Commission on Government Forecasting and Accountability

MONTHLY BRIEFING *MAY 2010*

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

INSIDE THIS ISSUE

703 Stratton Ofc. Bldg.
Springfield, IL 62706

ECONOMY: World Currency Turmoil

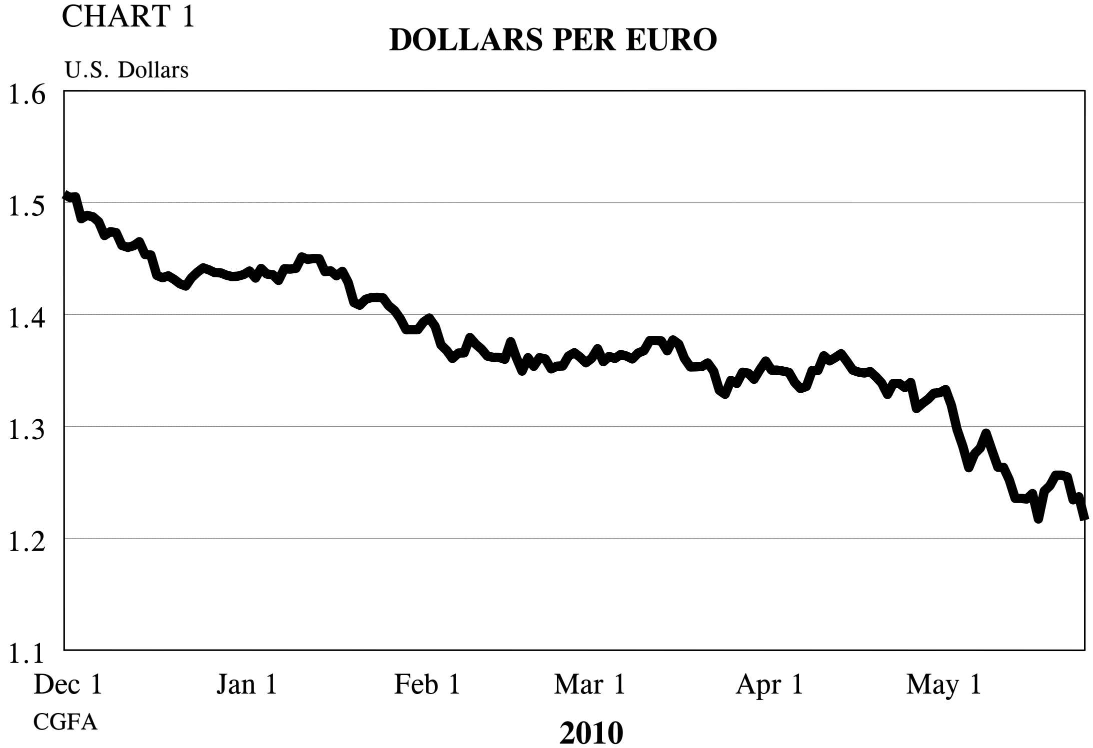
Edward H. Boss, Jr., Chief Economist

Renewed disturbances in Greece led to riots over measures passed by the government to reign in its huge debt position. Fears of such draconian measures spread to other debt-burdened European countries, particularly Portugal, Spain and Ireland. In early May, both Spain and Portugal added to previous deficit commitments, which according to the ISI Group, equaled to about 1% of GDP for 2011. This coupled with the need for a bailout by the major countries in the European Union brought into question the integrity of sovereign debt itself. Since then, Germany, France, and Italy have announced new steps or implementation of previous commitments to reign in their debt positions.

The European debt situation in part reflects flaws that were inherent in the creation of the European Union, which while having a unified monetary position has no disciplinary political union to enforce changes. This flaw led to over extended debt positions that varied among its members which in turn put downward pressure on the Euro, bringing it to near a four-year low. Chart 1 on the top of the next page shows recent movements in the Euro. As shown, it took a little over $1.50 to buy a Euro as recently as early December of last year whereas the Euro could be bought for a little over $1.20 by late May of this year. Moreover, some analysts suggest a longer-term trend toward equality with the U.S. dollar could be in store as reduced confidence in Europe's economy raises concern over stagnation and possible deflation.

