Commission on Government Forecasting and Accountability

703 Stratton Ofc. Bldg., Springfield, IL 62706

MONTHLY BRIEFING FOR THE MONTH ENDED: JUNE 2014

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Study of the Public Safety Employee Benefits Act – Pursuant to PA 98-0561

REVENUE: FY 2014 Receipts End With Good June – Revenue Expectations Met

Jim Muschinske, Revenue Manager

FY 2014 concluded on a positive note as overall receipts grew $259 million. The larger economic sources were mixed with the personal income tax and sales tax showing strength, while corporate taxes weakened. Other transfers had a poor month, but a comparatively strong month for federal sources significantly contributed to the monthly advance, as did one extra receipting day.

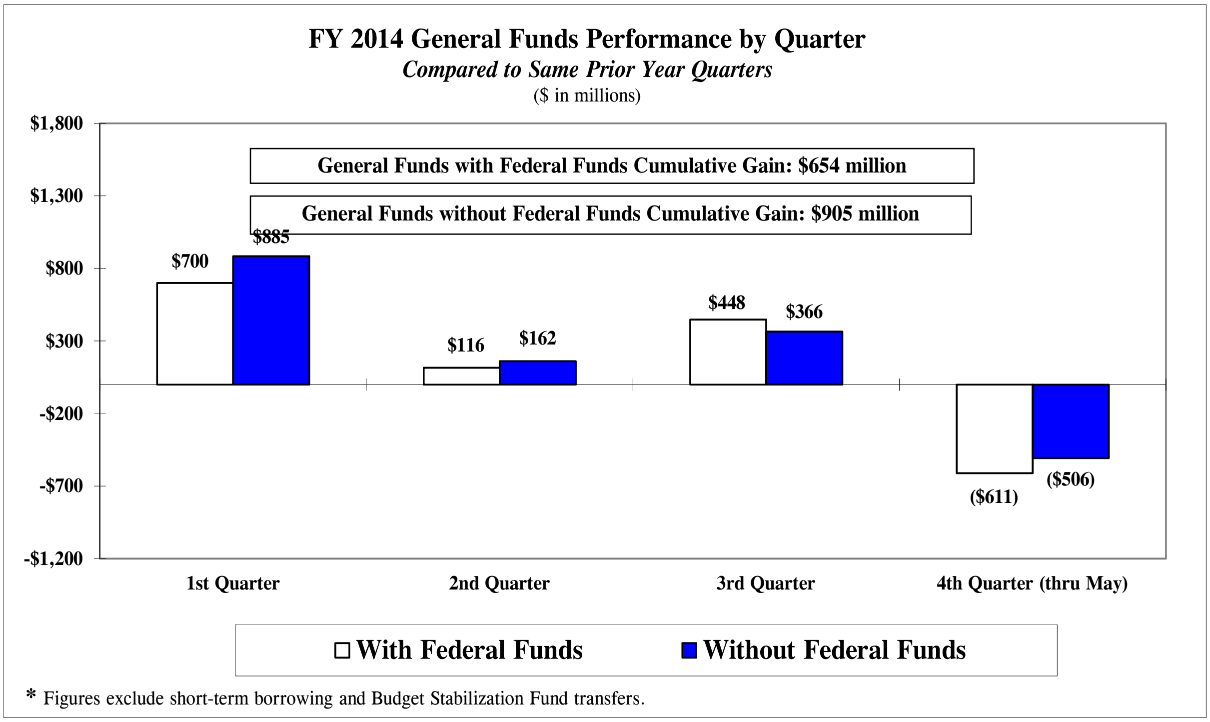
Gross personal income taxes gained $126 million, or $118 million net of refunds. Sales tax also faired quite well, increasing $32 million. Inheritance tax posted a $5 million advance, while vehicle use tax, corporate franchise tax, and other sources each managed to eke out a $1 million gain.

As mentioned, gross corporate income tax suffered a decline, falling $56 million, or $46 million net of refunds. Public utility taxes dropped $22 million to end the fiscal year, while cigarette tax eased $1 million.

Overall transfers faltered in June as receipts fell $75 million. Other transfers declined $73 million, riverboat transfers weakened $4 million, but Lottery transfers grew $2 million. On a comparative basis, federal sources performed decently in June, growing $245 million, although the reason for the growth was more the result of a very poor month last year.

