

3-Year Budget Forecast FY 2017 – FY 2019



*Commission on Government
Forecasting and Accountability*

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Forecasting and Accountability

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TABLE OF CONTENTS

3-Year Budget Forecast (FY 2017 – FY 2019) April 2016

<u>Section</u>	<u>PAGE</u>
Introduction	i
I. Illinois Budget History	1
II. Threats and Opportunities	5
III. 3-Year Budget Forecasts	12

TABLES:

1	General Funds Revenue Growth Rates	2
2	General Funds Expenditures Growth Rates	4
3	Illinois' Payment Backlog	7
4	Illinois General Obligation Bond Ratings	9
5	Pension System Financial Condition FY 2015 (Assets at Actuarial Value)	10
6	Pension System Financial Condition FY 2015 (Assets at Market Value)	10
7	CGFA Estimates FY 2016 - FY 2019	12
8	3-Year Budget Scenarios	16

CHARTS:

1	FY 2015 Base General Funds Revenues	1
2	FY 2015 Base General Funds Expenditures	3
3	Projected Total State Pension Cost for State Retirement Systems	11

APPENDIX:

A	Detailed General Funds Revenue History FY2006 – FY2015	17
B	General Funds Expenditures History by Agency FY2006 – FY2015	18

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.**”

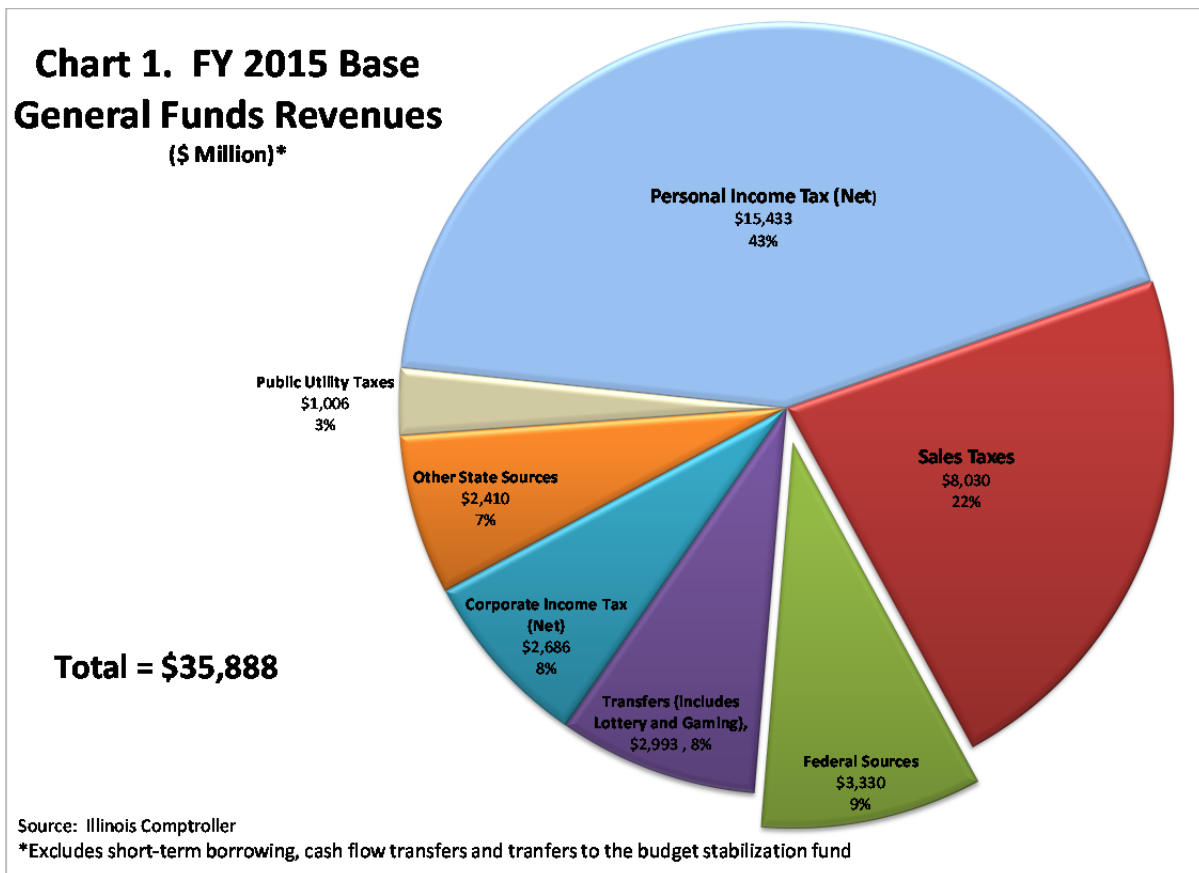
This report represents the Commission’s mandated 3-year budget forecast. It begins with an examination of the State of Illinois’ General Funds revenues and expenditures over the last 15 years; then considers threats and opportunities to Illinois’ budget; finally, it concludes with potential 3-year budget 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 \$35.9 billion in FY 2015. This amount excludes short-term borrowing and transfers to the Budget Stabilization Fund. The largest component of base revenue came from the Personal Income Tax (Net) which equaled \$15.4 billion after refunds and mandated transfers. The next highest amount came from the Sales Tax which totaled \$8.0 billion. Together, the personal income tax and sales tax make up 65% of total base general funds revenue. Federal Sources and the Corporate Income Tax were the next biggest sources of revenue at \$3.3 billion and \$2.9 billion. Chart 1 illustrates the make-up of FY 2015 Base General Funds revenue.



Appendix A shows historical totals for General Funds revenue from FY 2006 to FY 2015. Three sources, Personal Income Tax, Sales Taxes, and Federal Sources, annually contributed approximately 65% to 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, varies from about 10% to 20% of base revenues depending upon the fiscal year. Federal Sources made up over 20% of base revenues in FY 2009 and FY 2010 but have been around 10% in the last four fiscal years.

Total base revenue into the general funds has averaged growth of 3.1% per year since FY 2001. This growth was somewhat higher over the last ten years at 3.4%. Due to the temporary increase in the income taxes, the 5-year average was 5.9%. With the sunset of the temporary increase in the income taxes, total general funds revenue only averaged 2.1% over the last three years and actually declined -2.1% in FY 2015. The personal and corporate income tax rates showed a similar pattern of higher growth in the 5-year and the 10-year averages but decreased in the 3-year average and negative in FY 2015. Results for other revenue sources can be seen in Table 1.

