



Commission on Government Forecasting and Accountability

MONTHLY BRIEFING

FEBRUARY 2005

http://www.ilga.gov/commission/cgfa/cgfa_home.html

SENATE

Jeffrey Schoenberg, Co-Chairman
Don Harmon
Christine Radogno
Steven Rauschenberger
David Syverson
Donne Trotter

HOUSE

Terry Parke, Co-Chairman
Mark H. Beaubien, Jr.
Frank J. Mautino
Robert Molaro
Richard Myers
Elaine Nekritz

EXECUTIVE DIRECTOR

Dan R. Long

DEPUTY DIRECTOR

Trevor J. Clatfelter

ECONOMY: Back on Track

Edward H. Boss, Jr., Chief Economist

In the past month, perceptions of the U.S. economy have gone from one of initial disappointment to one of being back on track, not only in terms of overall growth but also as to where economic strengths lie. The Commerce Department reported in its preliminary release of February 25th that real gross domestic product (GDP) rose at an annual rate of 3.8% in the final quarter of 2004 (second quarter of FY 2005), up from an initial advance report made only a month earlier of a significant slowdown to 3.1% during the quarter. While the rate of economic growth for the entire year 2004 remained unchanged at 4.4%, up from 3% in 2003 and the best performance since 1999, the pattern now depicts a more steady performance of economic activity than that previously shown (See Chart 1).

The latest GDP report shows that the economy lost little steam in the final months of last year from the 4% annual rate recorded in the third quarter. Nearly one-half of the

INSIDE THIS ISSUE

PAGE 1 - **ECONOMY:** Back on Track

PAGE 3: IL Economic Indicators

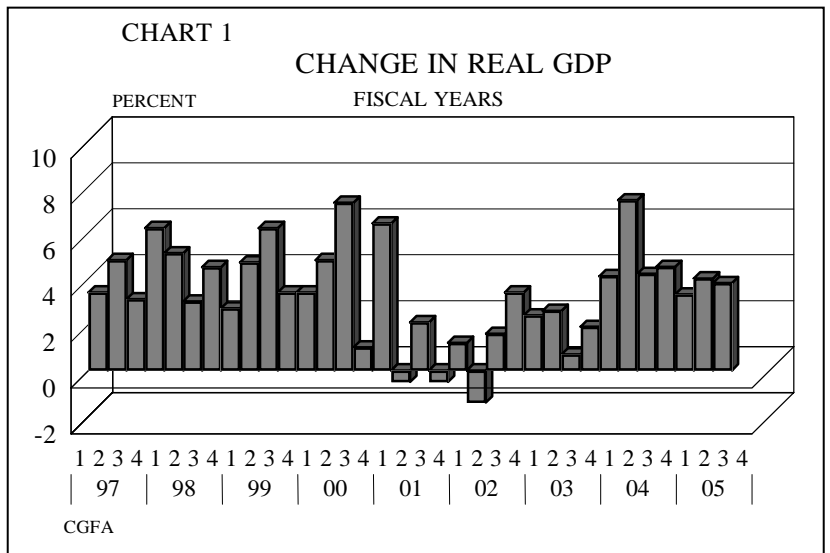
PAGE 3 - **REVENUE:** February Revenues Fall Due to Absence of Last Year's Transfers

PAGE 10 - Summary of Revenue Related Budget Highlights

PAGE 12 - Short-term Borrowing and the Hospital Assessment Program

PAGE 6-9: Revenue Tables

PAGE 13 - **PENSIONS:** FY 2006 Retirement Contributions



703 Stratton Ofc. Bldg.
Springfield, IL 62706

latest revision stemmed from a much stronger U.S. trade performance. This in turn reflected a more than \$1 billion underestimation by Canada of U.S. exports to that country last November, and later data that showed a more than expected narrowing of the U.S. trade deficit in December. Another major upward adjustment to GDP during the October – December period was in business fixed investment, which includes new construction, equipment, and software. Such business spending now is estimated to have risen at a 14% annual rate, compared with a 10.3% rate reported earlier and a 13% gain in the prior quarter. Businesses' also boosted inventories that were revised upward and added to overall GDP growth.

