Commission on Government Forecasting and Accountability

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REVENUE: Federal Stimulus Funds Help Avert More Than $2 Billion Plunge—Revenues Still Drop $515 Million in FY 2009

Jim Muschinske, Revenue Manager

Excluding cash flow transfers, general funds receipts closed out the fiscal year by increasing $290 million in June. The monthly gain was due to $520 million in additional federal sources made possible by $473 million in direct federal stimulus revenue. Unfortunately, large losses from personal and corporate income taxes and sales taxes wiped out most of the federal source gains. June had one more receipting day than last year.

Gross personal income taxes fell $126 million, or $134 million net of refunds. Gross corporate income tax, after performing surprising well in recent months, finally succumbed to the inevitable with receipts falling $123 million, or $108 net of refunds. Sales tax receipts continue to disappoint as revenues were off by $49 million. Interest income dropped by $12 million, other sources by $5 million, and liquor taxes by $1 million.

A few sources managed to post gains during the last month with insurance taxes rising $7 million, inheritance $4 million, public utility $3 million, and corporate franchise taxes $2 million.

Overall transfers posted a gain of $63 million due to a $69 million upturn in other transfers related to the timing of certain transfers. Lottery posted a gain of $4 million, while riverboat transfers dropped again, falling $10 million for the month. As mentioned, federal sources posted a $520 million gain for the month, with $473 million of the gain directly associated with the federal stimulus package.

Year End

Despite $1.566 billion in direct federal stimulus revenue, overall base receipts finished down $515 million in FY 2009. The declines are attributed to the continuing effects of the ongoing recession as the combined economic related sources [income and sales taxes] represented $1.689 billion in fall offs. In addition, lower transfers accounted for $307 million of the slowing. Federal sources aside, only public utility taxes and insurance taxes managed to post gains for the year which demonstrated that the recession's grip is not discriminating, and that virtually all sectors of the economy are being negatively impacted.

Gross personal income tax finished down $968 million, or $1.097 billion on a net of refund basis. Sales tax was down a startling $442 million, reflecting the bruised consumer who is reluctant to spend given the deteriorated employment outlook. Interest income is off $131 million due to lower rates of return as well as reduced investable balances, while gross corporate income tax held on surprising well, although falling $128 million or $150 net of refunds. Inheritance taxes were down $85 million and all other remaining tax sources netted another $55 million in yearly losses.

Total transfers were down $307 million, reflecting $141 million in lower other transfers, $134 million in fewer transfers from riverboat gaming, and $32 million in reduced lottery transfers. Federal sources, after receipting $1.566 billion in direct federal stimulus over the last quarter, managed to jump $1.752 billion for the year. Clearly, were it not for the gains made possible by the stimulus package, Illinois would have suffered the largest one-year revenue drop in its history.

GENERAL FUNDS RECEIPTS: JUNE

FY 2009 vs. FY 2008
($ million)

Revenue Sources	June FY 2009	June FY 2008	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$848	$974	($126)	-12.9%
Corporate Income Tax (regular)	187	310	($123)	-39.7%
Sales Taxes	573	622	($49)	-7.9%
Public Utility Taxes (regular)	76	73	$3	4.1%
Cigarette Tax	29	29	$0	0.0%
Liquor Gallonage Taxes	13	14	($1)	-7.1%
Vehicle Use Tax	2	2	$0	0.0%
Inheritance Tax (Gross)	34	30	$4	13.3%
Insurance Taxes and Fees	61	54	$7	13.0%
Corporate Franchise Tax & Fees	17	15	$2	13.3%
Interest on State Funds & Investments	10	22	($12)	-54.5%
Cook County IGT	0	0	$0	N/A
Other Sources	61	66	($5)	-7.6%
Subtotal	$1,911	$2,211	($300)	-13.6%
Transfers				
Lottery	66	62	$4	6.5%
Riverboat transfers & receipts	30	40	($10)	-25.0%
Other	185	116	$69	59.5%
Total State Sources	$2,192	$2,429	($237)	-9.8%
Federal Sources	$836	$316	$520	164.6%
Total Federal & State Sources	$3,028	$2,745	$283	10.3%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($83)	($75)	($8)	10.7%
Corporate Income Tax	($33)	(48)	$15	-31.3%
Subtotal General Funds	$2,912	$2,622	$290	11.1%
Short-Term Borrowing	$0	$0	$0	N/A
Hopital Provider Fund (cash flow transfer)	$0	$301	($301)	N/A
Budget Stabilization Fund Transfer	$50	$0	$50	N/A
Total General Funds	$2,962	$2,923	$39	1.3%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 1-Jul-09

