

***ILLINOIS ECONOMIC  
and  
FISCAL COMMISSION***

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***PRELIMINARY  
FY 2000 REVENUE ESTIMATE***

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**and**  
***UPDATED FY 1999 REVENUE OUTLOOK***

*JANUARY 1999  
703 STRATTON BUILDING  
SPRINGFIELD, ILLINOIS 62706*

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**ILLINOIS ECONOMIC and FISCAL COMMISSION**

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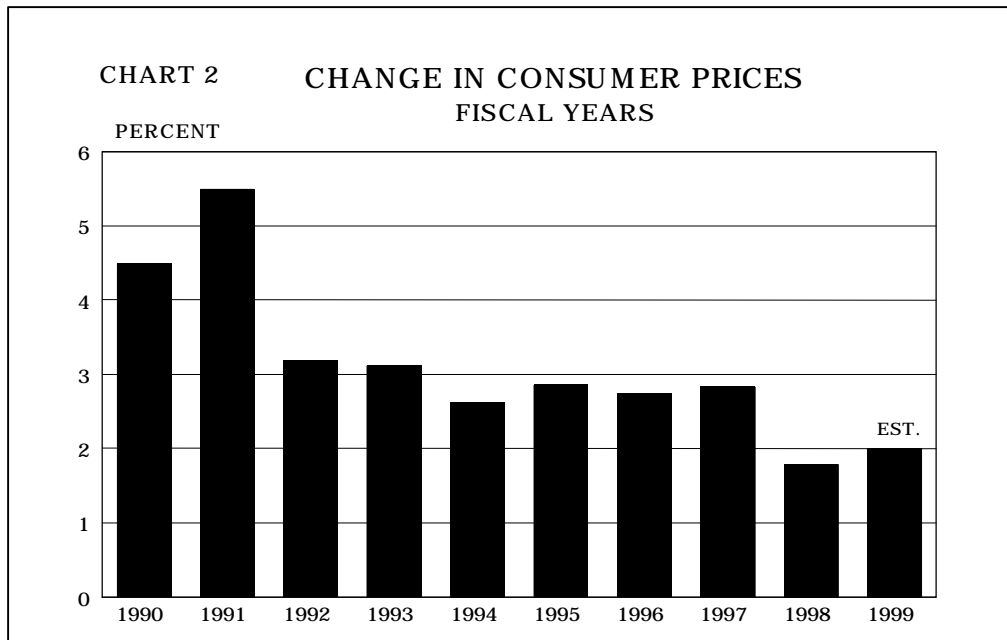
consecutive monthly decline and the lowest level since the depths of the recession nearly eight years ago. A number under 50 indicates that industrial output is falling, while a number exceeding 50 indicates an expansion with more than half reporting improving conditions. Indeed, IEFC's forecast of overall industrial output for FY 1999 is for a rise of 2.5%, down sharply from last year's gain of 5.6%.

The evolving weakness in U.S. manufacturing is dampening business spending as excess capacity in some sectors reduce the need for additions to new plant and equipment. These negative developments overshadow the positive effects of three Federal Reserve interest rate reductions that have eased the cost of borrowing. Thus, two major driving forces to the U.S. economic

expansion in recent years -- exports and business spending -- have been blunted.

On the positive side, inflation remains under remarkable control. Consumer prices are expected to rise a little over 2% in FY 1999, up slightly from last year, but the second lowest rate since 1986, and third lowest since 1965. (See Chart 2.) While the low level of inflation augurs well for continued economic growth, it does little for short-term revenue enhancement that is dependent on taxes associated with actual, or current dollar, earnings and spending.

Government policies remain mixed. Restraint on federal government spending and healthy, although slower, growth has spurred revenues with the budget surplus estimates being raised recently. At the same time the federal government has become somewhat more restrictive, however, monetary policy has been on an aggressive easing stance. This more stimulative Federal Reserve policy is



likely to continue should overall growth slow further. The main bulwark of the

expansion comes from the consumer, which generally accounts for two-thirds

of total spending. Low unemployment and rising real wages have kept consumer spending strong, offsetting in large part developing weaknesses in other sectors.

In recent years, Illinois has outpaced the nation's growth. In calendar 1998, Illinois topped the Midwest in job growth with unemployment remaining at a 24-year low. Even so, with

manufacturing weak and export growth down -- two important sectors for the State -- future growth is unlikely to continue to outperform that of the nation as a whole.

*In reviewing FY 1999, the overall economy and relative position of the State has not changed significantly from that forecast a year ago. Even so, expected natural revenue growth has been revised slightly higher due in large part to continued strong gains in personal income revenue for this fiscal year.*

### FY 1999 GENERAL FUNDS REVENUE

*A shown in Table 1 on page 7, the Commission's FY 1999 estimate of general funds revenue has been increased \$115 million to \$21,460 million. The revision represents a 0.5% increase over the previous estimate released in November of 1998, and equates to a \$1,476 million or 7.4% gain over FY 1998 receipts (see Table 2 on page 8). However, a*

significant amount of the large increase in general funds revenue, approximately \$593 million, can be attributed to spring 1998 tax changes, annualizations from the tax changes resulting from the 1997 education funding reform, as well as various timing issues. For a more detailed discussion of these items' impact on FY 1999 general revenue, please see below.

#### ITEMS IMPACTING FY 1999 GENERAL FUNDS REVENUE

As mentioned earlier, various events have occurred throughout the last two fiscal years which have resulted in a considerable impact on FY 1999 general funds revenues. Those items and a brief discussion of their impacts, totaling \$593 million, are discussed below.

##### **Education Funding Annualizations**

In December 1997, P.A. 90-548 reformed education funding as the cigarette tax, public utility messages tax, and the riverboat gambling tax were either increased or restructured to augment education funding. Since the changes, for the most part, only impacted FY 1998 revenue for approximately half of FY 1998, an annualization impact is felt in FY 1999. Specifically, the annualizations of these changes amount to an estimated \$179 million in FY 1999. However, once these changes have been fully absorbed into the FY 1999 general funds base, growth in subsequent years likely will be minimal. (Continued on next page)

##### **Spring 1998 Tax Changes**

(continued)

P.A. 90-613 doubled the personal exemption amount as well as restructured the corporate income tax to a single sales formula. Both of these changes will be gradually phased in over the next

three fiscal years with the impact on FY 1999 estimated to reduce net income tax revenues by \$106 million. In addition, P.A. 90-583 restructured the State's insurance taxes that were found unconstitutional. The new broader-based insurance taxes are expected to result in \$109 million more receipts being received in FY 1999 than in the previous fiscal year. The net impact of these various tax changes serve to increase FY 1999 general funds revenue by an estimated \$3 million.

### **Various Timing Issues**

Timing issues can be viewed in two ways- "one-time" timing issues, as well as "multi-year" timing issues. One-time items are usually just that, they increase revenues one time, and may or may not recur in subsequent fiscal years. Multi-year timing issues, however, impact across two or more fiscal years. The impact of multi-year timing issues can be particularly significant as monies which are estimated to be receipted in one fiscal year are instead receipted in another. In effect, the impact is doubled when the two years are compared i.e. \$100 million from one fiscal year rolling into the next would result in a \$200 million difference between the two years, yet the amount shifted between years was only \$100 million.

It is estimated that as the result of various timing issues, approximately \$411 million will impact FY 1999 revenues. The FY 1999 budget assumes that \$81 million more in intergovernmental transfers from Cook County will occur than what was receipted last fiscal year. However, FY 2000 is expected to return to FY 1997 levels of \$152 million. In addition, the budget is predicated on approximately \$130 million worth of Build Illinois General Reserve transfers back to the general funds. The Bureau of the Budget has not executed any such transfers in the last two fiscal years (usually worth about \$40-45 million a year). However, they expect to make up for that by making three years' worth of transfers in FY 1999. Although, due to stellar revenue performance to date, the Bureau may decide not to make as large a transfer as they had once estimated. At this time it is not clear what the intent of the Bureau is in FY 2000 regarding these transfers, but the Commission is estimating that not as much will be transferred. And, finally, some federal reimbursements that were anticipated to be receipted in FY 1998 instead have been received in the first quarter of FY 1999. The impact of that multi-year timing is estimated to be approximately \$200 million.

