



SENATE

Jeffrey Schoenberg, Co-Chairman
Christine Radogno
Steven Rauschenberger
David Syverson
Donne Trotter
Patrick Welch

HOUSE

Terry R. Parke, Co-Chairman
Mark H. Beaubien, Jr.
Frank J. Mautino
Robert Molaro
Richard Myers
Elaine Nekritz

EXECUTIVE DIRECTOR

Dan R. Long

DEPUTY DIRECTOR

Trevor J. Clatfelter

INSIDE THIS ISSUE

PAGE 1 - **ECONOMY:** Job's Gap Returns
PAGE 3 - IL Economic Indicators
PAGE 4: **REVENUE:** Revenue Assumptions used to Craft FY2005 Budget
PAGE 4: IEFC's Revised FY 2005 Estimate
PAGE 7: IEFC vs. GOMB Estimate Comparison
PAGE 12: August Revenues Fall Due to Drop-Off in Federal Sources
PAGE 12: Year to Date
PAGE 17: FY 2005 Special Transfers
PAGE 18: Pension Briefing

703 Stratton Ofc. Bldg.
Springfield, IL 62706

ECONOMY: Job's Gap Returns

Edward H. Boss, Jr., Chief Economist

July's data on employment was surprising, not only given the smallness of the gain in payroll employment, 32,000, but also the downward revision to previous months. The small payroll gain was in sharp contrast to the Household Survey, which, after being virtually stable in June, shot up 629,000 in July. Thus, even though the size of the labor force rose by 577,000, the unemployment rate that is derived from the Household Survey edged down to 5.5%, the lowest rate recorded since October 2001. As shown in Chart 1, the gap in employment data from these two surveys, which normally narrows as the business expansion matures, has widened again. Since job growth began again after August of last year, the payroll survey has shown a gain of almost 1.5 million jobs, although still down 1.1 million from January 2001. In contrast, the Household Survey has shown a gain of almost 2 million jobs since last August and is up almost 1.9 million since January 2001.

August employment data did little to clarify the employment situation as the impact of the hurricane in Florida was not fully included. Florida has shown strong employment growth with an unemployment rate in July at 4.0%, a full 1 1/2% below the national rate. A hint of the negative effect of the hurricane showed up in initial claims for unemployment insurance, which jumped 10,000 in the week ended August 21st with half the increase due to

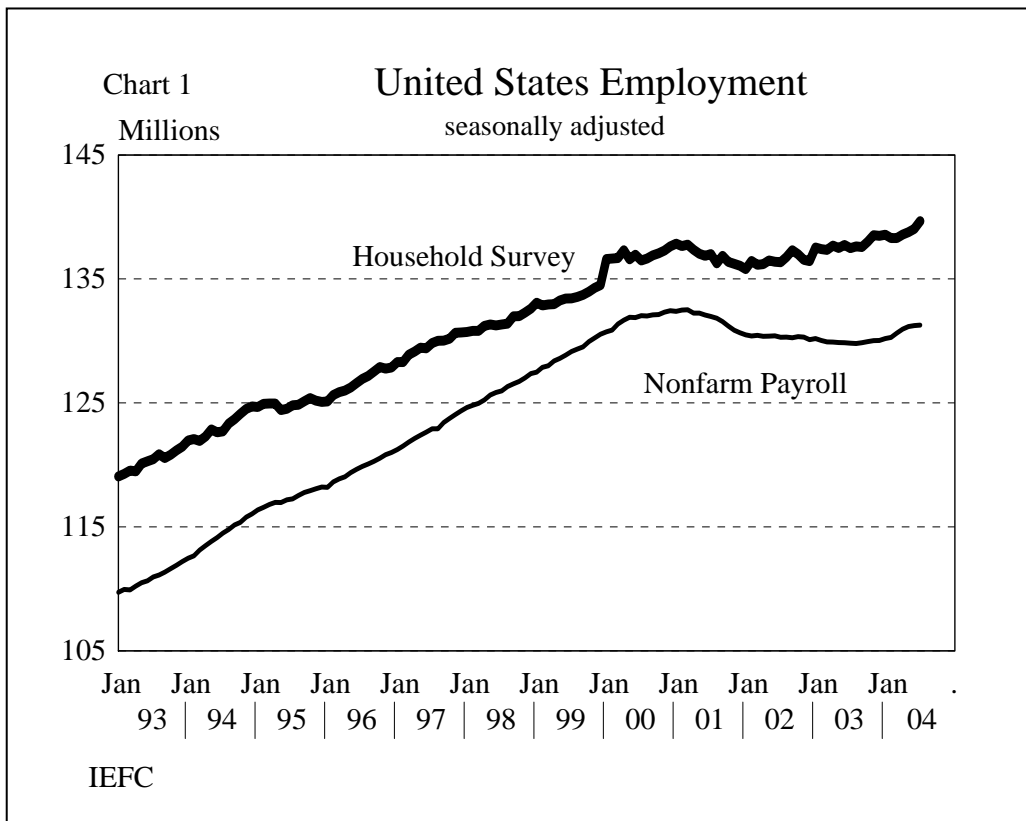
Hurricane Charley. The growing gap between the two employment surveys is also apparent in Florida. Civilian employment in the State, measured by the Household Survey, is up 3.3% in the past year compared to a 2.3% gain in payroll employment.

At the current time, most private forecasts are looking for a gain in national payroll employment of between 135,000 and 150,000 for August. This would be substantially better than last month but still just about in line with labor force growth with no appreciable tightening in the job market. Recently released employment figures for August confirmed the previous forecasts as payroll employment increased by 144,000.

In evaluating the two employment series, most economists have given more weight to the payroll survey that is substantially larger in scope and based on actual payroll records rather than answers given by individuals in a survey. At the same time, the payroll data have shortfalls since they double count multiple jobholders and, more importantly, do not capture the self-employed and may well miss newly created jobs of small businesses from which most new jobs evolve. Even so, in the past the gap between the two employment surveys has narrowed over time as new businesses begin to be reflected in the payroll series.

Indeed until last month's payroll data and revisions, this seemed to be occurring. The recent widening again of the gap between the two series is thus unusual.

