Commission on Government Forecasting and Accountability

703 Stratton Ofc. Bldg., Springfield, IL 62706

MONTHLY BRIEFING FOR THE MONTH ENDED: JUNE 2013

http://cgfa.ilga.gov

INSIDE THIS ISSUE

REVENUE: June Revenues Down As Expected – But Overall FY 2013 Revenues Performed Well

Jim Muschinske, Revenue Manager

The fiscal year ended with a drop of $200 million in June. However, the retreat in revenues was anticipated given the exceptionally large month for federal sources last June. In fact, while federal sources dropped $442 million for the month, virtually all of the other revenues sources were able to at least meet, and in most instances, exceed the same prior year levels. June had one less receipting day than last year.

For the month, gross personal income taxes were up $67 million, or $47 million net of refunds. Other sources jumped $55 million, while gross corporate income taxes increased $34 million, or $59 million net of refunds. Sales tax managed to continue its recent strengthening, growing $33 million. Public utility added $14 million, while interest income eked out a $1 million advance.

Only inheritance tax suffered a slowdown for the month, and that being a $1 million loss.

Overall transfers grew $34 million to close out the fiscal year. Other transfers accounted for $28 million of that gain, while riverboat transfers added $5 million and lottery transfers $1 million. As mentioned, federal sources fell off significantly for the month, but the drop of $442 million was expected given the revenue growth in June of last year.

Year End

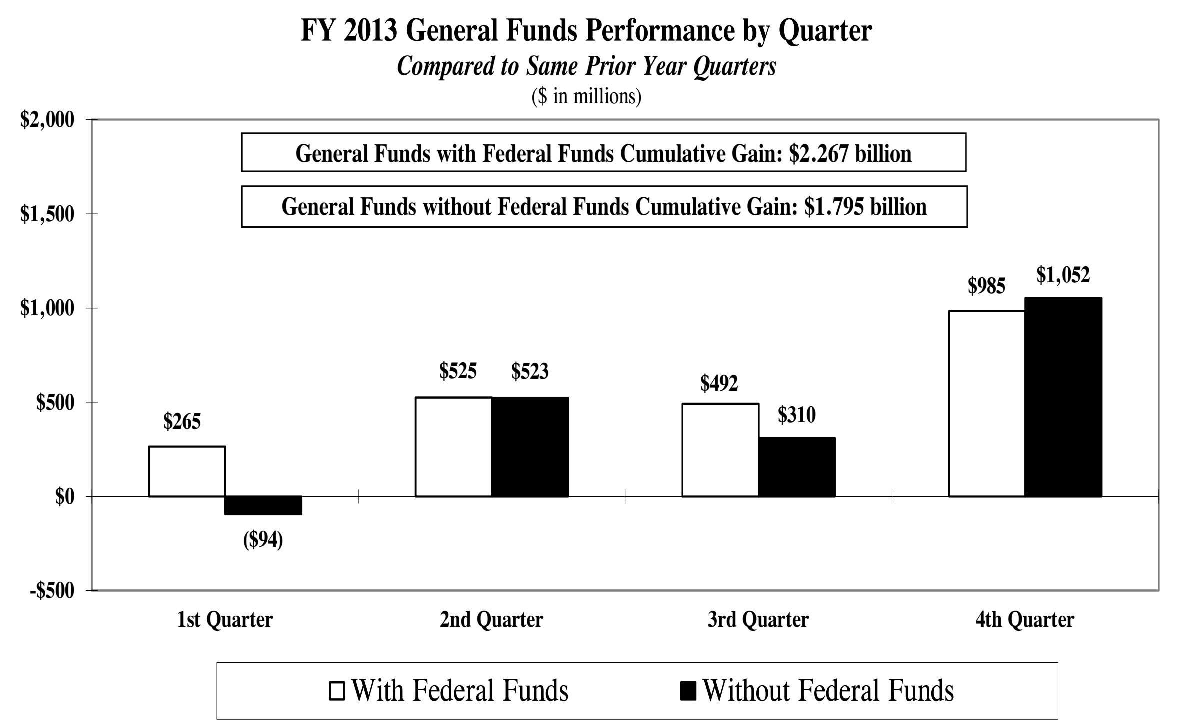
For the fiscal year, absent cash flow transfers, base general funds revenues grew $2.267 billion, or 6.7%. Both personal and corporate income taxes performed exceptionally well, in large part due to the "April Surprise" that has been discussed in previous monthly briefings. However, underlying growth was quite strong throughout the fiscal year even before April. For the fiscal year, gross personal income taxes rose $1.323 billion, or $1.026 billion net of refunds. Gross corporate income taxes grew $696 million, or $716 million net of refunds.

