-side infrastructure. Expansion of supply in those jurisdictions ultimately meant a decline in per-unit prices, but people were buying more. Illinois has been slower in licensing growers and cultivators, so there may be some risk on the supply side. This means that prices have remained relatively high. Growing the supply side may also cut down on black-market transactions and ask how the state thinking about these factors?

Commissioner Rizki explained that the Cook County board has convened a commission on cannabis and equity. Currently the state has issued approximately one license per 100,000 people, so there is a lot of room to grow. They did not want to have more licenses up front to be scooped up by big name brands. By using a phased approach, communities impacted by the war on drugs can access this economic opportunity. More licensing opportunities will be coming online, many of which will be in Cook County.

Karen Walker agreed that supply issues needed to be resolved. Also mentioned that changes in tax rates and legislation might occur in Illinois and effect the way that we compare ourselves to other states

Dean Constantinou clarified that the quantity sold was adjusted based on the tax rate, but less certainty about how the change in tax rate in Colorado affected consumption. Colorado reduced the tax, so people may have purchased more after this.

Sports Wagering

Dean Constantinou and Ken Harris presented the County's methodology for forecasting Sports wagering and some of the challenges associated with this estimate. will start being collected in 2020 and going into 2021.

Kenneth Harris clarified that a recent change was made in sports wagering. Originally, it was only supposed to be permitted in-person and not allowed online. There is uncertainty over what the application is going to look like and how widespread it is going to be. Because the big 2 remote players are barred for 18 months, revenue depends on how effectively local casinos can create applications and sign up betters. Current 2020 estimates do not take into account the early opening of online wagering.

Dr Merriman asked for clarification on how the tax was determined.

Chairman Rizki clarified that it is based on geolocation. The 2% tax will be levied on bets that are placed within Cook County.

Dr. Worthington expressed optimism over this revenue stream, as people might be enthusiastic to do this if they are not able to do other activities due to social distancing policies.

Chairman Rizki agreed, and expressed that the limitation would be on how quickly casinos rolled out their technology.

Available June Revenue Data-May

Kenneth Harris presented the most recent revenue data for May.

5. Long-Term Forecasts

Long Term Revenue Forecasts-General Fund

Dean Constantinou presented the long-term revenue forecast for Sales tax and the General Fund and provided some background on the main methodologies including the the Long Term-Moody's Analytics Regression Method, and the "Split CAGR" Method.

Dr. Worthington asked for clarification on the Moody's Regression and expressed interest in the Moody's assumptions on GDP. For the Split CAGR projections she expressed that she was not looking for a clear expression of potential growth paths.

6. Next Steps

Dean Constantinou explained that between July 30th and August 31st we must finalize estimates and determine that methodologies have been properly applied

Dr. Merriman stressed the importance of doing everything we can to understand revenues from Cook County Health System

Chairman Rizki confirmed he intended to fold health system into the revenue forecasting conversation and explained that the Health system is currently undergoing changes and that we will likely have a better idea of projections soon.

Dr. Worthington agreed that it was necessary to understand revenues from the health system and elaborated on how we should be getting more revenues from increased enrollment in County Care due to layoffs, but declines in elective surgeries would have a negative impact.

7. Public Comments

There was no public comment.

8. Adjournment

A motion was made by Dr. Merriman, seconded by Dr. Worthington, to adjourn the meeting. The motion was approved unanimously.

The next Independent Revenue Forecasting Commission meeting will be on July 30th, 2020