Commission on Government Forecasting and Accountability

802 Stratton Ofc. Bldg., Springfield, IL 62706

MONTHLY BRIEFING FOR THE MONTH ENDED: OCTOBER 2020

http://cgfa.ilga.gov

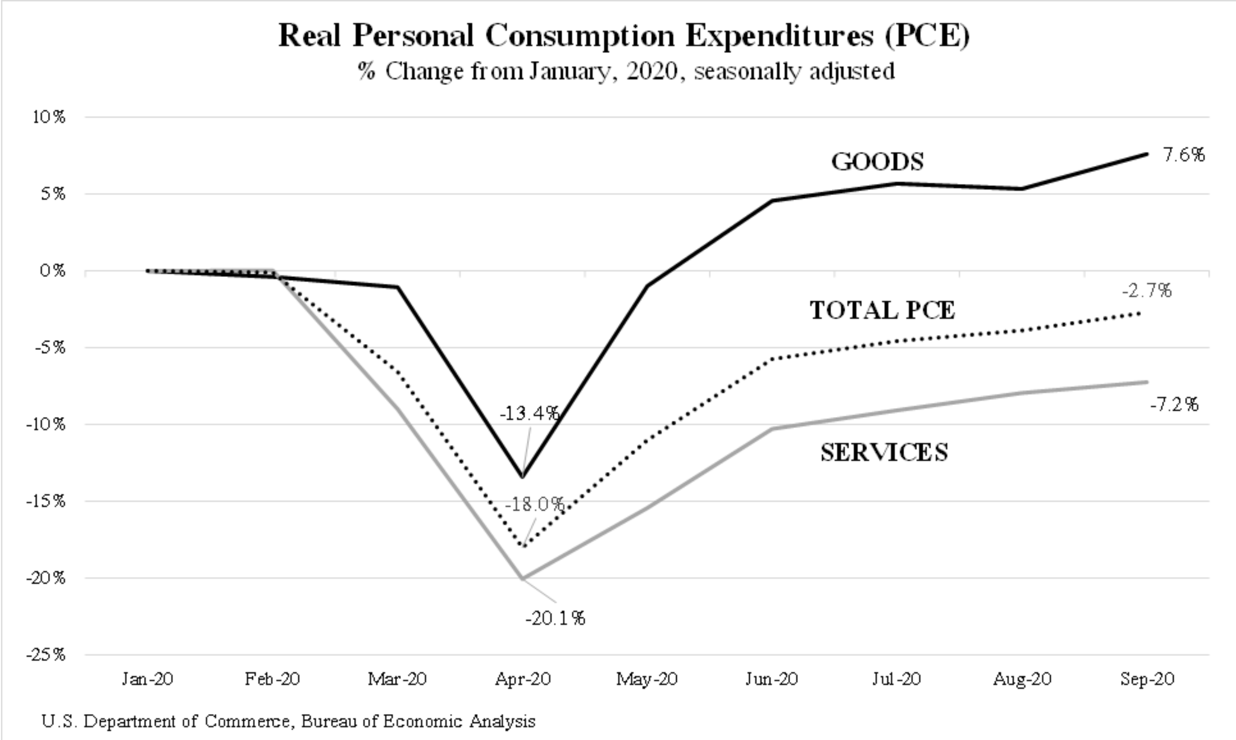
INSIDE THIS ISSUE

Sales Tax Buoyed by Consumer Spending on Goods

Benjamin L. Varner, Senior Analyst and Economic Specialist

Despite the on-going COVID-19 pandemic, sales tax receipts have rebounded from the large declines seen in the spring. While total consumer spending remains down compared to pre-COVID levels due to lower spending on services, consumer spending on goods, which makes up about one-third of consumer spending, is up. Since Illinois sales tax are primarily based on the sale of goods instead of services, sales tax receipts have similarly rebounded.

During the spring, consumer spending plunged as states throughout the country put restrictions on the economy to limit the spread of the virus. Looking at inflation-adjusted spending showed that total personal consumption expenditures declined 18% on an annualized basis in April when compared to January 2020 [which was the highest level ever]. As shown in the following chart, as the economy re-opened with the lifting of some restrictions, consumer spending began to rebound. Total spending improved to a lesser decline of 5.8% in June and has continued to slowly improve. In the latest month available (September), total spending was 2.7% below the all-time high.



The declines in total spending are being driven by the fall off in spending on services. Services, which makes up just under two-thirds of consumer spending, fell over 20% in April and remains down over 7% compared to January. Service spending has been hit hard due to being more likely to require direct contact activities which are more likely to be under governmental restrictions. Examining individual service sectors, in September, spending on food services and accommodations remained down almost 22%, while transportation services and recreation services were down 32% and 42%, respectively.

