Commission on Government Forecasting and Accountability

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MONTHLY BRIEFING FOR THE MONTH ENDED: APRIL 2016

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ECONOMY: A Three-peat?

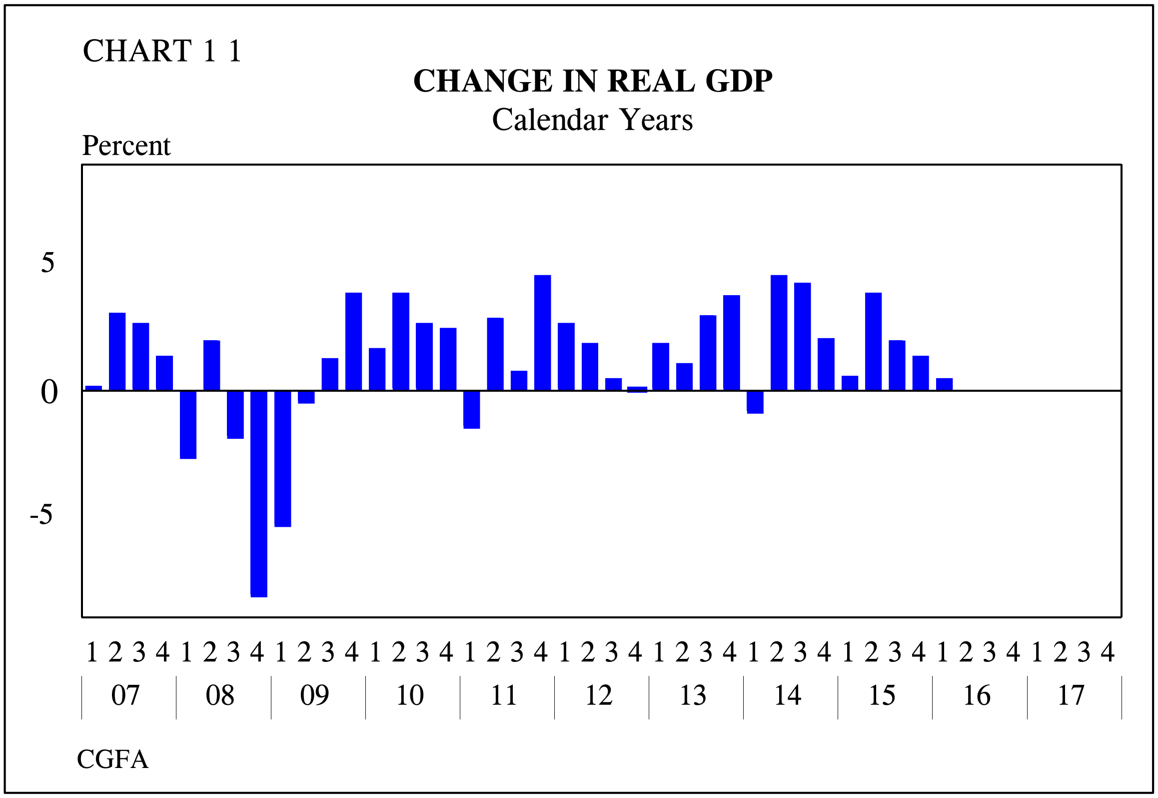
Edward H. Boss, Jr., Chief Economist

Monthly business reports displayed a weakening in economic activity as the first quarter of 2016 evolved, repeating the pattern so noticeable in the prior two years. In the first quarter of 2014 real GDP fell 0.9% following growth of 3.0% and 3.8% gains respectively in the previous two quarters. In the first quarter of 2015, real GDP rose a modest 0.6 percent following growth of 4.6%, 4.3%, and 2.1% respectively in the previous three quarters. And, most analysts, based upon monthly data, lowered their forecasts of real GDP for the first quarter of this year.

With the consumer accounting for about 70% of GDP spending, it's important to note that retail sales for March fell by 0.3%. This followed January 2016 to February 2016 where sales held virtually unchanged. Housing starts and their precursor, permits, both declined sharply in March with single family starts down 9.2%. In addition Consumer Sentiment, as measured by the University of Michigan, continued to soften. In a preliminary reading for April, the index of sentiment fell to 89.7, following readings of 92 in in January, 91.7 in February and 91 in March. It had been below 90 only once before during all of 2015. This performance appears substantiated by the April release by the Conference Board where its measure of Consumer Confidence fell in April to 94.2, the second weakest of the year, down from 96.1 in March.

