Commission on Government Forecasting and Accountability

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Into the Unknown

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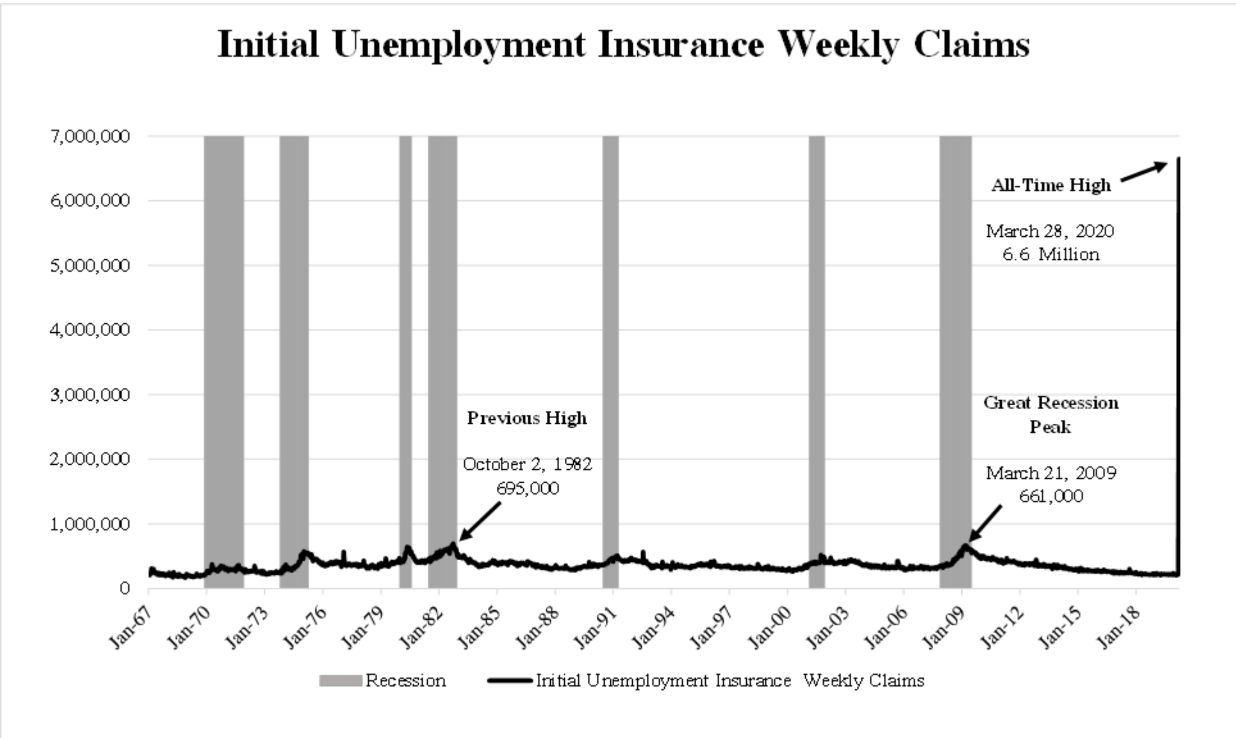
With the ongoing COVID-19 pandemic, economies around the world have been thrown into turmoil. Beginning with supply chains originating in Southeast Asia, economic activity has slowed dramatically throughout the world. Many countries have ordered their citizens to limit their movement and their social interactions via "social distancing". On Friday March 20, Governor Pritzker announced a statewide stay-at-home order that directed residents to remain in their homes as much as possible and banned gatherings of more than 10 people to help contain the spread of COVID-19.

Prior to the spread of COVID-19, the U.S. economy appeared to be running on all cylinders. The preliminary employment data for February 2020 was excellent as nonfarm payrolls added 273,000 new jobs which was significantly higher than the 175,000 expected. In addition, the December and January estimates were revised upwards by a total of 243,000. The unemployment rate remained at 3.5% which is the lowest rate since the late 1960's. Wage growth was at 3.7% in January according to the Federal Reserve Bank of Atlanta's Wage Growth Tracker which is near recent highs and were at levels not seen since prior to the Great Recession. Inflation as measured by the Consumer Price Index had been steadily below 2% in 2019 but had risen slightly above that level since November. Interest rates remained near historical lows and new home sales totaled a seasonally adjusted annual rate of 800,000 in January, the highest rate since May of 2007. The

S & P 500 stock market index hit its all-time high on February 19, 2020.

With remarkable speed COVID-19 has spread to over 150 nations, throwing economies into disarray as governments have ordered residents to stay at home and non-essential businesses to close. The situation had deteriorated so severely that James Bullard, the President of the Federal Reserve Bank of St. Louis, predicted that the U.S. unemployment rate may hit 30% and the economy could see a contraction of 50% in gross domestic product (GDP) in the second quarter of 2020. The S&P 500 quickly sunk into a bear market as it has declined more than 20% from its high. Unemployment claims skyrocketed as businesses laid off workers to try and get through the economic slow-down. As can be seen in the chart, weekly unemployment claims were 3.3 million for the week ending March 21st and 6.6 million for the week ending March 28th, this shattered the previous record of 695,000 from October 2, 1982. Illinois' unemployment claims jumped to 114,663 the week ending March 21st and to 178,133 the following week. This was up from only 10,870 two weeks prior.



