Commission on Government Forecasting and Accountability

MONTHLY BRIEFING FOR THE MONTH ENDED: APRIL 2012

http://www.ilga.gov/commission/cgfa2006/home.aspx

INSIDE THIS ISSUE

703 Stratton Ofc. Bldg.
Springfield, IL 62706

ECONOMY: Is it in Another Soft Patch?

Edward H. Boss, Jr., Chief Economist

Weaker economic data in recent weeks and uncertainty are raising concerns that the economic expansion, approaching the end of its third year, may be hitting a soft patch. This would be the third consecutive year that the pace of economic growth would have run into such a period of struggle.

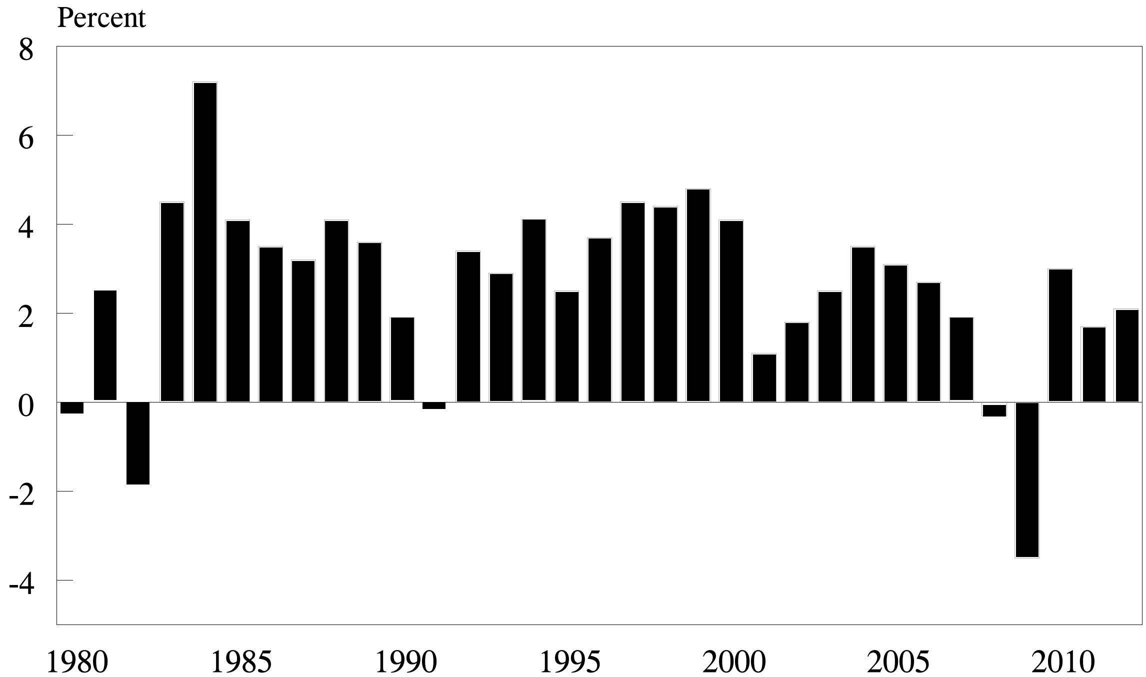
As shown in the attached chart, economic growth normally surges following a recession, and the deeper the recession in the past, the sharper has been the turnaround. This certainly was the case following the twin recessions in the early 1980s. A substantial, yet lesser, spurt in growth followed the mild 1990 recession as was true with the recovery from the mild recession in 2001. In contrast, following the recession that began at the end of 2007 and didn't end until June 2009, the recovery that followed has exhibited the weakest growth in at least the post WWII era.

Real GDP grew at a reduced 2.2% annual rate in the first quarter of 2012 according to the latest Commerce Department report, down from a 3% annual rate in the final quarter of 2011 and repeating a pattern that occurred in the first quarter in each of the prior two years. This followed the disappointingly small gain of only 120,000-payroll employment in March, which was less than half the average gain of the previous 3 months, and flat industrial production in the last two months.

