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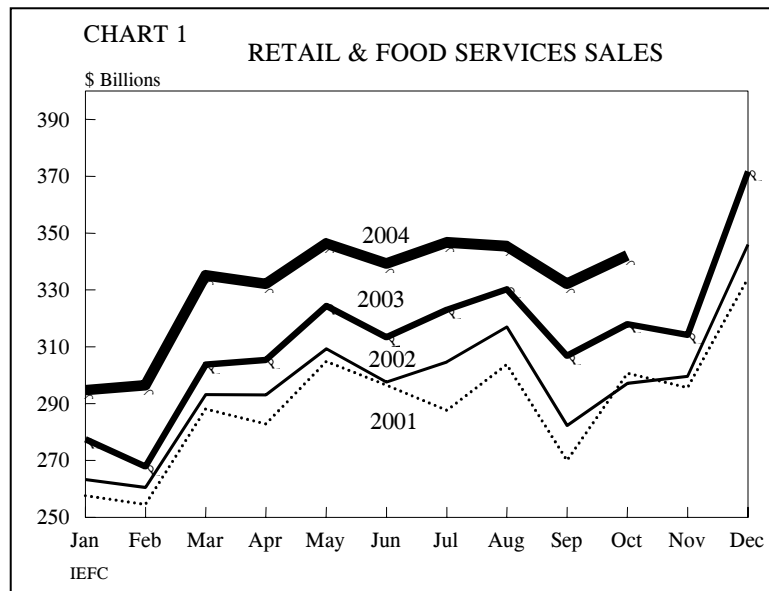
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#### ECONOMY: Dreaming of a Black Christmas

Edward H. Boss, Jr., Chief Economist

It's that time of the year when attention turns to the outlook for Holiday sales. The importance of these sales to retailers and manufactures cannot be overstressed, with holiday sales contributing as much as 40% of the yearly profits for some retailers. To many, it marks whether a store's profits will be in the red or black for the year as a whole. As shown in the accompanying chart, year-end sales have varied as to strength in recent years. For example, the year-end sales in 2002 barely eked out a gain from 2001, as the economy was emerging from recession and was considered a poor seasonal sales year. In contrast, 2003 showed a significant increase over closing year sales in 2002, and judged a good holiday buying season. Early data for this year have been somewhat mixed and only time will tell the final results.



On the positive side, the National Retail Federation reported a very strong \$22.8 billion surge in retail sales over the Thanksgiving Day weekend and is sticking to its overall forecast of a respectable 4% gain in holiday sales for 2004. In contrast, Wal-Mart (the nation's largest retailer) reported disappointing sales for the same period and expects only a 0.7% gain in same-store sales for November, down from previous forecasts anticipating a 2%-4% gain. Some analysts have noted, however, that Wal-Mart did less price promotion and offered fewer deep discounts than in previous years, hoping to improve profits. Electronics, including Plasma and LCD TV's, and other high-end goods seem to be the heavy sellers so far this holiday season while there seem to be no must-have toys or new fashion apparel desires spurring these sales.

Economic conditions also are mixed during this holiday-buying season. Consumer spending rebounded in the third quarter after a weak second quarter performance suggesting a good starting off point. Consumer confidence, as measured by the University of Michigan, edged up in November after faltering the previous two months, although at month end, the Conference Board reported a decline in their confidence measure. Even so, reports by Visa and MasterCard show strong gains in credit card usage over the Thanksgiving weekend. Improving unemployment claims and a stronger labor market also seem to be positive factors. At the same time, however,

gasoline prices remain at high levels and are cutting into the budgets of many families, limiting purchasing, particularly at lower-end stores.

Another major factor in the sales outlook, particularly as it affects State revenues, is the amount of sales that are purchased on line, often avoiding State sales taxes. According to the U.S. Department of Commerce, e-commerce sales, or those done through online systems, have continued to soar. In the third quarter of 2004 these sales represented 1.9% of total retail sales, up from 1.7% in the third quarter of 2003, 1.4% in the same period of 2002, 1.1% in 2001, and 0.6% in the fourth quarter of 1999 when such data started to be reported. While there are no data to indicate the extent of such online service usage since September, there is every reason to expect that this upward trend has continued.

Overall, it appears that the Holiday buying season is off to a good start, particularly at department, electronic, and high-end stores. Even so, it is far too early to suggest a stellar performance is in the shopping bag, and many questions remain. With about a month to go, will spending slow following a strong start or will there be another last minute surge in buying? Will the consumer hold off spending, forcing deeper discounts as has occurred in the past? Are inventories large enough to avoid losing sales of much-wanted items because stores run out of these items? Answers to these and other questions will ultimately determine the final outcome.

## INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

<u>INDICATORS</u>	<u>October 2004</u>	<u>September 2004</u>	<u>October 2003</u>
Unemployment Rate (Average)	6.1%	6.0%	6.8%
Annual Rate of Inflation (Chicago)	5.0%	-1.3%	2.7%
<hr style="border: 2px solid black;"/>			
	<u>LATEST MONTH</u>	<u>% CHANGE OVER PRIOR MONTH</u>	<u>% CHANGE OVER A YEAR AGO</u>
Civilian Labor Force (thousands) (October)	6,441	0.2%	1.4%
Employment (thousands) (October)	6,048	0.1%	2.1%
New Car & Truck Registration (October)	55,588	-7.7%	-0.6%
Single Family Housing Permits (October)	3,839	-9.5%	-20.7%
Total Exports (\$ mil) (September)	2,504	-4.2%	13.4%
Chicago Purchasing Managers Index (November)	65.2	-4.8%	1.7%

### BOND LIMITS AND TRANSPARENCY

Lynnae Kapp, Bond Analyst

**P**.A. 93-0839 (SB 2206) set limits on State bonding and requires greater transparency from the Governor's Office of Management and Budget through disclosure of bond deals beginning in FY 2005. Both the September (\$285 million) and November (\$275 million) General Obligation bonds were issued following the new provisions, with a maximum 25-year maturity and level principal debt service payments. The new law also requires that a minimum of 25% of bonds issued in a fiscal year must be sold by competitive sale. With an expected \$1 billion in total FY 2005 bond sales estimated by the Office of

Management and Budget, the \$285 million September issue, which was sold by competitive sale, meets this requirement.

**C**apitalized interest is no longer allowed, and issuance costs for the September issue were under 0.5% of the bond sale, as required by law. Truth in disclosure statements for the September issuance were posted on the Office of Management and Budget's website and submitted to the Economic & Fiscal Commission within 20 business days of the issuance. A list of costs associated with the issuance is shown on the next page. Contracts pertaining to cost of issuance were received by the Commission. The November disclosure statements and cost of issuance details should be posted by December 8, 2004.

**\$285,000,000 Series September 2004  
Competitive Bid Sale  
Cost of Issuance Disclosure**

Line Item	Status	Participation Percentage	Total
<b>Underwriting<sup>1</sup></b>			
		45.09%	245,356.10
		45.09%	245,356.10
		3.51%	19,093.86
		3.51%	19,093.86
		1.75%	9,546.93
	MBE	0.35%	1,909.39
		0.35%	1,909.39
	MBE	0.35%	1,909.39
<b>Legal</b>			
	Chapman and Cutler		46,681.08
<b>Financial Advisor</b>			
	Kirkpatrick Pettis		82,350.00
<b>Ratings Report and Presentation</b>			
	Ronald D. Picur, Ph.d.		14,500.00
<b>Market Pricing Service</b>			
	Delphis Havover		12,000.00
<b>Printing</b>			
	ImageMaster		6,000.00
<b>Ratings</b>			
	Moody's		30,000.00
	Standard and Poor's		25,000.00
	Fitch		21,000.00
<b>Miscellaneous</b>			
	Parity		1,750.00
	TM3 Wire		-
	Debt Service Fund Deposit		11,093.92
<b>Total Expenses (Excluding Bond Insurance)</b>			<b>794,550.00</b>
<b>Bond Insurance</b>			
	MBIA <sup>2</sup>		218,200.00
<b>Total Expenses (Including Bond Insurance)</b>			<b>1,012,750.00</b>
<b>Maximum Allowable Expenses (Par amount x 0.5%)</b>			<b>1,425,000.00</b>
<b>Total MBE Participation</b>			<b>3,818.77</b>

<sup>1</sup> The State of Illinois did not select the underwriters. The underwriting syndicates were formed independently by the underwriters. A total of 7 syndicates bid on the Bonds. The underwriting syndicate led by Citigroup had the lowest interest rate bid.

<sup>2</sup> MBIA was selected as bond insurer by the underwriting syndicate, not the State of Illinois

**Year-to-Date FY 2005**

**Special Transfers**

Lynnae Kapp, Bond Analyst

Special transfers to the General Fund are a part of the enacted FY 2005 budget. In November, there were no

administrative chargebacks, but \$6.8 million in earlier statutory transfers (fund sweeps) were reversed, reducing that year-to-date total to \$208.7 million. Administrative chargebacks remained at \$51.5 million, making the total special transfers year-to-date approximately \$260 million.

