Commission on Government Forecasting and Accountability

703 Stratton Ofc. Bldg., Springfield, IL 62706

MONTHLY BRIEFING FOR THE MONTH ENDED: MAY 2017

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INSIDE THIS ISSUE

ECONOMY: Illinois

Edward H. Boss, Jr., Chief Economist

The pace of the national economy is expected to accelerate in the second quarter of the year following an upwardly-revised gain of 1.2% from only 0.7% originally reported for the first quarter of 2017. This still was the weakest growth since the 0.8% recorded in the first quarter of last year. Prior to the revision, IHS Economics projected a gain of 3.4% in GDP in the current quarter. At the same time, Illinois has lagged not only the national economy but the Midwest even more so. Indeed, little seems to have changed since Moody's report on Illinois was done for the Commission in January. *"The state trails the nation in most metrics and political gridlock is imposing significant costs. The jobless rate has resumed its descent after rising last year into 2016, but much of the decline owes to a sharp drop in the labor force and population losses."*

While on the surface it might seem that progress on reducing the state unemployment rate is a welcome sign, the underlying April data remove some of the exuberance. In April U.S. unemployment fell to 4.4% while Illinois' unemployment rate dropped to 4.7% from 4.9% in March. However, the decline in Illinois was due to a decline in the labor force as population declined and workers dropped out of the labor market while the number of those employed edged down. Within the state, unemployment rates also varied widely. Of the thirteen metropolitan areas, 3 had rates between 3.7% - 3.9%; 6 had unemployment rates of 4.0% - 4.9%; 3 had rates between 5.0% -5.9% and one, Rockford, had a rate of 6.9%. Another Illinois employment measure that is not doing well recently is nonfarm payroll employment. This measure showed a drop of 7,200 jobs in April following an 8,900 decline the month before.

Indeed, in recent days the headline in the Chicago Tribune was Shrinking Chicago. It pointed to recent data from the Bureau of the Census showing that Chicago was the only city of the nation's top twenty to lose population. Moreover, this was the third consecutive year in a row and the drop last year nearly doubled that of the year before. Indeed, the Second City had slipped long ago to Third and, if trends continue, will drop to Fourth, being outpaced by Houston Texas. While tourism appears to be doing well, the outflow of residents, particularly those to nearby states, may have more to do with those seeking increased job availability, while those at home experience record high property taxes, among the highest sales taxes in the country as well as rising and expanding County taxes. Other influencing factors include the spread of crime into areas not seen before as well as gun violence.

Other data below and on the next page show mixed results. Chart 1 shows Illinois exports rising in April to its highest level in a year, after weakening from 2014 to early 2016 before leveling out. This improvement largely reflects an increase in demand from abroad as economic conditions improved and the strong dollar weakened, improving U.S. competitiveness. Illinois is the fifth largest exporter in the country with almost 75% of its exports being manufacturing commodities; 7% non-manufactured commodities; with the remainder consisting of re-exports. In contrast to improvement in exports, as shown in Chart 2, manufacturing employment in Illinois, while edging up during the past two months, has been on a declining trend, falling back to the level reached in March 2011. Thus, most of the jobs seen as the economic recovery got underway in mid-2009 have been erased.

