

UPDATE ON ILLINOIS' ECONOMIC AND FISCAL CHALLENGES AND RESPONSES

PRESENTATION TO THE BOARD OF TRUSTEES
OF THE UNIVERSITY OF ILLINOIS
SEPTEMBER 12, 2013

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OVERVIEW

- Recent and Upcoming IGPA activities on Fiscal Topics
- Economic Overview
 - Illinois Unemployment
 - Illinois Labor Force/Nonfarm Employment
- Fiscal Overview
 - Update on Unpaid Bills
 - Fiscal Conditions and Projections for FY2013 and beyond
 - Illinois' Bond Rating
- Summary

RECENT AND UPCOMING IGPA ACTIVITIES ON FISCAL TOPICS

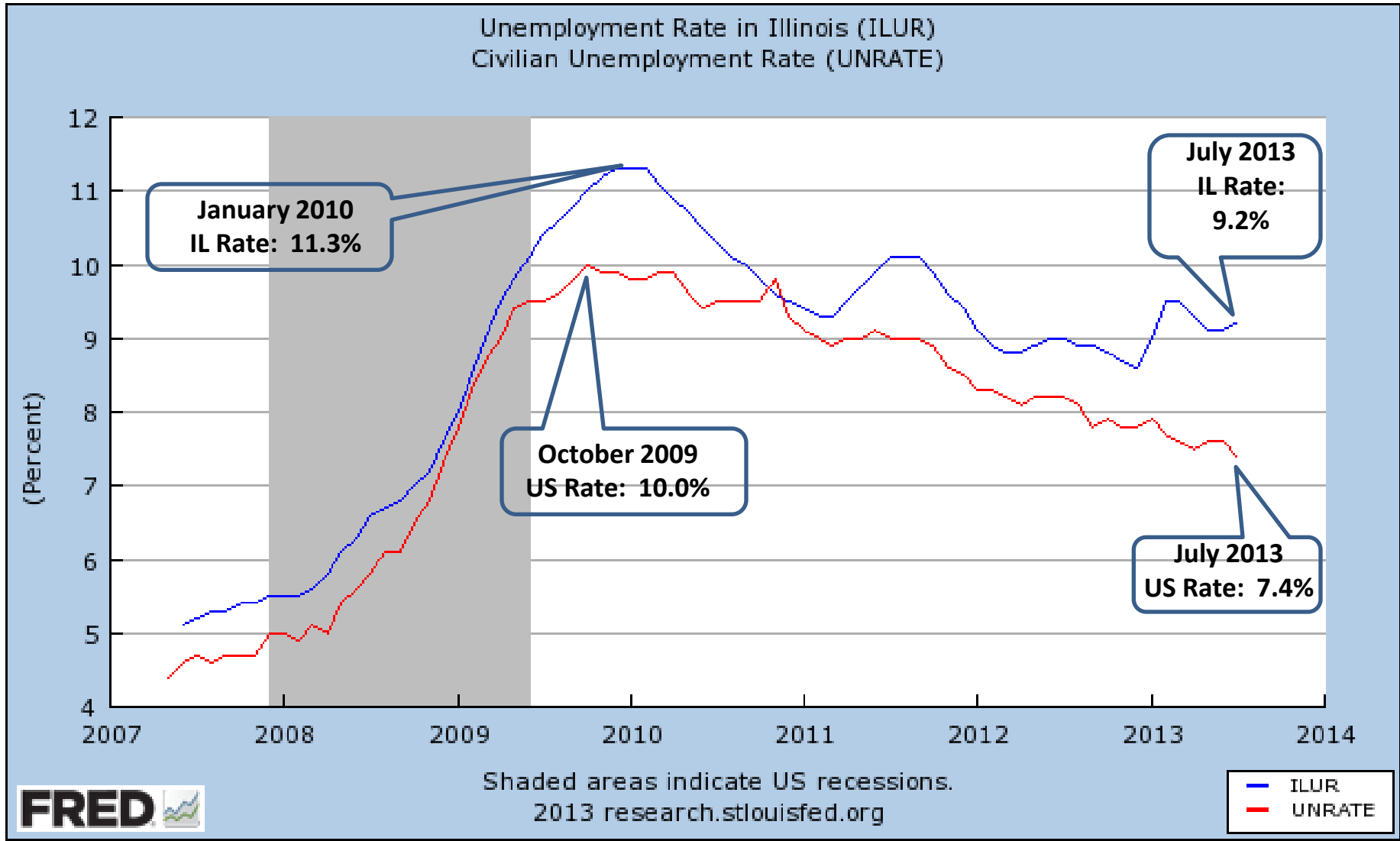
- In June 2013, we released “Pension Reform Roadmap,” an analysis of two major pension proposals’ impact on the long-term state budget outlook¹
- IGPA will host the **State Summit 2013: Illinois’ Fiscal Cliff** October 28, 2013 at the Union League Club of Chicago. Summit will bring together state leaders to discuss issues surrounding the phase-out of the temporary income tax increase in 2015. At the summit, Fiscal Futures will present new reports about:
 - the economic impact of the January 2011 tax increases in Illinois (e.g. effect on employment)
 - Other states’ use of temporary tax increases

