

UPDATE ON ILLINOIS' ECONOMIC AND FISCAL CHALLENGES AND RESPONSES

PRESENTATION TO THE BOARD OF TRUSTEES
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OVERVIEW

- Some recent IGPA activities on fiscal topics
- Economic Overview
 - Illinois Unemployment ; Employment Growth Comparison
 - Labor Force and Payroll Data
- Fiscal Overview
 - Update on Unpaid Bills
 - Fiscal Conditions and Projections for FY2013 and beyond
 - Illinois' Bond Rating
- Summary

SOME RECENT IGPA ACTIVITIES ON FISCAL TOPICS

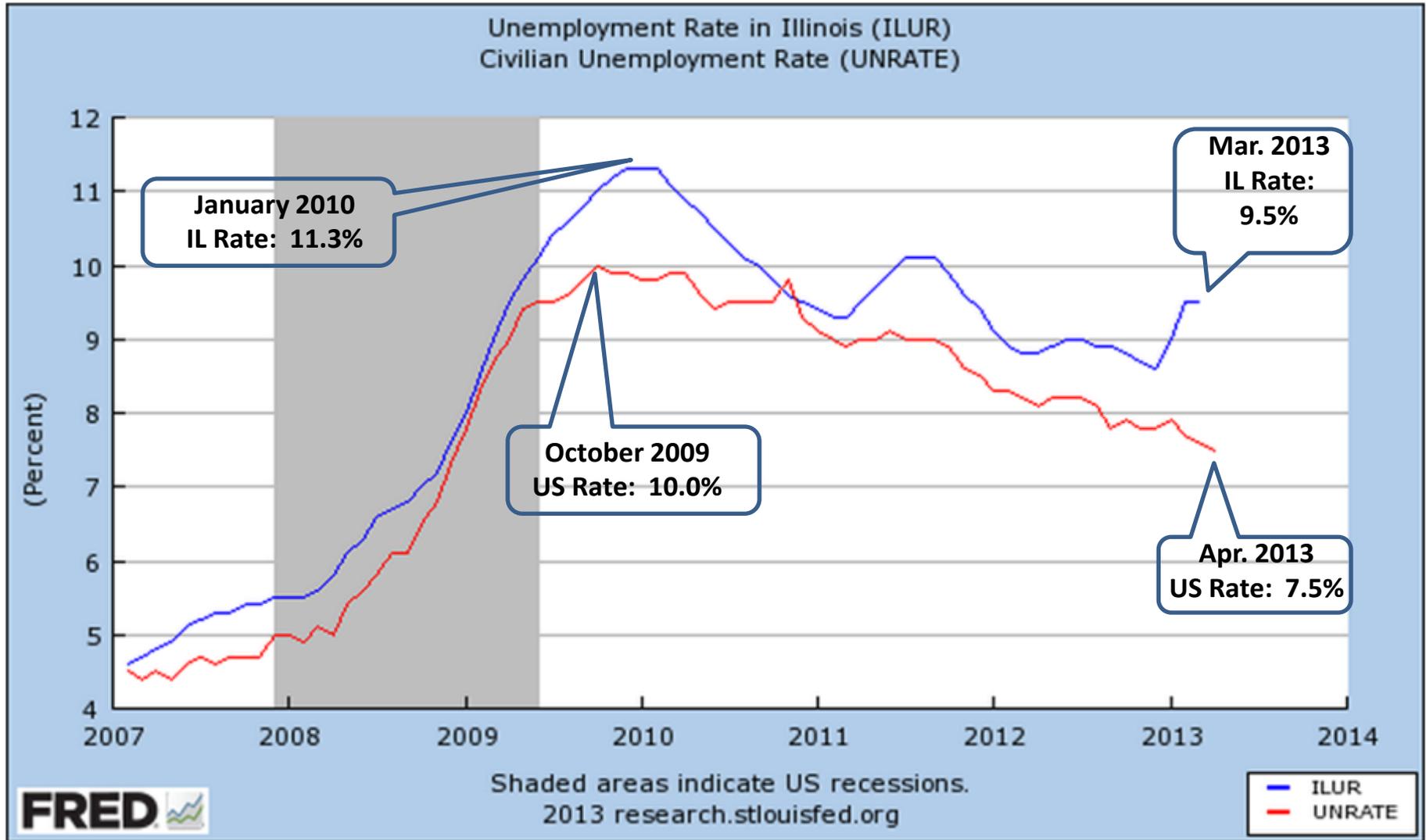
- Testified to the Budgeting For Results commission (January 2013)
- Testified in Springfield before state legislators (March 2013)
 - State Government Administration Committee on Online Budget Presentation
 - Senate Appropriations II Committee on Other State Funds
- Published ‘Six Simple Steps: Reforming the Illinois State University Retirement System.’ (March 2013)
 - Endorsed by presidents and chancellors of the 14 public universities in Illinois¹

