



Commission on Government Forecasting and Accountability

MONTHLY BRIEFING

MARCH 2006

http://www.ilga.gov/commission/cgfa/cgfa_home.html

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ECONOMY: Money and Monetary Policy

Edward H. Boss, Jr., Chief Economist

On Tuesday March 28th, the Federal Open Market Committee, under the new leadership of Federal Reserve Chairman Ben Bernanke, raised key monetary policy rates by one quarter of a percent, the 15th time since mid 2004. The actions raised the Federal Funds rate, the overnight rate banks pay to borrow the reserves of other banks, to the 4¾ % level and the discount rate, or rate banks must pay to borrow directly from the Fed, to 5¾ %. In response, some commercial banks raised the prime rate to 7¾ %. These rate levels are now up 375 basis points or 3¾ % from the lows reached almost two years ago. While the increase in these key short-term interest rates was expected, there remains controversy as to whether these rate levels are high enough, or whether further increases will be needed to preempt inflationary pressures from building without deleterious effects on the economic expansion.

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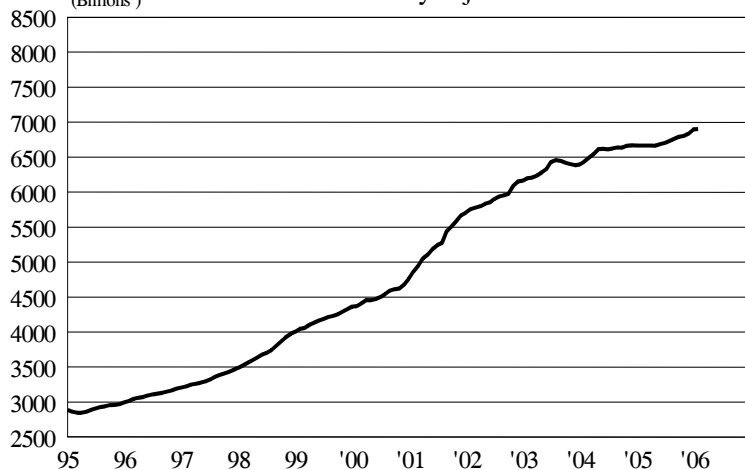
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CHART 1 MZM Money Supply*
seasonally-adjusted



*M2 less small time deposits plus money market funds

Source: Federal Reserve Bank of St. Louis

CGFA

One such indication of the Federal Reserve's success in removing stimulus is shown by a noticeable slowing in the rate of increase in the money supply, as shown in Chart 1, on the previous page. The money supply measure used in the chart is the MZM measure, deriving its name from its mixture of all the liquid and zero maturity money found in the various money supply measures. Many analysts have turned to this measure feeling it best represents money readily available within the economy to support spending.

Interestingly, at the same time that this rather narrow view of money was gaining attention, the Federal Reserve announced in March that it no longer would publish M3, the broadest definition of the money supply, which has only been in use since 1980. M3 includes M1, the narrowest definition consisting of currency, traveler's checks and checking account deposits; M2 (which includes M1 plus savings accounts, money market accounts, small time deposits and money market mutual funds); as well as a host of other less liquid assets such as large CDs, institutional money funds including pension funds, repurchase agreements, and Eurodollars held by U.S. residents at foreign branches of U.S. banks. One reason cited for the discontinuance of M3 was the high costs of collecting data on the deposit series, but perhaps the more important reason is that M3 never caught on as a popular measure and has not proved essential for either analysis or policy making.

As shown in the chart, the recent slowing in the money supply is in sharp contrast to the acceleration in its growth that occurred as the economy was struggling to recover from the last recession and as fears of deflation took hold early in this decade. Indeed to stimulate growth and prevent falling prices, the Federal Reserve actively added liquidity driving down interest rates. It was not until mid 2004, when the economic expansion was well underway and downward price pressures reversed, that the Federal Reserve began to cautiously remove that stimulus, a policy that has continued. Still, it is well known that monetary policy operates with a significant lag and that as a result the Federal Reserve sometimes has tended to overstay its policy course.

