IEFC

Illinois Economic and Fiscal Commission

MONTHLY REVENUE BRIEFING ***DECEMBER 2003***

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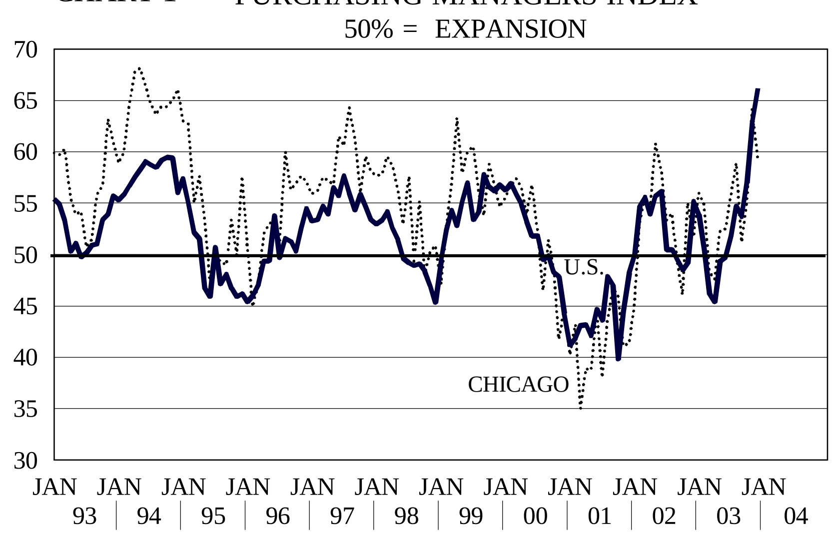
ECONOMY: 2004 Starts Strong, But Uncertainties Remain

Edward H. Boss, Jr., Chief Economist

The year began on a positive economic note. Preliminary reports indicate good, but not spectacular, holiday sales. Particularly noteworthy were sales reported at higher-end retail stores, probably reflecting the sharp gains in the stock market, and a surge in online purchases, in part due to inclement weather on the East Coast but also reflecting the convenience and widening participation rate of this type of merchandising. Somewhat disappointing were sales at lower-end stores.

Final figures on retail sales for the month of December, won't be released until mid-January and, like the November data, could prove to be better than at first perceived. These figures could be augmented by the large increase in gift cards that were purchased for the holidays, which are not recorded as sales until they are redeemed. In addition, aggressive incentives at year-end are expected to have boosted December auto sales. There can be no doubt that the consumer remains a powerful force in the continuing economic recovery, the question remains for how long.

CHART 1 PURCHASING MANAGERS INDEX



SOURCE: Institute for Supply Management

While optimism remains high over the future course of the economy, measures of consumer attitudes edged lower at the end of 2003. The *University of Michigan Survey of Consumer A*ttitudes dropped a little more than a point in December, from 93.7 to 92.6. The latest survey offering came from the Conference Board that reported their I*ndex of Consumer Confidence* dropped from an upwardly revised 92.5 reading in November to 91.3 in December. The entire decline in their index was confined to their rating of current conditions, which dropped from 81.0 in November to 73.9 in December, even while future expectations rose from 100.1 to 102.9. The major factor accounting for the divergent trend appeared to be jobs. The report went on to say, "While consumers expect the job situation to improve in the months ahead, until a significant turnaround takes place, consumers' optimism about current-day conditions will continue to lag behind their expectations."

In addition to the softening in consumer attitudes, there was a slower expansion reported for Midwest businesses at year-end. The *Chicago Purchasing Managers Index* fell to 59.2 from 64.1 in November and was below what had been forecast. Even so, December was the eighth consecutive month showing an expansion in Midwest manufacturing activity. Any reading above 50 indicates an expanding business sector. There was an improvement in the employment component, which, while below 50, did manage to rise to 49.6 from 48.5 in November. In contrast to the Midwest measure, the *Institute of Supply Management Index* on Friday reported a surge in manufacturing activity for the nation as a whole, rising to a level of 66.2 from 62.8 in December. (See Chart.) Also, the employment component registered a reading of 55, up from 51 in November, which in turn had followed 37 consecutive months of decline.

Perhaps the most encouraging report came on Wednesday, December 31st. Initial jobless claims fell 15,000 to 339,000, its lowest level since President Bush took office. While seasonality around the holidays could have been a factor, claims have been on a downward trend providing an early signal of an improving labor market. More concrete evidence on the labor situation will surface in the upcoming employment report due out on Friday, January 9th. It will take a sustained improvement in the work force to keep the business expansion on track. All this will have to occur in an economy facing an unusual array of uncertainties, from elevated terrorist threats to the economic impact of mad cow disease.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS	NOV. 2003	OCT. 2003	NOV. 2002
Unemployment Rate (Average)	6.7%	6.7%	6.7%
Annual Rate of Inflation (Chicago)	-1.3%	-1.9%	1.3%

	LATEST MONTH	% CHANGE OVER PRIOR MONTH	% CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (November)	6,486	0.0%	1.8%
Employment (thousands) (November)	6,049	0.0%	1.8%
New Car & Truck Registration (November)	41,938	-25.0%	-0.1%
Single Family Housing Permits (November)	2,878	-40.6%	-6.7%
Total Exports ($ mil) (October)	2,500	13.2%	10.5%
Chicago Purchasing Managers Index (December)	59.2	-7.6%	14.5%

Update on FY 2004
Adjustments
Jim Muschinske, Revenue Manager

As the Commission reported in September, and again at its November meeting, the FY 2004 revenue picture is largely dependent on the performance of many of the revenue adjustments used to craft the budget. All told, the Commission's latest official estimate included adjustments totaling $4.314 billion. That figure includes an estimated $675 million in federal sources stemming from the Jobs & Growth Tax Relief Reconciliation Act of 2003, leaving $3.639 billion in State adjustments.

