Commission on Government Forecasting and Accountability

703 Stratton Ofc. Bldg., Springfield, IL 62706

MONTHLY BRIEFING FOR THE MONTH ENDED: JUNE 2017

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REVENUE: FY 2017 Receipts Drop $968 million on Weak Federal Sources As Other Revenues Finish Close to Expectations

Jim Muschinske, Revenue Manager

Overall base revenues dipped $14 million in June. While personal income tax receipts fell, an increase in corporate income tax receipts managed to offset most of those declines. In June of last fiscal year, the IDoR made substantial adjustments to the allocations of corporate income taxes, thereby resulting in a significantly suppressed total. As a result, this year's positive performance was due more to that artificially low month one year earlier. June had the same number of receipting days as last year.

Gross personal income tax receipts fell $198 million or $201 net of refunds and diversions to the Fund for Advancement of Education and Commitment to Human Services Fund. Sales taxes experienced a falloff, dropping $21 million for the month. Insurance taxes and fees declined by $8 million, while corporate franchise taxes dipped $3 million.

As mentioned, gross corporate income taxes rose $182 million, or $156 million net of refunds, but was more the function of last year's June adjustment rather than indicative of receipt strengthening. Other sources managed to grow $20 million, both public utility taxes and inheritance taxes rose $13 million, cigarette taxes jumped $11 million on make-up from prior months shortages, while interest earnings eked out a $1 million gain.

Overall transfers grew $21 million in June. Lottery transfers grew $29 million and riverboat gaming $1 million, as all other miscellaneous transfers fell $9 million. Federal sources finished the year on a weak note, falling $16 million reflecting the States poor fiscal condition and its inability to execute reimbursable spending.

Year End

For the fiscal year, base general funds dropped $968 million or 3.2%. As discussed in earlier briefings, receipt weakness was widespread, and resulted in disappointing performances in key areas such as income and sales taxes as well as federal sources.

For the fiscal year, gross corporate income taxes were off $728 million, or $644 million net of refunds. Part of that decline was due to the IDoR now classifying pass-through withholding under the personal income tax designation rather than corporate. Because of this change, approximately $375 million gross, or $324 million net was moved from the corporate income tax line. Also significantly impacting corporate income taxes were the reconciliations made by IDoR's during the move to their new accounting system. It is hoped that normalized receipt patterns will be reestablished as they caused significant difficulty in interpreting receipts in FY 2017. Inheritance tax, true to its volatile nature, declined $45 million. Public utility taxes were off of last year's pace by $42 million while insurance taxes and fees dipped $7 million.

Other sources grew $151 million, in large part due to a one-time $84 million deposit of an SERS repayment. Despite being the benefactor of the previously mentioned pass through withholding designation change, gross personal income taxes returned only a gain of $86 million, but on a net basis actually fell $153 million. Public utility taxes declined $42 million for the fiscal year. Sales taxes dropped $20 million, although that total was largely the result of the IDoR diverting approximately $150 million from general funds to other local government funds that receive sales tax distributions. Insurance taxes eased $7 million in FY 2017.

Overall transfers ended down $39 million. Despite lottery transfers growing by $43 million, those gains were more than offset by a comparatively small Refund Fund transfer—down $73 million, a decline of $7 million from riverboat transfers, and a small dip of $2 million from all other miscellaneous transfers. Due to significant cash constraints throughout all of FY 2017, reimbursable spending was seriously hampered. As a result, federal sources fell $182 million for the fiscal year from the depressed level of FY 2016.

Review of FY 2017 Revenue Estimates

The summery tables on page 3 as well as a more detailed table on page 6 display and compare the last official forecasts presented in Feb/March by both CGFA and the IDoR/GOMB.

