



Commission on Government Forecasting and Accountability

703 Stratton Ofc. Bldg., Springfield, IL 62706

MONTHLY BRIEFING FOR THE MONTH ENDED: APRIL 2014

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Financial Condition as of June 30, 2013

REVENUE: No Surprise in Illinois as April Revenues Plummet—Some States Reportedly Caught Off-Guard
Jim Muschinske, Revenue Manager

Approximately one-year ago states, including Illinois, were enjoying a record month for April income tax receipts. In Illinois, net income taxes jumped \$927 million in that single month. At the time, it was theorized that the increase was primarily due to taxpayer behavior undertaken to avoid the 2013 federal income tax increase. Almost immediately, uncertainties began building as to what the repercussions of that surge would mean for the following tax season [April 2014].

At that time, Commission analysis determined and confirmed the contention that “the spike was primarily a one-time phenomenon.” And as such, should not be incorporated in the base to recur in FY 2014 [April 2013 Monthly Briefing]. That conservative view continued to be held throughout the first three-quarters of FY 2014. Despite indications that personal income tax was performing somewhat better than expected, the Commission resisted making a revision until the magnitude of the anticipated falloff was revealed. With April now complete, and the uncertainty of the effects of last year mostly lifted, an appropriate revisions can be made (see revision on page 5).

While Illinois revenues are being revised up, unfortunately a number of states were caught off guard by April’s falloff in income tax performance. Thus far, California, New Jersey, Connecticut, Kansas, and Pennsylvania have indicated unexpected declines for the month. While the assumptions used by those states in accommodating for last year’s surge is not known, clearly Illinois was best served by treating last April’s surge as a one-time event, rather than incorporating it into base projections.

April Performance

Overall base revenues plummeted \$1.017 billion in April, in stark contrast to the record gains of \$1.521 billion of one year earlier. Fortunately, the drop in revenues was anticipated as last year's growth was treated as one-time. Not surprisingly, the sources experiencing the largest declines were income taxes as well as federal sources. April had the same number of receipting days as last fiscal year.

Gross personal income tax receipts fell \$607 million, or \$541 million net of refunds. Again, the drop is explained by the surge in growth last year. Similarly, gross corporate income fell \$130 million, or \$108 million net of refunds. Two other revenue sources experienced declines, albeit minor with liquor taxes and interest income each falling \$1 million.

Despite the huge drop in monthly receipts, a number of lines performed positively. After a brief pause, sales tax returned a strong month, rising \$41 million. Public utility taxes grew \$19 million, likely the result of natural gas consumption related to the unusually cold spring. Inheritance tax experienced a surprisingly strong month, growing \$19 million. Insurance taxes were up \$8 million, other sources \$4 million, vehicle use \$1 million, and corporate franchise \$1 million.

Overall transfers grew \$5 million in April. Other transfers advanced \$31 million, but most of those gains were offset by gaming transfers falling \$14 million and lottery transfers dropping \$12 million. As a consequence of the much

lower month for income taxes, federal sources also bore the brunt of the monthly decline, falling \$464 million.

Year to Date

Through April of FY 2014, base general funds are now up a relatively modest \$248 million compared to last fiscal year. However, despite the recent falloff which erased much of the previous FY 2014 gains, the larger economically-related sources have performed quite well.

Sales taxes continued to perform strongly, growing \$263 million through April. Other sources are up \$129 million, due mostly to earlier one-time deposits of court settlement proceeds and a repayment from SERS. Corporate income taxes are up a net \$65 million, which is actually quite positive given the effects of last year's April. Similarly, while net personal income taxes are down \$46 million through April, considering the enacted FY 2014 budget assumed a yearly loss of \$508 million, year to date performance should be considered impressive.

On balance, most of the other revenue sources have behaved about as expected. While some source estimates will undergo revisions due to one-time items, others will simply be fine-tuned to reflect actual experience through April.

A large sigh of relief was heard with the passing of April. While earlier forecasts correctly assumed a significant monthly decline, the magnitude was always a concern. With that key month now past, the level of uncertainty for FY 2014 revenues has greatly diminished.

GENERAL FUNDS RECEIPTS: APRIL

FY 2014 vs. FY 2013

(\$ million)

<u>Revenue Sources</u>	<u>April FY 2014</u>	<u>April FY 2013</u>	<u>\$ CHANGE</u>	<u>% CHANGE</u>
State Taxes				
Personal Income Tax	\$2,538	\$3,145	(\$607)	-19.3%
Corporate Income Tax (regular)	694	824	(\$130)	-15.8%
Sales Taxes	644	603	\$41	6.8%
Public Utility Taxes (regular)	106	87	\$19	21.8%
Cigarette Tax	29	29	\$0	0.0%
Liquor Gallonage Taxes	12	13	(\$1)	-7.7%
Vehicle Use Tax	3	2	\$1	50.0%
Inheritance Tax (Gross)	34	15	\$19	126.7%
Insurance Taxes and Fees	61	53	\$8	15.1%
Corporate Franchise Tax & Fees	16	15	\$1	6.7%
Interest on State Funds & Investments	1	2	(\$1)	-50.0%
Cook County IGT	0	0	\$0	N/A
Other Sources	39	35	\$4	11.4%
Subtotal	\$4,177	\$4,823	(\$646)	-13.4%
Transfers				
Lottery	52	64	(\$12)	-18.8%
Riverboat transfers & receipts	3	17	(\$14)	-82.4%
Proceeds from Sale of 10th license	0	0	\$0	N/A
Refund Fund transfer	0	0	\$0	N/A
Other	95	64	\$31	48.4%
Total State Sources	\$4,327	\$4,968	(\$641)	-12.9%
Federal Sources	\$561	\$1,025	(\$464)	-45.3%
Total Federal & State Sources	\$4,888	\$5,993	(\$1,105)	-18.4%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$241)	(\$307)	\$66	-21.5%
Corporate Income Tax	(\$93)	(115)	\$22	-19.1%
Subtotal General Funds	\$4,554	\$5,571	(\$1,017)	-18.3%
Short-Term Borrowing	\$0	\$0	\$0	N/A
FY'13/14 Backlog Payment Fund	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$0	\$0	\$0	N/A
Total General Funds	\$4,554	\$5,571	(\$1,017)	-18.3%
CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				2-May-14

