Commission on Government Forecasting and Accountability

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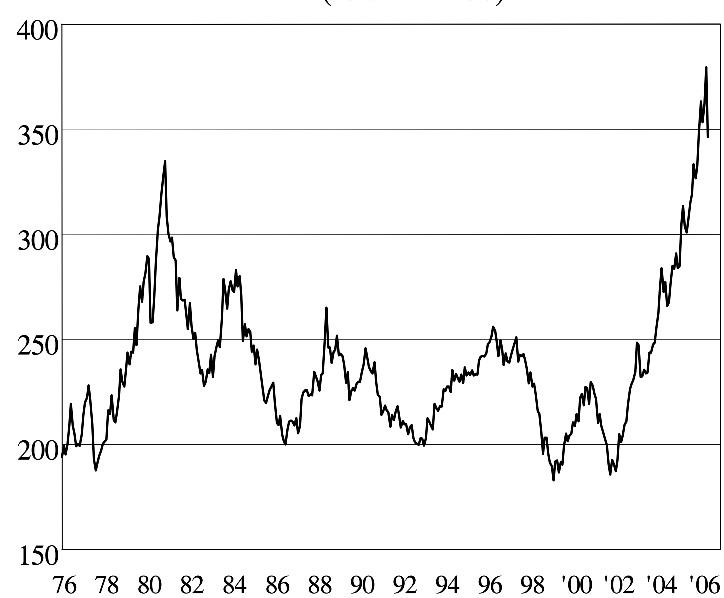
ECONOMY: Commodity Prices, the Next Bubble?

Edward H. Boss, Jr., Chief Economist

The economy throughout time has been beset by exorbitant price swings in certain assets, often described as an economic bubble. An economic, or speculative, bubble occurs when speculation in certain assets cause prices to rise, thus producing more speculation and still higher prices that eventually reach absurd levels that no longer reflect economic realities. This inevitably leads to a burst of the bubble and a sharp falloff in prices. Such bubbles can have a negative effect on economies as they cause a misallocation of resources and often can destroy a large amount of wealth.

Chart 1 **Commodity Prices** (1967 = 100)



Source: Reuters - CRB Index
CGFA

History is full of examples of such bubbles as early as the Tulip mania in 1637; the real estate and stock market crises following the Roaring Twenties; the stock market crash in 1987; the Japanese asset price bubble in the 1980s, and, to a significantly lesser degree, beanie babies in the mid-1990s. Such bubbles recently have been evident again in the so-called irrational exuberance that occurred several years ago in the stock markets, particularly the dot-com companies, to the readjustments currently occurring in the housing market. The sharp falloff in some commodity prices in recent days from price levels that in some cases have reached 25-year highs is raising concern that this may be the next bubble ready to burst, while others feel this sell off represents a buying opportunity and that commodity prices will go substantially higher.

The sharp rise in commodity prices is illustrated in Chart 1, shown on the previous page, which shows end-of-month prices as measured by the Reuters - Commodity Research Bureau's Index. The Index, with a base year of 1967, consists of six subgroups: Energy (17.6%); Grains (17.6%); Industrials (11.8%); Meats (11.8%); Softs (coffee, cocoa, sugar, and orange juice 23.5%); and precious metals (17.6%). As shown, from a recent low in early 2002 through April of this year the index has doubled, rising 40% alone from April 2004 to April 2006, before edging down in May. Those who expect commodity prices to resume their sharp upward movement point to the rapidly growing economies of Brazil, India, and especially China and the strong demand pressure this places on commodities such as copper and oil. At the same time the custom of putting savings or wealth into precious metals such as gold in India and the threat that a weakening U.S. dollar could cause some countries to shift more of their reserves into gold rather than dollar assets has served to further drive up precious metal prices.

Those who suggest commodity prices are too high and are in for a fall, point to forecasts of rising interest rates and slowing growth in the U.S., reducing demand, as well as to the speculative nature of the recent price run-ups. For example, in a recent report done by Morgan Stanley, it is suggested that while there have been five noticeable periods of extended global growth in the past three and a half decades (two in the 1970s; one in the 1980s; another in the 1990s; and the current one from 2002) the current period of global growth is slightly less than the average rise during the previous four periods while industrial price increases have been sharply higher. As pointed out, it is one thing for commodity prices to rise in a highly inflationary period like the 1970s when inflation permeated most aspects of the cost and price structure, but the current price spike is in sharp contrast to the current relatively low overall inflationary environment.

