



# Commission on Government Forecasting and Accountability

**MONTHLY BRIEFING**

**SEPTEMBER 2011**

<http://www.ilga.gov/commission/cgfa2006/home.aspx>

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703 Stratton Ofc. Bldg.  
Springfield, IL 62706

## **ECONOMY: September Living Up To Its Reputation**

Edward H. Boss, Jr., Chief Economist

There are many adages related to stock market performance over the years such as, sell in May and go away, and the Halloween effect since it was in October when both the severe crashes of 1929 and 1987 occurred, but historically the worst month for the markets has been September. And this could be the case this year as well. Since 1929, analysis of data by the chief investment strategist of Standard & Poor's Equity Research showed that the S&P 500 stock index declined an average of 1.3% in September compared to an average monthly increase of 0.5%. The performance of the Dow Jones average is similar. According to the Bespoke Investment Group, over the past 100 years the Dow has shown a decline of 0.96% in September, widening to 1.23% in the last 50 years, and 1.49% in the past 20 years. It is clear to say that fall historically has not been kind to equities.

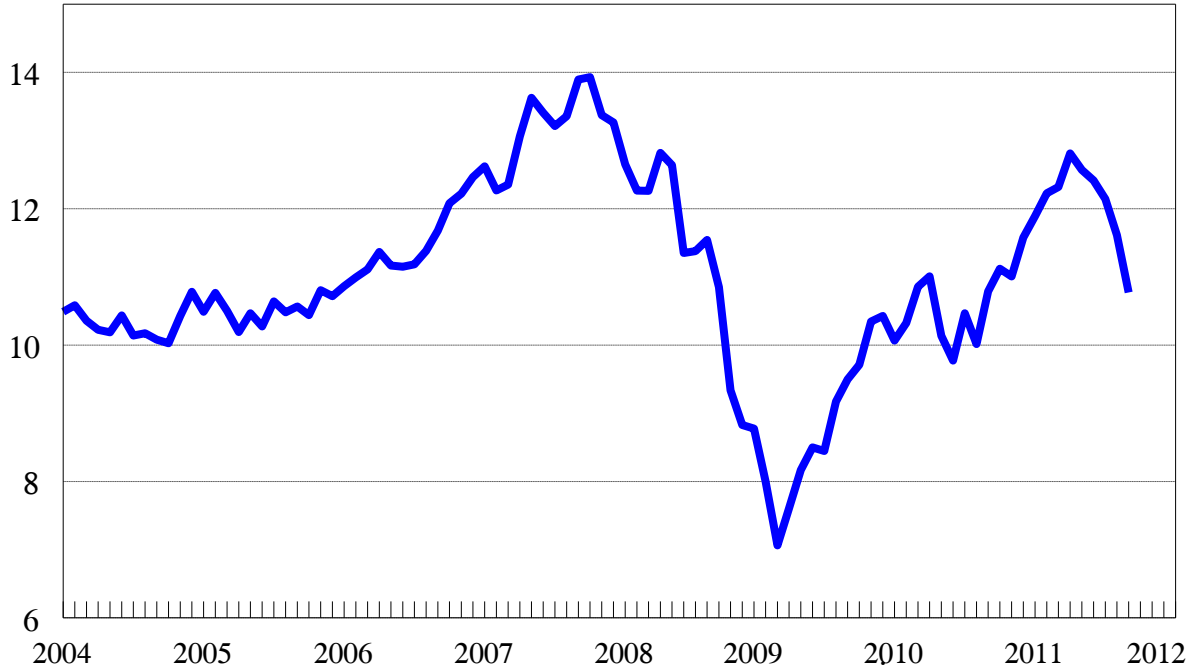
As illustrated in the attached chart, after rising by about 80% from its March 2009 low through April 2011, the Dow fell by 9% by the end of August and a further drop of almost 7% in the first 23 days of September alone. This was followed by wide swings in the final week of the month. There have been many general explanations for the Autumn decline in equity prices although exogenous factors during each period have contributed heavily to the weakening pattern. There doesn't seem to be any good academic reasons, however, to explain the phenomena.

