

*ILLINOIS ECONOMIC
and
FISCAL COMMISSION*

AUTUMN UPDATE

Revised FY 2003 Estimate and Preliminary FY 2004 Forecast



NOVEMBER 2002
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SPRINGFIELD, ILLINOIS 62706

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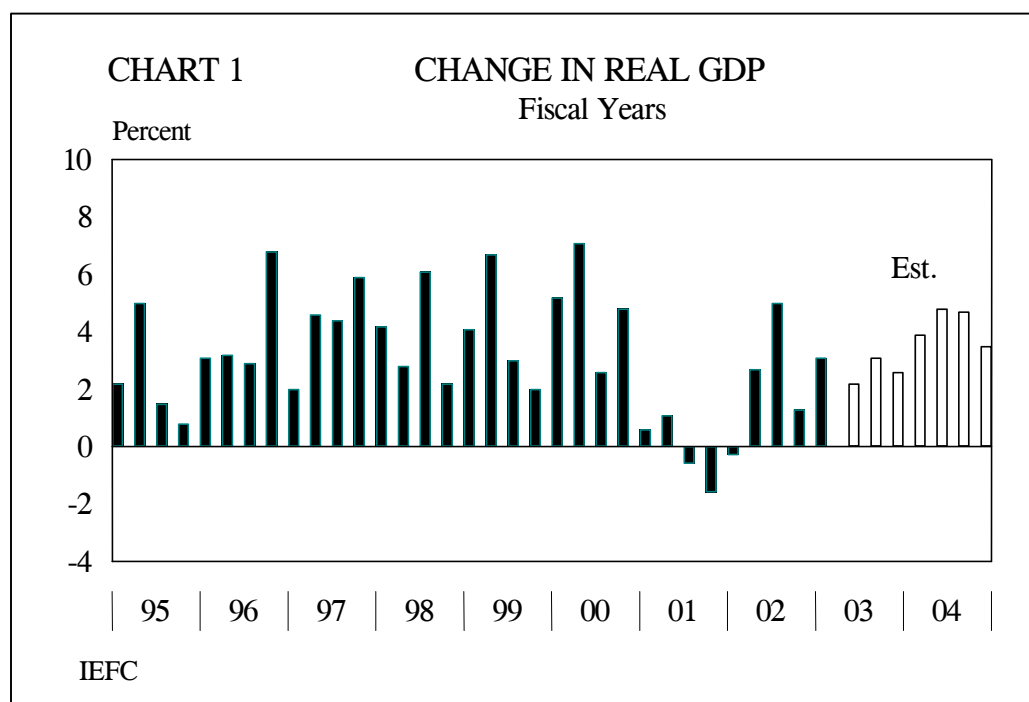
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ECONOMIC UPDATE

The U.S. economy completed four quarters of growth by the end of the first quarter of FY 2003, following three quarters of decline (See Chart 1). Recently-released data show that real gross domestic product rose at an annual rate of 3.1% in the quarter ended in September 2002, up from the 1.3% rate of gain in the previous quarter. Even so, the rate of advance so far in this recovery has been extremely modest compared to previous cyclical upturns with employment and spending gains, particularly by business, disappointing.



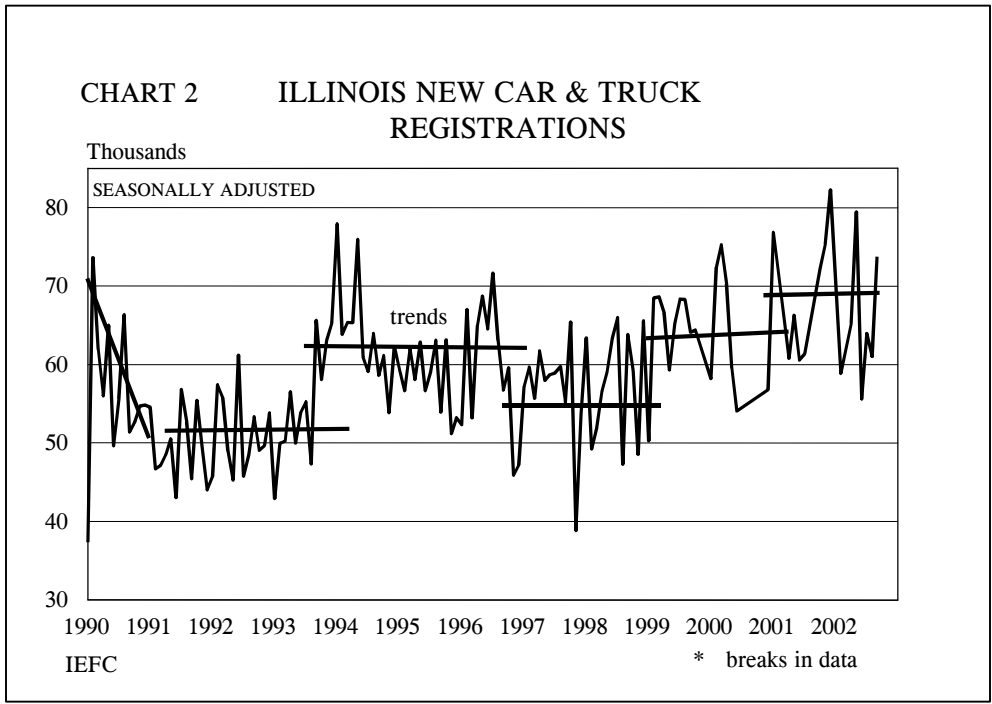
In part the sluggishness of the recovery could be expected as it followed the mildest recession ever recorded. Even so, given the rapid turnaround in federal government spending following the tragedy of 9/11 and an accommodative monetary policy, the stimulus has been insufficient thus far to spark a more rapid rate of advance. Moreover, only moderate growth is expected for the remainder of FY 2003 with some slight acceleration expected at this early reading for FY 2004. See Table 1 on the following page.

TABLE 1: CONTROL AND IEFM FORECASTS – OCTOBER 2002

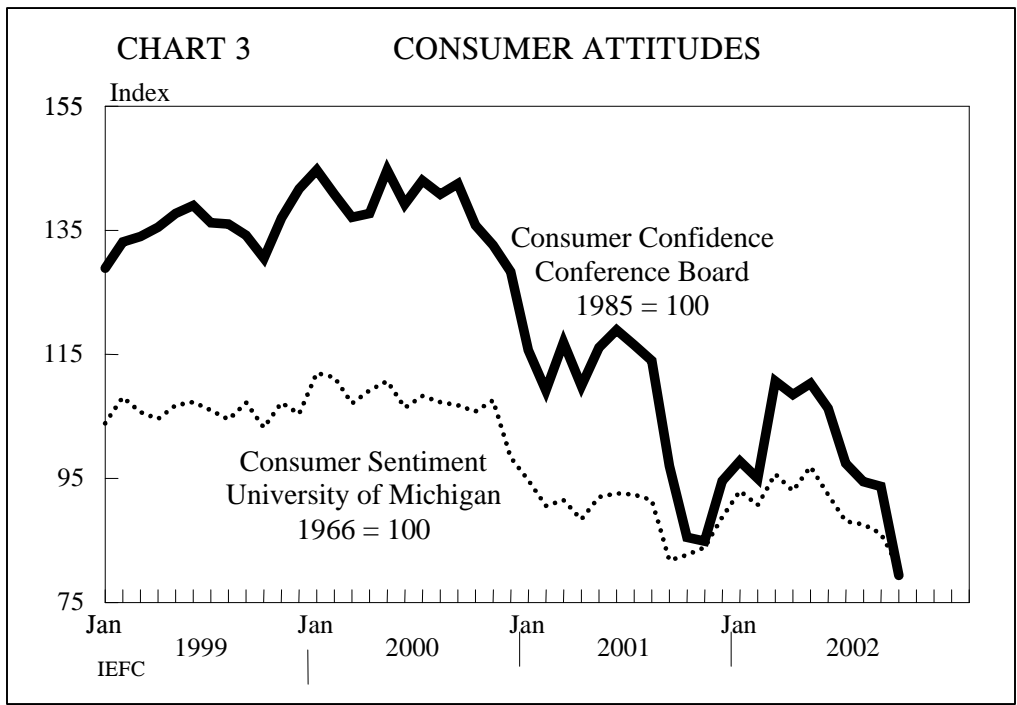
(% Change From Prior Year Levels)

