Commission on Government Forecasting and Accountability

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MONTHLY BRIEFING FOR THE MONTH ENDED: JULY 2015

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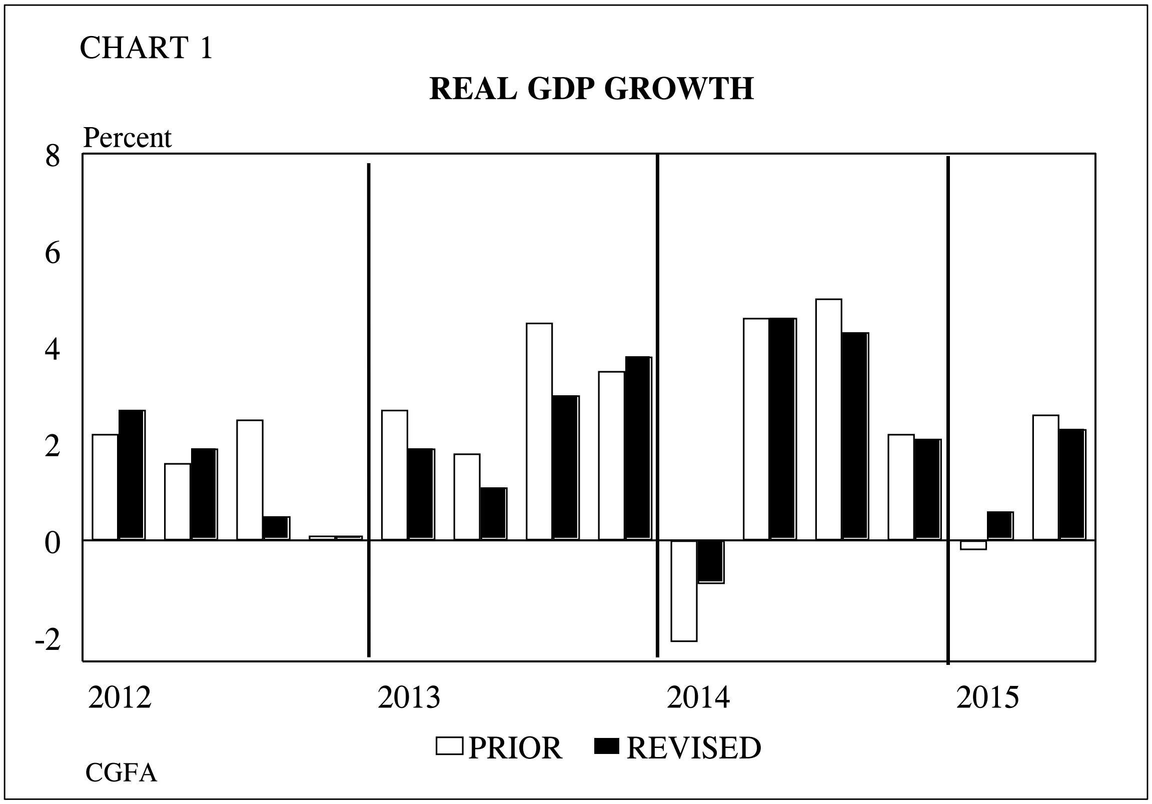
ECONOMY: Not Much of a Rebound

Edward H. Boss, Jr., Chief Economist

The economy rose at a seasonally-adjusted annual rate of 2.3% in the second quarter, up from a meager 0.6% gain in the first according to the Bureau of Economic Analysis in its advance report on Gross Domestic Product. The latest data include revisions for the past three years including annual benchmark revisions and incorporates changes in quarterly seasonal adjustment factors, smoothing out a repetitive pattern of volatility that has existed for several years.

The growth in the second quarter at 2.3% was somewhat lower than anticipated by analysts while the first quarter's -0.2% annual rate of decline now shows a rise of 0.6%. These rates compare with revised growth of -0.9% and 4.6% in the first two quarters of last year. Thus, the growth in the first half of 2015 is running at a 1.5% annual rate, weaker than the 2.25% annual rate during the first half of 2014. Another reason for the diminished real growth recently has been a somewhat higher price factor.

This pattern of somewhat slower growth from the revisions extends beyond the first half year comparisons. From 2011 to 2014, real GDP increased at an average rate of 2.0%, down from the 2.3% published previously. And from the fourth quarter of 2011 to the first quarter of 2015, real GDP also increased at an average annual rate of 2.0%, but down from the 2.2% for this period before revision. As a result, the economic recovery from the recession not only has been the weakest in the post-World War II period, but the current expansion has been even slower than that reported earlier. As pointed out by Wells Fargo Securities, "The downward revisions to prior growth suggest productivity has been weaker than previously estimated and may lend further explanation to the weak pace of wage growth in this expansion."



