

Preliminary FY 2023 Revenue Outlook and Revised FY 2022 Revenue Forecast

As Prepared for the House Revenue and Finance Committee



Presented by:

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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 in addition to providing objective policy research for legislators and legislative staff.
- Prepares annual revenue estimates with periodic updates;
- Reports monthly on the State's financial and economic condition;
- Analyzes of the fiscal impact of revenue bills;
- Prepares State Debt Impact Notes;
- Periodically assesses capital programs;
- Annually estimates the liabilities of the State's group health insurance program and approves contract renewals promulgated by the Department of Central Management Services;
- Implements the provisions of the State Facilities Closure Act;
- Annually estimates public pension funding requirements and prepares pension impact notes;
- Provides non-partisan research for General Assembly Members and legislative staffs.

The Commission will not officially present its revenue forecast for FY 2023 and updated FY 2022 outlook until a scheduled March 8th CGFA meeting. However, due to the scheduled early adjournment of this year's spring session, at the invitation of the House Revenue and Finance Committee, today the Commission will provide the committee with what can be considered a "Preliminary" revenue forecast for FY 2023 and updated FY 2022 outlook. These forecasts will be revisited once February 2022 actuals are receipted, along with any updated economic data.

FY 2022 Enacted vs. Preliminary Revised CGFA General Funds Revenue Outlook

The FY 2022 budget was enacted last year based on an overall revenue forecast of \$44.367 billion. That figure was comprised of \$42.367 billion in “base” revenues, as well as \$2 billion in assumed resources from ARPA reimbursement for essential government services.

Enacted FY 2022 Budget Revenue Assumptions [Base]	\$42.367 billion
<u>ARPA Reimbursement for Essential Gov’t Services</u>	<u>\$2.000 billion</u>
Total Assumed Resources for FY 2022	\$44.367 billion

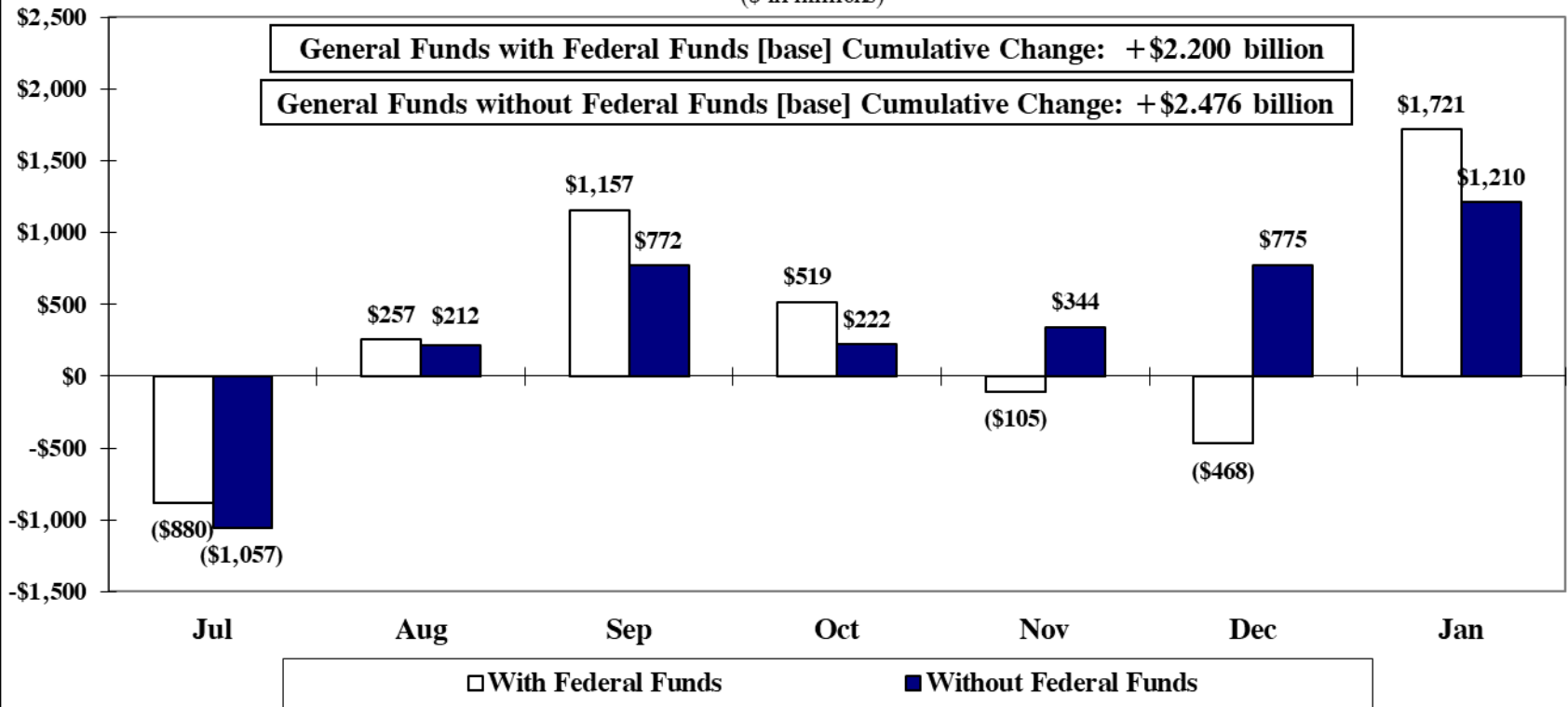
Followers of the Commission’s monthly revenue briefings will be aware of CGFA’s discussion of actual year-to-date revenues demonstrating surprising strength given the heightened state of uncertainty over the last two years. This is a fortuitous trend that was established throughout the previous fiscal year.