While the latest move to raise key monetary policy rates was anticipated, particularly given the feeling that the new Federal Reserve Chairman would provide continuity to a policy begun by the previous well-respected Chairman Alan Greenspan, future moves may prove more controversial. There are signs that the pace of economic activity may be slowing as housing activity softens while at the same time a resurgence in energy prices raise fears that these will be passed on, increasing pressure on overall price levels. Thus the Federal Reserve will continue to walk the fine line between the twin goals of price stability and continued economic growth, adjusting its actions to changing events.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

<u>INDICATORS</u>	<u>FEB. 2006</u>	<u>JAN. 2006</u>	<u>FEB. 2005</u>
Unemployment Rate (Average)	5.0%	5.2%	5.9%
Annual Rate of Inflation (Chicago)	-1.8%	6.4%	3.5%
<hr/>			
	<u>LATEST</u>	<u>% CHANGE</u>	<u>% CHANGE</u>
	<u>MONTH</u>	<u>OVER PRIOR</u>	<u>OVER A</u>
		<u>MONTH</u>	<u>YEAR AGO</u>
Civilian Labor Force (thousands) (February)	6,510	-0.1%	0.9%
Employment (thousands) (February)	6,182	0.1%	1.8%
New Car & Truck Registration (February)	39,599	-22.0%	5.0%
Single Family Housing Permits (February)	2,819	7.5%	12.2%
Total Exports (\$ mil) (January)	30,030	-5.0%	20.6%
Chicago Purchasing Managers Index (March)	62.2	13.2%	-10.1%

REVENUE

March Revenues Down Due to Federal Sources and Transfers

Jim Muschinske, Revenue Manager

Overall general funds revenues fell \$282 million in March [excludes last year's \$765 million in short-term borrowing and \$762 million in Hospital Provider Fund cash flow transfers]. The drop was due primarily to a significant falloff in federal sources that reflected last year's short-term borrowing that allowed for a surge in spending on Medicaid bills and subsequent reimbursement. Transfers also experienced significant declines in large part due to last year's chargeback activity that was not repeated this year. March had the same number of receipting days as in the last fiscal year.

Last March performed exceptionally well so it was not surprising that a number of sources experienced year over year declines. In addition, due to

timing, the Cook County IGT did not record any transfer this month, whereas last year \$23 million was transferred. Other sources fell \$15 million, while inheritance taxes were off \$14 million. Public utility taxes dipped \$8 million and corporate franchise taxes eased \$3 million. Both liquor taxes and insurance taxes experienced a \$2 million drop in monthly receipts.

Despite an overall drop in monthly revenues, a few sources still managed to post gains. Gross personal income taxes continued to do well rising \$51 million, or \$48 million net of refunds. Gross corporate income taxes rose \$8 million, or \$19 million net of refunds. Corporate franchise taxes increased \$5 million, while sales taxes and vehicle use tax each registered a \$1 million improvement.

As mentioned, March was a poor month for transfers. Overall transfers fell \$93 million, as other

transfers declined by \$67 million, mostly due to last years chargeback transfer activity. In addition, riverboat gaming transfers posted a \$17 million decrease, while lottery transfers fell by \$9 million. Again, federal sources had a comparatively bad month as receipts dropped by \$196 million.

Year to Date

With three-quarters of the fiscal year completed, excluding short-term borrowing and related cash flow transfers, overall revenues are up \$619 million. Despite a slowdown in March receipts, sources most closely tied to the economy have performed well. However, offsetting some of those gains are falloffs in transfers such as the Cook County IGT, riverboat transfers, chargebacks, and statutory fund sweeps.

Through March, gross personal income tax receipts are up \$364 million, or \$350 million net of refunds. Sales tax receipts are up \$345 million, while gross corporate income taxes are up \$154 million, or \$165 million net of refunds. Interest income has contributed \$57 million to the yearly

advance while all other sources experiencing gains added another \$41 million.

Not all areas have fared as well as the economically related sources. The Cook County IGT is off \$83 million in large part due to timing of the transfers but also because of an anticipated decline in the total yearly transfer amount. The cigarette tax is down \$50 million due to a temporary change in the distribution of the tax early last fiscal year, inheritance taxes have fallen \$29 million, insurance taxes are off \$22 million, and other sources are down \$2 million.

Through March, excluding cash flow transfers, total transfers are down \$198 million, reflecting the timing of statutory fund sweeps as well as chargeback activity, in addition to the lower riverboat tax rates. Other fund transfers are down \$185 million while riverboat transfers and receipts trail by \$79 million. Offsetting some of those declines is a \$66 million increase in lottery transfers. After enjoying significant increases for most of the fiscal year, federal sources have cooled as expected and are up just \$45 million for the year.

