

**SENATE APPROPRIATION I & II COMMITTEE HEARING
2-19-14**

On February 4, 2014, both CGFA and the IDoR/GOMB testified on the FY 2014 and FY 2015 revenue outlook and presented their respective preliminary forecasts. (Please see summary breakdown below and detailed estimates on accompanying pages).

<i>FY 2014 & FY 2015 GENERAL FUNDS REVENUE</i>						
<i>CGFA vs. GOMB/IDoR ESTIMATES</i>						
(millions)						
<u>Revenue Sources</u>	<u>FY'14 CGFA Feb-14</u>	<u>FY'15 CGFA Feb-14</u>	<u>\$ Growth</u>	<u>FY'14 GOMB/IDoR Feb-14</u>	<u>FY'15 GOMB/IDoR Feb-14</u>	<u>\$ Growth</u>
State Taxes						
Personal Income Tax [net]	\$16,030	\$14,649	(\$1,381)	\$16,301	\$14,844	(\$1,457)
Corporate Income Tax [net]	\$3,237	\$2,810	(\$427)	\$3,317	\$3,071	(\$246)
Sales Taxes	\$7,673	\$7,842	\$169	\$7,610	\$7,810	\$200
All Other state source revenue	\$3,063	\$2,983	(\$80)	\$3,096	\$3,010	(\$86)
Transfers	\$2,172	\$1,882	(\$290)	\$2,228	\$1,934	(\$294)
Federal Sources	<u>\$3,850</u>	<u>\$4,273</u>	<u>\$423</u>	<u>\$4,113</u>	<u>\$4,487</u>	<u>\$374</u>
Total Federal & State Sources	\$36,025	\$34,439	(\$1,586)	\$36,665	\$35,156	(\$1,509)

NOTE: Totals exclude Budget Stabilization transfers, \$50m transfer from FY 2013/14 Backlog Payment Fund, and other cash flow transfers.
CGFA

Observations and Comments:

Personal income tax: IDoR made an upward adjustment in their FY'14 estimate based primarily on strong performance of estimated payments. While CGFA is well aware of the surprisingly strong performance of estimated payments to date, the Commission is not making a revision at this time due to 1) the remaining uncertainty related to how final payments may be effected both by these surprisingly large estimated payments as well as last year's April Surprise 2) a recent weakening in the trend of withholding [wage] taxes.

Corporate income tax: While both CGFA and IDoR made significant upward adjustments in the FY'14 estimate, the Commission remains somewhat more conservative due to remaining uncertainties related to last year's April Surprise. Relatedly, the larger difference in the FY'15 estimate is due to IDoR's higher base forecast in FY'14 as well as what appears to be a significantly higher base growth forecast than what is assumed by CGFA. The volatility of this source was textbook in FY'14. A year ago, forecasters were assuming a decline in corporate profits, and instead we've seen substantial gains. Unfortunately, volatility can work in the other direction as well. CGFA feels that a more conservative view is justified at this time.

Sales tax: While CGFA's estimates for both years is marginally higher, little actual difference exists as both agencies project similar growth patterns.

All other state source revenue: Overall the estimates are quite similar for both years, however, some differences exist by component which are illustrated in the following tables. While CGFA is somewhat lower at this time in the estimates of other sources for FY'14, newly shared information by GOMB will very likely result in a modest upward adjustment to CGFA's estimate.

Transfers In: CGFA is somewhat more conservative in the estimates of other transfers in for both years. In particular, CGFA forecasts a continued decline in riverboat transfers while IDoR forecasts modest growth.

Federal Sources: CGFA has reduced its FY'14 estimate to reflect the current spending patterns related to Medicare Part A/B. Absent legislative action, the current level forecast by GOMB seems unlikely. In terms of FY'15, CGFA utilized the Governor's projections published in the January 3-yr forecast. Federal sources are largely dictated by appropriation levels, available resources, as well as spending priorities.

Final thoughts: Despite the differences outlined during these recent discussions, the estimates reflect a good deal of similarity. The Commission can accurately be described as adhering to a more conservative outlook at this time, particularly in the estimates of income taxes. Many of the other revenue lines simply contain normal variances that occur during the course of the estimating process.