The problems in Europe are not confined there, however. As the Euro has declined, the dollar has strengthened, reducing U.S. competitiveness and threatening what has been improvement in U.S. exports. In reaction to currency disturbances, the U.S. stock market came under downward pressure, leading to more than a 10% correction from its April high to mid to late May. Despite increasing concern over growing debt positions and distrust in paper currencies,

CHART 1



precious metals, oil, and other commodity prices eased as the impact of reigning in debt on economic growth outweighed those over renewed inflation stemming from an economic recovery that is underway here.

While European nations are taking actions to stem their growing debt positions, U.S. debt continues to grow rapidly. New CBO estimates now indicate the new health care legislation will be adding to the deficit rather than reducing it even as other entitlement programs, further expansion of unemployment benefits, and other "stimulative" spending additions further add to the deficit. This increase in the deficit is occurring at the same time that recent economic data have shown some softening in the pace of the U.S. economic recovery including weakening consumer spending, a softening in business investment and housing, and an April decline in the leading indicator series. The latest report on GDP showed the U.S. economy grew at a reduced rate of 3.0% in the first quarter, down from the 3.2% rate in the advance report, and the 5.6% pace reached in the fourth quarter of 2009. While it is heartening to see renewed growth in the U.S. economy, the rate of improvement is far less than what normally could be expected coming out of a recession, particularly one that was as severe as the last.

While some steps have been taken in Europe to stabilize the Euro and reduce sovereign debt fears, a solution to the world currency turmoil is still fragile at best. For example, assurances from China late in the month that it was not about to unload its Euro dollar denominated securities any time soon gave a boost to world equity markets. However, when the Fitch rating service lowered its credit rating on Spain a day later, retrenchment in the stock market followed erasing some of the previous day's gain. While Europe has been forced to begin to face its over burdened debt position, the situation is still tenuous. At the same time, the U.S. may be somewhat better off than many European nations and its economy on a stronger growth path. Even so if the rapid expansion in debt arising from record U.S. deficit spending isn't curtailed, the lessons learned from the European experience would have been ignored and it would be to its own peril.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS	April 2010	March 2010	April 2009
Unemployment Rate (Average)	11.2%	11.5%	9.6%
Annual Rate of Inflation (Chicago)	-0.1%	2.8%	2.4%

	LATEST MONTH	% CHANGE OVER PRIOR MONTH	% CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (April)	6,696	0.4%	1.1%
Employment (thousands) (April)	5,943	0.7%	-0.6%
New Car & Truck Registration (April)	40,701	17.0%	19.2%
Single Family Housing Permits (April)	922	8.1%	22.2%
Total Exports ($ mil) (March)	4,156	13.7%	12.9%
Chicago Purchasing Managers Index (May)	59.7	-6.4%	71.1%

REVENUE

Continued Weakness in Income Tax and Federal Sources Results in Poor May

Jim Muschinske, Revenue Manager

May revenues dropped $1.656 billion compared to the same month last year. While income taxes fared poorly, the vast majority [$1.484 billion] of the monthly drop was due to federal receipting. Not only was May a poor month for federal sources being receipted into the general funds due to origin of spending [from non-general funds], but it compared to a record May last year when federal monies were made available through the federal stimulus program. In addition, last year's $1 billion in short-term borrowing also aided spending on reimbursable programs. May had the same number of receipting days as the same month last year.

For the month, gross corporate income taxes fell $111 million, or $92 million net of refunds. In addition to current economic conditions, a contributing factor to the plunge in corporate income tax receipts could be traced back to last year's unexpectedly strong performance. Insurance taxes and fees fell $18 million, public utility taxes declined $13 million, interest income fell $6 million, and liquor taxes dipped $1 million.

