



Commission on Government Forecasting and Accountability (CGFA)

MONTHLY BRIEFING

MARCH 2005

http://www.ilga.gov/commission/cgfa/cgfa_home.html

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ECONOMY: Inflation and Interest Rates Rise – Illinois Unemployment Rate Revised

Edward H. Boss, Jr., Chief Economist

Consumer prices on a seasonally adjusted basis rose 0.4% in February, following a 0.1% increase in January, with a sharp increase in energy prices accounting for almost all of the acceleration. Prices now stand 3% above those of a year earlier with the energy component up a sharp 10.4%. Even while attention centers on rising energy prices, particularly as oil rises to new highs and gasoline prices surge, the core inflation rate, which excludes the volatile food and energy sector, now stands 2.4% above a year ago and has been on a rather consistent up trend (See Chart 1). To get a higher level for core inflation one would have to go back to May of 2002. Concern over underlying price pressures has not been lost on the Federal Reserve. The day before the CPI release

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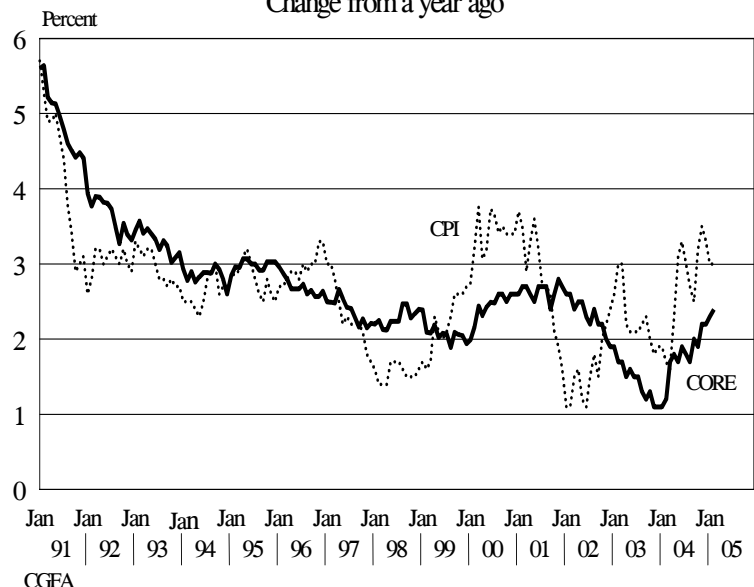
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703 Stratton Ofc. Bldg.
Springfield, IL 62706

CHART 1 CONSUMER PRICE INDEX
Change from a year ago



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was made public, the Federal Open Market Committee (FOMC) met and raised key monetary policy rates by one-quarter-percentage point for the seventh time since last June. In its statement, once again the Committee stated that policy accommodation can be removed at a pace that is likely to be measured. However, unlike its statement in each of the previous three meetings that stated, "Inflation and longer-term inflation expectations remain well contained," the language was changed in March. This time the statement read, "Though longer-term inflation expectations remain well contained, pressures on inflation have picked up in recent months and pricing power is more evident. The rise in energy prices, however, has not *notably* fed through to core consumer prices."

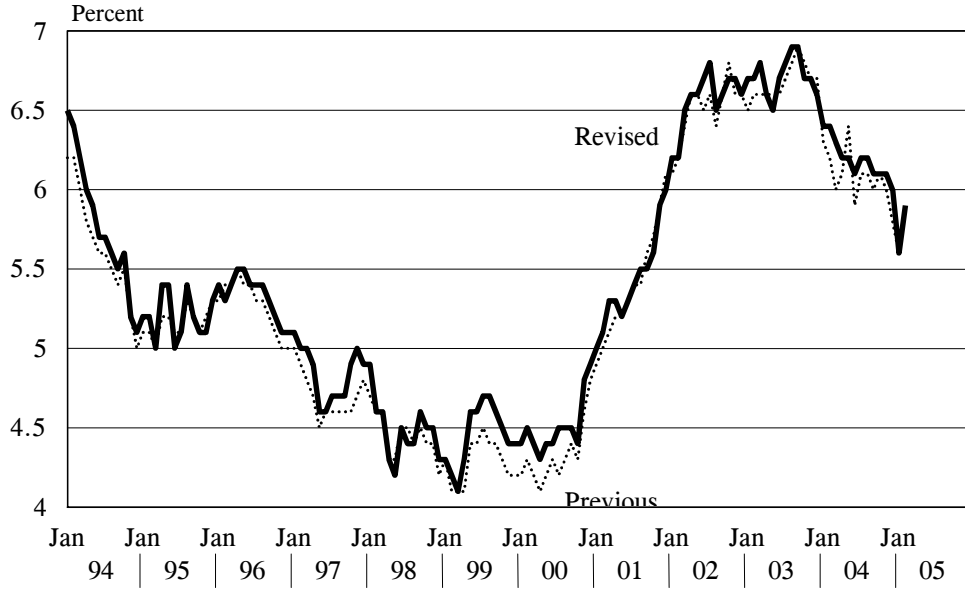
At Open Market Committee meetings held last November, December and February the wording of the FOMC statement on the economy was "output appears to be growing at a moderate pace" while in March this was changed to "output evidently continues to grow at a solid pace". Similarly, the wording on inflation changed from "with underlying inflation expected to be relatively low" to "with inflation expected to be contained". The rise in prices and subtle change in the Open Market Committee's directive, have raised speculation not only of further key monetary policy rate increases, but at a faster pace and to higher levels. Common wisdom has been that the key federal funds rate, which has been raised in seven quarter-point increments

since last June from 1% to 2¾%, would level off after a few more quarter-point increases at the 3½% to 4% level. Some are now raising the possibility of one or more half-point raises, and to a level approaching 5% by year-end. The outcome eventually will depend upon the Federal Reserve's determination of the strength in the economy and on the performance of prices.

