



Commission on Government Forecasting and Accountability

MONTHLY BRIEFING

OCTOBER 2005

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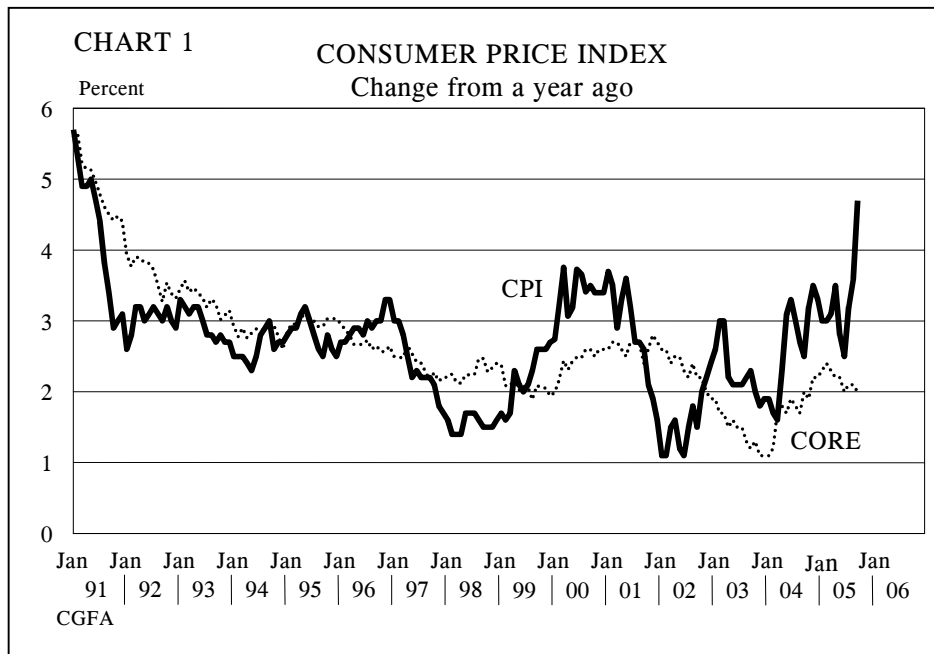
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ECONOMY: Stagflation?

Edward H. Boss, Jr., Chief Economist

Some economists are reviving the prospect of *stagflation* – that is a period of rapid price inflation occurring in a slow moving or stagnant economic environment. Indeed, one the Commission’s own forecasting services, Global Insight, now gives the odds of such a development at 20%. Under this scenario, a doubling of oil prices, anemic capacity expansion, a falling dollar, two and a half years of accommodative monetary policy and loose fiscal policy produce conditions for a serious acceleration in inflation. At the same time, a housing bubble ends, leading to a 20% decline in housing prices by early 2007 from its year-earlier level, high interest rates and energy prices erode consumer confidence reining in on discretionary spending, and the economy slows. Faced with a slowing economy and rising prices; the Federal Reserve opts to fight inflation. This slows the economy further, although the economy does not fall into recession. Indeed, the appointment of Ben Bernanke as Federal Reserve Chairman to replace retiring Alan Greenspan in January may have increased the odds of such a restraining monetary policy since the incoming Chairman in the past has favored targeting inflation as a key policy determinant.

As shown in Chart 1, on the following page, there is no doubt that inflation has been on the increase. Overall consumer prices rose at a 4.7% annual rate in September, the fastest monthly rise in 25 years. A 12% rise in energy prices that month accounted for over 90% of the overall advance. This was the third consecutive month that energy prices had increased sharply. Even though the *core* inflation rate – which excludes the volatile food and energy sectors - was only up 2% from a year earlier, the concern remains that it is only a matter of time before the heightened increase in energy costs is passed on to other sectors of the economy, eating into company profits and lifting overall inflation. In addition, the



rise in prices over the past three months led to a 4.1% increase in social security payments next year, the largest gain in 15 years, adding to government spending and putting pressure on already-large budget deficits.

While price increases have accelerated, there can be little doubt that the devastation from three major hurricanes – Katrina, Rita, and now Wilma – and soaring energy prices has slowed the pace of economic growth. This is directly shown in the rising claims for unemployment insurance and, as employee price auto incentives were removed, in severely weakened auto sales in October. With winter heating costs projected to be 50% higher this year than last, gasoline prices still at extremely high levels, and declining consumer confidence, there are increasing concerns over the strength of consumer spending as the economy enters the critical holiday shopping season. Indeed, in a recent report issued by ISI, International Strategy and Investment, fifteen reasons were given for slower economic growth. Some of the major factors, in addition to those already mentioned, are a noticeable slowdown in the

leading economic indicator, a flattening yield curve, regulators cracking down on real estate lending, a cooling in housing, a significant slowing in the money supply, and a flat stock market.

