



# UPDATE ON ILLINOIS' ECONOMIC AND FISCAL CHALLENGES & RESPONSES

PRESENTATION TO THE BOARD OF TRUSTEES OF  
THE UNIVERSITY OF ILLINOIS  
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# OUTLINE

- Recent IGPA activities on Fiscal Topics
- Economic Overview
  - Illinois Unemployment
  - Illinois Labor Force & Nonfarm Employment
- Fiscal Overview
  - Update on Unpaid Bills
  - Pension Reform
  - Phase-Out of Temporary Tax Rates
  - Illinois' Bond Rating
- Summary

# RECENT IGPA ACTIVITIES ON FISCAL TOPICS

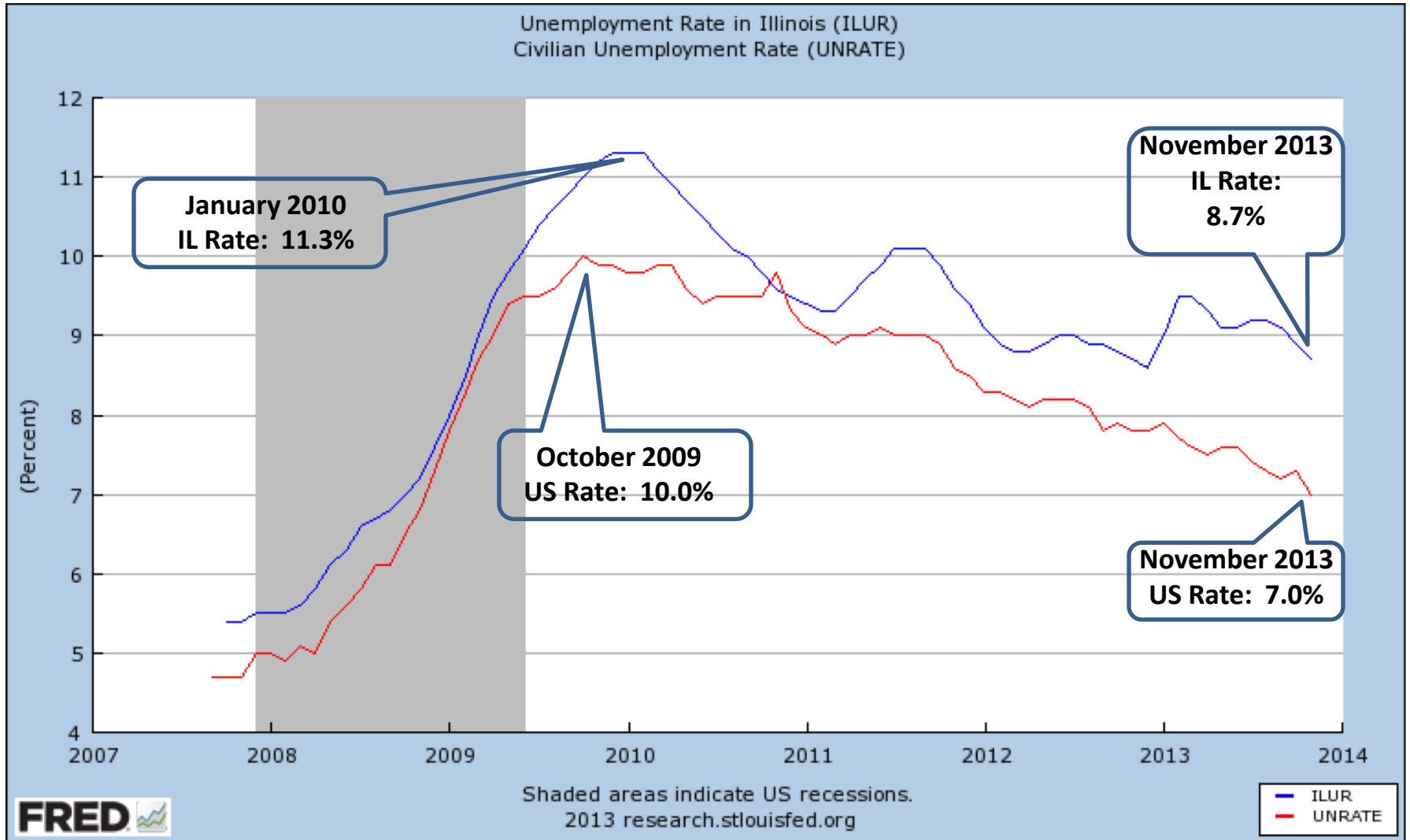
- Fiscal Futures team briefed lawmakers on budget transparency
- IGPA hosted **State Summit 2013: Illinois' Fiscal Cliff** (Oct. 28, 2013 in Chicago). Framing issue was sunset of January 2011 temporary income tax increases after December 2014.
- Three Fiscal Futures' reports released at summit:<sup>1</sup>
  - **New Projections from IGPA's Fiscal Futures Model**
  - Economic impact of January 2011 tax increases in Illinois (e.g., effect on employment)
  - Other states' use of temporary tax increases

