

## LLGSF Cash Flow – Revised 7/24/07

This paper compares the cash flow from the LLGSF under the system in effect through calendar year 2007 to the new LLGSF system as of January 2008. Under the prior system, the LLGSF received a percentage of income tax receipts. The State deposited 5.7% of income tax receipts in each calendar month into the LLGSF. By the tenth day of the next month the State distributed the amount so deposited from the LLGSF to the counties. For example, throughout November 2007 the State will deposit income tax revenue to the credit of the LLGSF. In December 2007, the State will distribute those LLGSF funds. (Of course, in recent years, various “freeze” provisions have capped the 5.7% portion of the income tax earmarked for the LLGSF.)

Beginning in December 2007, the old LLGSF system will change. The State will not *deposit* any money into the LLGSF during that month. Instead, in January 2008, the State will start a new system by which it looks back to the total GRF tax receipts in the preceding month, and then it will deposit 2.22% of those total tax receipts into the LLGSF for distribution in the current month. Thus, the State will look at revenues received in December after December has ended and the total receipts for the month are final. This observation will occur in January. At this time, the State will transfer 2.22% of December’s receipts into the LLGSF and make the monthly distribution from the LLGSF in the same month.

The transition from the former LLGSF distribution system to the current system has created some confusion because under the new system no *deposit* occurs into the LLGSF in December 2007. The November 2007 LLGSF *deposit* will go to libraries in a December distribution just as the pre-H.B. 119 system has worked all along. No deposit will occur in December 2007, but in January 2008 a deposit will occur based on December 2007 receipts. A distribution of the January deposit into the LLGSF will occur *in the same month as the deposit*. In other words, the State will skip a monthly *deposit* into the LLGSF (in December 2007), but it will not skip any monthly *distribution*.

Once the new system starts in January 2008, the State will look back each month to the preceding month’s tax collections, deposit 2.22% of that preceding months GRF tax receipts to the credit of the LLGSF in the current month, and then distribute LLGSF funds to the counties in that same month. January revenues will determine the February *deposit and distribution*. February revenues will determine the March *deposit and distribution*. And so on.

Since GRF revenue collections occur on several different schedules based on the collection procedures of each GRF tax, the new LLGSF deposits and distributions will occur based on the aggregate effects of these different tax collection schedules rather than solely based on the collection schedule of the personal income tax.

Table 1 shows the distribution of LLGSF revenues in calendar year 2007. The months of August through December are estimated based on distributions in 2006.

**Table 1: Amount and Percentage of Old LLGSF Distribution By Month – 2007**

<b>Distribution Month</b>	<b>Amount</b>	<b>Percentage</b>
January 2007	\$34,512,685	7.5%
February 2007	\$99,171,452	21.7%
March 2007	\$20,970,582	4.6%
April 2007	\$21,772,631	4.8%
May 2007	\$53,542,121	11.7%
June 2007	\$20,849,843	4.6%
July 2007	\$31,384,301	6.9%
August 2007	\$29,987,157	6.5%
September 2007	\$33,646,977	7.3%
October 2007	\$45,364,550	9.9%
November 2007	\$34,627,478	7.6%
December 2007	\$32,140,549	7.0%
<b>Total CY 2007</b>	<b>\$457,970,324</b>	<b>100.0%</b>

The largest distributions tended to occur in February, May, and October. Each of these months follows a month with an income tax payment deadline. (Estimated income taxes for those not subject to withholding taxes are due on April 15, June 15, September 15, and January 15. Final payments are due on April 15.)

Table 2 shows an estimate of the LLGSF distribution percentages based on GRF tax receipts for the most recent twelve month period of actual data. These data provide only an approximate indication of the future tax collection profile for calendar year 2008 because the data span two different tax years – 2006 and 2007. Given that the State is still in the process of phased-in tax changes for both the corporate franchise tax and the personal income tax, any attempt to estimate monthly collections involves a moving target in any case. Therefore, the table provides only a rough approximation of 2008 cash flows.

**Table 2: Estimated Distribution of New LLGSF By Monthly Percentage of Total Annual Distribution – 2008**

Month	Tax Receipts	Distribution
December 2007	7.71%	
January 2008	11.39%	7.71%
February 2008	5.74%	11.39%
March 2008	7.55%	5.74%
April 2008	9.40%	7.55%
May 2008	13.11%	9.40%
June 2008	8.12%	13.11%
July 2008	6.83%	8.12%
August 2008	7.41%	6.83%
September 2008	8.02%	7.41%
October 2008	8.17%	8.02%
November 2008	6.55%	8.17%
December 2008		6.55%

Table 3 provides a side-by-side comparison of the cash flow amounts and percentages.