While business spending and trade revisions boosted GDP growth last quarter, the largest component of GDP, consumer spending, was revised downward. Consumer spending was revised to a 4.2% annual rate of growth compared to a 4.6% rate originally reported and an accelerated 5.1% in the third quarter. The slowdown in consumer spending in large part reflects a softening in motor vehicle sales. For all of 2004, consumer spending rose 3.8%, up from 3.3% in 2003 and 3.1% in 2002. Residential investment in real terms rose at a 2.1% rate, up slightly from the previous quarter but well below the pace of housing activity achieved during the first half of last year.

The newly-released data on the economy show a broadening in the scope of the expansion, with more of the growth stemming from business investment and trade and less from the consumer and housing where previous growth had been concentrated. Such a

shift is in line with what most economists have been projecting and is consistent with previous spending patterns as an economic expansion matures. This pattern is likely to continue as 2005 unfolds. The U.S. trade position, despite other problems, should continue to strengthen from increased exports, as U.S. competitiveness stemming from a weakened dollar improves, while some moderation in consumer spending and higher prices on imported goods help to restrain U.S. imports.

The economy continues to grow at a healthy pace. Recent data indicate growth in the first quarter of 2005 at around 4% or slightly higher with little falloff in the final quarter of the fiscal year. In FY 2006, however, some moderation in growth can be expected. The fading effects of the tax cuts coupled with some restraint on government spending will reduce fiscal stimulus in the economy. At the same time, further interest rate increases by the Federal Reserve will continue to remove monetary stimulus. As short-term rates rise further, they will begin to put some upward pressure on longer-term mortgage interest rates. Higher mortgage interest rates and higher home prices can be expected to slow housing activity. Some moderation in economic growth coupled with continued high-energy prices also will act to slow gains in consumer spending. In conclusion, slower growth in consumer spending, housing, and government spending, will be only partly offset by support from business investment and net foreign demand. Thus, overall growth is likely to ease in the upcoming fiscal year, although remain near its long-term trend rate of growth.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

<u>INDICATORS</u>	<u>JAN 2005</u>	<u>DEC 2004</u>	<u>JAN 2004</u>
Unemployment Rate (Average)	N/A%*	N/A%*	N/A%*
Annual Rate of Inflation (Chicago)	1.7%	-6.9%	2.4%
<hr style="border: 2px solid black;"/>			
	<u>LATEST MONTH</u>	<u>% CHANGE OVER PRIOR MONTH</u>	<u>% CHANGE OVER A YEAR AGO</u>
Civilian Labor Force (thousands) (January)	N/A*	N/A%*	N/A%*
Employment (thousands) (January)	N/A*	N/A%*	N/A%*
New Car & Truck Registration (January)	48,475	-1.2%	-5.8%
Single Family Housing Permits (January)	2,716	0.0%	5.3%
Total Exports (\$ mil) (December)	2,702	4.3%	14.4%
Chicago Purchasing Managers Index (February)	62.7	0.5%	-1.4%

*These figures are set to be released by the Illinois Department of Employment Security on March 3rd.

REVENUE

February Revenues Fall Due to Absence of Last Year's Transfers

Jim Muschinske, Revenue Manager

General revenue receipts in February, excluding Budget Stabilization Fund and Pension Contribution Fund transfers, decreased by \$210 million. The decline was attributed to a large amount of administrative fund chargebacks and other transfers made in February 2004. With those transfers absent this year, in conjunction with a poor month for federal sources, monthly revenues fell even with decent gains in other areas. February had the same number of receipting days as last year.

Despite the monthly decline, most State tax sources experienced gains for the month. Gross corporate income tax was up \$23 million, or \$19 million net of refunds. Public utility taxes rose \$21 million and inheritance tax jumped \$19

million. Sales tax posted a \$16 million advance, as did the Cook County IGT. Liquor taxes increased by \$4 million and interest income managed a \$2 million gain. Insurance taxes and fees grew by \$1 million as did gross personal income tax (up \$12 million net of refunds).

A couple of sources did experience a monthly decline as corporate franchise taxes and fees fell \$10 million and other sources dipped \$1 million.

As indicated, transfers fell significantly in February, down \$246 million in total. Other transfers fell \$234 million as February 2004 tallied \$175 million in administrative fund chargebacks as well as a \$59 million transfer from the Efficiency Initiative Revolving Fund. Those transfers did not recur this February. Riverboat transfers and receipts were down \$9 million for the month and lottery transfers dipped \$3 million. Federal sources also performed

poorly for the month, with receipts down \$63 million.

