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MONTHLY BRIEFING

For the Month Ended: MARCH 2024

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CGFA

Commission on Government Forecasting & Accountability

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OVERVIEW OF THE COMMISSION'S RECENTLY RELEASED FY 2024 REVENUE ESTIMATE UPDATE AND FY 2025 FORECAST

Eric Noggle, Revenue Manager

In March, the Commission released its updated revenue projection for FY 2024 General Funds, as well its FY 2025 forecast. These revenue estimates were presented at the March 12, 2024 annual CGFA meeting and at the March 14, 2024 House Revenue Committee Hearing. The following article provides an overview of these figures along with a discussion on how these estimates compare to the Governor's most recent revenue estimates released in February 2024.

CGFA's FY 2024 Revised Forecast

When the FY 2024 budget was enacted in May 2023, a total of $50.611 billion in revenues were assumed for this fiscal year. This total was over $2.5 billion less than the FY 2023 actual, in large part because approximately $2.4 billion in pandemic-related federal dollars were not expected to repeat in FY 2024. Base revenues were projected to be similar to FY 2023 as growth in the Personal Income Tax and base Federal Sources were expected to be offset by reduced revenues from the other categories of revenues.

As highlighted throughout the Commission's monthly briefings this fiscal year, the performance of General Funds' "base" revenue sources has varied, but, as a whole, FY 2024 receipts have trended modestly above original expectations so far this fiscal year. This has especially been the case for areas such as Investment Income, the Interitance Tax (Estate Tax), and Transfers In. Illinois' "Big Three" revenue sources have, for the most part, come in as expected through February, which led to only minor upward adjustments to the outlook for Sales Tax and Corporate Income Tax revenue lines. Because of this year-to-date performance, the Commission has increased its General Funds base forecast for FY 2024 by nearly $1.1 billion or +2.2%.

In addition to this base revision, the Commission is increasing its overall forecast by an additional $881 million due to several one-time revenues received in FY 2024 that were not anticipated at the time of the enacted budget. This includes $633 million in federal matching dollars received in October from prior-year Medicaid claims and $248 million in excess P.A. 102-0700 funding that was transferred back to the GRF related to the suspension of the 1% sales tax on groceries ($148 million in December) and tax rebate funding ($100 million in January).

Therefore, the General Funds FY 2024 revenue estimate is being revised up a total of $1.979 billion from $50.611 billion to $52.590 billion.

FY 2024 Enacted Budget Revenue Assumptions vs. FY 2024 CGFA Revised [March '24]
($ millions)

Revenue Sources	FY 2024 Enacted Budget Revenue Assumptions	FY 2024 CGFA Revised March '24	Difference from Enacted Budget
Personal Income Taxes [Net]	$25,711	$25,711	$0
Corporate Income Taxes [Net]	$5,116	$5,383	$267
Sales Tax [Net]	$10,415	$10,487	$72
All Other State Sources	$3,337	$3,912	$575
Transfers In	$2,150	$2,542	$392
Federal Sources [Base]	$3,883	$3,675	($208)
General Funds Subtotal [Base]	**$50,611**	**$51,709**	**$1,098**
Transfer of Excess P.A. 102-700 Funds to GRF	$0	$248	$248
Prior Year Federal Matching Funds	$0	$633	$633
Total General Funds Revenues	**$50,611**	**$52,590**	**$1,979**

Budget Source: https://budget.illinois.gov/ Note: Some totals may not equal, due to rounding.

FY 2024 Revised Forecast: CGFA vs GOMB

In February 2024, the Governor's Office of Management and Budget (GOMB) released its revised outlook for FY 2024 General Funds in the FY 2025 Budget Book, with a FY 2024 total estimate of $52.216 billion. This figure is $1.605 billion above the FY 2024 Enacted Budget's assumed revenue figure of $50.611 billion and $199 million above GOMB's November 2023 estimate of $52.017 billion. **The Commission's March 2024 estimate of $52.590 billion is $374 million above GOMB's February 2024 revised forecast for FY 2024.** A summary of this differential is shown in the table below, followed by some notes regarding these differences.

FY 2024 General Funds Revenues
CGFA Revised [Mar'24] vs GOMB Revised [Feb'24]
($ millions)

Revenue Sources	FY 2024 CGFA Revised March '24	FY 2024 GOMB Revised February '24	CGFA vs GOMB Difference
Personal Income Taxes [Net]	**$25,711**	**$25,711**	**$0**
Corporate Income Taxes [Net]	**$5,383**	**$5,169**	**$214**
Sales Tax [Net]	**$10,487**	**$10,531**	**($44)**
All Other State Sources	**$3,912**	**$3,854**	**$58**
Transfers In	**$2,542**	**$2,494**	**$48**
Federal Sources [Base]	**$3,675**	**$3,675**	**$0**
General Funds Subtotal [Base]	**$51,709**	**$51,435**	**$274**
Transfer of Excess P.A. 102-700 Funds to GRF	**$248**	**$148**	**$100**
Prior Year Federal Matching Funds	**$633**	**$633**	**$0**
General Funds Non-Base Subtotal	**$881**	**$781**	**$100**
Total General Funds Revenues	**$52,590**	**$52,216**	**$374**

Budget Source: https://budget.illinois.gov/ Note: Some totals may not equal, due to rounding.

- Both CGFA and GOMB are not making a revision to the Personal Income Tax forecast at this time as these revenues are currently on track to hit the budgeted net estimate of $25.711 billion.
- The Commission is $267 million above GOMB in its estimate for Corporate Income Taxes or $214 million higher on a net basis. However, CGFA is $46 million lower in its Sales Tax projection [-$44 million net]. The differences here are likely due to the Commission's ability to include January and February actuals into the estimate.
- The Commission is a combined $58 million above GOMB in All Other State Sources, mainly due to higher interest income projections.
- CGFA is $48 million higher than GOMB in combined Transfers In [Base], as CGFA reflects a more optimistic view of Lottery, Gaming, and Other Transfers, offsetting its more pessimistic view of Cannabis Transfers. The one-time transfer of $100 million in excess P.A. 102-700 funding in January was not reflected in GOMB's initial figures, but should be in later revisions.
- The Commission is adopting the GOMB's FY 2024 Federal Sources figure at this time.

