Presented to:

Senate Deficit Reduction Committee

ECONOMIC and REVENUE UPDATE

Commission on Government Forecasting and Accountability
703 Stratton Office Building
Springfield, Illinois 62706

March 24, 2009

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

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CGFA Background & Responsibilities

- Bi-Partisan, joint legislative commission, provides the General Assembly with information relevant to the Illinois economy, taxes and other sources of revenue and debt obligations of the State.

- Preparation of annual revenue estimates with periodic updates;

- Analysis of the fiscal impact of revenue bills;

- Preparation of State Debt Impact Notes;

- Periodic assessment of capital facility plans;

- Annual estimates of the liabilities of the State's group health insurance program and approval of contract renewals promulgated by the Department of Central Management Services;

- Implement the provisions of the State Facility Closure Act;

- Annual estimates of public pension funding requirements and preparation of pension impact notes.

CHANGE IN REAL GDP

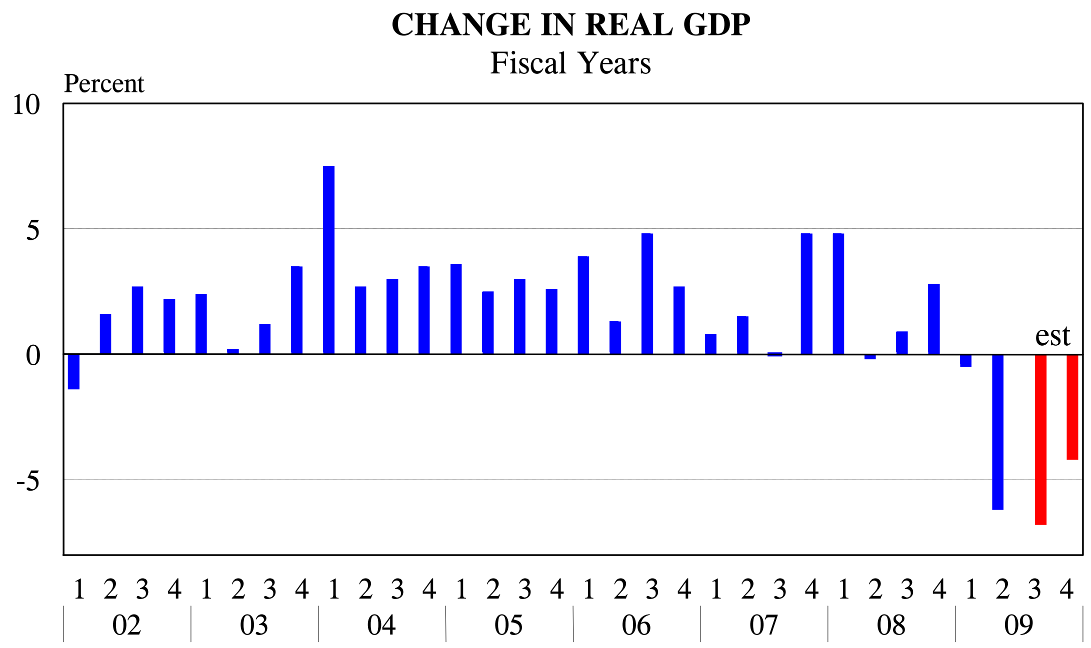
- Economic activity in FY 2009 declined in every quarter of the fiscal year, following 2.4% growth in FY 2008. Moreover, the rate of decline in real gross domestic product was particularly sharp in the second half of the year.

- The worsening position of the economy reflected extreme pessimism as unemployment jumped sharply, housing continued to plummet and confidence over government rescue and stimulative programs waned.

- This in turn led to sharp declines in home prices, an increasing number of home foreclosures, the wiping out of a large portion of consumer retirement savings as stock prices erased the gains made over the past decade or more, and a growing number of businesses failed.

- As a result, overall gross domestic product in FY 2009 fell at an estimated 1.8%.

CHART 1



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CONSUMER ATTITUDES

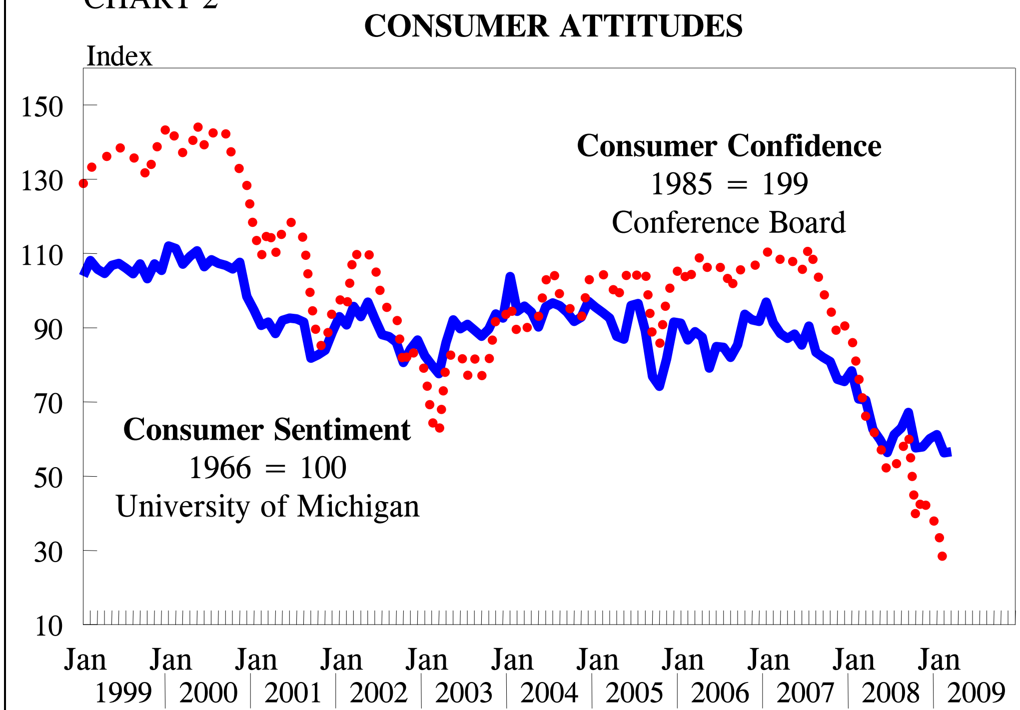
- The consumer sector, which generally accounts for two-thirds or more of total spending in the economy, has been weak. Following the worst holiday season spending in years, consumer spending, particularly on long-lasting durable goods remained depressed.

- For example, questions over the viability of the American auto producers led to the slowest sales in almost three decades as new U.S. auto sales fell 41% in February. Weak consumer spending reflects the sharp deterioration in consumer attitudes that show no signs of any near term improvement.

- As show in Chart 2, consumer attitudes as measured by either the University of Michigan's Consumer Sentiment Index or the Conference Board's Consumer Confidence Index have reached all-time lows.

- While the Consumer Sentiment appears to be leveling out at a low level in recent months, the Conference Board Index continues to plunge. The Consumer Confidence Index stood at 25 in February (1985 = 100) down from 37.4 in January with both the Present Situation and Expectations components decreasing.

CHART 2



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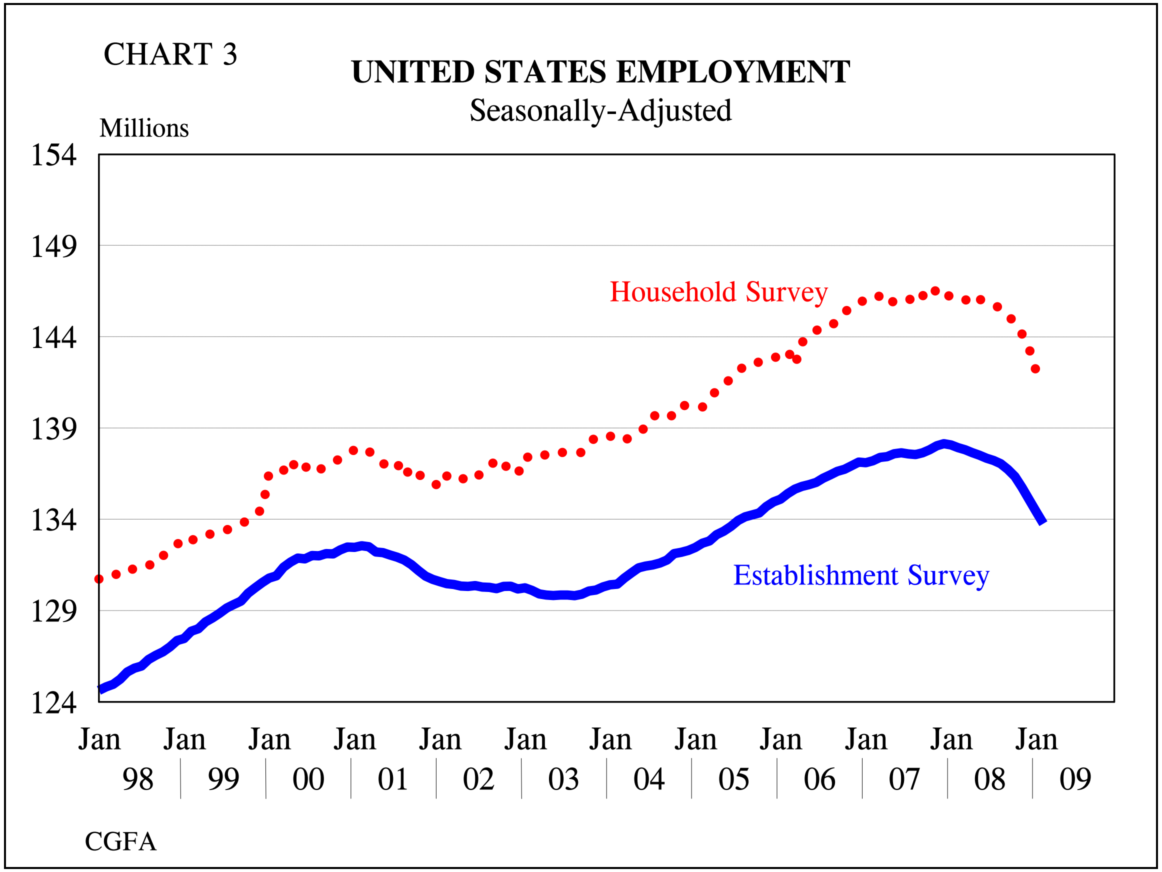
UNITED STATES EMPLOYMENT

- The rising level of job loss is perhaps the major ingredient behind the continuing erosion in consumer attitudes.

- As Chart 3 shows, employment in the United States has been on a decline since the end of 2007, whether measured by the Household Survey, used to measure the unemployment rate, or the more comprehensive Establishment, or Payroll Survey.

- Indeed, in the past 14 months ended in February, 4.4 million payroll jobs have been lost with 1.3 million coming in just the past two months. The increasing rate of falloff in jobs has further weakened confidence, as those still employed fear layoff.

- Moreover, growing concern over job security has led consumers to increase their savings, which in turn has had a dampening effect on consumer spending. This has been difficult as factors, which had provided a cushion to live through a period of unemployment, also were eroding.



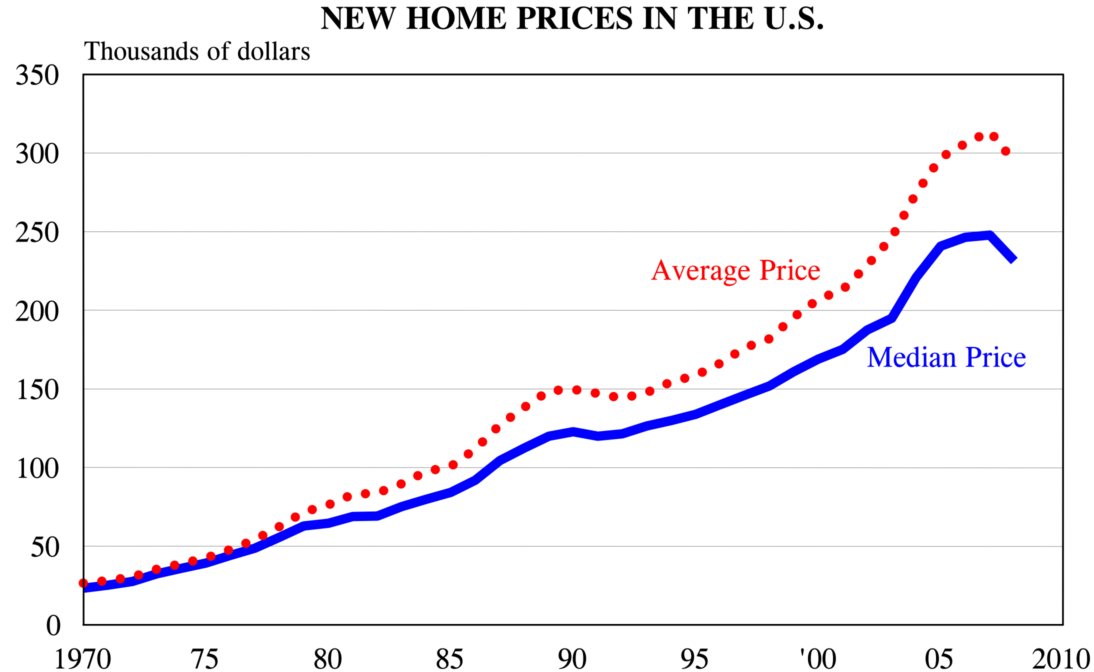
NEW HOME PRICES IN THE U.S.