1. All available at: <http://igpa.uillinois.edu/fiscalfutures>



# ECONOMIC OVERVIEW

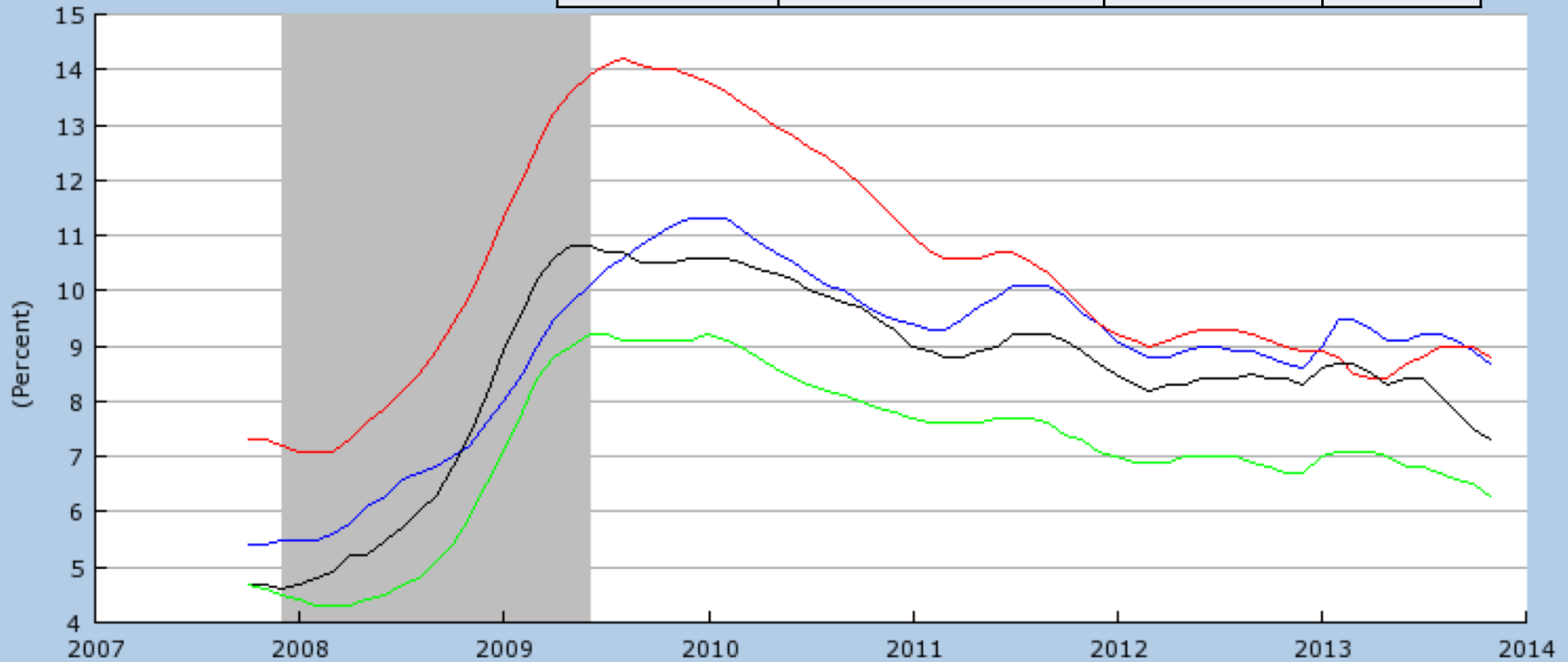
# ECONOMIC OVERVIEW – ILLINOIS & US UNEMPLOYMENT



