



# Commission on Government Forecasting and Accountability

703 Stratton Ofc. Bldg., Springfield, IL 62706

**MONTHLY BRIEFING FOR THE MONTH ENDED: OCTOBER 2016**

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## ECONOMY: Is the Improvement Temporary?

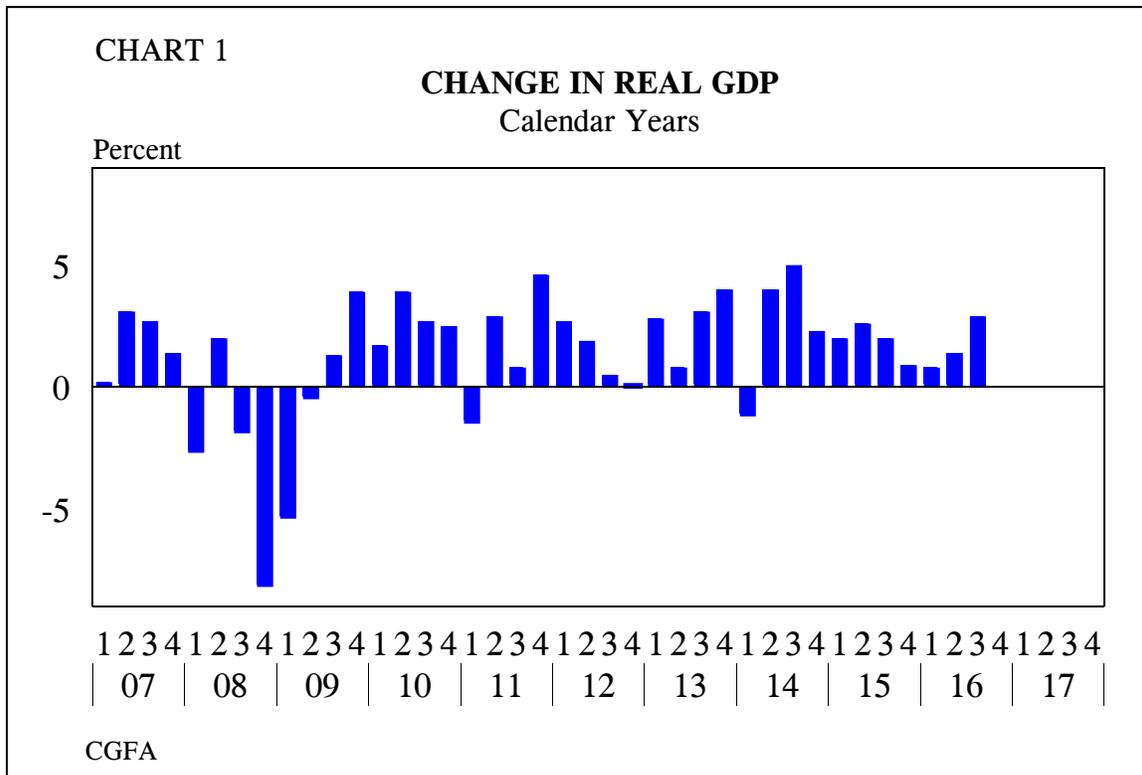
Edward H. Boss, Jr., Chief Economist

The Commerce Department's Advance Estimate of Real Gross Domestic Product increased at a 2.9% annual rate in the third quarter, a sharp improvement from the 0.8% and 1.4% respectively in the previous two quarters. (See the Chart on the top of the next page.) This repeats the pattern of most recent years where the pace of economic activity picked up in the second half of the year from a weak first half. An exception was last year when the second half of the year slowed.

The data on hand show that the economy grew at a 1.7% rate in the first three quarters of 2016, which would be the slowest since 2013. Even if the 2.9% growth in the third quarter were to be repeated in the final quarter of the year, growth would be 2.0% for the year. This would make it the weakest growth performance of all but 2 of the past 7 years since the recovery began in the second half of 2009.

Last quarter's growth came from increases in consumer spending, exports, business inventories, and federal government spending. These gains were partly offset by residential fixed investment, state and local government spending, and an increase in imports that act as a subtraction in the calculation of GDP.