FY 2014 GENERAL FUNDS REVENUE

CGFA vs. GOMB/IDoR ESTIMATES

(millions)

<u>Revenue Sources</u>	FY'14 CGFA <u>Feb-14</u>	FY'14 GOMB/IDoR <u>Feb-14</u>	\$ <u>Difference</u>
State Taxes			
Personal Income Tax	\$17,713	\$18,013	(\$300)
Corporate Income Tax	\$3,738	\$3,830	(\$92)
Sales Taxes	\$7,673	\$7,610	\$63
Public Utility (regular)	\$1,005	\$1,006	(\$1)
Cigarette Tax	\$355	\$355	\$0
Liquor Gallonage Taxes	\$165	\$166	(\$1)
Vehicle Use Tax	\$29	\$29	\$0
Inheritance Tax (gross)	\$230	\$218	\$12
Insurance Taxes & Fees	\$330	\$325	\$5
Corporate Franchise Tax & Fees	\$203	\$203	\$0
Interest on State Funds & Investments	\$20	\$17	\$3
Cook County Intergovernmental Transfer	\$244	\$244	\$0
<u>Other Sources</u>	<u>\$482</u>	<u>\$533</u>	<u>(\$51)</u>
Subtotal	\$32,187	\$32,549	(\$362)
Transfers			
Lottery	\$669	\$669	\$0
Riverboat transfers and receipts	\$316	\$317	(\$1)
Proceeds from sale of 10th license	\$10	\$10	\$0
Refund Fund transfer	\$397	\$397	\$0
<u>Other</u>	<u>\$780</u>	<u>\$835</u>	<u>(\$55)</u>
Total State Sources	\$34,359	\$34,777	(\$418)
Federal Sources	\$3,850	\$4,113	(\$263)
Total Federal & State Sources	\$38,209	\$38,890	(\$681)
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax [9.5% FY'14]	(\$1,683)	(\$1,711)	\$28
Corporate Income Tax [13.4% FY'14]	(\$501)	(\$514)	\$13
Subtotal General Funds	\$36,025	\$36,665	(\$640)

NOTE: Totals exclude Budget Stabilization transfers, transfers from FY 2013/14 Backlog Payment Fund, and other cash flow transfers.

CGFA

**PRELIMINARY FY 2015 GENERAL FUNDS REVENUE
CGFA vs. GOMB/IDoR ESTIMATES**

(millions)

Revenue Sources	FY'15 CGFA Feb-14	FY'15 GOMB/IDoR Feb-14	\$ Difference
State Taxes			
Personal Income Tax	\$16,717	\$16,993	(\$276)
Corporate Income Tax	\$3,267	\$3,571	(\$304)
Sales Taxes	\$7,842	\$7,810	\$32
Public Utility (regular)	\$995	\$1,031	(\$36)
Cigarette Tax	\$355	\$355	\$0
Liquor Gallonage Taxes	\$165	\$167	(\$2)
Vehicle Use Tax	\$29	\$29	\$0
Inheritance Tax (gross)	\$205	\$190	\$15
Insurance Taxes & Fees	\$330	\$325	\$5
Corporate Franchise Tax & Fees	\$205	\$201	\$4
Interest on State Funds & Investments	\$25	\$17	\$8
Cook County Intergovernmental Transfer	\$244	\$244	\$0
<u>Other Sources</u>	<u>\$430</u>	<u>\$451</u>	<u>(\$21)</u>
Subtotal	\$30,809	\$31,384	(\$575)
Transfers			
Lottery	\$682	\$682	\$0
Riverboat transfers and receipts	\$300	\$324	(\$24)
Proceeds from sale of 10th license	\$10	\$10	\$0
Refund Fund transfer	\$100	\$100	\$0
<u>Other</u>	<u>\$790</u>	<u>\$818</u>	<u>(\$28)</u>
Total State Sources	\$32,691	\$33,318	(\$627)
Federal Sources	\$4,273	\$4,487	(\$214)
Total Federal & State Sources	\$36,964	\$37,805	(\$841)
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax [9.5% FY'14]	(\$1,672)	(\$1,699)	\$27
Corporate Income Tax [13.4 FY'14]	(\$457)	(\$500)	\$43
Fund for Advancement of Education	(\$198)	(\$225)	\$27
Commitment to Human Services Fund	(\$198)	(\$225)	\$27
Subtotal General Funds	\$34,439	\$35,156	(\$717)

NOTE: Totals exclude Budget Stabilization transfers, transfers from FY 2013/14 Backlog Payment Fund, and other cash flow transfers.