1. Available at <http://igpa.uillinois.edu/system/files/Comparing-SB1-and-SB2404.pdf>



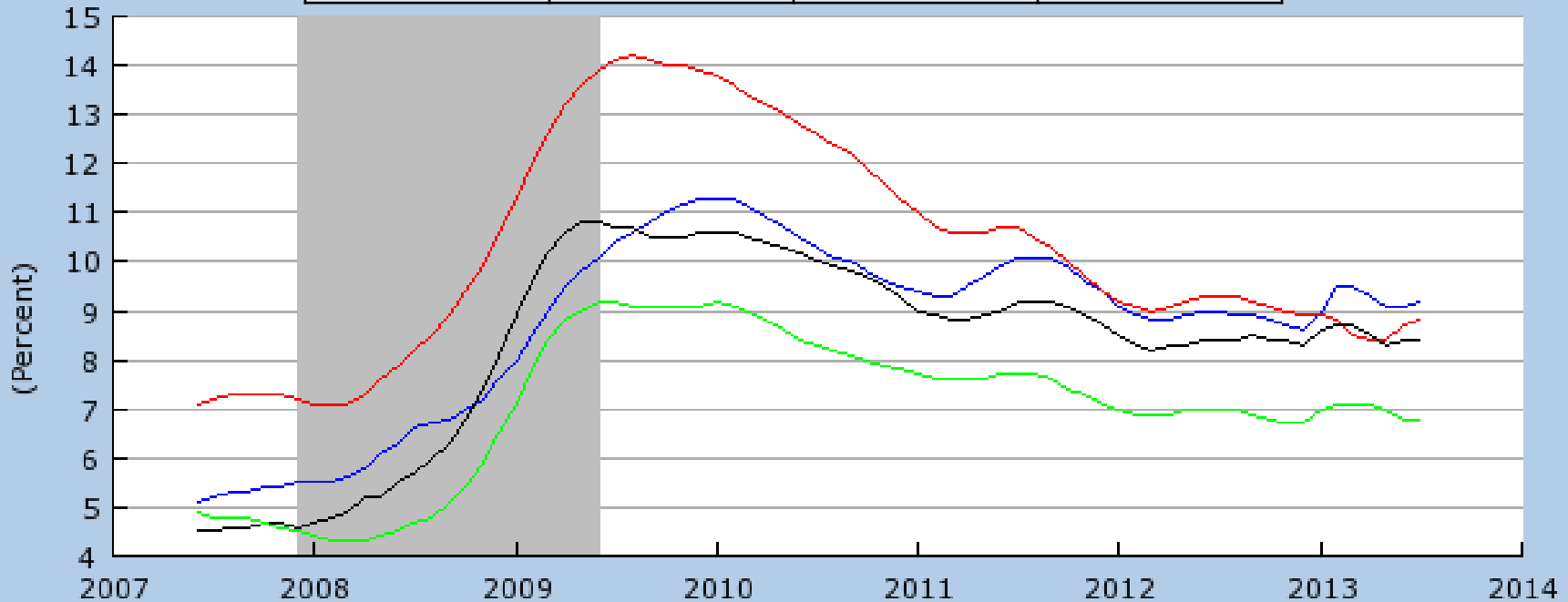
ECONOMIC OVERVIEW

ECONOMIC OVERVIEW – ILLINOIS & US UNEMPLOYMENT

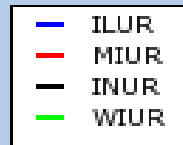


ECONOMIC OVERVIEW – UNEMPLOYMENT

