

*Commission on Government  
Forecasting and Accountability*

***ECONOMIC and REVENUE UPDATE  
FY 2006***



NOVEMBER 3, 2005  
703 Stratton Office Building  
Springfield, Illinois 62706

*Commission on Government Forecasting  
And Accountability*

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**BACKGROUND**

The Commission on Government Forecasting and Accountability (CGFA), a bipartisan, 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. The Commission's specific responsibilities include:

- 1) Preparation of annual revenue estimates with periodic updates;
- 2) Analysis of the fiscal impact of revenue bills;
- 3) Preparation of "State Debt Impact Notes" on legislation which would appropriate bond funds or increase bond authorization;
- 4) Periodic assessment of capital facility plans;
- 5) Annual estimates of public pension funding requirements and preparation of pension impact notes;
- 6) 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;
- 7) Administration of the State Facility Closure Act.

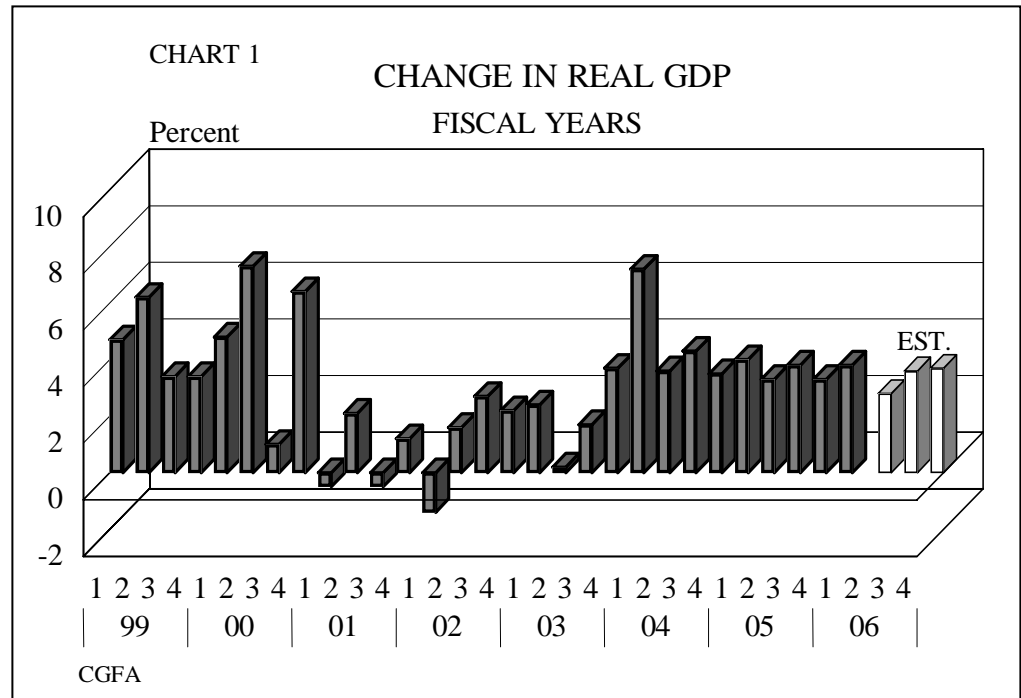
The Commission also has a mandate to report to the General Assembly ". . . on economic trends in relation to long-range planning and budgeting; and to study and make such recommendations as it deems appropriate on local and regional economic and fiscal policies and on federal fiscal policy as it may affect Illinois. . . ." This results in several reports on various economic issues throughout the year.

The Commission publishes several reports each year. In addition to a Monthly Briefing, the Commission publishes the "Revenue Estimate and Economic Outlook" which describes and projects economic conditions and their impact on State revenues. The "Bonded Indebtedness Report" examines the State's debt position as well as other issues directly related to conditions in the financial markets. The "Financial Conditions of the Illinois Public Retirement Systems" provides an overview of the funding condition of the State's retirement systems. Also published are an Annual Fiscal Year Budget Summary; Report on the Liabilities of the State Employees' Group Insurance Program; and Report of the Cost and Savings of the State Employees' Early Retirement Incentive Program. The Commission also publishes each year special topic reports that have or could have an impact on the economic well being of Illinois. All reports are available on the Commission's website. ([http://www.ilga.gov/commission/cgfa/cgfa\\_home.html](http://www.ilga.gov/commission/cgfa/cgfa_home.html))

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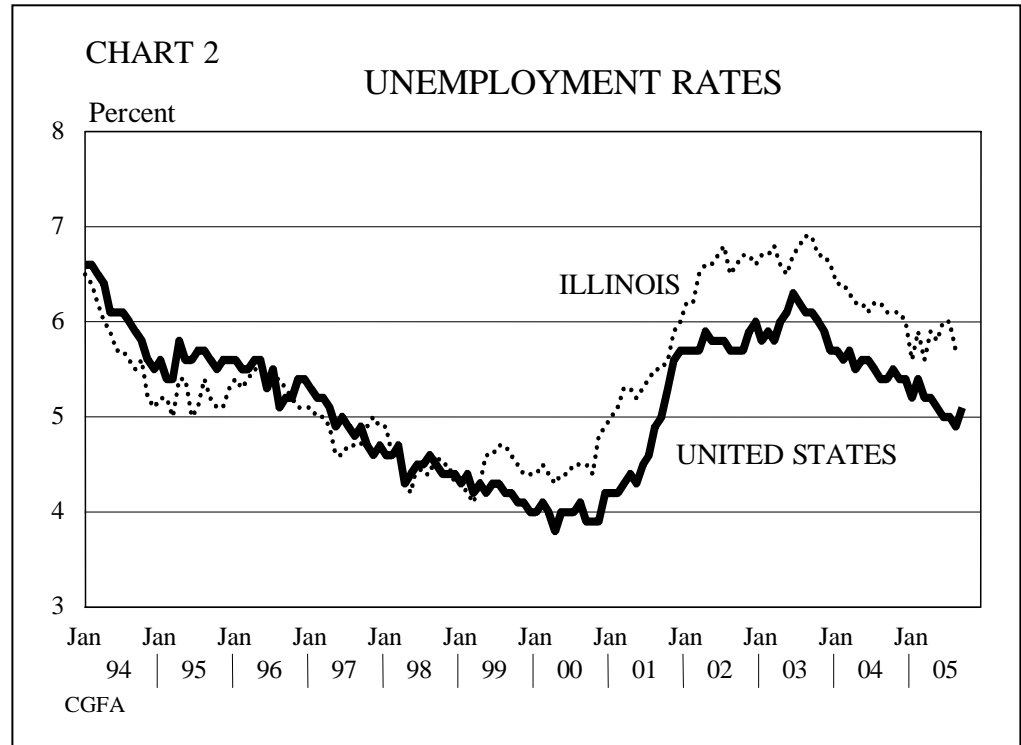
## CHART 1: Change in Real GDP

- Real economic growth increased 3.7 % in FY 2005, down moderately from the rapid 4.1% growth recorded in FY 2004, but well above the economy's long-term growth trend.
- Data recently released show that the economy continued to grow at a healthy pace during the first three months of FY 2006. The advance report on Gross Domestic Product (GDP) shows the economy last quarter grew at a 3.8 % annual rate in inflation-adjusted terms, up from a 3.3 % rate in the second quarter of 2005.
- The acceleration in real GDP in part reflected a surge in auto sales, which boosted consumer spending, and a sharp increase in federal government spending as both defense and non-defense, including hurricane relief, rose more rapidly.
- Auto sales have fallen off sharply during October as employee pricing programs ended, while substantially higher gasoline and home heating costs are raising concerns that these higher prices for necessities will cut into consumer spending, which normally accounts for two-thirds of total spending, just as the economy enters the important holiday spending season.
- Following an expected moderation in growth during the current quarter, hurricane-related rebuilding is anticipated to add to growth in the final half of FY 2006. For the year as a whole, FY 2006 is expected to rise 3.4 % only slightly below the 3.7 % gain for FY 2005.



