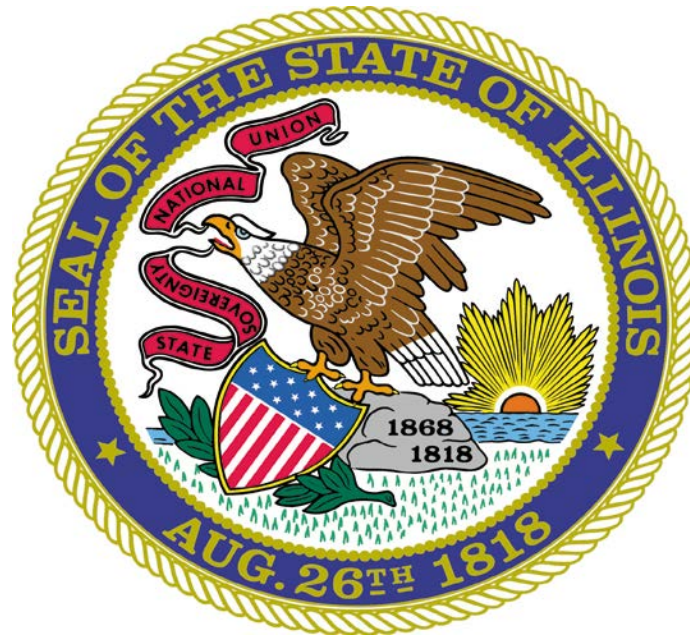


# FY 2020 Economic Forecast and Revenue Estimate and FY 2019 Revenue Update



Presented by:

**Clayton Klenke, Executive Director and Jim Muschinske, Revenue Manager**

Commission on Government Forecasting and Accountability  
802 Stratton Office Building; Springfield, Illinois 62706

March 5, 2019

# CGFA Commission Members

<http://cgfa.ilga.gov>

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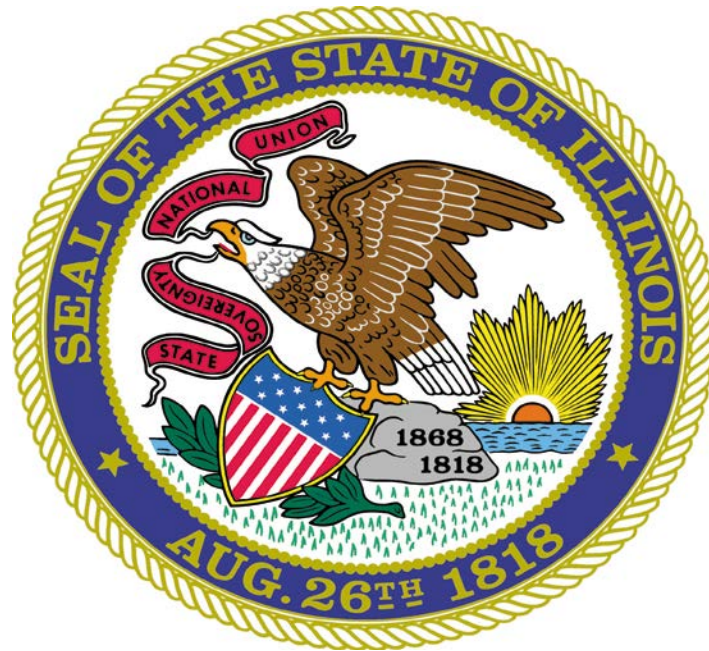
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## CGFA Background & Responsibilities

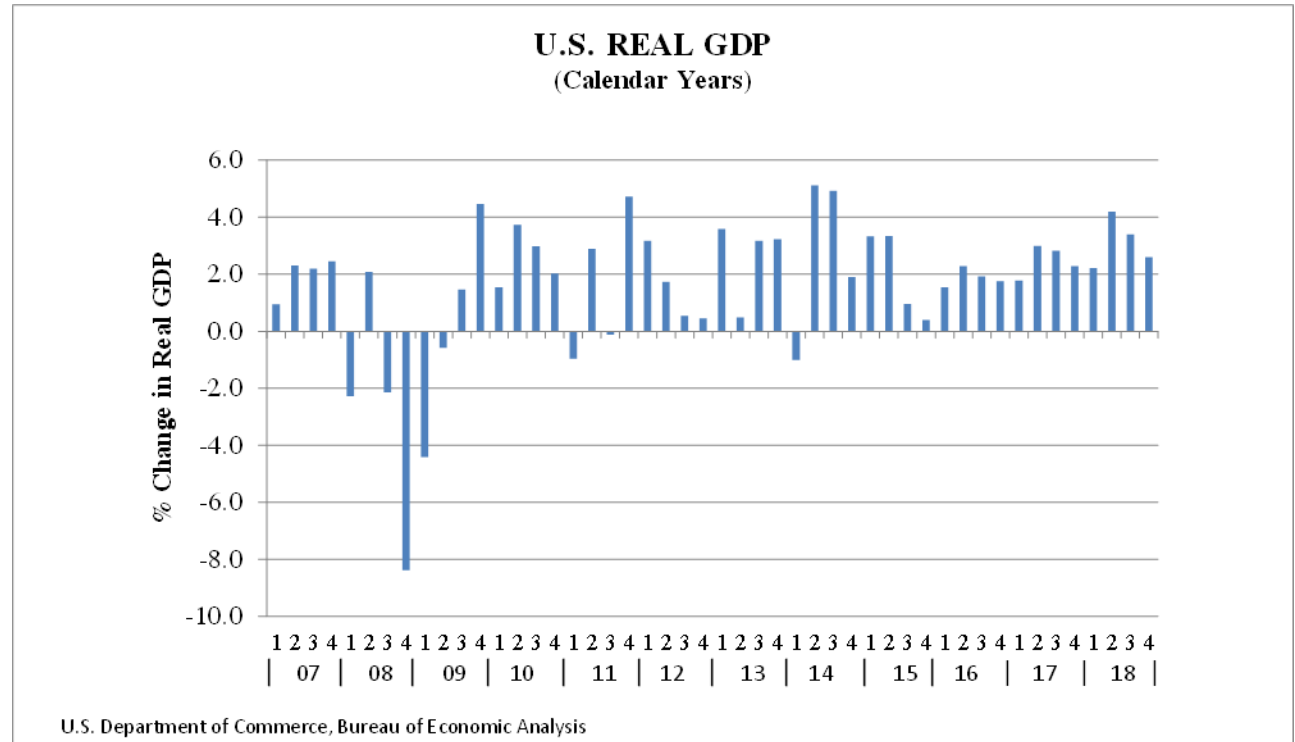
- Bi-Partisan, joint legislative commission, provides the General Assembly with information relevant to the Illinois economy, taxes and other sources of revenue and debt obligations of the State.
- Preparation of annual revenue estimates with periodic updates;
- Analysis of the fiscal impact of revenue bills;
- Preparation of State Debt Impact Notes;
- Periodic assessment of capital programs;
- Annual estimates of the liabilities of the State's group health insurance program and approval of contract renewals promulgated by the Department of Central Management Services;
- Implement the provisions of the State Facility Closure Act;
- Annual estimates of public pension funding requirements and preparation of pension impact notes.
- Provide non-partisan research for General Assembly Members.

# THE ECONOMY



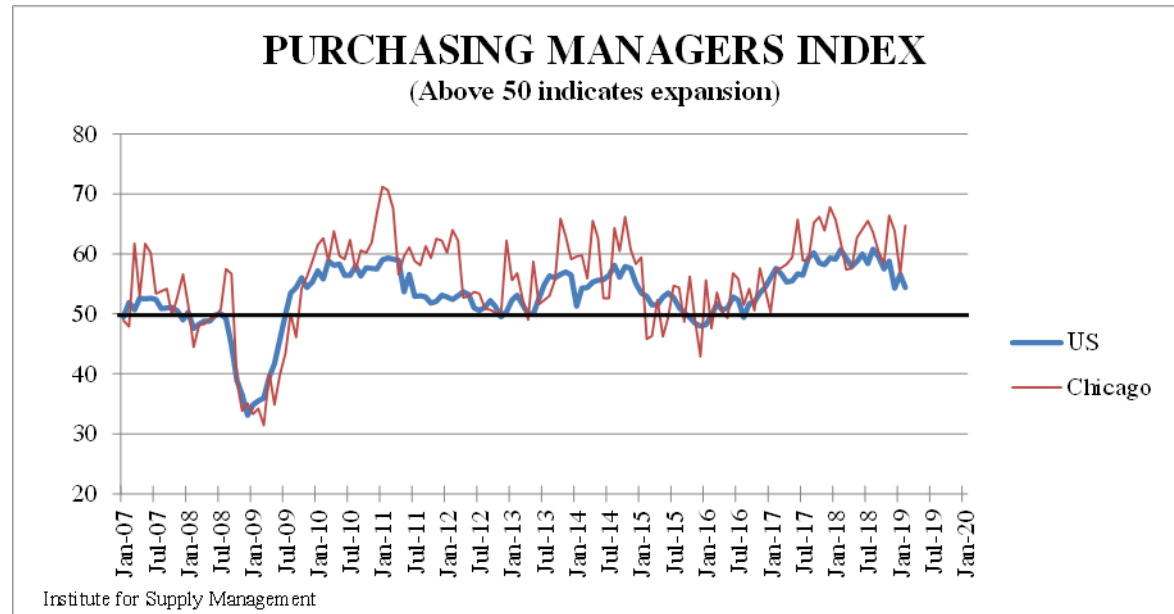
## CHANGE IN REAL GDP

- After the Great Recession, the recovery that began in June 2009 has been steady but erratic on a quarterly basis.
- Initial estimates from 2018 indicate that the U.S. economy grew at 2.9%, which is an improvement from 2.2% in 2017 and 1.6% in 2016.
- The 4<sup>th</sup> quarter of 2018 came in at 2.6% which was a decline from the 4.2% rate in the 2<sup>nd</sup> quarter and the 3.4% growth seen in the 3<sup>rd</sup> quarter.
- An aggregation of economic forecasts has a mean estimate for real GDP growth of 2.5% in 2019 and 1.9% in 2020.



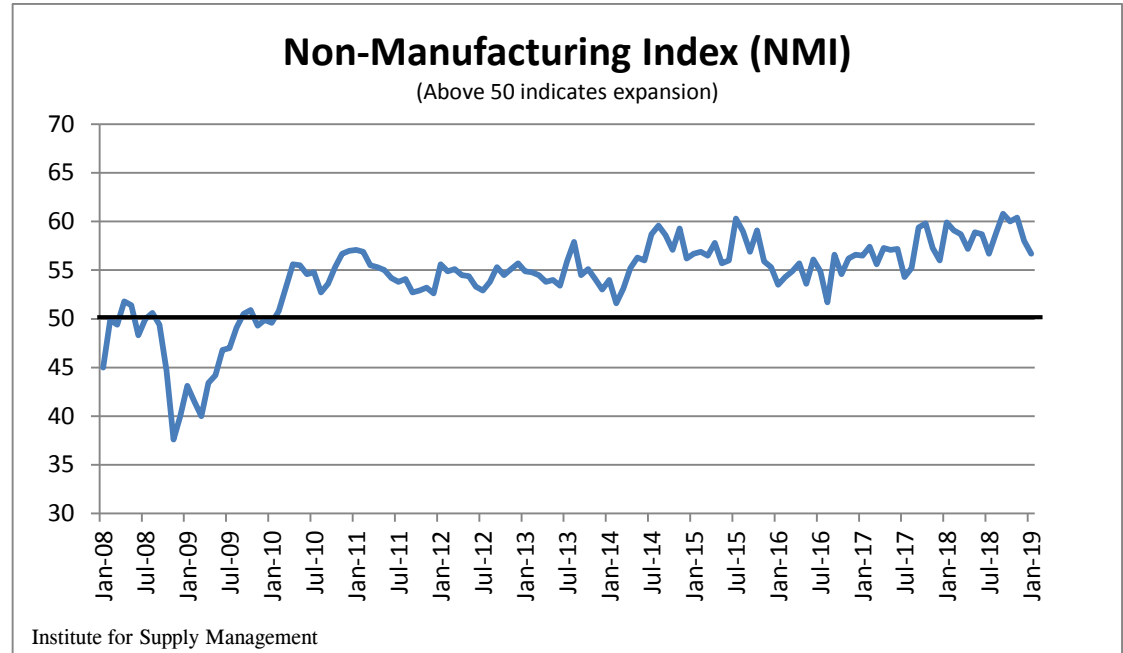
## PURCHASING MANAGERS INDEX

- This chart shows the Purchasing Managers Index (PMI) for the manufacturing sector. A number of 50 or more meaning expansion and below 50 a contraction.
- The PMI index is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.
- The chart shows the large decline associated with the Great Recession, followed by two cycles of increases to around 60 and decreases back to around 50.
- August of 2016 was the last time the PMI was below 50 for the U.S.
- August 2018 was the highest level (60.8) for the U.S. since May of 2004. The latest measurement in February was 54.4.
- The PMI for the Chicago area has followed a similar pattern to the U.S. with even higher levels of growth over the last year.