Based on information provided from the Comptroller's Office, as of March 2, 2005 \$1.47 billion in bills are awaiting payment, of which \$321 million are Medicaid bills. February ended with a general funds balance of \$162 million, of which the General Revenue Fund represented only \$3 million (the remaining balance of \$159 million was comprised of education funds).

Year to Date

Through the first two-thirds of FY 2005, excluding Budget Stabilization and Pension Contribution funds transfers, receipts were up \$186 million over the same period of last fiscal year. With few exceptions, virtually all revenue sources experienced gains over the same period of last year.

Gross personal income receipts contributed the most to the year-to-date increase with receipts posting gains of \$230 million, or \$288 million net of refunds. *[It is unclear at this time how much of that increase is due to the recent "Voluntary Compliance Program" or VCP. The VCP was a limited amnesty period for those individuals and entities that participated in illegal tax shelters. In the recent Budget Book the Department of Revenue estimated that approximately \$95 million in personal income tax will be receipted from the one-time program, but actual figures have yet to be confirmed].* Sales tax receipts are up \$140 million through February, while other sources are ahead by \$71 million. Inheritance tax continues to do well and is up \$65

million, while cigarette tax is up \$50 million due to a temporary change in the tax distribution. All other sources that have contributed gains amount to an additional \$67 million.

Only three sources declined thus far in FY 2005: gross corporate income tax is off \$75 million, or \$4 million net of refunds *[The year-to-date decline is due to last year's tax amnesty program which accelerated receipts into the second quarter of FY 2004. However, the VCP also has contributed an estimated \$40 million to this year's receipts]*; public utility taxes are off \$2 million; and, vehicle use tax is down \$2 million.

Overall transfers in the first two-thirds of the fiscal year are up \$334 million. However, \$434 was transferred from the Medicaid Provider Relief Fund resulting from last fiscal year's short-term borrowing. Excluding that transfer, all other transfers would actually be down \$100 million. That decline is comprised of a falloff of \$132 million in other transfers (reflecting much lower chargebacks), a \$20 million increase in lottery transfers, and a \$12 million increase in riverboat transfers and receipts.

While federal sources are down \$821 million through February, \$434 million in transfers in from the Medicaid Provider Fund could be considered "federal money" as it represents the federal reimbursement stemming from spending made available due to last year's short-term borrowing.

If viewed in that context, the year-over-year decline in federal sources would be lessened to \$387 million; with that decline being attributed mostly to \$422 million in flexible federal grants received last fiscal year.

The Commission is planning to meet on March 8th, to discuss the FY 2005 and FY 2006 economic and revenue picture. Any revision to the forecast will be made at that time and will be discussed in next month's briefing.

GENERAL FUNDS RECEIPTS: FEBRUARY

*FY 2005 vs. FY 2004
(\$ million)*

Revenue Sources	FEB. FY 2005	FEB. FY 2004	\$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	\$641	\$640	\$1	0.2%
Corporate Income Tax (regular)	38	15	\$23	153.3%
Sales Taxes	446	430	\$16	3.7%
Public Utility Taxes (regular)	99	78	\$21	26.9%
Cigarette Tax	33	33	\$0	0.0%
Liquor Gallonage Taxes	11	7	\$4	57.1%
Vehicle Use Tax	2	2	\$0	0.0%
Inheritance Tax (Gross)	33	14	\$19	135.7%
Insurance Taxes and Fees	14	13	\$1	7.7%
Corporate Franchise Tax & Fees	12	22	(\$10)	-45.5%
Interest on State Funds & Investments	6	4	\$2	50.0%
Cook County IGT	83	67	\$16	23.9%
Other Sources	31	32	(\$1)	-3.1%
Subtotal	\$1,449	\$1,357	\$92	6.8%
Transfers				
Lottery	45	48	(\$3)	-6.3%
Riverboat transfers & receipts	13	22	(\$9)	-40.9%
Medicaid Provider Relief Fund	0	N/A	\$0	N/A
Other	11	245	(\$234)	-95.5%
Total State Sources	\$1,518	\$1,672	(\$154)	-9.2%
Federal Sources	\$229	\$292	(\$63)	-21.6%
Total Federal & State Sources	\$1,747	\$1,964	(\$217)	-11.0%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$64)	(\$75)	\$11	-14.7%
Corporate Income Tax	(\$9)	(5)	(\$4)	80.0%
Subtotal General Funds	\$1,674	\$1,884	(\$210)	-11.1%
Budget Stabilization Fund Transfer	\$0	\$0	\$0	N/A
Pension Contribution Fund Transfer	\$0	\$150	(\$150)	N/A
Total General Funds	\$1,674	\$2,034	(\$360)	-17.7%
CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				2-Mar-05

