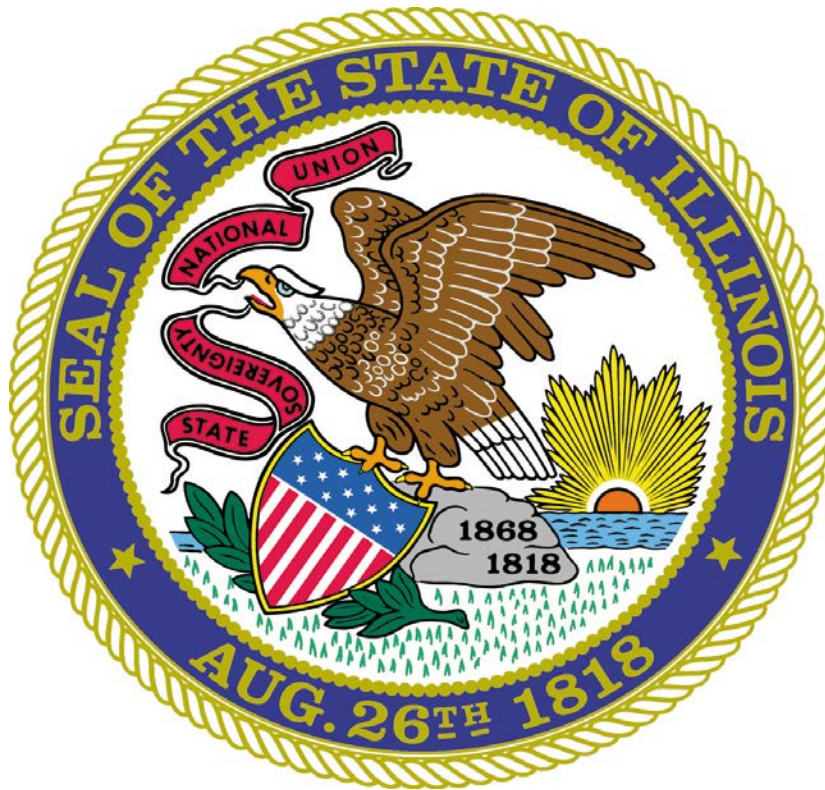


# 3-Year Budget Forecast FY 2020 – FY 2022



*Commission on Government  
Forecasting and Accountability*

*March, 2019*

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## TABLE OF CONTENTS

### **3-Year Budget Forecast (FY 2020 – FY 2022) March 2019**

<u>Section</u>	<u>PAGE</u>
Introduction	i
I. Illinois Budget History	1
II. Threats and Opportunities	5
III. 3-Year Budget Forecasts	11
 <u>TABLES:</u>	
Table 1. General Funds Revenue Growth Rates	2
Table 2. General Funds Expenditures Growth Rates	4
Table 3. Service Tax Estimates	9
Table 4. CGFA Estimates FY 2019 - FY 2022	12
Table 5. 3-Year Budget Scenarios	15
 <u>CHARTS:</u>	
Chart 1. FY 2018 Base General Funds Revenues	1
Chart 2. FY 2018 Base General Funds Expenditures	3
 <u>APPENDIX:</u>	
A Detailed General Funds Revenue History FY2008 – FY2017	16
B General Funds Expenditures History by Agency FY2008 – FY2017	17



## INTRODUCTION

As part of Public Act 0958 of the 96<sup>th</sup> General Assembly, the Commission on Government Forecasting and Accountability has been directed to **“...develop a 3-year budget forecast for the State, including opportunities and threats concerning anticipated revenues and expenditures, with an appropriate level of detail.”**

This report represents the Commission’s mandated 3-year budget forecast. It begins with an examination of the State of Illinois’ General Funds revenues and expenditures over the last 20 years, and then considers threats and opportunities to Illinois’ budget. Finally, it concludes with potential 3-year budget results based upon scenario analysis.

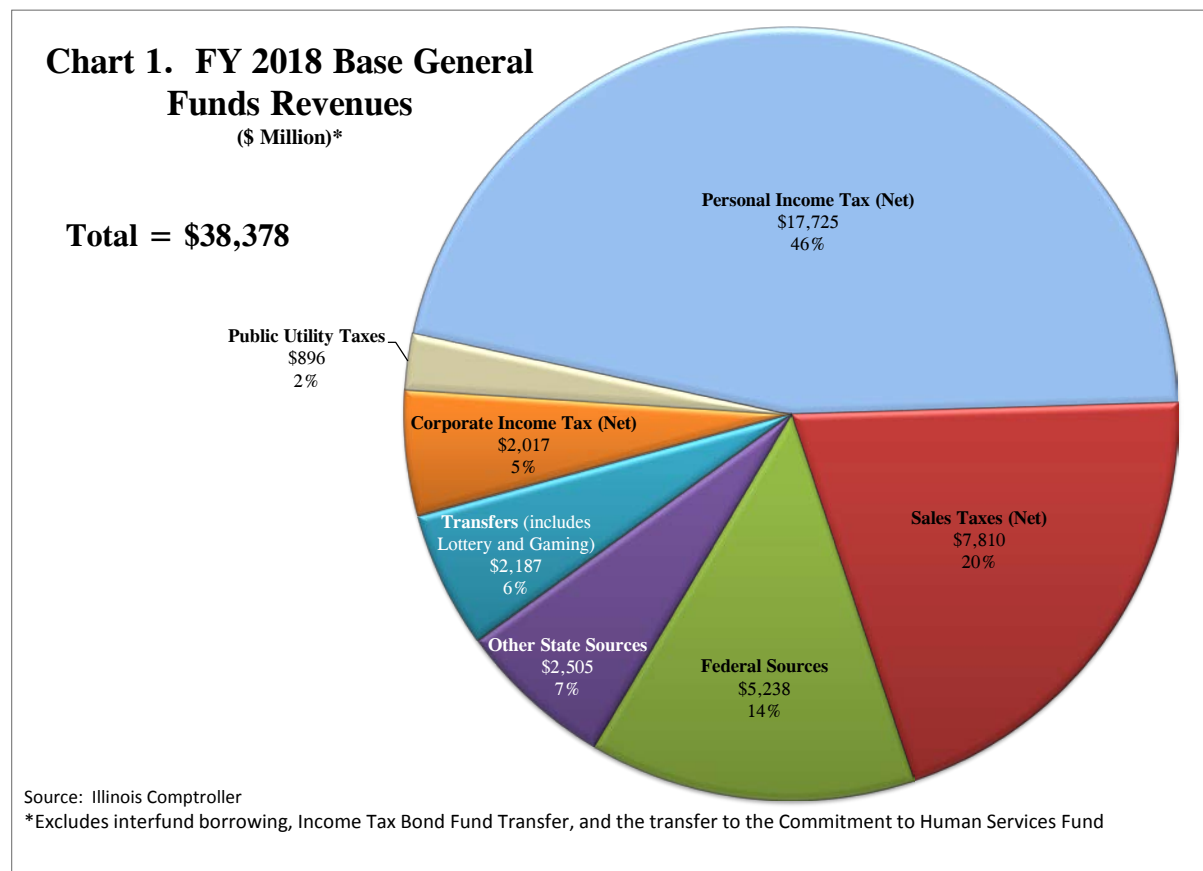


# I. Illinois' Budget History

To begin analyzing Illinois' budget, an assessment of historical General Fund revenues and expenditures was conducted. The examined data was from the Illinois State Comptroller's annual report entitled "Traditional Budgetary Financial Report." The composition of base revenues and expenditures was evaluated. In addition, growth rates for both revenues and expenditures were calculated over various time periods. These assessments were then used to assist in the Commission's 3-year budget forecast.

