



Commission on Government Forecasting and Accountability

MONTHLY BRIEFING

SEPTEMBER 2006

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ECONOMY: Expansion – Correction or Conclusion

Edward H. Boss, Jr., Chief Economist

The pace of business has slowed in recent months, raising speculation over whether this is a mid-cycle correction or the beginning of the end of the expansion in the face of high energy prices, softening consumer spending, and a burst in the housing bubble. The economic expansion has been underway since the trough was reached in November 2001, almost 5 years ago. This is in line with the average length of 57 months experienced in the 10 post-WWII cycles, measured from trough to peak. Still, there is no clear relationship between the length of expansions and contractions, although there has been a tendency over time to see longer expansion phases and shorter contraction phases. The shortest expansion was 12 months, from July 1980 to July 1981, although there are many analysts who consider the twin recessions in the early 1980s as one. The longest recorded expansion is the previous one, from March 1991 to March 2001, 120 months or 10 years. This was followed by a brief 8-month recession before the economy began to recover again.

Certainly, one of the biggest concerns over maintaining economic growth in the months ahead remains the strength of the housing sector. Recent data suggest that the falloff in activity is developing faster than most believed. For example, home sales have been softening for months while the inventory of unsold homes has been growing. In August housing inventories rose 1.5%, representing a 7.5-month supply at the current sales rate, the highest since April 1993, and selling times have lengthened. In response, according to the National Association of Realtors, prices of existing homes fell 1.7% in August 2006 from a year earlier, which not only was the first decline in 11 years but also the second largest drop in 38 years. The price declines were widespread. The median existing home price in the Northeast was down 3.9% from a year earlier; the price decline was 1.1% in the Midwest; prices fell 2.6% in the South, and prices were flat—up 0.3%—in the West.

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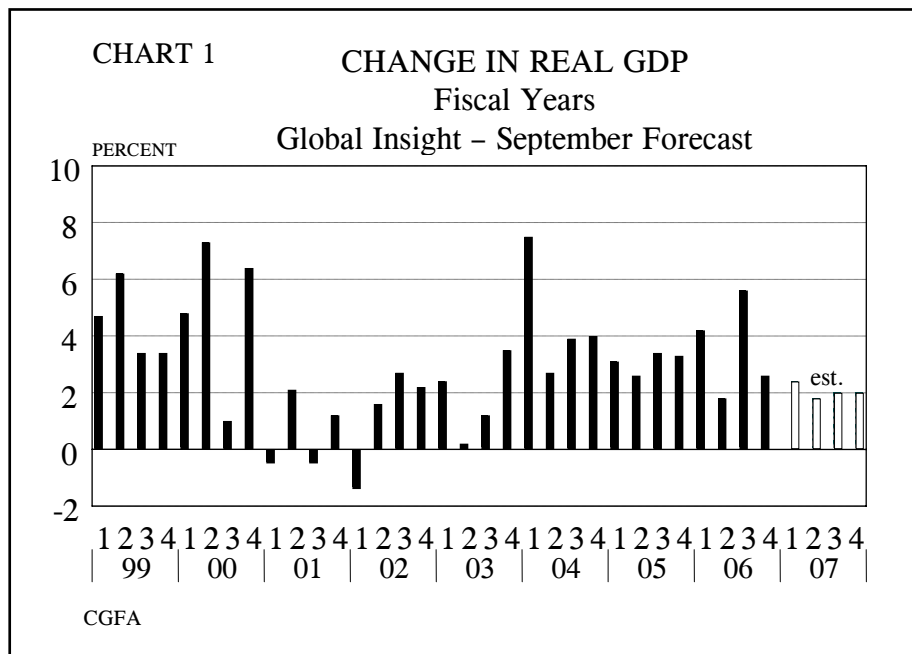
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Illinois' home sales fell 15% in August from a year earlier and median home prices dropped 1.9%, according to the Illinois Association of Realtors, after declining incrementally in each of the previous two months. In the Chicago metropolitan area, sales were off by 17%, with single-family home sales down 20.9% and condos off a lesser 11%. Prices of the median home in the Chicago area, however, were not greatly affected. Prices of single-family homes in the area were about even with that of a year earlier while condo prices were up 3.4% from a year ago. Then again, the run up in prices in Illinois in recent years has not been as pronounced as in some of the hot areas of the country.

