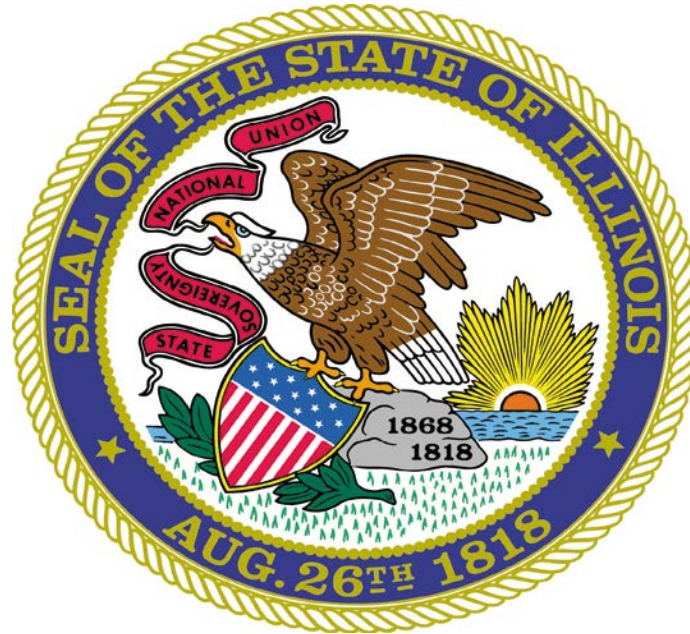


Revised FY 2020 Revenue Estimate and FY 2019 Revenue Update



Presented by:

Clayton Klenke, Executive Director and Jim Muschinske, Revenue Manager

Commission on Government Forecasting and Accountability

802 Stratton Office Building; Springfield, Illinois 62706

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<http://cgfa.ilga.gov>

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CGFA Background & Responsibilities

- Bi-Partisan, joint legislative commission, provides the General Assembly with information relevant to the Illinois economy, taxes and other sources of revenue and debt obligations of the State.
- Preparation of annual revenue estimates with periodic updates;
- Analysis of the fiscal impact of revenue bills;
- Preparation of State Debt Impact Notes;
- Periodic assessment of capital programs;
- Annual estimates of the liabilities of the State's group health insurance program and approval of contract renewals promulgated by the Department of Central Management Services;
- Implement the provisions of the State Facilities Closure Act;
- Annual estimates of public pension funding requirements and preparation of pension impact notes.
- Provide non-partisan research for General Assembly Members.

GENERAL FUNDS REVENUE



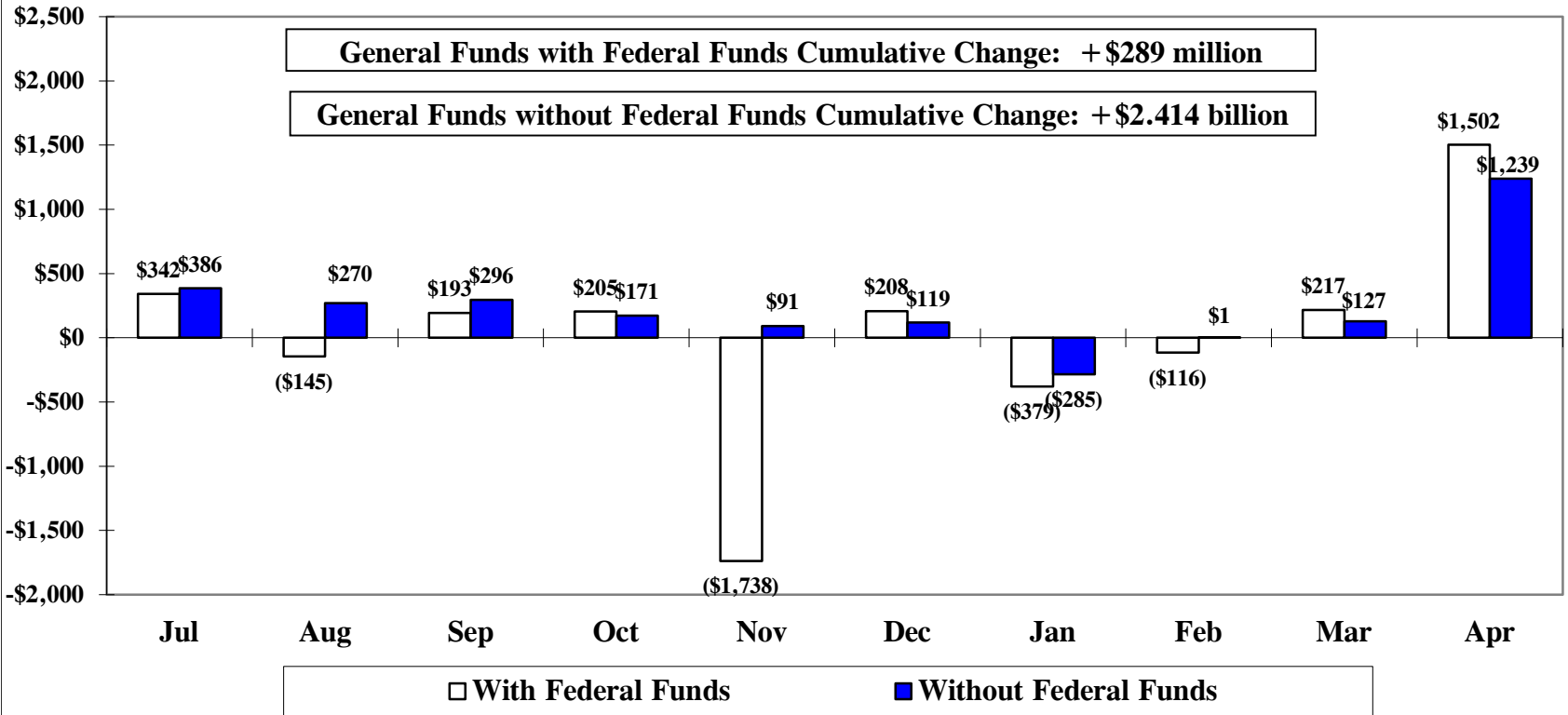
April's Revenue Performance Necessitates Revisions to FY 2019 and FY 2020 Forecasts

As reported in the Commission's April Revenue Briefing released May 3rd, overall base monthly receipts increased \$1.502 billion. The graph on the following page clearly illustrates the abrupt change in monthly receipt growth experienced in April. The surge in receipts stemmed from an unexpected over performance of non-wage components of income tax receipts. In turn, the increase in revenues enabled reimbursable spending to increase, thereby generating significant gains in federal source receipts.