### **Conclusion**

As a result of the various items discussed above, the growth rate estimated for FY 1999 is significantly affected. And, as will be discussed in a later section, that has an impact on the growth rates associated with FY 2000.

Through the first six months of FY 1999, general funds revenues were up \$841 million or 8.9% (see Table 3 on page 9). While revenue growth is expected to slow over the remaining

half of the fiscal year as a result of tax changes as well as a forecasted slowing in economic conditions, the Commission has made revisions to several revenue sources. These changes

as well as a brief discussion of major revenue sources that have not been revised are discussed below.

- Personal income tax receipts have continued to perform well in FY 1999, likely the result of strong State employment. Through December, receipts were up \$254 million or 8.3% as compared to the same prior-year period. Due to this strong performance, the Commission's estimate has been increased \$95 million to \$7,691 million. The revised estimate represents a 5.8% increase over the prior fiscal year. The rate of growth for income tax receipts is expected to slow later in the fiscal year as the impact of increasing the personal income tax exemption will be felt in the spring. In order to reach the revised estimate, receipts must increase 4.0% over the remaining six months (see Table 4 on page 10).
- Corporate income tax receipts have not performed up to expectation thus far in FY 1999. Through the first half of the fiscal year receipts are down \$18 million or 3.2%. As a result, the Commission's estimate of receipts has been lowered \$10 million to \$1,380 million. The revised estimate represents a \$22 million or 1.6% decline from the prior fiscal year, although some of the decline can be attributed to the transition to apportionment of business income using a single sales formula. In order to meet the Commission's revised estimate, receipts must decline 0.5% over the remainder of the fiscal year.
- Sales tax receipts through December were up \$131 million or 4.9%. Sales tax receipts have performed slightly higher than anticipated, however, the estimate will not be revised at this time and remains at \$5,485 million. Indications are that the holiday shopping season was rather mundane for retailers and fell slightly below previous expectations. Receipts must grow 3.1% over the remainder of FY 1999 in order to meet the Commission's estimate.
- Public utility taxes, after suffering a significant decline over the first third of the year, have since rebounded. Through December, receipts were up \$17 million or 3.8%. While some downward pressure exists on the current estimate, a revision will not be made at this time, as recent severe winter weather will likely serve to boost receipts as fuel consumption rises. In order to reach the estimate, public utility receipts must increase 7.1% over the remaining half of the fiscal year.
- After the restructuring of the insurance taxes per P.A. 90-583, receipts were expected to increase significantly in FY 1999. In fact, receipts have outperformed earlier expectations and, as a result, the estimate has been revised up \$30 million to \$200 million. According to the Department of Insurance,



some of that increase can be attributed to timing as receipts that could have been receipted in FY 1998 instead were counted in FY 1999.

- Receipts from interest on State funds and investments continue to perform well. Receipts were up \$26 million or 28.3% through December. While growth is expected to slow over the remainder of the year, the estimate has been increased \$10 million to \$210 million. Receipts growth over the last half of the fiscal year must slow to approximately 2.2%.
- Lottery transfers continue to be rather disappointing in FY 1999. Through December, transfers were off \$26 million or 10.6% from the same prior-year period. As a result, the estimate has been revised down \$15 million to \$530 million. In order to reach the revised estimate, transfers must decline 1.3% over the remainder of the fiscal year.
- Other transfers to the general funds continue to perform well, up \$75 or 44.6% through December, although some of that increase can be attributed to the timing of transfers. However, even with timing issues considered, the estimate has been increased \$10 million to \$390 million.

- Federal sources are up \$229 million or 12.9% so far this fiscal year. Some of the significant growth can be attributed to the timing of some federal reimbursements related to undrawn award from FY 1998. No revision has been made at this time and the estimate remains at \$3,773 million. Federal sources must increase 14.3% over the second half of the fiscal year in order to reach the estimate.

In total, receipts are estimated to increase \$115 million over the previous forecast. In order to reach the revised estimate, receipts must grow 6.0% over the remaining half of the fiscal year. This is down from the 8.9% rate of growth experienced to date and reflects an anticipated slowing of receipt growth.

*The Commission's revised FY 1999 general funds estimate of \$21,460 million is \$76 million above the Bureau of the Budget's (BoB) estimate released in November 1998 (see Table 5 on page 11).* While the overall estimate is similar, the Commission is higher in its estimates of receipts from personal income tax, insurance taxes, and interest income. However, the Commission is somewhat lower in the estimates for corporate income tax, the public utility tax, and lottery transfers.

### **FY 1999 ALL APPROPRIATED FUNDS**

The FY 1999 revised estimate of all appropriated funds revenue is \$35,366 million (see Table 6 on page 12). The estimate represents a \$1,335 million or

3.9% million increase over the prior fiscal year. The Commission anticipates no short-term borrowing in FY 1999.

**TABLE 1: ADJUSTMENTS TO THE  
FY 1999 GENERAL FUNDS ESTIMATE**

(\$ million)

<u>Revenue Sources</u>	<u>JAN-99 REVISED ESTIMATE FY 1999</u>	<u>NOV-98 ESTIMATE FY 1999</u>	<u>\$ CHANGE</u>	<u>% CHANGE</u>
<b>State Taxes</b>				
Personal Income Tax	\$7,691	\$7,596	\$95	1.3%
Corporate Income Tax (regular)	1,380	1,390	(\$10)	-0.7%
Sales Taxes	5,485	5,485	\$0	0.0%
Public Utility Taxes (regular)	962	962	\$0	0.0%
Cigarette Tax	400	400	\$0	0.0%
Liquor Gallonage Taxes	58	58	\$0	0.0%
Vehicle Use Tax	39	39	\$0	0.0%
Inheritance Tax (Gross)	250	250	\$0	0.0%
Insurance Taxes and Fees	200	170	\$30	17.6%
Corporate Franchise Tax & Fees	120	120	\$0	0.0%
Interest on State Funds & Investments	210	200	\$10	5.0%
Cook County Intergovernmental Transfer	233	233	\$0	0.0%
Other Sources	305	305	\$0	0.0%
<b>Subtotal</b>	<b>\$17,333</b>	<b>\$17,208</b>	<b>\$125</b>	<b>0.7%</b>
<b>Transfers</b>				
Lottery	530	545	(\$15)	-2.8%
Gaming Fund Transfer	242	242	\$0	0.0%
Other	390	380	\$10	2.6%
<b>Total State Sources</b>	<b>\$18,495</b>	<b>\$18,375</b>	<b>\$120</b>	<b>0.7%</b>
<b>Federal Sources</b>	<b>\$3,773</b>	<b>\$3,773</b>	<b>\$0</b>	<b>0.0%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$22,268</b>	<b>\$22,148</b>	<b>\$120</b>	<b>0.5%</b>
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$546)	(\$539)	(\$7)	1.3%
Corporate Income Tax	(262)	(264)	\$2	-0.8%
<b>Total General Funds</b>	<b>\$21,460</b>	<b>\$21,345</b>	<b>\$115</b>	<b>0.5%</b>
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**TABLE 2: GENERAL FUNDS RECEIPTS**

*FY 1999 vs. FY 1998*

(\$ million)

<b>Revenue Sources</b>	<b>JAN-99 Revised Receipts FY 1999</b>	<b>Actual Receipts FY 1998</b>	<b>\$ CHANGE FY 1997 - 98</b>	<b>% CHANGE</b>
<b>State Taxes</b>				
Personal Income Tax	\$7,691	\$7,269	\$422	5.8%
Corporate Income Tax (regular)	1,380	1,402	(\$22)	-1.6%
Sales Taxes	5,485	5,274	\$211	4.0%
Public Utility Taxes (regular)	962	912	\$50	5.5%
Cigarette Tax	400	346	\$54	15.6%
Liquor Gallonage Taxes	58	57	\$1	1.8%
Vehicle Use Tax	39	37	\$2	5.4%
Inheritance Tax (Gross)	250	250	\$0	0.0%
Insurance Taxes and Fees	200	91	\$109	119.8%
Corporate Franchise Tax & Fees	120	118	\$2	1.7%
Interest on State Funds & Investments	210	182	\$28	15.4%
Cook County Intergovernmental Transfer	233	152	\$81	53.3%
Other Sources	305	181	\$124	68.5%
<b>Subtotal</b>	<b>\$17,333</b>	<b>\$16,271</b>	<b>\$1,062</b>	<b>6.5%</b>
<b>Transfers</b>				
Lottery	530	560	(\$30)	-5.4%
Gaming Fund Transfer	242	170	\$72	42.4%
Other	390	346	\$44	12.7%
<b>Total State Sources</b>	<b>\$18,495</b>	<b>\$17,347</b>	<b>\$1,148</b>	<b>6.6%</b>
<b>Federal Sources</b>	<b>\$3,773</b>	<b>\$3,323</b>	<b>\$450</b>	<b>13.5%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$22,268</b>	<b>\$20,670</b>	<b>\$1,598</b>	<b>7.7%</b>
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$546)	(\$421)	(\$125)	29.7%
Corporate Income Tax	(262)	(265)	\$3	-1.1%
<b>Total General Funds</b>	<b>\$21,460</b>	<b>\$19,984</b>	<b>\$1,476</b>	<b>7.4%</b>
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**TABLE 3: GENERAL FUNDS RECEIPTS: YEAR TO DATE****THROUGH DECEMBER****FY 1999 vs. FY 1998****(\$ million)**