Finally, sustaining the sharp rise in commodity prices assumes the rapid growth rates in China, India and a few other rapidly growing developing nations will continue without interruption, as will these countries' rates of commodities usage. History suggests otherwise. In the U.S. rapid energy price increases spurred the development of more efficient usage. For example, the

U.S. energy consumption per dollar increase in GDP has fallen from 19.57 thousand BTUs per dollar of GDP measured in 2000 dollars in 1949, to only about 18.0 thousand BTUs per dollar of GDP in 1970, but then plunged to 9.2 thousand BTUs per dollar of GDP by 2004.

It can be assumed, even under current technology, that China and others will become more efficient users of commodities that will impact their demand for commodities over time. Thus, while commodity prices may go still higher, there are factors suggesting this is not a one-way street.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS	April 2006	March 2006	April 2005
Unemployment Rate (Average)	5.1%	5.1%	5.9%
Annual Rate of Inflation (Chicago)	0.6%	2.4%	2.3%

	LATEST MONTH	% CHANGE OVER PRIOR MONTH	% CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (April)	6,525	0.2%	0.9%
Employment (thousands) (April)	6,192	0.2%	1.7%
New Car & Truck Registration (April)	45,143	-17.9%	-25.4%
Single Family Housing Permits (April)	3,916	-5.6%	-12.4%
Total Exports ($ mil) (March)	3,686	22.1%	14.1%
Chicago Purchasing Managers Index (May)	61.5	7.5%	13.7%

REVENUE ASSUMPTIONS USED TO CRAFT FY 2007 BUDGET

Jim Muschinske, Revenue Manager

The following table illustrates the various revenue assumptions used to craft the FY 2007 general funds budget. They were compiled utilizing information provided by the GOMB. **These figures do not represent the CGFA's FY 2007 estimate. The Commission will be revising its estimate in early July to reflect statutory changes as well as incorporate actual FY 2006 figures. That estimate will be presented in the July revenue briefing.**

As shown, in the Governor's introduced budget, FY 2007 general funds revenues were forecast to be $28.338 billion, reflecting growth of $1.243 billion over FY 2006. Included in that estimate was $306 million in proposed revenue changes i.e. fund sweeps, sale of student loans, and various tax changes. The budget as enacted is based on total revenues of $28.330 billion, and includes $277 million in legislated revenue changes comprised of the following:

- $200 million in fund sweeps
- $39 million from sale of student loans (FY'07 portion)
- $15 million from retail rate reform
- $23 million from other miscellaneous

While the GOMB increased its FY 2006 estimate by $151 million in early May, few changes were made to their FY 2007 forecast. As a result, excluding short-term borrowing the State's FY 2007 budget is based on estimated growth of $1.084 billion, $159 million less than proposed in February. The table on the following page demonstrates the growth rates assumed by the GOMB forecast and represents their end-of-session May estimates.

GOMB FY 2007 General Revenue Growth Assumptions- End of Session vs. Budget Book
Walk-Up of GOMB Estimates

	GOMB MAY-06	GOMB FEB-06	Difference
FY 2006 Estimate ($millions)	**$27,246**	**$27,095**	**$151**
Net change in income taxes (current refund %)	$629	$623	$6
Sales tax	$255	$330	($75)
Misc. other sources (net)	($104)	($75)	($29)
Transfers (lottery, riverboat, other)	($25)	($64)	$39
Federal source revenue	$52	$123	($71)
FY 2007 Base Growth	**$807**	**$937**	**($130)**
Assumed Revenue Changes			
Fund sweeps	$200	$144	$56
Sale of Student loans (FY'07 portion)	$39	$100	($61)
Tax canned software	$0	$48	($48)
Revised environmental impact fee	$0	$44	($44)
Retail rate reform	$15	$25	($10)
Tobacco product tax increase	$0	$10	($10)
Continental Shelf definition change	$0	$10	($10)
All other miscellaneous	$23	$25	($2)
Assumed Increases to Base Revenues	**$277**	**$406**	**($129)**
Tuition tax credit	$0	($90)	$90
Hybrid vehicle tax credit	$0	($10)	$10
Assumed Decreases to Base Revenues	**$0**	**($100)**	**$100**
Total Growth from Assumed Changes	**$277**	**$306**	**($29)**
Total Growth Assumptions	**$1,084**	**$1,243**	**($159)**
FY 2007 General Revenue Estimate	**$28,330**	**$28,338**	**($8)**