The increase in business inventories in the latest quarter reversed five quarters of inventories subtracting from growth. Consumer spending, which accounts for about two-thirds to 70% of total spending, was not as strong as in the previous quarter. And, whether the recent inventory buildup is excessive or continues to build, may depend on the strength of consumer spending in the upcoming holiday period. Recent data in October may provide some clues as to consumer spending in the upcoming months.



The University of Michigan's Index of Consumer Sentiment in October reached the lowest level since October 2014. Giving some support to the weakening in October of this measure was the Conference Board's measure of Consumer Confidence that reached its lowest level since May. At the same time, while nonresidential fixed investment (business capital spending) rose 1.2% in the quarter, equipment spending dropped for the fourth straight quarter while residential investment was down 6.2%.

It should be pointed out that one month into a quarter may not be representative of the quarter as a whole. Moreover some October data, such as imports, are yet to be reported. Moreover, the Advance GDP report just released will be revised on January 27<sup>th</sup>, based upon more complete data, again on February 28<sup>th</sup>, and a third time on March 30<sup>th</sup>. These revisions can be quite large. It remains likely, however, that when the year is complete, this economy's recovery will continue to rank it as the weakest economic expansion in the post WWII era.

## INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

<u>INDICATORS *</u>	<u>Sept. 2016</u>	<u>Aug. 2016</u>	<u>Sept. 2015</u>
Unemployment Rate (Average)	5.5%	5.5%	5.9%
Annual Rate of Inflation (Chicago)	0.6%	0.6%	0.6%
<b>████████████████████</b>			
	<u>LATEST MONTH</u>	<u>% CHANGE OVER PRIOR MONTH</u>	<u>% CHANGE OVER A YEAR AGO</u>
Civilian Labor Force (thousands) (Sept.)	6,565.4	-0.1%	0.8%
Employment (thousands) (Sept.)	6,204.7	0.0%	1.1%
NonFarm Payroll Employment (Sept.)	6,016,300	7,400	43,400
New Car & Truck Registration (Sept.)	55,725	-1.7%	-5.8%
Single Family Housing Permits (Sept.)	1,013	-4.7%	-2.2%
Total Exports (\$ mil) (August)	4,995.8	4.1%	-2.5%
Chicago Purchasing Managers Index (Oct.)	50.6	-6.6%	-9.9%
* Due to monthly fluctuations, trend best shown by % change from a year ago			

### REVENUE

#### October Revenues Stumble as Federal Sources and Corporate Income Tax Decline Jim Muschinske, Revenue Manager

Overall base revenues fell \$304 million in October as weaker income taxes, particularly corporate income, along with extremely low federal source receipting, were largely responsible for the disappointing month. October had one less receipting day than the previous year.

Gross corporate income taxes fell \$103 million for the month, or \$88 million net of refunds. [With only a net total of \$3 million for the month, clearly some processing anomaly at the Department of Revenue occurred]. As mentioned in previous briefings, the new ledger accounting system at IDoR has resulted in dramatic shifts in receipt patterns,

making interpretation of monthly receipts very challenging. While it appears that some of the October decline is likely due to “individual income tax pass through” payments now being receipted under personal income tax designation, it still doesn’t account for the large falloff in corporate income tax receipts.

**I**nheritance taxes and fees experienced a \$38 million drop due to timing of last year’s receipts. Gross personal income tax fell \$30 million, or \$33 million net of refunds and diversions to the Fund for Advancement of Education and Commitment to Human Services Fund. Sales tax receipts also were

weak, with receipts falling \$29 million below last October levels. Public utility taxes dropped \$6 million, insurance taxes \$5 million, and interest income \$1 million.

Only a few revenue sources managed to post gains for the month as other sources increased \$10 million, corporate franchise taxes \$4 million, liquor taxes \$1 million, and vehicle use tax \$1 million.

Overall transfers experienced a \$1 million decline in October. While riverboat transfers increased \$11 million, those gains were offset by a \$10 million reduction in lottery transfers, and a \$2 million loss in other transfers. Federal sources experienced an extremely weak month, falling \$119 million below last year.

