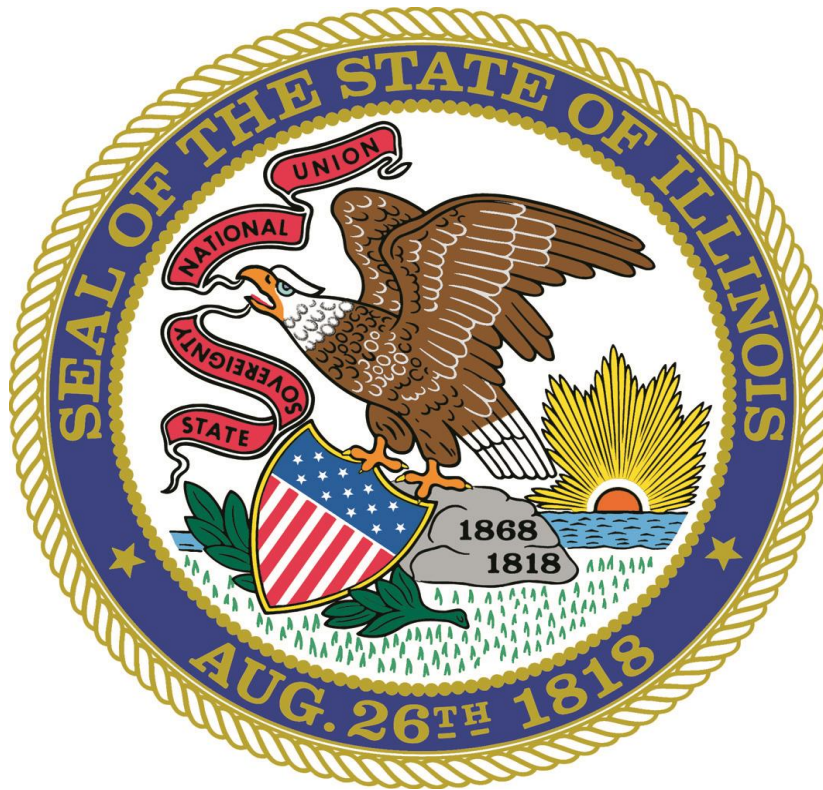


# **3-Year Budget Forecast FY 2018 – FY 2020**



*Commission on Government  
Forecasting and Accountability*

*March, 2017*

Commission on Government  
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## **INTRODUCTION**

As part of Public Act 0958 of the 96<sup>th</sup> 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 20 years; then considers threats and opportunities to Illinois’ budget; finally, it concludes with potential 3-year budget results based upon scenario analysis.

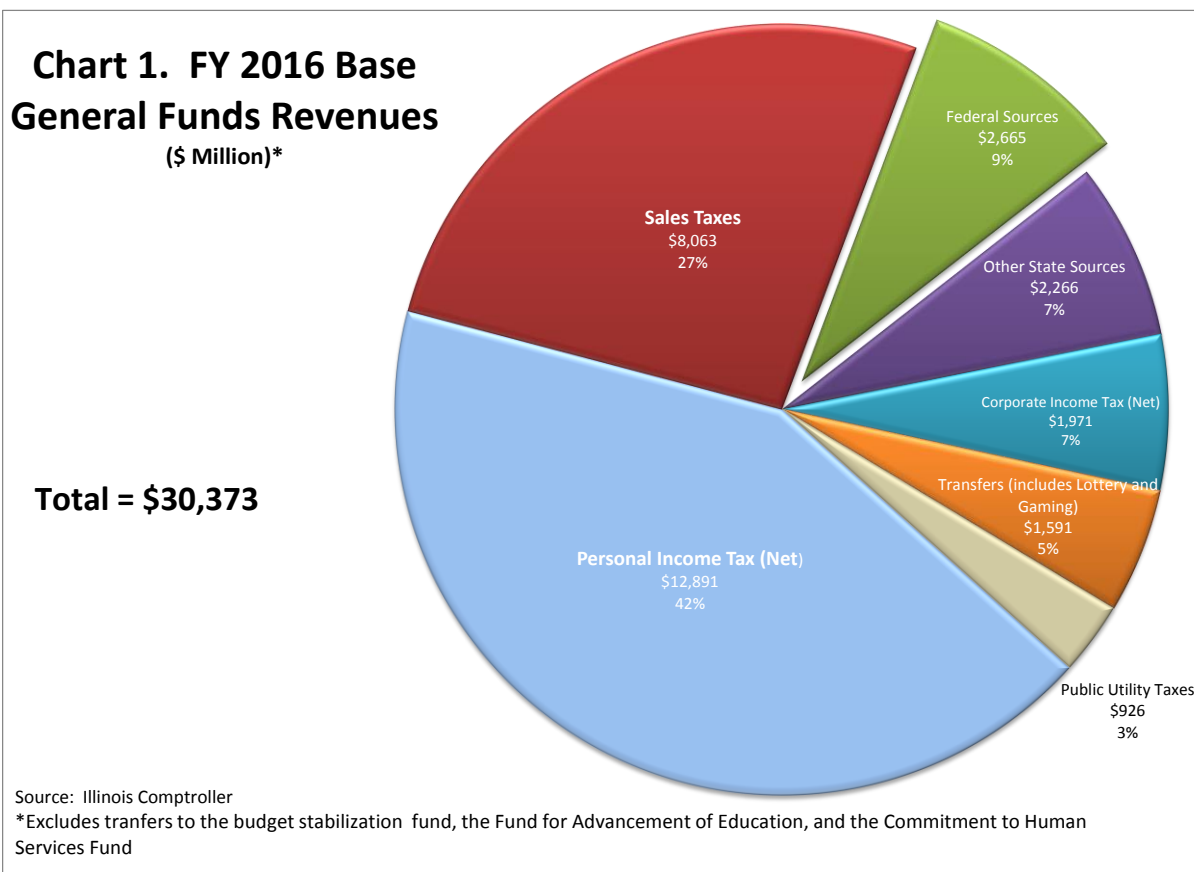


## I. Illinois' Budget History

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 \$30.373 billion in FY 2016. This amount excludes transfers to the Budget Stabilization Fund, the Fund for Advancement of Education, and the Commitment to Human Services Fund. The largest component of base revenue came from the Personal Income Tax (Net) which equaled approximately \$12.9 billion after refunds and mandated transfers. The next highest amount came from the Sales Tax which totaled nearly \$8.1 billion. Together, the personal income tax and sales tax make up 69% of total base general funds revenue. Other State Sources contributed \$2.3 billion, while the Corporate Income Tax (Net) added about \$2.0 billion. Chart 1 illustrates the make-up of FY 2016 Base General Funds revenue.



Appendix A shows historical totals for General Funds revenue from FY 2007 to FY 2016. 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 due to the federal stimulus plan but have been around 10% in recent fiscal years. Federal Sources accounted for only 8.8% of total base revenues in FY 2016 and are expected to be about 10% of the total in FY 2017.

Overall growth rates related to base revenues have been slowing. The growth rate for total base revenues has averaged 2.8% over the last twenty years but has slowed recently. Over the last 10 years, revenue growth has declined to 1.8% per year and slowed even further in the last 5 years at 1.4% per year. Fiscal Year 2016 saw a base revenue decline of -15.4% which equated to a decline of approximately \$5.5 billion. This is mostly due to regression in the income taxes due to the lowering of the income tax rates (-\$3.2 billion), a fall-off in transfers (-\$1.4 billion), and a decline in Federal sources (-\$665 million).

Average growth rates for the individual revenue sources can be seen in Table 1.

