

Presented to:

HOUSE REVENUE COMMITTEE

Economic and Revenue Outlook



Presented by:

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<http://www.ilga.gov/commission/cgfa2006/home.aspx>

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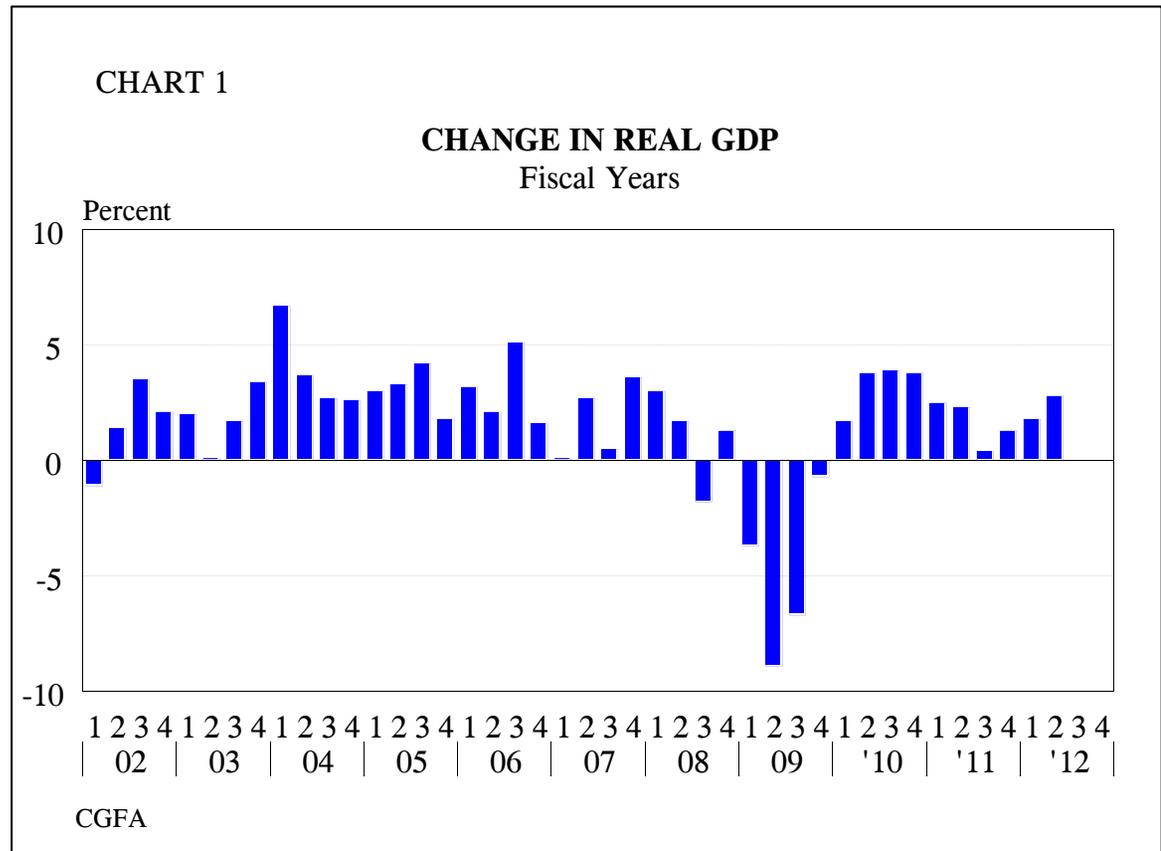
CGFA Background & Responsibilities

- Bi-Partisan, joint legislative commission, provides the General Assembly with information relevant to the Illinois economy, taxes and other sources of revenue and debt obligations of the State.
- Preparation of annual revenue estimates with periodic updates;
- Analysis of the fiscal impact of revenue bills;
- Preparation of State Debt Impact Notes;
- Periodic assessment of capital facility plans;
- Annual estimates of the liabilities of the State's group health insurance program and approval of contract renewals promulgated by the Department of Central Management Services;
- Implement the provisions of the State Facility Closure Act;
- Annual estimates of public pension funding requirements and preparation of pension impact notes.

CHANGE IN REAL GDP

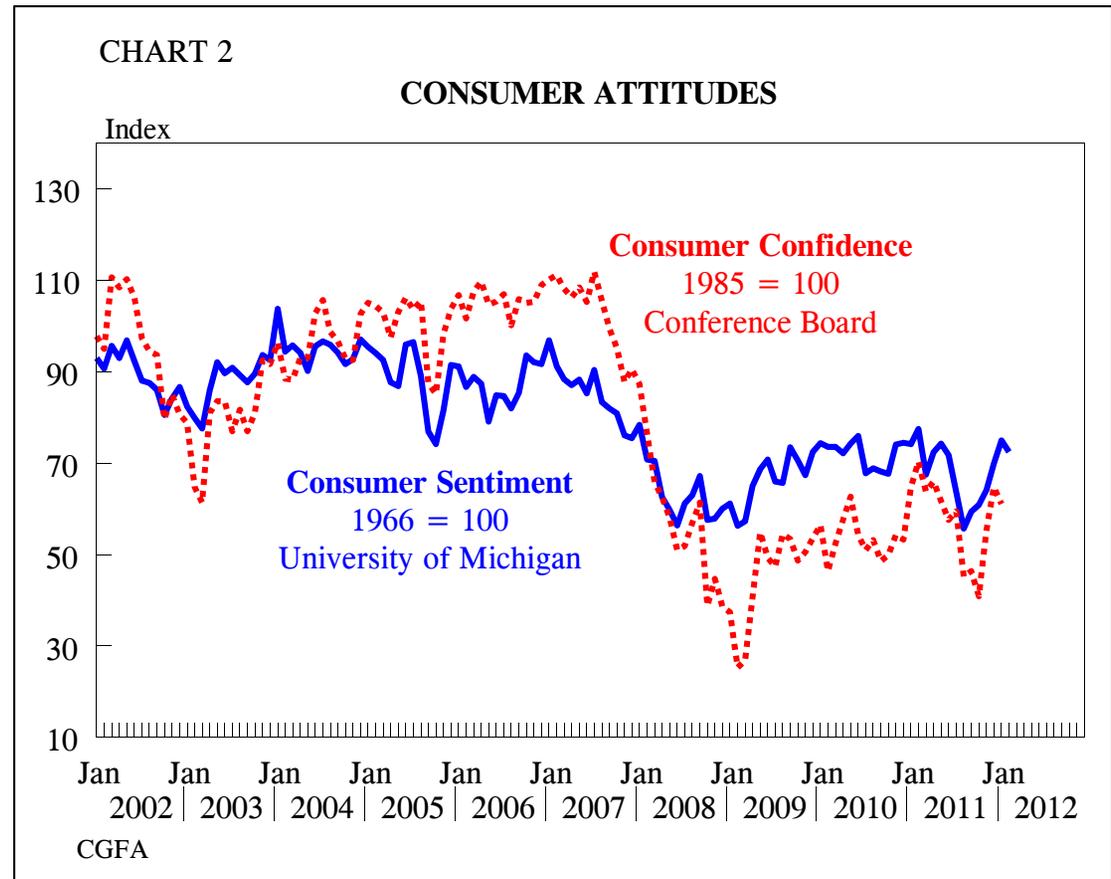
- As shown in Chart 1, economic activity began to grow again starting in the first quarter of FY 2010 (July 2009) coinciding with the June 2009 official date of the end of the longest recession since WWII.

- While growth has been moderate and well below that normally seen at the early stage of economic recoveries, bringing up concerns over a double-dip recession, some improvement occurred in the last three quarters from the low reached in the third quarter of FY 2011.



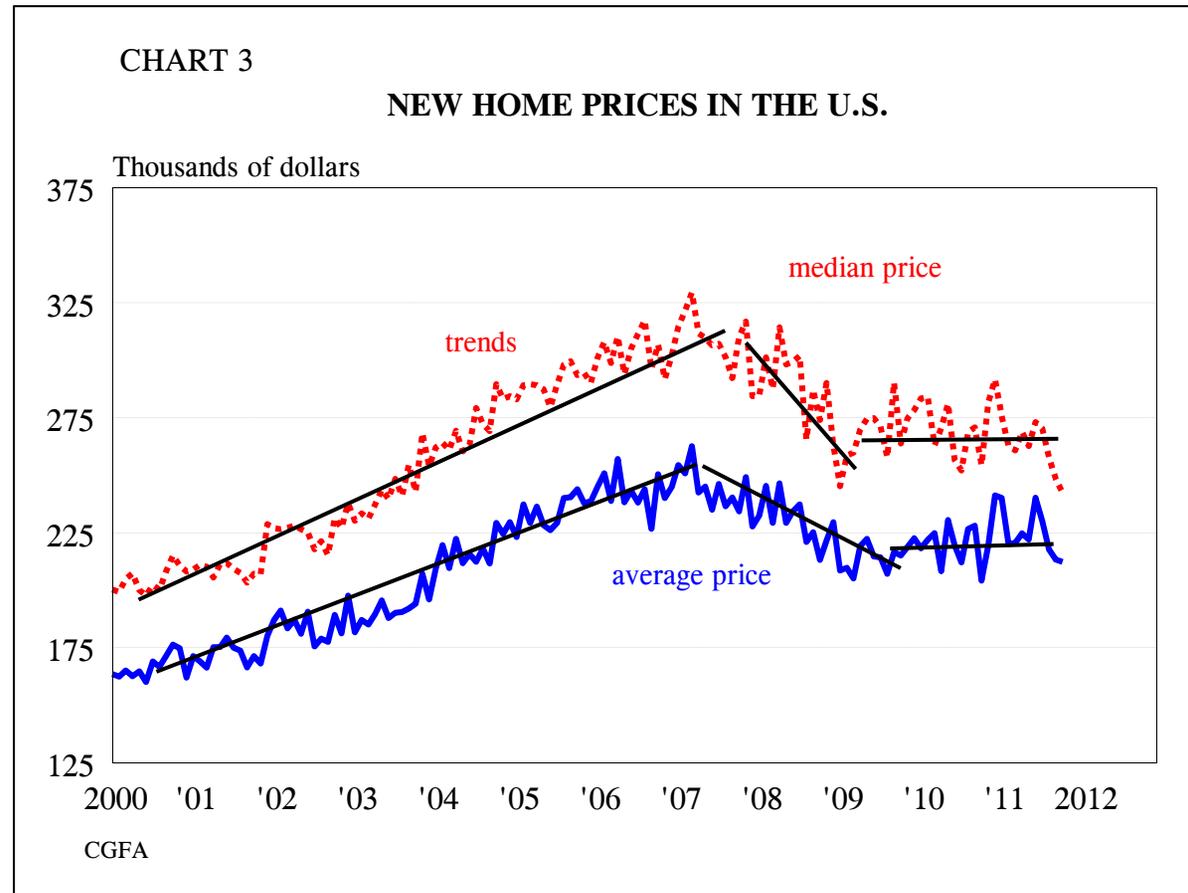
CONSUMER ATTITUDES

- The consumer sector, which generally accounts for two-thirds or more of total spending in the economy, has shown only modest improvement.
- Retail sales rose for ten consecutive months by April, before falling in May. As auto production improved in June following improvement in the delivery of Japanese auto parts following the severe earthquakes, sales rose modestly again. They continued to rise through November and have picked up steam since.
- As shown in Chart 2, consumer attitudes as measured by either the University of Michigan's Consumer Sentiment Index or the Conference Board's Consumer Confidence Index had improved from the lows reached in early in 2009 through spring, before losing substantial strength this summer.
- In the past two to three months, however, both the University of Michigan and Conference Board indices began to rise again, recouping most of their summer slump. Preliminary data for the U of M sentiment index for February showed a drop to 72.5 following a year-high 75 recorded for January.



