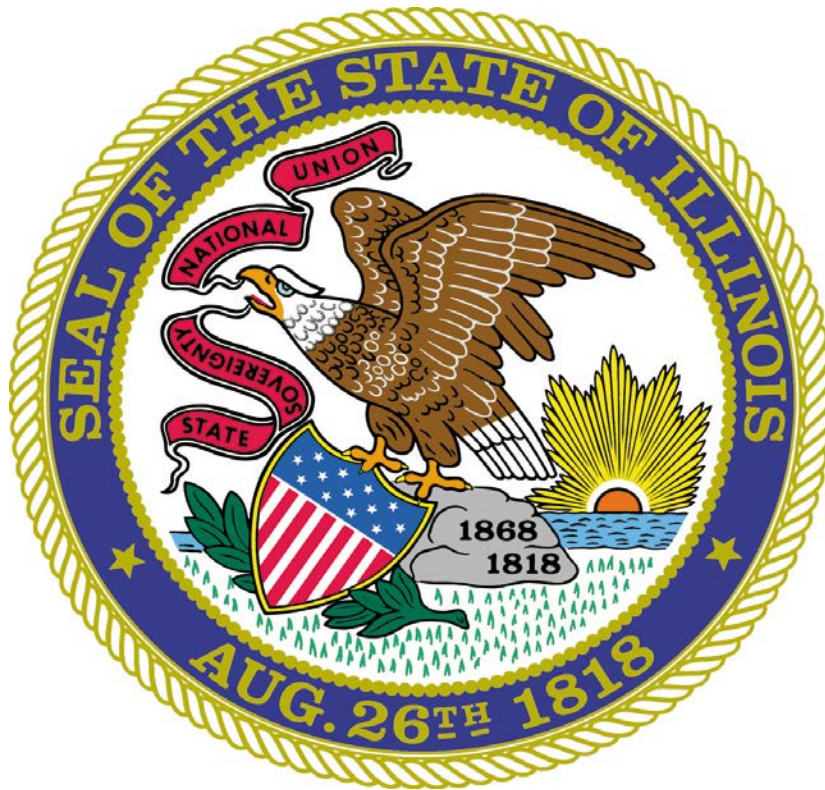


# 3-Year Budget Forecast FY 2019 – FY 2021



*Commission on Government  
Forecasting and Accountability*

*March 2018*

Commission on Government  
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## INTRODUCTION

As part of Public Act 0958 of the 96<sup>th</sup> General Assembly, the Commission on Government Forecasting and Accountability has been directed to **“...develop a 3-year budget forecast for the State, including opportunities and threats concerning anticipated revenues and expenditures, with an appropriate level of detail.”**

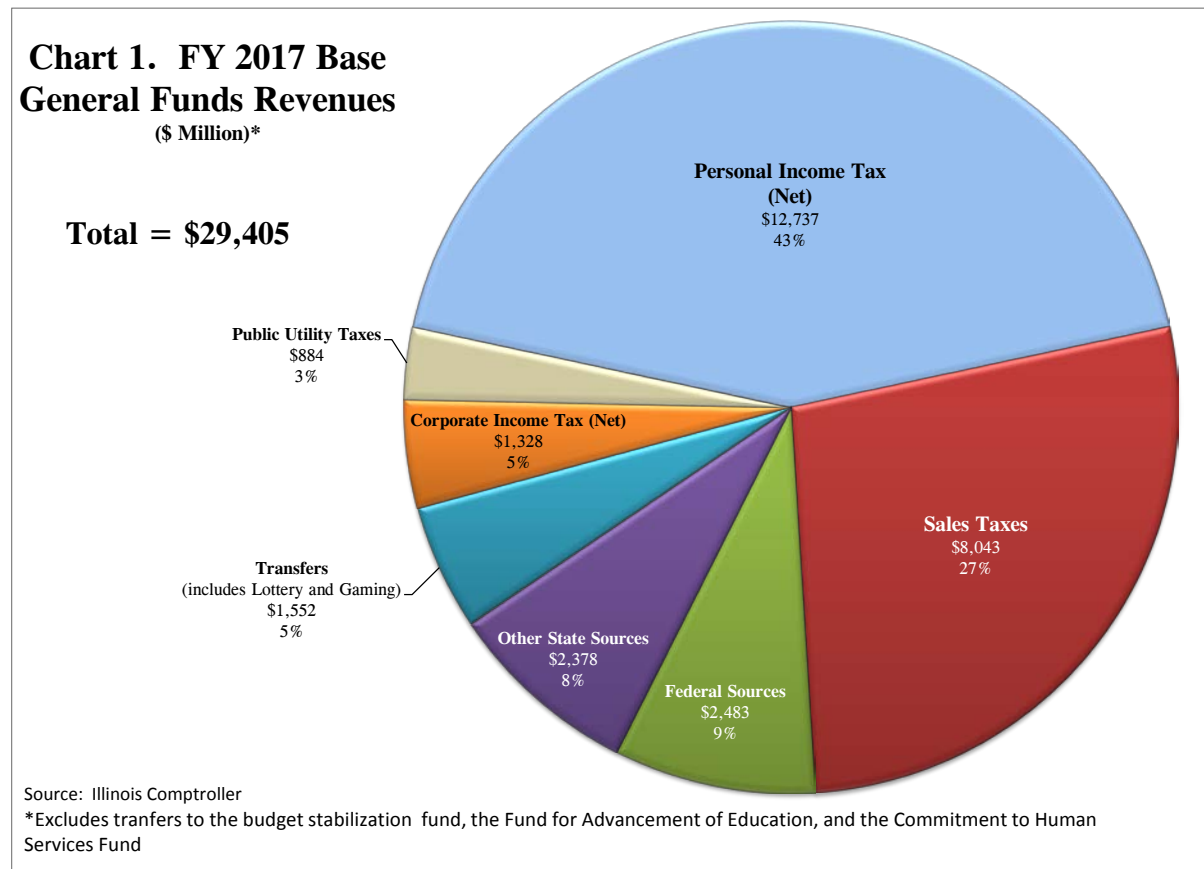
This report represents the Commission’s mandated 3-year budget forecast. It begins with an examination of the State of Illinois’ General Funds revenues and expenditures over the last 20 years, then considers threats and opportunities to Illinois’ budget. Finally, it concludes with potential 3-year budget results based upon scenario analysis.

# I. Illinois' Budget History

To begin analyzing Illinois' budget, an assessment of historical General Fund revenues and expenditures was conducted. The examined data was from the Illinois State Comptroller's annual report entitled "Traditional Budgetary Financial Report." The composition of base revenues and expenditures were evaluated. In addition, growth rates for both revenues and expenditures were calculated over various time periods. These assessments were then used to assist in the Commission's 3-year budget forecast.