The Leading Economic Indicator series by the Conference Board also displayed a weak trend. While data for March show the measure increasing 0.2 percent, the 0.1 percent gain originally reported for February was revised downward to show a 1.0 percent decline and this followed a 0.2 percent falloff in January and a 0.3 percent reduction in December.

Measurements of manufacturing and non-manufacturing, or service industries, show levels close to 50 the dividing line between expansion and contraction in those businesses. The



Capacity Utilization rate in March for the industrial sector fell 0.5 percentage points to 74.8, a rate that is 5.2 percentage points below its long term average suggesting adequate capacity currently and less pressure for expansion in new investment. Adding to this slowdown in manufacturing has been a weakening in corporate profits.

Industrial Production, reported out by the Federal Reserve, decreased 0.6% in March for the second month in a row and has fallen at an annual rate of 2.2% during the first quarter as a whole. A substantial portion of the decline came from the indexes for mining and utilities, which dropped 2.9% and 1.2% respectively. Manufacturing output itself fell 0.3%. The sizeable decline in mining production continued its recent downward trajectory having declined in each of the past seven months at an average pace of 1.6% per month, reflecting cutbacks in oil production as prices slid and as coal continued under attack.

As shown in the attached chart, Real GDP growth indeed rose at a diminished 0.5% rate in the first quarter of 2016 according to the advance release by the Bureau of Economic Analysis of the Commerce Department. As shown in the chart, unlike recent years where a weak first quarter followed a strong second half, the first quarter of this year followed a sharp slowing in the second half of 2015 prior to this year. Some analysts blame changing seasonal patterns. Others suggest that reported GDP is in contrast to other data reflecting stronger growth. In recent months, the economy experienced an improving labor market with the labor participation rate on the rise, indicating previously discouraged workers are beginning to return to the jobs market; total employed rising; and wages finally on the rise. Adding to the strengthening jobs data were initial unemployment claims. In the week ended April 16th initial claims fell to 248,000, the lowest reading since November 24th 1973. While edging up to 257,000 last week, that was better than the market expected and marked 60 consecutive weeks with initial claims below 300,000, the longest streak since 1973.

Despite only meager growth in the first quarter, at the Federal Open Market Committee (FOMC) April meeting it decided to leave its targeted range for the federal funds rate unchanged. Putting aside the tepid growth, increasing unemployment rates, and strengthening energy prices, the Committee noted that "labor markets have improved further even as growth in economic activity appears to have slowed." (One member voted against the action preferring to raise the target range for federal funds by another ¼% at that meeting.) Clearly the main emphasis in looking ahead will be on increasing employment with the labor force participation rate continuing to increase as workers reenter the market. While no sharp rebound in GDP is anticipated following the first quarter's slight gain, some improvement is anticipated, and should be sufficient to warrant further gradual increases in the federal funds target range on a path toward normalization.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS *	MAR. 2016	FEB. 2016	MAR. 2015
Unemployment Rate (Average)	6.5%	6.4%	5.9%
Annual Rate of Inflation (Chicago)	1.8%	-2.8%	0.2%

	LATEST MONTH	% CHANGE OVER PRIOR MONTH	% CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (March)	6,645.1	0.5%	2.3%
Employment (thousands) (March)	6,215.5	0.4%	1.7%
NonFarm Payroll Employment (March)	6,009,000	5,944,800	79,900
New Car & Truck Registration (March)	57,616	43.3%	7.4%
Single Family Housing Permits (March)	1,078	93.2%	31.9%
Total Exports ($ mil) (February)	4,986	6.5%	1.7%
Chicago Purchasing Managers Index (April)	50.4	-5.9%	-3.6%

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

REVENUE

As Expected, April Revenues Plummet

Jim Muschinske, Revenue Manager

Overall base revenues fell $2.589 billion in April as compared to the same month last year. Fueling last year's phenomenal performance was $1.074 billion in fund sweeps, large federally reimbursable spending and corresponding reimbursements, along with higher than expected income tax receipts. None of those items were expected to repeat this fiscal year. Also negatively affecting this April's receipts was one less receipting day than last year, in addition to a timing issue related to a new ledger system conversion at the IDoR.

