



**FY 2009 ECONOMIC & REVENUE FORECAST  
and  
UPDATED FY 2008 REVENUE ESTIMATE**

*Commission on Government  
Forecasting and Accountability*

MARCH 2008  
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Springfield, Illinois 62706

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and Accountability***

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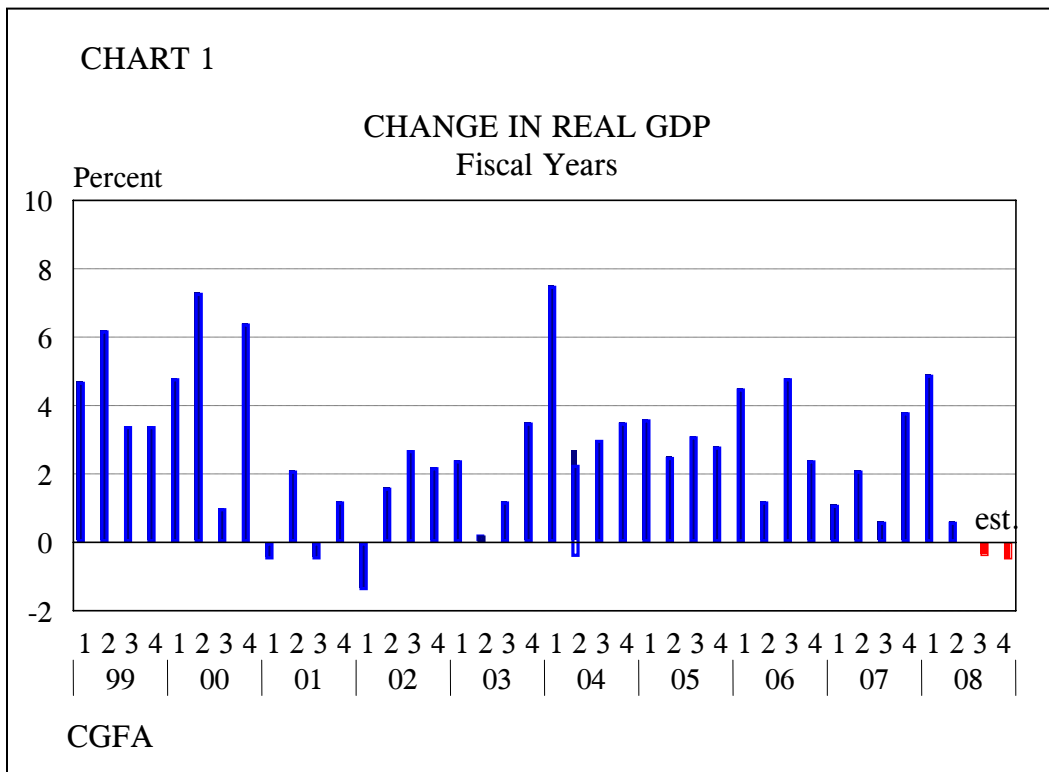
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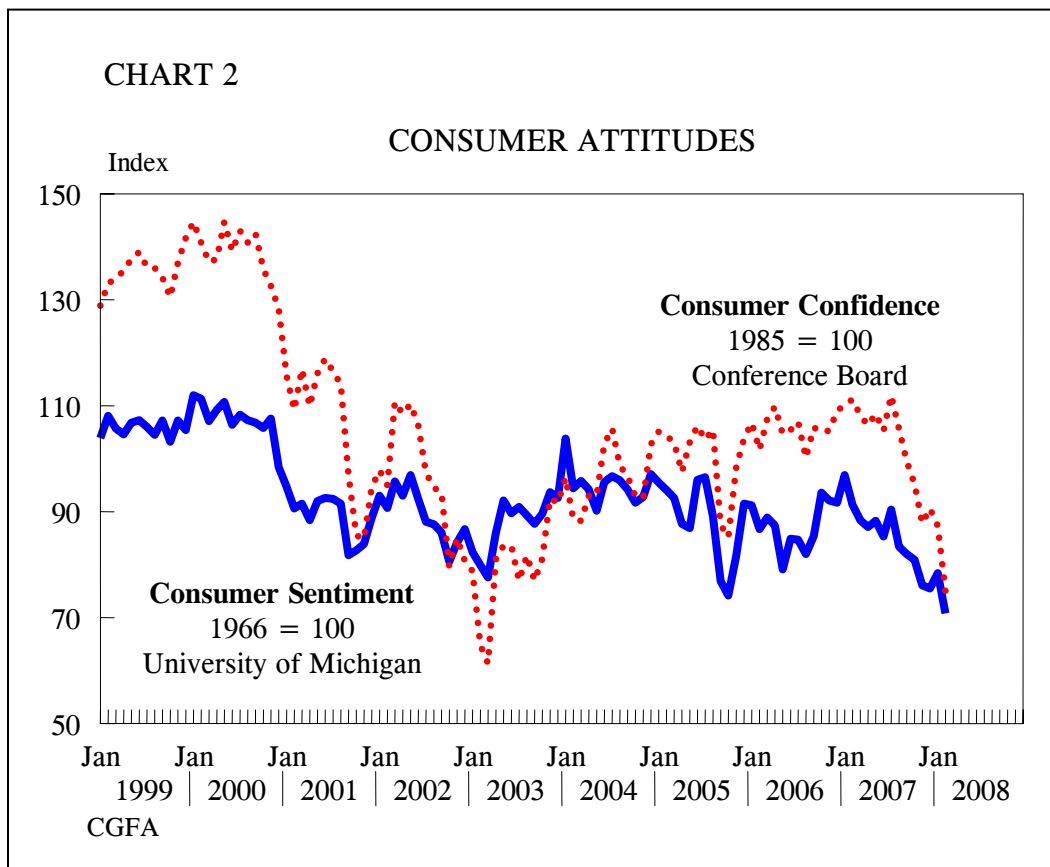
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**REVIEW OF FY 2008:**  
**After a Strong Start, Economy Declines as Housing Plunges and Business**  
**And Consumer Spending Weaken**

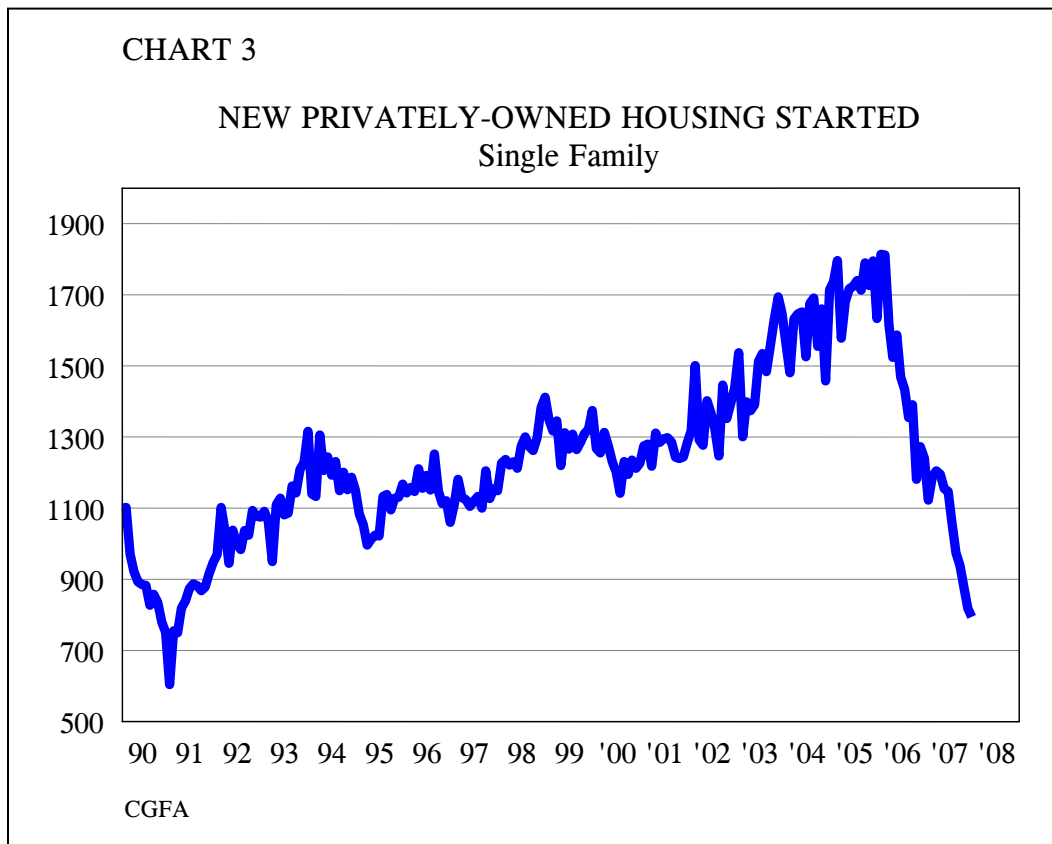
After a strong start to the fiscal year in the first quarter, economic growth slowed in the second quarter and is estimated actually to have declined slightly in the second half of the year (See Chart 1.) The estimated two quarters of decline in the second half of the fiscal year comes close to what may later be determined as a recession, which would be the first officially declared since 2001. The economic deterioration reflects an accelerated correction in the housing market as well as less-than-expected gains in business spending, slowing corporate profits, and weakening consumer spending. Overall growth in FY 2008 was at an estimated rate of 2.2%, although further data and revisions are yet to be released. This was below the 2.7% projected by the Commission at this time last year.



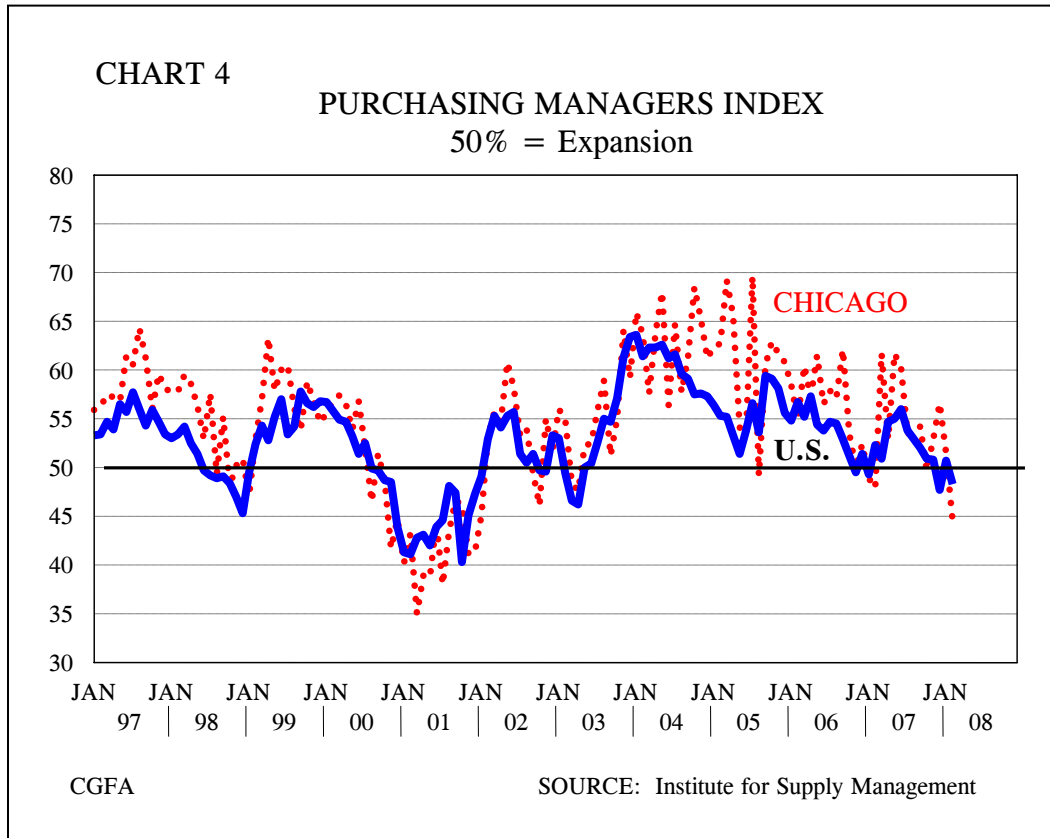
The consumer sector, which generally accounts for two-thirds of total spending, rose modestly less than last year's pace, which in turn was well below that recorded in each of the previous three years. Continuing declines in consumer confidence, that by most measures reached two-year lows, followed disappointing holiday sales. Indeed, the advance report for February by the University of Michigan shows consumer attitudes were at their lowest level since February 1992 (See Chart 2.) The declining confidence measures reflect depreciating home and stock prices in an environment of record high energy prices, all in the context of an emerging recession. With the job outlook expected to weaken, there is little on the horizon to suggest any near-term change in this weakening pattern.



A major subtraction from growth has been in the area of residential construction. There was a particularly steep decline in new housing starts during the fiscal year, bringing the level well below those seen during the last recession in 2001, and fast approaching the levels seen all the way back in the recession in 1990 (See Chart 3). Indeed, overall homebuilding resulted in a full year decline in new home construction that was the sharpest in 27 years. The bottom of the housing correction may not have yet been reached as problems with “sub prime” lenders have spread to other sectors of the market and, despite many proposals to ease the transition to higher interest rates as mortgages are adjusted upward as well as actions to reduce the large number of bank foreclosures, the outlook for any near term turnaround appears dim.

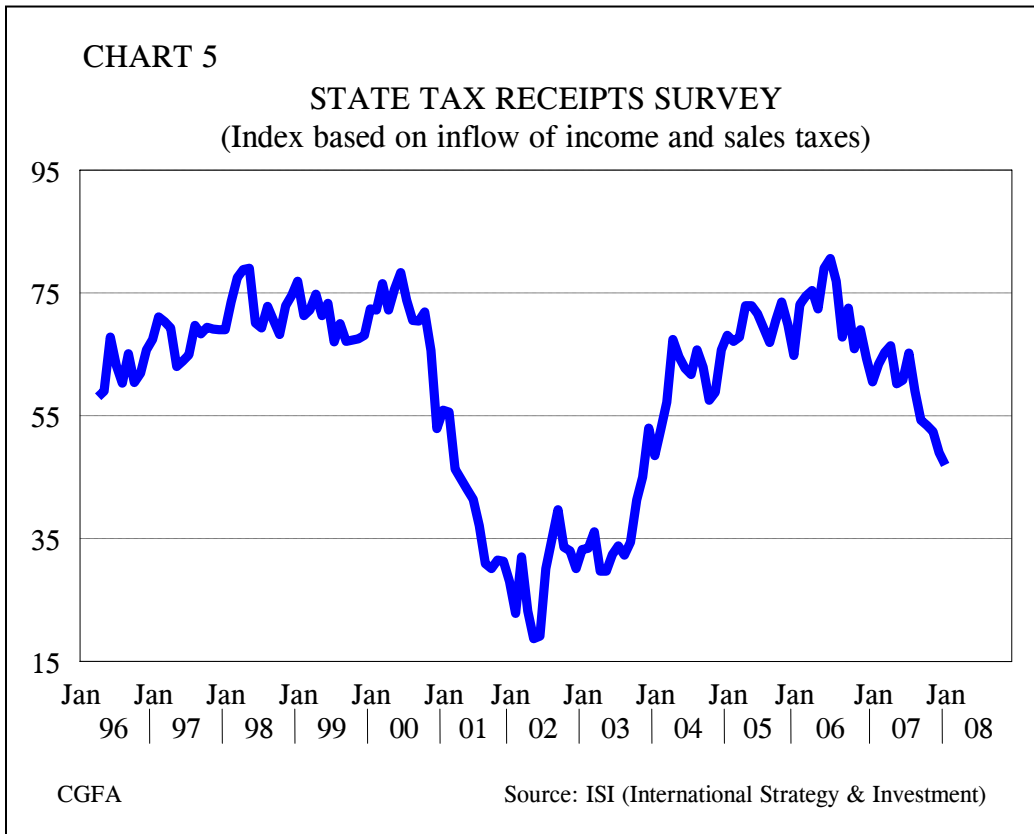


Business spending (nonresidential fixed investment) also weakened as profits slowed and sales slackened. Once again, the weakest sector was manufacturing, particularly autos. Chart 4 shows the Purchasing Managers Index for both the U.S. and the Chicago area. A reading above 50% represents expansion whereas an index number less than 50% represents contraction. As illustrated in the last several months, the index has fluctuated in and out of a contraction phase after being on a slowing trend since reaching its strongest phase in 2003.



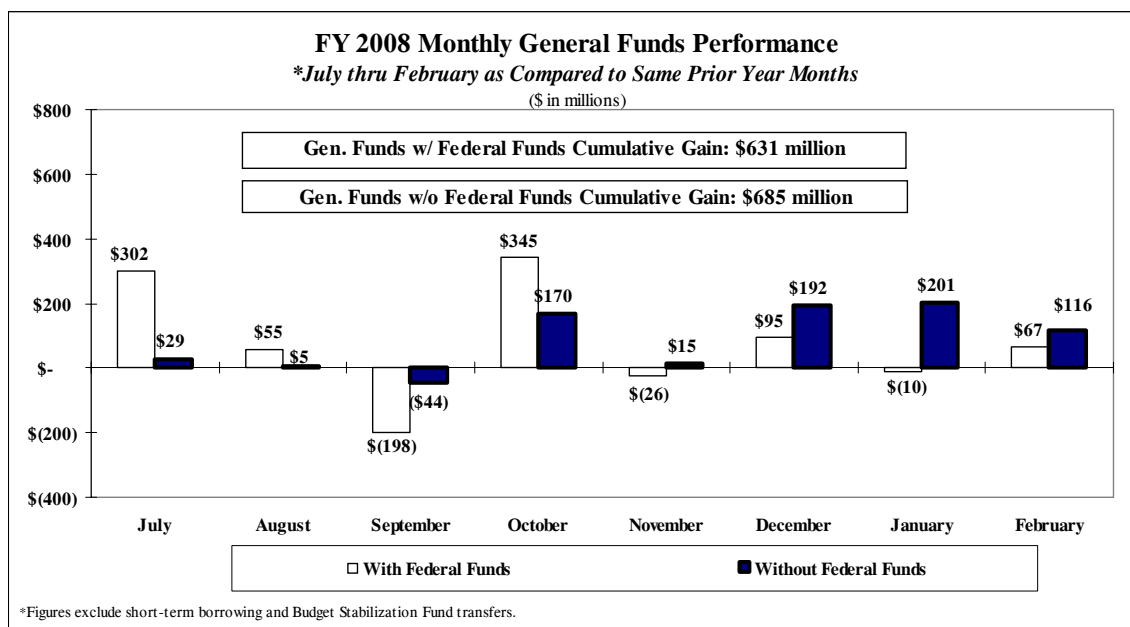
*In reviewing FY 2008, the rate of economic advance plunged after a strong early performance, actually declining as the fiscal year ends. As a result of weakened economic growth, State tax receipts have begun to come in at a lower rate. Chart 5 shows the index of 16 States, including Illinois, which is a good proxy for State revenues on a national basis.*

*While Illinois mirrors the national pattern, it often lags the general trend and, therefore, further moderation in revenue inflows from economic sources can be expected to continue well into the next fiscal year.*





## FY 2008 REVENUE RECAP



### First Quarter

General funds revenues began FY 2008 with receipts rising \$302 million. However, virtually all of that gain was attributed to federal reimbursement from Medicaid spending. Absent the \$273 million gain in federal sources, all other revenues gained an unremarkable \$29 million, even as July had one more receipting day than last year. General funds revenues grew \$55 million in August. However, virtually all of that gain once again was attributed to federal reimbursement from Medicaid spending. Absent the \$50 million gain in federal sources, all other revenues were basically flat. Similar to last year, \$276 million from the Budget Stabilization Fund was transferred into the General Fund to assist in cash flow. Excluding \$1.2 billion in short term borrowing, total general funds revenues fell \$198 million in September. While the vast majority of the decline [\$154 million] is attributed to a drop in federal sources, a number of revenue sources also fared poorly. In addition, one less receipting day in September likely contributed to the monthly decrease.

