

ECONOMIC and REVENUE UPDATE

FY 2009



Commission on Government Forecasting and Accountability

703 Stratton Office Building

Springfield, Illinois 62706

November 19, 2008

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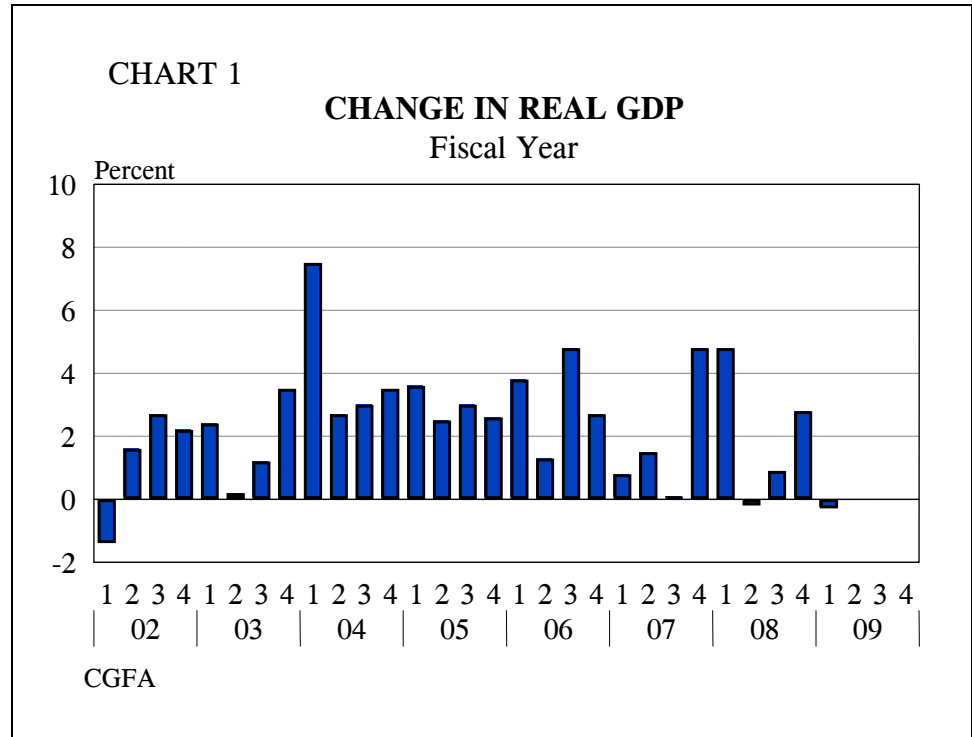
Edward H. Boss, jr.
Chief Economist

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.

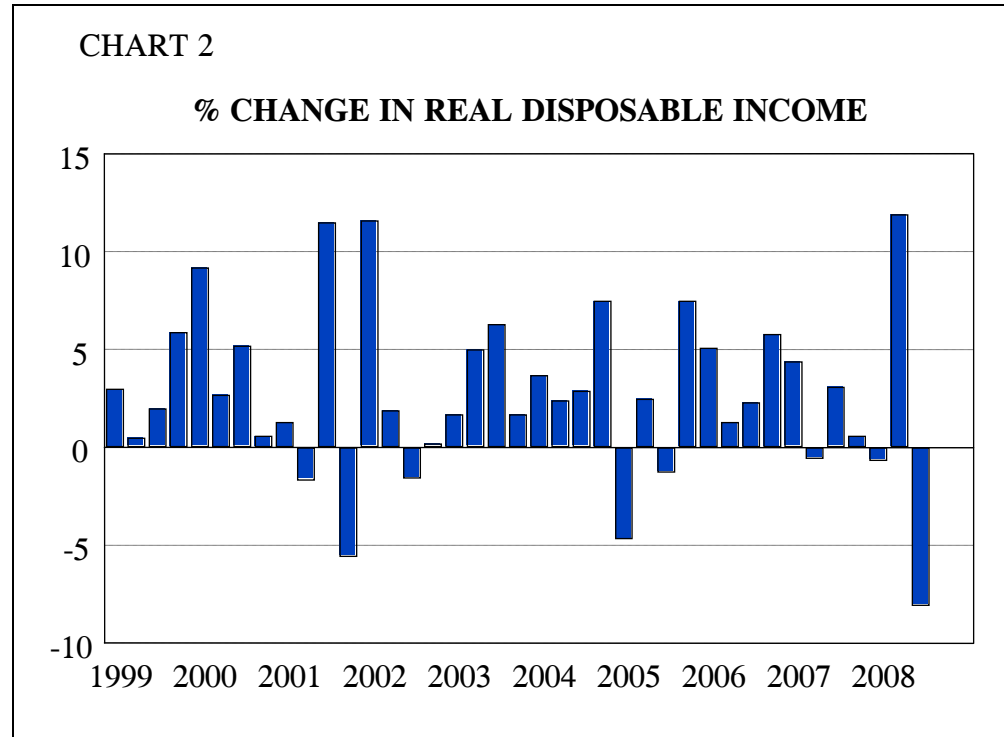
CHANGE IN REAL GDP

- Fiscal Year 2009 started off on a weak note, falling at a 0.3% annual rate, following growth of 2.4% in FY 2008.
- There can be little doubt that the U.S. Economy is in a recession, and has been probably since the end of last year or earlier this year.
- It is important to note that the National Bureau of Economic Research (NBER), the official determiners of dating recessions, does not define a recession in terms of two consecutive quarters of decline in real GDP. Rather, *“a recession is a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales.”*
- Let’s now turn to some of those factors.



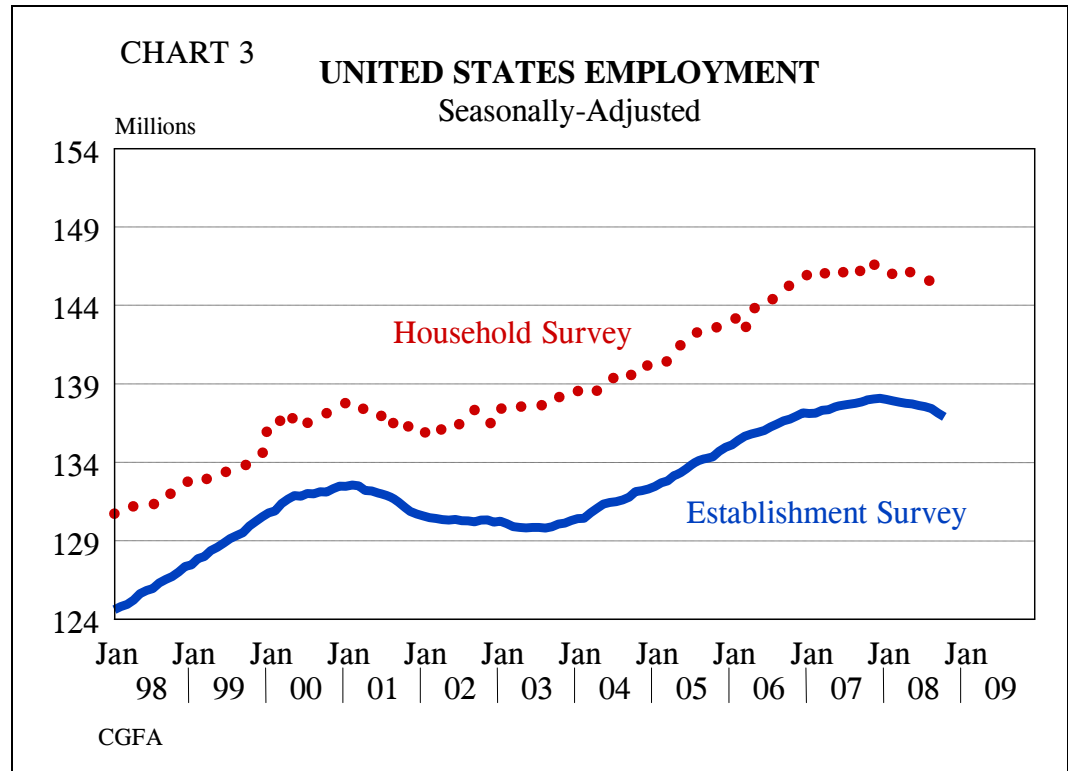
% CHANGE IN REAL DISPOSABLE INCOME

- First, there is the income. Chart 2 shows quarterly changes in personal income less taxes and adjusted for inflation – real disposable personal income.
- There has been sharp volatility in the latest two quarters, in large part due to the one-time impact of the Economic Stimulus Program.
- Even so, real disposable personal income now has fallen in 3 out of the past 6 quarters.
- The last time this occurred was in the recession of 2001.



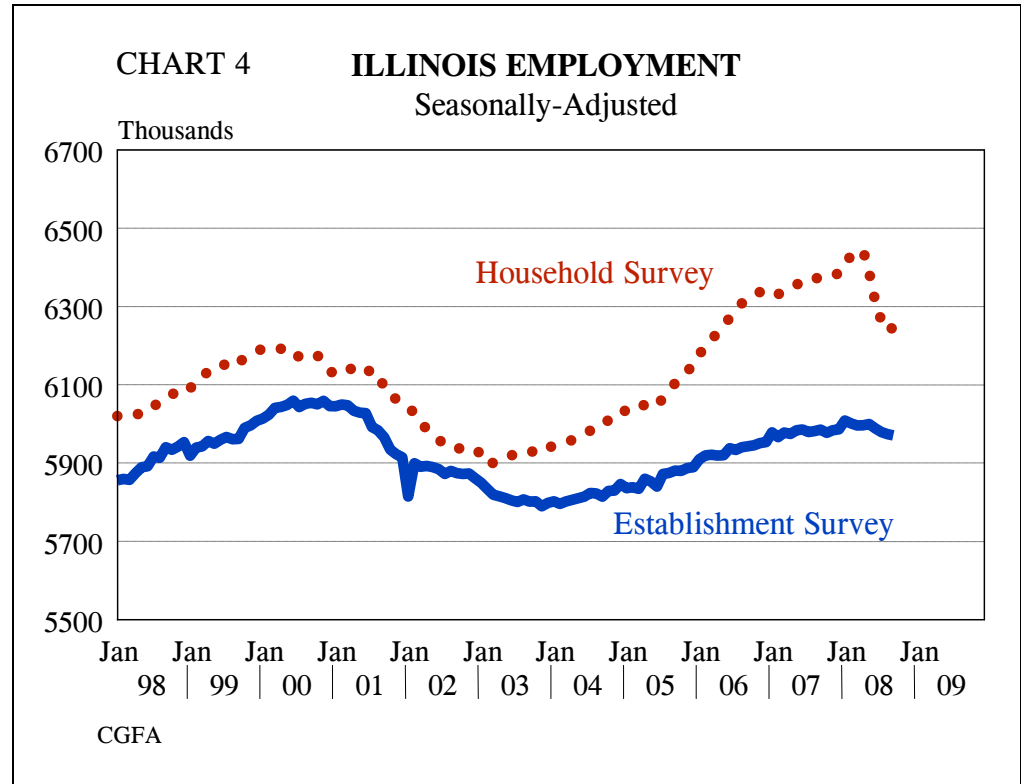
UNITED STATES EMPLOYMENT

- The underlying measure of strength in an economy is employment.
- As shown in Chart 3, employment in the U.S. has been on a declining trend when measured by either the Household Survey, which is done by survey and used to calculate the unemployment rate, or the more comprehensive Establishment Survey.
- Indeed, the high in employment was reached in November 2007 in the Household Survey and in December 2007 by the Establishment Survey.
- This is reminiscent of what occurred in the 2001 recession.