It was not just the weakening in the housing sector that caused concerns. Last month's drop in durable goods orders for the second consecutive month raised the prospect that business spending may not provide the cushion to weaker consumer spending that had been expected. On the monetary front, weak money supply

growth and the existence of a negatively sloped yield curve, a precursor to past recessions, added to growth concerns. Despite these conditions, however, prospects remain good for continued, although slower, growth in the foreseeable future. The chart below shows real economic growth as reported for FY 2006 along with quarterly estimates supplied by Global Insight for FY 2007. Beyond this period, the forecast calls for a resumption of somewhat faster growth, sustaining the economic recovery well into the future.

Prospects for a mid-term correction, rather than anything worse, improved in recent days. Energy prices, particularly gasoline and natural gas prices fell sharply; the Federal Reserve refrained from raising key monetary policy rates for the second consecutive time at its last meeting; inflation numbers improved; consumer confidence rose, and the stock market approached new highs. These developments would seem to outweigh the negative factors, pointing to a continuation of the business expansion.



INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

<u>INDICATORS</u>	<u>August 2006</u>	<u>July 2006</u>	<u>August 2005</u>
Unemployment Rate (Average)	4.7%	4.7%	5.7%
Annual Rate of Inflation (Chicago)	6.2%	1.8%	2.3%
<hr style="border: 2px solid black;"/>			
	<u>LATEST</u> <u>MONTH</u>	<u>% CHANGE</u> <u>OVER PRIOR</u> <u>MONTH</u>	<u>% CHANGE</u> <u>OVER A</u> <u>YEAR AGO</u>
Civilian Labor Force (thousands) (August)	6,577	0.6%	1.4%
Employment (thousands) (August)	6,268	0.6%	2.3%
New Car & Truck Registration (August)	69,474	28.0%	4.7%
Single Family Housing Permits (August)	3,624	3.9%	-25.0%
Total Exports (\$ mil) (July)	3,245	-10.4%	16.9%
Chicago Purchasing Managers Index (September)	62.1	8.8%	2.6%

2006 Wagering Summary

Eric Noggle, Sr. Revenue Analyst

At the end of September, the Commission released its 2006 edition of *Wagering in Illinois*, a report that focuses on the status of riverboat gambling, lottery, and horse racing in Illinois. The following is a summary of the highlights of this report.

In FY 2006, the State's share of riverboat, lottery, and horse racing revenue reached \$1.370 billion, a \$45 million or 3% increase over FY 2005. The \$45 million increase consisted of a \$10 million decrease in State riverboat revenues, a \$56 million increase in lottery transfers to the Common School Fund, and a \$1 million decline in horse racing revenues.

While riverboats did decline slightly in FY 2006, \$689 million in State revenues was still generated despite the fact that wagering tax rates returned to a maximum tax rate of 50%, down from the maximum tax rate of 70% that was in effect in FY 2004 and FY 2005. In addition, the admission tax was lowered in FY 2006 from a high of \$5 per patron to \$3 per patron. The State revenue

total amount would have been much lower if it were not for P.A. 94-0673, a two-year hold-harmless provision obligating riverboats to meet certain revenue amounts or pay the difference. An additional \$94 million was paid due to this provision because only one riverboat, Joliet Harrah's, met the obligated amount.

The lower riverboat revenue figures overshadow the fact that riverboat activity actually improved significantly in FY 2006. Statewide adjusted gross receipts (AGR) for Illinois riverboats in FY 2006 were up 6.7% while admissions were up 3.9% from FY 2005 levels. This is in contrast to FY 2004 when adjusted gross receipts were down 7.8% and admissions were down 16.9%. It has become clear that the tax rates imposed upon the riverboats have a significant effect on the market strategies of Illinois' casinos, and therefore, the number of gamblers visiting and betting at Illinois riverboats.

