Commission on Government Forecasting and Accountability

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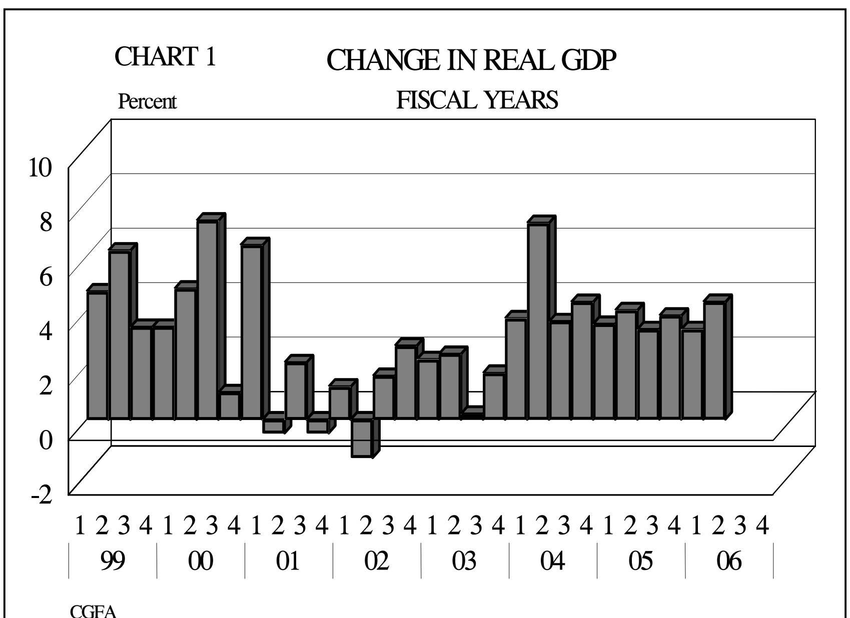
ECONOMY: Resilient

Edward H. Boss, Jr., Chief Economist

The only way to describe the performance of the U.S. economy is resilient. This was substantiated at month's end by the Commerce Department's release of revised third quarter 2005 real gross domestic product (GDP) performance. Despite record-high energy prices, continued increases in key monetary policy interest rates, and the ravages of major hurricanes throughout major areas of the country during the quarter, inflation-adjusted GDP rose at its fastest pace in a year and a half. As illustrated in the Chart, real GDP rose at a seasonally adjusted annual rate of 4.3%, up from an advanced report showing a 3.8% gain, and an actual rise at a 3.3% annual rate in the second quarter.

Last quarter's gain in real GDP was all the more remarkable since analysts had predicted that the disruptions from the hurricanes and their effects on energy supplies would reduce growth by as much as 1.0% during the quarter. If that



assessment was accurate, real growth would have risen at a 5.3% annual rate, the second fastest rate of gain during the entire business expansion. Remember, it was only months ago that pessimism pervaded the outlook: gasoline prices had pierced the $3 a gallon level; New Orleans was under water and being evacuated; the Federal Reserve continued to raise interest rates; evidence surfaced that the housing bubble was about to burst, and consumer confidence had plunged while inflation was heating up. Indeed, fears began to arise that the economy was on the verge of stagflation, a period of stagnant growth accompanied by rapid price increases. Recent business reports, including a better-than-expected start to the holiday shopping season, seem to have dispelled such fears, at least for the time being.

The upward revision to the percentage change in real GDP last quarter primarily reflected upward revisions to consumer spending on nondurable goods, increased residential spending, spending on equipment and software, and spending on business structures. These positives were somewhat offset by an upward revision to imports, which subtract from real GDP gains, that in part was due to higher imported energy costs. The price index for gross domestic purchases, which measures prices paid by U.S. residents, did not change from that originally reported and, excluding the food and energy sectors showed no increase from the rate recorded for the previous quarter. Thus fears of accelerating prices did not appear. The key question now is what this continued strength in the economy means for future monetary policy and its impact on the economy.

The Federal Reserve Open Market Committee is scheduled to meet again on December 13th and, given evidence of the continuing strength in the economy, is expected to edge up key monetary policy rates again, the 13th time since June 2004 in its continuing effort to preempt inflation from reoccurring. This has been a key policy objective of Chairman Greenspan who will be retiring early next year. Even so, it is well documented that changes in monetary policy impact the economy only with a significant lag.

