Commission on Government Forecasting and Accountability

703 Stratton Ofc. Bldg., Springfield, IL 62706

MONTHLY BRIEFING FOR THE MONTH ENDED: NOVEMBER 2017

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INSIDE THIS ISSUE

ECONOMY: 10-Year Anniversary of the Great Recession PART 1

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The 10th anniversary of the start of the Great Recession is quickly coming up. According to the National Bureau of Economic Research, the Great Recession lasted from December of 2007 until June of 2009. The Great Recession lasted 18 months and was the largest decline in the U.S. economy since the Great Depression. To mark this occasion, the Commission examined how Illinois' economy has fared since then. The Commission used real Gross Domestic Product (GDP) data by State to compare Illinois' economy to the Midwest and to the U.S. economy as a whole.

GDP is estimated by industry according to the North American Industry Classification System (NAICS) by the Bureau of Economic Analysis, a division of the U.S. Department of Commerce. Current dollar GDP is calculated by adding the expenditures of households on goods and services plus business investment, government expenditures, and net exports. The GDP estimates are then adjusted for inflation to arrive at a real GDP amount. The Commission compared real GDP data for 2007, which includes the peak of the previous business cycle, to the most current data which was 2016 for the broader NAIC categories and 2015 for the more detailed sub-categories.

The table on the next page shows the annual growth rate for real GDP for Illinois, the Midwest less Illinois, and the U.S. as a whole. For this comparison, the Midwest included the states of Indiana, Iowa, Kansas, Michigan, Minnesota, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin.

Based on the annual change in real GDP, it appears that Illinois may have entered the Great Recession a little earlier than the rest of the Midwest and the country as a whole. When quarterly data were examined, it confirmed that Illinois' real GDP growth rate turned negative in the first quarter of 2008, while the Midwest and the U.S. didn't show declines until the third quarter of 2008.

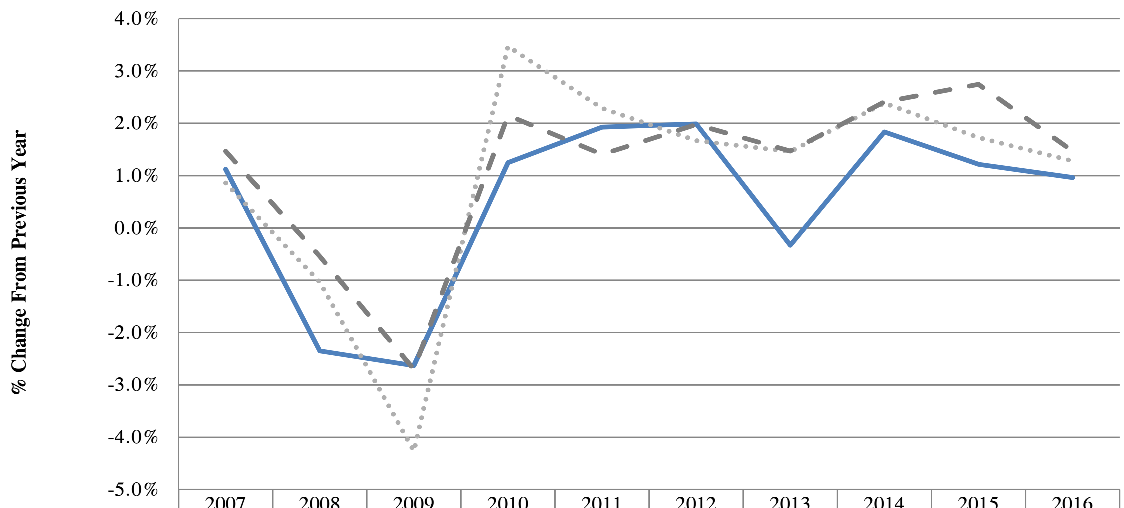
Illinois showed positive growth again in the fourth quarter of 2009, while the Midwest and the U.S. had negative growth for one additional quarter.

