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MONTHLY BRIEFING

For the Month Ended: AUGUST 2024

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CGFA

COMMISSION ON GOVERNMENT
FORECASTING & ACCOUNTABILITY

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Economy: Time to Cut

Benjamin L. Varner, Chief Economist

At the end of July, the Federal Open Market Committee (FOMC) met to discuss future monetary policy. Despite signs of inflation easing and a cooling job market, the committee decided to maintain short-term interest rates at their current levels. Since that meeting, the economic data has continued to reflect these trends. In recent speeches and interviews, however, FOMC members have expressed a growing openness to cutting interest rates, and the market is anticipating such a policy shift as early as September.

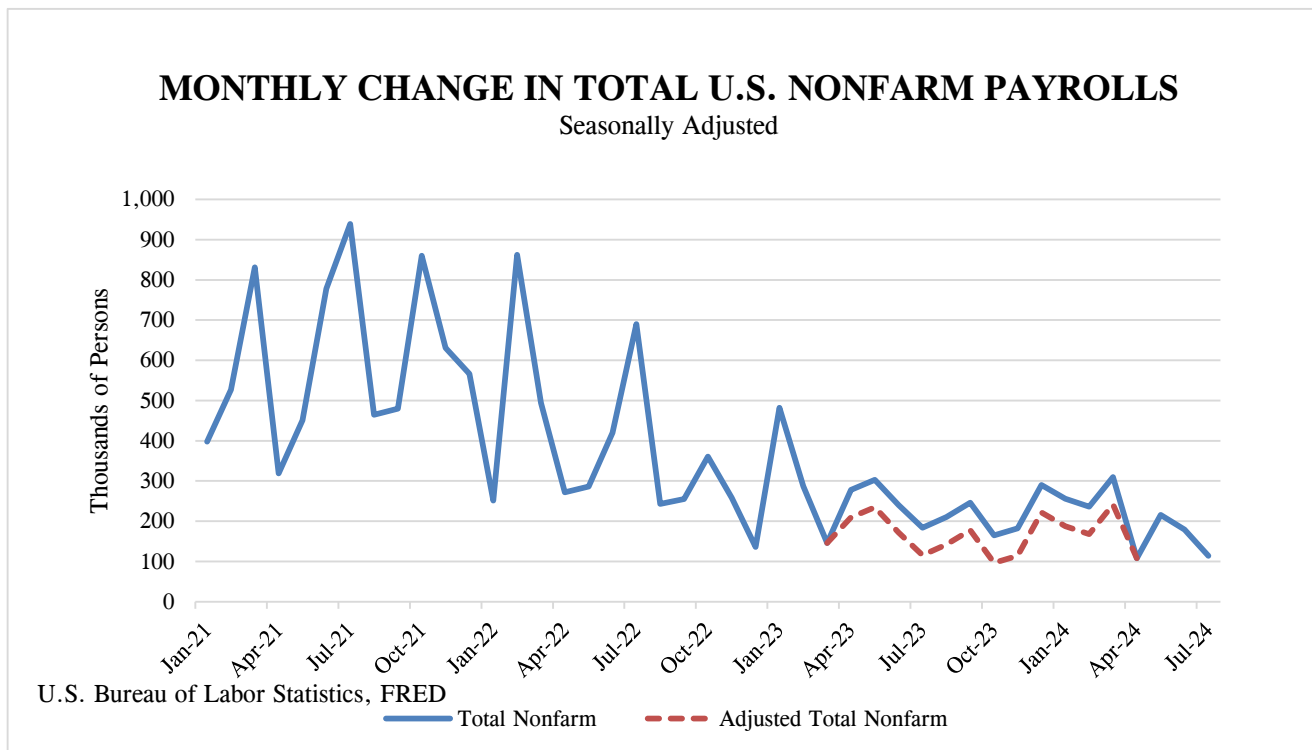
At its July 31st meeting, the FOMC decided to keep short-term interest rates within the range of 5.25% to 5.50%. During the post-meeting press conference, Federal Reserve Chairman Jerome Powell emphasized that the committee did not consider it appropriate to reduce interest rates "until we have gained greater confidence that inflation is moving sustainably toward 2 percent." Regarding the labor market, he noted that "supply and demand have come into better balance."

However, just two days later, the employment data for July was released, showing a more significant cooling of the labor market than expected. Preliminary data indicated that total nonfarm payrolls in the U.S. increased by only 114,000, marking the smallest growth since a decline in December 2020. The U.S. unemployment rate rose to 4.3%, up from 3.5% in July 2023. In Illinois, the unemployment rate was even higher, at 5.2% in July. While the current employment environment is comparable to those seen in the years leading up to the COVID-19 pandemic, the

recent trend has been negative, contrasting with the general improvement observed throughout most of the 2010s.

The July data for the U.S. met the standards to trigger the Sahm Rule. The Sahm rule is an analytic indicator created by economist Claudia Sahm to assess whether the economy has gone into recession based on historical patterns. The Sahm Rule is triggered when the three-month average U.S. unemployment rate rises by 0.50% or more from its 12-month low. Despite this, Sahm herself wrote in an opinion piece for Bloomberg News, “The US is not in a recession, despite the indicator bearing my name saying that it is. The Sahm rule, which was triggered with Friday’s weaker-than-expected jobs report, joins a long list of economic tools skewed by the unusual disruptions of the past four and a half years.” Sahm, does however, believe that, “The risk of a recession is elevated, strengthening the case for the US Federal Reserve to cut interest rates.”

The disappointing employment data for July was followed by the Bureau of Labor Statistics (BLS) announcement of the preliminary estimate for the annual benchmark revision of the establishment survey. This benchmark is applied to national employment data each year based on March figures. The preliminary estimate suggests that total nonfarm payrolls in the U.S. should be reduced by 818,000 jobs. Based on this revision, the average monthly job increase in the U.S. between April 2023 and March 2024 would be approximately 174,000, rather than the current estimate of around 242,000 per month. The chart below illustrates what monthly job growth would look like if this decrease were applied uniformly over the previous year. The benchmark data is sourced from the BLS's Quarterly Census of Employment and Wages (QCEW), which is derived from comprehensive state-level unemployment insurance records. The final benchmark revision will be incorporated into historical data with the release of the January 2025 employment report. Despite the expected reduction



in national employment figures, Illinois’s total nonfarm payroll is anticipated to increase by approximately 15,500 jobs when the benchmark revision is applied.

