

# *Illinois Economic and Fiscal Commission*

## *Economic and Revenue Update FY 2005*



*November 17, 2004  
703 Stratton Office Building  
Springfield, Illinois 62706*

## *Illinois Economic & Fiscal Commission*

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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 public pension funding requirements and preparation of pension impact notes; and
- 6) 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 three 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 "Financial Conditions of the Illinois Public Retirement Systems" provides an overview of the funding condition of the State's retirement systems. The Commission also periodically publishes special topic reports that have or could have an impact on the economic well being of Illinois.

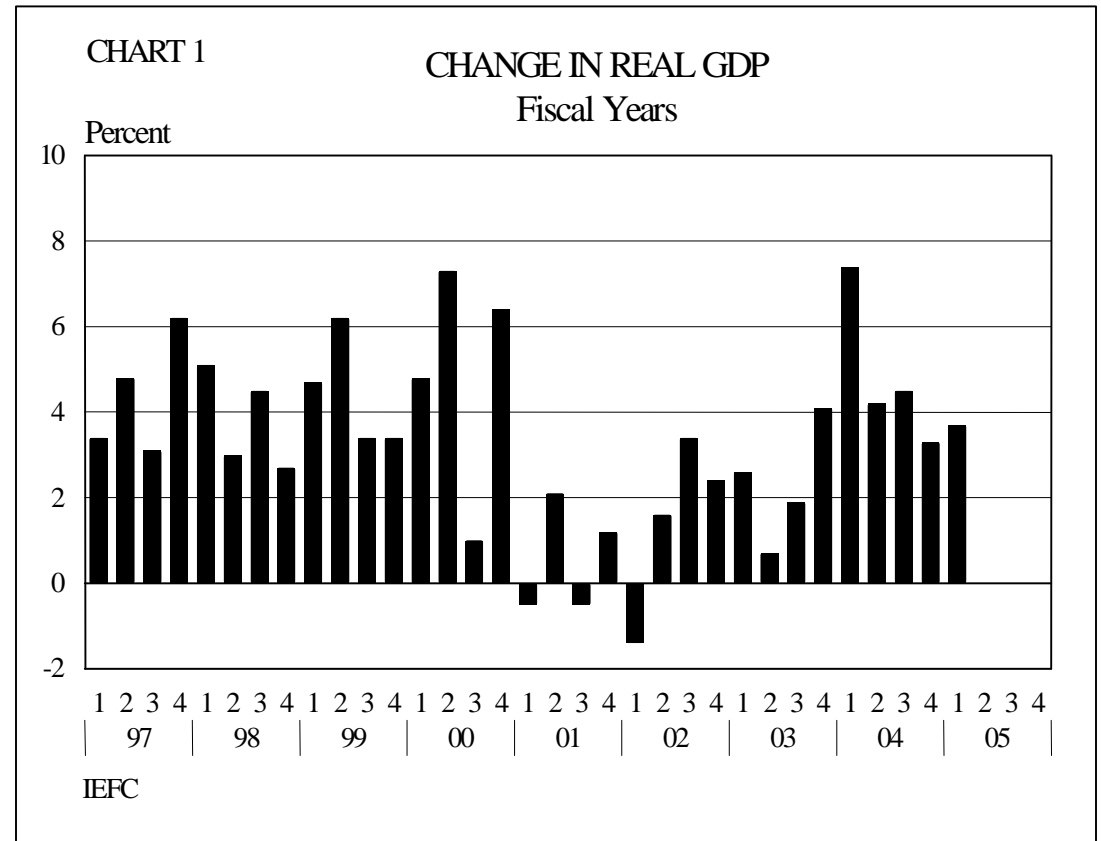
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Illinois Economic and Fiscal Commission  
703 Stratton Office Building  
Springfield, Illinois 62706  
(217) 782-5320  
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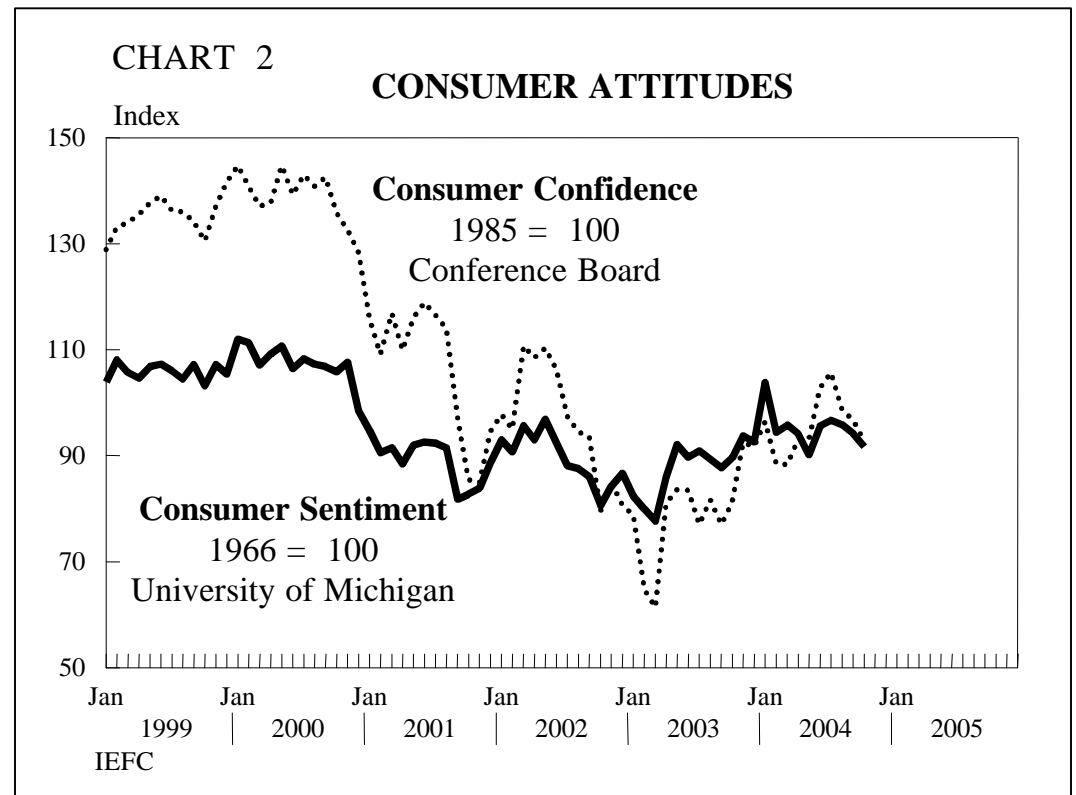
## CHART 1: Change in Real GDP

