Commission on Government Forecasting and Accountability

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MONTHLY BRIEFING FOR THE MONTH ENDED: June 2019

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INSIDE THIS ISSUE

REVENUE: FY 2019 ENDS WITH FEDERAL SOURCE SURGE—REVENUES FINISH VERY CLOSE TO EXPECTATIONS

Jim Muschinske, Revenue Manager

To close out the fiscal year, base receipts grew $750 million in June. The bulk of the monthly increase was due to a $705 million jump in federal sources. Not only was the federal source performance strong, but it compared with an extremely weak month last year. June had one less receipting day compared to a year earlier.

Monthly gross personal income taxes increased $107 million, or $88 million net. Other sources finished the year strong with a gain of $53 million. Gross sales tax continued to rack up monthly gains, growing by $42 million, or $38 million net. Cigarette tax receipts increased $8 million in June. The gain could well be related to a surge in cigarette sales as smokers stockpile before the July 1 rate increase. Interest earnings posted gains of $6 million, while corporate franchise taxes increased $4 million.

Despite an overall positive month, a few sources experienced declines in June. Gross corporate income taxes fell $35 million, or $20 million net. Inheritance tax wasn't able to meet last June's stellar finale, and instead declined $20 million. Public utility taxes fell $14 million, insurance taxes declined $5 million, and liquor taxes dipped $1 million.

Overall transfers declined by $92 million in June. While Lottery transfers gained $15 million, and riverboat transfers ticked up $5 million, a much larger $110 million falloff in all other miscellaneous transfers served to suppress June's performance. As mentioned, the overall monthly increase in revenues was due almost entirely to the $705 million surge in federal source receipts. Part of that performance can be explained by some reimbursement "pre-draws" executed in June. While pre-drawing federal reimbursement allowed federal revenues to fall within the FY 2019 timeframe, it may have some impact on reimbursements in the upcoming fiscal year once quarterly spending/reimbursement reconciliations are done between the State and Federal government.

Year End

Excluding interfund borrowing, last year's $2.5 billion bond proceeds transfer and the $750 million related to the Treasurer's Investments this fiscal year, base general funds for FY 2019 finished $817 million higher than last year. Gross personal income tax ended up with respectable gains of $1.820 billion, or $1.511 billion net. Gross sales tax receipts finished its strong year, up an impressive $641 million, or $599 million net. Gross corporate income taxes ended with a decent increase of $419 million, or $372 million net. All other tax sources combined added $115 million in gains.

Overall transfers fell by $142 million for the fiscal year, while federal sources finished down $1.638 billion due to last fiscal year's reimbursable spending made possible from November 2017 bond sale proceeds.

Review of FY 2019 Revenue Estimates

The below summary table as well as a more detailed table on page 6, display and compare the May estimate published by CGFA and the May GOMB/IDoR revision. A discussion of the various revenue categories is discussed below.

FY 2019 Actuals vs. CGFA and IDoR/GOMB Estimates

($ millions)

Revenue Sources	ACTUAL FY 2019	CGFA EST. May-19 FY 2019	DIFFERENCE ACTUALS FROM ESTIMATE	IDoR/GOMB EST. May-19 FY 2019	DIFFERENCE ACTUALS FROM ESTIMATE
Income Taxes [Net]	$21,625	$21,730	($105)	$21,892	($267)
Sales Tax [Net]	$8,409	$8,312	$97	$8,229	$180
All Other Sources	$3,516	$3,518	($2)	$3,439	$77
Transfers	$2,045	$2,055	($10)	$2,065	($20)
Federal Sources	$3,600	$3,115	$485	$3,220	$380
Subtotal General Funds	$39,195	$38,730	$465	$38,845	$350
Interfund Borrowing	$250	$250	$0	$250	$0
Treasurer's Investment Borrowing	$750	$700	$50	$700	$50
Total General Funds	$40,195	$39,680	$515	$39,795	$400

- The May updates of both agencies took into account the phenomenal performance that April's income tax receipts experienced. Given the timing of the revisions, the forecasts of income taxes for both agencies performed reasonably well, although did end up falling slightly under expectations. Overall actuals of net income taxes finished just under the Commission's May revision by $105 million or less than one-half of a percent. While the differential was slightly more pronounced by the GOMB/IDoR revised estimate, with actuals falling $267 million or 1.2% short of their expectations.

- Sales tax receipts finished the fiscal year just over the Commission's May forecast by $97 million, or approximately 1.1%. Sales tax finished even higher than the expectations set for it by the GOMB/IDoR, as receipts exceeded their estimate by $180 million, or approximately 2.1%.

- All other sources to the general funds performed as the Commission expected, with actual receipts missing the estimate by only $2 million. The forecast of the GOMB/IDoR was exceeded by $77 million, or 2.2%.

- Both agencies' forecast of overall transfers to the general funds were very accurate, with actuals falling just shy of expectations. The Commission's estimate was off by only $10 million, and the GOMB/IDoR estimate by $20 million.

- Federal sources proved once again to be the Achilles heel of forecasting as actuals ended up exceeding final projections by a sizable amount. In whipsaw fashion, after undergoing downward adjustments earlier in the fiscal year due to poor monthly performances, federal sources came on strong late to finish the fiscal year above expectations. Actuals outperformed the May CGFA estimate by $485 million and the GOMB estimate by $380 million. Federal sources are largely dependent on reimbursable spending. As a result, a host of items serves to introduce variance into the equation—actual programmatic liability, payment vouchers submitted by the agency, appropriation levels, available resources to make payment, and actual payment priorities set by the Comptroller. This past year, an additional level of uncertainty related to "pre-drawing" federal reimbursement served to add another layer of complexity.