<b>TABLE 1. GENERAL FUNDS REVENUE GROWTH RATES</b> <b>FY 1997 - FY 2016</b> (\$ million)*					
<b>Revenue Sources</b>	<b>1-Year Growth</b>	<b>5-Year Average</b>	<b>10-Year Average</b>	<b>15-Year Average</b>	<b>20-Year Average</b>
<b>State Taxes</b>					
Personal Income Tax (Net)	-16.5%	4.3%	5.4%	4.2%	4.9%
Sales Taxes	0.4%	3.4%	1.4%	2.1%	2.7%
Other State Taxes	-6.0%	4.1%	0.1%	0.3%	3.7%
Transfers (includes Lottery and Gaming)	-46.8%	-0.9%	0.5%	3.5%	3.9%
Corporate Income Tax (Net)	-26.6%	4.0%	5.6%	6.6%	4.4%
Public Utility Taxes	-8.0%	-4.0%	-1.3%	-1.2%	0.7%
<b>Total State Sources</b>	<b>-14.9%</b>	<b>2.6%</b>	<b>2.6%</b>	<b>2.7%</b>	<b>3.5%</b>
<b>Federal Sources</b>	<b>-20.0%</b>	<b>-11.9%</b>	<b>-4.0%</b>	<b>-1.7%</b>	<b>0.0%</b>
<b>Total, Base Revenues</b>	<b>-15.4%</b>	<b>0.3%</b>	<b>1.4%</b>	<b>1.8%</b>	<b>2.8%</b>

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



## Expenditures

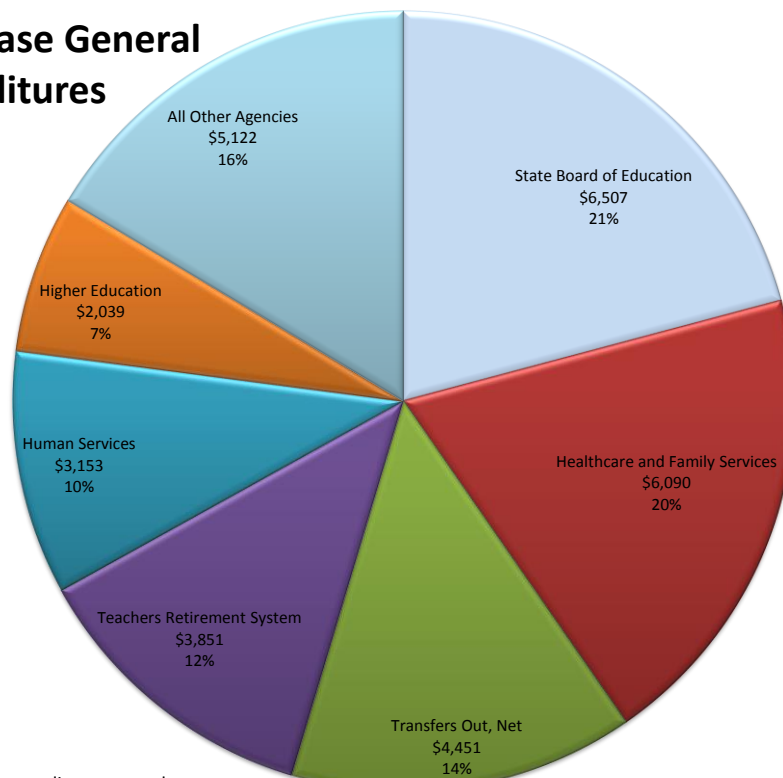
Base General Funds expenditures totaled \$31.2 billion in FY 2016. This was down \$4.1 billion, or -11.7%, from the FY 2015 level of \$35.6 billion. Base expenditures exclude short-term borrowing, transfers to the budget stabilization fund, and cash flow transfers. While expenditures were down across the board, declines at Central Management Services (CMS) and at Higher Education Agencies accounted for about two-thirds of the decline. Expenditures declined \$1.6 billion at CMS, while expenditures at the higher education agencies were \$1.3 billion lower.

Similar to FY 2015, the State Board of Education had the highest level of expenditures at \$6.5 billion. This was followed by the Department of Healthcare and Family Services (DHFS) at \$6.1 billion. Transfers out accounted for \$4.5 billion, while the Department of Human Services (DHS) and Higher Education spent \$3.1 billion and \$2.1 billion.

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

**Chart 2. FY 2016 Base General Funds Expenditures**  
(\$ Million)\*

**Total = \$31,201**



\*Data does not show a -\$12 million prior year adjustment and excludes repayment of interfund borrowing, and transfers to the budget stabilization fund  
Source: Office of the Comptroller

Table 2 illustrates the growth of base general funds expenditures over the last 20 years. Total expenditures declined -11.7% in FY 2016 which was after a -3.7% decline in FY 2015. Due to decreases in total base expenditures in FY 2015 and FY 2016, the 5-year average rate of growth is only 0.7%. The 10-year average growth is only a little higher at 1.7%. These rates are much lower than what has been seen in the past. The 15-year average is 3.7%, while the 20-year average is 5.1% per year on average.

The on-going budget stalemate that began in FY 2015 is obviously affecting how State government is functioning. Before FY 2015, only one fiscal year since FY 1972 (which is as far back as the Commission has expenditure data) has shown an actual decline in base expenditures. There was a 10% decline in FY 2010, otherwise base general funds expenditures have increased every year since then.

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

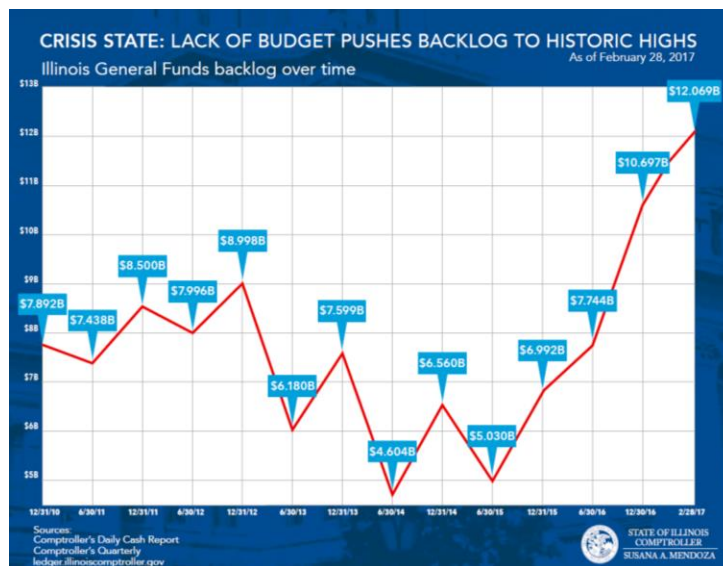
<b>TABLE 2. GENERAL FUNDS EXPENDITURES GROWTH RATES FY 1997 - FY 2016</b>					
	<b>1-Year Growth</b>	<b>5-Year Average</b>	<b>10-Year Average</b>	<b>15-Year Average</b>	<b>20-Year Average</b>
<b>WARRANTS ISSUED</b>					
<i>BY AGENCY</i>					
Healthcare and Family Services	-6.7%	-2.9%	-1.0%	2.2%	1.7%
State Board of Education	-0.6%	-1.2%	0.8%	1.8%	3.2%
Human Services	-6.2%	-3.9%	-1.7%	-1.0%	n/a
Higher Education Agencies	-38.0%	2.0%	0.9%	-0.2%	1.4%
Corrections	-32.2%	-4.7%	-1.9%	-1.3%	1.2%
Children and Family Services	-7.9%	-5.9%	-2.4%	-2.4%	-1.7%
Aging	-26.6%	2.8%	8.0%	n/a	n/a
Teachers Retirement System*	10.7%	184.4%	91.7%	61.0%	50.5%
All Other Agencies	-37.0%	10.5%	7.8%	2.3%	1.8%
Prior Year Adjustments	<u>9.1%</u>	<u>67.4%</u>	<u>42.5%</u>	<u>35.8%</u>	<u>15.4%</u>
<b>Total Warrants Issued (14 months)</b>	<b>-13.0%</b>	<b>1.4%</b>	<b>1.4%</b>	<b>3.6%</b>	<b>5.1%</b>
<b>Transfers</b>					
Transfers Out	-5.8%	-7.3%	3.2%	9.3%	8.2%
<b>Total, Base Expenditures</b>	<b>-11.7%</b>	<b>0.7%</b>	<b>1.7%</b>	<b>3.7%</b>	<b>5.1%</b>
<p>* 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 4.8% and 2.9%. 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.</p>					

## II. Threats and Opportunities

The Threats and Opportunities section of this report highlights those issues that pose a threat or create a negative outlook, or on the contrary, provide or offer a positive opportunity, to Illinois' economic or financial condition. As Illinois' financial troubles have been a continuing matter of concern and uncertainty in recent years, several topics in this section are recurring issues from previous year's reports, but for which we have provided updated information.

