Commission on Government Forecasting and Accountability

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MONTHLY BRIEFING FOR THE MONTH ENDED: MAY 2016

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INSIDE THIS ISSUE

ECONOMY: Awaiting The Next Interest Rate Hike

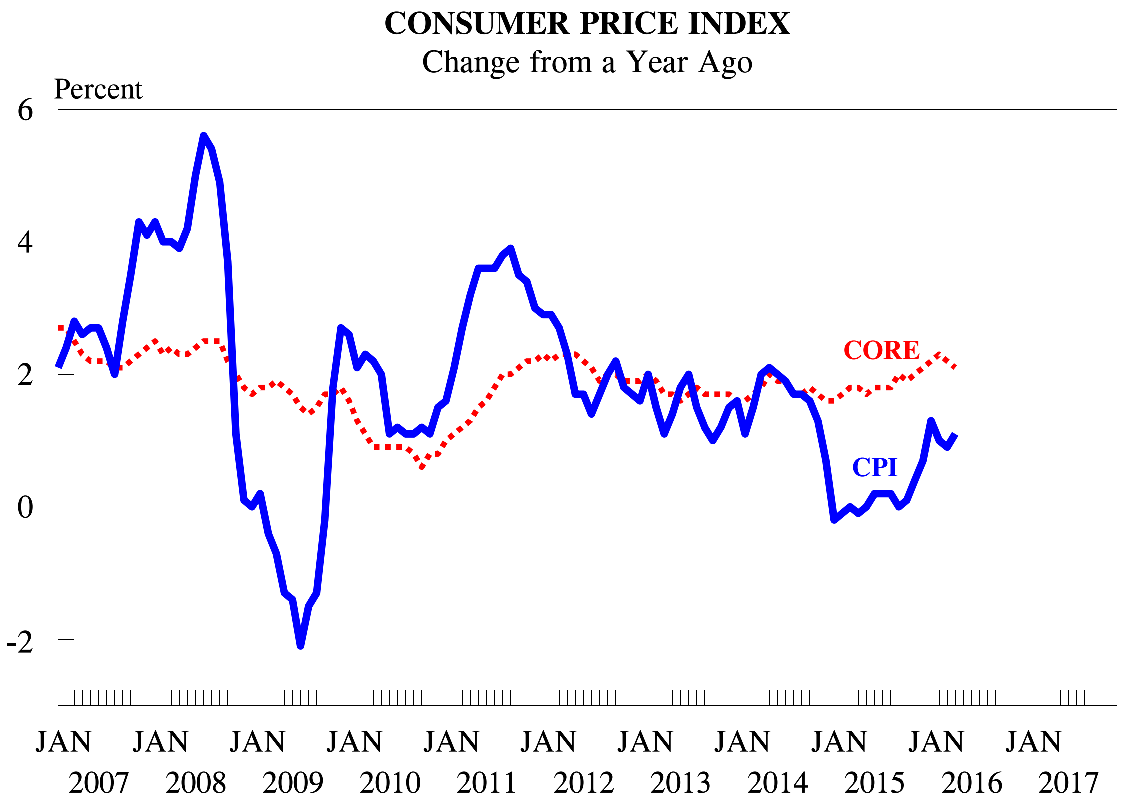
Edward H. Boss, Jr., Chief Economist

The Federal Reserve raised the key federal funds rate target range at its December 2015 meeting by ¼% to a range of ¼% to ½% from 0 to ¼% that had existed since late 2008. Moreover at the time of the increase the Federal Reserve said it expected that evolving economic conditions would warrant only gradual increases. Many at the time anticipated the December increase would be followed by another two to three in 2016. As mid-year approaches, the markets anticipate the timing of the next move to be either June or July.

The long-run goal of monetary policy is to promote maximum employment, stable prices, and moderate long-term interest rates. It has long been recognized that monetary policy actions influence economic activity and prices with a lag, i.e. while lowering rates to stimulate activity, inflation is ignited and once started is difficult to contain, often causing reversal in policy. Thus, it has been left to fiscal policy that can have a more direct influence on the economy to make short-term economic adjustments. However, with sky rocketing debt accumulated through past stimulative spending programs in the context of an economy emerging from the worst recession since the Great Depression of the 1930s, it was monetary policy that was turned to for a remedy.