## Revenues

Base General Funds revenue totaled \$38.378 billion in FY 2018. This was an increase of over 30% from FY 2017's level of \$29.405. This large increase was primarily due to the increase in the income tax rates and a large increase in Federal Sources associated with the use of bond revenue to pay down outstanding bills. The largest component of base revenue came from the Personal Income Tax (Net) which totaled \$17.7 billion after refunds and mandated transfers. Personal Income Tax (Net) made up over 46% of all base revenue. Sales tax accounted for just over 20% of total revenue at \$7.8 billion. Federal Sources contributed \$5.2 billion which was a significant increase over the \$2.5 billion in FY 2017. The chart below illustrates the major sources of revenue for the State.



Appendix A, at the back of this report, shows historical totals for General Funds revenue from FY 2009 to FY 2018. Three sources, Personal Income Tax, Sales Taxes, and Federal Sources, annually contributed approximately 65% to 75% of total revenue. The proportional make up of General Funds revenue has been relatively steady over the last decade though Federal Sources is highly dependent on reimbursable Medicaid spending. Federal Sources have varied from about 8% to 20% of base revenues depending upon the fiscal year. Federal Sources comprised over 20% of base revenues in FY 2009 and FY 2010 due to the federal stimulus plan but have made up only 8% to 9% in recent fiscal years. In FY 2018, the Federal Sources grew to over 13% due to increased spending made possible through bond sale proceeds.

Due to the passage of P.A. 100-0022 in 2017, both the personal and corporate income tax rates were increased. As these changes were fully implemented, the growth rates for General Funds Revenue increased significantly. Overall, total base General Funds revenue grew over 30%. Over half of this growth was due to an almost \$5 billion increase from the Personal Income Tax. The other major source of growth was Federal Sources which contributed an additional \$2.7 billion in growth. This single year of extraordinary growth has significantly increased long-term growth rates.

In last year's version of this report, the 20-year average for total base revenue growth was 2.4%. After incorporating FY 2018's results, this average increased to 3.6%. Similarly, the 10-year average rose to 3.3% when it was at 0.6% last year. As such, looking at the median for this data could provide some more insight. The 20-year median is 3.6% which is in-line with the 20-year average. However, the 10-year median is 0.4% which is quite a bit lower than the 10-year average of 3.3%. Overall, revenues were more consistently positive 10 to 20 years ago but have seen more years of negative or low growth associated with the current economic recovery and the various changes related to the income taxes in recent years.

Average growth rates for the individual revenue sources can be seen in Table 1.

<b>TABLE 1. GENERAL FUNDS REVENUE GROWTH RATES</b>					
<b>FY 1999 - FY 2018*</b>					
<b>Revenue Sources</b>	<b>1-Year Growth</b>	<b>5-Year Average</b>	<b>10-Year Average</b>	<b>15-Year Average</b>	<b>20-Year Average</b>
<b>State Taxes</b>					
Personal Income Tax (Net)	39.2%	3.0%	7.3%	7.3%	5.8%
Sales Taxes	-2.9%	1.2%	0.9%	1.8%	2.1%
Other State Taxes	5.3%	3.7%	0.7%	1.7%	3.3%
Transfers (includes Lottery and Gaming)	40.9%	11.5%	5.2%	4.9%	6.0%
Corporate Income Tax (Net)	51.9%	-4.6%	4.7%	10.0%	4.5%
Public Utility Taxes	1.4%	-2.8%	-2.4%	-0.6%	0.1%
<b>Total State Sources</b>	<b>23.1%</b>	<b>1.5%</b>	<b>3.7%</b>	<b>4.3%</b>	<b>3.8%</b>
<b>Federal Sources</b>	<b>111.0%</b>	<b>12.7%</b>	<b>6.2%</b>	<b>5.8%</b>	<b>5.3%</b>
<b>Total, Base Revenues</b>	<b>30.5%</b>	<b>2.3%</b>	<b>3.3%</b>	<b>4.0%</b>	<b>3.6%</b>

\*Excludes short-term borrowing, cash flow transfers, and transfers to the Budget Stabilization and the Pension Contribution Funds



## Expenditures

Base General Funds expenditures totaled \$38.863 billion in FY 2018. This was an increase of 14.2%, or \$4.8 billion, over FY 2017's expenditures of \$34.0 billion. The State Board of Education had the largest amount of expenditures at \$8.2 billion. This was an increase of \$990 million when compared to FY 2017. The next largest category of expenditures was for Healthcare and Family Services which grew to \$7.6 billion in FY 2018. This was growth of over \$1.6 billion, or over 27%. The All Other Agencies category grew \$1.9 billion to just under \$5.1 billion. This growth was primarily due to a \$1.8 billion increase at the Department of Central Management Services related to employee health insurance costs. Transfers Out accounted for approximately \$3.6 billion in expenditures. According to the Comptroller, approximately 80% of this amount was for General Obligation bond debt service costs. The Teachers' Retirement System totaled \$4.1 billion which was an increase of 10.8%.

For a more detailed look at expenditures over the last decade, please see Appendix B in the back of this report.