CGFA's FY 2025 Forecast

In March 2024, the Commission also released its FY 2025 General Funds revenue projection. **The Commission estimates that FY 2025 General Funds revenues will total approximately $52.077 billion.** This figure is $513 million below CGFA's revised FY 2024 forecast of $52.590 billion. A major reason for this decline is the absence of $881 million in one-time revenues that were receipted in FY 2024 and will not repeat in FY 2025. When removing these non-base sources from the equation, base revenues are expected to have a modest gain of $368 million in FY 2025.

General Funds Revenues
CGFA FY 2024 Revised vs FY 2025 Estimate [March '24]
($ millions)

Revenue Sources	FY 2024 CGFA Revised March '24	FY 2025 CGFA March '24	FY 2024 vs FY 2025 Difference
Personal Income Taxes [Net]	**$25,711**	**$26,558**	**$847**
Corporate Income Taxes [Net]	**$5,383**	**$4,838**	**($545)**
Sales Tax [Net]	**$10,487**	**$10,512**	**$25**
All Other State Sources	**$3,912**	**$3,842**	**($70)**
Transfers In	**$2,542**	**$2,359**	**($183)**
Federal Sources [Base]	**$3,675**	**$3,969**	**$294**
General Funds Subtotal [Base]	**$51,709**	**$52,077**	**$368**
Transfer of Excess P.A. 102-700 Funds to GRF	**$248**	**$0**	**($248)**
Prior Year Federal Matching Funds	**$633**	**$0**	**($633)**
General Funds Non-Base Subtotal	**$881**	**$0**	**($881)**
Total General Funds Revenues	**$52,590**	**$52,077**	**($513)**

Note: Some totals may not equal, due to rounding.

Some notes regarding this estimate are provided below:

- Although employment and wage growth is expected to wane in FY 2025, Personal Income Tax net revenues are projected to still rise $847 million in FY 2025. Another notable "true-up" involving a reallocation of business-related tax receipts is expected to boost PIT revenues in FY 2025, helping to offset the impacts of weaker growth in taxable income.

- A significant falloff in Corporate Income Tax revenues of $545 million (net) is anticipated in FY 2025. This reduction is due to several factors: corporate profits are expected to slow from its recent strong levels due to a developing trend of stagnant sales; the Net Operating Loss (NOL) deduction returns without a cap, which means built up losses from past years will be able to be deducted in FY 2025 (see page 8); the "true-up" reallocation of businesses-related income tax payments in FY 2025 will again negatively impact CIT revenues.

- Sales tax revenue growth has trended slower in recent months. However, if inflation continues to slow as hoped, this could lead to lower interest rates, which may spur some growth in bigticket item purchases in FY 2025. Although gross gains are expected to be approximately $235 million [+2.0%], with more sales taxes being statutorily diverted to the Road Fund in FY 2025, an overall net increase of only $25 million results.

- The remaining State sources are projected to decline a combined $70 million in FY 2025. If interest rates fall as expected, Interest on State Funds & Investments would see a weakening from its recent high levels. Corporate Franchise Taxes are also expected to slip in FY 2025 due to the full implementation of an increased exemption level. Continued declines in Public Utility and Cigarette Tax distributions are also expected. These declines are expected to be partially offset by growth in the Inheritance Tax and Insurance Taxes.
- Transfers In are expected to fall a combined $183 million in FY 2025, mainly due to lower transfers from the Income Tax Refund Fund and Other Transfers. Modest growth is expected from Lottery, Gaming, and Cannabis Transfers.
- At this time, the Commission is adopting GOMB's FY 2025 Federal Sources estimate and its $294 million growth as this figure is based on anticipated spending in federal matching areas.
- CGFA does not anticipate any "one-time" revenues in FY 2025.

FY 2025 Forecast: CGFA (Current Law) vs GOMB (Budget Book)

In the FY 2025 Budget Book, GOMB projected a FY 2025 General Funds revenue total of $52.993 billion. **The Commission's FY 2025 estimate of $52.077 billion is $916 million lower than this figure. However, it should be stressed the Commission's revenue estimate is based on current law. The FY 2025 revenue projection from GOMB includes approximately $1.098 billion in net revenue adjustments in its calculation that would require changes to State law.** These adjustments and their reported values are shown on the following page.

FY 2025 General Funds Revenues
CGFA's Current Law Estimate [Mar'24] vs.
GOMB including Proposed Revenue Changes [Feb'24]
($ millions)

Revenue Sources	FY 2025 CGFA March '24 *(Current Law)*	FY 2025 GOMB February '24 with Proposed Revenue Changes	CGFA vs GOMB Difference
Personal Income Taxes [Net]	$26,558	$26,691	($133)
Corporate Income Taxes [Net]	$4,838	$5,476	($638)
Sales Tax [Net]	$10,512	$10,874	($362)
All Other State Sources	$3,842	$3,623	$219
Transfers In	$2,359	$2,361	($2)
Federal Sources [Base]	$3,969	$3,969	$0
Total General Funds Revenues	$52,077	$52,993	($916)

Budget Source: https://budget.illinois.gov/ Note: Some totals may not equal, due to rounding.

Revenue Adjustments Assumed in GOMB's FY 2025 Forecast

- **+$81 million** net increase in the personal income tax. This comes from:
    - +$93 million revenue increase by adjusting the standard deduction amount to a lower level than would be used under current law.
    - -$12 million revenue decrease from a new refundable child tax credit.
- **+$526 million** increase in the corporate income tax by proposing a continuation of the net operating loss deduction limitation (that is set to expire), but at a new threshold limit of $500,000 (rather than $100,000).
- **+$276 million** increase in available sales tax revenues. This comes from:
    - +$175 million Road Fund offset for deposit into the Public Transportation Fund (in addition to the current $150 million deposit), reducing the need for General Funds.
    - +$101 million from a proposed $1,000 per month cap on the Retailers Discount.
- **-$10 million** impact from raising the corporate franchise tax exemption to $10,000.
- **+$25 million** increase by distributing a portion of the Real Estate Transfer Tax to the GRF instead of the Open Space Lands Acquisition and Development Fund (in FY 2025 only).
- **+$200 million** increase in "Transfers In" by way of an increase in the Sports Wagering Tax from 15% to 35%.

The total net value of the revenue adjustments in GOMB's FY 2025 Forecast is approximately **$1.098 billion.**

FY 2025 Forecast: CGFA (Current Law) vs GOMB (w/o Proposed Adjustments)

If the Commission were to back out the estimated $1.098 billion in revenue adjustments proposed in the FY 2025 Budget Book, GOMB's FY 2025 General Funds revenue forecast would be reduced from $52.993 billion to approximately $51.895 billion. The Commission's FY 2025 estimate of $52.077 billion would then be $182 million higher than this "current law" adjusted figure.