Greater job growth will be dependent on the pace of economic growth in the future, particularly business spending. Revised data for Gross Domestic Product (GDP) for the second quarter of calendar 2004 was revised down from a real rate of growth of 3.0% to 2.8%, and off sharply from the brisk 4.5% recorded in the first quarter, confirming the soft patch the economy has entered. The major culprit for the slowdown was a bloated trade deficit stemming in large part from record oil prices. The trade deficit took 1.37 percentage points off GDP. Consumer spending slowed to a 1.6% rate, down from 4.1% pace of the first quarter but up from a 1% gain reported previously. The important sector of business spending was revised sharply upward to a 13.6% annual pace and compared to 8% in the first quarter. Oil prices have come off their recent highs; consumer confidence, while reduced, remains strong, and the stock market has strengthened. Whether or not these and other strengthening trends continue and the economy lifts itself up from the soft patch will ultimately determine the jobs outlook.



INDICATORS OF ILLINOIS ECONOMIC ACTIVITY			
<u>INDICATORS</u>	<u>July 2004</u>	<u>June 2004</u>	<u>July 2003</u>
Unemployment Rate (Average)	6.1%	5.9%	6.7%
Annual Rate of Inflation (Chicago)	0.6%	2.5%	2.8%
█			
	<u>LATEST MONTH</u>	<u>% CHANGE OVER PRIOR MONTH</u>	<u>% CHANGE OVER A YEAR AGO</u>
Civilian Labor Force (thousands) (July)	6,384	0.7%	0.8%
Employment (thousands) (July)	5,996	0.5%	1.4%
New Car & Truck Registration (July)	58,225	-2.2%	3.8%
Single Family Housing Permits (July)	4,413	-1.7%	1.0%
Total Exports (\$ mil) (July)	2,351	-11.0%	4.6%
Chicago Purchasing Managers Index (August)	57.3	-11.4%	-2.7%

Revenue Assumptions Used to Craft FY 2005 Budget

The tables on pages 8 and 9 illustrate the various revenue assumptions used to craft the FY 2005 budget. They were compiled utilizing information provided by a number of sources, but at this time should be considered unofficial. **These figures do not represent the Illinois Economic and Fiscal Commission's FY 2005 estimate. The Commission's estimate is presented and discussed in the following section.**

In the Governor's introduced budget, base FY 2005 general funds revenues were anticipated to be \$25.313 billion (excludes \$803 million in proposed "deficit reduction sources"). Later in the spring, \$350 million was removed from the forecast due to complexities surrounding the sale of the 10th riverboat license.

As a result, adjusted base revenues were forecast to be \$24.963 billion (see table on page 8).

As detailed, approximately \$639 million in net changes were added to the adjusted base to arrive at an enacted budget amount of \$25.602 billion. Those adjustments were comprised of \$947 million worth of items increasing revenues and \$308 million in items having the effect of decreasing revenues.

The table on page 9 compares the revenue forecast outlined in the budget book with the estimate used for the enacted FY 2005 budget. As shown, the enacted budget is based on a revenue forecast that is \$514 lower than the introduced budget.

IEFC's Revised FY 2005 Estimate

The table on page 10, entitled "IEFC FY 2005 Estimate & FY 2004 Actuals", details the Commission's updated forecast for FY 2005. The estimate reflects actual FY 2004 base figures and incorporates the Commission's estimates of the many legislative changes used to craft the FY 2005 budget. As shown, base FY 2005 revenues are estimated to be \$25.634 billion, which reflects an increase of \$206 million or 0.8% over the previous fiscal year.

The following section provides details to the Commission's revenue source estimates:

Personal income tax- Gross personal income taxes are forecast at \$8.572 billion in FY 2005. That figure includes a base estimate of \$8.491 billion, which includes growth of 3.5%, but after adjusting for tax amnesty the effective rate drops to 3.1%. To that base estimate \$81 million is added as a consequence of SB 2207 (P.A. 93-840) which closed a tax shelter loophole. As a result, the overall estimate of gross personal income tax is \$337 million or a 4.1% increase over the previous fiscal year. It is important to point out that the refund percentage used in FY 2005 for personal income tax is 10%, which is significantly lower than the 11.7% used in FY 2004. As a result, on a net of refund basis, personal income tax

receipts are expected to rise \$437 million or 6.0%.

Corporate income tax- Gross corporate income taxes are forecast at \$1.308 billion in FY 2005. That figure includes a base estimate of \$1.224 billion, which includes growth of 3.5%, but after adjusting for tax amnesty the effective rate amounts to a decline of 11.2%. To that base estimate \$84 million is added due to various legislative changes enacted under SB 2207 (P.A. 93-840). [Specifically, they include the Commission's estimates of \$54 million for the change in tax shelter loopholes, \$30 million in redefined business income, \$15 million in foreign tax haven loophole changes, and a \$15 million loss due to reinstatement of the R&D tax credit]. As a result, the overall estimate of gross corporate income tax is \$71 million or 5.1% less than the previous fiscal year. However, since the refund percentage used in FY 2005 for corporate income tax is 24.0%, which is significantly lower than the 32.0% used in FY 2004, on a net of refund basis, corporate income tax receipts are expected to rise \$53 million or 5.7%.

Sales tax- Sales tax receipts are estimated at \$6.457 billion in FY 2005. That figure includes a base estimate of \$6.476 billion, which includes growth of 3.5%, but after adjusting for tax amnesty the effective rate is 2.3%. To that base estimate \$19 million is removed due to the net impact of SB 2207 (P.A. 93-840). [Specifically, they include the Commission's estimates of \$5 million for the watercraft use tax, a \$21 million decline due to the

reinstatement of the manufacturer's purchase credit, and a \$3 million decline due to the reinstatement of the graphics arts tax credit]. As a result, the overall estimate of sales tax revenue is \$126 million or 2.0% more than the previous fiscal year.

Public utility tax- Public utility tax receipts are estimated at \$1.090 billion in FY 2005. That estimate is comprised of a base forecast of \$1.085 billion which represents a moderate 0.6% increase over last year, as well as a \$5 million upward adjustment due to a slight tax distribution change made under SB 2206 (P.A. 93-839). Overall, the estimate reflects only an \$11 million or 1.0% increase over the previous year.

Cigarette tax- The estimate of cigarette tax is \$450 million in FY 2005. The \$50 million increase over the previous year is due to a one-time change in the tax distribution authorized under SB 2206 (P.A. 93-839).

Liquor tax- The estimate of liquor tax revenue in FY 2005 is estimated at \$147 million. The forecast calls for receipts to increase by \$20 million over the previous year due to recent court action. [In recent years, approximately \$20 million a year in liquor taxes were protested. The court action effectively served to end that practice meaning that revenue will now again flow into the general funds].

