Commission on Government Forecasting and Accountability

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MONTHLY BRIEFING FOR THE MONTH ENDED: March 2019

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State Employees Group Insurance Program Annual Update

Anthony Bolton, Revenue Analyst

The Commission recently published its report on the State Employees Group Insurance Program (SEGIP). As required under statute, CGFA reports annually on the status of the SEGIP and its various components. This report contains information regarding projected membership, liabilities, and revenues. In addition, the report contains information regarding the status of health insurance bills held by the State of Illinois and historical information on this and the aforementioned components. While the full report can be viewed on the Commission's website, the following provides a brief summation of the major findings of the FY 2020 report.

In recent years, the State has attempted to create a multi-tiered system of health insurance benefits and rates, which would have significantly altered expected revenues and liabilities. However, for the 2020 fiscal year, CMS has not announced any plans to create this new system and has instead indicated that no major changes will be attempted in the program in the upcoming fiscal year. In regard to the recurring issue of group insurance interest payments, CMS expects to pay down existing interest payments and bills held by the State to the extent that interest payments for FY 2020 are projected to be less than $4 million, compared to over $260 million in FY 2018.

Liabilities/Revenues

CGFA utilizes the CMS forecast for FY 2020 medical costs as the basis for estimating costs for FY 2020 along with information provided by the Segal Company in their annual report on State employee insurance trends. As always, a variety of components shape overall liability. These components include general medical cost inflation and leveraging (lower impact of coinsurance limits, level deductibles, etc.). Also, advances in technological innovation, more use of equipment/services, and the continued "greying" (aging and extended living) of the population have historically contributed to greater health care costs to the State.

In addition to these factors, the impact of a gradual shift by employees to HMOs and OAPs from the Quality Care Health Program (QCHP) has resulted in more costly/higher risk employees remaining in the QCHP program, raising the per-member cost of that program. In terms of cost reduction, movement of Medicare-eligible retirees out of the QCHP/HMOs/OAPs has reduced overall liability within the group insurance program in the past and continues to be a factor in overall State costs being significantly lower than otherwise. Based on these factors, trends, and assumptions, CGFA estimates a FY 2020 liability of approximately $3.13 billion for the SEGIP. This estimate is $106.5 million or 3.5% higher than the FY 2019 estimated liability of $3.023 billion. CMS estimates that the FY 2020 liability will be $3.105 billion, approximately $81 million higher than FY 2019.

Overall, the Commission's FY 2020 estimate is $25.4 million higher than the FY 2020 estimate from CMS. CGFA's FY 2020 HMO and Open Access Plan liabilities estimates are $9.0 million and $8.1 million higher than CMS, respectively. CGFA's FY 2020 estimate for the Quality Care Health Plan Medical line is $2.5 million higher than the CMS estimates. The Commission's estimate for Special Programs (Interest, Admin, etc.) is $4.8 million higher than CMS. It is important to note that the FY 2020 group insurance liability estimates between CMS and CGFA are very close to each other, with less than a one percent total difference between them. This similarity in estimates is reflective of the general trends in healthcare insurance and the relative stability in overall plan design changes anticipated for FY 2020.

FY 2020 GROUP HEALTH INSURANCE LIABILITY
($ in Millions)

Liability Component	FY 2019 CMS Estimate	FY 2020 CMS Projection	FY 2020 CGFA Projection
QCHP Medical	$405.5	$428.4	$430.9
QCHP Prescriptions	$118.7	$121.9	$122.7
Dental (QCHP/MC)	$118.3	$119.4	$119.5
HMO	$1,065.7	$1,082.8	$1,091.8
Medicare Advantage HMO/PPO	$197.9	$193.8	$193.8
Open Access Plan	$830.3	$887.5	$895.6
Mental Health	$5.6	$5.9	$5.9
Vision	$8.0	$8.0	$8.0
Administrative Services (QC)	$17.0	$16.9	$16.9
Life	$88.2	$89.1	$89.2
Special Programs (Admin/Int./Other)	$168.4	$151.0	$155.8
TOTAL	**$3,023.6**	**$3,104.7**	**$3,130.1**
% increase over prior year	-3.1%	2.7%	3.5%

*Rounding may cause slight differences. FY 2019 and FY 2020 Special Programs line includes Prompt Payment and Timely Payment Interest.