A detailed look at the "apples to apples" comparison between the current law estimates is shown below.

FY 2025 General Funds Revenues
CGFA [Mar '24] vs GOMB [Feb '24] without Revenue Adjustments (Current Law)
($ millions)

		Including Proposed Revenue Adjustments			*Without Proposed Revenue Adjustments*	
Revenue Sources	**FY 2025 CGFA Mar '24**	**FY 2025 GOMB Feb '24**	**CGFA vs GOMB Difference**	**Value of Proposed Adjustments**	**FY 2025 GOMB Feb '24**	**CGFA vs GOMB Difference**
Personal Income Taxes [Net]	$26,557	$26,690	($133)	$81	$26,609	($52)
Corporate Income Taxes [Net]	$4,838	$5,477	($639)	$526	$4,950	($112)
Sales Tax [Net]	$10,512	$10,874	($362)	$276	$10,598	($86)
All Other State Sources	$3,842	$3,623	$219	$15	$3,608	$234
Transfers In	$2,359	$2,361	($2)	$200	$2,161	$198
Federal Sources	$3,969	$3,969	$0	$0	$3,969	$0
Total General Funds Revenues	**$52,077**	**$52,993**	**($916)**	**$1,098**	**$51,895**	**$182**

Budget Source: https://budget.illinois.gov/ Note: Some totals may not equal, due to rounding.

For more details regarding these revenue projections, including a line by line look at the revenue sources included in these estimates, please see the Commission's "FY 2025 Economic Forecast and FY 2024 Revenue Estimate Update" at the following website:

https://cgfa.ilga.gov/Upload/03122024RevEstEconForecast.pdf

A Closer Look: The Net Operating Loss (NOL) Deduction

Robin Thompson, Revenue Analyst

The Net Operating Loss (NOL) Deduction is an income tax deduction at both the federal and State level for taxpayers whose allowable deductions exceed their taxable income within a tax period. The U.S. Supreme Court Case *Libson v. Koehler* indicated that the intent of the NOL deduction is to "Ameliorate the unduly drastic consequences of taxing income strictly on an annual basis. They were designed to permit a taxpayer to set off its lean years against its lush years, and to strike something like an average taxable income computed over a period longer than one year."

Under current state law, the use of Illinois net operating losses to offset income for Tax Years 2021-2023 is limited to a maximum deduction of $100,000 per year for corporations other than S corporations (P.A. 102-0016). With this limit expiring, there will be no cap on this deduction for Tax Year 2024 and thereafter. Therefore, the State of Illinois will likely see reduced amounts of corporate income tax revenues in upcoming fiscal years as more tax deductions will be able to be applied without this deduction cap.

The State cost of providing the NOL Deduction is provided in the Comptroller's *Tax Expenditure Report*. The most recent available costs are listed below:

$193.5 M in FY 2011	$392.4 M in FY 2017
$219.0 M in FY 2012	$421.4 M in FY 2018
$0 in FY 2013 (NOL suspended)	$382.8 M in FY 2019
$34.1 M in FY 2014 ($100K limit)	$579.7 M in FY 2020
$36.5 M in FY 2015 ($100K limit)	$546.9 M in FY 2021
$642.0 M in FY 2016	$553.1 M in FY 2022

The report states that the computations of tax expenditures for the corporate income tax in the FY 2021 *Tax Expenditure Report* are derived from tax year 2019 returns, filed in 2020. Therefore, the impact of the recent $100,000 cap would not be relevant to the above figures, as this latest limitation began in Tax Year 2021, and would therefore not be reflected until the FY 2023 – FY 2025 data is published.

As shown in the figures above, the cost to the State of offering the NOL Deduction has varied over the past several years as there has been many recent changes to the State's deduction including a year that the deduction was suspended (Tax Year 2013) and another cap period (Tax Years 2014 and 2015). For example, when the NOL Deduction was suspended, the State cost was reduced from $219 million in FY 2012 to $0 in FY 2013 (the fiscal year of reported impact). Under the subsequent limitation period of $100,000, the State cost only rose to $34.1 million in FY 2014 and $36.5 million in FY 2015. When the deduction was reinstated with no cap in Tax Year 2014 (tax expenditure shown in FY 2016), the cost rose significantly to $642.0 million (due to built-up losses), before slowing to a range of $392.4 million to $579.7 million between FY 2017 and FY 2022.

Due to the recent deduction limits over the past three tax years, it is expected that a sharp rise in the cost of offering the NOL deduction could occur in FY 2025 due to recent built-up losses not able to be fully applied. That is, unless the NOL Deduction structure is again altered. As noted on page 6 of this document, the Governor has proposed reinstating the NOL Deduction cap (affecting FY 2025), but with a higher limit of $500,000 (versus $100,000). The FY 2025 Budget Book (p. 169) states that this proposed change is projected to increase Corporate Income Tax receipts to the General Funds by $526 million in FY 2025 – an amount that under current law would be effectively retained by taxpayers during the upcoming un-capped NOL deduction period.

The Department states that, based on historical activity, they estimate that around 16,000 taxpayers claim the NOL Deduction in a given year. They estimate that around 13,000 taxpayers were able to claim the full NOL Deduction, even with the $100,000 limit. This means that only around 3,000 taxpayers were impacted by the recent NOL cap.

Under the proposed NOL limit of $500,000, the Department estimates that nearly 15,000 of the 16,000 taxpayers would still be able to claim the full deduction amount. Only a little over 1,000 taxpayers would be impacted by the proposed NOL cap of $500,000. In total, including those corporations that do not claim the deduction, the Department of Revenue estimates that over 98% of Illinois corporations would not be impacted by the NOL deduction limit of $500,000. Yet, these 2% are among the largest revenue producing companies in Illinois and by limiting their NOL deduction, this will reportedly save the State $526 million in FY 2025, an amount that would effectively be paid by these Illinois corporations.