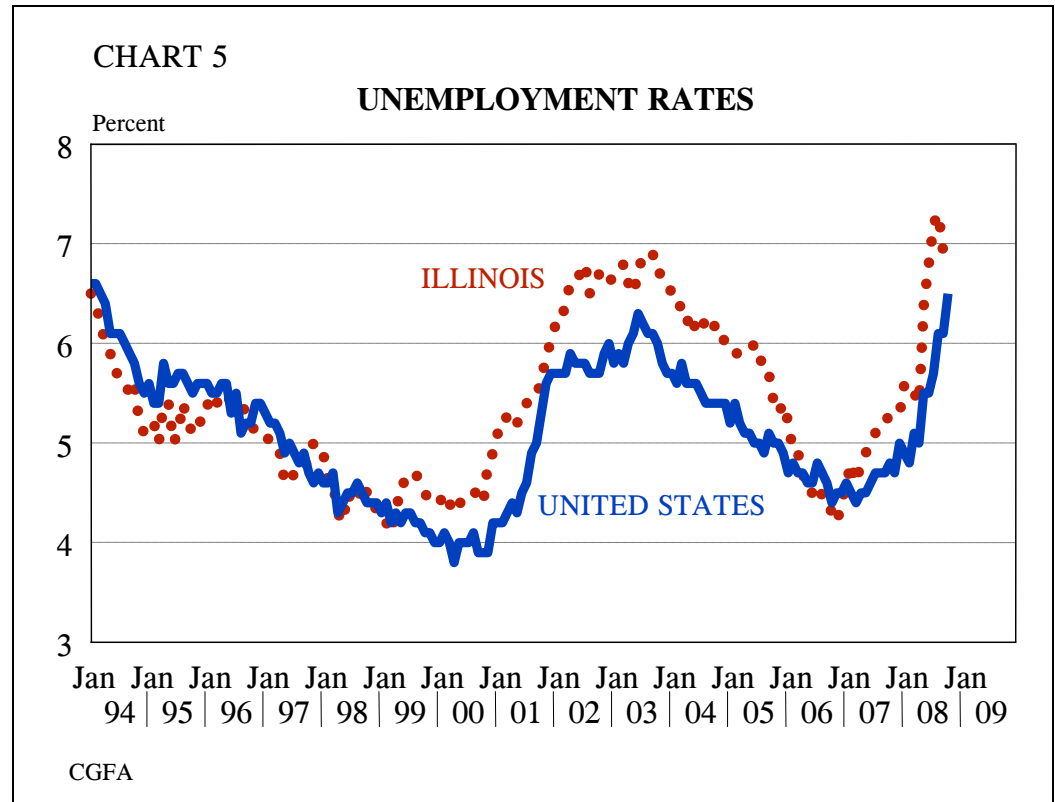
ILLINOIS EMPLOYMENT

- As has been true of the national employment situation, Illinois' employment also has been on a downward trend as shown in Chart 4.
- The timing of the downturn, however, has been somewhat different. The peak in the Household Survey in Illinois was not reached until April of this year.
- While the Household Survey normally leads what happens in the Establishment Survey, this was not true in Illinois. The peak in the Establishment Survey preceded the Household Survey where the peak was reached in January, three months earlier.
- This had an interesting effect on unemployment rate comparisons between the U.S. and Illinois.



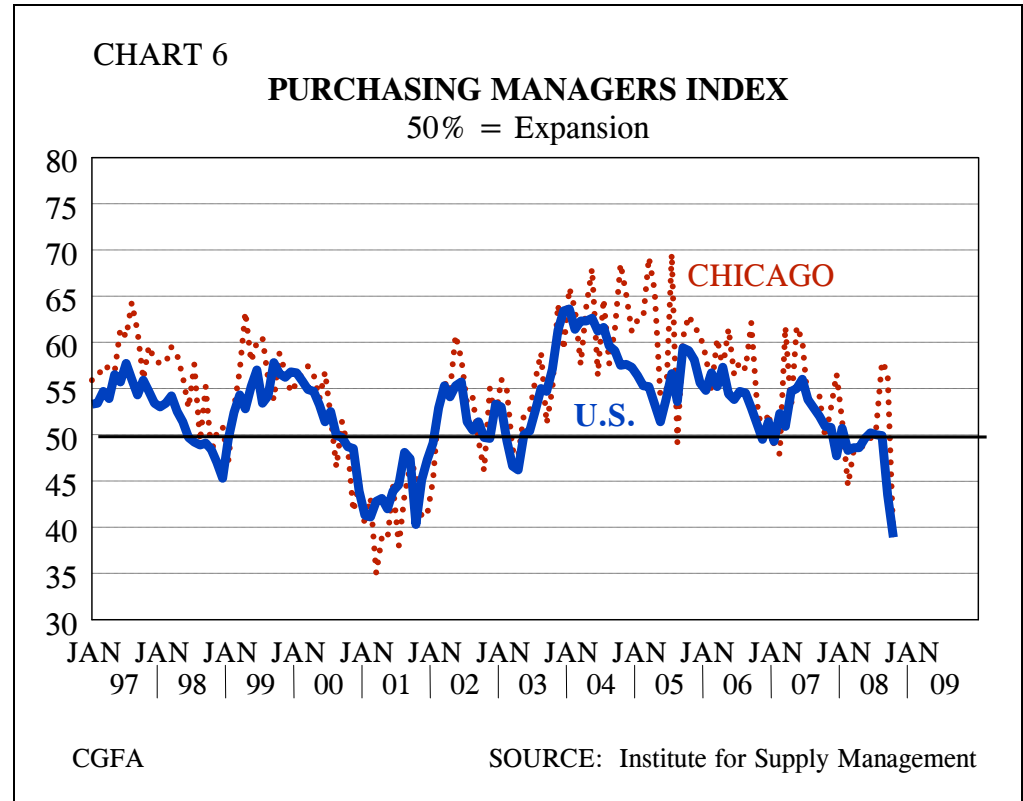
UNEMPLOYMENT RATES

- From the late 1990s through 2005, Illinois' unemployment rate, while trending coincidentally with the national rate, held consistently above the national unemployment rate.
- That divergence began to change in 2006 and, following May of that year fell below the national rate, a condition that lasted into 2007.
- Even so, the spread of the Illinois' unemployment rate above the national rate was rather consistent until about May of 2008 when Illinois' rate jumped sharply, increasing the spread.
- By August, Illinois' unemployment rate hit 7.3%, higher than it reached anytime during the last recession, although it edged down to 6.9% in September, the latest month available.
- However, in October the national unemployment rate jumped to 6.5% the highest in 14 years. Illinois' rate will be released on November 20th.



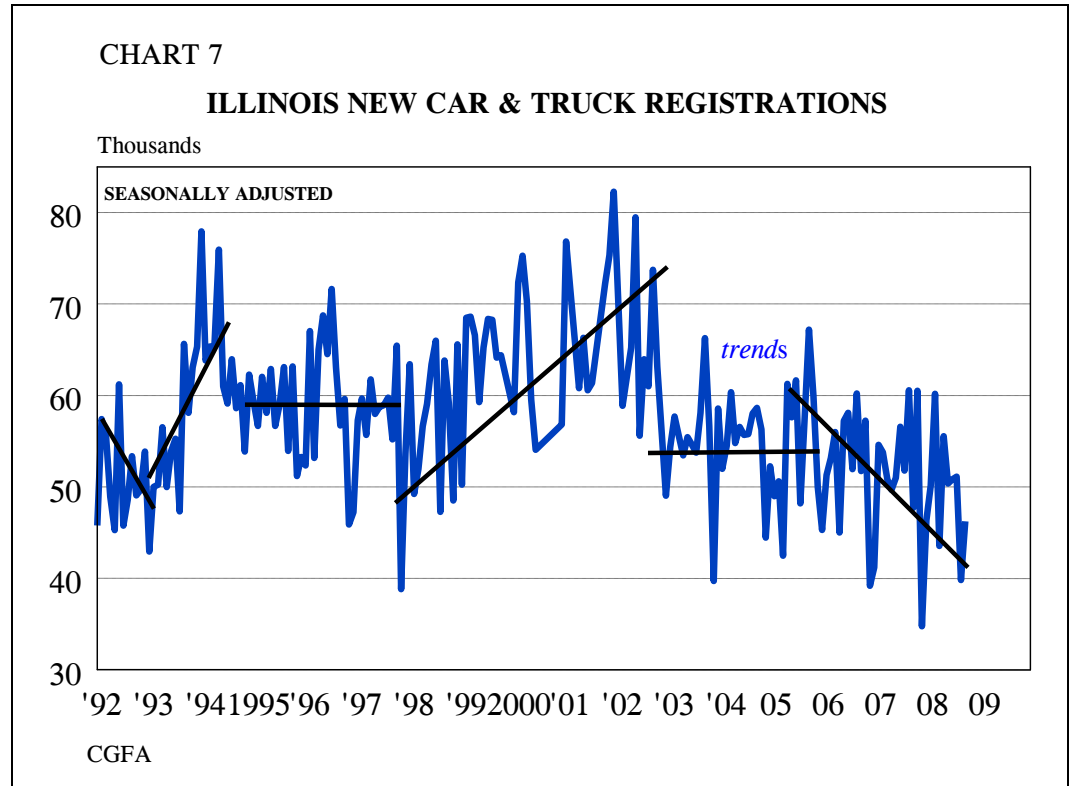
PURCHASING MANAGERS INDEX

- Production by the manufacturing sector has been particularly depressed. The index of manufacturing has been in contraction, registering an index number of less than 50%, in seven of the past ten months.
- As shown, this is reminiscent of its performance during the 2001 recession.
- Indeed, the latest month readings of 38.9 for the U.S. and 38.7 for the Chicago area are even slightly below those seen in the past recession.
- Thus, it is clear that by this measure, the sharpness of the decline coupled with its duration will be a factor in determining a recession.