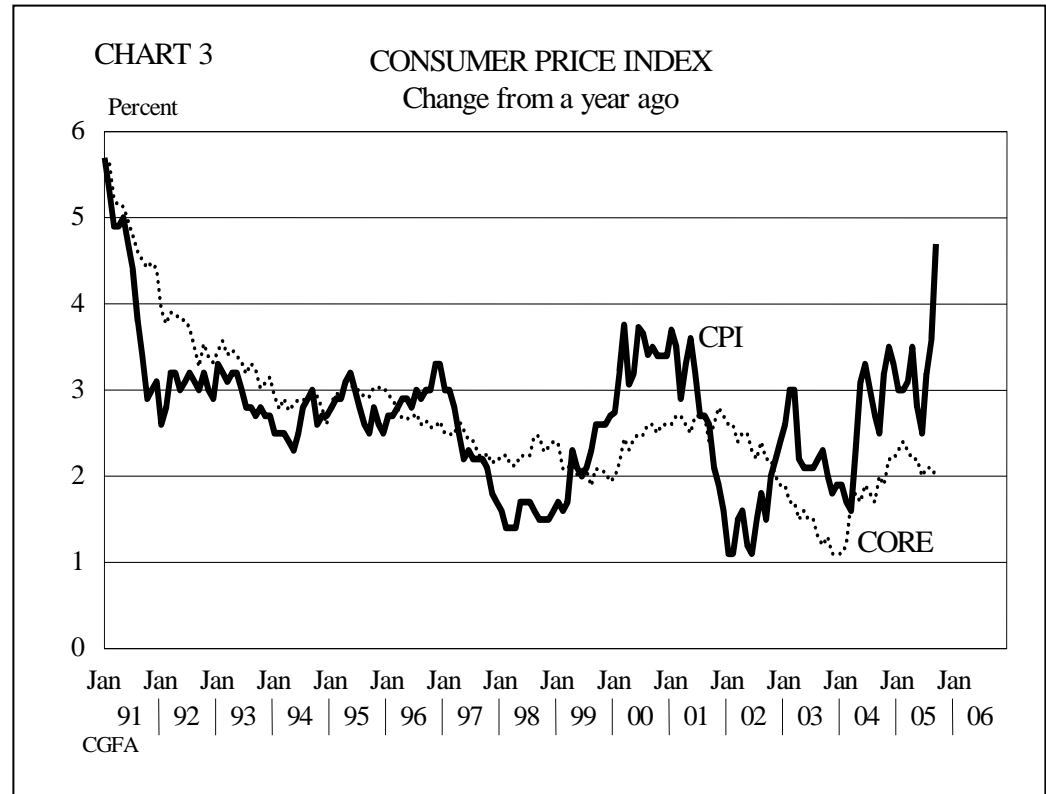
## CHART 2: Unemployment Rates and Job Status

- Continued above-trend U.S. economic growth had driven the U.S. unemployment rate down to a 4.9% in August, prior to Hurricanes Katrina and Rita, the lowest rate since August 2001, and a level many feel was at, or rapidly approaching, a “full employment” stance.
- The unemployment rate edged up to 5.1% in September, which did include the effects of Hurricane Katrina but not the effects of Hurricane Rita, with October’s unemployment rate to be released tomorrow.
- A key question is whether the recent upward blip in unemployment is a temporary response to the hurricanes, or a sign that the long economic expansion has shifted into lower gear.
- It also should be pointed out that Illinois’ unemployment improvement, currently at 5.7%, has been well behind that achieved by the nation as a whole, a situation which continues since 1999.



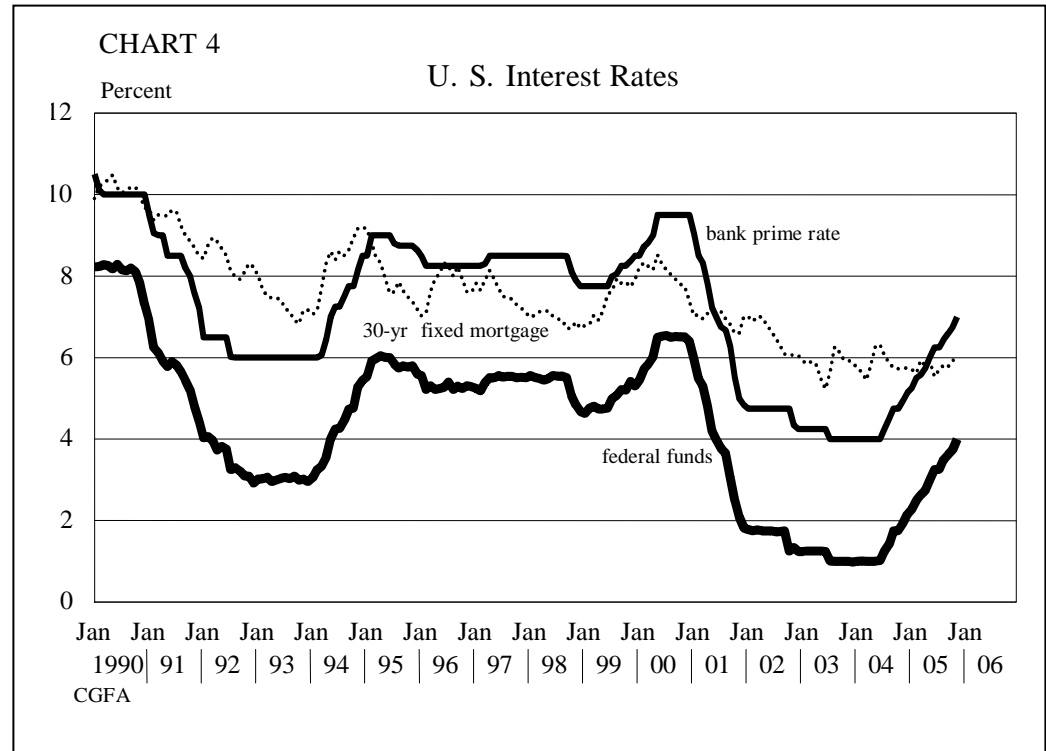
### CHART 3: Change in Consumer Prices

- Accelerated prices for energy drove up overall consumer prices at a 4.7% annual rate in September, the fastest monthly rise in 25 years. The 12% rise in energy prices in September accounted for over 90% of the overall advance in prices that month. This was the third consecutive month that energy prices had increased sharply.
- Excluding the volatile food and energy sectors, the rise in prices was less, and was up at only a 2.0% rate in September from a year earlier.
- Even so, the concern remains that it is only a matter of time before the heightened increase in energy costs is passed on to other sectors of the economy, eating into company profits and lifting overall inflation.
- In addition, the rise in prices over the past three months led to a 4.1% increase in social security payments next year, the largest gain in 15 years, adding to government spending and putting pressure on already-large budget deficits.



