



Commission on Government Forecasting and Accountability

MONTHLY BRIEFING

AUGUST 2010

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703 Stratton Ofc. Bldg.
Springfield, IL 62706

ECONOMY: Losing Steam

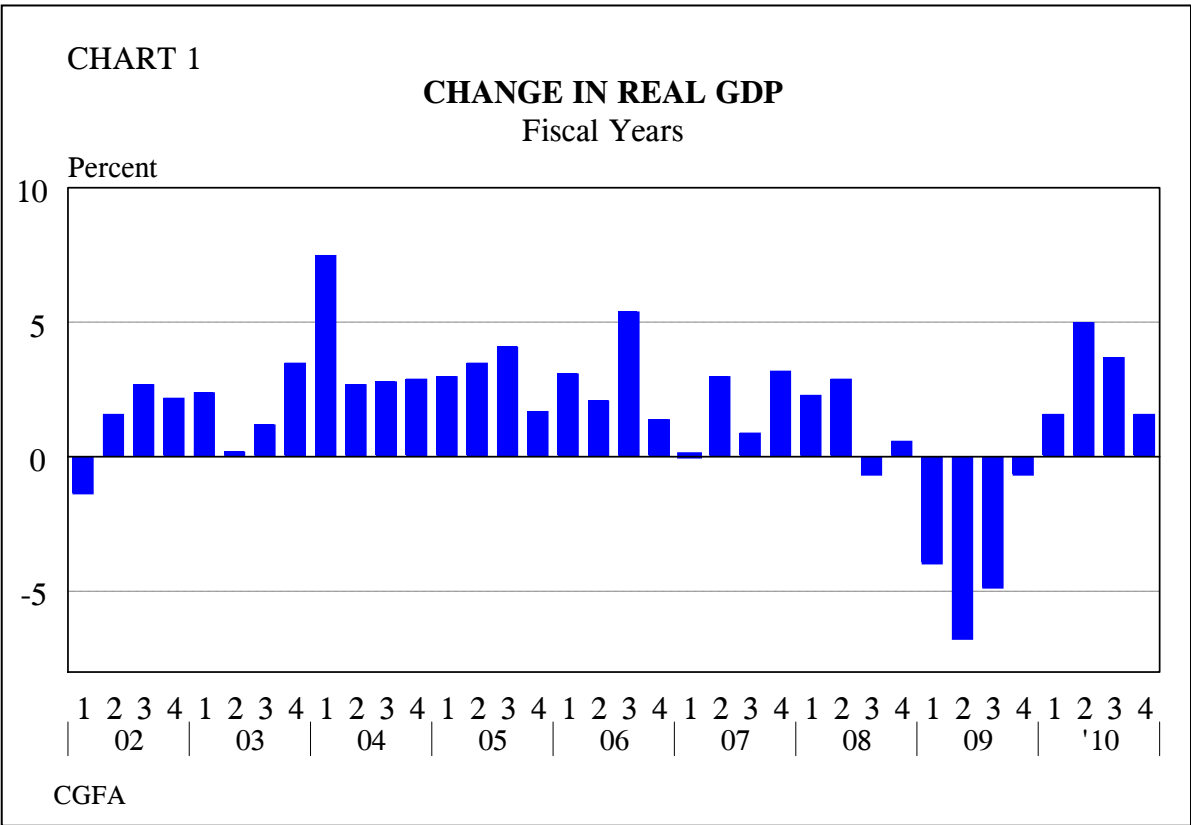
Edward H. Boss, Jr., Chief Economist

The regular annual revisions to the national income and product accounts released every July reveal not only that the past recession was more severe than originally reported, but also that the recovery in the past year has been weaker than expected following such a severe recession and losing steam. The revisions, which incorporate data beginning with the first quarter of 2007, are more complete and detailed and, therefore, are looked upon as being a more reliable depiction of the economy than was previously available.

For the three-year revision period of 2007-2009, real Gross Domestic Product (GDP) was revised lower for all three years. Real GDP growth for 2007 was revised down from 2.1% to 1.9%; for 2008 the revision went from an increase of 0.4% to 0.0%; and for 2009 the decline of 2.4% became a larger decrease of 2.6%. Economic growth returned in the second half of 2009 through the first half of this year, although the rate of growth so far in 2010 has slowed sharply.