With the first half of FY 2004 now completed, to the extent possible, the IEFC wanted to review the performance of these adjustments. Unfortunately, in many instances, the ability to track these new revenues has been clouded by difficulties separating these "new" revenues from "base" revenues. Also, some adjustments are based on changes that have just occurred or will occur and, therefore, lack meaningful data. In some cases, new "adjustments" potentially will have to be made as the result of recent action taken during the November veto session.

- **Sales tax changes-** It is estimated that $65 million will result from various changes to the sales tax (P.A. 93-24). Most of these changes involve removing existing exemptions or credits, often referred to as "loophole" closures. The largest anticipated change however, is based on a new tax applied to aircraft sales between private parties. On an annual basis, it was expected that this new tax would generate $26 million. Through the first part of December, only approximately $1.7 million was collected as a result of the tax.

- **Corporate income tax changes-** A number of changes were made to corporate income taxes (P.A.93-29). These changes took the form of eliminating various existing exemptions and credits. While the Commission estimated the net impact of these changes to be $22 million in FY 2004, what additional revenue that does result will probably not be realized until after the corporations file their final returns later in the fiscal year. And even then, that "new" revenue will likely be unable to be separated from the "base" revenues, making quantifying difficult.

- **Taxing out-of-State purchases of natural gas-** P.A. 93-31 created the gas use tax law that was designed to close a loophole that allowed out-of-state purchases to be excluded from natural gas taxes. While such transactions are now subject to taxation, a number of organizations remain exempt from the new tax; i.e. local governments, charitable and religious organizations, enterprise zone businesses, and other specific applications. The Department of Revenue, which is the agency responsible for administrating the new tax, estimated that $38 to $43 million would be collected in FY 2004. Since this tax did not go into effect until October 1, 2003, it's still too early to provide meaningful data regarding its performance.

- **Decoupling from the Federal phase-out of inheritance tax-** P.A. 93-30 decoupled the State from the federal estate tax, which is being gradually phased-out under federal H.R. 1836. In essence, since Illinois receives its revenue via a "pick-up" on owed federal estate tax liability, the phase-out of the federal tax would have translated into a loss in State revenue as well. It was estimated that decoupling from the federal provisions would enable Illinois to retain $75 million more in FY 2004 than it otherwise would have absent the decoupling. Due to the considerable amount of lag associated with when an individual dies and when the actual tax is receipted (usually nine months or longer), its still unclear as to whether the forecasted revenue is on target. However, based on performance to date (down $26 million through December), unless receipts begin to improve soon, a future adjustment will be required. Continued monitoring of this source over the coming months will be necessary before any determinations can be made.

- **Numerous fee increases-** The Commission has included in its estimate for FY 2004 approximately $302 million in additional revenues anticipated from a number of fee increases. For a detailed presentation of these increases and a breakout of the expected revenues, please see the Commission's report "FY 2004 Fee and Penalty Increases Public Act 93-32 (SB 1903)". Through the cooperation of a number of fee administrating agencies, the Commission conducted a first quarter status report in October. At that time, the agencies reported that $56 million of the anticipated $302 million had been collected in the first quarter. Due to natural lags in the collection process as well as the fact that a number of the increases didn't go into effect until later in the fiscal year, it's hard to conclude much from that first quarter update. The Commission is in the process of conducting a similar analysis now that the second quarter is completed. The results of which will be presented in a future briefing.

- **Sale/leaseback of State property-** P.A. 93-19 allows the State to enter into sale, sale-lease back or mortgage agreements of select properties- James R. Thompson Center, Toll Highway Authority, and Elgin Mental Health Center. Combined, it was estimated by the Governor's Office of Management and Budget that these sales would result in revenues totaling approximately $233 million. While the State has yet to receive any monies from such agreements, the Director of CMS testified at the Commission's November 20th meeting that his office is continuing to pursue this initiative and that the State will receive the money before the end of the fiscal year.

- **Environmental Trust Fund-** As part of P.A. 93-32 (SB 1903), up to $125 million is to be transferred from the trust held by the Illinois Clean Energy Community Foundation to the State to help pay for environmental programs and environment-related bonds. Following the sale of a number of Commonwealth Edison power plants, the foundation and resulting trust was established with $225 million. It is reported that the trust has grown to approximately $250 million. In October, the Foundation filed a lawsuit in federal court challenging the State's rights to those dollars. The status of this transfer is in legal limbo.

- **Commercial Distribution Fee**- P.A. 93-23 created the Commercial Distribution Fee which created a fee on vehicles which a gross vehicle weight exceeding 8,000 pounds. The FY 2004 budget was based on $102 million in revenues stemming from this new fee. Thus far through December, approximately $19 million from this fee has been receipted into the General Revenue Fund, although the Secretary of State reports that through December, their office has collected $33.6 million in fees. Continued monitoring of this adjustment will be needed to determine if revenues will be able to meet expectations.

- **Tax amnesty**- P.A. 93-26 created the tax amnesty program that ran from October 1st to November 15th. The FY 2004 budget assumed that $40 million in "new" revenue would result from the program. Press releases from the Governor's Office and comments made by Department of Revenue officials indicate that the amnesty program was a major success, bringing in $532 million in overall revenue of which $185 million is classified as either "new" or accelerated revenue (accelerated from FY'05 and beyond). See a more detailed write-up on tax amnesty on page 10.

- **Liquor license fee and misc**.- Approximately $9 million in increased liquor license fees and other miscellaneous changes were anticipated due to changes in FY 2004. The largest component was the increase in liquor licenses that rose from $175 to $500 (P.A. 93-22) Through December, new liquor license revenue deposited into the General Revenue Fund totaled $2.3 million.

- **Increase in riverboat taxes**- The graduated taxing structure of riverboats was changed under Public Acts 93-27 and 93-28. The Commission's latest forecast assumed that $173 million would result from the changes (at the same time, the Commission estimated that "base" riverboat revenues would decrease by $10 million, result-ing in a year-over-year change of $163 million). As detailed in the following section devoted to riverboat performance, receipts have significantly under performed thus far in FY 2004. It would seem unlikely at this point that fortunes would reverse, as a result, look for future official revisions to include a downward adjustment of approximately $75 million.

