March 4, 2025
Commission on Government Forecasting and Accountability
Spring 2025 Revenue Meeting

Chairman Koehler calls the meeting to order and the Clerk calls the roll.

Executive Director Klenke: Good morning, co-chairs and members of the Commission. First, I want to say welcome back to our returning members and our returning co-chairs for this term, Senator Koehler and Representative Davidsmeyer. I also want to welcome our new members, Representative Weaver and Senator Lewis. The topic today, of course, is the Commission's update to our FY25 revenue estimate and our initial look at our FY26 economic forecast and revenue estimate.

Before I get into that topic, I just want to briefly mention some other work our staff will be doing this week. Our Commission's pension staff will be presenting testimony this week to the House Pension Committee, and our revenue staff will be appearing on Thursday before the House Revenue Committee. I also want to briefly mention the work of our research unit at COGFA. As always, our research staff is available to provide nonpartisan research to all members of the General Assembly and the caucus staffs. That work is not just confined to pensions or revenue issues. If you have a topic or a bill you are working on, please utilize our staff to provide any background or research that you may find helpful. If you have questions about the type of research that our staff can do for you, please just reach out to me and I can provide some additional information on those research opportunities that we have.

I'm joined at the table today by our Revenue Manager, Eric Noggle, and our Chief Economist, Ben Varner. After my opening comments, we will go through the PowerPoint that has been distributed to you all. Before we do that, I always like to hit on a few general themes of note prior to turning it over to Eric and Ben for our presentation. For several years, national forecasting firms have projected at least a fair likelihood of a recession on the horizon. Both nationally and in Illinois, the economy has weathered this storm and has built a long-term trend of at least moderate economic growth and revenue growth. As several of our slides will show, Illinois has traditionally trailed the nation and the Midwest in relation to some of these data points. However, the economic performance in Illinois has performed well enough to meet revenue estimates and merit some upward revisions. There are some factors, some of which we have discussed in the past and some that are new, that present challenges in terms of economic growth and revenue receipts. I remember mentioning last year that receipts from sales tax had shown some signs of stagnation and were a key point to keep an eye on during FY25. We continue to see some weakness in this revenue source.

Other more recent items, such as trade policy and tariffs, have been a focus of some of the national economic firms that we work with in developing their models for the coming year. Another point I will mention briefly is that in recent years, there has been an increase in some factors that have made forecasting a little more difficult. With COVID and the post-COVID accelerated growth, some of the changes at the federal level in tax filing deadlines, some of the one-time revenues that we've received as a state make it difficult to establish a true economic baseline to begin our work. There are some factors in Illinois that complicate that a little bit more, such as most recently you've probably heard of the True Up and the work of the Department of Revenue to make sure that they're categorizing all the revenues as individual, corporate, and PPRT, getting all that money in the right buckets. Even with these forecasting headwinds, the forecasts prepared by our COGFA staff have held up well when compared to final receipt totals. Not only that, but our forecasts have traditionally tracked pretty close to those of GOMB.

Now, with the numbers we present today, you will see some variance with the numbers that GOMB used when they came out with their FY26 budget. Percentage-wise, I wouldn't classify this variance as extreme, but in the context of the $55 billion general funds budget, even a small percentage variance does translate to considerable dollar amounts. So, our presentation today will look first at some base economic indicators. We'll transition from that to looking at future economic growth, and from that we will look at how that economic growth translates to revenue receipts in Illinois. So, at this time, if there are no questions for me, I'll hand it off to Ben Varner and he'll start our presentation.

Chief Economist Varner: Good morning. As Clayton said, I'm going to take you through some of the things we're seeing in the economy currently and then transition to some forecasts that we use in putting our revenue estimates together. If you look at page 5, we'll start with real gross domestic product. This is one of the broadest measures of the economy.

It's the inflation-adjusted value of goods and services produced in the U.S. About 70 percent of this is consumer spending, with the remainder, half and half, basically we got business spending and housing spending making up about 18 percent, and then government spending making up most of the rest with the smallest subtraction from net exports. As you look at the chart here, you can see large declines related with COVID, followed by robust growth coming out of the pandemic. We saw slight declines in early 2022, followed by about two years of steady growth in the second half of 2022 into 2023.

Looking at 2024 individually, the first quarter we saw a slowdown to 1.6 percent. This was due to slower consumer spending, but this was somewhat offset by strong fiscal investment both by business and housing. In the middle of 2024, we saw strong growth above 3 percent.

Basically, you saw a re-acceleration of consumer spending, plus private inventory investment in the second quarter, and government spending increasing in the third quarter. We saw a slight slowdown to 2.3 percent in the year. Basically, that's pretty much in line with our long-term trend growth for the U.S. Basically, we saw strong durable goods growth.

This may be trying to beat the tariffs that are currently being implemented, and this somewhat offset a somewhat slump in business spending we saw at the end of the year. Overall, in November, an aggregation of economic forecasts predicts average real growth, GDP growth, for 2.2 percent in 2025 and 2 percent for 2026. Basically, what you're seeing there is a transition from above long-term trend growth to more of a below long-term trend.

Overall, consumer spending has held up over the last few years, and housing is still a drag that could provide some support with improvement in affordability, though this is looking less likely in the first half of 2025. Going to the next page, you can see the regional GDP results for Illinois. The blue is the quarterly data for the U.S., and the orange is Illinois.

As you can see here, we're consistently a little bit less. Since 1998, the U.S. has averaged real GDP growth of 2.4 percent per year, while Illinois has averaged growth of just 1.4 percent.

Co-Chair Koehler: Please add Representative Moeller to the roll.

Varner: Looking at 2024 for the three quarters we have data for, we saw a contraction in the first quarter for Illinois. This was a pretty widespread decline, with significant declines in finances and insurance, as well as manufacturing, especially among non-durables, and a slowdown in state and local government spending. The second quarter, you can see we popped back up to 2.8 percent, which is pretty much in line with the U.S. as a whole.

We saw a rebound in manufacturing, as well as strong health care spending during the second quarter. The third quarter, we slowed down to 2.0 percent, with strong retail sales and some rebound in state and local expenditures. So, as I said before, basically, we have been growing, but we are a little behind the country as a whole.

Now, going to the next slide, one of the big things we're seeing right now is just uncertainty. Ever since the election, there's been some questions related to, okay, we know there's going to be changes in federal policy. What are they going to be? And especially related to trade policy.

As you can see in the news the last couple days, especially last month, people just didn't know. Some people thought, “oh, we say he's going to do this”. Speaking of the Trump administration, they say they're going to do a thing, but are they actually going to do it? Well, a lot of people didn't think they were going to do it.
Well, now we're seeing they are implementing these tariffs. So, this has really affected forecasting over the last couple months. And every month it's sort of going back and forth of, okay, what are we assuming the tariffs are going to be?

Here we have a quote from S&P Global from their February 2025 forecast:
“Both trade policy and certainty about trade policy can impact the real economy. In our forecast, tariffs trade policy affect the real economy through resulting financial fallout, a pause in the Federal Reserve's easing cycle, higher borrowing costs, a stronger U.S. dollar, and weaker equity values, all relative to a no tariff counterfactual.”