**Through the first quarter of the fiscal year, overall receipts were up \$158 million. However, all of that gain stems from an increase in federal receipts. Excluding \$169 million in federal sources, growth in all other sources actually fell \$11 million. While gross personal income tax receipts fared well, sales tax receipts continued to wane. In addition, gross corporate income taxes also ended down for the quarter, as did overall transfers. In its September briefing the Commission stated its concern regarding revenues.**

*“In conclusion, it appears that recent robust performance of the most closely tied economic sources has ended. While personal income tax should continue to grow, albeit at a more modest pace, both sales tax and corporate income tax receipts may*

*well find growth elusive over the remainder of the fiscal year. As discussed in the earlier section, it appears we have entered a precarious time as it relates to the economy. With this heightened state of uncertainty, it would not be surprising to see revenues struggle in FY 2008.” –September 2007 Revenue Briefing*

### **Second Quarter**

Excluding \$300 million in cash flow transfers stemming from the Hospital Assessment plan, total general funds revenues jumped \$345 million in October. Increased receipts from federal sources comprised the majority of that increase [\$175 million], but a good month for transfers as well as continued strong performance from personal income taxes contributed to the monthly gain. One additional receipting day this month also aided the advance. Overall receipts in November fell \$26 million, as a number of sources declined from the same prior year month with federal sources experiencing the largest drop--\$41 million. While transfers also fell for the month, personal income taxes continue to buoy what otherwise had been a disappointing first half of the fiscal year. November had one additional receipting day this month. Overall receipts in December gained \$95 million. While the economically related sources appeared to perform very well, receipt issues involving sales tax and corporate income taxes served to mitigate most of those gains.

**Through the first half of the fiscal year, overall base receipts were up \$574 million. However, \$206 million of those gains can be attributed to gains in federal sources associated with reimbursable spending. Excluding those gains, all other receipts grew by \$368 million, reflecting lack of growth in a number of the larger revenue sources. One area that continued to fare well is gross personal income tax receipts. While this revenue source continued to be fueled by gains in withholding, estimated, and final payments, it would not be surprising to see growth rates of all three components significantly moderate in the remaining months. While the strength in personal income tax was a welcomed surprise, weakness in corporate income tax had been expected, albeit not quite to the degree that was experienced. Sales tax also underperformed as receipts were up less than one-percent. As indicated back in the September briefing, meaningful growth in corporate income taxes as well as sales taxes will be difficult to obtain, particularly as the near-term outlook offers few bright spots.**

### **Third Quarter**

Overall receipts in January fell \$10 million. Despite a few revenue sources posting solid gains for the month, a large drop in federal sources erased all gains. The falloff would have been much greater except finalizing of the FY 2008 BIMP aided January's receipts by approximately \$105 million due to lowered income tax refund percentage per P.A. 95-707. In effect, until SB 783 became law on January 11<sup>th</sup>, last year's refund percentages were being utilized. Once final, an adjustment was made to the refund fund for the previous six plus months.

February receipts increased \$67 million. While both personal and corporate income taxes performed well, much of those gains were erased by falloffs in federal sources, sales tax, and overall transfers.

**Through the first two-thirds of the fiscal year overall growth was up \$631 million. If the modest dip in federal sources was excluded from the comparison, then receipts recorded a slightly better \$685 million gain.**

**The overall assessment did not change much from the midway point. While gross personal income tax continued to perform well, a slowing is expected as final payments and later estimated payments are recorded. Sales tax continues to be weak with little prospects for recovery.**

## FY 2008 GENERAL REVENUE FORECAST

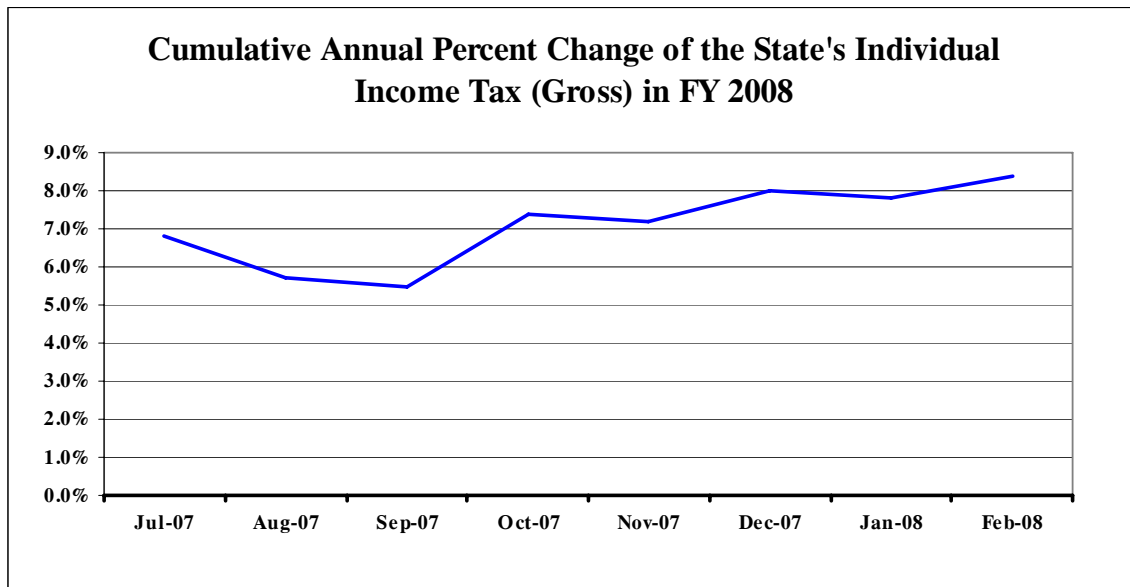
As shown in Table 1 on page 19, base general revenues through February were up \$631 million, or 3.6%. A falloff of \$54 million in federal sources has somewhat muted overall performance. If federal sources are excluded, other revenue performance improves slightly to a gain of \$685 million.

In its September 2007 monthly briefing, the Commission raised concerns regarding certain areas of revenue performance, particularly those of sales tax and corporate income taxes. In addition, it was stated that, *“With this heightened state of [economic] uncertainty, it would not be surprising to see revenues struggle in FY 2008”*. Unfortunately, the outlook has turned more onerous as we head into the second half of the fiscal year. While the FY 2008 budget was implemented with the hopes of recording approximately \$1.6 billion in growth--actual performance through February, coupled with a slowing economy, point to revenues falling well short of those expectations.

**As shown in Table 2 on page 20, despite gross personal income tax continuing to post above average gains thus far and a few smaller revenue sources exceeding expectations, the overall performance of revenues to date coupled with a deteriorating economic outlook translates into forecasted growth of \$805 million in FY 2008, approximately half of the growth that was assumed in the FY 2008 budget.**

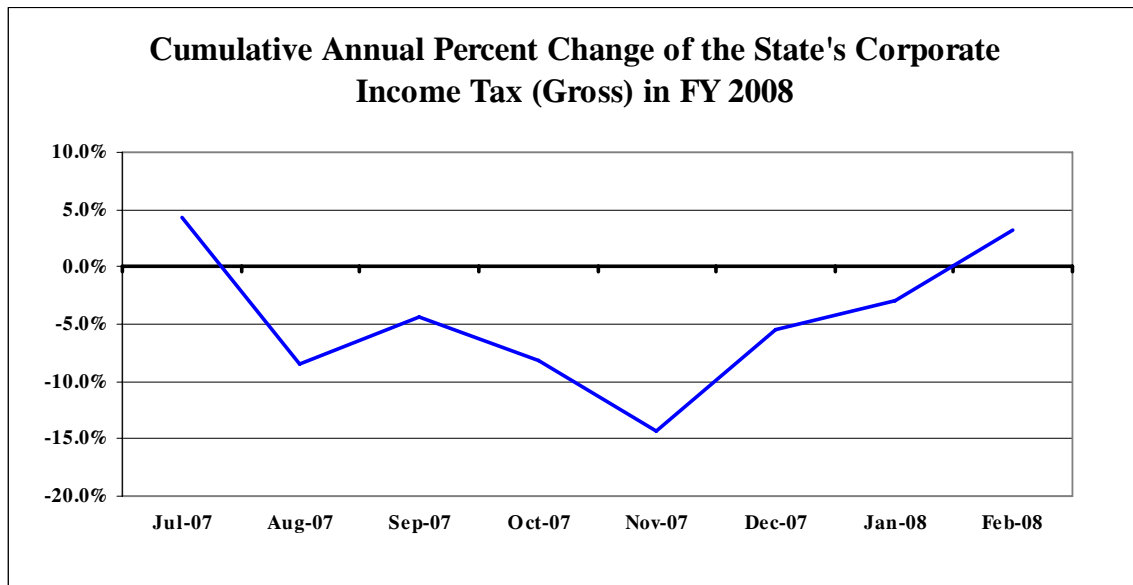
A discussion of the various revenue sources that merit examination are as follows:

Gross personal income tax receipts are up \$515 million or 8.4% through the first two-thirds of the year, [\$598 million on a net of refund basis]. Personal income taxes are comprised of withholding taxes, estimated payments, and final payments. While preliminary, through January, withholding payments, which are based on current wages and employment and comprise approximately 80% of total income taxes, were up 6.1%. Estimated payments, which are largely made up of non-wage income such as capital gains and other investment income and usually make up approximately 12% of total income tax receipts, were up 16.7% through December. Lastly, final payments, which comprise the remainder of income tax collections, are final settlements that are made by the taxpayer. The vast majority of final payments are not received until after the April deadline, however, final payments were up 13.9% through January.

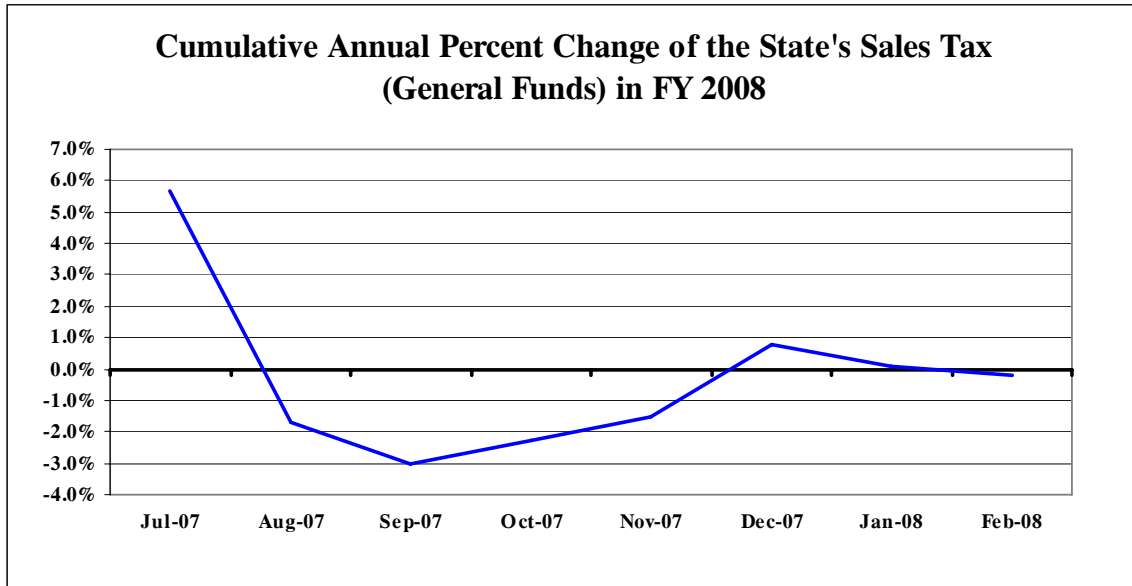


Overall, personal income taxes have performed very well through the first two-thirds of the fiscal year. However, while gross personal income tax continues to post above average gains, a markedly more fragile employment picture will likely begin to impact receipts heading forward. Since much of the year to date strength has come from estimated payments, concern is growing that a significant reduction in growth will occur in the spring once final payments are made. On the plus side, gains thus far have been significant, so even if the slowdown is worse than expected, enough “cushion” has been built up to still post a healthy gain in FY 2008. As a result, the estimate calls for growth to moderate over the remainder of the year, ending with a gain of \$676 million or 6.5%. On a net of refund basis, the estimate translates into even a higher gain of \$832 million. The higher net gain is due to the refund percentage being reduced to 7.75% in FY 2008 from the previous year’s 9.75%. The net impact on revenues as a result of that change is valued at \$222 million.

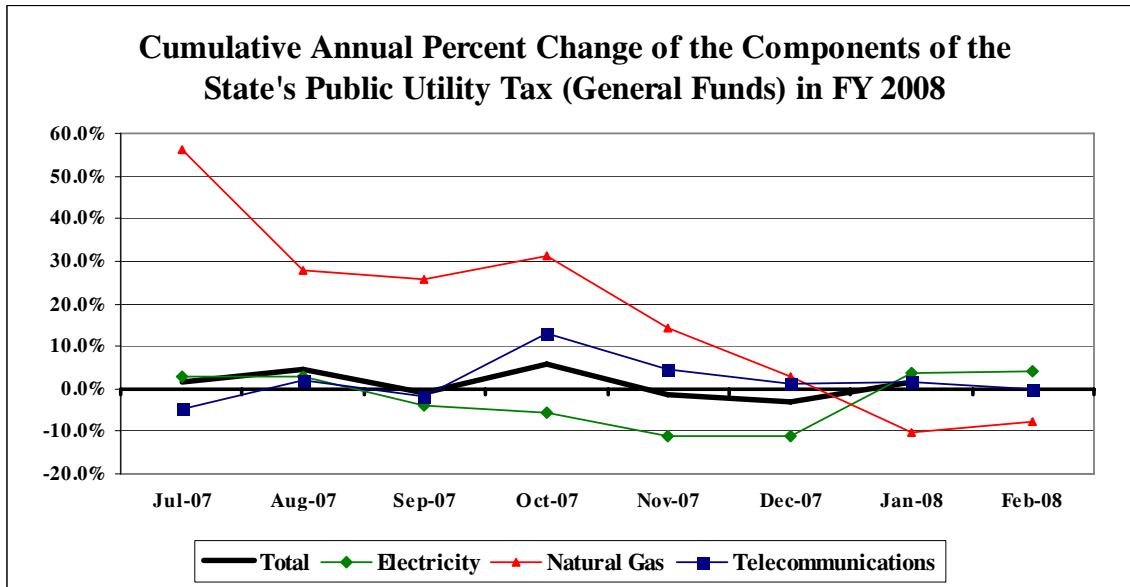
News is not as good for corporate income tax receipts. Gross corporate income tax receipts are up an uninspiring \$29 million, or 3.2%. While the bulk of receipting has yet to occur as the highest months of receipts are still upcoming, the outlook for the remainder of the year, and for that matter, for quite some time to come, is not good. The latest economic forecast calls for essentially no growth in before tax profits continuing through next fiscal year. As a result, it would seem unrealistic to think that corporate income tax receipts over the remainder of FY 2008 would do anything but continue to struggle. As a result, the estimate of \$2.153 billion reflects \$32 million or 1.5% growth over the previous fiscal year, although on a net of refund basis, due to a lowered refund percentage of 15.5% from the earlier 17.5%, the net change is calculated to be \$69 million.



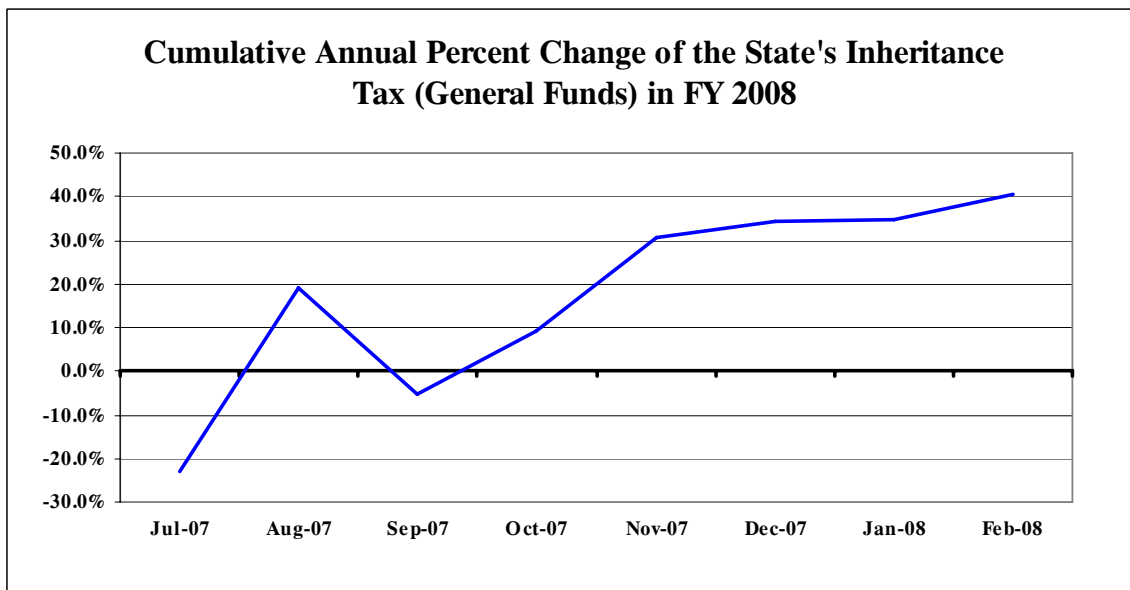
Through the first two-thirds of the fiscal year, sales tax revenues were down \$12 million or 0.2%. Sales tax receipts continued to reflect weakness in the consumer sector. With the exception of an anticipated up tick in March, related to an allocation issue experienced last year, consumer activity is likely to continue to be weak for the foreseeable future. As a result, the estimate of \$7.156 billion represents only a \$20 million, or 0.3% increase over the previous year. And, since last year's gain was only 0.6%, that would mark the second consecutive year that sales tax receipts have grown less than 1%. The last time that growth failed to reach 1% in back to back fiscal years was during the recessionary period of FY 1981-82.



Public utility taxes were up \$6 million or 0.8% through February. Through eight months, telecommunication taxes were flat, natural gas tax receipts were down 7.8%, while electric receipts were up 4.2%. The FY 2008 estimate of overall public utility taxes is \$1.140 billion, reflecting only \$9 million or 0.8% over the previous year.

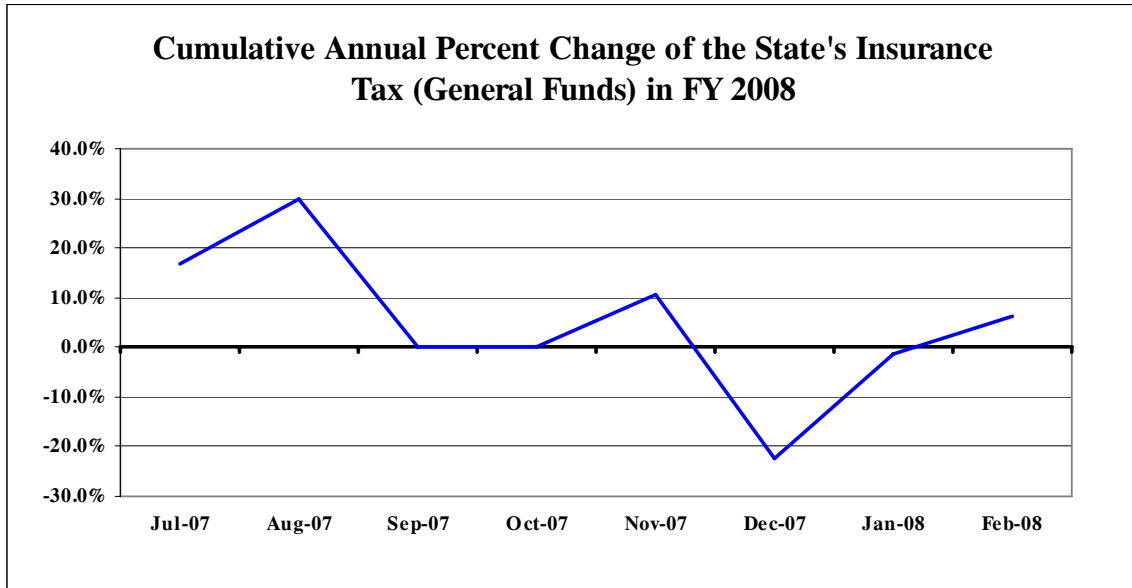


Inheritance tax receipts have been one of the surprise performers this year as receipts were up \$74 million or a whopping 40.7%. A couple of unusually large months of receipts, particularly Cook County activity in November, accounted for the large gain. Consequently, the estimate of \$360 million represents growth of \$96 million over last fiscal year. However, due to the volatility of this source, performance is likely to return to more normal patterns in the future.