Sale of the 10th riverboat license- The FY 2004 budget was predicated on the sale of the dormant 10th riverboat license (P.A 92-28). The budget assumed $350 million from the sale of the license. Legal wrangling continues to plaque this issue. For every move forward there seems to be a corresponding one backward. It is still very uncertain at this time if the sale will occur prior to the end of the fiscal year.

- **Fund Sweeps and Fund Chargebacks-** P.A. 93-32 allowed for approximately $158 million in fund transfers to the General Revenue Fund. Those transfers took place in the first days of the fiscal year. In addition, it allows for the Director of the Governor's Office of Management and Budget to direct the State Comptroller and the State Treasurer to transfer funds from any fund held by the State Treasurer to the General Revenue Fund. With certain exemptions, the total amount transferred from any fund cannot exceed the lesser of 8% of the revenues to be deposited into that fund during the fiscal year or 25% of the beginning balance in the fund. While the budget was build upon the assumption that $422 million would be transferred via this chargeback route, the Commission's estimate currently is at $347 million. Through December, only $10.4 million has been transferred.

  HB 2655, which is currently held in Senate Rules, would increase the 25% limiting factor to 75%. Evidently, the budget implementation bill utilized the 25% figure rather than the intended 75% measure. The impact if passed, according to comments made by budget officials, would be approximately $100 million and would allow the GOMB to reach their forecast of $422 million.

- **Pension Contribution Fund transfers-** As the result of the $10 billion in pension obligation bonds that were sold in May 2003, monies have been transferred from the Pension Contribution Fund to the General Revenue Fund to pay the State's piece of pension costs. The FY 2004 budget assumed that $1.600 billion would be transferred into the General Revenue Fund. Through December, $965 million has been transferred.

  HB 585, which during the November veto session passed the Senate and is currently in House Rules, would redirect the flow of remaining FY 2004 Pension Contribution Funds to be transferred. Currently, these funds are transferred into the GRF and then transferred again to the various retirement systems. Under this legislation, these remaining monies would be deposited directly into the retirement systems instead so that they could invest them in areas of potentially much higher return than the current short-term yields that are now received.

- **Federal sources-** The federal Jobs and Growth Tax Relief Reconciliation Act of 2003 included $422 million in flexible grants as well as approximately $253 million in increased Medicaid match for a total of $675 million. The JGTRRA passage closely coincided with the end of the State's spring legislative session. As a result, those revenues were not included in the creation of the FY 2004 budget, although they continue to be part of the Commission's official FY 2004 estimate. All of the $422 million in flexible grants have been receipted, and based on the accelerated Medicaid payments that have been made to date, it appears likely that the $253 million in increased match also will be obtained by the end of the fiscal year.

- *HB 2656, which passed the Senate during the fall veto session and currently is in House Rules, would result in approximately $47.9 million more in cigarette tax being deposited into the General Revenue Fund rather than the Long-Term Care Provider Fund (current). The FY 2004 budget assumed that approximately $50 million in one-time revenues from cigarette tax prepayments would be deposited into the General Revenue Fund. This revenue was instead deposited into the LTCPF. While the Commission's current estimate excludes this money from the general funds revenue forecast, if passed and signed into law, an adjustment would be necessary.*

In conclusion, while the fiscal year is half over, a number of uncertainties still exist regarding many of the adjustments used to craft the FY 2004 budget. Their performance to date ranges from exceeding expectations to significant disappointment.

Many simply cannot be quantified at this time either due to data limitations or that they haven't been implemented yet. Some may not happen until the end of the fiscal year if at all, while others were never even factored into the FY 2004 budget. In some instances, legislative changes are still necessary to implement the budget as intended. The Commission will continue to provide updates to the progress of these items in future briefings and/or reports.

HB 701
Hospital Assessment Program

One of the most important budget related pieces of legislation to come out of the fall veto session of the 93rd General Assembly was House Bill 701, otherwise known as "The Hospital Program". House Bill 0701 was passed during the veto session by the House and Senate and sent to the Governor, awaiting approval, on December 19, 2003.

The purpose of the bill is to maximize the State's ability to attract additional federal dollars. In turn, those additional dollars will be used to increase various hospital payments, as well as restore approximately half of a nursing home rate cut made in FY 2002. The bill includes a number of measures that assure the assessment will not take place unless federal approval has been given assuring that federal match will be available for the program.

Below, is the estimated cash-flow impact of HB 701 for FY 2004:

- The process will begin by $860 million being borrowed from GRF and put into the Hospital Provider Fund, (it is unclear whether this will be through inter-fund borrowing or actual short-term borrowing. Regardless, this essentially is a cash-flow mechanism to initiate the program, as the GRF would be repaid in a week.) On or before June 15, 2004, the above $860 million will be borrowed from GRF and put into the Hospital Provider Fund and $860 million in payments from this fund will be made to Hospitals.

- Tax payments by the hospitals, totaling $560 million, will be paid into the Hospital Provider Fund on June 18, 2004.

- The Hospital Provider Fund will receive a Federal Match of $430 million for hospital payments on June 22, 2004.

- A payment of $112 million will be made to the Health and Human Services Medicaid Trust Fund on June 22, 2004.

- The Hospital Provider Fund will repay GRF $860 million on June 22, 2004.

- The amount left in the Hospital Provider Fund on June 22, 2004 will be $18 million.

Fiscal Year 2005 will experience the same cash-flow as above, except with quarterly installments.

