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EXECUTIVE OFFICE OF THE GOVERNOR  
**GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET**  
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**APRIL 2020 REVENUE FORECAST REVISION**

The Governor's Office of Management and Budget (GOMB) released on February 19, 2020 a fiscal year 2020 and fiscal year 2021 general funds revenue forecast with the Governor's budget proposal. These forecasts were based on the economic conditions and fiscal year-to-date revenue available as of early February. However, due to the impact of COVID-19 pandemic, the economic outlook for the State of Illinois for fiscal year 2021 has shifted significantly, meriting a revised revenue projection for the remainder of fiscal year 2020 and fiscal year 2021.

While the length and potential impact of the unprecedented emergency response remains unclear, economists have begun to project the likely impact on the economy, and in turn, the revenue collections that support the operations of state governments. Utilizing recent data forecasts available from IHS Markit, GOMB and the Department of Revenue currently estimate that fiscal year 2020 general funds state source base revenues will be approximately \$2.7 billion below the February estimate of \$36.9 billion, partially offset by expected additional federal revenues and additional interfund borrowing processed by the Office of the Comptroller.

Fiscal year 2021 general funds state source revenue estimates are being revised \$4.6 billion down from an estimated state source base revenue estimate of \$38.5 billion. This revenue shortfall, combined with additional fiscal year 2020 borrowing, has created a budgetary gap when compared to the fiscal year 2021 spending plan outlined by the Governor in February. Because the budget for fiscal year 2021 will be impacted by whether the graduated income tax structure in PA 101-0008 takes effect, there are two scenarios for the budget gap in fiscal year 2021. If PA 101-0008 takes effect, the budget gap is approximately \$6.2 billion. If the graduated income tax structure in PA 101-0008 does not go into effect, the estimated budget gap is approximately \$7.4 billion.

## April 2020 Revenue Revision

| Source<br>(\$ millions)                            | Actual<br>FY 2019 | February<br>Estimate<br>FY 2020 | April<br>Revision<br>FY 2020 | February<br>Estimate<br>FY 2021 | April<br>Revision<br>FY 2021 |
|----------------------------------------------------|-------------------|---------------------------------|------------------------------|---------------------------------|------------------------------|
| <b>Base Revenues</b>                               |                   |                                 |                              |                                 |                              |
| <b>State Sources: Revenues</b>                     |                   |                                 |                              |                                 |                              |
| Individual Income Taxes.....                       | 19,236            | 19,435                          | 18,099                       | 20,126                          | 18,361                       |
| Corporate Incomes Taxes.....                       | 2,389             | 2,490                           | 2,191                        | 2,489                           | 2,047                        |
| Sales Taxes.....                                   | 8,409             | 8,740                           | 8,003                        | 9,038                           | 7,453                        |
| Public Utility Taxes.....                          | 863               | 846                             | 846                          | 828                             | 828                          |
| Cigarette Taxes.....                               | 361               | 263                             | 263                          | 257                             | 257                          |
| Liquor Gallonage Taxes.....                        | 172               | 174                             | 174                          | 176                             | 176                          |
| Inheritance Tax.....                               | 388               | 305                             | 295                          | 310                             | 310                          |
| Insurance Taxes and Fees.....                      | 396               | 400                             | 380                          | 400                             | 400                          |
| Corporate Franchise Taxes and Fees.....            | 247               | 237                             | 237                          | 217                             | 217                          |
| Interest on State Funds and Investments.....       | 145               | 170                             | 155                          | 170                             | 170                          |
| Cook County Intergovernmental Transfer.....        | 244               | 244                             | 244                          | 244                             | 244                          |
| Other State Sources.....                           | 710               | 932                             | 874                          | 759                             | 650                          |
| <b>Total State Sources: Revenues</b>               | <b>33,560</b>     | <b>34,236</b>                   | <b>31,760</b>                | <b>35,013</b>                   | <b>31,113</b>                |
| <b>State Sources: Transfers In</b>                 |                   |                                 |                              |                                 |                              |
| Lottery.....                                       | 731               | 700                             | 550                          | 728                             | 636                          |
| Riverboat Gaming Taxes.....                        | 269               | 261                             | 204                          | 258                             | 251                          |
| Adult-Use Cannabis.....                            | 0                 | 15                              | 15                           | 46                              | 46                           |
| Other Transfers.....                               | 1,035             | 1,675                           | 1,702                        | 1,000                           | 653                          |
| <b>Total State Sources</b>                         | <b>35,595</b>     | <b>36,886</b>                   | <b>34,229</b>                | <b>37,045</b>                   | <b>32,699</b>                |
| Net Income Tax Receipts from PA 101-0008* ...      | 0                 | 0                               | 0                            | 1,435                           | 1,174                        |
| <b>Total State Sources, including PA 101-0008*</b> | <b>35,595</b>     | <b>36,886</b>                   | <b>34,229</b>                | <b>38,480</b>                   | <b>33,872</b>                |
| Federal Sources.....                               | 3,600             | 3,154                           | 3,613                        | 3,651                           | 3,634                        |
| <b>Base General Funds Revenues</b>                 | <b>39,195</b>     | <b>40,040</b>                   | <b>37,842</b>                | <b>42,131</b>                   | <b>37,506</b>                |
| Interfund Borrowing/Fund Reallocations .....       | 250               | 150                             | 473                          | 0                               | 0                            |
| Treasurer's Investment Borrowing.....              | 750               | 400                             | 400                          | 0                               | 0                            |
| <b>Total General Funds Revenues</b>                | <b>40,195</b>     | <b>40,590</b>                   | <b>38,715</b>                | <b>42,131</b>                   | <b>37,506</b>                |