- A major source of consumer spending in recent years has been achieved through the increased use of home equity loans as home prices continued to increase at a rapid pace. Thus, consumers were using the increased home value to supplement income for various uses from college expenses for their children, to remodeling their homes, to other large-ticket purchases.

- Also as home prices kept rising and interest rates came down, many refinanced their homes, which increased their spendable cash. Indeed, given the continued rise in home prices many found they could purchase a home with little or no down payment and often at a sub prime or adjustment interest rate. This of course came home to roost once home prices stopped increasing.

- Chart 4 shows the average and median price of new homes and the unexpected sharp fall off in the past several months, which put many homeowners under water, increasing foreclosures and adding to the inventory of unsold homes. Home prices in the 4th quarter of 2008 fell at a 13% annual rate that exceeded the fastest rates of appreciation in the bubble years of 2004 and 2005 and median new home prices have fallen by 22% since peaking in 2007.

CHART 4



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Data are yearly average except 2009 which is JAN data.

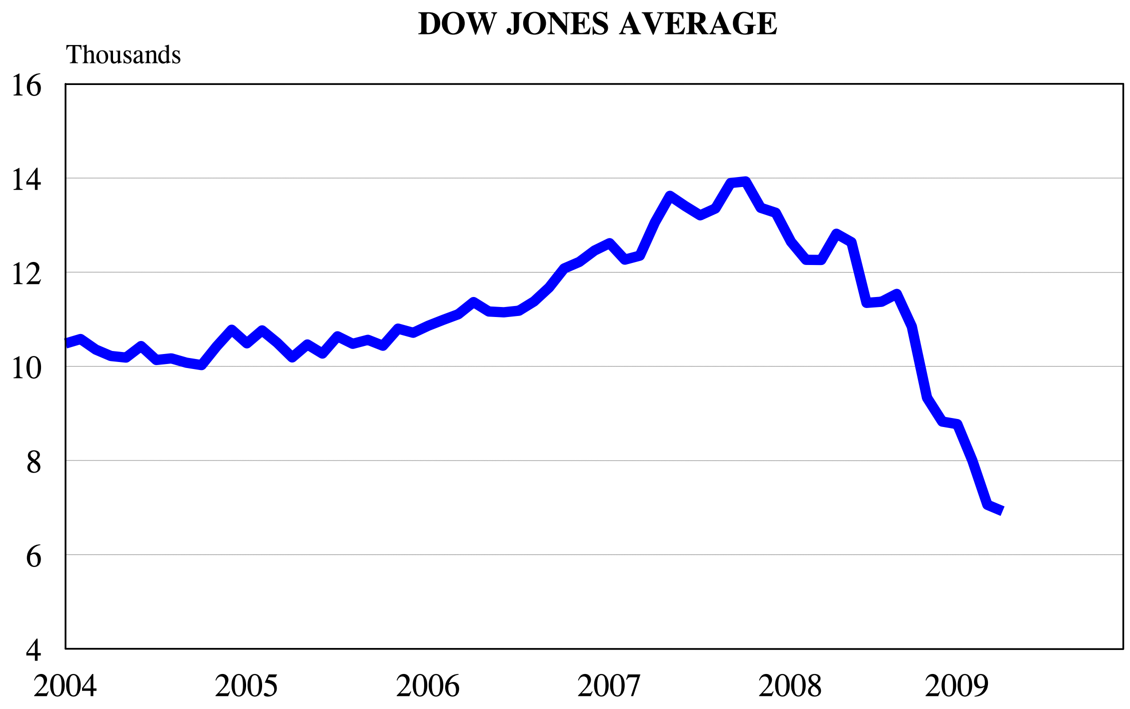
DOW JONES AVERAGE

- Not only has consumer net worth been reduced by the declining value of real estate, but also the financial crises have sharply reduced the value of their investments.

- Chart 5 shows the plunge in equity prices as measured by the Dow Jones Average since 2007. Indeed, by early March, the Dow had reached the lowest level in 12 years, reaching half its earlier peak value, although there has been some improvement in recent days.

- Thus, as pointed out, many 401K accounts were first being referred to as 201Ks and more recently 101Ks. It's no wonder that the combination of reduced home values and equity prices have caused the consumer to show increasingly reduced confidence, particularly given the uncertainty of keeping a job as well as if or when the current government financial rescue and stimulative programs will work.

CHART 5



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STATE TAX RECEIPTS SURVEY

- The loss of jobs was a major factor reducing sales taxes as well as income taxes, which were further weakened by declining corporate profits.

- The sharp decline in State receipts is depicted in Chart 6 that is based upon data from 16 states –including Illinois– that have diverse geographic and population characteristics.

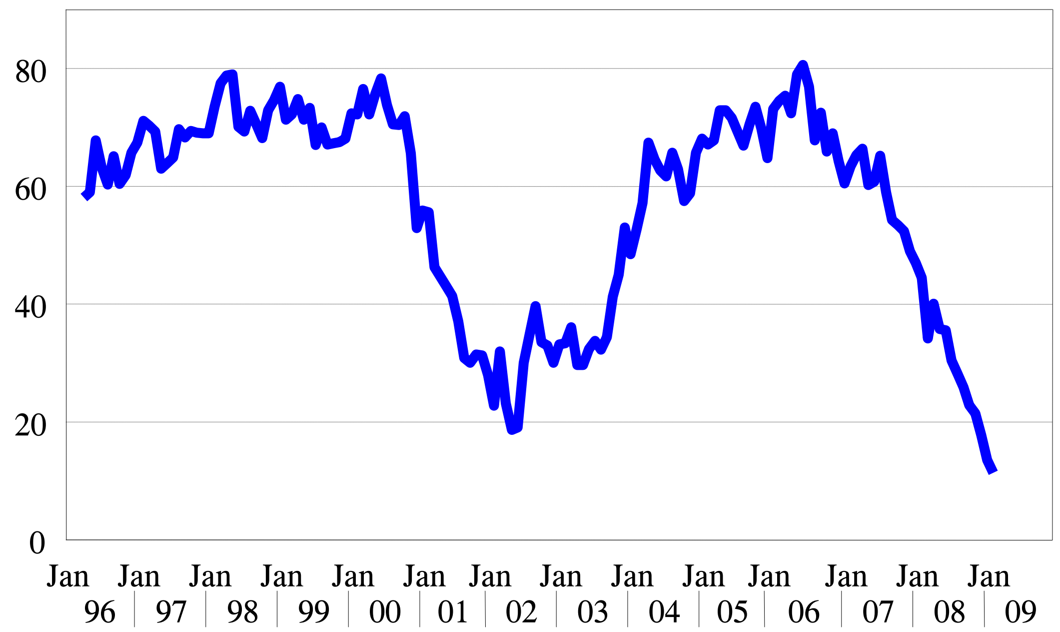
- In February for the second straight month, all portions of the ISI State Tax Survey experienced declines. Personal income receipts were extremely soft as sales receipts continued to decline. Business receipts held up better, but as the report states… "February is not traditionally a big month for corporate receipts and caution that a more significant decline may be on the horizon".

- ***The index for overall receipts for February was at 11.4; an all time low since the index measure was began. 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.***

CHART 6

STATE TAX RECEIPTS SURVEY

(Index based on inflow of income and sales taxes)



SOURCE: ISI (International Strategy & Investment) CGFA

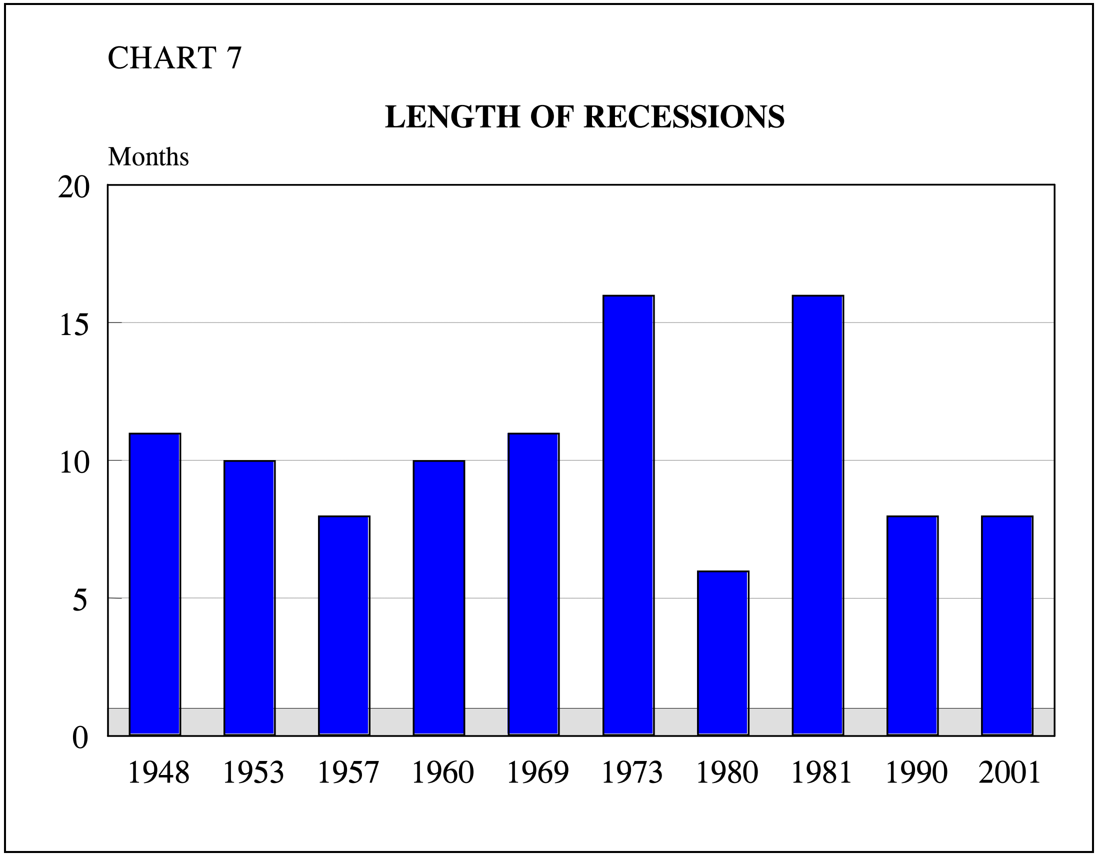
LENGTH OF RECESSION

- While it is now officially established that a recession began at the end of 2007, the question now becomes how long and deep it will be.

- Chart 7 shows the 10 recessions in the post WWII period with an average length of 10 months in duration, although there have been wide variations. The last two recessions each lasted 8 months, while the recessions in 1973 and 1981 were twice as long, each lasted 16 months. The shortest recession was 6 months in 1980, while the longest starting in 1929 lasted 43 months.

- The current recession already is 15 months old, and while more in line with those of 1973 and 1981, it is highly probable that the current recession will surpass those two in length.

- With this in mind, the outlook for FY 2010 is likely to continue to weaken in the first half of the year followed by some modest improvement in the second half of the year. While this implies a recovery starting in the next fiscal year, the shape of that recovery is likely to be U rather than V in shape.



PURCHASING MANAGERS INDEX

- As mentioned earlier, the consumer accounts for the majority of spending in the economy and this has deteriorated sharply. Latest data, however, at least give a hint of perhaps bottoming out.

