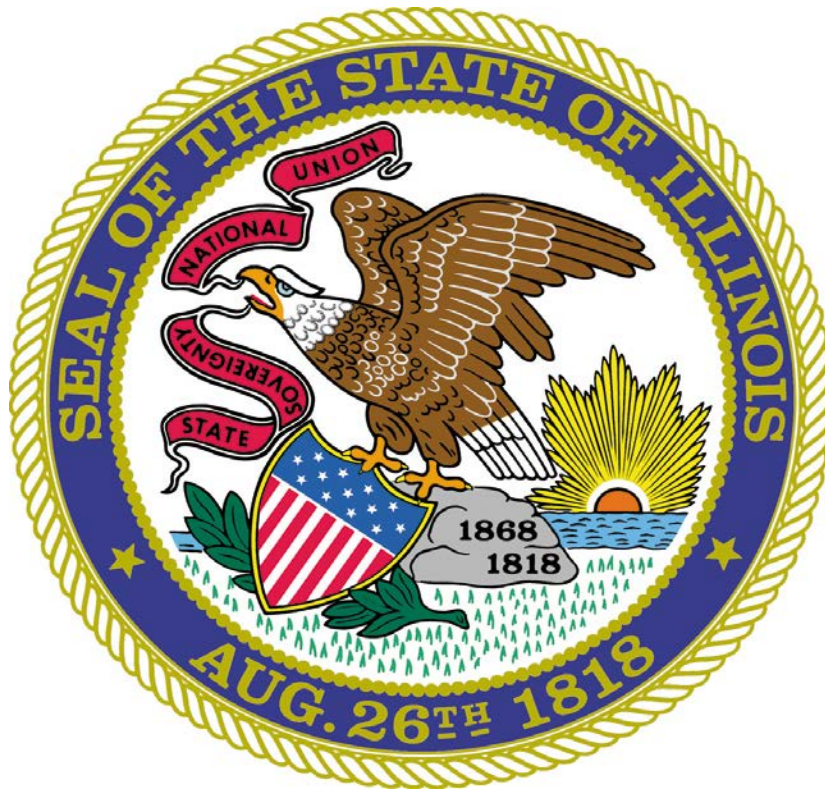


3-Year Budget Forecast FY 2015 – FY 2017



*Commission on Government
Forecasting and Accountability*

March, 2014

Commission on Government
Forecasting and Accountability

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Benjamin L. Varner
Laurie Eby

OFFICE ASSISTANT

Briana Jackson

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INTRODUCTION

As part of Public Act 0958 of the 96th General Assembly, the Commission on Government Forecasting and Accountability has been directed to “...**develop a 3-year budget forecast for the State, including opportunities and threats concerning anticipated revenues and expenditures, with an appropriate level of detail.**”

This report represents the Commission’s mandated 3-year budget forecast. It begins with an examination of the State of Illinois’ General Funds revenues and expenditures over the last 15 years; then considers threats and opportunities to Illinois’ budget; finally, it concludes with potential 3-year budget results based upon scenario analysis.

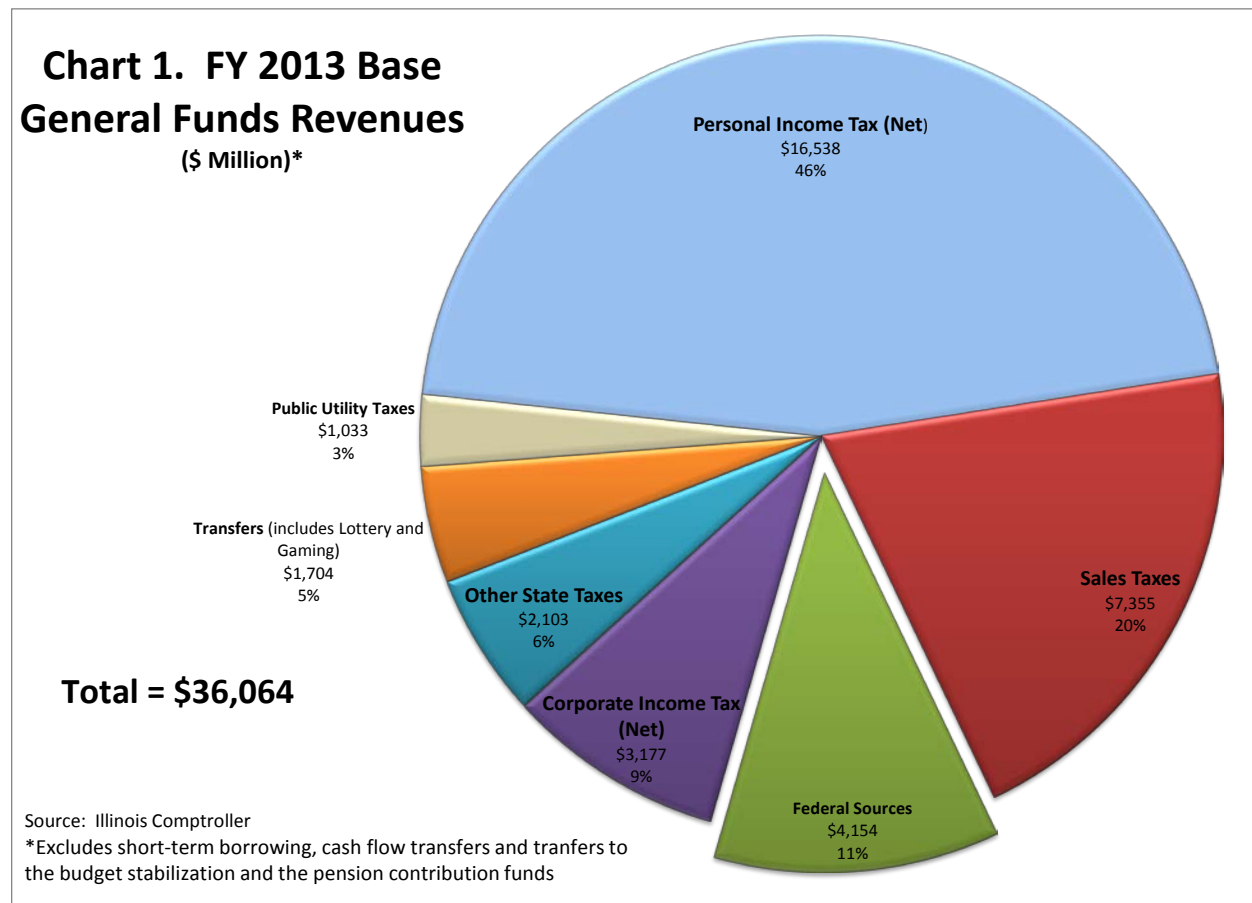
I. Illinois' Budget History

To begin analyzing Illinois' budget, an assessment of historical General Fund revenues and expenditures was conducted. The examined data was from the Illinois State Comptroller's annual report entitled "Traditional Budgetary Financial Report." The composition of base revenues and expenditures were evaluated. In addition, growth rates for both revenues and expenditures were calculated over various time periods. These assessments were then used to assist in the Commission's 3-year budget forecast.

Revenues

Base General Funds revenue totaled \$36.1 billion in FY 2013. This amount excludes short-term borrowing, transfers to the budget stabilization fund and pension contribution fund, and other cash flow transfers. The largest component of base revenue came from the Personal Income Tax (Net) which equaled \$16.5 billion after refunds. This amounted to 46% of total General Funds revenue. The next highest amount came from the Sales Tax which totaled \$7.4 billion, or 20% of the total. Federal Sources and the Corporate Income Tax were the next biggest sources of revenue at \$4.2 billion and \$3.2 billion. Chart 1 illustrates the make-up of FY 2013 Base General Funds revenue.

