IEFC

Illinois Economic and Fiscal Commission

MONTHLY REVENUE BRIEFING *JULY 2004*

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PENSIONS: Funding Changes and the Early Termination Incentive Program

Tim Blair, Pension Manager

Public Act 93-0839 (SB 2206) made changes to the State Finance Act and the Illinois Pension Code to implement the FY 2005 State budget. The Act included a two-part early termination incentive program for qualifying State employees and changed the statutory funding requirements of the 2002 SERS Early Retirement Incentive Program. In addition, the Act changed the method of paying a portion of the debt service on the pension funding General Obligation Bonds issued in FY 2003.

EARLY TERMINATION INCENTIVE

SERS Enhanced Refund Option (through October 31, 2004)

Public Act 93-0839 provides an enhanced refund option for State employees terminating State service before October 31, 2004. The Act specifies which job titles under the Governor's purview would qualify for the enhanced refund option and specifies that all titles not under the Governor's purview will have access to the enhanced refund plan, with the authorization of the agency director or other department head. Employees in eligible job titles are required to be employed during June 2004 and in an eligible position continuously since January 1, 2004.

In order to participate, employees are required to be among the first 3,000 employees to apply to SERS. The application deadline is September 30, 2004 for employees under the Governor's purview and September 1, 2004 for eligible employees not under the Governor's purview. Participating employees must terminate service within 2 weeks of the approval of the application and in no event later than October 31, 2004. Up to 3,000 employees under the Governor's purview would be allowed to participate in the plan. There is no maximum limit on the number of other employees who would be allowed to participate.

The enhanced refund will amount to all of the employee's contributions, with interest at 6.5% annually, multiplied by two. The regular SERS refund provision only allows for a refund of

employee contributions, without interest. The Act specifies this enhanced refund could be given to the member in a lump sum, rolled into another qualified plan, or both. Upon accepting the refund, the member would waive all rights to any type of SERS benefit, including survivor's benefits and death benefits. *The enhanced refund would not diminish the employee's or their survivor's group health insurance benefits.*

Employees who accept the enhanced refund and return to State employment will be required to repay to SERS the amount of the enhanced refund, less the amount of employee contributions (or regular refund amount), within 60 days of the return to service, unless returning as a temporary employee. The normal refund amount (employee contributions only) could then be repaid, with interest, in order to re-establish the service credit that was forfeited by the acceptance of the refund. In addition, participants who become members of a reciprocal system who wish to re-establish the SERS service credit forfeited by the acceptance of the enhanced refund would have to repay the entire amount of the enhanced refund, with interest from the date of refund to the date of repayment.

The Illinois Economic and Fiscal Commission is required to report to the Governor and General Assembly by January 1, 2006, an estimate of the annual amount of payroll savings that result from people choosing to terminate employment early by choosing the lump sum payment option. The report must also detail the net annual cost or savings associated with the program.

The fiscal impact of the early termination incentive program is difficult to estimate. SERS will realize an actuarial gain when some members choose the enhanced refund option, as the accrued liability associated with that member, which will be eliminated, will be larger than the enhanced refund. But, for some members, the enhanced refund will actually be larger than the liability that is eliminated. In general, older members who choose the enhanced refund will provide financial gains to SERS, while younger members who choose the option will result in actuarial losses. Effectively, the impact of the program will depend primarily on the mix of members who choose the enhanced refund option.

Severance Payment Plan (November 1, 2004 through December 31, 2004)

Public Act 93-0839 requires the Department of Central Management Services (CMS) to create, adopt by emergency rulemaking through JCAR (by October 1, 2004), and administer a severance payment plan. As with the enhanced refund option, the Act provides which job titles under the Governor's purview will qualify for a severance payment and provides the rules may limit the number of individuals who may participate. Employees in positions eligible to participate in the severance payment plan must be active employees during June 2004 and in a qualifying job title continuously since January 1, 2004.

Employees not under the Governor's purview will also have access to the severance payment plan, but the director or other head of a department or agency may limit the number of individuals who may participate. The director or other agency

head may also specify the amount of the severance payment and how the payment will be vouchered. The Act specifies that all employees within the same job title are to be provided lump sum payments under the same terms, with the amount varying only due to the amount of State service.