One explanation has to do with the change in seasons, from the bright days of summer to the beginning of fall and the start of winter being a depressant. Another is that as days get shorter investors get more risk adverse and thus more prone to sell. Another related factor cited is the return of stock traders and investors from their summer vacations and the increase in trading volume leading to wider swings in prices.

CHART 1

DOW JONES AVERAGE

Thousands



CGFA

Other suggestions have cited that historically autumn crashes had to do with harvests when Midwestern banks withdrew capital from New York, or that third quarter profit warnings would come out in early September, raising fears of full year results. It isn't until the excitement of the upcoming holiday season that the market seems to improve, the so-called "Santa Claus Rally"

There are plenty of reasons for this September's market slide that are not so mysterious. First, most forecasters have been lowering growth expectations, not only for the U.S. and Europe, including Germany but also for China that have been the engines behind

overall world growth. This slower growth in the U.S. was brought home in September by the Federal Reserve as it introduced "operation twist" or the policy of selling \$400 billion in short-term Treasuries in exchange for the same amount of longer-term bonds, starting in October and ending in June 2012. The move does not mean the Fed will pump additional money into the economy; it is designed to lower long-term yields helping out the fledging housing market while keeping short-term rates little changed. In announcement of its policy decision it changed its August wording of "Moreover, downside risks to the economic outlook have increased, to September's" Moreover, there are

*significant* downside risks to the economic outlook, including strains in global financial markets”.

In addition to concerns over world economic growth, there is the overhanging debt problems of Greece and its possible default as well as similar problems emerging in Ireland, Italy, Spain, etc. and the ability of the 17 countries comprising the Euro Zone to stabilize the euro and get their

financial houses in order. Similarly, the growing debt problem of the U.S. and lack of substantial progress to reign in spending and reduce deficits in a divided country remain impediments to economic growth. According to the Commission’s forecasting service, Global Insight, in September, “*Our forecast remains a weak growth outlook, not a full recession, but we still place recession odds at a high 40% because weak momentum leaves the economy vulnerable to shocks.*”

<b>INDICATORS OF ILLINOIS ECONOMIC ACTIVITY</b>			
<b>INDICATORS</b>	<b><u>AUG. 2010</u></b>	<b><u>JULY 2010</u></b>	<b><u>AUG. 2009</u></b>
Unemployment Rate (Average)	9.9%	9.5%	10.0%
Annual Rate of Inflation (Chicago)	2.2%	-4.9%	3.2%
	<b><u>LATEST MONTH</u></b>	<b><u>% CHANGE OVER PRIOR MONTH</u></b>	<b><u>% CHANGE OVER A YEAR AGO</u></b>
Civilian Labor Force (thousands) (August)	6,596	0.1%	-0.6%
Employment (thousands) (August)	5,943	-0.3%	-0.5%
New Car & Truck Registration (August)	46,239	9.0%	5.6%
Single Family Housing Permits (August)	754	20.4%	12.7%
Total Exports (\$ mil) (July)	5,683	2.7%	39.6%
Chicago Purchasing Managers Index (Sept.)	60.4	6.9%	0%

## REVENUE

### September Up Even As Federal Source Falloff Continues

Jim Muschinske, Revenue Manager

September revenues rose \$350 million despite another poor month for federal reimbursements. Personal and corporate income taxes jumped as compared to last year due to higher tax rates while sales tax continues to perform quite well even as most economic measures continue to indicate consumer weakness. September had the same number of receipting days as last year.

For the month, personal income tax receipts led the gainers as gross receipts grew \$625 million, or \$571 million net of refunds. Gross corporate income tax rose \$212 million, or \$175 million net of refunds, while sales tax continues to fare well as receipts grew \$86 million for the month. Other sources increased \$3 million and liquor taxes eked out a \$1 million gain.