### Threats

- **Outstanding Bill Backlog.** As of February 28, 2017, the Comptroller reported a General Funds backlog of \$12.069 billion. This is a substantial 55.8% increase (+\$4.325 billion) just since the end of the last fiscal year, June 30, 2016, and a 12.8% increase (+\$1.372 billion) since December 30, 2016 and is an average increase of \$540.0 million per month over the first eight months of FY 2017. Of the total \$12.069 billion, approximately \$4.181 billion accounts for outstanding group insurance claims. However, these group insurance bills, due to the absence of an appropriation authorizing their payment, have not officially been sent to the Comptroller's Office for processing; they are part of the backlog, nonetheless. This leaves approximately \$7.169 billion being held in the payment queue at the Comptroller's Office, including \$2.98 billion for Medicaid claims, \$290 million for social service related bills, and \$1.59 billion of inter-fund transfers, which includes \$238 million for the Local Government Distributive Fund and \$562 million for public transportation funds. Of the total \$6.5 billion in General Revenue Fund bills currently held by the Comptroller, \$3.026 billion, or 46.5%, are over 90 days old. The total \$12.069 billion backlog also includes approximately \$900 million being held at other state agencies, including \$500 million for Medicaid processing at the Department of Healthcare and Family Services, \$350 million at the Department of Corrections, and \$50 million among other agencies.



A bill backlog that is multiplying as quickly as that being experienced in Illinois since June 30, 2015, the last reporting date the backlog showed a decline from the previous six month reporting period, is one of Illinois' most serious threats. The magnitude of the backlog affects the cash-flow and thus the operating ability of vendors, health care providers, and social service providers that are owed money. In turn, Illinois citizens experience difficulty acquiring needed services because providers do not have the monetary resources (operating funds) to provide the services any longer. Also affected are the State's bond ratings, and thus subsequently, the rate at which Illinois can borrow money. When a balanced budget is achieved, Illinois will still have to determine the best course of action to address the elimination of this ever-growing backlog.

A possible solution is to use bond proceeds to pay all or a portion of the backlog. The total cost of principal and interest paid on the bonds would be less than that required by statute to be paid on overdue bills, thus saving the state money in the long run. Interest on overdue bills is either 9% or 12% annually. Depending on the market, Illinois' bond ratings, and various other factors, it may be possible to achieve a rate of approximately 4% to 6%. However, it would be best to have solutions in place to minimize the accumulation of a future backlog before eliminating the current one. Otherwise, the backlog will keep growing at the same exponential rate thus creating a new backlog before the old one is truly paid off.

- **Interest Penalty Payments.** Illinois is mandated to pay interest for late payments to the State's vendors and providers. 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 claim payments for CIGNA, which administers the Quality Care Health Plan, Open Access Plans, Dental, and Behavioral Health. This interest accrues at a rate of 9% annually (0.75% per month) after 30 days of nonpayment.

***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: HMOs, Vision, monthly life insurance premiums, and Administrative Services Costs for Open Access, Dental, and Behavioral Health plans. This interest accrues at a rate of 12% annually (1% per month) after 90 days of nonpayment.

As of February 28, 2017, the Department of Central Management Services estimates there is \$397 million of interest owed (\$320.8 million of current interest and \$76.1 million of past due interest) associated with State Employees' Group Insurance Program outstanding liabilities. **It should be noted this \$397 million is *not* part of the \$12.069 billion backlog the Comptroller reported as of February 28, 2017; it is in addition to it.**

As mentioned previously, as of February 28, 2017, of the \$6.5 billion in General Revenue Fund bills currently held by the Comptroller, \$3.026 billion, or 46.5%, were over 90 days old. This \$3.026 billion that is over 90 days old continues to accrue interest penalties at a rate of 1% per month. This equates to \$30.26 million per month, or \$1 million per day (using a calculation of 30 days per month), after 90 days of nonpayment.

Beginning in Fiscal Year 2008 to-date through Fiscal Year 2017, Illinois has paid \$1.111 billion in interest penalty payments; \$716.5 million (64.5%) of that total has been paid since the beginning of FY 2013 and \$96.3 million has been paid to-date in FY 2017.

The insufficient cash-flow condition and the State's inability to pay its bills in a timely manner will only continue to worsen as the bill backlog, and consequently, the interest penalty payments continue to escalate, consuming financial resources Illinois could otherwise spend on operations or programs that could benefit from additional funding.

- **Modest Revenue Growth.** Absent legislative changes, only modest revenue growth can be expected in FY 2018. Expectations for the upcoming fiscal year are fairly modest for the most closely-tied major economic sources. At this time, growth expectations for base personal income taxes would be approximately 2.5%, reflecting current trends related to employment and wage outlooks. In terms of corporate income taxes, given a continued poor profits picture, even no growth could be seen as improvement after what appears to be a very disappointing FY 2017. Sales tax expectations will remain modest, likely in the 2% growth range. Therefore, base growth of the "Big Three" (personal and corporate income taxes and sales tax) is expected to be \$553 million. Positively impacting overall growth expectations of income taxes are the secondary impacts of proposed refund percentages as well as timing aspects related to the Department of Revenue's new accounting system. These items are expected to add \$228 million. All told, a preliminary view of growth from the "Big Three" would be approximately \$781 million.

All other state sources are fairly stagnant from year to year, but a one-time SERS repayment in FY 2017 will result in a modest decline in year over year expectations in

FY 2018—in the amount of \$29 million. Total transfers are expected to increase by approximately \$75 million at this time.

Federal sources are largely dependent on reimbursable spending, available resources, and actual Comptroller spending priorities—all of which are highly variable at this point. The Commission is comfortable utilizing the Governor’s Office of Management & Budget’s estimate of \$3.111 billion in FY 2018. That would translate into \$111 million in growth from current year CGFA expectations. If FY 2017 falls short, it could result in the movement of reimbursable spending and subsequent federal sources into FY 2018, thereby increasing year over year growth.

The Commission’s FY 2018 estimate of general funds revenues, based on current law, is \$31.147 billion, reflecting a net increase of \$938 million.

- **General Obligation Bond Ratings.** There are three major credit rating companies that issue credit ratings for the debt of governments and governmental entities: Fitch Ratings, Moody’s Investor Service, and Standard & Poor’s (S&P). Illinois’ General Obligation Bond Rating was most recently downgraded in February 2017, by Fitch Ratings, to BBB (maintaining the Negative Watch) from BBB+. Fitch noted their decision was based in part on the,

*Unprecedented failure of the State to enact a full budget for two consecutive years and the financial implications of spending far in excess of available revenues, which has resulted in increased accumulated liabilities and reduced financial flexibility. Even if the current attempts at a resolution to the extended impasse prove successful, Fitch believes that the failure to act to date has fundamentally weakened the State’s financial profile.*

Fitch also declared that, “failure to enact a balanced budget for fiscal 2018 would result in a further downgrade. Successful implementation of measures to enact a structurally balanced budget and reduce accumulated budget liabilities would stabilize the credit.”

Prior action from the other rating agencies include an S&P downgrade from BBB+ to BBB in September 2016 and a Moody’s downgrade from Baa1 to Baa2 in June 2016. Illinois can only be downgraded 1 more time and still remain at a rating level above those considered to have a speculative (*junk*) status, meaning there is a greater risk of default.

When S&P lowered Illinois GO Bond rating from BBB+ to BBB in September 2016, they stated the rating “reflects our view of the state’s long history of structural imbalance and a governmental framework that limits the state’s ability to curb its spending in absence of an adopted budget [and] top leadership’s highly polarized views on how to address Illinois’ fiscal imbalance.” S&P also emphasized they could still lower the State’s rating further if the State does not adopt a budget and deal with its structural issues and liabilities.

Moody’s stated their June 2016 downgrade from Baa1 to Baa2 reflected a “continuing budget imbalance due to political gridlock that for more than a year has kept Illinois from addressing revenue lost due to income tax cuts that took effect in January 2015.” Moody’s also projected at the time that Illinois’ bill backlog would surpass prior peak levels (about \$10 billion) in the coming months. This has already happened as the current bill backlog discussed earlier in this report exceeds \$12 billion as of the end of February 2017.

Illinois' GO Bond ratings have been downgraded thirteen times since 2010, six times within the last eighteen months. The major consequence of the rating downgrades is that debt ratings are one of the factors that are strongly considered when determining the interest rate the State must pay to issue debt (sell bonds). Consequently, declines in the State's rating lead to a corresponding increase in debt service costs for Illinois.