A review of the overall positive revenue performance since enactment, coupled with the latest economic trends/outlooks and budgetary plans, necessitates an upward revision. The Commission’s preliminary update to the FY 2022 “base” revenue outlook has been raised to \$46.988 billion, while ARPA reimbursement amounts have been reduced, per the GOMB, by \$500 million, netting an overall upward revenue increase of \$4.121 billion.

Preliminary CGFA Revised FY 2022 Revenues [Base]	\$46.988 billion
<u>Revised ARPA Reimbursement for Essential Gov’t Services [per GOMB]</u>	<u>\$1.500 billion</u>
Preliminary CGFA Revised Total Assumed Resources for FY 2022	\$48.488 billion
Net Increase from Enactment	\$4.121 billion

FY 2022 Revenue Performance to Date

FY 2022 Monthly General Funds Performance
July thru January as Compared to Same Prior Year Months
 (\$ in millions)



Notes: Figures exclude short-term borrowing, treasurer's investments, and federal funds associated with ARPA Reimbursement for Essential Government Services.

Revenues Year to Date [Thru January]

Through the first seven months of FY 2022, overall base receipts are up a remarkable \$2.200 billion. As mentioned in previous monthly briefings, what makes this growth so impressive is that the revenue totals of FY 2022 are compared to FY 2021 receipts that benefitted from last year's final payment delay, valued at approximately \$1.3 billion. Despite this occurrence, net personal income tax revenues have risen \$560 million and net corporate income tax revenues have increased \$818 million. Net sales tax also continues its phenomenal year, now up \$754 million through January. All other sources are trailing last year's levels by a combined \$96 million.

Overall transfers continue to outpace last year's levels and are now up \$440 million this fiscal year. Those gains reflect \$332 million in gains from miscellaneous transfers, \$107 million from the return of riverboat transfers, and \$40 million improvement from the lottery. Those increases more than offset the \$39 million decline in the Refund Fund transfer. Base federal sources are behind \$276 million from last year [excludes \$439 million of ARPA reimbursements].

In summary, despite the lingering pandemic and its effect on employment, business activity, supply-chain disruptions, and building inflation pressures, FY 2022 revenues have continued to amaze. While this torrid pace cannot likely continue for much longer as stimulus efforts wind down and inflationary pressures build, thus far FY 2022 revenues have certainly exceeded expectations.