While the data are mixed, it appears that previous Federal Reserve actions are beginning to let some of the air out of the housing market. Holiday sales, while starting off strong, are unlikely to be as buoyant as last year. And, while gasoline prices have come off their peaks, still to be faced are soaring home heating prices and the affect this will have on the consumer’s ability to spend. In conclusion, despite the acceleration in growth last quarter, the pace of economic activity is likely to ease in the quarters ahead. Given the amazing resiliency of the economy, however, the slowing is likely to be contained and be commensurate with no acceleration in prices.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS	OCT. 2005	SEPT. 2005	OCT. 2004
Unemployment Rate (Average)	5.5%	5.8%	6.1%
Annual Rate of Inflation (Chicago)	-2.4%	15.3%	3.7%

	LATEST MONTH	% CHANGE OVER PRIOR MONTH	% CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (October)	6,493	-0.2%	1.2%
Employment (thousands) (October)	6,137	-0.1%	1.8%
New Car & Truck Registration (October)	59,205	-14.2%	6.5%
Single Family Housing Permits (October)	4,445	-3.1%	15.8%
Total Exports ($ mil) (September)	2,997	1.8%	19.7%
Chicago Purchasing Managers Index (November)	61.7	-1.9%	-5.4%

Short-Term Borrowing

Lynnae Kapp, Bond/Revenue Analyst

In November 2005, the State borrowed $1 billion to pay a backlog of Medicaid provider bills. Debt service payments are to be made every month from March until June of FY 2006, with interest payments totaling $20 million at a reported average true interest cost of 3.2%. The $1 billion was deposited into the General Revenue Fund, and a $5.7 million premium was deposited into the General Obligation Bond Retirement and Interest Fund.

The last Short-term borrowing occurred in March 2005, when $765 million in short-term borrowing proceeds were deposited into the General Fund and then subsequently transferred to the Hospital Provider Fund to be spent on Medicaid bills. The short-term borrowing was paid off in June of 2005 including $5.7 million in interest.

Both of these types of borrowing are for cash flow purposes. In these cases, the State can borrow up to 5% of the State's appropriations for the fiscal year, but it must be repaid by the end of that fiscal year. The State can also use short-term borrowing for a deficit due to emergencies or failures of revenues. This "across fiscal year" borrowing allows for borrowing up to 15% of the State's appropriations for the fiscal year and must be repaid within one year.

HISTORY OF SHORT TERM BORROWING

Date Issued	Amount (millions)	Date Retired
June-July 1983	$200	May 1984
February 1987	$100	February 1988*
August 1991	$185	June 1992
February 1992	$500	October 1992*
August 1992	$600	May 1993
October 1992	$300	June 1993
August 1993	$900	June 1994
August 1994	$687	June 1995
August 1995	$500	June 1996
July 2002	$1,000	June 2003
May 2003	$1,500	May 2004*
June 2004	$850	October 2004*
March 2005	$765	June 2005
November 2005	$1,000	June 2006

SOURCE: Office of Management & Budget
*Across fiscal year borrowing

REVENUE

November Federal Sources Surge Due to Short-Term Borrowing

Jim Muschinske, Revenue Manager

Overall general funds revenues were up $563 million in November, excluding $1 billion in short-term borrowing. The large increase resulted from a huge gain in federal sources that is directly related to the short-term borrowing and subsequent reimbursement from Medicaid spending. Federal sources aside, with only a few exceptions, the other revenue sources performed quite well. November had one extra receipting day in comparison to last year.

Sales tax receipts continued strong with monthly receipts rising $31 million. Gross personal income tax revenues were up $22 million as well as on a net of refund basis. Public utility tax receipts were up $14 million, while the Cook County IGT gained $9 million. Interest income continued to post gains and was up $5 million, while inheritance taxes managed to increase $3 million.

For the month, only a couple of sources experienced declines. Gross corporate income tax revenues fell $10 million, although on a net of refund basis the decline was lessened to $8 million. Liquor taxes dropped $3 million.

Overall transfers rose $44 million in November. Lottery transfers gained $40 million. While lottery enjoyed a good month, the gain was made more pronounced due to a poor November of last year. Other transfers posted a $12 million gain. Riverboat transfers were down $8 million reflecting lower graduated tax rates.

As mentioned earlier, federal sources, which increased $446 million, enjoyed a stellar month due to the reimbursable spending on Medicaid bills made possible by the short-term borrowing.