CGFA

OTHER SOURCES TO GENERAL FUNDS

[\$millions]	FY 14 Estimate Comparison			FY 15 Estimate Comparison		
	CGFA	GOMB	Diff.	CGFA	GOMB	Diff.
Other Sources to GRF						
Hotel Tax	44	39	5	46	41	5
Certificate of Title	28	29	-1	29	29	0
Build Illinois Escrow	10	58	-48	10	66	-56
All other misc.	400	407	-7	345	315	30
Total	482	533	-51	430	451	-21
<u>Further Misc. Breakdown</u>		N/A			N/A	
Previous fee incr.	55			55		
Commercial Distb. Fee	45			45		
One-time Court Settlement	72			0		
ID card fee increase	11			11		
SOS late fee increase	8			8		
Liquor license fee	6			6		
all other misc.	<u>203</u>			<u>220</u>		
Total Misc.	400			345		

NOTE: The Build Illinois Escrow transfer/direct deposit is initiated by the GOMB and reflects the view that sales tax performance has outperformed what is necessary to meet Build Illinois debt service. Since this amount is controlled by the GOMB and reflects their most recent estimate, it is reasonable for CGFA to adopt their intent to transfer these amounts.

TRANSFERS INTO GENERAL FUNDS

[\$millions]	FY 14 Estimate Comparison			FY 15 Estimate Comparison		
	CGFA	GOMB	Diff.	CGFA	GOMB	Diff.
Transfers Into General Funds						
Build Illinois	375	398	-23	385	417	-32
Capital Projects Fund	245	280	-35	245	245	0
MEAOB	14	13	1	14	13	1
Escheats	13	11	2	13	11	2
All other misc.	<u>133</u>	<u>133</u>	<u>0</u>	<u>133</u>	<u>132</u>	<u>1</u>
Total	780	835	-55	790	818	-28
<u>Further Misc. Breakdown</u>		N/A			N/A	
Hospital Provider Fund	80			80		
Whistleblower fund trsfr	25			25		
all other misc. transfers	<u>28</u>			<u>28</u>		
Total all other misc.	133			133		

NOTE: CGFA does not include \$50 million in FY'14 estimated transfers in from the FY13/14 Backlog Payment Fund. That transfer is simply a cashflow mechanism that directs general funds revenues to the Fund and then back to general funds, and does not reflect a true gain in general funds revenue. In comparison, the GOMB routinely adds that transfer into their revenue estimate. For comparison purposes, the above table excludes that transfer.

PRELIMINARY FY 2015 GENERAL FUNDS REVENUE CGFA ESTIMATES

(millions)

Revenue Sources	FY'15 CGFA Feb-14	FY'14 CGFA Feb-14	\$ Difference
State Taxes			
Personal Income Tax	\$16,717	\$17,713	(\$996)
Corporate Income Tax	\$3,267	\$3,738	(\$471)
Sales Taxes	\$7,842	\$7,673	\$169
Public Utility (regular)	\$995	\$1,005	(\$10)
Cigarette Tax	\$355	\$355	\$0
Liquor Gallonage Taxes	\$165	\$165	\$0
Vehicle Use Tax	\$29	\$29	\$0
Inheritance Tax (gross)	\$205	\$230	(\$25)
Insurance Taxes & Fees	\$330	\$330	\$0
Corporate Franchise Tax & Fees	\$205	\$203	\$2
Interest on State Funds & Investments	\$25	\$20	\$5
Cook County Intergovernmental Transfer	\$244	\$244	\$0
<u>Other Sources *</u>	<u>\$486</u>	<u>\$530</u>	<u>(\$44)</u>
Subtotal	\$30,865	\$32,235	(\$1,370)
Transfers			
Lottery	\$682	\$669	\$13
Riverboat transfers and receipts	\$300	\$316	(\$16)
Proceeds from sale of 10th license	\$10	\$10	\$0
Refund Fund transfer	\$100	\$397	(\$297)
<u>Other</u>	<u>\$790</u>	<u>\$780</u>	<u>\$10</u>
Total State Sources	\$32,747	\$34,407	(\$1,660)
Federal Sources	\$4,273	\$3,850	\$423
Total Federal & State Sources	\$37,020	\$38,257	(\$1,237)
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax [9.5% FY'14]	(\$1,672)	(\$1,683)	\$11
Corporate Income Tax [13.4 FY'14]	(\$457)	(\$501)	\$44
Fund for Advancement of Education	(\$198)	N/A	(\$198)
Commitment to Human Services Fund	(\$198)	N/A	(\$198)
Subtotal General Funds	\$34,495	\$36,073	(\$1,578)

NOTE: Totals exclude Budget Stabilization transfers, transfers from FY 2013/14 Backlog Payment Fund, and other cash flow transfers. * Other sources estimate includes GOMB stated intent to initiate \$58 million in Build Illinois Escrow deposit in FY'14.

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Subtotal General Funds	\$34,495	\$35,156	(\$661)

NOTE: Totals exclude Budget Stabilization transfers, transfers from FY 2013/14 Backlog Payment Fund, and other cash flow transfers. * Other sources estimate includes GOMB stated intent to initiate \$58 million in Build Illinois Escrow deposit in FY'14 and \$66 million in FY'15.