



Commission on Government Forecasting and Accountability

MONTHLY BRIEFING

NOVEMBER 2006

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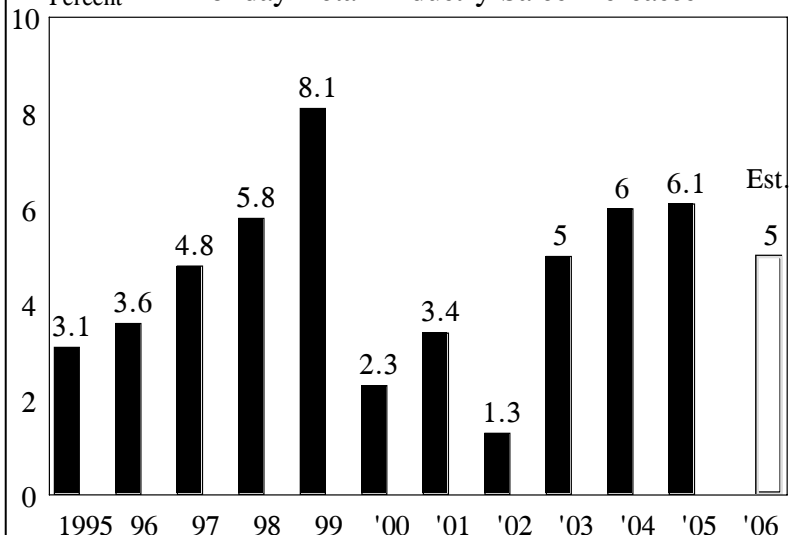
ECONOMY: Holiday Colors

Edward H. Boss, Jr., Chief Economist

The importance of holiday sales on the economy should not be underestimated. Not only do consumers generally account for two-thirds of total spending in the economy, but also with housing in sharp decline and business spending weakening, consumers will need to take up some of the slack if the economic expansion is to be sustained. Moreover, holiday sales can account for a quarter to a third of total yearly sales (27.3% in the final quarter of 2005) and for many stores, a major impact on their profitability (31.8% in 2005). Chart 1 shows increases in holiday sales beginning in 1995 through an estimate for sales in 2006. The data are from the National Retail Federation (NRF) and is derived from U.S. Department of Commerce data.

CHART 1

Percent Holiday Retail Industry Sales Increases



Source: National Retail Federation

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As shown, sales gains over the holidays can vary widely. The highest holiday sales in the past decade were in 1999 when sales rose 8.1% and the lowest holiday sales were in 2002 when the increase was a slim 1.3% as the economy was emerging from recession. As illustrated, the estimate by the NRF is for a 5.0% gain in 2006, down somewhat from the 6% gains in each of the past two years, but above the average over the decade. The NRF's numbers were on the conservative side of a trio of research reports published in November by BusinessWeek on line, which varied from 5.5% to 6.5% and a high of 7.8%. So far this holiday season sales have been choppy.

The traditional start of the holiday buying season kicks off on the day after Thanksgiving, commonly referred to Black Friday, because it traditionally was the day retailers expected to turn a profit for the year. This year some stores actually opened for business on Thursday evening after Thanksgiving dinner while others opened up early in the morning on Friday with massive discounts. Sales on Black Friday got off to a good start, rising 6% to \$8.96 billion according to Chicago-based ShopperTrak. Some of the bloom came off the rosy numbers, however, when America's largest retailer, Wal-Mart, reported a 0.1% decline in its November sales, which included Black Friday, its worst performance in a decade despite heavy promotions. The biggest winners appeared to be electronics chains and popular-priced department stores.

Reports from several sources suggest that the momentum started on Black Friday did not continue at the same pace for the rest of the weekend as some of the initial super bargains disappeared. The next major hurdle was Cyber Monday, the ceremonial kick off to the on line-shopping season. Indeed, Shop.org estimates the number of people who will shop on line for holiday gifts will rise to 61.0 million in 2006 from 51.7 million last year. According to comScore Networks, a leader in measuring digital on line non travel spending, sales on Cyber Monday beat its earlier forecast, rising \$608 million, up 26% from the same day last year. And, for the holiday season to date, cyber sales hit \$9.5 billion compared to \$7.6 billion last year, a gain of 24%.

