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JB Pritzker
Governor

David Harris
Director

STATE OF ILLINOIS
DEPARTMENT OF REVENUE

May 7, 2019

Dear Leaders, Appropriations Chairpersons and Appropriations Spokespersons:

We write to share the good news that Illinois received significantly stronger-than-expected revenues in April.

More than \$4.1 billion in individual and corporate income tax revenues were deposited into the General Funds in the month of April 2019, up \$1.14 billion or 38% from April 2018 income tax deposits of \$2.999 billion. This is also more than \$1.5 billion more than internally projected for April 2019.

A number of factors likely contributed to this increase, including the performance of the stock market, better federal reimbursement for Medicaid, the elimination of the federal state and local tax deduction and additional changes in the federal tax law that meant many taxpayers didn't withhold sufficient taxes through payroll deductions, backloading their end-of-year tax payments. Anecdotally, strong revenue collections occurred in many other states in April. Additional data and analysis are required to present a comprehensive explanation for the revenue shift, and our staffs are working to provide the General Assembly with a more detailed analysis.

As an immediate result of the strong April performance, coupled with revenue collections year-to-date, the State of Illinois will be able to address most of the \$1.6 billion shortfall in the enacted FY19 budget because of the April revenues alone. GOMB and the Department of Revenue will be increasing the forecast of general funds individual income taxes by \$1.249 billion and general funds corporate income taxes by \$186 million, for a total revision of \$1.435 billion, a revision of approximately 7% from February 2019 income tax estimates.

Additionally, based on this strong performance, the Department of Revenue has also re-evaluated its FY20 projections. DOR is also projecting that income tax revenue for the FY20 general funds budget will be roughly \$800 million higher than initially projected, or nearly \$22 billion instead of \$21.18 billion. This represents income tax collections roughly 4% higher than the initial base projections.

Several, though not all, of the factors that contributed to the April revenue growth will continue into the coming fiscal year. These factors include continued strong employment, including in Illinois.

The Department has also taken a conservative approach to its revised revenue projection by considering several of the growth factors as likely one-time sources. These sources include the stock market's performance and taxpayers' adjustments in their withholdings because of the new federal tax law. These factors have limited the growth that can be expected.

Governor Pritzker remains committed to a financially responsible budget that addresses Illinois' outstanding obligations, and recommends that these additional revenues can be dedicated to the state's statutory FY20 pension payment. The certified payments to the retirement systems total \$9.1 billion. **With the additional revenues due to the forecast revision, the state will be able to meet the current funding commitment to the retirement systems without extending the ramp this year.** The Governor remains committed to finding ways to fund our pension commitments in a sustainable manner.

Ensuring the state's pensions are sustainably funded continues to require significant effort, and will not happen overnight. Over the coming months, the administration will continue to work on a responsible approach to the state's unfunded pension liabilities, which continue to threaten to crowd out vital investments in education and public safety. Both the Pension Asset Value and Transfer Task Force and the Pension Consolidation Task Force are expected to provide comprehensive reports in the coming months. Our expectation is that the Legislature will be able to take their recommendations into account as we work together to finalize a long-term pension reform plan and continue to work with the Legislature to develop a long-term pension plan.

The State of Illinois has faced much financial uncertainty in the past, and while this revised revenue estimate is certainly welcome news for our residents, the state's finances won't be stable in the long-term until a fair tax system is put in place.

Sincerely,

David Harris
Director
Department of Revenue

Alexis Sturm
Director
Governor's Office of Management & Budget