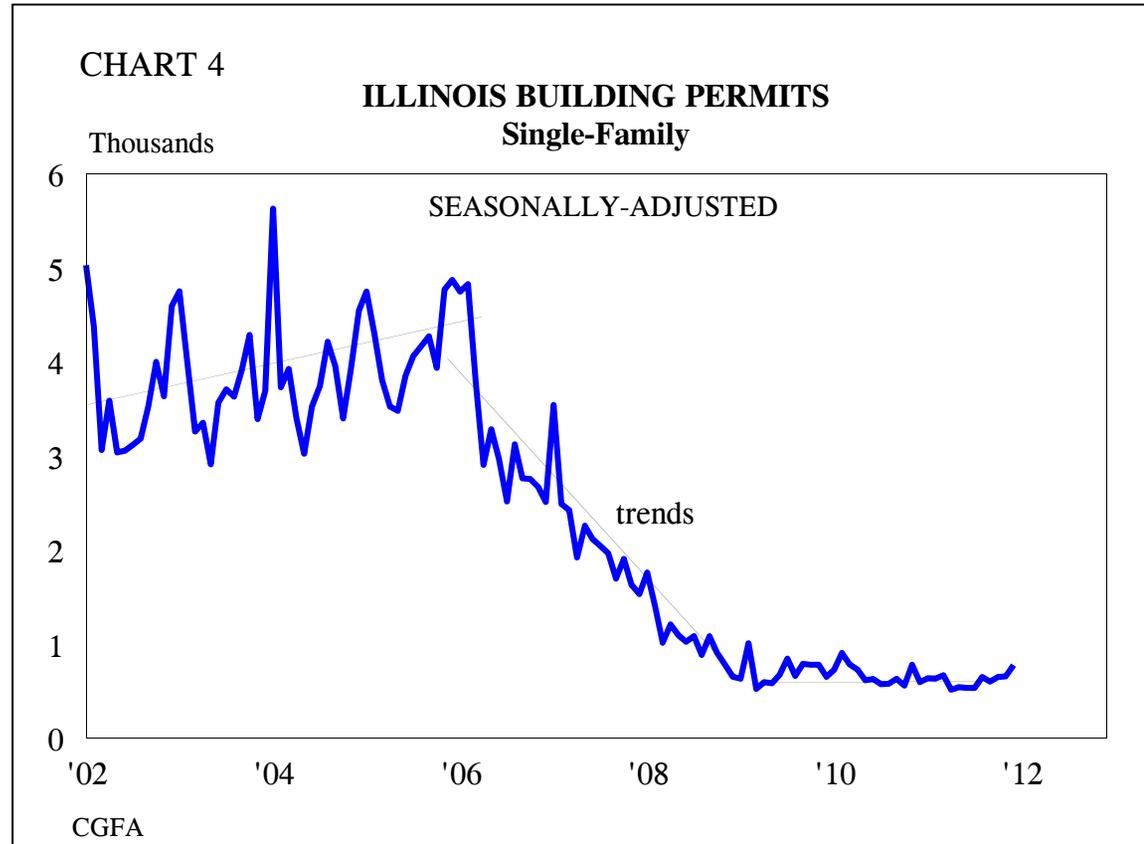
U.S. NEW HOME PRICES

- One of the major factors behind the lack of confidence is the sharp decline in home prices during the recession that started at the end of 2007 and the weakness that has continued through the first two years of the current recovery.
- To most consumers the value of their home is the most important asset, and the sharp falloff in value, many to levels below what they owe, indeed is depressing their outlook of events.
- About the best that can be said from the chart is that at least the price data appear to be leveling out, although there is no evidence that an upturn is near.



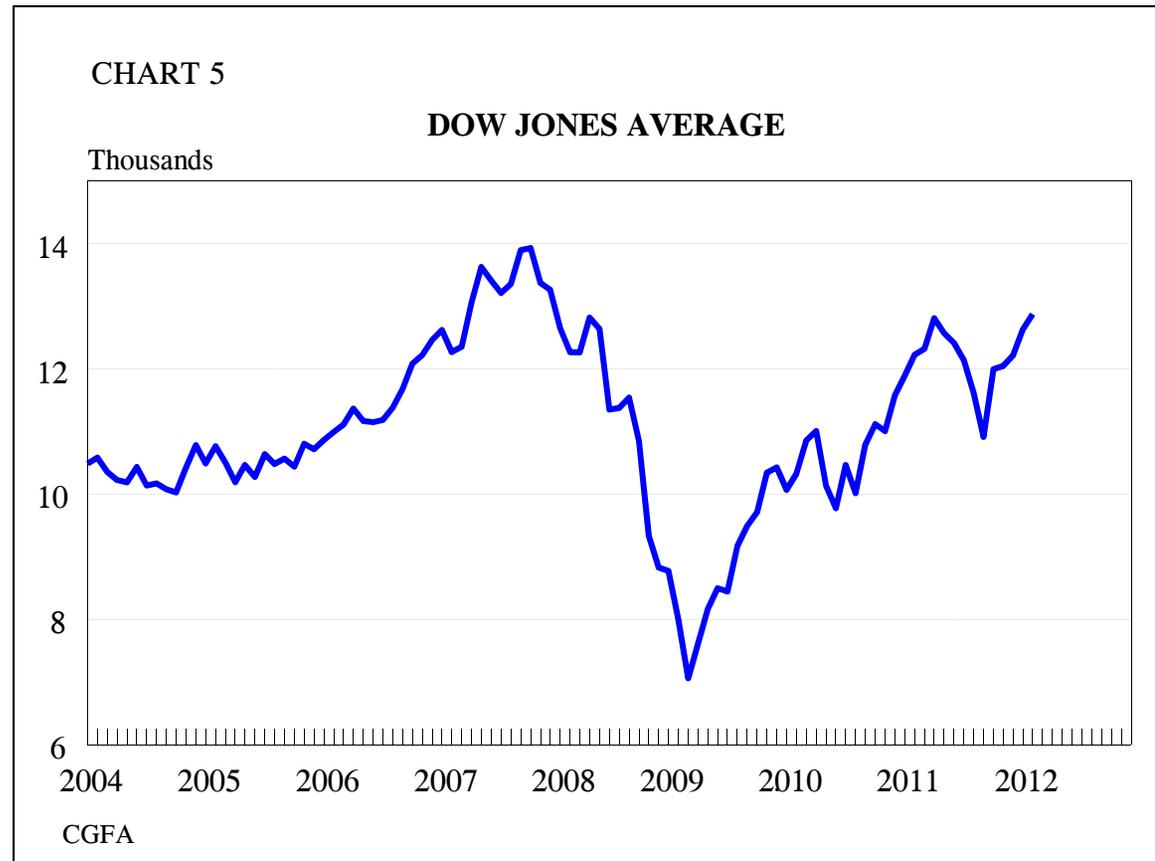
ILLINOIS BUILDING PERMITS

- The depressed level of new home prices not only erodes confidence, but also has been a major factor in the rising level of unemployment in the construction industry.
- A precursor to what may lay ahead can be found in the level of new building permits, which are issued before construction begins.
- As illustrated in Chart 4, while the level of new building permits in Illinois appears to have bottomed, it is at extremely low levels with few signs of any near-term improvement.



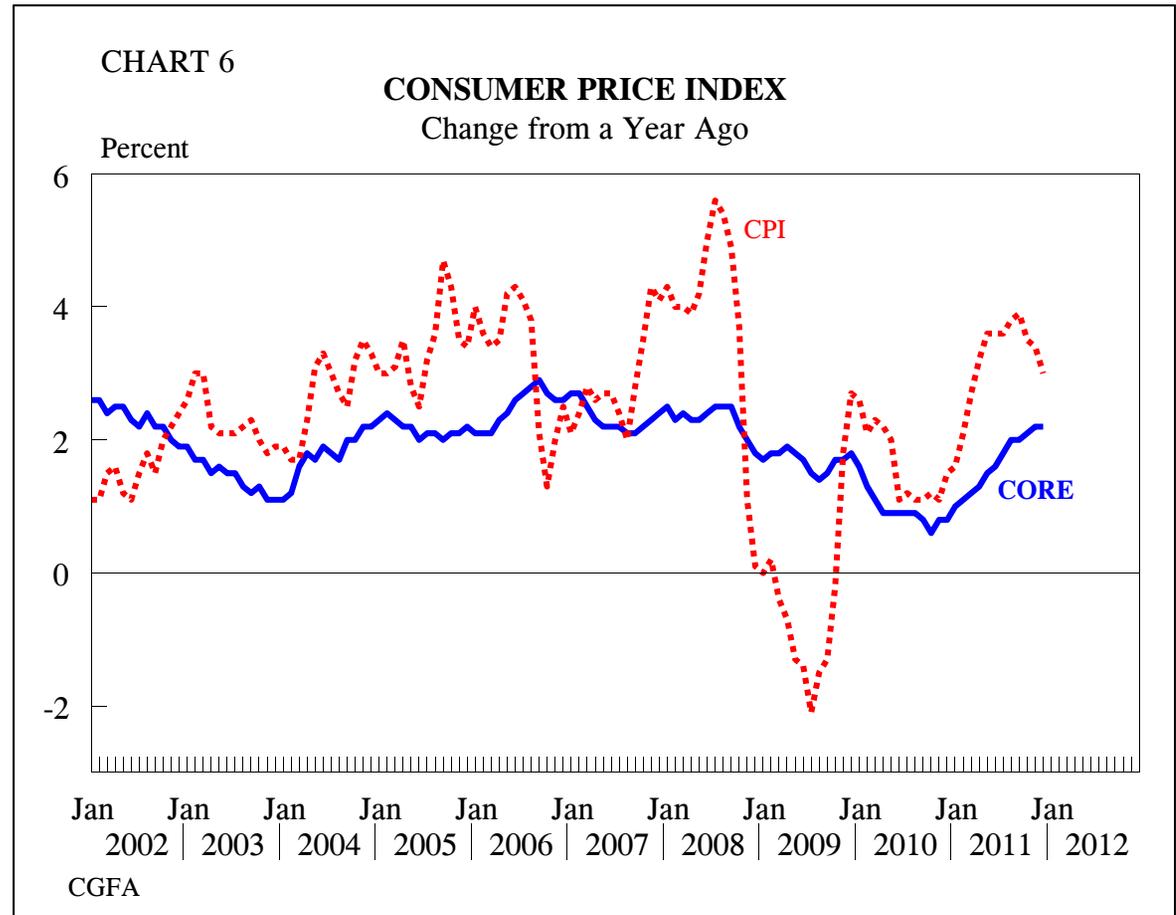
DOW JONES AVERAGE

- In addition to a weak housing sector, consumers are looking at volatility in the stock market and the effect it has had on their retirement 401K's.
- As shown in Chart 5, September lived up to its reputation as being the worst month for equities.
- After rising 80% from its March 2009 low to April 2011, the Dow fell almost 15% by the end of September. Following that, however, it reversed trend and by mid- February 2012 returned to the April levels.
- Even so, it is very volatile and still 9% below its level reached just prior to the beginning of the last recession, more than 4 years ago.



