Commission on Government Forecasting and Accountability

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MONTHLY BRIEFING FOR THE MONTH ENDED: MARCH 2015

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ECONOMY: Effects of a Stronger Dollar

Edward H. Boss, Jr., Chief Economist

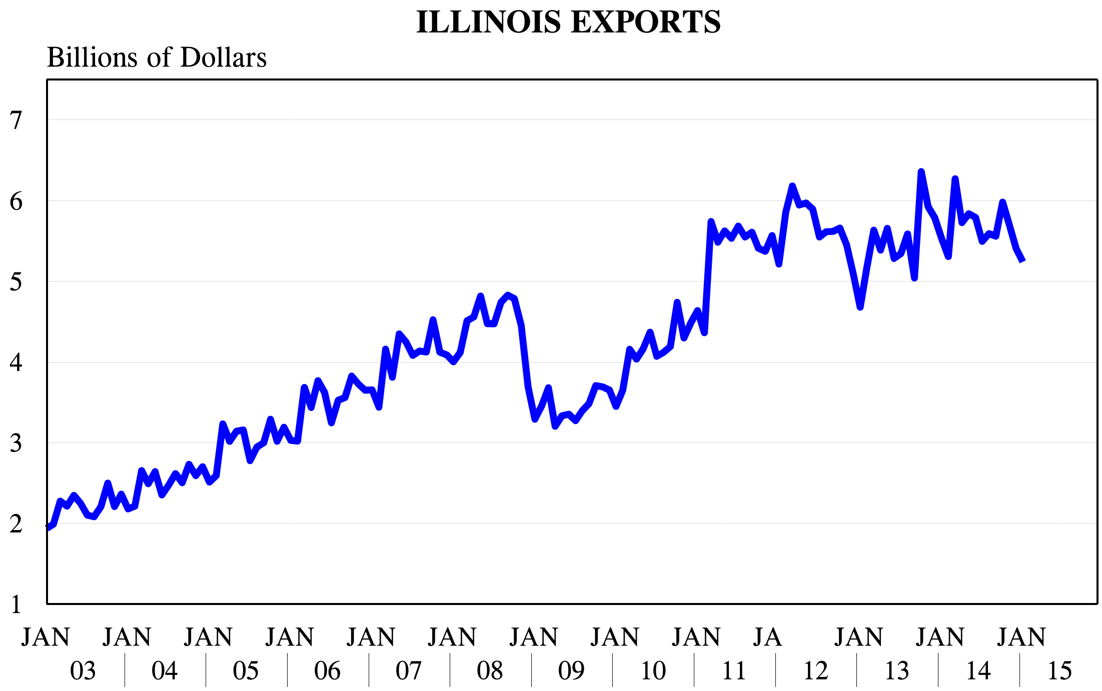
As the U.S. economy continues to advance, albeit at a modest pace, its performance exceeds that in many European countries. Largely reflecting these trends, the U.S. is on the verge of raising its interest rates, working toward a more market oriented determination of interest rates, even as Europe begins a program of quantitative easing, reducing their interest rates to stimulate growth. As a result, the U.S. dollar has strengthened against the Euro reaching its strongest position in 12 years. Some observers see this trend continuing, eventually reaching equality between the two.

The sharp and quick strengthening of the dollar has both winners and losers. Among the winners are those traveling abroad and are seeing their dollars buying more and at lower prices. A set of winners are those countries that are largely dependent on the tourist trade, countries such as Greece, Italy, Portugal, and Ireland -- the very countries that are having severe financial difficulties precipitating the actions to devalue the Euro. Also benefiting are goods producers abroad who have increased their competitiveness with the U.S. goods.

Among the losers is the United States. It is likely to decelerate tourism to the U.S. as well as cause it to lose competitiveness that had been improving with increased U.S. energy production and lower prices. As a result of the strong dollar, companies will either face a loss of market share, profit margins, or both. In January 2015, U.S exports decreased 2.9% to $189,410 from $195,002 in December while revised fourth quarter data show profits from current production decreased $30.4 billion in contrast with an increase of $64.5 billion in the third.