So, as you can see on the chart here, this is for U.S. Economic Policy Uncertainty Index.
And as of February 2025, we're about the third highest level we've seen over the last 30 years or so. So, that's one of the things we've been seeing. And if you look at different, like, surveys of businesses, it's just uncertainty of, okay, what's going to happen? How could this potentially affect my supply chain, especially for manufacturers? As we've seen over the last day or two, we have seen the tariffs, 25% tariff on Canada and Mexico, and then an additional 10% raising it to 20% for China. This is going to significantly affect the U.S. and Illinois. Approximately 1.4 trillion dollars, or over 40% of imports. Looking at Illinois, this data is a little old, but in 2021, China was the number one place we imported goods from. Canada was second, and Mexico was third. This is also going to affect our exports. China's already indicating that they're going to have increased tariffs on ag products, which affect Illinois at 10 to 15%, and Canada is in the process of putting tariffs in place also. Once again, this affects us. Looking at exports, Canada was the number one country to export to, Mexico was second, and China was fifth. So, this will affect us here in Illinois.

Going to the next slide, we have consumer price index. This is a measure of inflation. Obviously, inflation has been a big deal over the last couple years. Basically, inflation took off in April of 21. We saw 50-year highs in inflation over the summer of 2022, with inflation peaking at 9.1% in June, and core CPI, which excludes some of the more volatile components, food and energy, peaking at 6.6%. Since then, we've seen about two years of downward trends in inflation. However, at the end of the summer, we saw some signs of stalling in this.

Basically, we sort of stalled out at between like 2.5% to 3%. Now, obviously, the Fed wants us down closer to 2% coming into the fall. Currently, we've seen slight increases. As of January, headline CPI stood at 3%, while core CPI was slightly higher at 3.3%. There are growing concerns over federal policy changes, specifically trade policy, in 2025, and heightened inflation expectations as potential price pressures continue to drive uncertainty. So, with these new tariffs, you're likely going to see new, higher prices, especially for companies that have supply lines in China, Mexico, or Canada. One thing we're keeping an eye on is, if you look at the lower one, is the Chicago area inflation index. Most of the time, Chicago has been a little lower than the U.S. as a whole, but since about the middle of 2023, we've seen an increase, and in our latest numbers, the Chicago CPI was over 4%. A lot of this is being currently driven by service inflation and shelter costs. That's where we're seeing most of the inflation, both nationally and in the Chicago area.

The next slide shows the Purchasing Managers Index for the manufacturing sector. This basically is just a general index that measures the health of the manufacturing sector. Anything above 50 indicates expansion, below equals contraction. As you can see here, we had dips related to the outbreak of COVID, but then strong growth coming out of that through about 2022. But then when we hit 2023, especially November of 2022, the indexes remained below 50, signaling a prolonged contraction in the manufacturing sector. The latest number was in January, actually showed us rising to 50.9. So, as you can see there, the blue line just barely goes above 50. So, hopefully we can continue that upward trend there. Looking at the Chicago data, which is a little more volatile, it's a very similar pattern, but we're still below 50 for the Chicago area. It was at 45.5 in February. Overall demand and production, though, once again, the uncertainty surrounding federal trade policy continues to impact future planning.

The next slide shows a similar index for the service sector, which is much bigger than the manufacturing sector. Basically, we saw big declines related to the outbreak of COVID, but strong growth after then. However, since about the beginning of 2023, we've been indicating a slowing service economy, but one that's still expanding. If you notice, basically since January of 23, we're between like 50 and 55 on this index. This compares to more about 55 to 60 in the 2010s. So, we're still seeing growth, but just not quite as quick as we were previous to the COVID-19 pandemic.

Looking at surveys, there's been some pricing concerns related to inflation, but overall things are pretty stable, but slow growth. The next slide shows U.S. employment. Basically, we've got data here for the establishment survey or the payroll data. This is what you see every month in the big announcements on the first Friday of the month. And then the household survey, which is used for the unemployment rate and labor force numbers. Once again, big declines related to the outbreak of COVID, but since then, strong growth with a little slowing coming in in recent months. If you look at the slide at the bottom, you can see a slow pattern between like April of 24 and through the summer of 24, we saw some weakness in U.S. employment growth. This was a concern for the Fed, and one of the reasons they eased interest rates and brought them down a little.

Since then, we saw some pretty decent growth in the fall. You can see there, there's one month, October. It was small. That was related to Hurricane Helene and Milton and a Boeing strike, but the data for both September, November, and December were strong. We saw a slight slowdown beginning of January to 143 jobs or 1,000 jobs. Overall, employment has held pretty strong, but we've seen a slowdown. This is mostly related to hiring. Going to the next page, you see employment for Illinois, and you see a very similar pattern. But once again, Illinois is a little behind this country as a whole. According to the establishment survey, we made up all of our jobs from the COVID pandemic by June of 2022. It took Illinois almost two full years longer to make up this. Looking at the household data, the U.S. passed this by the end of 2022. We still haven't got there. So once again, we're sort of slower than the rest of the country.

Illinois saw decent employment growth through about the middle of 2023 when the payrolls began to see some contraction. However, February of last year, we saw some decent growth through about the end of the summer, though the last couple of months have been sort of mixed. We've seen some growth and some contraction. Overall, we're up about 56,000 jobs in 2024, with most of the growth being seen in government jobs and education and health services. One sector that's done not very well is professional and business service sector, which has seen a notable decline in employment.

The next page shows unemployment rates for both Illinois and the U.S., and you can see here Illinois has consistently had a higher unemployment rate. Throughout the 2010s, we were about a half point to a full point higher in our unemployment rate. We closed that gap right before the pandemic, but unfortunately as we've come back out of the pandemic, that gap has returned. In January, the U.S. unemployment rate remained historically low at 4%, while Illinois reported a higher rate of 5.2% in December. The 5.2% rate isn't that bad considering long term, but once again, compared to the U.S. as a whole, we are a point and a half or 1.2% higher.

Overall, the whole country saw some increase in unemployment rate throughout 2024. Illinois saw a little bit more. We had 0.5% growth in our unemployment rate. As I said before, this is associated with a slowdown in hiring. We're not seeing a bunch of layoffs, but companies just aren't hiring as fast as they were, and we're seeing hiring rates similar to what we were in the first year or two coming out of the Great Recession.

Looking at tightness in the labor market on the next slide, you can see information related to the unemployment insurance claims. As you can see here, we are at somewhat pretty much historical lows still. Right before the pandemic, we were at very low rates, and then when we came out of the pandemic, we were even lower. The continued claims, I think, was lowest since like 1968 or so. We have had some growth in continued claims over the last two years, but we remain pretty tight in that, looking at that metric. However, layoffs remain relatively low. However, job openings have gone down. The quit rate, which indicates how confident people are of quitting and then getting a new job, has come down, and as I said before, the rate of hires is all indicating a slowing labor market.

Going to the next slide, we have average employment levels by subsector in Illinois. Key focus here is probably the yellow lines, basically the annual percentage change. As you can see here in FY 2024, we slowed down from some strong rates we saw in 22 and 23. However, we've seen decent growth for the first half of the year. This is data through December, so we're up about 1.1%. Looking at weekly earnings, we saw strong growth throughout COVID, but we slowed down in 23 and then we're basically flat in 24. That wasn't good, but so far in 2025, we're up about 1.9%, so that is a good indicator that we are seeing a little growth in our wages.