GENERAL FUNDS RECEIPTS: YEAR TO DATE				
FY 2022 vs. FY 2021				
(\$ million)				
Revenue Sources	FY 2022	FY 2021	\$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	\$14,541	\$13,846	\$695	5.0%
Corporate Income Tax (regular)	3,033	1,977	1,056	53.4%
Sales Taxes	6,484	5,548	936	16.9%
Public Utility Taxes (regular)	419	419	0	0.0%
Cigarette Tax	150	168	(18)	-10.7%
Liquor Gallonage Taxes	117	111	6	5.4%
Vehicle Use Tax	23	20	3	15.0%
Inheritance Tax	347	281	66	23.5%
Insurance Taxes and Fees	195	282	(87)	-30.9%
Corporate Franchise Tax & Fees	130	215	(85)	-39.5%
Interest on State Funds & Investments	8	42	(34)	-81.0%
Cook County IGT	56	56	0	0.0%
Other Sources	168	115	53	46.1%
Subtotal	\$25,671	\$23,080	\$2,591	11.2%
Transfers				
Lottery	\$466	\$426	\$40	9.4%
Riverboat transfers & receipts	107	0	107	N/A
Proceeds from Sale of 10th license	0	0	0	N/A
Refund Fund transfer	242	281	(39)	-13.9%
Other	594	262	332	126.7%
Total State Sources	\$27,080	\$24,049	\$3,031	12.6%
Federal Sources [base]	\$2,781	\$3,057	(\$276)	-9.0%
Total Federal & State Sources	\$29,861	\$27,106	\$2,755	10.2%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	(\$1,345)	(\$1,246)	(\$99)	7.9%
Corporate Income Tax	(455)	(277)	(178)	64.3%
Local Government Distributive Fund				
Personal Income Tax	(800)	(764)	(36)	4.7%
Corporate Income Tax	(177)	(117)	(60)	51.3%
Sales Tax Distributions				
Deposits into Road Fund	(64)	0	(64)	N/A
Distribution to the PTF and DPTF	(293)	(175)	(118)	67.4%
Subtotal General Funds	\$26,727	\$24,527	\$2,200	9.0%
Treasurer's Investments	\$0	\$400	(\$400)	N/A
Interfund Borrowing	\$0	\$0	\$0	N/A
ARPA Reimb. For Essential Gov't Services	\$439	\$0	\$439	N/A
Short Term Borrowing [MLF]	\$0	\$1,998	(\$1,998)	N/A
Total General Funds	\$27,166	\$26,925	\$241	0.9%
CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				
22-Feb-22				

Revisions to the FY 2022 Revenue Outlooks – Preliminary CGFA vs GOMB [Feb-22]

As mentioned, the Commission's preliminary view of overall FY 2022 revenues has improved \$4.121 billion since enactment. Stronger performance from the larger economic related sources such as income and sales taxes comprise the vast majority of the improved outlook.

FY 2022 General Funds Revenue Estimates Enacted Budget vs CGFA Preliminary Est. Feb-22			
\$ in millions			
Revenue Sources	Enacted FY 2022 May-21	CGFA FY 22 Prelim Feb-22	Difference Feb-22 vs Enacted
Personal Income Taxes [Net]	\$20,792	\$22,459	\$1,667
Corporate Income Taxes [Net]	\$3,293	\$4,527	\$1,234
Sales Tax [Net]	\$9,255	\$10,181	\$926
All Other State Sources	\$3,127	\$3,233	\$106
Transfers In	\$1,697	\$2,068	\$371
Federal Sources [Base]	\$4,203	\$4,520	\$317
Base General Funds	\$42,367	\$46,988	\$4,621
ARPA Reimbursement for Essential Gov't Services	\$2,000	\$1,500	(\$500)
Total General Funds Revenues	\$44,367	\$48,488	\$4,121

Shown in the table below are the upward revisions in revenues made by the GOMB since the budget was enacted. Thus far, the GOMB has made overall upward adjustments of \$3.426 billion, with the majority of the upward revisions also being made to the larger economic related sources of income and sales tax. [Prior to the latest \$1.711 billion increase in their forecast outlined in the recent release of the FY'23 Budget Book, the GOMB made an earlier Nov-21 upward revision of \$1.715 billion].

FY 2022 General Funds Revenue Estimates--GOMB Enacted Budget; GOMB Update Nov-21; GOMB Revised Feb-22				
(\$ millions)	Enacted May-21	GOMB Nov-21	GOMB Feb-22	Difference Feb-22 vs Enacted
Personal Income Taxes [Net]	\$20,792	\$20,948	\$21,512	\$720
Corporate Income Taxes [Net]	\$3,293	\$3,974	\$4,698	\$1,405
Sales Tax [Net]	\$9,255	\$9,851	\$10,036	\$781
All Other State Sources	\$3,127	\$3,081	\$3,162	\$35
Transfers In	\$1,697	\$1,861	\$2,100	\$403
Federal Sources	\$4,203	\$4,367	\$4,786	\$583
Base General Funds	\$42,367	\$44,082	\$46,293	\$3,926
\$ Change from Previous Estimate		\$1,715	\$2,211	
ARPA Reimbursement for Essential Gov't Services	\$2,000	\$2,000	\$1,500	(\$500)
Total General Funds Revenues	\$44,367	\$46,082	\$47,793	\$3,426
\$ Change from Previous Estimate		\$1,715	\$1,711	

