



Commission on Government Forecasting and Accountability

802 Stratton Ofc. Bldg., Springfield, IL 62706

MONTHLY BRIEFING FOR THE MONTH ENDED: NOVEMBER 2021

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Sales Tax Revenue from Motor Fuel

Eric Noggle, Senior Revenue Analyst

Over the past several years, there has been considerable fluctuation in motor fuel prices. For example, at the beginning of 2016, the retail average price of gasoline in the Midwest Region, according to the federal government's Energy Information Agency (EIA), hovered around \$1.75 per gallon. As they typically are, diesel prices were slightly higher with retail prices around \$2.00 per gallon. Prices slowly escalated over the next couple years with gasoline prices reaching as high as \$2.74 per gallon in May 2019 (with diesel prices at \$3.16 per gallon).

Motor fuel prices would remain relatively stable throughout 2019 and the beginning of 2020 before seeing sharp declines at the onset of the pandemic in April 2020. This sudden drop was fueled by the anticipated consumption declines caused by COVID-19 related shutdowns. After hovering near \$2.00 per gallon throughout most of 2020 (diesel at \$2.40), motor fuel prices have since been on a steady upward trend. The EIA reports in their November 2021 "Today In Energy" article that "(S)ince the third quarter of 2020, global consumption of crude oil and petroleum products has increased faster than production, which has caused lower inventory levels and higher crude oil prices". This has resulted in retail motor fuel prices to rise above \$3.00 per gallon for much of 2021. The latest EIA figures show an average November 2021 retail price of \$3.16 per gallon for gasoline/gasohol and \$3.61 per gallon for diesel fuel. These monthly prices are illustrated on the following graph.

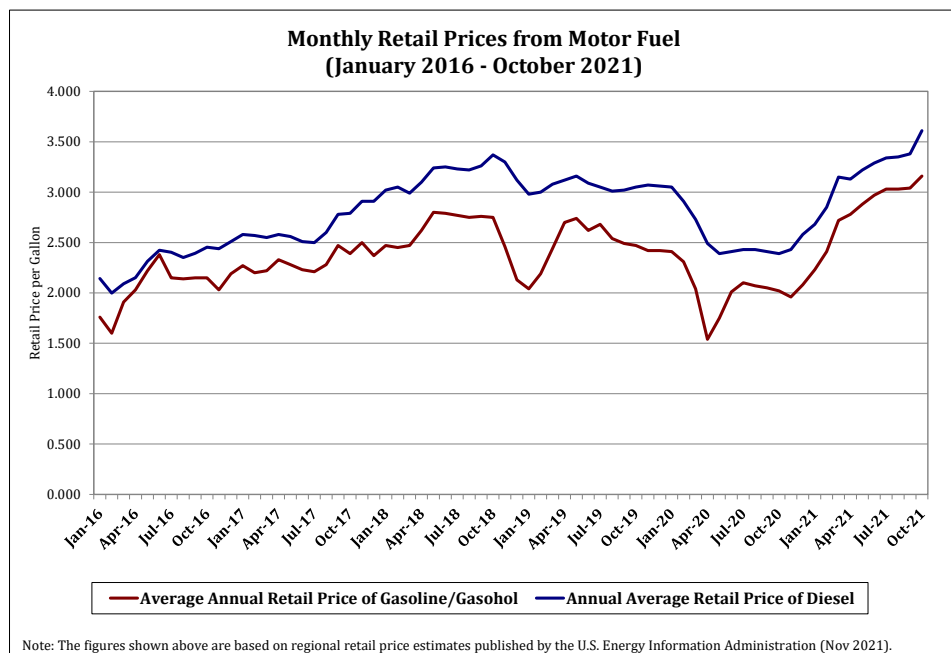
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It is difficult to get an accurate statewide average motor fuel price for Illinois due to the wide variance in retail prices throughout the state. Prices can vary significantly due to a number of factors, including differences in marketing costs, the varied cost of distribution to certain geographic locations, retail dealer costs, and the differences in the amount of local taxes applied to motor fuel. Because of this, the Commission simply takes the EIA’s published Midwest average figures for gasoline and the national average retail prices for diesel fuel. Therefore, some Illinois locations, especially the higher-taxed Chicago region, would likely have motor fuel prices higher than what is displayed in the provided graph.

The Commission is often asked what effect these escalated motor fuel prices have had on Illinois tax revenues that come from motor fuel. The impact depends on the type of tax in question. There are two prominent State taxes on motor fuel: the motor fuel tax and the State’s sales tax on motor fuel.