GENERAL FUNDS RECEIPTS: YEAR END

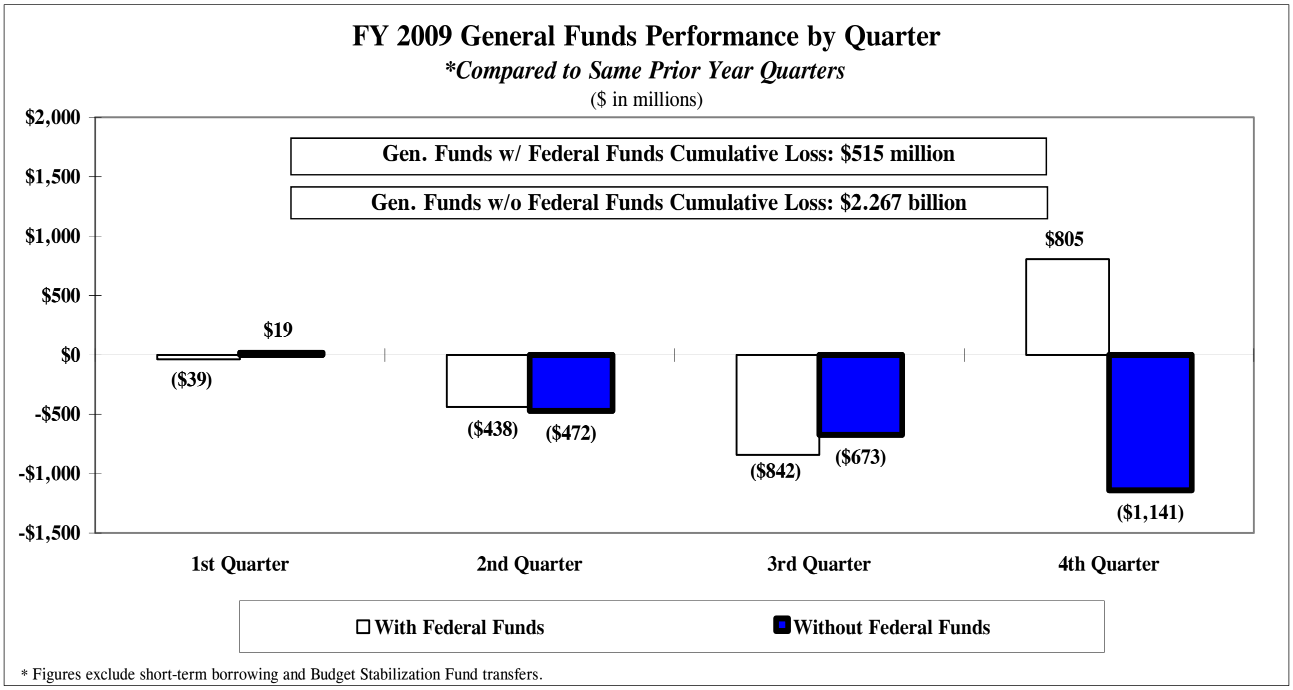
FY 2009 vs. FY 2008

($ million)

Revenue Sources	FY 2009	FY 2008	CHANGE FROM FY 2008	% CHANGE
State Taxes				
Personal Income Tax	$10,219	$11,187	($968)	-8.7%
Corporate Income Tax (regular)	2,073	2,201	($128)	-5.8%
Sales Taxes	6,773	7,215	($442)	-6.1%
Public Utility Taxes (regular)	1,168	1,157	$11	1.0%
Cigarette Tax	350	350	$0	0.0%
Liquor Gallonage Taxes	158	158	$0	0.0%
Vehicle Use Tax	27	32	($5)	-15.6%
Inheritance Tax (Gross)	288	373	($85)	-22.8%
Insurance Taxes and Fees	334	298	$36	12.1%
Corporate Franchise Tax & Fees	201	225	($24)	-10.7%
Interest on State Funds & Investments	81	212	($131)	-61.8%
Cook County IGT	253	302	($49)	-16.2%
Other Sources	418	442	($24)	-5.4%
Subtotal	$22,343	$24,152	($1,809)	-7.5%
Transfers				
Lottery	625	657	($32)	-4.9%
Riverboat transfers & receipts	430	564	($134)	-23.8%
Other	538	679	($141)	-20.8%
Total State Sources	$23,936	$26,052	($2,116)	-8.1%
Federal Sources	$6,567	$4,815	$1,752	36.4%
Total Federal & State Sources	$30,503	$30,867	($364)	-1.2%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($996)	($867)	($129)	14.9%
Corporate Income Tax	($363)	($341)	($22)	6.5%
Subtotal General Funds	$29,144	$29,659	($515)	-1.7%
Short-Term Borrowing	$2,400	$2,400	$0	N/A
Hospital Provider Fund (cash flow transfer)	$0	$1,503	($1,503)	N/A
Budget Stabilization Fund Transfer	$576	$276	$300	108.7%
Total General Funds	$32,120	$33,838	($1,718)	-5.1%