GENERAL FUNDS RECEIPTS: MARCH

FY 2006 vs. FY 2005
(\$ million)

<u>Revenue Sources</u>	<u>MARCH FY 2006</u>	<u>MARCH FY 2005</u>	<u>\$ CHANGE</u>	<u>% CHANGE</u>
State Taxes				
Personal Income Tax	\$767	\$716	\$51	7.1%
Corporate Income Tax (regular)	322	314	\$8	2.5%
Sales Taxes	555	554	\$1	0.2%
Public Utility Taxes (regular)	122	130	(\$8)	-6.2%
Cigarette Tax	33	33	\$0	0.0%
Liquor Gallonage Taxes	10	12	(\$2)	-16.7%
Vehicle Use Tax	4	3	\$1	33.3%
Inheritance Tax (Gross)	18	32	(\$14)	-43.8%
Insurance Taxes and Fees	37	39	(\$2)	-5.1%
Corporate Franchise Tax & Fees	14	17	(\$3)	-17.6%
Interest on State Funds & Investments	12	7	\$5	71.4%
Cook County IGT	0	23	(\$23)	-100.0%
Other Sources	23	38	(\$15)	-39.5%
Subtotal	\$1,917	\$1,918	(\$1)	-0.1%
Transfers				
Lottery	61	70	(\$9)	-12.9%
Riverboat transfers & receipts	40	57	(\$17)	-29.8%
Other	58	125	(\$67)	-53.6%
Total State Sources	\$2,076	\$2,170	(\$94)	-4.3%
Federal Sources	\$358	\$554	(\$196)	-35.4%
Total Federal & State Sources	\$2,434	\$2,724	(\$290)	-10.6%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$75)	(\$72)	(\$3)	4.2%
Corporate Income Tax	(\$64)	(75)	\$11	-14.7%
Subtotal General Funds	\$2,295	\$2,577	(\$282)	-10.9%
Short-Term Borrowing	\$0	\$765	(\$765)	N/A
Hospital Provider Fund (cash flow transfer)	\$0	\$762	(\$762)	N/A
Budget Stabilization Fund Transfer	\$0	\$0	\$0	N/A
Total General Funds	\$2,295	\$4,104	(\$1,809)	-44.1%
CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				4-Apr-06

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2006 vs. FY 2005

(\$ million)

Revenue Sources	FY 2006	FY 2005	CHANGE FROM FY 2005	% CHANGE
State Taxes				
Personal Income Tax	\$6,446	\$6,082	\$364	6.0%
Corporate Income Tax (regular)	1,091	937	\$154	16.4%
Sales Taxes	5,268	4,923	\$345	7.0%
Public Utility Taxes (regular)	837	805	\$32	4.0%
Cigarette Tax	300	350	(\$50)	-14.3%
Liquor Gallonage Taxes	115	111	\$4	3.6%
Vehicle Use Tax	26	24	\$2	8.3%
Inheritance Tax (Gross)	203	232	(\$29)	-12.5%
Insurance Taxes and Fees	203	225	(\$22)	-9.8%
Corporate Franchise Tax & Fees	136	133	\$3	2.3%
Interest on State Funds & Investments	104	47	\$57	121.3%
Cook County IGT	216	299	(\$83)	-27.8%
Other Sources	295	297	(\$2)	-0.7%
Subtotal	\$15,240	\$14,465	\$775	5.4%
Transfers				
Lottery	504	438	\$66	15.1%
Riverboat transfers & receipts	444	523	(\$79)	-15.1%
Other	400	585	(\$185)	-31.6%
Total State Sources	\$16,588	\$16,011	\$577	3.6%
Federal Sources	\$3,819	\$3,774	\$45	1.2%
Total Federal & State Sources	\$20,407	\$19,785	\$622	3.1%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$629)	(\$615)	(\$14)	2.3%
Corporate Income Tax	(\$218)	(\$229)	\$11	-4.8%
Subtotal General Funds	\$19,560	\$18,941	\$619	3.3%
Short-Term Borrowing	\$1,000	\$765	\$235	N/A
Hospital Provider Fund (cash flow transfer)	\$0	\$762	(\$762)	N/A
Budget Stabilization Fund Transfer	\$276	\$276	\$0	N/A
Total General Funds	\$20,836	\$20,744	\$92	0.4%
SOURCE: Office of the Comptroller, State of Illinois: Some totals may not equal, due to rounding.				
CGFA				4-Apr-06

GENERAL FUNDS GROWTH NEEDED TO MEET ESTIMATE
FY 2006 ESTIMATE vs. FY 2005 ACTUAL
(\$ million)