# ECONOMIC OVERVIEW

## – UNEMPLOYMENT

State	May 2013 (Six Months Ago )	November 2013	Change
Illinois	9.1%	8.7%	-0.4%
Michigan	8.4%	8.8%	+0.4%
Indiana	8.3%	7.3%	-1.0%
Wisconsin	7.0%	6.3%	-0.7%

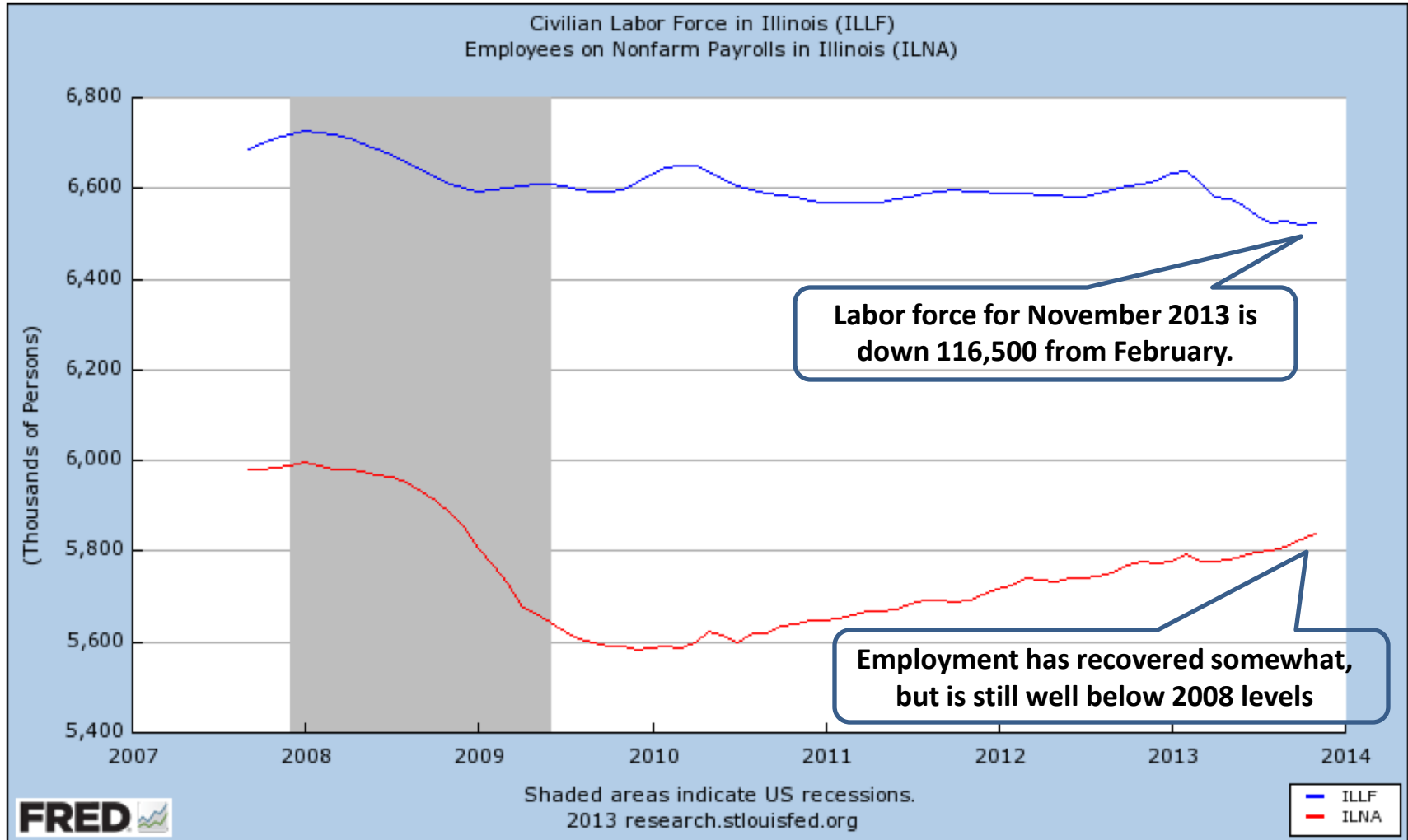


FRED

Shaded areas indicate US recessions.  
2013 research.stlouisfed.org

— ILUR  
— MIUR  
— INUR  
— WIUR

# CAUSE FOR CONCERN: LABOR FORCE AND PAYROLLS





# FISCAL OVERVIEW



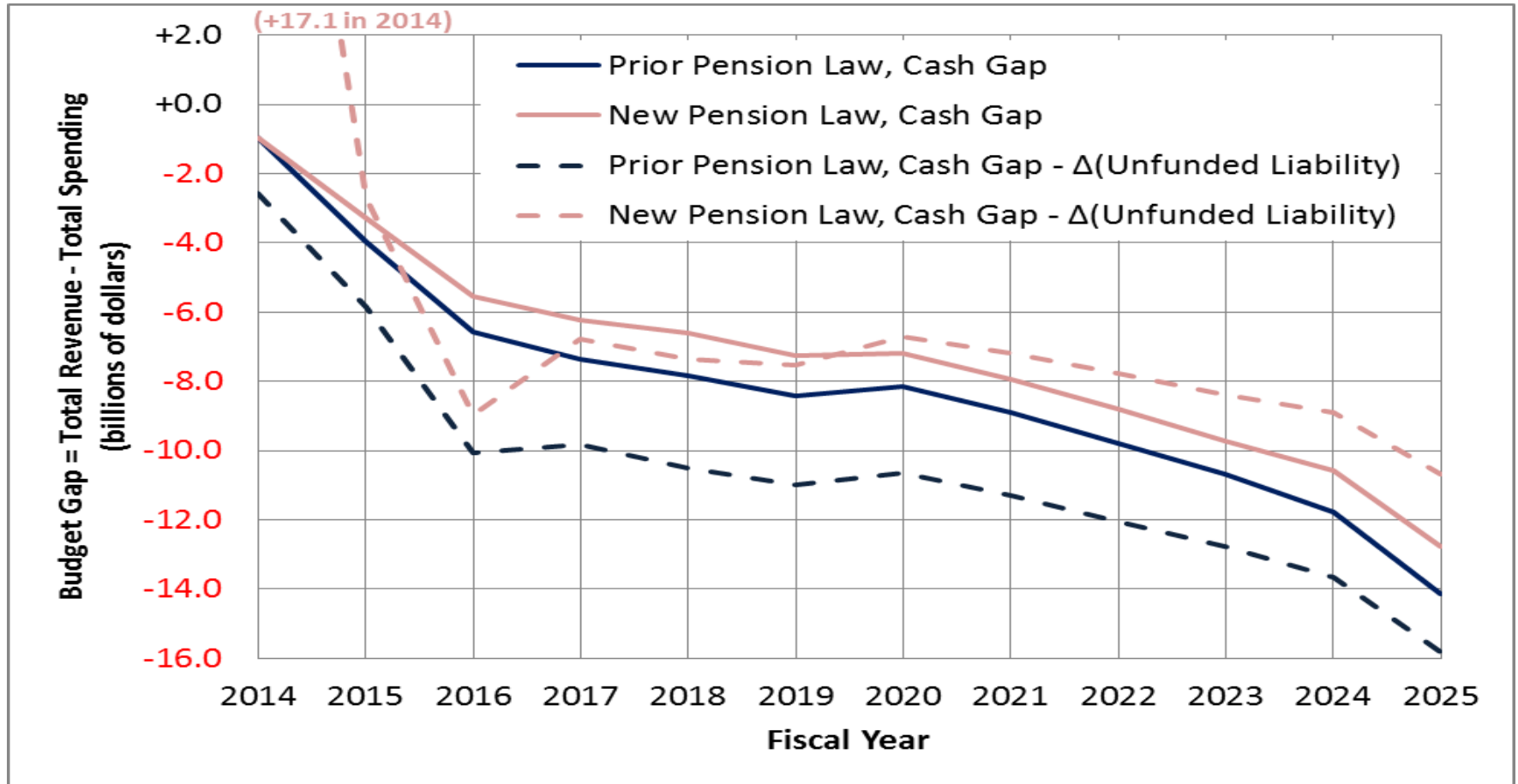
# UNPAID BILLS: A TEMPORARY IMPROVEMENT

- Factors “allowed Illinois to pay all of its General Funds bills from the previous fiscal year earlier than at any time since 2009”
  - Stronger first quarter FY 2014 revenues
  - “April Surprise” surge in 2013 income tax receipts
  - Higher sales tax revenue
  - Transfer of \$400 million from Income Tax Refund Fund
  - Fewer lapse period transactions
- However, the future is ominous. **“The fiscal year 2014 budget could counteract much of the fiscal progress made last fiscal year...[and the path ahead] is particularly troubling as fiscal year 2014 is the last full year of added revenue from the temporary income tax increase”**

*SOURCE: Illinois Office of the Comptroller (2013, October). The Illinois State Comptroller’s Quarterly: Edition 11, October 2013. Retrieved December 20, 2013, from <http://www.ioc.state.il.us/index.cfm/resources/comptrollers-quarterly/quarterly-edition-11-november-2013-state-clears-out-last-years-bills/>*

# PENSION REFORM: ONLY A PARTIAL FIX

ILLINOIS ALL-FUNDS STRUCTURAL BUDGET GAP PROJECTIONS, PRE & POST DECEMBER 2013 PENSION REFORMS, WITH & WITHOUT ADJUSTMENT FOR CHANGE IN UNFUNDED PENSION LIABILITIES, EXISTING TAX LAW

