Illinois Economic and Fiscal Policy Report

The Governor’s Office of Management and Budget (GOMB), pursuant to 20 ILCS 3005/7.3, annually submits an Economic and Fiscal Policy Report to the General Assembly outlining the long-term economic and fiscal policy objectives of the State, along with the economic and fiscal policy intentions for the upcoming fiscal year and for the subsequent four fiscal years. The report also includes a comparison of the current fiscal year’s enacted budget with the current outlook for the fiscal year along with fiscal and policy options GOMB recommends for consideration by the General Assembly and the Governor to remedy any budgetary shortfalls in the current year or the five following fiscal years.

ECONOMIC REVIEW

NATIONAL ECONOMIC CONDITIONS

The COVID-19 Pandemic created one of the largest shocks to the global economy on record. The economic disruption left in its wake created a V-shaped recession with unprecedented effects that persist today. Typically, short-term fluctuations in the economy are driven by random shocks generated by consumer preference, input factors, productivity, or policies directly impacting the supply and demand of goods and services. Sometimes those short-term fluctuations are attributable to natural disasters such as wildfires, tsunamis, or earthquakes with the initial impact on the local economy in which the disaster occurred. The public health disaster created by COVID-19 has local and global impacts and it has aggregated short-term fluctuations into a multi-period wave of economic shocks to supply, demand and productivity. The net effect is layered, national shocks unlike anything seen in the past four decades. Federal fiscal and monetary policy have helped spur along a strong economic recovery, but full recovery is uncertain until the pandemic ends.

Analyzing the COVID-19 Timeline

The first case of COVID-19 was reported in the United States on January 21, 2020 and by March, the virus had spread throughout most of the country. By April, most states and local governments had begun some form of mitigation policies to reduce the total number of new cases. These policies usually centered around “stay-at-home” orders and directives to social distance and wear masks while in public. At the
same time, non-essential businesses began to shut down, schools closed, sporting events were canceled, and college students were sent home.

By mid-May, states began to loosen their mitigation policies in different phases, resulting in mixed outcomes throughout the summer months of 2020. “COVID hot spots,” or areas in which new daily cases and positivity rates increased dramatically, became a growing concern. On August 17, 2020, COVID-19 became the third leading cause of death in the U.S. behind heart diseases and cancer. The fall months saw more COVID hot spots and, by December, new daily cases and deaths peaked yet again, as the cold weather drove more people indoors. On December 11, 2020, a new hope in the fight against the virus emerged when the Federal Drug Administration (FDA) granted emergency use authorization (EUA) to an mRNA vaccine (Pfizer-BioNTech) for immediate use. Seven days later, on December 18, 2020, the FDA issued a second EUA to Moderna for its vaccine.

The start of 2021 began a race to vaccinate the U.S. population as reports of a new, more contagious variant of the virus, commonly known as the Delta variant, began to emerge around the world. From January to March 2021, over 15 percent of the population had received a first dose and by the end of June, over 50 percent of the eligible population had been vaccinated with at least one dose. While the number of vaccinated individuals has grown steadily, the emergence of different COVID variants and the development of new hot spots throughout the U.S. shows that the pandemic is not over. The pandemic, and the response to it, continue to influence the economic outlook of the nation and the global economy.

**Economic Shocks, Policies, and Outcomes**

On July 19, 2021, the National Bureau of Economic Research (NBER) officially declared the U.S. had entered and ended a two-month pandemic-driven V-shaped recession from February to April 2020. NBER considers the depth, diffusion and duration of changes in income, employment, retail sales, and industrial production when determining a “significant decline in economic activity.” NBER concluded that the sudden drop-in activity caused by the pandemic was so great and widely diffused throughout the economy that even if the downturn proved to be brief, it was still a recession. Though NBER had concluded the recession trough had occurred and reversed, it did not conclude that the economy had returned to a normal operating capacity.

The U.S. Gross Domestic Product (GDP) short-term contraction triggered by COVID-19 was one of the sharpest economic declines in modern American history. GDP, the broadest measure of economic activity, decreased at an annual rate of 31.2 percent in the second quarter of 2020, after falling 5.1 percent in the preceding quarter, as so-called non-essential businesses shuttered their doors in an effort to slow the spread of COVID-19. The economic shock in April, May, and June 2020 was more than three times greater than the previous record of 10 percent (1958) and nearly four times greater than the worst quarter of the Great Recession. Such an unprecedented decline in GDP, centered in crucial employment and production sectors, pushed more than 42 million Americans toward state unemployment offices and brought about several high-profile bankruptcy announcements from companies like J.C.Penney, J.Crew, and Hertz.

In a seemingly drastic turn of events, third quarter 2020 GDP rebounded by 33.8 percent, reflecting increases in exports, nonresidential fixed investment, personal consumption expenditures (PCE), residential fixed investment, and private inventory investment. This boomerang of economic activity came amid a lull in viral cases and increased federal support. Increases in exports were helped by greater demand for industrial supplies and materials. Fixed investment for companies were led by the greater
need for transportation spending, while residential and consumer spending were buoyed by a quickly adaptive goods and services sector that instituted work from home schemes and telehealth services.

Fourth quarter 2020 GDP increased at an annual rate of 4.5 percent, ending the calendar year on an optimistic high. Estimates for calendar year 2021 have continued that upward trend. Preliminary first quarter GDP increased at an annual rate of 6.3 percent and advanced estimates for second quarter GDP showed an annual increase of 6.7 percent. Both preliminary and advanced estimates are subject to further revision by the source agency once more complete data is released.

U.S. GDP appears to have completely erased its pandemic-era decline, but persistent labor market and supply chain issues continue to keep the economy from growing as fast as it could.

**Personal Consumption Expenditures – Goods and Services**

A defining characteristic of the U.S. economy is its reliance on personal consumption expenditures (PCE) to drive economic growth. PCE is a primary measure of consumer spending on goods and services and accounts for two-thirds of GDP. PCE is typically used to measure the health of the economy under the assumption that households spend disposable income on goods and services when the economy is doing well and reduce spending on goods and services when the economy is doing poorly. The COVID-19 Pandemic and related mitigation measures impacted consumer spending in ways that significantly differ from other periods of similar economic activity.

