



Commission on Government Forecasting and Accountability

MONTHLY BRIEFING

MARCH 2010

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

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INSIDE THIS ISSUE

PAGE 1 - **ECONOMY:** It's Up To The Consumer

PAGE 4: Illinois Economic Indicators

PAGE 4 - **REVENUE:** March Revenues Up On Strength of Federal Sources

PAGE 6-7: Revenue Tables

PAGE 19: State Employees' Group Health and Life Insurance Program for FY 2011

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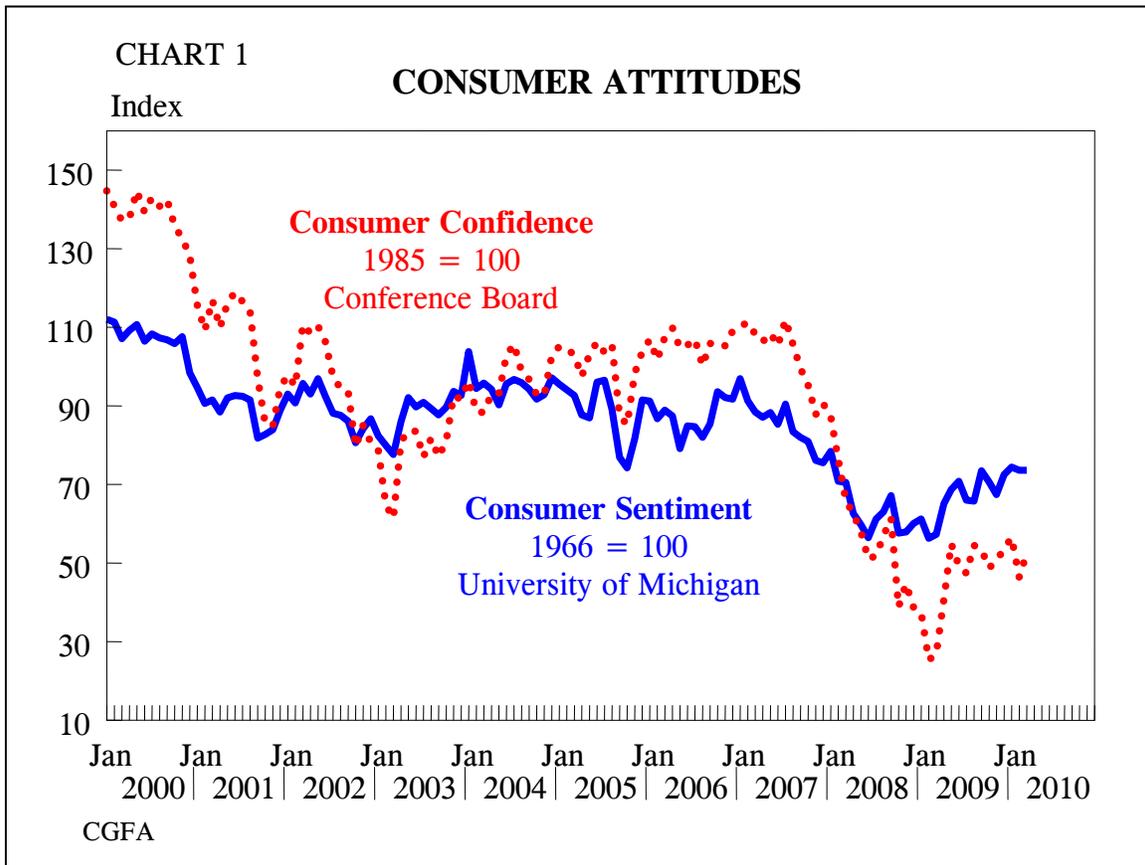
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ECONOMY: It's Up To The Consumer

Edward H. Boss, Jr., Chief Economist

It is becoming clear that the economic recovery underway since last summer increasingly will be dependent on the performance of its largest component, the consumer. Consumer spending generally accounts for about two-thirds to slightly more of total spending in the U.S. and, therefore, no substantial economic expansion can occur without a major contribution from this sector. During the previous two recessions in 1990 and 2001, each which lasted a short 8 months, consumer spending held up rather well and the housing sector continued to rise. In contrast, the last recession was centered in the consumer and housing sectors and its length was the longest in the post WWII period, lasting some 18 to 19 months.

The difference of consumer behavior in the current period and that which occurred during the recoveries from the previous two recessions can be largely attributed to the effects on the consumer from the dual collapse in both the housing and equity markets. The largest asset of most consumers is their home. Indeed as home prices continued to rise during those earlier recoveries consumer spending was supported by home equity loans used for college expenses, home renovation, and discretionary purchases. In addition, many mortgages were refinanced at favorable interest rates with the proceeds going to spending. In contrast, both median and average home prices in the U.S. have been falling since a peak in early 2007 with median home prices down about 20%. While some bottoming appears to be forming in recent months, price declines in some regions have been substantially greater and there is yet no suggestion of any upward move in prices as foreclosures continue to increase, acting to thwart any price firming from developing.



Even as home prices were declining, severely impacting consumer net worth, a sharp correction in the stock market was deteriorating consumer savings. The Dow Jones average since 2007 had reached its lowest level in 12 years by early March 2009. Thus, many consumers found their 401K accounts reaching half their earlier peak value, referring to their accounts as 201Ks. As the most severe ramifications of a financial collapse faded, however, the equity markets began to improve. Often a leading indicator of an economic turnaround from recession to recovery, stock prices began to recover. By March 2010, the Dow had recovered more than half of its 2009 March value. Thus perhaps a consumer's 401K can now be referred to as a 301K.

