



Commission on Government Forecasting and Accountability

MONTHLY BRIEFING

FEBRUARY 2007

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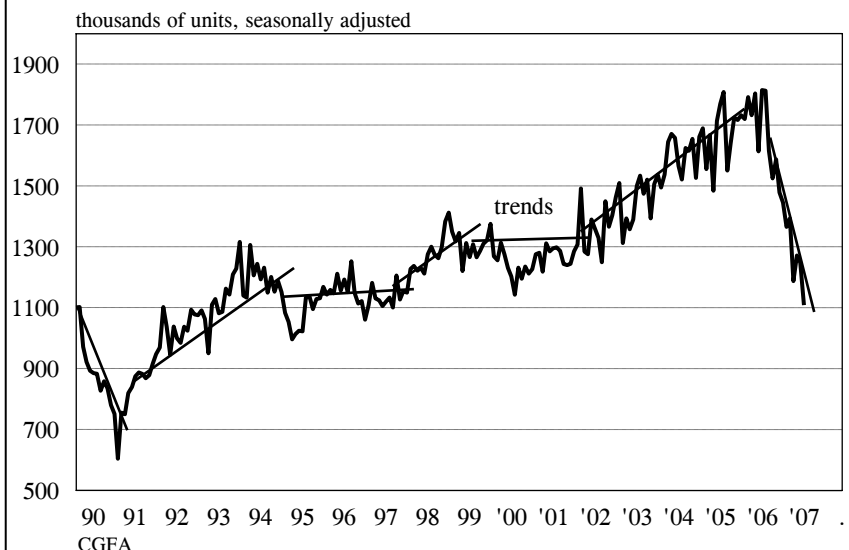
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ECONOMY: Housing Sector Revisited

Edward H. Boss, Jr., Chief Economist

Housing activity continues its steep decline, although the worst fears of many analysts have not been met. Still this sector is not out of the woods yet. Housing starts plunged in January after an unexpected rise in December, undoubtedly as the seasonally adjustment factors could not adequately contend with the shift from a unseasonably warm and dry December to severely worsened weather conditions nation wide in January that continued into February. Despite short-term disruptions in housing data during the winter months, as shown in the chart below, housing starts in the key single family privately owned sector have been in sharp decline for more than a year. Latest data for January 2007 show these starts fell 11.2% from December and were off a sharp 38.9% from January 2006. Moreover, a precursor to new housing starts, new building permits, fell an additional 4% in January from last December and is down a sharp 32.6% from a year earlier.

Chart 1
New Privately-Owned Housing Starts
Single-Family



The weakness in residential construction increasingly has been a negative to overall economic activity throughout last year. The annual rate of real residential spending grew progressively negative in each succeeding quarter throughout last year, from a -0.3% annual rate in the first quarter to a -19.2% rate of descent by the final quarter of 2006. Indeed, by the last quarter of last year, overall real gross domestic product was reduced at an annual rate of 1.16% because of the decline in real residential spending. Despite this subtraction, the advance report on real GDP showed growth at an annual rate of 3.5% last quarter. However, later revisions based on more complete data substantially reduced that initial overall growth estimate to 2.2%. Even so, despite a worsening housing sector, it has not been enough to dislodge the economy from continuing to grow at a rate somewhat below its long-term trend. Thus, the worse fear of analysts that a bubble in the housing sector could lead to an end of the business expansion has not occurred.

The decline in housing activity is reflected in a softening in home prices. After reaching a high of \$247,700 in the first quarter of 2006, the median price of houses sold in the United States dropped by \$10,000 to \$237,700 in the fourth quarter of 2006. Similarly, average home prices reached a low for the year in the final quarter of last year at \$296,300. The same pattern was replicated in Illinois. According to the Illinois Association of Realtors, the median home price in Illinois was

\$199,900 in the fourth quarter of 2006; off slightly from \$201,000 from a year earlier while sales fell 16% in the fourth quarter of 2006 from the same quarter in 2005.