The United States is the world's third biggest exporter, although exports account for only about 13% of Gross Domestic Product. Within the country, Illinois is the fifth largest exporter. Its major trading partners, in order of importance are: Canada (32.2%); Mexico (11.6%); and China (6.9%). Countries in Europe account for about 20% of the

CHART 1



CGFA

State's exports. As to the goods exported from Illinois, in order of importance, each with a double digit market share is: Machinery, Chemicals, Computer and Electronics, Petroleum and Coal, and Electrical equipment (Agricultural product's share is 4.7%). The change from 2013 to 2014 in Illinois exports show the largest decline in Illinois exports was Machinery, which fell 14.2%, while the largest increase last year was Petroleum and coal products, with exports up 23.1%.

As shown in the chart, Illinois exports, after declining during the recession, began to expand sharply with the ensuing recovery that began in mid-2009, reaching a high around mid-2012 before leveling out through last year. In January of this year, exports fell to their lowest level since September 2013, down 3% for the month and down 5.3% from a year earlier. While a strengthening dollar may be partly responsible, another severe winter coupled with the coastal dock strikes also may be partly to blame. While the dock strikes recently were settled, their effects are likely to continue over the next three months or so before returning to normal, continuing to be a depressant to expanding exports.

Despite the relatively small share of GDP accounted for by exports, it joins other sectors that have softened in recent months. In spite of improved employment, retail sales have fallen in each of the past three months, measures of both manufacturing and non-manufacturing, while continuing to expand, have weakened, housing remains less than robust while both federal and State and local spending suggest fiscal restraint. As a result, many economists are lowering their growth projections for the first quarter of 2015, either with no acceleration, stalled at the previous quarter's 2.2% rate, all the way down to no growth at all, or 0.0%. As noted in the last month's Monthly Briefing, the growth early this year is reminiscent of the beginning of last year.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS *	FEB. 2015	JAN. 2015	FEB. 2014
Unemployment Rate (Average)	6.0%	6.1%	7.9%
Annual Rate of Inflation (Chicago)	-0.4%	-1.6%	-0.2%

	LATEST MONTH	% CHANGE OVER PRIOR MONTH	% CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (February)	6,513	-0.1%	-0.5%
Employment (thousands) (February)	6,122	0.0%	1.4%
NonFarm Payroll Employment (February)	5,916,000	13,860	79,800
New Car & Truck Registration (February)	39,935	-23.5%	9.5%
Single Family Housing Permits (February)	383	-5.9%	-21.5%
Total Exports ($ mil) (January)	5,240	-3.0%	-5.3%
Chicago Purchasing Managers Index (March)	46.3	1.1%	-17.1%

* Due to monthly fluctuations, trend best shown by % change from a year ago

REVENUE

March Receipts Down Again Due To Lower Income Tax Rates

Jim Muschinske, Revenue Manager

Overall base revenues fell $330 million in March. Income tax receipts reflect the lower rates that went into effect January 1st. In addition, the distribution of income tax now includes monies going to the Fund for Advancement of Education and the Commitment to Human Services Fund. Federal sources finally experienced a small gain, after falling each of the first eight months of the fiscal year. There was one extra receipting day when compared to last year.

Gross personal income taxes dropped $208 million, or $195 million net of refunds. In addition, another $62 million of income taxes were removed from general revenue and deposited into the two aforementioned funds. As a result, net personal income taxes going to the general funds fell $257 million when compared to last year. Gross corporate income tax dropped $83 million, or $76 million net of refunds. Other sources fell $60 million due to last year's one-time deposit of approximately the same amount from a prior year SERS overpayment. Corporate franchise tax receipts dipped $1 million.

A number of sources posted gains for the month, albeit modest in most cases. Inheritance tax continued to fare well, growing $19 million, while public utility taxes added $10 million. Cigarette taxes were higher by $5 million, insurance taxes were up by $4 million, and the vehicle use tax added $1 million.

Overall transfers fell $2 million for the month. As mentioned, federal sources finally posted a gain for the first time in FY 2015, as receipts grew a modest $13 million.

Year to Date

Through the first three-fourths of the fiscal year, overall base revenues fell $1.421 billion. However, much of that decline was expected and due to: the much lower Refund Fund transfer into GRF; lower income tax rates; and, the change in income tax distribution [the new distribution to the aforementioned education and human services fund primarily impacts personal income, as very little corporate income meets the statutorily definition of the type of income tax that falls under the new distribution].