## Revenues

Base General Funds revenue totaled \$29.405 billion in FY 2017. This amount excludes transfers to the Budget Stabilization Fund, the Fund for Advancement of Education, and the Commitment to Human Services Fund. This was a decline of -3.2% from FY 2016 when revenues totaled \$30.4 billion. The largest component of base revenue came from the Personal Income Tax (Net) which equaled approximately \$12.7 billion after refunds and mandated transfers. Personal Income Tax (Net) made up over 43% of all base revenue. Sales tax accounted for just over a quarter at \$8.0 billion. Federal Sources contributed \$2.5 billion, while Other State Sources added about \$2.4 billion. Chart 1 illustrates the make-up of FY 2017 Base General Funds revenue.



Appendix A, at the back of this report, shows historical totals for General Funds revenue from FY 2008 to FY 2017. Three sources, Personal Income Tax, Sales Taxes, and Federal Sources, annually contributed approximately 65% to 75% of total revenue. The proportional make up of General Funds revenue has been relatively steady over the last decade although Federal Sources, which is highly dependent on Medicaid and related reimbursement rates, have varied from about 8% to 20% of base revenues depending upon the fiscal year. Federal Sources comprised over 20% of base revenues in FY 2009 and FY 2010 due to the federal stimulus plan but have made up only 8% to 9% in recent fiscal years.

Overall growth rates related to base revenues have been slowing in recent years. The growth rate for total base revenues has averaged 2.4% over the last twenty years but has slowed in the last ten years. From FY 1998 to FY 2007, base revenues grew at 4.2% per year. From FY 2008 through FY 2017, that rate shrank to 0.6%. Revenues have averaged a decline of -2.5% over the last five years. Illinois has actually seen a decline in base General Funds revenue for three fiscal years in a row starting in FY 2015. This recent decline in revenues is associated with the lowering of the income tax rates in 2015. With the passage of P.A. 100-0022 in 2017, the income tax rates were raised and revenues are expected to show higher levels of growth as the new rates are fully implemented.

Average growth rates for the individual revenue sources can be seen in Table 1.

<b>TABLE 1. GENERAL FUNDS REVENUE GROWTH RATES</b>					
<b>FY 1998 - FY 2017*</b>					
<b>Revenue Sources</b>	<b>1-Year Growth</b>	<b>5-Year Average</b>	<b>10-Year Average</b>	<b>15-Year Average</b>	<b>20-Year Average</b>
<b>State Taxes</b>					
Personal Income Tax (Net)	-1.2%	-3.5%	4.4%	4.5%	4.4%
Sales Taxes	-0.2%	2.2%	1.3%	2.0%	2.5%
Other State Taxes	4.9%	3.8%	0.7%	0.7%	3.0%
Transfers (includes Lottery and Gaming)	-2.5%	0.9%	-0.4%	3.1%	3.9%
Corporate Income Tax (Net)	-32.5%	-9.1%	0.1%	6.0%	2.1%
Public Utility Taxes	-4.5%	-2.3%	-2.3%	-1.3%	0.3%
<b>Total State Sources</b>	<b>-2.8%</b>	<b>-1.9%</b>	<b>1.7%</b>	<b>2.7%</b>	<b>3.0%</b>
<b>Federal Sources</b>	<b>-6.8%</b>	<b>-6.9%</b>	<b>-4.6%</b>	<b>-2.1%</b>	<b>-0.2%</b>
<b>Total, Base Revenues</b>	<b>-3.2%</b>	<b>-2.5%</b>	<b>0.6%</b>	<b>1.8%</b>	<b>2.4%</b>

\*Excludes short-term borrowing, cash flow transfers, and transfers to the Budget Stabilization and the Pension Contribution Funds

## Expenditures

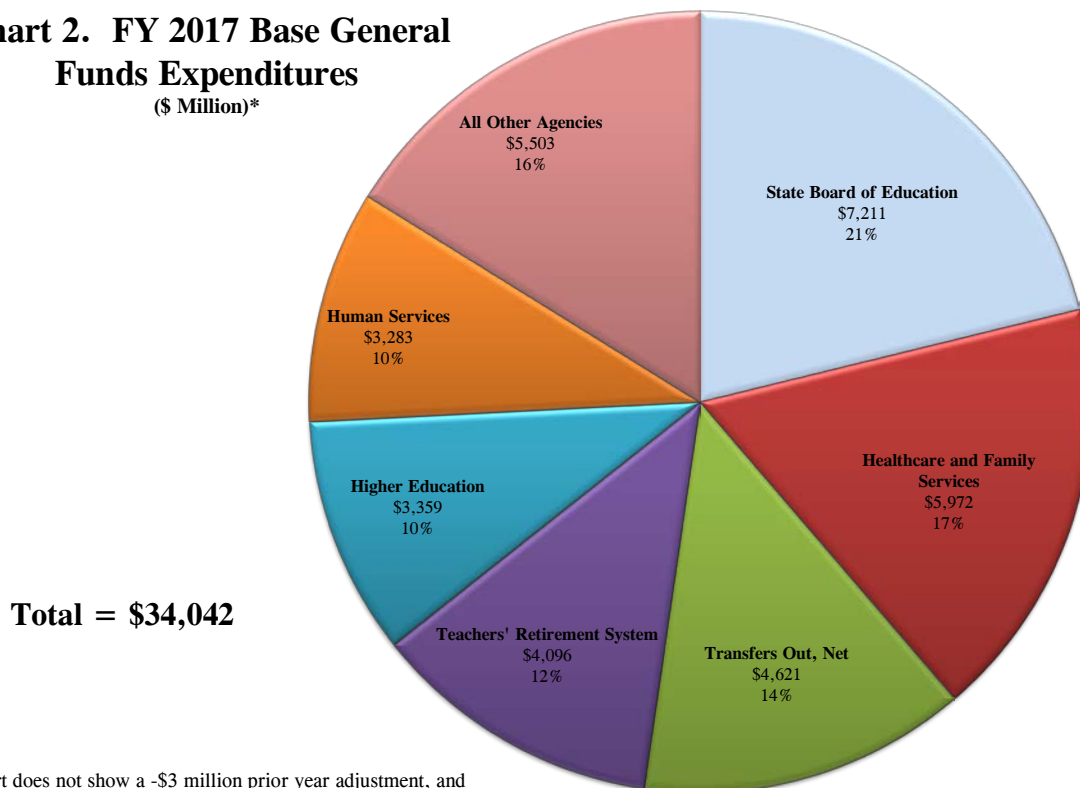
Base General Funds expenditures totaled \$34.0 billion in FY 2017. This was an increase of 9.1%, or \$2.8 billion, over FY 2016's expenditures of \$31.3 billion. Just under half of this increase was due to growth in expenditures for Higher Education Agencies. Expenditures for higher education grew \$1.3 billion; this was after declining by about the same amount the fiscal year before.