Perhaps more disturbing than the recent weaker economic reports are fears that this pattern will continue. For example, there has been a rise in initial claims for unemployment. On a four-week moving average basis, which shows less volatility, these claims rose to 381,750 on

CHART 1

REAL GROSS DOMESTIC PRODUCT



April 26th, up 6,250 from the previous week's number and the highest level in three months. And, while many were predicting an improvement in the housing market from its long-term depression, the National Association of Realtors reported that existing home sales unexpectantly fell 2.6% in March following gains in the previous two months that had been aided by mild weather. Similarly, new home sales fell 7.1% in March, although the previous month was revised up.

The climate in which these softer economic indicators have come about adds concern over the economy hitting a soft patch. Record or near-record gasoline prices when coupled with higher food prices are crimping consumer purchasing power, the major spending component of GDP. And, while U.S. exports have been strong aiding growth, renewed recession in Europe, which account for 20% of U.S. exports, and the spill over effect from a slowdown in manufacturing in China could dampen this source of strength. At the same time, political turmoil, currency, and debt problems in the Euro Zone continue to cause market disturbances.

Finally there remains great uncertainty over the course of U.S. fiscal policy with little clarity likely prior to the fall elections. The courts have yet to announce its decision on Obama care; Medicare's payments to physician's services are scheduled to be reduced by nearly 30%; the reduction in payroll taxes and extension of lower tax rates and expanded credits and deductions are set to expire at the end of the year; and additional budget savings of more than $1 trillion are required by the Budget Control Act or, if lawmakers fail to enact such legislation, automatic cuts in spending will be triggered. These are some of the major issues as well as the implications of new regulations overhanging the economy that are causing businesses to withhold making major decisions that could further dampen growth.

While it may not be inevitable, recent events and unresolved issues are raising concerns that the economy will slow in the months ahead, dampening growth and reducing employment gains. Already the 3-year recovery has been the weakest in at least the post WWII era and further weakness could put the current expansion in jeopardy. Moreover, such concerns are likely to continue until some clarity is forthcoming.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS	March 2012	February 2012	March 2011
Unemployment Rate (Average)	8.8%	9.1%	9.3%
Annual Rate of Inflation (Chicago)	20.3%	0.2%	2.5%

	LATEST MONTH	% CHANGE OVER PRIOR MONTH	% CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (March)	6,589	0%	0.6%
Employment (thousands) (March)	6,008	0.3%	1.1%
New Car & Truck Registration (March)	N/A	N/A	N/A
Single Family Housing Permits (March)	837	104.6%	14.7%
Total Exports ($ mil) (February)	5,857	12.4%	34.2%
Chicago Purchasing Managers Index (April)	56.2	-9.6%	-16.8%

Illinois Riverboat Update

Eric Noggle, Senior Revenue Analyst

Through three quarters of the fiscal year, Illinois riverboat statistics are showing significant improvement in FY 2012 compared to the last several fiscal years, especially as it pertains to adjusted gross receipts (AGR) and admission totals. This is primarily due to the July 2011 opening of the Rivers Casino in Des Plaines. However, despite this improvement in the figures, State riverboat transfers have remained relatively stagnant. The following paragraphs provide insight to this perceived discrepancy.

As shown below, the ten Illinois casinos have combined to generate $1.215 billion in adjusted gross receipts for the first nine months of FY 2012 (July thru March). This is a 20.5% increase over this same time period in FY 2011. Similarly, admissions are 22.5% higher so far in FY 2012 compared to FY 2011. Of the $1.215 billion collected thus far, $280 million, or 23% has come from the Des Plaines Casino. This new casino has also brought in 23.7% of the combined 12.3 million people that have patronized Illinois casinos so far in FY 2012.

The Des Plaines casino has been widely viewed as a much needed boost to an industry that has struggled over the past several years. Between FY 2008 and FY 2011, adjusted gross receipts at the nine Illinois operating casinos fell a staggering 31%. It is expected that this long awaited casino will help Illinois' riverboat numbers approach and eventually surpass the levels experienced in the past.