FY 2017 Actuals vs. CGFA and IDoR/GOMB Estimates ($ millions)					
Revenue Sources	ACTUAL FY 2017	CGFA EST. March-17 FY 2017	DIFFERENCE ACTUALS FROM ESTIMATE	IDoR/GOMB EST. Feb-17 FY 2017	DIFFERENCE ACTUALS FROM ESTIMATE
"Big Three" Net Income Tax & Sales	$22,108	$22,343	($235)	$22,622	($514)
All Other Sources	$3,262	$3,251	$11	$3,281	($19)
Transfers	$1,552	$1,615	($63)	$1,667	($115)
Federal Sources	$2,483	$3,000	($517)	$3,162	($679)
Subtotal General Funds	$29,405	$30,209	($804)	$30,732	($1,327)

"Big Three" Net Income Tax and Sales—As shown, while actual receipts ended up falling short of both agencies projections, the Commission's overall estimate of the larger economically-related sources ended up being only off by approximately 1%, and would have been only .4% if not for the $150 million sales tax diversion executed by the IDoR after the forecasts were made. In comparison, the IDoR/GOMB forecasts ended up overestimating these categories by a total amount of $514 million, or 2.3%.

All Other Sources—Both agencies forecast of all other miscellaneous tax sources performed very well. While CGFA underestimated actuals by a combined $11 million, IDoR/GOMB forecasts were also very close, overestimating performance by $19 million.

Transfers—Both agencies overestimated the performance of other miscellaneous transfers, but were very accurate in expectations of lottery and riverboat transfers. In total, CGFA was off by $63 million, while IDoR/GOMB was $115 million too high.

Federal Sources—Due to the State's poor cash position throughout FY 2017, reimbursable spending on Medicaid bills was severely constrained. As a result, actual reimbursements fell well short of expectations. However, this shortfall was not a surprise, as CGFA had warned since March that federal sources could fall "hundreds" of millions short of even reduced estimates. Indeed, that warning came to fruition as federal sources fell $517 million below CGFA projection and an even higher $679 million from GOMB estimates. As CGFA stated in various legislative committee testimony, this reimbursable spending will ultimately have to take place. While it did not fall in the timeframe of FY 2017, these owed bills did not disappear, and will have to be addressed in the new fiscal year and beyond.

JUNE
FY 2017 vs. FY 2016
($ million)

Revenue Sources	June FY 2017	June FY 2016	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$1,323	$1,521	($198)	-13.0%
Corporate Income Tax (regular)	316	134	$182	135.8%
Sales Taxes	712	733	($21)	-2.9%
Public Utility Taxes (regular)	81	68	$13	19.1%
Cigarette Tax	40	29	$11	37.9%
Liquor Gallonage Taxes	15	15	$0	0.0%
Vehicle Use Tax	3	3	$0	0.0%
Inheritance Tax	22	9	$13	144.4%
Insurance Taxes and Fees	70	78	($8)	-10.3%
Corporate Franchise Tax & Fees	17	20	($3)	-15.0%
Interest on State Funds & Investments	5	4	$1	25.0%
Cook County IGT	0	0	$0	N/A
Other Sources	177	157	$20	12.7%
Subtotal	$2,781	$2,771	$10	0.4%
Transfers				
Lottery	88	59	$29	49.2%
Riverboat transfers & receipts	18	17	$1	5.9%
Proceeds from Sale of 10th license	0	0	$0	N/A
Refund Fund transfer	0	0	$0	N/A
Fund sweeps	0	0	$0	N/A
Other	49	58	($9)	-15.5%
Total State Sources	$2,936	$2,905	$31	1.1%
Federal Sources	$196	$212	($16)	-7.5%
Total Federal & State Sources	$3,132	$3,117	$15	0.5%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($148)	($151)	$3	-2.0%
Corporate Income Tax	($55)	(29)	($26)	89.7%
Fund for Advancement of Education	($33)	(30)	($3)	10.0%
Commitment to Human Services Fund	($33)	(30)	($3)	10.0%
Subtotal General Funds	$2,863	$2,877	($14)	-0.5%
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	$2,863	$2,877	($14)	-0.5%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 5-Jul-17