Next, I'm going to take you through what we're seeing in our forecasts. The first one we see on page 17 is the consensus forecast. This is a monthly report that we get that basically aggregates 25 to 30 economic forecasters and their median estimates. Looking for 2025, real GDP is expected to see average growth of 2.2%, where we then see a slowdown to 2.0%. Once again, this is a little lower than long-term trend. If you look back, we were seeing 2.5%, 2.9%, 2.8% on the average growth, which is above long-term trend.

That's one thing we've seen in some forecasts. We're basically predicting a lower than long-term trend growth the next few years. Real consumption is expected to hold up pretty well in 2025 at 2.7%, while slowing to 2.0% in 2026. Consumer prices, they were expected to go down a little faster than we are now, but in recent months, we were expecting more like 2.5% for 2025, and then closer to 2% by 2026. As you can see here, they're at 2.7% for 2025 and 2.6%. Once again, this is likely related to issues related to tariffs and potential issues with consumers' expectations of inflation's increasing. The last one I'll highlight here is the unemployment rate. They have staying pretty similar to where we are now, 4.2% in 2025 and 2026, which would be a pretty good unemployment rate historically.

The next slide, we start showing some results of S&P Global. That's one of the individual forecasts for both the U.S. and Illinois. One of the things they provide us is a three-scenario forecast with a baseline with 50% chance of occurrence, a pessimistic scenario with 25% chance, and optimistic scenario. Under their February baseline, basically they had a baseline forecast and participating in transition from above-trend growth to a period of below-trend growth. Trade policy and uncertainty remains a downside risk to this forecast. Real GDP forecast is slow from 2.4% to 2% in both 2025 and 2026. Unemployment is expected to rise to around 4.37% by the end of 2025 and 4.4% in 2026. A more pessimistic scenario forecasts stricter trade and immigration policy and mild near-term financial stress holding back growth. Real GDP is expected to slow to 1.5% in both 2025 and 2026 with the unemployment rate slowly rising to 4.9% by the end of 2026. Now, looking at these two scenarios, I would say we're somewhere probably in between the baseline and the pessimistic whenever it comes to tariffs. Looking at their February baseline forecast, basically at that point, when they put the forecast together in February, they had a 10% universal tariff with 20% on China and 25% on steel and aluminum. Well, as of today, we've got 25% on Canada, 25% on Mexico, and then we did get the extra 10% of China. So, we're a little bit above that for our most immediate trade partners, but we don't have the 10% universal as of right now, though there has been some talk about EU tariffs also. So, I would probably characterize this somewhere between pessimistic and baseline related to the tariffs. Now, other things can change that, but that's where I would probably consider this now. They did have a final 25% likely optimistic scenario, which is to continue above trend growth based on lower tariffs across the board and less pronounced countermeasures by our trading partners. Obviously, we are seeing some countermeasures this morning by both China and Canada. Under this scenario, real GDP was expected to grow 2.6% in 2025 and 2.5% in 2026, with the unemployment rate staying about 4% in these scenarios.

The next slide just has a table showing a lot of the same information based on those scenarios. Once again, fourth quarter growth was 2% for 2025 and 2026 on the baseline. Personal consumption was 2.6% and 2.3%. While we see a somewhat slowdown in fixed investment from businesses and housing, going from 2.5% in 2024 to 1.6% in 2025 and 1.3% in 2026.

Koehler: Please add Representative Sosnowski to the roll.

Varner: One thing you also will see in this scenario is a slowdown in government support and government spending. Basically, the last two years we were at 4.3% and 3.1%. This has slowed down to 0.4% in 2025 and actually have a negative number, negative 0.1% in 2026. So, they're not expecting as much federal spending. Now, this might be associated with like the DOJ stuff, like contracts there and reduced federal employment rolls. Speaking of that, we were discussing this with another economic forecaster and they indicated we have about 80,000 federal employees in Illinois. If you have any wonders about how much that might affect our local economy there.

The final slide that I have for my part of the presentation is the Illinois forecast. Similar to the rest of them, it's basically a little bit less than the U.S. as a whole. The baseline forecast has growth of 1.8% in 2025 and 1.7% in 2026. While this is slower than the economy or the U.S. as a whole, it is above our long-term trend. One thing we notice here is a rebound in personal income in 2025, going from 3.9% growth to 5.3% growth and then continued decent growth in 2026 at 4.9%. Their baseline estimate has us ending the year at 5.3% unemployment rate and 5.5% in 2026, which are getting a little higher than we would want there, obviously. That's all I have at this point and I'll turn it over to Eric to talk about our actual estimate that we use these forecasts with.

Revenue Manager Noggle: Good morning. Again, my name is Eric Noggle and I'm the Revenue Manager for the Commission. And thank you for being here this morning. I'm going to open up on Page 22.
We're going to just look at a brief look at the general funds revenue history over the last 20 years. And so, this particular chart takes the revenues that we've seen and it excludes one-time revenues. A lot of one-time revenues we've seen over the last three or four years from federal stimulus. That's not included in this. You can see that general funds, for the most part, have been on an upward trajectory. We've had some ups and downs through the years, some tax rate changes, but for the most part revenues have been going up. And it's been a very strong last three years for the State of Illinois in terms of general funds. On Page 23 you can see a table showing how fiscal year 24 ended. It ended with a total amount of revenues of $52.6 billion. Now this total included around $881 million, which we classify as one-time revenues. So, the base revenues were around $51.7 billion. When the budget was passed in May, the enacted budget assumed revenues totaling $53.3 billion. Now that was growth of only 1.3 percent on a total basis. But when you take out the one-time revenues that we would not expect to receive in fiscal year 25, our base growth for this particular fiscal year, for fiscal year 25, was an expectation of around 3 percent growth, which is typical growth on a year-to-year basis.

As we turn to Page 24, we can see how revenues are actually performing. We just received our February numbers just yesterday, so these are included in this table. So year-to-date we are, February was down, so for the year-to-date we're actually a little bit lower than we were at this point last year, $153 million lower. Now that's just the difference of around 0.5 percent. From a base revenue perspective, when you take out the one-time revenues, in our year-to-date comparison. The one-time revenues in our year-to-date comparison, all those one-time revenues we have already received at this point in the fiscal year. So, from a base revenue perspective, we're up 2.1%. And most of the growth that we've seen this fiscal year so far has come from the personal income tax. it's been a strong year for personal income tax, up $1.3 billion, or 7.2%. On a net basis, when you subtract out funds to the income tax refund and the LGDF, the growth is just a little under $1.1 billion. Now, this growth is due to solid employment. Employment has continued to increase, albeit slight, and we've had some good withholding tax receipts come in. But we had a lot of money coming in from business-related tax receipts flowing through the personal income tax distribution.

Again, we're going to talk about that in a little bit, talk about these true-up distributions that we've been receiving. And there's a lot of money we're getting from pass-through entity taxes flowing through the personal income tax. So that's one of the main motivations for this large increase that we've seen this fiscal year from personal income tax. Corporate income tax, on the other hand, has not done well so far this fiscal year. Now, a lot of that may have to do with that money flowing into the personal income tax instead of through the corporate income tax distributions, but it's down $523 million through February of this fiscal year. Probably the most disappointing revenue source we've had so far this fiscal year is the sales tax. It has not performed that well in fiscal year 25, at least year to date, down $47 million on a growth basis. Now, on a net standpoint, it's actually up slightly at $52 million. That's because we don't have as much non-general fund distributions being distributed out this fiscal year. So, we do have a little bit of growth in sales tax, but for the most part, the results that we've seen this year have been disappointing. All other state sources have combined to grow around $208 million, and that's an 8.8% growth if you look at that category of receipts. This is primarily due to we've had a large increase in insurance tax payments.