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

CGFA 1-Jul-09



FIRST QUARTER

The new fiscal year started off with a gain of $151 million, although virtually all of the increase was due to federal reimbursable spending on Medicaid. Absent the gain of $135 million in federal sources, other revenues totaled an unimpressive $16 million. Early on CGFA foreshadowed a dismal revenue picture and stated in its July briefing that "…the revenue outlook has turned quite grim". August revenues dropped $457 million as a significant slowing in reimbursable spending caused federal sources to plummet $338 million. A poor month for transfers also contributed to the drop off. August had two less receipting days than the same month one year earlier, which added to the decline. September revenues increased $267 million as reimbursable spending caused federal sources to rise $146 million. A good month for transfers also contributed to the monthly gain. In addition, two extra receipting days in September facilitated the advance. **Through the first quarter of FY 2009, overall base revenues are down $39 million. Despite a positive first quarter, the Commission continued to share its concern regarding revenues.**

"In July's monthly briefing, a number of items were highlighted that will serve to restrict revenue growth in FY 2009 [i.e. increased refund percentage, lower miscellaneous transfers, reduced Cook County IGT, less from riverboat transfers, returns from interest income, no expected growth from federal sources]. Those items, when combined with a weak economy, which may be unable to avoid a recession, paint a less than rosy revenue picture."—September 2008 Revenue Briefing

SECOND QUARTER

October revenues fell $369 million as lower reimbursable spending caused federal sources to drop $239 million. A lower month for transfers also contributed to the monthly retreat. While rates of growth were very close to those forecast at the end of the spring session, unfortunately worsening economic conditions suggested that even those modest rates of growth would be unable to be maintained over the remainder of the fiscal year. While gross personal income tax receipts were up 3.2% over the first third of the year, the trend was decidedly down. As employment measures continued to fall, there was little reason to believe that growth rate could be maintained. Similarly, year-over-year percent change by month for both corporate income tax as well as sales tax pointed to worsening receipt patterns. Corporate profits had been decimated over previous months, while consumer sentiments had eroded to record low levels, neither of which boded well for the remainder of the fiscal year. November revenues fell $751 million as lower reimbursable spending caused federal sources to drop $402 million. In addition, three fewer receipting days this month in comparison to last year likely contributed to significant declines in personal income tax and sales tax. Monthly processing days often vary from year to year, although usually by only one or two days. It is very unusual for a month to gain/lose three days. December revenues grew $275 million as higher reimbursable spending made possible by $1.4 billion in short-term borrowing caused federal sources to jump $379 million. Most of the other revenue sources were mixed; although on balance were negative.

Through the first half of the fiscal year, overall base revenues are down $477 million. The majority of the decline is attributed to much lower transfers—down $256 million as well as overall weakness in a number of sources. In fact, only three sources have been able to post a year to date gain over the previous year, underlining the weakness in the revenue picture.

THIRD QUARTER

January revenues fell $565 million as weakness in virtually all categories resulted in the downturn. A continued falloff in the economic related sources reaffirmed the expectation that the worst of the recession's impact has yet to be felt. A significant slowing in federal receipts contributed to the monthly decline, as did timing aspects from last year's passage of the FY 2008 BIMP legislation. Base general funds receipts fell $167 million in February as revenues continued to manifest the deepening recession. Key revenue sources experienced a dismal month as weakness spread to virtually all areas. Base general funds receipts fell $110 million in March as revenues continued to manifest the deepening recession. Key revenue sources experienced another dismal month, with weakness in income and sales taxes especially hard hit.

Through the first three-quarters of the fiscal year, overall base revenues are down $1.321 billion. The declines are attributed to battered economic related sources as when combined, income and sales taxes represent $664 million of the fall off. In addition, lower transfers account for $268 million of the slowing, with lower federal sources another $193 million. Only public utility taxes and insurance taxes is demonstrating any growth on a year to date basis, indicating that the deepening recession is not discriminating, and that virtually all sectors of the economy are being negatively impacted.

FOURTH QUARTER

Base general funds receipts fell $276 million in April despite approximately $261 million in federal monies related to the Stimulus Package and an unexpected boost in corporate income taxes. Unfortunately, continued large losses from personal income taxes, sales taxes, and transfers more than wiped out the positives. Excluding $1 billion in short-term borrowing and other cash flow transfers, general funds receipts jumped $791 million in May. The monthly gain was due to a whopping $1.167 billion more from federal sources, of which $832 million was directly related to the Stimulus Package. Also assisting receipts was the continued unexpected boost in corporate income taxes. Unfortunately, continued large losses from personal income taxes, sales taxes, and transfers wiped out a significant portion of the positives. The fiscal year ended with base revenues rising $290 million due to increased federal sources stemming from the federal stimulus which served to mask a dramatic falloff in income and sales taxes. In fact, if the $520 million in federal growth is excluded, all other revenues fell $230 million.

Excluding short-term borrowing and cash flow transfers, FY 2009 ended the year with revenues totaling $29.144 billion. While that represents a decline of $515 million or 1.7% from the previous year, the actual revenue performance was far worse, as $1.566 billion was directly related to the federal stimulus package. That had the effect of vaulting federal sources $1.752 billion ahead of last year's level. Therefore, if federal source growth was excluded, all other revenues were off a staggering $2.267 billion. Not surprisingly, the bulk of the falloff is related to the battering that the economically related sources have been taking as combined, income and sales tax were down $1.247 billion from the previous fiscal year. A decrease in transfers to the general funds also was a key reason for the drop, as overall revenues were down $307 million due to much weaker riverboat transfers and other transfers.

