3-Year Budget Forecast
FY 2014 – FY 2016

Commission on Government
Forecasting and Accountability

April, 2013

Commission on Government
Forecasting and Accountability

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INTRODUCTION

As part of Public Act 0958 of the 96th General Assembly, the Commission on Government Forecasting and Accountability has been directed to **"...develop a 3-year budget forecast for the State, including opportunities and threats concerning anticipated revenues and expenditures, with an appropriate level of detail."**

This report represents the Commission's mandated 3-year budget forecast. It begins with an examination of the State of Illinois' General Funds revenues and expenditures over the last 15 years; then considers threats and opportunities to Illinois' budget; finally, it concludes with potential 3-year budget results based upon scenario analysis.

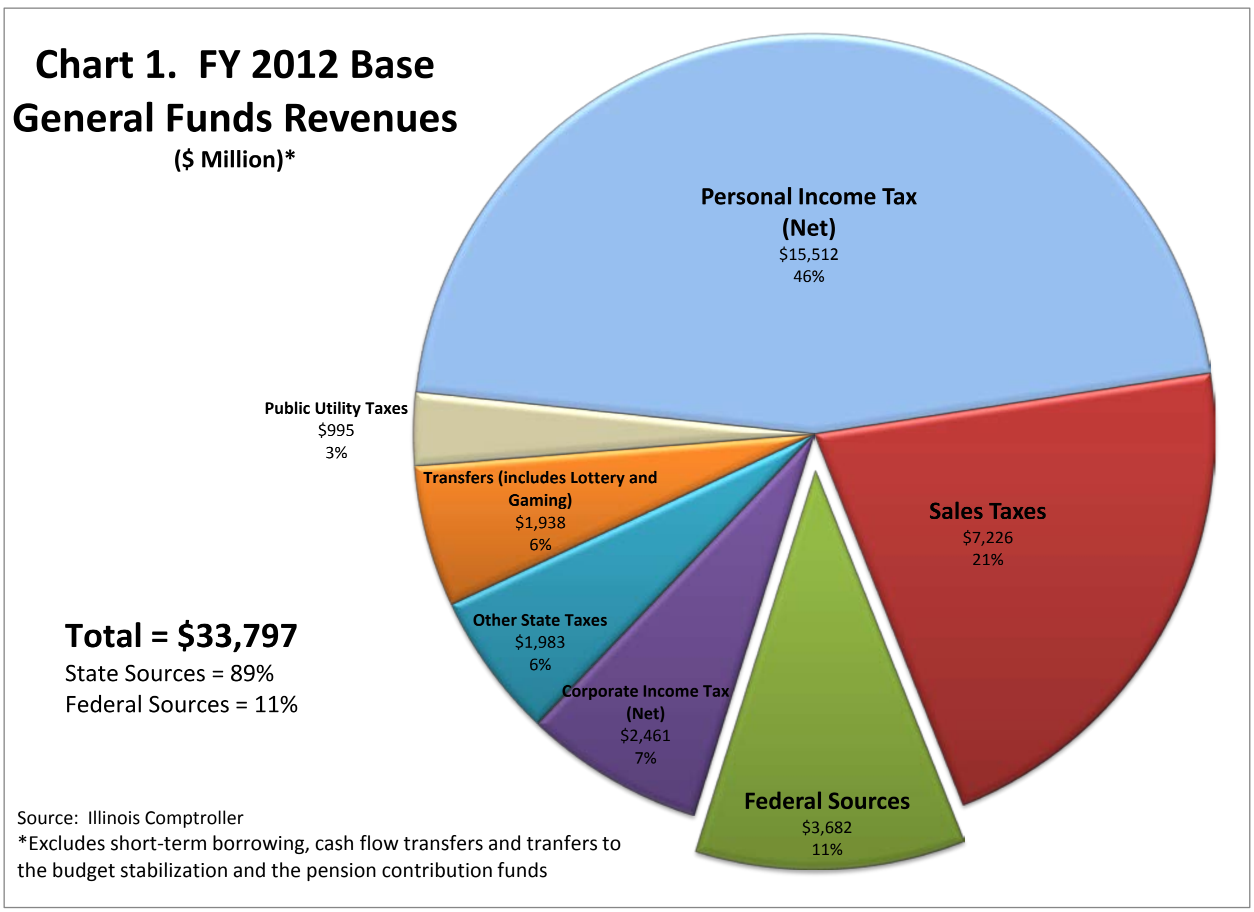
I. Illinois' Budget History

To begin analyzing Illinois' budget, an assessment of historical General Fund revenues and expenditures was conducted. The examined data was from the Illinois State Comptroller's annual report entitled "Traditional Budgetary Financial Report." The composition of base revenues and expenditures were evaluated. In addition, growth rates for both revenues and expenditures were calculated over various time periods. These assessments were then used to assist in the Commission's 3-year budget forecast.

Revenues

Base General Funds revenue totaled $33.8 billion in FY 2012. This amount excludes short-term borrowing, transfers to the budget stabilization fund and pension contribution fund, and other cash flow transfers. The largest component of base revenue came from the Personal Income Tax (Net) which equaled $15.5 billion after refunds. This amounted to 46% of total General Funds revenue. The next highest amount came from the Sales Tax which totaled $7.2 billion, or 21% of the total. Federal Sources contributed $3.7 billion (11%). The Corporate Income Tax supplied $2.5 billion. Chart 1 illustrates the make-up of FY 2012 Base General Funds revenue.

Appendix A shows historical totals for General Funds revenue from FY 2003 to FY 2012. Three sources, Personal Income Tax, Sales Taxes, and Federal Sources, annually



contributed approximately 75% of total revenue. The proportional make-up of General Funds revenue has been relatively steady over the last decade although Federal Sources, which is highly dependent on Medicaid and related reimbursement rates, rose in importance in FY 2009 and FY 2010. Federal Sources declined as expected in FY 2011 but the increase in income tax revenues due to the income tax rate increase more than made up for the drop off in Federal Sources.

Over the last decade, base General Funds revenue grew at an average rate of 3.9% per year. Of the three biggest sources, Personal Income Tax (Net) averaged the highest growth rate at 8.6%. This growth was due to the increase in the income tax rate for tax year 2011 which led to increases of over 30% in both FY 2011 and FY 2012. Sales taxes grew by an average of 1.9%, while Federal Sources rose approximately 0.3% per year. Table 1 shows growth rates for each revenue source.

When data from the late 1990's are included into the data analysis, overall revenue growth increases to 4.1%. Personal income tax grew at 7.1% per year, while sales tax receipts averaged growth of 2.6%. Federal Sources grew at a rate of 2.1% which was above its 10-year average.

