

Presented to:

HOUSE REVENUE COMMITTEE

FY 2013 Economic and Revenue Update

And Preliminary FY 2014 Revenue Outlook



Presented by:

Dan R. Long, Executive Director -- Jim Muschinske, Revenue Manager
Commission on Government Forecasting and Accountability
703 Stratton Office Building; Springfield, Illinois 62706

November 15, 2012

CGFA Commission Members

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

Senate

Senator Jeffrey M. Schoenberg
Co-Chair

Senator Michael Frerichs
Senator Matt Murphy
Senator Suzi Schmidt
Senator Dave Syverson
Senator Donne Trotter

Dan R. Long
Executive Director

Jim Muschinske
Revenue Manager

House of Representatives

Representative Patricia R. Bellock
Co-Chair

Representative Elaine Nekritz
Representative Raymond Poe
Representative Al Riley
Representative Mike Tryon

Edward H. Boss, Jr.
Chief Economist

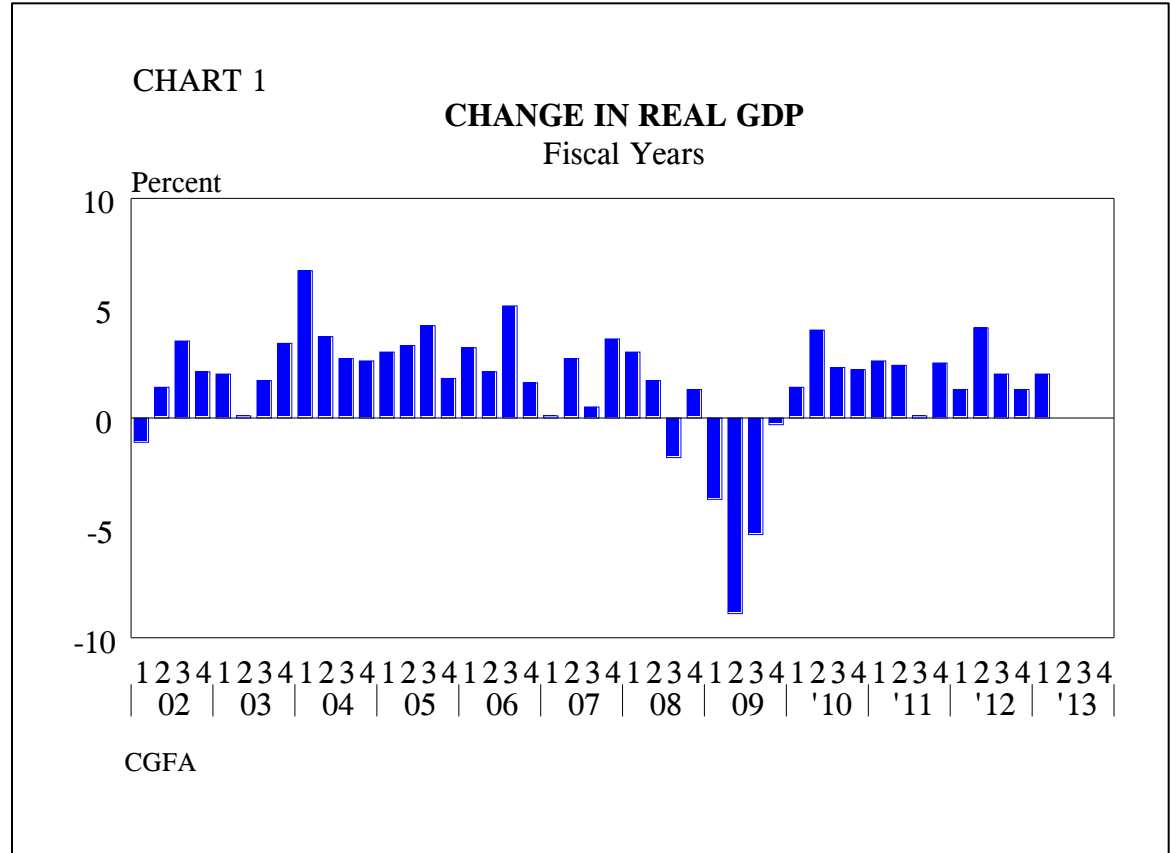
Dan Hankiewicz
Pension Manager

CGFA Background & Responsibilities

- Bi-Partisan, joint legislative commission, provides the General Assembly with information relevant to the Illinois economy, taxes and other sources of revenue and debt obligations of the State.
- Preparation of annual revenue estimates with periodic updates;
- Analysis of the fiscal impact of revenue bills;
- Preparation of State Debt Impact Notes;
- Periodic assessment of capital facility plans;
- Annual estimates of the liabilities of the State's group health insurance program and approval of contract renewals promulgated by the Department of Central Management Services;
- Implement the provisions of the State Facility Closure Act;
- Annual estimates of public pension funding requirements and preparation of pension impact notes.

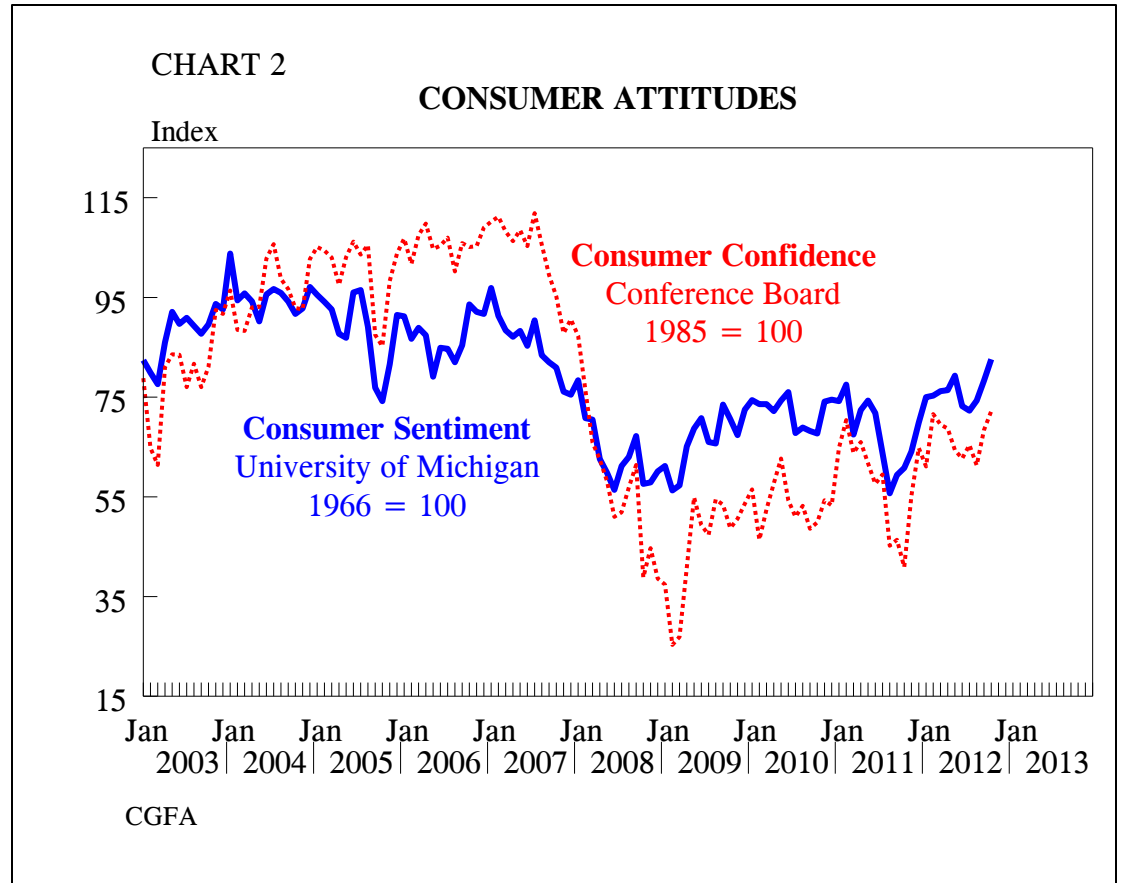
CHANGE IN REAL GDP

- As shown in the attached chart, economic growth normally surges following a recession, and the deeper the recession in the past, the sharper has been the turnaround.
- This certainly was the case following the twin recessions in the early 1980s. A substantial, yet lesser, spurt in growth followed the mild 1990 recession as was true with the recovery from the mild recession in 2001.
- In contrast, following the recession that began at the end of 2007 and didn't end until June 2009, the recovery has exhibited the weakest growth in at least the post WWII era.
- Growth turned positive by the third quarter of 2009, and rose at a 4% annual rate in the final quarter of 2009. However, it then began to slow.
- GDP rose 2.4% rate in calendar 2010, 1.8% in 2011, and after rising at a 2% rate in the first quarter of 2012, slowed to 1.3% annual rate in the second quarter with the advance release for the 3rd quarter indicating a rate of 2.0%.
- It takes sustained growth of 2.5% to 3% to make any significant dent in today's high unemployment rate.



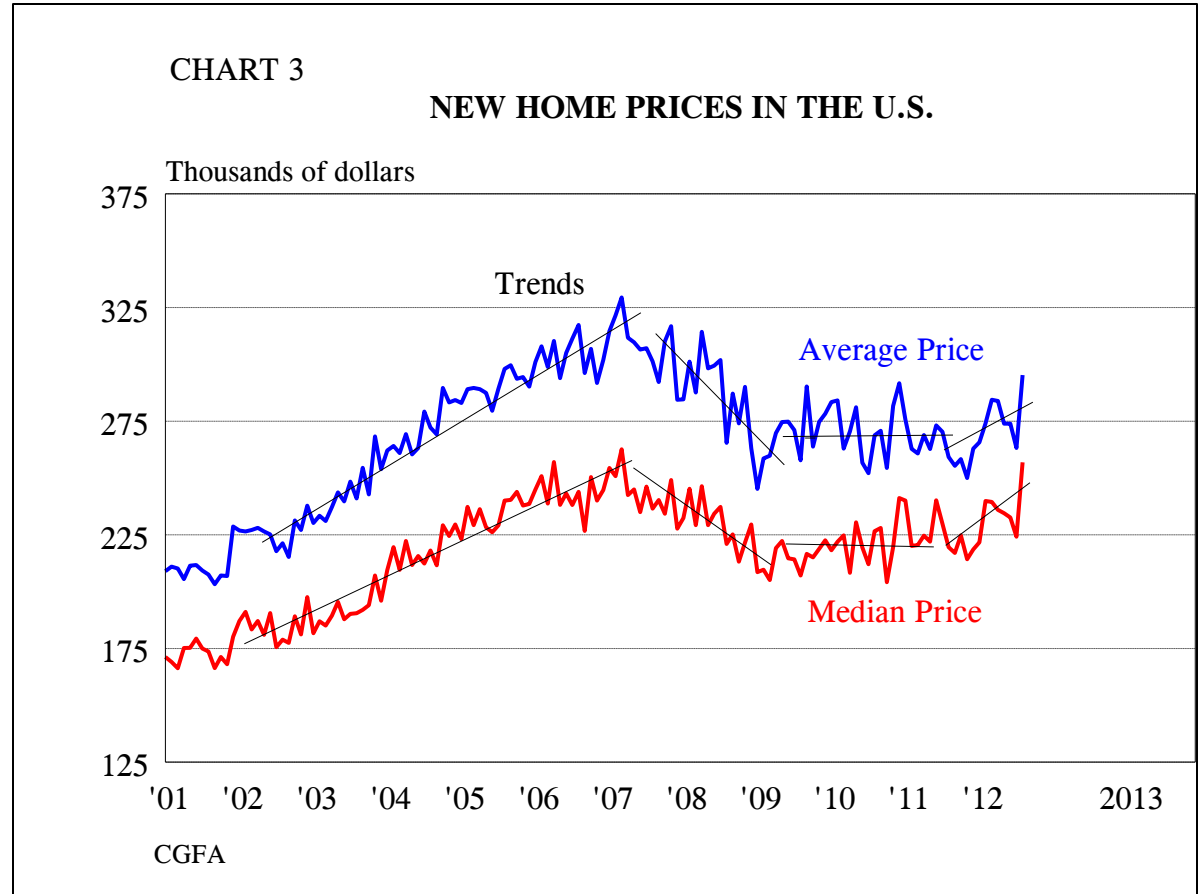
CONSUMER ATTITUDES

- The consumer sector, which generally accounts for two-thirds or more of total spending in the economy, has shown only modest improvement. Indeed, U.S. retail sales declined for the third consecutive month in June before improving in each of the last three months, spurred in part by higher gasoline prices.
- Chart 2 shows measures of consumer attitudes, which are signals as to their comfort level in increasing spending. Consumer attitudes as measured by either the University of Michigan's Consumer Sentiment Index or the Conference Board's Consumer Confidence Index had improved from the lows reached in early in 2009 through spring, before losing substantial strength in the summer as a soft patch set in.
- Both the University of Michigan and Conference Board indices began to rise again, so that by March 2012 they had recouped the ground lost during the previous summer's slump. However, confidence edged lower again last summer as yet another soft patch ensued.
- By October, however, the University of Michigan sentiment index had jumped to 82.6, the highest level since late 2007 and the Conference Board's index rose to 72.2, the highest since February 2008.