Looking at the annual data, Illinois showed similar growth rates to the Midwest and the U.S. in 2010 thru 2012 but deviated lower in 2013. Illinois' real GDP declined by -0.3% in 2013, while the Midwest and the country as a whole showed growth of 1.5%. Since 2013, Illinois has averaged growth 0.8% lower than the rest of the Midwest and 1.1% lower than the U.S.

The quarterly data show that the State of Illinois had four quarters of negative growth from the fourth quarter of 2012 through the third quarter of 2013. The Midwest showed one quarter of negative growth, the fourth quarter of 2012. The U.S. averaged growth of approximately 1.0% during this time and had no quarters of negative growth during late 2012 into 2013. Similar to the annual data, the quarterly data show that Illinois was consistently below the Midwest and U.S. but some individual quarters showed similar growth since 2013.

In Part 2, in next month's update, the Commission will look at the individual sectors of the Illinois economy and how they compared to the rest of the country since the Great Recession.

REAL GDP GROWTH
(2007 - 2016)



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Illinois	1.1%	-2.4%	-2.6%	1.2%	1.9%	2.0%	-0.3%	1.8%	1.2%	1.0%
Midwest less Illinois	0.9%	-1.0%	-4.3%	3.5%	2.3%	1.7%	1.5%	2.4%	1.7%	1.3%
U.S.	1.5%	-0.5%	-2.7%	2.2%	1.4%	2.0%	1.5%	2.4%	2.7%	1.5%

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS*	Oct. 2017	Sept. 2017	Oct. 2016
Unemployment Rate (Average)	4.9%	5.0%	5.8%
Annual Rate of Inflation (Chicago)	-0.4%	0.4%	1.6%

	LATEST MONTH	CHANGE OVER PRIOR MONTH	CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (Oct.)	6,424.4	0.0%	-1.3%
Employment (thousands) (Oct.)	6,107.2	0.1%	-0.4%
Nonfarm Payroll Employment (Oct.)	6,040,000	3,400	17,800
New Car & Truck Registration (Oct.)	n/a	n/a	n/a
Single Family Housing Permits (Oct.)	919	-7.5%	-17.4%
Total Exports ($ mil) (Sept.)	5,380.8	-4.1%	10.9%
Chicago Purchasing Managers Index (Nov.)	63.9	-3.5%	10.9%

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

December 2017 Bond Sale and Ratings

Lynnae Kapp, Senior Bond Analyst

BOND SALES

The State competitively sold $750 million in General Obligation bonds at the end of November 2017. The bonds were sold in two series. The December 2017 Series A of $655 million had 8 bids, obtained a true interest cost of 4.33% and mature in 2042. The December 2017 Series B of $95 million had 10 bids, received a true interest cost of 3.71% and will mature in 2027. The series A Bonds will be used for the capital program while the Series B bonds will be used for information technology projects. The tax-exempt bonds combined have an "all-in borrowing cost" of 4.29%.

Illinois sold $1.5 billion of competitively-bid November 2017 A-C General Obligation Bonds and $4.5 billion of negotiated November 2017 D General Obligation Bonds. The "combined cost of borrowing" on the two sales was 3.5%. The competitive sale received 9 bids, while over 100 orders came from institutional investors for the negotiated sale. During the time of the budget stalemate that went into July 2017, spreads on Illinois bonds were as high as 300 basis points (bp) over the AAA benchmark. After the budget was passed, spreads dropped to around 200 bp, which then again narrowed during the time of the sale of these bonds. Early year maturities of the bonds start at 70 bp over AAA, with later maturities (10-year, 11-year and 12-year) garnering spreads between 166 bp - 184 bp. The maximum 12-year maturity eased investors' minds over the $6 billion increase in debt that the bond sales represent. [*First chunk of $6 billion Illinois paper goes down easy*, The Bond Buyer, October 17, 2017; *Muni market digests Illinois' $4.5 billion whopper of a deal*, The Bond Buyer, October 25, 2017.]

