Commission on Government Forecasting and Accountability

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MONTHLY BRIEFING FOR THE MONTH ENDED: JULY 2013

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ECONOMY: Pace of Growth Questioned

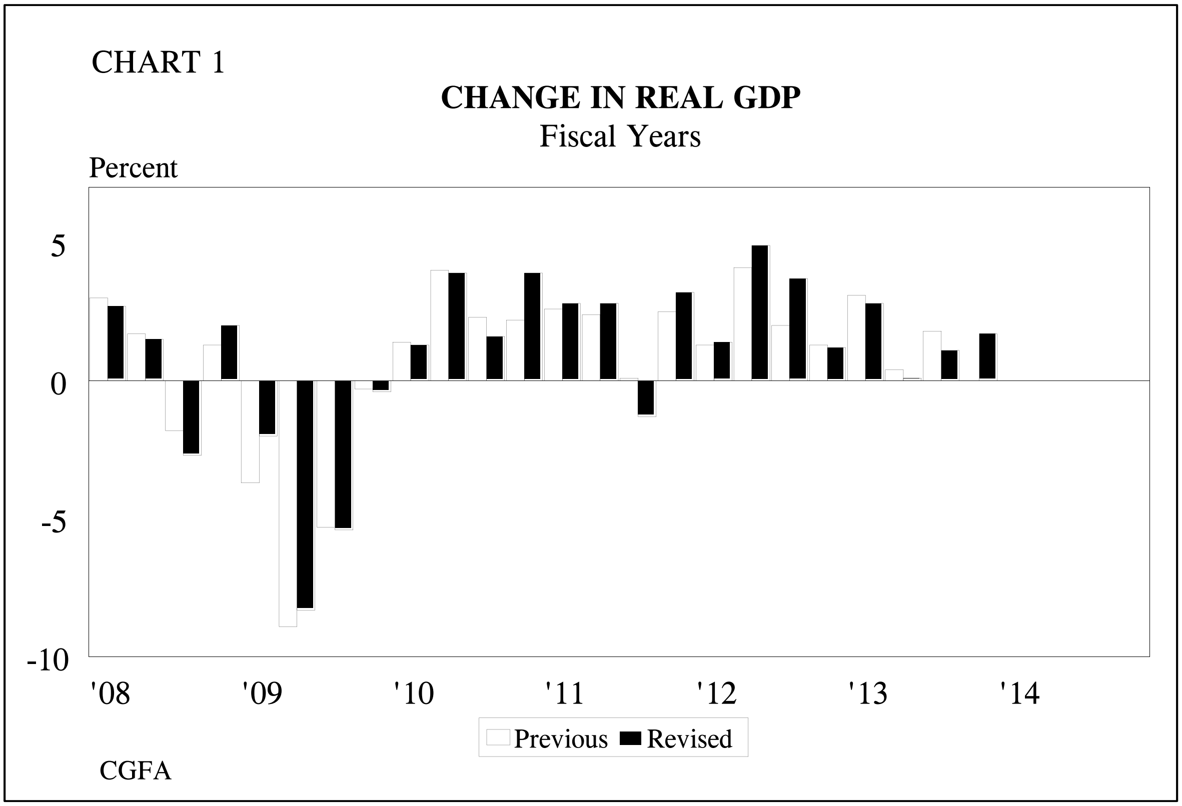
Edward H. Boss, Jr., Chief Economist

Last month the question was posed as to whether or not the economy was entering another soft patch that had been a recurring event in the past several years. Monthly business reports since then, while not all in one direction, suggest that the pace of growth has moderated even in light of the latest GDP revisions that showed a stronger than expected performance in the April-June quarter.

A look at the Indicators of **Illinois Economic Activity** at the end of this article provides some credence to that conclusion, particularly State wise. For example, the national unemployment rate held unchanged at 7.6% in June although up from 7.5% in April, while Illinois' unemployment rate edged up to 9.2% from 9.1% and would have been 9.4% had not a decline in the labor force largely offset an even larger percentage drop in employment. Even while nonfarm payroll employment has been stronger, the household survey used to calculate the unemployment rate often foreshadows the direction of the payroll series.

Housing permits, a precursor to starts, fell last month. A resurgent housing sector has been largely behind the growth in the economy, although a recent rise in mortgage rates has tempered activity. For example Pulte Homes and D. R. Horton, two of the largest home builders, saw orders fall last month. According to Bloomberg, "Pulte said 2Q orders fell 12%. And, according to D. R. Horton, rising mortgage rates contributed to increased cancellations and a drop-off in traffic in June - - there's " no question" rising rates affected sales."