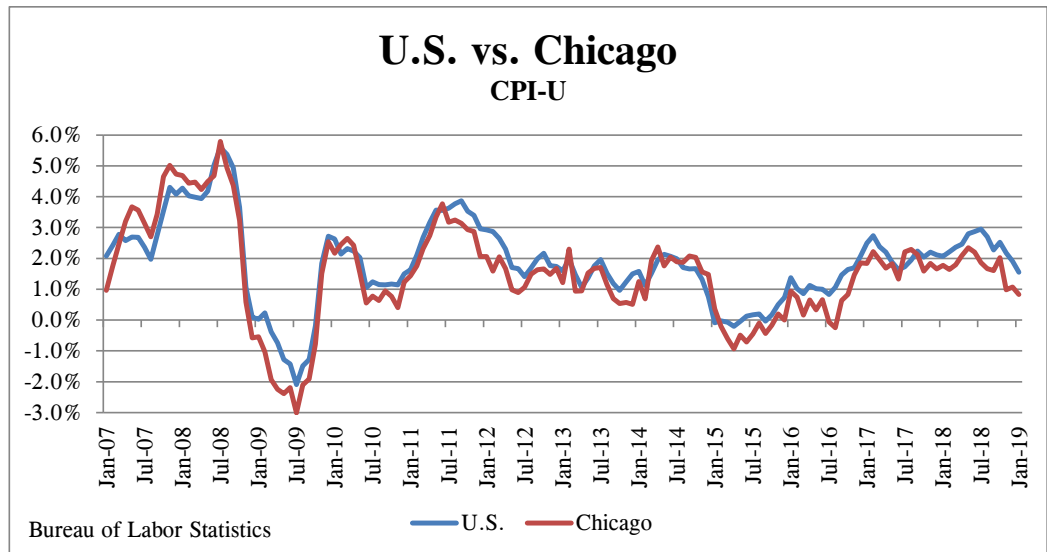
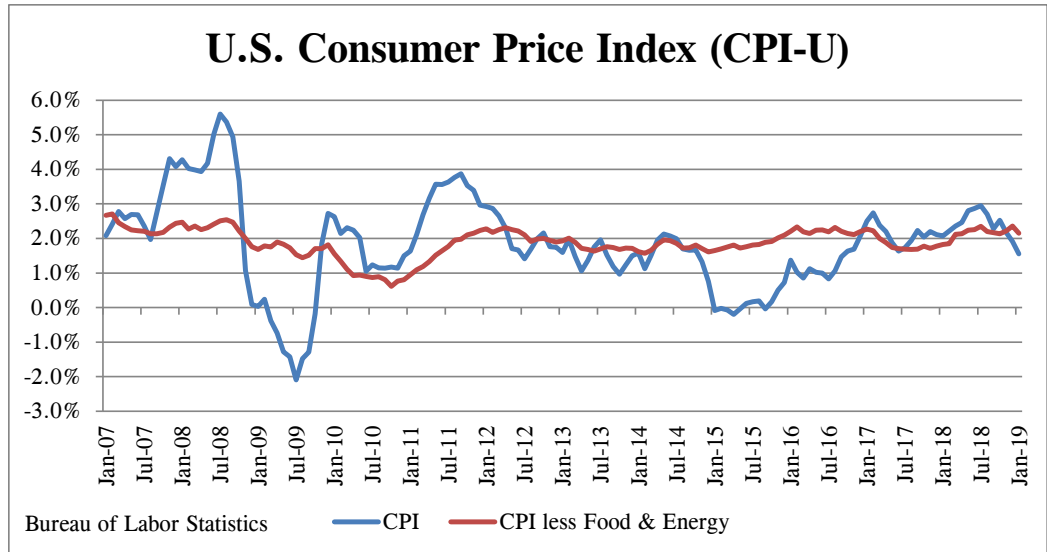
## NON-MANUFACTURING INDEX (NMI)

- The Non-Manufacturing Index (NMI) is a composite index that is calculated as an indicator of the overall economic condition for the non-manufacturing sector, which is far larger than the manufacturing sector (representing over 80% of GDP).
- The NMI is a composite index based on the diffusion indexes for four of the indicators with equal weights: business activity, new orders and employment – all of which are seasonally adjusted – and supplier deliveries.
- The chart shows the large decline associated with the Great Recession, followed by steady expansion.
- Based on the NMI, the non-manufacturing sector doesn't show the same ups and downs seen in the manufacturing sector as illustrated in the previous slide by the PMI.



## CONSUMER PRICE INDEX (CPI)

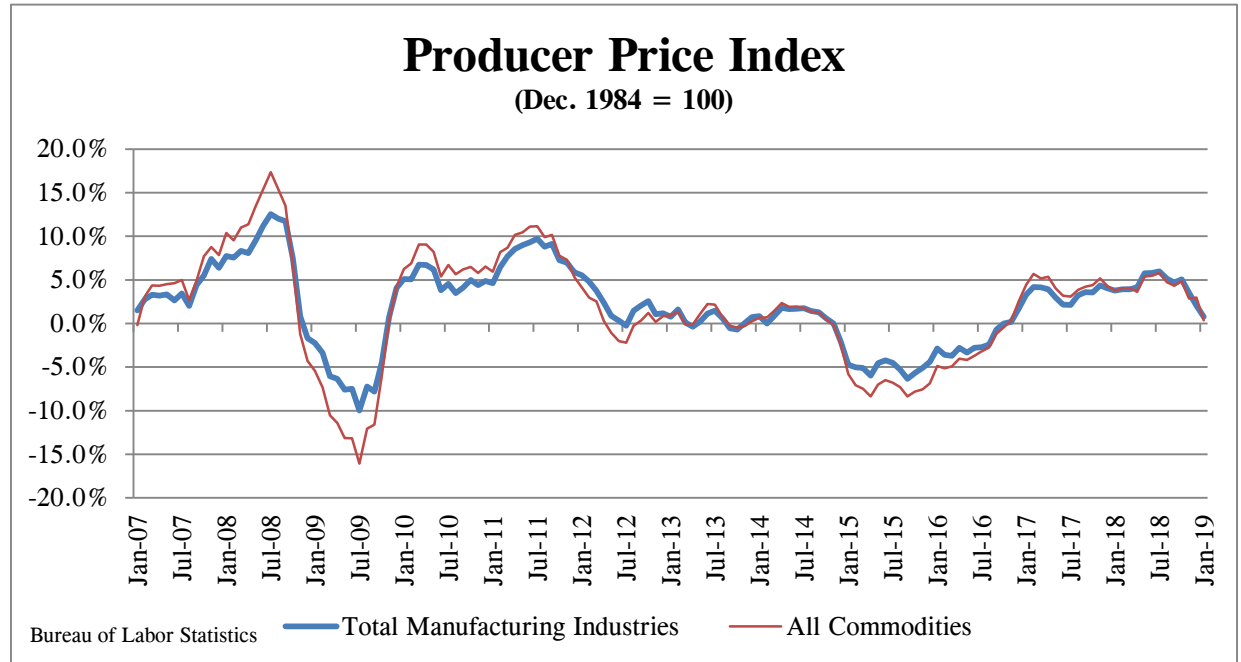
- The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.
- The first chart shows the CPI for the U.S. as well as the CPI without food and energy included which are two of the more volatile components of the index.
- While there was some price volatility around the time of the Great Recession, it was mostly steady between 1.5% to 2.0% between 2012 and 2017, especially when food and energy are removed.
- The CPI steadily increased from 1.6% in June of 2017 to 2.9% in the summer of 2018, indicating some building inflationary pressures. However, CPI has returned to below 2% since then.
- Consumer prices for Chicago have basically tracked with the nation as a whole though Chicago's price growth has been consistently a little lower since February of 2015.





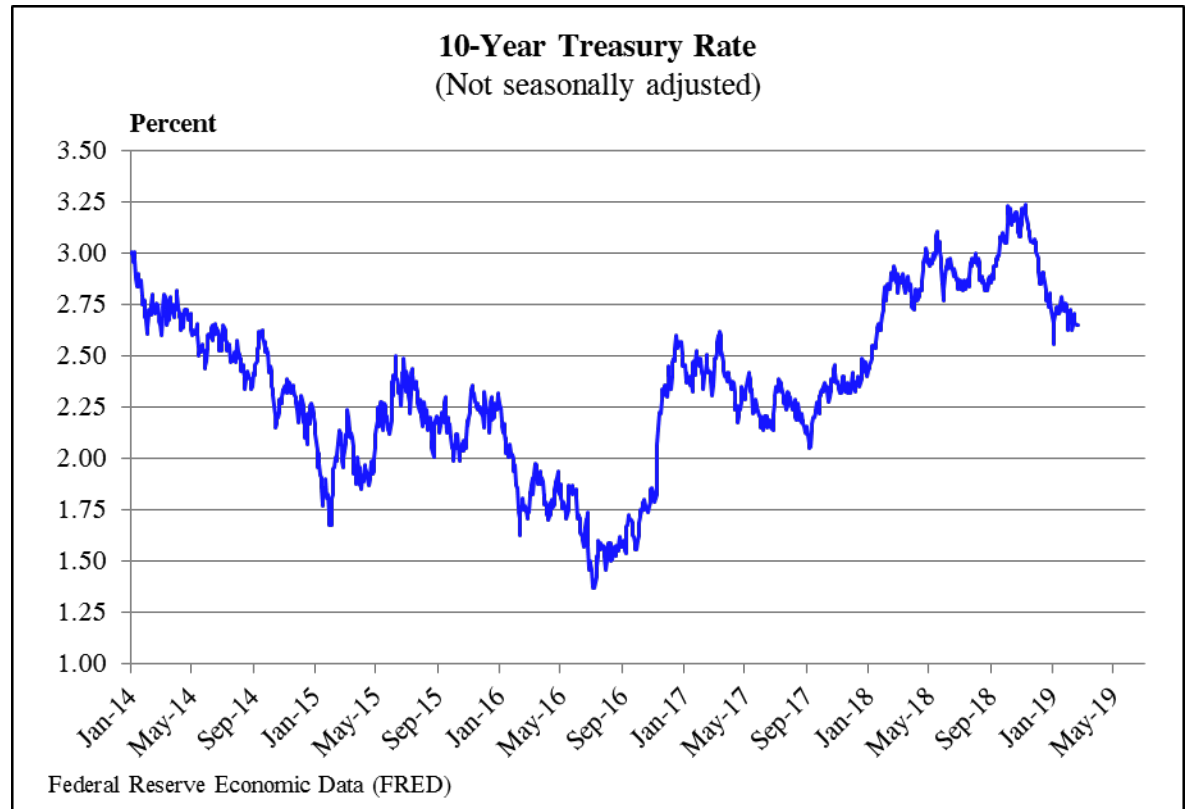
## PRODUCER PRICE INDEX (PPI)

- The Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services.
- Like other economic variables, the PPI for the U.S. rose dramatically prior to the Great Recession and then fell precipitously.
- Similar to the CPI, the PPI showed some heightened inflation pressure at the wholesale level in the summer of 2018 which has since declined.
- The PPI for the U.S. had a recent peak of 6.0% in July of 2018. This was the highest level since December of 2011.
- Since peaking in July of 2018, the PPI has steadily declined to its current level below 1%.



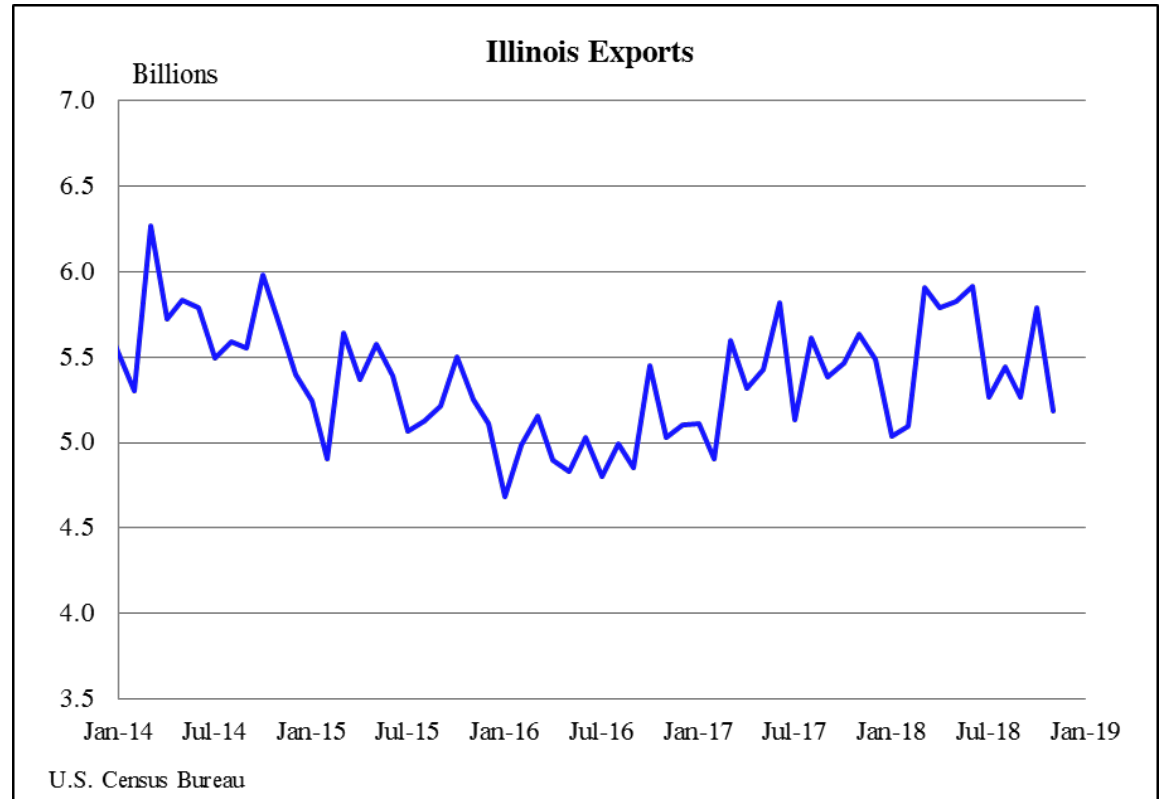
## 10-YEAR TREASURY RATE

- The 10-year treasury rate is a key rate tied to many transactions, particularly home mortgages.
- The 10-year treasury rate, while erratic, had been on a downward trend since early 2014. After falling to 1.37%, the lowest level in history, during the 3rd quarter of 2016, it finally started to recover.
- Over the past 2 years, the rate had been increasing in a volatile manner and reached its highest level since mid-2011 at 3.24% in November 2018.
- However, as shown, the rate has experienced a recent downturn and went below 3.0% again partially due to concerns of a weakening global economy. Currently, it is around 2.6%.



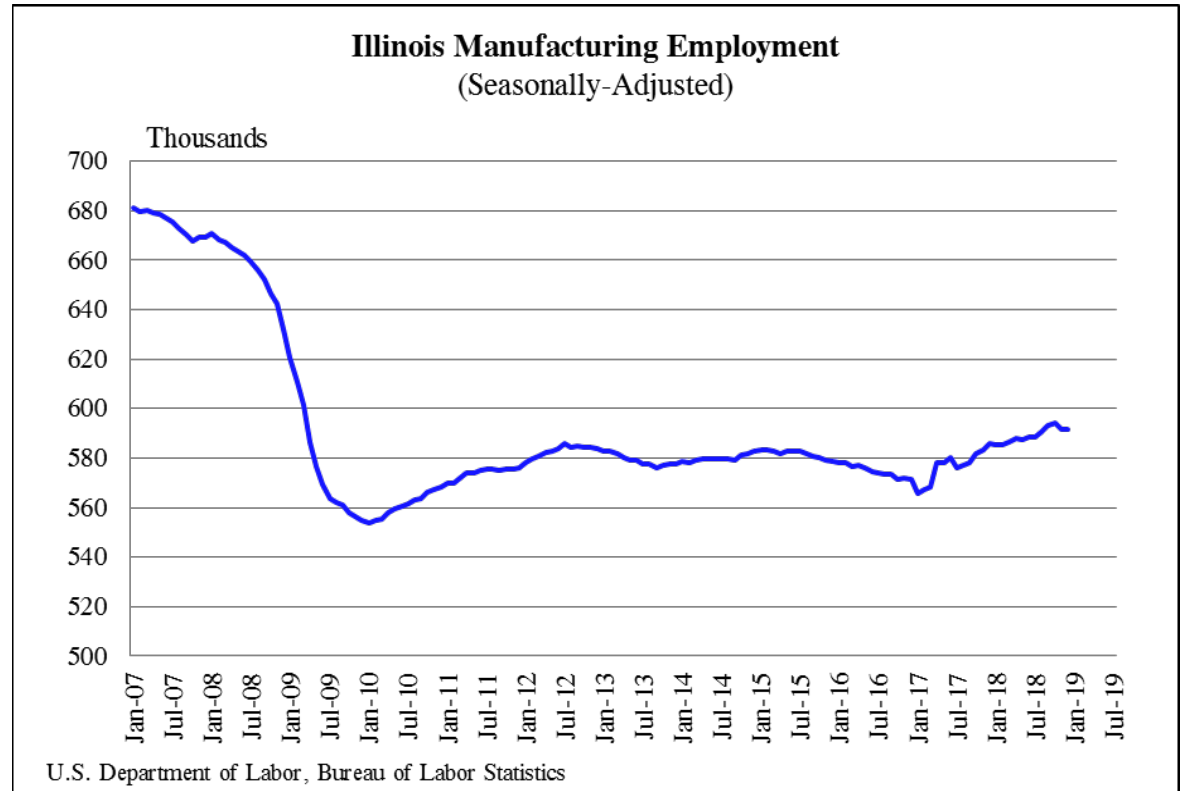
## ILLINOIS EXPORTS

- Illinois exports, while erratic, started to decline and continued its downward trend since early 2014.
- Starting January 2016, the downward slope was reversed, and Illinois exports have grown erratically.
- After Illinois exports surprisingly rose to \$5.92 billion in June 2018, the highest level since late 2014 despite uncertainties such as trade conflicts between the U.S. and other countries, it fluctuated. In November, it dropped to \$5.18 billion, a 10.5% decrease from the previous month or 8% decrease from a year earlier.
- According to Moody's Analytics, remaining trade tensions between the U.S. and China, along with new tariffs possibly impeding growth in exports to China, have complicated the outlook for exports, especially on agriculture and commodities.
- Illinois is the fifth largest U.S. exporter with China being one of the top three import countries for Illinois.



