



Commission on Government Forecasting and Accountability

802 Stratton Ofc. Bldg., Springfield, IL 62706

MONTHLY BRIEFING FOR THE MONTH ENDED: APRIL 2021

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Consumer Behavior Post-COVID

Benjamin L. Varner, Senior Analyst and Economic Specialist

As the COVID-19 pandemic spread across the country in 2020, consumer behavior changed in response. Consumers changed how they purchased items, how they obtained their purchases, and where they consumed their acquisitions. Changes in consumer behavior such as this can affect State tax revenue such as the income tax and especially the sales tax. As such, a key question is will these new patterns continue once the country is beyond the pandemic. The Commission examined two recent reports that discuss the changes seen in consumer behavior in the last year and provided insight into which of these changes would continue after the pandemic has subsided. The first report was from market intelligence company Numerator that conducted surveys on consumer behavior from March 2020 through January 2021. The second report was from the McKinsey Global Institute that looked at consumer behavior changes by income levels and estimated the long term nature of six major changes going forward.

In its report entitled *The Impact of COVID-19 on Consumer Behavior*, Numerator compiled ten months of observations related to consumer behavior change developed from surveys they conducted throughout the pandemic. One of the first insights was a change in how customers ordered and received their goods. A significant shift to placing orders online with either home delivery, in-store, or curbside pick-up was noted. Eighty-seven percent of

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shoppers placed online orders for delivery during the pandemic, while 51% placed orders online for store or curbside pickup. Between March and June of 2020, roughly 1/3rd of the “click and collect” shoppers were new to the service or hadn’t done so in at least six months. As of the end of January 2021, 39% of respondents indicated that they were still making online purchases when they would usually shop in store. This metric peaked at 50% in the summer of 2020. This trend is expected to continue as 22% of respondents said they plan on maintaining a higher frequency of on-line purchases after the pandemic subsides.

Another shift that happened due to the pandemic is seen in the consumption of food and drink. Fifty-seven percent of respondents indicated more frequent eating at home since the pandemic began. Twenty-four percent expected to continue to eat more at home post-COVID-19. Forty-three percent of respondents indicated that they ordered food for pick-up or delivery more often during the pandemic and 18% anticipate continuing to do so in the future. Fifty-eight percent of participants were going to bars and restaurants less frequently, and 21% have not done so at all. However, post-COVID-19, 32% of those taking the survey thought they would go to bars and restaurants more frequently compared to before COVID-19. How this situation evolves could affect the amount of sales and income taxes brought into the State as most food not for immediate consumption is exempt from sales tax at the State level and the number of employees needed in this new consumer environment may be different than prior to the pandemic.

A final change in consumer behavior that can be seen in the Numerator report is the fall-off in travel. Eighty-three percent of respondents were traveling less or not at all for their work during the pandemic. A similar 77% are not traveling or are traveling less for personal reasons. However, expectations are for this to basically bounce back once COVID-19 is under more control especially leisure travel. Fourteen percent of those traveling professionally expect to do so more compared to prior to COVID, while 10% expect to do less travel. Traveling for personal reasons is expected to rise as 33% of those interviewed expected to travel more, while 17%

thought they would travel less. A bounce-back in travel is needed to see a rebound in all areas of the Leisure and Hospitality sector which includes food service, lodging, live entertainment, and recreation.

The second report the Commission examined was from the McKinsey Global Institute, which is the business and economics research arm of the consulting firm McKinsey and Company. The recent March 2021 report, titled *The Consumer Demand Recovery and Lasting Effects of COVID-19*, highlights many of the same trends as the Numerator report, but also examined differences in consumer behavior by age and income level. McKinsey noted that in the U.S., consumer spending had recovered in all the high income age groups, while spending in the low income age groups remained below pre-COVID levels. Spending by young and middle-age, high-income earners was more than two percentage points higher, while older high-income and middle-age, middle-income households were up between 0% and 2%. Young and middle-age, low-income households’ consumer spending remained more than 2% below levels seen prior to the pandemic.

The McKinsey report also examined six consumer trends in depth to determine if the change in consumer behavior brought on by COVID-19 would continue once the virus is under control. They developed a methodology to assign each trend a “stickiness” score that would estimate how well the change in consumer behavior would be maintained. Of the six adjustments in consumer behavior scrutinized, three were deemed likely to continue post-pandemic and three were viewed as likely to revert back.

The three trends that they identified as likely to continue once the economy opens fully were the acceleration of e-grocery shopping, the rise of virtual healthcare visits, and home nesting. E-grocery orders grew to over 10% of all grocery sales in 2020. Virtual healthcare visits grew 25-fold from February to April in 2020. Illinois passed legislation expanding telehealth options during the COVID-19 pandemic in the spring of 2020. These first two trends emphasize the continuing digitization of consumer spending as more and more products are delivered using the internet versus on-site visits. The

last trend, home nesting, refers to spending on items such as home gyms, backyards and gardens, and kitchen equipment. Many consumers spent extensively on items used at home during the pandemic. McKinsey believes that this will continue into the future as consumers will reap the benefits of these past purchases and add to them.