Revenue Sources	March-06 ESTIMATE FY 2006	FYTD 2006	AMOUNT NEEDED FY 2006 EST.	FYTD 2005	GROWTH NEEDED	% CHANGE
State Taxes						
Personal Income Tax	\$9,380	\$6,446	\$2,934	\$6,082	\$143	5.1%
Corporate Income Tax (regular)	1,839	1,091	\$748	937	\$137	22.4%
Sales Taxes	7,010	5,268	\$1,742	4,923	\$70	4.2%
Public Utility Taxes (regular)	1,092	837	\$255	805	\$4	1.6%
Cigarette Tax	400	300	\$100	350	\$0	0.0%
Liquor Gallonage Taxes	150	115	\$35	111	(\$1)	-2.8%
Vehicle Use Tax	34	26	\$8	24	\$0	0.0%
Inheritance Tax (Gross)	265	203	\$62	232	(\$16)	-20.5%
Insurance Taxes and Fees	307	203	\$104	225	(\$13)	-11.1%
Corporate Franchise Tax & Fees	190	136	\$54	133	\$6	12.5%
Interest on State Funds & Investments	136	104	\$32	47	\$6	23.1%
Cook County IGT	350	216	\$134	299	\$0	0.0%
Other Sources	475	295	\$180	297	\$9	5.3%
Subtotal	\$21,628	\$15,240	\$6,388	\$14,465	\$345	5.7%
Transfers						
Lottery	670	504	\$166	438	(\$10)	-5.7%
Riverboat transfers & receipts	688	444	\$244	523	\$68	38.6%
Other	700	400	\$300	585	(\$33)	-9.9%
Total State Sources	\$23,686	\$16,588	\$7,098	\$16,011	\$370	5.5%
Federal Sources	\$4,712	\$3,819	\$893	\$3,774	(\$24)	-2.6%
Total Federal & State Sources	\$28,398	\$20,407	\$7,991	\$19,785	\$346	4.5%
Nongeneral Funds Distribution:						
Refund Fund						
Personal Income Tax	(\$915)	(\$629)	(\$286)	(\$615)	(\$7)	2.5%
Corporate Income Tax	(368)	(\$218)	(\$150)	(229)	(\$3)	2.0%
Subtotal General Funds	\$27,115	\$19,560	\$7,555	\$18,941	\$336	4.7%
Short-Term Borrowing	\$1,000	\$1,000	\$0	\$765	\$0	N/A
Hospital Provider Fund (cash flow transfer)	\$0	\$0	\$0	\$762	(\$220)	N/A
Budget Stabilization Fund Transfer	\$276	\$276	\$0	\$276	\$0	N/A
Total General Funds	\$28,391	\$20,836	\$7,555	\$20,744	\$116	1.6%
CGFA						4-Apr-06

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

FY 2006 ESTIMATE vs. FY 2005 ACTUALS

(\$ million)

<u>Revenue Sources</u>	GOMB FEB-06 Estimate FY 2006	FYTD 2006	AMOUNT NEEDED FY 2006 Est.	FYTD 2005	GROWTH NEEDED	% CHANGE
State Taxes						
Personal Income Tax	\$9,375	\$6,446	\$2,929	\$6,082	\$138	4.9%
Corporate Income Tax (regular)	1,860	1,091	\$769	937	\$158	25.9%
Sales Taxes	6,950	5,268	\$1,682	4,923	\$10	0.6%
Public Utility Taxes (regular)	1,081	837	\$244	805	(\$7)	-2.8%
Cigarette Tax	400	300	\$100	350	\$0	0.0%
Liquor Gallonage Taxes	151	115	\$36	111	\$0	0.0%
Vehicle Use Tax	34	26	\$8	24	\$0	0.0%
Inheritance Tax (Gross)	285	203	\$82	232	\$4	5.1%
Insurance Taxes and Fees	320	203	\$117	225	\$0	0.0%
Corporate Franchise Tax & Fees	191	136	\$55	133	\$7	14.6%
Interest on State Funds & Investments	98	104	(\$6)	47	(\$32)	-123.1%
Cook County IGT	350	216	\$134	299	\$0	0.0%
Other Sources	489	295	\$194	297	\$23	13.5%
Subtotal	\$21,584	\$15,240	\$6,344	\$14,465	\$301	5.0%
Transfers						
Lottery	636	504	\$132	438	(\$44)	-25.0%
Gaming Fund Transfer	678	444	\$234	523	\$58	33.0%
Other	771	400	\$371	585	\$38	11.4%
Total State Sources	\$23,669	\$16,588	\$7,081	\$16,011	\$353	5.2%
Federal Sources	\$4,712	\$3,819	\$893	\$3,774	(\$24)	-2.6%
Total Federal & State Sources	\$28,381	\$20,407	\$7,974	\$19,785	\$329	4.3%
Nongeneral Funds Distribution:						
Refund Fund						
Personal Income Tax	(\$914)	(\$629)	(\$285)	(\$615)	(\$6)	2.2%
Corporate Income Tax	(372)	(218)	(\$154)	(229)	(\$7)	4.8%
Subtotal General Funds	\$27,095	\$19,560	\$7,535	\$18,941	\$316	4.4%
Short-Term Borrowing	\$1,000	\$1,000	\$0	\$765	\$0	N/A
Hospital Provider Fund (cash flow transfer)	\$0	\$0	\$0	\$762	(\$220)	N/A
Budget Stabilization Fund Transfer	\$276	\$276	\$0	\$276	\$0	N/A
Total General Funds	\$28,371	\$20,836	\$7,535	\$20,744	\$96	1.3%
CGFA	4-Apr-06					

