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REVENUE: Revenues Continue to Fall

Jim Muschinske, Unit Manager

Despite decent gains from federal sources, revenues suffered a significant downturn in May as receipts fell \$224 million. May's performance marks the fifth consecutive monthly decline in revenues, continuing to signify that early signs of an economic recovery have yet to manifest themselves into higher receipts. This May had the same number of receipting days as the prior year.

Personal income tax receipts once again led the monthly State tax decliners, with gross receipts off \$201 million. Public utility tax receipts were off \$37 million while gross corporate income tax revenues fell by \$26 million. Interest income was down \$13 million in May and both liquor taxes and other sources declined \$3 million each. Finally, both insurance and inheritance tax dropped \$1 million. Only corporate franchise taxes managed to eek out a gain, as receipts increased \$3 million.

After experiencing a very good month for transfers last month, overall transfers fell \$23 million in May. Lottery transfers dropped by \$23 million and other transfers were off by \$5 million. Gaming transfers did experience a slight gain, up \$5 million. As mentioned, federal sources managed a decent month with receipts up \$68 million.

Year-to-Date

Through eleven months of FY 2002, absent the \$226 million transfer from the Budget Stabilization Fund, total general funds revenue is down \$673 million from the same period last year.

Personal income tax revenue leads the yearly decliners with gross receipts down by \$458 million. The decline in gross corporate income tax revenues is next, falling \$246 million. Interest income earnings continue to plummet and are off by \$128 million. All other tax sources experiencing declines total \$78 million.

Despite total revenues being down, several sources were able to post positive gains thus far in FY 2002. Sales tax revenues, aided by the return of the tax on motor fuel, managed to gain \$95 million. Insurance taxes and fees increased \$20 million while corporate franchise taxes and fees are up \$11 million. Vehicle use tax has increased \$3 million through May.

While experiencing a poor showing in May, overall transfers are up \$48 million for the year. In addition,

federal sources have contributed a gain of \$54 million.

As mentioned in last month's revenue briefing, the Commission met on May 8th to discuss the continuing fall off in revenues. At that time, the estimate for FY 2002 was revised down to \$23.650 billion, which represented a decline of \$456 million from FY 2001 actuals.

In order to reach the May revised estimate, receipts over the remaining month would have to increase \$217 million or 8.3%.

ECONOMY

Strength of Recovery Dependent Upon Business

Edward H. Boss, Jr., Chief Economist

The recession, which likely ended at the end of last year or earlier this year, was centered on the business side in the form of reduced capital expenditures and inventories. The rest of the economy continued to grow, albeit at a reduced rate. Because of this, it is the business side where the economy has the most room to affect the pace of economic recovery. That is to say, since the consumer never retreated as sharply as in the past, the typical recovery bounce in consumer spending, which makes up two-thirds of total spending, will be less of a factor.

For business to bounce back it will require a much improved climate. As shown in the chart, corporate profits have been decimated over the past year,

falling to the lowest level in about seven years. The data in the chart are expressed in current dollars, not adjusted for inflation. Indeed, because of the unusually low rate of inflation during the prior business expansion and recession, the extent of the decline in both the economy and profits are relatively more severe in current dollars than when denoted in real, or inflation-adjusted dollars. Moreover, because competitive markets have held down the level of price increases, it has been nearly impossible for businesses to raise prices to lift profit levels.

The recently-enacted federal stimulus package with a greatly improved depreciation provision should provide an important element in sparking a revival in business spending. The size of the stimulus is large, even with many states considering, or already enacting, legislation to decouple from the federal depreciation provision. Investment

spending also may benefit from revived interest in computer equipment and software as the bulge following the surge in Y2K expenditures fades.

There are increasing sign's, however, that the business climate is improving. Corporate profits appear to have bottomed and soaring productivity, at an 8.4% rate in the nonfarm business sector during the first quarter, means that corporate profits are beginning to improve. With little evidence of inflation, unit labor costs dropped 5.2%, the largest decline since 1955. These are necessary preconditions for an improvement in employment. At the same time, the Federal Reserve has held off from raising interest rates, keeping borrowing costs low for new business investment.

