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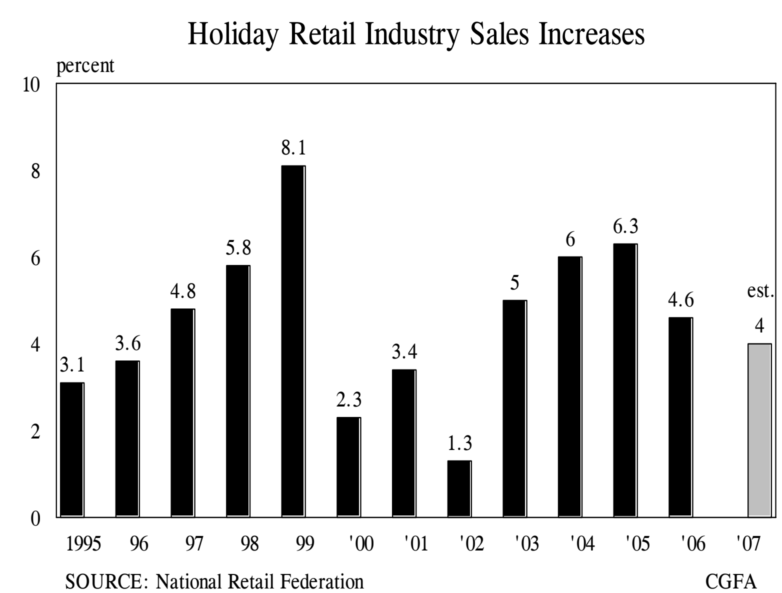
ECONOMY: Outlook For Holiday Sales

Edward H. Boss, Jr., Chief Economist

The importance of holiday sales on the economy should not be underestimated. The consumer generally accounts for two-thirds of total spending in the economy with holiday retail sales excluding auto, gas station and restaurants; accounting for about 20% of industry sales for the entire year. Sustained spending by consumers is particularly important in the current environment where fallout from the sub prime credit crisis, further deterioration from the bursting of the housing bubble, record high energy prices and sharp declines in stock prices have reduced consumer confidence levels to two-year lows.

As shown in Chart 1, the National Retail Federation (NRF) forecasts holiday sales this year to rise by 4.0%, down from last year's 4.6%; below the ten-year average of 4.8%, and the lowest gain since the 1.3% recorded in 2002 as the

CHART 1



economy was emerging from recession. At the same time, the International Council of Shopping Centers expects slightly higher sales of general merchandise, apparel, furniture, and electronics and other stores with sales up by 4.3% for the months of November and December combined, consistent with the NRF forecast.

Expectations are that sales will not be evenly distributed. According to the NRF, the internet will play an ever-increasing role, with consumers on average expected to do 30.2% of their shopping on line compared to 28.9% in 2006. Another trend that continues to dominate sales patterns is the popularity of gift cards with 53.8% of consumers wanting to receive them, making it the most sought after gift category. Other popular gifts include clothing and accessories; books, CDs, DVDs and video games with more than half requesting these items; and once again, consumer electronics or computer-related accessories.

Among retail stores, discounters are expected to see the most traffic, followed by department stores; clothing and accessory stores; and electronics stores. Discounts and promotions have increased and are being offered sooner as the holiday buying season starts earlier and earlier. For example, the NRF shows 14.3% of consumers started holiday shopping before September; 6% in September; 20% in October; an estimated 38.3% in November, and 21.4% in December. Moreover, this year there are 32 days between Thanksgiving and Christmas, which is the longest stretch possible, increasing the length of the traditional shopping season. Not shown is the effect of gift cards on sales made into the new year. Thus, the traditional holiday shopping season that customarily was thought to be between the day after Thanksgiving ending in December, now starts earlier and will last longer.

