

**ILLINOIS ECONOMIC
AND
FISCAL COMMISSION**

AUTUMN UPDATE

**FY 2001 UPDATED ECONOMIC OUTLOOK
and
FY 2001 REVENUE ESTIMATE**



**NOVEMBER 2000
703 STRATTON BUILDING
SPRINGFIELD, ILLINOIS 62706**

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NOVEMBER 2000 AUTUMN UPDATE

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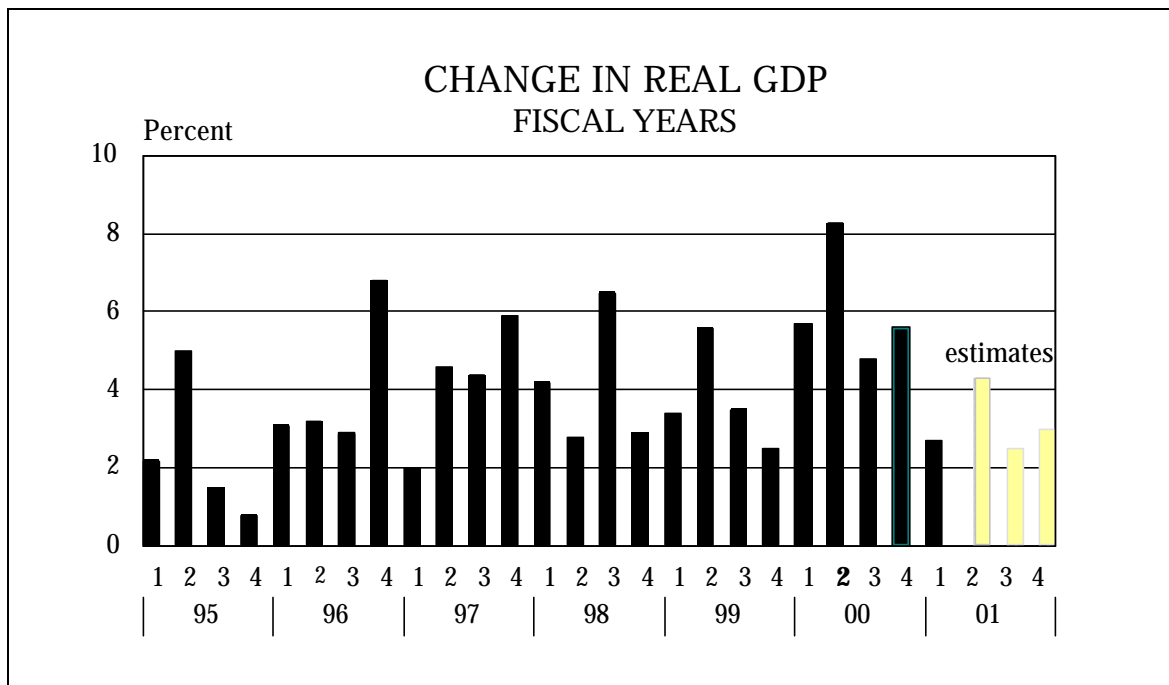
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FY 2001 Economic Outlook

The pace of economic activity is showing signs of moderation following a remarkably strong performance during FY 2000. This slowing in growth stems from a combination of forces at work: six credit tightening moves by the Federal Reserve over more than the past year; sharp stock market volatility which has threatened consumer net worth, and higher energy prices that will serve to restrain consumer spending. As shown in Chart 1, growth this fiscal year is sharply below that of last year. Even so, growth is still expected to be no worse than the lower end of the range it has fluctuated within since 1995.