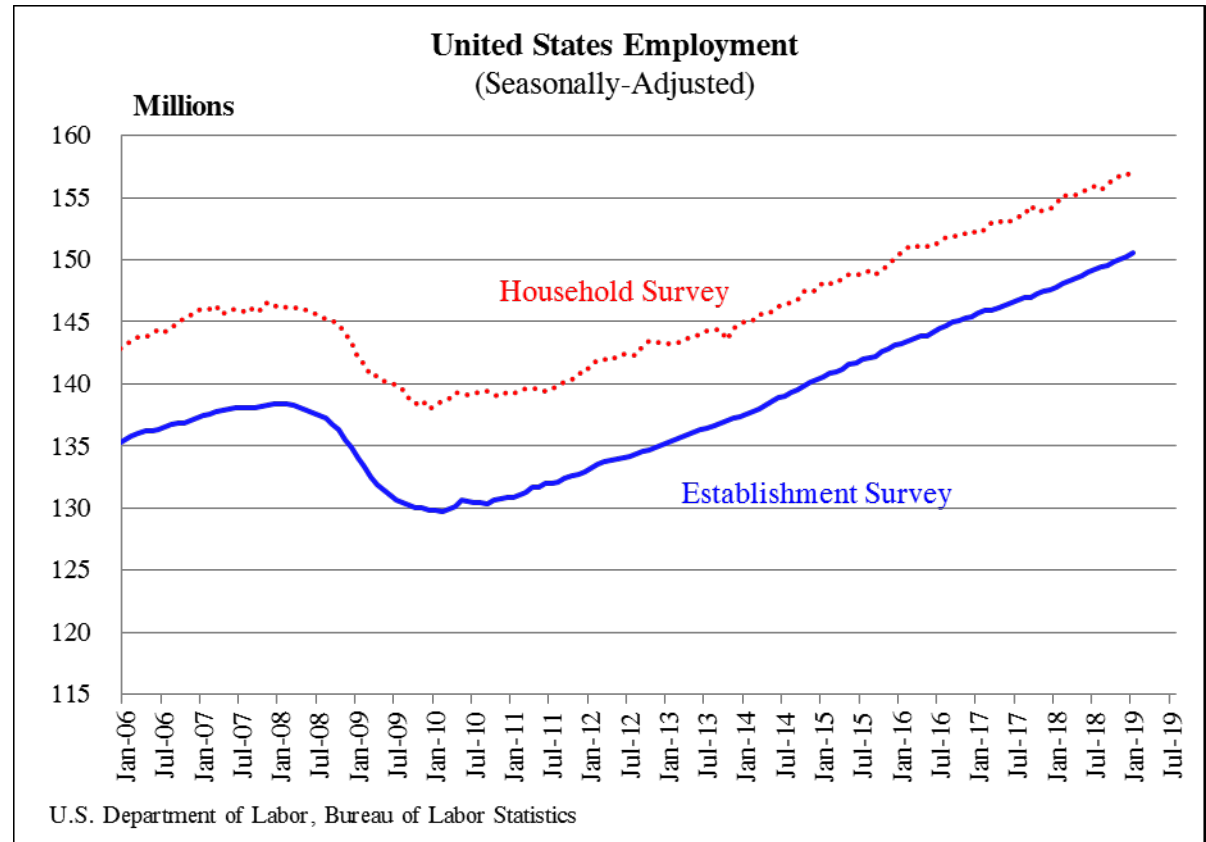
## ILLINOIS MANUFACTURING EMPLOYMENT

- The weakness in Illinois employment has centered in the manufacturing area. Fortunately, recent data show a noticeable recovery, which had not been seen for almost a decade.
- After experiencing a severe loss during the 2008-2009 recession, Illinois manufacturing employment finally changed to upward movement as the economic recovery began to improve around 2010. A few years later, however, it leveled out, followed by renewed weakening throughout 2016. In January 2017, the level of manufacturing jobs had fallen to the lowest level since late 2010.
- Since January 2017, manufacturing employment has improved considerably. As of December 2018, the State had added approximately 36,700 manufacturing jobs since the end of 2009.
- However, even with this recent growth, the State is still well below pre-recession levels.



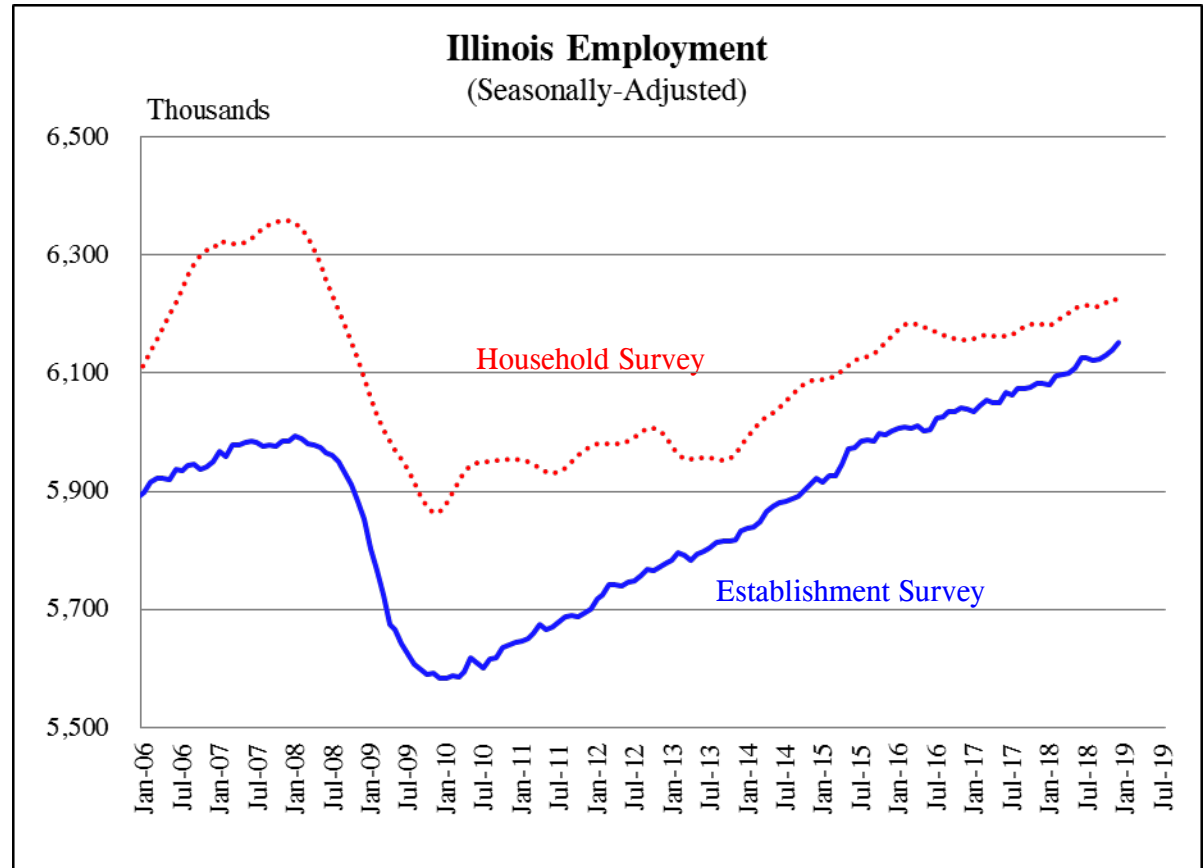
## UNITED STATES EMPLOYMENT

- United States employment has been increasing since a low reached at the end of 2009.
- All the jobs lost during the last recession were recovered after 5 years of the expansion and have been added to since.
- Economic forecasters agree that the economy is at or close to full employment.
- While employment growth continued, the labor participation rate has remained near its lowest level since the late 1970s (around 63%) for the past 5 years, even if it has shown continuous improvement as discouraged workers return to the labor market.



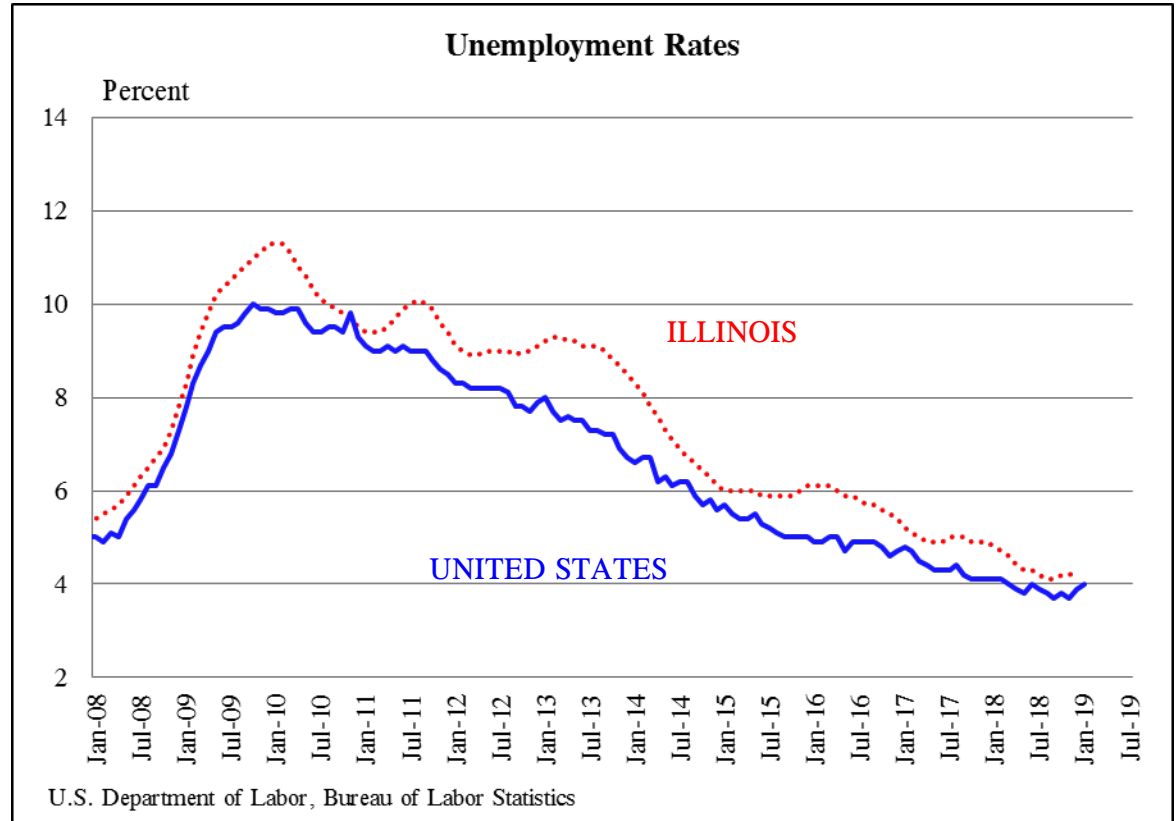
## ILLINOIS EMPLOYMENT

- Like the U.S., Illinois employment also has shown gains but at a slower pace.
- As mentioned, it took 5 years for U.S. employment to finally recoup all the jobs lost during the 2007 recession. It was not until around mid-2015, however, that the Establishment Survey showed Illinois recouped all of its lost payroll jobs.
- As shown, the Household employment measure has yet to do the same.
- The Establishment Survey shows continuous upward movement in Illinois employment, and the Household Survey was at its highest level since mid-2008 during the 4<sup>th</sup> quarter of 2018.