1. Endorsement information and link to plan available at <http://www.niutoday.info/2013/04/09/public-university-leaders-endorse-pension-plan/>



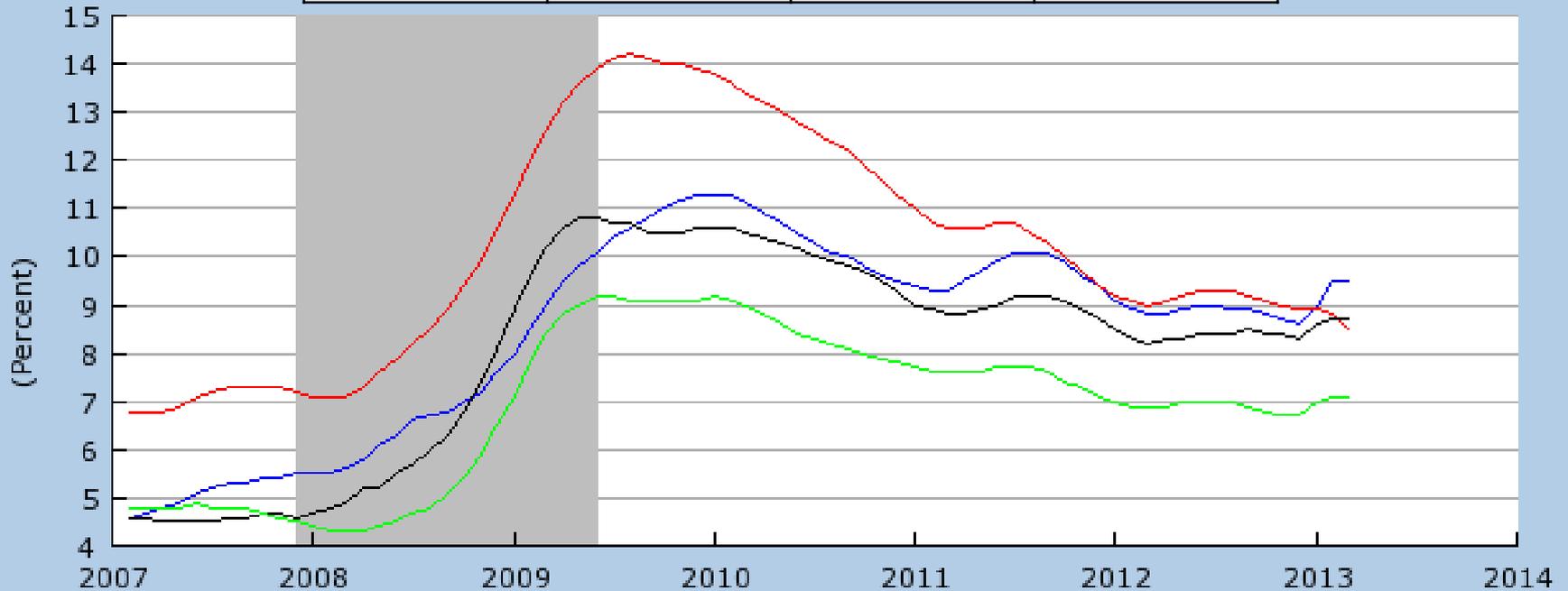
ECONOMIC OVERVIEW

ECONOMIC OVERVIEW – ILLINOIS & US UNEMPLOYMENT