Vehicle use tax- The estimate of vehicle use tax is \$35 million and reflects no anticipated change from the previous year.

Inheritance tax- Inheritance tax revenue is forecast to be \$265 million in FY 2005, which represents an increase of \$43 million or 19.4% over the previous year. The significant increase is expected due to the annualization of last year's decoupling from the federal phase-out of inheritance taxes.

Insurance taxes and fees- The FY 2005 estimate for insurance taxes and fees is \$371 million. That forecast represents an increase of \$9 million or 2.5% over the previous fiscal year.

Corporate franchise taxes and fees- Corporate franchise taxes and fees are expected to generate \$168 million in FY 2005, an increase of \$5 million or 3.1% over the previous fiscal year.

Interest on State Funds and investments- Interest income is forecast at \$54 million in FY 2005. A \$1 million loss is anticipated despite slowly rising rates of return.

Cook County IGT- The forecast for the Cook County IGT agreement is \$450 million. That represents a \$22 million increase over the previous fiscal year.

Other sources- Other sources to the general funds are expected to be \$500 million in FY 2005. That estimate is \$61 million or 13.9% higher than the previous fiscal year, and include \$66 million in mostly-new legislative adjustments. Specifically, these adjustments include: \$25 million in anticipated sales of State property; \$17 million from a DUI conviction fee increase SB 2207 (P.A. 93-840); \$10

million in new Secretary of State late fees SB 2207 (P.A. 93-840); a \$7 million change in used tire fee distribution SB 2206 (P.A.93-839); \$5 million from other various fees (by rule); and, \$2 million from an increase in the ID card fee SB 2207 (P.A. 93-840).

Lottery transfers- Lottery transfers are expected to be \$575 million in FY 2005, a \$5 million increase over the previous fiscal year. The forecast includes a base estimate of \$570 million, and adds \$5 million due to increased lottery fees SB 2207 (P.A. 93-840) and administrative cuts. Both should equate into more money eligible to be transferred.

Riverboat transfers and receipts- Riverboat transfers and direct receipts are expected to generate \$642 million in FY 2005. That forecast represents a decline of \$19 million or 2.9% from the previous fiscal year and reflects continued declines in adjusted gross receipts.

Medical Provider Relief Fund transfers- This transfer, anticipated to be \$433 million in FY 2005, resulted from the short-term borrowing the State conducted in late FY 2004. In essence, this transfer represents the federal reimbursement from the \$850 million in Medicaid bills paid from the borrowing.

In June, the State entered into \$850 million in short-term borrowing in an effort to maximize federal reimbursement as the result of increased Medicaid match. Under P.A. 93-674, a newly created Medicaid Provider Relief

Fund was formed to receive the proceeds from the borrowing, as well as federal matching funds attributed to expenditures from that fund. Towards the end of June, all \$850 million was spent on Medicaid bills. That spending generated a federal match of approximately \$433 million.

P.A. 93-674 stipulated that on July 1, 2004, the balance in the Medicaid Provider Fund (as well as any other moneys subsequently deposited into that Fund) should be transferred into the General Revenue Fund. As of the end of August, approximately \$433 million has been transferred into the GRF. These funds will be used to repay the short-term borrowing via subsequent transfers from the GRF to the General Obligation Bond Redemption and Interest Fund (GOBRI). The first repayment of \$425 million was made on July 23, 2004, and the remaining half is due on October 22, 2004 (the second installment will also be paid via a transfer from GRF to GOBRI).

Other transfers- Other transfers to the general funds are estimated at \$1.044 billion in FY 2005. While down \$115 million or 9.9% from last fiscal year, transfers will be impacted by \$245 million from recent legislation. Specifically, \$265 million in special transfers were ordered under SB 2206 (P.A. 93-839). Those transfers will be slightly offset by a \$19 million reduction due to the repeal of Industrial Commission fees as well as a \$1 million reduction from anticipated NPDES fees, both changed under SB2207 (P.A. 93-840).

Federal sources- Federal sources are expected to be \$4.255 billion in FY 2005. While the estimate is \$934 million less than last fiscal year, this reduction in federal sources is overstated as the \$433 million in Medicaid Provider Relief Fund transfers discussed above could be considered federal money as well. However, that money is being reported by the Comptroller's Office as a "transfer in" and is being counted in that line.

In conclusion, most economic assumptions used to craft the Commission's FY 2005 estimate are very similar to expectations outlined in previous forecasts. They can best be described in terms of modest growth reflecting a recovery phase that continues to undergo fits and starts, yet overall still moving forward at a sustainable pace. Then, as explained above, to those base expectations a number of legislative changes must be incorporated.

IEFC vs. GOMB Estimate Comparison

The table on page 11 compares the Commission's new FY 2005 estimate with that of the enacted budget (GOMB). While significant differences exist between anticipated revenues in a number of individual lines, in total the Commission's FY 2005 forecast is quite similar to the projections used to craft the FY 2005 budget, differing only by approximately \$32 million.

*Walk-Up of FY 2005 Revenues From Introduced Budget vs. Enacted Budget	
	(in Millions)
Total Base Revenues per Budget Book	\$25,313
Less loss of 10th riverboat license	(\$350)
Adjusted Base	\$24,963
<u>Items Increasing FY 2005 Revenues</u>	
Fund transfers	\$260
Change in tax refund percentage	\$172
Tax shelter loophole closing	\$100
Increased estimates for income taxes and other misc. sources	\$91
Change in fund chargebacks provisions	\$84
Hospital Assessment Tax transfer	\$80
Tax all income as business income	\$30
Increased federal match per FY'04 borrowing	\$25
Sale of assets	\$25
Liquor tax no longer being protested	\$24
DUI conviction fee increase	\$17
Foreign tax havens (80/20 rule)	\$15
SoS late fee	\$10
Other misc. fees (lottery, loan originator)	\$6
Watercraft use tax	\$6
ID card fee increase	<u>\$2</u>
Total of Revenue Increases	\$947
<u>Items Decreasing FY 2005 Revenues</u>	
End Road Fund chargebacks	(\$140)
Loss of Federal match from cuts	(\$109)
Manufacturer's purchase credit change	(\$20)
Industrial Commission fee change	(\$19)
Research and development credit change	(\$15)
Graphic arts tax credit change	(\$4)
Revise NPDES fees	(\$1)
Total of Revenue Decreases	(\$308)
Net Change to Introduced Budget	\$639
REVISED FY 2005 BUDGET (Unofficial)	\$25,602
<p>*This information should be considered unofficial and was compiled utilizing information provided by various sources. These figures do not represent the Illinois Economic and Fiscal Commission's FY 2005 estimate.</p>	