The largest category of expenditures was for the State Board of Education which grew to \$7.2 billion in FY 2017. This was growth of over \$700 million, or over 10%. The second largest agency for expenditures was Healthcare and Family Services which declined by 1.9% to \$6.0 billion. Transfers Out accounted for just over \$4.6 billion in expenditures, while the Teachers' Retirement System totaled \$4.1 billion.

For a more detailed look at expenditures over the last decade, please see Appendix B in the back of this report.

**Chart 2. FY 2017 Base General Funds Expenditures**

(\$ Million)\*



**Total = \$34,042**

\*Chart does not show a -\$3 million prior year adjustment, and excludes repayment of interfund borrowing and transfers to the Budget Stabilization Fund  
Source: Office of the Comptroller

Table 2 illustrates the growth of base general funds expenditures over the last 20 years. After declines in expenditures in FY 2015 (-3.7%) and FY 2016 (-11.7%), FY 2017 saw an increase of 9.1%. Due to the multiple fiscal years of declines, the 5-year average was only 0.6% growth per year. The 10-year and 15-year averages equated to 2.1% and 2.3%, respectively. The 20-year growth rate was slightly higher at 3.3% per year.

Looking at the individual agencies, the Teachers' Retirement System has a very large annual growth rate but this is due to an outlier fiscal year. In FY 2012, the State returned to funding the Teachers' Retirement System by using General Funds after two years of using mostly revenue from pension notes. This led to an increase of 874% in FY 2012. Trying to account for the years affected by the use of pension notes, expenditures have grown more in the range of 10% to 15% per year, which is still high, but not as high as when including FY 2012's outsized effect.

Healthcare and Family Services stands out as one of the largest agencies which has actually averaged negative growth over the 5-year and 10-year timeframes. Long-term the education related agencies have grown at the highest rates. The State Board of Education grew at 3.4% over the last 20 years, while Higher Education Agencies grew at 4.3% per year. On the other hand, expenditures at Children and Family Services have been steadily declining since FY 2009.

For a more detailed look at expenditures over the last decade, please see Appendix B in the back of this report.

**TABLE 2. GENERAL FUNDS EXPENDITURES GROWTH RATES  
FY 1998 - FY 2017**

<b>WARRANTS ISSUED</b>	<b>1-Year Growth</b>	<b>5-Year Average</b>	<b>10-Year Average</b>	<b>15-Year Average</b>	<b>20-Year Average</b>
<b>BY AGENCY</b>					
Healthcare and Family Services	-1.9%	-5.7%	-1.7%	2.2%	1.9%
State Board of Education	10.8%	1.5%	1.2%	2.2%	3.4%
Human Services	4.1%	-0.7%	-1.5%	-0.6%	n/a
Higher Education Agencies	64.7%	8.4%	7.0%	3.7%	4.3%
Corrections	21.2%	-0.5%	0.7%	-0.2%	1.8%
Children and Family Services	10.5%	-3.0%	-0.9%	-1.6%	-1.4%
Aging	-8.7%	-1.6%	5.2%	n/a	n/a
Teachers' Retirement System*	6.4%	10.8%	89.0%	60.5%	49.9%
All Other Agencies	6.2%	6.1%	7.0%	2.5%	1.5%
Prior Year Adjustments	<u>-75.0%</u>	<u>-7.6%</u>	<u>34.0%</u>	<u>31.9%</u>	<u>11.6%</u>
<b>Total Warrants Issued (14 months)</b>	<b>10.0%</b>	<b>0.5%</b>	<b>1.8%</b>	<b>2.0%</b>	<b>3.1%</b>
<b>Transfers</b>					
Transfers Out	1.3%	-2.0%	2.7%	8.9%	8.6%
<b>Total, Base Expenditures</b>	<b>9.1%</b>	<b>0.6%</b>	<b>2.1%</b>	<b>2.3%</b>	<b>3.3%</b>

\* Teachers' Retirement System expenditure growth rates are extremely high due to FY 2012 growth of over 874%. This large increase was due to the return of using General Funds revenue to fund the Teachers' Retirement System after mostly using pension notes in FY 2010 and FY 2011.



## II. Threats and Opportunities

The Threats and Opportunities section of this report highlights those issues that pose a threat or create a negative outlook, or on the contrary, provide or offer a positive opportunity, to Illinois' economic or financial condition. As Illinois' financial troubles have been a continuing matter of concern and uncertainty in recent years, several topics in this section are recurring issues from previous year's reports, but for which we have provided updated information.

### Threats

- **Outstanding Bill Backlog**. As of March 12, 2018, the Comptroller reported a General Funds backlog of \$8.908 billion. This is a reduction of over \$3.1 billion compared to last year when the backlog stood at \$12.069 billion. This 26% reduction was due to the use of approximately \$6.48 billion in bond proceeds to pay down approximately \$9 billion in outstanding bills when federal reimbursements are included. The accumulation of a bill backlog is a threat to the State of Illinois due to the high cost of either having to borrow from the financial community at higher rates or through incurring late-payment interest penalties.
- **Interest Penalty Payments**. Illinois is mandated to pay interest for late payments to the State's vendors and providers. There are two types of interest paid, depending on the associated bill type. Timely Pay Interest (215 ILCS 5/368a) accrues at 9% annually for self-insured providers of the State Employees Group Insurance Program. Prompt Payment Interest (30 ILCS 540) accrues at 12% to other State vendors for goods and services purchased by any state official or agency authorized to expend from appropriated state funds. Illinois has paid over \$1.0 billion in interest and late fees since FY 2010. According to the Office of the Comptroller, as of January 31, 2018, state agencies reported \$554 million in estimated late-payment interest payments based on vouchers still held by the agencies. These payments are a threat to the State because any money needed to pay late payment penalties is money that cannot be used for other purposes.
- **General Obligation Bond Ratings**. Illinois has had one of the lowest credit ratings among the States for years. Illinois' GO Bond ratings have been downgraded fifteen times since 2010. The major consequence of the rating downgrades is that debt ratings are one of the factors that are strongly considered when determining the interest rate the State must pay to issue debt (sell bonds). Consequently, declines in the State's rating lead to a corresponding increase in debt service costs for Illinois.

