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## MONTHLY BRIEFING

*For the Month Ended: September 2023*

### Inside this Issue

**PAGE 1: Economy:  
Higher for Longer**

**PAGE 5: Illinois Economic  
Indicators**

**PAGE 6: Cannabis  
Quarterly – 1<sup>st</sup> Quarter FY  
2024**

**PAGE 7: Overview of  
Gaming Related Revenues  
in FY 2023**

**PAGE 12: Retirement of  
the Railsplitter Tobacco  
Settlement Authority Bonds**

**PAGE 14: General Funds  
Receipts Rise in September  
with the Aid of  
Reallocations and Transfers**

**PAGES 17 - 18: Revenue  
Tables**



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### **Economy: Higher for Longer**

Benjamin L. Varner, Chief Economist

At its September meeting, the Fed decided to leave short-term interest rates at their current levels. As part of this monetary policy meeting, the Fed updated its economic expectations for the coming years. This month's briefing will explore changes to Fed's expectations compared to their previous meeting. The policy makers forecast faster growth in the current year and into the next year. The outlook for employment rates improved as the expected increase in the unemployment rate in future years is not as severe as was predicted previously. However, with the improvements in the nation's economic prospects, policy makers believe that interest rates will have to remain high for a longer time period. Despite these improvements in the outlook, the economy still faces some potential shocks which could obstruct the economy's path to a more stable environment.

The Federal Open Market Committee (FOMC) meetings were held on September 19<sup>th</sup> and 20<sup>th</sup>. At that time, the Fed chose to keep short-term interest rates at the current range between 5.25% and 5.50%. This is the first meeting that interest rates were left unchanged in over a year. Prior to the September meeting, the Fed increased the federal funds target rate at eleven straight meetings dating back to March of 2022 when interest rates were close to 0%.

As part of the FOMC meeting, meeting participants updated their projections for economic metrics including real gross domestic product (GDP), the unemployment rate, inflation, and the future policy path for the federal funds target rate. The projections listed on the following page represent the median projection of the nineteen meeting participants. All metrics are compared from fourth quarter of the projected year to the previous year.

# Federal Reserve Economic Projections

Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, September 2023

Variable	Median Projection <sup>1</sup>				
	2023	2024	2025	2026	Longer Run
Change in real GDP	2.1%	1.5%	1.8%	1.8%	1.8%
June Projection	1.0%	1.1%	1.8%		1.8%
Unemployment Rate	3.8%	4.1%	4.1%	4.0%	4.0%
June Projection	4.1%	4.5%	4.5%		4.0%
PCE inflation	3.3%	2.5%	2.2%	2.0%	2.0%
June Projection	3.2%	2.5%	2.1%		2.0%
Core PCE inflation	3.7%	2.6%	2.3%	2.0%	
June Projection	3.9%	2.6%	2.2%		
Projected appropriate policy path					
Federal funds rate	5.6%	5.1%	3.9%	2.9%	2.5%
June Projection	5.6%	4.6%	3.4%		2.5%

Note: Projections of change in real gross domestic product (GDP) and projections for both measures of inflation are percent changes from the fourth quarter of the previous year to the fourth quarter of the year indicated. PCE inflation and core PCE inflation are the percentage rates of change in, respectively, the price index for personal consumption expenditures (PCE) and the price index for PCE excluding food and energy. Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated. Each participant's projections are based on his or her assessment of appropriate monetary policy. Longer-run projections represent each participant's assessment of the rate to which each variable would be expected to converge under appropriate monetary policy and in the absence of further shocks to the economy. The projections for the federal funds rate are the value of the midpoint of the projected appropriate target range for the federal funds rate or the projected appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run. The June projections were made in conjunction with the meeting of the Federal Open Market Committee on June 13–14, 2023

1. For each period, the median is the middle projection when the projections are arranged from lowest to highest. When the number of projections is even, the median is the average of the two middle projections.

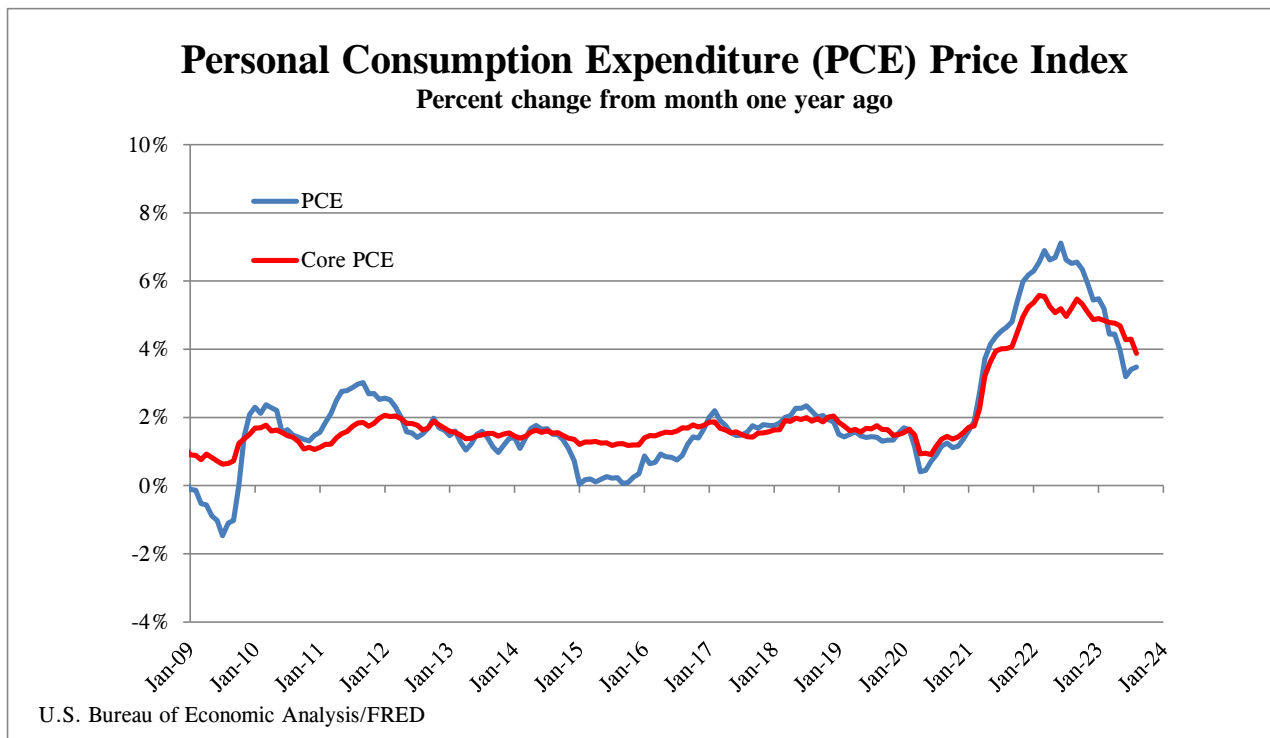
Source: Board of Governors of the Federal Reserve System

As noted in the press conference following the meeting, “growth in real GDP has come in above expectations.” The U.S. economy experienced a growth rate of a little over 2% in the first half of the year but the third quarter is expected to see an acceleration. The current estimate for real GDP growth for the 3<sup>rd</sup> quarter from the Atlanta Fed’s GDPNow model stands at 4.9%, while a consensus of economic forecasters (Blue Chip Financial Forecasts) is just below 3% for the quarter. The FOMC meeting participant’s median estimate for real GDP growth for 2023 (fourth quarter over fourth quarter) rose from 1.0% at the June meeting to 2.1% in September. Similarly, their estimate for 2024 increased from 1.1% to 1.5%. This would be below the expected longer run growth rate of 1.8% which the economy is forecast to return to in 2025 and beyond.

