



Metropolitan Water Reclamation District of Greater Chicago officials say they're prepared for the estimated \$38.6 million drop in Personal Property Replacement Tax revenue this year, and earmarked previous years' excess revenues for pensions and capital improvements.  
( Courtesy of the Metropolitan Water Reclamation District of Greater Chicago )



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Out of nearly 6,500 local governments statewide, only four receive more Personal Property Replacement Tax revenue each year than the Metropolitan

## Water Reclamation District of Greater Chicago.

So, when the Illinois Department of Revenue estimates a 28.8% decline in those business taxes this year -- roughly \$1.3 billion less -- few government agencies will feel the effect of that drop more than the MWRD. The water treatment district that serves a large swath of the suburbs in addition to Chicago stands to receive \$38.6 million less than it did last year.

"As a special district, the MWRD has limited taxing authority, so PPRT is an important part of our revenue stream," said spokesman Patrick Thomas.

"However, due to the volatility and economic sensitivity of PPRT, we have traditionally taken a very conservative approach to revenue projections."

Thomas said district officials anticipated a decline after recent years of significant overperformance from this revenue source.

Prior to 2022, the district received about \$35 million on average annually from PPRT revenues. But starting two years ago, tax revenues began to balloon. In 2022, MWRD received \$118.7 million, and last year it climbed to \$134.1 million. In the state's current fiscal year, which runs from July 2023 through June 2024, MWRD is still expected to receive \$95.5 million, well above its historical average.

"We treated revenues anticipated above \$75 million as one-time revenues, so that we would not create a structural imbalance in the operating budget," Thomas said.

Much of the excess revenue allocated to MWRD went to shore up the district's pension obligations and into capital improvement funds to avoid the district from having to borrow for projects, Thomas said.

The explosion of PPRT revenue over the past few years was fueled by multiple factors, officials at the state revenue department said. Most significant was the growth of corporate profits, which translates to a growth in taxable income. Secondly, was a now-expired \$100,000 cap on how much businesses could deduct in operating losses.

The reason for this year's decline includes a multitude of reasons as well. As profits stagnate or drop, taxable income levels off or declines. With no deduction cap, businesses report larger losses, which translates to less taxable income. Additionally, state revenue officials said businesses were refunded more tax revenue than anticipated, and that loss is being reconciled this year.

The 6,488 local governments, which includes counties, municipalities, townships, school districts, parks, libraries, fire protection districts, water agencies and even more than a dozen mosquito abatement districts, still stand to split an estimated \$3.5 billion in PPRT revenue next year.

The personal property replacement tax is assessed on profits and investment income of corporations, small businesses, trusts, partnerships and even public utilities, according to the revenue department. It was created in 1979 after another tax on the value of business equipment was eliminated.

The loss of revenue hits some harder than others because distributions are based on an archaic formula devised by legislators almost 50 years ago that benefits government agencies with larger corporate footprints at that time.

Some suburbs, such as Arlington Heights and Naperville, had yet to go through a building boom when the new tax was created, and their corporate footprint was much smaller than it is today. Those towns won't take as big a financial hit this year as some of their longer-established neighbors, such as

Aurora and Des Plaines.

"We're not really losing anything in this," said Tom Kuehne, Arlington Heights' finance director.

But some suburban school districts do stand to lose quite a bit.

Maine Township High School District 207 expects to see a \$5 million drop in PPRT revenue, though the district is still estimated to receive \$12.1 million this year.

"Our historical average was about \$5.5 million a year, and when it began to climb so high I thought there's no way this can stay at this level," said Mary Kalou, District 207's assistant superintendent for business. "So we started putting anything over the historical average into our capital projects fund because we knew it wouldn't be sustainable for the education fund." The city of Chicago, the city's school system, park district and community college district together stand to see a decline in PPRT revenue of \$390.6 million this year, IDOR records show. Cook County, MWRD and nearly 500 other local government units in suburban Cook County are anticipated to see an aggregate \$282.7 million drop.

For the 159 local governments receiving PPRT funds in DuPage County, they're expected to see \$43.2 million less this year. In Kane County, it's an estimated \$25.7 million less for the 101 agencies that receive those tax dollars. Lake County's 168 taxing bodies should get \$39.2 million less.

In McHenry County, 108 local governments are expected to see a \$10.1 million decline in PPRT revenue, while Will County's 150 entities are due to see \$44.7 million less this year.

The remaining downstate entities will share in a \$470.1 million drop in PPRT revenue, records show.

The nearly 6,500 local governments statewide won't see an additional \$356 million in PPRT revenue this year because state legislators diverted that amount to a variety of state agencies. That includes \$105 million to the Illinois Community College Board, \$99 million to the comptroller's office, \$81 million to the revenue department and another \$81 million is split among six other state agencies, state revenue records show.

The amount of PPRT money diverted from local governments by the state has been growing each year from \$21 million in 2009, officials at the Illinois Municipal League warned its constituents last year.

"We'd like to see the portion that goes back to municipalities rise to what it was in the past," Kuehne said. "We've all done well over the past couple years with sales and income taxes, and that's really helped, but we're all wary of the future in terms of a potential recession."

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