<b>Special Transfers in FY 2005 YTD as of 11/30/2004</b>				
<b>FUND #</b>	<b>FUND NAME</b>	<b>Chargebacks</b>	<b>Statute (Funds Sweep)</b>	<b>TOTAL</b>
0014	Food & Drug Safety		\$817,000	\$817,000
0018	Transportation Regulatory Fund	\$97,549	\$2,379,000	\$2,476,549
0021	Financial Institution Fund	\$315,981	\$2,003,000	\$2,318,981
0022	General Professions Dedicated Fund	\$59,799	\$497,000	\$556,799
0026	Live & Learn Fund	\$1,096,866		\$1,096,866
0031	Drivers Education	\$581,162	\$2,967,000	\$3,548,162
0036	IL Veterans' Rehabilitation	\$70,994		\$70,994
0039	State Boating Act	\$251,497	\$1,072,000	\$1,323,497
0045	Agricultural Premium Fund	\$457,886	\$7,777,000	\$8,234,886
0050	Mental Health	\$2,086,290		\$2,086,290
0059	Public Utility	\$934,519	\$8,202,000	\$9,136,519
0067	Radiation Protection		\$750,000	\$750,000
0078	Solid Waste Management	\$317,419	\$10,084,000	\$10,401,419
0089	Subtitle D Management Fund		\$3,006,000	\$3,006,000
0129	State Gaming Fund	\$4,549,590		\$4,549,590
0137	Plugging & Restoration		\$1,255,000	\$1,255,000
0147	Coal Mining Regulatory Fund	\$2,755		\$2,755
0151	Registered CPA Admin. & Disciplinary Fund		\$819,000	\$819,000
0163	Weights and Measures	\$131,345	\$1,800,000	\$1,931,345
0167	Registered Limited Liability Partnership Fund	\$24,560	\$356,000	\$380,560
0184	Violence Prevention Fund	\$48,630		\$48,630
0207	Pollution Control Board State Trust Fund	\$19,751		\$19,751
0213	Response Contractors Indemnification Fund		\$107,000	\$107,000
0214	Brownfields Redevelopment Fund	\$309,322		\$309,322
0215	Capital Development Board Revolving		\$1,229,000	\$1,229,000
0218	Professions Indirect Cost Fund	\$341,483	\$39,000	\$380,483
0222	State Police DUI Fund	\$22,971		\$22,971
0224	Asbestos Abatement Fund	\$104,559		\$104,559
0238	IL Health Facilities Planning Fund		\$2,351,000	\$2,351,000
0248	Racing Board Fingerprint License Fund	\$2,804		\$2,804
0251	Dept. of Labor Special State Trust Fund	\$8,235		\$8,235
0258	Nurse Dedicated & Professional Fund	\$203,445		\$203,445
0259	Optometric Licensing & Disciplinary Comm.		\$1,121,000	\$1,121,000
0265	State Rail Freight Loan Repayment Fund	\$275,565	\$3,500,000	\$3,775,565
0272	LaSalle Veterans Home Fund	\$36,434		\$36,434
0273	Anna Veterans Home Fund	\$148,628		\$148,628
0274	Self-Insurers Administration Fund	\$14,008		\$14,008
0276	Drunk & Drugged Driving Prevention Fund	\$99,517		\$99,517
0280	IL Racing Board Grant Fund	\$24,902		\$24,902
0281	IL Tax Increment	\$853,806	\$800,000	\$1,653,806
0285	Long-Term Care Monitor/Receiver Fund	\$51,192		\$51,192
0286	IL Affordable Housing Trust	\$243,489		\$243,489
0290	Fertilizer Control Fund	\$16,632		\$16,632
0292	Securities Investors Education Fund	\$186,442	\$3,271,000	\$3,457,442
0294	Used Tire Management Fund		\$3,278,000	\$3,278,000
0295	SOS Interagency Grant Fund	\$2,043		\$2,043
0298	Natural Areas Acquisition Fund	\$762,295		\$762,295
0299	Open Space Lands Acquisition & Develop.	\$1,303,203		\$1,303,203
0301	Working Capital Revolving Fund		\$12,000,000	\$12,000,000

FUND #	FUND NAME	Chargebacks	Statute (Funds Sweep)	TOTAL
0323	Motor Vehicle Review Board Fund	\$8,821		\$8,821
0342	Audit Expense		\$1,237,000	\$1,237,000
0344	Care Providers for Persons w/ DD	\$1,212,397		\$1,212,397
0363	Dept. Business Service Spec. Ops Fund	\$261,447	\$524,000	\$785,447
0373	State Treasurer's Bank Service	\$1,099		\$1,099
0378	Insurance Premium Tax Refund Fund	\$292,099	\$2,500,000	\$2,792,099
0384	Tax Compliance & Administration	\$300,974	\$9,513,000	\$9,813,974
0386	Appraisal Administration	\$33,790	\$1,107,000	\$1,140,790
0421	Public Aid Recoveries Trust	\$5,063,408		\$5,063,408
0436	Safety Responsibility Fund	\$21,605		\$21,605
0438	IL State Fair	\$229,724		\$229,724
0452	IL Tourism Tax	\$148,097		\$148,097
0483	Secretary of State Special Services	\$43,943	\$600,000	\$643,943
0502	Early Intervention Services Revolving Fund	\$743,449		\$743,449
0514	State Asset Forfeiture Fund		\$1,500,000	\$1,500,000
0523	Department of Corrections Reimbursement		\$14,500,000	\$14,500,000
0530	Grape & Wine Resources Fund		\$1,000,000	\$1,000,000
0536	LEADS Maintenance		\$2,000,000	\$2,000,000
0537	State Offender DNA ID System Fund		\$250,000	\$250,000
0548	Drvcleaner Environ Response Fund	\$272,563		\$272,563
0571	Energy Efficiency Trust Fund	\$194,091	\$3,040,000	\$3,234,091
0576	Pesticide Control	\$38,899		\$38,899
0608	Conservation 2000		\$7,339,000	\$7,339,000
0612	Wireless Service Emergency Fund	\$253,973		\$253,973
0632	Horse Racing		\$2,500,000	\$2,500,000
0634	IL Aquaculture Develop Fund		\$1,067,020	\$1,067,020
0637	State Police Wireless Service Emergency	\$52,862	\$500,000	\$552,862
0642	DHS State Projects Fund	\$105,712		\$105,712
0648	Downstate Public Transportation	\$764,939		\$764,939
0649	Motor Carrier Safety Inspection	\$90,277		\$90,277
0650	Municipal Economic Development Fund	\$14,796		\$14,796
0669	Airport Land Loan Revolving Fund	\$212		\$212
0705	Whistleblower Reward & Protection Fund		\$750,000	\$750,000
0708	IL Standardbred Breeders Fund			\$32,787
0728	Drug Rebate Fund	\$6,757,347		\$6,757,347
0732	SOS DUI Administration Fund	\$52,699	\$582,000	\$634,699
0733	Tobacco Settlement Recovery		\$4,000,000	\$4,000,000
0743	Statewide Economic Development Fund		\$4,329,246	\$4,329,246
0763	Tourism Promotion	\$52,796		\$52,796
0770	Digital Divide Elimination Fund	\$403,523		\$403,523
0776	Presidential Library and Museum Fund		\$500,000	\$500,000
0795	Bank & Trust Company	\$1,204,710		\$1,204,710
0808	Medical Special Purpose Trust Fund	\$83,223	\$967,000	\$1,050,223
0840	Hazardous Waste Research Fund	\$12,672		\$12,672
0850	Real Estate License Administration	\$103,472		\$103,472
0863	Cycle Rider Safety Training	\$81,636		\$81,636
0884	DNR Special Projects Fund	\$91,281		\$91,281
0888	Design Professionals Admin. & Investigation		\$500,000	\$500,000
0905	IL Forestry Development Fund		\$1,257,000	\$1,257,000
0906	State Police Services	\$596,452	\$250,000	\$846,452
0907	Health Insurance Reserve	\$12,874,230		\$12,874,230
0920	Metabolic Screening & Treatment Fund		\$3,435,000	\$3,435,000
0921	DHS Recoveries Trust	\$315,318		\$315,318
0922	Insurance Producer Administration	\$121,724	\$12,727,000	\$12,848,724
0925	Coal Technology Development Assistance	\$176,342		\$176,342
0942	Radioactive Waste Facility Dev. & 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
0955	Tech Innovation & Commercialization Fund		\$76,729	\$76,729
0962	Park & Conservation		\$1,000,000	\$1,000,000
0969	Local Tourism Fund	\$502,405		\$502,405
0982	IL Beach Marina	\$50,000		\$50,000
0993	Public Infrastructure Construction Loan	\$23,579	\$1,822,000	\$1,845,579
0997	Insurance Financial Regulation	\$1,721,874		\$1,721,874
	<b>TOTAL</b>	<b>\$51,464,815</b>	<b>\$161,928,995</b>	<b>\$213,393,810</b>
0569	School Technology Revolving Loan Fund to Common School Fund		\$46,775,000	\$46,775,000
	<b>General Funds Total</b>	<b>\$51,464,815</b>	<b>\$208,703,995</b>	<b>\$260,168,810</b>