Appendix A shows historical totals for General Funds revenue from FY 2004 to FY 2013.



Three sources, Personal Income Tax, Sales Taxes, and Federal Sources, annually contributed approximately 75% of total revenue. The proportional make-up of General Funds revenue has been relatively steady over the last decade although Federal Sources, which is highly dependent on Medicaid and related reimbursement rates, varies from about 10% to 20% of base revenues depending upon the fiscal year. Federal Sources made up over 20% of base revenues in FY 2009 and FY 2010 but have been around 11% in the last two fiscal years.

Over the last decade, base General Funds revenue grew at an average rate of 4.9% per year. Of the three biggest sources, Personal Income Tax (Net) averaged the highest growth rate at 9.4%. This growth was due to the increase in the income tax rate for tax year 2011 which led to increases of over 30% in both FY 2011 and FY 2012. Sales taxes grew by an average of 2.1% per year, while Federal Sources rose approximately 2.3% per year. Table 1 shows growth rates for each revenue source.

When data from the late 1990's are included into the data analysis, overall revenue growth increases to 4.2%. Personal income tax grew at 6.8% per year, while sales tax receipts averaged growth of 2.3%. Federal Sources grew at a rate of 2.8% which was above its 10-year average.

TABLE 1. GENERAL FUNDS REVENUE GROWTH RATES					
FY 1998 - FY 2013					
(\$ million)*					
Revenue Sources	1-Year Growth	3-Year Average	5-Year Average	10-Year Average	15-Year Average
State Taxes					
Personal Income Tax (Net)	6.6%	25.6%	11.7%	9.4%	6.8%
Sales Taxes	1.8%	5.3%	0.6%	2.1%	2.3%
Other State Taxes	6.1%	1.6%	-2.3%	0.7%	3.2%
Transfers (includes Lottery and Gaming)	-12.1%	-2.5%	-1.1%	1.6%	4.2%
Corporate Income Tax (Net)	29.1%	32.7%	13.9%	17.2%	9.0%
Public Utility Taxes	3.8%	-1.4%	-2.0%	0.5%	1.1%
Total State Sources	6.0%	14.8%	5.8%	5.8%	4.7%
Federal Sources	12.8%	-9.3%	-0.3%	2.3%	2.8%
Total, Base Revenues	6.7%	10.0%	4.3%	4.9%	4.2%

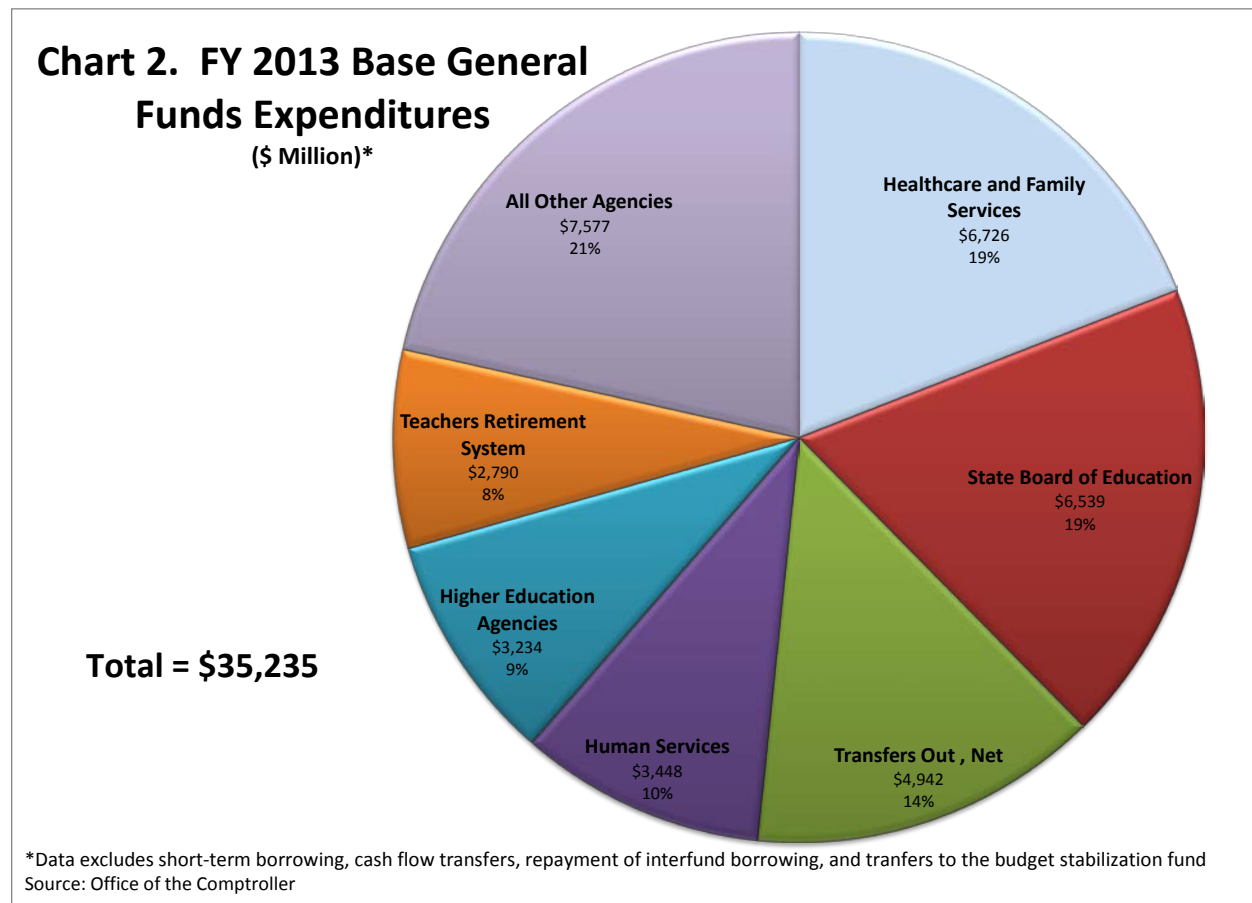
*Excludes short-term borrowing, cash flow transfers, and transfers to the budget stabilization and the pension contribution funds

Expenditures

Base General Funds expenditures amounted to \$35.2 billion in FY 2013. Base expenditures exclude short-term borrowing, transfers to the budget stabilization fund, and cash flow transfers. This was an increase of 5.3%, or \$1.8 billion, from FY 2012 when base expenditures equaled \$33.5 billion. About half of this increase can be accounted for by the increases in expenditures in the retirement systems. Increases in expenditures at the Universities Retirement Systems (\$502 million), the Teachers Retirement System (\$296 million) and the State Employee Retirement System (\$145 million) totaled \$943 million. Spending at the Department on Aging increased by \$329 million in FY 2013.

Of the \$35.2 billion in base General Funds expenditures in FY 2013, the largest portion came from the Department of Healthcare and Family Services (DHFS) which spent just over \$6.7 billion. This was down \$1.4 billion, or 17.6%, from FY 2012 due to the return of the administration of the State Group Health Insurance Program to Central Management Services which saw a corresponding increase of \$1.4 billion. DHFS was followed closely by the State Board of Education at \$6.5 billion, which was \$200 million less than in FY 2012. Each of these categories made up approximately 19% of total expenditures.

