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**REVENUE: Revenues Jump in June; Federal Sources, Tax Amnesty, New Fees and Transfers Cause Base Revenues to Grow \$2.642 billion in FY 2004**

Jim Muschinske, Revenue Manager

General funds revenues ended FY 2004 on an up note with base revenues growing \$486 million. Good growth in the economically-related sources contributed to the gain, but transfers and federal sources were key to the monthly increase. An extra receipting day in June also helped achieve the gain.

Other sources led the tax gainers as receipts rose \$51 million. This increase was in large part due to increases associated with new and/or higher fees. Public utility receipts grew by \$49 million. A comparatively weak June last year, coupled with an extra day of receipts contributed to this large increase. Sales taxes, after taking a slight pause in May, returned to generating decent gains as receipts grew \$33 million for the month. Gross personal income taxes rose by \$28 million, but on a net of refund basis actually fell \$1 million. Gross corporate income taxes gained \$16 million, but that gain is reduced to only \$3 million on a net of refund basis. Insurance taxes and fees were \$9 million higher, while corporate franchise taxes and fees gained \$6 million. Inheritance tax managed a \$4 million increase, and liquor taxes a relatively strong \$3 million gain (due to recent court action).

The only source to experience a decline in June was interest income as receipts fell \$2 million.

As indicated above, transfers were responsible for much of the monthly gain in revenues. While lottery transfers dipped by \$6 million, that falloff was more than made up for by a \$23 million rise in riverboat transfers and receipts (stemming from the higher tax), and a \$232 million jump in other transfers. This huge gain was due to the release of \$76 million in protested liquor taxes, as well as \$72 million in fund chargebacks and \$44 million in increased fee-related transfers.

Finally, federal sources ended the year on an up note, as receipts in June rose an unexpectedly strong \$82 million. [Note: The recent \$850 million in short-term borrowing for Medicaid bills was deposited into a newly-created Medicaid Provider Relief Fund. Federal reimbursements related to spending from that fund will be deposited in that fund, not the General Revenue Fund].

## **Year-End**

Excluding short-term borrowing and Budget Stabilization Fund and Pension Contribution Fund transfers, general funds grew \$2.642 billion in FY 2004. Approximately 47% of that gain is linked to federal sources, with a good deal of the remainder being caused by new revenues generated from various fund transfers, tax amnesty, fee increases, and other tax changes. In addition to all of those various changes, it should be pointed out that base growth for the larger economically-related sources began to post measurable gains in the second half of the year, finally manifesting the recovery phase.

On a gross basis, corporate income taxes rose \$368 million for the year, but on a net of refund basis that gain was effectively reduced to \$199 million. In addition, both of those figures were inflated with approximately \$225 million gross or \$152 million net of refunds due to tax amnesty designation. Tax amnesty also contributed to sales tax rising \$272 million for the year. Approximately \$94 million of that gain was designated as tax amnesty revenue.

Gross personal income taxes gained \$256 million, but on a net of refund basis actually fell \$70 million. Other sources gained \$90 million for the year, in large part due to increased fees as well

as other legislative changes. [The year-over-year gain would have been more pronounced if it weren't for \$88 million in tobacco settlement monies received in FY 2003].

Public utility taxes as well as the Cook County intergovernmental transfer gained \$73 million each. Public utility taxes were impacted by the new out-of-state natural gas tax as well as one extra week of receipts due to timing. All other revenue sources experiencing yearly gains contributed an additional \$75 million.

Only inheritance taxes, with a decline of \$15 million, and interest earnings, with a drop of \$11 million, experienced a yearly decline.

Transfers were responsible for much of the year-over-year gain as overall transfers were up \$707 million for the year. Lottery transfers gained a respectable \$30 million, while riverboat transfers and receipts rose a disappointing \$107 million. The big gainer was in the other transfer category, which posted gains of \$570 million. Of that amount, approximately \$269 million is due to administrative chargebacks (far short of the original budget figure of \$422 million), \$89 million due to transfers related to increased fees, \$6 million due to Executive Order 10 transfers, and \$76 million due to protested liquor taxes released into the general funds.

As mentioned earlier, federal sources comprised nearly half of the yearly gains, with receipts rising \$1.249 billion. The increase was made possible by \$422 million in flexible federal grants as well as increased Medicaid matching percentage [the enhanced matching rate of 53% will return to 50%].

In summary, the many changes related to fees, special transfers, and tax changes make it difficult to characterize FY 2004 revenues. The contribution of unbudgeted federal monies and impact of tax amnesty allowed the fiscal year to weather the losses of the sale of State properties, Environmental Trust transfer, loss of sale of 10<sup>th</sup> riverboat license, and shortfalls in chargebacks and fee revenues.

**However, perhaps the real story, but mostly hidden due to all of the various adjustments used to craft the FY 2004 budget, is that the long-awaited recovery finally appears to be manifesting in actual receipts. While caution should continue to be maintained given the many economic uncertainties that lie ahead (i.e. impact of Federal Reserve actions, employment picture, energy prices, and world-wide geo-political events), it appears as if the worst may be over. Unfortunately, this is not to suggest that revenues quickly will return to normal, in fact, due to the many one-time items which occurred in FY 2004, base growth will still be elusive, meaning that State government will have to continue to make difficult choices for the foreseeable future.**

