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ECONOMY: Malaise

Edward H. Boss, Jr., Chief Economist

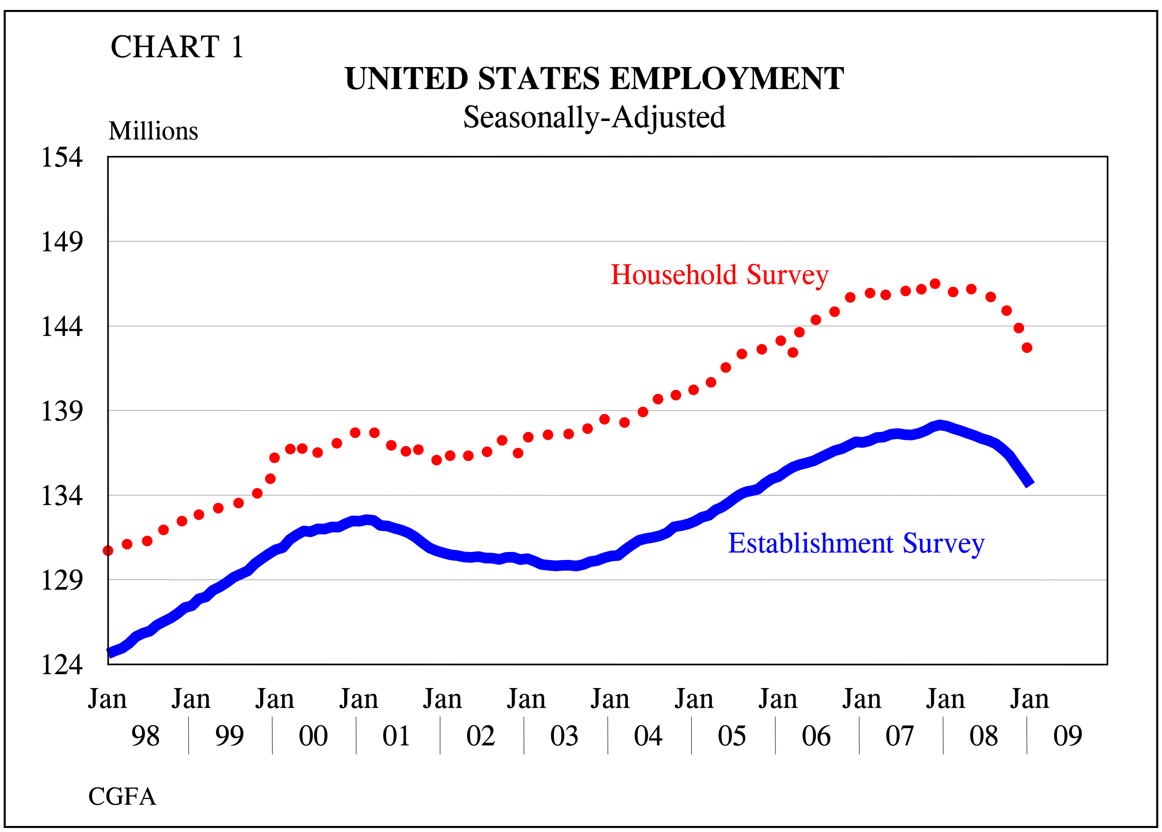
Last September the **Monthly Briefing** was entitled ***ECONOMY: Rescue or Malaise?*** Now almost half a year later, there can be little doubt that at least at this stage of the financial rescue plan the answer is *malais*e. A definition of *malaise* is a general sense of depression or unease i.e.: *"One year after the crash, the markets remain mired in a deep malaise" (New York Times)*. This seems an accurate description of conditions today. The Dow Jones Industrial average hit more than a 6 year low on February 20th and on Monday the 23d reached the lowest since 1997. It recovered most of the previous day's loss following Fed Chairman's Bernanke's testimony on Tuesday, only to retreat again on Wednesday, suggesting no bounce from the President's address to the Congress.

The stock market hates uncertainty and several recent factors have added to this condition. While the financial markets eagerly awaited the plan to shore up the financial system promised by the new Treasury Secretary Geitner, his February 10th announcement, while giving an outline of measures to be taken, lacked detail. While further clarification is expected in the days ahead, statements by the former Federal Reserve Board Chairman that it might be necessary to temporarily nationalize certain banks, coupled with similar statements in the days following by Senators Dodd, Chairman of the Senate Banking Committee, Graham and Schumer, helped participate a sharp decline in bank stocks raising fears that shareholders could be wiped out. Citigroup shares fell to under $2 on February 20th, a year ago it hovered around $24, while Bank of America shares closed at $3.79 compared to $42.60 a year earlier, although both showed some improvement later in the week. Of course the primary goals of the stimulus plans are not to protect stockholders, but rather to create jobs, increase the flow of credit, and stabilize home prices.

