



Commission on Government Forecasting and Accountability

MONTHLY BRIEFING

MAY 2007

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INSIDE THIS ISSUE

PAGE 1 - **ECONOMY:** Illinois
Employment Situation

PAGE 3: Illinois Economic Indicators

PAGE 4 - **REVENUE:** May Receipts
Post Small Gains

PAGE 6-9: Revenue Tables

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703 Stratton Ofc. Bldg.
Springfield, IL 62706

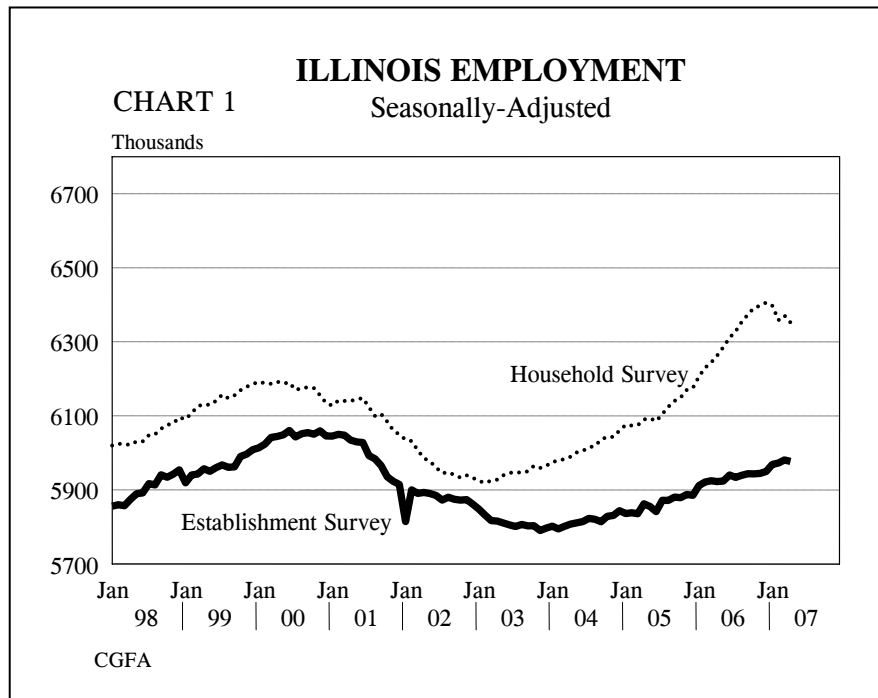
ECONOMY: Illinois Employment Situation

Edward H. Boss, Jr., Chief Economist

Illinois' unemployment rate rose to 4.8% in April, up sharply from 4.2% in March as the size of the labor force increased by 0.3% at the same time that employment fell by 0.3%.

As noted in the Bureau of Labor Statistics release, **REGIONAL AND STATE EMPLOYMENT AND UNEMPLOYMENT: APRIL 2007**, out of the fifty states and District of Columbia, Illinois and Michigan registered the largest unemployment rate increases from a month earlier (0.6%). However, Illinois' rate was only 0.3% higher than the national rate of 4.5% while Michigan continued to have the highest unemployment rate at 7.1%. Employment data on a state basis however can be volatile so that one month's performance by itself may not be indicative of a pattern.

Employment is measured by two different surveys, the first is a survey of individuals from which the Household data and the unemployment rate are determined, and the second is from businesses, from which non-farm payroll employment is derived, known as the Establishment Survey. Chart 1 shows Illinois employment as measured by both surveys in recent years. As illustrated, Illinois employment, as measured by the Household Survey, surpassed its previous pre-recession peak reached in April 2000 by January 2006. In April 2007, Illinois' employment level was 159,800 above its pre-recession level. (It should be noted that the nation surpassed its pre-recession peak by this same measure in the fall of 2003.)



