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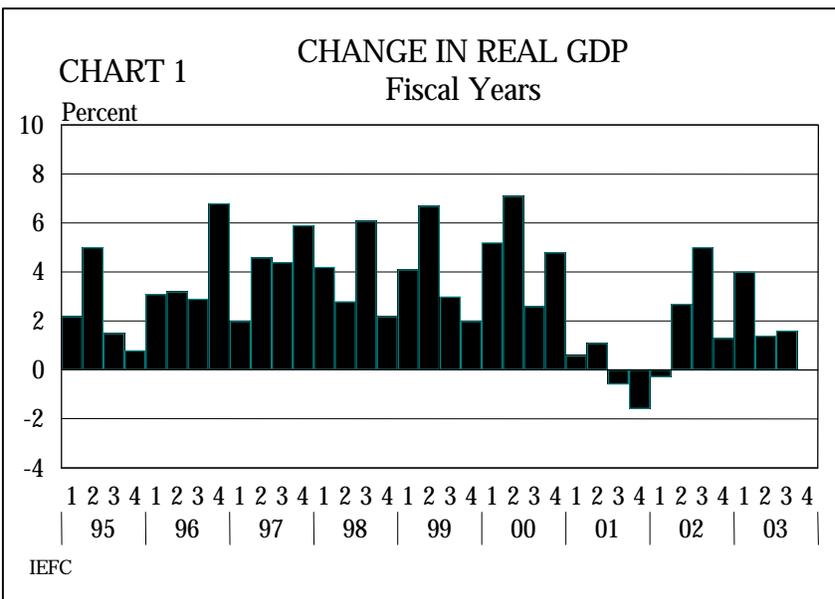
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ECONOMY: Economy Continues to Struggle
 Edward H. Boss, Jr., Chief Economist

The U.S. economy grew at an unimpressive 1.6% annual rate in the three-month period ended March 2003, according to the Commerce Department's advance report on real gross domestic product (GDP). While the latest data represent the sixth consecutive quarter of positive growth following the recession in 2001, the performance has been substantially below that recorded in prior years, with no improving trend in sight. (See Chart below).



Once again, it was the lack of business investment that was the major drag on economic performance. Business spending on plant and equipment fell at a 4.2% annual rate last quarter, after rising at a 2.3% rate at the end of the last year. Even so, last year's year-end rise in business spending had followed eight consecutive quarters, or two years, of decline. Certainly concerns over the impending war in Iraq, sharply rising oil prices, depressed equity markets, and other uncertainties were factors holding back spending decisions at the time.

While business spending was contracting, the consumer continued to spend last quarter. Real consumer expenditures rose at a 1.4% annual rate, only moderately less than the 1.7% pace of the previous quarter; housing spending jumped at a strong 12% annual rate; and government spending also rose further; more than offsetting negative contributions from inventory investment, equipment and software spending, and exports.

It should be pointed out that the Commerce Department's "advance" GDP estimates are based on incomplete data and subject to further revisions. Moreover, this data reflect conditions as they were some time ago and are not forward looking. Since then some major changes have occurred.

There was a quick and successful conclusion to the war in Iraq, oil prices have fallen sharply, auto companies have offered new incentives, mortgage

refinancings have soared, and even the weather is better. All these have been reflected in improved consumer optimism. Indeed, the Michigan consumer sentiment index jumped in April to 86 from 77.6 in March, while the Conference Board measure of consumer confidence jumped to 81 from 61.4 last month.

For the economy to do better will require sustained improvement in business. Some gains have been shown in recent corporate profit reports and, with some major uncertainties removed, it hopefully will restore confidence in business to expand. It will not be until business begins to increase employment, however, that State revenues will start to improve, and that may be sometime off. Moreover there is always the threat of new drags on the economy developing. One such current threat is the effect of the recent SARS outbreak and whether or not this can be contained before negatively affecting growth both here and abroad.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

<u>INDICATORS</u>	<u>March 2003</u>	<u>February 2003</u>	<u>March 2002</u>
Unemployment Rate (Average)	6.6%	6.5%	6.4%
Annual Rate of Inflation (Chicago)	4.5%	9.2%	2.8%
<hr style="border: 2px solid black;"/>			
	<u>LATEST MONTH</u>	<u>% CHANGE OVER PRIOR MONTH</u>	<u>% CHANGE OVER A YEAR AGO</u>
Civilian Labor Force (thousands) (March)	6,398	0.4%	0%
Employment (thousands) (March)	5,975	0.3%	-0.2%
New Car & Truck Registration (March)	54,506	26.7%	12.6%
Single Family Housing Permits (March)	3,562	52.9%	6.4%
Total Exports (\$ mil) (February)	1,991	2.8%	5.5%
Chicago Purchasing Managers Index (April)	47.6	-1.6%	-13.0%

REVENUE

Revenues Fall as Federal Receipts and Transfers Sag

Jim Muschinske, Revenue Manager

Overall general funds revenue fell \$202 million in April as receipts from federal sources and transfers fell significantly for the month. Absent those areas, State tax sources were essentially flat, with revenue performance mixed for the major tax sources. April had the same number of receipting days as in the previous year.