ILLINOIS' GENERAL OBLIGATION RATINGS HISTORY						
Date of Rating Action	Fitch		S&P		Moody's	
	Rating	up/down	Rating	up/down	Rating	up/down
February 2017	<b>BBB</b>	↓1x				
September 2016			<b>BBB</b>	↓1x		
June 2016			<b>BBB+</b>	↓1x	<b>Baa2</b>	↓1x
October 2015	<b>BBB+</b>	↓1x			<b>Baa1</b>	↓1x
June 2013	<b>A-</b>	↓1x			<b>A3</b>	↓1x
Jan 2013			<b>A-</b>	↓1x		
Aug 2012			<b>A</b>	↓1x		
Jan 2012					<b>A2</b>	↓1x
Jun 2010	<b>A</b>	↓1x			<b>A1</b>	↓1x

Agency Ratings Comparison	
Fitch/S&P	Moody's
AAA	Aaa
AA+	AA+
AA	Aa2
AA-	Aa3
A+	A1
A	A2
A-	A3
BBB+	Baa1
BBB	Baa2
BBB-	Baa3
BB+	Ba1
BB	Ba2
BB-	Ba3
B+	B1
B	B2
B-	B3
CCC+	Caa1
CCC	Caa2
CCC-	Caa3
CC	Ca
C	C

Should Illinois consider the option of paying the bill backlog (or a portion thereof) with bond proceeds in order to minimize the interest penalties and pay outstanding obligations in a timely manner, the continued credit downgrades will not work in Illinois' favor in the bond market.

- **Unfunded Pension Liabilities.** 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 2016 actuarial reports, which were issued prior to November 1st, 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 \$126.5 billion on June 30, 2016, led by the Teachers' Retirement System (TRS), whose unfunded liabilities amounted to \$71.4 billion. As the largest of the State systems, TRS accounts for approximately 56% of the total assets and liabilities of the five State systems combined. Table 1, on the following page, 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 the actuarial value of assets.

A more realistic valuation of the true financial position of the State retirement systems would be based upon the market value of assets, as shown in Table 2 on the following page as well. Based upon the market value of assets, the combined unfunded liabilities of the State systems totaled \$129.8 billion on June 30, 2016. TRS, whose unfunded liabilities amounted to \$73.4 billion, again represents approximately 57% of the combined total unfunded balance. Table 2 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 on the market value of assets.

<b>Summary of Financial Condition FY 2016</b> <b>State Retirement Systems Combined</b> <b>Assets at Actuarial Value / With Asset Smoothing (P.A. 96-0043)</b> <b>(\$ in Millions)</b>				
System	Accrued <u>Liability</u>	Actuarial <u>Assets</u>	Unfunded <u>Liability</u>	Funded <u>Ratio</u>
TRS	\$118,629.9	\$47,222.1	\$71,407.8	39.8%
SERS	\$45,515.4	\$15,632.6	\$29,882.8	34.3%
SURS	\$40,923.3	\$17,698.3	\$23,225.0	43.2%
JRS	\$2,546.4	\$870.9	\$1,675.6	34.2%
GARS	\$363.3	\$50.8	\$312.5	14.0%
<b>TOTAL</b>	<b>\$207,978.3</b>	<b>\$81,474.7</b>	<b>\$126,503.6</b>	<b>39.2%</b>



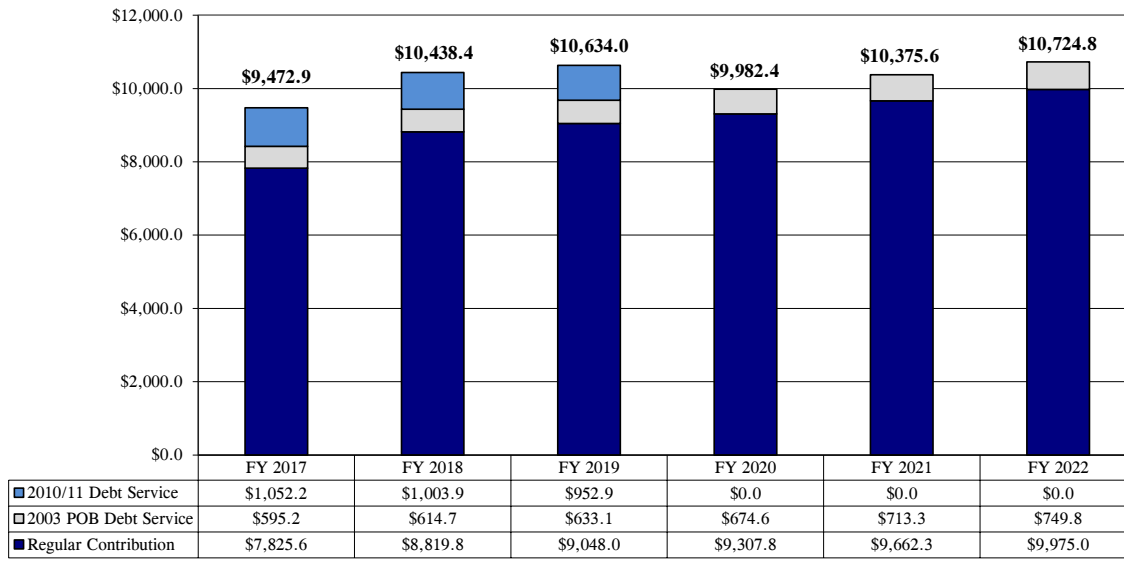
<b>Summary of Financial Condition FY 2016</b> <b>State Retirement Systems Combined</b> <b>Assets at Market Value / Without Asset Smoothing (P.A. 96-0043)</b> <b>(\$ in Millions)</b>				
<b>System</b>	<b><u>Accrued Liability</u></b>	<b><u>Market Assets</u></b>	<b><u>Unfunded Liability</u></b>	<b><u>Funded Ratio</u></b>
TRS	\$118,629.9	\$45,251.0	\$73,378.9	38.1 %
SERS	\$45,515.4	\$15,038.5	\$30,476.8	33.0 %
SURS	\$40,923.3	\$16,981.5	\$23,941.8	41.5 %
JRS	\$2,546.4	\$840.3	\$1,706.2	33.0 %
GARS	\$363.3	\$49.1	\$314.3	13.5 %
<b>TOTAL</b>	<b>\$207,978.3</b>	<b>\$78,160.3</b>	<b>\$129,818.0</b>	<b>37.6 %</b>

The funded ratios based on the market value of assets for each of the five State retirement systems may be compared to the aggregate funded ratio of 37.6% for the five systems combined. Although the General Assembly Retirement System (GARS) has the poorest funded ratios, followed by the Judges' Retirement System (JRS) and SERS, GARS and JRS systems are much smaller, and their respective unfunded liabilities are thus more manageable than the three larger systems.

Under P.A. 88-0593, 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 1, below, reflects the actuarial forecast of projected State contributions to the five systems as prepared by each system's actuary pursuant to P.A. 88-0593. 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.

**STATE RETIREMENT SYSTEMS**  
**Projected Total State Pension Cost**  
**Based on Public Act 88-0593**  
**FY 2017 - FY 2022**

(\$ in Millions)



The 2016 Report of the State Actuary, issued in December of 2016, noted that the current statutory funding method does not meet generally acceptable actuarial principles because the law does not require the attainment of a 100% funding ratio, and also because the reduction of accrued liabilities does not occur until well into the future. The State Actuary recommended that the funding method be altered to fully fund future plan benefits so as to discontinue the historical practice of systemic underfunding. Specifically, the report states “...continuing the practice of underfunding future accruals increases the risk of the systems becoming unsustainable.”<sup>1</sup>

<sup>1</sup> 2016 Summary Report #5 of the State Actuary, Page 11. Available at: (<http://www.auditor.illinois.gov/Audit-Reports/Performance-Special-Multi/State-Actuary-Reports/2016-State-Actuary-Rpt-Summary.pdf>)

- **Illinois' Economic Forecast Challenges.** Moody's Analytics prepared the State of Illinois Forecast Report for the Commission in January 2017. The report highlighted recent performance among various sectors of Illinois' economy, as well as provided a near-term and long-term outlook, including negative factors. Below are several challenges mentioned by Moody's as well as by the Commission's chief economist. The entire Moody's report is available on the Commission's website ([cgfa.ilga.gov](http://cgfa.ilga.gov)).
- Even as the national economy continues its prolonged period of economic recovery and expansion as it entered 2017, it *remains the weakest* such period in the post WWII era. Within that environment, Illinois has underperformed both the nation and the Midwest. Moreover, the expansion has been uneven throughout the State with Downstate hurting more than Chicago.
- Real Gross State Product in the State *grew a modest 1.6%* in 2016, and is expected to remain on that track through 2020. This *remains below forecasts* of real national GNP growth in the 2% to 2.3% range.
- Employment growth, according to Global Insight, is likely to average in the 0.8% area, the same as in 2016, but below the 1.3% reached in both 2014 and 2015. Moreover, *the improvement in manufacturing employment in Illinois*, seen earlier in the economic recovery, *has weakened and is currently eroding some of those gains*. As a result, *Illinois' unemployment rate, currently at 5.7%, is a full percent above the national rate of 4.7%. And, that gap is unlikely to narrow significantly during the forecast period.*
- Longer-term, Global Insight forecast the loss of population in Illinois that has occurred in recent years to end next year, but they show only modest gains in the outer years.
- The biggest threat to Illinois is the poor public sector finances leading to its severely deteriorating credit rating. The State also is facing demographic challenges as Moody's Analytics states, "an aging population coupled with a trend toward fewer workers hampers job and income gains, which are forecast to be below average over the extended forecast horizon."