<b>Revenue Sources</b>	<b>FY 1999</b>	<b>FY 1998</b>	<b>CHANGE FROM FY 1998</b>	<b>% CHANGE</b>
<b>State Taxes</b>				
Personal Income Tax	\$3,306	\$3,052	\$254	8.3%
Corporate Income Tax (regular)	544	562	(\$18)	-3.2%
Sales Taxes	2,831	2,700	\$131	4.9%
Public Utility Taxes (regular)	464	447	\$17	3.8%
Cigarette Tax	203	150	\$53	35.3%
Liquor Gallonage Taxes	30	30	\$0	0.0%
Vehicle Use Tax	20	20	\$0	0.0%
Inheritance Tax (Gross)	126	114	\$12	10.5%
Insurance Taxes and Fees	111	47	\$64	136.2%
Corporate Franchise Tax & Fees	57	57	\$0	0.0%
Interest on State Funds & Investments	118	92	\$26	28.3%
Cook County IGT	147	107	\$40	37.4%
Other Sources	83	101	(\$18)	-17.8%
<b>Subtotal</b>	<b>\$8,040</b>	<b>\$7,479</b>	<b>\$561</b>	<b>7.5%</b>
<b>Transfers</b>				
Lottery	219	245	(\$26)	-10.6%
Gaming Fund Transfer	145	88	\$57	64.8%
Other	243	168	\$75	44.6%
<b>Total State Sources</b>	<b>\$8,647</b>	<b>\$7,980</b>	<b>\$667</b>	<b>8.4%</b>
<b>Federal Sources</b>	<b>\$2,003</b>	<b>\$1,774</b>	<b>\$229</b>	<b>12.9%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$10,650</b>	<b>\$9,754</b>	<b>\$896</b>	<b>9.2%</b>
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$235)	(\$177)	(\$58)	32.8%
Corporate Income Tax	(103)	(106)	\$3	-2.8%
<b>Total General Funds</b>	<b>\$10,312</b>	<b>\$9,471</b>	<b>\$841</b>	<b>8.9%</b>
<b>Source: Office of the Comptroller, State of Illinois: Some totals may not equal, due to rounding.</b>				
<b>IEFC</b>				
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**TABLE 4: GENERAL FUNDS PERFORMANCE THROUGH DECEMBER**

**FY 1999 ESTIMATE vs. FY 1998 ACTUAL**

*(\$ million)*

<b>Revenue Sources</b>	<b>JAN-99</b>		<b>AMOUNT</b>		<b>GROWTH</b>	<b>%</b>
	<b>ESTIMATE</b>	<b>FYTD</b>	<b>NEEDED</b>	<b>FYTD</b>	<b>NEEDED</b>	<b>CHANGE</b>
	<b>FY 1999</b>	<b>1999</b>	<b>FY 99 EST.</b>	<b>1998</b>		
<b>State Taxes</b>						
Personal Income Tax	\$7,691	\$3,306	\$4,385	\$3,052	\$168	4.0%
Corporate Income Tax (regular)	1,380	544	\$836	562	(\$4)	-0.5%
Sales Taxes	5,485	2,831	\$2,654	2,700	\$80	3.1%
Public Utility Taxes (regular)	962	464	\$498	447	\$33	7.1%
Cigarette Tax	400	203	\$197	150	\$1	0.5%
Liquor Gallonage Taxes	58	30	\$28	30	\$1	3.7%
Vehicle Use Tax	39	20	\$19	20	\$2	11.8%
Inheritance Tax (Gross)	250	126	\$124	114	(\$12)	-8.8%
Insurance Taxes and Fees	200	111	\$89	47	\$45	102.3%
Corporate Franchise Tax & Fees	120	57	\$63	57	\$2	3.3%
Interest on State Funds & Investments	210	118	\$92	92	\$2	2.2%
Cook County IGT	233	147	\$86	107	\$41	91.1%
Other Sources	305	83	\$222	101	\$142	177.5%
<b>Subtotal</b>	<b>\$17,333</b>	<b>\$8,040</b>	<b>\$9,293</b>	<b>\$7,479</b>	<b>\$501</b>	<b>5.7%</b>
<b>Transfers</b>						
Lottery	530	219	\$311	245	(\$4)	-1.3%
Gaming Fund Transfer	242	145	\$97	88	\$15	18.3%
Other	390	243	\$147	168	(\$31)	-17.4%
<b>Total State Sources</b>	<b>\$18,495</b>	<b>\$8,647</b>	<b>\$9,848</b>	<b>\$7,980</b>	<b>\$481</b>	<b>5.1%</b>
<b>Federal Sources</b>	<b>\$3,773</b>	<b>\$2,003</b>	<b>\$1,770</b>	<b>\$1,774</b>	<b>\$221</b>	<b>14.3%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$22,268</b>	<b>\$10,650</b>	<b>\$11,618</b>	<b>\$9,754</b>	<b>\$702</b>	<b>6.4%</b>
<b>Nongeneral Funds Distribution:</b>						
<b>Refund Fund</b>						
Personal Income Tax	(\$546)	(\$235)	(\$311)	(\$177)	(\$67)	27.5%
Corporate Income Tax	(262)	(103)	(\$159)	(106)	\$0	0.0%
<b>Total General Funds</b>	<b>\$21,460</b>	<b>\$10,312</b>	<b>\$11,148</b>	<b>\$9,471</b>	<b>\$635</b>	<b>6.0%</b>
<b>IEFC</b>						19-Jan-99

**TABLE 5 : IEFB-BoB COMPARISON-FY 1999**

(\$ millions)

<b>Revenue Sources</b>	<b>ACTUAL FY 1998</b>	<b>NOV-98 BoB FY 1999</b>	<b>IEFC JAN-99 REVISED FY 1999</b>	<b>Difference</b>
<b>State Taxes</b>				
Personal Income Tax	\$7,269	\$7,616	\$7,691	\$75
Corporate Income Tax	\$1,402	\$1,407	\$1,380	(\$27)
Sales Taxes	\$5,274	\$5,480	\$5,485	\$5
Public Utility (regular)	\$912	\$980	\$962	(\$18)
Cigarette Tax	\$346	\$403	\$400	(\$3)
Liquor Gallonage Taxes	\$57	\$56	\$58	\$2
Vehicle Use Tax	\$37	\$39	\$39	\$0
Inheritance Tax (gross)	\$250	\$260	\$250	(\$10)
Insurance Taxes & Fees	\$91	\$170	\$200	\$30
Corporate Franchise Tax & Fees	\$118	\$120	\$120	\$0
Interest on State Funds & Investments	\$182	\$180	\$210	\$30
Cook County Intergovernmental Transfe	\$152	\$233	\$233	\$0
<u>Other Sources</u>	<u>\$181</u>	<u>\$298</u>	<u>\$305</u>	<u>\$7</u>
<b>Subtotal</b>	<b>\$16,271</b>	<b>\$17,242</b>	<b>\$17,333</b>	<b>\$91</b>
<b>Transfers</b>				
Lottery	\$560	\$570	\$530	(\$40)
Gaming Fund Transfer	\$170	\$227	\$242	\$15
<u>Other</u>	<u>\$346</u>	<u>\$380</u>	<u>\$390</u>	<u>\$10</u>
<b>Total State Sources</b>	<b>\$17,347</b>	<b>\$18,419</b>	<b>\$18,495</b>	<b>\$76</b>
<b>Federal Sources</b>	<b>\$3,323</b>	<b>\$3,773</b>	<b>\$3,773</b>	<b>\$0</b>
<b>Total Federal &amp; State Sources</b>	<b>\$20,670</b>	<b>\$22,192</b>	<b>\$22,268</b>	<b>\$76</b>
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$421)	(\$541)	(\$546)	(\$5)
Corporate Income Tax	(\$265)	(\$267)	(\$262)	\$5
<b>Total General Funds</b>	<b>\$19,984</b>	<b>\$21,384</b>	<b>\$21,460</b>	<b>\$76</b>
<b>Change from Prior Year Estimate</b>		<b>\$1,400</b>	<b>\$1,476</b>	
<b>Percent Change</b>		<b>7.0%</b>	<b>7.4%</b>	
IEFC				01/19/99