In response to the eminent contraction of the economy, the Federal Reserve and the federal government have taken action. The Federal Reserve lowered the federal funds rate to zero in an attempt to induce more economic activity. In addition to this, the Fed has been buying unlimited amounts of U.S. Treasury securities and mortgage-backed securities to backstop the lending markets. On March 27th, President Trump signed the $2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act, which passed Congress with bipartisan support. This COVID-19 relief bill will send one-time payments to individuals, enhance unemployment insurance benefits, fund loans and grants to the business community, and provide funding to state and local governments.

The question that Illinois, along with all other states, must attempt to answer is what impact the Nation's response to the COVID-19 virus will have on states' budgets. No doubt these massive disruptions in commerce and economic activity will have far reaching consequences. While it still may be too early to feel its impact on state revenues, the second quarter of 2020 is shaping up to be decidedly negative. Unfortunately with the volatile nature of the virus itself (in both its ability to spread and its severity) and the necessary actions by government entities to counteract the virus, at this early stage, it is impossible to confidently predict how the economy will respond. Despite those caveats, to assess the potential economic effects of the pandemic and the actions to counteract it, the Commission examined a variety of economic forecasts for the U.S.

In examining economic forecasts for this report, multiple forecasting groups revised their forecasts within days of their previous forecasts. As each new development occurred, assumptions changed drastically. For example, Moody's Analytics had forecast a decline of -30% in the second quarter of 2020. This estimate "improved" to a decline of only -18% after the CARES Act was passed.

In reviewing economic forecasting websites, news articles, and public announcements, the Commission was able to identify fourteen estimates for annualized GDP growth for the second quarter. These estimates were produced between March 16th and March 27th. The average estimate called for contraction of -15.1% in GDP in the second quarter of 2020. The estimates ranged from a decrease of -6.5% in the UCLA Anderson Report to -30.1% from Morgan Stanley. Only two of the fourteen forecasts had GDP growth better than a decline of -10%. If the average growth estimate of -15.1% were to come to fruition, it would be the fastest drop in real GDP in any quarter since 1947. The current largest decline was the first quarter of 1958, when the U.S. was hit by the Asian flu and fell at a 10% annualized rate.

Seven forecasts for GDP growth for the entire year were located. All seven year-over-year GDP forecasts for 2020 had the economy contracting. The average growth estimate was a decline of -1.7%. The growth estimates ranged from -0.4% by the UCLA Anderson Report to -3.8% from Goldman Sachs.

In addition to the GDP forecasts, the Commission identified eight economic reports that indicated the peak U.S. unemployment rate due to the COVID-19 pandemic. Wells Fargo's economic forecast had unemployment only rising to 5.3%, while Morgan Stanley had unemployment surging to 12.8%. On average the unemployment rate was estimated to peak at 8.3%.

In reviewing the available outlooks, it is clear that economic forecasters are predicting a severe slowdown in the economy-- but the depth and length of the slowdown is unknown. Five economic forecasters stated that the economy was now in recession. Some saw a severe decline, followed by a quick recovery, often referenced as a "V" shaped recovery. This kind of economic environment would be a transitory event like the effects of a hurricane. Other forecasters see a severe decline, followed by a more gradual recovery. This would be more like the Great Recession.

In this environment of economic turbulence, not only is economic forecasting difficult, any professions that use their data are also hindered. As states move forward in their budget making, the process of estimating revenues related to economic tax sources will be challenging. In Illinois, the effects of the economic slow-down haven't materialized significantly yet. The full extent of the initial economic downturn will likely begin to be evident as we begin the final quarter of FY 2020. And now, with the delayed due date of income tax returns, the timing of that change will also alter historical income tax receipt patterns.

The COVID-19 pandemic has led governments to shut-down large swathes of the world's economy which will reverberate for months. The economy has gone from a place of strength to a place of great uncertainty. Economists are having to continually update their forecasts as new events unfold. In this volatile economic time, governments around the country will struggle to balance humanitarian and economic needs.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS*	LATEST MONTH	PRIOR MONTH	A YEAR AGO
Unemployment Rate (Average) (Feb.)	3.4%	3.5%	4.3%
Inflation in Chicago (12-month percent change) (Feb.)	2.0%	2.6%	1.4%

	LATEST MONTH	CHANGE OVER PRIOR MONTH	CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (Feb.)	6,398.8	-0.3%	-1.1%
Employment (thousands) (Feb.)	6,180.0	-0.2%	-0.1%
Nonfarm Payroll Employment (Feb.)	6,133,000	-200	18,300
New Car & Truck Registration (Feb.)	35,895	-36.7%	-7.2%
Single Family Housing Permits (Feb.)	575	3.8%	12.3%
Total Exports ($ mil) (Jan.)	4,640.8	3.2%	-5.3%
Chicago Purchasing Managers Index (Mar.)	47.8	-2.4%	-18.6%

* Due to monthly fluctuations, trend best shown by % change from a year ago

Federal COVID-19 Action Affecting Illinois

Anthony Bolton, Revenue Analyst

Due to the impact of the COVID-19 pandemic on the United States, various federal actions have been passed and instituted that relate to Illinois. As of March 30, 2020, the federal government has taken a number of actions that affect Illinois in the immediate and intermediate future. Specifically, HR 6201 (The Families First Coronavirus Response Act), the President's declaration under the Stafford Act, and the COVID-19 relief bill all have affected Illinois, in regard to state actions and revenues.

HR 6201 affects various parts of the country and the national economy as a whole, but also has numerous impacts on Illinois both in terms of state revenues/expenditures and also individual Illinois residents/businesses. As part of this legislation, in terms of nutritional funding, HR 6201 provides over $1 billion in additional funding for HHS programs covering elderly, WIC (Women's Infants and Children), and other food need groups, including school lunch programs. A further $1.2 billion is allocated to cover COVID-19 testing costs across the states.

