Commission on Government Forecasting and Accountability

802 Stratton Ofc. Bldg., Springfield, IL 62706

MONTHLY BRIEFING FOR THE MONTH ENDED: MAY 2020

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INSIDE THIS ISSUE

Assessing the Economic Slow-Down

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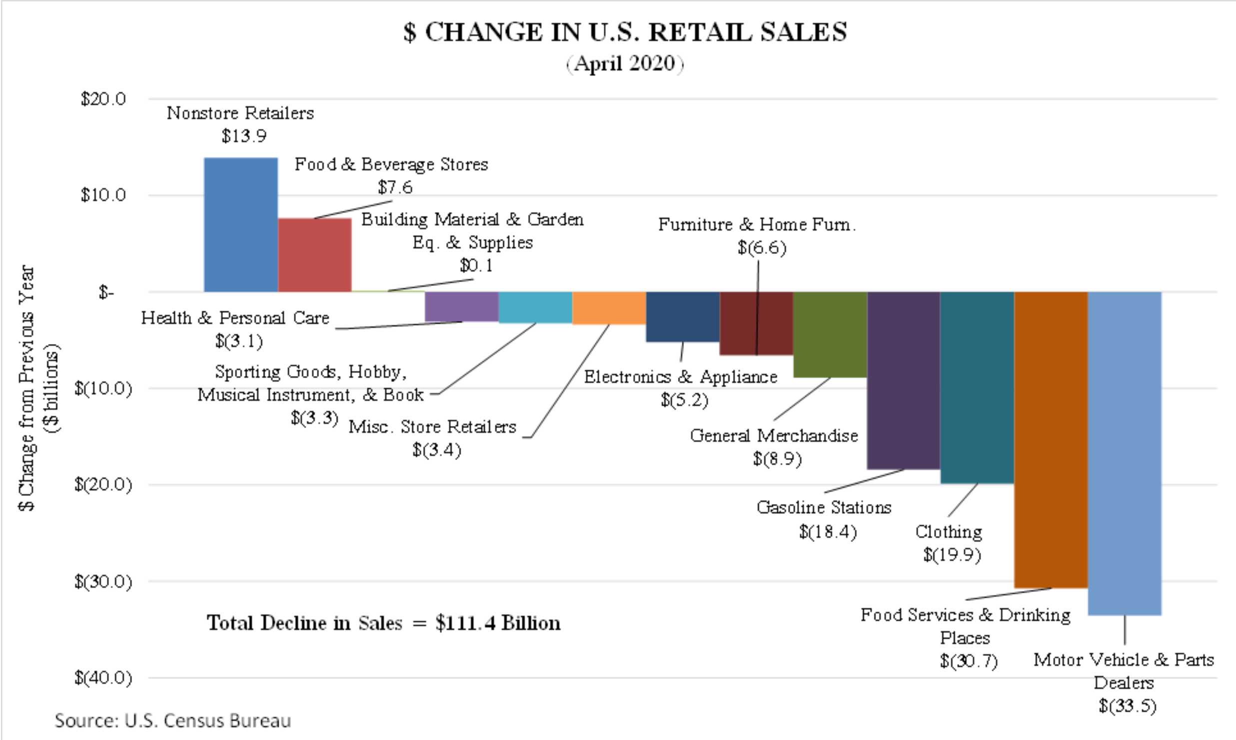
To fight the spread of COVID-19, governments throughout the country have asked or required their residents to limit their movement and their amount of social contact. As part of this effort, numerous businesses were mandated to temporarily close or made to offer limited services. Implicitly, and often explicitly stated, in this decision making process was a trade-off of economic activity for improved chances of slowing the spread of the virus. The revised estimates for Real Gross Domestic Product (GDP) came in at a -5.0% for the first quarter of 2020 which would be tied for the seventh worst quarter since 1947. The first quarter was only partially affected by the COVID-19 shut down and expectations for the second quarter are for the largest declines ever. As we enter June, there is some initial data to assess just how much economic activity has slowed due to COVID-19. This month's briefing reviews changes in mobility and other metrics to get an indication of how much the economy slowed and how this is affecting retail sales and employment.