Finally, it is interesting to note the recent release of updated unemployment statistics for Illinois. This is the result of improved statistical models and methods including 2000 Census data. As result, revisions in the State unemployment rate back into the 1970s have become available. Chart 2 shows both the unemployment rate for Illinois, as previously reported, together with the revised rate. It is clear from the chart that the new data show an unemployment rate that has been somewhat higher over time than previously reported. This also implies that the gap between the State and national unemployment rates has been a bit larger on average in recent years. The State has held at a higher unemployment rate than the nation since early 1999 (See Chart 3). Both, however, have come down substantially since the fall of 2003 as the economy improved and jobs were created. In February, the national unemployment rate rose to 5.4% from 5.2% in the prior month, although recently-released data show a decline back to the 5.2% level in March, while Illinois' unemployment rate rose to 5.9% in February from 5.6%.

CHART 2

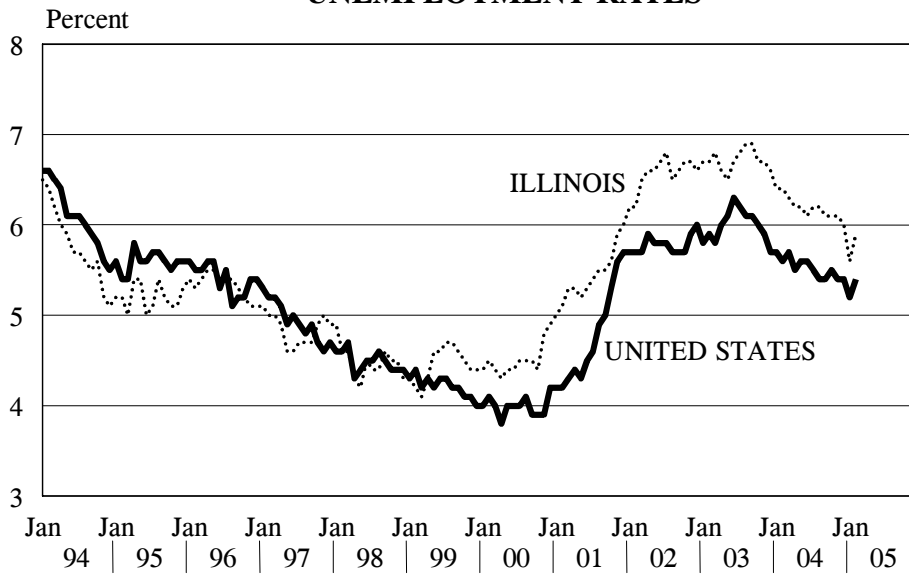
ILLINOIS' UNEMPLOYMENT RATES



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CHART 3

UNEMPLOYMENT RATES



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INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

<u>INDICATORS</u>	<u>FEB. 2005</u>	<u>JAN. 2005</u>	<u>FEB. 2004</u>
Unemployment Rate (Average)	5.9%	5.6%	6.4%
Annual Rate of Inflation (Chicago)	3.8%	1.7%	2.2%
<hr style="border: 2px solid black;"/>			
	<u>LATEST</u> <u>MONTH</u>	<u>% CHANGE</u> <u>OVER PRIOR</u> <u>MONTH</u>	<u>% CHANGE</u> <u>OVER A</u> <u>YEAR AGO</u>
Civilian Labor Force (thousands) (February)	6,467	0.1%	1.3%
Employment (thousands) (February)	6,083	-0.2%	1.8%
New Car & Truck Registration (February)	37,726	-22.2%	-7.1%
Single Family Housing Permits (February)	2,705	-7.5%	-3.1%
Total Exports (\$ mil) (January)	2,512	-7.4%	15.3%
Chicago Purchasing Managers Index (March)	69.2	10.4%	20.1%

**Year to Date FY 2005
Special Transfers
Lynnae Kapp, Bond Analyst**

In March, the Comptroller transferred \$78.2 million of controversial chargebacks to the General Revenue Fund. These are the chargebacks that were disputed by the Office of the

Treasurer. At this time the Treasurer's Office is awaiting the decision of the courts and will not release these funds. Including these transfers, chargebacks equal \$129.8 million, fund sweeps remain at approximately \$253.1 million, which makes the total special transfers year-to-date approximately \$382.9 million.