Medicaid funding is significantly affected by this legislation, as states are eligible for a 6.2% increase in federal medical assistance percentages (FMAP), though this does not apply to expanded Medicare rates under the Affordable Care Act. For Illinois, this is an increase from 50.14% to a 56.34% matching rate. This increase in FMAP will provide increased federal revenues to Illinois under the Medicaid Reimbursement line. The preliminary estimate of total increased revenues from this action is $790 million, according to the Center on Budget and Policy Priorities. This figure is only a rough estimate, and may change in the future. Furthermore, this estimate does not take into account any savings or effects on the Children's Health Insurance Plan (CHIP) program. HR 6201 also sets forth a 100% FMAP planned to cover costs for CHIP enrollees, reducing the potential state cost-sharing match in this area. Under this legislation, Illinois and the other states/territories will see a 4.34% increase in the CHIP matching rate. For Illinois, this is an increase from 65.1% to a 69.44% matching rate. No estimate of the total savings or revenue to Illinois from this change has been determined at this time.

HR 6201 has numerous economic effects as well. Private-sector employers with under 500 employees will be required to provide 12 weeks of job-protected leave under the Family and Medical Leave Act

(FMLA) for employees to comply with COVID-19 quarantine requirements, provide care to a family member under these requirements, and/or to provide care to a child under 18 whose school/daycare has closed due to the virus. Public-sector employees of state and local governments are also guaranteed paid sick leave due to the virus, though no federal funding is allocated to this requirement.

Unemployment insurance benefits are affected by HR 6201 providing $1 billion in emergency transfers to states to pay unemployment benefits based on the share of federal unemployment insurance taxes paid by its employers. This legislation would also waive a requirement for state matching through the end of the 2020 calendar year, though states would need to see a 10% unemployment claims spike from the previous year. Illinois has seen a significant spike already and can be expected to meet this and other qualifications if current trends continue.

President Trump has also utilized the Stafford Act to provide $50 billion in additional funding through FEMA. This is in addition to the $42 billion currently in the Disaster Relief Fund. The exact spending of this funding in terms of state impact is unknown currently, but can take the form of various expenditures involving testing/treatment for COVID-19 or economic recovery loans to businesses. As this situation is ongoing, more information will be provided in future monthly revenue briefings.

The federal government has also passed the COVID-19 Stimulus Act. This legislation is the largest stimulus ever passed in United States history, totaling approximately $2 trillion. Numerous areas of the national and Illinois economies are affected by this legislation. The National Council of State Legislatures has documented this legislation and its effects on Illinois along with other states and can be further examined online at www.ncsl.org. Pertinent highlights of the COVID-19 Stimulus Act are as follows:

- $150 billion is provided to the states for COVID-19 related expenditures based on population proportions. No state will receive less than $1.25 billion, according to the legislation. At approximately 3.8% of the US population, Illinois is projected to receive approximately $2.7 billion (though this number may change depending on federal actions). Forty-five percent of that total is set aside for local governments whose populations are over 500,000, with certified requests to the Secretary of the Treasury (totaling approximately $2.2 billion). Excess funds of this 45% portion that are not awarded to applicable municipalities are expected to revert back to the state. These funds can be used for costs associated with necessary expenditures incurred between March 1, 2020 and December 30, 2020 due to COVID-19 that were not accounted for in the most recently passed budget.

- Unemployment insurance is expanded from three to four months along with an additional $600/week in temporary unemployment compensation in addition to any regular state and/or federal unemployment insurance benefits. Employers can receive an advance tax credit from the Treasury Department as well rather than waiting for reimbursement afterwards. Additionally, $260 billion is to be invested in the unemployment insurance program.

- The Treasury department is authorized to make loans and other guarantees in support of eligible businesses, states, and municipalities of up to $500 billion total. It is necessary to note that these payments are specifically classified as loans rather than grants, though the applicable interest on these loans is expected to be zero or extremely low.
- Various money is set aside to federal agencies to train and equip personnel to manage the effects of the COVID-19 pandemic. Additionally, a total of $6.5 billion is set aside for the Economic Development Administration and the Community Development Block Grant program to help revitalize states and municipalities, specifically including the expansion of health care, child care, senior services, and food services. $25 billion is set aside for the Small

Business Administration to provide grants and expense payments to small businesses for operations expenses during the pandemic crisis.

- $45 billion is set aside for FEMA to use towards COVID-19 related disaster relief in the states, which includes medical equipment, medical response, National Guard deployment and logistics. This amount includes $25 billion under the Stafford Act for major disasters. Additionally, further money is set aside for various federal agencies to provide sanitation, medical assistance, food services, and emergency response. As part of this, the REAL ID deadline for state implementation is delayed from October 1, 2020 to Sept. 30, 2021.

- $140 billion is set aside for the Department of Health and Human Services for a variety of services and restorative actions. These include grants to hospitals, public entities, not-for-profit organizations, and Medicaid/Medicare suppliers and providers. These grants are intended to cover expenses and lost revenues due to the COVID-19 crisis.

- Over $8 billion is allocated to various human service programs pertaining to Child Care block grants, social service grants, and low income home energy assistance (LIHEAP). $3.5 billion of this total specifically is intended for assistance to childcare providers. $45 million is intended for grants to states in regard to child welfare services.
- Approximately $12 billion is set aside for the Department of Defense for protection of service members and their families against COVID-19. Of this total, $1.4 billion is set for National Guard deployment expenses.