## REVENUES FALL IN NOVEMBER

Jim Muschinske, Revenue Manager

General revenue receipts in November, excluding Budget Stabilization Fund and Pension Contribution Fund transfers, declined by \$95 million. A comparatively weak month for federal sources as well as last year's tax amnesty program accounted for most of the decline, although one less receipting day in November also contributed to the monthly decrease.

Gross corporate income tax receipts led the falloff in receipts with a \$146 million decline, however approximately \$95 million of that was due to last year's tax amnesty program (on a net of refund basis the monthly decrease was \$96 million). Sales tax suffered a modest loss of \$4 million while vehicle use posted a \$1 million decline.

While overall tax sources suffered a decline, most sources managed to post gains: gross personal income tax receipts rose by \$25 million or \$32 million net of refunds; the Cook County IGT gained \$17 million; corporate franchise taxes \$6 million; other sources \$10 million; interest income \$5 million; public utility tax \$3 million; and, liquor tax \$2 million.

Overall transfers fell \$27 million in November. The decrease was attributed to a \$20 million decrease in other transfers in part due to \$6.8 million in reversals of earlier funds sweeps. Lottery transfers declined by \$9 million, while riverboat transfers and receipts managed to rise \$2 million. Finally, as mentioned earlier, federal sources experienced a decline of \$42 million.

*Based on information provided from the Comptroller's Office, as of December 2, 2004, \$1.538 billion in bills are awaiting payment, of which \$510 million are Medicaid bills. November ended with a general funds balance of \$191 million, of which the General Revenue Fund represented only \$13 million (the remaining balance of \$178 million was comprised of education funds).*

### Year to Date

Through the first five months of FY 2005, excluding Budget Stabilization and Pension Contribution Fund transfers, receipts are up \$22 million over the same period of last fiscal year. With few exceptions, virtually all revenue sources experienced gains over the same period of last year.

Gross personal income receipts have contributed the most to the year to date increase as receipts posted gains of \$131 million, or \$161 million net of refunds. Sales tax revenue is up \$109 million while other sources experienced a \$88 million increase. Due to a distribution change in FY 2005, cigarette tax receipts are up \$50 million. Inheritance tax is ahead by \$25 million, and all other sources experiencing gains contributed an additional \$58 million. Only four sources declined thus far in FY 2005 with gross corporate income tax off \$46 million, or \$7 million net of refunds, due to last year's tax amnesty program.

Public utility taxes are off \$7 million, interest income down \$4 million, and vehicle use tax off \$1 million.

Overall transfers in the first five months of the fiscal year were up \$502 million. However, \$434 million of that gain was due to transfers from the Medicaid Provider Relief Fund resulting from last fiscal year's short-term borrowing. Excluding that transfer, all other transfers would be up \$68 million, comprised of an increase of \$51 million in other transfers, a \$14 million increase in lottery transfers, and a \$3 million increase in riverboat transfers and receipts.

While federal sources are down \$952 million over the first four months, \$434 million in transfers in from the Medicaid Provider Fund could be considered "federal money" as it represents the federal reimbursement stemming from spending made available due to last year's short-term borrowing. If viewed in that context, the year-over-year decline in federal sources would be lessened to \$518 million; with that decline being mostly attributed to \$422 million in flexible federal grants received last fiscal year.