The most discouraging factor depressing consumers, however, has been the huge loss in jobs, amounting to 8.6 million since the end of 2007. While the unemployment rate often lags in economic recoveries, coming out of the 1990 recession the unemployment rate reached a peak in July 1992 at 7.8% before steadily declining, and coming out of the 2001 recession the rate never exceeded 6.3% before beginning its descent. In contrast, in the recovery from the last recession the unemployment rate hit 10.1% in October 2009 and has held near that level since. While the hiring of a large number of Census workers could help the employment picture near term, this would be temporary in nature. Thus there is ample reason for consumers to

be discouraged. The loss of consumer confidence is depicted in the chart on page 2, showing movements in both the Conference Board's Index of Consumer Confidence and the University of Michigan's Consumer Sentiment Index. While up from their lows reached in early 2009, consumer attitudes remain at extremely low levels with little in the way of any upward trend. This pessimism has been a major depressant to any resurgence in consumer spending. Even while the economy grew at a 5.6% annual rate in the last quarter of last year, up from a meager 2.2% in the previous quarter, the gain in consumer spending actually was less, rising at an annual rate of only 1.6% from a 2.8% rate in the previous quarter and contributing only 1.16% to the 5.6% overall GDP gain. Rather than the consumer, the acceleration in economic growth last quarter primarily reflected a faster pace of private inventory investment, an upturn in business spending, and acceleration in exports while imports decelerated.

While retail sales showed some improvement in the first two months of 2010, it is unlikely that any resurgence in consumer spending is on

the horizon. Without stronger consumer spending the economy will likely show only modest growth in the quarters ahead which is unlikely to be strong enough to create enough jobs to significantly reduce the unemployment rate, the key to improved attitudes and sustained strength in consumer spending. At the same time, businesses may be slow to rehire due to uncertainty over the effect that new government legislation will have on them. Already Caterpillar Tractor says the new health care reform law will create a \$100 million drag on its first-quarter earnings as the law reduces the deduction it receives for its retiree health care program while Deere and Company said the law would increase its expenses by \$150 million this fiscal year, AT&T \$1 billion, and estimates that some \$14 billion overall will be shaved from corporate profits. At the same time, whether or not new legislation eventually will show the benefits promised employers is yet to be realized. In conclusion, while in the past the more severe the recession, the sharper has been the ensuing recovery, this pattern is unlikely to be repeated this time with only moderate growth anticipated.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

<u>INDICATORS</u>	<u>FEB. 2010</u>	<u>JAN. 2010</u>	<u>FEB. 2009</u>
Unemployment Rate (Average)	11.4%	11.3%	8.7%
Annual Rate of Inflation (Chicago)	2.0%	5.3%	2.5%
—————			
	<u>LATEST</u>	<u>% CHANGE</u>	<u>% CHANGE</u>
	<u>MONTH</u>	<u>OVER PRIOR</u>	<u>OVER A</u>
		<u>MONTH</u>	<u>YEAR AGO</u>
Civilian Labor Force (thousands) (February)	6,641	0.3%	0.2%
Employment (thousands) (February)	5,872	0.2%	-2.5%
New Car & Truck Registration (February)	25,488	-26.8%	-0.5%
Single Family Housing Permits (February)	528	56.5%	-10.2%
Total Exports (\$ mil) (January)	3,488	-4.4%	6.0%
Chicago Purchasing Managers Index (March)	58.8	-6.0%	87.2%

REVENUE

March Revenues Up On Strength Of Federal Sources

Jim Muschinske, Revenue Manager

March revenues benefited from \$517 million growth from federal sources with approximately \$500 million resulting from federal education stimulus money. Overall revenues grew \$475 million, meaning absent federal sources, all other revenues were down \$42 million. March had one more receipting day than the same period last year.

For the month, gross corporate income taxes fell \$37 million, or \$31 million net of refunds. Insurance taxes and fees dropped \$30 million, inheritance taxes were off \$6 million, interest income \$5

million, and sales taxes dipped \$3 million.

A few sources experienced gains in March as other sources grew \$10 million, gross personal income tax \$7 million, corporate franchise tax \$3 million and public utility \$1 million.

Overall transfers were up \$12 million for the month as a gain of \$27 million in other transfers was partially offset by a \$15 million drop in riverboat gaming transfers. As mentioned earlier, a large amount of federal stimulus related to education

was receipted in March causing monthly federal sources to surge \$517 million.

Year to Date

Through the first three-quarters of the fiscal year base revenues are up \$700 million. However, if \$1.757 billion in gains from federal sources is excluded, all other revenues are off a debilitating \$1.057 billion. Virtually all revenue sources have felt the recession's wrath; particularly the larger most closely tied economic sources.

Through March, gross personal income tax has fallen \$593 million, or \$536 million net of refunds. Sales tax receipts are off a disastrous \$506

million, while gross corporate income tax is down \$135 million, or \$112 million net of refunds. Inheritance tax has declined by \$52 million and public utility taxes by \$48 million. All of the other revenue sources net an additional decline of \$11 million.

Through the first nine months of the fiscal year, overall transfers are up \$245 million mostly due to fund sweeps which have contributed to other transfers gaining \$302 million. Riverboat gaming has partially offset those gains and is down \$57 million. Again, federal sources have soared in FY 2010, rising \$1.757 billion and reflecting reimbursable spending as well as benefiting from federal stimulus money.