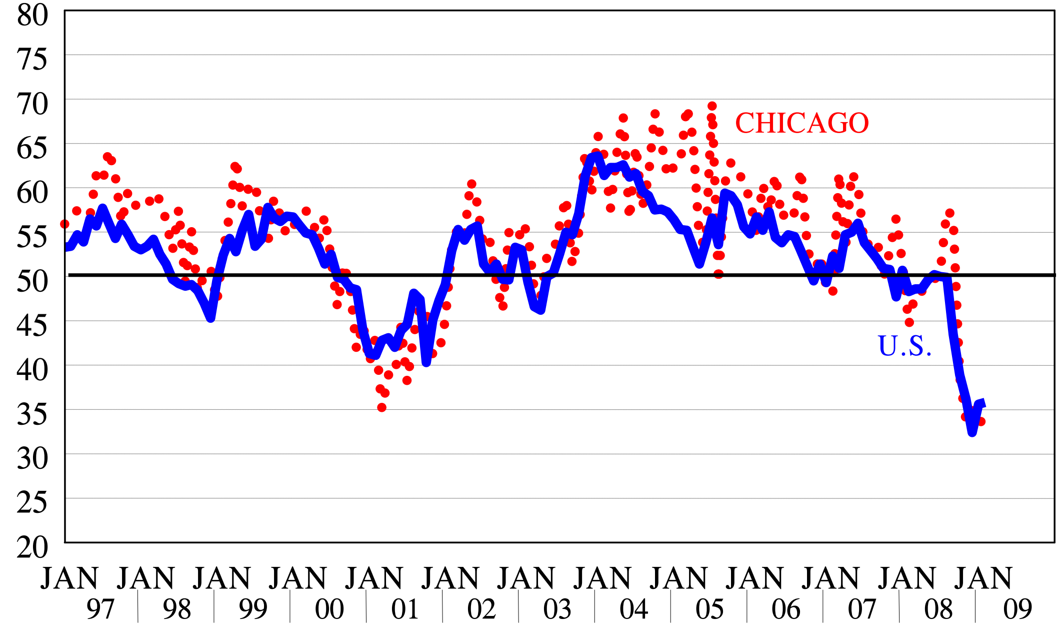
- Indeed, excluding auto and auto part sales, retail sales rose 0.7% in February after a 1.6% increase in January. The sales pattern is a large factor accounting for the continued sharp decline in manufacturing.

- Chart 8 shows the index of manufacturing has been in contraction, registering an index number of less than 50%, in 12 of the past 15 months and has been in the 30% area in the past 5 months. The Chicago area has mirrored the national figures.

CHART 8

PURCHASING MANAGERS INDEX

50% = Expansion



CGFA SOURCE: Institute for Supply Management

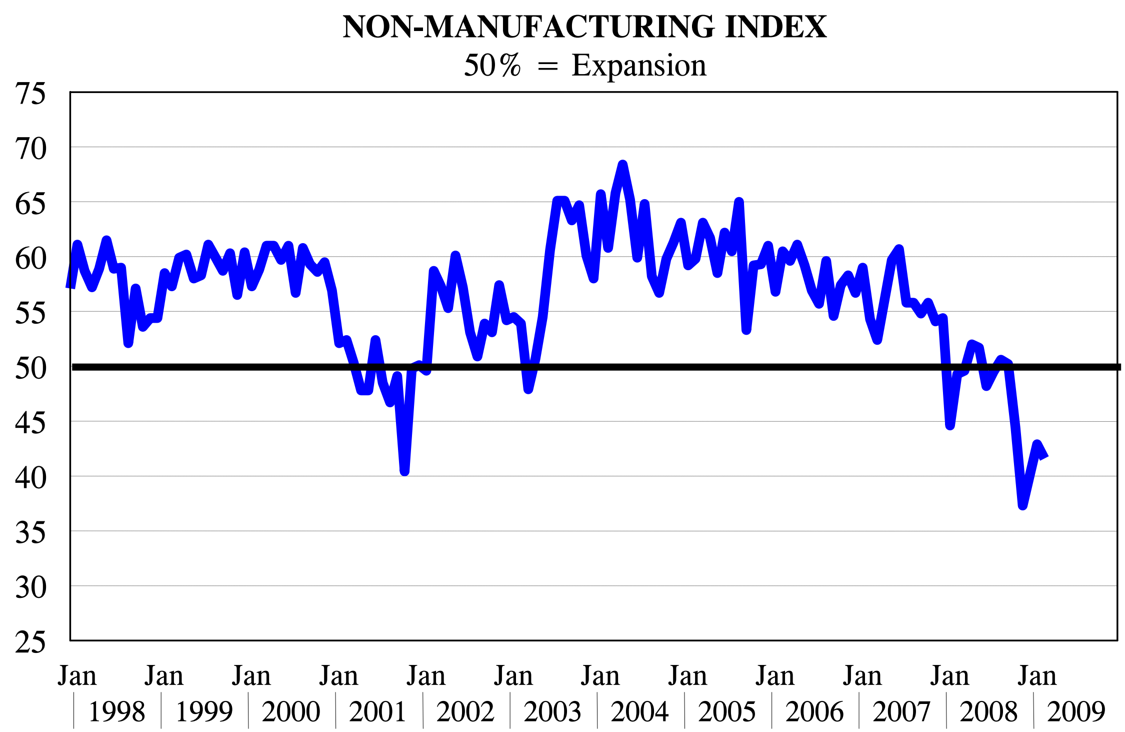
NON-MANUFACTURING INDEX

- The decline in activity has been widespread. Chart 9 takes a look at the growing service sector of the economy.

- Economic activity in the non-manufacturing sector contracted in February, registering 41.6%, 3 percentage points lower than the 42.9% registered in January, indicating contraction in the non-manufacturing sector for the fifth consecutive month at a slightly faster rate.

- The decline in the current recession has far surpassed that of the last.

CHART 9



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SOURCE: Institute for Supply Management

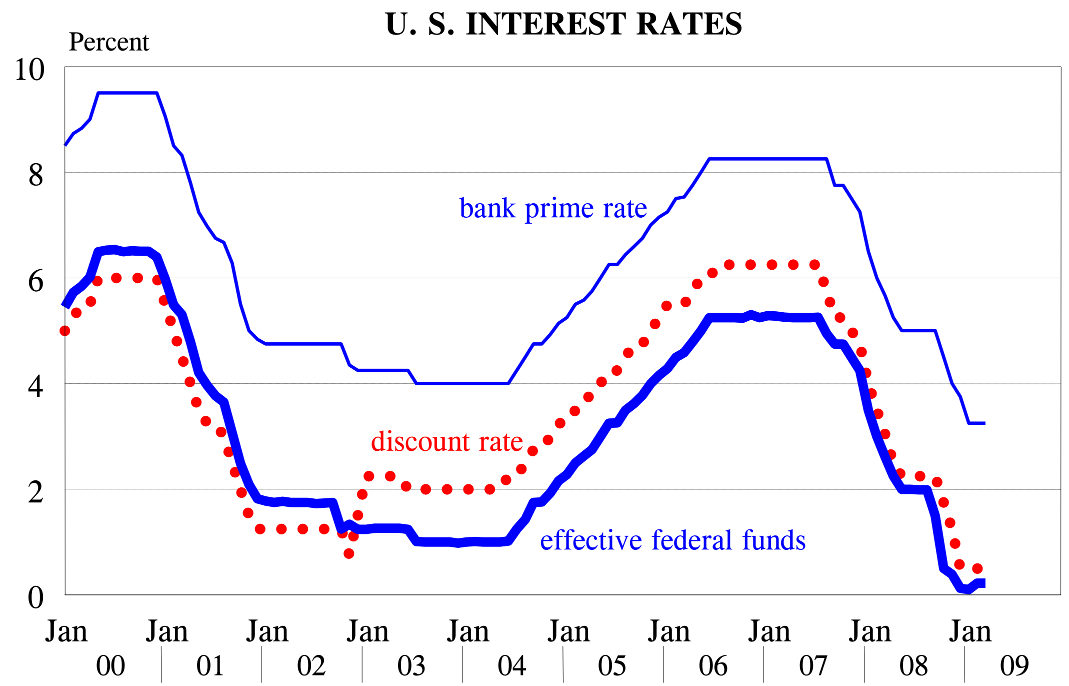
U.S. INTEREST RATES

- A turnaround in consumer spending and a return to expansion from contraction to expansion in the manufacturing and non-manufacturing sectors of the economy leading to an improvement in jobs may well lie in the success of the dramatic changes underway in fiscal and monetary policies. The federal government stimulative programs have yet to be fully implemented, although earlier actions to rescue the financial system have had a positive effect on the credit markets.

- In contrast, the Federal Reserve Board began lowering key monetary policy interest rates since the summer of 2007. As shown in Chart 10, an acceleration in the decline to meet the credit crisis came in late 2008 when the federal funds rate was lowered to a range of 0% to 0.25%.

- In addition to interest rate declines the Federal Reserve took a myriad of other actions such as increasing the limits on bank insured CDs, extending that privilege on a temporary basis to money market funds, aided in unfreezing the commercial paper market, etc.

CHART 10



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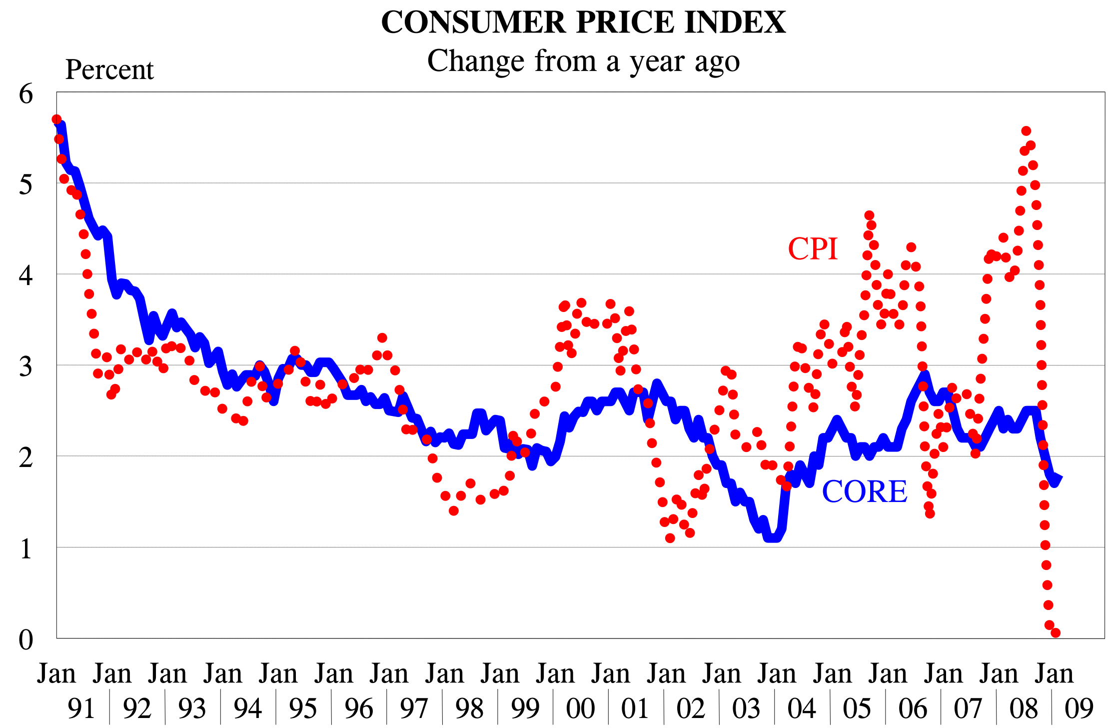
CONSUMER PRICE INDEX

- While monetary policy is in position to stimulate the economy, it must be sensitive to the potential inflationary pressures it could generate once the economy resumes a path of growth. Too often in the past the Federal Reserve has overstayed its policy stance only to have to make severe corrections later.

- Right now, however, there is more concern over deflation, or a general decline in the prices stemming from the world wide recession underway.

- As shown in Chart 11, consumer prices had taken a nosedive, showing 0.2% in February following no change from a year earlier the month before and even the core rate, that excludes food and energy, rose only 1.8%.

CHART 11



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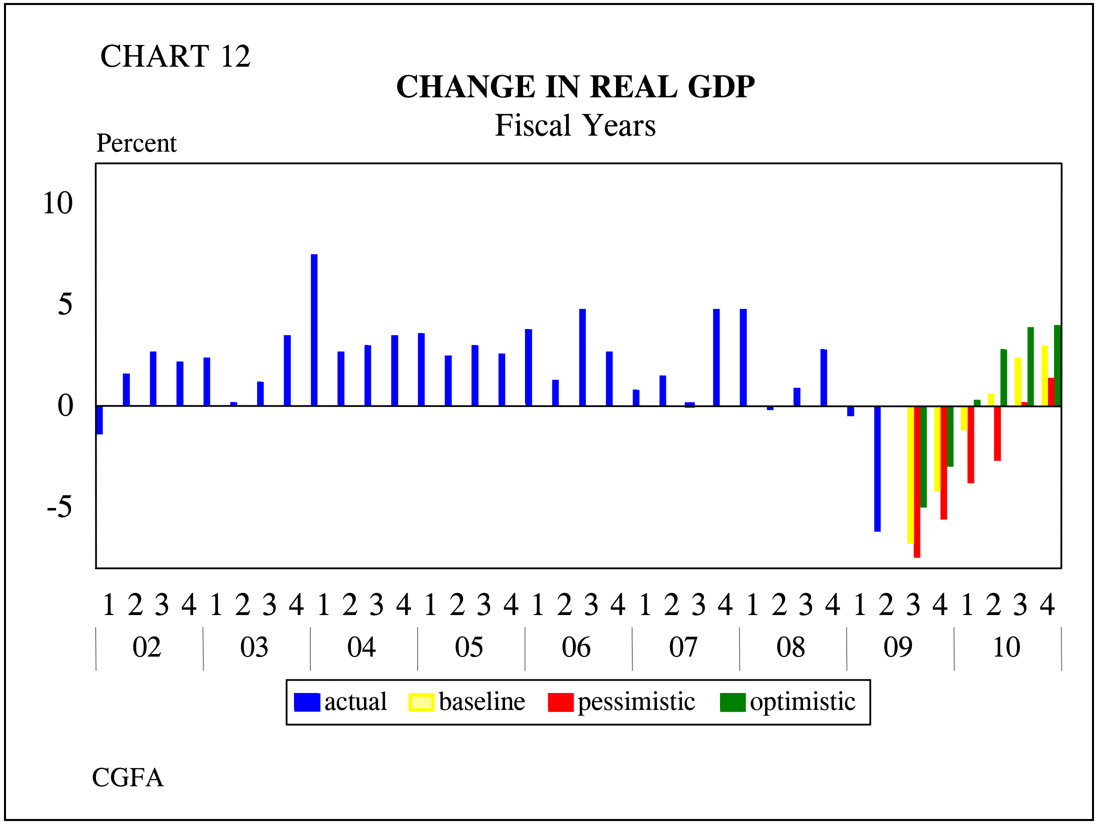
CHANGE IN REAL GDP

- Chart 12 shows three alternative forecasts of the U.S. economy in the upcoming FY 2010. The **BASELINE** shows the most likely solution with a 60% chance of occurrence. This forecast has the economy continuing to fall in the first quarter of FY 2010 followed by slow but steady increases through the remainder of the year.