It should be pointed out that the odds of avoiding stagflation far outweigh the odds of entering such a period. The economy has proven to be remarkably flexible, able to handle the myriad of major disruptions so far without deleterious effects. While the hurricanes have, and will continue to affect economic data, some of the effects may prove temporary. Rebuilding from the hurricanes, some decline from record levels in energy costs, and forward momentum should act as a lift to the economy later on. Thus, while the pace of economic growth may moderate, the most likely scenario is for continued economic growth at or slightly above its long-term trend rate of growth. Similarly, more moderate growth coupled with the eventual impact from a firmer monetary policy and a declining federal budget deficit relative to GDP, gross domestic product, could limit the extent of upward price pressures.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

<u>INDICATORS</u>	<u>Sept. 2005</u>	<u>August 2005</u>	<u>Sept. 2004</u>
Unemployment Rate (Average)	5.7%	5.7%	6.1%
Annual Rate of Inflation (Chicago)	15.3%	9.9%	4.4%
—————			
	<u>LATEST</u> <u>MONTH</u>	<u>% CHANGE</u> <u>OVER PRIOR</u> <u>MONTH</u>	<u>% CHANGE</u> <u>OVER A</u> <u>YEAR AGO</u>
Civilian Labor Force (thousands) (September)	6,510	0.6%	1.6%
Employment (thousands) (September)	6,136	0.6%	1.9%
New Car & Truck Registration (September)	69,004	4.0%	14.6%
Single Family Housing Permits (September)	4,589	-5.0%	8.2%
Total Exports (\$ mil) (August)	2,944	6.1%	12.6%
Chicago Purchasing Managers Index (October)	62.9%	4.0%	-8.2%

Selling Off State Assets

Lynnae Kapp, Revenue/Bond Analyst

The Governor's Office of Management and Budget has proposed selling off assets of the Illinois Student Assistance Commission (ISAC) as another one-time revenue source for the State's budget. The Commission has approximately \$3.5 billion in stu-

dent loans at this time, which would be sold in the secondary market for a premium amount for the State. GOMB has predicted somewhere between \$300 million and \$500 million in premium that the State could receive from the sale. Although legislation was introduced this past spring, legislation would not be necessary for the sale of the loans to occur because it is among the existing powers of the board.

Cost of Bond Issuance
Lynnae Kapp, Revenue/Bond Analyst

In September, the State sold \$300 million in General Obligation bonds. The costs of issuance are listed in the following table, provided by the Governor's Office of Management and Budget.

\$300,000,000 Series September 2005					
Cost of Issuance Disclosure					
Line Item	Status	Participation Percentage	Amount	Total	
Underwriting Syndicate	Citigroup Securities	100.0%	770,700.00	770,700.00	
Bond Counsel	Chapman and Cutler (includes \$4,537.16 in expense including advertizing)		49,537.16	49,537.16	
Financial Advisor	Scott Balice Strategies, Inc.	WBE 100.0%	50,100.00		
Budget & Cashflow advisor	Ronald D. Picur, PhD.		19,050.00		
Market Pricing Advisor	Delphis Hanover Corporation		12,000.00	81,150.00	
Rating Agencies	Moody's Investor Services		30,000.00		
	Standard and Poor's		20,000.00		
	Fitch Ratings		24,500.00	74,500.00	
Printing & shipping	ImageMaster		4,986.00		
TM3 Announcement Wire			1,500.00		
Parity Bidding platform			1,975.00	8,461.00	
Total Expenses (Excluding Bond Insurance)				984,348.16	
	Maximum Allowable Expenses (Par amount x 0.5%)		1,500,000.00		
Bond Insurance	FSA		938,300.00	938,300.00	
Total Expenses (Including Bond Insurance)				1,922,648.16	
MBE/WBE FIRM SUBTOTALS	Underwriting	NA	0.00%	-	
	Legal	NA	0.0%	-	
	Financial Advisory	WBE	100.0%	50,100.00	50,100.00

FY 2006 Special Transfers
Lynnae Kapp, Revenue/Bond Analyst

Fund sweeps for October FY 2006 amounted to \$34.5 million, bringing the total fund sweeps to date to \$69.7 million. When added to the repealed funds transfers to GRF and the fee increase transfer of \$1 million (which occurred in August) total special transfers to date equal \$71.1 million.

