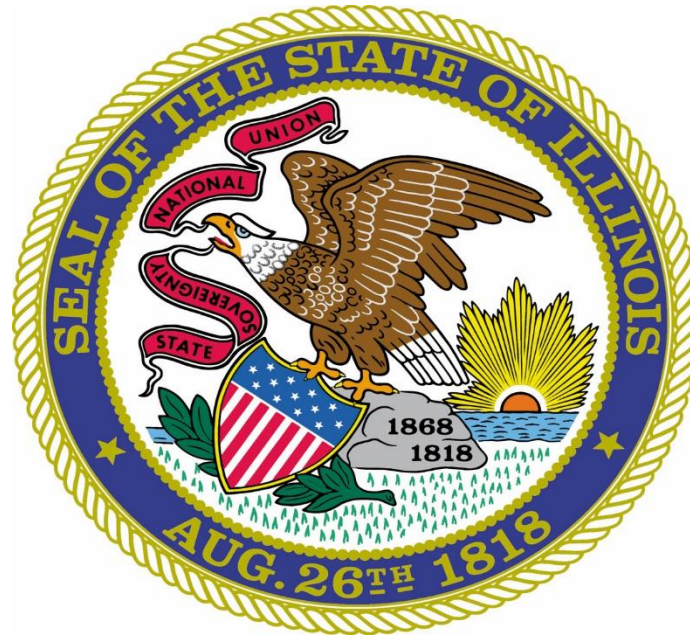


Revised FY 2021 Revenue Estimate and FY 2020 Revenue Update



Presented by:

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Commission on Government Forecasting and Accountability

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<http://cgfa.ilga.gov>

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CGFA Background & Responsibilities

- Bi-Partisan, 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 in addition to providing objective policy research for legislators and legislative staff.
- Prepares annual revenue estimates with periodic updates;
- Reports monthly on the State's financial and economic condition;
- Analyzes the fiscal impact of revenue bills;
- Prepares State Debt Impact Notes;
- Periodically assesses capital programs;
- Annually estimates the liabilities of the State's group health insurance program and approves contract renewals promulgated by the Department of Central Management Services;
- Implements the provisions of the State Facilities Closure Act;
- Annually estimates public pension funding requirements and prepares pension impact notes;
- Provides non-partisan research for General Assembly Members and legislative staffs.

COVID-19 NECESSITATES REVISIONS TO GENERAL FUNDS REVENUE ESTIMATES

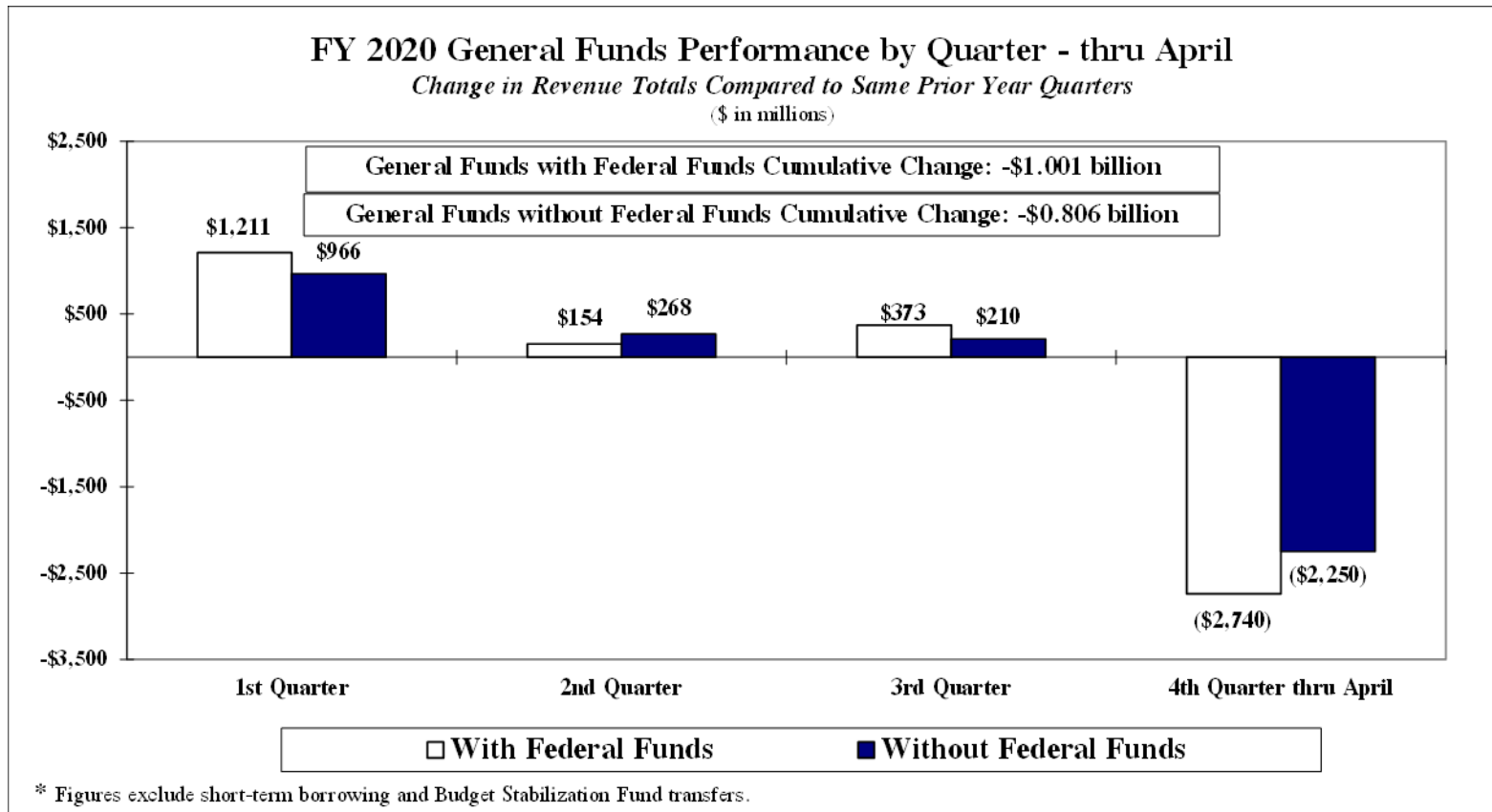
On March 4th, the Commission presented its revenue forecast for FY 2021 as well as an update to the FY 2020 outlook. At that time, economic expectations were quite stable and called for continued growth, albeit at modest levels for the upcoming fiscal year. However, in just two short months the deadly COVID-19 pandemic has changed the world, and with it, profoundly increased economic uncertainty.

The economy has quickly gone into a tailspin, in large extent due to government mandated shutdowns invoked to slow the spread of the virus and save lives. Major sport leagues suspended seasons, schools and universities dismissed and rapidly moved to an online learning model, and many workers transitioned to working from home. A new lexicon of “bend the curve”, “stay at home orders”, and “mitigation” has been learned, while at the same time record numbers of individuals have lost their jobs.