While total spending and spending on services remains below their January levels, the story of spending on goods is different. Goods sales fell 13.4% below January levels in April. However, sales on goods almost immediately rebounded and were only down 1.0% in May and were up 4.6% by June. As of September, spending on goods was up 7.6%. This is largely driven by strong growth in durable goods sales which were up over 11%. Recreational goods and vehicles were up 17%, while motor vehicles and parts increased 10%. Non-durable goods rose a smaller 4.7% with food and beverages purchased for off-premises consumption being up 6.2%. The growth in non-durable goods is being somewhat hampered by a decline in gasoline and other energy goods which was down 8%.

Due to Illinois' sales tax structure being primarily based on the taxation of goods instead of services, the strong recovery in sales has been manifesting in sales tax receipts. Through October, the State has collected approximately $3.1 billion in gross sales tax revenue in FY 2021. While this is only 1.6% higher than in FY 2020, it is considerably higher than expected during the heightened mitigation period this past spring. Expectations were for monthly sales taxes to be down significantly on a year-over-year basis throughout the summer and into the fall. Sales tax receipts were down around 20% compared to the previous year in April and May. The situation improved somewhat in June as the decline lessoned to being off about 10%. Sales tax receipts continued on a more positive trend in July and August as receipts were down only about 2%. September and October each saw year-over-year growth as receipts rose 4.4% and 5.9%, respectively. Overall, the recovery in sales tax receipts appears well ahead of where the spring trajectory predicted.

However, while sales tax receipts have out-performed thus far, there is no guarantee that this trend will continue. As the season changes from fall to winter, COVID-19 continues to limit economic activity. In fact, all regions are now under varying degrees of enhanced mitigation requirements. The longer the pandemic goes on, the more likely temporary closures will become permanent. This could lead to more long-term unemployment worry and a retrenchment in consumer spending. Extraordinary economic support from the federal government offered at the beginning of the pandemic assisted consumers in maintaining their spending. However, most of that support has ended or is scheduled to diminish further without federal action. The $600 per week raise in unemployment benefits was discontinued at the end of July and other pandemic related programs (extended unemployment benefits, loan forbearance, and eviction moratoriums) are set to expire at the end of the year. While consumers have shifted their spending patterns a bit in favor of goods purchases which has helped sales tax receipts, this has its limits. Once a consumer replaces a durable good like a vehicle or a home appliance, there is not a lot of demand to replace it again in the short-term.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS*	LATEST MONTH	PRIOR MONTH	A YEAR AGO
Unemployment Rate (Average) (Sept.)	10.2%	11.0%	3.7%
Inflation in Chicago (12-month percent change) (Sept.)	1.4%	1.0%	1.4%

	LATEST MONTH	CHANGE OVER PRIOR MONTH	CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (Sept.)	6,392.5	1.2%	-0.7%
Employment (thousands) (Sept.)	5,740.4	2.1%	-7.4%
Nonfarm Payroll Employment (Sept.)	5,702,800	-12,000	-412,900
New Car & Truck Registration (Sept.)	44,938	5.2%	-26.3%
Single Family Housing Permits (Sept.)	1,065	12.3%	28.2%
Total Exports ($ mil) (Aug.)	4,128.7	-0.9%	-16.6%
Chicago Purchasing Managers Index (Oct.)	61.1	-2.1%	41.4%

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

October 2020 G.O. Bond Sale

Lynnae Kapp, Senior Analyst

BOND SALES

In October, the State sold $850 million of General Obligation bonds competitively in four series. Series A was taxable and will be used for the accelerated pension buy-out programs. Series B, C and D were tax exempt and will be used for capital projects and information technology projects.

"The state will pay an aggregated true interest cost of 3.948%, low when compared to historic levels but punishing given the market's attractive rates with the Municipal Market Data's 10-year AAA benchmark set at 0.96% at the market close Tuesday and the BBB benchmark at 2.22%." [Illinois spread penalties held in check as high yields suit buyers, Yvette Shields, The Bond Buyer, October 21, 2020]