The usual holiday shopping season started out with mixed results. The number of shoppers rose 4.8% according to the NRF over the *Black Friday* weekend. *(The concept behind Black Friday is that this is the day in which retail stores have enough sales to put them "in the black" for the year - a term that alludes to the practice of recording losses in red and profits in black.)* While traffic was up strong, consumers spent 3.5% less than last year as consumers focused on lower priced door busters, whereas, last year there was greater attention to high priced HD televisions. While spending less than in the same period last year, spending was up a strong 14.8% from 2005. While some other forecasters are predicting somewhat softer sales for the holidays than the NRF, they have stuck to their forecast of a 4.0% gain in holiday sales, indicating that the consumer will still be a force in an economy that is clearly showing signs of slowing in the period ahead.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS	OCT. 2007	SEPT. 2007	OCT. 2006
Unemployment Rate (Average)	5.3%	5.1%	4.1%
Annual Rate of Inflation (Chicago)	1.4%	3.7%	4.7%

	LATEST MONTH	% CHANGE OVER PRIOR MONTH	% CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (October)	6,739	-0.3%	1.1%
Employment (thousands) (October)	6,383	-0.5%	-0.1%
New Car & Truck Registration (October)	59,753	22.0%	5.7%
Single Family Housing Permits (October)	2,150	18.1%	-30.9%
Total Exports ($ mil) (September)	4,123	-0.3%	15.8%
Chicago Purchasing Managers Index (November)	52.9	6.4%	6.0%

Temporary Funding for the Northeastern Illinois Mass Transit Funding Crisis

Lynnae Kapp, Bond Analyst

The first State temporary funding provided to the Regional Transportation Authority and the service boards it governs—the Chicago Transportation Authority, Metra rail, and Pace suburban bus service—was in September 2007. The State annually appropriates subsidies to the service boards for discount fares and paratransit operations, which is paid as a reimbursement for expenditures. To help with the transit funding crisis, the State paid upfront the total fiscal year appropriation to the RTA of $91 million for FY 2008.

The November RTA bail out was a grant of $27 million from the Transportation Bond Series B Fund. There was an existing reappropriation under the Illinois Department of Transportation in the FY 2008 budget [Article 505 Section 195] that left approximately $27 million unused. The Transportation Bond Series B Fund, which is used for mass transit and aviation appropriations, did not have the full $27 million available, therefore, bond funds were reallocated to the Transportation Bond Series B Fund from the June 2007 bond sale. The table on the following page shows the fund amounts reallocated to the Transportation Bond Series B Fund. A combined $22.4 million came from the Capital Development Fund, the Transportation Bond Series A Fund, and the Coal Development Fund. The remaining $4.6 million came from the Transportation Bond Series B Fund.

The additional state capital funds will free up allocated federal capital money that can be used at the CTA and Pace for operational needs related to preventative maintenance and paratransit operations. This has been allowed in the past and the State received Federal approval to do this again.

Reallocation of G.O. Bond Series June 2007 proceeds to Transportation Bond Series B Fund (554)

Fund #	Fund Name	Bond Proceeds	Premium	Total
0141	Capital Development Fund	$4,680,000.00	$143,787.28	**$4,823,787.28**
0553	Transportation Bond Series A	$7,200,000.00	$221,211.20	**$7,421,211.20**
0653	Coal Development Fund	$9,900,000.00	$304,165.40	**$10,204,165.40**
		$21,780,000.00	$669,163.88	**$22,449,163.88**

Note: Reallocation is allowed by statute 30 ILCS 330/12(h).

REVENUE

November Revenues Dip as Federal Sources and Transfers Weaken

Jim Muschinske, Revenue Manager

Overall receipts in November fell $26 million, as a number of sources declined from the same prior year month with federal sources experiencing the largest drop--down $41 million. While transfers also fell for the month, personal income taxes continue to buoy what otherwise has been a disappointing first half of the fiscal year. November had one additional receipting day this month.

Virtually no corporate income taxes were receipted this month, a falloff of $35 million, as the Department of Revenue is undergoing a computer system conversion. System changes should be completed by mid-December and all receipting should be caught up by month's end. Public utility taxes dropped by $25 million, other sources by $5 million, corporate franchise taxes $2 million, and vehicle use tax by $1 million.

Despite the overall drop, gross personal income taxes continue to perform quite well, up $44 million, or $39 million net of refunds. Estate settlement activity in Cook County resulted in a jump of $32 million in inheritance tax receipts. Sales tax, after suffering numerous declines in recent months, managed to post a modest $13 million gain in November. Insurance tax revenue raised $9 million, interest income $7 million, and liquor taxes $1 million.

Overall transfers fell in November, dropping $24 million. Riverboat gambling retreated by $10 million, lottery transfers eased $9 million, and other transfers dipped $5 million. As mentioned, federal sources had a relatively poor showing as receipts fell $41 million for the month.