- **Unfunded Pension Liabilities**. As with previous years, the unfunded pension liabilities continue to pose a threat to the current fiscal outlook. As of June 3, 2017, the unfunded liabilities of the State retirement systems totaled just under \$130 billion, led by the Teachers' Retirement System (TRS), whose unfunded liability was over \$73 billion. The combined funded ratio for the retirement systems for FY 2017 was approximately 40%.

The 2017 Report of the State Actuary, issued in December of 2017, noted that *"the Pension Code funding method does not meet generally accepted actuarial principles because the systems are not targeted to be funded to 100 percent and the funding of the System is pushed too far into the future."* The State Actuary also *"recommended that the funding method be changed to fully fund plan benefits and discontinue the systematic underfunding of the systems. Continuing the practice of underfunding future accruals increases the risk of the systems becoming unsustainable."*<sup>1</sup> The inadequate funding of the pension systems is a threat to the State as pension needs will continue to crowd out other funding needs until this situation is rectified.

- **Illinois' Economic Forecast Challenges**. Moody's Analytics prepared the State of Illinois Forecast Report for the Commission in February 2018. The report highlighted recent performance among various sectors of Illinois' economy, as well as provided a near-term and long-term outlook, including negative factors. Below are the two main challenges mentioned by Moody's. The entire Moody's report is available on the Commission's website (cgfa.ilga.gov).

1. **Unstable State Finances** - Even though Illinois (and Chicago specifically) is an appealing location to corporate headquarters and companies that need highly skilled workers, uncertainty stemming from the state's fiscal crisis threatens to discourage firms from locating or remaining in the state. The State's financial picture has improved with the passage of a budget for FY 2018 and the upswing in the economy. However, this improvement is still somewhat fragile as a new budget needs to be passed annually.
2. **Demographic Trends** - Once the fifth-most-populous state, Illinois has been surpassed by Pennsylvania. Bucking a regional trend in which nearly all states added residents at a faster pace than in the previous year, Illinois declined in population for a fourth consecutive time in the year ending July 1, 2017. The vibrant national economy is enticing more of the state's residents to seek opportunities elsewhere. Total net migration declined to negative 81,100 in 2017, down from negative 75,800 in 2016.

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<sup>1</sup> State of Illinois, Office of the Auditor General, State Actuary's Report, *The Actuarial Assumptions and Valuations of the State-Funded Retirement Systems*. Available at: [https://www.trsil.org/sites/default/files/documents/2017-State-Actuary-Rpt-Full\\_0.pdf](https://www.trsil.org/sites/default/files/documents/2017-State-Actuary-Rpt-Full_0.pdf)

The natural rate of population growth has also slowed in Illinois, from close to 80,000 per year just prior to the recession to a multi-decade low of around 47,000 in 2017. The birthrate in Illinois has dropped off significantly since the early 2000s, when it was well above the regional and national averages. It dipped again last year to its lowest in more than three decades, but it is only a hair lower than that for the rest of the Midwest and the nation.

## **Opportunities**

This section highlights some ideas for changes that have been introduced or discussed in recent years. However, the Commission is not advocating for the implementation of these ideas one way or the other.

- **Align Expenditures with Revenues.** With the passage of the income tax increase in 2017, revenues have come much closer to matching expenditures on an annual basis. In the past, people have called for the closing of the budget deficit by only cutting costs. Prior to the income tax increase, these types of proposals were improbable due to the size of the budget gap and the political environment. Now that the income tax has closed much of the gap between revenues and spending, proposals primarily using spending cuts are much more feasible.
- **Maximize Illinois' Economic Advantages.** The previously mentioned report by Moody's Analytics also noted numerous economic assets that the State of Illinois possessed. These assets included a huge talent pool of highly skilled workers, world-class universities, access to customers and capital, and transportation hubs including an airport with direct connections around the globe. In fact, the report stated that

“Illinois’ business climate outshines its regional rivals, but the state’s shaky finances have some firms questioning whether they want to expand in the state or elsewhere. Illinois has what it needs to remain a top business center, as long as it can solve the fiscal problems that are eroding its edge in the competition for talent, jobs and capital.”<sup>2</sup>

Despite its many challenges, Illinois has the foundation for strong economic growth if the State were able to better maximize these economic advantages.

- **Reducing Rates for Timely and Prompt Payment Interest.** As discussed earlier in this report, the state is obligated to pay interest on past due bills. This interest is either 9% or 12% annually, depending on the associated bill type. If these interest

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<sup>2</sup> Moody's Analytics. (2018). *State of Illinois Economic Forecast*. Available at: <http://cgfa.ilga.gov/Upload/2018MoodyEconomyILForecast.pdf>

rates were reduced, the amount of interest penalties the state pays would decrease proportionately. As mentioned previously, as of January 31, 2018, state agencies reported \$554 million in estimated late-payment interest payments based on vouchers still held by the agencies.

If Illinois were to reduce the interest rate it paid for late payments to 7.5% instead of the 9% or 12% rate, it would save the State millions of dollars a year. For every \$1 billion in late bills, Illinois accrues between \$90 million and \$120 million per year depending upon the type of bill. If the late penalty rates were lowered to 7.5%, the total amount would equal \$75 million. This would equal a savings of \$15 million to \$45 million per year per \$1 billion in late penalty payments.

- **Expand Sales Tax Base.** In recent decades, the service sector has become a larger portion of the national economy, as well as the Illinois economy. Based on data from the Bureau of Economic Analysis, private services-providing industries accounted for just over 72% of Illinois’ contribution to the Gross Domestic Product (GDP) in 2015.

Currently, Illinois only taxes 17 different kinds of services. This affords the State an opportunity to modernize, broaden, and diversify its tax base. The Illinois sales tax was originally developed in the 1930’s when the economy was much more reliant on goods production. By taxing services, the tax system would modernize to more accurately reflect the economy of 2017.

Taxing more services could be used to bring in more revenue to the State. It could also be used to offset a portion of the sales tax on goods and allow for the overall tax rate to be lowered. The table below shows how Illinois compares to the surrounding states and how much revenue could be collected under a 5% service tax based on the services taxed in each of those states. For more information on this topic, please see the Commission’s 2017 service tax report update at <http://cgfa.ilga.gov/Upload/ServiceTaxes2017update.pdf>.