Eligible employees under the purview of the Governor are required to apply to CMS by October 31, 2004 and terminate employment between November 1, 2004 and December 31, 2004. Employees not under the Governor's purview must apply to the director or other agency head and terminate employment by the same date. The maximum severance payment allowed to eligible employees under the Governor's purview is 25% of final monthly salary for each year of State service, up to a maximum severance payment of 6 months of salary.

Employees who return to State employment are required to repay the amount of the severance payments within 60 days of the return, unless returning as a temporary employee or an elected official. The repayment must be made to CMS for returning employees under the purview of the Governor. For returning employees not under the purview of the Governor, the repayment must be made to a re-employing department or agency.

The severance plan also allows the lump sum to include payment for up to 6 months of the cost of continuing coverage in the State's group health insurance program, up to a maximum of $3,600. An employee's lump sum payment (severance and insurance) must be paid from the same personal services appropriation from which the employee's salary is paid.

The severance payment plan will not fiscally impact SERS. There will be a fiscal impact to the State, but it depends primarily on the number of people who elect to participate by terminating State employment. Also, the Act only sets the maximum payout rate. So, the payments to those who qualify and choose to participate is unknown.

FUNDING OF THE 2002 SERS ERI

Public Act 92-0566 (HB 2671) created the 2002 SERS ERI and required SERS (and TRS) to determine the net increase in accrued liability resulting from the ERI and report the amount to the Governor and the Pension Laws Commission by November 15, 2003. In FY 2004, the State was required to contribute $70 million to SERS ($1 million to TRS) towards this liability, and in FY 2005 through FY 2013, to amortize (at 8.5% interest) the remaining ERI liability, in equal annual installments (as certified by SERS and TRS). In November of 2003, SERS certified an annual contribution of $380.3 million and TRS certified an annual contribution of $1.7 million.

Public Act 93-0839 amends the State Employees' and Teachers' Articles of the Pension Code to provide the impact of the ERI must be recalculated, based on the increase in the present value of future benefits resulting from the ERI, by November 15, 2004. Generally, changing the definition of the impact of the ERI to the present value of future benefits is a more accurate measure of that impact, as the accrued liability calculation includes cost factors that were not really the result of the ERI.

According to SERS, the increase in the present value of future benefits that resulted from the ERI is $1.75 billion, while the increase in accrued liability resulting from the ERI totaled $2.3 billion. The amount of the reduction, $550 million, will be funded over the remainder of the current funding plan (41 years), rather than funded as ERI liability.

Public Act 93-0839 also provides the State will contribute $70 million to SERS for the ERI in FY 2005, and the remainder of the increase in the present value of future benefits will be amortized over 10 years beginning in FY 2006. A level dollar payment is required. For SERS, the required annual contribution is expected to be approximately $260.0 million beginning in FY 2006.

The Act also requires the Economic and Fiscal Commission to hold one or more hearings prior to the last day of the 2004 veto session to review recommendations related to the funding of the 2002 SERS ERI. The Commission is to file recommendations with the General Assembly by December 31, 2004. The Act specifies the report may contain both majority and minority recommendations.

PENSION OBLIGATION BOND DEBT SERVICE

Public Act 93-0002 (HB 2660) amended the General Obligation Bond Act to increase bond authorization by $10 billion. A portion of the bond proceeds was used to pay part of the FY 2003 State contribution and all of the FY 2004 State contributions to the retirement systems. Of the $10 billion in proceeds, $7.3 billion was used to reduce the unfunded liabilities of the State-funded retirement systems. Public Act 93-0002 added a provision to the funding plan to reflect this additional employer contribution and to require the retirement systems to pay the bond debt service by setting the maximum annual employer contribution to each system at the amount that would have been contributed without the bond issuance, minus the total debt service payments for the fiscal year. Effectively, this reduction in retirement contributions is used to pay the debt service on the bonds.

FY 2005 is the first year in which the required retirement contributions have been reduced by the amount of the debt service ($496.2 million) on the pension funding bonds. The FY 2005 debt service that is the responsibility of SERS totals $93.8 million. Of this amount, $68.5 million (73% of SERS debt service) is attributable to debt service on the portion of the bond proceeds used to reduce the SERS unfunded liability. Public Act 93-0839 provides this portion of the SERS debt service will be collected from agency budgets by SERS, as is currently done with the SERS employer retirement contributions, rather than being paid directly from GRF to the General Obligation Bond Retirement and Interest Fund (GOBRI). The debt service collected by SERS would then be transferred from SERS to GOBRI.

