Commission on Government Forecasting and Accountability

MONTHLY BRIEFING *FEBRUARY 2010*

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ECONOMY: Illinois

Edward H. Boss, Jr., Chief Economist

Each year the Commission on Government Forecasting and Accountability engages Moody's|Economy.com to do an independent long-term forecast of the Illinois economy to aid in its economic and revenue forecasting duties. This together with IHS Global Insight, Consensus Economics-USA, Mr. Model forecasting service, and other inputs provide a wide array of independent forecasts that serve as background to the Commission. The following is a brief synopsis of Moody's|Economy.com latest *State of Illinois Forecast Report,* which is available on the Commission's website.

The trend of the Illinois economy closely mirrors that of the nation as a whole as pointed out in the report as the diverse makeup of the State closely resembles that of the nation. Even so, there are times when divergences occur, particularly at the onset of recessions, and later in the recovery stage of the business cycle. Often Illinois lags the nation as a recession begins but continues to deteriorate when a recovery is underway nationally. The latter currently seems to be the case. While it is generally accepted that the recession ended last summer, the report concludes, "*Illinois economy is in a moderating recession, and conditions will improve through 2010 at a slightly slower pace than those of the U.S.*"

A forecast of some major elements of the Illinois economy is summarized in the attached table. As shown, State employment, which fell in 2009, is expected to decline further this year, albeit at a lesser rate, before rising again in 2011 and improving further during the next two years. As a result, the unemployment rate, which averaged 9.9% in 2009, would rise to 11.4% this year before edging down to 10.5% in 2011 with further declines over the next two years. These expected unemployment rates for Illinois are well above those anticipated for the nation according to most

ILLINOIS FORECASTS -- FEBRUARY 2010						
	FY 2008 Actual	FY 2009 Actual	2010 Estimated	2011 Estimated	2012 Estimated	2013 Estimated
Total Employment (Ths)	5,947.8	5,691.1	6,624.3	5,693.1	5,853.9	6,018.2
% Change	0.5	-4.3	-1.2	1.2	2.8	2.8
Population (Ths)	12,901.6	12,985.1	13,067.0	13,144.3	13,204.9	13,262.9
% Change	0.6	0.6	0.6	0.6	0.5	0.4
Personal Income (Bil $)	546.3	536.3	544.8	559.8	583	612.7
% Change	2.5	-1.8	1.6	2.7	4.1	5.1
OTHER MEASURES						
Total Residential Permits	22,528.0	11,663.5	23,400.0	36,809.0	57,177.0	62,626.0
Unemployment Rate (Avg.)	6.5	9.9	11.4	10.5	7.7	5.9
SOURCE: Moody's / Economy.com						

forecasts. To cite the report--" *The recession has been the State's worst downturn since the early 1980s. At that time, the State's employment base contracted from peak to trough by nearly 10%, and the unemployment rate peaked at 13%. Recovery will be even longer and slower than the 1980s, even though the peak will not be as high as then. It will take three or four more years until the unemployment rate recovers to its long-run value of 5% to 6%."*

In large part the dismal employment situation has had a major impact on personal income in the State. As shown in the table, personal income in Illinois actually fell in 2009 and is expected to show only a meager gain this year, not showing significant improvement until 2012 and 2013. This pattern of course has had a deleterious effect and will continue to have a negative impact on State revenues inflows. While revenue improvement will begin this year, it will not be sufficient to finance the current level of government programs or address the huge overhang of debt that has been accumulated in recent years.

Many of the same trends that have occurred nationally have been exhibited in Illinois. The housing market, for example, has been impacted severely as illustrated in the table by total residential building permits, a precursor to new housing activity. These permits fell from around the 60,000 levels seen in each year from 2002 to 2006, to 43,000 in 2007, 22,000 in 2008, to a low of less than 12,000 last year. This in part was reflected in a loss of construction jobs in Illinois from 275,400 in 2006 to an estimated 212,400 this year, a decline of almost 30%. The forecast suggests improvement in new residential building permits; however, it won't be until

2012 and 2013 before the level of Illinois residential permits fully return to the levels seen earlier this decade.