**Table 3: Comparison of Old and New LLGSF Cash Flow in Millions of Dollars and Monthly Percentage of Annual Distribution**

Month	Prior Law LLGSF Amount (2007)	Prior Law LLGSF Percent (2007)	New H.B. 119 LLGSF Amount (2008)	New H.B. 119 LLGSF Percent (2008)
January	\$34.51	7.5%	\$ 35.67	7.7%
February	\$99.17	21.7%	\$ 52.67	11.4%
March	\$20.97	4.6%	\$ 26.54	5.7%
April	\$21.77	4.8%	\$ 34.88	7.5%
May	\$53.54	11.7%	\$ 43.44	9.4%
June	\$20.85	4.6%	\$ 60.61	13.1%
July	\$31.38	6.9%	\$ 37.52	8.1%
August	\$29.99	6.5%	\$ 31.56	6.8%
September	\$33.65	7.3%	\$ 34.27	7.4%
October	\$45.36	9.9%	\$ 37.07	8.0%
November	\$34.63	7.6%	\$ 37.77	8.2%
December	\$32.14	7.0%	\$ 30.29	6.6%
Total	\$457.97	100.0%	\$ 462.30	100.0%

The table shows that about 7.5% of the total annual LLGSF amount was distributed under the old system in January. About 7.71% of the distribution of the new LLGSF will occur in January. Generally, the new system's reliance on all GRF tax revenues rather than just the personal income tax tends to smooth the cash flow over 12 months.

Chart 1 graphs the percentage data from Table 3 to provide a visual presentation of the same data.

**Chart 1: Cash Flow Comparison of the Monthly Percentage from the Total Annual LLGSF Distribution Based on Estimated 2007 and 2008 Distributions**

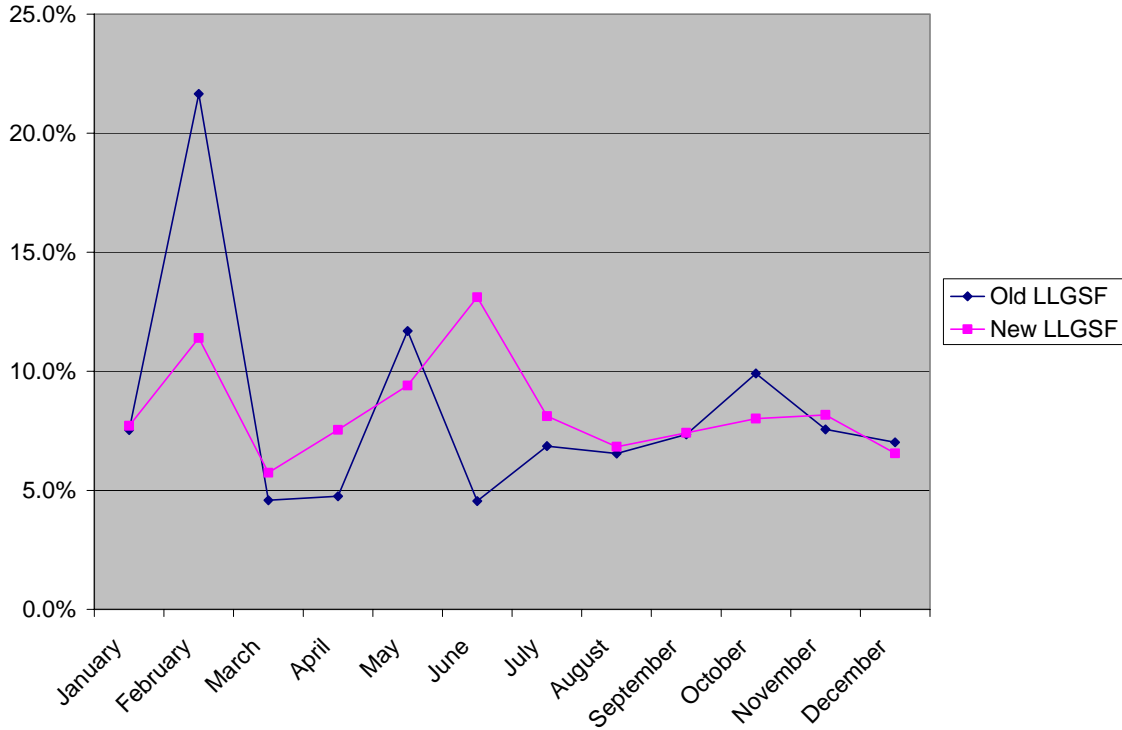
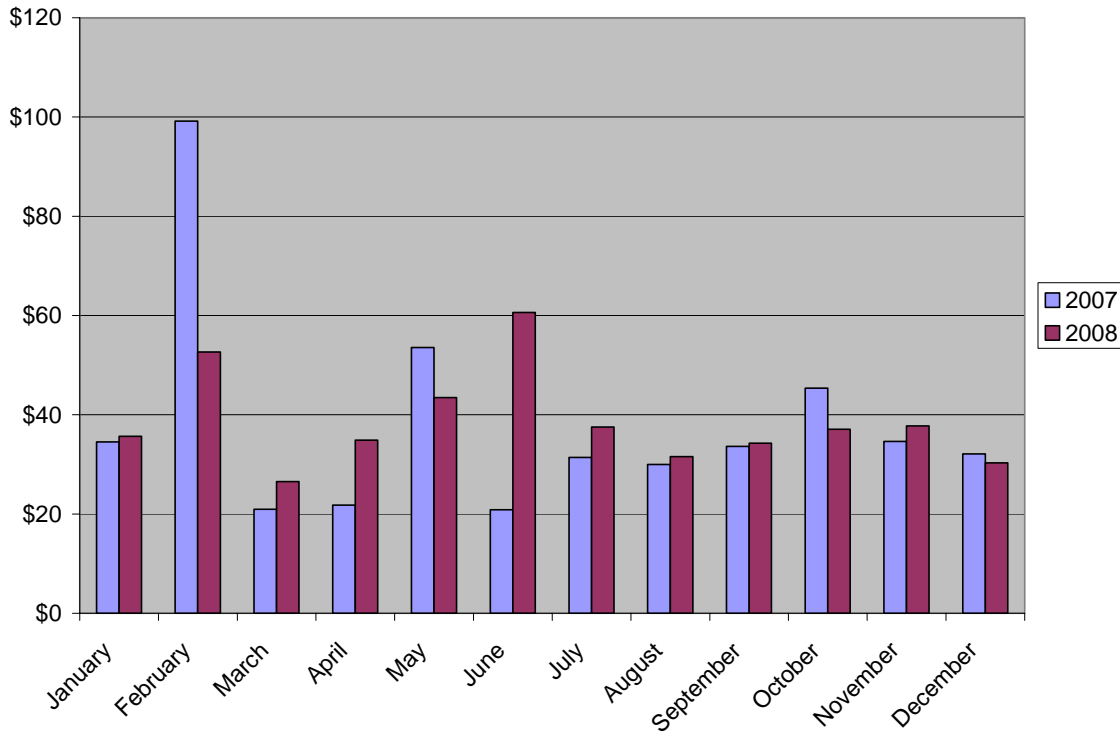