The other three trends in consumer behavior the report looked at were the sharp decline in live entertainment, the decrease in leisure air travel, and the emergence of remote learning. All three of these changes are not expected to endure once the virus is more contained. Spending on live entertainment was down over 80% in the spring of 2020. At the same time, spending on in-home entertainment increased by 6%. While this trend has persisted into 2021, McKinsey believes that live entertainment will rebound but it may take some time due to the large amount of closures in the industry. As of September 2020, 6,500 nightlife businesses in the U.S. were closed with approximately 54% of those closures being permanent. Leisure air travel basically did not occur during the worst periods of the COVID pandemic. Pent-up demand is expected to lead to a

bounce back in 2021 as consumers are again ready to go on vacation. Remote education was made necessary over the last year but it is not expected to continue at such high levels in the future. Surveys have indicated that students, parents, and teachers all have had challenges with remote learning. While remote learning will likely continue to be used to enhance elementary learning and continue to grow at the college level, the use of virtual learning as a primary tool is unlikely at the elementary and secondary levels.

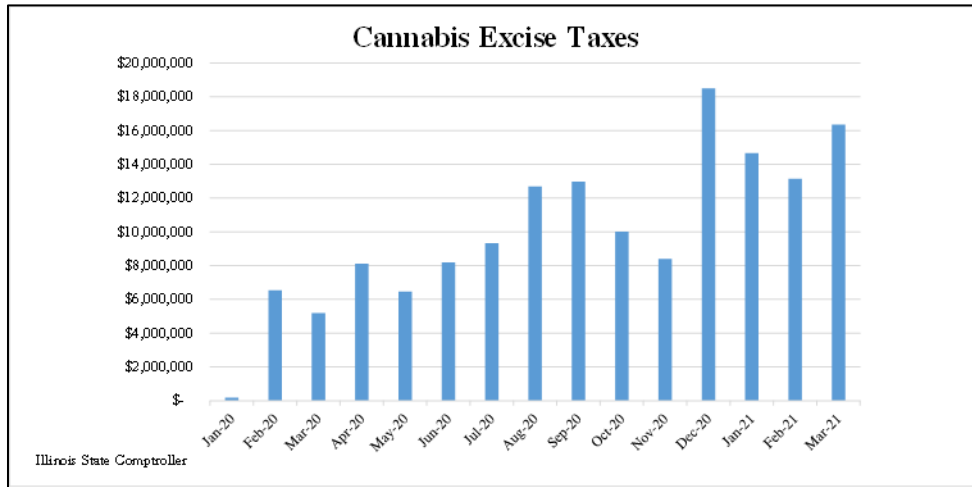
While these reports offer insight on future consumer behavior, it remains unclear which trends will carry on in the post-COVID environment. Spending changes discussed herein will continue to need to be monitored going forward to ascertain any effects on tax receipts. The make-up of consumer spending could affect the amount of sales taxes and income taxes brought in by the State. A continued trend towards more spending on goods could support growth in the sales tax in Illinois which doesn't tax many services, while a lack of employee hiring in the service sector due to a slow rebound could hold back income tax growth.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

<u>INDICATORS*</u>	<u>LATEST MONTH</u>	<u>PRIOR MONTH</u>	<u>A YEAR AGO</u>
Unemployment Rate (Average) (Mar.)	7.1%	7.4%	3.7%
Inflation in Chicago (12-month percent change) (Mar.)	2.6%	1.2%	1.1%
	<u>LATEST MONTH</u>	<u>CHANGE OVER PRIOR MONTH</u>	<u>CHANGE OVER A YEAR AGO</u>
Civilian Labor Force (thousands) (Mar.)	6,129.6	-0.1%	-3.4%
Employment (thousands) (Mar.)	5,693.3	0.2%	-6.8%
Nonfarm Payroll Employment (Mar.)	5,730,000	32,200	-360,700
New Car & Truck Registration (Mar.)	52,644	33.7%	34.2%
Single Family Housing Permits (Mar.)	1,032	52.9%	48.5%
Total Exports (\$ mil) (Feb.)	4,824.1	8.7%	0.7%
Chicago Purchasing Managers Index (Apr.)	72.1	8.7%	103.7%

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

Cannabis Quarterly - 3rd Quarter FY 2021



CANNABIS REGULATION FUND REVENUE				
(\$ millions)				
Revenue Source	FY 21 Q1	FY 21 Q2	FY 21 Q3	FY 21 YTD
State Cannabis Excise Taxes	\$35.0	\$35.7	\$44.1	\$114.8
Licenses and Registration Fees	\$2.5	\$0.4	\$5.3	\$8.1
Transfers In	\$0.0	\$0.0	\$0.0	\$0.0
Total	\$37.5	\$36.0	\$49.4	\$123.0