*Does not include $276 million in anticipated Budget Stabilization Fund transfer

GOMB "End of Session" FY 2007 vs. FY 2006 Estimate (millions)				
Revenue Sources	**"End of Session" GOMB FY 2007 Estimate MAY-06**	**"End of Session"* GOMB FY 2006 Estimate MAY-06**	**$ Difference**	**% Difference**
State Taxes				
Personal Income Tax	$9,844	$9,400	$444	4.7%
Corporate Income Tax	$2,046	$1,825	$221	12.1%
Sales Taxes	$7,280	$7,025	$255	3.6%
Public Utility (regular)	$1,075	$1,081	($6)	-0.6%
Cigarette Tax	$350	$400	($50)	-12.5%
Liquor Gallonage Taxes	$152	$151	$1	0.7%
Vehicle Use Tax	$35	$34	$1	2.9%
Inheritance Tax (gross)	$255	$285	($30)	-10.5%
Insurance Taxes & Fees	$322	$320	$2	0.6%
Corporate Franchise Tax & Fees	$196	$191	$5	2.6%
Interest on State Funds & Investments	$143	$145	($2)	-1.4%
Cook County Intergovernmental Transfer	$309	$350	($41)	-11.7%
Other Sources	$505	$489	$16	3.3%
Subtotal	**$22,512**	**$21,696**	**$816**	**3.8%**
Transfers				
Lottery	$670	$678	($8)	-1.2%
Riverboat Transfers & Receipts	$692	$688	$4	0.6%
Other	$694	$715	($21)	-2.9%
Total State Sources	**$24,568**	**$23,777**	**$791**	**3.3%**
Federal Sources	**$4,803**	**$4,751**	**$52**	**1.1%**
Total Federal & State Sources	**$29,371**	**$28,528**	**$843**	**3.0%**
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($960)	($917)	($43)	4.7%
Corporate Income Tax	($358)	($365)	$7	-1.9%
Subtotal General Funds	**$28,053**	**$27,246**	**$807**	**3.0%**
TOTAL NEW REVENUES	**$277**	**$0**	**$277**	**N/A**
Total General Funds	**$28,330**	**$27,246**	**$1,084**	**4.0%**

*Does not include $1 billion in short-term borrowing in FY 2006. In addition, it is assumed that $276 million in Budget Stabilization Fund transfers will again be utilized in FY 2007 for cash flow purposes.
CGFA

REVENUE
May Revenues Show Strong Growth

Jim Muschinske, Revenue Manager

General funds revenues increased $425 million in May, excluding last year's $6 million in Hospital Provider Fund cash flow transfers. Growth experienced by the large economic sources such as income and sales taxes did particularly well. Also making a significant contribution to the monthly gain was a comparatively strong month for federal sources. One extra receipting day this May also added to the exceptional growth.

Unusual receipt patterns were again experienced this month as the large economically related sources posted much higher-than-anticipated advances. While the precise reasons are not yet known, it does make interpreting revenue performance difficult. Nonetheless, gross personal income tax receipts soared as revenues increased $193 million, or $177 million net of refunds. Preliminary indications are that the non-wage components did very well. Sales tax receipts jumped by $65 million, while gross corporate income tax also improved with an impressive gain of $25 million, or $23 million net or refunds. The Cook County IGT rose by $12 million, while inheritance tax and interest on investments both posted gains of $11 million. Insurance taxes and fees grew by $5 million, corporate franchise taxes by $4 million, other sources by $4 million, and liquor taxes by $3 million.

Only two revenue sources experienced declines for the month as public utility taxes fell $7 million and vehicle use tax dipped $1 million.

May transfers rose modestly as overall transfers increased $13 million. Lottery transfers increased by $9 million, other transfers by $3 million, and riverboat transfers by $1 million. As mentioned earlier, federal sources experienced significant growth with receipts up $105 million.

Year to Date

With only one month of the fiscal year remaining, excluding short-term borrowing and related cash flow transfers, overall revenues are up $1.130 billion. Even before the unexpected surge in May, sources most closely tied to the economy had performed well. However, offsetting some of those gains were falloffs in transfers such as the Cook County IGT, riverboat transfers, chargebacks, and statutory fund sweeps.