Manufacturing, the weakest sector of the economy during the recession, also is on the rebound. According to the Institute for Supply Management, manufacturing in the Midwest jumped to a 3-year high in May with the new orders and production components at its best reading since late 1995. Meanwhile, the Commerce Department reported new orders for manufactured items in April posted their biggest rise since last October.

These reports suggest business investment, which is so crucial to the recovery, is on the mend. The speed and magnitude of the investment improvement that occurs will hold the key to the strength of the overall economic recovery in the months ahead.



INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

<u>INDICATORS</u>	<u>April 2002</u>	<u>March 2002</u>	<u>April 2001</u>
Unemployment Rate (Average)	6.3%	6.1%	5.2%
Annual Rate of Inflation (Chicago)	7.3%	7.4%	1.4%
—————			
	<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) (April)	6,326	-0.7%	-0.6%
Employment (thousands) (April)	5,925	-0.9%	-1.7%
New Car & Truck Registration (April)	64,384	33.0%	7.3%
Single Family Housing Permits (April)	4,552	17.3%	36.0%
Total Exports (\$ mil) (March)	2,821	11.4%	-5.9%
Chicago Purchasing Managers Index (May)	60.8	11.1%	57.1%

GENERAL FUNDS RECEIPTS: MAY

**FY 2002 vs. FY 2001
(\$ million)**

Revenue Sources	MAY FY 2002	MAY FY 2001	\$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	\$663	\$864	(\$201)	-23.3%
Corporate Income Tax (regular)	33	59	(\$26)	-44.1%
Sales Taxes	510	510	\$0	0.0%
Public Utility Taxes (regular)	89	126	(\$37)	-29.4%
Cigarette Tax	33	33	\$0	0.0%
Liquor Gallonage Taxes	11	14	(\$3)	-21.4%
Vehicle Use Tax	4	4	\$0	0.0%
Inheritance Tax (Gross)	30	31	(\$1)	-3.2%
Insurance Taxes and Fees	1	2	(\$1)	-50.0%
Corporate Franchise Tax & Fees	14	11	\$3	27.3%
Interest on State Funds & Investments	8	21	(\$13)	-61.9%
Cook County IGT	0	0	\$0	0.0%
Other Sources	13	16	(\$3)	-18.8%
Subtotal	\$1,409	\$1,691	(\$282)	-16.7%
Transfers				
Lottery	36	59	(\$23)	-39.0%
Gaming Fund Transfer	40	35	\$5	14.3%
Other	20	25	(\$5)	-20.0%
Total State Sources	\$1,505	\$1,810	(\$305)	-16.9%
Federal Sources	\$476	\$408	\$68	16.7%
Total Federal & State Sources	\$1,981	\$2,218	(\$237)	-10.7%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$51)	(\$61)	\$10	-16.4%
Corporate Income Tax	(8)	(11)	\$3	-27.3%
Subtotal General Funds	\$1,922	\$2,146	(\$224)	-10.4%
Budget Stabilization Fund Transfer	\$0	\$0	\$0	N/A
Total General Funds	\$1,922	\$2,146	(\$224)	-10.4%
IEFC SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				3-Jun-02

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2002 vs. FY 2001

(\$ million)