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2014 vs. FY 2013

(\$ million)

<u>Revenue Sources</u>	<u>FY 2014</u>	<u>FY 2013</u>	<u>CHANGE FROM FY 2013</u>	<u>% CHANGE</u>
State Taxes				
Personal Income Tax	\$15,444	\$15,538	(\$94)	-0.6%
Corporate Income Tax (regular)	3,085	3,031	\$54	1.8%
Sales Taxes	6,320	6,057	\$263	4.3%
Public Utility Taxes (regular)	880	852	\$28	3.3%
Cigarette Tax	295	294	\$1	0.3%
Liquor Gallonage Taxes	137	138	(\$1)	-0.7%
Vehicle Use Tax	24	22	\$2	9.1%
Inheritance Tax (Gross)	219	231	(\$12)	-5.2%
Insurance Taxes and Fees	267	266	\$1	0.4%
Corporate Franchise Tax & Fees	176	174	\$2	1.1%
Interest on State Funds & Investments	15	17	(\$2)	-11.8%
Cook County IGT	120	150	(\$30)	-20.0%
Other Sources	466	337	\$129	38.3%
Subtotal	\$27,448	\$27,107	\$341	1.3%
Transfers				
Lottery	523	526	(\$3)	-0.6%
Riverboat transfers & receipts	277	291	(\$14)	-4.8%
Proceeds from Sale of 10th license	10	15	(\$5)	-33.3%
Refund Fund transfer	397	0	\$397	N/A
Other	548	465	\$83	17.8%
Total State Sources	\$29,203	\$28,404	\$799	2.8%
Federal Sources	\$3,173	\$3,783	(\$610)	-16.1%
Total Federal & State Sources	\$32,376	\$32,187	\$189	0.6%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$1,467)	(\$1,515)	\$48	-3.2%
Corporate Income Tax	(\$413)	(\$424)	\$11	-2.6%
Subtotal General Funds	\$30,496	\$30,248	\$248	0.8%
Short-Term Borrowing	\$0	\$0	\$0	N/A
FY'13/14 Backlog Payment Fund Transfer	\$50	\$264	(\$214)	N/A
Tobacco Liquidation Proceeds	\$0	\$0	\$0	N/A
Pension Contribution Fund Transfer	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$275	\$275	\$0	0.0%
Total General Funds	\$30,821	\$30,787	\$34	0.1%

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

CGFA

2-May-14

FY 2014 Revisions and Comments

As shown below, the Commission’s forecast for FY 2014 has been revised up \$588 million from its earlier forecast presented in February. Since that time, with three more months of actual receipt data now available and

only two months remaining in the fiscal year, the landscape has become clearer. The revised estimate is now \$36.661 billion, which represents an increase of \$1.215 billion from the May 2013 passage of HR 389 which served as the State’s revenue blue print for FY 2014. An explanation of the latest revisions follows.

CGFA Revised FY 2014 Estimate [May-14]		
[\$millions]		
FY 2014 Revised Estimate [Feb/March-14]	\$	36,073
CGFA Adjustments [May-14]		
Net Personal Income Tax	\$	467
Other Sources [Net]	\$	46
Transfers In	\$	35
Inheritance Tax	\$	25
Public Utilities	\$	15
FY 2014 Estimate [May-14]	\$	36,661
Net Adjustment		\$ 588

Net Revisions Since HR 389	\$	1,215
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- As discussed in the Commission’s February monthly briefing, while acknowledging strong estimated personal income tax performance to date, CGFA chose to refrain from making an upward revision due to a recent (at that time) weakening trend of withholding taxes and the remaining uncertainty related to last year’s April Surprise. Since then, the softening in withholding (wage) taxes has improved and is now trending as forecast. And, secondly, the magnitude of April’s decline was considerably less than the forecast was positioned to accommodate.
- CGFA’s previous personal income tax estimate could have absorbed a falloff in April receipts along the same order of magnitude as last year’s “April Surprise”. Fortunately, that level of decline did not occur and CGFA is now able to incorporate the year-long upward pressure on personal income tax receipts without the specter of what repercussions last April posed for this year. While April’s receipts did fall significantly, the falloff was considerably less than what was built into the earlier forecast. As a result, the estimate for net personal income tax has been

adjusted up \$467 million. The revision incorporates year-to-date actuals as well as basically flat performance over the remaining two months of the fiscal year.