Retail sales have shown moderate gains in part supported by strong auto sales. In the first 6 months of this year sales were up 3.7% from a year earlier but excluding autos, the rise was a more modest 3%. Recent strength in reported auto sales also may be overstated in part due to the lack of the normal



production shut downs being out of sync with normal seasonal adjustment patterns. (In Illinois, new car and truck registrations were up 6.3% in June and 11.0% from a year earlier.)

Illinois exports also were up 5.0% in May; even so weakness in Europe and a moderation in growth of some of the more rapidly growing countries show that exports are still 5.2% lower than a year earlier. Finally both manufacturing and non manufacturing activity have been lethargic, barely expanding. Just released data by Chicago Purchasing Managers, used as a measure of manufacturing strength, showed a slight uptick in July although trading in a narrow range and down 2.6% from a year earlier.

Overall growth in the economy is best measured by real GDP. Each July the data are revised for the previous several years based upon more complete data. Chart 1 show both the previous and revised real GDP data that were released at the end of the month. The revisions incorporated newly available and revised source data. The advance report showed that real GDP rose at an annual rate of 1.7% in the April-June period, higher than expected by the market. Somewhat surprising, even though the data are revised in subsequent months and often substantially changed, was that despite the sequester, federal government spending declined less than the previous quarter and state and local spending increased. It is likely that the latest data also will be revised in the months ahead. For example, the advance report for the previous quarter showed GDP at a 2.5% annual rate only to end up lowered to a 1.8% rate. Indeed with the July major revisions, that rate eventually was reduced to only a 1.1% rate of gain and each of the three prior quarters were also lowered.

In conclusion, despite confusing and sometimes conflicting data, a look at the chart clearly displays an economy that has weakened as we enter its fifth year of expansion.

Moreover, recent rates of economic growth are significantly lower than those that will be necessary to make a substantial dent in the unemployment rate.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS	June 2013	May 2013	June 2012
Unemployment Rate (Average)	9.2%	9.1%	9.0%
Annual Rate of Inflation (Chicago)	1.1%	6.0%	1.7%

	LATEST MONTH	% CHANGE OVER PRIOR MONTH	% CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (June)	6,564	-0.2%	-0.2%
Employment (thousands) (June)	5,963	-0.3%	-0.4%
New Car & Truck Registration (June)	56,081	6.3%	11.0%
Single Family Housing Permits (June)	922	-8.8%	15.9%
Total Exports ($ mil) (May)	5,656	5.0%	-5.2%
Chicago Purchasing Managers Index (July)	52.3	1.3%	-2.6%

REVENUE
FY 2014 Begins Mixed – Down Slightly Overall
Jim Muschinske, Revenue Manager

Overall base revenues dipped $24 million in July. While personal income taxes posted modest gains along with a good month for sales taxes, corporate income taxes were flat. A drop off in federal sources also contributed to the monthly decline. The falloff occurred despite July having an extra receipting day.

Gross personal income tax revenues rose $43 million or $42 million net of refunds. Sales tax ended the month up $42 million. While cigarette tax posted an $18 million increase, the gain was due to last July’s falloff related to the “stockpiling” effect of that year’s rate increase. This year, cigarette taxes to the general funds returned to statutory levels. Public utility taxes grew $15 million while vehicle use tax eked out a $1 million gain.

A few sources experienced declines to begin the new fiscal year. Inheritance tax receipts dropped $40 million. The falloff was due to receipt timing related to an earlier tax change which resulted in an exceptionally large July in 2012. Gross corporate income taxes dipped $2 million, or $1 million net of refunds. Insurance taxes as well as other sources each fell $1 million in July.

Overall transfers rose $1 million in July. While riverboat transfers fell $12 million and lottery transfers dropped $8 million, a gain of other transfers in the amount of $21 million was enough to offset those losses. A $100 million decline in federal sources was the main driver of the monthly decline in net base revenues.

GENERAL FUNDS RECEIPTS: JULY
FY 2014 vs. FY 2013
($ million)