ECONOMIC OVERVIEW – UNEMPLOYMENT

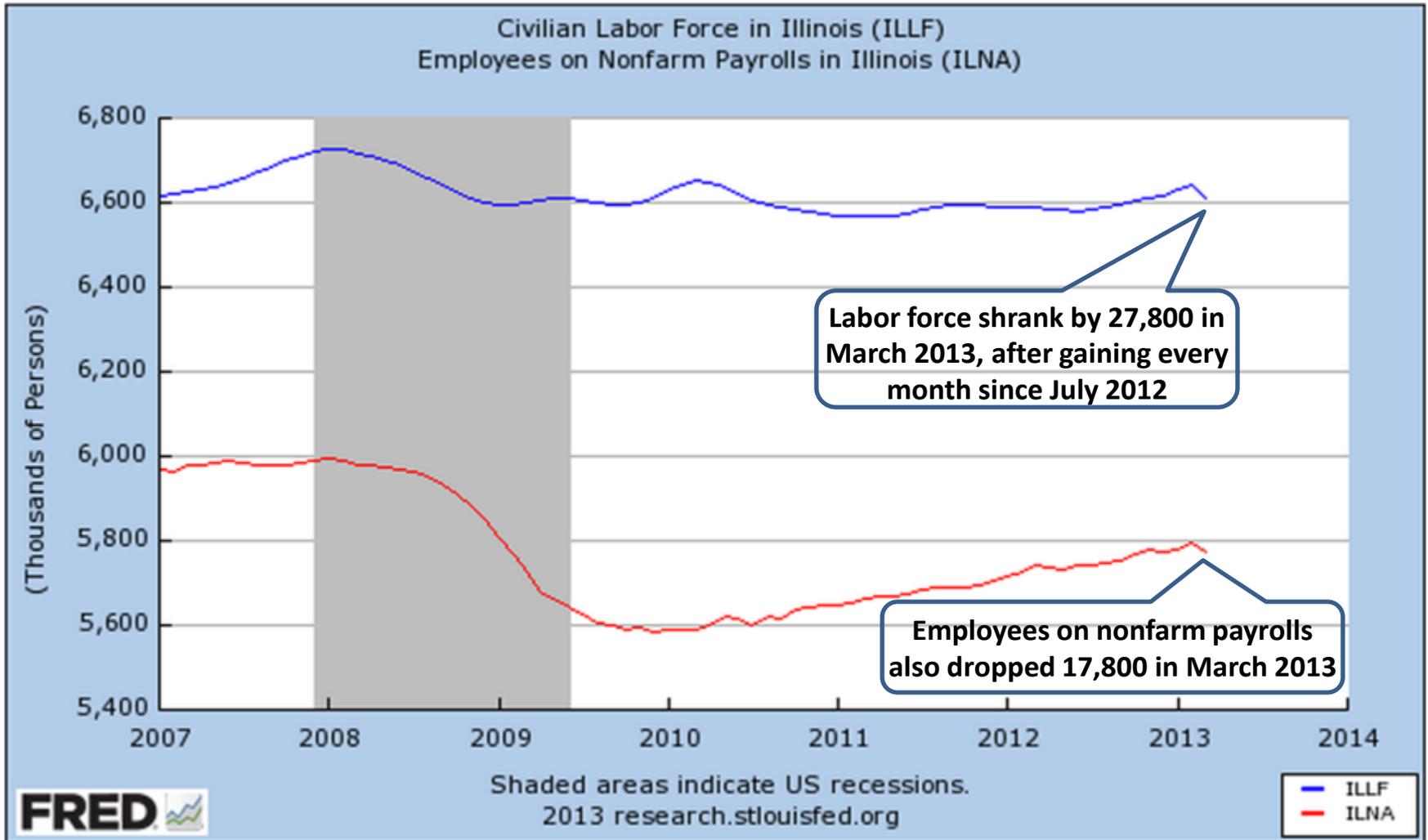
State	December 2012	March 2013	Change
Illinois	8.6%	9.5%	+0.9%
Michigan	8.9%	8.5%	-0.4%
Indiana	8.3%	8.7%	+0.4%
Wisconsin	6.7%	7.1%	+0.4%