Given the additional weak employment data and the continued slowdown in inflation (with the year-over-year Consumer Price Index (CPI) growth at 2.9% in July and expected to fall to 2.6% in August), Federal Reserve officials have begun indicating that an interest rate cut may be imminent. Neel Kashkari, President of the Federal Reserve Bank of Minneapolis, commented that with the rising unemployment rate and progress in controlling inflation, “The balance of risks has shifted, so the debate about potentially cutting rates in September is an appropriate one to have.” Federal Reserve Chairman Jerome Powell echoed this sentiment in a speech at an economic symposium in Jackson Hole, Wyoming:

“Overall, the economy continues to grow at a solid pace. But the inflation and labor market data show an evolving situation. The upside risks to inflation have diminished. And the downside risks to employment have increased. As we highlighted in our last FOMC statement, we are attentive to the risks to both sides of our dual mandate.

The time has come for policy to adjust. The direction of travel is clear, and the timing and pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks.”

The CME Group’s FedWatch tool, which tracks market expectations for Federal Reserve monetary policy based on federal funds futures pricing data, indicates that the market is anticipating a rate cut. The tool currently shows a little over a two-thirds probability that the Fed will lower the federal funds target range by 0.25%, from 5.25%-5.50% to 5.0%-5.25%. It also shows just under a one-third probability of a 0.5% rate cut.

Based on these statements and market expectations, the likelihood of an interest rate cut at the next FOMC meeting in September appears high. Assuming no significant changes in economic trends, the path forward seems clear. The question now may be less about whether the Fed will cut rates in September, but rather by how much—0.25% or 0.50%.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY			
<u>INDICATORS*</u>	<u>LATEST MONTH</u>	<u>PRIOR MONTH</u>	<u>A YEAR AGO</u>
Unemployment Rate (Average) (July)	5.2%	5.0%	4.4%
Inflation in Chicago (12-month percent change) (July)	3.7%	3.0%	2.2%
	<u>LATEST MONTH</u>	<u>CHANGE OVER PRIOR MONTH</u>	<u>CHANGE OVER A YEAR AGO</u>
Civilian Labor Force (thousands) (July)	6,529.4	0.2%	1.4%
Employment (thousands) (July)	6,187.8	0.0%	0.5%
Nonfarm Payroll Employment (July)	6,156,500	12,900	37,300
New Car & Truck Registration (July)	31,374	11.3%	-13.3%
Single Family Housing Permits (July)	940	0.2%	17.1%
Total Exports (\$ mil) (June)	6,557.8	-7.8%	-2.6%
Chicago Purchasing Managers Index (Aug.)	46.1	1.8%	-5.3%

* Due to monthly fluctuations, trend best shown by % change from a year ago

August Sees Slight Bump in Revenues in a Relatively Lackluster Receipting Month

Eric Noggle, Revenue Manager

In a somewhat lackluster month for receipts, revenues deposited into the State's General Funds rose slightly to \$3.485 billion in August. This amount is \$50 million or 1.5% above last August's total of \$3.435 billion. Historically, the month of August is one of the fiscal year's smaller months for General Funds revenues, averaging 6.5% of a fiscal year's total over the last five years. This month had one less receipting day than last August, thereby contributing to the modest level of growth.

After rising sharply in July, revenues from the Personal Income Tax offset some of those gains in August by falling \$54 million. However, as shown in the data tables that follow, its two-month total is still well ahead of last year's pace. Conversely, the Corporate Income Tax rose \$8 million this month, but due to its weak July total, remains notably behind last year's pace when combining the first two months of the fiscal year. When accounting for distributions to the Refund Fund and the Local Government Distributive Fund, the Personal Income Tax fell \$46 million on a net basis, while the Corporate Income Tax grew \$6 million net in August.

Sales Tax receipts had another somewhat disappointing month as its August total was \$31 million or 3.1% below last August's levels. When adjusting out distributions to the Road Fund and certain transportation funds, a net decline of \$12 million results. One less receipting day likely contributed to this month's year-over-year decline, but this source's lack of growth in recent months is becoming concerning and something that will be monitored closely in the months ahead.

Receipts from All Other State Sources combined to provide a \$18 million increase. Contributing to this modest growth was another robust month for Interest on State Funds & Investments, which was \$40 million higher than last August. It was also another strong month for Insurance Taxes, with a gain of \$18 million. In addition, Liquor Taxes managed a mere \$1 million increase. Otherwise, the remaining revenue sources had revenues less than last August's totals. Other Sources were \$13 million lower, the Estate Tax fell \$11 million, the Cigarette Tax and Public Utility Taxes each declined \$7 million, while the Corporate Franchise Tax was down \$3 million.

It was also a mixed month for Transfers In. These transfers totaled \$132 million in August, which was \$2 million lower than last August's total. A \$5 million increase in Lottery transfers was effectively offset by a \$5 million decrease in casino related Gaming transfers. Other Transfers were \$2 million lower in August and Cannabis Transfers were essentially flat for the month.

The overall \$50 million increase in revenues is mostly due to a solid month for Federal Sources. In August, these receipts were \$86 million or 22.1% higher. There were no significant "non-base" revenues deposited into the General Funds this month. Therefore, the General Funds "Base" Total matches the Total General Funds total of \$3.485 billion.