TABLE 1. GENERAL FUNDS REVENUE GROWTH RATES
FY 1997 - FY 2012
($ million)*

Revenue Sources	1-Year Growth	3-Year Average	5-Year Average	10-Year Average	15-Year Average
State Taxes					
Personal Income Tax (Net)	38.2%	20.8%	12.3%	8.6%	7.1%
Sales Taxes	5.8%	2.4%	0.4%	1.9%	2.6%
Other State Taxes	6.4%	-1.9%	-2.4%	-0.8%	2.8%
Transfers (includes Lottery and Gaming)	-11.2%	7.6%	-1.7%	4.2%	4.9%
Corporate Income Tax (Net)	33.0%	16.2%	9.4%	13.5%	7.3%
Public Utility Taxes	-13.3%	-4.9%	-2.3%	-0.8%	1.1%
Total State Sources	**20.0%**	**10.8%**	**5.4%**	**5.0%**	**4.8%**
Federal Sources	**-31.6%**	**-16.8%**	**-2.3%**	**0.3%**	**2.1%**
Total, Base Revenues	**10.9%**	**5.4%**	**3.6%**	**3.9%**	**4.1%**

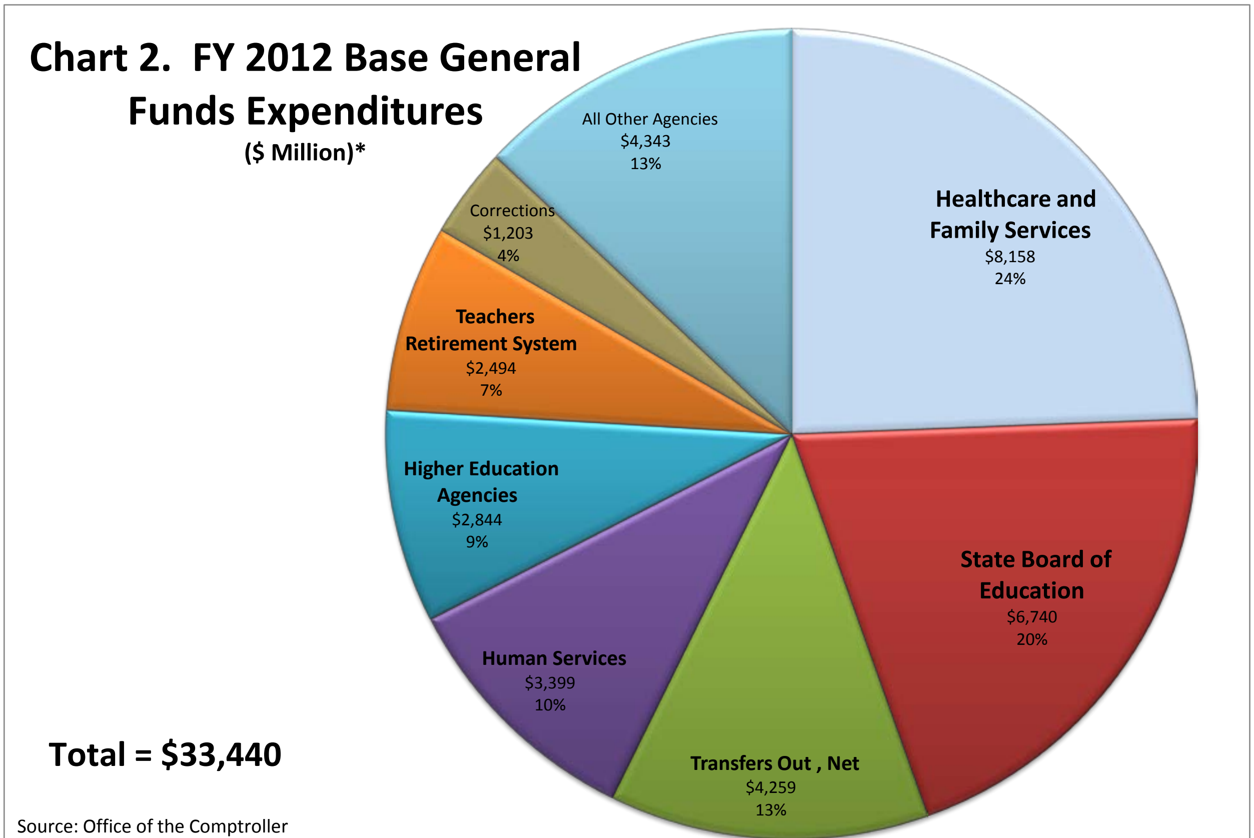
*Excludes short-term borrowing, cash flow transfers, and tranfers to the budget stabilization and the pension contribution funds

Expenditures

Base General Funds expenditures amounted to $33.4 billion in FY 2012. Base expenditures exclude short-term borrowing, transfers to the budget stabilization fund, and cash flow transfers. This was an increase of 9.6%, or $2.9 billion, from FY 2011 when base expenditures equaled $30.5 billion. Most of this increase can be accounted for by the large increase in expenditures in the Teachers Retirement System (a $2.2 billion increase), at the Department of Healthcare and Family Services ($849 million) and at the Department of Aging. Expenditures decreased by $862 million in FY 2012 for the remaining agencies.

Of the $33.4 billion in base General Funds expenditures in FY 2012, the largest portion came from the Department of Healthcare and Family Services (DHFS) which spent just under $8.2 billion. DHFS grew by $849 million, or 11.6%, in FY 2012. DHFS was followed by the State Board of Education at $6.7 billion, which was $172 million less than in FY 2012. Each of these categories made up over 20% of the total.

Transfers Out (net) made up $4.3 billion or 13% of total expenditures. The Department of Human Services (DHS) spent $3.4 billion. Expenditures by DHS were down $495 million, or -12.7%, in FY 2012. Higher Education Agencies and the Teachers Retirement System had expenditures of $2.8 billion and $2.5 billion. Appendix B highlights base expenditures for the last 10 fiscal years.



Source: Office of the Comptroller
*Preliminary data through November 2012, excludes short-term borrowing, cash flow transfers, repayment of interfund borrowing, and tranfers to the budget stabilization fund

Total General Funds base expenditures grew by 9.6% in FY 2012 but have averaged only 0.8% over the last three years. The 5-year and 10-year growth rates are 3.5% and 3.2% respectively. When you analyze total base expenditures over a 15-year period the rate increases to 6.6% as the average includes large spending increases that occurred in the late 1990's and early 2000's.

DHFS and ISBE, the two largest agencies in FY 2012, grew at an average of 6.2% and 2.6% per year respectively over the last decade. The Department on Aging has averaged expenditure growth of almost 12% over the last five years. Table 2 contains year-over-year percentage changes by agency over different time periods during the past fifteen years.

The Department on Aging stands out as one of the fastest growing expenditures at almost 12% per year over the last 5-years. Expenditures at the Teachers Retirement System grew over 800% in FY 2012. This huge, one-year growth led to the 10-year and 15-year averages to 85.3% and 62.9%. If FY 2012 was excluded, these two rates would have equaled -2.3% and 4.9% respectively.

TABLE 2. GENERAL FUNDS EXPENDITURES GROWTH RATES
FY 1997 - FY 2012*

WARRANTS ISSUED	1-Year Growth	3-Year Growth	5-Year Growth	10-Year Growth	15-Year Growth
BY AGENCY					
Healthcare and Family Services	11.6%	-3.9%	2.2%	6.2%	4.4%
State Board of Education	-2.5%	-2.9%	0.9%	2.6%	4.0%
Human Services	-12.7%	-6.3%	-2.4%	-0.6%	n/a
Higher Education Agencies	32.5%	7.3%	5.5%	1.3%	3.0%
Corrections	-0.2%	-2.5%	1.7%	-0.1%	2.6%
Children and Family Services	-4.0%	-3.8%	1.2%	-0.9%	-0.9%
Aging	13.2%	11.2%	11.9%	n/a	n/a
Teachers Retirement System**	874.2%	254.0%	167.2%	85.3%	62.9%
All Other Agencies	28.0%	12.8%	7.9%	0.7%	0.0%
Prior Year Adjustments	300.0%	116.9%	75.6%	51.6%	18.0%
Total Warrants Issued (14 months)	**14.7%**	**-0.1%**	**3.2%**	**2.8%**	**6.7%**
Transfers					
Transfers Out	-25.6%	2.1%	7.3%	14.3%	12.1%
Total, Base Expenditures	**9.6%**	**0.8%**	**3.5%**	**3.2%**	**6.6%**

* FY 2010 thru FY 2012 spending was 18 months as lapse period spending was extended 4 months

** Teacher Retirement System expenditure growth rates are extemely high due to FY 2012 growth of over 874% excluding FY 2012, the 10-Year and 15-Year growth rates would have been -2.3% and 4.9%.