- In terms of non-base revenues to the general funds, both agencies met expectations. Interfund borrowing totaled the expected $250 million, and while the Treasurer's Investment Borrowing program did technically exceed projections by $50 million, it was only because of a "contingency" transfer in that same amount was executed [see further discussion on page 9].

- While overall base revenues outperformed the Commission's and GOMB/IDoR's forecasts by approximately 1.2% and 0.9%, respectively, when the highly volatile category of federal sources are excluded, both agencies produced forecasts virtually spot on with actuals.

JUNE
FY 2019 vs. FY 2018
($ million)

Revenue Sources	June FY 2019	June FY 2018	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$1,835	$1,728	$107	6.2%
Corporate Income Tax (regular)	461	496	($35)	-7.1%
Sales Taxes	787	745	$42	5.6%
Public Utility Taxes (regular)	48	62	($14)	-22.6%
Cigarette Tax	39	31	$8	25.8%
Liquor Gallonage Taxes	15	16	($1)	-6.3%
Vehicle Use Tax	2	2	$0	0.0%
Inheritance Tax	22	42	($20)	-47.6%
Insurance Taxes and Fees	72	77	($5)	-6.5%
Corporate Franchise Tax & Fees	22	18	$4	22.2%
Interest on State Funds & Investments	14	8	$6	75.0%
Cook County IGT	0	0	$0	N/A
Other Sources	237	184	$53	28.8%
Subtotal	$3,554	$3,409	$145	4.3%
Transfers				
Lottery	104	89	$15	16.9%
Riverboat transfers & receipts	25	20	$5	25.0%
Proceeds from Sale of 10th license	0	0	$0	N/A
Refund Fund transfer	0	0	$0	N/A
Fund sweeps	0	2	($2)	N/A
Other	50	160	($110)	-68.8%
Total State Sources	$3,733	$3,680	$53	1.4%
Federal Sources	$771	$66	$705	1068.2%
Total Federal & State Sources	$4,504	$3,746	$758	20.2%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	($178)	($169)	($9)	5.3%
Corporate Income Tax	($72)	(87)	$15	-17.2%
LGDF--Direct from PIT	($95)	(85)	($10)	11.8%
LGDF--Direct from CIT	($25)	(25)	$0	0.0%
Downstate Pub/Trans--Direct from Sales	($52)	(48)	($4)	8.3%
Subtotal General Funds	$4,082	$3,332	$750	22.5%
Treasurer's Investments	$0	$0	$0	N/A
Interfund Borrowing	$0	$6	($6)	N/A
Income Tax Bond Fund Transfer	$0	$0	$0	N/A
Transfer to Commitment Human Services	$0	$20	($20)	N/A
Total General Funds	$4,082	$3,358	$724	21.6%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 2-Jul-19

GENERAL FUNDS RECEIPTS: YEAR END

FY 2019 vs. FY 2018

($ million)

Revenue Sources	FY 2019	FY 2018	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$22,604	$20,784	$1,820	8.8%
Corporate Income Tax (regular)	3,026	2,607	$419	16.1%
Sales Taxes	8,897	8,256	$641	7.8%
Public Utility Taxes (regular)	863	896	($33)	-3.7%
Cigarette Tax	361	344	$17	4.9%
Liquor Gallonage Taxes	172	172	$0	0.0%
Vehicle Use Tax	31	28	$3	10.7%
Inheritance Tax	388	358	$30	8.4%
Insurance Taxes and Fees	396	432	($36)	-8.3%
Corporate Franchise Tax & Fees	247	207	$40	19.3%
Interest on State Funds & Investments	145	79	$66	83.5%
Cook County IGT	244	244	$0	0.0%
Other Sources	669	641	$28	4.4%
Subtotal	$38,043	$35,048	$2,995	8.5%
Transfers				
Lottery	731	719	$12	1.7%
Riverboat transfers & receipts	269	272	($3)	-1.1%
Proceeds from Sale of 10th license	10	10	$0	0.0%
Refund Fund transfer	327	0	$327	N/A
Fund sweeps	0	269	($269)	N/A
Other	708	917	($209)	-22.8%
Total State Sources	$40,088	$37,235	$2,853	7.7%
Federal Sources	$3,600	$5,238	($1,638)	-31.3%
Total Federal & State Sources	$43,688	$42,473	$1,215	2.9%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	($2,193)	($2,037)	($156)	7.7%
Corporate Income Tax	($470)	(457)	($13)	2.8%
LGDF--Direct from PIT	($1,175)	(1,022)	($153)	15.0%
LGDF--Direct from CIT	($167)	(133)	($34)	25.6%
Downstate Pub/Trans--Direct from Sales	($488)	(446)	($42)	9.4%
Subtotal General Funds	$39,195	$38,378	$817	2.1%
Treasurer's Investments	$750	$0	$750	N/A
Interfund Borrowing	$250	$533	($283)	-53.1%
Income Tax Bond Fund Transfer	$0	$2,500	($2,500)	N/A
Transfer to Commitment Human Services	$0	$40	($40)	N/A
Total General Funds	$40,195	$41,451	($1,256)	-3.0%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 2-Jul-19

FY 2019 Actuals vs. CGFA & IDOR/GOMB Estimates

($ millions)