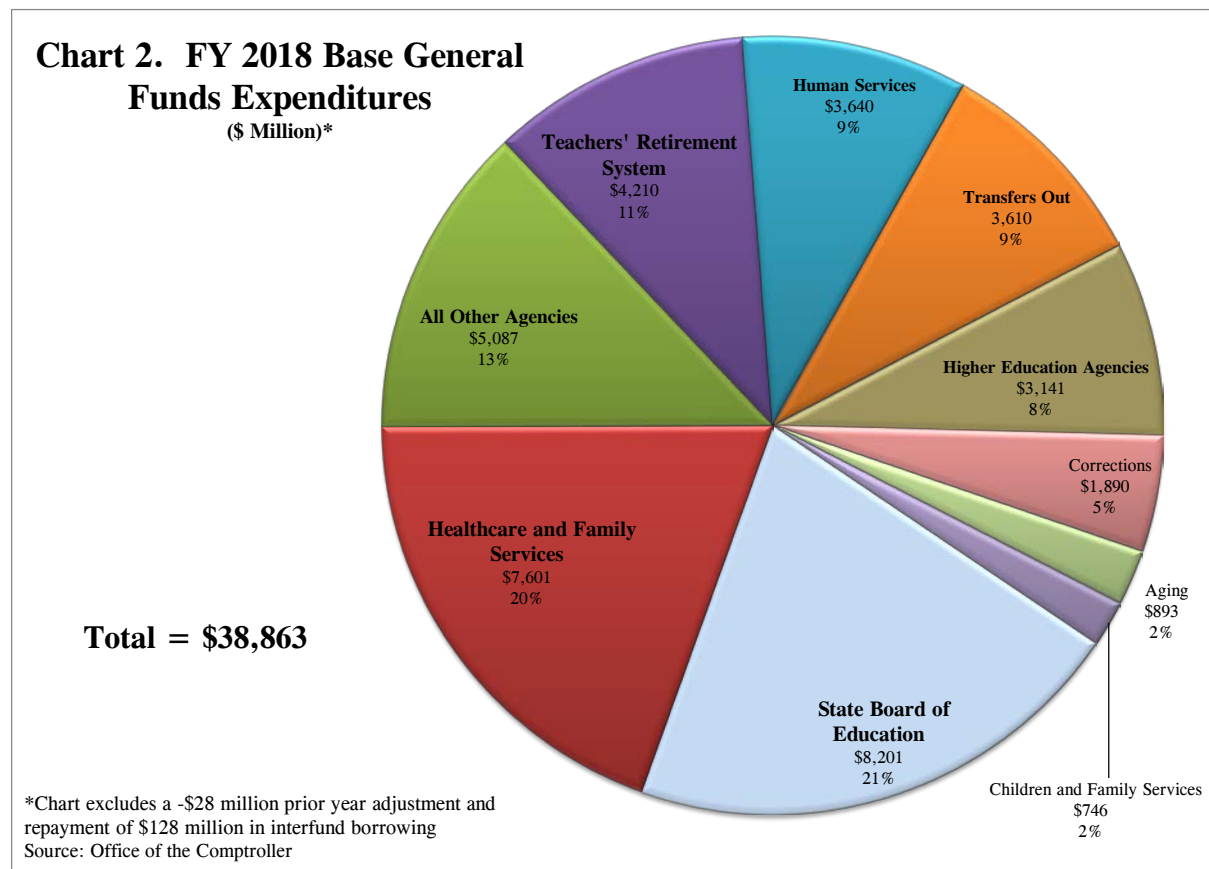


Table 2 illustrates the growth of base general funds expenditures over the last 20 years. After two fiscal years (FY 2015 and FY 2016) with declines in total expenditures associated with the budget stalemate, the State has increased spending significantly in the last two fiscal years as the backlog of bills has been reduced. The five-year average stands at 2.4%, while the 10-year rate has grown at 2.8%. The 15 and 20-year averages rise to 3.5% and 3.7%, respectively.

Looking at the individual agencies, the Teachers' Retirement System has a very large annual growth rate but this is due to an outlier fiscal year. In FY 2012, the State returned to funding the Teachers' Retirement System by using General Funds after two years of using mostly revenue from pension notes. This led to an increase of 874% in FY 2012. Trying to account for the years affected by the use of pension notes, expenditures have grown more in the range of 10% to 15% per year, which is still high, but not as high as when including FY 2012's outsized effect.

State Board of Education funding has averaged 3.3% to 3.5% growth, while Healthcare and Family Services has grown 4.1% to 4.4% per year. The Department of Corrections has seen two years in a row of high levels of growth that has caused its long-term expenditure growth rates to surpass 5% per year. While the Department of Aging only accounts for approximately 2% of total expenditures, it has grown at over 10% per year over the last ten years and is likely to continue to grow quickly in the near term as the Illinois population continues to age.

For a more detailed look at expenditures over the last decade, please see Appendix B in the back of this report.

<b>TABLE 2. GENERAL FUNDS EXPENDITURES GROWTH RATES FY 1999 - FY 2018</b>					
	<b>1-Year Growth</b>	<b>5-Year Average</b>	<b>10-Year Average</b>	<b>15-Year Average</b>	<b>20-Year Average</b>
<b>WARRANTS ISSUED</b>					
<i>BY AGENCY</i>					
State Board of Education	13.7%	4.8%	1.8%	3.3%	3.6%
Healthcare and Family Services	27.3%	3.3%	0.5%	4.1%	4.4%
Teachers' Retirement System*	2.8%	9.0%	85.6%	59.7%	48.6%
Human Services	10.9%	1.3%	-0.9%	0.4%	0.7%
Higher Education Agencies	-6.5%	4.4%	6.7%	3.7%	3.7%
Corrections	75.7%	15.2%	7.4%	5.2%	5.1%
Aging	51.4%	-0.3%	9.4%	n/a	n/a
Children and Family Services	9.1%	1.0%	-1.5%	-0.4%	-0.8%
All Other Agencies	61.3%	6.5%	12.6%	7.2%	6.8%
Prior Year Adjustments	<u>833.3%</u>	<u>174.3%</u>	<u>114.6%</u>	<u>74.1%</u>	<u>50.0%</u>
<b>Total Warrants Issued (14 months)</b>	<b>20.3%</b>	<b>3.8%</b>	<b>3.2%</b>	<b>3.6%</b>	<b>3.8%</b>
<i>Transfers</i>					
Transfers Out	-22.1%	-7.1%	-5.5%	5.8%	7.2%
<b>Total, Base Expenditures</b>	<b>14.2%</b>	<b>2.4%</b>	<b>2.8%</b>	<b>3.5%</b>	<b>3.7%</b>

\* Teachers' Retirement System expenditure growth rates are extremely high due to FY 2012 growth of over 874%. This large increase was due to the return of using General Funds revenue to fund the Teachers' Retirement System after mostly using pension notes in FY 2010 and FY 2011.

## II. Threats and Opportunities

The Threats and Opportunities section of this report highlights those issues that pose a threat or create a negative outlook, or on the contrary, provide or offer a positive opportunity, to Illinois' economic or financial condition. As Illinois' financial troubles have been a continuing matter of concern and uncertainty in recent years, several topics in this section are recurring issues from previous year's reports, but for which we have provided updated information.

### Threats

- **Outstanding Bill Backlog.** The accumulation of a bill backlog is a threat to the State of Illinois due to the high cost of either having to borrow from the financial community at higher rates or through incurring late-payment interest penalties. The backlog of bills had grown to a high of approximately \$16.7 billion during the fall of 2017. As of March 19, 2019, the Comptroller reported a General Funds backlog of \$8.8 billion.
- **Interest Penalty Payments.** Illinois is mandated to pay interest for late payments to the State's vendors and providers. There are two types of interest paid, depending on the associated bill type. Timely Pay Interest (215 ILCS 5/368a) accrues at 9% annually for self-insured providers of the State Employees Group Insurance Program. Prompt Payment Interest (30 ILCS 540) accrues at 12% to other State vendors for goods and services purchased by any state official or agency authorized to expend from appropriated state funds. According to the Office of the Comptroller, in calendar years 2017 and 2018, the Office of the Comptroller released more than \$143 million and more than \$711 million, respectively, in late payment interest penalties. As of January 31, 2019, the aggregate of outstanding accrued and pending late payment interest penalties at agencies and the Office of the Comptroller totaled approximately \$470 million for the reporting period. These payments are a threat to the State because any money needed to pay late payment penalties is money that cannot be used for other purposes.
- **General Obligation Bond Ratings.** Illinois has had one of the lowest credit ratings among the States for years. Illinois' GO Bond ratings have been downgraded fifteen times since 2010. The major consequence of the rating downgrades is that debt ratings are one of the factors that are strongly considered when determining the interest rate the State must pay to issue debt (sell bonds). Consequently, declines in the State's rating lead to a corresponding increase in debt service costs for Illinois.