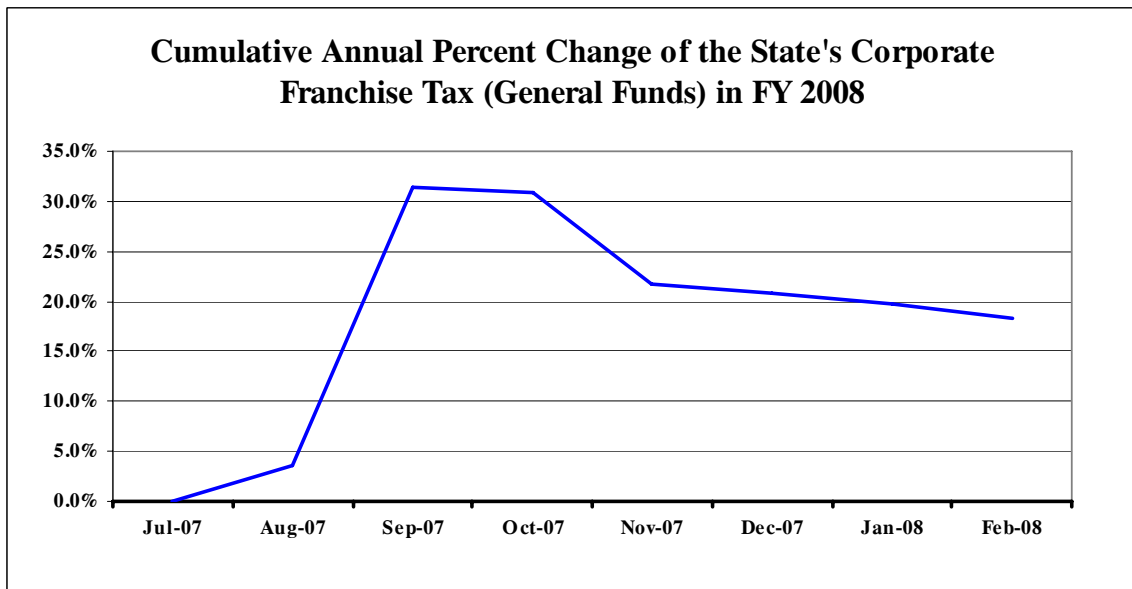




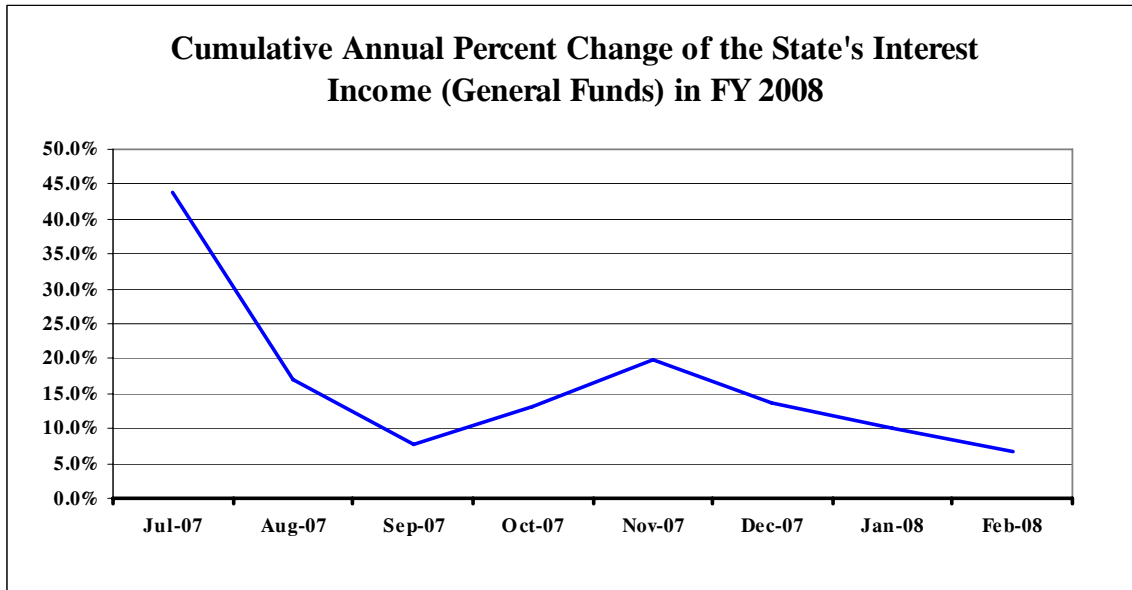
Insurance taxes and fees have performed about as anticipated with year to date growth of \$10 million or 6.1%. The estimate for FY 2008 is \$325 million, and reflects growth of approximately 4.8% over the previous year.



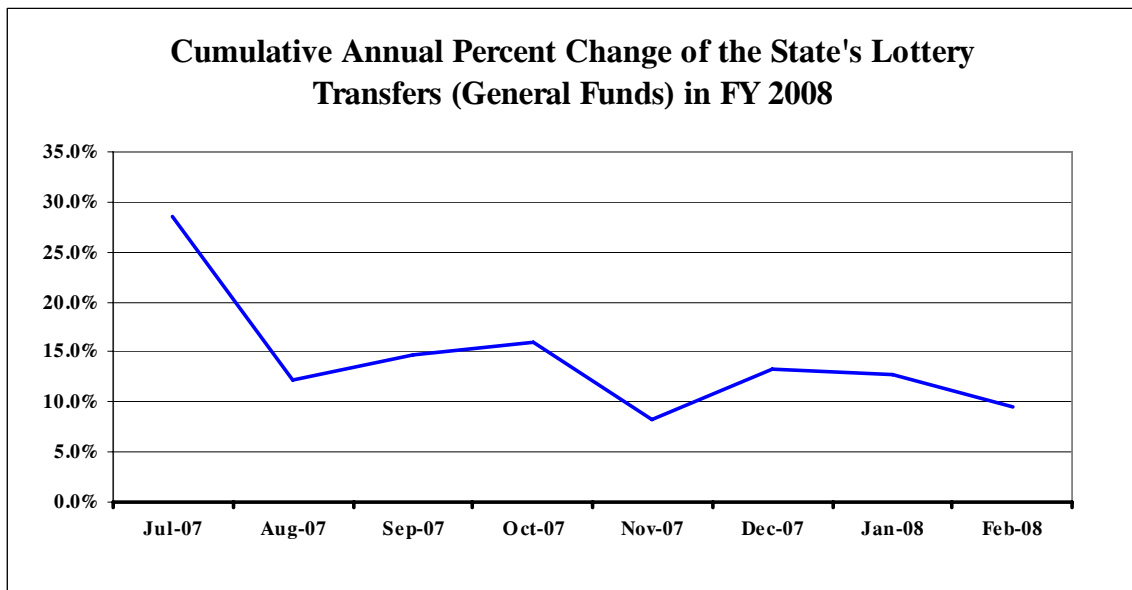
Corporate franchise taxes and fees benefited from a one-time additional franchise payment of nearly \$17 million in September. That, in conjunction with decent underlying performance results in a forecast of \$220 million or a rise of \$27 million from last year. [Going forward, next year's receipts are expected to fall due to the one-time payment experienced in FY 2008].



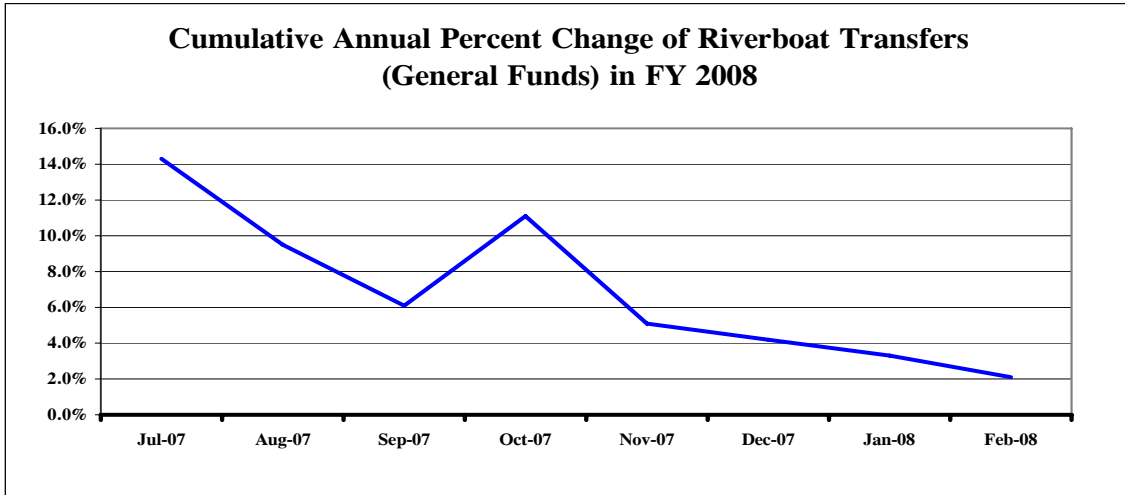
Receipts from interest income, after enjoying a good start to the fiscal year, steadily eroded due to lower rates of return and investable balances. In fact, the Treasurer's Office issued a warning in February stating that a significant falloff in investment income is expected, both this year and next. As a result, the estimate of \$185 million represents a decline of \$19 million or 9.3% from the previous year.



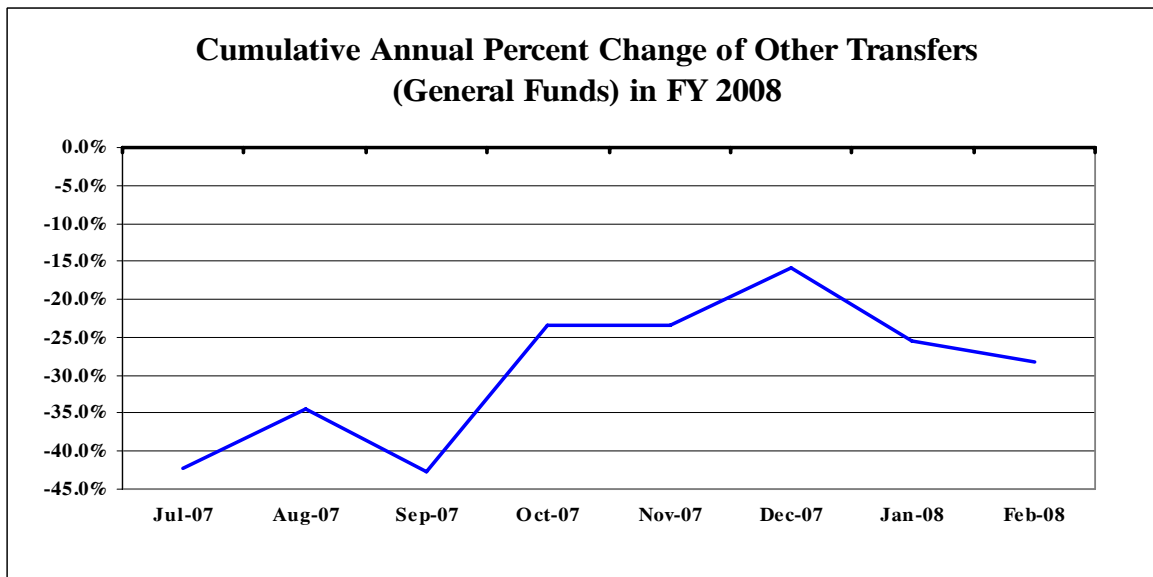
Lottery transfers rebounded from a down year in FY 2007 to post gains of \$36 million or 9.5% through February. While off earlier highs, transfers have fared well and the resulting estimate of \$675 million represents a \$53 million or 8.5% gain over the previous year.



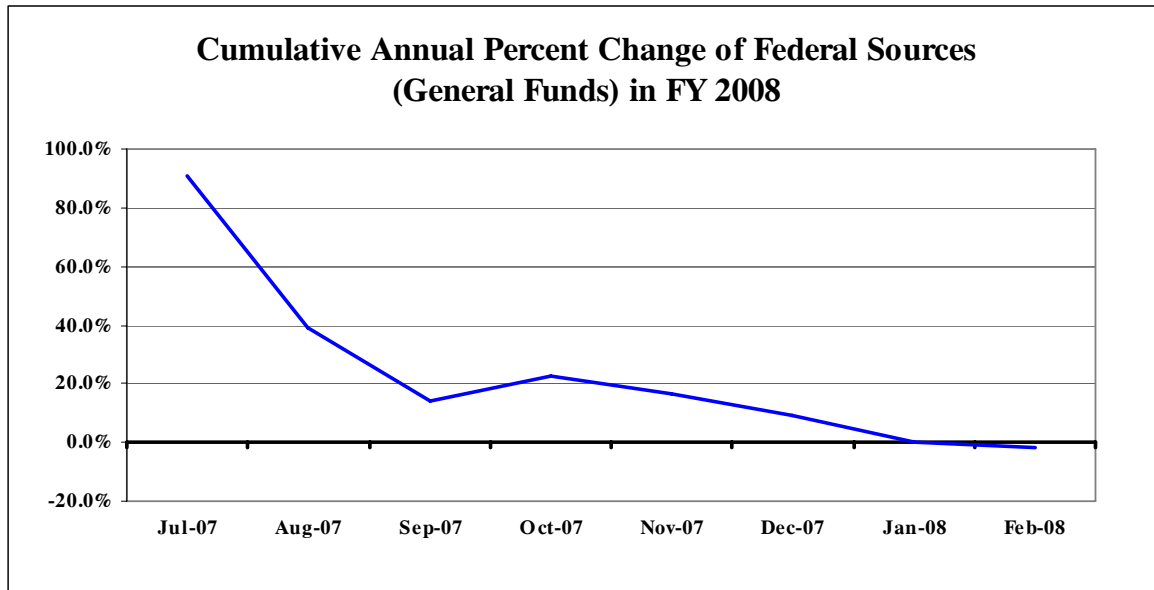
Riverboat gaming transfers are up \$9 million or 2.1% through February, well off of earlier performance. While still early, it appears that the smoking ban, in conjunction with unfavorable weekend weather systems, have significantly affected adjusted gross receipts. As a result, riverboat transfers are expected to fall \$60 million in FY 2008. Also contributing to the decline is the expiration of the “hold harmless” provision.



Other transfers into the general funds are down \$129 million or 28.3% through February. The absence of fund sweeps, and the expiration of chargeback authorization resulted in the year to date drop. While the Commission is including \$80 million already received from the Hospital Assessment program in its estimate of \$598 million, another \$80 million could be realized in FY 2008 if a proposed increase in Hospital Provider Fund appropriations and related short-term borrowing is approved by the end of the fiscal year.



Federal related sources were down \$54 million or 1.7% through the first two-thirds of the fiscal year. After beginning the year with significant increases due to reimbursable spending, the rates of growth eventually disappeared with the slowdown in expenditures. Since federal sources are in large part determined by appropriations and resulting spending, the estimate for FY 2008 is now \$4.804 billion, reflecting a rather modest gain of \$101 million or 2.1% over the previous year.



**In conclusion, the Commission’s FY 2008 estimate in large part reflects revenue activity to date, coupled with an expectation that economic activity and subsequent revenue performance will continue to under perform. While personal income tax should continue to grow, albeit at a more modest pace, both sales tax and corporate income tax receipts are expected to continue to find meaningful growth elusive over the remainder of the fiscal year. As discussed in the earlier section, it appears we have entered a precarious time as it relates to the economy. With this heightened state of uncertainty, it would not be surprising to see revenues struggle over the remainder of FY 2008.**

## CGFA/GOMB FY 2008 COMPARISON

*As shown in Table 3 on page 21, the Commission's FY 2008 general funds estimate of \$29.445 billion is \$75 million below the GOMB's latest official estimate reflected in the FY 2009 Budget Book. The estimates are presented as base revenues, although the Governor has proposed generating an additional \$750 million in FY 2008 via "fund sweeps" and corporate "loophole" closures. Since those items would require legislative action, they are not included in the base estimates.*

The two estimates are similar in most respects as both agencies are forecasting similar growth rates for most of the larger revenue sources. One difference lies in the estimate of other transfers with the GOMB's estimate already including the yet to be approved supplemental for the final phase of the hospital assessment plan—a value of \$80 million.

**TABLE 1: GENERAL FUNDS RECEIPTS THROUGH FEBRUARY**

FY 2008 vs. FY 2007  
(\$ million)

<u>Revenue Sources</u>	<u>FY 2008</u>	<u>FY 2007</u>	<u>CHANGE FROM FY 2007</u>	<u>% CHANGE</u>
<b>State Taxes</b>				
Personal Income Tax	\$6,651	\$6,136	\$515	8.4%
Corporate Income Tax (regular)	923	894	\$29	3.2%
Sales Taxes	4,850	4,862	(\$12)	-0.2%
Public Utility Taxes (regular)	750	744	\$6	0.8%
Cigarette Tax	234	234	\$0	0.0%
Liquor Gallonage Taxes	110	107	\$3	2.8%
Vehicle Use Tax	21	22	(\$1)	-4.5%
Inheritance Tax (Gross)	256	182	\$74	40.7%
Insurance Taxes and Fees	173	163	\$10	6.1%
Corporate Franchise Tax & Fees	149	126	\$23	18.3%
Interest on State Funds & Investments	145	136	\$9	6.6%
Cook County IGT	193	178	\$15	8.4%
Other Sources	277	275	\$2	0.7%
<b>Subtotal</b>	<b>\$14,732</b>	<b>\$14,059</b>	<b>\$673</b>	<b>4.8%</b>
<b>Transfers</b>				
Lottery	416	380	\$36	9.5%
Riverboat transfers & receipts	429	420	\$9	2.1%
Other	327	456	(\$129)	-28.3%
<b>Total State Sources</b>	<b>\$15,904</b>	<b>\$15,315</b>	<b>\$589</b>	<b>3.8%</b>
<b>Federal Sources</b>	<b>\$3,043</b>	<b>\$3,097</b>	<b>(\$54)</b>	<b>-1.7%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$18,947</b>	<b>\$18,412</b>	<b>\$535</b>	<b>2.9%</b>
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$515)	(\$598)	\$83	-13.9%
Corporate Income Tax	(\$143)	(\$156)	\$13	-8.3%
<b>Subtotal General Funds</b>	<b>\$18,289</b>	<b>\$17,658</b>	<b>\$631</b>	<b>3.6%</b>
<b>Short-Term Borrowing</b>	<b>\$1,200</b>	<b>\$900</b>	<b>\$300</b>	<b>N/A</b>
<b>Hospital Provider Fund (cash flow transfer)</b>	<b>\$300</b>	<b>\$0</b>	<b>\$300</b>	<b>N/A</b>
<b>Budget Stabilization Fund Transfer</b>	<b>\$276</b>	<b>\$276</b>	<b>\$0</b>	<b>0.0%</b>
<b>Total General Funds</b>	<b>\$20,065</b>	<b>\$18,834</b>	<b>\$1,231</b>	<b>6.5%</b>
SOURCE: Office of the Comptroller, State of Illinois: Some totals may not equal, due to rounding.				
CGFA				4-Mar-08

**TABLE 2: FY 2008 CGFA ESTIMATE & FY 2007 ACTUALS**

(millions)

<b>Revenue Sources</b>	<b>CGFA FY 2008 Estimate March-08</b>	<b>ACTUAL FY 2007</b>	<b>\$ Difference</b>	<b>% Difference</b>
<b>State Taxes</b>				
Personal Income Tax	\$11,100	\$10,424	\$676	6.5%
Corporate Income Tax	\$2,153	\$2,121	\$32	1.5%
Sales Taxes	\$7,156	\$7,136	\$20	0.3%
Public Utility (regular)	\$1,140	\$1,131	\$9	0.8%
Cigarette Tax	\$350	\$350	\$0	0.0%
Liquor Gallonage Taxes	\$160	\$156	\$4	2.6%
Vehicle Use Tax	\$33	\$33	\$0	0.0%
Inheritance Tax (gross)	\$360	\$264	\$96	36.4%
Insurance Taxes & Fees	\$325	\$310	\$15	4.8%
Corporate Franchise Tax & Fees	\$220	\$193	\$27	14.0%
Interest on State Funds & Investments	\$185	\$204	(\$19)	-9.3%
Cook County Intergovernmental Transfer	\$302	\$307	(\$5)	-1.6%
<u>Other Sources</u>	<u>\$453</u>	<u>\$449</u>	<u>\$4</u>	<u>0.9%</u>
<b>Subtotal</b>	<b>\$23,937</b>	<b>\$23,078</b>	<b>\$859</b>	<b>3.7%</b>
<b>Transfers</b>				
Lottery	\$675	\$622	\$53	8.5%
Riverboat Transfers & Receipts	\$625	\$685	(\$60)	-8.8%
<u>Other</u>	<u>\$598</u>	<u>\$939</u>	<u>(\$341)</u>	<u>-36.3%</u>
<b>Total State Sources</b>	<b>\$25,835</b>	<b>\$25,324</b>	<b>\$511</b>	<b>2.0%</b>
<b>Federal Sources</b>	<b>\$4,804</b>	<b>\$4,703</b>	<b>\$101</b>	<b>2.1%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$30,639</b>	<b>\$30,027</b>	<b>\$612</b>	<b>2.0%</b>
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$860)	(\$1,016)	\$156	-15.4%
Corporate Income Tax	(\$334)	(\$371)	\$37	-10.0%
<b>Subtotal General Funds</b>	<b>\$29,445</b>	<b>\$28,640</b>	<b>\$805</b>	<b>2.8%</b>
Short-Term Borrowing	\$1,200	\$900	\$300	33.3%
Hospital Provider Fund (cash flow transfer)	\$300	\$456	(\$156)	-34.2%
Budget Stabilization Fund Transfer	\$276	\$276	\$0	0.0%
<b>Total General Funds</b>	<b>\$31,221</b>	<b>\$30,272</b>	<b>\$949</b>	<b>3.1%</b>
<b>CGFA</b>				