**TABLE 6: ALL APPROPRIATED FUNDS REVENUE: Actuals FY 1997-FY 1998, Estimated FY 1999**

(millions)

<b>REVENUE SOURCES</b>	<b>ACTUAL RECEIPTS FY 1997</b>	<b>ACTUAL RECEIPTS FY 1998</b>	<b>\$ CHG. FROM FY 1997</b>	<b>% CHG. FROM FY 1997</b>	<b>JAN-99 Estimate FY 1999</b>	<b>\$ CHG. FROM FY 1998</b>	<b>% CHG. FROM FY 1998</b>
<b>State Taxes</b>							
Personal Income Tax	\$6,552	\$7,268	\$716	10.9%	\$7,691	\$423	5.8%
Corporate Income Tax							
Regular	\$1,361	\$1,402	\$41	3.0%	\$1,380	(\$22)	-1.6%
Replacement	\$846	\$895	\$49	5.8%	\$895	\$0	0.0%
Sales	\$5,800	\$6,119	\$319	5.5%	\$6,368	\$249	4.1%
Public Utility							
Regular	\$889	\$987	\$98	11.0%	\$1,156	\$169	17.1%
Replacement	\$204	\$206	\$2	1.0%	\$185	(\$21)	-10.2%
Motor Fuel (gross)	\$1,255	\$1,325	\$70	5.6%	\$1,350	\$25	1.9%
Cigarette	\$428	\$456	\$28	6.5%	\$538	\$82	18.0%
Liquor Gallonage Taxes	\$62	\$62	\$0	0.0%	\$63	\$1	1.6%
Vehicle Use Tax	\$42	\$42	\$0	0.0%	\$44	\$2	4.8%
Inheritance Tax	\$199	\$250	\$51	25.6%	\$250	\$0	0.0%
Insurance Taxes and Fees	\$177	\$124	(\$53)	-29.9%	\$232	\$108	87.1%
Horse Racing Taxes & Fees	\$45	\$43	(\$2)	-4.4%	\$40	(\$3)	-7.0%
Corporate Franchise Taxes	\$124	\$123	(\$1)	-0.8%	\$125	\$2	1.6%
Other Privilege Taxes	\$180	\$202	\$22	12.2%	\$221	\$19	9.4%
<u>Riverboat Gambling Taxes &amp; Fees</u>	<u>\$261</u>	<u>\$261</u>	<u>\$0</u>	<u>0.0%</u>	<u>\$327</u>	<u>\$66</u>	<u>25.3%</u>
SUBTOTAL	\$18,425	\$19,765	\$1,340	7.3%	\$20,865	\$1,100	5.6%
<b>State Nontax Sources</b>							
Motor Vehicle & License Fees	\$759	\$747	(\$12)	-1.6%	\$747	\$0	0.0%
Other Fees	\$305	\$270	(\$35)	-11.5%	\$280	\$10	3.7%
Provider assessment Fees	\$637	\$543	(\$94)	-14.8%	\$528	(\$15)	-2.8%
Receipts From State Hospital Patients	\$26	\$25	(\$1)	-3.8%	\$24	(\$1)	-4.0%
Tuition & Other University Charges	\$44	\$0	(\$44)	-100.0%	\$0	\$0	N/A
Interest on State Funds & Investments	\$217	\$261	\$44	20.3%	\$300	\$39	14.9%
Reimbursements & Repayments	\$201	\$279	\$78	38.8%	\$260	(\$19)	-6.8%
Revolving Fund Receipts	\$256	\$261	\$5	2.0%	\$280	\$19	7.3%
Lottery (net gross)	\$889	\$835	(\$54)	-6.1%	\$787	(\$48)	-5.7%
All Other Nonfederal Receipts	\$1,953	\$2,084	\$131	6.7%	\$2,125	\$41	2.0%
Income from Sale of Bonds	\$491	\$906	\$415	84.5%	\$750	(\$156)	-17.2%
Local Government Health Plan	<u>\$38</u>	<u>\$46</u>	<u>\$8</u>	<u>21.1%</u>	<u>\$55</u>	<u>\$9</u>	<u>19.6%</u>
SUBTOTAL	<b>\$24,241</b>	<b>\$26,022</b>	<b>\$1,781</b>	<b>7.3%</b>	<b>\$27,001</b>	<b>\$979</b>	<b>3.8%</b>
State Transfers In	\$13	\$39	\$26	200.0%	\$40	\$1	2.6%
<b>TOTAL STATE SOURCES</b>	<b>\$24,254</b>	<b>\$26,061</b>	<b>\$1,807</b>	<b>7.5%</b>	<b>\$27,041</b>	<b>\$980</b>	<b>3.8%</b>
Federal Sources	\$7,702	\$7,970	\$268	3.5%	\$8,325	\$355	4.5%
<b>SUBTOTAL ALL APPROPRIATED</b>	<b>\$31,956</b>	<b>\$34,031</b>	<b>\$2,075</b>	<b>6.5%</b>	<b>\$35,366</b>	<b>\$1,335</b>	<b>3.9%</b>
<b>Short Term Borrowing</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>N/A</b>	<b>\$0</b>	<b>\$0</b>	<b>N/A</b>
<b>TOTAL ALL APPROPRIATED</b>	<b>\$31,956</b>	<b>\$34,031</b>	<b>\$2,075</b>	<b>6.5%</b>	<b>\$35,366</b>	<b>\$1,335</b>	<b>3.9%</b>
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**U.S. ECONOMIC OUTLOOK**  
**FY 2000: Can the Good Times Continue To Roll?**

The U.S. economy currently is enjoying its longest peacetime expansion in history. While the economy has shown an amazing resiliency to a myriad of problems over the past year, the odds of some kind of economic correction before the end of the year 2000 likely have increased.

Continuing problems in Asia and Latin America suggest that U.S. companies will be unable to raise prices and will have to trim costs further to boost profits. Not only does this suggest a

further weakening in business spending for new plant and equipment and reduced exports, but eventually also will depress employment and income growth.

In addition, it is still uncertain how detrimental to the economy the Y2K problem will prove to be. Thus, while the IEFC forecast for real U.S. economic growth in FY 1999 slightly exceeds the most-likely scenario by DRI/McGraw Hill, the Commission's forecast for FY 2000 growth is less. (See Table 7 below.)

	FY 1998	FISCAL 1999		FISCAL 2000	
	Actual	Control	IEFC	Control	IEFC
<b>REAL (1992 \$)</b>					
Gross Domestic Product	3.9	2.9	<b>3.2</b>	1.9	<b>1.6</b>
Personal Consumption	4.2	4.1	<b>4.1</b>	2.4	<b>1.8</b>
Durable	8.9	6.5	<b>6.7</b>	4.2	<b>2.2</b>
Nondurable	3.0	3.1	<b>3.1</b>	1.8	<b>1.4</b>
Services	3.9	4.1	<b>4.1</b>	2.4	<b>1.9</b>
Fixed Investment	10.2	7.3	<b>7.5</b>	1.9	<b>2.4</b>
Exports	10.1	10.3	<b>10.3</b>	8.1	<b>8.1</b>
Imports	13.1	6.9	<b>6.8</b>	6.3	<b>5.6</b>
Government	1.0	2.0	<b>2.0</b>	1.8	<b>1.8</b>
Federal	-1.5	0.8	<b>0.8</b>	-0.5	<b>-0.5</b>
State & Local	2.4	2.6	<b>2.6</b>	3.1	<b>3.1</b>
<b>OTHER MEASURES</b>					
Personal Income	3.9	3.3	<b>3.4</b>	2.6	<b>2.3</b>
Disposable Income	2.9	2.9	<b>2.9</b>	2.7	<b>2.7</b>
Industrial Production	5.6	2.1	<b>2.5</b>	1.8	<b>2.0</b>
Consumer Prices	1.8	2.1	<b>2.2</b>	2.7	<b>3.1</b>
Unemployment Rate (Avg.)	4.7	4.6	<b>4.6</b>	4.8	<b>4.9</b>

The major force behind the continued economic growth in FY 1999 has been the consumer, which with near-record low unemployment and real wage gains, have increased spending. However, as mentioned, the gains in both employment and earnings are likely to

be less next fiscal year. As companies downsize in efforts to reduce costs, layoffs, which already rose sharply last year, are likely to increase even more and act to retard consumer optimism.