FY 2005 General Revenue Estimates
Budget Book (GOMB) vs. Unofficial Enacted (GOMB)
(millions)

Revenue Sources	Budget Book (GOMB) FY 2005 Estimate Feb-04	Unofficial GOMB Enacted Estimate Aug-04	\$ Difference
State Taxes			
Personal Income Tax	\$8,250	\$8,406	\$156
Corporate Income Tax	\$1,082	\$1,129	\$47
Sales Taxes	\$6,425	\$6,431	\$6
Public Utility (regular)	\$1,102	\$1,102	\$0
Cigarette Tax	\$400	\$400	\$0
Liquor Gallonage Taxes	\$123	\$147	\$24
Vehicle Use Tax	\$37	\$37	\$0
Inheritance Tax (gross)	\$240	\$240	\$0
Insurance Taxes & Fees	\$347	\$347	\$0
Corporate Franchise Tax & Fees	\$175	\$175	\$0
Interest on State Funds & Investments	\$45	\$45	\$0
Cook County Intergovernmental Transfer	\$450	\$450	\$0
Sale of 10th Riverboat License	\$350	\$0	(\$350)
<u>Other Sources</u>	<u>\$692</u>	<u>\$732</u>	<u>\$40</u>
Subtotal	\$19,718	\$19,641	(\$77)
Transfers			
Lottery	\$563	\$578	\$15
Riverboat Transfers & Receipts	\$647	\$653	\$6
<u>Other</u>	<u>\$870</u>	<u>\$1,154</u>	<u>\$284</u>
Total State Sources	\$21,798	\$22,026	\$228
Federal Sources	\$4,772	\$4,688	(\$84)
Total Federal & State Sources	\$26,570	\$26,714	\$144
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax	(\$965)	(\$841)	\$124
Corporate Income Tax	(\$292)	(\$271)	\$21
Subtotal General Funds	\$25,313	\$25,602	\$289
Deficit Reduction Sources	\$803	\$0	(\$803)
Total General Funds	\$26,116	\$25,602	(\$514)
The enacted FY 2005 budget should be considered unofficial and was compiled utilizing information provided by various sources.			
IEFC			

IEFC FY 2005 ESTIMATE & FY 2004 ACTUALS

(millions)

	IEFC			
	Estimate	Actual	\$	%
Revenue Sources	<u>FY 2005 Aug-04</u>	<u>FY 2004</u>	<u>Difference</u>	<u>Difference</u>
State Taxes				
Personal Income Tax	\$8,572	\$8,235	\$337	4.1%
Corporate Income Tax	\$1,308	\$1,379	(\$71)	-5.1%
Sales Taxes	\$6,457	\$6,331	\$126	2.0%
Public Utility (regular)	\$1,090	\$1,079	\$11	1.0%
Cigarette Tax	\$450	\$400	\$50	12.5%
Liquor Gallonage Taxes	\$147	\$127	\$20	15.7%
Vehicle Use Tax	\$35	\$35	\$0	0.0%
Inheritance Tax (gross)	\$265	\$222	\$43	19.4%
Insurance Taxes & Fees	\$371	\$362	\$9	2.5%
Corporate Franchise Tax & Fees	\$168	\$163	\$5	3.1%
Interest on State Funds & Investments	\$54	\$55	(\$1)	-1.8%
Cook County Intergovernmental Transfer	\$450	\$428	\$22	5.1%
Other Sources	<u>\$500</u>	<u>\$439</u>	<u>\$61</u>	<u>13.9%</u>
Subtotal	\$19,867	\$19,255	\$612	3.2%
Transfers				
Lottery	\$575	\$570	\$5	0.9%
Riverboat Transfers & Receipts	\$642	\$661	(\$19)	-2.9%
Medicaid Provider Relief Fund*	\$433	\$0	\$433	N/A
Other	<u>\$1,044</u>	<u>\$1,159</u>	<u>(\$115)</u>	<u>-9.9%</u>
Total State Sources	\$22,561	\$21,645	\$916	4.2%
Federal Sources*	\$4,255	\$5,189	(\$934)	-18.0%
Total Federal & State Sources	\$26,816	\$26,834	(\$18)	-0.1%
Nongeneral Funds Distribution:				
Refund Fund*				
Personal Income Tax	(\$864)	(\$964)	\$100	-10.4%
Corporate Income Tax	(\$318)	(\$442)	\$124	-28.1%
Subtotal General Funds	\$25,634	\$25,428	\$206	0.8%
Budget Stabilization Fund Transfer	\$276	\$226	\$50	22.1%
Pension Contribution Fund Transfer	\$0	\$1,395	(\$1,395)	-100.0%
Total General Funds	\$25,910	\$27,049	(\$1,139)	-4.2%

*The \$433 million in Medicaid Provider Relief Fund transfers represents federal money related to FY 2004 short-term borrowing. Since the Comptroller's Office records that money as a transfer in, it is being presented as such. However, it could also be considered as federal money which would result in a total federal estimate of \$4.688 billion.

IEFC

9/2/2004 13:33

**FY 2005 General Revenue Estimates
IEFC vs. Unofficial Enacted (GOMB)**
(millions)

Revenue Sources	IEFC FY 2005 Estimate Aug-04	Unofficial GOMB Enacted Estimate Aug-04	\$ Difference
State Taxes			
Personal Income Tax	\$8,572	\$8,406	\$166
Corporate Income Tax	\$1,308	\$1,129	\$179
Sales Taxes	\$6,457	\$6,431	\$26
Public Utility (regular)	\$1,090	\$1,102	(\$12)
Cigarette Tax	\$450	\$400	\$50
Liquor Gallonage Taxes	\$147	\$147	\$0
Vehicle Use Tax	\$35	\$37	(\$2)
Inheritance Tax (gross)	\$265	\$240	\$25
Insurance Taxes & Fees	\$371	\$347	\$24
Corporate Franchise Tax & Fees	\$168	\$175	(\$7)
Interest on State Funds & Investments	\$54	\$45	\$9
Cook County Intergovernmental Transfer	\$450	\$450	\$0
Sale of 10th Riverboat License	\$0	\$0	\$0
<u>Other Sources</u>	<u>\$500</u>	<u>\$732</u>	<u>(\$232)</u>
Subtotal	\$19,867	\$19,641	\$226
Transfers			
Lottery	\$575	\$578	(\$3)
Riverboat Transfers & Receipts	\$642	\$653	(\$11)
Medicaid Provider Relief Fund*	\$433	\$433	\$0
<u>Other</u>	<u>\$1,044</u>	<u>\$1,154</u>	<u>(\$110)</u>
Total State Sources	\$22,561	\$22,459	\$102
Federal Sources*	\$4,255	\$4,255	\$0
Total Federal & State Sources	\$26,816	\$26,714	\$102
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax	(\$864)	(\$841)	(\$23)
Corporate Income Tax	(\$318)	(\$271)	(\$47)
Subtotal General Funds	\$25,634	\$25,602	\$32
Budget Stabilization Fund Transfer	\$276	\$276	\$0
Total General Funds	\$25,910	\$25,878	\$32