Revised Revenue Estimates

On March 15th, the Commission revised its estimates for FY 2006 and FY 2007. (Copies of the presented materials can be obtained from the Commission as well as found on the website).

Overall FY 2006 Revenue Estimate Increased \$275 Million

As shown in the table on page 10, a number of the large economically related sources such as income and sales taxes are undergoing significant upward revisions to their estimates. In contrast, a few non-economic sources must be adjusted down to reflect poor year-to-date performance and/or other reasons (i.e. Administration decisions related to transfers). Therefore, the Commission's overall estimate for FY 2006 has been increased \$275 million, to \$27.115 billion.

Major Changes to the FY 2006 Estimate:

- Overall, personal income taxes have performed above expectations through the first three-quarters of the fiscal year. As a result the estimate has been increased \$113 million, or \$102 million on a net of refund basis.
- Gross corporate income tax receipts have demonstrated impressive growth and as a result, the estimate has been increased by \$175 million or \$140 million net of refunds and reflects the expectation that measurable gains will continue over the remainder of the fiscal year.
- Sales tax receipts have been able to outperform earlier expectations for much of the fiscal year. As a result, the estimate has been increased by \$95 million.
- Interest income earnings have rebounded as rates of return have been steadily improving. With rates expected to continue to increase slightly in the near term, the estimate has been increased by \$20 million.
- The other source estimate is being revised up \$30 million to reflect higher than originally expected Build Illinois Escrow transfers, (per GOMB planned transfer), as well as higher net miscellaneous other revenue sources.
- Even though lottery transfers can be somewhat volatile due to rollovers, performance is significantly above expectations and as a result, the estimate has been increased by \$30 million.
- In response to GOMB's lowered forecast of chargeback and other transfer activity, the estimate had been lowered by \$70 million.
- The estimate of federal sources has been lowered \$79 million to reflect anticipated reimbursement per updated Budget Book forecast.

ADJUSTMENTS TO CGFA FY 2006 ESTIMATE

(millions)

	Actual	CGFA	CGFA	Change
	FY 2005	FY 2006 Revised	Estimate Nov-05	From
Revenue Sources		Estimate March-06		Nov-05 Est.
State Taxes				
Personal Income Tax	\$8,873	\$9,380	\$9,267	\$113
Corporate Income Tax	\$1,548	\$1,839	\$1,664	\$175
Sales Taxes	\$6,595	\$7,010	\$6,915	\$95
Public Utility (regular)	\$1,056	\$1,092	\$1,072	\$20
Cigarette Tax	\$450	\$400	\$405	(\$5)
Liquor Gallonage Taxes	\$147	\$150	\$150	\$0
Vehicle Use Tax	\$32	\$34	\$32	\$2
Inheritance Tax (gross)	\$310	\$265	\$265	\$0
Insurance Taxes & Fees	\$342	\$307	\$332	(\$25)
Corporate Franchise Tax & Fees	\$181	\$190	\$185	\$5
Interest on State Funds & Investments	\$73	\$136	\$116	\$20
Cook County Intergovernmental Transfer	\$433	\$350	\$340	\$10
Other Sources	\$468	\$475	\$445	\$30
Subtotal	\$20,508	\$21,628	\$21,188	\$440
Transfers				
Lottery	\$614	\$670	\$640	\$30
Riverboat Transfers & Receipts	\$699	\$688	\$688	\$0
Other	\$918	\$700	\$770	(\$70)
Total State Sources	\$22,739	\$23,686	\$23,286	\$400
Federal Sources	\$4,691	\$4,712	\$4,791	(\$79)
Total Federal & State Sources	\$27,430	\$28,398	\$28,077	\$321
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$894)	(\$915)	(\$904)	(\$11)
Corporate Income Tax	(\$376)	(\$368)	(\$333)	(\$35)
Subtotal General Funds	\$26,160	\$27,115	\$26,840	\$275
Change from Prior Year		\$955	\$680	
Percent Change		3.7%	2.6%	
Short-Term Borrowing	\$765	\$1,000	\$0	\$1,000
Hospital Provider Fund (cash flow transfer)	\$982	\$0	\$0	\$0
Budget Stabilization Fund Transfer	\$276	\$276	\$276	\$0
Total General Funds	\$28,183	\$28,391	\$27,116	\$1,275
Change from Prior Year Actual		\$208	(\$1,067)	
Percent Change		0.7%	-3.8%	
CGFA				