Emergency measures have been employed to stem the rising tide of economic fallout as the Federal Reserve and U.S Treasury have taken multiple actions to shore up finances, while leaders in Washington, D.C. have enacted multi-trillion dollar packages of assistance to individuals and businesses impacted by COVID-19. The mantra of “whatever it takes” has been used to describe the limits to which policy makers will go to ensure economic viability and recovery. Although far from certain, both in scope as well as timing, the next phase of federal assistance is believed to revolve around direct financial aid to states and local governments.

FY 2020 GENERAL FUNDS REVENUE PERFORMANCE TO DATE

Through February, general funds revenues were performing quite well. Due to a natural lag of “receipts in the pipeline”, even March was able to produce some modest gains despite parts of the economy being shut down for much of the month. As the third quarter ended, base revenues had grown \$1.739 billion. However, as shown in the chart below, April gave back all of those earlier gains as a “perfect storm” hit receipts hard. Delayed final payment deadlines and last year’s one-time “April surprise” conspired to drastically reduce income tax receipts, with base monthly receipts falling \$2.740 billion. In addition, the shuttering of much of the retail industry via “stay at home” orders suddenly manifested in much weaker sale tax receipts, while revenues from usually reliable sources such as gaming were stymied from industry closures. With only two months left in the fiscal year, overall base receipts reflected a decline of \$1.001 billion [see following page for more detail].



Year to Date

Excluding proceeds from the Treasurer's Investment program as well as interfund borrowing, after incorporating April's dramatic falloff of receipts, base general funds revenues have turned negative for the year—dropping \$1.001 billion below last year's levels [when those two items are included, the decline grows to \$1.139 billion]. As discussed last month, through March, revenues had performed admirably with \$1.739 billion in gains having been driven by specific transfers [Refund Fund and Capital Projects], comparatively better federal sources, court settlement proceeds, tax amnesty program efforts, and decent underlying performance from the larger economically related sources. Unfortunately, the previously discussed issues of COVID-19 and tax day deadline changes have significantly altered the fiscal year trajectory [the one-time nature of last year's April Surprise, while impacting year-over-year performance, was always assumed in earlier expectations].

With two months remaining in the fiscal year, gross personal income taxes are now down \$1.113 billion, or \$913 million net. Gross corporate income taxes are off \$377 million, or \$273 million net. While gross sales taxes are clinging to a \$61 million gain [\$102 million net], it is also expected to soon fall into negative territory. The performance of the remaining revenue sources continue mixed, but have experienced a combined \$126 million decline.

Aided by gains associated to Refund Fund and Capital Projects Fund transfers, overall transfers to the general funds are still up \$404 million. Federal sources, which have experienced wide monthly swings in performance this fiscal year, are now down \$195 million.

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2020 vs. FY 2019

(\$ million)

Revenue Sources	FY 2020	FY 2019	\$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	\$18,183	\$19,296	(\$1,113)	-5.8%
Corporate Income Tax (regular)	2,111	2,488	(\$377)	-15.2%
Sales Taxes	7,383	7,322	\$61	0.8%
Public Utility Taxes (regular)	716	732	(\$16)	-2.2%
Cigarette Tax	227	294	(\$67)	-22.8%
Liquor Gallonage Taxes	149	145	\$4	2.8%
Vehicle Use Tax	22	25	(\$3)	-12.0%
Inheritance Tax	226	325	(\$99)	-30.5%
Insurance Taxes and Fees	326	322	\$4	1.2%
Corporate Franchise Tax & Fees	192	206	(\$14)	-6.8%
Interest on State Funds & Investments	122	114	\$8	7.0%
Cook County IGT	150	150	\$0	0.0%
Other Sources	467	410	\$57	13.9%
Subtotal	\$30,274	\$31,829	(\$1,555)	-4.9%
Transfers				
Lottery	485	586	(\$101)	-17.2%
Riverboat transfers & receipts	195	230	(\$35)	-15.2%
Proceeds from Sale of 10th license	10	10	\$0	0.0%
Refund Fund transfer	617	327	\$290	88.7%
Other	851	601	\$250	41.6%
Total State Sources	\$32,432	\$33,583	(\$1,151)	-3.4%
Federal Sources				
Total Federal & State Sources	\$34,985	\$36,331	(\$1,346)	-3.7%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	(\$1,728)	(\$1,872)	\$144	-7.7%
Corporate Income Tax	(\$301)	(386)	\$85	-22.0%
LGDF--Direct from PIT	(\$947)	(1,003)	\$56	-5.6%
LGDF--Direct from CIT	(\$118)	(137)	\$19	-13.9%
Downstate Pub/Trans--Direct from Sales	(\$352)	(393)	\$41	-10.4%
Subtotal General Funds	\$31,539	\$32,540	(\$1,001)	-3.1%
Treasurer's Investments	\$400	\$750	(\$350)	-46.7%
Interfund Borrowing	\$462	\$250	\$212	84.8%
Total General Funds	\$32,401	\$33,540	(\$1,139)	-3.4%
CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				6-May-20

UPDATED FY 2020 CGFA REVENUE ESTIMATE

As shown in the table, the Commission's updated FY 2020 base general funds estimate is \$37.935 billion. The revised estimate represents a \$2.194 billion decrease from the March estimate [down \$682 million when \$312 million more interfund borrowing and \$1.2 billion in assumed short-term borrowing are included]. The revised forecast reflects revenue performance through April, including timing consequences related to delayed final income tax payments, and incorporates reduced expectations over the last two months of the fiscal year. Highlights and discussion of the updated forecast are presented in the following pages.

<i>CGFA FY 2020 GENERAL FUNDS REVENUE ESTIMATE</i>			
<i>Updated May-20 vs. March-20 Estimate</i>			
(\$ millions)	<u>May-20</u>	<u>March-20</u>	<u>Difference</u>
Income Taxes [Net]	\$20,435	\$22,179	(\$1,744)
Sales Tax [Net]	\$8,064	\$8,715	(\$651)
All Other State Sources	\$3,406	\$3,434	(\$28)
Transfers In	\$2,417	\$2,647	(\$230)
Federal Sources	\$3,613	\$3,154	\$459
Subtotal [Base]	\$37,935	\$40,129	(\$2,194)
Interfund Borrowing	\$462	\$150	\$312
Treasurer's Investment Borrowing	\$400	\$400	\$0
Short Term Borrowing	\$1,200	\$0	\$1,200
Total General Funds	\$39,997	\$40,679	(\$682)

Income Taxes

The estimates of net income taxes are being revised down \$1.744 billion from the Commission's earlier March forecast. The estimates of net personal income have been lowered by \$1.293 billion, reflecting impacts of COVID-19, but also approximately \$1 billion of delayed final payments related to the revised July 15th "tax day" deadline. The estimate of net corporate income taxes are being revised down \$451 million, in part due to lower expected estimated payments, but primarily due to the delay of approximately \$300 million final payments related to the pushed back filing deadline.

Sales Tax

The estimate of sales tax has been decreased by a net \$651 million reflecting consumer behavior related to “stay at home” orders coupled with record job losses and household financial uncertainty. Retailers have had to reinvent their business models to continue operating, offering “curbside” pickup and restaurants expanding takeout availability.