Illinois State Comptroller, CGFA

CANNABIS REGULATION FUND EXPENDITURES				
(\$ millions)				
Object of Expenditure	FY 21 Q1	FY 21 Q2	FY 21 Q3	FY 21 YTD
Transfer - General Revenue Fund	\$10.1	\$8.6	\$16.2	\$35.0
Transfer - Professions Indirect Cost	\$0.0	\$0.0	\$0.0	\$0.0
Transfer - Criminal Justice Info Projects	\$7.2	\$6.2	\$11.6	\$25.0
Transfer - Drug Treatment	\$0.6	\$0.5	\$0.9	\$2.0
Transfer - DHS Community Services	\$5.8	\$4.9	\$9.2	\$20.0
Transfer - Local Government Distributive Fund	\$2.3	\$2.0	\$3.7	\$8.0
Transfer - Budget Stabilization	\$2.9	\$2.5	\$4.6	\$10.0
Transfer - Cannabis Expungement	\$0.8	\$0.8	\$0.8	\$2.3
Transfer Total	\$29.7	\$25.4	\$47.0	\$102.2
Operations - Financial Professional Regulation	\$0.4	\$0.6	\$0.7	\$1.7
Operations - State Police	\$0.2	\$0.6	\$0.2	\$1.0
Operations - Criminal Justice Information Authority	\$0.2	\$0.1	\$0.0	\$0.3
Operations - Agriculture	\$0.0	\$2.2	\$0.2	\$2.4
Operations - Revenue	\$1.5	\$0.0	\$0.0	\$1.5
Operations Total	\$2.3	\$3.5	\$1.1	\$6.9
Grand Total	\$32.0	\$28.9	\$48.1	\$109.0

Illinois State Comptroller, CGFA

FY 2022 Capital Plan Appropriations Request

By Lynnae Kapp, Senior Analyst

The six-year, \$45 billion Rebuild Illinois capital program began in FY 2020, with new appropriations for capital projects of \$33 billion. The \$20.8 billion in bond appropriations were all enacted in the FY 2020 budget along with leftover appropriations for previous capital projects, and will be reappropriated in subsequent years until the appropriations are exhausted. The pay-as-you-go portions for the entire program will include \$10.4 billion in State funds, \$10 billion in federal funds and \$3.6 billion in local/private matching funds.

The table below shows the FY 2022 requested capital appropriations and the FY 2021 actual capital appropriations. The Governor’s FY 2022 new capital projects proposal totals approximately \$4.253 billion, and reappropriations equal \$41.223 billion. The new projects would all be pay-as-you go funding.

FY 2022 CAPITAL PLAN REQUESTED APPROPRIATIONS			
FUND TYPE	NEW APPROPRIATIONS	RE- APPROPRIATIONS	TOTAL
Bond	\$0	\$26,513,257,610	\$26,513,257,610
State Funds	\$4,052,001,487	\$14,305,733,511	\$18,357,734,998
Federal/Trust	\$200,940,000	\$403,888,214	\$604,828,214
TOTAL	\$4,252,941,487	\$41,222,879,335	\$45,475,820,822

FY 2021 CAPITAL PLAN APPROPRIATIONS			
FUND TYPE	NEW APPROPRIATIONS	RE- APPROPRIATIONS	TOTAL
Bond	\$2,633,720,536	\$26,557,188,425	\$29,190,908,961
State Funds	\$3,628,994,500	\$15,436,915,570	\$19,065,910,070
Federal/Trust	\$628,739,180	\$269,849,034	\$898,588,214
TOTAL	\$6,891,454,216	\$42,263,953,029	\$49,155,407,245

Note: FY 2021 New Appropriations include a requested supplemental of \$60 million from the Build Illinois Bond Fund to the IEPA for hazardous waste remediation.

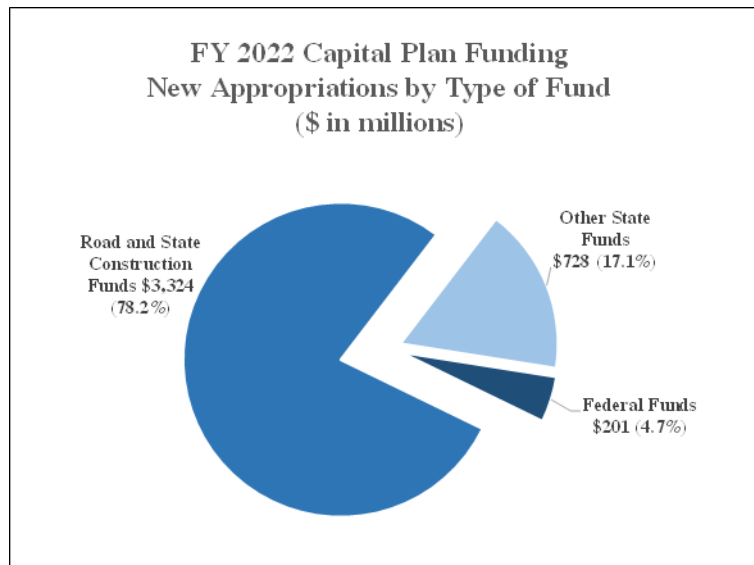
Project priorities for new appropriations will go to three areas. The Department of Transportation will receive \$3.557 billion in funding for roads and bridges, mass transit, rail, grade crossing protection and airports. The Department of Natural Resources would receive \$43 million for its ongoing programs

for recreation, animal habitat, and forestry, among others. The majority of funding for the Illinois Environmental Protection Agency would include \$200 million for drinking water and \$450 million for wastewater projects.