Revenue Sources	ACTUAL FY 2019	CGFA EST. May-19 FY 2019	DIFFERENCE ACTUALS FROM ESTIMATE	IDOR/ GOMB EST. May-19 FY 2019	DIFFERENCE ACTUALS FROM ESTIMATE
State Taxes					
Personal Income Tax	$22,604	$22,675	($71)	$22,914	($310)
Corporate Income Tax (regular)	$3,026	$3,080	($54)	$3,029	($3)
Sales Taxes	$8,897	$8,820	$77	$8,735	$162
Public Utility (regular)	$863	$879	($16)	$868	($5)
Cigarette Tax	$361	$348	$13	$347	$14
Liquor Gallonage Taxes	$172	$174	($2)	$174	($2)
Vehicle Use Tax	$31	$31	$0	$30	$1
Inheritance Tax	$388	$375	$13	$315	$73
Insurance Taxes & Fees	$396	$421	($25)	$428	($32)
Corporate Franchise Tax & Fees	$247	$230	$17	$206	$41
Interest on State Funds & Investments	$145	$140	$5	$100	$45
Cook County Intergovernmental Transfer	$244	$244	$0	$244	$0
Other Sources	$669	$676	($7)	$727	($58)
Subtotal	**$38,043**	**$38,093**	**($50)**	**$38,117**	**($74)**
Transfers					
Lottery	$731	$731	$0	$731	$0
Riverboat transfers & receipts	$269	$261	$8	$263	$6
Proceeds from sale of 10th license	$10	$10	$0	$10	$0
Refund Fund transfer	$327	$327	$0	$327	$0
Other	$708	$726	($18)	$734	($26)
Total State Sources	**$40,088**	**$40,148**	**($60)**	**$40,182**	**($94)**
Federal Sources	**$3,600**	**$3,115**	**$485**	**$3,220**	**$380**
Total Federal & State Sources	**$43,688**	**$43,263**	**$425**	**$43,402**	**$286**
Nongeneral Funds Distribution:					
Refund Fund					
Personal Income Tax	($2,193)	($2,199)	$6	($2,224)	$31
Corporate Income Tax	($470)	($477)	$7	($469)	($1)
LGDF--Direct from PIT	($1,175)	($1,179)	$4	($1,191)	$16
LGDF--Direct from CIT	($167)	($170)	$3	($167)	$0
Downstate Pub/Trans--Direct from Sales	($488)	($508)	$20	($506)	$18
Subtotal General Funds	**$39,195**	**$38,730**	**$465**	**$38,845**	**$350**
Interfund Borrowing	**$250**	**$250**	**$0**	**$250**	**$0**
Treasurer's Investment Borrowing	**$750**	**$700**	**$50**	**$700**	**$50**
Total General Funds	**$40,195**	**$39,680**	**$515**	**$39,795**	**$400**

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS*	LATEST MONTH	PRIOR MONTH	A YEAR AGO
Unemployment Rate (Average) (May)	4.4%	4.4%	4.3%
Inflation in Chicago (12-month percent change) (May)	1.2%	0.8%	2.3%

	LATEST MONTH	CHANGE OVER PRIOR MONTH	CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (May)	6,487.6	0.0%	0.3%
Employment (thousands) (May)	6,202.5	0.1%	0.2%
Nonfarm Payroll Employment (May)	6,174,100	-2,400	74,700
New Car & Truck Registration (May)	62,490	23.2%	19.0%
Single Family Housing Permits (May)	994	1.9%	-11.8%
Total Exports ($ mil) (Apr.)	5,263.3	-6.1%	-9.1%
Chicago Purchasing Managers Index (June)	49.7	-8.3%	-22.5%

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

FY 2018 – FY 2021 Interfund Borrowing

Lynnae Kapp, Sr. Analyst

Beginning in FY 2018, Interfund Borrowing was allowed for up to $1.2 billion outstanding at one time. The initial legislation, Public Act 100-0023, allowed for borrowing from July 6, 2017 through December 31, 2018. Public Act 100-0587 extended the time for borrowing through March 1, 2019. Just passed in the current legislative session, Public Act 101–0010 extends the borrowing period to March 1, 2021 and the payback period from 24 months to 48 months.

Interfund Borrowing may include transfers from unspecified special state funds to general funds and the Health Insurance Reserve Fund up to and outstanding at any one time of $1.2 billion. Additional transfers and retransfers may occur between funds as needed due to insufficient cash in the originator fund, as long as the amount outstanding is still at or below $1.2 billion. Amounts shall be repaid from general funds to the original funds with interest within 48 months of the date borrowed.

Transfers to-date to the General Revenue Fund equal $783 million, while principal of approximately $138 million has been paid back. Four funds have received payback of the principal amount, while four others have received a portion of the principal paid back. The FY 2020 General Funds budget plan assumes $100 million of interfund borrowing during the fiscal year.