**GENERAL FUNDS RECEIPTS: JUNE**

*FY 2004 vs. FY 2003*

*(\$ million)*

<b>Revenue Sources</b>	<b>JUNE FY 2004</b>	<b>JUNE FY 2003</b>	<b>\$ CHANGE</b>	<b>% CHANGE</b>
<b>State Taxes</b>				
Personal Income Tax	\$714	\$686	\$28	4.1%
Corporate Income Tax (regular)	172	156	\$16	10.3%
Sales Taxes	556	523	\$33	6.3%
Public Utility Taxes (regular)	102	53	\$49	92.5%
Cigarette Tax	33	33	\$0	0.0%
Liquor Gallonage Taxes	13	10	\$3	30.0%
Vehicle Use Tax	3	3	\$0	0.0%
Inheritance Tax (Gross)	21	17	\$4	23.5%
Insurance Taxes and Fees	70	61	\$9	14.8%
Corporate Franchise Tax & Fees	16	10	\$6	60.0%
Interest on State Funds & Investments	4	6	(\$2)	-33.3%
Cook County IGT	23	23	\$0	0.0%
Other Sources	115	64	\$51	79.7%
<b>Subtotal</b>	<b>\$1,842</b>	<b>\$1,645</b>	<b>\$197</b>	<b>12.0%</b>
<b>Transfers</b>				
Lottery	66	72	(\$6)	-8.3%
Riverboat transfers & receipts	67	44	\$23	52.3%
Other	280	48	\$232	483.3%
<b>Total State Sources</b>	<b>\$2,255</b>	<b>\$1,809</b>	<b>\$446</b>	<b>24.7%</b>
<b>Federal Sources</b>	<b>\$351</b>	<b>\$269</b>	<b>\$82</b>	<b>30.5%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$2,606</b>	<b>\$2,078</b>	<b>\$528</b>	<b>25.4%</b>
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$84)	(\$55)	(\$29)	52.7%
Corporate Income Tax	(\$55)	(42)	(\$13)	31.0%
<b>Subtotal General Funds</b>	<b>\$2,467</b>	<b>\$1,981</b>	<b>\$486</b>	<b>24.5%</b>
<b>Short-Term Borrowing</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>N/A</b>
<b>Budget Stabilization Fund Transfer</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>N/A</b>
<b>Pension Contribution Fund Transfer</b>	<b>\$0</b>	<b>\$300</b>	<b>(\$300)</b>	<b>N/A</b>
<b>Total General Funds</b>	<b>\$2,467</b>	<b>\$2,281</b>	<b>\$186</b>	<b>8.2%</b>
IEFC SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				
1-Jul-04				

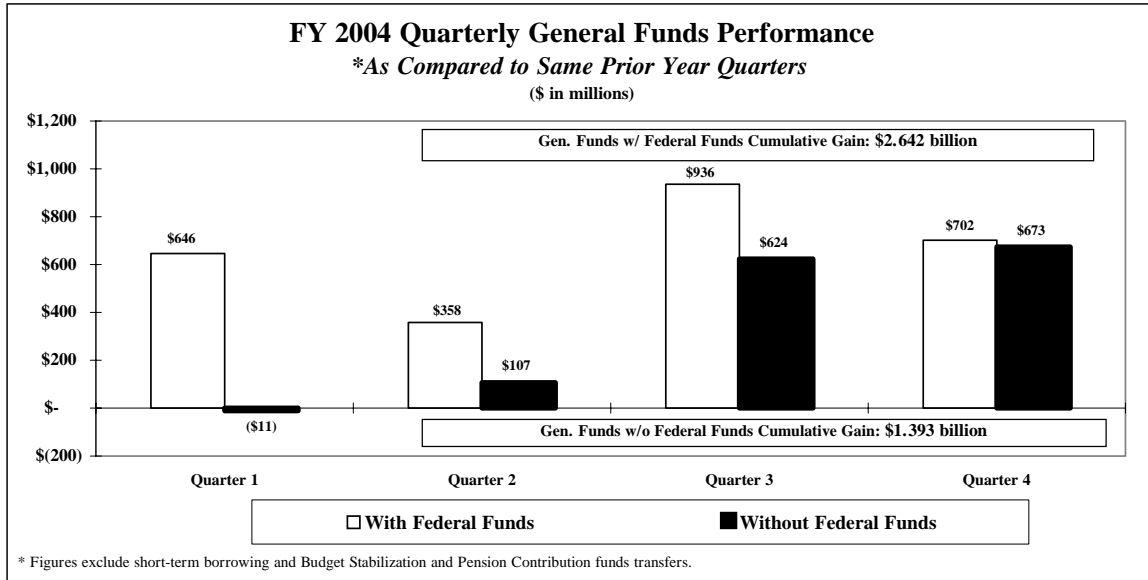
**GENERAL FUNDS RECEIPTS: YEAR END**

*FY 2004 vs. FY 2003*

*(\$ million)*

<b>Revenue Sources</b>	<b>FY 2004</b>	<b>FY 2003</b>	<b>CHANGE FROM FY 2003</b>	<b>% CHANGE</b>
<b>State Taxes</b>				
Personal Income Tax	\$8,235	\$7,979	\$256	3.2%
Corporate Income Tax (regular)	1,379	1,011	\$368	36.4%
Sales Taxes	6,331	6,059	\$272	4.5%
Public Utility Taxes (regular)	1,079	1,006	\$73	7.3%
Cigarette Tax	400	400	\$0	0.0%
Liquor Gallonage Taxes	127	123	\$4	3.3%
Vehicle Use Tax	35	34	\$1	2.9%
Inheritance Tax (Gross)	222	237	(\$15)	-6.3%
Insurance Taxes and Fees	362	313	\$49	15.7%
Corporate Franchise Tax & Fees	163	142	\$21	14.8%
Interest on State Funds & Investments	55	66	(\$11)	-16.7%
Cook County IGT	428	355	\$73	20.6%
Other Sources	439	349	\$90	25.8%
<b>Subtotal</b>	<b>\$19,255</b>	<b>\$18,074</b>	<b>\$1,181</b>	<b>6.5%</b>
<b>Transfers</b>				
Lottery	570	540	\$30	5.6%
Riverboat transfers & receipts	661	554	\$107	19.3%
Other	1,159	589	\$570	96.8%
<b>Total State Sources</b>	<b>\$21,645</b>	<b>\$19,757</b>	<b>\$1,888</b>	<b>9.6%</b>
<b>Federal Sources</b>	<b>\$5,189</b>	<b>\$3,940</b>	<b>\$1,249</b>	<b>31.7%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$26,834</b>	<b>\$23,697</b>	<b>\$3,137</b>	<b>13.2%</b>
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$964)	(\$638)	(\$326)	51.1%
Corporate Income Tax	(\$442)	(\$273)	(\$169)	61.9%
<b>Subtotal General Funds</b>	<b>\$25,428</b>	<b>\$22,786</b>	<b>\$2,642</b>	<b>11.6%</b>
<b>Short-Term Borrowing</b>	<b>\$0</b>	<b>\$1,675</b>	<b>(\$1,675)</b>	<b>N/A</b>
<b>Budget Stabilization Fund Transfer</b>	<b>\$226</b>	<b>\$226</b>	<b>\$0</b>	<b>0.0%</b>
<b>Pension Contribution Fund Transfer</b>	<b>\$1,395</b>	<b>\$300</b>	<b>\$1,095</b>	<b>N/A</b>
<b>Total General Funds</b>	<b>\$27,049</b>	<b>\$24,987</b>	<b>\$2,062</b>	<b>8.3%</b>
SOURCE: Office of the Comptroller, State of Illinois: Some totals may not equal, due to rounding.				
IEFC				1-Jul-04

## FY 2004 REVENUE RECAP



As shown by the above graph, FY 2004 was another interesting year for revenues as demonstrated by the significant fluctuations in quarterly revenue performance. What follows is a brief recap of how revenues performed.