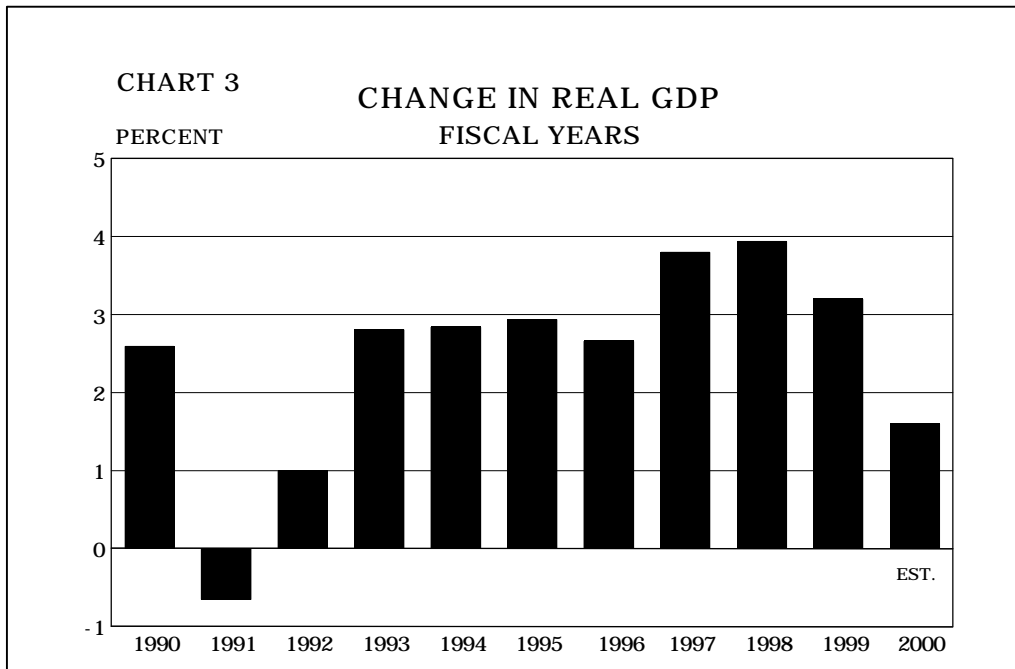


In FY 1999, strength in housing and in the services sector have been offsets to a weakening manufacturing sector. However, as consumers turn more cautious next year, spending on big-ticket durable goods, in particular, but also on nondurable goods and services are likely to slow after sustaining good growth rates in FY 1999. (See Table 7 on previous page.)

While overall growth in the U.S. economy is expected to slow

appreciably in FY 2000, a full-fledged recession can still be avoided. To attain such a result, however, will require constant awareness by the Federal Reserve and further preemptive credit easing moves. Given the Federal Reserve's response to date in quickly lowering interest rates three times, it is likely that this will occur.

*IEFC's forecast for FY 2000 for the U.S. economy is for real growth of 1.6%. This is more modest than DRI/McGraw Hill's most-likely gain of 1.9% and well below the 3.9% and 3.2% rates of FY 1998 and FY 1999, respectively. (See Chart 3 on page 14.)*

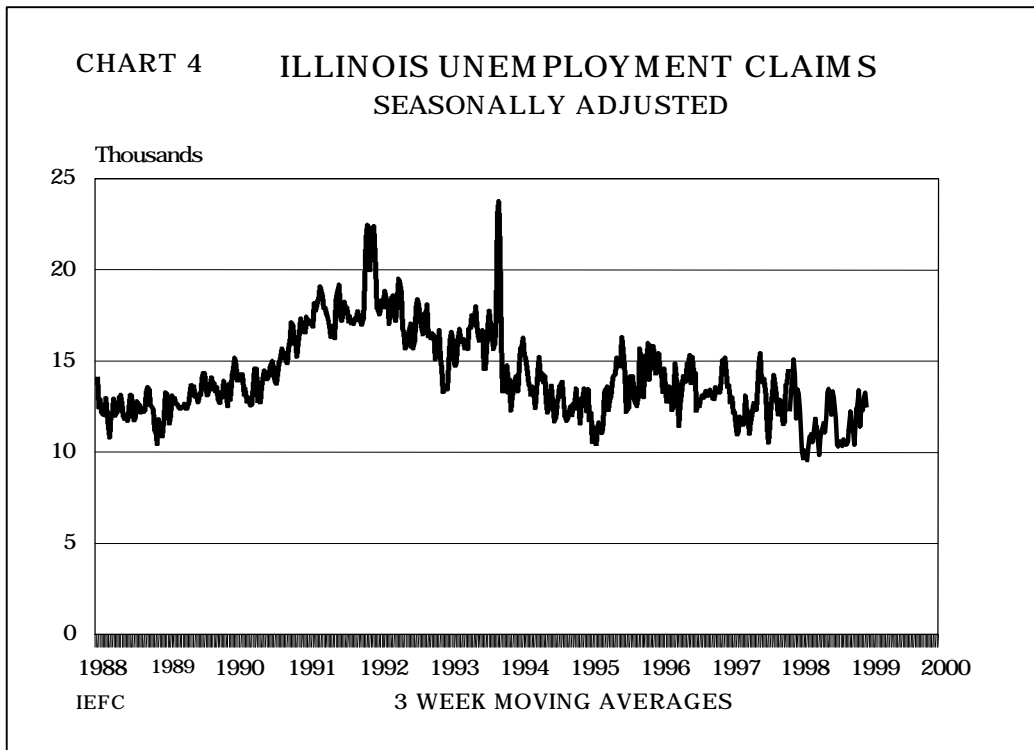


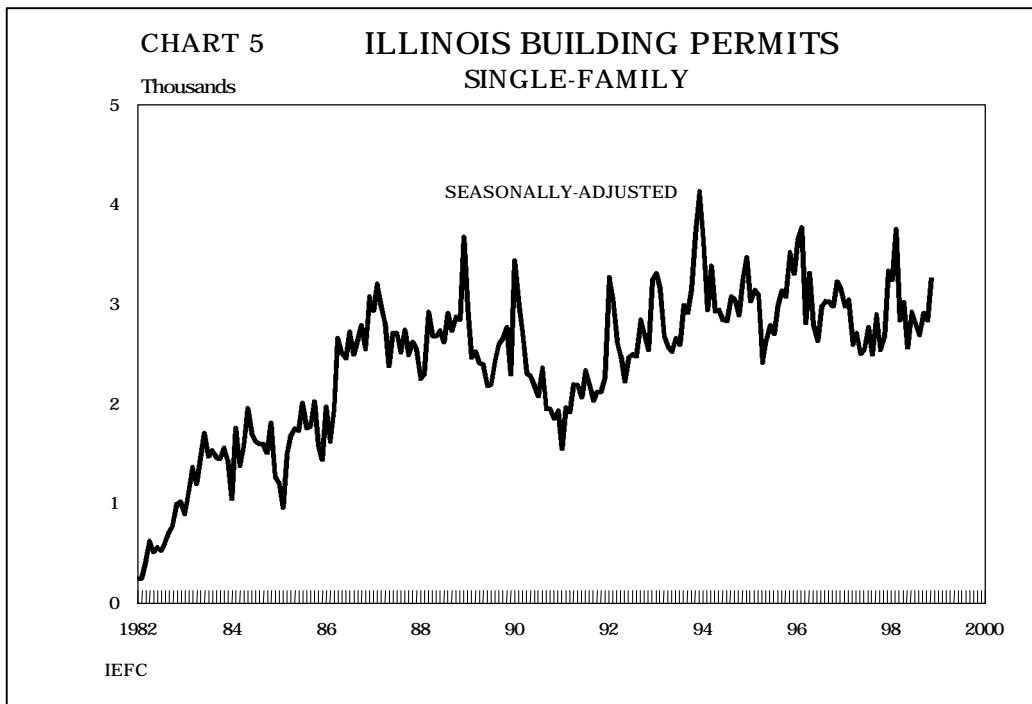
## The Outlook for Illinois

The Illinois economy in terms of growth in real gross domestic product continued to outperform the nation as a whole during the first half of calendar 1998--the latest data available at the State level. This continues the historic pattern for the State where its economic performance, after lagging national trends early in a business expansion, most often exceeds national performance as the expansion matures. Even so, this pattern is likely to change in the year ahead as continued declines in the manufacturing and export sectors take their toll.