Effectively, Public Act 93-0839 requires SERS to certify a rate of payroll, based on the FY 2005 State payroll projection, which will allow SERS to collect $68.5 million in debt service through agency payrolls. Allowing SERS to collect debt service through agency payrolls requires non-GRF funds (including federal funds) to pay part of the debt service. It should be

noted that some of the proceeds of the pension funding bonds reduced the unfunded liability of SERS, including some liability that is associated with employees at agencies that are funded by non-GRF and federal funds. Therefore, the Act provides a mechanism for non-GRF and federal funds to pay a share of the debt service on bond proceeds that were used to reduce the SERS unfunded liabilities.

According to SERS, about 35% of State payrolls are from non-GRF funds and federal funds. So, the additional amount that agencies must contribute to debt service due to the additional certification will save the State an estimated $24 million (35% of $68.5 million) in GRF in FY 2005. Of course, this reduction in GRF is due to increased retirement contributions of $24 million from other State and federal funds.

STATE FACILITIES CLOSURE ACT

Nicole Krneta Rogers, Analyst

P.A. 93-0839 (SB 2206), creates the State Facilities Closure Act and adds additional responsibilities and duties to the Illinois Economic and Fiscal Commission pursuant to language contained in the Act. State facility is defined as any facility that is owned and operated by the State or leased and operated by the State and is the primary stationary work location for 25 or more State employees. State facility does not include any facility under the jurisdiction of the legislative branch, including the Auditor General, or the judicial branch.

The legislation requires that before a state facility may be closed, the State executive branch officer with jurisdiction over the facility shall file notice of the proposed closure with the Illinois Economic and Fiscal Commission. The notice must be filed within 2 days after the first public announcement of any planned or proposed closure. Within 10 days after it receives notice of the proposed closure, the Commission, in its discretion, may require the State executive branch officer with jurisdiction over the facility to file a recommendation for the closure of the facility with the Commission. The recommendation must be filed within 30 days after the Commission delivers the request for recommendation to the State executive branch officer.

The recommendation must include, but is not limited to, the following:

1. the location and identity of the State facility proposed to be closed;
2. the number of employees for which the State facility is the primary stationary work location and the effect of the closure of the facility on those employees;
3. the location or locations to which the functions and employees of the State facility would be moved;
4. the availability and condition of land and facilities at both the existing location and any potential locations;
5. the ability to accommodate the functions and employees at the existing and at any potential locations;
6. the cost of operations of the State facility and at any potential locations and any other related budgetary impacts;

7. the economic impact on existing communities in the vicinity of the State facility and any potential facility;
8. the ability of the existing and any potential community's infrastructure to support the functions and employees;
9. the impact on State services delivered at the existing location, in direct relation to the State services expected to be delivered at any potential locations; and
10. the environmental impact, including the impact of costs related to potential environmental restoration, waste management, and environmental compliance activities.

A 30-day public comment period must follow the filing of the recommendation. The Illinois Economic and Fiscal Commission, in its discretion, may conduct one or more public hearings on the recommendation.

Public hearings conducted by the Commission shall be conducted no later than 35 days after the filing of the recommendation. At least one of the public hearings on the recommendation shall be held at a convenient location within 25 miles of the facility for which closure is recommended. The Commission shall provide reasonable notice of the comment period and of any public hearings to the public and to units of local government and school districts that are located within 25 miles of the facility.

Within 50 days after the State executive branch officer files the required recommendation, the Commission shall issue an advisory opinion on that recommendation. No action may be taken to implement the recommendation for closure of a State facility until 50 days after the filing of any required recommendation.

CHANGES TO GROUP INSURANCE OVERSIGHT

Mike Moore, Analyst

One of the several statutory changes for the Illinois Economic and Fiscal Commission (IEFC) this session strengthened the Commission's oversight role of the State Employees' Group Health Insurance Program. P.A 93-0839 (SB 2206), clarified State policy for the administration of the Group Insurance Program, and requires the Department of Central Management Services to administer the program within set policy parameters. Those key parameters are:

- Maintain stability and continuity of coverage, care, and services for members and their dependants.
- Members should have continued access, on substantially similar terms and condition, to trusted family health care providers with whom they have developed a long-term relationship.
- The Director (CMS) may consider affordability, cost of coverage and care, and competition among health insurers and providers in the contract review process.