- $30.75 billion is set aside for an Education Stabilization Fund for states, school districts, and higher learning organizations. $13.5 billion is directed for elementary and secondary education formula grants to states to distribute. State education agencies can reserve up to 10% of the funds distributed for emergency needs as determined by the state. Each state will receive a portion of $3 billion for state governors to use at their discretion for emergency support grants to local education agencies and higher learning institutions affected by COVID-19. $14.25 billion is set aside for emergency relief for higher learning institutions, with 50% of funds intended for emergency financial aid to students and the remainder intended for defraying expenses for higher learning institutions.

- $25 billion is set aside for national transit systems using Urbanized Area Formula Grants and Formula Grants for Rural Areas to cover operations expenses related to COVID-19. Further grants and loans totaling $50 billion are set aside for airlines with requirements to be satisfied before loans can be repaid. Additional grants are made for contractors, ground support, and cargo carriers.

- $400 million is set aside for election security grants available to states to “prevent, prepare for, and respond to the coronavirus in the 2020 federal election cycle.” Any state receiving grant money for this purpose must provide an accounting to the federal government within 20 days of any 2020 election of how this grant money was spent.

- In regard to tertiary effects of this stimulus, direct payments will be made to individuals and families of $1200/adult and $500/child based on income, with this total phasing out for individuals making over $75,000/year and households making over $150,000. Individuals making over $99,000 and households making over $198,000 will receive no payment. This payment is expected to be sent out April 6, 2020. This stimulus payment is expected to be reflected in expenditures made by people receiving payments, and so may be seen in sales and other taxes, though the total of this additional revenue is uncertain at this time.

More information is available through the National Council of State Legislatures (NCSL) regarding this legislation. Recent information acquired from NCSL indicates certain pertinent details regarding the federal COVID-19 assistance. Specifically, the approximately $5 billion in federal funds granted to Illinois are not intended to address revenue losses, only additional expenses from COVID-19. The 6.2% FMAP increase may possibly be used for revenue shortfall purposes. Currently, the initial transfers of the state's portion of federal aid are expected to be deposited into general funds around April 24, 2020. As grants are applied for and disbursed, updates will be made in future CGFA publications.

FY 2021 State Employees Group Insurance Plan Summary

Anthony Bolton, Revenue Analyst

The Commission recently published its annual liability estimates report on the State Employees Group Insurance Program (SEGIP) as required under state statute. This report details state estimates of revenues, expenditures, membership, and trends within health insurance for the 2021 fiscal year. As in previous years, this report details the status of health insurance bills held by the State of Illinois and historical trends in that area. Additionally a brief summation is provided of the new Consumer Driven Health Plan, a High-Deductible Health Plan that is available starting in FY 2021 for current state group insurance members and their dependents. Also, group insurance member premiums are expected to rise following negotiated agreements between labor unions and state regulators. The full report is available on the Commission's website, but the following presents the major points from the FY 2021 report.

New for FY 2021 is the Consumer Driven Health Plan (CDHP), a High-Deductible Health Plan in which members pay a lower monthly premium in exchange for a high deductible before health insurance benefits are applied. This plan is typically desirable for members and dependents who do not typically utilize their health insurance benefits in the course of a typical plan year. As this cohort normally consists of younger, healthier individuals, the CDHP is not available for retirees and their dependents. Currently, the deductible under this plan is set at $1500/year before insurance benefits are applied, though individuals can use their Health Savings Accounts to pay the deductible if they so choose. The Department of Central Management Services (CMS), which administers this program, estimates that less than 20,000 individuals will make use of this program in FY 2021. More information about this program will be made available in the yearly benefits choice handbook, which is expected to be made available in April 2020 in anticipation of the yearly benefits enrollment period in May 2020. It is uncertain at this time what effect the COVID-19 pandemic will have on the timing of this period as well as the yearly Commission Group Insurance meeting which is currently scheduled for April 2020.

Additionally, due to negotiations with various labor organizations, group insurance premiums for active members and their dependents are expected to increase in FY 2021. However, insurance plan premiums are also expected to be graduated by plan benefits for the first time, as individual plans across the HMO/OAP/CDHP spectrum will have significantly different premiums. This reflects plan options and choices for members, as plans with more options and benefits will have higher premiums. As with the CDHP, more information on premiums is anticipated in the FY 2021 CMS benefits choice handbook.

Liabilities/Revenues

As in years past, the Commission utilizes the CMS forecast for FY 2021 medical costs along with projections from the Segal Company to formulate its FY 2021 projections for health insurance trends.

Numerous components shape overall liability including general medical cost inflation and leveraging (lower impact of coinsurance limits, level deductibles, etc.). Also, advances in technological innovation, more use of equipment/services, and the continued "greying" (aging and extended living) of the population have historically contributed to greater health care costs to the State. In addition to these factors, the impact of a gradual shift by employees to HMOs and OAPs from the Quality Care Health Program (QCHP) has resulted in more costly/higher risk employees remaining in the QCHP program, raising the per-member cost of that program. In terms of cost reduction, movement of Medicare-eligible retirees out of the QCHP/HMOs/OAPs has reduced overall liability within the group insurance program in the past and continues to be a factor in overall State costs being significantly lower than otherwise. Based on these factors, trends, and assumptions, CMS estimates the FY 2021 liability to be $3.249 billion, which is a 2.9% increase from the FY 2020 anticipated final liability of $3.178 billion. Noting these predictions, the Commission has presumed that liabilities and revenues will follow trends from FY 2020 and previous fiscal years and estimates a total SEGIP liability of $3.272 billion in FY 2021, $23.8 million more than CMS.