- A more **OPTIMISTIC** scenario, with a 20% change of happening, shows improving growth in all four quarters of next year and assumes success in the effects of the various stimulative programs.

- Finally, a **PESSIMISTIC** alternative is provided, also with a 20% chance, whereby the economy continues to decline and at greater rates in the first half of the New Year before flatting out in the third quarter with a meager gain at year end.

- ***By any of these scenarios it indicates a recession that is longer term than anything experienced during post war periods although falling far short of the prolonged period of the great depression.***



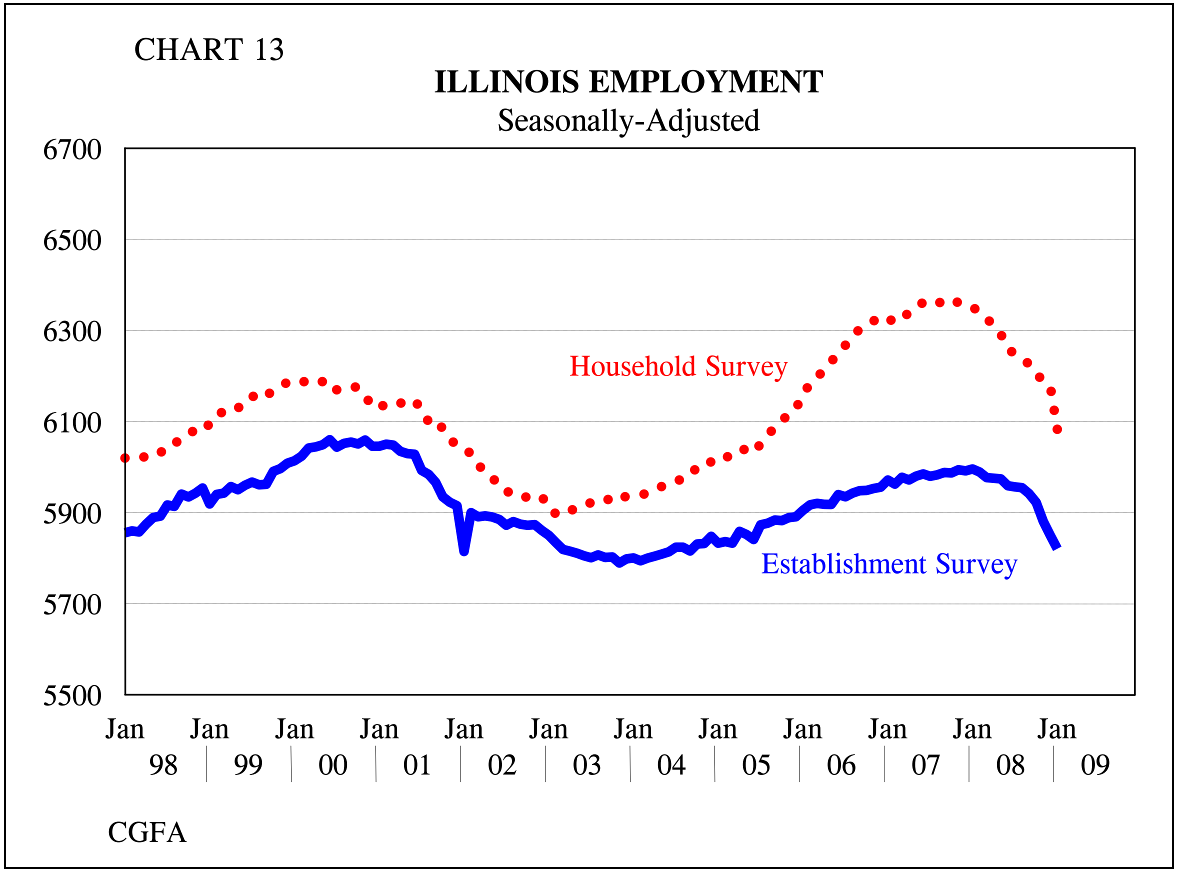
BASELINE FORECAST - MARCH 2009
($ Change from prior year levels)

REAL (2000$)	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Estimated	FY 2010 Estimated
Gross Domestic Product	3.1	3.0	2.0	2.4	-1.8	-0.8
Personal Consumption	3.3	3.1	3.0	1.9	-1.6	0.8
Durable	5.2	4.0	4.9	2.2	-10.0	1.4
Nondurable	3.2	3.8	3.1	1.5	-3.4	0.6
Services	2.9	2.5	2.6	2.1	0.9	0.8
Fixed Investment	8.5	4.5	-3.8	-4.1	-16.1	-14.5
Exports	9.0	7.6	8.3	12.3	-5.5	-11.6
Imports	7.6	6.2	2.7	-0.3	-10.4	-4.6
Government	0.6	1.1	1.7	2.5	2.4	0.6
Federal	2.8	1.7	1.3	4.2	6.8	3.6
State & Local	-0.4	0.6	2.0	1.9	0.0	-1.2
OTHER MEASURES						
Personal Income (Current $)	6.3	6.3	6.6	5.3	2.0	0.2
Personal Consumption (Current $)	6.1	6.4	5.4	5.2	-0.2	0.3
Before Tax Profits (Current $)	20.4	14.2	7.3	-3.6	-17.7	-4.2
Consumer Prices	3.0	3.8	2.6	3.7	1.0	-0.8
Unemployment Rate (Average)	5.3	4.8	4.5	4.9	7.5	10.0

- The Illinois economy is in recession and as stated in the State Economic Outlook done for the Commission by Moody's/Economy.com, "The State's economy held up slightly longer than the U.S. economy but succumbed during the second half of last year."

- This confirms the historical pattern of the Illinois economy that tends to lag the nation in economic cycles. For example, as shown in Chart 13, the decline in payroll employment, which had held up throughout most of last year, has plunged in recent months.

- Thus, while national payroll employment fell 2.65% in the 12-month period ended January 2009, Illinois' payrolls fell by a sharper 2.92%.



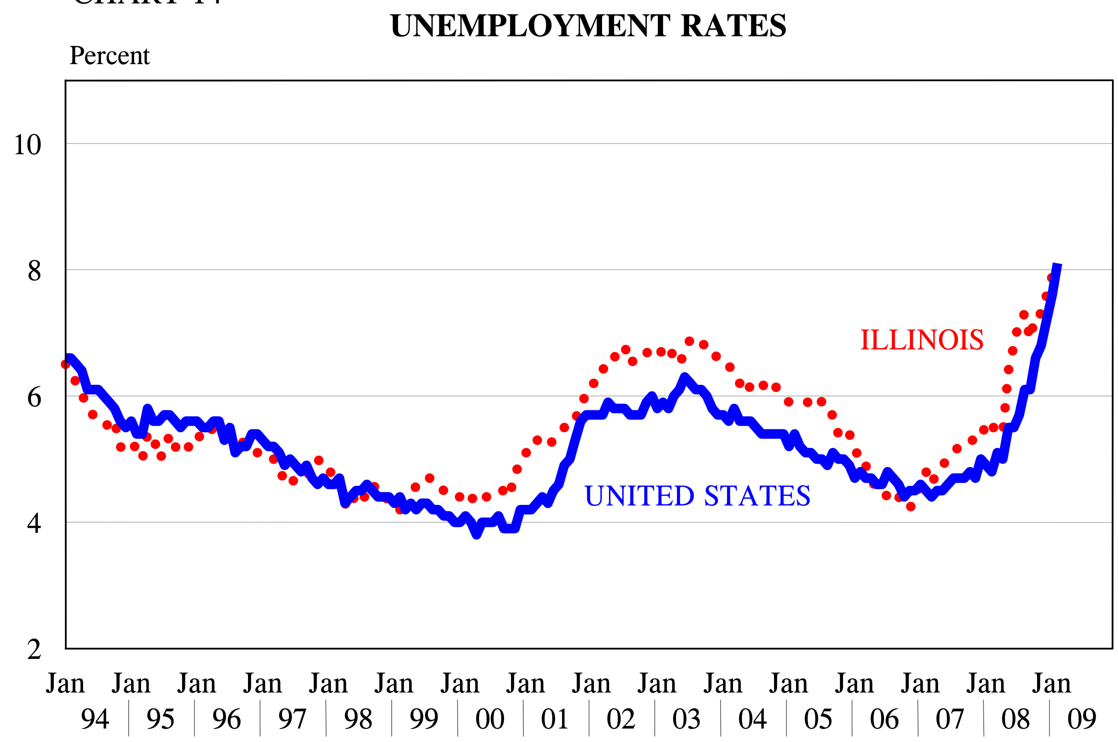
UNEMPLOYMENT RATES

- As a result, as shown in Chart 14, Illinois' unemployment rate, which for a brief period in 2006 inched below the national unemployment rate, has risen above that rate.

- This repeats the pattern from the late 1990s through 2005 when the State unemployment rate, although trending coincidentally with the national rate, held consistently above it.

- In January, Illinois' unemployment rate was 7.9% compared to 7.6% nationally. In February, the national rate jumped to 8.1% while Illinois' rate will be available on March 24th but is expected to jump as well.

CHART 14



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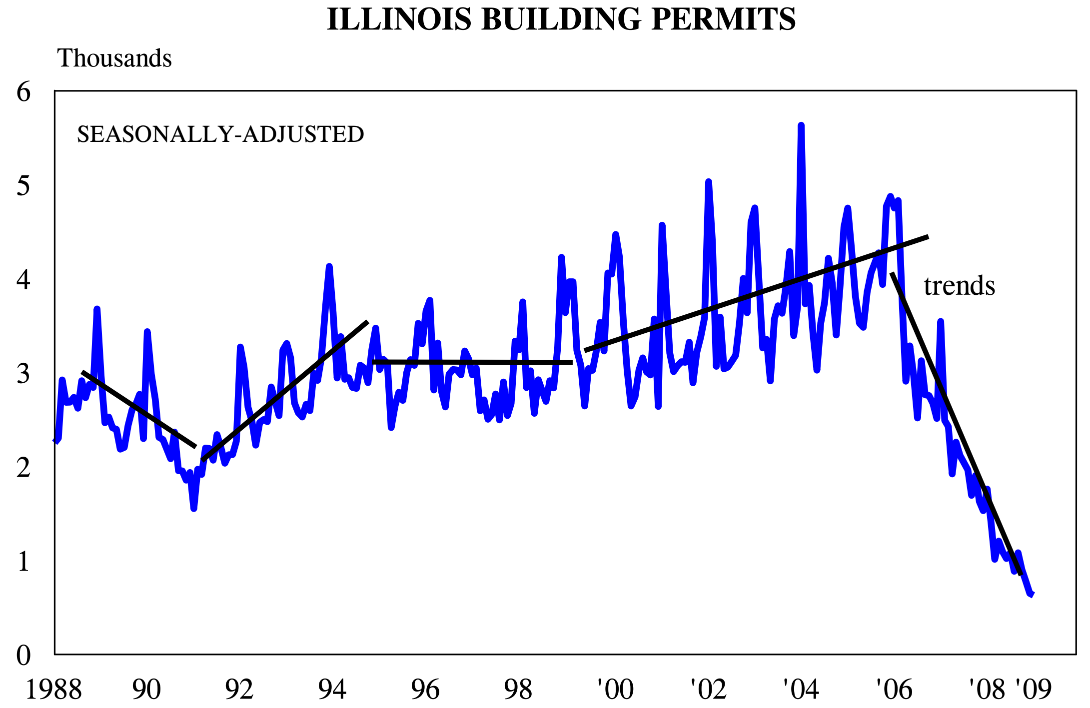
ILLINOIS BUILDING PERMITS

- Many of the same severely hit areas of the national economy have been felt in Illinois either to the same or greater degree. Certainly housing has been hit hard.