One way to assess the economic slow-down is changes in mobility. Based on the number of routing requests made to the Apple Maps directions app, driving was reduced approximately 50% in the U.S. during the third week of March when compared to mid-January. Driving was down over 60% for the State of Illinois and the City of Chicago and remained about 40% to 50% down through most of April in both the U.S. and Illinois. However, throughout May, the number of routing requests has increased steadily and has basically returned to the level seen prior to the outbreak. Looking at the same data for transit routing requests tells a different story though. Routing requests for transit transportation declined at the same time as driving requests declined but have not returned to prior levels. Transit routing requests declined by approximately 75% both in the U.S. and the City of Chicago. The level of transit routing requests improved little over the next two months and currently rests at about 67% lower than mid-January. Data from the Transportation Security Administration (TSA) shows that total traveler throughput at TSA checkpoints declined over 95% during the last week of March when compared to the same week in 2019. Similar to the transit data, these numbers have shown little improvement and remain down approximately 90% at the end of May.

Other metrics tell a similar story of huge declines in economic activity. Restaurant reservations on the online website OpenTable.com were down 100% in Illinois during April and May. Even in states that have "reopened" sooner than Illinois, reservations are still generally down 60% to 70% when compared to the previous year. Based on data from the hotel industry research firm STR and HotelNewsNow.com, hotel occupancy is normally around 65% during March and April in the U.S. This year, the occupancy rate dipped to around 25%. According to the U.S. Census Bureau, privately-owned housing starts in April were at a seasonally adjusted annual rate of 891,000. This was 30.2% below the revised March estimate of 1,276,000 and is 29.7% below the April 2019 rate of 1,267,000.

These changes in mobility and social interaction in conjunction with businesses operating at limited capacity or ceasing to operate at all have led to large declines in retail sales. The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for April 2020, were $404 billion. This was a decline of 21.6%, or over $111 billion, when compared to April 2019's results of $515 billion. This was after a decline of 5.7% in March. The two largest contributors to this slide in sales were from auto dealers and restaurants/bars. Sales at Auto and Other Motor Vehicle Dealers plunged over 30% compared to last year which contributed a decline of over $33 billion. The Food Services and Drinking Places category decreased almost $31 billion which was a falloff of 48.7%. The hardest hit category in terms of percentage decline was Clothing Stores which were down over 89%, or just under $20 billion. The other major contributor to the decline in sales were Gasoline Stations which had their sales reduced by $18 billion.

Nonstore Retailers (mostly online retailers and mail order houses) and Food and Beverage Stores were bright spots in an otherwise dismal report. Nonstore Retailers sales grew just under $14 billion to $78 billion. This was growth of 21.6% when compared to the previous April. Food and Beverage Stores were up 12%. Sales in this category rose from $63 billion last year to almost $71 billion in April of 2020. These two categories of retailers were also up 14% and 29% in March.



While retail sales declined 5.7% in March and 21.6% in April, sales tax revenue held up somewhat better. In March, gross sales tax revenue was actually up 3.1%. However, this was due to a time lag between when sales actually occur and when the State receives the money. Sales tax receipts are usually deposited with the Office of the Comptroller a few weeks after the actual sale. As such, the effects of COVID-19 hit sales tax revenue in April when receipts were down 19.6%. Sales tax receipts were down over 23% in May.

At the same time that the decline in retail sales was happening, the unemployment rate was shooting up. Prior to the outbreak of COVID-19, the U.S. unemployment rate was 3.5% in February of 2020. This rate increased only slightly in March to 4.4% as the effects of the COVID-19 pandemic had not really been felt yet. In April, the unemployment rate shot up to 14.7%. Approximately 25 million fewer Americans had jobs in April compared to February. Expectations are for these numbers to continue to increase as millions of additional claims for unemployment insurance have been filed in May.

In Illinois a similar situation has occurred. In February, Illinois' unemployment rate was even better than the U.S. as a whole at 3.4%. The rate increased to 4.2% in March. In April, the unemployment rate jumped to 16.4%. Approximately 785,000 fewer people had jobs in Illinois in April versus February. Similar to the U.S., the Illinois numbers are expected to worsen in May.