Predictions related to the unemployment rate also improved. During the June meeting, forecasters expected the end of 2023 unemployment rate to be at 4.1%. Now it is expected to be at 3.8%, which coincides with the rate measured in August. Previously, expectations were for the unemployment rate to rise to 4.5% in 2024 and remain there through 2025. Meeting participants now anticipate the rate increasing to just 4.1% in 2024 and 2025. This improvement corresponds with the assumptions made related to GDP. While the economy is still expected to decelerate, the slow-down is not assumed to be as severe as previously forecast.

The Fed has increased short-term interest rates over the last year to slow the economy and lower inflation. As can be seen in the chart below, inflation, as measured by the Personal Consumption Expenditure (PCE) Price Index, has been trending down since the middle part of 2022. In August, the PCE was at 3.5% and the Core PCE, which excludes the more volatile items of food and energy, was at 3.9% when compared to the same month the year prior. While these inflation levels remain well above the Fed's 2% target, looking at annualized monthly data in recent months, it is much closer. Annualized monthly data over the past three months for PCE averaged 3.2%, while Core PCE was just 2.2%.

The economic forecasters at the Fed meeting predicted that PCE inflation will end the year at 3.3%, while Core PCE will be near 3.7%. This was a small increase (0.1%) in the PCE since the last meeting, likely due to a rise in energy prices. The Core PCE estimate decreased by 0.2% from 3.9% to 3.7%. The Fed anticipates that inflation will continue to fall in 2024 being around 2.5% by the end of the year. Inflation is expected to remain a little above 2.0% in 2025, before settling back at 2.0% in 2026.



While these projection changes indicate a continued robustness in the economy, it may lead the Fed to raise rates higher and keep them there longer. Currently, the federal funds target rate is set to a range between 5.25% to 5.5%. The effective federal funds rate currently stands near 5.3% which is the highest levels since 2001. The median expectation for the appropriate interest rate policy path was for this rate to be at 5.6% by the end of the year. This would indicate an additional 0.25% increase in rates at one of the two remaining Fed meetings to occur this year. Twelve of the nineteen forecasters had an additional rate increase in their projections, while the remaining seven had the rates remaining at the current level. This is the same as what was projected in June.

However, the predictions for the appropriate policy path in 2024 and 2025 have increased. In June, the median prediction had the federal funds rate at the end of 2024 at 4.6% and 3.4% in 2025. After September's meeting, these estimates rose to 5.1% in 2024 and 3.9% in 2025. This may indicate that the Fed is not expecting to start to cut interest rates until the second half of 2024 which is later than many had previously thought. Andrew Patterson, an economist for Vanguard, wrote that "the Fed is increasingly confident that they can pull off a soft landing and that the economy can withstand higher rates for longer."

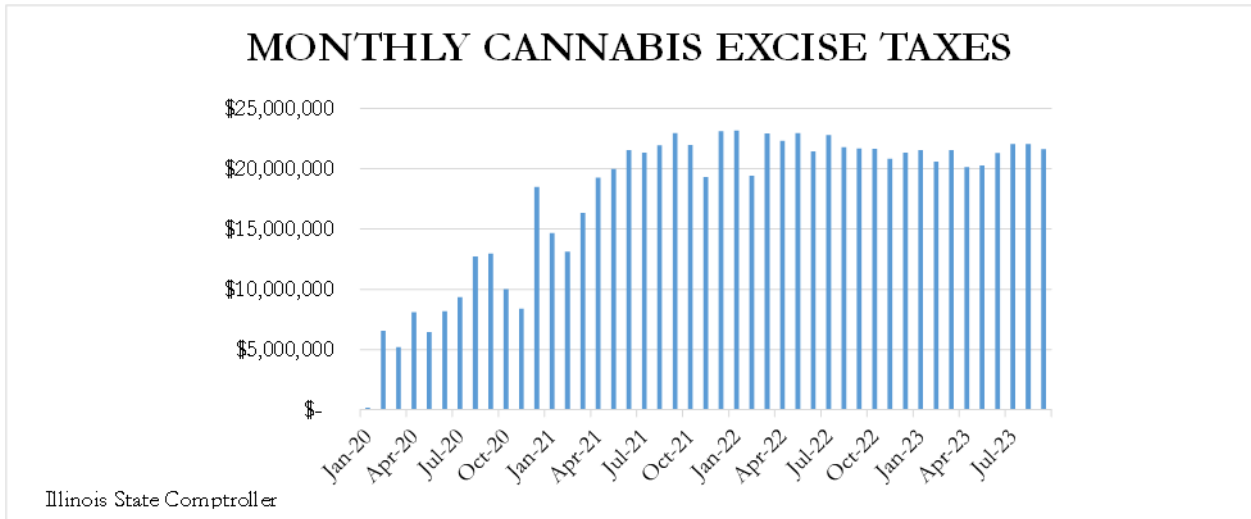
While the economy appears to have improved over the summer, there remains some potential economic headwinds moving forward. The Fed's monetary policy has increased mortgage rates to levels not seen since the early 2000's which will continue to slow the housing market. Oil and gas prices have risen in recent months adding additional inflationary pressure which could lead to more interest rate hikes. Consumer spending has remained stout but households could be squeezed with the restart of student loan repayments beginning in October. Labor strife could also affect the economy. The number of workers on strike (auto workers, writers, actors) has risen to levels not seen since 2018. In addition to all of these potential economic pitfalls, the threat of a U.S. government shutdown could affect a large number of employees and businesses if a funding plan is not approved beyond the recent short-term fix.

Despite the potential headwinds the economy currently faces, it does appear that the economy is still on course to return to a lower inflation environment. The economy is projected to keep growing with low levels of unemployment, while inflation is expected to continue to decrease. The Fed has indicated that keeping interest rates at a fairly high level in the coming months is the appropriate monetary policy. While these projections paint a fairly pleasing picture, they are only projections. The Fed will remain vigilant and course correct as needed depending on the economic data they receive.

## INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

<u>INDICATORS*</u>	<u>LATEST MONTH</u>	<u>PRIOR MONTH</u>	<u>A YEAR AGO</u>
Unemployment Rate (Average) (Aug.)	4.1%	4.0%	4.5%
Inflation in Chicago (12-month percent change) (Aug.)	2.3%	2.2%	8.3%
	<u>LATEST MONTH</u>	<u>CHANGE OVER PRIOR MONTH</u>	<u>CHANGE OVER A YEAR AGO</u>
Civilian Labor Force (thousands) (Aug.)	6,445.2	0.0%	-0.2%
Employment (thousands) (Aug.)	6,179.0	-0.2%	0.2%
Nonfarm Payroll Employment (Aug.)	6,145,600	-100	75,600
New Car & Truck Registration (Aug.)	36,951	2.1%	20.9%
Single Family Housing Permits (Aug.)	830	3.4%	-0.2%
Total Exports (\$ mil) (July)	6,362.3	-5.1%	1.1%
Chicago Purchasing Managers Index (Sep.)	44.1	-9.4%	-3.5%
* Due to monthly fluctuations, trend best shown by % change from a year ago			

## Cannabis Quarterly – 1<sup>st</sup> Quarter FY 2024



<b>CANNABIS REGULATION FUND REVENUE</b>									
(\$ millions)									
Revenue Source	FY23 Q1	FY24 Q1	\$ Change	% Change	FY23 YTD	FY24 YTD	\$ Change	% Change	
State Cannabis Excise Taxes	\$66.3	\$65.7	(\$0.5)	-0.8%	\$66.3	\$65.7	(\$0.5)	-0.8%	
Licenses and Registration Fees	\$1.4	\$2.7	\$1.3	93.0%	\$1.4	\$2.7	\$1.3	93.0%	
Other Revenue	\$0.0	\$0.0	(\$0.0)	-99.0%	\$0.0	\$0.0	(\$0.0)	-99.0%	
<b>Total</b>	<b>\$67.7</b>	<b>\$68.4</b>	<b>\$0.8</b>	<b>1.1%</b>	<b>\$67.7</b>	<b>\$68.4</b>	<b>\$0.8</b>	<b>1.1%</b>	

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<b>CANNABIS REGULATION FUND EXPENDITURES</b>									
(\$ millions)									
Object of Expenditure	FY23 Q1	FY24 Q1	\$ Change	% Change	FY23 YTD	FY24 YTD	\$ Change	% Change	
Transfer - General Revenue Fund	\$22.7	\$21.4	(\$1.4)	-6.1%	\$22.7	\$21.4	(\$1.4)	-6.1%	
Transfer - Professional Services	\$0.0	\$0.0	\$0.0	65.9%	\$0.0	\$0.0	\$0.0	n/a	
Transfer - Workers' Compensation Revolving	\$0.0	\$0.0	\$0.0	150.9%	\$0.0	\$0.0	\$0.0	n/a	
Transfer - Criminal Justice Info Projects	\$16.2	\$15.3	(\$1.0)	-6.1%	\$16.2	\$15.3	(\$1.0)	-6.1%	
Transfer - Drug Treatment	\$1.3	\$1.2	(\$0.1)	-6.1%	\$1.3	\$1.2	(\$0.1)	-6.1%	
Transfer - DHS Community Services	\$13.0	\$12.2	(\$0.8)	-6.1%	\$13.0	\$12.2	(\$0.8)	-6.1%	
Transfer - Local Government Distributive Fund	\$5.2	\$4.9	(\$0.3)	-6.1%	\$5.2	\$4.9	(\$0.3)	-6.1%	
Transfer - Budget Stabilization	\$6.5	\$6.1	(\$0.4)	-6.1%	\$6.5	\$6.1	(\$0.4)	-6.1%	
Transfer - Cannabis Expungement	\$0.7	\$0.7	\$0.0	0.0%	\$0.7	\$0.7	\$0.0	0.0%	
<b>Transfer Total</b>	<b>\$65.7</b>	<b>\$61.8</b>	<b>(\$3.9)</b>	<b>-6.0%</b>	<b>\$65.7</b>	<b>\$61.8</b>	<b>(\$3.9)</b>	<b>-6.0%</b>	
Operations - Agriculture	\$0.8	\$0.7	(\$0.1)	-17.3%	\$0.8	\$0.7	(\$0.1)	-17.3%	
Operations - Commerce and Econ. Opportunity	\$0.0	\$0.1	\$0.1	221.0%	\$0.0	\$0.1	\$0.1	221.0%	
Operations - Financial Professional Regulation	\$0.9	\$1.1	\$0.2	25.3%	\$0.9	\$1.1	\$0.2	25.3%	
Operations - Public Health	\$0.0	\$0.0	\$0.0	n/a	\$0.0	\$0.0	\$0.0	0.0%	
Operations - Revenue	\$1.5	\$0.0	(\$1.5)	n/a	\$1.5	\$0.0	(\$1.5)	-100.0%	
Operations - State Police	\$0.4	\$0.3	(\$0.0)	-10.0%	\$0.4	\$0.3	(\$0.0)	-10.0%	
Operations - Criminal Justice Information Authority	\$0.0	\$0.0	\$0.0	n/a	\$0.0	\$0.0	\$0.0	n/a	
<b>Operations Total</b>	<b>\$3.6</b>	<b>\$2.2</b>	<b>(\$1.4)</b>	<b>-38.3%</b>	<b>\$3.6</b>	<b>\$2.2</b>	<b>(\$1.4)</b>	<b>-38.3%</b>	
<b>Grand Total</b>	<b>\$69.3</b>	<b>\$64.0</b>	<b>(\$5.3)</b>	<b>-7.7%</b>	<b>\$69.3</b>	<b>\$64.0</b>	<b>(\$5.3)</b>	<b>-7.7%</b>	

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## Overview of Gaming Related Revenues in FY 2023

Robin Thompson, Revenue Analyst

Gaming in Illinois is in the middle of a changing landscape as many of the components of the gaming expansion package that was enacted in 2019 (P.A. 101-0031) are starting to take full effect. This includes the implementation of sports wagering in Illinois, an expansion of Illinois' video gaming industry, and the development of new casinos across the state. While some of the major components of this expansion are still yet to materialize, such as the opening of the 4,000 position Chicago Casino, the activity that has taken place was the impetus behind notable revenue increases in FY 2023 related to these gaming sources.

For example, the adjusted gross receipts (AGR) of Illinois' casinos grew 9.3% in FY 2023. Much of the reason for this is due to the operation of two new casinos in FY 2023 (Danville and Waukegan). In addition, Rockford completed its first full year of operations and Des Plaines was able to take advantage of its increase in gaming positions (from 1,200 to 2,000) to help the adjusted gross receipts total in Illinois reach \$1.430 billion. The Net Terminal Income (NTI) from the almost 46,000 video gaming terminals across Illinois boosted its FY 2023 revenue totals from \$2.632 billion to \$2.821 billion, an increase of 7.2%. This growth is in large part due to the 2019 change raising the maximum number of terminals eligible for placement in a single location, raising the maximum wager per hand, and allowing video gaming terminals at the Illinois State Fair. Sports Wagering, now in its fourth fiscal year of operations, grew 55.4% in FY 2023, increasing its AGR totals from \$610 million to \$949 million.

The details behind the recent growth of these industries are laid out in the Commission's 2023 update to its annual Wagering Report, which was released at the end of September and can be found at the Commission's website at <https://cgfa.ilga.gov/>. This report not only provides pertinent information related to Illinois' Casino, Video Gaming, and Sports Wagering industries, but also contains a summary of other forms of wagering in Illinois, including the Lottery, horse racing, and other miscellaneous gaming formats. The following section provides some highlights of the 2023 Wagering Report, focusing on the revenue sources that have benefitted the most from the recent gaming expansion.