Most analysts and economists consider the Establishment Survey measuring non-farm employment as the most reliable indicator of employment. During the last recession, employment by this measure fell from its pre-recession peak of 6,059,800 in June 2000 to a low of 5,790,100 in November 2003, or a loss of 269,700 non-farm payroll jobs. Since then Illinois has recouped all but 83,100 jobs needed to reach its previous peak. (National data based upon the Establishment Survey show the U.S. regained its pre-recession peak of non-farm payroll employment by early 2005.) According to a report by Moody's/Economy.com prepared for the Commission earlier this year, *"Illinois' employment will not return to its pre-recession peak until 2008."*

Despite some recent weakening in Illinois' employment situation, the State continues to outperform most states located in the East North Central area of the Midwest (Illinois, Indiana, Michigan, Ohio, and Wisconsin). In April, Indiana's unemployment rate matched Illinois' 4.8% rate, while Michigan's rate was 7.1%; Ohio's rate was 5.7%; and Wisconsin's rate rose to 5.1%. The sharp falloff in domestic auto production at least in part helps explain these higher unemployment rates in these other industrial Midwest states.

In comparison to the nation, Illinois' unemployment rate was consistently below the national level from May 2006 through December of last year. While Illinois matched the national unemploy-

ment rate in January of this year, it has remained above the national rate in two of the past three months. In looking to the future, while the Establishment Survey is more comprehensive and based on actual employment records of firms, it often lags the employment picture being depicted in the Household Survey. For example, as shown in the chart, the Household Survey showed employment topping out and beginning to decline during the last recession prior to the same pattern developing in the Establishment Survey. Thus, as also indicated in the chart, the recent declines in Illinois employment depicted in the Household Survey may be a precursor to a weaker employment picture ahead.

It should not be surprising, however, that slowing economic growth would affect the employment situation. If sustained below- trend economic growth continues, it may well be unable to absorb the growing number of workers coming into the labor force, causing the unemployment rate to rise. Indeed, forecasts provided by Global Insight, a forecasting service of the Commission, projects in their May forecast that the national unemployment rate will rise from an average of 4.6% in FY 2007 to an average of 4.9% in FY 2008. Similarly, Illinois' unemployment rate is likely to rise under conditions of the more moderate economic growth expected in the upcoming fiscal year.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY			
<u>INDICATORS</u>	<u>April 2007</u>	<u>March 2007</u>	<u>April 2006</u>
Unemployment Rate (Average)	4.8%	4.2%	4.7%
Annual Rate of Inflation (Chicago)	9.1%	11.1%	3.2%
	<u>LATEST MONTH</u>	<u>% CHANGE OVER PRIOR MONTH</u>	<u>% CHANGE OVER A YEAR AGO</u>
Civilian Labor Force (thousands) (April)	6,670	0.3%	1.5%
Employment (thousands) (April)	6,352	-0.3%	1.4%
New Car & Truck Registration (April)	49,062	-1.6%	8.7%
Single Family Housing Permits (April)	2,436	-8.0%	-37.8%
Total Exports (\$ mil) (March)	4,159	20.9%	12.8%
Chicago Purchasing Managers Index (May)	61.7	16.6%	0.3%

REVENUE

May Receipts Post Small Gain

Jim Muschinske, Revenue Manager

Revenues increased \$37 million as gains from personal income tax were largely offset by drops in sales tax and transfers in May. A falloff in federal sources also erased other gains. May had the same number of receipting days as last year.

For the month, gross personal income taxes increased \$77 million, or \$70 million net of refunds. Public utility taxes jumped \$52 million for the month as an extra receipt period contributed to the gain. Also, last May was a comparatively poor month for public utility taxes. Both corporate franchise taxes and other sources grew by \$2 million, and while gross corporate income taxes were only up \$1 million, on a net of refund basis, the gain was also \$2 million. Finally, vehicle use tax managed a \$1 million increase.