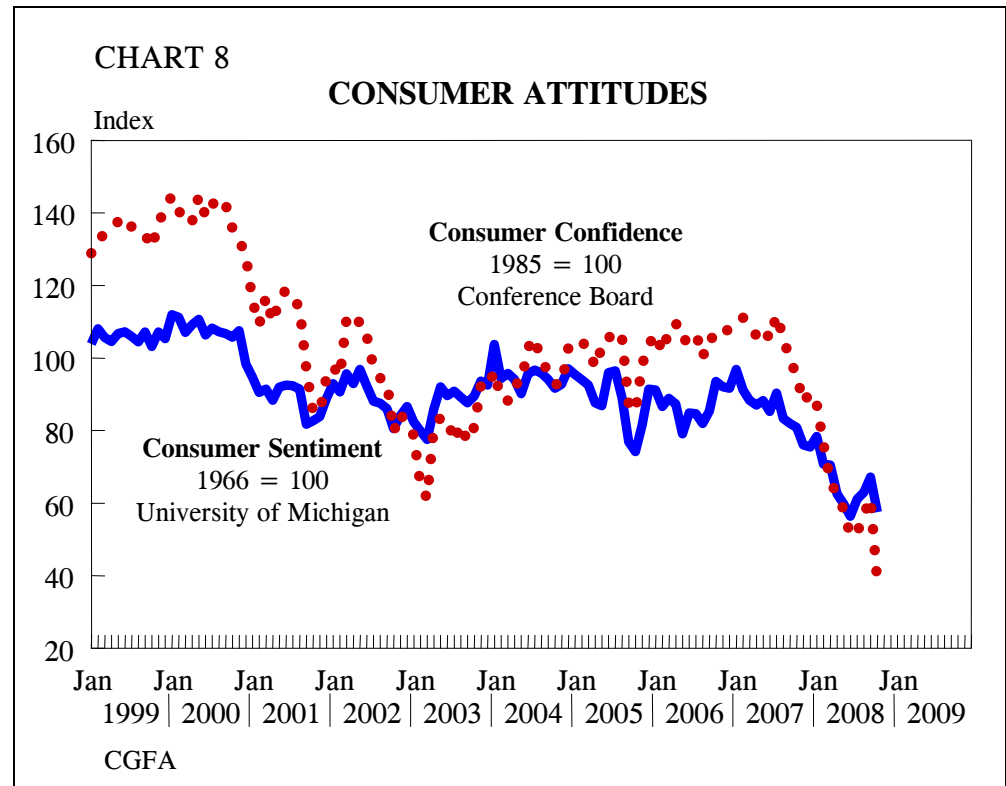
ILLINOIS NEW CAR & TRUCK REGISTRATIONS

- A final factor looked at in determining a recession is wholesale-retail sales.
- One particularly weak sector is the automobile industry where a combination of record high gasoline prices, a liquidity crisis, and difficulty in getting loans have reduced sales dramatically.
- As Chart 7 shows, new car and truck registrations in Illinois have been in a downward trend, reaching levels below those seen in the past recession.
- Since the consumer generally makes up about three quarters of GDP spending, its outlook is critically important not only in determining a recession but also as to when a turn around might be expected.



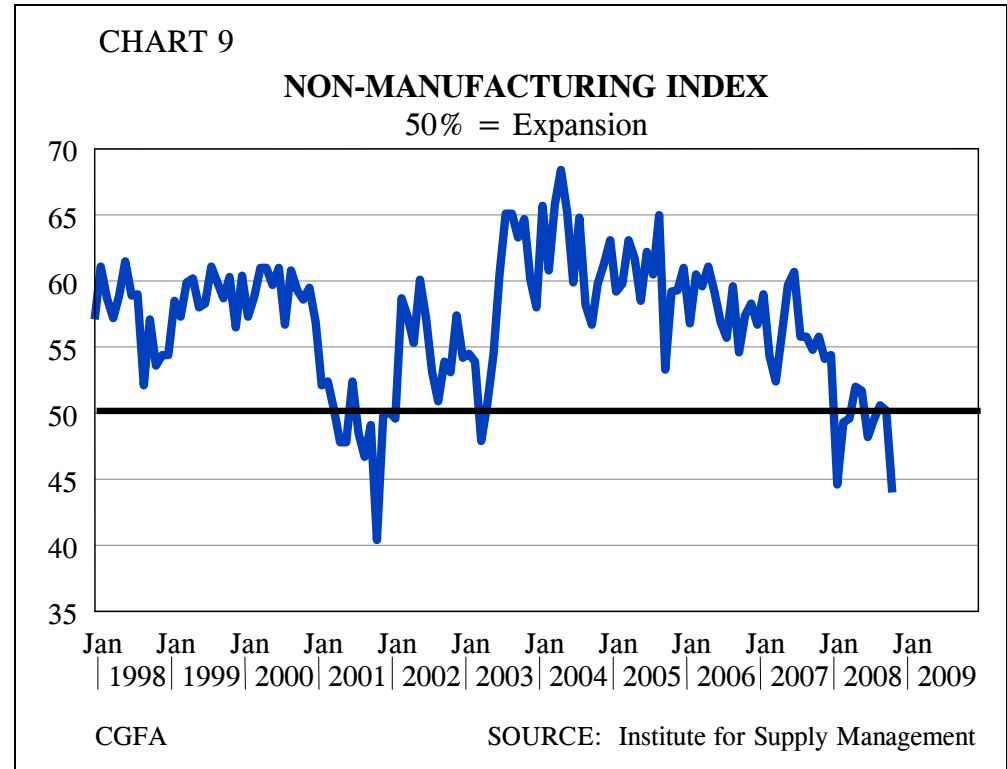
CONSUMER ATTITUDES

- With the noticeable exception of Wal-Mart, virtually all retail stores reported sales declines for October, some with double-digit drops.
- Moreover, consumer pessimism remains strong. As shown in Chart 8, consumer confidence and consumer sentiment measures reached all time record lows in October.
- According to a recent study done by Wachovia Economics Group, the outlook for consumer spending is not encouraging as the holiday shopping season approaches.
- Indeed, the study concluded.... *The combination of a weaker labor market, the deepest recession since 1981-82, and ongoing credit crunch will most likely pull holiday sales down to record their first recorded loss since data became available on a comparable basis, in 1992.*



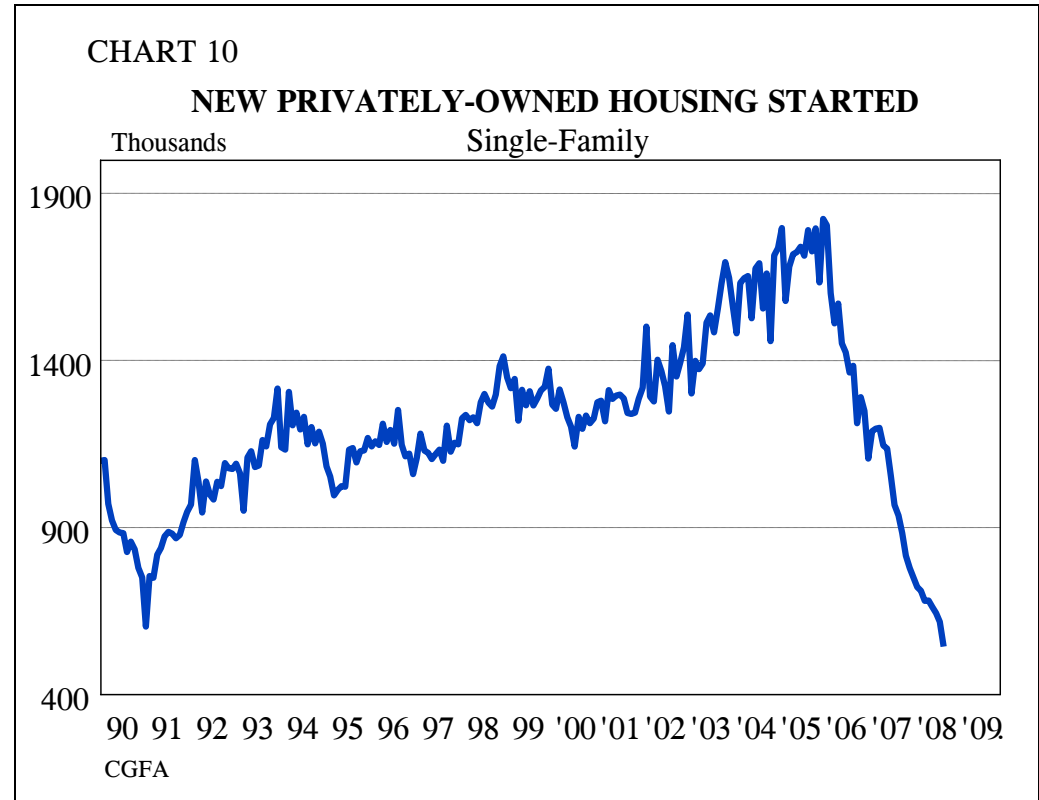
NON-MANUFACTURING INDEX

- The decline in activity has been widespread.
- Chart 9 takes a look at the growing service sector of the economy. A reading above 50% reflects an expansion whereas a reading below 50% means the sector is declining.
- In October, the index reading was 44%, the lowest since November 2001 when the economy was in the last recession. Moreover, the sector has been contracting in 6 out of the past 10-months.