March 2005 Chargebacks		
FUND #	FUND NAME	
0014	Food & Drug Safety Fund	\$93,400
0018	Transportation Regulatory Fund	\$571,650
0021	Financial Institution Fund	\$690,800
0022	General Professions Dedicated Fund	\$727,900
0024	IL Dept. of Agriculture Laboratory Services Fund	\$61,500
0031	Drivers Education	\$1,200,000
0036	IL Veterans' Rehabilitation	\$340,200
0040	State Parks	\$758,800
0050	Mental Health Fund	\$263,700
0057	IL State Pharmacy Disciplinary Fund	\$135,100
0078	Solid Waste Management	\$2,208,400
0085	IL Gaming Law Enforcement	\$312,000
0093	IL State Medical Disciplinary Fund	\$868,200
0094	DCFS Training Fund	\$1,089,600
0128	Youth Alcohol & Substance Abuse Prevention Fund	\$57,496
0136	University of Illinois Hospital Services Fund	\$2,169,658
0137	Plugging & Restoration Fund	\$50,900
0156	Motor Vehicle Theft Prevention Fund	\$501,400
0163	Weights and Measures	\$271,400
0184	Violence Prevention Fund	\$91,700
0220	DCFS Children's Services Fund	\$13,003,500
0240	Emergency Public Health Fund	\$134,000
0245	Fair & Exposition Fund	\$133,000
0258	Nurse Dedicated & Professional Fund	\$214,600
0265	State Rail Freight Loan Repayment Fund	\$278,600
0276	Drunk & Drugged Driving Prevention Fund	\$119,800
0285	Long-Term Care Monitor/Receiver Fund	\$64,400
0298	Natural Areas Acquisition Fund	\$942,900
0299	Open Space Lands Acquisition and Development	\$2,304,500
0301	Working Capital Revolving Fund	\$500,000
0312	Communications Revolving Fund	\$5,000,000
0340	Public Health Services Revolving Fund	\$52,300
0341	Provider Inquiry Trust Fund	\$58,334
0344	Care Providers for Persons w/ Developmental Disabilities	\$3,176,000
0360	Lead Poisoning, Screening, Prevention & Abatement Fund	\$219,800
0369	Feed Control Fund	\$80,000
0372	Plumbing Licensure & Program Fund	\$108,900
0378	Insurance Premium Tax Refund Fund	\$156,800

March 2005 Chargebacks		
FUND #	FUND NAME	
0384	Tax Compliance & Administration Fund	\$133,100
0397	Trauma Center Fund	\$1,169,463
0421	Public Aid Recoveries Trust	\$8,432,287
0422	Alternative Fuels Fund	\$122,900
0431	Second Injury Fund	\$92,019
0502	Early Intervention Services Revolving Fund	\$3,144,200
0514	State Asset Forfeiture Fund	\$110,600
0546	Public Pension Regulation Fund	\$100,373
0571	Energy Efficiency Trust Fund	\$237,300
0621	International Tourism Fund	\$567,100
0635	Death Certificate Surcharge Fund	\$134,756
0637	State Police Wireless Service Fund	\$107,400
0642	DHS State Projects Fund	\$105,712
0648	Downstate Public Transportation	\$4,254,000
0649	Motor Carrier Safety Inspection	\$127,000
0664	Student Loan Operation Fund	\$3,123,718
0705	State Police Whistleblower Reward & Protection Fund	\$65,600
0708	IL Standardbred Breeders Fund	\$134,700
0709	IL Thoroughbred Breeders Fund	\$192,600
0720	Family Care Fund	\$164,964
0731	Illinois Clean Water Fund	\$1,495,100
0763	Tourism Promotion	\$3,029,400
0771	Digital Divide Elimination Infrastructure Fund	\$400,000
0808	Medical Special Purpose Trust Fund	\$558,406
0823	IL State Dental Disciplinary Fund	\$235,500
0850	Real Estate License Administration	\$592,700
0863	Cylce Rider Safety Training Fund	\$279,900
0884	DNR Special Projects Fund	\$189,900
0888	Design Professionals Administration & Investigation Fund	\$72,400
0896	Public Health State Projects	\$292,200
0903	State Surplus Property Revolving Fund	\$254,008
0905	IL Forestry Development Fund	\$209,200
0906	State Police Services	\$1,599,600
0921	DHS Recoveries Trust	\$1,019,600
0922	Insurance Producer Administration	\$1,548,900
0954	Illinois State Podiatric Disciplinary Fund	\$50,130
0962	Park & Conservation Fund	\$2,185,438
0973	Build Illinois Capital Revolving Loan Fund	\$388,189
0993	Public Infrastructure Construction Loan Fund	\$77,800
0997	Insurance Financial Regulation Fund	\$2,234,200
	TOTAL	\$78,243,601

REVENUE

March Revenues Up Across the Board Jim Muschinske, Revenue Manager

Monthly revenues, excluding short-term borrowing and borrowing related transfers, rose by \$425 million in March. Virtually all of the major revenue sources experienced gains for the month, transfers were higher, and federal sources surged. In March, the State borrowed \$765 million short-term as the mechanism to begin the Hospital Assessment Program (see February 2005 monthly briefing for detailed discussion). Another purpose of that borrowing was to provide a temporary improvement in cashflow to allow for increased spending on Medicaid bills (which resulted in higher federal sources).

Of the non-transfer tax sources, gross personal income taxes generated gains of \$87 million, or \$89 million net of refunds, while gross corporate income tax receipts increased by \$58 million, or \$65 million net of refunds. Sales tax receipts outpaced the same month of last year by \$41 million. Inheritance tax receipts had yet another good month and rose by \$15 million. Other sources added \$6 million to the monthly gain, liquor taxes \$3 million, interest income \$2 million, public utility taxes \$1 million and corporate franchise taxes \$1 million. Only insurance taxes and fees suffered a monthly decline with receipts off \$21 million.

Overall transfers (excluding those related to the short-term borrowing) gained \$70 million. Other

transfers grew by \$53 million as the result of \$78 million in Administrative fund chargebacks. Riverboat transfers and direct receipts added \$15 million while lottery transfers managed a \$2 million improvement. Federal sources grew by \$153 million in part due to spending made possible by the short-term borrowing executed in March.