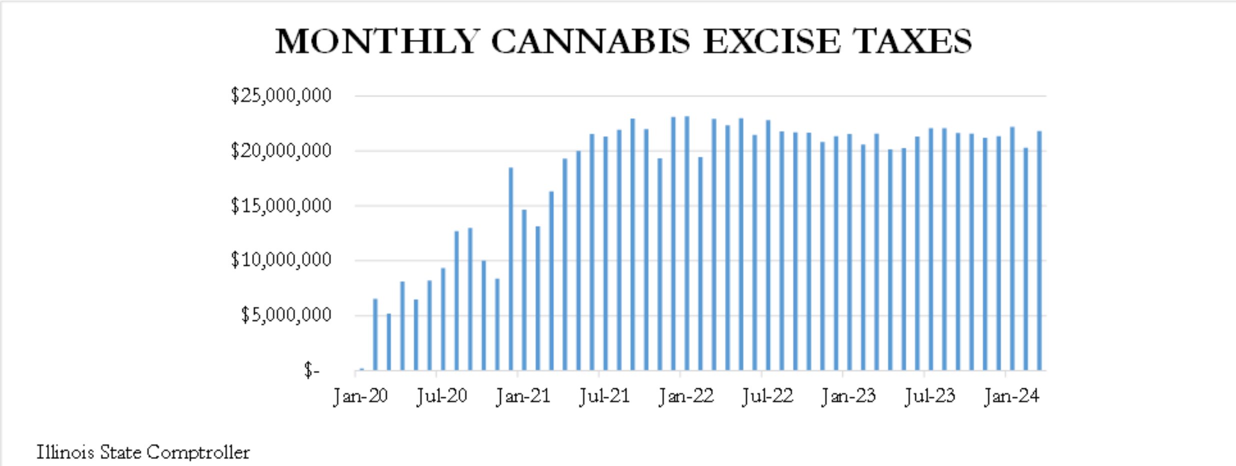
INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS*	LATEST MONTH	PRIOR MONTH	A YEAR AGO
Unemployment Rate (Average) (Feb.)	4.8%	4.7%	4.3%
Inflation in Chicago (12-month percent change) (Feb.)	3.4%	3.3%	5.0%

	LATEST MONTH	CHANGE OVER PRIOR MONTH	CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (Feb.)	6,477.3	0.0%	1.1%
Employment (thousands) (Feb.)	6,168.5	-0.1%	0.6%
Nonfarm Payroll Employment (Feb.)	6,122,800	23,100	13,500
New Car & Truck Registration (Feb.)	28,330	-22.8%	5.1%
Single Family Housing Permits (Feb.)	657	37.4%	32.5%
Total Exports ($ mil) (Jan.)	6,399.8	-5.5%	-3.6%
Chicago Purchasing Managers Index (Mar.)	41.4	-5.9%	-5.5%

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

Cannabis Quarterly – 3rd Quarter FY 2024



CANNABIS REGULATION FUND REVENUE ($ millions)								
Revenue Source	FY23 Q3	FY24 Q3	$ Change	% Change	FY23 YTD	FY24 YTD	$ Change	% Change
State Cannabis Excise Taxes	$63.7	$64.3	$0.6	0.9%	$193.8	$194.1	$0.3	0.2%
Licenses and Registration Fees	$3.1	$10.1	$6.9	220.8%	$5.4	$14.1	$8.7	160.2%
Other Revenue	$0.1	$0.1	$0.0	3.7%	$0.1	$0.1	($0.0)	-21.6%
Total	**$66.9**	**$74.4**	**$7.5**	**11.3%**	**$199.3**	**$208.3**	**$9.0**	**4.5%**
Illinois State Comptroller, CGFA								

CANNABIS REGULATION FUND EXPENDITURES ($ millions)								
Object of Expenditure	FY23 Q3	FY24 Q3	$ Change	% Change	FY23 YTD	FY24 YTD	$ Change	% Change
Transfer - General Revenue Fund	$21.1	$22.8	$1.7	8.1%	$64.7	$64.9	$0.2	0.3%
Transfer - Professional Services	$0.0	$0.0	$0.0	n/a	$0.0	$0.0	$0.0	65.9%
Transfer - Workers' Compensation Revolving	$0.0	$0.0	$0.0	n/a	$0.0	$0.0	$0.0	150.9%
Transfer - Criminal Justice Info Projects	$15.1	$16.3	$1.2	8.1%	$46.2	$46.4	$0.2	0.3%
Transfer - Drug Treatment	$1.2	$1.3	$0.1	8.1%	$3.7	$3.7	$0.0	0.3%
Transfer - DHS Community Services	$12.1	$13.1	$1.0	8.1%	$37.0	$37.1	$0.1	0.3%
Transfer - Local Government Distributive Fund	$4.8	$5.2	$0.4	8.1%	$14.8	$14.8	$0.0	0.3%
Transfer - Budget Stabilization	$6.0	$6.5	$0.5	8.1%	$18.5	$18.5	$0.1	0.3%
Transfer - Cannabis Expungement	$0.7	$0.7	$0.0	0.0%	$2.1	$2.1	$0.0	0.0%
Transfer Total	**$61.1**	**$66.0**	**$4.9**	**8.0%**	**$187.0**	**$187.7**	**$0.7**	**0.3%**
Operations - Agriculture	$0.7	$1.8	$1.1	151.7%	$2.7	$4.6	$1.8	66.8%
Operations - Commerce and Econ. Opportunity	$0.1	$0.2	$0.1	101.6%	$0.2	$0.5	$0.3	176.2%
Operations - Financial Professional Regulation	$1.4	$1.9	$0.5	36.8%	$3.5	$4.5	$1.0	28.6%
Operations - Public Health	$0.0	$0.0	$0.0	n/a	$0.0	$0.0	$0.0	0.0%
Operations - Revenue	$0.0	$0.0	$0.0	n/a	$1.5	$1.5	$0.0	0.0%
Operations - State Police	$0.5	$0.7	$0.2	39.9%	$1.4	$1.7	$0.3	24.0%
Operations - Criminal Justice Information Authority	$0.0	$0.0	$0.0	n/a	$0.0	$0.0	$0.0	n/a
Operations Total	**$2.7**	**$4.6**	**$1.9**	**70.1%**	**$9.3**	**$12.8**	**$3.5**	**37.3%**
Grand Total	**$63.8**	**$70.6**	**$6.8**	**10.6%**	**$196.3**	**$200.5**	**$4.1**	**2.1%**
Illinois State Comptroller, CGFA								

FY 2025 State Employees' Group Insurance Program Update

Anthony Bolton, Senior Revenue Analyst/Ally O'Malley, Analyst

As in previous years, the Commission recently published its revenue and liability estimates on the State Employees' Group Insurance Program (SEGIP). The latest report details State estimates of revenues, expenditures, membership, and trends within health insurance for the 2025 fiscal year. This report also details the status of health insurance bills held by the State of Illinois and historical trends in that area. The full report is available on the Commission's website (https://cgfa.ilga.gov/Upload/FY2025GroupInsuranceReport.pdf). The following presents the major points from the FY 2025 report.

