Commission on Government Forecasting and Accountability

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MONTHLY BRIEFING FOR THE MONTH ENDED: November 2022

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DESPITE ECONOMIC CONCERNS, GENERAL FUNDS REVENUES CONTINUE TO AMAZE, PROMPTING UPWARD ADJUSTMENT OF FY 2023 OUTLOOK

Eric Noggle, Revenue Manager

While there continues to be concerns that an economic slow down, or possibly a recession, is on the horizon in Illinois, there have been few signs of this slow down as it relates to General Funds receipts so far this fiscal year, especially in regard to economically driven revenue sources. General Funds base receipts increased another $277 million in November. This is despite November having one less receipting day as compared to last year.

Once again leading the way were personal income tax receipts which grew $228 million in November, or $193 million on a net basis. It appears that the holiday shopping season has had a promising start in terms of tax receipts as sales tax revenues were $134 million above last year's pace on a gross basis, or $91 million net. Corporate income tax revenues have yet to slow much from last year's torrid pace, growing another $85 million, or $69 million net.

Another revenue source that continues to see significant gains in FY 2023 is Interest on State Funds & Investments, which grew another $18 million in November. This growth is directly related to the multiple interest rate hikes implemented by the Federal Reserve in recent months. Other increases in the State Tax category came from the inheritance tax [up $23 million]; miscellaneous State tax sources [up $3 million]; the cigarette tax [up $2 million]; and insurance taxes [up $2 million]. Only a few State sources had less revenue compared to the year prior including public utility taxes, liquor taxes, and corporate franchise taxes, with each declining only $1 million in November.

It was a mixed month for receipts from Transfers. Lottery transfers were $10 million above last year's levels, while casino gaming transfers were $4 million higher. However, these gains were offset by a $39 million falloff in miscellaneous transfers. As a result, total Transfers-In this month were $25 million below last November's totals. It was also a comparatively lower month for Federal Sources as these receipts were $96 million less than last year.

Year to Date

Through the first five months of the fiscal year, overall general funds receipts are up an amazing $1.945 billion. Even when excluding the $620 million growth in one-time revenues from Federal ARPA reimbursements, the general funds base growth of $1.325 billion is just as impressive - especially considering that these FY 2023 receipts are being compared to the record-breaking levels of FY 2022.

Similar to November, the year-to-date growth is due to the strong performance of the State sources. Personal income tax receipts through November are $1.019 billion above last year's pace on a gross basis, or $860 million on a net basis. Corporate income tax receipts have risen $380 million in total or $311 million net. While the performance of sales tax receipts have been boosted by inflated prices, it still has resulted in year-to-date tax revenue growth of $407 million or $235 million net.

All other State tax sources have combined to grow $132 million through November. Most of these gains have come from a $86 million rise in interest income. State Transfers-In have risen a combined $228 million so far this fiscal year, which is primarily due to a sizable increase in the Income Tax Refund Fund Transfer [See Next Section for more details]. Federal Source base revenues are $441 million behind last year's pace. However, when including the $620 million year-to-date growth in the one-time ARPA Reimbursement for Essential Government Services funds, the deficit turns into a modest gain of $179 million for Federal dollars.

Due to the strong performance of Illinois' general funds receipts, the Commission recently increased its revenue outlook for FY 2023. An overview of these changes is discussed in the next section.

Note: While the revised estimates are primarily based on actuals thru October and do not specifically account for these November receipts, the strong overall performance of November's numbers further solidify the Commission's confidence in raising the FY 2023 general funds revenue estimate by $4.9 billion over the assumed revenue levels under the enacted budget.