- **Unfunded Pension Liabilities.** As with previous years, the unfunded pension liabilities continue to pose a threat to the current fiscal outlook. As of June 30, 2018, the unfunded liabilities of the State retirement systems totaled over \$133 billion, led by the Teachers' Retirement System (TRS), whose unfunded liability was about \$75 billion. The combined funded ratio for the retirement systems for FY 2018 was approximately 40%.

The 2018 Report of the State Actuary, issued in December of 2018, noted that the statutory funding method "does not adequately fund the systems" as the State is required to make contributions such that the systems become 90% funded by FY 2045, which does not satisfy "generally accepted actuarial principles and practices." The State Actuary also "recommend[s] that the funding method be changed to fully fund plan benefits and discontinu[e] the systematic underfunding of the systems. [...] Continuing the practice of underfunding the systems increases the risk of needing even larger contributions in the future that may make the systems unsustainable." The inadequate funding of the pension systems is a threat to the State as pension needs will continue to crowd out other funding needs until this situation is rectified.<sup>1</sup>

- **Fiscal Stability and Out-migration.** Moody's Analytics prepared the State of Illinois Forecast Report for the Commission in February 2019. The report highlighted recent performance among various sectors of Illinois' economy, as well as provided a near-term and long-term outlook, including risks that affect the Illinois forecast.

The report identified the biggest threats to the economic growth for Illinois were related to the State's fiscal problems and weak demographic profile. They stated that the two are connected. All else equal, Illinois' population losses would be expected to stabilize on their own, but the state's shaky finances and policy uncertainty up the odds that net out-migration continues.

The Moody's Analytics U.S. baseline forecast assigns the highest odds of the next recession to mid-2020, and their stress test of state budgets found that Illinois is among the worst prepared. State coffers depend heavily on income tax revenues, which have a tendency to be more sensitive to changes in the business cycle than sales taxes. More importantly, there is a grossly inadequate amount of money in the state's reserve funds, meaning lawmakers will have to raise taxes or cut spending by substantial amounts to weather the next downturn.<sup>2</sup>

One example of the net out-migration can be seen in the growth of high school students who choose to attend college outside the State of Illinois. According to the Illinois Board of Higher Education, nearly half (48.4%) of Illinois college-bound public high school graduates who enrolled in a four-year institution, did so out-of-state in 2017.

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<sup>1</sup> Office of the Auditor General. *State Actuary's Report - The Actuarial Assumptions and Valuations of the State-Funded Retirement Systems*. 2018. <https://www.auditor.illinois.gov/Audit-Reports/Performance-Special-Multi/State-Actuary-Reports/2018-State-Actuary-Rpt-Full.pdf>

<sup>2</sup> Moody's Analytics/ Economic & Consumer Credit Analytics. *State of Illinois Economic Forecast*. 2019 <http://cgfa.ilga.gov/Upload/2019MoodyEconomyILForecast.pdf>

This is an increase from the 46.6% in 2016 and a dramatic increase from the 29.3% who did so in 2002.

## **Opportunities**

This section highlights some ideas for changes that have been introduced or discussed in recent years. However, the Commission is not advocating for the implementation of these ideas one way or the other.

- **Align Expenditures with Revenues.** With the passage of the income tax increase in 2017, revenues have come much closer to matching expenditures on an annual basis. In the past, people have called for the closing of the budget deficit by only cutting costs. Prior to the income tax increase, these types of proposals were improbable due to the size of the budget gap and the political environment. Now that the income tax has closed much of the gap between revenues and spending, proposals primarily using spending cuts, while painful, are more feasible.
- **Maximize Illinois' Economic Advantages.** The previously mentioned report by Moody's Analytics also noted numerous economic assets that the State of Illinois possessed. These assets included a huge talent pool of highly skilled workers, world-class universities, access to customers and capital, and transportation hubs including an airport with direct connections around the globe. In fact, the report stated that

“Illinois’ business climate outshines its regional rivals, but the state’s shaky finances have some firms questioning whether they want to expand in the state or elsewhere. Illinois has what it needs to remain a top business center, as long as it can solve the fiscal problems that are eroding its edge in the competition for talent, jobs and capital.”<sup>3</sup>

Despite its many challenges, Illinois has the foundation for strong economic growth if the State were able to better maximize these economic advantages.

- **Reducing Rates for Timely and Prompt Payment Interest.** As discussed earlier in this report, the state is obligated to pay interest on past due bills. This interest is either 9% or 12% annually, depending on the associated bill type. If these interest rates were reduced, the amount of interest penalties the state pays would decrease proportionately. As mentioned previously, as of January 31, 2019, \$470 million in estimated late-payment interest payments were due based on vouchers at the Office of the Comptroller and those still held by the agencies.

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<sup>3</sup> Moody's Analytics/ Economic & Consumer Credit Analytics. *State of Illinois Economic Forecast*. 2019 <http://cgfa.ilga.gov/Upload/2019MoodyEconomyILForecast.pdf>

If Illinois were to reduce the interest rate it paid for late payments to 7.5% instead of the 9% or 12% rate, it would save the State millions of dollars a year. For every \$1 billion in late bills, Illinois accrues between \$90 million and \$120 million per year depending upon the type of bill. If the late penalty rates were lowered to 7.5%, the total amount would equal \$75 million. This would equal a savings of \$15 million to \$45 million per year per \$1 billion in late penalty payments.

- **Intergovernmental Agreements.** In the fall of 2018, the Offices of the Treasurer and Comptroller entered into a series of intergovernmental agreements utilizing, for the first time, the new State Treasurer lending initiative, which accessed liquidity within the state's investment portfolio to refinance backlogged bills that are incurring late payment interest penalties. The utilization of this tool made it possible for the Comptroller to address bills that were delayed by as much as two years as a result of having no budget, and thus no appropriation authority.

With the passage of the supplemental appropriation, the Comptroller applied this lending tool to address these long-standing liabilities. As of the end of 2018, the Treasurer's Office has invested \$700 million to pay down these liabilities, with a projected six-month savings to taxpayers in lower interest penalties of between \$18 million and \$29 million. About \$685 million is due to be repaid to the state's portfolio by May 2019, at interest rates between 3.59 percent and 3.78 percent. This repayment is scheduled to occur at a time when receipts to the state are at their highest, due to income tax receipts.<sup>4</sup> Continued use of these intergovernmental agreements is an opportunity for the State to reduce its future liabilities associated with the backlog of bills and the associated late payment penalties.

- **Legalize Recreational Cannabis Use.** Another potentially new revenue source could be the legalization of recreational cannabis. As of January of 2019, ten states plus Washington D.C. have legalized the use of cannabis for recreational purposes. The State of Colorado and Washington were both pioneers in this industry and have both seen significant economic activity and tax revenue. In 2018, Colorado saw sales of over \$1.2 billion and collected more than \$266 million in taxes and fees. The Commission estimated that one proposal (SB 0314) to legalize cannabis use would potentially bring in between \$251 million and \$579 million per year. While the legalization of cannabis use does come with some risk, it does offer an opportunity for increased economic activity and tax revenue.
- **Expand Sales Tax Base.** In recent decades, the service sector has become a larger portion of the national economy, as well as the Illinois economy. Based on data from the Bureau of Economic Analysis, private services-providing industries

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<sup>4</sup> State of Illinois Comptroller, *Special Report on Illinois' Finances and Future, Addendum to the DTA Report for the Period Ending December 31, 2018. 2019* Available at: <https://illinoiscomptroller.gov/comptroller/assets/file/DTA/SpecialReportOnIllinoisFinancesAndFuture.pdf>

accounted for just over 72% of Illinois' contribution to the Gross Domestic Product (GDP) in 2015.