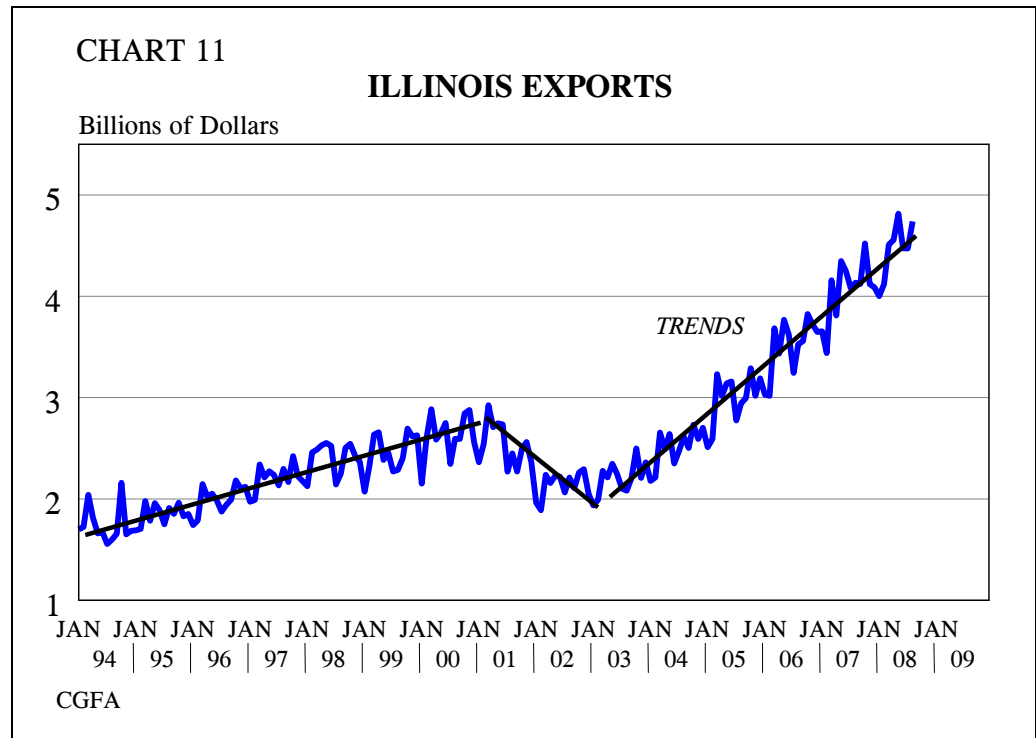
NEW PRIVATELY-OWNED HOUSING STARTED

- Certainly there has been no sector harmed more by the credit crisis than housing as the bubble that was formed burst.
- As shown in Chart 10, new single-family housing starts have fallen below that seen in either of the past two recessions.
- While recent reports have shown some improvement in terms of sales and inventory reductions, home prices continue to fall.
- It is felt that no improvement in the economy can occur until home prices stabilize.



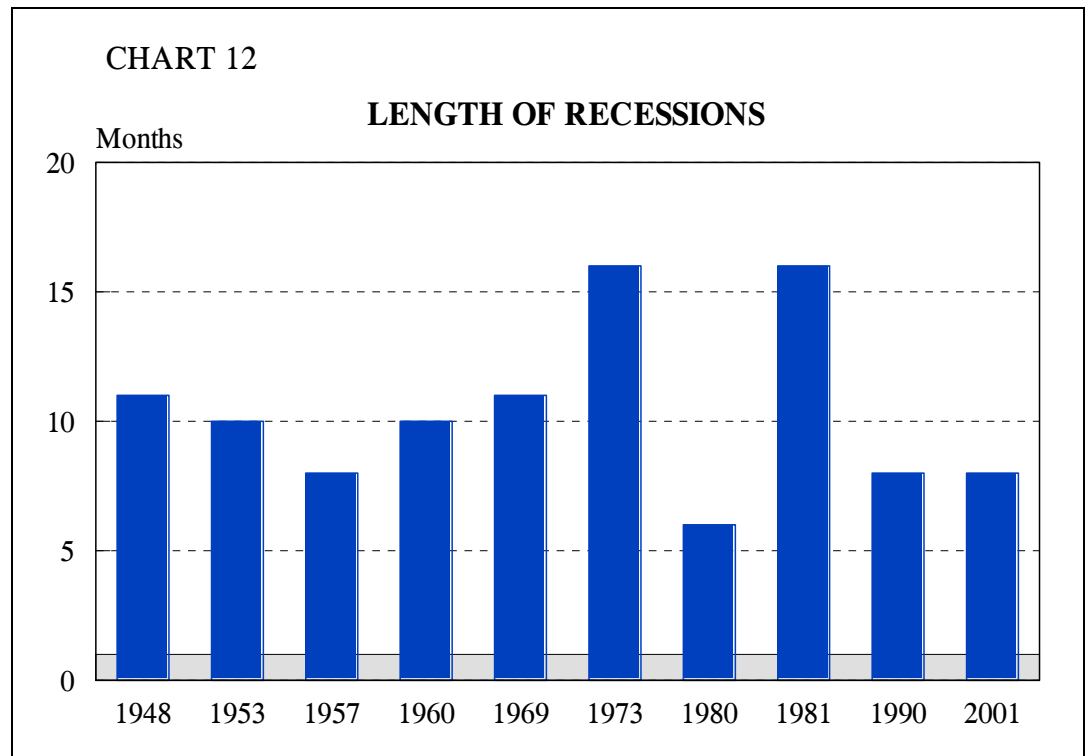
ILLINOIS EXPORTS

- About the last strong sector in the economy at the current time are exports.
- As shown in Chart 11, Illinois exports continue on a strong upward trend. With a strengthening value of the U.S. dollar and weakening demand abroad, however, this strength is likely to diminish in the period ahead.
- Even so, history has shown that, given contracts signed when the opposite conditions prevailed, a significant slowdown may be some time away, what Economists call the **J** effect.



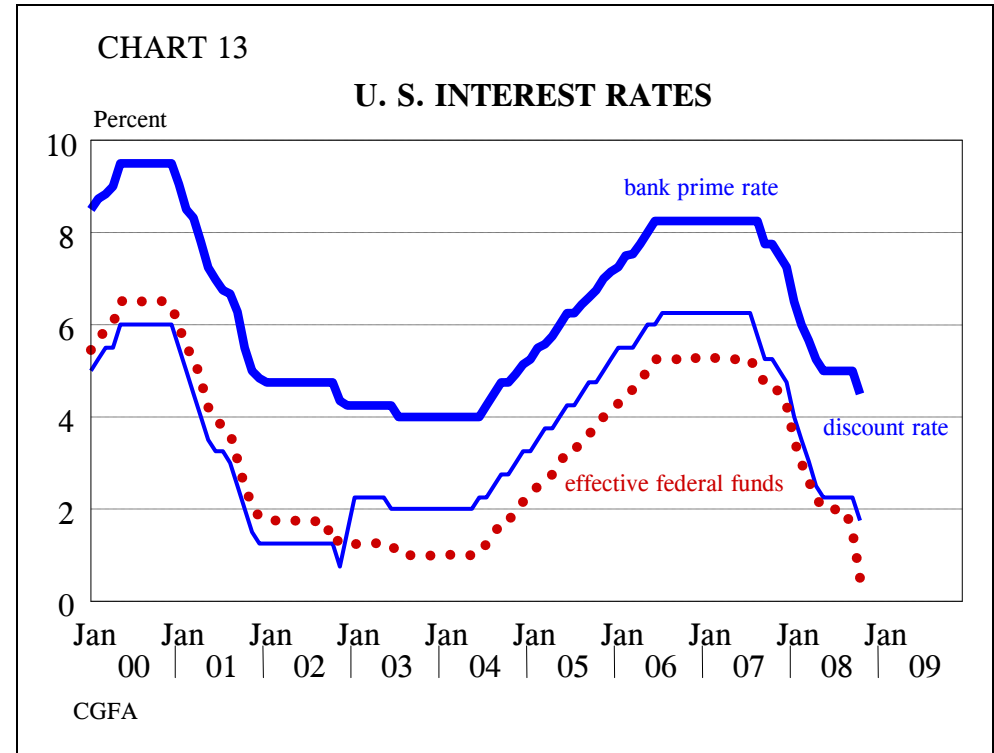
RECESSIONS

- While evidence is overwhelming that the U.S. economy is in the midst of a recession, the official start of the decline will not be known until a recovery has been firmly established.
- As shown in Chart 12, there have been 10 recessions in the post WW II period with an average length of 10-months in duration. Even so, there have been wide variations.
- The last two recessions each lasted 8-months, while the recessions in 1973 and 1981 were each twice as long, lasting 16-months. The shortest recession on record was 6-months in 1980, while the longest starting in 1929 lasted 43-months.
- Most Economists agree that the current recession is likely to be longer than the past two, and more in line with that shown in 1973 and 1981 with the potential to be even longer.