GENERAL FUNDS RECEIPTS: YEAR END
FY 2017 vs. FY 2016
($ million)

Revenue Sources	FY 2017	FY 2016	CHANGE FROM FY 2016	% CHANGE
State Taxes				
Personal Income Tax	$15,385	$15,299	$86	0.6%
Corporate Income Tax (regular)	1,606	2,334	($728)	-31.2%
Sales Taxes	8,043	8,063	($20)	-0.2%
Public Utility Taxes (regular)	884	926	($42)	-4.5%
Cigarette Tax	353	353	$0	0.0%
Liquor Gallonage Taxes	171	170	$1	0.6%
Vehicle Use Tax	30	30	$0	0.0%
Inheritance Tax	261	306	($45)	-14.7%
Insurance Taxes and Fees	391	398	($7)	-1.8%
Corporate Franchise Tax & Fees	207	207	$0	0.0%
Interest on State Funds & Investments	36	24	$12	50.0%
Cook County IGT	244	244	$0	0.0%
Other Sources	685	534	$151	28.3%
Subtotal	$28,296	$28,888	($592)	-2.0%
Transfers				
Lottery	720	677	$43	6.4%
Riverboat transfers & receipts	270	277	($7)	-2.5%
Proceeds from Sale of 10th license	10	10	$0	0.0%
Refund Fund transfer	4	77	($73)	-94.8%
Fund sweeps	0	0	$0	N/A
Other	548	550	($2)	-0.4%
Total State Sources	$29,848	$30,479	($631)	-2.1%
Federal Sources	$2,483	$2,665	($182)	-6.8%
Total Federal & State Sources	$32,331	$33,144	($813)	-2.5%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($1,724)	($1,493)	($231)	15.5%
Corporate Income Tax	($278)	($362)	$84	-23.2%
Fund for Advancement of Education	($462)	($458)	($4)	N/A
Commitment to Human Services Fund	($462)	($458)	($4)	N/A
Subtotal General Funds	$29,405	$30,373	($968)	-3.2%
Short-Term Borrowing	$0	$0	$0	N/A
Interfund Borrowing	$0	$0	$0	N/A
Budget Stabilization Fund Transfer	$0	$125	($125)	-100.0%
Total General Funds	$29,405	$30,498	($1,093)	-3.6%

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

CGFA 5-Jul-17

FY 2017 Actuals vs. CGFA & IDOR/GOMB Estimates

($ millions)