Currently, Illinois taxes 17 different kinds of services. This affords the State an opportunity to modernize, broaden, and diversify its tax base. The Illinois sales tax was originally developed in the 1930s when the economy was much more reliant on goods production. By taxing services, the tax system would modernize to more accurately reflect the economy of 2019.

Taxing more services could be used to bring in more revenue to the State. It could also be used to offset a portion of the sales tax on goods and allow for the overall tax rate to be lowered. The table below shows how Illinois compares to the surrounding states and how much revenue could be collected under a 5% service tax based on the services taxed in each of those states. For more information on this topic, please see the Commission's 2017 service tax report update at <http://cgfa.ilga.gov/Upload/ServiceTaxes2017update.pdf>.<sup>5</sup>

Service Tax System	Number of Additional Services Taxed	Broad Based Estimate			Refined Estimate		
		Tax Revenue (\$ Millions)			Tax Revenue (\$ Millions)		
		Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Iowa	81	\$2,040.4	\$2,351.6	\$2,905.4	\$847.3	\$975.4	\$1,203.7
Indiana	8	\$378.5	\$435.8	\$538.0	\$197.7	\$227.8	\$281.4
Kentucky	6	\$221.5	\$254.1	\$312.4	\$127.2	\$145.6	\$178.6
Missouri	11	\$313.4	\$361.4	\$446.9	\$179.9	\$207.1	\$255.8
Wisconsin	14	\$672.9	\$773.3	\$952.7	\$416.1	\$477.7	\$588.0

Models assume a 5% tax rate, a 7/1/17 implementation date, and a 67%, 75%, and 90% compliance timeline.  
 Broad based estimate taxes all transactions, the refined estimate tries to only account for transactions to final users  
 Source: CGFA

- Progressive Income Tax.** One potential change to tax policy that is currently being discussed that could be designed to bring in new revenue is going from a flat income tax to a progressive income tax system. As explained by the U.S. Internal Revenue Service, a progressive tax takes a larger percentage of income from high-income groups than from low-income groups and is based on the concept of ability to pay. The U.S. federal income tax is based on the progressive tax system as well as 32 other states. A total of nine states including Illinois have a flat income tax, while seven states have no income tax at all.

The Illinois Constitution currently prohibits the use of a progressive income tax system. Article IX, Section 3 of the Illinois Constitution states that “A tax on or measured by income shall be at a non-graduated rate. At any one time there may be no more than one such tax imposed by the State for State purposes on individuals

<sup>5</sup> Commission on Government Forecasting and Accountability. *Service Taxes 2017 Update*. 2017. <http://cgfa.ilga.gov/Upload/ServiceTaxes2017update.pdf>

and one such tax so imposed on corporations. In any such tax imposed upon corporations the rate shall not exceed the rate imposed on individuals by more than a ratio of 8 to 5.” Therefore, any change to a progressive income tax system would have to be implemented through the use of a constitutional amendment.



### **III. 3-Year Budget Forecasts**

On the next page is the Commission's 3-year estimate for General Funds revenues. Based on its March 2019 estimate, the Commission believes that FY 2019 general funds base revenue will be \$37.4 billion, a 2.6% decrease from FY 2018 related to the unusually high level of Federal Sources in FY 2018. In addition to the base revenue, an additional \$950 million in revenue is expected. Of this amount, \$700 million is expected from the Treasurer's Investment Program and \$250 million is expected from Interfund Borrowing. Total General Revenue Funds is estimated to be \$38.3 billion which would be a decline of just over \$3.1 billion, or -7.5%. The main factor for this decline in total revenue was the lack of a large Income Tax Bond Fund transfer associated with the paying down of the backlog of bills which totaled \$2.5 billion in FY 2018. Using the estimated FY 2019 base revenues, the Commission forecasted revenues for the next three fiscal years. The Commission's revenue outlook reflects current law with a view of moderating economic growth as the current business cycle approaches the longest expansion ever recorded.

The Commission utilized these revenue estimates to present budget scenarios using various spending levels as spending will change based upon priorities that will be determined during budget negotiations. Six budget scenarios were analyzed using different spending growth rates. These growth rates were applied to the estimated FY 2019 spending base of \$39.549 billion as indicated in the Governor's proposed FY 2020 budget. A backlog of bills totaling \$6.775 billion was assumed at the end of FY 2018 as indicated by the Office of the Comptroller. No debt restructuring was assumed in any of these scenarios.

The first growth rate scenario reflects annual declines in spending of -4.6% which is the rate at which the backlog of bills would equal \$0 at the end of the three years. The second rate was 0.0% growth or flat spending. This was done to demonstrate what would happen if spending was held constant over the next three years. Scenarios three, four, and five use the 5-year, 10-year, and 15-year averages for expenditure growth of 2.4%, 2.8%, and 3.5%. The final scenario uses the 20-year average growth rate of 3.7%.