### Casinos

The overall AGR of Illinois casinos increased by 9.3% in FY 2023 – indicating a substantial level of growth from the previous year. Although, it should be noted that some of the elevated AGR numbers in FY 2023 can be attributed to both the opening of the Waukegan and Danville casinos as well as the temporary Rockford casino operating for the entire fiscal year. The highest generator of adjusted gross receipts in Illinois continues to be Des Plaines' Rivers Casino, with an FY 2023 AGR total of \$557.6 million. However, the FY 2023 AGR total of \$1.430 billion remains well below historical levels. In fact, as shown in the following table, Illinois casino AGR is down 10.4% from the total reached 10 years ago, in large part, because of the increased competition from video gaming (discussed further on page 10).

Many Illinois casinos are in the process of transitioning from temporary locations to permanent facilities. At the time of this publication Rockford, Waukegan, the City of Chicago, and the South Suburbs are in the process of building a permanent casino. Once these casinos are built, the expanded gaming positions should provide a notable bump in casino AGR figures. Additionally, a permanent casino in Williamson County and a temporary casino in the City of Chicago will provide additional revenues beginning in FY 2024.

<b>ADJUSTED GROSS RECEIPTS OF ILLINOIS CASINOS</b>										
<i>\$ IN MILLIONS</i>	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	1-Yr.	10-Yr.	June '23	AGR/
	AGR	AGR	AGR	AGR	AGR	AGR	Change	Change	Positions	Pos/Day
ALTON ARGOSY - Alton	\$47.4	\$40.0	\$30.1	\$23.9	\$32.6	\$33.0	1.2%	-51.8%	519	\$174
HOLLYWOOD - Aurora	\$117.6	\$115.1	\$77.7	\$71.5	\$102.7	\$99.1	-3.5%	-33.6%	928	\$293
GOLDEN NUGGET - Danville	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$2.4	N/A	N/A	504	\$13
RIVERS CASINO - Des Plaines	\$438.5	\$440.1	\$321.2	\$340.2	\$503.1	\$557.6	10.8%	36.0%	1,999	\$764
PAR-A-DICE - E. Peoria	\$77.7	\$74.5	\$48.7	\$48.3	\$61.5	\$63.1	2.6%	-43.7%	603	\$287
CASINO QUEEN - E. St. Louis	\$99.1	\$94.3	\$67.2	\$54.9	\$78.7	\$80.3	2.0%	-37.6%	1,021	\$215
GRAND VICTORIA - Elgin	\$162.9	\$157.2	\$107.6	\$107.1	\$155.1	\$153.4	-1.1%	-23.9%	924	\$455
HARRAH'S - Joliet	\$179.1	\$175.2	\$116.3	\$107.2	\$141.7	\$133.7	-5.6%	-35.2%	822	\$446
HOLLYWOOD - Joliet	\$120.7	\$115.2	\$79.1	\$64.3	\$88.0	\$90.4	2.8%	-35.9%	929	\$267
HARRAH'S - Metropolis	\$73.6	\$68.7	\$50.8	\$48.5	\$60.9	\$65.1	6.8%	-29.1%	649	\$275
BALLY'S - Rock Island	\$70.0	\$66.7	\$43.9	\$31.5	\$49.2	\$58.4	18.9%	-31.6%	788	\$203
HARD ROCK - Rockford	\$0.0	\$0.0	\$0.0	\$0.0	\$34.0	\$62.8	84.8%	N/A	560	\$307
AMERICAN PLACE - Waukegan	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$30.1	N/A	N/A	1,117	\$74
<b>TOTALS</b>	<b>\$1,386.7</b>	<b>\$1,347.1</b>	<b>\$942.7</b>	<b>\$897.3</b>	<b>\$1,307.5</b>	<b>\$1,429.5</b>	<b>9.3%</b>	<b>-10.4%</b>	<b>11,363</b>	<b>\$345</b>
CHICAGO REGION TOTALS	\$1,018.8	\$1,002.8	\$701.9	\$690.3	\$990.6	\$1,064.3	7.4%	-4.0%	6,719	\$434
ST. LOUIS REGION TOTALS	\$146.6	\$134.4	\$97.3	\$78.8	\$111.4	\$113.3	1.7%	-42.6%	1,540	\$202

Source: Illinois Gaming Board

### Video Gaming

In FY 2023, video gaming revenues grew moderately from the historic high recorded during the previous year. Net terminal income levels were documented as rising a total of 7.2% from \$2.632 billion to \$2.821 billion. This resulted in tax revenues of \$959 million from the flat 34% tax rate, of which \$818 million went to the Capital Projects Fund and \$141 million went to local governments. A summary of Illinois' video statistics over the last ten fiscal years is provided in the table on the following page.

There are several factors likely driving this growth: the legislative changes resulting from P.A. 101-0031 (as mentioned earlier in this section), continued expansion into municipalities that had previously banned video gaming, and economic conditions favorably impacting bettors.



## Illinois Video Gaming Statistics by Fiscal Year

Fiscal Year	Terminals in Operation at end of FY	Net Terminal Income (\$ in mil)	NTI per Terminal per Day	Tax Revenue* (\$ in mil)	State Share of Total* (\$ in mil)	Local Share of Total* (\$ in mil)
FY 2014	17,467	\$485.4	\$76.14	\$145.6	\$121.4	\$24.3
FY 2015	20,730	\$804.8	\$106.36	\$241.4	\$201.2	\$40.2
FY 2016	23,891	\$1,020.8	\$117.06	\$306.2	\$255.2	\$51.0
FY 2017	26,873	\$1,202.0	\$122.55	\$360.6	\$300.5	\$60.1
FY 2018	29,283	\$1,406.5	\$131.59	\$421.9	\$351.6	\$70.3
FY 2019	32,033	\$1,592.5	\$136.21	\$477.8	\$398.1	\$79.6
FY 2020**	36,145	\$1,222.6	\$130.60	\$403.5	\$342.3	\$61.1
FY 2021**	40,157	\$1,934.0	\$156.88	\$657.6	\$560.9	\$96.7
FY 2022	43,128	\$2,632.4	\$167.23	\$895.0	\$763.4	\$131.6
FY 2023	45,987	\$2,821.1	\$168.07	\$959.2	\$818.1	\$141.1

\* Prior to July 1, 2019, tax imposed on video gaming net terminal income was at 30% in which 5/6 of the tax revenues went to the Capital Projects Fund and the remaining 1/6 went to local governments. Beginning on July 1, 2019, an additional tax of 3% began, bringing the tax to 33%. On July 1, 2020, the tax increased to 34%. Revenues from the additional tax are to be deposited into the Capital Projects Fund.

\*\*Due to COVID-19, play was suspended between March 16th and June 30th of 2020 and then again from November 19th thru January 15, 2021. After January 15, 2021, play was allowed to resume in a region once its region met certain COVID-19 guidelines.

### Sports Wagering

The following table provides an overview of Illinois' sports wagering statistics in its first four years of operation. As shown, over 673 million wagers have been made during this time. More than \$24.0 billion in bets have been handled with almost \$22.1 billion in payouts. This results in nearly \$2 billion in adjusted gross receipts from sports wagering, thereby generating approximately \$291 million in tax revenues from the flat 15% tax rate.