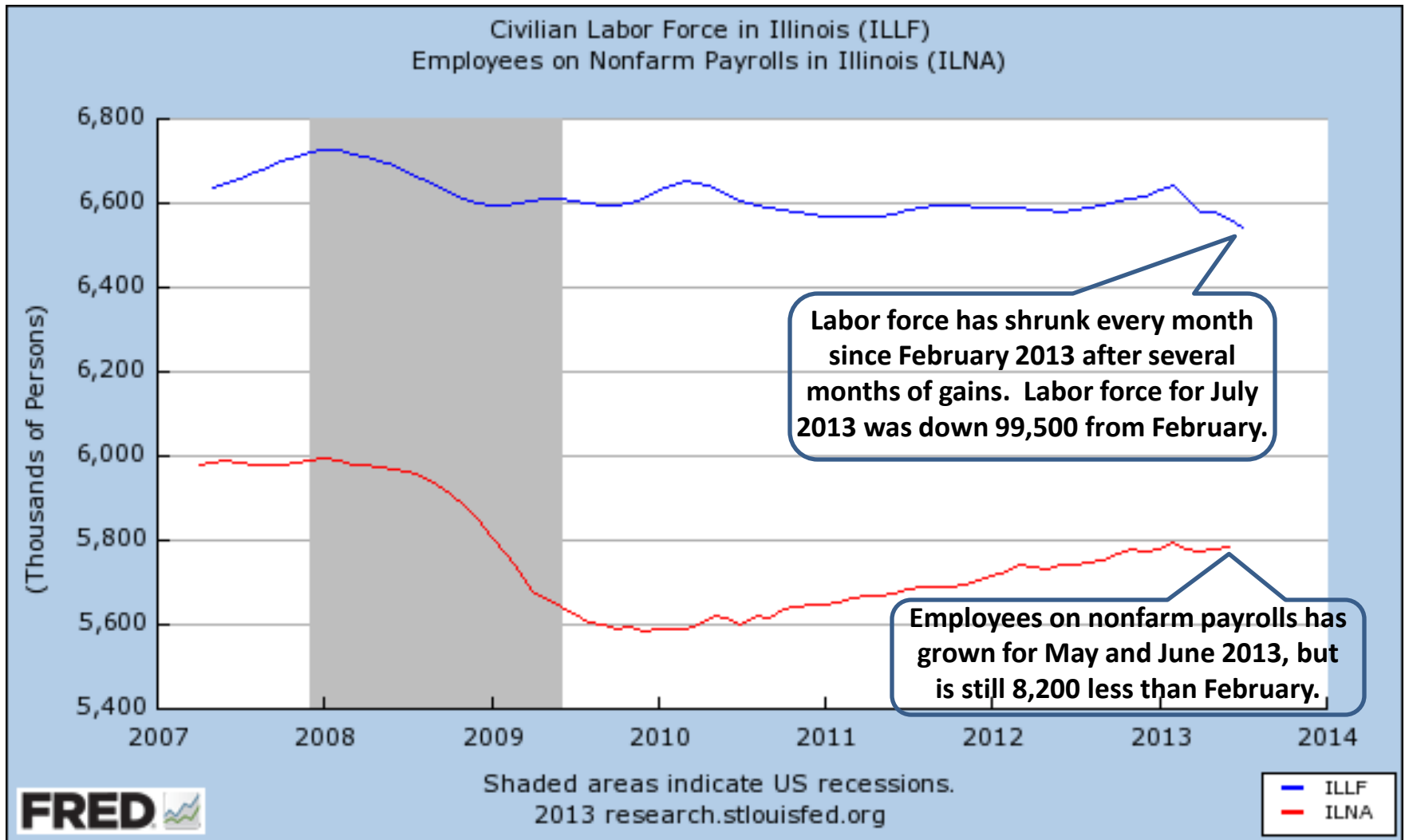
| State | March 2013 | July 2013 | Change |
|-----------|------------|-----------|--------|
| Illinois | 9.5% | 9.2% | -0.3% |
| Michigan | 8.5% | 8.8% | +0.3% |
| Indiana | 8.7% | 8.4% | -0.3% |
| Wisconsin | 7.1% | 6.8% | -0.3% |