The above chart displays quarterly data both on the revised basis and that originally reported. As can be seen in 2012, 2014 and 2015, growth was stronger in the first half of the year than previously reported, while less in the second half of the year. This can have ramifications for the months ahead suggesting growth could be tempered by the new seasonal factors. Already, monthly reports give no reason to expect any sharp rebound in the third quarter such as occurred in each of the past three years. Thus, while the economy is likely to continue to grow, rather than elevating from a 2% to 2.5% rate to 3% or higher, it could remain in its current range or, as illustrated when comparing the first half of this year to last, somewhat slower. This provides a particular quandary for the monetary authorities.

On the one hand, the pace of growth has picked up from the severe winter, unemployment has reached lower levels than could have been hoped for just a few years ago, oil prices have been cut in half and price increases remain below target. The Federal Reserve has expressed its desire to allow interest rates to rise slowly when the economy is strong enough. It has been 9 years since the Fed last rose interest rates and 6 years of near zero rates. While designed to be stimulative, the prolonged period of lower rates also had a dramatic impact on savings and investment. The lack of an anticipated rate of return on investments caused actuaries to miss the boat on expected rates of return, causing pension funds to be underfunded, hurting those on a fixed income, and causing heavy flows into the equity markets as investors try to earn a return. On the other hand, should a rise in interest rates weaken an already modest business expansion, the Fed doesn't want to reverse policy as it has few other arrows in its quiver to stimulate an already aging recovery.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS *	June 2015	May 2015	June 2014
Unemployment Rate (Average)	5.9%	6.0%	6.9%
Annual Rate of Inflation (Chicago)	1.8%	4.1%	-0.7%

	LATEST MONTH	% CHANGE OVER PRIOR MONTH	% CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (June)	6,489.6	-0.1%	-0.4%
Employment (thousands) (June)	6,107.2	0.2%	0.6%
NonFarm Payroll Employment (June)	5,920,200	-7,500	47,500
New Car & Truck Registration (June)	61,051	12.9%	-0.7%
Single Family Housing Permits (June)	1,135	2.7%	7.6%
Total Exports ($ mil) (May)	5,573	3.7%	-4.5%
Chicago Purchasing Managers Index (July)	54.7	11.4%	4.0%

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

REVENUE

July Revenues Fall As Expected, Receipts Continue To Reflect Lower Income Tax Rates

Jim Muschinske, Revenue Manager

Overall base revenues fell $377 million in July. Comparatively lower income tax rates as well as timing of a one-time court settlement received last year, accounted for most of the monthly drop. The month had the same number of receipts days as last fiscal year.

Due to the lower income tax rates effective January 2015, gross personal income tax receipts fell $189 million, or $169 million net of refunds. An additional $43 million was directed from the general funds to both the Fund for Advancement of Education as well the Commitment to Human Services

Fund. As result, net personal income tax receipts were comparatively lower by $255 million. Gross corporate income tax also fell due to lower rates, with receipts off $15 million, or $14 million net of refunds.

For the month, other sources to the general funds dropped $115 million. That decline reflected the one-time nature of some pharmaceutical court settlements recovered by the Attorney General's Office last fiscal year [in similar magnitude as the monthly decline]. Sales tax receipts stumbled somewhat to begin the fiscal year as receipts were down $20 million. Public utility taxes declined $15 million, inheritance tax dropped by $8 million, and both cigarette taxes and interest earning each dipped $1 million.

Overall transfers rose $1 million in July. While other transfers fell $13 million, lottery transfers grew $11 million and riverboat transfers increased $3 million. Federal sources managed to grow $44 million due to timing of reimbursable spending which took place at the very end of FY 2015, but was not receipted until the first part of FY 2016.