CGFA/COMB FY 2006 COMPARISON

As shown in the table on page 13, the Commission's FY 2006 general funds revised estimate of \$27.115 billion is \$20 million above the GOMB's latest official estimate reflected in the FY 2007 Budget Book.

The two estimates are similar in most respects as both agencies made adjustments to many of the same areas. While the Commission is somewhat lower in a

number of areas such as other transfers, inheritance tax, insurance taxes, as well as a few others, the Commission's upward revision in other areas such as sales tax, interest earnings and lottery transfers, equate into a higher overall estimate for FY 2006. [It should be noted that the Commission is currently not incorporating \$80 million in GOMB assumed transfers resulting from the yet to be approved hospital assessment program].

CGFA'S FY 2007 ESTIMATE

As shown on page 14, based on current law, total general funds are estimated to be \$27.856 billion or \$741 million more than FY 2006. While a continued improving economy is expected to contribute decent rates of growth in FY 2007, a number of unrelated items serve to retard the impact of those improvements. For example:

- The continued reduction in IGT revenue reduces receipts by \$41 million.
- The continued phasing down of the commercial distribution fee results in

lower other sources as well as timing associated with some FY 2006 fines not expected to be repeated in FY 2007 (losses of approximately \$25 million on year over year basis).

- Without legislative action, \$130 million in various funds sweeps cannot be repeated in the upcoming fiscal year.

While the Governor has proposed changes that would equate into an additional \$305 million in revenues over current law, since legislative action is required, those items are not included in the CGFA forecast.

DETAILED CGFA/GOMB FY 2007 COMPARISON

As shown on page 15, excluding the Governor's proposed \$305 million in proposed deficit reduction sources, the Commission's FY 2007 base general funds estimate of \$27.856 billion is \$175 million below the GOMB's estimate of \$28.031 billion. If \$307 million in deficit reduction sources are included in the GOMB estimate, the difference grows to \$177 million. [The \$2 million difference in the value assigned to the Governor's proposed revenue changes is due to the Commission's lower corporate income tax estimate used to calculate the value of the proposed lower refund percentage].

The two estimates reflect moderate differences in the estimates of income taxes with the Commission lower due to somewhat more conservative growth

rates. The Commission's other source estimate is lower primarily because it does not appear that the GOMB's estimate has taken into account the continued phase-down of the commercial distribution tax. Other transfers are also lower than the GOMB and reflect differences between chargeback and other fee transfers as well as other overall transfers. [As in FY 2006, the GOMB is again assuming an \$80 million transfer from the yet to be federally approved hospital assessment program. Until federal approval is given, the Commission is for now not including these amounts in its estimates]. While lower overall, the Commission is higher than the GOMB in a few areas such as interest income as well as lottery and riverboat transfers.

FY 2006 CGFA/GOMB ESTIMATE COMPARISON

(millions)

