Commission on Government Forecasting and Accountability

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MONTHLY BRIEFING FOR THE MONTH ENDED: JUNE 2020

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REVENUE: FY 2020 ENDS WITH JUNE UPTICK—COVID-19 RESPONSIBLE FOR FISCAL YEAR BASE REVENUES DROPPING $1.135 BILLION—REVENUES FINISH VERY CLOSE TO REVISED EXPECTATATIONS

Jim Muschinske, Revenue Manager

Base June general funds revenues managed to post a gain of $208 million. The uptick was mostly due to higher federal sources that reflected reimbursable spending made possible by nearly $1.2 billion of short-term borrowing proceeds. Personal income tax receipts also made a strong showing despite COVID-19's impact on job numbers. While official component breakdowns of income tax receipts will not be available from IDoR for a couple of days, it is assumed that the delayed final payment date resulted in some taxpayers filing after the usual April 15th deadline—but before the newly imposed July 15th date. The spreading out of those final payments has disrupted usual receipt patterns over the last several months. In addition, the enhanced unemployment benefits from the CARES Act [an additional $600 per/wk thru July] has temporarily softened the blow to withholding taxes, as unemployment benefit income is taxable. June benefited from two extra receipting days as compared to the same month last year.

Only a few revenue sources experienced increases for the month. As indicated above, gross personal income taxes fared well, rising $173 million, or $150 million net. Again, it is assumed that some final payments [which usually would have fallen in April] have instead been spread over May/June and will extend into July to coincide with the revised deadline. Public utility taxes increased $12 million in June, while other sources grew $12 million and inheritance tax receipts $7 million.

Despite the overall monthly gain, most revenue sources suffered declines in the last month of the fiscal year. Gross sales taxes fell $83 million, or $74 million net. Gross corporate income taxes were down $48 million, or $33 million net. Insurance taxes continued a very volatile pattern of receipting by dropping $44 million. Cigarette taxes were down $19 million for the month, corporate franchise taxes were off $10 million, and interest income dipped $3 million.

Overall transfers grew $26 million for June. Other miscellaneous transfers posted a $60 million gain, but was partially offset by a $9 million decline in lottery transfers and $25 million loss in riverboat transfers [as casino and video gaming was temporarily halted until July 1st]. As mentioned earlier, federal sources had a strong month, rising $184 million. That gain was made possible due to proceeds from June's short-term borrowing being directed to reimbursable Medicaid spending.

Year End

Excluding proceeds from the Treasurer's Investment program as well as interfund and short-term borrowing, FY 2020 base general funds revenues ended $1.135 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. That all changed in the final quarter as economic and subsequent revenue impacts related to COVID-19 abruptly manifested. In addition, receipt timing related to income tax deadline changes also factored into the year-over-year revenue loss.

The "Big Three" revenue sources felt the brunt of COVID-19. For the fiscal year, gross personal income taxes fell $947 million, or $765 million net. Gross corporate income taxes dropped $430 million, or $308 million net, while gross sales taxes were off $206 million, or $154 million net from last year's levels. In total, the combined net drop of the "Big Three" was $1.227 billion.

Most of the other revenue sources experienced a down year as well, with all other revenue sources dropping a net $255 million.

Aided by gains associated to Refund Fund and Capital Projects Fund transfers, overall transfers to the general funds managed to grow $396 million. That gain was significantly muted by COVID's impact on the lottery as well as riverboat gaming activities. Federal sources, despite ending the year with a flourish, experienced wide monthly swings in performance this fiscal year and finished down $49 million.

Review of FY 2020 Revenue Estimates vs. Actuals

The below summary table as well as a more detailed table on page 6, displays and compares the last official estimates of both CGFA and GOMB/IDoR that were presented during the early stages of the COVID-19 crisis [April/May]. In an attempt to reflect the uncertainty of economic conditions, subsequent tax receipt implications, and policy decisions at both state and federal levels, both agencies adjusted their previous respective forecasts for FY 2020 down approximately $2.2 billion. As shown, excluding borrowing related items, the Commission's revised estimate was only $125 million, or three-tenths of a percent below FY 2020 actuals. The GOMB/IDoR revision was nearly as accurate, with a differential from actuals of $218 million, or six-tenths of a percent.