Prior to the past month's phenomenal performance, overall revenues were performing about as expected. While the economically related sources were trending to meet and likely modestly exceed the Commission's March forecast, weakness in federal sources essentially offset most of that positive outlook.

However, April's performance necessitates that the Commission's March revenue forecast be revised to reflect FY 2019 actuals, slightly improved economic expectations, and conservatively accommodate some of the unexpected growth into the base outlook for FY 2020.

FY 2019 Monthly General Funds Performance
July thru April as Compared to Same Prior Year Months
 (\$ in millions)



* Figures exclude short-term borrowing and Budget Stabilization Fund transfers.

Year To Date

Excluding interfund borrowing, last year's \$2.5 billion bond proceeds transfer and the \$750 million related to the Treasurer's Investments this fiscal year, base general funds for the first three-quarters of FY 2019 are \$1.213 billion lower than last year. As explained in the November briefing, the reason for the decline is due to last year's federal reimbursement surge. Absent that, the closely-tied economic sources continue to perform quite well.

Through March, gross personal income tax is up by \$740 million, or \$604 million net. Gross sales tax receipts are up by an impressive \$438 million, or \$369 million net. Gross corporate income taxes are up by \$176 million, or \$162 million net. All other tax sources combined added \$81 million in gain.

Overall transfers have fallen by \$41 million through March. It's only when the comparatively much lower performance of federal sources is included that the year to date totals turn negative. Despite a stronger March, on a comparative basis Federal sources are down by \$2.388 billion due to reimbursable spending made possible from November 2017 bond sale proceeds.

GENERAL FUNDS RECEIPTS: YEAR TO DATE				
FY 2019 vs. FY 2018				
(\$ million)				
Revenue Sources	FY 2019	FY 2018	\$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	\$19,296	\$17,488	\$1,808	10.3%
Corporate Income Tax (regular)	2,488	2,025	\$463	22.9%
Sales Taxes	7,322	6,831	\$491	7.2%
Public Utility Taxes (regular)	732	743	(\$11)	-1.5%
Cigarette Tax	294	278	\$16	5.8%
Liquor Gallonage Taxes	145	144	\$1	0.7%
Vehicle Use Tax	25	23	\$2	8.7%
Inheritance Tax	325	268	\$57	21.3%
Insurance Taxes and Fees	322	348	(\$26)	-7.5%
Corporate Franchise Tax & Fees	206	175	\$31	17.7%
Interest on State Funds & Investments	114	58	\$56	96.6%
Cook County IGT	150	150	\$0	0.0%
Other Sources	410	439	(\$29)	-6.6%
Subtotal	\$31,829	\$28,970	\$2,859	9.9%
Transfers				
Lottery	586	576	\$10	1.7%
Riverboat transfers & receipts	230	238	(\$8)	-3.4%
Proceeds from Sale of 10th license	10	10	\$0	0.0%
Refund Fund transfer	327	0	\$327	N/A
Fund sweeps	0	251	(\$251)	N/A
Other	601	722	(\$121)	-16.8%
Total State Sources	\$33,583	\$30,767	\$2,816	9.2%
Federal Sources	\$2,748	\$4,873	(\$2,125)	-43.6%
Total Federal & State Sources	\$36,331	\$35,640	\$691	1.9%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	(\$1,872)	(\$1,714)	(\$158)	9.2%
Corporate Income Tax	(\$386)	(355)	(\$31)	8.7%
LGDF--Direct from PIT	(\$1,003)	(860)	(\$143)	16.6%
LGDF--Direct from CIT	(\$137)	(103)	(\$34)	33.0%
Downstate Pub/Trans--Direct from Sales	(\$393)	(357)	(\$36)	10.1%
Subtotal General Funds	\$32,540	\$32,251	\$289	0.9%
Treasurer's Investments	\$750	\$0	\$750	N/A
Interfund Borrowing	\$250	\$516	(\$266)	N/A
Income Tax Bond Fund Transfer	\$0	\$2,500	(\$2,500)	N/A
Transfer to Commitment Human Services	\$0	\$10	(\$10)	N/A
Total General Funds	\$33,540	\$35,277	(\$1,737)	-4.9%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding

10-May-19

UPDATED FY 2019 CGFA REVENUE ESTIMATE

As shown in the below summary table, incorporating actual revenue performance including the stellar month of April, the Commission has updated its expectations for FY 2019. Base general funds are now forecast to be \$38.730 billion, or \$1.344 billion higher than the estimate in early March. In total, when including interfund borrowing as well as proceeds from the Treasurer's Investment Borrowing program, estimated resources deposited into general funds increases to \$39.680 billion, which again, is \$1.344 billion above the March projection.

FY 2019 General Funds Revenue Estimate			
Updated CGFA [May-19] vs. March 2019 Forecast			
(\$ millions)	May 2019	March 2019	Difference
Income Taxes [Net]	\$21,730	\$20,611	\$1,119
Sales Tax [Net]	\$8,312	\$8,267	\$45
All Other State Sources	\$3,518	\$3,453	\$65
Transfers In	\$2,055	\$2,005	\$50
Federal Sources	\$3,115	\$3,050	\$65
Total	\$38,730	\$37,386	\$1,344
Interfund Borrowing	\$250	\$250	\$0
Treasurer's Investment Borrowing	\$700	\$700	\$0
Total General Funds	\$39,680	\$38,336	\$1,344

Net income taxes are now projected to total \$21.730 billion, an upward revision of \$1.119 billion from the Commission's March estimate. The increase is comprised of a \$925 million adjustment to net personal income tax and a \$194 million revision to net corporate income tax.

Utilizing IDoR collection data which provides some insight into tax receipts by component, most of the surprising over performance was related to final extension payments. Unfortunately, it is not possible to precisely quantify from available data the reasons for the unusually high level of those payments. Non-wage earnings such as capital gains, dividends, as well as under withholding, and unpredictable tax payer behavior potentially linked to earlier tax changes [e.g. SALT changes, particularly timing of property tax payments], are all offered as explanations and contributors to the unexpected surge. Unfortunately, those non-wage components are also the most volatile. As a consequence, as will be discussed in a later section, while April's performance is reflected in the FY 2019 revision, due to the recent erratic nature of those factors, a conservative approach to adjusting next year's estimate is warranted.