**TABLE 3: FY 2008 CGFA/GOMB ESTIMATE COMPARISON**  
**Excludes \$750 million in Governor Proposed Revenue Enhancements**  
(millions)

<b>Revenue Sources</b>	<b>CGFA FY 2008 Estimate March-08</b>	<b>GOMB FY 2008 Estimate Feb-08</b>	<b>\$ Difference</b>
<b>State Taxes</b>			
Personal Income Tax	\$11,100	\$11,136	(\$36)
Corporate Income Tax	\$2,153	\$2,121	\$32
Sales Taxes	\$7,156	\$7,172	(\$16)
Public Utility (regular)	\$1,140	\$1,111	\$29
Cigarette Tax	\$350	\$350	\$0
Liquor Gallonage Taxes	\$160	\$159	\$1
Vehicle Use Tax	\$33	\$30	\$3
Inheritance Tax (gross)	\$360	\$315	\$45
Insurance Taxes & Fees	\$325	\$320	\$5
Corporate Franchise Tax & Fees	\$220	\$215	\$5
Interest on State Funds & Investments	\$185	\$204	(\$19)
Cook County Intergovernmental Transfer	\$302	\$302	\$0
<u>Other Sources</u>	<u>\$453</u>	<u>\$502</u>	<u>(\$49)</u>
<b>Subtotal</b>	<b>\$23,937</b>	<b>\$23,937</b>	<b>\$0</b>
<b>Transfers</b>			
Lottery	\$675	\$657	\$18
Riverboat Transfers & Receipts	\$625	\$636	(\$11)
<u>Other</u>	<u>\$598</u>	<u>\$678</u>	<u>(\$80)</u>
<b>Total State Sources</b>	<b>\$25,835</b>	<b>\$25,908</b>	<b>(\$73)</b>
<b>Federal Sources</b>	<b>\$4,804</b>	<b>\$4,804</b>	<b>\$0</b>
<b>Total Federal &amp; State Sources</b>	<b>\$30,639</b>	<b>\$30,712</b>	<b>(\$73)</b>
<b>Nongeneral Funds Distribution:</b>			
<b>Refund Fund</b>			
Personal Income Tax	(\$860)	(\$863)	\$3
Corporate Income Tax	(\$334)	(\$329)	(\$5)
<b>Subtotal General Funds</b>	<b>\$29,445</b>	<b>\$29,520</b>	<b>(\$75)</b>
<b>Change from Prior Year</b>	<b>\$805</b>	<b>\$880</b>	<b>(\$75)</b>
<b>Percent Change</b>	<b>2.8%</b>	<b>3.1%</b>	
Short-Term Borrowing	\$1,200	\$1,200	\$0
Hospital Provider Fund (cash flow transfer)	\$300	\$300	\$0
Budget Stabilization Fund Transfer	\$276	\$276	\$0
<b>Total General Funds</b>	<b>\$31,221</b>	<b>\$31,296</b>	<b>(\$75)</b>
Change from Prior Year	\$949	\$1,024	
Percent Change	3.1%	3.4%	
CGFA			



**U.S. ECONOMIC OUTLOOK FY 2009:  
Nearly Flat First Half Followed by Modest Improvement Later**

Unlike FY 2008 that started out strong only to plunge in the second half of the year, FY 2009 is anticipated to start off virtually flat and improve only slowly as the year unfolds. For the year as a whole, the U.S. economy in FY 2009 is forecast to grow by 1.5 %, below the slightly above 2% rate of the previous two years and less than half that of each of the two years before that (See Chart 6). This would be the lowest rate of real economic growth since the last recession that occurred within the FY 2001 and FY 2002 time frame and, indeed, even may encompass a mild recession itself, although that is not yet assured. Much will depend upon the economic response from the anti-recession actions already taken: those instituted by the Federal Reserve Board; the stimulus package recently signed by the President; and several actions taken to soften the deleterious effects, including the high level of home foreclosures, from “subprime” lending.

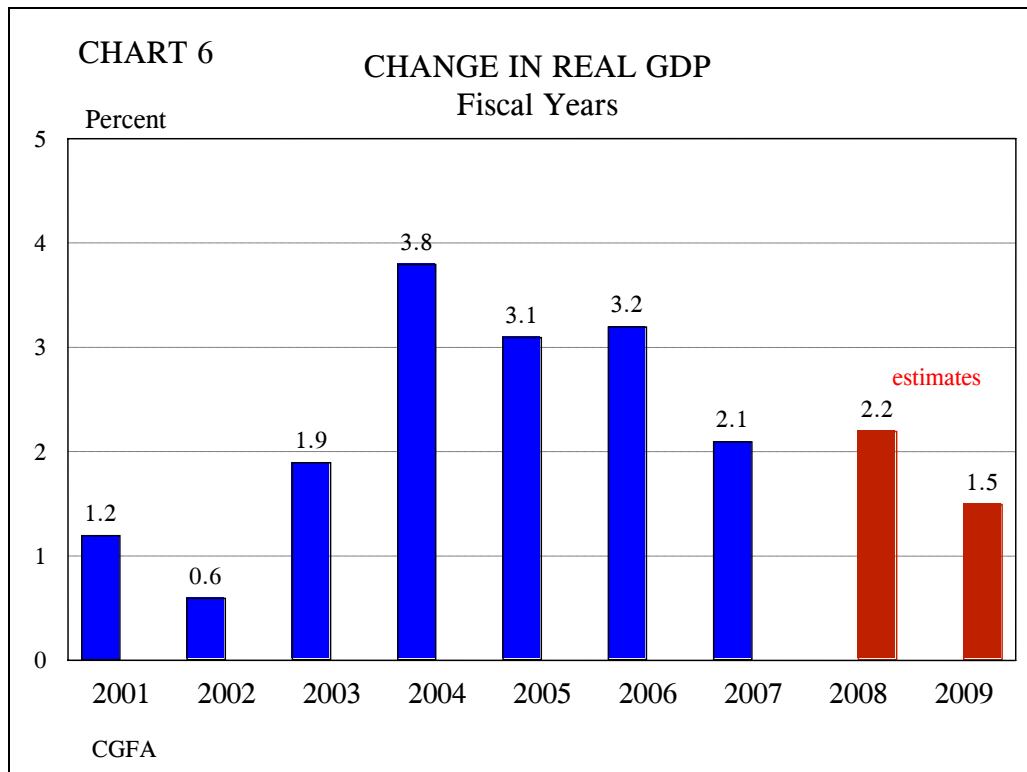
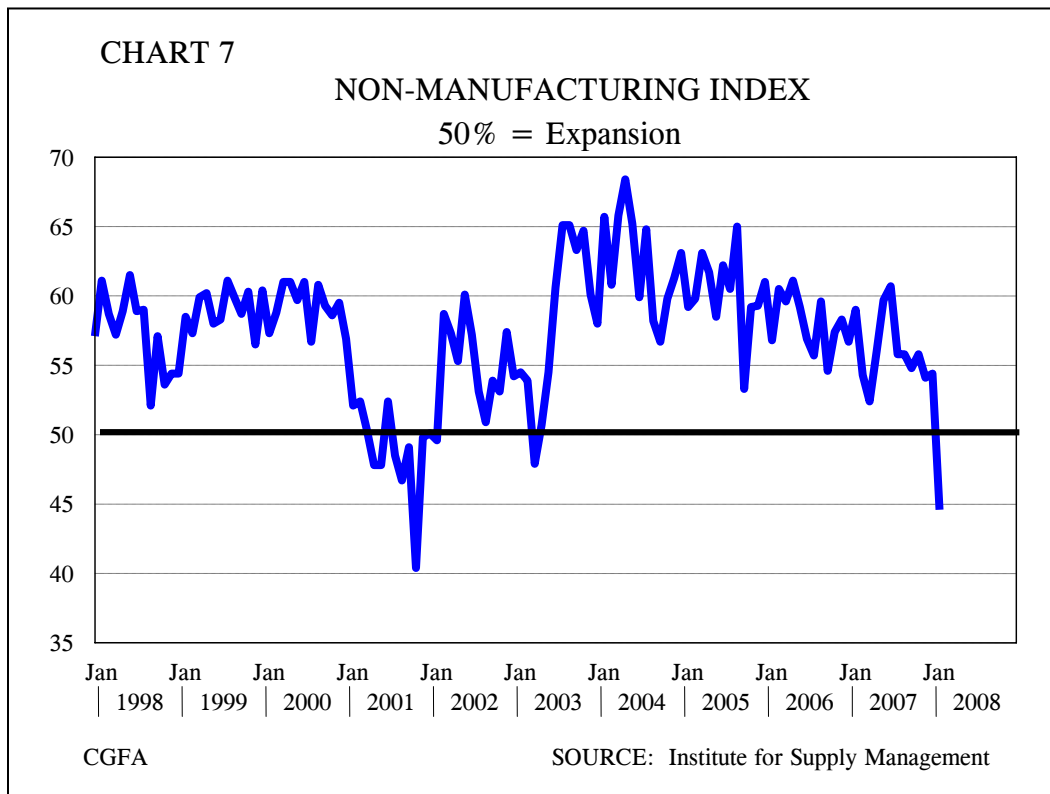


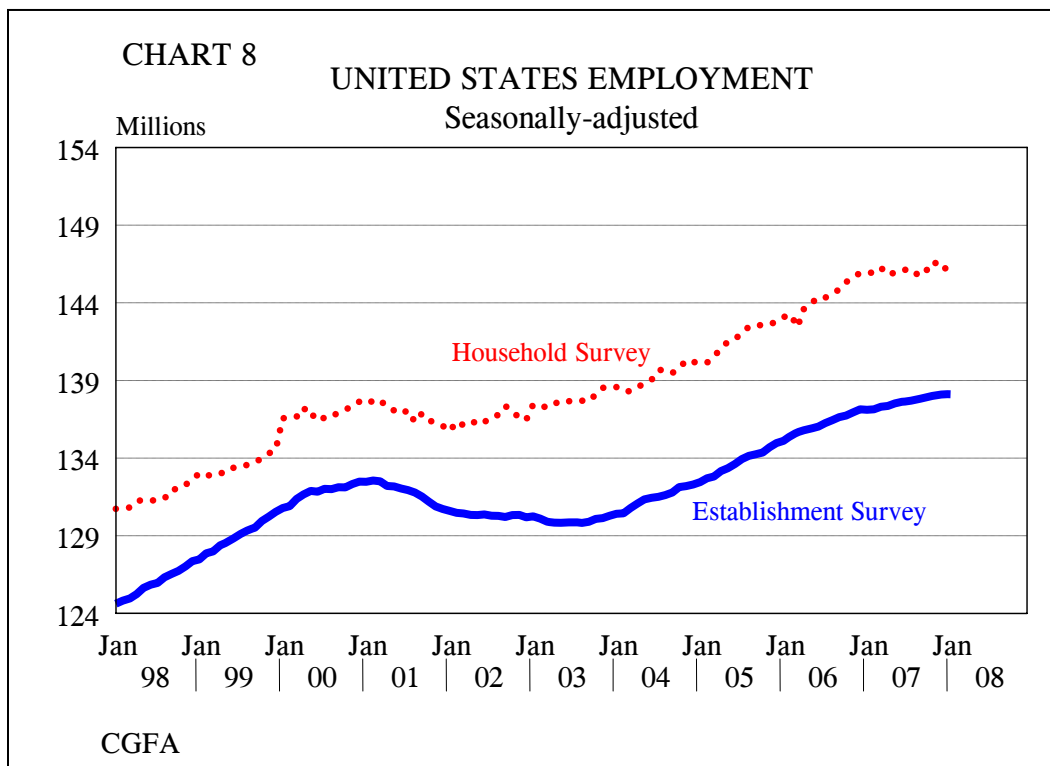
Table 4 on page 23 provides a more detailed breakdown of the U.S. economic forecast for FY 2009 as projected by Global Insight, a service utilized by the Commission. Personal consumption, the largest spending component of GDP, is expected to moderate, hampered in part by high energy prices, declining home values, and continued weak auto and household durable goods sales. The forecast rate of gain in consumer spending in current dollars, those most directly tied to sales tax receipts, is anticipated to drop to 4.0% in FY 2009, from 5.3% in FY 2008, and well below the 6% to 6.5% range in each of the previous three years. Real fixed investment including, both business spending and residential housing, once again is expected to decline for the third consecutive year while the positive impact from U.S. exports will soften as economies abroad slow. Finally, the unemployment rate is anticipated to rise further.

TABLE 4: ECONOMIC FORECASTS - FEBRUARY 2008							
(\$ Change from prior year levels)							
REAL (2000\$)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	
	Actual	Actual	Actual	Actual	Estimated	Estimated	
Gross Domestic Product	3.8	3.1	3.2	2.1	2.2	1.5	
Personal Consumption	3.6	3.3	3.1	3.0	2.1	2.0	
Durable	7.7	5.3	3.6	4.5	2.3	1.0	
Nondurable	4.0	3.3	3.6	3.2	1.4	2.0	
Services	2.6	3.0	2.8	2.6	2.4	2.1	
Fixed Investment	7.9	8.1	5.0	-3.2	-4.2	-4.3	
Exports	3.4	8.9	7.4	7.9	10.8	7.3	
Imports	10.1	7.5	6.3	2.4	0.9	2.1	
Government	2.0	0.8	1.4	1.7	2.7	1.0	
Federal	7.0	2.9	1.8	1.5	4.0	2.9	
State & Local	0.0	-0.2	1.0	1.8	2.3	-0.1	
<b>OTHER MEASURES</b>							
Personal Income (Current \$)	4.8	6.5	6.2	6.3	5.3	4.0	
Personal Consumption (Current \$)	5.9	6.2	6.4	5.5	4.9	3.8	
Before Tax Profits (Current \$)	20.7	17.5	9.6	8.8	0.6	3.4	
Consumer Prices	2.2	3.0	3.8	2.6	3.1	1.7	
Unemployment Rate (Average)	5.8	5.3	4.8	4.6	5.0	5.6	

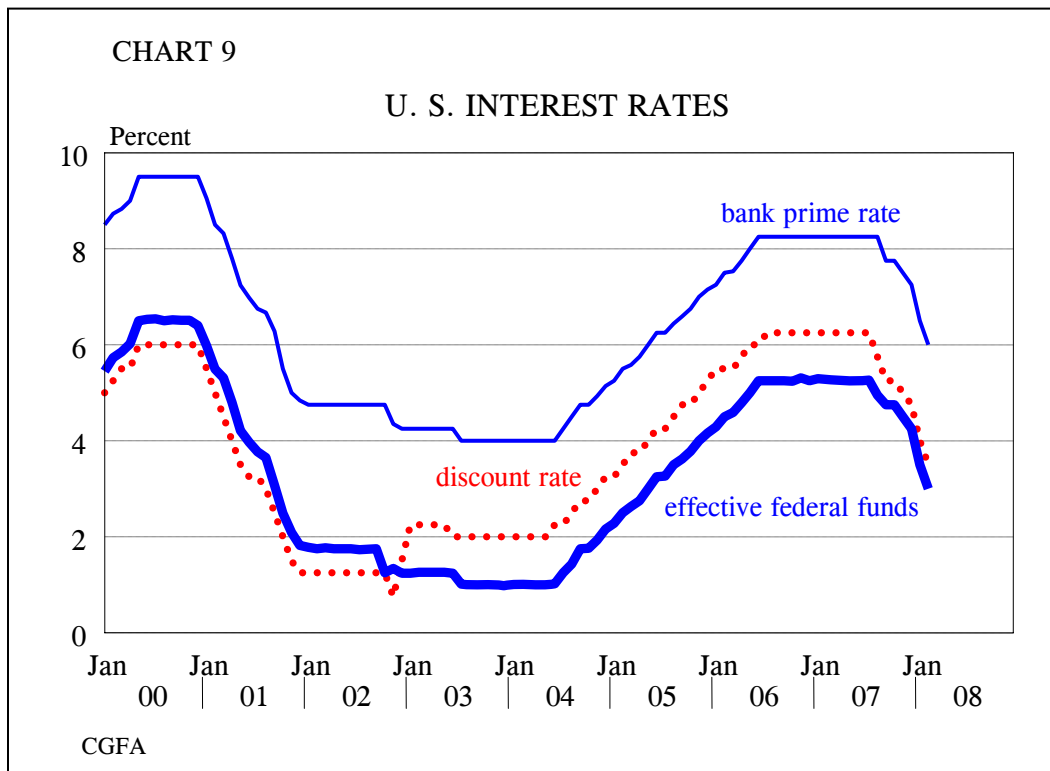
The forecast is premised on the assumption that actions taken by the federal government and the monetary authorities prevent a more serious downturn from developing. As mentioned, manufacturing activity has already been fluctuating in and out of a contraction phase. More recently, however, the larger sector of the U.S. economy, the service or non-manufacturing sector, also has weakened sharply in response to weak consumer spending. As shown in Chart 7, the non-manufacturing sector, as measured by the Institute of Supply Management, contracted for the first time since January 2002 and reached the lowest since early 2001 when the economy was in recession. Although one month's data should not be indicative of the level of contraction, the weakening trend has been underway for several months.



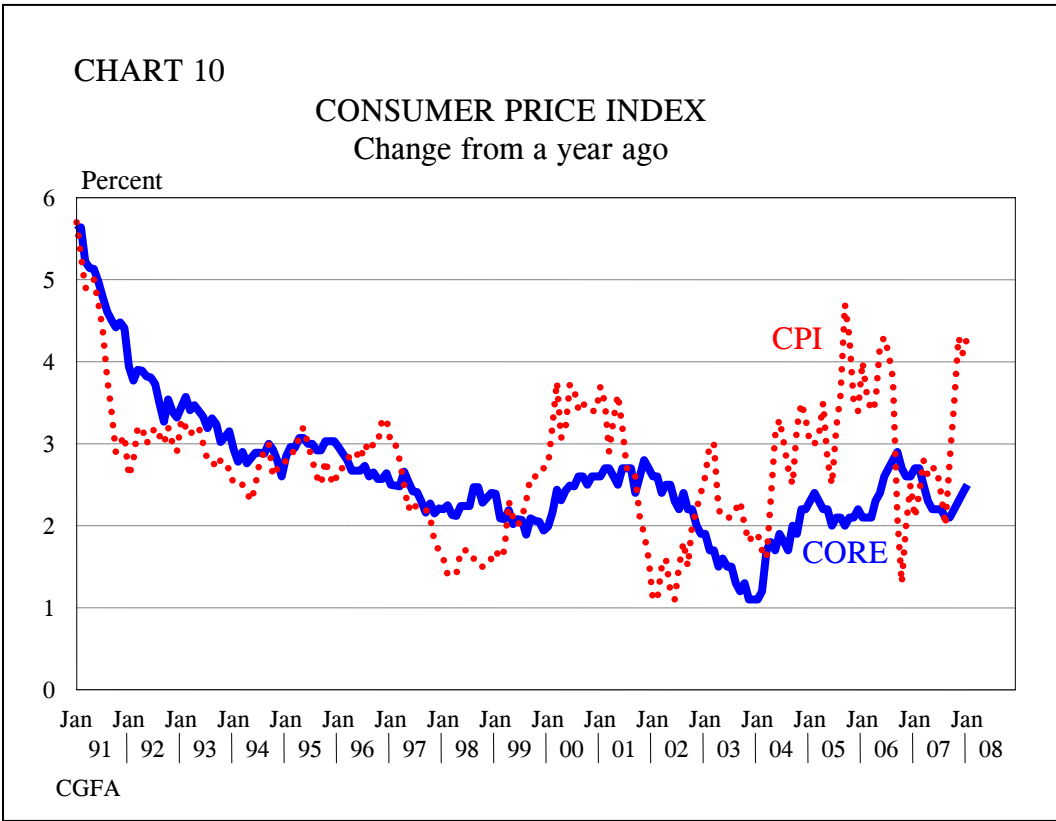
The weakening in consumer spending, and both the manufacturing and non-manufacturing sectors reflect a softening in the labor markets. While the national unemployment rate remains relatively low by historical standards, Chart 8 shows that gains in employment by both the *Household Survey*, used to calculate the unemployment rate, and the more comprehensive *Establishment Survey* have flattened out in recent months. Indeed, payroll employment, as measured by the *Establishment Survey*, actually fell slightly in January. The employment situation is particularly important for the upcoming fiscal year, as employers usually are slow to let employees go, whom they have spent time and money to train. Thus, in addition to raising the level of uncertainty among consumers, the negative impact on the economy may well lag, so that even when business conditions improve, business will be slow in rehiring permanent workers.