II. Threats and Opportunities

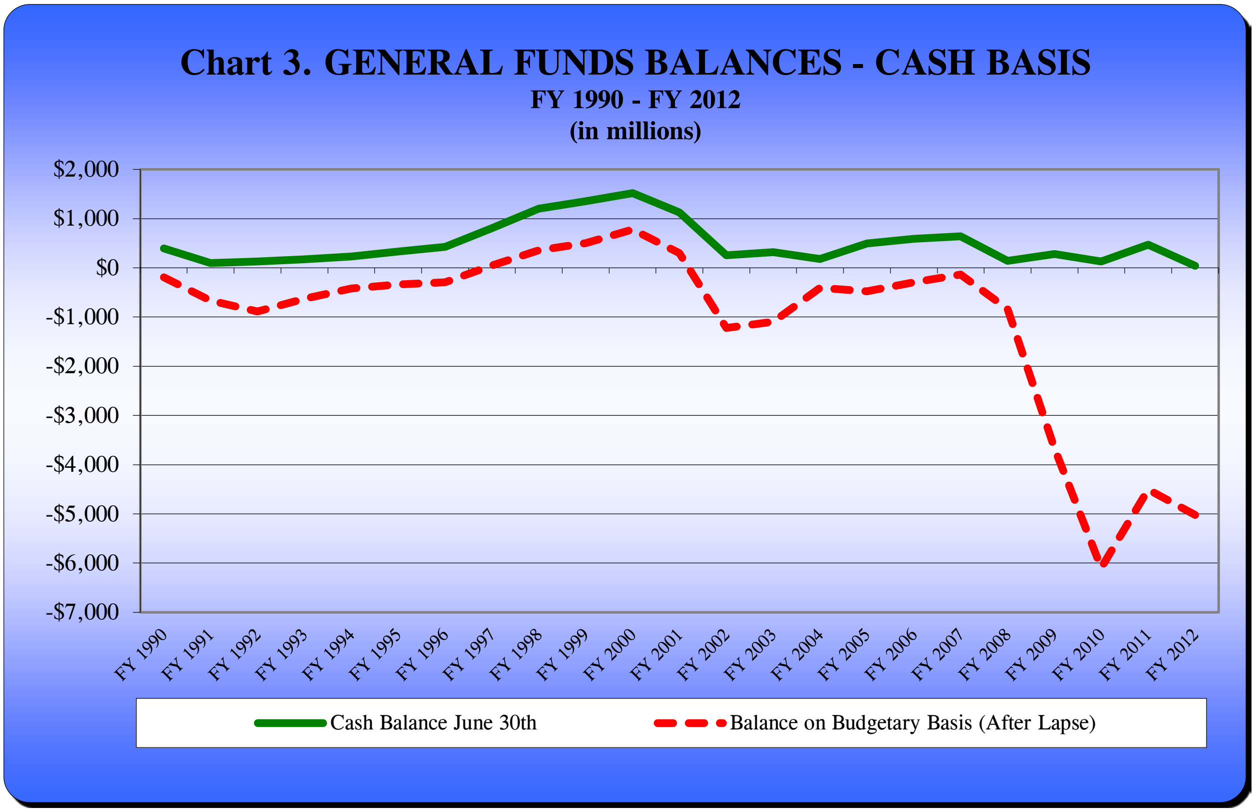
The Commission's economist has reported that we are approaching the fourth year of an economic recovery period that has been defined as the weakest in the post-World War II period following the longest recession on record. With the economic growth rate lingering around 2% and unemployment hovering at 9.5% in the State (as of February 2013, per Illinois Dept. of Employment Security), it is likely Illinois will continue to see only modest economic improvements throughout the coming year. While the economic condition is not necessarily declining, the slow growth rate has magnified other budgetary pressures that have been elevated to unprecedented levels of importance. This has consequently become a fiscal threat that will continue to loom until the economy picks up, employment improves, and various budgetary pressures are dealt with.

Backlog of Payables

In February, the Comptroller estimated the State's backlog of unpaid bills, as of December 2012, to be $9.0 billion. This includes $6.9 billion that was received by the Comptroller as well as $2.1 billion which agencies were still holding. The bills currently waiting for payment by the Comptroller represents an increase of $2.6 billion, or 60%, compared to December 2011. From an alternative view, it would take 20.5% of the current fiscal year's estimated revenues in order to eliminate the existing backlog. The Comptroller further projected the FY 13 end of year backlog to be over $500 million higher than the end of the previous fiscal year. This ever increasing backlog is a substantial threat to Illinois' fiscal health. As the backlog builds, vendors and providers that are not being paid in a timely manner are exhausting their operating reserves and in some instances obtaining loans in order to meet their payrolls and keep their doors open. Those vendors and providers that do not have these options have been forced to take more drastic measures including laying off employees and even closing their doors in some cases. In February 2013, the Civic Federation released an analysis indicating that the State's backlog could multiply to $21.7 billion by FY 2018, unless pension costs are curbed and Medicaid is expanded thus allowing Illinois to collect additional federal funding.

Cash Balance

An analysis of the end of fiscal year cash balance, including lapse period spending, is an indicator of the State's fiscal health. Most recently in FY 12, Illinois ended the year with only $40.0 million on hand. During the lapse period (technically in FY13) an additional $5.064 billion was spent, thus resulting in a balance of -$5.024 billion. Consequently, 17% of the $29.3 billion which was appropriated for FY 13 expenses was utilized to satisfy previous fiscal year obligations. Below is a chart depicting Illinois' cash balance, including lapse period spending, since 1990.



	Cash Balance June 30th	Lapse Spending	Balance on Budgetary Basis (After Lapse)
FY 1990	$395	$586	($191)
FY 1991	$100	$766	($666)
FY 1992	$131	$1,018	($887)
FY 1993	$172	$802	($630)
FY 1994	$230	$652	($422)
FY 1995	$331	$672	($341)
FY 1996	$426	$718	($292)
FY 1997	$806	$761	$45
FY 1998	$1,202	$846	$356
FY 1999	$1,351	$848	$503
FY 2000	$1,517	$740	$777
FY 2001	$1,126	$826	$300
FY 2002	$256	$1,476	($1,220)
FY 2003	$317	$1,411	($1,094)
FY 2004	$182	$592	($410)
FY 2005	$497	$971	($474)
FY 2006	$590	$881	($291)
FY 2007	$642	$777	($135)
FY 2008	$141	$975	($834)
FY 2009	$280	$3,953	($3,673)
FY 2010	$130	$6,224	($6,094)
FY 2011	$469	$4,976	($4,507)
FY 2012	$40	$5,064	($5,024)