Year End

For FY 2014, base general funds finished up $654 million or 1.8%. Sales tax managed to post good gains throughout the fiscal year, finishing up $321 million. Other sources added $123 million to the overall yearly advance, due mostly to earlier one-time deposits of court settlement proceeds and prior year overpayments to SERS. While gross personal



income taxes only grew $65 million, or $104 million net of refunds, underlying strong performance was hid by the April falloff related to the previous year's "April Surprise".

A few sources experienced declines for the year, albeit mostly minor. Gross corporate income taxes dipped $39 million, or $13 million net of refunds, as underlying good performance was masked by the impact of last year's "April Surprise". Public utility taxes declined $20 million, while inheritance tax dropped $17 million.

Overall transfers grew $408 million, although virtually all of the yearly gain was due to a $397 million transfer from the Refund Fund. Otherwise, other transfers grew $28 million and lottery transfers $12 million. Riverboat related transfers fell a combined total of $29 million.

Federal sources, despite ending the year on an up note, fell $251 million for the entire fiscal year, reflecting reimbursable spending.

FY 2014 Revenue Recap

First Quarter

Overall base revenues dipped $24 million in July. While personal income taxes posted modest gains, along with a good month for sales, corporate income taxes were flat. A drop off in federal sources also contributed to the monthly decline. Overall base revenues jumped $469 million in August. The main driver of the increase was a one-time transfer of $397 million from the Income Tax Refund Fund into the general funds. A surplus had built up in the Refund Fund, and as dictated by statute, that end of fiscal year surplus is transferred into the General Fund. The FY 2014 budget initially assumed that only $300 million would be available for transfer. In addition, August sales taxes were surprisingly strong, thus adding to the monthly growth. Overall base revenues grew $255 million in September. Both personal and corporate income taxes performed quite well, and sales tax was able to maintain positive momentum. Gains from those larger economically-tied sources were more than enough to offset a weaker month for federal sources.

The previous chart demonstrates how the first quarter performed both with and without federal sources. Through the first quarter of FY 2014, base general funds rose $700 million. Much of that growth can be attributed to the one-time surge in transfers related to the refund fund [$397 million]. At the quarter pole, the larger economically-related sources fared quite well. Through September, overall transfers were up $408 million. Federal sources were down $185 million thus far, reflecting lower reimbursable spending.

Second Quarter

Overall base revenues fell $76 million in October. It appears an extra receipting day experienced in September had the effect of shifting some revenues that otherwise would have been receipted in October, into the earlier month. So, while the larger economic sources cooled from their first quarter pace, monthly comparisons do not always correlate precisely from one period to the next.

Overall base revenues dipped $39 million in November. The performance of the larger economic sources were mixed as both personal and corporate income taxes declined slightly, while sale tax receipts managed to post modest gains. The remaining revenue sources for the most part were also mixed. Base revenues advanced $231 million in December. The larger economically related sources of income and sales taxes posted sizable gains for the month. An extra receipting day was a significant contributor to the gains, particularly in the case of personal income taxes.

Through the first half of FY 2014, base general funds were up $815 million compared to last fiscal year. Nearly half of that growth was attributed to the one-time surge in transfers related to the refund fund. However, despite the pause in October and November, the larger economically-related sources fared quite well at the fiscal year's halfway mark.

Through December, overall transfers were up $404 million. As mentioned, nearly all of those gains stem from the one-time $397 million transfer from the Income Tax Refund Fund. Federal sources were down $230 million, reflecting lower reimbursable spending.

As we enter the second half of the fiscal year, revenue performance thus far would have to be viewed in a positive light and reaffirm observations made during the Commission's revised November forecast [upward revision of $369 million].

Third Quarter

Overall base revenues grew $119 million in January. The larger economically related sources of income and sales taxes were mixed. While both corporate and sales tax continued to fare quite well, personal income tax experienced little growth. A decent month for transfers also contributed to the monthly advance. Base revenues grew $75 million in February. Income and sales taxes were mixed. While both corporate and sales tax took a break from recent strong performance, personal income tax posted decent gains. A comparatively good month for federal receipts also contributed to the monthly advance. Overall base revenues grew $254 million in March as income and sales taxes fared quite well. A one-time deposit of approximately $59 million from a prior year overpayment to SERS fueled other sources.