CHART 1



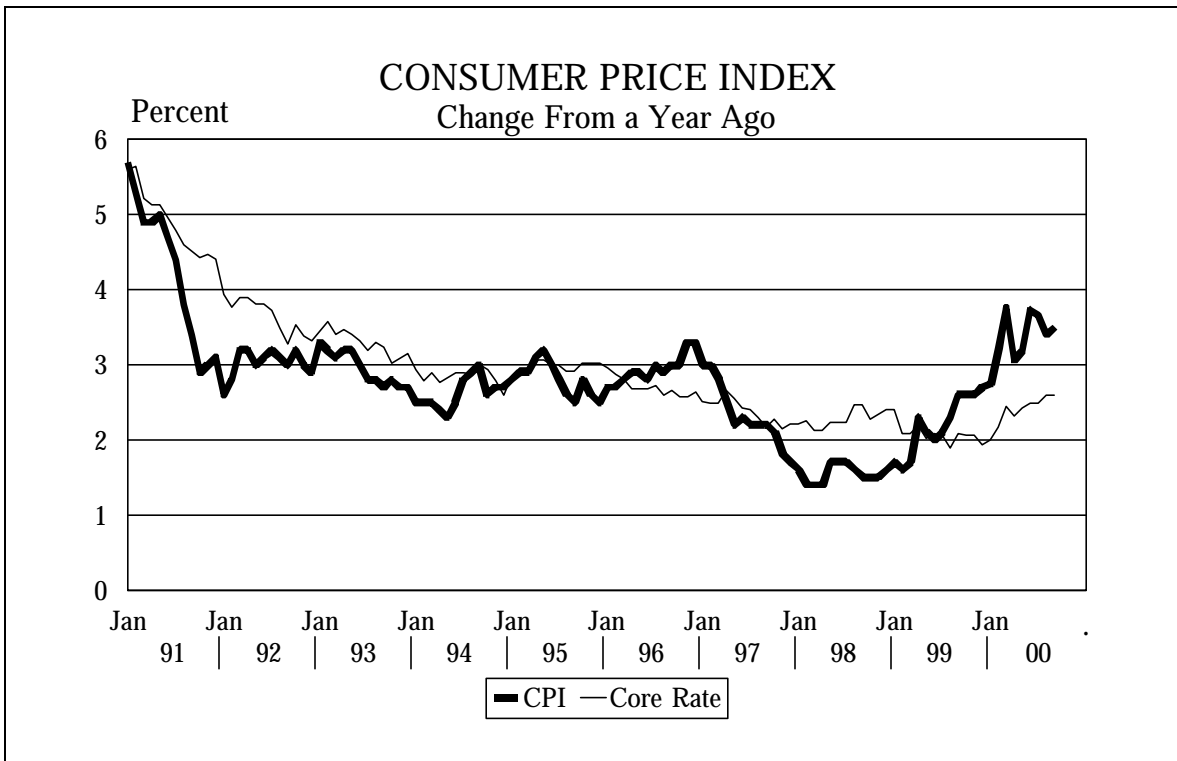
While the pace of economic activity moderates, prices have begun to increase at a faster pace. Chart 2, on the following page, shows that consumer prices, as measured by the Consumer Price Index (CPI), have been accelerating for more than a year and a half, recently reaching levels not seen since 1991.

A large part of the price acceleration can be attributed to a sharp turnaround in energy prices, which fell 3.4% and 8.8%, respectively in 1997 and 1998 before rising 13.4% last year and even more sharply so far this year. The rise in energy prices in large part reflects a sharp upturn in global economic growth which has increased demand while

supplies, particularly domestic production of oil, has been on the decline. Threats of a disruption of supplies due to problems in the Middle East also have been a factor.

Stripping out the volatile food and energy price components and looking at only the underlying **core** rate of price increase shows a less foreboding picture. Price increases on this basis are more stable and still well below those recorded during the first half of the 1990s. Nevertheless, even on this basis there has been some upward movement in recent months. The concern is that, with inflation starting to rise at a more rapid rate, the Federal Reserve will delay easing credit conditions as the economy softens, weakening the economy further and threatening an end to the longest economic expansion in recorded U.S. history.

CHART 2



Signs of economic moderation so far have been most pronounced in the manufacturing sector. Chart 3, on page 3, shows the recent weakening in both the National and Chicago Purchasing Managers' Index. This overall index, which includes several manufacturing measures, broadly encapsulates the current status of the manufacturing sector. In recent months both the National and Chicago Index have dipped below 50%, indicating an actual contraction in manufacturing activity. This in itself does not mean an end to the expansion. Similar dips occurred in 1993, late in 1995, and early 1996 and in 1998, all times when the pace of expansion slowed but eventually recovered.