As part of P.A. 101-0032, the State’s motor fuel tax was increased on July 1, 2019 from \$0.19 per gallon to \$0.38 per gallon. At the same time, the tax on diesel fuel was increased from \$0.215 per gallon to \$0.455 per gallon. The additional revenues from the tax increase are directed to the Transportation Renewal Fund. In addition, P.A. 101-0032 provides

that these tax rates would be subject to annual inflation adjustments, which is why the current motor fuel tax on gasoline/gasohol is \$0.392 per gallon and the tax on diesel fuel is currently \$0.467 per gallon (through June 30, 2022). Approximately \$2.3 billion in motor fuel tax revenue was collected from this tax in FY 2021. This amount is expected to be slightly higher in FY 2022 due to the inflationary adjustment in the tax rates, as well as anticipated higher consumption levels from individuals as COVID-19-related travel concerns wane. Because the motor fuel tax rate is based on consumption and not on price, the dramatic increase in motor fuel prices over the last several months does not equate to a corresponding increase in motor fuel tax revenues.

However, this is not the case for tax revenues generated from the State’s sales tax on motor fuel. Sales tax revenues are directly related to the retail price of fuel. In fact, the higher the price of motor fuel, the higher the amount that the State collects from the 5% State sales tax. Similarly, the higher the retail price of motor fuel, the higher the amounts that local governments would receive from the additional 1.25% sales tax sent to local governments, as well as from any additional sales tax imposed by local governments.

{It should be noted here that, historically, more money spent on motor fuel due to higher prices often means less money able to be spent in other areas. Therefore, a dramatic increase in sales tax revenues due to high motor fuel prices should not necessarily be seen as a “windfall” as this likely means a decrease in sales tax revenues in other areas.}

The Commission routinely estimates the approximate amounts of sales tax revenue from motor fuel that is collected each year. It is considered “approximate” because determining the amount of sales tax revenue collected from motor fuel requires a calculation based on an estimate. This is because when sales tax receipts are collected there is not a single line distinguishing how much sales tax revenue comes directly from motor fuel and how much comes from other sales. For example, collected sales taxes remitted from a gas station would include sales tax from motor fuel as well as ancillary items, such as chips, soda, etc. However, the Commission is able to formulate rough estimates of how much sales tax

revenue is received from motor fuel in Illinois by using gallonage figures from the Department of Revenue and average retail motor fuel prices, as published by the EIA.

As shown in the table below, the Commission estimates that the amount of sales tax revenue generated from Illinois’ 5% tax on motor fuel sales in FY 2016 (based on fiscal year average per-gallon prices of \$2.15 for gasoline and \$2.36 for diesel) was approximately \$468 million. This annual tax total increased slightly to approximately \$493 million in FY 2017 due to a small uptick in motor fuel prices. In FY 2018, tax revenues rose sharply to approximately \$662 million due to average annual retail prices increasing from \$2.20 per gallon to \$2.53 gallon (diesel prices rose from \$2.49 per gallon to \$2.93 per gallon). As motor fuel prices continued to escalate in FY 2019, the estimated amount of sales tax revenue from motor fuel increased to around \$700 million.