Revenue Sources	July FY 2014	July FY 2013	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$1,210	$1,167	$43	3.7%
Corporate Income Tax (regular)	85	87	($2)	-2.3%
Sales Taxes	657	615	$42	6.8%
Public Utility Taxes (regular)	86	71	$15	21.1%
Cigarette Tax	30	12	$18	150.0%
Liquor Gallonage Taxes	17	17	$0	0.0%
Vehicle Use Tax	3	2	$1	50.0%
Inheritance Tax (Gross)	12	52	($40)	-76.9%
Insurance Taxes and Fees	2	3	($1)	-33.3%
Corporate Franchise Tax & Fees	13	13	$0	0.0%
Interest on State Funds & Investments	1	1	$0	0.0%
Cook County IGT	0	0	$0	N/A
Other Sources	36	37	($1)	-2.7%
Subtotal	$2,152	$2,077	$75	3.6%
Transfers				
Lottery	40	48	($8)	-16.7%
Riverboat transfers & receipts	16	28	($12)	-42.9%
Proceeds from Sale of 10th license	0	0	$0	N/A
Refund Fund transfer	0	0	$0	N/A
Other	67	46	$21	45.7%
Total State Sources	$2,275	$2,199	$76	3.5%
Federal Sources	$303	$403	($100)	-24.8%
Total Federal & State Sources	$2,578	$2,602	($24)	-0.9%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($115)	($114)	($1)	0.9%
Corporate Income Tax	($11)	(12)	$1	-8.3%
Subtotal General Funds	$2,452	$2,476	($24)	-1.0%
Short-Term Borrowing	$0	$0	$0	N/A
FY'13/14 Backlog Payment Fund	$50	$0	$50	N/A
Budget Stabilization Fund Transfer	$275	$275	$0	N/A
Total General Funds	$2,777	$2,751	$26	0.9%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 1-Aug-13

PENSION
2013 Spring Session Pension Legislation Overview
Dan Hankiewicz, Pension Manager

NOTE: All bills shown below have passed both houses of the General Assembly. Those bills with a Public Act number have been signed into law by the governor, while those without a Public Act number are awaiting gubernatorial action.

HB 140 (P.A. 98-0108)

Sponsors: Franks (Duffy)

Passed House:	106-0-1
Passed Senate:	54-0-0

HB 140 amends the State Employees Group Insurance Act of 1971 and the Illinois Pension Code. The bill specifies that those Acts do not apply to board members of the Regional Transportation Authority, Metra, CTA, and Pace who first become members of those boards on or after the effective date of the amendatory Act with respect to service on those boards.

HB 1351

Sponsors: Poe (Frerichs)

Passed House:	88-27-0
Passed Senate:	57-0-0

HB 1351 amends the IMRF Article of the Illinois pension code to establish a permitted number of hours per year an employee annuitant can return to work without losing their pension. The bill provides that an annuitant shall be subject to suspension of his or her pension if they return to work as an employee and work more than 599 hours annually (or 999 hours annually with an employer that has adopted a resolution excluding from participation in IMRF any person employed in a position normally requiring less than 1000 hours of work annually). In addition, HB 1351 specifically excludes elected officials from suspension of any annuities when working in their elected position.

HB 1375

Sponsors: Beiser (Kotowski)

Passed House:	111-0-0
Passed Senate:	55-0-0

HB 1375 amends the Downstate Firefighters article of the Illinois Pension Code to increase certain annuities to surviving children from 12% of monthly salary up to 20%. According to Department of Insurance data, in FY 2010, payments for children's annuities totaled $352,000. Children's annuities are paid at 12% of the firefighter's salary if there is a surviving spouse and 20% of the firefighter's salary if the surviving spouse dies. In cases where the surviving spouse has died, the annuity is paid to the child's legal guardian.

HB 1444

Sponsors: Zalewski (Martinez)

Passed House:	115-0-0
Passed Senate:	53-0-0

Under current law, the IMRF article of the Illinois Pension Code asserts the IMRF Board will convene on a monthly basis and that the amortization period for employers with unfunded liabilities should be set in accordance with generally accepted accounting principles. HB 1444 allows the Board of Directors to convene on a quarterly rather than a monthly basis. Additionally, the bill specifically states that participating municipalities have up to a 30-year amortization period to pay down unfunded liabilities while participating instrumentalities have up to a 10-year amortization period for unfunded liabilities. Finally, this bill makes a few grammatical and technical corrections throughout the IMRF article of the Pension Code.

HB 2583

Sponsors: Burke (Munoz)

Passed House:	65-50-0
Passed Senate:	47-9-0

Currently, the Chicago Teacher article of the Pension Code covers persons who are employed in a charter school so long as they have achieved the requisite teacher certification. Persons who are employed by a charter school on an hourly basis are excluded from participation in CTPF. HB 2583 provides that a member who teaches in a charter school may not be reclassified from "non-hourly" to "hourly" in order to relieve the charter school from making contributions to CTPF on the employee's behalf.

HB 2583 also provides that all teachers and staff of charter schools shall participate in CTPF, unless the charter school can prove to the satisfaction of the CTPF board that the teacher or staff member is not working as a teacher or administrator with the charter school. The bill also provides that employers that fail to submit payroll records to the fund will be subject to a penalty of $100 per day for each day that a required payroll submission is late.