### **Year-To-Date**

Through one-third of the fiscal year, base receipts are down \$449 million, reflecting growing concern with revenue performance for the first part

of FY 2017. In particular, both personal and corporate income taxes have disappointed and federal sources to the general funds are on pace for yet another poor fiscal year. Sales tax receipts, while experiencing minor growth, is just barely clinging to last year's levels.

Gross corporate income taxes are off \$258 million, or \$225 million net of refunds. Gross personal income tax, after another weak month, is down \$171 million or \$208 net of refunds and \$202 million if diversions to the education and human service funds are included. As mentioned, sales taxes generated very modest gains, up only \$21 million. Overall transfers are down \$73 million to date. (This year is without a transfer from the Income Tax Refund Fund which added \$77 million in August 2015.)

Despite federal sources growing \$52 million thus far, growth will have to increase dramatically over the remainder of the fiscal year even to hit the Commission's very modest projection.

# OCTOBER

FY 2017 vs. FY 2016

(\$ million)

<b>Revenue Sources</b>	<b>Oct. FY 2017</b>	<b>Oct. FY 2016</b>	<b>\$ CHANGE</b>	<b>% CHANGE</b>
<b>State Taxes</b>				
Personal Income Tax	\$1,051	\$1,081	(\$30)	-2.8%
Corporate Income Tax (regular)	4	107	(\$103)	-96.3%
Sales Taxes	672	701	(\$29)	-4.1%
Public Utility Taxes (regular)	66	72	(\$6)	-8.3%
Cigarette Tax	29	29	\$0	0.0%
Liquor Gallonage Taxes	15	14	\$1	7.1%
Vehicle Use Tax	3	2	\$1	50.0%
Inheritance Tax	22	60	(\$38)	-63.3%
Insurance Taxes and Fees	1	6	(\$5)	-83.3%
Corporate Franchise Tax & Fees	17	13	\$4	30.8%
Interest on State Funds & Investments	2	3	(\$1)	-33.3%
Cook County IGT	0	0	\$0	N/A
Other Sources	36	26	\$10	38.5%
<b>Subtotal</b>	<b>\$1,918</b>	<b>\$2,114</b>	<b>(\$196)</b>	<b>-9.3%</b>
<b>Transfers</b>				
Lottery	62	72	(\$10)	-13.9%
Riverboat transfers & receipts	33	22	\$11	50.0%
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	35	37	(\$2)	-5.4%
<b>Total State Sources</b>	<b>\$2,048</b>	<b>\$2,245</b>	<b>(\$197)</b>	<b>-8.8%</b>
<b>Federal Sources</b>	<b>\$46</b>	<b>\$165</b>	<b>(\$119)</b>	<b>-72.1%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$2,094</b>	<b>\$2,410</b>	<b>(\$316)</b>	<b>-13.1%</b>
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$118)	(\$105)	(\$13)	12.4%
Corporate Income Tax	(\$1)	(16)	\$15	-93.8%
<b>Fund for Advancement of Education</b>	<b>(\$37)</b>	<b>(42)</b>	<b>\$5</b>	<b>-11.9%</b>
<b>Commitment to Human Services Fund</b>	<b>(\$37)</b>	<b>(42)</b>	<b>\$5</b>	<b>-11.9%</b>
<b>Subtotal General Funds</b>	<b>\$1,901</b>	<b>\$2,205</b>	<b>(\$304)</b>	<b>-13.8%</b>
<b>Short-Term Borrowing</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>N/A</b>
<b>Interfund Borrowing</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>\$1,901</b>	<b>\$2,205</b>	<b>(\$304)</b>	<b>-13.8%</b>

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

2-Nov-16

## GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2017 vs. FY 2016

(\$ million)