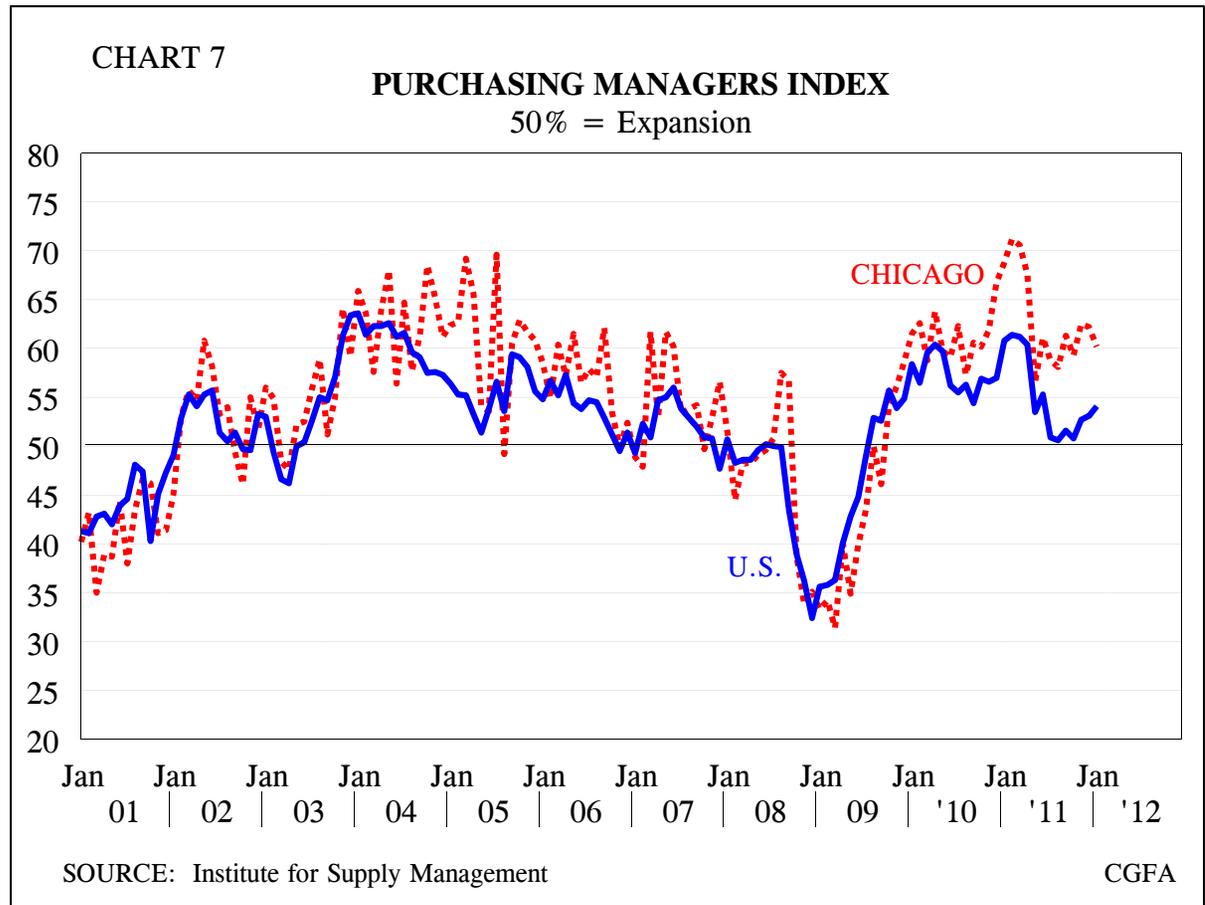
CONSUMER PRICE INDEX

- While monetary policy is in position to stimulate the economy, there remains the potential that inflationary pressures eventually could emerge. Too often in the past the Federal Reserve has overstayed its easy policy stance only to have to make severe corrections later.
- As shown in Chart 6, in December consumer prices were 3.0% higher than a year earlier while the core rate, which excludes the volatile food and energy sectors was up 2.2%.
- The Federal Reserve is unlikely to veer away from an overall stimulative policy. While the economy has been recovering for more than two and a half years now, unemployment remains extremely high. At the same time housing has yet to recover from severe retrenchment, and many currency uncertainties both in the U.S. and abroad, particularly in the Euro Zone, remain.



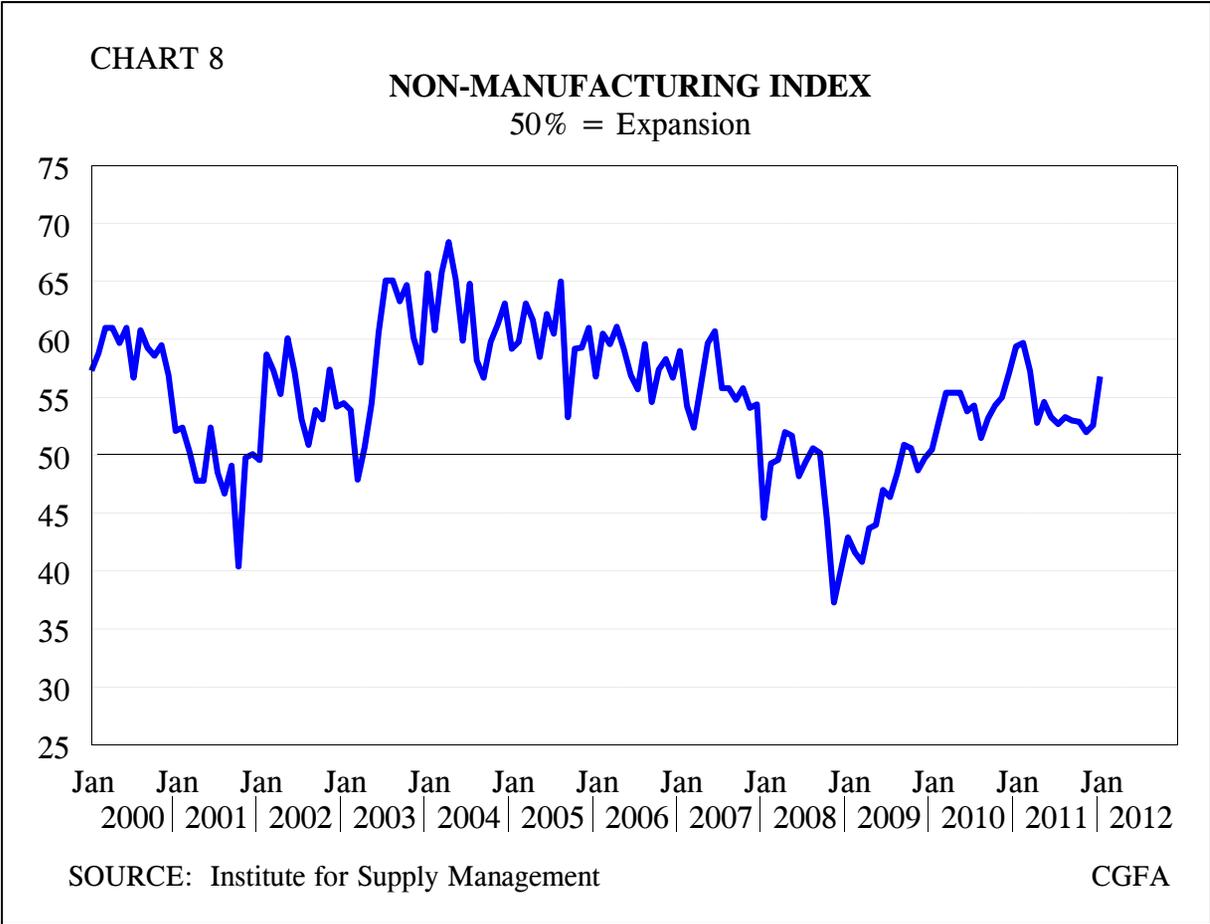
PURCHASING MANAGERS INDEX

- While the consumer accounts for the majority of spending in the economy and has shown modest improvement, business spending has been expanding for some time. This has been helped in part by the continuing rise in corporate profits.
- There has been significant improvement in both the national and Chicago rate. As Chart 7 shows, the index of manufacturing has expanded (with more than 50% reporting that) for 29 consecutive months following a year of contraction.
- Even so, the strength of the index weakened starting this summer and by October displayed the weakest showing since the summer of 2009, before strengthening somewhat in the final two months of last year. The Chicago index edged down in January, although the national index inched up.



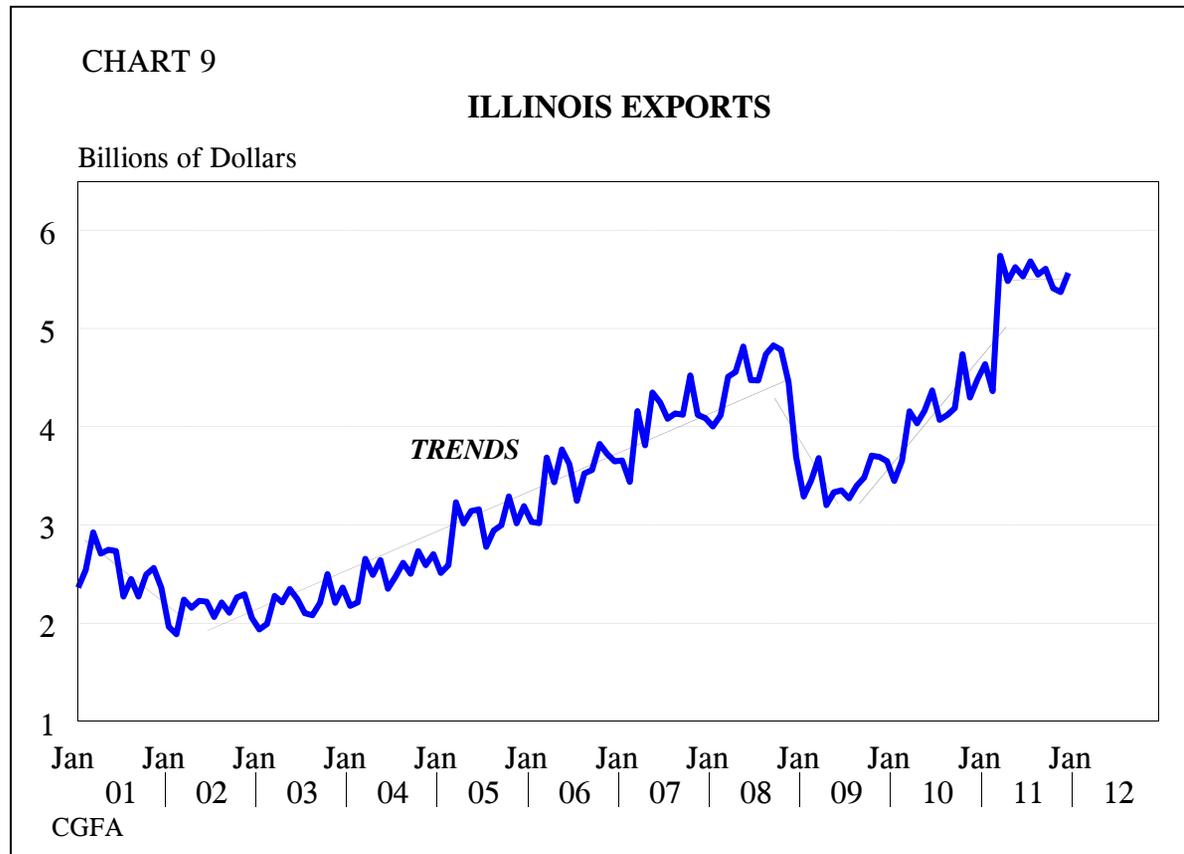
NON-MANUFACTURING INDEX

- A growing share of business, however, is in the non-manufacturing, or service sector. Chart 8 takes a look at this growing sector of the economy.
- Economic activity in the non-manufacturing sector, which had declined for 11 straight months through October 2009, steadily worked its way back to neutral, or the 50% level, by January 2010.
- The index continued to expand, hitting 59.7 by February 2011, the highest level since mid 2007. Then its strength weakened as the economy hit a soft patch, held flat for six months, before rising in January 2012 to the highest level since last March, thus recouping much that was lost.