**TABLE 1. GENERAL FUNDS REVENUE GROWTH RATES
FY 2001 - FY 2015**

(\$ million)*

<u>Revenue Sources</u>	<u>1-Year Growth</u>	<u>3-Year Average</u>	<u>5-Year Average</u>	<u>10-Year Average</u>	<u>15-Year Average</u>
<i>State Taxes</i>					
Personal Income Tax (Net)	-7.3%	0.0%	14.0%	7.9%	5.5%
Sales Taxes	4.6%	3.6%	5.0%	2.1%	2.0%
Other State Taxes	9.1%	6.7%	3.8%	0.1%	1.8%
Transfers (includes Lottery and Gaming)	41.7%	17.9%	11.6%	4.6%	6.9%
Corporate Income Tax (Net)	-15.1%	4.5%	16.5%	10.5%	7.3%
Public Utility Taxes	-0.7%	0.4%	-1.3%	-0.3%	-0.5%
<i>Total State Sources</i>	-0.8%	2.7%	9.3%	4.6%	3.8%
<i>Federal Sources</i>	-14.7%	-2.6%	-9.7%	-1.9%	0.3%
<i>Total, Base Revenues</i>	-2.3%	2.1%	5.9%	3.4%	3.1%

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

Expenditures

Base General Funds expenditures amounted to \$35.3 billion in FY 2015. This was down \$1.4 billion, or -3.7%, from the FY 2014 level of \$36.7 billion. Base expenditures exclude short-term borrowing, transfers to the budget stabilization fund, and cash flow transfers. The majority of this decrease was due to a \$767 million decrease in spending at the Department of Healthcare and Family Services (DHFS). The Illinois State Board of Education (ISBE) declined by \$136 million. The Department of Human Services was the only agency to show any significant growth, increasing \$146 million or 4.5%.

For the first time since FY 2005, DHFS was not the agency with the highest amount of expenditures. ISBE had expenditures of \$6.55 billion, while DHFS closely followed at \$6.53 billion. Both of these agencies accounted for 18% of total expenditures. Transfers out accounted for 13% of total expenditures, while the Teachers' Retirement System, the Department of Human Services (DHS), and Higher Education agencies all accounted for approximately 9% of all base general funds expenditures.

For a more detailed look at expenditures over the last decade, please see Appendix B in the back of this report.

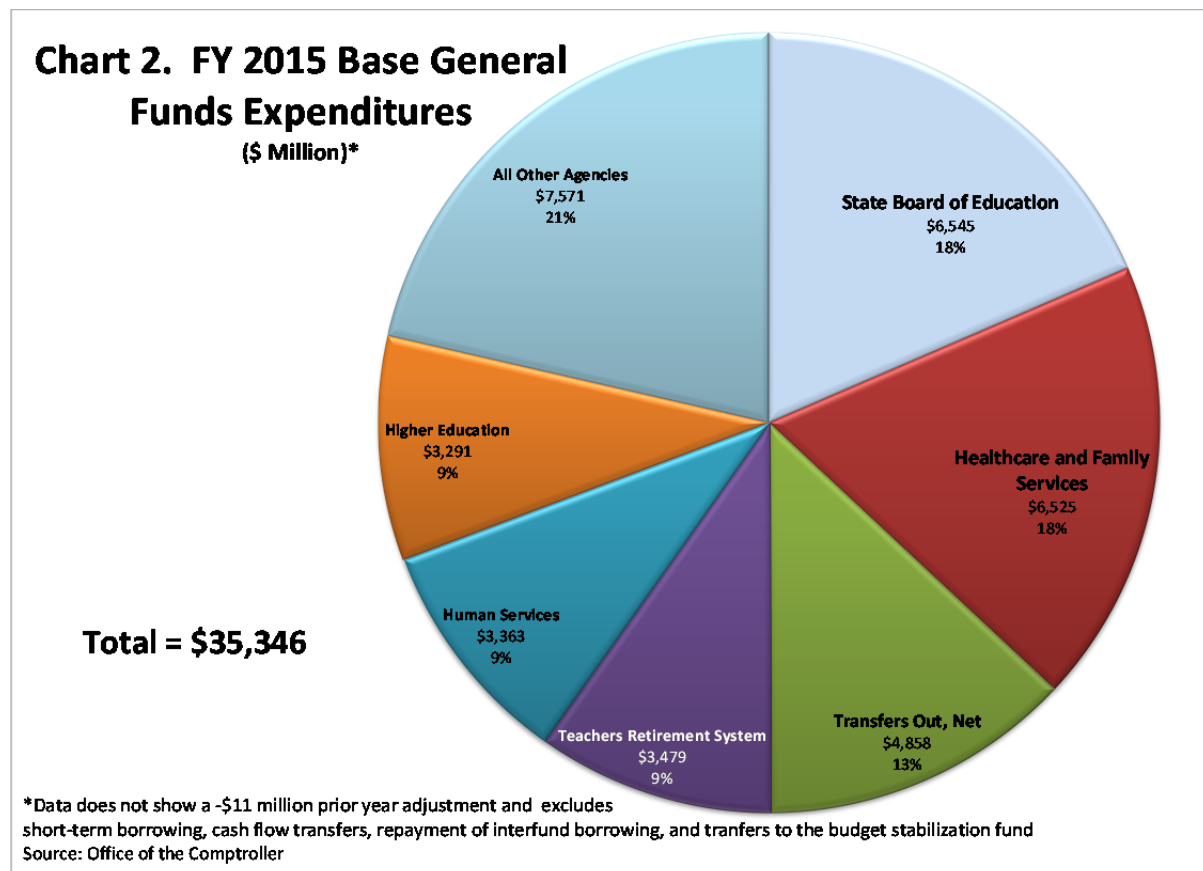


Table 2 illustrates the growth of base general funds expenditures over the last 15 years. Total expenditures declined -3.7% in FY 2015 which was well below the 10-year and 15-year averages of 3.2% and 4.9%. As mentioned previously, this decline is mostly due to a large decrease in expenditures at the Department of Healthcare and Family Services. Overall, most of the major expenditure agencies have shown slow growth or a decline in recent years. The three largest agencies, DHFS, ISBE, and DHS, have averaged growth of -1.4%, -2.1%, and -3.2% respectively, over the last five years.

The growth rates for the Teachers Retirement System (TRS) are extremely high over the various time periods. The high rates of average growth are largely due to an 874% increase in expenditures in FY 2012. This large increase was due to the use of pension notes to fund a large portion of TRS spending in FY 2010 and FY 2011. In FY 2012, the State resumed funding TRS with money from the General Funds. Excluding FY 2012, the 10-year and 15-year averages would have been -0.3% and 3.2%.