The recession that officially started at the end of 2007 and ended last summer is shown in the attached Chart on an Illinois fiscal year basis (July 1-June 30). As illustrated, GDP on this basis fell in the third quarter of FY 2008, showed slight growth in the final quarter of that fiscal year, only to decline in every quarter of FY 2009. As the recovery began in the summer of 2009, the chart shows that the economy grew in each quarter of FY 2010 although a sharp falloff occurred in the second half of the fiscal year. This pattern is quite disturbing as we are now into FY 2011.

After a relatively healthy growth rate of 5.0% in the second quarter of FY 2010, growth slowed to an annual rate of



of 3.7% in the third quarter, and only a meager 1.6% rate in the final quarter. Moreover, the latest estimate of GDP last quarter was lowered from a preliminary estimate of 2.4%. As monthly economic data become available for the current quarter, evidence suggests this weakening trend has continued.

Retail sales fell in May and June and although there was a slight gain in July, levels were still well below those of last March; initial claims for unemployment rose sharply and even with a slight decline in the latest week failed to stem the rising upward trend on a 4-week moving average basis. Both new and existing home sales plunged by double-digit amounts in July, and even business spending, which has been a bright spot,

was being questioned as non-defense capital goods orders fell last month.

The recent performance of these and other economic indicators have increased talk of a double-dip recession. As an example, Global Insight, a major forecasting service, has increased its odds of a double-dip recession in recent months from 15% to 20% and by August to 25%. Moody's Chief Economist in recent days upped his odds of a double-dip recession to 1 in 3; still others have increased the odds even further while a few even question whether or not the recession that began at the end of 2007 ever ended.

Behind many of these double-digit recession concerns are the uncertainty of how the economy will

respond if the “Bush” tax cuts are eliminated, how detrimental to business will be the higher costs of the implementation of the new health care legislation, what will be the effects of increased regulation, etc. While chances still favor that a double-digit recession can be avoided, the odds of

avoiding one are decreasing. More likely is that the current recovery will continue, but be weak and well below that which normally occurred following severe recessions. This would lead to a prolonged period of high unemployment, which in turn will limit revenue flows into government, particularly at the state and local level.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY			
<u>INDICATORS</u>	<u>July 2010</u>	<u>June 2010</u>	<u>July 2009</u>
Unemployment Rate (Average)	10.3%	10.4%	10.5%
Annual Rate of Inflation (Chicago)	1.9%	-4.5%	0.8%
—————			
	<u>LATEST MONTH</u>	<u>% CHANGE OVER PRIOR MONTH</u>	<u>% CHANGE OVER A YEAR AGO</u>
Civilian Labor Force (thousands) (July)	6,630	-0.4%	0.3%
Employment (thousands) (July)	5,947	-0.30%	0.5%
New Car & Truck Registration (July)	N/A	N/A	N/A
Single Family Housing Permits (July)	675	-15.2%	-32.1%
Total Exports (\$ mil) (June)	4,369	4.9%	30.3%
Chicago Purchasing Managers Index (August)	56.7	-9.0%	13.4%

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Interfund Borrowing

Lynnae Kapp, Senior Bond Analyst

Public Act 96-0958 gives the Governor the authorization to direct the Comptroller to make transfers to the General Revenue Fund and Common School Fund out of special funds of the State. These transfers, labeled Interfund Borrowing, can only be made from

July 1, 2010 through January 9, 2011, and must be reimbursed to the originating funds within 18 months of the date they were borrowed. The Comptroller transferred \$60.7 million from various funds to the General Revenue Fund in August.