Governor’s FY 2022 New Capital Project Proposals	
Transportation (IDOT)	\$3.557 billion
Environment and Conservation (EPA & DNR)	\$694 million
Economic and Community Development (EPA)	\$2 million
TOTAL	\$4.253 billion

The new pay-as-you-go appropriations come from revenues, including State funds (e.g. State Construction Account Fund, Road Fund, Downstate Transit Improvement Fund, Grade Crossing Protection Fund, High-Speed Rail Rolling Stock Fund, Park and Conservation Fund, Water Revolving Fund), federal sources (e.g. Abandoned Mined Lands Reclamation Council Federal Trust Fund, Federal Mass Transit Trust Fund,

Federal/State/Local Airport Fund, Forest Reserve Fund) and local matching funds. The chart below shows new appropriations separated out into categories. The Road Fund & State Construction Fund are separate to show that they will pay for a majority of State-funded projects, paying 78% of new appropriations, while other State funds would pay for 17% and Federal funds approximately 5%.



DEBT MANAGEMENT

General Obligation capital projects total authorization is \$51.5 billion, with approximately \$21 billion remaining unissued as of March 31, 2021. Available Pension Acceleration bond authorization is \$263 million. Build Illinois authorization is \$9.5 billion, with approximately \$3.7 billion unissued. There is no refunding limit placed on Build Illinois bonds.

Through March of FY 2021, the State has sold \$1.623 billion in General Obligation bonds for capital projects, \$227 million of Pension Acceleration Bonds, and another \$2.0 billion in a three-year borrowing to the MLF. The Governor's Budget Book anticipates a total of \$2.795 billion of G.O. capital bonds, \$325 million of Pension Acceleration bonds, and \$300 million of Build Illinois bonds. Bond sales for FY 2022 are expected to reach \$2.555 billion of General Obligation bonds for capital projects, the remaining \$150 million of Pension Acceleration bonds, and \$350 million of Build Illinois bonds.

The June 2020 \$1.2 billion GO Certificates were sold with an interest rate of 3.82%, which was lowered by the Municipal Liquidity Facility to 3.36% on August 27, 2020, when they decided to lower the rates they would give to any users of the facility and retroactively fixed the rate for Illinois. The State owes another \$2.0 billion plus \$204.8 million in interest on the December 2020 GO Certificates which were supposed to be paid off in three years. With the recent passage of the American Rescue Plan, Illinois is expected to receive \$7.5 billion. The Governor has said he will ask the Legislature to appropriate enough of the funds to pay off the remaining amounts of the Short-Term borrowings from the Municipal Liquidity Facility, as these borrowings were used due to the failure of revenues caused by the Coronavirus pandemic.

ILLINOIS BONDS AT A GLANCE							
(\$ in millions)							
	FY 2020	FY 2021 estimate	\$ Change	% Change	FY 2022 estimate	\$ Change	% Change
Bond Sales*							
General Obligation	\$1,775.0	\$3,120.0	\$1,345.0	75.8%	\$2,705.0	-\$415.0	-13.3%
Revenue	\$0.0	\$300.0	\$300.0	100.0%	\$350.0	\$50.0	16.7%
Total	\$1,775.0	\$3,420.0	\$1,645.0	92.7%	\$3,055.0	-\$365.0	-10.7%
Outstanding Principal							
General Obligation	\$27,579.0	\$28,960.0	\$1,381.0	5.0%	\$29,718.0	\$758.0	2.6%
Revenue	\$2,114.3	\$2,241.0	\$126.7	6.0%	\$2,401.0	\$160.0	7.1%
Total	\$29,693.3	\$31,201.0	\$1,507.7	5.1%	\$32,119.0	\$918.0	2.9%
Debt Service**							
General Obligation	\$3,110.2	\$3,201.1	\$90.9	2.9%	\$3,433.8	\$232.7	7.3%
Revenue	\$312.4	\$264.3	-\$48.1	-15.4%	\$293.8	\$29.5	11.2%
Total	\$3,422.6	\$3,465.4	\$42.8	1.3%	\$3,727.6	\$262.2	7.6%
General Revenues***							
	\$38,060.0	\$41,593.0	\$3,533.0	9.3%	\$40,396.0	-\$1,197.0	-2.9%
G.O. & Revenue Debt Service as %							
General Revenues	8.99%	8.33%			9.23%		
GO Bond Rating							
Moody's	Baa3	Baa3					
Standard & Poor's	BBB-	BBB-					
Fitch	BBB -	BBB -					
Note: Bond Sales do not include refunding sales or Short-term borrowing.							
* FY 2022 Bond Sales are an estimate from GOMB from the FY 2022 Budget Book.							
** FY 2022 Debt Service is a CGFA estimate based on information from the FY 2022 Budget Book.							
*** FY 2021 and FY 2022 General Revenues amount are revised estimates by CGFA in March 2021.							

In April 2020, near the beginning of the COVID-19 pandemic, Fitch lowered the State's G.O. rating to BBB-. The State's ratings have remained unchanged since then at the lowest investment grade from all three rating agencies through March 2021. Though all three ratings

agencies had Illinois at a negative outlook, S&P revised the State to a stable outlook after the State's budget recommendation in February 2021 and Moody's did so in March 2021 after the American Rescue Plan had been signed into law.

The Recent Volatility of April Tax Receipts

Eric Noggle, Senior Revenue Analyst

Historically, the month of April is one of the most important months for State tax revenues. Over the last decade, on average, 14.4% of personal income taxes and 21.1% of corporate income taxes are receipted during this single month. Normally, the outcome of April tax collections goes a long way in deciding how the overall revenue performance of a particular fiscal year is judged. However, over the last

decade, there have been very few "normal" years, which has made revenue estimating extremely challenging.