A number of smaller revenue sources experienced monthly declines in September: inheritance tax continued its expected fall off, dropping \$35 million; public utility tax declined \$18 million; insurance taxes \$5 million; corporate franchise taxes \$3 million; interest income \$2 million; cigarette tax \$1 million; and vehicle use tax \$1 million.

Overall transfers declined \$183 million. While riverboat transfers grew \$21 million and lottery transfers \$6 million, those gains were more than offset by a drop of \$210 million in other transfers. The fall off was due to last year's \$202 million of interfund borrowing that was not repeated this year. Finally, as mentioned, federal sources dropped \$238 million as reimbursable spending slowed substantially.

#### Year to Date

Through the first quarter of the fiscal year, absent short-term borrowing and Budget Stabilization Fund transfers, base general funds revenues are up \$758 million. The increase was fueled by comparatively higher income tax receipts stemming from the January 2012 rate increases, as well as continued strong sales tax receipts. Those items were more than enough to overcome a significant falloff in federal sources that has resulted from less reimbursable spending as well as a return to a lower federal matching rate [under ARRA, states enjoyed approximately two years of higher reimbursable match—that has now ended].

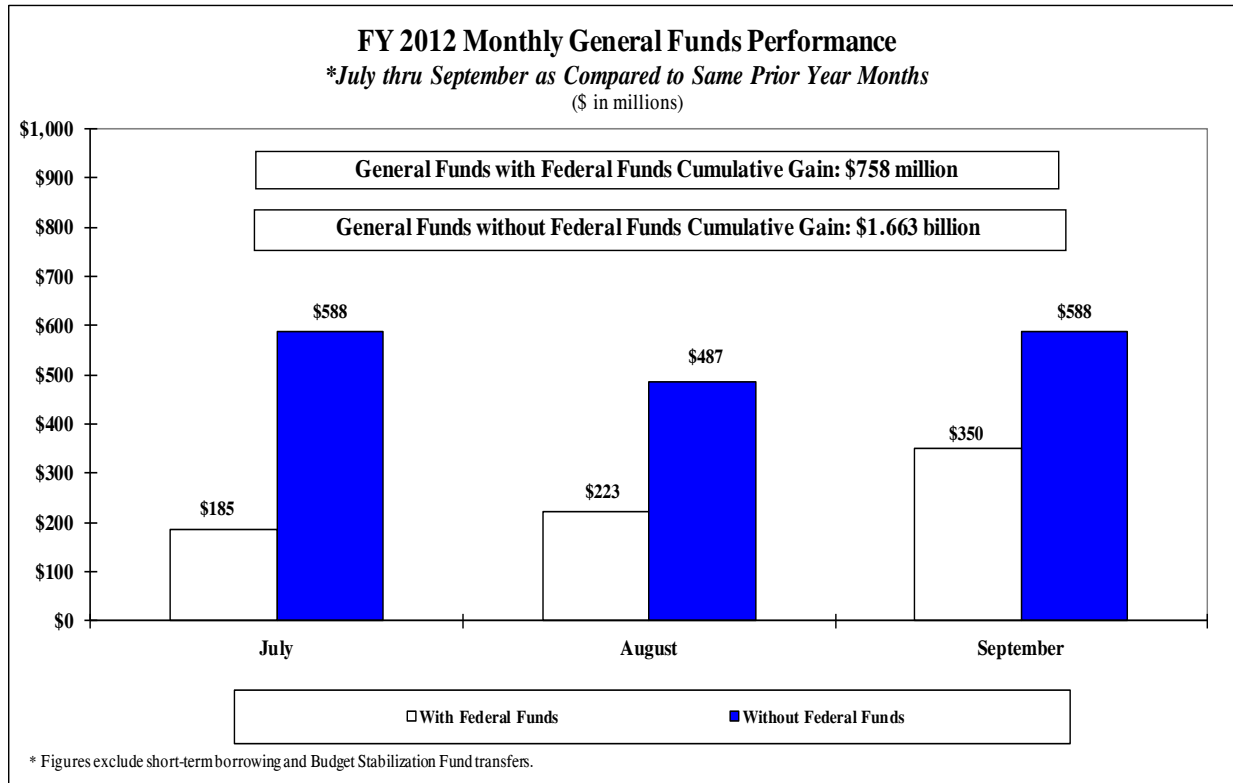
To date, gross personal income taxes are up \$1.529 billion, or \$1.395 billion net of refunds. Gross corporate income taxes are up \$253 million, or \$209 million net of refunds. Sales taxes have increased \$214 million, while all other revenue sources had a net decline of \$85 million mainly due to the expected falloff in inheritance tax receipts.