<b>Service Tax Estimates</b>							
Service Tax System	Number of Additional Services Taxed	Broad Based Estimate			Refined Estimate		
		Tax Revenue (\$ Millions)			Tax Revenue (\$ Millions)		
		FY'18	FY'19	FY'20	FY'18	FY'19	FY'20
Iowa	81	\$2,040.4	\$2,351.6	\$2,905.4	\$847.3	\$975.4	\$1,203.7
Indiana	8	\$378.5	\$435.8	\$538.0	\$197.7	\$227.8	\$281.4
Kentucky	6	\$221.5	\$254.1	\$312.4	\$127.2	\$145.6	\$178.6
Missouri	11	\$313.4	\$361.4	\$446.9	\$179.9	\$207.1	\$255.8
Wisconsin	14	\$672.9	\$773.3	\$952.7	\$416.1	\$477.7	\$588.0

Models assume a 5% tax rate, a 7/1/17 implementation date, and a 67%, 75%, and 90% compliance timeline.  
 Broad based estimate taxes all transactions, the refined estimate tries to only account for transactions to final users  
 Source: CGFA

- **Legalize Recreational Cannabis Use.** Another potentially new revenue source could be the legalization of recreational cannabis. As of January of 2018, nine states plus Washington D.C. have legalized the use of cannabis for recreational purposes. The State of Colorado and Washington were both pioneers in this industry and have both seen significant economic activity and tax revenue. In 2017, Colorado saw sales of over \$1.5 billion and collected more than \$247 million in taxes and fees. The Commission estimated that one proposal (SB 0314) to legalize cannabis use would potentially bring in between \$251 million and \$579 million per year. While the legalization of cannabis use does come with some risk, it does offer an opportunity for increased economic activity and tax revenue.

### **III. 3-Year Budget Forecasts**

On the next page is the Commission's 3-year estimate for General Funds revenues. Based on its February 2018 estimate, the Commission believes that FY 2018 general funds base revenue to be \$37.5 billion, a 27.5% increase from FY 2017. This amount is then increased to \$40.6 billion when \$600 billion in interfund borrowing and \$2.5 billion in transfers from the Income Tax Bond Fund is accounted for. The large increase is due to the higher income tax rates and the increase in Federal Sources connected with the use of bonds to pay down old bills. The Income Taxes and Sales Taxes continue to be the largest sources of revenue along with Federal Sources. The Commission's estimates reflect a view of moderate growth with potential upside as the economy has improved and is nearing full employment.

The Commission used these revenue estimates to present budget scenarios using various spending levels as spending will change based upon priorities that will be determined during budget negotiations. Six budget scenarios were analyzed using different spending growth rates. These growth rates were applied to the FY 2018 spending base of \$37.373 billion as indicated in the Governor's proposed FY 2019 budget. A backlog of bills totaling \$9.338 billion was assumed at the end of FY 2018. No debt restructuring was assumed in any of these scenarios.

The first growth rate scenario reflects annual declines in spending of -2.7% which is the rate at which the backlog of bills would equal \$0 at the end of the three years. The second rate was 0.0% growth or flat spending. This was done to demonstrate what would happen if spending was held constant over the next three years. Scenarios three, four, and five use the 5-year, 10-year, and 15-year averages for expenditure growth of 0.6%, 2.1%, and 2.3%. The final scenario uses the 20-year average growth rate of 3.3%.

**CGFA ESTIMATES FY 2018-FY 2021 (Base Revenues)**

(millions)

<b>Revenue Sources</b>	<b>FY 2017 Actual</b>	<b>CGFA FY 2018 Estimate Mar-18</b>	<b>CGFA FY 2019 Estimate Mar-18</b>	<b>CGFA FY 2020 Estimate Mar-18</b>	<b>CGFA FY 2021 Estimate Mar-18</b>
<b>State Taxes</b>					
Personal Income Tax	\$15,385	\$20,566	\$21,071	\$22,132	\$22,629
Corporate Income Tax	\$1,610	\$2,558	\$2,618	\$2,844	\$2,943
Sales Taxes	\$8,043	\$8,304	\$8,491	\$8,703	\$8,921
Public Utility (regular)	\$884	\$903	\$878	\$873	\$858
Cigarette Tax	\$353	\$353	\$353	\$348	\$343
Liquor Gallonage Taxes	\$171	\$172	\$174	\$176	\$178
Vehicle Use Tax	\$30	\$28	\$29	\$30	\$30
Estate Tax (gross)	\$261	\$295	\$290	\$290	\$290
Insurance Taxes & Fees	\$391	\$400	\$405	\$407	\$410
Corporate Franchise Tax & Fees	\$207	\$203	\$205	\$206	\$207
Interest on State Funds & Investments	\$36	\$70	\$100	\$118	\$137
Cook County Intergovernmental Transfer	\$244	\$244	\$244	\$244	\$244
<u>Other Sources</u>	<u>\$685</u>	<u>\$708</u>	<u>\$975</u>	<u>\$682</u>	<u>\$685</u>
<b>Subtotal</b>	<b>\$28,300</b>	<b>\$34,804</b>	<b>\$35,833</b>	<b>\$37,053</b>	<b>\$37,875</b>
<b>Transfers</b>					
Lottery	\$720	\$719	\$733	\$748	\$763
Riverboat transfers and receipts	\$280	\$268	\$266	\$266	\$265
Proceeds from sale of 10th license	\$10	\$10	\$10	\$10	\$10
Fund Sweeps/Reallocations	\$0	\$275	\$0	\$0	\$0
<u>Other</u>	<u>\$542</u>	<u>\$720</u>	<u>\$751</u>	<u>\$713</u>	<u>\$715</u>
<b>Total State Sources</b>	<b>\$29,852</b>	<b>\$36,796</b>	<b>\$37,593</b>	<b>\$38,790</b>	<b>\$39,628</b>
<b>Federal Sources</b>	<b>\$2,483</b>	<b>\$4,762</b>	<b>\$3,754</b>	<b>\$3,867</b>	<b>\$3,983</b>
<b>Total Federal &amp; State Sources</b>	<b>\$32,335</b>	<b>\$41,558</b>	<b>\$41,347</b>	<b>\$42,657</b>	<b>\$43,611</b>
<b>Nongeneral Funds Distribution:</b>					
<b>Refund Fund*</b>					
Personal Income Tax	(\$1,724)	(\$2,015)	(\$2,044)	(\$2,147)	(\$2,195)
Corporate Income Tax	(\$278)	(\$448)	(\$406)	(\$441)	(\$456)
<b>Local Government Distributive Fund</b>					
Personal Income Tax	\$0	(\$1,012)	(\$1,038)	(\$1,090)	(\$1,115)
Corporate Income Tax	\$0	(\$130)	(\$137)	(\$148)	(\$153)
<b>Sales Tax Distribution to the PTF and DPTF</b>	\$0	(\$449)	(\$457)	(\$468)	(\$480)
<b>Fund for Advancement of Education</b>	(\$464)	\$0	\$0	\$0	\$0
<b>Commitment to Human Services Fund</b>	(\$464)	\$0	\$0	\$0	\$0
<b>Total, Base Revenues</b>	<b>\$29,405</b>	<b>\$37,504</b>	<b>\$37,265</b>	<b>\$38,363</b>	<b>\$39,212</b>
<b>Change from Prior Year Estimate</b>	<b>(\$968)</b>	<b>\$8,099</b>	<b>(\$239)</b>	<b>\$1,098</b>	<b>\$849</b>
<b>Percent Change</b>	<b>-3.2%</b>	<b>27.5%</b>	<b>-0.6%</b>	<b>2.9%</b>	<b>2.2%</b>
Interfund Borrowing	\$0	\$600	\$600	\$0	\$0
Income Tax Bond Fund Transfer [Backlog]	\$0	\$2,500	\$0	\$0	\$0
<b>Total General Funds Revenue</b>	<b>\$29,405</b>	<b>\$40,604</b>	<b>\$37,865</b>	<b>\$38,363</b>	<b>\$39,212</b>