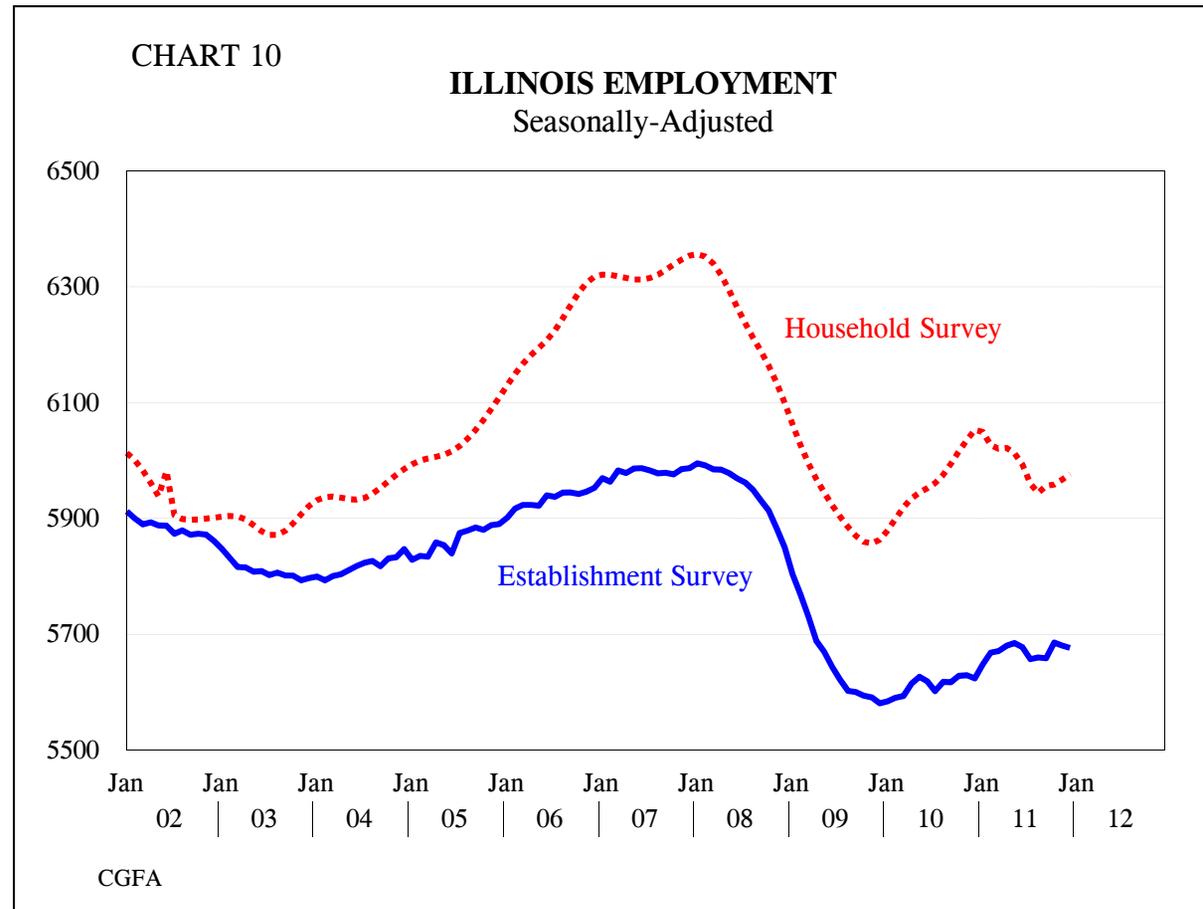
ILLINOIS EXPORTS

- A major uplift to the Illinois economy had been its renewed growth in exports. Illinois ranks fifth in the nation in terms of exports.
- As shown in Chart 9, as the worldwide recession that began at the end of 2007 took hold, demand for U.S. goods plunged to levels not seen since the fall of 2006.
- However, with recovery now well underway, exports have rebounded and are up 75% from the recent low in April 2009 and 18% above the previous peak, although the level has been relatively level in the past few months. In part this may reflect the growing weakness in Europe, which accounts for about 20% of U.S. exports.



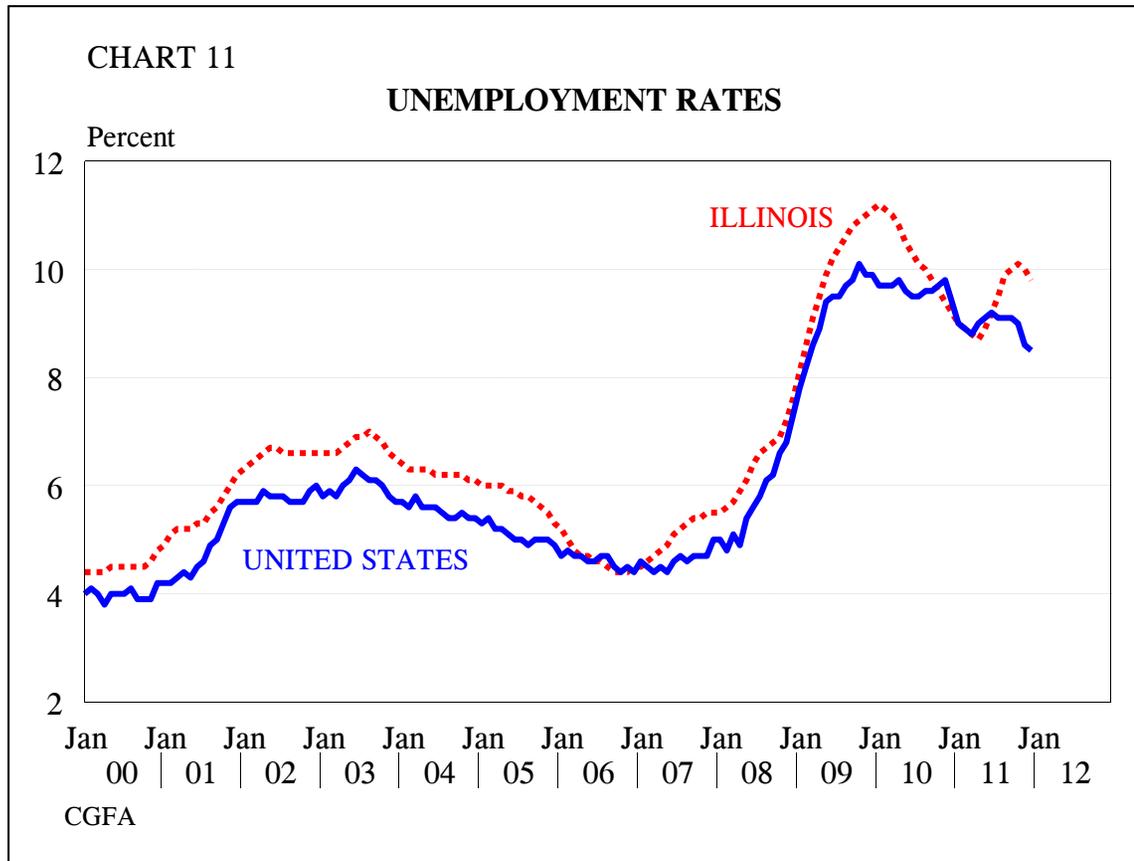
ILLINOIS EMPLOYMENT

- Illinois employment, like the U.S., is also showing some gains but remains at extremely low levels as illustrated in Chart 10.
- Comparing Illinois to the nation, however, the more comprehensive establishment, or payroll, employment data for the nation had recovered its pre-recession level following the 2001 recession by early 2005.
- In contrast, Illinois never did recoup all the jobs lost during that recession before the next recession began, making the gap to reach a new high much more difficult.



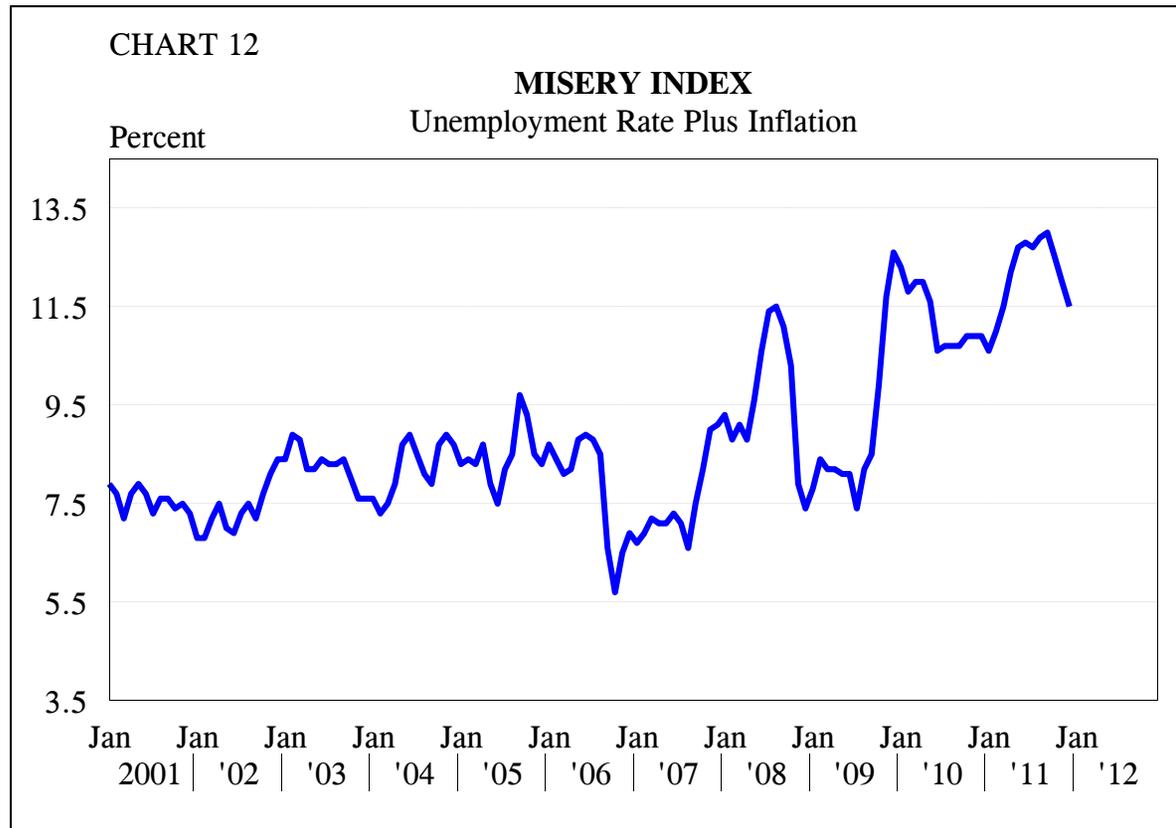
UNEMPLOYMENT RATES

- As shown in Chart 11, as a result of job losses during the recession, the unemployment rate rose from a low of 4.4% in early 2007 to a high of 10.1% by October 2009.
- The recovery that began in mid 2009 has shown modest reductions in the unemployment rate 2 1/2 years into an economic recovery with the unemployment rate remaining exceptionally high.
- By December, however, the national rate fell to 8.5%, the lowest since February 2009, in part due to shrinkage in the labor force as discouraged workers dropped out. The rate in Illinois, which had dropped to 8.7% in April, began to show sharp increases, diverging from the national rate and reaching 10.1% in October before edging down to 9.8% in December.
- With the economy seemingly improving from a summer soft patch there is little doubt that unemployment rate may have seen its high for this cycle, even so it also is possible that the lower December rates may not be able to be sustained.



MISERY INDEX

- It has been the combination of a rising unemployment rate and higher prices that have revived the concept of the “Misery Index” and raise the question as to whether you are better off today than you were a year ago.
- As shown in Chart 12, the Misery Index currently is at a reading of 11.5, with a 3% inflation rate and an 8.5% unemployment rate in December, the same as last March and compares to the peak rate of 12.6 during the last recession and in a range of 6-7 prior to then. Moreover given the unusual drop in the latest unemployment rates, it is too early to suggest a new trend has developed.



CHANGE IN REAL GDP

- Chart 13 shows three alternative forecasts of the U.S. economy in the years FY 2012 and FY 2013. The **BASELINE** shows the most likely solution with a 60% chance of occurrence. This forecast has the economy continuing to rise at a modest pace through FY 2012 followed by slightly stronger gains in FY 2013.
- A more **OPTIMISTIC** scenario, with only a 10% chance of happening, shows stronger gains in FY 2012 and continuing through 2013. (A so-called V shaped recovery).
- Finally a **PESSIMISTIC** alternative is provided, with a 30% chance, whereby the economy eeks out slight growth in the first part of FY 2012, returning to negative growth for the next three quarters before returning to modest growth in the last half of FY 2013. (A so-called double dip recession).