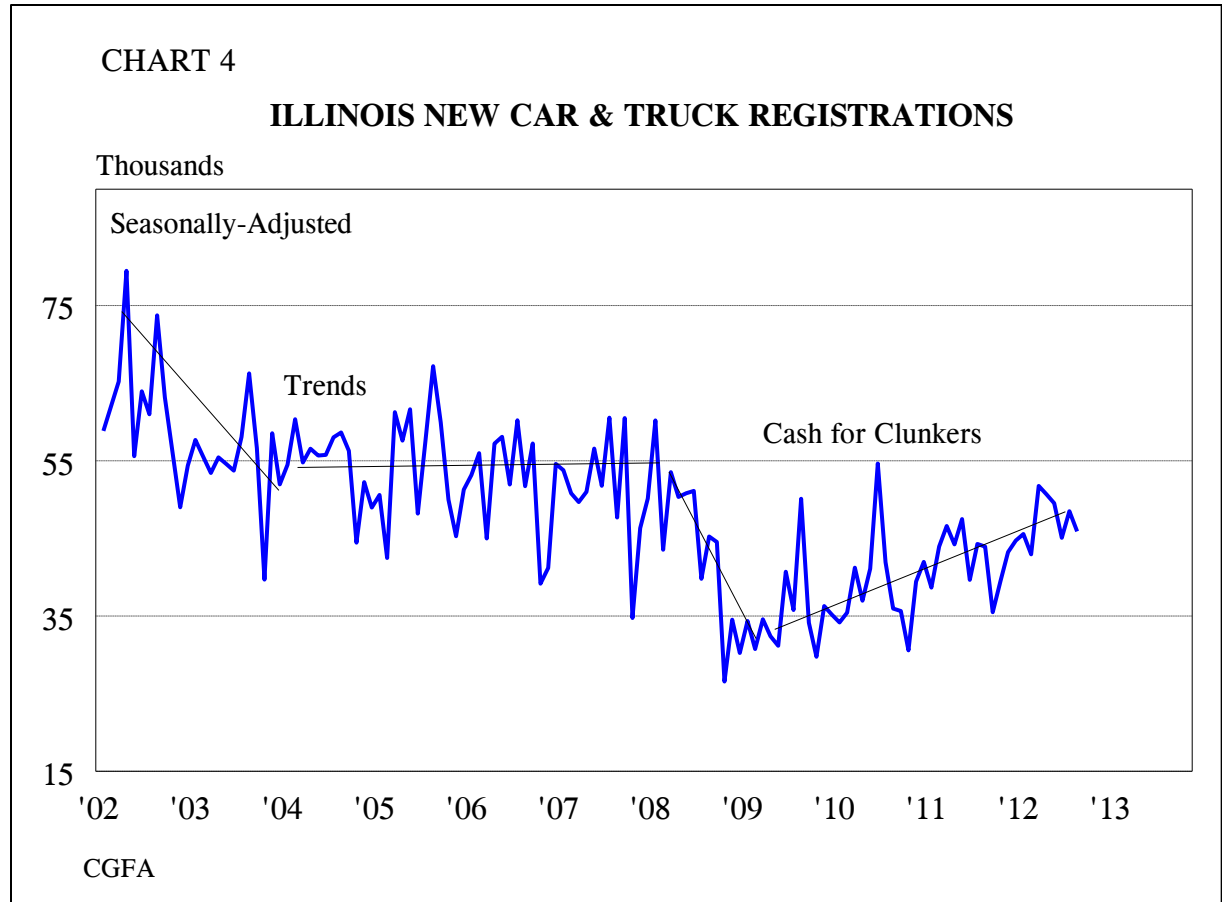
U.S. NEW HOME PRICES

- One of the major factors behind the change in confidence has been a possible end to the decline in home prices that occurred during the recession and continued well into the recovery, now in its 4th year.
- To most consumers the value of their home is the most important asset, and the sharp falloff in value, many to levels below what they owed, depressed their attitudes.
- As shown in Chart 3, however, recent prices appear to have bottomed and have begun to firm, while home sales have shown some signs of improvement, inventories are slightly reduced, and mortgage interest rates are at historic lows, giving some hope that the long depression in housing may be coming to an end.
- Many believe that a true recovery cannot occur without contribution from the housing sector.



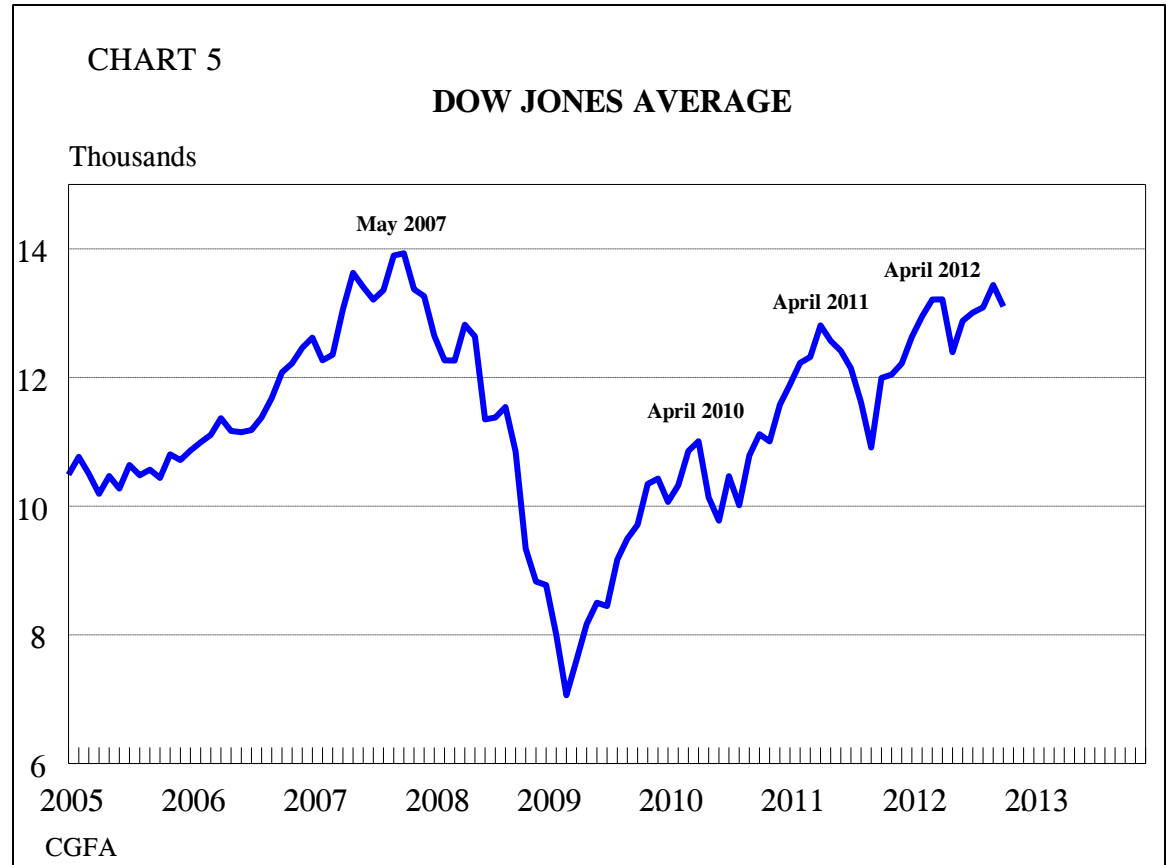
ILLINOIS NEW VEHICLES SALES

- New vehicle sales also appear to have improved, as illustrated by car and truck registrations in Illinois. In part this reflects improved confidence, but it also reflects the aging of existing cars on the road. Still levels are still well below those seen prior to the last recession.
- Note, however, such programs as “cash for clunkers” did little to have a long lasting effect but rather fell off sharply after the program ended before eventually going back to trend.



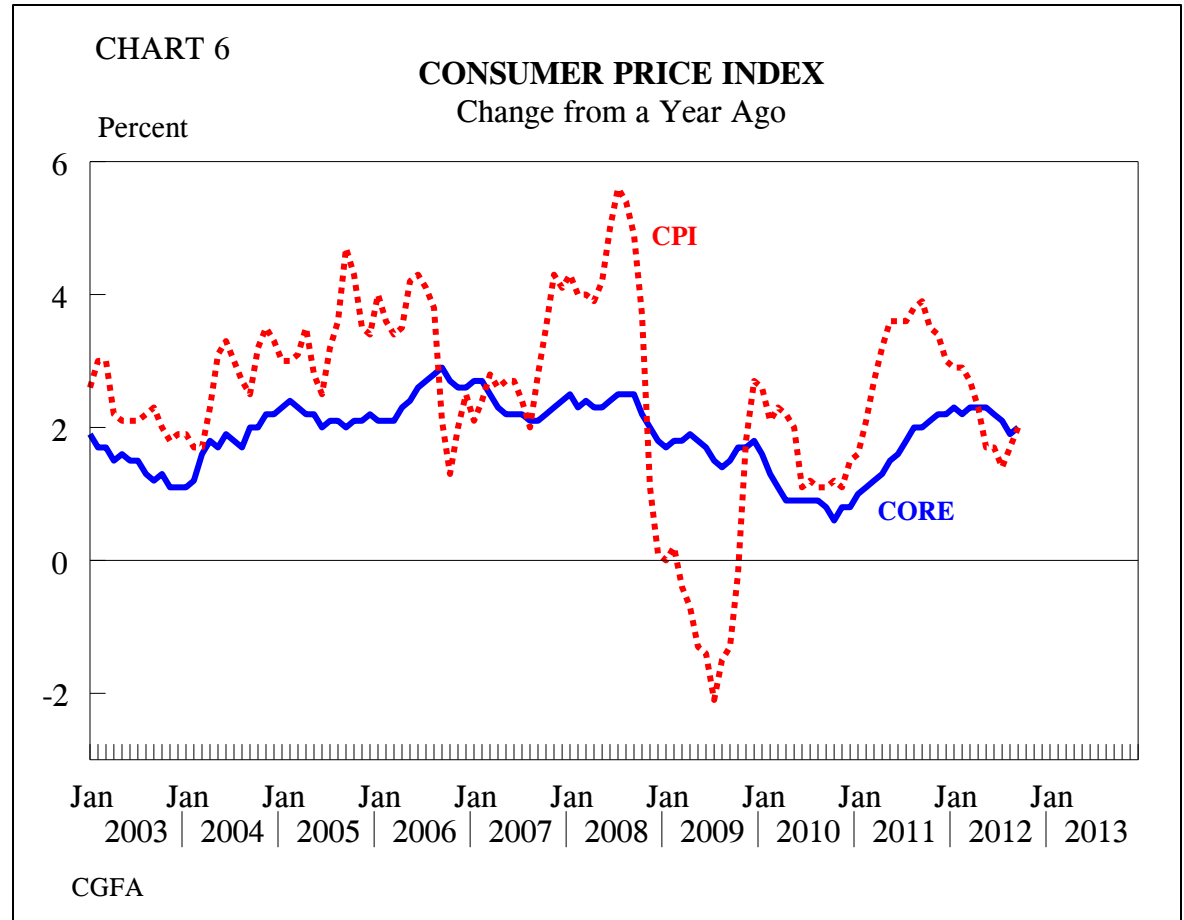
DOW JONES AVERAGE

- In contrast to a weak housing sector, consumers look at volatility in the stock market and its effect on their retirement 401K's.
- As shown in Chart 5, with talk each year of “the summer of recovery”, the stock market instead has hit a soft patch in each of the past three years. In each case the market resumed its upward path; although it has remained below the peak prior to the recession recorded in May 2007.
- Economists joke that the stock market has predicted 11 of the past 7 recessions. To date the summer market slump again has signaled only slowing growth. While volatile on a daily basis, the market through September recovered all of that lost since April. And, while October weakened somewhat, November started off strong.