AUGUST
FY 2024 vs. FY 2025
(\$ millions)

Revenue Sources	August FY 2024	August FY 2025	\$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	\$1,858	\$1,804	(\$54)	-2.9%
Corporate Income Tax (regular)	94	102	8	8.5%
Sales Taxes	997	966	(31)	-3.1%
Public Utility Taxes (regular)	55	48	(7)	-12.7%
Cigarette Tax	23	16	(7)	-30.4%
Liquor Gallonage Taxes	14	15	1	7.1%
Estate Tax	62	51	(11)	-17.7%
Insurance Taxes and Fees	61	79	18	29.5%
Corporate Franchise Tax & Fees	20	17	(3)	-15.0%
Interest on State Funds & Investments	48	88	40	83.3%
Cook County IGT	0	0	0	N/A
Other Sources	46	33	(13)	-28.3%
Total State Taxes	\$3,278	\$3,219	(\$59)	-1.8%
Transfers In				
Lottery	\$65	\$70	\$5	7.7%
Gaming	13	8	(5)	-38.5%
Sports Wagering	0	0	0	N/A
Cannabis	10	10	0	0.0%
Refund Fund	0	0	0	N/A
Other	46	44	(2)	-4.3%
Total Transfers In	\$134	\$132	(\$2)	-1.5%
Total State Sources	\$3,412	\$3,351	(\$61)	-1.8%
Federal Sources [base]	\$390	\$476	\$86	22.1%
Total Federal & State Sources	\$3,802	\$3,827	\$25	0.7%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	(170)	(\$165)	\$5	-2.9%
Corporate Income Tax	(13)	(\$14)	(1)	7.7%
Local Government Distributive Fund				
Personal Income Tax	(109)	(106)	3	-2.8%
Corporate Income Tax	(5)	(6)	(1)	20.0%
Sales Tax Distributions				
Deposits into Road Fund	(44)	(51)	(7)	15.9%
Distribution to the PTF and DPTF	(26)	0	26	-100.0%
General Funds Subtotal [Base]	\$3,435	\$3,485	\$50	1.5%
Non-Base Gen Funds Revenues	\$0	\$0	0	N/A
Total General Funds	\$3,435	\$3,485	\$50	1.5%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding

3-Sep-24

Year to Date

With the first two months of FY 2025 complete, General Funds receipts are now up \$437 million through August, an increase of 6.4%. This growth is mainly due to the \$387 million in year-over-year growth that occurred in July.

As noted in the previous section, despite the slight dip in August, Personal Income Tax receipts are up \$306 million so far this fiscal year, or +\$260 million on a net basis. Corporate Income Tax receipts, on the other hand, are \$73 million lower despite its slight uptick in August. On a net basis, these receipts are \$59 million lower. Sales tax receipts are now down \$77 million on a gross basis when comparing the first two months of the fiscal year with last year. On a net basis, when accounting for recent distribution changes related to the Road Fund and certain transportation funds, sales tax receipts are \$40 million behind last year's pace through August.

In terms of All Other State Sources, revenues are a combined \$175 million higher so far this fiscal year. The largest increase in this category comes from Insurance Taxes and Fees, up \$79 million through August. However, the extent of this increase is likely due to a timing element as July receipts were significantly higher than July 2023 levels. It has been another strong start for Interest on State Funds & Investments which are now up \$77 million when incorporating August's gains. Other sources in this category with a year-over-year increase through August include Other Sources [+ \$28 million] and the Estate Tax [+ \$1 million]. Sources that are cumulatively lower through August include the Corporate Franchise Tax [-\$6 million]; the Cigarette Tax [-\$3 million]; and Public Utility Taxes [-\$1 million].

Transfers In are a combined \$15 million above last year's pace through August. Other Transfers are up \$18 million, Lottery Transfers are \$5 million higher, and Cannabis Transfers have held flat. Gaming Transfers from Illinois casinos, however, are \$8 million lower. With August's gains, Federal Sources are cumulatively \$86 million higher than last year following its flat July performance.

<i>Summary of Receipts</i>				
GENERAL FUNDS RECEIPTS: THROUGH AUGUST				
<i>FY 2024 vs. FY 2025</i>				
<i>(\$ millions)</i>				
Revenue Sources	FY 2024	FY 2025	\$ CHANGE	% CHANGE
Net Personal Income Tax	\$3,133	\$3,393	\$260	8.3%
Net Corporate Income Tax	\$335	\$276	(\$59)	-17.6%
Net Sales Tax	\$1,846	\$1,806	(\$40)	-2.2%
All Other State Sources	\$537	\$712	\$175	32.6%
Transfers In	\$286	\$301	\$15	5.2%
Federal Sources [base]	\$704	\$790	\$86	12.2%
Base General Funds	\$6,841	\$7,278	\$437	6.4%
<i>Non-Base Gen Funds Revenues</i>	\$0	\$0	\$0	N/A
Total General Funds	\$6,841	\$7,278	\$437	6.4%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding

3-Sep-24

GENERAL FUNDS RECEIPTS: THROUGH AUGUST

FY 2024 vs. FY 2025

(\$ millions)

Revenue Sources	FY 2024	FY 2025	\$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	\$3,687	\$3,993	\$306	8.3%
Corporate Income Tax (regular)	418	345	(73)	-17.5%
Sales Taxes	1,984	1,907	(77)	-3.9%
Public Utility Taxes (regular)	108	107	(1)	-0.9%
Cigarette Tax	38	35	(3)	-7.9%
Liquor Gallonage Taxes	32	32	0	0.0%
Estate Tax	97	98	1	1.0%
Insurance Taxes and Fees	64	143	79	123.4%
Corporate Franchise Tax & Fees	39	33	(6)	-15.4%
Interest on State Funds & Investments	89	166	77	86.5%
Cook County IGT	0	0	0	N/A
Other Sources	70	98	28	40.0%
Total State Taxes	\$6,626	\$6,957	\$331	5.0%
Transfers In				
Lottery	\$135	\$140	\$5	3.7%
Gaming	28	20	(8)	-28.6%
Sports Wagering	0	0	0	N/A
Cannabis	19	19	0	0.0%
Refund Fund	0	0	0	N/A
Other	104	122	18	17.3%
Total Transfers In	\$286	\$301	\$15	5.2%
Total State Sources	\$6,912	\$7,258	\$346	5.0%
Federal Sources [base]	\$704	\$790	\$86	12.2%
Total Federal & State Sources	\$7,616	\$8,048	\$432	5.7%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	(\$338)	(\$366)	(\$28)	8.3%
Corporate Income Tax	(58)	(48)	10	-17.2%
Local Government Distributive Fund				
Personal Income Tax	(217)	(235)	(18)	8.3%
Corporate Income Tax	(25)	(20)	5	-20.0%
Sales Tax Distributions				
Deposits into Road Fund	(88)	(101)	(13)	14.8%
Distribution to the PTF and DPTF	(50)	0	50	-100.0%
General Funds Subtotal [Base]	\$6,841	\$7,278	\$437	6.4%
Non-Base Gen Funds Revenues	\$0	\$0	0	N/A
Total General Funds	\$6,841	\$7,278	\$437	6.4%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding

3-Sep-24

Downstate Police and Fire (Article 3 and 4) Pension Fund Consolidation Brief

Zach Hollinshead, Pension Analyst

As the 101st General Assembly drew to a close, SB 1300 passed through both chambers and was sent to the Governor. On December 18, 2019, Governor Pritzker signed the bill as Public Act 101-0610, effective January 1, 2020. This new law established two separate consolidated investment entities: the Illinois Police Officers' Pension Investment Fund (IPOPIF) and the Illinois Firefighters' Pension Investment Fund (IFPIF), respectively, for the purposes of aggregated investment management for Article 3 and 4 pension funds.

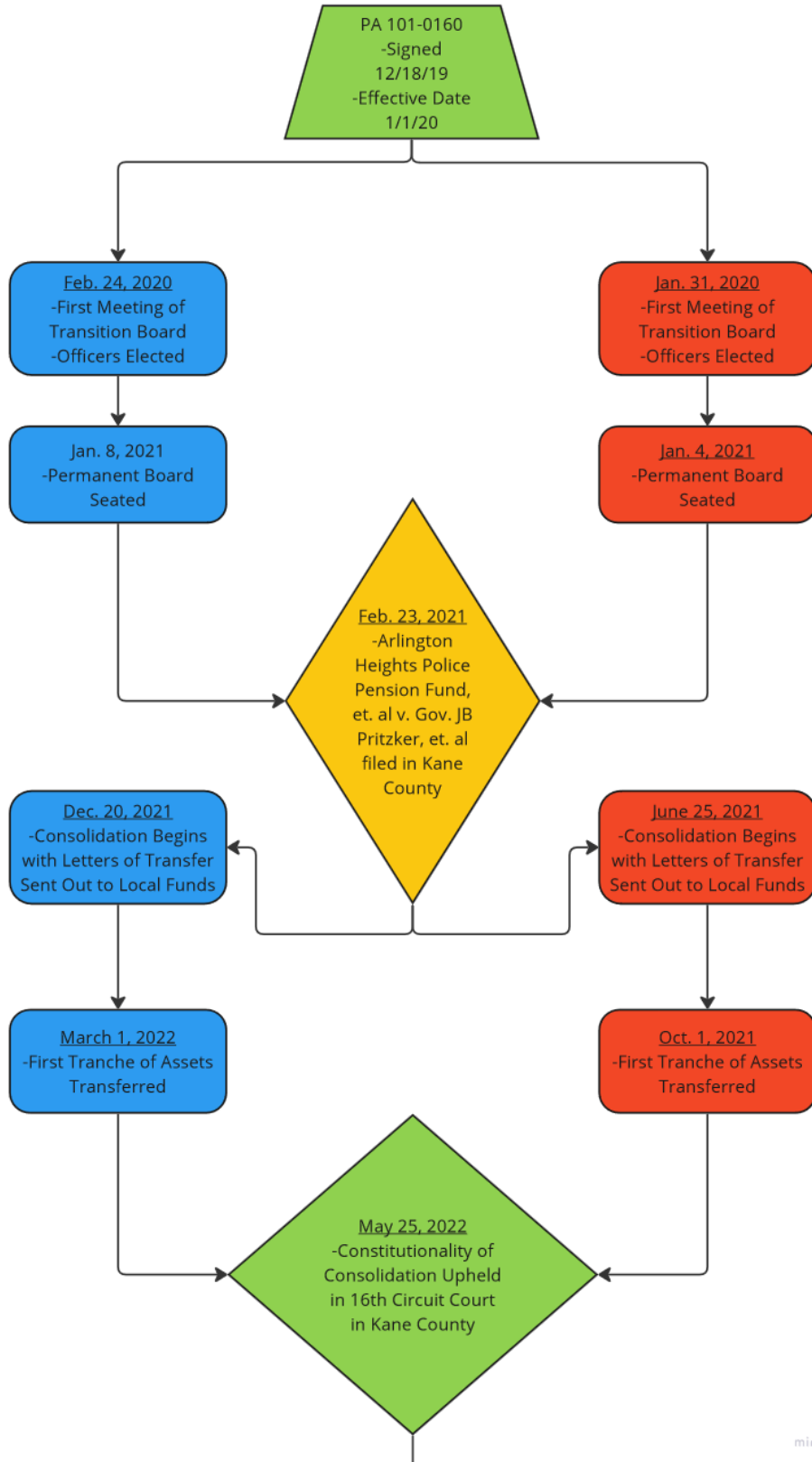
Under the provisions of the law, existing local funds will continue administering benefits and adjudicating disability claims, but must relinquish all investment authority to the newly created investment funds. IFPIF transitioned the last tranche of assets to the newly created fund on July 14, 2022, completing the consolidation of 296 local Article 4 funds and their approximately \$8 billion in combined assets. As of February 27, 2024, 333 of 357 local Article 3 funds had transferred approximately \$8.9 billion in assets to IPOPIF. The remaining 24 funds are to be transferred on October 1, 2024, which will result in an ending total asset amount of over \$11 billion.