Indeed, the recession, which had begun at the close of 2007, began a recovery phase in mid-2009. Unlike previous recoveries, however, the pace of improvement was much weaker than in the past. Thus, while the current recovery is approaching 7 years, making it the fourth longest, it is the weakest recovery in the post WWII period. Nevertheless, the economy has continued to grow, albeit at a sluggish pace, and is among the best performers of the major countries.

CHART 1



CGFA

The Second Estimate on GDP for the first quarter of 2016 was recently released showing little change from the Advance Report, with real GDP rising 0.8% versus the 0.5% originally reported. Moreover, unlike the last several years when a weak first quarter performance followed faster growth in the latter part of the previous year, this time the pace of economic activity already had slowed in the second half of 2015, rising a modest 1.4% in the final quarter. This raises the question as to whether the economy can handle another tightening in policy from another rate rise without further damaging economic performance.

Many economists question whether recent GDP data are actually portraying the state of the economy since their pattern seems to conflict with a strengthening jobs market. The unemployment rate held in a range of 4.9% to 5% over the past 7 months, half that recorded in October 2009. Moreover, all the jobs lost during the previous recession were recovered within 5 years and continue to advance. Finally, the labor participation rate, while still extremely low, has edged higher and wages have improved slightly. In addition to better labor markets, many business reports including retail sales, industrial production, home sales and home prices portend an improvement in growth for the second quarter, approaching 2%.

With the economy continuing to advance, albeit modestly, and jobs improving, a third long-term goal is stable prices. Prolonged periods of monetary ease often have led to rising inflation that have been difficult to reign in. As illustrated in the attached chart, consumer prices, both the core rate, which exclude food and energy prices, and the overall rate, have been strengthening. This suggests that the Federal Reserve may be on the way to achieving its 2% growth target while easing earlier fears of deflation. Given these trends, the stage appears to be set for the Fed to take another step toward normalizing interest rates by increasing the targeted federal funds target range by another ¼%.

In conclusion, while the Federal Reserve can be given some credit for the improving economy and jobs situation in the U.S., its prolonged period of pursuing low interest rates precipitated some unintended consequences. Particularly hard hit were seniors living on a fixed income, who not only saw their social security payments unchanged, while the newly-retired saw the payment amount lowered due to increased medical deductions, but at the same time saw prices paid for food, rent, and other basic items costing more. In addition any savings held in secure assets such as bank CDs and utility securities returned little. In striving to get more returns, many investors jumped into equities which saw the market climb to new highs. However, further healthy gains in stock prices may be difficult to achieve given rising salary and material costs and profits squeezed.

Finally a major concern centers on pensions, particularly those invested in more secure assets. The rates of return on those investments are well below those assumed by actuaries to meet payouts in the future. All things considered, it seems time to further normalize rates though gradual increases, slowly returning to market determined interest rates.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS *	APRIL 2016	MARCH 2016	APRIL 2015
Unemployment Rate (Average)	6.6%	6.5%	5.9%
Annual Rate of Inflation (Chicago)	7.5%	1.8%	0.7%

	LATEST MONTH	% CHANGE OVER PRIOR MONTH	% CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (April)	6,670.2	-0.4%	2.6%
Employment (thousands) (April)	6,230.8	0.3%	1.9%
NonFarm Payroll Employment (April)	6,012,100	6,006,700	67,500
New Car & Truck Registration (April)	50.478	-12.4%	-8.9%
Single Family Housing Permits (April)	994	-7.8%	-0.1%
Total Exports ($ mil) (March)	5,153	3.3%	-8.6%
Chicago Purchasing Managers Index (May)	49.3	-2.2%	6.7%