The Chart on the following page illustrates the cash-flow of HB 701:

TRANSACTION	FISCAL YEAR 2004		FISCAL YEAR 2005	
Short-Term Borrowing from GRF into Hospital Provider Fund	$860 Million	6/15/2004	7/15/2004	$215 Million
			10/15/2004	$215 Million
			1/14/2005	$215 Million
			4/15/2005	$215 Million
Payments Made to Hospitals from Hospital Provider Fund	$860 Million	6/15/2004	7/15/2004	$215 Million
			10/15/2004	$215 Million
			1/14/2005	$215 Million
			4/15/2005	$215 Million
Tax Payments Made by Hospitals into Hospital Provider Fund	$560 Million	6/18/2004	7/19/2004	$140 Million
			10/19/2004	$140 Million
			1/18/2005	$140 Million
			4/19/2005	$140 Million
Federal Match of Payment to Hospitals into Hospital Provider Fund	$430 Million	6/22/2004	7/22/2004	$107.5 Million
			10/22/2004	$107.5 Million
			1/21/2005	$107.5 Million
			4/22/2005	$107.5 Million
Payment to Health and Human Services Medicaid Trust Fund	$112 Million	6/22/2004	7/22/2004	$28 Million
			10/22/2004	$28 Million
			1/21/2005	$28 Million
			4/22/2005	$28 Million
Repayment from Hospital Provider Fund into GRF	$860 Million	6/22/2004	7/22/2004	$215 Million
			10/22/2004	$215 Million
			1/21/2005	$215 Million
			4/22/2005	$215 Million
Left in Hospital Provider Fund	$18 Million	6/22/2004	7/22/2004	$4.5 Million
			10/22/2004	$4.5 Million
			1/21/2005	$4.5 Million
			4/22/2005	$4.5 Million

It has been reported nursing homes will benefit approximately $28 million, via the $112 million payment to the Health and Human Services Medicaid Trust Fund. Assessment terminates if total FY 2004 and 2005 appropriations from GRF regarding hospital payments are less than $4.5 billion. On July 1, 2005, assessment and hospital payments sunset.

During the Commission's November 20th meeting, the Hospital Assessment Program was briefly discussed, as preliminary indications were that $130 million would flow back to GRF. However, under HB 701, other than cash-flow mechanics, the GRF is not impacted.

FY 2004 Tax Amnesty

Eric Noggle, Sr. Revenue Analyst

As discussed in the Commission's November revenue briefing, for the days October 1, 2003 thru November 17, 2003, the State of Illinois offered a tax amnesty program. This program was for all taxpayers owing any taxes imposed by reason of or pursuant to authorization by any law of the State of Illinois and collected by the Department of Revenue (excluding motor fuel use taxes). During this period the Department of Revenue did not collect any interest or penalties on those taxes or pursue the taxpayer either by civil suit or criminal prosecution for those taxes if amnesty was granted to the taxpayer. (For a detailed explanation of the program, see the November monthly revenue briefing).

According to reports generated utilizing the Comptroller's data warehouse, during the month of November, a total of $156.7 million in tax amnesty receipts were reported, which included $120.3 million in general funds receipts. Although the amnesty period ended November 17, 2003, due to timing issues, the majority of amnesty-related revenues were deposited in December. During that month, an additional $351.0 million in amnesty receipts were reported to the Comptroller, which included $283.0 million in general funds receipts. As a result, the total amount of amnesty-related revenue deposited thus far is $507.7 million. This figure includes $403.3 million in general funds receipts. On a general funds net revenue basis, the State receipted $287.8 million.

The Governor's Office reports that after all receipts are accounted for, $532 million in revenues will have been collected as a result of the State's tax amnesty program. At the time of signage, the Department of Revenue estimated that the FY 2004 tax amnesty period could generate between approximately $130 million and $230 million, $40 million of which would be State revenues that would not have been otherwise collected in FY 2004. Now that the amnesty period has been completed, the Department estimates that, of the $532 million generated, $185 million can be used for State budget purposes; $145 million more than the $40 million original estimate. They also state that, "$92 million will go to Illinois local governments, and the rest will go to the Refund Fund or represents money that the State would have received later in this fiscal year."

One overlooked aspect in assessing the success of the tax amnesty program is the effect that this revenue boost will have on revenues in future years. According to the Department of Revenue, approximately $275 million in State and local revenues of the $532 million total are accelerated monies that the State would have receipted in FY 2005 and beyond, but now have been accelerated into FY 2004. The receipting of these revenues now means they will not be available in FY 2005 and later; therefore, subsequent adjustments will have to be made when estimating revenues for these future fiscal years.

Much of the accelerated revenues that have come in during the tax amnesty period came from federal audits. According to the Department, "One of the surprises of the tax amnesty program was $153 million in payments from business taxpayers under federal audit who do not yet owe the State anything, but chose to pay during the amnesty period to protect themselves from possible future interest charges." Again, these are revenues that will not be available in future years when they normally would have been received and, because many of these taxpayers have purposely overpaid their tax bill to avoid any possible penalties, they may stand a greater likelihood of being rewarded a State tax refund in the future. The Department of Revenue does point out, however, that one of the benefits of the amnesty program is that auditors will now be able to audit accounts they would not otherwise have time to do, reducing losses in future years.

Aside from the federal audit taxpayers, many of the taxpayers that took advantage of the amnesty program were likely delinquent taxpayers who paid their taxes to avoid higher penalties. However, it has been pointed out that some of the payments may have come from taxpayers who put off their early FY 2004 tax payments until the amnesty period, knowing that there would be no penalty for the delays. Therefore, part of the amnesty totals experienced could be delayed payments and not necessarily new revenues.

As shown in the following table, the majority of the tax amnesty receipts came from income taxes. The Department of Revenue reports that over 80,000 taxpayers took advantage of the tax amnesty period. Of the amnesty monies collected thus far, 52.5% are from the corporate income tax, while 15.8% came from the personal property replacement tax. In addition, 7.7% of total receipts came from individual income taxes. The sales tax was the other revenue source that benefited from the amnesty program generating approximately 20.8% of the total amount collected. The remaining 3.2% of revenues was spread between thirty-three other revenue sources. The Commission will continue to evaluate the resulting tax amnesty information and will report of any significant findings.

