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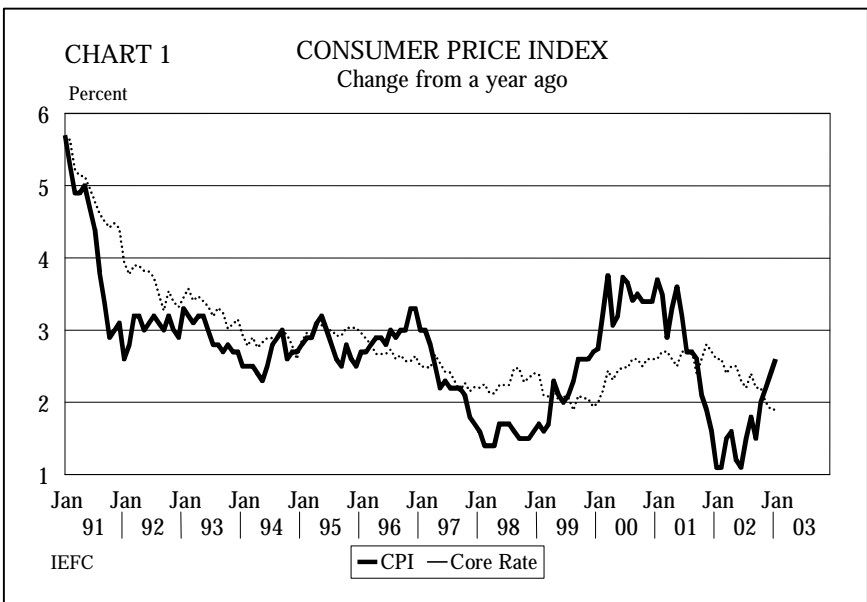
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ECONOMY: Opposing Forces Resulting in Economic Hesitation Edward H. Boss, Jr., Chief Economist

The economy continues to plod along at a slow pace, up a revised 1.4% annual rate of growth last quarter. Recent data show some improvement in the business sector with strong data on new orders for durable goods, a continued, albeit somewhat slower, expansion in manufacturing as indicated by the Chicago Purchasing Manager's Index, and stimulative monetary and fiscal policies as measured by money supply growth and increased government spending. At the same time, uncertainties over the near-term prospects for war with Iraq, plunging consumer confidence, and soaring oil prices have been largely offsetting negative factors.

The rise in oil prices, currently approaching \$40 a barrel, if sustained could be a severe deterrent to further economic growth. Not only do higher gasoline and home heating prices drain income from consumers, acting similar to a major tax increase, but with weak demand businesses will be unable to pass along the higher costs which will eat into already strained corporate profits.

As shown in Chart 1, consumer prices have been on the rise in recent months with prices in January up 2.6% from a year earlier.



This is a full one percent higher than the 1.6% increase registered during calendar 2001. The major difference between the two years was energy prices. In 2001, energy prices declined by 13% while they have risen by 14.1% in the 12-months ended in January. To date the rise in energy costs has yet to impact the core inflation rate, that is overall price increases excluding the volatile food and energy sectors. This sector had been under downward pressure before stabilizing last month. It could be just a matter of time, however, before continued high energy prices, which account for 6.2% of the total price index, are reflected in the core rate.

It also should be pointed out that it is the overall consumer price index, not the core rate, which is used in many labor contracts to establish cost-of-living wage

increases, not to mention the determination of yearly increases in social security benefits. Thus, while overall inflation rates remain tame, there is the potential at least for somewhat higher price gains in the future than have been seen over the past year. Ironically, higher prices can be beneficial in the short run to State revenues in terms of sales taxes collected, although in the long term it will eventually show up in higher costs to the State as well.

In summary, the economy appears to be in limbo, awaiting the resolution of the Iraq conflict and spill over affects on such items as energy prices. Until the picture becomes clearer, the pace of economic activity is likely to remain at a pace inconsistent with substantial growth in employment and spending. As a result, State revenues are likely to continue to disappoint.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY			
<u>INDICATORS</u>	<u>January 2003</u>	<u>December 2002</u>	<u>January 2002</u>
Unemployment Rate (Average)	N/A	6.4%	5.9%
Annual Rate of Inflation (Chicago)	2.0%	-5.2%	2.7%
—————			
	<u>LATEST</u>	<u>% CHANGE</u>	<u>% CHANGE</u>
	<u>MONTH</u>	<u>OVER PRIOR</u>	<u>OVER A</u>
		<u>MONTH</u>	<u>YEAR AGO</u>
Civilian Labor Force (thousands) (January)	(State Employment Report not due out until March 4, 2003)		
Employment (thousands) (January)			
New Car & Truck Registration (January)	53,821	17.0%	9.0%
Single Family Housing Permits (January)	2,177	-20.8%	-5.6%
Total Exports (\$ mil) (December)	2,756	-10.0%	3.0%
Chicago Purchasing Managers Index (February)	54.9	-2.0%	3.4%

REVENUE

Revenues Post Slight Gain

Jim Muschinske, Revenue Manager

General funds revenues managed to record a slight increase for the month of February, as receipts rose \$10 million in comparison to last year. Revenue performances were mixed, with some sources enjoying a good month while others continuing to sputter. February had the same number of receipting days as the previous year.