After underperforming for the majority of the fiscal year, sales tax managed a yearly gain, but still only grew $129 million. Other sources grew $63 million for the year, although most of that growth came in the final month from revenues that were instead expected to manifest in the other transfer line. Inheritance taxes grew $58 million, public utility taxes $38 million, corporate franchise taxes $13 million, and liquor taxes $1 million.

A few sources experienced minor declines for the fiscal year. Insurance taxes and fees dropped $11 million, vehicle use tax $2 million, cigarette taxes $1 million, and interest income $1 million.

Overall transfers were down $234 million for the year. The falloff was due to one-time proceeds stemming from the sale of 10th riverboat license last year, timing related to last year's settlement of protested liquor taxes, and some revenues being counted in the other source line, rather than transfers into the general funds.

Federal sources, despite falling significantly over the final two months of the fiscal year, managed to post gains of $472 million. The surge of April income tax revenues and resulting reimbursable spending on Medicaid bills greatly contributed to the yearly increase.



* Figures exclude short-term borrowing and Budget Stabilization Fund transfers.

FY 2013 Revenue Recap

First Quarter

Overall base revenues grew $183 million in July. While income taxes posted good gains, sales tax growth was minimal. Transfers for the month were down considerably, but that falloff was more than offset by growth in federal sources. In August, base revenues grew $47 million as mixed results rendered little net change. Base revenues grew $35 million in September as mixed results manifested in little net monthly change. While corporate income taxes and federal sources posted decent gains, most of the increases were erased by falloffs in other areas. The month probably would have fared better if it weren't for September having two less receipting days compared to last year.

The previous chart demonstrates how the first quarter performed both with and without federal sources. Through the first quarter of FY 2013, overall base revenues grew $265 million. Gross personal income taxes were up $108 million, or $61 million net of refunds. Gross corporate income taxes increased $79 million, or $87 million net of refunds. All other tax sources totaled a net increase of $7 million.

Overall transfers were down $249 million. The falloff was due to the one-time $73 million sale of the 10th license last year, as well as timing related to last year's settlement of protested liquor taxes. Federal sources, after experiencing a very weak beginning to last fiscal year, managed to post a $359 million gain over the first quarter.

Second Quarter

Overall base revenues grew $270 million in October, fueled in part by two extra receipting days. The larger economic sources were the main drivers of the increase although some revenue sources were able to improve due to receipt timing that had negatively impacted September's performance. Base revenues dropped by $6 million in November as revenue performance varied by line. While the larger economic sources performed decently, those gains were erased by a down month for federal sources and a variety of smaller revenue lines. In December, overall base revenues grew $261 million. Revenue performances of the larger economic sources as well as federal sources were quite strong to end the calendar year.

Through the first half of FY 2013, overall base revenues grew $793 million. Gross personal income taxes were up $428 million, or $315 million net of refunds. Gross corporate income taxes increased $275 million, or $276 million net of refunds. Due to the lagged timing of receipts related to a prior tax change, inheritance tax was up $76 million. All other tax sources totaled a net gain of $30 million.

Overall transfers were down $265 million. The falloff was due in part to the one-time $73 million sale of the 10th license last year, as well as timing related to last year's settlement of protested liquor taxes. Federal sources managed to post a $361 million gain through December.

Third Quarter

Overall base revenues grew $480 million in January. The growth was in large part due to a surge in reimbursable spending which translated into higher federal source receipts. Gross personal income taxes also performed well, while sales tax continued to lag. Base revenues grew $37 million in February. The performance of the larger economic sources was mixed; while overall transfers and federal sources fueled what little growth did occur. In March, base revenues dipped $25 million. The performance of the larger economic sources was mixed but an expectedly weak month for federal sources contributed to the decline.

Through three-fourths of the fiscal year, overall base revenues had grown $1.284 billion. Gross personal income taxes were up $643 million, or $463 million net of refunds. Gross corporate income taxes increased $414 million [$419 million net of refunds as well]. Sales tax has increased $62 million. All other tax sources totaled a net gain of $19 million.

Overall transfers were down $220 million. The falloff was due in part to the one-time $73 million sale of the 10th license last year, as well as timing related to last year's settlement of protested liquor taxes. Federal sources managed to post a $541 million gain through March due to higher general funds spending on Medicaid bills.