Through three-fourths of FY 2014, base general funds were up $1.264 billion compared to last fiscal year. Much of that growth can be attributed to the one-time surge in transfers related to the refund fund. However, despite the occasional pause, the larger economically-related sources performed fairly well. At the end of February, CGFA revised the estimate up a net $258 million.

Fourth Quarter

Overall base revenues plummeted $1.017 billion in April, in stark contrast to the record gains of $1.521 billion of one year earlier. Fortunately, the drop in revenues was anticipated as last year's growth was treated as one-time. Not surprisingly, the sources experiencing the largest declines were income taxes as well as federal sources. While a huge monthly drop, the revenue estimate actually could have withstood even a more dramatic loss in April. As a result, CGFA made its final upward revision—raising its forecast by $588 million.

Overall base revenues grew a net $147 million in May. Monthly receipts were mixed, with about the same number of sources experiencing gains as losses. A comparatively good month for federal sources was the largest contributor to the overall improvement. FY 2014 concluded on a positive note as overall receipts grew $259 million. The larger economic sources were mixed with personal income tax and sales tax showing strength, while corporate taxes weakened. Other transfers had a poor month, but a comparatively strong month for federal sources contributed significantly to the monthly advance.

While the final tally for the fiscal year shows gains of only $654 million or 1.8%, that really doesn't paint an accurate picture of the fiscal year's success. Sales taxes performed well the entire year, and although the net changes in both personal and corporate income taxes were on the surface minor—those growth rates mask the impact of last year's April surprise which had the effect of dramatically inflating one-time revenues in FY 2013. Given that perspective, and adding that the fiscal year finished $1.272 billion higher than originally budgeted, it's clear that revenues performed very well in FY 2014.

Review of Revenue Estimates and Assumptions

The table on page 5 shows how the most recent CGFA estimate performed in relation to final figures. As shown, actual receipts finished very close to CGFA's May-14 estimate, exceeding expectations by only $57 million. Also included in the table is a comparison of actual receipts to those estimated under HR 389, which was used as the revenue framework back in spring 2013 during the construction of the FY 2014 budget. As shown, that forecast was easily exceeded by actual revenue performance, as receipts exceeded the amounts spelled out in the resolution by $1.272 billion.

FY 2014 Actuals vs. Estimates: CGFA and HR 389

($ millions)

Revenue Sources	ACTUAL FY 2014	CGFA EST. May-14 FY 2014	DIFFERENCE ACTUALS FROM ESTIMATE	HR 389 May-13 FY 2014	DIFFERENCE ACTUALS FROM ESTIMATE
State Taxes					
Personal Income Tax	$18,388	$18,229	$159	$17,713	$675
Corporate Income Tax (regular)	$3,640	$3,738	($98)	$3,391	$249
Sales Taxes	$7,676	$7,673	$3	$7,348	$328
Public Utility (regular)	$1,013	$1,020	($7)	$1,032	($19)
Cigarette Tax	$353	$355	($2)	$355	($2)
Liquor Gallonage Taxes	$165	$165	$0	$165	$0
Vehicle Use Tax	$29	$29	$0	$27	$2
Inheritance Tax (gross)	$276	$255	$21	$210	$66
Insurance Taxes & Fees	$333	$330	$3	$350	($17)
Corporate Franchise Tax & Fees	$203	$203	$0	$203	$0
Interest on State Funds & Investments	$20	$20	$0	$20	$0
Cook County Intergovernmental Transfer	$244	$244	$0	$244	$0
Other Sources	$585	$576	$9	$410	$175
Subtotal	**$32,925**	**$32,837**	**$88**	**$31,468**	**$1,457**
Transfers					
Lottery	$668	$669	($1)	$669	($1)
Riverboat transfers & receipts	$321	$316	$5	$356	($35)
Proceeds from sale of 10th license	$10	$10	$0	$10	$0
Refund Fund transfer	$397	$397	$0	$300	$97
Other	$716	$815	($99)	$780	($64)
Total State Sources	**$35,037**	**$35,044**	**($7)**	**$33,583**	**$1,454**
Federal Sources	**$3,903**	**$3,850**	**$53**	**$4,000**	**($97)**
Total Federal & State Sources	**$38,940**	**$38,894**	**$46**	**$37,583**	**$1,357**
Nongeneral Funds Distribution:					
Refund Fund					
Personal Income Tax	($1,746)	($1,732)	($14)	($1,683)	($63)
Corporate Income Tax	($476)	($501)	$25	($454)	($22)
Subtotal General Funds	**$36,718**	**$36,661**	**$57**	**$35,446**	**$1,272**