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



CAUSE FOR CONCERN: LABOR FORCE AND PAYROLLS





FISCAL OVERVIEW

UNPAID BILLS: BACKLOG REMAINS DAUNTING

- “If current revenue and spending projections...hold, the **end of year backlog at the IOC is expected to be over \$500 million higher than at the end of fiscal year 2012**” – Comptroller’s Office, February 2013
- If bills being held at state agencies are considered, the bill backlog still exceeds \$9 billion

SOURCE: Illinois Office of the Comptroller (2013, February). The Illinois State Comptroller’s Quarterly: Edition 8, February 2013. Retrieved April 8, 2013, from <http://www.ioc.state.il.us/index.cfm/linkservid/B6F75215-A621-06BA-164E324617E77E1E/showMeta/0/>

GOMB PROJECTIONS: 2014-2016 REVENUE

(\$ in Millions)

	Actual 2012	Enacted 2013	Forecast 2014	Forecast 2015	Forecast 2016
RESOURCES					
<u>Base Resources</u>					
Individual Income Tax	15,512	15,273	15,717	14,255	12,188
Corporate Income Tax	2,461	2,513	2,871	2,116	1,708
Sales Tax	7,226	7,335	7,385	7,570	7,765
All Other State Sources	3,051	3,047	3,043	3,073	3,106
State Sources	28,250	28,168	29,015	27,014	24,767
Federal Sources	3,682	4,231	4,222	4,441	3,981
Transfers In	1,763	1,962	1,723	1,749	1,775
TOTAL RESOURCES	33,695	34,360	34,960	33,203	30,523

- GOMB forecast assumes phase-out of January 2011 tax increases, and an income tax revenue decline of more than \$4 billion from 2012 amounts by 2016 (\$17.97 billion vs. \$13.89 billion)

Source: Governor's Office of Management and Budget, 2013:

<http://www.state.il.us/budget/Financial%20Reports/3%20Year%202013%20FINAL.pdf> (Archived by WebCite® at

<http://www.webcitation.org/6Dj56uT1H>)

GOMB PROJECTIONS: 2014-2016 EXPENDITURES

- Education (before pensions) would face cuts of more than \$2.1 billion from 2012 levels by 2016
- More than \$7.4 billion in unpaid bills would remain with no plan to address them

	Actual 2012	Enacted 2013	Forecast 2014	Forecast 2015	Forecast 2016
1. Education (including pensions)	12,073	12,551	12,999	12,755	11,835
Education (before pensions)	8,843	8,521	8,127	7,735	6,690
K-12 Education Pensions	2,480	2,777	3,513	3,621	3,753
State Universities' Pensions	750	1,253	1,360	1,399	1,392
TOTAL EXPENDITURES	33,801	33,986	34,860	33,203	30,523
Repay Interfund Borrowing & Budget Stabilization Fund	632	132	-	-	-
General Funds Surplus/Deficit	(738)	242	100	0	0
General Fund Balance (Accounts Payable less cash)	(5,361)	(5,119)	(5,019)	(5,019)	(5,018)
Section 25 Bills	(3,966)	(3,169)	(2,405)	(2,405)	(2,405)
GROSS BILL BACKLOG AT END OF FISCAL YEAR	(9,327)	(8,288)	(7,424)	(7,424)	(7,423)

* Fiscal year 2014 growth makes up for previous underappropriation.