Although Illinois Department of Insurance (IDOI) will continue operating the existing online portal for compiling membership and financial data from Article 3 & 4 funds, the following list of responsibilities previously tasked to IDOI will now be charged to the consolidated funds:

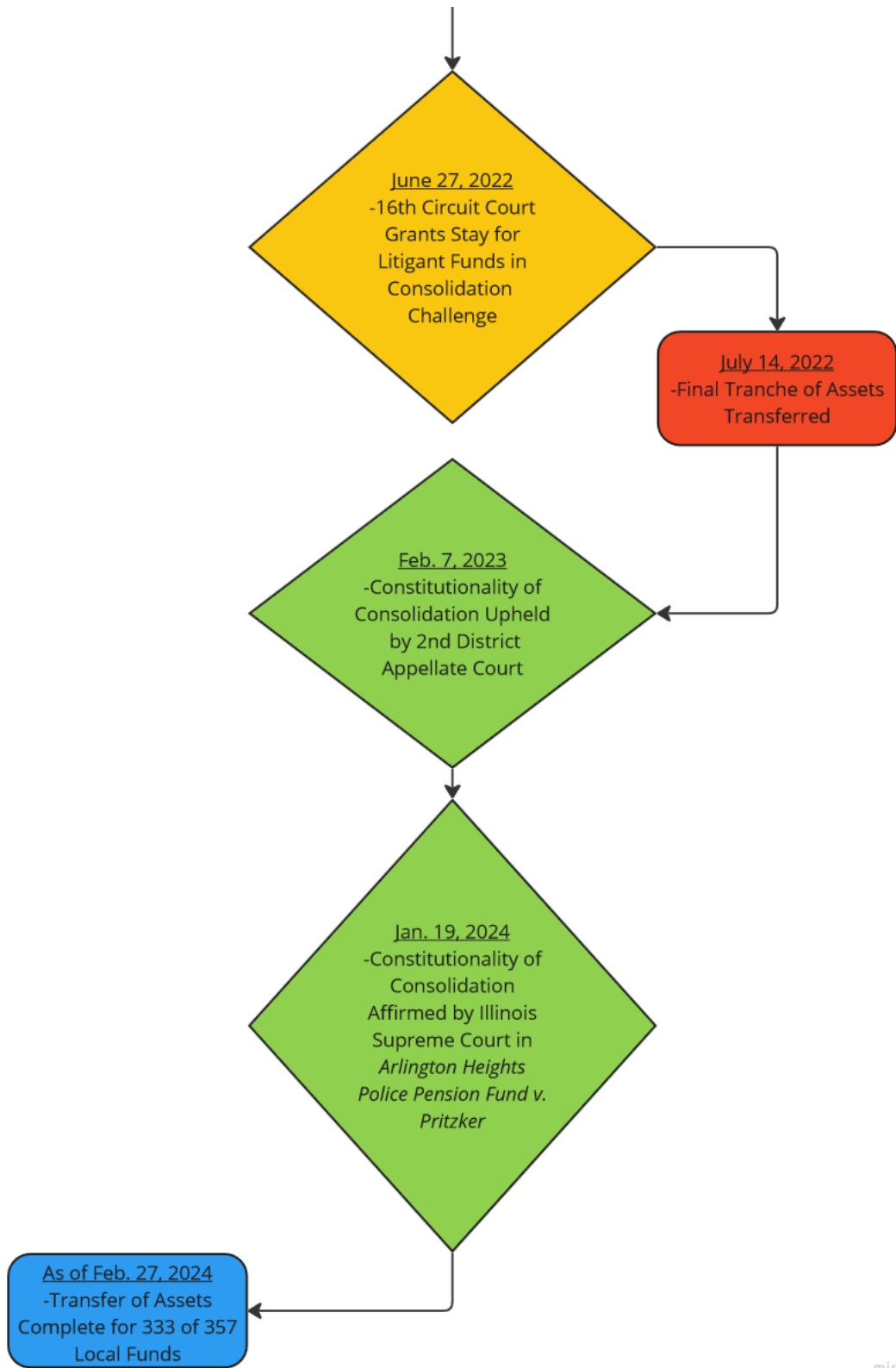
- Audits of each local fund every three years if the appropriate Consolidated Fund agrees to conduct all local audits per P.A. 103-0008, the FY 2024 BIMP Act, effective July 1, 2023;
 - IFPIF completed the first tranche of audits on 63 funds on October 6, 2023 and started the second tranche of audits for 40 selected funds in September of the same year
 - IPOPIF approved a Memorandum of Understanding agreed upon between the Fund and IDOI covering obligations and duties at the April 12, 2024 Board meeting, and according to the June 12, 2024 newsletter, had begun the implementation of these audits
- Preparation of yearly actuarial valuations and financial statements; and
- Calculation of the actuarially required municipal contributions to police and fire funds.

Shown on the following pages is a timeline of major events following the paths of each consolidated fund through their transfer period, starting with the signing of Public Act 101-0610 and ending in February of this year.

