Commission on Government Forecasting and Accountability

MONTHLY BRIEFING *DECEMBER 2010*

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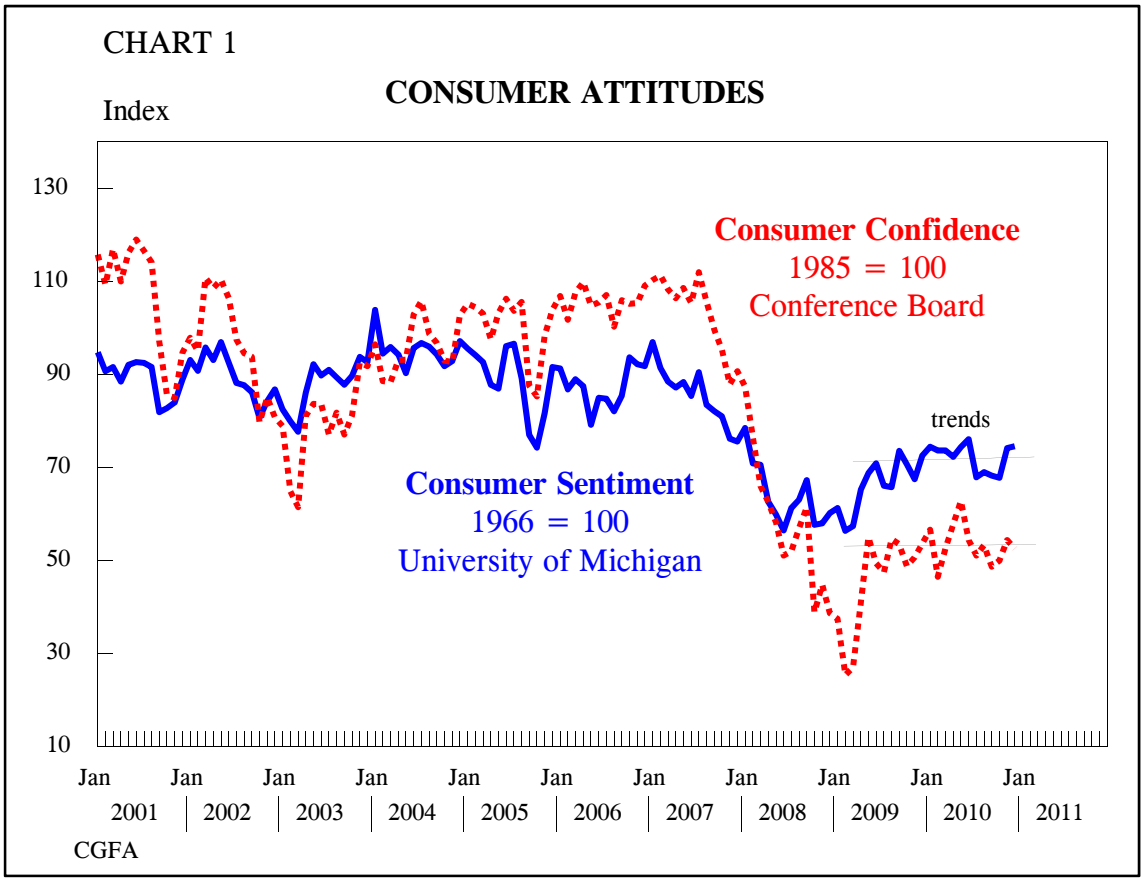
ECONOMY: Happy New Year

Edward H. Boss, Jr., Chief Economist

The economy appears to be on an upbeat path as the New Year begins despite a continuing high unemployment rate and a modest economic recovery that officially has been underway since July of 2009. Most encouraging have been signs of improved consumer spending, which generally accounts for about two-thirds or more of total spending in the economy. Holiday sales have exceeded expectations and are likely to the best in years. As reported in last month's ***Monthly Briefing***, the National Retail Federation - NRF- the largest retail trade association anticipated a rise in November and December sales of 2.3%, the highest since 2007. As returns began to come in, however, the NRF revised up their expectations to a gain of 3.3%.

Even their upwardly revised holiday sales estimate may prove to be on the conservative side, assuming the effects of late December winter blizzard in the populous Northeast proves to be short-lived. Final results may well be more in line with the 5% forecast from the economists at Wells Fargo, which at the time issued a forecast that seemed somewhat of an optimistic outlier. Such a holiday sales gain would be the strongest since 2005 when these sales surged 5.5%. The key question is whether these sales patterns can be sustained or whether they merely were a reflection of heavy sales promotions and a desire to celebrate after two years of severe holiday shopping restraint.

While many look forward to the New Year there is little indication this will influence their spending mood over the longer term. As shown in Chart 1, consumer attitudes have been basically without trend following the initial improvement registered in the summer of 2009 from a low reached early that year. Latest data for November show a



continuation of no significant change in direction. The University of Michigan Consumer Sentiment Index edged up from 74.1 to 74.5 while a few days later, the Conference Board index of Confidence fell from 54.3 to 52.5. Both are slightly below where they were at mid-year while slightly above that of a year earlier.

Rather than being a leading indicator, consumer attitudes tend to be more coincident with consumer spending patterns. Thus the pick up in consumer spending in the final two months of 2010 may just as likely reflect year-end sales, discounts, and the need to have a more fruitful holiday than in recent years than a move toward a stronger sales trend.

The key to sustained healthy gains in consumer spending most likely will be dependent on an improving job picture. Once again, its jobs, jobs, jobs. Here there are some signs of hope as initial filings for unemployment insurance fell at year-end to the lowest level since July 2008. This together with improvement in temporary jobs, a precursor to full time employment, may be a sign of some improvement in employment numbers in the year ahead.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS	NOV. 2010	OCT. 2010	NOV. 2009
Unemployment Rate (Average)	9.6%	9.8%	10.9%
Annual Rate of Inflation (Chicago)	-1.5%	0.0%	0.4%

	LATEST MONTH	% CHANGE OVER PRIOR MONTH	% CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (November)	6,666	0.3%	1.1%
Employment (thousands) (November)	6,025	0.5%	2.6%
New Car & Truck Registration (November)	32,303	-8.2%	2.8%
Single Family Housing Permits (November)	661	4.9%	0.5%
Total Exports ($ mil) (October)	4,738	13.1%	27.8%
Chicago Purchasing Managers Index (December)	68.6	9.7%	16.8%

Railsplitter Tobacco Settlement Authority $1.5 Billion Bond Sale

Lynnae Kapp, Senior Analyst

Under Public Act 96-0958, the Railsplitter Tobacco Settlement Authority, which is separate and independent of the State, was created to issue up to $1.75 billion in bonds securitized by a portion of the State's Master Settlement Agreement revenues. Under the law, during fiscal years 2010 and 2011, the State may sell its rights to a portion of tobacco settlement proceeds to the Authority in return for the proceeds of the bonds. The Authority was allowed to sell the bonds by competitive bid or negotiated sale, with a maximum 19 year maturity, and may refund the bonds when expedient provided that the refunding debt matures within the term of the bonds to be refunded. The Authority shall be terminated 6 months after all of its liabilities have been met or otherwise discharged. The bond proceeds are to be deposited into the newly created Tobacco Settlement Bond Proceeds Account and shall be used by the State either directly or by reimbursement for the payment of outstanding obligations of the General Revenue Fund or to supplement the newly created Tobacco Settlement Residual Account to pay for appropriated obligations of the Tobacco Settlement Recovery Fund for State FY 2011-FY 2013. The bonds are not an indebtedness or obligation of the State.

In December 2010, the Railsplitter Tobacco Settlement Authority sold $1.5 billion in tobacco securitization bonds with a maximum 17-year maturity. The bonds received an A rating from Standard & Poor's and a BBB+ from

Fitch, ratings slightly higher than the rest of the tobacco bond sector, of which most are considered junk bonds. The tax-exempt bonds offered a yield of up to 6.2% for the longest maturity. The State sold its rights to a portion of its Tobacco Settlement payments to the Authority, which will pay for the debt service, with up to 2x coverage of debt service. In return, the State received approximately $1.25 billion in bond proceeds transferred to the General Revenue Fund to pay for unpaid bills from FY 2010. An additional $100 million from the bond sale was set aside to pay for appropriations from the Tobacco Settlement Recovery Fund, such as Medicaid. The sale was conservatively structured so that debt would be covered in the case of up to 10% annual consumption decline over the life of the bonds. If decline is higher than that or a tobacco company fails to make its payments, then that risk is placed on bond holders, and the State is not obligated to pay for anything further than what is offered in the bond sale's debt service and debt reserve accounts.