A few sources experienced gains in May, albeit relative modest. Inheritance taxes grew $7 million, sales taxes $6 million, corporate franchise taxes $5 million, cigarette taxes $4 million [due to reconciliations], and vehicle use tax $2 million.

Overall transfers in May were virtually flat. While other transfers grew $7 million, those gains were nearly wiped out by a $5 million falloff in riverboat transfers. As mentioned earlier, the $1.484 billion falloff in federal sources to the general funds was due in large part to reimbursable spending taking place from non-general funds, as well as very large receipting last May made possible by federal stimulus payments as well as short-term borrowing.

Year to Date

Through May, base revenues are down $1.456 billion. Virtually all revenue sources have felt the recession's impact; particularly the larger ones most closely tied to economic sources.

To date, gross personal income tax has fallen $773 million, or $698 million net of refunds. Gross corporate income tax is down $493 million, or $407 million net of refunds. Sales tax receipts are off a disastrous $454 million, while public utility taxes are down by $97 million. All other revenue sources netted an additional decline of $103 million.

With one month remaining in the fiscal year, overall transfers are up $376 million mostly due to fund sweeps, which have contributed to other transfers gaining $380 million. With the massive drop in May, federal sources have declined $73 million, reflecting reimbursable spending as well as last spring's large federal stimulus payments.

GENERAL FUNDS RECEIPTS: MAY FY 2010 vs. FY 2009 ($ million)				
Revenue Sources	**May FY 2010**	**May FY 2009**	**$ CHANGE**	**% CHANGE**
State Taxes				
Personal Income Tax	$702	$779	($77)	-9.9%
Corporate Income Tax (regular)	61	172	($111)	-64.5%
Sales Taxes	528	522	$6	1.1%
Public Utility Taxes (regular)	73	86	($13)	-15.1%
Cigarette Tax	33	29	$4	13.8%
Liquor Gallonage Taxes	12	13	($1)	-7.7%
Vehicle Use Tax	4	2	$2	100.0%
Inheritance Tax (Gross)	23	16	$7	43.8%
Insurance Taxes and Fees	1	19	($18)	-94.7%
Corporate Franchise Tax & Fees	19	14	$5	35.7%
Interest on State Funds & Investments	3	9	($6)	-66.7%
Cook County IGT	94	94	$0	N/A
Other Sources	27	26	$1	3.8%
Subtotal	$1,580	$1,781	($201)	-11.3%
Transfers				
Lottery	58	58	$0	0.0%
Riverboat transfers & receipts	25	30	($5)	-16.7%
Proceeds from Sale of 10th license	0	0	$0	N/A
Other	62	55	$7	12.7%
Total State Sources	$1,725	$1,924	($199)	-10.3%
Federal Sources	$209	$1,693	($1,484)	-87.7%
Total Federal & State Sources	$1,934	$3,617	($1,683)	-46.5%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($68)	($76)	$8	-10.5%
Corporate Income Tax	($11)	(30)	$19	-63.3%
Subtotal General Funds	$1,855	$3,511	($1,656)	-47.2%
Short-Term Borrowing	$0	$1,000	($1,000)	N/A
Pension Contribution Fund Transfer	$0	$0	$0	N/A
Budget Stabilization Fund Transfer	$0	$200	($200)	N/A
Total General Funds	$1,855	$4,711	($2,856)	-60.6%
CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				2-Jun-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	$8,598	$9,371	($773)	-8.2%
Corporate Income Tax (regular)	1,393	1,886	($493)	-26.1%
Sales Taxes	5,746	6,200	($454)	-7.3%
Public Utility Taxes (regular)	994	1,091	($97)	-8.9%
Cigarette Tax	325	321	$4	1.2%
Liquor Gallonage Taxes	145	144	$1	0.7%
Vehicle Use Tax	27	25	$2	8.0%
Inheritance Tax (Gross)	208	254	($46)	-18.1%
Insurance Taxes and Fees	259	273	($14)	-5.1%
Corporate Franchise Tax & Fees	190	185	$5	2.7%
Interest on State Funds & Investments	24	71	($47)	-66.2%
Cook County IGT	244	253	($9)	-3.6%
Other Sources	357	356	$1	0.3%
Subtotal	$18,510	$20,430	($1,920)	-9.4%
Transfers				
Lottery	559	559	$0	0.0%
Riverboat transfers & receipts	348	400	($52)	-13.0%
Proceeds from Sale of 10th license	48	0	$48	N/A
Other	733	353	$380	107.6%
Total State Sources	$20,198	$21,742	($1,544)	-7.1%
Federal Sources	$5,659	$5,732	($73)	-1.3%
Total Federal & State Sources	$25,857	$27,474	($1,617)	-5.9%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($838)	($913)	$75	-8.2%
Corporate Income Tax	($244)	($330)	$86	-26.1%
Subtotal General Funds	$24,775	$26,231	($1,456)	-5.6%
Short-Term Borrowing	$1,250	$2,400	($1,150)	N/A
Pension Contribution Fund Transfer	$835	$0	$835	N/A
Budget Stabilization Fund Transfer	$871	$526	$345	65.6%
Total General Funds	$27,731	$29,157	($1,426)	-4.9%