It is currently the responsibility of the IEFC to provide oversight of the State Employees' Group Insurance Program. In order to continue to provide the General Assembly with accurate and updated information, the Commission's statutory authority was clarified and strengthened in P.A 93-0839. Below is a list of the changes to the Commission's authority:

- By April 1st of each year, the Director (CMS) must report and provide information to the Commission concerning the status of the employee benefits program to be offered the next fiscal year.
- By the first of each month thereafter, the Director (CMS) must provide updated, and any new information to the Commission until the employee benefits program for the fiscal year has been determined.
- Requires the Department of Central Management Services to promptly, but no later than 5 business days after receipt of a request, respond to a written request by the Commission for information.
- Within 30 days after notice of the awarding of a contract has appeared in the Illinois Procurement Bulletin, the Commission may request information about a contract. The Commission must receive information promptly and in no event later than 5 business days.
- No contract may be entered into until the 30-day period has expired unless the Director requests the Commission waive the period and the Commission grants the waiver.
- Changes or modifications to proposed contracts must be reported to the Commission in accordance with the aforementioned points.
- CMS must provide to the Commission a final contract or agreement by the beginning of the annual benefit choice period.
- States that the benefits choice period must begin on May 1st unless interrupted by the collective bargaining process. In the case that the collective bargaining process is still pending on April 15, the benefit choice period will begin 15 days after the ratification of the agreement.
- Specifies the methods that may be used to provide the Commission requested information and discusses confidentiality.
- States that all contracts are subject to appropriation and must comply with the Illinois procurement code.

DEBT RESPONSIBILITY

Lynnae Kapp, Bond/Revenue Analyst

P.A. 93-0839 (SB 2206) would set limits on debt and would create greater transparency through disclosure of bond deals from the Governor's Office of Management and Budget. The Governor's Office of Management and Budget will be required to prepare fiscal and debt impact notes on bills increasing authorization and truth in borrowing disclosures to the Illinois Economic & Fiscal Commission on issuances of bonds. Limitations are put on the following aspects of issuance:

- **Issuance of bonds -** so that in the next fiscal year after issuance, the level of debt service on all then outstanding bonds would not exceed 7% of the aggregate appropriations from the general funds and the Road Fund for the fiscal year immediately prior to the fiscal year of issuance, unless consented in writing by the Comptroller and Treasurer.
- **Cost of issuance** - up to 0.5% cost of issuance shall include underwriter's fees and discounts, but not bond insurance, and is authorized provided that no salaries of State employees or other State office operating expenses shall be paid out of non-appropriated proceeds.

The Office of Management and Budget shall not contract with anyone who pays a contingent fee to a third party for promoting their selection, and must wait 2 calendar years before contracting with a party who made a false certification of contingent fees. The Office of Management and Budget must provide a summary of these costs to the legislative leaders and the Illinois Economic & Fiscal Commission, and also provide copies of the contracts for these services to the Commission.

- **Payment structuring** - equal principal or mandatory redemption amounts, with the first maturity occurring within the issuing fiscal year or next fiscal year, and maturing or subject to mandatory redemption each fiscal year thereafter up to 25 years in maturity (maturity is currently allowed for 30 years).
- **Negotiated sales** - No more than 75% of bond sales, based on total principal amount, may be sold by negotiated sale.
- **Refunding bonds** - All bonds in an issue that include refunding bonds must mature no later than the final maturity date of the bonds being refunded. Refunding bonds shall be sold only if the net present value of debt service savings is 3% or more of the principal amount of the refunding Bonds to be issued. The refunding principal maturing and redemption amounts due shall be greater than or equal to the principal maturing and redemption amounts of the bonds they are refunding.
- **Certificates of Participation** (COPs) - The State shall not enter into any third-party vendor or other arrangement relating to the issuance of COPs or other forms of financing relating to the rental or purchase of office or other space, buildings, or land unless otherwise authorized by law.