State Prompt Payment Act

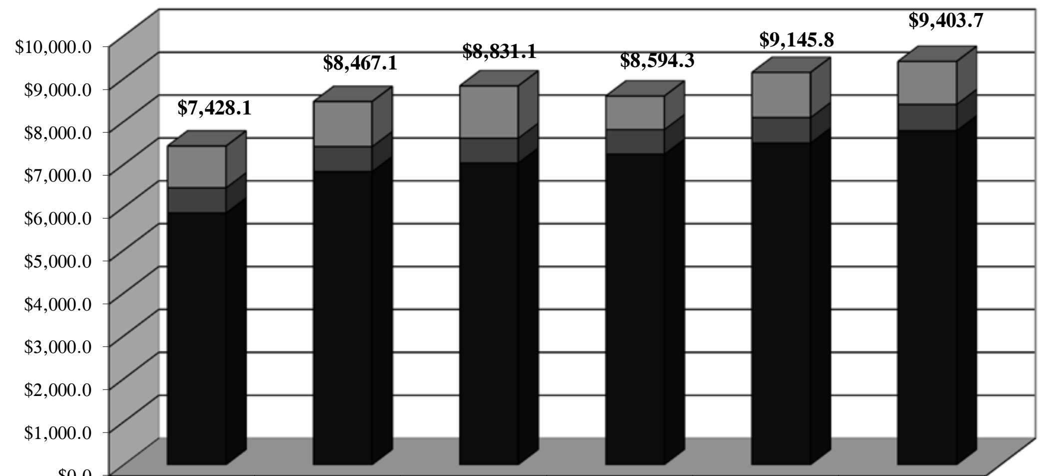
A consequence of such a significant backlog is the interest that the State is required to pay vendors when bills are not paid within 90 days, pursuant to the State Prompt Payment Act (30 ILCS 540). During the last ten fiscal years, the State has paid a total of $265.6 million in interest on past due bills. Of this, $256 million, (96%), has been paid throughout the last five years. A total of $86.3 million was paid in the most recently completed fiscal year, 2012. As the payment cycle is extended and the backlog increases, the interest liability will continue to increase accordingly, instead of these funds being available to support operational and programmatic budgetary needs.

State Pension Liability

The current unfunded pension liability remains an imminent threat to the fiscal and economic health of Illinois. The uncertainty of the possibility of any prolific and constructive pension reform measures portrays only grim conditions and forecasts for the coming budget years. The FY 14 certified contribution appropriation for the five retirement systems is a combined $6.8 billion. This is an increase of $965 million, or 16.4% compared to the current fiscal year. Under current law, estimated payments in fiscal years 2015 and 2016 are $7.0 billion and $7.2 billion, respectively. The FY 15 estimated payment is an increase of $200 million, or 3% over FY 14. The increase in FY 16 is an additional $204.7 million (3%). Due to the statutorily required annual increases, the current pension payments that comprise a disproportionate total of annual expenditures would consume any proceeds derived from any new recurring revenue sources, thus minimizing the ability to make substantial efforts to improve both the budgetary and economic positions of the State. Until annual pension liabilities are addressed, attempting to implement improvements in other areas of the budget will prove to be an ongoing challenge.

CHART 4. STATE RETIREMENT SYSTEMS
Projected Total State Pension Cost
Based on Laws in Effect on June 30, 2012
FY 2013 - FY 2018

($ in Millions)



	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
2010/11 Debt Service	$974.6	$1,051.6	$1,219.3	$781.9	$1,052.2	$1,003.9
2003 POB Debt Service	$586.4	$582.5	$578.6	$574.5	$595.2	$614.7
Regular Contribution	$5,867.1	$6,833.0	$7,033.2	$7,237.9	$7,498.4	$7,785.1

Medicaid Eligibility Expansion

A potential opportunity for Illinois would be the passage of legislation to expand Medicaid eligibility to mirror that in the Affordable Care Act (ACA). The legislation would allow Illinois to capture additional federal matching funds. Such legislation was introduced and passed in the Senate (SB 26) in February 2013. Should the House follow suit and the Governor ultimately sign the bill, the federal government will reimburse Illinois for 100% of the costs of covering the newly eligible enrollees (approx. 342,000) through 2017, after which the reimbursement rate declines incrementally, but remains at 90% after 2020. Initial estimates from the Administration and the Department on Healthcare & Family Services, based on the bill as it passed the Senate, include Illinois collecting $1.1 billion in federal funds the first year and approximately $4.6 billion in the first three years of the expansion. DHFS estimates the total cost of the program through 2020 to be $12.7 billion. Illinois' portion of this cost would be $573 million, or 4.7% of the total. Current funding for state expenditures pertaining to mental health, substance abuse treatment, HIV/AIDS drugs, breast and cervical cancer screenings, and costs associated with the Children's Health Insurance Plan which is being eliminated, could be reallocated due to $105 million in federal funding that would support such expenses per the ACA. While the expansion would increase federal matching funds for individuals that qualify for Medicaid even without the expansion, as a result, it would reduce Illinois' non-Medicaid health care spending on poor, uninsured residents who would receive Medicaid under the expansion. Proponents, including Families USA, have advocated the expansion would create 19,800 jobs in 2016. If lawmakers opt to expand eligibility with the aforementioned provisions set forth in SB 26, the reverberations have the potential to reduce budgetary pressures while strengthening the local and state economies through increased employment numbers, tax revenues, and consumer spending. Alternatively, opponents of the expansion argue that low reimbursement rates and long payment delays in Illinois' Medicaid program have forced some providers to discontinue providing services to Medicaid patients. They contend that adding additional participants would only worsen the problem. Opponents also claim that a large number of the newly eligible individuals currently have private coverage, but could be forced to join Medicaid under the exchange's automatic enrollment procedures.

General Obligation Bond Rating

The plausible threat of a decrease in the State's bond rating was indicated in the Commission's FY 2013-2015 3-Year Budget Forecast. This has since transpired and become reality as Standard & Poor's lowered the State's rating for the second time in six months. In January 2013 the rating was lowered from A to A-, with a negative outlook. This most recent downgrade resulted in the postponement of the January 2013 sale of $500 million in General Obligation Bonds. However, on April 2, 2013 the State successfully sold $800 million of G.O. Bonds. The proceeds will provide financing for transportation projects, as well as school construction and other projects included in the Illinois Jobs Now capital program that had previously been deferred due to a lack of funding. Such funding is also expected to provide needed jobs, which in turn would increase employment and income tax revenues as well as the potential to positively impact consumer spending. Currently, all three rating services have Illinois listed as a 'negative watch' with the potential for further future downgrades should Illinois' fiscal condition continue to worsen. This is a definite threat to Illinois' fiscal health and economy. Issues such as pension reform, the expiration of the temporary income tax increase, potential revenue enhancements, and the status of the backlog of outstanding payables will be the focus of the rating agencies when considering future ratings. It should be noted that S&P has indicated that should Illinois achieve pension reform that lowers liabilities and associated costs to the state, and takes credible actions to achieve a structural budget balance over the two-year outlook horizon, there is a possibility of Illinois' outlook being revised to 'stable'.