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

CGFA 2-Jun-10

PENSIONS
Fiscal Impact of a FY 2011 Pension Holiday
Dan Hankiewicz, Pension Manager

With the legislature having adjourned to the call of the Speaker and the Senate President, the question of how the State will make its annual required pension contribution in FY 2011 is very much in doubt. At the time of the legislature's adjournment on May 27th, a proposal to issue $4.1 billion in pension obligation bonds (SB 3514) had passed the House but had not yet been called for a vote in the Senate. A proposal to delay the FY 2011 payment (HB 543) had passed the Senate and has advanced out of House committee but has not yet been called for a floor vote. HB 543 amends the State Pension Funds Continuing Appropriation Act to specify that no pension payment is required in FY 2011 "until the Governor certifies to the Comptroller that adequate funds are available" to make the pension payment.

Table 1, on page 8, shows an actuarial forecast for the five State systems based on the reforms contained in P.A. 96-0889 (SB 1946). The actuary assumes the FY 2011 contribution will be recertified to reflect savings from the reforms. Table 2, on page 9, shows an actuarial forecast for the five State systems assuming no pension contribution is made in FY 2011. Table 3, on page 10, compares the required State contributions from Tables 1 and 2 and shows that $12.4 billion in additional annual contributions will be required between FY 2012 and FY 2045 if no State contribution is made in FY 2011.

Table 1

FUNDING PROJECTIONS FOR THE STATE RETIREMENT SYSTEMS
Reduced Benefits for Members Starting Participation on/after January 1, 2011
CoGFA Projections Based on Public Act 96-0889 (SB 1946)
All Five Systems Combined
($ in millions)