**FY 2005 REVENUE FORECAST  
UNCHANGED**

At the November 17, 2004 Commission meeting, it was discussed that while variances exist in most of the revenue lines, overall revenue performance through the first part of the fiscal year has met in most instances, and in some cases even exceeded expectations. Despite this positive early performance, a number of uncertainties still exist

which could serve to temper future growth (see following). As a result, the Commission's forecast remains unchanged (see estimate on page 12).

**Remaining Uncertainties**

Non-Economic Uncertainties

- Full impact of last year's amnesty program on FY 2005 revenues yet to occur.
- Performance of revenue assumptions used to craft FY 2005 budget remain.
  - Loophole closures
  - Sale of State assets
  - New fees and taxes
  - Chargebacks

Economic Uncertainties

- Price of Oil
- Stock market performance
- Consumer Confidence
- Slow job growth and resulting income gains
- Impact of continuing threats of terrorism

**FY 2006 REVENUE PICTURE –  
DIFFICULT TIMES CONTINUE**

Unfortunately, even with expected base growth of approximately 4% for the more closely-tied economic sources such as income and sales, due to various one-time revenues used to craft the FY 2005 budget as well as statutory changes, revenue growth is anticipated to be an unimpressive \$325 million.



<b>FY 2006 Revenue Growth</b>	
(\$ in Millions)	
Net change in Income Taxes	\$240
Sales Tax	\$260
Miscellaneous Other Sources	\$50
Federal Source Revenues	\$190
One-time FY05 funds sweep	(\$265)
One-time FY05 Cigarette Tax distribution change	(\$50)
One-time FY05 sale of State property	(\$25)
Return to lower riverboat tax structure	<u>(\$75)</u>
<b>Anticipated General Funds Revenue Growth</b>	<b>\$325</b>

- Base personal and corporate income taxes are expected to grow approximately 4% in FY 2006. However, since FY 2005 assumes an estimated one-time \$100 million from the FY 2005 tax shelter amnesty program, overall net growth for income taxes are forecast to be only \$240 million.
- Sales tax receipts are also forecast to grow 4% in FY 2006. That rate of change would equate into about \$260 million in growth.
- Miscellaneous other sources can be expected to contribute approximately \$50 million in additional revenues i.e. public utility, insurance, interest earnings.
- 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.

Since a number of one-time revenue sources were used to craft the FY 2005 budget, unless similar or new one-time items can be utilized in FY 2006, certain areas will experience negative growth for a number of reasons:

- In FY 2005, approximately \$265 million from various funds will be swept into the general funds. Unless similar fund sweeps and chargebacks are available next year, it would equate in a drop of a \$265 million.
- In FY 2005, a temporary cigarette tax distribution change was made which had the effect of increasing cigarette taxes to the general funds by \$50 million (the overall tax rate was not changed, just the distribution of the tax). Since the distribution already has returned to its original pattern, unless some other change is made, FY 2006 cigarette revenues to the general funds will be \$50 million less than in FY 2005.
- The FY 2005 budget assumes a one-time \$25 million from the sale of State properties. Unless a similar assumption is made for FY 2006, a \$25 million decrease will occur.
- Absent legislative changes, according to current law, tax rates for riverboat gaming will revert back to earlier levels. While it is assumed that market forces will adjust and additional play will return to Illinois, it's unlikely that it will offset the lower rates. As a result, riverboat transfers to the general funds could fall an estimated \$75 million.

**GENERAL FUNDS RECEIPTS: NOVEMBER**

*FY 2005 vs. FY 2004*

(\$ million)

<b>Revenue Sources</b>	<b>NOV. FY 2005</b>	<b>NOV. FY 2004</b>	<b>\$ CHANGE</b>	<b>% CHANGE</b>
<b>State Taxes</b>				
Personal Income Tax	\$587	\$562	\$25	4.4%
Corporate Income Tax (regular)	23	169	(\$146)	-86.4%
Sales Taxes	530	534	(\$4)	-0.7%
Public Utility Taxes (regular)	77	74	\$3	4.1%
Cigarette Tax	33	33	\$0	0.0%
Liquor Gallonage Taxes	13	11	\$2	18.2%
Vehicle Use Tax	2	3	(\$1)	-33.3%
Inheritance Tax (Gross)	25	25	\$0	0.0%
Insurance Taxes and Fees	1	1	\$0	0.0%
Corporate Franchise Tax & Fees	16	10	\$6	60.0%
Interest on State Funds & Investments	8	3	\$5	166.7%
Cook County IGT	40	23	\$17	N/A
Other Sources	24	14	\$10	71.4%
<b>Subtotal</b>	<b>\$1,379</b>	<b>\$1,462</b>	<b>(\$83)</b>	<b>-5.7%</b>
<b>Transfers</b>				
Lottery	31	40	(\$9)	-22.5%
Riverboat transfers & receipts	63	61	\$2	3.3%
Medicaid Provider Relief Fund	0	N/A	\$0	N/A
Other	4	24	(\$20)	-83.3%
<b>Total State Sources</b>	<b>\$1,477</b>	<b>\$1,587</b>	<b>(\$110)</b>	<b>-6.9%</b>
<b>Federal Sources</b>	<b>\$332</b>	<b>\$374</b>	<b>(\$42)</b>	<b>-11.2%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$1,809</b>	<b>\$1,961</b>	<b>(\$152)</b>	<b>-7.8%</b>
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$59)	(\$66)	\$7	-10.6%
Corporate Income Tax	(\$5)	(55)	\$50	-90.9%
<b>Subtotal General Funds</b>	<b>\$1,745</b>	<b>\$1,840</b>	<b>(\$95)</b>	<b>-5.2%</b>
<b>Budget Stabilization Fund Transfer</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>N/A</b>
<b>Pension Contribution Fund Transfer</b>	<b>\$0</b>	<b>\$148</b>	<b>(\$148)</b>	<b>N/A</b>
<b>Total General Funds</b>	<b>\$1,745</b>	<b>\$1,988</b>	<b>(\$243)</b>	<b>-12.2%</b>
IEFC SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				2-Dec-04