Despite an overall monthly decline, a few revenue sources experienced a decent month of receipting. Sales tax receipts gained \$24 million and public utility taxes advanced \$20 million. Insurance taxes and fees continued to perform well, rising \$5 million, while gross corporate income taxes managed a \$2 million gain (although down \$5 million on a net of refund basis). Corporate franchise taxes experienced modest change, rising \$1 million in April.

Personal income taxes continued to struggle with gross receipts off \$29 million (\$31 million net of refunds). Other sources fell \$6 million in April, while interest income continued to perform poorly, down \$5 million. Inheritance tax receipts also contributed to the monthly loss, dipping \$1 million.

As mentioned above, April was a very poor month for transfers. Overall transfers to the general funds fell \$115 million. While the Gaming Fund managed an \$8 million gain, that was wiped out by a \$39 million reduction in

Lottery transfers. April of last year enjoyed a particularly large month as the result of multiple rollovers and subsequent big jackpots. Other transfers fell \$84 million due to the timing of a large transfer that was executed in April of last year. Current State cash flow difficulties have prevented spending on reimbursable programs such as Medicaid. The result was a poor month for federal sources as receipts fell \$89 million.

Year to Date

With only two months remaining in FY 2003, overall general revenue receipts, (excluding short-term borrowing and Budget Stabilization Fund transfers) are down \$272 million or 1.4%. Most of the general funds sources of revenue continue below the same period of a year ago, particularly those sources most closely tied to the economy.

Gross personal income tax revenues are down \$117 million (\$135 million net of refunds) while gross corporate income taxes are off \$39 million (\$63 million net of refunds). Both inheritance tax and interest on investments are down \$65 million each. Public utility tax receipts are off \$52 million, while all other decliners have added an additional \$25 million.

Relatively few sources have experienced yearly gains thus far in FY 2003. Other sources are up \$100 million for the year, however, approximately \$88 million of that gain is attributed to tobacco settlement monies freed up from a long-term court

battle. The Cook County inter-governmental transfer is up \$66 million due to changes in the agreement. Insurance taxes and fees have continued to performed well for most of the year and are up \$33 million thus far, while liquor receipts have managed to contribute a modest \$2 million gain.

Despite the poor April, overall transfers are up \$181 million thus far through FY 2003. Gaming Fund transfers are up \$90 million, which reflects the restructured gaming taxes and fees, while other transfers are \$127 million higher as a result of one-time interfund

transfers. Lottery transfers are down \$36 million thus far in FY 2003. Federal sources are off \$249 million through April in part due to the State's poor cash flow condition.

In order to reach the Commission's latest estimate, presented in March 2003, overall revenues must decline 1.2% over the remaining two months, very close to the current rate of decline. The Commission has scheduled a meeting for May 8th, 2003. At that time, a brief discussion of FY 2003 revenues and expected FY 2004 receipts will be presented.

GENERAL FUNDS RECEIPTS: APRIL

**FY 2003 vs. FY 2002
(\$ million)**

Revenue Sources	APRIL FY 2003	APRIL FY 2002	\$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	\$987	\$1,016	(\$29)	-2.9%
Corporate Income Tax (regular)	170	168	\$2	1.2%
Sales Taxes	495	471	\$24	5.1%
Public Utility Taxes (regular)	117	97	\$20	20.6%
Cigarette Tax	33	33	\$0	0.0%
Liquor Gallonage Taxes	9	9	\$0	0.0%
Vehicle Use Tax	3	3	\$0	0.0%
Inheritance Tax (Gross)	16	17	(\$1)	-5.9%
Insurance Taxes and Fees	56	51	\$5	9.8%
Corporate Franchise Tax & Fees	11	10	\$1	10.0%
Interest on State Funds & Investments	5	10	(\$5)	-50.0%
Cook County IGT	45	45	\$0	0.0%
Other Sources	14	20	(\$6)	-30.0%
Subtotal	\$1,961	\$1,950	\$11	0.6%
Transfers				
Lottery	48	87	(\$39)	-44.8%
Gaming Fund Transfer	43	35	\$8	22.9%
Other	41	125	(\$84)	-67.2%
Total State Sources	\$2,093	\$2,197	(\$104)	-4.7%
Federal Sources	\$277	\$366	(\$89)	-24.3%
Total Federal & State Sources	\$2,370	\$2,563	(\$193)	-7.5%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$79)	(\$77)	(\$2)	2.6%
Corporate Income Tax	(\$46)	(39)	(\$7)	17.9%
Subtotal General Funds	\$2,245	\$2,447	(\$202)	-8.3%
Short-Term Borrowing	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$0	\$0	\$0	N/A
Total General Funds	\$2,245	\$2,447	(\$202)	-8.3%