One of the strongest sectors to date in the State has been employment. Illinois' unemployment rate has often

held below that of the nation over the past year despite declines in the number of jobs in the manufacturing and mining industries. Moreover, initial claims for unemployment insurance benefits dropped 1.1% over the latest 12-month period. As illustrated in Chart 4, despite a sharp drop in unemployment insurance claims from their high levels in the early 1990s, the trend now appears to be level. In part this reflects the low level already attained, but expectations for slower growth and an increase in recent weeks may well signal the beginning of some upward pressure on the number of claimants as the year progresses, particularly in FY 2000.



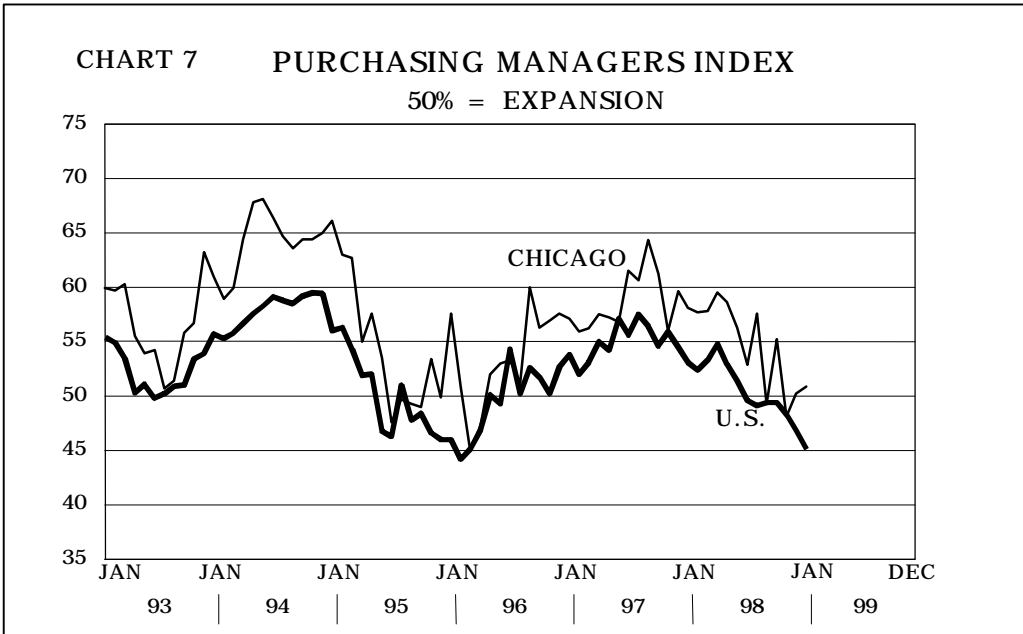
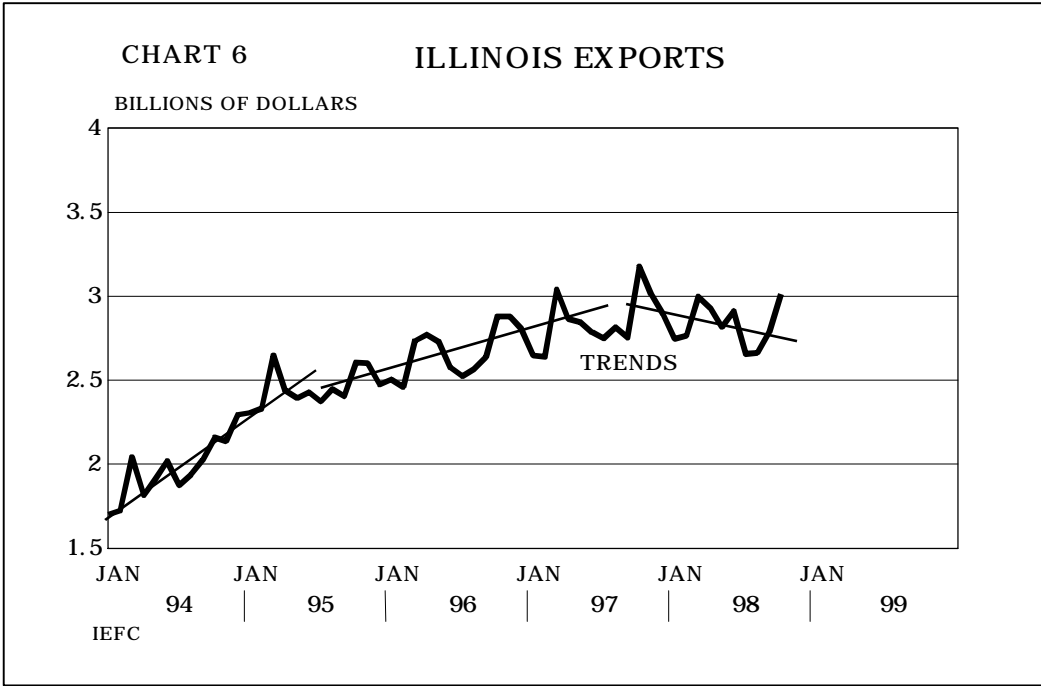


Another area of recent strength has been housing construction in the State. For example, new single-family building permits, a precursor to new construction activity, have held at high levels, even improving last year after weakening slightly in 1997, as shown in Chart 5. In part, the reductions in interest rates which have lowered the cost of home financing have been a factor, but rising employment and income have been the major stimuli. Thus, even while interest rates may fall further as the Federal Reserve acts to keep the economy growing, some expected softening in employment and income growth will prevent any major uptrend from developing next year.

One area of the State's economy which already has weakened and should deteriorate further is the export sector. Illinois ranks fifth in the nation in

overall exports and third in agricultural exports. Despite a one-month upward blip in the latest reported month, exports were down by about 1% in the first ten months of last year compared to the same period a year earlier. This is in sharp contrast to a sharply rising trend throughout most of the decade as illustrated in Chart 6 on the following page.

Depressed farm prices, increased price competition from abroad, and financial crises in Asia which have now spread to Latin America, the latest being Brazil, will increasingly depress this sector of the State's economy in the year ahead. Should Brazil's recent problems spread to Mexico, one of the State's largest customers, the weakness could be even sharper.



The deterioration in the export market and rising foreign competition as depressed countries strive to export themselves out of recession already is hurting manufacturing. Any slowdown in domestic demand would exacerbate the problem.

The National Association of Purchasing Management said its monthly gauge of manufacturing activity at year end fell to the lowest level since the depths of the recession nearly eight years ago. Moreover, last month's drop represented the seventh consecutive reading below 50, indicating contracting activity. (See Chart 7 on the previous page.) While the Chicago-area measure is somewhat higher, the chart clearly shows that the State is following the national trend downward.