Most existing health insurance contracts are expected to remain in place, and FY 2025 will see the second full year of the Medicare Advantage PPO plan offered by Aetna that replaced all other existing Medicare Advantage plans for retirees and their dependents at the end of the 2022 calendar year. Due to federal requirements, Medicare Advantage plans begin and end in line with the calendar year rather than the Illinois fiscal year of July 1 to June 30. Accordingly, while the Aetna PPO MA plan began in January 2023, FY 2024 was the first full fiscal year with this plan in effect.

Health care usage by SEGIP participants is returning to pre-pandemic utilization, though innovations such as telehealth and other contactless options remain popular. This trend may change depending on a variety of factors, but for now, people are resuming their normal visits to physicians, engaging in health screenings, and pursuing preventative treatments and therapies.

Central Management Services continues to amplify a variety of wellness options under the umbrella of the "Be Well Illinois" program. This initiative incorporates a variety of informative resources in an attempt to encourage improved SEGIP participant health. While the success of this program is difficult to specifically measure (according to testimony by CMS), improved participant health can translate to more diligent participation in yearly physicals/check-ups, potentially earlier detection of health issues, and an overall healthier cohort of State participants thus reducing expensive long-term utilization of medical treatments.

Liabilities/Revenues

The Commission utilizes projections from CMS as well as from the Segal Company survey of health insurance companies to formulate the FY 2025 projections for health insurance trends. Various components shape overall liability, including general medical cost inflation and leveraging (lower impact of coinsurance limits, level deductibles, etc.). Also, advances in technological innovation, more use of equipment/services, and the continued "greying" (aging and extended living) of the population have historically contributed to greater health care costs to the State. In addition to these factors, the impact of a gradual shift by employees to HMOs, OAPs, and the Consumer Driven Health Plan (CDHP) from the Quality Care Health Program (QCHP) has resulted in more costly/higher risk employees remaining in the QCHP program, raising the per-member cost of that program. In terms of cost reduction, movement of Medicare-eligible retirees out of the QCHP/CDHP/HMOs/OAPs has reduced overall liability within the group insurance program in the past and continues to be a factor in overall State costs being significantly lower than otherwise.

CMS estimates the FY 2025 liability to be $3.775 billion, which is a 16.5% increase from the FY 2024 anticipated final liability of $3.242 billion. CMS has noted that this significant increase is reflective of medical cost inflation and more expansive medication coverages for the individuals in the SEGIP. Noting these predictions, and utilizing the factors and trends described previously, the Commission has presumed that liabilities and revenues will follow trends from FY 2024 and previous fiscal years and estimates a total SEGIP liability of $3.799 billion in FY 2025, $24.4 million more than CMS.

FY 2025 GROUP HEALTH INSURANCE LIABILITY
($ in Millions)

Liability Component	FY 2024 CMS Estimate	FY 2025 CMS Projection	FY 2025 CGFA Projection
QCHP Medical	$323.8	$324.1	$326.4
QCHP Prescriptions	$146.4	$198.4	$199.7
Dental	$136.5	$144.1	$145.1
HMO	$1,022.6	$1,199.4	$1,207.1
Medicare Advantage HMO/PPO	$0.0	$0.0	$0.0
Open Access Plan	$1,330.8	$1,608.2	$1,616.8
Consumer Driven Health Plan (CDHP)	$28.3	$36.6	$37.5
Teamsters Opt-Out Expense	$117.0	$123.8	$123.8
Vision	$8.4	$6.8	$6.8
Administrative Services	$14.7	$14.5	$14.6
Life	$89.2	$94.8	$95.6
Special Programs (Admin/Int./Other)	$23.9	$24.4	$26.1
TOTAL	**$3,241.6**	**$3,775.1**	**$3,799.5**
% increase over prior year	3.9%	16.5%	17.2%

*Rounding may cause slight differences. FY 2024 and FY 2025 Special Programs line includes Prompt Payment and Timely Payment Interest.

The CMS liability estimate for FY 2025 is a 16.5% increase from FY 2024, based primarily on an increase in the Open Access Plan component. This component has grown in recent years, as Quality Care Health Plan (QCHP) liability, once a much larger component of overall liability, has diminished in the wake of employees seeking lower cost options and retirees moving to Medicare Advantage plans. The utility of the Open Access Plan attracts employees who need or want more options for their health care than those provided by traditional HMO plans, but who want to save some costs compared to the QCHP.

One continuing success story in the overall liability of the SEGIP is the virtual elimination of interest payments from FY 2023 onward and projected for FY 2025 as well. Once a major component of liability, comprising over $274 million only a few years ago, interest payments are projected to amount to zero in the current fiscal year. For FY 2025, the payment hold cycle for all SEGIP vouchers for CMS is expected to be below any interest-bearing duration (30-90 days, depending on the type of voucher).

In regard to revenues for FY 2025, the SEGIP is projected to see a significant increase from FY 2024 revenues. Expected revenue for FY 2025 is $3.769 billion (compared to $3.307 billion in FY 2024). A significantly higher GRF appropriation (+$490.1 million, $2.327 billion in FY 2025 compared to $1.837 billion in FY 2024) and higher employee contributions (+$25.8 million, $526.4 million in FY 2025 compared to $500.6 million in FY 2024) contribute to the significant increase in the SEGIP revenues. Other Funds reimbursements and Formulary Rebates are expected to increase by $89 million and $45 million respectively. Other components of total revenues are expected to remain substantially similar between FY 2024 and FY 2025.