Clouding the issue in the housing sector is the role “subprime” lenders will have on increased mortgage defaults and the ramifications this may have on the housing sector. Generally “subprime” loans are made to those who wouldn’t otherwise qualify for standard loans; often they contain adjustable rates that can be reset every 12 months starting after two years; and many carry prepayment penalties. As mortgage rates have risen, mortgage defaults have increased resulting in some “subprime” lenders halting operations and others announcing sharply increased numbers of bad debts. In response the Senate Banking Committee held a hearing in February on predatory lending including such “subprime” loans.

Despite continuing weakness in housing, there is a growing feeling that the bottom is nearing. Builder’s confidence has been on the rise with the National Association of Home Builders/Wells Fargo Market Index (HMI) reaching 40 in February 2007, up from a low of 30 last September and the highest since June 2006 as the components of present sales, sales expectations for the next six months, and buyer traffic all showed an up tick in February. Adding to the optimism that the decline in housing may be diminishing were comments by a Federal Reserve Board Governor that seemed to

downplay the effects of growing problems in the mortgage market on spending and growth. Finally, the economy continues to expand at accept-

able rates; employment continues to rise; and inflation, while at the high end of the Federal Reserve's comfort level, appears to be contained.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY			
<u>INDICATORS</u>	<u>JAN. 2007</u>	<u>DEC. 2006</u>	<u>JAN. 2006</u>
Unemployment Rate (Average)	4.6%	4.1%	5.2%
Annual Rate of Inflation (Chicago)	9.2%	-0.6%	1.0%
—————			
	<u>LATEST MONTH</u>	<u>% CHANGE OVER PRIOR MONTH</u>	<u>% CHANGE OVER A YEAR AGO</u>
Civilian Labor Force (thousands) (January)	6,705	0.4%	2.4%
Employment (thousands) (January)	6,397	-0.1%	3.1%
New Car & Truck Registration (January)	54,030	39.7%	6.4%
Single Family Housing Permits (January)	1,623	8.1%	%
Total Exports (\$ mil) (December)	3,649	-2.0%	14.4%
Chicago Purchasing Managers Index (February)	47.9	-2.0%	-12.8%

REVENUE

February Receipts Take Dip

Jim Muschinske, Revenue Manager

Revenues in February fell \$96 million, excluding \$900 million in short-term borrowing. While personal income taxes continued to perform well, a number of other sources took a break from what has been good year to date revenue performance. In addition, a comparatively low month for transfers also significantly contributed to the monthly decline. February had the same number of receipting days as last year.

For the month, gross income taxes were up \$44 million, or \$40 million net of refunds. Other sources rose by \$6

million, while interest earnings continued to do well, increasing by \$3 million. Corporate franchise taxes receipts managed to eke out a \$1 million advance.

As mentioned, quite a few revenue lines suffered declines this month. The largest drop was in sales tax receipts which were off \$28 million. Gross corporate income tax fell \$11 million, or \$9 million net of refunds. Public utility taxes dipped \$10 million after experiencing a January resurgence. Both inheritance tax and insurance tax receipts fell \$9 million for the month, while cigarette taxes were off \$4 million due to the change in distribution.

Overall transfers were down \$82 million in February. The decline of \$63 million in other transfers was due to the absence of chargeback activity that occurred last year. In addition, lottery transfers continue to disappoint with revenues down \$19 million for the month. Federal sources posted a \$6 million gain in February. [While the \$900 million in short-term borrowing was used for reimbursable spending on Medicaid, that spending and resulting reimbursement took place via the Hospital Provider Fund which is not a general fund and, therefore, not directly reflected in these federal sources. This was part of the recently approved Illinois Hospital Assessment Program. See last months briefing for a more detailed discussion of the short-term borrowing].

Year to Date

Excluding the recent \$900 million in short-term borrowing, overall general funds are up \$393 million. A comparative decline of \$364 million in federal sources has held down overall growth. In fact, excluding the falloff in federal sources, all other revenues are up a very respectable \$757 million.

Gross personal income taxes are up \$457 million, or \$413 million net of refunds. Sales tax receipts are up \$149 million, while gross corporate income taxes advanced by \$125 million, or \$123 million net of refunds. Interest income is ahead by \$44 million and public utility taxes are up \$29 million. All other sources experiencing gains added \$9 million.