Interfund Borrowing

Lynnae Kapp, Senior Analyst

In December, $15.7 million was transferred from various funds to the General Revenue Fund through Interfund Borrowing. Year-to-Date Interfund Borrowing transfers equal $353.6 million. The Governor has the authority through Public Act 96-0958, which allows this "cash flow" borrowing through January 9, 2011. Borrowing from any fund must be paid back within 18 months of the date borrowed. Below is a break out of the amounts borrowed by Fund.

FY2011 INTERFUND BORROWING		PA 96-0958					
No.	Fund	Aug	Sep	Oct	Nov	Dec	TOTAL
0021	Financial Institution Fund	$1,783,000		$169,000			**$1,952,000**
0025	Group Home Loan Revolving Fund				$56,000		**$56,000**
0046	Aeronautics Fund			$10,000	$43,000		**$53,000**
0049	Industrial Hygiene Regulatory & Enforcement Fund	$8,000					**$8,000**
0057	IL State Pharmacy Disciplinary Fund	$77,000					**$77,000**
0113	Community Health Center Care Fund	$21,000		$49,000	$267,000	$140,000	**$477,000**
0114	Emergency Response Reimbursement Fund	$33,000					**$33,000**
0151	Registered CPA Administration & Disciplinary Fund	$3,200,000		$338,000			**$3,538,000**
0156	Motor Vehicle Theft Prevention Fund				$0		**$0**
0163	Weights and Measures Fund	$302,000	$500,000	$408,000		$609,000	**$1,819,000**
0189	Local Government Tax Fund		$100,000,000				**$100,000,000**

FY2011 INTERFUND BORROWING				PA 96-0958			
No.	Fund	Aug	Sep	Oct	Nov	Dec	TOTAL
0197	Epilepsy Treatment & Education Grants-in-Aid Fund	$26,000					**$26,000**
0198	Diabetes Research Checkoff Fund	$33,000					**$33,000**
0215	CDB Revolving Fund	$185,000	$900,000	$617,000		$724,000	**$2,426,000**
0228	Autism Research Checkoff Fund				$63,000		**$63,000**
0238	IL Health Facilities Planning Fund	$372,000	$300,000	$157,000	$538,000	$521,000	**$1,888,000**
0241	Transmitters of Money Act (TOMA) Consumer Protection Fund	$198,000					**$198,000**
0265	State Rail Freight Loan Repayment Fund	$8,492,000					**$8,492,000**
0277	Pollution Control Board Fund	$61,000					**$61,000**
0279	Debt Collection Fund	$9,000			$11,000		**$20,000**
0286	IL Affordable Housing Trust Fund		$15,000,000		$3,000,000		**$18,000,000**
0287	Home Care Services Agency Licensure Fund		$25,000	$63,000			**$88,000**
0292	Securities Investors Education Fund			$1,000,000			**$1,000,000**
0299	Open Space Lands Acquisition & Development Fund		$15,000,000				**$15,000,000**
0306	I-FLY Fund	$45,000					**$45,000**
0310	Tax Recovery Fund	$184,000		$39,000	$185,000		**$408,000**
0316	IL Prescription Drug Discount Program Fund	$256,000					**$256,000**
0326	African-American HIV/AIDS Response Fund				$1,415,000		**$1,415,000**
0334	Ambulance Revolving Loan Fund				$3,133,000	$169,000	**$3,302,000**
0356	Law Enforcement Camera Grant Fund	$2,212,000	$99,000	$211,000		$100,000	**$2,622,000**
0362	Securities Audit and Enforcement Fund			$2,000,000			**$2,000,000**
0375	Natural Heritage Fund		$45,000		$29,000		**$74,000**
0378	Insurance Premium Tax Refund Fund	$567,000					**$567,000**
0384	Tax Compliance Administration Fund					$8,555,000	**$8,555,000**
0386	Appraisal Administration Fund	$500,000		$314,000			**$814,000**
0390	IL Habitat Endowment Trust Fund		$11,600,000				**$11,600,000**
0406	Comprehensive Regional Planning Fund	$150,000					**$150,000**
0418	University Grant Fund	$9,000		$18,000			**$27,000**
0424	IL Power Agency Trust Fund	$12,500,000	$11,800,000				**$24,300,000**
0429	Multiple Sclerosis Research Fund	$818,000	$82,000	$27,000			**$927,000**
0430	Livestock Management Facilities Fund	$30,000			$20,000		**$50,000**
0435	Charitable Trust Stabilization Fund	$393,000	$1,049,000	$36,000	$525,395		**$2,003,395**
0437	Quality of Life Endowment Fund	$1,112,000			$1,004,000		**$2,116,000**
0445	Sex Offender Investigation Fund				$57,000		**$57,000**
0446	Employee Classification Fund	$15,000					**$15,000**
0449	Interpreters for the Deaf Fund	$21,000					**$21,000**
0469	Autoimmune Disease Research Fund	$4,000			$40,000		**$44,000**
0474	Human Services Priority Capital Program Fund	$1,648,000					**$1,648,000**
0478	Predatory Lending Database Program Fund	$550,000					**$550,000**
0480	Secretary of State Identification Security and Theft Prevention Fund			$5,000,000			**$5,000,000**
0504	Wildlife Prairie Park Fund				$46,000		**$46,000**
0510	IL Fire Fighters' Memorial Fund	$2,783,000		$97,000	$120,000		**$3,000,000**
0534	IL Workers' Compensation Commission Operations Fund		$10,000,000		$1,000,000	$107,000	**$11,107,000**
0535	Sex Offender Registration Fund	$45,000			$24,000		**$69,000**
0559	Downstate Transit Improvement Fund		$17,000,000				**$17,000,000**
0562	Pawnbroker Regulation Fund	$29,000					**$29,000**
0569	School Technology Revolving Loan Fund				$1,073,000	$261,000	**$1,334,000**

No.	FY2011 INTERFUND BORROWING Fund	Aug	Sep	PA 96-0958 Oct	Nov	Dec	TOTAL
0570	Illinois and Michigan Canal Fund				$81,000		**$81,000**
0582	DCFS Special Purposes Trust Fund			$102,000			**$102,000**
0588	September 11th Fund	$77,000		$19,000	$106,000		**$202,000**
0613	Wireless Carrier Reimbursement Fund			$1,114,000		$302,000	**$1,416,000**
0621	International Tourism Fund		$1,000,000	$950,000		$764,000	**$2,714,000**
0623	Special Olympics IL Fund	$23,000					**$23,000**
0626	Prostate Cancer Research Fund				$25,000		**$25,000**
0637	State Police Wireless Service Emergency Fund	$985,000		$259,000	$741,000	$151,000	**$2,136,000**
0638	IL Adoption Registry & Medical Information Exchange Fund	$4,000					**$4,000**
0643	Auction Recovery Fund	$288,000					**$288,000**
0660	Academic Quality Assurance Fund	$33,000	$100,000	$20,000			**$153,000**
0661	Private College Academic Quality Assurance Fund	$35,000		$15,000			**$50,000**
0669	Airport Land Loan Revolving Fund	$90,000					**$90,000**
0678	FY09 Budget Relief Fund	$14,000,000					**$14,000,000**
0697	Roadside Memorial Fund	$7,000	$17,000	$18,000	$52,000		**$94,000**
0705	State Police Whistleblower Reward and Protection Fund		$1,600,000	$103,000	$2,701,000		**$4,404,000**
0714	Spinal Cord Injury Paralysis Cure Research Trust Fund	$127,000		$27,000	$404,000		**$558,000**
0731	IL Clean Water Fund		$767,000	$437,000		$122,000	**$1,326,000**
0738	Alternative Compliance Market Account Fund	$202,000					**$202,000**
0740	Medicaid Buy-In Program Revolving Fund	$267,000		$117,000	$58,000		**$442,000**
0744	IL Animal Abuse Fund	$5,000					**$5,000**
0746	Home Inspector Admin Fund	$195,000		$53,000			**$248,000**
0750	Real Estate Audit Fund	$151,000					**$151,000**
0753	IL Future Teacher Corps Scholarship Fund	$88,000		$11,000			**$99,000**
0754	IL AgriFIRST Program Fund				$202,000		**$202,000**
0774	Oil Spill Response Fund			$14,000			**$14,000**
0777	Crisis Nursery Fund				$37,000		**$37,000**
0778	Dept. of Human Rights Training & Development Fund	$15,000					**$15,000**
0794	Metro-East Public Transportation Fund	$91,000					**$91,000**
0795	Bank and Trust Company Fund		$8,000,000				**$8,000,000**
0797	Dept. of Human Rights Special Fund	$136,000					**$136,000**
0823	Illinois State Dental Disciplinary Fund	$1,300,000		$100,000			**$1,400,000**
0830	Dept. of Aging State Projects Fund		$53,000				**$53,000**
0836	IL Power Agency Renewable Energy Resources Fund		$2,000,000	$4,710,000			**$6,710,000**
0845	Environmental Protection Trust Fund		$780,000	$295,000		$482,000	**$1,557,000**
0849	Real Estate Research and Education Fund	$241,000					**$241,000**
0878	Drug Traffic Prevention Fund			$48,000			**$48,000**
0888	Design Professionals Admin and Investigation Fund	$143,000		$175,000			**$318,000**
0922	Insurance Producer Administration Fund			$1,531,000		$2,059,000	**$3,590,000**
0940	Self-Insurers Security Fund				$10,000,000		**$10,000,000**
0942	Low-level Radioactive Waste Facility Development and Operation Fund		$514,000				**$514,000**
0963	Vehicle Inspection Fund		$2,800,000	$15,260,000			**$18,060,000**
0993	Public Infrastructure Construction Loan Revolving Fund			$9,971,000	$1,500,000		**$11,471,000**
0997	Insurance Financial Regulation Fund	$3,568,000	$1,271,000	$467,000		$584,000	**$5,890,000**
	Total	**$60,742,000**	**$202,302,000**	**$46,369,000**	**$28,556,395**	**$15,650,000**	**$353,619,395**