Most economists agree that a major stimulus package is needed. This was confirmed at month's end by the latest revised GDP data for the final quarter of last year that showed economic activity declining at its sharpest pace in 26 years. The question is not whether stimulus is needed, but rather the make up of the stimulus. Critics desire more tax cuts and different spending priorities, particularly in the area of greater infrastructure spending. (Many economists suggest that the most stimulative spending is defense spending, as it puts money into the pockets of workers that can only go to purchases of goods and services from the private sector. Indeed, many feel it took the buildup in defense spending in World War II to finally end the Great Depression.)

In the President's speech to Congress on February 24th however, defense spending would be reduced, as Iraq expenditures are lowered, the tax cuts passed during the Bush Administration would be allowed to expire, and other taxes on high-income payers would be increased. In all fairness, however, time must be given to judge the effectiveness of new legislation just enacted as well as those measures yet to be announced. In the end, the number of jobs that can be attributed to the government's programs may well judge its success or failure.

Chart 1 below, shows employment as measured by the Household Survey, used to calculate the unemployment rate, and the more comprehensive and widely used Establishment Survey that measures payroll employment. The high in payroll employment was reached in December 2007; with the number of jobs lost by January 2008 at 3.5 million while the Household series lost 4.1 million using the same period. The President stated in his presentation to Congress that the actions taken should lead to the creation of 3.5 million new jobs. If achieved, this would bring employment levels back to that achieved at the end of 2007, a time when the current recession first began.



INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS	JAN 2009	DEC 2008	JAN 2008
Unemployment Rate (Average)	*	7.3%	5.6%
Annual Rate of Inflation (Chicago)	9.6%	-17.8%	-0.5%

	LATEST MONTH	% CHANGE OVER PRIOR MONTH	% CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (January)	*	*	*
Employment (thousands) (January)	*	*	*
New Car & Truck Registration (January)	29,950	-7.6%	-39.6%
Single Family Housing Permits (January)	289	-25.7%	-64.1%
Total Exports ($ mil) (December)	3,693	-17.0%	-9.6%
Chicago Purchasing Managers Index (February)	34.2	2.7%	-23.1%

*January employment data for Illinois will not be released until March 11, 2009.

The Interfund Borrowing Act of 2009

Lynnae Kapp, Senior Bond Analyst

The Interfund Borrowing Act of 2009 (Public Act 96-0003) requires the Comptroller to transfer $335 million from the General Obligation Bond Retirement and Interest (GOBRI) Fund and $175 million from the State Employees' Retirement System (SERS) Fund to the Hospital Provider Fund for the purpose of making payments to hospitals for the Hospital Assessment Program.

The resulting $510 million is expected to catch up the State's portion of eight months of Medicaid payments to hospitals through March of FY 2009. To receive the federal match, the State must have funds to pay its share of the payments to hospitals. Payments must be made within 100 days of the approved federal waiver, which occurred in December and gives the State a deadline of March 14, 2009. Checks to the hospitals were expected to go out at the beginning of March. The hospitals are then required to make their hospital assessment tax payments to the State which receives a total of $75 million a month. The combined eight month payment from the hospitals to the State will equal $600 million (with total annual payments being $900 million), giving the State a net tax received over payments out of $130 million annually.

Once that State has caught up the first eight months of the program, it is expected to be able to keep current with hospital payments to receive the remaining federal match. As long as the State can keep the Medicaid payment cycle to hospitals down to 30 days, by the end of June 2009, the State will receive a higher match rate for the FMAP (Federal Medical Assistance Percentages) program due to the Federal stimulus bill. The rate would increase from the current 50.32% to 60.8%, garnering the State an additional $30 million dollars annually for the five-year Hospital Assessment Program.

Funds will be transferred from the Hospital Provider Fund back to GOBRI and the SERS Fund with interest by April 14, 2009, with GOBRI being the first to be repaid. The State Treasurer shall calculate the amount of interest that should have accrued on the balances if they had not been borrowed. The interest expected to be paid for the interfund borrowing over one and a half months will be a fraction of the amount paid in interest on the last two State short-term borrowings in the market. The last two G.O. Certificate sales required interest payments of $26.7 million for the December 2008 Certificates (of $1.4 billion), and $3.5 million for the April 2008 Certificates (of $1.2 billion).