Special Transfers in FY 2006 YTD as of Oct. 31						
FUND #	FUND NAME	Chargebacks	Statute (Funds Sweep)	Repealed Funds	Fee Increase	TOTAL
0014	Food & Drug Safety		\$210,701			\$210,701
0016	Teacher Certificate Fee Revolving Fund		\$491,200			\$491,200
0017	Keep IL Beautiful Fund			\$10,352		\$10,352
0021	Financial Institution Fund		\$1,224,345			\$1,224,345
0022	General Professions Dedicated Fund		\$1,987,904			\$1,987,904
0023	Economic Research and Information Fund		\$24,503			\$24,503
0024	IL Dept. of Ag. Laboratory Services Fund		\$87,398			\$87,398
0031	Drivers Education		\$15,076			\$15,076
0036	IL Veterans' Rehabilitation		\$109,470			\$109,470
0039	State Boating Act		\$200,912			\$200,912
0040	State Parks		\$522,945			\$522,945
0043	Military Affairs Trust Fund		\$34,234			\$34,234
0046	Aeronautics Fund		\$1,093			\$1,093
0048	Rural/Downstate Health Access Fund		\$2,322			\$2,322
0049	Industrial Hygiene Reg and Enforcement Fund		\$1,782			\$1,782
0067	Radiation Protection Fund		\$0			
0069	Natural Heritage Endowment Trust Fund		\$278,632			\$278,632
0071	Firearm Owner's Notification Fund		\$1,980			\$1,980
0074	EPA Special State Projects Trust		\$142,132			\$142,132
0078	Solid Waste Management		\$3,293,587			\$3,293,587
0085	Illinois Gaming Law Enforcement		\$325,323			\$325,323
0089	Subtitle D Management Fund		\$84,872			\$84,872
0094	DCFS Training Fund		\$704,053			\$704,053
0098	DuQuoin State Fair Harness Racing Trust Fund		\$1,684			\$1,684
0111	Toxic Pollution Prevention Fund		\$14,267			\$14,267
0113	Community Health Center Care Fund		\$52,240			\$52,240
0114	Emergency Response Reimbursement Fund		\$7,937			\$7,937
0118	Facility Licensing Fund		\$11,479			\$11,479
0119	IL Rural Bond Bank Trust Fund			\$35		\$35
0124	Workers Compensation Benefit Trust Fund		\$133,287			\$133,287
0126	New Technology Recovery			\$4,177		\$4,177
0127	IL Underground Utility Facilities Damage Prevention Fund		\$1,088			\$1,088
0128	Youth Alcohol & Substance Abuse Prevention Fund		\$14,998			\$14,998
0130	School District Emergency Financial Assistance		\$1,065,424			\$1,065,424
0145	Explosives Regulatory		\$11,563			\$11,563
0146	Aggregate Operation Regulatory		\$16,375			\$16,375
0147	Coal Mining Regulatory Fund		\$63,792			\$63,792
0152	State Crime Laboratory		\$22,483			\$22,483
0153	Agrichemical Incident Response Trust Fund		\$209,915			\$209,915
0154	EPA Court Trust Fund		\$169,323			\$169,323
0156	Motor Vehicle Theft Prevention Fund		\$707,681			\$707,681
0159	ISBE Teacher Certificate Institution Fund		\$61,059			\$61,059
0161	ISBE GED Testing Fund		\$73,098			\$73,098

FUND #	FUND NAME	Chargebacks	Statute (Funds Sweep)	Repealed Funds	Fee Increase	TOTAL
0162	ISBE School Bus Driver Permit Fund			\$192		\$192
0163	Weights and Measures		\$539,061			\$539,061
0167	Registered Limited Liability Partnership Fund		\$75,000			\$75,000
0173	Emergency Planning & Training		\$14,423			\$14,423
0175	Illinois School Asbestos Abatement		\$91,596			\$91,596
0185	SOS Special License Plate Fund		\$260,100			\$260,100
0192	Professional Regulation Evidence Fund		\$1,409			\$1,409
0207	Pollution Control Board State Trust Fund		\$205,326			\$205,326
0213	Response Contractors Indemnification Fund		\$63			\$63
0215	Capital Development Board Revolving		\$226,527			\$226,527
0229	Sports Facilities Tax Trust Fund		\$0			\$0
0237	Medicaid Fraud/Abuse Prevent		\$30,153			\$30,153
0238	IL Health Facilities Planning Fund		\$11,533			\$11,533
0240	Emergency Public Health Fund		\$69,999			\$69,999
0242	ISAC Accounts Receivable Fund		\$13,187			\$13,187
0246	State Police Vehicle		\$11,450			\$11,450
0248	Racing Board Fingerprint License Fund		\$8,418			\$8,418
0251	Dept. of Labor Special State Trust Fund		\$179,948			\$179,948
0255	Credit Enhancement Development			\$51		\$51
0256	Public Health Water Permit Fund		\$8,812			\$8,812
0261	Underground Resource Conservation Enforcement		\$147,126			\$147,126
0265	State Rail Freight Loan Repayment Fund		\$573,864			\$573,864
0274	Self-Insurers Administration Fund		\$143,482			\$143,482
0276	Drunk & Drugged Driving Prevention Fund		\$25,610			\$25,610
0277	Pollution Control Board Fund		\$11,502			\$11,502
0282	Hazardous Waste Occup. Licensing Fund		\$7,470			\$7,470
0285	Long-Term Care Monitor/Receiver Fund		\$213,925			\$213,925
0288	Community Water Supply Lab		\$358,116			\$358,116
0289	Motor Fuel and Petroleum Standards Fund		\$9,837			\$9,837
0290	Fertilizer Control Fund		\$103,699			\$103,699
0291	Regulatory Fund		\$27,623			\$27,623
0292	Securities Investors Education Fund		\$50,000			\$50,000
0294	Used Tire Management Fund		\$959,250			\$959,250
0295	SOS Interagency Grant Fund		\$20,450			\$20,450
0296	IL Executive Mansion Trust Fund		\$28,077			\$28,077
0297	Guardianship & Advocacy Fund		\$13,645			\$13,645
0301	Working Capital Revolving Fund		\$702,434			\$702,434
0303	State Garage Revolving Fund		\$319,831			\$319,831
0304	Statistical Services Revolving Fund		\$2,423,892			\$2,423,892
0308	Paper and Printing Revolving Fund		\$24,238			\$24,238
0309	Air Transportation Revolving Fund		\$90,739			\$90,739
0310	Tax Recovery Fund		\$56,796			\$56,796
0312	Communications Revolving Fund		\$6,499,920			\$6,499,920
0314	Facilities Management Revolving Fund		\$2,401,986			\$2,401,986
0315	Efficiency Initiatives Revolving Fund		\$3,089,149			\$3,089,149
0317	Professional Services Fund		\$23,111			\$23,111
0323	Motor Vehicle Review Board Fund		\$125,000			\$125,000
0325	Community MH and DD Services Provider Participation Fee Trust			\$46,637		\$46,637
0332	Workers Compensation Revolving Fund		\$260,143			\$260,143
0335	Criminal Justice Information Projects Fund		\$9,106			\$9,106
0336	Environmental Lab Certification Fund		\$31,020			\$31,020
0339	IL Community College Board Contracts and Grants Fund		\$5			\$5
0340	Public Health Services Revolving Fund		\$46,138			\$46,138
0341	Provider Inquiry Trust Fund		\$103,549			\$103,549