	FY 2001 <u>Actual</u>	FY 2002 <u>Actual</u>	FY 2003 <u>Estimated</u>	FY 2004 <u>Estimated</u>
<u>REAL (1996 \$)</u>				
Gross Domestic Production	1.8	0.8	2.8	3.7
Personal Consumption	3.3	2.7	2.7	3.2
Durable	4.7	8.2	4.0	5.2
Nondurable	2.9	2.4	2.7	3.2
Services	3.1	1.7	2.5	2.8
Fixed Invest. (Business Spending)	-2.0	-8.6	2.8	11.4
Exports	4.7	-8.5	4.9	6.0
Imports	7.1	-4.2	5.8	5.4
Government	2.5	4.3	3.5	2.2
Federal	1.6	6.6	7.3	3.8
State & Local	2.9	3.2	1.0	1.7
<u>OTHER MEASURES</u>				
Personal Income (Current \$)	6.4	2.1	4.5	5.5
Before Tax Profits (Current \$)	-6.0	-13.8	11.9	22.2
Consumer Prices	3.4	1.8	2.7	3.0
Unemployment Rate (Average)	4.2	5.5	6.1	5.6

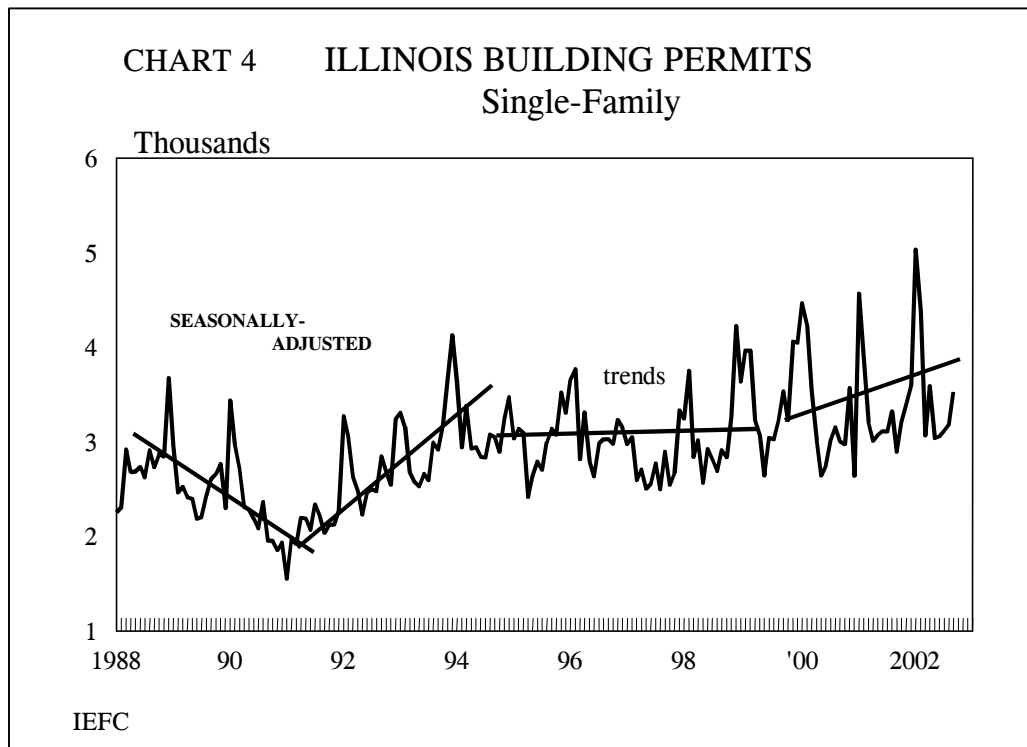
The strongest sector of the economy has been its largest sector, the consumer, which accounts for about two-thirds of total spending in the economy. This strength is illustrated by the high level of auto sales, depicted in Illinois by the large number of new car and truck registrations shown in Chart 2 on the following page. Note the high level now compared to the period following the 1990 recession. Zero percent financing and other incentives have been major influences stimulating sales, which were a significant source of strength in the last quarter. There remains some concern, however, that auto sales will slow and when coupled with the lagging effects of the West Coast dock strikes may dampen slow overall retail sales appreciably. This is particularly true given the recent sharp drop in consumer attitudes.



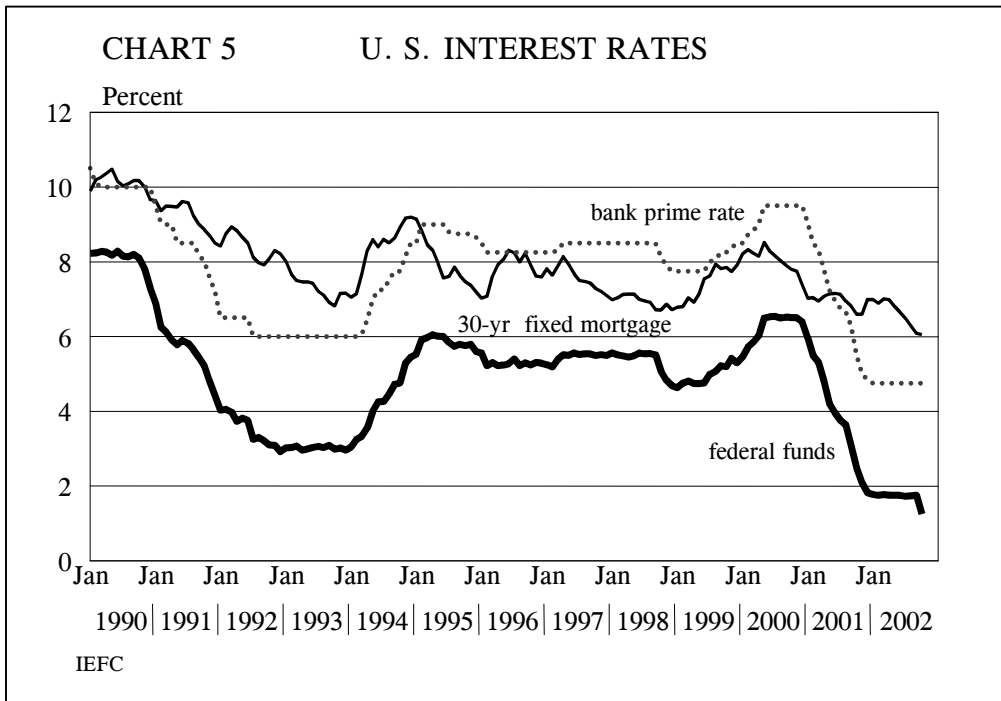
As illustrated in Chart 3, consumer attitudes, whether measured by the Conference Board or University of Michigan, fell in October to levels below those reached following the events of 9/11. While attitudes are often looked upon as a precursor of future spending, they are not as reliable a determinant as incomes are, and incomes continue to rise. It should be pointed out that a similar plunge in consumer confidence occurred in late 1991, but real growth in GDP gained 3.8% in the first quarter of 1992 with real consumer spending rising 6.4% at that time.