FY 2020 Actuals vs. CGFA and IDoR/GOMB Estimates

($ millions)

Revenue Sources	ACTUAL FY 2020	CGFA EST. May-20 FY 2020	DIFFERENCE ACTUALS FROM ESTIMATE	IDoR/GOMB EST. April-20 FY 2020	DIFFERENCE ACTUALS FROM ESTIMATE
Income Taxes [Net]	**$20,552**	**$20,435**	**$117**	**$20,288**	**$264**
Sales Tax [Net]	**$8,255**	**$8,064**	**$191**	**$8,003**	**$252**
All Other Sources	**$3,261**	**$3,406**	**($145)**	**$3,457**	**($196)**
Transfers	**$2,441**	**$2,417**	**$24**	**$2,481**	**($40)**
Federal Sources	**$3,551**	**$3,613**	**($62)**	**$3,613**	**($62)**
Subtotal General Funds	**$38,060**	**$37,935**	**$125**	**$37,842**	**$218**
Interfund Borrowing	**$462**	**$462**	**$0**	**$473**	**($11)**
Treasurer's Investment Borrowing	**$400**	**$400**	**$0**	**$400**	**$0**
Short Term Borrowing	**$1,198**	**$1,200**	**($2)**	**$1,200**	**($2)**
Total General Funds	**$40,120**	**$39,997**	**$123**	**$39,915**	**$205**

While both agencies made significant downward adjustments in forecasts of the major economically related sources such as income and sales taxes, actuals ended up slightly exceeding those lowered expectations. However, all other revenue sources combined ended up falling below revised forecasts for both CGFA and GOMB/IDoR. [For a more detailed discussion of those previous adjustments and official revised estimates, please refer to the Commission's May 2020 revenue revision, which can be found on our website].

JUNE
FY 2020 vs. FY 2019
($ million)

Revenue Sources	June FY 2020	June FY 2019	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$2,008	$1,835	$173	9.4%
Corporate Income Tax (regular)	413	461	($48)	-10.4%
Sales Taxes	704	787	($83)	-10.5%
Public Utility Taxes (regular)	60	48	$12	25.0%
Cigarette Tax	20	39	($19)	-48.7%
Liquor Gallonage Taxes	15	15	$0	0.0%
Vehicle Use Tax	2	2	$0	0.0%
Inheritance Tax	29	22	$7	31.8%
Insurance Taxes and Fees	28	72	($44)	-61.1%
Corporate Franchise Tax & Fees	12	22	($10)	-45.5%
Interest on State Funds & Investments	11	14	($3)	-21.4%
Cook County IGT	0	0	$0	N/A
Other Sources	249	237	$12	5.1%
Subtotal	$3,551	$3,554	($3)	-0.1%
Transfers				
Lottery	95	104	($9)	-8.7%
Riverboat transfers & receipts	0	25	($25)	N/A
Proceeds from Sale of 10th license	0	0	$0	N/A
Refund Fund transfer	0	0	$0	N/A
Other	110	50	$60	120.0%
Total State Sources	$3,756	$3,733	$23	0.6%
Federal Sources	$955	$771	$184	23.9%
Total Federal & State Sources	$4,711	$4,504	$207	4.6%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	($191)	($178)	($13)	7.3%
Corporate Income Tax	($59)	(72)	$13	-18.1%
LGDF--Direct from PIT	($105)	(95)	($10)	10.5%
LGDF--Direct from CIT	($23)	(25)	$2	-8.0%
Downstate Pub/Trans--Direct from Sales	($43)	(52)	$9	-17.3%
Subtotal General Funds	$4,290	$4,082	$208	5.1%
Treasurer's Investments	$0	$0	$0	N/A
Interfund Borrowing	$0	$0	$0	N/A
Short Term Borrowing	$1,198	$0	$1,198	N/A
Total General Funds	$5,488	$4,082	$1,406	34.4%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 2-Jul-20