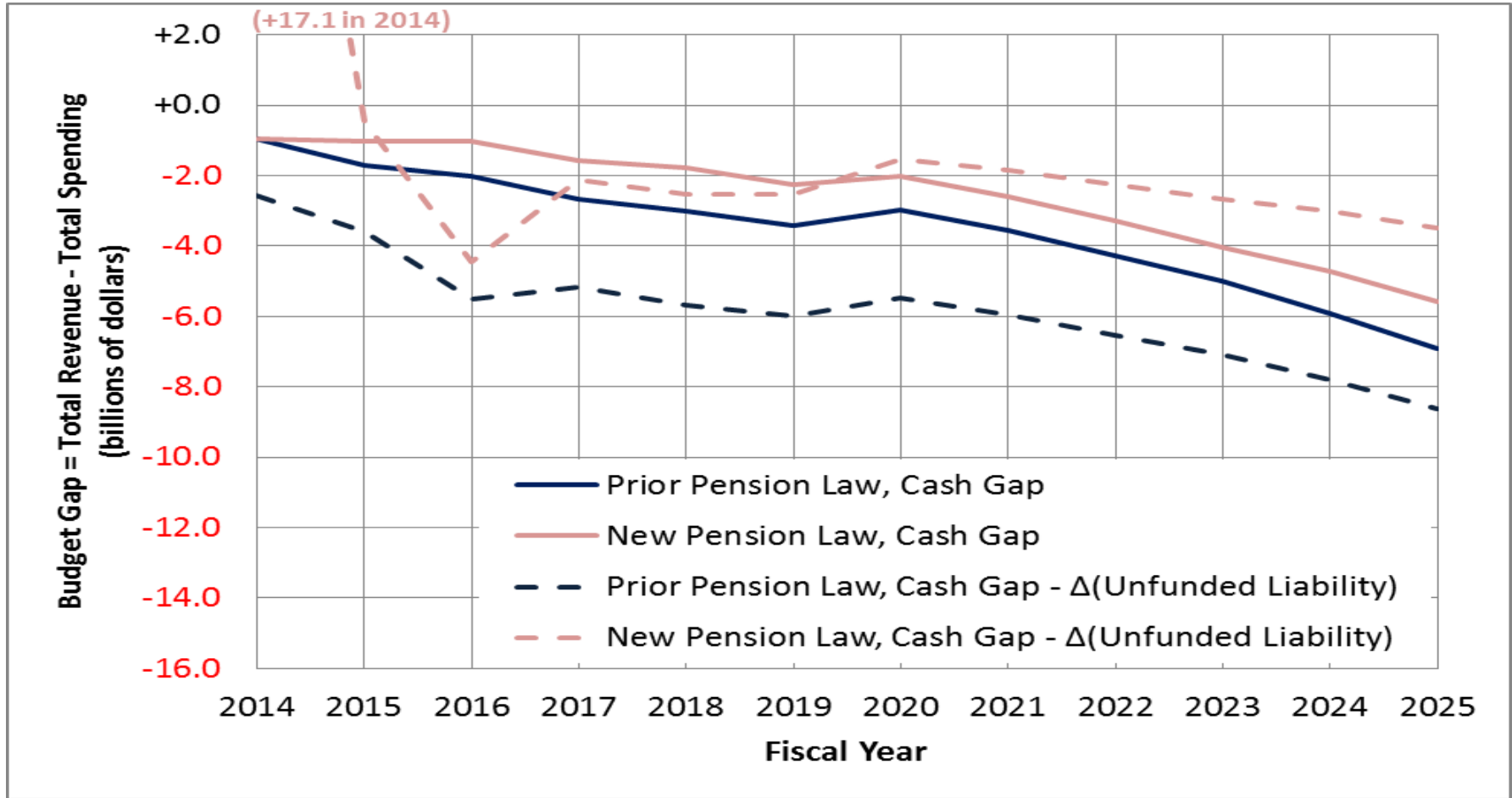


Source: IGPA's Fiscal Futures Model, December 2013

Note: Estimates from TRS are preliminary.

# WHAT IF HIGHER TAX RATES WERE EXTENDED?

ILLINOIS ALL-FUNDS STRUCTURAL BUDGET GAP PROJECTIONS, PRE & POST PENSION REFORMS, WITH & WITHOUT ADJUSTMENT FOR CHANGE IN UNFUNDED PENSION LIABILITIES, ASSUMES TAX RATES STAY AT 2011-14 LEVELS



Source: IGPA's Fiscal Futures Model, December 2013

Note: Estimates from TRS are preliminary

# ILLINOIS' BOND RATINGS

ILLINOIS' G.O. BOND RATINGS OVER TIME			
Year	S&P	Moody's	Fitch
1998	AA	Aa2	AA
1999	AA	Aa2	AA
2000	AA	Aa2	AA+
2001	AA	Aa2	AA+
2002	AA	Aa2	AA+
2003	AA	Aa3	AA
2004	AA	Aa3	AA
2005	AA	Aa3	AA
2006	AA	Aa3	AA-
2007	AA	Aa3	AA
2008	AA	Aa3	AA-
2009	A+	A2	A
2010	A+ <sup>?</sup>	A2	A
2011	A+	A1	A
2012	A	A2	A
2013	A- <sup>?</sup> (developing)	A3 <sup>?</sup> (neg.)	A- <sup>?</sup> (neg.)

Standard & Poor's, December 2013: "Although we view the consensus achieved by Illinois on [pensions] as positive from a credit standpoint, the developing outlook reflects the implementation risk - legal and budgetary - associated with various provisions of the pension reform, as well as the overall structural budget challenges facing the state."