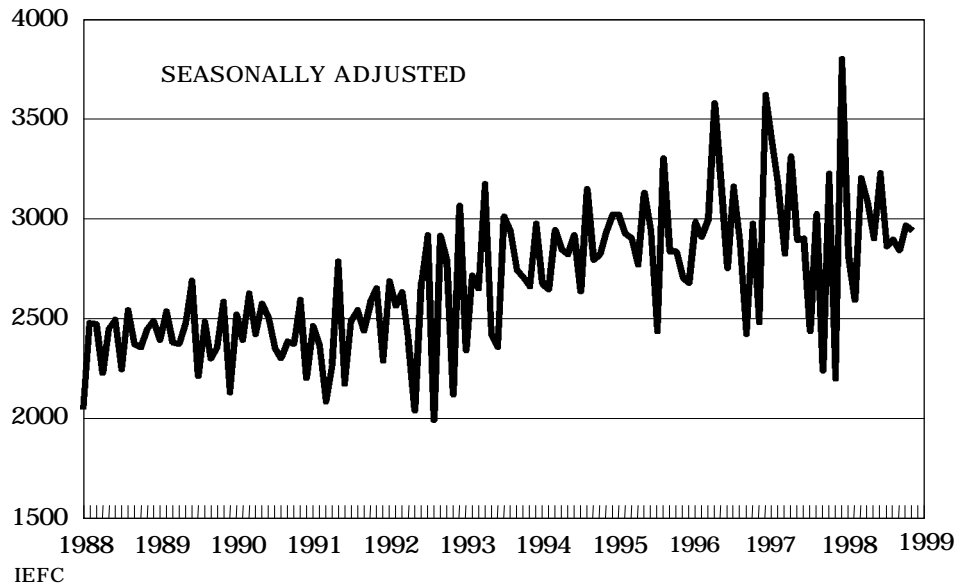
While the manufacturing and export areas of the State economy are on a weakening trend and are likely to deteriorate further, overall the Illinois economy remains solid. A measure of a State's health is what is happening to its tax base, and one such indicator is the number of incorporations of new for-profit businesses.

Chart 8 on the next page shows continued improvement over the past ten years in new corporate business formulations in the State. For the first 11 months of 1998, 32,025 new domestic business incorporations took place in the State. This outpaced last year's level and was only marginally lower than 1996's record pace of 32,088 for the same period. Thus, this measure shows continued strength.

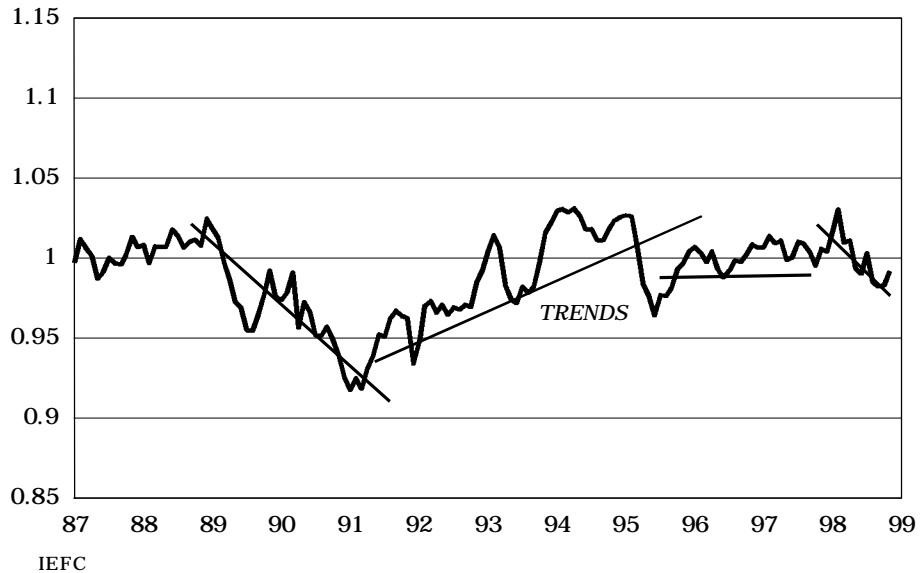
Considering the outlook for the State as a whole next year, the most likely outlook is that it will mirror the national economy and pursue a significantly slower growth path in FY 2000. This trend is already indicated in the IEFEC's leading indicator series depicted in Chart 9 on the next page.

***Thus, revenue gains in FY 2000 should reflect this weakening economic trend and be less than those received in the current fiscal year. While the Commission continues to believe a recession can be avoided, the risk seems to have increased and the pattern throughout the fiscal year should be one of significantly slower growth than seen in FY 1999. A preliminary look at the IEFEC general funds revenue estimate for FY 2000 follows on page 20.***

**CHART 8 ILLINOIS NEW BUSINESS INCORPORATIONS  
DOMESTIC FOR PROFIT**



**CHART 9 ILLINOIS LEADING ECONOMIC INDICATOR  
INDEX 1987 = 1.0**



## PRELIMINARY FY 2000 GENERAL FUNDS ESTIMATE

*“The message is clear, while these annualizations and other one-time revenue items will increase overall revenue growth in FY 1999, the growth associated with these items will be absent in FY 2000. This is likely to have a significant impact on the growth in revenues for FY 2000”-- IEFCA April 1998.*

This analysis regarding FY 2000 general funds revenue was provided in the Commission’s “FY 1999 Revised Revenue Estimate” published last spring. While some of the details may have changed since that time, the thrust of that analysis still holds true. In essence, the same issues that serve to increase general funds growth in FY 1999 will simply be unable to fuel similar growth in FY 2000 (see below).

### ITEMS IMPACTING FY 2000 GENERAL FUNDS REVENUE

For the most part, the impacts on revenues that occurred in FY 1999 are now absent as they have been incorporated into the base. In fact, the impacts that remain actually serve to decrease revenues from what they would have been.

#### **Education Funding Annualizations**

There is no further annualization impact from the changes resulting from P.A. 90-548. Cigarette taxes are expected to remain \$400 million a year until another legislative change occurs. While some growth in public utility taxes is expected, that growth will take place in the base and not be the result of any further annualizations. Riverboat gambling receipts, after experiencing a \$72 million increase in FY 1999 due to the change to a graduated tax structure, are forecast to grow only modestly in FY 2000.

#### **Spring 1998 Tax Changes**

P.A. 90-613 still will impact FY 2000 revenues (and also FY 2001) as the second year and third year phase will continue to reduce receipts until fully incorporated into the base. The estimated reduction in net income tax revenues as a result of the second year of the phase-in is \$124 million.

#### **Various Timing Issues**

At this time no further timing issues are expected to impact on FY 2000 revenues, other than the fact that year-over-year growth rates are lower as a result of higher FY 1999 figures, such as the IGT. However, it is possible that the State will be receiving its first installment related to the national cigarette settlement. At this time it is not clear when the actual disbursement to the states will take place, what the amounts will be, or into which fund(s) it will be deposited.

#### **Conclusion**

It would be incorrect to portray the slowing of revenue growth in FY 2000 as an indication of some problem with revenues. Actually, the Commission is only projecting a modest slowdown in some base assumptions. The real issue is that because of the various legislative as well as numerous timing items, spectacular year-over-year growth cannot continue into FY 2000. While that lower revenue growth may of course impact on spending initiatives and other issues, it is a natural consequence of the items discussed earlier.

*As a result, the Commission's preliminary FY 2000 general funds revenue estimate is \$22,087 million (see Table 8 on page 23). The estimate represents a \$627 million or 2.9% increase over the revised FY 1999 estimate, down considerably from the forecasted growth of \$1,476 million or 7.4% in FY 1999.*

A brief discussion of major revenue source receipts for FY 2000 are discussed below.

- Personal income tax receipts are forecast to increase \$301 million or 3.9% to \$7,992 million in FY 2000. However, that rate of growth is net of the impact resulting from the second year phase-in of the increased personal income tax exemption. The actual base growth rate is forecast to be a more vigorous 5.3%.
- Corporate income tax receipts are expected to continue their rather lackluster performance into FY 2000. The preliminary estimate is forecast to be \$1,386 million, which reflects a \$6 million or 0.4% increase over the prior fiscal year. However, that growth rate reflects the impact of the second year phase-in of the single sales formula. The actual base growth rate is forecast to be slightly higher at 2.0%.
- Sales tax receipts are forecast to grow by \$247 million or 4.5% in FY 2000. That rate of growth is similar to that estimated in FY 1999, reflecting consistent, though unexciting, performance.
- Numerous sources that had enjoyed large increases over the last two fiscal years now are forecast to demonstrate very little growth. For example, public utility taxes, cigarette taxes, and insurance taxes all benefited earlier as a result of tax changes. However, because those impacts will have fully annualized in FY 1999, FY 2000 will find little if any growth associated with those sources.
- Other sources to the general funds are expected to actually decline \$40 million in FY 2000 as a result of the estimated \$130 million Build Illinois General Reserve transfer the BoB expects to make in late FY 1999. While the BoB has yet to publish plans for the FY 2000 transfer, it is not anticipated to be as large.
- Lottery transfers are forecast to remain \$530 million in FY 2000, as it becomes more difficult to maintain player participation in that mature form of gaming. Gaming Fund transfers, after experiencing a \$72 million or 42% increase in FY 1999 as a result of graduated tax restructuring, are forecast to increase only slightly in FY 2000,



up 3.3% to \$250 million. Other transfers are anticipated to increase \$20 million or 5.1%.