Review of the FY 2009 Revenue Assumptions

The table on page 10 illustrates that base revenues in FY 2009 [excludes direct federal stimulus] fell $2.873 billion below assumptions used to implement the budget per GOMB. According to GOMB, the budget initially was implemented on the assumption that base revenues would grow $792 million. As is now known, not only did that growth not occur, but revenues actually fell $2.081 billion below that assumption. That falloff was partially mitigated by the $1.566 billion received via the federal stimulus package that was not originally included in the FY 2009, but proved fortunate as without it the budget picture would have been even gloomier.

Review of Most Recent Revenue Estimates

The table on page 11 demonstrates how the most recent estimates of both CGFA and GOMB performed relative to actuals. Both estimates represent unofficial figures that were prepared in the final weeks of FY 2009 and made available to officials so that the most updated information could be utilized in budgetary discussions. As shown, other than federal sources falling short of estimates due to lack of spending in the absence of a planned June short-term borrowing, both agencies final estimates were very close to actuals.

CGFA underestimated state sources by a net $99 million, while GOMB underestimated by a net $148 million. CGFA was only $6 million off in overall transfers, while GOMB overestimated transfers by $77 million. Finally, CGFA's estimate of federal sources [which was based upon GOMB's information detailed in the official May statement] overestimated federal sources due to the lack of the aforementioned final round of short term borrowing that was slated to take place in June. Similarly, GOMB's latest internal June estimate underestimated federal sources by $516 million. It should be noted that the shortfall in expected federal stimulus money should not yet be considered "forfeited" or lost. Reimbursable spending in large part dictates federal source revenue. It's possible that future short-term borrowing could be utilized to reclaim those federal monies that did not arrive as expected in time to be receipted in FY 2009. Most recent projections by the GOMB indicate that over the two-year period FY'09-10, approximately

$4.2 billion in federal stimulus could be accessed, dependent on reimbursable spending.

FY 2010 Begins Under Cloud of Revenue Uncertainty

The fiscal year begins much like the last one ended, with a very clouded budget picture. While there are a host of items that could affect FY 2010 revenues, CGFA is providing an abbreviated look at what can be expected from a base revenue standpoint. Clearly, any legislative changes in tax rates will have a significant impact, as will the ultimate reimbursable spending plan. Until then, however, what follows is an overview of FY 2010 expectations.

Base Revenues [$millions]	Estimated FY 2010	Actual FY 2009	Difference
State Sources	$19,886	$20,984	($1,098)
Transfers	$2,230	$1,593	$637
Federal Sources [Low]	$5,407	$6,567	($1,160)
Federal Sources [High]	$7,360	$6,567	$793
Total with Low Federal	**$27,523**	**$29,144**	**($1,621)**
Total with High Federal	**$29,476**	**$29,144**	**$332**

STATE SOURCES: In total, state sources are expected to drop by $1.098 billion. Gross personal income taxes are anticipated to fall approximately 3.5% in FY 2010, a slower pace than last year's drop of 8.7%, but still indicative of a continued bleak employment picture. Gross corporate income tax receipts are expected to plunge in FY 2010—down approximately 35%. The unexpectedly strong performance in April and May from a relatively small number of "trusts", is not believed to reflect the true base. As a result, the falloff is steeper than originally thought on a percentage basis, but remains at the same dollar value as CGFA's April 2009 estimate. Sales tax is expected to have the rate of loss experienced in FY 2009, unfortunately that still translates into a decline of approximately 3.0%. The remaining state source revenues are expected to net out to very little growth—approximately $25 million. *It should be mentioned that it is assumed the income tax refund percentages will be left unchanged. Any increase in those percentages would reduce net available income tax revenue. The Department of Revenue is cautioning that a significant backlog of refunds could result if current rates are not increased.*

TRANSFERS: In total, transfers are expected to grow $637 million in FY 2010. Little growth is anticipated from lottery and riverboat transfers in FY 2010. However, approximately $50 million is expected in payment from the awarding of the 10th riverboat license which it is assumed will not become operational until FY 2011 at the earliest. The estimate does include $356 million in assumed fund sweeps as well as $245 million in transfers related to the Capital Projects Fund [outlined in the capital bill]. Obviously, any change to those two key assumptions would impact on the overall transfer figure.

FEDERAL SOURCES: Perhaps the largest uncertainty about the FY 2010 revenue picture revolves around expectations of federal source receipts.

Since federal receipts are in large part determined by reimbursable spending, appropriations limits as well as available revenues to spend largely dictates the outcome. Without established appropriation levels as well as spending priorities yet to be spelled out, estimating federal sources is virtually impossible. For this exercise CGFA will present both a lower federal source estimate that the GOMB has indicated will occur under the "50%" budget plan, as well as a higher federal estimate that assumes spending sufficient to realize an increase of $793 million.