Revenue Sources	FY 2002	FY 2001	CHANGE FROM FY 2001	% CHANGE
State Taxes				
Personal Income Tax	\$7,389	\$7,847	(\$458)	-5.8%
Corporate Income Tax (regular)	892	1,138	(\$246)	-21.6%
Sales Taxes	5,538	5,443	\$95	1.7%
Public Utility Taxes (regular)	1,007	1,053	(\$46)	-4.4%
Cigarette Tax	366	366	\$0	0.0%
Liquor Gallonage Taxes	111	113	(\$2)	-1.8%
Vehicle Use Tax	34	31	\$3	9.7%
Inheritance Tax (Gross)	300	325	(\$25)	-7.7%
Insurance Taxes and Fees	217	197	\$20	10.2%
Corporate Franchise Tax & Fees	141	130	\$11	8.5%
Interest on State Funds & Investments	129	257	(\$128)	-49.8%
Cook County IGT	222	222	\$0	0.0%
Other Sources	172	177	(\$5)	-2.8%
Subtotal	\$16,518	\$17,299	(\$781)	-4.5%
Transfers				
Lottery	499	452	\$47	10.4%
Gaming Fund Transfer	420	410	\$10	2.4%
Other	372	381	(\$9)	-2.4%
Total State Sources	\$17,809	\$18,542	(\$733)	-4.0%
Federal Sources	\$3,788	\$3,734	\$54	1.4%
Total Federal & State Sources	\$21,597	\$22,276	(\$679)	-3.0%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$562)	(\$557)	(\$5)	0.9%
Corporate Income Tax	(205)	(216)	\$11	-5.1%
Subtotal General Funds	\$20,830	\$21,503	(\$673)	-3.1%
Budget Stabilization Fund Transfer	\$226	\$0	\$226	N/A
Total General Funds	\$21,056	\$21,503	(\$447)	-2.1%

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

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GENERAL FUNDS GROWTH NEEDED TO MEET ESTIMATE
FY 2002 ESTIMATE vs. FY 2001 ACTUAL
(\$ million)

Revenue Sources	MAY 02 ESTIMATE FY 2002	FYTD 2002	AMOUNT NEEDED FY 2002 EST.	FYTD 2001	GROWTH NEEDED	% CHANGE
State Taxes						
Personal Income Tax	\$8,391	\$7,389	\$1,002	\$7,847	\$242	31.8%
Corporate Income Tax (regular)	1,025	892	\$133	1,138	(\$8)	-5.7%
Sales Taxes	6,075	5,538	\$537	5,443	\$22	4.3%
Public Utility Taxes (regular)	1,125	1,007	\$118	1,053	\$25	26.9%
Cigarette Tax	400	366	\$34	366	\$0	0.0%
Liquor Gallonage Taxes	125	111	\$14	113	\$3	27.3%
Vehicle Use Tax	37	34	\$3	31	\$0	0.0%
Inheritance Tax (Gross)	330	300	\$30	325	(\$6)	-16.7%
Insurance Taxes and Fees	270	217	\$53	197	\$4	8.2%
Corporate Franchise Tax & Fees	161	141	\$20	130	\$4	25.0%
Interest on State Funds & Investments	145	129	\$16	257	(\$1)	-5.9%
Cook County IGT	245	222	\$23	222	\$0	0.0%
Other Sources	475	172	\$303	177	\$73	31.7%
Subtotal	\$18,804	\$16,518	\$2,286	\$17,299	\$358	18.6%
Transfers						
Lottery	570	499	\$71	452	\$22	44.9%
Gaming Fund Transfer	475	420	\$55	410	\$5	10.0%
Other	445	372	\$73	381	\$2	2.8%
Total State Sources	\$20,294	\$17,809	\$2,485	\$18,542	\$387	18.4%
Federal Sources	\$4,230	\$3,788	\$442	\$3,734	(\$144)	-24.6%
Total Federal & State Sources	\$24,524	\$21,597	\$2,927	\$22,276	\$243	9.1%
Nongeneral Funds Distribution:						
Refund Fund						
Personal Income Tax	(\$638)	(\$562)	(\$76)	(\$557)	(\$22)	40.7%
Corporate Income Tax	(236)	(205)	(\$31)	(216)	(\$4)	14.8%
Subtotal General Funds	\$23,650	\$20,830	\$2,820	\$21,503	\$217	8.3%
Budget Stabilization Fund Transfer	\$226	\$226	\$0	\$0	\$0	N/A
Total General Funds	\$23,876	\$21,056	\$2,820	\$21,503	\$217	8.3%
IEFC						3-Jun-02