Through May, gross personal income tax receipts are up $632 million, or $597 million net of refunds. Sales tax receipts are up $424 million, while gross corporate income taxes are up $238 million, or $246 million net of refunds. Interest income contributed $73 million to the yearly advance while all other sources experiencing gains added another $25 million.

Not all areas fared as well as the economically related sources. The Cook County IGT is off $60 million in large part due to timing of the transfers but also because of an anticipated decline in the total yearly transfer amount. The cigarette tax is down $50 million due to a temporary change in the distribution of the tax early last fiscal year, inheritance taxes have fallen $29 million, insurance taxes are off $23 million, and other sources are down $13 million.

Through May, excluding cash flow transfers, total transfers are down $202 million, reflecting the timing of statutory fund sweeps as well as chargeback activity, in addition to the lower riverboat tax rates.

Other fund transfers are down $189 million while riverboat transfers and receipts trail by $92 million [although due to the hold-harmless provision the decline in riverboat transfers is expected to be relatively small by year end]. Offsetting some of those declines is a $79 million increase in lottery transfers. Federal sources have cooled from their earlier pace but still managed to gain $142 million for the year.

GENERAL FUNDS RECEIPTS: MAY

FY 2006 vs. FY 2005
($ million)

Revenue Sources	MAY FY 2006	MAY FY 2005	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$1,026	$833	$193	23.2%
Corporate Income Tax (regular)	89	64	$25	39.1%
Sales Taxes	613	548	$65	11.9%
Public Utility Taxes (regular)	72	79	($7)	-8.9%
Cigarette Tax	33	33	$0	0.0%
Liquor Gallonage Taxes	12	9	$3	33.3%
Vehicle Use Tax	2	3	($1)	-33.3%
Inheritance Tax (Gross)	29	18	$11	61.1%
Insurance Taxes and Fees	8	3	$5	166.7%
Corporate Franchise Tax & Fees	19	15	$4	26.7%
Interest on State Funds & Investments	19	8	$11	137.5%
Cook County IGT	94	82	$12	14.6%
Other Sources	37	33	$4	12.1%
Subtotal	$2,053	$1,728	$325	18.8%
Transfers				
Lottery	58	49	$9	18.4%
Riverboat transfers & receipts	55	54	$1	1.9%
Other	65	62	$3	4.8%
Total State Sources	$2,231	$1,893	$338	17.9%
Federal Sources	$349	$244	$105	43.0%
Total Federal & State Sources	$2,580	$2,137	$443	20.7%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($100)	($84)	($16)	19.0%
Corporate Income Tax	($17)	(15)	($2)	13.3%
Subtotal General Funds	$2,463	$2,038	$425	20.9%
Short-Term Borrowing	$0	$0	$0	N/A
Hospital Provider Fund (cash flow transfer)	$0	$6	($6)	N/A
Budget Stabilization Fund Transfer	$0	$0	$0	N/A
Total General Funds	$2,463	$2,044	$419	20.5%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 1-Jun-06

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2006 vs. FY 2005
($ million)

Revenue Sources	FY 2006	FY 2005	CHANGE FROM FY 2005	% CHANGE
State Taxes				
Personal Income Tax	$8,729	$8,097	$632	7.8%
Corporate Income Tax (regular)	1,530	1,292	$238	18.4%
Sales Taxes	6,454	6,030	$424	7.0%
Public Utility Taxes (regular)	977	965	$12	1.2%
Cigarette Tax	366	416	($50)	-12.0%
Liquor Gallonage Taxes	136	132	$4	3.0%
Vehicle Use Tax	31	30	$1	3.3%
Inheritance Tax (Gross)	252	281	($29)	-10.3%
Insurance Taxes and Fees	256	279	($23)	-8.2%
Corporate Franchise Tax & Fees	167	159	$8	5.0%
Interest on State Funds & Investments	136	63	$73	115.9%
Cook County IGT	350	410	($60)	-14.6%
Other Sources	361	374	($13)	-3.5%
Subtotal	$19,745	$18,528	$1,217	6.6%
Transfers				
Lottery	619	540	$79	14.6%
Riverboat transfers & receipts	534	626	($92)	-14.7%
Other	555	744	($189)	-25.4%
Total State Sources	$21,453	$20,438	$1,015	5.0%
Federal Sources	$4,438	$4,296	$142	3.3%
Total Federal & State Sources	$25,891	$24,734	$1,157	4.7%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($851)	($816)	($35)	4.3%
Corporate Income Tax	($306)	($314)	$8	-2.5%
Subtotal General Funds	$24,734	$23,604	$1,130	4.8%
Short-Term Borrowing	$1,000	$765	$235	N/A
Hospital Provider Fund (cash flow transfer)	$0	$982	($982)	N/A
Budget Stabilization Fund Transfer	$276	$276	$0	N/A
Total General Funds	$26,010	$25,627	$383	1.5%