While the Illinois economy continues to lag the national recovery underway since the summer, Moody's| Economy.com expects a strong rebound in 2011 and 2012. This is based on three major reasons: a rebound in residential and non-residential construction; Illinois' capital goods manufacturers will benefit directly from an increase in investment spending; and pent-up demand from consumers built up from 2008 through 2010 will provide a boost for consumer goods and services. "*However, as has been the case during every recovery of the past 40 years, Illinois' rebound in terms of employment will be slightly weaker than the U.S. rebound. Longer term, Illinois will remain a below average performing economy primarily due to its sub par demographic trends and mix of industries despite its high diversity.*"

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS	JAN. 2010	DEC. 2009	JAN. 2009
Unemployment Rate (Average)	*	*	7.8%
Annual Rate of Inflation (Chicago)	5.3%	-5.8%	2.2%

	LATEST MONTH	% CHANGE OVER PRIOR MONTH	% CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (January)	*	*	*
Employment (thousands) (January)	*	*	*
New Car & Truck Registration (January)	34,831	2.3%	16.3%
Single Family Housing Permits (January)	333	-30.9%	15.2%
Total Exports ($ mil) (December)	3,651	-1.1%	-1.1%
Chicago Purchasing Managers Index (February)	62.6	1.8%	83.0%

*The above information was omitted because additional time was required to revise historical monthly, annual Statewide non-farm jobs and unemployment statistics (benchmarking). Information will be released on March 9, 2010 from the Dept. of Employment Security.

REVENUE

February Revenues Grow Due to Federal Sources

Jim Muschinske, Revenue Manager

Federal sources posted another large month in February as reimbursable spending translated into receipts. While most economic sources continued to struggle, albeit at a slightly better pace, those losses were more than offset by federal reimbursements. As a result, net base monthly revenues grew $270 million. February had the same number of receipting days as last year.

Gross personal income tax improved from a very poor January, but still fell $29 million, or $26 million net of refunds. Sales tax also fell, down $25 million for the month. Interest income was off $14 million, inheritance fell $11 million, and other sources dipped $5 million.

A number of sources posted modest improvement for the month. Public utility taxes, liquor taxes, and corporate franchise taxes each posted $5 million in gains. Gross corporate income taxes advanced by $4 million, or $3 million net of refunds. Vehicle use tax as well as insurance taxes each managed to eke out $1 million in gains.

Overall transfers fell $10 million for the month. While the lottery was flat, other transfers dropped $16 million. Riverboat receipts partly offset that decline, rising $6 million. As mentioned, federal sources posted a sizable gain due to higher reimbursable spending, up $341 million.

Year to Date

Through the first two-thirds of the fiscal year, overall base revenues are up $225 million. However, sizable growth in federal sources continues to mask the extremely poor performance of the other revenue areas. In fact, when $1.24 billion in federal source growth is excluded, all other revenue would be down a disastrous $1.015 billion. Despite the economy being in the very early stages of expansion, the larger economically related sources, such as income and sales, continue to suffer from the recession's effect. As reiterated from previous revenue briefings, it will be some time before improvement in receipts can be realized.

Through February, gross personal income tax is down $601 million, or $542 million net of refunds. Sales tax is down $503 million, while gross corporate income tax has declined $99 million, or $82 million net of refunds. Public utility taxes are down $49 million, while all remaining sources showed a net drop of $73 million.

With the third quarter funds sweeps, overall transfers are up $234 million. Other transfers are up $276 million, while riverboat transfers are down $42 million. Federal sources have benefited from increased reimbursable spending and are up a whopping $1.240 million.

What to Expect from FY 2011 Revenues

The Commission has scheduled a March 16th meeting to discuss updated FY 2010 and initial FY 2011 revenue estimates. What follows is a preliminary view of next year.