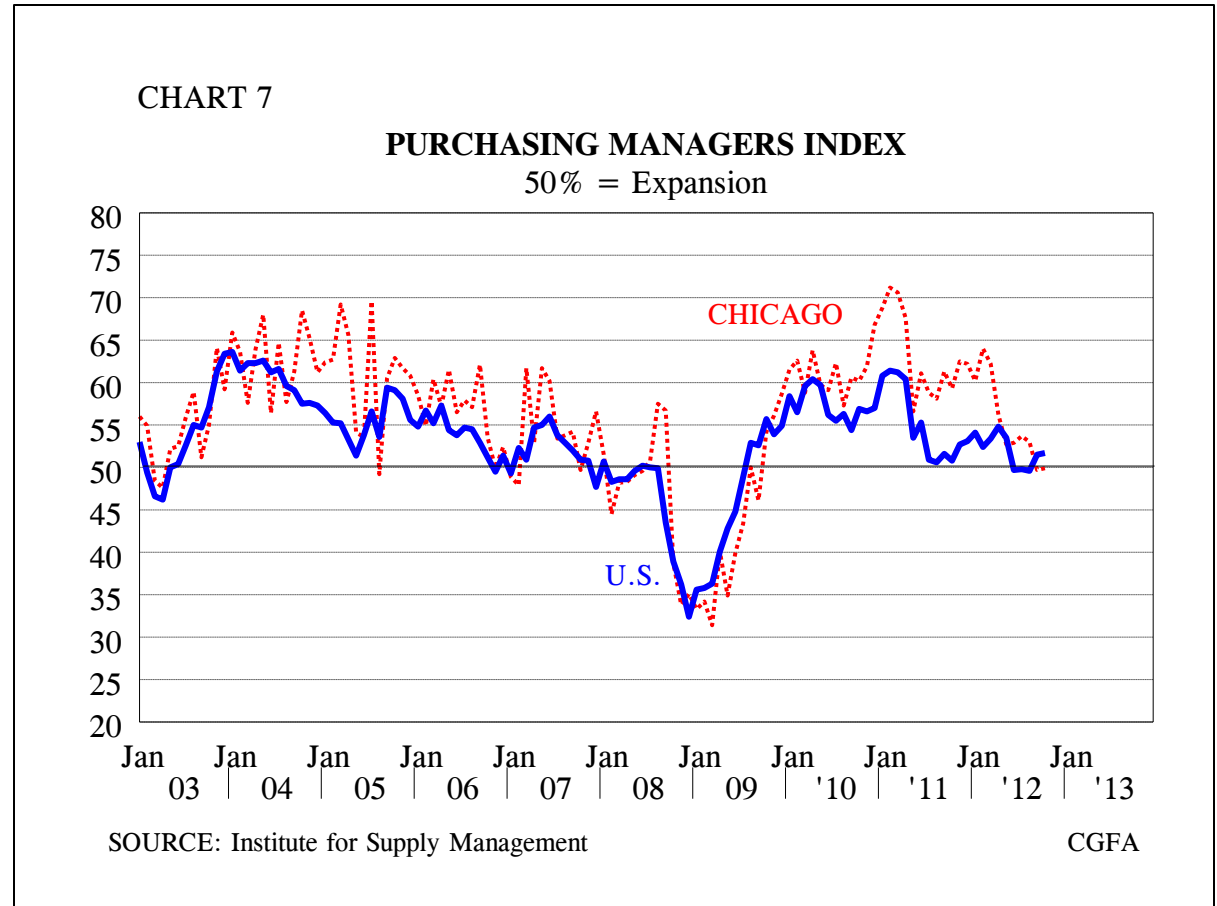
CONSUMER PRICE INDEX

- While monetary policy remains in a position to stimulate the economy, there remains the potential that inflationary pressures eventually could emerge once the economy picks up steam. Too often in the past the Federal Reserve has overstayed an easy policy stance only to have to make severe corrections later. However, such fears seem far off
- As shown in Chart 6, September consumer prices were 2.0% higher than a year earlier and the core rate, which exclude the volatile food and energy sectors and followed closely by the Fed, also was at 2.0%. The latter has stabilized in the 2%-2.3% range over the past 14 months.
- The Federal Reserve is unlikely to veer away from an overall stimulative credit policy and has indicated it would keep interest rates it can influence at current levels until the employment sector shows improvement.



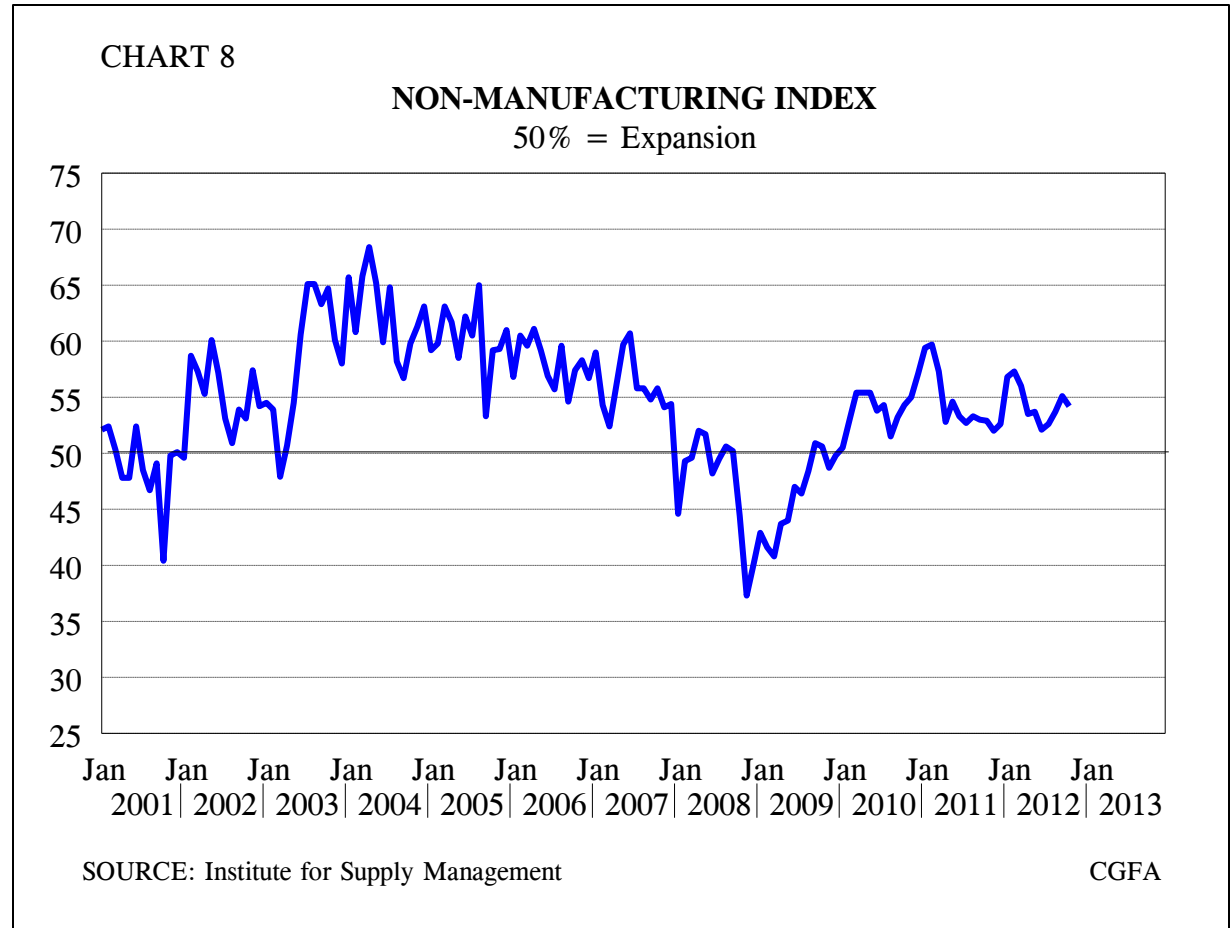
PURCHASING MANAGERS INDEX

- While the consumer accounts for the majority of spending in the economy and has been lethargic, business spending had been expanding for some time, helped in part by the continuing rise in corporate profits.
- There had been significant improvement in both the national and Chicago rate. As Chart 7 shows, the index of manufacturing has expanded (with more than 50% reporting that) for 34 consecutive months following a year of contraction.
- Even so, the strength of the index weakened last summer and again this summer, reflecting soft patches the economy had entered.
- In June the index actually contracted for the first time since July 2009 and has done so in 3 of the past 5 months.
- The Chicago index also weakened and in September, contracted for the first time since the fall of 2009 and held virtually unchanged in October, contracting for the second consecutive month. The national index, while increasing, edged up modestly from 51.5 to 51.7. Thus, the earlier strength in business spending no longer can be looked upon as a major support to ignite faster growth.



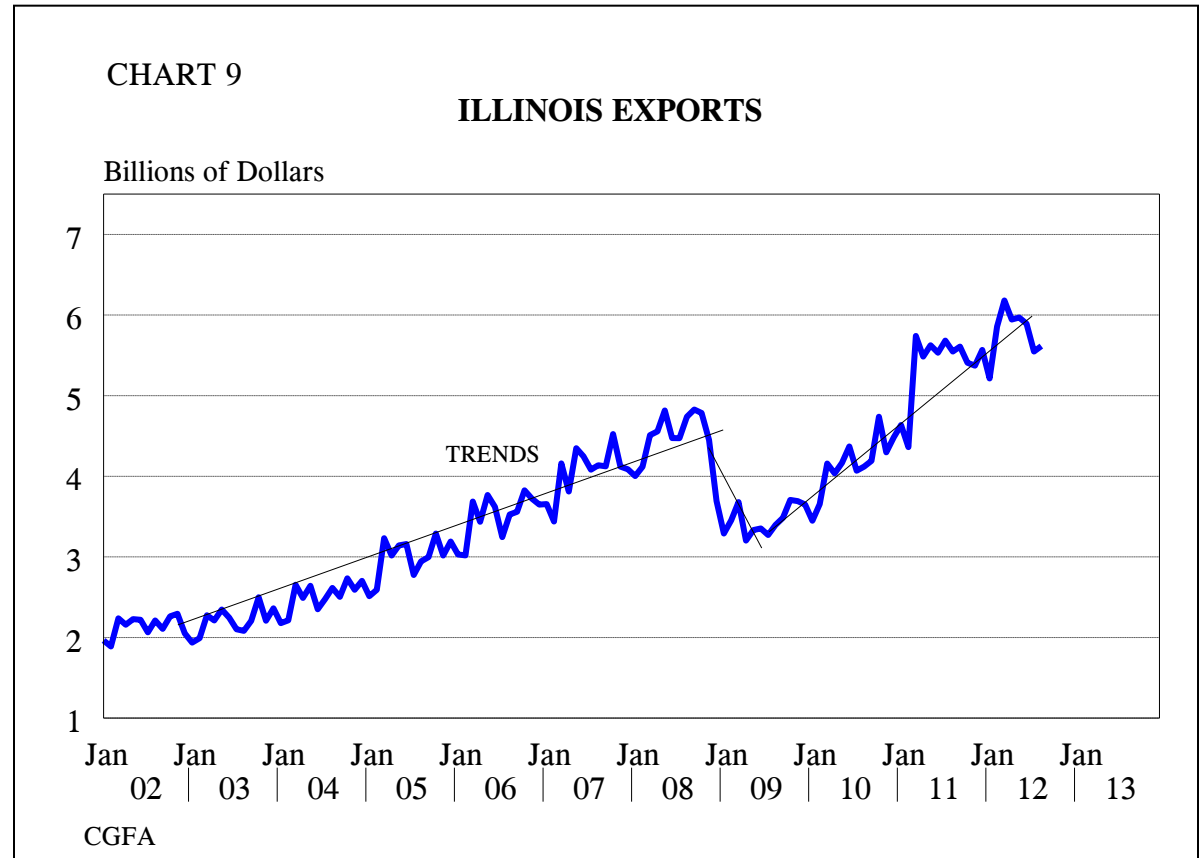
NON-MANUFACTURING INDEX

- A growing share of business is in the non-manufacturing, or service sector. Chart 8 takes a look at this growing share of the economy.
- Economic activity in the non-manufacturing sector, which had declined for 11 straight months through October 2009, steadily worked its way back to neutral, or the 50% level, by January 2010. The index continued to expand erratically through February 2011.
- Then its strength weakened as the economy hit a soft patch, held flat for six months, before rising again during the first three months of 2012 only to fall again as yet another soft patch developed.
- In September the index reached 55.1, up for the third consecutive month to the highest level since March as the soft patch began to unwind although it weakened in October to 54.2 and seems to be in a narrow trading range waiting for direction.