Essentially, \$765 million in short-term borrowing proceeds were deposited into the General Fund and then subsequently transferred to the Hospital Provider Fund to be spent on Medicaid bills. Federal reimbursement from that spending as well as subsequent monies from hospital assessment fees and federal reimbursement allowed \$762 million to be transferred back to the General Fund. After all of the scheduled transfers into and out of the GRF related to the short-term borrowing, it is estimated that net transfers will equal \$14 million. It is reported that there will be a cumulative net benefit of approximately \$143 million to the State, of which, \$20 million is allocated to the Developmentally Disabled Providers, \$30 million allocated to the Long Term Nursing Care providers, and \$93 million allocated to normal DPA Medicaid obligations funded by GRF and other sources.

Based on information provided from the Comptroller's Office, as of April 1, 2005 \$674 million in bills are awaiting payment, of which \$56 million are Medicaid bills. The dramatic improvement in the backlog was the result of the short-term borrowing and

should be viewed as a temporary improvement. March ended with a general funds balance of \$303 million, of which the General Revenue Fund represented \$111 million (the remaining balance of \$192 million was comprised of education funds).

Year to Date

Through the first three-quarters of the fiscal year, excluding Budget Stabilization Fund and Pension Contribution Fund transfers and short-term borrowing and related transfers, receipts are up \$610 million. With few exceptions, virtually all revenue sources have experienced gains over the same period of last year.

Gross personal income tax contributed the most to this year's gain with receipts up \$317 million, or \$377 million net of refunds. Sales tax revenue continues to perform well and added \$181 million in new revenues. Inheritance tax continues to generate large monthly gains and is up \$80 million for the year. Other sources contributed \$75 million in gains and cigarette taxes added \$50 million due to a temporary distribution change. All other sources that experienced gains added an additional \$54 million.

While gross corporate income tax receipts are down by \$17 million, due to lower refund percentages, net receipts are actually up \$61 million. Due to apparent timing issues, insurance taxes and fees are down by \$3 million while vehicle use tax is off by \$2 million. Finally, public utility tax has experienced a \$1 million decline through the first nine months of the fiscal year.

Overall transfers (excluding those related to the recent short-term borrowing) are down \$28 million. While riverboat transfers and direct receipts are up \$30 million and lottery transfers ahead by \$21 million, those gains are offset by a \$79 million decline in all other transfers. Federal related sources are down by \$234 million through March.

As mentioned earlier, in March the State entered into \$765 million in short-term borrowing. While that amount was subsequently moved to the Hospital Provider Fund, \$762 million was transferred back to the General Fund as a result of the hospital assessment program and cashflow mechanics. While that money was used to ease current cashflow difficulties, improvement will only be temporary, as the short-term borrowing must be paid off by the end of the fiscal year.

GENERAL FUNDS RECEIPTS: MARCH

FY 2005 vs. FY 2004
(\$ million)

<u>Revenue Sources</u>	<u>MARCH FY 2005</u>	<u>MARCH FY 2004</u>	<u>\$ CHANGE</u>	<u>% CHANGE</u>
State Taxes				
Personal Income Tax	\$716	\$629	\$87	13.8%
Corporate Income Tax (regular)	314	256	\$58	22.7%
Sales Taxes	554	513	\$41	8.0%
Public Utility Taxes (regular)	130	129	\$1	0.8%
Cigarette Tax	33	33	\$0	0.0%
Liquor Gallonage Taxes	12	9	\$3	33.3%
Vehicle Use Tax	3	3	\$0	0.0%
Inheritance Tax (Gross)	32	17	\$15	88.2%
Insurance Taxes and Fees	39	60	(\$21)	-35.0%
Corporate Franchise Tax & Fees	17	16	\$1	6.3%
Interest on State Funds & Investments	7	5	\$2	40.0%
Cook County IGT	23	23	\$0	0.0%
Other Sources	38	32	\$6	18.8%
Subtotal	\$1,918	\$1,725	\$193	11.2%
Transfers				
Lottery	70	68	\$2	2.9%
Riverboat transfers & receipts	57	42	\$15	35.7%
Other	125	72	\$53	73.6%
Total State Sources	\$2,170	\$1,907	\$263	13.8%
Federal Sources	\$554	\$401	\$153	38.2%
Total Federal & State Sources	\$2,724	\$2,308	\$416	18.0%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$72)	(\$74)	\$2	-2.7%
Corporate Income Tax	(\$75)	(82)	\$7	-8.5%
Subtotal General Funds	\$2,577	\$2,152	\$425	19.7%
Short-Term Borrowing	\$765	\$0	\$765	N/A
Hospital Provider Fund Transfer	\$762	\$0	\$762	N/A
Budget Stabilization Fund Transfer	\$0	\$0	\$0	N/A
Pension Contribution Fund Transfer	\$0	\$131	(\$131)	N/A
Total General Funds	\$4,104	\$2,283	\$1,821	79.8%

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

5-Apr-05

GENERAL FUNDS RECEIPTS: YEAR TO DATE
FY 2005 vs. FY 2004
(\$ million)