HB 2656

Sponsors: Senger (Brady)

Passed House:	107-0-0
Passed Senate:	57-0-0

Under current law, a police chief participating in a local police retirement fund (as governed by Article 3 of the Illinois Pension Code) may make an irrevocable election to transfer credit from said fund into IMRF. IMRF currently utilizes an average when converting Article 3 police chief credit into IMRF Sheriff's Law Enforcement Personnel (SLEP) credit. HB 2656 adds a provision to the process of transferring credit, such that if the actuarial monetary equivalent to the police chief's credit is insufficient to claim similar credit in IMRF, the member must either make a one-time contribution to cover the difference or accept the reduction in credit. Essentially, this bill stipulates IMRF must make actuarially-sound conversions when accepting credit from an Article 3 police chief.

HB 2767

Sponsors: Kifowit (Martinez)

Passed House:	111-0-0
Passed Senate	58-0-0
House Concurrence;	118-0-0

HB 2767 amends the SERS article of the Pension Code. The bill redefines "compensation" to exclude any stipend payable for service on a board or commission after July 1, 2013.

HB 2993 (P.A. 98-0092)

Sponsors: Senger (Biss)

Passed House:	116-0-0
Passed Senate:	55-0-0

HB 2993 amends the SURS article of the Pension Code. The bill incorporates the language from the Tier 2 reform act, P.A. 96-0889, into the SURS article of the Pension Code (the Tier 2 language currently resides in the General Provisions article of the Pension Code). SURS claims this change is necessary to address issues of statutory interpretation that have arisen since P.A. 96-0889 took effect.

SB 1366 (P.A. 98-0042)

Sponsors: Biss (Nekritz)

Passed Senate:	54-0-0
Passed House:	116-0-0
Senate Concurrence:	56-2-0

Currently, TRS members who do not use the modified Early Retirement Option (ERO) under P.A. 94-0004 who retire with less than 35 years of service see a reduction of 6% per year for every year they are under the age of 60. By utilizing ERO, teachers who are between the ages of 55 and 60 who have at least 20 but less than 35 years of service may retire without a discounted annuity by paying a specified amount to TRS. School district contributions are also required for a member to retire under ERO. P.A. 94-0004, which became effective on July 1, 2005, set the member ERO contribution rate at 11.5% multiplied by the lesser of the number of years of partial years of service under 35 years, or the number of years or partial years the teacher is shy of age 60. The school district ERO contribution rate is currently set at 23.5% multiplied by each year or partial year that the teacher's age is less than 60.

P.A. 94-0004 required CGFA to make a recommendation to the General Assembly by February 1, 2013 on any proportional adjustments to member and employer contribution rates. In accordance with TRS' experience study by Buck Consultants, CGFA's actuary, Sandor Goldstein, conducted a review of Buck's recommended revision to member and employer ERO contribution rates. Mr. Goldstein found the revised rates (14.4% for members and 29.3% for employers) to be sufficient to fund 100% of the ERO benefit. CGFA's recommendation was transmitted to the General Assembly on January 10th.

SB 1366 extends the ERO at the employee and employer rates recommended by CGFA for members who retire on or after July 1, 2013 and before July 1, 2016.

SB 1584 (P.A. 98-0043)

Sponsors: Mulroe (Currie)

Passed Senate:	55-0-0
Passed House:	67-50-0
Senate Concurrence:	47-8-0

Prior to the passage of SB 1584, the Chicago Police, Fire, Municipal, and Laborers' Pension Funds each made a payment to the city of Chicago in order to participate in the city's health care plans. This payment amount is the sum of:

- For those members not eligible for Medicare benefits, $95 per month per annuitant; and
- For those members eligible for Medicare benefits, $65 per month per annuitant.

Under the law that existed prior to the passage of SB 1584, this payment was to have been made through June 30, 2013. SB 1584 extends the duration of this payment through the sooner of December 31, 2016 or until the city no longer provides a health care plan for such annuitants.

SB 1921

Sponsors: Raoul (Nekritz)

Passed Senate:	52-0-0
Passed House:	110-0-0
Senate Concurrence:	54-0-0

SB 1921 amends the Cook County and Cook County Forest Preserve Articles of the Pension Code. The bill makes various technical changes regarding salary reporting for disability purposes as well as a clarifying definition of "earned annuities." In addition, SB 1921 provides for pension fund records to be photographed, microfilmed, or digitally or electronically reproduced in accordance with the Local Records Act.