Prior to the pandemic, long-term trends showed growth in services expenditures exceeding growth in goods expenditures. During the pandemic, opportunities to spend on services have been severely limited over multiple periods, shifting spending toward goods and away from services. The willingness to spend on services has been altered by the timing and severity of viral outbreaks, as consumers have opted to avoid or limit activities perceived to be high-risk, including in-person interactions.
Figure 1. Personal Consumption Expenditures (Services)

Figure 1 shows changes in personal consumption expenditures on services over the course of the pandemic. A relatively small decline in February 2020 was followed by an even larger drop in March and April 2020. This was likely the result of business closures, social distancing and other measures taken to limit outbreaks. June 2021 saw a return of PCE for services to pre-pandemic levels for the first time in 15 months, due in large part to increased vaccination rates and economic stimulus payments. The travel industry and drinking and food establishments have benefitted the most. These industries were battered early in the pandemic.

Figure 2. Personal Consumption Expenditures (Goods)

Figure 2 shows changes in personal consumption expenditures for both durable and nondurable goods over the course of the pandemic. Spending on nondurable goods (goods that are “single use or consumed over a short period of time”) and durable goods decreased during the initial months of the pandemic (March and April 2020) but quickly rebounded to greater than pre-pandemic levels by June of 2020. PCE on goods increased by 43.5 percent from April 2020 to April 2021 and has only begun to taper off. Durable goods consumption has been bolstered by low interest rates and federal economic impact payments.
Figure 3. Personal Consumption Expenditures (year-over-year change)

Figure 3 shows the year-over-year percentage change on goods and services. For the first time in years, growth in PCE on goods has outpaced services. In the most recent months, the gap in growth between both services and goods has narrowed, as households have pulled back on purchases of durable goods and boosted services spending. Spending is still on track to push the economy forward but depends on the future trajectory of the pandemic.

Changes in the opportunity to spend have significantly altered consumer behavior and accelerated industry trends toward shopping through virtual means. Not only have consumers changed what they buy, they have also changed how they buy. More online shopping, buying in bulk and utilizing virtual store experiences have dominated consumer spending habits during the pandemic. Experts believe these changes will have lasting effects that will change benefit corporations that have e-commerce as an integral part of their business model, such as Amazon and Walmart. In Illinois, legislation brought on by the Supreme Court’s decision in South Dakota v. Wayfair, Inc (effective October 2018) and the marketplace facilitator legislation (effective January 2020) have helped the Illinois Department of Revenue enforce collection of the state sales tax due on online purchases.

Increased Savings

U.S. consumers have shown a willingness to spend during the pandemic, but another important feature of the pandemic economy has been a massive increase in household savings. Consumer spending and saving generally are inversely related. When households reduce spending, they increase savings. What is unique to the pandemic economy is the rate at which savings have increased. Savings nearly tripled in the first two quarters of 2020, before increasing again in the second quarter of 2021. This is by far the biggest increase in modern history. Although personal savings have been on the rise since the Great Recession, the personal savings rate increased during the pandemic for several reasons, including the inability to spend due to business closures and increased personal income from various federal stimulus programs.
Figure 4. Personal Saving (billions of dollars, annualized, seasonally adjusted)

Figure 4 shows the by month increase in personal savings throughout the majority of the pandemic. The spike in personal savings in April 2020 coincides with the decrease in personal consumption expenditures shown in Figures 1 and 2. Personal savings fell over the preceding months as PCE rose and spiked again in March 2021. The March 2021 spike was largely driven by transfer payments from the federal government in the form of economic stimulus payments. The changes to the national savings rate likely will affect the economy by influencing the need to return to work by the unemployed and changing future household consumption patterns.

**Productivity**

Productivity, a measure of efficiency of production, is an important indicator of economic well-being. Productivity has been positive during the pandemic and has rebounded more quickly than during previous recessions. The primary reason for such strong productivity growth is due to cyclical effects that are unsustainable and likely to diminish over time. Productivity is commonly defined as a ratio of the output volume and the volume of inputs or the measure of how efficiently production inputs, labor and capital are being used in the economy. Figure 5 shows the percent change of labor productivity before and during the pandemic. Before the pandemic, labor productivity grew at a relatively slow pace. Overall labor productivity has grown at a rapid pace since the onset of the pandemic. The growth is due to decreases in certain inputs in the labor productivity ratio at rates larger than increases in overall economic activity. Breaking it down by component, output has been maintained during the pandemic, while the number of overall hours worked has decreased – essentially the work hours are more economically productive.
Labor Market Recovery Lags

The economic recovery has been impressive but vital parts of the economy are still actively depressed due to coronavirus-related shocks. Though the economy at large has rebounded to pre-pandemic levels, the labor market has had inconsistent recovery with only a few periods of meaningful job growth. This is of particular concern for economists, policy makers and workers, as repeated shocks that aggregate into long-term suppression in job creation can hamper total economic growth and severely damage the economic opportunities of vulnerable workers.

The overall and immediate effect of COVID-19 was felt throughout most of the labor market. The unemployment rate increased from a 50-year low of 3.5 percent in February 2020 to 14.8 percent in April 2020. Total payroll employment, the measure of workers in the economy, dropped nearly 20.8 million in April, by far the largest drop in employment for records going back to 1948. These aggregated measures tell only half of the story. The U-6, a broader measure of unemployment that accounts for individuals too discouraged to continue searching for work and part-time workers who are seeking full-time employment, jumped from 7.0 percent in February to 22.8 percent in April 2020. Since April 2020, the economy brought workers back into the labor force and reconnected some dislocated workers to their previous employers. As of September 2021, the national unemployment rate has dropped to 4.8 percent. Monthly job gains are positive but well below pre-pandemic levels.

