THE BOND BUYER

Illinois may have more revenue in play as lawmakers finalize budget

By

Yvette Shields

Published

March 08, 2023, 4:07 p.m. EST

Illinois expects another $575 million of general fund revenues in the current fiscal year as steady income and sales tax collections through February pushed worries over an economic slowdown and the impact of a potential recession further out on the horizon.

The legislature's non-partisan Commission on Forecasting and Accountability raised its estimate for revenues expected through June 30th to $51.9 billion, $575 million more than its prior November projection.

That's $5.5 billion more than the enacted fiscal 2023 budget and $545 million higher than the Governor's Office of Management and Budget assumed last month in its revised projections that underpinned Gov. J.B. Pritzker's fiscal 2024 budget plan unveiled last month.

The Illinois State Capitol in Springfield. State lawmakers recently learned they have more money to work with than originally expected in crafting a state budget.

Personal, corporate, and sales tax collections are all faring better than COGFA had previously forecast in November, when it raised its projections by $4.9 billion to $51.3 billion.

The governor's budget office in November raised its guesswork by $3.7 billion in November and much of that surplus was doled out in a special appropriations package and in the proposed 2024 budget.

"In every single month so far this fiscal year we've actually had a gain where we've generated more revenue in this fiscal year compared to the same time a year ago," Eric Noggle, COGFA's senior revenue analyst said at a commission meeting Tuesday to lay out the forecast.

Through February, personal income taxes are up $596 million or 4.3% due to wage growth and improved employment numbers while corporate income taxes are up $508 million or 20.5% and sales taxes, while slowing from last year's robust pace, are up $537 million or 7.5%.

"As the months have progressed, it appears more and more likely that the brunt of the impact of a potential slowdown/recession in Illinois will fall upon FY 2024 and/or into FY 2025," the commission report said. "When incorporating the revenues already received with the expectation of continued growth in many sources, albeit lessened, the numbers indicate that another modest increase in the FY 2023 revenue outlook is warranted."

The largest unknown for the remainder of the fiscal year are final income tax payments that will pour in through April.

"As such, the commission is very cautious in its remaining month outlook for FY 2023, and the revised estimate accounts for this cautiousness by anticipating declines in revenues over the upcoming months," the report said. "If final tax receipts outperform these conservative projections, another revision could be made in May."

COGFA attributes its differential with the governor's budget office mostly to strong collections in recent months that were not yet available to be factored into the governor's estimates.

After factoring in this year's projections and the economic outlook drawn from Moody's Analytics and other business and academic organizations, the commission projects $50.4 billion of general fund revenues in the coming fiscal year that opens July 1. While the forecast hasn't dampened, the projection is still $1.5 billion under what's expected this year which underscores how revenues are still expected to fall from peak growth rates over the last two years.

About "$764 million in revenues from the ARPA Reimbursement for Essential Government Services deposited into the state's general funds in FY 2023 will not repeat in FY 2024," adding to the decline, COGFA noted.

"While recent economic forecasts have trended towards softening the severity of a potential recession, the mere possibility of an economic slowdown has caused the commission to be conservative in its FY 2024 outlook," COGFA's report said.

The commission's $50.4 billion projection tops GOMB's $49.9 billion by $465 million with the difference attributed mostly to the commission's higher fiscal 2023 base heading into the new fiscal year.

COGFA is guessing that personal income taxes rise by just 2%, corporate incomes taxes fall by 4.1% as profits wane and sales taxes will barely grow as "the actions of the Federal Reserve are expected to slow the economy, resulting in fewer goods purchased, especially big-ticket item purchases."

COGFA offered a long list of concerns that could dampen the projections from a slowdown of income and sales taxes due if jobs are cut, weaker consumer confidence, and ongoing inflation that erodes consumer demand. High motor fuel prices could divert spending in other areas and high interest rates could curb interest in "big ticket" purchases.

State Budget Director Alexis Sturm and Department of Revenue Director David Harris presented a more detailed look at Governor's Office of Management and Budget projections during a House Revenue and Finance Committee hearing last week. The governor's office uses IHS economic forecasting services.

The legislature's estimates come as lawmakers are sorting through Pritzker's proposed $49.6 billion general funds budget that leaves a $300 million balance and assumes still-healthy economic trends to allow deposits into the budget and pension stabilization funds while lifting spending for education and other areas.

The state's moves to build up its rainy day fund, pay down debts, and make supplemental pension contributions has drawn a series of upgrades with the latest coming from S&P Global Ratings which on Feb. 23 raised the state's rating to A-minus from BBB-plus. Fitch Ratings rates Illinois BBB-plus and Moody's Investors Service has it at Baa1.

Pritzker is a Democrat and the party holds legislative supermajorities.

While that smooths the path for budget approval, the latest projections could buoy the efforts of some lawmakers who want more spending in areas like education and human services.

Other recent Midwest state fiscal forecasts are similar, with current revenues still holding steady and an expected slowdown factored into spending plans for the coming fiscal year.

Minnesota's annual February forecast released last week puts the general fund balance heading into its next fiscal biennium July 1 at $17.5 billion, about the same level predicted in the previous November forecast.

Revenues were revised slightly upward but the forecast also marked a change from recent history in that it incorporated inflation into the projections. Inflation raised projected spending by $1.4 billion in the next biennium.

About $12.5 billion of the surplus is carried over as it went unspent due to political divisions through last year about how to use it with the Democratic-Farmer-Labor Party controlling the House and Republicans holding a Senate majority. That shifted with the November election results and Gov. Tim Walz now enjoys DFL majorities in both houses although bonding packages require a higher vote threshold that requires GOP support.

Walz in January laid out his priorities in a $3.3 billion infrastructure package and a $65 billion biennial budget that provides targeted tax relief.

Last month, the Nebraska Economic Forecasting Advisory Board affirmed the state's revenue projections which are used by lawmakers to form the final budget. The board has projected revenue projections for the current fiscal year at $6.44 billion with $6.47 billion expected next year and $6.55 billion the following year.