* Due to monthly fluctuations, trend best shown by % change from a year ago

State Employees Group Insurance Program Status Update

Anthony Bolton, Revenue Analyst

Now nearing one year, Illinois continued operation without an enacted budget has resulted in the State Employee Group Insurance Program (SEGIP) building up a large backlog of unpaid claims. As of the end of May, approximately $3.26 billion in claims were being held by the state from various insurers, organizations, and companies. Of this total, the largest portion was approximately $1.6 billion of HMO/Medicare Advantage claims. The second largest portion, Open Access Plans, totaled $607.6 million. The third largest portion of the overall claims hold came from CIGNA, which had $523 million in claims currently held by the state. Concurrently, the estimated time for claims to be held was 241-533 days for Managed Care, 304-337 days for Open Access Plans, and 496-573 days for CIGNA. This information and other pertinent data is displayed on the chart on the next page. As noted in previous SEGIP updates, without an enacted budget, claims will continue to build up and estimated claims hold times will increase. This data includes claims from the Local Government Health Plan, Teachers' Retirement Insurance Program, and the College Insurance Program, though they are only a small fraction (4% total) of the total claims.

As of June 1, 2016, the state of Illinois has not enacted a budget. As a result of the State Employees Group Insurance Program (SEGIP) building up a large backlog of unpaid claims from health care vendors, alternative options for payment have been explored. One option that has arisen in recent years is a program called the Vendor Payment Program (VPP), which is organized through the Department of Central Management Services (CMS).

Under the VPP, vendors for the state of Illinois who would otherwise receive prompt payment interest would instead partner with a "qualified purchaser" who would purchase the voucher from them. The vendor would receive approximately 90% of the total invoice owed to them with the other 10% paid to them once the qualified purchaser is paid by the state. The qualified purchaser would keep any interest paid out by the state on the voucher. However, the State has not been able to pay out vouchers without appropriation, so CMS has switched to the Vendor Support Initiative program (VSI), which is procedurally similar to the Vendor Payment Program, but does not require a voucher to receive payment. As of the end of April 2016, approximately $612 million in group insurance program debts had been purchased through the VSI program from Health Alliance, Blue Cross Blue Shield of Illinois, Fidelity, and Coventry.

Vendor Support Initiative Group Insurance Purchases	
Health Alliance	$310,311,326
HMO Illinois (Blue Cross Blue Shield)	$258,950,788
Blue Advantage (Blue Cross Blue Shield)	$28,565,276
Fidelity (Vision Care)	$5,371,363
Coventry	$9,292,356
TOTAL	**$612,491,109**

Claims Hold Data for SEGIP	
	May 2016
Total Claims Hold / Total Length of Claims Hold	$3,258,525,294 / Varies 241 - 573 days
CIGNA - PPO (and Member) / Length of Claims Hold	$522,569,711 / 496 days
CIGNA - Non-PPO / Length of Claims Hold	$33,586,941 / 573 days
Dental Claims Hold - PPO / Length of Claims Hold	$68,551,600 / 248 days
Dental - Non-PPO / Length of Claims Hold	$40,403,354 / 276 days
Magellan (Mental Health) Claims / Length of Claims Hold	$5,083,768 / 241 days
Coventry HMO / Length of Claims Hold	$44,933,874 / 372 days
Health Alliance HMO / Length of Claims Hold	$770,010,926 / 553 days
HMO Illinois / Length of Claims Hold	$442,254,703 / 492 days
Blue Advantage / Length of Claims Hold	$57,106,360 / 461 days
HealthLink OAP / Length of Claims Hold	$502,551,000 / 347 days
Coventry OAP / Length of Claims Hold	$105,050,200 / 304 days
Medco / Length of Claims Hold	$118,022,090 / 494 days
CVS/Caremark / Length of Claims Hold	$212,015,841 / 286 days
Coventry Medicare Advantage (MA) / Length of Claims Hold	$8,283,702 / 241 days
Health Alliance MA / Length of Claims Hold	$1,455,015 / 372 days
Humana Benefit Plan MA / Length of Claims Hold	$341,777 / 433 days
Humana Health Plan MA / Length of Claims Hold	$6,560,394 / 433 days
United Healthcare MA / Length of Claims Hold	$266,224,508 / 492 days
Fidelity (Vision) / Length of Claims Hold	$8,179,846 / 372 days
Other Fees (ASC/etc.) / Length of Claims Hold	$45,339,684 / 249 to 492 days

* *Provided by Dept. of Central Management Services*

REVENUE

May Revenues Drop On Weak Federal Sources And Lower Transfers

Jim Muschinske, Revenue Manager

Overall base revenues fell $366 million in May when compared to the same month last year. Extremely weak federal sources comprised the bulk of the decline, but were exacerbated by lower transfers stemming from last year's fund sweeps. The decline occurred despite having one more receipting day as compared to last May.