* The GOMB includes the \$433 million from the Medicaid Provider Relief Fund in their estimate of federal sources. The Comptroller's Office records that money as a transfer in. For comparison purposes, the GOMB's federal source estimate was adjusted to take this into account [\$4.255 billion + \$433 million = \$4.688 billion].

The enacted FY 2005 budget should be considered unofficial and was compiled utilizing information provided by various sources.

IEFC

August Revenues Fall Due to Drop-off in Federal Sources

Excluding last fiscal year's Pension Contribution Fund transfer, August general funds revenues fell \$405 million. The large decline reflected an expected drop-off in August's federal receipting as a result of last year's federal flexible grant, higher Medicaid matching rate, a concerted effort to pay down an accumulated backlog in Medicaid bills, and reimbursements stemming from earlier activity. Absent federal sources, many other revenue sources performed quite well, with the more closely-tied economic sources experiencing decent gains. August did have one extra receipting day than compared with the same month last fiscal year.

Other sources experienced the largest gain as receipts rose \$49 million due mostly to timing related to last year's fee increases that are now annualizing. Gross personal income taxes managed to gain \$41 million for the month and, because the refund percentage is lower this year, on a net of refund basis the monthly gain was a higher \$47 million. Sales tax revenues also fared well and were up \$23 million for the month. Inheritance tax posted another strong month, up \$18 million, and now regularly seems to be generating gains presumably due to last year's decoupling action. Gross corporate income taxes were up \$16 million, though on a net of refund basis that gain was a slightly lower \$13 million. Liquor taxes, insurance taxes, and corporate franchise taxes each contributed \$4 million in monthly gains.

Despite most of the sources experiencing gains, a couple suffered losses, albeit small ones. Interest income had a drop of \$3 million and public utility taxes dipped by \$1 million.

Overall transfers to the general funds jumped by \$98 million. Other transfers were the reason for the increase as transfers rose by \$107 million due to "fund sweeps". That gain was slightly offset by a \$7 million drop in lottery transfers and a \$2 million dip in riverboat transfers and receipts.

As mentioned earlier, federal sources were the cause for the overall monthly decline. In August, federal sources fell by \$674 million compared to last fiscal year. Again, a federal grant, increased matching rate, efforts to pay down the Medicaid payment cycle, and reimbursements from earlier activity served to produce last year's bulge.

Year to Date

Due to the large federal source falloff in August, excluding Budget Stabilization Fund and Pension Contribution Fund transfers, general funds receipts are down \$97 million. Despite that decline, a number of sources have generated early fiscal year gains.

Other sources are up \$59 million, due mostly to the timing of receipts. Sales tax receipts are up \$52 million, while gross personal income taxes are up \$29 million and an even higher \$38 million net of refunds. And, inheritance tax revenues are up a strong \$21 million. All other sources experiencing year-to-

date gains have added another \$35 million.

Not all sources have posted early gains as interest income is down \$8 million, public utility down \$7 million, and vehicle use tax off \$1 million.

The July 2004 transfer of \$433 million to the general funds from the Medicaid Provider Relief Fund (see discussion in the July monthly briefing) resulted in a significant gain in transfers in—up \$365 million.

However, excluding that transfer, all other transfers are actually down \$68 million. Federal sources are down by \$651 million for reasons discussed earlier. However, it should be pointed out that the \$433 million in transfers in from the Medicaid Provider Fund could be considered “federal money” as it resulted from last year’s short-term borrowing plan. If viewed in that context, the year-over-year decline in federal sources is lessened to \$218 million.

GENERAL FUNDS RECEIPTS: AUGUST				
<i>FY 2005 vs. FY 2004</i>				
<i>(\$ million)</i>				
	AUG.	AUG.	\$	%
Revenue Sources	FY 2005	FY 2004	CHANGE	CHANGE
<i>State Taxes</i>				
Personal Income Tax	\$614	\$573	\$41	7.2%
Corporate Income Tax (regular)	28	12	\$16	133.3%
Sales Taxes	539	516	\$23	4.5%
Public Utility Taxes (regular)	64	65	(\$1)	-1.5%
Cigarette Tax	46	33	\$13	39.4%
Liquor Gallonage Taxes	12	8	\$4	50.0%
Vehicle Use Tax	3	3	\$0	0.0%
Inheritance Tax (Gross)	31	13	\$18	138.5%
Insurance Taxes and Fees	18	14	\$4	28.6%
Corporate Franchise Tax & Fees	13	9	\$4	44.4%
Interest on State Funds & Investments	3	6	(\$3)	-50.0%
Cook County IGT	0	0	\$0	N/A
Other Sources	65	16	\$49	306.3%
Subtotal	\$1,436	\$1,268	\$168	13.2%
<i>Transfers</i>				
Lottery	32	39	(\$7)	-17.9%
Riverboat transfers & receipts	61	63	(\$2)	-3.2%
Medicaid Provider Relief Fund	0	N/A	\$0	N/A
Other	148	41	\$107	261.0%
Total State Sources	\$1,677	\$1,411	\$266	18.9%
Federal Sources	\$416	\$1,090	(\$674)	-61.8%
Total Federal & State Sources	\$2,093	\$2,501	(\$408)	-16.3%
Nongeneral Funds Distribution:				
<i>Refund Fund</i>				
Personal Income Tax	(\$61)	(\$67)	\$6	-9.0%
Corporate Income Tax	(\$7)	(4)	(\$3)	75.0%
Subtotal General Funds	\$2,025	\$2,430	(\$405)	-16.7%
Budget Stabilization Fund Transfer	\$0	\$0	\$0	N/A
Pension Contribution Fund Transfer	\$0	\$165	(\$165)	N/A
Total General Funds	\$2,025	\$2,595	(\$570)	-22.0%
IEFC SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				2-Sep-04