The ups and downs so far of the holiday shopping season leaves open how green the season will be this year; whether a dark forest or a light lime green. Some hesitations in consumer sentiment, weakening business, as depicted in the latest durable goods report, and concern over international conflicts seem to suggest sales at the lower end of the ranges. On the other hand, lower gas prices, higher employment, low inflation, and upwardly revised GDP suggest sales at the higher end of the ranges. Even should sales slow in the days ahead, shoppers have an extra weekend this year before Christmas. Moreover the Saturday before Christmas is usually the biggest shopping day. Thus, it appears that holiday sales are likely to be good, although probably not spectacular.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

<u>INDICATORS</u>	<u>OCT. 2006</u>	<u>SEPT. 2006</u>	<u>OCT. 2005</u>
Unemployment Rate (Average)	4.1%	4.4%	5.4%
Annual Rate of Inflation (Chicago)	-12.6%	-4.8%	-0.2%
<hr style="border: 1px solid black;"/>			
	<u>LATEST</u>	<u>% CHANGE</u>	<u>% CHANGE</u>
	<u>MONTH</u>	<u>OVER PRIOR</u>	<u>OVER A</u>
		<u>MONTH</u>	<u>YEAR AGO</u>
Civilian Labor Force (thousands) (October)	6,663	0.4%	2.8%
Employment (thousands) (October)	6,388	0.7%	4.1%
New Car & Truck Registration (October)	56,522	6.4%	-4.5%
Single Family Housing Permits (October)	3,110	4.9%	-30.0%
Total Exports (\$ mil) (September)	3,559	0.9%	18.7%
Chicago Purchasing Managers Index (November)	49.9	-6.7%	-19.1%

REVENUE

November Receipts Mixed

Jim Muschinske, Revenue Manager

While most of the economic sources again posted monthly gains, those increases were more than offset by a falloff in federal sources stemming from lower spending on Medicaid. In November 2005 a large amount of reimbursable spending was made possible by \$1 billion in short-term borrowing. As a result, excluding borrowing and on a year-over-year basis, overall general funds revenues decreased \$337 million in November. Borrowing and federal sources aside, November was another positive month for the economic related sources such as income and sales taxes. November had one less receipting day than last fiscal year.

Gross personal income tax receipts led advancers as receipts increased \$69

million, or \$62 million net of refunds, while gross corporate income taxes increased \$22 million, or \$19 million net of refunds. Sales taxes contributed \$19 million in gains; other sources \$16 million; public utility \$12 million; Cook County IGT \$7 million; inheritance tax \$6 million; interest income \$5 million; liquor taxes \$3 million; corporate franchise taxes \$2 million, and vehicle use \$1 million. Only cigarette taxes suffered a decline with receipts off \$4 million due to a change in the tax distribution that went into effect this fiscal year.

Overall transfers grew by \$1 million in November as riverboat transfers gained \$15 million, while other transfers rose \$3 million. Those gains were virtually erased by a falloff of \$17 million in lottery transfers. As mentioned earlier, federal sources experienced an extremely large decline due to last year's reimbursable spending

made possible by the November 2005 short-term borrowing. For the month, federal sources were down \$486 million.

Year to Date

Due to the November fall-off in federal sources, overall receipts to the general funds are down \$1 million through the first five months of the fiscal year. That total is very misleading as most of the economically related sources continue to perform very well. In fact, the falloff in federal sources aside, other receipts are up a very respectable \$593 million.

Gross personal income taxes are up \$265 million, or \$239 million net of refunds. Sales tax receipts are up \$110 million, while gross corporate income taxes have advanced by \$107 million, or \$99 million net of refunds. Interest income is ahead by \$32 million and inheritance tax receipts are up \$24 million. All other sources experiencing gains have added an additional \$10 million.

As expected, the Cook County IGT is down \$27 million to begin the year, while due to a change in tax distribution, cigarette taxes are off by \$20 million. Vehicle use tax has dipped \$1 million.

Overall transfers are up by \$127 million. While other transfers are up \$167 million due mostly to a large July transfer from the Refund Fund as well as chargeback activity, a \$56 million falloff in lottery transfers served to

offset some of those gains. Finally, federal sources are down \$594 million due to less reimbursable spending.

November Revision

An economic and revenue update was presented to the Commission on November 15, 2006. Overall receipt performance through the first third of the fiscal year performed about as expected, albeit slightly ahead of expectations. In particular, income taxes have continued to do well, as have interest earnings and inheritance taxes. However, much of their over performance has been offset by anticipated falloffs in other areas. As a result, several estimates were adjusted to better reflect year to date performance.