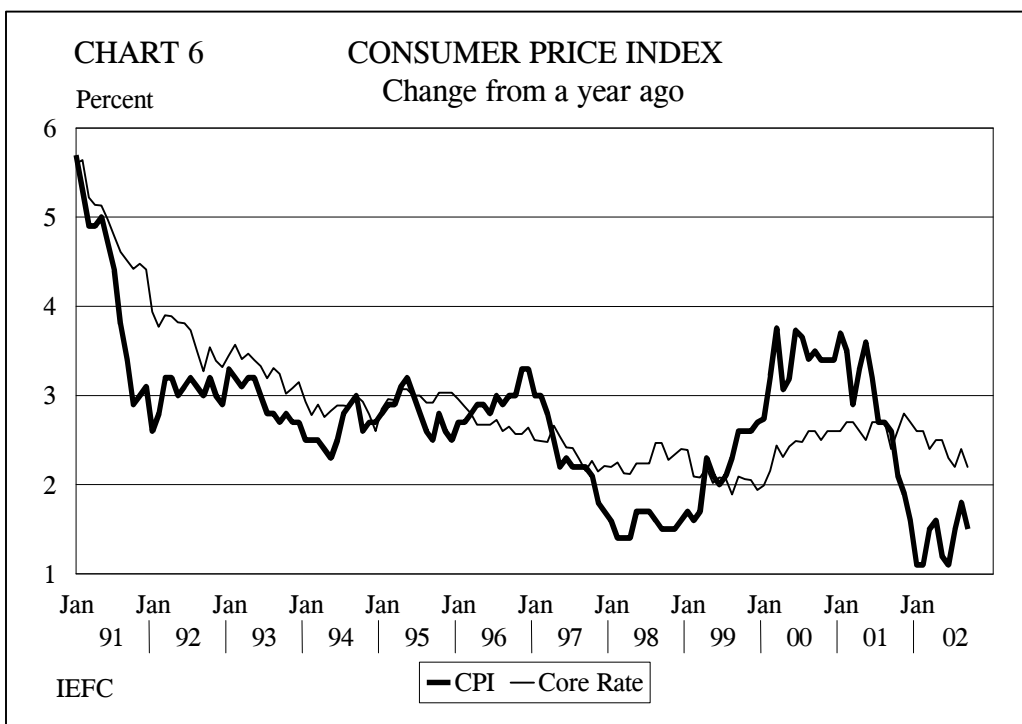
Another outstanding consumer-related sector has been housing activity. Chart 4 shows the level of new single-family building permits issued in Illinois, a leading indicator of housing activity since a permit must be issued before construction can begin. As with auto registrations, these permits are measured in units rather than dollars, and thus are not distorted over time by price increases. Note the rising trend of these permits as well as the higher level now compared to those that existed coming out of the 1990 recession.



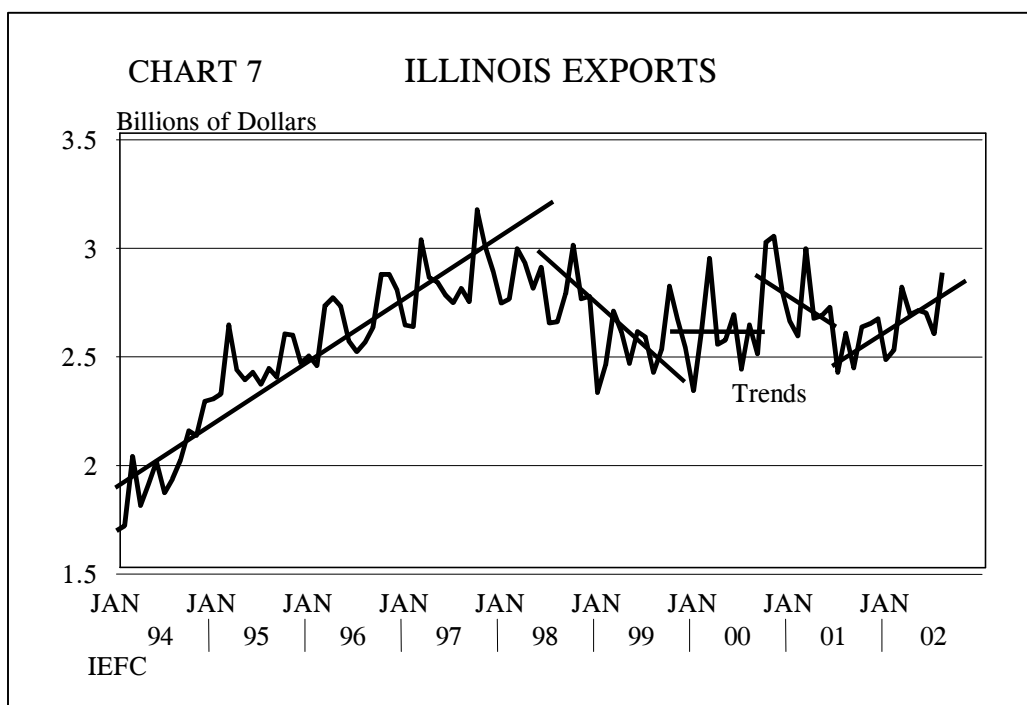
As with autos, a major stimulus to increased activity has been the extremely low level of interest rates that has prevailed. Most interest rates are at 40-year lows, with mortgage rates falling again after leveling out early this year. Moreover, the Federal Reserve lowered key interest rates again in early November, adding additional monetary stimulus to the economy.



In large part, today's low level of interest rates reflects the effect of low inflation rates on investors. As depicted in Chart 6, consumer prices are rising at their slowest pace in decades. Some of the drop has been due to weakness in food and energy prices, but even excluding these, the core rate has edged down again and is approaching the lows reached in 1999. Thus price performance has given the Federal Reserve a free hand in stimulating interest-sensitive sectors of the economy – namely autos and other durables and housing.



Another sector which has shown some modest improvement is the U.S. export sector. (See Chart 7). After declining in 2001, the trend has been upward this year. In large part this improvement reflects the economic recoveries underway in other parts of the world in unison with that occurring in the U.S. As Illinois ranks 5th in the nation in exports, this is an important uplifting sector. On the other hand, like in the U.S., recoveries abroad have been mild and export levels remain well below those set in the late 1990s.



Most uncertain in the economy is the performance of the business sector. While business investment edged up in the latest quarter for the first time in two years, subsequent reports raise doubts over whether this improvement can be sustained.

After expanding (an index reading of 50 or more) for seven months, the Institute for Supply Management reported its index contracted (a index reading below 50) for the nation and in Chicago in September and October as shown in Chart 8. Similarly, industrial production, or the output of the nation's manufacturing, utilities, and mines, edged down in September after falling in August following increases during the first seven months of the year. Despite the recent production weakness, inventory levels remain extremely low so that any pick up in demand could quickly be translated into renewed production gains, eventually leading to increased employment.