In regard to revenues, for FY 2020, the fiscal data provided by CMS shows the Group Health Insurance Program receiving $2.028 billion in GRF funds. This represents a $534.2 million or a 20.8% decrease from the FY 2019 GRF component of $2.562 billion. However, the FY 2020 GRF appropriation request is significantly higher than any previous year GRF request, even without any anticipated prior fiscal year funding being received in FY 2020. In FY 2018 and FY 2019, bond revenues counted as part of GRF for the purposes of funding, making their totals artificially higher than the actual GRF budget request in those years. For FY 2020, as mentioned above, the Road Fund request of $161.5 million is $43.6 million higher than the projected FY 2019 appropriation level of $117.9 million. Member contributions are anticipated to remain relatively flat in FY 2020, at $416.3 million, compared to $418.8 million in FY 2019. Other Funds reimbursements are anticipated to be significantly lower in FY 2020, at $284.3 million compared to $335.9 million in FY 2019. University employee contributions are projected to be flat compared to the 2019 fiscal year, as the administration has proposed keeping contributions at $45.0 million in FY 2020.

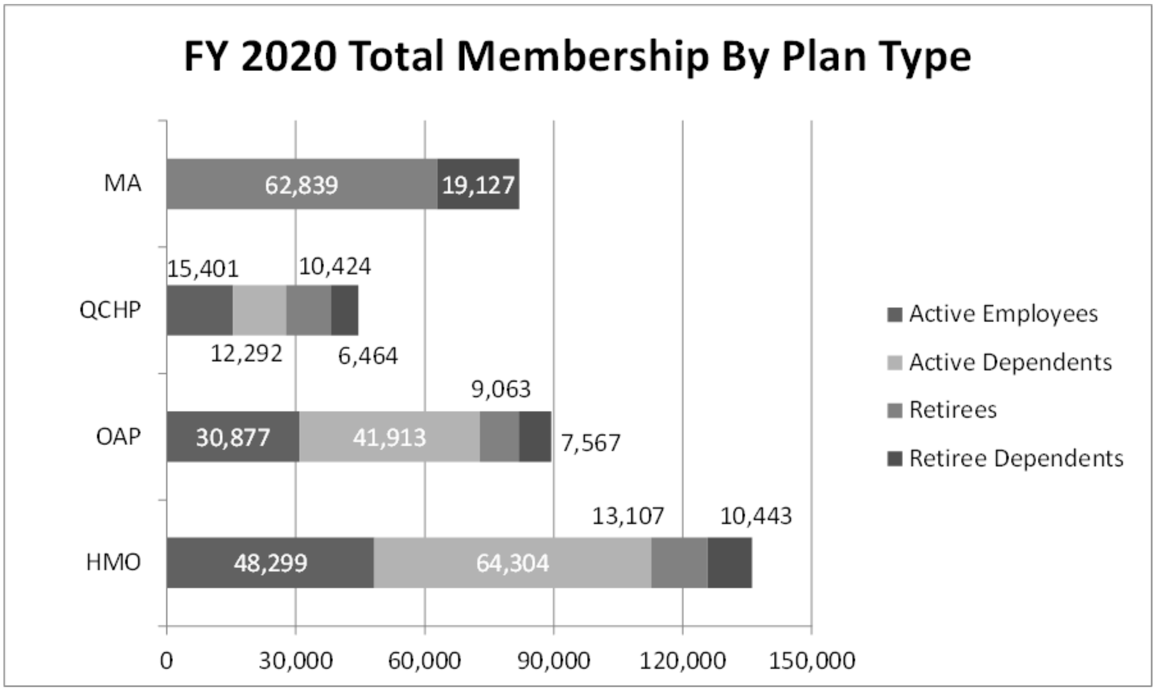
GROUP INSURANCE FUNDING SOURCES
FY 2019 - FY 2020
($ in Millions)

	FY 2019	FY 2020	$ Change from FY19	% Change from FY19
GRF Appropriation	$2,026.0	$2,028.0	$2.0	0.1%
Prior Year GRF	$536.2	$0.0	($536.2)	-100.0%
Road Fund	$118.0	$161.5	$43.6	36.9%
Bond Proceeds	$900.0	$0.0	($900.0)	-100.0%
University Cont.	$45.0	$45.0	$0.0	0.0%
Prior Year Univ. Cont.	$15.1	$0.0	($15.1)	-100.0%
Member Cont.	$418.8	$416.3	($2.6)	-0.6%
Other Funds	$335.9	$284.3	($51.6)	-15.4%
Medicare Part D rebate	$5.4	$2.9	($2.5)	-46.6%
Rebates/Interest/Other.	$74.2	$64.1	($10.1)	-13.6%
TOTAL	**$4,474.6**	**$3,002.1**	**-$1,472.5**	**-32.9%**