NOVEMBER FY 2023 vs. FY 2022 ($ millions)				
Revenue Sources	**Nov. FY 2023**	**Nov. FY 2022**	**$ CHANGE**	**% CHANGE**
State Taxes				
Personal Income Tax	$1,915	$1,687	$228	13.5%
Corporate Income Tax (regular)	176	91	85	93.4%
Sales Taxes	1,002	868	134	15.4%
Public Utility Taxes (regular)	61	62	(1)	-1.6%
Cigarette Tax	21	19	2	10.5%
Liquor Gallonage Taxes	15	16	(1)	-6.3%
Inheritance Tax	62	39	23	59.0%
Insurance Taxes and Fees	2	0	2	N/A
Corporate Franchise Tax & Fees	13	14	(1)	-7.1%
Interest on State Funds & Investments	20	2	18	900.0%
Cook County IGT	0	0	0	N/A
Other Sources	24	21	3	14.3%
Total State Taxes	$3,311	$2,819	$492	17.5%
Transfers In				
Lottery	$50	$40	$10	25.0%
Gaming	19	15	4	26.7%
Cannabis	9	9	0	0.0%
Refund Fund	0	0	0	N/A
Other	45	84	(39)	-46.4%
Total Transfers In	$123	$148	($25)	-16.9%
Total State Sources	$3,434	$2,967	$467	15.7%
Federal Sources [base]	$307	$403	($96)	-23.8%
Total Federal & State Sources	$3,741	$3,370	$371	11.0%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	($177)	($156)	($21)	13.5%
Corporate Income Tax	(25)	(14)	(11)	78.6%
Local Government Distributive Fund				
Personal Income Tax	(107)	(93)	(14)	15.1%
Corporate Income Tax	(10)	(5)	(5)	100.0%
Sales Tax Distributions				
Deposits into Road Fund	(48)	(10)	(38)	380.0%
Distribution to the PTF and DPTF	(68)	(63)	(5)	7.9%
General Funds Subtotal [Base]	**$3,306**	**$3,029**	**$277**	**9.1%**
ARPA Reimb. for Essential Gov't Services	$0	$0	$0	N/A
Total General Funds	**$3,306**	**$3,029**	**$277**	**9.1%**
CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				1-Dec-22

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2023 vs. FY 2022

($ millions)

Revenue Sources	FY 2023	FY 2022	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$9,844	$8,825	$1,019	11.5%
Corporate Income Tax (regular)	2,076	1,696	380	22.4%
Sales Taxes	4,898	4,491	407	9.1%
Public Utility Taxes (regular)	291	289	2	0.7%
Cigarette Tax	104	110	(6)	-5.5%
Liquor Gallonage Taxes	80	83	(3)	-3.6%
Inheritance Tax	223	248	(25)	-10.1%
Insurance Taxes and Fees	135	113	22	19.5%
Corporate Franchise Tax & Fees	90	92	(2)	-2.2%
Interest on State Funds & Investments	91	5	86	1720.0%
Cook County IGT	0	0	0	N/A
Other Sources	174	116	58	50.0%
Total State Taxes	$18,006	$16,068	$1,938	12.1%
Transfers In				
Lottery	$250	$285	($35)	-12.3%
Gaming	82	69	13	18.8%
Cannabis	47	45	2	4.4%
Refund Fund	493	242	251	103.7%
Other	412	415	(3)	-0.7%
Total Transfers In	$1,284	$1,056	$228	21.6%
Total State Sources	$19,290	$17,124	$2,166	12.6%
Federal Sources [base]	$1,673	$2,114	($441)	-20.9%
Total Federal & State Sources	$20,963	$19,238	$1,725	9.0%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	($911)	($817)	($94)	11.5%
Corporate Income Tax	(301)	(255)	(46)	18.0%
Local Government Distributive Fund				
Personal Income Tax	(550)	(485)	(65)	13.4%
Corporate Income Tax	(122)	(99)	(23)	23.2%
Sales Tax Distributions				
Deposits into Road Fund	(194)	(43)	(151)	351.2%
Distribution to the PTF and DPTF	(191)	(171)	(20)	11.7%
General Funds Subtotal [Base]	$18,694	$17,369	$1,325	7.6%
ARPA Reimb. for Essential Gov't Services	$764	$144	$620	430.6%
Total General Funds	**$19,458**	**$17,513**	**$1,945**	**11.1%**

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 1-Dec-22

Updated FY 2023 Revenue Outlook

In mid-November the Commission released an updated outlook for FY 2023 general funds revenues for the State of Illinois. The strength of the primary revenue sources so far this fiscal year in combination with the expected influx of additional revenues from State Transfers and one-time federal reimbursement dollars has prompted the Commission to **increase its revenue outlook for FY 2023 by $4.9 billion.** The highlights of this upward revision are discussed below, accompanied by a table at the end of this section summarizing these adjustments.