In summary, this outlook for FY 2010 may well undergo significant revision over the coming month(s) as final budget actions must ultimately occur. Until then, it represents CGFA's best interpretation of these very trying budgetary times. Subsequent revisions will be discussed in future monthly revenue briefings.

Actual vs. Unofficial FY 2009 Budget (per GOMB) ***Excludes short-term borrowing and cash flow transfers*** **(millions)**				
Revenue Sources	**Actual FY 2009 Revenues**	**Unofficial FY 2009 Budget Assumptions Estimate Aug-08**	**$ Difference**	**% Difference**
State Taxes				
Personal Income Tax	$10,219	$11,559	($1,340)	-11.6%
Corporate Income Tax	$2,073	$2,348	($275)	-11.7%
Sales Taxes	$6,773	$7,332	($559)	-7.6%
Public Utility (regular)	$1,168	$1,110	$58	5.2%
Cigarette Tax	$350	$350	$0	0.0%
Liquor Gallonage Taxes	$158	$161	($3)	-1.9%
Vehicle Use Tax	$27	$31	($4)	-12.9%
Inheritance Tax (gross)	$288	$275	$13	4.7%
Insurance Taxes & Fees	$334	$325	$9	2.8%
Corporate Franchise Tax & Fees	$201	$205	($4)	-2.0%
Interest on State Funds & Investments	$81	$180	($99)	-55.0%
Cook County Intergovernmental Transfer	$253	$256	($3)	-1.2%
Other Sources	$418	$504	($86)	-17.1%
Subtotal	**$22,343**	**$24,636**	**($2,293)**	**-9.3%**
Transfers				
Lottery	$625	$664	($39)	-5.9%
Riverboat Transfers & Receipts	$430	$642	($212)	-33.0%
Sale of 10th Riverboat License [approx.]	$0	$575	($575)	N/A
Other	$538	$678	($140)	-20.6%
Total State Sources	**$23,936**	**$27,195**	**($3,259)**	**-12.0%**
Federal Sources	**$5,001**	**$4,794**	**$207**	**4.3%**
Total Federal & State Sources	**$28,937**	**$31,989**	**($3,052)**	**-9.5%**
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($996)	($1,127)	$131	-11.6%
Corporate Income Tax	($363)	($411)	$48	-11.7%
Subtotal General Funds	**$27,578**	**$30,451**	**($2,873)**	**-9.4%**
Change from Prior Year	**($2,081)**	**$792**	**($2,873)**	**N/A**
Percent Change	**-7.0%**	**2.7%**		
Federal Stimulus	**$1,566**	**$0**	**$1,566**	
Subtotal with Federal Stimulus	**$29,144**	**$30,451**	**($1,307)**	**-4.3%**

CGFA

FY 2009 Actuals vs. Estimates: CGFA and GOMB

($ millions)

Revenue Sources	ACTUAL FY 2009	UNOFFICIAL CGFA EST. June-09 FY 2009	DIFFERENCE ACTUALS FROM ESTIMATE	UNOFFICIAL GOMB EST. June-09 FY 2009	DIFFERENCE ACTUALS FROM ESTIMATE
State Taxes					
Personal Income Tax	$10,219	$10,150	$69	$10,225	($6)
Corporate Income Tax (regular)	$2,073	$2,075	($2)	$1,982	$91
Sales Taxes	$6,773	$6,750	$23	$6,715	$58
Public Utility (regular)	$1,168	$1,159	$9	$1,159	$9
Cigarette Tax	$350	$350	$0	$350	$0
Liquor Gallonage Taxes	$158	$160	($2)	$161	($3)
Vehicle Use Tax	$27	$27	$0	$26	$1
Inheritance Tax (gross)	$288	$287	$1	$275	$13
Insurance Taxes & Fees	$334	$319	$15	$325	$9
Corporate Franchise Tax & Fees	$201	$200	$1	$205	($4)
Interest on State Funds & Investments	$81	$85	($4)	$80	$1
Cook County Intergovernmental Transfer	$253	$253	$0	$253	$0
Other Sources	$418	$423	($5)	$426	($8)
Subtotal	**$22,343**	**$22,238**	**$105**	**$22,182**	**$161**
Transfers					
Lottery	$625	$615	$10	$625	$0
Riverboat transfers & receipts	$430	$440	($10)	$470	($40)
Other	$538	$532	$6	$575	($37)
Total State Sources	**$23,936**	**$23,825**	**$111**	**$23,852**	**$84**
Federal Sources [includes stimulus]	**$6,567**	**$7,124**	**($557)**	**$7,083**	**($516)**
Total Federal & State Sources	**$30,503**	**$30,949**	**($446)**	**$30,935**	**($432)**
Nongeneral Funds Distribution:					
Refund Fund					
Personal Income Tax	($996)	($990)	($6)	($998)	$2
Corporate Income Tax	($363)	($363)	$0	($348)	($15)
Subtotal General Funds	**$29,144**	**$29,596**	**($452)**	**$29,589**	**($445)**
Short Term Borrowing	**$2,400**	**$2,400**	**$0**	**$2,400**	**$0**
Budget Stabilization Fund Transfer	**$576**	**$576**	**$0**	**$576**	**$0**
Total General Funds	**$32,120**	**$32,572**	**($452)**	**$32,565**	**($445)**

* Both estimates updated to reflect short-term borrowing and cash flow transfers.