All Other State Sources

The estimates of all other state sources have been reduced by a net \$28 million as the outlook for miscellaneous “other sources”, corporate franchise taxes, and interest earnings all were adjusted down, while cigarette taxes were upgraded slightly.

Transfers

The overall estimate for transfers has been decreased \$230 million. The largest decline of \$145 million is expected from lower lottery transfers as reduced retail traffic will significantly impact ticket sales. The forecast of riverboat gaming transfers has been lowered by \$75 million, reflecting the Gaming Board’s decision to suspend casino and video gaming activities until further notice. And the estimate of miscellaneous transfers is being adjusted down a modest \$10 million.

Federal Sources

The estimate of federal sources has been increased \$459 million reflecting a retroactive higher reimbursement rate approved by the federal government under the recently passed Families First Act. The enhanced Medicaid match rate was increased 6.2% and currently runs through June [although states hope it will extend past that date]. Federal sources are largely dependent on reimbursable spending activity undertaken by the Comptroller. While the enhanced matching rate serves to lift anticipated revenues, actual reimbursable spending will dictate final levels.

Interfund Borrowing

In March and April, an additional \$312 million in interfund borrowing took place from a variety of state funds [see CGFA's March/April monthly briefings]. The State currently has maxed out its level of outstanding interfund borrowing under P.A. 101-10 at \$1.2 billion.

Short-Term Borrowing

In April, as a consequence of COVID-19, as well as delayed final income tax payments, the Governor activated the "failure of revenue" section of the Short Term Borrowing Act. In May, the State plans to sell \$1.2 billion of bonds, which must be repaid within one-year. [While the proceeds are being assumed to occur in FY 2020, the initial date of sale has been delayed for more favorable market conditions].

CGFA FY 2020 GENERAL FUNDS REVENUE ESTIMATE			
Updated May-20 vs. March-20 Estimate			
(millions)			
Revenue Sources	FY 2020 CGFA May-20	FY 2020 CGFA March-20	\$ Difference
State Taxes			
Personal Income Tax	\$21,484	\$23,000	(\$1,516)
Corporate Income Tax (regular)	\$2,633	\$3,196	(\$563)
Sales Taxes	\$8,475	\$9,164	(\$689)
Public Utility (regular)	\$838	\$838	\$0
Cigarette Tax	\$272	\$263	\$9
Liquor Gallonage Taxes	\$175	\$175	\$0
Vehicle Use Tax	\$27	\$30	(\$3)
Inheritance Tax	\$280	\$280	\$0
Insurance Taxes & Fees	\$400	\$400	\$0
Corporate Franchise Tax & Fees	\$225	\$235	(\$10)
Interest on State Funds & Investments	\$145	\$155	(\$10)
Cook County Intergovernmental Transfer	\$244	\$244	\$0
Other Sources	\$800	\$814	(\$14)
Subtotal	\$35,998	\$38,794	(\$2,796)
Transfers			
Lottery	\$550	\$695	(\$145)
Riverboat transfers and receipts	\$195	\$270	(\$75)
Proceeds from sale of 10th license	\$10	\$10	\$0
Refund Fund	\$617	\$617	\$0
Other	\$1,045	\$1,055	(\$10)
Total State Sources	\$38,415	\$41,441	(\$3,026)
Federal Sources	\$3,613	\$3,154	\$459
Subtotal Federal & State Sources	\$42,028	\$44,595	(\$2,567)
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax	(\$2,041)	(\$2,185)	\$144
Corporate Income Tax	(\$375)	(\$455)	\$80
Local Government Distributive Fund			
Personal Income Tax	(\$1,119)	(\$1,198)	\$79
Corporate Income Tax	(\$147)	(\$179)	\$32
Sales Tax Distribution to the PTF and DPTF	(\$411)	(\$449)	\$38
Subtotal General Funds [Base]	\$37,935	\$40,129	(\$2,194)
Interfund Borrowing	\$462	\$150	\$312
Treasurer's Investment Borrowing	\$400	\$400	\$0
Short Term Borrowing	\$1,200	\$0	\$1,200
Total General Funds Revenues	\$39,997	\$40,679	(\$682)

UPDATED FY 2020 REVENUE ESTIMATE COMPARISON – CGFA and GOMB

In April, the GOMB released an updated FY 2020 base revenue forecast of \$37.842 billion, which represented a \$2.198 billion downward revision in base general funds from their February estimate presented in the budget book. Also included in their update were proceeds from an assumed \$1.2 billion short-term borrowing to be executed in May, as well as \$323 million of additional interfund borrowing, bringing the total estimate of available resources to \$39.915 billion. [That total reflecting a decrease of \$675 billion from their February overall resources level of \$40.590 billion].

The accompanying table compares the Commission’s updated May FY 2020 general funds revenue estimate to the GOMB’s updated forecast released in April. As shown, the Commission’s revised base estimate of \$37.935 billion is \$93 million higher than the GOMB’s updated forecast, and \$82 million more when the additional borrowing elements are included. While there are a number of source estimates that differ individually, they largely offset. A more detailed comparison and brief discussion of the differences follows on the next page.

REVISED FY 2020 GENERAL FUNDS REVENUE ESTIMATE			
CGFA [May-20] vs. GOMB [April-20]			
(\$ millions)	CGFA	GOMB	Difference
Income Taxes [Net]	\$20,435	\$20,288	\$147
Sales Tax [Net]	\$8,064	\$8,003	\$61
All Other State Sources	\$3,406	\$3,457	(\$51)
Transfers In	\$2,417	\$2,481	(\$64)
Federal Sources	\$3,613	\$3,613	\$0
Subtotal [Base]	\$37,935	\$37,842	\$93
Interfund Borrowing	\$462	\$473	\$11
Treasurer's Investment Borrowing	\$400	\$400	\$0
Short Term Borrowing	\$1,200	\$1,200	\$0
Total General Funds	\$39,997	\$39,915	\$82

Overall net income taxes differ by \$147 million, with the Commission being slightly higher than the GOMB. While CGFA's estimate of net personal income taxes is \$226 million higher than the GOMB's outlook, CGFA's forecast of net corporate income taxes is \$79 million less.

The Commission's estimate of net sales taxes is \$61 million above the updated forecast presented by the GOMB. The Commission was able to utilize April actuals in preparing its revision.

CGFA's estimate of all other State source revenues is lower than the GOMB by \$51 million. The Commission is somewhat lower in its estimates for "other sources", inheritance taxes, corporate franchise taxes, interest earnings, public utility taxes, and vehicle use tax—while slightly higher in the outlooks for insurance taxes, cigarette tax, and liquor tax.

Transfers into the general funds differ by \$64 million, with the Commission being \$55 million lower in the estimate for miscellaneous transfers, and \$9 million lower in the forecast for riverboat transfers.