FY 2004 TAX AMNESTY TOTALS THRU DECEMBER

Revenue Source Code:	1901	1902	1903	1904	1905	1906	1907
Revenue Source:	Retailers Occup. Tax	Priv SLS Used Car Use	Auto Renting Tax	Hotel Oper Use Tax	Indiv Income Tax	Corp Income Tax	Liquor Tax
General Funds Subtotal:	$95,359,392.71	$183,588.67	$1,848.17	$83,704.22	$38,521,773.06	$259,576,913.93	$16,669.46
Net General Funds:	$95,359,392.71	$183,588.67	$1,848.17	$83,704.22	$33,922,745.06	$148,669,418.36	$16,669.46
Total All Funds:	$105,504,076.19	$187,334.58	$1,926.65	$192,318.62	$39,307,931.71	$266,508,632.42	$17,009.66
Revenue Source % of Total:	20.8%	0.0%	0.0%	0.0%	7.7%	52.5%	0.0%

Revenue Source Code:	1908	1909	1910	1912	1913	1914	1916
Revenue Source:	P.U. Tax Gas Regular	Electricity Excise Tax	Underground Storage Tax	Pull Tabs & Jar Games	Motor Fuel Tax	Cigarette Tax	P.U. Tax Telecom Tax
General Funds Subtotal:	$44,680.16	$8,923.60	$0.00	$0.00	$0.00	$26.40	$3,959,736.57
Net General Funds:	$44,680.16	$8,923.60	$0.00	$0.00	$0.00	$26.40	$3,959,736.57
Total All Funds	$45,592.00	$9,387.33	$507,345.18	$39.91	$1,497,509.92	$26.40	$5,804,730.22
Revenue Source % of Total:	0.0%	0.0%	0.1%	0.0%	0.3%	0.0%	1.1%

Revenue Source Code:	1917	1918	1920	1921	1922	1923	1924
Revenue Source:	Bingo Tax	Repl. Vehicle Tax	Auto Rent Tax MPEA	Auto Rent Tax MUNI	Auto Rent Tax County	Pers Prop Repl Tax	Pull Tabs & Jar Games
General Funds Subtotal:	$248.04	$2,180.54	$0.00	$0.00	$0.00	$0.00	$977.74
Net General Funds:	$248.04	$2,180.54	$0.00	$0.00	$0.00	$0.00	$977.74
Total All Funds	$506.20	$2,225.04	$1,648.05	$345.30	$3.92	$80,077,291.27	$1,955.49
Revenue Source % of Total:	0.0%	0.0%	0.0%	0.0%	0.0%	15.8%	0.0%

Revenue Source Code:	1925	1926	1927	1932	1933	1934	1935
Revenue Source:	CHGO Hotel Oper Tax	Metro Pier & Expo Auth	Hotel Operators' Tax	Metro East Sales Tax	Metro East Park and Recreation	RTA Sales Tax	Cnty Option MFT
General Funds Subtotal:	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Net General Funds:	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Total All Funds	$33,594.32	$39,005.67	$16,984.84	$11,598.80	$615.51	$800,765.73	$246,447.70
Revenue Source % of Total:	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	0.0%

Revenue Source Code:	1936	1938	1939	1940	1941	1942	1945
Revenue Source:	County Public Safety Tax	Metro Pier & Expo Auth	County Home Rule Sales	County Water Com SLS Tax	Non Home Rule Muni SLS	Home Rule Muni SLS Tax	Telecomm. Tax
General Funds Subtotal:	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$5,577,093.73
Net General Funds:	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$5,577,093.73
Total All Funds	$7,012.74	$39,502.64	$314,575.65	$25,604.15	$4,083.71	$426,687.71	$6,019,841.29
Revenue Source % of Total:	0.0%	0.0%	0.1%	0.0%	0.0%	0.1%	1.2%

Revenue Source Code:	1946	1947
Revenue Source:	Invested Capital	Hotel Oper 1% ADD'L
General Funds Subtotal:	$0.00	$0.00
Net General Funds:	$0.00	$0.00
Total All Funds	$8,908.95	$37,276.29
Revenue Source % of Total:	0.0%	0.0%

	Grand Total
General Funds Subtotal:	$403,337,757
Net General Funds:	$287,831,233
Total All Funds	$507,700,342

Riverboat's AGR and Admission Levels Continue to Struggle

Eric Noggle, Sr. Revenue Analyst

As highlighted in IEFC's August monthly report, due to Illinois's riverboat tax structure, the Adjusted Gross Receipts (AGR) and admissions figures of a riverboat are the principal components that determine that amount of revenue collected from the State's riverboat taxes. A disturbing trend has developed in the riverboat industry pertaining to these important components over the last couple of years. In FY 2003, AGR totals were nearly 2 percent below FY 2002 levels. Riverboat admissions also declined this fiscal year, falling 4.6 percent from FY 2002 levels.

The declines in AGR and admissions have continued into FY 2004 (see below). Thru the month of November, AGR totals have declined 9.7% over a year ago while admissions thru November have declined a staggering 17.9%. In fact, of the nine Illinois boats currently in operation, only Rock Island has experienced an increase in their AGR figures this fiscal year. The worst declines in AGR have come from Aurora (-23.5%), Joliet Harrah's (-23.5%), and Alton (-11.6%). Only Elgin (2.0%) and East St. Louis (0.6%) have experienced increases in admissions for this fiscal year with the worst declines again coming from Aurora (-44.3%), Joliet Harrah's (-42.4%), and Alton (-17.0%), along with Joliet Empress (-19.8%).

RIVERBOAT INFORMATION
Comparison of FY 2003 and FY 2004 through November

	FY 2003 YTD AGR	FY 2004 YTD AGR	YTD % change	FY 2003 YTD Admissions	FY 2004 YTD Admissions	YTD % change
ALTON (Alton Belle)	$48,312,000	$42,708,000	-11.6%	699,866	581,185	-17.0%
AURORA (City Lights I & II)	$117,297,000	$89,771,000	-23.5%	1,086,537	605,000	-44.3%
EAST PEORIA (Par-A-Dice)	$60,132,000	$55,486,000	-7.7%	799,971	736,309	-8.0%
EAST ST. LOUIS (Casino Queen)	$64,701,000	$64,461,000	-0.4%	862,989	868,099	0.6%
ELGIN (Grand Victoria)	$161,653,000	$159,248,000	-1.5%	1,176,925	1,200,351	2.0%
JOLIET EMPRESS (I & II)	$93,274,000	$91,585,000	-1.8%	874,219	701,587	-19.7%
JOLIET HARRAH'S	$127,599,000	$97,651,000	-23.5%	1,265,450	729,045	-42.4%
METROPOLIS	$58,446,000	$58,042,000	-0.7%	639,510	613,694	-4.0%
ROCK ISLAND (Casino RI)	$16,415,000	$16,695,000	1.7%	354,993	334,086	-5.9%
TOTAL	**$747,829,000**	**$675,647,000**	**-9.7%**	**$ 7,760,460**	**$ 6,369,356**	**-17.9%**