Gross corporate income taxes were down $325 million through the first nine months, or $297 million net of refunds. Gross personal income taxes are now down $256 million, or $477 million net of refunds and distributions to the two new funds. Public utility taxes are off $10 million, cigarette tax by $1 million and corporate franchise taxes $1 million.

A number of sources posted gains through March. Sales tax receipts are ahead of last year's pace by $302 million, inheritance tax is up by $55 million, the Cook County IGT by $30 million, insurance taxes $13 million, interest income $4 million, vehicle use tax $3 million, liquor taxes $1 million, and other sources $1 million.

To date, overall transfers are down $381 million due to the much lower Refund transfer which accounts for $334 million of that falloff. Other transfers are off $28 million while riverboat transfers are down $27 million. Lottery transfers managed to grow by $8 million.

Federal sources are down $663 million thus far in the fiscal year, reflecting lower reimbursable spending from the GRF.

Commission Releases FY 2016 Estimate

On March 10th, the Commission released its forecast of FY 2016 general funds revenue, along with an updated FY 2015 estimate. As shown in the following table, CGFA's estimate of FY 2016 revenues is $32.139 billion, which reflects a falloff of $1.960 billion from the revised FY 2015 estimate. A full discussion of the forecasts can be seen by going to the Commission's website.

CGFA 2016 General Funds Forecast

CGFA FY 2016 General Funds Forecast Based on Current Law			
($ millions) Revenue Source	FY 2016 Mar-15	FY 2015 Mar-15	$ Change
"Big Three"--Personal, Corporate, and Sales Taxes	$22,937	$25,448	($2,511)
All Other State Sources	$3,164	$3,252	($88)
Transfers In	$1,630	$1,723	($93)
Federal Sources	$4,408	$3,676	$732
Interfund Borrowing	$0	$0	$0
Total	$32,139	$34,099	($1,960)

As shown, the Commission's FY 2016 estimate of general funds revenue based on current law is $32.139 billion. The forecast represents a decline of $1.960 billion from the revised FY 2015 estimate and reflects the annualized impact of the lower income tax rates per statute along with continued diversion of income tax receipts to the Fund for Advancement of Education and the Commitment to Human Services Fund. Other points of note related to the forecast include:

- "Big Three" – As shown, combined receipts from personal income tax, corporate income tax and sales tax are expected to total $22.937 billion in FY 2016. The estimate represents a drop of $2.511 billion from these large economically related revenue sources that makes up approximately 72% of the total general funds estimate. Despite expected continued good performance from sales tax receipts, the annualized effects of the lower income tax rates and accompanying effects of diversions of the aforementioned funds will equate into a significant drop in revenues from these major revenue contributors.

- A drop off of $88 million is anticipated from all other state source revenues. In large part the decline is due to the one-time nature of court settlement proceeds received in FY 2015 but not expected to repeat next year. For the most part, the smaller miscellaneous general revenue lines are relatively flat and offer little in the way of growth.

- Overall transfers are expected to decline $93 million. While lottery transfers should produce minor gains, riverboat gaming will continue to flag, and one time Refund Fund transfers will probably not recur, nor other miscellaneous transfers be able to generate any growth.

- Federal sources for FY 2016 are extremely difficult to predict, particularly given the Governor's announced spending plan. For now, the Commission will display a figure of $4.408 billion for FY 2016 which is the same as that being carried by the GOMB under their "Maintenance/ Autopilot" budget scenario. Federal sources are governed by appropriation levels, available cash for spending, and what bills are paid by the Comptroller. Add to those considerable variables the additional ambiguity created by the significant programmatic Medicaid changes called for by the Governor, and it brews up a near impossible task of forecasting federal sources.

FY 2015 Budget Action Taken – FY 2016 Budget Still Uncertain

On March 26th the General Assembly passed HB 317 and HB 318. The Governor signed the bills into law the very next day. The bills essentially help closed the gap that had developed in the FY 2015 budget via appropriations cuts to most agencies as well as authorizing $1.318 billion in "fund sweeps".

With those actions taken to address the FY 2015 budget, focus can now turn in earnest to the crafting of the State's FY 2016 budget. On March 27th, the Commission as well as the Governor's Office of Management and Budget presented their respective FY 2016 revenue estimates to the House Revenue Committee.