The estimate of Federal sources, which are heavily dependent on reimbursable spending, are a similar \$3.613 billion. While a slightly higher reimbursable matching rate for Medicaid spending has lifted the outlook since February/March, should the assumed \$1.2 billion in short-term borrowing not occur, or be significantly delayed, that could have a sizable impact on the ability to effectuate reimbursable spending by the end of the fiscal year.

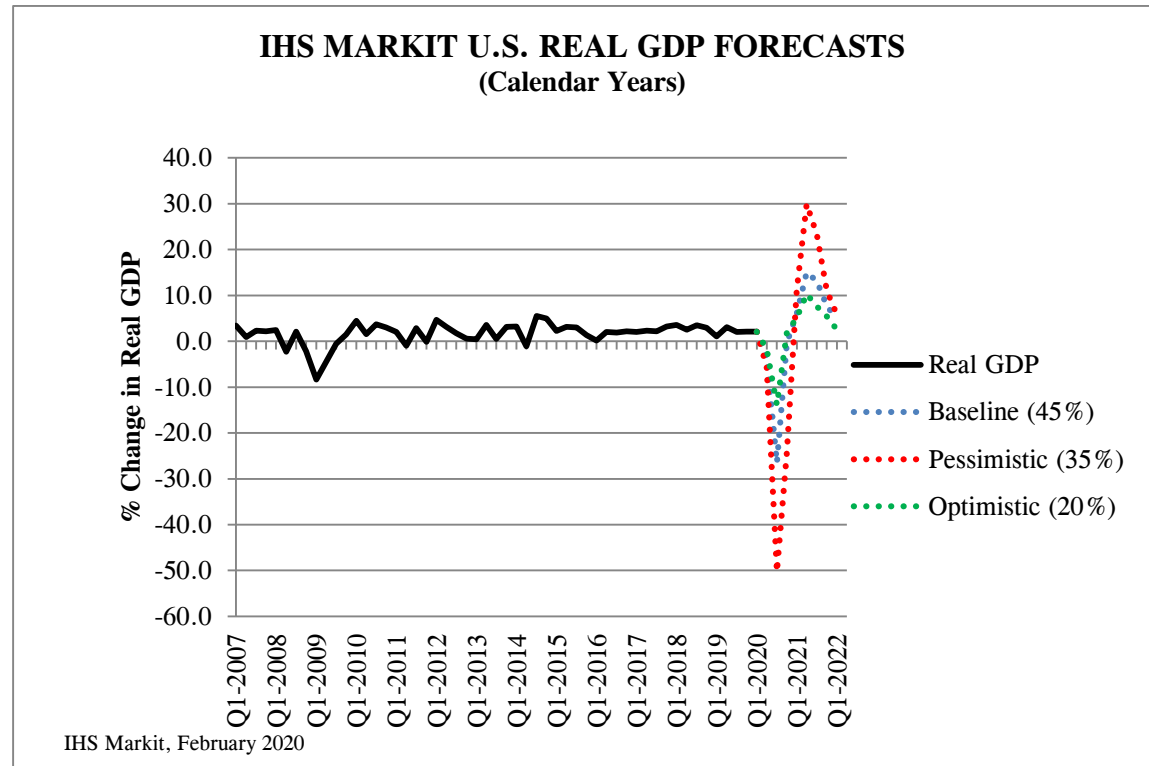
While \$1.2 billion in proceeds from short-term borrowing related to "failure of revenues" was scheduled to take place the first week of May, its initial auction date has been delayed and moved to "day-to-day" status. Should those resources not be made available relatively soon, as mentioned above, it would be difficult to meet levels of reimbursable spending needed to reach the updated federal source estimates.

REVISED FY 2020 GENERAL FUNDS REVENUE ESTIMATE
CGFA [May-20] vs. GOMB [April-20]
(millions)

Revenue Sources	FY 2020 CGFA May-20	FY 2020 GOMB April-20	\$ Difference
State Taxes			
Personal Income Tax	\$21,484	\$21,220	\$264
Corporate Income Tax (regular)	\$2,633	\$2,732	(\$99)
Sales Taxes	\$8,475	\$8,407	\$68
Public Utility (regular)	\$838	\$846	(\$8)
Cigarette Tax	\$272	\$263	\$9
Liquor Gallonage Taxes	\$175	\$174	\$1
Vehicle Use Tax	\$27	\$30	(\$3)
Inheritance Tax	\$280	\$295	(\$15)
Insurance Taxes & Fees	\$400	\$380	\$20
Corporate Franchise Tax & Fees	\$225	\$237	(\$12)
Interest on State Funds & Investments	\$145	\$155	(\$10)
Cook County Intergovernmental Transfer	\$244	\$244	\$0
Other Sources	\$800	\$833	(\$33)
Subtotal	\$35,998	\$35,816	\$182
Transfers			
Lottery	\$550	\$550	\$0
Riverboat transfers and receipts	\$195	\$204	(\$9)
Proceeds from sale of 10th license	\$10	\$10	\$0
Refund Fund	\$617	\$617	\$0
Other	\$1,045	\$1,100	(\$55)
Total State Sources	\$38,415	\$38,297	\$118
Federal Sources [Base]	\$3,613	\$3,613	\$0
Subtotal Federal & State Sources	\$42,028	\$41,910	\$118
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax [9.5% '20]	(\$2,041)	(\$2,016)	(\$25)
Corporate Income Tax [14.25% '20]	(\$375)	(\$389)	\$14
Local Government Distributive Fund			
Personal Income Tax	(\$1,119)	(\$1,106)	(\$13)
Corporate Income Tax	(\$147)	(\$153)	\$6
Sales Tax Distribution to the PTF and DPTF	(\$411)	(\$404)	(\$7)
Subtotal General Funds [Base]	\$37,935	\$37,842	\$93
Interfund Borrowing	\$462	\$473	(\$11)
Treasurer's Investment Borrowing	\$400	\$400	\$0
Short Term Borrowing	\$1,200	\$1,200	\$0
Total Revenues General Funds	\$39,997	\$39,915	\$82

ECONOMY: U.S. REAL GDP FORECAST SCENARIOS [IHS MARKIT – APRIL 2020]

- The **BASELINE** shows the most likely solution with a 45% chance of occurrence. Growth contracts 7.0% in 2020 with a 3 quarter recession starting in first quarter of 2020. Rebounds 10.1% in 2021 and 2.2% in 2022.
- A more **PESSIMISTIC** scenario with a 35% probability has GDP growth contracting 20.9% in 2020 with a 3 quarter recession starting in first quarter of 2020. The economy rebounds 17.3% in 2021 and 5.4% in 2022.
- A final 20% **OPTIMISTIC** scenario has GDP contracting 2.4% in 2020 with a 2 quarter recession starting in first quarter of 2020. The economy improves by 6.4% in 2021 and 2.0% in 2022.