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2005 vs. FY 2004
(\$ million)

Revenue Sources	FY 2005	FY 2004	CHANGE FROM FY 2004	% CHANGE
State Taxes				
Personal Income Tax	\$5,366	\$5,136	\$230	4.5%
Corporate Income Tax (regular)	623	698	(\$75)	-10.7%
Sales Taxes	4,369	4,229	\$140	3.3%
Public Utility Taxes (regular)	675	677	(\$2)	-0.3%
Cigarette Tax	316	266	\$50	18.8%
Liquor Gallonage Taxes	99	85	\$14	16.5%
Vehicle Use Tax	21	23	(\$2)	-8.7%
Inheritance Tax (Gross)	200	135	\$65	48.1%
Insurance Taxes and Fees	186	168	\$18	10.7%
Corporate Franchise Tax & Fees	116	104	\$12	11.5%
Interest on State Funds & Investments	41	37	\$4	10.8%
Cook County IGT	276	257	\$19	7.4%
Other Sources	259	188	\$71	37.8%
Subtotal	\$12,547	\$12,003	\$544	4.5%
Transfers				
Lottery	369	349	\$20	5.7%
Riverboat transfers & receipts	465	453	\$12	2.6%
Medicaid Provider Relief Fund	434	0	\$434	N/A
Other	460	592	(\$132)	-22.3%
Total State Sources	\$14,275	\$13,397	\$878	6.6%
Federal Sources	\$2,786	\$3,607	(\$821)	-22.8%
Total Federal & State Sources	\$17,061	\$17,004	\$57	0.3%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$543)	(\$601)	\$58	-9.7%
Corporate Income Tax	(\$154)	(\$225)	\$71	-31.6%
Subtotal General Funds	\$16,364	\$16,178	\$186	1.1%
Budget Stabilization Fund Transfer	\$276	\$226	\$50	22.1%
Pension Contribution Fund Transfer	\$0	\$1,264	(\$1,264)	N/A
Total General Funds	\$16,640	\$17,668	(\$1,028)	-5.8%

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

CGFA

2-Mar-05

GENERAL FUNDS GROWTH NEEDED TO MEET ESTIMATE

FY 2005 ESTIMATE vs. FY 2004 ACTUAL

(\$ million)

<u>Revenue Sources</u>	<u>Aug-04 ESTIMATE FY 2005</u>	<u>FYTD 2005</u>	<u>AMOUNT NEEDED FY 2005 EST.</u>	<u>FYTD 2004</u>	<u>GROWTH NEEDED</u>	<u>% CHANGE</u>
State Taxes						
Personal Income Tax	\$8,572	\$5,366	\$3,206	\$5,136	\$107	3.5%
Corporate Income Tax (regular)	1,308	623	\$685	698	\$4	0.6%
Sales Taxes	6,457	4,369	\$2,088	4,229	(\$14)	-0.7%
Public Utility Taxes (regular)	1,090	675	\$415	677	\$13	3.2%
Cigarette Tax	450	316	\$134	266	\$0	0.0%
Liquor Gallonage Taxes	147	99	\$48	85	\$6	14.3%
Vehicle Use Tax	35	21	\$14	23	\$2	16.7%
Inheritance Tax (Gross)	265	200	\$65	135	(\$22)	-25.3%
Insurance Taxes and Fees	371	186	\$185	168	(\$9)	-4.6%
Corporate Franchise Tax & Fees	168	116	\$52	104	(\$7)	-11.9%
Interest on State Funds & Investments	54	41	\$13	37	(\$5)	-27.8%
Cook County IGT	450	276	\$174	257	\$3	1.8%
Other Sources	500	259	\$241	188	(\$10)	-4.0%
Subtotal	\$19,867	\$12,547	\$7,320	\$12,003	\$68	0.9%
Transfers						
Lottery	575	369	\$206	349	(\$15)	-6.8%
Riverboat transfers & receipts	642	465	\$177	453	(\$31)	-14.9%
Medicaid Provider Relief Fund	433	434	(\$1)	0	N/A	N/A
Other	1,044	460	\$584	592	\$17	3.0%
Total State Sources	\$22,561	\$14,275	\$8,286	\$13,397	\$38	0.5%
Federal Sources	\$4,255	\$2,786	\$1,469	\$3,607	(\$113)	-7.1%
Total Federal & State Sources	\$26,816	\$17,061	\$9,755	\$17,004	(\$75)	-0.8%
Nongeneral Funds Distribution:						
Refund Fund						
Personal Income Tax	(\$864)	(\$543)	(\$321)	(\$601)	\$42	-11.6%
Corporate Income Tax	(318)	(\$154)	(\$164)	(225)	\$53	-24.4%
Subtotal General Funds	\$25,634	\$16,364	\$9,270	\$16,178	\$20	0.2%
Budget Stabilization Fund Transfer	\$276	\$276	\$0	\$226	\$0	N/A
Pension Contribution Fund Transfer	\$0	\$0	\$0	\$1,264	(\$131)	-100.0%
Total General Funds	\$25,910	\$16,640	\$9,270	\$17,668	(\$111)	-1.2%
CGFA						
						2-Mar-05