SOURCE: Office of the Comptroller, State of Illinois: Some totals may not equal, due to rounding.
CGFA 1-Jun-06

GENERAL FUNDS GROWTH NEEDED TO MEET ESTIMATE

FY 2006 ESTIMATE vs. FY 2005 ACTUAL

($ million)

Revenue Sources	March-06 ESTIMATE FY 2006	FYTD 2006	AMOUNT NEEDED FY 2006 EST.	FYTD 2005	GROWTH NEEDED	% CHANGE
State Taxes						
Personal Income Tax	$9,380	$8,729	$651	$8,097	($125)	-16.1%
Corporate Income Tax (regular)	1,839	1,530	$309	1,292	$53	20.7%
Sales Taxes	7,010	6,454	$556	6,030	($9)	-1.6%
Public Utility Taxes (regular)	1,092	977	$115	965	$24	26.4%
Cigarette Tax	400	366	$34	416	$0	0.0%
Liquor Gallonage Taxes	150	136	$14	132	($1)	-6.7%
Vehicle Use Tax	34	31	$3	30	$1	50.0%
Inheritance Tax (Gross)	265	252	$13	281	($16)	-55.2%
Insurance Taxes and Fees	307	256	$51	279	($12)	-19.0%
Corporate Franchise Tax & Fees	190	167	$23	159	$1	4.5%
Interest on State Funds & Investments	136	136	$0	63	($10)	-100.0%
Cook County IGT	350	350	$0	410	($23)	-100.0%
Other Sources	475	361	$114	374	$20	21.3%
Subtotal	$21,628	$19,745	$1,883	$18,528	($97)	-4.9%
Transfers						
Lottery	670	619	$51	540	($23)	-31.1%
Riverboat transfers & receipts	688	534	$154	626	$81	111.0%
Other	700	555	$145	744	($29)	-16.7%
Total State Sources	$23,686	$21,453	$2,233	$20,438	($68)	-3.0%
Federal Sources*	$4,751	$4,438	$313	$4,296	($82)	-20.8%
Total Federal & State Sources	$28,437	$25,891	$2,546	$24,734	($150)	-5.6%
Nongeneral Funds Distribution:						
Refund Fund						
Personal Income Tax	($915)	($851)	($64)	($816)	$14	-17.9%
Corporate Income Tax	(368)	($306)	($62)	(314)	$0	0.0%
Subtotal General Funds	$27,154	$24,734	$2,420	$23,604	($136)	-5.3%
Short-Term Borrowing	$1,000	$1,000	$0	$765	$0	N/A
Hospital Provider Fund (cash flow transfer)	$0	$0	$0	$982	$0	N/A
Budget Stabilization Fund Transfer	$276	$276	$0	$276	$0	N/A
Total General Funds	$28,430	$26,010	$2,420	$25,627	($136)	-5.3%

**** CGFA federal estimate increased $39 million from March forecast due to recent $80 million supplemental for FY 2006 Medicaid payments.***

CGFA 1-Jun-06

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

FY 2006 ESTIMATE vs. FY 2005 ACTUALS

($ million)