- Fiscal year 2005 started out on a solid footing, rising at an annual rate of 3.7%. This was somewhat below expectations, although it represented a strengthening from the previous quarter's 3.3% rate and was moderately above the economy's long-term growth path. Moreover, it represented the 12<sup>th</sup> consecutive quarter, or third year, of continuous economic expansion.
- One major factor restraining faster growth was a run off of business inventories. Real final demand -- inflation-adjusted gross domestic product less the change in inventories--rose at a faster 4.2% annual rate, about in line with what economists had forecast for GDP as a whole for that quarter.
- The biggest dollar gain was in consumer spending, which normally accounts for two-thirds of total spending. Consumer spending accelerated at a 4.6% annual rate, up from a meager 1.6% during the previous quarter. Other major contributors to growth were: another double-digit gain in business spending, rising government spending, and increased spending on residential construction. (Inventory accumulation and an increase in imports, in part due to record-high oil prices, detracted from GDP.)



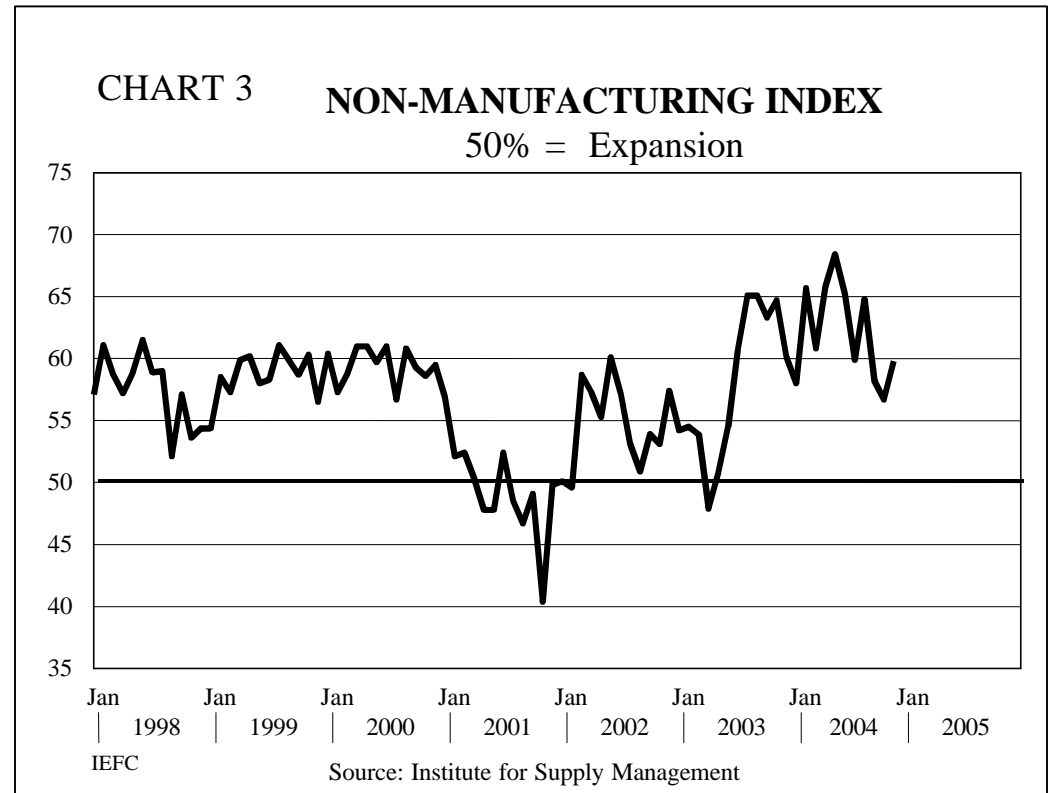
## CHART 2: Consumer Confidence

- Consumer confidence, as measured both by the University of Michigan and the Conference Board, generally has been on the rise since early 2003. Even so, there has been some modest softening in recent months.
- Slow job growth, the election, geo-political events in Iraq and elsewhere, and record oil prices are some of the factors explaining the recent falloff. Thus far, however, as shown by the acceleration in consumer spending last quarter, the slight decline has not acted as a major restraint to growth.
- The consumer, which has been the main stay of the business expansion since it began, however, is unlikely to be as large a component in the future as the base of the economic expansion broadens. It will take continued gains in business spending and the creation of new jobs to provide the income and expansion necessary to keep the economic recovery in tact.