UPDATED FY 2019 CGFA REVENUE ESTIMATE

In addition to the revisions made to the forecast of income taxes, the Commission will take this opportunity to make revisions to other revenue lines that would benefit from an updated projection.

Sales tax continues to consistently perform slightly above expectation; as a result the estimate will undergo a modest \$45 million upward revision.

All other state sources have undergone an increase of \$65 million. Specifically, inheritance tax has continued to outpace expectations, and while volatile in its own right, requires an increase of \$25 million. Corporate franchise tax has surprised for much of the year and strength of receipting is reflected in a \$25 million upward revision. Interest income, reflecting higher comparable rates of return, has done well all year, justifying its \$15 million upward revision.

The estimate for transfers in has been increased \$50 million, reflecting a one-time transfer received this spring.

The estimate for federal sources is experiencing a modest upward \$65 million revision. After experiencing a rather disappointing year thru March, April's federal sources surged as a result of reimbursable spending made possible by the growth in income tax receipts. The revised estimate reflects anticipated performance over the final two months in line with last year's fairly modest performance.

<i>FY 2019 GENERAL FUNDS REVENUE ESTIMATE</i>			
<i>UPDATED CGFA [May-19] vs. March 2019 Forecast</i>			
(millions)			
<u>Revenue Sources</u>	FY 2019 CGFA May-19	FY 2019 CGFA Mar-19	\$ Difference
State Taxes			
Personal Income Tax	\$22,675	\$21,588	\$1,087
Corporate Income Tax (regular)	\$3,080	\$2,834	\$246
Sales Taxes	\$8,820	\$8,775	\$45
Public Utility (regular)	\$879	\$879	\$0
Cigarette Tax	\$348	\$348	\$0
Liquor Gallonage Taxes	\$174	\$174	\$0
Vehicle Use Tax	\$31	\$31	\$0
Inheritance Tax	\$375	\$350	\$25
Insurance Taxes & Fees	\$421	\$421	\$0
Corporate Franchise Tax & Fees	\$230	\$205	\$25
Interest on State Funds & Investments	\$140	\$125	\$15
Cook County Intergovernmental Transfer	\$244	\$244	\$0
Other Sources	\$676	\$676	\$0
Subtotal	\$38,093	\$36,650	\$1,443
Transfers			
Lottery	\$731	\$731	\$0
Riverboat transfers and receipts	\$261	\$261	\$0
Proceeds from sale of 10th license	\$10	\$10	\$0
Refund Fund	\$327	\$327	\$0
Other	\$726	\$676	\$50
Total State Sources	\$40,148	\$38,655	\$1,493
Federal Sources [Base]	\$3,115	\$3,050	\$65
Subtotal Federal & State Sources	\$43,263	\$41,705	\$1,558
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax [9.7% '19]	(\$2,199)	(\$2,094)	(\$105)
Corporate Income Tax [15.5% '19]	(\$477)	(\$439)	(\$38)
Local Government Distributive Fund			
Personal Income Tax	(\$1,179)	(\$1,122)	(\$57)
Corporate Income Tax	(\$170)	(\$156)	(\$14)
Sales Tax Distribution to the PTF and DPTF	(\$508)	(\$508)	\$0
Subtotal General Funds	\$38,730	\$37,386	\$1,344
Interfund Borrowing	\$250	\$250	\$0
Treasurer's Investment Borrowing	\$700	\$700	\$0
Total Revenues General Funds	\$39,680	\$38,336	\$1,344

UPDATED FY 2019 REVENUE ESTIMATE COMPARISON – CGFA and GOMB

On May 7th, the Directors of IDoR and GOMB informed Legislative Leaders and Appropriations Chairs that due to April’s strong performance and year-to-date collections, the Administration’s estimate of FY 2019 income tax revenues would be increased \$1.435 billion from their February forecast. The accompanying table compares the Commission’s revised May FY 2019 general funds revenue estimate to the referenced GOMB adjusted figures. [Until a more official public document is released detailing the update, the GOMB estimate will be presented as “unofficial”.]

As shown, after both CGFA and GOMB revised their respective outlooks for FY 2019, the estimates are similar [as they were back in March], but the differential has grown slightly. In March, prior to the updated forecasts, the Commission’s FY 2019 estimate was a mere \$24 million below GOMB’s expectations. While proportionately still minor, differing by less than three-tenths of a percent, the difference in the estimate has grown to \$115 million [with the Commission remaining below the GOMB’s unofficial revision].

FY 2019 GENERAL FUNDS REVENUE COMPARISON			
UPDATED CGFA [May-19] vs. GOMB [Unofficial May-2019]			
(\$ millions)	CGFA	GOMB	Difference
Income Taxes [Net]	\$21,730	\$21,892	(\$162)
Sales Tax [Net]	\$8,312	\$8,229	\$83
All Other State Sources	\$3,518	\$3,439	\$79
Transfers In	\$2,055	\$2,065	(\$10)
Federal Sources	\$3,115	\$3,220	(\$105)
Total	\$38,730	\$38,845	(\$115)
Interfund Borrowing	\$250	\$250	\$0
Treasurer's Investment Borrowing	\$700	\$700	\$0
Total General Funds	\$39,680	\$39,795	(\$115)

On a net basis the revised forecasts for income taxes are separated by \$162 million, with the Commission’s outlook being lower. This is in contrast to the previous estimate, which had the Commission above the GOMB at a similar level of magnitude [\$154 million]. This indicates that the Commission, after adjusting for April’s performance, is more conservative in its outlook for the remaining two months of the fiscal year. A more detailed comparison of other revenue sources are presented on the following page.

As mentioned earlier, the Commission is taking the opportunity to revise the estimates of other revenue lines that would benefit from fine-tuning. The GOMB has not indicated their intention to do likewise, so the comparison for the other non-income tax related lines will reflect the GOMB's estimate presented in the February budget book.

With a slight increase in its forecast for sales tax receipts, the Commission's estimate of net sales tax is \$83 million above the GOMB's published levels.

With the aforementioned upward adjustments in some of the other state source revenue lines, e.g. inheritance, corporate franchise, etc., the Commission's estimate of that category is \$79 million more than the GOMB assumed in February.

After a modest increase in projected transfers, the Commission is only \$10 million below the GOMB level.

While a slight upward adjustment is being made in the Commission's outlook for federal sources, the estimate is still \$105 million below GOMB expectations.