FY 2011 Tax Amnesty Update

Eric Noggle, Senior Analyst

Revenue totals from the amnesty program continued to increase in FY 2011 as additional revenues categorized as "amnesty revenues" were reported in December 2010. Although the FY 2011 amnesty collection period (which ran from October 1, 2010 to November 8, 2010) has been completed, additional amnesty-related revenues were receipted in the latest month due to typical delays in processing the amnesty monies.

As reported in the Commission's November Monthly Briefing, Comptroller records indicated that approximately $546.7 million in revenues cited as amnesty related money was shown to be collected in November 2010. **In December, an additional $81.4 million was collected, bringing the updated total to $628.1 million.**

Of the $628.1 million collected thus far, $468.2 million is categorized as general funds. Removing refund funds from the figure, approximately $391.9 million in net general funds has been reported. A table displaying these figures is shown below.

FY 2011 AMNESTY TOTALS (thru December 2010)

	Revenue Source:	1901	1905	1906	1923	1903, 1920, 1921
Fund	TOTALS	Retailers Occup. Tax	Indiv Income Tax	Corp Income Tax	Pers Prop Repl Tax	Auto Renting Taxes
Common School	$167,614,772.17	$59,409,621.34	$16,512,094.05	$91,668,882.62	$0.00	$24,174.16
Common School Special Acct.	$39,606,414.24	$39,606,414.24	$0.00	$0.00	$0.00	$0.00
Education Assistance	$17,038,212.05	$0.00	$2,600,610.26	$14,437,601.79	$0.00	$0.00
General Revenue	$167,614,772.18	$59,409,621.34	$16,512,094.05	$91,668,882.63	$0.00	$24,174.16
Income Tax Refund	$76,330,933.58	$0.00	$3,492,627.30	$72,838,306.28	$0.00	$0.00
General Funds Subtotal:	$468,205,104.22	$158,425,656.92	$39,117,425.66	$270,613,673.32	$0.00	$48,348.32
% of General Funds Subtotal:		33.8%	8.4%	57.8%	0.0%	0.0%
Net General Funds:	$391,874,170.64	$158,425,656.92	$35,624,798.36	$197,775,367.04	$0.00	$48,348.32
% of Net General Funds:		40.4%	9.1%	50.5%	0.0%	0.0%
Build Illinois	$9,538,537.57	$9,538,537.57	$0.00	$0.00	$0.00	$0.00
IL Tax Increment	$464,036.97	$464,036.97	$0.00	$0.00	$0.00	$0.00
MPEA Trust	$213.26	$0.00	$0.00	$0.00	$0.00	$213.26
Municipal Auto Renting Tax	$6,612.98	$0.00	$0.00	$0.00	$0.00	$6,612.98
Personal Property Tax Replacement	$137,280,841.71	$0.00	$0.00	$0.00	$137,280,841.71	$0.00
Tax Compliance & Admin.	$12,561,132.57	$3,437,310.83	$798,317.85	$8,324,377.87	$0.00	$1,126.02
Total Sum:	$628,056,479.28	$171,865,542.29	$39,915,743.51	$278,938,051.19	$137,280,841.71	$56,300.58
% of Total:		27.4%	6.4%	44.4%	21.9%	0.0%

Again, as stressed in last month's summary, the vast majority of these revenues are likely not new revenues but rather an acceleration of tax revenue that would have ultimately been collected later in FY 2011 or in subsequent fiscal years.

The Commission will be continuing to work with the Department of Revenue over the next several months to try to determine how much of the amnesty receipts are actually "new" revenues and how much are revenues that would have been collected anyway in FY 2011 and beyond. The Commission will provide updates on these figures once this information becomes available.

For further details regarding the FY 2011 amnesty program, please see the Commission's November 2010 Monthly Briefing.

REVENUE

December Revenues Grow due to Federal Sources – Other Areas Mixed

Jim Muschinske, Revenue Manager

The first half of FY 2011 ended with December revenues growing by $266 million. Monthly revenues benefited from a $319 million jump in federal source reimbursement made possible from $1.25 billion in net proceeds to the general funds from the Tobacco Settlement Bond sale [see earlier section]. Falloffs in transfers and other areas, however, erased some of those gains. December had one less receipting day than the same month last year.

For the month, gross personal income tax fell $80 million, or $64 million net of transfers [tax amnesty proceeds represented approximately $4 million in PIT net gain]. As expected, inheritance tax continues to fall, down $24 million for the month. Public utility taxes were off $11 million, insurance taxes and fees $7 million, and other sources fell $3 million.

