Update on Illinois’ Economic and Fiscal Challenges and Responses

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Institute of Government and Public Affairs
I. Illinois employment and unemployment
   - Disappointing Illinois unemployment rate in Nov.
   - Illinois employment is stable

II. Fiscal balance in Illinois
    - Current policy seriously out of balance
    - A six year plan with some caveats

III. Update on rating of Illinois’ debt
Unemployment Rate

The percent of the labor force that is unemployed, not seasonally adjusted

Data from: U.S. Bureau of Labor Statistics
Unemployment Rate
The percent of the labor force that is unemployed, not seasonally adjusted

Data from: U.S. Bureau of Labor Statistics
“After years of underperforming the U.S. in employment trends, Illinois has shown signs of an above-average recovery.” (Moody’s Investors Service)
Level of employment in Illinois, Michigan & Indiana

Employment - Seasonally Adjusted

Summary: Status of Illinois’ economic recovery

- Tepid US economic recovery
- Until recent months, Midwest recovering faster and Illinois leading Midwest
- However, Illinois’ Nov. 2011 unemployment rate did not drop like rest of US
- Also, Illinois employment held steady in Nov.
II. Illinois Fiscal Situation and Projections

- Illinois fiscal crisis is due to
  - Structural deficit
  - Unpaid bills
  - Unfunded future obligations (primarily pensions)
- Since early 2011, tax increase, spending restraint and economic recovery have moved Illinois toward fiscal balance
- There is still a long way to go. Even if
  - Maintain higher tax rates past scheduled 2014 phase-out
  - And impose severe spending austerity,
  Achieving fiscal balance will require more than six years

Projected Budget Gap Fell Because of Tax Increase

Projected Gap in Consolidated Budget Before and After January 2011 Changes

Projected Budget Gap Will Worsen After Tax Increase is Phased Out Without Further Action

Projected Gap in Consolidated Budget With & Without Phase-out of Income Tax Rate Increases

Source: IGPA Fiscal Futures Model, *Illinois Report 2012*
Consolidated budget could balance in 2019 with continued tax increase and spending austerity

Projected Gap in Consolidated Budget
If Future Growth in Spending is Held to Inflation Rate
AND Tax Rate Increases Are Not Phased Out

## Governor’s Office of Management & Budget
### Three Year Budget Projections (selected items)

<table>
<thead>
<tr>
<th>Agency General Fund Operating Budget Groupings</th>
<th>2012</th>
<th>2013-2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Providing a quality <strong>education</strong> &amp; opportunities for growth</td>
<td>8,946</td>
<td>8,946</td>
</tr>
<tr>
<td>Enhancing the economic well-being of citizens</td>
<td>94</td>
<td>89</td>
</tr>
<tr>
<td>Protecting the lives and property of citizens</td>
<td>1,531</td>
<td>1,408</td>
</tr>
<tr>
<td>Protecting the most vulnerable among us</td>
<td>6,873</td>
<td>6,523</td>
</tr>
<tr>
<td>Improving access &amp; cost effectiveness of <strong>healthcare</strong></td>
<td>6,639</td>
<td>6,639</td>
</tr>
<tr>
<td>Improving the quality of life for citizens</td>
<td>68</td>
<td>63</td>
</tr>
<tr>
<td>Improving the efficiency &amp; fiscal stability of state gov’t</td>
<td>1,104</td>
<td>1,016</td>
</tr>
</tbody>
</table>

**Source**: Illinois Governor’s Office of Management and Budget, January 3, 2012, “Three Year Budget Projection (General Funds), FY13-FY15,” at [http://www.state.il.us/budget/](http://www.state.il.us/budget/).
III. Recent Decline in Illinois’ Bond Rating

<table>
<thead>
<tr>
<th>Year</th>
<th>S&amp;P</th>
<th>Moody’s</th>
<th>Fitch</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998-1999</td>
<td>AA</td>
<td>Aa2</td>
<td>AA</td>
</tr>
<tr>
<td>2000-2002</td>
<td>AA</td>
<td>Aa2</td>
<td>AA+</td>
</tr>
<tr>
<td>2003-2005</td>
<td>AA</td>
<td>Aa3</td>
<td>AA</td>
</tr>
<tr>
<td>2006</td>
<td>AA</td>
<td>Aa3</td>
<td>AA-</td>
</tr>
<tr>
<td>2007</td>
<td>AA</td>
<td>Aa3</td>
<td>AA</td>
</tr>
<tr>
<td>2008</td>
<td>AA</td>
<td>Aa3</td>
<td>AA-</td>
</tr>
<tr>
<td>2009</td>
<td>A+</td>
<td>A2</td>
<td>A</td>
</tr>
<tr>
<td>2010</td>
<td>A+ (neg., CreditWatch)</td>
<td>A1 (stable)</td>
<td>A (neg.)</td>
</tr>
<tr>
<td>2011</td>
<td>A+ (neg.)</td>
<td>A1 (neg.)</td>
<td>A (stable)</td>
</tr>
<tr>
<td>2012</td>
<td>A+ (neg.)</td>
<td>A2 (stable)</td>
<td>A (stable)</td>
</tr>
</tbody>
</table>

KEY TO RATINGS: Ratings for each agency are in declining order of quality (e.g. AAA/Aaa ratings are highest).

S&P: AAA, AA, A, BBB, BB, B, CCC, CC, C, D* (AA through CCC ratings may be modified with (+) or (-) sign to show standing within category). D* indicates default.

Moody’s: Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C (AA through Caa ratings may be modified with numbers 1, 2, and 3 to show standing within category - 1 is highest, 3 is lowest).

Fitch: AAA, AA, A, BBB, BB, B, CCC, CC, C, D* (AA through B ratings may be modified with (+) or (-) sign to show standing within category).


In response to the January 2011 tax increase, S&P and Fitch slightly upgraded their ratings.

In August 2011, Moody’s downgraded as began factoring unfunded pension liability into states’ credit ratings.

January 6, 2012, Moody’s downgraded, “follows a legislative session in which the state took no steps to implement lasting solutions to its severe pension underfunding or to its chronic bill-payment delays.”

For more information:
igpa.uillinois.edu