FY 2011 Revenues
A Year in Transition: Receipts Will Continue to Struggle

Economic Sources to Remain Weak

FY 2011 is expected to be a "transitional year" in terms of economically related revenues. That is revenues will improve off of their lows suffered over the past two years, but remain weak despite entering the expansion phase. While a third consecutive year of declines for the economic sources should be avoided, combined growth from income and sales taxes is only expected to be in the $200-$500 million range. More meaningful revenue growth is not expected to manifest until well after the economy strengthens further (likely not until FY 2012).

Personal income tax is expected to continue to suffer as economic activity is still several quarters away from adding jobs. Even when improvement does begin, it is likely to be less than half of historical average growth of 4%-5%. Decent gains will probably be delayed until FY 2012 when an improved employment picture will manifest in higher growth rates.

Corporate income tax is the most volatile economic source and as such, possible outcomes cover a wide spectrum. Historically, corporate income tax has most closely coincided with the timing of recessions and recoveries. If that pattern continues to hold true, then some growth may be anticipated next fiscal year, however, given current expectations as well as historical performance (corporate income tax suffered three consecutive years of declines during the last recession), a conservative outlook is justified. Even returning to the average growth of approximately 4%-5% would be welcomed. Sales tax receipts should provide some modest growth in FY 2011, for no other reason than a much "lower base" has been established during the past recessionary period. However, the contraction of the employment base will continue to weight on retail sales for some time. Subsequently, growth somewhere in the 1%-2% range is all that can be expected until the recovery takes firmer hold in FY 2012.

Non-Economic Factors Will Serve to Erase Gains

The greatest drag on FY 2011 revenues will be the expiration of the federal stimulus at the end of 2010. No education stimulus money is expected in FY 2011, while only two quarters of enhanced Medicaid match can be assumed. As a result, federal stimulus is expected to be approximately $1.4 billion less next fiscal year.

The FY 2010 budget includes fund sweeps totaling $352 million. Unless similar legislation is passed, that revenue will not repeat next year, and result in a year over year loss.

Unless legislative action is taken, a quirk in federal/State estate tax law would preclude collection of estate tax in calendar year 2010. On average this tax generates $250 to $300 million a year.

Finally, a little net growth can be expected from the remaining revenue sources.

GENERAL FUNDS RECEIPTS: FEBRUARY

FY 2010 vs. FY 2009

($ million)

Revenue Sources	Feb. FY 2010	Feb. FY 2009	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$662	$691	($29)	-4.2%
Corporate Income Tax (regular)	38	34	$4	11.8%
Sales Taxes	431	456	($25)	-5.5%
Public Utility Taxes (regular)	92	87	$5	5.7%
Cigarette Tax	29	29	$0	0.0%
Liquor Gallonage Taxes	15	10	$5	50.0%
Vehicle Use Tax	2	1	$1	100.0%
Inheritance Tax (Gross)	12	23	($11)	-47.8%
Insurance Taxes and Fees	14	13	$1	7.7%
Corporate Franchise Tax & Fees	16	11	$5	45.5%
Interest on State Funds & Investments	2	16	($14)	-87.5%
Cook County IGT	94	94	$0	0.0%
Other Sources	25	30	($5)	-16.7%
Subtotal	$1,432	$1,495	($63)	-4.2%
Transfers				
Lottery	38	38	$0	0.0%
Riverboat transfers & receipts	21	15	$6	40.0%
Other	1	17	($16)	-94.1%
Total State Sources	$1,492	$1,565	($73)	-4.7%
Federal Sources	$594	$253	$341	134.8%
Total Federal & State Sources	$2,086	$1,818	$268	14.7%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($64)	($67)	$3	-4.5%
Corporate Income Tax	($7)	(6)	($1)	16.7%
Subtotal General Funds	$2,015	$1,745	$270	15.5%
Short-Term Borrowing	$0	$0	$0	N/A
Pension Contribution Fund Transfer	$0	$0	$0	N/A
Budget Stabilization Fund Transfer	$0	$50	($50)	N/A
Total General Funds	$2,015	$1,795	$220	12.3%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 1-Mar-10

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2010 vs. FY 2009

($ million)