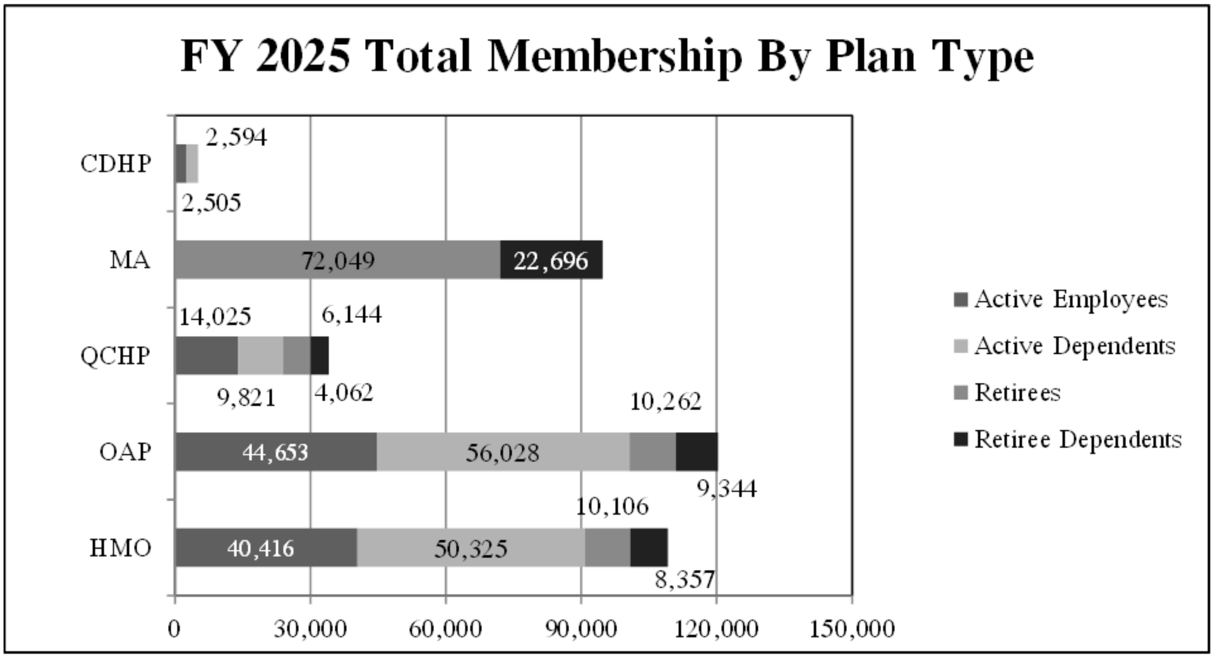
GROUP INSURANCE FUNDING SOURCES
FY 2024 - FY 2025
($ in Millions)

	FY 2024	FY 2025	$ Change from FY24	% Change from FY24
GRF Appropriation	$1,836.8	$2,326.9	$490.1	26.7%
Proposed GRF Supplemental	$182.8	$0.0	($182.8)	0.0%
Prior Year GRF	$13.5	$0.0	($13.5)	0.0%
Road Fund	$148.3	$156.5	$8.2	5.5%
University Cont.	$45.0	$45.0	$0.0	0.0%
Prior Year Univ. Cont.	$0.1	$0.0	($0.1)	0.0%
Member Cont.	$500.6	$526.4	$25.8	5.2%
Other Funds	$413.7	$503.1	$89.4	21.6%
Medicare Part D rebate	$0.0	$3.9	$3.9	0.0%
Rebates/Interest/Other.	$165.9	$207.4	$41.5	25.0%
TOTAL	**$3,306.7**	**$3,769.2**	**$462.5**	**14.0%**

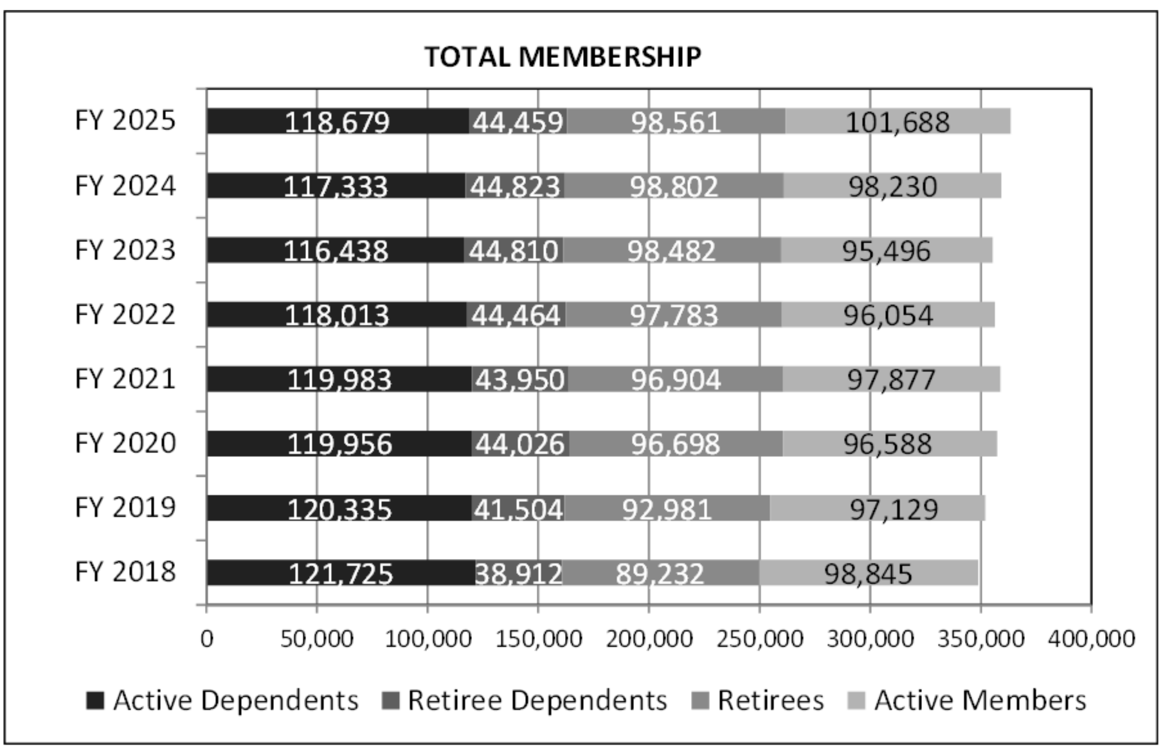
Source: CMS

Membership

For FY 2025, the QCHP is estimated to have 14,025 employees, 9,821 active employee dependents, 4,062 retiree dependents, and 6,144 retirees. The Medicare Advantage PPO plan is expected to have 22,696 dependents and 72,049 retirees. Non-Medicare Advantage HMO Plans are expected to have 40,416 employees, 50,325 active dependent lives, 8,357 retiree dependents, and 10,106 retirees. OAPs are expected to have 44,653 employees, 56,028 active dependents, 9,344 retiree dependents, and 10,262 retirees in FY 2025. The Consumer Driven Health Plan is projected to have 2,594 employees and 2,505 active employee dependents, which are primarily assumed to come from existing HMO plans. Total FY 2025 membership is expected to increase by 340 participants from 359,188 to 363,387.