It should be mentioned that short-term borrowing simply accelerates spending that would otherwise have occurred over the remainder of the year. As a result, absent a change in appropriations, spending and subsequent federal reimbursement will slow in the second half of the fiscal year. The Department of Healthcare and Family Services stated at the Commission's November 3, 2005 meeting that they expect unpaid Medicaid bills to be approximately $1.8 billion at the end of the fiscal year.

Year to Date

With the November surge in federal sources, excluding the $1 billion in short-term borrowing, overall revenues are up $577 million. While most of that gain can be attributed to reimbursement from Medicaid spending, sources most closely tied to the economy have continued to do quite well. However, offsetting some of those gains are falloffs in transfers such as the Cook County IGT, riverboat transfers, chargebacks and statutory fund sweeps.

Through November, sales tax receipts are up $202 million. Gross personal income tax has also posted good gains and are up $194 million, or $189 million net of refunds. Gross corporate income tax revenue is up $79 million, or $81 million net of refunds. Other sources experiencing increases have added another $71 million.

As mentioned, not all areas have fared as well as the economically related sources.

The Cook County IGT is off $81 million in large part due to timing of the transfers but also because of an anticipated decline in the total yearly transfer amount. The cigarette tax is down $50 million due to a temporary change in the distribution of the tax early last fiscal year. Other areas experiencing decline total an additional $22 million.

In addition, total transfers are down $159 million through November, reflecting the timing of statutory fund sweeps as well as lack of chargeback activity, in addition to the lower riverboat tax rates. Other fund transfers are down $186 million while riverboat transfers and receipts trail by $43 million. Offsetting some of those declines is a $70 million increase in lottery transfers.

Finally, as discussed earlier, the November short-term borrowing resulted in a very large month for federal sources. Receipts are now up $346 million, however, as spending is slowed in the second half of the fiscal year, those year to date gains will decline.

GENERAL FUNDS RECEIPTS: NOVEMBER

FY 2006 vs. FY 2005
($ million)

Revenue Sources	NOV. FY 2006	NOV. FY 2005	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$609	$587	$22	3.7%
Corporate Income Tax (regular)	13	23	($10)	-43.5%
Sales Taxes	561	530	$31	5.8%
Public Utility Taxes (regular)	91	77	$14	18.2%
Cigarette Tax	33	33	$0	0.0%
Liquor Gallonage Taxes	10	13	($3)	-23.1%
Vehicle Use Tax	2	2	$0	0.0%
Inheritance Tax (Gross)	28	25	$3	12.0%
Insurance Taxes and Fees	1	1	$0	0.0%
Corporate Franchise Tax & Fees	16	16	$0	0.0%
Interest on State Funds & Investments	13	8	$5	62.5%
Cook County IGT	49	40	$9	22.5%
Other Sources	24	24	$0	0.0%
Subtotal	$1,450	$1,379	$71	5.1%
Transfers				
Lottery	71	31	$40	129.0%
Riverboat transfers & receipts	55	63	($8)	-12.7%
Other	16	4	$12	300.0%
Total State Sources	$1,592	$1,477	$115	7.8%
Federal Sources	$778	$332	$446	134.3%
Total Federal & State Sources	$2,370	$1,809	$561	31.0%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($59)	($59)	$0	0.0%
Corporate Income Tax	($3)	(5)	$2	-40.0%
Subtotal General Funds	$2,308	$1,745	$563	32.3%
Short-Term Borrowing	$1,000	$0	$1,000	N/A
HPF and HHSMTF Transfers	$0	$0	$0	N/A
Budget Stabilization Fund Transfer	$0	$0	$0	N/A
Total General Funds	$3,308	$1,745	$1,563	89.6%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 2-Dec-05

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2006 vs. FY 2005
($ million)