Source: Illinois Gaming Board Monthly Riverboat Casino Report

What are the reasons for these declines? Many believe that the major reason for the decline in receipts and attendance is based on the recent increases in Illinois' riverboat tax structure. On July 1, 2003, the graduated wagering taxes imposed on adjusted gross receipts were increased to as high as 70%, the highest wagering tax rate in the country. In addition, a graduated admissions tax was introduced at rates ranging from $3 to $5 per admission (up from the $3 flat tax).

As a result of these tax increases, gaming operators argue they have less profitable income to reinvest into their own casinos. They contend that less reinvestment means they are not able to offer as many incentives to potential riverboat patrons, such as cheaper food/accommodations, give-a-ways, non-gambling entertainment, or improved facilities. Without these incentives, it appears that casinos are having trouble keeping their regular attendees or attracting other potential patrons. Some believe that Illinois operators who also own casinos outside of Illinois may be choosing to redirect their marketing, capital, and operating expenses to their riverboats in lower-taxed states, such as Indiana, in order to maximize profits. As a result, many feel that Illinois is losing riverboat patrons to states like Indiana who may be benefiting from Illinois' higher taxes.

Another reason as to why AGR and admissions figures have declined is because of the decision of certain Illinois riverboats to lower expenses by reducing operating hours and cutting payroll. For example, four casinos (Alton, Aurora, Joliet Empress, and Joliet Harrah's) were granted permission by the Illinois Gaming Board to reduce operating hours as a means of reducing their operating expenses. Not surprisingly, these are the same four boats that have seen the largest declines in admissions. In addition, some riverboats are reducing personnel by replacing popular table games with more profitable electronic gaming devices. Again, these cutbacks are likely contributing to the reduction in admissions and adjusted gross receipts.

As mentioned earlier, there is an admissions tax imposed in Illinois at a rate of $3 to $5 per admission, depending on the previous year's AGR intake of the riverboat. In past years, Illinois riverboats have paid this tax themselves in order to offer, as an incentive, free admission to the riverboat attendee. However, some riverboats have decided to pass this admissions tax onto the patron, creating another disincentive for the riverboat consumer and, thus, another reason for the decline in admissions and in AGR.

The behavior of AGR and admission levels is important because of the direct correlation these variables have on riverboat tax revenues. While the tax increases have allowed State revenues to be up 11.1% thru November, the recent struggles of AGR and admission totals have resulted in riverboat revenues that are likely to be well short of original estimates. When the recent tax increases were enacted, the Governor's Office of Management and Budget projected that gaming revenues would increase by a total of approximately $200 million. However, the Commission's latest models indicate that the State may receive only around $100 million more than it did in FY 2003. In fact, despite the increase in tax rates, two riverboats, Joliet Empress and Aurora, are on pace to bring in less revenue to the State in FY 2004 than they did in FY 2003 (see below). Because of the poor performances of the riverboats, it is very likely that the Commission will have to make a downward revision of its latest riverboat revenue transfer estimate by approximately $75 million in the near future.

RIVERBOAT REVENUES
Comparison of FY 2003 and FY 2004 through November

	FY 2003 YTD STATE REVENUE	FY 2004 YTD STATE REVENUE	YTD % change	FY 2003 YTD TOTAL REVENUE	FY 2004 YTD TOTAL REVENUE	YTD % change
ALTON (Alton Belle)	$14,474,632	$17,660,280	22.0%	$17,590,098	$20,376,865	15.8%
AURORA (City Lights I & II)	$50,182,099	$42,816,950	-14.7%	$57,133,486	$47,910,500	-16.1%
EAST PEORIA (Par-A-Dice)	$19,810,142	$25,584,002	29.1%	$23,616,713	$29,094,611	23.2%
EAST ST. LOUIS (Casino Queen)	$21,727,203	$30,621,947	40.9%	$25,825,242	$34,713,096	34.4%
ELGIN (Grand Victoria)	$75,097,700	$96,087,804	28.0%	$84,357,275	$105,250,555	24.8%
JOLIET EMPRESS (I & II)	$38,074,738	$43,318,011	13.8%	$43,612,657	$48,598,848	11.4%
JOLIET HARRAH'S	$58,126,400	$47,053,130	-19.1%	$65,771,800	$52,664,725	-19.9%
METROPOLIS	$18,569,770	$25,590,232	37.8%	$22,131,580	$29,106,026	31.5%
ROCK ISLAND (Casino RI)	$3,245,561	$3,787,547	16.7%	$4,421,304	$4,956,383	12.1%
TOTAL	**$299,308,245**	**$332,519,903**	**11.1%**	**$ 344,460,155**	**$ 372,671,609**	**8.2%**

Source: Illinois Gaming Board Monthly Riverboat Casino Report

Illinois riverboat revenues are likely to continue to struggle until riverboat patrons can be persuaded back to Illinois casinos. However, one situation that may give the State riverboat industry a big boost in the future is the selling of the 10th riverboat license. In November 2003, the Attorney General reached a settlement with Emerald Casino on a proposed Plan of Reorganization. The proposed plan would pave the way for Illinois' 10th riverboat license to become operational after years of litigation and controversy stemming from allegations of wrongdoing.