- The estimate for other sources has been revised up a net \$46 million due to a one-time reimbursement from a prior year overpayment from SERS.
- The estimate for other transfers has been increased \$35 million to reflect the Administration’s intent to make up for deficiencies in the statutorily required transfers from the Capitol Projects Fund to the General Revenue Fund.
- The estimate for inheritance tax has been increased \$25 million to reflect actual performance through April as receipts have considerably surpassed earlier projections.
- The forecast for public utility taxes has been increased \$15million to reflect its strong recent performance, presumably related to the extreme weather patterns experienced this winter/spring.

It is important to note that the majority of the FY 2014 revisions are due to items that are either one-time in nature, or not appropriately considered to be part of base revenues. As a result, as will be discussed next, the magnitude of upward revision being made in FY 2014 does not fully translate into similar adjustments to the FY 2015 estimate.

It should also be noted that despite the upward revision, approximately \$3 billion in unpaid bills are awaiting payment at the Comptroller’s Office. And unfortunately, that amount is expected to rise before the end of the fiscal year. Group Insurance payment delays continue to be problematic, and the scheduled drop in the income tax rates provide no relief to the fiscal pressure the State continues to feel.

FY 2015 Revisions and Comments

In February, the Commission presented its FY 2015 forecast of \$34.495 billion to both chambers of the General Assembly. As stated, due to their nature, not all of the FY 2014 upward adjustments translate into similar changes to the FY 2015 forecast. As shown below, the revised estimate of \$34.662 billion reflects a net increase from the previous estimate of \$167 million. (See following discussion.)

CGFA Revised FY 2015 Estimate		
[\$millions]		
FY 2015 Estimate [Feb/March-14]	\$	34,495
CGFA Adjustments [May-14]		
Net Personal Income Tax	\$	197
Public Utility	\$	10
Transfers In	\$	(40)
FY 2015 Revised Estimate [May-14]	\$	34,662
Net Adjustment	\$	167

- While the FY 2015 estimate of personal income taxes has been modestly adjusted to reflect the improved FY 2014 forecast, the increase is proportionately less for a couple of reasons. First, it is theorized that one reason the falloff in this April's receipts wasn't as large as it may have been was the exceptional market performance experienced in tax year 2013. Most major markets returned over 25% last year, the result of which may have been to mitigate [through higher estimated and final payments] last April's effects. While trying to forecast market direction is a futile endeavor, acknowledging last's year's unusually strong performance seems prudent. As a result, while the FY 2014 change was a net \$467 million, that will translate into a somewhat lesser upward revision of a net \$197 million in the outlook for FY 2015.
- Also being acknowledged in the more modest adjustment is the potential residual effect of April 2013. As evidenced by the large falloff this April, clearly taxpayer behavior was impacted in tax year 2012 with the rush to avoid paying higher federal taxes which took effect in 2013. It's quite possible that more than one fiscal year will feel the effects of the 2013 April surprise, adding another reason to be conservative in the revision.
- The estimate of public utility taxes has been adjusted up by \$10

million. The modest change reflects the timing of planned telecom tax credit usage.

- The estimate of "transfers in" has been reduced by \$40 million to reflect actual statutory language already in place that reduces the transfer from the Hospital Provider Fund to GRF from the usual \$80 million per year to only \$40 million in FY 2015. The earlier estimate simply assumed the usual higher amount and needs to be adjusted to reflect current law.

Again, to reiterate, while the estimate for FY 2015 has been modestly revised up, the reasons the modifications are not as pronounced as those made in FY 2014 are due to: 1) the FY 2014 adjustments being primarily one-time in nature i.e. court settlement proceeds, SERS repayments, make-up of transfer delinquencies; or, 2) in the case of income taxes, the adjustments reflect a conservative view reflecting recent extreme market conditions as well as acknowledgement that the April Surprise of 2013 may still have some residual effects in out years.

As a result, while both years have undergone upward revisions, because the magnitude of revision is considerable less in FY 2015, the year-over-year falloff has risen from an earlier projected \$1.578 billion to a larger \$1.999 billion [which continues to reflect the scheduled reduction in the income tax rates per current law]. See table on the next page.

CGFA FY 2015 Estimate [May-14]		
[\$millions]		
FY 2014 Revised [May-14]	\$	36,661
Estimated Growth		
Personal Income Tax [Net]	\$	(1,651)
Corporate Income Tax [Net]	\$	(427)
Sales Tax	\$	169
Other Sources [Net]	\$	(148)
Transfers In	\$	(365)
Federal Sources	\$	423
FY 2015 Estimate [May-14]	\$	34,662
Net Change		\$ (1,999)

Comparison of CGFA and GOMB/IDoR Estimates

The following table summarizes the revised CGFA estimate as well as compares them to the Governor's revenue forecasts presented in the

March Budget Book [current law]. As shown, incorporating the updated CGFA estimates narrows the gap between the two agencies. CGFA's revised FY 2014 is now only \$4 million less than the GOMB/IDoR's March forecast, and \$262 million below their FY 2015 forecast.