Overall transfers are down \$70 million as the result of \$202 million of interfund borrowing that took place last fiscal year. The comparative falloff was more than enough to offset the gain of \$15 million in regular riverboat transfers as well as the final payment of \$73 million related to bid of the 10<sup>th</sup> license. Federal source receipts suffered a significant drop in the first quarter, falling \$905 million due to lower reimbursable spending as well as lower reimbursement rates previously enjoyed under ARRA.

## Review of First Quarter Revenues

The chart below demonstrates how the first quarter has performed both with and without federal sources. If the \$905 million of federal source fall off is

included, overall base revenues are up \$758 million. When federal sources are excluded, that figure leaps to \$1.663 billion, primarily the result of the higher income tax rates and decent sales tax growth.



## Caution Urged Despite Early Performance

While the economic sources have met the Commission's expectations to date, the forward view of revenues should be tempered with the realization that some clouds on the horizon will serve to stymie a repeat of similar growth. For example, the previous acceleration of receipts due to last year's tax amnesty

program will not be repeated this year. And as expected, growth in the second quarter for both corporate and sales tax receipts will be negatively impacted. In addition, second half revenue performance would not escape if the current economic "soft patch" continues to be accompanied by stubbornly high unemployment. Looking ahead, continued economic malaise would jeopardize even modest revenues expectations well into FY 2013.

## GENERAL FUNDS RECEIPTS: SEPTEMBER

FY 2012 vs. FY 2011

(\$ million)

<u>Revenue Sources</u>	<u>Sept. FY 2012</u>	<u>Sept. FY 2011</u>	<u>\$ CHANGE</u>	<u>% CHANGE</u>
<b>State Taxes</b>				
Personal Income Tax	\$1,432	\$807	\$625	77.4%
Corporate Income Tax (regular)	458	246	\$212	86.2%
Sales Taxes	613	527	\$86	16.3%
Public Utility Taxes (regular)	89	107	(\$18)	-16.8%
Cigarette Tax	29	30	(\$1)	-3.3%
Liquor Gallonage Taxes	14	13	\$1	7.7%
Vehicle Use Tax	2	3	(\$1)	-33.3%
Inheritance Tax (Gross)	1	36	(\$35)	-97.2%
Insurance Taxes and Fees	64	69	(\$5)	-7.2%
Corporate Franchise Tax & Fees	27	30	(\$3)	-10.0%
Interest on State Funds & Investments	0	2	(\$2)	-100.0%
Cook County IGT	0	0	\$0	N/A
Other Sources	30	27	\$3	11.1%
<b>Subtotal</b>	<b>\$2,759</b>	<b>\$1,897</b>	<b>\$862</b>	<b>45.4%</b>
<b>Transfers</b>				
Lottery	59	53	\$6	11.3%
Riverboat transfers & receipts	41	20	\$21	105.0%
Proceeds from Sale of 10th license	0	0	\$0	N/A
Other	49	259	(\$210)	-81.1%
<b>Total State Sources</b>	<b>\$2,908</b>	<b>\$2,229</b>	<b>\$679</b>	<b>30.5%</b>
<b>Federal Sources</b>	<b>\$273</b>	<b>\$511</b>	<b>(\$238)</b>	<b>-46.6%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$3,181</b>	<b>\$2,740</b>	<b>\$441</b>	<b>16.1%</b>
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$125)	(\$71)	(\$54)	76.1%
Corporate Income Tax	(\$80)	(43)	(\$37)	86.0%
<b>Subtotal General Funds</b>	<b>\$2,976</b>	<b>\$2,626</b>	<b>\$350</b>	<b>13.3%</b>
<b>Short-Term Borrowing</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>N/A</b>
<b>Tobacco Liquidation Proceeds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>N/A</b>
<b>Pension Contribution Fund Transfer</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>N/A</b>
<b>Budget Stabilization Fund Transfer</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>N/A</b>
<b>Total General Funds</b>	<b>\$2,976</b>	<b>\$2,626</b>	<b>\$350</b>	<b>13.3%</b>
CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				4-Oct-11