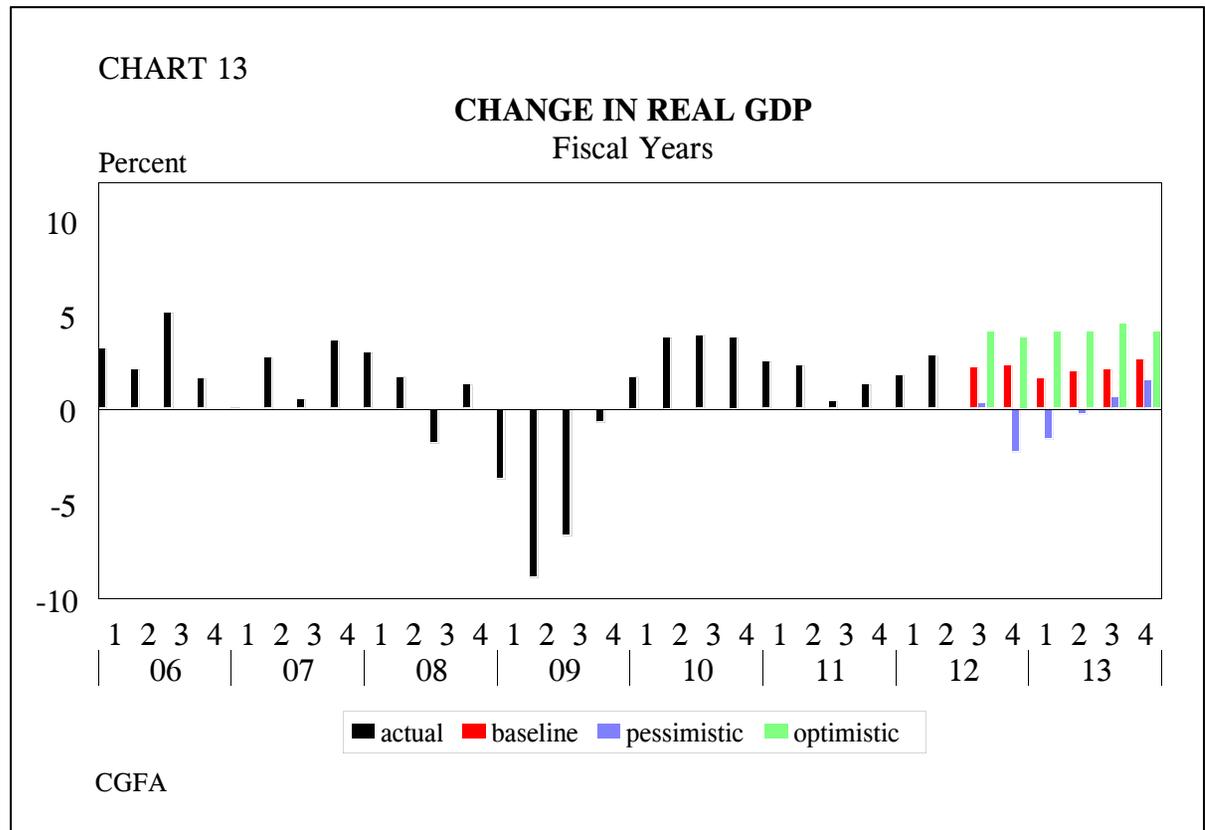


CHART 14: BASELINE FORECAST - FEBRUARY 2012

(\$ Change from prior year levels)

REAL (2005 \$)	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Estimated	FY 2014 Estimated
Gross Domestic Product	-3.4	0.2	2.6	1.8	2.1	2.8
Personal Consumption	-2.3	0.3	2.5	1.8	2.2	1.9
Durable	-9.8	3.0	8.8	6.1	5.4	3.6
Nondurable	-2.7	1.0	2.5	1.5	1.9	1.4
Services	-0.9	-0.4	1.5	1.4	1.8	1.9
Fixed Investment	-21.6	-4.3	11.8	6.6	6.8	9.7
Exports	-5.8	2.7	9.3	4.8	5.5	7.4
Imports	-11.0	0.4	10.0	2.9	4.2	3.7
Government	2.3	1.2	-0.6	-2.1	-2.0	-1.3
Federal	7.2	5.4	1.2	-2.0	-3.1	-3.1
State & Local	-0.6	-1.5	-1.8	-2.2	-1.3	-0.1
OTHER MEASURES						
Personal Income (Current \$)	-0.7	-1.0	5.4	3.4	4.0	4.3
Personal Consumption (Current \$)	-0.9	1.6	4.4	4.1	3.7	3.6
Before Tax Profits (Current \$)	-16.2	37.6	15.0	5.5	-3.0	2.9
Consumer Prices	1.4	1.0	2.0	2.8	1.8	1.9
Unemployment Rate (Average)	7.6	9.8	9.3	8.6	8.2	7.9

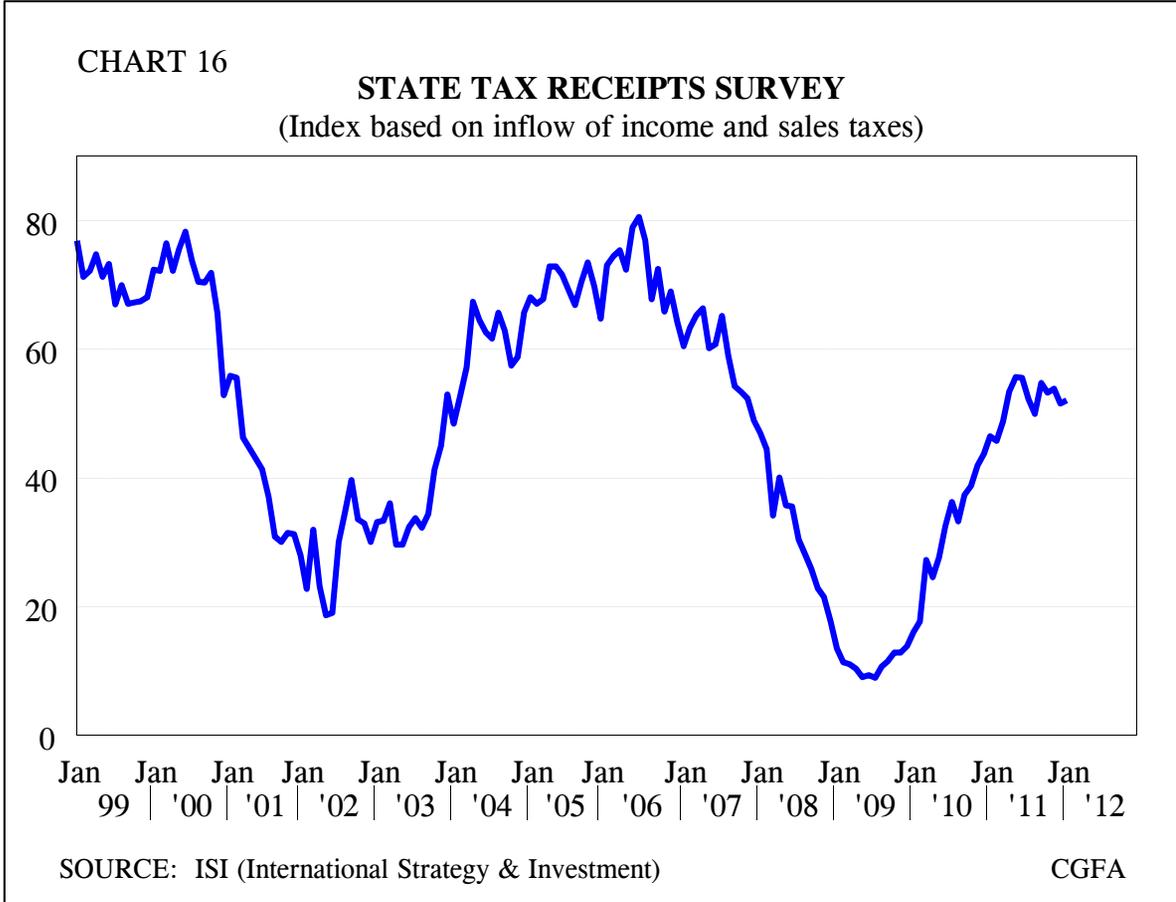
CHART 15: ILLINOIS FORECASTS

Calendar Years	2009 Actual	2010 Actual	2011 Actual	2012 Estimated	2013 Estimated	2014 Estimated
Total Employment (Ths)	5,657.9	5,612.1	5,667.9	5,705.8	5,791.8	5,893.2
% Change	-4.9	-0.8	1	0.7	1.5	1.8
Population (Ths)	12,802.1	12,847.9	12,895.6	12,945.8	12,997.3	13,050.2
% Change	0.4	0.4	0.4	0.4	0.4	0.4
Personal Income (Bil \$)	525.4	540.1	567.0	583.2	603.0	631.8
% Change	-5.2	2.8	5.0	2.9	3.4	4.8
OTHER MEASURES						
Private Housing Starts	10.9	10.9	10.7	12.2	17.4	24.1
Unemployment Rate Avg.	10.0	10.2	9.3	9.7	9.6	9.2

SOURCE: Global Insight January 2012

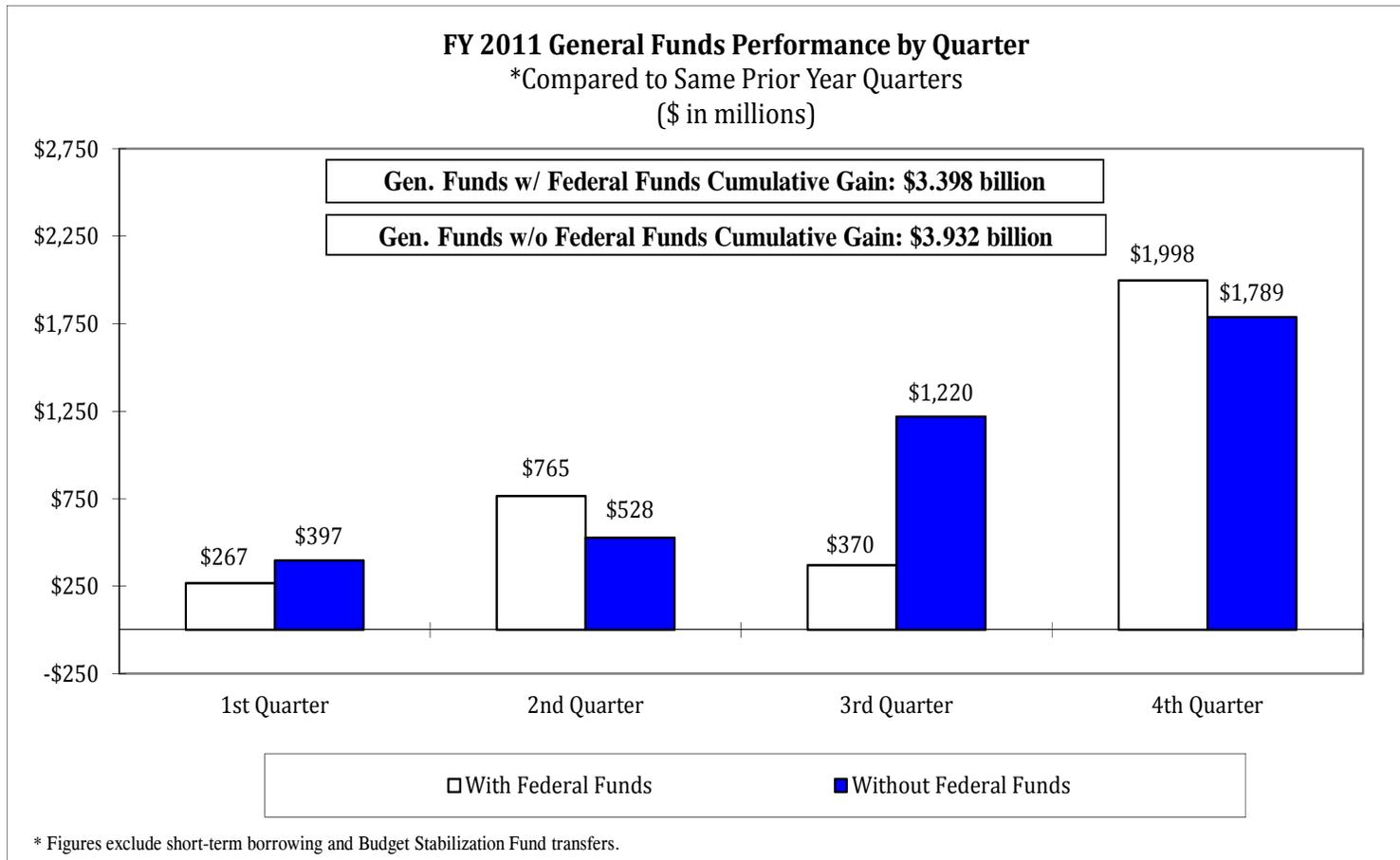
STATE TAX RECEIPTS SURVEY

- As shown in Chart 16, state revenues have improved sharply following an all-time low Index number of 9 reached in July 2009.
- The Index is based upon data from 16 states including Illinois that have diverse geographic and population characteristics.
- In May the Index reached 55.7, the highest level since August 2007, before edging down to 50.0 in August 2011. Since then the Index has leveled off with a reading of 52.1 in January 2012. These levels are well below those reached at this stage of the expansion following the previous recession.



REVIEW OF FY 2011 REVENUES

For the fiscal year, base revenues grew \$3.398 billion. Obviously, the tax changes enacted halfway through the fiscal year played the key role in the increase, as did the tax amnesty program which occurred in the fall. The magnitude of the effect of those items often served to mask the underlying improvements in the economic sources that was happening simultaneously with the tax changes.