BOND SALES								
DATE	BOND SALE TYPE	AMOUNT	TAXABLE v. TAX-EXEMPT	NEGOTIATED v. COMPETITIVE SALE	TRUE INTEREST COST	S&P	FITCH	MOODY'S
FY 2016								
Jan-16	General Obligation bonds	$480 million	tax-exempt	competitive	3.999%	A-	BBB+	Baa1
Jun-16	General Obligation bonds	$550 million	tax-exempt	competitive	3.743%	BBB+	BBB+	Baa2
FY 2017								
Sep-16	Build IL 2016A	$150 million	tax-exempt	competitive	2.442%	AAA	AA+	Baa2
	Build IL 2016B	$60 million	taxable					
	Build IL 2016C Refunding	$152 million	tax-exempt					
	Build IL 2016D Refunding	$187 million	tax-exempt					
Oct-16	General Obligation Refunding	$1.3 billion	tax-exempt	negotiated	3.7616% Discount Rate	BBB	BBB+	Baa2
Nov-16	General Obligation bonds	$480 million	tax-exempt	competitive	4.245%	BBB	BBB+	Baa2
FY 2018								
Nov-17	General Obligation 2017A/B/C	$1.5 billion	tax-exempt	competitive	combined 3.50%	BBB-	BBB	Baa3
Nov-17	General Obligation 2017D	$4.5 billion	tax-exempt	negotiated		BBB-	BBB	Baa3
Dec-17	General Obligation 2018A & B	$750 million	tax-exempt	competitive	combined 4.29%	BBB-	BBB	Baa3

BOND RATINGS

In June 2016, Moody's Investors Service downgraded Illinois' General Obligation Bonds and Build Illinois Bonds one level from Baa1 to Baa2, while Standard & Poor's lowered Illinois General Obligation Bonds to BBB+ from A- with a negative outlook. Throughout June of 2017, all three rating agencies threatened downgrades if the State didn't pass a budget for FY 2018. The budget-related bills, SB 6, SB 9 and SB 42, did not become law until July 6, 2017, after the General Assembly overrode the Governor's vetoes. By July 20, all three rating agencies had affirmed their current ratings on the State. Moody's and Fitch left the State's outlook as negative, while S&P has changed the State's outlook to stable. For the sale of the November 2017 $1.5 billion and $4.5 billion bonds and the December 2017 $750 million bonds, the three rating agencies again affirmed their ratings of the State.

FITCH RATINGS BBB

"A budget gap has already emerged due to changes in assumptions for both revenues and spending…The rating will be downgraded if the state returns to a pattern of deferring payments for near-term budget balancing and materially increases the accounts payable balance."

STANDARD & POOR'S BBB-

"Although the state now operates with an enacted spending plan, there is little to suggest that the cloud of dysfunction has lifted from state budget politics...In our view, this underlying fiscal imbalance represents a vulnerability that could fuel additional long-term fiscal deterioration."

MOODY'S INVESTORS SERVICE Baa3

"Factors that could lead to a downgrade: structural imbalance that leads to renewed build-up of unpaid bills following issuance of debt to pay down backlog; efforts to obtain near-term fiscal relief by reducing pension contributions in a way that exacerbates the state's long-term funding burden or indicates a lack of long-term sustainability; and difficulty managing the impacts of adverse exogenous factors, such as a national recession or a reduction in federal Medicaid funding."