Fiscal Year	Annual Payroll	Total State Contribution*	State Contribution as a % of Payroll	Total Employee Contribution	Accrued Liabilities	Assets	Unfunded Liabilities	Funded Ratio
2009					$127,285.1	$63,996.4	$63,288.7	50.3%
2010	$17,019.5	$3,975.7	23.4%	$1,431.6	$133,266.8	$62,480.9	$70,785.9	46.9%
2011	17,766.8	3,520.5 **	19.8%	1,495.8	139,407.8	60,284.0	79,123.8	43.2%
2012	18,582.9	3,917.5	21.1%	1,565.8	145,655.3	58,245.7	87,409.6	40.0%
2013	19,426.2	4,356.2	22.4%	1,638.3	151,976.3	56,406.3	95,570.0	37.1%
2014	20,313.2	4,805.0	23.7%	1,712.7	158,365.7	58,615.8	99,749.9	37.0%
2015	21,244.5	5,251.4	24.7%	1,791.9	164,799.3	61,005.4	103,793.9	37.0%
2016	22,210.4	5,514.2	24.8%	1,878.3	171,272.5	63,412.2	107,860.3	37.0%
2017	23,213.1	5,767.1	24.8%	1,965.0	177,777.1	65,815.3	111,961.7	37.0%
2018	24,276.2	6,033.0	24.9%	2,057.0	184,311.9	68,230.9	116,081.0	37.0%
2019	25,400.2	6,314.8	24.9%	2,152.0	190,877.7	70,675.7	120,202.0	37.0%
2020	26,586.1	6,596.0	24.8%	2,257.2	197,535.6	73,134.8	124,400.8	37.0%
2021	27,843.4	6,897.0	24.8%	2,366.2	204,208.6	75,635.3	128,573.3	37.0%
2022	29,157.6	7,217.3	24.8%	2,480.3	210,884.0	78,197.4	132,686.6	37.1%
2023	30,538.3	7,559.7	24.8%	2,600.3	217,545.4	80,842.4	136,703.0	37.2%
2024	31,982.7	7,901.9	24.7%	2,722.9	223,838.9	83,569.0	140,269.9	37.3%
2025	33,484.5	8,264.2	24.7%	2,856.5	230,189.4	86,396.2	143,793.1	37.5%
2026	35,054.5	8,667.9	24.7%	2,993.2	236,440.1	89,366.1	147,074.0	37.8%
2027	36,692.2	9,093.7	24.8%	3,135.7	242,556.3	92,492.3	150,064.0	38.1%
2028	38,403.1	9,522.4	24.8%	3,284.6	248,505.6	95,807.7	152,697.8	38.6%
2029	40,187.1	9,971.5	24.8%	3,436.5	254,253.0	99,338.8	154,914.2	39.1%
2030	42,070.1	10,428.4	24.8%	3,603.5	259,769.1	103,105.0	156,664.1	39.7%
2031	44,049.1	10,913.1	24.8%	3,775.5	265,008.1	107,151.6	157,856.5	40.4%
2032	46,109.6	11,448.3	24.8%	3,954.4	269,939.7	111,556.7	158,383.0	41.3%
2033	48,261.4	12,034.3	24.9%	4,141.0	274,532.6	116,417.6	158,115.0	42.4%
2034	50,496.3	13,507.7	26.7%	4,330.8	278,753.2	122,721.6	156,031.6	44.0%
2035	52,833.2	14,130.3	26.7%	4,537.2	282,564.9	129,685.6	152,879.3	45.9%
2036	55,275.2	14,781.0	26.7%	4,748.7	285,916.9	137,389.7	148,527.2	48.1%
2037	57,829.5	15,461.5	26.7%	4,969.8	288,778.1	145,942.9	142,835.2	50.5%
2038	60,498.6	16,172.6	26.7%	5,200.9	291,119.7	155,465.3	135,654.3	53.4%
2039	63,277.3	16,912.7	26.7%	5,436.8	292,936.1	166,102.4	126,833.7	56.7%
2040	66,119.6	17,670.1	26.7%	5,687.4	294,256.5	178,018.6	116,237.9	60.5%
2041	69,085.8	18,460.4	26.7%	5,943.9	295,105.3	191,401.8	103,703.5	64.9%
2042	72,213.3	19,293.3	26.7%	6,214.7	295,562.3	206,532.7	89,029.6	69.9%
2043	75,522.6	20,174.2	26.7%	6,501.6	295,707.4	223,740.2	71,967.2	75.7%
2044	79,005.5	21,100.7	26.7%	6,798.3	295,603.3	243,375.0	52,228.3	82.3%
2045	82,671.9	22,075.9	26.7%	7,122.8	295,320.3	265,788.2	29,532.1	90.0%