If, during this time period, either GOBRI or the SERS Fund are left with insufficient funds to make expenditures for appropriations, the Treasurer and Comptroller shall transfer amounts needed from the General Revenue Fund (GRF), to be transferred back as soon as and to the extent they are available from the receiving fund. As of April 14, 2009, if there is insufficient money in the Hospital Provider Fund to make the transfers back to GOBRI and the SERS Fund, those transfers shall instead be made from the General Revenue Fund. In this case, transfers must be made from the Hospital Provider Fund to GRF to replace any such transfers made due to insufficient funds, as soon as there is sufficient money in the Hospital Provider Fund to do so.

REVENUE

Monthly Revenues Fall – Losses Mount

Jim Muschinske, Revenue Manager

Base general funds receipts fell $167 million in February as revenues continued to manifest the deepening recession. Key revenue sources experienced a dismal month as weakness spread to virtually all areas. February had one less receipting day than last year which likely contributed to the monthly loss.

Gross personal income tax fell $77 million, or $84 million net of refunds. Sales tax continued to suffer as receipts dropped $46 million, while corporate income tax weakened by $27 million, or $24 million net of refunds. Inheritance tax receipts were off $13 million, reflecting a large month one year earlier. Public utility taxes dropped $8 million, while insurance taxes eased $7 million. Corporate franchise taxes dipped $5 million and vehicle use tax slowed by $1 million. Other sources managed to generate a $2 million gain, as did interest income as allocations of earnings boosted monthly returns.

Overall transfers increased a modest $8 million as a $15 million gain in other transfers was enough to offset the $6 million drop on lottery transfers and a $1 million dip in riverboat transfers. Federal sources posted a $9 million gain for the month.

Year to Date

Through the first two-thirds of the fiscal year, overall base revenues are down $1.209 billion. The declines are attributed to battered economic related sources as combined, income and sales taxes represent $509 million of the fall off. In addition, lower transfers account for $264 million of the slowing, with lower federal sources another $191 million. In fact, no major revenue source currently is demonstrating any growth on a year to date basis, indicating that the deepening recession is not discriminating, and that virtually all sectors of the economy are being negatively impacted.

Gross personal income tax is down $130 million, although on a net of refund basis that falloff grows to a loss of $251 million. Sales tax is down a startling $178 million, reflecting the bruised consumer who is reluctant to spend amid the worsening employment outlook. Gross corporate income tax also has been hit with receipts falling $75 million, or $80 million net of refunds. Unfortunately, corporate income tax performance will likely worsen considerably over the remainder of the fiscal year as key months yet to come will reflect the brutalized business sector. Interest income is off $95 million due to lower rates of return as well as reduced investable balances, while inheritance taxes are down $66 million. All other remaining tax sources add another $84 million in year to date losses.

As mentioned, total transfers are down $264 million, reflecting $116 million in lower other transfers, $109 million in transfers from riverboat gaming, and $39 million in reduced lottery transfers. Federal sources contributed $191 million to the year to date loss, although are expected to rebound in short order as increased Medicaid match stemming from the stimulus package can be expected in the near future.

GENERAL FUNDS RECEIPTS: FEBRUARY

FY 2009 vs. FY 2008

($ million)

Revenue Sources	**Feb. FY 2009**	**Feb. FY 2008**	**$ CHANGE**	**% CHANGE**
State Taxes				
Personal Income Tax	$691	$768	($77)	-10.0%
Corporate Income Tax (regular)	34	61	($27)	-44.3%
Sales Taxes	456	502	($46)	-9.2%
Public Utility Taxes (regular)	87	95	($8)	-8.4%
Cigarette Tax	29	29	$0	0.0%
Liquor Gallonage Taxes	10	10	$0	0.0%
Vehicle Use Tax	1	2	($1)	-50.0%
Inheritance Tax (Gross)	23	36	($13)	-36.1%
Insurance Taxes and Fees	13	20	($7)	-35.0%
Corporate Franchise Tax & Fees	11	16	($5)	-31.3%
Interest on State Funds & Investments	16	14	$2	14.3%
Cook County IGT	94	94	$0	0.0%
Other Sources	30	28	$2	7.1%
Subtotal	$1,495	$1,675	($180)	-10.7%
Transfers				
Lottery	38	44	($6)	-13.6%
Riverboat transfers & receipts	15	16	($1)	-6.3%
Other	17	2	$15	750.0%
Total State Sources	$1,565	$1,737	($172)	-9.9%
Federal Sources	$253	$244	$9	3.7%
Total Federal & State Sources	$1,818	$1,981	($163)	-8.2%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($67)	($60)	($7)	N/A
Corporate Income Tax	($6)	(9)	$3	N/A
Subtotal General Funds	$1,745	$1,912	($167)	-8.7%
Short-Term Borrowing	$0	$0	$0	N/A
Hopital Provider Fund (cash flow transfer)	$0	$0	$0	N/A
Budget Stabilization Fund Transfer	$50	$0	$50	N/A
Total General Funds	$1,795	$1,912	($117)	-6.1%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 2-Mar-09