Fourth Quarter

Monthly revenues leaped in April, growing by $1.521 billion. The infusion of cash into the State's coffers allowed for the repayment of a voluminous amount of overdue Medicaid bills. That action subsequently generated a massive amount of federal reimbursements—over $1 billion during a single month. Adding to the monthly gain was an extra receipting day in April [which could have had the effect of pulling some of May receipts ahead into April]. Basically, it's believed that individuals shifted revenues they would have routinely booked in 2013 and later, into the end of tax year 2012, thereby reducing the higher tax rates in effect. Nationally, it's been reported that many wealthy individuals sold investments, even businesses and homes, to avoid higher taxes. If able, some partnerships also distributed monies prior to the higher tax rates. On the corporate side, businesses made sure bonus payments were done in 2012 rather than in 2013, also a number of companies were said to have accelerated income and dividends into 2012. The net action of all of those types of transactions was to cause what appears to have been a "bubble" of income tax receipts.

After a record April, revenues gave back some of those gains, falling $336 million in May. The decline in receipts was anticipated as both a drop in income taxes as well as federal sources was not surprising. Although most of the "April Surprise" was due to taxpayer's efforts to minimize the tax consequences of the higher 2013 federal tax rates, it was also believed that some of the phenomenal growth in income taxes was due in part to accelerated receipting that had the effect of pulling some of May receipts ahead into April. [See Commission's April briefing for more discussion]. As a result, a comparatively weaker May for income taxes was not alarming. Neither was a considerable falloff in federal sources that took place as those revenues were down $233 million. A combination of a high month for federal sources last May in combination with a slowing of reimbursable spending this year resulted in the falloff. The fiscal year ended with a drop of $200 million in June. However, the retreat in revenues was anticipated given the exceptionally large month for federal sources last June. In fact, while federal sources dropped $442 million for the month, virtually all of the other revenues sources were able to at least meet, and most instances exceed the same prior year levels.

For the fiscal year, base general funds grew $2.267 billion. The majority of that gain, approximately $1.742 billion stemmed from a successful year for income taxes. Of course, the one-time effect of the "April Surprise" had much to do with the success, however, underlying growth was doing quite well even before those one-time revenues were received. Also making significant contributions to the year's advance was the growth of $472 million in federal sources. The surprise influx of income tax revenues in the spring meant that the Comptroller's Office could commit to paying down voluminous amounts of owed Medicaid bills. Despite giving back some of those gains over the last couple of months that surge in reimbursable spending resulted in a record month [April] for federal sources.

Review of Revenue Estimates and Assumptions

The table on the following page shows how the most recent CGFA estimate performed in relation to final figures. As shown, actual receipts ended up exceeding expectations by $348 million, or slightly less than one-percent. Also included in the table is a comparison of actual receipts to those estimated under HJR 68, which was used as the revenue framework back in spring 2012 during the construction of the FY 2013 budget. As shown, that admittedly conservative forecast was easily exceeded by actual revenue performance, as receipts exceeded the amounts spelled out in the resolution by $2.345 billion. Most of the additional revenue came from the larger economically related sources, as well as federal sources which reflected available resources for reimbursable spending.

FY 2013 Actuals vs. Estimates: CGFA and HJR 68

($ millions)

Revenue Sources	ACTUAL FY 2013	CGFA EST. May-13 FY 2013	DIFFERENCE ACTUALS FROM ESTIMATE	HJR 68 March-12 FY 2013	DIFFERENCE ACTUALS FROM ESTIMATE
State Taxes					
Personal Income Tax	$18,323	$18,224	$99	$16,776	$1,547
Corporate Income Tax (regular)	$3,679	$3,660	$19	$2,912	$767
Sales Taxes	$7,355	$7,265	$90	$7,335	$20
Public Utility (regular)	$1,033	$1,005	$28	$1,085	($52)
Cigarette Tax	$353	$355	($2)	$355	($2)
Liquor Gallonage Taxes	$165	$164	$1	$162	$3
Vehicle Use Tax	$27	$27	$0	$29	($2)
Inheritance Tax (gross)	$293	$260	$33	$230	$63
Insurance Taxes & Fees	$334	$335	($1)	$285	$49
Corporate Franchise Tax & Fees	$205	$199	$6	$195	$10
Interest on State Funds & Investments	$20	$20	$0	$20	$0
Cook County Intergovernmental Transfer	$244	$244	$0	$244	$0
Other Sources	$462	$402	$60	$400	$62
Subtotal	**$32,493**	**$32,160**	**$333**	**$30,028**	**$2,465**
Transfers					
Lottery	$656	$656	$0	$649	$7
Riverboat transfers & receipts	$345	$345	$0	$340	$5
Proceeds from sale of 10th license	$15	$10	$5	$10	$5
Other	$688	$683	$5	$801	($113)
Total State Sources	**$34,197**	**$33,854**	**$343**	**$31,828**	**$2,369**
Federal Sources	**$4,154**	**$4,151**	**$3**	**$3,935**	**$219**
Total Federal & State Sources	**$38,351**	**$38,005**	**$346**	**$35,763**	**$2,588**
Nongeneral Funds Distribution:					
Refund Fund					
Personal Income Tax	($1,785)	($1,777)	($8)	($1,636)	($149)
Corporate Income Tax	($502)	($512)	$10	($408)	($94)
Subtotal General Funds	**$36,064**	**$35,716**	**$348**	**$33,719**	**$2,345**