FY 2016 General Funds Forecast

CGFA vs. GOMB [Current Law/Maintenance/Autopilot]

($ millions) Revenue Source	FY 2016 Mar-15	GOMB Feb-15	CGFA vs GOMB Feb-15
"Big Three"--Personal, Corporate, and Sales Taxes	$22,937	$22,839	$98
All Other State Sources	$3,164	$3,131	$33
Transfers In	$1,630	$1,671	($41)
Federal Sources	$4,408	$4,408	$0
Interfund Borrowing	$0	$0	$0
Total	$32,139	$32,049	$90

With Governor's Proposed Changes to FY 2016 Revenues

Distribution Change of Public Utility Tax	$175	$175	$0
Impact on Federal Sources [reduced spending]	($1,107)	($1,107)	$0
Fund for Advancement of Education	$443	$442	$1
Commitment to Human Services Fund	$443	$442	$1
Total Adjustments	($46)	($49)	$3
Subtotal General Funds w/adjustments	$32,093	$32,000	$93

The accompanying tables compare the FY 2016 revenue outlooks between the Commission and the GOMB. As shown, the overall differences are quite minimal, only accounting for a difference of $90 million based on "current law/ maintenance/autopilot" assumptions.

Overall, the Commission is just slightly higher in the estimates of the "Big Three" due to slightly higher estimates of personal income and sales taxes that offset a more conservative view of next fiscal year's corporate income tax receipts.

All other State sources, as well as transfers in, show very minor differences. The estimates of federal sources reflect the GOMB view of federal sources based on the current Medicaid program and its liability demands. Obviously, appropriations levels, available cash, and bill payment priorities would ultimately dictate the federal source figure.

Also included in the tables are scenarios that include revenue changes proposed in the Governor's FY 2016 budget. Namely, a change in the distribution of public utility taxes valued at $175 million, the inclusion of the income tax revenue being diverted under current law to the Fund for Advancement of Education and the Commitment to Human Services Fund—valued at approximately $885 million.

Finally, the Governor's proposed budget assumed significant changes to the Medicaid program that would have the effect of reducing reimbursable spending and subsequently federal source receipts. While the value is shown as a difference of $1.107 billion from the "maintenance/autopilot" version, as previously discussed, federal sources are dependent on appropriation levels, available cash, and bill payment priorities.

GENERAL FUNDS RECEIPTS: MARCH

FY 2015 vs. FY 2014

($ million)

Revenue Sources	March FY 2015	March FY 2014	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$1,387	$1,595	($208)	-13.0%
Corporate Income Tax (regular)	562	645	($83)	-12.9%
Sales Taxes	601	587	$14	2.4%
Public Utility Taxes (regular)	124	114	$10	8.8%
Cigarette Tax	35	30	$5	16.7%
Liquor Gallonage Taxes	11	11	$0	0.0%
Vehicle Use Tax	3	2	$1	50.0%
Inheritance Tax	36	17	$19	111.8%
Insurance Taxes and Fees	37	33	$4	12.1%
Corporate Franchise Tax & Fees	15	16	($1)	-6.3%
Interest on State Funds & Investments	2	2	$0	0.0%
Cook County IGT	0	0	$0	N/A
Other Sources	33	93	($60)	-64.5%
Subtotal	$2,846	$3,145	($299)	-9.5%
Transfers				
Lottery	68	67	$1	1.5%
Riverboat transfers & receipts	29	33	($4)	-12.1%
Proceeds from Sale of 10th license	10	10	$0	0.0%
Refund Fund transfer	0	0	$0	N/A
Other	82	81	$1	1.2%
Total State Sources	$3,035	$3,336	($301)	-9.0%
Federal Sources	$333	$320	$13	4.1%
Total Federal & State Sources	$3,368	$3,656	($288)	-7.9%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($139)	($152)	$13	-8.6%
Corporate Income Tax	($79)	(86)	$7	-8.1%
Fund for Advancement of Education	($31)	0	($31)	N/A
Commitment to Human Services Fund	($31)	0	($31)	N/A
Subtotal General Funds	$3,088	$3,418	($330)	-9.7%
Short-Term Borrowing	$0	$0	$0	N/A
FY'13/14 Backlog Payment Fund	$0	$0	$0	N/A
Budget Stabilization Fund Transfer	$0	$0	$0	N/A
Total General Funds	$3,088	$3,418	($330)	-9.7%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 2-Apr-15