Revenue Sources	ACTUAL FY 2017	CGFA EST. March-17 FY 2017	DIFFERENCE ACTUALS FROM ESTIMATE	IDOR/ GOMB EST. Feb-17 FY 2017	DIFFERENCE ACTUALS FROM ESTIMATE
State Taxes					
Personal Income Tax	$15,385	$15,300	$85	$15,665	($280)
Corporate Income Tax (regular)	$1,606	$1,750	($144)	$1,814	($208)
Sales Taxes	$8,043	$8,215	($172)	$8,155	($112)
Public Utility (regular)	$884	$883	$1	$899	($15)
Cigarette Tax	$353	$353	$0	$353	$0
Liquor Gallonage Taxes	$171	$171	$0	$171	$0
Vehicle Use Tax	$30	$30	$0	$29	$1
Inheritance Tax	$261	$285	($24)	$275	($14)
Insurance Taxes & Fees	$391	$405	($14)	$395	($4)
Corporate Franchise Tax & Fees	$207	$205	$2	$205	$2
Interest on State Funds & Investments	$36	$28	$8	$26	$10
Cook County Intergovernmental Transfer	$244	$244	$0	$244	$0
Other Sources	$685	$647	$38	$684	$1
Subtotal	**$28,296**	**$28,516**	**($220)**	**$28,915**	**($619)**
Transfers					
Lottery	$720	$719	$1	$720	$0
Riverboat transfers & receipts	$270	$265	$5	$270	$0
Proceeds from sale of 10th license	$10	$10	$0	$10	$0
Refund Fund transfer	$4	$4	$0	$4	$0
Fund Sweeps	$0	$0	$0	$0	$0
Inerfund Borrowing	$0	$0	$0	$0	$0
Other	$548	$617	($69)	$663	($115)
Total State Sources	**$29,848**	**$30,131**	**($283)**	**$30,582**	**($734)**
Federal Sources	**$2,483**	**$3,000**	**($517)**	**$3,162**	**($679)**
Total Federal & State Sources	**$32,331**	**$33,131**	**($800)**	**$33,744**	**($1,413)**
Nongeneral Funds Distribution:					
Refund Fund					
Personal Income Tax	($1,724)	($1,714)	($10)	($1,754)	$30
Corporate Income Tax	($278)	($302)	$24	($313)	$35
Fund for Advancement of Education	($462)	($453)	($9)	($473)	$11
Commitment to Human Services Fund	($462)	($453)	($9)	($473)	$11
Subtotal General Funds	**$29,405**	**$30,209**	**($804)**	**$30,732**	**($1,327)**
Short Term Borrowing	**$0**	**$0**	**$0**	**$0**	**$0**
Budget Stabilization Fund Transfer	**$0**	**$0**	**$0**	**$0**	**$0**
Total General Funds	**$29,405**	**$30,209**	**($804)**	**$30,732**	**($1,327)**