* Excludes Debt Service

** CoGFA's Actuary Assumes FY 2011 Contribution will be Recertified to Reflect Savings from P.A. 96-0889

Table 2

FUNDING PROJECTIONS FOR THE STATE RETIREMENT SYSTEMS
Reduced Benefits for New Members Based on Public Act 96-0889 (SB 1946)
CGFA Projections Assuming No State Contribution for FY 2011
All Five Systems Combined
($ in millions)

Fiscal Year	Annual Payroll	Total State Contribution	State Contribution as a % of Payroll	Total Employee Contribution	Accrued Liabilities	Assets	Unfunded Liabilities	Funded Ratio
2009					$127,285.1	$63,996.4	$63,288.7	50.3%
2010	$17,019.5	$3,975.7	23.4%	$1,414.2	133,266.8	62,480.9	70,785.9	46.9%
2011	17,766.8	0.0	0.0%	1,477.8	139,407.8	56,617.1	82,790.7	40.6%
2012	18,582.9	4,132.2	22.2%	1,547.0	145,655.3	54,495.5	91,159.8	37.4%
2013	19,426.2	4,579.7	23.6%	1,618.7	151,976.3	52,575.7	99,400.7	34.6%
2014	20,313.2	5,037.7	24.8%	1,694.4	158,365.7	54,708.2	103,657.5	34.5%
2015	21,244.5	5,493.2	25.9%	1,773.8	164,799.3	57,024.8	107,774.5	34.6%
2016	22,210.4	5,766.2	26.0%	1,856.3	171,272.5	59,363.4	111,909.1	34.7%
2017	23,213.1	6,030.1	26.0%	1,942.2	177,777.1	61,704.4	116,072.6	34.7%
2018	24,276.2	6,307.6	26.0%	2,033.4	184,311.9	64,065.1	120,246.8	34.8%
2019	25,400.2	6,601.5	26.0%	2,129.8	190,877.7	66,463.3	124,414.4	34.8%
2020	26,586.1	6,896.0	25.9%	2,231.7	197,535.6	68,886.1	128,649.5	34.9%
2021	27,843.4	7,211.0	25.9%	2,339.7	204,208.6	71,362.3	132,846.3	34.9%
2022	29,157.6	7,545.9	25.9%	2,452.7	210,884.0	73,913.7	136,970.2	35.0%
2023	30,538.3	7,903.6	25.9%	2,571.5	217,545.4	76,563.7	140,981.7	35.2%
2024	31,982.7	8,262.3	25.8%	2,695.7	223,838.9	79,313.3	144,525.6	35.4%
2025	33,484.5	8,641.5	25.8%	2,825.2	230,189.4	82,183.8	148,005.6	35.7%
2026	35,054.5	9,062.4	25.9%	2,960.6	236,440.1	85,219.0	151,221.0	36.0%
2027	36,692.2	9,506.2	25.9%	3,101.6	242,556.3	88,435.5	154,120.9	36.5%
2028	38,403.1	9,954.0	25.9%	3,248.9	248,505.6	91,869.4	156,636.2	37.0%
2029	40,187.1	10,422.9	25.9%	3,402.6	254,253.0	95,550.3	158,702.7	37.6%
2030	42,070.1	10,901.0	25.9%	3,564.6	259,769.1	99,501.8	160,267.3	38.3%
2031	44,049.1	11,407.5	25.9%	3,734.8	265,008.1	103,772.9	161,235.1	39.2%
2032	46,109.6	11,965.5	26.0%	3,911.8	269,939.7	108,446.1	161,493.5	40.2%
2033	48,261.4	12,693.0	26.3%	4,096.5	274,532.6	113,617.1	160,915.5	41.4%
2034	50,496.3	13,805.4	27.3%	4,288.2	278,753.2	119,991.1	158,762.1	43.0%
2035	52,833.2	14,441.6	27.3%	4,488.4	282,564.9	127,045.2	155,519.7	45.0%
2036	55,275.2	15,106.4	27.3%	4,697.6	285,916.9	134,861.6	151,055.3	47.2%
2037	57,829.5	15,801.8	27.3%	4,916.3	288,778.1	143,552.0	145,226.1	49.7%
2038	60,498.6	16,528.4	27.3%	5,144.9	291,119.7	153,239.5	137,880.2	52.6%
2039	63,277.3	17,284.7	27.3%	5,383.0	292,936.1	164,072.3	128,863.8	56.0%
2040	66,119.6	18,058.8	27.3%	5,625.9	294,256.5	176,218.2	118,038.4	59.9%
2041	69,085.8	18,866.6	27.3%	5,879.5	295,105.3	189,868.7	105,236.6	64.3%
2042	72,213.3	19,717.9	27.3%	6,147.2	295,562.3	205,308.6	90,253.7	69.5%
2043	75,522.6	20,618.1	27.3%	6,430.9	295,707.4	222,871.3	72,836.1	75.4%
2044	79,005.5	21,564.8	27.3%	6,730.2	295,603.3	242,912.3	52,690.9	82.2%
2045	82,671.9	22,561.2	27.3%	7,045.3	295,320.3	265,788.4	29,532.0	90.0%

