Commission on Government Forecasting and Accountability

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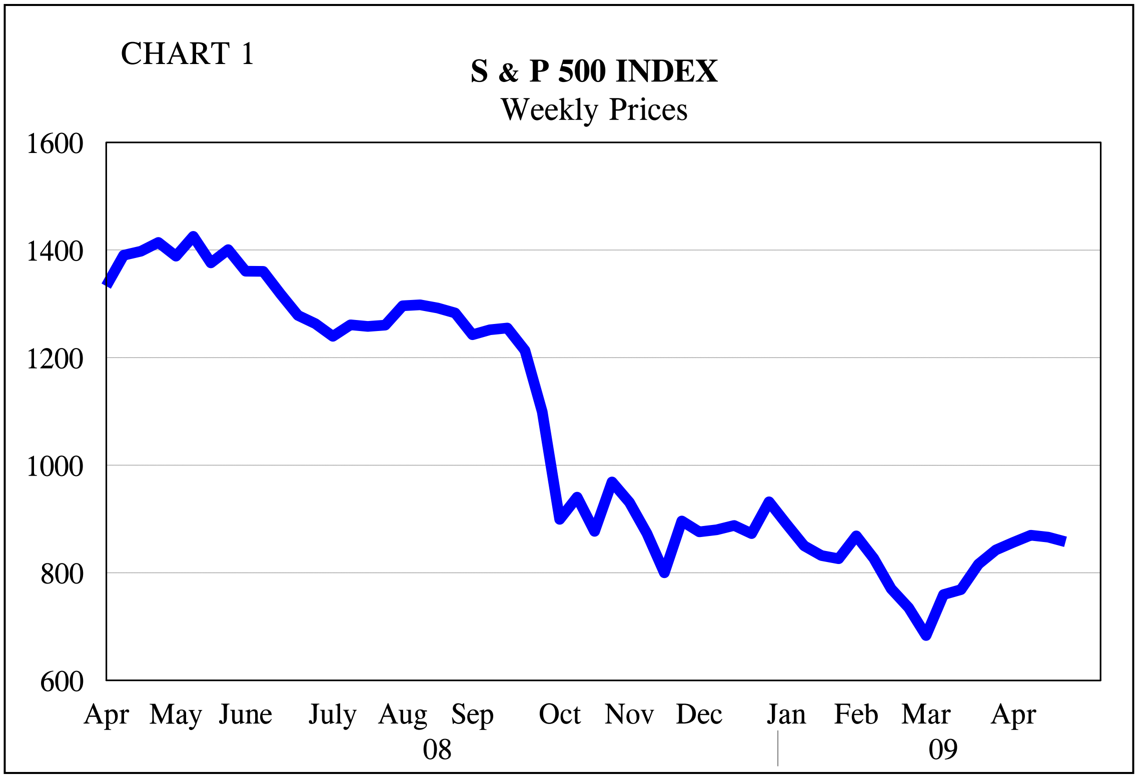
ECONOMY: Signs of Improvement

Edward H. Boss, Jr., Chief Economist

The recession was 16 months old in April, the economy having peaked officially in December 2007, and few if any economists see a recovery any time soon. Even so, Federal Reserve Chairman Ben Bernanke in mid-March said that he detected "green shoots" of economic recovery on a major TV program. A month later, he said there were some "tentative signs" indicating that the recession may be easing. At around the same time, the previous Fed Chairman, Alan Greenspan, said "The advance indicators are getting less negative," while President Obama stated, "What we're starting to see is glimmers of hope across the economy."

In defense of his statements, Fed Chairman Bernanke pointed out improvements in data on home sales, homebuilding, consumer spending, and sales of new motor vehicles, but warned that any hope of a lasting recovery was dependant on success in stabilizing the financial markets. Composite measures of recent data appear to substantiate that premise. A measure of ten business indicators that have tended to lead overall economic conditions in the past, **The Conference Board Leading Economic Index**, declined again in March for the ninth consecutive month. In its press release, however, it stated, "The recession may continue through the summer but the intensity will ease. There have been some intermittent signs of improvement in the economy in April, but the leading economic index and most of its components are still pointing down".