Despite the fact that jobs are returning, long-term unemployment is still high. More than 3 million people have been out of work for at least 27 weeks, with 2.5 million of those out of work for 52 weeks or more. Black workers are overrepresented in those numbers. The consequences of long-term unemployment can be significant to both the worker and society. For the worker, long-term unemployment can lead to skill erosion, added personal debt, and diminished mental and physical health. On a societal level, long-term unemployment leads to a lack of skilled labor, a reduction in overall economic consumption, and an increased need for social safety net expenditures to prevent increased poverty.
Working women in particular have felt the negative economic effects of the pandemic. Working mothers have always wrestled with the challenges of caring for children and maintaining a foot in the workplace. As childcare options closed and remote learning replaced traditional schooling, many women were forced to focus less on their careers and more on family. As a result, women have exited the workforce in significant numbers since the pandemic began. Since the start of the pandemic, the U.S. Bureau of Labor Statistics has estimated around 4.1 million women age 20 and older dropped out of the labor force by September 2020, 23 percent more than the 3.3 million men who left. Of that 4.1 million, a vast majority were mothers who cited child rearing for young or school-age children as the primary reason for their exit. From February 2020 to February 2021, a net 2.4 million women left the labor force. Forty-six percent of the total workers lost were Black and Hispanic women.

The exodus of so many women from the labor force has long-term consequences to consider. Average pay for women could be reduced, inevitably harming the welfare of families. Moreover, key industries could suffer labor shortages as talent pools remain thin, leading to an economic recovery that is stunted and imbalanced. Women make up a majority of essential workforce areas (education, healthcare, personal care, and sales and office occupations) that have played a critical role throughout the pandemic. Their impact on the labor market is particularly pronounced in the healthcare sector, where women comprise 86 percent of all healthcare support workers, 73 percent of which include the healthcare practitioners and technical occupations identified as essential in the fight against COVID-19. The education sector is also primarily comprised of women. Eighty percent of elementary and middle-school teachers and 97 percent of preschool and kindergarten teachers are female according to U.S. Census Bureau data.

Policy makers and companies can do much to entice the long-term unemployed and women back to the labor market, but barring a significant change to the current trajectory of the pandemic, it is unlikely that job growth will return to pre-pandemic levels for quite some time.

Federal Fiscal Policies
To address the pandemic, the federal government has enacted six main economic relief packages totaling $5.2 trillion dollars. The first, signed into law on March 6, 2020, was an $8.3 billion package that provided funding for vaccine research and development, funding for telemedicine for seniors, medical supplies and support for state and local government health budgets. The second, signed into law on March 18, 2020, was a $100 billion package that provided funding for free COVID-19 testing, unemployment insurance, paid sick leave, health insurance for the poor and food aid. The third package, the CARES Act, was a $2.2 trillion economic stimulus signed into law on March 27, 2020. The CARES Act included $300 billion in stimulus checks to individuals, $260 billion to fund an additional $600 per week for unemployment assistance in addition to base state unemployment assistance, $350 billion in forgivable loans to small businesses, $500 billion in loans and other money for big corporations, $100 billion for hospitals responding to COVID-19 and $350 billion for state and local government COVID-19 related expenditures. A $484 billion supplemental package that provided funding for the Economic Injury Disaster Loan (EIDL) and Paycheck Protection Programs (PPP), along with additional funding for hospitals and COVID-19 testing, was signed into law on April 24, 2020.

A fifth stimulus package, the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act, was a $900 billion relief bill signed into law December 27, 2020. CRRSA included $325 billion for small businesses, $166 billion in direct checks to the public, $120 billion in unemployment insurance (UI) extensions, and the remainder for education, vaccine funding and assistance to households. The sixth
package, the American Rescue Plan Act (ARPA), was a $1.9 trillion economic relief package signed into law on March 11, 2021. ARPA included direct checks to individuals, temporary expansion for numerous tax credits, expanded UI benefits, $350 billion to state and local governments for revenue replacement, $130 billion for K-12 education, $55.5 billion for vaccine distribution and administration, $39 billion for higher education, $30 billion for public transit, $25 billion for rental assistance, $25 billion to restaurants and drinking establishments, $40 billion for child care, $15 billion for airline industry workers, and $7.25 billion in PPP funding for nonprofits. 

**Inflation**

The massive fiscal stimulus being implemented by the federal government, along with the impact of supply chain disruptions on the costs of goods, has given rise to inflation. Indeed, on August 27, 2020, the Federal Reserve announced a modification of its inflation policy, stating that instead of targeting 2 percent inflation, it would target average inflation of 2 percent over the long-run. The announcement implied the Federal Reserve will permit inflation to exceed 2 percent and that interest rates are likely to remain low. Personal Consumption Expenditures-measured inflation on a year-over-year basis have trended upward since April 2020. In September 2021, the consumer price index increased 5.4 percent compared to the same time last year, the highest it has been since 2008.

**Economic Forecasts**

This report will discuss the baseline economic forecast provided by IHS Markit (IHS), a national economic forecasting firm. IHS Markit gives its baseline forecast a 50 percent probability. Risks to the economic forecast include the trajectory of the COVID-19 Pandemic.

The baseline forecast does not project a recession in the forecast horizon but does project slower economic growth. It anticipates U.S. Real GDP growth to slow from 5.2 percent in 2022 to 3.4 percent in 2023, 2.7 percent in 2024, 2.7 percent in 2025, 2.5 percent in 2026, and 2.2 percent in 2027. This projected slowdown in economic growth is attributed to a deceleration in PCE services due to the Delta variant, supply chain issues related to microchip shortages, and other limitations on production stemming from global supply-chain disruptions.

The baseline forecast assumes that the labor market will see little to no change through calendar year 2021 due to weaker GDP growth and slower than expected returns to the service industry. Monthly employment growth has been weaker than expected, extending the trough in unemployment into the next calendar year. The forecast assumes the unemployment rate will reach 4.2 percent in 2022 and 3.6 percent in 2023 – just 0.1 percent higher than the 2019 pre-recession minimum.

Real disposable personal income will begin to trickle down as inflation caused by supply-chain disruptions and excessive savings built up during the pandemic are absorbed back into the economy. Personal consumption expenditures are expected to decrease from 7.8 percent in 2021 to 3.3 percent in 2022. PCE on goods was boosted above pre-COVID levels by fiscal stimulus and by substituting away from services. PCE on services began a rebound due to increased vaccination rates but have slowed due to the Delta variant.