Now, I think that's probably a temporary thing. I think there's some receipting patterns that are a little different than last year. I expect that that growth that we've seen is probably going to go down to more normal levels by the end of the fiscal year. But we have seen a large increase in interest income, which was a little surprising as we started this fiscal year. We expected interest rates to continue to fall. Well, we've had one, I think it was one step down, two steps down, two steps down in the interest rate from the Federal Reserve, but not as many as we probably anticipated. So that has allowed interest income from those interest rates to stay higher for the State of Illinois, and that's been good news for the state, growth of $52 million so far this fiscal year. State transfers have fallen $359 million. Some of that was expected.

We knew that the income tax refund transfer would be down this year, but we've also had less receipts from lottery and down $54 million, and our other transfers are down $121 million through February. Sports wagering has offset that some. If you recall, there was a new tax increase on sports wagering where the money was going to be transferred into the state's general funds. We've received $101 million from that transfer so far this fiscal year. On an annual basis, that is expected to eventually rise to over $200 million a year.

Federal sources have pretty much come in on what we expected, growth of $86 million through February, and we have received one-time revenue that we are using of some stimulus money that was trickled in. This should be the last bit of the stimulus money coming in of the $65 million that we received earlier this fiscal year. So, again, we've seen $663 million in overall growth from base perspective, but in terms of total general funds, when you count for the one-time revenues between last year and this year, the net result is a fall-off of $153 million through February. Now, so while that year-to-date decline of 0.5% is slightly below the 1.3% anticipated by the end of the fiscal year, we are expecting that final tax payments and revenues from true-up redistributions over the last third of the fiscal year should provide the needed revenues to reach and slightly surpass the enacted budget figures, absent any surprises with the volatile final tax period season that is coming over the next two months.

So, if we turn to page 26, you can see our revised estimate. The Commission is estimating that a slight growth in our fiscal year 25 projection, an increase of $333 million from $53.281 billion to $53.614 billion. Now, this is a relatively small increase of 0.6%, but it is an increase compared to what we were expecting.

Most of the increases that we are showing is from that personal income tax line. As I stated earlier, they have performed quite well, so we're increasing that estimate compared to the enacted budget by $1.2 billion. However, we are lowering our corporate income tax expectation by $655 million on a net basis. We're also lowering our sales tax revenue amount by $363 million, mainly due to the poor performance of sales tax revenues in the first half of the fiscal year. Now, sales tax revenues have started to pick up a little bit, we've seen in recent months, but still, we think it necessitates a downward revision of $363 million. From all other state sources, because of the interest income that we've seen and other factors, we're increasing our estimate from a categorical standpoint by $215 million there. Transfers in, we're making a decline, a downward revision of $219 million, increasing our federal source base by $73 million, and then accounting for the $65 million in one-time revenues that we received from stimulus money to round out the total. So, in the end, again, we're increasing our revenue expectation for fiscal year 25 by $333 million.

The table on page 27 is just more details of that $333 million increase. Go on page 28, you can see how our number compares to GOMB. As you know, GOMB came out with some new numbers in February in their budget book. At that time, they increased their estimate for fiscal year 25 by $619 million compared to the enacted budget. Again, we are increasing our figure by $333 million, so there's a $286 million difference between us and GOMB, not a significant amount, but we are a little bit lower than them in this estimate. You can see the differences between the two agencies here in the categorical table shown here on page 28. You see, we're pretty much the same estimate for personal income tax, only a difference of $22 million on a net basis. We are lower than them on corporate and sales tax revenues. However, we have the benefit of having January and February actuals into our estimate, where they came out with their numbers probably based on December actuals. We saw some lower numbers in corporate income tax, especially in January and February, that we were able to incorporate into our estimate. Again, there's not much difference between all the other state sources, transfers in and federal sources, and again, we both see the $65 million in one-time revenues. So, the bottom line is we are $286 million different than GOMB. You can see more details of that estimate difference there on page 28.

So, as we look into fiscal year 26, trying to decide what are we going to be looking at, our focus really needs to be on how income tax is going to perform. This is a table that we put together in the monthly as we look at the table on page 30, how much income taxes make up of total general funds. If you look back in around 2000, 2004 especially, income taxes when you include both personal and corporate made up around 30% of the total general funds budget. That amount over the last 20 years has increased from 30% to 60%. Our fiscal year 25 number would assume that 60% of the revenues that we are using for the state's general funds comes from the income tax. So, we're becoming increasingly reliant on this tax source to fund our revenues.

Koehler: Please add Representative Harper.

Noggle: So, whether that's good news or bad news, that's up to interpretation. It's up to you guys to decide. But when times are good, when income taxes are flowing in, this is a great thing to have, that reliance on income taxes. If we go into some kind of recession, then there's a fear that we put all of our eggs in one basket and we might see a bigger decline than we typically would when we're not as diversified. So, it's just something to keep in mind. But our focus when we talk about what we're seeing for fiscal year 26 tends to be more on the income taxes now because of this.

So, we look on page 31. What are we seeing on how income taxes may act in the future? Well, one of the leading indicators is how sales tax revenues are performing. If sales tax revenues are doing well, businesses are probably also doing well and they're hiring. If they're hiring, then our employment levels are up, and then therefore you're probably going to have a lot of income tax revenues from your employees. If sales tax revenues start to struggle, then there might be some layoffs, and that could eventually hurt income tax revenues.

So, watching sales tax revenues really gives us a good idea how personal income taxes may perform in the future. And we were a little concerned. You can see the table here at the bottom of page 31. Sales tax revenues were doing quite well coming out of the pandemic, as we all know. Sales tax revenues were doing very strong. They started to level out in March of 2023.

At the beginning of fiscal year 25, you see that sales tax revenues really went down, and we had a lot of negative months in a row where there was a lot of concern with our sales tax revenue performance. Now, what were the reasons for this? It's probably a combination of things, and we continue to look at trying to figure out why that's occurring. One, maybe we don't have that federal stimulus money anymore, or we've just got very little of it. And so, there was so much federal stimulus money that was in the economy a couple of years ago that if people were going to make big purchases, they made them at that time, and it kind of accelerated those big purchases, so there's not as much purchases that needed to be made over the last couple of years. It slowed things down a little bit. Also, there's not many big item purchases being made because interest rates have been higher, so there's not as many people buying the homes and the cars over this last year. If people aren't buying these homes, they're not buying furniture for these homes or the appliances for these homes, so we're probably seeing a sales tax revenue drop because of that. And it may be surprising, but actually we have lower gas prices than we did a year ago. If you look at that, our prices are about 7.5 percent lower at this point as last year, and we do see a lot of sales tax revenue related to motor fuel come in, and so that might be another component to why we've seen sales tax revenues struggle. As you see, we're starting to see an upward trend over the last couple of months. I think in February, even with one less receiving day, our sales tax revenues were up about 2.5 percent. So, it's hopeful that that increase will continue. We'll continue to monitor that.