While the data presented in this report was disconcerting, it was not unexpected. In choosing to limit social interactions to varying degrees throughout the country, it was expected that there would be economic consequences. As the mobility and economic data illustrated, the plan to social distance and limit communal interactions has occurred. As we move forward, we will be better able to see its effects on the spread of the virus and the economy. Both the U.S. and the State of Illinois have a difficult path to walk as concerns between public health and economic health must be weighed. The key to rebounding from this economic slow-down is to provide an environment where both customers and employees feel safe, while "reopening" fast enough so that those employees who have been furloughed have a job to come back to. The longer it takes to ramp up economic activity, the more likely businesses will close down for good.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS*	LATEST MONTH	PRIOR MONTH	A YEAR AGO
Unemployment Rate (Average) (Apr.)	16.4%	4.2%	4.2%
Inflation in Chicago (12-month percent change) (Apr.)	0.3%	1.1%	0.8%

	LATEST MONTH	CHANGE OVER PRIOR MONTH	CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (Apr.)	6,114.8	-2.9%	-5.2%
Employment (thousands) (Apr.)	5,110.5	-15.3%	-17.3%
Nonfarm Payroll Employment (Apr.)	5,298,700	-762,200	-822,800
New Car & Truck Registration (Apr.)	22,783	-41.9%	-55.1%
Single Family Housing Permits (Apr.)	719	3.5%	-26.3%
Total Exports ($ mil) (Mar.)	4,885.4	2.0%	-12.9%
Chicago Purchasing Managers Index (May)	32.3	-8.8%	-40.4%

* Due to monthly fluctuations, trend best shown by % change from a year ago

May 2020 Bond Sale

Lynnae Kapp, Senior Analyst

BOND SALES

Illinois sold $800 million in General Obligation bonds in May 2020 for capital projects and the Pension Acceleration programs [Public Act 100-0587 created the authorization for $1 billion of Pension Acceleration Bonds to be used for making accelerated pension benefit payments under Articles 14, 15, and 16 of the Illinois Pension Code]. The negotiated bonds had an all-in true interest cost of 5.83%, and received $8.4 billion of orders from over 120 investors.

"The 10-year bond in the deal landed at 5.65%, a 452 basis point spread to Municipal Market Data's AAA benchmark and a 331 bp spread to the BBB benchmark...Illinois headed into the deal with its one-year bond at a 373 bp spread, its 10-year and 25 year at a 415 bp spread. The deal's long bond came in below secondary levels settling at a 396 bp spread." [Illinois pays peak penalty to borrow, by Yvette Shields, The Bond Buyer, May 14, 2020.]

STATE-ISSUED BOND SALES									
DATE	BOND SALE TYPE	AMOUNT	TAXABLE v. TAX-EXEMPT	NEGOTIATED v. COMPETITIVE SALE	TRUE INTEREST COST	FITCH	S&P	MOODY'S	Kroll
FY 2018									
Nov-17	General Obligation 2017A/B/C	$1.5 billion	tax-exempt	competitive	combined 3.46%	BBB	BBB-	Baa3	
Nov-17	General Obligation 2017D	$4.5 billion	tax-exempt	negotiated	3.55%	BBB	BBB-	Baa3	
Dec-17	General Obligation 2018A & B	$750 million	tax-exempt	competitive	combined 4.29%	BBB	BBB-	Baa3	
May-18	General Obligation 2018A & B	$500 million	tax-exempt	competitive	combined 4.72%	BBB	BBB-	Baa3	
FY 2019									
Sep-18	General Obligation Refunding Series A & B	$966 million	tax-exempt	negotiated	combined 4.19%	BBB	BBB-	Baa3	
Oct-18	Build IL October 2018 A	$115 million	tax-exempt	competitive	4.16%	A-	BBB		AA+
Oct-18	Build IL October 2018 B	$125 million	tax-exempt	competitive	4.27%	A-	BBB		AA+
Oct-18	Build IL October 2018 C	$10 million	taxable	competitive	4.09%	A-	BBB		AA+
Apr-19	General Obligation Pension Obligation Acceleration Bonds April 2019A	$300 million	taxable	competitive	5.74%	BBB	BBB-	Baa3	
Apr-19	General Obligation Refunding April 2019B	$140 million	tax-exempt	competitive	3.33%	BBB	BBB-	Baa3	
FY 2020									
Nov-19	General Obligation November 2019A/B/C	$750 million	tax-exempt	competitive	all in TIC 3.4578%	BBB	BBB-	Baa3	
May-20	General Obligation May 2020	$800 million	taxable	negotiated	all in TIC 5.83%	BBB-	BBB-	Baa3	