### **First Quarter**

After another disastrous ending to the previous fiscal year that saw base general revenues fall \$593 million, FY 2004 opened on yet another down note as general revenues fell \$269 million. The decrease was primarily the result of a predicted falloff in federal sources stemming from the short-term borrowing that took place one year earlier that translated into significant increases in federally-reimbursable spending. Federal sources aside, base general funds grew \$51 million as most of the other revenue sources managed modest gains. *[Monthly revenue performance excludes short-term borrowing proceeds as well as Budget*

*Stabilization and Pension Contribution Fund transfers.]*

The drop in revenues was short lived, however, as August receipts jumped by \$826 million. The increase was due to higher federal sources which resulted from: an expected grant from the federal government; a temporary increase in the Medicaid matching rate; a concerted effort to pay down an accumulated backlog in Medicaid bills; and, further reimbursements stemming from prior fiscal year activity. In fact, absent federal gains, monthly revenues would have suffered a modest decline. **After another month of gains attributed to federal sources in September, the first quarter ended with base revenues being \$646 million ahead of the previous fiscal year. However, excluding federal sources from that comparison, other revenues were actually down \$11 million. So while at first glance the revenue picture appeared to be improving,**

absent gains experienced by federal receipts, it was quite clear that base revenues continued to struggle.

### **Second Quarter**

The second quarter began on an up note as revenues once again were buoyed by a jump in federal sources. An October increase of \$243 million was due to the second and final installment of an expected federal grant, as well as related spending on Medicaid expenditures. Federal sources aside, October revenues would have actually declined \$79 million. Federal sources were strong once again during November; however, the real news was the pick-up in revenues due to the tax amnesty program. While monthly receipts were up \$261 million, \$93 million was attributed to continued growth in federal sources, while approximately \$72 million (net of refunds) was coded and designated as tax amnesty receipts. Tax amnesty was again the story for December as another \$216 million (net of refunds) was receipted under tax amnesty designation. Despite that boost, due to a significant falloff in the run-up of federal sources, overall receipts actually fell \$146 in December (up \$18 million excluding federal sources). Due to continued increases in federal sources, for the period from October through December, revenues grew approximately \$358 million. However, excluding the impact of increased federal receipts, overall growth was a more modest \$107 million. **As the first half of FY 2004 closed, overall base revenues were up \$1.004 billion or 9.0%. However, \$909 million or approximately 90% of that increase was due to the phenomenal pace of federal sources. Federal sources aside, growth would have been only \$95 million, and that would**

have included significant contributions due to the tax amnesty program.

### **Third Quarter**

The third quarter started off with yet another strong month for federal sources. In January, overall base revenues rose \$181 million, of which \$139 million was due to increased federal receipts. February also enjoyed a continued pick up in federal sources, but the reason behind the \$359 million increase in monthly receipts was due to approximately \$175 million in administrative chargebacks. These administrative chargebacks were an integral part of the enacted FY 2004 budget. According to the GOMB, the FY 2004 budget assumed \$422 million in such transactions. Until this large amount in February, only approximately \$10 million had been accomplished earlier in the fiscal year. March proved to be a successful month as overall revenues were up \$396 million. While a large part of that increase was due to federal sources [\$146 million], the more closely-tied economic sources demonstrated good growth, although in part due to two extra receipting days. For the period of January through March, overall receipts jumped \$936 million, and, even excluding federal sources, still managed to gain \$624 million due to chargebacks and good growth from the larger economic sources. **With three-quarters of the fiscal year over, including growth from federal sources, revenues were up \$1.940 billion. Excluding federal sources overall growth falls to approximately \$720 million, an increase that is due in large part to chargebacks and acceleration of**

monies due to the tax amnesty program.

#### **Fourth Quarter**

The final quarter of FY 2004 started out on a positive note as overall revenues grew \$283 million in April, with only \$5 million of that due to federal sources. The increase was due to a very good month for the larger economically-tied sources. In addition, transfers in from other State funds also were up significantly as the result of recently passed legislation, and the tim-

ing of a variety of transfers. May receipts stumbled somewhat, although not badly as \$60 million of the months \$68 million decline was due to lower federal sources. The fiscal year ended on a high note as base receipts gained \$486 million due to special transfers, federal sources, good base growth of the economically-related sources, as well as one extra receipting day. During the fourth quarter, including growth from federal sources, revenues were up \$702 million. Even excluding federal sources, revenue growth was a similar \$673 million. **With the fiscal year now ended, overall growth, including federal sources was \$2.642 billion. If \$1.249 billion due to federal source increases are excluded, the year-over-year gain is \$1.393 billion.**

### **REVIEW OF FY 2004 REVENUE ESTIMATES**

The following table shows how actual FY 2004 general funds receipts compare to the last official estimates of the IEFC and the GOMB.

As shown, excluding Budget Stabilization Fund and Pension Contribution Fund transfers, the Commission's March forecast underestimated actual FY 2004 revenues by \$206 million, or 0.8%. In fact, if \$202 million in federal source variance is excluded, the March estimate would have missed by only \$4 million.

Utilizing the February FY 2005 Budget Book, the GOMB's FY 2004 estimate, excluding Budget Stabilization and Pension Contribution Fund transfers, overestimated revenues by \$231 million, or 0.9% [For comparison sake, the GOMB Budget Book figure of \$27.115 billion was adjusted up by \$144 million (in other transfers) per actual FY 2004 "fund sweeps" which occurred in July 2003, not June 2003]. Since the GOMB also underestimated federal sources by \$202 million, if that variance is excluded, their February estimate overestimated base non-federal sources by \$433 million.