**TABLE 2. GENERAL FUNDS EXPENDITURES GROWTH RATES
FY 2001 - FY 2015**

	<u>1-Year</u> <u>Growth</u>	<u>3-Year</u> <u>Growth</u>	<u>5-Year</u> <u>Growth</u>	<u>10-Year</u> <u>Growth</u>	<u>15-Year</u> <u>Growth</u>
WARRANTS ISSUED					
<i>BY AGENCY</i>					
Healthcare and Family Services	-10.5%	-6.6%	-1.4%	4.4%	3.2%
State Board of Education	-2.0%	-0.9%	-2.1%	1.4%	2.1%
Human Services	4.5%	-0.4%	-3.2%	-0.9%	0.0%
Higher Education Agencies	-0.4%	5.2%	8.8%	4.6%	2.8%
Corrections	2.7%	2.8%	2.6%	1.1%	1.3%
Children and Family Services	-1.8%	-5.8%	-4.5%	-0.9%	-1.9%
Aging	-5.9%	9.1%	7.9%	11.3%	n/a
Teachers Retirement System*	-1.4%	12.3%	167.8%	87.1%	61.3%
All Other Agencies	1.9%	20.4%	20.4%	8.3%	5.2%
Prior Year Adjustments	<u>-81.7%</u>	<u>9.3%</u>	<u>71.5%</u>	<u>27.6%</u>	<u>24.5%</u>
Total Warrants Issued (14 months)	-2.3%	1.8%	3.4%	3.4%	4.9%
<i>Transfers</i>					
Transfers Out	-11.6%	-1.8%	-4.7%	1.4%	10.3%
Total, Base Expenditures	-3.7%	1.9%	3.7%	3.2%	4.9%

* Teacher Retirement System expenditure growth rates are extremely high due to FY 2012 growth of over 874%, excluding FY 2012, the 10-Year and 15-Year growth rates would have been -0.3% and 3.2%. This large increase was due to the return of using General Funds revenue to fund the Teacher Retirement System after mostly using pension notes in FY 2010 and FY 2011.

II. Threats and Opportunities

The Threats & Opportunities section of this report is used to highlight those issues that offer a threat, or negative outlook, or by contrast, a positive opportunity to Illinois' economic or financial condition. The issues featured are not unprecedented as they have been looming repeatedly for several years.

Moody's Analytics Illinois Economic Forecast

Moody's Analytics prepared the 2016 State of Illinois Economic Forecast Report that was recently released by the Commission in February 2016. As in previous years, Moody's noted that while Illinois' economy has strengthened over the past year, it is still the weakest of the underperforming Midwest states due to poor public sector finances, slower job growth, a manufacturing sector slump, and deteriorating demographics. However, there are positive factors to consider. Moody's predicts the state will continue to diversify into service-providing industries while guarding its more efficient and smaller manufacturing core. Northern Illinois remains the nation's rail hub, Chicago is expected to develop as the transportation and distribution center for the Midwest, and business and professional services are anticipated to drive growth. Additionally, Illinois' labor market is improving, albeit more slowly than elsewhere. Housing is expected to contribute more to growth and the economies of Chicago and Lake County are expected to account for the bulk of job and income gains this year. Moody's acknowledges that Illinois' business climate outshines its regional rivals and Illinois has the talent, access to customers and capital, and transportation system it needs to remain a top business center, provided it can solve the fiscal problems that currently hamper the progressive growth and health of the State. Moody's entire report is available for download on the Commission's website (<http://cgfa.ilga.gov>)

'Big Three' Revenue Sources

The Personal Income Tax (PIT), Corporate Income Tax (CIT), and Sales Tax are considered the 'big three' revenue sources the state collects, as they comprise approximately 70-75% of the total General Funds revenues in most years. The Commission's FY 17 estimate for these sources (\$23.3 billion) accounts for 73% of the \$31.9 billion that is projected to be collected. This is an unspectacular \$216 million increase (less than 1%) compared to the \$23.1 billion FY 16 estimate for these three sources. The FY 17 estimated total for the big three is a \$2.8 billion decrease (-10.75%) compared to FY 15 and a \$4.1 billion decrease (-15%) compared to FY 14, the last full fiscal year the higher rates of the temporary income tax increase were in place before being lowered in January 2015.

These substantial declines in revenue have unarguably contributed to the current cash flow problems being demonstrated by the Comptroller's inability to pay the state's vendors in a

timely manner. Whether by lowering expenditures or increasing revenues, closing the gap between the state's revenues and spending obligations is a vital undertaking that is necessary to overcome the current cash flow burden.

Backlog of Unpaid Bills and Mandated Interest Payment Penalties

As of March 7, 2016, the Comptroller reported there were 56,614 bills totaling \$3,520,055,307 in the queue to be paid. This does not include an additional \$3.8 billion of bills being held at state agencies that have not yet been submitted to the Comptroller to be processed for payment, which includes group insurance claims for employees and retirees and bills for agency operations expenses that cannot be paid due to the absence of a budget. On March 7, 2016, the state began the day with \$416,493,989 in the General Funds Account that is used to pay these transactions. This balance is 11% of the total in the queue and 5% of the grand total that includes the bills being held at agencies. In a perfect scenario, the state would have enough cash on hand to pay all bills within 30 days.

As of February 29, 2016, State Employees Group Health Insurance claims totaling \$2.894 billion were awaiting payment (these claims are included in the \$3.8 billion noted above). The average hold varies between 253-523 days (between 8 and 17 months), depending on the type of claim. As long as the state is without a budget, or the authority to pay claims, the dollar amount, payment delay, and interest penalties of these claims will continue to escalate.

With these delays comes the state's statutory obligation to pay interest for late payments. There are two types of interest paid, depending on the associated bill type.

Timely Pay Interest (215 ILCS 5/368a) applies to self-insured providers of the state employees group insurance program. This includes interest for claims payments for CIGNA, which administers the Quality Care Health Plan, Open Access Plans, Dental, and Behavioral Health. **This interest accrues at 9% annually after 30 days of non-payment.**

Prompt Payment Interest (30 ILCS 540) applies to State vendors for goods or services purchased by any state official or agency authorized to expend from appropriated state funds, but also includes the following entities related to the state employees group insurance program: HMO, vision, and life insurance monthly premiums and Administrative Service Costs for Open Access, Dental, and Behavioral Health plans. **This interest accrues at 12% annually after 90 days.**

The following table reflects the current amount of bills being held and those currently in the Comptroller's system awaiting payment, the applicable interest rates, the average number of days bills in those categories have been held and the amount of interest accrued. To date, \$6.5 million has been paid by the state for interest penalties. The table below exhibits evidence of a conservative estimate of an additional \$355 million that will be paid for the bills currently on-hand that are accruing interest. As the budget stalemate is

prolonged, these interest penalties will continue to surge. Furthermore, if any of the \$3.5 billion currently at the Comptroller should be subject to penalties, the interest due would increase. For example, if the agency held a bill for 1 month before sending it to the Comptroller, and if the Comptroller in turn held the voucher for 2½ months before it was paid, that would exceed the 90-day Prompt Pay grace period and thus would require a ½ of month of interest to be paid on that specific bill. However, the Comptroller has indicated at the time of this printing they believe interest on the \$3.5 billion currently in their system would be minimal as those bills are generally not being held in excess of the grace period.