Source: CMS

Membership

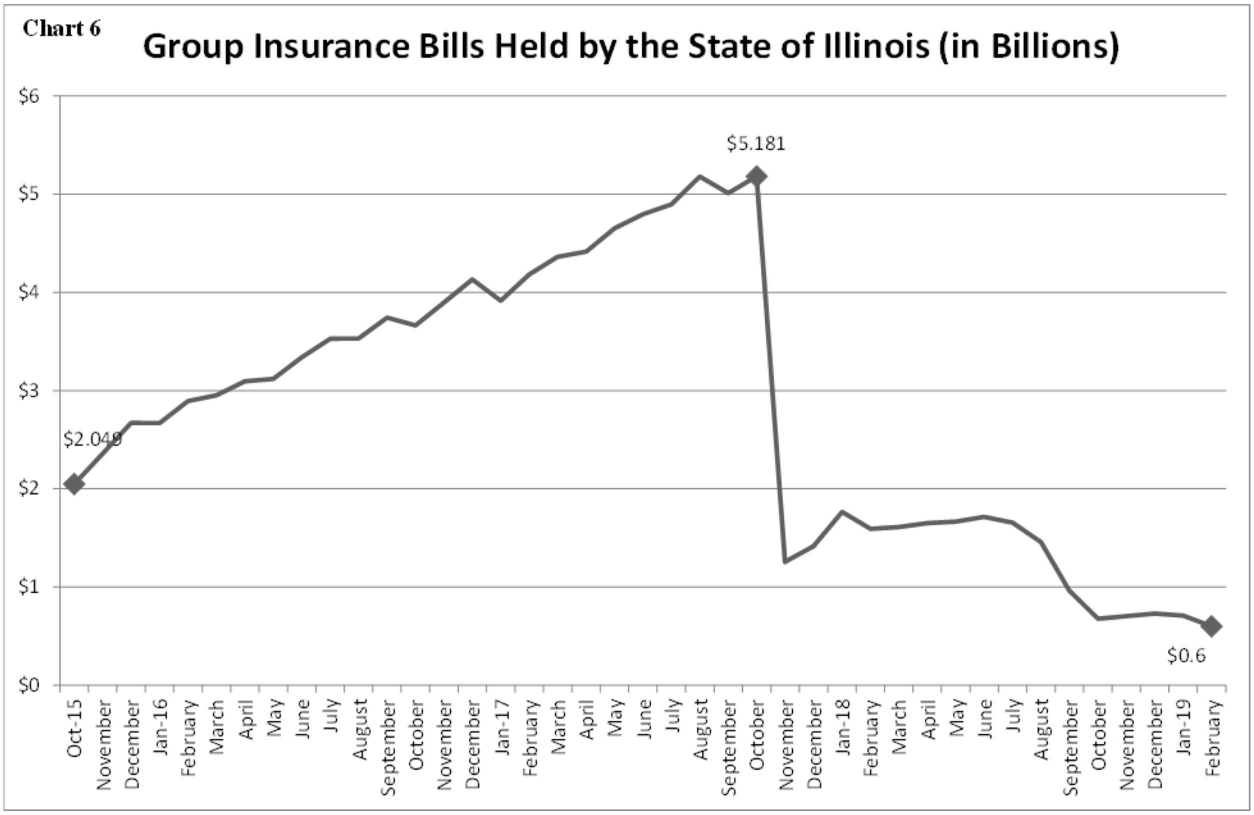
For FY 2020, the QCHP is estimated to have 15,401 employees, 12,292 active employee dependents, 6,464 retiree dependents, and 10,424 retirees. Medicare advantage HMO/PPO plans are expected to have 19,127 dependents and 62,839 retirees. Non-Medicare Advantage HMO Plans are expected to have 48,299 employees, 64,304 active dependent lives, 10,446 retiree dependents, and 13,107 retirees. OAPs are expected to have 30,877 employees, 41,913 active dependents, 7,567 retiree dependents, and 9,063 retirees in FY 2020. Total FY 2020 membership is expected to increase 0.2% from 351,586 to 352,131.



Group Insurance Interest Payments and Bonding

Since at least 2013, SEGIP interest payments have grown at an alarming rate as the State has been forced to push payments for services further and further into the future. This is done by "holding" claims until the actual money is available for payment. As a result, these "held claims" accrue interest at rates of 9 or 12 percent annually depending on the criteria of the claim.

Further exacerbating the issue was the inability of the State in recent years to pass a budget into law. Without spending authority, CMS was unable to pay down FY 2016 and FY 2017 year claims and held them as they accrued additional interest. A State budget was eventually passed into law and provided funding for FY 2018, but no additional funding was provided to pay down the enormous amount of held bills. At the end of October 2017, the State had approximately $5.181 billion in health insurance claims waiting to be paid out. However, in November 2017, a bond sale was issued to pay down SEGIP and Medicaid bills. The bond proceeds were used to pay off approximately $3.982 billion in held group insurance bills, bringing the total bills held by Illinois to $1.256 billion at the end of November 2017. Payments have continued to bring the overall total down, as shown by the following graph.