But, as expected, Des Plaines' success has been at the expense of many of the other riverboats in Illinois, especially those near the new casino in the Chicago metropolitan area. As shown in the below table, despite the overall 20.5% increase in AGR, six of the ten riverboats have had declining figures so far this fiscal year. The four casinos in the Chicago area have all experienced significant declines, with the largest falloff coming from the casino in Elgin, which has fallen 19.3%. Not surprisingly, Elgin is the closest casino to the new Des Plaines riverboat, which explains their significant declines.

FY 2012 Performance of Illinois Riverboats (July 2011 thru March 2012)

(Adjusted Gross Receipts and Admissions FYTD)

in millions

	FY 2011 YTD AGR	FY 2012 YTD AGR	% change	FY 2011 YTD Admissions	FY 2012 YTD Admissions	% change
ALTON	$56.5	$52.9	-6.4%	0.74	0.68	-7.5%
EAST PEORIA	$85.9	$86.7	0.9%	0.95	0.90	-5.1%
ROCK ISLAND	$60.7	$65.3	7.5%	1.03	0.98	-5.1%
JOLIET H'WOOD	$107.1	$100.6	-6.1%	0.98	0.96	-2.7%
METROPOLIS	$81.7	$78.0	-4.5%	0.68	0.63	-7.9%
JOLIET HARRAH'S	$177.2	$160.5	-9.4%	1.53	1.35	-11.7%
AURORA	$132.0	$120.9	-8.4%	1.09	1.09	-0.5%
EAST ST. LOUIS	$95.3	$98.9	3.7%	1.47	1.47	0.3%
ELGIN	$212.2	$171.3	-19.3%	1.55	1.31	-15.3%
DES PLAINES	$0.0	$280.1	N/A	0.00	2.91	N/A
TOTAL	**$1,008.8**	**$1,215.2**	**20.5%**	**10.02**	**12.28**	**22.5%**

When looking at the four pre-existing casinos in the Chicago area, their combined adjusted gross receipts are down $75 million or 12.0% compared to last year (Jul – Mar). So while Des Plaines has generated $280 million in adjusted gross receipts this fiscal year so far, when accounting for the $75 million loss from the other four casinos, adjusted gross receipts are only up a net $205 million. Still, even with these losses, adjusted gross receipts in this area are up 32.6% compared to last year.

One point that Illinois officials are quick to point out is that not only does the new Des Plaines casino impact Illinois existing riverboats, but it also has an impact on several of the area casinos in Indiana as well. Many argue that this new casino is likely bringing back patrons and casino revenues that Illinois had been losing to Indiana. Indiana riverboat statistics seem to support this claim.

Again, thru the first three quarters of the fiscal year, the five Indiana casinos near the Chicago metropolitan area have fallen a combined 5.0% since the opening of the Des Plaines casino. This includes a 7.0% decline at the Horseshoe Casino in Hammond, which is arguably the biggest competitor to Illinois casinos. The Indiana casinos in this area are down nearly $40 million compared to this period a year ago. It is likely that a significant portion of this $40 million or 5% has found its way into Illinois. But even accounting for the losses in both Illinois and Indiana at existing casinos, the combined AGR levels for the Chicago Metropolitan Area are up $161 million or 10.7% compared to a year ago. These statistics can be seen in the following table.

Impact of New Des Plaines Casino on Area AGR
(July 2011 thru March 2012)

	AGR	FYTD % Ch.	FYTD $ Ch.
Des Plaines	**$280.1**	**N/A**	**$280.1**
Illinois Chicago Area Casinos			
Joliet Hollywood	$100.6	-6.1%	($6.5)
Joliet Harrah's	$160.5	-9.4%	($16.7)
Aurora	$120.9	-8.4%	($11.1)
Elgin	$171.3	-19.3%	($41.0)
"Older" Casino Change in AGR:		**-12.0%**	**($75.3)**
Net Illinois Chicago Area Change:		**32.6%**	**$204.9**
Indiana Chicago Area Casinos			
Ameristar - E. Chicago	$182.2	-2.2%	($4.1)
Horseshoe - Hammond	$374.6	-7.0%	($28.3)
Majestic Star 1 - Gary	$82.3	-1.9%	($1.6)
Majestic Star 2 - Gary	$66.9	-12.8%	($9.8)
Blue Chip - Michigan City	$131.0	0.0%	$0.1
Net Indiana Chicago Area Change:		**-5.0%**	**($39.7)**
Combined Existing Casino Area Change:		**-7.9%**	**($119.1)**
Net Overall Chicago Area Change:		**10.7%**	**$161.0**