IHS MARKIT U.S. ECONOMIC FORECAST SCENARIOS

APRIL 2020*

	Baseline (45%)	Pessimistic (35%)	Optimistic (20%)
GDP Growth	Growth contracts 7.0% in 2020 with a 3 quarter recession starting in first quarter of 2020. Rebounds 10.1% in 2021 and 2.2% in 2022	Growth contracts 20.9% in 2020 with a 3 quarter recession starting in first quarter of 2020. Rebounds 17.3% in 2021 and 5.4% in 2022	GDP contracts 2.4% in 2020 with a 2 quarter recession starting in first quarter of 2020. Rebounds 6.4% in 2021 and 2.0% in 2022
Consumer Spending	Growth falls 5.8% in 2020 before bouncing back rapidly 9.4% in 2021 and 1.5% in 2022	Spending growth falls 21.1% in 2020 before bouncing back a solid 16.7% in 2021 and 5.2% in 2022	Falls 1.1% in 2020 and rises 5.2% in 2021 and 1.3% in 2022
Business Fixed Investment	Growth declines 14.7% in 2020 then rebounds 14.6% in 2021 and 4.2% in 2022	Growth plummets 43.7% in 2020 then jumps 33.1% in 2021 and 13.1% in 2022	Falls 5.0% in 2020 then jumps 9.2% in 2021 and 4.4% in 2022
Monetary Policy	Fed keeps the federal funds rate at the zero bound till the first quarter of 2026, aggressive “quantitative easing” and liquidity enhancement measures	Fed keeps the federal funds rate at the zero bound till the first quarter of 2026, aggressive “quantitative easing” and liquidity enhancement measures	Fed keeps the federal funds rate at the zero bound till the first quarter of 2024, aggressive “quantitative easing” and liquidity enhancement measures
Consumer Confidence	Declines sharply in the second quarter of 2020 before recovering starting in the fourth quarter and peaking in the second quarter of 2025	Remains below baseline over the entire forecast interval	Outperforms baseline over the entire forecast interval
Inflation (PCE)	Core personal consumption expenditure (PCE) price inflation is 1.3% in 2020, 1.4% in 2021, and 1.8% in 2022	Core personal consumption (PCE) price inflation is 0.6% in 2020 and 2021 and 0.7% in 2022	Core PCE price inflation rises 1.7% in 2020, 2.1% in 2021, and 2.0% in 2022

*Annual percent changes are fourth-quarter over fourth-quarter.

IHS Markit

U.S. FORECASTS -- APRIL 2020

(Percent Change of Real 2012 \$ on Calendar Year Basis, Q4/Q4 for Annual Rates)

	2018 Actual	2019 Actual	2020 Baseline	2020 Pessimistic	2021 Baseline	2021 Pessimistic
Gross Domestic Product	2.5%	2.3%	-7.0%	-20.9%	10.1%	17.3%
Personal Consumption	2.6%	2.7%	-5.8%	-21.1%	9.4%	16.7%
Durable	3.8%	5.9%	-9.2%	-32.7%	16.1%	36.5%
Nondurable	2.5%	3.0%	-2.6%	-17.4%	6.4%	16.2%
Services	2.5%	2.1%	-6.2%	-20.5%	9.3%	14.4%
Fixed Investment (Nonresidential)	5.9%	-0.4%	-14.7%	-43.7%	14.6%	33.1%
Exports	0.4%	0.3%	-4.5%	-4.8%	10.1%	9.7%
Imports	3.2%	-2.1%	-15.0%	-38.4%	27.4%	61.3%
Government						
Federal	2.7%	4.3%	2.5%	2.7%	0.2%	1.1%
State & Local	0.9%	2.2%	0.6%	1.0%	2.0%	2.3%
OTHER MEASURES						
Personal Consumption (Current \$)	4.6%	4.1%	-5.1%	-21.4%	11.2%	18.3%
Before Tax Profits (Current \$)	3.9%	3.9%	-11.6%	-43.1%	38.3%	68.4%
Unemployment Rate (Average Q4)	3.8%	3.5%	10.3%	20.4%	6.0%	11.3%
IHS Markit						

ILLINOIS FORECASTS -- APRIL 2020

(Calendar Years, Q4/Q4 for Annual Rates)

	2018 Actual	2019 Est.	2020 Baseline	2020 Pessimistic	2021 Baseline	2021 Pessimistic
Real Gross State Product (Billions 2012\$)	773.8	786.7	725.3	618.9	796.3	723.0
% Change	1.9%	1.7%	-7.8%	-21.3%	9.8%	16.8%
Total Employment (1,000's)	6,112.5	6,112.9	5,527.4	4,715.4	5,855.8	5,529.5
% Change	0.6%	0.0%	-9.6%	-22.9%	5.9%	17.3%
Population (1,000's)	12,697.4	12,648.0	12,611.9	12,611.9	12,592.1	12,592.1
% Change	-0.4%	-0.4%	-0.3%	-0.3%	-0.2%	-0.2%
Real Personal Income (Billions \$)	686.3	698.2	681.0	606.7	712.8	670.0
% Change	2.5%	1.7%	-2.5%	-13.1%	4.7%	10.4%
Private Housing Starts (1,000's)	17.2	18.9	13.1	8.7	17.0	12.7
% Change	-15.7%	9.7%	-30.6%	-54.1%	29.3%	46.1%
Unemployment Rate Average % (Q4)	4.3%	3.7%	10.9%	21.2%	6.3%	10.9%
IHS Markit						

UPDATED FY 2021 GENERAL FUNDS FORECAST [per CURRENT LAW]

Excludes Impact from SJRCA 1, P.A. 101-8

As shown, below, the Commission's revised FY 2021 base general funds forecast, per current law excluding impacts from SJRCA 1 and P.A. 101-8, is \$36.412 billion, which represents a \$4.233 billion downward revision from the March estimate. The dramatically reduced expectations reflect the most updated economic views that attempt to predict impacts of COVID-19. The updated projections are a blend of the two most likely IHS outlooks [Baseline and Pessimistic], and should be viewed as falling toward the conservative end of the baseline scenario. This equates to an approximate three quarter recession that runs from 1st through 3rd quarters of 2020, which translates into a very disappointing first half of FY 2021 revenues, followed by very modest receipt improvement over those lower levels as job gains and subsequent consumer activity gradually strengthens in the second half of the fiscal year. However, more robust economic improvement doesn't manifest until after this forecast period, and is largely dependent on successful containment of COVID-19.

<i>CGFA FY 2021 GENERAL FUNDS REVENUE ESTIMATE</i>			
<i>Updated May-20 vs. March-20 Estimate [per Current Law]</i>			
(\$ millions)	FY 2021 May-20	FY 2021 March-20	\$ Difference
Income Taxes [Net]	\$20,633	\$22,720	(\$2,087)
Sales Tax [Net]	\$7,507	\$8,987	(\$1,480)
All Other State Sources	\$3,093	\$3,266	(\$173)
Transfers In	\$1,545	\$2,021	(\$476)
Federal Sources	\$3,634	\$3,651	(\$17)
Subtotal [Base]	\$36,412	\$40,645	(\$4,233)
Interfund Borrowing	\$0	\$0	\$0
Treasurer's Investment Borrowing	\$0	\$0	\$0
Total General Funds	\$36,412	\$40,645	(\$4,233)

Net income taxes are projected to be \$20.633 billion, or \$2.087 billion less than estimated in March. That figure would have been considerably worse if not for the delayed July 15th due date for income taxes which should effectively cause approximately \$1.3 billion in net income taxes to move into FY 2021. The estimate of net personal income taxes was lowered by \$1.645 billion, while the forecast for net corporate income taxes was reduced by \$442 million.