GENERAL FUNDS RECEIPTS: MARCH

FY 2010 vs. FY 2009

(\$ million)

Revenue Sources	March FY 2010	March FY 2009	\$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	\$806	\$799	\$7	0.9%
Corporate Income Tax (regular)	307	344	(\$37)	-10.8%
Sales Taxes	495	498	(\$3)	-0.6%
Public Utility Taxes (regular)	128	127	\$1	0.8%
Cigarette Tax	29	29	\$0	0.0%
Liquor Gallonage Taxes	10	10	\$0	0.0%
Vehicle Use Tax	3	3	\$0	0.0%
Inheritance Tax (Gross)	23	29	(\$6)	-20.7%
Insurance Taxes and Fees	30	60	(\$30)	-50.0%
Corporate Franchise Tax & Fees	19	16	\$3	18.8%
Interest on State Funds & Investments	3	8	(\$5)	-62.5%
Cook County IGT	0	0	\$0	N/A
Other Sources	38	28	\$10	35.7%
Subtotal	\$1,891	\$1,951	(\$60)	-3.1%
Transfers				
Lottery	63	63	\$0	0.0%
Riverboat transfers & receipts	10	25	(\$15)	-60.0%
Other	65	38	\$27	71.1%
Total State Sources	\$2,029	\$2,077	(\$48)	-2.3%
Federal Sources	\$935	\$418	\$517	123.7%
Total Federal & State Sources	\$2,964	\$2,495	\$469	18.8%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$78)	(\$78)	\$0	0.0%
Corporate Income Tax	(\$54)	(60)	\$6	-10.0%
Subtotal General Funds	\$2,832	\$2,357	\$475	20.2%
Short-Term Borrowing	\$0	\$0	\$0	N/A
Pension Contribution Fund Transfer	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$60	\$0	\$60	N/A
Total General Funds	\$2,892	\$2,357	\$535	22.7%

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

1-Apr-10

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2010 vs. FY 2009
(\$ million)

Revenue Sources	FY 2010	FY 2009	CHANGE FROM FY 2009	% CHANGE
State Taxes				
Personal Income Tax	\$6,727	\$7,320	(\$593)	-8.1%
Corporate Income Tax (regular)	1,056	1,191	(\$135)	-11.3%
Sales Taxes	4,664	5,170	(\$506)	-9.8%
Public Utility Taxes (regular)	830	878	(\$48)	-5.5%
Cigarette Tax	263	263	\$0	0.0%
Liquor Gallonage Taxes	120	119	\$1	0.8%
Vehicle Use Tax	21	20	\$1	5.0%
Inheritance Tax (Gross)	167	219	(\$52)	-23.7%
Insurance Taxes and Fees	204	216	(\$12)	-5.6%
Corporate Franchise Tax & Fees	157	150	\$7	4.7%
Interest on State Funds & Investments	20	57	(\$37)	-64.9%
Cook County IGT	150	159	(\$9)	-5.7%
Other Sources	292	291	\$1	0.3%
Subtotal	\$14,671	\$16,053	(\$1,382)	-8.6%
Transfers				
Lottery	440	440	\$0	0.0%
Riverboat transfers & receipts	288	345	(\$57)	-16.5%
Other	551	249	\$302	121.3%
Total State Sources	\$15,950	\$17,087	(\$1,137)	-6.7%
Federal Sources	\$5,027	\$3,270	\$1,757	53.7%
Total Federal & State Sources	\$20,977	\$20,357	\$620	3.0%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$656)	(\$713)	\$57	-8.0%
Corporate Income Tax	(\$185)	(\$208)	\$23	-11.1%
Subtotal General Funds	\$20,136	\$19,436	\$700	3.6%
Short-Term Borrowing	\$1,250	\$1,400	(\$150)	N/A
Pension Contribution Fund Transfer	\$835	\$0	\$835	N/A
Budget Stabilization Fund Transfer	\$726	\$326	\$400	122.7%
Total General Funds	\$22,947	\$21,162	\$1,785	8.4%