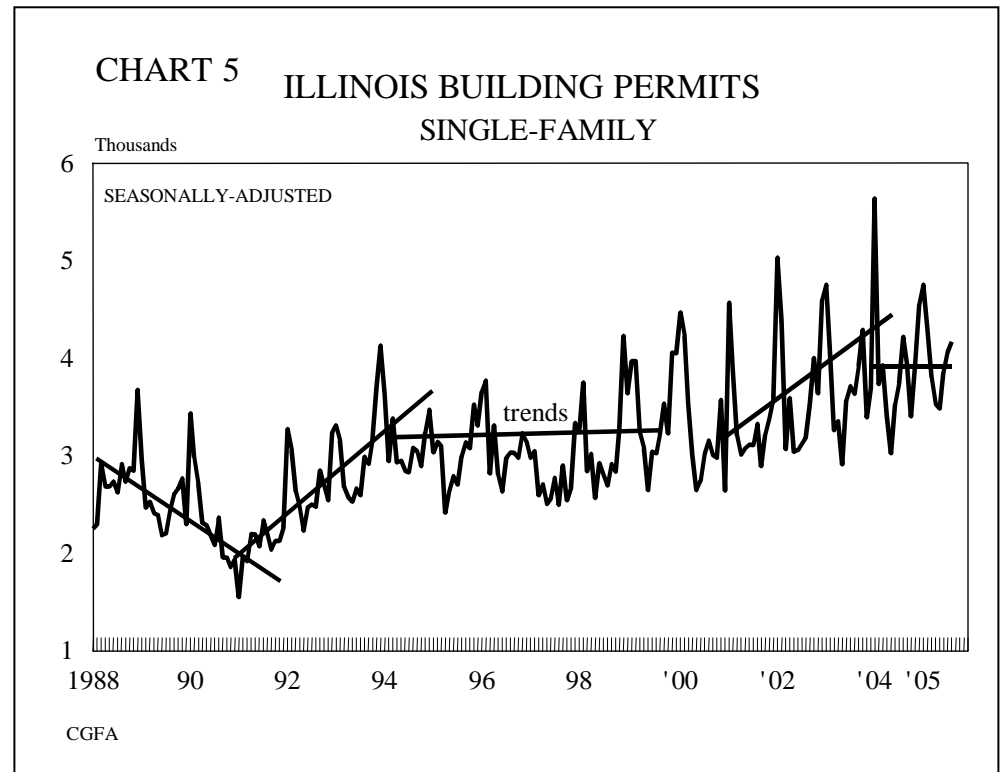
#### CHART 4: U.S. Interest Rates

- The Federal Reserve moved again in early November to raise key monetary policy rates for the 12<sup>th</sup> time since June 2004 in a continuing effort to forestall inflation from heating up.
- The key federal funds rate was raised on November 1<sup>st</sup> to 4%, up from a low of 1% prior to the tightening moves, with the bank prime lending rate in response now raised to 7%, up from the previous low of 4%.
- Thus far, however, the rise in long-term interest rates has been muted. Even so, in recent days there has been some slight upward pressure which is raising concerns that an increase in mortgage interest rates could be yet another factor in slowing the soaring housing market which has been a major strength behind the current economic expansion.



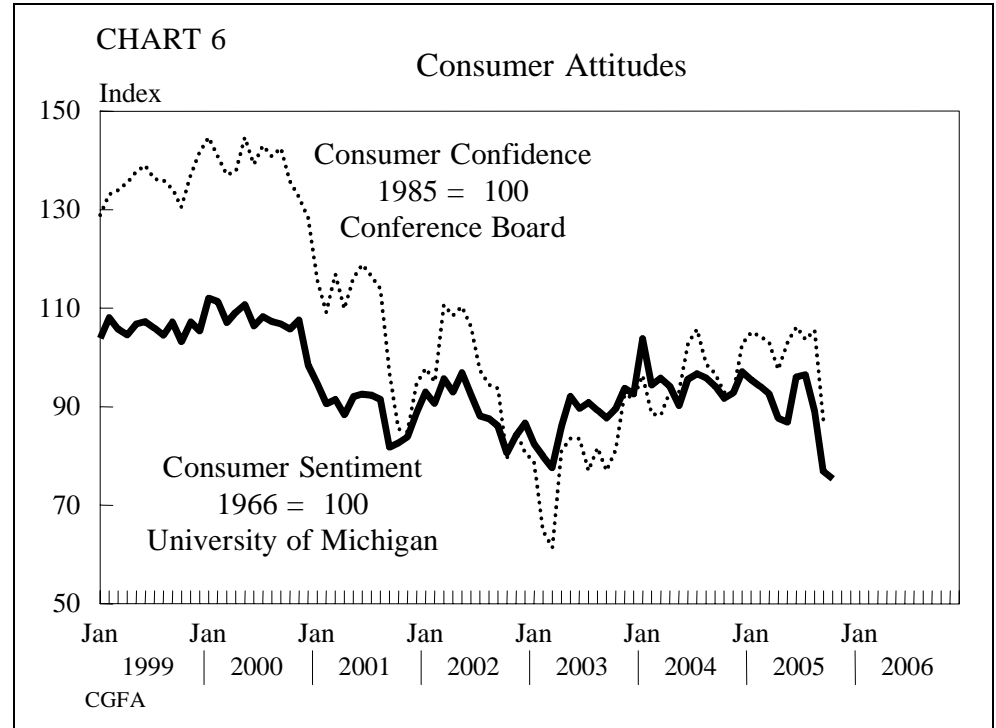
## CHART 5: Illinois Building Permits

- Housing activity has been a major contributor to the economy, sparked by historically-low mortgage interest rates and seen for a long time as a good investment alternative to equity and bond prices.
- New single-family building permits, a precursor to housing activity, have been on a strong upward trend, soaring from 2001 through 2004, before leveling out at extremely high levels over the past several months.
- The chart shown is for Illinois and, while more volatile than total U.S. numbers, mirrors the national experience.
- There is concern, however, whether the strength in housing can continue. There are some indications that housing prices are moving into bubble territory; and monetary policy has been firming, raising key short-term interest rates, that finally may be leading to higher mortgage interest rates, a major element behind the housing surge.



## CHART 6: Consumer Confidence

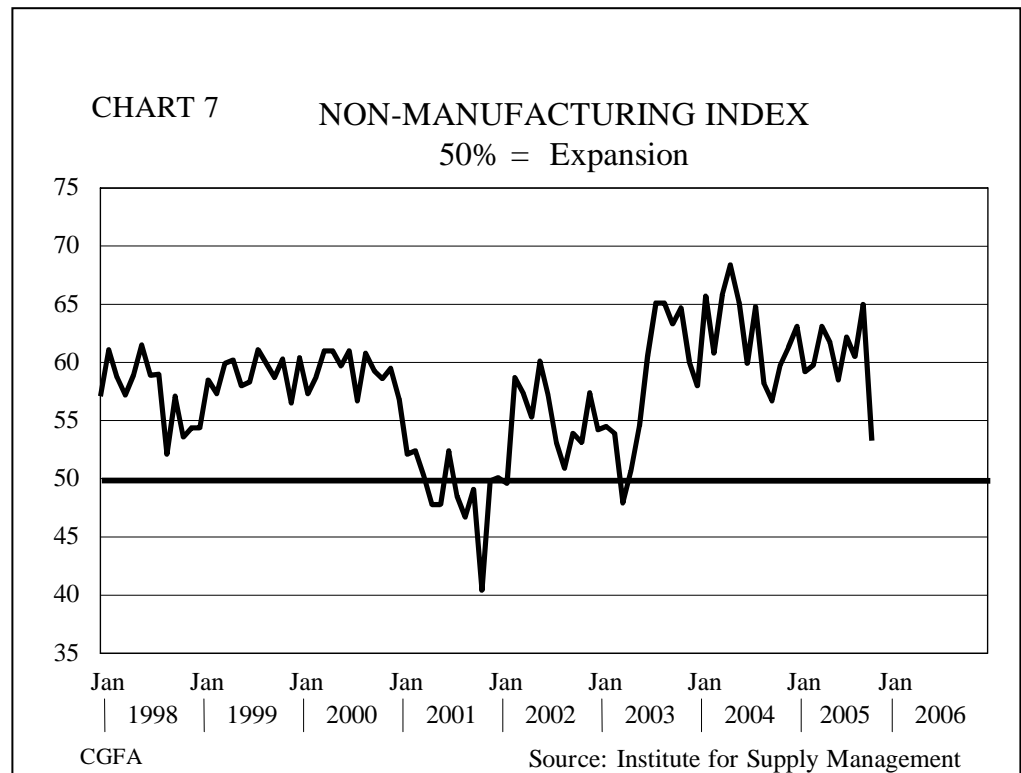
- Consumer confidence, as measured both by the University of Michigan and the Conference Board, has fallen sharply in the past couple of months. The early October decline in the recently released University of Michigan measure was in part unexpected, but undoubtedly reflects high gasoline prices and the fallout from hurricane damage.
- Confidence measures are used as an indicator of consumer spending which generally accounts for about two-thirds of overall economic activity. Consumer spending in turn is seen as an indication of strength or weakness in economic growth.
- The recent weakness in consumer attitudes moreover comes at a critical time as we approach the start of the important holiday shopping season.