It would seem that a 20.5% increase in overall adjusted gross receipts should equate to a substantial increase in State revenues. But that has not been the case as the amount that has been deposited into the State Gaming Fund is only up 14.3% so far this fiscal year. (See below table).

Revenue Performance of Illinois Riverboats through March 2012

(FYTD Annual Percent Change of Revenues Generated, $ in Millions)

	FY 2011 Local Revenues	FY 2012 Local Revenues	% change	FY 2011 State Revenues	FY 2012 State Revenues	% change	FY 2011 Total Revenues	FY 2012 Total Revenues	% change
ALTON	$3.6	$3.3	-6.6%	$11.4	$10.4	-8.8%	$15.0	$13.8	-8.3%
EAST PEORIA	$5.2	$5.2	-0.2%	$20.7	$20.7	0.3%	$25.9	$26.0	0.2%
ROCK ISLAND	$4.1	$4.2	4.3%	$11.8	$13.1	10.6%	$15.9	$17.3	9.0%
JOLIET H'WOOD	$6.3	$6.0	-5.6%	$27.7	$26.5	-4.3%	$34.0	$32.5	-4.6%
METROPOLIS	$4.8	$4.5	-5.0%	$19.2	$16.3	-14.9%	$24.0	$20.9	-12.9%
JOLIET HARRAH'S	$10.4	$9.4	-9.7%	$60.1	$51.8	-13.8%	$70.5	$61.2	-13.2%
AURORA	$7.7	$7.1	-7.3%	$38.6	$35.1	-9.0%	$46.3	$42.3	-8.7%
EAST ST. LOUIS	$6.2	$6.4	2.9%	$25.2	$25.8	2.4%	$31.5	$32.2	2.5%
ELGIN	$12.2	$9.9	-18.8%	$75.4	$59.0	-21.8%	$87.5	$68.8	-21.3%
DES PLAINES	$0.0	$16.9	N/A	$0.0	$72.7	N/A	$0.0	$89.6	N/A
TOTAL	**$60.5**	**$73.0**	**20.8%**	**$290.0**	**$331.4**	**14.3%**	**$350.5**	**$404.5**	**15.4%**

Furthermore, the amount that is transferred from the State Gaming Fund to the Education Assistance Fund is only up 2.1% for the fiscal year. This is despite the fact that FY 2012 is the first year of significant revenues from the Des Plaines Casino. There are several reasons why tax revenues from Illinois riverboats have not experienced the same rates of growth as adjusted gross receipts.

The first reason is due to the cannibalization effect that the Des Plaines Casino has had on other casinos and its corresponding impact on State revenues under the graduated tax structure. In a graduated tax structure, the more revenues that a riverboat accrues, the higher the tax they pay. Because many casinos, especially near the Des Plaines casino, have lower AGR levels in FY 2012 compared to FY 2011, they have been slower to reach higher tax brackets. Because of this, their corresponding operating tax rates are lower. This is why many pre-existing casinos have lower State revenue rates of return than AGR rates of return in FY 2012.

The timing of how the graduated tax structure is calculated has also limited revenues, especially as it pertains to the Des Plaines Casino. Under current law, the graduated tax structure begins taxing revenues at a minimum rate of 15% and increases to higher tax rates as revenues accrue through December. In January, the rates reset. Because of the July 2011 opening, revenues from the Des Plaines Casino had only six months to accumulate before resetting in January. In essence, the new casino will have two six-month periods at the lower tax rates in FY 2012, thus avoiding the potential prolonged tax rate period of 50% that it would hit if its revenues accrued to over $200 million. (This impact would only be felt in FY 2012, as FY 2013 will benefit from a full calendar year of accumulated receipts, and thus higher tax rates).