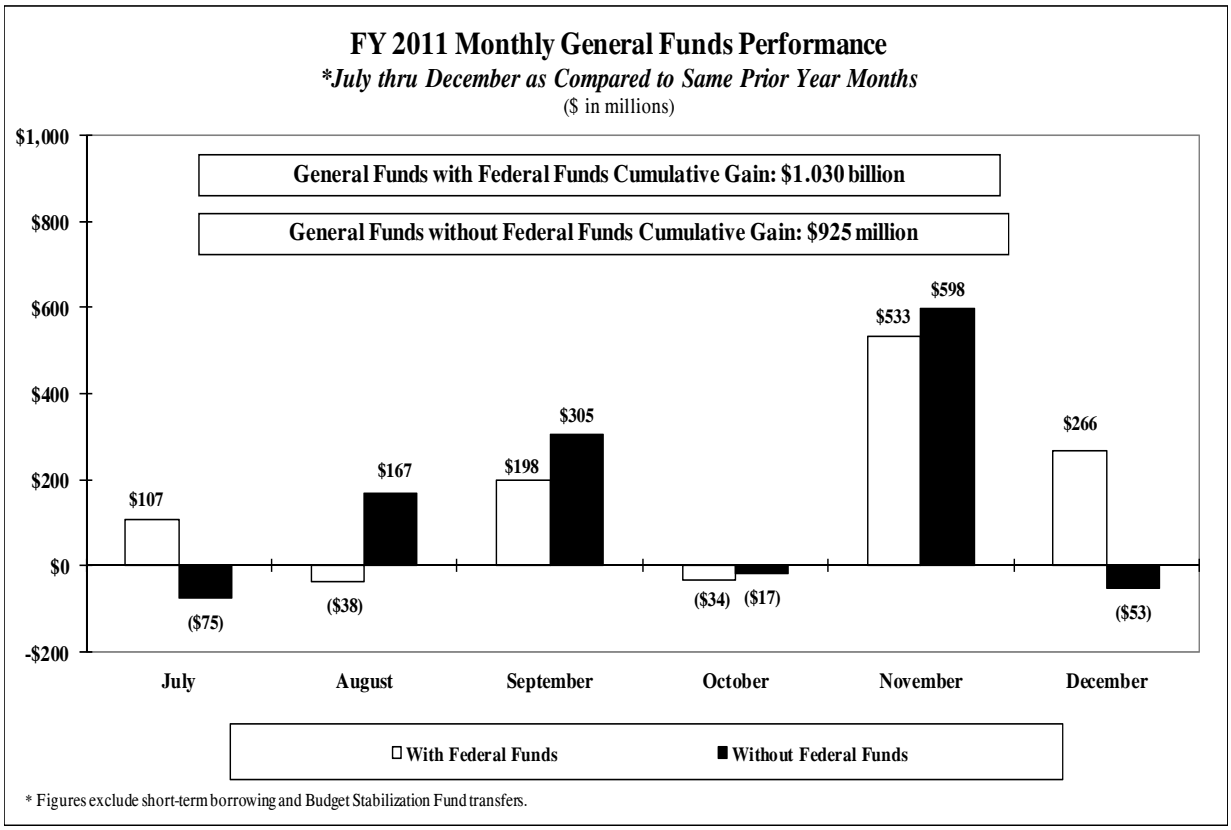
Several sources grew in December. Sales taxes rose by $55 million for the month, although $36 million can be attributed to receipts related to the amnesty period. Gross corporate income tax grew by $30 million, or $23 million net of refunds. Of that amount, approximately $26 million in gross CIT, or $20 million net, was designated as tax amnesty receipts. Interest income grew $7 million, liquor tax $6 million, corporate franchise $3 million, and cigarette tax $1 million.

Overall transfers in December were down $39 million. Other transfers fell $23 million and riverboat transfers $17 million. As mentioned, federal sources surged $319 million due to higher spending on reimbursable spending made possible by the tobacco bond proceeds.

Review of First Half Revenues

Excluding short-term borrowing, tobacco settlement bond proceeds, and Budget Stabilization Fund transfers, general funds revenues are up $1.030 billion through December. However, that increase takes into account approximately $392 million in net revenues classified as related to tax amnesty. Some of this, however, is money that has been accelerated from the current fiscal year as well as from future fiscal years. In addition, year to date totals include approximately $354 million in interfund borrowing. Obviously, if both of those items were excluded, growth would be much more modest, although at this time a precise amount cannot be calculated due to "acceleration and deceleration" issues attributed to the tax amnesty.

Through December, gross corporate income tax is up $316 million, or $235 million net of refunds. If tax amnesty is excluded those figures would be a more modest $45 million gross, and $37 million net. Sales tax receipts are up $268 million, but only $110 million if tax amnesty is excluded. Gross personal income tax is up $95 million, or $129 million net of refunds. However, excluding tax amnesty would reduce that growth to $56 million gross, or $93 million net.



* Figures exclude short-term borrowing and Budget Stabilization Fund transfers.

Overall transfers are up $284 million for the year, principally due to $354 million in interfund borrowing that is somewhat offset by a loss of $54 million in riverboat transfers. Federal sources, after jumping in December, are now up $105 million for the year.

While the impact of tax amnesty is difficult to dissect from base revenues with a degree of certainty, it would appear that overall the economic sources have performed about as CGFA expected through the first half of the fiscal year.

FY 2012 Revenue Picture Far From Bright—Slow Recovery and Falloff in Federal Sources Among Key Reasons

While the economy is forecast to continue its expansion phase into next fiscal year, the rate of that growth is expected to be modest in nature as the unemployment rate is expected to remain stubbornly high (Global Insight forecasts 9.3% in FY 2012). Also, despite continued underlying improvement in the economic sources, i.e. income and sales tax, yearly growth figures will be compromised due to the acceleration effects of the recent "tax amnesty" program. Revenues that were pulled into FY 2011 from future years will not be available, and as a result, year over year growth will be adversely impacted.

In addition, other key items will impact on FY 2012 revenues:

- The "cliff effect" of the termination of the federal ARRA which has provided an additional $1.6 billion in federal source revenue in fiscal years 2009 and 2010, and approximately $800 million in FY 2011. The current barometer in Washington D.C. would seem to point to little chance for continuation of federal assistance to cash strapped states.

- The recent one-time infusion of $1.25 billion in net proceeds to the general funds from tobacco settlement bonds will not be repeated.

- Over $354 million in FY 2011 interfund borrowing may not be repeated and must be repaid by the end of FY 2012 (18 months from borrowed date).

The end result is that while continued modest improvement in most sectors of the economy is anticipated; a number of factors will serve to stymie revenues in the coming fiscal year.

GENERAL FUNDS RECEIPTS: DECEMBER

FY 2011 vs. FY 2010

($ million)

Revenue Sources	Dec. FY 2011	Dec. FY 2010	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$757	$837	($80)	-9.6%
Corporate Income Tax (regular)	258	228	$30	13.2%
Sales Taxes	629	574	$55	9.6%
Public Utility Taxes (regular)	110	121	($11)	-9.1%
Cigarette Tax	30	29	$1	3.4%
Liquor Gallonage Taxes	14	8	$6	75.0%
Vehicle Use Tax	3	3	$0	0.0%
Inheritance Tax (Gross)	5	29	($24)	-82.8%
Insurance Taxes and Fees	58	65	($7)	-10.8%
Corporate Franchise Tax & Fees	22	19	$3	15.8%
Interest on State Funds & Investments	7	0	$7	N/A
Cook County IGT	0	0	$0	N/A
Other Sources	29	32	($3)	-9.4%
Subtotal	$1,922	$1,945	($23)	-1.2%
Transfers				
Lottery	61	60	$1	1.7%
Riverboat transfers & receipts	25	42	($17)	-40.5%
Proceeds from Sale of 10th license	0	0	$0	N/A
Other	76	99	($23)	-23.2%
Total State Sources	$2,084	$2,146	($62)	-2.9%
Federal Sources	$712	$393	$319	81.2%
Total Federal & State Sources	$2,796	$2,539	$257	10.1%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($66)	($82)	$16	-19.5%
Corporate Income Tax	($47)	(40)	($7)	17.5%
Subtotal General Funds	$2,683	$2,417	$266	11.0%
Short-Term Borrowing	$0	$0	$0	N/A
Tobacco Liquidation Proceeds	$1,250	$0	$1,250	N/A
Pension Contribution Fund Transfer	$0	$0	$0	N/A
Budget Stabilization Fund Transfer	$235	$70	$165	N/A
Total General Funds	$4,168	$2,487	$1,681	67.6%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 4-Jan-11

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2011 vs. FY 2010

($ million)

Revenue Sources	FY 2011	FY 2010	CHANGE FROM FY 2010	% CHANGE
State Taxes				
Personal Income Tax	$4,310	$4,215	$95	2.3%
Corporate Income Tax (regular)	938	622	$316	50.8%
Sales Taxes	3,453	3,185	$268	8.4%
Public Utility Taxes (regular)	540	517	$23	4.4%
Cigarette Tax	177	175	$2	1.1%
Liquor Gallonage Taxes	82	76	$6	7.9%
Vehicle Use Tax	16	15	$1	6.7%
Inheritance Tax (Gross)	113	116	($3)	-2.6%
Insurance Taxes and Fees	144	157	($13)	-8.3%
Corporate Franchise Tax & Fees	112	107	$5	4.7%
Interest on State Funds & Investments	17	15	$2	13.3%
Cook County IGT	56	56	$0	0.0%
Other Sources	169	183	($14)	-7.7%
Subtotal	$10,127	$9,439	$688	7.3%
Transfers				
Lottery	297	294	$3	1.0%
Riverboat transfers & receipts	188	242	($54)	-22.3%
Proceeds from Sale of 10th license	0	0	$0	N/A
Other	733	398	$335	84.2%
Total State Sources	$11,345	$10,373	$972	9.4%
Federal Sources	$2,965	$2,860	$105	3.7%
Total Federal & State Sources	$14,310	$13,233	$1,077	8.1%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($377)	($411)	$34	-8.3%
Corporate Income Tax	($190)	($109)	($81)	74.3%
Subtotal General Funds	$13,743	$12,713	$1,030	8.1%
Short-Term Borrowing	$1,300	$1,250	$50	4.0%
Tobacco Liquidation Proceeds	$1,250	$0	$1,250	N/A
Pension Contribution Fund Transfer	$0	$0	$0	N/A
Budget Stabilization Fund Transfer	$235	$516	($281)	-54.5%
Total General Funds	$16,528	$14,479	$2,049	14.2%