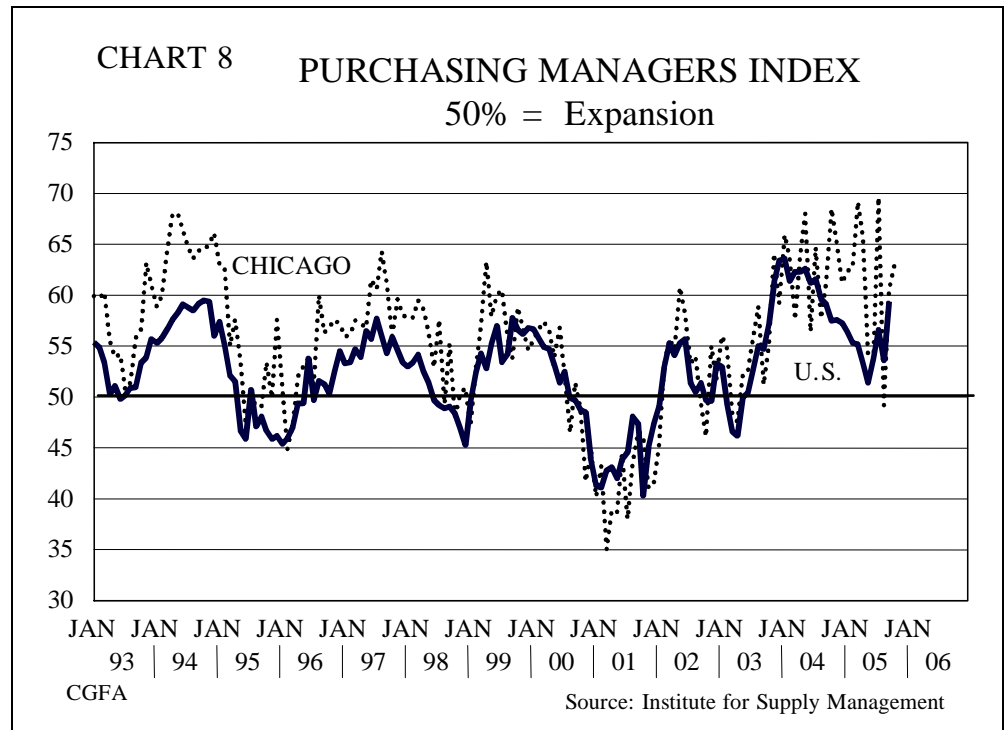
### CHART 7: Non-Manufacturing Index

- While most analysts' attention centers on the manufacturing sector, which is the most cyclical, the U. S. service sector accounts for the bulk of the overall economy.
- Chart 7 shows the non-manufacturing sector. The way to read this measure is that any number above 50% indicates expansion and, vice versa, any number below 50% describes contracting activity in this sector. On the positive side, September represented the 30<sup>th</sup> consecutive month of increased non-manufacturing activity. Even so, after fluctuating at levels at or slightly above that achieved in the late 1990s since mid-2003, this measure dropped sharply in September.
- The key question is whether the drop is a sign the economy is breaking out of the trend that has existed since mid-2003, or just a temporary decline in response to recent events.



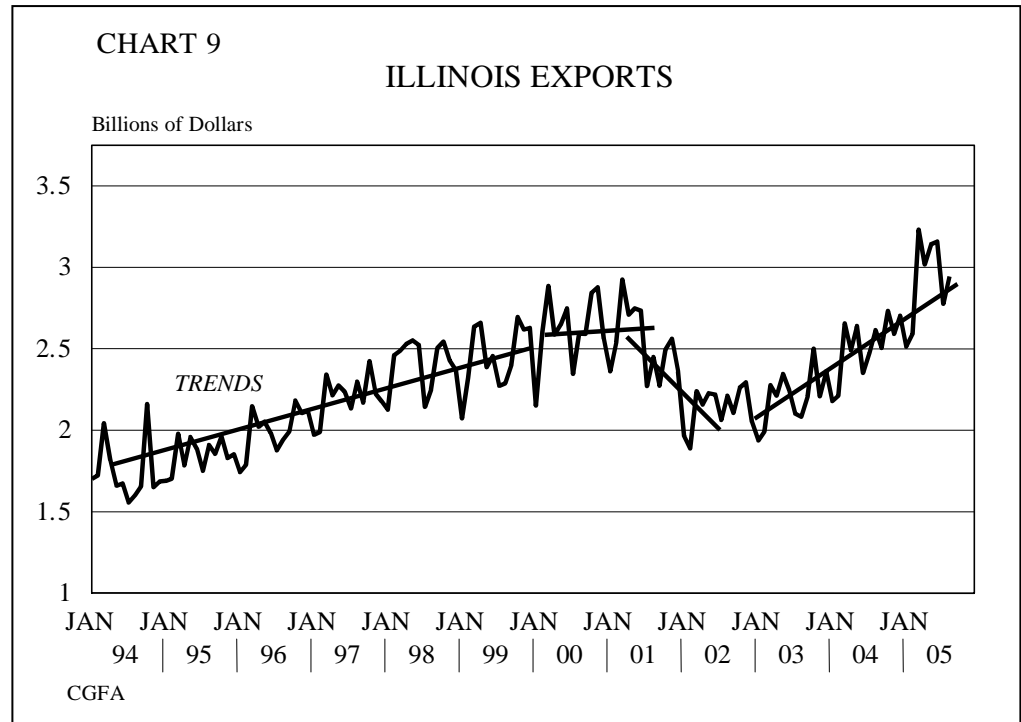
### CHART 8: Purchasing Manager's Index

- With the consumer expected to be less robust, it will take a greater contribution from the business sector to keep the expansion growing at a healthy pace. With profits up and the expansion maturing, however, prospects remain good.
- The indices have been expanding, above 50 %, since mid 2003. While the strength of the U.S. index moderated into 2005, some improvement has been noted in recent months despite several disruptions such as record energy prices and a series of devastating hurricanes.
- The Chicago Index generally followed the national pattern, although it was a bit more erratic.



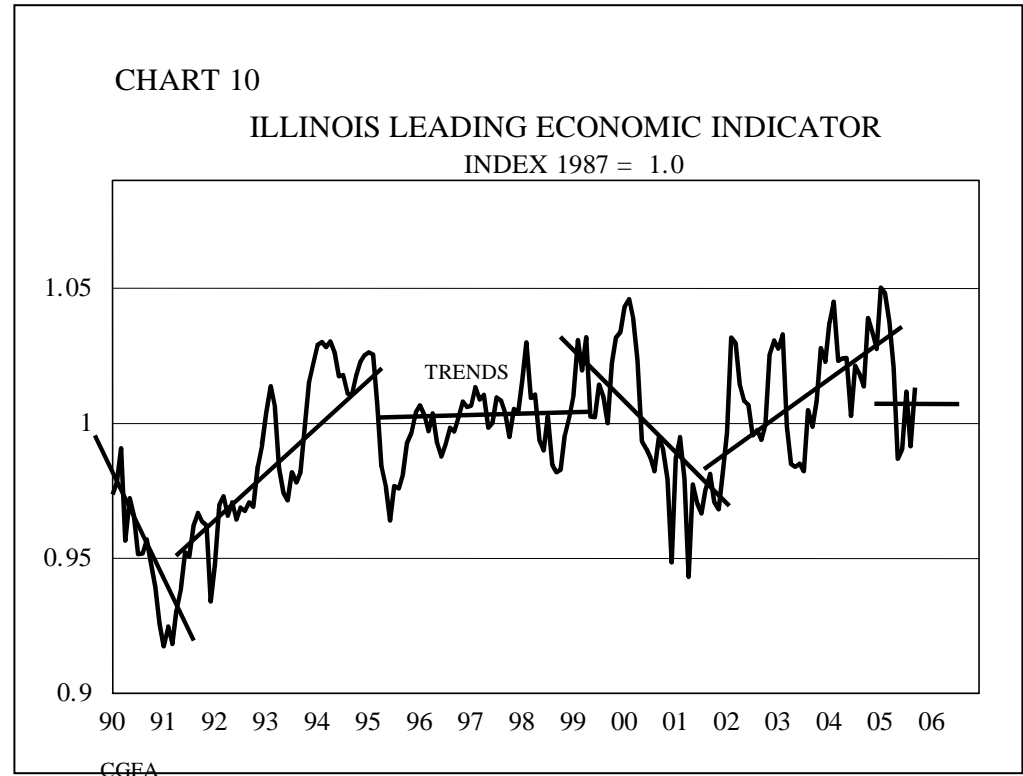
### CHART 9: Illinois Exports

- After declining in 2001 and 2002, Illinois exports have been on a rising trend over the past three years. The dollar level of exports now exceeds the previous high reached prior to the last recession.
- This gain in exports is due in part to some recent signs of improvement in Europe and Japan coupled with expectations of a long-term trend toward a weaker dollar, due to a widening trade gap stemming from imported oil. Exports are expected to remain strong both this fiscal year and next, according to the Commission's forecasting service.
- A strong export market is good for Illinois, which remains 5<sup>th</sup> in the nation in overall exports.