FY2011 INTERFUND BORROWING		PA 96-0958
No.	Fund	as of Aug 16
0021	Financial Institution Fund	\$1,783,000
0049	Industrial Hygiene Regulatory & Enforcement Fund	\$8,000
0057	IL State Pharmacy Disciplinary Fund	\$77,000
0113	Community Health Center Care Fund	\$21,000
0114	Emergency Response Reimbursement Fund	\$33,000
0151	Registered CPA Administration & Disciplinary Fund	\$3,200,000
0163	Weights and Measures Fund	\$302,000
0197	Epilepsy Treatment & Education Grants-in-Aid Fund	\$26,000
0198	Diabetes Research Checkoff Fund	\$33,000
0215	CDB Revolving Fund	\$185,000
0238	IL Health Facilities Planning Fund	\$372,000
0241	Transmitters of Money Act (TOMA) Consumer Protection Fund	\$198,000
0265	State Rail Freight Loan Repayment Fund	\$8,492,000
0277	Pollution Control Board Fund	\$61,000
0279	Debt Collection Fund	\$9,000
0306	I-FLY Fund	\$45,000
0310	Tax Recovery Fund	\$184,000
0316	IL Prescription Drug Discount Program Fund	\$256,000
0356	Law Enforcement Camera Grant Fund	\$2,212,000
0378	Insurance Premium Tax Refund Fund	\$567,000
0386	Appraisal Administration Fund	\$500,000
0406	Comprehensive Regional Planning Fund	\$150,000
0418	University Grant Fund	\$9,000
0424	IL Power Agency Trust Fund	\$12,500,000
0429	Multiple Sclerosis Research Fund	\$818,000
0430	Livestock Management Facilities Fund	\$30,000
0435	Charitable Trust Stabilization Fund	\$393,000
0437	Quality of Life Endowment Fund	\$1,112,000

FY2011 INTERFUND BORROWING		PA 96-0958
No.	Fund	as of Aug 16
0446	Employee Classification Fund	\$15,000
0449	Interpreters for the Deaf Fund	\$21,000
0469	Autoimmune Disease Research Fund	\$4,000
0474	Human Services Priority Capital Program Fund	\$1,648,000
0478	Predatory Lending Database Program Fund	\$550,000
0510	IL Fire Fighters' Memorial Fund	\$2,783,000
0535	Sex Offender Registration Fund	\$45,000
0562	Pawnbroker Regulation Fund	\$29,000
0588	September 11th Fund	\$77,000
0623	Special Olympics IL Fund	\$23,000
0637	State Police Wireless Service Emergency Fund	\$985,000
0638	IL Adoption Registry & Medical Information Exchange Fund	\$4,000
0643	Auction Recovery Fund	\$288,000
0660	Academic Quality Assurance Fund	\$33,000
0661	Private College Academic Quality Assurance Fund	\$35,000
0669	Airport Land Loan Revolving Fund	\$90,000
0678	FY09 Budget Relief Fund	\$14,000,000
0697	Roadside Memorial Fund	\$7,000
0714	Spinal Cord Injury Paralysis Cure Research Trust Fund	\$127,000
0738	Alternative Compliance Market Account Fund	\$202,000
0740	Medicaid Buy-In Program Revolving Fund	\$267,000
0744	IL Animal Abuse Fund	\$5,000
0746	Home Inspector Admin Fund	\$195,000
0750	Real Estate Audit Fund	\$151,000
0753	IL Future Teacher Corps Scholarship Fund	\$88,000
0778	Dept. of Human Rights Training & Development Fund	\$15,000
0794	Metro-East Public Transportation Fund	\$91,000
0797	Dept. of Human Rights Special Fund	\$136,000
0823	Illinois State Dental Disciplinary Fund	\$1,300,000
0849	Real Estate Research and Education Fund	\$241,000
0888	Design Professionals Admin and Investigation Fund	\$143,000
0997	Insurance Financial Regulation Fund	\$3,568,000
Total		\$60,742,000

REVENUE

August Revenues Mixed – Decline in Federal Sources Erase Other Gains

Jim Muschinske, Revenue Manager

August revenues finished off \$38 million as a comparatively weak month for federal sources more than offset modest gains from State tax sources and revenues from interfund borrowing. August had one more receipting day compared to the same month last year.

For the month, gross personal income tax managed to post a decent gain of \$47 million, or \$49 million net of refunds. Inheritance taxes grew by \$9 million, sales taxes \$6 million, public utility \$4 million, other sources \$2 million, vehicle use tax \$1 million, and corporate franchise taxes \$1 million.

A few sources declined in August as insurance taxes fell \$5 million, liquor taxes \$3 million, and interest income \$2 million.