BOND SALES									
DATE	BOND SALE TYPE	AMOUNT	TAXABLE v. TAX-EXEMPT	NEGOTIATED v. COMPETITIVE SALE	TRUE INTEREST COST	S&P	FITCH	MOODY'S	KROLL
FY 2019									
Sep-18	General Obligation Refunding A & B	$966 million	tax-exempt	negotiated	combined 4.19%	BBB-	BBB	Baa3	
Oct-18	Build IL October 2018 A	$115 million	tax-exempt	competitive	4.16%	A-	BBB		AA+
Oct-18	Build IL October 2018 A	$125 million	tax-exempt	competitive	4.27%	A-	BBB		AA+
Oct-18	Build IL October 2018 A	$10 million	taxable	competitive	4.09%	A-	BBB		AA+
Apr-19	General Obligation Pension Obligation Acceleration Bonds April 2019A	$300 million	taxable	competitive	5.74%	BBB	BBB-	Baa3	
Apr-19	General Obligation Refunding April 2019B	$140 million	tax-exempt	competitive	3.33%	BBB	BBB-	Baa3	
FY 2020									
Nov-19	General Obligation November 2019A/B/C	$750 million	tax-exempt	competitive	all in TIC 3.4578%	BBB	BBB-	Baa3	
May-20	General Obligation May 2020	$800 million	tax-exempt	negotiated	all in TIC 5.83%	BBB-	BBB-	Baa3	
Jun-20	General Obligation Certificates (MLF)	$1.2 billion	tax-exempt	negotiated	all in TIC 3.9198%	BBB-	BBB-	Baa4	
FY 2021									
Oct-20	General Obligation October 2020 A	$125 million	taxable	competitive	2.83%	BBB-	BBB-	Baa3	
Oct-20	General Obligation October 2020 B	$325 million	tax-exempt	competitive	3.71%	BBB-	BBB-	Baa4	
Oct-20	General Obligation October 2020 C	$300 million	tax-exempt	competitive	4.32%	BBB-	BBB-	Baa5	
Oct-20	General Obligation October 2020 D	$100 million	tax-exempt	competitive	2.15%	BBB-	BBB-	Baa6	

"Illinois fared better in the market Tuesday compared to recent trading levels — especially on the short end — as investors on a hunt for yield put aside worries over COVID-19 fiscal wounds threatening the state's investment grade ratings…The deal's results landed close to where the state's bonds 10 years and out were trading early this month before widening by 10 basis points last week and shorter bonds saw penalties shrink by 40 basis points compared to the start of the month and 50 basis points from a week ago." [Illinois spread penalties held in check as high yields suit buyers, Yvette Shields, The Bond Buyer, October 21, 2020]

BOND RATINGS

All three rating agencies affirmed the State's current ratings with negative outlooks while they wait for the outcome of the State ballot on whether the income tax changes in the Constitutional Amendment pass giving the State additional revenue, and whether post-Congressional and Presidential elections could lead to federal stimulus payments to State and local governments. If the Constitutional Amendment does not pass, the rating agencies will want to see if the State makes any changes related to its budget and structural deficits.

Moody's Baa3; outlook negative

"The state's Baa3 rating is supported by a large, diverse economy with above-average wealth, and it also benefits from strong powers over revenue and spending and from substantial non-operating fund liquid resources. These strengths are offset by substantial challenges, primarily outsized unfunded pension liabilities. The coronavirus pandemic and its economic consequences are likely to exacerbate Illinois' existing financial challenges and test its resilience compared with other states. The state's pension liabilities are worsening while its financial capacity is suffering from reduced revenue.

"We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. Factors such as federal aid, virus containment efforts and near-term financial market performance will determine the pandemic's actual toll on Illinois in social, economic and budgetary terms.

"FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS
- Enactment of recurring financial measures that support sustainable budget balance
- Decisive actions to improve funding of the state's main pension plans
- Progress in lowering a backlog of unpaid bills that does not rely on either long-term borrowing or a significant decrease in non-operating fund liquidity

"FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS
- Fiscal measures that greatly add to the state's near- or long-term liabilities, including reduction in pension contributions to provide fiscal relief
- Large or persistent structural imbalance that leads to significant increase in the state's unpaid bills or other liabilities
- Substantial assumption of debt or pension liabilities accrued by local governments"

Fitch Ratings BBB-; outlook negative

"Illinois' 'BBB-' IDR (Issuer Default Rating) and GO ratings reflect Fitch's anticipation of a fundamental weakening of the state's financial resilience given its already tenuous position entering the current severe downturn. The state's lack of meaningful reserves and the limited nature of other fiscal-management tools at its disposal mean Illinois will be challenged to maintain its investment-grade IDR.

"Illinois' ratings, notably lower than other states, have long reflected an ongoing pattern of weak operating performance and irresolute fiscal decision-making that has produced a credit position well below the level that the state's broad economic base and substantial independent legal ability to control its budget would otherwise support. The ratings also reflect the state's elevated long-term liability position, modest long-term economic and revenue growth profile and adequate expenditure flexibility.