Personal Income Taxes (Net): The forecast for personal income tax receipts has been revised **up $1.598 billion** on a net basis due to the strong performance of these receipts so far this fiscal year. Continued growth in employment levels and wages is the impetus behind this strong year-to-date performance. While the revised estimate is a significant increase over initial enacted budget assumptions, the updated forecast is still positioned to accommodate a substantial slowing of income tax receipts over the remaining months of the fiscal year. This revised forecast of $24.2 billion remains below the FY 2022 total amount of $24.8 billion despite revenues currently coming in well above last year's pace, thereby, demonstrating the conservative nature of this revised forecast.

Corporate Income Taxes (Net): The forecast for corporate income tax net receipts has been revised **up $633 million**. Despite volatile market conditions and the threat of a potential recession, corporate income tax receipts have continued to perform amazingly well and have receipted well ahead of FY 2022's year-to-date levels. Similar to the personal income tax estimate, in an effort to remain conservative given the economic uncertainy that currently exists, the upward revision to $5.2 billion remains below the FY 2022 net total of $5.4 billion desipte the year-to-date growth experienced in the first portion of the fiscal year.

Sales Taxes (Net): Although sales tax receipts have slowed from last year's stellar pace, the year-to-date growth remains well ahead of budgetary expectations. While inflation is a concern to Illinois' economic condition going forward, in the short-term, the inflated prices have resulted in significant gains in sales tax revenues - masking any slow down in actual sales. As a result, the forecast for sales tax net receipts have been revised **up $336 million**.

All Other State Sources: The forecast for all other State sources includes a combined upward revision of **$204 million**. The main component of this increase is "interest on state funds and investments" which, alone, has been revised up $165 million. This increase is primarily due to the multiple interest rate hikes that the Federal Reserve has implemented over the last several months to thwart inflation. The expectation is that these hikes will continue until inflation subsides, which should cause additional growth in interest income for the State's general funds.

Transfers In: The forecast for "Transfers In" has been revised up a combined **$1.364 billion**. This significant increase is mostly due to the expected transfer of nearly $1.5 billion from the Income Tax Refund Fund to the State's general funds over the course of FY 2023. Each year a portion of both personal and corporate income tax revenues are set aside to pay for refunds to taxpayers making their final tax payments. In FY 2022, record breaking income tax collections occurred, in large part due to strong levels of corporate profits, capital gains, as well as from continued growth in employment and wages. The tax revenue growth from these factors resulted in fewer tax refunds being issued, thereby creating a higher-than-normal end-of-year balance in the Income Tax Refund Fund. By law, this end-of-year balance is transferred back to the State's general funds the following fiscal year. Only $200 million was conservatively assumed for this line in the FY 2023 budget, thereby prompting this substantial upward revision. Modest improvement in transfers from the Lottery, Gaming, and Other Transfers, make up the remainder of the upward revision for this category.

Federal Sources: While Federal Sources (base) are currently running behind last year's pace, the Governor's Office indicates that appropriations over the remainder of the year are expected to generate federal matching dollars that will allow the State to reach its budgetary forecast of $4.0 billion. In fact, GOMB has recently increased their forecast slightly to $4.1 billion, reflecting the extension of the enhanced matching rate that was implemented as a result of a COVID-19 federal health emergency declaration. For now, the Commission will simply keep the forecast at the budgetary level given the slow year-to-date performance, resulting in **no revision** to the assumed budget forecast for base Federal Sources.