TABLE 3. ILLINOIS GENERAL OBLIGATION BOND RATINGS

RATING AGENCIES	Mar-Jul 2009	Dec 2009	Mar-Apr 2010	June 2010	Jan 2012	Aug 2012	Jan 2013
Fitch Ratings	A	A	A-/A+*	A	A	A	A
Standard & Poor's	AA-	A+	A+	A+	A+	A	A -
Moody's	A1	A2	A2/Aa3*	A1	A2	A2	A2

*Fitch and Moody's recalibrated their Municipal Bond ratings to be on a scale with their global ratings, thereby moving Illinois up to A+ and Aa3, respectively. These are NOT considered upgrades.

Expiration of Individual/Corporate Income Tax Increases

In January 2011, PA 96-1496 increased both the individual and corporate income tax rates, however, only temporarily. The Individual Income Tax was increased from 3% to 5% in tax year 2011, but will decrease to 3.75% in 2015, and finally to 3.25% in 2025. Comparatively, the Corporate Income Tax rate increased from 4.8% to 7% in tax year 2011, but will decrease to 5.25% in 2015 and finally to the original 4.8% in 2025. Should the State allow the increases to expire according to current law, the Commission estimates the State will experience tax revenue decreases of $2.2 billion in FY 2015, $2.5 billion in FY 2016, followed by $946 million in FY 2025, and $1.2 billion in FY 2026. Without a permanent revenue source to replace this funding, the State will most likely be looking to one-time, short-term revenue solutions to balance the budget. There have been some proposals to extend or make the higher tax rates permanent. If tax increases were made permanent and a portion dedicated to reducing the backlog of unpaid bills, Illinois could start progressing toward an actual balanced budget.

TABLE 4. INDIVIDUAL AND CORPORATE NEW TAX REVENUES UNDER P. A. 96-1496 (SB 2505) AS COMPARED TO PREVIOUS LAW

$ in millions

Denotes Transition Years of Scheduled Rate Reductions

Fiscal Year	Total New Revenues	Amount to Refund Fund	Net Revenues from Personal Tax Increase	Net Revenues from Corporate Tax Increase	Total New Net Revenues from Tax Increases
FY 2011	$2,706	$254	$2,288	$164	$2,452
FY 2012	$8,407	$847	$6,512	$1,048	$7,560
FY 2013	$8,321	$868	$6,313	$1,140	$7,453
FY 2014	$8,482	$883	$6,458	$1,141	$7,599
FY 2015	$5,993	$617	$4,707	$669	$5,376
FY 2016	$3,182	$322	$2,619	$241	$2,860
FY 2017	$3,091	$311	$2,593	$188	$2,781
FY 2018	$3,162	$318	$2,652	$192	$2,845
FY 2019	$3,235	$325	$2,713	$197	$2,910
FY 2020	$3,310	$333	$2,776	$201	$2,977
FY 2021	$3,386	$340	$2,840	$206	$3,045
FY 2022	$3,464	$348	$2,905	$211	$3,115
FY 2023	$3,543	$356	$2,972	$215	$3,187
FY 2024	$3,625	$364	$3,040	$220	$3,260
FY 2025	$2,573	$259	$2,156	$158	$2,314
FY 2026	$1,244	$122	$1,103	$18	$1,121

Note: The income tax increase became effective January 1, 2011. The estimates include the impact from the suspension of the N.O.L Deduction (FY 2012 thru FY 2014) and the limited reinstatement of the deduction (from P.A. 97-0636), but does not include any other impacts from P.A. 97-0636 AND P.A. 97-0652. The Commission assumes the FY 2013 refund percentages of 9.75% (personal) and 14.0% (corporate) for FY 2013 and thereafter. ESTIMATES AS OF FEBRUARY 2013.

State Employees Group Health Insurance Premiums

Changes to the administrative rules as they pertain to the cost of premiums paid by active and retired participants of the State Employees Group Health Insurance Program would have a positive impact on the State budget, should such an agreement be reached and rules be approved. The Commission noted in the Liabilities of the State Employee's Group Health Insurance Program report, issued March 2012, that the total cost for retiree health insurance coverage in FY 2013 was projected to be $710.1 million, with retirees' contributing $25.8 million (3.6%). Similarly, the State's cost for an active employee was projected to be $973 million, while the employee's contributing $100.7 million (10.3%). As of March 2013, the Dept. of Central Management Services (CMS) issued preliminary estimates for fiscal year 2014 that would result in a cost savings to the State due to retirees and employees assuming a greater portion of the total cost of their premiums. The preliminary estimate of the total FY 14 cost for retirees is $758.7 million, with the retirees contributing $77.9 million (10.3%). Likewise, the total cost for active employees is estimated to be $939.7 million, with the employees contributing $159.5 million (17%). Overall, the FY 13 net cost to the state for retirees and active employees was $684 million and $872 million, respectively. The FY 14 estimates reflect a savings to the State of $3.2 million (less than 1%) for retirees and a savings of $93 million (10.6%) for active employees. If dependent costs are included, the State's cost for retirees increases $3.8 million (less than 1%), but the cost for active employees decreases $97.2 million (6.75%). The overall cost per enrollee is estimated to increase $472.00 (6.6%) from $7,212 in FY 13 to $7,684 in FY 14 (assuming FY 13 enrollment figures). It should be noted that FY 14 estimates provided by the Department of Central Management Services are preliminary and subject to change as the agreement and contracts are finalized. While the State will undoubtedly realize savings due to the increased responsibility by retirees and active employees, the ever-increasing cost of services will likely continue to overshadow the proactive measures taken by the State as cost savings measures.

Gaming Expansion

In recent years legislation has been proposed to increase various forms of gaming in Illinois. These expansion proposals, having met with resistance from the Governor, have not become law. While gambling proponents advocate that such an expansion would bring in substantial additional revenues for the State, it should be noted that the majority of new revenues would be one-time occurrences and would definitely not be realized during the first or even the second year of implementation. Nevertheless, the one-time revenues, which are attributed to the sale of the additional license(s) and positions, fees, and reconciliation payments, would have a positive impact on Illinois' budget pressures.

Hydraulic Fracturing

Hydraulic Fracturing, otherwise known as 'fracking', has become a contentious topic among lawmakers. It is a multi-faceted issue that appears to have just as many proponents as there are opponents. Not only do issues pertain to potential revenues that could be generated for Illinois, but there are also environmental and public safety concerns. In addition, opposing legislation has been introduced which would place a moratorium on hydraulic fracturing until more information can be collected. However, if a proposal successfully makes it through the General Assembly and becomes law, there are revenue opportunities and economic benefits that Illinois would profit from.

State of Illinois Economic Forecast

In January 2013, Moody's Analytics released the State of Illinois Forecast Report. This report provides a comprehensive economic outlook for Illinois in 2013 in various economic and industry sectors. The report concluded that Illinois' recession was more severe than the nation's and it has been slower to recover. Illinois has been among the Midwest's weakest and is underperforming the nation in most economic gauges. However Moody's did determine that much of Illinois' underperformance is attributed to its comparatively weak housing market and poor state finances. Manufacturing, though, has been a stronger force in the recovery process. The report further analyzes the long term outlook while noting both positive and negative factors as they relate to specific regions and various business sectors of the economy. The entire report is available for download on the Commission's website (www.ilga.gov/commission/cgfa2006/home.aspx).