FUND #	FUND NAME	Chargebacks	Statute (Funds Sweep)	Repealed Funds	Fee Increase	TOTAL
0344	Care Providers for Persons w/ Developmental Disabilities		\$1,189,135			\$1,189,135
0348	Nursing Home Grant Assistance Fund			\$145		\$145
0361	State Appellate Defender Special State Projects Fund		\$5,955			\$5,955
0362	Securities Audit and Enforcement		\$1,700,000			\$1,700,000
0363	Dept. Business Service Spec. Ops Fund		\$1,000,000			\$1,000,000
0368	Drug Treatment Fund		\$80,015			\$80,015
0369	Feed Control Fund		\$239,117			\$239,117
0370	Tanning Facility Permit Fund		\$32,286			\$32,286
0371	Innovations in Long-term Care Quality Demonstration Grants Fund		\$282,747			\$282,747
0375	Natural Heritage Fund		\$834			\$834
0376	State Police Motor Vehicle Theft Prevention Fund		\$82,422			\$82,422
0380	Corporate Franchise Tax Refund Fund		\$250,000		\$1,050,921	\$1,300,921
0382	Dept. of Insurance State Trust Fund		\$9,005			\$9,005
0384	Tax Compliance & Administration		\$214,689			\$214,689
0386	Appraisal Administration		\$125,000			\$125,000
0387	Small Business Environmental Assistance Fund		\$6,843			\$6,843
0388	Regulatory Evaluation and Basic Enforcement Fund		\$32,111			\$32,111
0389	Sexual Assault Services Fund		\$6,105			\$6,105
0390	IL Habitat Endowment Trust Fund		\$0			\$0
0398	EMS Assistance Fund		\$20,462			\$20,462
0416	Armory Rental Fund		\$55,769			\$55,769
0417	State College and University Trust Fund		\$69,720			\$69,720
0418	University Grant Fund		\$11,941			\$11,941
0420	MAP Reserve Fund		\$439,850			\$439,850
0421	Public Aid Recoveries Trust		\$3,805,316			\$3,805,316
0422	Alternative Fuels Fund		\$528,417			\$528,417
0423	ISAC Higher EdNet Fund			\$1		\$1
0430	Livestock Management Facilities Fund		\$23,900			\$23,900
0431	Second Injury Fund		\$75,747			\$75,747
0434	Court of Claims Admin and Grant Fund		\$12,475			\$12,475
0438	IL State Fair		\$25,088			\$25,088
0440	Agricultural Master Fund		\$8,914			\$8,914
0441	Kaskaskia Commons Permanent Fund		\$39,907			\$39,907
0448	DORS State Project Fund			\$13,917		\$13,917
0452	IL Tourism Tax		\$323,875			\$323,875
0483	Secretary of State Special Services		\$1,250,000			\$1,250,000
0502	Early Intervention Services Revolving Fund		\$522,468			\$522,468
0514	State Asset Forfeiture Fund		\$35,994			\$35,994
0517	Police Training Board Service Fund		\$770			\$770
0520	Federal Asset Forfeiture Fund		\$936			\$936
0523	Department of Corrections Reimbursement		\$1,104,162			\$1,104,162
0524	Health Facility Plan Review Fund		\$82,986			\$82,986
0525	Statewide Grand Jury Prosecution Fund		\$3,823			\$3,823
0535	Sex Offender Registration		\$3,824			\$3,824
0536	LEADS Maintenance		\$38,491			\$38,491
0537	State Offender DNA ID System Fund		\$40,870			\$40,870
0538	IL Historic Sites		\$67,183			\$67,183
0544	School Technology Revolving Fund			\$496		\$496
0546	Public Pension Regulation Fund		\$111,217			\$111,217
0548	Drycleaner Environ Response Fund		\$0			\$0
0555	Good Samaritan Energy Trust Fund		\$3,596			\$3,596
0562	Pawnbroker Regulation Fund		\$47,066			\$47,066
0564	Renewable Energy Resources Trust Fund		\$3,508			\$3,508
0567	Charter Schools Revolving Fund		\$325,361			\$325,361