ARPA Reimbursement for Essential Government Services: In addition to the typical federal sources that are deposited into the State's General Funds, over the past two fiscal years the State has also received federal source revenues from the American Rescue Plan Act's (ARPA) Reimbursement for Essential Government Services. As part of this Act, the federal government reimburses states for certain expenses related to the pandemic. In FY 2022, GOMB stated that Illinois would receive $1.5 billion from this reimbursement to be deposited into the State's General Funds. Initially, these funds were anticipated to all being received in FY 2022, meaning $0 was assumed from this revenue line in the FY 2023 budget. However, due to the timing of when these receipts were ultimately received, only $736 million was collected in FY 2022. The remaining amount of $764 million was receipted in July and August of FY 2023. As a result of these one-time revenues, the State's general funds forecast has been increased an additional **$764 million** due to the deposit of these ARPA funds in FY 2023.

General Funds Revenues
FY 2023 Final Budget Assumptions vs CGFA Revised Nov-22

Revenue Sources	FY 2022 Actuals	FY 2023 Enacted Budget Apr-22	FY 2023 CGFA Revised Nov-22	FY 2023 Estimate Difference
Personal Income Taxes [Net]	$24,839	$22,578	$24,176	$1,598
Corporate Income Taxes [Net]	$5,407	$4,608	$5,241	$633
Sales Tax [Net]	$10,234	$10,080	$10,416	$336
All Other State Sources	$3,178	$3,151	$3,355	$204
Transfers In	$2,092	$2,013	$3,377	$1,364
Federal Sources [Base]	$4,584	$4,000	$4,000	$0
General Funds Subtotal [Base]	$50,334	$46,429	$50,565	$4,136
ARPA Reimbursement for Essential Gov't Services	$736	$0	$764	$764
Total General Funds Revenues	$51,070	$46,429	$51,329	$4,900
FY 2023 Estimates vs FY 2022 Actuals		($4,641)	$259	$4,900

CGFA vs. GOMB Revised Forecast

In November, both the Commisison and GOMB revised their FY 2023 outlooks. As previously discussed, the Commission has increased their FY 2023 outlook by $4.9 billion from $46.4 billion to $51.3 billion. This level of increase was **$1.2 billion higher than GOMB**, which increased their FY 2023 outlook by $3.7 billion to $50.1 billion.

As summarized in the following table, for most categories, there are relatively minor differences between the two estimates. The Commission is slightly below GOMB in its outlook for net Corporate Income Taxes [-$21M] and Federal Sources [-$100M], but moderately higher than GOMB in its outlook for net Sales Taxes [+$155M]; Other State Sources [+$132M]; and Transfers In [+$83M]. Both agencies are seeing similar gains as it pertains to the Income Tax Refund Transfer and the ARPA Reimbursement for Essential Government Services.

As shown, the primary difference between the two projections is the outlook for Personal Income Taxes, where the Commission is $961 million higher than GOMB. In conversations with GOMB, their estimates are based on September pessimistic / baseline October economic forecasts and do not reflect the impressive revenue gains in this line in recent months. While the Commission's forecast may not reach the conservative levels of GOMB for this revenue source projection, it should be reiterated that the Commission's revised estimate remains below FY 2022 actual levels, despite the fact that personal income tax revenues are currently running well ahead of FY 2022's pace. In other words, the CGFA forecast is set to comfortably absorb a significant falloff in revenues over the remainder of the year, if it were to occur.