Timeline of Consolidation



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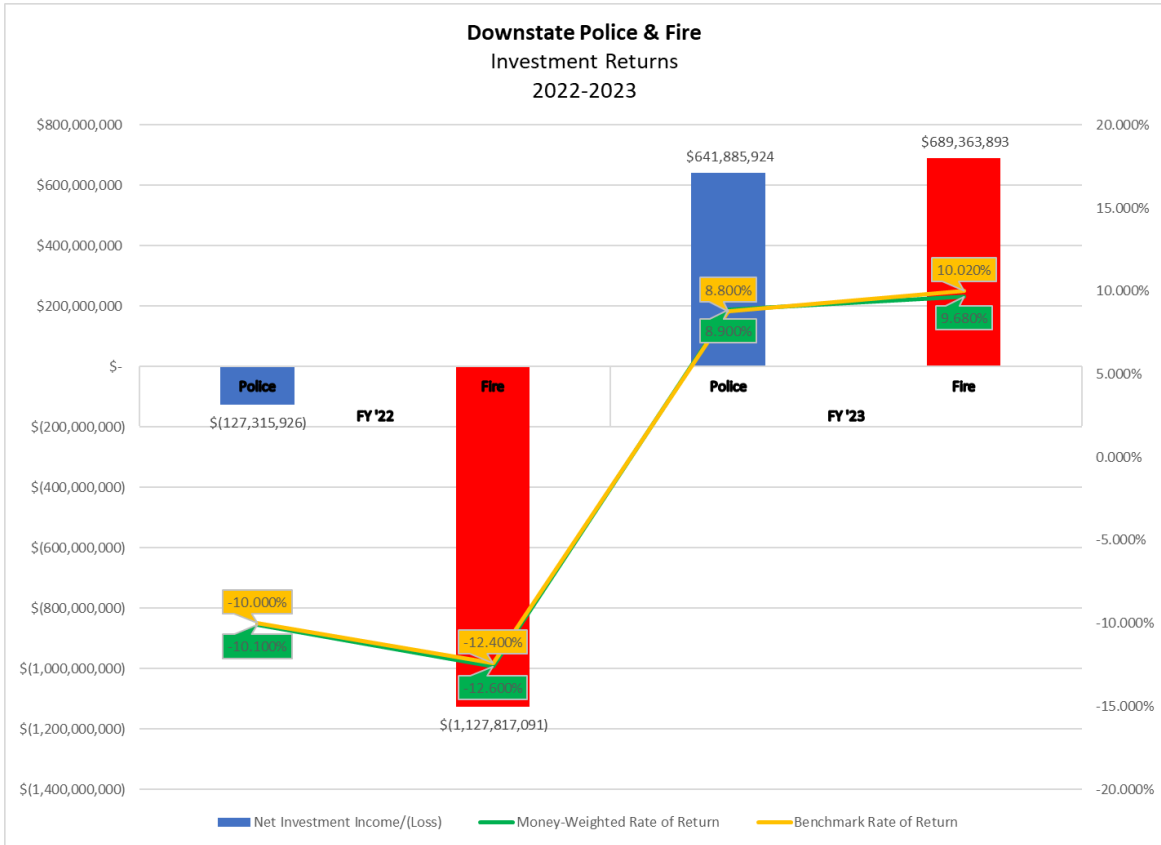
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Shortly after the signing of PA 101-0610, the COVID-19 pandemic introduced numerous challenges for the consolidation process of both Downstate Police and Fire funds by the year ending June 30, 2022. As the consolidated funds worked to transfer assets from local participating funds to their respective aggregate investment pool, each fund used an incomplete asset base due to the ongoing transition noted above. Per their respective annual comprehensive reports for the year ended June 30, 2022, the assets contained within each fund's first year base is as follows:

- IFPIF started their transfer of assets on October 1, 2021, marking the beginning of the nine-month period of investment performance analyzed, and assets were converted into FPIF's target portfolio each month that they were received.
- IPOPIF states that the investment performance for the year consisted exclusively of investment activities commencing on March 1, 2022 (the start of the 1st tranche of assets) and performance of assets received from participating pension funds awaiting transfer for liquidation and assets invested in the Fund's target asset allocation, all received before the fiscal year ended June 30, 2022.

Chart 1 on the following page displays the two available years of investment reporting from the Consolidated Funds, showing the poor performance in FY 22 due to the pandemic, in addition to the truncated performance period experienced by IFPIF and the incomplete asset base used by IPOPIF discussed above, and the market rebound experienced in FY 23.

Chart 1



Statutory Formation of Funds and Historical Perspective

Pursuant to the current Illinois Pension Code, any city, village, or town of 5,000 but less than 500,000 inhabitants that employs at least one full-time police officer or firefighter must establish and administer a Police and Fire pension fund. Fire protection districts that have full-time paid firefighters must also establish firefighter pension funds. The Pension Code provides that municipalities having less than 5,000 inhabitants can elect to establish Police and/or Fire pension funds via referendum. As of June 30, 2023, 357 Article 3 police funds and 296 fire pension funds operated within Illinois.

Following their inception in 1887, pension funds for the public safety workforce have taken many forms throughout the history of Illinois. The original Illinois Downstate Police and Fire pension funds were restricted to members in departments residing in municipalities exceeding 50,000 residents, and required all pensioners to be over the age of 50. To be eligible for a pension from one of these funds, police officers must have had at least 20 years of service once they vacate their position, while firefighters needed at least 25 years of consecutive service, as well as a medical evaluation proving their inability to continue in their position. Pensions were available to members of both funds in the event of a disability caused by their employment, but while police officers were eligible once their disability was confirmed by examination, firefighters needed at least 10 years of service to be eligible for a disability pension.

The appearance of the Downstate Police and Fire Funds has varied through its history, but the collection and use of a local tax levy has been a key funding mechanism throughout those changes. Since inception, both funds have relied on these tax levies to fund statutorily required contributions from the municipalities in which they reside. The following list shows the chronology of legislation up to current law:

- Senate Bill 72 of the 73rd GA, effective March 18, 1963, codified the current Illinois Pension Code into law and contained language directing the formula for tax levies used in both funds for collection of required municipal contributions to include an amount needed to “insure the accumulation of a reserve” pool of money for future pension payments. A deadline for the accumulation of reserve money was given for each fund, as original language in the Police Article (Article 3) allowed a period of “40 years subsequent to July 17, 1959” while the Fire Article (Article 4) required their reserve to be filled “over a period of 10 years subsequent to Jan 1, 1961.”
- Effective September 16, 1984, Public Act 83-1440 adjusted the wording of the tax levy formula within both funds, requiring an amount equal to the annual normal cost of the fund plus an amount necessary to amortize existing unfunded liabilities 40 years subsequent to Jan 1, 1980.
- Effective January 25, 1993, Public Act 87-1265 extended the window of time to amortize existing unfunded liabilities established by PA 83-1440 to 40 years subsequent to July 1, 1993.
- PA 96-1495, effective January 1, 2011, amended that formula with the continued requirement of an amount equal to the annual normal cost of the fund, but changed the amortization component to an amount necessary to put the total assets of the fund at 90% of total actuarial liabilities by the end of FY 2040.