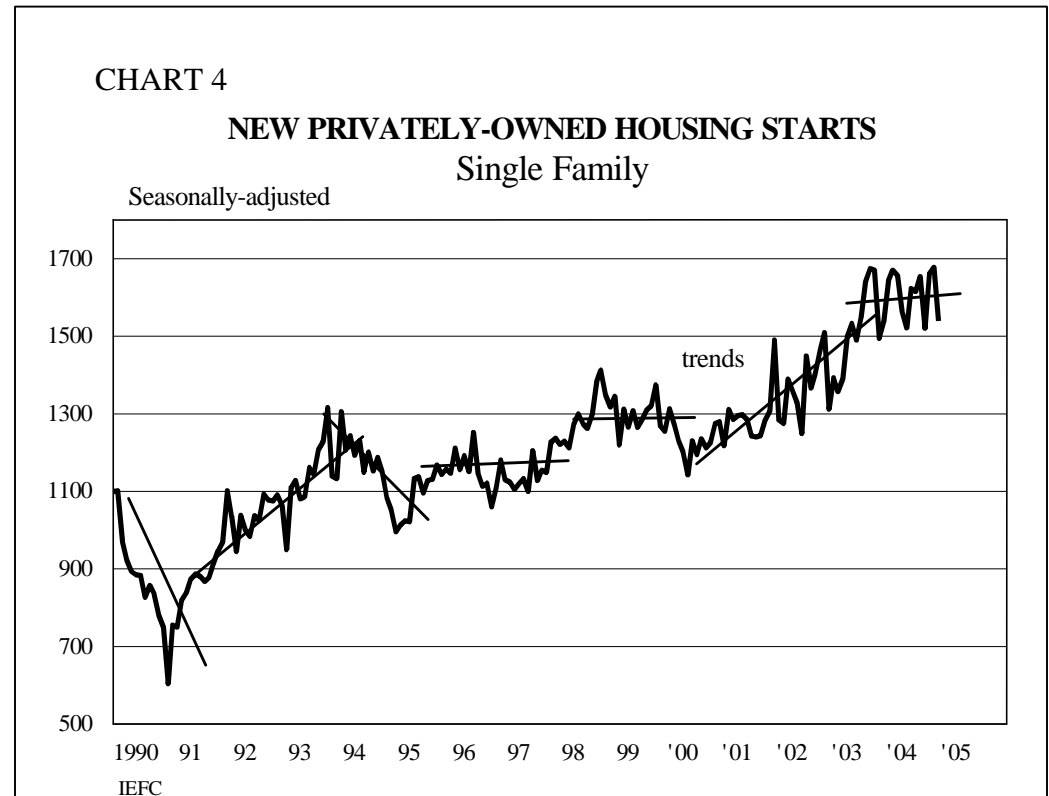
### CHART 3: Non-Manufacturing Index

- While most analysts' attention centers on the manufacturing sector, which is the most cyclical, the U. S. service sector accounts for the bulk of the overall economy.
- Chart 3 shows the service, or non-manufacturing sector, expanding since early in 2003, although it weakened during the summer reflecting the soft patch that the economy had entered into. The October figure showed a modest pickup in that measure, down from that seen in late 2003 and early 2004, but in line with that seen in the late 1990s.
- With the business expansion now maturing, it is not unusual to see this sector show more moderate levels as the base of the economy broadens than when in the early recovery phase of the business cycle.



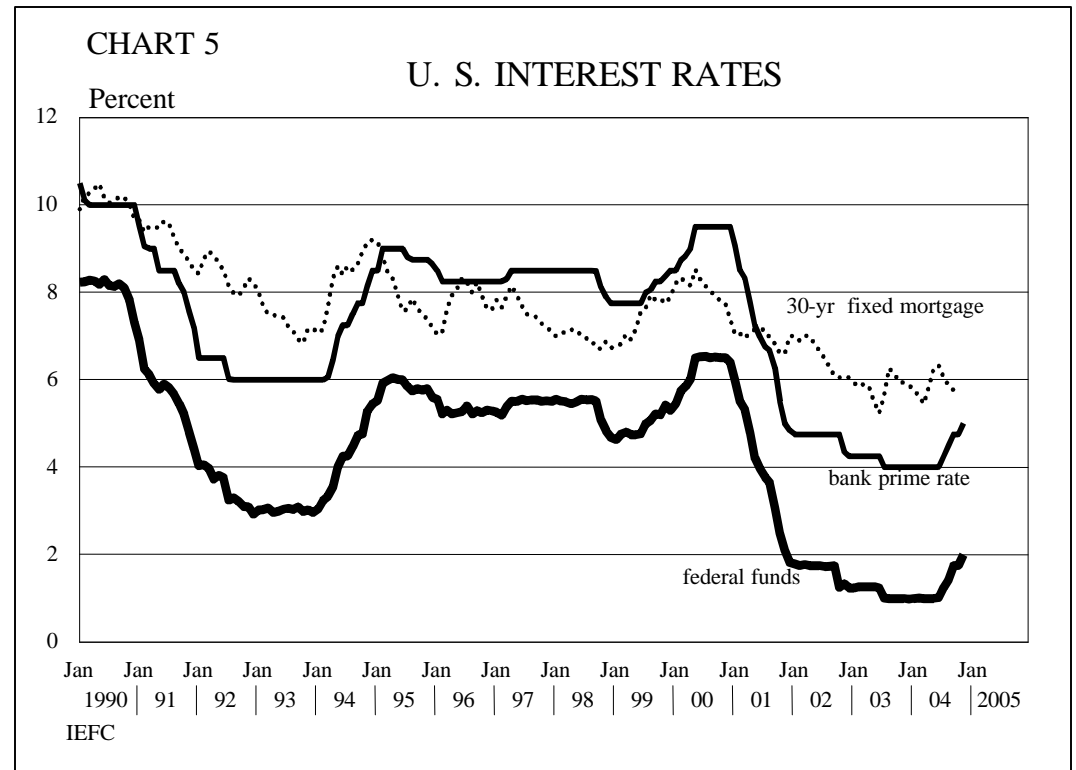
#### CHART 4: New Privately-Owned Housing Starts

