Commission on Government Forecasting and Accountability

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MONTHLY BRIEFING FOR THE MONTH ENDED: July 2022

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INSIDE THIS ISSUE

ILLINOIS CASINOS SEE HUGE INCREASES IN FY 2022, BUT STILL REMAIN BELOW PRE-PANDEMIC LEVELS

Eric Noggle, Revenue Manager

The adjusted gross receipts (AGR) of Illinois casinos grew from $0.9 billion in FY 2021 to $1.3 billion in FY 2022 – an increase of 45.7%. This is welcome news to the gaming industry that has experienced significant declines over the last couple of years due to the impacts of the pandemic on revenue performance.

COVID-19 first took its toll on Illinois casinos in FY 2020 as gaming operations were suspended between March 16th and June 30th of 2020. As a result of these shut-downs, AGR levels fell 30.0% in FY 2020 to $943 million. The impacts of the virus continued into FY 2021 as another series of shut-downs between November 2020 and January 2021, along with subsequent attendance restrictions upon reopening, caused another 4.8% decline in gaming revenues between FY 2020 and FY 2021.

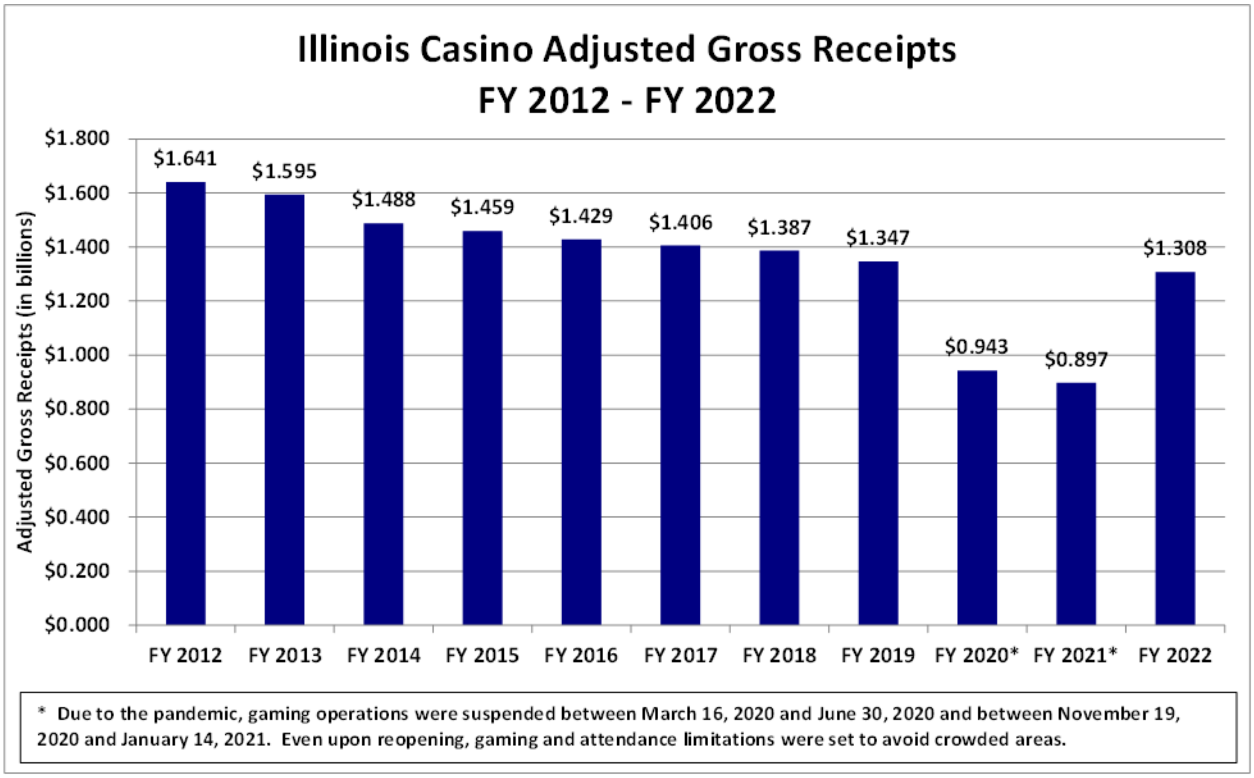
The growth in casino numbers in FY 2022 came from all ten of the existing casinos with each seeing AGR annual increases of over 25%. The largest year-over-year growth came from Bally's Quad City Casino with growth of 56.2% to $49.2 million in FY 2022. The highest generator of adjusted gross receipts in Illinois continues to come from Des Plaines' Rivers Casino with an FY 2022 AGR total of $503.1 million. This casino's total is well above the second highest revenue generating casino, the Grand Victoria in Elgin, which had a FY 2022 AGR total of $155.1 million. These totals, as well as historical AGR totals and growth rates for all of the operating Illinois casinos, are included in the following table.