<i>FY 2019 GENERAL FUNDS REVENUE COMPARISON UPDATED CGFA [May-19] vs. GOMB [Unofficial May-19]</i>			
<i>(millions)</i>			
Revenue Sources	FY 2019 CGFA May-19	FY 2019 GOMB May-19	\$ Difference
State Taxes			
Personal Income Tax	\$22,675	\$22,914	(\$239)
Corporate Income Tax (regular)	\$3,080	\$3,029	\$51
Sales Taxes	\$8,820	\$8,735	\$85
Public Utility (regular)	\$879	\$868	\$11
Cigarette Tax	\$348	\$347	\$1
Liquor Gallonage Taxes	\$174	\$174	\$0
Vehicle Use Tax	\$31	\$30	\$1
Inheritance Tax	\$375	\$315	\$60
Insurance Taxes & Fees	\$421	\$428	(\$7)
Corporate Franchise Tax & Fees	\$230	\$206	\$24
Interest on State Funds & Investments	\$140	\$100	\$40
Cook County Intergovernmental Transfer	\$244	\$244	\$0
<u>Other Sources</u>	<u>\$676</u>	<u>\$727</u>	<u>(\$51)</u>
Subtotal	\$38,093	\$38,117	(\$24)
Transfers			
Lottery	\$731	\$731	\$0
Riverboat transfers and receipts	\$261	\$263	(\$2)
Proceeds from sale of 10th license	\$10	\$10	\$0
Refund Fund	\$327	\$327	\$0
<u>Other</u>	<u>\$726</u>	<u>\$734</u>	<u>(\$8)</u>
Total State Sources	\$40,148	\$40,182	(\$34)
Federal Sources [Base]	\$3,115	\$3,220	(\$105)
Subtotal Federal & State Sources	\$43,263	\$43,402	(\$139)
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax [9.7% '19]	(\$2,199)	(\$2,224)	\$25
Corporate Income Tax [15.5% '19]	(\$477)	(\$469)	(\$8)
Local Government Distributive Fund			
Personal Income Tax	(\$1,179)	(\$1,191)	\$12
Corporate Income Tax	(\$170)	(\$167)	(\$3)
Sales Tax Distribution to the PTF and DPTF	(\$508)	(\$506)	(\$2)
Subtotal General Funds	\$38,730	\$38,845	(\$115)
Interfund Borrowing	\$250	\$250	\$0
Treasurer's Investment Borrowing	\$700	\$700	\$0
Total Revenues General Funds	\$39,680	\$39,795	(\$115)

UPDATED CGFA FY 2020 GENERAL FUNDS FORECAST [per Current Law]

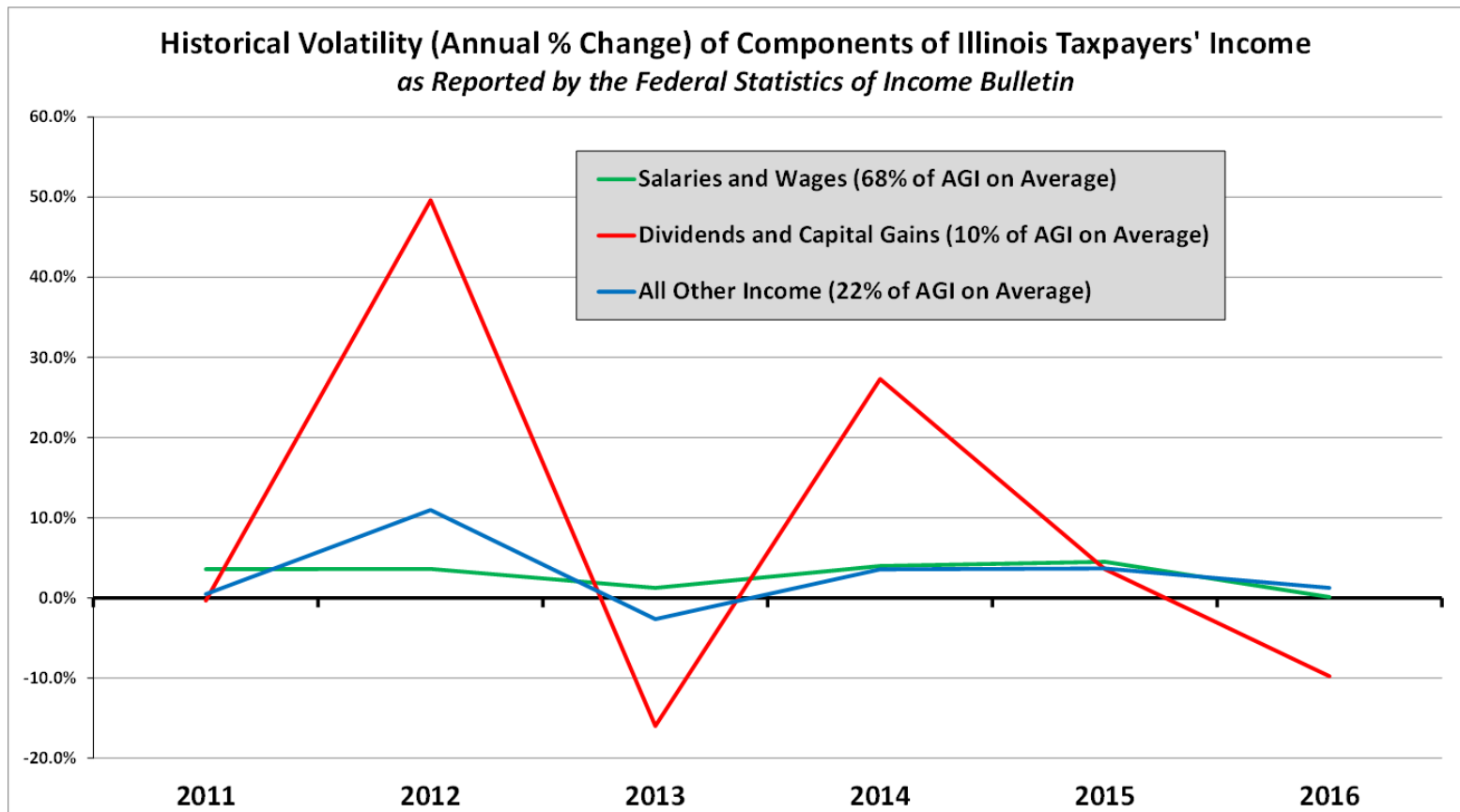
The Commission's updated FY 2020 forecast under current law is presented below and in more detail on the following page. The revised estimate of \$38.956 billion represents an increase of \$770 million from the Commission's March projection. The updated forecast reflects a conservative view of the impact that the over performance in FY 2019 will have on the upcoming fiscal year.