GENERAL FUNDS RECEIPTS: YEAR TO DATE
FY 2015 vs. FY 2014
($ million)

Revenue Sources	FY 2015	FY 2014	CHANGE FROM FY 2014	% CHANGE
State Taxes				
Personal Income Tax	$12,650	$12,906	($256)	-2.0%
Corporate Income Tax (regular)	2,067	2,392	($325)	-13.6%
Sales Taxes	5,977	5,675	$302	5.3%
Public Utility Taxes (regular)	764	774	($10)	-1.3%
Cigarette Tax	264	265	($1)	-0.4%
Liquor Gallonage Taxes	126	125	$1	0.8%
Vehicle Use Tax	23	20	$3	15.0%
Inheritance Tax	240	185	$55	29.7%
Insurance Taxes and Fees	220	207	$13	6.3%
Corporate Franchise Tax & Fees	158	159	($1)	-0.6%
Interest on State Funds & Investments	18	14	$4	28.6%
Cook County IGT	150	120	$30	25.0%
Other Sources	430	429	$1	0.2%
Subtotal	$23,087	$23,271	($184)	-0.8%
Transfers				
Lottery	478	470	$8	1.7%
Riverboat transfers & receipts	247	274	($27)	-9.9%
Proceeds from Sale of 10th license	10	10	$0	0.0%
Refund Fund transfer	63	397	($334)	N/A
Other	425	453	($28)	-6.2%
Total State Sources	$24,310	$24,875	($565)	-2.3%
Federal Sources	$1,949	$2,612	($663)	-25.4%
Total Federal & State Sources	$26,259	$27,487	($1,228)	-4.5%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($1,265)	($1,226)	($39)	3.2%
Corporate Income Tax	($292)	($320)	$28	-8.8%
Fund for Advancement of Education	($91)	$0	($91)	N/A
Commitment to Human Services Fund	($91)	$0	($91)	N/A
Subtotal General Funds	$24,520	$25,941	($1,421)	-5.5%
Short-Term Borrowing	$0	$0	$0	N/A
FY'13/14 Backlog Payment Fund Transfer	$0	$50	($50)	N/A
Tobacco Liquidation Proceeds	$0	$0	$0	N/A
Pension Contribution Fund Transfer	$0	$0	$0	N/A
Budget Stabilization Fund Transfer	$275	$275	$0	0.0%
Total General Funds	$24,795	$26,266	($1,471)	-5.6%

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

CGFA 2-Apr-15

Capital Projects Fund Issues

Lynnae Kapp, Senior Bond Analyst

The Capital Projects Fund (CPF) was created to help fund the Illinois Jobs Now capital program [Public Act 96-0034]. Subject to appropriation, it is to be used for capital projects and the payment of debt service on bonds issued for capital projects. Public Acts 96-0034, 96-0037, and 96-0038 generated the revenues for the Fund. There are five revenue streams that make up the Fund (See following pages for further details).

CAPITAL PROJECTS FUND REVENUES in millions							
Revenue Source	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Estimated FY 2015	Estimated FY 2016
30% VIDEO TERMINAL TAX	$0.0	$0.0	$0.0	$24.5	$114.4	$187.0	$196.0
LOTTERY FUND*	$32.9	$54.1	$65.2	$135.0	$145.0	$145.0	$145.0
SALES TAX	$39.0	$52.0	$52.7	$54.0	$55.0	$55.0	$55.0
LIQUOR TAX **	$77.5	$105.2	$114.8	$115.1	$115.0	$119.0	$119.0
Transfer In	$0.0	$0.0	$0.0	$0.3	$0.3	$0.3	$0.3
VEHICLE RELATED	$117.7	$294.6	$299.7	$298.4	$304.0	$312.0	$315.0
INVESTMENT INCOME	$0.0	$0.1	$0.1	$0.0	$0.1	$0.1	$0.1
Other Taxes		-$0.2	$0.0	$0.0	$0.0	$0.0	$0.0
TOTAL	**$267.1**	**$505.8**	**$532.5**	**$627.3**	**$733.8**	**$818.4**	**$830.4**

*The transfer from the Lottery Fund for FY 2010 actually occurred in FY 2011 due to timing issues, but is placed in FY 2010 for the purposes of this discussion. Transfers for FY 2015 and FY 2016 may not occur due to the current issues between the State and Northstar.