ADJUSTED GROSS RECEIPTS OF ILLINOIS CASINOS							
$ IN MILLIONS	FY 2019 AGR	FY 2020 AGR	FY 2021 AGR	FY 2022 AGR	1-Yr. Change	3-Yr. Change	10-Yr. Change
ALTON ARGOSY - Alton	$40.0	$30.1	$23.9	$32.6	36.4%	-18.5%	-54.0%
PAR-A-DICE - E. Peoria	$74.5	$48.7	$48.3	$61.5	27.5%	-17.4%	-47.0%
BALLY'S - Rock Island	$66.7	$43.9	$31.5	$49.2	56.2%	-26.3%	-43.8%
HOLLYWOOD - Joliet	$115.2	$79.1	$64.3	$88.0	36.9%	-23.7%	-35.2%
HARRAH'S - Metropolis	$68.7	$50.8	$48.5	$60.9	25.6%	-11.4%	-40.7%
HARRAH'S - Joliet	$175.2	$116.3	$107.2	$141.7	32.1%	-19.1%	-34.2%
HOLLYWOOD - Aurora	$115.1	$77.7	$71.5	$102.7	43.5%	-10.8%	-35.8%
CASINO QUEEN - E. St. Louis	$94.3	$67.2	$54.9	$78.7	43.4%	-16.5%	-40.4%
GRAND VICTORIA - Elgin	$157.2	$107.6	$107.1	$155.1	44.9%	-1.3%	-31.6%
RIVERS CASINO - Des Plaines	$440.1	$321.2	$340.2	$503.1	47.9%	14.3%	27.8%
HARD ROCK - Rockford	$0.0	$0.0	$0.0	$34.0	N/A	N/A	N/A
TOTALS	**$1,347.1**	**$942.7**	**$897.3**	**$1,307.5**	**45.7%**	**-2.9%**	**-20.3%**
CHICAGO REGION TOTALS	$1,002.8	$701.9	$690.3	$990.6	43.5%	-1.2%	-12.4%
ST. LOUIS REGION TOTALS	$134.4	$97.3	$78.8	$111.4	41.3%	-17.1%	-45.2%

Included in the FY 2022 totals is the new Hard Rock Casino in Rockford, which began generating revenues at a temporary facility in November 2021. In its first eight months of operations, the Rockford casino generated $34.0 million in adjusted gross receipts. This annual total should rise significantly over the next couple of fiscal years as the casino transitions into a permanent location by early 2024, which will include table games that are currently not offered at the temporary location.

Despite the addition of the Hard Rock Casino in Rockford and the sizable annual rate of growth of total receipts in FY 2022, Illinois' AGR total of $1.308 billion did not reach the heights of the $1.347 billion that was generated in FY 2019 prior to the pandemic disruptions. However, this outcome is not necessarily surprising given pre-pandemic trends of Illinois' casino industry.