FUND #	FUND NAME	Chargebacks	Statute (Funds Sweep)	Repealed Funds	Fee Increase	TOTAL
0569	School Technology Revolving Loan fund		\$9,579			\$9,579
0571	Energy Efficiency Trust Fund		\$650,469			\$650,469
0573	Petroleum Resources Revolving Fund		\$21,385			\$21,385
0574	Off-Highway Vehicle Trails		\$122,408			\$122,408
0576	Pesticide Control		\$210,112			\$210,112
0582	DCFS Special Purposes Trust Fund		\$19,459			\$19,459
0595	IL Rural Rehab Fund		\$4,095			\$4,095
0610	Energy Assistance Contribution			\$258,585		\$258,585
0628	IL Building Commission Revolving Fund			\$1,398		\$1,398
0634	IL Aquaculture Develop Fund			\$1		\$1
0635	Death Certificate Surcharge		\$567,171			\$567,171
0649	Motor Carrier Safety Inspection		\$73,739			\$73,739
0651	Watershed Park Fund		\$9,893			\$9,893
0658	State Off-set Claims Fund		\$0			\$0
0669	Airport Land Loan Revolving Fund		\$834,985			\$834,985
0672	Homelessness Prevention Fund			\$3,697		\$3,697
0677	ISAC Contracts and Grants Fund		\$2,795			\$2,795
0684	DCFS Refugee Assistance Fund			\$328		\$328
0688	IEMA State Projects Fund		\$7			\$7
0702	Assisted Living and Shared Housing Reg. Fund		\$12,247			\$12,247
0703	State Whistleblower Reward & Protection		\$796			\$796
0705	Whistleblower Reward & Protection Fund		\$99,850			\$99,850
0712	Post Transplant Maintenance and Retention Fund		\$37,550			\$37,550
0720	Family Care Fund		\$11,293			\$11,293
0728	Drug Rebate Fund		\$8,657,911			\$8,657,911
0729	IL Century Network Special Purposes Fund			\$3,889		\$3,889
0731	IL Clean Water Fund		\$917,898			\$917,898
0738	Alternative Compliance Market Account Fund		\$26,560			\$26,560
0739	Group Worker's Compensation Pool Insolvency Fund		\$68,274			\$68,274
0740	Medicaid Buy-In Program Revolving Fund		\$159,447			\$159,447
0745	State's Attorneys Appellate Prosecutor's County Fund		\$35,051			\$35,051
0746	Home Inspector Administration		\$122,252			\$122,252
0753	IL Future Teachers Corps Scholarship Fund		\$2,418			\$2,418
0757	Child Support Administrative		\$558,633			\$558,633
0762	Local Initiative Fund		\$970,323			\$970,323
0769	Lawyers Assistance Program Fund		\$0			\$0
0774	Oil Spill Response Fund		\$83,774			\$83,774
0776	Presidential Library and Museum Fund		\$363,625			\$363,625
0808	Medical Special Purpose Trust Fund		\$465,334			\$465,334
0821	Dram Shop		\$55,277			\$55,277
0830	Dept. of Aging State Projects Fund		\$5,030			\$5,030
0831	Natural Recourses Restoration Trust Fund		\$31,501			\$31,501
0835	State Fair Promotional Activities Fund		\$4,367			\$4,367
0840	Hazardous Waste Research Fund		\$62,605			\$62,605
0844	Continuing Legal Education Trust Fund		\$11,710			\$11,710
0845	Environmental Protection Trust Fund		\$0			\$0
0850	Real Estate License Administration		\$750,000			\$750,000
0858	Land Reclamation Fund		\$0			\$0
0866	Snowmobile Trail Establishment Fund		\$1,562			\$1,562
0878	Drug Traffic Prevention Fund		\$11,062			\$11,062
0884	DNR Special Projects Fund		\$150,825			\$150,825
0888	Design Professionals Administration & Investigation		\$25,851			\$25,851
0896	Public Health State Projects		\$408,101			\$408,101
0903	State Surplus Property Revolving Fund		\$194,142			\$194,142

FUND #	FUND NAME	Chargebacks	Statute (Funds Sweep)	Repealed Funds	Fee Increase	TOTAL
0910	Youth Drug Abuse Prevention Fund		\$2,046			\$2,046
0914	Natural Recourses Information Fund		\$32,298			\$32,298
0921	DHS Recoveries Trust		\$795,917			\$795,917
0924	LT Governor's Grant Fund		\$94			\$94
0927	IL National Guard Armory Construction Fund		\$15,735			\$15,735
0931	JJ Wolf Memorial for Conservation Investigation Fund		\$4,069			\$4,069
0938	Hearing Instrument Dispenser Examining and Disciplinary Fund		\$51,421			\$51,421
0944	Environmental Protection Permit & Inspection		\$90,286			\$90,286
0947	Governor's Grant Fund		\$796			\$796
0951	Narcotics Profit Forfeiture Fund		\$19,690			\$19,690
0954	Illinois State Podiatric Disciplinary Fund		\$158,620			\$158,620
0962	Park & Conservation		\$1,525,077			\$1,525,077
0969	Local Tourism Fund		\$66,438			\$66,438
0973	Build IL Capital Revolving Loan Fund		\$2,012,053			\$2,012,053
0974	IL Equity Fund		\$59,597			\$59,597
0975	Large Business Attraction Fund		\$170,389			\$170,389
0982	IL Beach Marina		\$44,450			\$44,450
0993	Public Infrastructure Construction Loan		\$31,901			\$31,901
0996	Educational Labor Relations Board Fair Share Trust Fund		\$0			\$0
0997	Insurance Financial Regulation		\$400,000			\$400,000
	TOTAL	\$0	\$69,681,994	\$343,900	\$1,050,921	\$71,076,815

REVENUE

October Revenues Up

Jim Muschinske, Revenue Manager

In October, excluding Budget Stabilization Fund transfers, overall general funds revenues were up \$179 million. While transfers fell off, in large part due to timing, shortcomings were more than made up by continued good performance from the economically related sources as well as a comparatively strong month for federal sources. October had the same number of receipt days as last year.