**FY 2004 Actuals vs. Estimates: IEFB and GOMB**

(\$ millions)

	<b>ACTUAL FY 2004</b>	<b>IEFB EST. Mar- 04 FY 2004</b>	<b>DIFFERENCE ACTUALS FROM ESTIMATE</b>	<b>GOMB EST.* Feb- 04 FY 2004</b>	<b>DIFFERENCE ACTUALS FROM ESTIMATE</b>
<b>Revenue Sources</b>					
<b>State Taxes</b>					
Personal Income Tax	\$8,235	\$8,110	\$125	\$8,051	\$184
Corporate Income Tax (regular)	\$1,379	\$1,302	\$77	\$1,296	\$83
Sales Taxes	\$6,331	\$6,265	\$66	\$6,280	\$51
Public Utility (regular)	\$1,079	\$1,030	\$49	\$1,062	\$17
Cigarette Tax	\$400	\$400	\$0	\$450	(\$50)
Liquor Gallonage Taxes	\$127	\$122	\$5	\$123	\$4
Vehicle Use Tax	\$35	\$35	\$0	\$35	\$0
Inheritance Tax (gross)	\$222	\$215	\$7	\$240	(\$18)
Insurance Taxes & Fees	\$362	\$342	\$20	\$333	\$29
Corporate Franchise Tax & Fees	\$163	\$160	\$3	\$175	(\$12)
Interest on State Funds & Investments	\$55	\$50	\$5	\$50	\$5
Cook County Intergovernmental Transfer	\$428	\$440	(\$12)	\$440	(\$12)
<u>Other Sources</u>	<u>\$439</u>	<u>\$878</u>	<u>(\$439)</u>	<u>\$1,187</u>	<u>(\$748)</u>
<b>Subtotal</b>	<b>\$19,255</b>	<b>\$19,349</b>	<b>(\$94)</b>	<b>\$19,722</b>	<b>(\$467)</b>
<b>Transfers</b>					
Lottery	\$570	\$550	\$20	\$540	\$30
Riverboat transfers & receipts	\$661	\$654	\$7	\$639	\$22
<u>Other</u>	<u>\$1,159</u>	<u>\$1,048</u>	<u>\$111</u>	<u>\$1,128</u>	<u>\$31</u>
<b>Total State Sources</b>	<b>\$21,645</b>	<b>\$21,601</b>	<b>\$44</b>	<b>\$22,029</b>	<b>(\$384)</b>
<b>Federal Sources</b>	<b>\$5,189</b>	<b>\$4,987</b>	<b>\$202</b>	<b>\$4,987</b>	<b>\$202</b>
<b>Total Federal &amp; State Sources</b>	<b>\$26,834</b>	<b>\$26,588</b>	<b>\$246</b>	<b>\$27,016</b>	<b>(\$182)</b>
<b>Nongeneral Funds Distribution:</b>					
<b>Refund Fund</b>					
Personal Income Tax	(\$964)	(\$949)	(\$15)	(\$942)	(\$22)
Corporate Income Tax	(\$442)	(\$417)	(\$25)	(\$415)	(\$27)
<b>Subtotal General Funds</b>	<b>\$25,428</b>	<b>\$25,222</b>	<b>\$206</b>	<b>\$25,659</b>	<b>(\$231)</b>
<b>Short Term Borrowing</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Budget Stabilization Fund Transfer</b>	<b>\$226</b>	<b>\$226</b>	<b>\$0</b>	<b>\$226</b>	<b>\$0</b>
<b>Pension Contribution Fund Transfer</b>	<b>\$1,395</b>	<b>\$1,395</b>	<b>\$0</b>	<b>\$1,600</b>	<b>(\$205)</b>
<b>Total General Funds</b>	<b>\$27,049</b>	<b>\$26,843</b>	<b>\$206</b>	<b>\$27,485</b>	<b>(\$436)</b>
*GOMB forecast based on information provided in FY 2005 Budget Book. For comparison sake, the GOMB figure of \$27.115 billion was adjusted by \$144 million (in other transfers) per actual FY 2004 "fund sweep" receipt experience. In addition, \$226 million was included for Budget Stabilization Fund transfers.					

07/02/04

### Short-Term Borrowing

Lynnae Kapp, Revenue/Bond Analyst

The Medicaid Provider Relief Fund was created by Public Act 93-0674 to receive \$850.0 million in short-term borrowing proceeds to pay Medicaid bills. The General Obligation Certificates were sold June 17, 2004 and will be paid off quickly per an agreement between the Governor, Comptroller and State Treasurer, with \$475 million of the Certificates maturing on July 23, 2004, and the remaining half maturing on October 22, 2004. The ability to pay Medicaid bills by June 30, 2004, allows the State to receive a higher federal match, 53% as opposed to 50% after June. The higher percentage gives Illinois an estimated \$22-\$25 million more in federal revenues and helps shorten the State's Medicaid payment cycle.

History of Short Term Borrowing		
Date Issued	Amount (millions)	Date Retired
June-July 1983	\$200	May 1984
February 1987	\$100	February 1988*
August 1991	\$185	June 1992
February 1992	\$500	October 1992*
August 1992	\$600	May 1993
October 1992	\$300	June 1993
August 1993	\$900	June 1994
August 1994	\$687	June 1995
August 1995	\$500	June 1996
July 2002	\$1,000	June 2003
May 2003	\$1,500	May 2004*
June 2004	\$850	October 2004*
SOURCE: Bureau of the Budget		
*Across fiscal year borrowing		

### Update to Special Transfers

Special transfers in FY 2004 to the General Revenue Fund were part of the FY 2004 budget resulting from Public Act 93-0032 and Executive Order 2003-10. These special transfers include: administrative chargebacks, increased fee revenues, and transfers by Executive Order. [Revenues from increased fees go directly into their specific funds or into the General Revenue Fund through Other Sources. The increased fee revenues

reported here are transfers from these other funds to the General Revenue Fund after the fees have been received.] June had a final flurry of transfers from fee increases and chargebacks. Special transfers to the General Revenue Fund for FY 2004 include \$269.3 million due to chargebacks, \$88.8 million of increased fee revenue transfers, and Executive Order 10 transfers of \$5.5 million. Total special transfers for the fiscal year, including statutory transfers of \$158.5 million from the beginning of the fiscal year, total \$522.2 million.