30 ILCS 105/5h.5			
	Transfer from Fund	Total Borrowed	Total Principal
Fund #	Fund Name	To-Date	Paid Back
0022	General Professions Dedicated Fund	$100,000	$0
0044	Lobbyist Registration Administration Fund	$1,000,000	$1,000,000
0067	Radiation Protection Fund	$1,000,000	$0
0072	Underground Storage Tank Fund	$74,300,000	$53,000,000
0075	Compassionate Use of Medical Cannabis Fund	$2,500,000	$0
0093	Illinois State Medical Disciplinary Fund	$5,000,000	$0
0118	Facility Licensing Fund	$500,000	$0
0245	Fair and Exposition Fund	$2,500,000	$0
0258	Nursing Dedicated and Professional Fund	$1,000,000	$0
0265	State Rail Freight Loan Repayment Fund	$6,000,000	$0
0286	Illinois Affordable Housing Trust Fund	$21,295,000	$11,295,000
0294	Used Tire Management Fund	$1,000,000	$0
0298	Natural Areas Acquisition Fund	$2,000,000	$0
0299	Open Space Lands Acquisition and Development Fund	$58,000,000	$0
0362	Securities Audit and Enforcement Fund	$6,000,000	$6,000,000
0372	Plumbing Licensure and Program Fund	$500,000	$0
0384	Tax Compliance and Administration Fund	$3,000,000	$0
0421	Public Aid Recoveries Trust Fund	$200,000,000	$20,000,000
0453	Monitoring Device Driving Permit Administration Fee Fund	$3,000,000	$3,000,000
0534	Illinois Workers' Compensation Commission Operations Fund	$2,000,000	$0
0550	Supplemental Low-Income Energy Assistance Fund	$42,000,000	$0
0568	School Infrastructure Fund	$146,000,000	$0
0608	Partners for Conservation Fund	$2,000,000	$0
0708	Illinois Standardbred Breeders Fund	$1,000,000	$0
0709	Illinois Thoroughbred Breeders Fund	$500,000	$0
0722	Comptroller Debt Recovery Trust Fund	$6,000,000	$6,000,000
0763	Tourism Promotion Fund	$5,000,000	$0
0795	Bank and Trust Company Fund	$1,000,000	$0
0796	Nuclear Safety Emergency Preparedness Fund	$2,000,000	$0
0836	Illinois Power Agency Renewable Energy Resources Fund	$150,000,000	$37,500,000
0850	Real Estate License Administration Fund	$1,000,000	$0
0922	Insurance Producer Administration Fund	$15,000,000	$0
0925	Coal Technology Development Assistance Fund	$5,000,000	$0
0944	Environmental Protection Permit and Inspection Fund	$100,000	$0
0962	Park and Conservation Fund	$10,000,000	$0
0997	Insurance Financial Regulation Fund	$6,000,000	$0
	TOTAL	$783,295,000	$137,795,000

Investing to Reduce Illinois' Backlog

Public Act 100-1107, which became effective August 27, 2018, allows the State Treasurer to invest up to $2 billion in debt issued by the State Comptroller. The Treasurer could refinance backlogged bill debt during times of portfolio liquidity to help during the State's low revenue months. The State would then pay a lower interest rate than the normal 9%-12% on the amount refinanced, while the Treasurer gets interest off of the investment through intergovernmental agreements made for a market-based rate. When the State is projected to have better cash flow, such as during the month of April during tax payments, the State pays off the Treasurer's investment.

The Treasurer's Office utilized this investment tool in September and October of 2018 with principal and interest paid back from December 2018 through April 2019. The actual amount used was $700 million, but during the six month period of one of the investments, one of the Funds, the AML Reclamation Set Aside Fund, needed the $50 million repaid. This occurred in March and $50 million was used from the Unclaimed Property Trust Fund for the remainder of the time period and repaid in April.

Below are the funds used and their repayment of principal and interest. The Office of the Treasurer reports that the General Revenue Fund and the Health Insurance Reserve Fund saved $25.6 million dollars from this first round of investment. Interest rates on the investments ranged from 3.59% to 3.78%.

FY 2019 Treasurer's funds to Invest/Pay down bill Backlog

Fund #	Fund Name	YTD Total Borrowed	Total Principal Paid Back	Total Interest Paid Back
0011	Road Fund	$100,000,000	$100,000,000	$1,810,000
0019	Grade Crossing Protection	$50,000,000	$50,000,000	$932,500
0142	Community Developmental Disability Services Medicaid Trust	$15,000,000	$15,000,000	$283,500
0257	AML Reclamation Set Aside	$50,000,000	$50,000,000	$657,961
0278	Income Tax Refund Fund	$200,000,000	$200,000,000	$3,590,000
0482	Unclaimed Property Trust	$50,000,000	$50,000,000	$274,569
0663	Federal Student Loan	$15,000,000	$15,000,000	$38,163
0902	State Construction Account	$270,000,000	$270,000,000	$4,983,000
	TOTAL	**$750,000,000**	**$750,000,000**	**$12,569,693**

* $50 million in March borrowed from Unclaimed Property Trust was not additional, just replacing Fund 257 because it needed to be paid back.

Recertified State Pension Contributions for FY 2019 (P.A. 100-0587)

Julie Bae, Pension Analyst

P.A. 100-0587, effective June 4, 2018, required SERS, SURS, and TRS to recertify the FY 2019 State contributions between June 15, 2019, and June 30, 2019, to reflect the two main pension-related changes made by the Act, one of which was the creation of two voluntary pension buyout programs for SERS, SURS and TRS: the total pension buyout and the COLA buyout. The other change was a reduction in the teachers' Final Average Salary (FAS) cap to 3% from 6% for SURS and TRS. However, pursuant to P.A. 101-0010, enacted on June 5, 2019, a year after the enactment of P.A. 100-0587, the FAS cap is reverted back to 6%.

The following table compares the FY 2019 State contributions before and after the recertification. Please note the recertification of FY 2019 State contributions for JRS and GARS was not required by P.A. 100-0587 as the changes did not apply to the two systems. The final certified FY 2019 State contributions for JRS and GARS are $140.5 million and $23.2 million, respectively.