<u>Revenue Sources</u>	<u>FY 2017</u>	<u>FY 2016</u>	<u>CHANGE FROM FY 2016</u>	<u>% CHANGE</u>
<b>State Taxes</b>				
Personal Income Tax	\$4,300	\$4,471	(\$171)	-3.8%
Corporate Income Tax (regular)	351	609	(\$258)	-42.4%
Sales Taxes	2,774	2,753	\$21	0.8%
Public Utility Taxes (regular)	274	283	(\$9)	-3.2%
Cigarette Tax	118	118	\$0	0.0%
Liquor Gallonage Taxes	59	59	\$0	0.0%
Vehicle Use Tax	10	13	(\$3)	-23.1%
Inheritance Tax	101	136	(\$35)	-25.7%
Insurance Taxes and Fees	109	98	\$11	11.2%
Corporate Franchise Tax & Fees	73	71	\$2	2.8%
Interest on State Funds & Investments	8	7	\$1	14.3%
Cook County IGT	0	0	\$0	N/A
Other Sources	144	133	\$11	8.3%
<b>Subtotal</b>	<b>\$8,321</b>	<b>\$8,751</b>	<b>(\$430)</b>	<b>-4.9%</b>
<b>Transfers</b>				
Lottery	227	208	\$19	9.1%
Riverboat transfers & receipts	109	103	\$6	5.8%
Proceeds from Sale of 10th license	0	0	\$0	N/A
Refund Fund transfer	0	77	(\$77)	-100.0%
Fund sweeps	0	0	\$0	N/A
Other	218	239	(\$21)	-8.8%
<b>Total State Sources</b>	<b>\$8,875</b>	<b>\$9,378</b>	<b>(\$503)</b>	<b>-5.4%</b>
<b>Federal Sources</b>	<b>\$770</b>	<b>\$718</b>	<b>\$52</b>	<b>7.2%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$9,645</b>	<b>\$10,096</b>	<b>(\$451)</b>	<b>-4.5%</b>
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$473)	(\$436)	(\$37)	8.5%
Corporate Income Tax	(\$60)	(\$93)	\$33	-35.5%
<b>Fund for Advancement of Education</b>	(\$142)	(\$145)	\$3	N/A
<b>Commitment to Human Services Fund</b>	(\$142)	(\$145)	\$3	N/A
<b>Subtotal General Funds</b>	<b>\$8,828</b>	<b>\$9,277</b>	<b>(\$449)</b>	<b>-4.8%</b>
<b>Short-Term Borrowing</b>	\$0	\$0	\$0	N/A
<b>Interfund Borrowing</b>	\$0	\$0	\$0	N/A
<b>Budget Stabilization Fund Transfer</b>	\$0	\$125	(\$125)	-100.0%
<b>Total General Funds</b>	<b>\$8,828</b>	<b>\$9,402</b>	<b>(\$574)</b>	<b>-6.1%</b>

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

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2-Nov-16

## **State Employees Group Insurance Program Update**

Anthony Bolton, Revenue/Pension Analyst

Over the past fiscal year, the lack of an enacted budget has resulted in the State Employee Group Insurance Program (SEGIP) building up a large backlog of unpaid claims. As of the end of October, approximately \$3.86 billion in claims (\$3.66 billion from SEGIP) were being held by the state from various insurers, organizations, and companies. This data includes claims from the Local Government Health Plan, Teachers' Retirement Insurance Program, and the College Insurance Program, though they are only a small fraction (5% total) of the total claims. Of this total, the largest portion was approximately \$1.95 billion of HMO/Medicare Advantage claims. The second largest portion, Open Access Plans, totaled \$702 million. The third largest portion of the overall claims hold came from CIGNA, which had \$622 million in claims currently held by the state. Concurrently, the estimated time for claims to be held was 525-706 days for Managed Care, 491-540 days for Open Access Plans, and 573-650 days for CIGNA. This information and other pertinent data is displayed on the chart on the next page. Despite a stop-gap budget being passed, however, claims have continued to build up and estimated claims hold times will increase due to no appropriation for Group Insurance.

As a result of the State Employees Group Insurance Program (SEGIP) building up a large backlog of unpaid claims from health care vendors,

alternative options for payment have been explored. One option that has arisen in recent years is a program called the Vendor Payment Program (VPP), which is organized through the Department of Central Management Services (CMS).