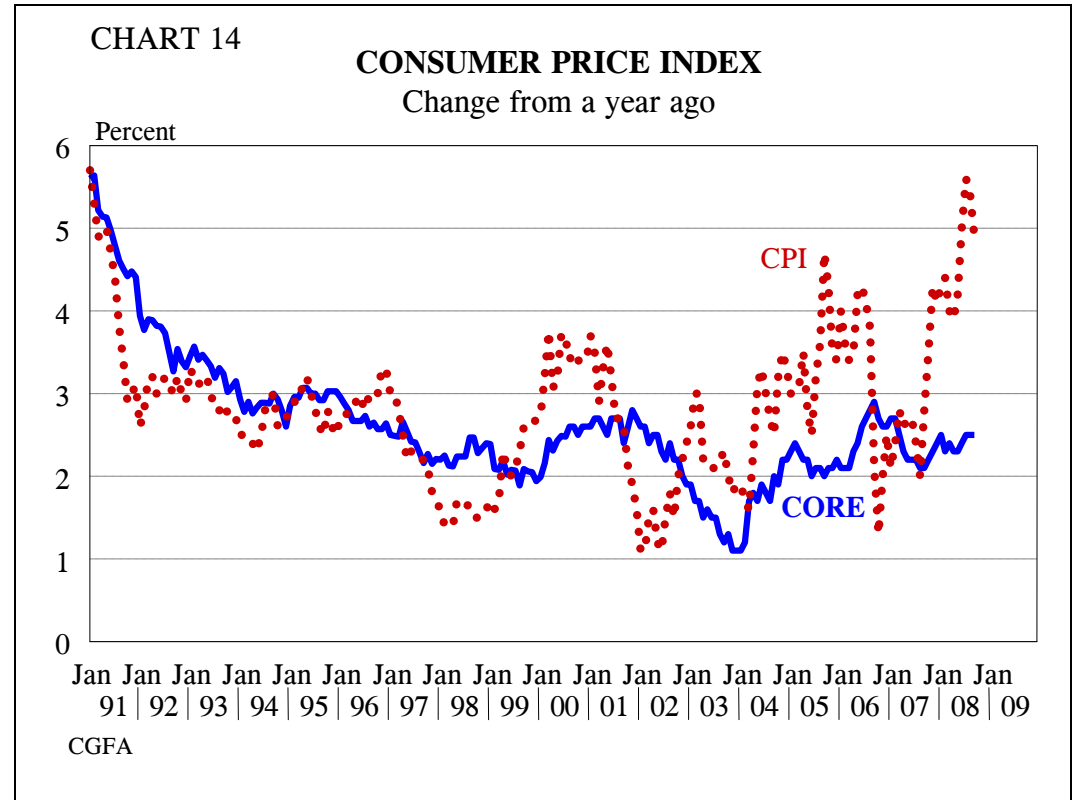
U.S. INTEREST RATES

- How severe and how long the current recession lasts will depend in part on the success of government attempts to rescue the financial markets, stabilize home prices, and instill consumer confidence.
- Following the economic stimulus program last summer, the government enacted a \$700 billion bailout plan following the liquidity freeze up and is in the process of doling it out. There also is talk of assisting particular industries such as autos and the airlines and even enacting a new economic stimulus plan.
- As shown in Chart 13, the monetary authorities also have been active to stimulate economic activity through lower interest rates. Indeed, the key federal funds rate at 0.5% is already below that reached in the last recession.
- Even so, there is talk of a further cut before year-end.



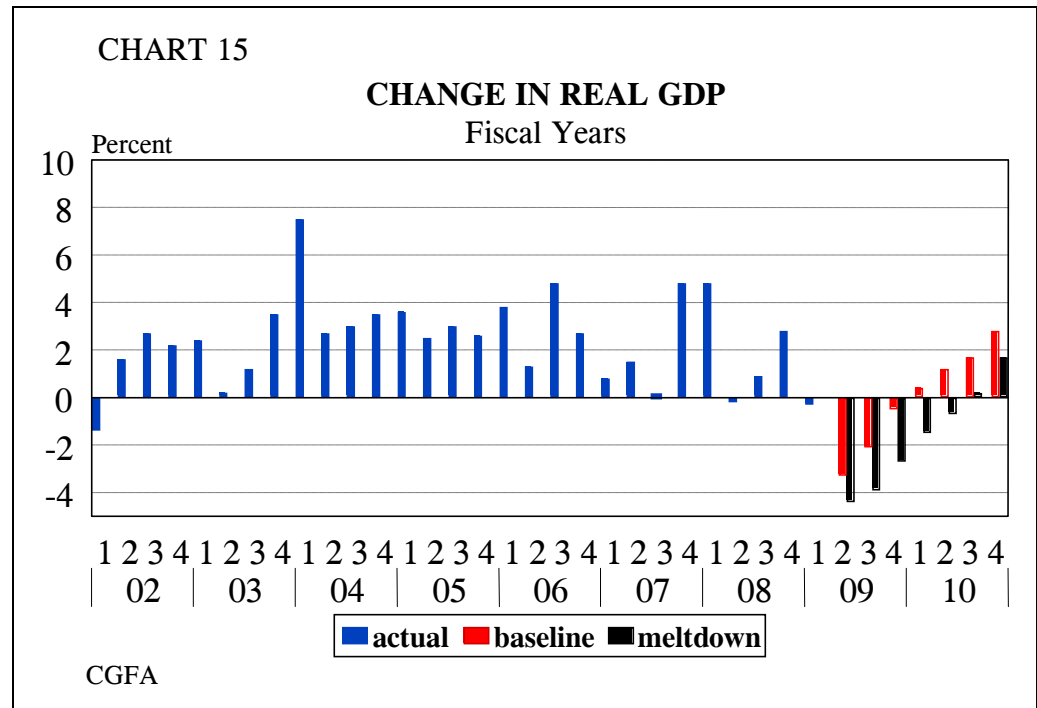
CONSUMER PRICES

- As shown in Chart 14, in the past few months consumer prices have been averaging about a 5% rate of increase. Indeed, social security cost of living increases next year will be 5.8%, clearly rates unsustainable over the longer term.
- At the same time, however, the core rate, which excludes food and energy prices, has been rising at a lesser 2.5% annual rate. Thus, with lower energy prices and recession-reduced demand likely to ease other prices, inflation should not be a problem in the months ahead.
- Given a dramatic lowering of interest rates and a pumping of liquidity into the financial system, however, the Federal Reserve must keep an eye on inflation again once an economic recovery gets underway.



CHANGE IN REAL GDP

- Chart 15 shows two forecasts of the U.S. economy through FY 2010.
- The first, or baseline, is the most likely solution. It has a significant fall off in economic activity in the next two quarters (October through March) followed by a modest decline in the next quarter (April-June 2009) and a recovery beginning in the first quarter of FY 2010 (July-September 2009).
- The most pessimistic scenario is called melt down. It has a more severe falloff and for a longer duration. It would not show positive growth again until the third quarter of FY 2010, (April-June 2010). This solution, however, is given just a 25% chance of happening at this time.



ECONOMIC FORECASTS

ECONOMIC FORECASTS - NOVEMBER 2008

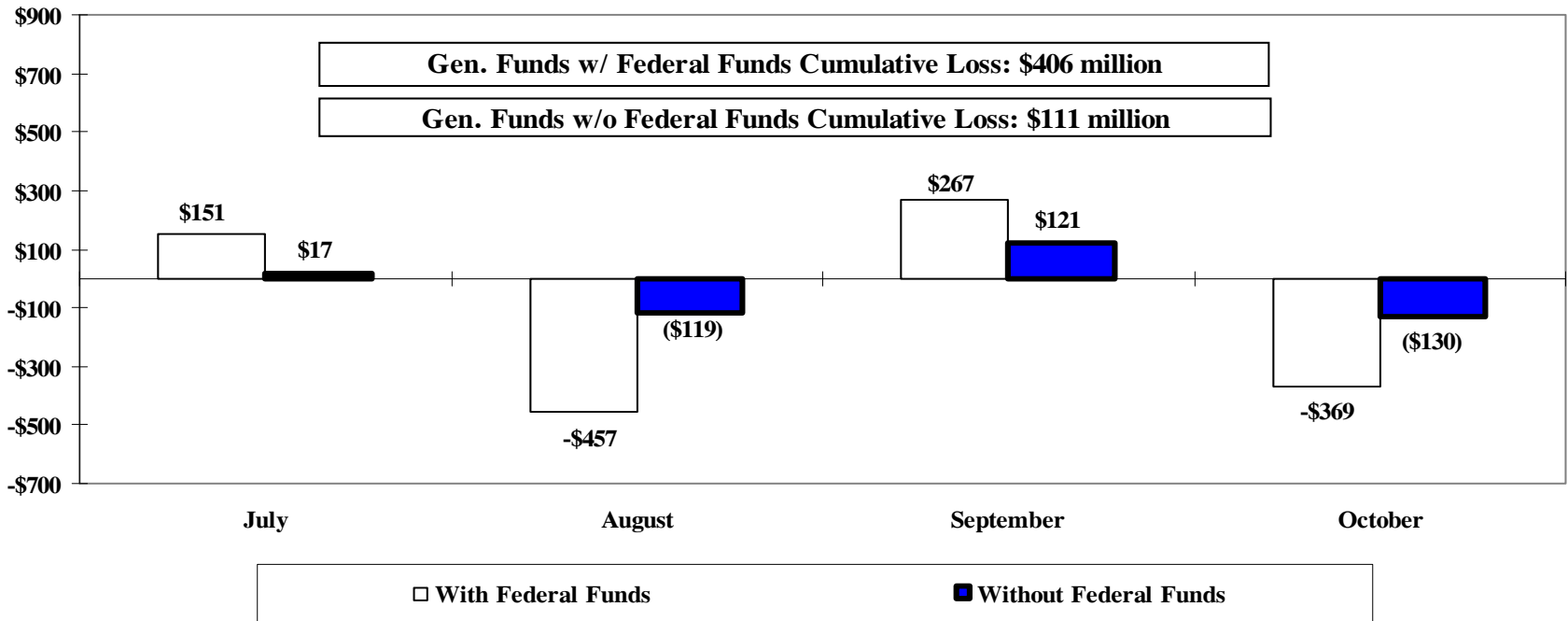
(\$ Change from prior year levels)

REAL (2000\$)	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Estimated	FY 2010 Estimated
Gross Domestic Product	3.1	3.0	2.0	2.4	-0.4	0.1
Personal Consumption	3.3	3.1	3.0	1.9	-0.8	1.7
Durable	5.2	4.0	4.9	2.2	-8.9	6.4
Nondurable	3.2	3.8	3.1	1.5	-1.4	1.6
Services	2.9	2.5	2.6	2.1	1.0	1.1
Fixed Investment	8.5	4.5	-3.8	-4.1	-11.4	-6.3
Exports	9.0	7.6	8.3	12.3	4.8	-1.4
Imports	7.6	6.2	2.7	-0.3	-4.6	-0.3
Government	0.6	1.1	1.7	2.5	1.9	-1.1
Federal	2.8	1.7	1.3	4.2	4.6	-0.5
State & Local	-0.4	0.6	2.0	1.9	0.4	-0.2
OTHER MEASURES						
Personal Income (Current \$)	6.3	6.3	6.6	5.3	3.1	1.7
Personal Consumption (Current \$)	6.1	6.4	5.4	5.2	1.1	2.1
Before Tax Profits (Current \$)	20.4	14.2	7.3	-3.6	-8.1	3.7
Consumer Prices	3.0	3.8	2.6	3.7	1.6	0.2
Unemployment Rate (Average)	5.3	4.8	4.5	4.9	6.8	8.2

FY 2009 REVENUE RECAP

Through the first third of FY 2009, overall base revenues are down \$406 million. The decline is primarily attributed to \$296 million less from federal sources, as well as \$179 million less from transfers. A number of items will serve to restrict revenue growth in FY 2009 (i.e. increased refund percentage, lower miscellaneous transfers, reduced Cook County IGT, less from riverboat transfers, returns from interest income, no expected growth from federal sources). Those items, when combined with an economy now in recession, will cause already difficult budgetary pressures to build.