Year to Date

Through the first five months of the fiscal year, overall base receipts were up $478 million. However, the vast majority of that gain stems from an increase in federal receipts. Excluding $303 million in federal source gains, growth in all other sources was only $175 million.

While gross personal income tax receipts continue to fare well, up $253 million, or $229 million on a net of refund basis, gross corporate income taxes are off $76 million, or $63 million on a net of refund basis. In addition, despite a minor up tick in November, sales tax receipts have continued to disappoint, falling $45 million for the year.

Some positive news came from the unexpected strength of inheritance tax $40 million, corporate franchise tax $18 million, and interest earnings $17 million. However, while lottery and riverboat transfers are up $19 million and $15 million, respectively, other transfers more than erased those gains and are down $80 million. Finally, despite the November drop off in federal sources, due to significant earlier reimbursable spending, federal sources are up $303 million for the year.

GENERAL FUNDS RECEIPTS: NOVEMBER ***FY 2008 vs. FY 2007*** ***($ million)***				
Revenue Sources	**Nov. FY 2008**	**Nov. FY 2007**	**$ CHANGE**	**% CHANGE**
State Taxes				
Personal Income Tax	$722	$678	$44	6.5%
Corporate Income Tax (regular)	0	35	($35)	-100.0%
Sales Taxes	593	580	$13	2.2%
Public Utility Taxes (regular)	78	103	($25)	-24.3%
Cigarette Tax	29	29	$0	0.0%
Liquor Gallonage Taxes	14	13	$1	7.7%
Vehicle Use Tax	2	3	($1)	-33.3%
Inheritance Tax (Gross)	66	34	$32	94.1%
Insurance Taxes and Fees	10	1	$9	900.0%
Corporate Franchise Tax & Fees	16	18	($2)	-11.1%
Interest on State Funds & Investments	25	18	$7	38.9%
Cook County IGT	56	56	$0	0.0%
Other Sources	35	40	($5)	-12.5%
Subtotal	$1,646	$1,608	$38	2.4%
Transfers				
Lottery	45	54	($9)	-16.7%
Riverboat transfers & receipts	60	70	($10)	-14.3%
Other	14	19	($5)	-26.3%
Total State Sources	$1,765	$1,751	$14	0.8%
Federal Sources	$251	$292	($41)	-14.0%
Total Federal & State Sources	$2,016	$2,043	($27)	-1.3%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($71)	($66)	($5)	7.6%
Corporate Income Tax	$0	(6)	$6	-100.0%
Subtotal General Funds	$1,945	$1,971	($26)	-1.3%
Short-Term Borrowing	$0	$0	$0	N/A
Hopital Provider Fund (cash flow transfer)	$0	$0	$0	N/A
Budget Stabilization Fund Transfer	$0	$0	$0	N/A
Total General Funds	$1,945	$1,971	($26)	-1.3%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 3-Dec-07

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2008 vs. FY 2007

($ million)

Revenue Sources	**FY 2008**	**FY 2007**	**CHANGE FROM FY 2007**	**% CHANGE**
State Taxes				
Personal Income Tax	$3,758	$3,505	$253	7.2%
Corporate Income Tax (regular)	455	531	($76)	-14.3%
Sales Taxes	3,012	3,057	($45)	-1.5%
Public Utility Taxes (regular)	429	434	($5)	-1.2%
Cigarette Tax	146	146	$0	0.0%
Liquor Gallonage Taxes	68	63	$5	7.9%
Vehicle Use Tax	15	15	$0	0.0%
Inheritance Tax (Gross)	171	131	$40	30.5%
Insurance Taxes and Fees	93	84	$9	10.7%
Corporate Franchise Tax & Fees	101	83	$18	21.7%
Interest on State Funds & Investments	103	86	$17	19.8%
Cook County IGT	71	62	$9	14.5%
Other Sources	170	163	$7	4.3%
Subtotal	$8,592	$8,360	$232	2.8%
Transfers				
Lottery	248	229	$19	8.3%
Riverboat transfers & receipts	310	295	$15	5.1%
Other	260	340	($80)	-23.5%
Total State Sources	$9,410	$9,224	$186	2.0%
Federal Sources	$2,134	$1,831	$303	16.5%
Total Federal & State Sources	$11,544	$11,055	$489	4.4%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($366)	($342)	($24)	7.0%
Corporate Income Tax	($80)	($93)	$13	-14.0%
Subtotal General Funds	$11,098	$10,620	$478	4.5%
Short-Term Borrowing	$1,200	$0	$1,200	N/A
Hospital Provider Fund (cash flow transfer)	$300	$0	$300	N/A
Budget Stabilization Fund Transfer	$276	$276	$0	0.0%
Total General Funds	$12,874	$10,896	$1,978	18.2%