The formula amended by PA 96-1495 survived consolidation, and these municipal contributions are still funded through tax levies despite being a part of a larger investment pool. As stated before, DOI no longer calculates these recommended amounts to municipalities annually. This responsibility is now tasked to the consolidated fund(s). As IPOPIF awaits the final tranche of participating pension funds to transfer in October, Charts 2 through 5 examine variations between those recommended tax levies and municipal employer contributions received for fiscal years 2018-2022. Two views of the tax levies are offered; 1) an aggregation of annual variations between the recommended levy and actual contributions, as well as 2) a look at 20 selected local funds. The individual funds were chosen to be geographically representative of Illinois to help account for the diversity of Illinois within the analysis.

Chart 2

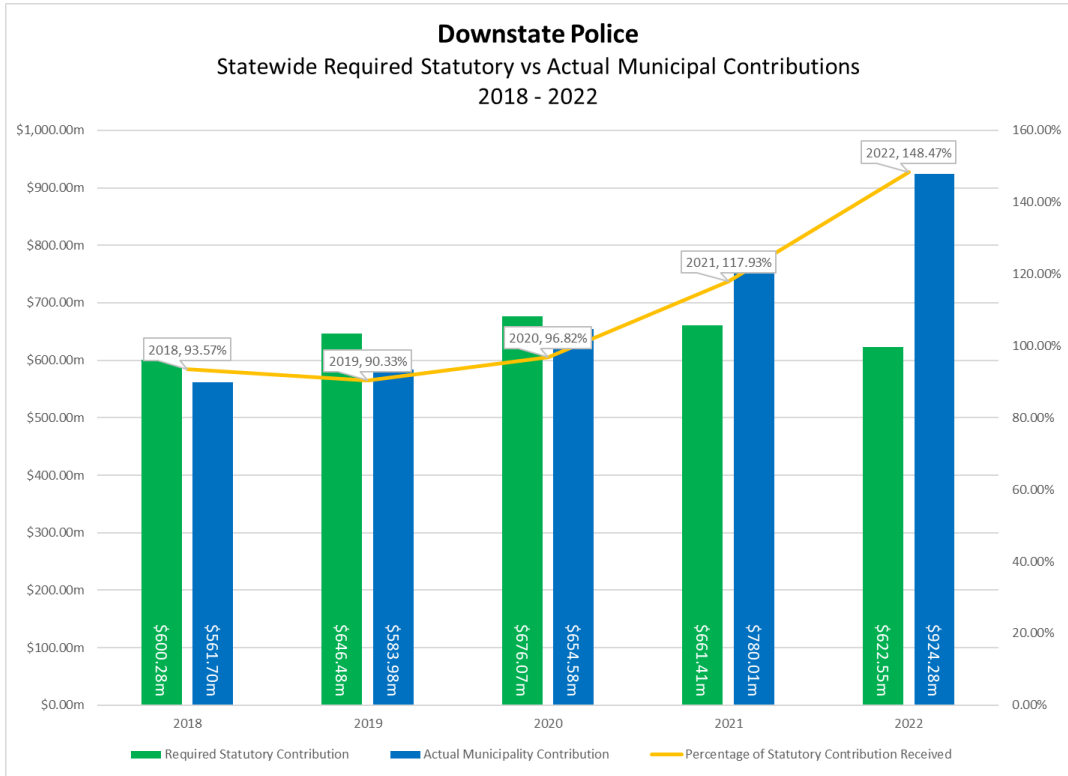


Chart 3

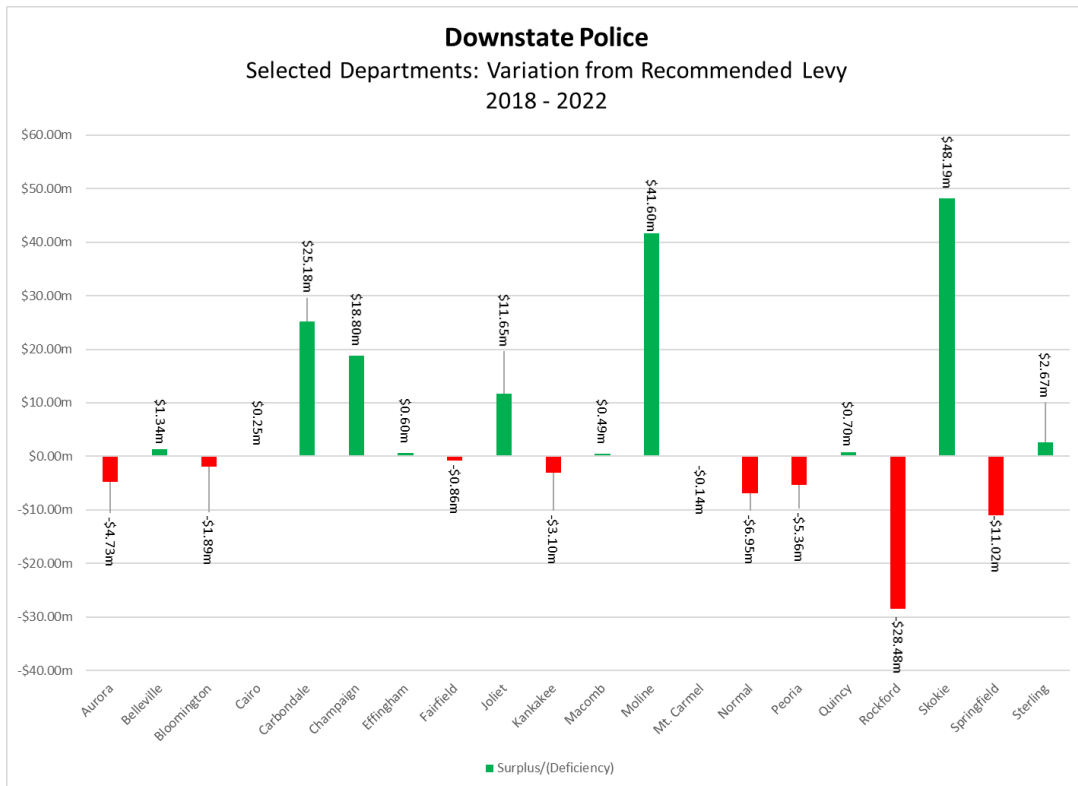


Chart 4

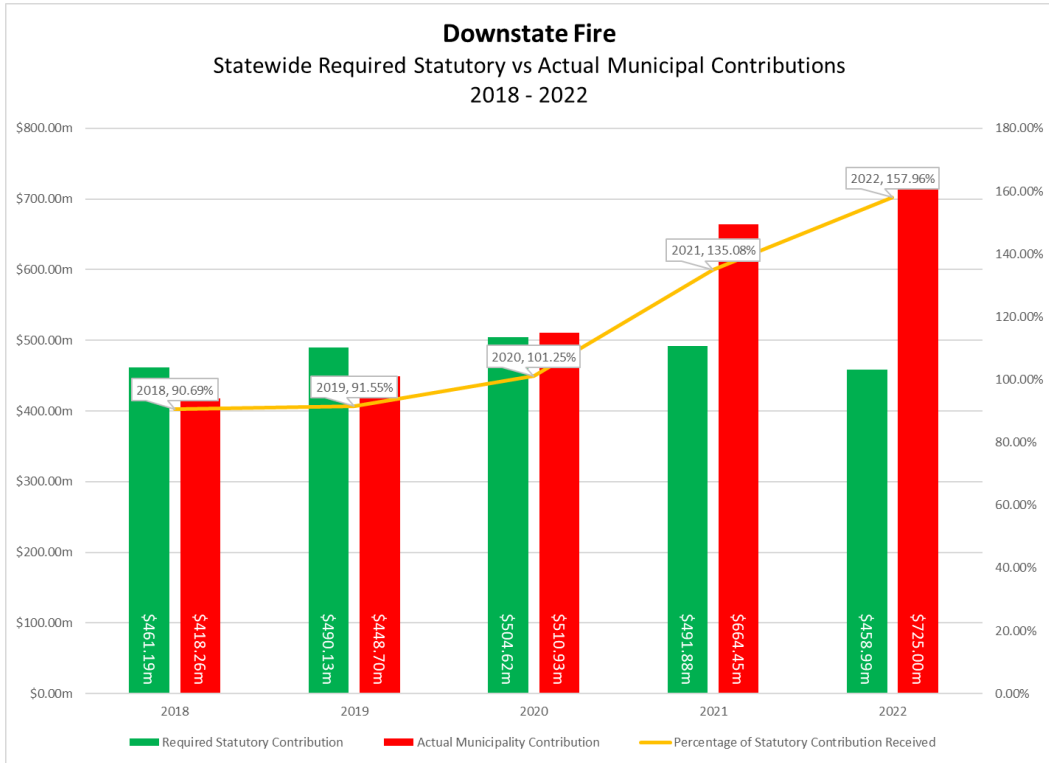
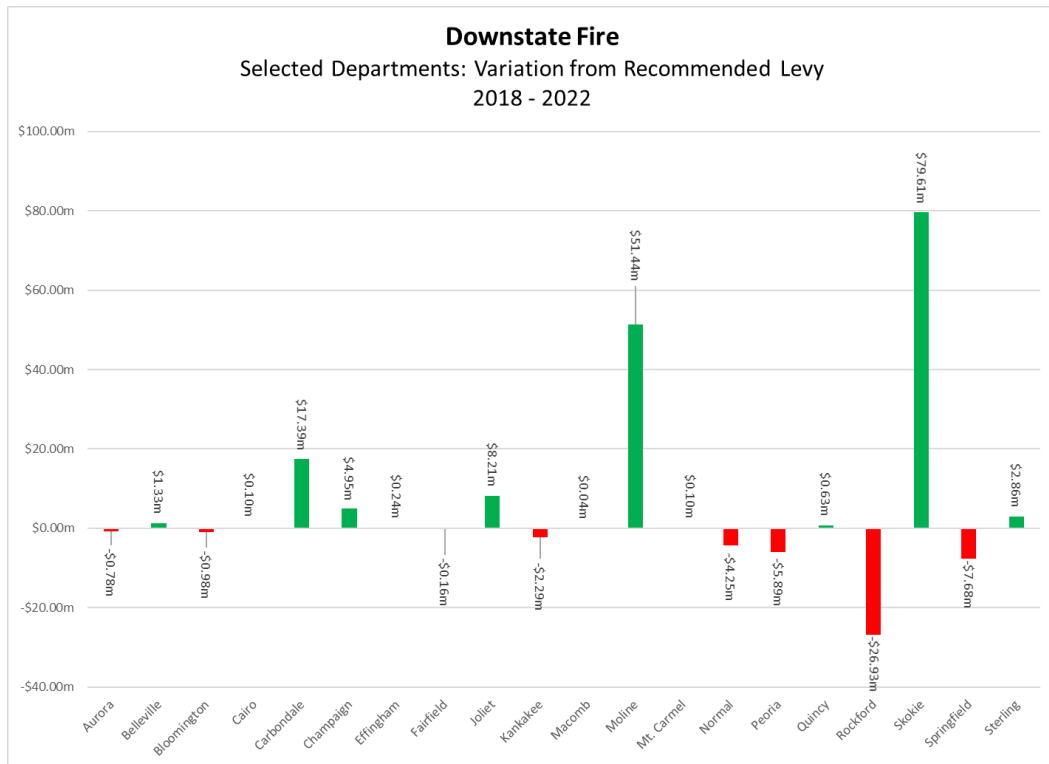


Chart 5



COGFA’s bi-annual report on the financial condition of the Downstate Police and Fire pension funds will be published by the end of 2025.