ILLINOIS' GENERAL OBLIGIATION RATINGS HISTORY						
Date of	*Fitch*		*S&P*		*Moody's*	
Rating Action	*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 modifiers of Aa2 and Aa3, so it was considered one level in between AA1 and A1**

REVENUE

Bond Sale Proceeds Used to Pay Oldest Medical Bills Result in Reimbursement Surge

Jim Muschinske, Revenue Manager

Per statute, proceeds from the recent $6 billion bond sale were deposited into the Income Tax Bond Fund. Upon receipt of the bond proceeds, the Comptroller transferred $2.5 billion from the Income Tax Bond Fund into the General Revenue Fund as part of the financial plan to pay down some of the bill backlog that had grown to over $16 billion. [The remaining proceeds were moved to the Health Insurance Reserve Fund to pay down overdue State group insurance bills]. Utilizing those transferred funds for federally reimbursable spending, i.e. Medicaid resulted in a surge of federal source receipts. For the month, overall general funds receipts, not including the $2.5 billion transfer from bond sale proceeds, grew $2.519 billion. Of that gain, approximately $2.153 billion was due to federal source growth, with the remaining increase mostly reflecting the higher income tax rates. November had one more receipting day when compared to a year earlier.

Gross personal income tax receipts rose $354 million, or $330 million net of refunds and other changes enacted under P.A. 100-23. [See July briefing for further discussion of these changes]. Gross corporate income taxes not only reflected higher tax rates but also benefited greatly from last year's volatility related to the IDoR ledger accounting conversion. For the month, corporate income taxes were up $40 million, or $32 million net of refunds and other changes. Sales taxes managed to post a $54 million gain, although only a net increase of $7 million when factoring in the direct distributions to the transportation funds. Inheritance tax grew $11 million, interest earnings increased $8 million, corporate franchise taxes $5 million, insurance taxes $4 million, and both cigarette and liquor taxes managed a $1 million gain.

A few sources experienced declines in November. Other sources fell $93 million due to timing associated with proceeds from an $84 million SERS prior year overpayment received last November. [In FY 2018, it has been indicated that a similar overpayment of $103 million will be received sometime in early December]. Public utility taxes fell $9 million, while vehicle use tax dipped $1 million.

Overall transfers, excluding the $2.5 billion in bond sale proceeds, gained $70 million for the month. As described earlier, with $2.5 billion from bond sale proceeds being directed towards reimbursable spending on owed Medicaid bills, federal sources surged $2.153 billion over last year's levels.

Year To Date

Excluding $2.5 billion bond sale transfer proceeds, as well as $354 million from interfund borrowing, base general funds grew $4.489 billion during the first five months of the fiscal year. Increased income tax receipts stemming from the recently enacted higher tax rates, fund sweeps, as well as an increase in federal sources resulted in this significant gain.

Through November, gross personal income taxes are up $1.517 billion, or $1.445 billion net of refunds and other changes. Gross corporate income taxes are ahead of last year by $306 million, or $218 million net. Overall sales taxes rose $74 million; although once direct sales tax receipts diverted to the transportation funds is included, net receipts are actually down $56 million. All other smaller revenue sources posted a combined decrease of $69 million.

Overall transfers, boosted by $207 million in fund sweeps, are up by $336 million. Federal sources, reflecting exponentially higher reimbursable spending made possible by the recent bond sale, generated $2.615 billion in growth.

NOVEMBER

FY 2018 vs. FY 2017

($ million)