General Funds Revenues FY 2023 CGFA Revised Nov-22 vs GOMB Revised Nov-22					
Revenue Sources	FY 2022 Actuals	FY 2023 Enacted Budget Apr-22	FY 2023 CGFA Revised Nov-22	FY 2023 GOMB Revised Nov-22	FY 2023 CGFA vs GOMB Difference
Personal Income Taxes [Net]	$24,839	$22,578	$24,176	$23,215	$961
Corporate Income Taxes [Net]	$5,407	$4,608	$5,241	$5,262	($21)
Sales Tax [Net]	$10,234	$10,080	$10,416	$10,261	$155
All Other State Sources	$3,178	$3,151	$3,355	$3,223	$132
Transfers In	$2,092	$2,013	$3,377	$3,294	$83
Federal Sources [Base]	$4,584	$4,000	$4,000	$4,100	($100)
General Funds Subtotal [Base]	$50,334	$46,429	$50,565	$49,355	$1,210
ARPA Reimbursement for Essential Gov't Services	$736	$0	$764	$764	$0
Total General Funds Revenues	$51,070	$46,429	$51,329	$50,119	$1,210
FY 2023 Estimates vs FY 2022 Actuals		($4,641)	$259	($951)	$1,210
FY 2023 Estimates vs FY 2023 Enacted Budget			$4,900	$3,690	$1,210

Final Thoughts

In summary, the revenue outlook for FY 2023 looks promising. The growth experienced through the first part of the year, coupled with the influx of revenues from the Income Tax Refund Fund Transfer and the ARPA reimbursement has prompted this $4.9 billion increase in the Commission's FY 2023 revenue outlook. Despite this sizeable increase, the Commission is confident that these revenue projections are very obtainable given the calculated falloff that would be needed just to hit the Commission's revised figures. In fact, it is possible, if not likely, that the Commission will follow-up with an additional increase in March, if any semblance of the current pace of revenue growth continues.

The revised estimate assumes a cautious approach to the remainder of the year due to the number of uncertainties that remain, especially as it relates to inflation, employment levels, and the nation's economy. As the months progress, it appears more and more likely that the brunt of the impact of a potential slowdown/recession in Illinois will fall more in FY 2024. While a FY 2024 revenue projection is not being offered at this time, the outlook is concerning. The factors providing the FY 2023 growth, such as one-time ARPA reimbursement dollars, higher-than-typical transfers from the Refund Fund, and employment and wage growth, will almost certainly not be repeated in FY 2024. **In other words, the revenue surplus Illinois is currently enjoying is likely to be short lived and a scenario of FY 2024 revenue totals falling below FY 2023 levels should be anticipated.**

General Funds Revenues
FY 2023 Final Budget Assumptions vs CGFA Revised Nov-22

($ millions)