**GENERAL FUNDS RECEIPTS: YEAR TO DATE**  
**FY 2012 vs. FY 2011**  
(\$ million)

<u>Revenue Sources</u>	<u>FY 2012</u>	<u>FY 2011</u>	<u>CHANGE FROM FY 2011</u>	<u>% CHANGE</u>
<b>State Taxes</b>				
Personal Income Tax	\$3,664	\$2,135	\$1,529	71.6%
Corporate Income Tax (regular)	574	321	\$253	78.8%
Sales Taxes	1,820	1,606	\$214	13.3%
Public Utility Taxes (regular)	267	265	\$2	0.8%
Cigarette Tax	88	88	\$0	0.0%
Liquor Gallonage Taxes	43	42	\$1	2.4%
Vehicle Use Tax	8	8	\$0	0.0%
Inheritance Tax (Gross)	4	90	(\$86)	-95.6%
Insurance Taxes and Fees	82	85	(\$3)	-3.5%
Corporate Franchise Tax & Fees	54	58	(\$4)	-6.9%
Interest on State Funds & Investments	1	3	(\$2)	-66.7%
Cook County IGT	0	0	\$0	N/A
Other Sources	97	90	\$7	7.8%
<b>Subtotal</b>	<b>\$6,702</b>	<b>\$4,791</b>	<b>\$1,911</b>	<b>39.9%</b>
<b>Transfers</b>				
Lottery	135	135	\$0	0.0%
Riverboat transfers & receipts	95	80	\$15	18.8%
Proceeds from Sale of 10th license	73	0	\$73	N/A
Other	327	485	(\$158)	-32.6%
<b>Total State Sources</b>	<b>\$7,332</b>	<b>\$5,491</b>	<b>\$1,841</b>	<b>33.5%</b>
<b>Federal Sources</b>	<b>\$557</b>	<b>\$1,462</b>	<b>(\$905)</b>	<b>-61.9%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$7,889</b>	<b>\$6,953</b>	<b>\$936</b>	<b>13.5%</b>
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$321)	(\$187)	(\$134)	71.7%
Corporate Income Tax	(\$100)	(\$56)	(\$44)	78.6%
<b>Subtotal General Funds</b>	<b>\$7,468</b>	<b>\$6,710</b>	<b>\$758</b>	<b>11.3%</b>
<b>Short-Term Borrowing</b>	<b>\$0</b>	<b>\$1,300</b>	<b>(\$1,300)</b>	<b>-100.0%</b>
<b>Tobacco Liquidation Proceeds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>N/A</b>
<b>Pension Contribution Fund Transfer</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>N/A</b>
<b>Budget Stabilization Fund Transfer</b>	<b>\$275</b>	<b>\$0</b>	<b>\$275</b>	<b>N/A</b>
<b>Total General Funds</b>	<b>\$7,743</b>	<b>\$8,010</b>	<b>(\$267)</b>	
SOURCE: Office of the Comptroller, State of Illinois: Some totals may not equal, due to rounding.				
CGFA				4-Oct-11

**State Facility Closure**  
Ben Varner, Revenue Analyst

On September 8<sup>th</sup> 2011, Governor Quinn announced the closure of seven State facilities. These facilities included three mental health facilities, two developmental centers, one youth center, and one correctional center. The individual facilities and their associated agencies are listed below.