GENERAL FUNDS RECEIPTS: YEAR END

FY 2020 vs. FY 2019

($ million)

Revenue Sources	FY 2020	FY 2019	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$21,657	$22,604	($947)	-4.2%
Corporate Income Tax (regular)	2,596	3,026	($430)	-14.2%
Sales Taxes	8,691	8,897	($206)	-2.3%
Public Utility Taxes (regular)	831	863	($32)	-3.7%
Cigarette Tax	267	361	($94)	-26.0%
Liquor Gallonage Taxes	177	172	$5	2.9%
Vehicle Use Tax	26	31	($5)	-16.1%
Inheritance Tax	283	388	($105)	-27.1%
Insurance Taxes and Fees	361	396	($35)	-8.8%
Corporate Franchise Tax & Fees	210	247	($37)	-15.0%
Interest on State Funds & Investments	137	145	($8)	-5.5%
Cook County IGT	244	244	$0	0.0%
Other Sources	725	669	$56	8.4%
Subtotal	$36,205	$38,043	($1,838)	-4.8%
Transfers				
Lottery	630	731	($101)	-13.8%
Riverboat transfers & receipts	195	269	($74)	-27.5%
Proceeds from Sale of 10th license	10	10	$0	0.0%
Refund Fund transfer	617	327	$290	88.7%
Other	989	708	$281	39.7%
Total State Sources	$38,646	$40,088	($1,442)	-3.6%
Federal Sources	$3,551	$3,600	($49)	-1.4%
Total Federal & State Sources	$42,197	$43,688	($1,491)	-3.4%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	($2,058)	($2,193)	$135	-6.2%
Corporate Income Tax	($370)	(470)	$100	-21.3%
LGDF--Direct from PIT	($1,128)	(1,175)	$47	-4.0%
LGDF--Direct from CIT	($145)	(167)	$22	-13.2%
Downstate Pub/Trans--Direct from Sales	($436)	(488)	$52	-10.7%
Subtotal General Funds	$38,060	$39,195	($1,135)	-2.9%
Treasurer's Investments	$400	$750	($350)	-46.7%
Interfund Borrowing	$462	$250	$212	84.8%
Short Term Borrowing	$1,198	$0	$1,198	N/A
Total General Funds	$40,120	$40,195	($75)	-0.2%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 2-Jul-20

FY 2020 Actuals vs. CGFA & IDOR/GOMB Estimates

($ millions)