FY 2021 GROUP HEALTH INSURANCE LIABILITY
($ in Millions)

Liability Component	FY 2020 CMS Estimate	FY 2021 CMS Projection	FY 2021 CGFA Projection
QCHP Medical	$412.3	$406.7	$408.1
QCHP Prescriptions	$132.4	$127.2	$129.5
Dental (QCHP/MC)	$127.9	$135.2	$137.8
HMO	$1,092.6	$1,063.5	$1,070.2
Medicare Advantage HMO/PPO	$186.4	$197.1	$198.0
Open Access Plan	$900.3	$921.4	$928.5
Consumer Driven Health Plan (HDHP)	$0.0	$112.9	$110.0
Mental Health	$6.0	$6.0	$6.0
Vision	$8.1	$8.6	$8.6
Administrative Services (QC)	$17.8	$17.3	$17.5
Life	$91.1	$92.6	$92.6
Special Programs (Admin/Int./Other)	$203.0	$160.0	$165.5
TOTAL	**$3,177.9**	**$3,248.5**	**$3,272.3**
% increase over prior year	2.7%	2.2%	3.0%

*Rounding may cause slight differences. FY 2020 and FY 2021 Special Programs line includes Prompt Payment and Timely Payment Interest.

CMS projects relatively small liability increases for the Open Access Plan, Medicare Advantage plans, and Dental plans. The OAP line is expected to rise to $921 million in FY 2021, a 2.3% increase from FY 2020 ($900 million) while Medicare Advantage plan liability is projected to rise 5.7% from $186 million in FY 2020 to $197 million in FY 2021. Dental plan liability is also projected to rise 5.7% from $128 million in FY 2020 to $135 million in FY 2021. Most of the other liabilities are projected to decrease, from -1.4% to as much as -21.2% in the case of Special Programs (this line includes interest paid on held bills which has decreased dramatically in the past few fiscal years). Other items of interest are the Life Insurance liability, which CMS projects to increase in FY 2021 by 1.7% to $92.6 million, and the Vision Insurance Liability, which is projected to increase $500 thousand total. The inclusion of the Consumer Driven Health Plan is projected to total $112.9 million in liability in its inception year. Overall, the CGFA estimate of

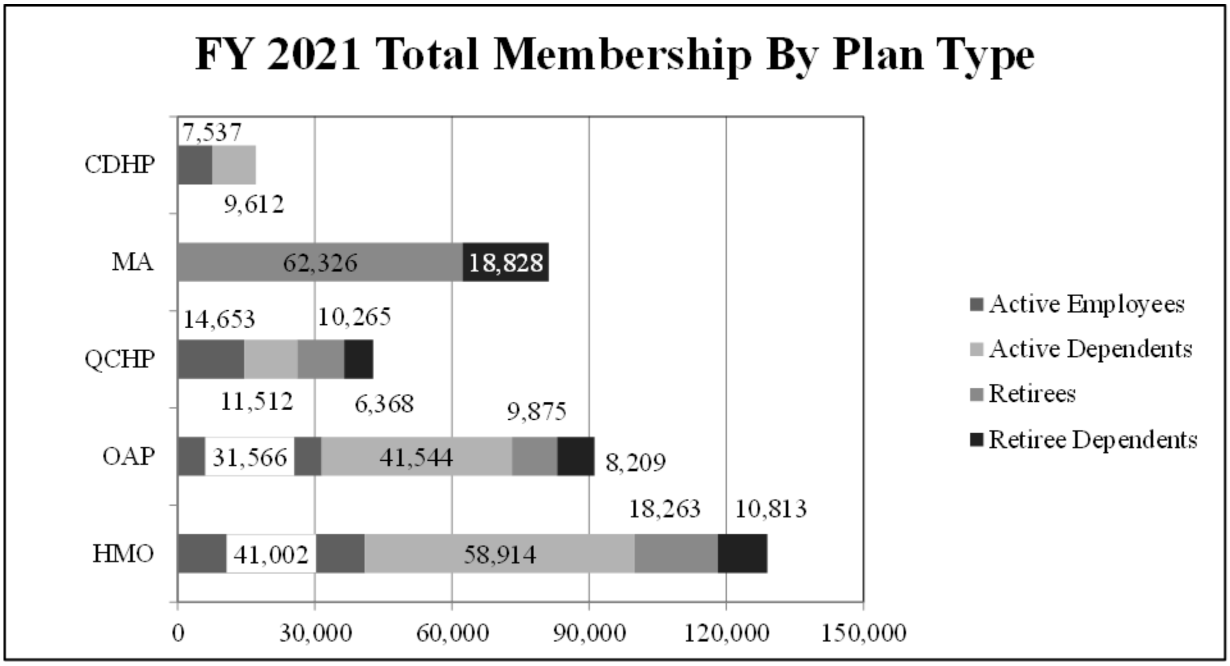
$3.272 billion is approximately $24 million higher than the CMS estimate of $3.249 billion.