FY 2014 & FY 2015 GENERAL FUNDS REVENUE						
REVISED CGFA vs. GOMB/IDoR ESTIMATES						
(millions)						
<u>Revenue Sources</u>	<u>FY'14 CGFA May-14</u>	<u>FY'15 CGFA May-14</u>	<u>\$ Growth</u>	<u>FY'14 GOMB/IDoR Mar-14</u>	<u>FY'15 GOMB/IDoR Mar-14</u>	<u>\$ Growth</u>
State Taxes						
Personal Income Tax [net]	\$16,497	\$14,846	(\$1,651)	\$16,301	\$14,844	(\$1,457)
Corporate Income Tax [net]	\$3,237	\$2,810	(\$427)	\$3,317	\$3,071	(\$246)
Sales Taxes	\$7,673	\$7,842	\$169	\$7,610	\$7,810	\$200
All Other state source revenue	\$3,197	\$3,049	(\$148)	\$3,096	\$3,010	(\$86)
Transfers	\$2,207	\$1,842	(\$365)	\$2,228	\$1,895	(\$333)
Federal Sources	<u>\$3,850</u>	<u>\$4,273</u>	<u>\$423</u>	<u>\$4,113</u>	<u>\$4,294</u>	<u>\$181</u>
Total Federal & State Sources	\$36,661	\$34,662	(\$1,999)	\$36,665	\$34,924	(\$1,741)

NOTE: Totals exclude Budget Stabilization, \$50m transfers from FY 2013/14 Backlog Payment Fund and other cash flow transfers.
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Revised CGFA Estimate FY 2014 [May-14]	\$36,661
GOMB/IDoR Estimate FY 2014 [March-14]	\$36,665
Diff.	(\$4)
Revised CGFA Estimate FY 2015 [May-14]	\$34,662
GOMB/IDoR Estimate FY 2015 [March-14]	\$34,924
Diff.	(\$262)

Observations and Comments:

Personal Income Tax [net]: IDoR made their upward adjustment earlier in the fiscal year reflecting strong estimated payments. CGFA elected to refrain from adjusting until the critical months of March and April were booked. With the updates, CGFA is now marginally higher in the estimate of FY 2014, but the FY 2015 forecasts are virtually the same.

Corporate Income Tax [net]: Both CGFA and IDoR made significant adjustments earlier to the FY 2014 estimates. The lower CGFA estimate in FY 2014 continues to reflect a more conservative view over the remaining months. The larger difference in the FY 2015 estimate is due to IDoR's higher base coupled with higher growth forecast for next year.

Sales Tax: While CGFA's estimate for both years' remains marginally higher, little actual difference exists as both agencies project similar growth patterns.

All Other State Source Revenue: Overall the estimates remain quite similar for

both years; however, some differences exist by component and likely reflect CGFA's utilization of more recent data.

Transfers In: CGFA remains somewhat more conservative in the estimates of other transfers-in for both years. In particular, CGFA forecasts a continued decline in riverboat transfers.

Federal Sources: CGFA's estimate of federal sources is unchanged from the February revision, and continues to reflect reimbursable spending patterns. Similarly, the estimate for FY 2015 is unchanged, but may be altered by final appropriation levels.

Final Thoughts

With the final planned revision now complete, both CGFA and GOMB/IDoR forecasts are very similar overall and reflect a like view of future receipts. As before, what differences remain can best be viewed as normal variances that occur during the course of the estimating process.

**FY 2014 GENERAL FUNDS REVENUE
CGFA ESTIMATES**

(millions)

Revenue Sources	FY'14 CGFA May-14	FY'14 CGFA Feb-14	\$ Difference
State Taxes			
Personal Income Tax	\$18,229	\$17,713	\$516
Corporate Income Tax	\$3,738	\$3,738	\$0
Sales Taxes	\$7,673	\$7,673	\$0
Public Utility (regular)	\$1,020	\$1,005	\$15
Cigarette Tax	\$355	\$355	\$0
Liquor Gallonage Taxes	\$165	\$165	\$0
Vehicle Use Tax	\$29	\$29	\$0
Inheritance Tax (gross)	\$255	\$230	\$25
Insurance Taxes & Fees	\$330	\$330	\$0
Corporate Franchise Tax & Fees	\$203	\$203	\$0
Interest on State Funds & Investments	\$20	\$20	\$0
Cook County Intergovernmental Transfer	\$244	\$244	\$0
<u>Other Sources</u>	<u>\$576</u>	<u>\$530</u>	<u>\$46</u>
Subtotal	\$32,837	\$32,235	\$602
Transfers			
Lottery	\$669	\$669	\$0
Riverboat transfers and receipts	\$316	\$316	\$0
Proceeds from sale of 10th license	\$10	\$10	\$0
Refund Fund transfer	\$397	\$397	\$0
<u>Other</u>	<u>\$815</u>	<u>\$780</u>	<u>\$35</u>
Total State Sources	\$35,044	\$34,407	\$637
Federal Sources	\$3,850	\$3,850	\$0
Total Federal & State Sources	\$38,894	\$38,257	\$637
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax [9.5% FY'14]	(\$1,732)	(\$1,683)	(\$49)
Corporate Income Tax [13.4 FY'14]	(\$501)	(\$501)	\$0
Subtotal General Funds	\$36,661	\$36,073	\$588
NOTE: Totals exclude Budget Stabilization transfers, transfers from FY 2013/14 Backlog Payment Fund, and other cash flow transfers.			
CGFA			

CGFA ESTIMATES

(millions)