Breakdown of FY 2011 Growth

[millions]*

Due to tax Hike [Net]	\$2,428
Due to Base Growth [Big Three-PIT, CIT, Sales]	\$996
Due to Amnesty [Net]	\$306
Net Other taxes	-\$96
Net transfers	\$298
Federal sources	<u>-\$534</u>
Total	\$3,398

*This breakdown is an attempt to assign value to various elements that comprised the change in FY'11 general funds revenue. These figures represent CGFA's estimates at this point in time and may change when updated data becomes available.

REVIEW OF FY 2011 REVENUE ESTIMATE

The table below demonstrates how the February/March estimates of CGFA and GOMB performed relative to actuals. As shown, actual base revenues ended up being only \$7 million higher than the CGFA's March estimate, or a difference of only .02 percent. Net income taxes fell just \$35 million short of expectations, a feat made all the more impressive given the magnitude of tax changes made midyear. Sale taxes finished \$137 million higher than expected, while other receipts also overachieved by \$61 million. However, all news wasn't positive, as overall transfers fell short of estimates by \$36 million, and federal sources were off by \$120 million.

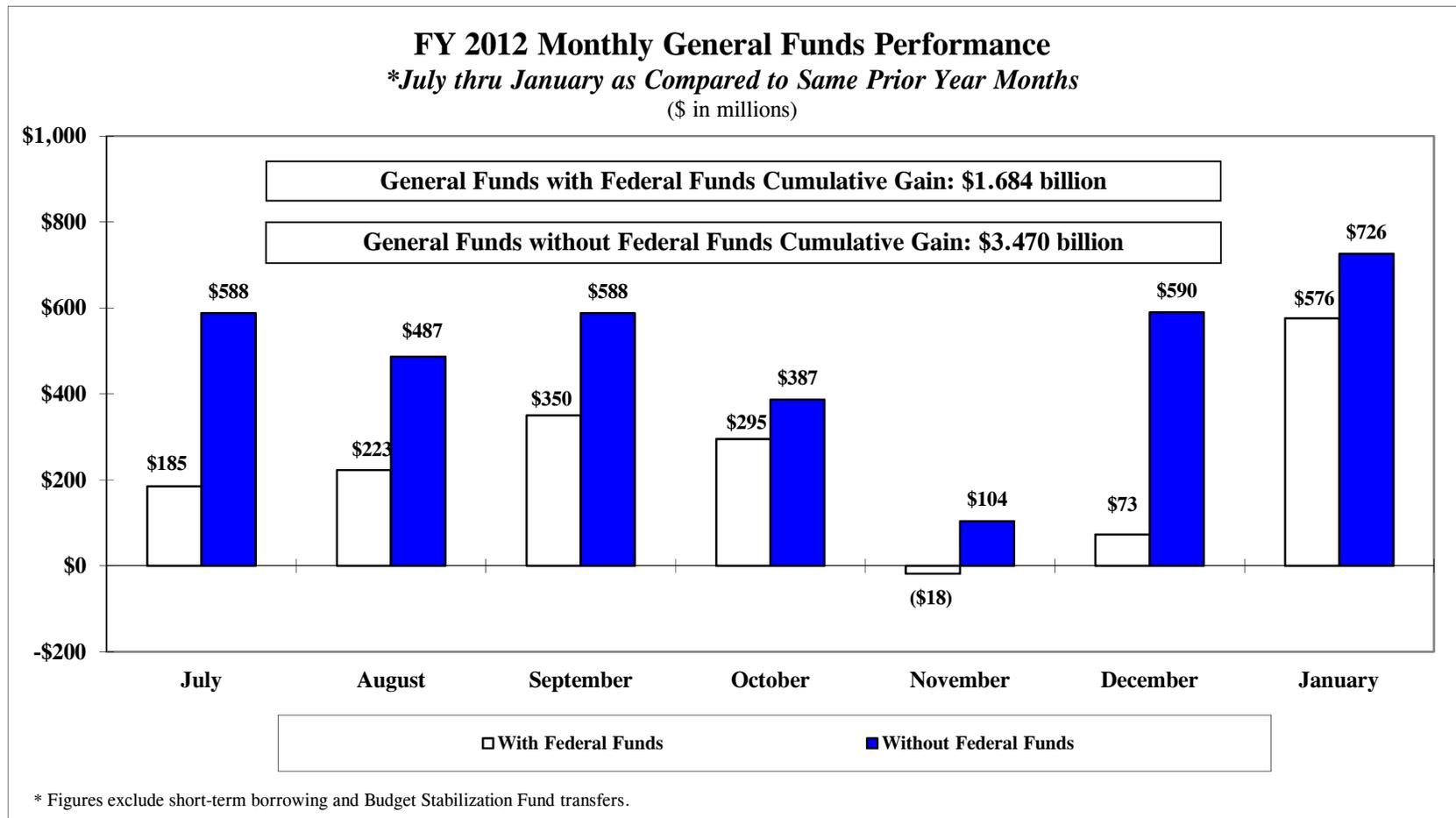
Overall, actual FY 2011 revenues performed remarkably similar to CGFA expectations. The lack of any significant variance reinforces that views presented in the March estimate remained largely relevant.

In comparison, actual revenues fell \$125 million short of GOMB estimates presented in February. Net income taxes failed to reach expectations by a combined \$275 million. However, sales tax revenues exceeded GOMB estimates by \$319 million. Other tax receipts overachieved by \$77 million, while overall transfers fell short of estimates by \$126 million. GOMB was expecting \$120 more in federal sources than what eventually occurred.

FY 2011 Actuals vs. Estimates: CGFA and GOMB					
(\$ millions)					
Revenue Sources	ACTUAL FY 2011	CGFA EST. Mar-11 FY 2011	DIFFERENCE ACTUALS FROM ESTIMATE	GOMB EST. Feb-11 FY 2011	DIFFERENCE ACTUALS FROM ESTIMATE
Net Income Tax [Personal & Corporate]	\$13,076	\$13,111	(\$35)	\$13,351	(\$275)
Sales Taxes	\$6,833	\$6,696	\$137	\$6,514	\$319
Other Receipts	\$3,011	\$2,950	\$61	\$2,934	\$77
Transfers	\$2,182	\$2,218	(\$36)	\$2,308	(\$126)
Federal Sources	\$5,386	\$5,506	(\$120)	\$5,506	(\$120)
Subtotal General Funds	\$30,488	\$30,481	\$7	\$30,613	(\$125)

REVIEW OF FY 2012 REVENUES TO DATE

The chart below demonstrates how FY 2012 revenues have performed through January both with and without federal sources. If the \$1.786 billion of federal source falloff is included, overall base revenues are up \$1.684 billion. When federal sources are excluded, that figure jumps to \$3.470 billion, primarily the result of the higher income tax rates and continued sales tax growth.



FY 2012 YEAR-TO-DATE

Through January, absent short-term borrowing, tobacco settlement proceeds and Budget Stabilization Fund transfers, base general funds revenues are up \$1.684 billion. The increase has been fueled by comparatively higher income tax receipts stemming from the January 2011 rate increases as well as continued strong sales tax receipts. Those items have been more than enough to overcome a significant falloff in federal sources that resulted from less reimbursable spending as well as a return to a lower federal matching rate [under ARRA, states enjoyed approximately two years of higher reimbursable match which has now ended].

GENERAL FUNDS RECEIPTS: YEAR TO DATE				
<i>FY 2012 vs. FY 2011</i>				
<i>(\$ million)</i>				
Revenue Sources	FY 2012	FY 2011	CHANGE FROM FY 2011	% CHANGE
State Taxes				
Personal Income Tax	\$9,014	\$5,465	\$3,549	64.9%
Corporate Income Tax (regular)	1,213	1,008	\$205	20.3%
Sales Taxes	4,312	4,073	\$239	5.9%
Public Utility Taxes (regular)	601	631	(\$30)	-4.8%
Cigarette Tax	206	206	\$0	0.0%
Liquor Gallonage Taxes	103	100	\$3	3.0%
Vehicle Use Tax	16	17	(\$1)	-5.9%
Inheritance Tax (Gross)	111	116	(\$5)	-4.3%
Insurance Taxes and Fees	152	149	\$3	2.0%
Corporate Franchise Tax & Fees	114	125	(\$11)	-8.8%
Interest on State Funds & Investments	11	20	(\$9)	-45.0%
Cook County IGT	56	56	\$0	N/A
Other Sources	239	218	\$21	9.6%
Subtotal	\$16,148	\$12,184	\$3,964	32.5%
Transfers				
Lottery	347	343	\$4	1.2%
Riverboat transfers & receipts	234	220	\$14	6.4%
Proceeds from Sale of 10th license	73	0	\$73	N/A
Other	506	771	(\$265)	-34.4%
Total State Sources	\$17,308	\$13,518	\$3,790	28.0%
Federal Sources				
Total Federal & State Sources	\$1,647	\$3,433	(\$1,786)	-52.0%
Total Federal & State Sources				
\$18,955	\$16,951	\$2,004	11.8%	
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$789)	(\$478)	(\$311)	65.1%
Corporate Income Tax	(\$212)	(\$203)	(\$9)	4.4%
Subtotal General Funds	\$17,954	\$16,270	\$1,684	10.4%
Short-Term Borrowing	\$0	\$1,300	(\$1,300)	-100.0%
Tobacco Liquidation Proceeds	\$0	\$1,250	(\$1,250)	N/A
Pension Contribution Fund Transfer	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$275	\$235	\$40	N/A
Total General Funds	\$18,229	\$19,055	(\$826)	
SOURCE: Office of the Comptroller, State of Illinois: Some totals may not equal, due to rounding.				
CGFA				
2-Feb-12				

LATEST FY 2012 CGFA AND GOMB FORECASTS

The State's latest enacted budget [per the January Official Statement] assumes revenues will be \$33.140 billion. Taking into account the latest federal source estimate released by GOMB, which reflects the Administration's updated reimbursable spending plan, CGFA's preliminary review of this year's revenues yields a forecast of \$33.417 billion. The following table provides an abbreviated view of the current fiscal year, comparing updated CGFA and GOMB revenue projections. CGFA still maintains that revenues will surpass budgeted assumptions. As shown, while CGFA's overall estimates of State sources and transfers have not meaningfully changed since July 2011, those same estimates of GOMB have been revised up and are now much closer to CGFA's view. Both estimates reflect the Administration's latest reimbursable spending plan and much lower estimate of federal sources.

Preliminary CGFA FY 2012 Update vs. GOMB FY 2012 per Three-Year Budget Report							
General Funds \$millions	CGFA Estimates FY'12			GOMB Estimates FY'12			CGFA vs. GOMB
	July-11	Feb-12	Change	Aug-11	Jan.-12	Change	
State Sources	\$27,749	\$27,755	\$6	\$26,989	\$27,485	\$496	\$270
Transfers	\$1,838	\$1,832	(\$6)	\$1,810	\$1,826	\$16	\$6
<u>Federal Sources</u>	<u>\$4,350</u>	<u>\$3,830</u>	<u>(\$520)</u>	<u>\$4,325</u>	<u>\$3,830</u>	<u>(\$495)</u>	<u>\$0</u>
Total	\$33,937	\$33,417	(\$520)	\$33,124	\$33,141	\$17	\$276

FY 2012 REVENUE RELATED BUDGET HIGHLIGHTS

In early March 2011, the House passed HR 110 which essentially established the estimate of general revenues that was to be utilized in crafting the spending plan for FY 2012. As shown, HR 110 which was developed by the House Revenue and Finance Committee, estimated FY 2012 revenues to be \$33.173 billion. That figure represents an increase of \$2.685 billion over FY 2011, primarily reflecting growth associated with the annualizing of the January 2011 income tax increase.

The accompanying table compares CGFA's February 2012 estimate and that assumed under HR 110. As shown, CGFA estimates that FY 2012 revenues will exceed HR 110 projections by \$244 million. CGFA's projections of the economically related sources are measurably higher due to the incorporation of actual FY 2011 receipts into the estimate and slightly updated growth expectations. However, CGFA's estimate of federal sources is significantly lower, reflecting the final reimbursable spending limits which were reduced by the General Assembly during the appropriation process and again by the Governor via amendatory veto.

It should be noted that the House also approved HR 158 which states that any revenues in excess of those adopted under HR110, should be applied towards the payment of overdue bills.