Special Transfers in FY 2004 YTD as of 6/30/2004						
FUND #	FUND NAME	Chargebacks	Statute (Funds Sweep)	Executive Order 10	Fee Increase	TOTAL
0011	Road Fund	\$81,819,670	\$50,000,000	\$915,686		\$132,735,356
0902	State Construction Account	\$36,132,250				\$36,132,250
0534	Industrial Commission Operations Fund				\$28,293,000	\$28,293,000
0455	IL State Toll Highway Revenue Fund	\$23,306,200				\$23,306,200
0345	Long-Term Care Provider Fund	\$13,101,119				\$13,101,119
0731	IL Clean Water Fund			\$142,011	\$12,829,000	\$12,971,011
0072	Underground Storage Tank		\$12,100,000	\$33,936		\$12,133,936
0078	Solid Waste Management	\$995,200		\$79,339	\$11,003,400	\$12,077,939
0220	DCFS Childrens' Services	\$9,727,445	\$1,000,000			\$10,727,445
0733	Tobacco Settlement Recovery	\$10,561,487	\$50,000			\$10,611,487
0362	Securities Audit and Enforcement	\$526,000	\$2,000,000		\$6,803,600	\$9,329,600
0286	IL Affordable Housing Trust	\$3,804,000	\$5,000,000			\$8,804,000
0763	Tourism Promotion	\$2,933,200	\$5,000,000	\$100,788		\$8,033,988
0569	School Technology Revolving Loan fund	\$1,440,000	\$6,000,000			\$7,440,000
0922	Insurance Producer Administration	\$1,070,000		\$195,024	\$6,053,300	\$7,318,324
0997	Insurance Financial Regulation	\$500,000	\$920,000	\$178,607	\$5,368,700	\$6,967,307
0907	Health Insurance Reserve	\$6,437,115		\$64,354		\$6,501,469
0019	Grade Crossing Protection		\$6,500,000			\$6,500,000
0502	Early Intervention Services Revolving Fund	\$6,424,000				\$6,424,000
0294	Used Tire Management Fund	\$523,600			\$5,566,000	\$6,089,600
0973	Build IL Capital Revolving Loan Fund		\$5,000,000			\$5,000,000
0743	Statewide Economic Development Fund		\$4,800,000			\$4,800,000
0203	Teacher's Health Insurance Security Fund	\$4,517,917				\$4,517,917
0771	Digital Divide Elimination Infrastructure (No. Approp)		\$4,000,000			\$4,000,000
0059	Public Utility	\$1,228,712	\$2,000,000		\$268,000	\$3,496,712
0564	Renewable Energy Resources Trust Fund	\$461,200	\$3,000,000			\$3,461,200
0728	Drug Rebate Fund	\$3,378,674				\$3,378,674
0031	Drivers Education	\$876,530	\$2,500,000			\$3,376,530
0648	Downstate Public Transportation	\$3,188,882				\$3,188,882
0523	Department of Corrections Reimbursement	\$2,823,600				\$2,823,600
0483	Secretary of State Special Services	\$1,668,000			\$957,400	\$2,625,400
0299	Open Space Lands Acquisition and Development	\$1,109,200	\$1,510,000			\$2,619,200
0421	Public Aid Recoveries Trust	\$2,531,704				\$2,531,704
0821	Dram Shop	\$275,469	\$560,000		\$1,678,000	\$2,513,469
0994	IL Agricultural Loan Guarantee (RAL Loan Guarantee)		\$2,500,000			\$2,500,000
0262	Mandatory Arbitration Fund	\$470,000	\$2,000,000			\$2,470,000
0363	Dept. Business Service Spec. Ops Fund	\$318,387			\$2,112,600	\$2,430,987
0039	State Boating Act	\$664,552			\$1,664,600	\$2,329,152
0021	Financial Institution Fund	\$366,400	\$300,000	\$169,025	\$1,454,000	\$2,289,425
0129	State Gaming Fund	\$2,274,795		\$8,360		\$2,283,155
0018	Transportation Regulatory Fund	\$256,200	\$2,000,000			\$2,256,200
0047	Fire Prevention Fund		\$2,000,000	\$218,485		\$2,218,485
0828	Hazardous Waste Fund	\$1,664,000	\$500,000			\$2,164,000
0900	Petroleum Violation Fund		\$2,000,000	\$85,339		\$2,085,339
0193	Local Government Health Insurance Reserve	\$2,052,900				\$2,052,900
0795	Bank & Trust Company	\$815,120	\$640,000	\$566,499		\$2,021,619
0344	Care Providers for Persons w/ Developmental Disabilities	\$2,009,968				\$2,009,968
0171	Solid Waste Management Revolving Loan		\$2,000,000			\$2,000,000
0613	Wireless Carrier Reimbursement		\$2,000,000			\$2,000,000
0057	IL State Pharmacy Disciplinary Fund	\$301,600	\$1,500,000			\$1,801,600
0012	Motor Fuel Tax		\$1,535,000	\$257,852		\$1,792,852
0243	Credit Union	\$280,000	\$500,000	\$68,724	\$921,800	\$1,770,524
0022	General Professions Dedicated Fund	\$750,800	\$1,000,000			\$1,750,800
0093	IL State Medical Disciplinary Fund	\$201,200	\$1,500,000			\$1,701,200
0632	Horse Racing	\$962,000	\$630,000	\$96,182		\$1,688,182
0925	Coal Technology Development Assistance Fund	\$1,518,800		\$120,722		\$1,639,522
0045	Agricultural Premium Fund	\$1,546,607		\$477		\$1,547,084
0054	State Pensions	\$1,533,811				\$1,533,811