Over the last decade, Illinois has seen a steady decline in the amount generated from the casino industry. In each fiscal year between FY 2013 and FY 2021, Illinois' AGR totals were lower than the previous year. This trend is illustrated in the following chart. As shown, in FY 2012, Illinois had a combined AGR total of $1.641 billion. By FY 2019, this total had decreased to $1.347 billion, a decrease of nearly 18%. Even with the gains of FY 2022, gaming receipts are now down 20.3% over the last ten years.



As shown in the provided table, the falloff in gaming revenues over the last decade is despite the success of the Rivers Casino in Des Plaines, which is one of the highest generating casinos in the Midwest. This casino has grown 27.8% over the last ten years. However, the competition that the Rivers Casino has created, along with competition from many other gaming options (specifically video gaming) has led to ten-year declines of over 30% from each of the other Illinois casinos.

The emergence of video gaming into Illinois' gaming market has not been kind to the State's casino industry. While Illinois has seen its casino's AGR levels fall $333 million over the last decade, video gaming revenues has seen steady growth each year [outside of the pandemic disruptions] to its FY 2022 level of over $2.6 billion. There is no doubt that a significant amount of these "lost" casino dollars have reemerged in the form of net terminal income from Illinois' 43,000+ operating video gaming machines. *[A more detailed discussion on video gaming revenues and its continuous impact on Illinois casinos will be provided in the Commission's annual publication, Wagering in Illinois, which is expected to be released in September 2022].*

In addition to its own domestic competition, surrounding states continue to look for ways to capture the Midwest gaming dollar. Most recently, Indiana closed two of its older Gary locations and opened a brand-new facility – the Hard Rock Casino [Northern Indiana] near the Illinois border in May 2021. In FY 2022, nearly $378 million in adjusted gross receipts was generated by this casino instantly making it the highest generating casino in Indiana. Indiana's AGR figures rose 27.8% to $2.4 billion in FY 2022, well above Illinois' most recent AGR total of $1.3 billion [not including video gaming revenues].

However, Illinois should see some dramatic improvement in its casino revenue numbers very soon. Not only did P.A. 101-0031 authorize revenues to be generated from the new casino in Rockford, but it also allowed for new casinos to be opened in Waukegan, Danville, Williamson County, the South Suburbs, and the mega casino in the City of Chicago. In addition, racetrack casinos should open within the next couple of years at Hawthorne Racetrack and Fairmount Racetrack. While the timetable of when each of these casinos will ultimately open and begin generating revenues varies and remains fluid, higher levels of AGR from Illinois casinos should be expected in the near future. [The next new casino to be opened appears to be the Waukegan casino in late 2022].

The question then becomes how much additional tax revenues for the State should be expected from these casinos? This is difficult to know at this time because it will depend, not only on the levels of revenue ultimately generated by the new casinos, but also on what level of a cannibalization effect these new casinos will have on the revenue performance of Illinois' existing casinos. Furthermore, the reduced tax structure that was implemented at the time that these new casinos were authorized will curtail any substantial tax revenue growth and make it challenging for tax revenues to even reach pre-expansion levels from the past, despite the expected influx of new gaming receipts. This topic will be addressed in further detail in the Commission's upcoming September 2022 *Wagering in Illinois* report. In addition, the report will offer updates on other areas of State wagering, including the lottery, video gaming, horse racing, and sports wagering.

Economy: Slowdown or Recession?

Benjamin L. Varner, Chief Economist

Economic data released in July indicate the U.S. economy currently sits in a somewhat unique position. While job growth endures as labor markets continue to be tight, high inflation continues to be a problem. The effects of the Federal Reserve's efforts to curtail inflation and slow the economy have become more apparent. The advanced report on real gross domestic product (GDP) showed the economy had shrunk for the second quarter in a row leading some economic prognosticators to say the economy is in recession though other measures of the economy remain respectable.