In regard to revenues, in FY 2021, the SEGIP is projected to have significant changes due to increased member premiums and reimbursements as well as a technical drop in total GRF received in FY 2021. However, this drop in GRF is due to the expectation that no prior year GRF or transfers in will be received. The actual FY 2021 appropriation is expected to remain almost identical to FY 2020. The member contributions component is expected to increase by $32.9 million while Other Funds reimbursements is expected to increase by $134.2 million. The other revenue lines for this program are expected to remain steady, apart from a $10 million increase in contributions from the Road Fund.

GROUP INSURANCE FUNDING SOURCES FY 2020 - FY 2021 ($ in Millions)				
	FY 2020	FY 2021	$ Change from FY20	% Change from FY20
GRF Appropriation	$2,028.0	$2,021.5	($6.5)	-0.3%
Prior Year GRF	$412.3	$0.0	($412.3)	N/A
GRF Transfer In	$231.0	$0.0	($231.0)	N/A
Road Fund	$161.5	$171.5	$10.0	5.8%
University Cont.	$45.0	$45.0	$0.0	0.0%
Prior Year Univ. Cont.	$0.1	$0.0	($0.1)	N/A
Member Cont.	$419.7	$452.6	$32.9	7.3%
Other Funds	$315.1	$449.3	$134.2	29.9%
Medicare Part D rebate	$6.2	$4.6	($1.6)	-34.8%
Rebates/Interest/Other.	$89.8	$90.9	$1.1	1.2%
TOTAL	**$3,708.8**	**$3,235.4**	**-$473.3**	**-14.6%**
Source: CMS				

Membership

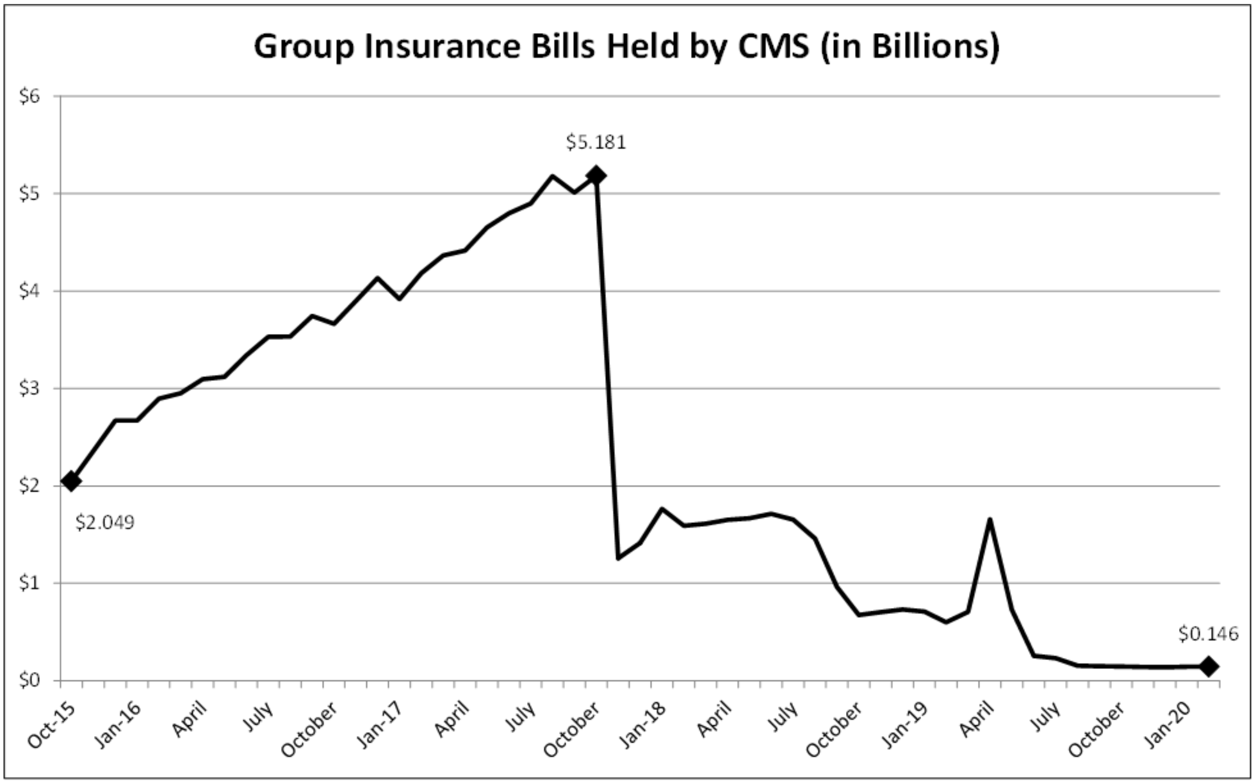
For FY 2021, the QCHP is estimated to have 14,653 employees, 11,512 active employee dependents, 6,368 retiree dependents, and 10,265 retirees. Medicare advantage HMO/PPO plans are expected to have 18,828 dependents and 62,326 retirees. Non-Medicare Advantage HMO Plans are expected to have 41,002 employees, 58,914 active dependent lives, 10,813 retiree dependents, and 18,263 retirees. OAPs are expected to have 31,566 employees, 41,544 active dependents, 8,209 retiree dependents, and 9,875 retirees in FY 2021. The new Consumer Driven Health plan is projected to have 7,537 employees and 9,612 active employee dependents, which are primarily assumed to come from existing HMO plans. Total FY 2021 membership is expected to increase 1.3% from 356,777 to 361,287.