Revenue Sources	FY'14 CGFA <u>May-14</u>	FY'14 HR 389 <u>May-13</u>	\$ <u>Difference</u>
State Taxes			
Personal Income Tax	\$18,229	\$17,713	\$516
Corporate Income Tax	\$3,738	\$3,391	\$347
Sales Taxes	\$7,673	\$7,348	\$325
Public Utility (regular)	\$1,020	\$1,032	(\$12)
Cigarette Tax	\$355	\$355	\$0
Liquor Gallonage Taxes	\$165	\$165	\$0
Vehicle Use Tax	\$29	\$27	\$2
Inheritance Tax (gross)	\$255	\$210	\$45
Insurance Taxes & Fees	\$330	\$350	(\$20)
Corporate Franchise Tax & Fees	\$203	\$203	\$0
Interest on State Funds & Investments	\$20	\$20	\$0
Cook County Intergovernmental Transfer	\$244	\$244	\$0
<u>Other Sources</u>	<u>\$576</u>	<u>\$410</u>	<u>\$166</u>
Subtotal	\$32,837	\$31,468	\$1,369
Transfers			
Lottery	\$669	\$669	\$0
Riverboat transfers and receipts	\$316	\$356	(\$40)
Proceeds from sale of 10th license	\$10	\$10	\$0
Refund Fund transfer	\$397	\$300	\$97
<u>Other</u>	<u>\$815</u>	<u>\$780</u>	<u>\$35</u>
Total State Sources	\$35,044	\$33,583	\$1,461
Federal Sources	\$3,850	\$4,000	(\$150)
Total Federal & State Sources	\$38,894	\$37,583	\$1,311
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax [9.5% FY'14]	(\$1,732)	(\$1,683)	(\$49)
Corporate Income Tax [13.4 FY'14]	(\$501)	(\$454)	(\$47)
Subtotal General Funds	\$36,661	\$35,446	\$1,215

NOTE: Totals exclude Budget Stabilization transfers, transfers from FY 2013/14 Backlog Payment Fund, and other cash flow transfers.

CGFA

***FY 2014 GENERAL FUNDS REVENUE
CGFA vs. GOMB/IDoR ESTIMATES***

(millions)

<u>Revenue Sources</u>	<u>FY'14 CGFA May-14</u>	<u>FY'14 GOMB/IDoR Feb-14</u>	<u>\$ Difference</u>
State Taxes			
Personal Income Tax	\$18,229	\$18,013	\$216
Corporate Income Tax	\$3,738	\$3,830	(\$92)
Sales Taxes	\$7,673	\$7,610	\$63
Public Utility (regular)	\$1,020	\$1,006	\$14
Cigarette Tax	\$355	\$355	\$0
Liquor Gallonage Taxes	\$165	\$166	(\$1)
Vehicle Use Tax	\$29	\$29	\$0
Inheritance Tax (gross)	\$255	\$218	\$37
Insurance Taxes & Fees	\$330	\$325	\$5
Corporate Franchise Tax & Fees	\$203	\$203	\$0
Interest on State Funds & Investments	\$20	\$17	\$3
Cook County Intergovernmental Transfer	\$244	\$244	\$0
<u>Other Sources</u>	<u>\$576</u>	<u>\$533</u>	<u>\$43</u>
Subtotal	\$32,837	\$32,549	\$288
Transfers			
Lottery	\$669	\$669	\$0
Riverboat transfers and receipts	\$316	\$317	(\$1)
Proceeds from sale of 10th license	\$10	\$10	\$0
Refund Fund transfer	\$397	\$397	\$0
<u>Other</u>	<u>\$815</u>	<u>\$835</u>	<u>(\$20)</u>
Total State Sources	\$35,044	\$34,777	\$267
Federal Sources	\$3,850	\$4,113	(\$263)
Total Federal & State Sources	\$38,894	\$38,890	\$4
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax [9.5% FY'14]	(\$1,732)	(\$1,711)	(\$21)
Corporate Income Tax [13.4% FY'14]	(\$501)	(\$514)	\$13
Subtotal General Funds	\$36,661	\$36,665	(\$4)

NOTE: Totals exclude Budget Stabilization transfers, transfers from FY 2013/14 Backlog Payment Fund, and other cash flow transfers.

CGFA

FY 2015 GENERAL FUNDS REVENUE CGFA ESTIMATES

(millions)

<u>Revenue Sources</u>	<u>FY'15 CGFA May-14</u>	<u>FY'15 CGFA Feb-14</u>	<u>\$ Difference</u>
State Taxes			
Personal Income Tax	\$16,942	\$16,717	\$225
Corporate Income Tax	\$3,267	\$3,267	\$0
Sales Taxes	\$7,842	\$7,842	\$0
Public Utility (regular)	\$1,005	\$995	\$10
Cigarette Tax	\$355	\$355	\$0
Liquor Gallonage Taxes	\$165	\$165	\$0
Vehicle Use Tax	\$29	\$29	\$0
Inheritance Tax (gross)	\$205	\$205	\$0
Insurance Taxes & Fees	\$330	\$330	\$0
Corporate Franchise Tax & Fees	\$205	\$205	\$0
Interest on State Funds & Investments	\$25	\$25	\$0
Cook County Intergovernmental Transfer	\$244	\$244	\$0
<u>Other Sources *</u>	<u>\$486</u>	<u>\$486</u>	<u>\$0</u>
Subtotal	\$31,100	\$30,865	\$235
Transfers			
Lottery	\$682	\$682	\$0
Riverboat transfers and receipts	\$300	\$300	\$0
Proceeds from sale of 10th license	\$10	\$10	\$0
Refund Fund transfer	\$100	\$100	\$0
<u>Other</u>	<u>\$750</u>	<u>\$790</u>	<u>(\$40)</u>
Total State Sources	\$32,942	\$32,747	\$195
Federal Sources	\$4,273	\$4,273	\$0
Total Federal & State Sources	\$37,215	\$37,020	\$195
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax [9.5% '14; 10% '15]	(\$1,694)	(\$1,672)	(\$22)
Corporate Income Tax [13.4% '14; 14% '15]	(\$457)	(\$457)	\$0
Fund for Advancement of Education	(\$201)	(\$198)	(\$3)
Commitment to Human Services Fund	(\$201)	(\$198)	(\$3)
Subtotal General Funds	\$34,662	\$34,495	\$167

NOTE: Totals exclude Budget Stabilization transfers, transfers from FY 2013/14 Backlog Payment Fund, and other cash flow transfers.