During the first part of the month, the Commission noticed some odd receipting patterns, namely, there were two days of essentially little or no receipting. Since April is a usually large month due to final income tax payments that was alarming. On investigation, it was determined that the IDoR's recent ledger system conversion has increased the transit time of receipts by two days. While no receipts are actually lost as a result of the increased transit time, it will have the impact of two less receipting days in FY 2016 than was anticipated. The value of those two days [which really will end up being the last two days in June due to the two day shift] are expected to be approximately $150 million. There will be no impact to FY 2017.

Gross personal income tax receipts fell $762 million, or $673 million net of refunds and distributions to the Advancement of Education Fund and Commitment to Human Services Fund. While we are once again comparing similar tax rates to the prior year, the decline in April was expected since final payments last fiscal year still reflected the higher rate of the temporary tax increase. Gross corporate income tax receipts fell $85 million, or $79 million net of refunds. Again, the decline was expected given last year's final payments still reflecting the higher tax rate. Sales taxes ended the month down $19 million.

Corporate franchise taxes fell $8 million in April, while vehicle use taxes dropped $3 million on minimal activity. Public utility taxes dropped $2 million, as did cigarette taxes and other sources.

Only a few smaller sources managed to post a monthly gain. Inheritance tax grew $6 million, insurance taxes $1 million, liquor taxes $1 million, and interest income $1 million.

Absent the $1.074 billion in fund sweeps executed last April, overall transfers fell $13 million for the month. While lottery transfers managed to grow $15 million, that small gain was offset by a $2 million decline in riverboat transfers as well as a $26 million falloff in other transfers. As expected, April federal sources were far off last year's pace. As mentioned, last year's fund sweeps allowed a voluminous amount of reimbursable spending to take place. As a result, federal sources spiked to record levels. This year, in the absence of those resources, federal sources continue to be weak. For the month, receipts fell $723 million when compared to last year.

Year To Date

Through April, base receipts are down $4.977 billion. The drop reflects comparatively lower income tax rates for the first part of the fiscal year, the one-time nature of some pharmaceutical court settlements recovered by the Attorney General's Office last fiscal year, no fund sweeps year to date, and the dismal performance of federal sources.

Gross personal income taxes are down $2.494 billion, $2.212 billion net of refunds, or $2.692 billion when the diversions to the education and human service funds are included. Gross corporate income taxes are behind last year's receipting by $616 million, or $551 million net of refunds. Other sources are $139 million lower, reflecting the aforementioned court settlement proceeds received last fiscal year. Public utility taxes are off $59 million, while corporate franchise taxes declined $7 million.

A few sources managed to post modest gains. Insurance taxes are ahead of last year's pace by $29 million, inheritance taxes are up $22 million, sales tax has managed a paltry $19 million increase, liquor taxes $3 million, and cigarette taxes $1 million.

Excluding last year's $1.074 billion funds sweeps, overall transfers are down $8 million. Lottery transfers are ahead of last year by $23 million, but are offset by a $14 million decline in riverboat transfers, as well as $32 million less from all other transfers.

Federal sources are now down $521 million when compared to last fiscal year. Federal sources to the general funds have been off the expected pace for almost all of the fiscal year. A contributing factor to the poor year for general funds federal source performance has been a large amount of Medicaid bills being paid from the Healthcare Provider Relief Fund, rather than the GRF. [Federal reimbursement is deposited into the fund from which it was spent]. At this late stage of the fiscal year, even if spending and subsequent reimbursements shift back to general funds, federal sources are likely to fall well short of FY 2016 expectations.

APRIL
FY 2016 vs. FY 2015
($ million)