In the midst of the global credit crisis in January, the Federal Reserve in an emergency meeting lowered its target rate on federal funds, or the rate banks pay to borrow the excess reserves of other banks by .75%, from 4.25% to 3.5% and lowered the discount rate by a like amount to the 4% level. The Fed cited the “*weakening of the economic outlook and the increasing downside risk to growth.*” Moreover they met again at month’s end and cut rates further by .5%, bringing the federal funds rate down to 3% and the discount rate to 3.5% (See Chart 9). Despite these rapid major cuts in key monetary policy rates, the unexpected falloff in payroll employment in February raises the prospect that the Federal Reserve may not be finished in lowering interest rates.



One possible impediment to continuing to lower interest rates, however, is the outlook for inflation. As shown in Chart 10, inflation as measured by the Consumer Price Index has been rising since a low was reached a few year's earlier. At year-end, the overall CPI rose 4.3% from a year earlier. Even excluding the volatile food and energy sectors, the rise in core prices was 2.5% from a year earlier, above the Federal Reserve's comfort zone. Thus, while currently the deteriorating economy is forefront in policy decisions, as the economic outlook brightens, attention will turn again to the longer-term inflation outlook and serve to end the current policy of monetary ease.

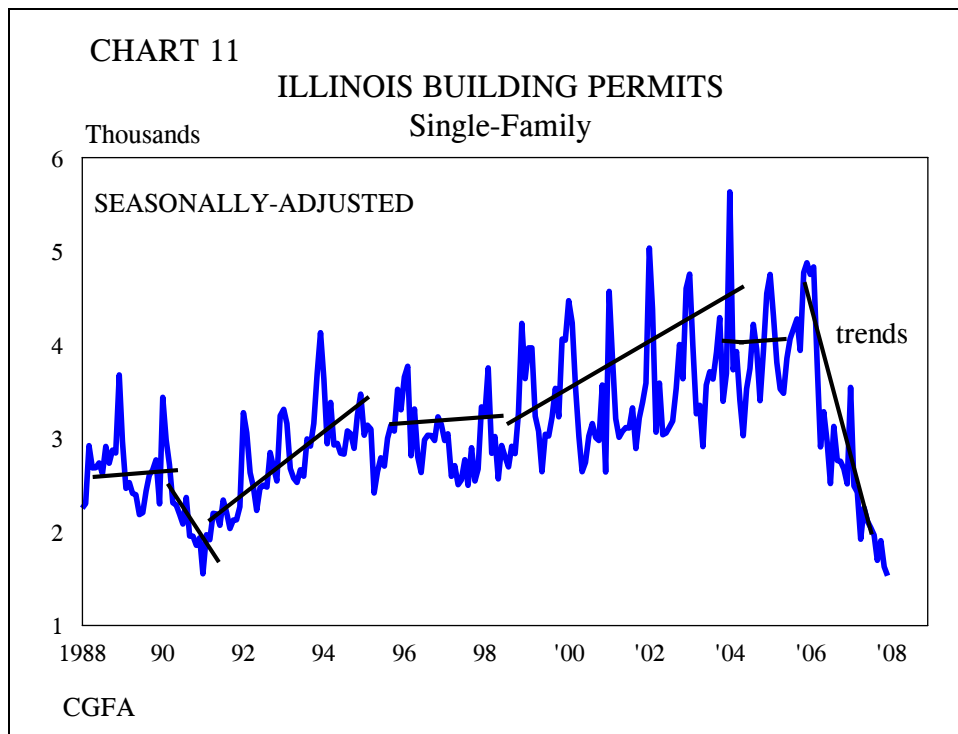


**CGFA’s forecast for FY 2009 is for weak economic growth, mostly in the second half of the year, at a modest 1.5% pace. Growth in the fiscal year would be even below the weak growth of only slightly over 2% in each of the previous two fiscal years and half the growth rates of the two years before that. Moreover a recession cannot be ruled out. The stimulative policies of the monetary authorities coupled with the recently passed fiscal stimulative measures, however, should help to soften the impact of any downturn should one develop.**

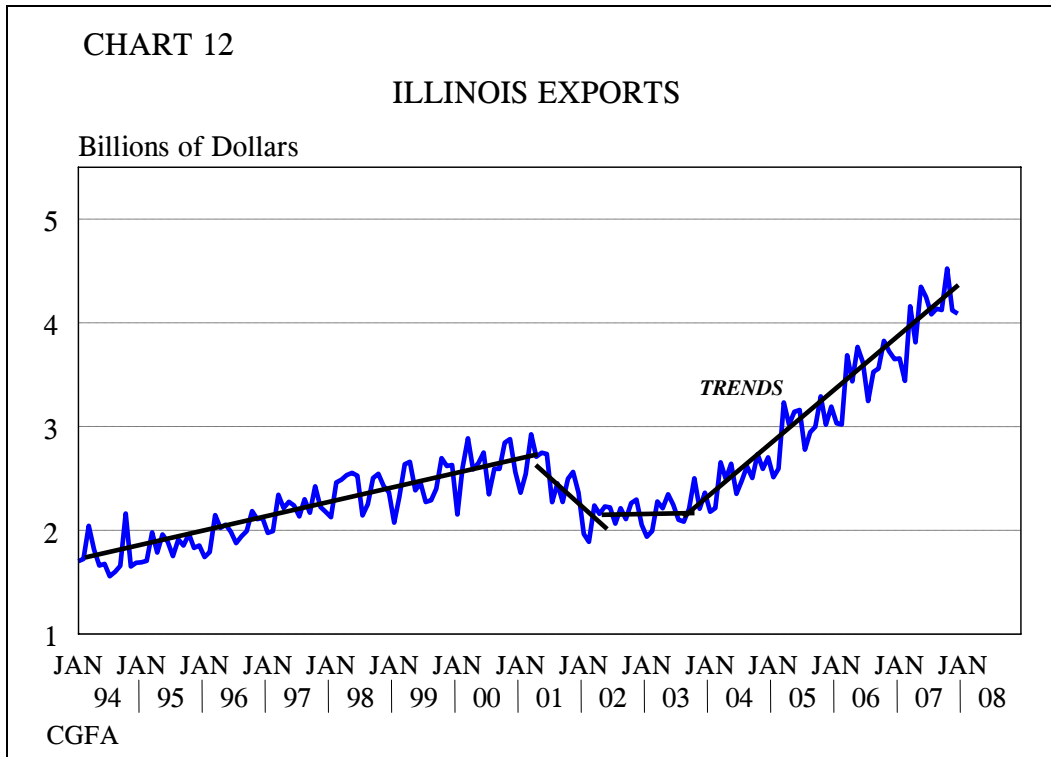
## ILLINOIS ECONOMIC OUTLOOK FY 2009

The Illinois economy, like the nation, is anticipated to weaken substantially in FY 2009. The economic outlook for Illinois, while closely tied to that of the nation as a whole, has trailed the national pace for the past decade according to a study prepared specifically for the Commission by Moody's/Economy.com, and its cyclical swings have been of greater amplitude in downswings. This suggests that Illinois will fare worse than the nation as the economy weakens, whether or not a full-fledged recession is officially declared.

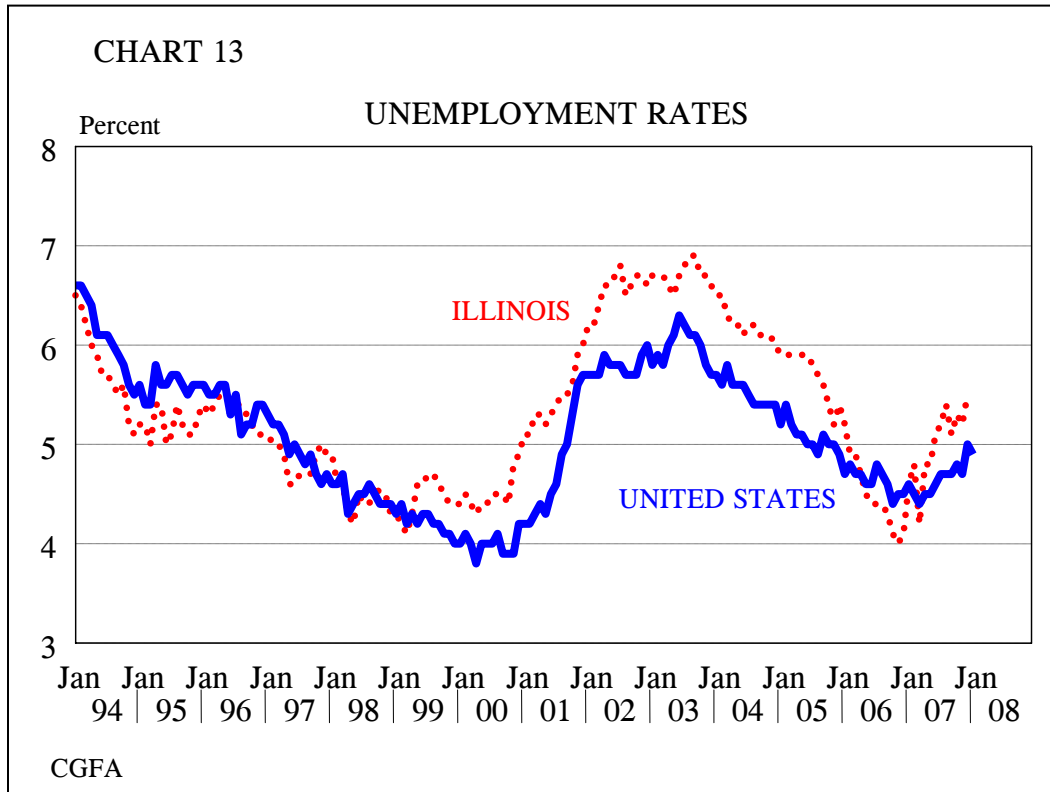
Like the nation, a key weakness in the State has been residential housing, and while price depreciation may not have been as sharp as in some parts of the country, it clearly has not been immune. As Chart 11 shows, single-family building permits in Illinois have plunged and are even below levels not seen since the early 1990s. Moreover, building permits are a precursor to actual starts and thus will be under further downward pressure in the period ahead.



In contrast to housing, a slowing consumer, and a weakening in Chicago area manufacturing, Illinois exports have been on a strong upward trend (see Chart 12). A weak exchange value of the U.S. dollar coupled with continued strong growth abroad has been the major factors behind the continued export expansion. This sector is important to Illinois as it ranks fifth in overall exports. However, as weakness in the U.S. economy spreads abroad, the improvement in Illinois' export growth is expected to diminish.

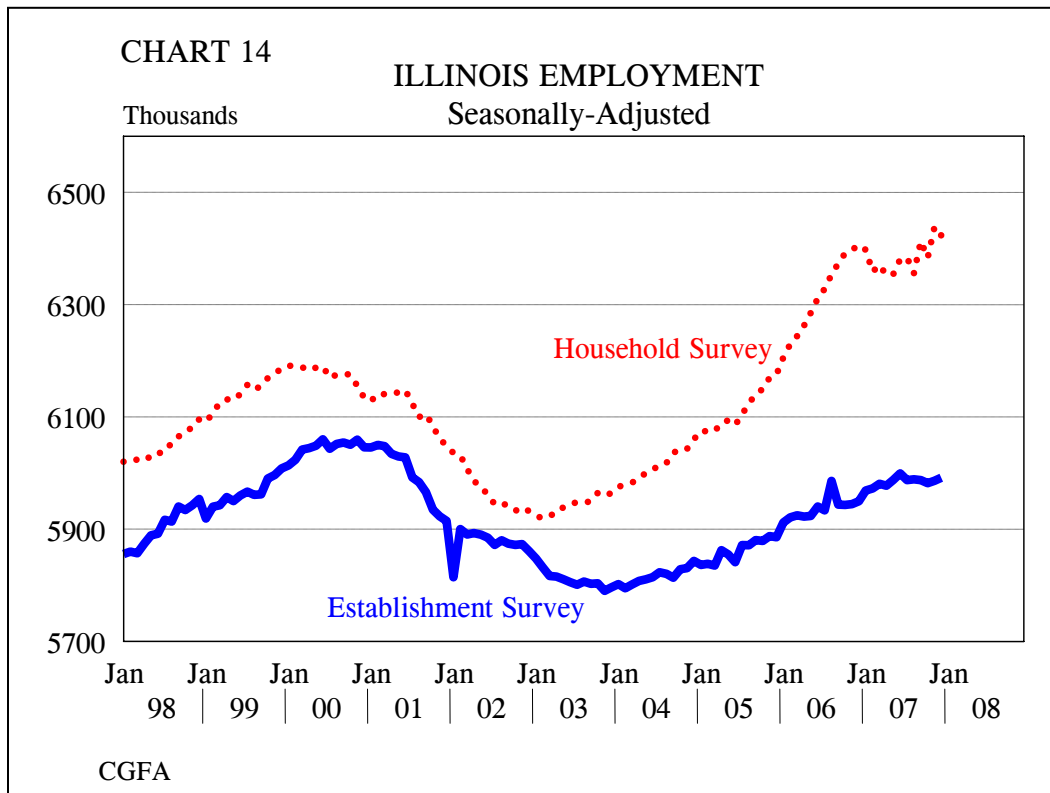


In January the nation's unemployment rate edged down to 4.9%, from 5% in December, which had been the highest rate since November 2005. As shown in Chart 13, however, the State unemployment rate, after remaining below the national rate late in 2006 and early 2007 has begun to exceed the national rate by a widening margin in recent months. It stood at 5.6% in January, exceeding the national rate by some 0.7%, which is the highest rate in Illinois since the fall of 2005. The lag in Illinois' employment situation is in line with past experience and is even more evident when looking at the number of new jobs created.



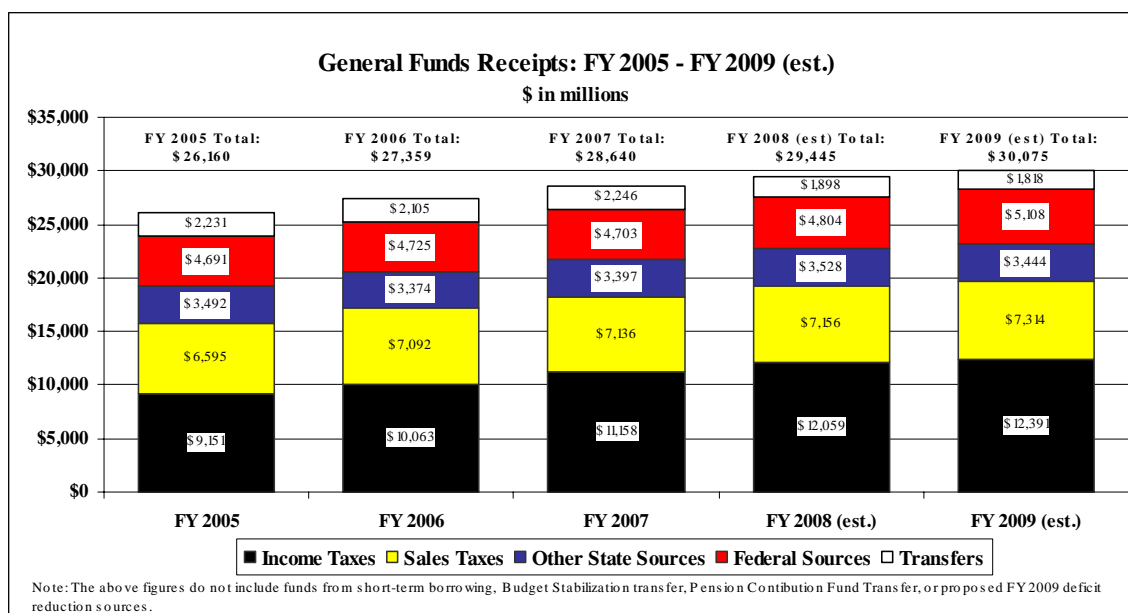


While the nation had recovered all the jobs lost during the last recession by early 2005, this was not the case in Illinois. Moreover, as shown in Chart 14, employment in the State as measured either by the Household Survey or the more comprehensive Establishment Survey has flattened out over the past several months. This explains the continuing rise in the State unemployment rate, as employment growth has not kept pace with growth in the labor force. This trend is likely to continue with even higher unemployment rates in Illinois on the horizon.



*In conclusion, the U.S. economy is expected to rise by 1.5% in real terms in FY 2009, from the slightly above 2% rate in the previous two fiscal years but be less than half the growth rates achieved in the two years before then. While Illinois' economy is anticipated to continue to mirror the national economy, given its history of displaying greater amplitude during downturns, the State could continue to underperform national trends throughout the upcoming fiscal year. According to the latest Global Insight State Forecast for Illinois, made in February, real Gross State Product is anticipated to rise by a lesser 1.2% in FY 2009. This lower rate of projected State economic growth also is illustrated by reduced growth in personal income, which is forecast to grow by 3.7% in FY 2009 in Illinois compared to 4.0% in FY 2008.*

## FY 2009 GENERAL FUNDS ESTIMATE



**Table 5 on page 46, details the Commission’s revenue estimate of the upcoming fiscal year. Base revenues are forecast at \$30.075 billion in FY 2009, reflecting a modest \$630 million or 2.1% growth over the previous year. Unfortunately, the current state of economic uncertainty serves to temper growth expectations for FY 2009. Latest economic forecasts indicate real personal income as well as personal consumption is forecast to slow somewhat in the upcoming fiscal year, while before tax profits are expected to struggle again. Furthermore, the unemployment rate, which has moved higher in recent months, is anticipated to continue to climb.**

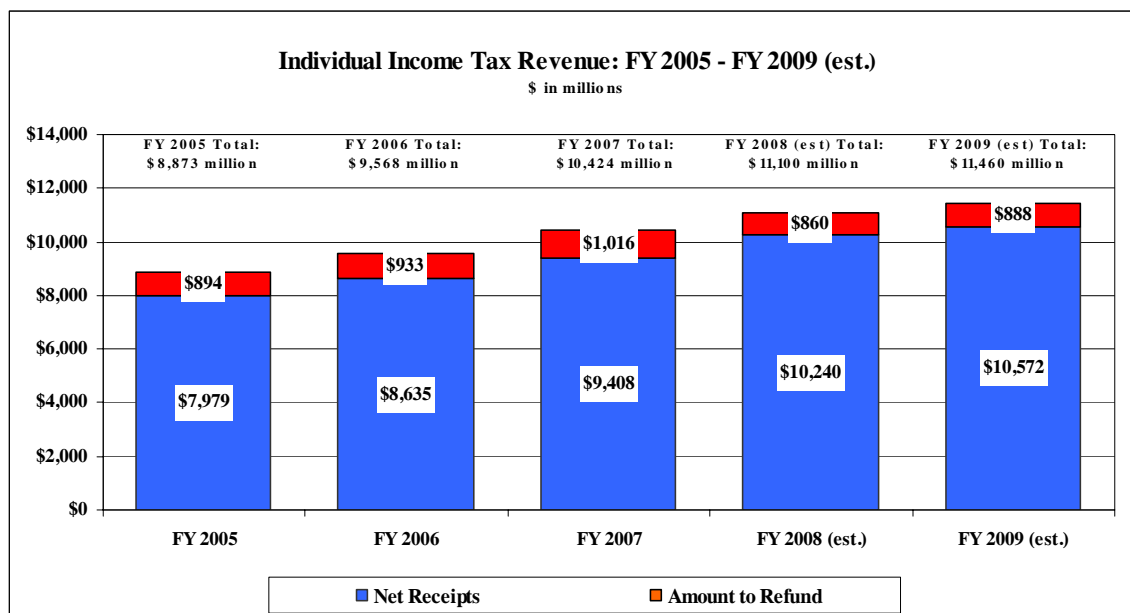
In addition to the slowing economy, a few areas are expected to subtract from even those modest gains. For example:

- Without Legislative action, the expiration of the Hospital Assessment plan will result in approximately \$80 million a year less in available transfers to the general funds.
- The continued reduction in the IGT revenue reduces receipts by \$46 million.
- As reported by the Treasurer’s Office, lower rates of return will cause a drop in investment income. CGFA estimates a drop of \$30 million.
- Unusually large estate settlements cannot be relied on to recur next year, resulting in an anticipated drop of \$30 million in inheritance tax receipts.

**While the Governor has proposed changes that would equate into an additional \$1.430 billion in revenues, since legislative action is required, those items are not included in the Commission’s forecast. See section on page 47.**

The following provides background information on each major source and the FY 2009 forecast.

## *PERSONAL INCOME TAX*



The individual income tax is the largest revenue source, generating approximately one-third of all general funds revenue. Enacted in 1969 at the rate of 2.5%, the current individual income tax is imposed at a rate of 3.0% on the federal-adjusted gross income (AGI) for individuals with some adjustments.