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FY 2015 GENERAL FUNDS REVENUE CGFA ESTIMATES

(millions)

Revenue Sources	FY'15 CGFA May-14	FY'14 CGFA May-14	\$ Difference
State Taxes			
Personal Income Tax	\$16,942	\$18,229	(\$1,287)
Corporate Income Tax	\$3,267	\$3,738	(\$471)
Sales Taxes	\$7,842	\$7,673	\$169
Public Utility (regular)	\$1,005	\$1,020	(\$15)
Cigarette Tax	\$355	\$355	\$0
Liquor Gallonage Taxes	\$165	\$165	\$0
Vehicle Use Tax	\$29	\$29	\$0
Inheritance Tax (gross)	\$205	\$255	(\$50)
Insurance Taxes & Fees	\$330	\$330	\$0
Corporate Franchise Tax & Fees	\$205	\$203	\$2
Interest on State Funds & Investments	\$25	\$20	\$5
Cook County Intergovernmental Transfer	\$244	\$244	\$0
<u>Other Sources *</u>	<u>\$486</u>	<u>\$576</u>	<u>(\$90)</u>
Subtotal	\$31,100	\$32,837	(\$1,737)
Transfers			
Lottery	\$682	\$669	\$13
Riverboat transfers and receipts	\$300	\$316	(\$16)
Proceeds from sale of 10th license	\$10	\$10	\$0
Refund Fund transfer	\$100	\$397	(\$297)
<u>Other</u>	<u>\$750</u>	<u>\$815</u>	<u>(\$65)</u>
Total State Sources	\$32,942	\$35,044	(\$2,102)
Federal Sources	\$4,273	\$3,850	\$423
Total Federal & State Sources	\$37,215	\$38,894	(\$1,679)
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax [9.5% '14; 10% '15]	(\$1,694)	(\$1,732)	\$38
Corporate Income Tax [13.4% '14; 14% '15]	(\$457)	(\$501)	\$44
Fund for Advancement of Education	(\$201)	N/A	(\$201)
Commitment to Human Services Fund	(\$201)	N/A	(\$201)
Subtotal General Funds	\$34,662	\$36,661	(\$1,999)

NOTE: Totals exclude Budget Stabilization transfers, transfers from FY 2013/14 Backlog Payment Fund, and other cash flow transfers.

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FY 2015 GENERAL FUNDS REVENUE
CGFA vs. GOMB/IDoR ESTIMATES [Budget Book]

(millions)

Revenue Sources	FY'15 CGFA May-14	FY'15 GOMB/IDoR March-14	\$ Difference
State Taxes			
Personal Income Tax	\$16,942	\$16,993	(\$51)
Corporate Income Tax	\$3,267	\$3,571	(\$304)
Sales Taxes	\$7,842	\$7,810	\$32
Public Utility (regular)	\$1,005	\$1,031	(\$26)
Cigarette Tax	\$355	\$355	\$0
Liquor Gallonage Taxes	\$165	\$167	(\$2)
Vehicle Use Tax	\$29	\$29	\$0
Inheritance Tax (gross)	\$205	\$190	\$15
Insurance Taxes & Fees	\$330	\$325	\$5
Corporate Franchise Tax & Fees	\$205	\$201	\$4
Interest on State Funds & Investments	\$25	\$17	\$8
Cook County Intergovernmental Transfer	\$244	\$244	\$0
<u>Other Sources *</u>	<u>\$486</u>	<u>\$451</u>	<u>\$35</u>
Subtotal	\$31,100	\$31,384	(\$284)
Transfers			
Lottery	\$682	\$682	\$0
Riverboat transfers and receipts	\$300	\$324	(\$24)
Proceeds from sale of 10th license	\$10	\$10	\$0
Refund Fund transfer	\$100	\$100	\$0
<u>Other</u>	<u>\$750</u>	<u>\$779</u>	<u>(\$29)</u>
Total State Sources	\$32,942	\$33,279	(\$337)
Federal Sources	\$4,273	\$4,294	(\$21)
Total Federal & State Sources	\$37,215	\$37,573	(\$358)
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax [10% FY'15]	(\$1,694)	(\$1,699)	\$5
Corporate Income Tax [14% FY'15]	(\$457)	(\$500)	\$43
Fund for Advancement of Education	(\$201)	(\$225)	\$24
Commitment to Human Services Fund	(\$201)	(\$225)	\$24
Subtotal General Funds	\$34,662	\$34,924	(\$262)

NOTE: Totals exclude Budget Stabilization transfers, transfers from FY 2013/14 Backlog Payment Fund, and other cash flow transfers.