As expected, the Cook County IGT is down \$38 million, while due to a change in tax distribution, cigarette taxes are off by \$32 million. Inheritance taxes and insurance taxes are both behind by \$3 million.

Overall transfers are up by \$66 million. While other transfers are up \$114 million due mostly to a large July transfer from the Refund Fund as well as fund sweep and chargeback activity, a \$64 falloff in lottery transfers served to offset some of those gains. Finally, federal sources are still down \$364 million due to less general funds reimbursable spending.

Upcoming Meeting

The Commission has scheduled a meeting on March 28th, 2007. At that time an updated economic and revenue forecast for FY 2007 and FY 2008 will be presented.

Facts on Funds Available Online

The Commission is pleased to announce that an updated Facts on Funds report is now available online. In addition, printed copies should be available by the middle to end of the month.

The Commission undertook a similar endeavor in 1999 with its first Facts on Funds report. That publication was well received and has been used by Legislative staff and other interested parties for a number of years. Since then, a number of new funds have been created, old funds repealed, and considerable statutory changes made. As a result, the Commission felt it was time

to update this valuable resource and make it available to interested parties.

While it is not practical to completely update this type of resource often due to the considerable amount of staff time required, the

Commission does intend to post information on new funds as they are created and/or repealed. While the frequency of those updates has yet to be determined, continue to check our website for those changes.

GENERAL FUNDS RECEIPTS: FEBRUARY

FY 2007 vs. FY 2006

(\$ million)

<u>Revenue Sources</u>	<u>FEB. FY 2007</u>	<u>FEB. FY 2006</u>	<u>\$ CHANGE</u>	<u>% CHANGE</u>
<i>State Taxes</i>				
Personal Income Tax	\$682	\$638	\$44	6.9%
Corporate Income Tax (regular)	7	18	(\$11)	-61.1%
Sales Taxes	516	544	(\$28)	-5.1%
Public Utility Taxes (regular)	99	109	(\$10)	-9.2%
Cigarette Tax	29	33	(\$4)	-12.1%
Liquor Gallonage Taxes	14	14	\$0	0.0%
Vehicle Use Tax	2	3	(\$1)	-33.3%
Inheritance Tax (Gross)	18	27	(\$9)	-33.3%
Insurance Taxes and Fees	8	17	(\$9)	-52.9%
Corporate Franchise Tax & Fees	16	15	\$1	6.7%
Interest on State Funds & Investments	17	14	\$3	21.4%
Cook County IGT	94	94	\$0	0.0%
Other Sources	28	22	\$6	27.3%
<i>Subtotal</i>	<u>\$1,530</u>	<u>\$1,548</u>	<u>(\$18)</u>	<u>-1.2%</u>
<i>Transfers</i>				
Lottery	50	69	(\$19)	-27.5%
Riverboat transfers & receipts	20	20	\$0	0.0%
Other	20	83	(\$63)	-75.9%
<i>Total State Sources</i>	<u>\$1,620</u>	<u>\$1,720</u>	<u>(\$100)</u>	<u>-5.8%</u>
<i>Federal Sources</i>	<u>\$293</u>	<u>\$287</u>	<u>\$6</u>	<u>2.1%</u>
<i>Total Federal & State Sources</i>	<u>\$1,913</u>	<u>\$2,007</u>	<u>(\$94)</u>	<u>-4.7%</u>
<i>Nongeneral Funds Distribution:</i>				
<i>Refund Fund</i>				
Personal Income Tax	(\$67)	(\$63)	(\$4)	6.3%
Corporate Income Tax	(\$1)	(3)	\$2	-66.7%
<i>Subtotal General Funds</i>	<u>\$1,845</u>	<u>\$1,941</u>	<u>(\$96)</u>	<u>-4.9%</u>
<i>Short-Term Borrowing</i>	<u>\$900</u>	<u>\$0</u>	<u>\$900</u>	<u>N/A</u>
<i>Budget Stabilization Fund Transfer</i>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>N/A</u>
<i>Total General Funds</i>	<u>\$2,745</u>	<u>\$1,941</u>	<u>\$804</u>	<u>41.4%</u>