ECONOMY

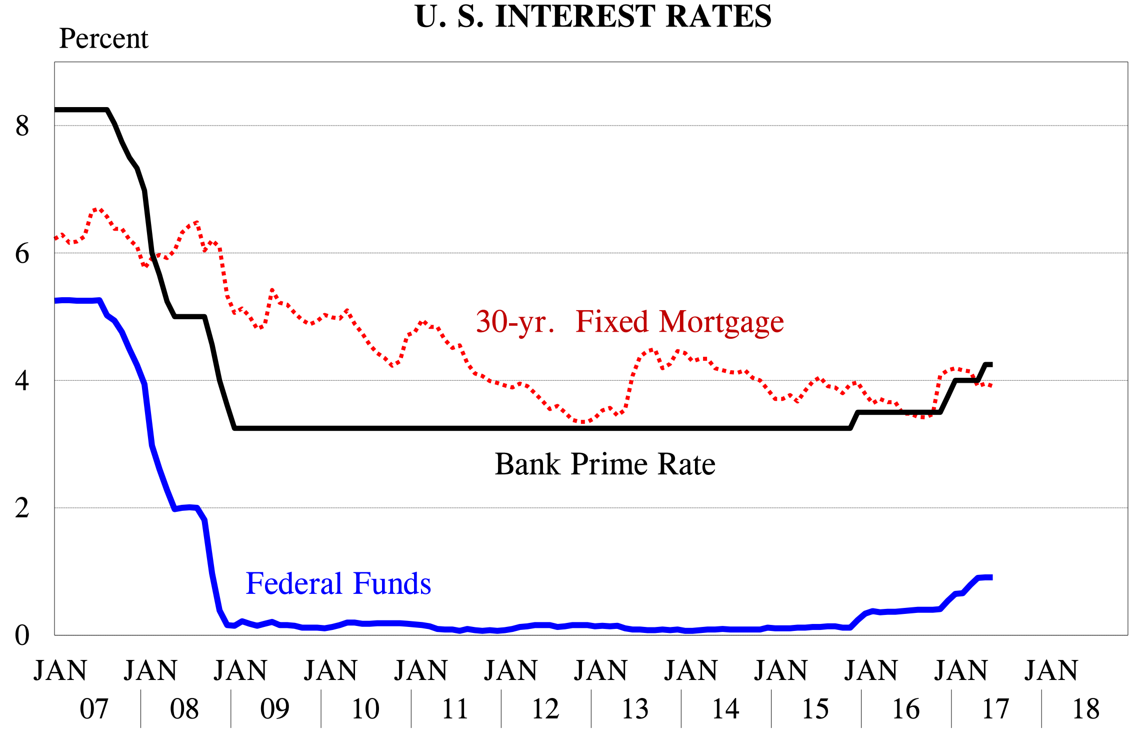
Interest Rates Rise Again

Edwards H. Boss, Jr. – Chief Economist

Interest rates edged up for the third time this year as the Federal Reserve at their June meeting raised the key federal funds target range to 1.0% - 1 ¼%, up from a range of ¾% - 1.0% set in March. This in turn followed a target range of 0.50% - 0.75% last December and the 0.25% - 0.50% range set a year earlier. The creeping up of the key federal funds rate replaces the prolonged period of quantitative easing and almost zero interest rates which began in late 2008 when the target range was set as 0.0% - 0.25%. This was done to stimulate an economy that had entered a prolonged period of recession begun at the end of 2007. Moreover, recent increases in the federal funds rate are likely to continue. In the press release of the June Federal Reserve meeting it states that, "The Committee expects that economic conditions will evolve in a manner that will warrant gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run." Chairman Yellen previously had stated the desire for a neutral rate, "A 'neutral' policy stance is one where monetary policy neither has its foot on the brake nor is pressing down on the accelerator"

CHART 1

U. S. INTEREST RATES



CGFA

The additional credit tightening comes in spite of the Fed having met its targets set for inflation and unemployment. The Federal Reserve noted in its press release that the Committee's objective was a 2% inflation rate while in February 2014, then previous Federal Reserve Chairman Bernanke stated that it would keep interest rates low until unemployment falls to around 6.5%. (At the time of the Bernanke statement the unemployment rate had fallen from a peak of 10% in October 2009 to 6.7% in February 2014.) Currently, the unemployment is at 4.3% while, as pointed out by the Federal Reserve, "the inflation rate on a 12-month basis has declined recently and the measure excluding food and energy prices is running somewhat below 2%."

As is illustrated in the Chart, the recent federal funds rate increases keep it well below levels in past periods. The recent increases were mirrored by similar upticks in the bank prime lending rate; however, the latest increases have had lesser impact on longer-term rates. This lag may reflect the sharp slowdown in economic growth in the first quarter of 2017 as well as the recently reduced inflationary pressure stemming from a sharp downturn in oil prices. Both of these factors, however, could prove temporary.

Many forecasters are calling for a pickup in the pace of the economy from the first quarter's slowdown, as indicated by record stock prices, optimism expressed in confidence indexes, and continued improvement in the job market acting to increase demand. At the same time, it is unlikely that energy prices will continue to weaken in this environment. Moreover, still uncertain is the possible inflationary effect as the Fed begins to unwind its balance sheet with the more than $4 trillion in bonds bought in response to the financial crisis. This brings up the question of whether the Federal Reserve has waited too long to begin to normalize credit conditions or if, as has occurred in the past, it overstayed its prolonged period of ease, sparking an acceleration in prices in a strengthening economy.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS *	May 2017	April 2017	May 2016
Unemployment Rate (Average)	4.6%	4.7%	5.9%
Annual Rate of Inflation (Chicago)	0.2%	0.3%	1.8%

	LATEST MONTH	% CHANGE OVER PRIOR MONTH	% CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (May)	6,482.7	-0.3%	-0.8%
Employment (thousands) (May)	6,184.5	0.2%	0.5%
NonFarm Payroll Employment (May)	6,031,600	2,400	34,7400
New Car & Truck Registration (May)	49,103	1.2%	-1.2%
Single Family Housing Permits (May)	1,058	16.1%	3.0%
Total Exports ($ mil) (April)	5,318.1	-5.0%	10.1%
Chicago Purchasing Managers Index (June)	65.7	19.0%	15.6%

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

PENSIONS: Legislative Overview
Jerry Lazzara, Pension Analyst

The following bills have passed both chambers during the 2017 State Legislative Session. Those bills that have been approved by the Governor are labeled with the appropriate Public Act number. The remaining bills await the Governor's action.