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



CAUSE FOR CONCERN: LABOR FORCE AND PAYROLLS

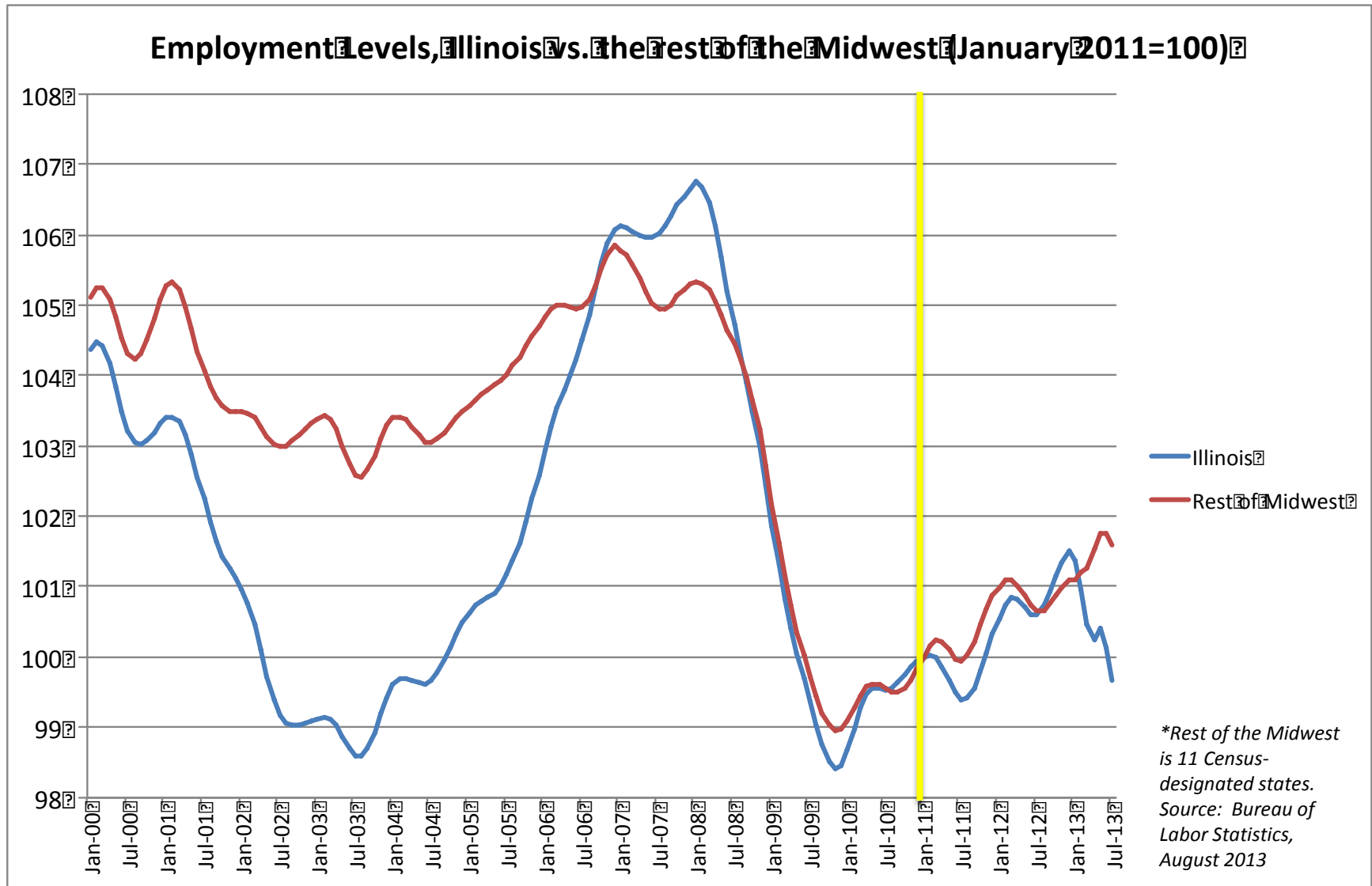


WARNINGS FROM COGFA

- “Monthly business reports since [June], while not all in one direction, suggest that **the pace of growth has moderated even**
- ...Illinois’ unemployment rate edged up to 9.2% ... and **would have been 9.4% had not a decline in the labor force largely offset an even larger percentage drop in employment**
 - Edward Boss, Chief Economist, COGFA, July 2013
- Illinois now has the 2nd highest unemployment rate of any state in the US

Source: COGFA, Monthly Briefing for the Month Ended: July 2013:
<http://cgfa.ilga.gov/Upload/0713revenue.pdf>

DID ILLINOIS' TAX INCREASE AFFECT EMPLOYMENT?





FISCAL OVERVIEW

UNPAID BILLS: A TEMPORARY IMPROVEMENT