FY 2019 Recertified State Contributions
($ in Millions)
FY 2019 State contributions for TRS, SURS, and SERS were recertified in June of 2019, pursuant to P.A. 100-0587 to reflect the changes made by the Act.

Systems Affected by P.A. 100-0587	Before recertification	After recertification	Change
TRS	$4,466.2	$4,466.2	$0.0
SURS	$1,655.2	$1,655.2	$0.0
SERS	$2,254.1	$2,233.9	-$20.2
Sub-total	**$8,375.4**	**$8,355.3**	**-$20.2**
Systems Not Affected by P.A. 100-0587	**Final certification**		
GARS	$23.2		
JRS	$140.5		
Sub-total	**$163.7**		
Total FY 2019 State Contributions after the recertification: $8,518.9			

As shown in the table, only SERS changed the FY 2019 State contributions, and TRS and SURS did not change the amount of their previously certified State contributions. Below is the brief summary of each system's recertification letter for FY 2019 State contributions.

TRS: TRS' actuary noted that "an immaterial number of TRS members" have chosen the two pension buyout programs so far in FY 2019, which assists in "eliminating" the assumption that TRS members will participate in the buyout programs. With the FAS cap reverted back to 6%, they "reaffirm" that the amount of the FY 2019 State contributions remains the same.

SURS: SURS made an assumption that "0%" of eligible members would choose the buyout programs in 2018. As SURS implemented the buyout programs on June 10, 2019, and the earliest election will be effective in the next month, there is no significant experience on the election of the buyout programs that "would cause a change in the original utilization assumption of 0%," SURS wrote in the FY 2019 recertification letter. In addition, no 3% bills are expected to be issued in FY 2019 since the FAS salary cap increased back to 6% by P.A. 101-0010. Therefore, FY 2019 State contributions for SURS are "unchanged from the amount originally certified."

SERS: SERS' actuary wrote in the SERS FY 2019 recertification letter that "21 percent of regular formula members and 28 percent of alternative formula members" are anticipated to participate in the COLA buyout program for Tier 1 members. With regard to the total pension buyout program for eligible Tier 1 and Tier 2 members, "10 percent" of eligible members are expected to participate in it. As a result, "the actuarial liability decreased by approximately $276 million" as of the FY 2017 actuarial valuation, upon which the FY 2019 State contributions are calculated. The FY 2019 recertified contribution for SERS is therefore decreased by $20.2 million, to $2,233.9 million.

Major Pension Provisions of P.A. 101-0010 (the FY 2020 BIMP bill)

Extension of the Voluntary Pension Buyout Programs

(Affected Systems: SERS, SURS, and TRS)

The election period for the two existing pension buyout programs created by P.A. 100-0587 would be extended by 3 years to June 30, 2024, from June 30, 2021, as summarized below.

- Total pension buyout plan:

For Tier 1 and 2 members, if an eligible inactive, vested member irrevocably participates in the total pension buyout plan, the member would receive an accelerated pension benefit payment equal to 60% of the present value of a member's pension benefit in lieu of receiving any pension benefit.

- 3% COLA buyout plan:

If an eligible Tier 1 member irrevocably participates in the COLA buyout plan, the member would receive a lump sum payment equal to 70% of the difference of the present value of 3% compounded COLA and the present value of a reduced COLA (simple 1.5%) in exchange for receiving a simple 1.5% COLA.

Reinstatement of Teachers' Final Average Salary (FAS) Cap of 6%

(Affected Systems: SURS and TRS)

For purposes of determining the final average salary, a teacher's annual salary increase with the same employer is currently capped at 3%, which was lowered from 6%, pursuant to P.A. 100-0587, effective June 4, 2018. If a teacher's full-time equivalent annual salary increases more than the salary increase cap with the same employer, the (local) employer would have to make a payment equal to the present value of the increase in benefits resulting from the salary increase in excess of the salary increase cap. This requirement is commonly known as the "excess salary increase penalty." Pursuant to P.A. 101-0010, the final salary cap will revert back to 6%.

According to TRS, the school districts 6% "penalty" payments to TRS for FY 2016, FY 2017, and FY 2018 are $4.1 million, $3.3 million, and $4.0 million, respectively.

GRF Lump-sum Appropriation for SERS

When departments in the State make contributions for their employees, the contributions shall be made for each pay period by warrants by the State Comptroller against their respective funds or appropriations based on vouchers. However, contributions for the GRF payrolls are not required to be processed by the Comptroller. Since 2012 the GRF portion of State contributions has been paid by lump sum, via the Budget Implementation bill for the past several years, according to SERS. P.A. 101-0010 eliminates the need to include the appropriation process for the GRF portion of State contributions in the Budget Implementation bill every year as the process would be made permanent under this Act.

SERS stated the percentage of total members who are on the GRF payrolls is approximately 65%.

Participation by Members of the Human Rights Commission in SERS

A person appointed as a member of the Human Rights Commission on or after June 1, 2019, may elect to participate in SERS with respect to that service and shall be deemed an employee in order to qualify for membership. Such employees may elect to establish service credit for periods on or after June 1, 2019, and before establishing service credit in SERS by paying a fee determined by the SERS Board based upon: 1) the employee's salary on the first day as a member of SERS, and 2) regular interest (7%, based on the actuarially assumed rate of return). *According to SERS, this provision is likely to impact 7 full-time Human Rights Commissioners.*

Also, P.A. 101-0010 removes old provisions that are no longer applicable.