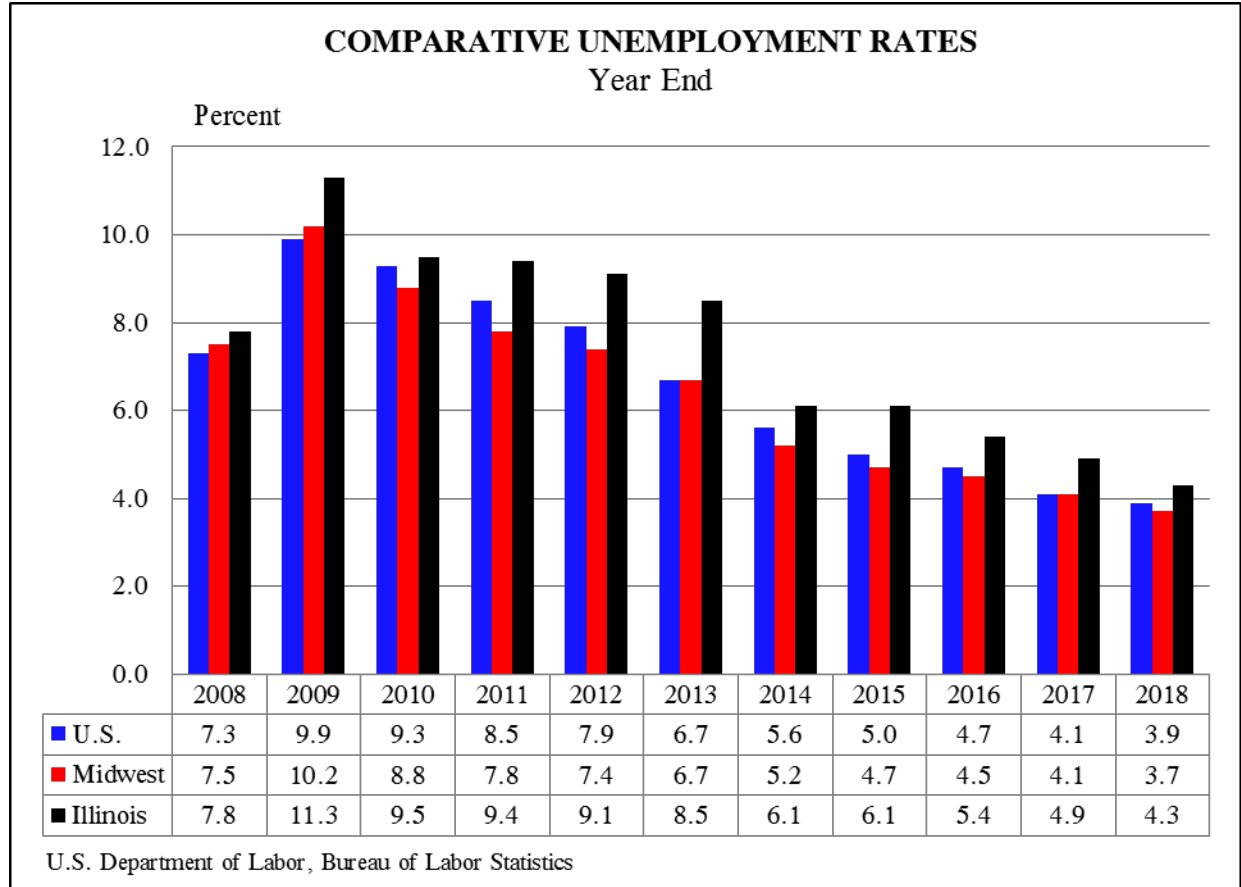
## UNEMPLOYMENT RATES

- As shown in the chart, the gap between the nation's unemployment rate and that in Illinois has fluctuated over time.
- Together, the two rates rose sharply as the recession got underway at the end of 2007.
- However, as the recovery began in mid-2009, the gap widened, with Illinois' rate reaching a high at about 11% from October 2009 through March 2010. While both rates then began to decline, the gap remained large before narrowing in 2014.
- Recently, the gap appears to have narrowed again as Illinois' rate decreased faster than the U.S. unemployment rate. Unemployment rates in December 2018 for the U.S. and Illinois now stand at 3.9% and 4.3%, respectively.



## COMPARATIVE UNEMPLOYMENT RATES

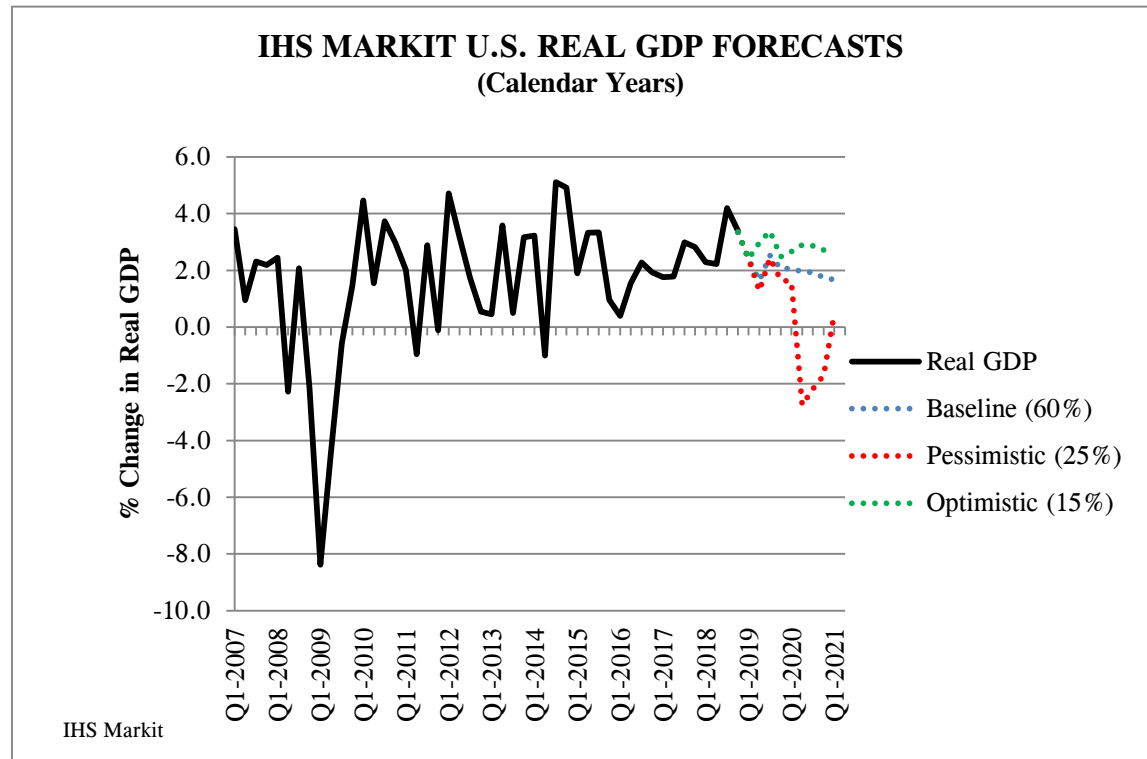
- The chart shows comparative unemployment rates for the nation, Midwest, and Illinois.
- In 2008, Midwest and Illinois rates were similar and only slightly higher than the nation. However, beginning in 2009, the rates between Illinois and the others widened.
- Since 2010, unemployment in the Midwest fell below or at the national level as resurgence in several “rust belt” states from increased energy production caused an employment spurt.
- Unemployment in Illinois, however, continued to exceed both the national and Midwest rates. While tightening, the latest data as of December of 2018 have the national rate at 3.9%, the Midwest at 3.7%, and the Illinois rate at 4.3%.





## U.S. REAL GDP FORECASTS

- The **BASELINE** shows the most likely solution with a 60% chance of occurrence and has robust growth of near 3% in 2018, before slowing to just 2.1% in 2019 and 1.8% in 2020 amid slowing global growth, fading fiscal stimulus, tightening monetary policy, and the approach to capacity constraints.
- A more **PESSEMISTIC** scenario with a 25% probability has GDP growth slipping to 1.7% in 2019; GDP contracts 1.5% in 2020, with a recession running from the first quarter of 2020 to the third quarter of 2020.
- A final 15% **OPTIMISTIC** scenario envisions growth of 3% in 2018 and 2.9% in 2019 as productivity picks up; growth remains roughly 1.0 percentage point higher than baseline over the forecast interval.



# IHS MARKIT U.S. ECONOMIC FORECAST SCENARIOS

FEBRUARY 2019\*

	<b>Baseline (60%)</b>	<b>Pessimistic (25%)</b>	<b>Optimistic (15%)</b>
<b>GDP Growth</b>	Robust growth of near 3% in 2018, before slowing to just 2.1% in 2019 and 1.8% in 2020 amid slowing global growth, fading fiscal stimulus, tightening monetary policy, and the approach to capacity constraints	GDP growth is a solid 3.1% in 2018, but slips below baseline in 2019; GDP contracts 1.5% in 2020, with a recession running from the first quarter of 2020 to the third quarter of 2020	Growth hits 3% in 2018 and 2.9% in 2019 as productivity picks up; growth remains roughly 1.0 percentage point higher than baseline over forecast interval
<b>Consumer Spending</b>	Up 2.9% in 2018, remains solid with 2.2% growth in 2019 thanks in part to falling gas prices and a lower interest rate path	Rises 2.9% in 2018 and 1.7% in 2019, before declining 0.1% in 2020 amid a broad-based loss of confidence	Expands 2.9% in 2018 and then climbs 3.2% in 2019 thanks to faster real income growth
<b>Business Investment</b>	Growth likely peaked at 6.7% in 2018, and is projected to cool to 3.2% as nonfarm business-sector output slows	Expands 6.7% in 2018, slows to 2.5% growth in 2019, and then drops 5.6% in 2020 as businesses trim capex in the face of falling demand	Climbs 6.7% in 2018, before cooling to 4.6% growth in 2019
<b>Monetary Policy</b>	Federal Reserve hikes the federal funds rate once in 2019 and once more in 2020, bringing the upper end of the target range to 3.00%	Fed lowers the federal funds rate from fourth quarter 2019 through first quarter 2021	The federal funds rate eventually settles to 3.25-3.50%, 0.50-0.75 percentage point higher than the baseline
<b>Consumer Confidence</b>	Drops in first quarter 2019 due to the partial federal government shutdown, bounces back to a peak in early 2020	Drops in 2019, reaching a low in 2020; recovers steadily thereafter but remains below baseline throughout forecast interval	Outperforms baseline for nearly the entire forecast interval
<b>Inflation (PCE)</b>	Core PCE inflation expected to move up to 2% in 2019 after a soft run last year	Core PCE inflation falls below baseline levels and remain there until early 2025	Core PCE inflation is slightly lower than the baseline for most of 2019 to 2023 due to the lower natural rate of unemployment

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

IHS Markit

## BASELINE U.S. FORECASTS -- FEBRUARY 2019

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

	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Est.</b>	<b>Est.</b>	<b>Est.</b>
<b>Gross Domestic Product</b>	2.0%	1.9%	2.5%	3.0%	2.1%	1.8%
<b>Personal Consumption</b>	3.0%	2.8%	2.7%	2.9%	2.2%	2.3%
Durable	6.0%	6.8%	7.7%	4.2%	4.0%	4.9%
Nondurable	3.0%	2.0%	3.0%	3.2%	2.0%	1.8%
Services	2.6%	2.4%	1.8%	2.6%	1.9%	2.1%
<b>Fixed Investment (Nonresidential)</b>	-0.7%	1.8%	6.3%	6.7%	3.2%	2.6%
<b>Exports</b>	-1.6%	0.8%	4.7%	2.6%	5.4%	4.9%
<b>Imports</b>	3.4%	3.1%	5.4%	4.9%	5.2%	6.0%
<b>Government</b>						
Federal	1.2%	0.2%	1.3%	3.7%	2.4%	-0.4%
State & Local	2.8%	1.4%	-0.5%	1.8%	0.8%	1.2%
<b>OTHER MEASURES</b>						
Personal Consumption (Current \$)	3.3%	4.4%	4.5%	4.8%	4.2%	4.2%
Before Tax Profits (Current \$)	-12.4%	10.4%	-5.1%	5.0%	3.0%	2.7%
Unemployment Rate (Average Q4)	5.0%	4.8%	4.1%	3.8%	3.6%	3.6%
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## ILLINOIS FORECASTS -- FEBRUARY 2019

(Calendar Years, Q4/Q4 for Annual Rates)

	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Est.</b>	<b>Est.</b>	<b>Est.</b>
<b>Real Gross State Product (Billions 2012\$)</b>	741.7	746.0	747.3	769.2	778.3	785.2
% Change	0.4%	0.6%	0.2%	2.9%	1.2%	0.9%
<b>Total Employment (1,000's)</b>	5,997.8	6,038.0	6,079.3	6,140.5	6,203.7	6,209.2
% Change	1.5%	0.7%	0.7%	1.0%	1.0%	0.1%
<b>Population (1,000's)</b>	12,845.6	12,806.5	12,763.6	12,723.3	12,706.3	12,703.1
% Change	-0.2%	-0.3%	-0.3%	-0.3%	-0.1%	0.0%
<b>Personal Income (Billions \$)</b>	670.8	681.2	703.2	732.7	761.6	789.7
% Change	3.5%	1.5%	3.2%	4.2%	3.9%	3.7%
<b>Private Housing Starts (1,000's)</b>	17.5	26.0	20.0	19.6	22.7	25.5
% Change	-8.0%	48.7%	-22.8%	-2.0%	15.5%	12.4%
<b>Unemployment Rate Average % (Q4)</b>	6.0%	5.5%	4.9%	4.2%	4.1%	4.3%
IHS Markit						

### Average Employment Levels by Subsector in Illinois

Non-Seasonally Adjusted Averages: 2010 to 2018 (in thousands)

	2010 Annual Average	2011 Annual Average	2012 Annual Average	2013 Annual Average	2014 Annual Average	2015 Annual Average	2016 Annual Average	2017 Annual Average	2018 Annual Average
Mining	9.1	9.6	10.2	9.7	9.9	9.3	8.1	7.8	7.7
Construction	198.3	195.7	189.1	191.4	201.7	213.6	218.7	220.2	226.3
Manufacturing	561.0	573.9	583.0	579.2	580.1	581.7	574.4	576.7	589.3
Trade, Transportation, and Utilities	1,125.6	1,143.8	1,156.3	1,164.4	1,179.7	1,201.4	1,211.1	1,213.1	1,217.3
Information	101.8	100.6	100.1	99.0	99.1	100.4	98.2	97.1	93.6
Financial Activities	371.6	371.2	374.3	377.5	376.5	380.7	384.6	391.1	399.2
Professional and Business Services	793.9	823.5	856.8	883.1	909.4	922.2	932.1	940.2	942.7
Education and Health Services	830.8	847.5	862.3	874.4	885.1	899.4	914.2	923.8	929.0
Leisure and Hospitality	515.4	522.2	536.1	545.9	558.2	578.3	596.8	609.7	618.7
Other Services	249.1	249.7	249.7	249.9	252.2	252.0	251.4	251.8	251.0
Government	853.8	837.9	832.4	829.9	827.4	829.1	829.3	831.1	842.5
<b>Annual Average Totals</b>	<b>5,610.4</b>	<b>5,675.6</b>	<b>5,750.3</b>	<b>5,804.4</b>	<b>5,879.3</b>	<b>5,968.1</b>	<b>6,018.9</b>	<b>6,062.6</b>	<b>6,117.2</b>
<b>Illinois' Annual % Change</b>	<b>-0.8%</b>	<b>1.2%</b>	<b>1.3%</b>	<b>0.9%</b>	<b>1.3%</b>	<b>1.5%</b>	<b>0.9%</b>	<b>0.7%</b>	<b>0.9%</b>