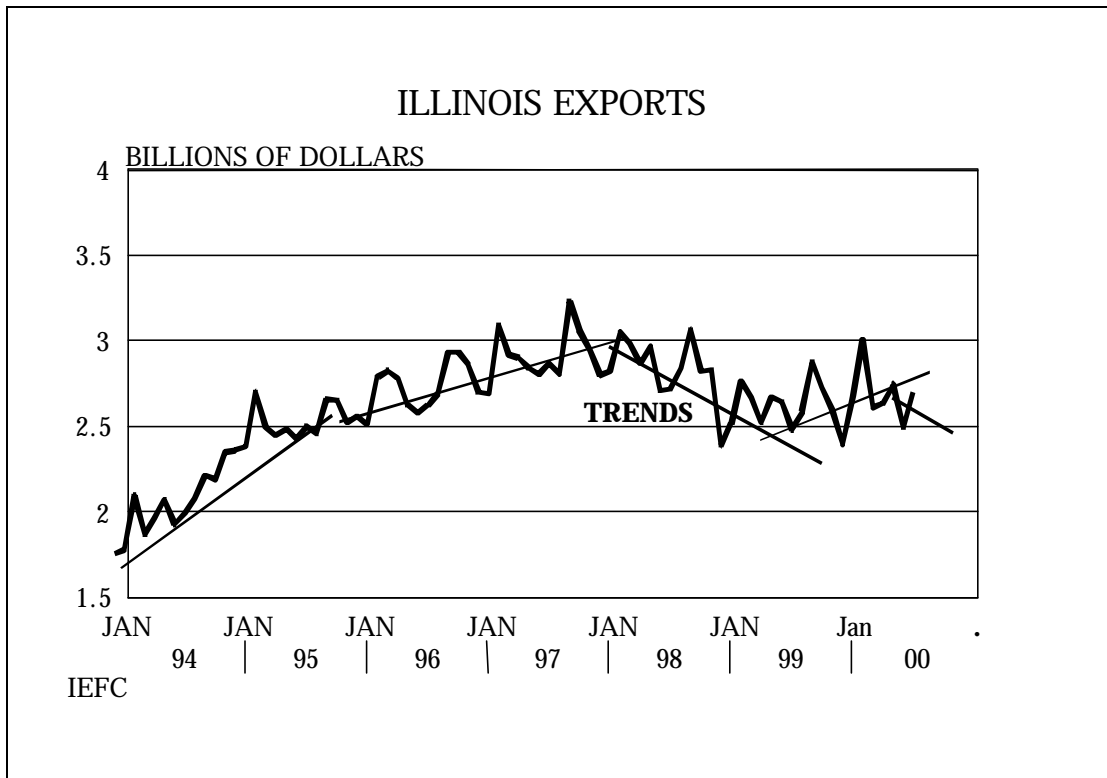
CHART 3



Other sectors of the economy have yet to reflect the same degree of moderation as the manufacturing sector. After a poor performance during August, retail sales bounced back in September and were up 7.6% from a year earlier. This gain was below the 9.1% gain recorded in 1999, but stronger than the 5.2% rise during 1998. Reports of sales for October, however, showed definite signs of slowing again. With the consumer accounting for two-thirds of overall spending in the economy, the upcoming holiday season will be extremely important. The trend of the past few months signals a Christmas season with more markdowns than usual. Expectations are holiday sales will be up, but not as good as last year.

It is not only the U.S. economy that is showing signs of moderating. Even more pronounced is a slowdown abroad stemming at least in part from several foreign central bank credit tightenings. In large part the credit tightenings abroad have been implemented to shore up the Euro as its value relative to the U.S. dollar reached record lows. Any sustained economic weakening abroad, however, cuts into demand for U.S. exports. As shown in Chart 4, on the next page, after weakening throughout 1998, export sales picked up the pace in 1999 and into 2000. Even so, some softening in such U.S. sales has occurred recently. Should this pattern continue, this is another sector of the U.S. economy likely to moderate its pace.

CHART 4



Some slowing from the recent trend in exports, less vigorous consumer spending gains, and a manufacturing sector already weakened suggests a softening in business fixed investment. Thus, after three consecutive fiscal years of double digit gains in business fixed investment, there is likely to be some softening.

Table 1, on the next page, shows the IEFC forecast for the U.S. economy in the current fiscal year as well as its past performances over the past five fiscal years. As illustrated, the overall gain in inflation-adjusted gross domestic product is anticipated to be around 4%, down from 5.2% in FY 2000, and near the low end of the range achieved over the past five years.

