



# **Recession triggered by COVID-19 could lead to \$5.5 billion drop in tax revenue, \$6.3 billion budget deficit**

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CHICAGO – Illinois is ill-prepared to weather the financial storm that is accompanying the COVID-19 pandemic, [according to analysis](#) from the nonpartisan Illinois Policy Institute.

While the magnitude of COVID-19's impact remains uncertain, Illinois faces very real fiscal threats if the economic fallout worsens and triggers a recession. Analysis shows a prolonged downturn would mean an unexpected increase in the budget deficit of up to \$6.3 billion caused by a \$5.5 billion drop in revenues and a \$770 million increase in Medicaid costs. Financial losses in the state's pension systems could also trigger a slide toward insolvency and a junk credit rating.

With a virtually empty rainy-day fund and businesses across the state bracing for a drastic hit, the Institute recommends the state adopt bold and creative solutions to minimize the potential financial fallout.

The Illinois Policy Institute's fiscal solutions include:

- Small business tax relief

Gov. Pritzker and the General Assembly should pass emergency legislation delaying the collection of one-half of this year's business property tax payments by all local governments. Property tax payments are generally due in two installments. The first payment in Cook County was already due March 3, but the second installment should be delayed until at least Oct. 1 to help businesses and workers. Most other counties do not collect the first installment until June with the second due around Sept. 1. Delaying the June payment to at least Oct. 1 could give businesses needed time to recover as the viral threat is reassessed.

The state of Illinois could cover the lost local revenue with emergency borrowing. After the last recession, the state used its constitutional authority to issue \$1.3 billion in bonds for the operating budget. Today, this provision would allow for a little over \$6 billion in emergency bonds given this year's \$40.14 billion budget. The bonding would allow Illinois to provide tax relief where it is needed most without harming local government finances. Because the bond must be repaid within the year, the interest cost could be relatively minor and covered by modest changes to the fiscal year 2021 budget. The principal of the debt would be repaid by locals when they collect the delayed installment.

- Saving public pensions from insolvency by reforming them now

In order to minimize budget deficits to ensure money is available for the most critical government services, Illinois' best option to quickly save money without negative economic effects is pension reform.

A [pension reform plan proposed by the Illinois Policy Institute](#) could immediately save the state \$2.4 billion in pension contributions to add some cushion to the budget, without taking away a dollar earned to date by public workers. While a necessary constitutional amendment would take time to enact, if lawmakers passed the amendment now, they could change the funding ramp immediately to match what actuarial contributions would be after reform.

Adam Schuster, director of budget and tax research for the nonpartisan Illinois Policy Institute, offered the following statement:

"Illinois lawmakers and business leaders have shown an incredible ability to come together to fight COVID-19's public health threats, including mandatory restaurant closures, voluntary isolation and canceled events to contain the spread of the virus. And with the real threat of a COVID-19-induced recession looming, they should fight for policies to ensure affected businesses can withstand the shock.

"We need to restore confidence in households that their paychecks aren't going away by doing everything in the state's power to stem the job losses that could follow this economic disruption.

"During a crisis, politics should be set aside to do what's right for state residents. Asking these businesses to pay thousands of dollars in property taxes so soon after unprecedented business losses would be unwise at this time and could lead to businesses resorting to layoffs to avoid going under. Illinois' elected leaders can help prevent the worst-case scenario with proactive steps to provide tax relief and free up funds for critical services today."