GENERAL FUNDS RECEIPTS: JULY FY 2016 vs. FY 2015 ($ million)				
Revenue Sources	**July FY 2016**	**July FY 2015**	**$ CHANGE**	**% CHANGE**
State Taxes				
Personal Income Tax	$1,014	$1,203	($189)	-15.7%
Corporate Income Tax (regular)	65	80	($15)	-18.8%
Sales Taxes	676	696	($20)	-2.9%
Public Utility Taxes (regular)	64	79	($15)	-19.0%
Cigarette Tax	29	30	($1)	-3.3%
Liquor Gallonage Taxes	17	17	$0	0.0%
Vehicle Use Tax	3	3	$0	0.0%
Inheritance Tax	28	36	($8)	-22.2%
Insurance Taxes and Fees	11	6	$5	83.3%
Corporate Franchise Tax & Fees	16	14	$2	14.3%
Interest on State Funds & Investments	1	2	($1)	-50.0%
Cook County IGT	0	0	$0	N/A
Other Sources	49	164	($115)	-70.1%
Subtotal	$1,973	$2,330	($357)	-15.3%
Transfers				
Lottery	51	40	$11	27.5%
Riverboat transfers & receipts	20	17	$3	17.6%
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	66	79	($13)	-16.5%
Total State Sources	$2,110	$2,466	($356)	-14.4%
Federal Sources	$345	$301	$44	14.6%
Total Federal & State Sources	$2,455	$2,767	($312)	-11.3%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($100)	($120)	$20	-16.7%
Corporate Income Tax	($10)	(11)	$1	-9.1%
Fund for Advancement of Education	($43)	0	($43)	N/A
Commitment to Human Services Fund	($43)	0	($43)	N/A
Subtotal General Funds	$2,259	$2,636	($377)	-14.3%
Short-Term Borrowing	$0	$0	$0	N/A
Interfund Borrowing	$0	$0	$0	N/A
Budget Stabilization Fund Transfer	$0	$275	($275)	N/A
Total General Funds	$2,259	$2,911	($652)	-22.4%
CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				3-Aug-15

PENSIONS
Legislative Overview
Jerry Lazzara, Pension Analyst

The following pension bills passed both chambers during the 2015 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 422

Sponsors: Morrison (Connelly)

Passed House:	113-0-0
Passed Senate:	54-0-0

HB 422 amends the 5 State Pension Systems: GARS, SERS, SURS, TRS, and JRS. Under current law, these systems are required to make an actuarial investigation at least once every 5 years. The bill reduces the time frame from once every 5 years to once every 3 years. These investigations evaluate the mortality, retirement, disability, separation, interest and salary rates and recommend the actuarial tables to be adopted.

HB 2502

Sponsors: Burke (Sandoval)

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

Current law states, under the Chicago Teachers article of the Illinois Pension Code that no contributor shall earn more than one year of service credit per fiscal year. HB 2502 adds provisions that states that no contributor shall earn more than one day of service credit per calendar day and no contributor shall earn more than 10 days of service credit in any 2 calendar week period.

HB 2502 also requires that payroll records report any salary paid by an Employer that is considered compensation for validated service, and payroll records shall identify the number of service days rendered by the member and whether each service day represents a partial or whole day of service. This bill also adds a provision that requires the Pension Officers of each Charter School to certify all payroll information, including contribution due and certified sick days payable.

This bill makes the following technical changes:

1. Current law states that the service retirement pension shall not be cancelled for a service retirement pensioner who is re-employed as a teacher so long as (1) the

person does not work as a teacher for compensation on more than 100 days in a school year and (2) does not accept gross compensation for the re-employment in a school year in excess of $30,000. The bill changes this so that the service retirement pension shall not be cancelled if either (1) or (2) are true rather than both.

2. Rather than the Board of Education, an Employer must certify to the Fund the temporary and non-annual or hourly status and the compensation of each pensioner re-employed at least quarterly.

HB 2916

Sponsors: Martwick (Radogno)

Passed House:	115-0-0
Passed Senate:	57-0-0

Changes to IMRF
Current law states that if any participating municipality or instrumentality that fails to make their required contributions for more than 90 days after the payment is due, the Fund may report this to the State Comptroller which will result in a deduction of the amount overdue from any grants of State funds to the municipality or instrumentality. This bill changes delinquent period from 90 days to 60 days.

Changes to the CGFA PSEBA Report Regulations
Under HB 2916, the mandatory report on the Public Safety Employee Benefits Act (PSEBA) that CGFA must submit to the Governor and General Assembly every even-numbered year, beginning in 2016, will now begin in 2017 and is required to be submitted every odd-numbered year.

HB 3484

Sponsors: Nekritz (Biss)

Passed House:	93-0-0
Passed Senate:	58-0-0
House Concurrence	111-0-0

In addition to a variety of small technical changes, HB 3484 grants the right for the General Assembly Retirement System, the State Employees' Retirement System, The State Universities Retirement System, and the Teacher's Retirment System to request from any member, annuitant, benficiary, or employer such information as is necessary for the proper administration of the System.

HB 3592

Sponsors: Morrison (Connelly)

Passed House:	94-0-0
Passed Senate:	57-0-0

HB 3592 amends the IMRF Article of the Illinois Pension Code by adjusting the employee contribution guidelines. Rather than 4.5% of their highest annual salary rate, members must pay the Fund an employee contribution calculated by the product of member's highest annual salary rate and the total employee contribution rate in effect when the member purchases the service for the plan. Also, under HB 3592, SLEP members will no longer be required to make employee contributions equal to 6.5% of their highest annual salary per year of creditable service.