"Matt Fabian, a partner at Municipal Market Analytics, called the deal a great opportunity for the right buyer and thought it should have drawn even stronger interest given the inherent strengths in a sovereign state…'It's just a tremendous opportunity for a buy-and-hold investor who can bear some price volatility over the next year…This is where municipal investors should be flexing their intelligence about the strength of a state GO and put their money into this. The risk of Illinois not paying is miniscule'…Fabian also didn't see the yields as high enough to serve as a deterrent for state borrowing. 'There's a risk that some people will look at those prices and see them as telegraphing' trouble, but the pandemic has made 'it an extremely difficult situation for everyone'." [Illinois pays peak penalty to borrow, by Yvette Shields, The Bond Buyer, May 14, 2020.]

Coronavirus Urgent Remediation Emergency Borrowing Act

Lynnae Kapp, Senior Analyst

During the abridged legislative session in May 2020, the General Assembly passed SB 2099 House Amendment 3 which created the Coronavirus Urgent Remediation Emergency (CURE) Borrowing Act. The Act allows the State to use the Federal Reserve Banks' Municipal Liquidity Facility (MLF) and any subsequent State and municipal financing program created by federal legislation to provide relief from the coronavirus pandemic and any similar program that may be offered by the federal government or the Federal Reserve Bank. Proceeds would be placed in the newly created Coronavirus Urgent Remediation Emergency Borrowing Fund (CURE Borrowing Fund) and may be used:

(1) to meet failures of revenue resulting from the COVID-19 outbreak and to support the emergency response thereto;

(2) to provide funds for payment or reimbursement of new or increased costs of State government resulting from the COVID-19 outbreak and the emergency response thereto;

(3) to provide funds to respond to any other disaster or emergency or failure of revenues or the costs of essential government services;

(4) to provide funds for deposit into the Healthcare Provider Relief Fund for payment of costs payable from the Fund; and

(5) to provide funds for payment or reimbursement of costs payable from the Health

Insurance Reserve Fund. Proceeds of the borrowing may also be used to pay the costs of borrowing and the debts created by the borrowing.

The legislation allows for the borrowing of up to $5 billion outstanding at any time with proceeds, excluding costs of issuance, to be placed in the CURE Borrowing Fund. Borrowing shall follow the Federal program rules, but not exceed 10 years, and may be negotiated and borrowed directly from any Federal coronavirus relief programs. The interest rate must not exceed the maximum authorized by the Bond Authorization Act, as amended at the time of the making of the contract. Debt service payments shall be paid from the General Obligation Bond Retirement and Interest Fund, under a continuing appropriation, and shall be paid from any moneys in the State Treasury.

The legislation also amended the Short-term Borrowing Act to allow for proceeds to pay for costs of borrowing. Borrowing under the failures of revenues also allows for emergencies, and to be used in order to meet deficits caused by those emergencies or failures. Debt service would be calculated using level principal payments or whatever the Federal Reserve would allow. Debt may be incurred under this section 7 days after notice (was 30 days), and negotiated sales rather than competitive sales are allowed only in FY 2020 and FY 2021.

As of May 20, 2020 the Governor still planned on using the current authorization parameters available under the Short-Term Borrowing Act to borrow $1.2 billion from the municipal market. The Illinois Constitution [Section 9 (d)] and the Short-Term Borrowing Act [30 ILCS 340/1.1] allow State debt to be incurred in an amount not exceeding 15% of the State's appropriations for that fiscal year to meet deficits caused by emergencies or failures of revenue. The debt must be repaid within one year of the date it is incurred. But, dependent on the spread and rates available to the State, as well as availability of and offers from bidders, this legislation would allow for the backup of the Federal Reserve's MLF program to purchase the Certificates. The Facility released the amounts it would allow each State, large city and large county to borrow, and the State of Illinois could borrow up to $9.677 billion. [FAQs: Appendix A, Municipal Liquidity Facility, https://www.federalreserve.gov/monetarypolicy/muni.htm]

The Municipal Liquidity Facility was created by the Federal Reserve Board [pursuant to section 13(3) of the Federal Reserve Act], as a backup buyer for States, large cities and counties facing liquidity issues during the COVID-19 crisis. They would, as a last resort, purchase short-term notes through December 31, 2020, with up to a 3-year maturity from eligible issuers. Proceeds may be used "(i) for cash flow due to deferrals or reductions of taxes or other revenues or increases in expenses related to or resulting from the COVID-19 pandemic; (ii) to purchase similar notes issued by, or otherwise to assist, its political subdivisions and other governmental entities for the purposes enumerated in clause (1); and (iii) for costs of issuance and the Fed's issuance fee (10 basis points) of the Eligible Notes…Eligible Issuers must have been rated at least BBB-/Baa3 as of April 8, 2020, by two or more major nationally recognized statistical rating organizations," but allows for other circumstances in case of downgrades.