\*PA 101-0008 takes effect January 1, 2021, adjusting individual and corporate income tax rates and generating an additional revenue in FY 2021 for the general funds, if SJRCA 0001 is approved by the people of Illinois. Values shown here are net of the Governor's proposed \$100 million set-aside for pensions.

## UPDATED FISCAL YEAR 2020 PROJECTIONS

### *Estimated Revenue Impact*

Following a review of current economic conditions and impacts of COVID-19 on economic activity, GOMB is identifying several revisions to the baseline budget forecast. Revisions to fiscal year 2020 projected revenues and expenditures change the fiscal year end result to an estimated deficit of \$255 million based on current appropriation levels.

The primary driver for the adjustment to fiscal year 2020 revenues is the federal government's extension of the April 15<sup>th</sup> deadline for the filing of final 2019 income tax payments to July 15<sup>th</sup>, which falls in the state's fiscal year 2021. It is estimated that approximately \$1 billion in receipts from returns that were

| <b>Changes to FY 2020 Budget Projections</b> |                  |
|----------------------------------------------|------------------|
| <b>(\$ in Millions)</b>                      |                  |
| <b>Revenue Forecast Revisions</b>            |                  |
| Income Taxes                                 | (\$1,636)        |
| Sales Taxes                                  | (737)            |
| Lottery Proceeds                             | (150)            |
| Casino Gaming                                | (57)             |
| Federal Sources                              | 459              |
| All Other Changes                            | (77)             |
| <b>Total Changes</b>                         | <b>(\$2,198)</b> |
| <b>Increased GO Bond Debt</b>                |                  |
| <b>Service Transfers*</b>                    | <b>(\$ 120)</b>  |
| <b>Actions to Reduce FY20 Deficit</b>        |                  |
| Defer Repayment of Treasurer's               |                  |
| Investment Borrowing                         | \$ 400           |
| Interfund Borrowing                          | 323              |
| Short Term Borrowing Proceeds                | 1,200            |
| Spending Controls                            | 25               |
| <b>Total Changes</b>                         | <b>\$ 1,948</b>  |
| <b>Initial FY20 Surplus</b>                  | <b>\$ 114</b>    |
| Decrease to Revenue Forecast                 | (2,198)          |
| Increased Debt Service Transfers             | (120)            |
| Actions to Balance Budget                    | 1,948            |
| <b>Revised Surplus/(Deficit)</b>             | <b>(\$ 255)</b>  |

\*The general funds share of debt service is estimated to increase based on reduced revenue projections (primarily video gaming and sports wagering) to other funds that pay a share of debt service costs.

expected to be filed in April will be deferred until closer to the July 15<sup>th</sup> filing date, which causes the receipts to be counted for fiscal year 2021 on a cash basis.

Net individual income taxes for fiscal year 2020 are estimated to total \$18,099 million, \$1,336 million or 6.9 percent below February estimates. This includes the impact from the filing extension. The negative impact of business layoffs on employment will have a direct and immediate effect on withholdings collections, which is the main component of individual income tax. This loss of employment and its negative impact on withholdings will start being accounted for in the last quarter of this fiscal year. Furthermore, given the significant fall in the stock markets, some decline in estimated payments is also expected in the last quarter of fiscal year 2020. Corporate income taxes are forecast to total \$2,191 million, \$299 million or 12.0 percent below the previous forecast. In addition to weakened estimated payments in April and June, corporate taxpayers are expected to take advantage of the automatic income tax return filing and payment extension. This relief is projected to delay approximately \$100 million in corporate income tax general funds receipts from fiscal year 2020 to fiscal year 2021.