Revenue Sources	FY 2010	FY 2009	CHANGE FROM FY 2009	% CHANGE
State Taxes				
Personal Income Tax	$5,920	$6,521	($601)	-9.2%
Corporate Income Tax (regular)	749	848	($99)	-11.7%
Sales Taxes	4,169	4,672	($503)	-10.8%
Public Utility Taxes (regular)	701	750	($49)	-6.5%
Cigarette Tax	234	234	$0	0.0%
Liquor Gallonage Taxes	110	109	$1	0.9%
Vehicle Use Tax	19	18	$1	5.6%
Inheritance Tax (Gross)	143	190	($47)	-24.7%
Insurance Taxes and Fees	174	156	$18	11.5%
Corporate Franchise Tax & Fees	138	134	$4	3.0%
Interest on State Funds & Investments	18	50	($32)	-64.0%
Cook County IGT	150	159	($9)	-5.7%
Other Sources	254	263	($9)	-3.4%
Subtotal	$12,779	$14,104	($1,325)	-9.4%
Transfers				
Lottery	377	377	$0	0.0%
Riverboat transfers & receipts	278	320	($42)	-13.1%
Other	487	211	$276	130.8%
Total State Sources	$13,921	$15,012	($1,091)	-7.3%
Federal Sources	$4,092	$2,852	$1,240	43.5%
Total Federal & State Sources	$18,013	$17,864	$149	0.8%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($577)	($636)	$59	-9.3%
Corporate Income Tax	($131)	($148)	$17	-11.5%
Subtotal General Funds	$17,305	$17,080	$225	1.3%
Short-Term Borrowing	$1,250	$1,400	($150)	N/A
Pension Contribution Fund Transfer	$835	$0	$835	N/A
Budget Stabilization Fund Transfer	$666	$326	$340	104.3%
Total General Funds	$20,056	$18,806	$1,250	6.6%

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

CGFA 1-Mar-10

PENSIONS

The Chicago Teachers' Pension Fund; Chicago Board of Education and State Contributions for FY 2011 and Beyond

Dan Hankiewicz, Pension Manager

Public Act 89-0015 established a funding plan for the Chicago Teachers' Pension Fund under which the Chicago Board of Education is required to make a minimum annual contribution to the fund in an amount that will bring the funded ratio up to 90% by the end of Fiscal Year 2045. For fiscal years 1999 through 2010, the Board's contribution is to be increased in equal annual increments so that by Fiscal Year 2011, the Board of Education is making contributions as a level percentage of payroll each year through FY 2045.

Public Act 90-0548 revised the funding plan to stipulate that the Chicago Board of Education need not make pension contributions unless the funded ratio drops below 90%. As shown in the table below, the funded ratio stood at 73.6% at the end of Fiscal Year 2009. Pursuant to P.A. 89-0015, the Chicago Board of Education will be required to make an FY 2011 contribution of $586.9 million in FY 2011, plus an additional $11.1 million pursuant to P.A. 90-0582, which upgraded the CPTF benefit formula in 1998. The State's FY 2011 contribution to the Chicago Teachers' Pension Fund in accordance with P.A. 90-0582 will be $10.4 million. The actuary's report did not assume that the annual $65.0 million state retiree healthcare subsidy, which had been made on an annual basis from 1988 through 2009, would continue in FY 2011 and beyond. On February 5th, the fund's executive director noted in his annual certification letter to the Governor that the Chicago Board of Education's FY 2011 contribution would be lowered to $521.9 million if the state health care subsidy is reinstated.

Projected Chicago Board of Education and State contributions for FY 2011 and beyond are shown in the table on the following page.