Special Transfers in FY 2004 YTD as of 6/30/2004						
FUND #	FUND NAME	Chargebacks	Statute (Funds Sweep)	Executive Order 10	Fee Increase	TOTAL
0185	SOS Special License Plate Fund				\$1,525,000	\$1,525,000
0205	Illinois Farmer & Agri-business Loan Guarantee		\$1,500,000			\$1,500,000
0635	Death Certificate Surcharge		\$1,500,000			\$1,500,000
0619	Quincy Veterans Home Fund	\$1,386,400				\$1,386,400
0482	Unclaimed Property Trust	\$1,355,505				\$1,355,505
0612	Wireless Service Emergency Fund	\$1,325,480				\$1,325,480
0457	Group Insurance Premium Fund	\$1,314,200				\$1,314,200
0040	State Parks	\$665,600	\$593,000			\$1,258,600
0637	State Police Wireless Service Emergency Fund	\$55,750	\$1,200,000			\$1,255,750
0571	Energy Efficiency Trust Fund	\$248,400	\$1,000,000			\$1,248,400
0244	Savings & Residential Finance Regulatory	\$389,600	\$850,000	\$8,302		\$1,247,902
0863	Cycle Rider Safety Training	\$205,600	\$1,000,000			\$1,205,600
0850	Real Estate License Administration	\$424,000	\$750,000	\$3,285		\$1,177,285
0942	Radioactive Waste Facility Development & Operation	\$139,200	\$1,000,000			\$1,139,200
0608	Conservation 2000	\$1,120,000	\$15,000			\$1,135,000
0094	DCFS Training Fund	\$1,120,000				\$1,120,000
0888	Design Professionals Administration & Investigation	\$118,400	\$1,000,000			\$1,118,400
0397	Trauma Center Fund	\$1,118,000				\$1,118,000
0151	Registered CPA Administration & Disciplinary Fund	\$75,600	\$1,000,000			\$1,075,600
0050	Mental Health		\$1,000,000			\$1,000,000
0126	New Technology Recovery		\$1,000,000			\$1,000,000
0342	Audit Expense		\$1,000,000			\$1,000,000
0962	Park & Conservation		\$1,000,000			\$1,000,000
0622	Motor Vehicle License Plate Fund	\$956,000				\$956,000
0089	Subtitle D Management Fund	\$125,600			\$743,100	\$868,700
0980	Manteno Veterans Home	\$803,600				\$803,600
0906	State Police Services	\$802,884				\$802,884
0576	Pesticide Control	\$172,000			\$581,000	\$753,000
0156	Motor Vehicle Theft Prevention Fund	\$494,240	\$250,000	\$5,800		\$750,040
0610	Energy Assistance Contribution		\$750,000			\$750,000
0281	IL Tax Increment	\$600,000	\$20,000		\$128,000	\$748,000
0215	Capital Development Board Revolving		\$500,000	\$234,020		\$734,020
0067	Radiation Protection	\$466,400	\$240,000	\$21,783		\$728,183
0218	Professions Indirect Cost Fund	\$170,741		\$555,927		\$726,668
0975	Large Business Attraction Fund	\$136,400	\$500,000			\$636,400
0245	Fair & Exposition Fund	\$132,880	\$500,000			\$632,880
0929	Violent Crime Victims Assistance	\$620,000				\$620,000
0014	Food & Drug Safety	\$96,000	\$500,000			\$596,000
0921	DHS Recoveries Trust	\$592,000				\$592,000
0621	International Tourism Fund	\$581,200				\$581,200
0026	Live & Learn Fund	\$576,167				\$576,167
0258	Nurse Dedicated & Professional Fund	\$553,600				\$553,600
0373	State Treasurer's Bank Service	\$540,000				\$540,000
0372	Plumbing Licensure & Program Fund	\$120,000	\$400,000			\$520,000
0085	Illinois Gaming Law Enforcement	\$308,000	\$200,000			\$508,000
0288	Community Water Supply Lab		\$500,000			\$500,000
0044	Lobbyist Registration Administration Fund	\$12,250			\$486,500	\$498,750
0883	Intra-Agency Services Fund			\$498,725		\$498,725
0969	Local Tourism Fund	\$497,335				\$497,335
0796	Nuclear Safety Emergency Preparedness		\$460,000	\$21,060		\$481,060
0808	Medical Special Purpose Trust Fund	\$466,885				\$466,885
0175	Illinois School Asbestos Abatement	\$52,000	\$400,000			\$452,000
0130	School District Emergency Financial Assistance	\$441,646				\$441,646
0757	Child Support Administrative		\$170,000	\$268,756		\$438,756
0536	Leads Maintenance	\$221,600	\$180,000			\$401,600
0770	Digital Divide Elimination Fund	\$400,000				\$400,000
0920	Metabolic Screening & Treatment Fund	\$395,663				\$395,663
0709	IL Thoroughbred Breeders Fund	\$192,560	\$160,000			\$352,560