Sales tax receipts continued strong with monthly receipts rising \$34 million. Gross corporate income tax revenues also were up \$34 million, although on a net of refund basis the gain was a lesser \$29 million. Gross personal income tax rose by \$27 million, or \$25 million net of refunds. Interest income continued

to post large monthly gains due to higher rates of return as well as higher balances attributed to ongoing court action related to certain transfers. Corporate franchise taxes posted a \$3 million increase, public utility tax showed a \$2 million advance, and liquor and insurance taxes each managed \$1 million gains.

For the month, only a couple of sources experienced declines. The Cook County IGT did not have any transfer activity this month, whereas last year \$54 million was transferred. In addition, cigarette tax receipts fell \$9 million due a temporary distribution change that occurred last fiscal year.

Overall transfers fell \$41 million in October. Due to the timing of statutory funds sweeps other transfers fell \$31 million. Riverboat transfers were down \$13 million and reflected

lower graduated tax rates. Lottery taxes did manage to post a \$3 million monthly gain. As mentioned earlier, federal sources enjoyed a comparatively strong month as receipts gained \$182 million.

Year to Date

While overall revenues are up only \$13 million over the first one-third of the fiscal year, that lack of meaningful growth is attributed to a falloff in transfers as well as federal sources. In fact, the sources most closely tied to the economy have done quite well and in fact have exceeded expectations.

Through October, sales tax receipts are up \$172 million as are gross personal income tax (although \$168 million on a net of refund basis). Gross corporate income tax revenues are up \$88 million (same as on a net basis). Interest income continues to perform well and has gained \$29 million. Other sources experiencing increases have added another \$27 million.

While the economically related areas have performed above expectations, those areas related to transfers and federal sources have not fared as well. The Cook County IGT is off \$90 million in large part due to timing of the transfers but also because of an anticipated decline in the total yearly transfer amount. The cigarette tax is down \$50 million due to a temporary change in the distribution of the tax early last fiscal year. Other areas experiencing decline total an additional \$23 million.

Total transfers are down \$208 million and reflect the timing of statutory fund

sweeps as well as chargeback activity, in addition to the lower riverboat tax rates. Finally, federal sources are down by \$100 million primarily reflecting spending on reimbursable programs (Medicaid). *In fact, federal sources should soon accelerate significantly with the infusion of \$1 billion in short-term borrowing that is anticipated to occur in the near future. That borrowing is reportedly going to be used to pay backlogged Medicaid bills and, therefore, will result in a burst of spending and related reimbursement.*

FY 2006 Revenue Forecast Increased \$100 Million – Uncertainties Still Warrant Caution

On November 3rd, the Commission presented a revised FY 2006 general funds revenue estimate. While variances exist in most of the revenue lines, overall revenue performance through the first third of the fiscal year continues to meet and, in most instances, exceed expectations. Those sources most closely tied to the economy have performed better than anticipated and require upward revisions. In a couple of instances, estimates need to be lowered to reflect year to date performance (see below).

- Personal income tax: \$50 million gross (\$45 million net of refunds)
- Corporate income tax: \$50 million gross (\$40 million net of refunds)
- Sales tax: \$25 million
- Interest income: \$20 million
- Lottery transfers: \$15 million
- Inheritance tax: (\$35 million)
- Insurance taxes: (\$10 million)

Net Increase = \$100 million

The revision should be viewed in a cautiously optimistic manner. Despite the positive early performance, a number of uncertainties still exist which should serve to temper future growth (see below).

Remaining Uncertainties

Economic Uncertainties

- Price of motor fuel (coming down but still high)
- Winter heating costs (expected to soar)
- Holiday sales (expected to be sluggish)
- Vehicle sales (expected to fall)
- Stock market performance (essentially flat from beginning of year)

Non-economic Uncertainties

- Comparative impact of last year's Voluntary Compliance Program (VCP) on FY 2006 revenues yet to occur (expected to slow year over year growth)
- Good performance in second half of FY 2005 (should slow year over year growth rates in second half)
- Chargeback activity (at discretion of GOMB)

FY 2007 REVENUE PICTURE – SOLID BUT UNSPECTACULAR GROWTH UNFORESEEN

A preliminary look at the upcoming fiscal year yields anticipated revenue gains that can be characterized as ordinary. As shown in the accompanying table, while base revenues are expected to generate growth of approximately \$860 million, unless similar fund sweeps are available next year, growth would suffer a drop of \$160 million, resulting in a net change of \$700 million. The net increase is similar to that experienced in FY 2005

[\$712 million], and anticipated in FY 2006 [\$700 million].