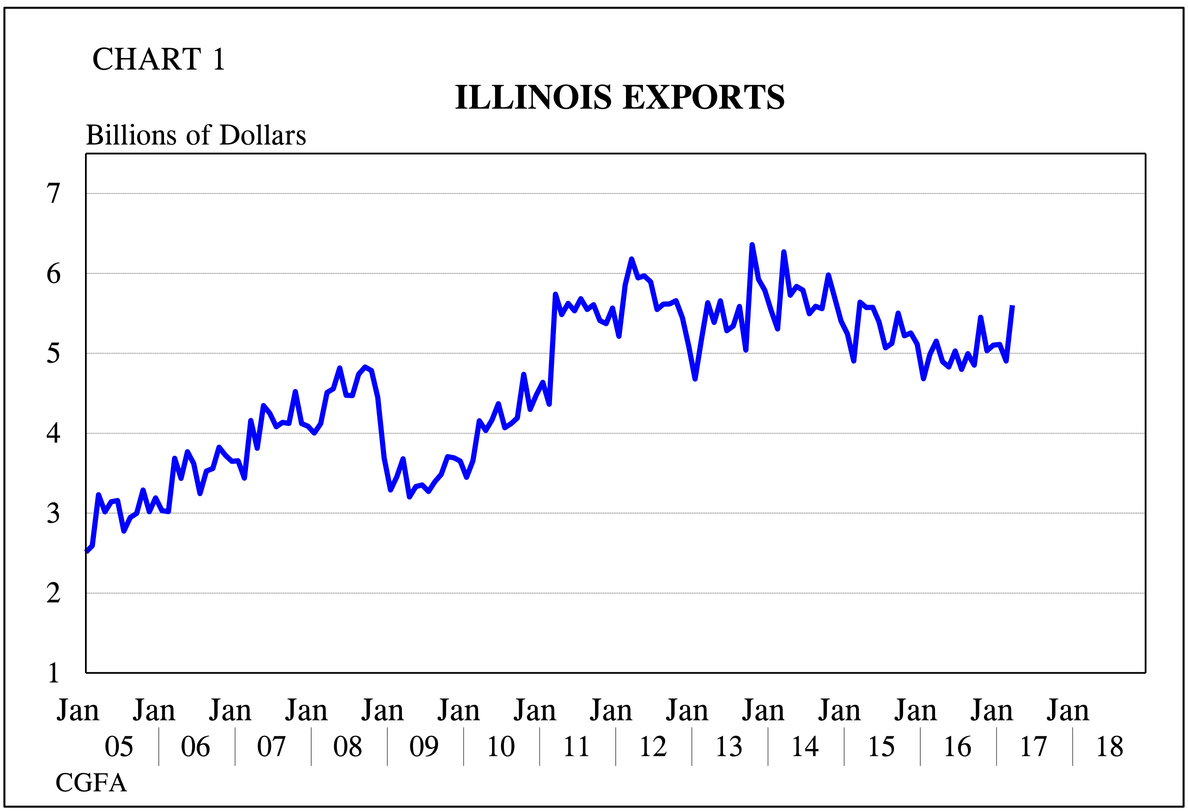
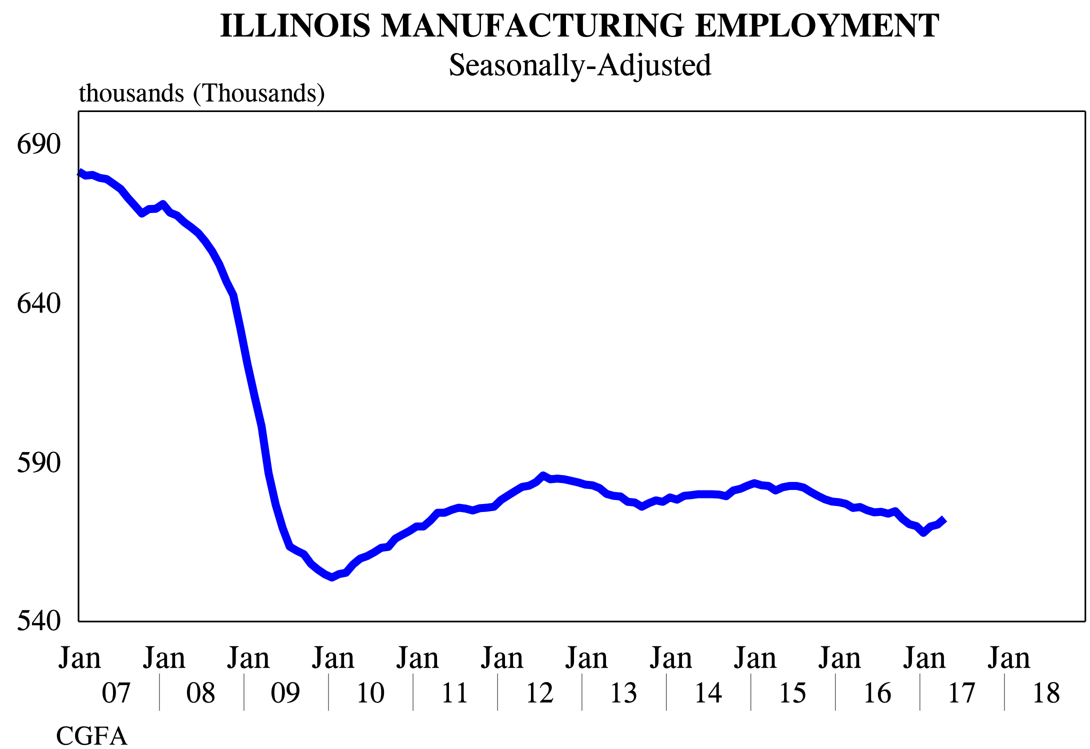