The revised estimate of net sales tax is \$7.507 billion, which represents a \$1.480 billion downgrade from earlier expectations, and indicative of greatly reduced consumer activity related to uncertainty brought about by COVID-19.

All other state sources total a net \$3.093 billion, or \$173 million below the previous forecast. The downgrade reflects lower expected miscellaneous revenues, greatly reduced income earnings, and lower corporate franchise taxes.

Transfers into the general funds are expected to total \$1.545 billion in FY 2021. Even in March, an expected significant falloff was assumed due to the large one-time nature of some of FY 2020 transfers. However, those assumptions have turned considerably more negative as the revised estimate represents \$476 million lower assumed transfers into the general funds. The updated figures reflect downgrades in lottery, riverboat gaming, and other miscellaneous transfers. In addition, it was earlier assumed that \$170 million in income tax refunds would be available for transfer—that assumption is being removed from the outlook.

Federal sources have minimally been adjusted from earlier levels—dropping by only \$17 million. The estimate of \$3.634 billion continues to reflect the Administration’s planned reimbursable spending plan, but as stated by GOMB in their April 15th revision, “Additional federal revenues may be available in fiscal year 2021 to provide states with additional resources in response to the COVID-19 pandemic”.

CGFA FY 2021 GENERAL FUNDS REVENUE ESTIMATE

Updated May-20 vs. March-20 Estimate [per Current Law]

(millions)

	FY 2021 CGFA May-20	FY 2021 CGFA March-20	\$ Difference
Revenue Sources			
State Taxes			
Personal Income Tax	\$21,714	\$23,643	(\$1,929)
Corporate Income Tax (regular)	\$2,649	\$3,201	(\$552)
Sales Taxes	\$7,909	\$9,503	(\$1,594)
Public Utility (regular)	\$818	\$818	\$0
Cigarette Tax	\$255	\$255	\$0
Liquor Gallonage Taxes	\$176	\$176	\$0
Vehicle Use Tax	\$30	\$30	\$0
Inheritance Tax	\$300	\$300	\$0
Insurance Taxes & Fees	\$400	\$400	\$0
Corporate Franchise Tax & Fees	\$205	\$215	(\$10)
Interest on State Funds & Investments	\$80	\$150	(\$70)
Cook County Intergovernmental Transfer	\$244	\$244	\$0
<u>Other Sources</u>	<u>\$585</u>	<u>\$678</u>	<u>(\$93)</u>
Subtotal	\$35,365	\$39,613	(\$4,248)
Transfers			
Lottery	\$636	\$720	(\$84)
Riverboat transfers and receipts	\$222	\$275	(\$53)
Proceeds from sale of 10th license	\$10	\$10	\$0
Refund Fund	\$0	\$170	(\$170)
<u>Other</u>	<u>\$677</u>	<u>\$846</u>	<u>(\$169)</u>
Total State Sources	\$36,910	\$41,634	(\$4,724)
Federal Sources	\$3,634	\$3,651	(\$17)
Subtotal Federal & State Sources	\$40,544	\$45,285	(\$4,741)
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax [9.25% '21]	(\$2,009)	(\$2,187)	\$178
Corporate Income Tax [14% '21]	(\$371)	(\$448)	\$77
Local Government Distributive Fund			
Personal Income Tax	(\$1,194)	(\$1,300)	\$106
Corporate Income Tax	(\$156)	(\$189)	\$33
Sales Tax Distribution to the PTF and DPTF	(\$402)	(\$516)	\$114
Subtotal General Funds [Base]	\$36,412	\$40,645	(\$4,233)
Interfund Borrowing	\$0	\$0	\$0
Treasurer’s Investment Borrowing	\$0	\$0	\$0
Total Revenues General Funds	\$36,412	\$40,645	(\$4,233)

REVISED VALUE OF P.A. 101-8 [THE GRADUATED INCOME TAX]
CGFA AND GOMB COMPARISON

The table below compares the updated valuations related to passage of SJRCA 1 and implementation of P.A. 101-8 for both CGFA as well as GOMB. As shown, at the time both agencies calculated these estimates in February/March, little difference separated the forecasts and the outlooks for each approximated \$1.5 billion. When the Governor’s assumed \$100 million pension contribution [should the amendment pass] was included, the net gain was about \$1.4 billion.

Since then, both agencies have revisited and recalibrated their valuations based on the dramatic effects that COVID-19 are expected to impart on FY 2021 revenues. As shown, while the revised estimates continue to be close, separated by only \$14 million [with CGFA being slightly lower], both agencies have lowered expectations to \$1.3 billion [or \$1.2 billion after including the Governor’s assumed \$100 million pension contribution]. The revision represents a reduction of \$286 million from the CGFA March estimate, while GOMB’s revised outlook reflects a \$261 million downward revision from their earlier forecast.

Revised Estimated FY 2021 Receipts from P.A. 101-8 Comparison CGFA [May-20] and GOMB [April-20]						
(\$ millions)	CGFA March-20	GOMB Feb-20	Difference	REVISED		
	FY 2021	FY 2021		CGFA May-20	GOMB April-20	Difference
				FY 2021	FY 2021	
Net General Funds from Individual Income Tax	\$1,425	\$1,433	(\$8)	\$1,171	\$1,192	(\$21)
Net General Funds from Corporate Income Tax	\$121	\$102	\$19	\$89	\$82	\$7
Subtotal Net Increase from P.A. 101-8	\$1,546	\$1,535	\$11	\$1,260	\$1,274	(\$14)
Less Governor Proposed Pension Contribution	(\$100)	(\$100)	\$0	(\$100)	(\$100)	\$0
Net Gain to General Funds	\$1,446	\$1,435	\$11	\$1,160	\$1,174	(\$14)
				Difference from Previous Estimate	(\$286)	(\$261)

UPDATED FY 2021 REVENUE ESTIMATE COMPARISON – CGFA AND GOMB

In April, the GOMB released an updated FY 2021 revenue forecast of \$37.506 billion, which represented a \$4.625 billion downward revision of total general funds from their February estimate of \$42.131 billion presented in the budget book. Of the downward revision, \$261 million was due to lowered value of graduated tax [if passed], with the remaining \$4.364 billion downgrade reflecting all other items including COVID-19 related impacts, timing elements related to delayed tax payments, and federal source adjustments.

As shown in the table below, CGFA’s revised base general funds estimate of \$36.412 billion is \$80 million higher than the recent GOMB revision. When the updated valuations of the graduated tax are included, the difference falls slightly to \$66 million. While the overall differential is negligible when viewed through the lens of total resources, there are some individual variances between revenue categories. See a more detailed discussion below and on the following page.