For the month, most revenue sources recorded losses. Inheritance taxes dropped $24 million due to extremely strong receipts experienced last year. Sales taxes continued weak, falling $14 million in May. Public utility taxes declined $10 million, corporate franchise taxes fell $3 million, and liquor taxes dipped $2 million, as did interest earnings and other sources.

Only the income taxes managed to post a monthly gain. However, while gross corporate income taxes increased $79 million, or $67 million net of refunds, it appears that the bulk of that increase is related to effects stemming from the earlier Department of Revenue's local government distribution error. Gross personal income taxes were up $37 million, or $35 million net of refunds, and $85 million net of the Advancement of Education Fund and Commitment to Human Services Fund.

Overall transfers fell $210 million in May. The majority of the decline reflects $162 million in fund sweeps executed last year. While gaming transfers grew $1 million, lottery transfers fell $12 million and other transfers dropped $37 million.

Federal sources for the month were dismal, down $252 million, as reimbursable spending has predominately shifted to the Healthcare Provider Relief Fund, rather than GRF.

Year To Date

Through May, base receipts are down $5.342 billion. The drop reflects comparatively lower income tax rates for the first part of the fiscal year, the one-time nature of some pharmaceutical court settlements recovered by the Attorney General's Office last fiscal year, no fund sweeps year to date, and weak performance of federal sources.

Gross personal income taxes are down $2.456 billion, $2.177 billion net of refunds, or $2.607 billion when the diversions to the education and human service funds are included. Gross corporate income taxes are behind last year's receipting by $535 million, or $485 million net of refunds. Other sources are $139 million lower, reflecting the aforementioned court settlement proceeds received last fiscal year. Public utility taxes are off $68 million, while corporate franchise taxes declined $11 million. Inheritance tax is now down $3 million, while vehicle use tax and interest earning are each down $1 million.

A few sources managed to post modest gains. Insurance taxes are ahead of last year's pace by $30 million, sales tax managed a disturbingly low $5 million increase, while liquor taxes grew a scant $1 million.

Excluding last year's $1.236 billion in funds sweeps, overall transfers are down $56 million. The Refund Fund transfer is $14 million above last year, while Lottery transfers are ahead by $11 million. Those gains are offset by a $12 million decline in riverboat transfers, as well as $69 million less from all other transfers.

Federal sources are now down $771 million compared to last fiscal year. Federal sources to the general funds have been off the expected pace for all of the fiscal year. A contributing factor to the poor year for general funds federal source performance has been a large amount of Medicaid bills being paid from the Healthcare Provider Relief Fund, rather than the GRF. [Federal reimbursement is deposited into the fund from which it was spent]. Through May, $1.656 billion more in federal sources has been receipted into the HPRF when compared to the same period last fiscal year. At this late stage of the fiscal year, even if spending and subsequent reimbursements shift back to general funds, federal sources are likely to fall well short of FY 2016 expectations. And, given the current budget impasse and its strain on general funds, it would not be surprising to see a continued emphasis in reimbursable spending from non-general funds in the future.