IHS's forecast anticipates the enactment of the currently pending Infrastructure Investment and Jobs Act (IIJA). IIJA is expected to increase spending by $300 billion over the next five fiscal years, GDP by 0.5 percent by 2025-26 and employment by 750,000 jobs before effects of the legislation wane as spending decreases.
IHS's forecast expects the Federal Reserve to taper its large-scale asset purchases starting in November 2021. The Federal Funds rate, which currently ranges between 0 percent and 1 percent, is expected to rise gradually over time. The forecast assumes the rate will not reach greater than 1 percent until 2025.

<table>
<thead>
<tr>
<th>Variables</th>
<th>FY21</th>
<th>FY22</th>
<th>FY23</th>
<th>FY24</th>
<th>FY25</th>
<th>FY26</th>
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<tr>
<td>U.S. Real Gross Domestic Product</td>
<td>5.7%</td>
<td>5.2%</td>
<td>3.4%</td>
<td>2.7%</td>
<td>2.7%</td>
<td>2.5%</td>
<td>2.2%</td>
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<tr>
<td>Illinois Real Gross Domestic Product</td>
<td>5.8%</td>
<td>4.5%</td>
<td>2.7%</td>
<td>2.9%</td>
<td>2.6%</td>
<td>2.4%</td>
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<tr>
<td>Illinois Non-Farm Employment</td>
<td>2.7%</td>
<td>3.5%</td>
<td>1.8%</td>
<td>1.2%</td>
<td>0.9%</td>
<td>0.6%</td>
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<td>Illinois Wage Disbursements</td>
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<td>5.2%</td>
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<td>Domestic U.S. Corporate Profits</td>
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<td>1.5%</td>
<td>2.3%</td>
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<td>Illinois Retail Sales</td>
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<td>0.9%</td>
<td>1.8%</td>
<td>3.6%</td>
<td>3.8%</td>
<td>4.0%</td>
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Source: IHS Markit September 2021 Forecast

**ILLINOIS’ ECONOMIC CONDITIONS AND FORECAST**

Illinois’ economic performance during the pandemic has largely tracked with the rest of the nation. The state’s Real GDP decreased by 3.4 percent in 2020 but has rebounded considerably in 2021. GDP forecasts by IHS anticipate Illinois’ Real GDP growth to peak at 5.8 percent in 2021 before slowing to 4.5 percent in 2022, 2.7 percent in 2023, and 2.9 percent in 2024.

After reaching a historic low of 3.4 percent (slightly below the national rate), the State’s unemployment rate jumped to 16.5 percent in April 2020. Since that time, the rate has trended downward, landing at 7.0 percent in August 2021 and 6.8 percent in September 2021 on a seasonally adjusted basis. Employment losses in Illinois since February 2020 have been similar to other populous states. A total of 800,000 jobs were lost during the first months of the pandemic, primarily in the State’s retail and hospitality sectors. As the State slowly reopened between May 2020 and March 2021, a total of 411,000 jobs were added back to the economy. IHS expects hiring to continue to remain sluggish, similar to the national economy, for the remainder of 2021. IHS anticipates hiring to increase slightly in 2022 before returning to pre-pandemic levels by 2023.

Federal stimulus payments led to increases in real median household income and enhanced salary growth. Real wages are supported by the Chicago metro area and its ability to attract high-income earners. Investments in educational infrastructure and a greater share of college-educated workers will help to ensure premium wage growth.

**A REVIEW OF THE ENACTED FISCAL YEAR 2022 BUDGET**

On June 17, 2021, the Governor signed the State’s fiscal year 2022 budget, contained in P.A. 102-016 and P.A. 101-017, into law. The fiscal year 2022 budget funds additional investments in education and human services, while fully funding certified pension contributions and continuing progress on debt repayments. The balanced budget will allow Illinois to keep pace with the payment of the State’s bills and maintain progress on reducing the State’s backlog of bills, with vendor payment delays at the lowest levels in recent years.

The fiscal year 2022 budget also directs federal dollars received from the American Rescue Plan Act (ARPA) to aid businesses and families and invest in Illinois' communities. In addition to dollars for specific programming purposes, ARPA allocated $8.381 billion to Illinois through the Coronavirus State Fiscal
Recovery Fund and the Coronavirus Capital Projects Fund, which will allow the State to make targeted investments with the most impact. The budget allocated roughly $3 billion from the Coronavirus State Fiscal Recovery Fund dollars to key areas like infrastructure, violence prevention, education, healthcare, affordable housing, and economic recovery.

In addition to these investments, the enacted budget plan reserves $2-3 billion to replace lost revenues to the State, due to the pandemic, to fund essential government services as allowed under ARPA. At the time of budget enactment, a general funds budget surplus of $88 million was projected, taking into account the early repayment of COVID-19 related borrowings by the end of the fiscal year. The early repayment will save taxpayers tens of millions of dollars in interest costs.

Updated Fiscal Year 2022 Projections
Following a review of the fiscal year 2022 general funds revenue performance year-to-date, GOMB is revising the budget forecast as outlined in the following table. Through the first three months of fiscal year 2022, income and sales taxes exceeded budget forecasts by significant margins, leading to a $1.4 billion increase in the revenue forecast from those sources. In total, the general funds revenue forecast is revised upward by $1.7 billion, using a review of the performance fiscal year-to-date and the economic projections under the IHS baseline forecast for fiscal year 2022. However, GOMB will continue to monitor these forecasts closely as the COVID-19 Pandemic continues to impact the economy in various, sometimes unpredictable ways.

<table>
<thead>
<tr>
<th>Changes to FY 2022 Projections ($ in Millions)</th>
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<tbody>
<tr>
<td>Revenues</td>
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<tr>
<td>Income Taxes</td>
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<tr>
<td>Sales Taxes</td>
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<td>Transfers In</td>
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<td>Federal Sources</td>
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<tr>
<td>All Other Changes</td>
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<tr>
<td><strong>Total Base Revenue Changes</strong></td>
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<td>$ 1,714</td>
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<tr>
<th>Revision to Forecast</th>
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<tr>
<td>Enacted Budget (Deficit)</td>
</tr>
<tr>
<td>Increase to Base Revenue Forecast</td>
</tr>
<tr>
<td>Increase in Projected Expenditures</td>
</tr>
<tr>
<td>Proposed Rainy Day Fund Contribution</td>
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<tr>
<td><strong>Revised Surplus/(Deficit)</strong></td>
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With the foregoing revisions, fiscal year 2022 base revenues and transfers from other State funds are estimated to total $44.082 billion, a decrease of $770 million (1.7 percent) from fiscal year 2021 base levels. This decrease is due to the extension of the tax filing and payment deadline from April 15, 2020, to July 15, 2020. An estimated $1.3 billion in income tax payments were shifted from fiscal year 2020 to the
Without the impact of the filing delay, projected fiscal year 2022 revenues would be roughly $500 million higher than fiscal year 2021.