The 55.4% AGR increase between FY 2022 and FY 2023, is a result of several factors – the most significant being the substantial advertising effort to drive further sports betting activity. A more detailed look at the components of the rise in sports wagering figures are provided in the Commission's *Wagering in Illinois 2023 Update*.

## ILLINOIS SPORTS WAGERING STATISTICS BY FISCAL YEAR

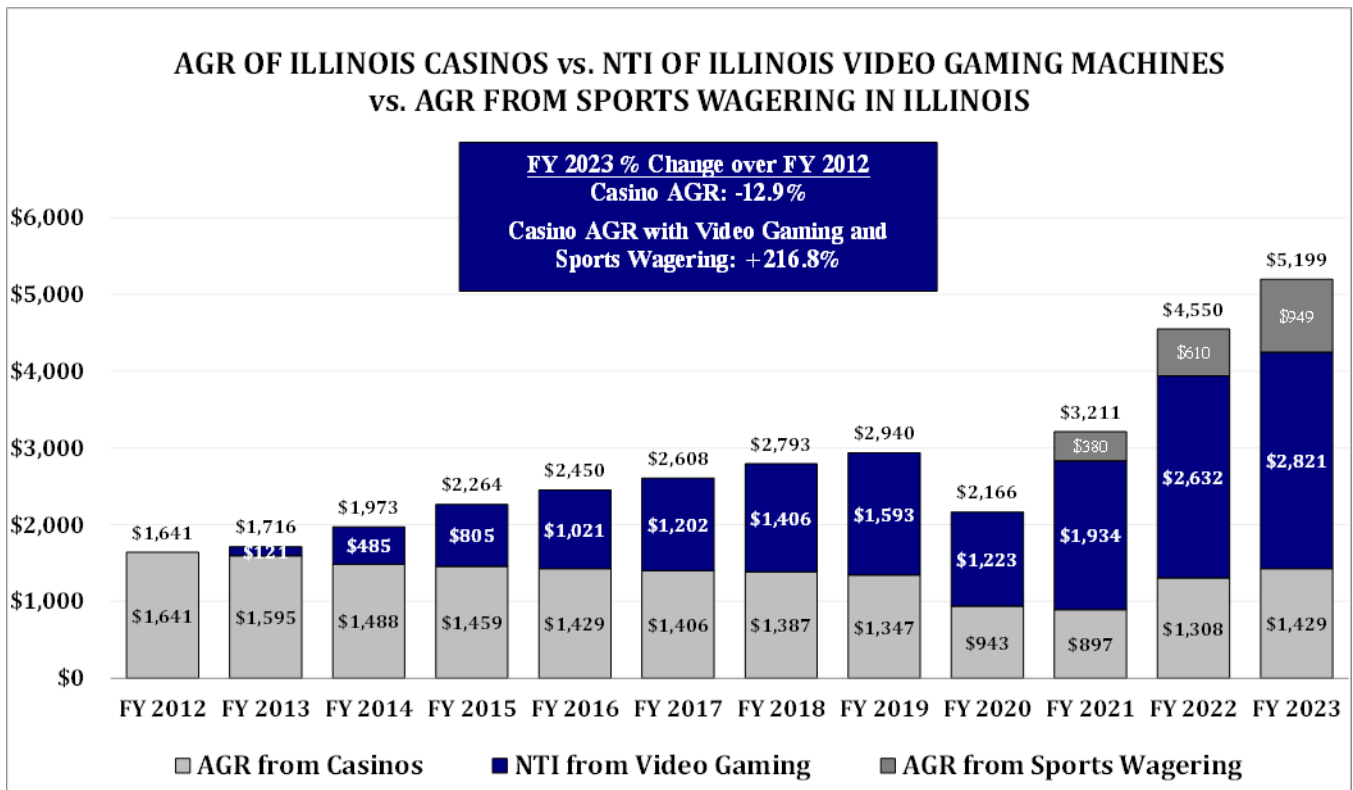
*\$ in millions*

Fiscal Year	Wagers	Handle	Payout	AGR	Tax Revenue
FY 2020	192,007	\$9	\$8	\$0	\$0
FY 2021	146,883,248	\$5,106	\$4,727	\$380	\$57
FY 2022	221,742,054	\$8,515	\$7,904	\$610	\$92
FY 2023	304,730,417	\$10,407	\$9,459	\$949	\$142
<b>Total</b>	<b>673,547,726</b>	<b>\$24,037</b>	<b>\$22,098</b>	<b>\$1,939</b>	<b>\$291</b>

Source: Illinois Gaming Board

**Overview**

Since video gaming was implemented in FY 2012, the AGR from casinos has fallen 12.9%, but when combined with other sources, overall wagering revenues are up 216.8% during this time period. The decline of casino AGR totals appears to indicate a cannibalization effect caused by the increase in gaming competition. However, the proliferation of video gaming across the state, along with the gambling dollars brought in from sports wagering, has more than offset the casino declines.