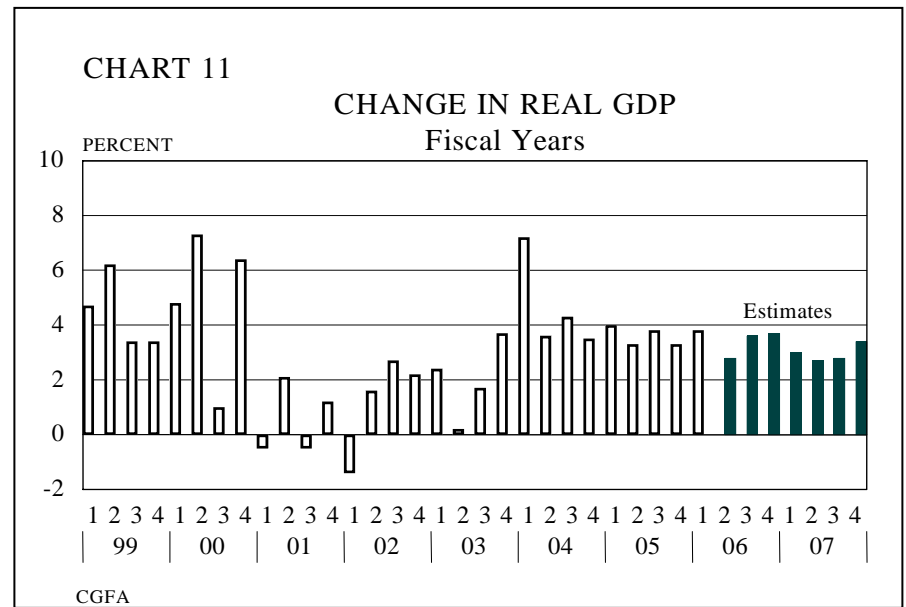
### CHART 10: Illinois Leading Economic Indicator

- The CGFA leading economic indicator has leveled out in recent months after having been on an upward course for more than three years.
- The indicator, which is based on measures of employment, hours worked, new building permits, and manufacturing components has been a good predictor of the future direction, if not the magnitude of change, in the economy.
- The current leveling of the indicator, however, should not be seen as an indication of an impending downturn. Instead, the recent experience is reminiscent of the later half of the 1990s, when the economy continued to expand for a number of years, and not the sharp downturns that occurred prior to the past two recessions in 1990-91 and 2000-2001.



## CHART 11: Change in Real GDP

- The forecast for FY 2006 is for continued growth in economic activity, with real growth of 3.4%, down from the 3.7% rate achieved in FY 2005, but slightly above its long-term growth trend and better than the three years previous to FY 2004. As the expansion ages, growth is expected to be a more moderate 3.1% in FY 2007.
- Consumer spending is likely to ease off as housing and car sales weaken from their rates of recent years and interest rates creep up a bit. Business spending and increased exports will remain relatively strong. At the same time, consumer prices are expected to rise faster this year, after accelerating last year, before moderating in FY 2007.
- Most states have benefited greatly from improved economically related sources of revenue. Others, while seeing increased revenue inflows, still face financial difficulties, which are an overhang from the severe problems states faced earlier.



### ECONOMIC FORECASTS – OCTOBER 2005

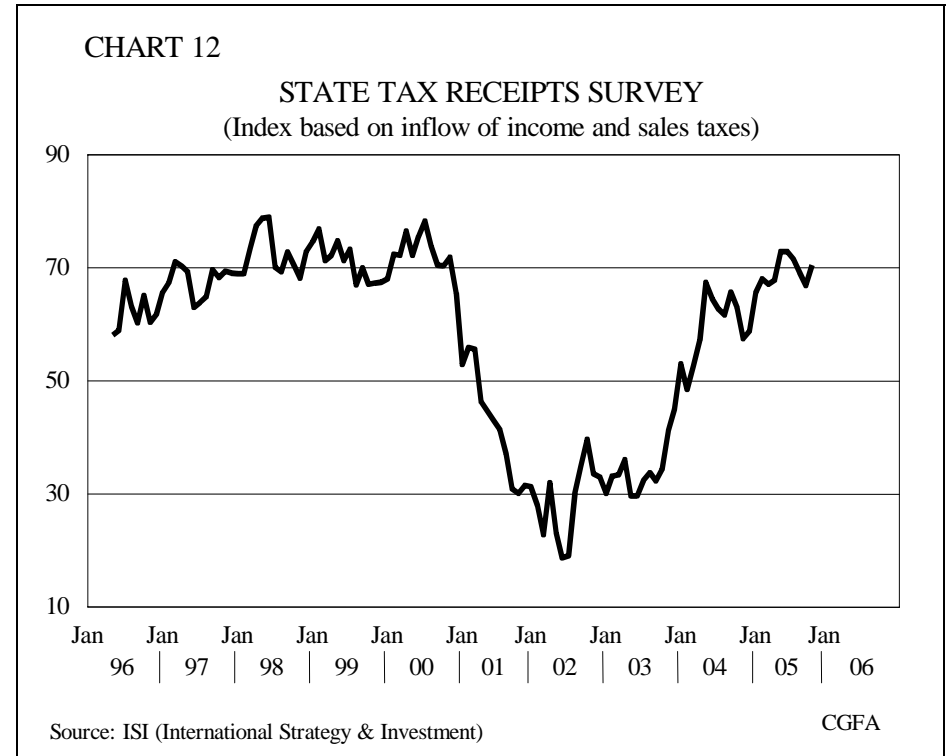
(\$ Change from prior year levels)

REAL (2000 \$)	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 <b>r</b> Actual	FY 2006 Estimated	FY 2007 Estimated
Gross Domestic Product	0.7	1.9	4.1	3.7	3.4	3.1
Personal Consumption	2.7	2.4	3.8	3.7	2.8	3.5
Durable	7.5	5.3	8.1	5.1	1.4	4.6
Nondurable	2.3	2.2	4.6	4.4	3.5	3.4
Services	1.8	1.9	2.6	3.1	2.7	3.1
Fixed Investment	-8.9	1.7	9.4	8.9	6.3	2.7
Exports	-8.6	0.7	3.4	8.0	7.4	7.1
Imports	-4.2	6.8	9.9	7.6	5.6	3.9
Government	4.2	3.8	2.4	1.9	2.6	1.8
Federal	4.5	7.1	7.3	3.8	3.6	1.8
State & Local	3.4	1.9	0.3	1.1	1.7	2.3
<b>OTHER MEASURE</b>						
Personal Income (Current \$)	2.1	2.2	4.7	6.4	5.8	6.4
Personal Consumption (Current \$)	4.2	4.3	5.9	6.5	6.0	5.3
Before Tax Profits (Current \$)	1.1	19.0	17.6	11.0	12.3	3.0
Consumer Prices	1.8	2.2	2.2	3.0	3.8	1.5
Unemployment Rate (Average)	5.5	5.9	5.8	5.3	5.0	5.0

**r** revised

## CHART 12: State Tax Receipts Survey

- Chart 12 indicates that state tax receipts have been on an upward trend since reaching a low in the summer of 2002. The rise was particularly noticeable last year but has continued this year at a high level consistent with that seen in the second half of the 1990s as states finally began to reap the benefit of increased revenues from the economic expansion. This survey is based upon data from 16 states --including Illinois -- that have diverse geographic and population characteristics.
- It will take sustained improvement in employment to further increase income tax revenues and give consumers confidence to feel secure enough to increase spending and take on additional debt. Fortunately the outlook continues favorable.
- Even as state tax receipts improve and the economically-sensitive sectors of the economy add to their revenue streams, decisions made in earlier budgets may continue to act as restraints on many state budgets.