Revenue Sources	GOMB MAY-06 Estimate FY 2006	FYTD 2006	AMOUNT NEEDED FY 2006 Est.	FYTD 2005	GROWTH NEEDED	% CHANGE
State Taxes						
Personal Income Tax	$9,400	$8,729	$671	$8,097	($105)	-13.5%
Corporate Income Tax (regular)	1,825	1,530	$295	1,292	$39	15.2%
Sales Taxes	7,025	6,454	$571	6,030	$6	1.1%
Public Utility Taxes (regular)	1,081	977	$104	965	$13	14.3%
Cigarette Tax	400	366	$34	416	$0	0.0%
Liquor Gallonage Taxes	151	136	$15	132	$0	0.0%
Vehicle Use Tax	34	31	$3	30	$1	50.0%
Inheritance Tax (Gross)	285	252	$33	281	$4	13.8%
Insurance Taxes and Fees	320	256	$64	279	$1	1.6%
Corporate Franchise Tax & Fees	191	167	$24	159	$2	9.1%
Interest on State Funds & Investments	145	136	$9	63	($1)	-10.0%
Cook County IGT	350	350	$0	410	($23)	-100.0%
Other Sources	489	361	$128	374	$34	36.2%
Subtotal	$21,696	$19,745	$1,951	$18,528	($29)	-1.5%
Transfers						
Lottery	678	619	$59	540	($15)	-20.3%
Gaming Fund Transfer	688	534	$154	626	$81	111.0%
Other	715	555	$160	744	($14)	-8.0%
Total State Sources	$23,777	$21,453	$2,324	$20,438	$23	1.0%
Federal Sources	$4,751	$4,438	$313	$4,296	($82)	-20.8%
Total Federal & State Sources	$28,528	$25,891	$2,637	$24,734	($59)	-2.2%
Nongeneral Funds Distribution:						
Refund Fund						
Personal Income Tax	($917)	($851)	($66)	($816)	$12	-15.4%
Corporate Income Tax	(365)	(306)	($59)	(314)	$3	-4.8%
Subtotal General Funds	$27,246	$24,734	$2,512	$23,604	($44)	-1.7%
Short-Term Borrowing	$1,000	$1,000	$0	$765	$0	N/A
Hospital Provider Fund (cash flow transfer)	$0	$0	$0	$982	$0	N/A
Budget Stabilization Fund Transfer	$276	$276	$0	$276	$0	N/A
Total General Funds	$28,522	$26,010	$2,512	$25,627	($44)	-1.7%

CGFA 1-Jun-06

PENSIONS
94th General Assembly Spring 2006 Session
Dan Hankiewicz, Pension Manager

Below is a summary of significant pension bills that passed both houses of the General Assembly during the spring 2006 legislative session and are awaiting action by the Governor. Also shown below is a snapshot of FY 06 and FY 07 funding reductions set forth in P.A. 94-0004. The FY 07 appropriations to the State-funded retirement systems were contained in SB 1520 (P.A. 94-0798).

Certified and Projected Contributions vs. Public Act 94-0004 Contributions ($ in millions)						
	FY 2006			FY 2007		
System	Certified Contributions	P.A 94-0004	Reduction	Projected Contributions	P.A. 94-0004	Reduction
TRS	$ 1,058.5	$ 534.6	$ 523.9	$ 1,233.1	$ 738.0	$ 495.1
SERS	690.3	203.8	486.6	832.0	344.2	487.8
SURS	324.9	166.6	158.2	391.9	252.1	139.8
JRS	38.0	29.2	8.8	44.5	35.2	9.3
GARS	5.5	4.2	1.3	6.3	5.2	1.1
Total	$ 2,117.1	$ 938.4	$ 1,178.7	$2,507.9	$1,374.7	$1,133.2

State Employees' Retirement System

SERS Alternative Retirement Cancellation Payment – SB 1977

SB 1977 provides an alternative retirement cancellation payment for certain State employees terminating service before September 30, 2006. The bill specifies which job titles under the Governor's purview would qualify for the ARCP payment and specifies that all titles not under the Governor's purview will have access to the plan, with the authorization of the agency director or other department head. Employees in eligible job titles are required to be in active payroll status on June 1, 2006 and in an eligible position continuously since January 1, 2006.

The ARCP application deadline is August 31, 2006 for employees under the Governor's purview and August 1, 2006 for eligible employees not under the Governor's purview. Participating employees must terminate service within 1 month of the approval of the application and in no event later than September 30, 2006. Up to 500 employees under the Governor's purview would be allowed to participate in the plan. There is no maximum limit on the number of other employees who would be allowed to participate, but authorization from the director or other department head is required.

The ARCP payment would amount to all of the employee's contributions, with interest at 6.5% annually, multiplied by two. The regular SERS refund provision only allows for a refund of employee contributions, without interest. SB 1977 specifies the ARCP payment could be given to the member in a lump sum, rolled into another qualified plan, or both. Upon accepting the ARCP payment, the member would waive all rights to any type of SERS benefit, including survivor's benefits and death benefits. *The ARCP payment would not diminish the employee's or their survivor's group health insurance benefits.*

Employees who accept the ARCP payment and return to State employment will be required to repay to SERS the amount of that payment, less the amount of employee contributions (or regular refund amount), within 60 days of the return to service, unless returning as a temporary employee. The normal refund amount (employee contributions only) could then be repaid, with interest, in order to re-establish the service credit that was forfeited by the acceptance of the refund.