Revenue Sources	**ACTUAL FY 2020**	**CGFA EST. May-20 FY 2020**	**DIFFERENCE ACTUALS FROM ESTIMATE**	**IDOR/ GOMB EST. April-20 FY 2020**	**DIFFERENCE ACTUALS FROM ESTIMATE**
State Taxes					
Personal Income Tax	$21,657	$21,484	$173	$21,220	$437
Corporate Income Tax (regular)	$2,596	$2,633	($37)	$2,732	($136)
Sales Taxes	$8,691	$8,475	$216	$8,407	$284
Public Utility (regular)	$831	$838	($7)	$846	($15)
Cigarette Tax	$267	$272	($5)	$263	$4
Liquor Gallonage Taxes	$177	$175	$2	$174	$3
Vehicle Use Tax	$26	$27	($1)	$30	($4)
Inheritance Tax	$283	$280	$3	$295	($12)
Insurance Taxes & Fees	$361	$400	($39)	$380	($19)
Corporate Franchise Tax & Fees	$210	$225	($15)	$237	($27)
Interest on State Funds & Investments	$137	$145	($8)	$155	($18)
Cook County Intergovernmental Transfer	$244	$244	$0	$244	$0
Other Sources	$725	$800	($75)	$833	($108)
Subtotal	**$36,205**	**$35,998**	**$207**	**$35,816**	**$389**
Transfers					
Lottery	$630	$550	$80	$550	$80
Riverboat transfers & receipts	$195	$195	$0	$204	($9)
Proceeds from sale of 10th license	$10	$10	$0	$10	$0
Refund Fund transfer	$617	$617	$0	$617	$0
Other	$989	$1,045	($56)	$1,100	($111)
Total State Sources	**$38,646**	**$38,415**	**$231**	**$38,297**	**$349**
Federal Sources	**$3,551**	**$3,613**	**($62)**	**$3,613**	**($62)**
Total Federal & State Sources	**$42,197**	**$42,028**	**$169**	**$41,910**	**$287**
Nongeneral Funds Distribution:					
Refund Fund					
Personal Income Tax	($2,058)	($2,041)	($17)	($2,016)	($42)
Corporate Income Tax	($370)	($375)	$5	($389)	$19
LGDF--Direct from PIT	($1,128)	($1,119)	($9)	($1,106)	($22)
LGDF--Direct from CIT	($145)	($147)	$2	($153)	$8
Downstate Pub/Trans--Direct from Sales	($436)	($411)	($25)	($404)	($32)
Subtotal General Funds	**$38,060**	**$37,935**	**$125**	**$37,842**	**$218**
Interfund Borrowing	**$462**	**$462**	**$0**	**$473**	**($11)**
Treasurer's Investment Borrowing	**$400**	**$400**	**$0**	**$400**	**$0**
Short Term Borrowing	**$1,198**	**$1,200**	**($2)**	**$1,200**	**($2)**
Total General Funds	**$40,120**	**$39,997**	**$123**	**$39,915**	**$205**

Recession to Expansion Already?

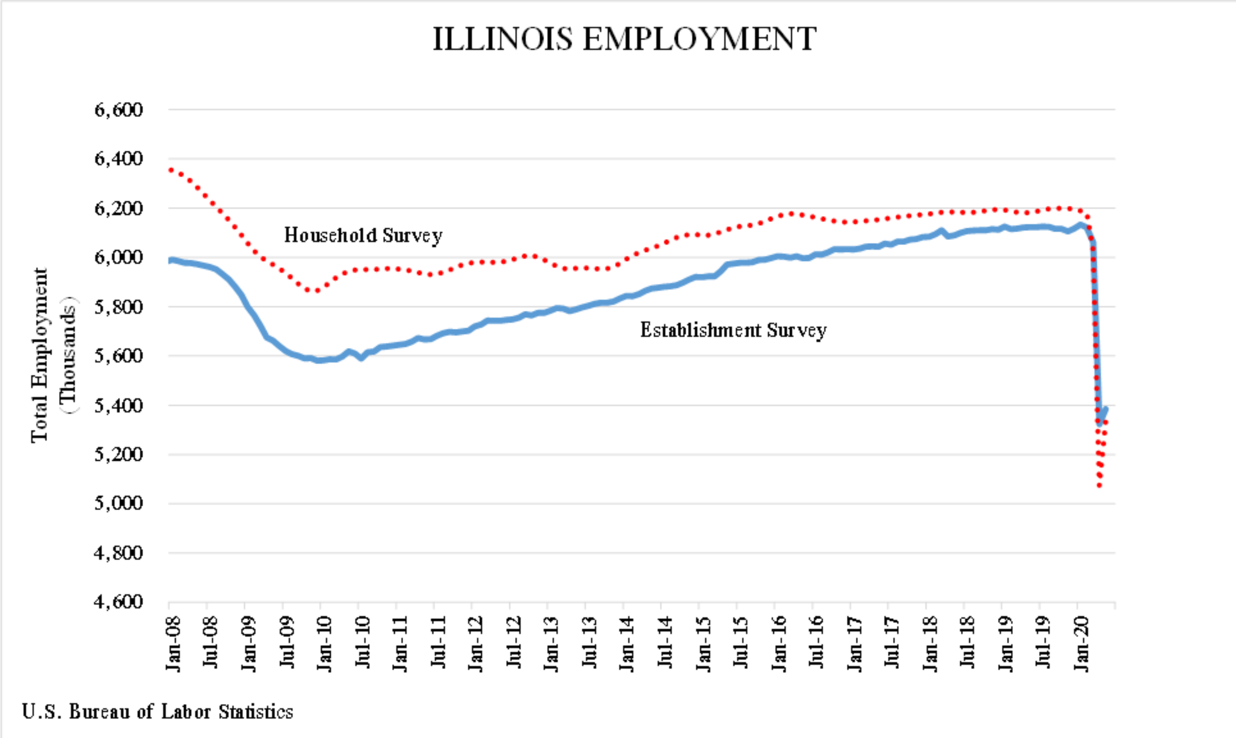
Benjamin L. Varner, Senior Analyst and Economic Specialist