As of the end of February 2019, approximately $601 million in Group Insurance bills are being held by the State of Illinois. Of that total, there are no HMO claims (including Medicare Advantage) awaiting payment, though approximately $15.6 million in interest payments has yet to be paid off. Open Access Plans claims account for $333.1 million and Aetna PPO (QCHP) claims account for $178.4 million, making up the majority of existing claims being held by the State. Dental ($60.4 million), Mental Health ($5.0 million), and Prescription claims ($23.3 million) make up the majority of the remaining claims held by Illinois. This does not include the interest due on these debts. Though much lower than at this point in FY 2018, as of February 28, 2019, the State is obligated to pay $31.5 million in interest payments on bills that have been held beyond the 30 or 90-day grace period. Current projections by CMS estimate only $3.6 million in interest liability in FY 2020, after a projected total of $335.0 million as recently as FY 2018.

FY 2020 Capital Plan Analysis

By Lynnae Kapp, Senior Analyst

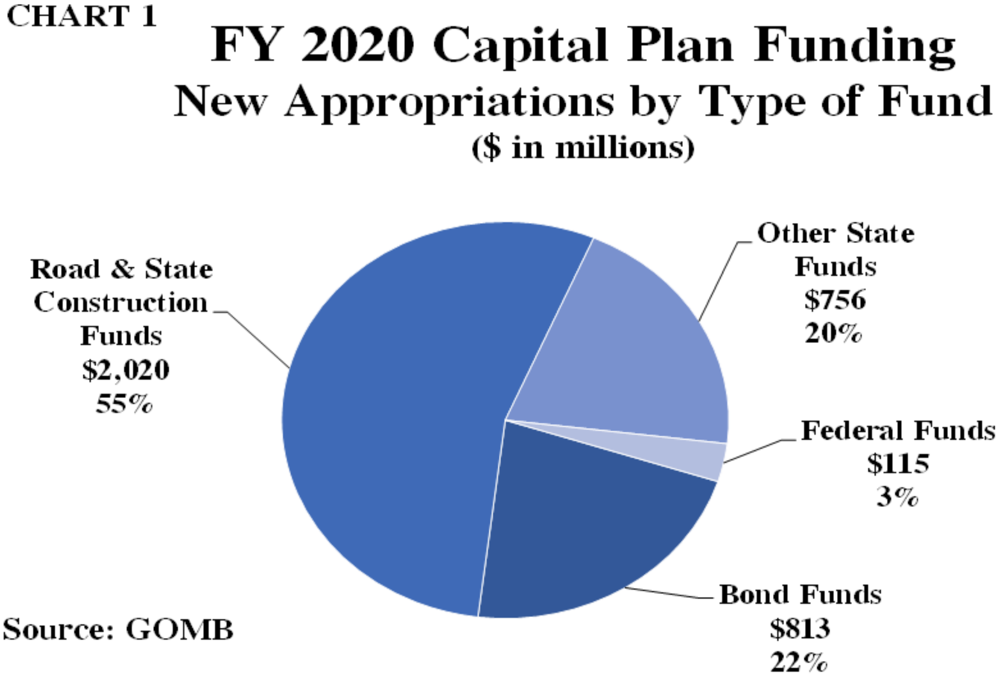
The Illinois Jobs Now (IJN) $31 billion multi-year capital program was enacted in FY 2010. Due to the FY 2016 - FY 2017 budget impasse, programs were delayed and bond sales were stalled. Remaining unspent appropriations and bond authorization still need to be expended. The State has sold $12.9 billion in bonds out of $16.3 billion authorized. Of the $13 billion in bonding that has been appropriated, $3.4 billion has not been expended. The remaining funding for the program comes from revenues, including State funds (i.e. State Construction Account Fund, Water Revolving Fund, Park and Conservation Fund), federal sources (i.e. Federal Mass Transit Trust Fund, Flood Control Land Lease Fund) and local matching funds. A FY 2015 capital program was passed with $1.1 billion of bond-funded new Transportation D projects for roads and bridges.

The Governor’s FY 2020 new capital projects proposal totals approximately $3.7 billion in new appropriations and $14.0 billion in reappropriations. These new projects would require $115 million in Federal funds, $2.8 billion in State funds as pay-as-you-go funding, and approximately $813 million in bond funds. Project priorities include the Annual Road Program ($2.0 billion); new high speed rolling stock and rail ($40 million), new transit ($28 million) and new aeronautics investments ($78 million); $677 million for drinking, storm and wastewater projects; $600 million for critical deferred maintenance at State facilities; $150 million for Higher Education deferred maintenance; $20 million for the Illinois Century Network and Illinois K-12 Network broadband; and $15 million for Military Affairs for National Guard facilities.