If these monies were used to fund needed programs instead of paying interest on past due bills, the state would benefit from the expense in a manner that better serves the citizens of Illinois.

TABLE 3. ILLINOIS' PAYMENT BACKLOG

Voucher Type	Claims	Annual Rate	Daily Rate	Days Held	Per Day Interest	Total Interest Due†
Timely Pay - CIGNA-PPO	\$ 433,719,379	9%	0.02466%	446	\$ 106,945	\$ 44,488,914
Timely Pay - CIGNA-Non-PPO	\$ 29,687,780	9%	0.02466%	523	\$ 7,320	\$ 3,608,895
Timely Pay - Other Self-Insured Claims *						
Rx, OAP, Mental Health	\$ 859,579,611	9%	0.02466%	435	\$ 211,951	\$ 85,840,210
Prompt Pay- Managed Care Claims	\$ 1,471,827,678	12%	0.03288%	479	\$ 483,889	\$ 188,232,647
Timely Pay - Dental Claims PPO	\$ 67,974,536	9%	0.02466%	253	\$ 16,761	\$ 3,737,668
Timely Pay - Dental Claims Non-PPO	\$ 32,076,968	9%	0.02466%	351	\$ 7,909	\$ 2,538,914
Prompt Pay-Agencies Holding**	\$ 905,134,048	12%	0.03288%	180	\$ 297,578	\$ 26,782,049
Prompt Pay-Non Insurance Related at IOC	\$ 3,520,055,307	12%	0.03288%	0	\$ 1,157,278	
Total	\$ 7,320,055,307					\$ 355,229,297

* Rx Claims are being held for 478 days and OAP claims for 392, but the dollar amount for this category is not itemized. Therefore an average number of days (478-392)/2) was applied to the total dollar amount for this category.

**Agencies are currently holding bills that the Comptroller does not have the authority to pay in the absence of a budget. Many of these bills are for operational expenses within state agencies. In the 8th month without a budget, an average of 180 days held was used for this illustration.

*** Vouchers currently enrolled in the Comptroller's system are being paid within 90 days. It is not known how old those bills were when the Comptroller received them. They may or may not be subject to interest penalties. For this illustration, it is assumed none of these bills are older than 90 days.

† Timely Pay and Prompt Pay interest begins accruing after 30 and 90 days (respectively) from the receipt date of the invoice. Total Interest Due is calculated using the total number of days the bill was held, less the 30 or 90 days, whichever is applicable.

Group insurance claims data provided by the Department of Central Management Services as of February 29, 2016. Current amount of bills being held at the Comptroller's Office and at state agencies was provided by the Comptroller's website (<http://ledger.illinoiscomptroller.com>) on March 7, 2016.

New Revenue

One opportunity to improve Illinois fiscal outlook is to introduce new revenue streams. The Commission is often asked how much could be gained from an income tax increase. If, a 1% rate change were to take effect on July 1, 2016, Illinois would realize a total of \$3.6

billion in additional revenues in FY 17 and \$4.1 billion in FY18. If a 1% increase became effective on January 1, 2017, \$1.7 billion would be gained in FY18 and a total of \$4.09 billion in FY18.

General Obligation Bond Ratings

In January 2013, S&P downgraded the State of Illinois' General Obligation Bond ratings one level to A-. Since that time, Fitch and Moody's have both downgraded the State, one level each in June 2013 and one level each in October 2015, to the current BBB+/Baa1 level. With the State's January 2016 General Obligation Bond sale, all three rating agencies affirmed these ratings, Fitch with a stable outlook and Moody's and S&P with negative outlooks.

All of the rating agencies analyses mention the same issues that Illinois is facing: "deterioration of the state's financial flexibility during its extended budget impasse" [Fitch], "financial position that has weakened after tax cuts" [Moody's], the need for long-term structural balance, and the need to reduce high liabilities. All three rating agencies are waiting on budgets to be enacted for FY 2016 and FY 2017, with warnings of possible future downgrades.

Fitch has downgraded others reliant on the State for funding, including the Illinois Sports Facilities Authority's sports facilities bonds (state tax supported); Metropolitan Pier & Exposition Authority's McCormick Place expansion project bonds; and the city of Chicago motor fuel tax revenue bonds.

Moody's has downgraded even more entities with reliance on the State for funding:

- The State's Build Illinois and Civic Center bonds;
- Metropolitan Pier and Exposition Authority expansion bonds;
- Multiple downgrades on six of the State's nine public universities due to the reliance on State appropriations in addition to other problems the universities may be dealing with--Eastern Illinois University, Governors State University, Northeastern Illinois University, Northern Illinois University, Southern Illinois University and Western Illinois University. (Moody's does not rate Chicago State University).

Bond rating downgrades affect the interest rate paid on bond sales and hurt the State's ability to get buyers as the bonds become a riskier investment the closer they get to the speculative grade level (BB ratings range).

TABLE 4. ILLINOIS GENERAL OBLIGATION BOND RATINGS						
RATING AGENCIES	June 2010	Jan 2012	Aug 2012	Jan 2013	June 2013	Oct 2015
Fitch Ratings	A	A	A	A	A-	BBB+
Standard & Poor's	A+	A+	A	A -	A -	A -
Moody's	A1	A2	A2	A2	A3	Baa1

Projected Total State Pension Cost

As with previous years, the unfunded pension liabilities continue to pose a threat to the current fiscal outlook.

CGFA staff has reviewed the State-funded retirement systems' FY 2015 actuarial reports, which were issued prior to January 15th, pursuant to P.A. 97-0694, the State Actuary Law. Under the State Actuary Law, the State Actuary must issue a preliminary report concerning the systems' proposed certification by January 1st. The State Actuary's report must identify any recommended changes in actuarial assumptions based upon the review of the retirement systems' actuarial assumptions. Then, the systems must annually submit a final certification after considering the recommendations made by the State Actuary for the following fiscal year prior to January 15th of the current fiscal year.