Updated FY 2020 General Funds Revenue			
CGFA Estimates [per Current Law] vs. March 2019 Forecast			
(\$ millions)	Updated May-19	March-19	Difference
Income Taxes [Net]	\$21,781	\$21,056	\$725
Sales Tax [Net]	\$8,506	\$8,461	\$45
All Other State Sources	\$3,369	\$3,369	\$0
Transfers In	\$1,753	\$1,753	\$0
Federal Sources	\$3,547	\$3,547	\$0
Total	\$38,956	\$38,186	\$770
Interfund Borrowing	\$0	\$0	\$0
Treasurer's Investment Borrowing	\$0	\$0	\$0
Total General Funds	\$38,956	\$38,186	\$770

As shown, the updated FY 2020 forecast of \$21.781 billion for the estimate of net income taxes represents an increase of \$725 million from the March forecast. The estimate of net personal income tax is increased \$530 million from the previous estimate [far less than the \$925 million net upward revision made to the FY 2019 estimate]. While the revision utilizes slightly higher underlying base growth due to economic conditions related to improved wage and employment measures, a cautious approach is adopted in terms of incorporating FY 2019's April final payment spike into the base. As mentioned earlier, the area shown to be primarily responsible for the surge in April's receipts, final payments, also is the most susceptible to market conditions and shifts in taxpayer behavior. As such, a conservative approach was adopted for incorporating FY 2019 over performance into FY 2020 expectations, hence the comparatively smaller upward adjustment being made to next year's forecast.

The graph below illustrates the dramatic volatility swings that different types of income have undergone in recent years. It is based on Illinois data published in the Federal Statistics of Income Bulletin. As shown, while dividends and capital gains comprise a smaller overall portion than salaries and wages, and other forms of income [e.g. pensions/annuities, taxable social security, taxable interest, and other miscellaneous revenue not falling into the other two major categories], the fluctuation in that category is vastly higher than other forms of income.

To clarify, this graph represents types of income, not taxes, that are reported on federal returns from Illinois taxpayers. However, the visual serves to demonstrate the extreme volatility that non-wage income has experienced in recent years, and to provide some explanation as to the subsequent swings in actual tax receipts, specifically, from final payments. While the last data set available is tax year 2016, based on actual tax receipt performance, it's almost a certainty that when tax years 2017 and 2018 are published, they too will demonstrate significant differences in growth rates by income type. When coupled with changes in taxpayer behavior and receipt patterns related to earlier tax changes both at the Federal and State levels, it should come as no surprise that receipt volatility has complicated revenue estimating.



UPDATED CGFA FY 2020 GENERAL FUNDS FORECAST [per Current Law]

The estimate of net corporate income taxes has been revised up \$195 million. The revision reflects improved base expectations of taxable corporate profits from the previous outlook, but also is cognizant of the potential that some of April's gains will not be repeatable next year. As one of the most historically volatile major revenue sources, forecasting corporate income taxes is always challenging. That said, based on actual performance, improved expectations, as well as a review of how receipts performed historically, the Commission's revised forecast should still be viewed as conservative.

The estimate of net sales taxes is revised up \$45 million from the previous forecast. The update reflects the modest growth in the base consistent with the FY 2019 revision, which was also increased \$45 million.

While some smaller revenue lines underwent minor upward revisions in FY 2019, at this time those adjustments do not warrant a corresponding change to the FY 2020 outlook, as they were either one-time in nature, or reflected receipt patterns not expected to repeat. As a result, the remaining estimates are the same as those presented in March.

UPDATED FY 2020 GENERAL FUNDS REVENUE			
CGFA ESTIMATES [per Current Law] vs. March 2019 Forecast			
(millions)			
<u>Revenue Sources</u>	FY 2020 CGFA May-19	FY 2020 CGFA Mar-19	\$ Difference
State Taxes			
Personal Income Tax	\$22,755	\$22,128	\$627
Corporate Income Tax (regular)	\$3,136	\$2,890	\$246
Sales Taxes	\$9,070	\$9,022	\$48
Public Utility (regular)	\$835	\$835	\$0
Cigarette Tax	\$338	\$338	\$0
Liquor Gallonage Taxes	\$174	\$174	\$0
Vehicle Use Tax	\$30	\$30	\$0
Inheritance Tax	\$305	\$305	\$0
Insurance Taxes & Fees	\$416	\$416	\$0
Corporate Franchise Tax & Fees	\$205	\$205	\$0
Interest on State Funds & Investments	\$135	\$135	\$0
Cook County Intergovernmental Transfer	\$244	\$244	\$0
<u>Other Sources</u>	<u>\$687</u>	<u>\$687</u>	<u>\$0</u>
Subtotal	\$38,330	\$37,409	\$921
Transfers			
Lottery	\$745	\$745	\$0
Riverboat transfers and receipts	\$258	\$258	\$0
Proceeds from sale of 10th license	\$10	\$10	\$0
Refund Fund	\$25	\$25	\$0
<u>Other</u>	<u>\$715</u>	<u>\$715</u>	<u>\$0</u>
Total State Sources	\$40,083	\$39,162	\$921
Federal Sources	\$3,547	\$3,547	\$0
Subtotal Federal & State Sources	\$43,630	\$42,709	\$921
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax [9.7% '19; 9.75% '20]	(\$2,219)	(\$2,157)	(\$62)
Corporate Income Tax [15.5% '19; 14.75% '20]	(\$463)	(\$426)	(\$37)
Local Government Distributive Fund			
Personal Income Tax	(\$1,245)	(\$1,210)	(\$35)
Corporate Income Tax	(\$183)	(\$169)	(\$14)
Sales Tax Distribution to the PTF and DPTF	(\$564)	(\$561)	(\$3)
Subtotal General Funds	\$38,956	\$38,186	\$770
Interfund Borrowing	\$0	\$0	\$0
Treasurer's Investment Borrowing	\$0	\$0	\$0
Total Revenues General Funds	\$38,956	\$38,186	\$770

UPDATED CGFA FY 2020 vs. FY 2019 ESTIMATES

As shown below, the Commission's updated FY 2020 outlook represents base growth of only \$226 million over the updated FY 2019 forecast. This timid growth is considerably less than the forecasted base growth of \$800 million utilized during March. As detailed earlier, while the overall estimate for FY 2020 has been upgraded by \$770 million, the reduced expectation of growth, particularly in the areas of income taxes, clearly illustrates the Commission's cautious view of the uncertainties caused by FY 2019's performance. [Once interfund borrowing and Treasurer's Investment Borrowing are included, the year-over-year comparison returns a net change of -\$724 million].