Revenue Sources	**April FY 2016**	**April FY 2015**	**$ CHANGE**	**% CHANGE**
State Taxes				
Personal Income Tax	$1,872	$2,634	($762)	-28.9%
Corporate Income Tax (regular)	515	600	($85)	-14.2%
Sales Taxes	656	675	($19)	-2.8%
Public Utility Taxes (regular)	85	87	($2)	-2.3%
Cigarette Tax	29	31	($2)	-6.5%
Liquor Gallonage Taxes	14	13	$1	7.7%
Vehicle Use Tax	0	3	($3)	-100.0%
Inheritance Tax	22	16	$6	37.5%
Insurance Taxes and Fees	67	66	$1	1.5%
Corporate Franchise Tax & Fees	12	20	($8)	-40.0%
Interest on State Funds & Investments	3	2	$1	50.0%
Cook County IGT	0	0	$0	N/A
Other Sources	39	41	($2)	-4.9%
Subtotal	$3,314	$4,188	($874)	-20.9%
Transfers				
Lottery	68	53	$15	28.3%
Riverboat transfers & receipts	1	3	($2)	-66.7%
Proceeds from Sale of 10th license	0	0	$0	N/A
Refund Fund transfer	0	0	$0	N/A
Fund sweeps	0	1,074	($1,074)	N/A
Other	38	64	($26)	-40.6%
Total State Sources	$3,421	$5,382	($1,961)	-36.4%
Federal Sources	$234	$957	($723)	-75.5%
Total Federal & State Sources	$3,655	$6,339	($2,684)	-42.3%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($182)	($263)	$81	-30.8%
Corporate Income Tax	($78)	(84)	$6	-7.1%
Fund for Advancement of Education	($38)	(42)	$4	-9.5%
Commitment to Human Services Fund	($38)	(42)	$4	-9.5%
Subtotal General Funds	$3,319	$5,908	($2,589)	-43.8%
Short-Term Borrowing	$0	$0	$0	N/A
Interfund Borrowing	$0	$0	$0	N/A
Budget Stabilization Fund Transfer	$0	$0	$0	N/A
Total General Funds	$3,319	$5,908	($2,589)	-43.8%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 3-May-16

GENERAL FUNDS RECEIPTS: YEAR TO DATE
FY 2016 vs. FY 2015
($ million)

Revenue Sources	FY 2016	FY 2015	CHANGE FROM FY 2015	% CHANGE
State Taxes				
Personal Income Tax	$12,790	$15,284	($2,494)	-16.3%
Corporate Income Tax (regular)	2,051	2,667	($616)	-23.1%
Sales Taxes	6,672	6,653	$19	0.3%
Public Utility Taxes (regular)	793	852	($59)	-6.9%
Cigarette Tax	295	294	$1	0.3%
Liquor Gallonage Taxes	142	139	$3	2.2%
Vehicle Use Tax	25	25	$0	0.0%
Inheritance Tax	277	255	$22	8.6%
Insurance Taxes and Fees	315	286	$29	10.1%
Corporate Franchise Tax & Fees	171	178	($7)	-3.9%
Interest on State Funds & Investments	20	20	$0	0.0%
Cook County IGT	150	150	$0	0.0%
Other Sources	334	473	($139)	-29.4%
Subtotal	$24,035	$27,276	($3,241)	-11.9%
Transfers				
Lottery	554	531	$23	4.3%
Riverboat transfers & receipts	238	251	($13)	-5.2%
Proceeds from Sale of 10th license	10	10	$0	0.0%
Refund Fund transfer	77	63	$14	22.2%
Fund sweeps	0	1074	($1,074)	N/A
Other	455	487	($32)	-6.6%
Total State Sources	$25,369	$29,692	($4,323)	-14.6%
Federal Sources	$2,385	$2,906	($521)	-17.9%
Total Federal & State Sources	$27,754	$32,598	($4,844)	-14.9%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($1,246)	($1,528)	$282	-18.5%
Corporate Income Tax	($311)	($376)	$65	-17.3%
Fund for Advancement of Education	($373)	($133)	($240)	N/A
Commitment to Human Services Fund	($373)	($133)	($240)	N/A
Subtotal General Funds	$25,451	$30,428	($4,977)	-16.4%
Short-Term Borrowing	$0	$0	$0	N/A
Interfund Borrowing	$0	$0	$0	N/A
Budget Stabilization Fund Transfer	$125	$275	($150)	-54.5%
Total General Funds	$25,576	$30,703	($5,127)	-16.7%

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

CGFA 3-May-16

STATE EMPLOYEES GROUP INSURANCE PROGRAM STATUS UPDATE

Anthony Bolton, Revenue Analyst

Now in its eleventh month, Illinois continued operation without an enacted budget has resulted in the State Employee Group Insurance Program (SEGIP) building up a large backlog of unpaid claims. As of the end of April, approximately $3.10 billion in claims were being held by the state from various insurers, organizations, and companies. Of this total, the largest portion is approximately $1.56 billion of Managed Care claims. The second largest line, Prescriptions, Open Access Plans, and Mental Health claims, totals $920 million. The third largest portion of the overall claims hold comes from CIGNA, which has $506 million in claims currently held by the state. Concurrently, the estimated time for claims to be held is 522 days for Managed Care, 476-554 days for CIGNA, and 448-501 days for Prescriptions/OAPs/Mental Health. This information and other pertinent data is displayed on the chart below. As noted in previous SEGIP updates, without an enacted budget, claims will continue to build up and estimated claims hold times will increase.