Under a 70% maximum tax rate, while revenues remained steady due to the higher tax rate, it appears that Illinois lost potential riverboat patrons to other states. For

example, Indiana's portion of total riverboat AGR in the Chicago area increased from 43% in FY 2003 to 47% in FY 2004, while Illinois' portion dropped from 57% to 53% in FY 2004. However, with the return to a 50% maximum tax rate, things have begun to reverse as Illinois' composition in the Chicago area in FY 2006 increased to 56% while Indiana fell to 44%.

While Illinois' riverboat performance has improved, competition from other states is likely to intensify. Two new riverboats are set to open in Missouri near St. Louis, one in 2007, and the other in 2008. In addition, Indian tribes in Wisconsin continue to discuss developing casinos near the Illinois border, one near Rockford, the other near the North Suburbs of Chicago. The more casinos that are developed on Illinois' border, the higher the likelihood that Illinois will be losing potential casino patrons and their tax dollars to other states.

As for the Illinois Lottery, in FY 2006, lottery sales totaled approximately \$1.985 billion, a 7.7% increase over FY 2005, representing the highest sales total realized since the inception of lottery in 1975. The amount transferred into the Common School Fund was \$670.5 million, a 9.2% increase over FY 2005. Significant increases in Instant games and Mega Millions helped fuel the growth in total sales in FY 2006. Instant game sales have increased 84.6% since 2000. Mega Millions also reached a new high with \$243.2 million in sales in FY 2006.

While riverboat gambling and lottery sales continue to perform well, horse racing in Illinois continues to struggle. The CY 2005 handle amount of \$1.003 billion was the lowest level since off-track betting was introduced in 1987. All three components of horse-racing, off-track, inter-track, and on-track betting, experienced declines in 2005. Off-track betting continues to generate the largest handle composing 52% in 2005

followed by inter-track betting with 27% and on-track betting the remaining 21%. The largest handle at Illinois tracks came from Arlington Racetrack with \$89.2 million, followed by Hawthorne (\$86.8 million), Balmoral (\$68.4 million), Maywood (\$38.6 million), Fairmount (\$19.1 million), and State/County fairs (\$1.5 million).

With one more year of the hold-harmless provision for Illinois riverboats, overall gaming revenues will likely remain steady in FY 2007. Beginning in FY 2008, however, without the hold harmless provision to fall back on, the State will have to hope that adjusted gross receipts and admissions rise to the point that State revenues will continue to come in at levels the State is used to receiving. Undoubtedly, lawmakers will continue discussing other revenue-producing changes to the riverboat industry, including increasing the number of riverboats in Illinois, raising the maximum number of gaming positions at each boat, and/or adding slot machines at racetracks.

As for the future of the lottery, the hope is that the popularity of the instant games and the Mega Millions game continues to outweigh the struggles of the older games. The desire to increase the number of lottery retailers in the State and the continued development of brand new games should help the lottery's recent success to continue. As special cause lottery sales from the Ticket for the Cure and the Veteran's Cash game become more known, these games will likely grow as well. Aside from games, lawmakers will have to closely monitor discussions regarding the privatization of the lottery program and the impact that this could potentially have on Illinois and its revenues.

While horseracing has remained stagnant over the last six years, recent legislative action may give this industry some cause for optimism. P.A. 94-0805, which lowered the pari-mutuel tax for Fairmount Park from

1.5% of the daily pari-mutuel handle to 0.25%, will free money for improvements to be made at this facility. The biggest boost would come from P.A. 94-0806, which obligates four Illinois riverboats to pay 3% of their adjusted gross receipts to the Horse Racing Equity Trust Fund. However, this new provision is currently being challenged in court as being unconstitutional and these pay-

ments will be deposited into a protest fund until a court decision is made. If the horse racing industry is allowed to receive the estimated \$39 million in annual riverboat subsidies over two years, this should be a huge lift to horse racing as track improvements will be made and purses will be increased, which experts believe will create fuller fields, bigger crowds, and larger handles.