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

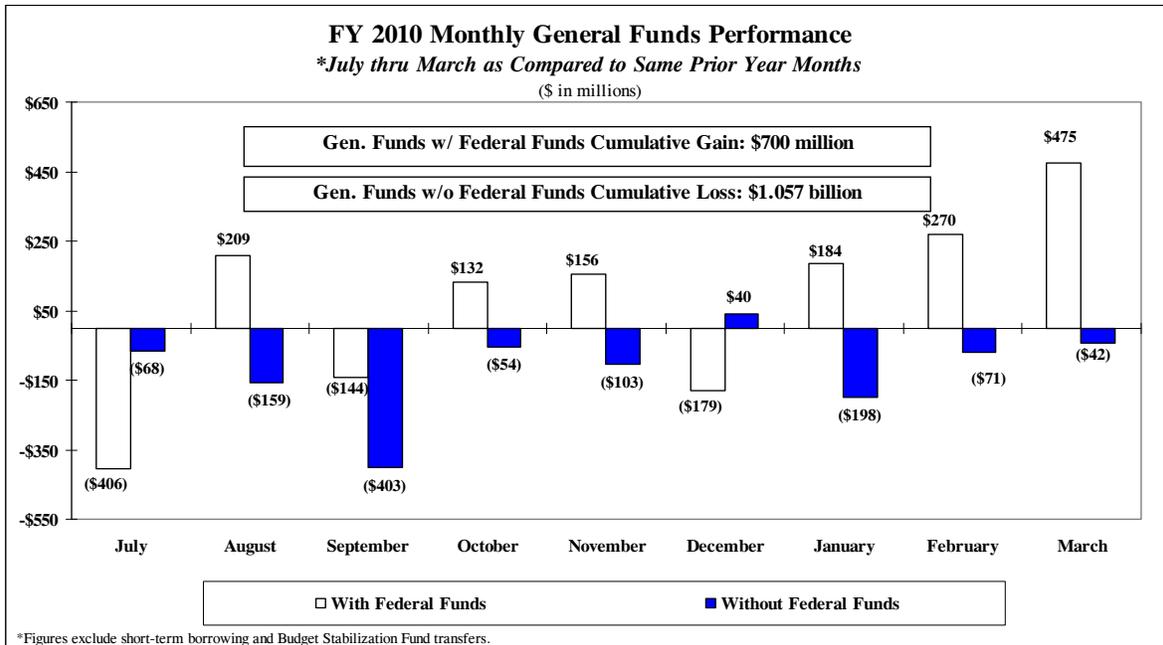
CGFA

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Review of Revenues to Date

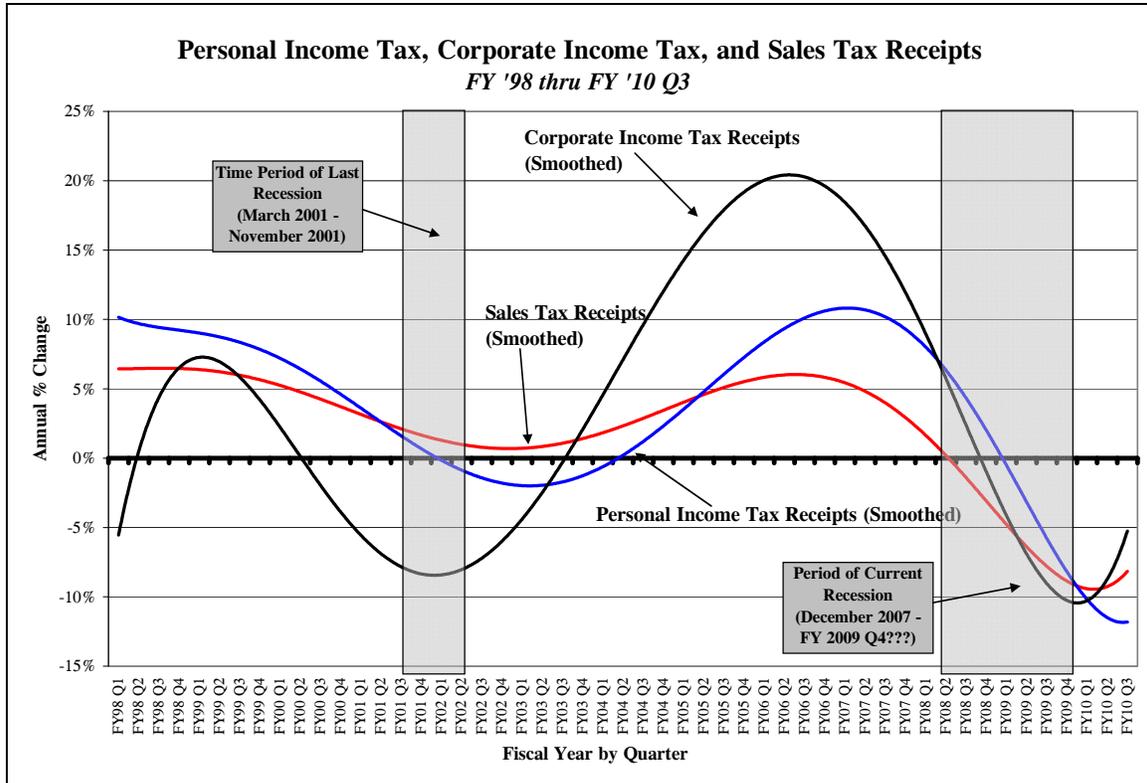
Through the first three-quarters of the fiscal year, overall base revenues are up \$700 million. However, sizable growth in federal sources continues to mask the extremely

poor performance of the other revenue areas. In fact, when \$1.757 billion in federal source growth is excluded, all other revenue would be down a disastrous \$1.057 billion.



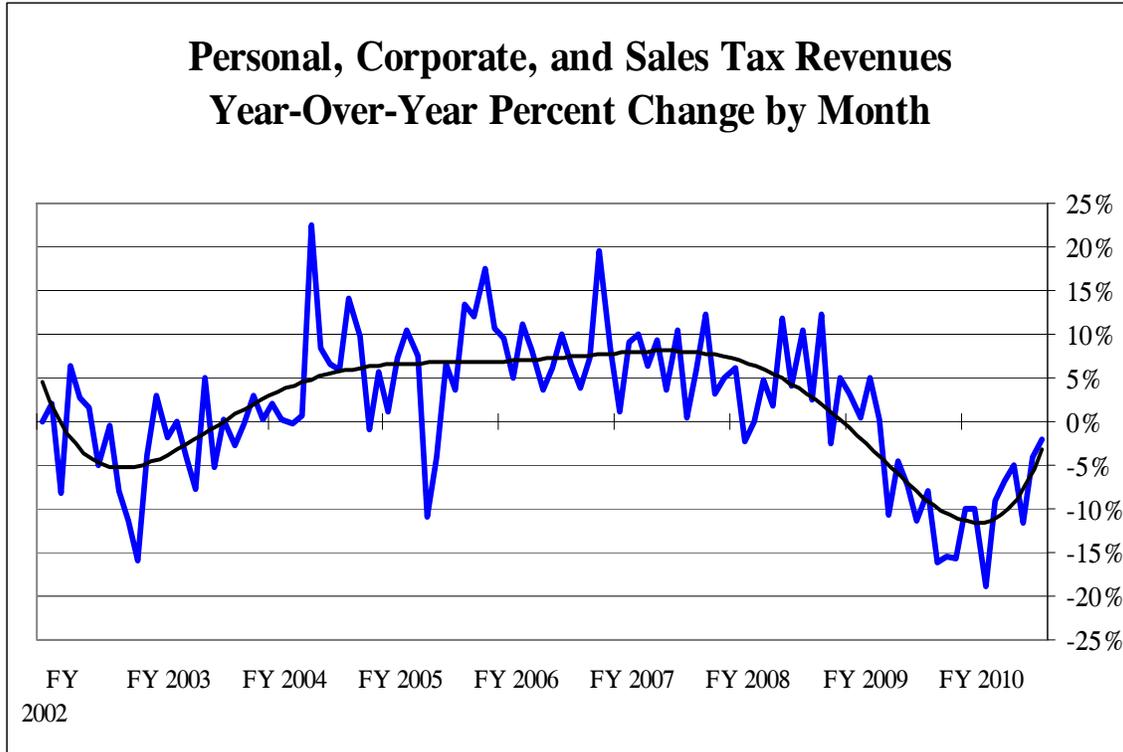
As evidenced by the last recession in 2001, it took approximately four quarters before the recovery phase manifested in actual receipt improvement from personal income tax and sales tax. Given the current employment figures, there is little

reason to anticipate a dramatic turn around soon. However, it appears that minute improvement may be manifesting itself in income taxes, and even sales taxes may be seeking a bottom, although it will take several more months before it is confirmed.