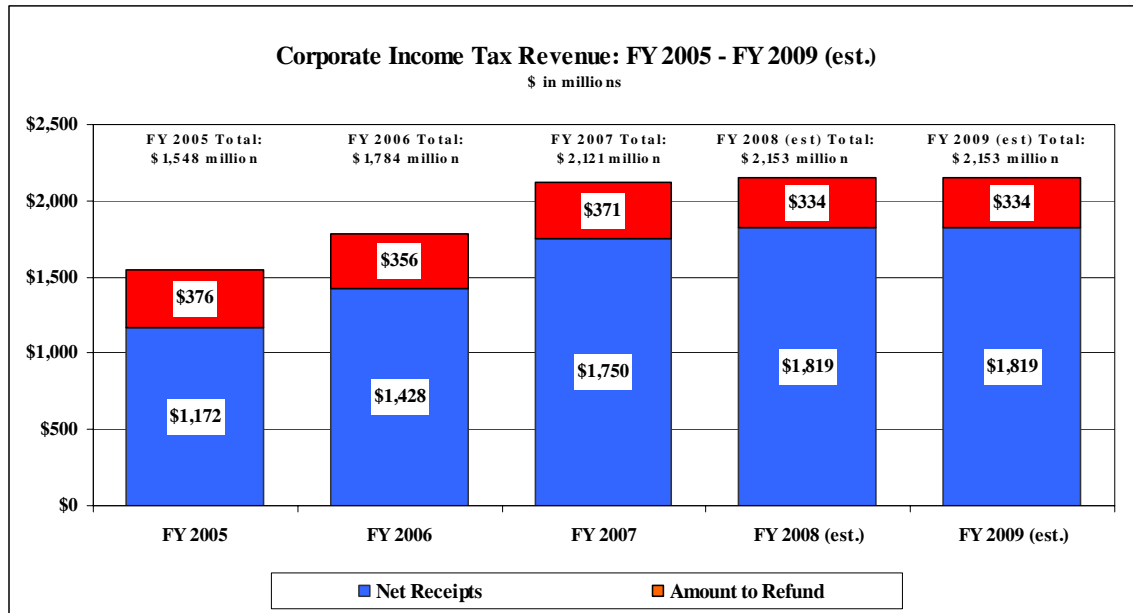
Since tax year 2000, each taxpayer is permitted a \$2,000 standard exemption plus an additional \$2,000 for a spouse and each dependent. An additional exemption of \$1,000 is available to taxpayers and their spouses who are blind or 65 years of age or older. In addition to the personal exemptions, there are several tax credits available to assist individuals in reducing the amount of tax due. The most significant credit is based on 5% of property taxes paid on the taxpayer's principal residence.

A percentage (7.75% in FY 2008) of gross personal income tax receipts are deposited into the Income Tax Refund Fund, with 7.3% of that net amount going to the Education Assistance Fund (EAF). The remainder goes to the General Revenue Fund. The EAF is considered to be part of general funds and, accordingly, receipts going to the EAF are shown as general funds receipts.

According to statute, at the beginning of each fiscal year the Department of Revenue should determine the refund percentage for the new fiscal year based on actual refund activity and unpaid refund backlog. However, in most recent years, that refund percentage has been set in the budget implementation language. In FY 2009, the estimate is based on the current refund percentage of 7.75% [the Budget Book assumes reverting to a higher 9.75%]. Any change in percentage from the current year will affect net personal income tax receipts.

*Personal income taxes, while holding up quite well over the first part of the current fiscal year is expected to slow, continue below trend into FY 2009, and grow approximately 3.2%. The FY 2009 estimate of gross personal income tax receipts is \$11,460 billion, an increase of \$360 million over projected FY 2008 receipts. On a net of refund basis, and assuming no change to the current refund percentage of 7.75%, net receipts are estimated to increase by \$332 million.*

**CORPORATE INCOME TAX**



Enacted in 1969 at a rate of 4%, the current rate is 4.8% and is applied to a corporation's federal taxable income with several adjustments.

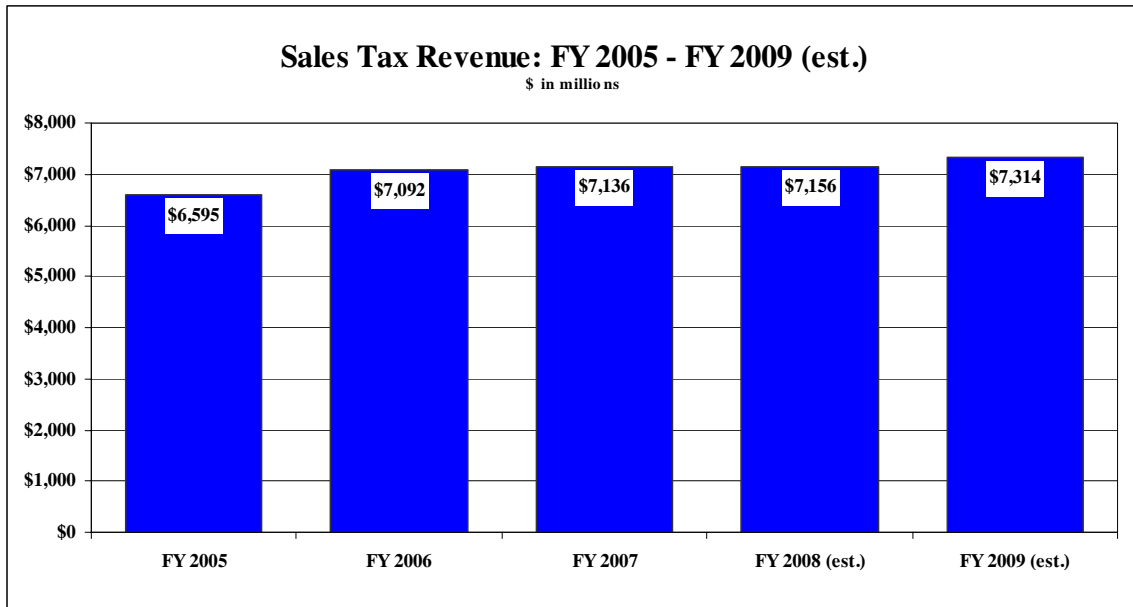
After a phased-in transition to a single-factor sales formula apportionment of business income, sales in Illinois are the only determinant of how much of a multistate firm's income is taxed.

Historically, corporate income tax has proven much more volatile than personal income tax revenue. Carry forward (and until recently carry backward) provisions as well as other recent tax changes contribute to that volatility.

Like the personal income tax, corporate income tax receipts are deposited into the Income Tax Refund Fund and the Education Assistance Fund (7.3% net of refunds), with the remainder going to the General Revenue Fund. In FY 2008, the refund percentage is 15.5%. According to the FY 2009 Budget Book, that percentage is proposed to be increased to 17.5%. Any change in that percentage will also affect net corporate income tax receipts.

*Corporate income tax historically has been one of the most volatile revenue sources, illustrated by double digit swings in seven out of the past ten fiscal years. Despite some corporate tax changes enacted last year, no growth is expected in gross corporate income tax receipts. The FY 2009 estimate of gross corporate income tax revenue is \$2.153 billion, the same as expected in the current fiscal year [assumes current refund percentage], while on a net of refund basis the figure is \$1.819 billion.*

**SALES TAX**



The sales tax rivals the personal income tax as one of the largest general funds sources, generating approximately 25% of total general funds revenue. The sales tax is composed of four individual taxes including the retailers’ occupation tax, the use tax, the service occupation tax, and the service use tax.

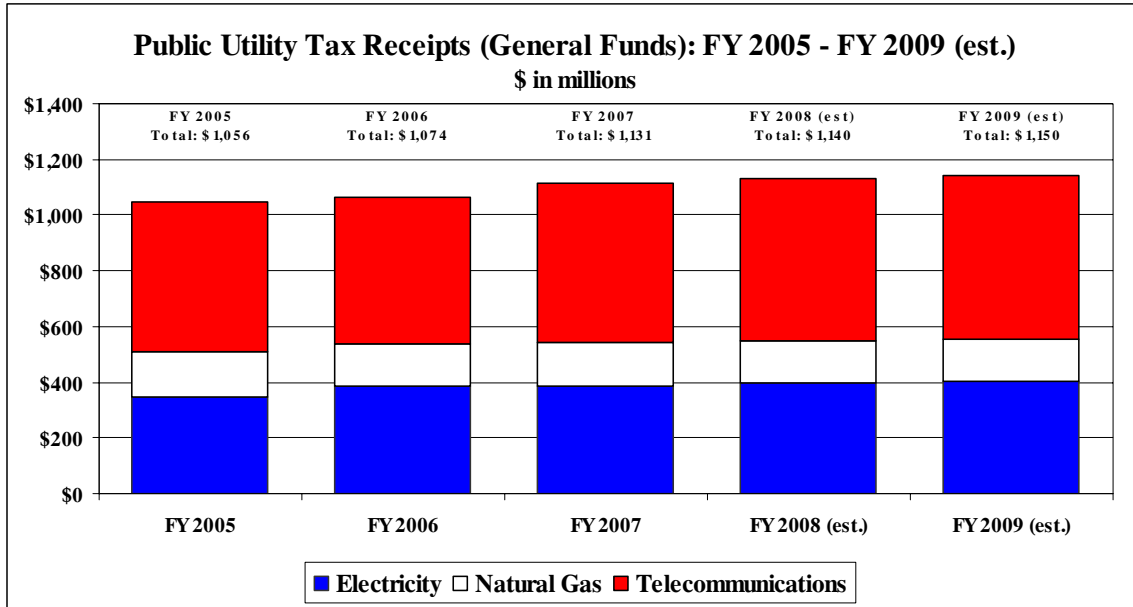
These taxes are designed to capture most transactions involving tangible goods. The retailers’ occupation tax is imposed on those persons engaged in the business of selling tangible personal property. The service occupation tax combined with the service use tax captures property acquired in connection with the performance of a service. Out-of-state sellers doing business in Illinois are liable for the use and occupation taxes.

Presently, the rate for all four sales taxes is 6.25% of either the purchase price or the fair market value. Rates may vary around the State depending on locally-imposed sales taxes. Of the 6.25% rate, 5.0% is collected for the State and 1.25% goes to local governments. The estimate of general funds sales tax receipts is based on a 5.0% rate.

*Sales tax receipts are estimated to be \$7.314 billion in FY 2009. This represents overall growth of \$158 million or 2.2%. While representing a slight improvement*

over the current fiscal year, the expected growth rate is still approximately half of historic average and reflects continued subdued consumer spending.

**PUBLIC UTILITY TAXES**



Public utility taxes deposited in the general funds consist of three separate taxes that are imposed on utilities providing electric, natural gas, and telecommunications service in Illinois. Public utilities are the fourth largest general funds revenue source, generating approximately 4.0% of all general funds revenue.

A telecommunications (messages) excise tax is imposed on businesses sending or receiving interstate and intrastate telecommunications. The rate and base of the telecommunications excise tax is 7.0% of the gross charges of businesses transmitting interstate or intrastate messages.

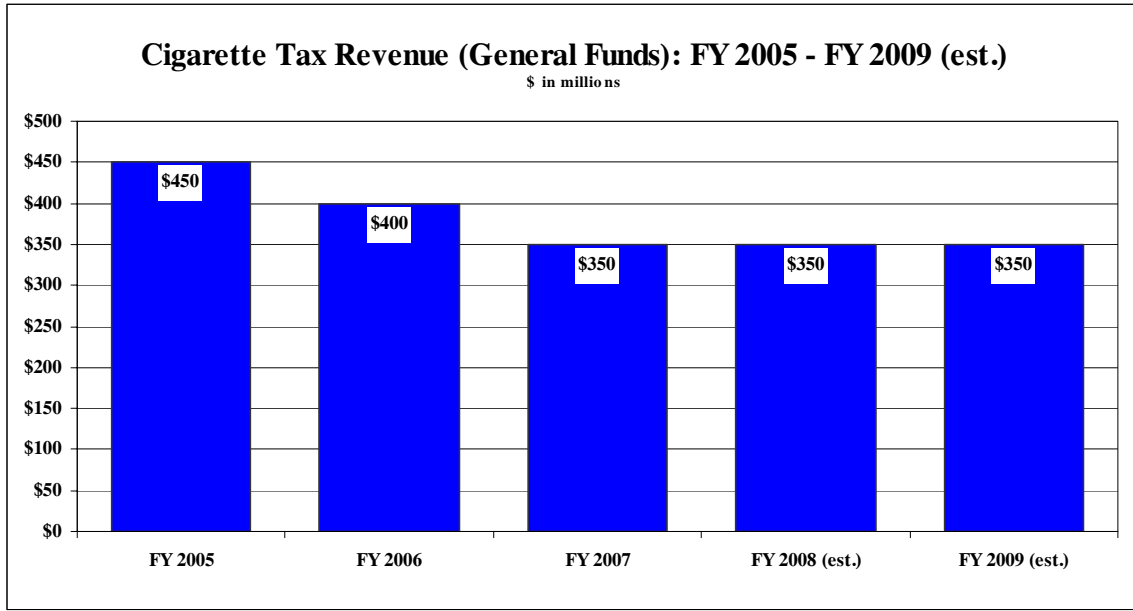
The natural gas revenue tax is imposed on utilities distributing natural gas in Illinois. The rate and base of the natural gas revenue tax is the lesser of 2.4 cents per therm of all gas sold to each customer or 5.0% of the gross receipts received from each customer. A new tax on purchases of out-of-state natural gas was enacted in FY 2004.

Since August 1, 1998, the rate and base of the public utility electricity tax is calculated on the amount of kilowatt hours used in a month by a residential customer. The rate begins at 0.33 cents per kilowatt-hour and decreases as the amount of usage increases.

The tax on self-assessing (non-residential) customers equals 5.1% of their purchase price. Customers of municipal systems or rural electrical cooperatives pay the lesser of 0.32 cents per kilowatt-hour or 5% of their purchase price.

*The FY 2009 estimate of public utility tax receipts is \$1.150 billion, which represents a \$10 million or 0.9% increase from the previous year and reflects very little anticipated overall growth.*

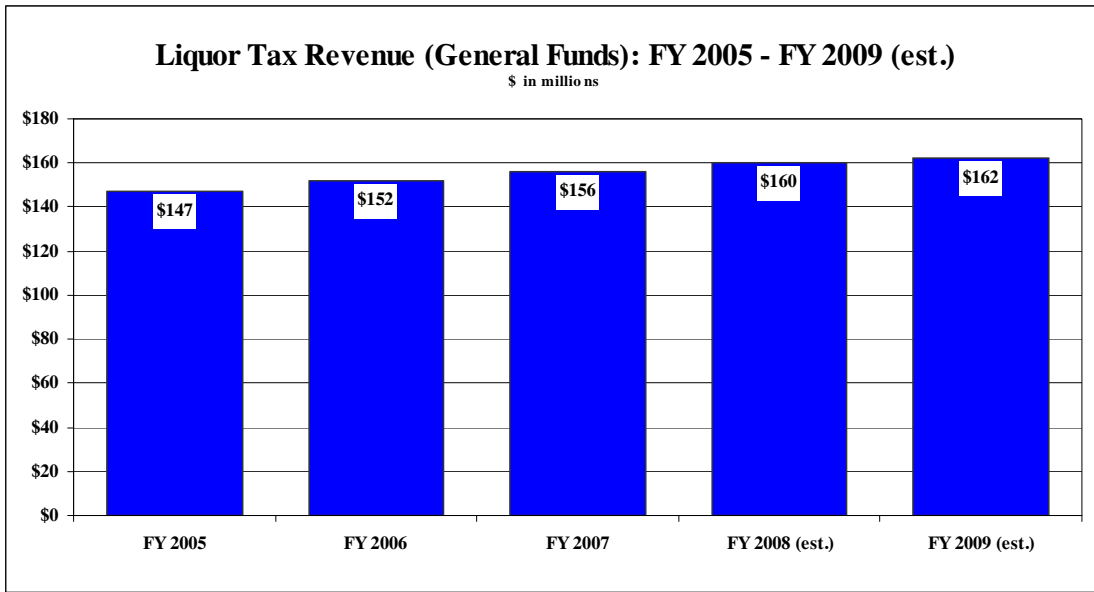
**CIGARETTE TAXES**



There are two taxes on cigarettes: the cigarette tax and the cigarette use tax. Wholesale distributors collect the taxes from retailers and are ultimately responsible for sending collections to the State. The taxes are mutually exclusive in that they are not levied on the same transaction, thereby avoiding double taxation. The current tax rate for both taxes is 98 cents per pack of 20 cigarettes.

*The FY 2009 estimate of general funds cigarette tax receipts again assumes \$350 million.*

## *LIQUOR GALLONAGE TAXES*

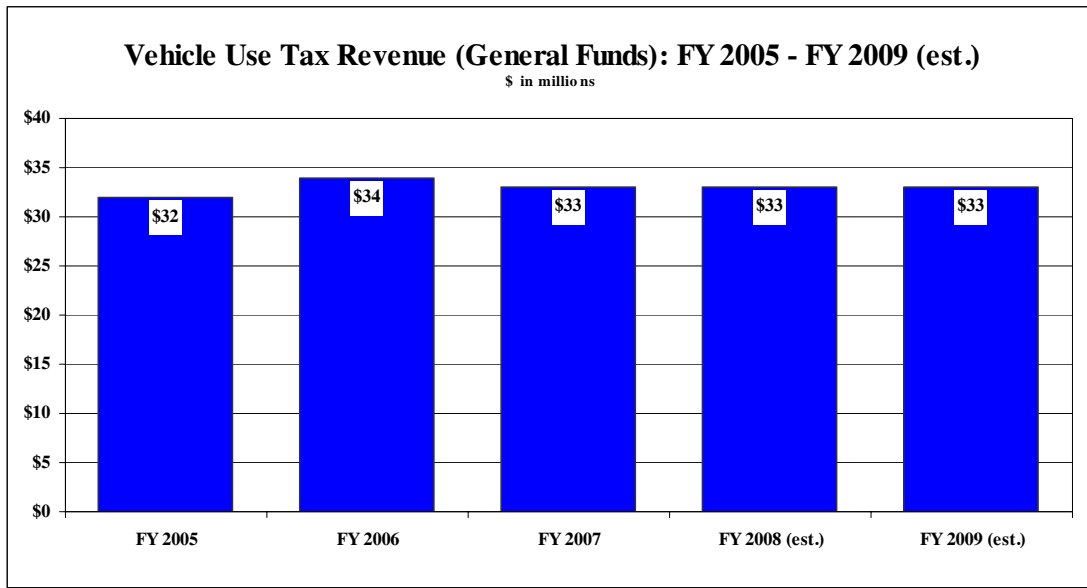


Illinois imposes a tax on the privilege of manufacturing or distributing alcoholic beverages in the State, measured by the number of gallons produced or distributed. The rates vary based on the type of alcohol. The tax per gallon of beer is 18.5 cents, wine and other fortified beverages with less than 20% alcohol is 73 cents, and on distilled liquor \$4.50.

*The FY 2009 estimate of liquor gallonage taxes is \$162 million, reflecting a modest \$2 million increase from the prior fiscal year.*

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## *VEHICLE USE TAX*

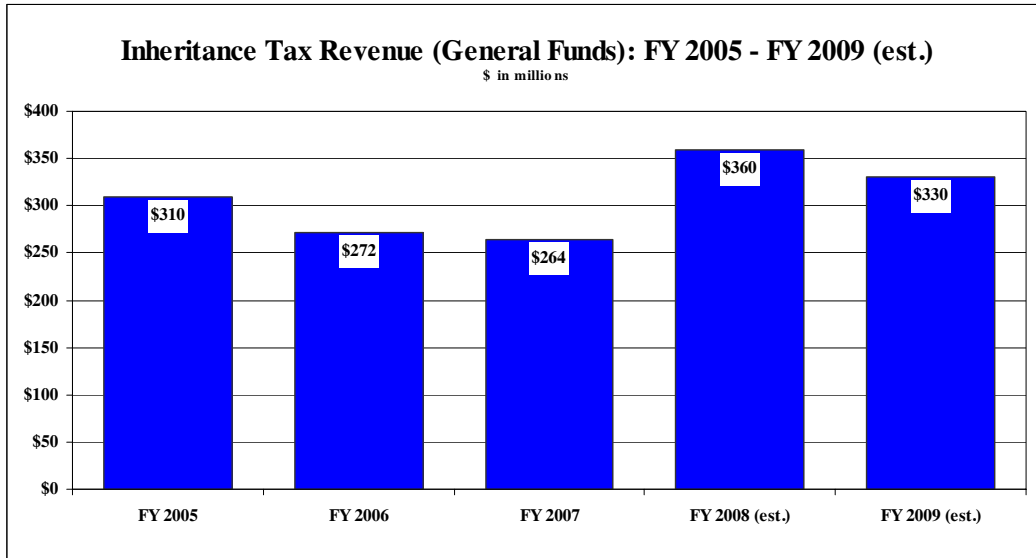




The vehicle use tax is collected on the transfer of ownership of motorized vehicles between private parties. The current rate is based on a statutory schedule that is determined by the age of the vehicle or the purchase price.