**TABLE 4. CGFA ESTIMATES FY 2019-FY 2022 (BASE REVENUES)**

(millions)					
	FY 2018	CGFA FY 2019	CGFA FY 2020	CGFA FY 2021	CGFA FY 2022
<u>Revenue Sources</u>	<u>Actual</u>	<u>Estimate Mar-19</u>	<u>Estimate Mar-19</u>	<u>Estimate Mar-18</u>	<u>Estimate Mar-18</u>
<b>State Taxes</b>					
Personal Income Tax	\$20,784	\$21,588	\$22,128	\$22,460	\$23,021
Corporate Income Tax	\$2,607	\$2,834	\$2,890	\$2,919	\$2,977
Sales Taxes	\$8,256	\$8,775	\$9,022	\$9,112	\$9,312
Public Utility (regular)	\$896	\$879	\$835	\$815	\$797
Cigarette Tax	\$344	\$348	\$338	\$328	\$318
Liquor Gallonage Taxes	\$172	\$174	\$174	\$176	\$178
Vehicle Use Tax	\$28	\$31	\$30	\$30	\$30
Estate Tax (gross)	\$358	\$350	\$305	\$300	\$300
Insurance Taxes & Fees	\$432	\$421	\$416	\$416	\$416
Corporate Franchise Tax & Fees	\$207	\$205	\$205	\$203	\$202
Interest on State Funds & Investments	\$79	\$125	\$135	\$135	\$115
Cook County Intergovernmental Transfer	\$244	\$244	\$244	\$244	\$244
<u>Other Sources</u>	<u>\$641</u>	<u>\$676</u>	<u>\$687</u>	<u>\$682</u>	<u>\$712</u>
<b>Subtotal</b>	<b>\$35,048</b>	<b>\$36,650</b>	<b>\$37,409</b>	<b>\$37,820</b>	<b>\$38,622</b>
<b>Transfers</b>					
Lottery	\$719	\$731	\$745	\$758	\$772
Riverboat transfers and receipts	\$282	\$271	\$268	\$266	\$265
<u>Other</u>	<u>\$1,186</u>	<u>\$1,003</u>	<u>\$740</u>	<u>\$700</u>	<u>\$710</u>
<b>Total State Sources</b>	<b>\$37,235</b>	<b>\$38,655</b>	<b>\$39,162</b>	<b>\$39,544</b>	<b>\$40,369</b>
<b>Federal Sources</b>	<b>\$5,238</b>	<b>\$3,050</b>	<b>\$3,547</b>	<b>\$3,582</b>	<b>\$3,690</b>
<b>Total Federal &amp; State Sources</b>	<b>\$42,473</b>	<b>\$41,705</b>	<b>\$42,709</b>	<b>\$43,126</b>	<b>\$44,059</b>
<b>Nongeneral Funds Distribution:</b>					
<b>Refund Fund*</b>					
Personal Income Tax	(\$2,037)	(\$2,094)	(\$2,157)	(\$2,190)	(\$2,245)
Corporate Income Tax	(\$457)	(\$439)	(\$426)	(\$431)	(\$439)
<b>Local Government Distributive Fund</b>					
Personal Income Tax	(\$1,022)	(\$1,122)	(\$1,210)	(\$1,228)	(\$1,259)
Corporate Income Tax	(\$133)	(\$156)	(\$169)	(\$171)	(\$174)
<b>Sales Tax Distribution to the PTF and DPTF</b>	<b>(\$446)</b>	<b>(\$508)</b>	<b>(\$561)</b>	<b>(\$567)</b>	<b>(\$579)</b>
<b>Total, Base Revenues</b>	<b>\$38,378</b>	<b>\$37,386</b>	<b>\$38,186</b>	<b>\$38,539</b>	<b>\$39,363</b>
Change from Prior Year	\$8,973	(\$992)	\$800	\$353	\$824
Percent Change	30.5%	-2.6%	2.1%	0.9%	2.1%
Short-Term Borrowing / Treasurer Investment	\$0	\$700	\$0	\$0	\$0
Interfund Borrowing	\$533	\$250	\$0	\$0	\$0
Income Tax Bond Fund Transfer [Backlog]	\$2,500	\$0	\$0	\$0	\$0
Transfer to Commitment to Human Services	\$40	\$0	\$0	\$0	\$0
<b>Total General Funds Revenue</b>	<b>\$41,451</b>	<b>\$38,336</b>	<b>\$38,186</b>	<b>\$38,539</b>	<b>\$39,363</b>
Change from Prior Year	\$12,046	(\$3,115)	(\$150)	\$353	\$824
Percent Change	41.0%	-7.5%	-0.4%	0.9%	2.1%
The FY 2019 estimates were based on refund percentages of 9.7% for PIT and 15.5% for CIT.					
The FY 2020-22 estimates were based on refund percentages of 9.75% for PIT and 14.75% for CIT.					
Totals exclude short-term borrowing, Budget Stabilization transfers, and other cash flow transfers.					
Source: CGFA					

## **Scenario Analysis Results**

Results of the various budget scenarios can be found in the table on page 14. The table contains revenues, spending, operating surplus/deficit, and cumulative backlog of bills for each scenario. The scenarios assume FY 2019 revenue of \$38.3 billion, a spending base of \$39.5 billion and a backlog of \$8.0 billion at the end of the fiscal year.

### **Scenario 1. Backlog of Bills to \$0**

The first scenario analyzed (annual expenditure declines of -4.6% per year) shows the spending decreases that would be necessary to get the backlog of bills at the end of the fiscal year to zero by the end of FY 2022. This scenario saw surpluses in each of the three years forecasted. In this scenario, revenues reach \$39.4 billion and expenditures fall to \$34.4 billion. The surplus would equal just over \$5.0 billion in FY 2022.

This scenario is primarily for presentation purposes only as there will always be some outstanding bills in the “pipeline”, and therefore, the backlog of bills could never truly reach \$0. This scenario shows what kind of spending reductions would be necessary to get the backlog of bills down to a more manageable level within three years only using spending cuts. With the passage of the July 1, 2017 income tax increase, this scenario has become more realistic. In 2017’s 3-Year Budget Forecast, this scenario needed annual declines of -14% to pay down the backlog of bills within three years.

### **Scenario 2. Flat Spending**

Scenario 2 shows what would happen if expenditures were frozen at FY 2019 levels. This scenario kept spending at \$39.5 billion for all three years. This scenario and all the remaining scenarios had deficits in each of the three years forecast. The deficits in FY 2020 and FY 2021 would be over \$1 billion. However, by FY 2022, the deficit would be down to \$186 million. In this scenario, the backlog of bills would grow to \$10.5 billion at the end of FY 2022.

### **Scenario 3. 2.4% Annual Growth in Spending (5-Year Average Growth)**

The third scenario examined what spending and the backlog of bills would grow to assuming growth rates similar to the 5-year average which was 2.4% annual growth. Expenditures grow to over \$42.4 billion under this scenario. The deficit is over \$2.3 billion in each year and the backlog of bills grows to over \$16.3 billion.

#### **Scenario 4. 2.8% Annual Growth in Spending (10-Year Average Growth)**

Scenario 4 assumed spending increases similar to the 10-year average of 2.8%. This scenario is similar to the previous scenario in that all three years have deficits. Expenditures grow to almost \$43.0 billion. Deficits grow to over \$3.6 billion in FY 2022. The backlog of bills rises to over \$17.3 billion.

#### **Scenario 5. 3.5 % Annual Growth in Spending (15-Year Average Growth)**

This scenario used the 15-year average of 3.5% annual growth in spending. Spending grows approximately \$1.5 billion per year. Similar to the previous scenarios, deficits are predicted in each of the three years forecasted. In FY 2020, the deficit grows to almost \$4.5 billion. The backlog of bills soars to over \$19.0 billion under this scenario.

#### **Scenario 6. 3.7% Annual Growth in Spending (20-Year Average Growth)**

The final scenario uses the 20-year spending average of 3.7%. This is the highest growth rate analyzed and led to the worst results. Deficits swell from \$2.8 billion in FY 2020 to over \$4.7 billion in FY 2022. The backlog of bills would expand to over \$19.5 billion in the final year forecast.

### **Conclusion**

While Illinois has economic strengths, the fiscal instability of the State itself is holding back the State's economy. The 2017 income tax increase has closed some of the structural gap in the budget but the State still has work to do to truly be able to operate under a sustainable model moving forward. As demonstrated in this report, based on forecast models, the State needs to raise more revenue and/or limit expenditures better than it has over the past 20 years. The State's fiscal problems will continue until a system wherein its revenue and expenditures are more aligned.