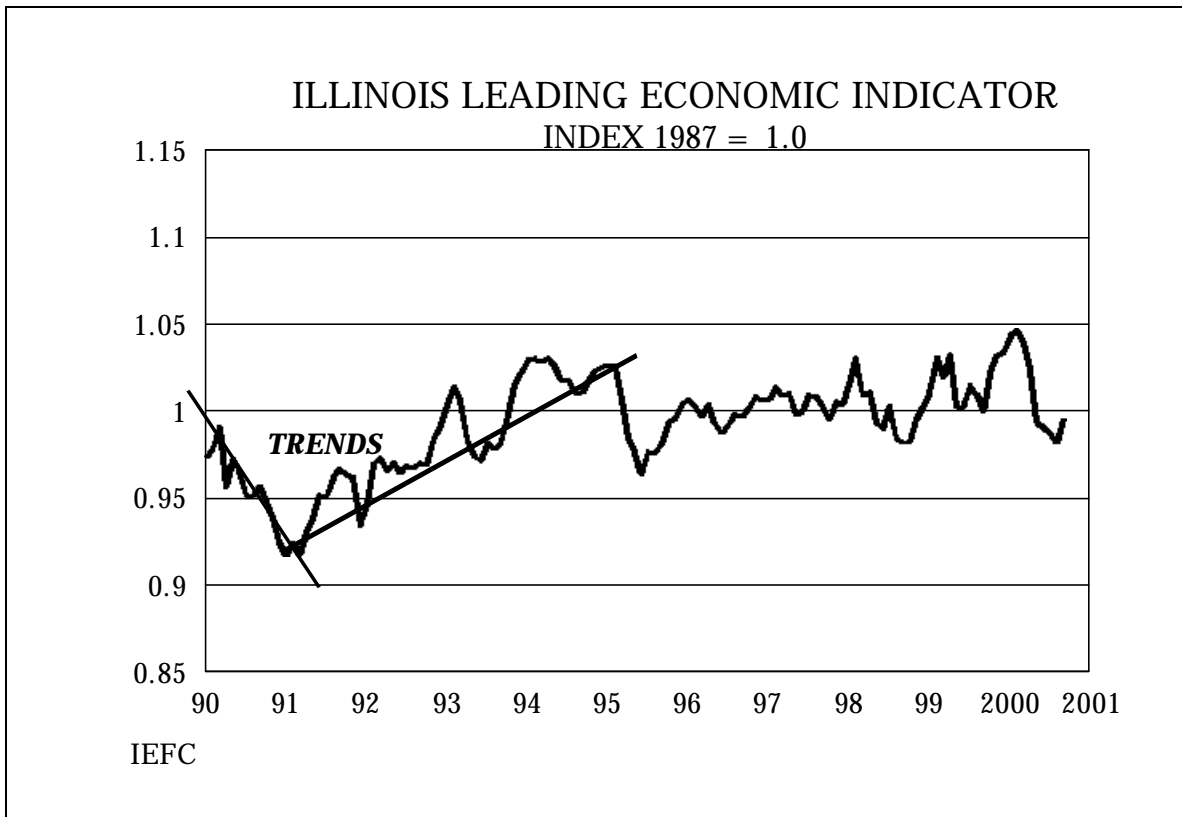
The bulk of the moderation is expected to be in personal consumption, particularly purchases of durables, such as autos and home furnishings. Business fixed investment gains are also likely to be less as manufacturing has weakened and capacity utilization rates have eased. At the same time, government spending gains should remain modest. Prices are likely to rise at a faster pace, but the **core** rate should remain under relatively good control, not far above its recent performance.

Illinois' economic expansion is mirroring that of the U.S. Indeed, after a prolonged period where the State's unemployment rate held below the national level, it has surpassed the national level in the past several months. For October, the U.S. unemployment rate held at its recent 30 year low of 3.9%, while Illinois' rate edged up to 4.4% in September, the latest month available, slightly higher than where it was a year earlier.

TABLE 1. CONTROL and IIEFC FORECASTS - October 2000					
(% Change from Prior Year Levels)					
	FY'97	FY'98	FY'99	FY'00	FY'01
REAL (1996 \$)	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	IIEFC/DRI
Gross Domestic Product	4.1%	4.5%	4.0%	5.2%	4.0%
Personal Consumption	3.1%	4.3%	4.9%	5.5%	4.1%
Durable	4.7%	9.7%	11.5%	12.2%	5.7%
Nondurable	3.0%	3.3%	5.0%	5.6%	5.0%
Services	3.0%	3.7%	3.7%	4.2%	3.8%
Fixed Investment	9.7%	10.3%	10.3%	10.6%	7.4%
Exports	10.2%	8.0%	0.7%	7.0%	8.7%
Imports	11.9%	13.8%	9.8%	13.2%	10.9%
Government	1.9%	2.3%	2.6%	3.7%	2.1%
Federal	-0.6%	-0.2%	0.6%	3.5%	1.1%
State & Local	3.4%	3.8%	3.7%	3.8%	2.6%
<u>OTHER MEASURES</u>					
Personal Income	3.6%	4.8%	4.5%	3.6%	3.7%
Disposable Income	2.8%	4.1%	4.0%	3.0%	3.4%
Consumer Prices	2.8%	1.8%	1.7%	2.5%	3.0%
Unemployment Rate (Avg.)	5.2%	4.6%	4.3%	4.1%	4.2%

The softening in the State's economy has been preceded by a downturn in the Illinois Leading Economic Indicator. As shown in Chart 5, on the next page, the indicator has been on a consistent down path, not unlike that in 1995. Even so, at that time the economy merely slowed its rate of advance and did not enter a recession. The prospects of a repeat soft landing remain good. At the same time, the risks of a policy shock or outside disturbance have increased. The economy seems to have enough momentum, however, at least to get through this fiscal year without any major alterations to previous forecasts made by IIEFC.