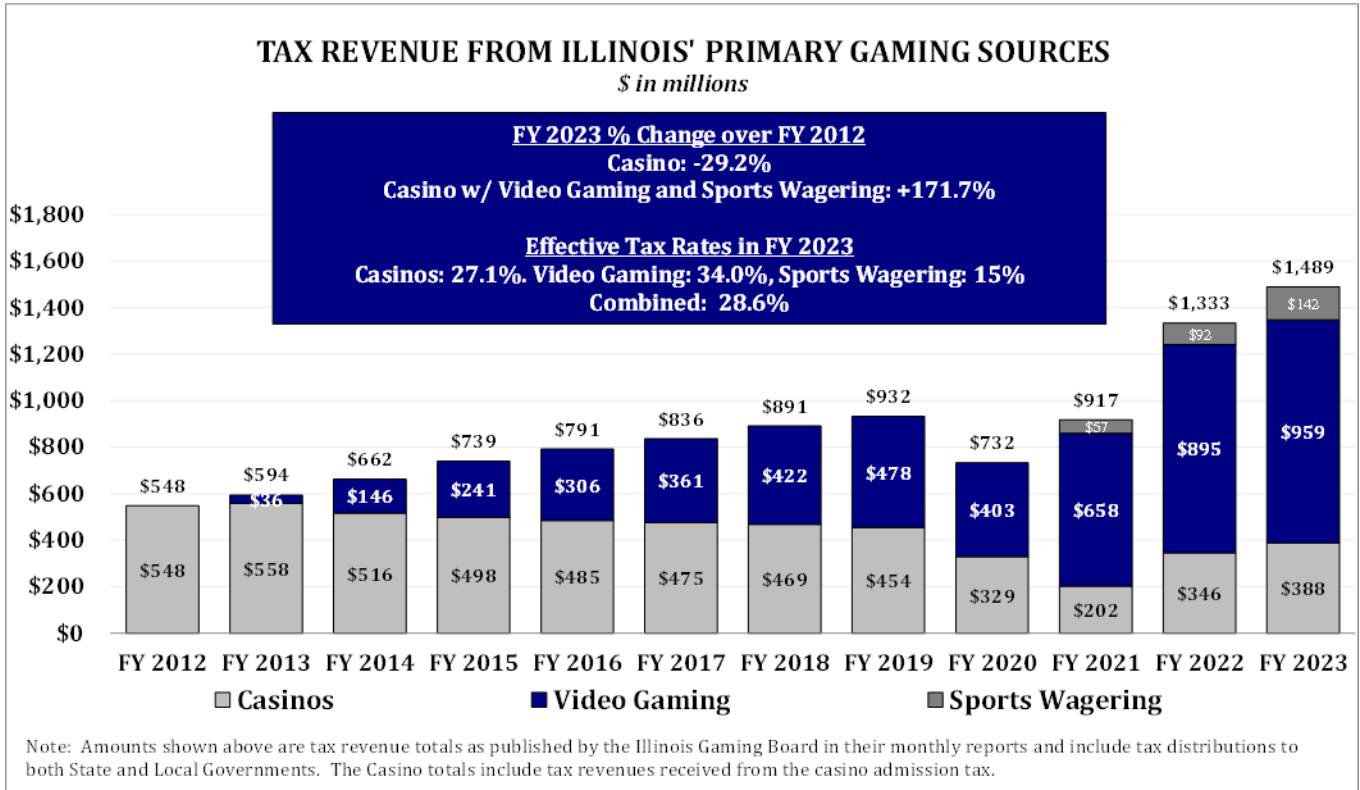


From a tax revenue perspective, the tax receipts collected from Illinois casinos has dropped 22.9% since video gaming was implemented in 2012. This is due to both the previously mentioned cannibalization effect, as well as the reduced tax structure that was put into place by P.A. 101-0031. However, when combining casino tax revenues with video gaming and sports wagering tax revenues, overall tax revenues grew from \$548 million in FY 2012 to \$1.489 billion in FY 2023, an increase of 171.7%. The FY 2023 figure of \$1.489 billion represents an 11.7% increase over the tally of \$1.333 billion in FY 2022.

Due to differences in tax rate structure between the various forms of wagering, each wagering category contributes a different level of tax contribution to the State. Casinos follow a graduated tax structure system where they are assigned tax rates for table games and electronic gaming devices depending on the total AGR received (the Chicago casino will follow a slightly different privilege tax structure). Therefore, the effective tax rate of 27.1%, as shown in the following chart, represents an

average effective tax rate for all of Illinois' casinos. This is in contrast to video gaming and sports wagering, which are both given a flat tax rate of 34.0% and 15.0% on net terminal income and sports wagering AGR, respectively.

Illinois tax revenue is likely to grow higher as more components of P.A. 101-0031 are implemented over the next several fiscal years.



## **Retirement of the Railsplitter Tobacco Settlement Authority Bonds**

By Lynnae Kapp, Senior Analyst

On September 12, 2023, The Governor's Office released a statement that the remaining \$449 million of Railsplitter Tobacco Settlement Authority Bonds has been retired. The defeasance of the bonds came as funds were set aside in a special escrow account until June 2026, when the remaining bonds are eligible for redemption. The early retirement of the bonds should save the State approximately \$50 million. Public Act 103-0008 made changes to the Governor's Office of Management and Budget Act, the State Finance Act, and the Railsplitter Tobacco Settlement Authority Act to allow for the defeasance of the Authority's outstanding bonds.

The Governor's Office of Management and Budget has confirmed that "the sources of funds used for the defeasance were a combination of funds from the Tobacco Settlement Recovery Fund and funds held by the Trustee; so, a portion of the \$546.3 million settlement with tobacco companies concerning the Nonparticipating Manufacturer Adjustment dispute was used." The FY 2022 settlement of \$546 million came from payments originally held back by tobacco manufacturers that they were required to pay when they lost the arbitration to Illinois (see MSA Arbitration Settlement for Illinois section on the next page). Public Act 103-0006, included a \$455 million appropriation from the Tobacco Settlement Recovery Fund to the Governor's Office of Management and Budget to defease the Authority bonds. The funds were used to buy government securities that would gain a set amount of interest to be held in escrow. These funds will service the debt and pay off the bonds when the bonds become callable in June 2026. Without the defeasance, principal and interest on the bonds from FY 2024 through the FY 2028 final maturity would have been \$496 million.

As a part of the Authority's creation under statute, the Authority has a priority claim on the Master Settlement Agreement (MSA) payments. The MSA payment, received annually on April 15th, went directly to the Authority, which used it for debt service and operations. Debt service payments on the Railsplitter bonds are required in June and December annually. Debt Service from the payment is transferred so that a half year's interest for the next fiscal year is on hand in the Debt Service Account. The remainder is considered residual revenues which the Authority transferred to the State. After the bonds are paid off, MSA payments will revert directly to the State. The Authority will terminate 6 months after all of its liabilities have been met.

The Railsplitter Tobacco Settlement Authority [30 ILCS 171] was created to issue up to \$1.75 billion in bonds to be securitized by a portion of Illinois' Master Settlement Agreement (MSA) revenues. In December 2010, the Railsplitter Tobacco Settlement Authority sold \$1.503 billion in tobacco securitization bonds with a 17-year maturity. The State sold its rights to roughly 50% of its Tobacco Settlement payments (based on a 5% negative annual growth rate) to the Authority. Under the statute, the MSA payments paid for the debt service on the bonds, with up to 2.x coverage of debt service. In return, the State received approximately \$1.35 billion in bond proceeds transferred to the General Revenue Fund to pay for unpaid bills from FY 2010. In December of 2017, the Railsplitter Tobacco Settlement Authority refunded \$671 million of the original bonds, saving the state \$71 million or 9% savings in present value terms.

## **MSA Arbitration Settlement for Illinois**

The Master Settlement Agreement is an agreement between fifty-two U.S. states and territories and Participating Tobacco Manufacturers that was agreed to in 1998. The manufacturers are required to pay the Settling States annual settlement payments, based on their cigarette sales and shipments, in exchange for being released from past or future claims of costs incurred by states to treat patients with tobacco-related illnesses.

There are Participating Manufacturers in the settlement dispute who allege that lax enforcement of non-participating members has hurt their market share, therefore they have wanted to decrease further how much they are paying states. The issue has been the subject of arbitration. Disputed payment amounts can be set aside and delayed until arbitration or lawsuits are resolved. The first of these was in April of 2011, when Illinois' Tobacco Settlement Recovery payment was \$268 million out of an expected \$305 million payment. The lower payment was due to Phillip Morris deciding to make a payment into the Disputed Payment Account instead of making its full payment to the states. This is called the "Non-Participating Manufacturer Adjustment".

Illinois entered into arbitration related to the deferred payments in both 2013 and 2021. The results of the 2021 arbitration were announced in April of 2022. In both hearings, the panels of "former federal judges found that Illinois was not subject to this payment reduction...in certain years. The panels determined that the state diligently enforced the provisions of the Tobacco Product Manufacturers' Escrow Act, which requires tobacco manufacturers – not the state – to carry financial burdens imposed on the state by cigarette smoking. For several years, states including Illinois have disputed the payment reduction, arguing that its misapplication has allowed participating manufacturers to withhold billions of dollars. The settlement resolves the dispute for additional years through 2028 and required tobacco companies participating in the MSA to release around \$546,313,882 they withheld from Illinois' annual payments." [Attorney General Raoul: *Illinois Receives Over \$800 Million From Tobacco Manufacturers*, Press Release, April 22, 2022.]