However, before the selling of the license can occur, the plan had to be approved by the Illinois Gaming Board and in bankruptcy court. On December 15, 2003, the Illinois Gaming Board unanimously approved the settlement. Therefore, the future of the 10th license awaits the decision of the bankruptcy court. Assuming approval from bankruptcy court, the Illinois Gaming Board will begin evaluating proposals on Jan. 19 and will pick three finalists Feb. 23. After hearing presentations, the board will identify a leading bidder March 5, an auction will be held March 10 and a winner will be announced March 15. If the sale of the 10th license does transpire as planned, it appears likely that the State would receive revenues generated from the sale this fiscal year (FY 2004). Although, the exact amount that the State would receive is unknown, the FY 2004 budget was predicated to include the sale of the license, which was estimated at that time to generate $350 million to the State.

While a timetable has been set for the selling of the 10th license, another recent legal twist relating to the Emerald Casino may complicate the sale even further. On December 30, 2003, the Illinois Appellate Court ruled that the Illinois Gaming Board did not have the authority nearly three years ago to deny Emerald Casino's application to relocate in suburban Rosemont. While the implication of this decision remains unclear, the court did acknowledge that the State has the right to proceed with the revocation hearing. The Illinois Gaming Board has stated that this ruling would have no impact on the date for accepting bids for the license. Whether or not the Appellate Court's decision will result in a delay in the sale of the 10th license remains to be seen.

It should be noted that under current law, the newly imposed wagering tax rates will revert back to their prior rates (maximum rate of 50%) beginning on the earlier of (i) July 1, 2005; (ii) the first date that riverboat gambling operations commence pursuant to a dormant riverboat license or (iii) the first day that riverboat gambling operations are conducted under the authority of a riverboat license that is in addition to the currently authorized 10 riverboat licenses. While the third scenario is unlikely, the timing of the commencement of the potential 10^{th} riverboat is important because it will decide whether or not the tax rates will return to previous levels before the statutorily defined date of July [redacted]he Commission will continue to monitor the progress of the 10^{th} riverboat license, as well as other riverboat related information, and report of any findings when necessary.

REVENUE

Despite Tax Amnesty Boost, Base Revenues Down in December

Jim Muschinske, Revenue Manager

December general revenue receipts, excluding Pension Contribution Fund transfers, fell $146 million. The falloff was due to expected slowdowns in federal receipting and other sources. If $148 million in Pension Contribution Fund transfers are included, overall general funds revenues were up $2 million. December had one more receipting day compared to the same month last year.

Revenues attributed to the tax amnesty program once again were key, otherwise the decline in base revenues would have been much more pronounced. Gross corporate income tax was up $69 million for the month, or $39 million net of refunds. *While $126 million in Gross corporate income tax were attributed to tax amnesty designation, in all likelihood, an unknown portion of that would have been receipted anyway. If not, it would mean that base corporate income taxes would have been off approximately $57 million or more than 38%.* Public utility taxes benefited from the extra receipting day as well as tax amnesty and rose by $49 million. Sales tax revenues jumped $44 million for the month, primarily due to $95 million in revenues determined to be tax amnesty. *Again, some unknown amount of that increase likely would have occurred anyway, if not, base sales taxes would have fallen $51 million or 9.2%.* Insurance taxes and fees continue to perform well and were up $10 million for the month, while corporate franchise taxes added $6 million in gains. Finally, vehicle use tax eked out a $1 million gain in December.

A number of revenue sources experienced declines to end 2003. Even with the benefit of $29 million from tax amnesty, gross personal income taxes were off $16 million or $40 million net of refunds. Inheritance tax receipts have yet to benefit significantly from decoupling and fell $6 million. Both liquor taxes and interest on State investments each dropped $1 million. Finally, other sources fell $75 million on a comparative basis in December thanks to an $88 million windfall experienced last December as the result of some unexpected escrowed tobacco settlement money.

Overall transfers fell $8 million in December. While riverboat transfers and receipts gained $6 million and lottery transfers $5 million, those increases were more than offset by a falloff of $19 million in other sources. As mentioned earlier, federal sources experienced a down month with revenues falling $164 million as reimbursable spending has begun to slow.

Year to Date

Through the first half of the fiscal year, excluding revenues attributed to short-term borrowing and Budget Stabilization and Pension Contribution funds transfers, receipts are up $1.004 billion over the same period of last fiscal year. However, almost all of that increase is attributed to the growth in federal sources. Federal sources aside, base growth for the most part has been slow.

While the tax amnesty program caused a jump in November and December receipts, since a large amount of receipts appear to have been accelerated from FY 2004 (as well as from FY 2005 and beyond) its true effects are still difficult to quantify. Nonetheless, gross corporate income taxes are up $214 million or $124 million net of refunds. Sales taxes are up $117 million and public utility has risen $47 million. One area of concern is that of personal income taxes as, despite a boost from tax amnesty, overall gross receipts are up only $13 million and are actually down $121 million on a net of refund basis. This lack of meaningful growth indicates that despite continued reports of a heating up economy, that news has yet to translate into jobs and subsequent revenues. All other sources experiencing year-to-date gains total an additional $34 million.

Other sources are off $76 million for the year, due to the above-mentioned timing of last year's escrowed tobacco settlement receipt. Because of the lag associated with the State's decoupling from the federal phase-out of inheritance taxes, receipts are down $36 million, and interest earnings are off $7 million.

Through the first six months, overall transfers are up $13 million. While other transfers are down $39, that decline is more than offset by a $46 million increase in riverboat transfers and receipts as the result of the increased wagering and admission tax, as well as a $6 million increase in lottery transfers. Finally, federal sources are up dramatically for the year-- $909 million. That remarkable increase is due to $422 million in flexible federal grants, a higher Medicaid reimbursement rate, and a concerted effort to spend down the Medicaid payment cycle.

In order to reach the Commission's estimate, base revenues must increase $1.736 billion or 14.9% over the remainder of the fiscal year. As discussed earlier, that high rate of growth is significantly dependent on the future performance of many of the revenue adjustments used to craft the FY 2004 budget. (See earlier section on adjustments on page 3).