Revenue Sources	**Nov. FY 2018**	**Nov. FY 2017**	**$ CHANGE**	**% CHANGE**
State Taxes				
Personal Income Tax	$1,319	$965	$354	36.7%
Corporate Income Tax (regular)	42	2	$40	2000.0%
Sales Taxes	679	625	$54	8.6%
Public Utility Taxes (regular)	66	75	($9)	-12.0%
Cigarette Tax	30	29	$1	3.4%
Liquor Gallonage Taxes	15	14	$1	7.1%
Vehicle Use Tax	2	3	($1)	-33.3%
Inheritance Tax	31	20	$11	55.0%
Insurance Taxes and Fees	5	1	$4	400.0%
Corporate Franchise Tax & Fees	23	18	$5	27.8%
Interest on State Funds & Investments	11	3	$8	266.7%
Cook County IGT	56	56	$0	N/A
Other Sources	30	123	($93)	-75.6%
Subtotal	$2,309	$1,934	$375	19.4%
Transfers				
Lottery	52	51	$1	2.0%
Riverboat transfers & receipts	26	29	($3)	-10.3%
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	114	42	$72	171.4%
Total State Sources	$2,501	$2,056	$445	21.6%
Federal Sources	$2,259	$106	$2,153	2031.1%
Total Federal & State Sources	$4,760	$2,162	$2,598	120.2%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	($129)	($108)	($21)	19.4%
Corporate Income Tax	($7)	(1)	($6)	600.0%
Fund for Advancement of Education	$0	(31)	$31	-100.0%
Commitment to Human Services Fund	$0	(31)	$31	-100.0%
LGDF--Direct from PIT	($65)	0	($65)	N/A
LGDF--Direct from CIT	($2)	0	($2)	N/A
Downstate Pub/Trans--Direct from Sales	($47)	0	($47)	N/A
Subtotal General Funds	$4,510	$1,991	$2,519	126.5%
Short-Term Borrowing	$0	$0	$0	N/A
Interfund Borrowing	$0	$0	$0	N/A
Income Tax Bond Fund Transfer	$2,500	$0	$2,500	N/A
Budget Stabilization Fund Transfer	$0	$0	$0	N/A
Total General Funds	$7,010	$1,991	$5,019	252.1%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 4-Dec-17

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2018 vs. FY 2017

($ million)

Revenue Sources	FY 2018	FY 2017	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$6,782	$5,265	$1,517	28.8%
Corporate Income Tax (regular)	661	355	$306	86.2%
Sales Taxes	3,473	3,399	$74	2.2%
Public Utility Taxes (regular)	343	349	($6)	-1.7%
Cigarette Tax	147	147	$0	0.0%
Liquor Gallonage Taxes	74	73	$1	1.4%
Vehicle Use Tax	12	15	($3)	-20.0%
Inheritance Tax	133	121	$12	9.9%
Insurance Taxes and Fees	118	109	$9	8.3%
Corporate Franchise Tax & Fees	93	91	$2	2.2%
Interest on State Funds & Investments	27	11	$16	145.5%
Cook County IGT	56	56	$0	0.0%
Other Sources	165	265	($100)	-37.7%
Subtotal	$12,084	$10,256	$1,828	17.8%
Transfers				
Lottery	268	278	($10)	-3.6%
Riverboat transfers & receipts	139	138	$1	0.7%
Proceeds from Sale of 10th license	0	0	$0	N/A
Refund Fund transfer	0	0	$0	N/A
Fund sweeps	207	0	$207	N/A
Other	398	260	$138	53.1%
Total State Sources	$13,096	$10,932	$2,164	19.8%
Federal Sources	$3,492	$877	$2,615	298.2%
Total Federal & State Sources	$16,588	$11,809	$4,779	40.5%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	($665)	($581)	($84)	14.5%
Corporate Income Tax	($116)	(62)	($54)	87.1%
Fund for Advancement of Education	$0	(173)	$173	-100.0%
Commitment to Human Services Fund	$0	(173)	$173	-100.0%
LGDF--Direct from PIT	($334)	0	($334)	N/A
LGDF--Direct from CIT	($34)	0	($34)	N/A
Downstate Pub/Trans--Direct from Sales	($130)	0	($130)	N/A
Subtotal General Funds	$15,309	$10,820	$4,489	41.5%
Short-Term Borrowing	$0	$0	$0	N/A
Interfund Borrowing	$354	$0	$354	N/A
Income Tax Bond Fund Transfer	$2,500	$0	$2,500	N/A
Budget Stabilization Fund Transfer	$0	$0	$0	N/A
Total General Funds	$18,163	$10,820	$7,343	67.9%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 4-Dec-17