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

CGFA 5-Jan-11

PENSIONS
Senate Bill 3538, HA #3 (P.A. 96-1495)
Mallory Meyer, Pension Analyst

Introduction

Date of Final Passage
- December 2, 2010

Passed House
- 95-18-0

Passed Senate
- 46-4-2

Status of Bill as of January 3, 2011
- Signed into law as Public Act 96-1495 on December 30, 2010

Overview of Key Provisions of SB 3538 HA #3

Effective Date
- January 1, 2011

Systems Impacted
- Downstate Police, Downstate Fire, Chicago Police, Chicago Fire, IMRF (SLEP)

Creation of a Two Tier System for Firefighters and Police Officers
- Benefits for current police officers and firefighters have not changed.
- Changes only apply to police officers and firefighters hired on or after January 1, 2011.
- Normal Retirement: 55 years old with 10 years of service.
- Early Retirement: 50 years old with 10 years of service, but penalty of ½% for each month that the police officer or firefighter is younger than 55 years.
- Retirement Pension based upon 2.5% of Final Average Salary for a maximum of 75%.
- Annuity based on highest 8 years out of last 10 years of service.
- Annual Final Average Salary may not exceed $106,800, as automatically increased by the lesser of 3% or one-half of the annual increase in the CPI-U during the preceding 12-month calendar year.

Annual Increases in Annuity
- Increases begin at age 60 either on the January 1st after police officer/firefighter retires or the first anniversary of pension starting date, whichever is later.

- Increases equal to the lesser of 3% of one-half the annual increase in the CPI-U during the preceding 12-month calendar year; if increase in CPI is zero or if there is a decrease in CPI, then no COLA is payable.
- Increase not compounded

Survivor Benefits

- 66.7% of the earned retirement benefit at death
- Increased by the lesser of 3% or one-half of the annual increase in the CPI-U during the preceding 12-month calendar year
- Increases not compounded

Changes to Downstate Police and Downstate Fire Pension Funds Investment Authority

- The increased investment authority only applies to funds with more than $10 million in net assets.
- Can invest in corporate bonds through an investment advisor (not a consultant)
- Corporate bonds must meet certain requirements.
- Total amount of investment in stock, mutual funds, and corporate bonds may not exceed:
    - 50% of fund's net assets (effective July 1, 2011)
    - 55% of fund's net assets (effective July 1, 2012)

Municipal Funding Provisions

- Pension funds must be 90% funded by Fiscal Year 2040
- Annual Municipal contributions will be calculated as level percentage of payroll under "Projected Unit Credit Actuarial Cost Method."
- Comptroller is authorized to redirect municipal monies directly to pension funds if municipal contributions are insufficient.
- Future pension fund studies are authorized to review the condition of pension funds and potential investment pooling.

Actuarial Analysis of Change in Normal Cost for Downstate Police & Fire

Based on funding projections the Commission's actuary performed for Senate Bill 3538, as amended by HA #3, the estimated normal cost as a percent of payroll for the benefits provided to current employees (Tier 1) can be seen in Table 1 and the estimated normal cost as a percent of payroll for the benefits provided to newly hired employees (Tier 2) under Senate Bill 3538, as amended by HA #3, can be seen in Table 2:

Table 1

Pension Fund	Normal Cost as a % of Payroll for Current Employees (Tier 1)
Downstate Police Pension Funds	20.35%
Downstate Fire Pension Funds	22.52%

Table 2

Pension Fund	Normal Cost as a % of Payroll for New Employees (Tier 2)
Downstate Police Pension Funds	7.67%
Downstate Fire Pension Funds	10.20%

In the early years under SB 3538, the newly hired employees will be a relatively small portion of the total number of employees, but over future periods, an increasingly larger portion of employees will be those hired after January 1, 2011. Thus, the reduction in the employer's normal cost will apply to a much larger portion of employees. At the end of 30 years, almost all of the employees will be those hired after January 1, 2011. Therefore, the reduction in the employer's normal cost will apply to almost all employees.