CHART 2



Other state data can be found in the attached table on Indicators of Illinois Activity. These include declines over the past year in both new car and truck registrations and in single-family housing permits, a precursor to housing starts, as well as declines in the labor force and Chicago Purchasing Managers Index.

At this time, there is little evidence to suggest that recent patterns that developed over the first 5 months of the year will change much in the months ahead. A budget resolution could help remove some impediments continued population outflow could impair consumer spending, the largest sector of GDP. Thus, Illinois' economy is likely to continue to trail both the nation and the Midwest.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS *	APRIL 2017	MARCH 2017	APRIL 2016
Unemployment Rate (Average)	4.7%	4.9%	6.0%
Annual Rate of Inflation (Chicago)	0.1%	-0.1%	1.4%

	LATEST MONTH	% CHANGE OVER PRIOR MONTH	% CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (April)	6,505.5	-0.2%	-0.7%
Employment (thousands) (April)	6,198.4	0.0%	0.6%
NonFarm Payroll Employment (April)	6,029,300	-7,200	22,100
New Car & Truck Registration (April)	48,533	-2.6%	-3.8%
Single Family Housing Permits (April)	911	-4.9%	-8.3%
Total Exports ($ mil) (March)	5,601.4	14.2%	14.4%
Chicago Purchasing Managers Index (May)	55.2	-5.3%	-2.8%

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

REVENUE

May Revenues Up, Year-to-Date Remain Weak

Jim Muschinske, Revenue Manager

Overall base revenues grew $144 million in May. While personal income tax and sales tax posted decent monthly gains, continued weak corporate income taxes erased much of that advance. (May had one more receipting day as compared to the same period of last year.)

Gross personal income tax receipts grew $179 million, or $136 net of refunds and diversions to the Fund for Advancement of Education and Commitment to Human Services Fund. Sales taxes managed to experience a positive month as receipts increased $36 million. Interest income grew a modest $2 million, as did inheritance tax receipts, while public utility and liquor taxes each managed to eke out a $1 million gain.

Gross corporate income taxes continued to disappoint with receipts falling $72 million, or $63 million net of refunds. Corporate franchise taxes dropped by $5 million, while insurance taxes dipped $1 million.

Overall transfers grew $34 million in May. While riverboat transfers fell $2 million, lottery transfers increased $5 million, and all other miscellaneous transfers contributed $31 million in gains. After experiencing a strong month for federal sources in April, reimbursements turned much weaker in May, growing only by $1 million.

Year-To-Date

Despite three consecutive months of decent growth, with only one month remaining in the fiscal year, base receipts are off $955 million, or 3.5%. As discussed in earlier briefings, receipt weakness is widespread, and has resulted in disappointing performances in the key areas of income and sales taxes as well as federal sources.

To date, gross corporate income taxes are down $909 million, or $799 million net of refunds. Inheritance tax, true to its volatile nature, declined $58 million. Public utility taxes are off of last year's pace by $55 million. Cigarette taxes are down, falling $11 million through May, and the vehicle use tax is behind last year's pace by $1 million.

With positive performances over the last three months, gross personal income tax receipts are up by $282 million, but only ahead by $48 million on a net basis. Contributing to the overall positive performance is the reclassification of pass-through withholdings [which in previous years would have been receipted under corporate income tax designation]. Other sources are up $132 million, in large part to a one-time $84 million deposit of an SERS repayment. Interest income has grown $10 million, liquor taxes and corporate franchise taxes each have grown $2 million, and insurance taxes are ahead by $1 million. While sales taxes grew only $1 million for the year, that performance is misleading as the Department of Revenue has indicated that in the months of April/May, they diverted approximately $170 million in general funds sales tax receipts to other local government funds which receive sales tax distributions.