2019 Pension Legislation Overview
Dan Hankiewicz, Pension Manager

The following bills have passed both chambers of the General Assembly during the 2019 spring legislative session. Those bills that have been approved by the Governor are labeled with the appropriate Public Act number. The remaining bills await the Governor's action.

HB 1472

Sponsors: Davidsmeyer (Bertino-Tarrant)

Passed House:	115-0-0
Passed Senate:	57-0-0

P.A. 93-0320 (SB 195), which took effect on July 23, 2003, first established the TRS return-to-work provision in teacher subject shortage areas. The act set a sunset date of June 30, 2008, but this date was extended to June 30, 2013 via P.A. 95-0910, which took effect on August 26, 2008. P.A. 100-0743 (HB 0751) renewed this act and set a new sunset date of June 30, 2019.

The statute sets forth several conditions under which a teacher subject shortage area is deemed to exist, such as a school experiencing a shortage of teachers in a specific subject area. Other conditions were added to the subject shortage return-to-work law. For example, if the annuitant retired before age 60 with less than 34 years of service, the return-to-work employment cannot begin within the year following the effective date of retirement. A teacher who returns to work under this program retains his or her TRS annuity, and also retains eligibility for inclusion in a collective bargaining unit and group health benefits. The retired teacher who returns to work must maintain compliance with laws governing the employment, regulation, certification, treatment, and conduct of teachers.

As previously mentioned, P.A. 100-0743 re-opened the return-to-work window and set a new sunset date of June 30, 2019. HB 1472 would extend the sunset date to June 30, 2021.

HB 1580

Sponsors: Martwick (Aquino)

Passed House:	115-0-0
Passed Senate:	56-0-0

HB 1580 Amends the State Employee Article of the Illinois Pension Code. The bill would allow licensed health care professionals to make certain disability determinations. Current law provides that only licensed physicians may make this assessment. This bill defines licensed health care professionals as any individual who has obtained a license through the Department of Financial and Professional Regulation under the Medical Practice Act of 1987, under the Physician Assistant Practice Act of 1987, or under the Clinical Psychologist Licensing Act or an advanced practice nurse licensed under the Nurse Practice Act. HB 1580 also removes the requirement that the application must be submitted within 12 months of when the disability was sustained or resulted in loss of pay.

HB 2071 (P.A. 101-0011)

Sponsors: Zalewski (Hastings)

Passed House:	75-36-0
Passed Senate:	54-4-0

HB 2071 (P.A. 101-0011) amends the Cook County Article of the Illinois Pension Code to allow a participant to establish service credit and earnings credit for periods of furlough or salary reduction beginning on or after December 1, 2017 and ending on or before November 30, 2018. P.A. 101-0011 requires a participant to apply in writing before December 31, 2019 in order to establish this optional service credit. The participant must also make employee contributions, plus an amount equal to the normal cost of the benefit, plus compounded interest at the actuarially assumed rate from the date of furlough or salary reduction to the date of payment, and must provide written certification from the county providing the total furlough days or the total reduction in salary per pay period for each pay period.

HB 2460

Sponsors: Davis (Martinez)

Passed House:	66-46-0
Passed Senate:	37-19-0
House Concurrence:	73-42-0

HB 2460 amends the General Provisions Article of the Illinois Pension Code. The bill requires all public agencies or governmental units, including the retirement systems, to develop, publish, and implement sustainable investment policies. The proposed legislation requires every pension fund to adopt a written investment policy and file a copy with the Department of Insurance within 30 days of its adoption. Corporate governance and leadership factors, environmental factors, social capital factors, human capital factors, and business model and innovation factors should be applied in evaluating investment decisions. The bill mandates that the investment policy shall be conducted within the bounds of financial and fiduciary prudence.

HB 2470

Sponsors: Burke (Cunningham)

Passed House:	66-43-1
Passed Senate:	58-8-0
House Concurrence:	94-18-0

HB 2470 amends the Chicago Police Article of the Illinois Pension Code to allow police officers to recover court costs and attorney's fees in situations where an administrative review proceeding leads to a reversal of a denial of certain disability benefits. The bill also specifies that a member who is found guilty of intentionally and unjustifiably prolonging proceedings in which they are convicted of a felony shall not be entitled to benefits beginning on or after the filing date of indictments or charges.

HB 2502

Sponsors: Willis (Castro)

Passed House:	91-18-0
Passed Senate:	54-0-0

HB 2502 amends the Downstate Fire and Chicago Fire articles of the Illinois Pension Code to allow Downstate firefighters to transfer an unlimited amount of service credit between the Chicago Pension Fund and an Article 4 (Downstate Fire) fund. Under HB 2502, the amount of any transfers from the Chicago Fire pension fund to a Downstate Fire fund must equal the difference between the amount of employee and employer contributions transferred to the Downstate Fire fund, plus interest at the actuarially assumed rate, and the amount determined by the Downstate Fire fund that would result in no significant increase to the Downstate Fire pension fund's unfunded liability. The bill does not place a limitation on the amount of service credit that may be transferred from the Chicago Fire pension fund to a Downstate Fire pension fund.

HB 2617

Sponsors: Martwick (Aquino)

Passed House:	98-1-0
Passed Senate:	56-0-0

HB 2617 amends the Chicago Teachers Article of the Pension code by making "extracurricular activities" deductible instead of "special services." No substantive changes are made by the bill, as it is purely technical in nature.