Using the actuarial (smoothed) value of assets, the total unfunded liabilities of the State systems totaled \$112.9 billion on June 30, 2015, led by the Teachers' Retirement System (TRS), whose unfunded liabilities amounted to \$62.7 billion. As the largest of the State systems, TRS accounts for approximately 57% of the total assets and liabilities of the five State systems combined. Table 5 below provides a summary of the financial condition of each of the five State retirement systems, showing their respective liabilities and assets as well as their accumulated unfunded liabilities and funded ratios based on actuarial value of assets.

A much more realistic valuation of the true financial position of the State retirement systems would be based upon the market value of the assets, as shown in Table 6 on the following page. Based upon the market value of assets, the total unfunded liabilities of the State systems totaled \$111.0 billion on June 30, 2015. The Teachers' Retirement System (TRS), whose unfunded liabilities amounted to \$61.7 billion, again represents approximately 56% of the combined total unfunded balance. Table 6 provides a summary of the financial condition of each of the five State retirement systems, showing their respective liabilities and assets as well as their accumulated unfunded liabilities and funded ratios based on market value of assets.

TABLE 5. PENSION SYSTEM FINANCIAL CONDITION FY 2015**State Retirement Systems Combined****Assets at Actuarial Value / With Asset Smoothing (P.A. 96-0043)****(\$ in Millions)**

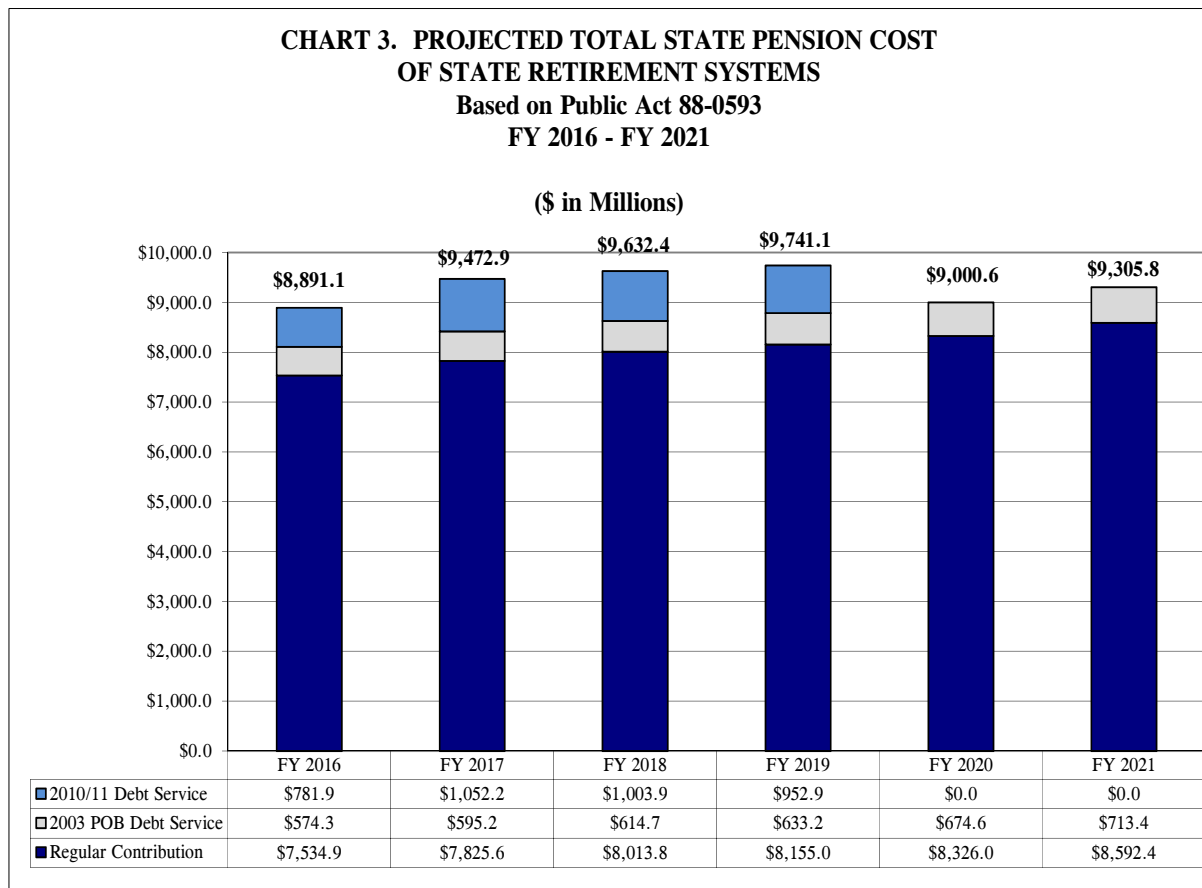
<u>System</u>	<u>Accrued Liability</u>	<u>Actuarial Assets</u>	<u>Unfunded Liability</u>	<u>Funded Ratio</u>
TRS	\$108,121.8	\$45,435.2	\$62,686.6	42.0%
SERS	\$40,743.4	\$14,741.7	\$26,001.7	36.2%
SURS	\$39,520.7	\$17,104.6	\$22,416.1	43.3%
JRS	\$2,314.1	\$804.2	\$1,509.9	34.8%
GARS	\$328.2	\$52.6	\$275.6	16.0%
TOTAL	\$191,028.2	\$78,138.3	\$112,889.9	40.9%

TABLE 6. PENSION SYSTEM FINANCIAL CONDITION FY 2015**State Retirement Systems Combined****Assets at Market Value / Without Asset Smoothing (P.A. 96-0043)****(\$ in Millions)**

<u>System</u>	<u>Accrued Liability</u>	<u>Market Assets</u>	<u>Unfunded Liability</u>	<u>Funded Ratio</u>
TRS	\$108,121.8	\$46,406.9	\$61,714.9	42.9%
SERS	\$40,743.4	\$15,258.9	\$25,484.5	37.5%
SURS	\$39,520.7	\$17,463.0	\$22,057.7	44.2%
JRS	\$2,314.1	\$833.9	\$1,480.2	36.0%
GARS	\$328.2	\$54.6	\$273.6	16.6%
TOTAL	\$191,028.2	\$80,017.3	\$111,010.9	41.9%

The funded ratios for each of the five State retirement systems may be compared to the aggregate funded ratio of 41.9% for the five systems combined. Although the Judges' Retirement System and the General Assembly Retirement System have the poorest funded ratios, these two systems are much smaller and their unfunded liabilities are thus more manageable than the three larger systems.