**Department of Human Services**

H. Douglas Singer Mental Health Center in Rockford  
Tinley Park Mental Health Center in Tinley Park  
Chester Mental Health Center in Chester  
Jack Mabley Developmental Center in Dixon  
Jacksonville Developmental Center in Jacksonville

**Department of Juvenile Justice**

Illinois Youth Center at Murphysboro

**Department of Corrections**

Logan Correctional Center in Lincoln

The Commission on Government Forecasting and Accountability has certain legislatively mandated duties related to the closure of State facilities. These duties include requiring the executive branch to file a recommendation of closure, holding a public comment period, organizing a public hearing, and giving an advisory opinion. Prior to this advisory opinion, no action may be taken to implement the recommendation for closure.

Per the State Facilities Closure Act (30 ILCS 608), "State facility" means any facility (i) that is owned and operated by the State or leased and operated by the State and (ii) that 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.

Before a State facility may be closed:

- 1) The State executive branch officer with jurisdiction over the facility shall file notice of the proposed closure with the Commission on Government Forecasting and Accountability within 2 days after the first public announcement of any planned or proposed closure.
- 2) 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.

In the case of a proposed closure of: (i) a prison, youth center, work camp, or work release center operated by the Department of Corrections; (ii) a school, mental health center, or center for the developmentally disabled operated by the Department of Human Services; or (iii) a residential facility operated by the Department of Veterans' Affairs, the Commission must require the executive branch officers to file a recommendation for closure.

- 3) The recommendation must be filed within 30 days after the Commission delivers the request for recommendation to the State executive branch officer.
- 4) A 30 day public comment period must follow the filing of the recommendation.
- 5) The Commission, in its discretion, may conduct one or more public hearings on the recommendation. In the case of a proposed closure of: (i) a prison, youth center, work camp, or work release center operated by the Department of Corrections; (ii) a school, mental health center, or center for the developmentally disabled operated by the Department of Human Services; or (iii) a residential facility operated by the Department of Veterans' Affairs, the Commission must conduct one or more public hearings on the recommendation.
- 6) 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.
- 7) Within 50 days after the State executive branch officer files the required recommendation, the Commission shall issue an advisory opinion on that recommendation. The Commission shall file the advisory opinion with the appropriate State executive branch officer, the Governor, the General Assembly, and the Index Department of the Office of the Secretary of State and shall make copies of the advisory opinion available to the public upon request.

The recommendation for closure must include:

- 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.

The requirements of the State Facilities Closure Act do not apply if all of the functions and employees of a State facility are relocated to another State facility that is within 10 miles of the closed facility.

The Commission has currently scheduled public hearings for six of the facilities.

**H. Douglas Singer Mental Health Center**

Date: October 5  
Time: 4:30 p.m.  
Location: University of Illinois College of Medicine at Rockford

**Illinois Youth Center at Murphysboro**

Date: October 12  
Time: 10:30 a.m.  
Location: Davis-McCann Civic Center in Murphysboro