As shown in the next chart, while the current rates of income and sales tax appear to have bottomed and are slowly improving, they still reside squarely in

negative territory. As indicated in earlier briefings, at best, gradual improvement in the rate of loss can be hoped for by fiscal year end.



Revised FY 2010 Estimate

The accompanying table presents the Commission’s latest forecast for FY 2010 general revenues. As shown, base receipts are estimated to be \$27.895 billion, which represents a decline of \$1.249 billion or 4.3% from the prior fiscal year.

The estimate reflects actual receipts through March as well as the outlook for the remainder of the fiscal year. As shown, the economically related sources are expected to bear the brunt of the yearly decline with gross personal

income tax expected to fall 7.0%, gross corporate income tax down 25.2% and sales tax off 8.5%. On a net basis, these “big three” revenue sources are forecast to decline \$1.653 billion. In addition, other tax sources are expected to drop \$185 million, as virtually all other sources will suffer year over year losses.

Transfers and federal sources are expected to partially offset the declines of the economic sources, with overall transfers anticipated to grow

\$413 million due mostly to \$352 million in “fund sweep” related transfers. Federal sources are expected to decline

over the remainder of the fiscal year, but still return \$176 million in growth by year’s end.

CGFA ESTIMATE FY 2010 vs. FY 2009 Actuals March 2010 (Base Revenues)					
(millions)					
Revenue Sources	CGFA FY 2010 Estimate March-10	Actual FY 2009	\$ Difference	% Difference	
State Taxes					
Personal Income Tax	\$9,500	\$10,219	(\$719)	-7.0%	
Corporate Income Tax	\$1,550	\$2,073	(\$523)	-25.2%	
Sales Taxes	\$6,200	\$6,773	(\$573)	-8.5%	
Public Utility (regular)	\$1,100	\$1,168	(\$68)	-5.8%	
Cigarette Tax	\$350	\$350	\$0	0.0%	
Liquor Gallonage Taxes	\$160	\$158	\$2	1.3%	
Vehicle Use Tax	\$29	\$27	\$2	7.4%	
Inheritance Tax (gross)	\$250	\$288	(\$38)	-13.2%	
Insurance Taxes & Fees	\$355	\$334	\$21	6.3%	
Corporate Franchise Tax & Fees	\$200	\$201	(\$1)	-0.5%	
Interest on State Funds & Investments	\$30	\$81	(\$51)	-63.0%	
Cook County Intergovernmental Transfer	\$240	\$253	(\$13)	-5.1%	
<u>Other Sources</u>	<u>\$379</u>	<u>\$418</u>	<u>(\$39)</u>	<u>-9.3%</u>	
Subtotal	\$20,343	\$22,343	(\$2,000)	-9.0%	
Transfers					
Lottery	\$625	\$625	\$0	0.0%	
Riverboat transfers and receipts	\$410	\$430	(\$20)	-4.7%	
Proceeds from sale of 10th license	\$50	\$0	\$50	NA	
<u>Other</u>	<u>\$921</u>	<u>\$538</u>	<u>\$383</u>	<u>71.2%</u>	
Total State Sources	\$22,349	\$23,936	(\$1,587)	-6.6%	
Federal Sources	\$6,743	\$6,567	\$176	2.7%	
Total Federal & State Sources	\$29,092	\$30,503	(\$1,411)	-4.6%	
Nongeneral Funds Distribution:					
Refund Fund					
Personal Income Tax [9.75%]	(\$926)	(\$996)	\$70	-7.0%	
Corporate Income Tax [17.5%]	(\$271)	(\$363)	\$92	-25.3%	
Subtotal General Funds	\$27,895	\$29,144	(\$1,249)	-4.3%	
NOTE: Totals exclude short-term borrowing, Budget Stabilization transfers, and other cash flow transfers.					
CGFA					

Revised FY 2010 Revenue Outlook

The State's originally enacted FY 2010 budget assumed revenues would reach \$29.299 billion. In the September Monthly Revenue Briefing, CGFA raised numerous warnings related to the FY 2010 revenue outlook. That was quickly followed by a Comptroller's report indicating that Office's concern with the backlog of unpaid bills. Finally, during the first week of the fall veto session, officials from the GOMB warned that revenues were expected to fall well short of budgeted expectations.

The following table provides an abbreviated view of the current fiscal year, comparing updated CGFA and GOMB revenue projections, as well as subsequent revenue shortfalls when compared to enacted budget assumptions. As shown, the Commission's update represents a revenue shortfall from the enacted budget of \$1.404 billion, or \$1.304 billion if compared to the GOMB forecast presented in the recently introduced FY 2011 budget. The relatively small \$100 million difference between the respective estimates is presented in more detail on the following page.