One of the ten components of the Conference Board Leading Economic Index is the price of stocks as measured by Standard and Poor's 500 index. This indicator generally has had one of the longest lead-times prior to the beginning of an economic recovery, often thought to be as long as six months. As shown in the chart on the following page, after falling by half of its value from a high in early May of last year to the recent low in the first week of March, the indicator then rose sharply,



advancing for six consecutive weeks well into April. Some retrenchment came in the days that followed, which could be expected as some investors sold to lock in profits from the recent sharp run-up in prices as well as concerns over the possible deleterious effects of the swine flu. One cannot pin hopes of an economic recovery on a volatile stock market alone, however, particularly given the fragile state of an economy just emerging from one of its most severe financial crises. An improvement in the devastated stock market, however, may be a factor helping to stem the weakness in consumer attitudes.

The low in consumer attitudes measured either by the Conference Board or the University of Michigan was in February. The Conference Board measure showed slight improvement in March before rising sharply in April while the University of Michigan survey reached the highest level of sentiment in seven months. (It should be noted that another one of the ten leading economic indicators is the index of consumer expectations.) This is important since the current recession has been consumer oriented and consumer spending generally accounts for two-thirds of total spending.

In this regard a positive economic sign according to ISI, International Strategy & Investment, is that tax refunds so far this season are up 16.9% year to year, the most since 2002. They go on to state that this… "helps explain why consumer spending probably rose in 1Q, and why ISI's retailer's surveys are up so far in April. Tax refunds so far in April are up 22.8%". This would be a turnaround in real consumer spending which had declined in the last half of 2008.

It is far too early to predict the timing of an end to the current recession. Even so, it may not be too optimistic to say that there are a growing number of indicators showing signs of improvement that at least suggest the recession is no longer getting worse and that downward pressure on the economy is easing. This is a necessary first step leading to recovery.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS	MAR. 2009	FEB. 2009	MAR. 2008
Unemployment Rate (Average)	9.1%	8.6%	6.0%
Annual Rate of Inflation (Chicago)	0.1%	-1.4%	-1.9%

	LATEST MONTH	% CHANGE OVER PRIOR MONTH	% CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (March)	6,579	-0.3%	-2.2%
Employment (thousands) (March)	5,983	-0.8%	-5.4%
New Car & Truck Registration (March)	30,176	17.7%	-29.4%
Single Family Housing Permits (March)	570	-3.6%	-48.5%
Total Exports ($ mil) (February)	3,454	5.0%	-16.1%
Chicago Purchasing Managers Index (April)	40.1	27.7%	-17.0%

Funding Crisis Looming for TRIP and CIP

Michael Moore, Revenue Analyst

Teachers' Retirement Insurance Program (TRIP)

In November of 2000, the Commission on Government Forecasting and Accountability (then the Economic and Fiscal Commission) issued a report that exposed the shortfalls that TRIP was faced with for FY 2002 and beyond. A subsequent report by the Commission, released in April 2001, projected the FY 2002 shortfall for TRIP to be $37 million. Fortunately, a combination of premium increases and increased school district contributions were initiated as a short term solution. In FY 2005, in the interest of finding a long term solution, the Department of Central Management Services and the various stakeholders negotiated an agreement with the hopes of continuing the solvency of the program. Unfortunately, TRIP is again in danger of insolvency unless action is taken. The changes implemented in FY 2005 will no longer provide the sufficient funding to properly meet the increasing costs of the program. According to information provided to the Commission by the Department of Healthcare and Family Services, TRIP will experience a shortfall beginning in

FY 2011. ***Without increased funding and/or plan design changes, TRIP will have an estimated -$81.3 million deficit at the end of FY 2011 and the deficit will grow much larger in future years without changes to the program.*** An examination of cash flow projections is included in the table below.