**GENERAL FUNDS RECEIPTS: YEAR TO DATE**

*FY 2005 vs. FY 2004  
(\$ million)*

<u>Revenue Sources</u>	<u>FY 2005</u>	<u>FY 2004</u>	<u>CHANGE FROM FY 2004</u>	<u>% CHANGE</u>
<b>State Taxes</b>				
Personal Income Tax	\$3,046	\$2,915	\$131	4.5%
Corporate Income Tax (regular)	345	391	(\$46)	-11.8%
Sales Taxes	2,745	2,636	\$109	4.1%
Public Utility Taxes (regular)	395	402	(\$7)	-1.7%
Cigarette Tax	216	166	\$50	30.1%
Liquor Gallonage Taxes	63	54	\$9	16.7%
Vehicle Use Tax	15	16	(\$1)	-6.3%
Inheritance Tax (Gross)	113	88	\$25	28.4%
Insurance Taxes and Fees	95	81	\$14	17.3%
Corporate Franchise Tax & Fees	76	58	\$18	31.0%
Interest on State Funds & Investments	21	25	(\$4)	-16.0%
Cook County IGT	170	153	\$17	11.1%
Other Sources	167	79	\$88	111.4%
<b>Subtotal</b>	<b>\$7,467</b>	<b>\$7,064</b>	<b>\$403</b>	<b>5.7%</b>
<b>Transfers</b>				
Lottery	215	201	\$14	7.0%
Riverboat transfers & receipts	322	319	\$3	0.9%
Medicaid Provider Relief Fund	434	0	\$434	N/A
Other	359	308	\$51	16.6%
<b>Total State Sources</b>	<b>\$8,797</b>	<b>\$7,892</b>	<b>\$905</b>	<b>11.5%</b>
<b>Federal Sources</b>	<b>\$1,645</b>	<b>\$2,597</b>	<b>(\$952)</b>	<b>-36.7%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$10,442</b>	<b>\$10,489</b>	<b>(\$47)</b>	<b>-0.4%</b>
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$311)	(\$341)	\$30	-8.8%
Corporate Income Tax	(\$87)	(\$126)	\$39	-31.0%
<b>Subtotal General Funds</b>	<b>\$10,044</b>	<b>\$10,022</b>	<b>\$22</b>	<b>0.2%</b>
<b>Budget Stabilization Fund Transfer</b>	<b>\$276</b>	<b>\$226</b>	<b>\$50</b>	<b>22.1%</b>
<b>Pension Contribution Fund Transfer</b>	<b>\$0</b>	<b>\$817</b>	<b>(\$817)</b>	<b>N/A</b>
<b>Total General Funds</b>	<b>\$10,320</b>	<b>\$11,065</b>	<b>(\$745)</b>	<b>-6.7%</b>