The State’s three largest revenue sources, individual income tax, corporate income tax, and state sales tax, are estimated to total $34.773 billion in deposits to the general funds in fiscal year 2022, a decrease of $683 million (1.9 percent) when compared to fiscal year 2021 totals, or roughly $600 million higher without the impact of the 2020 filing delay. The fiscal year 2022 estimate assumes deposits of $2.108 billion into the Local Government Distributive Fund, Public Transportation Fund, and Downstate Public Transportation Fund from income and sales tax receipts prior to the deposit of these revenue sources into the general funds.

Other state source revenues are projected to total $3.091 billion, an $11 million decrease from fiscal year 2021. Transfers to the general funds are projected to total $1.851 billion, an increase of $301 million (23.6 percent) from fiscal year 2021.

Federal revenues are projected to total $4.367 billion, a decrease of $377 million (7.9 percent) from fiscal year 2021 federal revenues. This year-over-year decrease reflects the drop of enhanced federal match halfway through fiscal year 2022.

Additionally, the fiscal year 2022 revenue forecast includes $2 billion in transfers from federal ARPA dollars to reimburse the State for revenues lost due to the pandemic, and enable the State to maintain the lower payment cycle seen in recent months.

The fiscal year 2022 budget’s revised estimated base operating expenditures are $40.240 billion. Statutory transfers out of the general funds are projected to decrease by approximately $147 million to $370 million in fiscal year 2022 from fiscal year 2021 transfers out of $517 million. Debt service for GO Bonds is projected to total $1.718 billion from the general funds.

GOMB has identified potential supplemental general funds budget pressures for fiscal year 2022, including $913 million to fully address unpaid state employee and retiree health insurance bills and approximately $150 million in other pressures. As described below, the Governor also proposes reserving $300 million for a contribution to the Budget Stabilization Fund. After accounting for these changes and the supplemental budget pressures, the revised fiscal year 2022 surplus is projected to total $418 million.

Five Year Budgetary Forecast

Pursuant to 20 ILCS 3005/7.3, attached to this report is a financial walk down of the budgetary outlook for fiscal year 2022 through fiscal year 2027.

The projections assume growth in revenues under existing law in fiscal year 2022 and the remainder of the forecast period following the baseline IHS economic forecast. Expenditure projections are driven by statutory increases in pension payments based on end of fiscal year 2021 actuarial results, projected debt service amounts, and moderate increases in other spending. Expenditure projections are trend growth numbers that assume no significant reforms or spending controls aside from what is in current statute.

Estimated Resources

GOMB estimates that under current statutes, base general funds revenues for fiscal year 2022 will total $44.082 billion. Revenue estimates going forward are based on projections provided by Illinois Department of Revenue economists based on IHS’s baseline forecast.
The diversion rate of 9.25 percent of total individual income tax revenues in fiscal year 2022 to the Income Tax Refund Fund is assumed to continue for the remainder of the forecast. The corporate income tax forecast assumes a refund fund diversion rate of 15.0 percent in fiscal year 2022 and is maintained over the remainder of the forecast.

Fiscal year 2022 sales tax revenues are estimated to total $9.9 billion. Fiscal year 2023 and future years reflect the continued impact of the gradual shift of state sales tax on motor fuel purchases from the general funds to the Road Fund, with approximately $112 million estimated to shift in fiscal year 2023. The shift reaches full implementation in fiscal year 2026, when the entire 5 percent state share of sales tax on motor fuel purchases will be allocated to the Road Fund.

Fiscal year 2022 estimated base general funds receipts from federal sources total $4.367 billion. This estimate is based on appropriations that are expected to generate federal match if payments are released timely and six months of enhanced FMAP of 6.2 percent on Medicaid expenditures related to the COVID-19 federal emergency declaration. Generally, federal reimbursements for Medicaid spending are returned to the same fund that was used for the original expenditure. It is assumed that the Department of Healthcare and Family Services will continue to maximize use of general funds for Medicaid spending, which will produce moderate growth over the forecast horizon. However, fiscal year 2023 reimbursements will be lower than fiscal year 2022 estimates with the drop off of the enhanced FMAP after the second quarter of fiscal year 2022 and an estimated drop in the base Medicaid match rate beginning in October 2022.

**Estimated Expenditures**

Fiscal year 2022 estimated general funds spending in the financial walk down totals $44.301 billion, including repayment of the remainder of the December 2020 Municipal Liquidity Facility borrowing and outstanding interfund borrowing. Future-year spending estimates are based on increasing evidence-based funding for education by $350 million per year, moderate growth rates in the various categories of state spending from fiscal year 2022 appropriations, pension spending consistent with the retirement systems’ projections from fiscal year 2021 actuarial reports, and no significant changes to base programs. Projected pension contributions are lower than previous estimates due to the retirement systems’ strong investment performance in fiscal year 2021.
**Fiscal Year Results**

As noted above, GOMB estimates fiscal year 2022 revenues will exceed expenditures by $418 million – a major sign of critical progress on state finances, and a significant improvement over previous projections for fiscal year 2022. However, state officials continue to have more work to do. Deficits are projected to return beginning in fiscal year 2023, albeit at a significantly lower level than under previous forecasts. The state’s structural deficit has been reduced by more than $2 billion. Deficits ranging from $406 million to $1.061 billion are projected through the remainder of the forecast period. In fact, these projected out-year deficits are at the lowest level projected since 2014 and reflect a much improved fiscal position from the last two years. The chart below compares the annual forecasted deficits as of October 2019 compared to the current forecast.  