### Average Weekly Earnings and Employment Change by Subsector in Illinois

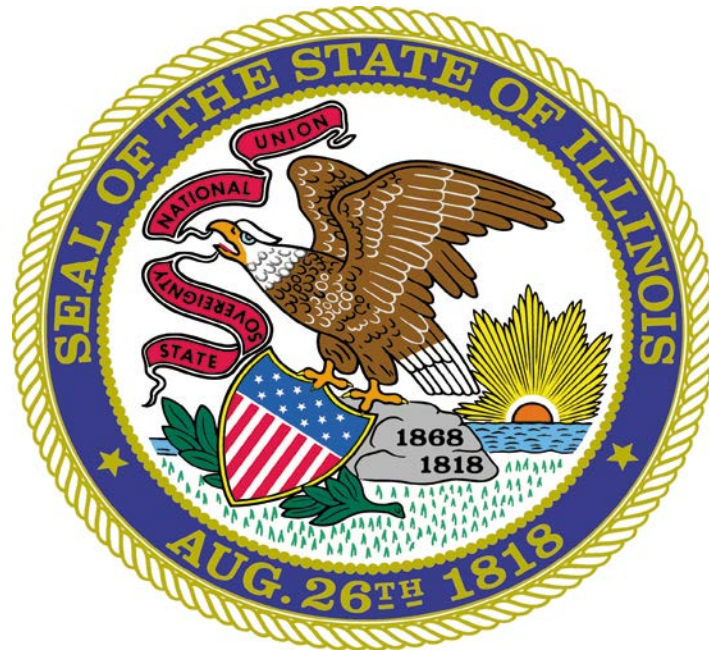
Calendar Year Averages: 2010 to 2018

	2010 Annual Average	2011 Annual Average	2012 Annual Average	2013 Annual Average	2014 Annual Average	2015 Annual Average	2016 Annual Average	2017 Annual Average	2018 Annual Average
Mining*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Construction	\$1,236	\$1,282	\$1,291	\$1,265	\$1,302	\$1,339	\$1,336	\$1,359	\$1,425
Manufacturing	\$926	\$978	\$982	\$1,000	\$1,022	\$1,042	\$1,042	\$1,029	\$1,081
Trade, Transportation, and Utilities	\$693	\$734	\$766	\$790	\$805	\$807	\$806	\$821	\$857
Information	\$1,040	\$1,005	\$1,027	\$1,102	\$1,155	\$1,153	\$1,129	\$1,202	\$1,335
Financial Activities	\$1,036	\$1,054	\$1,131	\$1,116	\$1,184	\$1,244	\$1,330	\$1,393	\$1,424
Professional and Business Services	\$1,024	\$1,007	\$1,027	\$1,025	\$1,038	\$1,049	\$1,073	\$1,087	\$1,129
Education and Health Services	\$724	\$757	\$792	\$814	\$810	\$806	\$808	\$805	\$814
Leisure and Hospitality	\$319	\$322	\$337	\$323	\$340	\$365	\$377	\$392	\$405
Other Services	\$712	\$703	\$728	\$751	\$780	\$834	\$864	\$840	\$862
Government*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Illinois' Annual Average Weekly Earnings*</b>	<b>\$799</b>	<b>\$820</b>	<b>\$846</b>	<b>\$856</b>	<b>\$875</b>	<b>\$890</b>	<b>\$901</b>	<b>\$912</b>	<b>\$946</b>
<b>% Change in Avg. Weekly Earnings</b>	<b>0.9%</b>	<b>2.7%</b>	<b>3.2%</b>	<b>1.2%</b>	<b>2.2%</b>	<b>1.7%</b>	<b>1.3%</b>	<b>1.2%</b>	<b>3.7%</b>
<b>Annualized Wage/Employment Comparison</b>	<b>0.1%</b>	<b>3.8%</b>	<b>4.6%</b>	<b>2.1%</b>	<b>3.5%</b>	<b>3.2%</b>	<b>2.2%</b>	<b>2.0%</b>	<b>4.6%</b>

\* Because the Mining and Government subsectors' weekly earnings are not available from the Bureau of Labor Statistics, "Statewide Average Weekly Earnings" is calculated by using the weekly earnings of the other nine subsectors. The statewide value was calculated by multiplying each subsector's average jobs by its average earnings and dividing the sum of these figures by the total number of jobs from these nine subsectors.

Source: [www.bls.gov](http://www.bls.gov)

# GENERAL FUNDS REVENUE

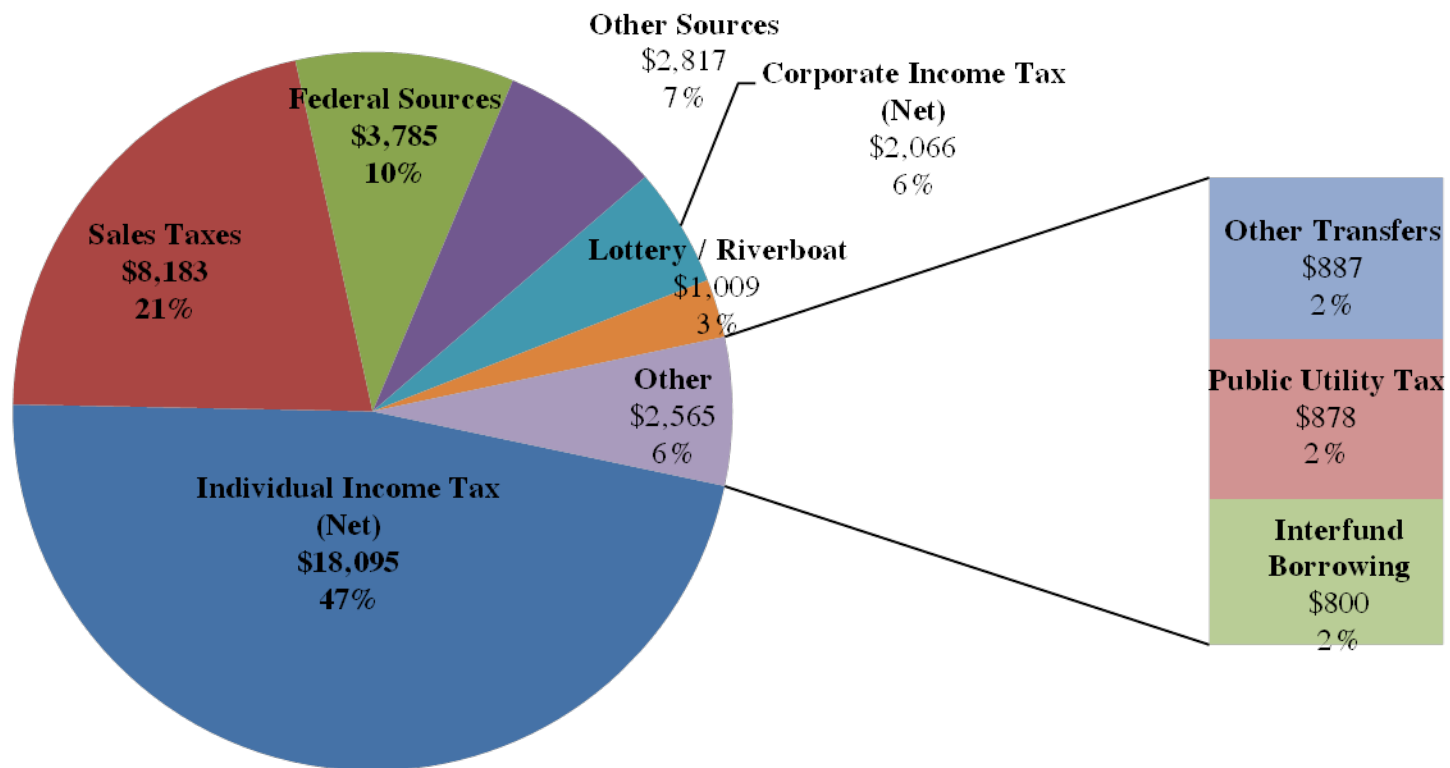


# FY 2019 GENERAL FUNDS REVENUES BY SOURCE

## Per Budget Plan

(\$ Millions)

**Total General Funds Revenues: \$38.520 Billion**



## REVENUE ASSUMPTIONS FOR FY 2019

As shown in the table below, the FY 2019 budget was crafted based upon assumed revenues of \$38.520 billion. The following provides a brief explanation of the revenue assumptions used in the formulation of the FY 2019 budget.

### **“Big Three”—Personal, Corporate, and Sales Taxes**

The specific estimates of the larger economically related sources fell within parameters established by the official forecasts presented in February 2018 by CGFA and GOMB. With the following exceptions, little modifications were made to those initial forecasts.

- In FY 2019, 5% of LGDF funds will remain in the general funds [rather than 10% in FY 2018].
- Sales tax revenues include an anticipated \$150 million as a result of internet sales recapture [represents 9 months of \$200 million annualized amount].

### **All Other State Sources and Transfers**

The estimates of all other State revenue sources as well as transfers into the general funds fell closely to the parameters established by the CGFA and GOMB February forecasts. The notable exceptions being the inclusion of \$200 million in assumed Refund Fund transfers, and a partially offsetting \$80 million elimination of Hospital Provider Fund transfers into GRF. The assumed \$300 million from sale of the Thompson Center was retained in the enacted FY 2019 outlook.

### **Federal Sources**

The assumed value of federal sources to the general funds was very similar to those utilized earlier; however, very minor adjustments were made to reflect final GRF Medicaid spending assumptions.

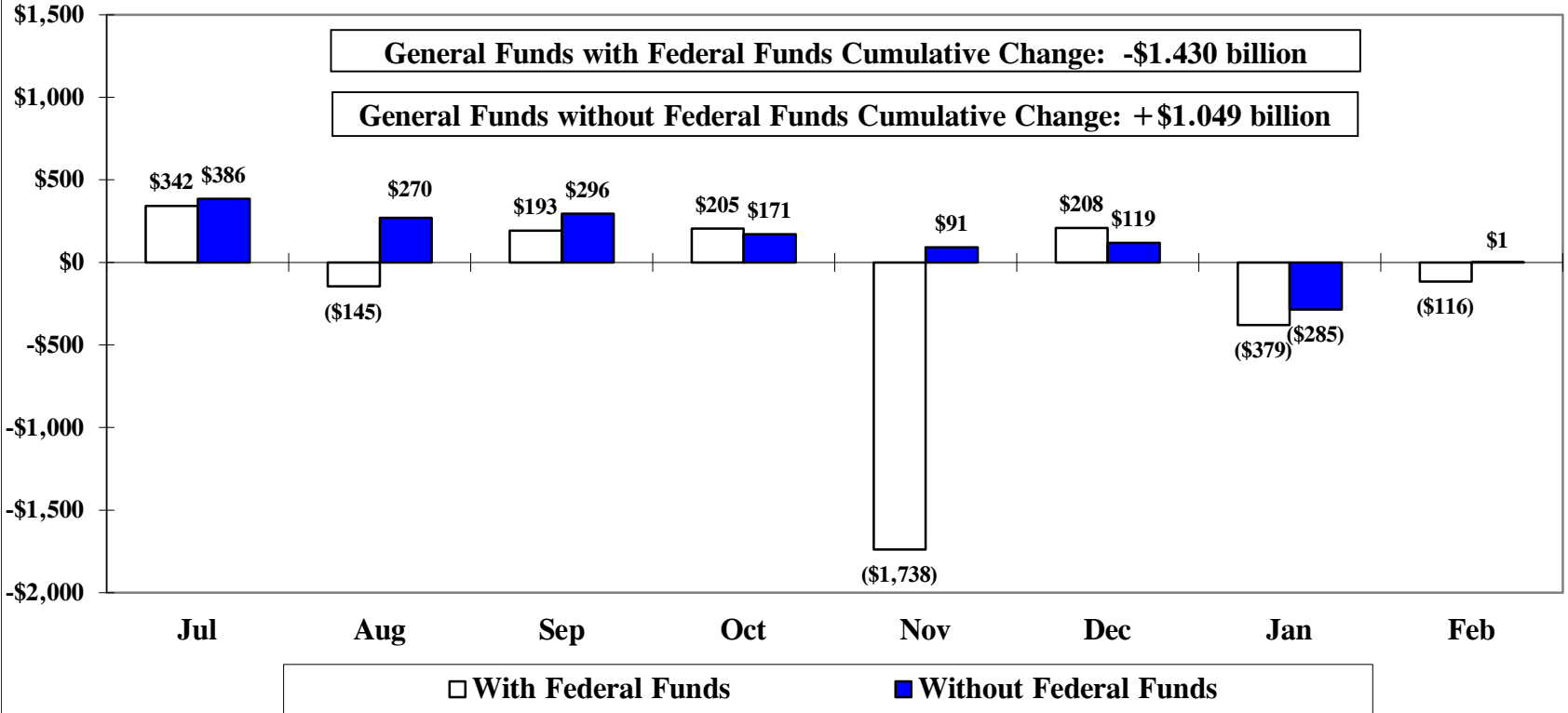
### **Interfund Borrowing**

The assumed amount for FY 2019 interfund borrowing was \$800 million. While the statute was changed to allow interfund borrowing to extend to March 1, 2019, the limit of \$1.2 billion was not adjusted from previous law.

<b>FY 2019 General Funds</b>	
<b>Budgeted Revenue Assumptions--June-18</b>	
(\$ millions)	Final Budget
<b>Income Taxes [Net]</b>	<b>\$20,161</b>
<b>Sales Tax [Net]</b>	<b>\$8,183</b>
<b>All Other State Sources</b>	<b>\$3,695</b>
<b>Transfers In</b>	<b>\$1,896</b>
<b>Federal Sources</b>	<b>\$3,785</b>
<b>Subtotal</b>	<b>\$37,720</b>
<b>Interfund Borrowing</b>	<b>\$800</b>
<b>Total General Funds</b>	<b>\$38,520</b>



**FY 2019 Monthly General Funds Performance**  
*July thru February as Compared to Same Prior Year Months*  
 (\$ in millions)



\* Figures exclude short-term borrowing and Budget Stabilization Fund transfers.

## Year To Date

Excluding interfund borrowing, last year's \$2.5 billion bond proceeds transfer and the \$700 million related to the Treasurer's Investments this fiscal year, base general funds for the first half of FY 2019 are \$1.429 billion lower than last year. As explained in the November briefing, the reason for the decline is due to last year's federal reimbursement surge. Absent that, the closely-tied economic sources continue to demonstrate considerable strength.

Through February, gross personal income tax is up by \$575 million, or \$467 million net. Gross sales tax receipts are up by an impressive \$375 million, or \$340 million net. Gross corporate income taxes are up by \$176 million, or \$159 million net. All other tax sources combined added \$49 million in gain.

Overall transfers increased by \$19 million through February. It's only when the comparatively much lower performance of federal sources is included that the year to date totals turn negative. And again, federal sources are down by \$2.478 billion due to reimbursable spending made possible from November 2017 bond sale proceeds.

## GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2019 vs. FY 2018

(\$ million)

Revenue Sources	FY 2019	FY 2018	\$ CHANGE	% CHANGE
<b>State Taxes</b>				
Personal Income Tax	\$13,083	\$12,508	\$575	4.6%
Corporate Income Tax (regular)	1,399	1,223	\$176	14.4%
Sales Taxes	5,905	5,530	\$375	6.8%
Public Utility Taxes (regular)	580	598	(\$18)	-3.0%
Cigarette Tax	227	222	\$5	2.3%
Liquor Gallonage Taxes	118	117	\$1	0.9%
Vehicle Use Tax	20	17	\$3	17.6%
Inheritance Tax	268	230	\$38	16.5%
Insurance Taxes and Fees	220	228	(\$8)	-3.5%
Corporate Franchise Tax & Fees	173	145	\$28	19.3%
Interest on State Funds & Investments	84	42	\$42	100.0%
Cook County IGT	150	150	\$0	0.0%
Other Sources	356	383	(\$27)	-7.0%
<b>Subtotal</b>	<b>\$22,583</b>	<b>\$21,393</b>	<b>\$1,190</b>	<b>5.6%</b>
<b>Transfers</b>				
Lottery	430	423	\$7	1.7%
Riverboat transfers & receipts	197	205	(\$8)	-3.9%
Proceeds from Sale of 10th license	0	0	\$0	N/A
Refund Fund transfer	327	0	\$327	N/A
Fund sweeps	0	251	(\$251)	N/A
Other	478	534	(\$56)	-10.5%
<b>Total State Sources</b>	<b>\$24,015</b>	<b>\$22,806</b>	<b>\$1,209</b>	<b>5.3%</b>
<b>Federal Sources</b>	<b>\$1,672</b>	<b>\$4,150</b>	<b>(\$2,478)</b>	<b>-59.7%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$25,687</b>	<b>\$26,956</b>	<b>(\$1,269)</b>	<b>-4.7%</b>
<b>Nongeneral Funds Distributions/Direct Receipts:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$1,269)	(\$1,226)	(\$43)	3.5%
Corporate Income Tax	(\$217)	(215)	(\$2)	0.9%
<b>LGDF--Direct from PIT</b>	<b>(\$680)</b>	<b>(615)</b>	<b>(\$65)</b>	<b>10.6%</b>
<b>LGDF--Direct from CIT</b>	<b>(\$77)</b>	<b>(62)</b>	<b>(\$15)</b>	<b>24.2%</b>
<b>Downstate Pub/Trans--Direct from Sales</b>	<b>(\$299)</b>	<b>(264)</b>	<b>(\$35)</b>	<b>13.3%</b>
<b>Subtotal General Funds</b>	<b>\$23,145</b>	<b>\$24,574</b>	<b>(\$1,429)</b>	<b>-5.8%</b>
<b>Treasurer's Investments</b>	<b>\$700</b>	<b>\$0</b>	<b>\$700</b>	<b>N/A</b>
<b>Interfund Borrowing</b>	<b>\$250</b>	<b>\$516</b>	<b>(\$266)</b>	<b>N/A</b>
<b>Income Tax Bond Fund Transfer</b>	<b>\$0</b>	<b>\$2,500</b>	<b>(\$2,500)</b>	<b>N/A</b>
<b>Transfer to Commitment Human Services</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>N/A</b>
<b>Total General Funds</b>	<b>\$24,095</b>	<b>\$27,590</b>	<b>(\$3,495)</b>	<b>-12.7%</b>

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

1-Mar-19

## FY 2019 CGFA REVENUE UPDATE

As shown in the table, the Commission's updated FY 2019 general funds estimate is \$38.336 billion. The revised forecast reflects revenue performance through February and incorporates updated expectations over the remainder of the fiscal year. The estimate projects revenues falling \$184 million below the level assumed during enactment of the FY 2019 budget in June 2018. Highlights of the updated forecast include:

<b>FY 2019 General Funds Revenue Estimate</b>			
<b>Updated CGFA [Mar-19] vs. Enacted Budget [June-18]</b>			
(\$ millions)	CGFA	Enacted Budget	Difference
<b>Income Taxes [Net]</b>	<b>\$20,611</b>	<b>\$20,161</b>	<b>\$450</b>
<b>Sales Tax [Net]</b>	<b>\$8,267</b>	<b>\$8,183</b>	<b>\$84</b>
<b>All Other State Sources</b>	<b>\$3,453</b>	<b>\$3,695</b>	<b>(\$242)</b>
<b>Transfers In</b>	<b>\$2,005</b>	<b>\$1,896</b>	<b>\$109</b>
<b>Federal Sources</b>	<b>\$3,050</b>	<b>\$3,785</b>	<b>(\$735)</b>
<b>Total</b>	<b>\$37,386</b>	<b>\$37,720</b>	<b>(\$334)</b>
<b>Interfund Borrowing</b>	<b>\$250</b>	<b>\$800</b>	<b>(\$550)</b>
<b>Treasurer's Investment Borrowing</b>	<b>\$700</b>	<b>\$0</b>	<b>\$700</b>
<b>Total General Funds</b>	<b>\$38,336</b>	<b>\$38,520</b>	<b>(\$184)</b>

### **Income Taxes**

The revised estimate of net income taxes reflects better than expected performance over the first two-thirds of the fiscal year. Modest improvement in employment numbers along with accompanying upward wage growth over the past year has contributed to the improved outlook of personal income tax [net upward revision of \$277 million]. Similarly, the year-to-date performance of corporate income taxes has also outpaced earlier expectations. As a result, the forecast for corporate income taxes has been revised up a net \$173 million.

### **Sales Tax**

Sales taxes have also outperformed expectations through February, and that positive growth necessitates a net upward revision of \$84 million from earlier assumptions. The positive performance is likely a combination of consumer activity coupled with the impacts of P.A. 100-587 which allows the state to capture revenue from out-of-state retailers who were not previously collecting Illinois sales taxes.

### **All Other State Sources**

The reduced forecast of \$242 million from all other state sources is primarily the result of the removal of \$300 million in expected proceeds from the JRTC sale. That loss of revenue is somewhat mitigated by the positive performance of a number of revenue sources that have undergone upward revisions. For example, estate tax receipts have been increased \$60 million, insurance taxes \$13 million, and the outlook for interest income has improved by \$13 million.

## Federal Sources

From the beginning, federal sources were expected to fall well short of last fiscal year's stellar performance. FY 2018 benefited from bond sale proceeds and related reimbursable spending which took place in the first half of FY 2018. That said, federal sources have failed to meet those initial expectations by a significant degree. In fact, despite the Commission reducing its forecast by \$735 million from enacted levels, even that reduced amount may come under pressure if reimbursements do not show improvement over the final third of the fiscal year.

## Interfund Borrowing

The FY 2019 budget assumed that interfund borrowing proceeds of approximately \$800 million from special state funds would be used to augment general funds revenues. However, only \$250 million of interfund borrowing was executed due to what the Comptroller stated as "lack of liquidity in available funds". With the statutory interfund borrowing deadline of March 1, 2019 now passed, FY 2019 falls \$550 million less than originally assumed.

## Treasurer's Investment Borrowing

The enacted budget did not originally contain values related to the Treasurer's Investment Borrowing initiative, as it was not signed into law until late August. However, since becoming law, \$700 million in state funds not immediately needed for current expenditures were invested by the Treasurer's Office to pay down long-standing liabilities which were incurring high interest penalties. While most of that borrowing is scheduled to be repaid by May, that infusion of \$700 million in resources is now considered part of the FY 2019 revenue framework.

## FY 2019 GENERAL FUNDS REVENUE ESTIMATE UPDATED CGFA [Mar-19] vs. ENACTED BUDGET [June-18]

(millions)

	FY 2019 CGFA Mar-19	FY 2019 Final Budget June-18	\$ Difference
<b>Revenue Sources</b>			
<b>State Taxes</b>			
Personal Income Tax	\$21,588	\$21,263	\$325
Corporate Income Tax (regular)	\$2,834	\$2,618	\$216
Sales Taxes	\$8,775	\$8,679	\$96
Public Utility (regular)	\$879	\$878	\$1
Cigarette Tax	\$348	\$353	(\$5)
Liquor Gallonage Taxes	\$174	\$174	\$0
Vehicle Use Tax	\$31	\$30	\$1
Inheritance Tax	\$350	\$290	\$60
Insurance Taxes & Fees	\$421	\$405	\$16
Corporate Franchise Tax & Fees	\$205	\$205	\$0
Interest on State Funds & Investments	\$125	\$112	\$13
Cook County Intergovernmental Transfer	\$244	\$244	\$0
<u>Other Sources</u>	<u>\$676</u>	<u>\$1,004</u>	<u>(\$328)</u>
<b>Subtotal</b>	<b>\$36,650</b>	<b>\$36,255</b>	<b>\$395</b>
<b>Transfers</b>			
Lottery	\$731	\$733	(\$2)
Riverboat transfers and receipts	\$261	\$266	(\$5)
Proceeds from sale of 10th license	\$10	\$10	\$0
Refund Fund	\$327	\$200	\$127
<u>Other</u>	<u>\$676</u>	<u>\$687</u>	<u>(\$11)</u>
<b>Total State Sources</b>	<b>\$38,655</b>	<b>\$38,151</b>	<b>\$504</b>
<b>Federal Sources [Base]</b>	<b>\$3,050</b>	<b>\$3,785</b>	<b>(\$735)</b>
<b>Subtotal Federal &amp; State Sources</b>	<b>\$41,705</b>	<b>\$41,936</b>	<b>(\$231)</b>
<b>Nongeneral Funds Distribution:</b>			
<b>Refund Fund</b>			
Personal Income Tax [9.7% '19]	(\$2,094)	(\$2,063)	(\$31)
Corporate Income Tax [15.5% '19]	(\$439)	(\$406)	(\$33)
<b>Local Government Distributive Fund</b>			
Personal Income Tax	(\$1,122)	(\$1,105)	(\$17)
Corporate Income Tax	(\$156)	(\$146)	(\$10)
Sales Tax Distribution to the PTF and DPTF	(\$508)	(\$496)	(\$12)
<b>Subtotal General Funds</b>	<b>\$37,386</b>	<b>\$37,720</b>	<b>(\$334)</b>
Interfund Borrowing	\$250	\$800	(\$550)
Treasurer's Investment Borrowing	\$700	\$0	\$700
<b>Total Revenues General Funds</b>	<b>\$38,336</b>	<b>\$38,520</b>	<b>(\$184)</b>

## FY 2019 REVENUE ESTIMATE COMPARISON – CGFA and GOMB

The accompanying table compares the Commission’s updated FY 2019 general funds revenue estimate to the GOMB’s outlook presented in the FY 2020 Budget Book. As shown, the Commission’s forecast of \$38.336 billion is \$24 million below the GOMB projection. While the overall estimates are very close, there are some measureable differences in the outlook by individual components. To summarize, the Commission has somewhat higher forecasts for the economic related sources such as income and sales taxes, but lower expectations for transfers and especially federal sources. A more detailed comparison and brief discussion of the differences follows on the next page.

<b>FY 2019 GENERAL FUNDS REVENUE COMPARISON</b>				
<b>CGFA [Mar-19] vs. GOMB [Feb-2019]</b>				
(\$ millions)	CGFA	GOMB	Difference	
<b>Income Taxes [Net]</b>	<b>\$20,611</b>	<b>\$20,457</b>	<b>\$154</b>	
<b>Sales Tax [Net]</b>	<b>\$8,267</b>	<b>\$8,229</b>	<b>\$38</b>	
<b>All Other State Sources</b>	<b>\$3,453</b>	<b>\$3,439</b>	<b>\$14</b>	
<b>Transfers In</b>	<b>\$2,005</b>	<b>\$2,065</b>	<b>(\$60)</b>	
<b>Federal Sources</b>	<b>\$3,050</b>	<b>\$3,220</b>	<b>(\$170)</b>	
<b>Total</b>	<b>\$37,386</b>	<b>\$37,410</b>	<b>(\$24)</b>	
<b>Interfund Borrowing</b>	<b>\$250</b>	<b>\$250</b>	<b>\$0</b>	
<b>Treasurer's Investment Borrowing</b>	<b>\$700</b>	<b>\$700</b>	<b>\$0</b>	
<b>Total General Funds</b>	<b>\$38,336</b>	<b>\$38,360</b>	<b>(\$24)</b>	

Overall net income taxes differ by \$154 million, with the Commission's projection somewhat higher than GOMB. On a net basis, the CGFA updated forecast of personal income tax is \$121 million higher, while the view of net corporate income tax is \$33 million above GOMB's estimate. Despite the Commission being somewhat higher, both views share similar underlying expectations that are above the enacted budget assumptions.

Net sales tax forecasts for FY 2019 are similar, but again the Commission is slightly higher than GOMB's expectations, with the forecast being \$38 million above their level. Sales tax receipts have managed to perform well in most months.

While all other state sources differ by only \$14 million [with the Commission being higher], there are some differences worth mentioning. For example, CGFA's estate tax estimate is \$35 million higher, reflecting stellar performance to date. The Commission's outlook for interest income is \$25 million higher than GOMB. However, offsetting those items is the Commission's view of all other miscellaneous sources, as it falls \$51 million lower than GOMB.

Transfers into the general funds differ by \$60 million, as the Commission has more conservative expectations over the remainder of the fiscal year.

Federal sources, which are heavily dependent on reimbursable spending, have significantly missed expectations for the majority of the fiscal year. While both GOMB and the Commission foresee federal sources falling well short of enacted budget expectations, GOMB's updated estimate is viewed as very optimistic given performance to date, coupled with expectations that reimbursable spending may be constrained by other obligations. In fact, while the Commission's estimate of federal sources is \$170 million lower than GOMB, it would not be surprising to see receipts struggle to meet even those reduced expectations.

<b>FY 2019 GENERAL FUNDS REVENUE COMPARISON</b>			
<b>CGFA [Mar-19] vs. GOMB [Feb-19]</b>			
<b>(millions)</b>			
	<b>FY 2019 CGFA March-19</b>	<b>FY 2019 GOMB Feb-19</b>	<b>\$ Difference</b>
<b>Revenue Sources</b>			
<b>State Taxes</b>			
Personal Income Tax	\$21,588	\$21,446	\$142
Corporate Income Tax (regular)	\$2,834	\$2,793	\$41
Sales Taxes	\$8,775	\$8,735	\$40
Public Utility (regular)	\$879	\$868	\$11
Cigarette Tax	\$348	\$347	\$1
Liquor Gallonage Taxes	\$174	\$174	\$0
Vehicle Use Tax	\$31	\$30	\$1
Inheritance Tax	\$350	\$315	\$35
Insurance Taxes & Fees	\$421	\$428	(\$7)
Corporate Franchise Tax & Fees	\$205	\$206	(\$1)
Interest on State Funds & Investments	\$125	\$100	\$25
Cook County Intergovernmental Transfer	\$244	\$244	\$0
<u>Other Sources</u>	<u>\$676</u>	<u>\$727</u>	<u>(\$51)</u>
<b>Subtotal</b>	<b>\$36,650</b>	<b>\$36,413</b>	<b>\$237</b>
<b>Transfers</b>			
Lottery	\$731	\$731	\$0
Riverboat transfers and receipts	\$261	\$263	(\$2)
Proceeds from sale of 10th license	\$10	\$10	\$0
Refund Fund	\$327	\$327	\$0
<u>Other</u>	<u>\$676</u>	<u>\$734</u>	<u>(\$58)</u>
<b>Total State Sources</b>	<b>\$38,655</b>	<b>\$38,478</b>	<b>\$177</b>
<b>Federal Sources [Base]</b>	<b>\$3,050</b>	<b>\$3,220</b>	<b>(\$170)</b>
<b>Subtotal Federal &amp; State Sources</b>	<b>\$41,705</b>	<b>\$41,698</b>	<b>\$7</b>
<b>Nongeneral Funds Distribution:</b>			
<b>Refund Fund</b>			
Personal Income Tax [9.7% '19]	(\$2,094)	(\$2,080)	(\$14)
Corporate Income Tax [15.5% '19]	(\$439)	(\$433)	(\$6)
<b>Local Government Distributive Fund</b>			
Personal Income Tax	(\$1,122)	(\$1,115)	(\$7)
Corporate Income Tax	(\$156)	(\$154)	(\$2)
Sales Tax Distribution to the PTF and DPTF	(\$508)	(\$506)	(\$2)
<b>Subtotal General Funds</b>	<b>\$37,386</b>	<b>\$37,410</b>	<b>(\$24)</b>
Interfund Borrowing	\$250	\$250	\$0
Treasurer's Investment Borrowing	\$700	\$700	\$0
<b>Total Revenues General Funds</b>	<b>\$38,336</b>	<b>\$38,360</b>	<b>(\$24)</b>

## CGFA FY 2020 GENERAL FUNDS FORECAST [per CURRENT LAW]

As shown below, the Commission's FY 2020 general funds forecast, per current law, is \$38.186 billion. The projection represents growth of \$800 million in base revenues, but falls to \$150 million overall once FY 2019 interfund borrowing and Treasurer's investment borrowing are included into the revenue comparison. Discussion of the forecast's major components follows.