Special Transfers

Lynnae Kapp, Bond Analyst

In September the Governor's Office of Management and Budget directed \$24.7 million in chargebacks (FY 2007 is to be the last year that chargebacks are allowed). Added to the \$47.1 million of fund sweeps, the total special transfers year-to-date equals approximately \$71.9 million.

Chargebacks (8h) in FY 2007		
FUND #	FUND NAME	September
0014	Food & Drug Safety Fund	\$111,300
0019	Grade Crossing Protection Fund	\$2,160,000
0022	General Professions Dedicated Fund	\$768,600
0024	IL Dept. of Agriculture Laboratory Services Revolving Fund	\$62,400
0040	State Parks	\$893,900
0044	Lobbyist Registration Administration Fund	\$51,000
0057	IL State Pharmacy Disciplinary Fund	\$140,400
0059	Public Utility	\$400,000
0085	IL Gaming Law Enforcement	\$41,280
0130	School District Emergency Financial Assistance	\$55,900
0137	Plugging & Restoration Fund	\$41,900
0163	Weights and Measures	\$236,200
0215	Capital Development Board Revolving Fund	\$217,125
0222	State Police DUI Fund	\$50,200
0238	IL Health Facilities Planning Fund	\$138,900
0245	Fair & Exposition Fund	\$132,900
0261	Underground Resources Conservation Fund	\$54,600
0285	Long-Term Care Monitor/Receiver Fund	\$75,900
0290	Fertilizer Control Fund	\$46,200
0298	Natural Areas Acquisition Fund	\$1,459,600
0299	Open Space Lands Acquisition and Development	\$3,408,800
0304	Statistical Services Revolving Fund	\$1,000,000
0312	Communications Revolving Fund	\$1,500,000

Chargebacks (8h) in FY 2007		
FUND #	FUND NAME	September
0323	Motor Vehicle Review Board Fund	\$18,600
0342	Audit Expense Fund	\$1,528,800
0362	Securities Audit and Enforcement	\$718,700
0363	Dept. Business Service Special Operations Fund	\$440,000
0369	Feed Control Fund	\$76,000
0371	Innovations in Long-Term Care Quality Demonstrations Grants Fund	\$63,500
0372	Plumbing Licensure & Program Fund	\$128,100
0384	Tax Compliance & Administration Fund	\$134,008
0386	Appraisal Administration Fund	\$48,000
0397	Trauma Center Fund	\$1,318,000
0422	Alternate Fuels Fund	\$124,800
0436	Safety Responsibility Fund	\$76,000
0514	State Asset Forfeiture Fund	\$120,300
0524	Health Facility Plan Review Fund	\$132,700
0537	State Offender DNA Identification System Fund	\$247,300
0546	Public Pension Regulation Fund	\$56,000
0562	Pawnbroker Regulation Fund	\$11,600
0569	School Technology Revolving Loan Fund	\$116,800
0571	Energy Efficiency Trust Fund	\$240,000
0576	Pesticide Control	\$124,000
0621	International Tourism Fund	\$608,000
0635	Death Certificate Surcharge Fund	\$151,100
0637	State Police Wireless Service Emergency Fund	\$116,900
0705	State Police Whistleblower Reward & Protection Fund	\$68,500
0746	Home Inspector Administration Fund	\$88,000
0763	Tourism Promotion	\$2,837,800
0770	Digital Divide Elimination Fund	\$161,600
0888	Design Professionals Administration & Investigation Fund	\$96,300
0925	Coal Technology Development Assistance Fund	\$907,400
0930	Senior Citizens Real Estate Deferred Tax Revolving Fund	\$400,000
0962	Park & Conservation Fund	\$473,600
0975	Large Business Attraction Fund	\$55,000
	TOTAL	\$24,734,513

REVENUE
Income Tax Gains Largely Offset by
Lower Federal Receipts
Jim Muschinske, Revenue Manager

Overall general funds revenues increased \$66 million in September. While most of the economic sources posted monthly gains, particularly income taxes, those increases in large part were offset by a falloff in federal sources. September had one less receipting day than last fiscal year.