FY 2009 Monthly General Funds Performance
**July thru October as Compared to Same Prior Year Months*
 (\$ in millions)



*Figures exclude short-term borrowing and Budget Stabilization Fund transfers.

INDIVIDUAL SOURCE PERFORMANCE TO DATE

The most closely related economic sources continue their subdued performance. While rates of growth are very close to that forecast at the end of the spring session, unfortunately, worsening economic conditions suggest that even these modest rates of growth will be unable to be maintained over the remainder of the fiscal year.

- Interest income has plunged due to lower rates of return and fewer investable balances. With rates expected to remain flat or possibly fall further, prospects of any improvement are dim.
- Riverboat transfers continue to falter. A combination of a slowed economy, the indoor smoking ban, competition from other states, and until very recently—high gasoline prices, have conspired to erode performance.
- Other transfers are down due to timing resulting from last year's hospital assessment program as well as other miscellaneous transfers. *While approximately \$221 million in fund transfers were approved to occur in FY 2009, those monies are being transferred into the FY 2009 Budget Relief Fund, not the general funds.*

At this time, very little positive news exists as it relates to revenues. While it appears probable the State will receive an infusion of up to \$435 million from the sale of the 10th riverboat license, even that is likely to fall well short of the hoped for \$575 million that was assumed in the FY 2009 budget.

GENERAL FUNDS RECEIPTS: YEAR TO DATE				
<i>FY 2009 vs. FY 2008</i>				
<i>(\$ million)</i>				
Revenue Sources	FY 2009	FY 2008	CHANGE FROM FY 2008	% CHANGE
State Taxes				
Personal Income Tax	\$3,135	\$3,037	\$98	3.2%
Corporate Income Tax (regular)	462	455	\$7	1.5%
Sales Taxes	2,457	2,419	\$38	1.6%
Public Utility Taxes (regular)	379	351	\$28	8.0%
Cigarette Tax	117	117	\$0	0.0%
Liquor Gallonage Taxes	55	54	\$1	1.9%
Vehicle Use Tax	11	13	(\$2)	-15.4%
Inheritance Tax (Gross)	92	106	(\$14)	-13.2%
Insurance Taxes and Fees	82	83	(\$1)	-1.2%
Corporate Franchise Tax & Fees	68	85	(\$17)	-20.0%
Interest on State Funds & Investments	24	77	(\$53)	-68.8%
Cook County IGT	13	15	(\$2)	-13.3%
Other Sources	131	134	(\$3)	-2.2%
Subtotal	\$7,026	\$6,946	\$80	1.2%
Transfers				
Lottery	188	203	(\$15)	-7.4%
Riverboat transfers & receipts	185	250	(\$65)	-26.0%
Other	147	246	(\$99)	-40.2%
Total State Sources	\$7,546	\$7,645	(\$99)	-1.3%
Federal Sources	\$1,587	\$1,883	(\$296)	-15.7%
Total Federal & State Sources	\$9,133	\$9,528	(\$395)	-4.1%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$306)	(\$296)	(\$10)	3.4%
Corporate Income Tax	(\$81)	(\$80)	(\$1)	1.3%
Subtotal General Funds	\$8,746	\$9,152	(\$406)	-4.4%
Short-Term Borrowing	\$0	\$1,200	(\$1,200)	N/A
Hospital Provider Fund (cash flow transfer)	\$0	\$300	(\$300)	N/A
Budget Stabilization Fund Transfer	\$276	\$276	\$0	0.0%
Total General Funds	\$9,022	\$10,928	(\$1,906)	-17.4%
SOURCE: Office of the Comptroller, State of Illinois: Some totals may not equal, due to rounding.				
CGFA				

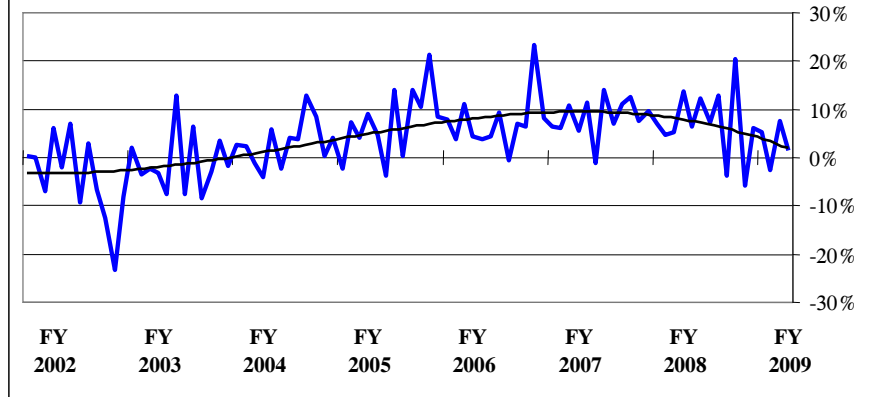
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ONEROUS TRENDS

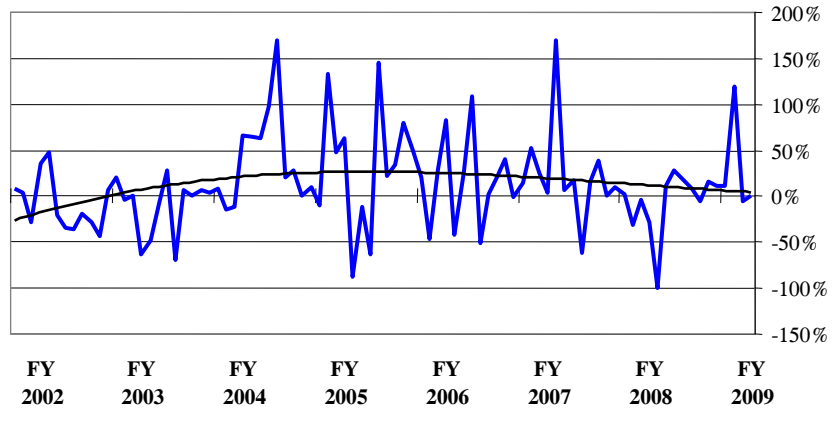
Gross personal income tax receipts are up 3.2% over the first third of the year, as shown in the accompanying chart. Based on monthly year-over-year percent change, the trend is markedly down. If employment measures continue to fall as expected over the coming quarters, there is little reason to believe the current growth rate can be maintained.

Similarly, year-over-year percent change by month for both corporate income tax as well as sales tax point to worsening receipt patterns. Corporate profits have been decimated over recent months, while consumer sentiments have eroded to record low levels, neither of which bode well for the remainder of the year.

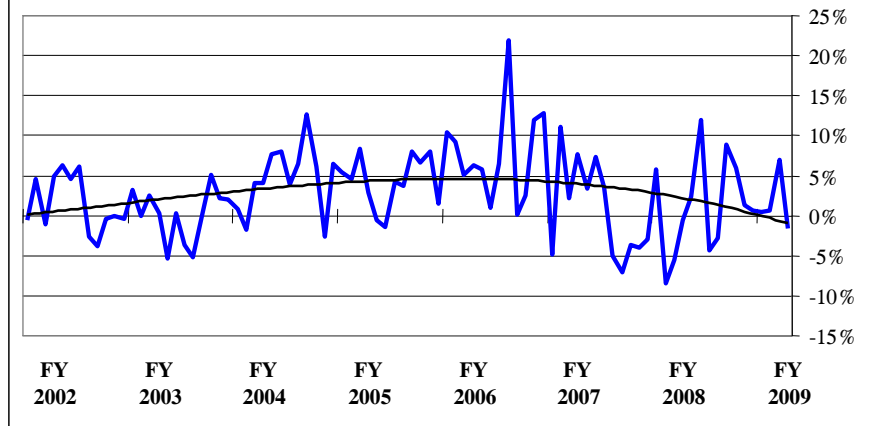
**Personal Income Tax Revenue Year-Over-Year
Percent Change by Month**



**Corporate Income Tax Revenue Year-Over-Year
Percent Change by Month**



**Sales Tax Revenue Year-Over-Year Percent
Change by Month**



UPDATED CGFA FY 2009 ESTIMATE

The accompanying table shows the Commission's updated forecast of FY 2009 revenues. Overall base revenues are estimated to be \$29.109 billion, a decrease of \$550 million or 1.9% from the previous year. The projections are based upon a significant slowing of receipts from the economically related sources as the recession begins to manifest in reduced tax collections.

While the FY 2009 budget was implemented with the hopes of recording \$792 million in actual growth—actual performance through the first third of the year, coupled with a worsening outlook for the remainder of the fiscal year, point to revenues falling well short of those expectations. Noteworthy items include:

- In terms of personal income tax, a continued worsening of the employment picture will impact withholding taxes going forward, while final and estimated payments are expected to suffer as non-wage income has plummeted.
- Corporate income tax, often more responsive to changing trends, is expected to dive in the second half of the fiscal year due to a myriad of problems related to corporate profits and an unfavorable business climate.
- Sales taxes, having managed to eke out a small gain over the first part of the year, are expected to falter reflecting low consumer confidence, horrendous auto sales, and a weak holiday season.
- Interest earnings have been steadily eroding with no hope of any near-term turnaround.
- Riverboat transfers are expected to suffer large losses in the coming months and, due to the graduated tax structure, will have no opportunity to reverse those trends in the second half.
- While the estimate includes \$435 million for sale of the 10th license, this merely reflects the highest bid amount of the current auction process. Final negotiations are still ongoing and could change these numbers significantly. Although based on other bids, it would appear unlikely that figure will be exceeded.

It would be unrealistic to believe the State will be immune from the impact of the current recession. By most estimates, we are only now entering the most difficult period, meaning a slowdown is looming, and revenues are in the crosshairs.