Overall transfers are down $60 million, while federal sources remain $167 million behind last year's pace.

MAY
FY 2017 vs. FY 2016
($ million)

Revenue Sources	May FY 2017	May FY 2016	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$1,168	$989	$179	18.1%
Corporate Income Tax (regular)	81	153	($72)	-47.1%
Sales Taxes	694	658	$36	5.5%
Public Utility Taxes (regular)	66	65	$1	1.5%
Cigarette Tax	30	30	$0	0.0%
Liquor Gallonage Taxes	13	12	$1	8.3%
Vehicle Use Tax	3	3	$0	0.0%
Inheritance Tax	22	20	$2	10.0%
Insurance Taxes and Fees	3	4	($1)	-25.0%
Corporate Franchise Tax & Fees	11	16	($5)	-31.3%
Interest on State Funds & Investments	3	1	$2	200.0%
Cook County IGT	94	94	$0	0.0%
Other Sources	42	42	$0	0.0%
Subtotal	$2,230	$2,087	$143	6.9%
Transfers				
Lottery	69	64	$5	7.8%
Riverboat transfers & receipts	20	22	($2)	-9.1%
Proceeds from Sale of 10th license	0	0	$0	N/A
Refund Fund transfer	0	0	$0	N/A
Fund sweeps	0	0	$0	N/A
Other	67	36	$31	86.1%
Total State Sources	$2,386	$2,209	$177	8.0%
Federal Sources	$69	$68	$1	1.5%
Total Federal & State Sources	$2,455	$2,277	$178	7.8%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($132)	($97)	($35)	36.1%
Corporate Income Tax	($14)	(23)	$9	-39.1%
Fund for Advancement of Education	($60)	(56)	($4)	7.1%
Commitment to Human Services Fund	($60)	(56)	($4)	7.1%
Subtotal General Funds	$2,189	$2,045	$144	7.0%
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	$2,189	$2,045	$144	7.0%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 1-Jun-17

GENERAL FUNDS RECEIPTS: YEAR TO DATE
FY 2017 vs. FY 2016
($ million)

Revenue Sources	FY 2017	FY 2016	CHANGE FROM FY 2016	% CHANGE
State Taxes				
Personal Income Tax	$14,062	$13,780	$282	2.0%
Corporate Income Tax (regular)	1,294	2,203	($909)	-41.3%
Sales Taxes	7,331	7,330	$1	0.0%
Public Utility Taxes (regular)	803	858	($55)	-6.4%
Cigarette Tax	313	324	($11)	-3.4%
Liquor Gallonage Taxes	156	154	$2	1.3%
Vehicle Use Tax	27	28	($1)	-3.6%
Inheritance Tax	239	297	($58)	-19.5%
Insurance Taxes and Fees	321	320	$1	0.3%
Corporate Franchise Tax & Fees	189	187	$2	1.1%
Interest on State Funds & Investments	31	21	$10	47.6%
Cook County IGT	244	244	$0	0.0%
Other Sources	508	376	$132	35.1%
Subtotal	$25,518	$26,122	($604)	-2.3%
Transfers				
Lottery	633	618	$15	2.4%
Riverboat transfers & receipts	252	260	($8)	-3.1%
Proceeds from Sale of 10th license	10	10	$0	0.0%
Refund Fund transfer	4	77	($73)	-94.8%
Fund sweeps	0	0	$0	N/A
Other	498	492	$6	1.2%
Total State Sources	$26,915	$27,579	($664)	-2.4%
Federal Sources	$2,287	$2,454	($167)	-6.8%
Total Federal & State Sources	$29,202	$30,033	($831)	-2.8%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($1,576)	($1,344)	($232)	17.3%
Corporate Income Tax	($224)	($334)	$110	-32.9%
Fund for Advancement of Education	($430)	($429)	($1)	N/A
Commitment to Human Services Fund	($430)	($429)	($1)	N/A
Subtotal General Funds	$26,542	$27,497	($955)	-3.5%
Short-Term Borrowing	$0	$0	$0	N/A
Interfund Borrowing	$0	$0	$0	N/A
Budget Stabilization Fund Transfer	$0	$125	($125)	-100.0%
Total General Funds	$26,542	$27,622	($1,080)	-3.9%