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

1-Mar-07

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2007 vs. FY 2006

(\$ million)

<u>Revenue Sources</u>	<u>FY 2007</u>	<u>FY 2006</u>	<u>CHANGE FROM FY 2006</u>	<u>% CHANGE</u>
State Taxes				
Personal Income Tax	\$6,136	\$5,679	\$457	8.0%
Corporate Income Tax (regular)	894	769	\$125	16.3%
Sales Taxes	4,862	4,713	\$149	3.2%
Public Utility Taxes (regular)	744	715	\$29	4.1%
Cigarette Tax	234	266	(\$32)	-12.0%
Liquor Gallonage Taxes	107	104	\$3	2.9%
Vehicle Use Tax	22	22	\$0	0.0%
Inheritance Tax (Gross)	182	185	(\$3)	-1.6%
Insurance Taxes and Fees	163	166	(\$3)	-1.8%
Corporate Franchise Tax & Fees	126	122	\$4	3.3%
Interest on State Funds & Investments	136	92	\$44	47.8%
Cook County IGT	178	216	(\$38)	-17.6%
Other Sources	275	273	\$2	0.7%
Subtotal	\$14,059	\$13,322	\$737	5.5%
Transfers				
Lottery	380	444	(\$64)	-14.4%
Riverboat transfers & receipts	420	404	\$16	4.0%
Other	456	342	\$114	33.3%
Total State Sources	\$15,315	\$14,512	\$803	5.5%
Federal Sources	\$3,097	\$3,461	(\$364)	-10.5%
Total Federal & State Sources	\$18,412	\$17,973	\$439	2.4%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$598)	(\$554)	(\$44)	7.9%
Corporate Income Tax	(\$156)	(\$154)	(\$2)	1.3%
Subtotal General Funds	\$17,658	\$17,265	\$393	2.3%
Short-Term Borrowing	\$900	\$1,000	(\$100)	N/A
Budget Stabilization Fund Transfer	\$276	\$276	\$0	N/A
Total General Funds	\$18,834	\$18,541	\$293	1.6%
SOURCE: Office of the Comptroller, State of Illinois: Some totals may not equal, due to rounding.				
CGFA				1-Mar-07

GENERAL FUNDS GROWTH NEEDED TO MEET ESTIMATE
FY 2007 ESTIMATE vs. FY 2006 ACTUAL
(\$ million)

	Nov-06 ESTIMATE FY 2007	FYTD 2007	AMOUNT NEEDED FY 2007 EST.	FYTD 2006	GROWTH NEEDED	% CHANGE
Revenue Sources						
<i>State Taxes</i>						
Personal Income Tax	\$10,116	\$6,136	\$3,980	\$5,679	\$91	2.3%
Corporate Income Tax (regular)	1,938	894	\$1,044	769	\$29	2.9%
Sales Taxes	7,345	4,862	\$2,483	4,713	\$104	4.4%
Public Utility Taxes (regular)	1,074	744	\$330	715	(\$29)	-8.1%
Cigarette Tax	350	234	\$116	266	(\$18)	-13.4%
Liquor Gallonage Taxes	153	107	\$46	104	(\$2)	-4.2%
Vehicle Use Tax	34	22	\$12	22	\$0	0.0%
Inheritance Tax (Gross)	277	182	\$95	185	\$8	9.2%
Insurance Taxes and Fees	320	163	\$157	166	\$6	4.0%
Corporate Franchise Tax & Fees	190	126	\$64	122	\$5	8.5%
Interest on State Funds & Investments	185	136	\$49	92	(\$12)	-19.7%
Cook County IGT	309	178	\$131	216	(\$3)	-2.2%
Other Sources	440	275	\$165	273	(\$3)	-1.8%
Subtotal	\$22,731	\$14,059	\$8,672	\$13,322	\$176	2.1%
<i>Transfers</i>						
Lottery	630	380	\$250	444	\$24	10.6%
Riverboat transfers & receipts	700	420	\$280	404	(\$5)	-1.8%
Other	841	456	\$385	342	(\$19)	-4.7%
Total State Sources	\$24,902	\$15,315	\$9,587	\$14,512	\$176	1.9%
Federal Sources	\$4,803	\$3,097	\$1,706	\$3,461	\$442	35.0%
Total Federal & State Sources	\$29,705	\$18,412	\$11,293	\$17,973	\$618	5.8%
Nongeneral Funds Distribution:						
<i>Refund Fund</i>						
Personal Income Tax	(\$986)	(\$598)	(\$388)	(\$554)	(\$9)	2.4%
Corporate Income Tax	(339)	(\$156)	(\$183)	(154)	\$19	-9.4%
Subtotal General Funds	\$28,380	\$17,658	\$10,722	\$17,265	\$628	6.2%
Short-Term Borrowing	\$900	\$900	\$0	\$1,000	\$0	N/A
Budget Stabilization Fund Transfer	\$276	\$276	\$0	\$276	\$0	N/A
Total General Funds	\$29,556	\$18,834	\$10,722	\$18,541	\$628	6.2%
CGFA estimate updated to reflect actual short-term borrowing						1-Mar-07