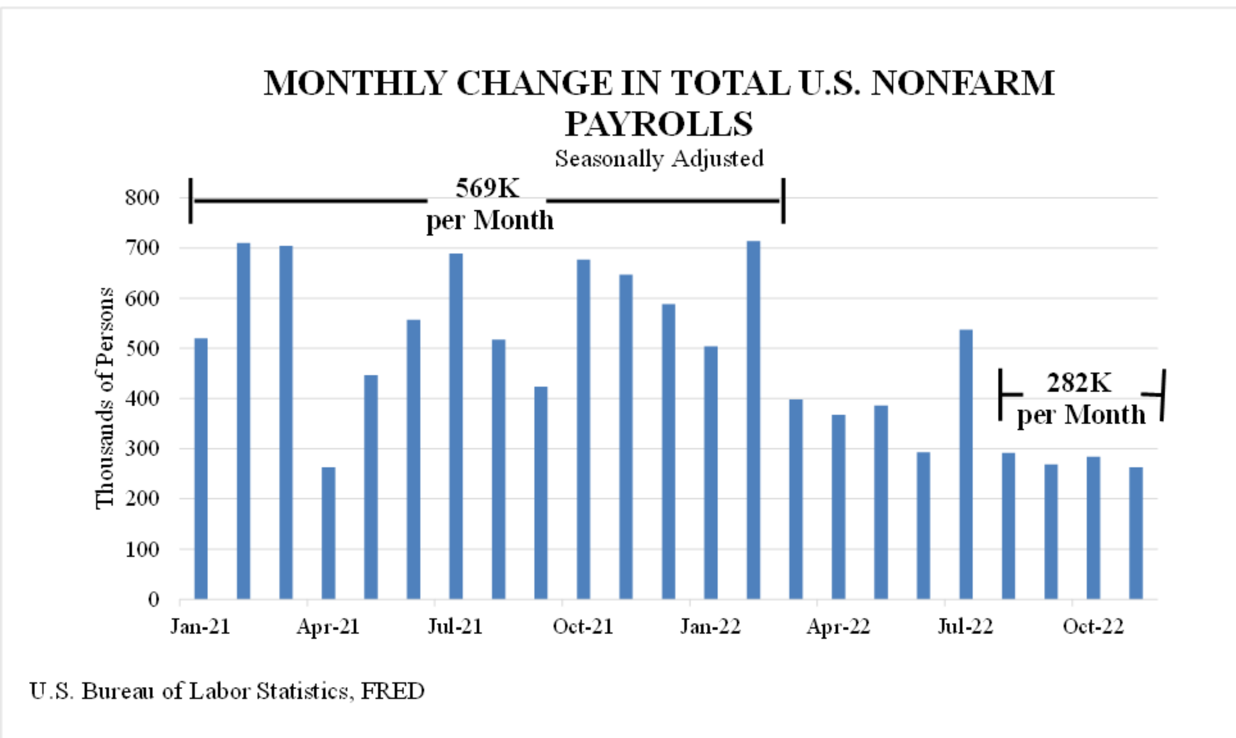
Revenue Sources	FY 2022 Actuals	FY 2023 Enacted Budget Apr-22	FY 2023 CGFA Revised Nov-22	FY 2023 Estimate Difference
State Taxes				
Personal Income Tax	$29,137	$26,512	$28,389	$1,877
Corporate Income Tax (regular)	$6,831	$5,786	$6,581	$795
Sales Taxes	$10,984	$10,907	$11,483	$576
Public Utility (regular)	$750	$720	$750	$30
Cigarette Tax	$254	$252	$234	($18)
Liquor Gallonage Taxes	$183	$184	$184	$0
Inheritance Tax	$603	$409	$465	$56
Insurance Taxes & Fees	$455	$447	$460	$13
Corporate Franchise Tax & Fees	$216	$267	$225	($42)
Interest on State Funds & Investments	$30	$35	$200	$165
Cook County Intergovernmental Transfer	$244	$244	$244	$0
Other Sources	$443	$593	$593	$0
Total State Taxes	$50,130	$46,356	$49,808	$3,452
Transfers In				
Lottery	$820	$665	$711	$46
Gaming	$140	$157	$167	$10
Cannabis	$115	$142	$134	($8)
Refund Fund	$242	$200	$1,481	$1,281
Other	$775	$849	$884	$35
Total Transfers In	$2,092	$2,013	$3,377	$1,364
Total State Sources	$52,222	$48,369	$53,185	$4,816
Federal Sources [Base]	$4,584	$4,000	$4,000	$0
Total Federal & State Sources	$56,806	$52,369	$57,185	$4,816
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax [9.25% '23]	($2,696)	($2,452)	($2,626)	($174)
Corporate Income Tax [14.5% '23]	($1,026)	($839)	($954)	($115)
Local Government Distributive Fund				
Personal Income Tax	($1,602)	($1,482)	($1,587)	($105)
Corporate Income Tax	($398)	($339)	($386)	($47)
Sales Tax Distributions				
Sales Tax Deposits into Road Fund	($132)	($229)	($432)	($203)
Sales Tax Distribution to the PTF and DPTF	($618)	($598)	($635)	($37)
General Funds Subtotal [Base]	**$50,334**	**$46,429**	**$50,565**	**$4,136**
ARPA Reimbursement for Essential Gov't Services	$736	$0	$764	$764
Total General Funds Revenues	**$51,070**	**$46,429**	**$51,329**	**$4,900**