Revenue Sources	FY 2005	FY 2004	CHANGE FROM FY 2004	% CHANGE
State Taxes				
Personal Income Tax	\$6,082	\$5,765	\$317	5.5%
Corporate Income Tax (regular)	937	954	(\$17)	-1.8%
Sales Taxes	4,923	4,742	\$181	3.8%
Public Utility Taxes (regular)	805	806	(\$1)	-0.1%
Cigarette Tax	350	300	\$50	16.7%
Liquor Gallonage Taxes	111	94	\$17	18.1%
Vehicle Use Tax	24	26	(\$2)	-7.7%
Inheritance Tax (Gross)	232	152	\$80	52.6%
Insurance Taxes and Fees	225	228	(\$3)	-1.3%
Corporate Franchise Tax & Fees	133	120	\$13	10.8%
Interest on State Funds & Investments	47	42	\$5	11.9%
Cook County IGT	299	280	\$19	6.8%
Other Sources	297	222	\$75	33.8%
Subtotal	\$14,465	\$13,731	\$734	5.3%
Transfers				
Lottery	438	417	\$21	5.0%
Riverboat transfers & receipts	523	493	\$30	6.1%
Other	585	664	(\$79)	-11.9%
Total State Sources	\$16,011	\$15,305	\$706	4.6%
Federal Sources (incl. \$434m MPRF transfer)	\$3,774	\$4,008	(\$234)	-5.8%
Total Federal & State Sources	\$19,785	\$19,313	\$472	2.4%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$615)	(\$675)	\$60	-8.9%
Corporate Income Tax	(\$229)	(\$307)	\$78	-25.4%
Subtotal General Funds	\$18,941	\$18,331	\$610	3.3%
Short-Term Borrowing	\$765	\$0	\$765	N/A
Hospital Provider Fund Transfer	\$762	\$0	\$762	N/A
Budget Stabilization Fund Transfer	\$276	\$226	\$50	22.1%
Pension Contribution Fund Transfer	\$0	\$1,395	(\$1,395)	N/A
Total General Funds	\$20,744	\$19,952	\$30	4.0%
SOURCE: Office of the Comptroller, State of Illinois: Some totals may not equal, due to rounding.				
CGFA				5-Apr-05

GENERAL FUNDS GROWTH NEEDED TO MEET ESTIMATE

FY 2005 ESTIMATE vs. FY 2004 ACTUAL

(\$ million)

Revenue Sources	March-05* ESTIMATE FY 2005	FYTD 2005	AMOUNT NEEDED FY 2005 EST.	FYTD 2004	GROWTH NEEDED	% CHANGE
State Taxes						
Personal Income Tax	\$8,572	\$6,082	\$2,490	\$5,765	\$20	0.8%
Corporate Income Tax (regular)	1,422	937	\$485	954	\$60	14.1%
Sales Taxes	6,545	4,923	\$1,622	4,742	\$33	2.1%
Public Utility Taxes (regular)	1,090	805	\$285	806	\$12	4.4%
Cigarette Tax	450	350	\$100	300	\$0	0.0%
Liquor Gallonage Taxes	147	111	\$36	94	\$3	9.1%
Vehicle Use Tax	34	24	\$10	26	\$1	11.1%
Inheritance Tax (Gross)	285	232	\$53	152	(\$17)	-24.3%
Insurance Taxes and Fees	391	225	\$166	228	\$32	23.9%
Corporate Franchise Tax & Fees	180	133	\$47	120	\$4	9.3%
Interest on State Funds & Investments	60	47	\$13	42	\$0	0.0%
Cook County IGT	433	299	\$134	280	(\$14)	-9.5%
Other Sources	452	297	\$155	222	(\$62)	-28.6%
Subtotal	\$20,061	\$14,465	\$5,596	\$13,731	\$72	1.3%
Transfers						
Lottery	588	438	\$150	417	(\$3)	-2.0%
Riverboat transfers & receipts	713	523	\$190	493	\$22	13.1%
Other	963	585	\$378	664	(\$117)	-23.6%
Total State Sources	\$22,325	\$16,011	\$6,314	\$15,305	(\$26)	-0.4%
Federal Sources (incl. \$434m MPRF transfer)	\$4,519	\$3,774	\$745	\$4,008	(\$436)	-36.9%
Total Federal & State Sources	\$26,844	\$19,785	\$7,059	\$19,313	(\$462)	-6.1%
Nongeneral Funds Distribution:						
Refund Fund						
Personal Income Tax	(\$864)	(\$615)	(\$249)	(\$675)	\$40	-13.8%
Corporate Income Tax	(346)	(\$229)	(\$117)	(307)	\$18	-13.3%
Subtotal General Funds	\$25,634	\$18,941	\$6,693	\$18,331	(\$404)	-5.7%
Short-Term Borrowing*	\$765	\$765	\$0	\$0	\$0	N/A
HPF and HHSMTF Transfer*	\$997	\$762	\$235	\$0	\$235	N/A
Budget Stabilization Fund Transfer	\$276	\$276	\$0	\$226	\$0	N/A
Pension Contribution Fund Transfer	\$0	\$0	\$0	\$1,395	\$0	N/A
Total General Funds	\$27,672	\$20,744	\$6,928	\$19,952	(\$169)	-2.4%

* The March 2005 revision was made prior to the recent short-term borrowing and subsequent transfer from the Hospital Provider Fund. They are being included here to reflect actual activity and will be incorporated into the next CGFA's official estimate scheduled to take place in early May.