Group Insurance Bonding

For many years, group insurance bills and interest have grown as the State has struggled to pay off debts in a timely manner. Depending on the bill, interest is accrued at between 9 and 12%. This created a backlog of bills in which the total held by CMS rose to as much as $5.2 billion in October 2017. Bonding and supplemental appropriations were undertaken starting in November 2017, which along with increased payments in following years, have brought the held bills total at CMS down to $146 million as of the end of February 2020. Of that total, there are $106 million in HMO claims (including Medicare Advantage) awaiting payment, and approximately $3.6 million in interest payments has yet to be paid off. Open Access Plans claims account for $0 currently in claims (but approximately $545,000 in interest owed) and Aetna PPO (QCHP) claims account for $279,000 in interest owed.

Dental ($2.4 million), Life Insurance ($7.6 million), Other Fees ($3.2 million), and Prescription claims ($25.3 million) make up the majority of the remaining claims held by Illinois. Interest due on these debts amounts to $3.5 million as of the end of February, 2020. This total does not count bill and interest vouchers awaiting payment at the Comptroller's office (based on cash currently available for payment) which currently total $789 million.



REVENUE: MARCH RECEIPTS LARGELY ESCAPE COVID-19, BUT VIRUS EXPECTED TO QUICKLY MANIFEST ON FUTURE REVENUES ALONG WITH "TAX DAY" DEADLINE CHANGE

Jim Muschinske, Revenue Manager

Base general funds revenues increased by $174 million in March. That performance will surprise many given the dire economic straights in which the country and State finds itself. It does, however, illustrate the inherent lag between economic activity, or lack thereof, and actual receipt performance. Similar delays occur after a change in tax rates or policy—usually at least a month from date of implementation. This "receipts in the pipeline" varies by revenue source, but the eventual impacts of COVID-19 are unavoidable and will quickly manifest in the coming weeks/months. This March had one extra receipting day.

While not part of base revenues, $105 million of interfund borrowing took place in March. This was comprised of $25 million from the Underground Storage Tank Fund; $70 million from the Supplemental Low-income Energy Assistance Fund; and, $10 million from the Illinois Power Agency Renewable Energy Resources Fund.

Gross personal income taxes were up $188 million, or $164 million on a net basis. Other sources to the general funds grew by $25 million, although that gain was due to a receipt reclassification [see later detailed explanation]. And gross sales taxes were up by $19 million, or $15 million net.

The remaining tax sources were either flat or experienced declines in March. Gross corporate income taxes were down $35 million, or $25 million net. Corporate franchise taxes actually returned a "negative" $11 million for the month as a consequence of a revenue source coding adjustment at the Secretary of State. In January, a $28.3 million deposit was miscoded under a "corporate franchise" revenue designation, rather than the correct "securities division" designation [part of the "other source" revenue line]. In March, it was corrected, having the net effect of a negative $11 million for corporate franchise tax, and a resulting larger $29 million falloff when compared with March of last year.

Insurance taxes and fees fell $24 million, continuing its very volatile receipt pattern this fiscal year. Inheritance tax declined $16 million, and interest earnings—likely reflecting extremely low rates of return—dropped $9 million. Cigarette taxes were off $4 million, while public utility taxes declined by $3 million, and liquor taxes dipped by $1 million.

Overall transfers fell $64 million for the month. A $6 million gain from miscellaneous transfers was more than offset by a decline of $40 million in lottery transfers, and a $30 million drop from riverboat transfers. In fact, due to the Gaming Board's action to temporarily close casino operations, no transfers were made this March. This month, the pendulum of federal source performance swung to the positive as reimbursements grew $145 million, in part due to the reimbursable spending made possible by the interfund borrowing executed this month.

Year to Date

Excluding proceeds from the Treasurer's Investment program as well as interfund borrowing, through the first three-fourths of the fiscal year base general funds receipts have posted gains of $1.739 billion. Those gains have been driven by specific transfers [Refund Fund and Capital Projects], comparatively better federal sources, court settlement proceeds, tax amnesty program efforts, and decent underlying performance from the larger economically related sources—which obviously will change in the very near future [see following section].

Despite the expected abrupt changes ahead, through March, gross personal income taxes are ahead of last year by $864 million, or $765 million net. Gross sales taxes are up $204 million, or $249 million net, while gross corporate income taxes are up $105 million, or $104 million net. The performance of the remaining revenue sources have been mixed, but have experienced a combined $112 million decline. Aided by gains associated to Refund Fund and Capital Projects Fund transfers, overall transfers to the general funds are up $439 million. Federal sources, despite wide monthly swings in performance, are up $294 million through March.

Uncertainty Looms Large For FY 2020 Final Quarter—and Into FY 2021

As demonstrated by the mostly normal performance of March revenues, the impacts of the COVID-19 virus on revenues are only in their infancy. As we move forward over the coming months, the economic shut down will begin to manifest on sales taxes, as well as components of both personal and corporate income taxes. However, the magnitude and duration of these likely abrupt revenue changes are far too uncertain at this juncture to make any confident projections.

In addition to underlying disruptions to the economy related to the virus, a few corresponding policy decisions will interrupt some well-established revenue patterns. With the State following the federal government's lead related to pushing back the "tax day" filing period to July 15th, a great deal of variance will be injected into the timing of "final payments". It is unclear at this time how the extension of the due date will change taxpayer filing behavior, but to the extent it does, it would act to suppress final FY 2020 income tax revenues in April, while moving corresponding receipts into early FY 2021. Further complicating the picture is that simultaneous to this aforementioned timing issue, tax revenues will likely begin to reflect job losses/income losses/and business profits related to the economic shut down.