07/02/09

Video Gaming in Illinois
Eric Noggle, Senior Revenue Analyst

In May 2009, the State Legislature moved the State's first comprehensive capital bill in many years in the form of HB 0255, as amended by Senate Amendment 1. While the bill awaits the governor's signature, it is estimated that roughly $1 billion per year in new State revenues would be distributed to the Capital Projects Fund to pay for a variety of capital projects across Illinois if this legislation were to be signed into law. Much of these anticipated new revenues would come from a variety of sources including an expansion of the Sales and Use Tax, offering an online lottery program, increasing the liquor tax, and increasing motor vehicle fees. However, the largest portion of the new revenues is anticipated to come from the legalization of video gaming machines in Illinois.

While video poker machines are currently prevalent in establishments across Illinois, these machines are for "entertainment purposes only" under current law. Because of this, the State has never collected tax revenues from these machines. This new legislation provides that the Illinois Gaming Board shall be responsible for administration and enforcement of laws relating to the development of video gaming terminals in Illinois.

Under the provisions of HB 0255, as amended by Senate Amendment 1 (and provisions under trailer bills HB 2424, as amended by Senate Amendment 1 and SB 0349, as amended by House Amendments 1 & 4), the bill would allow video gaming terminals (including but not limited to video poker, line up, and blackjack) to be offered for play for cash in the State of Illinois at bars, truck stop establishments, fraternal establishments, or veterans establishments that possess a valid liquor license. The language specifies that a facility operated by (or in close proximity to) an organization licensee (casino), an intertrack wagering licensee, or an intertrack wagering location licensee, a school, or a place of worship is ineligible to operate a video gaming terminal.

Each qualified establishment would be allowed to operate up to 5 video gaming terminals on its premises at any time.

Each video gaming terminal shall have accounting software that keeps an electronic record which includes, but is not limited to, the following: total cash inserted into the video gaming terminal; the value of winning tickets claimed by players; the total credits played; and the total credits awarded by a video gaming terminal. The terminals shall be linked by a central communications system to provide auditing program information as approved by the Illinois Gaming Board. This system would have the functionality to enable the Board to activate or deactivate individual gaming devices from the central communications system.

All video gaming devices in violation of the Video Gaming Act, including those video gaming terminals operated for amusement only, would have to be removed from operation no later than 30 days after the Gaming Board establishes that the central communications system is functional. Therefore, terminals for "amusement only" could not legally co-exist with the 5 video gaming terminals allowed under this legislation.

While the legislation allows video gaming terminals to be located throughout Illinois, it does state, however, that a municipality may pass an ordinance prohibiting video gaming within the corporate limits of the municipality. Similarly, a county board may, for the unincorporated area of the county, pass an ordinance prohibiting video gaming within the unincorporated area of the county.

With this prohibition possibility in mind, it is difficult to estimate the number of video gaming terminals that would become operational due to this legislation. The Illinois Coin Machine Operators estimate that there are approximately 15,000 liquor pouring establishments in Illinois. If each of these establishments were to operate 5 terminals as allowed under this legislation, there could be as many as 65,000 video gaming terminals throughout the State. However, if local governments were to pass ordinances banning video gaming terminals in their jurisdiction, this number would obviously be lower.

Many wonder how much revenue can be generated from these video gaming machines. In formulating an estimate, the Commission looked at the handful of states that currently offer legalized video poker. The average "revenue-per-machine-per-day" values ranged from around $70 per day in Montana and South Dakota to as high as around $240 per day in Delaware, New York, and Rhode Island. However, the states with these higher values only offer video gaming at horse tracks, thus, distorting the values.

The states of West Virginia and Louisiana (with 24-hour bars) had values of around $135 per day. The State of Pennsylvania, in contemplating the legalization of video poker in their state, estimated their average daily net revenue would be about $86 per machine per day. With these figures in mind and in lieu of the existing competition that would exist from the already established riverboats and State lottery, the Commission estimates that Illinois video gaming machines could generate an average daily net revenue amount between **$70 and $90 per day** per machine.

The tax revenue that would be generated from these machines would thereby be dependent on the average revenue per machine per day, the operating tax rate, which is established in the legislation to be **30%**, as well as the number of video gaming terminals in operation. Again, because it is difficult to know how many video gaming machines would be implemented due to this legislation, the following table is provided to estimate the potential revenue that could be generated at a 30% tax rate if certain values are met.

Possible Revenue from Video Gaming ($ in millions)

Tax Rate at: 30%		***Video Gaming Machines***				
		45,000	**50,000**	**55,000**	**60,000**	**65,000**
Net Income per Machine per Day	**$70**	$344.9	$383.3	$421.6	$459.9	$498.2
	$80	$394.2	$438.0	$481.8	$525.6	$569.4
	$90	$443.5	$492.8	$542.0	$591.3	$640.6

Therefore, 45,000 to 65,000 video gaming machines with an average daily net revenue amount of $70 to $90 per day, a net total of $1.15 billion to $2.14 billion would be generated from these machines in a year. If this value were taxed at the 30% tax rate, the revenue that would be generated would range between **$344.9 million and $640.6 million per year**.