- Gross personal income taxes are forecast to rise approximately 4.3%, a rate close to its long term average and indicative of a steady but unspectacular job picture. The resulting gain in net revenue, assuming current refund percentage of 9.75%, equates to \$360 million.
- Gross corporate income tax growth is estimated to be significantly lower next fiscal year as higher costs of business in part due to higher energy costs impact on the profit picture. The forecast calls for growth to fall to around 3.0%. Assuming the current refund percentage of 20% yields a net increase of \$40 million.
- Sales tax is expected to return to historic average growth of approximately 3.9%. That rate of growth will generate a yearly gain of \$270 million.
- A forecasted \$40 million decline in the Cook County IGT is expected to be offset by a similar amount of increase in other areas i.e. public utility, corporate franchise, lottery. As a result, no net additional growth is assumed in other areas.
- While revenues from federal sources are dependent in large part on appropriation levels, assuming a 4% increase in overall federal monies would add approximately \$190 million in growth.
- The FY 2005 budget was crafted utilizing approximately \$160 million in funds sweeps. If similar amounts cannot be utilized next year, a year over year falloff would result.

GENERAL FUNDS RECEIPTS: OCTOBER

*FY 2006 vs. FY 2005
(\$ million)*

Revenue Sources	OCT. FY 2006	OCT. FY 2005	\$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	\$617	\$590	\$27	4.6%
Corporate Income Tax (regular)	76	42	\$34	81.0%
Sales Taxes	575	541	\$34	6.3%
Public Utility Taxes (regular)	70	68	\$2	2.9%
Cigarette Tax	33	42	(\$9)	-21.4%
Liquor Gallonage Taxes	13	12	\$1	8.3%
Vehicle Use Tax	3	3	\$0	0.0%
Inheritance Tax (Gross)	19	19	\$0	0.0%
Insurance Taxes and Fees	1	0	\$1	N/A
Corporate Franchise Tax & Fees	21	18	\$3	16.7%
Interest on State Funds & Investments	11	5	\$6	120.0%
Cook County IGT	0	54	(\$54)	N/A
Other Sources	25	25	\$0	0.0%
Subtotal	\$1,464	\$1,419	\$45	3.2%
Transfers				
Lottery	44	41	\$3	7.3%
Riverboat transfers & receipts	55	68	(\$13)	-19.1%
Other	58	89	(\$31)	-34.8%
Total State Sources	\$1,621	\$1,617	\$4	0.2%
Federal Sources	\$375	\$193	\$182	94.3%
Total Federal & State Sources	\$1,996	\$1,810	\$186	10.3%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$61)	(\$59)	(\$2)	3.4%
Corporate Income Tax	(\$15)	(10)	(\$5)	50.0%
Subtotal General Funds	\$1,920	\$1,741	\$179	10.3%
Short-Term Borrowing	\$0	\$0	\$0	N/A
HPF and HHSMTF Transfers	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$0	\$276	(\$276)	N/A
Total General Funds	\$1,920	\$2,017	(\$97)	-4.8%

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

2-Nov-05

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2006 vs. FY 2005

(\$ million)

Revenue Sources	FY 2006	FY 2005	CHANGE FROM FY 2005	% CHANGE
State Taxes				
Personal Income Tax	\$2,631	\$2,459	\$172	7.0%
Corporate Income Tax (regular)	410	322	\$88	27.3%
Sales Taxes	2,386	2,214	\$172	7.8%
Public Utility Taxes (regular)	338	318	\$20	6.3%
Cigarette Tax	133	183	(\$50)	-27.3%
Liquor Gallonage Taxes	52	50	\$2	4.0%
Vehicle Use Tax	13	12	\$1	8.3%
Inheritance Tax (Gross)	79	88	(\$9)	-10.2%
Insurance Taxes and Fees	83	94	(\$11)	-11.7%
Corporate Franchise Tax & Fees	64	60	\$4	6.7%
Interest on State Funds & Investments	42	13	\$29	223.1%
Cook County IGT	40	130	(\$90)	-69.2%
Other Sources	139	142	(\$3)	-2.1%
Subtotal	\$6,410	\$6,085	\$325	5.3%
Transfers				
Lottery	214	184	\$30	16.3%
Riverboat transfers & receipts	224	263	(\$39)	-14.8%
Other	156	355	(\$199)	-56.1%
Total State Sources	\$7,004	\$6,887	\$117	1.7%
Federal Sources	\$1,647	\$1,747	(\$100)	-5.7%
Total Federal & State Sources	\$8,651	\$8,634	\$17	0.2%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$256)	(\$252)	(\$4)	1.6%
Corporate Income Tax	(\$82)	(\$82)	\$0	0.0%
Subtotal General Funds	\$8,313	\$8,300	\$13	0.2%
Short-Term Borrowing	\$0	\$0	\$0	N/A
HPF and HHSMTF Transfers	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$276	\$276	\$0	N/A
Total General Funds	\$8,589	\$8,576	\$13	0.2%

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

CGFA

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GENERAL FUNDS GROWTH NEEDED TO MEET ESTIMATE

FY 2006 ESTIMATE vs. FY 2005 ACTUAL

(\$ million)