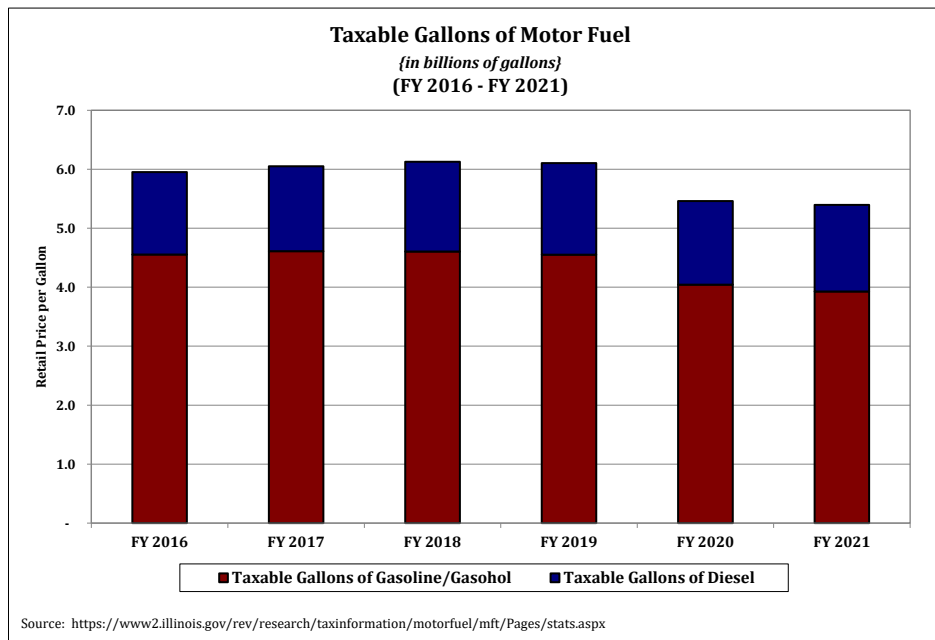
Illinois Motor Fuel Related Sales Tax Data (revenue amounts in millions)						
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Average Gasoline/Gasohol Price:	\$2.15	\$2.20	\$2.49	\$2.53	\$2.26	\$2.36
Taxable Gallons of Gasoline/Gasohol (in billions):	4.6	4.6	4.6	4.6	4.0	3.9
Average Diesel Price:	\$2.36	\$2.49	\$2.93	\$3.16	\$2.85	\$2.75
Taxable Gallons of Diesel (in billions):	1.4	1.4	1.5	1.6	1.4	1.5
Est. Sales Tax Revenue from Gasoline:	\$2.1	\$2.1	\$2.4	\$2.5	\$1.8	\$1.8
Est. Sales Tax Revenue from Gasohol:	\$327.7	\$339.9	\$469.6	\$489.5	\$348.8	\$355.4
Est. Sales Tax Revenue from Gasoline/Gasohol:	\$329.7	\$342.1	\$472.0	\$492.0	\$350.5	\$357.2
Est. Sales Tax Revenue from Diesel:	\$137.8	\$150.9	\$190.1	\$210.1	\$156.4	\$154.5
Est. Sales Tax Revenue from Motor Fuel*:	\$468	\$493	\$662	\$702	\$507	\$512

* The amounts shown above refer to the State’s 5% portion of the sales tax on motor fuel. These amounts are estimates as there is not a sales tax report that distinguishes motor fuel sales from other types of sales from a motor fuel retailer. The estimates are based on fiscal year average gasoline/gasohol and diesel prices as published by the U.S. Energy Information Administration (eia.gov). Motor fuel gallonage figures come from the Department of Revenue’s motor fuel gallonage report which can be found at: <https://www2.illinois.gov/rev/research/taxinformation/motorfuel/mft/Pages/stats.aspx>.

This upward trend changed dramatically once the pandemic hit. Retail prices, on average, fell from \$2.53 per gallon in FY 2019 to \$2.26 per gallon in FY 2020 (diesel prices fell from \$3.16 per gallon to \$2.85 per gallon). Furthermore, consumption levels fell significantly in FY 2020 as more people began working from home and fewer people were traveling. According to the Illinois Department of Revenue’s motor fuel gallonage reports, the taxable gallons of gasoline/gasohol sold in Illinois fell from 4.6 billion gallons in FY 2019 to 4.0 billion gallons in FY 2020 (diesel fell from 1.6 billion gallons to

1.4 billion gallons). Therefore, as a result of reduced prices

and fewer gallons of motor fuel sold, the estimated amount of State sales tax revenue collected in FY 2020 fell from \$702 million to \$507 million. This total only rose slightly to approximately \$512 million in FY 2021 as retail prices remained relatively low and consumption levels continued to be well below levels from the past. The drop-off in consumption levels are illustrated in the following graph by looking at the Department’s latest taxable motor fuel gallonage report data.



The amount of sales tax revenue generated from motor fuel is expected to increase significantly in FY 2022. This is because of the recent increase in retail prices and the expectation that motor fuel prices will continue to be notably higher than prior-year levels. With that being said, the EIA does forecast that “rising production from OPEC+ countries and the United States will lead to global liquid fuels inventories increasing and crude oil prices falling in 2022”. This prediction of falling oil prices is reflected in EIA’s Short-Term Energy Outlook, which contains a projected lowering of retail prices throughout 2022.

Even accounting for this expected price reduction, the average retail price of gasoline from the Midwest region is still expected to be around \$2.95 per gallon for FY 2022, which is significantly higher than the \$2.36 per gallon average of FY 2021. Similarly, diesel prices are projected to increase from an average of \$2.75 per gallon in FY 2021 to \$3.40 per gallon in FY 2022. With these prices in mind, the Commission estimates that the amount of sales tax revenue generated from motor fuel in FY 2022 to be around \$700 million.