- Chart 15 shows permits for single-family homes in the State that have hit levels not seen in decades. Moreover, since permits must be issued before construction can start, it is a leading indicator of new housing activity. This suggests the decline is not yet over.

- While the State has not seen the sharp drop in housing prices seen in some parts of the country such as Las Vegas, Florida, and other areas where the housing bubble was most extreme, neither has it been immune.

CHART 15



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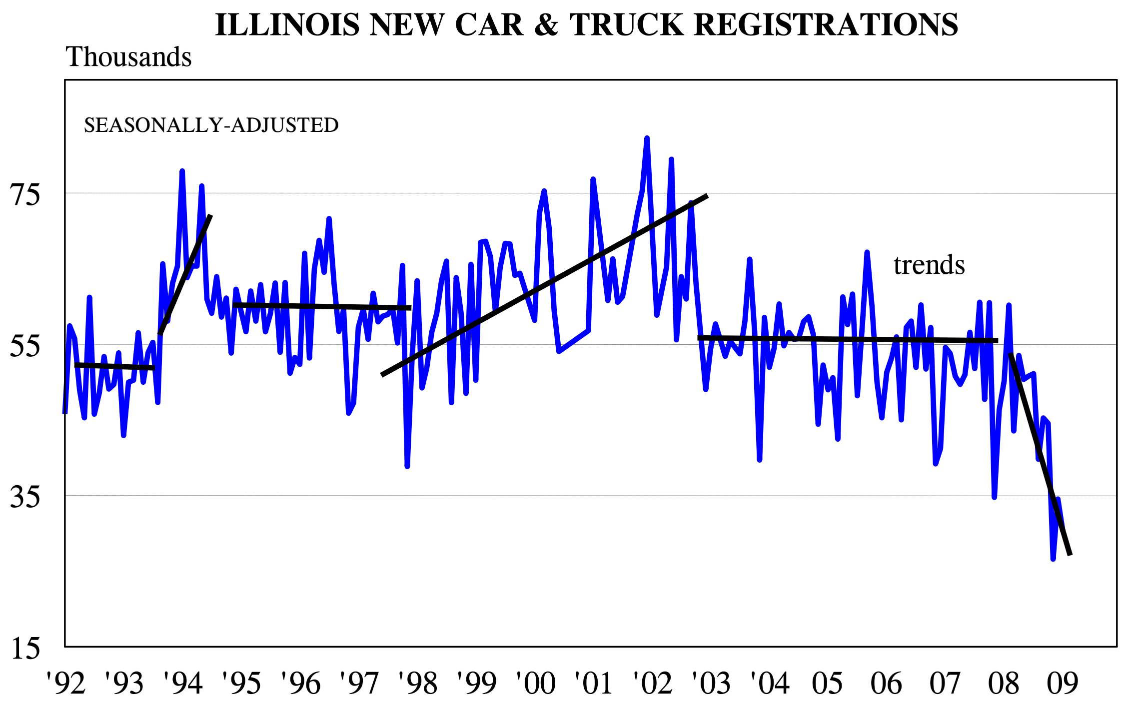
ILLINOIS NEW CAR & TRUCK REGISTRATIONS

- Similarly, fewer people employed, the inability to get credit, and problems in the automobile industry have been felt in Illinois.

- Chart 16 shows new car and truck registrations in Illinois. These sales have fallen to levels not seen in decades. Moreover, there are no signs of any near term change in direction.

- Similarly, auto parts and manufacturers within the State including Ford in Chicago, Chrysler in Belvidere and Mitsubishi in Normal have been hit hard and are not expected to rebound for some time.

CHART 16



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ILLINOIS EXPORTS

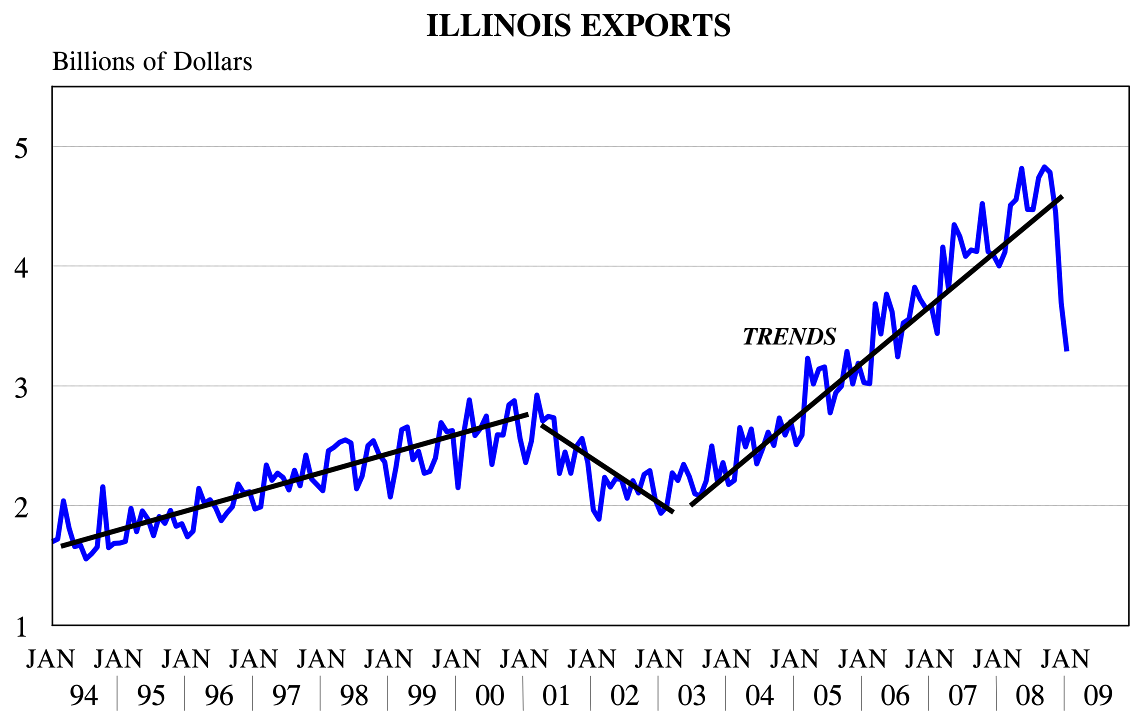
- Finally, a major uplift to the Illinois economy has been its growth in exports. Illinois ranks fifth in the nation's exports.

- These exports had been on a strong up trend from 2003 until late fall of 2008. A rise in the value of the U.S. dollar and deep recession abroad, however, quickly have changed that trend.

- Indeed by January 2009, Illinois exports fell sharply to levels not seen since the summer of 2006. Thus one reason for the sober outlook for the State is that exports can no longer be relied on as a support to its economy.

- ***In conclusion, according to Moody's/Economy.com, 97% of the variation in the Illinois economy is related to variations in the national economy. Even so, there has been a tendency for Illinois to lag during economic cycles and thus may continue to do somewhat worse than the nation in the period immediately ahead.***

CHART 17



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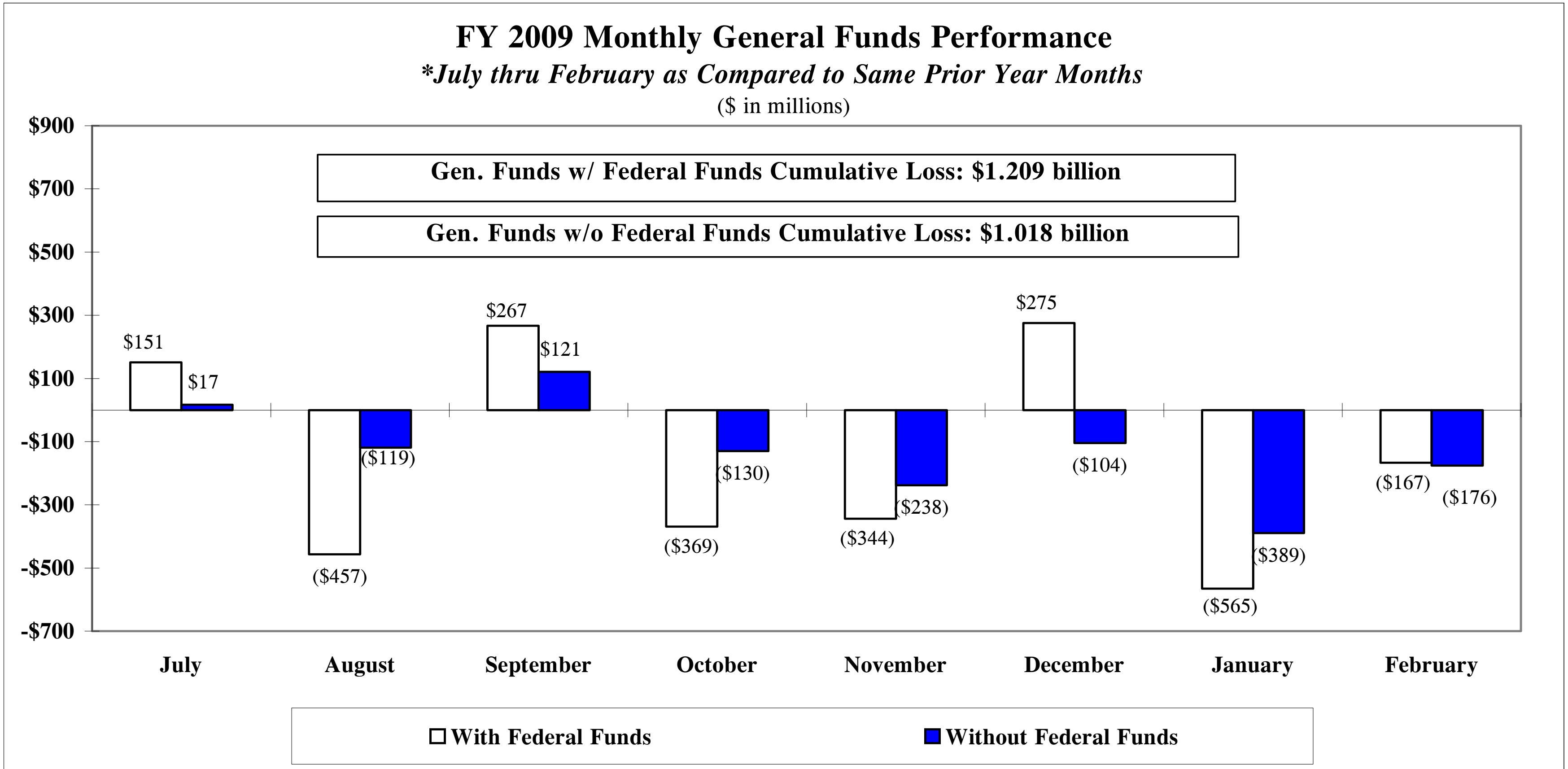
FY 2009 REVENUE RECAP

Through the first two-thirds of FY 2009, overall base revenues are down $1.209 billion. The decline is primarily attributed to general overall weakness, coupled with $264 million less from transfers, and $191 million less from federal sources. A number of items are serving to restrict revenue growth in FY 2009 (i.e. increased refund percentage, lower miscellaneous transfers, reduced Cook County IGT, less from riverboat transfers, returns from interest income, no expected growth from federal sources). Those items, when combined with an economy now in recession, are causing already difficult budgetary pressures to build.



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

INDIVIDUAL SOURCE PERFORMANCE TO DATE

The most closely related economic sources continue their dismal performance. Unfortunately, worsening economic conditions suggest that even these rates of growth will struggle to be maintained over the remainder of the fiscal year.

- Interest income has plunged due to lower rates of return and fewer investable balances. With rates expected to remain flat or possibly fall further, prospects of any improvement are dim.

- Riverboat transfers continue to falter. A combination of a slowed economy, the indoor smoking ban, competition from other states, and until very recently—high gasoline prices, have conspired to erode performance.