"The Negative Outlook reflects the risk that the depth and duration of the downturn lead Illinois to implement nonstructural budget management measures the state finds difficult to quickly unwind once an economic recovery finally begins to take hold."

S&P BBB-; outlook negative

"Illinois entered the COVID-19 economic downturn working toward budget stability, but with a depleted budget stabilization fund so where many other states had taken advantage of the long economic expansion following the Great Recession, Illinois faced political gridlock through multiple fiscal years, built a significant bill backlog, delayed action to reduce a sizable pension obligation, and just narrowed--but didn't close--structural budgetary gaps…We consider the state's current options available to address the pandemic to be limited compared to those of other states due to lack of reserves and lesser capacity to make budget cuts. Structural balance, while an important factor for all state credits, is particularly salient for Illinois because of its weak liquidity position, lagging economic growth, and pension burden.

"Speculative revenues account for nearly 15% of Illinois' fiscal 2021 budget, and if these do not materialize or if the state does not take significant action, its cash position and ongoing structural imbalance could materially weaken…The economic downturn following the COVID-19 outbreak had a swift and sudden effect on Illinois' budget, and in April, the state revised its fiscal 2020 revenue forecast down $2.2 billion (or 5.5%), and reduced estimated fiscal 2021 general fund revenues by $4.6 billion (or about 11%). Measures to address the revenue shortfalls included a $1.2 billion loan through the Federal Reserve Municipal Liquidity Facility (MLF) in fiscal 2020 and a placeholder for $5 billion of potential federal stimulus or further MLF borrowing in fiscal 2021. While the odds of substantial additional federal assistance look increasingly slimmer, recent improvement in tax receipts and greater spending lapses indicate slightly better financial performance. We also expect that state legislators will take further action to address the budget gap during the November legislative session."

REVENUE: WHILE ECONOMIC SOURCES AGAIN POST MODEST MONTHLY GAINS, OVERALL OCTOBER REVENUES DROP DUE TO MUCH WEAKER FEDERAL SOURCES AND ONE-TIME 2019 COURT SETTLEMENT PROCEEDS

Jim Muschinske, Revenue Manager

Base October general funds revenues fell $366 million overall. A very poor month for federal sources which fell $231 million coupled with a sizable year-over-year falloff of $207 million in "other sources" due to October 2019's court settlement related to drug company recoveries via the Attorney General's Office [valued at approximately $193 million], were more than enough to offset gains from income and sales taxes. October had one less receipting day than the prior year.

For the month, gross sales taxes grew $44 million [the same on a net basis]. Corporate income taxes did quite well posting gross gains of $35 million, or $28 million net. Personal income taxes also managed an uptick, albeit very modest, with gross receipts up $6 million, or $8 million net. [Efforts from the large economic-related sources produced $80 million in combined monthly gains.] A few smaller revenue sources also contributed positive values, as corporate franchise taxes grew $8 million, liquor taxes $3 million, and vehicle use taxes added $2 million in growth.

Despite those aforementioned revenue advances, declines from other revenue areas more than erased those gains. For example, October 2019 enjoyed a one-time receipt of approximately $193 million in court settlement proceeds related to drug company recoveries. The one-time nature of those revenues was the primary reason for a $207 million comparative decline in "other source" revenues this year. Of the remaining revenue lines public utility taxes dropped $29 million, interest income declined $13 million, insurance taxes fell $6 million, inheritance taxes were off $5 million, and cigarette taxes dipped $2 million.

Overall October transfers into the general funds grew $34 million. Lottery transfers rebounded $39 million for the month, while other miscellaneous sources contributed $16 million in gains. Riverboat transfers were down $21 million in comparison to last year as still no transfer activity has occurred from riverboat gaming to date in FY 2021.

As mentioned, a large drop of $231 million from Federal sources was again the main culprit in the overall monthly decline of revenues.

Year To Date

Despite the pandemic and continued economic uncertainty it has caused, through the first one-third of FY 2021, base receipts are up $472 million. The growth reflects the surge in July income tax receipts related to the filing deadline extension. Through October, combined net income tax receipts are up by $1.545 billion. While net sales taxes are up only $54 million, that modest yet surprising gain serves to demonstrate the consumer's recovery efforts from COVID-19 driven economic disruptions.

All of the other revenue sources combined have declined a net $111 million, principally due to the one-time court settlement proceeds receipted last fiscal year. Overall transfers are off considerably, down $710 million, much lower reflecting the significantly lower Income Tax Refund transfer levels as well as other miscellaneous transfers. With another poor showing in October, federal sources are now down $306 million year to date.