III. 3-Year Budget Forecasts

Below is the Commission's 3-year estimate for base General Funds revenues. Base General Funds revenue is estimated to be $34.3 billion in FY 2013, $35.1 billion in FY 2014, $33.4 billion in FY 2015, and $31.5 billion in FY 2016. The Income Taxes and Sales Taxes continue to be the largest sources of revenue along with Federal Sources. Base revenues are expected to grow 2.3% in FY 2014 mainly due to moderate growth in the main revenue sources. Revenue growth is estimated at -4.7% and -5.7% in FY 2015 and FY 2016. The significant decreases in revenues in FY 2015 and FY 2016 are due to the scheduled reduction in income tax rates that is required by current law.

The Commission used these revenue estimates to present various budget scenarios using different spending levels as spending will change based upon priorities that will be determined during budget negotiations. Eight budget scenarios were analyzed using

TABLE 5. CGFA ESTIMATES FY 2012-FY 2015 (Base Revenues)

(millions)

Revenue Sources	Actual FY 2012	CGFA FY 2013 Estimate Feb-13	CGFA FY 2014 Estimate Feb-13	CGFA FY 2015 Estimate Feb-13	CGFA FY 2016 Estimate Feb-13
State Taxes					
Personal Income Tax	$17,000	$17,325	$17,713	$16,002	$13,948
Corporate Income Tax	$2,983	$3,200	$3,391	$2,893	$2,493
Sales Taxes	$7,226	$7,265	$7,348	$7,495	$7,664
Public Utility (regular)	$995	$1,030	$1,032	$1,032	$1,032
Cigarette Tax	$354	$355	$355	$355	$355
Liquor Gallonage Taxes	$164	$164	$165	$166	$168
Vehicle Use Tax	$29	$27	$27	$26	$26
Inheritance Tax (gross)	$235	$260	$210	$200	$200
Insurance Taxes & Fees	$345	$350	$350	$355	$360
Corporate Franchise Tax & Fees	$192	$199	$203	$206	$209
Interest on State Funds & Investments	$21	$20	$20	$30	$40
Cook County Intergovernmental Transfer	$244	$244	$244	$244	$244
Other Sources	$399	$402	$410	$418	$423
Subtotal	**$30,187**	**$30,841**	**$31,468**	**$29,422**	**$27,162**
Transfers					
Lottery	$640	$656	$669	$682	$696
Riverboat transfers and receipts	$340	$353	$356	$361	$370
Proceeds from sale of 10th license	$73	$10	$10	$10	$10
Other	$885	$758	$780	$822	$792
Total State Sources	**$32,125**	**$32,618**	**$33,283**	**$31,297**	**$29,030**
Federal Sources	**$3,682**	**$3,800**	**$4,000**	**$4,100**	**$4,200**
Total Federal & State Sources	**$35,807**	**$36,418**	**$37,283**	**$35,397**	**$33,230**
Nongeneral Funds Distribution:					
Refund Fund*					
Personal Income Tax [9.75%]	($1,488)	($1,689)	($1,727)	($1,560)	($1,360)
Corporate Income Tax [17.5%]	($522)	($448)	($475)	($405)	($349)
Total, Base Revenues	**$33,797**	**$34,281**	**$35,081**	**$33,432**	**$31,521**
Change from Prior Year Estimate		**$484**	**$800**	**($1,649)**	**($1,911)**
Percent Change		**1.4%**	**2.3%**	**-4.7%**	**-5.7%**

*The FY 2012-15 estimates based on current refund percentages at 9.75% for PIT and 14.0% for CIT.

NOTE: Totals exclude short-term borrowing, Budget Stabilization transfers, and other cash flow transfers.

Source: CGFA

different spending growth rates. These growth rates were applied to the FY 2013 spending base of $34.4 billion as indicated in the Governor's FY 2014 Budget Book. No debt restructuring was assumed in any scenario.

The first growth rate scenario was annual declines in spending of -4.178% which is the rate at which the cumulative surplus/deficit would equal $0 at the end of the three years. The second rate was annual declines of -2%. The third scenario looked at was annual declines of -1%. The fourth scenario was 0.0% or flat spending. This was done to demonstrate what would happen if spending was held constant over the next three years. Scenario five had annual growth rates in spending of 1% which is still below the 10-year average. The sixth growth rate was 3.2%. The 3.2% growth rate was the 10-year average growth in base expenditures from FY 2003 – FY 2012. The next spending growth rate was 4.3% which is what typical spending increases were prior to the Great Recession. The last spending level used were the spending limits mandated by Public Act 096-1496 with flat spending growth in FY 2016 as the legislation does not have spending caps stated for that fiscal year.

As part of Public Act 096-1496, spending limits were put into place for General Revenue fund expenditures for Fiscal Years 2012 – 2015. The spending limits rose significantly in FY 2012 and then limit growth to 2% per year. If spending is higher than the set limits in any fiscal year, the increase in the income tax rate would revert back to the old rates that were in effect prior to Public Act 096-1496.

Scenario Analysis Results

Results of the various budget scenarios can be found in Table 6. Table 6 contains revenues, spending, operating surplus/deficit, and cumulative surplus/deficit information for each scenario. The cumulative surplus/deficit data assumes a cumulative deficit of -$5.1 billion at the end of FY 2013.

No scenario analyzed resulted in a cumulative surplus over the three years analyzed. This was due to the scheduled lowering of the income tax rates under current law which will significantly lower the expected amount of revenue in FY 2015 and FY 2016. The first scenario analyzed (annual declines of -4.178%) would get the Budget Basis Fund Balance (Deficit) at the end of the fiscal year to zero by the end of FY 2016. This column is described as cumulative surplus/deficit in Table 6. This scenario saw surpluses in all three years ranging from $1.2 billion to $2.0 billion. Base expenditures would be reduced to $30.3 billion in this scenario.

The second scenario (annual declines of -2%) would have operating surpluses of $1.3 billion and $364 million in fiscal years 2014 and 2015 but would run a deficit of -$885 million in FY 2016. The cumulative deficit would shrink to -$3.4 billion in FY 2015 but grow again to -$4.3 billion in FY 2016.

Scenario 3 (-1% annual decline in base expenditures) has a surplus of just under $1 billion in FY 2014 but suffers deficits of -$314 million and almost -$1.9 billion in fiscal years FY 2015 and FY 2016. The cumulative deficit rises to just over -$6.3 billion under this scenario. Scenarios using decreases in annual growth are shown to demonstrate the range of possibilities in relation to expenditures but remain unlikely as total base expenditures have only decreased twice (FY 2003 and FY 2010) over the last 18 years.

Scenario 4 examines the results if spending is held constant at FY 2013 levels ($33.4 billion). This led to a surplus in FY 2014 ($650 million), a deficit (-$1.0 billion) in FY 2015, and an even larger deficit (-$2.9 billion) in FY 2016. A cumulative deficit of -$8.4 billion was forecast after FY 2016.

When scenarios where expenditures were assumed to grow were analyzed, years of surplus were basically nonexistent and the annual and cumulative deficits grew quickly. Scenario 5 assumed a small increase in expenditures of only 1% per year. This is well below the 10-year average of 3.2% growth. Under this scenario, there was a modest surplus of approximately $300 million in FY 2014 but billions of dollars in deficits in FY 2015 and FY 2016. By FY 2016 the annual deficit was just under $4 billion and the cumulative deficit had grown to over $10 billion.

Scenario 6 uses the 10-year average growth in spending of 3.2%. Spending at this level leads to three years of continued deficits. Under this scenario, the annual deficit is expected to grow to a little over -$450 million in FY 2014, to grow worse to -$3.2 billion in FY 2015, and explode to -$6.3 billion in the last year forecast. This scenario would see spending reach $37.8 billion. The cumulative deficit would increase to over -$15 billion.