NOTE: Excludes Budget Stabilization Fund transfers and $264 million in transfers from the FY'13 Backlog Payment Fund

GENERAL FUNDS RECEIPTS: JUNE ***FY 2013 vs. FY 2012*** ***($ million)***				
Revenue Sources	**June FY 2013**	**June FY 2012**	**$ CHANGE**	**% CHANGE**
State Taxes				
Personal Income Tax	$1,553	$1,486	$67	4.5%
Corporate Income Tax (regular)	519	485	$34	7.0%
Sales Taxes	659	626	$33	5.3%
Public Utility Taxes (regular)	77	63	$14	22.2%
Cigarette Tax	30	30	$0	0.0%
Liquor Gallonage Taxes	15	15	$0	0.0%
Vehicle Use Tax	2	2	$0	0.0%
Inheritance Tax (Gross)	20	21	($1)	-4.8%
Insurance Taxes and Fees	64	64	$0	0.0%
Corporate Franchise Tax & Fees	12	12	$0	0.0%
Interest on State Funds & Investments	2	1	$1	100.0%
Cook County IGT	0	0	$0	N/A
Other Sources	89	34	$55	161.8%
Subtotal	$3,042	$2,839	$203	7.2%
Transfers				
Lottery	69	68	$1	1.5%
Riverboat transfers & receipts	33	28	$5	17.9%
Proceeds from Sale of 10th license	0	0	$0	N/A
Other	184	156	$28	17.9%
Total State Sources	$3,328	$3,091	$237	7.7%
Federal Sources	$147	$589	($442)	-75.0%
Total Federal & State Sources	$3,475	$3,680	($205)	-5.6%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($150)	($130)	($20)	15.4%
Corporate Income Tax	($60)	(85)	$25	-29.4%
Subtotal General Funds	$3,265	$3,465	($200)	-5.8%
Short-Term Borrowing	$0	$0	$0	N/A
FY'13 Backlog Payment Fund	$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	$0	$0	N/A
Total General Funds	$3,265	$3,465	($200)	-5.8%
CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				2-Jul-13

GENERAL FUNDS RECEIPTS: YEAR END
FY 2013 vs. FY 2012
($ million)

Revenue Sources	FY 2013	FY 2012	CHANGE FROM FY 2012	% CHANGE
State Taxes				
Personal Income Tax	$18,323	$17,000	$1,323	7.8%
Corporate Income Tax (regular)	3,679	2,983	$696	23.3%
Sales Taxes	7,355	7,226	$129	1.8%
Public Utility Taxes (regular)	1,033	995	$38	3.8%
Cigarette Tax	353	354	($1)	-0.3%
Liquor Gallonage Taxes	165	164	$1	0.6%
Vehicle Use Tax	27	29	($2)	-6.9%
Inheritance Tax (Gross)	293	235	$58	24.7%
Insurance Taxes and Fees	334	345	($11)	-3.2%
Corporate Franchise Tax & Fees	205	192	$13	6.8%
Interest on State Funds & Investments	20	21	($1)	-4.8%
Cook County IGT	244	244	$0	0.0%
Other Sources	462	399	$63	15.8%
Subtotal	$32,493	$30,187	$2,306	7.6%
Transfers				
Lottery	656	640	$16	2.5%
Riverboat transfers & receipts	345	340	$5	1.5%
Proceeds from Sale of 10th license	15	73	($58)	-79.5%
Other	688	885	($197)	-22.3%
Total State Sources	$34,197	$32,125	$2,072	6.4%
Federal Sources	$4,154	$3,682	$472	12.8%
Total Federal & State Sources	$38,351	$35,807	$2,544	7.1%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($1,785)	($1,488)	($297)	20.0%
Corporate Income Tax	($502)	($522)	$20	-3.8%
Subtotal General Funds	$36,064	$33,797	$2,267	6.7%
Short-Term Borrowing	$0	$0	$0	N/A
FY'13 Backlog Payment Fund Transfer	$264	$0	$264	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	$36,603	$34,072	$2,531	7.4%