INCREASED FEE REVENUES IN FY 2004

Mike Moore, Analyst

Throughout the course of FY 2004, the Illinois Economic and Fiscal Commission conducted quarterly analyses of how the fee increases enacted for FY 2004 [P.A 93-0032] were performing. The original amount of general funds revenue that these fees were expected to generate was approximately $421 million, the amount assumed for the enacted FY 2004 budget. According to information provided by the agencies involved in the fee collection process, as well as actual data available via the State's accounting system, revenues from the fee increases were reported to be approximately $307 million in FY 2004. However, due to certain reporting difficulties, which usually involved timing issues, that figure likely understates actual revenues generated from the fee increases. It will take a couple more months of reporting before a final amount can be calculated, although it's quite certain that a considerable gap will remain between budgeted and actual revenue.

It is important to note that the information provided here reflects data provided by various agencies to the Commission related to fee revenue and it includes non-general revenue as well as general revenue due to many of the new/increased fees being deposited in non-general funds. The only way that money could be transferred into the general funds is through an ordered transfer by the Director of the GOMB. In

FY 2004, $88.8 million in such ordered transfers were conducted.

Looking strictly at additional general funds revenues related to the fee increases, actual general revenues appear to have been approximately $277 million [which would equate to approximately $144 million less than originally budgeted]. The total breaks down to $88.8 million in GOMB directed transfers to the general fund, $132.8 million in brand new fees that were directly deposited in the "other source" revenue category, $32.0 million in estimated fee revenue from increasing existing fees being deposited in the "other source" revenue category, and an estimated $23 million in new revenue related to fee increases being deposited under other categories of general revenues [$19 million in insurance tax and $4 million in corporate franchise tax].

Almost from the start, fee revenues seemed to be falling short of budgeted expectations. While the second quarter improved on a slow first three months of the fiscal year, concern was raised that a dramatic increase over the second half of the fiscal year was necessary in order to reach the budgeted amount. Indeed, the third quarter analysis did indicate that a pick-up was occurring, in part due to the implementation dates of some of the new fees as well as the seasonal nature of some of the fees. But even with continued improvement in the final quarter, in the end, a number of items served to curtail revenues generated from the increases [or at the vary least, the reporting and/or identifying of the new fee revenue].

- An additional traffic penalty that was collected by circuit clerks and submitted to the State Treasurer fell substantially short of initial predictions. The fine of $4 was intended to be paid, in addition to, the normal fines associated with traffic offenses. Since the fees inception, there has been difficulty collecting the fee from the various circuit clerk's offices throughout the state. In addition, it is at the discretion of the judge whether to impose this penalty.

- Fee receipts at the Office of Banks and Real Estate also were collected at a much slower pace than originally anticipated. Some of this discrepancy was due to rulemaking procedures and the effective date of the fee increases.

- The following chart shows fee collections for the Secretary of State to be much lower than original predictions. One of the difficulties in tracking revenues from Secretary of State fee increases is a lag period from the point of collection to the actual deposit of fee monies with the Comptroller. The lag time for reporting revenue has consistently been around two months. The Office of Secretary of State's information reflects the lag time explained above, therefore, the $62.3 million collected is an actual figure through the end of April. The FY 2005 budget contains language that requires the Secretary of State to deposit monies into the specified funds no more than 30 days after receipt of the fee. This statutory change should simplify future fee tracking.

  Since the chart below does not include the final two months of revenues from the Secretary of State, the year-end total is obviously higher than what is

reported in the chart below. The Secretary of State will forward to the Commission the remaining months of the fiscal year as they become available.

- There appears to be an $18.3 million difference from the Department of Revenues original estimate to the amount received. The reason for this variation is a delinquent account fee that the Department of Revenue, at this time, does not have the software to track. This estimated fee was projected to bring in approximately $16 million. Therefore, if that estimate is correct and an additional $16 million was added onto the Department of Revenue's estimate, it would come much closer to the original figure.