Illinois received the settlement funds in May of 2022. Expenditures from the Tobacco Settlement Recovery Fund are subject to appropriation by the General Assembly. As the settlement date was not anticipated, there were no appropriations for these funds in the FY 2023 Budget. Traditionally, funds in the Tobacco Settlement Recovery Fund have been used primarily for the State's Medicaid program.

## **General Funds Receipts Rise in September with the Aid of Reallocations and Transfers**

### **Eric Noggle, Revenue Manager**

Revenues deposited into the State's General Funds were notably higher, growing \$441 million in September, an increase of 8.8% over last September. This increase was despite the fact that September had one less receipting day than a year ago. A comparatively strong month for State taxes and transfers boosted this month's totals. However, this growth was aided by the timing of some receipts that necessitates some context.

One of the primary drivers of the September increase was growth in the Personal Income Tax. Gross receipts were up \$244 million for the month. When subtracting out distributions to the Refund Fund and the Local Government Distributive Fund, the net increase was \$203 million. These gains helped offset a \$106 million decline in Corporate Income Tax Receipts [-\$79 million decline on a net basis]. A contributing factor to the notable increase/decrease in these income tax receipts is the reallocation of certain business-related tax revenues.

In April 2023, the Department of Revenue announced that a notable reallocation in fund distributions would take place in FY 2024 as part of their annual statutory reconciliation of business-related tax payments. As part of this "true-up" adjustment, a total of \$1.077 billion in business tax receipts will be reallocated through Personal Income Tax disbursements throughout FY 2024, with a corresponding negative adjustment to both Corporate Income Tax receipts [-\$259 million] and Personal Property Replacement Tax receipts [-\$818 million]. These adjustments are expected to be completed in five equal installments, the first of which took place in September. Each installment will result in a positive monthly adjustment of approximately \$215 million to the Personal Income Tax and a negative adjustment of -\$52 million from the Corporate Income Tax and -\$164 million from the Personal Property Replacement Tax (non-General Funds distribution). The remaining four installments are expected to take place in December, March, April, and June during large business income tax revenue periods.

*Note: This reallocation of funds, which will effectively increase General Funds revenues by approximately \$700 million (net of non-general funds distributions) by the end of the fiscal year, was anticipated and included in the enacted budget's revenue assumptions for FY 2024. See the Commission's April 2023 Monthly Briefing (page 9) for further explanation of this adjustment.*

Even without these reallocations, the State's revenue sources performed quite well in September. Sales tax receipts were up \$44 million for the month [or +\$32 million on a net basis when subtracting out distributions to the Road Fund and the Downstate Public Transportation Fund]. All Other State Sources increased a combined \$73 million. The largest increase in this category, again, comes from Interest on State Funds & Investments, with growth of \$62 million in September. The Inheritance Tax also had a strong month, rising \$26 million. Insurance Taxes [up +\$8 million] and the Corporate Franchise Tax [up +\$1] million contributed to the increase. The growth in these areas helped offset relatively minor declines from Public Utility Taxes [-\$13 million], Other Sources [-\$6 million], and the Cigarette Tax [-\$5 million].

The Transfers In category provided impressive gains for the State's General Funds with overall transfers rising \$327 million in September. Much of this increase is due to the annual statutory transfer of excess funds remaining in the Income Tax Refund Fund from the previous fiscal year into the General Revenue Fund. The FY 2024 transfer amount of \$555 million is \$259 million above what was transferred in September of last year. However, it should be stressed that this will be the only deposit for this particular line this fiscal year, whereas a total of \$1.481 billion was eventually transferred from this fund in FY 2023. Therefore, the September increase of \$259 million will eventually turn into a cumulative year-over-year deficit of \$926 million by the end of the fiscal year. *[Note: this level of decline was anticipated in the enacted budget's revenue assumptions].* Lottery Transfers [+\$30 million] and Other Transfers [+\$49 million] contributed to the overall monthly increase for this category of revenues, easily offsetting the \$11 million drop in the casino-related Gaming Transfer. Cannabis Transfers were essentially flat for the month.

Base revenues received from Federal Sources were \$115 million lower than last September. There were no "one-time" revenues received from Federal reimbursements or other "one-time" General Funds sources in September of this year or last. Therefore, the overall growth of \$441 million matches the State's "base" growth for this particular month.

### **Year to Date**

Through the first quarter of FY 2024, overall General Funds revenues are \$39 million above last year's pace. This comparison, however, includes \$764 million in FY 2023 Federal reimbursements that will not repeat in FY 2024. Excluding these one-time revenues, FY 2024 "base" receipts are up a noteworthy \$803 million or +7.0% through September. But, as mentioned in the previous paragraphs, Illinois' revenue totals are aided by the timing of reallocations and transfers that slightly distort its year-to-date performance. With that being said, Illinois' economy has avoided a significant downshift to this point, which has allowed its primary revenue sources to continue to generate respectable totals through the first quarter of the fiscal year.

Personal Income Taxes are up \$391 million through September or +\$321 million on a net basis. While part of this growth is due to the first of five "true-up" reallocation installments, most of the year-to-date growth stems from steady employment levels and higher wages. The previously mentioned adjustments, as well as modified percentages of current business income tax disbursements, have factored into the slight \$12 million decline in Corporate Income Tax receipts through September [-\$2 million on a net basis]. Without these adjustments, corporate income tax receipts would be modestly higher through September.

Sales Tax receipts have continued to stay in positive territory through the first quarter of the fiscal year with growth of \$57 million [or +\$22 million net of non-general fund distributions]. All Other State Sources have combined to grow \$92 million through September. This growth is primarily due to the \$105 million rise in Interest Income, which has benefitted from comparatively higher interest rates. Other first-quarter increases have come from the Inheritance Tax [+\$39 million]; Insurance Taxes [+\$12 million]; and the Corporate Franchise Tax [+\$3 million]. Other tax sources that are

lower through the first three months include Other Sources [-\$32 million]; Public Utility Taxes [-\$25 million]; the Cigarette Tax [-\$9 million]; and the Liquor Tax [-\$1 million].

General Funds revenues from Transfers In are a combined \$233 million higher through September, again mainly due to the timing of this year’s Income Tax Refund Fund Transfer [up +\$259 million]. As alluded to previously, a sharp decline in this transfer category is expected by the end of the fiscal year due to the size of the FY 2023 Income Tax Refund Fund transfer, which was completed in January. Lottery Transfers have performed quite well so far this fiscal year, up \$65 million. On the other hand, Other Transfers are down \$79 million, mainly due to significantly lower Capital Projects Fund transfers into the General Revenue Fund. Gaming Transfers from casinos are down \$10 million, while Cannabis Transfers are \$2 million lower.

Despite the September decline, Federal Sources (base) are up \$137 million year to date. However, if the \$764 million in one-time ARPA Reimbursements received in FY 2023 are included in the equation, Federal Sources are down \$627 million through the 1<sup>st</sup> Quarter of the fiscal year.