<i>FY 2012 Estimate Comparison: CGFA Feb-12 vs. HR 110</i>			
(millions)			
<u>Revenue Sources</u>	<u>FY'12 CGFA Feb-12</u>	<u>FY'12 HR 110 March-11</u>	<u>\$ Difference</u>
State Taxes			
Personal Income Tax	\$16,716	\$16,389	\$327
Corporate Income Tax	\$2,874	\$2,435	\$439
Sales Taxes	\$7,140	\$6,586	\$554
Public Utility (regular)	\$1,080	\$1,082	(\$2)
Cigarette Tax	\$355	\$355	\$0
Liquor Gallonage Taxes	\$162	\$162	\$0
Vehicle Use Tax	\$28	\$32	(\$4)
Inheritance Tax (gross)	\$205	\$182	\$23
Insurance Taxes & Fees	\$320	\$318	\$2
Corporate Franchise Tax & Fees	\$192	\$204	(\$12)
Interest on State Funds & Investments	\$20	\$25	(\$5)
Cook County Intergovernmental Transfer	\$244	\$244	\$0
<u>Other Sources</u>	<u>\$385</u>	<u>\$365</u>	<u>\$20</u>
Subtotal	\$29,721	\$28,379	\$1,342
Transfers			
Lottery	\$645	\$645	\$0
Riverboat transfers and receipts	\$318	\$426	(\$108)
Proceeds from sale of 10th license	\$75	\$75	\$0
<u>Other</u>	<u>\$794</u>	<u>\$664</u>	<u>\$130</u>
Total State Sources	\$31,553	\$30,189	\$1,364
Federal Sources	\$3,830	\$4,844	(\$1,014)
Total Federal & State Sources	\$35,383	\$35,033	\$350
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax [8.75%]	(\$1,463)	(\$1,434)	(\$29)
Corporate Income Tax [12.5%]	(\$503)	(\$426)	(\$77)
Subtotal General Funds	\$33,417	\$33,173	\$244
NOTE: Totals exclude Budget Stabilization transfers, and other cash flow transfers. CGFA			

LOOK AHEAD TO FY 2013

- United States economic improvement would be held back by likely renewed European recession and slowing U.S. exports. Modest economic growth will stymie major improvement in reducing unemployment. As a result, the Federal Reserve is likely to hold interest rates low in this climate. In addition, the federal government will continue to struggle with policies to reduce its growing debt burden.
- While base revenue growth is expected to be in historic growth ranges, for economically related sources certain timing elements related to the income tax increase will serve to curtail year over year growth in FY'13 [FY'12 will benefit from approximately \$500 million from natural delays. That amount will not repeat in FY'13 and will serve to suppress overall growth].
- Few non-economic sources are expected to return any meaningful gains in FY'13. Federal sources are always unpredictable and are dependent upon appropriations and available spending. Given the continued budgetary restraints, significant growth is unlikely there as well meaning longer payment cycles are probable.
- Virtually all of the anticipated FY'13 revenue growth will be consumed by increased pension costs. The pension systems newly certified figures call for state contributions to increase by approximately \$1 billion, from about \$4.9 billion in FY'12 to \$5.9 billion in FY'13.
- Approximately \$8.5 billion in unpaid bills will continue to put massive pressure on the State's financial condition.

PRELIMINARY VIEW OF FY 2013

While the Commission is not scheduled to release its official FY 2013 estimate until a planned CGFA meeting later in February, a number of inquiries indicated a heightened interest in next year's revenue outlook. To address that, we have prepared a preliminary overview of FY 2013 expectations. For comparison purposes, the Governor's Office of Management and Budget's FY 2013 estimate, as presented in the January released Three-Year Budget Projection, also will be displayed.

As shown, a preliminary estimate of FY 2013 estimate yields a figure of approximately \$34.3 billion reflecting estimated growth of \$900 million. Those figures are quite similar to the GOMB estimates of \$33.1 billion and \$990 million in growth. Underlying assumptions include continued modest rates of growth in the economic sources as well as recent legislative changes enacted in the fall veto session. The federal source estimate reflects the Administration's planned spending on reimbursable programs per their Three-Year Budget report. Obviously, the federal source number will be affected by final appropriations as well as available resources.

Preliminary CGFA FY 2013 Outlook vs. GOMB FY 2013 per Three-Year Budget Report							
General Funds \$millions	CGFA Estimates FY'13			GOMB Estimates FY'13			CGFA vs. GOMB
	FY'12	FY'13	Growth	FY'12	FY'13	Growth	
State Sources	\$27,755	\$28,286	\$531	\$27,485	\$28,087	\$602	\$199
Transfers	\$1,832	\$1,831	(\$1)	\$1,826	\$1,844	\$18	(\$13)
<u>Federal Sources</u>	<u>\$3,830</u>	<u>\$4,200</u>	<u>\$370</u>	<u>\$3,830</u>	<u>\$4,200</u>	<u>\$370</u>	<u>\$0</u>
Total	\$33,417	\$34,317	\$900	\$33,141	\$34,131	\$990	\$186

CGFA: PRELIMINARY REVENUE EXPECTATIONS FY 2013

The accompanying table details CGFA's preliminary revenue expectations for FY 2013. As shown, the overall general funds estimate of \$34.317 billion represents \$900 million in growth. Overall, the estimates should be viewed as being conservative, reflecting the improving but still fragile state of the national and State's economy. Major assumptions include the following:

- Overall gross personal income tax is expected to increase only 1.1% as modest base personal income tax growth of 3.1% will be reduced due to approximately \$500 million related to timing of the tax increase that artificially increases FY'12.
- Overall gross corporate income tax is forecast to grow 6.3%. Volatile by nature, base corporate income tax growth of 2.4% is increased as change in year over year impact of bonus depreciation more than offsets impact of P.A. 97-636 [CME, Sears, NOL, etc.].
- Sale tax growth is estimated to be 2.5% reflecting a conservative view that better than expected growth over the last couple of years will slow due to a higher established base.
- For now, growth of 9.7% in federal sources is assumed due to GOMB's Three-Year Budget plan released in January. Actual federal sources will be based on eventual appropriation levels, spending plans, and available resources. As a result, while included for comparison purposes, the estimate could and likely will change significantly, as it did during the FY'12 budget negotiations.

<i>CGFA FY 2013 vs. FY 2012 General Funds Estimate--February 2012</i>				
(millions)				
	CGFA FY 2013 Estimate Feb.-12	CGFA FY 2012 Estimate Feb.-12	\$ Difference	% Difference
Revenue Sources				
State Taxes				
Personal Income Tax	\$16,894	\$16,716	\$178	1.1%
Corporate Income Tax	\$3,055	\$2,874	\$181	6.3%
Sales Taxes	\$7,315	\$7,140	\$175	2.5%
Public Utility (regular)	\$1,080	\$1,080	\$0	0.0%
Cigarette Tax	\$355	\$355	\$0	0.0%
Liquor Gallonage Taxes	\$162	\$162	\$0	0.0%
Vehicle Use Tax	\$29	\$28	\$1	3.6%
Inheritance Tax (gross)	\$230	\$205	\$25	12.2%
Insurance Taxes & Fees	\$320	\$320	\$0	0.0%
Corporate Franchise Tax & Fees	\$195	\$192	\$3	1.6%
Interest on State Funds & Investments	\$20	\$20	\$0	0.0%
Cook County Intergovernmental Transfer	\$244	\$244	\$0	0.0%
<u>Other Sources</u>	<u>\$400</u>	<u>\$385</u>	<u>\$15</u>	<u>3.9%</u>
Subtotal	\$30,299	\$29,721	\$578	1.9%
Transfers				
Lottery	\$660	\$645	\$15	2.3%
Riverboat transfers and receipts	\$361	\$318	\$43	13.5%
Proceeds from sale of 10th license	\$10	\$75	(\$65)	N/A
<u>Other</u>	<u>\$800</u>	<u>\$794</u>	<u>\$6</u>	<u>0.8%</u>
Total State Sources	\$32,130	\$31,553	\$577	1.8%
Federal Sources	\$4,200	\$3,830	\$370	9.7%
Total Federal & State Sources	\$36,330	\$35,383	\$947	2.7%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax [8.75%]	(\$1,478)	(\$1,463)	(\$15)	1.0%
Corporate Income Tax [12.5%]	(\$535)	(\$503)	(\$32)	6.4%
Subtotal General Funds	\$34,317	\$33,417	\$900	2.7%
NOTE: Totals exclude Budget Stabilization transfers, and other cash flow transfers.				
CGFA				

DETAILED GENERAL FUNDS REVENUE HISTORY FY 2003 - FY 2011

(\$ million)

Revenue Sources	Actual Receipts FY 2003	Actual Receipts FY 2004	Actual Receipts FY 2005	Actual Receipts FY 2006	Actual Receipts FY 2007	Actual Receipts FY 2008	Actual Receipts FY 2009	Actual Receipts FY 2010	Actual Receipts FY 2011
State Taxes									
Personal Income Tax	\$7,979	\$8,235	\$8,873	\$9,568	\$10,424	\$11,187	\$10,219	\$9,430	\$12,301
Corporate Income Tax (regular)	1,011	1,379	1,548	1,784	2,121	2,201	2,073	1,649	2,277
Sales Taxes	6,059	6,331	6,595	7,092	7,136	7,215	6,773	6,308	6,833
Public Utility Taxes (regular)	1,006	1,079	1,056	1,074	1,131	1,157	1,168	1,089	1,147
Cigarette Tax	400	400	450	400	350	350	350	355	355
Liquor Gallonage Taxes	123	127	147	152	156	158	158	159	157
Vehicle Use Tax	34	35	32	34	33	32	27	30	30
Inheritance Tax (Gross)	237	222	310	272	264	373	288	243	122
Insurance Taxes and Fees	313	362	342	317	310	298	334	322	317
Corporate Franchise Tax & Fees	142	163	181	181	193	225	201	208	207
Interest on State Funds & Investments	66	55	73	153	204	212	81	26	28
Cook County Intergovernmental Transfer	355	428	433	350	307	302	253	244	244
Other Sources	<u>349</u>	<u>439</u>	<u>468</u>	<u>441</u>	<u>449</u>	<u>442</u>	<u>418</u>	<u>431</u>	<u>404</u>
Subtotal	\$18,074	\$19,255	\$20,508	\$21,818	\$23,078	\$24,152	\$22,343	\$20,494	\$24,422
Transfers									
Lottery	540	570	614	670	622	657	625	625	632
Gaming Fund Transfer [and related]	554	661	699	689	685	564	430	431	324
Other	<u>589</u>	<u>1,159</u>	<u>918</u>	<u>746</u>	<u>939</u>	<u>679</u>	<u>538</u>	<u>828</u>	<u>1,226</u>
Total State Sources	\$19,757	\$21,645	\$22,739	\$23,923	\$25,324	\$26,052	\$23,936	\$22,378	\$26,604
Federal Sources	\$3,940	\$5,189	\$4,691	\$4,725	\$4,703	\$4,815	\$6,567	\$5,920	\$5,386
Total Federal & State Sources	\$23,697	\$26,834	\$27,430	\$28,648	\$30,027	\$30,867	\$30,503	\$28,298	\$31,990
Nongeneral Funds Distribution:									
Refund Fund									
Personal Income Tax	(\$638)	(\$964)	(\$894)	(\$933)	(\$1,016)	(\$867)	(\$996)	(\$919)	(\$1,076)
Corporate Income Tax	(273)	(442)	(376)	(356)	(371)	(341)	(363)	(289)	(426)
Subtotal General Funds	\$22,786	\$25,428	\$26,160	\$27,359	\$28,640	\$29,659	\$29,144	\$27,090	\$30,488
Change from Prior Year	(\$593)	\$2,642	\$732	\$1,199	\$1,281	\$1,019	(\$515)	(\$2,054)	\$3,398
Percent Change	-2.5%	11.6%	2.9%	4.6%	4.7%	3.6%	-1.7%	-7.0%	12.5%
Short-Term Borrowing	\$1,675	\$0	\$765	\$1,000	\$900	\$2,400	\$2,400	\$1,250	\$1,300
Tobacco Liquidation Proceeds	\$0	\$1,250							
HPF and HHSMTF Transfers	\$0	\$0	\$982	\$0	\$456	\$1,503	\$0	\$0	\$0
Budget Stabilization Fund Transfer	\$226	\$226	\$276	\$276	\$276	\$276	\$576	\$1,146	\$535
Pension Contribution Fund Transfer	\$300	\$1,395	\$0	\$0	\$0	\$0	\$0	\$843	\$224
Total General Funds	\$24,987	\$27,049	\$28,183	\$28,635	\$30,272	\$33,838	\$32,120	\$30,329	\$33,797
Change from Prior Year	\$1,382	\$2,062	\$1,134	\$452	\$1,637	\$3,566	(\$1,718)	(\$1,791)	\$3,468
Percent Change	5.9%	8.3%	4.2%	1.6%	5.7%	11.8%	-5.1%	-5.6%	11.4%
CGFA									