![Chart showing Illinois General Funds Deficit Projections - 2019 Forecast vs 2021 Forecast](chart.png)

**Policy Objectives and Intentions**

While Illinois continues to address the lingering public health challenges and economic impact of the COVID-19 Pandemic, Governor Pritzker remains committed to achieving fiscal stability in Illinois’ budget and spurring statewide economic growth. A key priority is investing in Illinois’ people, educational system, programs that assist the most vulnerable and infrastructure. These investments will strengthen the economy and ensure that Illinois is a strong competitor in the global marketplace.

Even with a balanced budget for fiscal year 2022 and a significantly improved financial trajectory, the underlying structural deficit of the State’s budget has not been fully addressed. While improved from previous forecasts, deficits in the general funds budget are projected for fiscal years 2023 through 2027. Illinois is constitutionally required to pass a balanced budget for each fiscal year – thus, these annual deficits must be addressed. The State will continue to face challenges while working to address the structural deficit.

The fiscal year 2022 budget framework allows for additional steps toward fiscal stability through actions such as early repayment of the COVID-19 Pandemic borrowings, directing funds to further pay down the state’s existing payables and reserving additional funds for future fiscal emergencies or economic downturns. These actions, along with continued investment in economic development and responsible budget management on the spending side, will improve the budgetary outlook for future years.
Reducing Debt Obligations and Saving on Interest Costs. In 2020, the State undertook several borrowings to address the revenue shortfalls brought on by the COVID-19 pandemic, including $3.2 billion in borrowing from the Federal Reserve Municipal Liquidity Facility (MLF),45 millions in interfund borrowing, and $400 million under the State Treasurer’s investment borrowing powers. As of the end of June 2021, the State had paid back $2.2 billion of the $3.2 billion borrowed from the MLF, $140 million of the interfund borrowing, and all of the Treasurer’s investment borrowing. The fiscal year 2022 budget is structured to allow the State to pay off the remainder of these borrowings – removing the burden of repayment from out years and eliminating unnecessary interest costs. Early repayment of the MLF borrowing will save taxpayers tens of millions of dollars.

Continued Reduction in Unpaid Bills. At the end of fiscal year 2021, the Illinois Office of the Comptroller’s estimate for the general funds and Health Insurance Reserve Fund bill backlog totaled $4.003 billion.46 While this is the lowest year-end general funds backlog number in 10 years, there are still many bills that accrue interest while waiting for payment. In fiscal year 2021, state agencies processed approximately $110 million in interest penalties. In order to reduce the annual burden of interest and further accelerate the timely payment of the state’s bills, the Governor recommends allocating $913 million from the fiscal year 2022 budget for supplemental appropriations to eliminate delays in payment of bills for the state employee and retiree health insurance program - by far the State’s largest remaining interest-accruing liability – which will bring Illinois’ unpaid bills and transfers to under $2.75 billion. In future budget years, maintaining this lower level by enacting balanced budgets will save Illinois taxpayers millions in interest costs and move Illinois closer to a customary accounts payable cycle.
Saving for the Future. After addressing bills currently due, the Governor is recommending the State take a necessary step to prepare for the future. Keeping Illinois on a path for fiscal stability requires reinvestment in the Budget Stabilization Fund. Illinois created the Budget Stabilization Fund in 2001 with the intent to use it as a “rainy day” fund for future fiscal emergencies or economic downturns. After that original funding, very little was contributed to the fund and it was used as a tool to assist with cash flow until it was nearly drained in fiscal year 2017. During fiscal year 2017, the $275 million Budget Stabilization Fund balance was used to pay bills related to the budget impasse.

The COVID-19 Pandemic demonstrated how important a rainy day fund is to stabilizing state finances. Some states drew on their rainy day funds in 2020, while Illinois and a few others turned to short-term borrowing for cash flow assistance during the pandemic. However, strong revenue performance nationally in 2021 enabled states to replenish and even increase their rainy day funds from fiscal year 2020 levels - the 50-state total of rainy day fund balances increased to a record level of $82.3 billion - while Illinois still has the smallest rainy day fund among states.\(^{47}\) Strong revenue performance in fiscal year 2022 will enable the State to reduce unpaid bills, but care should also be given to thinking ahead to the next downturn by depositing a portion of this year’s surplus into the Budget Stabilization Fund.

Spending controls. To manage future year deficits, the Governor continues to instruct agency directors to prudently manage operations with the limited available resources of state government. During this administration, the Governor has implemented spending controls in a number of areas with new efficiencies. He believes the people of Illinois expect high quality programs and services, as well as the most efficient and effective use of their tax dollars. The Governor believes that support for quality education, access to health care, and sufficient social services are all part of the essential functions of state government. Optimizing operations while identifying all possible efficiencies will help the State achieve balanced budgets in future years.

Estimated Interest Expenses

The State Prompt Payment Act (30 ILCS 540/3-2) specifies the timeframe in which bills for goods and services shall be paid. If the bills are not paid within the specified time frame, an interest penalty is applied for each month, or portion thereof, until final payment is made. Similarly, the Illinois Insurance Code (215 ILCS 5/368a and 5/370a) establishes timely pay for healthcare services under the State Employees Group Health Insurance Program. If healthcare services bills are not paid within the specified time frame, the healthcare service provider is entitled to interest for each month, or a portion thereof, until final payment is made.

In order to calculate the interest due to an eligible vendor or provider, an agency must know two critical dates: the date the proper bill or invoice was received by the agency and the date the payment to the eligible vendor or provider was issued by the Illinois Office of the Comptroller (the Comptroller). Agencies use the dates to calculate the amount of days that passed beyond the established payment timeframes and the appropriate interest due to the vendor or provider. Until such time as a bill is paid, the agencies are not able to calculate interest. The Comptroller determines which bills get paid and when, making it difficult for agencies to project an interest amount.