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

CGFA 1-Jun-17

Illinois Bond Rating Lowered Again
Lynnae Kapp, Senior Bond Analyst

On June 1, 2017, Standard and Poor's lowered the State of Illinois' General Obligation and Build Illinois Bond ratings, as well as the Metropolitan Pier and Exposition Authority, the Illinois Sports Facility Authority, and moral obligation bonds supported by the State.

General Obligation	BBB	BBB-
Build Illinois	AAA	AA-
Metropolitan Pier and Exposition Authority	BBB-	BB+ (junk)
Illinois Sports Facility Authority	BBB-	BB+ (junk)
Moral Obligation	BB (junk)	BB- (junk)

"The rating actions largely reflect the severe deterioration of Illinois' fiscal condition, a byproduct of its stalemated budget negotiations, now approaching the start of a third fiscal year. We placed the ratings on CreditWatch with negative implications because, in our view, the unrelenting political brinkmanship now poses a threat to the timely payment of the state's core priority payments.

"We also believe that Illinois is now at risk of entering a negative credit spiral, where downgraded credit ratings would trigger contingent demands on state liquidity, further exacerbating its fiscal distress. Although CreditWatch typically has a 90-day time horizon, we anticipate resolving Illinois' placement around the start of its 2018 fiscal year, which begins July 1. If lawmakers fail to reach agreement on a budget with provisions designed to reduce the state's structural deficit, it's likely we will again lower the ratings. In our view, the ongoing budget impasse has increased the nonpayment risk associated with Illinois' obligations that require a budget appropriation before they can be funded. We now view these payment obligations as having speculative-grade characteristics." [*Illinois Various Debt Ratings Lowered One Notch on The State's Deteriorating Fiscal Condition; On CreditWatch Negative* and *Illinois' Build Illinois Sales Tax Revenue Bond Rating Lowered to 'AA-' from 'AAA'; On CreditWatch Negative*, Standard & Poor's Global Ratings, June 1, 2017]

Moody's Investor Service also downgraded, on June 1, 2017, the State's General Obligation bonds, Build Illinois Bonds, Civic Center Bonds and Metropolitan Pier and Exposition Authority bonds.

General Obligation	Baa2	Baa3
Build Illinois	Baa2	Baa3
Civic Center	Baa3	Ba1 (junk)
Metropolitan Pier and Exposition Authority	Baa3	Ba1 (junk)

"Legislative gridlock has sidetracked efforts not only to address pension needs but also to achieve fiscal balance, allowing a backlog of bills to approach $15 billion, or about 40% of the state's operating budget. During the past year of fruitless negotiations and partisan wrangling, fundamental credit challenges have intensified enough to warrant a downgrade, regardless of whether a fiscal compromise is reached in an extended session. As the regular legislative session elapsed, political barriers to progress appeared to harden, indicating both the severity of the state's challenges and the political difficulty of advocating their solutions. Extending the impasse, and the state's embedded operating deficit of at least $5 billion (or 15% of general fund revenue) would signal further pressure on the state's credit position. But the state's credit could stabilize at the current level in the event of a political consensus that more closely aligns revenues and spending, without relying on unsustainable fiscal measures." [*Moody's Downgrades Illinois GOs to Baa3 from Baa2, Affecting $31.5B of GO and Related Debt; Outlook Negative*, Moody's Investors Service, June 2, 2017]

Fitch Ratings: "As the state of Illinois approaches the end of an unprecedented second fiscal year without having enacted a full-year general revenue fund budget, attention turns to the budget process for fiscal 2018, which begins on July 1, 2017, says Fitch Ratings. Much is being made of the rapidly approaching May 31st end of the regular legislative session, after which state law requires super-majority approval of any tax increases. Prior to that date, a tax increase, which all parties seem to acknowledge must be a part of comprehensive budget agreement, can move forward with a simple majority vote.