Of the amounts collected, five-sixths shall be deposited into the Capital Projects Fund and one-sixth shall be deposited into the Local Government Video Gaming Distributive Fund. Therefore, under the estimate provided, approximately **$287.4 million to $533.8 million** would be deposited into the Capital Projects Fund and approximately $57.5 million to $106.8 million would be deposited into the Local Government Video Gaming Distributive Fund. Since a municipality (or county) may prohibit video gaming, the moneys deposited into the Local Government Video Gaming Distributive Fund would be allocated to all municipalities (and counties) that have not prohibited video gaming.

In addition to these tax revenues, the video gaming legislation would also generate additional State revenues from application and license fees.

The legislation provides that a non-refundable application fee shall be paid at the time an application for a license is filed with the Gaming Board in the following amounts:

1) Manufacturer: $5,000
2) Distributor: $5,000
3) Operator: $5,000
4) Supplier: $2,500
5) Technician: $100
6) Terminal Handler: $50

In addition, the Gaming Board shall establish an annual fee for each license not to exceed the following:

1) Manufacturer: $10,000
2) Distributor: $10,000
3) Operator: $5,000
4) Supplier: $2,000
5) Technician: $100
6) Establishments: $100
7) Video Gaming Terminal: $100
8) Terminal Handler: $50

The exact amount of the new revenues from these fees would, therefore, depend upon the number of licensed technicians, suppliers, distributors, manufacturers, establishments, and terminals. It is roughly estimated that the value of these fees would be around $6 million to $10 million per year.

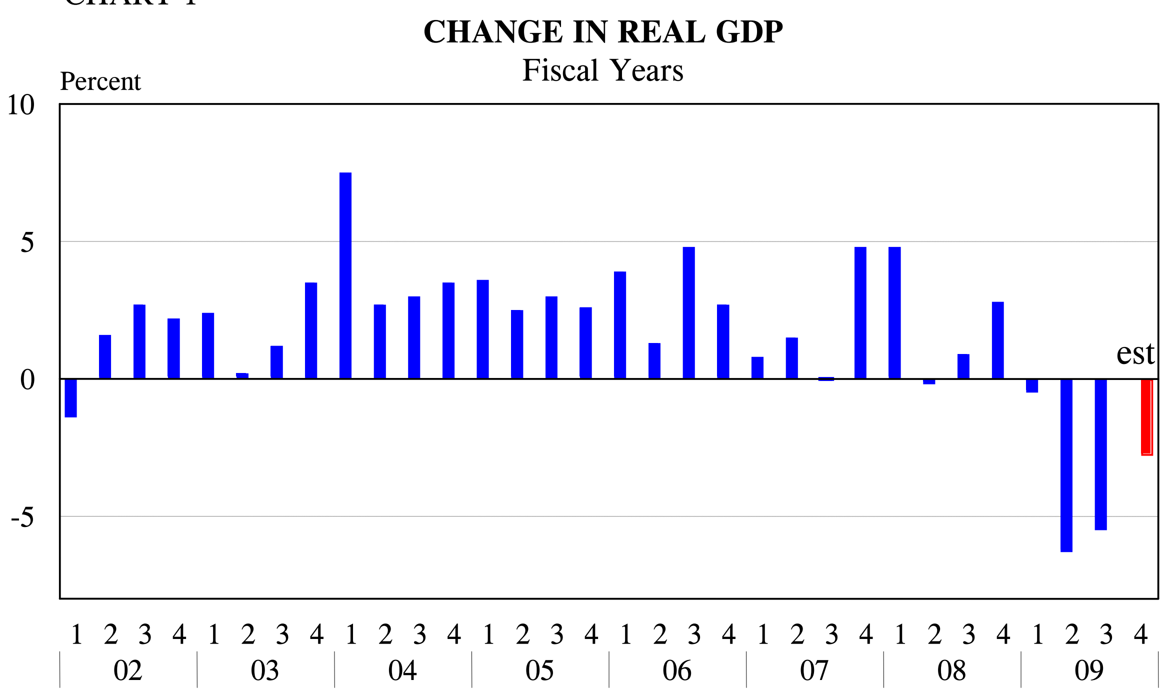
All fees collected shall be deposited into the State Gaming Fund. Of these fees, 25% shall be paid, subject to appropriation, to the Department of Human Services for administration of programs for the treatment of compulsive gambling and 75% shall be used for the administration of this Act.

Of the after-tax profits from a video gaming terminal, 50% shall be paid to the terminal operator and 50% shall be paid to the establishment conducting video gaming.