With respect to the State Employees Group Health Insurance Program, the Department of Central Management Services (CMS) estimates the program incurred approximately $22.5 million in interest expenses in fiscal year 2021 and will incur $12.4 million in fiscal year 2022. In this instance, CMS can project its fiscal year 2022 interest costs due to estimated fiscal year 2021 interest carry-over. Due to
fluctuations in the receipt of invoices and the timing of the Comptroller’s payment decisions, future interest expense estimates cannot be made. However, interest expenses should continue to trend downward, and may be close to eliminated entirely, if the Governor’s proposal to continue to address unpaid delayed bills in the State Employee Group Health Insurance Program is implemented. This is a significant improvement from recent years when agencies submitted to the Comptroller prompt payment interest vouchers and other CMS state employee health insurance interest payments at much higher levels – in fiscal year 2018, vouchers totaled $980 million, fiscal year 2019 - $160 million, fiscal year 2020 - $137 million, and fiscal year 2021 - $112 million.
GOMB executed two separate borrowing transactions through the Federal Municipal Liquidity Facility program. The first borrowing was executed in June of 2020, totaling $1.2 billion. Repayment of this borrowing was completed in FY2021. The intention to pay off the December 2020 borrowing in full in FY2021 and FY2022.

The second borrowing was executed in December 2020, totaling $2.0 billion. Repayment of this borrowing is scheduled over the next three fiscal years, with $690 million due in FY2022, $713 million due in FY2023, and $736 million due in FY2024. Currently reflected is the intention to pay off the December 2020 borrowing in full in FY2021 and FY2022.

<table>
<thead>
<tr>
<th>STATE OF ILLINOIS</th>
</tr>
</thead>
<tbody>
<tr>
<td>GENERAL FUNDS FINANCIAL WALK DOWN</td>
</tr>
<tr>
<td>Governor's Office of Management and Budget</td>
</tr>
</tbody>
</table>

### RESOURCES

**State Sources: Revenues**

- Net Individual Income Taxes: 20,948
- Net Corporate Income Taxes: 3,974
- Net Sales Taxes: 9,851
- Public Utility Taxes: 743
- All Others: 2,348

**State Sources: Transfers In**

<table>
<thead>
<tr>
<th>Description</th>
<th>FY 2022 Estimated</th>
<th>FY 2023 Projected</th>
<th>FY 2024 Projected</th>
<th>FY 2025 Projected</th>
<th>FY 2026 Projected</th>
<th>FY 2027 Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lottery</td>
<td>739</td>
<td>754</td>
<td>769</td>
<td>784</td>
<td>800</td>
<td>816</td>
</tr>
<tr>
<td>Gaming</td>
<td>140</td>
<td>175</td>
<td>200</td>
<td>230</td>
<td>255</td>
<td>270</td>
</tr>
<tr>
<td>Adult-Use Cannabis</td>
<td>98</td>
<td>133</td>
<td>163</td>
<td>182</td>
<td>192</td>
<td>203</td>
</tr>
<tr>
<td>Other Transfers</td>
<td>874</td>
<td>632</td>
<td>632</td>
<td>632</td>
<td>632</td>
<td>632</td>
</tr>
<tr>
<td>Total State Sources</td>
<td>39,715</td>
<td>40,184</td>
<td>40,992</td>
<td>42,077</td>
<td>43,546</td>
<td>45,091</td>
</tr>
<tr>
<td>Federal Sources</td>
<td>4,367</td>
<td>3,645</td>
<td>3,718</td>
<td>3,792</td>
<td>3,868</td>
<td>3,945</td>
</tr>
<tr>
<td><strong>Total Resources</strong></td>
<td><strong>44,082</strong></td>
<td><strong>43,829</strong></td>
<td><strong>44,710</strong></td>
<td><strong>45,869</strong></td>
<td><strong>47,414</strong></td>
<td><strong>49,037</strong></td>
</tr>
</tbody>
</table>

### EXPENDITURES

**1. Education**

- K-12 Education Pensions: 5,694
- State Universities' Pensions: 1,883
- State Employees' Pensions: 1,786

**2. Economic Development**

<table>
<thead>
<tr>
<th>Description</th>
<th>FY 2022 Estimated</th>
<th>FY 2023 Projected</th>
<th>FY 2024 Projected</th>
<th>FY 2025 Projected</th>
<th>FY 2026 Projected</th>
<th>FY 2027 Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory Transfers Out</td>
<td>370</td>
<td>431</td>
<td>442</td>
<td>453</td>
<td>467</td>
<td>479</td>
</tr>
<tr>
<td>Debt Service</td>
<td>1,718</td>
<td>1,688</td>
<td>1,647</td>
<td>1,657</td>
<td>1,612</td>
<td>1,542</td>
</tr>
<tr>
<td>Treasurer's Investment Borrowing Repayment ³</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Transfers Out</strong></td>
<td><strong>2,088</strong></td>
<td><strong>2,119</strong></td>
<td><strong>2,089</strong></td>
<td><strong>2,110</strong></td>
<td><strong>2,079</strong></td>
<td><strong>2,021</strong></td>
</tr>
</tbody>
</table>

**COVID-Related Debt Paydown (December 2020 MLF) ²**

<table>
<thead>
<tr>
<th>Description</th>
<th>FY 2022 Estimated</th>
<th>FY 2023 Projected</th>
<th>FY 2024 Projected</th>
<th>FY 2025 Projected</th>
<th>FY 2026 Projected</th>
<th>FY 2027 Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interfund Borrowing Paydown</td>
<td>928</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total EXPENDITURES</strong></td>
<td><strong>42,328</strong></td>
<td><strong>44,235</strong></td>
<td><strong>45,530</strong></td>
<td><strong>46,931</strong></td>
<td><strong>48,317</strong></td>
<td><strong>49,635</strong></td>
</tr>
</tbody>
</table>

**Expanded Total EXPENDITURES WITH DEBT PAYDOWN**

<table>
<thead>
<tr>
<th>Description</th>
<th>FY 2022 Estimated</th>
<th>FY 2023 Projected</th>
<th>FY 2024 Projected</th>
<th>FY 2025 Projected</th>
<th>FY 2026 Projected</th>
<th>FY 2027 Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Funds Surplus/(Deficit)</td>
<td>1,711</td>
<td>(406)</td>
<td>(820)</td>
<td>(1,061)</td>
<td>(903)</td>
<td>(598)</td>
</tr>
<tr>
<td>Supplemental Appropriation to Reduce HIRF Backlog ³</td>
<td>(913)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other Supplemental Appropriations Needed ⁴</td>
<td>(150)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Proposed Set Aside for Budget Stabilization Fund Contribution</td>
<td>(300)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Adjusted General Funds Surplus/(Deficit)</strong></td>
<td><strong>418</strong></td>
<td>(406)</td>
<td>(820)</td>
<td>(1,061)</td>
<td>(903)</td>
<td>(598)</td>
</tr>
</tbody>
</table>