Note: Excludes Budget Stabilization Fund transfers and transfers from the FY'13/14 Backlog Payment Fund

GENERAL FUNDS RECEIPTS: JUNE FY 2014 vs. FY 2013 ($ million)				
Revenue Sources	**June FY 2014**	**June FY 2013**	**$ CHANGE**	**% CHANGE**
State Taxes				
Personal Income Tax	$1,679	$1,553	$126	8.1%
Corporate Income Tax (regular)	463	519	($56)	-10.8%
Sales Taxes	691	659	$32	4.9%
Public Utility Taxes (regular)	55	77	($22)	-28.6%
Cigarette Tax	29	30	($1)	-3.3%
Liquor Gallonage Taxes	15	15	$0	0.0%
Vehicle Use Tax	3	2	$1	50.0%
Inheritance Tax (Gross)	25	20	$5	25.0%
Insurance Taxes and Fees	64	64	$0	0.0%
Corporate Franchise Tax & Fees	13	12	$1	8.3%
Interest on State Funds & Investments	2	2	$0	0.0%
Cook County IGT	0	0	$0	N/A
Other Sources	90	89	$1	1.1%
Subtotal	$3,129	$3,042	$87	2.9%
Transfers				
Lottery	71	69	$2	2.9%
Riverboat transfers & receipts	29	33	($4)	-12.1%
Proceeds from Sale of 10th license	0	0	$0	N/A
Refund Fund transfer	0	0	$0	N/A
Other	111	184	($73)	-39.7%
Total State Sources	$3,340	$3,328	$12	0.4%
Federal Sources	$392	$147	$245	166.7%
Total Federal & State Sources	$3,732	$3,475	$257	7.4%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($158)	($150)	($8)	5.3%
Corporate Income Tax	($50)	(60)	$10	-16.7%
Subtotal General Funds	$3,524	$3,265	$259	7.9%
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	$3,524	$3,265	$259	7.9%
CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				2-Jul-14

GENERAL FUNDS RECEIPTS: YEAR END
FY 2014 vs. FY 2013
($ million)