- Personal income tax revised up \$66 million gross [\$60 million net of refunds]
- Corporate income tax revised up \$65 million gross [\$54 million net of refunds]
- Interest income revised up \$25 million
- Inheritance tax revised up \$15 million
- Lottery transfers revised down (\$40 million)
- Other transfers revised down (\$39 million)
- Other sources revised down (\$15 million)

Net Increase = \$60 million

[Details of the economic and revenue update presented in November can be found on the Commission's website].

GENERAL FUNDS RECEIPTS: NOVEMBER

FY 2007 vs. FY 2006
(\$ million)

<u>Revenue Sources</u>	<u>NOV. FY 2007</u>	<u>NOV. FY 2006</u>	<u>\$ CHANGE</u>	<u>% CHANGE</u>
State Taxes				
Personal Income Tax	\$678	\$609	\$69	11.3%
Corporate Income Tax (regular)	35	13	\$22	169.2%
Sales Taxes	580	561	\$19	3.4%
Public Utility Taxes (regular)	103	91	\$12	13.2%
Cigarette Tax	29	33	(\$4)	-12.1%
Liquor Gallonage Taxes	13	10	\$3	30.0%
Vehicle Use Tax	3	2	\$1	50.0%
Inheritance Tax (Gross)	34	28	\$6	21.4%
Insurance Taxes and Fees	1	1	\$0	0.0%
Corporate Franchise Tax & Fees	18	16	\$2	12.5%
Interest on State Funds & Investments	18	13	\$5	38.5%
Cook County IGT	56	49	\$7	14.3%
Other Sources	40	24	\$16	66.7%
Subtotal	\$1,608	\$1,450	\$158	10.9%
Transfers				
Lottery	54	71	(\$17)	-23.9%
Riverboat transfers & receipts	70	55	\$15	27.3%
Other	19	16	\$3	18.8%
Total State Sources	\$1,751	\$1,592	\$159	10.0%
Federal Sources	\$292	\$778	(\$486)	-62.5%
Total Federal & State Sources	\$2,043	\$2,370	(\$327)	-13.8%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$66)	(\$59)	(\$7)	11.9%
Corporate Income Tax	(\$6)	(3)	(\$3)	100.0%
Subtotal General Funds	\$1,971	\$2,308	(\$337)	-14.6%
Short-Term Borrowing	\$0	\$1,000	(\$1,000)	N/A
Budget Stabilization Fund Transfer	\$0	\$0	\$0	N/A
Total General Funds	\$1,971	\$3,308	(\$1,337)	-40.4%
CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				5-Dec-06

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2007 vs. FY 2006

(\$ million)

Revenue Sources	FY 2007	FY 2006	CHANGE FROM FY 2006	% CHANGE
State Taxes				
Personal Income Tax	\$3,505	\$3,240	\$265	8.2%
Corporate Income Tax (regular)	531	424	\$107	25.2%
Sales Taxes	3,057	2,947	\$110	3.7%
Public Utility Taxes (regular)	434	429	\$5	1.2%
Cigarette Tax	146	166	(\$20)	-12.0%
Liquor Gallonage Taxes	63	62	\$1	1.6%
Vehicle Use Tax	15	16	(\$1)	-6.3%
Inheritance Tax (Gross)	131	107	\$24	22.4%
Insurance Taxes and Fees	84	84	\$0	0.0%
Corporate Franchise Tax & Fees	83	79	\$4	5.1%
Interest on State Funds & Investments	86	54	\$32	59.3%
Cook County IGT	62	89	(\$27)	-30.3%
Other Sources	163	163	\$0	0.0%
Subtotal	\$8,360	\$7,860	\$500	6.4%
Transfers				
Lottery	229	285	(\$56)	-19.6%
Riverboat transfers & receipts	295	279	\$16	5.7%
Other	340	173	\$167	96.5%
Total State Sources	\$9,224	\$8,597	\$627	7.3%
Federal Sources	\$1,831	\$2,425	(\$594)	-24.5%
Total Federal & State Sources	\$11,055	\$11,022	\$33	0.3%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$342)	(\$316)	(\$26)	8.2%
Corporate Income Tax	(\$93)	(\$85)	(\$8)	9.4%
Subtotal General Funds	\$10,620	\$10,621	(\$1)	0.0%
Short-Term Borrowing	\$0	\$1,000	(\$1,000)	N/A
Budget Stabilization Fund Transfer	\$276	\$276	\$0	N/A
Total General Funds	\$10,896	\$11,897	(\$1,001)	-8.4%