On June 8, 2020, the Business Cycle Dating Committee of the National Bureau of Economic Research (NBER) made official what almost everyone already believed, the U.S. had fallen into a recession. The Committee determined that the economy peaked in February of 2020 ending an expansion lasting 128 months since June of 2009. This was the longest economic expansion in U.S. history.

The question now turns to how long will the economy be in recession. According to NBER, a recession is a significant decline in economic activity spread across the economy, normally visible in production, employment, and other indicators. A recession begins when the economy reaches a peak of economic activity and ends when the economy reaches its trough. Surprisingly, some economic commentators think we might have already seen an economic trough and have begun the next expansion based primarily on the jobs report for May.

Expectations were for the economy to continue to lose jobs in May. Experts on Wall Street were predicting a loss of over 8 million jobs. Although there have been some issues with the classification of employees who have been temporarily away from work, the jobs report blew away expectations. Nonfarm payrolls increased by 2.5 million instead of having massive decreases. The eventual return of employees to their jobs was not unexpected but the speed of the return may have caught forecasters off guard. The unexpected growth in jobs in May was the largest monthly increase in jobs ever. While this was good news, it comes after the largest decrease ever with a decline of over 20 million jobs in April. (Update: As this report was going to print, the latest employment report showed that employment increased by 4.8 million in June, which was another historic gain.)

Illinois has seen similar employment patterns. According to the Bureau of Labor Statistic's Establishment Survey which reflects nonfarm payroll data, Illinois saw a seasonally adjusted peak of 6.13 million employees in January of 2020. In April, the payroll number fell to 5.32 million. This was a decline of almost 811,000 and was the lowest amount since the summer of 1993. Illinois gained back approximately 62,000 of these jobs in May but still remains well below the previous high. The broader Household Survey, which includes agricultural jobs and the self-employed, had jobs peaking a few months earlier in Illinois at 6.2 million in October of 2019. This measure of employment fell to 5.07 million in April. This was a decline of over 1.1 million jobs. The Household Survey showed gains of 259,000 in May.



Other economic indicators also show improvement but need continued growth to return to where the economy was prior to the recession. Similar to the jobs market, the hotel industry likely has hit its low and has begun to recover. The market research firm STR indicated that hotel occupancy in the U.S. grew to 43.9% during the week of June 14-20. This was the tenth consecutive week that occupancy rates improved since falling to around 20% in early April. However, this is still well below occupancy rates during a normal year. Occupancy rates are normally around 65% during the beginning of the summer season. Similarly, the average daily rate for a hotel room of $92.20 was down 31.7% compared to last year.

Data from the U.S. Census Bureau indicates that retail sales have rebounded from the lows of April but need to continue to grow to reach previous levels. Advance monthly sales data for retail and food services were $485.5 billion in May which was up 17.7% when compared to April. While this is an improvement from April, it was still down 6.1% from May of 2019. Nonetheless, this still shows improvement as the revised April data showed a year-over-year decline of 14.7%.