HB 0350

Sponsors: McSweeney – Breen, et al. (Althoff – Bush, et al.)

Passed House:	108-0-0
Passed Senate:	54-0-0
House Concurrence:	101-0-0

HB 0350 amends several articles of the Illinois Pension Code. The bill establishes the provision that survivor benefits shall not be paid to any person who is convicted of a felony relating to or arising from the service of the member from whom the benefit results. The bill contains language stating that this change shall not impair any contract or vested right acquired by a survivor prior to the effective date of this Amendatory Act, and that all new members entering service after the effective date shall be deemed to have consented to the foregoing provision as a condition of participation.

HB 0418

Sponsors: Wehrli– Ammons, et al. (Connelly – McConchie)

Passed House:	108-4-0
Passed Senate:	54-0-0

HB 0418 amends the Downstate Police article of the pension code. It provides that members notify their respective funds when making changes to their employment or pension statuses. This bill also suspends pension payments for police officers and chiefs of police who re-enter service. The provisions of this bill apply to members hired on or after the effective date; current active members are unaffected by the changes made by HB 0418.

HB 0656

Sponsors: Gordon-Booth – Wallace, et al. (Holmes – Stadelman, et al.)

Passed House:	105-0-0
Passed Senate:	56-0-0

HB 0656 amends the TRS article of the Illinois Pension Code to require that school districts make payments to TRS from federal funds based on the employer's normal cost rather than the State's minimum contribution required under P.A. 88-0593. Under current law, the employer (school district) contribution rate for teachers paid from federal funds is the same as the certified State contribution rate under P.A. 88-0593. For FY 2018, the rate certified by the TRS board is 44.61%. HB 0656 would set the school district contribution rate at the system's normal cost rate, or 10.10%. TRS notes that it used to have the authority to set the federal contribution rate, however P.A. 98-0674 rescinded this authority after the board set the federal funds rate at the normal cost rate. HB 0656 would not restore the authority that the TRS board previously enjoyed, but would effectively codify the action that the board had taken prior to the enactment of P.A. 98-0674.

HB 0688

Sponsors: Zalewski – Pritchard, et al. (Cunningham – Holmes)

Passed House:	82-33-0
Passed Senate:	39-10-2
House Concurrence:	72-22-0

HB 688 amends the Downstate Firefighters and Chicago Firefighters Articles of the Illinois Pension Code. It would allow any active member of the Firemen's Annuity and Benefit Fund of Chicago (FABF) to apply for transfer of up to 10 years of creditable service from a Downstate Firefighter pension fund to FABF. Such creditable service shall be transferred only upon payment by such pension fund to FABF of an amount equal to:

1. The amounts accumulated to the credit of the applicant on the books of the fund on the date of transfer;
2. Employer contributions equal to the amount described in (1);

3. Any interest paid by the applicant in order to reinstate service

HB 688 postpones the effective date of these provisions to 6 months after the effective date of this bill.

HB 0815

Sponsors: Zalewski – Cavaletto (Sandoval – Anderson)

Passed House:	77-24-0
Passed Senate:	55-1-0

HB 815 amends the IMRF article of the Illinois Pension Code. It provides that a full-time police officer or firefighter of a participating municipality, that has at least 30 full-time police officers, 50 full-time firefighters, and has not established a Downstate Police or Downstate Fire pension fund, would be considered a member of SLEP (Sheriff's Law Enforcement Employees) program, but only if the governing authority of that municipality approves it via affirmative resolution.