If you look on page 32, one of the other components that we look at closely is employment. As I alluded to earlier, as Ben alluded to earlier, employment was very strong coming out of the pandemic. It has leveled off, but it has, for the most part, stayed positive. We've had positive growth, albeit slight, from employment.

The graph below that on page 33 shows how wages are performing. Again, wages were really strong coming out of the pandemic, and they had slowed, and as Ben alluded to earlier, that they were pretty much flat in much of fiscal year 2024, but you can see that's starting to take off a little bit more in fiscal year 25. That could be potentially good news for individual income tax revenues going forward if wages start to increase. Probably the big reason that we've seen such strong individual income tax revenue performance has to do with these business-related income tax revenues that are flowing through the personal income tax line.

We're going to talk about that on page 34. Now, each year, the Department of Revenue conducts an annual review of income tax receipts to make sure that these revenues have been properly allocated according to law. If the review shows that too much money was allocated to a particular area, a revenue adjustment is made the following year in the form of a true-up. In most years, that true-up adjustment is not noteworthy. The policy changes in recent years related to federal tax deductions and the emergence of taxpayers using the pass-through entity tax changed taxpayer behavior enough that these adjustments over the last fiscal years have been significant. For example, if you look on this chart here, you see in fiscal year 22, the review found that the personal property replacement tax, and you can see that in the blue area there, received $818 million more than it should have received. If you talk to your local governments, they said, oh, wow, look at all the revenues coming in for the PPRT line in fiscal year 22. Well, when they went back and reviewed it, they found that they probably received too much money.

After the review that took place in fiscal year 23, they reallocated that money and moved that money into the personal income tax line where it should have gone according to law. This was great news for the state. $818 million flowed in, not so much good for the local governments, as you may have heard them complain that their amounts went way down. Well, this is the reason for that. They did this review again in this past year, and again they found about $1 billion needed to be reallocated to the personal income tax line from the PPRT line in fiscal year 25. That's one of the main reasons that we have increases in our personal income tax revenue estimate and why we think revenues are going to come in okay in fiscal year 25. It's going to be better than the 7.2% growth that we've seen so far. So, again, that's $1 billion that we're receiving because of this true-up. Now, going forward, the expectations, I've had discussions with the Department of Revenue, there is expected to be some kind of true-up again next year, but it won't be at the same level. If they keep revising the default rates that allocates revenues to these different buckets, that amount of allocation is supposed to be enough that these true-up amounts will be less in fiscal year 26. Why is that important? Well, that means that the amount of revenues we're getting in the income tax revenues will be less than from this category of revenues.

Let's go to the table on page 35, and I'll explain why this is important. This is our official estimate for fiscal year 26. The bottom line is we're going to increase our revenue estimate from $53.6 billion to $54.2 billion. It's an increase of $610 million, or growth of 1.1%. You'll see that the personal income tax line, which I've talked about, is very important. We're increasing that from $27.7 billion to $28.2 billion. Now, that's a difference of $521 million, but that's growth of only 1.9%. Our base growth in personal income tax is actually closer to a typical average of around 3.5%. But when you account for this getting approximately $500 million less from this true-up, the net result is a growth of only 1.9%. So, that's trying to explain why we're having a slowdown in personal income tax receipts. Corporate income tax, we're expecting to rise slightly to growth of $58 million. Sales tax revenues, now this number is a little misleading. It shows a drop of $85 million. Well, the main reason for that is we have a lot of non-general fund distributions to the road fund and certain transportation funds that have to take place. We're expecting growth, natural growth, around 2.5%. But after these redistributions away from the general funds, the net result is a drop in sales tax revenues of $85 million.

All other state sources, we're declining our revenue estimate by about $120 million there. Transfers in, increase of $128 million. And at this point, we're adopting the GOMB number for federal sources because it's tied to what they expect to spend on some federal dollars of $173 million increase there. And again, we're not going to be receiving those $65 million in one-time revenues in fiscal year 26. The bottom line, we're increasing our estimate in 26, $610 million higher than what we expect in fiscal year 25. You can see the details of this estimate on page 36 if you want to look at a line-by-line basis.

Now, the question is, how do these figures compare to the governor's office? As you know, the governor's office came out with figures in February in their budget book. They had a number projecting general funds revenue total for fiscal year 26 of $55.453 billion. This estimate that we're coming in is $1.229 billion lower than that figure. Now, please keep in mind that their revenue estimate included some assumptions, some revenue adjustments that would have to be enacted by you guys. So that wasn't a current law estimate. They included $492 million in revenues that would have to be modified.

So, if you want to take out that money to make it more of an apples-to-apples comparison based on current law, we are still less than them, but only $737 million less than their figure. So, the table below would show how their official figure compares to our figure, showing that $1.2 billion difference. You can see that in personal income tax, corporate and sales tax, we are significantly lower than them. We're a little bit higher than them in all other state sources. A little lower in transfers in and keeping the same number for federal sources. So, again, a difference of $1.2 billion, but that is not an apples-to-apples comparison.

On page 38, you can see these revenue adjustments that they are assuming in their budget. This includes around $204 million in tax amnesty, which they call a proposed delinquent tax payment incentive program. There is $17 million from an income tax deduction related to cannabis industry businesses that they're going to take away. They also propose to do a pause in the amount that goes from sales tax revenues that are to be an increase that goes to the road funds. They want to pause that. By pausing that increase, then we would retain $171 million for the state. They're also proposing a $100 million casino tax change, putting the tax on casinos to be what it was prior to this expansion and casinos. And so that was expected to bring in about $100 million on an annual basis. The total amount of revenue adjustments they are including in their figures is $492 million.

The table on page 39 would show more of again, an apples-to-apples comparison between the two numbers, which show how we are $737 million apart. But even with that, there are some significant differences between the two agencies. $414 million difference in personal income tax, $370 million in corporate, and $187 million in sales tax revenues. So much of these differences, and especially in the big three, are because it's related to economically tied forecasts. We tend to be a little more cautious in our estimate for these particular sources. I'm not saying that their forecasts are unattainable. I think that they are. If things go well, I can see their revenues being on track. But at this point, with all the uncertainty that's been talked about, I think it's best to have more of a cautious approach in our estimates for these particular items.

And so, for that reason, there is a somewhat substantial difference between the two agencies of $737 million. But again, as Clayton talked about before, we're talking about a $54 billion budget, and so $737 million doesn't mean what it used to mean. It's a difference of only 1.3 percent difference between the two agencies.

On page 40 is more details of the differences between the two. I won't get into that. I'll just kind of just some brief final thoughts. From fiscal year 25 perspective, again, a difference of $286 million, but that's only a difference of 0.5 percent. We will continue to watch income tax revenues, especially during this final tax period, and other sources like sales tax to see how they're performing. If things continue to improve, the Commission will come back to you in May, and we could be making an upward adjustment at that time.
From the standpoint of fiscal year 26, again, we realize that there is a big difference between the two agencies at this point, especially if you included the revenue adjustments that they have in the budget book.

At this point, the Commission is not as optimistic in its projections for some of the economically tied resources, such as sales tax and income taxes. And at this time, the Commission feels that a more cautious approach is warranted, given the economic uncertainties related to the current volatile geopolitical climate, these tariffs that are going in even today, changes in the federal workforce, and outcomes of other potential policy changes at the federal level. We will, again, continue to monitor the progress of these items, and we will come back in May if we felt like a revision is warranted. With that, we'll answer any questions. With the sirens going off.