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ECONOMY

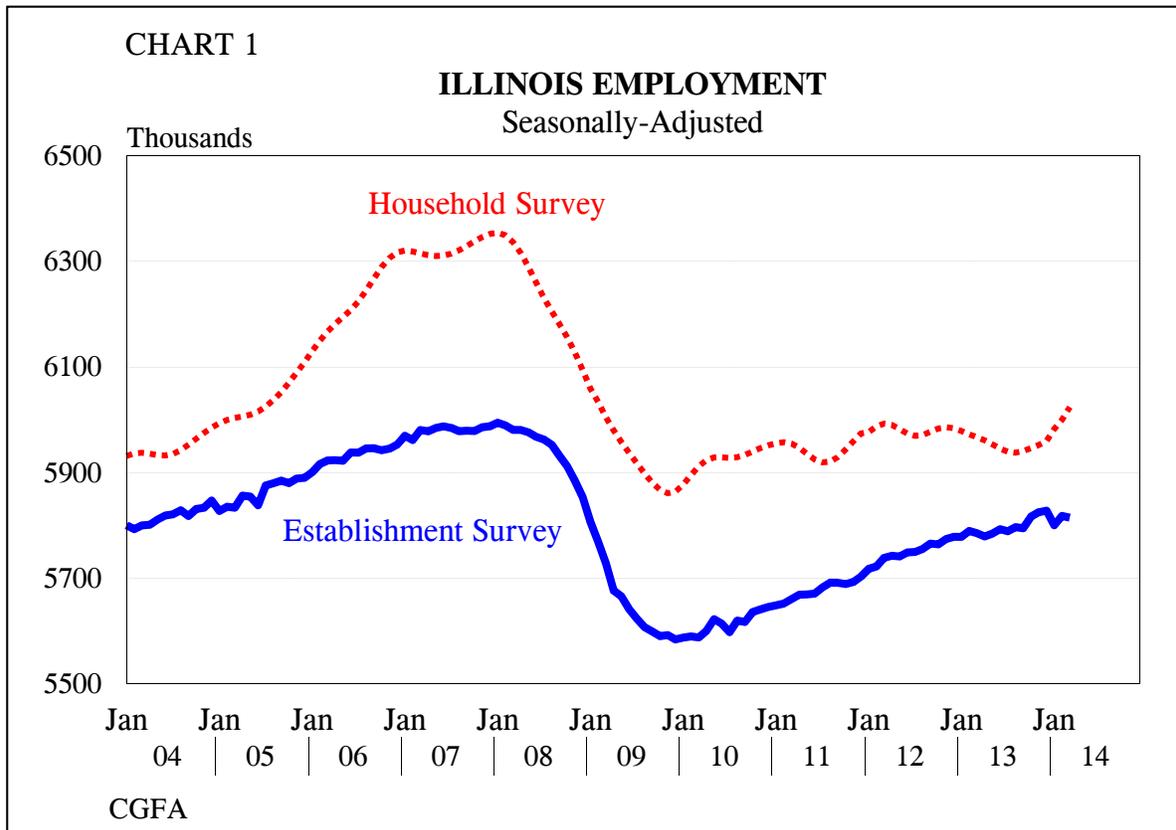
Slack in the Labor Market Continues

Edward H. Boss, Jr. – Chief Economist

There remains significant slack in the labor market despite an economic recovery that soon will be entering its sixth year. In large part this reflects the slow pace of recovery that has been the weakest in the post WWII period. Even while the national unemployment rate has fallen from a peak of 10% in late 2009 to 6.7% in March 2014, nearing the 6.5% original guideline for the monetary authorities, it is slightly more than 1 percentage point above the 5.2% to 5.6% central tendency the Federal Reserve projects for the longer run as a normal unemployment rate.

Janet Yellen, the new Chairman of the Federal Reserve, in a recent speech said,

"Other data suggest that there may be more slack in the labor markets than indicated by the unemployment rate." She pointed out that the share of the workforce working part time but would prefer full time was quite high by historical standards. Similarly, the share of workers unemployed that have been looking for more than six months, down from its peak, *"remains as high as any time prior to the Great Recession."* She argued that long-term unemployment might fall appreciably if economic conditions were stronger. And, once again there is much speculation that the pace of recovery will improve as the year progresses. Such summer recoveries, however, have failed to develop in the past several years.



Even though the economic recovery began at mid-2009, real GDP declined by 2.8% that year. The following year saw growth improve by 2.5%, but no sharp rebound which might have been expected given the severity of the recession. Growth in fact slowed in 2011 to 1.8% before improving to 2.8% in 2012 only to slow again to 1.9% last year. At the end of April, the advance report on GDP for the first quarter of 2014 showed GDP growing at a seasonally-adjusted annual rate of 0.17%. It is generally thought it takes sustained growth of 2.5% to 3% to have significant improvement in the labor markets. Even so, despite modest growth in the economy, the nation has added more than 8 million jobs to nonfarm payrolls, almost the same as that lost during the recession.

In Illinois, the labor market also has improved. In March the State's unemployment rate fell to 8.4%, it's lowest in five years, although well above the 6.7% for the nation and Midwest as a whole that month. The State divergence really became noticeable starting in 2009 and has not narrowed significantly since. Moreover at 8.4%, Illinois' unemployment rate

was third highest in the nation, exceeded only by Nevada at .5% and Rhode Island at 8.7% in March. Nearby states to Illinois had significantly lower unemployment rates; Indiana with 5.9%, Iowa with 4.5%, Michigan at 7.5%, Ohio at 6.1%, and Wisconsin at 5.9%.