- “Illinois concluded fiscal year 2013 with an overall bill backlog that was \$1.4 billion smaller than the same time last year, but **the financial improvement is expected to be short-lived**”
- **“Much of [the financial improvement] is attributable to one-time revenue events.** Further action will be required before Illinois can regain its fiscal footing, **especially looking ahead to the scheduled reduction in income tax rates during fiscal year 2015.”**

– Illinois Comptroller, July 2013

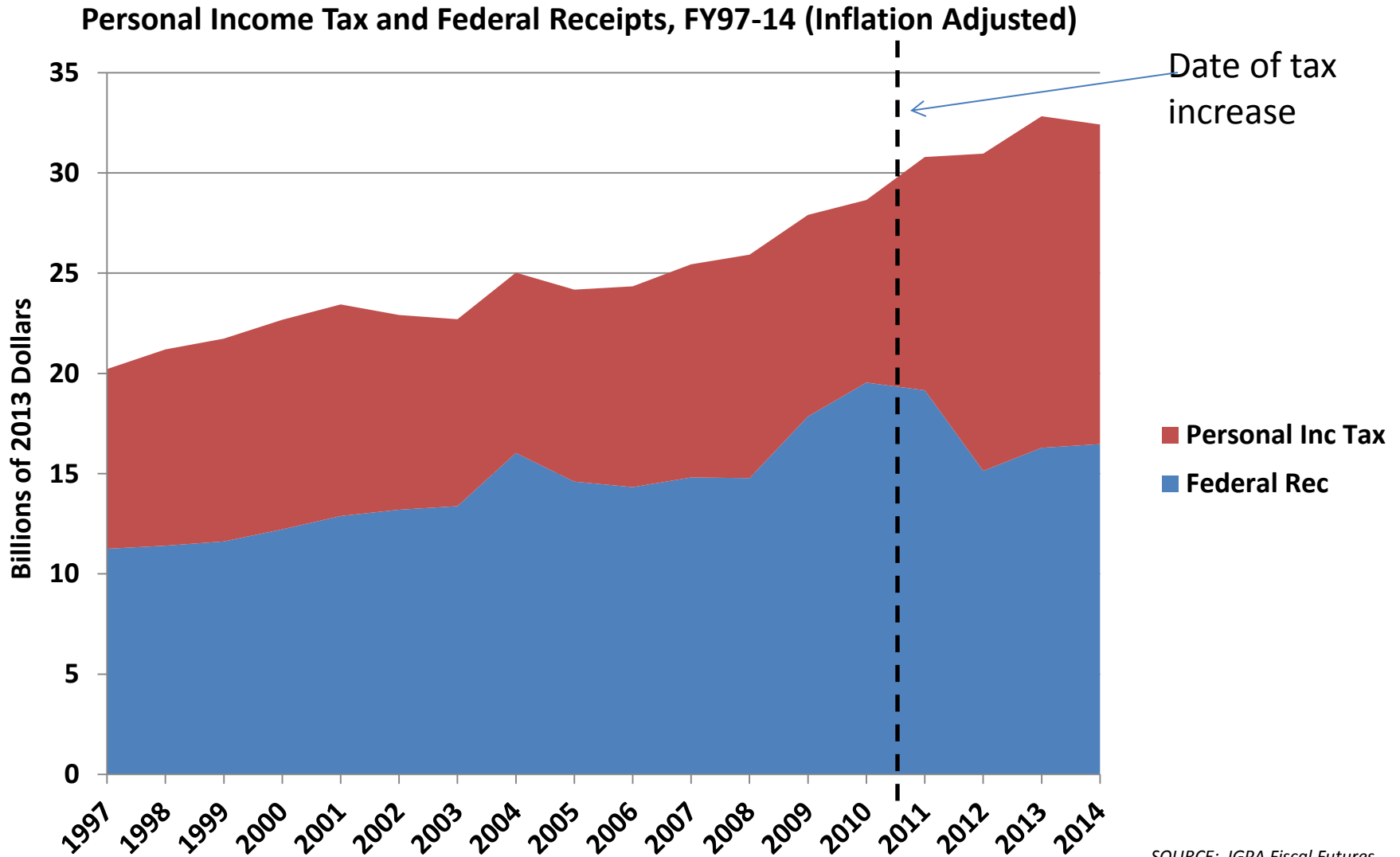
SOURCE: Illinois Office of the Comptroller (2013, July). The Illinois State Comptroller's Quarterly: Edition 10, July 2013. Retrieved August 13, 2013, from <http://www.ioc.state.il.us/index.cfm/resources/comptrollers-quarterly/quarterly-edition-10-july-2013-bill-backlog-dropsfor-now/>