Although the improving economy may have seen a trough and begun to expand again, it does not mean that the economy is in a good place or could not tumble further. The economy remains well below its peak. It will need continued strong growth to return to previous levels. The possibility of a double (or multiple) dip recession still remains. Threats associated with the COVID-19 pandemic continue to weigh on the economy. The possibility of sustained outbreaks as currently being seen in southern and western states could cause the economy to falter. This could reverse the recent gains observed with the re-opening of the economy. The inability to contain the virus to acceptable levels could lead to a return of government mandated shut downs. The States of Florida and Texas have already had to reinstate some of the social distancing requirements after just a few weeks after re-opening due to an increase in the spread of the virus. Even if governments don't require shut downs, the economy could suffer if customers self-regulate their economic activity and practice strict social distancing on their own. Due to the high level of uncertainty related to COVID impacts, consumer behavior is difficult to predict, but will remain key in the nation's recovery efforts.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS*	LATEST MONTH	PRIOR MONTH	A YEAR AGO
Unemployment Rate (Average) (May)	15.2%	17.2%	4.1%
Inflation in Chicago (12-month percent change) (May)	0.4%	0.3%	1.2%

	LATEST MONTH	CHANGE OVER PRIOR MONTH	CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (May)	6,286.8	2.7%	-2.5%
Employment (thousands) (May)	5,331.7	5.1%	-13.8%
Nonfarm Payroll Employment (May)	5,384,500	62,200	-737,900
New Car & Truck Registration (May)	30,968	35.9%	-50.4%
Single Family Housing Permits (May)	726	1.0%	-27.0%
Total Exports ($ mil) (Apr.)	3,690.1	-24.5%	-29.9%
Chicago Purchasing Managers Index (Jun.)	36.6	13.3%	-26.4%

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

June 2020 G.O. Certificates Sale

Lynnae Kapp, Senior Analyst

BOND SALES

Illinois borrowed $1.2 billion of General Obligation Certificates in June 2020 for a failure of revenues. The proceeds were used for Medicaid-related vouchers awaiting payment at the Comptroller's Office. The market had been through many ups and downs over the past few months due to the COVID-19 pandemic. Buyers have become hesitant to buy lower credits even with higher yields. The State tried to price the deal in May, but had to put the deal on hold watching day-to-day whether market conditions would improve. Because of wide spreads and high interest rates in the market, the State became the first to take advantage of the Federal Reserve's Municipal Liquidity Facility (MLF). The State passed enabling legislation (Public Act 101-0630) and the Federal Reserve allowed for the purchase of competitively bid bonds, both of which allowed Illinois to borrow from the program. Illinois will pay 3.82% interest for one year.

"At the time the state's one-year was set at 3.73%, a 296 basis point spread to MMD top benchmark. Market participants said they expected the market to price the notes at a much higher interest rate. The one-year maturity in the 25-year long term bond sale that came a week later landed at a 4.875% yield for a 433 bp spread to the AAA scale." [*Illinois is first to use Fed MLF program in $1.2 billion deal*, By Yvette Shields, The Bond Buyer, June 02, 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	
Jun-20	General Oblgation Certificates	$1.2 billion	tax-exempt	negotiated	3.82%	BBB-	BBB-	Baa3	

"'The fact that Illinois is borrowing for a shorter time period than they could is encouraging,' (Patrick) Luby (senior municipal strategist at CreditSights) said. 'It suggests comfort that they will be able to refinance that on reasonable terms a year from now'...Dealer groups were pleased to see the first transaction go through the MLF program and said Illinois' borrowing was exactly the kind of transaction MLF was designed for." [*Illinois Fed deal bodes well for future transactions*, By Sarah Wynn, The Bond Buyer, June 03, 2020]