GENERAL FUNDS PERFORMANCE TO DATE
GOVERNOR'S OFFICE OF MANANGEMENT AND BUDGET

FY 2005 ESTIMATE vs. FY 2004 ACTUALS

(\$ million)

	*GOMB FEB-05 Estimate FY 2005	FYTD 2005	AMOUNT NEEDED FY 2005 Est.	FYTD 2004	GROWTH NEEDED	% CHANGE
Revenue Sources						
State Taxes						
Personal Income Tax	\$8,645	\$6,082	\$2,563	\$5,765	\$93	3.8%
Corporate Income Tax (regular)	1,412	937	\$475	954	\$50	11.8%
Sales Taxes	6,530	4,923	\$1,607	4,742	\$18	1.1%
Public Utility Taxes (regular)	1,101	805	\$296	806	\$23	8.4%
Cigarette Tax	450	350	\$100	300	\$0	0.0%
Liquor Gallonage Taxes	145	111	\$34	94	\$1	3.0%
Vehicle Use Tax	35	24	\$11	26	\$2	22.2%
Inheritance Tax (Gross)	265	232	\$33	152	(\$37)	-52.9%
Insurance Taxes and Fees	371	225	\$146	228	\$12	9.0%
Corporate Franchise Tax & Fees	190	133	\$57	120	\$14	32.6%
Interest on State Funds & Investments	45	47	(\$2)	42	(\$15)	-115.4%
Cook County IGT	433	299	\$134	280	(\$14)	-9.5%
Other Sources	451	297	\$154	222	(\$63)	-29.0%
Subtotal	\$20,073	\$14,465	\$5,608	\$13,731	\$84	1.5%
Transfers						
Lottery	588	438	\$150	417	(\$3)	-2.0%
Gaming Fund Transfer	700	523	\$177	493	\$9	5.4%
Other	945	585	\$360	664	(\$135)	-27.3%
Total State Sources	\$22,306	\$16,011	\$6,295	\$15,305	(\$45)	-0.7%
Federal Sources (incl. \$434m MPRF transfers)	\$4,519	\$3,774	\$745	\$4,008	(\$436)	-36.9%
Total Federal & State Sources	\$26,825	\$19,785	\$7,040	\$19,313	(\$481)	-6.4%
Nongeneral Funds Distribution:						
Refund Fund						
Personal Income Tax	(\$864)	(\$615)	(\$249)	(\$675)	\$40	-13.8%
Corporate Income Tax	(339)	(229)	(\$110)	(307)	\$25	-18.5%
Subtotal General Funds	\$25,622	\$18,941	\$6,681	\$18,331	(\$416)	-5.9%
Short-Term Borrowing*	\$765	\$765	\$0	\$0	\$0	N/A
HPF and HHSMTF Transfer*	\$997	\$762	\$235	\$0	\$235	N/A
Budget Stabilization Fund Transfer	\$276	\$276	\$0	\$226	\$0	N/A
Pension Contribution Fund Transfer	\$0	\$0	\$0	\$1,395	\$0	N/A
Total General Funds	\$27,660	\$20,744	\$6,916	\$19,952	(\$181)	-2.6%

* The GOMB February forecast was made prior to the recent short-term borrowing and subsequent transfer from the Hospital Provider Fund. They are being included here to reflect actual activity.

Overall FY 2005 Revenue Forecast Unchanged

Jim Muschinske, Revenue Manager

On March 8, 2005, the Commission presented its revised FY 2005 estimate. As shown in the table on page 14, while a number of revenue sources are undergoing some significant revisions, the net impact of those adjustments results in no change in the overall estimate.

The revision was made prior to the recent short-term borrowing. The impact of that action will be officially included in the next revision scheduled in early May.

Major changes to the FY 2005 Estimate

- While gross personal income tax receipts have performed about as forecasted, much better than expected performance in gross corporate income taxes necessitates an adjustment of \$114 million (\$86 million net of refunds) in that estimate.
- Similarly, sales tax receipts have outpaced earlier expectations and the estimate is being increased by \$88 million.
- Better than expected performance have also continued in a number of areas such as inheritance, insurance, and interest income. As a result,

those estimate also are undergoing upward revisions.

- The Cook County IGT estimate is being reduced by \$17 million. The federal phase-out of higher than cost reimbursement has begun to jeopardize this revenue source and it can be expected to fall in coming fiscal years.
- The other source estimate is being reduced \$48 million to reflect lower planned Build Illinois Escrow transfers, reduced expectations of sale of State property, and miscellaneous other changes.
- While overall transfers are being revised up only \$3 million, each of the components are undergoing significant changes. Lottery and riverboat transfers are expected to outperform earlier expectations, while other transfers are being decreased due to lower anticipated changeback activity as well as other planned transfers.
- The federal-related source estimate is being lowered \$169 million and reflects the Administrations estimate presented in the Budget Book that incorporates a change in anticipated general funds Medicaid spending and related reimbursement. An increased portion of spending will take place from non-general funds, thereby reducing general funds spending and subsequent general funds reimbursement.

ADJUSTMENTS TO CGFA FY 2005 Estimate

(millions)

	CGFA FY 2005 Revised Estimate Mar-05	CGFA Estimate Aug-04	Change From Aug-04 Est.
Revenue Sources			
State Taxes			
Personal Income Tax	\$8,572	\$8,572	\$0
Corporate Income Tax	\$1,422	\$1,308	\$114
Sales Taxes	\$6,545	\$6,457	\$88
Public Utility (regular)	\$1,090	\$1,090	\$0
Cigarette Tax	\$450	\$450	\$0
Liquor Gallonage Taxes	\$147	\$147	\$0
Vehicle Use Tax	\$34	\$35	(\$1)
Inheritance Tax (gross)	\$285	\$265	\$20
Insurance Taxes & Fees	\$391	\$371	\$20
Corporate Franchise Tax & Fees	\$180	\$168	\$12
Interest on State Funds & Investments	\$60	\$54	\$6
Cook County Intergovernmental Transfer	\$433	\$450	(\$17)
<u>Other Sources</u>	<u>\$452</u>	<u>\$500</u>	<u>(\$48)</u>
Subtotal	\$20,061	\$19,867	\$194
Transfers			
Lottery	\$588	\$575	\$13
Riverboat Transfers & Receipts	\$713	\$642	\$71
<u>Other</u>	<u>\$963</u>	<u>\$1,044</u>	<u>(\$81)</u>
Total State Sources	\$22,325	\$22,128	\$197
Federal Sources (incl. \$434m MPRF transfer)	\$4,519	\$4,688	(\$169)
Total Federal & State Sources	\$26,844	\$26,816	\$28
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax	(\$864)	(\$864)	\$0
Corporate Income Tax	(\$346)	(\$318)	(\$28)
Subtotal General Funds	\$25,634	\$25,634	\$0
Change from Prior Year	\$206	\$206	
Percent Change	0.8%	0.8%	
Budget Stabilization Fund Transfer	\$276	\$276	\$0
Total General Funds	\$25,910	\$25,910	\$0
Change from Prior Year Actual	(\$1,139)	(\$1,139)	
Percent Change	-4.2%	-4.2%	
CGFA			