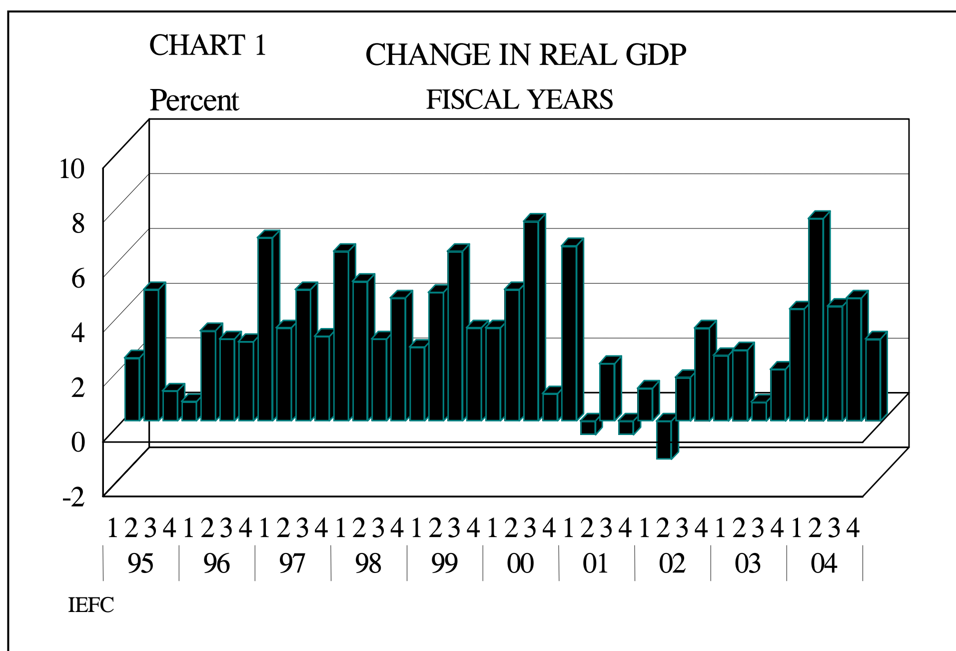
FY 2004 Fee and Penalty Increased Revenue		
Agency	**Projected FY 2004 Budget Amount**	**Total Fees/ Collected FY 2004**
Illinois Environmental Protection Agency	$55,000,000.00	$54,605,684.00
Illinois Commerce Commission	$2,600,000.00	$378,664.00
Department of Insurance/Industrial Commission	$47,600,000.00	$50,419,651.00
State Treasurer	$11,000,000.00	$554,468.00
Department of Natural Resources	$1,200,000.00	$1,754,609.00
Office of the State Fire Marshall	$1,100,000.00	$898,911.00
Office of Banks and Real Estate	$25,400,000.00	$9,154,471.96
Department of Revenue	$33,700,000.00	$15,352,205.00
Secretary of State	$122,300,000.00	$62,301,811.00
Department of Agriculture	$2,200,000.00	$1,678,256.21
Capitol Development Board	$3,500,000.00	$2,021,724.00
Department of Financial Institutions	$4,600,000.00	$2,383,452.00
Department of Public Health	$1,700,000.00	$1,595,004.00
Liquor License Increase	$7,000,000.00	$6,743,626
Commercial Distribution Fee	$102,000,000.00	$97,519,599.66
TOTAL	**$420,900,000.00**	**$307,362,136.83**

ECONOMY: Grinch or Goldilocks

Edward H. Boss, Jr., Chief Economist

The pace of economic activity moderated in recent months, raising speculation that either the *Grinch* had stolen the recovery or, conversely, that the slowing in activity was the start of a *Goldilocks* economy leading to a period of prolonged and sustained growth. On Friday, the Commerce Department released its advanced estimates showing the gross domestic product rose at a 3.0% annual rate in the second quarter of 2004 as well as its annual revisions back through 2001. (See Chart 1.) Last quarter's growth was down from the upwardly revised 4.5% recorded in the first quarter of calendar 2004, previously recorded at a 3.9% annual rate, but in line with its long-term historical rate of growth. Moreover, most analysts now are expecting an annual rate of growth in a range of 3.0 % to 3.5% in the current quarter, down from expectations as high as 5% for that quarter just a month or so ago.