Sales taxes are projected to total \$8,003 million, \$737 million or 8.4 percent below previous projections. This reflects not only the effects of business closures, social-distancing behavior, and event cancellations, but also the immediate effects of lost income and wealth caused by pandemic-related disruptions in labor and financial

markets. Any mitigating effects of federal fiscal stimulus payments to households will be limited in fiscal year 2020 because of their delayed timing and the ongoing requirements of social distancing. Early data on retail activity are consistent with a steep decline in taxable spending in the final quarter of fiscal year 2020.

Proceeds from wagering, including lottery sales and casino gaming, are projected to decline based on diminished economic activity. Transfers in from these sources to the general funds are projected to decline by \$207 million in total. Additionally, decreased receipts based on the suspension of wagering activity at casinos (including the new sports wagering) and video gaming establishments will also affect the general funds indirectly through increased general obligation bond debt service transfers. The reduction of anticipated receipts to the Capital Projects Fund, which pays a portion of debt service on bonds issued for capital purposes, will require the general funds to pick up an increased share of debt service costs in fiscal year 2020. It is anticipated that the general funds will transfer an additional \$120 million to pay debt service this year when compared to estimates from February.

### *Budget Shortfall Remediation Actions*

In order to partially offset the expected loss of revenues and maintain liquidity in the general funds, several actions are being taken following these revenue revisions. The Governor's Office of Management and Budget has requested agency directors to take all possible steps to manage existing resources for the remainder of fiscal year 2020 through putting on hold all non-essential purchases and operational expenditures, freezing all travel that is not mission essential, and limiting all non-essential hiring. These actions are expected to save at least \$25 million for the general funds in fiscal year 2020.

The Comptroller and Treasurer have extended \$400 million in investment borrowing agreements that were due to be repaid from the General Revenue Fund in March and April to July 2020. In coordination with the Governor's Office of Management and Budget, the Comptroller has utilized interfund borrowing authority to transfer an additional \$323 million in March and April to the general funds. The interfund borrowing will need to be repaid within 48 months of the initial borrowing.

Additionally, the Governor, Comptroller and Treasurer will be moving forward with the issuance of up to \$1.2 billion in short-term borrowing in May under Article 9, Section 9(d) of the Constitution and Section 1.1 of the Short Term Borrowing Act (30 ILCS 340) for situations where revenue forecasts do not meet projections.

### *Federal Revenues*

Illinois expects additional revenues to be provided from the federal government to cover a portion of the additional costs the state is incurring in response to the COVID-19 pandemic. At this point, three pieces of federal legislation have been enacted to provide assistance. The second piece, the Families First Act, increased the reimbursement to the states under the Medicaid program by 6.2 percent - the enhancement was retroactive to January 1, 2020, and runs through the end of the quarter when the emergency is determined to be over. GOMB estimates that this will increase fiscal year 2020 federal receipts to the General Revenue Fund by \$459 million over February 2020 estimates; however, the final amount will depend on the amount of reimbursable bills released by the Comptroller's office by June 30, 2020.

The State also expects to receive additional revenues from the third piece of federal stimulus legislation - Coronavirus Aid, Relief and Economic Security (CARES) Act. Illinois' allocation from the \$150 billion Coronavirus Relief Fund is approximately \$4.9 billion, of which a 55 percent minimum (\$2.7 billion) is allocated to the State for its 'necessary expenditures' related to the COVID-19 response.

As of April 15, 2020, the Governor has directed the transfer of \$489 million from GRF to the Illinois Emergency Management Agency (IEMA) disaster response account (under the authority of the Illinois Emergency Management Act) to cover the March and initial April costs of the agency's COVID-19 response – including the purchases of personal protective equipment, ventilators and initial costs for field locations.<sup>1</sup> Other agency costs are as of yet unknown. While final federal guidance has not yet been released, GOMB believes that \$2.7 billion Coronavirus Relief Fund minimum allocation will be sufficient to cover the state's COVID-19 response costs in fiscal years 2020 and 2021 and should not negatively impact the position of the general funds budget.

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<sup>1</sup> Of this amount, IEMA has expended approximately \$175 million from the Disaster Response and Recovery Fund.

After these actions – with the assumption that the Coronavirus Relief Fund federal revenues will be sufficient to offset the state’s COVID-19 response expenditures – the projected fiscal year 2020 deficit is \$255 million.