CHART 5



REVISED FY 2001 GENERAL FUNDS REVENUE ESTIMATE

As shown in Table 2 on page 9, while the estimates of several revenue sources have been adjusted, the Commission's overall estimate of general funds revenue remains unchanged at \$24.070 billion. The revised estimate continues to represent a \$820 million or 3.5% increase over FY 2000 actual receipts (see Table 3 on page 10). The Commission assumes that there will be no short-term borrowing during FY 2001.

Through the first four months of FY 2001, general funds revenues were up \$296 million or 4.2% (see Table 4 on page 11). With the exception of a small number of sources, overall receipts have performed as expected. In order to reach the estimate, receipt growth must approximate 3.2% over the remaining two-thirds of the fiscal year. A description of the performance of the State's major revenue sources and the revisions made to the previous estimate are discussed below:

- Personal income tax receipts have performed close to expectations thus far in FY 2001. Receipts through October were up \$133 million or 5.8%. The estimate remains \$8,600 million or 4.0% over the previous year. The rate of growth is expected to slow later in the fiscal year due to several reasons: the third year phase-in of the doubling of the personal income tax exemption; the first year of the educational expense credit; and, the first year of the recently-passed earned income tax credit.
- Corporate income tax receipts have performed as expected thus far in FY 2001. While receipts are up \$36 million or 13.7% through October, that rate of growth is somewhat overstated given the extremely poor first third of the prior fiscal year (experienced as a result of an incorrect allocation of receipts, which was corrected later in the fiscal year). The estimate remains \$1,377 million or 9.8% lower than the previous year. The anticipated decline is the result of a one-time \$151 million (\$123 million net after refund) deposit from ComEd last fiscal year.
- Sales tax receipts through the first one-third of the fiscal year also are producing as expected. While receipts are virtually flat, that lack of growth was anticipated due to the six-month suspension of the sales tax on motor fuel. The estimated impact of the tax suspension is forecast to be \$175 million. The tax is set to resume January 1, 2001. Consequently, the estimate for FY 2001 remains at \$6,200 million or 2.9% over the prior fiscal year. Obviously, if the tax suspension is continued or made permanent, a similar revenue loss would be anticipated over the remainder of the year.
- Public utility tax receipts have slightly underperformed through October. Receipts are down \$21 million or 5.7% over the same time last year, although part of that decline is attributed to the carrying over of receipts from FY 1999 into FY 2000. Even so, the estimate for FY 2001 has been adjusted down \$20 million to \$1,150 million.

- Inheritance tax receipts continue to behave rather erratically. Receipts are up nearly 20% through October. While that rate of growth is not expected to be maintained, the estimate has been raised \$10 million to take into account its performance to date.
- Corporate franchise taxes and fees have outperformed expectations thus far in FY 2001 with receipts up over 21%. While the estimate has been increased \$5 million, growth is expected to slow substantially later in the year as timing issues experienced last year will begin to impact receipt growth.
- Receipts from interest income have done better than expected with receipts up nearly 48% through October. While it's impossible for that rate to be maintained for long, the forecast has been raised \$15 million to \$250 million.
- Overall transfers to the general funds have been close to expectations thus far in FY 2001. However, other transfers have lagged somewhat the forecast and, as a result, are being reduced by \$10 million, to \$450 million. Estimated lottery and Gaming Fund transfers appear on track.
- The estimate of federal sources remains \$4,060 million. While federal receipts are up \$130 million or 10.5% through October, rates of growth are expected to slow over the remaining months and finish the year at approximately 4.3%.

In total, the estimated general funds estimate remains \$24.070 billion. In order to reach the estimate, receipts must increase 3.2% over the remaining eight months. This is down slightly from the 4.2% rate of growth experienced to date.

As shown in Table 5 on page 12, the Commission's revised FY 2001 general funds estimate of \$24.070 billion is \$10 million higher than the Bureau of the Budget's October 2000 estimate of \$24.060 billion.

FY 2000 ended with a June general funds balance of \$1.517 billion. Lapse period spending was \$740 million resulting in an after-lapse balance of \$777 million. Utilizing the Bureau of the Budget's estimated FY 2001 spending and lapse spending figures provided in their October report in conjunction with the Commission's revenue estimate yields, an estimated June balance of \$1.260 billion and an after-lapse balance of \$420 million are projected.