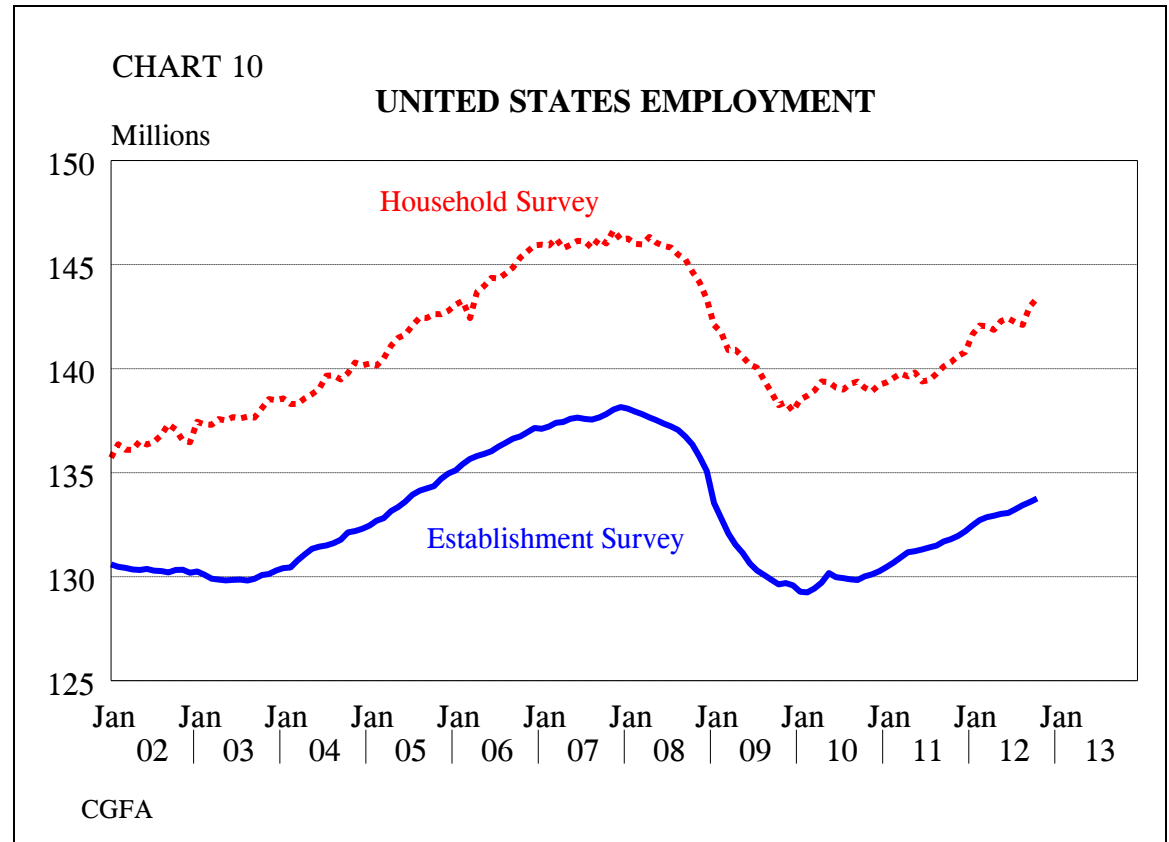
ILLINOIS EXPORTS

- A major uplift to the Illinois economy had been its renewed growth in exports. Illinois ranks fifth in the nation in terms of exports.
- As shown in Chart 9, as the worldwide recession that began at the end of 2007 took hold, demand for U.S. goods plunged to levels not seen since the fall of 2006.
- However, with recovery, exports rebounded reaching a new high in March of this year.
- Since then the level has moved erratically lower. In large part this reflects the current recession in Europe, which account for about 20% of total exports, and a slowdown in China. Neither is likely to be major contributors to growth in the near future.



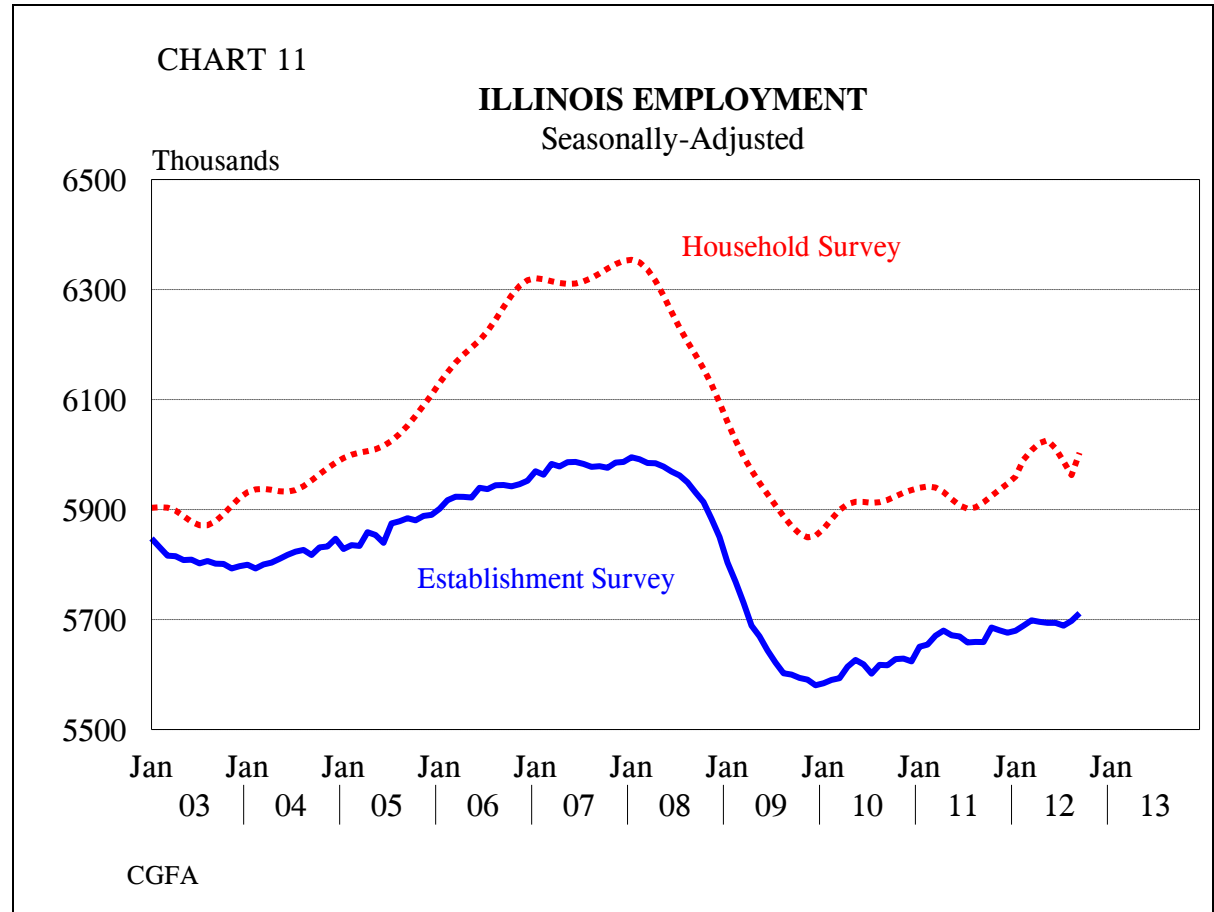
UNITED STATES EMPLOYMENT

- United States employment has been rising since its low reached at the end of 2009 as measured by both the Household Survey, used to measure the unemployment rate, and the Establishment Survey, which measures payroll employment.
- Even so, the level of employment stemming from the recession remains below the level in December 2007 at the beginning of the recession.
- In the first two years of the recovery, December 2007 to December 2009, employment as measured by the Household Survey fell by 8.2 million. Latest data in October 2012 show that 5.4 million were recouped since.
- Employment as measured by the Establishment Survey fell by 6.2% from the end of the recession in the first two years of recovery and remains 3.2% below its level at the start of the last recession.



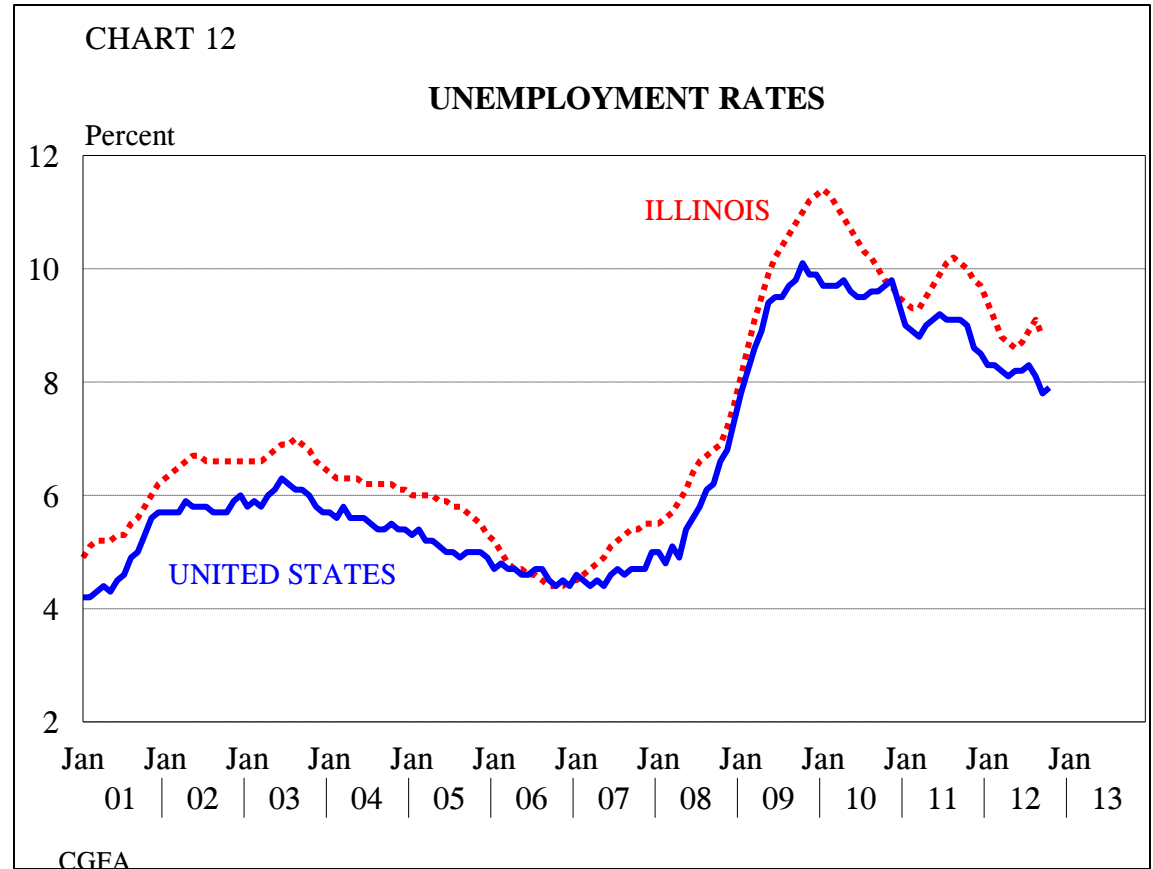
ILLINOIS EMPLOYMENT

- National employment has increased, although well below that when compared to previous economic expansions. Moreover, the improvement has slowed, with the increase in the second quarter of 2012 only a third of that seen in the first quarter.
- Illinois employment, like the U.S., also has shown some gains but remains at extremely low levels as illustrated in Chart 11.
- Comparing Illinois to the nation, the more comprehensive establishment, or payroll, employment data for the nation had recovered its pre-recession level following the 2001 recession by early 2005.
- In contrast, Illinois never has recouped all the jobs lost during that recession before the next recession began, making the gap to reach a new high much more difficult.