Base Revenues [\$millions]	Adopted Budget Estimated (GOMB) FY 2010	CGFA Mar.-10 Estimated FY 2010	GOMB Mar.-10 Estimated FY 2010	Difference
State Sources	\$19,947	\$19,146	\$19,081	\$65
Transfers	\$2,221	\$2,006	\$2,171	(\$165)
Federal Sources	\$7,131	\$6,743	\$6,743	\$0
Total	\$29,299	\$27,895	\$27,995	(\$100)
Change from Budgeted		(\$1,404)	(\$1,304)	

FY 2011 Revenues

A Year in Transition: Receipts Will Continue to Struggle

Economic Sources to Remain Weak

FY 2011 is expected to be a "transitional year" in terms of economically related revenues. That is revenues will improve off of their lows suffered over the past two years, but remain weak despite entering the expansion phase. While a third consecutive year of declines for the economic sources should be avoided, combined growth from income and sales taxes is only expected to be \$363 million. More meaningful revenue growth is not

expected to manifest until well after the economy strengthens further (likely not until FY 2012).

- Personal income tax is expected to continue to suffer as economic activity is still several quarters away from adding jobs. Even when improvement does begin, it is likely to be quite modest. As a result, growth is estimated to be only 1.6%. Decent gains will probably be delayed until FY 2012 when an improved

employment picture will manifest in higher growth rates.

- Corporate income tax is the most volatile economic source and as such, possible outcomes cover a wide spectrum. Historically, corporate income tax has most closely coincided with the timing of recessions and recoveries. If that pattern continues to hold true, then measurable growth can be anticipated next fiscal year. However, given corporate income tax suffered three consecutive years of declines during the last recession, a conservative outlook is still justified. Even so, receipts are expected to grow approximately 10%.
- Sales tax receipts should provide some modest growth in FY 2011, for no other reason than a much “lower base” has been established during the past recessionary period. However, the contraction of the employment base will continue to weight on retail sales for some time. Subsequently, growth of 1.6% is all that can be expected until the recovery takes firmer hold in FY 2012.

Non-Economic Factors Will Serve to Erase Gains

- The greatest drag on FY 2011 revenues will be the expiration of the federal stimulus at the end of 2010. No education stimulus money is expected in FY 2011, while only two quarters of enhanced Medicaid match can be assumed. As a result, federal stimulus is expected to be approximately \$1.426 billion less next fiscal year.
- The FY 2010 budget includes fund sweeps totaling \$352 million. Unless

similar legislation is passed, that revenue will not repeat next year, and result in a year over year loss.

- Unless legislative action is taken, a quirk in federal/state estate tax law would preclude collection of estate tax in calendar year 2010. On average this tax generates \$250 to \$300 million a year. Due to an approximate 9-month delay in estate settlements, if a legislative change is not made, revenues would decline approximately \$200 million.
- Finally, little net growth can be expected from the remaining revenue sources.

As shown, the Commission estimates that base general funds revenues will total \$26.557 billion in FY 2011. The forecast represents a decline of \$1.338 billion or 4.8% from the FY 2010 estimate. While the economic related sources are expected to grow, albeit at an overall modest pace, the loss of \$1.426 billion in federal stimulus money coupled with an overall falloff in transfers of \$301 million conspire to result in the overall decline.

For the year, net income and sales taxes are forecast to return combined growth of \$363 million, while other state tax sources are expected to only contribute an additional \$48 million. Again, overall transfers are expected to be down \$301 million primarily due to an anticipated \$271 million falloff in other transfers related to FY 2010 fund sweeps, as well as a one-time \$50 million transfer in FY 2010 expected from the sale of the 10th riverboat license.

Federal sources are expected to fall a crushing \$1.448 billion overall. The bulk

of the decline is due to the scheduled December 2010 termination of the federal American Recovery and Reinvestment Act (ARRA). In FY 2010, approximately \$1.855 billion in ARRA is anticipated, however, only two quarters of Medicaid related enhanced federal match, or \$429 million, is forecast for FY 2011, a falloff

of \$1.426 billion. [As is noted later, the Governor's FY 2011 introduced budget assumes congressional action will be approved that will extend the ARRA throughout all of FY 2011. If that assumption comes to pass, an additional \$737 million in federal sources could be realized].

CGFA ESTIMATE FY 2011 vs. FY 2010 March 2010 (Base Revenues)					
(millions)					
	CGFA FY 2011 Estimate March-10	CGFA FY 2010 Estimate March-10	\$ Difference	% Difference	
Revenue Sources					
State Taxes					
Personal Income Tax	\$9,650	\$9,500	\$150	1.6%	
Corporate Income Tax	\$1,705	\$1,550	\$155	10.0%	
Sales Taxes	\$6,300	\$6,200	\$100	1.6%	
Public Utility (regular)	\$1,125	\$1,100	\$25	2.3%	
Cigarette Tax	\$350	\$350	\$0	0.0%	
Liquor Gallonage Taxes	\$160	\$160	\$0	0.0%	
Vehicle Use Tax	\$30	\$29	\$1	3.4%	
Inheritance Tax (gross)	\$250	\$250	\$0	0.0%	
Insurance Taxes & Fees	\$345	\$355	(\$10)	-2.8%	
Corporate Franchise Tax & Fees	\$210	\$200	\$10	5.0%	
Interest on State Funds & Investments	\$36	\$30	\$6	20.0%	
Cook County Intergovernmental Transfer	\$243	\$240	\$3	1.3%	
Other Sources	\$392	\$379	\$13	3.4%	
Subtotal	\$20,796	\$20,343	\$453	2.2%	
Transfers					
Lottery	\$635	\$625	\$10	1.6%	
Riverboat transfers and receipts	\$420	\$410	\$10	2.4%	
Proceeds from sale of 10th license	\$0	\$50	(\$50)	N/A	
Other	\$650	\$921	(\$271)	-29.4%	
Total State Sources	\$22,501	\$22,349	\$152	0.7%	
Federal Sources [Stimulus Ending Dec. 2010]	\$5,295	\$6,743	(\$1,448)	-21.5%	
Total Federal & State Sources	\$27,796	\$29,092	(\$1,296)	-4.5%	
Nongeneral Funds Distribution:					
Refund Fund					
Personal Income Tax [9.75%]	(\$941)	(\$926)	(\$15)	1.6%	
Corporate Income Tax [17.5%]	(\$298)	(\$271)	(\$27)	10.0%	
Subtotal General Funds	\$26,557	\$27,895	(\$1,338)	-4.8%	
NOTE: Totals exclude short-term borrowing, Budget Stabilization transfers, and other cash flow transfers.					
CGFA					