Koehler: It's the first Tuesday of the month, so I don't know if the sirens will get any louder in here, but when you mentioned about insurance tax, what is that exactly?

Noggle: That's insurance taxes that we get on an annual basis, and I just don't—I wouldn't put too much concern over that. The receding patterns have just been, honestly, just kind of weird over the last couple of fiscal years. They don't have the same flow that they have in the past, and so I think they're just maybe taking a little longer to— I don't know if somebody from accounting is off or whatever. A year ago, we received zero revenues from the insurance taxes in February. Well, this year we received, I don't remember what it was, say $40 million, $30 million, $40 million. And it's not that we didn't collect any tax revenues. It's just the fact that we received zero in February, $30 million now.

Koehler: Do you think it might be necessary to come back into a meeting here if we see what kind of impact the tariffs have on the economy? How long will it take? So, my question was about the tariffs. We might see the impact fairly soon on that. Will that cause us a need to come back sooner?

Noggle: I don't know how much we will know in just a couple weeks. I think that tariffs are just one component of all the components. We really need to see probably how income tax revenues perform during the April tax filing period. If they come in strong, that's going to increase our base level for which growth through fiscal year 25 is applied, or fiscal year 26 is applied. So, I guess my answer to you is I would rather wait until May, until we get the April tax receipts, that all that revenue come in, get a very good idea of how fiscal year 25 performs, and that will give us a better idea of where we may be for fiscal year 26, and then hopefully at that point then we'll understand what the tariffs are, how much they're going to continue, how much of it may just be momentary or temporary, and then maybe come back in May.

Varner: Yeah, I would expect that probably FY26 is where you're going to see more than FY25.

Koehler: Questions? Senator Syverson.

Senator Syverson: Thank you. Over on, let's see, page 15, on the employment levels, I guess that's when we look at the overall employment numbers, but at the top when we look at the average employment. Maybe you can help me. When we look over the last couple years, we see very little increases in construction, manufacturing, trades, financial services. Financial services have gone down. Professional services have gone down. And then we see a huge spike in government. So, it looks like more government jobs created than construction, manufacturing, trades all combined. Is that government number, that's including federal, state, and local?

Varner: Yeah, state and local. We've definitely seen a pickup in government hiring over the last year and a half to two years, As well as education and health services. Those are the ones that sort of lagged coming out of the recession, and then they sort of made up. But we've definitely seen drops in professional and business services and financial activity we've seen slowdown in growth there and actually some declines over the last year or two.

Syverson: So that's where it's concerning. Government is growing significantly faster than the private sector. So, when we look at even the overall job growth percentages of potentially 1%, the majority of that's made up then from government job growth.

Varner: At least in the last year and a half or so, definitely the government has been one of the leading ones. Now, long term, you'd rather see private businesses. But like I said, there is some timing there related to coming out of the pandemic and reopening of businesses. And we saw really high demand. You saw higher wages in the private sector. And then there was drawing people away from government. And the state and locals were having trouble hiring people. Well, that sort of slowed down in growth. We've seen some rebounding in hiring in government.

Syverson: Yeah. And if there's going to be, if the Fed started looking at reducing the $2 trillion debt and they do the layoffs of some of those and local government may be doing the same thing. So, do we expect that that government, that increase in government jobs, that that's going to level off or reduce over the next year? And if we're going to see a reduction in that, is that going to be impacting then the overall employment numbers? Or do you sense that?

Varner: Currently, we're not seeing a big or expecting at least short term with like the DOGE cuts and stuff like that. We might start seeing that next month and sort of will sort of trickle down. You know, cut off funding for different programs around the country. You're going to see people letting go people like social services. They just don't have a ton of money laying around. So, there could be, you know, both the individual like in the government sector, but also if you're cutting programs outside of that, that use contractors, you're going to see there. So there definitely could be some results or, you know, unemployment losses related to, you know, cutting the federal government and what it outputs or expends.

Syverson: And the last question would be is when if we see the success of the federal government reducing the spending or the amount of spending, that should be freeing up the availability of money. That should be hopefully lowering the cost of money, of borrowing. How is that going to impact if that gets reduced?

Varner: Yeah, it depends on what we end up doing with it. You know, if you do get some real cuts and what they use tax cuts with that money, you could see some growth off of that. However, until we actually see how much they actually cut and, you know, there's a lot of this stuff's going through the judiciary and stuff like that. We just don't know at this time. But also, where the economy is going and where's the tariffs. As I said, there's a lot of uncertainty right now. And the further we get down the line with actual transition from, proposals to actual implementation, we'll have a better idea. Hopefully maybe in May.

Syverson: If it increases a supply of money, then that should help, I would think, lowering the cost of money.

Varner: It potentially could. Like I said, I know like the Fed has concerns related to inflation and their ability to lower rates. The expectations were they were going to lower it, whereas now it might be on hold. But, you know, if you start seeing weakness in other parts of the economy, they might be forced to lower it. We just don't know at this time.

Koehler: Other questions? Representative Moeller, do you have a question?

Representative Moeller: Thank you. My question was somewhat related to the previous question. You don't show any changes in federal revenue sources coming in, which makes sense considering that nothing has officially changed yet in D.C. But with the budget reconciliation bill that passed last week, the $800 billion in cuts and expected bill to pass sometime in mid-March, similar to the leader's initial question about adjusting our revenue outlooks based on tariffs, coming back and adjusting our revenue outlook based on the budget reconciliation bill, that could potentially have major impacts on our federal funding sources.

Klenke: I would just touch on one point on that. The line that you see in our work on the federal sources, that's not all federal money. That is basically the federal money that is deposited into our general funds. A lot of that is the federal money we get associated with matching programs, Medicaid. So that doesn't capture all federal money, but certainly if there was a change at the federal level that changed the amount of money we were receiving for federal match for those programs, that number would see some adjustment. That's something we'd probably work closely with GOMB on because we do take their lead a little bit in terms of those federal funds.

Moeller: And would you factor in also the ripple effect that cutting, the reduction in those funds would have on adjacent industries like health care and insurance?

Varner: I think we would take that into account. We don't really have models that would say, okay, this dollar amount leads out. You'd be getting more like REMI models and stuff like that. We really don't have that capability. More, it would just be probably a slow adjustment of our growth rates related to employment or wages and how that would affect income taxes and such. So definitely we would consider it, but we don't have like a straight model that would input that change.

Moeller: Okay. And then finally on the question regarding employment and the types of jobs that have been created, do you have more detailed information on where this job growth has been experienced? Do you say government and education, health care, employment is up, professional and business employment is down? Do you have like the actual data?

Varner: We have like metro level areas where we can say, you know, what parts of the state, but we don't really have that fine, you know, much beyond what we're showing here when it comes to like industry level. But we do, like we've seen better growth in like Champaign-Urbana and I believe Bloomington, whereas some of the other down states haven't done quite as well. And Chicago's lagging the country a little too. And we've done some, I believe it was our January or December, either the January or December monthly that we have on our website discusses like where we saw job growth throughout the state and what industries over like the last five years. So, we saw like Bloomington normal, saw a big decline in insurance. And we believe that's related to some changes at State Farm or Country Financial, especially State Farm. They sent some of their employees down to Dallas instead of there. So, we do have some information we can send out. I'll have that sent out just to give you a little more information about different industries around the state.