HB 2628

Sponsors: Andrade (Martinez)

Passed House:	111-1-0
Passed Senate:	58-0-0

HB 2628 amends the Chicago Teachers Article of the Pension Code by clarifying that service retirement pensions begin on the effective date of termination as reflected in the records of the employer, and that a written acknowledgement of forfeiture of service credits is required to receive a refund of the amount a member paid into the pension fund. Current statute does not specify a member may receive a refund after termination, only after the cancellation of a teaching certificate. Additionally, current statute does not require members to deliver to the Board a written acknowledgment of forfeiture; rather, only a written receipt. These changes are purely technical in nature.

HB 2662

Sponsors: Martwick (Aquino)

Passed House:	99-1-0
Passed Senate:	54-0-0

HB 2662 amends the Chicago Fire article of the Illinois Pension Code. The bill provides that the term of office for the annuitant member of the board of trustees shall last for 3 years, rather than 2 years, as is prescribed by current law. The board of trustees of the Chicago Fire Pension Fund consists of 8 members – the city treasurer, the city comptroller, the city clerk, a deputy fire commissioner designated by the fire commissioner of Chicago, 3 active firemen, and 1 annuitant of the fund. Current law requires a biennial election to take place 30 days prior to the expiration of the annuitant member's term. With the passage of HB 2662, the annuitant member's term of office on the board of trustees will last 3 years, rather than the current 2 year term as prescribed in statute.

HB 2824

Sponsors: Zalewski (Mulroe)

Passed House:	112-0-0
Passed Senate:	55-0-0

HB 2824 amends the Chicago Municipal Article of the Illinois Pension Code. The bill inserts a technical clarification with regard to the commencement of annuity payments, grants the board the ability to lengthen physician review periods for disability annuitants, and inserts a hold harmless provision for the pension fund in cases where annuities are payable to a financial institution if a claim should arise in connection with that financial institution's federal insurance status.

HB 2884

Sponsors: Guzzardi (Manar)

Passed House:	94-4-0
Passed Senate:	56-0-0
House Concurrence:	110-5-0

Currently, the IMRF article of the Pension Code allows an employee who is applying for retirement to establish creditable service for accumulated unused and unpaid sick leave, for the purpose of calculating a retirement annuity. When establishing such creditable service, only sick leave days accumulated with an employer with which the employee was employed within 60 days of the effective date of his or her retirement annuity shall be credited. If the employee was in service with multiple employers during the period, then only the highest number of unpaid sick leave days with one employer shall be considered.

However, in such cases, if the employers are school districts, the employee is allowed to establish such creditable service from all such employers, with a maximum limit of 12 months.

HB 2884 allows that the aforementioned exception would also apply to other educational employers, such as special education joint agreements, cooperative or joint educational agreements, educational service centers, etc. The bill states that if the employee terminated service with the applicable educational employer before the effective date of this legislation, the multi-employer sick leave exception shall not apply.

HB 3213

Sponsors: Marron (Aquino)

Passed House:	111-0-0
Passed Senate:	59-0-0

HB 3213 amends the Downstate Teacher Article of the Illinois Pension Code to implement administrative changes, as summarized below.

Reporting Requirements for Optional Benefit Plans

In the Section of the TRS Article that governs payment of school district contributions to TRS, the bill contains technical language allowing for TRS to implement reporting requirements for school districts for any optional benefit plan an employee chooses to participate in. TRS says that this language would facilitate school district payments under the Tier 3 hybrid plan implemented by P.A. 100-0023, which requires employer (school district) contributions of between 2 and 6% of salary. TRS has not yet implemented the Tier 3 hybrid plan.

Assessment of Penalties to School Districts for Late Employer Contributions

Current law permits TRS to levy a fine against school districts for delinquent employer contributions that is the greater of a) lost interest to TRS due to the late payments, or b) $50. HB 3213 sets this penalty amount at $50 per day for each day that elapses from the due date until contributions are received by the system.

Deletion of References to Annuitants of the Chicago Teachers Pension Fund

HB 3213 removes references to annuitants of the Chicago Teacher Pension Fund as not qualifying as a teacher for return-to-work purposes with a TRS employer. TRS says this move is necessary because TRS has no knowledge of CTPF membership, and therefore it is impracticable for TRS to ascertain a retired Chicago teacher’s annuity status when determining if the Chicago retiree should be classified as a "teacher" when accepting a position that would otherwise qualify for TRS membership.

HB 3263

Sponsors: Mazzochi (Curran)

Passed House:	112-0-2
Passed Senate:	59-0-0
House Concurrence:	110-1-0

HB 3263 mandates IMRF to post the following documents pertaining to and/or information about each municipality's actions pertinent to its participation in IMRF:

1. Copies of all resolutions adopted by a municipality on or after January 1, 1995, to participate in IMRF;

2. Annual report listing each municipality and the date each municipality first became a participant in IMRF;

3. Each municipality's annual projected future contributions; and

4. Each municipality's past required contributions to IMRF for each year of participation on or after January 1, 1995 and before, if available.

A municipality that has a website shall post to its website a link to aforementioned information provided by IMRF, no later than January 1, 2021. If a municipality establishes a website on or after January 1, 2021, the municipality shall do the same. However, this legislation does not require a municipality to establish or maintain a website. Information that is exempt from disclosure under the Freedom of Information Act is not required to be posted on the IMRF's website.