The Cook County Intergovernmental Transfer was up \$44 million for the month, reflecting the timing of receipts of the most recent transfer agreement. Gross personal income tax posted a decent gain as receipts rose \$38 million (\$33 million net of refunds). Other sources added \$10 million to the monthly advance, while insurance taxes contributed \$2 million.

Despite a good month for personal income tax, the other major revenue sources continued to demonstrate weakness. Sales tax revenues fell \$23 million for the month, indicating that the consumer's ability to keep holding up the economy is being tested. Gross corporate income taxes fell \$12 million (\$10 million net of refunds) and inheritance tax revenues were off by \$9 million. Public utility tax receipts were down \$8 million for the month as the telecommunication tax component continued weak. Finally, interest income was down by \$4 million reflecting the continued low rates of return.

Overall transfers to the general funds were down \$3 million as a \$5 million increase in Lottery transfers was offset by a \$5 million drop in Gaming Fund transfers and a \$3 million dip in other transfers. Federal sources suffered a \$22 million decline in February.

Year to Date

Through the first two-thirds of the fiscal year, overall general revenue receipts, (excluding short-term borrowing and Budget Stabilization Fund transfers) are up \$86 million or 0.6%. However, even that very modest growth is not truly representative of this year's revenue performance as it includes approximately \$249 million in one-time interfund and tobacco settlement monies. Absent those items, revenues actually would be down approximately \$163 million, reflecting the continued weak economic activity and uncertainty that prevails.

Most of the sources of general funds revenue continue below the same period of a year ago, particularly those sources most closely tied to the economy. Gross corporate income tax revenues are down \$55 million (\$60 million net of refunds) while gross personal income taxes are off \$39 million (\$56 million net of refunds). Public utility tax and interest income each have suffered \$56 million declines. Inheritance tax revenues have given up \$54 million for the year while all other decliners have added an additional \$19 million to the fall.

Relatively few sources have experienced yearly gains thus far in FY 2003. Other sources are up \$110 million for the year, however, approximately \$88 million of that gain is attributed to tobacco settlement monies freed up from a long-term court battle. The Cook County intergovernmental transfer is up \$65 million due to changes in the agreement. Insurance taxes and fees have performed well for most of the year and are up \$20 million thus far, while liquor has managed to contribute a modest \$2 million gain.

Overall transfers are up \$296 million thus far through FY 2003. Gaming Fund transfers are up \$84 million which reflects the restructured gaming taxes and fees, while Lottery transfers are up \$4 million. Other

transfers are \$208 million higher primarily as a result of a \$161 million in one time interfund transfers executed so far this fiscal year. Federal sources, as expected, are down for the year, off \$67 million through February.

In order to reach the Commission's latest estimate that was calculated in November 2002, overall receipts must grow 3.7% over the remainder of the fiscal year. As indicated in last month's revenue briefing, growth of that magnitude is not likely given the current clouds of economic and geopolitical uncertainty. Add to that the recent spike in energy prices, and it appears almost certain that any measurable revenue gains associated with the anemic recovery are still some time off. As a result, the Commission will be presenting a revised revenue forecast on March 20th.

GENERAL FUNDS RECEIPTS: FEBRUARY

FY 2003 vs. FY 2002
(\$ million)

Revenue Sources	FEB. FY 2003	FEB. FY 2002	\$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	\$616	\$578	\$38	6.6%
Corporate Income Tax (regular)	6	18	(\$12)	-66.7%
Sales Taxes	404	427	(\$23)	-5.4%
Public Utility Taxes (regular)	72	80	(\$8)	-10.0%
Cigarette Tax	33	33	\$0	0.0%
Liquor Gallonage Taxes	8	8	\$0	0.0%
Vehicle Use Tax	2	2	\$0	0.0%
Inheritance Tax (Gross)	15	24	(\$9)	-37.5%
Insurance Taxes and Fees	6	4	\$2	50.0%
Corporate Franchise Tax & Fees	10	10	\$0	0.0%
Interest on State Funds & Investments	5	9	(\$4)	-44.4%
Cook County IGT	44	0	\$44	N/A
Other Sources	15	5	\$10	200.0%
Subtotal	\$1,236	\$1,198	\$38	3.2%
Transfers				
Lottery	48	43	\$5	11.6%
Gaming Fund Transfer	20	25	(\$5)	-20.0%
Other	7	10	(\$3)	-30.0%
Total State Sources	\$1,311	\$1,276	\$35	2.7%
Federal Sources	\$265	\$287	(\$22)	-7.7%
Total Federal & State Sources	\$1,576	\$1,563	\$13	0.8%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$49)	(\$44)	(\$5)	11.4%
Corporate Income Tax	(2)	(4)	\$2	-50.0%
Subtotal General Funds	\$1,525	\$1,515	\$10	0.7%
Short-Term Borrowing	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$0	\$0	\$0	N/A
Total General Funds	\$1,525	\$1,515	\$10	0.7%