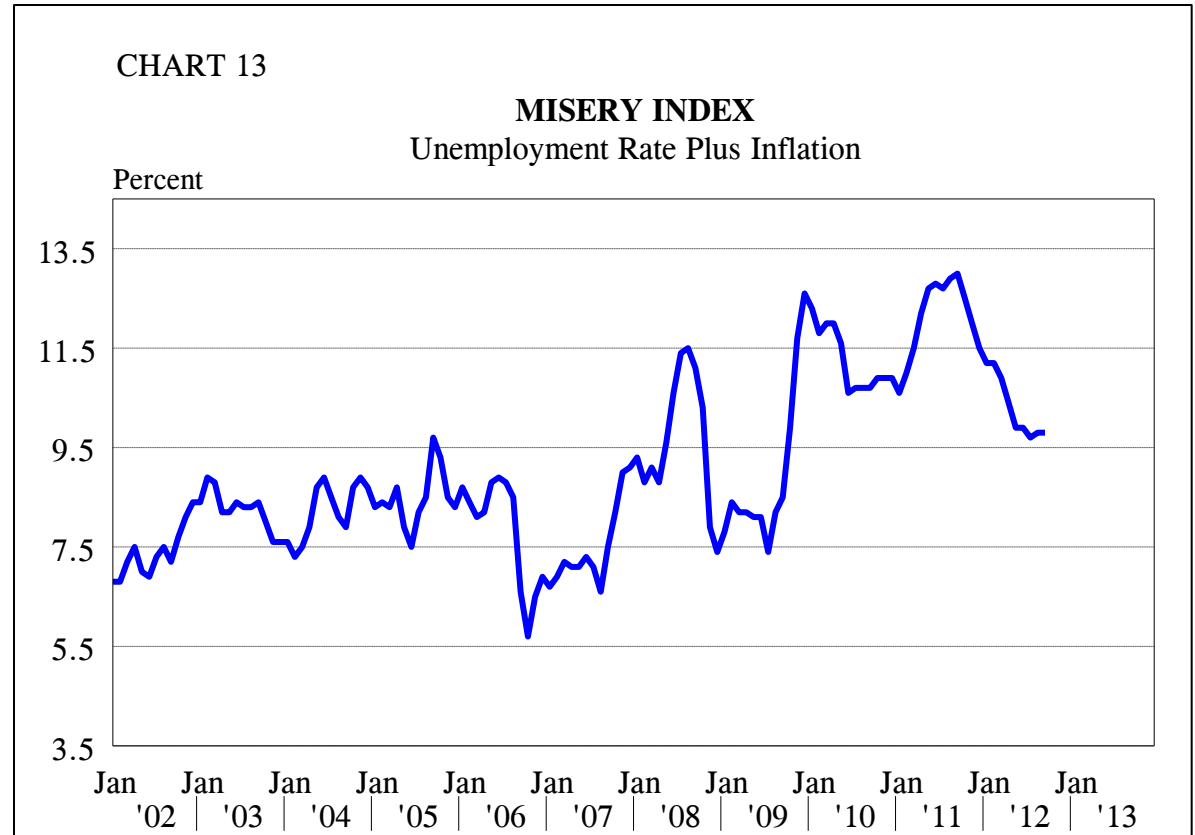
UNEMPLOYMENT RATES

- As shown in Chart 12, as a result of job losses during the recession, the unemployment rate rose from a low of 4.4% in early 2007 to a high of 10.1% by October 2009.
- The recovery that began in mid 2009, however, had shown only modest reductions in the unemployment rate going into the fourth year of an economic recovery, but fell from 8.3% in July to 7.8% in September, the lowest rate since January 2009, before edging up to 7.9% in October.
- As shown, the unemployment rate in Illinois continues to trail the U.S. pattern, at 8.8% in September.
- With the economy seemingly stagnating, only little improvement at best can be expected in the months ahead.



MISERY INDEX

- It has been the combination of a high unemployment rate and rising prices that has revived the concept of the “Misery Index” and raises the question as to whether you are better off today than you were before.
- As shown in Chart 13, the Misery Index was at a reading of 9.8 in September, with a 2% inflation rate and a 7.8% unemployment rate.
- The peak rate during the past recession was 12.7, and prior to then in a range of 6-8.
- The unemployment rate, after falling to 7.8% in September, inched up to 7.9% in October and, with inflation having risen in each of the past two months and economic growth remaining tepid, further sharp reductions in the misery index may be difficult to achieve.



CHANGE IN REAL GDP

- Chart 14 shows three alternative forecasts of the U.S. economy in the years FY 2013 and FY 2014. The **BASELINE** shows the most likely solution with a 65% chance of occurrence. This forecast has the economy continuing to rise at a slow pace through FY 2013 followed by slightly stronger gains in FY 2014.
- A more **OPTIMISTIC** scenario, with only a 15% chance of happening, however, shows stronger gains in FY 2013 continuing through FY 2014. (A so-called V shaped recovery).
- Finally a **PESSIMISTIC** alternative is provided, with a 20% and rising chance, shows that after eeking out slight growth in FY 2012, the economy returns to negative before returning to meager growth, not picking up strength until the second half of FY 2014. (A so-called double dip recession).

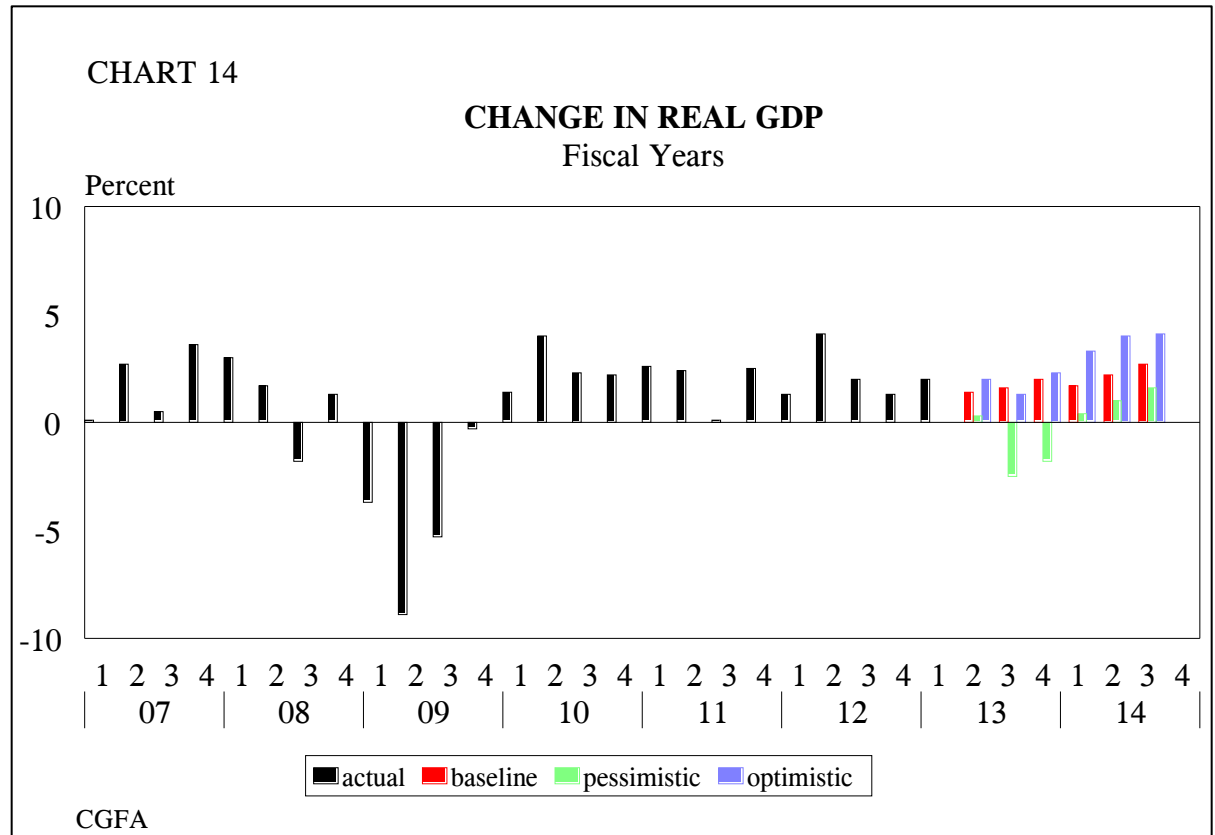


CHART 15: BASELINE FORECAST -- OCTOBER 2012

(\$ Change from prior year levels)

REAL (2005 \$)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
	Actual	Actual	Actual	Actual	Estimated	Estimated
Gross Domestic Product	-3.2	0.2	2.2	2.0	1.7	2.3
Personal Consumption	-2.3	0.1	2.4	2.3	2.0	2.5
Durable	-9.8	2.8	7.6	6.6	5.7	5.4
Nondurable	-2.6	0.7	2.7	1.2	1.6	2.1
Services	-0.9	-0.5	1.8	1.5	1.5	2.2
Fixed Investment	-21.3	-6.7	9.9	9.3	4.6	9.4
Exports	-5.7	2.8	9.2	4.8	3.2	3.7
Imports	-10.7	0.0	10.0	3.2	2.5	5.5
Government	2.9	2.9	-1.7	-2.9	-1.0	-1.8
Federal	7.2	5.6	1.0	-3.5	-1.9	-3.8
State & Local	0.5	1.3	-3.4	-2.5	-1.2	-2.8
OTHER MEASURES						
Personal Income (Current \$)	-0.9	-1.3	5.5	3.7	3.8	4.4
Personal Consumption (Current \$)	-0.9	1.4	4.5	4.4	3.3	3.8
Before Tax Profits (Current \$)	-16.2	30.8	13.8	7.7	1.6	-0.3
Consumer Prices	1.4	1.0	2.0	3.0	1.5	1.5
Unemployment Rate (Average)	7.6	9.7	9.3	8.5	8.1	7.9

CHART 16: ILLINOIS FORECASTS

Calendar Years	2009 Actual	2010 Actual	2011 Actual	2012 Estimated	2013 Estimated	2014 Estimated
Total Employment (Ths)	5,656.8	5,613.2	5,665.4	5,698.0	5,754.4	5,833.4
% Change	-4.9	-0.8	0.9	0.6	1.0	1.4
Population (Ths)	12,802.1	12,844.3	12,873.4	12,910.2	12,956.6	13,063.1
% Change	0.4	0.3	0.2	0.3	0.4	0.4
Personal Income (Bil \$)	525.4	539.9	567.5	583.5	602.8	626.2
% Change	-5.3	2.8	5.1	2.8	3.3	3.9
OTHER MEASURES						
Private Housing Starts	10.9	10.9	11.3	12.7	18.0	24.0
Unemployment Rate Avg.	10.0	10.5	9.8	8.9	8.6	8.3

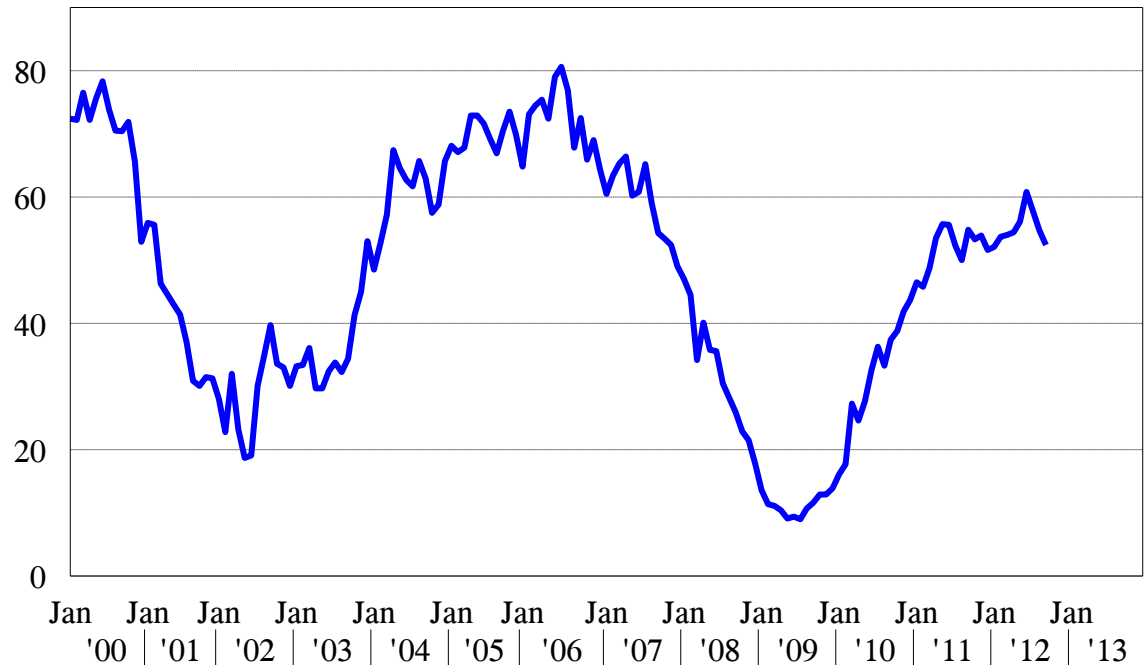
SOURCE: Global Insight October 2012

STATE TAX RECEIPTS SURVEY

- As shown in Chart 17, state revenues improved sharply following an all time low Index number of 9 reached in July 2009.
- The Index is based upon data from 16 states including Illinois that have diverse geographic and population characteristics.
- In June 2012 the Index reached 60.8, the highest level since the summer of 2007 before edging down to 52.4 in September, the lowest level since the beginning of the year.
- Overall receipts nevertheless are at levels well below those reached at this stage of the previous recovery.