The following chart depicts the long-term pattern of population shifts within the SEGIP. In FY 2018, active members and their dependents comprised almost 221,000 participants while retirees and their dependents comprised 128,000 participants, differing by 93,000 between the two groups. In FY 2025, this split is projected to be smaller, as 220,000 active members and dependents are expected to be covered compared to 143,000 retirees and dependents, differing by 77,000. This shift towards more retirees and their dependents along with the limited contributions by these groups and increased health needs demonstrates the continuing pressure of retiree health costs and the necessity of containing these costs, whether by wellness programs, Medicare Advantage-style health insurance plans, or other options yet to be determined.



Income Tax Reallocations and a Rise in Federal Dollars Help Spur Revenue Growth in March

Eric Noggle, Revenue Manager

Revenue deposits into the State's General Funds rose $413 million in March as compared to the same month the prior year. The 9.7% increase was led by strong gains from the Personal Income Tax and Federal Sources, with notable help from several other State sources. The gains were despite the fact that this March had two less receipting days as compared to last March.

Personal Income Tax receipts rose $291 million or +10.5% on a gross basis in March. This was an increase of $242 million on a net basis when accounting for non-General Funds distributions to the Refund Fund and the Local Government Distributive Fund. Conversely, Corporate Income Tax gross receipts fell $110 million or -25.5%, a net decline of $86 million. However, the extent that these important revenue sources rose/fell this month is largely due to the third of five "true-up" adjustments. As detailed in the CGFA's September Revenue Briefing, this month's adjustment is part of a several-month process in which $1.077 billion in business tax receipts are being reallocated to the Personal Income Tax revenue line in five equal adjustments of approximately $215 million. To counterbalance this action, Corporate Income Tax revenues are undergoing five negative adjustments of -$52 million [-$259 million in total] and the Personal Property Replacement Tax (non-General Funds distribution) a negative adjustment of -$164 million per installment [-$818 million in total]. The first two installments took place in September and December with the remaining adjustments taking place in April and June. Without these "true-up" adjustments, the respective year-over-year changes to the income tax sources for March would have been at a much more modest rate of change.

Revenues from Federal Sources grew $216 million in March. This is the fourth consecutive month that federal dollars have come in higher than last year. These receipts are largely based on the timing of when General Funds monies are used to obtain the federal matching of Illinois' Medicaid expenditures. However, to meet GOMB's most recent forecast for Federal Sources, a significant slowdown in these federal dollars would be expected over the remaining months of the fiscal year.

In terms of the remaining State revenue sources, the results were mixed. Sales Tax receipts eked out a gain of $9 million. On a net basis, however, a decline of -$2 million resulted when subtracting out non-General Funds distributions to the Road Fund and certain transportation funds. All Other Sources combined for an increase of $58 million. The gains here were led by a $42 million increase in Insurance Taxes, though, this increase is primarily due to timing as there were no receipts from this tax processed last month. Otherwise, the monthly growth in this category came again from the Inheritance Tax [up +$27 million] and Interest on State Funds & Investments [+$11 million]. These gains offset lower revenues from the Corporate Franchise Tax [-$6 million]; the Liquor Tax [-$5 million]; Public Utility Taxes [-$4 million]; Other Sources [-$4 million]; and the Cigarette Tax [-$3 million].

In the Transfers In category, revenues fell a combined $15 million in March. Comparatively lower receipts from Lottery Transfers [-$11 million] and Other Transfers [-$5 million] offset a subtle $1 million increase in Cannabis Transfers. Casino-related Gaming Transfers were essentially flat for the month.

MARCH FY 2023 vs. FY 2024 ($ millions)				
Revenue Sources	**March FY 2023**	**March FY 2024**	**$ CHANGE**	**% CHANGE**
State Taxes				
Personal Income Tax	$2,763	$3,054	$291	10.5%
Corporate Income Tax (regular)	431	321	(110)	-25.5%
Sales Taxes	906	915	9	1.0%
Public Utility Taxes (regular)	75	71	(4)	-5.3%
Cigarette Tax	19	16	(3)	-15.8%
Liquor Gallonage Taxes	13	8	(5)	-38.5%
Inheritance Tax	35	62	27	77.1%
Insurance Taxes and Fees	29	71	42	144.8%
Corporate Franchise Tax & Fees	19	13	(6)	-31.6%
Interest on State Funds & Investments	48	59	11	22.9%
Cook County IGT	94	94	0	0.0%
Other Sources	34	30	(4)	-11.8%
Total State Taxes	$4,466	$4,714	$248	5.6%
Transfers In				
Lottery	$86	$75	($11)	-12.8%
Gaming	14	14	0	0.0%
Cannabis	9	10	1	11.1%
Refund Fund	0	0	0	N/A
Other	37	32	(5)	-13.5%
Total Transfers In	$146	$131	($15)	-10.3%
Total State Sources	$4,612	$4,845	$233	5.1%
Federal Sources [base]	$274	$490	$216	78.8%
Total Federal & State Sources	$4,886	$5,335	$449	9.2%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	($256)	($280)	($24)	9.4%
Corporate Income Tax	(63)	($45)	18	-28.6%
Local Government Distributive Fund				
Personal Income Tax	(154)	(179)	(25)	16.2%
Corporate Income Tax	(25)	(19)	6	-24.0%
Sales Tax Distributions				
Deposits into Road Fund	(43)	(51)	(8)	18.6%
Distribution to the PTF and DPTF	(75)	(78)	(3)	4.0%
General Funds Subtotal [Base]	**$4,270**	**$4,683**	**$413**	**9.7%**
Transfer of Excess PA 102-700 Funds to GRF	$0	$0	$0	N/A
Prior Year Federal Matching Funds	$0	$0	$0	N/A
ARPA Reimb. for Essential Gov't Services	$0	$0	$0	N/A
Total General Funds	**$4,270**	**$4,683**	**$413**	**9.7%**

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 1-Apr-24

Year to Date

General Funds' overall receipts are now up $831 million with only one-quarter of FY 2024 remaining. From a base perspective, the year-over-year cumulative growth is slightly lower at +$714 million when adjusting out $881 million in combined "one-time" revenues received in FY 2024 and the $764 million in one-time federal dollars received through March from FY 2023. These amounts are provided at the bottom of the following two tables.