Moeller: Great. And then I guess one final follow-up question. In terms of, we've done a lot over the last several years to attract new industries to Illinois using targeted budget incentives and whatnot. Do you have any data or do you track employment and investment related data that would be related to those types of investments?

Varner: I don't have numbers associated with that directly. I know like with the Rivian plant, there's been a big jump in the Bloomington Normal area and it's counteracted some of the losses we saw in insurance and finance. But no, we don't have any numbers directly. I could look up some stuff and see if DCEO has any stuff out like directly, but I'm not aware of anything that's available currently that says, okay, this is associated with this. So, I can take a look for it.

Moeller: I think that would be helpful.

Noggle: I think there are some reports that DCEO has to do by statute that is shown on the governor's office's Web page that we could link to you that shows, okay, these tax incentives have been used. How many jobs have been created by this particular tax incentive? I think there is stuff like that. I don't know how up to date. I mean, it might be two years lag or something like that, but there is something that we could share with you on that.

Moeller: Okay. Thank you.

Koehler: Other questions? Representative Sosnowski.

Representative Sosnowski: Thank you, Chair. Just one quick follow-up on page 15 with employment. I probably asked this last year, but we saw a little increase in employment in other services. What does other services generally include?

Varner: That's just like a hodgepodge of I'm guessing like dog grooming, maybe haircuts, repair shops, just like general, basically any service you get that's not in one of these. I'm trying to think else what potentially could be in there. I can't off the top of my head, but I can give you, I can look that up and give you some more definite, but I think it's just basically anything you go down the street and you see a shop and it doesn't fall into one of these.

Sosnowski: I'd just be curious in your follow-up that you're sending out if there's any additional breakdown, you know, if there are larger categories within.

Varner: There's not really much beyond this at the state level, I don't think. I can look into it, though, for you.

Sosnowski: Yeah, that's fine. And then I just wanted to go back to page 36, 37, just your comparison between COGFA and OMB as far as the revenue, and I just want to focus on personal income tax. The Department of Revenue in the House Revenue Committee recently released kind of their forecast of FY26 personal income tax gross being about 3.5% for 26, and then you're at 1.9%.

Noggle: Correct.

Sosnowski: In the GOMB number, are they using that 3.5% or do they have another number?

Noggle: What they include in that, they also account for some kind of lower amount from this true-up that we've been receiving over the last couple of fiscal years. So, their starting base, their growth is probably closer to about 5% of what they're expecting growth in personal income tax, and then when you account for less money coming in from that true-up, then their overall total is around 3.5%. So, the difference between us and them is, we're not being as aggressive in our base growth for personal income tax, around 3.5%, which is, if we went back, I went back and looked in the last 15 years, if you look at net income tax, or so the taxable income of like adjusted gross receipts minus these deductions, the tax base for which the tax rate is applied, the growth in that from year to year on average is 3.3% over the last 15 years. And so, we're assuming 3.5%, and then we go down to 1.9 some. So, I just feel that their growth is higher than with normal. Now, that's possible. We've seen some economic firms say that personal income growth in this upcoming year could be high. You could have wage pressure that could get to that amount.

So, I'm not saying that they are necessarily wrong. I think, again, their amount is attainable. At this point, with all the uncertainty that is out there, I think it's getting closer to more of an average growth around 3.5% is the better route to take at this point. Again, when you take the 3.5%, you account for lower amounts coming from this true up, that's our net result of around 1.9%. That's the difference.

Sosnowski: Okay. But their total estimated growth, I'm not looking for the difference between your estimate and theirs, because you're estimating 1.7% less, which I understand. But what is the governor and GOMB's estimate on the number? Is it that 3.5% that revenue would be?

Noggle: That would be their net. Again, their base growth is probably closer to five. Take out the lower amounts from the true up, and then their net total is 3.5 compared to our, like, 1.7, 1.9, whatever it was. 1.9.

Sosnowski: Okay. And then just one other quick follow-up on the question of GOMB, and I'm not going to say, I know they're not your numbers, but I'm just kind of curious the process or if there was any analysis back when it was released. But we all know there was a release of a number of $3.5 billion deficit that was possible, estimated by GOMB. Looking at your guys' numbers over the months, and then looking at revenue's numbers over the months, neither indicated that back in November, December, or even in January. Was there any additional analysis released when that number came out that was provided that I may not have seen or that you guys saw or Department of Revenue saw?

Noggle: It really comes down to what you estimate spending to be to get to that $3.5 billion difference. Revenues have actually increased just slightly from what that November estimate was. The difference is because they had 6% growth in spending in that November projection that they came out with. So, if you had flat revenues with 6.5 or whatever it was percent growth in spending, that's where you got this $3.5 billion deficit. Now, I think the amounts that they included in the budget book wasn't that high of spending. It was significantly smaller spending with an increase in revenues, and that's why you're getting to where you get rid of that deficit. If you include the revenue adjustments that they are wanting to put into that total.

Sosnowski: So just to clarify, that 6% in additional spend, was that for 26 they were putting in 26?

Noggle: 26 compared to 25. That was the assumption at that time.

Sosnowski: Okay. So, their spending level that they put in the budget book is less than what they said in November. Okay. Last question. Any reason why a spend number would be released at that point before the governor and OMB would release it?

Varner: So that's part of the five-year budget summary or whatever they want to call it. Basically, every November, by statute, they have to put one out. And so, I think that's just as part of that process, that's what they did.

Noggle: Yeah, that's a statutory report that they have to do.

Varner: Yeah, so we do a similar one for a three-year.

Sosnowski: But they internally pick that 6%?

Varner: Yeah, correct. Yeah, like we'll come out with a three-year here in the next month or so, and what we do is usually like long-term trends. But they basically choose, you'd have to talk to them exactly.

Sosnowski: Okay, yeah, I just wanted to ask because when revenue again came to the House Revenue Committee, the department, you know, it wasn't their number either as far as estimate, and definitely not on the revenue side. And so, if it's all on that 6% spend, that makes sense. Okay, thank you very much.

Koehler: Representative Davidsmeyer.

Co-Chair Davidsmeyer: Thank you. I'm going to stick on the true-up really quick. When you were looking at GOMB’s estimate of personal income tax, you're saying they were probably close to that 5%, which brought them down to the 3-point whatever after the true-up.

Noggle: Correct.

Davidsmeyer: Is that the same for you as well? Were you higher on growth and then the deduction of true-up?

Noggle: That's what I'm saying. Our base growth that we're estimating is less than them. And so, where they're starting at 5, we're starting at 3.5. And then with the adjustments, we're down, you know, 3 or whatever and on 1.9.

Davidsmeyer: Yeah, okay, I just wanted to make sure. And on that true-up, you know, my understanding is that that came about because of the federal tax changes and the impact on SALT state and local tax deductions.

Noggle: That's correct.

Davidsmeyer: So, we've kind of been just kind of guessing year after year where that should actually be?

Noggle: That's correct.

Davidsmeyer: As the federal government looks at changes in the tax code coming up, and I'm not asking you to project and guess what they're going to do, but could we see the opposite effect? Could we see not enough given to local government where it has to be clawed, where we have to be giving true-up to them in the future years?