**Chester Mental Health Center**

Date: October 12  
Time: 4:30 p.m.  
Location: Chester High School in Chester

**Jack Mabley Developmental Center**

Date: October 17  
Time: 5:00 p.m.  
Location: Dixon Theatre in Dixon

**Jacksonville Developmental Center**

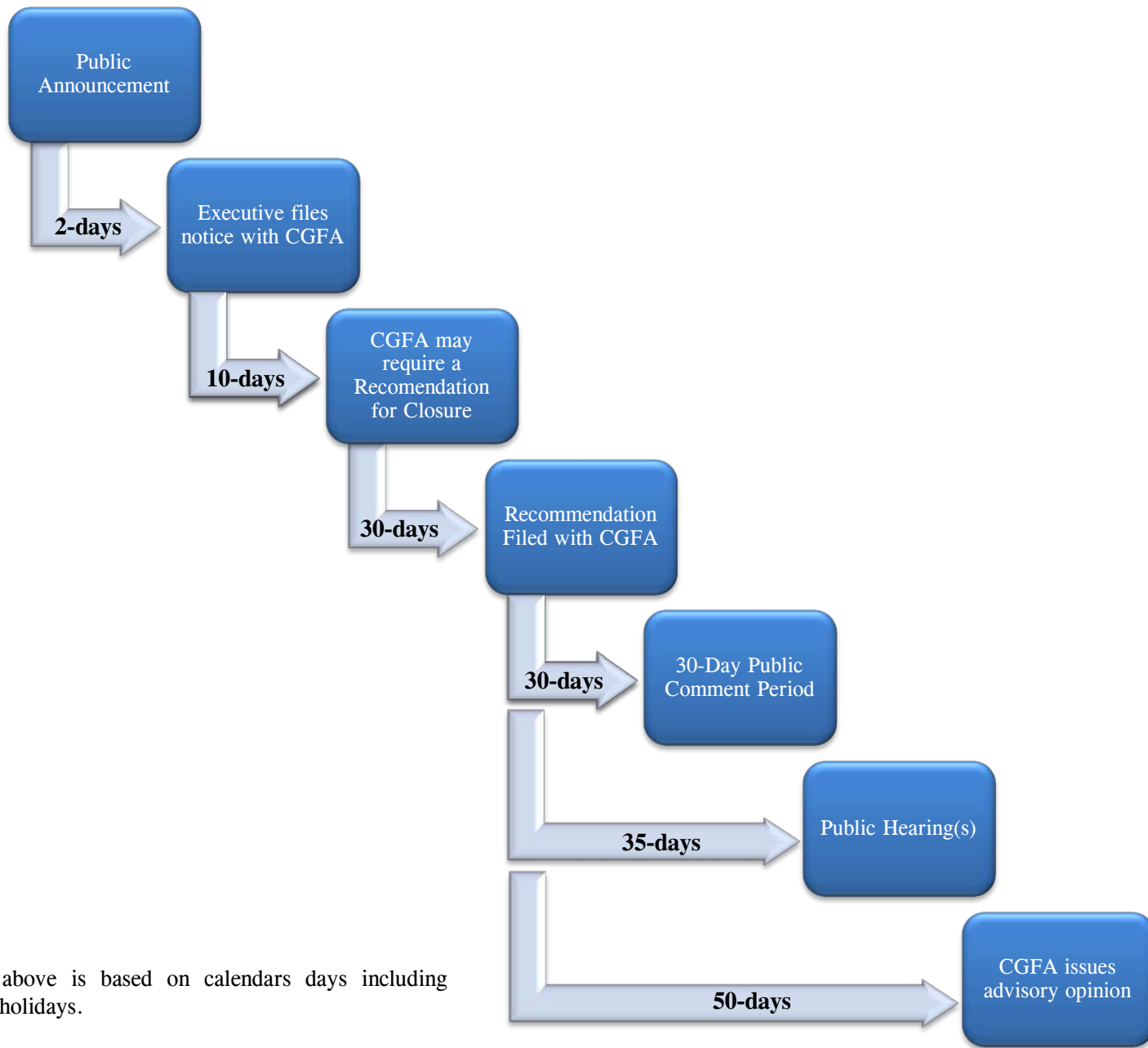
Date: October 24  
Time: 5:00 p.m.  
Location: Rammelkamp Chapel on the campus of Illinois College in Jacksonville

**Logan Correctional Center**

Date: October 26  
Time: 5:00 p.m.  
Location: Lincoln Christian University auditorium in Lincoln

Further updates on the facility closures will be available on the Commission's website.

# State Facility Closure Timeline



The timeline above is based on calendar days including weekends and holidays.