- Housing activity has been a major contributor to the economy, sparked by historically low mortgage interest rates and seen for a long time as a good investment alternative to equity and bond prices.
- New single-family housing starts have been on a strong upward trend, soaring from 2001 into early 2004, before leveling out at extremely high levels over the past several months.
- There is concern whether the recent strength in housing can continue. The stock market has improved, providing a good investment alternative; there are concerns housing prices are moving into bubble territory; and monetary policy has been firming, raising key short-term interest rates four times in recent months.



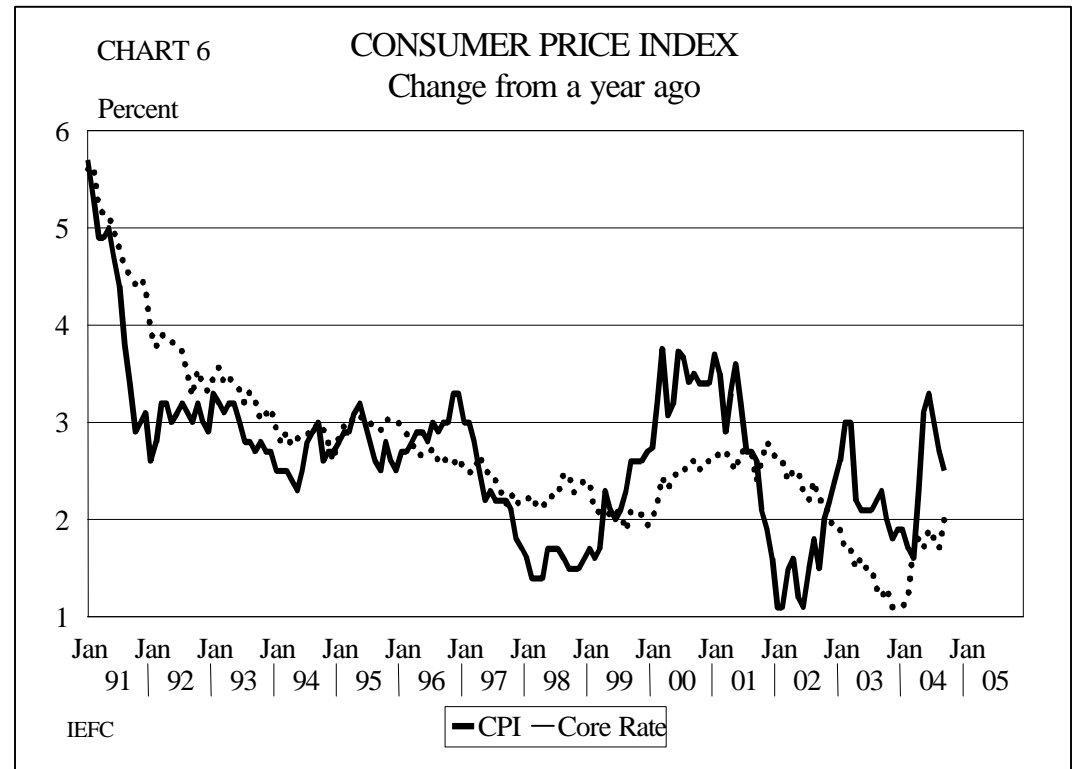
## CHART 5: U.S. Interest Rates

- Despite the four upward moves in key monetary policy rates by the Federal Reserve since summer, mortgage interest rates, while off their lows, have not trended upward, but rather have fluctuated in a narrow band.
- Thus far the Federal Reserve moves to raise key monetary policy rates were merely actions bringing these rates up from their “emergency” low levels that put them below the inflation rate thought needed to buoy a fledging economy and avoid deflationary influences.