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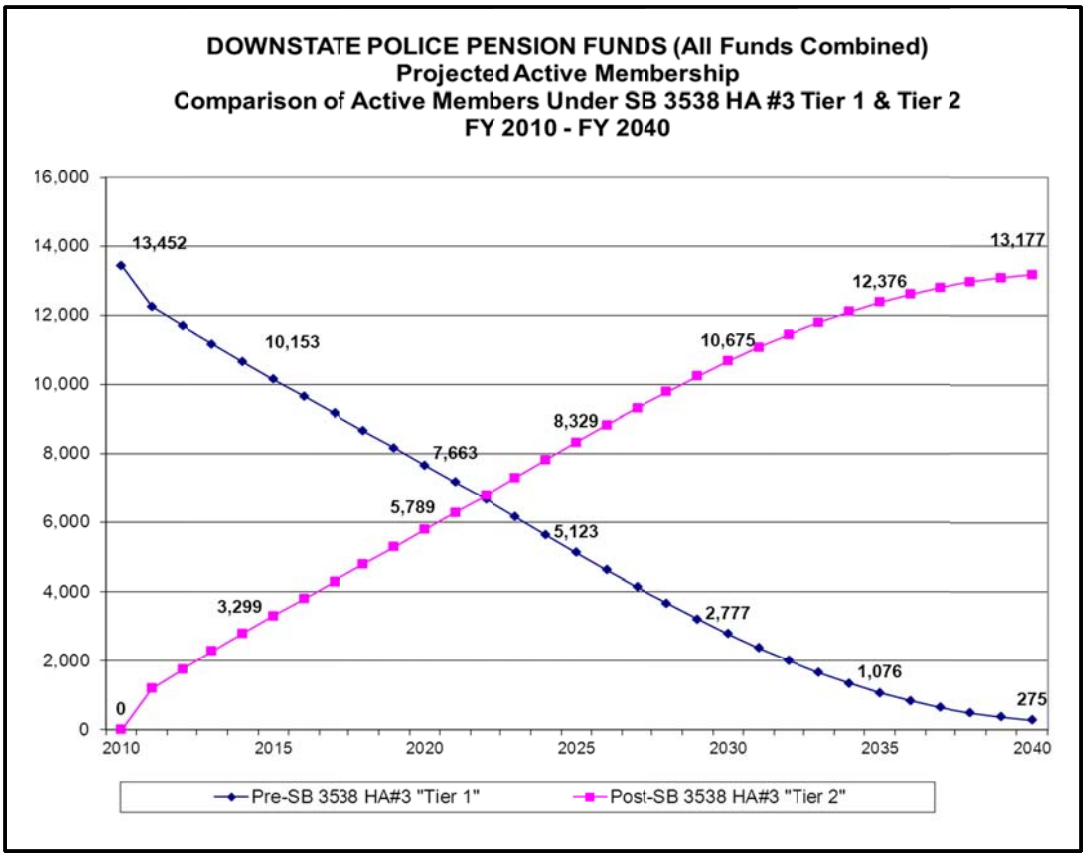
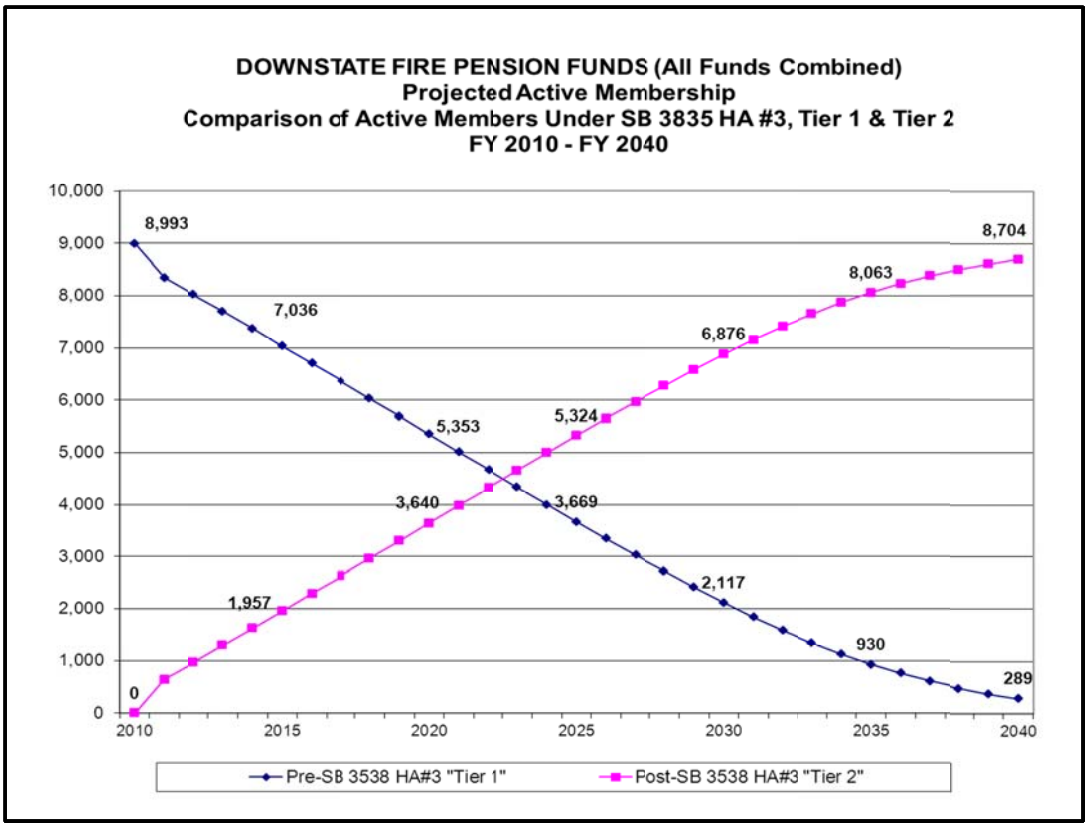
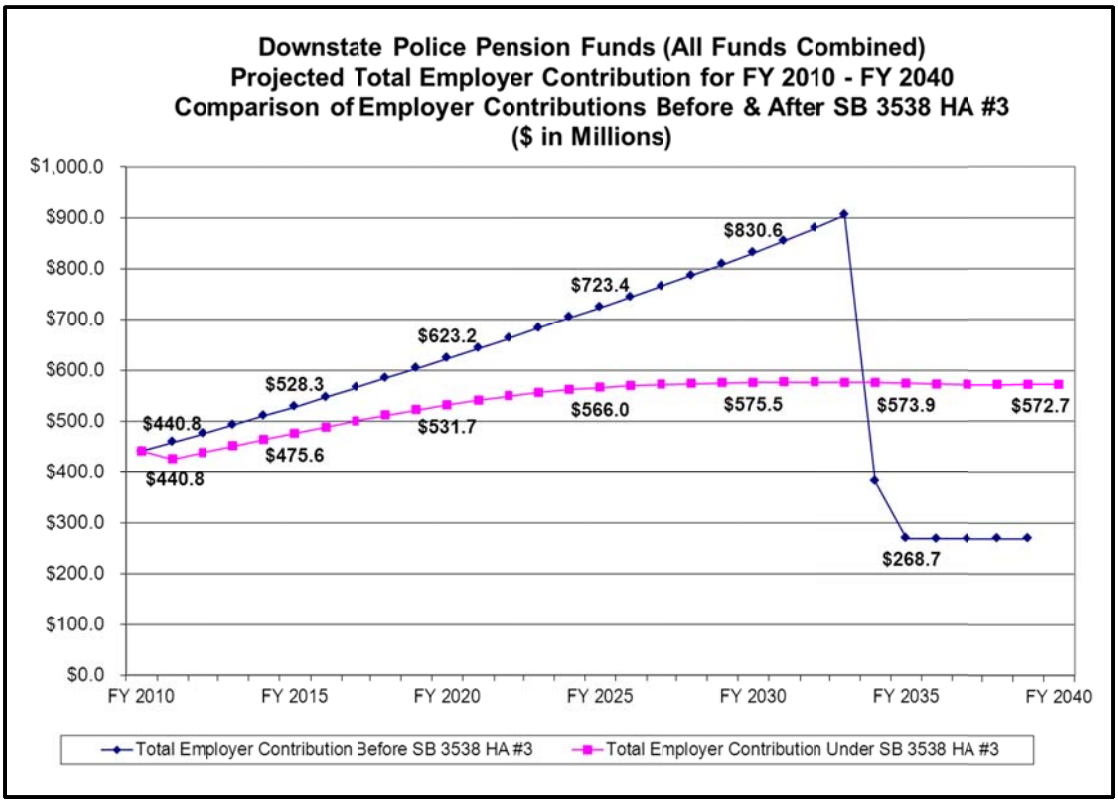
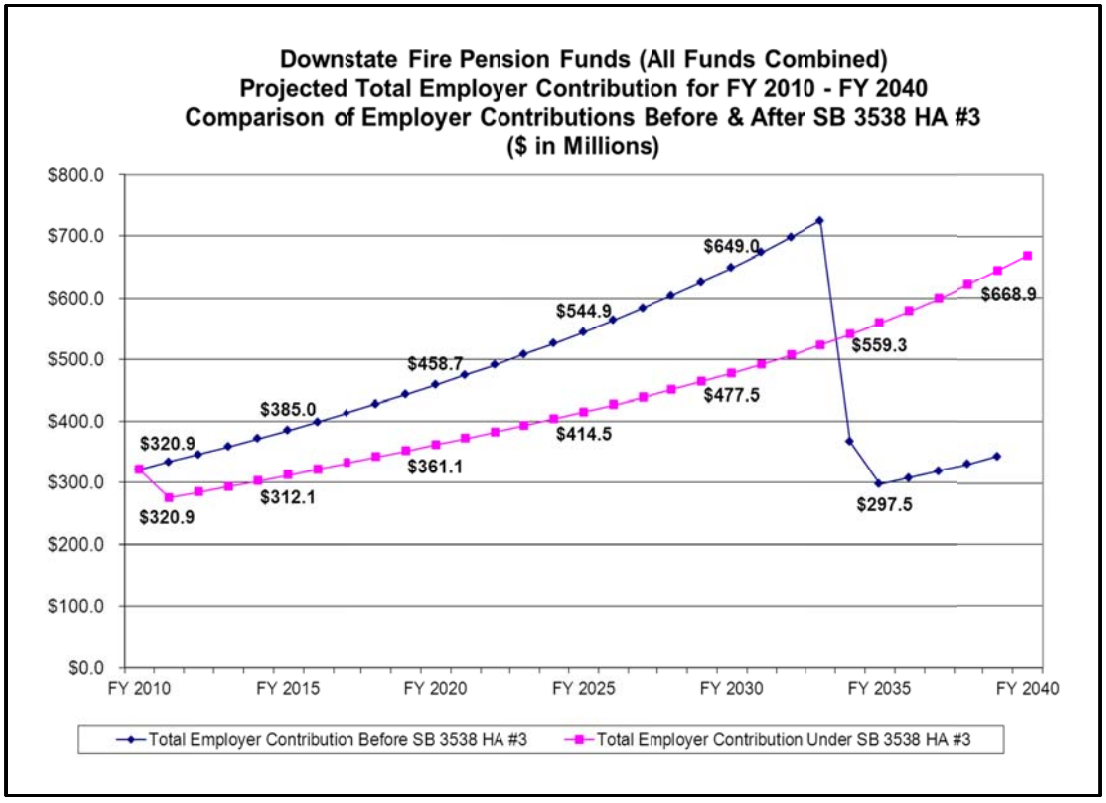
*These topics will be covered in more detail for Downstate police, Downstate fire, Chicago police, Chicago fire, and IMRF in an upcoming fiscal analysis of SB 3538. Additionally, the fiscal analysis will examine the impact of SB 3538 on the following municipalities: Springfield, Arlington Heights, Champaign, Bellwood, and Wilmette.