CGFA ESTIMATE FY 2009 vs. ACTUAL FY 2008				
(millions)				
<u>Revenue Sources</u>	<u>CGFA FY 2009 Estimate Nov-08</u>	<u>Actual FY 2008</u>	<u>\$ Difference</u>	<u>% Difference</u>
State Taxes				
Personal Income Tax	\$11,200	\$11,187	\$13	0.1%
Corporate Income Tax	\$2,000	\$2,201	(\$201)	-9.1%
Sales Taxes	\$7,115	\$7,215	(\$100)	-1.4%
Public Utility (regular)	\$1,200	\$1,157	\$43	3.7%
Cigarette Tax	\$350	\$350	\$0	0.0%
Liquor Gallonage Taxes	\$160	\$158	\$2	1.3%
Vehicle Use Tax	\$32	\$32	\$0	0.0%
Inheritance Tax (gross)	\$331	\$373	(\$42)	-11.3%
Insurance Taxes & Fees	\$315	\$298	\$17	5.7%
Corporate Franchise Tax & Fees	\$205	\$225	(\$20)	-8.9%
Interest on State Funds & Investments	\$75	\$212	(\$137)	-64.6%
Cook County Intergovernmental Transfer	\$256	\$302	(\$46)	-15.2%
<u>Other Sources</u>	<u>\$434</u>	<u>\$442</u>	<u>(\$8)</u>	<u>-1.8%</u>
Subtotal	\$23,673	\$24,152	(\$479)	-2.0%
Transfers				
Lottery	\$630	\$657	(\$27)	-4.1%
Riverboat Transfers & Receipts	\$465	\$564	(\$99)	-17.6%
Sale of 10th Riverboat License [approx.]	\$435	\$0	\$435	N/A
<u>Other</u>	<u>\$554</u>	<u>\$679</u>	<u>(\$125)</u>	<u>-18.4%</u>
Total State Sources	\$25,757	\$26,052	(\$295)	-1.1%
Federal Sources	\$4,794	\$4,815	(\$21)	-0.4%
Total Federal & State Sources	\$30,551	\$30,867	(\$316)	-1.0%
Nongeneral Funds Distribution:				
Refund Fund*				
Personal Income Tax	(\$1,092)	(\$867)	(\$225)	26.0%
Corporate Income Tax	(\$350)	(\$341)	(\$9)	2.6%
Subtotal General Funds	\$29,109	\$29,659	(\$550)	-1.9%
Change from Prior Year Estimate	(\$550)	\$1,019	(\$1,569)	-154.0%
Percent Change	-1.9%	3.6%	0.0%	0.0%
Short-Term Borrowing	\$0	\$2,400	(\$2,400)	N/A
Hospital Provider Fund (cash flow transfer)	\$0	\$1,503	(\$1,503)	N/A
Budget Stabilization Fund Transfer	\$276	\$276	\$0	0.0%
Total General Funds	\$29,385	\$33,838	(\$4,453)	-13.2%
*The FY 2009 estimate based on refund percentages at 9.75% for PIT and 17.5% for CIT.				
CGFA				

REVENUE SHORTFALL: CGFA's FY 2009 Estimate vs. Budgeted Expectations

Unofficially, the FY 2009 budget was based upon revenues of \$30.451 billion. As shown in the accompanying table, CGFA's estimate of \$29.109 billion is \$1.342 billion less than those budgeted figures. In recent weeks, the Department of Revenue has indicated that receipts from income and sales taxes could fall \$800 million to \$1 billion short of budgeted amounts. CGFA's latest estimate falls within that framework, as net personal, net corporate, and sales taxes comprise \$828 million of the expected revenue shortfall. However, in addition to those items:

- Interest income, due to much lower rates of return as well as investable balances is expected to continue to free fall and end the year \$105 million under budgeted projections.
- Riverboat transfers continue to suffer significant losses and should end the year approximately \$177 million below budget estimates.
- The sale of the 10th license was hoped to bring in \$575 million, however, the current highest bid was \$140 million less than that amount. While the bidding process is still ongoing, it would appear unlikely that the budgeted figure will be reached.
- Other transfers will fall \$124 million shy of budgeted amounts. It was never clear how the GOMB expected to reach their transfer estimate. The Commission's estimate even includes \$80 million for one-year of the yet to be federally approved hospital assessment program.

All told, when the falloff in the most closely tied economic sources are combined with expected shortfalls in the other above lines, the total revenue shortfall climbs to \$1.342 billion. Unfortunately, as recent history has taught us, improvement will not occur overnight, in fact, the effect of this recession will be felt for some time—with the worst perhaps to come in FY 2010.

CGFA vs. Unofficial FY 2009 Budget (per GOMB)				
(millions)				
	CGFA FY 2009 Estimate Nov-08	Unofficial FY 2009 Budget Assumptions Estimate Aug-08	\$ Difference	% Difference
Revenue Sources				
State Taxes				
Personal Income Tax	\$11,200	\$11,559	(\$359)	-3.1%
Corporate Income Tax	\$2,000	\$2,348	(\$348)	-14.8%
Sales Taxes	\$7,115	\$7,332	(\$217)	-3.0%
Public Utility (regular)	\$1,200	\$1,110	\$90	8.1%
Cigarette Tax	\$350	\$350	\$0	0.0%
Liquor Gallonage Taxes	\$160	\$161	(\$1)	-0.6%
Vehicle Use Tax	\$32	\$31	\$1	3.2%
Inheritance Tax (gross)	\$331	\$275	\$56	20.4%
Insurance Taxes & Fees	\$315	\$325	(\$10)	-3.1%
Corporate Franchise Tax & Fees	\$205	\$205	\$0	0.0%
Interest on State Funds & Investments	\$75	\$180	(\$105)	-58.3%
Cook County Intergovernmental Transfer	\$256	\$256	\$0	0.0%
Other Sources	\$434	\$504	(\$70)	-13.9%
Subtotal	\$23,673	\$24,636	(\$963)	-3.9%
Transfers				
Lottery	\$630	\$664	(\$34)	-5.1%
Riverboat Transfers & Receipts	\$465	\$642	(\$177)	-27.6%
Sale of 10th Riverboat License [approx.]	\$435	\$575	(\$140)	N/A
Other	\$554	\$678	(\$124)	-18.3%
Total State Sources	\$25,757	\$27,195	(\$1,438)	-5.3%
Federal Sources	\$4,794	\$4,794	\$0	0.0%
Total Federal & State Sources	\$30,551	\$31,989	(\$1,438)	-4.5%
Nongeneral Funds Distribution:				
Refund Fund*				
Personal Income Tax	(\$1,092)	(\$1,127)	\$35	-3.1%
Corporate Income Tax	(\$350)	(\$411)	\$61	-14.8%
Subtotal General Funds	\$29,109	\$30,451	(\$1,342)	-4.4%
Change from Prior Year	(\$550)	\$792	(\$1,342)	-169.4%
Percent Change	-1.9%	2.7%	0.0%	0.0%
Short-Term Borrowing	\$0	\$0	\$0	N/A
Hospital Provider Fund (cash flow transfer)	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$276	\$276	\$0	0.0%
Total General Funds	\$29,385	\$30,727	(\$1,342)	-4.4%
*The FY 2009 estimate based on refund percentages at 9.75% for PIT and 17.5% for CIT.				
CGFA				
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Looking Ahead to FY 2010

Keep Your Seatbelts Buckled—It's Going to Stay Bumpy

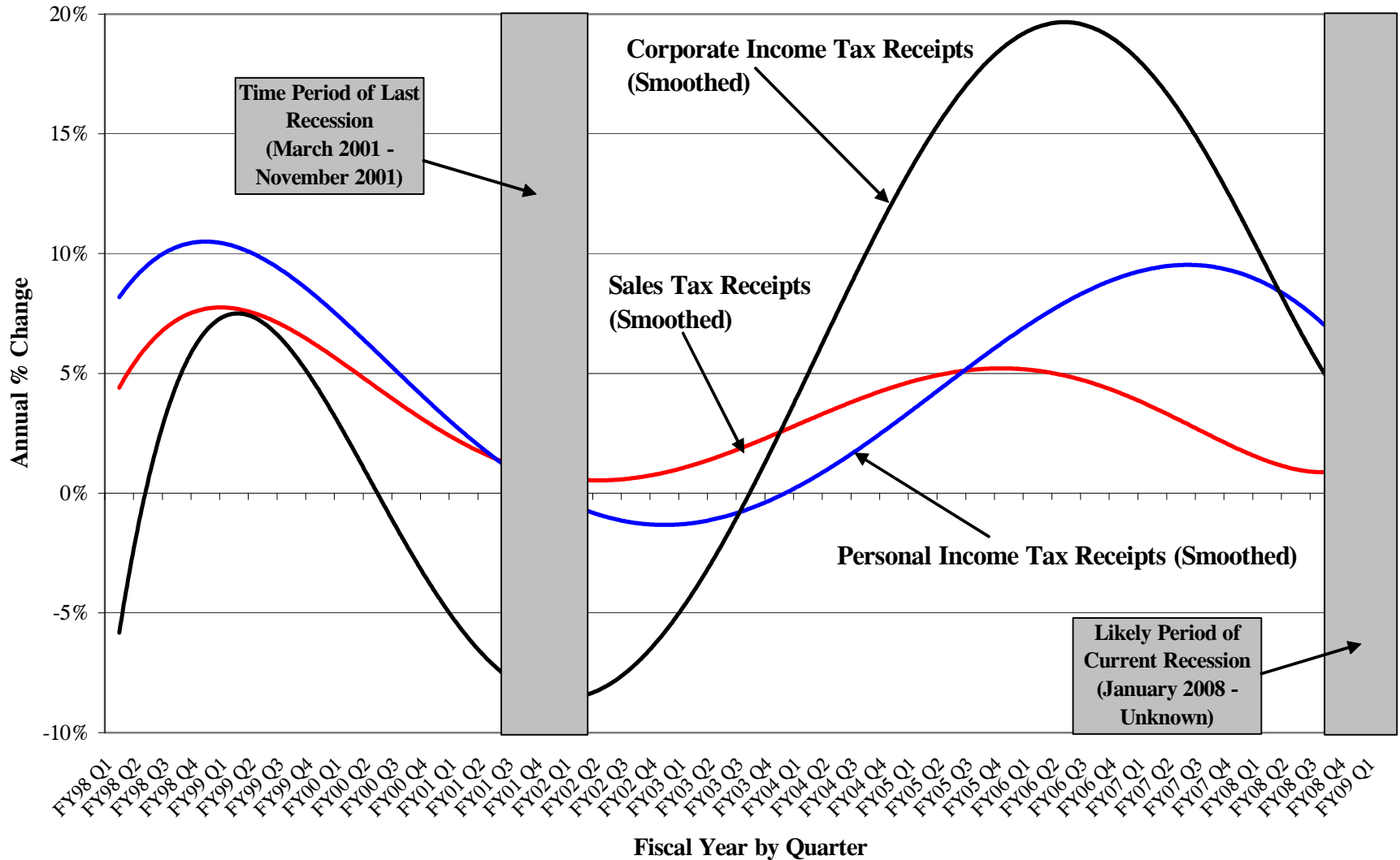
Most economic forecasts are calling for a more severe recession than the last two experienced in 1990 and 2001, perhaps as deep as slowdowns experienced in the early 1970s and early 1980s. Recent history indicates that any slowing may manifest in severe consequences for State revenues.