The FY 2018 estimates were based on refund percentages of 9.8% for PIT and 17.5% for CIT.  
The FY 2019-21 estimates were based on refund percentages of 9.7% for PIT and 15.5% for CIT.  
Totals exclude short-term borrowing, Budget Stabilization transfers, and other cash flow transfers.  
Source: CGFA

## **Scenario Analysis Results**

Results of the various budget scenarios can be found in the table on page 14. The table contains revenues, spending, operating surplus/deficit, and cumulative backlog of bills for each scenario. The scenarios assume FY 2018 revenue of \$40.6 billion, a spending base of \$37.4 billion for FY 2018 and a backlog of \$9.3 billion at the end of the fiscal year.

### **Scenario 1. -2.7% Annual Decline in Spending**

The first scenario analyzed (annual expenditure declines of -2.7%) shows the spending decreases that would be necessary to get the backlog of bills at the end of the fiscal year to zero by the end of FY 2021. This scenario saw surpluses in each of the three years forecasted. Revenues would rise to \$39.2 billion in FY 2021, while spending would decline to \$34.4 billion. The surplus would equal \$4.8 billion in FY 2021.

This scenario is primarily for presentation purposes only as there will always be some outstanding bills in the “pipeline”, and therefore, the backlog of bills could never truly reach \$0. This scenario shows what kind of spending reductions would be necessary to get the backlog of bills down to a more manageable level within three years only using spending cuts. With the passage of the income tax increase last year, this scenario has become much more realistic. In last year’s 3-Year Budget Forecast, this scenario needed annual declines of -14% to pay down the backlog of bills within three years.

### **Scenario 2. Flat Spending**

Scenario 2 shows what would happen if expenditures were frozen at FY 2018 levels. This scenario kept spending at \$37.4 billion for all three years. This scenario had surpluses in each of the three years forecast. The surplus in FY 2021 would equal \$1.8 billion and the backlog of bills would be reduced to \$6.0 billion.

### **Scenario 3. 0.6% Annual Growth in Spending (5-Year Average Growth)**

The third scenario examined what spending and the backlog of bills would grow to assuming growth rates similar to the 5-year average which was 0.6% annual growth. Under this spending growth, a small surplus (\$268 million) is seen in FY 2019 but grows to \$1.2 billion by FY 2021. The backlog of bills is reduced to \$7.4 billion under this scenario.



#### **Scenario 4. 2.1% Annual Growth in Spending (10-Year Average Growth)**

Scenario 4 assumed spending increases similar to the 10-year average of 2.1%. At this rate of growth, spending is higher than revenues in all three years. In FY 2019, a deficit of \$293 million grows to almost \$600 million in FY 2020 and FY 2021. The backlog of bills grows to just under \$10.8 billion.

#### **Scenario 5. 2.3% Annual Growth in Spending (15-Year Average Growth)**

This scenario used the 15-year average of 2.3% annual growth in spending. Spending grows approximately \$900 million per year. Unfortunately, this is faster growth than is expected in revenues. Similar to Scenario 4, deficits are predicted in each of the three years forecasted. In FY 2019, a deficit of \$368 is projected. This deficit grows to \$749 million in FY 2020 and \$800 million in FY 2021. At the end of this timeframe, the backlog of bills would have grown to \$11.3 billion.

#### **Scenario 6. 3.3% Annual Growth in Spending (20-Year Average Growth)**

The final scenario uses the 20-year spending average of 3.3%. This is the highest growth rate analyzed and led to the worst results. The State would see three years of deficits that would increase the backlog of bills each year. Deficits would grow from \$741 million in FY 2019 to almost \$2.0 billion in FY 2021. The backlog of bills would grow to almost \$13.6 billion in this scenario.

### **Conclusion**

While the backlog of bills is likely to continue into the future, the results of this analysis are improved over previous years. With the increase in the income tax rate and an improved economy, the revenues of the State appear to be becoming more aligned with the current level of spending. No scenario analyzed resulted in completely paying down the backlog of bills except the first scenario but there were scenarios where the State was seeing surpluses over the three years which reduced the backlog. This is an improvement to prior years where the State was expected to see deficits even when spending was frozen.

The first law of holes is an old adage that says “if you find yourself in a hole, stop digging.” While the problems with the backlog of bills will persist, the State is much closer to stopping digging than it was in previous years.

### 3-YEAR BUDGET SCENARIOS

(\$ million)

#### Scenario 1: -2.7% Annual Decline in Spending

	Revenues	Spending	General Funds Surplus/Deficit	End of Fiscal Year Backlog of Bills
FY 2018	\$40,604	\$37,373	\$3,231	(\$9,338)
FY 2019	\$37,865	\$36,352	\$1,513	(\$7,825)
FY 2020	\$38,363	\$35,358	\$3,005	(\$4,820)
FY 2021	\$39,212	\$34,392	\$4,820	(\$0)

#### Scenario 2: Flat Spending (0% growth)

	Revenues	Spending	General Funds Surplus/Deficit	End of Fiscal Year Backlog of Bills
FY 2018	\$40,604	\$37,373	\$3,231	(\$9,338)
FY 2019	\$37,865	\$37,373	\$492	(\$8,846)
FY 2020	\$38,363	\$37,373	\$990	(\$7,856)
FY 2021	\$39,212	\$37,373	\$1,839	(\$6,017)

#### Scenario 3: 5-Year Average Growth in Spending (0.6%)

	Revenues	Spending	General Funds Surplus/Deficit	End of Fiscal Year Backlog of Bills
FY 2018	\$40,604	\$37,373	\$3,231	(\$9,338)
FY 2019	\$37,865	\$37,597	\$268	(\$9,070)
FY 2020	\$38,363	\$37,823	\$540	(\$8,530)
FY 2021	\$39,212	\$38,050	\$1,162	(\$7,368)