**TABLE 5. 3-YEAR BUDGET SCENARIOS**

(\$ million)

<b>Scenario 1: Backlog of Bills to \$0 (4.6% annual decline in spending)</b>					<b>Scenario 4: 10-Year Average Growth in Spending (2.8%)</b>				
	Revenues	Spending	General Funds Surplus/Deficit	End of Fiscal Year Backlog of Bills		Revenues	Spending	General Funds Surplus/Deficit	End of Fiscal Year Backlog of Bills
FY 2019	\$38,336	\$39,549	(\$1,213)	(\$7,988)	FY 2019	\$38,336	\$39,549	(\$1,213)	(\$7,988)
FY 2020	\$38,186	\$37,736	\$450	(\$7,538)	FY 2020	\$38,186	\$40,656	(\$2,470)	(\$10,458)
FY 2021	\$38,539	\$36,007	\$2,532	(\$5,006)	FY 2021	\$38,539	\$41,795	(\$3,256)	(\$13,714)
FY 2022	\$39,363	\$34,357	\$5,006	(\$0)	FY 2022	\$39,363	\$42,965	(\$3,602)	(\$17,316)
<b>Scenario 2: Flat Spending (0% growth)</b>					<b>Scenario 5: 15-Year Average Growth in Spending (3.5%)</b>				
	Revenues	Spending	General Funds Surplus/Deficit	End of Fiscal Year Backlog of Bills		Revenues	Spending	General Funds Surplus/Deficit	End of Fiscal Year Backlog of Bills
FY 2019	\$38,336	\$39,549	(\$1,213)	(\$7,988)	FY 2019	\$38,336	\$39,549	(\$1,213)	(\$7,988)
FY 2020	\$38,186	\$39,549	(\$1,363)	(\$9,351)	FY 2020	\$38,186	\$40,933	(\$2,747)	(\$10,735)
FY 2021	\$38,539	\$39,549	(\$1,010)	(\$10,361)	FY 2021	\$38,539	\$42,366	(\$3,827)	(\$14,562)
FY 2022	\$39,363	\$39,549	(\$186)	(\$10,547)	FY 2022	\$39,363	\$43,849	(\$4,486)	(\$19,048)
<b>Scenario 3: 5-Year Average Growth in Spending (2.4%)</b>					<b>Scenario 6: 20-Year Average Growth in Spending (3.7%)</b>				
	Revenues	Spending	General Funds Surplus/Deficit	End of Fiscal Year Backlog of Bills		Revenues	Spending	General Funds Surplus/Deficit	End of Fiscal Year Backlog of Bills
FY 2019	\$38,336	\$39,549	(\$1,213)	(\$7,988)	FY 2019	\$38,336	\$39,549	(\$1,213)	(\$7,988)
FY 2020	\$38,186	\$40,498	(\$2,312)	(\$10,300)	FY 2020	\$38,186	\$41,012	(\$2,826)	(\$10,814)
FY 2021	\$38,539	\$41,470	(\$2,931)	(\$13,231)	FY 2021	\$38,539	\$42,530	(\$3,991)	(\$14,805)
FY 2022	\$39,363	\$42,465	(\$3,102)	(\$16,334)	FY 2022	\$39,363	\$44,103	(\$4,740)	(\$19,545)

All scenarios use CGFA revenue estimates, the Governor's FY 2020 State Budget Proposal for the FY 2018 spending, and an estimated backlog of bills of \$6.775 billion at the end of FY 2018.

**APPENDIX A. DETAILED GENERAL FUNDS REVENUE HISTORY FY 2009 - FY 2018**

(\$ million)

<b>Revenue Sources</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>
<b>State Taxes</b>										
Personal Income Tax	\$10,219	\$9,430	\$12,301	\$17,000	\$18,323	\$18,388	\$17,682	\$15,299	\$15,385	\$20,784
Corporate Income Tax (regular)	2,073	1,649	2,277	2,983	3,679	3,640	3,129	2,334	1,610	2,607
Sales Taxes	6,773	6,308	6,833	7,226	7,355	7,676	8,030	8,063	8,043	8,256
Public Utility Taxes (regular)	1,168	1,089	1,147	995	1,033	1,013	1,006	926	884	896
Cigarette Tax	350	355	355	354	353	353	353	353	353	344
Liquor Gallonage Taxes	158	159	157	164	165	165	167	170	171	172
Vehicle Use Tax	27	30	30	29	27	29	32	30	30	28
Estate Tax (Gross)	288	243	122	235	293	276	333	306	261	358
Insurance Taxes and Fees	334	322	317	345	334	333	353	398	391	432
Corporate Franchise Tax & Fees	201	208	207	192	205	203	211	207	207	207
Interest on State Funds & Investments	81	26	28	21	20	20	24	24	36	79
Cook County Intergovernmental Transfer	253	244	244	244	244	244	244	244	244	244
Other Sources	418	431	404	399	462	585	693	534	685	641
<b>Subtotal</b>	<b>\$22,343</b>	<b>\$20,494</b>	<b>\$24,422</b>	<b>\$30,187</b>	<b>\$32,493</b>	<b>\$32,925</b>	<b>\$32,257</b>	<b>\$28,888</b>	<b>\$28,300</b>	<b>\$35,048</b>
<b>Transfers</b>										
Lottery	625	625	632	640	656	668	679	677	720	719
Gaming Fund Transfer [and related]	430	431	324	413	360	331	302	287	280	282
Other	538	828	1,226	885	688	1,113	2,012	627	552	1,186
<b>Total State Sources</b>	<b>\$23,936</b>	<b>\$22,378</b>	<b>\$26,604</b>	<b>\$32,125</b>	<b>\$34,197</b>	<b>\$35,037</b>	<b>\$35,250</b>	<b>\$30,479</b>	<b>\$29,852</b>	<b>\$37,235</b>
<b>Federal Sources</b>	<b>\$6,567</b>	<b>\$5,920</b>	<b>\$5,386</b>	<b>\$3,682</b>	<b>\$4,154</b>	<b>\$3,903</b>	<b>\$3,330</b>	<b>\$2,665</b>	<b>\$2,483</b>	<b>\$5,238</b>
<b>Total Federal &amp; State Sources</b>	<b>\$30,503</b>	<b>\$28,298</b>	<b>\$31,990</b>	<b>\$35,807</b>	<b>\$38,351</b>	<b>\$38,940</b>	<b>\$38,580</b>	<b>\$33,144</b>	<b>\$32,335</b>	<b>\$42,473</b>
<b>Nongeneral Funds Distribution:</b>										
<b>Refund Fund</b>										
Personal Income Tax	(\$996)	(\$919)	(\$1,076)	(\$1,488)	(\$1,785)	(\$1,746)	(\$1,769)	(\$1,493)	(\$1,724)	(\$2,037)
Corporate Income Tax	(363)	(289)	(426)	(522)	(502)	(476)	(439)	(362)	(278)	(457)
Fund for Advancement of Education	0	0	0	0	0	0	(242)	(458)	(464)	0
Commitment to Human Services Fund	0	0	0	0	0	0	(242)	(458)	(464)	0
LGDF -- Direct from PIT	0	0	0	0	0	0	0	0	0	(1,022)
LGDF -- Direct from CIT	0	0	0	0	0	0	0	0	0	(133)
Dounstate Pub/Trans -- Direct from Sales Tax	0	0	0	0	0	0	0	0	0	(446)
<b>Total, Base Revenues</b>	<b>\$29,144</b>	<b>\$27,090</b>	<b>\$30,488</b>	<b>\$33,797</b>	<b>\$36,064</b>	<b>\$36,718</b>	<b>\$35,888</b>	<b>\$30,373</b>	<b>\$29,405</b>	<b>\$38,378</b>
Change from Prior Year	(\$515)	(\$2,054)	\$3,398	\$3,309	\$2,267	\$654	(\$830)	(\$5,515)	(\$968)	\$8,973
Percent Change	-1.7%	-7.0%	12.5%	10.9%	6.7%	1.8%	-2.3%	-15.4%	-3.2%	30.5%
Short-Term Borrowing / Treasurer Investment	\$2,400	\$1,250	\$1,300	\$0	\$0	\$0	\$454	\$0	\$0	\$0
Interfund Borrowing	0	0	0	0	0	0	0	0	0	533
Income Tax Bond Fund Transfer	0	0	0	0	0	0	0	0	0	2500
Transfer to Commitment to Human Services Fund	0	0	0	0	0	0	0	0	0	40
Tobacco Liquidation Proceeds	0	0	1250	0	0	0	0	0	0	0
Budget Stabilization Fund Transfer	576	1146	535	275	275	275	275	125	0	0
Pension Contribution Fund Transfer	0	843	224	0	0	0	0	0	0	0
FY '13-14 Backlog Payment Fund Transfer	0	0	0	0	264	50	0	0	0	0
<b>Total General Funds Revenue</b>	<b>\$32,120</b>	<b>\$30,329</b>	<b>\$33,797</b>	<b>\$34,072</b>	<b>\$36,603</b>	<b>\$37,043</b>	<b>\$36,617</b>	<b>\$30,498</b>	<b>\$29,405</b>	<b>\$41,451</b>
Change from Prior Year	(\$1,718)	(\$1,791)	\$3,468	\$275	\$2,531	\$440	(\$426)	(\$6,119)	(\$1,093)	\$12,046
Percent Change	-5.1%	-5.6%	11.4%	0.8%	7.4%	1.2%	-1.2%	-16.7%	-3.6%	41.0%