From "April surprises" to last year's "perfect storm", over the last decade April's income tax receipts have experienced significant fluctuation. The following charts and accompanying tables on pages 9 and 10 illustrate

those significant swings in revenues, along with a brief explanation of the assumed key behind that volatility. In essence, the largest contributors to those swings can be attributed to:

- The multiple changes in the State’s income tax rates—both increases and decreases—and the multiple year-over-year effect that these changes have had on April receipts.
- Substantial federal tax policy changes that encouraged filing changes in taxpayer behavior and timing of receipts. While those periods may create a positive “April Surprise” of revenues in the initial year, an accompanying falloff in revenues in April of the following year can result.
- Pandemic related delays in final payment deadlines over the last couple of years have moved revenues that typically are received in April to instead fall into subsequent months. The tax deadline in 2020 was shifted to July 15th, which caused approximately \$1.3 billion in revenues that would have been received in FY 2020 to fall into early FY 2021.

These wild swings of April income tax have continued into 2021. With the pandemic persisting, the tax filing deadline was again delayed. This time, however, the deadline for individual tax filers was moved back only one month—to May 17th. [The tax deadline for corporate tax filers was not extended this time]. Although a May deadline means that final payments should still remain in FY 2021 (thereby, effectively giving FY 2021 two periods of final payments), this potential one-month delay means that April receipts are again “not normal”.

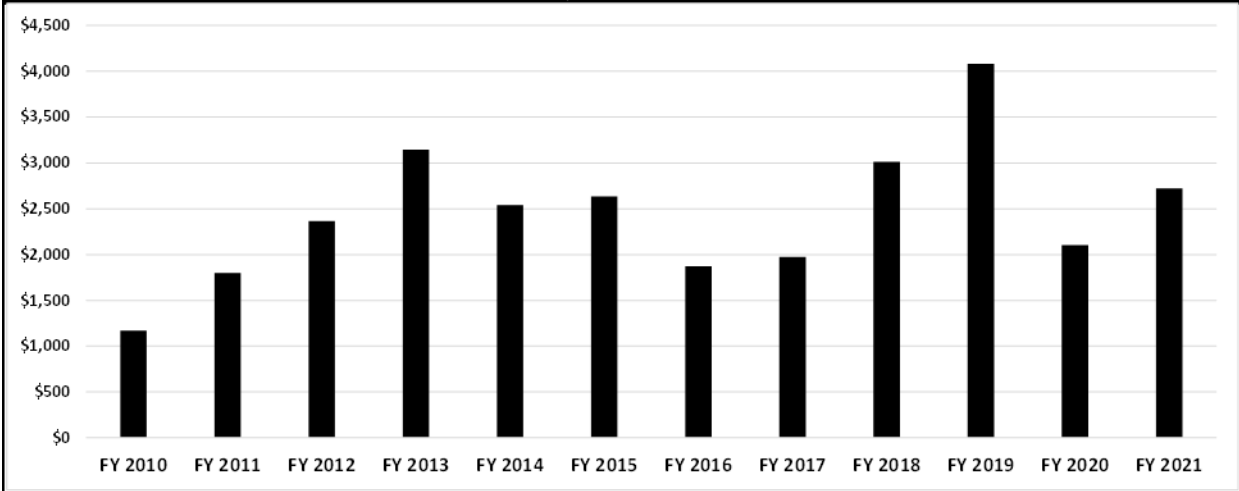
As shown in the following revenue section of this briefing, despite this delay in the tax deadline, gross April receipts are actually 29.4% higher than a year ago. Part of this increase is because current April revenues are being compared to the even-more delayed revenues of April 2020. Even accounting for that differential, preliminary figures show strong improvement in April’s withholding and estimated tax payments--which are not directly impacted by the delay in the tax deadline. This would seem to indicate a positive trend in Illinois’ recovery from the pandemic.

For context however, when comparing April 2021 receipts with those of 2018 and 2019, the revenue totals in 2021 remain well short of these earlier year levels (as observed in the graph on page 9). Since a large chunk of Tax Year 2020 final payments will now shift into May 2021, it will not be until late May before a more definitive view of personal income tax receipt performance can be made.

Furthermore, it appears that many corporate taxpayers underpaid their estimated tax payments during the pandemic’s onset early in Tax Year 2020 (FY 2020). Once the tax year’s final figures were calculated, businesses had to make up for these underpayments via final payments. As a result, corporate income tax revenues for the month of April (FY 2021) reached \$1.130 billion, the highest monthly total on record for this revenue source. This level of final payments should not be expected in FY 2022 once businesses adjust their future estimated payments accordingly. This adds another layer to the complicated volatility of April income tax receipts over the last decade.