IEFC SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding

4-Mar-03

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2003 vs. FY 2002

(\$ million)

Revenue Sources	FY 2003	FY 2002	CHANGE FROM FY 2002	% CHANGE
State Taxes				
Personal Income Tax	\$5,064	\$5,103	(\$39)	-0.8%
Corporate Income Tax (regular)	437	492	(\$55)	-11.2%
Sales Taxes	4,064	4,103	(\$39)	-1.0%
Public Utility Taxes (regular)	652	708	(\$56)	-7.9%
Cigarette Tax	266	266	\$0	0.0%
Liquor Gallonage Taxes	86	84	\$2	2.4%
Vehicle Use Tax	22	24	(\$2)	-8.3%
Inheritance Tax (Gross)	175	229	(\$54)	-23.6%
Insurance Taxes and Fees	139	119	\$20	16.8%
Corporate Franchise Tax & Fees	91	108	(\$17)	-15.7%
Interest on State Funds & Investments	47	103	(\$56)	-54.4%
Cook County IGT	219	154	\$65	42.2%
Other Sources	233	123	\$110	89.4%
Subtotal	\$11,495	\$11,616	(\$121)	-1.0%
Transfers				
Lottery	335	331	\$4	1.2%
Gaming Fund Transfer	399	315	\$84	26.7%
Other	398	190	\$208	109.5%
Total State Sources	\$12,627	\$12,452	\$175	1.4%
Federal Sources	\$2,531	\$2,598	(\$67)	-2.6%
Total Federal & State Sources	\$15,158	\$15,050	\$108	0.7%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$405)	(\$388)	(\$17)	4.4%
Corporate Income Tax	(118)	(113)	(\$5)	4.4%
Subtotal General Funds	\$14,635	\$14,549	\$86	0.6%
Short-Term Borrowing	\$700	\$0	\$700	N/A
Budget Stabilization Fund Transfer	\$226	\$226	\$0	N/A
Total General Funds	\$15,561	\$14,775	\$786	5.3%

SOURCE: Office of the Comptroller, State of Illinois: Some totals may not equal, due to rounding.

IEFC

3-Mar-03

GENERAL FUNDS GROWTH NEEDED TO MEET ESTIMATE

FY 2003 ESTIMATE vs. FY 2002 ACTUAL

(\$ million)

Revenue Sources	Nov-02 ESTIMATE FY 2003	FYTD 2003	AMOUNT NEEDED FY 2003 EST.	FYTD 2002	GROWTH NEEDED	% CHANGE
State Taxes						
Personal Income Tax	\$8,245	\$5,064	\$3,181	\$5,103	\$198	6.6%
Corporate Income Tax (regular)	1,075	437	\$638	492	\$87	15.8%
Sales Taxes	6,275	4,064	\$2,211	4,103	\$263	13.5%
Public Utility Taxes (regular)	1,130	652	\$478	708	\$82	20.7%
Cigarette Tax	400	266	\$134	266	\$0	0.0%
Liquor Gallonage Taxes	125	86	\$39	84	\$1	2.6%
Vehicle Use Tax	39	22	\$17	24	\$3	21.4%
Inheritance Tax (Gross)	270	175	\$95	229	(\$5)	-5.0%
Insurance Taxes and Fees	280	139	\$141	119	(\$12)	-7.8%
Corporate Franchise Tax & Fees	164	91	\$73	108	\$22	43.1%
Interest on State Funds & Investments	90	47	\$43	103	\$10	30.3%
Cook County IGT	395	219	\$176	154	\$85	93.4%
Other Sources	320	233	\$87	123	(\$302)	-77.6%
Subtotal	\$18,808	\$11,495	\$7,313	\$11,616	\$432	6.3%
Transfers						
Lottery	585	335	\$250	331	\$26	11.6%
Gaming Fund Transfer	625	399	\$226	315	\$71	45.8%
Other	650	398	\$252	190	(\$11)	-4.2%
Total State Sources	\$20,668	\$12,627	\$8,041	\$12,452	\$518	6.9%
Federal Sources	\$4,075	\$2,531	\$1,544	\$2,598	(\$116)	-7.0%
Total Federal & State Sources	\$24,743	\$15,158	\$9,585	\$15,050	\$402	4.4%
Nongeneral Funds Distribution:						
Refund Fund						
Personal Income Tax	(\$660)	(\$405)	(\$255)	(\$388)	(\$28)	12.3%
Corporate Income Tax	(290)	(118)	(\$172)	(113)	(\$45)	35.4%
Subtotal General Funds	\$23,793	\$14,635	\$9,158	\$14,549	\$329	3.7%
Short-Term Borrowing	\$700	\$700	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$226	\$226	\$0	\$226	\$0	N/A
Total General Funds	\$24,719	\$15,561	\$9,158	\$14,775	\$329	3.7%
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