It should be noted that the EIA projects motor fuel consumption to increase approximately 6% in FY 2022, following the 8% decline in FY 2020 and the subsequent 2% decline in motor fuel consumption in FY 2021. While this consumption increase shows

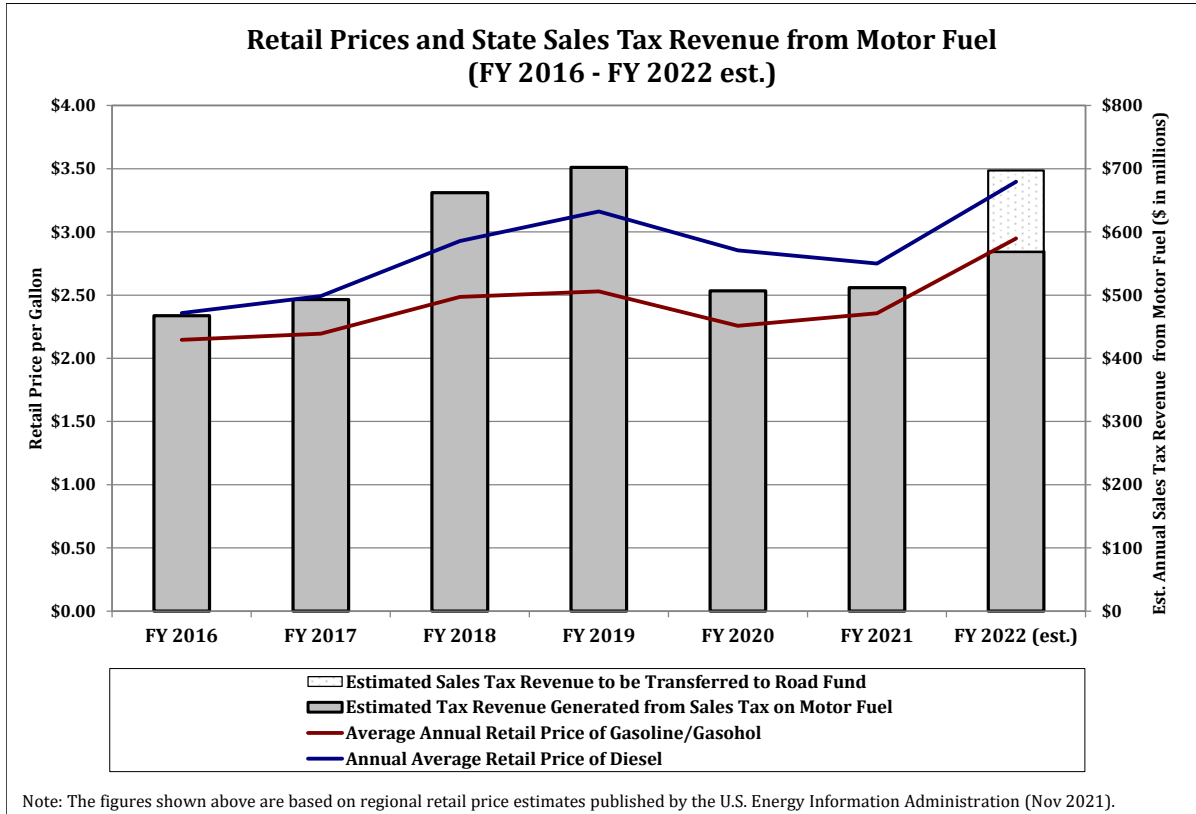
that the country is progressing towards “returning to normal” in its commuting and vacation activity, the EIA’s consumption values still remain below pre-pandemic levels. The Commission accounts for this below-average consumption total in its calculations and is why motor fuel related sales tax revenue projections in FY 2022 are expected to be similar to what was collected in FY 2019, despite the fact that retail prices in FY 2022 are estimated to be higher than FY 2019 levels.

An additional component to the FY 2022 projection of sales tax revenue is the statutory transfer of a portion of the sales tax revenue from motor fuel to the Road Fund. P.A. 101-0032 provides that the Department of Revenue shall pay each month into the Road Fund a portion of the “net revenue” realized from the taxes imposed on motor fuel and gasohol. This portion is set at 16% in FY 2022, but incrementally increases each year to as high as 80% by FY 2026. This transfer will essentially reduce the amount of available monies in the State’s general funds, while boosting Road Fund coffers by the same amounts.