The Recent Volatility of April Individual Income Tax Receipts {Gross}

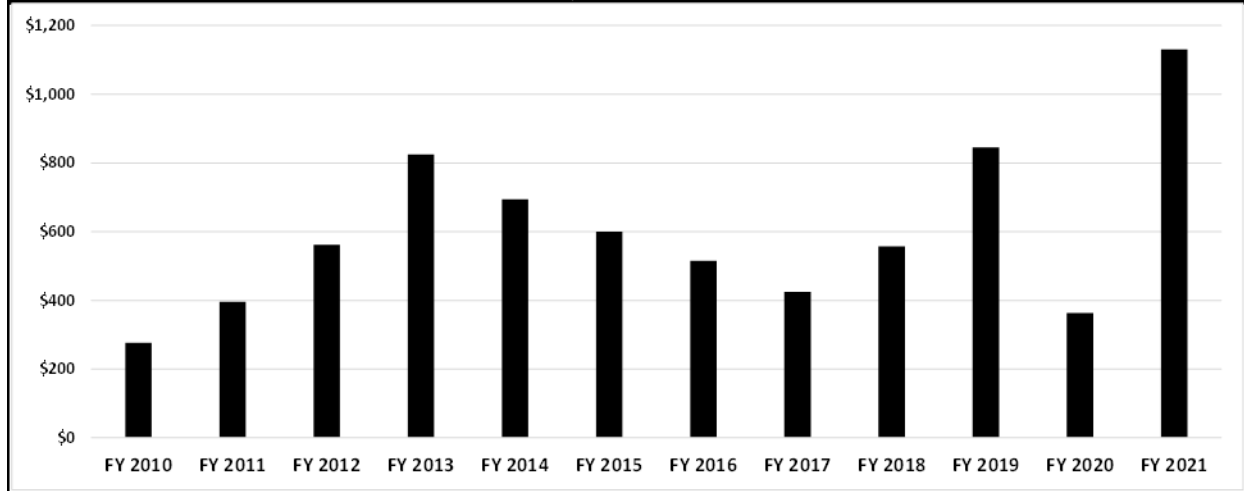
\$ in millions



Fiscal Year	April Tax Receipts (Gross) (\$ in mil)	Yr/Yr Difference (\$ in mil)	April % of Fiscal Year Total	Applicable Final Payment Tax Rate	Applicable Withholding Payment Tax Rate	Reason for Volatility
FY 2010	\$1,169	(\$103)	12.4%	3.00%	3.00%	Last fiscal year with income tax rate at 3%, as State struggles to recover from the Great Recession.
FY 2011	\$1,797	\$628	14.6%	3.00%	5.00%	Tax rate increased from 3% to 5% on January 1, 2011.
FY 2012	\$2,364	\$567	13.9%	5.00%	5.00%	Higher tax rate fully imposed in both final payments and withholding payments.
FY 2013	\$3,145	\$781	17.2%	5.00%	5.00%	"April Surprise" due to taxpayer behavior in anticipation of higher federal taxes in Tax Year 2013.
FY 2014	\$2,538	(\$607)	13.8%	5.00%	5.00%	"Falloff" due to tax receipts being compared to prior year "April Surprise".
FY 2015	\$2,634	\$96	14.9%	5.00%	3.75%	Tax rate lowered from 5% to 3.75% on Jan 1, 2015. However, strong base performance offset effects of lower tax rate.
FY 2016	\$1,872	(\$761)	12.2%	3.75%	3.75%	Lower tax rate fully imposed in both final and withholding payments.
FY 2017	\$1,971	\$99	12.8%	3.75%	3.75%	No major year-over-year tax changes.
FY 2018	\$3,012	\$1,040	14.5%	4.35%	4.95%	Tax rate increased from 3.75% to 4.95% on July 1, 2017. Tax Year 2017 with a blended final payment rate of 4.35%.
FY 2019	\$4,079	\$1,068	18.0%	4.95%	4.95%	Another "April Surprise" due to non-wage income and timing of tax payments as a result of more Federal tax modifications.
FY 2020	\$2,102	(\$1,977)	9.7%	4.95%	4.95%	Due to pandemic, tax deadline was delayed from April 15th to July 15th, thereby lowering April's receipts.
FY 2021	\$2,722	\$619	N/A	4.95%	4.95%	Tax deadline again delayed from April 15th to May 17th. Fewer filers delaying payment results in yr/yr growth, but monthly totals still below "typical" April.

The Recent Volatility of April Corporate Income Tax Receipts {Gross}

\$ in millions



Fiscal Year	April Tax Receipts (Gross) (\$ in mil)	Yr/Yr Difference (\$ in mil)	April % of Fiscal Year Total	Applicable Final Payment Tax Rate	Applicable Withholding Payment Tax Rate	Reason for Volatility
FY 2010	\$276	(\$246)	16.8%	4.80%	4.80%	Last fiscal year with income tax rate at 4.8%, as State struggles to recover from the Great Recession.
FY 2011	\$395	\$119	17.4%	4.80%	7.00%	Tax rate increased from 4.8% to 7% on January 1, 2011.
FY 2012	\$562	\$166	18.8%	7.00%	7.00%	Higher tax rate fully imposed on both estimated and final payments.
FY 2013	\$825	\$263	22.4%	7.00%	7.00%	"April Surprise" due to taxpayer behavior in anticipation of higher federal taxes in Tax Year 2013.
FY 2014	\$694	(\$131)	19.1%	7.00%	7.00%	"Falloff" due to tax receipts being compared to prior year "April Surprise".
FY 2015	\$600	(\$94)	19.2%	7.00%	5.25%	Tax rate lowered from 7% to 5.25% on Jan 1, 2015.
FY 2016	\$515	(\$86)	22.1%	5.25%	5.25%	Lower tax rate fully imposed in both estimated and final payments.
FY 2017	\$424	(\$90)	26.4%	5.25%	5.25%	No major year-over-year tax changes.
FY 2018	\$557	\$133	21.4%	6.13%	7.00%	Tax rate increased from 5.25% to 7% on July 1, 2017. Tax Year 2017 with a blended final payment rate of 6.13%.
FY 2019	\$845	\$288	27.9%	7.00%	7.00%	Another "April Surprise" due to timing of tax payments as a result of more Federal tax modifications.
FY 2020	\$363	(\$482)	14.0%	7.00%	7.00%	Due to pandemic, tax deadline was delayed from April 15th to July 15th, thereby lowering April's receipts.
FY 2021	\$1,130	\$767	N/A	7.00%	7.00%	Tax deadline returns to April 15th, resulting in significant year over year growth. Highest April ever for CIT.