The advanced data released show a marked slowdown in consumer expenditures, particularly durable goods purchases such as autos as incentives came off. Indeed output of motor vehicles subtracted 1.01 percentage points from the GDP change. Overall, consumer consumption expenditures dropped to an annual rate of 1.0% after inflation after surging 4.5% in the previous quarter. Housing, in contrast, continued strong as fears of higher interest rates undoubtedly sparked renewed interest with real residential fixed investment increasing at a 15.4% annual rate compared to a 5% rate in the previous quarter. Similarly, business spending on equipment and software rose at a 10% annual rate and expenditures on new plants increased. At the same time, there was a deceleration in private inventory investment suggesting no overhang was developing. Real U.S. exports of goods and services almost doubled their rate of increase to 13.2% from 7.3% while growth in imports slowed. Real federal government spending moderated from the previous quarter while state and local government expenditures rose at a 2.1% annual rate after no change in the previous quarter.



Perhaps the biggest determinant of whether it becomes a *Grinch* or *Goldilocks* economy may depend on the inflation outcome. The price index for gross domestic purchases, which measures prices paid by U.S. residents, increased at a 3.5% annual rate after a relatively strong 3.4% the quarter before, after rising 2% in 2003 and a modest 1.5% in 2002. A major cause for the acceleration in the past six months was due to sky rocketing oil prices. Excluding the volatile food and energy sectors, prices for gross domestic purchases edged lower to a 2.4% rate last quarter from 2.5% in the previous quarter. Higher fuel prices undoubtedly provided a restraint on consumer spending as well as providing an impetus for the recent rise in interest rates by the Federal Reserve. As tax cuts stimulated spending earlier, higher fuel prices act like a tax increase restraining consumer spending currently.

The moderation in growth in the past quarter, however, also may have slowed the pace and timing of future interest rate increases by the Federal Reserve. Indeed, the Treasury market improved with rates edging lower immediately after the slower growth in GDP last quarter was released. In addition, other reports released suggested improvement in some key business measures after hitting a soft patch in the past few months. Consumer confidence as measured by the Conference Board reached a two-year high in July and the University of Michigan's index of consumer sentiment for July was revised upward. After a significant slowdown in June, the Chicago Purchasing Managers *Business Barometer* increased from June's 56.4 to 64.7 in July, which suggests a continuation of the strong prior growth trend. And while oil prices rose to record levels due to uncertainties over possible disruptions in supplies from the Middle East and Russia, most economists don't feel that alone is enough to derail the recovery. Gasoline prices could ease as the summer driving season ebbs; OPEC has agreed to increase output, and the prices paid index within the *Business Barometer* showed that intensity was subsiding.

In addition to inflationary pressures, a key to future growth well may be determined by the employment situation. Total nonfarm payroll employment has risen by 1.5 million jobs since August 2003, although June's gain of 112,000 was disappointing. Even while business spending is finally coming on stronger, it will take continued gains in consumer spending to keep the expansion growing at a good pace given the fact that it usually accounts for about two-thirds of total GDP spending. To that extent, the recent rise in consumer attitudes is a strong plus, but it will take further job increases to sustain that improvement. The next employment report will be released in a few days and may help provide evidence as to whether or not the summer soft patch is fading.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY			
INDICATORS	JUNE 2004	MAY 2004	JUNE 2003
Unemployment Rate (Average)	5.9%	6.4%	6.6%
Annual Rate of Inflation (Chicago)	2.5%	9.6%	2.7%

	LATEST MONTH	% CHANGE OVER PRIOR MONTH	% CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (June)	6,341	-0.8%	0.3%
Employment (thousands) (June)	5,966	-0.3%	1.0%
New Car & Truck Registration (June)	59,549	3.2%	2.0%
Single Family Housing Permits (June)	4,491	10.7%	-1.1%
Total Exports ($ mil) (May)	2,641	6.0%	12.6%
Chicago Purchasing Managers Index (July)	64.7	14.7%	15.7%

REVENUE

Revenues Begin FY 2005 on Mixed Note

Jim Muschinske, Revenue Manager

July general revenue receipts, excluding Pension Contribution Fund and Budget Stabilization Fund transfers, rose $307 million. However, this increase primarily was due to much higher transfers into the general funds related to the short-term borrowing entered into late last fiscal year [P.A. 93-674]. The economically tied sources were mixed, as were many other revenue lines. July had one less receipting day than last year.

Sales tax revenue started the new fiscal year on a positive note as receipts rose $29 million. Other sources to the general funds contributed a $10 million gain, while inheritance tax receipts increased by $4 million. Both insurance taxes and fees and corporate franchise taxes and fees each managed a $1 million increase, respectively.