Revenue Sources	FY 2006	FY 2005	CHANGE FROM FY 2005	% CHANGE
State Taxes				
Personal Income Tax	$3,240	$3,046	$194	6.4%
Corporate Income Tax (regular)	424	345	$79	22.9%
Sales Taxes	2,947	2,745	$202	7.4%
Public Utility Taxes (regular)	429	395	$34	8.6%
Cigarette Tax	166	216	($50)	-23.1%
Liquor Gallonage Taxes	62	63	($1)	-1.6%
Vehicle Use Tax	16	15	$1	6.7%
Inheritance Tax (Gross)	107	113	($6)	-5.3%
Insurance Taxes and Fees	84	95	($11)	-11.6%
Corporate Franchise Tax & Fees	79	76	$3	3.9%
Interest on State Funds & Investments	54	21	$33	157.1%
Cook County IGT	89	170	($81)	-47.6%
Other Sources	163	167	($4)	-2.4%
Subtotal	$7,860	$7,467	$393	5.3%
Transfers				
Lottery	285	215	$70	32.6%
Riverboat transfers & receipts	279	322	($43)	-13.4%
Other	173	359	($186)	-51.8%
Total State Sources	$8,597	$8,363	$234	2.8%
Federal Sources	$2,425	$2,079	$346	16.6%
Total Federal & State Sources	$11,022	$10,442	$580	5.6%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($316)	($311)	($5)	1.6%
Corporate Income Tax	($85)	($87)	$2	-2.3%
Subtotal General Funds	$10,621	$10,044	$577	5.7%
Short-Term Borrowing	$1,000	$0	$1,000	N/A
HPF and HHSMTF Transfers	$0	$0	$0	N/A
Budget Stabilization Fund Transfer	$276	$276	$0	N/A
Total General Funds	$11,897	$10,320	$1,577	15.3%

SOURCE: Office of the Comptroller, State of Illinois: Some totals may not equal, due to rounding.
CGFA 2-Dec-05

GENERAL FUNDS GROWTH NEEDED TO MEET ESTIMATE

FY 2006 ESTIMATE vs. FY 2005 ACTUAL

($ million)

Revenue Sources	NOV-05 ESTIMATE FY 2006	FYTD 2006	AMOUNT NEEDED FY 2006 EST.	FYTD 2005	GROWTH NEEDED	% CHANGE
State Taxes						
Personal Income Tax	$9,267	$3,240	$6,027	$3,046	$200	3.4%
Corporate Income Tax (regular)	1,664	424	$1,240	345	$37	3.1%
Sales Taxes	6,915	2,947	$3,968	2,745	$118	3.1%
Public Utility Taxes (regular)	1,072	429	$643	395	($18)	-2.7%
Cigarette Tax	405	166	$239	216	$5	2.1%
Liquor Gallonage Taxes	150	62	$88	63	$4	4.8%
Vehicle Use Tax	32	16	$16	15	($1)	-5.9%
Inheritance Tax (Gross)	265	107	$158	113	($39)	-19.8%
Insurance Taxes and Fees	332	84	$248	95	$1	0.4%
Corporate Franchise Tax & Fees	185	79	$106	76	$1	1.0%
Interest on State Funds & Investments	116	54	$62	21	$10	19.2%
Cook County IGT	340	89	$251	170	($12)	-4.6%
Other Sources	445	163	$282	167	($18)	-6.0%
Subtotal	$21,188	$7,860	$13,328	$7,467	$288	2.2%
Transfers						
Lottery	640	285	$355	215	($44)	-11.0%
Riverboat transfers & receipts	688	279	$409	322	$32	8.5%
Other	770	173	$597	359	$57	10.6%
Total State Sources	$23,286	$8,597	$14,689	$8,363	$333	2.3%
Federal Sources	$4,791	$2,425	$2,366	$2,079	($246)	-9.4%
Total Federal & State Sources	$28,077	$11,022	$17,055	$10,442	$87	0.5%
Nongeneral Funds Distribution:						
Refund Fund						
Personal Income Tax	($904)	($316)	($588)	($311)	($5)	0.9%
Corporate Income Tax	(333)	($85)	($248)	(87)	$41	-14.2%
Subtotal General Funds	$26,840	$10,621	$16,219	$10,044	$123	0.8%
Short-Term Borrowing	$1,000	$1,000	$0	$0	($765)	N/A
HPF and HHSMTF Transfer	$0	$0	$0	$0	($1,002)	N/A
Budget Stabilization Fund Transfer	$276	$276	$0	$276	$0	N/A
Total General Funds	$28,116	$11,897	$16,219	$10,320	($1,644)	-9.2%
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GENERAL FUNDS PERFORMANCE TO DATE
GOVERNOR'S OFFICE OF MANANGEMENT AND BUDGET

FY 2006 ESTIMATE vs. FY 2005 ACTUALS

($ million)