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

FY 2005 ESTIMATE vs. FY 2004 ACTUALS

(\$ million)

<u>Revenue Sources</u>	*GOMB FEB-05 Estimate FY 2005	FYTD 2005	AMOUNT NEEDED FY 2005 Est.	FYTD 2004	GROWTH NEEDED	% CHANGE
State Taxes						
Personal Income Tax	\$8,645	\$5,366	\$3,279	\$5,136	\$180	5.8%
Corporate Income Tax (regular)	1,412	623	\$789	698	\$108	15.9%
Sales Taxes	6,530	4,369	\$2,161	4,229	\$59	2.8%
Public Utility Taxes (regular)	1,101	675	\$426	677	\$24	6.0%
Cigarette Tax	450	316	\$134	266	\$0	0.0%
Liquor Gallonage Taxes	145	99	\$46	85	\$4	9.5%
Vehicle Use Tax	35	21	\$14	23	\$2	16.7%
Inheritance Tax (Gross)	265	200	\$65	135	(\$22)	-25.3%
Insurance Taxes and Fees	371	186	\$185	168	(\$9)	-4.6%
Corporate Franchise Tax & Fees	190	116	\$74	104	\$15	25.4%
Interest on State Funds & Investments	45	41	\$4	37	(\$14)	-77.8%
Cook County IGT	433	276	\$157	257	(\$14)	-8.2%
Other Sources	451	259	\$192	188	(\$59)	-23.5%
Subtotal	\$20,073	\$12,547	\$7,526	\$12,003	\$274	3.8%
Transfers						
Lottery	588	369	\$219	349	(\$2)	-0.9%
Gaming Fund Transfer	700	465	\$235	453	\$27	13.0%
Medicaid Provider Relief Fund	433	434	(\$1)	0	N/A	N/A
Other	945	460	\$485	592	(\$82)	-14.5%
Total State Sources	\$22,739	\$14,275	\$8,464	\$13,397	\$216	2.6%
Federal Sources	\$4,086	\$2,786	\$1,300	\$3,607	(\$282)	-17.8%
Total Federal & State Sources	\$26,825	\$17,061	\$9,764	\$17,004	(\$66)	-0.7%
Nongeneral Funds Distribution:						
Refund Fund						
Personal Income Tax	(\$864)	(\$543)	(\$321)	(\$601)	\$42	-11.6%
Corporate Income Tax	(339)	(154)	(\$185)	(225)	\$32	-14.7%
Subtotal General Funds	\$25,622	\$16,364	\$9,258	\$16,178	\$8	0.1%
Budget Stabilization Fund Transfer	\$276	\$276	\$0	\$226	\$0	N/A
Pension Contribution Fund Transfer	\$0	\$0	\$0	\$1,264	(\$131)	-100.0%
Total General Funds	\$25,898	\$16,640	\$9,258	\$17,668	(\$123)	-1.3%

* The GOMB forecast includes the \$433 million from the Medicaid Provider Fund in their estimate of federal sources. The Comptroller's Office records that money as a transfer in. For comparison purposes, the GOMB's federal source estimate was adjusted to take this into account [\$4.086 billion + \$433 million = \$4.519 billion].