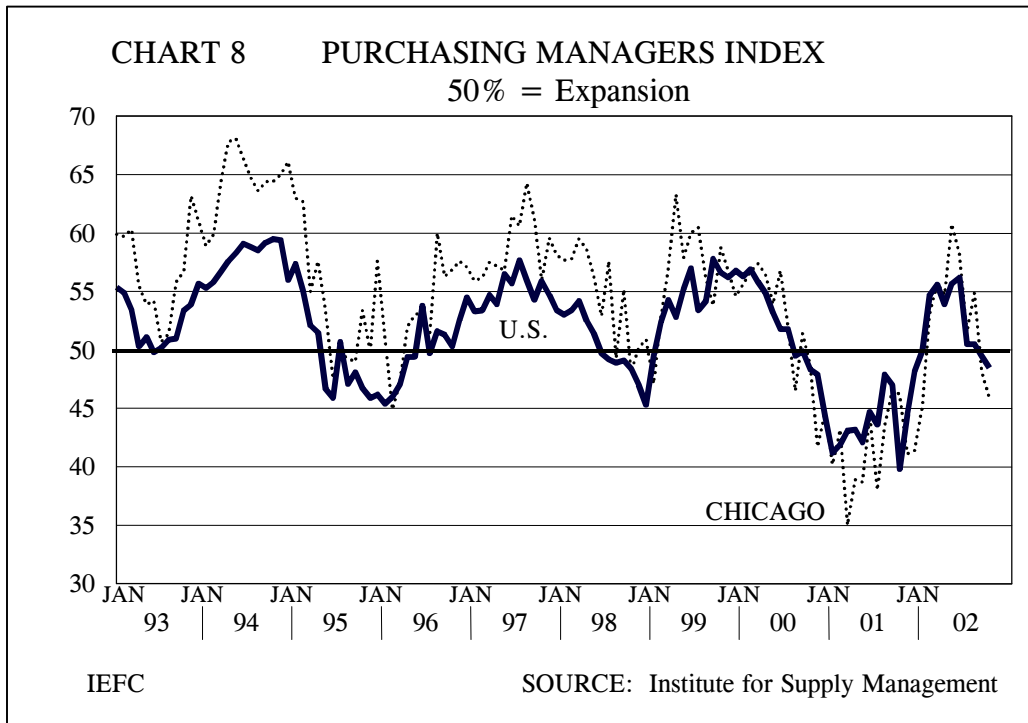
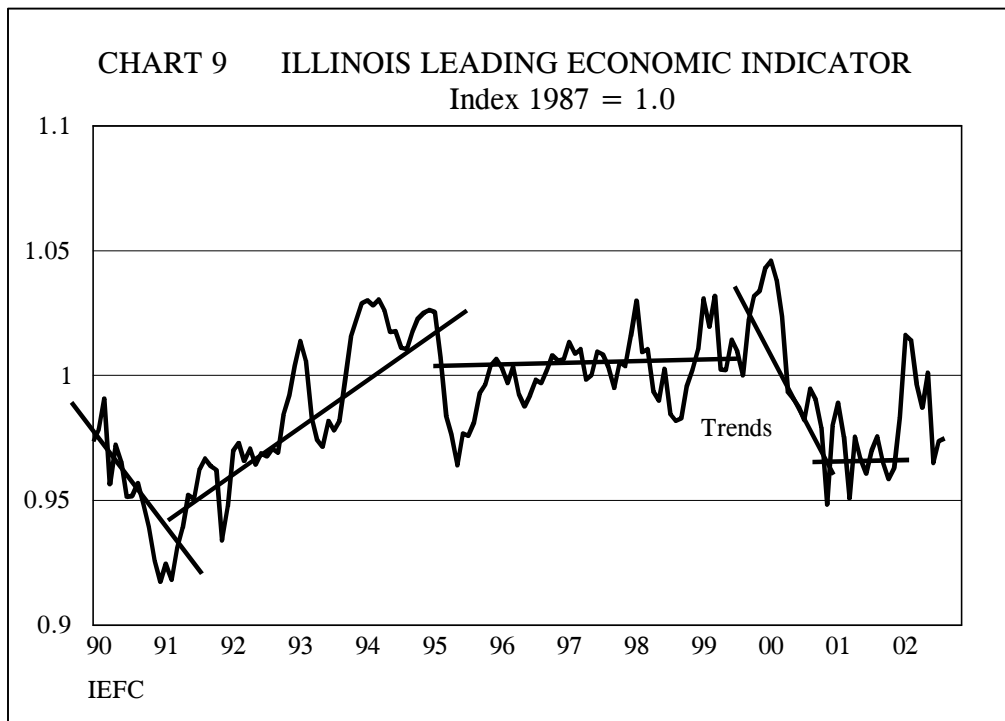
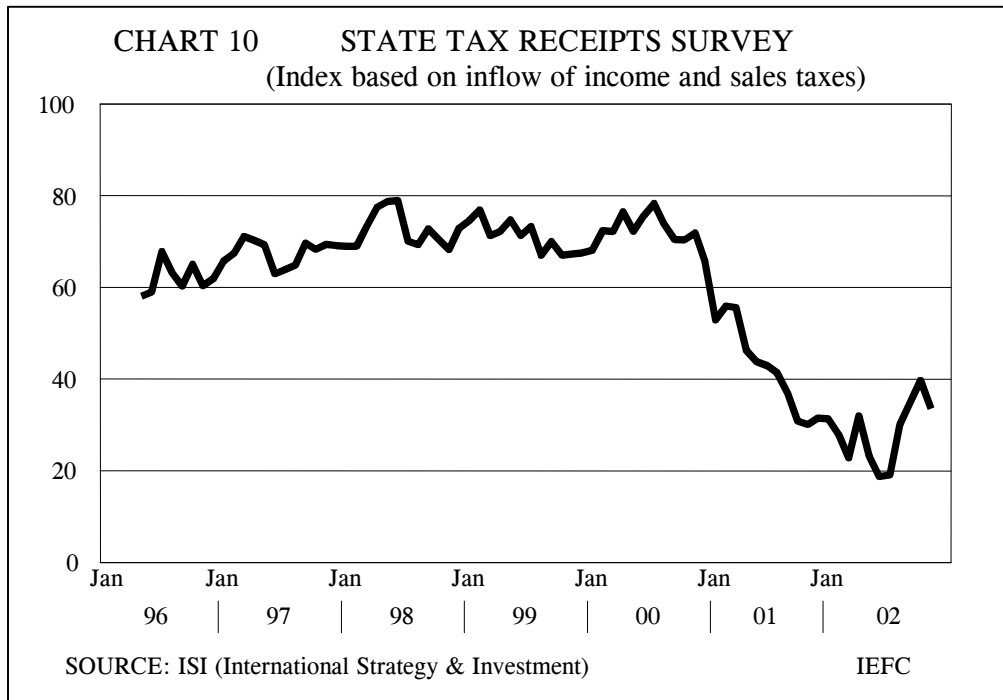


Chart 9 shows a recent hesitation in the IEFC's leading economic indicator following sharp improvement earlier this year. Even so, the level on average is above that of last year. What the indicator may be saying is that there may be periods of continued hesitation in this mild economic recovery which, given lead times, could continue well into FY 2004.



Finally, Chart 10 shows there has been some improvement in state tax receipts in recent months suggesting the bottom may have been reached. Even so, the level remains extremely low and progress has been painfully slow in coming. This, unfortunately, is likely to be the trend both this year and at least most of next. Thus, states will continue to be under pressure to contain spending and/or look to further revenue enhancements to achieve balanced budgets at least through FY 2004.



GENERAL REVENUE FORECAST

Revenue Recap

On June 30th, Illinois, like many other states, was relieved to see the book finally closed on FY 2002. Not in recent history have state finances been dealt such devastating blows as those experienced over the last fiscal year. Estimates of nationwide deficits range from \$40 billion to \$50 billion. In Illinois, general revenues fell \$728 million from the prior fiscal year, or over \$1.6 billion short of what was assumed as the FY 2002 budget year began. While fiscal year 2002 has ended, its impact will be felt for a number of years as states begin to crawl out from their budgetary quagmires.

States have dealt with their budgetary problems in a number of ways including increasing taxes, cutting spending, tapping rainy day or other funds, utilizing tobacco settlement proceeds to help close budget gaps, as well as other techniques. In Illinois, the Spring 2002 session ended with a number of significant changes that will impact revenues in FY 2003, and beyond. Specifically, these changes include:

- One-time transfers totaling \$165 million from a number of special state funds into the General Revenue Fund;
- Decoupling from the federal depreciation provision that will allow the State to retain an estimated \$161 million in net corporate income tax revenue;
- Increasing and restructuring the riverboat gaming taxes that will generate \$142 million for transfer into the general funds;
- Reallocation of 0.4% of sales tax collections that will result in \$25 million more in general revenues; and
- Reallocation of the existing real estate transfer tax that will result in \$15 million more in general revenues.

While not a direct impact on general funds revenues, the cigarette tax was also increased. The additional 40 cent per pack increase should result in approximately \$230 million more in revenues, of which beginning April 2003, \$5 million a month will be deposited into the School Infrastructure Fund, with the remainder being deposited into the Long Term Care Provider Fund.

In July 2002, the Commission incorporated these changes into the FY 2003 estimate, as well as actual FY 2002 base figures. In addition, the estimate took other factors into account, such as higher income tax refund percentages, federal source estimates based on final appropriation levels, higher intergovernmental transfers, and lower Build Illinois general reserve account transfers.

All told, excluding \$226 million in Budget Stabilization Fund transfers and \$700 million in short-term borrowing proceeds; the July general funds estimate totaled \$24.178 billion, which represented an increase of \$800 million or 3.4% over the previous fiscal year. The previously described revenue changes made up approximately

\$500 million of that growth, indicating that base revenue growth was forecast to be rather tepid in FY 2003.

Revised FY 2003 General Revenue Forecast

As shown in Table 2 on page 17, base revenues are up \$143 million or 2.0% through the first third of the fiscal year. However, that gain includes approximately \$156 million in one-time inter-fund transfers. Absent those gains, revenues actually would be down approximately \$13 million, reflecting that despite being in a recovery phase, State tax receipts have yet to show many measurable signs of improvement. As the months pass without a turn around, it becomes increasingly difficult to achieve earlier growth expectations. While the Commission still forecasts some improvement in the second half of the fiscal year, the degree of underperformance in some of the major sources is significant enough to necessitate a downward revision at this time.