Despite an overall increase in revenues, a few sources posted declines in May. Monthly sales tax receipts were down again, this time by \$24 million. May marks the fourth consecutive monthly decline in sales tax receipts. While some of that decline can be explained by an earlier misallocation in sales tax revenue at the Department of Revenue, concern is growing over this recent performance. Inheritance tax fell by \$11 million for the month, cigarette tax \$4 million, liquor taxed \$1 million, and interest income \$1 million.

Overall transfers fell \$27 million in May. While lottery transfers grew by \$7 million, that was more than offset by a \$25 million loss in riverboat transfers and a \$9 million decline in other transfers. Federal sources were down by \$24 million.

Year to Date

Excluding \$456 million in Hospital Provider Fund cash flow transfers and the earlier \$900 million in short-term borrowing, overall general funds are up \$1.130 billion. [The short-term borrowing is scheduled to be repaid June 7th]. While income taxes have performed above expectations for virtually all of the fiscal year, sales taxes have disappointed over the last several months, even taking into account the mentioned misallocation. Federal sources also have run somewhat behind expectations.

Gross personal income taxes are up \$777 million, or \$701 million net of refunds. Gross corporate income taxes are up \$312 million, or \$296 million net of refunds. Public utility taxes are up by \$71 million, while sales tax receipts are up \$64 million. Interest income is ahead by \$53 million and all other sources experiencing gains added \$42 million.

As expected, the Cook County IGT is down \$53 million while, due to a change in tax distribution, cigarette taxes are off by \$45 million.

Insurances taxes are behind by \$4 million and the vehicle use tax is down by \$1 million.

Overall transfers are up by \$121 million. Other transfers are up \$188 million due to a large July transfer from the Refund Fund, fund sweeps,

chargeback activity, and a one-time \$80 million transfer resulting from the hospital assessment program. A \$58 million falloff in lottery transfers served to offset some of those gains. Finally, federal sources, while improved from earlier levels, are still down \$102 million through May. Inheritance tax is down \$13 million.

GENERAL FUNDS RECEIPTS: MAY

FY 2007 vs. FY 2006

(\$ million)

Revenue Sources	May FY 2007	May FY 2006	\$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	\$1,103	\$1,026	\$77	7.5%
Corporate Income Tax (regular)	90	89	\$1	1.1%
Sales Taxes	589	613	(\$24)	-3.9%
Public Utility Taxes (regular)	124	72	\$52	72.2%
Cigarette Tax	29	33	(\$4)	-12.1%
Liquor Gallonage Taxes	11	12	(\$1)	-8.3%
Vehicle Use Tax	3	2	\$1	50.0%
Inheritance Tax (Gross)	18	29	(\$11)	-37.9%
Insurance Taxes and Fees	8	8	\$0	0.0%
Corporate Franchise Tax & Fees	21	19	\$2	10.5%
Interest on State Funds & Investments	18	19	(\$1)	-5.3%
Cook County IGT	94	94	\$0	0.0%
Other Sources	39	37	\$2	5.4%
Subtotal	\$2,147	\$2,053	\$94	4.6%
Transfers				
Lottery	65	58	\$7	12.1%
Riverboat transfers & receipts	30	55	(\$25)	-45.5%
Other	56	65	(\$9)	-13.8%
Total State Sources	\$2,298	\$2,231	\$67	3.0%
Federal Sources	\$325	\$349	(\$24)	-6.9%
Total Federal & State Sources	\$2,623	\$2,580	\$43	1.7%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$107)	(\$100)	(\$7)	7.0%
Corporate Income Tax	(\$16)	(17)	\$1	-5.9%
Subtotal General Funds	\$2,500	\$2,463	\$37	1.5%
Short-Term Borrowing	\$0	\$0	\$0	N/A
Hopital Provider Fund (cash flow transfer)	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$0	\$0	\$0	N/A
Total General Funds	\$2,500	\$2,463	\$37	1.5%

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

4-Jun-07

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2007 vs. FY 2006

(\$ million)