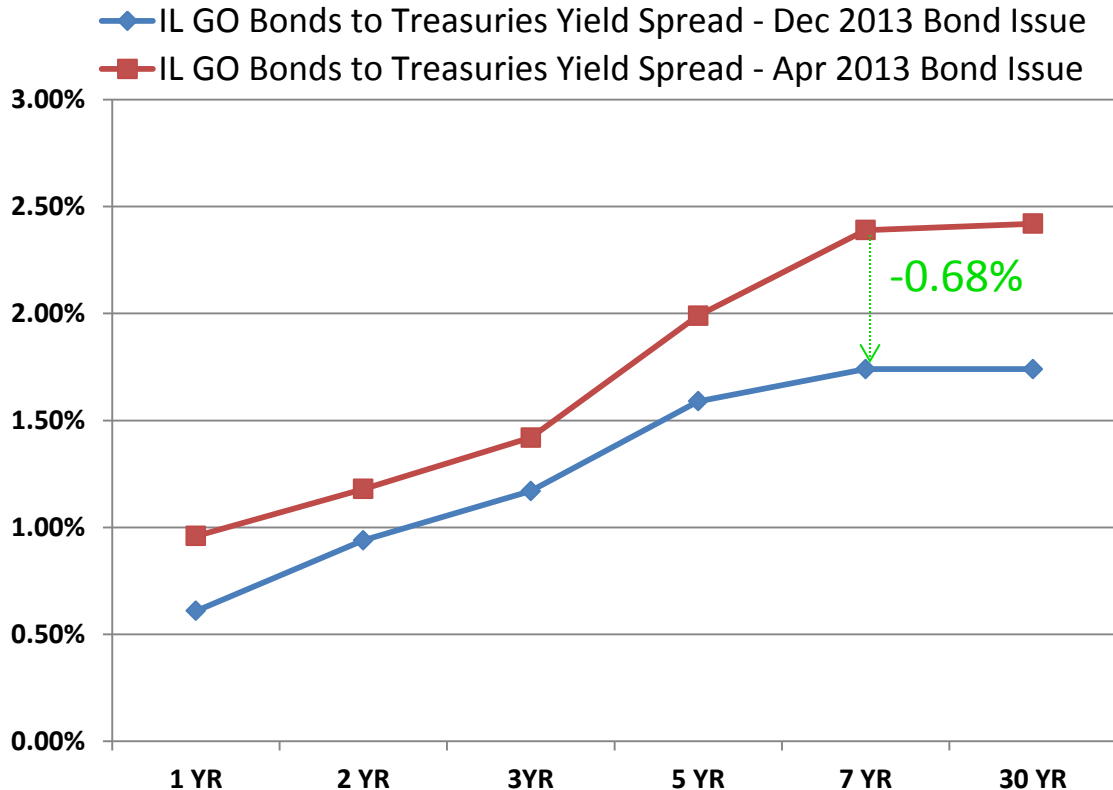
S&P source: <http://desplainsvalleynews.com/sp-raises-illinois-bond-rating-p321-90.htm>

SOURCES:

Current Data:	<a href="http://www.ioc.state.il.us/index.cfm/fiscal-condition/bond-ratings/">http://www.ioc.state.il.us/index.cfm/fiscal-condition/bond-ratings/</a>
	<a href="http://www.statebudgetcrisis.org/wpcms/wp-content/images/2012-10-12-Illinois-Report-Final-2.pdf">http://www.statebudgetcrisis.org/wpcms/wp-content/images/2012-10-12-Illinois-Report-Final-2.pdf</a>
Historical Data:	<a href="http://www.census.gov/prod/2011pubs/12statab/stlocgov.pdf">http://www.census.gov/prod/2011pubs/12statab/stlocgov.pdf</a>
	<a href="http://www.census.gov/compendia/statab/past_years.html">http://www.census.gov/compendia/statab/past_years.html</a>

# IMPACT OF “DEVELOPING” OUTLOOK

## COMPARATIVE BOND YIELD SPREADS PRE AND POST PENSION REFORM



Sources: EMMA, Municipal Market Access; www.treasury.gov

- Illinois’ sold taxable GO bonds in **December 2013** with yields 174 basis points (1.74%) above similarly maturing Treasury securities
- Which is **68 basis points (0.68%) lower** than spread for comparable **April 2013** sale
- This represents approximately \$25 million in interest cost savings for the State
- Pension reform has also provided bond market benefits to Illinois local governments

# SUMMARY

- The **Illinois economy is showing signs of weakness**, which may add to Illinois' budget woes
- Illinois' bill backlog has temporarily improved, but is expected to worsen again
- **Pension reform** helps to address budget gap but **does not fully solve the state's fiscal problems**
  - Even if combined with higher tax rates
- Illinois' bond ratings continue to be poor
  - Big improvement in borrowing costs in December
  - Still threatened by uncertainty and fiscal inaction



**FOR MORE INFORMATION:**

**[IGPA.UILLINOIS.EDU](http://IGPA.UILLINOIS.EDU)**