GENERAL FUNDS RECEIPTS: YEAR TO DATE FY 2009 vs. FY 2008 ($ million)				
Revenue Sources	**FY 2009**	**FY 2008**	**CHANGE FROM FY 2008**	**% CHANGE**
State Taxes				
Personal Income Tax	$6,521	$6,651	($130)	-2.0%
Corporate Income Tax (regular)	848	923	($75)	-8.1%
Sales Taxes	4,672	4,850	($178)	-3.7%
Public Utility Taxes (regular)	750	750	$0	0.0%
Cigarette Tax	234	234	$0	0.0%
Liquor Gallonage Taxes	109	110	($1)	-0.9%
Vehicle Use Tax	18	21	($3)	-14.3%
Inheritance Tax (Gross)	190	256	($66)	-25.8%
Insurance Taxes and Fees	156	173	($17)	-9.8%
Corporate Franchise Tax & Fees	134	149	($15)	-10.1%
Interest on State Funds & Investments	50	145	($95)	-65.5%
Cook County IGT	159	193	($34)	-17.6%
Other Sources	263	277	($14)	-5.1%
Subtotal	$14,104	$14,732	($628)	-4.3%
Transfers				
Lottery	377	416	($39)	-9.4%
Riverboat transfers & receipts	320	429	($109)	-25.4%
Other	211	327	($116)	-35.5%
Total State Sources	$15,012	$15,904	($892)	-5.6%
Federal Sources	$2,852	$3,043	($191)	-6.3%
Total Federal & State Sources	$17,864	$18,947	($1,083)	-5.7%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($636)	($515)	($121)	23.5%
Corporate Income Tax	($148)	($143)	($5)	3.5%
Subtotal General Funds	$17,080	$18,289	($1,209)	-6.6%
Short-Term Borrowing	$1,400	$1,200	$200	N/A
Hospital Provider Fund (cash flow transfer)	$0	$300	($300)	N/A
Budget Stabilization Fund Transfer	$326	$276	$50	18.1%
Total General Funds	$18,806	$20,065	($1,259)	-6.3%

SOURCE: Office of the Comptroller, State of Illinois: Some totals may not equal, due to rounding.

CGFA 2-Mar-09

PENSIONS
Financial Condition of the State Retirement Systems
Gregg Scott, Pension Analyst

Table 1 below shows the preliminary financial condition of the five State-funded retirement systems as of December 31, 2008. It should be noted that the retirement systems perform only one actuarial valuation per year, and the numbers shown below have not been audited and may be subject to change when the systems' respective FY 2009 actuarial valuations are completed in November 2009.

Table 1

Summary of Financial Condition
State Retirement Systems
December 31, 2008
($ in Billions)

System	Accrued Liability	Net Assets	Unfunded Liability	Funded Ratio
TRS	$70.5	$29.1	$41.4	41.4%
SURS	$25.6	$10.9	14.7	42.7%
SRS*	$26.2	$8.9	17.3	34.1%
TOTAL	$122.3	$48.9	$73.4	40.0%

* SRS encompasses SERS, JRS, and GARS

Table 2 below shows the FY 2009 monthly and year-to-date investment returns for TRS, SURS, and the Illinois State Board of Investments, which oversees the investments for the State Employees' Retirement System, the General Assembly Retirement System, and the Judges' Retirement System.

Table 2

Summary of Investment Returns
State Retirement Systems
FY 2009

Month	TRS	SURS	ISBI
July	-1.62%	-1.20%	0.45%
August	-0.56%	-0.20%	-0.03%
September	-8.15%	-8.10%	-6.76%
October	-12.04%	-13.50%	-10.80%
November	-4.31%	-4.40%	-3.29%
December	2.47%	2.90%	1.44%
January*	-3.81%	-4.80%	-3.48%
Fiscal 2009 YTD	**-25.45%**	**-26.70%**	**-20.92%**

** TRS January returns are preliminary.*