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	\$1,152	\$1,123	\$29	2.6%
Corporate Income Tax (regular)	63	50	\$13	26.0%
Sales Taxes	1,101	1,049	\$52	5.0%
Public Utility Taxes (regular)	143	150	(\$7)	-4.7%
Cigarette Tax	80	67	\$13	19.4%
Liquor Gallonage Taxes	26	23	\$3	13.0%
Vehicle Use Tax	6	7	(\$1)	-14.3%
Inheritance Tax (Gross)	51	30	\$21	70.0%
Insurance Taxes and Fees	20	15	\$5	33.3%
Corporate Franchise Tax & Fees	25	21	\$4	19.0%
Interest on State Funds & Investments	7	15	(\$8)	-53.3%
Cook County IGT	54	54	\$0	0.0%
Other Sources	89	30	\$59	196.7%
Subtotal	\$2,817	\$2,634	\$183	6.9%
Transfers				
Lottery	93	70	\$23	32.9%
Riverboat transfers & receipts	116	122	(\$6)	-4.9%
Medicaid Provider Relief Fund	433	0	\$433	N/A
Other	181	266	(\$85)	-32.0%
Total State Sources	\$3,640	\$3,092	\$548	17.7%
Federal Sources	\$605	\$1,256	(\$651)	-51.8%
Total Federal & State Sources	\$4,245	\$4,348	(\$103)	-2.4%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$122)	(\$131)	\$9	-6.9%
Corporate Income Tax	(\$19)	(\$16)	(\$3)	18.8%
Subtotal General Funds	\$4,104	\$4,201	(\$97)	-2.3%
Budget Stabilization Fund Transfer	\$0	\$226	(\$226)	-100.0%
Pension Contribution Fund Transfer	\$0	\$368	(\$368)	N/A
Total General Funds	\$4,104	\$4,795	(\$691)	-14.4%

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

IEFC

2-Sep-04

GENERAL FUNDS GROWTH NEEDED TO MEET ESTIMATE

FY 2005 ESTIMATE vs. FY 2004 ACTUAL

(\$ million)

Revenue Sources	Aug-04 ESTIMATE FY 2005	FYTD 2005	AMOUNT NEEDED FY 2005 EST.	FYTD 2004	GROWTH NEEDED	% CHANGE
State Taxes						
Personal Income Tax	\$8,572	\$1,152	\$7,420	\$1,123	\$308	4.3%
Corporate Income Tax (regular)	1,308	63	\$1,245	50	(\$84)	-6.3%
Sales Taxes	6,457	1,101	\$5,356	1,049	\$74	1.4%
Public Utility Taxes (regular)	1,090	143	\$947	150	\$18	1.9%
Cigarette Tax	450	80	\$370	67	\$37	11.1%
Liquor Gallonage Taxes	147	26	\$121	23	\$17	16.3%
Vehicle Use Tax	35	6	\$29	7	\$1	3.6%
Inheritance Tax (Gross)	265	51	\$214	30	\$22	11.5%
Insurance Taxes and Fees	371	20	\$351	15	\$4	1.2%
Corporate Franchise Tax & Fees	168	25	\$143	21	\$1	0.7%
Interest on State Funds & Investments	54	7	\$47	15	\$7	17.5%
Cook County IGT	450	54	\$396	54	\$22	5.9%
Other Sources	500	89	\$411	30	\$2	0.5%
Subtotal	\$19,867	\$2,817	\$17,050	\$2,634	\$429	2.6%
Transfers						
Lottery	575	93	\$482	70	(\$18)	-3.6%
Riverboat transfers & receipts	642	116	\$526	122	(\$13)	-2.4%
Medicaid Provider Relief Fund	433	433	\$0	0	N/A	N/A
Other	1,044	181	\$863	266	(\$30)	-3.4%
Total State Sources	\$22,561	\$3,640	\$18,921	\$3,092	\$368	2.0%
Federal Sources	\$4,255	\$605	\$3,650	\$1,256	(\$283)	-7.2%
Total Federal & State Sources	\$26,816	\$4,245	\$22,571	\$4,348	\$85	0.4%
Nongeneral Funds Distribution:						
Refund Fund						
Personal Income Tax	(\$864)	(\$122)	(\$742)	(\$131)	\$91	-10.9%
Corporate Income Tax	(318)	(\$19)	(\$299)	(16)	\$127	-29.8%
Subtotal General Funds	\$25,634	\$4,104	\$21,530	\$4,201	\$303	1.4%
Budget Stabilization Fund Transfer	\$276	\$0	\$276	\$226	\$276	N/A
Pension Contribution Fund Transfer	\$0	\$0	\$0	\$368	(\$1,027)	-100.0%
Total General Funds	\$25,910	\$4,104	\$21,806	\$4,795	(\$448)	-2.0%
IEFC						
						2-Sep-04

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

FY 2005 ESTIMATE vs. FY 2004 ACTUALS

(\$ million)

	*GOMB AUG-04 Estimate FY 2005	FYTD 2005	AMOUNT NEEDED FY 2005 Est.	FYTD 2004	GROWTH NEEDED	% CHANGE
Revenue Sources						
<i>State Taxes</i>						
Personal Income Tax	\$8,406	\$1,152	\$7,254	\$1,123	\$142	2.0%
Corporate Income Tax (regular)	1,129	63	\$1,066	50	(\$263)	-19.8%
Sales Taxes	6,431	1,101	\$5,330	1,049	\$48	0.9%
Public Utility Taxes (regular)	1,102	143	\$959	150	\$30	3.2%
Cigarette Tax	400	80	\$320	67	(\$13)	-3.9%
Liquor Gallonage Taxes	147	26	\$121	23	\$17	16.3%
Vehicle Use Tax	37	6	\$31	7	\$3	10.7%
Inheritance Tax (Gross)	240	51	\$189	30	(\$3)	-1.6%
Insurance Taxes and Fees	347	20	\$327	15	(\$20)	-5.8%
Corporate Franchise Tax & Fees	175	25	\$150	21	\$8	5.6%
Interest on State Funds & Investments	45	7	\$38	15	(\$2)	-5.0%
Cook County IGT	450	54	\$396	54	\$22	5.9%
Other Sources	732	89	\$643	30	\$234	57.2%
Subtotal	\$19,641	\$2,817	\$16,824	\$2,634	\$203	1.2%
<i>Transfers</i>						
Lottery	578	93	\$485	70	(\$15)	-3.0%
Gaming Fund Transfer	653	116	\$537	122	(\$2)	-0.4%
Medicaid Provider Relief Fund	433	433	\$0	0		
Other	1,154	181	\$973	266	\$80	9.0%
Total State Sources	\$22,459	\$3,640	\$18,819	\$3,092	\$266	1.4%
Federal Sources	\$4,255	\$605	\$3,650	\$1,256	(\$283)	-7.2%
Total Federal & State Sources	\$26,714	\$4,245	\$22,469	\$4,348	(\$17)	-0.1%
Nongeneral Funds Distribution:						
<i>Refund Fund</i>						
Personal Income Tax	(\$841)	(\$122)	(\$719)	(\$131)	\$114	-13.7%
Corporate Income Tax	(271)	(19)	(\$252)	(16)	\$174	-40.8%
Subtotal General Funds	\$25,602	\$4,104	\$21,498	\$4,201	\$271	1.3%
Budget Stabilization Fund Transfer	\$276	\$0	\$276	\$226	\$276	N/A
Pension Contribution Fund Transfer	\$0	\$0	\$0	\$368	(\$1,027)	-100.0%
Total General Funds	\$25,878	\$4,104	\$21,774	\$4,795	(\$480)	-2.2%