Under P.A. 88-593, the State is required to make contributions to the systems as a level percentage of payroll such that a 90% funding ratio is to be attained in FY 2045. Chart 3, below, reflects the actuarial forecast of projected State contributions to the five systems as prepared by each system's actuary pursuant to P.A. 88-593. The chart is composed of three parts – the regular contributions pursuant to the 1995 law, plus the debt service components from the 2010-2011 bond/note issuances, and also the debt service associated with the 2003 Pension Obligation Bond issuance.



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 \$31.7 billion in FY 2016, \$31.9 billion in FY 2017, \$32.6 billion in FY 2018, and \$33.4 billion in FY 2019. The Income Taxes and Sales Taxes continue to be the largest sources of revenue along with Federal Sources. Base revenues are expected to decline -11.7% in FY 2016 due to an expected decline in the income taxes associated with the cut in the tax rate and poorer than expected results in the sales tax. Recent economic data indicate an increased possibility of a recession, and as such, future revenue results are expected to have limited growth.

TABLE 7. CGFA ESTIMATES FY 2016-FY 2019 (Base Revenues)					
(millions)					
Revenue Sources	Actual FY 2015	CGFA FY 2016 Estimate Mar-16	CGFA FY 2017 Estimate Mar-16	CGFA FY 2018 Estimate Mar-16	CGFA FY 2019 Estimate Mar-16
State Taxes					
Personal Income Tax	\$17,682	\$15,173	\$15,354	\$15,815	\$16,290
Corporate Income Tax	\$3,129	\$2,700	\$2,648	\$2,714	\$2,836
Sales Taxes	\$8,030	\$8,050	\$8,203	\$8,375	\$8,551
Public Utility (regular)	\$1,006	\$958	\$946	\$939	\$924
Cigarette Tax	\$353	\$355	\$355	\$355	\$355
Liquor Gallonage Taxes	\$167	\$168	\$169	\$170	\$171
Vehicle Use Tax	\$32	\$34	\$34	\$34	\$33
Estate Tax (gross)	\$333	\$345	\$310	\$300	\$300
Insurance Taxes & Fees	\$353	\$365	\$365	\$365	\$365
Corporate Franchise Tax & Fees	\$211	\$211	\$211	\$211	\$211
Interest on State Funds & Investments	\$24	\$25	\$25	\$25	\$25
Cook County Intergovernmental Transfer	\$244	\$244	\$244	\$244	\$244
<u>Other Sources</u>	<u>\$693</u>	<u>\$511</u>	<u>\$540</u>	<u>\$524</u>	<u>\$528</u>
Subtotal	\$32,257	\$29,139	\$29,404	\$30,071	\$30,833
Transfers					
Lottery	\$679	\$691	\$703	\$716	\$729
Riverboat transfers and receipts	\$292	\$280	\$274	\$271	\$268
Proceeds from sale of 10th license	\$10	\$10	\$10	\$10	\$10
Refund Fund transfer	\$63	\$77	\$0	\$0	\$0
Interfund Borrowing	\$1,284	\$0	\$0	\$0	\$0
<u>Other</u>	<u>\$665</u>	<u>\$590</u>	<u>\$621</u>	<u>\$603</u>	<u>\$598</u>
Total State Sources	\$35,250	\$30,787	\$31,012	\$31,671	\$32,438
Federal Sources	\$3,330	\$3,711	\$3,767	\$3,880	\$3,996
Total Federal & State Sources	\$38,580	\$34,498	\$34,779	\$35,551	\$36,434
Nongeneral Funds Distribution:					
Refund Fund*					
Personal Income Tax	(\$1,769)	(\$1,479)	(\$1,535)	(\$1,581)	(\$1,629)
Corporate Income Tax	(\$439)	(\$410)	(\$410)	(\$421)	(\$440)
Fund for Advancement of Education	(\$242)	(\$456)	(\$461)	(\$474)	(\$489)
Commitment to Human Services Fund	(\$242)	(\$456)	(\$461)	(\$474)	(\$489)
Total, Base Revenues	\$35,888	\$31,697	\$31,912	\$32,601	\$33,387
Change from Prior Year Estimate		(\$4,191)	\$215	\$689	\$786
Percent Change		-11.7%	0.7%	2.2%	2.4%
The FY 2017-19 estimates based on current refund percentages at 10% for PIT and 15.5% for CIT.					
Estimates assume current distribution formula of 1/30 of net personal income revenues each to the Fund for Advancement of Education and Commitment to Human Services Fund.					
Totals exclude short-term borrowing, Budget Stabilization transfers, and other cash flow transfers.					
Source: CGFA					

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. Six budget scenarios were analyzed using different spending growth rates. These growth rates were applied to the FY 2016 spending base of \$36.084 billion as indicated in the Governor's budget projection released in February of 2016. No debt restructuring was assumed in any of these scenarios.

The first growth rate scenario was annual declines in spending of -8.7% 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 -3%. The third scenario was 0.0% growth or flat spending. This was done to demonstrate what would happen if spending was held constant over the next three years. Scenario four through six use average growth rates in expenditures over various time periods. Scenario four uses the 5-year average (3.7%), scenario five uses the 10-year rate (3.2%), and the last scenario uses 4.9% annual growth which equals the 15-year average.

Scenario Analysis Results

Results of the various budget scenarios can be found in Table 8. Table 8 contains revenues, spending, operating surplus/deficit, and cumulative surplus/deficit information for each scenario. The cumulative surplus/deficit data assumes a cumulative deficit of -\$2.9 billion at the end of FY 2015 which was taken from the FY 2016 budget book and a cumulative deficit of -\$7.3 billion at the end of FY 2016.

No scenario analyzed resulted in a cumulative surplus over the three years analyzed. In fact, only one scenario had years with surpluses and that scenario was specifically used to demonstrate what it would take to get the cumulative deficit to zero. These poor results are due to the continued fact of expenditures being higher than revenues. To counteract the expected poor results in the future, the State needs to increase revenue, decrease expenditures or some combination therein.

Scenario 1. -8.7% Annual Decline in Spending

The first scenario analyzed (annual expenditure declines of -8.7%) would get the Budget Basis Fund Balance (Deficit) at the end of the fiscal year to zero by the end of FY 2019. This column is described as cumulative surplus/deficit in Table 8. This scenario saw deficit spending in FY 2017 (-\$1.0 billion) but surpluses in FY 2018 (\$2.5 billion) and FY 2019 (\$5.8 billion). Base expenditures would be reduced to only \$27.5 billion in FY 2018 in this scenario. Over the last five years, the annual decline needed to reach a cumulative deficit of zero has increased significantly. In 2012, the annual decrease in expenditures needed was just 1.8% over the three-year forecast, this has increased to around -7% in 2014 and 2015, and now, -8.7%.

