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ECONOMY: Year-End Mopes, New Year Hopes

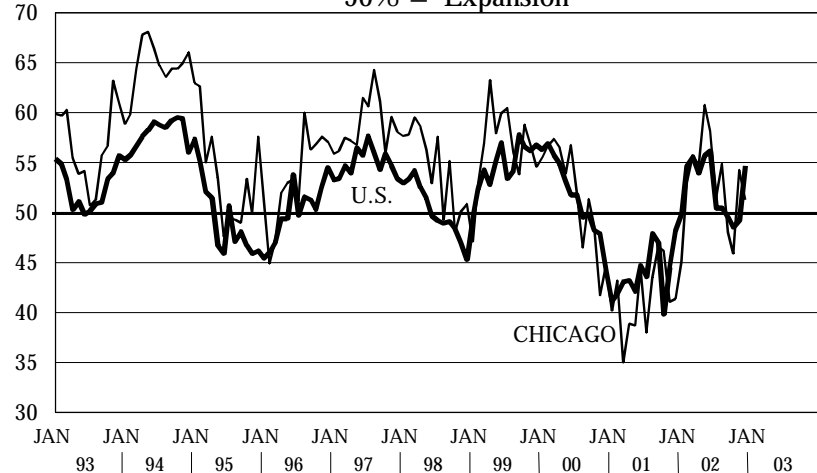
Edward H. Boss, Jr., Chief Economist

The year ended on a discouraging note with holiday sales disappointing, consumer confidence falling, unemployment at a 8-year high of 6%, and growing concerns over possible military conflicts in Iraq and North Korea. As dismal as the situation looked, it must be kept in perspective.

While it won't be until January 30th before advanced data on the economy's performance in the fourth quarter become available, it appears that the economy will have grown at about 2 ½% in inflation-adjusted terms in 2002, after being virtually unchanged in 2001. Even while this is considered weak growth for the early stage of an economic recovery, it is nevertheless growth. Moreover, given the fact that the 2001 recession was the mildest in recorded history, the ensuing rebound also could be expected to be less.

The key to even the modest growth achieved in 2002 was the consumer. Even while December sales appear to have been up only 1% to 1 ½%, there are some signs of possible strengthening. There appears to be a huge jump in purchases

CHART 1 PURCHASING MANAGERS INDEX
50% = Expansion



IEFC

Source: Institute for Supply Management

of gift certificates for Christmas this year, in part because of the fewer shopping days that existed between Thanksgiving and Christmas. As these certificates are redeemed and become sales, buying could get a boost early this year. Indeed, U.S. chain store sales already jumped 2.1% in the week ended December 28th, suggesting some post Christmas spending.

While the consumer was the engine behind the economy in 2002, the weakest link was business spending. Thus, the January 2nd report of a greater-than-expected upturn in the Purchasing Manager's Index issued by the Institute of Supply Management (ISM) was a welcomed New Year's treat. While the Chicago area index reported earlier had moderated, both now were clearly in the expansion phase, that is a reading over 50%. As shown in Chart 1, this reverses three months of decline at the national level and hopefully is a harbinger of further improvement to come. The ISM report gave a major lift to the stock market which in 2002 had fallen for the third

consecutive year, the first time since 1939-1941.

There are some positive factors as the new year begins. As mentioned, business spending is beginning to recover, consumers are still hanging in, the federal government continues to spend briskly, and monetary policy is very stimulative. The weak sectors are construction, as record residential construction levels begin to fade, and state and local governments where little if any improvement is seen before the end of the new year.

At the same time, the President is about to announce an economic stimulus package to assist recent anemic growth. Even with these positives, however, only a modest pickup in growth is seen likely. Moreover, still unknown is the outcome of possible military conflicts and the outlook for oil prices. In summary, it looks like another difficult year for state and local governments despite some further anticipated signs of economic improvement.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY			
<u>INDICATORS</u>	<u>NOV. 2002</u>	<u>OCT. 2002</u>	<u>NOV. 2001</u>
Unemployment Rate (Average)	6.7%	6.8%	5.9%
Annual Rate of Inflation (Chicago)	2.6%	4.6%	3.3%
—————			
	<u>LATEST</u>	<u>% CHANGE</u>	<u>% CHANGE</u>
	<u>MONTH</u>	<u>OVER PRIOR</u>	<u>OVER A</u>
		<u>MONTH</u>	<u>YEAR AGO</u>
Civilian Labor Force (thousands) (November)	6,241	-0.2%	-1.5%
Employment (thousands) (November)	5,824	-0.1%	-2.3%
New Car & Truck Registration (November)	41,994	-32.7%	-47.2%
Single Family Housing Permits (November)	3,084	-31.7%	41.3%
Total Exports (\$ mil) (October)	3,002	9.1%	13.8%
Chicago Purchasing Managers Index (December)	51.3	-5.5%	23.9%

REVENUE

Revenues Get Much Needed Boost in
December

Jim Muschinske, Revenue Manager

For a change, the revenue picture brightened, albeit briefly, as December general revenues gained \$207 million. Approximately \$88 million of that increase resulted from the release of a portion of the tobacco settlement proceeds, which had been held in escrow pending agreement over a legal dispute. Otherwise, revenue performance was mixed as some sources including overall transfers performed quite well, while others continued to falter. A strong month for federal sources also significantly helped to achieve the monthly increase. In addition, this December had one more receipting day than the same month one year earlier.