The final reason State riverboat transfers to the Education Assistance Fund are seeing relatively stagnant growth is due to how revenues from the Des Plaines Casino are to be distributed under current law. Under Illinois Statute, the following provisions requiring distribution from the State Gaming Fund have been set into place by the opening of the 10th riverboat license:

1) 15% of AGR of the new license are to go into the Horse Racing Equity Fund (estimated to be $38.6 million in FY 2012).
2) 2% of AGR of the new license are to go to Cook County for the purpose of enhancing the county's criminal justice system (estimated to be $5.2 million in FY 2012).
3) 2% of AGR of the new license are to go to Chicago State University (estimated to be $5.2 million in FY 2012).

These additional distributions mean that the State Gaming Fund and its amounts transferred into the Education Assistance Fund will receive proportionately less revenues from the Des Plaines Casino compared to the other locations. While there remain questions on whether these funds will actually be appropriated to their statutorily set destination, the fact is, the Education Assistance Fund will not be receiving these revenues. This is, therefore, why there has only been modest growth in State riverboat transfers (2.1%) despite the 20.5% increase in adjusted gross receipts.

While this discrepancy between the growth in adjusted gross receipts and State transfers may be surprising to some, the Commission had warned of this likelihood in its 2011 Wagering Report. The Commission will continue to monitor the progress of riverboat revenues and will make a one-year analysis of the Des Plaines Casino and its impact on revenues in the 2012 Wagering Report this summer.

REVENUE

April Revenues Surge — Increases Expected

Jim Muschinske, Revenue Manager

Overall base revenues in April grew $733 million. The significant growth was largely due to the expected boost from final income tax payments. Continued strong sales taxes also helped monthly receipts. In addition, what has been a rare occurrence this fiscal year, federal sources also experienced a positive month. April had the same number receipting days as last year.

Gross personal income tax revenues rose $567 million or $517 million net of refunds. The significant growth reflects the higher tax rates in final payments. At this same time last year, final payments had yet to reflect the rate change. The boost in receipts was expected and reflects the timing related to last year's change in the tax rates. For the same reasons, gross corporate income tax also jumped—up $166 million or $137 million net of refunds. Sales tax continues to perform above expectations, growing $32 million in April. As expected, inheritance tax receipts jumped as a consequence of tax changes that went into effect January 2011, up $22 million.

Public utility taxes dropped $31 million in April, insurance taxes $5 million, while liquor taxes and corporate franchise each dipped $1 million.

Overall transfers increased $35 million in April. Other transfers gained $26 million, riverboat transfers rose $8 million, and lottery transfers another $1 million. After consistently posting significant declines month after month, federal sources posted a modest gain of $28 million in April.

Year to Date

Through April, absent short-term borrowing, tobacco settlement proceeds, Pension Contribution Fund transfers and Budget Stabilization Fund transfers, base general funds revenues are up $2.598 billion. The increase has been fueled by comparatively higher income tax receipts stemming from the January 2011 rate increases as well as continued strong sales tax receipts. Those items have been more than enough to overcome a significant falloff in federal sources resulting from less reimbursable spending as well as a return to a lower federal matching rate [under ARRA, states enjoyed approximately two years of higher reimbursable match which has now ended].

To date, gross personal income taxes are up $4.505 billion, or $4.111 billion net of refunds. Gross corporate income taxes are up $581 million, or $506 million net of refunds. Sales taxes increased $347 million, while all other revenue sources declined $23 million.

Overall transfers are down $305 million, primarily as a result of $496 million of interfund borrowing that took place last fiscal year through April. Other transfers are $398 million lower, while regular riverboat transfers are up $14 million [the final payment of $73 million is related to the sale of the 10th license]. Lottery transfers are up $6 million for the year. Despite a positive April, Federal source receipts have suffered a significant drop in FY 2012, falling $2.038 billion due to lower reimbursable spending as well as reduced reimbursement rates previously enjoyed under ARRA.