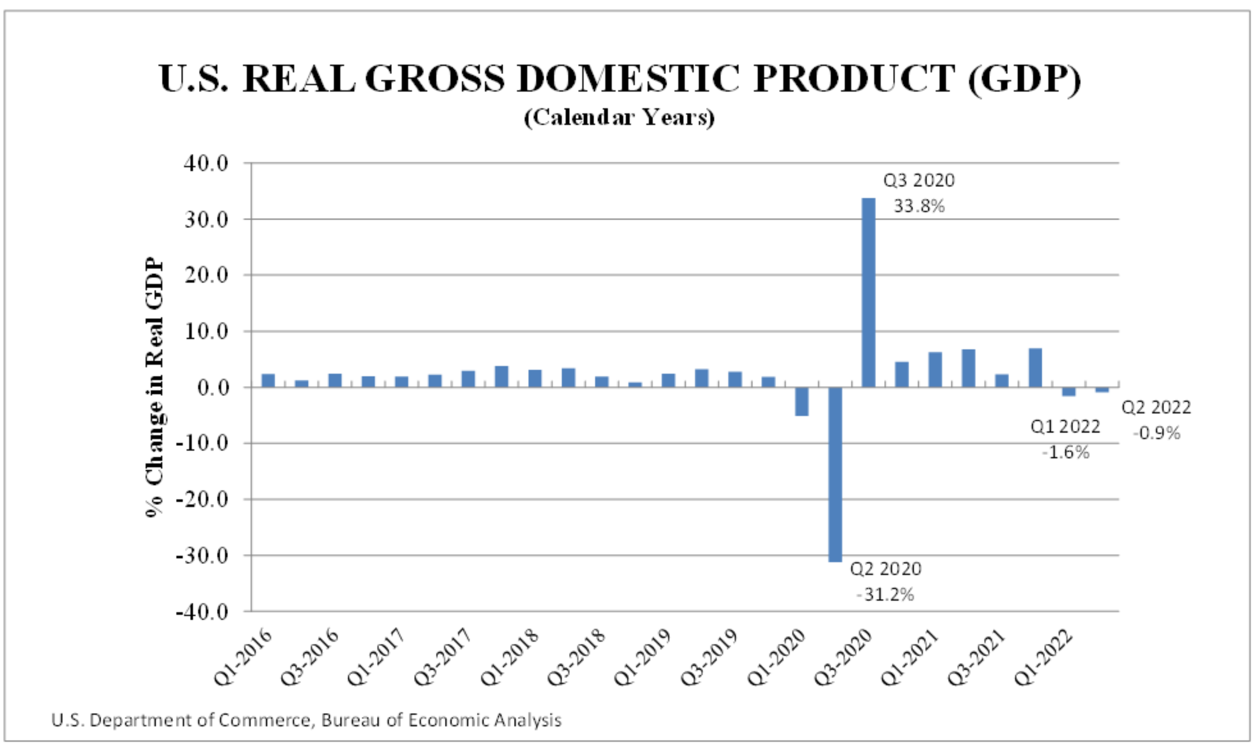
The month began with an announcement of continued growth in the labor market. Total nonfarm payroll data indicated that the economy grew by 372,000 jobs in June. This was the eighteenth month in a row showing job growth on a seasonally adjusted basis. However, the pace of job growth is slowing. During the fourth quarter of 2021, payroll growth averaged 637,000 jobs per month. This rate slowed to a still strong 539,000 in the first quarter of 2022. In the second quarter of 2022, this rate fell to 375,000 per month. While job growth continues, albeit at a slower pace, the overall job market remains tight. Job openings remain near historic highs. Initial claims for unemployment insurance have seen an uptick in recent months but remain at low levels. Continued claims for unemployment insurance remain low and have not experienced the recent uptick seen in initial claims. This indicates that while more people may be losing their jobs, they appear to be readily able to find work in short order. Overall, the unemployment rate has decreased from 4.0% at the beginning of the year to the current rate of 3.6%. There will likely be an increase in the unemployment rate as the economy slows. Job and unemployment data will be key indicators to watch going forward as they will be indicative of whether the economy is just slowing down or going into a recession.