## Opportunities

- **New Revenues.** Increasing revenues would provide relief by reducing the budget deficit. A number of proposals have been discussed and considered, including gaming expansion, service taxes, income taxes, cable/satellite television tax, and a business opportunity tax, among others. Depending on the taxing levels and corresponding credits or reductions that may be considered, the overall increase in new revenues could be \$4-\$6 billion, which would not completely balance the current budget, but it would narrow the gap. In turn, the rating agencies may be less likely to issue further downgrades and instead, begin the road to recovery and fiscal health.
- **Income Tax Increase.** It is mostly agreed upon that Illinois will, at some point in the near future, need to increase the income tax in order to help balance the budget. The matrix below shows the Commission's revenue estimates for various personal and corporate income tax increase scenarios.
  - Should the personal income tax rate become effective January 1, 2017, retroactively, FY 2017 revenues are estimated to increase approximately \$377 million for every quarter percent the personal income tax is increased, or \$1.508 billion for every 1% increase. When annualized for FY 2018, every quarter percent increase is estimated to yield \$895 million, or \$3.577 billion for every 1% increase. Corporate income taxes would also increase proportionately as shown in the charts below.
  - Should the personal income tax rate become effective July 1, 2017 (the beginning of FY 2018), FY 2018 revenues are estimated to increase approximately \$828 million for every quarter percent the personal income tax is increased, or \$3.312 billion for every 1% increase. FY 2019 estimates for every quarter percent increase is estimated to yield \$938 million, or \$3.752 billion for every 1% increase. Corporate income taxes would also increase proportionately as shown in the charts below.

FY 2017 Impact of Changing Income Tax Rates					
\$ in billions					
Values are net revenues (removes amounts to Refund Fund at current rates) but does not remove revenues for the Fund for Advancement of Education and the Commitment to Human Services Fund					
Tax Rate Change on January 1, 2017					
	PIT Rate	PIT Revenues	CIT Rate	CIT Revenues	Combined
Current Law	3.75%	\$13.586	5.25%	\$1.448	\$15.035
0.25% Increase	4.00%	\$13.963	5.50%	\$1.470	\$15.433
Difference	0.25%	\$0.377	0.25%	\$0.022	\$0.399
	PIT Rate	PIT Revenues	CIT Rate	CIT Revenues	Combined
Current Law	3.75%	\$13.586	5.25%	\$1.448	\$15.035
0.5% Increase	4.25%	\$14.340	5.75%	\$1.493	\$15.833
Difference	0.50%	\$0.754	0.50%	\$0.045	\$0.799
	PIT Rate	PIT Revenues	CIT Rate	CIT Revenues	Combined
Current Law	3.75%	\$13.586	5.25%	\$1.448	\$15.035
1% Increase	4.75%	\$15.094	6.25%	\$1.538	\$16.632
Difference	1.00%	\$1.508	1.00%	\$0.090	\$1.598
	PIT Rate	PIT Revenues	CIT Rate	CIT Revenues	Combined
Current Law	3.75%	\$13.586	5.25%	\$1.448	\$15.035
Increase to Prev. Rates	5.00%	\$15.471	7.00%	\$1.605	\$17.076
Difference	1.25%	\$1.884	1.75%	\$0.157	\$2.042
FY 2018 Impact of Changing Income Tax Rates					
\$ in billions					
Values are net revenues (removes amounts to Refund Fund at current rates) but does not remove revenues for the Fund for Advancement of Education and the Commitment to Human Services Fund					
Tax Rate Change on January 1, 2017					
	PIT Rate	PIT Revenues	CIT Rate	CIT Revenues	Combined
Current Law	3.75%	\$14.119	5.25%	\$1.568	\$15.687
0.25% Increase	4.00%	\$15.014	5.50%	\$1.634	\$16.647
Difference	0.25%	\$0.895	0.25%	\$0.066	\$0.961
	PIT Rate	PIT Revenues	CIT Rate	CIT Revenues	Combined
Current Law	3.75%	\$14.119	5.25%	\$1.568	\$15.687
0.5% Increase	4.25%	\$15.908	5.75%	\$1.700	\$17.607
Difference	0.50%	\$1.788	0.50%	\$0.132	\$1.921
	PIT Rate	PIT Revenues	CIT Rate	CIT Revenues	Combined
Current Law	3.75%	\$14.119	5.25%	\$1.568	\$15.687
1% Increase	4.75%	\$17.696	6.25%	\$1.832	\$19.528
Difference	1.00%	\$3.577	1.00%	\$0.265	\$3.841
	PIT Rate	PIT Revenues	CIT Rate	CIT Revenues	Combined
Current Law	3.75%	\$14.119	5.25%	\$1.568	\$15.687
Increase to Prev. Rates	5.00%	\$18.590	7.00%	\$2.030	\$20.620
Difference	1.25%	\$4.470	1.75%	\$0.463	\$4.933
Estimate as of March 2017					

FY 2018 Impact of Changing Income Tax Rates					
\$ in billions					
Values are net revenues (removes amounts to Refund Fund at current rates) but does not remove revenues for the Fund for Advancement of Education and the Commitment to Human Services Fund					
Tax Rate Change on July 1, 2017					
	PIT Rate	PIT Revenues	CIT Rate	CIT Revenues	Combined
Current Law	3.75%	\$14.119	5.25%	\$1.568	\$15.687
0.25% Increase	4.00%	\$14.947	5.50%	\$1.622	\$16.569
Difference	0.25%	\$0.828	0.25%	\$0.054	\$0.882
	PIT Rate	PIT Revenues	CIT Rate	CIT Revenues	Combined
Current Law	3.75%	\$14.119	5.25%	\$1.568	\$15.687
0.5% Increase	4.25%	\$15.775	5.75%	\$1.676	\$17.451
Difference	0.50%	\$1.656	0.50%	\$0.108	\$1.764
	PIT Rate	PIT Revenues	CIT Rate	CIT Revenues	Combined
Current Law	3.75%	\$14.119	5.25%	\$1.568	\$15.687
1% Increase	4.75%	\$17.431	6.25%	\$1.784	\$19.216
Difference	1.00%	\$3.312	1.00%	\$0.217	\$3.529
	PIT Rate	PIT Revenues	CIT Rate	CIT Revenues	Combined
Current Law	3.75%	\$14.119	5.25%	\$1.568	\$15.687
Increase to Prev. Rates	5.00%	\$18.259	7.00%	\$1.947	\$20.206
Difference	1.25%	\$4.140	1.75%	\$0.380	\$4.520
FY 2019 Impact of Changing Income Tax Rates					
\$ in billions					
Values are net revenues (removes amounts to Refund Fund at current rates) but does not remove revenues for the Fund for Advancement of Education and the Commitment to Human Services Fund					
Tax Rate Change on July 1, 2017					
	PIT Rate	PIT Revenues	CIT Rate	CIT Revenues	Combined
Current Law	3.75%	\$14.613	5.25%	\$1.623	\$16.236
0.25% Increase	4.00%	\$15.551	5.50%	\$1.696	\$17.247
Difference	0.25%	\$0.938	0.25%	\$0.073	\$1.011
	PIT Rate	PIT Revenues	CIT Rate	CIT Revenues	Combined
Current Law	3.75%	\$14.613	5.25%	\$1.623	\$16.236
0.5% Increase	4.25%	\$16.489	5.75%	\$1.770	\$18.259
Difference	0.50%	\$1.876	0.50%	\$0.148	\$2.023
	PIT Rate	PIT Revenues	CIT Rate	CIT Revenues	Combined
Current Law	3.75%	\$14.613	5.25%	\$1.623	\$16.236
1% Increase	4.75%	\$18.365	6.25%	\$1.919	\$20.284
Difference	1.00%	\$3.752	1.00%	\$0.296	\$4.048
	PIT Rate	PIT Revenues	CIT Rate	CIT Revenues	Combined
Current Law	3.75%	\$14.613	5.25%	\$1.623	\$16.236
Increase to Prev. Rates	5.00%	\$19.303	7.00%	\$2.142	\$21.445
Difference	1.25%	\$4.690	1.75%	\$0.519	\$5.209
Estimate as of March 2017					

- **Service Tax Revenues.** In recent decades, the service sector has become a larger portion of the national economy, as well as the Illinois economy. Based on data from the Bureau of Economic Analysis, private services-providing industries accounted for just over 72% of Illinois' contribution to the Gross Domestic Product (GDP) in 2015.