<b>FY 2020 and Updated FY 2019 General Funds Revenue CGFA Estimates [ per Current Law]</b>			
(\$ millions)	FY 2020	FY 2019	Difference
<b>Income Taxes [Net]</b>	<b>\$21,056</b>	<b>\$20,611</b>	<b>\$445</b>
<b>Sales Tax [Net]</b>	<b>\$8,461</b>	<b>\$8,267</b>	<b>\$194</b>
<b>All Other State Sources</b>	<b>\$3,369</b>	<b>\$3,453</b>	<b>(\$84)</b>
<b>Transfers In</b>	<b>\$1,753</b>	<b>\$2,005</b>	<b>(\$252)</b>
<b>Federal Sources</b>	<b>\$3,547</b>	<b>\$3,050</b>	<b>\$497</b>
<b>Total</b>	<b>\$38,186</b>	<b>\$37,386</b>	<b>\$800</b>
<b>Interfund Borrowing</b>	<b>\$0</b>	<b>\$250</b>	<b>(\$250)</b>
<b>Treasurer's Investment Borrowing</b>	<b>\$0</b>	<b>\$700</b>	<b>(\$700)</b>
<b>Total General Funds</b>	<b>\$38,186</b>	<b>\$38,336</b>	<b>(\$150)</b>

Net income taxes are projected to be \$21.056 billion, which represents growth of \$445 million over the updated FY 2019 estimate. The projection reflects a moderation in growth for the upcoming fiscal year for both personal and corporate income taxes. In addition, per current law, the 5% retention of the LGDF monies from net income taxes will not extend to FY 2020. The value of that change reduces net income taxes by approximately \$69 million.

Net sales tax is projected to total \$8.461 billion in FY 2020. Similar to the underlying economic view mentioned above, growth is expected to moderate during the course of the fiscal year. While decent performance should be maintained through the first quarter, as the timing related to the out-of-state sales tax recapture will boost returns, anticipated slowing in growth over the remainder of the forecast will temper expectations. Similar to income taxes, the 5% retention of local share of certain transportation related payments will end, causing a decrease in value of approximately \$30 million in net general funds.

All other state sources are forecast to decline \$84 million next year. Most of the smaller revenue lines are either flat, demonstrate very little growth, exhibit great volatility, or in some cases are in decline. The drop off stems from lower expectations for public utility taxes, estate taxes, and cigarette taxes. Those declines are more than enough to erase expected growth found in interest income and all other miscellaneous sources.

Transfers into the general funds are anticipated to fall \$252 million from FY 2019 levels. The anticipated decline is due to much lower expected Refund Fund transfers into the general funds [a decline of \$302 million]. Modest improvement in lottery and all other miscellaneous transfers serve to offset some of the decline.

## CGFA FY 2020 FUNDS FORECAST

At this time the FY 2020 Federal source estimate will reflect the same level as presented in the Budget Book. However, final appropriation levels, cash resources, and Comptroller payment schedules will be the determiner.

Other items of note not previously discussed include:

Public utility taxes are expected to fall \$44 million, and are based on normal consumption levels for gas and electric usage. A continued decline of the telecommunications tax due to landline usage deterioration also contributes to the decrease.

Cigarette tax is expected to fall \$10 million due to continued downward trends.

Inheritance taxes, historically a very volatile source, are expected to return to more modest levels, and not repeat its stellar FY 2019 performance. As a result, a decline of \$45 million is expected.

While \$250 million of interfund borrowing was executed in FY 2019, at this time, no statutory authorization is active to allow such activity to repeat in FY 2020.

Despite \$700 million of Treasurer's Investment Borrowing occurring in FY 2019 to date, no similar activity has yet to be projected for FY 2020. Under P.A. 100-1107, up to \$2 billion "at any time, and from time to time outstanding" of such investment borrowing could be executed.

<b><i>FY 2020 and UPDATED FY 2019 GENERAL FUNDS REVENUE</i></b>			
<b><i>CGFA ESTIMATES [per Current Law]</i></b>			
(millions)			
	<b>FY 2020 CGFA</b>	<b>FY 2019 CGFA</b>	<b>\$ Difference</b>
<b><u>Revenue Sources</u></b>	<b><u>Mar-19</u></b>	<b><u>Mar-19</u></b>	
<b>State Taxes</b>			
Personal Income Tax	\$22,128	\$21,588	\$540
Corporate Income Tax (regular)	\$2,890	\$2,834	\$56
Sales Taxes	\$9,022	\$8,775	\$247
Public Utility (regular)	\$835	\$879	(\$44)
Cigarette Tax	\$338	\$348	(\$10)
Liquor Gallonage Taxes	\$174	\$174	\$0
Vehicle Use Tax	\$30	\$31	(\$1)
Inheritance Tax	\$305	\$350	(\$45)
Insurance Taxes & Fees	\$416	\$421	(\$5)
Corporate Franchise Tax & Fees	\$205	\$205	\$0
Interest on State Funds & Investments	\$135	\$125	\$10
Cook County Intergovernmental Transfer	\$244	\$244	\$0
<b><u>Other Sources</u></b>	<b><u>\$687</u></b>	<b><u>\$676</u></b>	<b><u>\$11</u></b>
<b>Subtotal</b>	<b>\$37,409</b>	<b>\$36,650</b>	<b>\$759</b>
<b>Transfers</b>			
Lottery	\$745	\$731	\$14
Riverboat transfers and receipts	\$258	\$261	(\$3)
Proceeds from sale of 10th license	\$10	\$10	\$0
Refund Fund	\$25	\$327	(\$302)
<b><u>Other</u></b>	<b><u>\$715</u></b>	<b><u>\$676</u></b>	<b><u>\$39</u></b>
<b>Total State Sources</b>	<b>\$39,162</b>	<b>\$38,655</b>	<b>\$507</b>
<b>Federal Sources</b>	<b>\$3,547</b>	<b>\$3,050</b>	<b>\$497</b>
<b>Subtotal Federal &amp; State Sources</b>	<b>\$42,709</b>	<b>\$41,705</b>	<b>\$1,004</b>
<b><u>Nongeneral Funds Distribution:</u></b>			
<b>Refund Fund</b>			
Personal Income Tax [9.7% '19; 9.75% '20]	(\$2,157)	(\$2,094)	(\$63)
Corporate Income Tax [15.5% '19; 14.75% '20]	(\$426)	(\$439)	\$13
<b>Local Government Distributive Fund</b>			
Personal Income Tax	(\$1,210)	(\$1,122)	(\$88)
Corporate Income Tax	(\$169)	(\$156)	(\$13)
Sales Tax Distribution to the PTF and DPTF	(\$561)	(\$508)	(\$53)
<b>Subtotal General Funds</b>	<b>\$38,186</b>	<b>\$37,386</b>	<b>\$800</b>
Interfund Borrowing	\$0	\$250	(\$250)
Treasurer's Investment Borrowing	\$0	\$700	(\$700)
<b>Total Revenues General Funds</b>	<b>\$38,186</b>	<b>\$38,336</b>	<b>(\$150)</b>



## FY 2020 OUTLOOK COMPARISON – CGFA and GOMB

As previously discussed and shown in the below table, the FY 2020 CGFA estimate based on current law, totals a forecast of \$38.186 billion. The GOMB forecast presented in various tables throughout the FY 2020 Budget Book includes a number of revenue initiatives that would require legislative changes. As such, comparing the CGFA and the GOMB FY 2020 estimates present somewhat of a challenge. That being said, based simply on GOMB’s presented forecast, the Commission’s estimate is \$717 million less than the GOMB’s general funds estimate of \$38.903 billion.

In an attempt to offer a more meaningful comparison, the Commission has adjusted the GOMB estimates to “current law” levels, based in most instances on information provided in the FY 2020 Budget Book narratives. In doing so, the estimates close much of the gap, differing by only \$81 million or two-tenths of one-percent [with the Commission’s forecast being the lower of the two].

One complicating factor in providing this adjusted comparison is that the Governor’s proposed budget is presented with total initiatives of a reported \$1.121 billion. That value is best viewed as being comprised of approximately \$577 million in revenues which would be directed into the general funds, \$455 million of additional resources available to non-general funds Medicaid spending [but alleviating pressure on the general funds budget], and \$89 million to assist in payment of state debt. Consequently, care must be made not to simply apply the full reported \$1.121 billion in proposed budget adjustments to the comparison as only approximately half of those initiatives are reflected in the table which is specific to general funds. The following discussion explains what adjustments were made to the GOMB estimate for comparison purposes, as well as briefly explains some of the other non-general initiatives proposed by the Governor.

<b>FY 2020 General Funds Estimate Comparison</b>				<b>GOMB Estimates</b>	
<b>CGFA [Current Law] vs. GOMB [With Revenue Initiatives]</b>				<b>ADJUSTED</b>	
(\$ millions)	CGFA	GOMB	Difference	To Current Law	Difference
<b>Income Taxes [Net]</b>	<b>\$21,056</b>	<b>\$21,189</b>	<b>(\$133)</b>	<b>\$21,020</b>	<b>\$36</b>
<b>Sales Tax [Net]</b>	<b>\$8,461</b>	<b>\$8,537</b>	<b>(\$76)</b>	<b>\$8,432</b>	<b>\$29</b>
<b>All Other State Sources</b>	<b>\$3,369</b>	<b>\$3,797</b>	<b>(\$428)</b>	<b>\$3,447</b>	<b>(\$78)</b>
<b>Transfers In</b>	<b>\$1,753</b>	<b>\$1,833</b>	<b>(\$80)</b>	<b>\$1,821</b>	<b>(\$68)</b>
<b>Federal Sources</b>	<b>\$3,547</b>	<b>\$3,547</b>	<b>\$0</b>	<b>\$3,547</b>	<b>\$0</b>
<b>Total</b>	<b>\$38,186</b>	<b>\$38,903</b>	<b>(\$717)</b>	<b>\$38,267</b>	<b>(\$81)</b>

Adjustments made to the GOMB estimates total \$636 million, and include several proposed changes not found within the discussed “\$1.121 billion” of Governor’s initiatives.

**Net Income Taxes—Total Downward Adjustment of \$169 million**

Phase-out Private School Scholarships—The Governor proposes to phase-out over the next three years a recently enacted tax credit program available for contributions to private schools. The FY 2020 budget assumes that an additional \$6 million in net income taxes will be retained in the general funds.

Decouple from Federal Repatriation Credit—The proposed budget assumes a decoupling from a federal provision which allows a federal tax paid on foreign derived income. As a consequence, a decoupling would equate to an “addition modification” and would allow Illinois to tax the full amount of certain income apportioned to Illinois. The budget assumes the net value of the decoupling in FY 2020 to be \$94 million.

5% LDGF retention—The Governor’s proposed budget assumes the continuation of keeping the current levels of local share, valued at approximately \$69 million. Again, under current law, this state retention of local funds is eliminated.

**Net Sales Tax –Total Downward Adjustment of \$105 million**

Cap the Retailers Discount—The budget assumes that the retailers discount will be capped at \$1,000 per month [currently, retailers receive a discount of 1.75% of sales tax due]. The value of the capped limit is assumed to add \$75 million to state revenues.

5% retention of local transit funds—The Governor’s proposed budget assumes the continuation of current levels of transportation funds retention, valued at approximately \$30 million. Again, under current law, this extra amount would be eliminated.

**All Other State Sources—Total Net Downward Adjustment of \$350 million**

Cigarette tax rate and distribution change—The Governor’s proposed budget, in addition to changing the rate, as well as taxing e-cigs, includes a distribution change to cigarette taxes. The new proposal would have only \$6 million a month going to general funds, with the remainder to the Healthcare Provider Relief Fund. While the overall tax revenue generated from the tobacco tax proposals is approximately \$50-\$65 million, the impact specific to general funds is an estimated downward adjustment of \$266 million.

Sports wagering license fees—Included in the general funds revenue forecast presented by the Governor is an estimated \$200 million in “accelerated” license fees related to sports wagering. According to the budget book narrative, 90% of the accelerated license fees would be credited back to licensees in the first five years of operation.

Recreational Cannabis License Fees—Similar to the acceleration in license fees described in sports wagering, the proposed FY 2020 general funds budget includes \$170 million in projected license fee and future tax credit arrangements.

Delinquent Tax Payment Incentive Program—Presumably similar to past “tax amnesty” programs, the Governor’s revenue forecast assumes that \$175 million in tax revenue “across all state sources” will be generated as a result.

Real Estate Transfer Tax distribution change—The Governor’s revenue plan assumes a distribution change, whereby \$51 million would flow to the General Revenue Fund, rather than to the OSLAD and Illinois Affordable Housing Trust Fund, in FY 2020 only. [This component is not routinely part of the “1.121 billion” discussion.]

Plastic Bag Tax—An excise tax on plastic bags is proposed, with a resulting \$20 million assumed in FY 2020.

### **Transfers in—Total Downward Adjustment of \$12 million**

Sports wagering—In addition to the aforementioned licensing revenue, the budget assumes that actual sports wagering [at a proposed 20% tax rate] would begin operating in time to produce a net \$12 million in taxes transferred to the general funds.

### **Other Governor’s Revenue Initiatives**

In addition to the aforementioned revenue initiatives that would have a direct impact on general revenues, a few other proposals would impact on other state funds. For example:

Managed Care Organization Assessment—The Governor proposes a MCOA to cover the cost of the Medicaid program. As stated in the Budget Book, this assessment would be structured “...to generate approximately \$390 million in new revenues for deposit into the Healthcare Provider Relief Fund...”.