Inflation continues to be a significant problem. The consumer price index (CPI) grew at a higher than expected 9.1% in June. The increase in prices was led by energy, which was up over 40% compared to last year. Gasoline in particular was up almost 60%. Food prices increased by 10.4%, while shelter grew by 5.5%. Core CPI, which excludes the more volatile food and energy, rose by 5.9%. The increase in Core CPI was broad based. Overall, commodities less food and energy commodities were up over 11%. New vehicles grew 11.4%, while used cars and trucks rose 7.1%. Services were up 5.5% with transportation services increasing by 8.8%. High inflation remains the biggest obstacle to economic growth, though efforts by the Federal Reserve, improving supply chains, and declines in the price of gasoline will likely help this situation in the second half of 2022 and into 2023.

At the end of July, the Federal Reserve's Federal Open Market Committee (FOMC) increased short-term inflation rates by 3/4th of a percentage point for the second meeting in a row. This raises the Fed's target rate for the federal funds rate to between 2.25% and 2.50%. The Fed's monetary policy has tightened this year as it tries to combat high inflation without slowing the economy so much as to fall into recession. This is the Fed's fourth rate increase of the year as a 0.25% increase in March was followed by a 0.5% increase in May and the two 0.75% increases in June and July. Federal Reserve Chairman Jerome Powell stated that "The labor market is extremely tight and inflation is much too high." He also commented that "We anticipate that ongoing increases in the target range of the Federal Funds Rate will be appropriate…"

During the FOMC press conference, Chairman Powell said "I do not think the U.S. is currently in a recession. And the reason is there are just too many areas of the economy that are performing too well." However, the next day, the Bureau of Economic Analysis released results for real GDP that indicated that the economy had shrunk for the second quarter in a row. This is often seen as the indicator of an economy in recession. Almost every time two consecutive quarters of decline in real GDP have occurred, it was related to a recession as declared by the National Bureau of Economic Research (NBER), the group most people view as the arbiter of recessions. The exception to this occurred in 1947 during which the economy saw a decline in GDP for two quarters but is not considered a recession due to increases in jobs, industrial production, and consumer spending during this period.

The advanced GDP report for the second quarter of 2022 came in below expectations indicating that the economy shrunk by 0.9% on an annualized basis. This follows a decline of 1.6% in the first quarter. The second quarter's results were dragged down by a large decline in private inventories. Personal consumption expenditures remained positive, up 1.0%, but were slowed compared to previous quarters. The transition from the pandemic related trend of higher goods purchasing continues to abate. The goods portion of personal consumption was down 4.4%, while the larger service portion was up 4.1%. Business investment was flat, while residential investment was off by 14%. The housing sector will be one to continue to watch as the effect of higher interest rates will continue to hinder growth. Government spending was down 1.9%, mostly related to nondefense spending at the federal level. Net trade was a positive this quarter as exports were up over 18%, while imports only grew by 3.1%.



While two quarters of real GDP decline is often associated with recessions, that is not how NBER defines a recession. NBER defines a recession as a significant decline in economic activity that is spread across the economy and lasts more than a few months. To assess the economic environment, NBER looks at real personal income less transfers, nonfarm payroll employment, employment as measured by the household survey, real personal consumption expenditures, wholesale-retail sales adjusted for price changes, and industrial production. Real income has been basically flat through the first half of the year, while the jobs numbers have been good. Personal consumption and sales have been sluggish in recent months but have held up for the most part. Industrial production increased in the first quarter but was basically flat in the second quarter. Looking at these indicators would likely indicate more of a slowing economy versus one in recession.