FY 2022 Revenue Estimate Comparison

Preliminary Revised CGFA Feb-22 vs GOMB Revised Feb-22

The Commission's preliminary revised overall FY 2022 revenue outlook is \$695 million higher than the revised GOMB forecast contained in the Governor's FY 2023 Budget Book. Most of the differences are contained in the estimates of income taxes, sales taxes, and federal sources. While the Commission was able to incorporate January's extremely strong performance of actual receipting, due to the earlier than usual budget address, the GOMB presumably was only able to incorporate actual revenue performance through December 2021. It is believed that timing of when the forecasts were updated is a large contributor to the differences in the outlooks.

FY 2022 General Funds Revenue Estimates			
CGFA Preliminary Est. Feb-22 vs GOMB Revision Feb-22			
\$ in millions			
Revenue Sources	CGFA FY 22 Prelim Feb-22	GOMB FY 2022 Feb-22	Difference
Personal Income Taxes [Net]	\$22,459	\$21,512	\$947
Corporate Income Taxes [Net]	\$4,527	\$4,698	(\$171)
Sales Tax [Net]	\$10,181	\$10,036	\$145
All Other State Sources	\$3,233	\$3,152	\$81
Transfers In	\$2,068	\$2,110	(\$42)
Federal Sources [Base]	\$4,520	\$4,786	(\$266)
Base General Funds	\$46,988	\$46,293	\$695
ARPA Reimbursement for Essential Gov't Services	\$1,500	\$1,500	\$0
Total General Funds Revenues	\$48,488	\$47,793	\$695

- The Commission is higher in its view of personal income tax [\$947 million], but lower in its outlook for corporate income tax [\$171 million].
- CGFA has a slightly higher estimate of sales taxes [\$145 million] and all other miscellaneous sources [\$81 million].
- The forecasts for transfers into the general funds are quite similar, with the CGFA outlook being \$42 million lower.
- At this time, the Commission will utilize a slightly lower expectation of base federal source revenues, more in line with how actual federal source receipting transpired over the last five-month period of the previous fiscal year.
- The Commission will accept the revised view of GOMB related to resources made available to the general funds via the ARPA reimbursement for essential government services [adjusted down to \$1.5 billion].

Preliminary Outlook for FY 2023 General Funds Revenues

As shown below, the Commission's preliminary forecast for upcoming FY 2023 anticipates an overall reduction in revenues of \$2.171 billion. That falloff includes the one-time impact of \$1.5 billion related to FY 2022 ARPA reimbursement, but also forecasts a drop of \$671 million in "base" general funds revenues. Highlights of the preliminary outlook include:

FY 2023 and Revised FY 2022 General Funds Revenue CGFA Preliminary Estimates [per Current Law]			
\$ in millions			
Revenue Sources	CGFA	CGFA	Difference
	FY 23 Prelim Feb-22	FY 22 Prelim Feb-22	
Personal Income Taxes [Net]	\$22,750	\$22,459	\$291
Corporate Income Taxes [Net]	\$4,357	\$4,527	(\$170)
Sales Tax [Net]	\$10,087	\$10,181	(\$94)
All Other State Sources	\$3,176	\$3,233	(\$57)
Transfers In	\$1,992	\$2,068	(\$76)
Federal Sources [Base]	\$3,955	\$4,520	(\$565)
Base General Funds	\$46,317	\$46,988	(\$671)
ARPA Reimbursement for Essential Gov't Services	\$0	\$1,500	(\$1,500)
Total General Funds Revenues	\$46,317	\$48,488	(\$2,171)