	NOV-05 ESTIMATE FY 2006	FYTD 2006	AMOUNT NEEDED FY 2006 EST.	FYTD 2005	GROWTH NEEDED	% CHANGE
Revenue Sources						
<i>State Taxes</i>						
Personal Income Tax	\$9,267	\$2,631	\$6,636	\$2,459	\$222	3.5%
Corporate Income Tax (regular)	1,664	410	\$1,254	322	\$28	2.3%
Sales Taxes	6,915	2,386	\$4,529	2,214	\$148	3.4%
Public Utility Taxes (regular)	1,072	338	\$734	318	(\$4)	-0.5%
Cigarette Tax	405	133	\$272	183	\$5	1.9%
Liquor Gallonage Taxes	150	52	\$98	50	\$1	1.0%
Vehicle Use Tax	32	13	\$19	12	(\$1)	-5.0%
Inheritance Tax (Gross)	265	79	\$186	88	(\$36)	-16.2%
Insurance Taxes and Fees	332	83	\$249	94	\$1	0.4%
Corporate Franchise Tax & Fees	185	64	\$121	60	\$0	0.0%
Interest on State Funds & Investments	116	42	\$74	13	\$14	23.3%
Cook County IGT	340	40	\$300	130	(\$3)	-1.0%
Other Sources	445	139	\$306	142	(\$19)	-5.8%
Subtotal	\$21,188	\$6,410	\$14,778	\$6,085	\$356	2.5%
<i>Transfers</i>						
Lottery	640	214	\$426	184	(\$4)	-0.9%
Riverboat transfers & receipts	688	224	\$464	263	\$28	6.4%
Other	770	156	\$614	355	\$70	12.9%
Total State Sources	\$23,286	\$7,004	\$16,282	\$6,887	\$450	2.8%
Federal Sources	\$4,791	\$1,647	\$3,144	\$1,747	\$200	6.8%
Total Federal & State Sources	\$28,077	\$8,651	\$19,426	\$8,634	\$650	3.5%
Nongeneral Funds Distribution:						
<i>Refund Fund</i>						
Personal Income Tax	(\$904)	(\$256)	(\$648)	(\$252)	(\$6)	0.9%
Corporate Income Tax	(333)	(\$82)	(\$251)	(82)	\$43	-14.6%
Subtotal General Funds	\$26,840	\$8,313	\$18,527	\$8,300	\$687	3.9%
<i>Short-Term Borrowing</i>	\$0	\$0	\$0	\$0	(\$765)	N/A
<i>HPF and HHSMTF Transfer</i>	\$0	\$0	\$0	\$0	(\$1,002)	N/A
<i>Budget Stabilization Fund Transfer</i>	\$276	\$276	\$0	\$276	\$0	N/A
Total General Funds	\$27,116	\$8,589	\$18,527	\$8,576	(\$1,080)	-5.5%
CGFA						2-Nov-05

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

FY 2006 ESTIMATE vs. FY 2005 ACTUALS

(\$ million)

	GOMB		AMOUNT		GROWTH	%
	MAY-05	FYTD	NEEDED	FYTD		
Revenue Sources	Estimate	FYTD	NEEDED	FYTD	NEEDED	CHANGE
	FY 2006	2006	FY 2006 Est.	2005		
State Taxes						
Personal Income Tax	\$9,125	\$2,631	\$6,494	\$2,459	\$80	1.2%
Corporate Income Tax (regular)	1,583	410	\$1,173	322	(\$53)	-4.3%
Sales Taxes	6,873	2,386	\$4,487	2,214	\$106	2.4%
Public Utility Taxes (regular)	1,069	338	\$731	318	(\$7)	-0.9%
Cigarette Tax	400	133	\$267	183	\$0	0.0%
Liquor Gallonage Taxes	150	52	\$98	50	\$1	1.0%
Vehicle Use Tax	35	13	\$22	12	\$2	10.0%
Inheritance Tax (Gross)	285	79	\$206	88	(\$16)	-7.2%
Insurance Taxes and Fees	327	83	\$244	94	(\$4)	-1.6%
Corporate Franchise Tax & Fees	183	64	\$119	60	(\$2)	-1.7%
Interest on State Funds & Investments	65	42	\$23	13	(\$37)	-61.7%
Cook County IGT	340	40	\$300	130	(\$3)	-1.0%
Other Sources	472	139	\$333	142	\$8	2.5%
Subtotal	\$20,907	\$6,410	\$14,497	\$6,085	\$75	0.5%
Transfers						
Lottery	628	214	\$414	184	(\$16)	-3.7%
Gaming Fund Transfer	707	224	\$483	263	\$47	10.8%
Other	844	156	\$688	355	\$144	26.5%
Total State Sources	\$23,086	\$7,004	\$16,082	\$6,887	\$250	1.6%
Federal Sources	\$4,791	\$1,647	\$3,144	\$1,747	\$200	6.8%
Total Federal & State Sources	\$27,877	\$8,651	\$19,226	\$8,634	\$450	2.4%
Nongeneral Funds Distribution:						
Refund Fund						
Personal Income Tax	(\$890)	(\$256)	(\$634)	(\$252)	\$8	-1.2%
Corporate Income Tax	(316)	(82)	(\$234)	(82)	\$60	-20.4%
Subtotal General Funds	\$26,671	\$8,313	\$18,358	\$8,300	\$518	2.9%
Short-Term Borrowing	\$0	\$0	\$0	\$0	(\$765)	N/A
HPF and HHSMTF Transfer	\$0	\$0	\$0	\$0	(\$1,002)	N/A
Budget Stabilization Fund Transfer	\$276	\$276	\$0	\$276	\$0	N/A
Total General Funds	\$26,947	\$8,589	\$18,358	\$8,576	(\$1,249)	-6.4%
CGFA						2-Nov-05