Claims Hold Data for SEGIP	
	April
Total Claims Hold	$3,096,222,578.74
Total Estimated Length of Claims Hold	Varies 314 - 554 days
CIGNA - PPO (and Member)	$473,971,053.66
Length of Claims Hold - PPO	476 days
CIGNA - Non-PPO	$31,772,139.65
Length of Claims Hold - Non-PPO	554 days
Total Managed Care Claims Hold	
HMO/ASC/Med Adv. Claims Hold	$1,564,466,799.15
Length of Claims Hold	522 days
Other Self-Insured Claims Held: Rx, OAP, Mental Health	$919,799,816.46
Length of Claims Hold	Rx=501, OAP=448 days
Dental Claims Hold - PPO and Premier	$69,146,881.49
Length of Dental Claims Hold - PPO & Premier	314 days
Dental - Non-PPO	$37,065,888.33
Length of Dental Claims Hold - Non-PPO	412 days

FINAL ACTION: PROPOSED FACILITY CLOSURE

Illinois Youth Center – Kewanee

Ben Varner, Revenue Analyst

The Commission on Government Forecasting and Accountability met on Tuesday, May 3, 2016 to take final action on the proposed closure of the Illinois Youth Center in Kewanee, Illinois. The Commission is mandated to provide an advisory opinion concerning this closure under the State Facilities Closure Act (30 ILCS 608/5-10). The Department of Juvenile Justice has proposed closing the facility due to a need to reduce the number of beds within the system and a desire to move to a more community-based model instead of the current institutional model.

On a vote of 5 yes and 6 no, a motion to accept the recommendation for closure failed. Members who voted against the motion cited a lack of a transition plan as a major issue. Many members hoped to see the Department of Corrections convert the facility to an adult facility potentially as a new hospice care facility. More information on the proposed closure is available on the Commission website at www.cgfa.ilga.gov.

PENSIONS

The Chicago Teachers' Pension Fund; Chicago Board of Education and State Contributions for FY 2017

Julie Bae, Pension Analyst

Public Act 89-0015 established a funding plan for the Chicago Teachers' Pension Fund (CTPF) under which the Chicago Board of Education (BOE) was required to make a minimum annual contribution to the fund in an amount sufficient to achieve a 90% funding ratio by the end of Fiscal Year 2045. For Fiscal Years 1999 through 2010, the Board's contribution was to be increased in equal annual increments so that by FY 2011, the BOE was making contributions as a level percentage of payroll each year through FY 2045. Public Act 90-0548 revised the funding plan to stipulate that the BOE need not make pension contributions unless the funded ratio drops below 90%.