Revenue Sources	CGFA FY 2006 Estimate March-06	GOMB FY 2006 Estimate Feb-06	\$ Difference
State Taxes			
Personal Income Tax	\$9,380	\$9,375	\$5
Corporate Income Tax	\$1,839	\$1,860	(\$21)
Sales Taxes	\$7,010	\$6,950	\$60
Public Utility (regular)	\$1,092	\$1,081	\$11
Cigarette Tax	\$400	\$400	\$0
Liquor Gallonage Taxes	\$150	\$151	(\$1)
Vehicle Use Tax	\$34	\$34	\$0
Inheritance Tax (gross)	\$265	\$285	(\$20)
Insurance Taxes & Fees	\$307	\$320	(\$13)
Corporate Franchise Tax & Fees	\$190	\$191	(\$1)
Interest on State Funds & Investments	\$136	\$98	\$38
Cook County Intergovernmental Transfer	\$350	\$350	\$0
<u>Other Sources</u>	<u>\$475</u>	<u>\$489</u>	<u>(\$14)</u>
Subtotal	\$21,628	\$21,584	\$44
Transfers			
Lottery	\$670	\$636	\$34
Riverboat Transfers & Receipts	\$688	\$678	\$10
<u>Other</u>	<u>\$700</u>	<u>\$771</u>	<u>(\$71)</u>
Total State Sources	\$23,686	\$23,669	\$17
Federal Sources	\$4,712	\$4,712	\$0
Total Federal & State Sources	\$28,398	\$28,381	\$17
Nongeneral Funds Distribution:			
Refund Fund*			
Personal Income Tax	(\$915)	(\$914)	(\$1)
Corporate Income Tax	(\$368)	(\$372)	\$4
Subtotal General Funds	\$27,115	\$27,095	\$20
Change from Prior Year	\$955	\$935	\$20
Percent Change	3.7%	3.6%	
Short-Term Borrowing	\$1,000	\$1,000	\$0
Budget Stabilization Fund Transfer	\$276	\$276	\$0
Total General Funds	\$28,391	\$28,371	\$20
Change from Prior Year	\$208	\$188	
Percent Change	0.7%	0.7%	
CGFA			

CGFA ESTIMATE FY 2007 vs. FY 2006 (per current law)*

(millions)

Revenue Sources	CGFA FY 2007 Estimate March-06	CGFA FY 2006 Estimate March-06	\$ Difference	% Difference
State Taxes				
Personal Income Tax	\$9,800	\$9,380	\$420	4.5%
Corporate Income Tax	\$1,950	\$1,839	\$111	6.0%
Sales Taxes	\$7,280	\$7,010	\$270	3.9%
Public Utility (regular)	\$1,086	\$1,092	(\$6)	-0.5%
Cigarette Tax	\$400	\$400	\$0	0.0%
Liquor Gallonage Taxes	\$151	\$150	\$1	0.7%
Vehicle Use Tax	\$34	\$34	\$0	0.0%
Inheritance Tax (gross)	\$255	\$265	(\$10)	-3.8%
Insurance Taxes & Fees	\$310	\$307	\$3	1.0%
Corporate Franchise Tax & Fees	\$200	\$190	\$10	5.3%
Interest on State Funds & Investments	\$146	\$136	\$10	7.4%
Cook County Intergovernmental Transfer	\$309	\$350	(\$41)	-11.7%
<u>Other Sources</u>	<u>\$460</u>	<u>\$475</u>	<u>(\$15)</u>	<u>-3.2%</u>
Subtotal	\$22,381	\$21,628	\$753	3.5%
Transfers				
Lottery	\$690	\$670	\$20	3.0%
Riverboat Transfers & Receipts	\$705	\$688	\$17	2.5%
<u>Other</u>	<u>\$591</u>	<u>\$700</u>	<u>(\$109)</u>	<u>-15.6%</u>
Total State Sources	\$24,367	\$23,686	\$681	2.9%
Federal Sources	\$4,835	\$4,712	\$123	2.6%
Total Federal & State Sources	\$29,202	\$28,398	\$804	2.8%
Nongeneral Funds Distribution:				
Refund Fund*				
Personal Income Tax	(\$956)	(\$915)	(\$41)	4.5%
Corporate Income Tax	(\$390)	(\$368)	(\$22)	6.0%
Subtotal General Funds	\$27,856	\$27,115	\$741	2.7%
Short-Term Borrowing	\$0	\$1,000	(\$1,000)	N/A
Budget Stabilization Fund Transfer	\$276	\$276	\$0	0.0%
Total General Funds	\$28,132	\$28,391	(\$259)	-0.9%

*The FY 2007 estimate includes current refund percentages at 9.75% for PIT and 20.0% for CIT. In addition, it is assumed that \$276 million in Budget Stabilization Fund transfers will be utilized in FY 2007 for cash flow purposes.

CGFA

FY 2007 CGFA/GOMB COMPARISON
"Current Law" and "With Proposed Revenue Changes"
(millions)