- Net personal income taxes are expected to grow \$291 million in FY 2023. The slowdown in anticipated growth largely stems from some one-time FY 2022 receipting conditions related to pass-through filers, coupled with waning impacts of federal stimulus policies/programs. In addition, the current outlook for strong TY 2021 capital gains cannot assume to repeat.
- Net corporate income taxes are expected to take a breather from receipting gains brought about by federal stimulus efforts, receipt timing shifts, consumer demand, and record corporate profits. Looking ahead, those drivers will be replaced with waning effects of previous stimulus policies, consumer spending being impacted by record inflation, and much higher input costs impacting bottom line profits. Net corporate income tax receipts are anticipated to fall \$170 million.
- Net sales taxes are also expected to downshift from current trajectory, dropping \$94 million. The anticipated decline, albeit modest, reflects weaker consumer confidence due to purchasing power erosion as inflation spikes, pending interest rate increases, current elimination of federal child tax credit payments, and continued motor fuel sales tax shifting to Road Fund. In addition, a shift back to pre-pandemic purchasing patterns may mean stronger "service" spending at the expense of "goods" spending, which would create downward pressure on receipts.
- Federal sources are forecast to fall \$565 million due to anticipated lower reimbursable spending coupled with a lack of enhanced federal matching rates made possible under the federal "Public Health Emergency". It's unclear exactly how much longer the PHE will be extended [each qtr. of enhanced 6.2% matching rate reportedly equates to about \$90 million in federal reimbursement].

FY 2023 Revenue Comparison – Preliminary CGFA vs. GOMB

As shown, the Commission’s preliminary FY 2023 forecast of \$46.317 billion is \$484 million higher than the GOMB’s outlook recently presented in the Governor’s introduced FY 2023 budget. While the differences between forecasts are not considered very significant given the size of the overall revenue base, a few points of comparison are worth noting.

FY 2023 GENERAL FUND REVENUE COMPARISON			
CGFA Preliminary vs. GOMB [per Current Law]			
\$ in millions			
Revenue Sources	CGFA FY23 Prelim Feb-22	GOMB FY 2023 Feb-22	Difference
Personal Income Taxes [Net]	\$22,750	\$22,401	\$349
Corporate Income Taxes [Net]	\$4,357	\$4,446	(\$89)
Sales Tax [Net]	\$10,087	\$9,909	\$178
All Other State Sources	\$3,176	\$3,109	\$67
Transfers In	\$1,992	\$1,923	\$69
Federal Sources [Base]	\$3,955	\$4,045	(\$90)
Base General Funds	\$46,317	\$45,833	\$484
ARPA Reimbursement or Other Borrowing	\$0	\$0	\$0
Total General Funds Revenues	\$46,317	\$45,833	\$484

- While the Commission’s estimate of net personal income tax receipts are \$349 million higher than the GOMB, that differential is more reflective of CGFA’s higher FY 2022 base estimate rather than underlying growth expectations of the upcoming fiscal year. In fact, the Commission is assuming lower growth expectations for FY 2023 than the GOMB.
- While both agencies are anticipating a falloff in net corporate income taxes, the Commission’s more conservative outlook equates to a lower estimate for FY 2023.
- While the Commission’s estimate of net sales tax receipts are \$178 million higher than the GOMB, that is quite similar to the FY 2022 outlook differential as well.
- CGFA has slightly higher expectations of all other state source estimates as well as transfers in. [Based on the budget book narrative, the GOMB assumes legislative action necessary to “true-up” some earlier lottery transfers. The net effect if passed would likely reduce the Commission’s FY 2023 lottery transfer estimate by approximately \$64 million]. At this time, the Commission is not assuming a continuation of the higher federal matching rate into FY ‘23. As a result, the estimate of federal sources is \$90 million lower than the GOMB’s outlook.

General Funds Revenue History

Detailed General Funds Revenue History FY 2014 - FY 2023 (est.) (\$ millions)