OCTOBER ***FY 2021 vs. FY 2020*** ***($ million)***				
Revenue Sources	**Oct. FY 2021**	**Oct. FY 2020**	**$ CHANGE**	**% CHANGE**
State Taxes				
Personal Income Tax	$1,613	$1,607	$6	0.4%
Corporate Income Tax (regular)	133	98	$35	35.7%
Sales Taxes	787	743	$44	5.9%
Public Utility Taxes (regular)	48	77	($29)	-37.7%
Cigarette Tax	21	23	($2)	-8.7%
Liquor Gallonage Taxes	16	13	$3	23.1%
Vehicle Use Tax	3	1	$2	200.0%
Inheritance Tax	17	22	($5)	-22.7%
Insurance Taxes and Fees	3	9	($6)	-66.7%
Corporate Franchise Tax & Fees	30	22	$8	36.4%
Interest on State Funds & Investments	5	18	($13)	-72.2%
Cook County IGT	0	0	$0	N/A
Other Sources	13	220	($207)	-94.1%
Subtotal	$2,689	$2,853	($164)	-5.7%
Transfers				
Lottery	85	46	$39	84.8%
Riverboat transfers & receipts	0	21	($21)	N/A
Proceeds from Sale of 10th license	0	0	$0	N/A
Refund Fund transfer	0	0	$0	N/A
Other	53	37	$16	43.2%
Total State Sources	$2,827	$2,957	($130)	-4.4%
Federal Sources	$19	$250	($231)	-92.4%
Total Federal & State Sources	$2,846	$3,207	($361)	-11.3%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	($145)	($152)	$7	-4.6%
Corporate Income Tax	($19)	(14)	($5)	35.7%
LGDF--Direct from PIT	($89)	(84)	($5)	6.0%
LGDF--Direct from CIT	($8)	(6)	($2)	33.3%
Downstate Pub/Trans--Direct from Sales	($18)	(18)	$0	0.0%
Subtotal General Funds	$2,567	$2,933	($366)	-12.5%
Treasurer's Investments	$0	$0	$0	N/A
Interfund Borrowing	$0	$0	$0	N/A
Short Term Borrowing	$0	$0	$0	N/A
Total General Funds	$2,567	$2,933	($366)	-12.5%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 4-Nov-20

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2021 vs. FY 2020

($ million)

Revenue Sources	FY 2021	FY 2020	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$8,009	$6,604	$1,405	21.3%
Corporate Income Tax (regular)	1,220	806	$414	51.4%
Sales Taxes	3,083	3,035	$48	1.6%
Public Utility Taxes (regular)	222	265	($43)	-16.2%
Cigarette Tax	100	85	$15	17.6%
Liquor Gallonage Taxes	62	62	$0	0.0%
Vehicle Use Tax	14	10	$4	40.0%
Inheritance Tax	153	85	$68	80.0%
Insurance Taxes and Fees	187	110	$77	70.0%
Corporate Franchise Tax & Fees	116	84	$32	38.1%
Interest on State Funds & Investments	34	66	($32)	-48.5%
Cook County IGT	0	0	$0	N/A
Other Sources	72	304	($232)	-76.3%
Subtotal	$13,272	$11,516	$1,756	15.2%
Transfers				
Lottery	250	174	$76	43.7%
Riverboat transfers & receipts	0	96	($96)	-100.0%
Proceeds from Sale of 10th license	0	0	$0	N/A
Refund Fund transfer	281	617	($336)	-54.5%
Other	151	505	($354)	-70.1%
Total State Sources	$13,954	$12,908	$1,046	8.1%
Federal Sources	$806	$1,112	($306)	-27.5%
Total Federal & State Sources	$14,760	$14,020	$740	5.3%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	($721)	($628)	($93)	14.8%
Corporate Income Tax	($171)	(115)	($56)	48.7%
LGDF--Direct from PIT	($442)	(344)	($98)	28.5%
LGDF--Direct from CIT	($72)	(45)	($27)	60.0%
Downstate Pub/Trans--Direct from Sales	($67)	(73)	$6	-8.2%
Subtotal General Funds	$13,287	$12,815	$472	3.7%
Treasurer's Investments	$0	$400	($400)	N/A
Interfund Borrowing	$0	$0	$0	N/A
Short Term Borrowing	$0	$0	$0	N/A
Total General Funds	$13,287	$13,215	$72	0.5%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 4-Nov-20