Updated FY 2020 and FY 2019 General Funds Revenue CGFA Estimates [per Current Law] May 2019			
(\$ millions)	FY 2020	FY 2019	Difference
Income Taxes [Net]	\$21,781	\$21,730	\$51
Sales Tax [Net]	\$8,506	\$8,312	\$194
All Other State Sources	\$3,369	\$3,518	(\$149)
Transfers In	\$1,753	\$2,055	(\$302)
Federal Sources	\$3,547	\$3,115	\$432
Total	\$38,956	\$38,730	\$226
Interfund Borrowing	\$0	\$250	(\$250)
Treasurer's Investment Borrowing	\$0	\$700	(\$700)
Total General Funds	\$38,956	\$39,680	(\$724)

As shown, in total, net income taxes are expected to return gains of only \$51 million. The significant decrease in assumed growth from the March forecast [then valued at \$445 million] is related to the FY 2019 over performance and a conservative view of its impact on year-over-year comparisons.

UPDATED CGFA FY 2020 vs. FY 2019 ESTIMATES

Net sales tax is expected to return growth of \$194 million, the same level of growth assumed in March, and still reflects a view that current rates of growth will moderate during the course of the fiscal year.

All other sources are expected to drop \$149 million, more than the \$84 million decline assumed in March. The update reflects that the upward revisions to some lines in FY 2019 are viewed as one-time and should not repeat next year.

Transfers into the general funds are expected to fall \$302 million, compared to the \$252 million decline assumed in March, reflecting one-time transfers in FY 2019. [While the Commission continues to assume Refund Fund transfers of only \$25 million in FY 2020; it is quite possible that considerably more may be available to transfer. However, some of the over performance of final extension income tax payments in April 2019 may manifest in increased future demand for refunds].

UPDATED FY 2020 and FY 2019 GENERAL FUNDS REVENUE CGFA ESTIMATES [per Current Law]			
(millions)			
Revenue Sources	FY 2020 CGFA May-19	FY 2019 CGFA May-19	\$ Difference
State Taxes			
Personal Income Tax	\$22,755	\$22,675	\$80
Corporate Income Tax (regular)	\$3,136	\$3,080	\$56
Sales Taxes	\$9,070	\$8,820	\$250
Public Utility (regular)	\$835	\$879	(\$44)
Cigarette Tax	\$338	\$348	(\$10)
Liquor Gallonage Taxes	\$174	\$174	\$0
Vehicle Use Tax	\$30	\$31	(\$1)
Inheritance Tax	\$305	\$375	(\$70)
Insurance Taxes & Fees	\$416	\$421	(\$5)
Corporate Franchise Tax & Fees	\$205	\$230	(\$25)
Interest on State Funds & Investments	\$135	\$140	(\$5)
Cook County Intergovernmental Transfer	\$244	\$244	\$0
<u>Other Sources</u>	<u>\$687</u>	<u>\$676</u>	<u>\$11</u>
Subtotal	\$38,330	\$38,093	\$237
Transfers			
Lottery	\$745	\$731	\$14
Riverboat transfers and receipts	\$258	\$261	(\$3)
Proceeds from sale of 10th license	\$10	\$10	\$0
Refund Fund	\$25	\$327	(\$302)
<u>Other</u>	<u>\$715</u>	<u>\$726</u>	<u>(\$11)</u>
Total State Sources	\$40,083	\$40,148	(\$65)
Federal Sources	\$3,547	\$3,115	\$432
Subtotal Federal & State Sources	\$43,630	\$43,263	\$367
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax [9.7% '19; 9.75% '20]	(\$2,219)	(\$2,199)	(\$20)
Corporate Income Tax [15.5% '19; 14.75% '20]	(\$463)	(\$477)	\$14
Local Government Distributive Fund			
Personal Income Tax	(\$1,245)	(\$1,179)	(\$66)
Corporate Income Tax	(\$183)	(\$170)	(\$13)
Sales Tax Distribution to the PTF and DPTF	(\$564)	(\$508)	(\$56)
Subtotal General Funds	\$38,956	\$38,730	\$226
Interfund Borrowing	\$0	\$250	(\$250)
Treasurer's Investment Borrowing	\$0	\$700	(\$700)
Total Revenues General Funds	\$38,956	\$39,680	(\$724)

UPDATED FY 2020 OUTLOOK COMPARISON – CGFA and GOMB [unofficial]

In the same letter from the Directors of IDoR and GOMB referenced earlier, it was stated that the Administration’s FY 2020 estimates for income taxes would be increased “roughly \$800 million higher than initially projected, or nearly \$22 billion” as a consequence of FY 2019’s over performance. Utilizing those statements, the following table compares the Commission’s revised FY 2020 estimate based on current law as well as the GOMB forecast presented in the Budget Book, but now includes an additional \$800 million of net income taxes in their estimate. Again, until a public document detailing the GOMB’s official revision is published, their forecast is presented as “unofficial”.

As it did back in March, comparing the CGFA and the GOMB FY 2020 estimates presents a challenge. While the Commission’s estimates are based on current law, the GOMB’s forecast assumes a number of revenue initiatives proposed by the Governor. As a result, the Commission’s forecast of FY 2020 general funds revenues are \$747 million less than those under the assumed GOMB’s revised figure. [This differential is very similar to the same comparison conducted back in March when the Commission forecast was \$717 million below GOMB levels].

In an attempt to offer a more meaningful comparison, the Commission has adjusted the GOMB updated estimates to “current law” levels, based in most instances on information provided in the FY 2020 Budget Book Narratives. In doing so, the estimates close much of the gap, differing by only \$111 million, with the Commission being the lower of the two. A similar analysis conducted in March had the difference at \$81 million, again with the Commission at a slightly lower level.