E-cigs and Cigarette tax rates—As previously discussed, the Governor’s proposed smoking/tobacco tax distribution changes would reduce direct receipts to the general funds, but taxing e-cigs along with raising the cigarette tax rate is expected to benefit the Healthcare Provider Relief Fund [overall stated increase of \$65 million].

The two above items total \$455 million of additional resources that would act to alleviate pressure on the general funds budget.

Video Gaming—The Governor proposes to change the taxing structure of video gaming to account for “...net terminal income at the parent entity level.” The Budget Book assigns a value of this initiative to be an additional \$89 million per year to the Capital Projects Fund to assist in payment of debt service.

**DETAILED GENERAL FUNDS REVENUE HISTORY FY 2009 - FY 2018 and Estimated FY 2019-20 [March-19]**

(\$ Million)

	Actual Receipts FY 2009	Actual Receipts FY 2010	Actual Receipts FY 2011	Actual Receipts FY 2012	Actual Receipts FY 2013	Actual Receipts FY 2014	Actual Receipts FY 2015	Actual Receipts FY 2016	Actual Receipts FY 2017	Actual Receipts FY 2018	FY 2019 Estimate March-19	FY 2020 Estimate March-19
<b>Revenue Sources</b>												
<b>State Taxes</b>												
Personal Income Tax	\$10,219	\$9,430	\$12,301	\$17,000	\$18,323	\$18,388	\$17,682	\$15,299	\$15,385	\$20,784	\$21,588	\$22,128
Corporate Income Tax (regular)	2,073	1,649	2,277	2,983	3,679	3,640	3,129	2,334	1,610	2,607	2,834	2,890
Sales Taxes	6,773	6,308	6,833	7,226	7,355	7,676	8,030	8,063	8,043	8,256	8,775	9,022
Public Utility Taxes (regular)	1,168	1,089	1,147	995	1,033	1,013	1,006	926	884	896	879	835
Cigarette Tax	350	355	355	354	353	353	353	353	353	344	348	338
Liquor Gallonage Taxes	158	159	157	164	165	165	167	170	171	172	174	174
Vehicle Use Tax	27	30	30	29	27	29	32	30	30	28	31	30
Inheritance Tax (Gross)	288	243	122	235	293	276	333	306	261	358	350	305
Insurance Taxes and Fees	334	322	317	345	334	333	353	398	391	432	421	416
Corporate Franchise Tax & Fees	201	208	207	192	205	203	211	207	207	207	205	205
Interest on State Funds & Investments	81	26	28	21	20	20	24	24	36	79	125	135
Cook County Intergovernmental Transfer	253	244	244	244	244	244	244	244	244	244	244	244
Other Sources	418	431	404	399	462	585	693	534	685	641	676	687
<b>Subtotal</b>	<b>\$22,343</b>	<b>\$20,494</b>	<b>\$24,422</b>	<b>\$30,187</b>	<b>\$32,493</b>	<b>\$32,925</b>	<b>\$32,257</b>	<b>\$28,888</b>	<b>\$28,300</b>	<b>\$35,048</b>	<b>\$36,650</b>	<b>\$37,409</b>
<b>Transfers</b>												
Lottery	625	625	632	640	656	668	679	677	720	719	731	745
Gaming Fund Transfer [and related]	430	431	324	413	360	331	302	287	280	282	271	268
Other	538	828	1,226	885	688	1,113	2,012	627	552	1,186	1,003	740
<b>Total State Sources</b>	<b>\$23,936</b>	<b>\$22,378</b>	<b>\$26,604</b>	<b>\$32,125</b>	<b>\$34,197</b>	<b>\$35,037</b>	<b>\$35,250</b>	<b>\$30,479</b>	<b>\$29,852</b>	<b>\$37,235</b>	<b>\$38,655</b>	<b>\$39,162</b>
<b>Federal Sources</b>												
<b>Total Federal &amp; State Sources</b>	<b>\$6,567</b>	<b>\$5,920</b>	<b>\$5,386</b>	<b>\$3,682</b>	<b>\$4,154</b>	<b>\$3,903</b>	<b>\$3,330</b>	<b>\$2,665</b>	<b>\$2,483</b>	<b>\$5,238</b>	<b>\$3,050</b>	<b>\$3,547</b>
<b>Total Federal &amp; State Sources</b>	<b>\$30,503</b>	<b>\$28,298</b>	<b>\$31,990</b>	<b>\$35,807</b>	<b>\$38,351</b>	<b>\$38,940</b>	<b>\$38,580</b>	<b>\$33,144</b>	<b>\$32,335</b>	<b>\$42,473</b>	<b>\$41,705</b>	<b>\$42,709</b>
<b>Nongeneral Funds Distribution:</b>												
<b>Refund Funds/Direct Deposits</b>												
Personal Income Tax Refund Fund	(\$996)	(\$919)	(\$1,076)	(\$1,488)	(\$1,785)	(\$1,746)	(\$1,769)	(\$1,493)	(\$1,724)	(\$2,037)	(\$2,094)	(\$2,157)
Corporate Income Tax Refund Fund	(363)	(289)	(426)	(522)	(502)	(476)	(439)	(362)	(278)	(457)	(439)	(426)
Fund for Advancement of Education	0	0	0	0	0	0	(242)	(458)	(464)	0	0	0
Commitment to Human Services Fund	0	0	0	0	0	0	(242)	(458)	(464)	0	0	0
LGDF--Direct from PIT	0	0	0	0	0	0	0	0	0	(1,022)	(1,122)	(1,210)
LGDF--Direct from CIT	0	0	0	0	0	0	0	0	0	(133)	(156)	(169)
Downstate Pub/Trans--Direct from Sales	0	0	0	0	0	0	0	0	0	(446)	(508)	(561)
<b>Subtotal General Funds</b>	<b>\$29,144</b>	<b>\$27,090</b>	<b>\$30,488</b>	<b>\$33,797</b>	<b>\$36,064</b>	<b>\$36,718</b>	<b>\$35,888</b>	<b>\$30,373</b>	<b>\$29,405</b>	<b>\$38,378</b>	<b>\$37,386</b>	<b>\$38,186</b>
Change from Prior Year	(\$515)	(\$2,054)	\$1,344	\$3,309	\$2,267	\$654	(\$830)	(\$5,515)	(\$968)	\$8,973	(\$992)	\$800
Percent Change	-1.7%	-7.0%	4.6%	10.9%	6.7%	1.8%	-2.3%	-15.4%	-3.2%	30.5%	-2.6%	2.1%
<b>Short-Term Borrowing/ Treasurer Inv.</b>	<b>\$2,400</b>	<b>\$1,250</b>	<b>\$1,300</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$454</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$700</b>	<b>\$0</b>
<b>Interfund Borrowing</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$533</b>	<b>\$250</b>	<b>\$0</b>
<b>Income Tax Bond Fund Transfer</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$2,500</b>	<b>\$0</b>	<b>\$0</b>
<b>Transfer to Commitment Human Services</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$40</b>	<b>\$0</b>	<b>\$0</b>
<b>FY'13/14 Backlog Payment Fund Transfer</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$264</b>	<b>\$50</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Tobacco Liquidation Proceeds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$1,250</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>HPF and HHSMTF Transfers</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Budget Stabilization Fund Transfer</b>	<b>\$576</b>	<b>\$1,146</b>	<b>\$535</b>	<b>\$275</b>	<b>\$275</b>	<b>\$275</b>	<b>\$275</b>	<b>\$125</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Pension Contribution Fund Transfer</b>	<b>\$0</b>	<b>\$843</b>	<b>\$224</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Total General Funds</b>	<b>\$32,120</b>	<b>\$30,329</b>	<b>\$33,797</b>	<b>\$34,072</b>	<b>\$36,603</b>	<b>\$37,043</b>	<b>\$36,617</b>	<b>\$30,498</b>	<b>\$29,405</b>	<b>\$41,451</b>	<b>\$38,336</b>	<b>\$38,186</b>
Change from Prior Year	(\$1,718)	(\$1,791)	\$1,677	\$275	\$2,531	\$440	(\$426)	(\$6,119)	(\$1,093)	\$12,046	(\$3,115)	(\$150)
Percent Change	-5.1%	-5.6%	5.2%	0.8%	7.4%	1.2%	-1.2%	-16.7%	-3.6%	41.0%	-7.5%	-0.4%

SOURCE: CGFA

**ALL APPROPRIATED FUNDS REVENUE FY 2011 to FY 2018 & ESTIMATED FY 2019-20**

(\$ millions)

<u>REVENUE SOURCES</u>	<u>ACTUAL RECEIPTS FY 2011</u>	<u>ACTUAL RECEIPTS FY 2012</u>	<u>ACTUAL RECEIPTS FY 2013</u>	<u>ACTUAL RECEIPTS FY 2014</u>	<u>ACTUAL RECEIPTS FY 2015</u>	<u>ACTUAL RECEIPTS FY 2016</u>	<u>ACTUAL RECEIPTS FY 2017</u>	<u>ACTUAL RECEIPTS FY 2018</u>	<u>Mar-19 Estimate FY 2019</u>	<u>Mar-19 Estimate FY 2020</u>
<b>State Sources</b>										
CASH RECEIPTS:										
Personal Income Tax (gross)	\$12,302	\$17,000	\$18,324	\$18,388	\$17,682	\$15,301	\$15,385	\$20,785	\$21,588	\$22,128
Corporate Income Tax (gross)	\$2,285	\$2,983	\$3,679	\$3,640	\$3,132	\$2,339	\$1,614	\$2,610	\$2,834	\$2,890
Sales Taxes	\$8,400	\$8,851	\$9,054	\$9,451	\$9,908	\$9,073	\$9,053	\$9,297	\$9,881	\$10,160
Short-Term Borrowing	\$1,300	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Fund Transfers	\$1,396	\$2,366	\$2,689	\$2,322	\$2,882	\$460	\$849	\$3,413	\$4,377	\$3,536
State Employees Retirement System	\$1,566	\$1,764	\$1,875	\$2,136	n/a	n/a	n/a	\$2,607	\$2,766	\$2,891
Corporate Personal Property Replacement Taxes	\$1,537	\$1,460	\$1,690	\$1,657	\$1,786	\$1,628	\$1,922	\$1,790	\$1,799	\$1,831
Health Care Provider Assessment Fees & Taxes	\$1,635	\$1,677	\$1,656	\$2,413	\$1,961	\$1,952	\$2,138	\$2,205	\$2,441	\$2,417
Public Utility Taxes	\$1,691	\$1,584	\$1,564	\$1,498	\$1,510	\$1,417	\$1,423	\$1,409	\$1,382	\$1,313
Motor Vehicle & Operators Licenses	\$1,494	\$1,498	\$1,462	\$1,511	\$1,539	\$1,552	\$1,585	\$1,483	\$1,520	\$1,535
Lottery Tickets & Licenses	\$1,104	\$1,502	\$1,388	\$1,341	\$1,589	\$1,308	\$1,341	\$1,510	\$1,385	\$1,400
Motor Fuel Tax (gross)	\$1,347	\$1,324	\$1,292	\$1,326	\$1,326	\$1,354	\$1,348	\$1,368	\$1,370	\$1,372
Cigarette Taxes	\$588	\$606	\$856	\$860	\$862	\$845	\$782	\$764	\$743	\$722
Riverboat Gambling Taxes & Fees	\$458	\$611	\$579	\$533	\$520	\$494	\$489	\$482	\$471	\$468
Revolving Funds	\$565	\$617	\$544	\$595	\$606	\$242	\$678	\$533	\$674	\$675
Insurance Tax & Fees	\$414	\$447	\$442	\$443	\$466	\$515	\$519	\$552	\$545	\$538
Inheritance Tax (gross)	\$122	\$235	\$309	\$294	\$355	\$325	\$278	\$381	\$372	\$324
Liquor Gallonage Taxes	\$182	\$279	\$280	\$280	\$283	\$288	\$294	\$296	\$296	\$298
Optional Health Insurance Deductions	\$268	\$266	\$269	\$404	\$376	\$352	\$340	\$332	\$336	\$336
County Intergovernmental Transfers	\$244	\$244	\$244	\$244	\$244	\$244	\$244	\$244	\$244	\$244
Hotel Tax	\$192	\$208	\$221	\$227	\$257	\$264	\$273	\$281	\$291	\$301
Corporate Franchise Tax & Fees	\$215	\$200	\$213	\$211	\$219	\$216	\$215	\$216	\$216	\$215
Tobacco Settlement	\$290	\$133	\$133	\$163	\$120	\$84	\$105	\$227	\$108	\$106
Investment Income	\$49	\$43	\$37	\$52	\$52	\$52	\$83	\$163	\$240	\$260
Video Gaming Tax	\$0	\$0	\$29	\$137	\$235	\$302	\$356	\$417	\$457	\$490
Other Taxes, Licenses, Fees & Earnings	\$3,545	\$3,586	\$4,153	\$3,995	\$4,186	\$4,403	\$4,683	\$4,895	\$4,664	\$4,809
<b>Total, State Source Cash Receipts</b>	<b>\$43,189</b>	<b>\$49,484</b>	<b>\$52,982</b>	<b>\$54,121</b>	<b>\$52,096</b>	<b>\$45,010</b>	<b>\$45,997</b>	<b>\$58,260</b>	<b>\$61,000</b>	<b>\$61,259</b>
Transfers in from Other State Funds:	\$454	\$361	\$316	\$315	\$493	\$249	\$219	\$339	\$336	\$286
<b>TOTAL, STATE SOURCES</b>	<b>\$43,643</b>	<b>\$49,845</b>	<b>\$53,298</b>	<b>\$54,436</b>	<b>\$52,589</b>	<b>\$45,259</b>	<b>\$46,216</b>	<b>\$58,599</b>	<b>\$61,336</b>	<b>\$61,545</b>
Federal Sources	\$18,149	\$14,669	\$16,252	\$17,095	\$18,722	\$19,033	\$18,523	\$20,940	\$20,469	\$20,782
Sale of Bonds	\$6,125	\$4,099	\$1,872	\$4,244	\$42	\$1,084	\$2,977	\$8,342	\$1,500	\$1,800
<b>TOTAL, REVENUES - APPROPRIATED FUNDS</b>	<b>\$67,917</b>	<b>\$68,613</b>	<b>\$71,422</b>	<b>\$75,775</b>	<b>\$71,353</b>	<b>\$65,376</b>	<b>\$67,716</b>	<b>\$87,881</b>	<b>\$83,305</b>	<b>\$84,127</b>
Short Term Borrowing	\$1,300	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>TOTAL BASE REVENUE - ALL APPROPRIATED</b>	<b>\$66,617</b>	<b>\$68,613</b>	<b>\$71,422</b>	<b>\$75,775</b>	<b>\$71,353</b>	<b>\$65,376</b>	<b>\$67,716</b>	<b>\$87,881</b>	<b>\$83,305</b>	<b>\$84,127</b>

## DEVELOPMENT OF CGFA ESTIMATES

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

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

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

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

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