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

CGFA 2-Jul-13

June 2013 Bond Sales

Lynnae Kapp, Senior Analyst

BOND SALES:

The State sold $600 million of Build Illinois refunding bonds in June 2013. The sale received a 2.70% true interest cost, and will give the State approximately 9% in present value savings equaling $55 million. This will also free 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. After the previous 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.

DATE	BOND SALE TYPE	AMOUNT	TAXABLE v. TAX-EXEMPT	NEGOTIATED v. COMPETITIVE SALE	TRUE INTEREST COST	S&P	FITCH	MOODY'S
Apr-13	GO Series A bonds	$450 million	tax-exempt	competitive	3.92%	A-	A	A2
Apr-13	GO Series B bonds	$350 million	taxable	competitive	4.97%			
May-13	BI bonds	$300 million	taxable	competitive	3.29%	AAA	AA+	A2
Jun-13	BI Refunding bonds	$600 million	tax-exempt	negotiated	2.70%	AAA	AA+	A3
Jun-13	GO bonds	$1.3 billion	tax-exempt	negotiated	5.04%	A-	A-	A3

In FY 2013, the State sold a total of $2.15 billion in G.O. capital projects bonds, $300 million in Build Illinois project bonds, and $604 million in Build Illinois refunding bonds. Bond Principal outstanding is approximately $31.3 billion:

GO	$13.488 billion
Pension	$14.686 billion
Build Illinois	$ 3.032 billion
Civic Center	$ 63 million

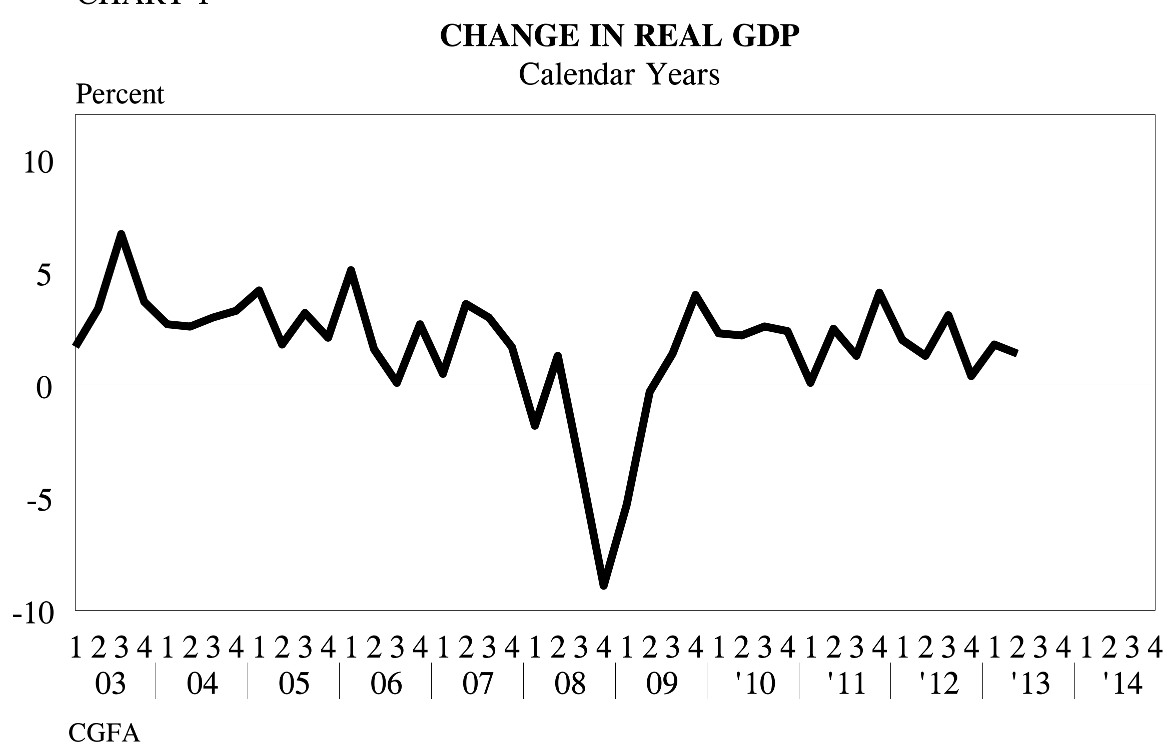
ECONOMY
Another Soft Patch?