² GOMB executed two separate borrowing transactions through the Federal Municipal Liquidity Facility program. The first borrowing was executed in June of 2020, totaling $1.2 billion. Repayment of this borrowing was completed in FY2021. The second borrowing was executed in December 2020, totaling $2.0 billion. Repayment of this borrowing is scheduled over the next three fiscal years, with $690 million due in FY2022, $713 million due in FY2023, and $736 million due in FY2024. Currently reflected is the intention to pay off the December 2020 borrowing in full in FY2021 and FY2022.

³ Treasurer's Investment Borrowing, authorized by PA 100-1107, allows the State Treasurer to provide funds to assist with the state's accounts payable. Principal of funds invested and repaid within a fiscal year are not included here. $400 million, invested in November 2020, was repaid by the end of FY2021.

⁴ Recommended supplemental appropriation to eliminate delays in payments of bills for the state employee and retiree health insurance program.
Key to Agencies by Outcome

1. Education
   PreK-12 Education
   Illinois State Board of Education
   Higher Education
   Illinois Board of Higher Education
   Chicago State University
   Eastern Illinois University
   Governors State University
   Northeastern Illinois University
   Western Illinois University
   Illinois State University
   Northern Illinois University
   Southern Illinois University
   University of Illinois
   Illinois Community College Board
   Illinois Student Assistance Commission
   Illinois Mathematics and Science Academy
   State Universities Civil Service System

2. Economic Development
   Department of Agriculture
   Department of Commerce and Economic Opportunity
   Department of Labor
   Department of Transportation
   Illinois Commerce Commission
   Human Rights Commission
   Southwestern Illinois Development Authority

3. Public Safety
   Department of Corrections
   Department of Financial and Professional Regulation
   Department of Insurance
   Department of Military Affairs
   Department of State Police
   Environmental Protection Agency
   Illinois Criminal Justice Information Authority
   Illinois Workers' Compensation Commission
   Law Enforcement Training and Standards Board
   Prisoner Review Board
   Property Tax Appeal Board
   Illinois Emergency Management Agency
   Illinois Labor Relations Board
   Office of the State Fire Marshal

4. Human Services
   Department on Aging
   Department of Children and Family Services
   Department of Juvenile Justice
   Department of Employment Security
   Department of Human Rights
   Department of Human Services
   Department of Public Health
   Department of Veterans' Affairs
   Illinois Deaf and Hard of Hearing Commission
   Illinois Guardianship and Advocacy Commission
   Illinois Council on Developmental Disabilities

5. Healthcare
   Department of Healthcare and Family Services

6. Environment and Culture
   Department of Natural Resources
   Illinois Arts Council
   Abraham Lincoln Presidential Library and Museum

7. Government Services (including employees health insurance)
   General Assembly and Legislative Agencies
   Office of the Auditor General
   Supreme Court and Illinois Court System
   Supreme Court Historic Preservation Commission
   Courts Commission
   Judicial Inquiry Board
   Office of the State Appellate Defender
   Office of the State's Attorneys Appellate Prosecutor
   Court of Claims
   Office of the Governor
   Office of the Lieutenant Governor
   Office of the Attorney General
   Office of the Secretary of State
   Office of the State Comptroller
   Office of the State Treasurer
   State Board of Elections
   Department of Central Management Services
   Department of Innovation and Technology
   Department of Lottery
   Department of Revenue
   Governor's Office of Management and Budget
   Office of Executive Inspector General
   Executive Ethics Commission
   Capital Development Board
   Civil Service Commission
   Commission on Equity and Inclusion
   Procurement Policy Board
   Illinois Independent Tax Tribunal
   Illinois Gaming Board
   Illinois Racing Board
   Other Government Services*
   Chicago Teachers' Pension and Retirement System

8. Pensions
   Teachers' Retirement System
   State Universities' Retirement System
   General Assembly Retirement System
   Judges' Retirement System
   State Employees' Retirement System

* Includes contributions to the Teachers’ Retirement Insurance Program, College Insurance Program, operational expenses of the State Employees’ Retirement System, and any additional appropriation authority needed to address the shortfall in contributions to the system in prior years (approximately $15 million in fiscal year 2022).
13 Jeff Cox, “A year after the pandemic struck, the U.S. economy is still struggling but coming around quickly,” CNBC, March 10, 2021, accessed August 30, 2021, A year after the pandemic struck, the U.S. economy is still struggling but coming around quickly (cnbc.com)
14 Lance Lambert, “Over 42.6 million Americans have filed for unemployment during the coronavirus pandemic,” Fortune, June 4, 2020, accessed November 3, 2021, Over 42.6 million Americans have filed for unemployment during the coronavirus pandemic – Fortune
26 Lynn Hulsey, “‘I couldn’t find the balance.’ Impact of women leaving workforce will ripple through economy,” Dayton Daily News, December 13, 2020, accessed August 31, 2021, Women leaving workforce during pandemic have broad impact on economy, business, families and women (daytondailynews.com)
29 Rakesh, K. and Bennett, J. “U.S. labor market inches back from the COVID-19 shock, but recovery is far from complete,” Pew Research Center, April 14, 2021, A year into COVID-19, U.S. labor market recovery is far from complete | Pew Research Center
36 Erin Coates, “Trump Signs $484 Billion ‘Phase3.5’ of Coronavirus Relief into Law”, The Western Journal, April 24, 2020, Trump Signs $484 Billion ‘Phase 3.5’ of Coronavirus Relief into Law (westernjournal.com)
43 See GOMB’s monthly reports to the Legislative Budget Oversight Commission for additional details on monthly revenue performance when compared to estimates. https://www2.illinois.gov/sites/budget/Pages/default.aspx
Illinois borrowed $1.2 billion in June 2020 and $2.0 billion in December 2020.