Special Transfers in FY 2004 YTD as of 6/30/2004						
FUND #	FUND NAME	Chargebacks	Statute (Funds Sweep)	Executive Order 10	Fee Increase	TOTAL
0237	Medicaid Fraud/Abuse Prevent		\$350,000			\$350,000
0978	Deferred Lottery Prize Winners Trust Fund	\$340,380				\$340,380
0944	Environmental Protection Permit & Inspection	\$333,600		\$141		\$333,741
0546	Public Pension Regulation Fund				\$321,000	\$321,000
0886	Criminal Justice Information Systems Trust		\$300,000	\$13,960		\$313,960
0577	Community College Health Insurance Security Fund	\$311,691				\$311,691
0879	Traffic & Criminal Conviction Surcharge		\$250,000	\$59,006		\$309,006
0384	Tax Compliance & Administration	\$150,487	\$150,000			\$300,487
0845	Environmental Protection Trust Fund	\$286,800				\$286,800
0368	Drug Treatment Fund	\$277,600				\$277,600
0298	Natural Areas Acquisition Fund	\$271,600				\$271,600
0272	LaSalle Veterans Home Fund	\$270,196				\$270,196
0152	State Crime Laboratory		\$250,000			\$250,000
0945	Landfill Closure & Post-Close		\$250,000			\$250,000
0360	Lead Poisoning, Screening, Prevention & Abatement Fund	\$235,200				\$235,200
0452	IL Tourism Tax	\$233,123				\$233,123
0711	State Lottery Fund			\$217,396		\$217,396
0163	Weights and Measures	\$181,600			\$30,000	\$211,600
0538	IL Historic Sites	\$191,600	\$15,000			\$206,600
0386	Appraisal Administration	\$176,000	\$10,000	\$7,346		\$193,346
0905	IL Forestry Development Fund	\$193,200				\$193,200
0982	IL Beach Marina	\$171,384				\$171,384
0214	Brownfields Redevelopment Fund	\$168,000				\$168,000
0137	Plugging & Restoration	\$46,400	\$120,000			\$166,400
0893	Library Trust Fund	\$163,096				\$163,096
0524	Health Facility Plan Review Fund	\$160,000				\$160,000
0340	Public Health Services Revolving Fund	\$152,000				\$152,000
0261	Underground Resource Conservation Enforcement	\$51,200	\$100,000			\$151,200
0074	EPA Special State Projects Trust		\$150,000			\$150,000
0574	Off-Highway Vehicle Trails	\$49,200	\$100,000			\$149,200
0257	AML Reclamation Set Aside Fund	\$59,000	\$90,000			\$149,000
0304	Statistical Services Revolving Fund			\$143,708		\$143,708
0708	IL Standardbred Breeders Fund	\$101,899	\$35,000			\$136,899
0195	IPTIP Administrative Trust Fund	\$135,639				\$135,639
0222	State Police DUI Fund	\$22,250	\$100,000			\$122,250
0896	Public Health State Projects	\$120,000				\$120,000
0438	IL State Fair	\$114,862				\$114,862
0422	Alternative Fuels Fund	\$114,800				\$114,800
0884	DNR Special Projects Fund	\$107,468				\$107,468
0224	Asbestos Abatement Fund	\$106,250				\$106,250
0091	Clean Air Act (CAA) Permit Fund			\$104,772		\$104,772
0993	Public Infrastructure Construction Loan	\$101,200				\$101,200
0246	State Police Vehicle		\$101,000			\$101,000
0746	Home Inspector Administration		\$100,000			\$100,000
0184	Violence Prevention Fund	\$99,079				\$99,079
0147	Coal Mining Regulatory Fund	\$15,750	\$80,000			\$95,750
0514	State Asset Forfeiture Fund	\$88,250				\$88,250
0238	IL Health Facilities Planning Fund	\$88,000				\$88,000
0276	Drunk & Drugged Driving Prevention Fund	\$78,378				\$78,378
0259	Optometric Licensing & Disciplinary Committee Fund	\$75,600				\$75,600
0290	Fertilizer Control Fund	\$21,500			\$53,000	\$74,500
0732	SOS DUI Administration Fund	\$71,250				\$71,250
0745	State's Attorneys Appellate Prosecutor's County Fund	\$71,220				\$71,220
0823	IL State Dental Disciplinary Fund	\$69,750				\$69,750
0703	State Whistleblower Reward & Protection	\$68,800				\$68,800
0295	SOS Interagency Grant Fund	\$68,443				\$68,443
0223	DMH/DD Accounts Receivable Fund	\$62,720				\$62,720
0251	Dept. of Labor Special State Trust Fund	\$59,974				\$59,974

<b>Special Transfers in FY 2004 YTD as of 6/30/2004</b>						
<b>FUND #</b>	<b>FUND NAME</b>	<b>Chargebacks</b>	<b>Statute (Funds Sweep)</b>	<b>Executive Order 10</b>	<b>Fee Increase</b>	<b>TOTAL</b>
0369	Feed Control Fund	\$56,000				\$56,000
0641	Auction Regulation Administration		\$50,000	\$4,357		\$54,357
0024	IL Dept. of Ag. Laboratory Services Fund	\$50,800				\$50,800
0378	Insurance Premium Tax Refund Fund	\$50,039				\$50,039
0173	Emergency Planning & Training		\$50,000			\$50,000
0543	Comptroller's Administrative		\$50,000			\$50,000
0750	Real Estate Audit		\$50,000			\$50,000
0341	Provider Inquiry Trust Fund	\$48,000				\$48,000
0550	Supplemental Low Income Energy Assistance Fund			\$46,143		\$46,143
0436	Safety Responsibility Fund	\$45,227				\$45,227
0649	Motor Carrier Safety Inspection	\$45,139				\$45,139
0207	Pollution Control Board State Trust Fund	\$36,258				\$36,258
0865	Domestic Violence Shelter & Service Fund	\$35,200				\$35,200
0146	Aggregate Operation Regulatory	\$22,800	\$10,000			\$32,800
0113	Community Health Center Care Fund	\$32,000				\$32,000
0520	Federal Asset Forfeiture Fund	\$30,250				\$30,250
0849	Real Estate Research & Education		\$30,000			\$30,000
0390	IL Habitat Endowment Trust Fund	\$26,538				\$26,538
0370	Tanning Facility Permit Fund	\$26,000				\$26,000
0774	Oil Spill Response Fund	\$25,423				\$25,423
0909	IL Wildlife Preservation Fund	\$24,400				\$24,400
0280	IL Racing Board Grant Fund	\$22,188				\$22,188
0535	Sex Offender Registration		\$21,000			\$21,000
0669	Airport Land Loan Revolving Fund	\$20,500				\$20,500
0510	IL Fire Fighters' Memorial Fund	\$20,400				\$20,400
0840	Hazardous Waste Research Fund	\$20,000				\$20,000
0529	IL State Board of Investments Fund	\$19,034				\$19,034
0274	Self-Insurers Administration Fund	\$18,746				\$18,746
0573	Petroleum Resources Revolving Fund	\$15,750				\$15,750
0265	State Rail Freight Loan Repayment Fund	\$15,000				\$15,000
0357	Child Labor Enforcement Trust		\$15,000			\$15,000
0650	Municipal Economic Development Fund	\$14,917				\$14,917
0562	Pawnbroker Regulation Fund	\$7,500		\$6,096		\$13,596
0323	Motor Vehicle Review Board Fund	\$13,250				\$13,250
0285	Long-Term Care Monitor/Receiver Fund	\$12,500				\$12,500
0096	Cemetery Consumer Protection Fund	\$11,575				\$11,575
0292	Securities Investors Education Fund	\$11,250				\$11,250
0167	Registered Limited Liability Partnership Fund	\$7,000				\$7,000
0248	Racing Board Fingerprint License Fund	\$6,019				\$6,019
0145	Explosives Regulatory		\$4,000			\$4,000
0270	Water Revolving Fund			\$3,543		\$3,543
0297	Guardianship & Advocacy Fund			\$1,033		\$1,033
0041	Wildlife & Fish Fund			\$0		\$0
0053	MEAOB	\$0				\$0
0617	CDB Contributory Trust	\$0				\$0
0765	Federal Surface Mining Control & Reclamation Fund			\$0		\$0
0890	SOS Internatl. Registration Plan Fund	\$0				\$0
0940	Self-Insurers Security Fund	\$0				\$0
0036	IL Veterans' Rehabilitation	\$270,040				\$270,040
	<b>TOTAL</b>	<b>\$269,333,882</b>	<b>\$158,514,000</b>	<b>\$5,526,569</b>	<b>\$88,841,000</b>	<b>\$522,215,451</b>