Table 3

	Total State Contributions Reflecting Reforms Contained in P.A. 96-0889	Total State Contributions Reflecting Reforms Contained in P.A. 96-0889 and FY 2011 Pension Holiday	Additional Annual Required Contribution Attributable to FY 2011 Pension Holiday
FY 2009			
FY 2010	$3,975.7	$3,975.7	
FY 2011	$3,520.5	$0.0	
FY 2012	$3,917.5	$4,132.2	$214.7
FY 2013	$4,356.2	$4,579.7	$223.6
FY 2014	$4,805.0	$5,037.7	$232.7
FY 2015	$5,251.4	$5,493.2	$241.8
FY 2016	$5,514.2	$5,766.2	$252.0
FY 2017	$5,767.1	$6,030.1	$263.1
FY 2018	$6,033.0	$6,307.6	$274.6
FY 2019	$6,314.8	$6,601.5	$286.7
FY 2020	$6,596.0	$6,896.0	$300.0
FY 2021	$6,897.0	$7,211.0	$314.0
FY 2022	$7,217.3	$7,545.9	$328.5
FY 2023	$7,559.7	$7,903.6	$343.9
FY 2024	$7,901.9	$8,262.3	$360.4
FY 2025	$8,264.2	$8,641.5	$377.3
FY 2026	$8,667.9	$9,062.4	$394.5
FY 2027	$9,093.7	$9,506.2	$412.4
FY 2028	$9,522.4	$9,954.0	$431.6
FY 2029	$9,971.5	$10,422.9	$451.4
FY 2030	$10,428.4	$10,901.0	$472.6
FY 2031	$10,913.1	$11,407.5	$494.5
FY 2032	$11,448.3	$11,965.5	$517.2
FY 2033	$12,034.3	$12,693.0	$658.7
FY 2034	$13,507.7	$13,805.4	$297.7
FY 2035	$14,130.3	$14,441.6	$311.2
FY 2036	$14,781.0	$15,106.4	$325.4
FY 2037	$15,461.5	$15,801.8	$340.3
FY 2038	$16,172.6	$16,528.4	$355.8
FY 2039	$16,912.7	$17,284.7	$372.0
FY 2040	$17,670.1	$18,058.8	$388.8
FY 2041	$18,460.4	$18,866.6	$406.2
FY 2042	$19,293.3	$19,717.9	$424.6
FY 2043	$20,174.2	$20,618.1	$443.9
FY 2044	$21,100.7	$21,564.8	$464.1
FY 2045	$22,075.9	$22,561.2	$485.4
TOTAL	**$385,711.5**	**$394,652.5**	**$12,461.5**