#### Scenario 4: 10-Year Average Growth in Spending (2.1%)

	Revenues	Spending	General Funds Surplus/Deficit	End of Fiscal Year Backlog of Bills
FY 2018	\$40,604	\$37,373	\$3,231	(\$9,338)
FY 2019	\$37,865	\$38,158	(\$293)	(\$9,631)
FY 2020	\$38,363	\$38,959	(\$596)	(\$10,227)
FY 2021	\$39,212	\$39,777	(\$565)	(\$10,792)

#### Scenario 5: 15-Year Average Growth in Spending (2.3%)

	Revenues	Spending	General Funds Surplus/Deficit	End of Fiscal Year Backlog of Bills
FY 2018	\$40,604	\$37,373	\$3,231	(\$9,338)
FY 2019	\$37,865	\$38,233	(\$368)	(\$9,706)
FY 2020	\$38,363	\$39,112	(\$749)	(\$10,455)
FY 2021	\$39,212	\$40,012	(\$800)	(\$11,254)

#### Scenario 6: 20-Year Average Growth in Spending (3.3%)

	Revenues	Spending	General Funds Surplus/Deficit	End of Fiscal Year Backlog of Bills
FY 2018	\$40,604	\$37,373	\$3,231	(\$9,338)
FY 2019	\$37,865	\$38,606	(\$741)	(\$10,079)
FY 2020	\$38,363	\$39,880	(\$1,517)	(\$11,597)
FY 2021	\$39,212	\$41,196	(\$1,984)	(\$13,581)

All scenarios use CGFA revenue estimates, the Governor's FY 2019 State Budget Proposal for the FY 2018 spending, and an estimated backlog of bills of \$9.388 billion at the end of FY 2018.

**APPENDIX A. DETAILED GENERAL FUNDS REVENUE HISTORY FY 2008 - FY 2017**

(\$ million)

<b>Revenue Sources</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
<b>State Taxes</b>										
Personal Income Tax	\$11,187	\$10,219	\$9,430	\$12,301	\$17,000	\$18,323	\$18,388	\$17,682	\$15,299	\$15,385
Corporate Income Tax (regular)	2,201	2,073	1,649	2,277	2,983	3,679	3,640	3,129	2,334	1,610
Sales Taxes	7,215	6,773	6,308	6,833	7,226	7,355	7,676	8,030	8,063	8,043
Public Utility Taxes (regular)	1,157	1,168	1,089	1,147	995	1,033	1,013	1,006	926	884
Cigarette Tax	350	350	355	355	354	353	353	353	353	353
Liquor Gallonage Taxes	158	158	159	157	164	165	165	167	170	171
Vehicle Use Tax	32	27	30	30	29	27	29	32	30	30
Estate Tax (Gross)	373	288	243	122	235	293	276	333	306	261
Insurance Taxes and Fees	298	334	322	317	345	334	333	353	398	391
Corporate Franchise Tax & Fees	225	201	208	207	192	205	203	211	207	207
Interest on State Funds & Investments	212	81	26	28	21	20	20	24	24	36
Cook County Intergovernmental Transfer	302	253	244	244	244	244	244	244	244	244
Other Sources	442	418	431	404	399	462	585	693	534	685
<b>Subtotal</b>	<b>\$24,152</b>	<b>\$22,343</b>	<b>\$20,494</b>	<b>\$24,422</b>	<b>\$30,187</b>	<b>\$32,493</b>	<b>\$32,925</b>	<b>\$32,257</b>	<b>\$28,888</b>	<b>\$28,300</b>
<b>Transfers</b>										
Lottery	657	625	625	632	640	656	668	679	677	720
Gaming Fund Transfer [and related]	564	430	431	324	413	360	331	302	287	280
Other	679	538	828	1,226	885	688	1,113	2,012	627	552
<b>Total State Sources</b>	<b>\$26,052</b>	<b>\$23,936</b>	<b>\$22,378</b>	<b>\$26,604</b>	<b>\$32,125</b>	<b>\$34,197</b>	<b>\$35,037</b>	<b>\$35,250</b>	<b>\$30,479</b>	<b>\$29,852</b>
<b>Federal Sources</b>	<b>\$4,815</b>	<b>\$6,567</b>	<b>\$5,920</b>	<b>\$5,386</b>	<b>\$3,682</b>	<b>\$4,154</b>	<b>\$3,903</b>	<b>\$3,330</b>	<b>\$2,665</b>	<b>\$2,483</b>
<b>Total Federal &amp; State Sources</b>	<b>\$30,867</b>	<b>\$30,503</b>	<b>\$28,298</b>	<b>\$31,990</b>	<b>\$35,807</b>	<b>\$38,351</b>	<b>\$38,940</b>	<b>\$38,580</b>	<b>\$33,144</b>	<b>\$32,335</b>
<b>Nongeneral Funds Distribution:</b>										
<b>Refund Fund</b>										
Personal Income Tax	(\$867)	(\$996)	(\$919)	(\$1,076)	(\$1,488)	(\$1,785)	(\$1,746)	(\$1,769)	(\$1,493)	(\$1,724)
Corporate Income Tax	(341)	(363)	(289)	(426)	(522)	(502)	(476)	(439)	(362)	(278)
Fund for Advancement of Education	0	0	0	0	0	0	0	(242)	(458)	(464)
Commitment to Human Services Fund	0	0	0	0	0	0	0	(242)	(458)	(464)
<b>Total, Base Revenues</b>	<b>\$29,659</b>	<b>\$29,144</b>	<b>\$27,090</b>	<b>\$30,488</b>	<b>\$33,797</b>	<b>\$36,064</b>	<b>\$36,718</b>	<b>\$35,888</b>	<b>\$30,373</b>	<b>\$29,405</b>
Change from Prior Year	\$1,019	(\$515)	(\$2,054)	\$3,398	\$3,309	\$2,267	\$654	(\$830)	(\$5,515)	(\$968)
Percent Change	3.6%	-1.7%	-7.0%	12.5%	10.9%	6.7%	1.8%	-2.3%	-15.4%	-3.2%
Short-Term Borrowing	\$2,400	\$2,400	\$1,250	\$1,300	\$0	\$0	\$0	\$454	\$0	\$0
Tobacco Liquidation Proceeds	0	0	0	1,250	0	0	0	0	0	0
HPF and HHSMTF Transfers	1,503	0	0	0	0	0	0	0	0	0
Budget Stabilization Fund Transfer	276	576	1,146	535	275	275	275	275	125	0
Pension Contribution Fund Transfer	0	0	843	224	0	0	0	0	0	0
FY'13-14 Backlog Payment Fund Transfer	0	0	0	0	0	264	50	0	0	0
<b>Total General Funds Revenue</b>	<b>\$33,838</b>	<b>\$32,120</b>	<b>\$30,329</b>	<b>\$33,797</b>	<b>\$34,072</b>	<b>\$36,603</b>	<b>\$37,043</b>	<b>\$36,617</b>	<b>\$30,498</b>	<b>\$29,405</b>
Change from Prior Year	\$3,566	(\$1,718)	(\$1,791)	\$3,468	\$275	\$2,531	\$440	(\$426)	(\$6,119)	(\$1,093)
Percent Change	11.8%	-5.1%	-5.6%	11.4%	0.8%	7.4%	1.2%	-1.2%	-16.7%	-3.6%