Noggle: Well, I follow what you're saying, and I guess it just depends on the reaction of taxpayers, how are they going to change. And then it depends on – it's a difficult thing for the Department of Revenue because they have to kind of estimate what they think that split is going to be between putting money in the PPRT bucket or corporate bucket or personal. They base that on historical trends or the historical amounts of the way they would split that money. And so, they're trying to keep up with that and keep looking at the way that average should be. If that changes the other way, are they proactive and change it to what they think it should be, or do you base it on what you're actually seeing over the last couple of fiscal years? And that will be a discussion probably for the Department of Revenue more than us on how they're going to react to that. And really, we don't know what's going to happen yet. Are they going to make the changes or are they not?

Davidsmeyer: Trying to guess how corporations are going to file their taxes, right? If those change at the federal level, they won't need our SALT changes, right? So, they may go back to their old filing practices.

Noggle: They may go back to the old way, that's correct.

Davidsmeyer: All right, just wanted to make sure. Now, during COVID, I think we saw a huge increase in sales tax, right? Because people were stuck at home. They couldn't go to get the services and things of that sort.

Noggle: And prices were higher, so therefore you had more sales tax revenues come in.

Davidsmeyer: Yeah. And so, are we seeing – do you think there's a possibility that we're seeing a pre-spend? People spent so much back then that we're dropping in sales tax. I mean, it's odd to see the types of decreases that we saw in like November and December as you go up to the holidays, right? So those decreases were kind of odd. And I think earlier you said you might not be able to totally explain those decreases.

Varner: I definitely think we saw inflation supporting our growth here in Illinois. I think a lot of our growth we've seen in the last couple of years is mostly inflation. I don't think we were seeing a ton of real growth. I don't really know exactly how that would come out. So as inflation went down, we probably – that would slow down our sales trends there. Yes and no. So, I mean, definitely you've seen some slowing, but I think the consumer has held up really well. And unless we start seeing some significant changes, I think, with employment, you know, start really seeing layoffs versus a slowdown in hiring, I think if you got a job, you're pretty secure at the moment. Now, once again, that can always change pretty rapidly. But I think the consumer's going to continue to hold on pretty well, and our forecasts are indicating that.

Davidsmeyer: So, and we talked a lot about the inflationary impact on sales tax and things like that. Do you think that that same thing could happen if we see the prices maintained through tariffs and all that? And I'm not saying it's a good thing to have inflation, but historically it has been a good thing for government.

Varner: At least in the short term. You know, we might see a bump with inflation, but also eventually that will lead to less demand. You know, it's sort of a counteract. Yeah, we're seeing stuff because we're getting a little more sales tax there, but they might not buy that next jet ski or the new TV.
You know what I mean? I'm paying 10% more on food. I'm going to probably eventually counteract it there. Or we're going to see, you know, people asking for more wages, and then you sort of get in that loop of, you know, higher wages lead to higher prices, which leads to higher wages. You know, and that's what we're really trying to avoid.

Davidsmeyer: Okay. And along the lines of sales tax, as we've seen the gas sales tax transfer from the general revenue fund into the road fund, are we still counting that as sales tax overall in these numbers?

Noggle: Yes. It's in our gross number, yes.

Varner: It's in our gross number, and at the bottom of the thing you'll see a subtraction on the general distributions here. On page 36, it's at the bottom.
The sales tax deposit, sales tax on gasoline there.

Davidsmeyer: Okay. I missed that. I appreciate that. And then going back just a little bit further, trying to find where that was. I should have written down a page number. Where we talk about, oh, on page 17, when you look at real business investment, what type, I mean, are we talking about equipment purchases?

Varner: That would be equipment purchases, that would be structures, and intellectual property. That's usually the big main three where they group out when you do, like, GDP numbers.

Davidsmeyer: Okay. And that's, you know, seeing that large decline from 22 and 23, and that could have been because of PPP dollars and things of that sort, you think? I mean, because 7%, 6% investment is.

Varner: Yeah. I mean, definitely you've seen a slowdown in 24, and like I said, they're expecting a slowdown in 25 with a little rebound in 26.

Davidsmeyer: Okay. Thank you.

Varner: I will say, though, one of the things we've seen probably at least the last six months or so has been some, like, hesitation or acceleration related to tariffs, trying to, should I invest now or should I wait? Whenever you have changes at the federal level or the state level, there is some game playing, or not game playing, but, you know, planning might change.

Davidsmeyer: And I represent a large Ag district, so when you look at, you know, farmers making decisions on major purchases, combines, tractors, things of that sort, they're seeing prices probably stay around $4.30 a bushel for corn. I mean, like, and you're talking possibly a decade of that coming up, so we may see decreases on that side.

Varner: Yes

Koehler: Senator Lewis.

Senator Lewis: Thank you, gentlemen. State Senator Seth Lewis, for the record. We were supposed to introduce ourselves, correct?

Koehler: I introduced all of you anyway.

Lewis: I'd like to challenge the perception that the consumer here in Illinois is, you know, doing, you know, holding their own. I look at the data. I see core CPI here in Illinois up 4%. I see real wage increases, zero last year, 1.9% this year. I see our sales tax revenue declining, and when I look at what's not sales tax, we have higher insurance costs, we have higher mortgage rates, we have higher prices that are included in core CPI, and I believe that the consumer has less money to buy stuff in which we collect a sales tax here in Illinois, and that the consumer is weakening, not holding their own.

Varner: I mean, definitely there is pressure on them. I won't disagree with that, but besides, like, the period at the end of 2020, or excuse me, the summer of 2024, we haven't really seen big declines. We've seen some there, but at least related to sales tax, they've been holding up rather decently. They are below long-term trends, but we're not really seeing a ton of negative months, at least recently.

Lewis: But is that something you guys are looking at in a different light for longer-term impact?

Varner: Usually, sales tax is pretty consistent. Prior to the Great Recession, we only had, like, one negative year in sales tax, because usually you see a growth of 2 to 3 percent just from inflation, and that, you know, yeah, you might put off your car purchase or your big screen or whatever, but you're still buying food, you're still buying detergent, you know what I mean? So, in the long run, sales tax has been pretty steady growth, about 2 to 3 percent, and in recent years, with inflation, it's more like 3 to 3.5 percent. So definitely, I mean, there's issues we keep an eye on, and like I said, we were concerned in the summer last year, and as you see, we've lowered our sales tax estimate, what was it, 300 million or so? So definitely, there's some signs we need to be seen, but overall, the U.S. consumer has been driving the economy for the last four or five years, and until they don't do that, I'm going to assume that they're going to continue. Now, obviously, this can change quickly, and we'll adjust as we, you know, assess new information.

Lewis: Thank you. Thank you, Mr. Chairman.

Koehler: Any other questions? If not, Director, do you want to make any concluding comments?

Klenke: Yes. The main topic I want to touch on just is looking forward to our next meeting. Our next meeting will be in April. It will be on group insurance. Generally, we like to schedule those on a day that both the House and the Senate are in. There's actually only two Tuesdays in April where that occurs, April 8th and April 29th. So, I think what we'll do right now, planning-wise, and notifying the vendors that are testifying, we'll shoot for that April 8th date for our next meeting.

Koehler: All right. Thank you for your presentation. With no further business to come before the committee, we stand adjourned.

(This written transcript serves as the minutes for the March 4, 2025 CGFA Revenue meeting.)