GENERAL FUNDS RECEIPTS: DECEMBER

FY 2004 vs. FY 2003
($ million)

Revenue Sources	DEC. FY 2004	DEC. FY 2003	$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	$695	$711	($16)	-2.3%
Corporate Income Tax (regular)	216	147	$69	46.9%
Sales Taxes	598	554	$44	7.9%
Public Utility Taxes (regular)	119	70	$49	70.0%
Cigarette Tax	33	33	$0	0.0%
Liquor Gallonage Taxes	10	11	($1)	-9.1%
Vehicle Use Tax	3	2	$1	50.0%
Inheritance Tax (Gross)	12	18	($6)	-33.3%
Insurance Taxes and Fees	72	62	$10	16.1%
Corporate Franchise Tax & Fees	17	11	$6	54.5%
Interest on State Funds & Investments	5	6	($1)	-16.7%
Cook County IGT	23	23	$0	0.0%
Other Sources	37	112	($75)	-67.0%
Subtotal	$1,840	$1,760	$80	4.5%
Transfers				
Lottery	49	44	$5	11.4%
Riverboat transfers & receipts	75	69	$6	8.7%
Other	22	41	($19)	-46.3%
Total State Sources	$1,986	$1,914	$72	3.8%
Federal Sources	$274	$438	($164)	-37.4%
Total Federal & State Sources	$2,260	$2,352	($92)	-3.9%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($81)	($57)	($24)	42.1%
Corporate Income Tax	($70)	(40)	($30)	75.0%
Subtotal General Funds	$2,109	$2,255	($146)	-6.5%
Short-Term Borrowing	$0	$0	$0	N/A
Budget Stabilization Fund Transfer	$0	$0	$0	N/A
Pension Contribution Fund Transfer	$148	$0	$148	N/A
Total General Funds	$2,257	$2,255	$2	0.1%

IEFC SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 6-Jan-04

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2004 vs. FY 2003

($ million)

Revenue Sources	FY 2004	FY 2003	CHANGE FROM FY 2003	% CHANGE
State Taxes				
Personal Income Tax	$3,610	$3,597	$13	0.4%
Corporate Income Tax (regular)	607	393	$214	54.5%
Sales Taxes	3,233	3,116	$117	3.8%
Public Utility Taxes (regular)	521	474	$47	9.9%
Cigarette Tax	200	200	$0	0.0%
Liquor Gallonage Taxes	64	64	$0	0.0%
Vehicle Use Tax	19	18	$1	5.6%
Inheritance Tax (Gross)	100	136	($36)	-26.5%
Insurance Taxes and Fees	153	129	$24	18.6%
Corporate Franchise Tax & Fees	75	67	$8	11.9%
Interest on State Funds & Investments	30	37	($7)	-18.9%
Cook County IGT	176	175	$1	0.6%
Other Sources	115	191	($76)	-39.8%
Subtotal	$8,903	$8,597	$306	3.6%
Transfers				
Lottery	250	244	$6	2.5%
Riverboat transfers & receipts	395	349	$46	13.2%
Other	330	369	($39)	-10.6%
Total State Sources	$9,878	$9,559	$319	3.3%
Federal Sources	$2,871	$1,962	$909	46.3%
Total Federal & State Sources	$12,749	$11,521	$1,228	10.7%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($422)	($288)	($134)	46.5%
Corporate Income Tax	($196)	($106)	($90)	84.9%
Subtotal General Funds	$12,131	$11,127	$1,004	9.0%
Short-Term Borrowing	$0	$700	($700)	N/A
Budget Stabilization Fund Transfer	$226	$226	$0	0.0%
Pension Contribution Fund Transfer	$965	$0	$965	N/A
Total General Funds	$13,322	$12,053	$1,269	10.5%

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

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GENERAL FUNDS GROWTH NEEDED TO MEET ESTIMATE

FY 2004 ESTIMATE vs. FY 2003 ACTUAL

($ million)

Revenue Sources	ESTIMATE FY 2004	FYTD 2004	AMOUNT NEEDED FY 2004 EST.	FYTD 2003	GROWTH NEEDED	% CHANGE
State Taxes						
Personal Income Tax	$8,220	$3,610	$4,610	$3,597	$228	5.2%
Corporate Income Tax (regular)	1,095	607	$488	393	($130)	-21.0%
Sales Taxes	6,265	3,233	$3,032	3,116	$89	3.0%
Public Utility Taxes (regular)	1,000	521	$479	474	($53)	-10.0%
Cigarette Tax	400	200	$200	200	$0	0.0%
Liquor Gallonage Taxes	125	64	$61	64	$2	3.4%
Vehicle Use Tax	35	19	$16	18	$0	0.0%
Inheritance Tax (Gross)	225	100	$125	136	$24	23.8%
Insurance Taxes and Fees	332	153	$179	129	($5)	-2.7%
Corporate Franchise Tax & Fees	150	75	$75	67	$0	0.0%
Interest on State Funds & Investments	75	30	$45	37	$16	55.2%
Cook County IGT	400	176	$224	175	$44	24.4%
Other Sources	1,403	115	$1,288	191	$1,130	715.2%
Subtotal	$19,725	$8,903	$10,822	$8,597	$1,345	14.2%
Transfers						
Lottery	540	250	$290	244	($6)	-2.0%
Riverboat transfers & receipts	717	395	$322	349	$117	57.1%
Other	915	330	$585	369	$365	165.9%
Total State Sources	$21,897	$9,878	$12,019	$9,559	$1,821	17.9%
Federal Sources	$4,950	$2,871	$2,079	$1,962	$101	5.1%
Total Federal & State Sources	$26,847	$12,749	$14,098	$11,521	$1,922	15.8%
Nongeneral Funds Distribution:						
Refund Fund						
Personal Income Tax	($965)	($422)	($543)	($288)	($193)	55.1%
Corporate Income Tax	(356)	(196)	($160)	(106)	$7	-4.2%
Subtotal General Funds	$25,526	$12,131	$13,395	$11,127	$1,736	14.9%
Short-Term Borrowing	$0	$0	$0	$700	($975)	N/A
Budget Stabilization Fund Transfer	$226	$226	$0	$226	$0	N/A
Proceeds from Pension Obligation Bonds	$1,600	$965	$635	$0	$335	111.7%
Total General Funds	$27,352	$13,322	$14,030	$12,053	$1,096	8.5%

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