## UPDATED FISCAL YEAR 2021 PROJECTIONS

Preliminary fiscal year 2021 forecast revisions, like those for fiscal year 2020, are based primarily on the current pessimistic economic forecast provided by IHS Markit, but are subject to revision as additional information is known. This forecast assumes large declines in economic activity during the second and third quarters of calendar year 2020, followed by a very gradual recovery that does not conclude until after fiscal year 2021.

| <b>FY 2021 Revenue Forecast Revisions</b> |                  |
|-------------------------------------------|------------------|
| <b>(\$ in Millions)</b>                   |                  |
| Income Taxes                              | (\$2,469)        |
| Sales Taxes                               | (1,585)          |
| Lottery Proceeds                          | (92)             |
| Casino Gaming                             | (7)              |
| All Other Changes                         | (472)            |
| <b>Total Changes</b>                      | <b>(\$4,625)</b> |

Individual income taxes are forecast to total \$18,361 million, a \$1,765 million or 8.8 percent drop from previous estimates. This total includes the approximate \$1 billion in deferred proceeds related to the income tax filing deadline extension. Without those additional receipts, individual income taxes would show a nearly \$3 billion decline from prior estimates. The main determinant of the anticipated poor performance in fiscal year 2021 is the weak employment outlook for the fiscal year. The expected loss of

employment will have a direct detrimental effect on income tax withholdings during the fiscal year. This revision assumes employment in the state will not show a significant recovery during fiscal year 2021. Moreover, individual income tax estimated payments are also expected to suffer a significant decline. This is related to the large fall in the stock market which will have a negative effect on capital gains realizations which in turn will affect estimated payments.

Corporate income taxes are also forecast to decline. The revised fiscal year 2021 estimate of \$2,047 million is a \$442 million, or 17.8 percent decline from February estimates. However, this year-over-year decline only tells part of the story since the three-month income tax filing extension is expected to push approximately \$100 million in general fund receipts from fiscal year 2020 to fiscal year 2021. Although economic growth is currently forecasted to return in fiscal year 2021, corporate income tax receipts will remain depressed as substantial losses in calendar year 2020 are used to offset taxable income in the following year. Depending on the extent of the losses, this could affect fiscal year 2022 as well.

Estimated net receipts from the graduated income tax structure in Public Act 101-0008, which goes into effect if SJRCA 0001 is approved by voters, are now estimated to total \$1,174 million, a decline of \$261 million or 18.2 percent from prior estimates.

Sales taxes are projected to be \$7,453 million, \$1,585 million or 17.5 percent below the previous projection. Large year-over-year declines in taxable spending continue through the first three quarters of the fiscal year, due to the continued effects of social-distancing behavior, depressed consumer and business sentiment, and the negative spending effects of reduced income and wealth. We have assumed modest mitigating effects from federal stimulus measures. Year-over-year growth returns in the final quarter of fiscal year 2021, but only compared to the severely reduced levels of one year earlier.

Gaming and lottery receipts to the general funds are estimated to show declines from forecast of \$7 million and \$92 million, respectively. Other sources and transfers in to the general funds are projected to decline \$469 million from February estimates. This includes the elimination of a previously estimated transfer in fiscal year 2021 of \$170 million from the Income Tax Refund Fund.

At this writing, the fiscal year 2021 federal revenues estimate has only been revised to reflect the adjustment for the enhanced Medicaid match for the near-term, based on existing federal rules. Additional federal revenues may be available in fiscal year 2021 to provide states with additional resources in response to the COVID-19 pandemic. The revised fiscal year 2021 federal revenue projection remains essentially flat to the introduced projections. This assumes increased fiscal year 2021 federal revenues due to the enhanced match and higher liabilities are offset by a larger end of year backlog than was projected at the time of the introduced budget.

While the financial impact of the COVID-19 response and potential federal assistance from the federal stimulus bills are still being assessed, the issuance of the proposed short-term borrowing and the rollover from the Treasurer's investment borrowing of \$400 million will both need to be repaid within fiscal year 2021, adding spending pressure to the fiscal year 2021 budget of approximately \$1.6 billion. That amount, combined with the \$4.6 billion estimated revenue shortfall, have created a budgetary gap when compared to the fiscal year 2021 spending plan outlined by the Governor in February of approximately \$7.4 billion without the changes to the income tax structure in PA 101-008 or \$6.2 billion if SJRCA 0001 is approved by voters and the graduated income tax structure in PA 101-008 takes effect. This gap could change based on continued spending pressures, further revisions to revenue estimates and potentially be reduced through additional federal revenues that may come available.