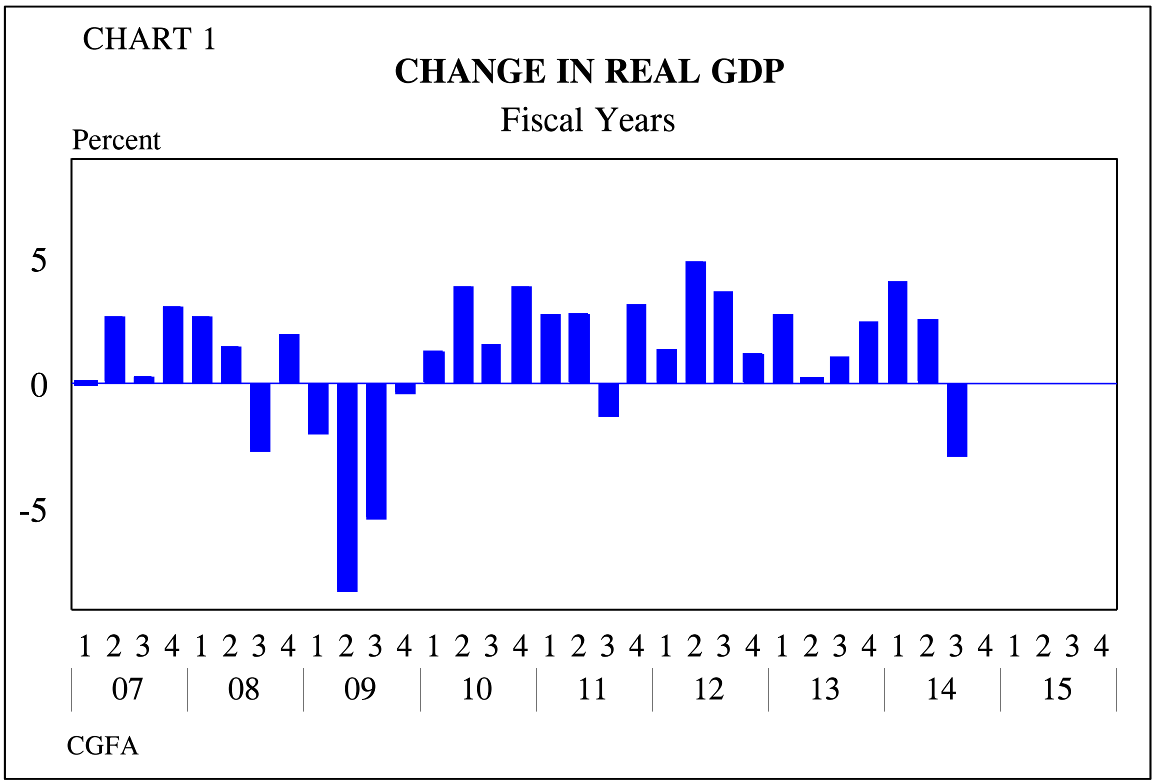
Revenue Sources	FY 2014	FY 2013	CHANGE FROM FY 2013	% CHANGE
State Taxes				
Personal Income Tax	$18,388	$18,323	$65	0.4%
Corporate Income Tax (regular)	3,640	3,679	($39)	-1.1%
Sales Taxes	7,676	7,355	$321	4.4%
Public Utility Taxes (regular)	1,013	1,033	($20)	-1.9%
Cigarette Tax	353	353	$0	0.0%
Liquor Gallonage Taxes	165	165	$0	0.0%
Vehicle Use Tax	29	27	$2	7.4%
Inheritance Tax (Gross)	276	293	($17)	-5.8%
Insurance Taxes and Fees	333	334	($1)	-0.3%
Corporate Franchise Tax & Fees	203	205	($2)	-1.0%
Interest on State Funds & Investments	20	20	$0	0.0%
Cook County IGT	244	244	$0	0.0%
Other Sources	585	462	$123	26.6%
Subtotal	$32,925	$32,493	$432	1.3%
Transfers				
Lottery	668	656	$12	1.8%
Riverboat transfers & receipts	321	345	($24)	-7.0%
Proceeds from Sale of 10th license	10	15	($5)	-33.3%
Refund Fund transfer	397	0	$397	N/A
Other	716	688	$28	4.1%
Total State Sources	$35,037	$34,197	$840	2.5%
Federal Sources	$3,903	$4,154	($251)	-6.0%
Total Federal & State Sources	$38,940	$38,351	$589	1.5%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($1,746)	($1,785)	$39	-2.2%
Corporate Income Tax	($476)	($502)	$26	-5.2%
Subtotal General Funds	$36,718	$36,064	$654	1.8%
Short-Term Borrowing	$0	$0	$0	N/A
FY'13/14 Backlog Payment Fund Transfer	$50	$264	($214)	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	$37,043	$36,603	$440	1.2%

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

CGFA 2-Jul-14

ECONOMY
After the Plunge
Edward H. Boss, Jr., Chief Economist

The third and final revisions to Gross Domestic Product for the first quarter of this year were released in late June, indicating that the pace of economic growth plunged at a 2.9% annual rate, the steepest drop since the last recession. (See following chart.) While the decline in part reflected severe winter weather throughout a good portion of the nation, even if the economy were to rebound with a growth rate of 3.5% in each of the remaining three quarters, growth for the year would not even reach 2.0%. This compares to the rate of real GDP growth of 1.9% in 2013, 2.8% in 2012, 1.8% in 2011, and 2.5% in 2010 and continues being the weakest business recovery in the post WWII era.



The magnitude of last quarter's drop in growth, almost three times the 1% decline reported for the quarter just a month earlier, surprised even the most pessimistic of market watchers. Particularly sharp was the deterioration in personal consumption expenditures that make up almost 70% of total GDP, falling from a growth rate of 3.1% reported a month ago, now being revised downward to show only a 1.0% gain. Sectors which made negative contributions to growth included: private inventory investment, exports, state and local government spending, and both residential and nonresidential fixed investment.