Economy: Third Quarter Revised Up, Jobs Continue to Moderate

Benjamin L. Varner, Chief Economist

As November concluded, the Bureau of Economic Analysis announced its second estimate of real Gross Domestic Product (GDP) for the third quarter of 2022. Real GDP growth was revised up from 2.6% to 2.9%. This was considerable improvement compared to the first and second quarters of the year which were down -1.6% and -0.6%, respectively. This improvement in real GDP was driven by upward revisions in consumer spending and nonresidential fixed investment. These improvements were somewhat offset by downward adjustments to investments in private inventories. Forecasts for the fourth quarter vary considerably as seen by the Federal Reserve Bank of Atlanta's GDPNow forecasting model indicating growth of 2.8% for the quarter, while IHS Markit's U.S. GDP Tracker has the economy flat at 0.0% growth.

While real GDP has rebounded since the first half of the year, job creation has slowed. In most economic environments, a slowing job market would be seen as a negative, but in the current situation, this should be seen more as a positive. The Federal Reserve instigated a series of interest rate hikes to fight inflation, slow a potentially overheated economy, and to better align a very tight labor market. The hope was for a "soft landing" of the economy which would slow the growth of the economy and lower inflation without causing the economy to fall into a recession and lead to large increases in unemployment. As can be seen in the chart, total U.S. nonfarm payrolls averaged growth of just under 569,000 per month between January of 2021 and February of 2022. The Fed began raising rates in March of 2022. Since then, the general trend has been for slower growth. From August through November, the average gain in jobs was down to 282,000 per month.



While this indicates a slowdown from the levels seen in 2021 and early 2022, this rate of growth is still elevated when compared to job performance prior to the pandemic. During the last expansion, from 2011-2019, the U.S. averaged growth of approximately 194,000 per month. In addition, according to U.S. Bureau of Labor Statistics Job Openings and Labor Turnover Survey, job openings and quits remain elevated compared to the period prior to the pandemic. The number of job openings fell to 10.3 million in October, which was down from the peak of 11.6 million in March of 2022, but still well above the 7.0 million level seen just prior to the outbreak of the virus. Similarly, the quit rate remains historically high, which would indicate that employees continue to feel like they have options if they want to pursue new jobs. Meanwhile, layoffs and discharges remain at levels lower than before the pandemic.

At this point in time, this slowdown in job growth should likely be seen more as a return to trend prior to the pandemic versus an overall deterioration of the job market. So far, the economy has been able to handle the job market moderation without a large increase in the unemployment rate. However, inflation continues to be a major concern for the economy. The Federal Reserve has indicated that they would maintain tighter monetary policy until evidence of declining inflation rates were apparent. Fed Chair Jerome Powell recently stated that "The time for moderating the pace of rate increases may come as soon as the December meeting" but that "The full effects of our rapid tightening so far are yet to be felt."

As such, the country is likely to see the unemployment rate rise as a result of these adjustments, but the question is "How high will the unemployment rate go?" In September, the Summary of Economic Projections produced by the Federal Open Market Committee (FOMC) projected the national unemployment rate to average 4.4% in 2023 and 2024 which would be up from its current rate of 3.7% in November. Some economic forecasters have indicated rates more in the 5% to 6% range. The future path of inflation and the Fed's response will likely answer this question.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS*	LATEST MONTH	PRIOR MONTH	A YEAR AGO
Unemployment Rate (Average) (Oct.)	4.6%	4.5%	5.3%
Inflation in Chicago (12-month percent change) (Oct.)	7.7%	8.2%	5.3%
	LATEST MONTH	CHANGE OVER PRIOR MONTH	CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (Oct.)	6,436.0	-0.2%	1.5%
Employment (thousands) (Oct.)	6,137.8	-0.3%	2.1%
Nonfarm Payroll Employment (Oct.)	6,086,300	3,200	191,900
New Car & Truck Registration (Sept.)	31,645	3.6%	0.4%
Single Family Housing Permits (Oct.)	789	4.5%	-4.6%
Total Exports ($ mil) (Sept.)	6,681.2	-1.1%	8.0%
Chicago Purchasing Managers Index (Nov.)	37.2	-17.7%	-39.8%

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