Despite the high unemployment rate, Illinois has also increased employment. As shown in the accompanied Chart payroll jobs, as measured by the Establishment Survey, are up about 225,000 from their low. Even so, unlike the national figures, there will have to be further substantial job gains to recover those lost during the recession. Moreover, unlike the national figures, Illinois never recovered all the jobs lost during the previous recession before the last one began. According to an independent report commissioned by CGFA by Moody's Analytics earlier this year, *despite the positive signs, it is important not to get overly optimistic about the state's prospects. It will take at least two more years for employment to reach its pre-recession peak, with job growth expected to fall well short of the national average in 2014 and 2015.*"

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

<u>INDICATORS</u> *	<u>MAR. 2014</u>	<u>FEB. 2014</u>	<u>MAR. 2013*</u>
Unemployment Rate (Average)	8.4%	8.7%	9.2%
Annual Rate of Inflation (Chicago)	13.6%	6.3%	1.3%
<hr style="border: 2px solid black;"/>			
	<u>LATEST</u>	<u>% CHANGE</u>	<u>% CHANGE*</u>
	<u>MONTH</u>	<u>OVER PRIOR</u>	<u>OVER A</u>
		<u>MONTH</u>	<u>YEAR AGO</u>
Civilian Labor Force (thousands) (March)	6,576	0.1%	-0.5%
Employment (thousands) (March)	6,024	0.4%	-0.1%
New Car & Truck Registration (March)	47,170	29.3%	6.2%
Single Family Housing Permits (March)	891	82.5%	9.5%
Total Exports (\$ mil) (February)	5,305	-4.1%	2.5%
Chicago Purchasing Managers Index (April)	63.0	12.7%	28.5%
* Due to monthly fluctuations, trend best shown by % change from a year ago			

APRIL 2014 BOND SALES

Lynnae Kapp, Senior Bond Analyst

Illinois sold \$250 million in General Obligation bonds in early April 2014. With a 4.0816% true interest cost, the State's estimates \$10 million in savings compared to the State's February bond sale. The State sold \$750 million in General Obligation bonds at the end of

April, which received a 4.0961% true interest cost. The sale had received orders from 54 investors totaling \$2.2 billion. High market demand and low supply have tempered the interest rate penalties for the State's low credit ratings.

BOND SALES								
DATE	BOND SALE TYPE	AMOUNT	TAXABLE v. TAX- EXEMPT	NEGOTIATED v. COMPETITIVE SALE	TRUE INTEREST COST	S&P	FITCH	MOODY'S
FY 2013								
Sep-12	GO bonds	\$50 million		competitive	2.492%	A	A	A2
Apr-13	GO Series A bonds	\$450 million	tax-exempt	competitive	3.919%	A-	A	A2
Apr-13	GO Series B bonds	\$350 million	taxable	competitive	4.970%			
May-13	BI bonds	\$300 million	taxable	competitive	3.286%	AAA	AA+	A2
Jun-13	BI Refunding bonds	\$604 million	tax-exempt	negotiated	2.700%	AAA	AA+	A3
FY 2014								
Jun/Jul-13	GO bonds	\$1.3 billion	tax-exempt	negotiated	5.042%	A-	A-	A3
Dec-13	GO bonds	\$350 million	taxable	competitive	5.397%	A-	A-	A3
Feb-14	GO bonds	\$1.025 billion	tax-exempt	negotiated	4.063%	A-	A-	A3
Mar-14	BI bonds	\$402 million	taxable	competitive	4.271%	AAA	AA+	A3
Apr-14	GO bonds	\$250 million	tax-exempt	competitive	4.082%	A-	A-	A3
May-14	GO bonds	\$750 million	tax-exempt	negotiated	4.096%	A-	A-	A3

Taxable Build Illinois bonds, sold in March 2014, totaled \$402 million. The State had seven bids on the competitive sale and received a true interest cost (TIC) of 4.2706%. Although spreads to a comparable Treasury interest rate had narrowed since the State's last taxable Build Illinois bond sale in May 2013, interest rates increased.

Tax-exempt General Obligation bonds sold in February 2014 equaled \$1.025 billion. With over \$5.5 billion in orders from about 109 investors, the State was able to re-price the bond twice, to the State's benefit. The true interest cost on the sale was 4.46%, a savings of approximately \$60 million over the 25-year life of the bond compared to the rate the State received on a similar issue in June 2013, based on statements from State officials.

In December, Illinois sold \$350 million of taxable General Obligation Bonds. The True Interest Cost was 5.40%,

with a spread over Treasuries of 251 basis points. This spread is 59 basis points lower than an identical sale in April of 2013. The Governor's Office of Management and Budget attributes the smaller spread to the passage of SB 1 affecting pension reform. This smaller spread will save the State over \$20 million over the life of the bonds.

The State sold \$600 million of Build Illinois refunding bonds in June 2013. The sale received a 2.70% true interest cost, and gave the State approximately 9% in present value savings equaling \$55 million. The refunding also freed up \$30 million - \$40 million of reserves that will no longer be required.

Illinois also sold \$1.3 billion of General Obligation bonds at the end of June 2013. This occurred after four days of massive sell-offs of bonds in the market. Illinois' G.O. bonds "received more than \$9 billion in bids from 145

investors and it was able to pare between 6 to 14 basis points off yields on some maturities after lowering some by as much as 10 basis points from preliminary marketing levels” [“Buyers Devour Illinois GOs As Market Rallies

Back From Selloff”, The Bond Buyer, June 26, 2013]. Even though the State was able to somewhat lower the yields of the bonds, the Governor stated that the ratings downgrades cost the State an additional \$130 million in debt service over the 25-year maturity of the bonds.