Scenario 2. -3% Annual Decline in Spending

The second scenario (annual declines of -3% in spending) would have large deficits in FY 2017 (-\$4.2 billion) and FY 2018 (-\$1.4 billion) but would improve to a \$354 million surplus in FY 2019. The cumulative deficit would peak at -\$11.7 billion in FY 2018 but would decrease to -\$11.4 billion in FY 2019.

Scenario 3. Flat Spending

Scenario 3 shows what would happen if expenditures were frozen at FY 2016 levels. This scenario would have deficits in all three fiscal years. The deficit would be declining compared to FY 2016. In FY 2017, the deficit would be -\$4.2 billion. This would improve to -\$3.5 billion in FY 2018 and -\$2.8 billion in FY 2019. The cumulative deficit would be -\$17.7 billion at the end of FY 2019.

Scenario 4. 3.7% Annual Growth in Spending (5-Year Average Growth)

Scenario 4 examines the results if spending were kept to 3.7% per year which is the 5-year average. This scenario leads to annual deficits of between \$5.5 billion to \$7.0 billion per year. The annual deficit would equal -\$5.5 billion in FY 2017, grow to -\$6.2 billion in FY 2018, and be -\$7.0 billion in FY 2019. The cumulative deficit would grow to -\$25.9 billion. Spending would grow to approximately \$40.2 billion, while revenues would only be \$33.3 billion.

Scenario 5. 3.2% Annual Growth in Spending (10-Year Average Growth)

Using the 10-year average in spending growth (3.2% per year), spending grows to \$39.7 billion. This compares, once again, to expected revenues of only \$33.3 billion. In this scenario, there are three years of serious deficits. The expected deficits would range from

-\$5.3 billion in FY 2017 to -\$6.3 billion in FY 2019. The cumulative deficit would reach -\$24.8 billion in this scenario

Scenario 6. 5.5% Annual Growth in Spending (15-Year Average Growth)

The final scenario is the worst of them all. Using a growth rate in expenditures of 5.5% per year, spending grows to \$41.7 billion. With these assumptions, three years of enormous deficits would result. In FY 2017, the deficit would be -\$5.9 billion. This deficit would worsen to -\$7.1 billion in FY 2018 and -\$8.4 billion in FY 2019. The deficit in FY 2019 would equal approximately 25% of expected revenue under this scenario. The cumulative deficit would reach -\$28.7 billion which would only be about \$5 billion less than the expected revenue for the fiscal year.

TABLE 8. 3-YEAR BUDGET SCENARIOS

(\$ million)

Scenario 1: -8.7% Annual Decline in Spending					Scenario 4: 5-Year Average Growth in Spending (3.7%)				
	Revenues	Spending	Operating Surplus/Deficit	Cumulative Surplus/Deficit		Revenues	Spending	Operating Surplus/Deficit	Cumulative Surplus/Deficit
FY 2016	\$31,697	\$36,084	(\$4,387)	(\$7,287)	FY 2016	\$31,697	\$36,084	(\$4,387)	(\$7,287)
FY 2017	\$31,912	\$32,950	(\$1,038)	(\$8,325)	FY 2017	\$31,912	\$37,419	(\$5,507)	(\$12,794)
FY 2018	\$32,601	\$30,088	\$2,513	(\$5,812)	FY 2018	\$32,601	\$38,804	(\$6,203)	(\$18,997)
FY 2019	\$33,287	\$27,475	\$5,812	\$0	FY 2019	\$33,287	\$40,239	(\$6,952)	(\$25,949)
Scenario 2: -3% Annual Decline in Spending					Scenario 5: 10-Year Average Growth in Spending (3.2%)				
	Revenues	Spending	Operating Surplus/Deficit	Cumulative Surplus/Deficit		Revenues	Spending	Operating Surplus/Deficit	Cumulative Surplus/Deficit
FY 2016	\$31,697	\$36,084	(\$4,387)	(\$7,287)	FY 2016	\$31,697	\$36,084	(\$4,387)	(\$7,287)
FY 2017	\$31,912	\$35,001	(\$3,089)	(\$10,376)	FY 2017	\$31,912	\$37,239	(\$5,327)	(\$12,614)
FY 2018	\$32,601	\$33,951	(\$1,350)	(\$11,727)	FY 2018	\$32,601	\$38,430	(\$5,829)	(\$18,443)
FY 2019	\$33,287	\$32,933	\$354	(\$11,373)	FY 2019	\$33,287	\$39,660	(\$6,373)	(\$24,816)
Scenario 3: Flat Spending (0% growth)					Scenario 6: 15-Year Average Growth in Spending (4.9%)				
	Revenues	Spending	Operating Surplus/Deficit	Cumulative Surplus/Deficit		Revenues	Spending	Operating Surplus/Deficit	Cumulative Surplus/Deficit
FY 2016	\$31,697	\$36,084	(\$4,387)	(\$7,287)	FY 2016	\$31,697	\$36,084	(\$4,387)	(\$7,287)
FY 2017	\$31,912	\$36,084	(\$4,172)	(\$11,459)	FY 2017	\$31,912	\$37,852	(\$5,940)	(\$13,227)
FY 2018	\$32,601	\$36,084	(\$3,483)	(\$14,942)	FY 2018	\$32,601	\$39,707	(\$7,106)	(\$20,333)
FY 2019	\$33,287	\$36,084	(\$2,797)	(\$17,739)	FY 2019	\$33,287	\$41,653	(\$8,366)	(\$28,698)

All scenarios use GGFA revenue estimates, the Governor's estimated budget for the FY 2016 spending, and a cumulative deficit of (\$2,900) at the end of FY 2015.

APPENDIX A. DETAILED GENERAL FUNDS REVENUE HISTORY FY 2006 - FY 2015

(\$ million)