Source: ILLINOIS COMPTROLLER, CGFA

## APPENDIX B. GENERAL FUNDS EXPENDITURES HISTORY BY AGENCY FY 2009 - FY 2018

(\$ million)

<u>WARRANTS ISSUED</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
<b>BY AGENCY</b>										
State Board of Education	\$7,357	\$7,273	\$6,912	\$6,739	\$6,539	\$6,681	\$6,545	\$6,507	\$7,211	\$8,201
Healthcare and Family Services	9,556	7,239	7,309	8,158	6,726	7,292	6,525	6,090	5,972	7,601
Teachers' Retirement System	1,527	914	256	2,494	2,790	3,529	3,479	3,851	4,096	4,210
Human Services	4,144	3,997	3,894	3,415	3,448	3,217	3,363	3,153	3,283	3,640
Higher Education Agencies	2,398	2,230	2,146	2,844	3,234	3,303	3,291	2,039	3,359	3,141
Corrections	1,308	1,156	1,205	1,210	1,172	1,276	1,310	888	1,076	1,890
Children and Family Services	906	847	840	806	721	684	672	619	684	746
Aging	537	653	646	731	1,060	935	880	646	590	893
All Other Agencies	2,055	2,009	2,261	2,900	4,624	4,622	4,709	2,969	3,153	5,087
Prior Year Adjustments	(14)	(17)	(22)	(88)	(21)	(60)	(11)	(12)	(3)	(28)
<b>Total Warrants Issued</b>	<b>\$22,417</b>	<b>\$19,028</b>	<b>\$18,535</b>	<b>\$22,470</b>	<b>\$23,754</b>	<b>\$24,798</b>	<b>\$24,218</b>	<b>\$20,243</b>	<b>\$22,210</b>	<b>\$27,180</b>
<b>Transfers</b>										
Transfers Out	5,185	6,450	6,937	5,164	5,350	5,497	4,858	4,576	4,636	3,610
<b>Total Expenditures</b>	<b>\$27,602</b>	<b>\$25,478</b>	<b>\$25,472</b>	<b>\$27,634</b>	<b>\$29,104</b>	<b>\$30,295</b>	<b>\$29,076</b>	<b>\$24,819</b>	<b>\$26,846</b>	<b>\$30,790</b>
Change from Prior Year	\$60	(\$2,124)	(\$6)	\$2,162	\$1,470	\$1,191	(\$1,219)	(\$4,257)	\$2,027	\$3,944
Percent Change	0.2%	-7.7%	0.0%	8.5%	5.3%	4.1%	-4.0%	-14.6%	8.2%	14.7%
Repayment of Short-Term Borrowing	1,424	2,276	1,322	0	0	0	0	0	0	0
Cash Flow Transfers	300	870	260	0	0	0	0	0	0	0
Repayment of Interfund Borrowing	0	0	9	355	133	0	0	0	15	128
Budget Stabilization Fund Transfers	276	0	276	550	275	275	275	125	0	0
<b>Total, Base Expenditures</b>	<b>\$25,602</b>	<b>\$22,332</b>	<b>\$23,605</b>	<b>\$26,729</b>	<b>\$28,696</b>	<b>\$30,020</b>	<b>\$28,801</b>	<b>\$24,694</b>	<b>\$26,831</b>	<b>\$30,662</b>
Change from Prior Year	\$2,239	(\$3,270)	\$1,273	\$3,124	\$1,967	\$1,324	(\$1,219)	(\$4,107)	\$2,137	\$3,831
Percent Change	9.6%	-12.8%	5.7%	13.2%	7.4%	4.6%	-4.1%	-14.3%	8.7%	14.3%

Source: ILLINOIS COMPTROLLER, CGFA

## BACKGROUND

The Commission on Government Forecasting and Accountability (CGFA), a bipartisan, 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. The Commission's specific responsibilities include:

- 1) Preparation of annual revenue estimates with periodic updates;
- 2) Analysis of the fiscal impact of revenue bills;
- 3) Preparation of "State Debt Impact Notes" on legislation which would appropriate bond funds or increase bond authorization;
- 4) Periodic assessment of capital facility plans;
- 5) Annual estimates of public pension funding requirements and preparation of pension impact notes;
- 6) 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;
- 7) Administration of the State Facility Closure Act.

The Commission also has a mandate to report to the General Assembly ". . . on economic trends in relation to long-range planning and budgeting; and to study and make such recommendations as it deems appropriate on local and regional economic and fiscal policies and on federal fiscal policy as it may affect Illinois. . . ." This results in several reports on various economic issues throughout the year.

The Commission publishes several reports each year. In addition to a Monthly Briefing, the Commission publishes the "Revenue Estimate and Economic Outlook" which describes and projects economic conditions and their impact on State revenues. The "Bonded Indebtedness Report" examines the State's debt position as well as other issues directly related to conditions in the financial markets. The "Financial Conditions of the Illinois Public Retirement Systems" provides an overview of the funding condition of the State's retirement systems. Also published are an Annual Fiscal Year Budget Summary; Report on the Liabilities of the State Employees' Group Insurance Program; and Report of the Cost and Savings of the State Employees' Early Retirement Incentive Program. The Commission also publishes each year special topic reports that have or could have an impact on the economic well-being of Illinois. All reports are available on the Commission's website.

These reports are available from:

Commission on Government Forecasting and Accountability  
802 Stratton Office Building  
Springfield, Illinois 62706  
(217) 782-5320  
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<http://cgfa.ilga.gov>