Updated FY 2020 General Funds Estimate Comparison				GOMB Estimates	
CGFA [Current Law] vs. Unofficial GOMB [With Revenue Initiatives]				ADJUSTED	
(\$ millions)	CGFA May-19	GOMB May-19	Difference	To Current Law	Difference
Income Taxes [Net]	\$21,781	\$21,989	(\$208)	\$21,820	(\$39)
Sales Tax [Net]	\$8,506	\$8,537	(\$31)	\$8,432	\$74
All Other State Sources	\$3,369	\$3,797	(\$428)	\$3,447	(\$78)
Transfers In	\$1,753	\$1,833	(\$80)	\$1,821	(\$68)
Federal Sources	\$3,547	\$3,547	\$0	\$3,547	\$0
Total	\$38,956	\$39,703	(\$747)	\$39,067	(\$111)

Adjustments made to the GOMB estimates total \$636 million, and include several proposed changes not found within the oft cited “\$1.121 billion” of Governor’s initiatives.

Net Income Taxes—Total Downward Adjustment of \$169 million

Phase-out Private School Scholarships—The Governor proposes to phase-out over the next three years a recently enacted tax credit program available for contributions to private schools. The FY 2020 budget assumes that an additional \$6 million in net income taxes will be retained in the general funds.

Decouple from Federal Repatriation Credit—The proposed budget assumes a decoupling from a federal provision which allows a federal tax paid on foreign derived income. As a consequence, a decoupling would equate to an “addition modification” and would allow Illinois to tax the full amount of certain income apportioned to Illinois. The budget assumes the net value of the decoupling in FY 2020 to be \$94 million.

5% LDGF retention—The Governor’s proposed budget assumes the continuation of keeping the current levels of local share, valued at approximately \$69 million. Again, under current law, this state retention of local funds is eliminated.

Net Sales Tax –Total Downward Adjustment of \$105 million

Cap the Retailers Discount—The budget assumes that the retailers discount will be capped at \$1,000 per month [currently, retailers receive a discount of 1.75% of sales tax due]. The value of the capped limit is assumed to add \$75 million to state revenues.

5% retention of local transit funds—The Governor’s proposed budget assumes the continuation of current levels of transportation funds retention, valued at approximately \$30 million. Again, under current law, this extra amount would be eliminated.

All Other State Sources—Total Net Downward Adjustment of \$350 million

Cigarette tax rate and distribution change—The Governor’s proposed budget, in addition to changing the rate, as well as taxing e-cigs, includes a distribution change to cigarette taxes. The new proposal would have only \$6 million a month going to general funds, with the remainder to the Healthcare Provider Relief Fund. While the overall tax revenue generated from the tobacco tax proposals is approximately \$50-\$65 million, the impact specific to general funds is an estimated downward adjustment of \$266 million.

Sports wagering license fees—Included in the general funds revenue forecast presented by the Governor is an estimated \$200 million in “accelerated” license fees related to sports wagering. According to the budget book narrative, 90% of the accelerated license fees would be credited back to licensees in the first five years of operation.

Recreational Cannabis License Fees—Similar to the acceleration in license fees described in sports wagering, the proposed FY 2020 general funds budget includes \$170 million in projected license fee and future tax credit arrangements.

Delinquent Tax Payment Incentive Program—Presumably similar to past “tax amnesty” programs, the Governor’s revenue forecast assumes that \$175 million in tax revenue “across all state sources” will be generated as a result.

Real Estate Transfer Tax distribution change—The Governor’s revenue plan assumes a distribution change, whereby \$51 million would flow to the General Revenue Fund, rather than to the OSLAD and Illinois Affordable Housing Trust Fund, in FY 2020 only. [This component is not routinely part of the “1.121 billion” discussion.]

Plastic Bag Tax—An excise tax on plastic bags is proposed, with a resulting \$20 million assumed in FY 2020.

Transfers in—Total Downward Adjustment of \$12 million

Sports wagering—In addition to the aforementioned licensing revenue, the budget assumes that actual sports wagering [at a proposed 20% tax rate] would begin operating in time to produce a net \$12 million in taxes transferred to the general funds.

Other Governor’s Revenue Initiatives

In addition to the aforementioned revenue initiatives that would have a direct impact on general revenues, a few other proposals would impact on other state funds. For example:

Managed Care Organization Assessment—The Governor proposes a MCOA to cover the cost of the Medicaid program. As stated in the Budget Book, this assessment would be structured “...to generate approximately \$390 million in new revenues for deposit into the Healthcare Provider Relief Fund...”.

E-cigs and Cigarette tax rates—As previously discussed, the Governor’s proposed smoking/tobacco tax distribution changes would reduce direct receipts to the general funds, but taxing e-cigs along with raising the cigarette tax rate is expected to benefit the Healthcare Provider Relief Fund [overall stated increase of \$65 million].

The two above items total \$455 million of additional resources that would act to alleviate pressure on the general funds budget.

Video Gaming—The Governor proposes to change the taxing structure of video gaming to account for “...net terminal income at the parent entity level.” The Budget Book assigns a value of this initiative to be an additional \$89 million per year to the Capital Projects Fund to assist in payment of debt service.

DETAILED GENERAL FUNDS REVENUE HISTORY FY 2009 - FY 2018 and Estimated FY 2019-20 [May-19]

(\$ Million)