FY 2006 ESTIMATE

As shown in the Table on the page 17, excluding Budget Stabilization Fund transfers, the CGFA's estimate of FY 2006 general funds is \$26.098 billion. The forecast represents an increase of \$464 or 1.8% million over the revised FY 2005 estimate.

While an improved economy contributes decent rates of growth in FY 2006, a number of unrelated items serve to retard the impact of those improvements. For example:

- A return to normal cigarette tax distributions equates into a year over year decline of \$50 million.
- The beginning of significant reductions in IGT revenue takes hold and reduces revenue by \$93 million.
- The return to a lower riverboat taxing structure will reduce receipts by \$125 million.
- Without legislative action, \$265 million in various funds sweeps cannot be repeated in the upcoming fiscal year.

While the Governor has proposed changes that would equate into an additional \$669 million in revenues over current law, since legislative action is required, most are not included in the CGFA forecast (the exception being assumed lower refund percentages valued at \$81 million).

Highlights of FY 2006 Estimate

- Base gross personal income tax is expected to grow 5%, but due to impact of the VCP in FY 2005, the effective rate of growth is a lower 3.8%. The estimate incorporates the lower refund percentages assumed in the Budget Book. Therefore, on a net of refund basis, personal income tax is expected to increase by 4.2% as the lower refund percentage is worth approximately \$59 million.
- Base gross corporate income tax is expected to grow 7%, but due to impact of the VCP in FY 2005, the effective rate of growth is a lower 3.0%. The estimate incorporates the lower refund percentages assumed in the Budget Book. Therefore, on a net of refund basis, corporate income tax is expected to increase by 8.9% as the lower refund percentage is worth approximately \$22 million.
- Sales tax is forecasted to grow a decent 4.0%.
- A return to normal cigarette tax distribution will result in a \$50 million reduction in general fund receipts.
- Continued rising interest rates will result in a \$15 million increase in interest earnings.

- The Cook County Intergovernmental transfer (IGT) is expected to fall \$93 million. The transfer agreement 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, it is understood the federal government is phasing out the allowance of these hyper-payments. As a result, the transfer that the State can expect to receive from the IGT will begin to erode in future years and ultimately end in 2009.
- The FY 2006 other source estimate is expected to fall \$53 million from the previous fiscal year. The net decrease results from the planned reduction in Build Illinois general reserve account transfer as well as the anticipated drop in commercial distribution fee revenue stemming from P.A. 93-1033.
- Increased lottery drawings and additional retailers are expected to result in \$15 million in lottery transfer growth.
- The FY 2006 estimate of gaming transfers is \$588 million, which represents a decline of \$125 million from this fiscal year. Under current law, the graduated taxing structure returns to lower levels July 1, 2005.
- In FY 2006, other transfers to the general funds are expected to fall \$248 million from the prior fiscal year, primarily reflecting the \$265 million in one-time "fund sweeps" made in FY 2005.
- Per the Governor's proposed budget request, the FY 2006 estimate of total federal source receipts to the general funds is \$4.834 billion, which is \$315 million more than the FY 2005 forecast. Federal source receipts are largely based on appropriation levels and subsequent spending activity. As a result, the estimate likely will change once appropriation levels have been established.

In conclusion, while the base growth projections for most of the major tax sources are anticipated to post decent gains, a number of issues related to cigarette tax, IGT, riverboat tax rates, and fund transfers will significantly impact on FY 2006 revenue growth. At this time, it's unclear what if any of the Governor's proposed deficit reduction sources or other changes will eventually be implemented for the FY 2006 budget (see following section).

CGFA ESTIMATE FY 2006 vs. FY 2005
(millions)