As shown in Table 3 on page 18, the FY 2003 general funds forecast has been lowered \$385 million to \$23.793 billion, which represents growth of \$415 million or 1.8% (see Table 4 on page 19.). Summaries of the sources experiencing revisions include the following:

- Gross personal income tax receipts were down \$45 million (\$51 million net of refunds) through the first third of the year. Personal income taxes are comprised of withholding taxes, estimated payments, and final payments. Through October, withholding payments, which are based on current wages and employment and make up nearly 80% of total income taxes, are up only 0.2 % reflecting the fact that the employment picture has not yet shown improvement. In fact, during the first quarter of the fiscal year, on a non-farm unadjusted basis, the average monthly number of persons employed is still running about 138,000, or 2.3% below the same time last year. Since there appears to be an approximate 6-month lag between changes in levels of employment and resulting changes in income tax collections, it's unlikely that a dramatic reversal in withholding tax performance will occur before the end of the fiscal year.

Estimated payments, which are largely made up of non-wage income such as capital gains and other investment income and make up approximately 12% of total income tax receipts, are down 16.1% through October. The decline reflects the poor performance of the equity markets as well as the requirement that taxpayers only have to submit estimated payments in amounts similar to what they owed the year before. Subsequently, even if the financial markets rebound appreciably in the near future, it's impact on tax revenues may not be felt until next April's final payments. Lastly, those final payments, which comprise the remainder of income tax collections, are final settlements that are made by the taxpayer. While the vast majority of final payments are not received until after the April 15th deadline, there doesn't appear to be many

reasons to expect a dramatic rebound in future final payments, although they should be able to improve on last year's 30% decline.

As a result of the disappointing performance to date, in addition to the more modest outlook in the near future, the estimate of gross personal income tax revenues has been revised down \$160 million (\$148 net of refunds).

- Gross corporate income tax receipts were down \$19 million (\$24 million net of refunds) through October. Corporate income taxes are comprised of estimated and final payments. Through the first third of the year, estimated payments, which usually comprise slightly more than 60% of the total, are off 8.6%. Final payments make up the remainder, and once again are more heavily received after the April deadline. Corporate income taxes have been particularly hard hit over the last couple of years and even though prospects for improvement are building from the latest lows, significant rebounds in profitability will likely be pushed off into the next year. As a result, the estimate of gross corporate income tax revenues has been lowered \$51 million (\$37 million net of refunds).
- Through the first one-third of the fiscal year, sales tax revenues are up \$30 million or 1.5%. While the consumer has held up the economy throughout the recession, there doesn't appear to be much pent up spending pressure. Views differ on the strength of the upcoming holiday shopping season, although recent retailer surveys are indicating a slightly better-than-average forecast. Strength in auto sales over the last year due in large part to manufacturer incentives, in conjunction with money freed up from mortgage refinancing, have no doubt been contributing factors in sales tax revenues posting gains, albeit modest ones. The downside concern is that the consumer will take a breather, resulting in a slippage in this choppy recovery. It did not appear likely that the earlier sales tax estimate would be reached; therefore, the FY 2003 forecast has been reduced by \$90 million.
- Public utility taxes are down \$18 million through October. Both natural gas and telecommunications tax receipts are down approximately 9% year-to-date, while electricity receipts have managed gains close to 1.7%. While a large factor impacting the performance of public utility taxes is weather fluctuations, economic conditions influencing the telecommunications industry are more predictive. Competition and other factors have served to suppress that component of utility taxes and as a result the estimate has been reduced by \$35 million.
- Corporate franchise taxes are running about even with last year, but looks like it is in danger of missing the earlier estimate. The forecast has been lowered by \$5 million.

- Continued lower interest rates have dramatically reduced investment income. With the Fed again lowering interest rates in early November, it would seem unlikely that a significant gain in rates would be realized by fiscal year end. Therefore, the FY 2003 estimate has been reduced by \$70 million.

The revised FY 2003 forecast takes into account the continuing revenue underperformance as well as adjusts downward expectations for the remaining months of the fiscal year. However, the revised forecast should not be viewed as a worst-case scenario. Even to reach the revised estimate, a modest 1.7% rate of growth is required over the remainder of the fiscal year. Unfortunately, uncertainty is still running high as U.S. and Iraqi tensions continue to build. Consumer confidence, while not always an accurate gauge for projecting actual performance, has been damaged, and industrial production is still struggling. But despite these negatives, a number of items should have a positive effect. For example, the recent drop in the federal funds rate should give a much needed shot to the struggling recovery. The West Coast labor dispute appears to have been settled and there has been a recent advance in the equity markets. In addition, many feel as though the business sector could react favorably to the new Republican Congress.

Similar to what occurred last fiscal year, Illinois is not suffering alone. Recent conversations with representatives from NCSL as well as articles in some other publications which comment on state revenues indicate that many other states are also experiencing disappointing revenue performance. Those views are better quantified by Chart 3, which depicts a continued struggle in state tax receipts.

IEFC/BoB Comparison

Table 5 on page 20 illustrates the differences in the Commission's revised estimate and the most recent forecast published by the Bureau of the Budget at the end of October. As shown, the Commission's revised estimate is \$392 million lower than the Bureau's forecast, which was revised down \$200 million. The most significant difference occurs in the estimates of personal and corporate income taxes as well as sales and public utility taxes, with the Commission being lower in each instance.

General Funds Revenues and Balances

As shown on page 13, FY 2002 ended with a June 30th general funds balance of \$256 million. Lapse period spending totaled \$1.476 billion resulting in an after-lapse balance of negative \$1.220 billion. A negative after-lapse figure indicates that current fiscal year revenues were needed to pay last year's bills.

Utilizing the Bureau of the Budget's estimated FY 2003 spending figures provided in their October QFR in conjunction with the Commission's revised revenue estimate

yields an estimated June 30th balance of negative \$117 million in the general funds and an after-lapse balance of negative \$1.367 billion. Obviously, a negative June balance is not possible given cash requirements, however, a calculated negative value would indicate that even more bills would be pushed into the next fiscal year. If the estimated Budget Stabilization Fund balance of \$226 million is included, the June 30th balance would improve to \$109 million and the after-lapse balance would equal negative \$1.141 billion.

General Funds Revenue & Balances – Cash Basis				
Excludes Short-Term Borrowing				
(\$ in Millions)				
<u>Fiscal Year</u>	<u>General Revenue</u>	<u>June 30 Balance</u>	<u>Lapse Spending</u>	<u>Balance After Lapse</u>
1990	\$12,841	\$395	\$586	(\$191)
1991	\$13,261	\$100	\$766	(\$666)
1992	\$14,032	\$131	\$1,018	(\$887)
1993	\$14,750	\$172	\$802	(\$630)
1994	\$15,586	\$230	\$652	(\$422)
1995	\$17,002	\$331	\$672	(\$341)
1996	\$17,936	\$426	\$718	(\$292)
1997	\$18,854	\$806	\$761	\$45
1998	\$19,984	\$1,202	\$846	\$356
1999	\$21,674	\$1,351	\$848	\$503
2000	\$23,250	\$1,517	\$740	\$777
2001	\$24,106	\$1,126	\$826	\$300
2002	\$23,378	\$256	\$1,476	(\$1,220)
2003 Est.	\$23,793	(\$117)	\$1,250	(\$1,367)

Balances exclude \$226 million in Budget Stabilization Fund. If included, June 30 balance would equal \$109 million and after-lapse balance of -\$1,141 million.

Estimated FY 2003 General Funds Budget		
(\$ in Millions)		
Beginning Balance		\$256
	Revenues	\$23,793
	Expenditures	\$24,166
Ending Balance		(\$117)
	Lapse Spending	\$1,250
	Balance After Lapse	(\$1,367)
Plus	Budget Stabilization Fund	\$226
	TOTAL	(\$1,141)

Preliminary FY 2004 Forecast

The Commission usually provides an estimate of the upcoming fiscal year in February. However, due to the continuing fiscal problems facing the State, the Commission is providing an earlier view of the upcoming FY 2004 revenue picture. One of the most significant problems impacting the upcoming fiscal year is how to deal with the mounting backlog of owed refunds.

Effective January 1, 1989, P.A. 85-1414 removed income tax refunds from the appropriation process by establishing a formula by which a percentage of income tax dollars would be deposited into the Income Tax Refund Fund for the sole purpose of paying refunds. Initially, the percent was established at 6% for personal and 18% for corporate. The refund percentage is set by the Department of Revenue on the last business day of each fiscal year, and is based on a formula detailed in statute which takes into account refunds approved and approved but not paid as well as total income tax collections. However, in recent fiscal years from 1999 through 2003, the percentage has been set statutorily rather than by formula. For fiscal years 1999 to 2001, the percentage was set statutorily due to the doubling of the personal income tax exemption.