For a State, City, or County, the MFL may purchase Eligible Notes "in one or more issuances of up to an aggregate amount of 20% of the general revenue from own sources and utility revenue" of the Eligible Issuer (or its associated State, City, or County if the Eligible Issuer is an authority, agency or other associated entity) for fiscal year 2017. The maximum aggregate amount may be used for the benefit of both the Eligible Issuer and its respective political subdivisions and other governmental entities. An Eligible Issuer (other than a Multi-State Entity) may request the purchase of "Eligible Notes in excess of the applicable limit in order to assist political subdivisions and other governmental entities that are not eligible for the Facility." Eligible Notes "may be prepaid by the Eligible Issuer at any time, in whole or in part, at par (or, in the case of Eligible Notes purchased at a premium, par plus unamortized premium) plus accrued interest, prior to maturity". [Term Sheet (May 11, 2020), Municipal Liquidity Facility, https://www.federalreserve.gov/monetarypolicy/muni.htm]

REVENUE: BRUNT OF BROAD-BASED WEAKNESS REFLECTED IN MAY SALES TAX REVENUES

Jim Muschinske, Revenue Manager

For the month of May, base general funds revenues fell $341 million. With few exceptions, the vast majority of revenue sources experienced declines, with sales tax receipts reflecting the largest falloff related to COVID-19, and the interruption of the economy. Two less receipting days likely contributed to the monthly decline.

Gross sales tax receipts fell $182 million in May, or $181 million on a net basis. As mentioned, two less receipting days partially contributed to the decline, but the bulk of the poor performance can be blamed on the consequence of economic slowdown related to COVID-19. Public utility taxes dropped $27 million, while corporate franchise taxes were off $14 million. Inheritance tax, interest earnings, and other miscellaneous sources each suffered a $13 million monthly decline.

After dropping over $2 billion on a net basis last month, total income taxes suffered only minor losses in May. Gross personal income tax receipts were only off $8 million [$3 million on a net basis], while gross corporate income taxes fell a modest $4 million [$2 million on a net basis]. Cigarette taxes were down $7 million and vehicle use taxes were down $2 million.

Insurance taxes were the only tax source that managed to post a monthly gain, as receipts grew $4 million.

Overall transfers fell $32 million for the month. Lottery transfers posted a $10 million gain, but was more than offset by a $29 million decline in other transfers and a comparable $13 million loss in riverboat transfers [as casino gaming has been temporarily halted]. Federal sources were very weak in May, as they were in the same month last year, but still fell $38 million in comparison.

Year to Date

Excluding proceeds from the Treasurer's Investment program as well as interfund borrowing, after suffering April's dramatic $2.740 billion falloff, and May's lesser but still sizable drop, base general funds revenues stand $1.343 billion below last year's levels. As discussed in previous briefings, through the first three-fourths of the fiscal year, revenues had performed quite well. Unfortunately, economic carnage related to COVID-19, as well as tax day deadline changes have significantly derailed the fiscal year revenue picture.

With only one month remaining in the fiscal year, gross personal income taxes are down $1.119 billion, or $915 million net. Gross corporate income taxes are off $381 million, or $275 million net. Gross sales taxes have now turned negative for the year as receipts are down $121 million, or $79 million net. The performance of the remaining revenue sources continue somewhat mixed, but have now also taken on a somber tone, falling a combined $211 million.

Aided by gains associated to Refund Fund and Capital Projects Fund transfers, overall transfers to the general funds are still up $371 million. Federal sources, which have experienced wide monthly swings in performance this fiscal year, are now down $234 million.