Transfers Out (net) made up \$4.9 billion or 14% of total expenditures. The Department of Human Services (DHS) spent \$3.4 billion. Higher Education Agencies including the Universities Retirement System had expenditures of \$3.2 billion. Appendix B highlights



base expenditures for the last 10 fiscal years.

Total General Funds base expenditures grew by 5.3% in FY 2013. The 3-year growth rate of expenditures increases to 6.0% due to an increase in expenditures of over 11% in FY 2011. The 5-year and 10-year growth rates are 3.3% and 4.1% respectively. When you analyze total base expenditures over a 15-year period the rate increases to 5.8% as the average includes large spending increases that occurred in the late 1990's and early 2000's.

DHFS and ISBE, the two largest agencies in FY 2013, grew at an average of 6.2% and 2.6% per year respectively over the last decade. The Department on Aging stands out as one of the fastest growing expenditures at over 19% per year over the last 5-years. In FY 2009, the Department on Aging had expenditures of \$537 million. By FY 2013 this amount had basically doubled to almost \$1.1 billion. Table 2 contains year-over-year percentage changes by agency over different time periods during the past fifteen years.

Expenditures at the Teachers Retirement System grew over 800% in FY 2012. This huge, one-year growth led to the 10-year and 15-year average growth of 85.0% and 61.8%. If FY 2012 was excluded, these two rates would have equaled -2.7% and 3.7% respectively. While the average growth rates for the retirement systems are somewhat skewed due to recent significant increases, they have become a more significant portion of state spending. From FY 2004 through FY 2011, the Teachers Retirement System accounted for approximately 3% of total base expenditures. In FY 2012 and FY 2013 it accounted for 7.4% and 7.9% of total base expenditures.

**TABLE 2. GENERAL FUNDS EXPENDITURES GROWTH RATES
FY 1999 - FY 2013**

<u>WARRANTS ISSUED</u>	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>	<u>15-Year</u>
<u>BY AGENCY</u>	<u>Growth</u>	<u>Growth</u>	<u>Growth</u>	<u>Growth</u>	<u>Growth</u>
Healthcare and Family Services	-17.6%	-1.7%	-2.2%	4.5%	4.8%
State Board of Education	-3.0%	-3.5%	-1.3%	2.6%	3.2%
Human Services	1.0%	-4.6%	-3.2%	0.0%	n/a
Higher Education Agencies	13.7%	14.2%	8.9%	3.3%	3.5%
Corrections	-3.1%	0.5%	-0.4%	0.3%	1.8%
Children and Family Services	-10.5%	-5.1%	-4.0%	-1.1%	-1.4%
Aging	45.0%	19.0%	19.2%	n/a	n/a
Teachers Retirement System	11.9%	271.4% *	162.3% *	85.0% *	61.8% *
All Other Agencies	59.4%	33.4%	18.8%	7.5%	6.9%
Prior Year Adjustments	<u>-76.1%</u>	<u>84.4%</u>	<u>54.9%</u>	<u>24.0%</u>	<u>8.5%</u>
Total Warrants Issued (14 months)	3.7%	5.1%	2.6%	3.5%	5.7%
Transfers					
Transfers Out	3.6%	-4.8%	-4.0%	12.3%	12.0%
Total, Base Expenditures	5.3%	6.0%	3.3%	4.1%	5.8%

* Teacher Retirement System expenditure growth rates are extremely high due to FY 2012 growth of over 874%, excluding FY 2012, the 10-Year and 15-Year growth rates would have been -2.7% and 3.7%.

II. Threats and Opportunities

While Illinois is still within a prolonged period of economic recovery and certainly needs to continue to improve in specific sectors, the State does seem to be faring slightly better than this time one year ago. Nonetheless, there is still an array of threats and opportunities that could help or hinder Illinois' financial and economic circumstances over the coming year.

In February 2014, Moody's Analytics released the State of Illinois Economic Forecast Report that presents a thorough outlook, highlighting both positive and negative factors, for Illinois in 2014 relative to various economic and industry sectors. The report reiterated from 2013 that Illinois is still among the Midwest's weakest since the national recovery took hold in mid-2009. However, they emphasize that Illinois' recession was more severe than the nation's. The State still ranked in the bottom one-third of Midwest states in jobs, income, and output in 2013. In addition, Illinois has only recouped about two-thirds of its recessionary job loss, compared to the Midwest and the nation taking back 75% and 85%, respectively.

Nevertheless, Moody's pointed out that a decline in foreclosures is helping the housing sector, manufacturing is no longer backpedaling, and consumers are benefiting from an increase in wealth and better credit quality. In addition, they noted that Chicago's economy made steady progress in 2013, advancing at roughly the same pace as the prior year, but yet significantly faster than other parts of the State. While the aforesaid positive factors are encouraging, there are still areas that Illinois needs to improve upon, namely severe budgetary problems, which encompasses a multitude of issues including balancing the budget, dealing with the income tax rollback, and being able to actually implement permanent pension reform measures, the latter which could possibly be postponed depending on the action taken by the courts due to pending litigation. The Moody's report further analyzes the long term outlook as it relates to specific regions and various business sectors of the economy. The entire report is available for download on the Commission's website (cgfa.ilga.gov).

Reduction of Individual/Corporate Income Tax Increases

The most prevalent issue to be addressed in Fiscal Year 2015 will unquestionably be the rollback of the temporary increase of the individual and corporate income tax rates. In January 2011, PA 96-1496 increased the Individual Income Tax from 3% to 5% in tax year 2011, but will decrease to 3.75% in 2015, and finally to 3.25% in 2025. Comparatively, the Corporate Income Tax rate increased from 4.8% to 7% in tax year 2011, but will decrease to 5.25% in 2015 and finally to the original 4.8% in 2025. As shown in the following chart, if lawmakers allow the increases to expire according to current law, the Commission estimates the State will experience tax revenue decreases of \$1.9 billion in FY 2015, \$2.9 billion in FY 2016, followed by \$840 million in FY 2025, and \$1.4 billion in FY 2026. Without a permanent revenue source to replace this funding or substantial budget cuts to absorb the revenue shortfall, Illinois will most likely be looking to one-time, short-term revenue solutions to balance the budget. While a number of possibilities and scenarios

will likely be considered over the coming months, the issue will remain at the forefront as this is a significant concern as lawmakers strive to better the fiscal viability of the state.

Not included in the above estimated income tax revenue declines are additional spending pressures that will take effect beginning in FY 15. The Fund for Advancement of Education and the Commitment to Human Services Fund will begin receipting proceeds from the income taxes collected by the state. The Commission estimates the value of these deposits to be \$396 million in FY 15, \$858 million in FY 16 and \$876 million in FY 17.