Public School Teachers' Pension Fund of Chicago
Projection of Contributions, Liabilities and Assets
Board of Education contributions are based on Public Act 89-15 as revised by Public Act 90-548
($ in millions)

Fiscal Year	Employee Contributions	Required State Contribution under P.A. 89-15	Additional Board of Education Contributions under P.A. 90-582	Required Board of Education Contributions under P.A. 89-15	Total Actuarial Liability	Actuarial Value of Assets	Unfunded Actuarial Liability	Funded Ratio
2009					15,683.2	11,542.9	4,140.3	73.6%
2010	167.9	10.1	10.7	372.5	16,163.1	10,903.8	5,259.2	67.5%
2011	**172.9**	**10.4**	**11.1**	**586.9**	**16,654.5**	**10,132.2**	**6,522.3**	**60.8%**
2012	177.6	10.7	11.4	603.1	17,157.3	9,698.0	7,459.2	56.5%
2013	182.5	11.0	11.8	619.7	17,671.5	10,065.6	7,605.8	57.0%
2014	187.6	11.3	12.1	636.8	18,199.2	10,448.1	7,751.1	57.4%
2015	192.8	11.7	12.4	654.6	18,740.9	10,846.6	7,894.3	57.9%
2016	198.3	12.0	12.8	673.1	19,297.4	11,262.4	8,035.0	58.4%
2017	203.8	12.3	13.1	692.0	19,869.6	11,697.1	3,172.5	58.9%
2018	209.5	12.7	13.5	711.4	20,458.2	12,151.9	8,306.3	59.4%
2019	215.4	13.0	13.9	731.4	21,065.0	12,629.1	8,435.9	60.0%
2020	221.7	13.4	14.3	752.8	21,692.8	13,132.9	8,559.9	60.5%
2021	228.1	13.8	14.7	774.6	22,345.0	13,666.9	8,678.0	61.2%
2022	234.7	14.2	15.1	796.7	23,022.9	14,233.2	8,789.7	61.8%
2023	241.4	14.6	15.6	819.8	23,729.2	14,835.4	8,893.8	62.5%
2024	248.4	15.0	16.0	843.5	24,465.2	15,476.2	8,989.0	63.3%
2025	255.5	15.4	16.5	867.6	25,232.3	16,158.0	9,074.3	64.0%
2026	262.8	15.9	16.9	892.2	26,031.7	16,883.4	9,148.3	64.9%
2027	270.4	16.3	17.4	918.0	26,866.7	17,657.8	9,209.0	65.7%
2028	278.1	16.8	17.9	944.2	27,737.8	18,483.2	9,254.6	66.6%
2029	286.0	17.3	18.4	970.9	28,645.6	19,362.4	9,283.1	67.6%
2030	294.0	17.8	18.9	998.0	29,592.4	20,299.4	9,293.0	68.6%
2031	302.2	18.3	19.5	1,026.2	30,580.1	21,298.4	9,281.7	69.6%
2032	310.8	18.8	20.0	1,055.1	31,607.4	22,361.0	9,246.4	70.7%
2033	319.4	19.3	20.6	1,084.5	32,674.9	23,490.6	9,184.3	71.9%
2034	328.2	19.8	21.2	1,114.3	33,781.2	24,688.9	9,092.3	73.1%
2035	337.2	20.4	21.7	1,144.7	34,925.9	25,959.3	8,966.6	74.3%
2036	346.3	20.9	22.3	1,175.7	36,106.0	27,302.7	8,803.3	75.6%
2037	355.5	21.5	22.9	1,207.0	37,318.6	28,720.7	8,597.9	77.0%
2038	364.9	22.1	23.5	1,238.8	38,560.6	30,214.6	8,346.0	78.4%
2039	374.4	22.6	24.1	1,271.2	39,827.1	31,784.8	8,042.3	79.8%
2040	384.2	23.2	24.8	1,304.6	41,113.3	33,432.5	7,680.8	81.3%
2041	394.4	23.8	25.4	1,338.9	42,412.2	35,157.5	7,254.8	82.9%
2042	404.8	24.5	26.1	1,374.4	43,719.5	36,962.1	6,757.3	84.5%
2043	415.8	25.1	26.8	1,411.8	45,051.9	38,865.7	6,186.1	86.3%
2044	428.4	25.9	27.6	1,454.5	46,415.4	40,884.5	5,530.9	88.1%
2045	442.2	26.7	28.5	1,501.5	47,816.0	43,034.4	4,781.6	90.0%