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Illinois Tax Revenue Losses Lower than Expected During Pandemic, U. of I. Study Finds.

Illinois' loss of tax revenue because of the pandemic was much lower than experts predicted in the spring when COVID-19 first took hold, but "tremendous uncertainties" persist moving forward, a University of Illinois study released Tuesday found.

The pandemic hit state tax revenues hard last spring when a widely restrictive stay-at-home order was in effect, but much of that early loss was recovered in subsequent months, according to the report from the University of Illinois' Institute of Government and Public Affairs.

The initial federal coronavirus relief package Congress approved in the spring sent billions of dollars streaming into Illinois' economy through stimulus checks to individuals and Paycheck Protection Program loans to businesses, acting as a "catalyst for increased spending," the study found.

Based on an analysis of state tax receipts through November, the study found that people "began to adapt their behavior" to what was allowed during the pandemic and "once retail establishments and restaurants began curbside pickup services, sales started to rise."

"There was a steep fall in spending in most categories in April and May, then a recovery toward pre-COVID-19 levels. Spending has not recovered completely, but it is near what it likely would have been in the absence of COVID-19," the authors wrote.

Despite their upbeat conclusion, the authors of the study warned there remains "more than a fair amount of uncertainty" because of the possibility of future coronavirus surges and the timeline for distributing vaccines.

Much of the state's general fund revenue loss in the budget year that ended June 30 was due to extending the income tax filing deadline into July, and "well over half of that revenue loss has been recouped," said Kenneth Kriz, director of the Institute for Illinois Public Finance at the University of Illinois at Springfield and the study's lead author.

Once that delayed income tax deadline passed in July, "revenue was significantly above the model's forecast, returning in August to near the forecasted level."

The pandemic's hit to the state's budget remains significant. The loss to the state's general funds was \$868 million from major revenue sources, the study concluded based on the analysis of state tax receipts. Across all state funds, the loss was \$1.44 billion.

That still falls short of conservative projections from the spring, when forecasters predicted revenue drops of 15% to 20% and the U. of I. researchers said the pandemic could cost the state "billions of dollars and possibly cost tens of billions of dollars."

The state's budget for the year that began July 1 is \$43 billion.

Following the failure at the ballot box in November of his signature policy proposal, a graduated-rate income tax, Gov. J.B. Pritzker warned of “painful” budget cuts on the horizon.

Deputy Gov. Dan Hynes, Pritzker’s top budget adviser, said the governor’s office made an upward revision of its own revenue projections in November. “And hopefully that continues, but the improved revenues are not going to be enough to close the gap,” Hynes said Tuesday.

A separate Pritzker proposal that sought to block a federal tax code change in a coronavirus relief plan from applying to state tax bills, which the administration said would prevent the loss of up to \$1 billion in revenue, failed in the Illinois House earlier this month during the legislature’s lame-duck session.

Pritzker is due to introduce his proposal for the state’s next budget year next month.

The administration is still looking to Washington for help filling the hole, a prospect that became a little brighter under President Joe Biden and Democratic majorities in both houses of Congress. Republicans have criticized Pritzker and Democrats for counting on federal aid in the budget they crafted last year.

“We don’t regret building that into our plan, and if it does not materialize, we’re going to have to make those adjustments,” Hynes said. “But we didn’t want to have to cut billions of dollars in critical state programs either when there was still a possibility that the federal government would provide us some relief.”

By JAMIE MUNKS | CHICAGO TRIBUNE

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