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

1-May-03

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2003 vs. FY 2002

(\$ million)

Revenue Sources	FY 2003	FY 2002	CHANGE FROM FY 2002	% CHANGE
State Taxes				
Personal Income Tax	\$6,609	\$6,726	(\$117)	-1.7%
Corporate Income Tax (regular)	820	859	(\$39)	-4.5%
Sales Taxes	5,015	5,028	(\$13)	-0.3%
Public Utility Taxes (regular)	866	918	(\$52)	-5.7%
Cigarette Tax	333	333	\$0	0.0%
Liquor Gallonage Taxes	103	101	\$2	2.0%
Vehicle Use Tax	28	31	(\$3)	-9.7%
Inheritance Tax (Gross)	205	270	(\$65)	-24.1%
Insurance Taxes and Fees	249	216	\$33	15.3%
Corporate Franchise Tax & Fees	118	127	(\$9)	-7.1%
Interest on State Funds & Investments	56	121	(\$65)	-53.7%
Cook County IGT	288	222	\$66	29.7%
Other Sources	258	158	\$100	63.3%
Subtotal	\$14,948	\$15,110	(\$162)	-1.1%
Transfers				
Lottery	427	463	(\$36)	-7.8%
Gaming Fund Transfer	470	380	\$90	23.7%
Other	479	352	\$127	36.1%
Total State Sources	\$16,324	\$16,305	\$19	0.1%
Federal Sources	\$3,063	\$3,312	(\$249)	-7.5%
Total Federal & State Sources	\$19,387	\$19,617	(\$230)	-1.2%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$529)	(\$511)	(\$18)	3.5%
Corporate Income Tax	(\$222)	(\$198)	(\$24)	12.1%
Subtotal General Funds	\$18,636	\$18,908	(\$272)	-1.4%
Short-Term Borrowing	\$700	\$0	\$700	N/A
Budget Stabilization Fund Transfer	\$226	\$226	\$0	0.0%
Total General Funds	\$19,562	\$19,134	\$428	2.2%

SOURCE: Office of the Comptroller, State of Illinois: Some totals may not equal, due to rounding.

IEFC

1-May-03

GENERAL FUNDS GROWTH NEEDED TO MEET ESTIMATE

FY 2003 ESTIMATE vs. FY 2002 ACTUAL

(\$ million)

Revenue Sources	Mar-03 ESTIMATE FY 2003	FYTD 2003	AMOUNT NEEDED FY 2003 EST.	FYTD 2002	GROWTH NEEDED	% CHANGE
State Taxes						
Personal Income Tax	\$7,950	\$6,609	\$1,341	\$6,726	(\$19)	-1.4%
Corporate Income Tax (regular)	950	820	\$130	859	(\$54)	-29.3%
Sales Taxes	6,025	5,015	\$1,010	5,028	(\$13)	-1.3%
Public Utility Taxes (regular)	1,025	866	\$159	918	(\$27)	-14.5%
Cigarette Tax	400	333	\$67	333	\$0	0.0%
Liquor Gallonage Taxes	125	103	\$22	101	\$0	0.0%
Vehicle Use Tax	35	28	\$7	31	\$0	0.0%
Inheritance Tax (Gross)	250	205	\$45	270	(\$14)	-23.7%
Insurance Taxes and Fees	305	249	\$56	216	\$0	0.0%
Corporate Franchise Tax & Fees	140	118	\$22	127	(\$10)	-31.3%
Interest on State Funds & Investments	65	56	\$9	121	(\$5)	-35.7%
Cook County IGT	395	288	\$107	222	\$84	365.2%
Other Sources	407	258	\$149	158	(\$205)	-57.9%
Subtotal	\$18,072	\$14,948	\$3,124	\$15,110	(\$263)	-7.8%
Transfers						
Lottery	560	427	\$133	463	\$41	44.6%
Gaming Fund Transfer	590	470	\$120	380	\$30	33.3%
Other	650	479	\$171	352	\$69	67.6%
Total State Sources	\$19,872	\$16,324	\$3,548	\$16,305	(\$123)	-3.4%
Federal Sources	\$4,075	\$3,063	\$1,012	\$3,312	\$66	7.0%
Total Federal & State Sources	\$23,947	\$19,387	\$4,560	\$19,617	(\$57)	-1.2%
Nongeneral Funds Distribution:						
Refund Fund						
Personal Income Tax	(\$636)	(\$529)	(\$107)	(\$511)	(\$3)	2.9%
Corporate Income Tax	(257)	(222)	(\$35)	(198)	\$7	-16.7%
Subtotal General Funds	\$23,054	\$18,636	\$4,418	\$18,908	(\$53)	-1.2%
Short-Term Borrowing	\$700	\$700	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$226	\$226	\$0	\$226	\$0	N/A
Total General Funds	\$23,980	\$19,562	\$4,418	\$19,134	(\$53)	-1.2%
IEFC						1-May-03