TRIP ESTIMATED CASH FLOW					
	FY 2007	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**
Beginning Balance	$65.8	$70.4	$66.0	$48.0	**$2.5**
Program Costs	-$372.1	-$395.2	-$421.9	-$466.4	**-$516.0**
State Contributions (GRF)	$75.8	$68.6	$75.5	$79.0	**$79.6**
Member Contributions	$152.7	$166.5	$175.8	$181.7	**$187.8**
Employer Contributions	$52.8	$56.9	$55.2	$57.9	**$59.7**
Active Teacher Contributions	$70.4	$75.8	$73.7	$77.3	**$79.6**
Medicare Part D	$21.9	$20.3	$20.7	$21.9	**$22.4**
Interest/Other	$3.1	$2.9	$3.0	$3.1	**$3.1**
ENDING BALANCE	**$70.4**	**$66.2**	**$48.0**	**$2.5**	**-$81.3**

College Insurance Program (CIP)

Similarly, the same scenario will play out for the College Insurance Program (CIP). According to information provided to the Commission by the Department of Healthcare and Family Services, CIP will experience a shortfall beginning in FY 2010. ***Without increased funding and/or plan design changes, CIP will have an estimated -$1.9 million deficit by the end of FY 2010. The problem will become more severe in FY 2011, when the deficit will increase to an estimated -$10.9 million.*** The table below details the estimated cash flow for CIP thru FY 2011.

CIP ESTIMATED CASH FLOW					
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Beginning Balance	$9.9	$9.6	$7.3	**$3.8**	**-$1.9**
Program Costs	-$25.7	-$29.1	-$31.0	**-$34.2**	**-$39.2**
State Contributions (GRF)	$3.7	$4.7	$4.1	**$4.1**	**$4.2**
Member Contributions	$11.5	$12.4	$12.1	**$12.7**	**$14.1**
Employer Contributions	$3.5	$3.8	$4.0	**$4.1**	**$4.2**
Active Teacher Contributions	$3.5	$3.8	$4.0	**$4.1**	**$4.2**
Medicare Part D	$1.8	$1.7	$1.9	**$2.0**	**$2.0**
Interest/Other	$1.4	$0.4	$1.4	**$1.5**	**$1.5**
ENDING BALANCE	**$9.6**	**$7.3**	**$3.8**	**-$1.9**	**-$10.9**

The one known fact is that medical costs are not declining. In evaluating both TRIP and CIP, the current funding structure will not keep pace with medical inflation. New or increased funding sources, likely coupled with programmatic changes, will be needed to achieve a positive cash balance for both the Teachers' Retirement Insurance Program (TRIP) and the College Insurance Program (CIP).

REVENUE

April Revenues Mixed – Still Fall $276 Million

Jim Muschinske, Revenue Manager

Base general funds receipts fell $276 million in April despite approximately $261 million in federal monies related to the Stimulus Package and an unexpected boost in corporate income taxes. Unfortunately, continued large losses from personal income taxes, sales taxes, and transfers more than wiped out the positives. April had the same number of receipting days as last year.

Gross personal income taxes fell a whopping $430 million, or $422 million net of refunds. A significant drop was anticipated due to the obvious struggling economy, but in addition, last year's April receipts spiked due to unexpectedly high "estimated final payments" [Form IL-5051]. Sales tax receipts continue to disappoint as revenues were off by $77 million. The Cook County IGT was down $15 million due to timing of the transfers. Inheritance taxes fell $13 million, while interest income dropped another $12 million. Public utility receipts eased by $6 million and corporate franchise taxes posted a dip of $4 million.

As mentioned, gross corporate income tax experienced a surprisingly strong month with receipts growing $62 million, or $42 million net of refunds. The Department of Revenue identified the upturn to be a rather small number of "family trusts" that greatly increased their tax payments. The turnaround should only be considered a brief respite as receipts are expected to return to their earlier struggles. Insurance taxes grew by $2 million, while liquor taxes eked out a $1 million gain.

Overall transfers continued to fall, down $30 million for the month. While lottery transfers managed a $1 million increase, that gain was wiped out by a $10 million loss from riverboat transfers and a $21 million falloff in other transfers. Federal sources posted a $258 million gain for the month, with all of the gain associated with the federal stimulus package. [In the month of April, the State received a total of $345 million in what the Comptroller's Office has designated "Federal Stimulus Package" revenue. Of that amount, $261 million was deposited into the General Revenue Fund].

Year to Date

Through ten months of the fiscal year, overall base revenues are down $1.596 billion. The declines are attributed to the continuing effects of the ongoing recession as the combined economic related sources [income and sales taxes] represent $1.120 billion of the fall off. In addition, lower transfers account for $299 million of the slowing. Federal sources aside, only public utility taxes and insurance taxes are demonstrating any growth on a year to date basis, indicating that the recession is not discriminating, and that virtually all sectors of the economy are being negatively impacted.