Even before the release of the latest GDP data, the Federal Reserve reduced its economic projections for the year at its Open Market Meeting held on June 18th. This downward revision occurred despite the announcement of another reduction in its scheduled amount of asset purchases as it winds down its program of quantitative easing. Thus, obviously the Fed felt that the economy was strong enough to continue to cut back its asset purchases without deleterious effects on the economy. As stated, "The Committee currently judges that there is sufficient underlying strength in the broader economy to support ongoing improvement in labor market conditions."

The Federal Reserve at that meeting lowered its central tendency range of GDP growth this year, measured from the fourth quarter of the previous year, to a range of 2.1 to 2.3 down from 2.8 to 3.0 made in March. This projected slower growth path was despite a lowering of the unemployment rate to a range of 6.0 to 6.3, down from 6.1 to 6.3, and a slight 0.1 increase in its inflation range. The weaker outlook for this year, however, is expected to be temporary, with the central tendency for GPD growth in 2015 at 3.0 to 3.2, the same as that stated in March, although the unemployment range was lowered to 5.4 to 5.7 from 5.6 to 5.9 made in March with no noticeable change in inflation expectations.

Economic growth resumed during the second quarter just ended according to improved business reports in recent months. For example, payroll employment rose, finally recouping all the jobs lost during the recession, weekly unemployment claims were lowered, and the unemployment rate in April and May was at 6.3%, the lowest since the fall of 2008. Housing sales and prices rose and indicators of both manufacturing and non-manufacturing business activity improved as did consumer confidence. Even so, the strength of any rebound could be at odds with those reports.

As mentioned, the largest component of GDP is personal consumption, and here there are some restraints that could limit future gains. For example, while the employment sector has shown improvement, real earnings, that is average hourly earnings less inflation, fell in May for the third consecutive month as it has six times in the past 12 months. Thus it should not be surprising that when May's personal spending was released in late June, it rose only a modest 0.2% and adjusted for inflation decreased 0.1% following a decline of 0.2% in April.

While inflation remains low by past standards, food and energy prices that are not part of the core rate but necessary expenditures for most consumers, have been rising sharply. Meat prices, particularly for pork hit by an outbreak of a pig virus, have been on the rise as has produce from drought-ridden Southern California, similarly drought conditions in Brazil have forced up coffee prices, while wars and unrest in the Middle East have caused increased uncertainty and driven up oil prices, particularly for gasoline just as the summer driving season gets underway. In conclusion, it appears the key to faster growth once again lies with the consumer. It will take improving labor market conditions, both in terms of raising the number employed as well as increasing the labor force participation rate through reducing the number of discouraged workers and pursuing policies that achieve these goals.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS *	May 2014	April 2014	May 2013
Unemployment Rate (Average)	7.5%	7.9%	9.2%
Annual Rate of Inflation (Chicago)	-0.1%	5.6%	1.8%

	LATEST MONTH	% CHANGE OVER PRIOR MONTH	% CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (May)	6,551	-0.2%	-0.1%
Employment (thousands) (May)	6,058	0.1%	1.8%
New Car & Truck Registration (May)	61,720	14.1%	16.9%
Single Family Housing Permits (May)	1,027	-9.6%	1.6%
Total Exports ($ mil) (April)	5,726	-8.7%	6.3%
Chicago Purchasing Managers Index (June)	62.6	-4.4%	21.3%

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

PENSIONS
Legislative Overview
Richard S. Rockwood, Pension Analyst

The following are what we at the Commission feel to be the most substantive changes to the Illinois Pension Code, occurring this past legislative session.

Chicago Laborers' and Municipal Employees' Pension Reform
P.A. 98-0641
SB 1922 – Raoul (Madigan)

Passed Senate: 53-0-0
Passed House: 73-41-1
Approved by Governor 6/9/14

Effective Date
- June 9, 2014

Systems Impacted
- Chicago Laborers' Annuity and Benefit Fund (LABF), Chicago Municipal Employees' Benefit Fund (MEABF)

System Reforms and City Contributions
- A 40 year amortization window was set in place in order to bring assets up to 90% of the liabilities of both systems by FY 2055.
  - Actuarial gains or losses due to investment returns will be acknowledged on a 5-year asset-smoothing model.
- City Contributions are calculated as a statutorily-set multiplier of the employee contributions 2 years earlier to the LABF and MEABF. Current multipliers are set at 1.00 for LABF and 1.25 for MEABF.
- City Contributions will follow a ramping schedule in FY 2016 through 2020, gradually increasing the multiplier.
  - LABF: 1.60, 1.90, 2.20, 2.50, and 2.80.
  - MEABF: 1.85, 2.15, 2.45, 2.75, and 3.05.
- Beginning in FY 2021 and all years thereafter, City Contributions will be made based on an actuarial funding schedule to reach 90% funded by 2055.