Overall transfers in August were up \$105 million. Other transfers rose \$106 million, primarily because of approximately \$61 million from interfund borrowing. While lottery transfers rose \$9 million, that gain was offset by a falloff of \$10 million in riverboat transfers. As mentioned earlier, federal sources fell in August, down \$205 million.

Year to Date

Excluding short-term borrowing, base general funds revenues are up \$67 million through August. Absent the interfund borrowing that took place in August, revenues would have been virtually flat over the same period of last year.

The various revenue sources are mixed to date. Gross personal income tax is up \$40 million, or \$49 million net of refunds. Inheritance tax is ahead by \$14 million, gross corporate income tax \$7 million, or \$6 million net of refunds, while sales tax is up only \$1 million.

A similar number of sources have experienced losses thus far in the new fiscal year. Other sources are down \$19 million, public utility taxes \$9 million, insurance taxes and fees \$7 million, interest income \$7 million, and liquor taxes \$1 million.

Overall transfers are up \$63 million for the year, principally due to the recent \$61 million in interfund borrowing. Absent that activity, transfers would be virtually flat. Federal sources, after falling in August, are now down \$23 million for the year.

GENERAL FUNDS RECEIPTS: AUGUST

FY 2011 vs. FY 2010

(\$ million)

<u>Revenue Sources</u>	<u>Aug. FY 2011</u>	<u>Aug. FY 2010</u>	<u>\$ CHANGE</u>	<u>% CHANGE</u>
State Taxes				
Personal Income Tax	\$680	\$633	\$47	7.4%
Corporate Income Tax (regular)	28	28	\$0	0.0%
Sales Taxes	538	532	\$6	1.1%
Public Utility Taxes (regular)	70	66	\$4	6.1%
Cigarette Tax	29	29	\$0	0.0%
Liquor Gallonage Taxes	11	14	(\$3)	-21.4%
Vehicle Use Tax	3	2	\$1	50.0%
Inheritance Tax (Gross)	30	21	\$9	42.9%
Insurance Taxes and Fees	12	17	(\$5)	-29.4%
Corporate Franchise Tax & Fees	15	14	\$1	7.1%
Interest on State Funds & Investments	1	3	(\$2)	-66.7%
Cook County IGT	0	0	\$0	N/A
Other Sources	29	27	\$2	7.4%
Subtotal	\$1,446	\$1,386	\$60	4.3%
Transfers				
Lottery	39	30	\$9	30.0%
Riverboat transfers & receipts	30	40	(\$10)	-25.0%
Proceeds from Sale of 10th license	0	0	\$0	N/A
Other	127	21	\$106	504.8%
Total State Sources	\$1,642	\$1,477	\$165	11.2%
Federal Sources	\$399	\$604	(\$205)	-33.9%
Total Federal & State Sources	\$2,041	\$2,081	(\$40)	-1.9%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$60)	(\$62)	\$2	-3.2%
Corporate Income Tax	(\$5)	(5)	\$0	0.0%
Subtotal General Funds	\$1,976	\$2,014	(\$38)	-1.9%
Short-Term Borrowing	\$0	\$1,250	(\$1,250)	N/A
Pension Contribution Fund Transfer	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$0	\$0	\$0	N/A
Total General Funds	\$1,976	\$3,264	(\$1,288)	-39.5%
CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				1-Sep-10

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2010 vs. FY 2009

(\$ million)