Revised FY 2021 General Funds Estimate CGFA vs. GOMB			
Base Revenues and Adjusted if SJRCA 1 is Adopted			
(\$ millions)	CGFA May-20	GOMB April-20	Difference
Income Taxes [Net]	\$20,633	\$20,407	\$226
Sales Tax [Net]	\$7,507	\$7,453	\$54
All Other State Sources	\$3,093	\$3,242	(\$149)
Transfers In	\$1,545	\$1,596	(\$51)
Federal Sources	\$3,634	\$3,634	\$0
Base General Funds	\$36,412	\$36,332	\$80
P.A 101-8 Net Income Taxes if SJRCA 1 is adopted	\$1,260	\$1,274	(\$14)
Adjusted Total General Funds Revenues	\$37,672	\$37,606	\$66
Governor's Assumed Pension Contribution	(\$100)	(\$100)	\$0
Adjusted Total General Funds Revenues	\$37,572	\$37,506	\$66

The Commission’s estimate of overall net income taxes is projected to be \$226 million higher than the GOMB. That differential is comprised of \$151 million more expected from net personal income taxes, and \$75 million more in net corporate income taxes. Most of those differences relate to the expected impact of the delayed tax filing deadline [i.e. movement from FY 2020 into FY 2021].

Both forecasts of sales taxes represent considerable degradation from FY 2020 levels. The Commission's outlook is just slightly higher, at \$54 million on a net basis.

All other state source revenues differ by \$149 million, with the Commission possessing the lower forecast. In particular, CGFA's assumed interest earnings—which are expected to weaken considerably in FY 2021—are \$90 million below GOMB levels.

The Commission's estimate of overall transfers is \$51 million less than the GOMB's view. The differential is comprised of \$29 million less in assumed riverboat transfers, and \$22 million in lower other miscellaneous transfers.

At this time, the Commission will adopt a similar view of federal sources for FY 2021. However, those estimates will ultimately be determined by appropriation levels, cash available for reimbursable spending, reimbursement rates, and bill payment schedules made by the Comptroller's Office. Currently, state and local governments are expected to receive some sort of federal assistance in the next COVID-19 relief package, but its timing, scope, and details are still being negotiated in Washington D.C.

For ease of comparison, a line that assigns the revised valuations of P.A. 101-8 is presented. As shown previously, the Commission estimate is slightly lower than GOMB, differing by \$14 million.

In summary, while both the Commission's as well as GOMB's forecast for FY 2021 has been significantly reduced since the February/March offerings, taken in the context of overall base revenue estimates between \$36.3 billion and \$36.4 billion, despite some individual source variations, the economic and resulting revenue outlooks continue to be viewed similarly.

Revised FY 2021 General Funds Estimates CGFA vs. GOMB			
Base Revenues and Adjusted if SJRCA 1 is Adopted			
(millions)			
	FY 2021 CGFA	FY 2021 GOMB	\$
Revenue Sources	May-20	April-20	Difference
State Taxes			
Personal Income Tax	\$21,714	\$21,468	\$246
Corporate Income Tax (regular)	\$2,649	\$2,546	\$103
Sales Taxes	\$7,909	\$7,819	\$90
Public Utility (regular)	\$818	\$828	(\$10)
Cigarette Tax	\$255	\$257	(\$2)
Liquor Gallonage Taxes	\$176	\$176	\$0
Vehicle Use Tax	\$30	\$30	\$0
Inheritance Tax	\$300	\$310	(\$10)
Insurance Taxes & Fees	\$400	\$400	\$0
Corporate Franchise Tax & Fees	\$205	\$217	(\$12)
Interest on State Funds & Investments	\$80	\$170	(\$90)
Cook County Intergovernmental Transfer	\$244	\$244	\$0
<u>Other Sources</u>	<u>\$585</u>	<u>\$610</u>	<u>(\$25)</u>
Subtotal	\$35,365	\$35,075	\$290
Transfers			
Lottery	\$636	\$636	\$0
Riverboat transfers and receipts	\$222	\$251	(\$29)
Proceeds from sale of 10th license	\$10	\$10	\$0
Refund Fund	\$0	\$0	\$0
<u>Other</u>	<u>\$677</u>	<u>\$699</u>	<u>(\$22)</u>
Total State Sources	\$36,910	\$36,671	\$239
Federal Sources [Base]	\$3,634	\$3,634	\$0
Subtotal Federal & State Sources	\$40,544	\$40,305	\$239
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax [9.5% '20; 9.25% '21]	(\$2,009)	(\$1,986)	(\$23)
Corporate Income Tax [14.25% '20; 14% '21]	(\$371)	(\$356)	(\$15)
Local Government Distributive Fund			
Personal Income Tax	(\$1,194)	(\$1,122)	(\$72)
Corporate Income Tax	(\$156)	(\$143)	(\$13)
Sales Tax Distribution to the PTF and DPTF	(\$402)	(\$366)	(\$36)
Base General Funds	\$36,412	\$36,332	\$80
P.A. 101-8 Net Income Taxes if SJRCA 1 is adopted	\$1,260	\$1,274	(\$14)
Adjusted Total General Funds Revenues	\$37,672	\$37,606	\$66
Governor's Assumed Pension Contribution	(\$100)	(\$100)	\$0
Adjusted Total General Funds Revenues	\$37,572	\$37,506	\$66

RISKS TO THE REVENUE FORECAST

Given the current uncertain economic environment, which includes an unusually large range of plausible outcomes, confidence levels are lower than normal. A number of risks, both to the downside as well as upside, exist to the revenue forecast. A few examples are discussed, but should not be considered the only potential factors:

Downside Risks

- The State struggles to meet recommended mileposts to reopen the economy. Measures of virus testing, spread of COVID-19, hospitalizations, and deaths delay reopening efforts.
- Initial economic reopening efforts are slowed as virus “hotspots” emerge, slowing efforts to return to business as usual.
- Jobs do not return as expected, even with repeated federal relief packages intended to thwart further job shedding and encouraging companies to keep workers on the payrolls.
- Despite improving virus containment measures being met, the consumer is hesitant to re-engage with the economy due to lingering job uncertainties. As a consequence, retail sales continue to languish until firm signs of sustainable improvement are seen.
- Fears of a fall re-emergence of the virus continue to weigh on consumers and economic recovery is underwhelming heading into the new year.

Upside Risks

- The State continually progresses and meets performance milestones related to virus battle, economic reopening criteria are met, and Illinois progresses without major interruption or delay.
- Vaccine research continually advances, while in the interim pharma treatments continue to rapidly evolve to lessen unfavorable outcomes.
- Federal payroll loan efforts to keep employees tethered to employers prove successful and economic activity accelerates as consumer confidence continually improves. Job growth begins to significantly strengthen into the New Year.
- Emerging hotspots are able to be quickly identified and contained through relatively short-term mitigation strategies.
- In addition to extending enhanced Medicaid reimbursement rates for several more quarters, the Federal government provides state and local government relief in the way of direct budgetary assistance.