**Summary of Revenue Related
Budget Highlights**

On February 16, 2005 the Governor presented his proposed budget for FY 2006. The following provides a brief overview of revenue related items concerning the current fiscal year as well as the upcoming one. The CGFA will be updating their forecast on March 8th, 2005.

However, those changes were essentially offset by large downward revisions in the estimates of non-economic sources such as other sources, other transfers, and federal sources (the result of significant changes in GOMB's estimates of fee revenue, chargebacks, and federal source.

Overall, an upward adjustment totaling \$20 million was made to the GOMB's enacted FY 2005 revenue estimate. The table below shows the overall change to the forecast summarized by major revenue source.

FY 2005

The GOMB made a number of significant upward adjustments to the estimates of the economically related sources.

Changes to GOMB FY 2005 General Revenue Forecast	
Enacted Budget Aug-04 (\$millions)	<u>GOMB</u> \$25,602
Net Change Income Taxes	\$431
Sales tax	\$99
Net Change Other State Sources	(\$189)
Net Change Transfers	(\$152)
Federal Sources	(\$169)
Total Change	\$20
FY 2005 Estimate Feb-05	\$25,622
*Does not include \$276 million in anticipated Budget Stabilization Fund transfer	

FY 2006

The Governor's proposed FY 2006 budget is based upon general funds revenue growth of \$1.044 billion. As shown in the table below, the majority of that growth is based on

a number of assumptions that likely would require legislative approval. These items total approximately \$669 million, while other growth is anticipated to be \$375 million.

GOMB FY 2006 General Revenue Growth Assumptions	
	GOMB Feb-05
FY 2005 Estimate (\$millions)	\$25,622
Net Change Income Taxes (current Refund %)	\$346
Sales tax	\$248
Net Change Other State Sources	(\$208)
Net Change Transfers	(\$326)
Federal Sources	\$315
Base Growth	\$375
Proposed Revenue Changes	
Deficit Reduction Sources	\$255
School Endowment Fund Transfer	\$140
Net Change due to Proposed Lower Refund %	\$81
Riverboats at Current Tax Rates (CGFA est. value)	\$125
Fund Sweep (Tobacco Settlement Fund)	\$68
Growth from Proposed Changes	\$669
Total Growth Assumptions	\$1,044
FY 2006 Estimate	\$26,666
*Does not include \$276 million in anticipated Budget Stabilization Fund transfer	

The largest component of the proposed revenue changes totals \$255 million and includes a number of tax changes referred to as “Deficit Reduction Sources”. Specifically, these sources are comprised of the following proposed changes:

- Increased Audit Enforcement-\$10 million
- Sales tax on software-\$65 million
- Reform retail rate law-\$17 million
- Increase cigarette tax and other tobacco products tax-\$155 million

The budget assumes \$394 million in a combination of chargebacks [\$186 million], a Tobacco Fund sweep [\$68 million], and a new transfer from School Endowment Fund [\$140 million]

made possible by proposed funds reform. In addition, the FY 2006 revenue forecast assumes a lower refund fund percentage (valued at approximately \$81 million when compared to current rates). Also, it is assumed that the current tax rates applied to riverboats will continue, rather than rolling back to lower levels under current law (the CGFA estimates the value of that tax change to be approximately \$125 million).

In conclusion, while the proposed FY 2006 budget is based on significant growth of \$1.044 billion, most of that assumed growth requires legislative approval i.e. tax changes, fund sweeps, etc. It’s unclear at this time what if any of these proposed changes will make it through the budgetary process.

Short-term Borrowing and the Hospital Assessment Program

During the fall veto session of 2003, HB 701 was passed by the General Assembly. This bill was commonly referred to as the “Hospital Assessment Program” and its intent was to maximize the State’s ability to attract additional federal dollars. In turn, those additional dollars will be used to increase various hospital payments, as well as restore approximately half of a nursing home rate cut made in FY 2002. The Governor signed the bill into law on February 3rd, 2004 (P.A. 93-659). [More recent legislation SB 2212 (P.A. 93-1066) made some adjustments to the original legislation, but did not fundamentally alter the program].

HB 701 included a number of measures that assured that the assessment would not take place unless federal approval had been given that made certain federal match would be available for the program. That federal approval did not arrive until late December 2004. With approval obtained, the State can move ahead with the assessment program. Below is the estimated cash flows related to the program. Details are not official, but what follows is a preliminary overview of the program.