"Fitch does not view Illinois' voting requirements as the main obstacle to passing a budget. Illinois' budget crisis and related deterioration in credit quality is the result of a political impasse between the Governor and the legislature. All parties - legislative and executive, Republican and Democratic, House and Senate - have reported on-going negotiations throughout the fiscal impasse. At times these negotiations have seemed to be approaching a positive conclusion, incorporating a "grand bargain" of tax increases and spending controls designed to both close the annual budget gap and to address the rapidly accumulating accounts payable backlog. It seems clear that a budget will not be enacted until a compromise is reached. As a result, Fitch does not view the super-majority voting requirement that will arise after May 31st as the greater hurdle to enacting a balanced budget by the start of the fiscal year." [*Fitch: May 31 Not the Deadline for Illinois' Budget*, Fitch Ratings, May 23, 2017]

ILLINOIS' GENERAL OBLIGIATION RATINGS HISTORY						
Date of Rating Action	*Fitch*		*S&P*		*Moody's*	
	Rating	*up/down*	*Rating*	*up/down*	*Rating*	*up/down*
June 2017			***BBB-***	↓1x	*Baa3*	↓1x
February 2017	*BBB*	↓1x				
September 2016			***BBB***	↓1x		
June 2016			***BBB+***	↓1x	*Baa2*	↓1x
October 2015	*BBB+*	↓1x			*Baa1*	↓1x
June 2013	*A-*	↓1x			*A3*	↓1x
Jan 2013			***A-***	↓1x		
Aug 2012			***A***	↓1x		
Jan 2012					*A2*	↓1x
Jun 2010	*A*	↓1x			*A1*	↓1x
Mar-Apr 2010	*A-/A+ recal*	↓1x/↑2x			*Aa3 recal*	↑2x
Dec 2009			***A+***	↓1x	*A2*	↓1x
Mar-Jul 2009	*A*	↓2x	***AA-***	↓1x	*A1*	↓1x
Dec 2008	*AA-*	↓1x				
May 2003	*AA*	↓1x			*Aa3*	↓1x
Jun 2000	*AA+*	↑1x				
Jun 1998					*Aa2*	↑1x
Jul 1997			***AA***	↑1x		
Feb 1997					*Aa3*	↑1x
Sep 1996	*AA*	*initial rating*				
Feb 1995					*A1*	↓1x
Aug 1992			***AA-***	↓1x	*Aa**	↓1x
Aug-Sep 1991			***AA***	↓1x	*Aa1*	↓1x
Mar 1983			***AA+***	↓1x		
Feb 1979			***AAA***	***initial rating***		
1973					*AAA*	*initial rating*

Note: "recal" means recalibration, when Fitch and Moody's revised their ratings on municipal bonds to match global/corporate ratings. These are not considered upgrades.

***Moody's rating of Aa was before that level had moifiers of Aa2 and Aa3, so it was considered one level inbetween AA1 and A1**

Agency Ratings Comparison	
Fitch/S&P	**Moody's**
AAA	Aaa
AA+	AA+
AA	Aa2
AA-	Aa3
A+	A1
A	A2
A-	A3
BBB+	Baa1
BBB	Baa2
BBB-	Baa3
BB+	Ba1
BB	Ba2
BB-	Ba3
B+	B1
B	B2
B-	B3
CCC+	Caa1
CCC	Caa2
CCC-	Caa3
CC	Ca
C	C

BUILD ILLINOIS BOND RATINGS										
Rating Agencies	**Apr/July 2009**	**Oct 2009**	**Dec 2009**	**Mar-Apr 2010***	**June 2010**	**Jan 2012**	**June 2013**	**Oct 2015**	**Jun 2016**	**Jun 2017**
Fitch Ratings	AA	AA	AA	AA+	AA+	AA+	AA+	AA+	AA+	AA+
Standard & Poor's	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AA-
Moody's	Aa3	A1	A2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3

*Fitch and Moody's Recalibration.