Source: ILLINOIS COMPTROLLER, CGFA

**APPENDIX B. GENERAL FUNDS EXPENDITURES HISTORY BY AGENCY FY 2008 - FY 2017**

(\$ million)

<b>WARRANTS ISSUED</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
<b>BY AGENCY</b>										
Healthcare and Family Services	\$8,089	\$9,556	\$7,239	\$7,309	\$8,158	\$6,726	\$7,292	\$6,525	\$6,090	\$5,972
State Board of Education	6,995	7,357	7,273	6,912	6,739	6,539	6,681	6,545	6,507	7,211
Human Services	4,086	4,144	3,997	3,894	3,415	3,448	3,217	3,363	3,153	3,283
Higher Education Agencies	2,195	2,398	2,230	2,146	2,844	3,234	3,303	3,291	2,039	3,359
Corrections	1,208	1,308	1,156	1,205	1,210	1,172	1,276	1,310	888	1,076
Children and Family Services	887	906	847	840	806	721	684	672	619	684
Aging	458	537	653	646	731	1,060	935	880	646	590
Teachers' Retirement System	1,110	1,527	914	256	2,494	2,790	3,529	3,479	3,851	4,096
All Other Agencies	2,143	2,055	2,009	2,261	2,900	4,624	4,622	4,709	2,969	3,153
Prior Year Adjustments	(14)	(14)	(17)	(22)	(88)	(21)	(60)	(11)	(12)	(3)
<b>Total Warrants Issued</b>	<b>\$27,157</b>	<b>\$29,774</b>	<b>\$26,301</b>	<b>\$25,447</b>	<b>\$29,209</b>	<b>\$30,293</b>	<b>\$31,479</b>	<b>\$30,763</b>	<b>\$26,750</b>	<b>\$29,421</b>
<b>Transfers</b>										
Transfers Out (14 months)	7,380	5,185	6,450	6,937	5,164	5,350	5,497	4,858	4,576	4,636
<b>Total Expenditures</b>	<b>\$34,537</b>	<b>\$34,959</b>	<b>\$32,751</b>	<b>\$32,384</b>	<b>\$34,373</b>	<b>\$35,643</b>	<b>\$36,976</b>	<b>\$35,621</b>	<b>\$31,326</b>	<b>\$34,057</b>
Change from Prior Year	\$4,421	\$422	(\$2,208)	(\$367)	\$1,989	\$1,270	\$1,333	(\$1,355)	(\$4,295)	\$2,731
Percent Change	14.7%	1.2%	-6.3%	-1.1%	6.1%	3.7%	3.7%	-3.7%	-12.1%	8.7%
<b>Repayment of Short-Term Borrowing</b>	<b>1,503</b>	<b>1,424</b>	<b>2,276</b>	<b>1,322</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Cash Flow Transfers</b>	<b>2,400</b>	<b>300</b>	<b>870</b>	<b>260</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Repayment of Interfund Borrowing</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>9</b>	<b>355</b>	<b>133</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>15</b>
<b>Budget Stabilization Fund Transfers</b>	<b>276</b>	<b>276</b>	<b>0</b>	<b>276</b>	<b>550</b>	<b>275</b>	<b>275</b>	<b>275</b>	<b>125</b>	<b>0</b>
<b>Total, Base Expenditures</b>	<b>\$30,358</b>	<b>\$32,959</b>	<b>\$29,605</b>	<b>\$30,517</b>	<b>\$33,468</b>	<b>\$35,235</b>	<b>\$36,701</b>	<b>\$35,346</b>	<b>\$31,201</b>	<b>\$34,042</b>
Change from Prior Year	\$1,885	\$2,601	(\$3,354)	\$912	\$2,951	\$1,767	\$1,466	(\$1,355)	(\$4,145)	\$2,841
Percent Change	6.6%	8.6%	-10.2%	3.1%	9.7%	5.3%	4.2%	-3.7%	-11.7%	9.1%

Source: ILLINOIS COMPTROLLER, CGFA

## BACKGROUND

The Commission on Government Forecasting and Accountability (CGFA), a bipartisan, 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. The Commission's specific responsibilities include:

- 1) Preparation of annual revenue estimates with periodic updates;
- 2) Analysis of the fiscal impact of revenue bills;
- 3) Preparation of "State Debt Impact Notes" on legislation which would appropriate bond funds or increase bond authorization;
- 4) Periodic assessment of capital facility plans;
- 5) Annual estimates of public pension funding requirements and preparation of pension impact notes;
- 6) Annual estimates of the liabilities of the State's group health insurance program and approval of contract renewals promulgated by the Department of Central Management Services;
- 7) Administration of the State Facility Closure Act.

The Commission also has a mandate to report to the General Assembly ". . . on economic trends in relation to long-range planning and budgeting; and to study and make such recommendations as it deems appropriate on local and regional economic and fiscal policies and on federal fiscal policy as it may affect Illinois. . . ." This results in several reports on various economic issues throughout the year.

The Commission publishes several reports each year. In addition to a Monthly Briefing, the Commission publishes the "Revenue Estimate and Economic Outlook" which describes and projects economic conditions and their impact on State revenues. The "Bonded Indebtedness Report" examines the State's debt position as well as other issues directly related to conditions in the financial markets. The "Financial Conditions of the Illinois Public Retirement Systems" provides an overview of the funding condition of the State's retirement systems. Also published are an Annual Fiscal Year Budget Summary; Report on the Liabilities of the State Employees' Group Insurance Program; and Report of the Cost and Savings of the State Employees' Early Retirement Incentive Program. The Commission also publishes each year special topic reports that have or could have an impact on the economic well-being of Illinois. All reports are available on the Commission's website.

These reports are available from:

Commission on Government Forecasting and Accountability  
703 Stratton Office Building  
Springfield, Illinois 62706  
(217) 782-5320  
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<http://cgfa.ilga.gov>