HB 3757

Sponsors: Andrade, Jr. (Althoff)

Passed House:	108-0-0
Passed Senate:	49-0-0

HB 3757 amends the IMRF Article of the Illinois Pension Code by adding a provision that governs IMRF annuitants that re-establish employment in an IMRF qualifying position. If any corresponding municipality or instrumentality fails to notify the Board to suspend the annuity of any previously described annuitants, that municipality or instrumentality may be required to reimburse the Fund for an amount up to the total of all annuity payments made after re-employment began, less any amount that is repaid by the annuitant.

SB 0763

Sponsors: Sandoval (Zalewski)

Passed Senate:	43-4-0
Passed House:	78-31-0
Senate Concurrence	47-2-0

SB 0763 amends the IMRF Article of the Illinois Pension Code by providing participating firefighters and police officers SLEP status with the approval of the employing municipality. The participating municipality must have at least 50 full-time firefighters or 30 full-time police officers that have not established a Downstate Fire Pension Fund; also, the governing authority of the employer must approve the SLEP status for the aforementioned firefighters.

SB 0842 (P.A. 99-0008)

Sponsors: Cullerton (Currie)

Passed House:	65-48-0
Passed Senate:	50-0-1
Senate Concurrence	33-22-2

State Finance Act Changes

SB 0842, as amended by HA 1, amends the State Finance Act by extending the period that the State Pension Fund appropriates funds to the State Universities Retirement System by one year. Under current law, SPF funds are disbursed to SURS so long as the amounts appropriated to SURS do not reduce the amount in the State Pensions Fund below $5 million. This amendment would allow a higher concentration of funds to be disbursed into the State Universities Retirement System until the end of FY 2016 rather than having this practice terminate in FY 2015 as prescribed by current law. Beginning in FY 2017, the funds will be distributed amongst all 5 State Pension Funds rather than just SURS.

Continuation of Annual SERS Lump Sum Appropriation

SB 0842, as amended by HA 1, amends the State Finance Act and extends a provision that allows the State to make employer contributions for the State Employees' Retirement System as a lump sum appropriation instead of remitting the funds on a payroll deduction basis, by one year. This bill provides that State employer payroll deduction contributions will continue to be made from funds other than the General Revenue Fund through FY 2016 rather than having this practice terminate in FY 2015 under current law. An accompanying change is also made in the SERS Article of the Pension Code. Current law states that for fiscal years 2010, 2012, 2013, 2014, and 2015, the General Revenue Fund amounts payable to the State Employees' Retirement System would be appropriated as a lump sum amount, and the Board shall submit a monthly voucher equal to 1/12th of the lump sum amount. This bill adds 2016 to the list of years that this provision is in effect.

Downstate Police and Fire Technical Changes

The Downstate Police and Fire Funds are amended by SB 0842, as amended by HA 1, via three technical changes in the sections dealing with delinquent payments from the municipalities.

- The Fund must notify the State Comptroller and abide by any applicable rules of the Comptroller in doing so.
- The Comptroller will no longer "deposit" the intercepted amounts to the fund. Instead, the funds will be remitted from the Comptroller to the fund.
- The term "grants" is replaced with "payments."

IMRF – Removal of Treasurer as Intermediary Custodian of Delinquent Employer Contributions

According to current law, the Illinois Municipal Retirement Fund article of the Pension Code allows the Comptroller to deduct delinquent employer contributions from State Funds. During this process, the Treasurer is denoted as the intermediary custodian of these funds and is heavily involved in the holding and transferring of said funds. This bill proposes that the Treasurer be removed as the intermediary custodian of IMRF funds.

Provisions for Delinquent Employer Contributions

SB 0842, as amended by HA 1, amends the Cook County Employees Pension Fund, the Cook County Forest Preserve Pension Fund, the Chicago Park District Pension Fund, the Metropolitan Water Reclamation District Pension Fund, and the Miscellaneous Collateral Provisions article of the Pension Code in regards to delinquent contribution payments. If any employers, districts, or counties fail to transmit to the Fund contributions required of it by December 31st for the year in which such contributions are due, the Fund may, after giving notice to the employer, certify to the State Comptroller the amounts of the delinquent payments in accordance with any applicable rules of the Comptroller, and the Comptroller must, beginning in payment year 2016, deduct and remit to the Fund the certified amounts from payments of State funds to the employer. The State Comptroller cannot deduct more than the exact amount of the delinquent payments.