Scenario 7 analyzes what the budgeting results would be if spending trends prior to the Great Recession were assumed. Annual spending growth averaged approximately 4.3% per year during the decade prior to the Great Recession. This scenario is similar to Scenario 7 in that all three years have deficits and begin somewhat moderately but expand to over -$7.5 billion per year by FY 2016. Spending would rise to over $39 billion and the cumulative deficit would grow to -$17.5 billion.

The last scenario looks at what would happen if the spending caps imposed by Public Act 096-1496 were used as the spending estimates over the next three years. Public Act 096-1496 did not specify a spending cap for FY 2016, therefore the Commission assume flat spending for that year. This scenario sees the highest levels of spending, annual deficits, and cumulative deficit. Spending would peak at over $39 billion in FY 2015 with an annual deficit of over -$5.6 billion. Conditions continue to worsen with the decrease in revenue in FY 2016, which leads to an operating deficit of over $7.5 billion in FY 2016.

The cumulative deficit would be over -$21.5 billion if these spending levels were used. This scenario ends with the largest deficit even though the increases in spending were limited to 2% per year due to a large increase in the assumed base that was written into the public act for FY 2012. The FY 2012 spending limit was $36.8 billion in the public act which was approximately $3.4 billion more than what was actually spent in FY 2012.

TABLE 6. 3-YEAR BUDGET SCENARIOS
($ million)

Scenario 1: -4.178% Annual Decline in Spending

	Revenues	Spending	Operating Surplus/Deficit	Cumulative Surplus/Deficit
FY 2013	$34,281	$34,431	($150)	($5,134)
FY 2014	$35,081	$32,993	$2,088	($3,046)
FY 2015	$33,432	$31,614	$1,818	($1,228)
FY 2016	$31,521	$30,293	$1,228	**($0)**

Scenario 2: -2% Annual Decline in Spending

	Revenues	Spending	Operating Surplus/Deficit	Cumulative Surplus/Deficit
FY 2013	$34,281	$34,431	($150)	($5,134)
FY 2014	$35,081	$33,742	$1,339	($3,795)
FY 2015	$33,432	$33,068	$364	($3,431)
FY 2016	$31,521	$32,406	($885)	($4,316)

Scenario 3: -1% Annual Decline in Spending

	Revenues	Spending	Operating Surplus/Deficit	Cumulative Surplus/Deficit
FY 2013	$34,281	$34,431	($150)	($5,134)
FY 2014	$35,081	$34,087	$994	($4,140)
FY 2015	$33,432	$33,746	($314)	($4,454)
FY 2016	$31,521	$33,408	($1,887)	($6,341)

Scenario 4: Flat Spending

	Revenues	Spending	Operating Surplus/Deficit	Cumulative Surplus/Deficit
FY 2013	$34,281	$34,431	($150)	($5,134)
FY 2014	$35,081	$34,431	$650	($4,484)
FY 2015	$33,432	$34,431	($999)	($5,483)
FY 2016	$31,521	$34,431	($2,910)	($8,393)

Scenario 5: 1% Annual Growth in Spending

	Revenues	Spending	Operating Surplus/Deficit	Cumulative Surplus/Deficit
FY 2013	$34,281	$34,431	($150)	($5,134)
FY 2014	$35,081	$34,775	$306	($4,828)
FY 2015	$33,432	$35,123	($1,691)	($6,519)
FY 2016	$31,521	$35,474	($3,953)	($10,473)

Scenario 6: 10-Year Average Growth (3.2%)

	Revenues	Spending	Operating Surplus/Deficit	Cumulative Surplus/Deficit
FY 2013	$34,281	$34,431	($150)	($5,134)
FY 2014	$35,081	$35,533	($452)	($5,586)
FY 2015	$33,432	$36,670	($3,238)	($8,824)
FY 2016	$31,521	$37,843	($6,322)	($15,146)

Scenario 7: Typical Spending prior to Great Recession (4.3%)

	Revenues	Spending	Operating Surplus/Deficit	Cumulative Surplus/Deficit
FY 2013	$34,281	$34,431	($150)	($5,134)
FY 2014	$35,081	$35,912	($831)	($5,965)
FY 2015	$33,432	$37,456	($4,024)	($9,988)
FY 2016	$31,521	$39,066	($7,545)	($17,534)

Scenario 8: Spending Caps (P.A. 096-1496)

	Revenues	Spending	Operating Surplus/Deficit	Cumulative Surplus/Deficit
FY 2013	$34,281	$34,431	($150)	($5,134)
FY 2014	$35,081	$38,305	($3,224)	($8,358)
FY 2015	$33,432	$39,072	($5,640)	($13,998)
FY 2016*	$31,521	$39,072	($7,551)	($21,549)

* P.A. 096-1496 had no spending cap enumerated for FY 2016, therefore spending was held flat.

All scenarios use GGFA revenue estimates, the FY 2013 Revised Budget as the base for spending, and a cumulative deficit of ($4,984) at the end of FY 2012.

APPENDIX A. DETAILED GENERAL FUNDS REVENUE HISTORY FY 2003 - FY 2012

($ million)

Revenue Sources	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
State Taxes										
Personal Income Tax	$7,979	$8,235	$8,873	$9,568	$10,424	$11,187	$10,219	$9,430	$12,301	$17,000
Corporate Income Tax (regular)	1,011	1,379	1,548	1,784	2,121	2,201	2,073	1,649	2,277	2,983
Sales Taxes	6,059	6,331	6,595	7,092	7,136	7,215	6,773	6,308	6,833	7,226
Public Utility Taxes (regular)	1,006	1,079	1,056	1,074	1,131	1,157	1,168	1,089	1,147	995
Cigarette Tax	400	400	450	400	350	350	350	355	355	354
Liquor Gallonage Taxes	123	127	147	152	156	158	158	159	157	164
Vehicle Use Tax	34	35	32	34	33	32	27	30	30	29
Inheritance Tax (Gross)	237	222	310	272	264	373	288	243	122	235
Insurance Taxes and Fees	313	362	342	317	310	298	334	322	317	345
Corporate Franchise Tax & Fees	142	163	181	181	193	225	201	208	207	192
Interest on State Funds & Investments	66	55	73	153	204	212	81	26	28	21
Cook County Intergovernmental Transfer	355	428	433	350	307	302	253	244	244	244
Other Sources	349	439	468	441	449	442	418	431	404	399
Subtotal	**$18,074**	**$19,255**	**$20,508**	**$21,818**	**$23,078**	**$24,152**	**$22,343**	**$20,494**	**$24,422**	**$30,187**
Transfers										
Lottery	540	570	614	670	622	657	625	625	632	640
Gaming Fund Transfer [and related]	554	661	699	689	685	564	430	431	324	413
Other	589	1,159	918	746	939	679	538	828	1,226	885
Total State Sources	**$19,757**	**$21,645**	**$22,739**	**$23,923**	**$25,324**	**$26,052**	**$23,936**	**$22,378**	**$26,604**	**$32,125**
Federal Sources	**$3,940**	**$5,189**	**$4,691**	**$4,725**	**$4,703**	**$4,815**	**$6,567**	**$5,920**	**$5,386**	**$3,682**
Total Federal & State Sources	**$23,697**	**$26,834**	**$27,430**	**$28,648**	**$30,027**	**$30,867**	**$30,503**	**$28,298**	**$31,990**	**$35,807**
Nongeneral Funds Distribution:										
Refund Fund										
Personal Income Tax	($638)	($964)	($894)	($933)	($1,016)	($867)	($996)	($919)	($1,076)	($1,488)
Corporate Income Tax	(273)	(442)	(376)	(356)	(371)	(341)	(363)	(289)	(426)	(522)
Total, Base Revenues	**$22,786**	**$25,428**	**$26,160**	**$27,359**	**$28,640**	**$29,659**	**$29,144**	**$27,090**	**$30,488**	**$33,797**
Change from Prior Year	($593)	$2,642	$732	$1,199	$1,281	$1,019	($515)	($2,054)	$3,398	$3,309
Percent Change	-2.5%	11.6%	2.9%	4.6%	4.7%	3.6%	-1.7%	-7.0%	12.5%	10.9%
Short-Term Borrowing	$1,675	$0	$765	$1,000	$900	$2,400	$2,400	$1,250	$1,300	$0
Tobacco Liquidation Proceeds	0	0	0	0	0	0	0	0	1,250	0
HPF and HHSMTF Transfers	0	0	982	0	456	1,503	0	0	0	0
Budget Stabilization Fund Transfer	226	226	276	276	276	276	576	1,146	535	275
Pension Contribution Fund Transfer	300	1,395	0	0	0	0	0	843	224	0
Total General Funds Revenue	**$24,987**	**$27,049**	**$28,183**	**$28,635**	**$30,272**	**$33,838**	**$32,120**	**$30,329**	**$33,797**	**$34,072**
Change from Prior Year	$1,382	$2,062	$1,134	$452	$1,637	$3,566	($1,718)	($1,791)	$3,468	$275
Percent Change	5.9%	8.3%	4.2%	1.6%	5.7%	11.8%	-5.1%	-5.6%	11.4%	0.8%