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

CGFA

5-Dec-06

GENERAL FUNDS GROWTH NEEDED TO MEET ESTIMATE
FY 2007 ESTIMATE vs. FY 2006 ACTUAL
(\$ million)

Revenue Sources	Nov-06 ESTIMATE FY 2007	FYTD 2007	AMOUNT NEEDED FY 2007 EST.	FYTD 2006	GROWTH NEEDED	% CHANGE
State Taxes						
Personal Income Tax	\$10,116	\$3,505	\$6,611	\$3,240	\$283	4.5%
Corporate Income Tax (regular)	1,938	531	\$1,407	424	\$47	3.5%
Sales Taxes	7,345	3,057	\$4,288	2,947	\$143	3.4%
Public Utility Taxes (regular)	1,074	434	\$640	429	(\$5)	-0.8%
Cigarette Tax	350	146	\$204	166	(\$30)	-12.8%
Liquor Gallonage Taxes	153	63	\$90	62	\$0	0.0%
Vehicle Use Tax	34	15	\$19	16	\$1	5.6%
Inheritance Tax (Gross)	277	131	\$146	107	(\$19)	-11.5%
Insurance Taxes and Fees	320	84	\$236	84	\$3	1.3%
Corporate Franchise Tax & Fees	190	83	\$107	79	\$5	4.9%
Interest on State Funds & Investments	185	86	\$99	54	\$0	0.0%
Cook County IGT	309	62	\$247	89	(\$14)	-5.4%
Other Sources	440	163	\$277	163	(\$1)	-0.4%
Subtotal	\$22,731	\$8,360	\$14,371	\$7,860	\$413	3.0%
Transfers						
Lottery	630	229	\$401	285	\$16	4.2%
Riverboat transfers & receipts	700	295	\$405	279	(\$5)	-1.2%
Other	841	340	\$501	173	(\$72)	-12.6%
Total State Sources	\$24,902	\$9,224	\$15,678	\$8,597	\$352	2.3%
Federal Sources	\$4,803	\$1,831	\$2,972	\$2,425	\$672	29.2%
Total Federal & State Sources	\$29,705	\$11,055	\$18,650	\$11,022	\$1,024	5.8%
Nongeneral Funds Distribution:						
Refund Fund						
Personal Income Tax	(\$986)	(\$342)	(\$644)	(\$316)	(\$27)	4.4%
Corporate Income Tax	(339)	(\$93)	(\$246)	(85)	\$25	-9.2%
Subtotal General Funds	\$28,380	\$10,620	\$17,760	\$10,621	\$1,022	6.1%
Short-Term Borrowing	\$0	\$0	\$0	\$1,000	\$0	N/A
Budget Stabilization Fund Transfer	\$276	\$276	\$0	\$276	\$0	N/A
Total General Funds	\$28,656	\$10,896	\$17,760	\$11,897	\$1,022	6.1%
CGFA						5-Dec-06

GENERAL FUNDS PERFORMANCE TO DATE
GOVERNOR'S OFFICE OF MANANGEMENT AND BUDGET

FY 2007 ESTIMATE vs. FY 2006 ACTUALS

(\$ million)