Edward H. Boss, Jr., Chief Economist

Final data for economic growth in the first quarter of this year was revised down for the second time, with GDP rising at a diminished 1.8% annual rate from an advance release originally reported gain of 2.5%. Moreover, most forecasts prior to this release suggested a further weakening in the quarter just ended. Thus, as the economy concludes its fourth year of recovery and enters its fifth, the economy continues to lag previous recoveries both in terms of growth and employment. Moreover, it raises the prospect that another summer soft patch yet again could be in store.

Ever since the Vice President declared "the summer of recovery" in 2010, the economy has hit a summer soft patch in 2010, 2011, and 2012 as illustrated in the attached chart. A repeat of this pattern is not for sure, however, particularly given the latest monthly business reports. For example, durable goods orders rose a sharp 3.6% in May matching April's gain and up for the third month in a row; new home sales in May rose 2.1% with sales of single-family homes reaching their highest level in nearly 5 years, while the Case-Shiller Index of home prices in April had record monthly growth and the fastest year-over-year growth in 7 years. In addition, the Conference Board Consumer Confidence Index jumped to 81.4, the highest reading since 2008. Even so, most of these latest reports came out prior to the Federal Reserve statement suggesting that an improving economy could cause them to taper their purchases of securities that led to some uptick in interest rates.

CHART 1



The initial response to the Federal Reserve statement of a possible tapering of securities purchases caused a sharp 6% stock market sell off. While the soaring stock market was probably due for a correction anyway, higher interest rates as a probable result of such tapering of security purchases were perceived not only to cool the housing improvement, which many feel is at the heart of the recovery, but slow economic growth further and add uncertainty to the outlook. Ironically, it has been weak economic reports that have helped the equity market as it assumes the Federal Reserve will avoid any tapering of its purchases of Treasury and mortgage-backed securities, thus keeping interest rates at historically low levels. Thus, as the downwardly revised GDP figures were released coupled with several Fed spokesmen who appeared to walk back talk of any near term security purchase tapering, the equity markets recovered much of the previous month's decline.

The sharp market volatility of late arises in large part from increased uncertainty over a myriad of issues: from the uncertain impact of implementing Obama Care; market intervention actions of the Federal Reserve; the uncertain pace of economic growth; the inability to substantially improve the labor market conditions; and concern over deflation and yet the potential for renewed inflation should the economy gain momentum. In part this uncertainty has increased as both monetary and fiscal polices have veered away from the discipline of the efficiencies of the capital markets. Fiscal stimulus has been directed by the government in areas it has selected, several of which have failed, rather than market determined. At the same time, with government debt ballooning, in order to keep interest rates low and assist a plunging housing market, the Federal Reserve entered the market through quantitative easing; basically buying up much of the debt created by burgeoning government deficits as well as mortgage backed securities rather than subject this to market discipline. It is no wonder that as these policies, originally designed to deal with the collapsing financial markets and Great Recession, were unwound there would be sharp fluctuations as the capital markets return to normal. Until then, both the Federal Reserve and the federal government will have to walk a narrow line with particular skill in order to return to normal market behavior without deleterious results.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS	MAY. 2013	APRIL 2013	MAY 2012
Unemployment Rate (Average)	9.1%	9.3%	8.9%
Annual Rate of Inflation (Chicago)	6.0%	0.5%	1.5%

	LATEST MONTH	% CHANGE OVER PRIOR MONTH	% CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (May)	6,578	0.0%	-0.1%
Employment (thousands) (May)	5,979	0.2%	-0.3%
New Car & Truck Registration (May)	52,772	2.0%	2.0%
Single Family Housing Permits (May)	1,011	8.8%	5.3%
Total Exports ($ mil) (April)	5,385	-4.4%	-9.4%
Chicago Purchasing Managers Index (June)	51.6	-12.0%	-2.4%