Source: ILLINOIS COMPTROLLER, CGFA

APPENDIX B. GENERAL FUNDS EXPENDITURES HISTORY BY AGENCY FY 2003 - FY 2012*

($ million)

WARRANTS ISSUED	FY 2003	FY 2004	FY 2005	FY 2006**	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
BY AGENCY										
Healthcare and Family Services	$5,099	$5,690	$4,990	$7,343	$7,725	$8,089	$9,556	$7,239	$7,309	$8,158
State Board of Education	5,133	5,471	5,751	6,045	6,472	6,995	7,357	7,273	6,912	6,740
Human Services	3,502	3,597	3,747	3,817	3,885	4,086	4,144	3,997	3,894	3,399
Higher Education Agencies	2,471	2,284	2,210	2,190	2,269	2,195	2,398	2,230	2,146	2,844
Corrections	1,162	1,183	1,198	1,170	1,119	1,208	1,308	1,156	1,205	1,203
Children and Family Services	824	795	754	803	771	887	906	847	840	806
Aging	0	0	331	352	421	458	537	653	646	731
Teachers Retirement System	923	805	942	610	814	1,110	1,527	914	256	2,494
All Other Agencies	2,795	2,853	2,619	1,783	2,035	2,143	2,055	2,009	2,261	2,894
Prior Year Adjustments	(15)	(48)	25	(10)	(11)	(14)	(14)	(17)	(22)	(88)
Total Warrants Issued (14 months)	**$21,894**	**$22,630**	**$22,567**	**$24,103**	**$25,500**	**$27,157**	**$29,774**	**$26,301**	**$25,447**	**$29,181**
Transfers										
Transfers Out (14 months)	2,967	2,735	5,680	4,349	4,616	7,380	5,185	6,450	6,937	5,164
Total Expenditures	**$24,861**	**$25,365**	**$28,247**	**$28,452**	**$30,116**	**$34,537**	**$34,959**	**$32,751**	**$32,384**	**$34,345**
Change from Prior Year	($264)	$504	$2,882	$205	$1,664	$4,421	$422	($2,208)	($367)	$1,961
Percent Change	-1.1%	2.0%	11.4%	0.7%	5.8%	14.7%	1.2%	-6.3%	-1.1%	6.1%
Repayment of Short-Term Borrowing	**710**	**990**	**768**	**1,014**	**11**	**1,503**	**1,424**	**2,276**	**1,322**	**0**
Cash Flow Transfers	**0**	**0**	**979**	**0**	**1,356**	**2,400**	**300**	**870**	**260**	**0**
Repayment of Interfund Borrowing	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**9**	**355**
Budget Stabilization Fund Transfers	**226**	**226**	**276**	**276**	**276**	**276**	**276**	**0**	**276**	**550**
Total, Base Expenditures	**$23,925**	**$24,149**	**$26,224**	**$27,162**	**$28,473**	**$30,358**	**$32,959**	**$29,605**	**$30,517**	**$33,440**
Change from Prior Year	($974)	$224	$2,075	$938	$1,311	$1,885	$2,601	($3,354)	$912	$2,923
Percent Change	-3.9%	0.9%	8.6%	3.6%	4.8%	6.6%	8.6%	-10.2%	3.1%	9.6%

*Data for FY 2012 is preliminary data through November 2012

**The large increase in expenditures in Healthcare and Family Services (HFS) seen in FY 2006 was due to the State's Group Insurance Program being transferred into HFS.

FY 2010 thru FY 2012 spending was 18 months as lapse period spending was extended 4 months

Source: ILLINOIS COMPTROLLER, CGFA

BACKGROUND

The Commission on Government Forecasting and Accountability (CGFA), a bipartisan, joint legislative commission, provides the General Assembly with information relevant to the Illinois economy, taxes and other sources of revenue and debt obligations of the State. The Commission's specific responsibilities include:

1) Preparation of annual revenue estimates with periodic updates;
2) Analysis of the fiscal impact of revenue bills;
3) Preparation of "State Debt Impact Notes" on legislation which would appropriate bond funds or increase bond authorization;
4) Periodic assessment of capital facility plans;
5) Annual estimates of public pension funding requirements and preparation of pension impact notes;
6) Annual estimates of the liabilities of the State's group health insurance program and approval of contract renewals promulgated by the Department of Central Management Services;
7) Administration of the State Facility Closure Act.

The Commission also has a mandate to report to the General Assembly ". . . on economic trends in relation to long-range planning and budgeting; and to study and make such recommendations as it deems appropriate on local and regional economic and fiscal policies and on federal fiscal policy as it may affect Illinois. . . ." This results in several reports on various economic issues throughout the year.

The Commission publishes several reports each year. In addition to a Monthly Briefing, the Commission publishes the "Revenue Estimate and Economic Outlook" which describes and projects economic conditions and their impact on State revenues. The "Bonded Indebtedness Report" examines the State's debt position as well as other issues directly related to conditions in the financial markets. The "Financial Conditions of the Illinois Public Retirement Systems" provides an overview of the funding condition of the State's retirement systems. Also published are an Annual Fiscal Year Budget Summary; Report on the Liabilities of the State Employees' Group Insurance Program; and Report of the Cost and Savings of the State Employees' Early Retirement Incentive Program. The Commission also publishes each year special topic reports that have or could have an impact on the economic well-being of Illinois. All reports are available on the Commission's website.

These reports are available from:

Commission on Government Forecasting and Accountability
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(217) 782-5320
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http://www.ilga.gov/commission/cgfa2006/home.aspx