Of those tax sources experiencing gains, excluding the aforementioned \$88 million from the tobacco settlement, gross individual income taxes enjoyed the largest advance as receipts were up \$81 million (\$72 million net of refunds). Insurance taxes and fees rose by \$7 million while sales taxes managed to pick up \$2 million. Corporate franchise tax receipts were able to gain \$1 million in December.

A number of revenue sources struggled to end the year as public utility tax receipts were off by \$15 million. Gross corporate income taxes still are disappointing as monthly receipts fell \$14 million (\$17 million net of refunds). Inheritance tax revenues fell \$9 million, interest income gave up \$5 million, and both cigarette and vehicle use taxes each dipped \$1 million.

Overall transfers were up \$16 million for the month. Gaming Fund transfers generated a \$22 million gain due to the restructured gaming tax, and lottery transfers picked up \$6 million. Those increases were partially offset by a decline of \$12 million from other transfers. As noted earlier, December federal sources fared quite well as receipts gained \$57 million.

Year to Date

Through the first half of the fiscal year, overall general revenue receipts, (excluding short-term borrowing and Budget Stabilization Fund transfers) are up \$180 million or 1.6%. Despite the positive bottom line, the performance of some of the more closely economically tied sources are still basis for concern. While December was an overall positive month, it's too soon to conclude that the recovery phase has begun to manifest in actual receipts.

Through December, after receiving the aforementioned boost from the release of tobacco settlement monies, other sources have posted the greatest gains with receipts up \$99 million. The Cook County IGT is up \$21 million, while insurance taxes and fees are a positive \$17 million. Sales taxes, despite being up \$4 million, have been a disappointment for most of the fiscal year, and liquor taxes have eked out a \$1 million gain.

Gross corporate income taxes are down \$51 million (down \$55 million net of refunds) through December. Interest earnings continue to struggle mightily and are down \$46 million, followed closely by a loss of \$44 million from inheritance

tax revenues. Public utility taxes also have disappointed and are off by \$37 million. All other sources experienced declines totaling \$19 million.

Overall transfers are up \$298 million as a result of interfund transfers as well as other transfers and the changes in the

riverboat tax structure. Despite a strong December, overall federal sources are down \$45 million year to date.

Excluding short-term borrowing and Budget Stabilization Fund transfers, revenues need to grow \$235 million or 1.9% over the remaining half of the fiscal year to reach the Commission's estimate.

GENERAL FUNDS RECEIPTS: DECEMBER

FY 2003 vs. FY 2002

(\$ million)

Revenue Sources	DEC. FY 2003	DEC. FY 2002	\$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	\$711	\$630	\$81	12.9%
Corporate Income Tax (regular)	147	161	(\$14)	-8.7%
Sales Taxes	554	552	\$2	0.4%
Public Utility Taxes (regular)	70	85	(\$15)	-17.6%
Cigarette Tax	33	34	(\$1)	-2.9%
Liquor Gallonage Taxes	11	11	\$0	0.0%
Vehicle Use Tax	2	3	(\$1)	-33.3%
Inheritance Tax (Gross)	18	27	(\$9)	-33.3%
Insurance Taxes and Fees	62	55	\$7	12.7%
Corporate Franchise Tax & Fees	11	10	\$1	10.0%
Interest on State Funds & Investments	6	11	(\$5)	-45.5%
Cook County IGT	23	23	\$0	0.0%
Other Sources	112	12	\$100	833.3%
Subtotal	\$1,760	\$1,614	\$146	9.0%
Transfers				
Lottery	44	38	\$6	15.8%
Gaming Fund Transfer	69	47	\$22	46.8%
Other	41	53	(\$12)	-22.6%
Total State Sources	\$1,914	\$1,752	\$162	9.2%
Federal Sources	\$438	\$381	\$57	15.0%
Total Federal & State Sources	\$2,352	\$2,133	\$219	10.3%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$57)	(\$48)	(\$9)	18.8%
Corporate Income Tax	(40)	(37)	(\$3)	8.1%
Subtotal General Funds	\$2,255	\$2,048	\$207	10.1%
Short-Term Borrowing	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$0	\$0	\$0	N/A
Total General Funds	\$2,255	\$2,048	\$207	10.1%
IEFC SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				2-Jan-03