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

IEFC

2-Dec-04

**GENERAL FUNDS GROWTH NEEDED TO MEET ESTIMATE**  
**FY 2005 ESTIMATE vs. FY 2004 ACTUAL**  
(\$ million)

<b>Revenue Sources</b>	<b>Aug-04 ESTIMATE FY 2005</b>	<b>FYTD 2005</b>	<b>AMOUNT NEEDED FY 2005 EST.</b>	<b>FYTD 2004</b>	<b>GROWTH NEEDED</b>	<b>% CHANGE</b>
<b>State Taxes</b>						
Personal Income Tax	\$8,572	\$3,046	\$5,526	\$2,915	\$206	3.9%
Corporate Income Tax (regular)	1,308	345	\$963	391	(\$25)	-2.5%
Sales Taxes	6,457	2,745	\$3,712	2,636	\$17	0.5%
Public Utility Taxes (regular)	1,090	395	\$695	402	\$18	2.7%
Cigarette Tax	450	216	\$234	166	\$0	0.0%
Liquor Gallonage Taxes	147	63	\$84	54	\$11	15.1%
Vehicle Use Tax	35	15	\$20	16	\$1	5.3%
Inheritance Tax (Gross)	265	113	\$152	88	\$18	13.4%
Insurance Taxes and Fees	371	95	\$276	81	(\$5)	-1.8%
Corporate Franchise Tax & Fees	168	76	\$92	58	(\$13)	-12.4%
Interest on State Funds & Investments	54	21	\$33	25	\$3	10.0%
Cook County IGT	450	170	\$280	153	\$5	1.8%
Other Sources	500	167	\$333	79	(\$27)	-7.5%
<b>Subtotal</b>	<b>\$19,867</b>	<b>\$7,467</b>	<b>\$12,400</b>	<b>\$7,064</b>	<b>\$209</b>	<b>1.7%</b>
<b>Transfers</b>						
Lottery	575	215	\$360	201	(\$9)	-2.4%
Riverboat transfers & receipts	642	322	\$320	319	(\$22)	-6.4%
Medicaid Provider Relief Fund	433	434	(\$1)	0	N/A	N/A
Other	1,044	359	\$685	308	(\$166)	-19.5%
<b>Total State Sources</b>	<b>\$22,561</b>	<b>\$8,797</b>	<b>\$13,764</b>	<b>\$7,892</b>	<b>\$11</b>	<b>0.1%</b>
<b>Federal Sources</b>	<b>\$4,255</b>	<b>\$1,645</b>	<b>\$2,610</b>	<b>\$2,597</b>	<b>\$18</b>	<b>0.7%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$26,816</b>	<b>\$10,442</b>	<b>\$16,374</b>	<b>\$10,489</b>	<b>\$29</b>	<b>0.2%</b>
<b>Nongeneral Funds Distribution:</b>						
<b>Refund Fund</b>						
Personal Income Tax	(\$864)	(\$311)	(\$553)	(\$341)	\$70	-11.2%
Corporate Income Tax	(318)	(\$87)	(\$231)	(126)	\$85	-26.9%
<b>Subtotal General Funds</b>	<b>\$25,634</b>	<b>\$10,044</b>	<b>\$15,590</b>	<b>\$10,022</b>	<b>\$184</b>	<b>1.2%</b>
<b>Budget Stabilization Fund Transfer</b>	<b>\$276</b>	<b>\$276</b>	<b>\$0</b>	<b>\$226</b>	<b>\$0</b>	<b>N/A</b>
<b>Pension Contribution Fund Transfer</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$817</b>	<b>(\$578)</b>	<b>-100.0%</b>
<b>Total General Funds</b>	<b>\$25,910</b>	<b>\$10,320</b>	<b>\$15,590</b>	<b>\$11,065</b>	<b>(\$394)</b>	<b>-2.5%</b>
<b>IEFC</b>						<b>2-Dec-04</b>

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

FY 2005 ESTIMATE vs. FY 2004 ACTUALS

(\$ million)

<u>Revenue Sources</u>	*GOMB AUG-04 Estimate FY 2005	FYTD 2005	AMOUNT NEEDED FY 2005 Est.	FYTD 2004	GROWTH NEEDED	% CHANGE
<b>State Taxes</b>						
Personal Income Tax	\$8,406	\$3,046	\$5,360	\$2,915	\$40	0.8%
Corporate Income Tax (regular)	1,129	345	\$784	391	(\$204)	-20.6%
Sales Taxes	6,431	2,745	\$3,686	2,636	(\$9)	-0.2%
Public Utility Taxes (regular)	1,102	395	\$707	402	\$30	4.4%
Cigarette Tax	400	216	\$184	166	(\$50)	-21.4%
Liquor Gallonage Taxes	147	63	\$84	54	\$11	15.1%
Vehicle Use Tax	37	15	\$22	16	\$3	15.8%
Inheritance Tax (Gross)	240	113	\$127	88	(\$7)	-5.2%
Insurance Taxes and Fees	347	95	\$252	81	(\$29)	-10.3%
Corporate Franchise Tax & Fees	175	76	\$99	58	(\$6)	-5.7%
Interest on State Funds & Investments	45	21	\$24	25	(\$6)	-20.0%
Cook County IGT	450	170	\$280	153	\$5	1.8%
Other Sources	732	167	\$565	79	\$205	56.9%
<b>Subtotal</b>	<b>\$19,641</b>	<b>\$7,467</b>	<b>\$12,174</b>	<b>\$7,064</b>	<b>(\$17)</b>	<b>-0.1%</b>
<b>Transfers</b>						
Lottery	578	215	\$363	201	(\$6)	-1.6%
Gaming Fund Transfer	653	322	\$331	319	(\$11)	-3.2%
Medicaid Provider Relief Fund	433	434	(\$1)	0	N/A	N/A
Other	1,154	359	\$795	308	(\$56)	-6.6%
<b>Total State Sources</b>	<b>\$22,459</b>	<b>\$8,797</b>	<b>\$13,662</b>	<b>\$7,892</b>	<b>(\$91)</b>	<b>-0.7%</b>
<b>Federal Sources</b>	<b>\$4,255</b>	<b>\$1,645</b>	<b>\$2,610</b>	<b>\$2,597</b>	<b>\$18</b>	<b>0.7%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$26,714</b>	<b>\$10,442</b>	<b>\$16,272</b>	<b>\$10,489</b>	<b>(\$73)</b>	<b>-0.4%</b>
<b>Nongeneral Funds Distribution:</b>						
<b>Refund Fund</b>						
Personal Income Tax	(\$841)	(\$311)	(\$530)	(\$341)	\$93	-14.9%
Corporate Income Tax	(271)	(87)	(\$184)	(126)	\$132	-41.8%
<b>Subtotal General Funds</b>	<b>\$25,602</b>	<b>\$10,044</b>	<b>\$15,558</b>	<b>\$10,022</b>	<b>\$152</b>	<b>1.0%</b>
<b>Budget Stabilization Fund Transfer</b>	<b>\$276</b>	<b>\$276</b>	<b>\$0</b>	<b>\$226</b>	<b>\$0</b>	<b>N/A</b>
<b>Pension Contribution Fund Transfer</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$817</b>	<b>(\$578)</b>	<b>-100.0%</b>
<b>Total General Funds</b>	<b>\$25,878</b>	<b>\$10,320</b>	<b>\$15,558</b>	<b>\$11,065</b>	<b>(\$426)</b>	<b>-2.7%</b>

\* 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].