## ECONOMY: Interest Rates Rise

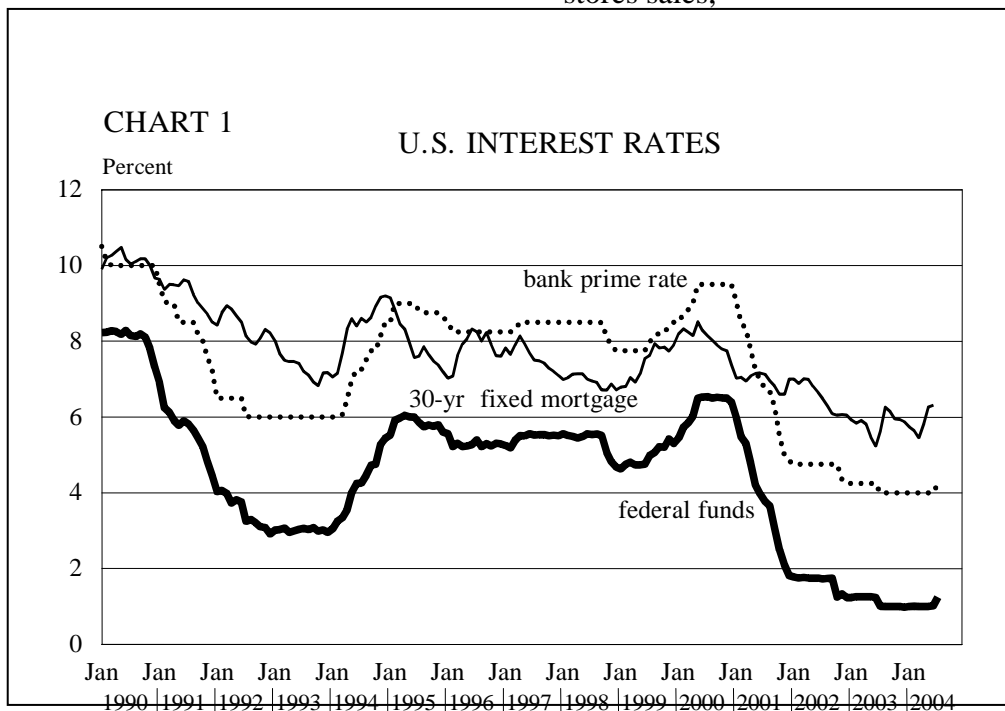
Edward H. Boss, Jr., Chief Economist

The Federal Reserve moved to raise its target rate for federal funds by a quarter of a point from 1% to 1.25% and the discount rate from 2% to 2.25% at month's end, as had been widely anticipated. This was the first change in a year which brought these interest rates back to the levels last seen in November 2002. The rise in these key policy rates is the first in four years and follows thirteen reductions begun in early 2001, which had brought them to the lowest levels in almost half a century. (See Chart 1.)

The slight firming in credit policy represented by the rise in these key interest rates was done as a first step intended to preempt inflationary pressures arising from a resurgence of economic growth and higher readings in the latest price reports, due in part to surging energy prices. Indeed, a few

weeks earlier there was speculation that the rate gain might be 50 basis points rather than the 25 basis points decided upon. Since then, however, several economic reports have suggested some moderation in the rapid rate of economic growth as well as some easing in price pressures.

Economic growth in the Commerce Department's final report on real or inflation-adjusted *gross domestic product* was lowered for the first quarter of 2004 to 3.9% from an advance report showing a 4.4% rise, due in large part to a sharp upward revision in the value of imports that detracts from overall domestic growth. Initial claims for unemployment insurance have traded in a narrow range, leveling out in recent weeks following a sustained sharp downturn; new orders for durable goods have fallen for two months in a row; the Chicago Purchasing Manager's Index dropped to its lowest level since last October in June, and some key retail stores sales,



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namely those of Wal-Mart and Target, are not meeting expectations for June. Indeed, many analysts now project real growth for the quarter ended in June at about a 4% annual rate, compared to about a 5% annual rate of growth anticipated only a few weeks ago. Even so, a 4% growth rate is still 1% or more above the long-term U.S. growth rate, but would be seen as putting less pressure on prices. All the news was not negative, however, with sales and income data for May better than expected and consumer confidence surging in June.

**L**ong term interest rates, such as mortgage interest rates shown in the chart, already have risen in recent months as the strength of the economy became clear and as prices rose faster. Thus, the rise in these key monetary policy rates might be seen as merely beginning to catch up with what already has been reflected in the credit markets.

Some moderation in the pace of economic growth coupled with some easing in inflationary pressures, especially as oil prices have receded from their highs, suggest, however, that further rate increases may be measured.

**T**he Federal Reserve continues to walk the tight rope between keeping the economic expansion on track without igniting inflation. At Wednesday's meeting it stated that...*"The Committee perceives the upside and downside risks to the attainment of both sustainable growth and price stability for the next few quarters are roughly equal. With underlying inflation still expected to be relatively low, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured."* This statement suggests that further rate increases are likely to remain small and their timing subject to events that take place in the pace of economic growth and prices.

<b>INDICATORS OF ILLINOIS ECONOMIC ACTIVITY</b>			
<u>INDICATORS</u>	<u>MAY 2004</u>	<u>APRIL 2004</u>	<u>MAY 2003</u>
Unemployment Rate (Average)	6.4%	6.1%	6.6%
Annual Rate of Inflation (Chicago)	9.6%	5.8%	2.9%
<b>—————</b>			
	<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) (May)	6,391	0.2%	1.2%
Employment (thousands) (May)	5,934	-0.1%	1.4%
New Car & Truck Registration (May)	57,687	6.6%	2.0%
Single Family Housing Permits (May)	4,058	-6.1%	3.9%
Total Exports (\$ mil) (April)	2,491	-6.2%	12.6%
Chicago Purchasing Managers Index (June)	56.4	-17.1%	7.4%