State Employees Group Insurance Program Status Update

Anthony Bolton, Revenue Analyst

Over the past fiscal year, the lack of 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 May, approximately $4.65 billion in SEGIP claims were being held by the state from various insurers, organizations, and companies. Of this total, the largest portion was approximately $2.3 billion of HMO/Medicare Advantage claims. The second largest portion, Open Access Plans, totaled $893 million. The third largest portion of the overall claims hold came from CIGNA, which had $694 million in claims currently held by the state. Concurrently, the estimated time for claims to be held was 401-826 days for Managed Care/Medicare Advantage, 556-612 days for Open Access Plans, and 644-721 days for CIGNA. This information and other pertinent data is displayed on the chart on the next page. Without additional funding, claims will continue to build up and estimated claims hold times will increase due to no appropriation for Group Insurance. As of May 31, 2017, according to CMS, approximately $2.47 billion in Prompt Payment claims and $2.19 billion in Timely Payment claims are being held by the state.

As a result of the State Employees Group Insurance Program (SEGIP) building up a large backlog of unpaid claims from health care vendors, alternative options for payment have been explored. One option that has arisen in recent years is a program called the Vendor Payment Program (VPP), which is organized through the Department of Central Management Services (CMS).

Under the VPP, vendors for the state of Illinois who would otherwise receive prompt payment interest would instead partner with a "qualified purchaser" who would purchase the voucher from them. The vendor would receive approximately 90% of the total invoice owed to them with the other 10% paid to them once the qualified purchaser is paid by the state. The qualified purchaser would keep any interest paid out by the state on the voucher. However, the State has not been able to pay out vouchers without appropriation, so CMS has switched to the Vendor Support Initiative program (VSI), which is procedurally similar to the Vendor Payment Program, but does not require a voucher to receive payment.

At the Commission's State Employee Group Insurance Hearing on April 4, 2017, CMS presented a new plan for FY 2018 to change the Group Insurance Program by expanding existing plans into four "metal" tiers: Platinum, Gold, Silver, and Bronze. These tiers would be used by existing HMOs, OAPs, and the Quality Care Health Plan.

This plan has been challenged by state employee unions in state court and is currently blocked from being imposed by the State as of the date of this publication. As a result, with the open enrollment period, which started May 1st and ended May 31st, CMS has indicated that they would keep the existing plan designs and employee contributions until otherwise instructed by the courts. At this time, existing plan designs and employee contribution levels are expected to continue through the 2018 fiscal year.

Claims Hold Data for SEGIP (as of May 31, 2017)			
Company	**Claims Hold**	**Length of Claims Hold (in days)**	**Interest Owed (Including Past Due Interest)**
CIGNA - PPO (and Member)	$657,153,253	644	$51,905,067
CIGNA - Non-PPO	$36,966,432	721	$3,276,150
Dental Claims Hold – PPO	$90,437,353	542	$8,630,358
Dental - Non-PPO	$48,180,567	710	$6,300,536
Magellan (Mental Health) Claims	$5,361,983	269	$128,069
Coventry HMO	$76,445,414	401	$5,975,087
Health Alliance HMO	$1,181,006,802	826	$125,737,249
HMO Illinois	$610,983,033	767	$64,319,516
Blue Advantage	$110,563,974	767	$9,438,552
HealthLink OAP	$742,786,960	612	$50,219,855
Coventry OAP	$150,585,041	556	$9,121,942
Medco	$46,994,345	470	$47,173,871
CVS/Caremark	$408,224,429	638	$30,465,710
Coventry Medicare Advantage (MA)	$15,275,852	645	$1,311,433
Health Alliance MA	$3,101,139	706	$248,189
Humana Benefit Plan MA	$483,078	676	$55,774
Humana Health Plan MA	$9,947,363	676	$1,107,998
United Healthcare MA	$332,752,647	454	$38,255,248
Fidelity (Vision)	$12,871,992	461	$961,971
Minnesota Life	$51,882,460	187	$500,975
Other Fees (ASC/etc.)	$60,639,595	431-492	$7,190,615
Total	**$4,652,643,711**	**275-734**	**$462,324,164**

The current interest owed on these claims is also noted in the above chart. The interest on held claims is reflective of the 9 to 12 percent interest rates mentioned in previous monthly reports and is not included in the total claims hold figure of $4.36 billion.