As mentioned, income taxes performed well in September as gross personal income taxes rose \$85 million, or \$76 million net of refunds. Gross corporate income taxes also excelled with receipts up \$68 million, or \$64 million net of refunds. Sales taxes advanced, albeit modestly with a monthly gain of \$12 million. Meanwhile, corporate franchise taxes grew \$8 million, interest income rose \$6 million, and liquor taxes edged up \$1 million.

Despite an overall increase in revenues, a few sources experienced declines. Public utility taxes fell by \$5 million and other sources were lower by \$4 million. Cigarette taxes dropped by \$3 million due to a change in the tax distribution that went into effect this fiscal year. Finally, insurance taxes and fees dipped by \$1 million.

Overall transfers grew by \$29 million due to \$25 million in chargebacks resulting in other transfers rising \$37 million. Those gains were partially offset by an \$8 million reduction in lottery transfers. As mentioned earlier, federal sources experienced a significant

decline with receipts off \$122 million due to an unusually large month in federal receipts experienced last year.

Year to Date

Overall receipts to the general funds are up \$271 million through the first quarter of the fiscal year. While most of the economically related sources continued to perform well, some of the smaller sources as well as certain transfers have struggled early on.

Gross personal income taxes are up \$162 million, or \$146 million net of refunds. Gross corporate income taxes advanced by \$82 million, or \$76 million net of refunds. Sales tax receipts are up \$48 million, while interest income is ahead by \$20 million. Inheritance tax receipts are up \$15 million while other corporate franchise taxes are up \$8 million and liquor taxes are up \$1 million.

As expected, the Cook County IGT is down \$34 million to begin the year, while other sources are behind by \$18 million. Due to a change in tax distribution, cigarette taxes are off by \$13 million. Public utility taxes have fallen by \$8 million and insurance taxes dipped by \$1 million.

Overall transfers are up by \$111 million. While other transfers are up \$155 million due mostly to a large July transfer from the Refund Fund as well as chargeback activity, a \$40 million falloff in lottery transfers and a \$4 million dip in riverboat transfers served to offset some of those gains. Finally, federal sources are down \$80 million during the first three months of the fiscal year.

GENERAL FUNDS RECEIPTS: SEPTEMBER

FY 2007 vs. FY 2006

(\$ million)

<u>Revenue Sources</u>	<u>SEPT. FY 2007</u>	<u>SEPT. FY 2006</u>	<u>\$ CHANGE</u>	<u>% CHANGE</u>
State Taxes				
Personal Income Tax	\$881	\$796	\$85	10.7%
Corporate Income Tax (regular)	346	278	\$68	24.5%
Sales Taxes	614	602	\$12	2.0%
Public Utility Taxes (regular)	86	91	(\$5)	-5.5%
Cigarette Tax	29	32	(\$3)	-9.4%
Liquor Gallonage Taxes	14	13	\$1	7.7%
Vehicle Use Tax	3	3	\$0	0.0%
Inheritance Tax (Gross)	27	22	\$5	22.7%
Insurance Taxes and Fees	61	62	(\$1)	-1.6%
Corporate Franchise Tax & Fees	23	15	\$8	53.3%
Interest on State Funds & Investments	16	10	\$6	60.0%
Cook County IGT	0	0	\$0	N/A
Other Sources	22	26	(\$4)	-15.4%
Subtotal	\$2,122	\$1,950	\$172	8.8%
Transfers				
Lottery	47	55	(\$8)	-14.5%
Riverboat transfers & receipts	60	60	\$0	0.0%
Other	53	16	\$37	231.3%
Total State Sources	\$2,282	\$2,081	\$201	9.7%
Federal Sources	\$367	\$489	(\$122)	-24.9%
Total Federal & State Sources	\$2,649	\$2,570	\$79	3.1%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$86)	(\$77)	(\$9)	11.7%
Corporate Income Tax	(\$60)	(\$56)	(\$4)	7.1%
Subtotal General Funds	\$2,503	\$2,437	\$66	2.7%
Short-Term Borrowing	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$0	\$0	\$0	N/A
Total General Funds	\$2,503	\$2,437	\$66	2.7%