Revenue Sources	GOMB MAY-05 Estimate FY 2006	FYTD 2006	AMOUNT NEEDED FY 2006 Est.	FYTD 2005	GROWTH NEEDED	% CHANGE
State Taxes						
Personal Income Tax	$9,125	$3,240	$5,885	$3,046	$58	1.0%
Corporate Income Tax (regular)	1,583	424	$1,159	345	($44)	-3.7%
Sales Taxes	6,873	2,947	$3,926	2,745	$76	2.0%
Public Utility Taxes (regular)	1,069	429	$640	395	($21)	-3.2%
Cigarette Tax	400	166	$234	216	$0	0.0%
Liquor Gallonage Taxes	150	62	$88	63	$4	4.8%
Vehicle Use Tax	35	16	$19	15	$2	11.8%
Inheritance Tax (Gross)	285	107	$178	113	($19)	-9.6%
Insurance Taxes and Fees	327	84	$243	95	($4)	-1.6%
Corporate Franchise Tax & Fees	183	79	$104	76	($1)	-1.0%
Interest on State Funds & Investments	65	54	$11	21	($41)	-78.8%
Cook County IGT	340	89	$251	170	($12)	-4.6%
Other Sources	472	163	$309	167	$9	3.0%
Subtotal	$20,907	$7,860	$13,047	$7,467	$7	0.1%
Transfers						
Lottery	628	285	$343	215	($56)	-14.0%
Gaming Fund Transfer	707	279	$428	322	$51	13.5%
Other	844	173	$671	359	$131	24.3%
Total State Sources	$23,086	$8,597	$14,489	$8,363	$133	0.9%
Federal Sources	$4,791	$2,425	$2,366	$2,079	($246)	-9.4%
Total Federal & State Sources	$27,877	$11,022	$16,855	$10,442	($113)	-0.7%
Nongeneral Funds Distribution:						
Refund Fund						
Personal Income Tax	($890)	($316)	($574)	($311)	$9	-1.5%
Corporate Income Tax	(316)	(85)	($231)	(87)	$58	-20.1%
Subtotal General Funds	$26,671	$10,621	$16,050	$10,044	($46)	-0.3%
Short-Term Borrowing	$1,000	$1,000	$0	$0	($765)	N/A
HPF and HHSMTF Transfer	$0	$0	$0	$0	($1,002)	N/A
Budget Stabilization Fund Transfer	$276	$276	$0	$276	$0	N/A
Total General Funds	$27,947	$11,897	$16,050	$10,320	($1,813)	-10.1%

CGFA 2-Dec-05

PENSIONS

The Financial Condition of the State-Funded Retirement Systems

Dan Hankiewicz, Pension Analyst

Table 1 provides an overview of the financial condition of the State-funded retirement systems at the end of FY 2005.

When compared to FY 2004 (Table 2), the assets of the State-funded retirement systems have increased by $3.8 billion. However, the accrued liabilities of the systems grew by approximately $7.3 billion. The net result is a $3.5 billion increase in the unfunded liabilities of the systems, and a slight decrease in the funded ratio from 60.9% in FY 2004 to 60.3% in FY 2005.

The State-funded retirement systems certified their FY 2006 contributions on July 1, 2005, in accordance with P.A. 94-0004. The Act specified total State contributions of $938.4 in FY 2006 and $1,374.7 million in FY 2007. In addition, the act changes the provisions of the current funding plan to specify the ramp up to contributing at a level percent of payroll (in FY 2010) will resume in FY 2008.

TABLE 1: State-Funded Retirement Systems
FY 2005 Financial Condition
(in millions)

System	Assets	Liabilities	Unfunded	Funded Ratio
TRS	$34,085.2	$56,075.0	$21,989.8	60.8%
SERS	10,494.1	19,304.6	8,810.5	54.4%
SURS	13,350.2	20,349.9	6,999.7	65.6%
JRS	565.0	1,236.5	671.5	45.7%
GARS	83.3	212.9	129.6	39.1%
TOTAL	**$58,577.8**	**$97,178.9**	**$38,601.1**	**60.3%**

TABLE 2: State-Funded Retirement Systems
FY 2004 Financial Condition
(in millions)

System	Assets	Liabilities	Unfunded	Funded Ratio
TRS	$31,544.7	$50,947.5	$19,402.8	61.9%
SERS	9,990.2	18,442.7	8,452.5	54.2%
SURS	12,586.3	19,078.6	6,492.3	66.0%
JRS	534.6	1,156.1	621.5	46.2%
GARS	83.2	207.6	124.4	40.1%
TOTAL	**$54,739.0**	**$89,832.5**	**$35,093.5**	**60.9%**