Currently, Illinois only taxes 17 different kinds of services. Most of these services are public utility related (Public Utility Taxes). A few are taxed under the sales taxes (prepaid phone cards, photograph processing, and canned software). Other services have their own excise taxes (hotels, automobile rentals, coin-operated amusements devices).

In a 2010 survey conducted by the Federation of Tax Administrators, Illinois taxed the third fewest amount of services when compared to other States. This affords the State an opportunity to modernize, broaden, and diversify its tax base. The Illinois sales tax was originally developed in the 1930's when the economy was much more reliant on goods production. By taxing services, the tax system would modernize to more accurately reflect the economy of 2017.

Taxing more services could be used to bring in more revenue to the State. It could also be used to offset a portion of the sales tax on goods and allow for the overall tax rate to be lowered. The table below shows how Illinois compares to the surrounding states and how much revenue could be collected under a 5% service tax based on the services taxed in each of those states. For more information on this topic, please see the Commission's 2017 service tax report update at <http://cgfa.ilga.gov/Upload/ServiceTaxes2017update.pdf>

<b>Service Tax Estimates</b>							
<b>Service Tax System</b>	<b>Number of Additional Services Taxed</b>	<b>Broad Based Estimate</b>			<b>Refined Estimate</b>		
		<b>Tax Revenue (\$ Millions)</b>			<b>Tax Revenue (\$ Millions)</b>		
		<b>FY'18</b>	<b>FY'19</b>	<b>FY'20</b>	<b>FY'18</b>	<b>FY'19</b>	<b>FY'20</b>
Iowa	81	\$2,040.4	\$2,351.6	\$2,905.4	\$847.3	\$975.4	\$1,203.7
Indiana	8	\$378.5	\$435.8	\$538.0	\$197.7	\$227.8	\$281.4
Kentucky	6	\$221.5	\$254.1	\$312.4	\$127.2	\$145.6	\$178.6
Missouri	11	\$313.4	\$361.4	\$446.9	\$179.9	\$207.1	\$255.8
Wisconsin	14	\$672.9	\$773.3	\$952.7	\$416.1	\$477.7	\$588.0
Models assume a 5% tax rate, a 7/1/17 implementation date, and a 67%, 75%, and 90% compliance timeline. Broad based estimate taxes all transactions, the refined estimate tries to only account for transactions to final users Source: CGFA							

- **Reducing Rates for Timely and Prompt Payment Interest.** As discussed earlier in this report, the state is obligated to pay interest on past due bills. This interest is either 9% or 12% annually, depending on the associated bill type. If these interest rates were reduced, the amount of interest penalties the state pays would decrease proportionately.

We mentioned previously, as of February 28, 2017, \$3.026 billion in General Revenue Fund bills over 90 days old were being held by the Comptroller. This \$3.026 billion accrues interest penalties at a rate of 1% per month (12% annually). This equates to \$30.26 million per month, after 90 days of nonpayment. If, for example, that rate was reduced to 7.5% annually, or .625% per month, that interest penalty would be reduced to \$18.9 million per month, a reduction of \$11.3 million (-37%).

Considering a reduction in these interest rates would reduce the amount of penalties Illinois is obligated to pay while trying to reduce the bill backlog.



### III. 3-Year Budget Forecasts

Below is the Commission's 3-year estimate for General Funds revenues. Based on its March 2017 estimate, the Commission believes that FY 2017 general funds revenue to be \$30.2 billion, a slight decrease from FY 2016. The Income Taxes and Sales Taxes continue to be the largest sources of revenue along with Federal Sources. This amount is expected to grow to \$31.1 billion in FY 2018, \$31.9 billion in FY 2019, and \$32.7 billion in FY 2020. The Commission's estimates reflect a view of continued slow growth from the economy with some downward pressure related to the age of the business cycle and the instability associated with the on-going budget impasse.

<b>CGFA ESTIMATES FY 2017-FY 2020 (Base Revenues)</b>					
	(millions)				
	Actual	CGFA	CGFA	CGFA	CGFA
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
<u>Revenue Sources</u>	<u>FY 2016</u>	<u>Estimate Mar-17</u>	<u>Estimate Mar-17</u>	<u>Estimate Mar-17</u>	<u>Estimate Mar-17</u>
<b>State Taxes</b>					
Personal Income Tax	\$15,299	\$15,300	\$15,688	\$16,237	\$16,643
Corporate Income Tax	\$2,334	\$1,750	\$1,900	\$1,967	\$2,035
Sales Taxes	\$8,063	\$8,215	\$8,380	\$8,590	\$8,804
Public Utility (regular)	\$926	\$883	\$898	\$883	\$868
Cigarette Tax	\$353	\$353	\$353	\$353	\$353
Liquor Gallonage Taxes	\$170	\$171	\$173	\$175	\$178
Vehicle Use Tax	\$30	\$30	\$30	\$30	\$30
Estate Tax (gross)	\$306	\$285	\$280	\$280	\$280
Insurance Taxes & Fees	\$398	\$405	\$410	\$415	\$420
Corporate Franchise Tax & Fees	\$207	\$205	\$203	\$200	\$197
Interest on State Funds & Investments	\$24	\$28	\$32	\$35	\$40
Cook County Intergovernmental Transfer	\$244	\$244	\$244	\$244	\$244
<u>Other Sources</u>	<u>\$534</u>	<u>\$647</u>	<u>\$599</u>	<u>\$544</u>	<u>\$549</u>
<b>Subtotal</b>	<b>\$28,888</b>	<b>\$28,516</b>	<b>\$29,190</b>	<b>\$29,953</b>	<b>\$30,641</b>
<b>Transfers</b>					
Lottery	\$677	\$719	\$719	\$733	\$748
Riverboat transfers and receipts	\$277	\$265	\$262	\$261	\$260
Proceeds from sale of 10th license	\$10	\$10	\$10	\$10	\$10
Refund Fund transfer	\$77	\$0	\$0	\$0	\$0
Interfund Borrowing	\$0	\$0	\$0	\$0	\$0
<u>Other</u>	<u>\$550</u>	<u>\$621</u>	<u>\$699</u>	<u>\$713</u>	<u>\$713</u>
<b>Total State Sources</b>	<b>\$30,479</b>	<b>\$30,131</b>	<b>\$30,880</b>	<b>\$31,670</b>	<b>\$32,372</b>
<b>Federal Sources</b>	<b>\$2,665</b>	<b>\$3,000</b>	<b>\$3,111</b>	<b>\$3,204</b>	<b>\$3,300</b>
<b>Total Federal &amp; State Sources</b>	<b>\$33,144</b>	<b>\$33,131</b>	<b>\$33,991</b>	<b>\$34,874</b>	<b>\$35,672</b>
<b>Nongeneral Funds Distribution:</b>					
<b>Refund Fund*</b>					
Personal Income Tax	(\$1,493)	(\$1,714)	(\$1,569)	(\$1,624)	(\$1,664)
Corporate Income Tax	(\$362)	(\$302)	(\$333)	(\$344)	(\$356)
<b>Fund for Advancement of Education</b>	<b>(\$458)</b>	<b>(\$453)</b>	<b>(\$471)</b>	<b>(\$487)</b>	<b>(\$499)</b>
<b>Commitment to Human Services Fund</b>	<b>(\$458)</b>	<b>(\$453)</b>	<b>(\$471)</b>	<b>(\$487)</b>	<b>(\$499)</b>
<b>Total, Base Revenues</b>	<b>\$30,373</b>	<b>\$30,209</b>	<b>\$31,147</b>	<b>\$31,932</b>	<b>\$32,654</b>
<b>Change from Prior Year Estimate</b>		<b>(\$164)</b>	<b>\$938</b>	<b>\$785</b>	<b>\$722</b>
<b>Percent Change</b>		<b>-0.5%</b>	<b>3.1%</b>	<b>2.5%</b>	<b>2.3%</b>
The FY 2018-20 estimates based on current refund percentages at 10% for PIT and 17.5% 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 various 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 2017 spending base of \$39.014 billion as indicated in the Governor's five-year budget forecast. Revenues associated with the transfers to the Fund for Advancement of Education and Commitment to Human Services Fund will be added back to the Commission's base General Funds revenue estimate to allow for comparisons with the Governor's five-year budget forecast and better reflect each scenarios effect on the bill backlog. No debt restructuring was assumed in any of these scenarios.