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

2-Oct-06

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2007 vs. FY 2006

(\$ million)

<u>Revenue Sources</u>	<u>FY 2007</u>	<u>FY 2006</u>	<u>CHANGE FROM FY 2006</u>	<u>% CHANGE</u>
State Taxes				
Personal Income Tax	\$2,176	\$2,014	\$162	8.0%
Corporate Income Tax (regular)	417	335	\$82	24.5%
Sales Taxes	1,859	1,811	\$48	2.7%
Public Utility Taxes (regular)	261	269	(\$8)	-3.0%
Cigarette Tax	87	100	(\$13)	-13.0%
Liquor Gallonage Taxes	41	40	\$1	2.5%
Vehicle Use Tax	10	10	\$0	0.0%
Inheritance Tax (Gross)	74	59	\$15	25.4%
Insurance Taxes and Fees	81	82	(\$1)	-1.2%
Corporate Franchise Tax & Fees	51	43	\$8	18.6%
Interest on State Funds & Investments	51	31	\$20	64.5%
Cook County IGT	6	40	(\$34)	-85.0%
Other Sources	96	114	(\$18)	-15.8%
Subtotal	\$5,210	\$4,948	\$262	5.3%
Transfers				
Lottery	129	169	(\$40)	-23.7%
Riverboat transfers & receipts	165	169	(\$4)	-2.4%
Other	253	98	\$155	158.2%
Total State Sources	\$5,757	\$5,384	\$373	6.9%
Federal Sources	\$1,192	\$1,272	(\$80)	-6.3%
Total Federal & State Sources	\$6,949	\$6,656	\$293	4.4%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$212)	(\$196)	(\$16)	8.2%
Corporate Income Tax	(\$73)	(\$67)	(\$6)	9.0%
Subtotal General Funds	\$6,664	\$6,393	\$271	4.2%
Short-Term Borrowing	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$276	\$276	\$0	N/A
Total General Funds	\$6,940	\$6,669	\$271	4.1%

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

CGFA

2-Oct-06

GENERAL FUNDS GROWTH NEEDED TO MEET ESTIMATE

FY 2007 ESTIMATE vs. FY 2006 ACTUAL

(\$ million)