Whether the economy was in recession during the first half of the year remains unclear at this point. What is clear is that a slowdown in economic activity occurred over the first half of 2022. High inflation led to a tightening of monetary policy which drove interest rates higher. Higher rates appear to have slowed the economy but inflation still remains a major issue. During this time period, consumer confidence has dropped significantly. Moving forward, the employment situation will be a key indicator. If the economy continues to create jobs, the first half of 2022 may be seen as just a slow-patch. However, if the jobs numbers begin to turn negative, the economy will likely fully fall into a recession.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS*	LATEST MONTH	PRIOR MONTH	A YEAR AGO
Unemployment Rate (Average) (June)	4.5%	4.6%	6.5%
Inflation in Chicago (12-month percent change) (June)	9.4%	8.0%	4.7%

	LATEST MONTH	CHANGE OVER PRIOR MONTH	CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (June)	6,462.3	0.0%	2.2%
Employment (thousands) (June)	6,171.7	0.1%	4.4%
Nonfarm Payroll Employment (June)	6,031,900	19,400	245,700
New Car & Truck Registration (June)	31,894	4.3%	-43.1%
Single Family Housing Permits (June)	1,014	13.0%	-2.2%
Total Exports ($ mil) (May)	6,870.4	8.5%	21.9%
Chicago Purchasing Managers Index (July)	52.1	-7.0%	-29.0%

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

REVENUE: Strong Influx of Federal Revenues Fuel Overall Increase in July Receipts – Economic Sources Experience Modest Growth

Eric Noggle, Revenue Manager

Fiscal Year 2023 began the year on a positive note as July general funds revenues were up $395 million for the month. The reimbursement of $584 million in federal COVID-19 relief funds was the driver of this overall increase. These anticipated ARPA Reimbursement for Essential Government Services funds were originally expected to be receipted in FY 2022, which would have further enhanced the spectacular year of revenues for FY 2022. However, the inclusion of these one-time revenues in FY 2023 will provide an influx of revenues that were not assumed in the adopted FY 2023 budget [see table on page 9] – perhaps serving as a safety net as the State navigates through the next eleven months of this fiscal year.

When not including these reimbursed monies, base general funds receipts were actually down $189 million for the month. However, this decline is mainly because base federal source revenues [not including the reimbursed funds] were $420 million below last year's levels. Absent this decline in base federal revenues, State taxes and transfers performed modestly well.

State tax receipts started the year off with solid gains from the "big three" revenue sources. Personal income tax revenues grew $70 million, or $59 million on a net basis. Sales tax receipts increased $55 million [$31 million net]. Corporate income tax receipts added $48 million [$39 million net]. Revenue from interest earnings had a relatively large increase of $20 million in July – a level of growth that will likely be repeated in subsequent months due to the recent increases in interest rates. Other notable gains came from the inheritance tax [up $12 million] and insurance taxes [up $9 million]. Only a few revenue sources experienced declines in July, including the cigarette tax [down $4 million]; the corporate franchise tax [down $2 million]; public utility taxes [down $1 million]; and the liquor tax [down $1 million].

State transfers-in were collectively up $67 million for the month. The majority of this growth comes from a $55 million increase in "other transfers in" that was higher than normal due to statutory transfer payments from the Capital Projects Fund to the General Revenue Fund. Gaming transfers added $8 million in growth, while lottery transfers added $5 million. Cannabis transfers fell $1 million in July.

In an effort to better match how the Comptroller's Office categorizes revenues, going forward, the Commission is making some slight changes to its General Funds Revenue tables that are included in each Monthly Briefing. These changes include:

- Removing the "Vehicle Use Tax" line and including these revenues in the "Other Sources" line due to its relatively small revenue size.
- Including a "Transfers In" line for "Cannabis" due its recent growth and prominence. These revenues had been included in the "Other Transfers In" category.
- Moving proceeds received from the 10th license (generally $10 million per year) to the State Taxes' "Other Sources" line instead of including these funds with the State Gaming Transfer.
- Creating a subtotal for "Transfers In".