- Other transfers are down due to timing resulting from last year's hospital assessment program as well as other miscellaneous transfers. *While approximately $221 million in fund transfers were approved to occur in FY 2009, those monies are being transferred into the FY 2009 Budget Relief Fund, not the general funds.*

GENERAL FUNDS RECEIPTS: YEAR TO DATE
FY 2009 vs. FY 2008
($ million)

Revenue Sources	FY 2009	FY 2008	CHANGE FROM FY 2008	% CHANGE
State Taxes				
Personal Income Tax	$6,521	$6,651	($130)	-2.0%
Corporate Income Tax (regular)	848	923	($75)	-8.1%
Sales Taxes	4,672	4,850	($178)	-3.7%
Public Utility Taxes (regular)	750	750	$0	0.0%
Cigarette Tax	234	234	$0	0.0%
Liquor Gallonage Taxes	109	110	($1)	-0.9%
Vehicle Use Tax	18	21	($3)	-14.3%
Inheritance Tax (Gross)	190	256	($66)	-25.8%
Insurance Taxes and Fees	156	173	($17)	-9.8%
Corporate Franchise Tax & Fees	134	149	($15)	-10.1%
Interest on State Funds & Investments	50	145	($95)	-65.5%
Cook County IGT	159	193	($34)	-17.6%
Other Sources	263	277	($14)	-5.1%
Subtotal	$14,104	$14,732	($628)	-4.3%
Transfers				
Lottery	377	416	($39)	-9.4%
Riverboat transfers & receipts	320	429	($109)	-25.4%
Other	211	327	($116)	-35.5%
Total State Sources	$15,012	$15,904	($892)	-5.6%
Federal Sources	$2,852	$3,043	($191)	-6.3%
Total Federal & State Sources	$17,864	$18,947	($1,083)	-5.7%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($636)	($515)	($121)	23.5%
Corporate Income Tax	($148)	($143)	($5)	3.5%
Subtotal General Funds	$17,080	$18,289	($1,209)	-6.6%
Short-Term Borrowing	$1,400	$1,200	$200	N/A
Hospital Provider Fund (cash flow transfer)	$0	$300	($300)	N/A
Budget Stabilization Fund Transfer	$326	$276	$50	18.1%
Total General Funds	$18,806	$20,065	($1,259)	-6.3%

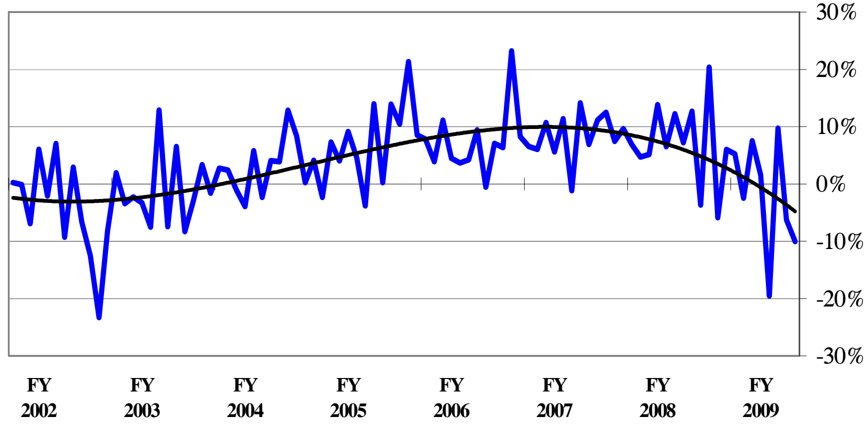
SOURCE: Office of the Comptroller, State of Illinois: Some totals may not equal, due to rounding.
CGFA 23-Mar-09

ONEROUS TRENDS

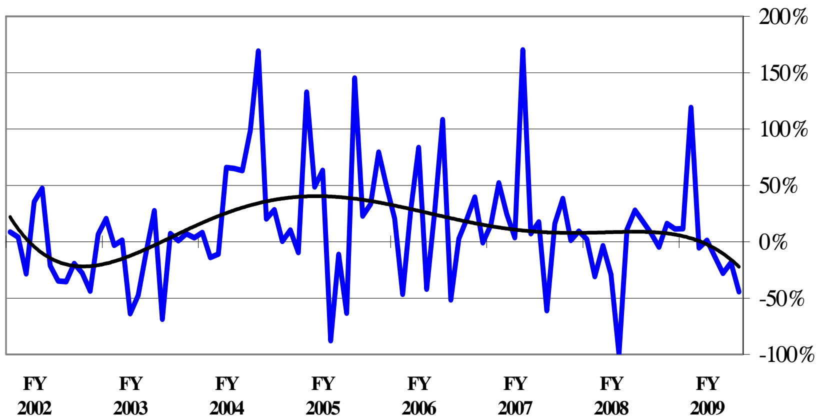
Gross personal income tax receipts are down 2.0% over the first eight months of the year, as shown in the accompanying chart. Based on monthly year-over-year percent change, the trend is markedly down.

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

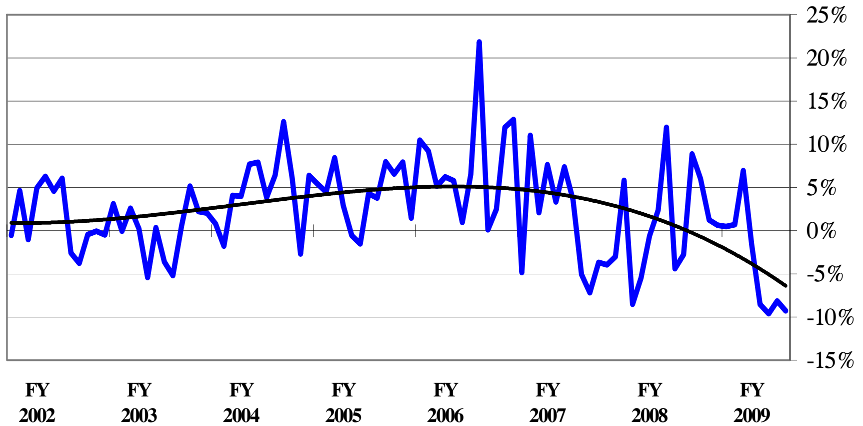
Personal Income Tax Revenues
Year-Over-Year Percent Change by Month



Corporate Income Tax Revenues
Year-Over-Year Percent Change by Month



Sales Tax Revenues
Year-Over-Year Percent Change by Month



REVENUE SHORTFALL: GOMB Revised FY 2009 Estimate vs. Enacted Budgeted Expectations

Unofficially, the FY 2009 budget was based upon revenues of $30.451 billion which assumed $792 million growth. As shown in the accompanying table, GOMB's revised base estimate of $27.171 billion is $3.280 billion less than those budgeted figures.

Forecast of FY 2009 Revenue Shortfalls Compared to Enacted Revenue Assumptions
$ millions

Downward Pressure	CGFA	GOMB
Personal Income Tax	$875	$1,015
Corporate Income Tax	$475	$487
Sales Tax	$550	$658
Other Misc. Taxes	$200	$137
Loss of 10th License	$575	$575
Transfers [total]	$400	$314
Federal [base]	$100	$94
Total Downward Pressures	$3,175	$3,280
Anticipated Federal Stimulus	$2,154	$2,154
Net Revenue Shortfall	$1,021	$1,126

NOTE: CGFA figures are to be considered approximate. CGFA will be releasing its updated revenue forecast at a scheduled April 1st Commission meeting. Excludes $200 million in Governor proposed Fund sweeps.

GOMB [March-09] vs. Unofficial Enacted FY 2009 Budget (per GOMB)
(millions)

Revenue Sources	GOMB FY 2009 Estimate March-09	Unofficial FY 2009 Budget Assumptions Estimate Aug-08	$ Difference	% Difference
State Taxes				
Personal Income Tax	$10,434	$11,559	($1,125)	-9.7%
Corporate Income Tax	$1,757	$2,348	($591)	-25.2%
Sales Taxes	$6,674	$7,332	($658)	-9.0%
Public Utility (regular)	$1,159	$1,110	$49	4.4%
Cigarette Tax	$350	$350	$0	0.0%
Liquor Gallonage Taxes	$161	$161	$0	0.0%
Vehicle Use Tax	$26	$31	($5)	-16.1%
Inheritance Tax (gross)	$275	$275	$0	0.0%
Insurance Taxes & Fees	$325	$325	$0	0.0%
Corporate Franchise Tax & Fees	$205	$205	$0	0.0%
Interest on State Funds & Investments	$80	$180	($100)	-55.6%
Cook County Intergovernmental Transfer	$253	$256	($3)	-1.2%
Other Sources	$426	$504	($78)	-15.5%
Subtotal	**$22,125**	**$24,636**	**($2,511)**	**-10.2%**
Transfers				
Lottery	$625	$664	($39)	-5.9%
Riverboat Transfers & Receipts	$470	$642	($172)	-26.8%
Sale of 10th Riverboat License [approx.]	$0	$575	($575)	N/A
Other	$575	$678	($103)	-15.2%
Total State Sources	**$23,795**	**$27,195**	**($3,400)**	**-12.5%**
Federal Sources	**$4,700**	**$4,794**	**($94)**	**-2.0%**
Total Federal & State Sources	**$28,495**	**$31,989**	**($3,494)**	**-10.9%**
Nongeneral Funds Distribution:				
Refund Fund*				
Personal Income Tax	($1,017)	($1,127)	$110	-9.8%
Corporate Income Tax	($307)	($411)	$104	-25.3%
Subtotal General Funds	**$27,171**	**$30,451**	**($3,280)**	**-10.8%**
Change from Prior Year	**($2,488)**	**$792**	**($3,280)**	**N/A**
Percent Change	**-8.4%**	**2.7%**		
Anticipated Federal Stimulus	$2,154	$0	$2,154	N/A
Total General Funds	$29,325	$30,451	($1,126)	-3.7%
Change from Prior Year	($334)	$792		
Percent Change	-1.1%	2.7%		

*The FY 2009 estimate does not include $200 million in Governor proposed one-time fund sweeps.
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FY 2009 GOMB GENERAL FUNDS REVENUE ESTIMATE

The accompanying table demonstrates the difference between the GOMB FY 2009 general revenue estimate and actual FY 2008 receipts. As shown, the GOMB estimates base revenues of $27.171 billion. That forecast assumes a drop of $2.488 billion or 8.4% over actual FY 2008 figures. Of note is the dramatic drop that is expected over the remainder of the year for the economically related sources. Through the first two-thirds of the fiscal year, gross personal income tax is down 2.0%, yet to reach the GOMB estimate, receipts must plummet 13.7% over the last four months. Gross corporate income tax is down 8.1% through February, yet the estimate calls for receipts to drop 28.9% over the remainder of the fiscal year. Finally, sales tax is down 3.7% thus far, but the GOMB estimate assumes a drop of 15.3% over the last four months. While plausible, these rates of declines should be viewed as quite aggressive.

Also included in the table is $2.354 billion in additional revenues assumed by the Governor. While details are lacking, these revenue adjustments would include $200 million in "fund sweeps", and $2.154 billion from what is termed "federal recovery" monies. When these amounts are added to the base estimate, the total of $29.525 billion represents a $134 million decline from FY 2008.

Overall, the base growth rates used in forecasting FY 2009 revenues by GOMB seem quite conservative. Given the severity of the current recession, no doubt a conservative outlook is warranted. However, the degree to which base revenues must fall over the remaining months to reach the GOMB estimate is somewhat higher than what current trends would suggest. CGFA will be detailing our revised revenue estimate at a meeting scheduled for April 1st.

TABLE 1: FY 2009 GOMB ESTIMATE & FY 2008 ACTUALS
(millions)

Revenue Sources	GOMB FY 2009 Estimate March-09	ACTUAL FY 2008	$ Difference	% Difference
State Taxes				
Personal Income Tax	$10,434	$11,187	($753)	-6.7%
Corporate Income Tax	$1,757	$2,201	($444)	-20.2%
Sales Taxes	$6,674	$7,215	($541)	-7.5%
Public Utility (regular)	$1,159	$1,157	$2	0.2%
Cigarette Tax	$350	$350	$0	0.0%
Liquor Gallonage Taxes	$161	$158	$3	1.9%
Vehicle Use Tax	$26	$32	($6)	-18.8%
Inheritance Tax (gross)	$275	$373	($98)	-26.3%
Insurance Taxes & Fees	$325	$298	$27	9.1%
Corporate Franchise Tax & Fees	$205	$225	($20)	-8.9%
Interest on State Funds & Investments	$80	$212	($132)	-62.3%
Cook County Intergovernmental Transfer	$253	$302	($49)	-16.2%
Other Sources	$426	$442	($16)	-3.6%
Subtotal	**$22,125**	**$24,152**	**($2,027)**	**-8.4%**
Transfers				
Lottery	$625	$657	($32)	-4.9%
Riverboat Transfers & Receipts	$470	$564	($94)	-16.7%
Other	$575	$679	($104)	-15.3%
Total State Sources	**$23,795**	**$26,052**	**($2,257)**	**-8.7%**
Federal Sources	**$4,700**	**$4,815**	**($115)**	**-2.4%**
Total Federal & State Sources	**$28,495**	**$30,867**	**($2,372)**	**-7.7%**
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($1,017)	($867)	($150)	17.3%
Corporate Income Tax	($307)	($341)	$34	-10.0%
Subtotal General Funds	**$27,171**	**$29,659**	**($2,488)**	**-8.4%**
Proposed Increases to Base Revenues				
One-time Revenues				
Federal Recovery	$2,154	$0	$2,154	N/A
Transfer In	$200	$0	$200	N/A
Recurring Revenues	$0	$0	$0	N/A
Total Proposed Revenue Adjustments	$2,354	$0	$2,354	N/A
Total General Funds	**$29,525**	**$29,659**	**($134)**	**-0.5%**
CGFA				

GOMB FY 2010 GENERAL FUNDS REVENUE

This table provides a comparison on the GOMB's FY 2009 and FY 2010 estimates outlined in the Budget Book. As shown, excluding $6.290 billion in proposed revenue adjustments, base revenues are forecast to be $26.786 billion, a decline of $385 million or 1.4% over the previous year estimate.