The first growth rate scenario reflected annual declines in spending of -14.0% which is the rate at which the backlog of bills would equal \$0 at the end of the three years. The second rate 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. Scenarios three and four use the 5-year and 10-year averages for expenditure growth of 0.7% and 1.7%. Scenario five uses the expenditures assumed by the Governor in his 5-year budget forecast. The final scenario uses the 20-year average growth rate of 5.1%.

### **Scenario Analysis Results**

Results of the various budget scenarios can be found in the table on page 23. The table contains revenues, spending, operating surplus/deficit, and cumulative backlog of bills for each scenario. The scenarios assume \$3.0 billion in FY 2016 operational liabilities not paid and a backlog of bills of -\$5.3 billion at the beginning of FY 2017.

**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. -14.0% Annual Decline in Spending

The first scenario analyzed (annual expenditure declines of -14.0%) shows the spending decreases that would be necessary to get the backlog of bills at the end of the fiscal year to zero by the end of FY 2020. This scenario saw deficit spending in FY 2018 (-\$500 million) but surpluses in FY 2019 (\$5.0 billion) and FY 2020 (\$9.9 billion). Expenditures would drop to just under \$25 billion in FY 2020 in this scenario.

This scenario is primarily for presentation purposes only as there will always be some outstanding bills in the “pipeline”, and therefore, the backlog of bills could never truly reach \$0. This scenario does show what kind of spending reductions that would be necessary to get the backlog of bills down to a more manageable level within three years only using spending cuts. It is very unlikely that a reduction of spending from the current levels to just \$25 billion could occur without monumental changes to the way the State is run and what services are provided.

### Scenario 2. Flat Spending

Scenario 2 shows what would happen if expenditures were frozen at FY 2017 levels. This scenario kept spending at \$39.0 billion for all three years. This scenario had deficits in all three fiscal years. The deficit begins at approximately -\$6.0 billion per year and decreases to -\$4.4 billion in FY 2020. Nevertheless, due to the consistent deficit spending, the backlog of bills grew to -\$29.9 billion.

### Scenario 3. 0.7% Annual Growth in Spending (5-Year Average Growth)

The third scenario examined what spending and the backlog of bills would grow to assuming growth rates similar to the 5-year average. The deficit was estimated to be -\$6.3 billion in FY 2018 but lessened to -\$4.4 billion by FY 2020. The backlog of bills was estimated to grow to over -\$31.5 billion by the end of FY 2020.

### Scenario 4. 1.7% Annual Growth in Spending (10-Year Average Growth)

Scenario 4 assumed spending increases similar to the 10-year average of 1.7%. Under this scenario the annual deficits ranged from -\$6.4 to -\$6.6 billion in each of the forecast years. Spending grew to \$41.0 billion by FY 2020. This compares to an estimated \$34.7 billion in estimated revenues. The backlog of bills was estimated at -\$33.9 billion.

### Scenario 5. Spending from GOMB’s 5-year Budget Forecast

This scenario used the spending outlined by the Governor’s Office of Management and Budget in his 5-year budget forecast. This scenario had spending between \$40.6 billion and \$41.3 billion for the various fiscal years. These spending levels averaged out to

approximately 2.5% per year. This would be slightly higher than the 10-year average of 1.7% but well under the 20-year average of 5.1%. Using this spending level and CGFA's revenue estimates led to a final backlog of bills of -\$35.7 billion.

#### Scenario 6. 5.1% Annual Growth in Spending (20-Year Average Growth)

The final scenario is the worst of them all. Using a growth rate in expenditures of 5.1% per year which was the 20-year expenditure growth average, spending grew to \$45.2 billion in FY 2020. Deficits grow from -\$8.0 billion in FY 2018 to -\$10.0 billion in FY 2020. The backlog of bills would grow to over -\$40.2 billion in this scenario.

### 3-YEAR BUDGET SCENARIOS

(\$ million)

#### Scenario 1: -14.0% Annual Decline in Spending

	General Funds/ FAE			
	Revenues	Spending	Surplus/Deficit	End of Fiscal Year Backlog of Bills
FY 2017	\$32,877	\$39,014	(\$6,137)	(\$14,379)
FY 2018	\$33,031	\$33,544	(\$513)	(\$14,892)
FY 2019	\$33,880	\$28,841	\$5,039	(\$9,853)
FY 2020	\$34,650	\$24,797	\$9,853	<b>\$0</b>

#### Scenario 2: Flat Spending (0% growth)

	General Funds/ FAE			
	Revenues	Spending	Surplus/Deficit	End of Fiscal Year Backlog of Bills
FY 2017	\$32,877	\$39,014	(\$6,137)	(\$14,379)
FY 2018	\$33,031	\$39,014	(\$5,983)	(\$20,362)
FY 2019	\$33,880	\$39,014	(\$5,134)	(\$25,496)
FY 2020	\$34,650	\$39,014	(\$4,364)	(\$29,860)

#### Scenario 3: 5-Year Average Growth in Spending (0.7%)

	General Funds/ FAE			
	Revenues	Spending	Surplus/Deficit	End of Fiscal Year Backlog of Bills
FY 2017	\$32,877	\$39,014	(\$6,137)	(\$14,379)
FY 2018	\$33,031	\$39,287	(\$6,256)	(\$20,635)
FY 2019	\$33,880	\$39,562	(\$5,682)	(\$26,317)
FY 2020	\$34,650	\$39,839	(\$5,189)	(\$31,506)

#### Scenario 4: 10-Year Average Growth in Spending (1.7%)

	General Funds/ FAE			
	Revenues	Spending	Surplus/Deficit	End of Fiscal Year Backlog of Bills
FY 2017	\$32,877	\$39,014	(\$6,137)	(\$14,379)
FY 2018	\$33,031	\$39,677	(\$6,646)	(\$21,025)
FY 2019	\$33,880	\$40,352	(\$6,472)	(\$27,497)
FY 2020	\$34,650	\$41,038	(\$6,388)	(\$33,885)

#### Scenario 5: Spending from GOMB's 5-Year Budget Forecast

	General Funds/ FAE			
	Revenues	Spending	Surplus/Deficit	End of Fiscal Year Backlog of Bills
FY 2017	\$32,877	\$39,014	(\$6,137)	(\$14,379)
FY 2018	\$33,031	\$40,556	(\$7,525)	(\$21,904)
FY 2019	\$33,880	\$41,025	(\$7,145)	(\$29,049)
FY 2020	\$34,650	\$41,305	(\$6,655)	(\$35,704)

#### Scenario 6: 20-Year Average Growth in Spending (5.1%)

	General Funds/ FAE			
	Revenues	Spending	Surplus/Deficit	End of Fiscal Year Backlog of Bills
FY 2017	\$32,877	\$39,014	(\$6,137)	(\$14,379)
FY 2018	\$33,031	\$41,004	(\$7,973)	(\$22,352)
FY 2019	\$33,880	\$43,095	(\$9,215)	(\$31,567)
FY 2020	\$34,650	\$45,293	(\$10,643)	(\$42,209)

All scenarios use GGFA revenue estimates, GOMB's 5-Year Budget Forecast estimated budget for the FY 2017 spending, estimated FY 2016 operational liabilities not paid of (\$2,986), and a backlog of bills of (\$5,256) at the end of FY 2016.