<u>Revenue Sources</u>	<u>FY 2011</u>	<u>FY 2010</u>	<u>CHANGE FROM FY 2010</u>	<u>% CHANGE</u>
State Taxes				
Personal Income Tax	\$1,328	\$1,288	\$40	3.1%
Corporate Income Tax (regular)	75	68	\$7	10.3%
Sales Taxes	1,079	1,078	\$1	0.1%
Public Utility Taxes (regular)	158	167	(\$9)	-5.4%
Cigarette Tax	58	58	\$0	0.0%
Liquor Gallonage Taxes	29	30	(\$1)	-3.3%
Vehicle Use Tax	5	5	\$0	0.0%
Inheritance Tax (Gross)	53	39	\$14	35.9%
Insurance Taxes and Fees	16	23	(\$7)	-30.4%
Corporate Franchise Tax & Fees	28	28	\$0	0.0%
Interest on State Funds & Investments	1	8	(\$7)	-87.5%
Cook County IGT	0	0	\$0	#DIV/0!
Other Sources	62	81	(\$19)	-23.5%
Subtotal	\$2,892	\$2,873	\$19	0.7%
Transfers				
Lottery	82	77	\$5	6.5%
Riverboat transfers & receipts	60	75	(\$15)	-20.0%
Proceeds from Sale of 10th license	0	0	\$0	N/A
Other	226	153	\$73	47.7%
Total State Sources	\$3,260	\$3,178	\$82	2.6%
Federal Sources	\$952	\$975	(\$23)	-2.4%
Total Federal & State Sources	\$4,212	\$4,153	\$59	1.4%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$116)	(\$125)	\$9	-7.2%
Corporate Income Tax	(\$13)	(\$12)	(\$1)	8.3%
Subtotal General Funds	\$4,083	\$4,016	\$67	1.7%
Short-Term Borrowing	\$1,300	\$1,250	\$50	N/A
Pension Contribution Fund Transfer	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$0	\$276	(\$276)	-100.0%
Total General Funds	\$5,383	\$5,542	(\$159)	-2.9%
SOURCE: Office of the Comptroller, State of Illinois: Some totals may not equal, due to rounding.				
CGFA				1-Sep-10

PENSIONS
Financial Condition of the non-State Funded Retirement Systems
 Dan Hankiewicz, Pension Manager

Table 1 below provides a snapshot of the FY 2009 financial health of the non-State funded public retirement systems in Illinois. Commission staff is nearing completion of the 2010 Report on the Financial Condition of the Illinois Public Retirement Systems. Information pertaining to the various

pension funds' investment rates of return and changes in unfunded liability during FY 2009 will be contained in the report, along with information on average salaries, retirement annuities, and active member headcount. The report should be available for distribution in late October.

TABLE 1

ILLINOIS PUBLIC RETIREMENT SYSTEMS					
FY 2009 Systems Experience					
(\$ in millions)					
Pension Fund	Annual Payroll	Actuarial Liabilities	Actuarial Assets	Unfunded Liabilities	Funded Ratio
Chicago Firemen	400.9	3,476.8	1,269.2	2,207.6	36.5%
Chicago Laborers	208.6	2,017.5	1,601.4	416.1	79.4%
Chicago Municipal Employees	1,552.0	11,054.3	6,295.8	4,758.5	57.0%
Chicago Park District	108.9	823.9	553.8	270.1	67.2%
Chicago Police	1,011.2	8,900.9	3,885.0	5,015.9	43.6%
Chicago Teachers	1,996.2	15,683.2	11,542.9	4,140.3	73.6%
Cook County Employees	1,498.2	12,575.5	7,945.6	4,629.9	63.2%
Cook County Forest Preserve	25.0	274.0	188.4	85.6	68.8%
Illinois Municipal	6,461.7	27,345.1	22,754.8	4,590.3	83.2%
Metropolitan Water	176.9	1,939.2	1,177.8	761.4	60.7%

For comparison purposes, Table 2 on the following page, offers a snapshot of the Systems' financial health at the end of FY 2008.

ILLINOIS PUBLIC RETIREMENT SYSTEMS

FY 2008 Systems Experience

(\$ in millions)

Pension Fund	Annual Payroll	Actuarial Liabilities	Actuarial Assets	Unfunded Liabilities	Funded Ratio
Chicago Firemen	396.2	3,358.6	1,335.7	2,022.9	39.8%
Chicago Laborers	216.7	1,957.4	1,698.4	259.0	86.8%
Chicago Municipal Employees	1,544.0	10,605.8	6,669.5	3,936.3	62.9%
Chicago Park District	111.7	795.4	586.7	208.7	73.8%
Chicago Police	1,023.6	8,652.6	4,093.7	4,558.9	47.3%
Chicago Teachers	1,914.6	15,203.7	12,114.4	3,089.3	79.7%
Cook County Employees	1,463.4	11,073.2	8,036.1	3,037.1	72.6%
Cook County Forest Preserve	23.5	237.9	196.3	41.6	82.5%
Illinois Municipal	6,259.3	25,611.2	21,601.1	4,010.1	84.3%
Metropolitan Water	167.9	1,852.3	1,211.8	640.5	65.4%