There are some interesting growth rates assumed for the economic related sources. In the case of personal income tax, the rate of decline, -2.2% is expected to improve measurably from the -6.7% drop forecast in FY 2009. It seems somewhat optimistic to believe the falloff will slow so substantially. In general terms, it appears GOMB was very conservative in their estimate of FY 2009, but perhaps at the expense of being overly optimistic for FY 2010. As shown previously by the Commission, personal income tax actually hit a trough roughly one-year after the last recession ended. Since no forecasts assume a quick end to the current recession, it seems unlikely the rate of decline will improve so dramatically over the forecast horizon.

Also of note is the continued significant falloff in sales tax. While the rate of decline expected in FY 2010 (-4.2%) is better than the anticipated falloff of -7.5% in FY 2009, it too is viewed as being very conservative. While no doubt the consumer is sitting the current recession out, both rates of decline seem borderline overly conservative.

The Governor's FY 2010 budget assumes $6.290 billion in revenue adjustments to the FY 2010 base revenues, comprised of $2.246 billion in one-time revenues and $4.044 billion in recurring revenues. When added to the base, the overall estimate of $33.076 billion represents an increase of $3.551 billion over their estimates of FY 2009 (including increases).

TABLE 2: GOMB FY 2010 vs. FY 2009 ESTIMATE
(millions)

Revenue Sources	GOMB FY 2010 Estimate Mar-09	GOMB FY 2009 Estimate Mar-09	$ Difference	% Difference
State Taxes				
Personal Income Tax	$10,200	$10,434	($234)	-2.2%
Corporate Income Tax	$1,373	$1,757	($384)	-21.9%
Sales Taxes	$6,394	$6,674	($280)	-4.2%
Public Utility (regular)	$1,150	$1,159	($9)	-0.8%
Cigarette Tax	$350	$350	$0	0.0%
Liquor Gallonage Taxes	$161	$161	$0	0.0%
Vehicle Use Tax	$25	$26	($1)	-3.8%
Inheritance Tax (gross)	$275	$275	$0	0.0%
Insurance Taxes & Fees	$325	$325	$0	0.0%
Corporate Franchise Tax & Fees	$205	$205	$0	0.0%
Interest on State Funds & Investments	$80	$80	$0	0.0%
Cook County Intergovernmental Transfer	$240	$253	($13)	-5.1%
Other Sources	$405	$426	($21)	-4.9%
Subtotal	**$21,183**	**$22,125**	**($942)**	**-4.3%**
Transfers				
Lottery	$645	$625	$20	3.2%
Riverboat Transfers & Receipts	$478	$470	$8	1.7%
Tenth License	$50	$0	$50	N/A
Other	$480	$575	($95)	-16.5%
Total State Sources	**$22,836**	**$23,795**	**($959)**	**-4.0%**
Federal Sources	**$5,555**	**$4,700**	**$855**	**18.2%**
Total Federal & State Sources	**$28,391**	**$28,495**	**($104)**	**-0.4%**
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax [12.5% in FY'10]	($1,275)	($1,017)	($258)	25.4%
Corporate Income Tax [24.0% in FY'10]	($330)	($307)	($23)	7.5%
Subtotal General Funds	**$26,786**	**$27,171**	**($385)**	**-1.4%**
Proposed Increases to Base Revenues				
One-time Revenues				
Federal Recovery	**$1,882**	**$2,154**	**($272)**	**-12.6%**
Transfer In	**$364**	**$200**	**$164**	**82.0%**
Recurring Revenues				
Income Taxes	**$3,207**	**$0**	**$3,207**	**N/A**
Cigarette/Tobacco Product Tax	**$365**	**$0**	**$365**	**N/A**
Equity Changes	**$287**	**$0**	**$287**	**N/A**
Title and Fees	**$185**	**$0**	**$185**	**N/A**
Total Proposed Revenue Adjustments	**$6,290**	**$2,354**	**$3,936**	**167.2%**
Total General Funds	**$33,076**	**$29,525**	**$3,551**	**12.0%**

CGFA

Looking Ahead to FY 2010

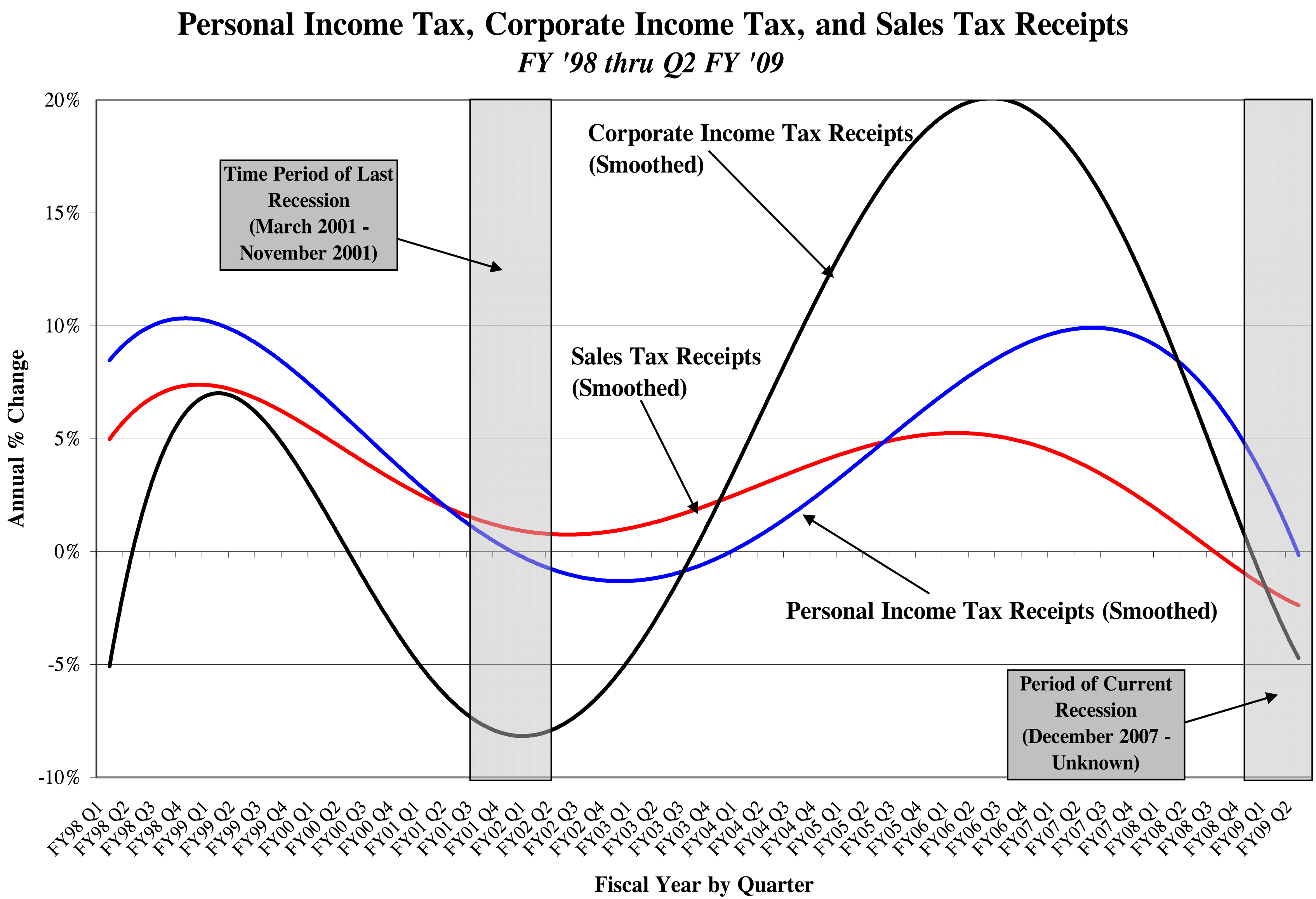
Keep Your Seatbelts Buckled—It's Going to Stay Bumpy

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

- By most measures, the 2001 recession was considered quite shallow, both in terms of depth as well as duration. And yet, Illinois revenues suffered a record two consecutive years of actual declines, falling between 3.0% in FY 2002 and another 2.5% in FY 2003.
- During the 2001 recession, non-adjusted employment fell 37 consecutive months on a month vs. same month prior-year basis. This would indicate that even if the current recession were to end sometime in early to mid-2009, the lingering effects should drift well into FY 2010. In fact, gross personal income tax suffered year over year declines through FY 2003, well after the recovery phase had begun.
- Similarly, gross corporate income tax also suffered multiple years of declines, falling on average over 17% in FY 2001 and FY 2002, and a third year drop of 3.0% in FY 2003.
- Sales tax held up somewhat better during the last slowdown, experiencing only one year of decline with FY 2001 dropping 1.1%. However, the consumer appears to be sitting this recession out. Consumer confidence is at record lows, and new car sales have plummeted. This retrenchment of the consumer cannot be expected to turn around overnight.

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

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

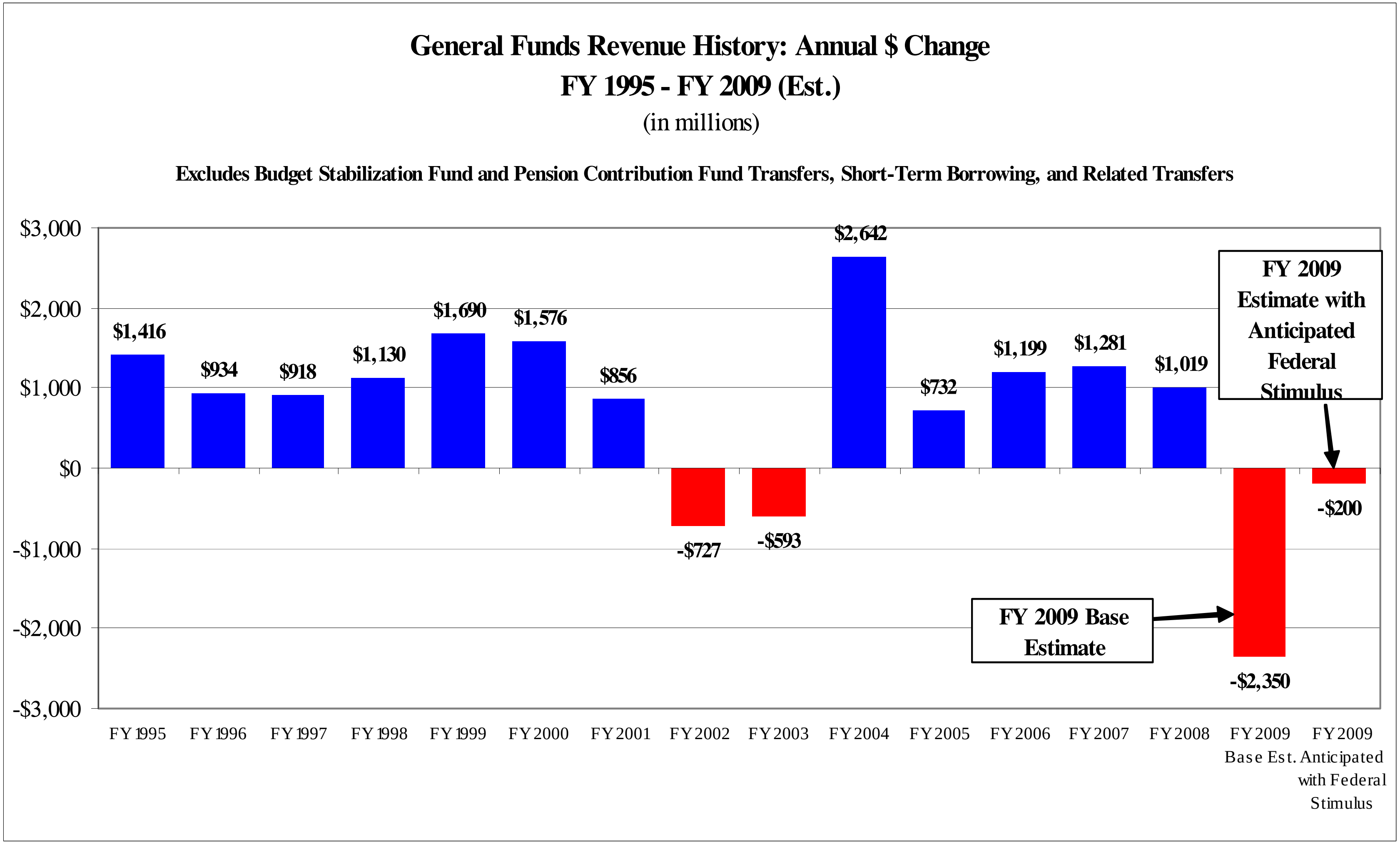


NOTE: CGFA will be releasing its revenue estimate on April 1st. While there will likely be measurable differences by revenue source, the overall base estimates are expected to be quite similar.