## FY 2006 REVENUE RECAP

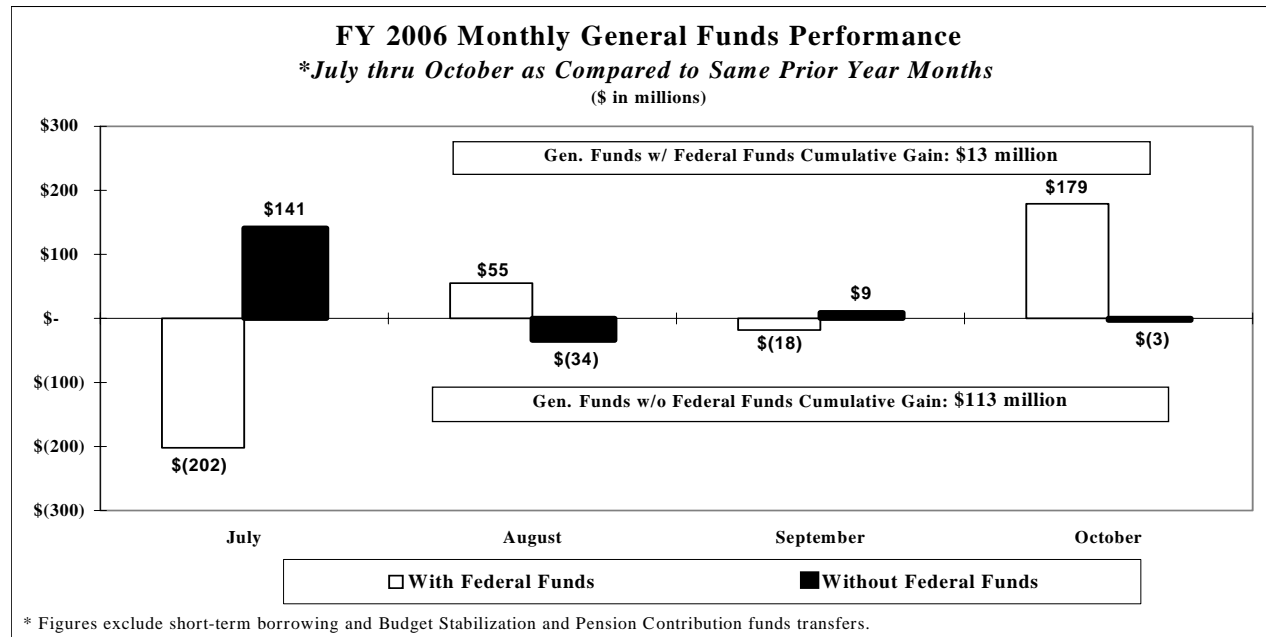
**General funds revenue performance through the first third of the fiscal year has been mixed, although on balance has exceeded expectations. While overall revenues, including federal sources are up only \$13 million, most of the economically related sources posted impressive growth. Excluding the decline of \$100 million in federal sources, all other revenue sources are up a more respectable \$113 million.**

**July-** Overall July general revenue receipts fell \$202 million to begin the fiscal year. While most of the economically related revenue sources performed well, an expected decline in federal related sources more than offset gains experienced in other areas. In July of 2004, P.A. 93-674 resulted in approximately \$433 million in federal reimbursement [stemming from \$850 million in borrowed spending on Medicaid bills] to be transferred to the general funds. Excluding a \$343 million decline in federal sources, all other revenues posted a \$141 million gain.

**August-** Excluding Budget Stabilization Fund transfers, receipts increased \$55 million. While federal sources recovered and posted decent gains, other revenue source performance was mixed. Excluding \$89 million in federal source gains, all other areas fell \$34 million. Other transfers contributed heavily to that loss as the timing of statutory funds sweeps resulted in a monthly falloff.

**September-** While overall monthly receipts fell \$18 million, most of the larger economically related sources performed quite well. However, those gains were more that offset by losses in other areas such as transfers and federal sources. Federal sources aside, other revenue sources posted a \$9 million monthly increase.

**October-** Excluding Budget Stabilization Fund transfers, monthly receipts increased \$179 million as the majority of revenue sources posted gains. The majority of the increase stemmed from a very good month for federal sources, which were up \$182 million. However, excluding federal sources, the monthly change totaled -\$3 million, reflecting the timing of statutory fund sweeps and other transfers.



## INDIVIDUAL SOURCE PERFORMANCE TO DATE

- Gross personal income taxes have performed quite well over the first third of the fiscal year with withholding, estimated, and final payments all up measurably. However, the impact of last year's Voluntary Compliance Program (VCP) has yet to be felt on a comparative basis, as a result, the rate of growth is expected to slow appreciably after January.
- Gross corporate income taxes also have performed well thus far in FY 2006. Again, the VCP of last year has yet to be felt, and should serve to slow the rate of growth. In addition, since the vast majority of corporate tax is not receipted until March-June, it still is difficult to predict how this volatile source will perform over the remainder of the fiscal year. However, due to the strong performance experienced over the last half of FY 2005, a moderating of current rates of growth is anticipated.
- While sales tax has performed somewhat better than expected thus far, the current rate of increase should temper over the remainder of the year for a number of reasons: poor holiday sales outlook, much higher winter heating bills, lower vehicle sales, and a comparatively strong second half of last fiscal year.
- Cigarette tax is down as expected due to last year's temporary tax distribution change.
- Inheritance tax as well as insurance taxes and fees are lagging slightly more than anticipated.
- Interest income is up substantially, influenced by higher rates of return as well as higher balances due to the State Treasurer not recognizing a reported \$194 million in prior chargeback and fee transfers, pending court opinion as to their constitutionality.
- Cook County IGT is down due to the timing of the transfers as well as an anticipated total year falloff.
- While lottery transfers have performed well and are up substantially, riverboat transfers are lagging due to lowered tax rates. Other transfers are also lagging due to timing of statutory fund sweeps and lack of chargeback activity.
- Federal sources are down due to timing of receipts, but that is expected to reverse after \$1 billion in anticipated short-term borrowing is executed and spent on reimbursable Medicaid bills in the coming month(s). *It should be noted that such borrowing and related spending simply accelerates appropriation expenditures and related federal match and does not impact on total estimate.*

Through the first third of the year, total general funds revenues are up \$13 million. If the loss in federal sources is excluded, the picture improves to an overall gain of \$113 million. Federal sources aside, most of the economically related sources, thus far, have performed ahead of expectations. While rates of growth are expected to moderate for a number of reasons, the estimates for several sources need to be adjusted to account for year to date performance.

<b>GENERAL FUNDS RECEIPTS: THROUGH OCTOBER</b>				
FY 2006 vs. FY 2005				
(\$ million)				
	FY 2006	FY 2005	CHANGE FROM FY 2005	% CHANGE
<b>Revenue Sources</b>				
<b>State Taxes</b>				
Personal Income Tax	\$2,631	\$2,459	\$172	7.0%
Corporate Income Tax (regular)	410	322	\$88	27.3%
Sales Taxes	2,386	2,214	\$172	7.8%
Public Utility Taxes (regular)	338	318	\$20	6.3%
Cigarette Tax	133	183	(\$50)	-27.3%
Liquor Gallonage Taxes	52	50	\$2	4.0%
Vehicle Use Tax	13	12	\$1	8.3%
Inheritance Tax (Gross)	79	88	(\$9)	-10.2%
Insurance Taxes and Fees	83	94	(\$11)	-11.7%
Corporate Franchise Tax & Fees	64	60	\$4	6.7%
Interest on State Funds & Investments	42	13	\$29	223.1%
Cook County IGT	40	130	(\$90)	-69.2%
Other Sources	139	142	(\$3)	-2.1%
<b>Subtotal</b>	<b>\$6,410</b>	<b>\$6,085</b>	<b>\$325</b>	<b>5.3%</b>
<b>Transfers</b>				
Lottery	214	184	\$30	16.3%
Riverboat transfers & receipts	224	263	(\$39)	-14.8%
Other	156	355	(\$199)	-56.1%
<b>Total State Sources</b>	<b>\$7,004</b>	<b>\$6,887</b>	<b>\$117</b>	<b>1.7%</b>
<b>Federal Sources</b>				
<b>Total Federal &amp; State Sources</b>	<b>\$8,651</b>	<b>\$8,634</b>	<b>\$17</b>	<b>0.2%</b>
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$256)	(\$252)	(\$4)	1.6%
Corporate Income Tax	(\$82)	(\$82)	\$0	0.0%
<b>Subtotal General Funds</b>	<b>\$8,313</b>	<b>\$8,300</b>	<b>\$13</b>	<b>0.2%</b>
<b>Short-Term Borrowing</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>N/A</b>
<b>HPF and HHSMTF Transfers</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>N/A</b>
<b>Budget Stabilization Fund Transfer</b>	<b>\$276</b>	<b>\$276</b>	<b>\$0</b>	<b>N/A</b>
<b>Total General Funds</b>	<b>\$8,589</b>	<b>\$8,576</b>	<b>\$13</b>	<b>0.2%</b>
SOURCE: Office of the Comptroller, State of Illinois: Some totals may not equal, due to rounding.				
CGFA				

1-Nov-05



## FY 2006 ESTIMATE INCREASED BY \$100 MILLION

### Uncertainties Still Warrant Caution

While variances exist in most of the revenue lines, overall revenue performance through the first third of the fiscal year continues to meet and, in most instances, exceed expectations. Those sources most closely tied to the economy have performed better than anticipated and require upward revisions. In a couple of instances, estimates need to be lowered to reflect year to date performance.