- The process will begin by the State entering into a short-term borrowing agreement in the amount of \$765 million. This borrowing is scheduled to take place in early March. While it is understood that proceeds of the borrowing will be initially

deposited into the General Revenue Fund, the \$765 million will then be transferred to the Hospital Provider Fund and ultimately paid to hospitals. The short-term borrowing is essentially a cash-flow mechanism to initiate the program, as the borrowing would be repaid by the end of the fiscal year. Overall, it is reported the program generates \$489 million in federal match.

- Several days later, \$382 million in federal match resulting from the above \$765 million expenditure, will be drawn into the Hospital Provider Fund.
- On or about March 11th, hospitals will send approximately \$498 million in assessment taxes to the State.
- On or about April 15, the State pays hospitals \$214 million, that action generates \$107 million in federal match.
- On or about April 19th hospitals will send approximately \$139 million to the State.
- Approximately \$127 million is deposited into the Health and Human Services Medicaid Trust Fund.
- Repay short-term borrowing of \$770 million in June 2004.

FY 2006 Retirement Contributions

The FY 2006 Certified Contributions and the Governor's Budget Book Recommendations

Per current law, the State-funded retirement systems have certified the required FY 2006 employer retirement contributions. Table 1 summarizes the FY 2006 required contributions to the State-funded retirement systems, as certified by the systems in November. The SERS and TRS certified amounts include the required FY 2006 contribution for the 2002 Early Retirement Incentive Program (ERI).

Table 1 also compares the FY 2006 certified contributions and the Governor's FY 2006 Budget Book

recommendations and provides the amount of debt service by which each system reduced the state retirement contributions. Even though the Systems do not receive this amount, the State is required to contribute that amount to the General Obligation Bond Retirement and Interest Fund. Therefore, the amount of debt service attributable to each system is added to the FY 2006 retirement contribution amount to determine total State cost for each system for FY 2006. It should be noted that SERS is collecting an estimated \$69.2 million in debt service through payroll deduction. Therefore, the FY 2006 debt service amount for SERS has been reduced by \$69.2 million in Table 1.

System	Certified Contributions			Budget Book Recommendations		
	Retirement System	Debt Service	Total State Cost	Retirement System	Debt Service	Total State Cost
TRS	\$1,058.5	\$ 293.7	\$ 1,352.2	\$591.6	\$ 293.7	\$ 885.3
SERS	759.3	24.8	784.1	553.7	24.8	578.5
SURS	324.7	97.2	421.9	184.4	97.2	281.6
JRS	38.0	9.6	47.6	32.3	9.6	41.9
GARS	5.5	1.8	7.3	4.6	1.8	6.4
Total	\$ 2,186.0	\$ 427.1	\$ 2,613.1	\$1,366.6	\$ 427.1	\$1,793.7

The original FY 2006 SERS certified rate totaled 21.675% of payroll. The Governor's recommended SERS contribution rate for FY 2006 is 15.804%.

Table 2, on the next page compares the components in SERS' FY 2006 certified rate with the Budget Book recommendation.

Contribution	Certified		Budget Book		Change	
	Amount	Rate	Amount	Rate	Amount	Rate
Regular	\$409.7	11.695%	\$409.7	11.695%	\$ 0.0	0.0%
2002 ERI	280.5	8.006%	74.8	2.135%	-205.7	-5.871%
Debt Service	69.2	1.974%	69.2	1.974%	0.0	0.0%
Total	\$759.3	21.675%	\$553.7	15.804%	-\$205.7	-5.871%

The Governor's FY 2006 Budget Book Recommendations do not reflect the amounts certified in November 2004 by the Boards of Trustees of the Systems. The proposed FY 2006 reduction is \$466.9 million for TRS, \$140.3 million for SURS and \$205.6 for SERS. In addition, the JRS and GARS certifications are reduced by \$5.7 million and \$0.9 million, respectively. **Overall, the proposed FY 2006 reduction to the State-funded retirement systems is \$819.4 million.**

It should be noted that unless the Continuing Appropriation Act is amended to provide that certified State retirement contributions are not covered by the Act, the Systems could request the Comptroller pay the full amount of the certified contributions. The continuing appropriation for retirement contributions was included in Public Act 88-0593, which is the legislation that created the current funding plan.