Revenue Sources	FY 2007	FY 2006	CHANGE FROM FY 2006	% CHANGE
State Taxes				
Personal Income Tax	\$9,506	\$8,729	\$777	8.9%
Corporate Income Tax (regular)	1,842	1,530	\$312	20.4%
Sales Taxes	6,518	6,454	\$64	1.0%
Public Utility Taxes (regular)	1,048	977	\$71	7.3%
Cigarette Tax	321	366	(\$45)	-12.3%
Liquor Gallonage Taxes	141	136	\$5	3.7%
Vehicle Use Tax	30	31	(\$1)	-3.2%
Inheritance Tax (Gross)	239	252	(\$13)	-5.2%
Insurance Taxes and Fees	252	256	(\$4)	-1.6%
Corporate Franchise Tax & Fees	183	167	\$16	9.6%
Interest on State Funds & Investments	189	136	\$53	39.0%
Cook County IGT	297	350	(\$53)	-15.1%
Other Sources	382	361	\$21	5.8%
Subtotal	\$20,948	\$19,745	\$1,203	6.1%
Transfers				
Lottery	561	619	(\$58)	-9.4%
Riverboat transfers & receipts	525	534	(\$9)	-1.7%
Other	743	555	\$188	33.9%
Total State Sources	\$22,777	\$21,453	\$1,324	6.2%
Federal Sources	\$4,336	\$4,438	(\$102)	-2.3%
Total Federal & State Sources	\$27,113	\$25,891	\$1,222	4.7%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$927)	(\$851)	(\$76)	8.9%
Corporate Income Tax	(\$322)	(\$306)	(\$16)	5.2%
Subtotal General Funds	\$25,864	\$24,734	\$1,130	4.6%
Short-Term Borrowing	\$900	\$1,000	(\$100)	-10.0%
Hopital Provider Fund (cash flow transfer)	\$456	\$0	\$456	N/A
Budget Stabilization Fund Transfer	\$276	\$276	\$0	N/A
Total General Funds	\$27,496	\$26,010	\$1,486	5.7%

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

CGFA

4-Jun-07

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

Revenue Sources	March-07 ESTIMATE FY 2007	FYTD 2007	AMOUNT NEEDED FY 2007 EST.	FYTD 2006	GROWTH NEEDED	% CHANGE
State Taxes						
Personal Income Tax	\$10,238	\$9,506	\$732	\$8,729	(\$107)	-12.8%
Corporate Income Tax (regular)	1,987	1,842	\$145	1,530	(\$109)	-42.9%
Sales Taxes	7,315	6,518	\$797	6,454	\$159	24.9%
Public Utility Taxes (regular)	1,114	1,048	\$66	977	(\$31)	-32.0%
Cigarette Tax	350	321	\$29	366	(\$5)	-14.7%
Liquor Gallonage Taxes	155	141	\$14	136	(\$2)	-12.5%
Vehicle Use Tax	34	30	\$4	31	\$1	33.3%
Inheritance Tax (Gross)	257	239	\$18	252	(\$2)	-10.0%
Insurance Taxes and Fees	314	252	\$62	256	\$1	1.6%
Corporate Franchise Tax & Fees	186	183	\$3	167	(\$11)	-78.6%
Interest on State Funds & Investments	190	189	\$1	136	(\$16)	-94.1%
Cook County IGT	307	297	\$10	350	\$10	N/A
Other Sources	440	382	\$58	361	(\$22)	-27.5%
Subtotal	\$22,887	\$20,948	\$1,939	\$19,745	(\$134)	-6.5%
Transfers						
Lottery	620	561	\$59	619	\$8	15.7%
Riverboat transfers & receipts	700	525	\$175	534	\$20	12.9%
Other	841	743	\$98	555	(\$93)	-48.7%
Total State Sources	\$25,048	\$22,777	\$2,271	\$21,453	(\$199)	-8.1%
Federal Sources	\$4,803	\$4,336	\$467	\$4,438	\$180	62.7%
Total Federal & State Sources	\$29,851	\$27,113	\$2,738	\$25,891	(\$19)	-0.7%
Nongeneral Funds Distribution:						
Refund Fund						
Personal Income Tax	(\$998)	(\$927)	(\$71)	(\$851)	\$11	-13.4%
Corporate Income Tax	(348)	(\$322)	(\$26)	(306)	\$24	-48.0%
Subtotal General Funds	\$28,505	\$25,864	\$2,641	\$24,734	\$16	0.6%
Short-Term Borrowing	\$900	\$900	\$0	\$1,000	\$0	N/A
Hospital Provider Fund (cash flow transfer)	\$456	\$456	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$276	\$276	\$0	\$276	\$0	N/A
Total General Funds	\$30,137	\$27,496	\$2,641	\$26,010	\$16	0.6%
CGFA estimate updated to reflect actual short-term borrowing						4-Jun-07