- Personal income tax: \$50 million gross [\$45 million net of refunds]
- Corporate income tax: \$50 million gross [\$40 million net of refunds]
- Sales tax: \$25 million
- Interest income: \$20 million
- Lottery transfers: \$15 million
- Inheritance tax: (\$35 million)
- Insurance taxes: (\$10 million)

**Net Increase = \$100 million**

**The revision should be viewed in a cautiously optimistic manner. Despite the positive early performance, a number of uncertainties still exist which should serve to temper future growth (see below).**

### Remaining Uncertainties

#### Economic Uncertainties

- Price of motor fuel (coming down but still high)
- Winter heating costs (expected to soar)
- Holiday sales (expected to be sluggish)
- Vehicle sales (expected to fall)
- Stock market performance (essentially flat from beginning of year)

#### Non-economic Uncertainties

- Comparative impact of last year's Voluntary Compliance Program (VCP) on FY 2006 revenues yet to occur (expected to slow year over year growth)
- Good performance in second half of FY 2005 (should slow year over year growth rates in second half)
- Chargeback activity (at discretion of GOMB)

<i>ADJUSTMENTS TO CGFA FY 2006 Estimate</i>			
(millions)			
<u>Revenue Sources</u>	CGFA FY 2006 Revised Estimate Nov-05	CGFA Estimate Aug-05	Change From Aug-05 Est.
<b>State Taxes</b>			
Personal Income Tax	\$9,267	\$9,217	\$50
Corporate Income Tax	\$1,664	\$1,614	\$50
Sales Taxes	\$6,915	\$6,890	\$25
Public Utility (regular)	\$1,072	\$1,072	\$0
Cigarette Tax	\$405	\$405	\$0
Liquor Gallonage Taxes	\$150	\$150	\$0
Vehicle Use Tax	\$32	\$32	\$0
Inheritance Tax (gross)	\$265	\$300	(\$35)
Insurance Taxes & Fees	\$332	\$342	(\$10)
Corporate Franchise Tax & Fees	\$185	\$185	\$0
Interest on State Funds & Investments	\$116	\$96	\$20
Cook County Intergovernmental Transfer	\$340	\$340	\$0
<u>Other Sources</u>	<u>\$445</u>	<u>\$445</u>	<u>\$0</u>
<b>Subtotal</b>	<b>\$21,188</b>	<b>\$21,088</b>	<b>\$100</b>
<b>Transfers</b>			
Lottery	\$640	\$625	\$15
Riverboat Transfers & Receipts	\$688	\$688	\$0
<u>Other</u>	<u>\$770</u>	<u>\$770</u>	<u>\$0</u>
<b>Total State Sources</b>	<b>\$23,286</b>	<b>\$23,171</b>	<b>\$115</b>
<b>Federal Sources</b>	<b>\$4,791</b>	<b>\$4,791</b>	<b>\$0</b>
<b>Total Federal &amp; State Sources</b>	<b>\$28,077</b>	<b>\$27,962</b>	<b>\$115</b>
<b>Nongeneral Funds Distribution:</b>			
<b>Refund Fund</b>			
Personal Income Tax	(\$904)	(\$899)	(\$5)
Corporate Income Tax	(\$333)	(\$323)	(\$10)
<b>Subtotal General Funds</b>	<b>\$26,840</b>	<b>\$26,740</b>	<b>\$100</b>
<b>Change from Prior Year</b>	<b>\$700</b>	<b>\$600</b>	
<b>Percent Change</b>	<b>2.7%</b>	<b>2.3%</b>	
Short-Term Borrowing	\$0	\$0	\$0
HPF and HHSMIF Transfer	\$0	\$0	\$0
<b>Budget Stabilization Fund Transfer</b>	<b>\$276</b>	<b>\$276</b>	<b>\$0</b>
<b>Total General Funds</b>	<b>\$27,116</b>	<b>\$27,016</b>	<b>\$100</b>
<b>Change from Prior Year Actual</b>	<b>(\$1,067)</b>	<b>(\$1,167)</b>	
<b>Percent Change</b>	<b>-3.8%</b>	<b>-4.1%</b>	
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## CGFA vs. GOMB COMPARISON

The accompanying table compares the Commission's revised FY 2006 estimate with that of the enacted budget (GOMB). With the \$100 million upward revision, the Commission's forecast now stands \$169 million higher than the GOMB. A comparison of the estimates shows that the Commission is measurably higher in its forecasts of the larger economically related sources such as income and sales, while being more conservative in the outlook for other sources and overall transfers.

<i>FY 2006 CGFA/GOMB ESTIMATE COMPARISON</i>			
(millions)			
	CGFA FY 2006 <u>Estimate Nov-05</u>	GOMB FY 2006 <u>Estimate May-05</u>	\$ <u>Difference</u>
<b>Revenue Sources</b>			
<b>State Taxes</b>			
Personal Income Tax	\$9,267	\$9,125	\$142
Corporate Income Tax	\$1,664	\$1,583	\$81
Sales Taxes	\$6,915	\$6,873	\$42
Public Utility (regular)	\$1,072	\$1,069	\$3
Cigarette Tax	\$405	\$400	\$5
Liquor Gallonage Taxes	\$150	\$150	\$0
Vehicle Use Tax	\$32	\$35	(\$3)
Inheritance Tax (gross)	\$265	\$285	(\$20)
Insurance Taxes & Fees	\$332	\$327	\$5
Corporate Franchise Tax & Fees	\$185	\$183	\$2
Interest on State Funds & Investments	\$116	\$65	\$51
Cook County Intergovernmental Transfer	\$340	\$340	\$0
<u>Other Sources</u>	<u>\$445</u>	<u>\$472</u>	<u>(\$27)</u>
<b>Subtotal</b>	<b>\$21,188</b>	<b>\$20,907</b>	<b>\$281</b>
<b>Transfers</b>			
Lottery	\$640	\$628	\$12
Riverboat Transfers & Receipts	\$688	\$707	(\$19)
<u>Other</u>	<u>\$770</u>	<u>\$844</u>	<u>(\$74)</u>
<b>Total State Sources</b>	<b>\$23,286</b>	<b>\$23,086</b>	<b>\$200</b>
<b>Federal Sources</b>	<b>\$4,791</b>	<b>\$4,791</b>	<b>\$0</b>
<b>Total Federal &amp; State Sources</b>	<b>\$28,077</b>	<b>\$27,877</b>	<b>\$200</b>
<b>Nongeneral Funds Distribution:</b>			
<b>Refund Fund*</b>			
Personal Income Tax	(\$904)	(\$890)	(\$14)
Corporate Income Tax	(\$333)	(\$316)	(\$17)
<b>Subtotal General Funds</b>	<b>\$26,840</b>	<b>\$26,671</b>	<b>\$169</b>
<b>Change from Prior Year</b>	<b>\$700</b>	<b>\$531</b>	<b>\$169</b>
<b>Percent Change</b>	<b>2.7%</b>	<b>2.0%</b>	
Short-Term Borrowing	\$0	\$0	\$0
Budget Stabilization Fund Transfer	\$276	\$276	\$0
<b>Total General Funds</b>	<b>\$27,116</b>	<b>\$26,947</b>	<b>\$169</b>
Change from Prior Year	(\$1,067)	(\$1,236)	
Percent Change	-3.8%	-4.4%	
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**FY 2007 REVENUE PICTURE -  
SOLID BUT UNSPECTACULAR GROWTH FORESEEN**

A preliminary look at the upcoming fiscal year yields anticipated revenue gains that can be characterized as ordinary. As shown in the accompanying table, while base revenues are expected to generate growth of approximately \$860 million, unless similar fund sweeps are available next year, growth would suffer a drop of \$160 million, resulting in a net change of \$700 million. The net increase is similar to that experienced in FY 2005 [\$712 million], and anticipated in FY 2006 [\$700 million].