GENERAL FUNDS BALANCE INFORMATION

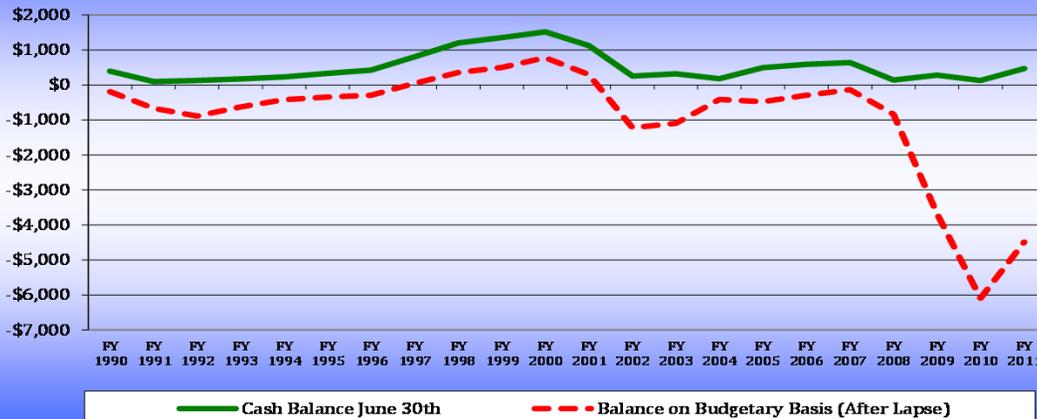
General Funds Revenue History: Annual \$ Change
FY 1992 - FY 2012 (est.)
 (in millions)

Excludes Budget Stabilization Fund and Pension Contribution Fund Transfers, Short-Term Borrowing, and Related Transfers



General Funds	Annual \$ Change (in millions)
FY 1992	\$14,032
FY 1993	\$14,750
FY 1994	\$15,586
FY 1995	\$17,002
FY 1996	\$17,936
FY 1997	\$18,854
FY 1998	\$19,984
FY 1999	\$21,674
FY 2000	\$23,250
FY 2001	\$24,106
FY 2002	\$23,379
FY 2003	\$22,786
FY 2004	\$25,428
FY 2005	\$26,160
FY 2006	\$27,359
FY 2007	\$28,640
FY 2008	\$29,659
FY 2009	\$29,144
FY 2010	\$27,090
FY 2011	\$30,488
FY 2012 (est.)	\$33,417

General Funds Balances - Cash Basis
FY 1990 - FY 2011
 (in millions)



	Cash Balance June 30th	Lapse Spending	Balance on Budgetary Basis (After Lapse)
FY 1990	\$395	\$586	(\$191)
FY 1991	\$100	\$766	(\$666)
FY 1992	\$131	\$1,018	(\$887)
FY 1993	\$172	\$802	(\$630)
FY 1994	\$230	\$652	(\$422)
FY 1995	\$331	\$672	(\$341)
FY 1996	\$426	\$718	(\$292)
FY 1997	\$806	\$761	\$45
FY 1998	\$1,202	\$846	\$356
FY 1999	\$1,351	\$848	\$503
FY 2000	\$1,517	\$740	\$777
FY 2001	\$1,126	\$826	\$300
FY 2002	\$256	\$1,476	(\$1,220)
FY 2003	\$317	\$1,411	(\$1,094)
FY 2004	\$182	\$592	(\$410)
FY 2005	\$497	\$971	(\$474)
FY 2006	\$590	\$881	(\$291)
FY 2007	\$642	\$777	(\$135)
FY 2008	\$141	\$975	(\$834)
FY 2009	\$280	\$3,594	(\$3,674)
FY 2010	\$130	\$6,224	(\$6,094)
FY 2011	\$469	\$4,962	(\$4,493)

General Funds Budget Plan --FY 2010 to FY 2012

\$ millions

	FY 2010		FY 2011				FY 2012		
	FY 2010 Unaudited Actuals-2/11	FY 2010 Actuals [June 2011]	Enacted July 1, 2010 FY 2011	Revised Feb. 2011 FY 2011	FY 2011 Unaudited Actuals 8/11	FY 2011 Unaudited Actuals 11/11	Proposed Feb. 2011 FY 2012	Enacted FY 2012 Aug-11	Adopted FY 2012 Dec-11
Revenues [GOMB]	\$27,090 GOMB	\$27,366 GOMB	\$27,655 GOMB	\$30,613 GOMB	\$30,487 GOMB	\$30,487 GOMB	\$33,932 GOMB	\$33,124 GOMB	\$33,140 GOMB
Appropriations*	\$26,354	\$26,354	\$25,831	\$26,071	\$25,845	\$25,845	\$26,733	\$24,991	\$25,256
less unspent approp	(\$1,189)	(\$896)	(\$891)	(\$1,757)	(\$450)	(\$338)	(\$802)	(\$500)	(\$904)
Net Approp Spending	\$25,165	\$25,458	\$24,940	\$24,314	\$25,395	\$25,507	\$25,931	\$24,491	\$24,352
Pension Contributions	\$0	\$3,466	\$4,157	\$3,919	\$3,680	\$3,680	\$4,594	\$4,230	\$4,135
Savings from Pension Stabilization			\$0	\$0	\$0	\$0	\$0	\$0	\$0
Statutory Transfers Out									
approx. Legislatively Required Transfers	\$976	\$1,067	\$1,823	\$2,061	\$1,509	\$1,509	\$2,317	\$2,065	\$2,366
Pension Obligation Bond Debt Service	\$564	\$564	\$1,754	\$1,734	\$1,667	\$1,667	\$1,559	\$1,605	\$1,605
Debt Service transfer for Capital Projects	\$670	\$670	\$645	\$570	\$540	\$540	\$578	\$563	\$563
Debt Service on FY10 Medicaid Borrowing	\$63	\$63	\$183	\$189	\$189	\$189	\$0	\$0	\$0
Debt Service on FY'11 Restructuring bonds				\$98	\$0	\$0	\$403	\$0	\$0
Reduced Transfer to LGDF	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Tranfers Payable at Year End	\$1,267	\$940			\$890	\$890	\$0	\$0	\$0
Interfund Borrowing Repayments/BSF				\$781	\$10	\$10	\$0	\$623	\$626
Total Transfers Out	\$3,540	\$3,304	\$4,405	\$5,433	\$4,805	\$4,805	\$4,857	\$4,856	\$5,160
Total Operating Spending and Transfers Out	\$28,705	\$32,228	\$33,502	\$33,666	\$33,880	\$33,992	\$35,382	\$33,577	\$33,647
Operating Deficit (Surplus)	(\$1,615)	(\$4,862)	(\$5,847)	(\$3,053)	(\$3,393)	(\$3,505)	(\$1,450)	(\$453)	(\$507)
Short-term Borrowing	\$1,250	\$1,250	\$1,300	\$1,300	\$1,300	\$1,300	\$0	\$0	\$0
Repay of Short-term Borrowing [w/ interest]	(\$2,276)	(\$2,276)	(\$1,317)	(\$1,317)	(\$1,322)	(\$1,322)	\$0	\$0	\$0
Pension Obligation Bonds	\$0	\$3,466	\$3,700	\$3,680	\$3,680	\$3,680	\$0	\$0	\$0
Tobacco Liquidation \$1.2b/Interfund borrow \$1.0	\$0	\$0	\$1,200	\$1,250	\$1,250	\$1,250	\$0	\$0	\$0
Interfund Borrowing (per Emergency Budget Act)			\$964	\$0	\$0	\$0	\$0	\$0	\$0
Voucher Payment Notes			\$0	\$0	\$0	\$0	\$0	\$0	\$0
Proposed FY'11 GO Restructuring Bond				\$4,000	\$0	\$0	\$1,450	\$0	\$0
Budget Deficit (Surplus)	(\$2,641)	(\$2,422)	\$0	\$5,860	\$1,515	\$1,403	\$0	(\$453)	(\$507)
Budgetary Basis to Begin Year	(\$3,674)	(\$3,673)	(\$6,475)	(\$6,315)	(\$6,095)	(\$6,095)	(\$21)	(\$4,580)	(\$4,692)
Budget Deficit at End of Year	(\$6,315)	(\$6,095)	(\$6,475)	(\$455)	(\$4,580)	(\$4,692)	(\$21)	(\$5,033)	(\$5,199)

* See GOMB's FY 2012 Budget Book and latest Official Statements for detailed explanations.

Sources: GOMB Feb. 2012 Budget Book; previous Preliminary Official Statements

HIGHLIGHTS OF 96-1496 (INCOME TAX INCREASE)

In January 2011, P.A. 96-1496 was signed into law creating the first significant revenue-producing enactment in many years. Highlights of the new public act are as follows:

- **Increase Individual Income Tax Rate.** Increases the personal income tax rate from 3% to 5% in tax year 2011; to 3.75% in tax year 2015; and, to 3.25% in tax year 2025.
- **Increase Corporate Income Tax Rate.** Increases the corporate income tax rate from 4.8% to 7% in tax year 2011; to 5.25% in tax year 2015; and, to 4.8% in tax year 2025.
- **Reinstates Estate Tax.** There was no federal or State estate tax during calendar year 2010. P.A. 96-1496 reinstates the Illinois estate tax for calendar 2011 and thereafter. The Illinois estate tax exempts the first \$2 million of an estate, which is less than the current \$5 million federal exemption.
- **Temporarily Eliminate Net Operating Loss Deduction.** In the case of a corporation (other than a Subchapter S corporation), P.A. 96-1496 provides that no carryover deduction shall be allowed for tax years 2011, 2012, and 2013; provided that, for purposes of determining the taxable years to which a net loss may be carried, no taxable year for which a deduction is disallowed shall be counted.

**Individual and Corporate Revenues Under P.A. 96-1496 (SB 2505)
as Compared to Previous Law**

\$ in millions

Denotates Transition Years of Scheduled Rate Reductions

Fiscal Year	Total New Revenues	Amount to Refund Fund	Net Revenues from Personal Tax Increase	Net Revenues from Corporate Tax Increase	Total New Net Revenues
FY 2011	\$2,706	\$254	\$2,288	\$164	\$2,452
FY 2012	\$7,884	\$765	\$6,410	\$709	\$7,119
FY 2013	\$7,822	\$768	\$6,265	\$789	\$7,054
FY 2014	\$8,002	\$786	\$6,409	\$807	\$7,216
FY 2015	\$5,881	\$581	\$4,671	\$629	\$5,300
FY 2016	\$3,123	\$297	\$2,599	\$227	\$2,826
FY 2017	\$3,034	\$284	\$2,573	\$177	\$2,750
FY 2018	\$3,104	\$291	\$2,632	\$181	\$2,813
FY 2019	\$3,175	\$297	\$2,693	\$185	\$2,878
FY 2020	\$3,248	\$304	\$2,755	\$189	\$2,944
FY 2021	\$3,323	\$311	\$2,818	\$194	\$3,012
FY 2022	\$3,399	\$318	\$2,883	\$198	\$3,081
FY 2023	\$3,478	\$326	\$2,949	\$203	\$3,152
FY 2024	\$3,558	\$333	\$3,017	\$207	\$3,224
FY 2025	\$2,525	\$237	\$2,140	\$148	\$2,288
FY 2026	\$1,221	\$109	\$1,095	\$17	\$1,112

NOTE: The income tax increase became effective January 1, 2011. However, because the enactment date was January 13, 2011, January withholding payments (and some of February withholding payments) were not able to be adjusted in time to reflect the new tax rate. Because of this, these withholding taxes owed (valued at approximately \$500M) will be made up as final payments and collected in FY 2012 instead of FY 2011. The FY 2011 and FY 2012 amounts above reflect this timing adjustment. (Estimates do not include any impact from the suspension of the N.O.L. Deduction or P.A. 97-0636 AND P.A. 97-0652). ESTIMATES AS OF FEBRUARY 14, 2012.