# APPENDIX A. DETAILED GENERAL FUNDS REVENUE HISTORY FY 2007 - FY 2016

(\$ million)

<u>Revenue Sources</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>	<u>FY 2016</u>
<b>State Taxes</b>										
Personal Income Tax	\$10,424	\$11,187	\$10,219	\$9,430	\$12,301	\$17,000	\$18,323	\$18,388	\$17,682	\$15,299
Corporate Income Tax (regular)	2,121	2,201	2,073	1,649	2,277	2,983	3,679	3,640	3,129	2,334
Sales Taxes	7,136	7,215	6,773	6,308	6,833	7,226	7,355	7,676	8,030	8,063
Public Utility Taxes (regular)	1,131	1,157	1,168	1,089	1,147	995	1,033	1,013	1,006	926
Cigarette Tax	350	350	350	355	355	354	353	353	353	353
Liquor Gallonage Taxes	156	158	158	159	157	164	165	165	167	170
Vehicle Use Tax	33	32	27	30	30	29	27	29	32	30
Estate Tax (Gross)	264	373	288	243	122	235	293	276	333	306
Insurance Taxes and Fees	310	298	334	322	317	345	334	333	353	398
Corporate Franchise Tax & Fees	193	225	201	208	207	192	205	203	211	207
Interest on State Funds & Investments	204	212	81	26	28	21	20	20	24	24
Cook County Intergovernmental Transfer	307	302	253	244	244	244	244	244	244	244
Other Sources	<u>449</u>	<u>442</u>	<u>418</u>	<u>431</u>	<u>404</u>	<u>399</u>	<u>462</u>	<u>585</u>	<u>693</u>	<u>534</u>
<b>Subtotal</b>	<b>\$23,078</b>	<b>\$24,152</b>	<b>\$22,343</b>	<b>\$20,494</b>	<b>\$24,422</b>	<b>\$30,187</b>	<b>\$32,493</b>	<b>\$32,925</b>	<b>\$32,257</b>	<b>\$28,888</b>
<b>Transfers</b>										
Lottery	622	657	625	625	632	640	656	668	679	677
Gaming Fund Transfer [and related]	685	564	430	431	324	413	360	331	302	287
Other	<u>939</u>	<u>679</u>	<u>538</u>	<u>828</u>	<u>1,226</u>	<u>885</u>	<u>688</u>	<u>1,113</u>	<u>2,012</u>	<u>627</u>
<b>Total State Sources</b>	<b>\$25,324</b>	<b>\$26,052</b>	<b>\$23,936</b>	<b>\$22,378</b>	<b>\$26,604</b>	<b>\$32,125</b>	<b>\$34,197</b>	<b>\$35,037</b>	<b>\$35,250</b>	<b>\$30,479</b>
<b>Federal Sources</b>	<b>\$4,703</b>	<b>\$4,815</b>	<b>\$6,567</b>	<b>\$5,920</b>	<b>\$5,386</b>	<b>\$3,682</b>	<b>\$4,154</b>	<b>\$3,903</b>	<b>\$3,330</b>	<b>\$2,665</b>
<b>Total Federal &amp; State Sources</b>	<b>\$30,027</b>	<b>\$30,867</b>	<b>\$30,503</b>	<b>\$28,298</b>	<b>\$31,990</b>	<b>\$35,807</b>	<b>\$38,351</b>	<b>\$38,940</b>	<b>\$38,580</b>	<b>\$33,144</b>
<b>Nongeneral Funds Distribution:</b>										
<b>Refund Fund</b>										
Personal Income Tax	(\$1,016)	(\$867)	(\$996)	(\$919)	(\$1,076)	(\$1,488)	(\$1,785)	(\$1,746)	(\$1,769)	(\$1,493)
Corporate Income Tax	(371)	(341)	(363)	(289)	(426)	(522)	(502)	(476)	(439)	(362)
Fund for Advancement of Education	0	0	0	0	0	0	0	0	(242)	(458)
Commitment to Human Services Fund	0	0	0	0	0	0	0	0	(242)	(458)
<b>Total, Base Revenues</b>	<b>\$28,640</b>	<b>\$29,659</b>	<b>\$29,144</b>	<b>\$27,090</b>	<b>\$30,488</b>	<b>\$33,797</b>	<b>\$36,064</b>	<b>\$36,718</b>	<b>\$35,888</b>	<b>\$30,373</b>
Change from Prior Year	\$1,281	\$1,019	(\$515)	(\$2,054)	\$3,398	\$3,309	\$2,267	\$654	(\$830)	(\$5,515)
Percent Change	4.7%	3.6%	-1.7%	-7.0%	12.5%	10.9%	6.7%	1.8%	-2.3%	-15.4%
Short-Term Borrowing	\$900	\$2,400	\$2,400	\$1,250	\$1,300	\$0	\$0	\$0	\$454	\$0
Tobacco Liquidation Proceeds	0	0	0	0	1,250	0	0	0	0	0
HPF and HHSMF Transfers	456	1,503	0	0	0	0	0	0	0	0
Budget Stabilization Fund Transfer	276	276	576	1,146	535	275	275	275	275	125
Pension Contribution Fund Transfer	0	0	0	843	224	0	0	0	0	0
FY'13-14 Backlog Payment Fund Transfer	0	0	0	0	0	0	264	50	0	0
<b>Total General Funds Revenue</b>	<b>\$30,272</b>	<b>\$33,838</b>	<b>\$32,120</b>	<b>\$30,329</b>	<b>\$33,797</b>	<b>\$34,072</b>	<b>\$36,603</b>	<b>\$37,043</b>	<b>\$36,617</b>	<b>\$30,498</b>
Change from Prior Year	\$1,637	\$3,566	(\$1,718)	(\$1,791)	\$3,468	\$275	\$2,531	\$440	(\$426)	(\$6,545)
Percent Change	5.7%	11.8%	-5.1%	-5.6%	11.4%	0.8%	7.4%	1.2%	-1.2%	-17.7%

Source: ILLINOIS COMPTROLLER, CGFA

## APPENDIX B. GENERAL FUNDS EXPENDITURES HISTORY BY AGENCY FY 2007 - FY 2016

(\$ million)

<u>WARRANTS ISSUED</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>	<u>FY 2016</u>
<b><i>BY AGENCY</i></b>										
Healthcare and Family Services	\$7,725	\$8,089	\$9,556	\$7,239	\$7,309	\$8,158	\$6,726	\$7,292	\$6,525	\$6,090
State Board of Education	6,472	6,995	7,357	7,273	6,912	6,739	6,539	6,681	6,545	6,507
Human Services	3,885	4,086	4,144	3,997	3,894	3,415	3,448	3,217	3,363	3,153
Higher Education Agencies	2,269	2,195	2,398	2,230	2,146	2,844	3,234	3,303	3,291	2,039
Corrections	1,119	1,208	1,308	1,156	1,205	1,210	1,172	1,276	1,310	888
Children and Family Services	771	887	906	847	840	806	721	684	672	619
Aging	421	458	537	653	646	731	1,060	935	880	646
Teachers Retirement System	814	1,110	1,527	914	256	2,494	2,790	3,529	3,479	3,851
All Other Agencies	2,035	2,143	2,055	2,009	2,261	2,900	4,624	4,622	4,709	2,969
Prior Year Adjustments	(11)	(14)	(14)	(17)	(22)	(88)	(21)	(60)	(11)	(12)
<b><i>Total Warrants Issued</i></b>	<b>\$25,500</b>	<b>\$27,157</b>	<b>\$29,774</b>	<b>\$26,301</b>	<b>\$25,447</b>	<b>\$29,209</b>	<b>\$30,293</b>	<b>\$31,479</b>	<b>\$30,763</b>	<b>\$26,750</b>
<b><i>Transfers</i></b>										
Transfers Out (14 months)	4,616	7,380	5,185	6,450	6,937	5,164	5,350	5,497	4,858	4,576
<b><i>Total Expenditures</i></b>	<b>\$30,116</b>	<b>\$34,537</b>	<b>\$34,959</b>	<b>\$32,751</b>	<b>\$32,384</b>	<b>\$34,373</b>	<b>\$35,643</b>	<b>\$36,976</b>	<b>\$35,621</b>	<b>\$31,326</b>
Change from Prior Year	\$1,664	\$4,421	\$422	(\$2,208)	(\$367)	\$1,989	\$1,270	\$1,333	(\$1,355)	(\$4,295)
Percent Change	5.8%	14.7%	1.2%	-6.3%	-1.1%	6.1%	3.7%	3.7%	-3.7%	-12.1%
Repayment of Short-Term Borrowing	11	1,503	1,424	2,276	1,322	0	0	0	0	0
Cash Flow Transfers	1,356	2,400	300	870	260	0	0	0	0	0
Repayment of Interfund Borrowing	0	0	0	0	9	355	133	0	0	0
Budget Stabilization Fund Transfers	276	276	276	0	276	550	275	275	275	125
<b>Total, Base Expenditures</b>	<b>\$28,473</b>	<b>\$30,358</b>	<b>\$32,959</b>	<b>\$29,605</b>	<b>\$30,517</b>	<b>\$33,468</b>	<b>\$35,235</b>	<b>\$36,701</b>	<b>\$35,346</b>	<b>\$31,201</b>
Change from Prior Year	\$1,311	\$1,885	\$2,601	(\$3,354)	\$912	\$2,951	\$1,767	\$1,466	(\$1,355)	(\$4,145)
Percent Change	4.8%	6.6%	8.6%	-10.2%	3.1%	9.7%	5.3%	4.2%	-3.7%	-11.7%

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:

Commission on Government Forecasting and Accountability  
703 Stratton Office Building  
Springfield, Illinois 62706  
(217) 782-5320  
(217) 782-3513 (FAX)

<http://cgfa.ilga.gov>