FY 2001 ALL APPROPRIATED FUNDS

The FY 2001 estimate of all appropriated funds revenue is \$41.375 billion (see Table 6 on page 13). The estimate represents an increase of \$1.846 billion or 4.7% over the prior year.

**TABLE 2: ADJUSTMENTS TO THE
FY 2001 GENERAL FUNDS ESTIMATE**
(*\$ million*)

Revenue Sources	NOV-00 REVISED ESTIMATE FY 2001	JULY-99 ESTIMATE FY 2001	\$ CHANGE	% CHANGE
State Taxes				
Personal Income Tax	\$8,600	\$8,600	\$0	0.0%
Corporate Income Tax (regular)	1,377	1,377	\$0	0.0%
Sales Taxes	6,200	6,200	\$0	0.0%
Public Utility Taxes (regular)	1,150	1,170	(\$20)	-1.7%
Cigarette Tax	400	400	\$0	0.0%
Liquor Gallonage Taxes	145	145	\$0	0.0%
Vehicle Use Tax	39	39	\$0	0.0%
Inheritance Tax (Gross)	372	362	\$10	2.8%
Insurance Taxes and Fees	205	205	\$0	0.0%
Corporate Franchise Tax & Fees	135	130	\$5	3.8%
Interest on State Funds & Investments	250	235	\$15	6.4%
Cook County Intergovernmental Transfer	245	245	\$0	0.0%
Other Sources	400	400	\$0	0.0%
Subtotal	\$19,518	\$19,508	\$10	0.1%
Transfers				
Lottery	515	515	\$0	0.0%
Gaming Fund Transfer	400	400	\$0	0.0%
Other	450	460	(\$10)	-2.2%
Total State Sources	\$20,883	\$20,883	\$0	0.0%
Federal Sources	\$4,060	\$4,060	\$0	0.0%
Total Federal & State Sources	\$24,943	\$24,943	\$0	0.0%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$611)	(\$611)	\$0	0.0%
Corporate Income Tax	(\$262)	(262)	\$0	0.0%
Total General Funds	\$24,070	\$24,070	\$0	0.0%
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TABLE 3: GENERAL FUNDS RECEIPTS

FY 2001 vs. FY 2000

(\$ million)

Revenue Sources	NOV-00 Revised Estimate FY 2001	Actual Receipts FY 2000	\$ CHANGE FY 2000-2001	% CHANGE
State Taxes				
Personal Income Tax	\$8,600	\$8,273	\$327	4.0%
Corporate Income Tax (regular)	1,377	1,527	(\$150)	-9.8%
Sales Taxes	6,200	6,027	\$173	2.9%
Public Utility Taxes (regular)	1,150	1,116	\$34	3.0%
Cigarette Tax	400	400	\$0	0.0%
Liquor Gallonage Taxes	145	128	\$17	13.3%
Vehicle Use Tax	39	38	\$1	2.6%
Inheritance Tax (Gross)	372	348	\$24	6.9%
Insurance Taxes and Fees	205	209	(\$4)	-1.9%
Corporate Franchise Tax & Fees	135	139	(\$4)	-2.9%
Interest on State Funds & Investments	250	233	\$17	7.3%
Cook County Intergovernmental Transfer	245	245	\$0	0.0%
Other Sources	400	194	\$206	106.2%
Subtotal	\$19,518	\$18,877	\$641	3.4%
Transfers				
Lottery	515	515	\$0	0.0%
Gaming Fund Transfer	400	330	\$70	21.2%
Other	450	514	(\$64)	-12.5%
Total State Sources	\$20,883	\$20,236	\$647	3.2%
Federal Sources	\$4,060	\$3,891	\$169	4.3%
Total Federal & State Sources	\$24,943	\$24,127	\$816	3.4%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$611)	(\$587)	(\$24)	4.1%
Corporate Income Tax	(262)	(290)	\$28	-9.7%
Total General Funds	\$24,070	\$23,250	\$820	3.5%
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TABLE 4: GENERAL FUNDS RECEIPTS: YEAR TO DATE
THROUGH OCTOBER
FY 2001 vs. FY 2000
(\$ million)