CHART 17

STATE TAX RECEIPTS SURVEY (Index based on inflow of income and sales taxes)

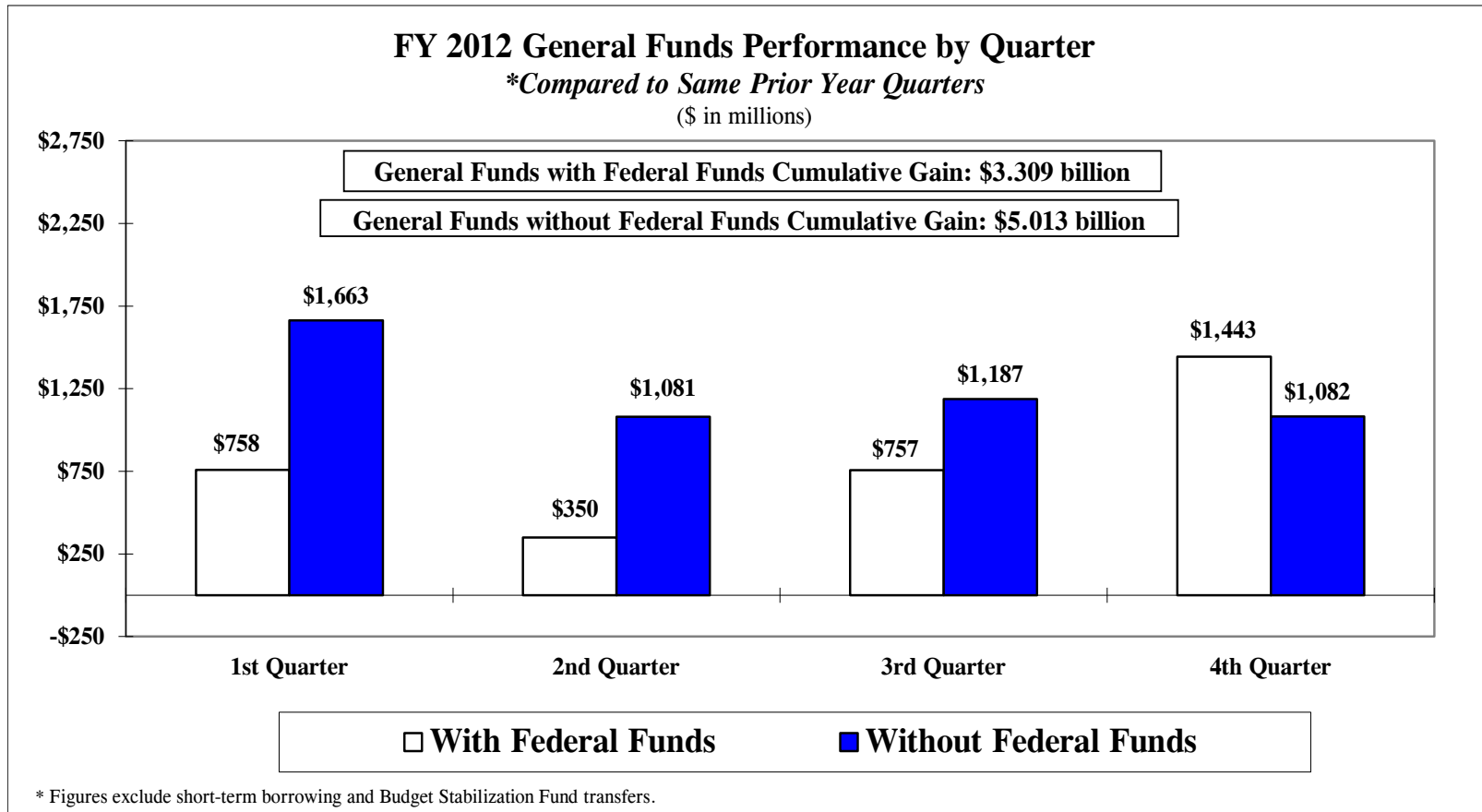


SOURCE: ISI (International Strategy & Investment)

CGFA

REVIEW OF FY 2012 REVENUES

For the fiscal year, absent short-term borrowing, tobacco settlement proceeds, Pension Contribution Fund transfers and Budget Stabilization Fund transfers that occurred last year, base general funds revenues grew \$3.309 billion. The increase was fueled by comparatively higher income tax receipts stemming from the January 2011 rate increases as well as continued strong sales tax receipts. Those items were more than enough to overcome a significant falloff in federal sources resulting from less reimbursable spending as well as a return to a lower federal matching rates. When the falloff in federal sources is excluded, receipt growth expands to \$5.013 billion.



REVIEW OF FY 2012 REVENUES ASSUMPTIONS

The accompanying table illustrates that total general funds revenues in FY 2012 exceeded assumptions used to craft the FY 2012 budget. In March 2011, the House passed HR 110, which was the revenue framework used throughout much of the spring 2011 legislative session. As shown, actual revenues ended up exceeding HR 110 by \$624 million. While federal sources fell \$1.162 billion short of expectations, the economic sources more than made up for that shortage as personal, corporate, and sales taxes all far exceeded the estimates. In August 2012, the GOMB released its FY 2012 Budget Review document which detailed the official revenue number used in the enacted budget. While overall quite similar to HR 110, it was slightly lower by \$49 million. As a result, actual FY 2012 revenues exceeded the enacted budget forecast by \$673 million.

<i>FY 2012 Actuals vs. Enacted Budget Assumptions</i>					
(\$ millions)					
<u>Revenue Sources</u>	<u>ACTUAL</u> <u>FY 2012</u>	<u>HR 110</u> <u>March-11</u> <u>FY 2012</u>	<u>DIFFERENCE</u> <u>ACTUALS</u> <u>FROM</u> <u>ESTIMATE</u>	<u>GOMB EST.</u> <u>Aug-11</u> <u>FY 2012</u>	<u>DIFFERENCE</u> <u>ACTUALS</u> <u>FROM</u> <u>ESTIMATE</u>
State Taxes					
Personal Income Tax	\$17,000	\$16,389	\$611	\$16,500	\$500
Corporate Income Tax (regular)	\$2,983	\$2,435	\$548	\$2,853	\$130
Sales Taxes	\$7,226	\$6,586	\$640	\$6,610	\$616
Public Utility (regular)	\$995	\$1,082	(\$87)	\$1,082	(\$87)
Cigarette Tax	\$354	\$355	(\$1)	\$355	(\$1)
Liquor Gallonage Taxes	\$164	\$162	\$2	\$162	\$2
Vehicle Use Tax	\$29	\$32	(\$3)	\$32	(\$3)
Inheritance Tax (gross)	\$235	\$182	\$53	\$182	\$53
Insurance Taxes & Fees	\$345	\$318	\$27	\$318	\$27
Corporate Franchise Tax & Fees	\$192	\$204	(\$12)	\$204	(\$12)
Interest on State Funds & Investments	\$21	\$25	(\$4)	\$25	(\$4)
Cook County Intergovernmental Transfer	\$244	\$244	\$0	\$244	\$0
<u>Other Sources</u>	<u>\$399</u>	<u>\$365</u>	<u>\$34</u>	<u>\$365</u>	<u>\$34</u>
Subtotal	\$30,187	\$28,379	\$1,808	\$28,932	\$1,255
Transfers					
Lottery	\$640	\$645	(\$5)	\$645	(\$5)
Riverboat transfers & receipts	\$340	\$426	(\$86)	\$426	(\$86)
Proceeds from sale of 10th license	\$73	\$75	(\$2)	\$75	(\$2)
<u>Other</u>	<u>\$885</u>	<u>\$664</u>	<u>\$221</u>	<u>\$664</u>	<u>\$221</u>
Total State Sources	\$32,125	\$30,189	\$1,936	\$30,742	\$1,383
Federal Sources	\$3,682	\$4,844	(\$1,162)	\$4,325	(\$643)
Total Federal & State Sources	\$35,807	\$35,033	\$774	\$35,067	\$740
Nongeneral Funds Distribution:					
Refund Fund					
Personal Income Tax	(\$1,488)	(\$1,434)	(\$54)	(\$1,444)	(\$44)
Corporate Income Tax	(\$522)	(\$426)	(\$96)	(\$499)	(\$23)
Subtotal General Funds	\$33,797	\$33,173	\$624	\$33,124	\$673

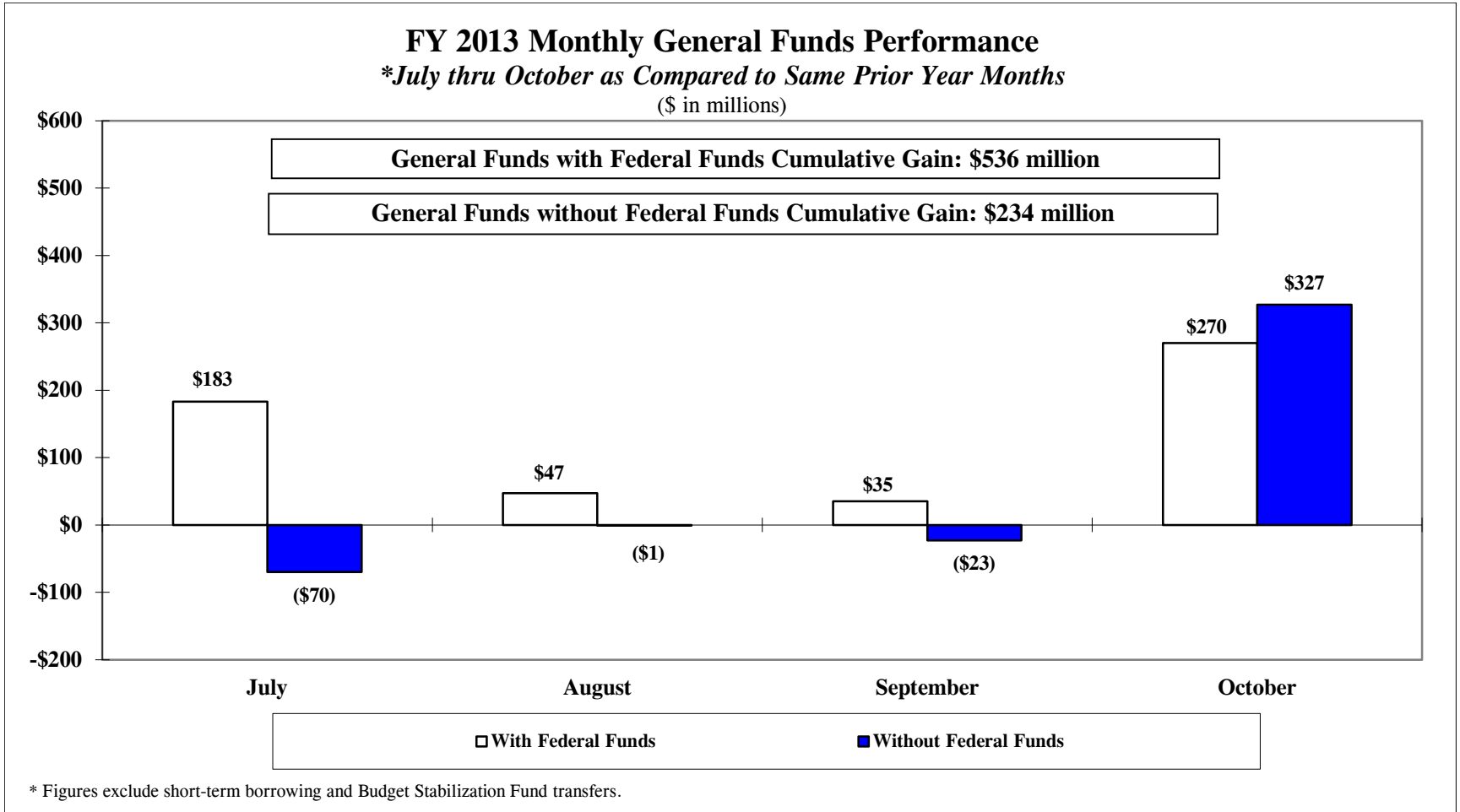
REVIEW OF MOST RECENT REVENUE ESTIMATE

The following table demonstrates how the February 2012 estimates of CGFA and GOMB preformed relative to actuals. As shown, actual base revenues ended up exceeding expectations in both instances. Revenues out-performed CGFA's projections by \$405 million, or 1.2% as income taxes managed to outpace expectations. The February estimate of GOMB was surpassed by \$576 million, or 1.7%, as again, stronger income taxes were the main cause of divergence.