Individual and Corporate New Tax Revenues Under P.A. 96-1496 (SB 2505) as Compared to Previous Law					
\$ in millions					
Denotes 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	\$8,921	\$935	\$6,673	\$1,313	\$7,986
FY 2014	\$8,641	\$879	\$6,476	\$1,286	\$7,762
FY 2015	\$6,522	\$688	\$5,054	\$779	\$5,834
FY 2016	\$3,303	\$343	\$2,675	\$284	\$2,959
FY 2017	\$3,203	\$331	\$2,648	\$224	\$2,872
FY 2018	\$3,280	\$339	\$2,709	\$232	\$2,941
FY 2019	\$3,359	\$347	\$2,771	\$240	\$3,012
FY 2020	\$3,439	\$356	\$2,835	\$249	\$3,084
FY 2021	\$3,522	\$364	\$2,900	\$257	\$3,158
FY 2022	\$3,606	\$373	\$2,967	\$266	\$3,233
FY 2023	\$3,693	\$382	\$3,035	\$276	\$3,311
FY 2024	\$3,782	\$391	\$3,105	\$285	\$3,390
FY 2025	\$2,844	\$294	\$2,344	\$207	\$2,550
FY 2026	\$1,280	\$129	\$1,127	\$24	\$1,151

*NOTE: The income tax increase became effective January 1, 2011, and is set to be reduced (from 5% to 3.75% for PIT and 7% to 5.25% for CIT) on January 1, 2015. The estimates include the impact from the suspension of the N.O.L Deduction (FY 2012 thru FY 2014), but does not include impacts from P.A. 97-0636 AND P.A. 97-0652. The Commission assumed the refund percentages of 9.5% (PIT) and 13.4% (CIT) for FY 2014, but uses the DoR estimates of 10% (PIT) and 14% (CIT) for FY 2015 and thereafter.
ESTIMATES AS OF MARCH 2014*

Backlog of Payables

As of the end of February 2014, the Comptroller estimated the State's backlog of unpaid bills to be \$5.8 billion, not including approximately \$800 million in Medicaid bills that are considered to be in-process at the Department of Healthcare & Family Services (HFS) because they are being processed to the Comptroller within a 30 day window. The \$5.8 billion includes \$4.8 billion that has been received by the Comptroller as well as \$1 billion that agencies were still holding. The total \$5.8 billion is an increase of \$1.15 billion, or 24.5%, compared to the July 2013 total of only \$4.7 billion (again, not including Medicaid related bills). The bill backlog has increased an average of \$163 million per month since July 2013. From an alternative view, it would take 18.7% of the current fiscal year's General Funds' appropriation in order to eliminate the existing backlog, or 16% of the current fiscal year's estimated General Funds revenues.

The Governor's Office of Management & Budget's Three Year Budget Projection, released in January 2014, estimates the Gross Backlog of Bills to be \$16.2 billion by the end of FY 17. This is an increase of \$10.4 billion, or 179%, compared to the February 2014 backlog data. As the backlog multiplies, the financial and economic pressures that vendors and providers are forced to tackle multiply as well, thus not only adversely impacting their own businesses and those they serve, but their employees' financial health will be disrupted when employers are forced to close their doors due to lack of operating funds.

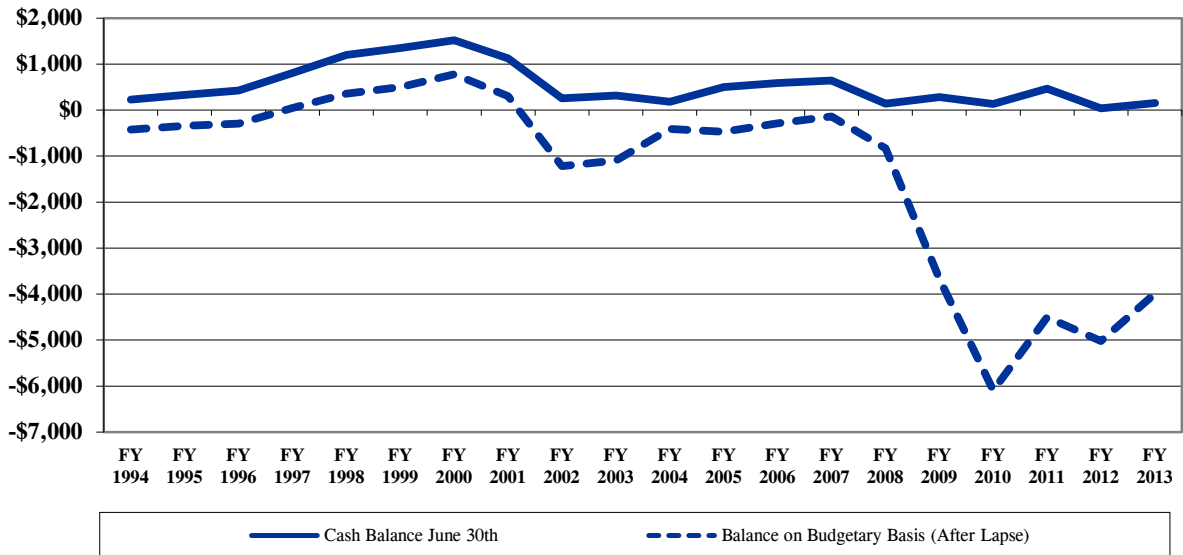
Cash Balance & GAAP General Funds End of Year Fund Balance

An analysis of the end of fiscal year cash balance, including lapse period spending, is an indicator of the State's fiscal health. Most recently in FY 13, Illinois ended the year with \$154 million on hand. During the lapse period (technically in FY14) an additional \$4.142 billion was spent, thus resulting in a balance of -\$3.988 billion. Essentially, 13% of the \$31.1 billion which was appropriated for FY 14 expenses was utilized to satisfy previous fiscal year obligations. On the following page is a chart depicting Illinois' cash balance, including lapse period spending, since 1994.

GENERAL FUNDS BALANCES - CASH BASIS

FY 1994 - FY 2013

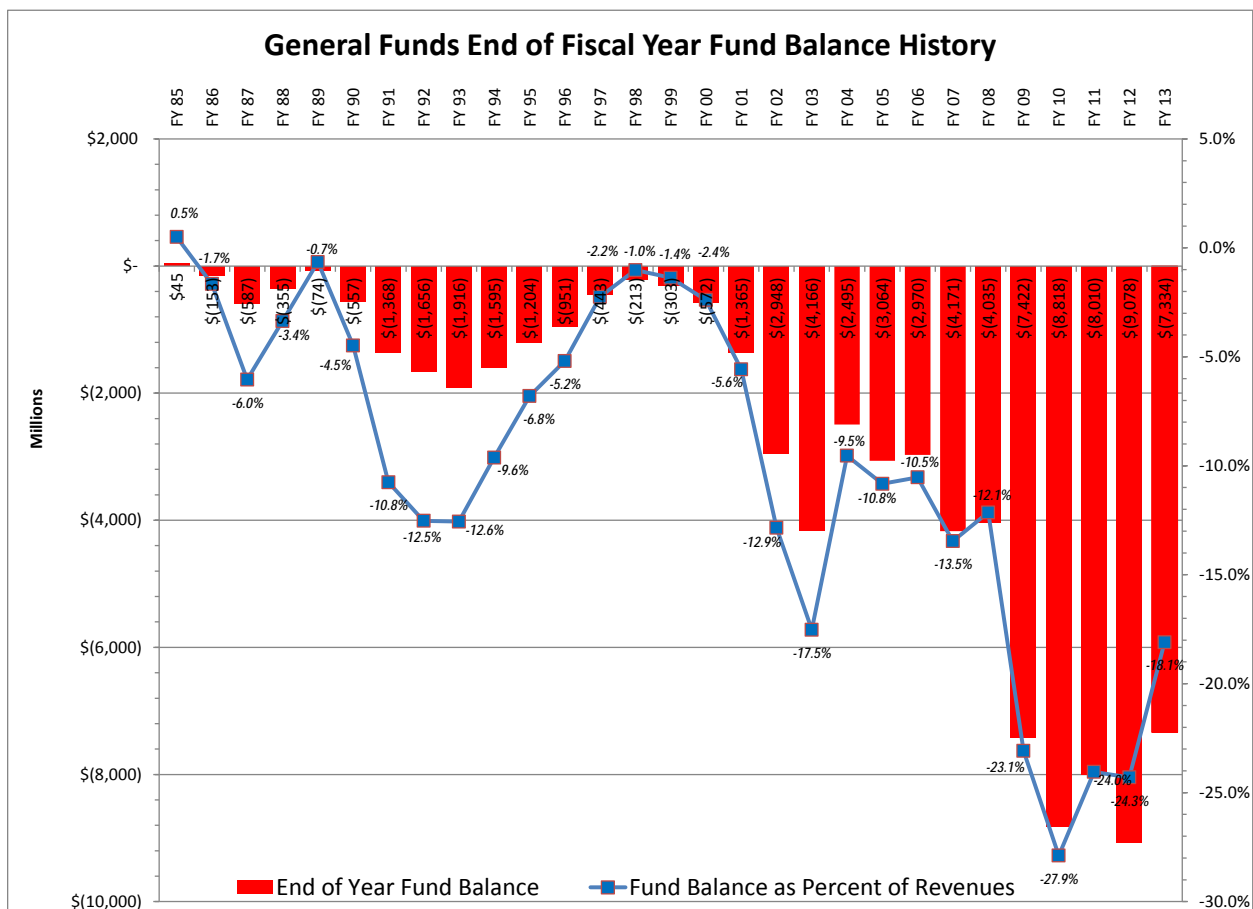
(in millions)