Chart 2 provides a different perspective on the data in Table 3 by showing a comparison of the amounts of each monthly distribution. Each should be remembered that some of the higher distribution shown the months for 2008 occurs because the total distribution from the LLGSF increases in that year at the same time as the changes in the cash flow percentages.

**Chart 2: Cash Flow Comparison of the Monthly LLGSF Distribution Amount Based on Estimated 2007 and 2008 Distributions (In Millions of Dollars)**



As long as libraries anticipate the change in the LLGSF distribution, the new distribution schedule should not create serious problems because the new schedule provides a somewhat more regular cash flow.

Two detailed tables accompany this memorandum. One table shows the dollar and percentage distributions to counties for the 12 months of calendar year 2007. Distribution amounts for the final six months of the calendar year equal the distributions for the corresponding months in 2006.

The other table estimates the distributions for the calendar months of 2008. In preparing these estimates of the LLGSF for 2008, no attempt was made to forecast GRF tax revenues for that calendar year. The amount distributed in calendar year 2008 was projected as follows:

- 1) For the period January through June 2008, the amount distributed will equal the total appropriation for FY08 (\$460 million) minus the amount distributed during the first six months of FY08, i.e., July 2007 through December 2007 (about \$207.2 million). The difference between \$460 million minus \$207.2 million equals about 252.8 million.
- 2) For the period July 2008 through December 2008, the amount distributed will equal a percentage of the amount appropriated for FY09 equivalent to the percentage of annual revenue distributed during the calendar year according to GRF cash flow patterns.

Approximately, 54.9% of the LLGSF will be distributed in the first six months of the calendar year and approximately 45.1% will be distributed in the second half of the calendar year. Assuming that the July to December distribution in 2008 equals 45.9% of the distribution amount for FY09 (\$464.5 million), then the amount distributed in the second half of calendar year 2008 will equal \$209.5 million.

The combination of \$252.8 million in January to June 2008 plus \$209.5 million for July to December 2008 yields a total distribution in calendar year 2008 of \$462.3 million.

The increase in LLGSF distributions from about \$458 million in calendar year 2007 to \$462.3 million in 2008 equals about a percentage increase of about 0.95%. To determine amounts for distribution in 2008, each county's 2007 annual distribution amount was increased by that percentage. Since the 0.95% increase is less than the inflation rate, no need existed to compute the equalization part of the LLGSF formula. Then, each county's annual distribution was distributed over the year according to the estimated percentage of GRF tax receipts for the month preceding each distribution month.

Note that the second step in this method does not account for changes in GRF tax receipts from year to year. Thus, this estimation method would not work in all circumstances. Nevertheless, the GRF projections are essentially flat for the period from FY08 to FY09. The estimates shown here exceed the Department of Taxation estimates by about \$800,000 for calendar year 2008.