Teachers' Retirement System

Retired Teacher Return-to-Work – HB 5331

Currently, a retired teacher can accept employment as a teacher, administrator, professional or other staff employed in a public school or certain state agencies so long as that employment does not exceed 120 paid days or 600 paid hours in each school year, and the employment does not commence in the school year during which the teacher terminated his or her service. HB 5331 extends the period during which a retired teacher can accept employment under these guidelines from June 30, 2006 to June 30, 2011.

Exemptions to 6% End-of-Career Salary Increase Cap – SB 49

SB 49 amends both the Teachers' and State Universities' Articles of the Pension Code to exempt the employer (the university or the school district) from paying the increased contribution associated with certain salary increases above 6% granted during the employee's final average salary period. The legislation applies to salary increases granted between June 1, 2005 and July 1, 2011. SB 49 exempts the following salary increases from the 6% end-of-career salary increase cap enacted by P.A. 94-0004:

- Salary increases paid to teachers or university employees who are ten or more years away from retirement.
- Salary increases that result when a teacher is transferred from one employer to another as a result of school consolidation.
- Salary increases paid to teachers or university employees that are earned as a result of summer school or overload work. Overload work must be for the sole purpose of academic instruction in excess of the standard number of instruction hours.
- Salary increases due to promotion for which a teacher is required to hold a certificate or supervisory endorsement issued by the State Teacher Certification

Board. The certification must be different than what was required for the teacher's previous position, and the position must have existed and been filled by a member for no less than one complete academic year.

- Salary increases due to promotion for which a university employee moves to a higher classification under the State Universities Civil Service System, promotion to a tenure-track faculty position, or promotion to a position recommended on a promotional list created by the Illinois Community College Board.
- Payments to a teacher from the State Board of Education or the State of Illinois over which the school district does not have discretion.
- Salary increases granted to teachers or university employees after July 1, 2011, but before July 1, 2014, pursuant to a contract or collective bargaining agreement entered into on or after June 1, 2005, but before July 1, 2011.

SB 49 also requires both SURS and TRS to file a report with the Governor and General Assembly by January 1, 2007 outlining the number of recalculations performed by school districts or universities, the dollar amount by which each school district or university's contribution was changed due to the recalculation, and the total amount received from each school district or university as a result of P.A. 94-0004. SB 49 also requires both SURS and TRS to provide an estimate of the increase in state contributions resulting from the aforementioned end-of-career salary increase exemptions.

Chicago Transit Authority Pension Fund

A snapshot of the financial condition of the Chicago Transit Authority Pension Fund is shown below:

Chicago Transit Authority Pension Fund
Financial Condition as of January 1, 2005

Active Participants	
Number	10,751
Average Annual Salary	$53,426
Retirees	
Number	7,211
Average Age	66.3
Average Annual Benefit	$22,512
Assets ($ millions)	$1,382.3
Accrued Liabilities ($ millions)	$3,510.6
Funded Ratio	39%

Chicago Transit Authority Pension Fund Overview

The Illinois Pension Code does not define the specific pension benefits that must be provided to CTA employees, but rather it gives the CTA board of trustees the authority to create and maintain a financially sound retirement system. The Pension Code also does not currently contain a mandatory funding requirement for the CTA pension fund.

Currently, the CTA makes an annual pension contribution of 6% of payroll, while CTA employees contribute 3% of payroll. According to the CTA Pension Fund's 2005 actuarial report, contributions made in accordance with the current collective bargaining agreement are not sufficient to amortize the unfunded liabilities of the system over a 40-year period.

CTA Pension Funding Requirements – SB 1977

SB 1977 stipulates that, beginning January 1, 2009, the Chicago Transit Authority must make annual contributions to the CTA Pension Fund in order to bring the system's funded ratio to 90% by Fiscal Year 2058. The bill specifies that contributions will be made as a level percentage of payroll over the years remaining to and including FY 2058. The CTA must then make annual contributions in FY 2059 and thereafter at an amount necessary to maintain a 90% funded ratio.