MAY
FY 2016 vs. FY 2015
($ million)

Revenue Sources	**May FY 2016**	**May FY 2015**	**$ CHANGE**	**% CHANGE**
State Taxes				
Personal Income Tax	$989	$952	$37	3.9%
Corporate Income Tax (regular)	153	74	$79	106.8%
Sales Taxes	658	672	($14)	-2.1%
Public Utility Taxes (regular)	65	75	($10)	-13.3%
Cigarette Tax	30	29	$1	3.4%
Liquor Gallonage Taxes	12	14	($2)	-14.3%
Vehicle Use Tax	3	3	$0	0.0%
Inheritance Tax	20	44	($24)	-54.5%
Insurance Taxes and Fees	4	4	$0	0.0%
Corporate Franchise Tax & Fees	16	19	($3)	-15.8%
Interest on State Funds & Investments	1	3	($2)	-66.7%
Cook County IGT	94	94	$0	N/A
Other Sources	42	44	($2)	-4.5%
Subtotal	$2,087	$2,027	$60	3.0%
Transfers				
Lottery	64	76	($12)	-15.8%
Riverboat transfers & receipts	22	21	$1	4.8%
Proceeds from Sale of 10th license	0	0	$0	N/A
Refund Fund transfer	0	0	$0	N/A
Fund sweeps	0	162	($162)	N/A
Other	36	73	($37)	-50.7%
Total State Sources	$2,209	$2,359	($150)	-6.4%
Federal Sources	$68	$320	($252)	-78.8%
Total Federal & State Sources	$2,277	$2,679	($402)	-15.0%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($97)	($95)	($2)	2.1%
Corporate Income Tax	($23)	(11)	($12)	109.1%
Fund for Advancement of Education	($56)	(81)	$25	-30.9%
Commitment to Human Services Fund	($56)	(81)	$25	-30.9%
Subtotal General Funds	$2,045	$2,411	($366)	-15.2%
Short-Term Borrowing	$0	$0	$0	N/A
Interfund Borrowing	$0	$0	$0	N/A
Budget Stabilization Fund Transfer	$0	$0	$0	N/A
Total General Funds	$2,045	$2,411	($366)	-15.2%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 2-Jun-16

GENERAL FUNDS RECEIPTS: YEAR TO DATE
FY 2016 vs. FY 2015
($ million)

Revenue Sources	FY 2016	FY 2015	CHANGE FROM FY 2015	% CHANGE
State Taxes				
Personal Income Tax	$13,780	$16,236	($2,456)	-15.1%
Corporate Income Tax (regular)	2,203	2,738	($535)	-19.5%
Sales Taxes	7,330	7,325	$5	0.1%
Public Utility Taxes (regular)	858	926	($68)	-7.3%
Cigarette Tax	324	324	$0	0.0%
Liquor Gallonage Taxes	154	153	$1	0.7%
Vehicle Use Tax	28	29	($1)	-3.4%
Inheritance Tax	297	300	($3)	-1.0%
Insurance Taxes and Fees	320	290	$30	10.3%
Corporate Franchise Tax & Fees	187	198	($11)	-5.6%
Interest on State Funds & Investments	21	22	($1)	-4.5%
Cook County IGT	244	244	$0	0.0%
Other Sources	376	515	($139)	-27.0%
Subtotal	$26,122	$29,300	($3,178)	-10.8%
Transfers				
Lottery	618	607	$11	1.8%
Riverboat transfers & receipts	260	272	($12)	-4.4%
Proceeds from Sale of 10th license	10	10	$0	0.0%
Refund Fund transfer	77	63	$14	22.2%
Fund sweeps	0	1236	($1,236)	N/A
Other	492	561	($69)	-12.3%
Total State Sources	$27,579	$32,049	($4,470)	-13.9%
Federal Sources	$2,454	$3,225	($771)	-23.9%
Total Federal & State Sources	$30,033	$35,274	($5,241)	-14.9%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($1,344)	($1,623)	$279	-17.2%
Corporate Income Tax	($334)	($384)	$50	-13.0%
Fund for Advancement of Education	($429)	($214)	($215)	N/A
Commitment to Human Services Fund	($429)	($214)	($215)	N/A
Subtotal General Funds	$27,497	$32,839	($5,342)	-16.3%
Short-Term Borrowing	$0	$0	$0	N/A
Interfund Borrowing	$0	$0	$0	N/A
Budget Stabilization Fund Transfer	$125	$275	($150)	-54.5%
Total General Funds	$27,622	$33,114	($5,492)	-16.6%

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

CGFA 2-Jun-16