FY 2020 CAPITAL PLAN REQUESTED APPROPRIATIONS			
FUND TYPE	**NEW APPROPRIATIONS**	**RE-APPROPRIATIONS**	**TOTAL**
Bond	$813,000,000	$6,540,025,322	**$7,353,025,322**
State Funds	$2,776,340,000	$7,122,429,478	**$9,898,769,478**
Federal/Trust	$114,600,000	$290,073,589	**$404,673,589**
TOTAL	**$3,703,940,000**	**$13,952,528,389**	**$17,656,468,389**

FY 2019 CAPITAL PLAN APPROPRIATIONS			
FUND TYPE	**NEW APPROPRIATIONS**	**RE-APPROPRIATIONS**	**TOTAL**
Bond	$3,850,761,302	$3,643,193,202	**$7,493,954,504**
State Funds	$4,264,955,332	$5,825,699,236	**$10,090,654,568**
Federal/Trust	$155,181,957	$259,294,403	**$414,476,360**
TOTAL	**$8,270,898,591**	**$9,728,186,841**	**$17,999,085,432**

CHART 1

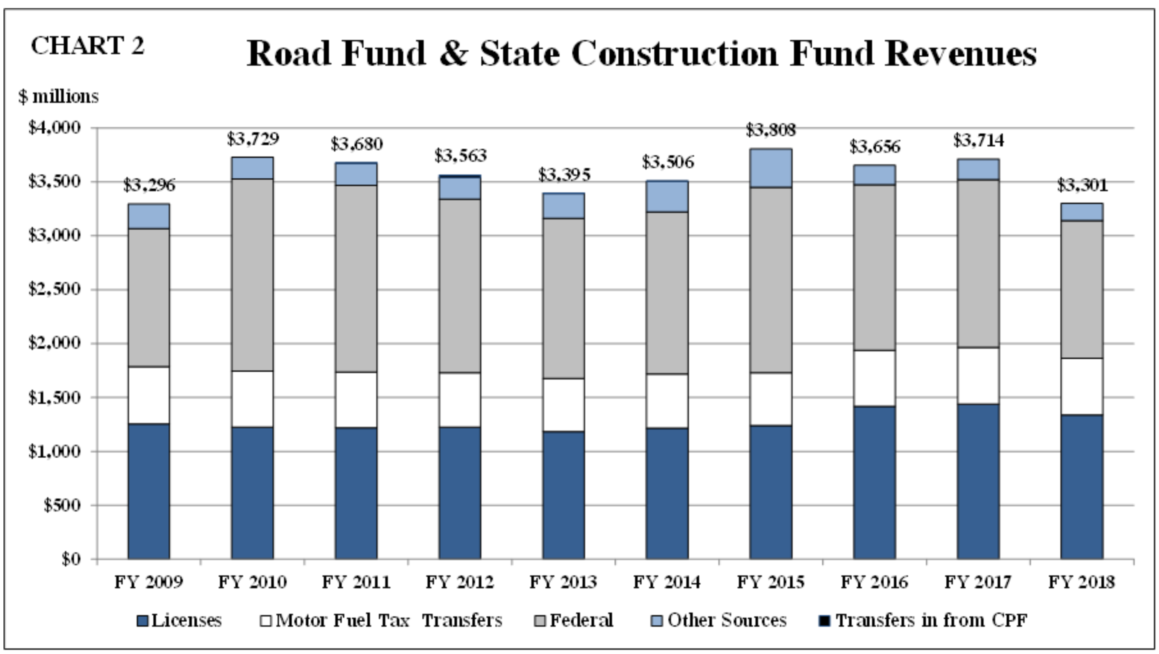


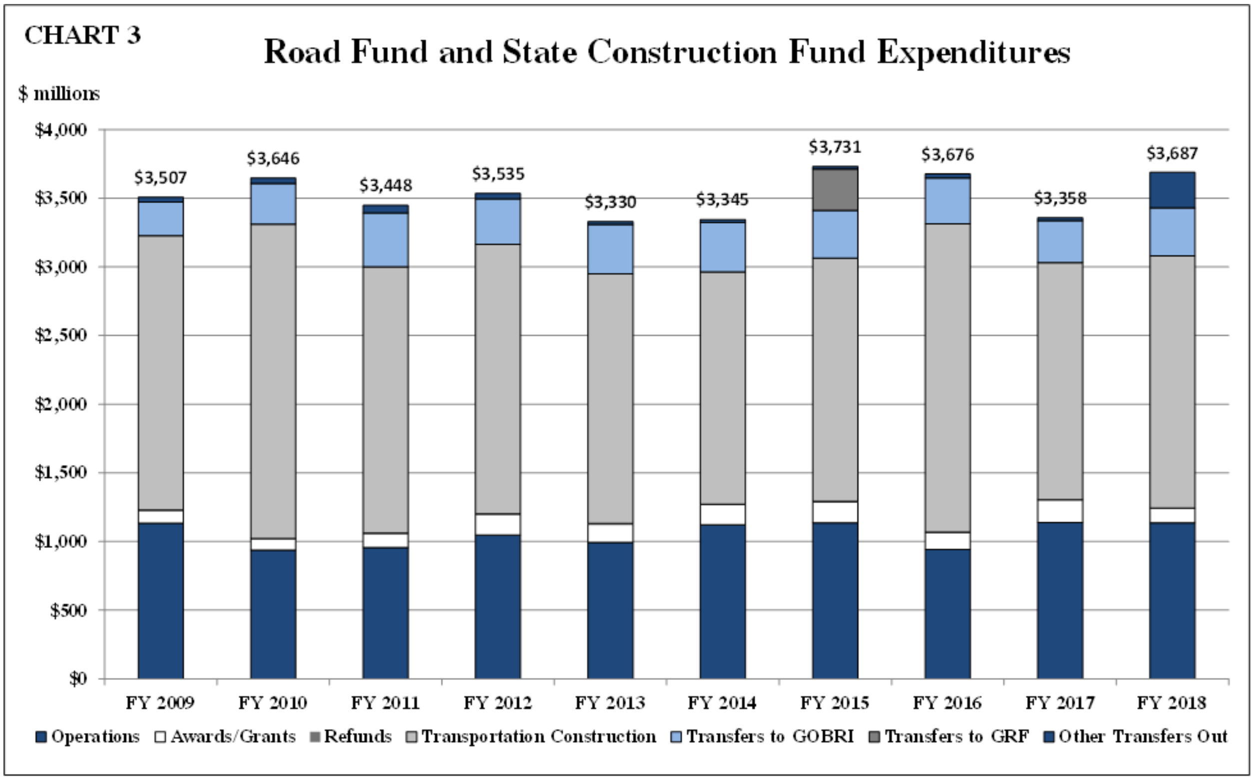
Source: GOMB

Of the new appropriations for the FY 2020 capital plan, Bond Funds would pay 22% and pay-as-you-go funding would pay for 78%. Pay-as-you-go funding is separated out in categories in Chart 1 as a portion of new appropriations: the Road Fund & State Construction Fund used for Transportation projects would pay for 55% of new appropriations, while other State funds would pay for 20% and Federal funds approximately 3%.

When you break out pay-as-you-go funding for FY 2020 new appropriations, approximately 70% percent of that type of funding would come from the Road Fund and State Construction Fund combined for road, bridge, rail, transit and aeronautics projects under IDOT. Another 23% of State Funds would be for wastewater and drinking water projects from the State's Water Revolving Fund. Approximately 3% comes from various State funds that receive fees for the funding of projects under the departments of Natural Resources (example: Park and Conservation Fund), and Transportation (example: the Grade Crossing Protection Fund). The remaining 4% is from Federal Trust Funds for grants related to airports, mass transit, abandoned mined lands reclamation, and forests.

The Road Fund and State Construction Fund receive revenues from various sources, but mainly from Motor Vehicle Licenses, Operators Licenses, Motor Fuel Taxes, vehicle-related fees, and the Federal Government. From FY 2008 - FY 2017, approximately 48% - 63% of these Funds combined were used for Transportation-related construction projects on a pay-as-you-go basis, and 7% to 11% of the Road Fund has gone to pay debt service on Transportation A Bonds which fund road and bridge capital projects. The charts below show histories of revenues and expenditures from the Road Fund and State Construction Fund combined.