Revenue Sources	July-06 ESTIMATE FY 2007	FYTD 2007	AMOUNT NEEDED FY 2007 EST.	FYTD 2006	GROWTH NEEDED	% CHANGE
State Taxes						
Personal Income Tax	\$10,050	\$2,176	\$7,874	\$2,014	\$320	4.2%
Corporate Income Tax (regular)	1,873	417	\$1,456	335	\$7	0.5%
Sales Taxes	7,345	1,859	\$5,486	1,811	\$205	3.9%
Public Utility Taxes (regular)	1,074	261	\$813	269	\$8	1.0%
Cigarette Tax	350	87	\$263	100	(\$37)	-12.3%
Liquor Gallonage Taxes	153	41	\$112	40	\$0	0.0%
Vehicle Use Tax	34	10	\$24	10	\$0	0.0%
Inheritance Tax (Gross)	262	74	\$188	59	(\$25)	-11.7%
Insurance Taxes and Fees	320	81	\$239	82	\$4	1.7%
Corporate Franchise Tax & Fees	190	51	\$139	43	\$1	0.7%
Interest on State Funds & Investments	160	51	\$109	31	(\$13)	-10.7%
Cook County IGT	309	6	\$303	40	(\$7)	-2.3%
Other Sources	455	96	\$359	114	\$32	9.8%
Subtotal	\$22,575	\$5,210	\$17,365	\$4,948	\$495	2.9%
Transfers						
Lottery	670	129	\$541	169	\$40	8.0%
Riverboat transfers & receipts	700	165	\$535	169	\$15	2.9%
Other	880	253	\$627	98	(\$21)	-3.2%
Total State Sources	\$24,825	\$5,757	\$19,068	\$5,384	\$529	2.9%
Federal Sources	\$4,803	\$1,192	\$3,611	\$1,272	\$158	4.6%
Total Federal & State Sources	\$29,628	\$6,949	\$22,679	\$6,656	\$687	3.1%
Nongeneral Funds Distribution:						
Refund Fund						
Personal Income Tax	(\$980)	(\$212)	(\$768)	(\$196)	(\$31)	4.2%
Corporate Income Tax	(328)	(\$73)	(\$255)	(67)	\$34	-11.8%
Subtotal General Funds	\$28,320	\$6,664	\$21,656	\$6,393	\$690	3.3%
Short-Term Borrowing	\$0	\$0	\$0	\$0	(\$1,000)	N/A
Budget Stabilization Fund Transfer	\$276	\$276	\$0	\$276	\$0	N/A
Total General Funds	\$28,596	\$6,940	\$21,656	\$6,669	(\$310)	-1.4%
CGFA						
						3-Oct-06

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

FY 2007 ESTIMATE vs. FY 2006 ACTUALS

(\$ million)

Revenue Sources	GOMB	FYTD	AMOUNT	FYTD	GROWTH	%
	JUNE-06		NEEDED			
	Estimate	2007	FY 2007 Est.	2006	NEEDED	CHANGE
	FY 2007					
State Taxes						
Personal Income Tax	\$9,844	\$2,176	\$7,668	\$2,014	\$114	1.5%
Corporate Income Tax (regular)	2,074	417	\$1,657	335	\$208	14.4%
Sales Taxes	7,280	1,859	\$5,421	1,811	\$140	2.7%
Public Utility Taxes (regular)	1,090	261	\$829	269	\$24	3.0%
Cigarette Tax	350	87	\$263	100	(\$37)	-12.3%
Liquor Gallonage Taxes	152	41	\$111	40	(\$1)	-0.9%
Vehicle Use Tax	35	10	\$25	10	\$1	4.2%
Inheritance Tax (Gross)	255	74	\$181	59	(\$32)	-15.0%
Insurance Taxes and Fees	322	81	\$241	82	\$6	2.6%
Corporate Franchise Tax & Fees	196	51	\$145	43	\$7	5.1%
Interest on State Funds & Investments	143	51	\$92	31	(\$30)	-24.6%
Cook County IGT	309	6	\$303	40	(\$7)	-2.3%
Other Sources	505	96	\$409	114	\$82	25.1%
Subtotal	\$22,555	\$5,210	\$17,345	\$4,948	\$475	2.8%
Transfers						
Lottery	670	129	\$541	169	\$40	8.0%
Gaming Fund Transfer	692	165	\$527	169	\$7	1.3%
Other	933	253	\$680	98	\$32	4.9%
Total State Sources	\$24,850	\$5,757	\$19,093	\$5,384	\$554	3.0%
Federal Sources	\$4,803	\$1,192	\$3,611	\$1,272	\$158	4.6%
Total Federal & State Sources	\$29,653	\$6,949	\$22,704	\$6,656	\$712	3.2%
Nongeneral Funds Distribution:						
Refund Fund						
Personal Income Tax	(\$960)	(\$212)	(\$748)	(\$196)	(\$11)	1.5%
Corporate Income Tax	(363)	(73)	(\$290)	(67)	(\$1)	0.3%
Subtotal General Funds	\$28,330	\$6,664	\$21,666	\$6,393	\$700	3.3%
Short-Term Borrowing	\$0	\$0	\$0	\$0	(\$1,000)	N/A
Budget Stabilization Fund Transfer	\$276	\$276	\$0	\$276	\$0	N/A
Total General Funds	\$28,606	\$6,940	\$21,666	\$6,669	(\$300)	-1.4%
CGFA						2-Oct-06