Revenue Sources	Actual Receipts FY 2009	Actual Receipts FY 2010	Actual Receipts FY 2011	Actual Receipts FY 2012	Actual Receipts FY 2013	Actual Receipts FY 2014	Actual Receipts FY 2015	Actual Receipts FY 2016	Actual Receipts FY 2017	Actual Receipts FY 2018	FY 2019 Estimate May-19	FY 2020 Estimate May-19
State Taxes												
Personal Income Tax	\$10,219	\$9,430	\$12,301	\$17,000	\$18,323	\$18,388	\$17,682	\$15,299	\$15,385	\$20,784	\$22,675	\$22,755
Corporate Income Tax (regular)	2,073	1,649	2,277	2,983	3,679	3,640	3,129	2,334	1,610	2,607	3,080	3,136
Sales Taxes	6,773	6,308	6,833	7,226	7,355	7,676	8,030	8,063	8,043	8,256	8,820	9,070
Public Utility Taxes (regular)	1,168	1,089	1,147	995	1,033	1,013	1,006	926	884	896	879	835
Cigarette Tax	350	355	355	354	353	353	353	353	353	344	348	338
Liquor Gallonage Taxes	158	159	157	164	165	165	167	170	171	172	174	174
Vehicle Use Tax	27	30	30	29	27	29	32	30	30	28	31	30
Inheritance Tax (Gross)	288	243	122	235	293	276	333	306	261	358	375	305
Insurance Taxes and Fees	334	322	317	345	334	333	353	398	391	432	421	416
Corporate Franchise Tax & Fees	201	208	207	192	205	203	211	207	207	207	230	205
Interest on State Funds & Investments	81	26	28	21	20	20	24	24	36	79	140	135
Cook County Intergovernmental Transfer	253	244	244	244	244	244	244	244	244	244	244	244
Other Sources	418	431	404	399	462	585	693	534	685	641	676	687
Subtotal	\$22,343	\$20,494	\$24,422	\$30,187	\$32,493	\$32,925	\$32,257	\$28,888	\$28,300	\$35,048	\$38,093	\$38,330
Transfers												
Lottery	625	625	632	640	656	668	679	677	720	719	731	745
Gaming Fund Transfer [and related]	430	431	324	413	360	331	302	287	280	282	271	268
Other	538	828	1,226	885	688	1,113	2,012	627	552	1,186	1,053	740
Total State Sources	\$23,936	\$22,378	\$26,604	\$32,125	\$34,197	\$35,037	\$35,250	\$30,479	\$29,852	\$37,235	\$40,148	\$40,083
Federal Sources	\$6,567	\$5,920	\$5,386	\$3,682	\$4,154	\$3,903	\$3,330	\$2,665	\$2,483	\$5,238	\$3,115	\$3,547
Total Federal & State Sources	\$30,503	\$28,298	\$31,990	\$35,807	\$38,351	\$38,940	\$38,580	\$33,144	\$32,335	\$42,473	\$43,263	\$43,630
Nongeneral Funds Distribution:												
Refund Funds/Direct Deposits												
Personal Income Tax Refund Fund	(\$996)	(\$919)	(\$1,076)	(\$1,488)	(\$1,785)	(\$1,746)	(\$1,769)	(\$1,493)	(\$1,724)	(\$2,037)	(\$2,199)	(\$2,219)
Corporate Income Tax Refund Fund	(363)	(289)	(426)	(522)	(502)	(476)	(439)	(362)	(278)	(457)	(477)	(463)
Fund for Advancement of Education	0	0	0	0	0	0	(242)	(458)	(464)	0	0	0
Commitment to Human Services Fund	0	0	0	0	0	0	(242)	(458)	(464)	0	0	0
LGDF--Direct from PIT	0	0	0	0	0	0	0	0	0	(1,022)	(1,179)	(1,245)
LGDF--Direct from CIT	0	0	0	0	0	0	0	0	0	(133)	(170)	(183)
Downstate Pub/Trans--Direct from Sales	0	0	0	0	0	0	0	0	0	(446)	(508)	(564)
Subtotal General Funds	\$29,144	\$27,090	\$30,488	\$33,797	\$36,064	\$36,718	\$35,888	\$30,373	\$29,405	\$38,378	\$38,730	\$38,956
Change from Prior Year	(\$515)	(\$2,054)	\$3,398	\$3,309	\$2,267	\$654	(\$830)	(\$5,515)	(\$968)	\$8,973	\$352	\$226
Percent Change	-1.7%	-7.0%	12.5%	10.9%	6.7%	1.8%	-2.3%	-15.4%	-3.2%	30.5%	0.9%	0.6%
Short-Term Borrowing/ Treasurer Inv.	\$2,400	\$1,250	\$1,300	\$0	\$0	\$0	\$454	\$0	\$0	\$0	\$700	\$0
Interfund Borrowing	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$533	\$250	\$0
Income Tax Bond Fund Transfer	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$2,500	\$0	\$0
Transfer to Commitment Human Services	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$40	\$0	\$0
FY'13/14 Backlog Payment Fund Transfer	\$0	\$0	\$0	\$0	\$264	\$50	\$0	\$0	\$0	\$0	\$0	\$0
Tobacco Liquidation Proceeds	\$0	\$0	\$1,250	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
HPF and HHSMTF Transfers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Budget Stabilization Fund Transfer	\$576	\$1,146	\$535	\$275	\$275	\$275	\$275	\$125	\$0	\$0	\$0	\$0
Pension Contribution Fund Transfer	\$0	\$843	\$224	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total General Funds	\$32,120	\$30,329	\$33,797	\$34,072	\$36,603	\$37,043	\$36,617	\$30,498	\$29,405	\$41,451	\$39,680	\$38,956
Change from Prior Year	(\$1,718)	(\$1,791)	\$3,468	\$275	\$2,531	\$440	(\$426)	(\$6,119)	(\$1,093)	\$12,046	(\$1,771)	(\$724)
Percent Change	-5.1%	-5.6%	11.4%	0.8%	7.4%	1.2%	-1.2%	-16.7%	-3.6%	41.0%	-4.3%	-1.8%

SOURCE: CGFA

DEVELOPMENT OF CGFA ESTIMATES

Econometric Firms—The Commission utilizes the services of IHS Markit, Moody’s Analytics, and Consensus Economics Inc. They provide a wealth of economic measures and forecasts, both on a national and state specific basis, which are utilized to varying degrees during the estimating process.

Data Sources—The Commission utilizes actual receipt data via the Comptroller’s warehouse. Additional tax collection data reports prepared by the DoR, as well as employment and earning reports produced by the Bureau of Labor Statistics and IDES are also utilized, as are other pertinent data that may be necessary and available.

Forecasting models—Depending on the revenue source being forecasted, model complexity can range from the very simple to fairly complex. Several smaller sources with relatively low volatility need nothing more than simple trend analysis to produce accurate forecasts, while the estimates of the larger more economically driven revenue sources such as income and sales benefit from more sophisticated econometric models which utilize regressions and various time series techniques.

Application of Adjustments—Often times a base forecast must be adjusted by factors such as tax changes made at either the federal or state level that will disrupt historical receipt patterns, either by acceleration or delay. As has been the case in recent years, impacts related to IDOR accounting procedures must also be included. These are usually one-time phenomena, but must be accounted for by adjusting the estimate. Examples include tax rates, credits, deductions, exemptions, amnesty, etc.

Review Process and Tests of Reasonableness— Before a forecast is presented, it must pass internal review. In other words, the forecast must make sense. Any questionable forecast is reexamined for error. Accuracy of the estimates is reviewed during each forecasting period and, if necessary, appropriate revisions to the models are made in an effort to improve accuracy.