Source: GOMB, 2013 (please see previous slide for URL)

SPECIFIC ITEMS OUTLINED IN GOV. QUINN'S FY 2014 BUDGET ADDRESS

- \$275 million cuts to K-12 education
 - Most (\$150 million) of this would be general state aid cuts
- \$83 million cuts to higher education
- \$300 million savings from employee and retiree health insurance costs with new state union agreement
- No new programs
- No tax or fee hikes

Sources: <http://illinoisissuesblog.blogspot.com/2013/03/quinn-pushes-pension-changes-in-somber.html>; http://qctimes.com/news/state-and-regional/illinois/quinn-budget-plan-no-closures-but-still-painful/article_a88773e6-8606-11e2-ae77-0019bb2963f4.html

LOOKING FORWARD: COGFA PROJECTIONS

- If a phase-out of the tax increase is assumed, consistent large cuts would be needed to prevent large deficits.

Scenario 1: -4.178% Annual Decline in Spending

	Revenues	Spending	Operating Surplus/Deficit	Cumulative Surplus/Deficit
FY 2013	\$34,281	\$34,431	(\$150)	(\$5,134)
FY 2014	\$35,081	\$32,993	\$2,088	(\$3,046)
FY 2015	\$33,432	\$31,614	\$1,818	(\$1,228)
FY 2016	\$31,521	\$30,293	\$1,228	(\$0)

Scenario 7: Typical Spending prior to Great Recession (4.3%)

	Revenues	Spending	Operating Surplus/Deficit	Cumulative Surplus/Deficit
FY 2013	\$34,281	\$34,431	(\$150)	(\$5,134)
FY 2014	\$35,081	\$35,912	(\$831)	(\$5,965)
FY 2015	\$33,432	\$37,456	(\$4,024)	(\$9,988)
FY 2016	\$31,521	\$39,066	(\$7,545)	(\$17,534)

SOURCE: Commission on Government Forecasting and Accountability (2013, March). 3-Year Budget Forecast FY 2014 – FY 2016. Retrieved April 8, 2013, from http://cgfa.ilga.gov/Upload/2013_3_Yr_Bdgt_4castFY2014_FY2016.pdf

ILLINOIS' BOND RATING

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+ ⁽²⁾	A2	A
2011	A+	A1	A
2012	A	A2	A
2013	A ⁽¹⁾ (neg.)	A2 ⁽¹⁾ (neg.)	A ⁽¹⁾ (neg.)

- Illinois postponed a \$500 million bond offering Jan. 30 after a ratings downgrade from S&P
- Bloomberg: “Investors demand a yield penalty of 1.3 percentage points above AAA securities to own general-obligations from Illinois issuers”
 - “Today’s rate is a direct result of the General Assembly’s failure so far to pass a pension reform bill,” John Sinsheimer, Illinois’ director of capital markets

Bloomberg source: <http://www.bloomberg.com/news/2013-04-02/illinois-begins-first-bond-sale-as-worst-rated-u-s-state.html>

SOURCES:

2012 Data:	http://www.ioc.state.il.us/index.cfm/fiscal-condition/bond-ratings/ Standard and Poor’s Brief History of US State Credit Ratings, July 2011; Moody’s Investors Service; Fitch Ratings;
2011 Data:	http://www.ioc.state.il.us/index.cfm/fiscal-condition/bond-ratings/
2010 Data:	http://www.census.gov/prod/2011pubs/12statab/stlocgov.pdf
2009 and Earlier Data:	http://www.census.gov/compendia/statab/past_years.html

SUMMARY

- Previous presentations have regarded the economy as the silver lining in an otherwise dire fiscal picture. **This is no longer the case**: the economy may be showing signs of weakening.
- Illinois' bill backlog continues to grow.
- Governor Quinn has proposed substantial cuts to spending **including cuts in education spending**
- Under most scenarios, a phase-out of tax increases after 2014 would create a large deficit.
- Illinois' bond rating continues to be threatened by fiscal inaction.





FOR MORE INFORMATION:

IGPA.UILLINOIS.EDU