As Chart 11 demonstrates, the amounts of refunds paid have increased significantly over the last several fiscal years. In and of themselves, these increases are not surprising as recent changes in exemptions and tax credits in concert with the following recession resulted in a rise in refunds. What is more problematic is that the refund percentage used to calculate how much income taxes would be directed to the Refund Fund has been insufficient to pay approved refunds. See Chart 12.

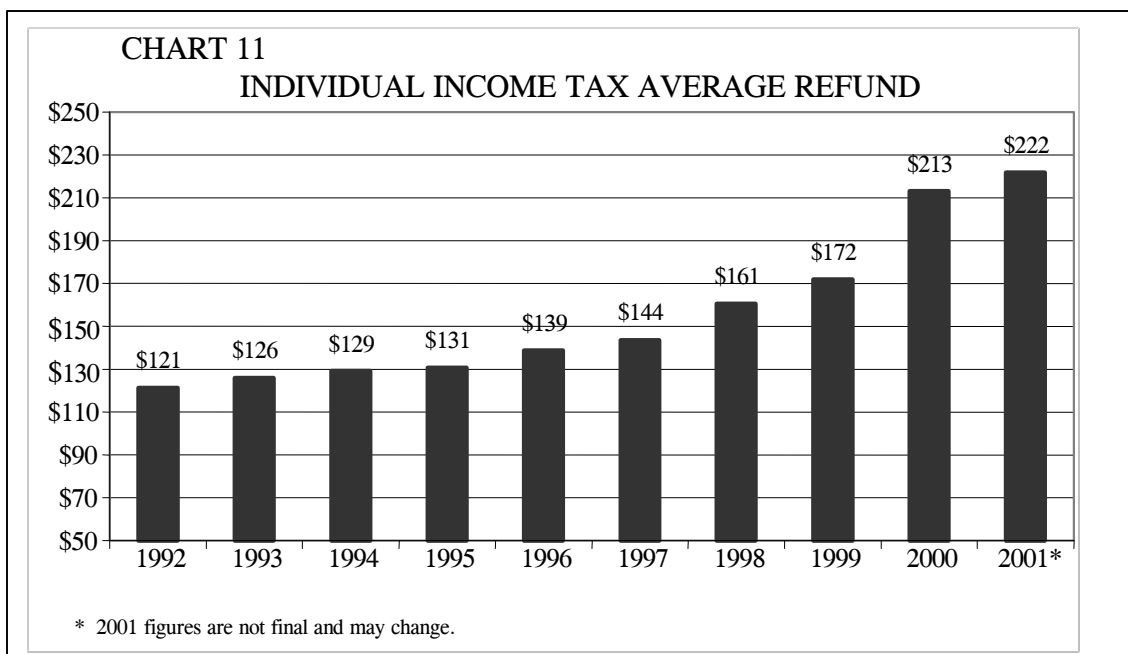
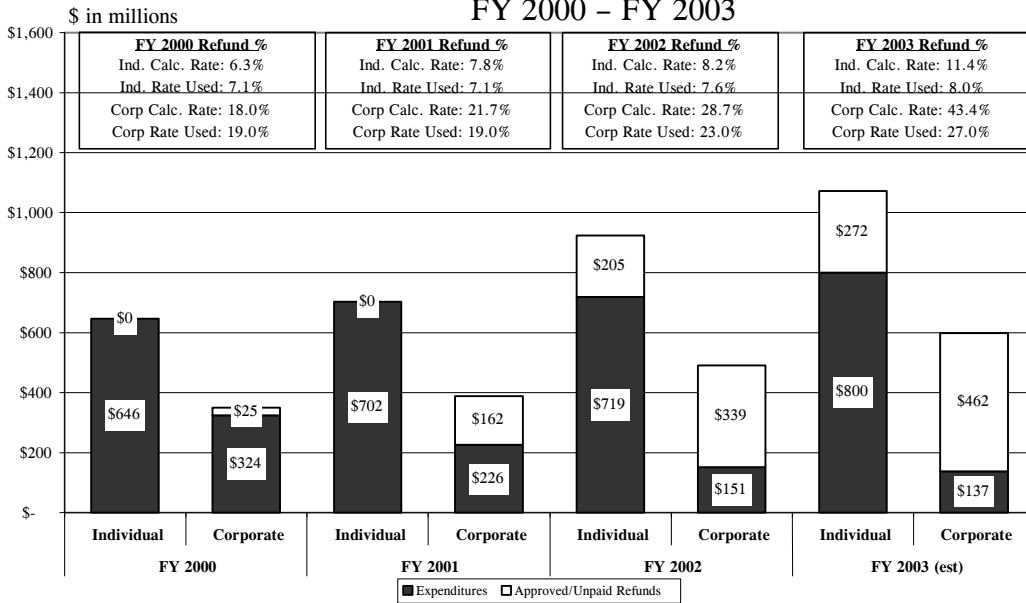


CHART 12 INCOME TAX REFUND ACTIVITY
FY 2000 – FY 2003



Note: Current FY 2003 Data would calculate an individual tax refund percentage of 13% and a corporate refund percentage of 52% for FY 2004

While there were a small amount of unpaid corporate income taxes at the end of FY 2000, that amount grew significantly in FY 2001 although individuals were kept current. However, FY 2002 ended with the State owing approximately \$205 million in individual income tax refunds and \$339 million in corporate income tax refunds. Of the \$1 billion in short-term borrowing, \$150 million was directed to speed repayment of refunds owed. As shown, the amount of owed refunds at the end of FY 2003 are estimated to climb to approximately \$272 million in individual tax refunds and \$462 million in corporate income tax refunds.

In addition to the above owed refunds, corporate replacement tax refunds were also behind by approximately \$117 million in FY 2002 and that gap is expected to grow to \$140 in FY 2003. Since corporate replacement tax is not deposited into the general funds, it was not included in the above chart. Of total revenues from the corporate replacement tax, 51.65% is distributed to Cook County and the remaining 48.35% to local governments in the other counties. While corporate replacement taxes are not deposited into the general funds, they are included in calculating the corporate refund percentage.

Under current statute, unless a fixed percentage is established in law, as has been the case in recent years, the formula used to calculate the refund percentage essentially reconciles past refunds owed, thereby eliminating the backlog. In other words, because the State will have such a large amount of unpaid refunds, the refund percentage will need to be extraordinarily high in FY 2004 to eliminate the anticipated backlog. Once that backlog is eliminated, the income tax percentage would fall back to normal levels

in subsequent fiscal years. The result would be a sharp drop in revenues in FY 2004, followed by a dramatic jump in revenues in FY 2005.

Table 6 on page 21, provides a source-by-source estimate of the upcoming fiscal year. As shown, total general funds are estimated to be \$350 million less next fiscal year. The decline is anticipated due to significant increases in the calculated income tax refund percentages. Absent those changes, base growth levels are forecast to recover in the upcoming fiscal year as the fitful recovery finally produces some modest revenue gains. For comparison sake, it was assumed that similar short-term borrowing as well as Budget Stabilization transfers would occur in FY 2004.

As the FY 2004 budget is discussed, negotiators will have to determine how best to address this backlog in owed refunds. If nothing is done, by default the formula will adjust next year's percentages to approximately 13% for individuals, and 52% for corporations, which would significantly contribute to the decline of \$350 million in total general funds receipts. If instead, the refund percentages remain the same as this year, as demonstrated at the bottom of Table 6, net revenues would increase by \$372 million rather than falling by \$350 million. However, the backlog for personal and corporate income tax refunds would then grow to a combined \$722 million (plus an additional estimated \$197 million in owed corporate replacement tax refunds).

Besides the aforementioned declines associated with the refund percentages, a number of other items will serve to reduce growth in FY 2004. Specifically these are:

- A net loss of approximately \$90 million in inheritance tax receipts due to the continued phase-out of the federal inheritance tax, from which Illinois' inheritance tax is derived.
- A reduction of approximately \$50 million from lower available transfers from the Build Illinois general reserve account.
- A decline of approximately \$200 million in other transfers reflecting the \$165 million in approved FY 2003 transfers as well as anticipated reductions in some other transfers.
- An estimated \$90 million reduction in federal source receipts.