Retirement Eligibility
- For Tier 2 employees the normal retirement age decreases from 67 to 65, and the age for early retirement decreases from 62 to 60.

Annual Increases in Annuity
- Tier 1 COLAs are to be the same as Tier 2 COLAs (Lesser of 3% or ½ the CPI-U, simple)
- Cost of living adjustments will be suspended in 2017, 2019, and 2025.

Employee Contributions
- Beginning January 1, 2015, employee contributions will increase on a graduated scale.
  - Employee contributions will increase to 9% in 2015.
  - Employee contributions will increase to 9.5% in 2016.
  - Employee contributions will increase to 10% in 2017.
  - Employee contributions will increase to 10.5% in 2018.
  - Employee contributions will increase to 11% in 2019 and each year thereafter.

- For any duration of time that the funded ratio is over 90%, Employee contributions will decrease to 9.75% of salary and remain, as long as the fund is over 90% funded.

HB 3902

Sponsors: Beiser (Haine)

Passed House: 111-0-0
Passed Senate: 58-0-0

HB 3902 amends the IMRF article of the Illinois Pension Code to remove an unintended consequence of having to provide pension benefits to certain laborers not hired by an IMRF employer.

HB 4691

Sponsors: Phelps (Hastings)

Passed House: 98-0-0
Passed Senate: 58-0-0

HB 4691 amends the IMRF article of the Illinois Pension Code by providing for the transfer of funds between IMRF and a newly-formed Downstate Police pension fund in the event a police officer had to participate in IMRF prior to the creation of a fund in the municipality he/she serves.

HB 5592

Sponsors: Andrade (Martinez)

Passed House: 115-0-0
Passed Senate: 54-0-0

HB 5592 changes language in regards to when an employee who is entitled to a retirement annuity may elect to provide a reversionary annuity for a beneficiary.

HB 5696

Sponsors: Poe (Althoff)

Passed House: 106-1-0
Passed Senate: 56-0-0

HB 5696 amends the Illinois Municipal Retirement Fund article of the Illinois Pension Code by deleting numerous obsolete provisions regarding transfers during now-closed windows. This bill also codifies current practice by allowing members to purchase credit they are otherwise qualified for by defining "Omitted service." This bill also streamlines the trustee election process when the number of nominated persons is equal to the number of elected positions.

SB 0452

Sponsors: Clayborne (Turner)

Passed Senate: 58-0-0
Passed House: 108-6-1
Senate Concurrence: 57-0-0

SB 452 amends the Illinois Pension Code to require persons and entities bidding on a contract for providing investment services, consulting services, or commitment to a private market fund to a retirement system, pension fund, or investment board to disclose certain information about their use of minority persons, female persons, and persons with a disability. SB 452 also requires consideration of these disclosures before awarding the contract.

SB 3309

Sponsors: Bertino-Tarrant (Walsh)

Passed Senate: 56-0-0
Passed House: 13-0-0
Senate Concurrence: 57-0-0

SB 3309 makes changes to various articles of the Illinois Pension Code (GARS, SERS, JURS, Downstate Police, Downstate Firefighters, and the Social Security Enabling Act). Actuarial Tables including mortality, disability, and turn-over rates are required to be used when projecting all benefits paid to beneficiaries, including any optional benefits. Systems included are GARS, SERS, and JRS. All systems mentioned have new mistake in benefits language that would require the mistake to be corrected as soon as it is found, as well as other provisions. SB 3309 also codifies that Downstate Police and Fire may elect to provide optional Medicare coverage for their personnel. This bill also includes a section to the General Assembly, State Employees, and Judges Articles of the Illinois Pension Code that would provide that upon termination of a plan, participants would not lose their entitlement to the benefits that they have accrued in the plan.