View of FY 2009 & FY 2010 Budget Shortfalls
$ in millions

	FY 2009		FY 2010	
	Base	With Revised Revenues	Base	With Revised Revenues
GOMB March-09 Revenue Estimate	$27,170	$29,525	$26,972	$33,076
Appropriations	$28,306	$29,803	$31,506	$28,391
less unspent approp	($500)	($600)	($500)	($500)
Net Approp Spending	$27,806	$29,203	$31,006	$27,891
Statutory Transfers Out				
approx. Pension Obligation Bond Debt Service	$469	$467	$467	$465
Continuting Pension Approp.	$381	$381	$0	$0
Proposed Reduced Pension Transfer	$0	($550)	$0	$0
Legislatively Required Transfers	$2,804	$2,744	$2,788	$2,306
Total Transfers Out	$3,654	$3,042	$3,255	$2,771
Total Operating Spending and Transfers Out	$31,460	$32,245	$34,261	$30,662
Operating Deficit (Surplus)	($4,290)	($2,720)	($7,289)	$2,414
Short-term Borrowing	$1,400	$3,650	$0	$0
Repay of Short-term Borrowing	($1,427)	($1,427)	$0	$2,318
Budget Deficit (Surplus)	($4,317)	($497)	($7,289)	$96
Budgetary Basis to Begin Year	($835)	($835)	($5,152)	($1,332)
Budget Deficit at End of Year	($5,152)	($1,332)	($12,441)	($1,236)

SOURCE: FY 2010 Budget Book


General Funds Revenue History: Annual $ Change
FY 1995 - FY 2009 (Est.)
(in millions)
Excludes Budget Stabilization Fund and Pension Contribution Fund Transfers, Short-Term Borrowing, and Related Transfers
$3,000
$2,000
$1,000
$0
-$1,000
-$2,000
-$3,000
$1,416
$934
$918
$1,130
$1,690
$1,576
$856
-$727
-$593
$2,642
$732
$1,199
$1,281
$1,019
-$2,350
-$200
FY 2009 Estimate with Anticipated Federal Stimulus
FY 2009 Base Estimate
FY 1995
FY 1996
FY 1997
FY 1998
FY 1999
FY 2000
FY 2001
FY 2002
FY 2003
FY 2004
FY 2005
FY 2006
FY 2007
FY 2008
FY 2009 Base Est.
FY 2009 Anticipated with Federal Stimulus

DETAILED GENERAL FUNDS REVENUE HISTORY FY 1999 - FY 2008

($ million)

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

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TAX INCREASE SCENARIOS

Individual Income Tax: How much would a tax increase generate?

$ in millions

Rate Increase	Tax Rate	Gross Revenue	To Refund Fund	Net Revenue	Difference from Current
Current Rate:	**3.00%**	$9,911	$1,165	$8,746	
0.25%	**3.25%**	$10,737	$1,262	$9,475	**$729**
0.375%	**3.375%**	$11,150	$1,310	$9,840	**$1,093**
0.35%	**3.50%**	$11,563	$1,359	$10,204	**$1,458**
0.75%	**3.75%**	$12,389	$1,456	$10,933	**$2,187**
1.00%	**4.00%**	$13,215	$1,553	$11,662	**$2,915**
1.25%	**4.25%**	$14,041	$1,650	$12,391	**$3,644**
1.50%	**4.50%**	$14,867	$1,747	$13,120	**$4,373**
1.75%	**4.75%**	$15,692	$1,844	$13,849	**$5,102**
2.00%	**5.00%**	$16,518	$1,941	$14,577	**$5,831**

Note: According to the Budget Book, the amount to the refund fund is estimated to be 11.75% for the proposed tax increase in FY 2010. Under current law, the rate is 9.75%. For estimating purposes, the 11.75% figure will be used here.

Corporate Income Tax: How much would a tax increase generate?

$ in millions

(Under the Illinois Constitution, the corporate income tax rate shall not exceed the individual income tax rate by more than a ratio of 8 to 5. The numbers shown below reflect this ratio.)

If Individual Income Tax Rate is...	Corporate Tax Tax Rate Can Be...	Gross Revenue	To Refund Fund	Net Revenue	Difference from Current
3.00%	**4.80%**	$1,336	$346	$990	
3.25%	**5.20%**	$1,447	$375	$1,072	**$82**
3.375%	**5.40%**	$1,503	$389	$1,114	**$124**
3.50%	**5.60%**	$1,559	$404	$1,155	**$165**
3.75%	**6.00%**	$1,670	$433	$1,237	**$247**
4.00%	**6.40%**	$1,781	$461	$1,320	**$330**
4.25%	**6.80%**	$1,893	$490	$1,402	**$412**
4.50%	**7.20%**	$2,004	$519	$1,485	**$495**
4.75%	**7.60%**	$2,115	$548	$1,567	**$577**
5.00%	**8.00%**	$2,227	$577	$1,650	**$660**

Note: According to the Budget Book, the amount to the refund fund is estimated to be 25.9% for the proposed tax increase in FY 2010. Under current law, the rate is 17.5%. For estimating purposes, the 25.9% figure will be used here.

Sales Tax: How much would a tax increase generate?

$ in millions

Rate Increase	Tax Rate	Revenue	Difference from Current
Current Rate:	**5.00%**	$6,700	
0.25%	**5.25%**	$7,035	**$335**
0.50%	**5.50%**	$7,370	**$670**
0.75%	**5.75%**	$7,705	**$1,005**
1.00%	**6.00%**	$8,040	**$1,340**
1.25%	**6.25%**	$8,375	**$1,675**
1.50%	**6.50%**	$8,710	**$2,010**
1.75%	**6.75%**	$9,045	**$2,345**
2.00%	**7.00%**	$9,380	**$2,680**

State-Funded Retirement Systems Funding Projections Based on Governor's Budget Book ($ in millions)						
Fiscal Year	TRS	SURS	SERS	GARS	JRS	Total
FY 2010 Certified						
2010	**2,087.7**	**702.5**	**1,091.5**	**10.5**	**78.8**	**3,971.0**
FY 2010 Governor's Budget Book						
2010	**747.6**	**337.6**	**391.0**	**2.8**	**37.9**	**1,516.9**
Decrease in Governor's Proposed FY 2010 Contribution from Certified Amount						
2010	**1,340.1**	**364.9**	**700.5**	**7.7**	**40.9**	**2,454.1**

ILLINOIS BONDS AT A GLANCE

($ in Millions)

	Estimated FY 2009	Estimated FY 2010	From Previous Year $ Change	From Previous Year % Change	Estimated FY 2011	From Previous Year $ Change	From Previous Year % Change
Bond Sales*							
General Obligation	$150	$1,105	$955	636.7%	$1,376	$271	24.5%
Revenue	$100	$50	-$50	-50.0%	$50	$0	0.0%
TOTAL	**$250**	**$1,155**	**$905**	**362.0%**	**$1,426**	$271	23.5%
Outstanding Principal							
General Obligation	$18,952	$19,419	$467	2.5%	$20,134	$715	3.7%
Revenue	$2,164	$2,059	-$105	-4.9%	$1,952	-$107	-5.2%
TOTAL	**$21,116**	**$21,478**	**$362**	**1.7%**	**$22,086**	$608	2.8%
Debt Service							
General Obligation	$1,705	$1,706	$1	0.1%	$1,775	$69	4.0%
Revenue	$280	$288	$8	2.9%	$286	-$2	-0.7%
TOTAL	**$1,985**	**$1,994**	**$9**	**0.5%**	**$2,061**	$67	3.4%

*** Bond Sales do not include refunding sales or Short-term borrowing. Table does not include proposed debt restructuring.**
Sources: Governor's Office of Management and Budget.

STATUS OF G.O. and STATE-ISSUED BONDS

TABLE 2: STATUS OF G.O. AND STATE-ISSUED BONDS as of February 28, 2009 (in billions)	Authorization	Un-Issued	Appropriated†	Available after appropriations
Capital Facilities	$7.320	$0.823	$7.723	-$0.403
School Construction	$3.150	$0.184	$3.100	$0.050
Anti-Pollution	$0.480	$0.024	$0.475	$0.005
Transportation A	$3.432	$0.099	$3.495	-$0.063
Transportation B	$1.882	$0.244	$1.861	$0.021
Coal & Energy Development	$0.698	$0.597	$0.209	$0.489
SUBTOTAL	**$16.962**	**$1.971**	**$16.863**	**$0.099**
Tobacco bonds	$0.750	$0.750	$0.000	$0.000
Pension bonds	$10.000	$0.000	$10.000	$0.000
TOTAL	**$27.712**	**$2.721**	**$26.863**	**$0.099**
	Limit	**Un-Issued**	**Outstanding**	**Available**
Refunding°	$2.839	$0.979	$1.860	$0.979
	Authorization	**Un-Issued**	**Appropriated†**	**Available after appropriations**
Build Illinois	$3.806	$0.422	$4.090	-$0.284
	Limit	**Un-Issued**	**Outstanding**	**Available**
Build IL Refunding	Unlimited	Unlimited	$0.648	Unlimited
	Authorization	**Un-Issued**	**Outstanding**	**Available**
Civic Center	0.32	0.148	$0.052	0.148
	Limit	**Un-Issued**	**Outstanding**	**Available**
Civic Center Refunding	Unlimited	Unlimited	$0.048	Unlimited
Source: Illinois Office of the Comptroller, "Recap of General and Special Obligation Bonded				

†Includes cumulative expenditures for prior years up through FY 2008 plus FY 2009 appropriations and reappropriations.

*Only $6 million of the School Construction Fund "available" is for the $3.05 billion School Infrastructure Program, while bond premium amounts can be used for this program.

°Refunding is limited only by how much is outstanding at one time. As principal amounts are paid off, those amounts become available for future refundings.

Excludes Bond issue premiums.

$26 billion multi-year capital program

Federal Funding Leveraged

- $11.557 billion Federal Funding
- $1.995 billion in Federal Stimulus Dollars

Local Funding Match

- $1.6 billion for School Construction
- $725 million for the Multi-year Road Program
- $50 million for Environmental-Energy-Technology

State Funding of approximately $10.6 billion with bonding and Pay-As-You-Go

State Funding for Illinois Jobs Now!

Transportation A-- bonds would be sold for road and bridge projects. Bonds would be paid off with

$20 increase in Motor Vehicle Registrations	$180 million	
$10 increase in Driver's License Fees	$20 million	
Road Fund Revenues	$150 million	
TOTAL for Debt Service	$350 million	
Plan to Sell $3 billion in bonds	w/ debt service	$285 million

Transportation B-- bonds sold for statewide transit projects and paid by

$40 increase in Certificate of Title Fees	$110 million	
$15 increase in Transfer of Registration	$10 million	
TOTAL for Debt Service	$120 million	
Plan to Sell $1.5 billion in bonds	w/ debt service	$143 million

Remaining G.O. Bonds for School Construction, Higher Education Construction, Economic Development and Environmental/Conservation projects would be paid from

10% of increase in Individual Income Tax	$280 million	
10% of increase in Corporate Income Tax	$35 million	
TOTAL for Debt Service	$315 million	
Plan to Sell $4.2 billion in bonds	w/ debt service	$399 million

The amount of bonds for new capital projects would be sold over several years from 2010 to 2020. Because G.O. bonds are sold with level principal payments debt service payments decrease over the life of the bond. This allows room in debt service payments to sell remaining bonds later in the schedule. Debt service calculations are based on a conservative 5.5% interest rate.

FY 2010 APPROPRIATIONS

TABLE 1: FY 2010 CAPITAL PLAN REQUESTED APPROPRIATIONS ($ in Millions)			
FUND TYPE	**NEW APPROPRIATIONS**	**REAPPROPRIATIONS**	**TOTAL**
Bond	$4,520,000,000	$2,840,914,952	**$7,360,914,952**
Illinois Jobs Now!	$4,177,733,618	$0	**$4,177,733,618**
Revenue	$2,109,577,200	$6,005,928,755	**$8,115,505,955**
Federal/Trust	$160,625,000	$639,676,928	**$800,301,928**
TOTAL	**$10,967,935,818**	**$9,486,520,635**	**$20,454,456,453**

The FY 2010 Capital Budget Request Includes:

- New Appropriations of $10.9 billion
- Reappropriations of $9.5 billion
- Totaling approximately $20.5 billion

FY 2010 NEW APPROPRIATIONS BY PROJECT AREA

FY 2010 BREAKDOWN OF NEW APPROPRIATIONS BY PROJECT AREA	
Road and Bridge Projects	$4.7 billion
New School Construction Program & Maintenance	$1.6 billion
Transit and Rail Projects	$1.5 billion
Environmental/Energy/Technology Projects	$930 million
Higher Education	$921 million
Economic Development	$888 million
State Facilities	$252 million
Aviation Projects	$137 million