GENERAL FUNDS PERFORMANCE TO DATE
GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET

FY 2007 ESTIMATE vs. FY 2006 ACTUALS

(\$ million)

Revenue Sources	GOMB	AMOUNT			GROWTH NEEDED	% CHANGE
	JUNE-06 Estimate FY 2007	FYTD 2007	NEEDED FY 2007 Est.	FYTD 2006		
State Taxes						
Personal Income Tax	\$9,844	\$6,136	\$3,708	\$5,679	(\$181)	-4.7%
Corporate Income Tax (regular)	2,074	894	\$1,180	769	\$165	16.3%
Sales Taxes	7,280	4,862	\$2,418	4,713	\$39	1.6%
Public Utility Taxes (regular)	1,090	744	\$346	715	(\$13)	-3.6%
Cigarette Tax	350	234	\$116	266	(\$18)	-13.4%
Liquor Gallonage Taxes	152	107	\$45	104	(\$3)	-6.3%
Vehicle Use Tax	35	22	\$13	22	\$1	8.3%
Inheritance Tax (Gross)	255	182	\$73	185	(\$14)	-16.1%
Insurance Taxes and Fees	322	163	\$159	166	\$8	5.3%
Corporate Franchise Tax & Fees	196	126	\$70	122	\$11	18.6%
Interest on State Funds & Investments	143	136	\$7	92	(\$54)	-88.5%
Cook County IGT	309	178	\$131	216	(\$3)	-2.2%
Other Sources	505	275	\$230	273	\$62	36.9%
Subtotal	\$22,555	\$14,059	\$8,496	\$13,322	\$0	0.0%
Transfers						
Lottery	670	380	\$290	444	\$64	28.3%
Gaming Fund Transfer	692	420	\$272	404	(\$13)	-4.6%
Other	933	456	\$477	342	\$73	18.1%
Total State Sources	\$24,850	\$15,315	\$9,535	\$14,512	\$124	1.3%
Federal Sources	\$4,803	\$3,097	\$1,706	\$3,461	\$442	35.0%
Total Federal & State Sources	\$29,653	\$18,412	\$11,241	\$17,973	\$566	5.3%
Nongeneral Funds Distribution:						
Refund Fund						
Personal Income Tax	(\$960)	(\$598)	(\$362)	(\$554)	\$17	-4.5%
Corporate Income Tax	(363)	(156)	(\$207)	(154)	(\$5)	2.5%
Subtotal General Funds	\$28,330	\$17,658	\$10,672	\$17,265	\$578	5.7%
Short-Term Borrowing	\$900	\$900	\$0	\$1,000	\$0	N/A
Budget Stabilization Fund Transfer	\$276	\$276	\$0	\$276	\$0	N/A
Total General Funds	\$29,506	\$18,834	\$10,672	\$18,541	\$578	5.7%
GOMB Estimate updated to reflect actual short-term borrowing						1-Mar-07