Separation of CTA Pension Fund Retiree Healthcare and Pension Liabilities – SB 1977

SB 1977 requires that pension contributions by the CTA shall not take into account liabilities relating to retiree health care benefits. The bill mandates that the CTA must separate pension funding from retiree healthcare funding by January 1, 2009. The chart below shows the portion of the CTA Pension Fund's total accrued liabilities and assets attributable to both pension and retiree healthcare as published in the CTA Pension Fund's 2005 actuarial report:

Chicago Transit Authority Retirement Fund
12/31/2005
($ in Thousands)

	Pension	Healthcare	Total
Actuarial Accrued Liabilities	$2,291,162	$1,219,457	$3,510,619
Actuarial Value of Assets	902,117	480,147	1,382,264
Unfunded Actuarial Liability	$1,389,045	$739,310	$2,128,355

Pension Funding Requirements for Regional Transportation Authority, Metra, and Pace Pension Funds – SB 1977

SB 1977 stipulates that the RTA, Metra Commuter Rail, and Pace Suburban Bus shall have a general duty to make timely contributions to their respective defined benefit pension plans in accordance with the terms of each plan. If any of the aforementioned funds falls below a 90% funded ratio, the employer will be required to contribute at an amount sufficient to bring the funded ratio up to 90% in accordance with an amortization schedule adopted jointly by the employer and the trustee of the pension fund. The amortization schedule may extend for up to 50 years. SB 1977 stipulates that if any of the employer-sponsored defined benefit plans reaches a 90% funded level, the employer and the trustee of the fund may cancel the amortization schedule and instead make annual contributions sufficient to maintain a 90% funded ratio.

RTA Oversight of CTA Pension Funding – SB 1977

SB 1977 requires the Regional Transportation Authority to continually review the status of the CTA's pension contributions. If the RTA determines that the CTA is more than one month overdue in making a pension contribution, the RTA will be required to pay the amount of the overdue contribution to the CTA pension fund out of state funds otherwise payable to the CTA.

Chicago Teachers' Pension Fund

Definition of "Administrator" – HB 4541

HB 4541 amends the Chicago Teachers' Article of the Pension Code to specify that an administrator is someone who is not on the Chicago teachers' or Chicago charter school salary schedule, or is paid on an administrative payroll. Currently, the Chicago Teachers' Article of the Pension Code defines an administrator as one who is required to hold a Type 75 Certificate issued by the State Teacher Certification Board.

Retirement Systems' Reciprocal Act

Reciprocal Service Credit for Teacher Aides – HB 4463

HB 4663 would allow persons who have established less than one year of service credit in the Illinois Municipal Retirement Fund as a teacher aide to apply that service credit towards a reciprocal annuity in the Teachers' Retirement System. Currently, a member of a reciprocal system can apply less than one year of service credit only if the employee is transferred as part of a class from one participating system to another.

Illinois Municipal Retirement Fund

Participation by Illinois Medical District Commission – SB 789

SB 789 amends the Illinois Municipal Retirement Fund (IMRF) Article of the Pension Code to authorize participation in IMRF by the Illinois Medical District Commission. The IMRF Board of Trustees will be required to approve an application before the Medical District Commission can join IMRF as a non-taxing participating instrumentality.

Pension Stabilization Fund

Creation of the Pension Stabilization Fund – SB 1977

SB 1977 creates a Pension Stabilization Fund in the State Treasury. For each fiscal year when general funds revenues grow by more than 4% over the prior year's estimated general funds revenues, the Comptroller shall transfer from the General Revenue Fund 0.5% of the estimated general funds revenues to the Pension Stabilization Fund. For each fiscal year when general funds revenues grow by more than 4% for two or more consecutive fiscal years, the Comptroller shall transfer from the General Revenue Fund 1.0% of the estimated general funds revenues to the Pension Stabilization Fund.

Transfers from the Pension Stabilization Fund – SB 1977

SB 1977 provides for the transfer of funds from the Pension Stabilization Fund to the five State-funded retirement systems (SERS, SURS, TRS, GARS, JRS). The bill stipulates that the Governor's Office of Management and Budget shall calculate the portion of the total unfunded liability attributable to each system, and the Comptroller and Treasurer shall pay an amount to each system in proportion to each system's share of the total unfunded liability. The bill specifies that payments from the Pension Stabilization fund serve only to reduce the unfunded liabilities of the systems and do not reduce state contributions to the State retirement systems made in accordance with P.A. 88-593, which calls for achieving a 90% funded ratio by FY 2045. SB 1977 also stipulates that the Governor may transfer up to $25 million of any FY 06 general funds surplus into the Pension Stabilization fund on or before August 31, 2006.