Revenue Sources	FY 2001	FY 2000	CHANGE FROM FY 2000	% CHANGE
State Taxes				
Personal Income Tax	\$2,419	\$2,286	\$133	5.8%
Corporate Income Tax (regular)	299	263	\$36	13.7%
Sales Taxes	1,998	1,999	(\$1)	-0.1%
Public Utility Taxes (regular)	347	368	(\$21)	-5.7%
Cigarette Tax	133	133	\$0	0.0%
Liquor Gallonage Taxes	43	35	\$8	22.9%
Vehicle Use Tax	12	13	(\$1)	-7.7%
Inheritance Tax (Gross)	151	126	\$25	19.8%
Insurance Taxes and Fees	52	49	\$3	6.1%
Corporate Franchise Tax & Fees	51	42	\$9	21.4%
Interest on State Funds & Investments	99	67	\$32	47.8%
Cook County IGT	130	107	\$23	21.5%
Other Sources	66	76	(\$10)	-13.2%
Subtotal	\$5,800	\$5,564	\$236	4.2%
Transfers				
Lottery	140	129	\$11	8.5%
Gaming Fund Transfer	169	123	\$46	37.4%
Other	165	275	(\$110)	-40.0%
Total State Sources	\$6,274	\$6,091	\$183	3.0%
Federal Sources	\$1,367	\$1,237	\$130	10.5%
Total Federal & State Sources	\$7,641	\$7,328	\$313	4.3%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$172)	(\$162)	(\$10)	6.2%
Corporate Income Tax	(57)	(50)	(\$7)	14.0%
Total General Funds	\$7,412	\$7,116	\$296	4.2%

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

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03-Nov-00

TABLE 5: FY 2001 IEFC-BoB GENERAL FUNDS ESTIMATES

(\$ millions)

Revenue Sources	Oct-00 BoB FY 2001	Nov-00 IEFC FY 2001	Difference
State Taxes			
Personal Income Tax	\$8,611	\$8,600	(\$11)
Corporate Income Tax	\$1,383	\$1,377	(\$6)
Sales Taxes	\$6,180	\$6,200	\$20
Public Utility (regular)	\$1,160	\$1,150	(\$10)
Cigarette Tax	\$400	\$400	\$0
Liquor Gallonage Taxes	\$135	\$145	\$10
Vehicle Use Tax	\$38	\$39	\$1
Inheritance Tax (gross)	\$370	\$372	\$2
Insurance Taxes & Fees	\$220	\$205	(\$15)
Corporate Franchise Tax & Fees	\$125	\$135	\$10
Interest on State Funds & Investments	\$245	\$250	\$5
Cook County Intergovernmental Transfer	\$245	\$245	\$0
<u>Other Sources</u>	<u>\$392</u>	<u>\$400</u>	<u>\$8</u>
Subtotal	\$19,504	\$19,518	\$14
Transfers			
Lottery	\$515	\$515	\$0
Gaming Fund Transfer	\$400	\$400	\$0
<u>Other</u>	<u>\$455</u>	<u>\$450</u>	<u>(\$5)</u>
Total State Sources	\$20,874	\$20,883	\$9
Federal Sources	\$4,060	\$4,060	\$0
Total Federal & State Sources	\$24,934	\$24,943	\$9
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax	(\$611)	(\$611)	\$0
Corporate Income Tax	(\$263)	(\$262)	\$1
Total General Funds	\$24,060	\$24,070	\$10

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TABLE 6: ALL APPROPRIATED FUNDS REVENUE FY1999 to FY 2001

(millions)