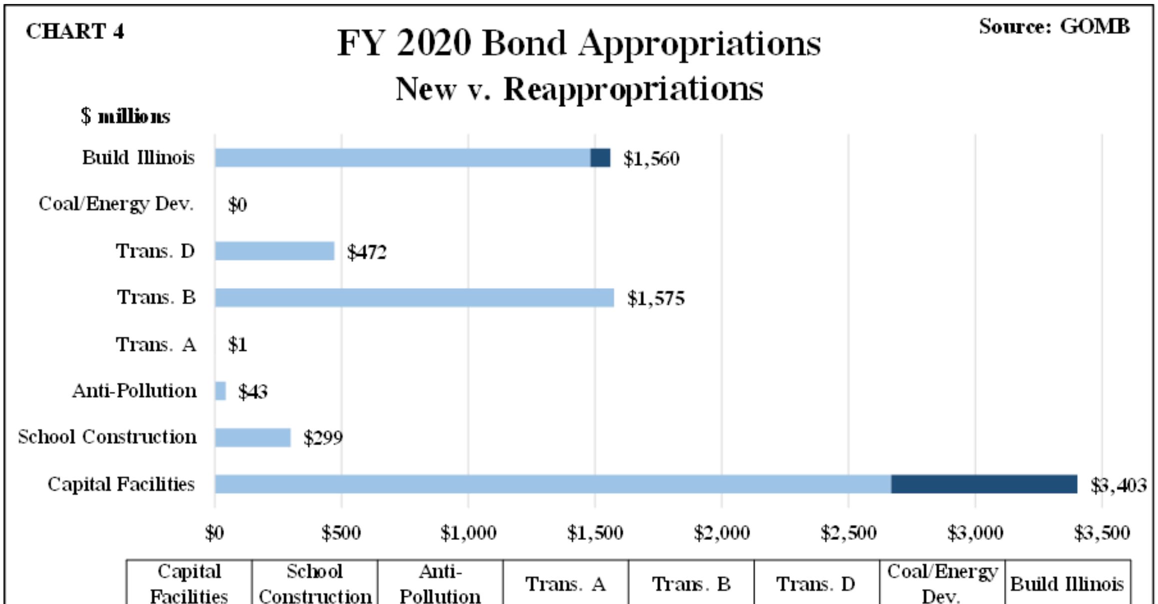


The new Bond appropriations, below in Chart 4, are for the following new programs for FY 2020:

- $735 million from the Capital Development Fund
  - $550 million is for deferred maintenance statewide for facilities,
  - $150 million for deferred maintenance at Higher Education facilities,
  - $20 million for statewide broadband through the Illinois Century Network and Illinois K-12 Network, and
  - $15 million for capital improvements at Illinois National Guard facilities.

- $78 million from the Build IL Bond Fund
  - $50 million for deferred maintenance and emergencies for public infrastructure,
  - $15 million for grants for sewer systems, wastewater treatment and drinking water infrastructure programs,
  - $10 million for the protection, preservation and conservation of environmental and natural resources, and
  - $3 million for deposit in the Hazardous Waste Fund to be used statewide.

The full FY 2020 Capital Plan Analysis report can be viewed on the Commission's website.



	Capital Facilities	School Construction	Anti-Pollution	Trans. A	Trans. B	Trans. D	Coal/Energy Dev.	Build Illinois
RE	$2,668	$299	$43	$1	$1,575	$472	$0	$1,482
New	$735	$0	$0	$0	$0	$0	$0	$78

Note: Funds that are not expended in the year they are appropriated and are still needed for the completion of a project are reappropriated in subsequent years.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS*	LATEST MONTH	PRIOR MONTH	A YEAR AGO
Unemployment Rate (Average) (Feb.)	4.3%	4.3%	4.4%
Inflation in Chicago (12-month percent change) (Feb.)	1.4%	0.8%	1.6%

	LATEST MONTH	CHANGE OVER PRIOR MONTH	CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (Feb.)	6,477.5	0.0%	0.0%
Employment (thousands) (Feb.)	6,196.1	0.0%	0.0%
Nonfarm Payroll Employment (Feb.)	6,162,400	-12,600	59,100
New Car & Truck Registration (Feb.)	38,678	-21.8%	1.9%
Single Family Housing Permits (Feb.)	512	-6.6%	-1.7%
Total Exports ($ mil) (Jan.)	4,900.6	0.0%	-2.7%
Chicago Purchasing Managers Index (Mar.)	58.7	-9.3%	2.3%

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

REVENUE: March Receipt Growth Decent

Jim Muschinske, Revenue Manager

In March, base monthly receipts increased $217 million. A comparatively stronger month for federal sources as well as good personal income tax and sales tax performances were the keys to the monthly advance. The monthly gain occurred despite having one less receipting day this March.

Gross personal income taxes receipts were up $165 million, or $137 million on a net basis. After a weaker February, gross sales tax returned to its impressive performance as receipts increased $63 million, or $29 million on a net basis. Inheritance taxes jumped $13 million, while cigarette tax increased $10 million due to timing of receipts. Public utility taxes posted gains of $6 million, corporate franchise increased $2 million, interest income rose $2 million, and liquor taxes grew $1 million.

Only a couple of revenue sources experienced declines for the month as insurance taxes were off $17 million, and gross corporate income taxes had a minor $1 million dip, but actually gained $3 million on a net basis.

Overall transfers declined $59 million in March. A modest $4 million gain in riverboat transfers and a $2 million advance in lottery transfers were more than offset by a $65 million reduction in all other miscellaneous transfers. As mentioned, federal sources finally generated a monthly gain, as receipts were up $90 million.

Year To Date

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 the first three-quarters of FY 2019 are $1.213 billion lower than last year. As explained in the November briefing, the reason for the decline is due to last year's federal reimbursement surge. Absent that, the closely-tied economic sources continue to perform quite well.

Through March, gross personal income tax is up by $740 million, or $604 million net. Gross sales tax receipts are up by an impressive $438 million, or $369 million net. Gross corporate income taxes are up by $176 million, or $162 million net. All other tax sources combined added $81 million in gain.