- By most measures, the 2001 recession was considered quite shallow, both in terms of depth as well as duration. And yet, Illinois revenues suffered a record two consecutive years of actual declines, falling between 3.0% in FY 2002 and another 2.5% in FY 2003.
- During the 2001 recession, non-adjusted employment fell 37 consecutive months on a month vs. same month prior-year basis. This would indicate that even if the current recession were to end sometime in early to mid-2009, the lingering effects should drift well into FY 2010. In fact, gross personal income tax suffered year over year declines through FY 2003, well after the recovery phase had begun.
- Similarly, gross corporate income tax also suffered multiple years of declines, falling on average over 17% in FY 2001 and FY 2002, and a third year drop of 3.0% in FY 2003.
- Sales tax held up somewhat better during the last slowdown, experiencing only one year of decline with FY 2001 dropping 1.1%. However, it is uncertain if the consumer will be able to hold up as well this go around. Consumer confidence is at record lows, the upcoming holiday season is expected to be dismal, and new car sales have plummeted. This retrenchment of the consumer cannot be expected to turn around overnight.
- In addition, while a one-time influx of revenue related to the sale of the 10th riverboat license should occur sometime in FY 2009, little revenue from the actual operation of the license should be expected for quite some time. As a result, a significant year-over-year falloff will likely result.

Enough uncertainty exists to make estimating FY 2009 revenues difficult, extending that forecast horizon to FY 2010 compounds the challenge. However, based on recent history as well as most current views of the length and severity of this slowdown, there is little reason to expect an abrupt end to revenue difficulties.

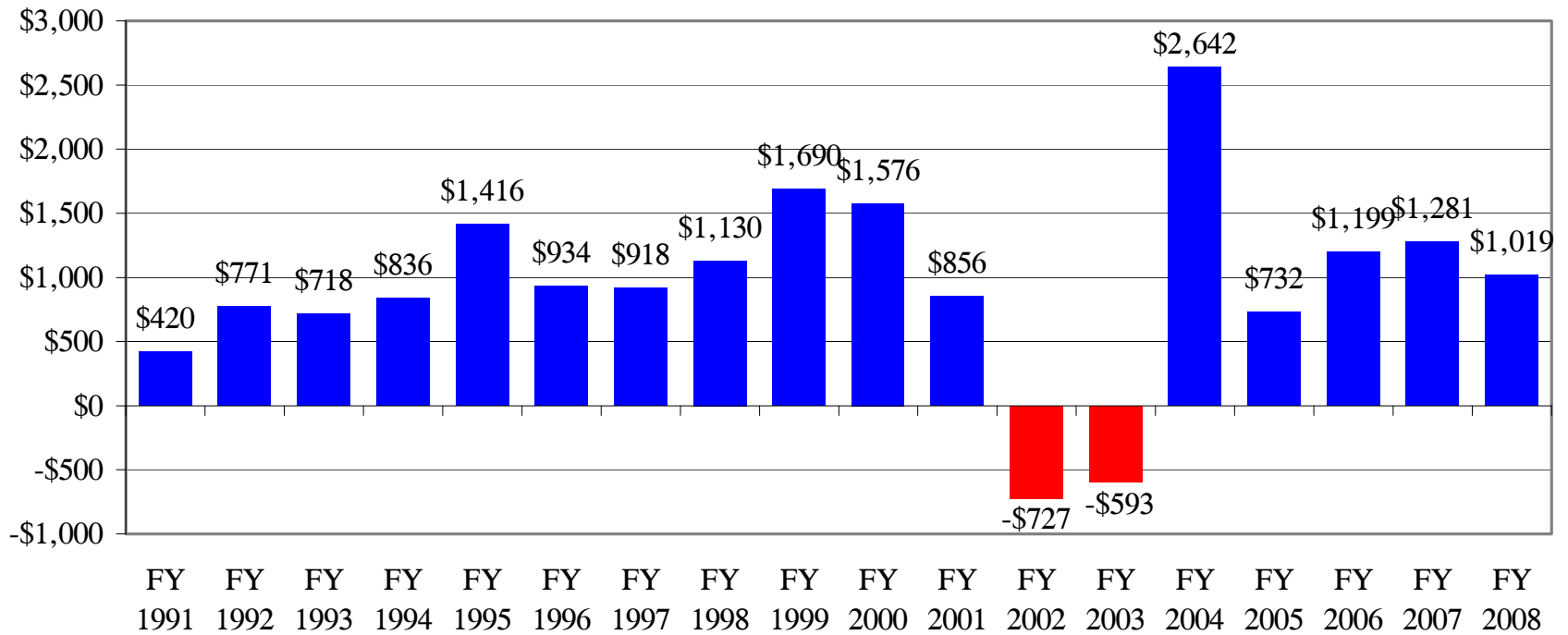
Personal Income Tax, Corporate Income Tax, and Sales Tax Receipts

Personal Income Tax, Corporate Income Tax, and Sales Tax Receipts FY '98 thru Q1 FY '09



General Funds Revenue History: Annual \$ Change
FY 1991 - FY 2008
(in millions)

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



DETAILED GENERAL FUNDS REVENUE HISTORY FY 1999 - FY 2008

(\$ million)

Revenue Sources	Actual Receipts FY 2000	Actual Receipts FY 2001	Actual Receipts FY 2002	Actual Receipts FY 2003	Actual Receipts FY 2004	Actual Receipts FY 2005	Actual Receipts FY 2006	Actual Receipts FY 2007	Actual Receipts FY 2008
State Taxes									
Personal Income Tax	\$8,273	\$8,607	\$8,086	\$7,979	\$8,235	\$8,873	\$9,568	\$10,424	\$11,187
Corporate Income Tax (regular)	1,527	1,279	1,043	1,011	1,379	1,548	1,784	2,121	2,201
Sales Taxes	6,027	5,958	6,051	6,059	6,331	6,595	7,092	7,136	7,215
Public Utility Taxes (regular)	1,116	1,146	1,104	1,006	1,079	1,056	1,074	1,131	1,157
Cigarette Tax	400	400	400	400	400	450	400	350	350
Liquor Gallonage Taxes	128	124	123	123	127	147	152	156	158
Vehicle Use Tax	38	34	38	34	35	32	34	33	32
Inheritance Tax (Gross)	348	361	329	237	222	310	272	264	373
Insurance Taxes and Fees	209	246	272	313	362	342	317	310	298
Corporate Franchise Tax & Fees	139	146	159	142	163	181	181	193	225
Interest on State Funds & Investments	233	274	135	66	55	73	153	204	212
Cook County Intergovernmental Transfer	245	245	245	355	428	433	350	307	302
Other Sources	<u>194</u>	<u>407</u>	<u>512</u>	<u>349</u>	<u>439</u>	<u>468</u>	<u>441</u>	<u>449</u>	<u>442</u>
Subtotal	\$18,877	\$19,227	\$18,497	\$18,074	\$19,255	\$20,508	\$21,818	\$23,078	\$24,152
Transfers									
Lottery	515	501	555	540	570	614	670	622	657
Gaming Fund Transfer	330	460	470	554	661	699	689	685	564
Other	<u>514</u>	<u>452</u>	<u>454</u>	<u>589</u>	<u>1,159</u>	<u>918</u>	<u>746</u>	<u>939</u>	<u>679</u>
Total State Sources	\$20,236	\$20,640	\$19,976	\$19,757	\$21,645	\$22,739	\$23,923	\$25,324	\$26,052
Federal Sources	\$3,891	\$4,320	\$4,258	\$3,940	\$5,189	\$4,691	\$4,725	\$4,703	\$4,815
Total Federal & State Sources	\$24,127	\$24,960	\$24,234	\$23,697	\$26,834	\$27,430	\$28,648	\$30,027	\$30,867
Nongeneral Funds Distribution:									
Refund Fund									
Personal Income Tax	(\$587)	(\$611)	(\$615)	(\$638)	(\$964)	(\$894)	(\$933)	(\$1,016)	(\$867)
Corporate Income Tax	(290)	(243)	(240)	(273)	(442)	(376)	(356)	(371)	(341)
Subtotal General Funds	\$23,250	\$24,106	\$23,379	\$22,786	\$25,428	\$26,160	\$27,359	\$28,640	\$29,659
Change from Prior Year	\$1,576	\$856	(\$727)	(\$593)	\$2,642	\$732	\$1,199	\$1,281	\$1,019
Percent Change	7.3%	3.7%	-3.0%	-2.5%	11.6%	2.9%	4.6%	4.7%	3.6%
Short-Term Borrowing	\$0	\$0	\$0	\$1,675	\$0	\$765	\$1,000	\$900	\$2,400
HPF and HHSMTF Transfers	\$0	\$0	\$0	\$0	\$0	\$982	\$0	\$456	\$1,503
Budget Stabilization Fund Transfer	\$0	\$0	\$226	\$226	\$226	\$276	\$276	\$276	\$276
Pension Contribution Fund Transfer	\$0	\$0	\$0	\$300	\$1,395	\$0	\$0	\$0	\$0
Total General Funds	\$23,250	\$24,106	\$23,605	\$24,987	\$27,049	\$28,183	\$28,635	\$30,272	\$33,838
Change from Prior Year	\$1,576	\$856	(\$501)	\$1,382	\$2,062	\$1,134	\$452	\$1,637	\$3,566
Percent Change	7.3%	3.7%	-2.1%	5.9%	8.3%	4.2%	1.6%	5.7%	11.8%
CGFA									