MAY FY 2020 vs. FY 2019 ($ million)				
Revenue Sources	**May FY 2020**	**May FY 2019**	**$ CHANGE**	**% CHANGE**
State Taxes				
Personal Income Tax	$1,465	$1,473	($8)	-0.5%
Corporate Income Tax (regular)	72	76	($4)	-5.3%
Sales Taxes	605	787	($182)	-23.1%
Public Utility Taxes (regular)	55	82	($27)	-32.9%
Cigarette Tax	21	28	($7)	-25.0%
Liquor Gallonage Taxes	13	13	$0	0.0%
Vehicle Use Tax	1	3	($2)	-66.7%
Inheritance Tax	28	41	($13)	-31.7%
Insurance Taxes and Fees	7	3	$4	133.3%
Corporate Franchise Tax & Fees	5	19	($14)	-73.7%
Interest on State Funds & Investments	4	17	($13)	-76.5%
Cook County IGT	94	94	$0	0.0%
Other Sources	9	22	($13)	-59.1%
Subtotal	$2,379	$2,658	($279)	-10.5%
Transfers				
Lottery	50	40	$10	25.0%
Riverboat transfers & receipts	0	13	($13)	N/A
Proceeds from Sale of 10th license	0	0	$0	N/A
Refund Fund transfer	0	0	$0	N/A
Other	29	58	($29)	-50.0%
Total State Sources	$2,458	$2,769	($311)	-11.2%
Federal Sources	$44	$82	($38)	-46.3%
Total Federal & State Sources	$2,502	$2,851	($349)	-12.2%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	($139)	($143)	$4	-2.8%
Corporate Income Tax	($10)	(12)	$2	-16.7%
LGDF--Direct from PIT	($76)	(77)	$1	-1.3%
LGDF--Direct from CIT	($4)	(4)	$0	0.0%
Downstate Pub/Trans--Direct from Sales	($41)	(42)	$1	-2.4%
Subtotal General Funds	$2,232	$2,573	($341)	-13.3%
Treasurer's Investments	$0	$0	$0	N/A
Interfund Borrowing	$0	$0	$0	N/A
Total General Funds	$2,232	$2,573	($341)	-13.3%
CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				1-Jun-20

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2020 vs. FY 2019

($ million)

Revenue Sources	FY 2020	FY 2019	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$19,650	$20,769	($1,119)	-5.4%
Corporate Income Tax (regular)	2,183	2,564	($381)	-14.9%
Sales Taxes	7,988	8,109	($121)	-1.5%
Public Utility Taxes (regular)	771	815	($44)	-5.4%
Cigarette Tax	247	322	($75)	-23.3%
Liquor Gallonage Taxes	162	158	$4	2.5%
Vehicle Use Tax	23	29	($6)	-20.7%
Inheritance Tax	254	366	($112)	-30.6%
Insurance Taxes and Fees	333	324	$9	2.8%
Corporate Franchise Tax & Fees	198	225	($27)	-12.0%
Interest on State Funds & Investments	126	131	($5)	-3.8%
Cook County IGT	244	244	$0	0.0%
Other Sources	476	431	$45	10.4%
Subtotal	$32,655	$34,487	($1,832)	-5.3%
Transfers				
Lottery	535	627	($92)	-14.7%
Riverboat transfers & receipts	195	243	($48)	-19.8%
Proceeds from Sale of 10th license	10	10	$0	0.0%
Refund Fund transfer	617	327	$290	88.7%
Other	879	658	$221	33.6%
Total State Sources	$34,891	$36,352	($1,461)	-4.0%
Federal Sources	$2,596	$2,830	($234)	-8.3%
Total Federal & State Sources	$37,487	$39,182	($1,695)	-4.3%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	($1,867)	($2,015)	$148	-7.3%
Corporate Income Tax	($311)	(398)	$87	-21.9%
LGDF--Direct from PIT	($1,024)	(1,080)	$56	-5.2%
LGDF--Direct from CIT	($122)	(141)	$19	-13.5%
Downstate Pub/Trans--Direct from Sales	($393)	(435)	$42	-9.7%
Subtotal General Funds	$33,770	$35,113	($1,343)	-3.8%
Treasurer's Investments	$400	$750	($350)	-46.7%
Interfund Borrowing	$462	$250	$212	84.8%
Total General Funds	$34,632	$36,113	($1,481)	-4.1%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 1-Jun-20