	Cash Balance June 30th	Lapse Spending	Balance on Budgetary Basis (After Lapse)
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	\$3,953	(\$3,673)
FY 2010	\$130	\$6,224	(\$6,094)
FY 2011	\$469	\$4,976	(\$4,507)
FY 2012	\$40	\$5,064	(\$5,024)
FY 2013	\$154	\$4,142	(\$3,988)

While there are various methods by which to measure and monitor the fiscal health of the State, most commonly we tend to look at the cash on hand at the end of a fiscal year. However, because this approach only reflects the State's General Funds balance on a specific day, without regard to outstanding bills and obligations, it does not provide an accurate and comprehensive depiction of the State's overall financial health. Alternatively, one such approach that provides an all-inclusive appraisal, and which is consistent with the Generally Accepted Accounting Principles (GAAP), is an assessment of the General Funds end of year fund balance. A healthy, positive fund balance can function as an 'insurance policy' of sorts; in that the surpluses are available should revenues not meet expectations and/or the economy experiences a downturn. The Government Finance Officers Association recommends that governments establish a formal policy on the level of unreserved fund balance (otherwise known as a Rainy Day Fund) that should be maintained. The level that is recommended is no less than five to fifteen percent of General Funds Revenues, or no less than one to two months of regular General Funds Expenditures. Illinois does have a 'rainy day fund', named the Budget Stabilization Fund, which was established in May 2000. However, it has not served the purpose for which it was originally intended because Illinois has not had sufficient surpluses to transfer to the fund.

A healthy fund balance for the State of Illinois would be *at least* \$2 billion, or 5% of the FY 13 General Funds Revenues. As of June 30, 2013, Illinois' General Funds balance was a negative -\$7.3 billion (-18.1%). In contrast, the cash on hand balance on this same day was a positive \$154 million. The difference is that the latter does not take into



consideration all of the outstanding bills and obligations that are owed. While building this healthy emergency fund will take time, it is an investment that should be prioritized and not discounted. The General Funds balance deficit was recently highlighted in the Auditor General’s Statewide Financial Statement Audit that was released on March 12, 2014.

State Prompt Payment Act

A consequence of such a significant backlog is the interest that the State is required to pay vendors when bills are not paid within 90 days, pursuant to the State Prompt Payment Act (30 ILCS 540). As was recently noted in an audit by the Auditor General, the State paid approximately \$318 million in interest payments during Fiscal Year 2013. The Auditor General’s report noted that economic conditions, as well as years of unbalanced budgets, appear to be the cause of the excessive interest payments. As the payment cycle is extended and the backlog increases, the interest liability will continue to increase accordingly, instead of these funds being available to support operational and programmatic budgetary needs.

General Obligation Bond Rating

Since January 2013, Illinois has seen its General Obligation Bond Ratings downgraded by all three rating agencies. In January 2013 S&P downgraded Illinois to a rating of A-, but has recently noted (in December 2013) an outlook of ‘Developing’ pending on the outcome of the pension reform measures. This means they could raise or lower the rating during a two-year outlook period. In June 2013 Fitch downgraded Illinois to an A- rating and Moody’s to an A3 rating (the equivalent of an A-). Both Fitch and Moody’s have Illinois on a ‘Negative Watch’ for possible downgrading based on ongoing budget and pension funding concerns. Depending on the court’s decision regarding pension reform and its subsequent impact on the budget, Illinois could experience either upgrades or downgrades in the future.

ILLINOIS GENERAL OBLIGATION BOND RATINGS							
Mar-Jul 2009	Dec 2009	Mar-Apr 2010	June 2010	Jan 2012	Aug 2012	Jan 2013	June 2013
A	A	A-/A+*	A	A	A	A	A-
AA-	A+	A+	A+	A+	A	A -	A -
A1	A2	A2/Aa3*	A1	A2	A2	A2	A3
*Fitch and Moody's recalibrated their Municipal Bond ratings to be on a scale with their global ratings,							

State Pension Liability

While the Governor signed Conference Committee No. 1 Report to SB 1 into law, PA 98-0599 is currently the subject of litigation. It has yet to be determined if the law will be allowed to be implemented while the court case proceeds through the judicial process. As the law was drafted, and because the pension payment amounts for FY 2015 have already been certified, the State would not realize any savings from the pension reform measures in the FY 2015 budget. The first year any real savings would be realized is FY 2016, which begins July 1, 2015. However, when the savings will be applied will depend on the decision of the courts as to whether or not the law is implemented accordingly, delayed per a judicial ruling, or stricken as unconstitutional. There is no means of predicting the outcome. What we do know is that should the law not be upheld by the courts, the State will be returning to square one to deal with the pension crisis and the increasing annual pension payments will continue to be an unavoidable spending pressure when drafting the annual budget. The pension payment for FY 2015 is \$6.9 billion.

III. 3-Year Budget Forecasts

Below is the Commission's 3-year estimate for base General Funds revenues. Base General Funds revenue is estimated to be \$36.1 billion in FY 2014, \$34.5 billion in FY 2015, \$31.7 billion in FY 2016, and \$32.4 billion in FY 2017. The Income Taxes and Sales Taxes continue to be the largest sources of revenue along with Federal Sources. Base revenues are expected to decline -4.4% in FY 2015 and continue to decline (-8.1%) in FY 2016. The significant decreases in revenues in FY 2015 and FY 2016 are due to the scheduled reduction in income tax rates that is required by current law. Moderate revenue growth of 2.0% is expected in FY 2017.