Gross personal income tax is down $581 million, or $708 million on a net of refund basis. Sales tax is down $317 million, reflecting the bruised consumer who is reluctant to spend amid the worsening employment outlook. Interest income is off $109 million due to lower rates of return as well as reduced investable balances, while inheritance taxes are down $84 million. Gross corporate income tax, despite an uptick in April, is down $72 million for the year, or $95 million net of refunds. All other remaining tax sources add another net $50 million in year to date losses.

Total transfers are down $299 million, reflecting $144 million in lower other transfers, $119 million in transfers from riverboat gaming, and $36 million in reduced lottery transfers. Federal sources, after receipting $261 million in federal stimulus monies in April, are now up $66 million for the year.

GENERAL FUNDS RECEIPTS: APRIL

FY 2009 vs. FY 2008
($ million)

Revenue Sources	April FY 2009	April FY 2008	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$1,272	$1,702	($430)	-25.3%
Corporate Income Tax (regular)	523	461	$62	13.4%
Sales Taxes	509	586	($77)	-13.1%
Public Utility Taxes (regular)	128	134	($6)	-4.5%
Cigarette Tax	29	29	$0	0.0%
Liquor Gallonage Taxes	12	11	$1	9.1%
Vehicle Use Tax	3	3	$0	0.0%
Inheritance Tax (Gross)	18	31	($13)	-41.9%
Insurance Taxes and Fees	38	36	$2	5.6%
Corporate Franchise Tax & Fees	21	25	($4)	-16.0%
Interest on State Funds & Investments	5	17	($12)	-70.6%
Cook County IGT	0	15	($15)	N/A
Other Sources	39	39	$0	0.0%
Subtotal	$2,597	$3,089	($492)	-15.9%
Transfers				
Lottery	61	60	$1	1.7%
Riverboat transfers & receipts	25	35	($10)	-28.6%
Other	49	70	($21)	-30.0%
Total State Sources	$2,732	$3,254	($522)	-16.0%
Federal Sources	$768	$510	$258	50.6%
Total Federal & State Sources	$3,500	$3,764	($264)	-7.0%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($124)	($132)	$8	N/A
Corporate Income Tax	($92)	(72)	($20)	N/A
Subtotal General Funds	$3,284	$3,560	($276)	-7.8%
Short-Term Borrowing	$0	$1,200	($1,200)	N/A
Hopital Provider Fund (cash flow transfer)	$0	$0	$0	N/A
Budget Stabilization Fund Transfer	$0	$0	$0	N/A
Total General Funds	$3,284	$4,760	($1,476)	-31.0%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 4-May-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	$8,593	$9,174	($581)	-6.3%
Corporate Income Tax (regular)	1,714	1,786	($72)	-4.0%
Sales Taxes	5,679	5,996	($317)	-5.3%
Public Utility Taxes (regular)	1,005	987	$18	1.8%
Cigarette Tax	292	292	$0	0.0%
Liquor Gallonage Taxes	131	132	($1)	-0.8%
Vehicle Use Tax	23	27	($4)	-14.8%
Inheritance Tax (Gross)	237	321	($84)	-26.2%
Insurance Taxes and Fees	255	233	$22	9.4%
Corporate Franchise Tax & Fees	171	191	($20)	-10.5%
Interest on State Funds & Investments	62	171	($109)	-63.7%
Cook County IGT	159	208	($49)	-23.6%
Other Sources	330	346	($16)	-4.6%
Subtotal	$18,651	$19,864	($1,213)	-6.1%
Transfers				
Lottery	501	537	($36)	-6.7%
Riverboat transfers & receipts	370	489	($119)	-24.3%
Other	298	442	($144)	-32.6%
Total State Sources	$19,820	$21,332	($1,512)	-7.1%
Federal Sources	$4,039	$3,973	$66	1.7%
Total Federal & State Sources	$23,859	$25,305	($1,446)	-5.7%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($838)	($711)	($127)	17.9%
Corporate Income Tax	($300)	($277)	($23)	8.3%
Subtotal General Funds	$22,721	$24,317	($1,596)	-6.6%
Short-Term Borrowing	$1,400	$2,400	($1,000)	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	$24,447	$27,293	($2,846)	-10.4%

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

CGFA 4-May-09