- Gross personal income taxes are forecast to rise approximately 4.3%, a rate close to its long term average and indicative of a steady but unspectacular job picture. The resulting gain in net revenue, assuming current refund percentage of 9.75%, equates to \$360 million.
- Gross corporate income tax growth is estimated to be lower next fiscal year as higher costs of business in part due to higher energy costs impact on the profit picture. The forecast calls for growth to fall to around 3.0%. Assuming the current refund percentage of 20% yields a net increase of \$40 million.
- Sales tax is expected to return to historic average growth of approximately 3.9%. That rate of growth will generate a yearly gain of \$270 million.

<b>FY 2007 Revenue Growth</b> (\$ million)	
Net change in income taxes	\$400
Sales tax	\$270
Misc. other sources (net)	\$0
Federal source revenue	\$190
<b>Base Growth</b>	<b>\$860</b>
Less one-time FY 2006 fund sweeps	(\$160)
<b>Anticipated General Funds Revenue Growth (Net)</b>	<b>\$700</b>

- A forecasted \$40 million decline in the Cook County IGT is expected to be offset by a similar amount of increases in other areas i.e. public utility, corporate franchise, lottery. As a result, no net additional growth is assumed in other areas.
- While revenues from federal sources are dependent in large part on appropriation levels, assuming a 4% increase in overall federal monies would add approximately \$190 million in growth.
- The FY 2005 budget was crafted utilizing approximately \$160 million in funds sweeps. If similar amounts cannot be utilized next year, a year over year falloff would result.

**DETAILED GENERAL FUNDS REVENUE HISTORY FY 1997 - FY 2005 & CGFA FY 2006 ESTIMATE**

(\$ million)

<u>Revenue Sources</u>	<u>Actual Receipts FY 1997</u>	<u>Actual Receipts FY 1998</u>	<u>Actual Receipts FY 1999</u>	<u>Actual Receipts FY 2000</u>	<u>Actual Receipts FY 2001</u>	<u>Actual Receipts FY 2002</u>	<u>Actual Receipts FY 2003</u>	<u>Actual Receipts FY 2004</u>	<u>Actual Receipts FY 2005</u>	<u>CGFA Nov-05 Est. FY 2006</u>
<b>State Taxes</b>										
Personal Income Tax	\$6,552	\$7,269	\$7,778	\$8,273	\$8,607	\$8,086	\$7,979	\$8,235	\$8,873	\$9,267
Corporate Income Tax (regular)	1,361	1,402	1,384	1,527	1,279	1,043	1,011	1,379	1,548	1,664
Sales Taxes	4,992	5,274	5,609	6,027	5,958	6,051	6,059	6,331	6,595	6,915
Public Utility Taxes (regular)	873	912	1,019	1,116	1,146	1,104	1,006	1,079	1,056	1,072
Cigarette Tax	300	346	403	400	400	400	400	400	450	405
Liquor Gallonage Taxes	57	57	57	128	124	123	123	127	147	150
Vehicle Use Tax	37	37	38	38	34	38	34	35	32	32
Inheritance Tax (Gross)	199	250	347	348	361	329	237	222	310	265
Insurance Taxes and Fees	146	91	208	209	246	272	313	362	342	332
Corporate Franchise Tax & Fees	121	118	117	139	146	159	142	163	181	185
Interest on State Funds & Investments	144	182	212	233	274	135	66	55	73	116
Cook County Intergovernmental Transfer	251	152	218	245	245	245	355	428	433	340
Other Sources	<u>157</u>	<u>181</u>	<u>190</u>	<u>194</u>	<u>407</u>	<u>512</u>	<u>349</u>	<u>439</u>	<u>467</u>	<u>445</u>
<b>Subtotal</b>	<b>\$15,190</b>	<b>\$16,271</b>	<b>\$17,580</b>	<b>\$18,877</b>	<b>\$19,227</b>	<b>\$18,497</b>	<b>\$18,074</b>	<b>\$19,255</b>	<b>\$20,507</b>	<b>\$21,188</b>
<b>Transfers</b>										
Lottery	590	560	540	515	501	555	540	570	614	640
Gaming Fund Transfer	185	170	240	330	460	470	554	661	699	688
Other	<u>309</u>	<u>346</u>	<u>411</u>	<u>514</u>	<u>452</u>	<u>454</u>	<u>589</u>	<u>1,159</u>	<u>899</u>	<u>770</u>
<b>Total State Sources</b>	<b>\$16,274</b>	<b>\$17,347</b>	<b>\$18,771</b>	<b>\$20,236</b>	<b>\$20,640</b>	<b>\$19,976</b>	<b>\$19,757</b>	<b>\$21,645</b>	<b>\$22,719</b>	<b>\$23,286</b>
<b>Federal Sources</b>	<b>\$3,269</b>	<b>\$3,323</b>	<b>\$3,718</b>	<b>\$3,891</b>	<b>\$4,320</b>	<b>\$4,258</b>	<b>\$3,940</b>	<b>\$5,189</b>	<b>\$4,691</b>	<b>\$4,791</b>
<b>Total Federal &amp; State Sources</b>	<b>\$19,543</b>	<b>\$20,670</b>	<b>\$22,489</b>	<b>\$24,127</b>	<b>\$24,960</b>	<b>\$24,234</b>	<b>\$23,697</b>	<b>\$26,834</b>	<b>\$27,410</b>	<b>\$28,077</b>
<b>Nongeneral Funds Distribution:</b>										
<b>Refund Fund</b>										
Personal Income Tax	(\$413)	(\$421)	(\$552)	(\$587)	(\$611)	(\$615)	(\$638)	(\$964)	(\$894)	(\$904)
Corporate Income Tax	(276)	(265)	(263)	(290)	(243)	(240)	(273)	(442)	(376)	(333)
<b>Subtotal General Funds</b>	<b>\$18,854</b>	<b>\$19,984</b>	<b>\$21,674</b>	<b>\$23,250</b>	<b>\$24,106</b>	<b>\$23,379</b>	<b>\$22,786</b>	<b>\$25,428</b>	<b>\$26,140</b>	<b>\$26,840</b>
Change from Prior Year	\$918	\$1,130	\$1,690	\$1,576	\$856	(\$727)	(\$593)	\$2,642	\$712	\$700
Percent Change	5.1%	6.0%	8.5%	7.3%	3.7%	-3.0%	-2.5%	11.6%	2.8%	2.7%
<b>Short-Term Borrowing</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$1,675</b>	<b>\$0</b>	<b>\$765</b>	<b>\$0</b>
<b>HPF and HHSMTF Transfers</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$1,002</b>	<b>\$0</b>
<b>Budget Stabilization Fund Transfer</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$226</b>	<b>\$226</b>	<b>\$226</b>	<b>\$276</b>	<b>\$276</b>
<b>Pension Contribution Fund Transfer</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$300</b>	<b>\$1,395</b>	<b>\$0</b>	<b>\$0</b>
<b>Total General Funds</b>	<b>\$18,854</b>	<b>\$19,984</b>	<b>\$21,674</b>	<b>\$23,250</b>	<b>\$24,106</b>	<b>\$23,605</b>	<b>\$24,987</b>	<b>\$27,049</b>	<b>\$28,183</b>	<b>\$27,116</b>
Change from Prior Year	\$718	\$1,130	\$1,690	\$1,576	\$856	(\$501)	\$1,382	\$2,062	\$1,134	(\$1,067)
Percent Change	4.0%	6.0%	8.5%	7.3%	3.7%	-2.1%	5.9%	8.3%	4.2%	-3.8%

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10/31/05