The following tables account for these categorization modifications. The first table shows a summary of July revenue activity. The second table provides a summary of the final budget assumptions for General Funds revenues for FY 2023.

JULY
FY 2023 vs. FY 2022
($ millions)

Revenue Sources	July FY 2023	July FY 2022	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$1,645	$1,575	$70	4.4%
Corporate Income Tax (regular)	206	158	48	30.4%
Sales Taxes	987	932	55	5.9%
Public Utility Taxes (regular)	52	53	(1)	-1.9%
Cigarette Tax	19	23	(4)	-17.4%
Liquor Gallonage Taxes	18	19	(1)	-5.3%
Inheritance Tax	41	29	12	41.4%
Insurance Taxes and Fees	19	10	9	90.0%
Corporate Franchise Tax & Fees	12	14	(2)	-14.3%
Interest on State Funds & Investments	21	1	20	2000.0%
Cook County IGT	0	0	0	N/A
Other Sources	24	21	3	14.3%
Total State Taxes	$3,044	$2,835	$209	7.4%
Transfers In				
Lottery	$50	$45	$5	11.1%
Gaming	8	0	8	N/A
Cannabis	8	9	(1)	-11.1%
Refund Fund	0	0	0	N/A
Other	182	127	55	43.3%
Total Transfers In	$248	$181	$67	37.0%
Total State Sources	$3,292	$3,016	$276	9.2%
Federal Sources [base]	$61	$481	($420)	-87.3%
Total Federal & State Sources	$3,353	$3,497	($144)	-4.1%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	($152)	($146)	($6)	4.1%
Corporate Income Tax	(30)	(24)	(6)	25.0%
Local Government Distributive Fund				
Personal Income Tax	(92)	(87)	(5)	5.7%
Corporate Income Tax	(12)	(9)	(3)	33.3%
Sales Tax Distributions				
Deposits into Road Fund	(32)	(8)	(24)	300.0%
Distribution to the PTF and DPTF	(24)	(24)	0	0.0%
General Funds Subtotal [Base]	**$3,010**	**$3,199**	**($189)**	**-5.9%**
ARPA Reimb. for Essential Gov't Services	$584	$0	$584	N/A
Total General Funds	**$3,594**	**$3,199**	**$395**	**12.3%**

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 1-Aug-22

FY 2023 GENERAL FUNDS REVENUE
FINAL BUDGET ASSUMPTIONS

[Amounts per GOMB and Legislative Staffs]

($ millions)

Revenue Sources	FY 2023 Final Budget Assumptions
State Taxes	
Personal Income Tax	$26,512
Corporate Income Tax (regular)	$5,786
Sales Taxes	$10,907
Public Utility (regular)	$720
Cigarette Tax	$252
Liquor Gallonage Taxes	$184
Inheritance Tax	$409
Insurance Taxes & Fees	$447
Corporate Franchise Tax & Fees	$267
Interest on State Funds & Investments	$35
Cook County Intergovernmental Transfer	$244
Other Sources	$593
Total State Taxes	**$46,356**
Transfers In	
Lottery	$665
Gaming	$157
Cannabis	$142
Refund Fund	$100
Other	$949
Total Transfers In	**$2,013**
Total State Sources	**$48,369**
Federal Sources [Base]	**$4,000**
Total Federal & State Sources	**$52,369**
Nongeneral Funds Distribution:	
Refund Fund	
Personal Income Tax [9.25% '23]	($2,452)
Corporate Income Tax [14.5% '23]	($839)
Local Government Distributive Fund	
Personal Income Tax	($1,482)
Corporate Income Tax	($339)
Sales Tax Distributions	
Sales Tax Deposits into Road Fund	($229)
Sales Tax Distribution to the PTF and DPTF	($598)
General Funds Subtotal [Base]	**$46,429**
ARPA Reimbursement for Essential Government Services	$0
Total Revenues General Funds	**$46,429**