TABLE 5. CGFA ESTIMATES FY 2014-FY 2017 (Base Revenues)

(millions)

Revenue Sources	Actual FY 2013	CGFA FY 2014 Estimate Mar-14	CGFA FY 2015 Estimate Mar-14	CGFA FY 2016 Estimate Mar-14	CGFA FY 2017 Estimate Mar-14
State Taxes					
Personal Income Tax	\$18,323	\$17,713	\$16,717	\$14,289	\$14,590
Corporate Income Tax	\$3,679	\$3,738	\$3,267	\$2,953	\$2,977
Sales Taxes	\$7,355	\$7,673	\$7,842	\$8,020	\$8,205
Public Utility (regular)	\$1,033	\$1,005	\$995	\$982	\$975
Cigarette Tax	\$353	\$355	\$355	\$355	\$355
Liquor Gallonage Taxes	\$165	\$165	\$165	\$166	\$168
Vehicle Use Tax	\$27	\$29	\$29	\$30	\$30
Inheritance Tax (gross)	\$293	\$230	\$205	\$205	\$205
Insurance Taxes & Fees	\$334	\$330	\$330	\$335	\$340
Corporate Franchise Tax & Fees	\$205	\$203	\$205	\$207	\$210
Interest on State Funds & Investments	\$20	\$20	\$25	\$30	\$40
Cook County Intergovernmental Transfer	\$244	\$244	\$244	\$244	\$244
<u>Other Sources</u>	<u>\$462</u>	<u>\$530</u>	<u>\$486</u>	<u>\$434</u>	<u>\$438</u>
Subtotal	\$32,493	\$32,235	\$30,865	\$28,250	\$28,777
Transfers					
Lottery	\$656	\$669	\$682	\$696	\$710
Riverboat transfers and receipts	\$345	\$316	\$300	\$300	\$302
Proceeds from sale of 10th license	\$15	\$10	\$10	\$10	\$10
Refund Fund transfer	\$0	\$397	\$100	\$0	\$0
<u>Other</u>	<u>\$688</u>	<u>\$780</u>	<u>\$790</u>	<u>\$730</u>	<u>\$730</u>
Total State Sources	\$34,197	\$34,407	\$32,747	\$29,986	\$30,529
Federal Sources	\$4,154	\$3,850	\$4,273	\$4,424	\$4,582
Total Federal & State Sources	\$38,351	\$38,257	\$37,020	\$34,410	\$35,111
Nongeneral Funds Distribution:					
Refund Fund*					
Personal Income Tax [10%]	(\$1,785)	(\$1,683)	(\$1,672)	(\$1,429)	(\$1,459)
Corporate Income Tax [14%]	(\$502)	(\$501)	(\$457)	(\$413)	(\$417)
Fund for Advancement of Education			(\$198)	(\$429)	(\$438)
Commitment to Human Services Fund			(\$198)	(\$429)	(\$438)
Total, Base Revenues	\$36,064	\$36,073	\$34,495	\$31,710	\$32,359
Change from Prior Year Estimate		\$9	(\$1,578)	(\$2,785)	\$649
Percent Change		0.0%	-4.4%	-8.1%	2.0%

*The FY 2015-17 estimates based on current refund percentages at 10% for PIT and 14% for CIT.

NOTE: Totals exclude short-term borrowing, Budget Stabilization transfers, and other cash flow transfers.

Source: CGFA

The Commission used these revenue estimates to present various budget scenarios using different spending levels as spending will change based upon priorities that will be determined during budget negotiations. Eight budget scenarios were analyzed using different spending growth rates. These growth rates were applied to the FY 2014 spending base of \$35.9 billion as indicated in the Governor's 3-year budget projection released in January of 2014. No debt restructuring was assumed in any of these scenarios.

The first growth rate scenario was annual declines in spending of -7.5% which is the rate at which the cumulative surplus/deficit would equal \$0 at the end of the three years. The second rate was annual declines of -1%. The third scenario was 0.0% growth or flat spending. This was done to demonstrate what would happen if spending was held constant over the next three years. Scenario four had annual growth rates in spending of 1% which is still well below the 10-year average. The fifth scenario used the spending levels as presented in the Governor's 3-year budget projection. The sixth growth rate was 3.3%. The 3.3% growth rate was the 5-year average growth in base expenditures from FY 2009 – FY 2013. The next spending growth rate was 4.1% which matches the 10-year growth rate in base expenditures.

The last spending level scenario used were the spending limits mandated by Public Act 096-1496 with flat spending growth in FY 2016 and FY 2017 as the legislation does not have spending caps stated for those fiscal years. As part of Public Act 096-1496, spending limits were put into place for General Revenue fund expenditures for Fiscal Years 2012 – 2015. The spending limits rose significantly in FY 2012 and then limit growth to 2% per year. If spending is higher than the set limits in any fiscal year, the increase in the income tax rate would revert back to the old rates that were in effect prior to Public Act 096-1496.

Scenario Analysis Results

Results of the various budget scenarios can be found in Table 6. Table 6 contains revenues, spending, operating surplus/deficit, and cumulative surplus/deficit information for each scenario. The cumulative surplus/deficit data assumes a cumulative deficit of -\$6.3 billion at the end of FY 2014.

No scenario analyzed resulted in a cumulative surplus over the three years analyzed. In fact, only one scenario had years with surpluses and that scenario was specifically used to demonstrate what it would take to get the cumulative deficit to zero. These poor results are due to the scheduled lowering of the income tax rates under current law which will significantly lower the expected amount of revenue in FY 2015 and FY 2016. To obtain yearly surpluses with the revenues assumed under current law would require significant decreases in expenditures.

Scenario 1. -7.5% Annual Decline in Spending

The first scenario analyzed (annual declines of -7.5%) would get the Budget Basis Fund Balance (Deficit) at the end of the fiscal year to zero by the end of FY 2016. This column is described as cumulative surplus/deficit in Table 6. This scenario saw surpluses in all three years ranging from \$969 million to \$3.9 billion. Base expenditures would be reduced to only \$28.4 billion in FY 2017 in this scenario.

Scenario 2. -1% Annual Decline in Spending

The second scenario (annual declines of -1% in spending) would have operating deficits in all three projected fiscal years. Under this scenario, the deficit would be just under -\$1.1 billion in FY 2015, over -\$3.5 billion in FY 2016, and -\$2.5 billion in FY 2017. The cumulative deficit would grow to over -\$13 billion in FY 2017. A scenario using decreases in annual growth are shown to demonstrate the range of possibilities in relation to expenditures but remain unlikely as total base expenditures have only decreased twice (FY 2003 and FY 2010) over the last 19 years.

Scenario 3. Flat Spending

Scenario 3 shows what would happen if expenditures were frozen at FY 2014 levels. This scenario once again predicts three years of deficits with FY 2015 having a deficit of over -\$4.2 billion. The cumulative deficit rises to -\$15.3 billion at the end of the three years.

Scenario 4. 1% Annual Growth in Spending

Scenario 4 examines the results if spending were kept to just 1.0% per year. The State would see deficits of -\$1.8 billion in FY 2015, -\$4.9 billion in FY 2016, and -\$4.7 billion in FY 2017. The cumulative deficit would be -\$17.5 billion after FY 2017.

Scenarios 2-4 all had three years of deficits which followed the same pattern: a deficit of approximately -\$1.5 billion in FY 2015, a significant decline to a deficit of around -\$4 billion in FY 2016, and some improvement in FY 2017. The next three scenarios follow a similar pattern in FY 2015 and FY 2016 but don't show any improvement in FY 2017.

Scenario 5. GOMB 3-Year Budget Projection Spending Levels

The spending levels for this scenario are based on the 3-year budget projection put out by the Governor's Office of Management and Budget. Under their spending levels, the deficit is -\$2.6 billion in FY 2015. The annual deficit in FY 2016 grows to -\$5.2 billion and to -\$5.8 billion in FY 2017. The cumulative deficit rises to just under -\$20 billion in this scenario.