* The GOMB forecast includes the \$433 million from the Medicaid Provider Fund in their estimate of federal sources. The Comptroller's Office records that money as a transfer in. For comparison purposes, the GOMB's federal source estimate was adjusted to take this into account [\$4.255 billion + \$433 million = \$4.688 billion].

FY 2005 SPECIAL TRANSFERS

Lynnae Kapp, Analyst

The FY 2005 Budget relies on \$265 million in fund sweeps and statutory transfers to the general funds. Through August, \$126 million of statutory transfers had occurred. The following table details the total amount of

statutory transfers authorized to occur in FY 2005, the transfers which occurred year-to-date (no amounts were transferred in July), and the amounts yet to be transferred:

FY 2005 Statutory Transfers (SB 2206 & 2208)				
Fund #	Fund Name	Statutory Amount	August Transfers	To Be Transferred
0014	Food & Drug Safety Fund	\$817,000	\$817,000	
0018	Transportation Regulatory Fund	\$2,379,000		\$2,379,000
0021	Financial Institution Fund	\$2,003,000	\$2,003,000	
0022	General Professions Dedicated Fund	\$497,000	\$497,000	
0031	Drivers Education Fund	\$2,967,000	\$2,967,000	
0039	State Boating Act Fund	\$1,072,000	\$1,072,000	
0044	Lobbyist Registration Administration Fund	\$327,000	\$327,000	
0045	Agricultural Premium Fund	\$7,777,000		\$7,777,000
0059	Public Utility Fund	\$8,202,000		\$8,202,000
0067	Radiation Protection Fund	\$750,000	\$750,000	
0078	Solid Waste Management Fund	\$10,084,000	\$10,084,000	
0089	Subtitle D Management Fund	\$3,006,000		\$3,006,000
0137	Plugging & Restoration Fund	\$1,255,000	\$1,255,000	
0151	Registered CPAs Admin. & Disciplinary Fund	\$819,000	\$819,000	
0163	Weights & Measures Fund	\$1,800,000	\$1,800,000	
0167	Division of Corporations Registered Limited Liability Partnership Fund	\$356,000	\$356,000	
0171	Solid Waste Management Revolving Loan Fund	\$647,000		\$647,000
0185	SOS Special License Plate Fund	\$856,000		\$856,000
0213	Response Contractors Indemnification Fund	\$107,000	\$107,000	
0215	CDB Revolving Loan Fund	\$1,229,000	\$1,229,000	
0218	Professions Indirect Cost Fund	\$39,000	\$39,000	
0238	IL Health Facilities Planning Fund	\$2,351,000		\$2,351,000
0259	Optometric Licensing & Disciplinary Board	\$1,121,000		\$1,121,000
0265	State Rail Freight Loan Repayment Fund	\$3,500,000	\$3,500,000	
0281	IL Tax Increment Fund	\$1,500,000	\$1,500,000	
0292	Securities Investors Education Fund	\$3,271,000		\$3,271,000
0294	Used Tire Management Fund	\$3,278,000		\$3,278,000
0301	Working Capital Revolving Fund	\$12,000,000	\$12,000,000	
0342	Audit Expense Fund	\$1,237,000	\$1,237,000	
0362	Securities Audit & Enforcement Fund	\$17,014,000		\$17,014,000
0363	Dept. of Business Services Special Ops Fund	\$524,000	\$524,000	
0378	Insurance Premium Tax Refund Fund	\$2,500,000	\$2,500,000	
0380	Corporate Franchise Tax Refund Fund	\$1,650,000		\$1,650,000
0384	Tax Compliance & Administration Fund	\$9,513,000	\$9,513,000	
0386	Appraisal Administration Fund	\$1,107,000	\$1,107,000	
0483	SOS Special Services Fund	\$600,000	\$600,000	

(Continued on next page)