Overall transfers have fallen by $41 million through March. It's only when the comparatively much lower performance of federal sources is included that the year to date totals turn negative. Despite a stronger March, on a comparative basis Federal sources are down by $2.388 billion due to reimbursable spending made possible from November 2017 bond sale proceeds.

MARCH

FY 2019 vs. FY 2018

($ million)

Revenue Sources	March FY 2019	March FY 2018	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$2,134	$1,969	$165	8.4%
Corporate Income Tax (regular)	243	244	($1)	-0.4%
Sales Taxes	687	624	$63	10.1%
Public Utility Taxes (regular)	85	79	$6	7.6%
Cigarette Tax	40	30	$10	33.3%
Liquor Gallonage Taxes	13	12	$1	8.3%
Vehicle Use Tax	3	3	$0	0.0%
Inheritance Tax	30	17	$13	76.5%
Insurance Taxes and Fees	27	44	($17)	-38.6%
Corporate Franchise Tax & Fees	18	16	$2	12.5%
Interest on State Funds & Investments	13	11	$2	18.2%
Cook County IGT	0	0	$0	N/A
Other Sources	24	24	$0	0.0%
Subtotal	$3,317	$3,073	$244	7.9%
Transfers				
Lottery	85	83	$2	2.4%
Riverboat transfers & receipts	30	26	$4	N/A
Proceeds from Sale of 10th license	10	10	$0	N/A
Refund Fund transfer	0	0	$0	N/A
Fund sweeps	0	0	$0	N/A
Other	84	149	($65)	-43.6%
Total State Sources	$3,526	$3,341	$185	5.5%
Federal Sources	$319	$229	$90	39.3%
Total Federal & State Sources	$3,845	$3,570	$275	7.7%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	($207)	($193)	($14)	7.3%
Corporate Income Tax	($38)	(43)	$5	-11.6%
LGDF--Direct from PIT	($111)	(97)	($14)	14.4%
LGDF--Direct from CIT	($13)	(12)	($1)	8.3%
Downstate Pub/Trans--Direct from Sales	($55)	(21)	($34)	161.9%
Subtotal General Funds	$3,421	$3,204	$217	6.8%
Treasurer's Investments	$50	$0	$50	N/A
Interfund Borrowing	$0	$0	$0	N/A
Income Tax Bond Fund Transfer	$0	$0	$0	N/A
Transfer to Commitment Human Services	$0	$0	$0	N/A
Total General Funds	$3,471	$3,204	$267	8.3%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 1-Apr-19

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2019 vs. FY 2018

($ million)

Revenue Sources	FY 2019	FY 2018	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$15,217	$14,477	$740	5.1%
Corporate Income Tax (regular)	1,643	1,467	$176	12.0%
Sales Taxes	6,592	6,154	$438	7.1%
Public Utility Taxes (regular)	664	677	($13)	-1.9%
Cigarette Tax	267	252	$15	6.0%
Liquor Gallonage Taxes	131	130	$1	0.8%
Vehicle Use Tax	23	20	$3	15.0%
Inheritance Tax	298	247	$51	20.6%
Insurance Taxes and Fees	248	271	($23)	-8.5%
Corporate Franchise Tax & Fees	191	161	$30	18.6%
Interest on State Funds & Investments	98	53	$45	84.9%
Cook County IGT	150	150	$0	0.0%
Other Sources	379	407	($28)	-6.9%
Subtotal	$25,901	$24,466	$1,435	5.9%
Transfers				
Lottery	515	506	$9	1.8%
Riverboat transfers & receipts	227	231	($4)	-1.7%
Proceeds from Sale of 10th license	10	10	$0	N/A
Refund Fund transfer	327	0	$327	N/A
Fund sweeps	0	251	($251)	N/A
Other	562	684	($122)	-17.8%
Total State Sources	$27,542	$26,148	$1,394	5.3%
Federal Sources	$1,991	$4,379	($2,388)	-54.5%
Total Federal & State Sources	$29,533	$30,527	($994)	-3.3%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	($1,476)	($1,419)	($57)	4.0%
Corporate Income Tax	($255)	(257)	$2	-0.8%
LGDF--Direct from PIT	($791)	(712)	($79)	11.1%
LGDF--Direct from CIT	($91)	(75)	($16)	21.3%
Downstate Pub/Trans--Direct from Sales	($354)	(285)	($69)	24.2%
Subtotal General Funds	$26,566	$27,779	($1,213)	-4.4%
Treasurer's Investments	$750	$0	$750	N/A
Interfund Borrowing	$250	$516	($266)	N/A
Income Tax Bond Fund Transfer	$0	$2,500	($2,500)	N/A
Transfer to Commitment Human Services	$0	$0	$0	N/A
Total General Funds	$27,566	$30,795	($3,229)	-10.5%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 1-Apr-19