	GOMB		AMOUNT		GROWTH	%
	JUNE-06 Estimate FY 2007	FYTD 2007	NEEDED FY 2007 Est.	FYTD 2006		
Revenue Sources					NEEDED	CHANGE
State Taxes						
Personal Income Tax	\$9,844	\$3,505	\$6,339	\$3,240	\$11	0.2%
Corporate Income Tax (regular)	2,074	531	\$1,543	424	\$183	13.5%
Sales Taxes	7,280	3,057	\$4,223	2,947	\$78	1.9%
Public Utility Taxes (regular)	1,090	434	\$656	429	\$11	1.7%
Cigarette Tax	350	146	\$204	166	(\$30)	-12.8%
Liquor Gallonage Taxes	152	63	\$89	62	(\$1)	-1.1%
Vehicle Use Tax	35	15	\$20	16	\$2	11.1%
Inheritance Tax (Gross)	255	131	\$124	107	(\$41)	-24.8%
Insurance Taxes and Fees	322	84	\$238	84	\$5	2.1%
Corporate Franchise Tax & Fees	196	83	\$113	79	\$11	10.8%
Interest on State Funds & Investments	143	86	\$57	54	(\$42)	-42.4%
Cook County IGT	309	62	\$247	89	(\$14)	-5.4%
Other Sources	505	163	\$342	163	\$64	23.0%
Subtotal	\$22,555	\$8,360	\$14,195	\$7,860	\$237	1.7%
Transfers						
Lottery	670	229	\$441	285	\$56	14.5%
Gaming Fund Transfer	692	295	\$397	279	(\$13)	-3.2%
Other	933	340	\$593	173	\$20	3.5%
Total State Sources	\$24,850	\$9,224	\$15,626	\$8,597	\$300	2.0%
Federal Sources	\$4,803	\$1,831	\$2,972	\$2,425	\$672	29.2%
Total Federal & State Sources	\$29,653	\$11,055	\$18,598	\$11,022	\$972	5.5%
Nongeneral Funds Distribution:						
Refund Fund						
Personal Income Tax	(\$960)	(\$342)	(\$618)	(\$316)	(\$1)	0.2%
Corporate Income Tax	(363)	(93)	(\$270)	(85)	\$1	-0.4%
Subtotal General Funds	\$28,330	\$10,620	\$17,710	\$10,621	\$972	5.8%
Short-Term Borrowing	\$0	\$0	\$0	\$1,000	\$0	N/A
Budget Stabilization Fund Transfer	\$276	\$276	\$0	\$276	\$0	N/A
Total General Funds	\$28,606	\$10,896	\$17,710	\$11,897	\$972	5.8%
CGFA						5-Dec-06

PENSIONS

The FY 2008 Certified Contributions
 Dan Hankiewicz, Pension Manager

The five State-funded retirement systems have certified the required FY 2008 employer contributions, as shown in Table 1.

The FY 2008 certified contributions to the retirement systems total almost \$2.1 billion. Of the total \$621.6 million contribution to SERS, an estimated \$75.6 million will be transferred to the General Obligation Bond Retirement

and Interest Fund (GOBR&I) to help pay a portion of the interest on the pension funding General Obligation bonds issued in 2003. This \$75.6 million will be collected from agency payroll like other SERS retirement contributions.

In addition to the retirement contributions, the State must contribute another \$470.5 million to the GOBR&I to pay the remaining FY 2008 debt service on the pension funding General Obligation bonds, bringing the total State retirement cost for FY 2008 to \$2.527 billion.

System	GRF/CSF	SPF	Total Contributions	Debt Service	Total State Cost
TRS	\$1,041.3	\$0.0	\$1,041.3	\$323.2	\$1,364.5
SERS	621.6	0.0	621.6	27.9	649.5
SURS	260.3	80.0	340.3	106.9	447.2
JRS	46.9	0.0	46.9	2.0	48.9
GARS	6.8	0.0	6.8	10.6	17.4
Total	\$1,976.9	\$80.0	\$2,056.9	\$470.5	\$2,527.4

Table 2, as shown on the following page, provides an overview of the financial condition of the State-funded retirement systems as of June 30, 2006. When compared to FY 2005 (Table 3), the assets of the State-funded retirement systems have increased by \$3.7 billion.

The accrued liabilities of the systems grew by approximately \$5.9 billion. The total FY 2006 unfunded liability is \$40.7 billion, an increase of \$2.1 billion from FY 2005. The aggregate funded ratio of the five State-funded retirement systems as of June 30, 2006 is 60.5%.

TABLE 2				
State-Funded Retirement Systems FY 2006 Financial Condition (in millions)				
System	Assets	Liabilities	Unfunded	Funded Ratio
TRS	\$36,584.9	\$58,996.9	\$22,412.0	62.0%
SERS	10,899.8	20,874.5	9,974.7	52.2%
SURS	14,175.1	21,688.9	7,513.8	65.4%
JRS	599.2	1,291.4	692.2	46.4%
GARS	82.3	221.7	139.4	37.1%
Total	\$62,341.3	\$103,073.4	\$40,732.1	60.5%

TABLE 3				
State-Funded Retirement Systems FY 2005 Financial Condition (in millions)				
System	Assets	Liabilities	Unfunded	Funded Ratio
TRS	\$34,085.2	\$56,075.0	\$21,989.8	60.8%
SERS	10,494.1	19,304.6	8,810.5	54.4%
SURS	13,350.2	20,349.9	6,999.7	65.6%
JRS	565.0	1,236.5	671.5	45.7%
GARS	83.3	212.9	129.6	39.1%
Total	\$58,577.8	\$97,178.9	\$38,601.1	60.3%