Summary of Receipts ***GENERAL FUNDS RECEIPTS: THROUGH MARCH*** ***FY 2023 vs. FY 2024*** ***($ millions)***				
Revenue Sources	**FY 2023**	**FY 2024**	**$ CHANGE**	**% CHANGE**
Net Personal Income Tax	$16,722	$17,719	$997	6.0%
Net Corporate Income Tax	$3,327	$3,078	($249)	-7.5%
Net Sales Tax	$7,807	$7,850	$43	0.6%
All Other State Sources	$2,569	$2,777	$208	8.1%
Transfers In	$2,763	$2,080	($683)	-24.7%
Federal Sources [base]	$2,850	$3,248	$398	14.0%
Base General Funds	$36,038	$36,752	$714	2.0%
Non-Base Gen Funds Revenues	$764	$881	$117	15.3%
Total General Funds	**$36,802**	**$37,633**	**$831**	**2.3%**
CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				2-Apr-24

The majority of the year-to-date growth has come from the Personal Income Tax, which is up $1.216 billion or +6.2% [net growth of +$997 million] through March. While this has been a solid fiscal year for this source on the surface, this cumulative total has been aided by "true-up" adjustments totaling over $646 million. Without these reallocations, the year-to-date net growth is a much more subdued +2.1%. Conversely, Corporate Income Tax gross receipts have fallen a combined $335 million or -8.0% through March [-$249 million net]. However, the decline is only -2.8% when adjusting for the accrued negative adjustment of -$155 million. The question going forward is how the important final tax payment period of April will influence these figures and overall income tax performance.

Sales Tax performance continues to weaken with growth of less than 1% over the last three months. Through March, gross receipts remain up $122 million or +1.4% [net growth of +$43 million or +0.6%], but this is notably less than the +2.1% growth that was seen in Illinois through the first third of the fiscal year. It is believed that the elevated interest rates this fiscal year have slowed big-item purchases, thereby contributing to the comparatively weak rates of growth in recent months.

It continues to be a solid year for All Other State Sources with this category of revenues up a combined $208 million through March. This is mainly due to the strong year-to-date performance of Interest on State Funds & Investments [+$241 million] and the Inheritance Tax [+$98 million]. These revenue sources have offset cumulative declines from the Public Utility Tax [-$44 million]; Other Sources [-$26 million]; the Cigarette Tax [-$23 million]; the Corporate Franchise Tax [-$18 million]; Insurance Taxes [-$14 million]; and the Liquor Tax [-$6 million].

Revenues from Transfers In through March are $683 million behind last years' pace. As discussed throughout the year, this sizeable decline is mainly because the Income Tax Refund Transfer total in FY 2024 was $926 million lower than FY 2023's total. Offsetting this decline somewhat has been $149 million in higher Lottery Transfers and $99 million in higher Other Transfers. With three months remaining, casino-related Gaming Transfers are $5 million behind last year's pace, while Cannabis Transfers are virtually flat.

With March's strong gains, Federal Sources are now up $398 million when comparing "base" year-to-date totals of this fiscal year with those of FY 2023. However, if including FY 2023's ARPA reimbursment total though March [+$764 million] and FY 2024's one-time federal receipts from prior year Medicaid matching dollars [+$633 million] received in October, overall Federal Sources are approximately $267 million higher than last year's pace through March.

As summarized in the opening article of this *Monthly Briefing*, the year-to-date base performance of Illinois' revenue sources through February, along with the significant help from unexpected one-time revenue sources, prompted the Commission to adjust its revenue outlook for FY 2024 by nearly $2 billion. While there continues to be subtle signs of weakening in certain revenue areas that must be watched, March's $413 million in additional growth helps solidify the Commission's latest forecast.

GENERAL FUNDS RECEIPTS: THROUGH MARCH FY 2023 vs. FY 2024 ($ millions)				
Revenue Sources	**FY 2023**	**FY 2024**	**$ CHANGE**	**% CHANGE**
State Taxes				
Personal Income Tax	$19,637	$20,853	$1,216	6.2%
Corporate Income Tax (regular)	4,178	3,843	(335)	-8.0%
Sales Taxes	8,651	8,773	122	1.4%
Public Utility Taxes (regular)	577	533	(44)	-7.6%
Cigarette Tax	172	149	(23)	-13.4%
Liquor Gallonage Taxes	138	132	(6)	-4.3%
Inheritance Tax	380	478	98	25.8%
Insurance Taxes and Fees	313	299	(14)	-4.5%
Corporate Franchise Tax & Fees	174	156	(18)	-10.3%
Interest on State Funds & Investments	251	492	241	96.0%
Cook County IGT	244	244	0	0.0%
Other Sources	320	294	(26)	-8.1%
Total State Taxes	$35,035	$36,246	$1,211	3.5%
Transfers In				
Lottery	$486	$635	$149	30.7%
Gaming	130	125	(5)	-3.8%
Cannabis	83	83	0	0.0%
Refund Fund	1,481	555	(926)	-62.5%
Other	583	682	99	17.0%
Total Transfers In	$2,763	$2,080	($683)	-24.7%
Total State Sources	$37,798	$38,326	$528	1.4%
Federal Sources [base]	$2,850	$3,248	$398	14.0%
Total Federal & State Sources	$40,648	$41,574	$926	2.3%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	($1,817)	($1,908)	($91)	5.0%
Corporate Income Tax	(606)	(538)	68	-11.2%
Local Government Distributive Fund				
Personal Income Tax	(1,098)	(1,226)	(128)	11.7%
Corporate Income Tax	(245)	(227)	18	-7.3%
Sales Tax Distributions				
Deposits into Road Fund	(372)	(439)	(67)	18.0%
Distribution to the PTF and DPTF	(472)	(484)	(12)	2.5%
General Funds Subtotal [Base]	**$36,038**	**$36,752**	**$714**	**2.0%**
Transfer of Excess PA 102-700 Funds to GRF	$0	$248	$248	N/A
Prior Year Federal Matching Funds	$0	$633	$633	N/A
ARPA Reimb. for Essential Gov't Services	$764	$0	($764)	-100.0%
Total General Funds	**$36,802**	**$37,633**	**$831**	**2.3%**
CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				1-Apr-24