In conclusion, while the base growth projections for most of the major tax sources are anticipated to finally return to more respectable levels, a number of issues will significantly impact on the bottom line for FY 2004. How these issues will be dealt with will no doubt highlight upcoming budget discussions. The Commission will continue to report back with any significant changes to these projections, or other issues which would either add to or alleviate the budget pressures.

TABLE 2: GENERAL FUNDS RECEIPTS
Through October- FY 2003 vs. FY 2002
(\$ million)

<u>Revenue Sources</u>	<u>YTD-OCT FY 2003</u>	<u>YTD-OCT FY 2002</u>	<u>CHANGE FROM FY 2002</u>	<u>% CHANGE</u>
State Taxes				
Personal Income Tax	\$2,355	\$2,400	(\$45)	-1.9%
Corporate Income Tax (regular)	229	248	(\$19)	-7.7%
Sales Taxes	2,067	2,037	\$30	1.5%
Public Utility Taxes (regular)	330	348	(\$18)	-5.2%
Cigarette Tax	133	133	\$0	0.0%
Liquor Gallonage Taxes	42	41	\$1	2.4%
Vehicle Use Tax	13	13	\$0	0.0%
Inheritance Tax (Gross)	101	122	(\$21)	-17.2%
Insurance Taxes and Fees	66	56	\$10	17.9%
Corporate Franchise Tax & Fees	45	46	(\$1)	-2.2%
Interest on State Funds & Investments	25	62	(\$37)	-59.7%
Cook County IGT	130	130	\$0	0.0%
Other Sources	65	65	\$0	0.0%
Subtotal	\$5,601	\$5,701	(\$100)	-1.8%
Transfers				
Lottery	165	165	\$0	0.0%
Gaming Fund Transfer	220	175	\$45	25.7%
Other	314	88	\$226	256.8%
Total State Sources	\$6,300	\$6,129	\$171	2.8%
Federal Sources	\$1,243	\$1,260	(\$17)	-1.3%
Total Federal & State Sources	\$7,543	\$7,389	\$154	2.1%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$188)	(\$182)	(\$6)	3.3%
Corporate Income Tax	(62)	(57)	(\$5)	8.8%
Subtotal General Funds	\$7,293	\$7,150	\$143	2.0%
Short-Term Borrowing	\$700	\$0	\$700	N/A
Budget Stabilization Fund Transfer	\$226	\$0	\$226	N/A
Total General Funds	\$8,219	\$7,150	\$1,069	15.0%
SOURCE: Office of the Comptroller, State of Illinois: Some totals may not equal, due to rounding.				
IEFC				15-Nov-02

TABLE 3: ADJUSTMENTS TO THE FY 2003 GENERAL FUNDS ESTIMATE

(millions)

Revenue Sources	July-02 FY 2003	Nov-02 FY 2003	Difference
State Taxes			
Personal Income Tax	\$8,405	\$8,245	(\$160)
Corporate Income Tax	\$1,126	\$1,075	(\$51)
Sales Taxes	\$6,365	\$6,275	(\$90)
Public Utility (regular)	\$1,165	\$1,130	(\$35)
Cigarette Tax	\$400	\$400	\$0
Liquor Gallonage Taxes	\$125	\$125	\$0
Vehicle Use Tax	\$39	\$39	\$0
Inheritance Tax (gross)	\$270	\$270	\$0
Insurance Taxes & Fees	\$280	\$280	\$0
Corporate Franchise Tax & Fees	\$169	\$164	(\$5)
Interest on State Funds & Investments	\$160	\$90	(\$70)
Cook County Intergovernmental Transfer	\$395	\$395	\$0
<u>Other Sources</u>	<u>\$320</u>	<u>\$320</u>	<u>\$0</u>
Subtotal	\$19,219	\$18,808	(\$411)
Transfers			
Lottery	\$585	\$585	\$0
Gaming Fund Transfer	\$625	\$625	\$0
<u>Other</u>	<u>\$650</u>	<u>\$650</u>	<u>\$0</u>
Total State Sources	\$21,079	\$20,668	(\$411)
Federal Sources	\$4,075	\$4,075	\$0
Total Federal & State Sources	\$25,154	\$24,743	(\$411)
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax	(\$672)	(\$660)	\$12
Corporate Income Tax	(\$304)	(\$290)	\$14
Subtotal General Funds	\$24,178	\$23,793	(\$385)
Change from Prior Year	\$800	\$415	
Percent Change	3.4%	1.8%	
Short-Term Borrowing	\$700	\$700	\$0
Budget Stabilization Fund Transfer	\$226	\$226	\$0
Total General Funds	\$25,104	\$24,719	(\$385)
Change from Prior Year	\$1,500	\$1,115	
Percent Change	6.4%	4.7%	
IEFC			11/15/02

TABLE 4: FY 2003 GENERAL FUNDS ESTIMATE

FY 2003 vs. FY 2002
(\$ million)

<u>Revenue Sources</u>	Nov-02 Revised Estimate FY 2003	Actual Receipts FY 2002	\$ CHANGE FY 2002-2003	% CHANGE
State Taxes				
Personal Income Tax	\$8,245	\$8,086	\$159	2.0%
Corporate Income Tax (regular)	1,075	1,043	\$32	3.1%
Sales Taxes	6,275	6,051	\$224	3.7%
Public Utility Taxes (regular)	1,130	1,104	\$26	2.4%
Cigarette Tax	400	400	\$0	0.0%
Liquor Gallonage Taxes	125	122	\$3	2.5%
Vehicle Use Tax	39	38	\$1	2.6%
Inheritance Tax (Gross)	270	329	(\$59)	-17.9%
Insurance Taxes and Fees	280	272	\$8	2.9%
Corporate Franchise Tax & Fees	164	159	\$5	3.1%
Interest on State Funds & Investments	90	136	(\$46)	-33.8%
Cook County Intergovernmental Transfer	395	245	\$150	61.2%
Other Sources	320	512	(\$192)	-37.5%
Subtotal	\$18,808	\$18,497	\$311	1.7%
Transfers				
Lottery	585	555	\$30	5.4%
Gaming Fund Transfer	625	470	\$155	33.0%
Other	650	453	\$197	43.5%
Total State Sources	\$20,668	\$19,975	\$693	3.5%
Federal Sources	\$4,075	\$4,258	(\$183)	-4.3%
Total Federal & State Sources	\$24,743	\$24,233	\$510	2.1%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$660)	(\$615)	(\$45)	7.3%
Corporate Income Tax	(290)	(240)	(\$50)	20.8%
Subtotal General Funds	\$23,793	\$23,378	\$415	1.8%
Short-Term Borrowing	\$700	\$0	\$700	N/A
Budget Stabilization Fund Transfer	\$226	\$226	\$0	0.0%
Total General Funds	\$24,719	\$23,604	\$1,115	4.7%
IEFC				15-Nov-02

TABLE 5: IEFC-BoB COMPARISON-FY 2003

(millions)

<u>Revenue Sources</u>	<u>BoB Oct-02 FY 2003</u>	<u>IEFC Nov-02 FY 2003</u>	<u>Difference</u>
State Taxes			
Personal Income Tax	\$8,435	\$8,245	(\$190)
Corporate Income Tax	\$1,137	\$1,075	(\$62)
Sales Taxes	\$6,400	\$6,275	(\$125)
Public Utility (regular)	\$1,160	\$1,130	(\$30)
Cigarette Tax	\$400	\$400	\$0
Liquor Gallonage Taxes	\$125	\$125	\$0
Vehicle Use Tax	\$38	\$39	\$1
Inheritance Tax (gross)	\$290	\$270	(\$20)
Insurance Taxes & Fees	\$290	\$280	(\$10)
Corporate Franchise Tax & Fees	\$165	\$164	(\$1)
Interest on State Funds & Investments	\$110	\$90	(\$20)
Cook County Intergovernmental Transfer	\$395	\$395	\$0
<u>Other Sources</u>	<u>\$322</u>	<u>\$320</u>	<u>(\$2)</u>
Subtotal	\$19,267	\$18,808	(\$459)
Transfers			
Lottery	\$575	\$585	\$10
Gaming Fund Transfer	\$600	\$625	\$25
<u>Other</u>	<u>\$650</u>	<u>\$650</u>	<u>\$0</u>
Total State Sources	\$21,092	\$20,668	(\$424)
Federal Sources	\$4,075	\$4,075	\$0
Total Federal & State Sources	\$25,167	\$24,743	(\$424)
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax	(\$675)	(\$660)	\$15
Corporate Income Tax	(\$307)	(\$290)	\$17
Subtotal General Funds	\$24,185	\$23,793	(\$392)
Change from Prior Year	\$807	\$415	
Percent Change	3.5%	1.8%	
Short-Term Borrowing	\$700	\$700	\$0
Budget Stabilization Fund Transfer	\$226	\$226	\$0
Total General Funds	\$25,111	\$24,719	(\$392)
Change from Prior Year	\$1,507	\$1,115	
Percent Change	6.4%	4.7%	
IEFC			11/15/02