*The FY 2009 general funds estimate for vehicle use tax is \$33 million. Receipts from this source tend to have little fluctuation.*

**INHERITANCE TAX**



The State of Illinois currently administers an estate tax and a generation-skipping transfer tax. The Illinois estate tax is imposed on a decedent's estate prior to its distribution. The State generation-skipping transfer tax is imposed on bequests in which the transferor is two or more generations removed from the transferee. These taxes are commonly referred to as "pick-up" taxes, because the State taxes equal the maximum state credit permitted against deferral estate and generation-skipping tax liability. This type of tax provides revenue to the State without increasing the estate's total tax burden.

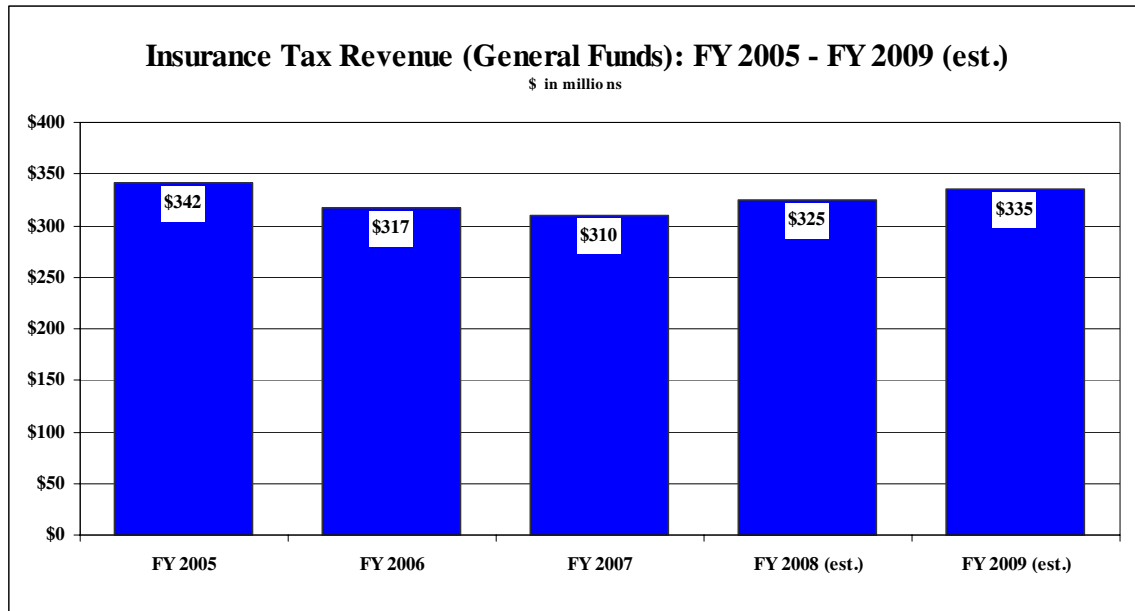
On June 7, 2001, Congress passed H.R. 1836 which completely overhauled the federal estate tax. It repealed federal estate and gift taxes over a ten-year period, and increased the unified credit associated with a decedent's estate, and it reduced the state death credit by 25% per calendar year until completely eliminated in 2005. The federal estate tax repeal ultimately would have eliminated Illinois' estate tax revenue due to the nature of the pick-up taxes. However, P.A. 93-0030 effectively decoupled the State from most of those federal provisions, thus allowing the State to retain its share of revenues.

*The FY 2009 estimate of inheritance tax is \$330 million, reflecting a \$30 million drop from the previous year and a return to more normal receipt patterns. FY 2008 has*

*enjoyed some very large receipt months, unfortunately, those cannot be counted on to recur in subsequent years.*



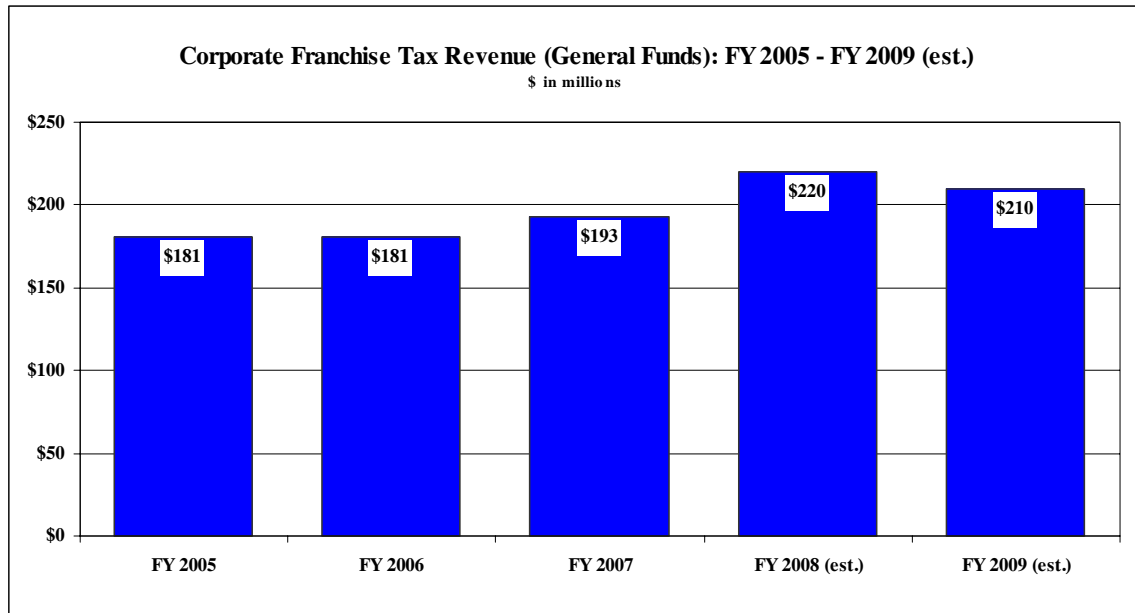
### ***INSURANCE TAXES AND FEES***



The State imposes a number of taxes and fees on insurance companies. The tax is based on the net taxable premiums written and is applied at the rate of either 0.4% for accident or health insurance, or 0.5% for other insurance policies. There are numerous other fees levied on particular types of insurance activities.

*The FY 2009 general funds estimate of insurance taxes and fees is \$335 million and reflects a modest \$10 million increase from the prior year.*

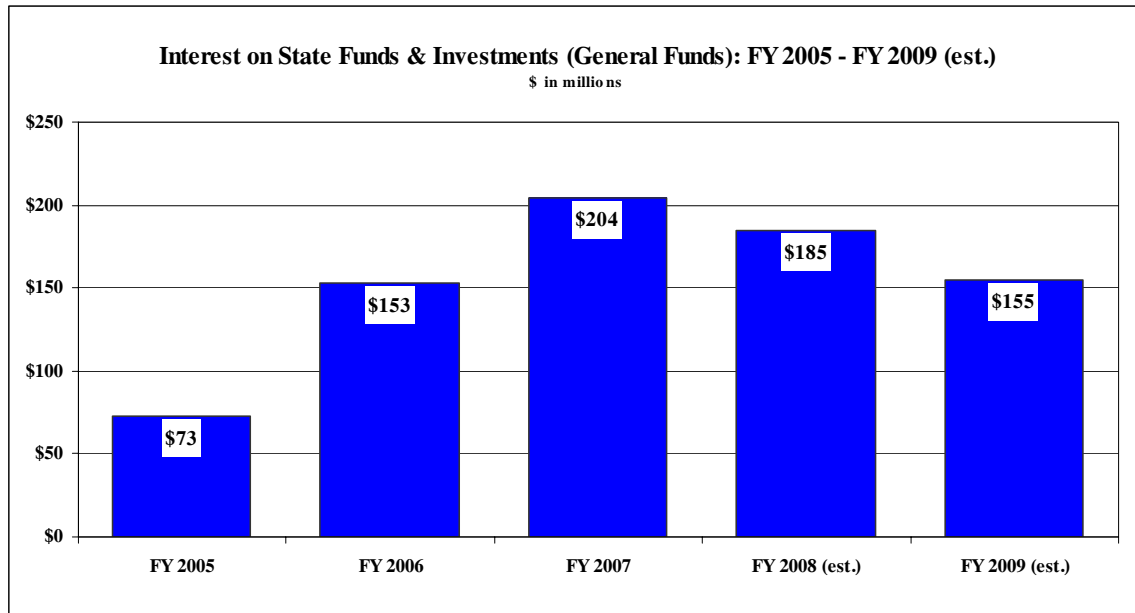
## ***CORPORATE FRANCHISE TAXES AND FEES***



All domestic corporations (headquartered in Illinois) and foreign corporations (headquartered in another state or foreign country) are required to pay an annual franchise tax at the rate of 0.1% of paid-in capital. Also, an initial franchise tax based on 0.15% of paid-in capital is levied when a corporation begins to conduct business in Illinois. An additional franchise tax of 0.15% is imposed on any increases in paid-in capital during the year (such as occurs in a capital restructuring, merger, or consolidation).

***The FY 2009 estimate of corporate franchise taxes is \$210 million, a \$10 million decline from the FY 2008 forecast which reflects a large one-time receipt in August that will not be experienced in FY 2009.***

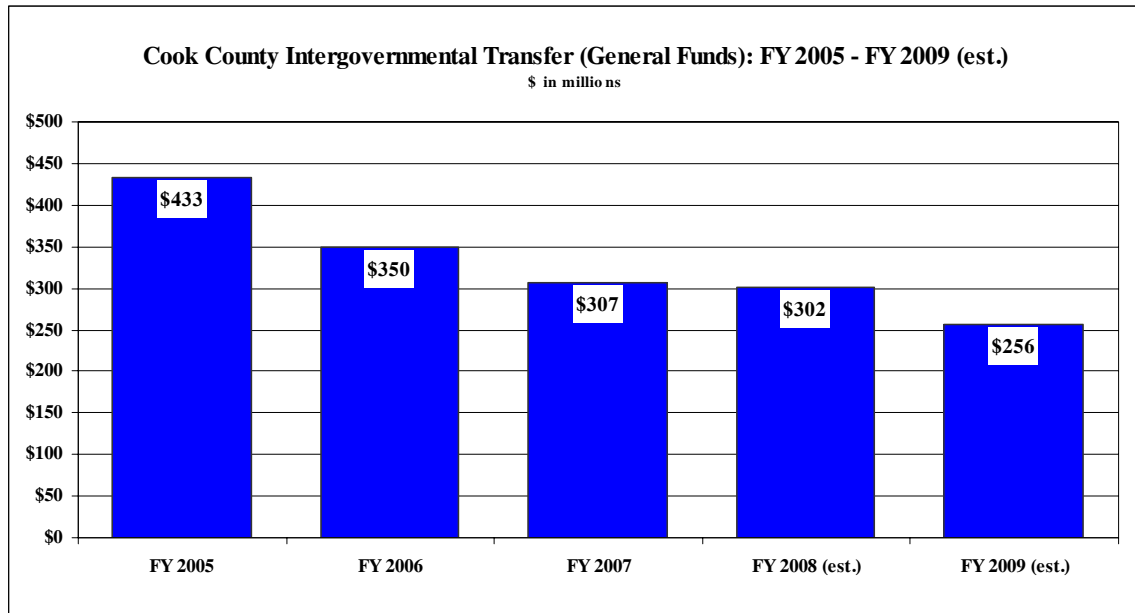
## *INTEREST*



Interest income is earned on the investable balances of various state funds. Interest income is apportioned between the funds based upon each fund's pro ration of the total balance of all invested funds, or by specific statutory direction. The general funds receive the largest share of investment income.

*Rates have begun to fall significantly and are likely to remain lower for most of next year. As a result, a decline of \$30 million is anticipated for FY 2009.*

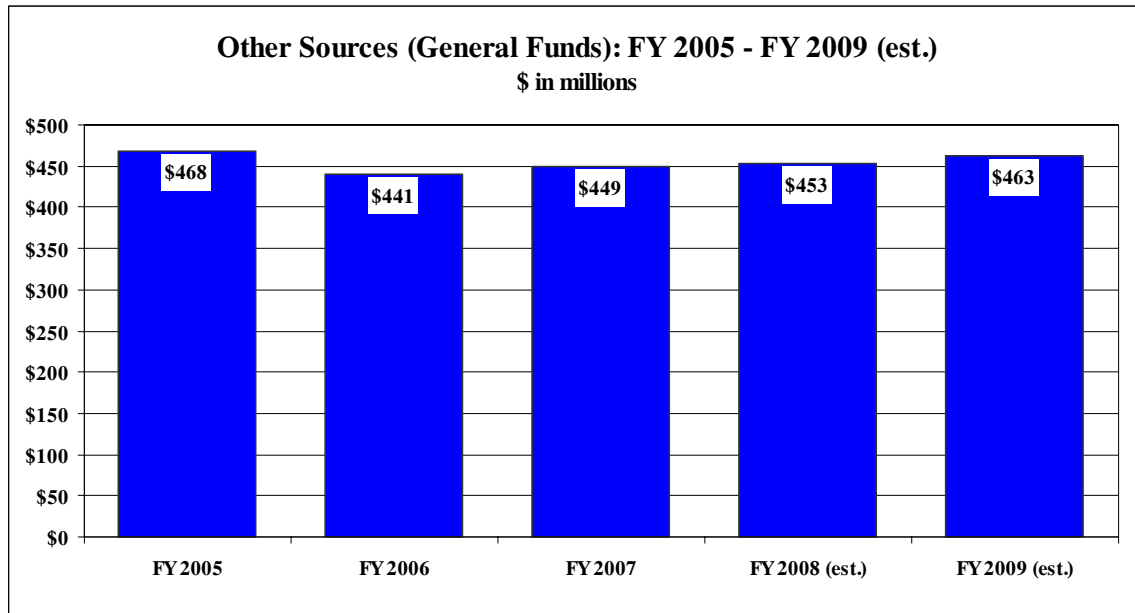
## ***COOK COUNTY INTERGOVERNMENTAL TRANSFER (IGT)***



The Cook County Intergovernmental transfer (IGT) has allowed the State to capture additional federal monies via a hyper-payment mechanism that basically allowed higher than cost payments to government hospitals, and culminated in a secondary transfer back to the State's general fund. However, the federal government is phasing out the practice of allowing these hyper-payments. As a result, the transfer that the State can expect to receive from the IGT has been eroding since FY 2006.

***The IGT is expected to fall \$46 million to \$256 million in FY 2009.***

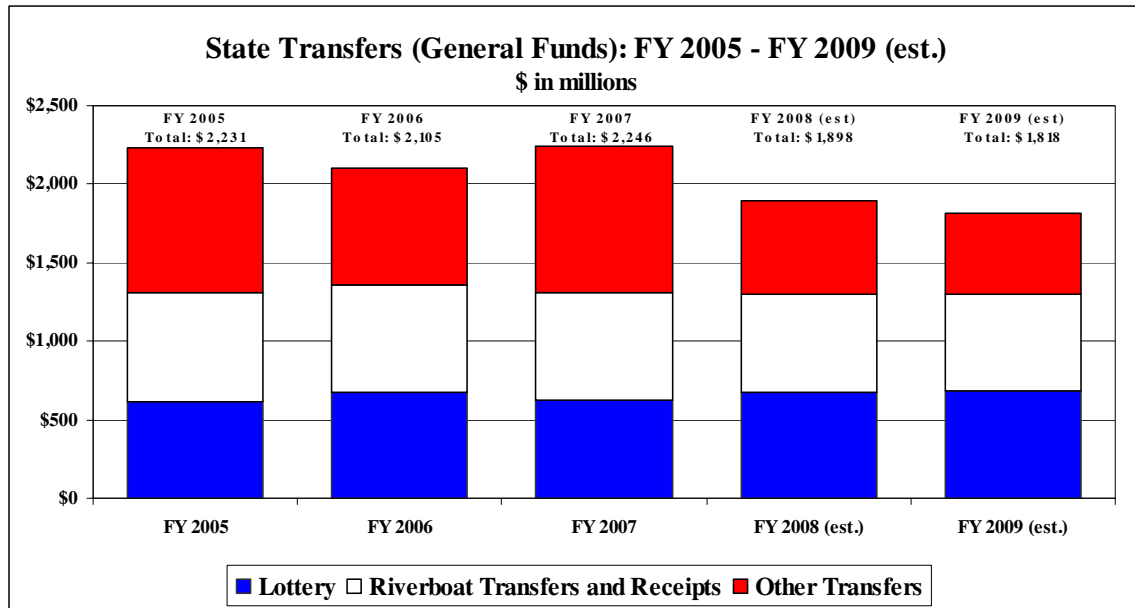
## OTHER SOURCES



Other sources to the general funds include various taxes and fees such as the hotel operator's occupation tax and other license and registration fees. A number of the new and/or increased fees imposed in recent years are directly received in this source i.e. commercial distribution fee or "trucker fee". In addition, in some years other sources also receive monies in the form of a transfer from the Build Illinois general reserve account. This transfer takes place at the discretion of the Governor between June 15<sup>th</sup> – 30<sup>th</sup> of any fiscal year.

*The FY 2009 estimate of other sources to the general funds is \$463 million, a \$10 million increase from the previous year, and reflects limited growth.*

## TRANSFERS TO THE GENERAL FUNDS



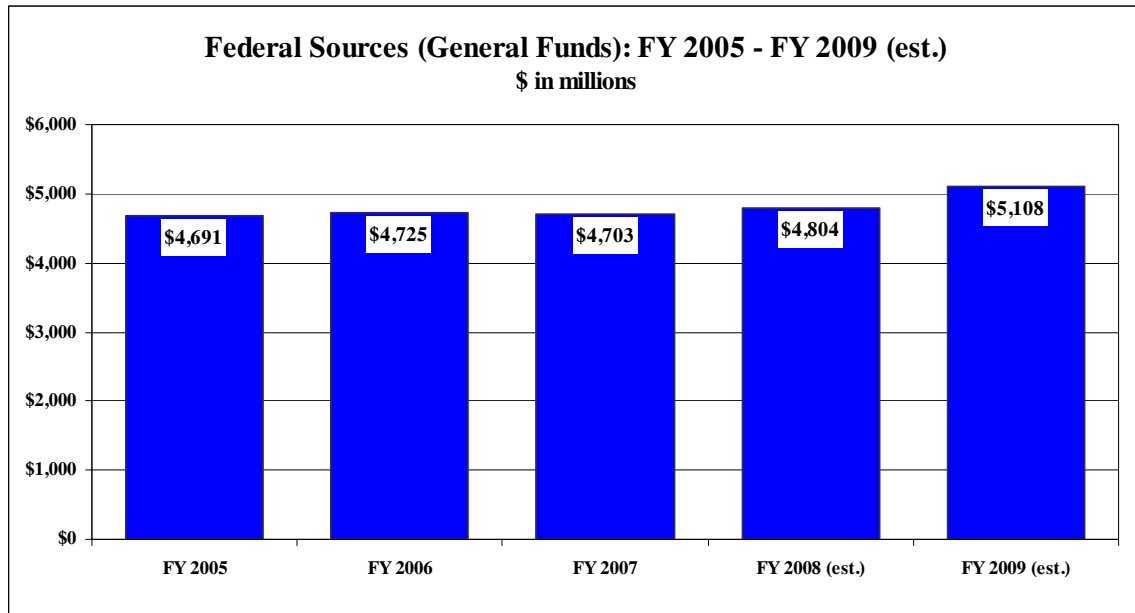
Transfers to the general funds are monies that are deposited in other State funds that are subsequently transferred into one of the four general funds. Included are transfers from the Lottery Fund to the Common School Fund as well as transfers from the State Gaming Fund to the Education Assistance Fund. [For ease of presentation, direct receipts to the general funds related to riverboat gaming are included under this source.] Due to the size of those transfers, they are itemized separately.

**Lottery.** *The estimate of Lottery transfers for FY 2009 is \$685 million and reflects \$10 million in growth from the prior fiscal year.*

**Riverboat Transfers & Receipts.** Receipts from riverboat license fees and taxes are deposited into the State Gaming Fund. From the State Gaming Fund, transfers are made to the Education Assistance Fund. The future for FY 2009 is somewhat unclear, while the Governor has proposed increasing the highest tax rate, most of the current uncertainty revolves around the impact of the newly imposed smoking ban. With only a couple of months of data since the new smoking regulations went into effect, a pattern has yet to be established. However, initially, the taxable base has suffered considerable declines, although some of those declines were likely weather related. *As a result, the estimate of riverboat transfers is forecast to be \$615 million, a drop of \$10 million from the previous fiscal year.*

**Other transfers.** *In FY 2009, transfers to the general funds from sources other than the Lottery and the Gaming Fund are expected to be \$518 million. The anticipated \$80 million drop is expected to occur due to the expiration of the current Hospital Assessment program. Although it is anticipated that attempts will be made to extend and/or modify the current plan for Federal approval, Legislative action would be required as well as necessary appropriation authority.*

## *FEDERAL SOURCES*



Federal source receipts to the general funds primarily consist of Medicaid reimbursements, the Social Services Block Grant, TANF monies, Child Care Block Grant, and other miscellaneous items.