GENERAL FUNDS RECEIPTS: APRIL
FY 2012 vs. FY 2011
($ million)

Revenue Sources	April FY 2012	April FY 2011	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$2,364	$1,797	$567	31.6%
Corporate Income Tax (regular)	561	395	$166	42.0%
Sales Taxes	611	579	$32	5.5%
Public Utility Taxes (regular)	71	102	($31)	-30.4%
Cigarette Tax	30	30	$0	0.0%
Liquor Gallonage Taxes	13	14	($1)	-7.1%
Vehicle Use Tax	3	3	$0	0.0%
Inheritance Tax (Gross)	23	1	$22	N/A
Insurance Taxes and Fees	48	53	($5)	-9.4%
Corporate Franchise Tax & Fees	13	14	($1)	-7.1%
Interest on State Funds & Investments	2	2	$0	0.0%
Cook County IGT	0	0	$0	N/A
Other Sources	35	35	$0	0.0%
Subtotal	$3,774	$3,025	$749	24.8%
Transfers				
Lottery	63	62	$1	1.6%
Riverboat transfers & receipts	27	19	$8	42.1%
Proceeds from Sale of 10th license	0	0	$0	N/A
Other	74	48	$26	54.2%
Total State Sources	$3,938	$3,154	$784	24.9%
Federal Sources	$417	$389	$28	7.2%
Total Federal & State Sources	$4,355	$3,543	$812	22.9%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($207)	($157)	($50)	31.8%
Corporate Income Tax	($98)	(69)	($29)	42.0%
Subtotal General Funds	$4,050	$3,317	$733	22.1%
Short-Term Borrowing	$0	$0	$0	N/A
Tobacco Liquidation Proceeds	$0	$0	$0	N/A
Pension Contribution Fund Transfer	$0	$0	$0	N/A
Budget Stabilization Fund Transfer	$0	$100	($100)	N/A
Total General Funds	$4,050	$3,417	$633	18.5%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 2-May-12

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2012 vs. FY 2011

($ million)

Revenue Sources	FY 2012	FY 2011	CHANGE FROM FY 2011	% CHANGE
State Taxes				
Personal Income Tax	$14,114	$9,609	$4,505	46.9%
Corporate Income Tax (regular)	2,355	1,774	$581	32.8%
Sales Taxes	6,003	5,656	$347	6.1%
Public Utility Taxes (regular)	860	961	($101)	-10.5%
Cigarette Tax	295	295	$0	0.0%
Liquor Gallonage Taxes	137	132	$5	3.8%
Vehicle Use Tax	24	25	($1)	-4.0%
Inheritance Tax (Gross)	195	119	$76	63.9%
Insurance Taxes and Fees	276	254	$22	8.7%
Corporate Franchise Tax & Fees	162	176	($14)	-8.0%
Interest on State Funds & Investments	17	27	($10)	-37.0%
Cook County IGT	150	150	$0	0.0%
Other Sources	333	333	$0	0.0%
Subtotal	$24,921	$19,511	$5,410	27.7%
Transfers				
Lottery	513	507	$6	1.2%
Riverboat transfers & receipts	291	277	$14	5.1%
Proceeds from Sale of 10th license	73	0	$73	N/A
Other	658	1,056	($398)	-37.7%
Total State Sources	$26,456	$21,351	$5,105	23.9%
Federal Sources	$2,634	$4,672	($2,038)	-43.6%
Total Federal & State Sources	$29,090	$26,023	$3,067	11.8%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($1,235)	($841)	($394)	46.8%
Corporate Income Tax	($412)	($337)	($75)	22.3%
Subtotal General Funds	$27,443	$24,845	$2,598	10.5%
Short-Term Borrowing	$0	$1,300	($1,300)	N/A
Tobacco Liquidation Proceeds	$0	$1,250	($1,250)	N/A
Pension Contribution Fund Transfer	$0	$224	($224)	N/A
Budget Stabilization Fund Transfer	$275	$335	($60)	-17.9%
Total General Funds	$27,718	$27,954	($236)	-0.8%

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

CGFA 2-May-12