HB 2496

Sponsors: Martwick – Soto (Aquino)

Passed House:	81-31-0
Passed Senate:	48-0-0

HB 2496 amends the State Employee article of the Illinois Pension Code to allow licensed health care professionals (rather than only physicians) to make certain disability determinations. The legislation also eliminates the 12 month application deadline for certain disability benefits. In addition, the legislation makes changes concerning when non-occupational disability benefits start to accrue and to the Social Security full retirement age.

HB 2966

Sponsors: Andrade Jr. – Davus, et al. (Althoff – Martinez)

Passed House:	79-27-0
Passed Senate:	57-0-0

HB 2966 makes a clarifying change to the IMRF Article of the Pension Code to bring into effect the intent of P.A. 97-0609, which dealt with excess salary increase penalties paid by employers on behalf of certain IMRF employees. The bill also makes a change in the qualification for service on the IMRF board of trustees. Under current law, if the amount of a participating employee's earnings for any of the 12-month periods used to determine the final rate of earnings exceeds the employee's 12 month earnings with the same employer for the previous year by 6% or 1.5 times the CPI-U, then the participating municipality or instrumentality must pay to IMRF the present value of the increase in the pension resulting from the portion of the increase in "salary" that is in excess of greater of the two aforementioned amounts. HB 2966 changes the word "salary" to "reported earnings." This is meant to be a clarification of existing law, and is intended to be retroactive to Jan. 1, 2012 (the effective date of P.A. 97-0609).

HB 2966 also mandates that no person shall be eligible to serve on the IMRF board of trustees unless that person has met the minimum vesting requirements.

HB 3070

Sponsors: Martwick – Davis, et al. (Clayborne Jr.)

Passed House:	85-25-0
Passed Senate:	46-0-0

HB 3070 amends the IMRF article of the Pension Code to stipulate the manner of payment for various types of authorized service credit. Under the IMRF Article of the Pension Code, members of the fund may make payments to IMRF in order to establish varying types of service credit. Examples would be credit for prior service with a participating municipality for which credit has not been received, authorized leaves of absences, and military service, among others. HB 3070 mandates that payments to establish these types of authorized service credit must be received while the applicant is an active participant in IMRF or a reciprocal system, except that the applicant may make one payment after termination of active participation in either IMRF or a reciprocal fund.

HB 3122

Sponsors: Moeller – Olsen, et al. (Castro – Murphy)

Passed House:	112-0-0
Passed Senate:	55-0-0

HB 3122 amends the IMRF article of the Pension Code. The bill excludes from participation in IMRF any person who holds part-time office as a member of a governing body, whether elected or appointed after the effective date of this bill. The bill does not apply to elected or appointed officials who took office before the effective date and who elected in writing to become a participating employee. The bill stipulates that an office as a member of a governing body shall be deemed part-time if it normally requires the performance of duty during less than 1,000 hours per year.

SB 0701

Sponsors: Morrison – Bush, et al. (Nekritz – Yingling, et al.)

Passed Senate:	56-0-0
Passed House:	112-0-0
Senate Concurrence:	53-0-0

Under the IMRF Article of the Pension Code, if the amount of a participant's earning's for any of the 12-month periods used to determine final rate of earnings exceeds the employee's 12 month reported earnings with the same employer for the previous year by the greater of 6% or 1.5 times the CPI-U, then the participating municipality is obligated to pay to IMRF the present value of the increase in the pension resulting from the portion of the increase in salary that is excess of the greater of 6% or 1.5 times the increase in the CPI-U (this "excess earnings penalty" was brought about with the enactment of P.A. 97-0609). SB 701 stipulates that when determining such amounts, IMRF shall exclude earnings increases resulting from payments for unused vacation time, but only for payments for unused vacation time made in the final 3 months of the final rate of earnings period. SB 701 also amends the IMRF article of the Pension Code to exclude from pensionable earnings amounts associated with a vehicle allowance payable to an employee who first becomes a participating employee on or after the effective date of this bill.
