STATE OF ILLINOIS
EXECUTIVE OFFICE OF THE GOVERNOR
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Illinois' Economic and Fiscal Policy Report

Public Act 96-1354 requires the Governor's Office of Management and Budget to annually submit an Economic and Fiscal Policy Report to the General Assembly outlining the long-term economic and fiscal policy objectives of the state, the economic and fiscal policy intentions for the upcoming Fiscal Year and the subsequent two Fiscal Years.

The Three-Year Projection *(attached)* highlights revenues, expenditures, any deficit or surplus, and includes other General Revenue Fund liabilities through Fiscal Year 2017.

Illinois Economic Conditions and Forecast

Illinois' economic recovery has continued at a modest pace during the past year. Illinois employers added 64,100 jobs to the non-farm payrolls in the last 12 months.[i] Over the next three years the Illinois economy is expected to continue to improve adding more jobs, increased retail sales and corporate profits.

The Philadelphia Federal Reserve Bank Index of Leading Economic Indicators[ii] provides an index of leading economic indicators for all States. The index for Illinois is expected to grow at a rate of 2.35 percent for the remainder of Fiscal Year 2014. The predicted growth rate in the index has historically provided an accurate forecast for Illinois economic growth. Table 1 ranks Illinois' Leading Economic Indicators projected growth rate during the coming months as fourth out of eleven Midwestern states. Table 2 ranks Illinois' Leading Economic Indicators projected growth rate as first out of the five most populous states during the same time period.

Table 1 Midwest States Leading Indexes

State	6 Month Economic Growth Rate Forecast
Illinois	2.35%
Indiana	2.98%
Iowa	0.78%
Kansas	2.23%
Michigan	1.86%
Minnesota	1.56%
Nebraska	2.79%
North Dakota	2.56%
Ohio	0.88%
South Dakota	1.53%
Wisconsin	1.93%

Source: Philadelphia Federal Reserve Bank

Table 2 Five Most Populous States Leading Indexes

State	6 Month Economic Growth Rate Forecast
Illinois	2.35%
California	1.5%
Texas	1.97%
Florida	2.24%
New York	0.56%

Source: Philadelphia Federal Reserve Bank

IHS Global Insight, a leading economic forecasting firm, predicts Illinois' Real Gross Domestic Product (GDPR) to increase from 1.9 percent growth in Fiscal Year 2014 to 2.3 percent in Fiscal Year 2015. IHS Global Insight expects Illinois' economic recovery to accelerate in the coming years with growth rates of 2.5 percent and 2.7 percent in Fiscal Years 2016 and 2017 respectively.

Table 3 Key Revenue Forecasting Economic Variables

Variables	Fiscal Year Growth Rate			
	2014	2015	2016	2017
Illinois Real Gross Domestic Product	1.9%	2.3%	2.5%	2.7%
Illinois Employment	1.10%	1.50%	1.50%	1.40%
Illinois Wages and Salaries	3.10%	4.70%	4.80%	4.50%
Domestic Corporate Profits	6.00%	7.30%	5.40%	4.80%
Illinois Retail Sales	3.80%	3.20%	3.50%	3.80%

Source: IHS Global Insight

Notwithstanding the economic growth forecast, Illinois' tax revenue will decrease in Fiscal Year 2015 due to the following statutory and policy changes:

- Effective January 1, 2015 the rate on individual income tax will change from 5 percent to 3.75 percent and the tax rate on corporation income will change from 7 percent to 5.25 percent. Tax revenue from the individual income tax is forecast to decline $1,717 million lower than it would have been at the 5 percent rate. Corporate income tax revenue is forecast to be $325 million lower than it would have been at the 7 percent rate.

- The income tax refund fund deposit percentage for both the individual income tax and corporate income tax will need to increase because income tax refunds paid during Fiscal Year 2015 will be paid for taxes collected during years when the tax rates were higher. The deposit rate for individual income tax will have to rise from 9.5 percent to 10.0 percent and the corporate income tax refund fund deposit percentage will have to rise from 13.4 percent to 14.0 percent. The net impact on the general fund is $107 million.

- Starting on February 1, 2015, the Fund for the Advancement of Education and the Commitment to Human Services Fund will begin receiving deposits from the income tax. The estimated value of the deposits are $443 million in Fiscal Year 2015, $887 million in Fiscal Year 2016 and $904 million in Fiscal Year 2017.

The revenue pressures above are each isolated effects and cannot be added together. For example, the income tax refund fund pressure illustrates the difference within Fiscal Year 2015 under alternative diversion rate policies and is not a revenue decline from the prior fiscal year. To see the net impact of all pressures, please refer to the Three-Year Projection *(attached).*

Appropriation Assumptions

The State of Illinois continues to move forward in the implementation of Budgeting for Results. One important change in the Three-Year Projection is the movement away from budgeting by agency in favor of budgeting by program. Each program in the state is aligned to one of seven result areas. This is different from past Three-Year Projections, where each agency was aligned to a result area. The consequence of this change is that appropriations in each result area will vary from the Three Year Projection issued last January.

On December 5, 2013 Governor Quinn signed Public Act 98-0599, which seeks to eliminate the State's $100 billion unfunded pension liability over 30 years. State pension contribution savings are not recognized in the Three-Year Projection *(attached)* until Fiscal Year 2016.

The State Employee Retirement System (SERS) and the State University Retirement System (SURS) have provided estimated Fiscal Year 2016 and 2017 contributions based on the provisions of Public Act 98-0599. The SERS general funds contribution is 66 percent of the total contribution calculated by the retirement system actuaries. The SERS general funds contribution will be $81.2 million less in Fiscal Year 2016 and $73.3 million less in Fiscal Year 2017 than under the 1995 funding law. The SURS general funds contribution will be $145.9 million less in Fiscal Year 2016 and $178.8 million less in Fiscal Year 2017 than under the 1995 funding law. The SURS general funds contribution is offset by $150 million in payments from the

State Employee Retirement Systems Fund. The SURS contribution includes payments to the College Insurance Program (CIP).

The TRS contributions for Fiscal Years 2016 and 2017 are an initial estimate of savings from the TRS actuary. The TRS general funds contribution is expected to be $446 million less in Fiscal Year 2016 and $431 million less in Fiscal Year 2017 than under the 1995 funding law. The TRS contribution includes deposits to the Chicago Teachers Pension fund and contributions to the Teachers Retirement Insurance Program (TRIP).

Fiscal Year 2015 appropriations are maintenance budget based on the cost of delivering the same services as Fiscal Year 2014. This includes the savings and cost of the current collective bargaining agreement, including an unprecedented $900 million multi-year reduction in group health insurance cost. To continue providing the same level of service in Fiscal Years 2016 and 2017, appropriations are expected to grow at 2 percent in most program areas.

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[i] Illinois Department of Employment Security, Current Employment Statistics, Retrieved December 26, 2013 http://www.ides.illinois.gov/page.aspx?item=915

[ii] The leading index for each state predicts the six-month growth rate of the state's coincident index. In addition to the coincident index, the models include other variables that lead the economy: state-level housing permits (1 to 4 units), state initial unemployment insurance claims, delivery times from the Institute for Supply Management (ISM) manufacturing survey, and the interest rate spread between the 10-year Treasury bond and the 3-month Treasury bill. A time-series model (vector autoregression) is used to construct the leading index. Current and prior values of the forecast variables are used to determine the future values of the index. Federal Reserve Bank of Philadelphia, "State Leading Indexes", Retrieved December 26, 2013 http://www.philadelphiafed.org/research-and-data/regional-economy/indexes/leading/. The next release is January 2, 2014.