REVENUES: SHIFT IN SOURCES

- July 2013, COGFA notes: overall **base revenues down \$24 million**
- Personal **income taxes show modest gains** (up \$42 million net of refunds).
- However, **federal sources are dropping** – down \$100 million
- Essentially, **as federal funding is drying up, own-source taxes are replacing this funding.**

Source: COGFA, Monthly Briefing for the Month Ended: July 2013: <http://cgfa.ilga.gov/Upload/0713revenue.pdf>

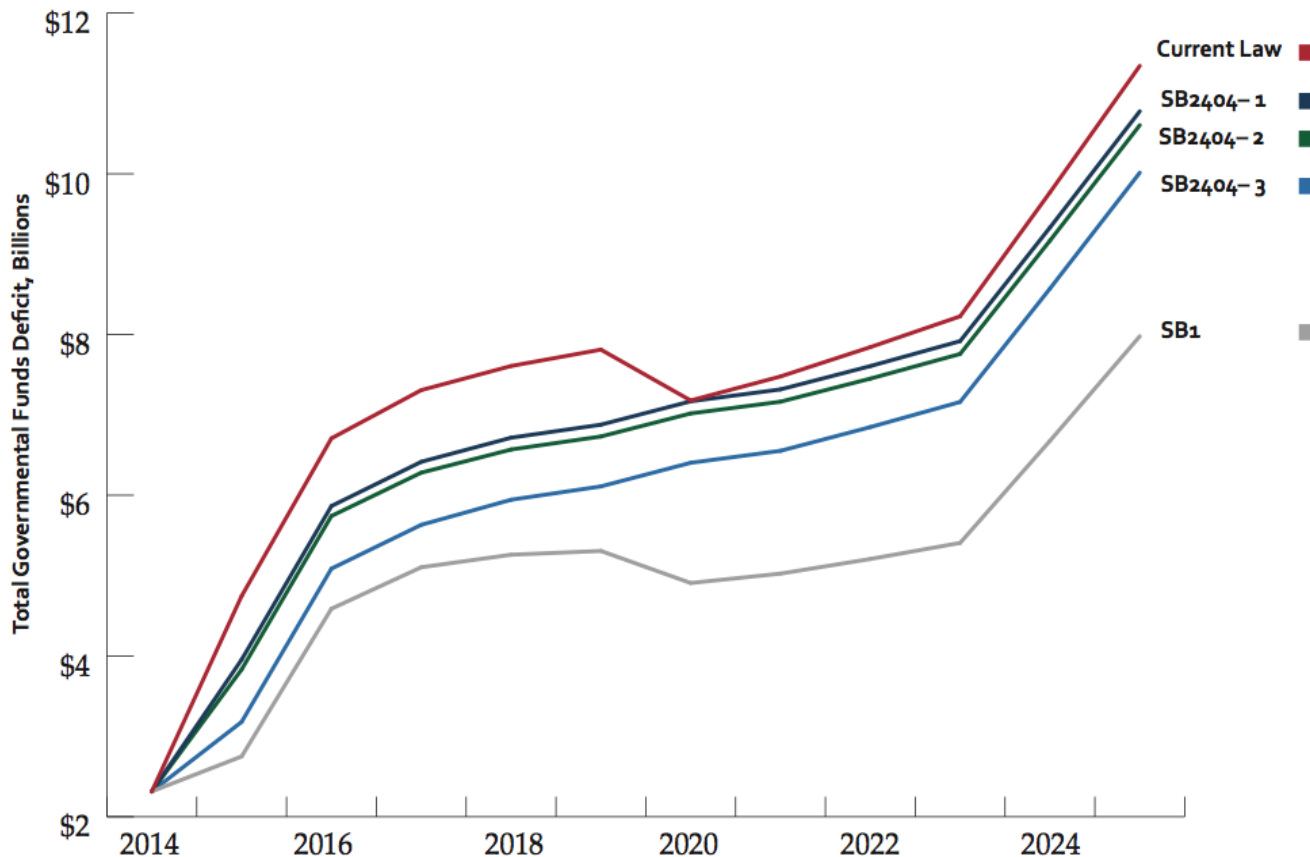
SOURCES OF REVENUE OVER TIME



SOURCE: IGPA Fiscal Futures

WHAT ABOUT PENSIONS?

- **No version of pension reform** as proposed is sufficient to eliminate the state's projected deficit



- **Senate Bill 1** is a unilateral plan which would cap pensionable salaries, increase the retirement age, increase employee contributions by 2 percent of salary, and change Cost of Living Adjustment (COLA) formulas.
- **SB2404-1** assumes all current employees and retirees will opt to keep health care coverage in retirement by accepting lower COLA adjustments.
- **SB2404-2** assumes that all current employees will opt to keep retirement health care coverage by agreeing to pay 2 percent more in salary each year, and that all retirees will opt to keep their health care coverage by forfeiting two years of COLA.
- **SB2404-3** (50/50) assumes that all current employees will keep health care coverage—half in exchange for lower COLA and half in exchange for paying 2 percent more in salary each year—and that retirees will split their choices 50/50 between keeping health care coverage by forfeiting two years of COLA and giving up healthcare for current COLA.

SOURCE: IPGA, June 2013, retrieved from from <http://igpa.uillinois.edu/system/files/Comparing-SB1-and-SB2404.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+ | A2 | A |
| 2011 | A+ | A1 | A |
| 2012 | A | A2 | A |
| 2013 | A- (neg.) | A3 (neg.) | A- (neg.) |

- Fitch Ratings, in its June 2013 downgrade of Illinois' debt (now the lowest of all 50 states), noted, **“Failure to achieve reform measures...despite the substantial focus on this topic, exacerbates concern about management's willingness and ability to address the state's numerous fiscal challenges.”**

Fitch source:

<http://www.chicagobusiness.com/article/20130603/BLOGS02/130609976/fitch-lowers-rating-on-illinois-debt>

SOURCES:

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

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 would help to address these deficits but **would not fully solve the state's budget problems**
- Illinois' bond rating continues to be threatened by fiscal inaction



FOR MORE INFORMATION:

IGPA.UILLINOIS.EDU