REVENUE: APRIL REVENUES CHANGE COURSE FROM LAST YEAR'S PERFECT STORM—RECEIPTS SNAP BACK DUE TO TIMING AND STRONG UNDERLYING ECONOMIC PERFORMANCE

Jim Muschinske, Revenue Manager

One year removed from receipts dropping \$2.74 billion as the pandemic abruptly manifested in April 2020 revenues, base general funds revenues in April 2021 grew \$1.779 billion. Continued strong performance from both personal income and corporate income tax receipts were again complemented by an impressive month for sales tax revenues. In addition, federal sources also posted an impressive monthly gain. The number of receipting days were the same as last year.

For the month, gross corporate income taxes jumped \$767 million, or \$614 million on a net basis. Much of the comparative gain can be attributed to last April's delayed final payments, which fell into early FY 2021. In addition, preliminary analysis suggests that corporations, in the face of pandemic disruptions, quickly adjusted down their estimated payments in the first half of tax year 2020. However, as the economy recovered much quicker than originally expected, those lower estimated payments were insufficient to meet tax year 2020 liabilities and higher final payments have been the result. [Further analysis of component data is needed to confirm this view].

Gross personal income taxes also grew substantially in April as receipts rose \$619 million, or \$533 million on a net basis. A couple of key reasons likely comprise this level of growth. While the deadline for final personal income tax payments were extended, as they were last year, they were only done so for an extra month [as

compared to last year's three-month extension]. Consequently, taxpayers were less incentivized to put off filing their final return. Preliminary estimated payments, whose deadline was not extended, but reflecting anticipated economic improvement, also appear to have been very strong [again, component breakdowns of monthly data will have to be examined before definitive conclusions can be made].

Gross sales tax receipts jumped \$301 million, or \$297 million on a net basis. This dramatic year-over-year gain is the consequence of the manifestation of the economic shutdown in last April's sales tax receipts, coupled with the timing of the most recent stimulus payments and further increase in consumer confidence.

Both corporate franchise taxes and other sources returned gains of \$18 million in April, while cigarette tax grew \$11 million likely due to timing of receipts. Vehicle use tax grew \$3 million, and liquor taxes managed to increase \$2 million.

A few revenue sources experienced declines for the month. Insurance taxes took a breather from what otherwise has been a very good receipting year, as revenues declined \$40 million, inheritance taxes dropped \$12 million, public utility taxes were off \$7 million, and interest income earnings dipped \$4 million.

Overall April transfers into the general funds grew \$60 million. While Lottery transfers were up \$25 million, other miscellaneous

transfers improved by \$35 million. As mentioned, federal sources experienced a comparatively strong month, rising \$286 million.

Year To Date

Excluding borrowing related activity, through the first ten months of the fiscal year, base receipts are up \$4.920 billion. In addition to a surge in federal sources, that growth also reflects the timing of income tax receipts related to last year's [2020] filing deadline extension, as well as the positive trajectory of underlying economic conditions. Through April, combined net income tax receipts are up \$3.406 billion. While approximately \$1.3 billion of those gains continue to be attributed to the shift of FY 2020 final payments into early FY 2021, stronger than previously expected income tax performance continues to impress. Also viewed positively is the continued upward trend of sales tax receipt performance as net receipts are up \$557 million. Only now beginning to compare against those months most impacted by the economic shutdowns of a year ago, sales taxes seem to be reflecting positive consumer reactions to stimulus payments, improving job picture, and stronger consumer confidence.

All of the other revenue sources combined are ahead of last year's pace by \$16 million. While exceptional performance has been seen from inheritance tax and insurance tax, those gains have been mostly erased by lower public utility tax receipts, interest earnings, as well as all other miscellaneous revenues directed into the general funds including those related to one-time court settlement proceeds receipted last fiscal year.

Overall transfers are off considerably, down \$833 million, reflecting the lack of riverboat gaming transfers [\$195 million] and significantly lower Income Tax Refund transfer levels [\$336 million] as well as lower other miscellaneous transfers [\$444 million]. Federal sources have experienced an exceptional year of receipting as receipts are up \$1.774 billion.