*Per the Governor's proposed budget request, the FY 2009 estimate of total federal source receipts to the general funds is \$5.108 billion, which is \$304 million more than the FY 2008 forecast. Federal source receipts are largely based on appropriation levels and subsequent spending activity. As a result, the estimate could change once appropriation levels have been established.*



**In conclusion, given the current uncertain status of the economy, the revenue picture for FY 2009 is far from clear. However, it would appear that limited base growth is the best that can be hoped for. Unfortunately, appetites for expanded health care, education, capital needs, and other worthy programs continue to build. Add to that the continued pension funding pressure, bills incurred but unable to be paid, and the resulting budgetary difficulties continue to grow.**



**TABLE 5: CGFA ESTIMATE FY 2009 vs. FY 2008 (Base Revenues)**

(millions)

<b>Revenue Sources</b>	<b>CGFA FY 2009 Estimate March-08</b>	<b>CGFA FY 2008 Estimate March-08</b>	<b>\$ Difference</b>	<b>% Difference</b>
<b>State Taxes</b>				
Personal Income Tax	\$11,460	\$11,100	\$360	3.2%
Corporate Income Tax	\$2,153	\$2,153	\$0	0.0%
Sales Taxes	\$7,314	\$7,156	\$158	2.2%
Public Utility (regular)	\$1,150	\$1,140	\$10	0.9%
Cigarette Tax	\$350	\$350	\$0	0.0%
Liquor Gallonage Taxes	\$162	\$160	\$2	1.3%
Vehicle Use Tax	\$33	\$33	\$0	0.0%
Inheritance Tax (gross)	\$330	\$360	(\$30)	-8.3%
Insurance Taxes & Fees	\$335	\$325	\$10	3.1%
Corporate Franchise Tax & Fees	\$210	\$220	(\$10)	-4.5%
Interest on State Funds & Investments	\$155	\$185	(\$30)	-16.2%
Cook County Intergovernmental Transfer	\$256	\$302	(\$46)	-15.2%
<u>Other Sources</u>	<u>\$463</u>	<u>\$453</u>	<u>\$10</u>	<u>2.2%</u>
<b>Subtotal</b>	<b>\$24,371</b>	<b>\$23,937</b>	<b>\$434</b>	<b>1.8%</b>
<b>Transfers</b>				
Lottery	\$685	\$675	\$10	1.5%
Riverboat Transfers & Receipts	\$615	\$625	(\$10)	-1.6%
<u>Other</u>	<u>\$518</u>	<u>\$598</u>	<u>(\$80)</u>	<u>-13.4%</u>
<b>Total State Sources</b>	<b>\$26,189</b>	<b>\$25,835</b>	<b>\$354</b>	<b>1.4%</b>
<b>Federal Sources</b>	<b>\$5,108</b>	<b>\$4,804</b>	<b>\$304</b>	<b>6.3%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$31,297</b>	<b>\$30,639</b>	<b>\$658</b>	<b>2.1%</b>
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund*</b>				
Personal Income Tax	(\$888)	(\$860)	(\$28)	3.3%
Corporate Income Tax	(\$334)	(\$334)	\$0	0.0%
<b>Subtotal General Funds</b>	<b>\$30,075</b>	<b>\$29,445</b>	<b>\$630</b>	<b>2.1%</b>
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%
<b>Total General Funds</b>	<b>\$30,351</b>	<b>\$31,221</b>	<b>(\$870)</b>	<b>-2.8%</b>

\*The FY 2009 estimate based on current refund percentages at 7.75% for PIT and 15.5% for CIT.

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## SUMMARY OF REVENUE RELATED BUDGET HIGHLIGHTS

On February 20<sup>th</sup>, 2008 Governor Blagojevich presented his proposed budget for FY 2009. The Governor's proposed FY 2009 budget contains some proposed revenue changes that the GOMB projects will contribute to overall general revenue growth of \$1.399 billion. As shown in Table 6 below, the increase is comprised of \$721 million in base revenue growth, as well as a net \$678 million in growth from proposed revenue changes that likely will require legislative approval.

Of that amount, one-time proposed revenues are expected to grow by \$165 million, and proposed recurring revenues are forecast to grow \$786 million over the previous year. Offsetting some of those gains is the assumed increase in the income tax refund percentages. The value of changing that percentage by 2% is calculated to be \$273 million, meaning net income taxes would be reduced by that amount. A detailed table comparing FY 2008 and FY 2009 is on the following page.

<b>Table 6: GOMB FY 2009 General Revenue Growth Assumptions</b>	
(\$ in Millions)	
	GOMB Feb-08
<b>FY 2008 Base Estimate (\$millions) excl. short-term borrowing</b>	<b>\$29,520</b>
<b>Proposed Revenue Changes [fund sweeps &amp; "loophole" closures]</b>	<b>\$750</b>
<b>Total FY 2008</b>	<b>\$30,270</b>
Net change in income taxes (current refund %)	\$390
Sales tax	\$125
Misc. other sources (net)	(\$111)
Transfers (lottery, riverboat, other)	\$13
Federal source revenue	<u>\$304</u>
<b>FY 2009 Base Growth</b>	<b>\$721</b>
<b>Proposed Revenue Growth Changes per Budget Book</b>	
Impact of using higher refund % [2% higher than in FY'08 for both PIT & CIT]	(\$273)
Proposed Increases to One-time Revenues	\$165
Proposed Increases to Recurring Revenues	\$786
<b>Proposed Growth Changes to Base Revenues</b>	<b>\$678</b>
<b>Total Growth Assumptions</b>	<b>\$1,399</b>
<b>FY 2009 General Revenue Estimate</b>	<b>\$31,669</b>

**TABLE 7: GOMB FY 2009 vs. FY 2008 ESTIMATE**

(millions)

<u>Revenue Sources</u>	<b>GOMB FY 2009 Estimate Feb-08</b>	<b>GOMB FY 2008 Estimate Feb-08</b>	<b>\$ Difference</b>	<b>% Difference</b>
<b>State Taxes</b>				
Personal Income Tax	\$11,559	\$11,136	\$423	3.8%
Corporate Income Tax	\$2,121	\$2,121	\$0	0.0%
Sales Taxes	\$7,297	\$7,172	\$125	1.7%
Public Utility (regular)	\$1,110	\$1,111	(\$1)	-0.1%
Cigarette Tax	\$350	\$350	\$0	0.0%
Liquor Gallonage Taxes	\$161	\$159	\$2	1.3%
Vehicle Use Tax	\$31	\$30	\$1	3.3%
Inheritance Tax (gross)	\$275	\$315	(\$40)	-12.7%
Insurance Taxes & Fees	\$325	\$320	\$5	1.6%
Corporate Franchise Tax & Fees	\$205	\$215	(\$10)	-4.7%
Interest on State Funds & Investments	\$180	\$204	(\$24)	-11.8%
Cook County Intergovernmental Transfer	\$256	\$302	(\$46)	-15.2%
<u>Other Sources</u>	<u>\$504</u>	<u>\$502</u>	<u>\$2</u>	<u>0.4%</u>
<b>Subtotal</b>	<b>\$24,374</b>	<b>\$23,937</b>	<b>\$437</b>	<b>1.8%</b>
<b>Transfers</b>				
Lottery	\$664	\$657	\$7	1.1%
Riverboat Transfers & Receipts	\$642	\$636	\$6	0.9%
<u>Other</u>	<u>\$678</u>	<u>\$678</u>	<u>\$0</u>	<u>0.0%</u>
<b>Total State Sources</b>	<b>\$26,358</b>	<b>\$25,908</b>	<b>\$450</b>	<b>1.7%</b>
<b>Federal Sources</b>	<b>\$5,108</b>	<b>\$4,804</b>	<b>\$304</b>	<b>6.3%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$31,466</b>	<b>\$30,712</b>	<b>\$754</b>	<b>2.5%</b>
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund</b>				
Personal Income Tax (current 7.75%)	(\$896)	(\$863)	(\$33)	3.8%
Corporate Income Tax (current 15.5%)	(\$329)	(\$329)	\$0	0.0%
<b>Subtotal General Funds</b>	<b>\$30,241</b>	<b>\$29,520</b>	<b>\$721</b>	<b>2.4%</b>
<b>Proposed Increases to Base Revenues</b>				
Impact of using higher refund %	(\$273)	\$0	(\$273)	N/A
One-time Revenues	\$665	\$500	\$165	33.0%
Recurring Revenues	\$1,036	\$250	\$786	314.4%
<b>Total Proposed Revenue Adjustments</b>	<b>\$1,428</b>	<b>\$750</b>	<b>\$678</b>	<b>90.4%</b>
<b>Total General Funds</b>	<b>\$31,669</b>	<b>\$30,270</b>	<b>\$1,399</b>	<b>4.6%</b>
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## WALK-UP OF FY 2008 GROWTH ASSUMPTIONS

For comparison purposes, Table 8 compares growth projections for both CGFA and GOMB and walks up from the respective FY 2008 estimates. As shown, from a base growth standpoint (assumes current law and current income tax refund percentages), the Commission's revised FY 2009 base growth is \$630 million, or \$91 million less than the base growth of \$721 million assumed by the GOMB.

If all of the Governor's proposed revenue changes were made, the Commission's forecasted total growth would then climb to \$1.308 billion, which remains \$91 million lower than the GOMB's estimated growth of \$1.399 billion. When that lower growth estimate is combined with a \$75 million lower growth forecast for FY 2008, the resulting estimates of FY 2009 are separated by a total of \$166 million.

<b>Table 8: CGFA/GOMB FY 2008 General Revenue Growth Assumptions (\$ millions)</b>			
<b>Walk-Up of CGFA and GOMB Estimates</b>			
	<b>CGFA</b>	<b>GOMB</b>	
	<b>Mar-08</b>	<b>Feb-08</b>	<b>Difference</b>
<b>FY 2008 Base Estimate (\$millions)</b>	<b>\$29,445</b>	<b>\$29,520</b>	<b>(\$75)</b>
<b>Proposed Revenue Changes [fund sweeps &amp; "loophole" closures]</b>	<b>\$750</b>	<b>\$750</b>	<b>\$0</b>
<b>Total FY 2008 With Governor Proposed Changes</b>	<b>\$30,195</b>	<b>\$30,270</b>	<b>(\$75)</b>
Net change in income taxes (current refund %)	\$332	\$390	(\$58)
Sales tax	\$158	\$125	\$33
Misc. other sources (net)	(\$84)	(\$111)	\$27
Transfers (lottery, riverboat, other)	(\$80)	\$13	(\$93)
Federal source revenue	<u>\$304</u>	<u>\$304</u>	<u>\$0</u>
<b>FY 2009 Base Growth</b>	<b>\$630</b>	<b>\$721</b>	<b>(\$91)</b>
<b>Proposed Revenue Changes per Budget Book</b>			
Impact of using higher refund % [2% higher than in FY'08]	(\$273)	(\$273)	\$0
Proposed Increases to One-time Revenues	\$165	\$165	\$0
Proposed Increases to Recurring Revenues	\$786	\$786	\$0
<b>Proposed Increases to Base Revenues</b>	<b>\$678</b>	<b>\$678</b>	<b>\$0</b>
<b>Total Growth Assumptions</b>	<b>\$1,308</b>	<b>\$1,399</b>	<b>(\$91)</b>
<b>FY 2009 General Revenue Estimate With Proposed BB Changes</b>	<b>\$31,503</b>	<b>\$31,669</b>	<b>(\$166)</b>

## DETAILED CGFA/GOMB FY 2008 COMPARISON

As shown in Table 9 on page 51, excluding the Governor's proposed \$1.428 billion in proposed revenue changes, the Commission's FY 2009 base general funds estimate of \$30.075 billion is \$166 million below the GOMB's estimate of \$30.241 billion. It should be noted that due to lack of needed details, at this time the Commission is utilizing the GOMB's forecasted impact of the other proposed revenue changes. If after review the Commission determines different values should be assigned, a future adjustment will be made.

**Table 9: FY 2009 CGFA/GOMB COMPARISON**  
**"Base" and "With Proposed Revenue Changes"**  
(millions)

<b>Revenue Sources</b>	<b>CGFA FY 2009 Estimate Mar-08</b>	<b>GOMB FY 2009 Estimate Feb-08</b>	<b>\$ Difference</b>
<b>State Taxes</b>			
Personal Income Tax	\$11,460	\$11,559	(\$99)
Corporate Income Tax	\$2,153	\$2,121	\$32
Sales Taxes	\$7,314	\$7,297	\$17
Public Utility (regular)	\$1,150	\$1,110	\$40
Cigarette Tax	\$350	\$350	\$0
Liquor Gallonage Taxes	\$162	\$161	\$1
Vehicle Use Tax	\$33	\$31	\$2
Inheritance Tax (gross)	\$330	\$275	\$55
Insurance Taxes & Fees	\$335	\$325	\$10
Corporate Franchise Tax & Fees	\$210	\$205	\$5
Interest on State Funds & Investments	\$155	\$180	(\$25)
Cook County Intergovernmental Transfer	\$256	\$256	\$0
<u>Other Sources</u>	<u>\$463</u>	<u>\$504</u>	<u>(\$41)</u>
<b>Subtotal</b>	<b>\$24,371</b>	<b>\$24,374</b>	<b>(\$3)</b>
<b>Transfers</b>			
Lottery	\$685	\$664	\$21
Riverboat Transfers & Receipts	\$615	\$642	(\$27)
<u>Other</u>	<u>\$518</u>	<u>\$678</u>	<u>(\$160)</u>
<b>Total State Sources</b>	<b>\$26,189</b>	<b>\$26,358</b>	<b>(\$169)</b>
<b>Federal Sources</b>	<b>\$5,108</b>	<b>\$5,108</b>	<b>\$0</b>
<b>Total Federal &amp; State Sources</b>	<b>\$31,297</b>	<b>\$31,466</b>	<b>(\$169)</b>
<b>Nongeneral Funds Distribution:</b>			
<b>Refund Fund</b>			
Personal Income Tax	(\$888)	(\$896)	\$8
Corporate Income Tax	(\$334)	(\$329)	(\$5)
<b>Subtotal General Funds "Base"</b>	<b>\$30,075</b>	<b>\$30,241</b>	<b>(\$166)</b>
<b>Change from Prior Year Estimate</b>	<b>\$630</b>	<b>\$721</b>	<b>(\$91)</b>
<b>Percent Change</b>	<b>2.1%</b>	<b>2.4%</b>	
<b>Net Value of Proposed Revenue Changes</b>	<b>\$1,428</b>	<b>\$1,428</b>	<b>\$0</b>
<b>Subtotal With Proposed Changes</b>	<b>\$31,503</b>	<b>\$31,669</b>	<b>(\$166)</b>
<b>Change from Prior Year Estimate*</b>	<b>\$1,308</b>	<b>\$1,399</b>	<b>(\$91)</b>
<b>Percent Change</b>	<b>4.3%</b>	<b>4.6%</b>	
*Both estimates include \$750 million in FY 2008 for proposed revenue changes			
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**TABLE 10: ALL APPROPRIATED FUNDS REVENUE FY 2005 to FY 2009**

(\$ millions)

<u>REVENUE SOURCES</u>	<u>ACTUAL RECEIPTS FY 2005</u>	<u>ACTUAL RECEIPTS FY 2006</u>	<u>ACTUAL RECEIPTS FY 2007</u>	<u>Mar-08 Estimate FY 2008</u>	<u>Mar-08 Estimate FY 2009</u>	<u>\$ CHG. FROM FY 2008</u>	<u>% CHG. FROM FY 2008</u>
<b>State Taxes</b>							
Personal Income Tax	\$8,873	\$9,568	\$10,425	\$11,100	\$11,460	\$360	3.2%
Corporate Income Tax							
Regular	\$1,548	\$1,784	\$2,120	\$2,153	\$2,153	\$0	0.0%
Replacement	\$1,055	\$1,216	\$1,439	\$1,560	\$1,575	\$15	1.0%
Sales	\$7,783	\$8,425	\$8,603	\$8,627	\$8,817	\$190	2.2%
Public Utility							
Regular	\$1,567	\$1,595	\$1,666	\$1,688	\$1,695	\$7	0.4%
Replacement	\$201	\$226	\$212	\$225	\$220	(\$5)	-2.2%
Motor Fuel (gross)	\$1,465	\$1,477	\$1,484	\$1,490	\$1,497	\$7	0.5%
Cigarette	\$656	\$640	\$639	\$621	\$602	(\$19)	-3.1%
Liquor Taxes	\$153	\$163	\$167	\$171	\$173	\$2	1.2%
Vehicle Use Tax	\$37	\$39	\$37	\$38	\$38	\$0	0.0%
Inheritance Tax	\$310	\$272	\$264	\$360	\$330	(\$30)	-8.3%
Insurance Taxes and Fees	\$425	\$393	\$393	\$412	\$425	\$13	3.2%
Horse Racing Taxes & Fees	\$12	\$11	\$9	\$9	\$9	\$0	0.0%
Corporate Franchise Taxes	\$190	\$189	\$201	\$228	\$218	(\$10)	-4.4%
Other Privilege Taxes	\$281	\$310	\$314	\$315	\$320	\$5	1.6%
<u>Riverboat Gambling Taxes &amp; Fees</u>	<u>\$816</u>	<u>\$817</u>	<u>\$813</u>	<u>\$736</u>	<u>\$727</u>	<u>(\$9)</u>	<u>-1.2%</u>
<b>SUBTOTAL</b>	<b>\$25,372</b>	<b>\$27,125</b>	<b>\$28,786</b>	<b>\$29,733</b>	<b>\$30,259</b>	<b>\$526</b>	<b>1.8%</b>
<b>State Nontax Sources</b>							
Motor Vehicle & License Fees	\$1,169	\$1,296	\$1,288	\$1,350	\$1,401	\$51	3.8%
Cigarette Settlement Distributions	\$274	\$273	\$285	\$290	\$288	(\$2)	-0.7%
Other Fees	\$523	\$492	\$449	\$458	\$460	\$2	0.4%
Provider Assessment Fees	\$1,601	\$890	\$1,529	\$1,529	\$889	(\$640)	-41.9%
Receipts From State Hospital Patients	\$23	\$26	\$28	\$26	\$26	\$0	0.0%
Interest on State Funds & Investments	\$125	\$261	\$358	\$319	\$267	(\$52)	-16.3%
Reimbursements & Repayments	\$137	\$154	\$180	\$187	\$187	\$0	0.0%
Revolving Fund Receipts	\$284	\$495	\$515	\$545	\$560	\$15	2.8%
Lottery (net gross)	\$907	\$984	\$960	\$1,042	\$1,057	\$15	1.4%
All Other Nonfederal Receipts	\$5,838	\$5,887	\$5,588	\$5,895	\$6,015	\$120	2.0%
Income from Sale of Bonds	\$1,143	\$1,484	\$611	\$200	\$436	\$236	118.0%
Local Government Health Plan	<u>\$68</u>	<u>\$59</u>	<u>\$63</u>	<u>\$62</u>	<u>\$62</u>	<u>\$0</u>	<u>0.0%</u>
<b>SUBTOTAL</b>	<b>\$37,464</b>	<b>\$39,426</b>	<b>\$40,640</b>	<b>\$41,636</b>	<b>\$41,907</b>	<b>\$271</b>	<b>0.7%</b>
State Transfers In	\$151	\$250	\$442	\$442	\$442	\$0	0.0%
<b>TOTAL STATE SOURCES</b>	<b>\$37,615</b>	<b>\$39,676</b>	<b>\$41,082</b>	<b>\$42,078</b>	<b>\$42,349</b>	<b>\$271</b>	<b>0.6%</b>
Federal Sources	\$12,210	\$12,366	\$13,112	\$13,259	\$13,333	\$74	0.6%
<b>SUBTOTAL ALL APPROPRIATED</b>	<b>\$49,825</b>	<b>\$52,042</b>	<b>\$54,194</b>	<b>\$55,337</b>	<b>\$55,682</b>	<b>\$345</b>	<b>0.6%</b>
Short Term Borrowing	\$765	\$1,000	\$900	\$0	\$0	\$0	n/a
<b>TOTAL ALL APPROPRIATED</b>	<b>\$50,590</b>	<b>\$53,042</b>	<b>\$55,094</b>	<b>\$55,337</b>	<b>\$55,682</b>	<b>\$345</b>	<b>0.6%</b>

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11-Mar-08

## **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.**

These reports are available from:

Commission on Government Forecasting and Accountability  
703 Stratton Office Building  
Springfield, Illinois 62706  
(217) 782-5320  
(217) 782-3513 (FAX)

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