As previously discussed, approximately \$700 million is currently projected to be generated from the State’s sales tax on motor fuel in FY 2022. However, the statutory language under P.A. 101-0032 will provide that roughly \$128 million shall be transferred from the State’s general funds to the

Road Fund in FY 2022, resulting in a “net” amount of approximately \$569 million. This transfer value is depicted in the graph below, along with the

estimated sales tax revenue totals from motor fuel over the last several fiscal years.



Motor fuel projections and corresponding revenue estimates are, of course, subject to change. As history has shown, whether it be natural disasters or a global pandemic, motor fuel prices are known to

have wild swings from time to time. Therefore, changes in projections related to the volatile retail price of motor fuel should not be unexpected.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

<u>INDICATORS*</u>	<u>LATEST MONTH</u>	<u>PRIOR MONTH</u>	<u>A YEAR AGO</u>
Unemployment Rate (Average) (Oct.)	6.0%	6.2%	8.1%
Inflation in Chicago (12-month percent change) (Oct.)	5.3%	4.5%	1.0%
	<u>LATEST MONTH</u>	<u>CHANGE OVER PRIOR MONTH</u>	<u>CHANGE OVER A YEAR AGO</u>
Civilian Labor Force (thousands) (Oct.)	6,222.9	0.1%	-1.6%
Employment (thousands) (Oct.)	5,852.4	0.4%	0.7%
Nonfarm Payroll Employment (Oct.)	5,856,100	40,900	190,300
New Car & Truck Registration (Oct.)	32,781	4.0%	-28.7%
Single Family Housing Permits (Oct.)	827	-17.0%	-16.9%
Total Exports (\$ mil) (Sept.)	5,571.7	4.7%	22.9%
Chicago Purchasing Managers Index (Nov.)	61.8	-9.6%	6.2%

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

REVENUE: NOVEMBER REVENUES DIP AS COMPARITIVELY LOWER FEDERAL SOURCES OFFSET GAINS FROM ECONOMIC SOURCES AND TRANSFERS

Jim Muschinske, Revenue Manager

Base November general funds revenues declined \$105 million. Comparatively lower federal source revenues served to offset revenue gains experienced by the majority of other sources. Last year, a November surge in federal source revenues occurred, which was related to an increase in reimbursable spending made possible by Treasurer Investment borrowing as well as Coronavirus Relief Fund moneys. November had two additional receipting days compared to last year.

For the month, gross personal income tax receipts were up \$195 million, or \$163 million on a net basis. Gross sales tax receipts also performed well with a monthly gain of \$101 million, or \$56 million net. Gross corporate income taxes grew \$33 million or \$26 million net. Estate tax revenue had another strong month, growing \$28 million. Other miscellaneous sources to the general funds added \$3 million in growth, while public utility, liquor, and vehicle use taxes each managed to eke out a \$1 million gain.

A few revenue sources experienced monthly declines. Corporate franchise taxes were down \$11 million, cigarette taxes fell \$5 million, and insurance taxes dipped \$3 million.

Overall transfers into the general funds were higher by \$84 million in November. Miscellaneous transfers were up \$65 million, while riverboat transfers added \$15 million in gains and lottery

transfers ticked up \$4 million. As mentioned, federal sources posted a comparatively weaker month, as receipts fell \$449 million. Again, the drop off was due to an extremely strong month last year for reimbursable spending as well as other federal moneys.

Year to Date

Through the first five months of FY 2022, overall base receipts are up \$1.092 billion. While net income taxes are \$279 million behind last year's pace, as explained in earlier briefings, this is due to timing of last year's final payment delay rather than underpinnings of economic performance. In fact, given the performance over the last several months of income tax receipts, and factoring in the approximate \$1.3 billion of last year's receipt timing, income tax receipts continue to perform very strong. Net sales tax also continues to post good growth as receipts are now up \$523 million. All other sources are behind last year's levels by a combined \$62 million.

Overall transfers are ahead of last year's pace by \$311 million through November. Those gains reflect better miscellaneous transfers, particularly from the Capital Projects Fund, as well as the return of riverboat transfers. Despite November's performance, federal sources has had a strong first part of the fiscal year, with revenues up \$600 billion.