FY 2012 Actuals vs. Estimates: CGFA and GOMB					
(\$ millions)					
Revenue Sources	ACTUAL	CGFA EST.	DIFFERENCE	GOMB EST.	DIFFERENCE
	FY 2012	Feb-12 FY 2012	ACTUALS FROM ESTIMATE	Feb-12 FY 2012	ACTUALS FROM ESTIMATE
Net Income Tax [Personal & Corporate]	\$17,973	\$17,624	\$349	\$17,416	\$557
Sales Taxes	\$7,226	\$7,160	\$66	\$7,145	\$81
Other Receipts	\$2,978	\$2,979	(\$1)	\$3,026	(\$48)
Transfers	\$1,938	\$1,824	\$114	\$1,829	\$109
Federal Sources	\$3,682	\$3,805	(\$123)	\$3,805	(\$123)
Subtotal General Funds	\$33,797	\$33,392	\$405	\$33,221	\$576

REVIEW OF FY 2013 REVENUES TO DATE

The chart below demonstrates how FY 2013 revenues have performed through October, both with and without federal sources.



FY 2013 YEAR-TO-DATE

Through the first-third of FY 2013, overall base revenues grew \$536 million. Gross personal income taxes were up \$267 million, or \$193 million net of refunds. Gross corporate income taxes increased \$181 million, or \$178 million net of refunds. Due to lagged timing of receipts related to a prior tax change, inheritance tax was up \$114 million.

Overall transfers were down \$262 million. The falloff was due to the one-time \$73 million sale of the 10th license last year, as well as timing related to last year's settlement of protested liquor taxes. Federal sources, after experiencing a very weak beginning to last fiscal year, managed to post a \$302 million gain through October.

While some variability exists in most revenue lines, receipts have performed about as expected at this point in the fiscal year. In terms of the larger economically related sources, slightly weak sales tax has been offset by stronger than expected performance from corporate income taxes. And, while public utility taxes are not quite meeting expectations, inheritance tax receipts have more than made up for that weakness. Federal sources also are somewhat ahead of expectations.

GENERAL FUNDS RECEIPTS: YEAR TO DATE				
<i>FY 2013 vs. FY 2012</i>				
<i>(\$ million)</i>				
Revenue Sources	FY 2013	FY 2012	CHANGE FROM FY 2012	% CHANGE
State Taxes				
Personal Income Tax	\$5,064	\$4,797	\$267	5.6%
Corporate Income Tax (regular)	833	652	\$181	27.8%
Sales Taxes	2,429	2,418	\$11	0.5%
Public Utility Taxes (regular)	330	340	(\$10)	-2.9%
Cigarette Tax	110	118	(\$8)	-6.8%
Liquor Gallonage Taxes	56	56	\$0	0.0%
Vehicle Use Tax	10	10	\$0	0.0%
Inheritance Tax (Gross)	121	7	\$114	N/A
Insurance Taxes and Fees	89	83	\$6	7.2%
Corporate Franchise Tax & Fees	73	68	\$5	7.4%
Interest on State Funds & Investments	4	3	\$1	33.3%
Cook County IGT	0	0	\$0	N/A
Other Sources	127	121	\$6	5.0%
Subtotal	\$9,246	\$8,673	\$573	6.6%
Transfers				
Lottery	186	184	\$2	1.1%
Riverboat transfers & receipts	140	126	\$14	11.1%
Proceeds from Sale of 10th license	0	73	(\$73)	N/A
Other	178	383	(\$205)	-53.5%
Total State Sources	\$9,750	\$9,439	\$311	3.3%
Federal Sources	\$1,219	\$917	\$302	32.9%
Total Federal & State Sources	\$10,969	\$10,356	\$613	5.9%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$494)	(\$420)	(\$74)	17.6%
Corporate Income Tax	(\$117)	(\$114)	(\$3)	2.6%
Subtotal General Funds	\$10,358	\$9,822	\$536	5.5%
Short-Term Borrowing	\$0	\$0	\$0	N/A
FY'13 Backlog Payment Fund Transfer	\$264	\$0	\$264	N/A
Tobacco Liquidation Proceeds	\$0	\$0	\$0	N/A
Pension Contribution Fund Transfer	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$275	\$275	\$0	0.0%
Total General Funds	\$10,897	\$10,097	\$800	7.9%
SOURCE: Office of the Comptroller, State of Illinois: Some totals may not equal, due to rounding.				
CGFA				
13-Nov-12				

CGFA and GOMB FY 2013 ESTIMATES

The accompanying table demonstrates the differences between CGFA's revised FY 2013 estimate and GOMB's latest official statement published in September 2013. As shown, in total, the two agencies are very close with CGFA being slightly higher than GOMB by \$52 million.

While CGFA is somewhat higher than GOMB in estimates of the State taxes including the larger economic sources, CGFA is lower than the GOMB in the estimate of federal sources. At this point of the fiscal year, CGFA is not yet comfortable assuming that reimbursable spending will be at the level required in order to meet the GOMB forecast.

It should also be noted that neither forecast presented here includes \$264 million in transfers in related to the FY 2013 Backlog Payment Fund as those monies are not viewed as true additional revenue.

FY 2013 GENERAL FUNDS REVENUE COMPARISON: CGFA vs. GOMB			
(\$ Millions)			
<u>Revenue Sources</u>	FY 2013 CGFA Nov-12	FY 2013 GOMB Sept-12	\$ Difference
State Taxes			
Personal Income Tax	\$17,025	\$16,923	\$102
Corporate Income Tax	\$3,161	\$2,966	\$195
Sales Taxes	\$7,340	\$7,335	\$5
Public Utility (regular)	\$1,055	\$1,101	(\$46)
Cigarette Tax	\$355	\$355	\$0
Liquor Gallonage Taxes	\$164	\$163	\$1
Vehicle Use Tax	\$30	\$29	\$1
Inheritance Tax (gross)	\$255	\$242	\$13
Insurance Taxes & Fees	\$345	\$285	\$60
Corporate Franchise Tax & Fees	\$195	\$203	(\$8)
Interest on State Funds & Investments	\$20	\$20	\$0
Cook County Intergovernmental Transfer	\$244	\$244	\$0
<u>Other Sources</u>	<u>\$402</u>	<u>\$405</u>	<u>(\$3)</u>
Subtotal	\$30,591	\$30,271	\$320
Transfers			
Lottery	\$656	\$649	\$7
Riverboat transfers and receipts	\$357	\$350	\$7
Proceeds from sale of 10th license	\$10	\$10	\$0
<u>Other*</u>	<u>\$740</u>	<u>\$689</u>	<u>\$51</u>
Total State Sources	\$32,354	\$31,969	\$385
Federal Sources	\$3,935	\$4,231	(\$296)
Total Federal & State Sources	\$36,289	\$36,200	\$89
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax [9.75%]	(\$1,660)	(\$1,650)	(\$10)
Corporate Income Tax [14.0%]	(\$443)	(\$416)	(\$27)
Subtotal General Funds	\$34,186	\$34,134	\$52
NOTE: Totals exclude Budget Stabilization transfers, and other cash flow transfers.			
CGFA			
*Other transfers do not include \$264 million from the FY'13 Backlog Payment Fund			

A LOOK AHEAD TO FY 2014

While CGFA's first official estimate for FY 2014 will not be presented until February/March of 2013, interest is already building around out-year expectations. Unfortunately, most views are that FY 2014 will be saddled with continued struggles related to employment gains and overall tepid economic performance.

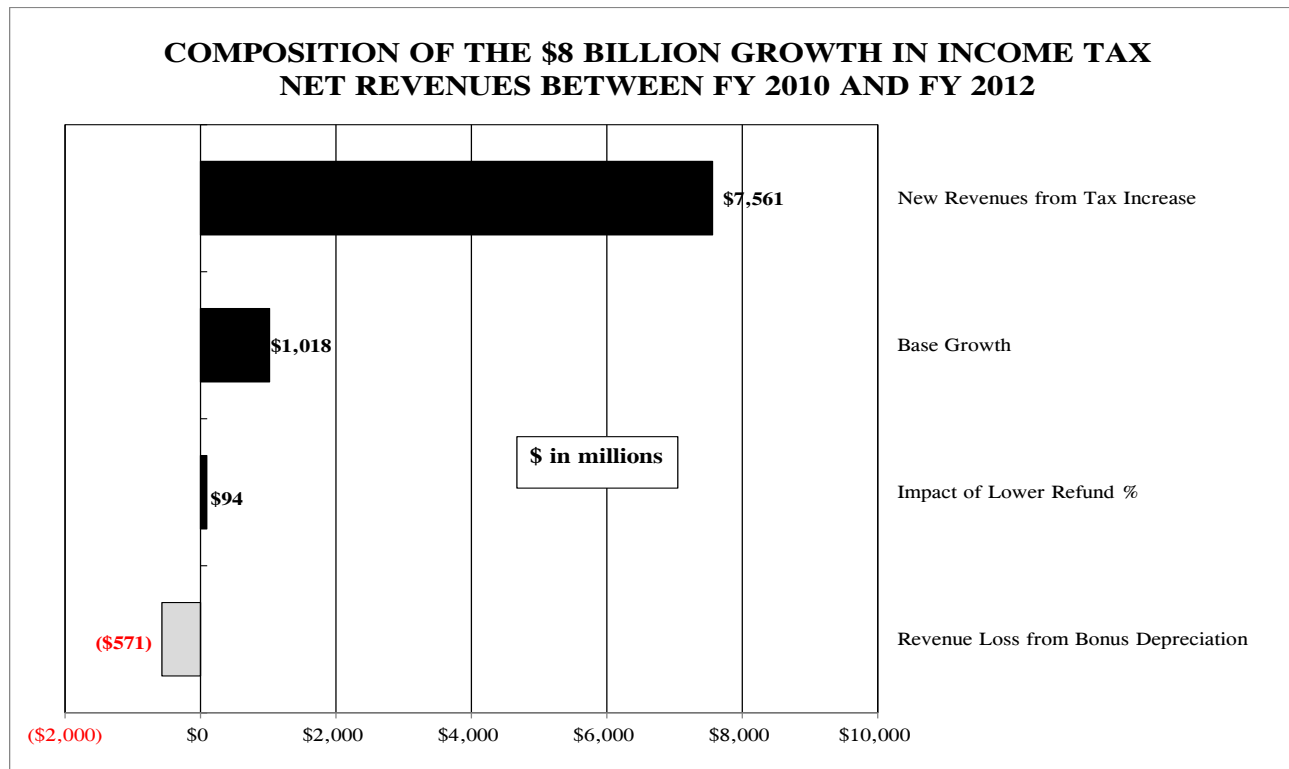
- In terms of income taxes, at this early juncture, base personal income taxes are expected to post 2.3% growth, and base corporate income taxes are expected to be flat. Fortunately, due to year-over-year impacts of federal bonus depreciation, both growth rates will be adjusted positively, thereby able to eke out somewhat higher gains than base growth.
- Sales tax is expected to continue to struggle, likely in the neighborhood of 2%. In the very near future, decisions at the federal level related to the "fiscal cliff" could impact on consumer confidence so it's difficult to commit to a growth rate at this early stage.
- Very little growth can be expected from non-economic sources as well as transfers.
- Federal sources are dependent on reimbursable spending which are in turn dependent on appropriations as well as available resources. At this time, federal sources are assumed to be flat for the upcoming fiscal year – although that assumption will likely change once spending priorities are made.

As shown in the table below, at this early stage, general revenues in FY 2014 are expected to grow just over \$767 million, or 2.2%.

Preliminary CGFA FY 2014 Estimates			
General Funds	FY 2013	FY 2014	
\$millions	Nov-12	Nov-12	Change
State Sources	\$28,488	\$29,218	\$730
Transfers	\$1,763	\$1,800	\$37
Federal Sources	\$3,935	\$3,935	\$0
Total	\$34,186	\$34,953	\$767

HIGHLIGHTS OF 96-1496 (INCOME TAX INCREASE)

- **Increase Individual Income Tax Rate.** Increases the personal income tax rate from 3% to 5% in tax year 2011; to 3.75% in tax year 2015; and, to 3.25% in tax year 2025.
- **Increase Corporate Income Tax Rate.** Increases the corporate income tax rate from 4.8% to 7% in tax year 2011; to 5.25% in tax year 2015; and, to 4.8% in tax year 2025.
- **Temporarily Eliminate Net Operating Loss Deduction.** In the case of a corporation (other than a Subchapter S corporation), P.A. 96-1496 provides that no carryover deduction shall be allowed for tax years 2011, 2012, and 2013; provided that, for purposes of determining the taxable years to which a net loss may be carried, no taxable year for which a deduction is disallowed shall be counted.