As shown in the accompanying table, the Commission's FY 2011 base estimate of revenues is \$150 million below the forecast presented in the Governor's introduced budget. Overall, the estimates are quite similar, separated by only approximately one-half of one percent. Again, one key revenue ingredient of the proposed budget is that of congressional action to extend the ARRA beyond its current deadline of December 2010.

Despite being quite similar overall, a few differences are worth mentioning:

- The Commission estimates combined net growth of income and sales taxes at \$363 million, whereas the GOMB forecasts somewhat higher growth at \$576 million. Growth rates of personal income tax are similar with the Commission at 1.6% and GOMB at 2.7%. Sales tax growth rates are very close, 1.6% anticipated by the Commission and 1.5% for GOMB. The largest difference resides in the growth forecast of corporate income tax. The GOMB foresees rapid

improvement with growth forecasted at 19.8%. While history has shown that corporate profits and resulting revenues can snap back quickly after recessionary periods, the Commission is assuming a more moderate growth rate of 10%.

- While differences exist between other smaller lines such as public utility, inheritance, and other sources, when taken together these other revenue areas net out to a miniscule \$3 million differences [with CGFA being the higher].
- The overall estimate of transfers is very similar, although the Commission is lower by \$23 million. Federal sources are largely determined by appropriation levels and resulting spending, as a result, the Commission routinely adopts the Administration's view of federal sources. Actual appropriations and ability to spend on reimbursable programs will dictate final receipts. Again, the introduced budget is assuming the continuation of the ARRA through all of FY 2011. The value of that extension is worth an estimated \$737 million.

FY 2011 CGFA vs. GOMB General Funds Revenue Estimates March-2010

(millions)

Revenue Sources	CGFA FY 2011 Estimate Mar-09	GOMB FY 2011 Estimate Mar-09	\$ Difference	% Difference
State Taxes				
Personal Income Tax	\$9,650	\$9,624	\$26	0.3%
Corporate Income Tax	\$1,705	\$1,902	(\$197)	-10.4%
Sales Taxes	\$6,300	\$6,290	\$10	0.2%
Public Utility (regular)	\$1,125	\$1,144	(\$19)	-1.7%
Cigarette Tax	\$350	\$350	\$0	0.0%
Liquor Gallonage Taxes	\$160	\$161	(\$1)	-0.6%
Vehicle Use Tax	\$30	\$26	\$4	15.4%
Inheritance Tax (gross)	\$250	\$278	(\$28)	-10.1%
Insurance Taxes & Fees	\$345	\$350	(\$5)	-1.4%
Corporate Franchise Tax & Fees	\$210	\$205	\$5	2.4%
Interest on State Funds & Investments	\$36	\$35	\$1	2.9%
Cook County Intergovernmental Transfer	\$243	\$243	\$0	0.0%
<u>Other Sources</u>	<u>\$392</u>	<u>\$346</u>	<u>\$46</u>	<u>13.3%</u>
Subtotal	\$20,796	\$20,954	(\$158)	-0.8%
Transfers				
Lottery	\$635	\$636	(\$1)	-0.2%
Riverboat Transfers & Receipts	\$420	\$428	(\$8)	-1.9%
Tenth License	\$0	\$0	\$0	N/A
<u>Other</u>	<u>\$650</u>	<u>\$664</u>	<u>(\$14)</u>	<u>-2.1%</u>
Total State Sources	\$22,501	\$22,682	(\$181)	-0.8%
Federal Sources [current law]	\$5,295	\$5,295	\$0	0.0%
Total Federal & State Sources	\$27,796	\$27,977	(\$181)	-0.6%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax [9.75% in FY'11]	(\$941)	(\$938)	(\$3)	0.3%
Corporate Income Tax [17.5% in FY'11]	(\$298)	(\$332)	\$34	-10.2%
Subtotal General Funds	\$26,557	\$26,707	(\$150)	-0.6%
With Federal Recovery Extension	\$737	\$737	\$0	N/A
Total General Funds	\$27,294	\$27,444	(\$150)	-0.5%
CGFA				

The table on the following page illustrates the Governor's proposed budget plans for FY 2010 and FY 2011. As shown, since the FY 2010 budget was enacted the State's financial picture has worsened by \$2.474 billion [comprised of \$1.304 billion in revenue shortfalls and \$1.170 billion in higher spending]. As adopted, the budget assumed a surplus of \$279 million. That figure now stands at a deficit of \$2.195 billion. When the deficit at the end of FY 2009 is included, the budget deficit at the end of FY 2010 is projected to be \$5.868 billion.

The FY 2011 end of year deficit carried into FY 2012 is not expected to change under the Governor's budget, and remains \$5.868 billion. The Governor proposes a number of initiatives in order keep from losing ground. Those highlighted include:

- Factored into the FY 2011 budget plan is \$267 million in savings from pension stabilizations [details unavailable but presumably due to a two-tiered pension system].

- The proposed FY 2011 budget assumes the reduction of net income taxes to local governments via the Local Government Distributive Fund. Currently, local governments receive 10% of net income taxes. The introduced budget assumes a decline to 7%, valued at approximately \$308 million.
- FY 2011 assumes \$4.672 billion in what is termed "Voucher Payment Notes". It is unclear what precisely is meant, and the repayment schedule that would be proposed. Preliminary explanations include "fund sweeps", "intra-fund borrowing", short-term borrowing, and various other market instruments yet to be defined.
- The introduced budget includes the anticipation that congressional action will take place that will extend federal assistance to the states through FY 2011. The value of that extension is estimated to be approximately \$737 million.