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

FY 2007 ESTIMATE vs. FY 2006 ACTUALS

(\$ million)

Revenue Sources	GOMB	FYTD	AMOUNT	FYTD	GROWTH	%
	March-07		NEEDED			
	Estimate	2007	FY 2007 Est.	2006	NEEDED	CHANGE
	FY 2007					
State Taxes						
Personal Income Tax	\$10,117	\$9,506	\$611	\$8,729	(\$228)	-27.2%
Corporate Income Tax (regular)	2,046	1,842	\$204	1,530	(\$50)	-19.7%
Sales Taxes	7,356	6,518	\$838	6,454	\$200	31.3%
Public Utility Taxes (regular)	1,110	1,048	\$62	977	(\$35)	-36.1%
Cigarette Tax	350	321	\$29	366	(\$5)	-14.7%
Liquor Gallonage Taxes	153	141	\$12	136	(\$4)	-25.0%
Vehicle Use Tax	35	30	\$5	31	\$2	66.7%
Inheritance Tax (Gross)	255	239	\$16	252	(\$4)	-20.0%
Insurance Taxes and Fees	322	252	\$70	256	\$9	14.8%
Corporate Franchise Tax & Fees	186	183	\$3	167	(\$11)	-78.6%
Interest on State Funds & Investments	185	189	(\$4)	136	(\$21)	-123.5%
Cook County IGT	307	297	\$10	350	\$10	N/A
Other Sources	440	382	\$58	361	(\$22)	-27.5%
Subtotal	\$22,862	\$20,948	\$1,914	\$19,745	(\$159)	-7.7%
Transfers						
Lottery	631	561	\$70	619	\$19	37.3%
Gaming Fund Transfer	692	525	\$167	534	\$12	7.7%
Other	850	743	\$107	555	(\$84)	-44.0%
Total State Sources	\$25,035	\$22,777	\$2,258	\$21,453	(\$212)	-8.6%
Federal Sources	\$4,803	\$4,336	\$467	\$4,438	\$180	62.7%
Total Federal & State Sources	\$29,838	\$27,113	\$2,725	\$25,891	(\$32)	-1.2%
Nongeneral Funds Distribution:						
Refund Fund						
Personal Income Tax	(\$987)	(\$927)	(\$60)	(\$851)	\$22	-26.8%
Corporate Income Tax	(358)	(322)	(\$36)	(306)	\$14	-28.0%
Subtotal General Funds	\$28,493	\$25,864	\$2,629	\$24,734	\$4	0.2%
Short-Term Borrowing	\$900	\$900	\$0	\$1,000	\$0	N/A
Hospital Provider Fund (cash flow transfer)	\$456	\$456	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$276	\$276	\$0	\$276	\$0	N/A
Total General Funds	\$30,125	\$27,496	\$2,629	\$26,010	\$4	0.2%
GOMB Estimate updated to reflect actual short-term borrowing						4-Jun-07