A number or sources suffered declines to begin the fiscal year. Gross personal income taxes fell $13 million, or $8 million net of refunds. Interest on State investments dropped by $7 million, while public utility taxes eased $6 million. Gross corporate income taxes fell $4 million, or down $5 million net of refunds. Finally, liquor taxes experienced a modest $1 million drop.

As mentioned earlier, transfers were up significantly in July. The overall $269 million gain is the net result of a $2 million decline in riverboat transfers and direct receipts, a $192 million drop off in other transfers related to last July's "fund sweep", a $30 million gain in lottery transfers, and a $433 million gain due to a transfer from the newly-created Medicaid Provider Relief Fund.

In June, the State entered into $850 million in short-term borrowing in an effort to maximize federal reimbursement

as the result of increased Medicaid match. Under P.A. 93-674, a newly-created Medicaid Provider Relief Fund was formed to receive the proceeds from the borrowing, as well as federal matching funds attributed to expenditures from that fund. Towards the end of June, all $850 million was spent on Medicaid bills. That spending generated a federal match of approximately $433 million.

P.A. 93-674 stipulated that on July 1, 2004, the balance in the Medicaid Provider Fund (as well as any other moneys subsequently deposited into that Fund) should be transferred into the General Revenue Fund. As of the end of July, $433 million has been transferred into the GRF. These funds will be used to repay the short-term borrowing via subsequent transfers from the GRF to the General Obligation Bond Redemption and Interest Fund (GOBRI). The first repayment of $425 million was made on July 23, 2004, and the remaining half is due on October 22, 2004 (the second installment will also be paid via a transfer from GRF to GOBRI).

Federal sources experienced a $22 million gain in July.

In a deviation from recent fiscal years, monies in the Budget Stabilization Fund were untapped to begin the fiscal year. In addition, last July saw $203 million transferred from the Pension Contribution Fund to the general funds related to the $10 billion sale of pension bonds. Taking all of these various revenue items into account, overall general funds revenues fell $122 million in July.

A Look Ahead

With the record overtime session now completed, and FY 2005 budget implementation bills just signed into law, over the coming weeks the Commission will be analyzing the final outcome as it relates to FY 2005 revenues. These legislative changes, as well as the incorporation of actual FY 2004 base performance will be utilized to generate a FY 2005 forecast, which will be discussed in next month's briefing.

GENERAL FUNDS RECEIPTS: JULY

FY 2004 vs. FY 2005
($ million)

Revenue Sources	JULY FY 2005	JULY FY 2004	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$538	$551	($13)	-2.4%
Corporate Income Tax (regular)	34	38	($4)	-10.5%
Sales Taxes	563	534	$29	5.4%
Public Utility Taxes (regular)	79	85	($6)	-7.1%
Cigarette Tax	33	33	$0	0.0%
Liquor Gallonage Taxes	14	15	($1)	-6.7%
Vehicle Use Tax	2	4	($2)	-50.0%
Inheritance Tax (Gross)	21	17	$4	23.5%
Insurance Taxes and Fees	2	1	$1	100.0%
Corporate Franchise Tax & Fees	13	12	$1	8.3%
Interest on State Funds & Investments	3	10	($7)	-70.0%
Cook County IGT	54	54	$0	0.0%
Other Sources	24	14	$10	71.4%
Subtotal	$1,380	$1,368	$12	0.9%
Transfers				
Lottery	61	31	$30	96.8%
Riverboat transfers & receipts	56	58	($2)	-3.4%
Medicaid Provider Relief Fund	433	0	$433	N/A
Other	33	225	($192)	-85.3%
Total State Sources	$1,963	$1,682	$281	16.7%
Federal Sources	$188	$166	$22	13.3%
Total Federal & State Sources	$2,151	$1,848	$303	16.4%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($60)	($65)	$5	-7.7%
Corporate Income Tax	($13)	(12)	($1)	8.3%
Subtotal General Funds	$2,078	$1,771	$307	17.3%
Short-Term Borrowing	$0	$0	$0	N/A
Budget Stabilization Fund Transfer	$0	$226	($226)	N/A
Pension Contribution Fund Transfer	$0	$203	($203)	N/A
Total General Funds	$2,078	$2,200	($122)	-5.5%

IEFC SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 3-Aug-04