**The $140.6 million of protested Liquor Tax Revenues from FY 2010 ($60.2 million) and FY 2011 ($80.3 million) was transferred to the Capital Projects Fund in FY 2012 . The transferred amounts have been averaged out for the 9 months of FY 2010 and 12 months of FY 2011 that the tax was in effect.

Moneys in the Capital Projects Fund are to be transferred out to three funds:

- General Obligation Bond Retirement and Interest Fund (GOBRI) – for General Obligation Bond debt service from the Illinois Jobs Now program,
- Build Illinois Bond Retirement and Interest Fund (BIBRI) – for Build Illinois Bond debt service from the Illinois Jobs Now program, and
- $245 million annually to the General Revenue Fund (GRF).

When the Fund is behind on its transfers from previous fiscal years, completing those carried over transfers becomes a priority. The prior year transfers are to be completed by December of the succeeding year; otherwise permission is required from the Governor to carry the amounts over still to be paid.

In FY 2014, transfers out of the Capital Projects Fund of $145.9 million were carried over into FY 2015, adding to the problems in FY 2015 cash flow. Those transfers were eventually made by December 31, 2014. The table on the next page shows that Capital Projects Fund revenues are not sufficient to cover all of the transfers out required by statute. As a result, the shortfall is expected to be $360 million in FY 2015 and grow to $553 million in FY 2016. The Road Fund can be used as a backup for funding but must be paid back the next month before any other priority is met; therefore, the Road Fund backup is not useful in the long-term.

CAPITAL PROJECTS FUND TRANSFERS OUT		
	FY 2015	FY 2016
Revenue	$818,400,000	$830,400,000
Transfer Out Demands		
General Obligation Bond Retirement & Interest Fund	$648,878,726	$641,688,060
Build Illinois Bond Retirement & Interest Fund	$138,367,051	$136,772,116
General Revenue Fund	$245,178,200	$245,178,200
Total Transfers Out Demands	$1,032,423,977	$1,023,638,376
Previous FY shortfalls	$145,926,108	$359,950,085
Balance	-$359,950,085	-$553,188,461
* Source: The Office of the Comptroller		

There are still issues with two of the CPF revenue streams keeping it from reaching full implementation. In the beginning, many local governments banned Video Gaming. Since the program has gotten underway, numerous local governments have overturned their ban. The Commission calculates that the percentage of the State's population that lives in an area banning video gaming declined from 63.3% to 48.1% in 2013 and declined further to 45.0% as of July 2014. The City of Chicago makes up nearly half of this population at 21.0%, as they have not opted in to video gaming.

There were delays in the awarding of a Lottery management agreement with a private firm (Northstar). In the three years since the beginning of the agreement, the State and Northstar have been through third party mediation several times, primarily because Northstar was not reaching its predicted net income target levels and didn't want to pay the penalty required in the contract. The Lottery transfer to the CPF didn't exceed $100 million until FY 2013. Amounts from FY 2013 and FY 2014 have been higher due to penalty payments from Northstar. The State has requested the termination of the private management agreement. This could create uncertainty in this revenue line over the requirements in ending the Northstar agreement, and due to expected delays from choosing another private firm and the time it would take to become operational.

Even with the higher amounts being estimated for FY 2015 and FY 2016, these revenues still are not enough to cover all of the transfers required out of the Capital Projects Fund. There are multiple funding mechanisms in place to cover the debt service for the Capital Projects Fund. The point being made is that demands on the Fund are making it difficult to satisfy all of the statutory requirements. Deficiencies in the Capital Projects Fund for General Obligation Bond debt service can also be paid out of the General Revenue Fund. But this becomes just a shell game since the Capital Projects Fund is supposed to transfer funds to the General Revenue Fund and then General Revenue Fund can back up the CPF if it is short in its debt service transfers to GOBRI. If the initial set up of the Capital Projects Fund was to pay for debt service, then removing the transfers to GRF may allow for the CPF to keep up with transfers out to the Bond and Interest Funds for the payment of debt service.