PENSION

The Financial Condition of the Metropolitan Water Reclamation District Retirement Fund

Dan Hankiewicz, Pension Manager

The Metropolitan Water Reclamation District Retirement Fund was established by state statute for the purpose of providing annuities and benefits for certain employees of the Metropolitan Water Reclamation District of Greater Chicago. Employees who have reached age 50 (age 55 if hired after June 13, 1997) or more with 10 or more years of service credit are entitled to receive a minimum retirement benefit. The benefit formula is 2.2% of the final average salary for each of the first 20 years of service and 2.4% for each year of service in excess of 20, up to a maximum of 80% of final average salary. Thus, an employee who retires in 2006 with 30 years of service credit and a final average salary of \$70,000 would receive a retirement annuity of \$47,600. Active MWRD employees contribute 9% of salary towards their pension.

The MWRD pension fund also offers an Alternative Plan of Additional Benefits and Contributions for District Commissioners. Under the Alternative Plan, District Commissioners are required to contribute an additional 3% of salary and are entitled to receive an annuity based on the following formula: 3% of final average salary for each of

the first 8 years of service; 4% of final average salary for the next 4 years of service; and 5% of final average salary for each additional year of service, up to a maximum of 80% of final average salary. Thus, a MWRD Commissioner who retires with 20 years of service credit and a final average salary of \$50,000 would receive a retirement annuity of \$40,000.

Public Act 92-0599 (HB 5168) provided a Modified Optional Plan for eligible members of the MWRD pension fund to enhance their retirement annuities by making optional contributions between January 1, 2003 and December 31, 2007. Under the plan, active members with at least 10 years of service credit can contribute an additional 4% of salary in order to receive an additional 1% of their final average salary in retirement, up to a maximum of 12 years (when combined with earlier purchases of optional credit) or the amount required to allow the member to reach the maximum annuity of 80% of final average salary, whichever is less. P.A. 92-0599 also implemented a "Rule of 80" which allows members to receive an undiscounted annuity at retirement if the member's age plus years of service adds up to at least 80.

Table 1, on the following page, provides a statistical overview of active employees, employee annuitants, average salary, and average retirement annuity for the last nine years.

Fiscal Year	Active Employees	Total Annuitants	Average Salary	Average Pension
1997	2,109	1,399	\$53,044	\$27,232
1998	2,144	1,424	\$55,069	\$29,431
1999	2,140	1,448	\$57,260	\$31,594
2000	2,084	1,454	\$60,907	\$34,039
2001	2,137	1,452	\$63,820	\$36,842
2002	2,067	1,489	\$66,608	\$39,335
2003	2,060	1,495	\$69,220	\$41,965
2004	2,051	1,520	\$71,360	\$44,060
2005	2,025	1,537	\$73,702	\$46,596

A nine-year history of the financial condition of the Metropolitan Water Reclamation District Pension Fund is shown in Table 2 below:

Fiscal Year	Accrued Liability	Net Assets	Unfunded Liability	Funded Ratio
1997	\$1,063.7	\$935.4	\$128.3	87.9%
1998	1,132.4	1,034.2	98.2	91.3%
1999	1,211.8	1,047.0	164.8	86.4%
2000	1,267.2	1,110.3	156.8	87.6%
2001	1,346.0	1,155.8	190.2	85.9%
2002	1,470.9	1,136.9	334.0	77.3%
2003	1,517.9	1,146.5	371.3	75.5%
2004	1,578.4	1,161.8	416.6	73.6%
2005	1,654.2	1,171.8	482.4	70.8%