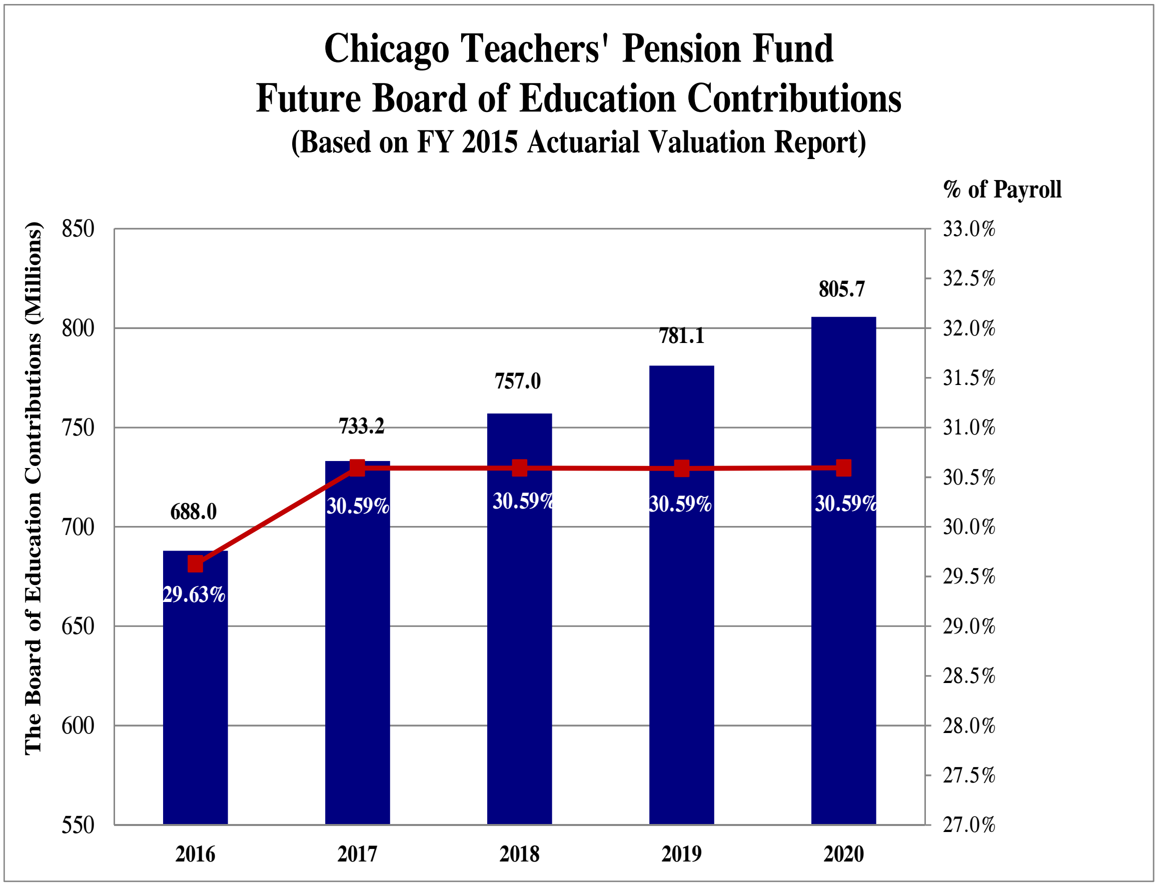
P.A. 96-0889, which became effective in April of 2010, implemented a second tier of pension benefits for Chicago teachers hired after Jan. 1, 2011 and repealed the funding provisions of P.A. 89-0015. P.A. 96-0889 set in place a new funding requirement under which the Chicago Board of Education must make contributions to CTPF between FY 2014 and FY 2059 in order for CTPF to attain a 90% funding ratio by FY 2059. Under the P.A. 96-0889, the Chicago Board of Education will be required to make an FY 2017 contribution of $720.2 million based on projections calculated by CTPF's actuary. P.A. 96-0889 stipulated that any contributions received by the State, other than those received in accordance with P.A. 90-0582, shall be treated as a credit against the required BOE contributions.

TABLE 1

CHICAGO TEACHERS PENSION FUND Summary of Financial Condition FY 2004 - FY 2015 ($ in Millions)				
Fiscal Year	Actuarial Liabilities	Actuarial Assets	Unfunded Liabilities	Funded Ratio
2004	12,105.7	10,392.2	1,713.5	85.8%
2005	13,295.9	10,506.5	2,789.4	79.0%
2006	14,035.6	10,948.0	3,087.6	78.0%
2007	14,677.2	11,759.7	2,917.5	80.1%
2008	15,203.7	12,069.4	3,134.3	79.4%
2009	15,683.2	11,493.3	4,189.9	73.3%
2010	16,319.7	10,917.4	5,402.3	66.9%
2011	16,940.3	10,109.3	6,831.0	59.7%
2012	17,375.7	9,364.1	8,011.6	53.9%
2013	19,044.5	9,422.5	9,622.0	49.5%
2014	19,503.9	10,045.5	9,458.4	51.5%
2015	**19,951.3**	**10,344.4**	**9,606.9**	**51.8%**

Public Act 90-0582 requires the State and the BOE to contribute an additional 0.544% and 0.58% of the fund's total teacher payroll respectively when the CTPF funded ratio drops below 90%. As shown in Table 1 above, the actuarial funded ratio stood at 51.8% at the end of FY 2015 based on the CTPF's FY 2015 actuarial valuation report, and thus, the additional State and BOE contributions will be required for FY 2017. Given that the projected payroll for FY 2017 is approximately $2,240.0 million, the State and the BOE will be required to make an additional contribution of $12.2 million and $13.0 million, respectively, to the CTPF in FY 2017 in accordance with this provision. The additional State contribution was set forth in CTPF's FY 2017 certification letter dated February 9, 2016.

TABLE 2



The Board of Education contributions to CTPF for FY 2014 - FY 2059 are determined based on actuarial calculation by CTPF's actuary, pursuant to the funding law as stated above. Table 2 above presents, based on FY 2015 CTPF actuarial valuation report, the projected BOE contributions for FY 2016 – FY 2020 and the contributions expressed as a percentage of future pensionable payroll.