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2003 vs. FY 2002

(\$ million)

Revenue Sources	FY 2003	FY 2002	CHANGE FROM FY 2002	% CHANGE
State Taxes				
Personal Income Tax	\$3,597	\$3,604	(\$7)	-0.2%
Corporate Income Tax (regular)	393	444	(\$51)	-11.5%
Sales Taxes	3,116	3,112	\$4	0.1%
Public Utility Taxes (regular)	474	511	(\$37)	-7.2%
Cigarette Tax	200	200	\$0	0.0%
Liquor Gallonage Taxes	64	63	\$1	1.6%
Vehicle Use Tax	18	20	(\$2)	-10.0%
Inheritance Tax (Gross)	136	180	(\$44)	-24.4%
Insurance Taxes and Fees	129	112	\$17	15.2%
Corporate Franchise Tax & Fees	67	77	(\$10)	-13.0%
Interest on State Funds & Investments	37	83	(\$46)	-55.4%
Cook County IGT	175	154	\$21	13.6%
Other Sources	191	92	\$99	107.6%
Subtotal	\$8,597	\$8,652	(\$55)	-0.6%
Transfers				
Lottery	244	237	\$7	3.0%
Gaming Fund Transfer	349	270	\$79	29.3%
Other	369	157	\$212	135.0%
Total State Sources	\$9,559	\$9,316	\$243	2.6%
Federal Sources	\$1,962	\$2,007	(\$45)	-2.2%
Total Federal & State Sources	\$11,521	\$11,323	\$198	1.7%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$288)	(\$274)	(\$14)	5.1%
Corporate Income Tax	(106)	(102)	(\$4)	3.9%
Subtotal General Funds	\$11,127	\$10,947	\$180	1.6%
Short-Term Borrowing	\$700	\$0	\$700	N/A
Budget Stabilization Fund Transfer	\$226	\$226	\$0	N/A
Total General Funds	\$12,053	\$11,173	\$880	7.9%

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

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2-Jan-03

GENERAL FUNDS GROWTH NEEDED TO MEET ESTIMATE

FY 2003 ESTIMATE vs. FY 2002 ACTUAL

(\$ million)

	Nov-02 ESTIMATE FY 2003	FYTD 2003	AMOUNT NEEDED FY 2003 EST.	FYTD 2002	GROWTH NEEDED	% CHANGE
Revenue Sources						
State Taxes						
Personal Income Tax	\$8,245	\$3,597	\$4,648	\$3,604	\$166	3.7%
Corporate Income Tax (regular)	1,075	393	\$682	444	\$83	13.9%
Sales Taxes	6,275	3,116	\$3,159	3,112	\$220	7.5%
Public Utility Taxes (regular)	1,130	474	\$656	511	\$63	10.6%
Cigarette Tax	400	200	\$200	200	\$0	0.0%
Liquor Gallonage Taxes	125	64	\$61	63	\$2	3.4%
Vehicle Use Tax	39	18	\$21	20	\$3	16.7%
Inheritance Tax (Gross)	270	136	\$134	180	(\$15)	-10.1%
Insurance Taxes and Fees	280	129	\$151	112	(\$9)	-5.6%
Corporate Franchise Tax & Fees	164	67	\$97	77	\$15	18.3%
Interest on State Funds & Investments	90	37	\$53	83	\$0	0.0%
Cook County IGT	395	175	\$220	154	\$129	141.8%
Other Sources	320	191	\$129	92	(\$291)	-69.3%
Subtotal	\$18,808	\$8,597	\$10,211	\$8,652	\$366	3.7%
Transfers						
Lottery	585	244	\$341	237	\$23	7.2%
Gaming Fund Transfer	625	349	\$276	270	\$76	38.0%
Other	650	369	\$281	157	(\$15)	-5.1%
Total State Sources	\$20,668	\$9,559	\$11,109	\$9,316	\$450	4.2%
Federal Sources	\$4,075	\$1,962	\$2,113	\$2,007	(\$138)	-6.1%
Total Federal & State Sources	\$24,743	\$11,521	\$13,222	\$11,323	\$312	2.4%
Nongeneral Funds Distribution:						
Refund Fund						
Personal Income Tax	(\$660)	(\$288)	(\$372)	(\$274)	(\$31)	9.1%
Corporate Income Tax	(290)	(106)	(\$184)	(102)	(\$46)	33.3%
Subtotal General Funds	\$23,793	\$11,127	\$12,666	\$10,947	\$235	1.9%
Short-Term Borrowing	\$700	\$700	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$226	\$226	\$0	\$226	\$0	N/A
Total General Funds	\$24,719	\$12,053	\$12,666	\$11,173	\$235	1.9%
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