Governor's Proposed Budget Plan—FY 2009 to FY 2011

Sources: FY 2011 Budget Book page 2-10; Dec. 30th 2009 Preliminary Official Statement page 22

\$ millions

	Actuals FY 2009	FY 2010		Introduced Budget FY 2011
		Adopted Budget FY 2010	Revised (3/10/10) FY 2010	
Revenues [GOMB]	\$29,144	\$29,299	\$27,995	\$27,444
Appropriations*	\$27,796	\$26,085	\$26,309	\$24,777
less unspent approp	(\$322)	(\$951)	(\$400)	(\$496)
Net Approp Spending	\$27,474	\$25,134	\$25,909	\$24,281
Pension Contributions	\$2,486	\$0	\$0	\$4,157
Savings from Pension Stabilization				(\$267)
Statutory Transfers Out				
approx. Legislatively Required Transfers	\$1,897	\$1,651	\$2,002	\$2,004
Pension Obligation Bond Debt Service	\$466	\$520	\$564	\$1,611
Debt Service transfer for Capital Projects	\$636	\$670	\$670	\$638
Reduced Transfer to LGDF	\$0	\$0	\$0	(\$308)
Total Transfers Out	\$2,999	\$2,841	\$3,236	\$3,945
Total Operating Spending and Transfers Out	\$32,959	\$27,975	\$29,145	\$32,116
Operating Deficit (Surplus)	(\$3,815)	\$1,324	(\$1,150)	(\$4,672)
Short-term Borrowing	\$2,400	\$1,250	\$1,250	\$0
Repay of Short-term Borrowing [w/ interest]	(\$1,424)	(\$2,295)	(\$2,295)	\$0
Voucher Payment Notes**				\$4,672
Budget Deficit (Surplus)	(\$2,839)	\$279	(\$2,195)	\$0
Budgetary Basis to Begin Year	(\$834)	(\$3,674)	(\$3,673)	(\$5,868)
Budget Deficit at End of Year	(\$3,673)	(\$3,395)	(\$5,868)	(\$5,868)

* FY 2010 appropriations do not reflect the FY 2010 statutory pension contribution for the General Funds. That amount will be financed and paid through issuance of approximately \$3.466 million in GO Pension Funding Bonds during the fiscal year.

** A series of notes to pay specific vouchers during the fiscal year.

**State Employees' Group Health and Life Insurance Program
For FY 2011**

Mike Moore, Revenue Analyst

The Governor has requested that a total of \$2.224 billion be appropriated for the State Employees' Group Health and Life Insurance program for FY 2011. The requested FY 2010 appropriation request for the Group Health Insurance Program was \$2.163 billion. The following table represents historical appropriation and liability amounts, per HFS. The CGFA FY 2011 estimate of liability is \$2.338 billion or \$93.0 million more than the HFS estimate of \$2.245 billion.

Currently, the payment cycle for preferred providers is 203 days, while non-preferred providers have a payment cycle of 231 days. The current amount of CIGNA claims being held is \$335 million. DHFS has increased the amount of time it takes to make payments

to managed care providers (HMO's) by 3.5 months. The value of what is currently being held for managed care providers is approximately \$357 million. Dental claims, Rx claims, administrative service charges, and vision premiums are being paid in 112 days. DHFS is projecting bills on hand at June 30 of FY2010 and FY2011 to be approximately \$482.6 million and \$993.3 million, respectively.

The FY 2011 budget request of \$696.1 million in GRF funds for the State Employees Group Insurance Program represents a decrease of \$328.8 million or (32.1)% from the FY 2010 GRF funding of \$1,024.8 million. The FY 2011 Road Fund request of \$160.0 million is \$9.8 million higher than the \$150.2 million funding level in FY 2010.

GROUP INSURANCE FUNDING SOURCES				
FY 2010 - FY 2011				
(\$ in Millions)				
	<u>FY 2010</u>	<u>FY 2011</u>	<u>Increase</u>	<u>% Increase</u>
GRF	\$1,024.8	\$696.1	\$(328.8)	(32.1)%
Road	\$150.2	\$160.0	\$9.8	6.5%
Other Sources*	\$701.8	\$826.9	\$125.1	17.8%

*See table below

Group Insurance Funding Sources		
Additional Funds in FY 2010 and FY 2011		
<u>Funding Source</u>	<u>FY 2010</u>	<u>FY 2011</u>
University Contributions	45.0	45.0
Member Contributions	327.5	476.1
Other Funds Reimbursements	260.3	232.2
Interest/Med D/Rebates/Etc.	69.0	73.6
TOTAL	701.8	826.9

Like last year, the Administration is again recommending that premiums for State retirees be increased significantly. According to the Governor's FY 2011 budget book, the maximum subsidy the State would pay for retiree health premiums in FY 2011 would be \$300 a month. Currently, the full monthly rate for a non-Medicare retiree in the QCHP is \$804.43 and \$590.54 monthly for a non-Medicare retiree in an HMO. This recommended change would result in QCHP non-

Medicare retirees, currently being subsidized the entire cost of coverage, to pay \$504.43 per month for their health care premium, or \$6,053 per year. Likewise, an HMO non-Medicare retiree would pay \$290.54 per month, or \$3,486 per year. Currently, a non-Medicare retiree in the QCHP pays \$14.00 a month on average. This change would represent a \$490.43 increase in monthly premium, or a 3,403% increase. HMO non-Medicare retirees would see premiums increase on average \$277.87, or 2,193%.