DETAILED GENERAL FUNDS REVENUE HISTORY FY 2012 - FY 2019 and Revised Estimated FY 2020-21 [Base May-20]

(\$ Million)

Revenue Sources	Actual Receipts FY 2012	Actual Receipts FY 2013	Actual Receipts FY 2014	Actual Receipts FY 2015	Actual Receipts FY 2016	Actual Receipts FY 2017	Actual Receipts FY 2018	Actual Receipts FY 2019	Estimated Receipts FY 2020	Estimated Receipts FY 2021*
State Taxes										
Personal Income Tax	\$17,000	\$18,323	\$18,388	\$17,682	\$15,299	\$15,385	\$20,784	\$22,604	\$21,484	\$21,714
Corporate Income Tax (regular)	2,983	3,679	3,640	3,129	2,334	1,610	2,607	3,026	2,633	2,649
Sales Taxes	7,226	7,355	7,676	8,030	8,063	8,043	8,256	8,897	8,475	7,909
Public Utility Taxes (regular)	995	1,033	1,013	1,006	926	884	896	863	838	818
Cigarette Tax	354	353	353	353	353	353	344	361	272	255
Liquor Gallonage Taxes	164	165	165	167	170	171	172	172	175	176
Vehicle Use Tax	29	27	29	32	30	30	28	31	27	30
Inheritance Tax (Gross)	235	293	276	333	306	261	358	388	280	300
Insurance Taxes and Fees	345	334	333	353	398	391	432	396	400	400
Corporate Franchise Tax & Fees	192	205	203	211	207	207	207	247	225	205
Interest on State Funds & Investments	21	20	20	24	24	36	79	145	145	80
Cook County Intergovernmental Transfer	244	244	244	244	244	244	244	244	244	244
Other Sources	399	462	585	693	534	685	641	669	800	585
Subtotal	\$30,187	\$32,493	\$32,925	\$32,257	\$28,888	\$28,300	\$35,048	\$38,043	\$35,998	\$35,365
Transfers										
Lottery	640	656	668	679	677	720	719	731	550	636
Gaming Fund Transfer [and related]	413	360	331	302	287	280	282	279	205	232
Other	885	688	1,113	2,012	627	552	1,186	1,035	1,662	677
Total State Sources	\$32,125	\$34,197	\$35,037	\$35,250	\$30,479	\$29,852	\$37,235	\$40,088	\$38,415	\$36,910
Federal Sources	\$3,682	\$4,154	\$3,903	\$3,330	\$2,665	\$2,483	\$5,238	\$3,600	\$3,613	\$3,634
Total Federal & State Sources	\$35,807	\$38,351	\$38,940	\$38,580	\$33,144	\$32,335	\$42,473	\$43,688	\$42,028	\$40,544
Nongeneral Funds Distribution:										
Refund Funds/Direct Deposits										
Personal Income Tax Refund Fund	(\$1,488)	(\$1,785)	(\$1,746)	(\$1,769)	(\$1,493)	(\$1,724)	(\$2,037)	(\$2,193)	(\$2,041)	(\$2,009)
Corporate Income Tax Refund Fund	(522)	(502)	(476)	(439)	(362)	(278)	(457)	(470)	(375)	(371)
Fund for Advancement of Education	0	0	0	(242)	(458)	(464)	0	0	0	0
Commitment to Human Services Fund	0	0	0	(242)	(458)	(464)	0	0	0	0
LGDF--Direct from PIT	0	0	0	0	0	0	(1,022)	(1,175)	(1,119)	(1,194)
LGDF--Direct from CIT	0	0	0	0	0	0	(133)	(167)	(147)	(156)
Downstate Pub/Trans--Direct from Sales	0	0	0	0	0	0	(446)	(488)	(411)	(402)
Subtotal General Funds	\$33,797	\$36,064	\$36,718	\$35,888	\$30,373	\$29,405	\$38,378	\$39,195	\$37,935	\$36,412
Change from Prior Year	\$3,309	\$2,267	\$654	(\$830)	(\$5,515)	(\$968)	\$8,973	\$817	(\$1,260)	(\$1,523)
Percent Change	10.9%	6.7%	1.8%	-2.3%	-15.4%	-3.2%	30.5%	2.1%	-3.2%	-4.0%
Short-Term Borrowing	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,200	\$0
Treasurer's Investments	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$750	\$400	\$0
Interfund Borrowing	\$0	\$0	\$0	\$454	\$0	\$0	\$533	\$250	\$462	\$0
Income Tax Bond Fund Transfer	\$0	\$0	\$0	\$0	\$0	\$0	\$2,500	\$0	\$0	\$0
Transfer to Commitment Human Services	\$0	\$0	\$0	\$0	\$0	\$0	\$40	\$0	\$0	\$0
FY'13/14 Backlog Payment Fund Transfer	\$0	\$264	\$50	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Tobacco Liquidation Proceeds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
HPF and HHSMTF Transfers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Budget Stabilization Fund Transfer	\$275	\$275	\$275	\$275	\$125	\$0	\$0	\$0	\$0	\$0
Pension Contribution Fund Transfer	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total General Funds	\$34,072	\$36,603	\$37,043	\$36,617	\$30,498	\$29,405	\$41,451	\$40,195	\$39,997	\$36,412
Change from Prior Year	\$275	\$2,531	\$440	(\$426)	(\$6,119)	(\$1,093)	\$12,046	(\$1,256)	(\$198)	(\$3,585)
Percent Change	0.8%	7.4%	1.2%	-1.2%	-16.7%	-3.6%	41.0%	-3.0%	-0.5%	-9.0%

*If SJRCA 1 is adopted, FY 2021 net income taxes will increase by \$1.260 billion.

DEVELOPMENT OF CGFA ESTIMATES

Econometric Firms—The Commission utilizes the services of IHS Markit, Moody’s Analytics, and Consensus Economics Inc. They provide a wealth of economic measures and forecasts, both on a national and state specific basis, which are utilized to varying degrees during the estimating process.

Data Sources—The Commission utilizes actual receipt data via the Comptroller’s warehouse. Additional tax collection data reports prepared by the DoR, as well as employment and earning reports produced by the Bureau of Labor Statistics and IDES are also utilized, as are other pertinent data that may be necessary and available.

Forecasting models—Depending on the revenue source being forecasted, model complexity can range from the very simple to fairly complex. Several smaller sources with relatively low volatility need nothing more than simple trend analysis to produce accurate forecasts, while the estimates of the larger more economically driven revenue sources such as income and sales benefit from more sophisticated econometric models which utilize regressions and various time series techniques.

Application of Adjustments—Often times a base forecast must be adjusted by factors such as tax changes made at either the federal or state level that will disrupt historical receipt patterns, either by acceleration or delay. As has been the case in recent years, impacts related to IDOR accounting procedures must also be included. These are usually one-time phenomena, but must be accounted for by adjusting the estimate. Examples include tax rates, credits, deductions, exemptions, amnesty, etc.

Review Process and Tests of Reasonableness— Before a forecast is presented, it must pass internal review. In other words, the forecast must make sense. Any questionable forecast is re-examined for error. Accuracy of the estimates is reviewed during each forecasting period and, if necessary, appropriate revisions to the models are made in an effort to improve accuracy.