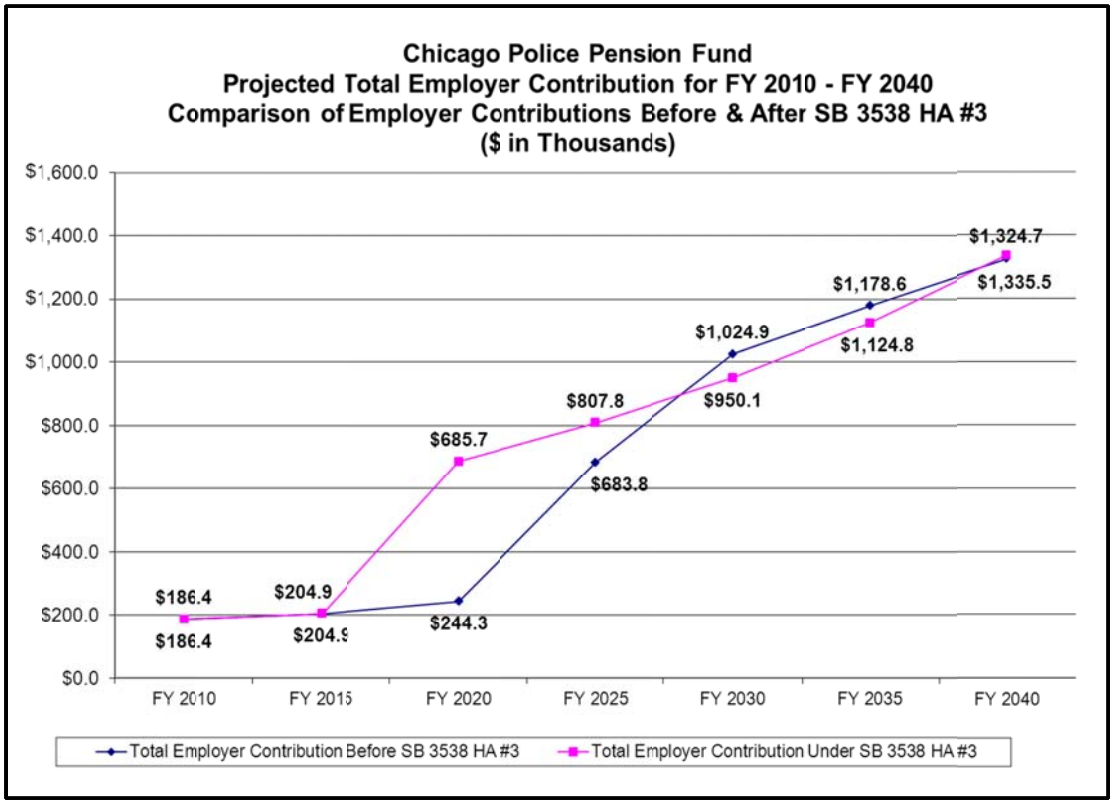
**In the Projected Total Employer Contribution charts following for Downstate police and fire before SB 3538, please note the sharp decline in the projected total employer contribution between FY 2030 and FY 2035. This is due to the fact that the funding law prior to P.A. 96-1495 required Downstate funds to be 100% funded by 2033.

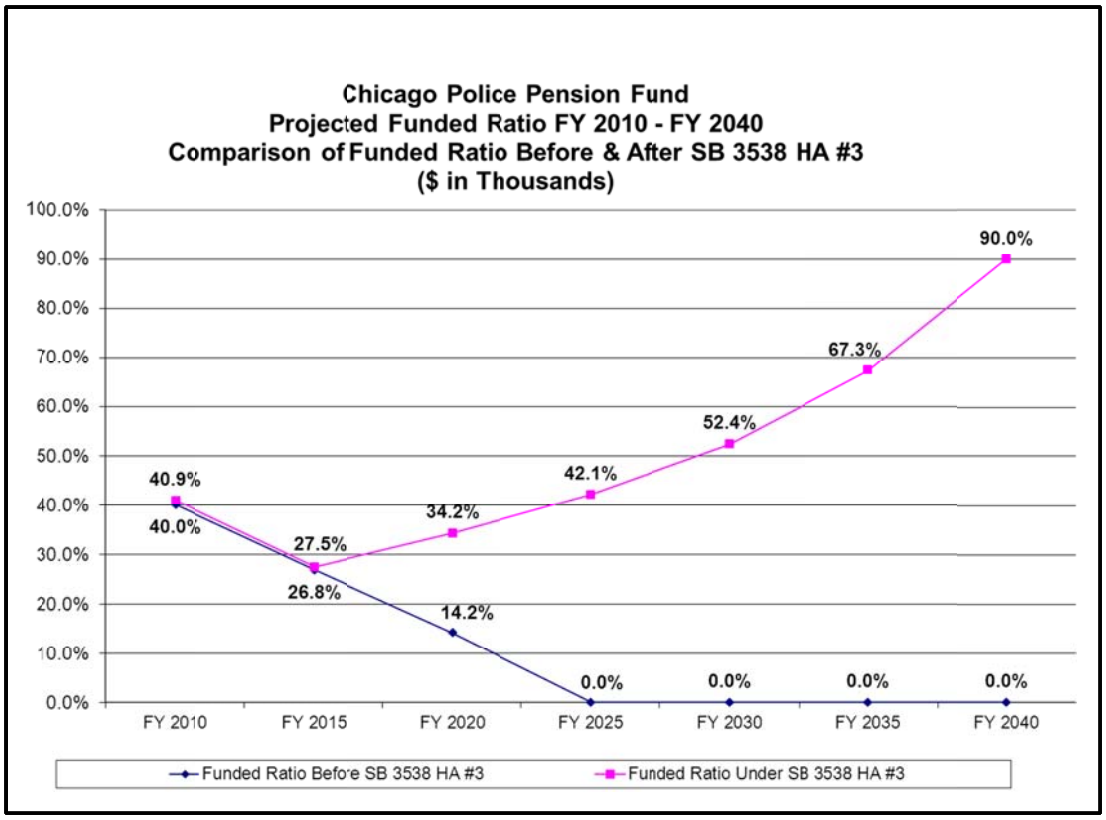

DOWNSTATE POLICE PENSION FUNDS (All Funds Combined)
Projected Active Membership
Comparison of Active Members Under SB 3538 HA #3 Tier 1 & Tier 2
FY 2010 - FY 2040
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
2010
2015
2020
2025
2030
2035
2040
13,452
10,153
7,663
5,123
2,777
1,076
275
0
3,299
5,789
8,329
10,675
12,376
13,177
Pre-SB 3538 HA#3 "Tier 1"
Post-SB 3538 HA#3 "Tier 2"