NOVEMBER

FY 2022 vs. FY 2021

(\$ million)

<u>Revenue Sources</u>	<u>Nov. FY 2022</u>	<u>Nov. FY 2021</u>	<u>\$ CHANGE</u>	<u>% CHANGE</u>
State Taxes				
Personal Income Tax	\$1,687	\$1,492	\$195	13.1%
Corporate Income Tax (regular)	91	58	33	56.9%
Sales Taxes	858	757	101	13.3%
Public Utility Taxes (regular)	62	61	1	1.6%
Cigarette Tax	19	24	(5)	-20.8%
Liquor Gallonage Taxes	16	15	1	6.7%
Vehicle Use Tax	3	2	1	50.0%
Inheritance Tax	39	11	28	254.5%
Insurance Taxes and Fees	0	3	(3)	-100.0%
Corporate Franchise Tax & Fees	14	25	(11)	-44.0%
Interest on State Funds & Investments	2	2	0	0.0%
Cook County IGT	0	0	0	N/A
Other Sources	18	15	3	20.0%
Subtotal	\$2,809	\$2,465	\$344	14.0%
Transfers				
Lottery	\$40	\$36	\$4	11.1%
Riverboat transfers & receipts	15	0	15	N/A
Proceeds from Sale of 10th license	0	0	0	N/A
Refund Fund transfer	0	0	0	N/A
Other	93	28	65	232.1%
Total State Sources	\$2,957	\$2,529	\$428	16.9%
Federal Sources	\$403	\$852	(\$449)	-52.7%
Total Federal & State Sources	\$3,360	\$3,381	(\$21)	-0.6%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	(\$156)	(\$135)	(\$21)	15.6%
Corporate Income Tax	(14)	(8)	(6)	75.0%
LGDF--Direct from PIT	(93)	(82)	(11)	13.4%
LGDF--Direct from CIT	(5)	(4)	(1)	25.0%
Downstate Pub/Trans--Direct from Sales	(63)	(18)	(45)	250.0%
Subtotal General Funds	\$3,029	\$3,134	(\$105)	-3.4%
Treasurer's Investments	\$0	\$400	(\$400)	N/A
Interfund Borrowing	\$0	\$0	\$0	N/A
Short Term Borrowing [MLF]	\$0	\$0	\$0	N/A
Total General Funds	\$3,029	\$3,534	(\$505)	-14.3%

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

1-Dec-21

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2022 vs. FY 2021

(\$ million)

Revenue Sources	FY 2022	FY 2021	\$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	\$8,825	\$9,501	(\$676)	-7.1%
Corporate Income Tax (regular)	1,696	1,276	420	32.9%
Sales Taxes	4,448	3,840	608	15.8%
Public Utility Taxes (regular)	289	283	6	2.1%
Cigarette Tax	110	124	(14)	-11.3%
Liquor Gallonage Taxes	83	78	5	6.4%
Vehicle Use Tax	19	16	3	18.8%
Inheritance Tax	248	163	85	52.1%
Insurance Taxes and Fees	113	190	(77)	-40.5%
Corporate Franchise Tax & Fees	92	141	(49)	-34.8%
Interest on State Funds & Investments	5	36	(31)	-86.1%
Cook County IGT	0	0	0	N/A
Other Sources	97	87	10	11.5%
Subtotal	\$16,025	\$15,735	\$290	1.8%
Transfers				
Lottery	\$285	\$286	(\$1)	-0.3%
Riverboat transfers & receipts	69	0	69	N/A
Proceeds from Sale of 10th license	0	0	0	N/A
Refund Fund transfer	242	281	(39)	-13.9%
Other	461	179	282	157.5%
Total State Sources	\$17,082	\$16,481	\$601	3.6%
Federal Sources	\$2,258	\$1,658	\$600	36.2%
Total Federal & State Sources	\$19,340	\$18,139	\$1,201	6.6%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	(\$817)	(\$855)	\$38	-4.4%
Corporate Income Tax	(255)	(179)	(76)	42.5%
LGDF--Direct from PIT	(485)	(524)	39	-7.4%
LGDF--Direct from CIT	(99)	(75)	(24)	32.0%
Downstate Pub/Trans--Direct from Sales	(171)	(85)	(86)	101.2%
Subtotal General Funds	\$17,513	\$16,421	\$1,092	6.7%
Treasurer's Investments	\$0	\$400	(\$400)	N/A
Interfund Borrowing	\$0	\$0	\$0	N/A
Short Term Borrowing [MLF]	\$0	\$0	\$0	N/A
Total General Funds	\$17,513	\$16,821	\$692	4.1%
CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				1-Dec-21