While the full story of FY 2021 revenues has yet to be written, given the onset of the pandemic, receipts clearly have performed much better than any prognosticator could have foretold one year earlier. Despite periodic upward revisions in the revenue projections throughout the course of the fiscal year, each time those updated expectations have been met and exceeded. That said, as illustrated by the previous section which demonstrates the extreme volatility of some key revenue sources, often times swings in one direction are met with opposing subsequent pressure, particularly when viewed in terms of year-over-year growth measures. Underlying economic performances of the major revenue sources are sometimes trumped by aspects of receipt timing, tax policy changes at the state and/or sometimes federal level, and other unforeseen extraneous events. While uncertainty is less heading into upcoming FY 2022 than last year, it still is much higher than normal. The unwinding of the various stimulus programs such as direct stimulus payments, augmented unemployment benefits, rental assistance and other business and consumer focused benefits, will likely create some headwinds related to growth rates. All that without mentioning the specter of the return of the virus in the fall and/or resistant variant strains.

April
FY 2021 vs. FY 2020
(\$ million)

Revenue Sources	April FY 2021	April FY 2020	\$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	\$2,721	\$2,102	\$619	29.4%
Corporate Income Tax (regular)	1,130	363	767	211.3%
Sales Taxes	888	587	301	51.3%
Public Utility Taxes (regular)	65	72	(7)	-9.7%
Cigarette Tax	28	17	11	64.7%
Liquor Gallonage Taxes	16	14	2	14.3%
Vehicle Use Tax	3	0	3	N/A
Inheritance Tax	20	32	(12)	-37.5%
Insurance Taxes and Fees	63	103	(40)	-38.8%
Corporate Franchise Tax & Fees	21	3	18	600.0%
Interest on State Funds & Investments	1	5	(4)	-80.0%
Cook County IGT	0	0	0	N/A
Other Sources	32	14	18	128.6%
Subtotal	\$4,988	\$3,312	\$1,676	50.6%
Transfers				
Lottery	\$75	\$50	\$25	50.0%
Riverboat transfers & receipts	0	0	0	N/A
Proceeds from Sale of 10th license	0	0	0	N/A
Refund Fund transfer	0	0	0	N/A
Other	64	29	35	120.7%
Total State Sources	\$5,127	\$3,391	\$1,736	51.2%
Federal Sources	\$553	\$267	\$286	107.1%
Total Federal & State Sources	\$5,680	\$3,658	\$2,022	55.3%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	(\$245)	(\$200)	(\$45)	22.5%
Corporate Income Tax	(158)	(52)	(106)	203.8%
LGDF--Direct from PIT	(150)	(109)	(41)	37.6%
LGDF--Direct from CIT	(67)	(20)	(47)	235.0%
Downstate Pub/Trans--Direct from Sales	(47)	(43)	(4)	9.3%
Subtotal General Funds	\$5,013	\$3,234	\$1,779	55.0%
Treasurer's Investments	\$0	\$0	\$0	N/A
Interfund Borrowing	\$0	\$207	(\$207)	N/A
Short Term Borrowing	\$0	\$0	\$0	N/A
Total General Funds	\$5,013	\$3,441	\$1,572	45.7%

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

3-May-21

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2021 vs. FY 2020

(\$ million)

Revenue Sources	FY 2021	FY 2020	\$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	\$20,834	\$18,183	\$2,651	14.6%
Corporate Income Tax (regular)	3,491	2,111	1,380	65.4%
Sales Taxes	7,912	7,383	529	7.2%
Public Utility Taxes (regular)	641	716	(75)	-10.5%
Cigarette Tax	234	227	7	3.1%
Liquor Gallonage Taxes	150	149	1	0.7%
Vehicle Use Tax	30	22	8	36.4%
Inheritance Tax	399	226	173	76.5%
Insurance Taxes and Fees	409	326	83	25.5%
Corporate Franchise Tax & Fees	278	192	86	44.8%
Interest on State Funds & Investments	48	122	(74)	-60.7%
Cook County IGT	244	150	94	62.7%
Other Sources	180	467	(287)	-61.5%
Subtotal	\$34,850	\$30,274	\$4,576	15.1%
Transfers				
Lottery	\$631	\$485	\$146	30.1%
Riverboat transfers & receipts	0	195	(195)	-100.0%
Proceeds from Sale of 10th license	6	10	(4)	-40.0%
Refund Fund transfer	281	617	(336)	-54.5%
Other	407	851	(444)	-52.2%
Total State Sources	\$36,175	\$32,432	\$3,743	11.5%
Federal Sources	\$4,327	\$2,553	\$1,774	69.5%
Total Federal & State Sources	\$40,502	\$34,985	\$5,517	15.8%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	(\$1,875)	(\$1,728)	(\$147)	8.5%
Corporate Income Tax	(489)	(301)	(188)	62.5%
LGDF--Direct from PIT	(1,149)	(947)	(202)	21.3%
LGDF--Direct from CIT	(206)	(118)	(88)	74.6%
Downstate Pub/Trans--Direct from Sales	(324)	(352)	28	-8.0%
Subtotal General Funds	\$36,459	\$31,539	\$4,920	15.6%
Treasurer's Investments	\$400	\$400	\$0	0.0%
Interfund Borrowing	\$0	\$462	(\$462)	N/A
Short Term Borrowing	\$1,998	\$0	\$1,998	N/A
Total General Funds	\$38,857	\$32,401	\$6,456	19.9%
CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				3-May-21