Under the VPP, vendors for the state of Illinois who would otherwise receive prompt payment interest would instead partner with a "qualified purchaser" who would purchase the voucher from them. The vendor would receive approximately 90% of the total invoice owed to them with the other 10% paid to them once the qualified purchaser is paid by the state. The qualified purchaser would keep any interest paid out by the state on the voucher. However, the State has not been able to pay out vouchers without appropriation, so CMS has switched to the Vendor Support Initiative program (VSI), which is procedurally similar to the Vendor Payment Program, but does not require a voucher to receive payment. As of September 15, 2016, approximately \$970 million in group insurance program debts had been purchased through the VSI program from Health Alliance, Blue Cross Blue Shield of Illinois, Fidelity, and Coventry. The primary companies currently purchasing Group Insurance vouchers from the State of Illinois are Vendor Assistance Program (VAP), Vendor Capital Finance LLC (VCF), and Illinois Financing Partners LLC (IFP).

## Claims Hold Data for SEGIP/LGHP/TRIP/CIP

End of October 2016	
<b>Total Claims Hold / Total Length of Claims Hold/Total Interest Owed (Including Past Due Interest)</b>	\$3,860,324,281 / Varies 330 - 706 days / \$359,229,727 Interest Owed
<b>CIGNA - PPO (and Member) / Claims Hold/ Interest</b>	\$585,693,563/ 573 days / \$38,753,077
<b>CIGNA - Non-PPO / Claims Hold/ Interest</b>	\$36,381,978 / 650 days / \$2,765,584
<b>Dental Claims Hold – PPO / Claims Hold / Interest</b>	\$77,199,690 / 372 days / \$5,451,977
<b>Dental - Non-PPO / Claims Hold / Interest</b>	\$41,022,237 / 582 days / \$4,331,232
<b>Magellan (Mental Health) Claims / Claims Hold / Interest</b>	\$5,744,770 / 330 days / \$187,522
<b>Coventry HMO / Claims Hold / Interest Owed</b>	\$55,834,937 / 525 days / \$4,442,373
<b>Health Alliance HMO / Claims Hold / Interest</b>	\$924,347,141 / 706 days / \$89,781,115
<b>HMO Illinois / Claims Hold / Interest</b>	\$584,436,554 / 645 days / \$45,251,405
<b>Blue Advantage / Claims Hold / Interest</b>	\$80,081,166 / 645 days / \$5,246,217
<b>HealthLink OAP / Claims Hold / Interest</b>	\$583,813,310 / 540 days / \$37,537,976
<b>Coventry OAP / Length of Claims Hold / Interest</b>	\$117,772,982 / 491 days / \$7,096,633
<b>Medco / Length of Claims Hold / Interest</b>	\$83,131,950 / 625 days / \$71,348,333
<b>CVS/Caremark / Length of Claims Hold / Interest</b>	\$310,534,590 / 475 days / \$16,905,577
<b>Coventry Medicare Advantage (MA) / Claims Hold / Interest Owed</b>	\$11,857,979 / 525 days / \$817,896
<b>Health Alliance MA / Claims Hold / Interest</b>	\$2,263,769 / 555 days / \$111,708
<b>Humana Benefit Plan MA / Claims Hold / Interest</b>	\$424,182 / 555 days / \$31,840
<b>Humana Health Plan MA / Claims Hold / Interest</b>	\$7,917,524 / 555 days / \$617,218
<b>United Healthcare MA / Claims Hold / Interest</b>	\$296,364,145 / 614 days / \$22,991,621
<b>Fidelity (Vision) / Claims Hold / Interest</b>	\$9,594,732 / 525 days / \$919,844
<b>Other Fees (ASC/etc.) / Claims Hold / Interest</b>	\$45,907,081/475 to 555 days/\$4,640,565

The current interest owed on these claims is also noted in the above chart. The interest on held claims is reflective of the 9 to 12 percent interest rates mentioned in previous monthly reports and is not included in the total claims hold figure of \$3.86 billion.