Scenario 6. 5-Year Average Growth in Spending (3.3%)

Scenario 6 uses the 5-year average growth in spending of 3.3%. Spending at this level leads to three years of continued deficits similar to the rest of the scenarios. The deficit would be -\$2.6 billion in FY 2015 but more than double to -\$6.6 billion in FY 2016. FY 2017's deficit would be over -\$7.2 billion. The cumulative deficit would be over -\$22.6 billion.

Scenario 7. 10-Year Average Growth in Spending (4.1%)

Scenario 7 uses the 10-year average growth in spending of 4.1%. Under this scenario, the annual deficit is expected to grow to a little over -\$2.9 billion in FY 2015, explode to -\$7.2 billion in FY 2016, and continue to deteriorate to -\$8.2 billion in the last year forecast. This scenario would see spending reach over \$40.5 billion in FY 2017. The cumulative deficit would increase to -\$24.5 billion.

Scenario 8. Spending Caps (P.A. 096-1496)

The last scenario looks at what would happen if the spending caps imposed by Public Act 096-1496 were used as the spending estimates over the next three years. Public Act 096-1496 did not specify a spending cap for FY 2016 and FY 2017, therefore the Commission assume flat spending for those years.

The cumulative deficit would be over -\$24 billion if these spending levels were used similar to Scenario 7. This scenario ends with the second largest deficit even though the increases in spending were limited to 2% per year due to a large increase in the assumed base that was written into the public act for FY 2012. The FY 2012 spending limit was \$36.8 billion in the public act which was approximately \$3.4 billion more than what was actually spent in FY 2012.

The results of this scenario analysis show that under current law, revenues are going to decline in the near term and lead to deficits unless cuts in spending are taken the likes of which have not been seen in Illinois over the last few decades.

TABLE 6. 3-YEAR BUDGET SCENARIOS

(\$ million)

Scenario 1: -7.5% Annual Decline in Spending					Scenario 5: GOMB 3-Year Budget Spending Levels				
	Revenues	Spending	Operating Surplus/Deficit	Cumulative Surplus/Deficit		Revenues	Spending	Operating Surplus/Deficit	Cumulative Surplus/Deficit
FY 2014	\$36,073	\$35,927	\$146	(\$6,155)	FY 2014	\$36,073	\$35,927	\$146	(\$6,155)
FY 2015	\$34,495	\$33,233	\$1,262	(\$4,893)	FY 2015	\$34,495	\$37,101	(\$2,606)	(\$8,761)
FY 2016	\$31,710	\$30,741	\$969	(\$3,924)	FY 2016	\$31,710	\$36,924	(\$5,214)	(\$13,975)
FY 2017	\$32,359	\$28,435	\$3,924	(\$0)	FY 2017	\$32,359	\$38,154	(\$5,795)	(\$19,770)
Scenario 2: -1% Annual Decline in Spending					Scenario 6: 5-Year Average Growth in Spending (3.3%)				
	Revenues	Spending	Operating Surplus/Deficit	Cumulative Surplus/Deficit		Revenues	Spending	Operating Surplus/Deficit	Cumulative Surplus/Deficit
FY 2014	\$36,073	\$35,927	\$146	(\$6,155)	FY 2014	\$36,073	\$35,927	\$146	(\$6,155)
FY 2015	\$34,495	\$35,568	(\$1,073)	(\$7,228)	FY 2015	\$34,495	\$37,113	(\$2,618)	(\$8,773)
FY 2016	\$31,710	\$35,212	(\$3,502)	(\$10,730)	FY 2016	\$31,710	\$38,337	(\$6,627)	(\$15,400)
FY 2016	\$32,359	\$34,860	(\$2,501)	(\$13,231)	FY 2017	\$32,359	\$39,602	(\$7,243)	(\$22,643)
Scenario 3: Flat Spending					Scenario 7: 10-Year Average Growth in Spending (4.1%)				
	Revenues	Spending	Operating Surplus/Deficit	Cumulative Surplus/Deficit		Revenues	Spending	Operating Surplus/Deficit	Cumulative Surplus/Deficit
FY 2013	\$36,073	\$35,927	\$146	(\$6,155)	FY 2014	\$36,073	\$35,927	\$146	(\$6,155)
FY 2014	\$34,495	\$35,927	(\$1,432)	(\$7,587)	FY 2015	\$34,495	\$37,400	(\$2,905)	(\$9,060)
FY 2015	\$31,710	\$35,927	(\$4,217)	(\$11,804)	FY 2016	\$31,710	\$38,933	(\$7,223)	(\$16,283)
FY 2016	\$32,359	\$35,927	(\$3,568)	(\$15,372)	FY 2017	\$32,359	\$40,530	(\$8,171)	(\$24,454)
Scenario 4: 1% Annual Growth in Spending					Scenario 8: Spending Caps (P.A. 096-1496)				
	Revenues	Spending	Operating Surplus/Deficit	Cumulative Surplus/Deficit		Revenues	Spending	Operating Surplus/Deficit	Cumulative Surplus/Deficit
FY 2013	\$36,073	\$35,927	\$146	(\$6,155)	FY 2014	\$36,073	\$35,927	\$146	(\$6,155)
FY 2014	\$34,495	\$36,286	(\$1,791)	(\$7,946)	FY 2015	\$34,495	\$38,305	(\$3,810)	(\$9,965)
FY 2015	\$31,710	\$36,649	(\$4,939)	(\$12,885)	FY 2016*	\$31,710	\$39,072	(\$7,362)	(\$17,327)
FY 2016	\$32,359	\$37,016	(\$4,657)	(\$17,542)	FY 2017*	\$32,359	\$39,072	(\$6,713)	(\$24,040)

* P.A. 096-1496 had no spending cap enumerated for FY 2016 and FY 2017, therefore spending was held flat.

All scenarios use GGFA revenue estimates, the GOMB 3-year budget report as the base for spending, and a cumulative deficit of (\$6,301) at the end of FY 2013.

APPENDIX A. DETAILED GENERAL FUNDS REVENUE HISTORY FY 2004 - FY 2013

(\$ million)