- After growing substantially in FY 1999 due in large part to multi-year timing issues, federal sources are forecast to grow \$113 million or

3.0% in FY 2000, down from the \$450 million or 13.5% increase expected in FY 1999. Obviously, any significant change to the Medicaid program, either in the form of cuts or expansions, would dramatically impact federal reimbursements, as would any major changes to reimbursement rates.

### **PREMINIMARY FY 2000 ALL APPROPRIATED FUNDS REVENUE**

The preliminary FY 2000 estimate of all appropriated funds revenue is \$36,453 million. The estimate represents a \$1,087 million or 3.1% increase over

estimated FY 1999 receipts (See Table 9 on page 24.) The Commission anticipates no short-term borrowing in FY 2000.

**TABLE 8: ESTIMATED GENERAL FUNDS RECEIPTS**

*FY 2000 vs. FY 1999*

(\$ million)

<b>Revenue Sources</b>	<b>JAN-99 Preliminary Receipts FY 2000</b>	<b>JAN-99 Revised Receipts FY 1999</b>	<b>\$ CHANGE FY 2000 - 99</b>	<b>% CHANGE</b>
<b>State Taxes</b>				
Personal Income Tax	\$7,992	\$7,691	\$301	3.9%
Corporate Income Tax (regular)	1,386	1,380	\$6	0.4%
Sales Taxes	5,732	5,485	\$247	4.5%
Public Utility Taxes (regular)	1,015	962	\$53	5.5%
Cigarette Tax	400	400	\$0	0.0%
Liquor Gallonage Taxes	58	58	\$0	0.0%
Vehicle Use Tax	39	39	\$0	0.0%
Inheritance Tax (Gross)	263	250	\$13	5.2%
Insurance Taxes and Fees	200	200	\$0	0.0%
Corporate Franchise Tax & Fees	124	120	\$4	3.3%
Interest on State Funds & Investments	215	210	\$5	2.4%
Cook County Intergovernmental Transfer	152	233	(\$81)	-34.8%
Other Sources	265	305	(\$40)	-13.1%
<b>Subtotal</b>	<b>\$17,841</b>	<b>\$17,333</b>	<b>\$508</b>	<b>2.9%</b>
<b>Transfers</b>				
Lottery	530	530	\$0	0.0%
Gaming Fund Transfer	250	242	\$8	3.3%
Other	410	390	\$20	5.1%
<b>Total State Sources</b>	<b>\$19,031</b>	<b>\$18,495</b>	<b>\$536</b>	<b>2.9%</b>
<b>Federal Sources</b>	<b>\$3,886</b>	<b>\$3,773</b>	<b>\$113</b>	<b>3.0%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$22,917</b>	<b>\$22,268</b>	<b>\$649</b>	<b>2.9%</b>
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$567)	(\$546)	(\$21)	3.8%
Corporate Income Tax	(263)	(262)	(\$1)	0.4%
<b>Total General Funds</b>	<b>\$22,087</b>	<b>\$21,460</b>	<b>\$627</b>	<b>2.9%</b>
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**TABLE 9: ALL APPROPRIATED FUNDS REVENUE: FY 1998-FY 2000**

(millions)

REVENUE SOURCES	ACTUAL	JAN-99	\$ CHG.	% CHG.	JAN-99	\$ CHG.	% CHG.
	RECEIPTS	ESTIMATED	FROM	FROM	PRELIMINARY	FROM	FROM
	FY 1998	FY 1999	FY 1998	FY 1998	Estimate	FY 1999	FY 1999
<b>State Taxes</b>							
Personal Income Tax	\$7,268	\$7,691	\$423	5.8%	\$7,992	\$301	3.9%
Corporate Income Tax							
Regular	\$1,402	\$1,380	(\$22)	-1.6%	\$1,386	\$6	0.4%
Replacement	\$895	\$895	\$0	0.0%	\$901	\$6	0.7%
Sales	\$6,119	\$6,368	\$249	4.1%	\$6,655	\$287	4.5%
Public Utility							
Regular	\$987	\$1,156	\$169	17.1%	\$1,215	\$59	5.1%
Replacement	\$206	\$185	(\$21)	-10.2%	\$190	\$5	2.7%
Motor Fuel (gross)	\$1,325	\$1,350	\$25	1.9%	\$1,395	\$45	3.3%
Cigarette	\$456	\$538	\$82	18.0%	\$538	\$0	0.0%
Liquor Gallonage Taxes	\$62	\$63	\$1	1.6%	\$63	\$0	0.0%
Vehicle Use Tax	\$42	\$44	\$2	4.8%	\$44	\$0	0.0%
Inheritance Tax	\$250	\$250	\$0	0.0%	\$263	\$13	5.2%
Insurance Taxes and Fees	\$124	\$232	\$108	87.1%	\$232	\$0	0.0%
Horse Racing Taxes & Fees	\$43	\$40	(\$3)	-7.0%	\$39	(\$1)	-2.5%
Corporate Franchise Taxes	\$123	\$125	\$2	1.6%	\$130	\$5	4.0%
Other Privilege Taxes	\$202	\$221	\$19	9.4%	\$243	\$22	10.0%
Riverboat Gambling Taxes & Fees	\$261	\$327	\$66	25.3%	\$333	\$6	1.8%
<b>SUBTOTAL</b>	\$19,765	\$20,865	\$1,100	5.6%	\$21,619	\$754	3.6%
<b>State Nontax Sources</b>							
Motor Vehicle & License Fees	\$747	\$747	\$0	0.0%	\$750	\$3	0.4%
Other Fees	\$270	\$280	\$10	3.7%	\$290	\$10	3.6%
Provider assessment Fees	\$543	\$528	(\$15)	-2.8%	\$528	\$0	0.0%
Receipts From State Hospital Patients	\$25	\$24	(\$1)	-4.0%	\$25	\$1	4.2%
Interest on State Funds & Investments	\$261	\$300	\$39	14.9%	\$310	\$10	3.3%
Reimbursements & Repayments	\$279	\$260	(\$19)	-6.8%	\$270	\$10	3.8%
Revolving Fund Receipts	\$261	\$280	\$19	7.3%	\$290	\$10	3.6%
Lottery (net gross)	\$835	\$787	(\$48)	-5.7%	\$787	\$0	0.0%
All Other Nonfederal Receipts	\$2,084	\$2,125	\$41	2.0%	\$2,200	\$75	3.5%
Income from Sale of Bonds	\$906	\$750	(\$156)	-17.2%	\$700	(\$50)	-6.7%
Local Government Health Plan	\$46	\$55	\$9	19.6%	\$58	\$3	5.5%
<b>SUBTOTAL</b>	\$26,022	\$27,001	\$979	3.8%	\$27,827	\$826	3.1%
State Transfers In	\$39	\$40	\$1	2.6%	\$40	\$0	0.0%
<b>TOTAL STATE SOURCES</b>	<b>\$26,061</b>	<b>\$27,041</b>	<b>\$980</b>	<b>3.8%</b>	<b>\$27,867</b>	<b>\$826</b>	<b>3.1%</b>
Federal Sources	\$7,970	\$8,325	\$355	4.5%	\$8,586	\$261	3.1%
<b>SUBTOTAL ALL APPROPRIATED</b>	<b>\$34,031</b>	<b>\$35,366</b>	<b>\$1,335</b>	<b>3.9%</b>	<b>\$36,453</b>	<b>\$1,087</b>	<b>3.1%</b>
<b>Short Term Borrowing</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>N/A</b>	<b>\$0</b>	<b>\$0</b>	<b>N/A</b>
<b>TOTAL ALL APPROPRIATED</b>	<b>\$34,031</b>	<b>\$35,366</b>	<b>\$1,335</b>	<b>3.9%</b>	<b>\$36,453</b>	<b>\$1,087</b>	<b>3.1%</b>

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