TABLE 6: PRELIMINARY FY 2004 GENERAL FUNDS ESTIMATE

FY 2004 vs. FY 2003

(\$ million)

	Nov-02 Preliminary Estimate FY 2004	Nov-02 Estimate FY 2003	\$ CHANGE FY 2003-2004	% CHANGE
Revenue Sources				
State Taxes				
Personal Income Tax	\$8,620	\$8,245	\$375	4.5%
Corporate Income Tax (regular)	1,161	1,075	\$86	8.0%
Sales Taxes	6,557	6,275	\$282	4.5%
Public Utility Taxes (regular)	1,175	1,130	\$45	4.0%
Cigarette Tax	400	400	\$0	0.0%
Liquor Gallonage Taxes	126	125	\$1	0.8%
Vehicle Use Tax	39	39	\$0	0.0%
Inheritance Tax (Gross)	180	270	(\$90)	-33.3%
Insurance Taxes and Fees	290	280	\$10	3.6%
Corporate Franchise Tax & Fees	170	164	\$6	3.7%
Interest on State Funds & Investments	115	90	\$25	27.8%
Cook County Intergovernmental Transfer	395	395	\$0	0.0%
Other Sources	280	320	(\$40)	-12.5%
Subtotal	\$19,508	\$18,808	\$700	3.7%
Transfers				
Lottery	585	585	\$0	0.0%
Gaming Fund Transfer	640	625	\$15	2.4%
Other	450	650	(\$200)	-30.8%
Total State Sources	\$21,183	\$20,668	\$515	2.5%
Federal Sources	\$3,985	\$4,075	(\$90)	-2.2%
Total Federal & State Sources	\$25,168	\$24,743	\$425	1.7%
Nongeneral Funds Distribution (Assumes Use of Statutory Refund Fund Formula):				
Refund Fund				
Personal Income Tax (13.0%)	(\$1,121)	(\$660)	(\$461)	69.8%
Corporate Income Tax (52.0%)	(604)	(290)	(\$314)	108.3%
Subtotal General Funds	\$23,443	\$23,793	(\$350)	-1.5%
Short-Term Borrowing	\$700	\$700	\$0	N/A
Budget Stabilization Fund Transfer	\$226	\$226	\$0	0.0%
Total General Funds	\$24,369	\$24,719	(\$350)	-1.4%

Nongeneral Funds Distribution (Assumes Refund Fund Percentages Stay at FY 03 Levels):

Refund Fund				
Personal Income Tax (8.0%)	(\$690)	(\$660)	(\$30)	4.5%
Corporate Income Tax (27.0%)	(313)	(290)	(\$23)	8.1%
Total General Funds	\$25,091	\$24,719	\$372	1.5%
Remaining Refund Backlog	(\$722)			

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TABLE 7: ALL APPROPRIATED FUNDS REVENUE FY 2001 to FY 2004

(\$ millions)

REVENUE SOURCES	ACTUAL RECEIPTS FY 2002	Nov-02 Estimate FY 2003	\$ CHG. FROM FY 2002	% CHG. FROM FY 2002	Nov-02 Estimate FY 2004	\$ CHG. FROM FY 2003	% CHG. FROM FY 2003
State Taxes							
Personal Income Tax	\$8,086	\$8,245	\$159	2.0%	\$8,620	\$375	4.5%
Corporate Income Tax							
Regular	\$1,043	\$1,075	\$32	3.1%	\$1,161	\$86	8.0%
Replacement	\$755	\$730	(\$25)	-3.3%	\$788	\$58	7.9%
Sales	\$7,056	\$7,317	\$261	3.7%	\$7,646	\$329	4.5%
Public Utility							
Regular	\$1,353	\$1,380	\$27	2.0%	\$1,430	\$50	3.6%
Replacement	\$213	\$215	\$2	0.9%	\$222	\$7	3.3%
Motor Fuel (gross)	\$1,400	\$1,410	\$10	0.7%	\$1,420	\$10	0.7%
Cigarette	\$469	\$665	\$196	41.8%	\$690	\$25	3.8%
Liquor Gallonage Taxes	\$127	\$129	\$2	1.6%	\$130	\$1	0.8%
Vehicle Use Tax	\$43	\$44	\$1	2.3%	\$44	\$0	0.0%
Inheritance Tax	\$329	\$270	(\$59)	-17.9%	\$180	(\$90)	-33.3%
Insurance Taxes and Fees	\$315	\$325	\$10	3.2%	\$336	\$11	3.4%
Horse Racing Taxes & Fees	\$13	\$13	\$0	0.0%	\$13	\$0	0.0%
Corporate Franchise Taxes	\$165	\$170	\$5	3.0%	\$176	\$6	3.5%
Other Privilege Taxes	\$231	\$230	(\$1)	-0.4%	\$230	\$0	0.0%
<u>Riverboat Gambling Taxes & Fees</u>	<u>\$580</u>	<u>\$736</u>	<u>\$156</u>	<u>26.9%</u>	<u>\$764</u>	<u>\$28</u>	<u>3.8%</u>
SUBTOTAL	\$22,178	\$22,954	\$776	3.5%	\$23,850	\$896	3.9%
State Nontax Sources							
Motor Vehicle & License Fees	\$1,178	\$1,178	\$0	0.0%	\$1,178	\$0	0.0%
Cigarette Settlement Distributions	\$312	\$316	\$4	1.3%	\$264	(\$52)	-16.5%
Other Fees	\$312	\$310	(\$2)	-0.6%	\$320	\$10	3.2%
Provider Assessment Fees	\$656	\$807	\$151	23.0%	\$913	\$106	13.1%
Receipts From State Hospital Patients	\$25	\$25	\$0	0.0%	\$25	\$0	0.0%
Interest on State Funds & Investments	\$216	\$150	(\$66)	-30.6%	\$190	\$40	26.7%
Reimbursements & Repayments	\$270	\$250	(\$20)	-7.4%	\$250	\$0	0.0%
Revolving Fund Receipts	\$290	\$290	\$0	0.0%	\$290	\$0	0.0%
Lottery (net gross)	\$827	\$865	\$38	4.6%	\$865	\$0	0.0%
All Other Nonfederal Receipts	\$4,179	\$4,388	\$209	5.0%	\$4,607	\$219	5.0%
Income from Sale of Bonds	\$2,566	\$1,900	(\$666)	-26.0%	\$1,900	\$0	0.0%
Local Government Health Plan	<u>\$87</u>	<u>\$87</u>	<u>\$0</u>	<u>0.0%</u>	<u>\$87</u>	<u>\$0</u>	<u>0.0%</u>
SUBTOTAL	\$33,096	\$33,520	\$424	1.3%	\$34,739	\$1,219	3.6%
State Transfers In	\$32	\$35	\$3	9.4%	\$35	\$0	0.0%
TOTAL STATE SOURCES	\$33,128	\$33,555	\$427	1.3%	\$34,774	\$1,219	3.6%
Federal Sources	\$10,168	\$10,594	\$426	4.2%	\$10,998	\$404	3.8%
SUBTOTAL ALL APPROPRIATED	\$43,296	\$44,149	\$853	2.0%	\$45,772	\$1,623	3.7%
Short Term Borrowing	\$0	\$1,000	\$1,000	N/A	\$1,000	\$0	0.0%
TOTAL ALL APPROPRIATED	\$43,296	\$45,149	\$1,853	4.3%	\$46,772	\$1,623	3.6%

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15-Nov-02

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
(217) 782-5320
(217) 782-3513 (FAX)

Reports can also be accessed from our Webpage:

http://www.legis.state.il.us/commission/ecfisc/ecfisc_home.html