Revenue Sources	CGFA FY 2007 Estimate Mar-06	GOMB FY 2007 Estimate Feb-06	\$ Difference
State Taxes			
Personal Income Tax	\$9,800	\$9,844	(\$44)
Corporate Income Tax	\$1,950	\$2,046	(\$96)
Sales Taxes	\$7,280	\$7,280	\$0
Public Utility (regular)	\$1,086	\$1,075	\$11
Cigarette Tax	\$400	\$400	\$0
Liquor Gallonage Taxes	\$151	\$152	(\$1)
Vehicle Use Tax	\$34	\$35	(\$1)
Inheritance Tax (gross)	\$255	\$255	\$0
Insurance Taxes & Fees	\$310	\$322	(\$12)
Corporate Franchise Tax & Fees	\$200	\$196	\$4
Interest on State Funds & Investments	\$146	\$125	\$21
Cook County Intergovernmental Transfer	\$309	\$309	\$0
<u>Other Sources</u>	<u>\$460</u>	<u>\$505</u>	<u>(\$45)</u>
Subtotal	\$22,381	\$22,544	(\$163)
Transfers			
Lottery	\$690	\$650	\$40
Riverboat Transfers & Receipts	\$705	\$692	\$13
<u>Other</u>	<u>\$591</u>	<u>\$679</u>	<u>(\$88)</u>
Total State Sources	\$24,367	\$24,565	(\$198)
Federal Sources	\$4,835	\$4,835	\$0
Total Federal & State Sources	\$29,202	\$29,400	(\$198)
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax	(\$956)	(\$960)	\$4
Corporate Income Tax	(\$390)	(\$409)	\$19
Subtotal General Funds "Current Law"	\$27,856	\$28,031	(\$175)
Change from Prior Year Estimate	\$741	\$936	(\$195)
Percent Change	2.7%	3.5%	
Value of Proposed Revenue Changes	\$305	\$307	(\$2)
Subtotal With Proposed Changes	\$28,161	\$28,338	(\$177)
Change from Prior Year Estimate	\$1,046	\$1,243	(\$197)
Percent Change	3.9%	4.6%	
Budget Stabilization Fund Transfer	\$276	\$276	\$0
Short-Term Borrowing	\$0	\$0	\$0
Total General Funds	\$28,437	\$28,614	(\$177)
Change from Prior Year Estimate	\$46	\$243	(\$197)
Percent Change	0.2%	0.9%	
*It is assumed that \$276 million in Budget Stabilization Fund transfers will be utilized in FY 2007 for cash flow purposes.			
CGFA			

Cost of Issuance
Lynnae Kapp, Revenue-Bond Analyst

In January, the State sold \$325 million in General Obligation bonds. Pursuant to the Debt Responsibility Act, the cost of issuance is limited to 0.5% of the bond sale amount, and includes underwriter's fees and discounts, but not bond insurance. No

salaries of State employees or other State office operating expenses shall be paid out of non-appropriated proceeds. The costs of issuance are listed in the following table, provided by the Governor's Office of Management and Budget.

\$325,000,000 Series January 2006
Cost of Issuance Disclosure

Line Item	Status	Participation Percentage	Amount	Total	
Underwriting Syndicate	Citigroup Global Markets	45.0%	351,142.00		
	Popular	MBE	21.1%	164,492.12	
	Cabrera Capital	MBE	10.4%	80,911.12	
	Melvin	MBE	10.0%	78,000.00	
	M.R. Beal	MBE	6.8%	53,247.38	
	SBK Brooks	MBE	6.8%	53,247.38	781,040.00
Underwriting Expenses	Bond Market Association Fee		11,375.00		
	Dalcomp Service Fee		20,312.50		
	Dalcomp Co-Manager		150.00		
	Dalcomp Order Period		4,875.00		
	CUSIP		474.00		
	Day Loan on Gross Proceeds		9,750.00	46,936.50	
Bond Counsel	Katten Mucin Rosenman LLP		40,550.00		
	Burris Wright Slaughter & Tom		29,500.00	70,050.00	
Financial Advisor	D.A. Davidson (Kirkpatrick Pettis)		90,000.00		
Budget & Cashflow advisor	Ronald D. Picur, PhD.		18,810.00		
Market Pricing Advisor	Delphis Hanover Corporation		20,000.00	128,810.00	
Rating Agencies	Moody's Investor Services		30,000.00		
	Standard and Poor's		30,000.00		
	Fitch Ratings		24,500.00	84,500.00	
Printing & shipping	ImageMaster		3,475.83		
Parity Electronic Posting POS & OS	I-Deal		1,500.00	4,975.83	
Total Expenses (Excluding Bond Insurance)				1,116,312.33	
	Maximum Allowable Expenses (Par amount x 0.5%)		1,500,000.00		
Bond Insurance	None		-	-	
Total Expenses (Including Bond Insurance)				1,116,312.33	
MBE/WBE FIRM SUBTOTALS	Underwriting	MBE	55.04%	429,898.00	
	Legal	MBE	42.1%	29,500.00	
	Financial Advisory	NA	0.0%	-	459,398.00