ECONOMY
The Shape of the Coming Recovery
Edward H. Boss, Jr., Chief Economist

There is a growing consensus that an economic recovery is on the horizon. Economic growth, as measured by real gross domestic product, declined at a 5 1/2% annual rate in the first quarter of 2009 after a sharper 6.3% pace of decline in the final quarter of 2008. The Commission's forecasting service, IHS Global Insight, is projecting a further slowing in the rate of descent to a 2.8% rate in the quarter just ended (See chart 1). According to a model by the Economics Group at Wachovia, "Our model takes a look at a broad set of variables, and the results suggest economic recovery is likely in the next six months." Indeed in the group's latest report on June 25th,"the latest probability of continued recession two quarters from now has fallen to 37% - down significantly from 80% earlier this year."

CHART 1



CGFA

Last month's ***Revenue Briefing*** reported on green shoots that were beginning to appear in the recession. Since then more shoots have appeared. The stock market, an early indicator of a change in direction in the economy, had improved sharply and continues to resist any significant correction. Consumer Sentiment, measured by the University of Michigan, rose to 70.8 in June, the highest level since February 2008, despite continuing increases in unemployment. And, despite weak employment, personal income rose 1.4% in May, twice the size of the April gain that followed two consecutive months of decline. Disposable income rose a stronger 1.6% last month, aided by reduced current taxes and increased social benefit payments as a result of the American Recovery and Reinvestment Act. At the same time consumer spending rose only 0.3% suggesting consumers continue to repair their deteriorated balance sheets. Housing, unemployment claims, GDP, etc., while not uplifting, appear to be getting at least less bad.

If an economic recovery lies ahead, a key question is what will be the shape of the advance? Generally the shape of economic recoveries has been described in letter terms (**U, V, L, or W**). A **U** shape recovery is one following a recession that gradually picks up momentum and might be described as the usual case. In periods of very steep decline the rule of thumb has been a sharp turnaround in the ensuing recovery in the shape of a **V**. At the other extreme is the **L** shaped recovery where, after hitting bottom, the economy advances at a very lethargic pace. Finally, and perhaps the worst of the alternatives, is the **W** shape ...that is a dual recession or having come out of one recession falls into another.

History has given us two prominent examples since 1900 of this form. The first, labeled as the Great Depression, started in August 1929 and lasted 43 months reaching a trough in March 1933. Between the peak in 1929 and trough in 1933, inflation adjusted GDP fell by 25%. This was followed by another recession in May 1937 through June 1938. Indeed, many believe the only thing that ended this prolonged period of agony was the entrance into World War II. More recently were the twin recessions of 1980 and 1981. Following a period of economic growth starting in March 1975, the economy entered a recession in January 1980. However, some 6 months later, in July 1981, a second recession occurred that lasted until November 1982 as policy moves were implemented to correct the double-digit inflation and interest rates that had been precipitated by the inflationary pressures built up in the 1970s. Indeed many economists combine the recessions together, counting them as one.

Since the end of the trough in November 1981, the economy experienced only two relatively mild recessions in 1991 and 2001, each lasting only 8 months. This gave the impression that policy makers could avoid future sharp economic declines such as had occurred in the past. However, part of the reason for the mildness of those recessions were increases in the housing sector that continued without correction, a surge in new financial products, rising consumer spending based in part upon increased net worth rising from home values, which in turn encouraged borrowing and increased risk taking, all setting the stage for a correction of over leveraged positions and sparking a severe economic slide.

As a recovery gets underway, attention will be on its shape. While often a sharp downturn is followed by a sharp recovery, a **V** shape, this is unlikely given the added problem of severe world wide financial crises. A more typical **U** shape also seems unlikely given the severity of the decline. An **L** shape, where a bottom is reached but the economy drags along bottom, also seems unlikely given the huge influx of federal stimulus spending and continued easy monetary policy. Perhaps the best outcome that can be hoped for might be described as a ***backward J,*** a sharp economic downturn led by a modest recovery with individuals and businesses depending less on leverage and repair their balance sheets. Whether or not this shape is achieved, however, lay in the future course of fiscal and monetary policy. Massive government spending and huge budget deficits raise concerns over renewed inflation and a deteriorating dollar. To quell such an occurrence monetary policy must avoid monetizing the debt and remove liquidity as the recovery takes hold. The timing will be crucial. Too slow to act risks igniting inflation, while too rapid a removal of liquidity could precipitate another recession, leading to the dreaded **W** shape.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS	MAY 2009	APRIL 2009	MAY 2008
Unemployment Rate (Average)	10.1%	9.4%	6.4%
Annual Rate of Inflation (Chicago)	11.1%	2.4%	-2.4%

	LATEST MONTH	% CHANGE OVER PRIOR MONTH	% CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (May)	6,668	0.8%	-0.8%
Employment (thousands) (May)	5,996	0.1%	-4.6%
New Car & Truck Registration (May)	33,064	-3.2%	-35.6%
Single Family Housing Permits (May)	779	3.3%	-46.9%
Total Exports ($ mil) (April)	3,202.6	-13.0%	-29.7%
Chicago Purchasing Managers Index (June)	39.9	14.3%	-19.6%