Chicago Teachers' Pension Fund

The State traditionally contributes \$65 million to the Chicago Teachers' Pension Fund. In addition, the Chicago Teachers' Pension Fund has certified a required State contribution of almost \$9.9 million in FY 2006, per Public Act 90-582. Public Act 90-582 increased the benefit formula of the Fund to 2.2% of final average salary for each year of service credit. The Act also added a State funding requirement of 0.544% of payroll in years when the Fund's funded ratio fell below 90%. As the funded ratio fell to 85.8% at June 30, 2004, the Board of Trustees of the Fund certified the \$9.9 million required State contribution on January 25, 2005. The Governor's Budget Book for FY 2006 includes the traditional \$65 million State contribution but excludes the certified \$9.9 million.

Governor's Recommended Retirement Plan Changes

The Budget Book proposes several changes be made in the plan provisions of the State-funded Retirement Systems. All of these changes would require statutory changes to the provisions of the Pension Code.

Changes to the Funding Plan

The Budget Book recommends that if the proposed benefit changes (described below) are enacted, the funding requirements per the current funding plan should be reduced proportionately between FY 2006 and FY 2045. According to the Budget Book, the current phase-in period and the FY 2045 90% funding goal should be maintained. In addition, the Budget Book recommends keeping the current continuing appropriation authority.

Automatic Annual Increases

All of the State-funded retirement systems provide 3% compounded annual increases to retirees. For new employees only, the Governor recommends providing an annual increase equal to the change in the CPI or 3%, whichever is lower. The annual increase would only be on the first \$12,000 of annuity for retirees covered by Social Security and the first \$24,000 of annuity for retirees not covered by Social Security.

Money Purchase Changes

In addition to the 2.2% benefit formula, SURS provides a money purchase annuity formula. The money purchase formula provides an annuity based on an employee's career contributions to SURS and annual interest credited towards those contributions. At retirement, the employee's account

(contributions plus interest) is credited with an amount from SURS equal to 140% of the employee's account balance. Then, the total account balance is converted into an annuity based on the employee's age at retirement and life expectancy. SURS calculates the formula annuity and the money purchase annuity and grants the retiring members the higher benefit.

The Budget Book proposes to more clearly define the money purchase interest rate, rather than allowing the Board of Trustees of the retirement system to set it annually. Specifically, the interest rate would be limited to the long-term rate of return, currently 8.5%, and could not exceed either the most recent 5-year or 10-year rate of return. In addition, the Governor proposes eliminating the money purchase annuity provisions entirely for new members of SURS.

Alternative Formula

The alternative formula in SERS provides a benefit of 2.5% of final salary per year of service for members coordinated with Social Security and 3.0% of final salary per year of service for members not coordinated with Social Security. Generally, law enforcement personnel are not coordinated with Social Security while other members of the alternative formula are coordinated with Social Security. In contrast, the regular SERS formula provides a benefit of 1.67% of final salary per year of service for members coordinated with Social Security and 2.2% of final salary per year of service for members not coordinated with Social Security.

The alternative formula also allows members to retire with an unreduced

annuity at age 50 with 25 years of service or at age 55 with 20 years of service. Members under the regular SERS formula can retire at age 60 with 8 years of service or under the Rule of 85 (age plus years of service equal 85). The Governor proposes only newly hired police officers be included in the alternative formula.

Final Average Salary

SURS and TRS cover employees whose salary levels and salary increases are not controlled by the State. The Governor proposes shifting the liability created by salary increases over 3% in the final average salary period (generally 4 years) to the employer that grants the salary increase.

Retirement Ages

The Governor recommends increasing the retirement age in all of the systems for newly-hired employees. The proposed retirement eligibility requirements for an unreduced retirement are age 65 with 8 years of service, age 62 with 30 years of service, and age 60 with 35 years of service.

At the request of the Commission, the actuaries for the State-funded retirement systems have estimated the FY 2006 contribution impact of the Governor’s proposed benefit changes, based on the current funding plan, as follows:

System	FY 06 Contribution Decrease
TRS	\$52.6 million
SERS	\$9.2 million
SURS	\$19.1 million
TOTAL	\$80.9 million

Of the proposed FY 2006 reduction of \$819.4 million, \$80.9 million can be attributed to the Governor’s proposed changes in benefit provisions. In effect, if all of the proposed benefit changes were made, the FY 2006 required

contributions would be reduced by \$80.9 million, per the current funding plan. In order to reduce the FY 2006 required contributions by the remaining \$738.5 million, the current funding plan would have to be changed.