<i>Summary of Receipts</i>				
<b>GENERAL FUNDS RECEIPTS: THROUGH SEPTEMBER</b>				
<i>FY 2023 vs. FY 2024</i>				
<i>(\$ millions)</i>				
<b>Revenue Sources</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>\$ CHANGE</b>	<b>% CHANGE</b>
Net Personal Income Tax	\$5,025	\$5,346	\$321	6.4%
Net Corporate Income Tax	\$1,274	\$1,272	(\$2)	-0.2%
Net Sales Tax	\$2,760	\$2,782	\$22	0.8%
All Other State Sources	\$779	\$871	\$92	11.8%
Transfers In	\$797	\$1,030	\$233	29.2%
Federal Sources [base]	\$880	\$1,017	\$137	15.6%
<b>Base General Funds</b>	<b>\$11,515</b>	<b>\$12,318</b>	<b>\$803</b>	<b>7.0%</b>
<i>Non-Base Gen Funds Revenues</i>	\$764	\$0	(\$764)	N/A
<b>Total General Funds</b>	<b>\$12,279</b>	<b>\$12,318</b>	<b>\$39</b>	<b>0.3%</b>

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

3-Oct-23



**SEPTEMBER**

FY 2023 vs. FY 2024

(\$ millions)

<b>Revenue Sources</b>	<b>Sep. FY 2023</b>	<b>Sep. FY 2024</b>	<b>\$ CHANGE</b>	<b>% CHANGE</b>
<b>State Taxes</b>				
Personal Income Tax	\$2,360	\$2,604	\$244	10.3%
Corporate Income Tax (regular)	1,276	1,170	(106)	-8.3%
Sales Taxes	963	1,007	44	4.6%
Public Utility Taxes (regular)	59	46	(13)	-22.0%
Cigarette Tax	21	16	(5)	-23.8%
Liquor Gallonage Taxes	17	17	0	0.0%
Inheritance Tax	33	59	26	78.8%
Insurance Taxes and Fees	72	80	8	11.1%
Corporate Franchise Tax & Fees	20	21	1	5.0%
Interest on State Funds & Investments	12	74	62	516.7%
Cook County IGT	0	0	0	N/A
Other Sources	27	21	(6)	-22.2%
<b>Total State Taxes</b>	<b>\$4,860</b>	<b>\$5,115</b>	<b>\$255</b>	<b>5.2%</b>
<b>Transfers In</b>				
Lottery	\$50	\$80	\$30	60.0%
Gaming	14	3	(11)	-78.6%
Cannabis	9	9	0	0.0%
Refund Fund	296	555	259	87.5%
Other	48	97	49	102.1%
<b>Total Transfers In</b>	<b>\$417</b>	<b>\$744</b>	<b>\$327</b>	<b>78.4%</b>
<b>Total State Sources</b>	<b>\$5,277</b>	<b>\$5,859</b>	<b>\$582</b>	<b>11.0%</b>
<b>Federal Sources [base]</b>	<b>\$427</b>	<b>\$312</b>	<b>(\$115)</b>	<b>-26.9%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$5,704</b>	<b>\$6,171</b>	<b>\$467</b>	<b>8.2%</b>
<b>Nongeneral Funds Distributions/Direct Receipts:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$218)	(\$238)	(\$20)	9.2%
Corporate Income Tax	(185)	(164)	21	-11.4%
<b>Local Government Distributive Fund</b>				
Personal Income Tax	(132)	(153)	(21)	15.9%
Corporate Income Tax	(75)	(69)	6	-8.0%
<b>Sales Tax Distributions</b>				
Deposits into Road Fund	(32)	(44)	(12)	37.5%
Distribution to the PTF and DPTF	(26)	(26)	0	0.0%
<b>General Funds Subtotal [Base]</b>	<b>\$5,036</b>	<b>\$5,477</b>	<b>\$441</b>	<b>8.8%</b>
ARPA Reimb. for Essential Gov't Services	\$0	\$0	\$0	N/A
<b>Total General Funds</b>	<b>\$5,036</b>	<b>\$5,477</b>	<b>\$441</b>	<b>8.8%</b>

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

3-Oct-23

# GENERAL FUNDS RECEIPTS: THROUGH SEPTEMBER

FY 2023 vs. FY 2024

(\$ millions)

<b>Revenue Sources</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>\$ CHANGE</b>	<b>% CHANGE</b>
<b>State Taxes</b>				
Personal Income Tax	\$5,901	\$6,292	\$391	6.6%
Corporate Income Tax (regular)	1,600	1,588	(12)	-0.8%
Sales Taxes	2,933	2,990	57	1.9%
Public Utility Taxes (regular)	179	154	(25)	-14.0%
Cigarette Tax	63	54	(9)	-14.3%
Liquor Gallonage Taxes	50	49	(1)	-2.0%
Inheritance Tax	118	157	39	33.1%
Insurance Taxes and Fees	132	144	12	9.1%
Corporate Franchise Tax & Fees	57	60	3	5.3%
Interest on State Funds & Investments	57	162	105	184.2%
Cook County IGT	0	0	0	N/A
Other Sources	123	91	(32)	-26.0%
<b>Total State Taxes</b>	<b>\$11,213</b>	<b>\$11,741</b>	<b>\$528</b>	<b>4.7%</b>
<b>Transfers In</b>				
Lottery	\$150	\$215	\$65	43.3%
Gaming	41	31	(10)	-24.4%
Cannabis	29	27	(2)	-6.9%
Refund Fund	296	555	259	87.5%
Other	281	202	(79)	-28.1%
<b>Total Transfers In</b>	<b>\$797</b>	<b>\$1,030</b>	<b>\$233</b>	<b>29.2%</b>
<b>Total State Sources</b>	<b>\$12,010</b>	<b>\$12,771</b>	<b>\$761</b>	<b>6.3%</b>
<b>Federal Sources [base]</b>	<b>\$880</b>	<b>\$1,017</b>	<b>\$137</b>	<b>15.6%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$12,890</b>	<b>\$13,788</b>	<b>\$898</b>	<b>7.0%</b>
<b>Nongeneral Funds Distributions/Direct Receipts:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$546)	(\$576)	(\$30)	5.5%
Corporate Income Tax	(232)	(222)	10	-4.3%
<b>Local Government Distributive Fund</b>				
Personal Income Tax	(330)	(370)	(40)	12.1%
Corporate Income Tax	(94)	(94)	0	0.0%
<b>Sales Tax Distributions</b>				
Deposits into Road Fund	(97)	(132)	(35)	36.1%
Distribution to the PTF and DPTF	(76)	(76)	0	0.0%
<b>General Funds Subtotal [Base]</b>	<b>\$11,515</b>	<b>\$12,318</b>	<b>\$803</b>	<b>7.0%</b>
<b>ARPA Reimb. for Essential Gov't Services</b>	<b>\$764</b>	<b>\$0</b>	<b>(\$764)</b>	<b>N/A</b>
<b>Total General Funds</b>	<b>\$12,279</b>	<b>\$12,318</b>	<b>\$39</b>	<b>0.3%</b>

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

3-Oct-23