Revenue Sources	Actual Receipts FY 2014	Actual Receipts FY 2015	Actual Receipts FY 2016	Actual Receipts FY 2017	Actual Receipts FY 2018	Actual Receipts FY 2019	Actual Receipts FY 2020	Actual Receipts FY 2021	Preliminary Feb '22 Est. FY 2022	Preliminary Feb '22 Est. FY 2023
State Taxes										
Personal Income Tax	\$18,388	\$17,682	\$15,299	\$15,385	\$20,784	\$22,604	\$21,657	\$26,350	\$26,345	\$26,687
Corporate Income Tax (regular)	3,640	3,129	2,334	1,610	2,607	3,026	2,596	4,450	5,718	5,471
Sales Taxes	7,676	8,030	8,063	8,043	8,256	8,897	8,691	9,799	10,897	10,919
Public Utility Taxes (regular)	1,013	1,006	926	884	896	863	831	752	748	718
Cigarette Tax	353	353	353	353	344	361	267	281	260	252
Liquor Gallonage Taxes	165	167	170	171	172	172	177	177	183	184
Vehicle Use Tax	29	32	30	30	28	31	26	36	43	38
Inheritance Tax (Gross)	276	333	306	261	358	388	283	450	535	485
Insurance Taxes and Fees	333	353	398	391	432	396	361	480	432	440
Corporate Franchise Tax & Fees	203	211	207	207	207	247	210	322	240	235
Interest on State Funds & Investments	20	24	24	36	79	145	137	57	20	35
Cook County Intergovernmental Transfer	244	244	244	244	244	244	244	244	244	244
Other Sources	585	693	534	685	641	669	725	297	528	545
Subtotal	\$32,925	\$32,257	\$28,888	\$28,300	\$35,048	\$38,043	\$36,205	\$43,695	\$46,193	\$46,253
Transfers										
Lottery	668	679	677	720	719	731	630	777	818	818
Gaming Fund Transfer [and related]	331	302	287	280	282	279	205	6	139	179
Other	1,113	2,012	627	552	1,186	1,035	1,606	773	1,111	995
Total State Sources	\$35,037	\$35,250	\$30,479	\$29,852	\$37,235	\$40,088	\$38,646	\$45,251	\$48,261	\$48,245
Federal Sources [Base]	\$3,903	\$3,330	\$2,665	\$2,483	\$5,238	\$3,600	\$3,551	\$4,744	\$4,520	\$3,955
Total Federal & State Sources	\$38,940	\$38,580	\$33,144	\$32,335	\$42,473	\$43,688	\$42,197	\$49,995	\$52,781	\$52,200
Nongeneral Funds Distribution:										
Refund Funds/Direct Deposits										
Personal Income Tax Refund Fund	(\$1,746)	(\$1,769)	(\$1,493)	(\$1,724)	(\$2,037)	(\$2,193)	(\$2,058)	(\$2,372)	(\$2,437)	(\$2,469)
Corporate Income Tax Refund Fund	(476)	(439)	(362)	(278)	(457)	(470)	(370)	(625)	(858)	(793)
Fund for Advancement of Education	0	(242)	(458)	(464)	0	0	0	0	0	0
Commitment to Human Services Fund	0	(242)	(458)	(464)	0	0	0	0	0	0
LGDF--Direct from PIT	0	0	0	0	(1,022)	(1,175)	(1,128)	(1,453)	(1,449)	(1,468)
LGDF--Direct from CIT	0	0	0	0	(133)	(167)	(145)	(262)	(333)	(321)
Sales Tax Deposits into Road Fund	0	0	0	0	0	0	0	0	(125)	(240)
Downstate Pub/Trans--Direct from Sales	0	0	0	0	(446)	(488)	(436)	(431)	(591)	(592)
Subtotal General Funds	\$36,718	\$35,888	\$30,373	\$29,405	\$38,378	\$39,195	\$38,060	\$44,852	\$46,988	\$46,317
Change from Prior Year	\$654	(\$830)	(\$5,515)	(\$968)	\$8,973	\$817	(\$1,135)	\$6,792	\$2,136	(\$671)
Percent Change	1.8%	-2.3%	-15.4%	-3.2%	30.5%	2.1%	-2.9%	17.8%	4.8%	-1.4%
ARPA Reimb. for Essential Gov't Services	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,500	\$0
Short-Term Borrowing/MLF	\$0	\$0	\$0	\$0	\$0	\$0	\$1,198	\$1,998	\$0	\$0
Treasurer's Investments	\$0	\$0	\$0	\$0	\$0	\$750	\$400	\$400	\$0	\$0
Interfund Borrowing	\$0	\$454	\$0	\$0	\$533	\$250	\$462	\$0	\$0	\$0
Income Tax Bond Fund Transfer	\$0	\$0	\$0	\$0	\$2,500	\$0	\$0	\$0	\$0	\$0
Transfer to Commitment Human Services	\$0	\$0	\$0	\$0	\$40	\$0	\$0	\$0	\$0	\$0
FY'13/14 Backlog Payment Fund Transfer	\$50	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Budget Stabilization Fund Transfer	\$275	\$275	\$125	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total General Funds	\$37,043	\$36,617	\$30,498	\$29,405	\$41,451	\$40,195	\$40,120	\$47,250	\$48,488	\$46,317
Change from Prior Year	\$440	(\$426)	(\$6,119)	(\$1,093)	\$12,046	(\$1,256)	(\$75)	\$7,130	\$1,238	(\$2,171)
Percent Change	1.2%	-1.2%	-16.7%	-3.6%	41.0%	-3.0%	-0.2%	17.8%	2.6%	-4.5%