Revenue Sources	CGFA FY 2006 Estimate Mar-05	CGFA FY 2005 Estimate Mar-05	\$ Difference	% Difference
State Taxes				
Personal Income Tax	\$8,901	\$8,572	\$329	3.8%
Corporate Income Tax	\$1,465	\$1,422	\$43	3.0%
Sales Taxes	\$6,805	\$6,545	\$260	4.0%
Public Utility (regular)	\$1,090	\$1,090	\$0	0.0%
Cigarette Tax	\$400	\$450	(\$50)	-11.1%
Liquor Gallonage Taxes	\$148	\$147	\$1	0.7%
Vehicle Use Tax	\$35	\$34	\$1	2.9%
Inheritance Tax (gross)	\$285	\$285	\$0	0.0%
Insurance Taxes & Fees	\$391	\$391	\$0	0.0%
Corporate Franchise Tax & Fees	\$185	\$180	\$5	2.8%
Interest on State Funds & Investments	\$75	\$60	\$15	25.0%
Cook County Intergovernmental Transfer	\$340	\$433	(\$93)	-21.5%
<u>Other Sources</u>	<u>\$399</u>	<u>\$452</u>	<u>(\$53)</u>	<u>-11.7%</u>
Subtotal	\$20,519	\$20,061	\$458	2.3%
Transfers				
Lottery	\$603	\$588	\$15	2.6%
Riverboat Transfers & Receipts	\$588	\$713	(\$125)	-17.5%
<u>Other</u>	<u>\$715</u>	<u>\$963</u>	<u>(\$248)</u>	<u>-25.8%</u>
Total State Sources	\$22,425	\$22,325	\$100	0.4%
Federal Sources	\$4,834	\$4,519	\$315	7.0%
Total Federal & State Sources	\$27,259	\$26,844	\$415	1.5%
Nongeneral Funds Distribution:				
Refund Fund*				
Personal Income Tax	(\$868)	(\$864)	(\$4)	0.5%
Corporate Income Tax	(\$293)	(\$346)	\$53	-15.3%
Subtotal General Funds	\$26,098	\$25,634	\$464	1.8%
Budget Stabilization Fund Transfer	\$276	\$276	\$0	0.0%
Total General Funds	\$26,374	\$25,910	\$464	1.8%
* The CGFA estimates assume federal source figures presented in the Budget Book. The CGFA FY 2006 estimate assumes the refund percentages at 9.75% for PIT and 20% for CIT. In addition, it is assumed that \$276 million in Budget Stabilization Fund transfers will be utilized in FY 2006 for cash flow purposes.				
CGFA				

**CGFA/GOMB FY 2006
COMPARISON**

As shown on the following table, excluding the Governor's proposed \$255 million in deficit reduction sources, the Commission's FY 2006 general funds estimate of \$26.098 billion is \$313 million below the GOMB's estimate of \$26.411 billion reflected in the FY 2006 Budget Book. If the \$255 million in deficit reduction sources are included in the GOMB estimate, the difference grows to \$568 million.

The two estimates reflect moderate differences in most of the larger more economically-tied sources such as income and sales taxes, with the Commission being higher in the estimates of corporate income taxes and sales tax, while lower in the forecast of income taxes. Other notable differences reside in the estimates of inheritance, insurance, and interest with the Commission being higher in each instance.

The largest differences reside in the transfer categories. Specifically:

- The Commission's riverboat transfers and receipts forecast is based on current law that has the tax rate structure reverting to lower levels July 1, 2005. The GOMB's estimate assumes that the current higher rates continue at their present level. The difference in the estimates amount to \$108 million. [The Commission estimates the value of the tax change to be worth \$125 million].
- The Commission's estimate of other transfers does not include \$140 million in Governor proposed School Endowment Fund transfers into the Common School Fund. In essence, the proposal is to sweep \$420 million from available fund balances and deposit them in this newly created fund. Then, over the next three years, transfer \$140 million a year into the Common School Fund. The Commission's estimate also does not assume \$68 million in Tobacco Settlement Fund sweeps. Taken together, these two items account for the majority of the \$201 million difference in the estimates of other transfers.

FY 2006 CGFA/GOMB COMPARISON

(millions)

	*CGFA FY 2006 Estimate Mar-05	GOMB FY 2006 Estimate Feb-05	\$ Difference
Revenue Sources			
State Taxes			
Personal Income Tax	\$8,901	\$8,997	(\$96)
Corporate Income Tax	\$1,465	\$1,451	\$14
Sales Taxes	\$6,805	\$6,778	\$27
Public Utility (regular)	\$1,090	\$1,096	(\$6)
Cigarette Tax	\$400	\$400	\$0
Liquor Gallonage Taxes	\$148	\$146	\$2
Vehicle Use Tax	\$35	\$35	\$0
Inheritance Tax (gross)	\$285	\$255	\$30
Insurance Taxes & Fees	\$391	\$366	\$25
Corporate Franchise Tax & Fees	\$185	\$194	(\$9)
Interest on State Funds & Investments	\$75	\$45	\$30
Cook County Intergovernmental Transfer	\$340	\$340	\$0
<u>Other Sources</u>	<u>\$399</u>	<u>\$401</u>	<u>(\$2)</u>
Subtotal	\$20,519	\$20,504	\$15
Transfers			
Lottery	\$603	\$628	(\$25)
Riverboat Transfers & Receipts	\$588	\$696	(\$108)
<u>Other</u>	<u>\$715</u>	<u>\$916</u>	<u>(\$201)</u>
Total State Sources	\$22,425	\$22,744	(\$319)
Federal Sources	\$4,834	\$4,834	\$0
Total Federal & State Sources	\$27,259	\$27,578	(\$319)
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax	(\$868)	(\$877)	\$9
Corporate Income Tax	(\$293)	(\$290)	(\$3)
Subtotal General Funds	\$26,098	\$26,411	(\$313)
Change from Prior Year Estimate	\$464	\$789	(\$325)
Percent Change	1.8%	3.1%	
Proposed Deficit Reduction Sources	\$0	\$255	(\$255)
Budget Stabilization Fund Transfer	\$276	\$276	\$0
Total General Funds	\$26,374	\$26,942	(\$568)
Change from Prior Year Estimate	\$464	\$1,044	(\$580)
Percent Change	1.8%	4.0%	
* The CGFA estimates assume federal source figures presented in the Budget Book. The CGFA FY 2006 estimate assumes the refund percentages at 9.75% for PIT and 20% for CIT. In addition, it is assumed that \$276 million in Budget Stabilization Fund transfers will be utilized in FY 2006 for cash flow purposes.			
CGFA			