As mentioned earlier, the decision to suspend gaming activities at casinos has already begun to impact transfers into the general funds. It's unclear at this time when and in what form a reopening of these facilities will look like. [Video gaming establishments are also not in operation, however, those revenues flow to the Capital Projects Fund]. The graduated tax rate structure of casinos [which is calculated on a calendar year basis], means that not only will the disruption impact gaming tax revenues in the last quarter of FY 2020, but will also influence the effective tax rates and subsequent tax revenues in the second half of CY 2020, thereby affecting the first two quarters of FY 2021. Collateral damage from the virus will be felt throughout other areas of revenue such as Lottery sales [lower traffic at retail facilities], interest income [via lower rates of return], and likely others.

The one revenue area that is expected to see some upward pressure from this economic upheaval is federal source revenues. An apparent retroactive increased federal matching rate, along with some lump sum federal assistance, will serve to mitigate revenue losses in economic areas. However, at this time, it is unclear exactly when, into what funds, and what attached federal "strings", will mean for the state's bottom line.

At this stage of the battle with COVID-19, the greatest State concern is with saving lives, and doing what is necessary to mitigate its impact. Once the tide turns, and economic engines can again be fired up, it is hoped that the previous trajectory can be re-established. Unfortunately, at this time, it's unclear when that may be, to what extent permanent damage has been done, and what form a recovery from this pandemic will look like.

MARCH

FY 2020 vs. FY 2019

($ million)

Revenue Sources	March FY 2020	March FY 2019	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$2,322	$2,134	$188	8.8%
Corporate Income Tax (regular)	208	243	($35)	-14.4%
Sales Taxes	706	687	$19	2.8%
Public Utility Taxes (regular)	82	85	($3)	-3.5%
Cigarette Tax	36	40	($4)	-10.0%
Liquor Gallonage Taxes	12	13	($1)	-7.7%
Vehicle Use Tax	3	3	$0	0.0%
Inheritance Tax	14	30	($16)	-53.3%
Insurance Taxes and Fees	3	27	($24)	-88.9%
Corporate Franchise Tax & Fees	(11)	18	($29)	-161.1%
Interest on State Funds & Investments	4	13	($9)	-69.2%
Cook County IGT	0	0	$0	N/A
Other Sources	49	24	$25	104.2%
Subtotal	$3,428	$3,317	$111	3.3%
Transfers				
Lottery	45	85	($40)	-47.1%
Riverboat transfers & receipts	0	30	($30)	N/A
Proceeds from Sale of 10th license	10	10	$0	N/A
Refund Fund transfer	0	0	$0	N/A
Other	90	84	$6	7.1%
Total State Sources	$3,573	$3,526	$47	1.3%
Federal Sources	$464	$319	$145	45.5%
Total Federal & State Sources	$4,037	$3,845	$192	5.0%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	($221)	($207)	($14)	6.8%
Corporate Income Tax	($30)	(38)	$8	-21.1%
LGDF--Direct from PIT	($121)	(111)	($10)	9.0%
LGDF--Direct from CIT	($11)	(13)	$2	-15.4%
Downstate Pub/Trans--Direct from Sales	($59)	(55)	($4)	7.3%
Subtotal General Funds	$3,595	$3,421	$174	5.1%
Treasurer's Investments	$0	$50	($50)	N/A
Interfund Borrowing	$105	$0	$105	N/A
Total General Funds	$3,700	$3,471	$229	6.6%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 2-Apr-20

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2020 vs. FY 2019

($ million)

Revenue Sources	FY 2020	FY 2019	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$16,081	$15,217	$864	5.7%
Corporate Income Tax (regular)	1,748	1,643	$105	6.4%
Sales Taxes	6,796	6,592	$204	3.1%
Public Utility Taxes (regular)	644	664	($20)	-3.0%
Cigarette Tax	209	267	($58)	-21.7%
Liquor Gallonage Taxes	135	131	$4	3.1%
Vehicle Use Tax	22	23	($1)	-4.3%
Inheritance Tax	195	298	($103)	-34.6%
Insurance Taxes and Fees	224	248	($24)	-9.7%
Corporate Franchise Tax & Fees	189	191	($2)	-1.0%
Interest on State Funds & Investments	116	98	$18	18.4%
Cook County IGT	150	150	$0	0.0%
Other Sources	453	379	$74	19.5%
Subtotal	$26,962	$25,901	$1,061	4.1%
Transfers				
Lottery	435	515	($80)	-15.5%
Riverboat transfers & receipts	195	227	($32)	-14.1%
Proceeds from Sale of 10th license	10	10	$0	0.0%
Refund Fund transfer	617	327	$290	88.7%
Other	823	562	$261	46.4%
Total State Sources	$29,042	$27,542	$1,500	5.4%
Federal Sources	$2,285	$1,991	$294	14.8%
Total Federal & State Sources	$31,327	$29,533	$1,794	6.1%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	($1,528)	($1,476)	($52)	3.5%
Corporate Income Tax	($249)	(255)	$6	-2.4%
LGDF--Direct from PIT	($838)	(791)	($47)	5.9%
LGDF--Direct from CIT	($98)	(91)	($7)	7.7%
Downstate Pub/Trans--Direct from Sales	($309)	(354)	$45	-12.7%
Subtotal General Funds	$28,305	$26,566	$1,739	6.5%
Treasurer's Investments	$400	$750	($350)	-46.7%
Interfund Borrowing	$255	$250	$5	2.0%
Total General Funds	$28,960	$27,566	$1,394	5.1%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 2-Apr-20