## **THE FY 2006 CERTIFIED CONTRIBUTIONS**

Tim Blair, Pension Manager

The five State-funded retirement systems have certified the required FY 2006 employer contributions, as shown in Table 1.

The FY 2006 certified contributions to the retirement systems total almost \$2.2 billion. Of the total \$759.3 million contribution to SERS, an estimated \$69 million will be transferred to the General Obligation Bond Retirement and Interest Fund (GOBR&I) to help pay a portion of the interest on the pension funding General Obligation bonds issued in 2003. This \$69 million will be collected from agency payroll like other retirement contributions and is in addition to the regular SERS employer contribution.

In addition to the retirement contributions, the State must pay another \$427.1 million to the GOBR&I to pay the remaining FY 2006 debt service on the pension funding General Obligation Bonds, bringing the total State retirement cost for FY 2006 to \$2.613 billion. Of this total, an estimated \$80 million in contributions will come from the State Pensions Fund, which is funded by unclaimed property, leaving \$2.533 million to be paid from GRF.

For comparison, Table 2 provides the actual FY 2005 appropriation amounts to the State-funded retirement systems.

The FY 2005 State contributions to the retirement systems are expected to total almost \$1.8 billion. As with the FY 2006 certified contributions, the FY 2005 contribution to SERS includes debt service of approximately \$136.2 million. This amount will be transferred to GOBR&I and will be used to offset a portion of the \$496.2 million in debt service related to the pension funding General Obligation Bonds. The State will be responsible for the remaining \$359.9 million in debt service on those bonds. Therefore, the total State cost for retirement in FY 2005 is expected to be \$2.142 billion. Of this amount, \$242 million is expected to come from the State Pensions Fund (unclaimed property), leaving the FY 2005 GRF total at \$1.9 billion.

### **The Financial Condition of the State-Funded Retirement Systems**

Table 3 provides an overview of the financial condition of the State-funded retirement systems at the end of FY 2004.

When compared to FY 2003 (Table 4), the assets of the State-funded retirement systems have increased by \$6.7 billion, due primarily to investment returns that were much higher than anticipated. But, the accrued liabilities of the systems grew by approximately \$6.0 billion. The result was a \$700 million decrease in the unfunded liabilities of the systems, and a 3.6% increase in the aggregate funded ratio to 60.9%.

<b>TABLE 1</b>					
<b>FY 2006 Certified Contributions</b>					
(in millions \$)					
System	GRF/ CSF	SPF	Total Contributions	Debt Service	Total State Cost
TRS	\$1,014.3	\$44.2	\$1,058.5	\$293.7	\$1,352.2
SERS	740.0	19.3	759.3	24.8	784.1
SURS	309.9	14.8	324.7	97.2	421.9
JRS	36.6	1.4	38.0	9.6	47.6
GARS	5.3	0.2	5.5	1.8	7.3
<b>Total</b>	<b>\$2,106.1</b>	<b>\$80.0</b>	<b>\$2,186.1</b>	<b>\$427.1</b>	<b>\$2,613.2</b>

<b>TABLE 2</b>					
<b>FY 2005 Retirement Contributions</b>					
(in millions \$)					
System	GRF/ CSF	SPF	Total Contributions	Debt Service	Total State Cost
TRS	\$907.0	\$0.0	\$907.0	\$293.7	\$1,200.7
SERS	568.6	0.0	568.6	(42.4)	526.2
SURS	47.4	222.6	270.0	97.2	367.2
JRS	15.1	16.9	32.0	9.6	41.6
GARS	2.2	2.5	4.7	1.8	6.5
<b>Total</b>	<b>\$1,540.3</b>	<b>\$242.0</b>	<b>\$1,782.3</b>	<b>\$359.9</b>	<b>\$2,142.2</b>

<b>TABLE 3</b>				
<b>State-Funded Retirement Systems</b>				
<b>FY 2004 Financial Condition</b>				
(in millions \$)				
System	Assets	Liability	Unfunded Liabilities	Funded Ratio
TRS	\$31,544.7	\$50,947.5	\$19,402.7	61.9%
SERS	9,990.2	18,442.7	8,452.5	54.2%
SURS	12,586.3	19,078.6	6,492.3	66.0%
JRS	534.6	1,156.1	621.5	46.2%
GARS	83.2	207.6	124.4	40.1%
<b>Total</b>	<b>\$54,739.0</b>	<b>\$89,832.5</b>	<b>\$35,093.4</b>	<b>60.9%</b>

<b>TABLE 4</b>				
<b>State-Funded Retirement Systems</b>				
<b>FY 2003 Financial Condition</b>				
(in millions \$ - includes POB Proceeds)				
System	Assets	Liability	Unfunded Liabilities	Funded Ratio
TRS	\$27,454.9	\$46,933.4	\$19,478.5	58.5%
SERS	8,888.0	17,594.0	8,706.0	50.5%
SURS	11,146.5	18,025.0	6,878.5	61.8%
JRS	472.0	1,076.2	604.2	43.9%
GARS	76.8	196.5	119.8	39.1%
<b>Total</b>	<b>\$48,038.2</b>	<b>\$83,825.1</b>	<b>\$35,787.0</b>	<b>57.3%</b>