Revenue Sources	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
State Taxes										
Personal Income Tax	\$9,568	\$10,424	\$11,187	\$10,219	\$9,430	\$12,301	\$17,000	\$18,323	\$18,388	\$17,682
Corporate Income Tax (regular)	1,784	2,121	2,201	2,073	1,649	2,277	2,983	3,679	3,640	3,129
Sales Taxes	7,092	7,136	7,215	6,773	6,308	6,833	7,226	7,355	7,676	8,030
Public Utility Taxes (regular)	1,074	1,131	1,157	1,168	1,089	1,147	995	1,033	1,013	1,006
Cigarette Tax	400	350	350	350	355	355	354	353	353	353
Liquor Gallonage Taxes	152	156	158	158	159	157	164	165	165	167
Vehicle Use Tax	34	33	32	27	30	30	29	27	29	32
Estate Tax (Gross)	272	264	373	288	243	122	235	293	276	333
Insurance Taxes and Fees	317	310	298	334	322	317	345	334	333	353
Corporate Franchise Tax & Fees	181	193	225	201	208	207	192	205	203	211
Interest on State Funds & Investments	153	204	212	81	26	28	21	20	20	24
Cook County Intergovernmental Transfer	350	307	302	253	244	244	244	244	244	244
Other Sources	441	449	442	418	431	404	399	462	585	693
Subtotal	\$21,818	\$23,078	\$24,152	\$22,343	\$20,494	\$24,422	\$30,187	\$32,493	\$32,925	\$32,257
Transfers										
Lottery	670	622	657	625	625	632	640	656	668	679
Gaming Fund Transfer [and related]	689	685	564	430	431	324	413	360	331	302
Other	746	939	679	538	828	1,226	885	688	1,113	2,012
Total State Sources	\$23,923	\$25,324	\$26,052	\$23,936	\$22,378	\$26,604	\$32,125	\$34,197	\$35,037	\$35,250
Federal Sources	\$4,725	\$4,703	\$4,815	\$6,567	\$5,920	\$5,386	\$3,682	\$4,154	\$3,903	\$3,330
Total Federal & State Sources	\$28,648	\$30,027	\$30,867	\$30,503	\$28,298	\$31,990	\$35,807	\$38,351	\$38,940	\$38,580
Nongeneral Funds Distribution:										
Refund Fund										
Personal Income Tax	(\$933)	(\$1,016)	(\$867)	(\$996)	(\$919)	(\$1,076)	(\$1,488)	(\$1,785)	(\$1,746)	(\$1,769)
Corporate Income Tax	(356)	(371)	(341)	(363)	(289)	(426)	(522)	(502)	(476)	(439)
Fund for Advancement of Education	0	0	0	0	0	0	0	0	0	(242)
Commitment to Human Services Fund	0	0	0	0	0	0	0	0	0	(242)
Total, Base Revenues	\$27,359	\$28,640	\$29,659	\$29,144	\$27,090	\$30,488	\$33,797	\$36,064	\$36,718	\$35,888
Change from Prior Year	\$1,199	\$1,281	\$1,019	(\$515)	(\$2,054)	\$3,398	\$3,309	\$2,267	\$2,921	(\$176)
Percent Change	4.6%	4.7%	3.6%	-1.7%	-7.0%	12.5%	10.9%	6.7%	8.6%	-0.5%
Short-Term Borrowing	\$1,000	\$900	\$2,400	\$2,400	\$1,250	\$1,300	\$0	\$0	\$0	\$454
Tobacco Liquidation Proceeds	0	0	0	0	0	1,250	0	0	0	0
HPF and HHSMTF Transfers	0	456	1,503	0	0	0	0	0	0	0
Budget Stabilization Fund Transfer	276	276	276	576	1,146	535	275	275	275	275
Pension Contribution Fund Transfer	0	0	0	0	843	224	0	0	0	0
FY'13-14 Backlog Payment Fund Transfer	0	0	0	0	0	0	0	264	50	0
Total General Funds Revenue	\$28,635	\$30,272	\$33,838	\$32,120	\$30,329	\$33,797	\$34,072	\$36,603	\$37,043	\$36,617
Change from Prior Year	\$452	\$1,637	\$3,566	(\$1,718)	(\$1,791)	\$3,468	\$275	\$2,531	\$440	(\$426)
Percent Change	1.6%	5.7%	11.8%	-5.1%	-5.6%	11.4%	0.8%	7.4%	1.2%	-1.2%

Source: ILLINOIS COMPTROLLER, CGFA

APPENDIX B. GENERAL FUNDS EXPENDITURES HISTORY BY AGENCY FY 2006 - FY 2015

(\$ million)

<u>WARRANTS ISSUED</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
<i>BY AGENCY</i>										
Healthcare and Family Services	\$7,343	\$7,725	\$8,089	\$9,556	\$7,239	\$7,309	\$8,158	\$6,726	\$7,292	\$6,525
State Board of Education	6,045	6,472	6,995	7,357	7,273	6,912	6,739	6,539	6,681	6,545
Human Services	3,817	3,885	4,086	4,144	3,997	3,894	3,415	3,448	3,217	3,363
Higher Education Agencies	2,190	2,269	2,195	2,398	2,230	2,146	2,844	3,234	3,303	3,291
Corrections	1,170	1,119	1,208	1,308	1,156	1,205	1,210	1,172	1,276	1,310
Children and Family Services	803	771	887	906	847	840	806	721	684	672
Aging	352	421	458	537	653	646	731	1,060	935	880
Teachers Retirement System	610	814	1,110	1,527	914	256	2,494	2,790	3,529	3,479
All Other Agencies	1,783	2,035	2,143	2,055	2,009	2,261	2,900	4,624	4,622	4,709
Prior Year Adjustments	(10)	(11)	(14)	(14)	(17)	(22)	(88)	(21)	(60)	(11)
<i>Total Warrants Issued (14 months)</i>	\$24,103	\$25,500	\$27,157	\$29,774	\$26,301	\$25,447	\$29,209	\$30,293	\$31,479	\$30,763
<i>Transfers</i>										
Transfers Out (14 months)	4,349	4,616	7,380	5,185	6,450	6,937	5,164	5,350	5,497	4,858
<i>Total Expenditures</i>	\$28,452	\$30,116	\$34,537	\$34,959	\$32,751	\$32,384	\$34,373	\$35,643	\$36,976	\$35,621
Change from Prior Year	\$205	\$1,664	\$4,421	\$422	(\$2,208)	(\$367)	\$1,622	\$3,259	\$2,603	(\$22)
Percent Change	0.7%	5.8%	14.7%	1.2%	-6.3%	-1.1%	5.0%	10.1%	7.6%	-0.1%
Repayment of Short-Term Borrowing	1,014	11	1,503	1,424	2,276	1,322	0	0	0	0
Cash Flow Transfers	0	1,356	2,400	300	870	260	0	0	0	0
Repayment of Interfund Borrowing	0	0	0	0	0	9	355	133	0	0
Budget Stabilization Fund Transfers	276	276	276	276	0	276	550	275	275	275
Total, Base Expenditures	\$27,162	\$28,473	\$30,358	\$32,959	\$29,605	\$30,517	\$33,468	\$35,235	\$36,701	\$35,346
Change from Prior Year	\$938	\$1,311	\$1,885	\$2,601	(\$3,354)	\$912	\$2,951	\$1,767	\$1,466	(\$1,355)
Percent Change	3.6%	4.8%	6.6%	8.6%	-10.2%	3.1%	9.7%	5.3%	4.2%	-3.7%

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:

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