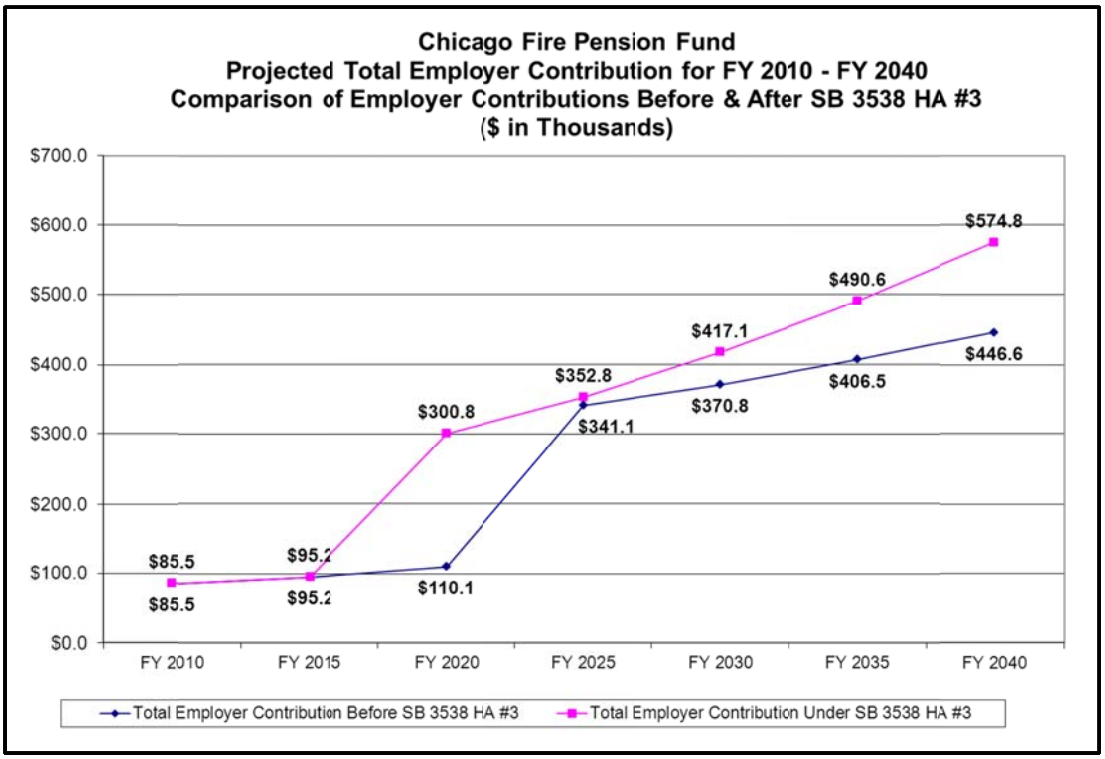

DOWNSTATE FIRE PENSION FUNDS (All Funds Combined)
Projected Active Membership
Comparison of Active Members Under SB 3835 HA #3, Tier 1 & Tier 2
FY 2010 - FY 2040
10,000
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
2010
2015
2020
2025
2030
2035
2040
8,993
7,036
5,353
3,669
2,117
930
289
0
1,957
3,640
5,324
6,876
8,063
8,704
Pre-SB 3538 HA#3 "Tier 1"
Post-SB 3538 HA#3 "Tier 2"

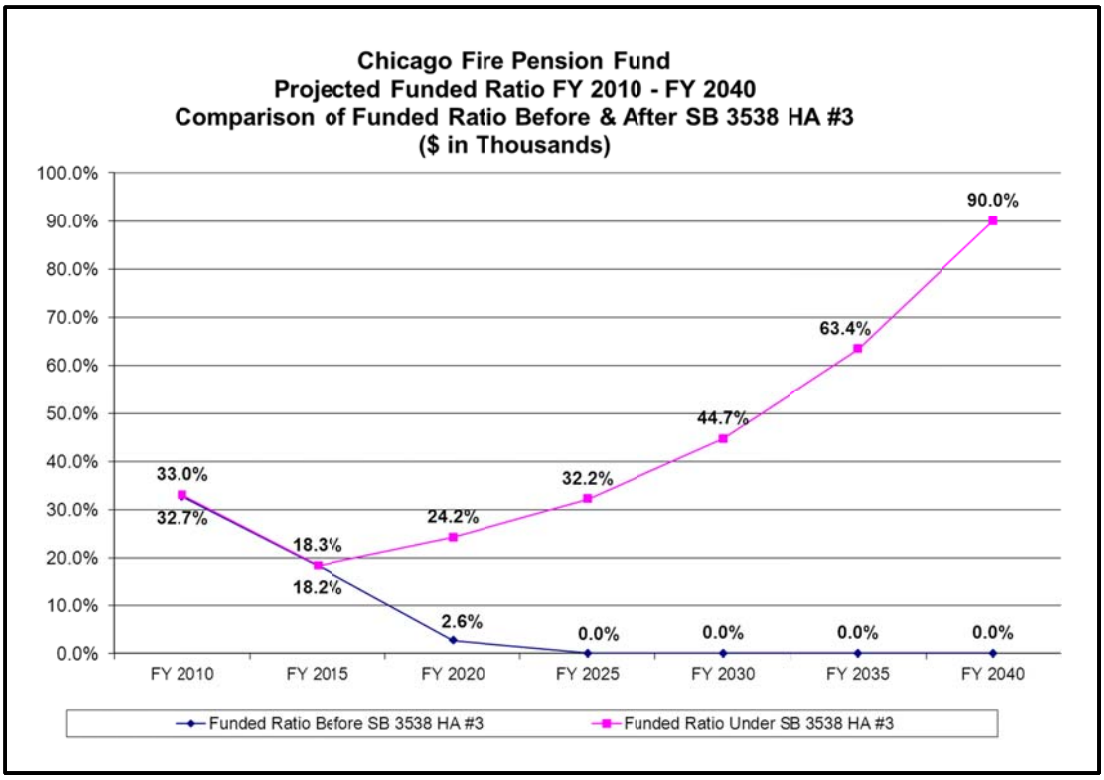

Downstate Police Pension Funds (All Funds Combined)
Projected Total Employer Contribution for FY 2010 - FY 2040
Comparison of Employer Contributions Before & After SB 3538 HA #3
($ in Millions)
$1,000.0
$900.0
$800.0
$700.0
$600.0
$500.0
$400.0
$300.0
$200.0
$100.0
$0.0
FY 2010
FY 2015
FY 2020
FY 2025
FY 2030
FY 2035
FY 2040
$440.8
$528.3
$623.2
$723.4
$830.6
$268.7
$440.8
$475.6
$531.7
$566.0
$575.5
$573.9
$572.7
Total Employer Contribution Before SB 3538 HA #3
Total Employer Contribution Under SB 3538 HA #3


Downstate Fire Pension Funds (All Funds Combined)
Projected Total Employer Contribution for FY 2010 - FY 2040
Comparison of Employer Contributions Before & After SB 3538 HA #3
($ in Millions)
$800.0
$700.0
$600.0
$500.0
$400.0
$300.0
$200.0
$100.0
$0.0
FY 2010
FY 2015
FY 2020
FY 2025
FY 2030
FY 2035
FY 2040
$320.9
$385.0
$458.7
$544.9
$649.0
$297.5
$320.9
$312.1
$361.1
$414.5
$477.5
$559.3
$668.9
Total Employer Contribution Before SB 3538 HA #3
Total Employer Contribution Under SB 3538 HA #3


Chicago Police Pension Fund
Projected Total Employer Contribution for FY 2010 - FY 2040
Comparison of Employer Contributions Before & After SB 3538 HA #3
($ in Thousands)
$1,600.0
$1,400.0
$1,200.0
$1,000.0
$800.0
$600.0
$400.0
$200.0
$0.0
$186.4
$204.9
$685.7
$807.8
$1,024.9
$950.1
$1,178.6
$1,124.8
$1,324.7
$1,335.5
$186.4
$204.9
$244.3
$683.8
FY 2010
FY 2015
FY 2020
FY 2025
FY 2030
FY 2035
FY 2040
Total Employer Contribution Before SB 3538 HA #3
Total Employer Contribution Under SB 3538 HA #3


Chicago Police Pension Fund
Projected Funded Ratio FY 2010 - FY 2040
Comparison of Funded Ratio Before & After SB 3538 HA #3
($ in Thousands)
100.0%
90.0%
80.0%
70.0%
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
40.9%
40.0%
27.5%
26.8%
34.2%
14.2%
42.1%
0.0%
52.4%
0.0%
67.3%
0.0%
90.0%
0.0%
FY 2010
FY 2015
FY 2020
FY 2025
FY 2030
FY 2035
FY 2040
Funded Ratio Before SB 3538 HA #3
Funded Ratio Under SB 3538 HA #3


Chicago Fire Pension Fund
Projected Total Employer Contribution for FY 2010 - FY 2040
Comparison of Employer Contributions Before & After SB 3538 HA #3
($ in Thousands)
$700.0
$600.0
$500.0
$400.0
$300.0
$200.0
$100.0
$0.0
$85.5
$85.5
$95.2
$95.2
$300.8
$110.1
$352.8
$341.1
$417.1
$370.8
$490.6
$406.5
$574.8
$446.6
FY 2010
FY 2015
FY 2020
FY 2025
FY 2030
FY 2035
FY 2040
Total Employer Contribution Before SB 3538 HA #3
Total Employer Contribution Under SB 3538 HA #3


Chicago Fire Pension Fund
Projected Funded Ratio FY 2010 - FY 2040
Comparison of Funded Ratio Before & After SB 3538 HA #3
($ in Thousands)
100.0%
90.0%
80.0%
70.0%
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
33.0%
32.7%
18.3%
18.2%
24.2%
2.6%
32.2%
0.0%
44.7%
0.0%
63.4%
0.0%
90.0%
0.0%
FY 2010
FY 2015
FY 2020
FY 2025
FY 2030
FY 2035
FY 2040
Funded Ratio Before SB 3538 HA #3
Funded Ratio Under SB 3538 HA #3