HB 3446

Sponsors: Robinson (Aquino)

Passed House:	91-5-0
Passed Senate:	53-0-0

HB 3446 amends the Illinois Municipal Retirement Fund Article of the Illinois Pension Code by removing a requirement that an interruption of service for a specified period must have been within the same participating municipality or participating instrumentality to qualify for temporary and permanent disability benefits. According to IMRF, of the 1,823 disability denials issued in 2017 and 2018, only three denials resulted from an interruption in service where the member returned to service with a new IMRF employer.

SB 37

Sponsors: Bush (Walsh, Jr.)

Passed Senate:	39-10-0
Passed House:	115-0-0
Senate Concurrence:	57-0-0

Article 4 of the Illinois Pension Code requires the following entities to establish Article 4 (Downstate Fire) pension funds: municipalities over 5,000 in population, fire protection districts with at least one full-time paid firefighter, and municipalities under 5,000 in population that opt to create an Article 4 fund via referendum.

SB 0037 makes a distinction between "primary" and "secondary" employers in cases where a firefighter has both a full-time position and a part-time position with another municipality. Under the amendment, the primary employer's pension fund would be notified within 96 hours of any injury, illness, or exposure incurred by a secondary employee. The bill also stipulates that secondary employers would annually be required to prepare a report on wages and salaries paid each fiscal year and then send a certified copy to primary employers. The report is meant to ensure that a primary employer's pension fund is aware of additional liabilities and risks to which secondary employees are exposed.

SB 528

Sponsors: J. Cullerton (Hoffman)

Passed Senate:	58-0-0
Passed House:	104-0-1

Currently, the GARS board of trustees is composed of 7 members as follows: the Senate President (or their designee) serves alongside 2 members of the Senate and those 2 members must be from different political parties. Three members are appointed by the Speaker, not more than 2 of whom must be from the same political party. The board has one annuitant member. SB 528 removes the Senate President as an official member of the board and provides that 3 members of the Senate be appointed by the president, not more than 2 of whom shall be of the same political party. Effectively, the legislation sets the Senate President's powers of appointment to the GARS board in statutory language similar to that of the House Speaker.

SB 1265

Sponsors: Aquino (Martwick)

Passed Senate:	55-0-0
Passed House:	116-0-0

SB 1265 amends the SURS article of the Illinois Pension Code. The bill makes various technical changes for the continued efficient operation of the State Universities Retirement System. The proposed legislation specifies that a person employed by the State Board of Higher Education in a position with the Illinois Century Network as of June 30, 2004, may still be considered to be an employee for as long as he or she remains continuously employed by the Department of Innovation and Technology, in addition to employment by the Department of Central Management Services in a position with the Illinois Century Network, the Bureau of Communication and Computer Services, or any successor bureau. The bill specifies that survivor's annuities for a dependent with a disability shall be received if the physical or mental disability began prior to the date the child attained age 18.

SB 1582

Sponsors: Curran (Zalewski)

Passed Senate:	52-1-0
Passed House:	116-0-0

SB 1582 amends the Metropolitan Water Reclamation Article of the Illinois Pension Code. The proposed legislation provides that salary be calculated by accumulating the salary for the highest 520 consecutive paid days of service within the last 10 years of service immediately preceding the date of retirement and dividing by 24. Current law calls for the calculation of final average salary by accumulating the salary for 52 pay periods and diving by 2.

According to the Metropolitan Water District Fund, the proposed legislation would align the pertinent statutory language with the method of calculating final average salary that has been used for the past 30 years. Rotating shift workers may have as many as 12 pensionable days in a pay period, or as few as 8 days, depending on where their rotation lands in a given pay period. This is why the pension fund advocates that 520 days should be memorialized in statute instead of bi-weekly pay periods. The proposed legislation provides that if an employee is paid for any portion of a work day, the fraction of the day worked and the salary for that fraction of the day shall be counted in the calculation.

SB 1584

Sponsors: Aquino (Ortiz)

Passed Senate:	56-0-0
Passed House:	98-16-0

SB 1584 amends the Chicago Teacher Article of the Illinois Pension Code. The proposed legislation would extend the window of time in which a member may return to work without having his or her pension cancelled from 100 days to 120 days. This change would take effect for school years that begin on or after July 1, 2019. The bill provides that an annuitant in the Chicago Teacher's Pension Fund would not have their service retirement pension cancelled in cases where the member returns to work on a temporary and non-annual basis or an hourly basis as long as the member does not work as a teacher for more than 120 days (currently 100 days) during a school year or does not accept gross compensation for said school year in excess of $30,000.

SB 1765

Sponsors: Hunter (Guzzardi)

Passed Senate:	51-0-0
Passed House:	112-4-0

SB 1765 amends the Chicago Teachers' Pension Fund (CTPF) Article of the Illinois Pension Code by repealing obsolete provisions concerning early retirement incentives. Current statute contains the language of outdated provisions regarding the Early Retirement Option (ERO) and Early Retirement Incentives (ERI). With the ERO program, an eligible member was allowed to retire early without a reduction in the member's pension benefit. With the ERI program, an eligible member was allowed to establish creditable service or to receive age enhancement that could be used for retirement eligibility. These programs are no longer available. SB 1765 removes the obsolete provisions.

SB 2030

Sponsors: Mulroe (Martwick)

Passed Senate:	53-0-0
Passed House:	111-2-0

The Chicago Fire Pension Fund currently determines a firefighter's age based upon an application for the appointment as a member of the fire department of the city for the purposes of determining retirement benefits. SB 2030 provides that, after 2020, firefighters' birthdates shall be determined based on the actual birthdate as provided in a firefighter's birth certificate.