Revenue Sources	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
State Taxes										
Personal Income Tax	\$8,235	\$8,873	\$9,568	\$10,424	\$11,187	\$10,219	\$9,430	\$12,301	\$17,000	\$18,323
Corporate Income Tax (regular)	1,379	1,548	1,784	2,121	2,201	2,073	1,649	2,277	2,983	3,679
Sales Taxes	6,331	6,595	7,092	7,136	7,215	6,773	6,308	6,833	7,226	7,355
Public Utility Taxes (regular)	1,079	1,056	1,074	1,131	1,157	1,168	1,089	1,147	995	1,033
Cigarette Tax	400	450	400	350	350	350	355	355	354	353
Liquor Gallonage Taxes	127	147	152	156	158	158	159	157	164	165
Vehicle Use Tax	35	32	34	33	32	27	30	30	29	27
Inheritance Tax (Gross)	222	310	272	264	373	288	243	122	235	293
Insurance Taxes and Fees	362	342	317	310	298	334	322	317	345	334
Corporate Franchise Tax & Fees	163	181	181	193	225	201	208	207	192	205
Interest on State Funds & Investments	55	73	153	204	212	81	26	28	21	20
Cook County Intergovernmental Transfer	428	433	350	307	302	253	244	244	244	244
Other Sources	439	468	441	449	442	418	431	404	399	462
Subtotal	\$19,255	\$20,508	\$21,818	\$23,078	\$24,152	\$22,343	\$20,494	\$24,422	\$30,187	\$32,493
Transfers										
Lottery	570	614	670	622	657	625	625	632	640	656
Gaming Fund Transfer [and related]	661	699	689	685	564	430	431	324	413	360
Other	1,159	918	746	939	679	538	828	1,226	885	688
Total State Sources	\$21,645	\$22,739	\$23,923	\$25,324	\$26,052	\$23,936	\$22,378	\$26,604	\$32,125	\$34,197
Federal Sources	\$5,189	\$4,691	\$4,725	\$4,703	\$4,815	\$6,567	\$5,920	\$5,386	\$3,682	\$4,154
Total Federal & State Sources	\$26,834	\$27,430	\$28,648	\$30,027	\$30,867	\$30,503	\$28,298	\$31,990	\$35,807	\$38,351
Nongeneral Funds Distribution:										
Refund Fund										
Personal Income Tax	(\$964)	(\$894)	(\$933)	(\$1,016)	(\$867)	(\$996)	(\$919)	(\$1,076)	(\$1,488)	(\$1,785)
Corporate Income Tax	(442)	(376)	(356)	(371)	(341)	(363)	(289)	(426)	(522)	(502)
Total, Base Revenues	\$25,428	\$26,160	\$27,359	\$28,640	\$29,659	\$29,144	\$27,090	\$30,488	\$33,797	\$36,064
Change from Prior Year	\$2,642	\$732	\$1,199	\$1,281	\$1,019	(\$515)	(\$2,054)	\$3,398	\$3,309	\$2,267
Percent Change	11.6%	2.9%	4.6%	4.7%	3.6%	-1.7%	-7.0%	12.5%	10.9%	6.7%
Short-Term Borrowing	\$0	\$765	\$1,000	\$900	\$2,400	\$2,400	\$1,250	\$1,300	\$0	\$0
Tobacco Liquidation Proceeds	0	0	0	0	0	0	0	1,250	0	0
HPF and HHSMTF Transfers	0	982	0	456	1,503	0	0	0	0	0
Budget Stabilization Fund Transfer	226	276	276	276	276	576	1,146	535	275	275
Pension Contribution Fund Transfer	1,395	0	0	0	0	0	843	224	0	0
FY'13 Backlog Payment Fund Transfer	1,395	0	0	0	0	0	0	0	0	264
Total General Funds Revenue	\$28,444	\$28,183	\$28,635	\$30,272	\$33,838	\$32,120	\$30,329	\$33,797	\$34,072	\$36,603
Change from Prior Year	\$3,157	(\$261)	\$452	\$1,637	\$3,566	(\$1,718)	(\$1,791)	\$3,468	\$275	\$2,531
Percent Change	12.5%	-0.9%	1.6%	5.7%	11.8%	-5.1%	-5.6%	11.4%	0.8%	7.4%

Source: ILLINOIS COMPTROLLER, CGFA

APPENDIX B. GENERAL FUNDS EXPENDITURES HISTORY BY AGENCY FY 2004 - FY 2013

(\$ million)

<u>WARRANTS ISSUED</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
BY AGENCY										
Healthcare and Family Services	\$5,690	\$4,990	\$7,343	\$7,725	\$8,089	\$9,556	\$7,239	\$7,309	\$8,158	\$6,726
State Board of Education	5,471	5,751	6,045	6,472	6,995	7,357	7,273	6,912	6,739	6,539
Human Services	3,597	3,747	3,817	3,885	4,086	4,144	3,997	3,894	3,415	3,448
Higher Education Agencies	2,284	2,210	2,190	2,269	2,195	2,398	2,230	2,146	2,844	3,234
Corrections	1,183	1,198	1,170	1,119	1,208	1,308	1,156	1,205	1,210	1,172
Children and Family Services	795	754	803	771	887	906	847	840	806	721
Aging	0	331	352	421	458	537	653	646	731	1,060
Teachers Retirement System	805	942	610	814	1,110	1,527	914	256	2,494	2,790
All Other Agencies	2,853	2,619	1,783	2,035	2,143	2,055	2,009	2,261	2,900	4,624
Prior Year Adjustments	(48)	25	(10)	(11)	(14)	(14)	(17)	(22)	(88)	(21)
Total Warrants Issued (14 months)	\$22,630	\$22,567	\$24,103	\$25,500	\$27,157	\$29,774	\$26,301	\$25,447	\$29,209	\$30,293
Transfers										
Transfers Out (14 months)	2,735	5,680	4,349	4,616	7,380	5,185	6,450	6,937	5,164	5,350
Total Expenditures	\$25,365	\$28,247	\$28,452	\$30,116	\$34,537	\$34,959	\$32,751	\$32,384	\$34,373	\$35,643
Change from Prior Year	\$504	\$2,882	\$205	\$1,664	\$4,421	\$422	(\$2,208)	(\$367)	\$1,622	\$3,259
Percent Change	2.0%	11.4%	0.7%	5.8%	14.7%	1.2%	-6.3%	-1.1%	5.0%	10.1%
Repayment of Short-Term Borrowing	990	768	1,014	11	1,503	1,424	2,276	1,322	0	0
Cash Flow Transfers	0	979	0	1,356	2,400	300	870	260	0	0
Repayment of Interfund Borrowing	0	0	0	0	0	0	0	9	355	133
Budget Stabilization Fund Transfers	226	276	276	276	276	276	0	276	550	275
Total, Base Expenditures	\$24,149	\$26,224	\$27,162	\$28,473	\$30,358	\$32,959	\$29,605	\$30,517	\$33,468	\$35,235
Change from Prior Year	\$224	\$2,075	\$938	\$1,311	\$1,885	\$2,601	(\$3,354)	\$912	\$2,951	\$1,767
Percent Change	0.9%	8.6%	3.6%	4.8%	6.6%	8.6%	-10.2%	3.1%	9.7%	5.3%

Source: ILLINOIS COMPTROLLER, CGFA

BACKGROUND

The Commission on Government Forecasting and Accountability (CGFA), a bipartisan, 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. The Commission's specific responsibilities include:

- 1) Preparation of annual revenue estimates with periodic updates;
- 2) Analysis of the fiscal impact of revenue bills;
- 3) Preparation of "State Debt Impact Notes" on legislation which would appropriate bond funds or increase bond authorization;
- 4) Periodic assessment of capital facility plans;
- 5) Annual estimates of public pension funding requirements and preparation of pension impact notes;
- 6) 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;
- 7) Administration of the State Facility Closure Act.

The Commission also has a mandate to report to the General Assembly ". . . on economic trends in relation to long-range planning and budgeting; and to study and make such recommendations as it deems appropriate on local and regional economic and fiscal policies and on federal fiscal policy as it may affect Illinois. . . ." This results in several reports on various economic issues throughout the year.

The Commission publishes several reports each year. In addition to a Monthly Briefing, the Commission publishes the "Revenue Estimate and Economic Outlook" which describes and projects economic conditions and their impact on State revenues. The "Bonded Indebtedness Report" examines the State's debt position as well as other issues directly related to conditions in the financial markets. The "Financial Conditions of the Illinois Public Retirement Systems" provides an overview of the funding condition of the State's retirement systems. Also published are an Annual Fiscal Year Budget Summary; Report on the Liabilities of the State Employees' Group Insurance Program; and Report of the Cost and Savings of the State Employees' Early Retirement Incentive Program. The Commission also publishes each year special topic reports that have or could have an impact on the economic well-being of Illinois. All reports are available on the Commission's website.

These reports are available from:

Commission on Government Forecasting and Accountability
703 Stratton Office Building
Springfield, Illinois 62706
(217) 782-5320
(217) 782-3513 (FAX)

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