REVENUE SOURCES	ACTUAL		\$ CHG. FROM FY 1999	% CHG. FROM FY 1999	Nov-00 Estimate FY 2001	\$ CHG. FROM FY 2000	% CHG. FROM FY 2000
	ACTUAL RECEIPTS FY 1999	RECEIPTS FY 2000 Unofficial					
State Taxes							
Personal Income Tax	\$7,778	\$8,273	\$495	6.4%	\$8,600	\$327	4.0%
Corporate Income Tax							
Regular	\$1,385	\$1,527	\$142	10.3%	\$1,377	(\$150)	-9.8%
Replacement	\$906	\$1,026	\$120	13.2%	\$934	(\$92)	-9.0%
Sales	\$6,523	\$7,022	\$499	7.6%	\$7,238	\$216	3.1%
Public Utility							
Regular	\$1,213	\$1,316	\$103	8.5%	\$1,350	\$34	2.6%
Replacement	\$210	\$208	(\$2)	-1.0%	\$221	\$13	6.3%
Motor Fuel (gross)	\$1,355	\$1,384	\$29	2.1%	\$1,418	\$34	2.5%
Cigarette	\$499	\$467	(\$32)	-6.4%	\$467	\$0	0.0%
Liquor Gallonage Taxes	\$62	\$133	\$71	114.5%	\$149	\$16	12.0%
Vehicle Use Tax	\$43	\$43	\$0	0.0%	\$44	\$1	2.3%
Inheritance Tax	\$347	\$348	\$1	0.3%	\$372	\$24	6.9%
Insurance Taxes and Fees	\$241	\$260	\$19	7.9%	\$255	(\$5)	-1.9%
Horse Racing Taxes & Fees	\$42	\$23	(\$19)	-45.2%	\$15	(\$8)	-34.8%
Corporate Franchise Taxes	\$121	\$144	\$23	19.0%	\$141	(\$3)	-2.1%
Other Privilege Taxes	\$224	\$222	(\$2)	-0.9%	\$228	\$6	2.7%
<u>Riverboat Gambling Taxes & Fees</u>	<u>\$362</u>	<u>\$475</u>	<u>\$113</u>	<u>31.2%</u>	<u>\$531</u>	<u>\$56</u>	<u>11.8%</u>
SUBTOTAL	\$21,311	\$22,871	\$1,560	7.3%	\$23,340	\$469	2.1%
State Nontax Sources							
Motor Vehicle & License Fees	\$773	\$973	\$200	25.9%	\$1,273	\$300	30.8%
Cigarette Settlement Distributions	N/A	\$350	\$350	N/A	\$340	(\$10)	-2.9%
Other Fees	\$266	\$297	\$31	11.7%	\$290	(\$7)	-2.4%
Provider assessment Fees	\$549	\$649	\$100	18.2%	\$649	\$0	0.0%
Receipts From State Hospital Patients	\$23	\$24	\$1	4.3%	\$25	\$1	4.2%
Interest on State Funds & Investment:	\$292	\$332	\$40	13.7%	\$355	\$23	6.9%
Reimbursements & Repayments	\$273	\$274	\$1	0.4%	\$285	\$11	4.0%
Revolving Fund Receipts	\$267	\$284	\$17	6.4%	\$295	\$11	3.9%
Lottery (net gross)	\$847	\$815	(\$32)	-3.8%	\$805	(\$10)	-1.2%
All Other Nonfederal Receipts	\$2,234	\$2,532	\$298	13.3%	\$2,743	\$211	8.3%
Income from Sale of Bonds	\$835	\$988	\$153	18.3%	\$1,400	\$412	41.7%
Local Government Health Plan	<u>\$57</u>	<u>\$71</u>	<u>\$14</u>	<u>24.6%</u>	<u>\$80</u>	<u>\$9</u>	<u>12.7%</u>
SUBTOTAL	\$27,727	\$30,460	\$2,733	9.9%	\$31,880	\$1,420	4.7%
State Transfers In	\$37	\$44	\$7	18.9%	\$48	\$4	9.1%
TOTAL STATE SOURCES	\$27,764	\$30,504	\$2,740	9.9%	\$31,928	\$1,424	4.7%
Federal Sources	\$8,286	\$9,025	\$739	8.9%	\$9,447	\$422	4.7%
SUBTOTAL ALL APPROPRIATED	\$36,050	\$39,529	\$3,479	9.7%	\$41,375	\$1,846	4.7%
Short Term Borrowing	\$0	\$0	\$0	N/A	\$0	\$0	N/A
TOTAL ALL APPROPRIATED	\$36,050	\$39,529	\$3,479	9.7%	\$41,375	\$1,846	4.7%
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BACKGROUND

The Illinois Economic and Fiscal Commission, a bipartisan, joint legislative commission, provides the General Assembly with information relevant to the Illinois economy, taxes and other sources of revenue and debt obligations of the State. The Commission's specific responsibilities include:

- 1) Preparation of annual revenue estimates with periodic updates;
- 2) Analysis of the fiscal impact of revenue bills;
- 3) Preparation of "State Debt Impact Notes" on legislation which would appropriate bond funds or increase bond authorization;
- 4) Periodic assessment of capital facility plans; and
- 5) Annual estimates of the liabilities of the State's group health insurance program and approval of contract renewals promulgated by the Department of Central Management Services.

The Commission also has a mandate to report to the General Assembly ". . . on economic trends in relation to long-range planning and budgeting; and to study and make such recommendations as it deems appropriate on local and regional economic and fiscal policies and on federal fiscal policy as it may affect Illinois. . . ." This results in several reports on various economic issues throughout the year.

The Commission publishes two primary reports. The "Revenue Estimate and Economic Outlook" describes and projects economic conditions and their impact on State revenues. "The Illinois Bond Watcher" examines the State's debt position as well as other issues directly related to conditions in the financial markets. The Commission also periodically publishes special topic reports that have or could have an impact on the economic well being of Illinois.

These reports are available from:

Illinois Economic and Fiscal Commission
703 Stratton Office Building
Springfield, Illinois 62706
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