FY 2005 Statutory Transfers (SB 2206 & 2208)			
0514	State Asset Forfeiture Fund	\$1,500,000	\$1,500,000
0520	Federal Asset Forfeiture Fund	\$3,943,000	\$3,943,000
0523	DOC Reimbursement & Education Fund	\$14,500,000	\$14,500,000
0536	LEADS Maintenance Fund	\$2,000,000	\$2,000,000
0537	State Offender DNA ID System Fund	\$250,000	\$250,000
0552	Workforce, Technology & Econ. Dvlpmt Fund	\$1,500,000	\$1,500,000
0564	Renewable Energy Resources Trust Fund	\$9,510,000	\$9,510,000
0571	Energy Efficiency Trust Fund	\$3,040,000	\$3,040,000
0608	Conservation 2000 Fund	\$7,439,000	\$7,439,000
0632	Horse Racing Fund	\$2,500,000	\$2,500,000
0637	State Police Wireless Service Emergency	\$500,000	\$500,000
0705	Whistleblower Reward & Protection Fund	\$750,000	\$750,000
0732	SOS DUI Administration Fund	\$582,000	\$582,000
0733	Tobacco Settlement Recovery Fund	\$19,300,000	\$19,300,000
0776	Presidential Library and Museum Fund	\$500,000	\$500,000
0808	Medical Special Purpose Trust Fund	\$967,000	\$967,000
0821	Dram Shop Fund	\$1,517,000	\$1,517,000
0888	Design Professionals Admin. & Investigation	\$1,172,000	\$1,172,000
0905	IL Forestry Development Fund	\$1,257,000	\$1,257,000
0906	State Police Services Fund	\$250,000	\$250,000
0920	Metabolic Screening & Treatment Fund	\$3,435,000	\$3,435,000
0922	Insurance Producer Administration Fund	\$12,727,000	\$12,727,000
0942	Low-Level Radioactive Waste Facility Development & Operation	\$2,202,000	\$2,202,000
0943	Low-Level Radioactive Waste Facility Closure, Post-Closure Care & Compensation	\$6,000,000	\$6,000,000
0944	Environmental Protection Permit & Inspection	\$874,000	\$874,000
0962	Park & Conservation Fund	\$1,000,000	\$1,000,000
0993	Public Infrastructure Construction Loan Revolving	\$1,822,000	\$1,822,000
SUBTOTAL		\$209,192,000	\$119,948,000
FY 2005 Fund Sweeps (SB 2206 & 2208)			
0530	Grape & Wine Resources Fund	\$1,000,000.00	\$1,000,000.00
0634	IL Aquaculture Develop Fund	\$1,067,020.00	\$1,067,020.00
0743	Statewide Economic Development Fund	\$4,329,245.93	\$4,329,245.93
0955	Tech Innovation & Commercialization Fund	\$76,729.01	\$76,729.01
RUNNING SUBTOTAL		\$215,664,994.94	\$126,420,994.94
0569	School Technology Revolving Loan Fund to Common School Fund	\$49,775,000.00	\$49,775,000.00
GRAND TOTAL		\$265,439,994.94	\$139,019,000.00

PENSION BRIEFING

Tim Blair, Pension Manager

FY 2005 Appropriations and Funding Changes

The FY 2005 appropriations to the five State-Funded Retirement Systems were contained in Public Act 93-0842 (SB 3340). Four of the State-funded retirement systems received the total amount of required State contributions,

as certified by the systems in November 2003. SERS received the entire required contribution as calculated per the current funding plan, but only received \$70.0 million of the certified \$380.3 million ERI contribution. The actual FY 2005 appropriations are as follows:

Table 1						
FY 2005 Retirement Contributions						
Millions of \$						
	SURS	TRS	SERS*	JRS	GARS	Total
General Revenue Fund	\$ 0.0	\$ 181.2	\$568.6	\$ 15.1	\$ 2.2	\$ 767.1
Common School Fund**	47.4	725.9	0.0	0.0	0.0	773.3
State Pensions Fund	<u>222.6</u>	<u>0.0</u>	<u>0.0</u>	<u>16.9</u>	<u>2.5</u>	<u>242.0</u>
Total	\$270.0	\$ 907.0	\$568.6	\$32.0	\$4.7	\$1,782.4

* The contribution to SERS will depend on actual FY 2005 payroll, as the amount shown is based on an employer contribution rate of 16.107% for FY 2005. In addition, the SERS GRF total includes contributions from non-GRF funds and \$136.2 million for debt service on the pension funding bonds.

** Includes contributions of \$300.0 million from the Education Assistance Fund to TRS.

The SERS contribution shown in Table 1 includes \$136.2 million (3.859% of payroll) to be used to pay a portion of the debt service on the pension funding bonds issued in 2003. This debt service amount is to be transferred from SERS to the General Obligation Bond Retirement and Interest Fund, leaving \$432.4 million of the FY 2005 employer contribution in SERS. In addition to the contributions shown in Table 1, Public Act 93-0842 also appropriated \$65.0 million to the Chicago Teachers' Pension Fund.

State Pensions Fund Changes

Public Act 93-0839 (SB 2206) changed the way funds are appropriated and distributed from the State Pensions Fund (SPF), which is funded annually by the sale of unclaimed property. Prior to the changes provided by Public Act 93-0839, the amount appropriated from SPF was equal to the prior year's balance, less \$5 million, and amounted to about \$80 million annually. This

appropriated amount was divided among the five State-funded retirement systems based on the proportion of each system's unfunded liability to total unfunded liability.

For FY 2005 only, Public Act 93-0839 doubles the amount of unclaimed property available to be distributed from the SPF by providing that the balance in the fund at any given time is only required to be \$5 million. Effectively, this allows all SPF revenues from FY 2004 and FY 2005 to be distributed to the retirement systems in FY 2005. In addition, the Act provides that in FY 2005, the SPF funds will be distributed only to the State Universities Retirement System, the Judges' Retirement System, and the General Assembly Retirement System. As SPF directly reduces the amount of General Revenue Funds appropriated to the retirement systems, this change in the distribution of SPF funds reduces the GRF for retirement by \$80 million in FY 2005.

SERS Enhanced Refund Update

Public Act 93-0839 provides an enhanced refund option for State employees terminating State service before October 31, 2004. The Act specifies which job titles under the Governor's purview would qualify for the enhanced refund option and specifies that all titles not under the Governor's purview will have access to the enhanced refund plan, with the authorization of the agency director or other department head. Employees in eligible job titles are required to be employed during June 2004 and in an eligible position continuously since January 1, 2004.

In order to participate, employees are required to be among the first 3,000 employees to apply to SERS. The application deadline is September 30, 2004 for employees under the Governor's purview and October 31, 2004 for eligible employees not under the Governor's purview. Participating employees must terminate service within 2 weeks of the approval of the application and in no event later than October 31, 2004. Up to 3,000 employees under the Governor's purview would be allowed to participate in the plan.

There is no maximum limit on the number of other employees who would be allowed to participate.

The enhanced refund will amount to all of the employee's contributions, with interest at 6.5% annually, multiplied by two. The regular SERS refund provision only allows for a refund of employee contributions, without interest. The Act specifies this enhanced refund could be given to the member in a lump sum, rolled into another qualified plan, or both. Upon accepting the refund, the member would waive all rights to any type of SERS benefit, including survivor's benefits and death benefits. *The enhanced refund would not diminish the employee's or their survivor's group health insurance benefits.*

There are 22,583 employees of the Governor who are eligible for the enhanced refund option. These employees received letters in early August 2004 informing them of the program and their eligibility to participate. As of August 31, 2004, 289 applications have been received by SERS and 259 of those applications have been approved. This is a participation rate of slightly more than 1%, with 30 days remaining in the program.