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

CGFA 3-Dec-07

PENSIONS
The FY 2009 Pension Contribution
Dan Hankiewicz, Pension Manager

The five State-funded retirement systems have certified the required FY 2009 employer contributions, as shown by the shaded line in Table 1 below. Pursuant to the current pension funding statute (P.A. 88-0593), the total FY 2009 pension contribution will increase by $724.6 million over the current fiscal year. If no changes are made to the funding law before the end of FY 2009, another sizeable increase will be required in FY 2010. In FY 2011 and in each fiscal year thereafter through FY 2045, the year-over-year increases become smaller as the State will have reached the top of the pension funding "ramp" that was implemented in FY 1996 pursuant to P.A. 88-593. The "ramp" calls for contributions to increase in equal annual increments from FY 1996 through FY 2010, after which the contributions are to be made as a level percentage of payroll through FY 2045, when a 90% funding ratio will be achieved.

TABLE 1

State-Funded Retirement Systems
Funding Projections Based on Laws in Effect on June 30, 2007
($ in millions)

Fiscal Year	TRS	SURS	SERS	GARS	JRS	Total
2008	1,039.2	340.3	638.3	6.8	46.9	2,071.5
2009	**1,449.9**	**450.2**	**827.2**	**8.8**	**60.0**	**2,796.1**
2010	1,839.5	566.3	1,047.4	10.0	74.1	3,537.3
2011	1,914.8	586.9	1,087.5	10.4	77.0	3,676.6
2012	1,993.0	608.9	1,134.9	10.8	79.9	3,827.5
2013	2,075.7	632.2	1,175.5	11.3	82.6	3,977.3
2014	2,164.3	656.9	1,216.7	11.7	85.9	4,135.5
2015	2,259.7	683.2	1,259.0	12.1	89.4	4,303.4
2016	2,362.3	711.3	1,302.7	12.6	93.0	4,481.9
2017	2,471.7	740.8	1,351.4	13.0	96.7	4,673.6
2018	2,586.9	772.6	1,401.4	13.6	100.5	4,875.0

Table 2, on the following page, provides an overview of the financial condition of the State-funded retirement systems at the end of FY 2007. When compared to FY 2006 (Table 3), the assets of the State-funded retirement systems have increased by $8.4 billion, due in large part to investment returns that were much higher than anticipated. Despite strong investment returns, the accrued liabilities of the systems grew by approximately $9.8 billion, and the total unfunded liability grew by approximately $1.5 billion. The aggregate funding ratio of the five State-funded systems increased to 62.6% in FY 2007.

TABLE 2				
State-Funded Retirement Systems Financial Condition as of June 30, 2007 ($ in Millions)				
System	Accrued Liability	Assets	Unfunded Liability	Funded Ratio
TRS	$65,648.4	$41,909.3	$23,739.1	63.8%
SURS	$23,362.1	$15,985.7	$7,376.4	68.4%
SERS	$22,281.0	$12,079.0	$10,202.0	54.2%
JRS	$1,385.3	$670.1	$715.2	48.4%
GARS	$231.9	$87.1	$144.8	37.6%
Total	$112,908.7	$70,731.2	$42,177.5	62.6%

TABLE 3				
State-Funded Retirement Systems Financial Condition as of June 30, 2006 ($ in Millions)				
System	Accrued Liability	Assets	Unfunded Liability	Funded Ratio
TRS	$58,996.9	$36,584.9	$22,412.0	62.0%
SURS	$21,688.9	$14,175.1	$7,513.8	65.4%
SERS	$20,875.0	$10,900.0	$9,975.0	52.2%
JRS	$1,291.4	$599.2	$692.2	46.4%
GARS	$221.7	$82.3	$139.4	37.1%
Total	$103,073.9	$62,341.5	$40,732.4	60.5%