Individual and Corporate New Tax Revenues Under P.A. 96-1496 (SB 2505) as Compared to Previous Law

\$ in millions

Denotates Transition Years of Scheduled Rate Reductions

Fiscal Year	Total New Revenues	Amount to Refund Fund	Net Revenues from Personal Tax Increase	Net Revenues from Corporate Tax Increase	Total New Net Revenues from Tax Increases
FY 2011	\$2,706	\$254	\$2,288	\$164	\$2,452
FY 2012	\$8,407	\$847	\$6,512	\$1,048	\$7,560
FY 2013	\$8,238	\$859	\$6,249	\$1,130	\$7,379
FY 2014	\$8,397	\$875	\$6,393	\$1,130	\$7,522
FY 2015	\$5,930	\$611	\$4,660	\$660	\$5,319
FY 2016	\$3,149	\$319	\$2,592	\$238	\$2,830
FY 2017	\$3,059	\$307	\$2,566	\$186	\$2,752
FY 2018	\$3,130	\$315	\$2,626	\$190	\$2,815
FY 2019	\$3,202	\$322	\$2,686	\$194	\$2,880
FY 2020	\$3,275	\$329	\$2,748	\$199	\$2,946
FY 2021	\$3,351	\$337	\$2,811	\$203	\$3,014
FY 2022	\$3,428	\$344	\$2,876	\$208	\$3,083
FY 2023	\$3,507	\$352	\$2,942	\$213	\$3,154
FY 2024	\$3,587	\$361	\$3,009	\$218	\$3,227
FY 2025	\$2,546	\$256	\$2,134	\$156	\$2,290
FY 2026	\$1,231	\$121	\$1,092	\$18	\$1,110

Note: The income tax increase became effective January 1, 2011. The estimates include the impact from the suspension of the N.O.L Deduction (FY 2012 thru FY 2014) and the limited reinstatement of the deduction (from P.A. 97-0636), but does not include any other impacts from P.A. 97-0636 AND P.A. 97-0652. The Commission assumes the FY 2013 refund percentages of 9.75% (personal) and 14.0% (corporate) for FY 2013 and thereafter. ESTIMATES AS OF NOVEMBER 2012.

GENERAL FUNDS BALANCE INFORMATION

GENERAL FUNDS REVENUE HISTORY: FY 1990 - FY 2012

Excludes Budget Stabilization and Pension Contribution Fund Transfers, Short-Term Borrowing, and Related Transfers
(in millions)

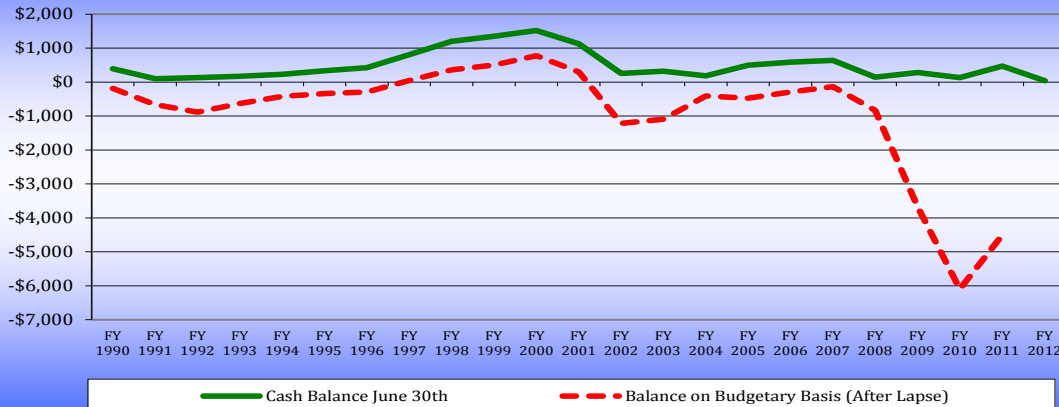


General Funds	Annual \$ Change (in millions)	% Change
---------------	-----------------------------------	----------

FY 1990	\$12,841	-	-
FY 1991	\$13,261	\$420	3.3%
FY 1992	\$14,032	\$771	5.8%
FY 1993	\$14,750	\$718	5.1%
FY 1994	\$15,586	\$836	5.7%
FY 1995	\$17,002	\$1,416	9.1%
FY 1996	\$17,936	\$934	5.5%
FY 1997	\$18,854	\$918	5.1%
FY 1998	\$19,984	\$1,130	6.0%
FY 1999	\$21,674	\$1,690	8.5%
FY 2000	\$23,250	\$1,576	7.3%
FY 2001	\$24,106	\$856	3.7%
FY 2002	\$23,379	-\$727	-3.0%
FY 2003	\$22,786	-\$593	-2.5%
FY 2004	\$25,428	\$2,642	11.6%
FY 2005	\$26,160	\$732	2.9%
FY 2006	\$27,359	\$1,199	4.6%
FY 2007	\$28,640	\$1,281	4.7%
FY 2008	\$29,659	\$1,019	3.6%
FY 2009	\$29,144	-\$515	-1.7%
FY 2010	\$27,090	-\$2,054	-7.0%
FY 2011	\$30,488	\$3,398	12.5%
FY 2012	\$33,797	\$3,309	10.9%

GENERAL FUNDS BALANCES - CASH BASIS

FY 1990 - FY 2012
(in millions)



Cash Balance June 30th	Lapse Spending	Balance on Budgetary Basis (After Lapse)
---------------------------	----------------	---

FY 1990	\$395	\$586	(\$191)
FY 1991	\$100	\$766	(\$666)
FY 1992	\$131	\$1,018	(\$887)
FY 1993	\$172	\$802	(\$630)
FY 1994	\$230	\$652	(\$422)
FY 1995	\$331	\$672	(\$341)
FY 1996	\$426	\$718	(\$292)
FY 1997	\$806	\$761	\$45
FY 1998	\$1,202	\$846	\$356
FY 1999	\$1,351	\$848	\$503
FY 2000	\$1,517	\$740	\$777
FY 2001	\$1,126	\$826	\$300
FY 2002	\$256	\$1,476	(\$1,220)
FY 2003	\$317	\$1,411	(\$1,094)
FY 2004	\$182	\$592	(\$410)
FY 2005	\$497	\$971	(\$474)
FY 2006	\$590	\$881	(\$291)
FY 2007	\$642	\$777	(\$135)
FY 2008	\$141	\$975	(\$834)
FY 2009	\$280	\$3,594	(\$3,674)
FY 2010	\$130	\$6,224	(\$6,094)
FY 2011	\$469	\$4,976	(\$4,507)
FY 2012	\$40	N/A	N/A

DETAILED GENERAL FUNDS REVENUE HISTORY FY 2003 - FY 2012

(\$ million)

<u>Revenue Sources</u>	<u>Actual Receipts FY 2004</u>	<u>Actual Receipts FY 2005</u>	<u>Actual Receipts FY 2006</u>	<u>Actual Receipts FY 2007</u>	<u>Actual Receipts FY 2008</u>	<u>Actual Receipts FY 2009</u>	<u>Actual Receipts FY 2010</u>	<u>Actual Receipts FY 2011</u>	<u>Actual Receipts FY 2012</u>
State Taxes									
Personal Income Tax	\$8,235	\$8,873	\$9,568	\$10,424	\$11,187	\$10,219	\$9,430	\$12,301	\$17,000
Corporate Income Tax (regular)	1,379	1,548	1,784	2,121	2,201	2,073	1,649	2,277	2,983
Sales Taxes	6,331	6,595	7,092	7,136	7,215	6,773	6,308	6,833	7,226
Public Utility Taxes (regular)	1,079	1,056	1,074	1,131	1,157	1,168	1,089	1,147	995
Cigarette Tax	400	450	400	350	350	350	355	355	354
Liquor Gallonage Taxes	127	147	152	156	158	158	159	157	164
Vehicle Use Tax	35	32	34	33	32	27	30	30	29
Inheritance Tax (Gross)	222	310	272	264	373	288	243	122	235
Insurance Taxes and Fees	362	342	317	310	298	334	322	317	345
Corporate Franchise Tax & Fees	163	181	181	193	225	201	208	207	192
Interest on State Funds & Investments	55	73	153	204	212	81	26	28	21
Cook County Intergovernmental Transfer	428	433	350	307	302	253	244	244	244
Other Sources	<u>439</u>	<u>468</u>	<u>441</u>	<u>449</u>	<u>442</u>	<u>418</u>	<u>431</u>	<u>404</u>	<u>399</u>
Subtotal	\$19,255	\$20,508	\$21,818	\$23,078	\$24,152	\$22,343	\$20,494	\$24,422	\$30,187
Transfers									
Lottery	570	614	670	622	657	625	625	632	640
Gaming Fund Transfer [and related]	661	699	689	685	564	430	431	324	413
Other	<u>1,159</u>	<u>918</u>	<u>746</u>	<u>939</u>	<u>679</u>	<u>538</u>	<u>828</u>	<u>1,226</u>	<u>885</u>
Total State Sources	\$21,645	\$22,739	\$23,923	\$25,324	\$26,052	\$23,936	\$22,378	\$26,604	\$32,125
Federal Sources	\$5,189	\$4,691	\$4,725	\$4,703	\$4,815	\$6,567	\$5,920	\$5,386	\$3,682
Total Federal & State Sources	\$26,834	\$27,430	\$28,648	\$30,027	\$30,867	\$30,503	\$28,298	\$31,990	\$35,807
Nongeneral Funds Distribution:									
Refund Fund									
Personal Income Tax	(\$964)	(\$894)	(\$933)	(\$1,016)	(\$867)	(\$996)	(\$919)	(\$1,076)	(\$1,488)
Corporate Income Tax	(442)	(376)	(356)	(371)	(341)	(363)	(289)	(426)	(522)
Subtotal General Funds	\$25,428	\$26,160	\$27,359	\$28,640	\$29,659	\$29,144	\$27,090	\$30,488	\$33,797
Change from Prior Year	\$2,642	\$732	\$1,199	\$1,281	\$1,019	(\$515)	(\$2,054)	\$1,344	\$3,309
Percent Change	11.6%	2.9%	4.6%	4.7%	3.6%	-1.7%	-7.0%	4.6%	10.9%
Short-Term Borrowing	\$0	\$765	\$1,000	\$900	\$2,400	\$2,400	\$1,250	\$1,300	\$0
Tobacco Liquidation Proceeds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,250	\$0
HPF and HHSMTF Transfers	\$0	\$982	\$0	\$456	\$1,503	\$0	\$0	\$0	\$0
Budget Stabilization Fund Transfer	\$226	\$276	\$276	\$276	\$276	\$576	\$1,146	\$535	\$275
Pension Contribution Fund Transfer	\$1,395	\$0	\$0	\$0	\$0	\$0	\$843	\$224	\$0
Total General Funds	\$27,049	\$28,183	\$28,635	\$30,272	\$33,838	\$32,120	\$30,329	\$33,797	\$34,072
Change from Prior Year	\$2,062	\$1,134	\$452	\$1,637	\$3,566	(\$1,718)	(\$1,791)	\$1,677	\$275
Percent Change	8.3%	4.2%	1.6%	5.7%	11.8%	-5.1%	-5.6%	5.2%	0.8%

CGFA



FY 2012 - FY 2014
Summary of Certified State Pension Contributions
State Retirement Systems Combined
Funding Requirements Under P.A. 88-593

(\$ in Millions)

<u>System</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014*</u>
TRS	\$2,406.5	\$2,703.5	\$3,438.6
SERS	\$1,450.8	\$1,659.6	\$1,743.9
SURS	\$980.5	\$1,402.8	\$1,509.8
JRS	\$63.6	\$88.2	\$126.8
GARS	\$10.5	\$14.2	\$13.9
TOTAL	\$4,911.9	\$5,868.3	\$6,833.0

Date: 11/2/2012

Compiled by: Commission on Government Forecasting and Accountability

* FY 2014 Preliminary Certification Amounts Shown Pursuant to P.A. 97-0694, the State Actuary Law. Certification Amounts Do Not Become Official until January 15th, 2013, After Initial Review by the State Actuary.

State Employees Group Insurance Program General Revenue Appropriation and Liabilities (in Millions)