- Still, there is the concern that further upward movements in short-term interest rates, which are quite likely, will eventually begin to be reflected in somewhat higher mortgage rates.
- Long-term interest rates are primarily driven by the rate of inflation and the outlook for future price increases.



## CHART 6: Change in Consumer Prices

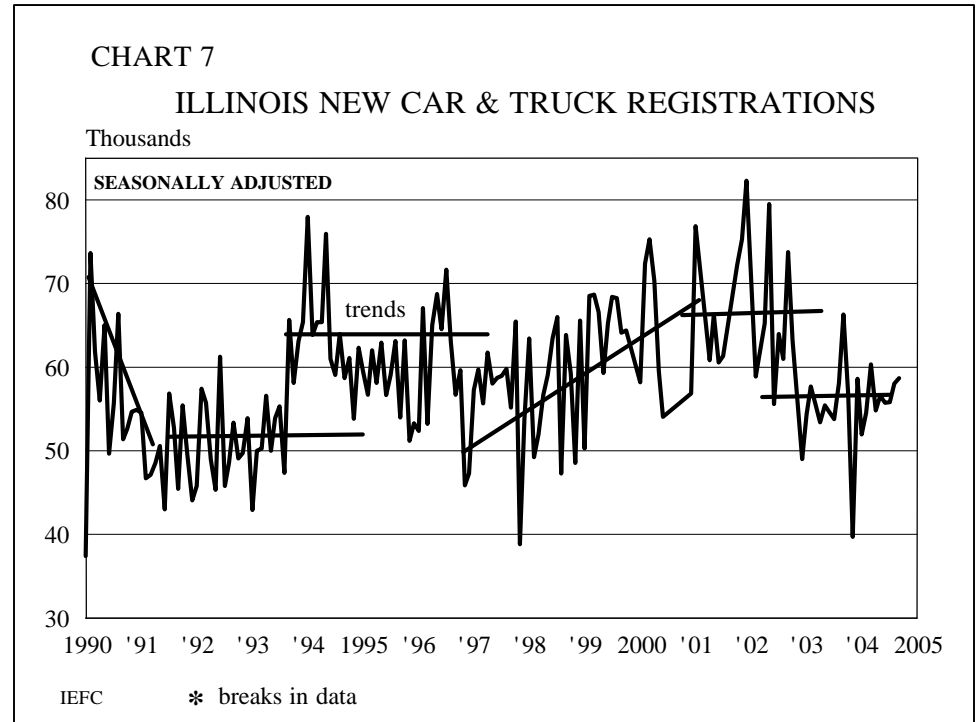
- Accelerated prices for energy, as oil prices reached record highs, drove up overall consumer prices to more than a 3.0% annual rate by summer, although they moderated slightly and in September stood 2 1/2% higher than a year earlier. Other prices such as medical care services also showed more rapid rates of growth.
- Excluding the volatile food and energy sectors, the rise in prices was less, but rising, and in September was up at a 2.0% rate from a year earlier compared to about 1.0% on this basis as the year began.
- Recent reports confirm the business expansion is continuing and, in response, the Federal Reserve has begun to edge up interest rates on a steady basis to preempt possible inflationary pressures. At the same time, competition from abroad where excess capacity is much greater, unemployment higher, and from emerging industrial nations such as China will act as a restraint to raising prices. Thus, while increases may be somewhat higher, no surge is expected.





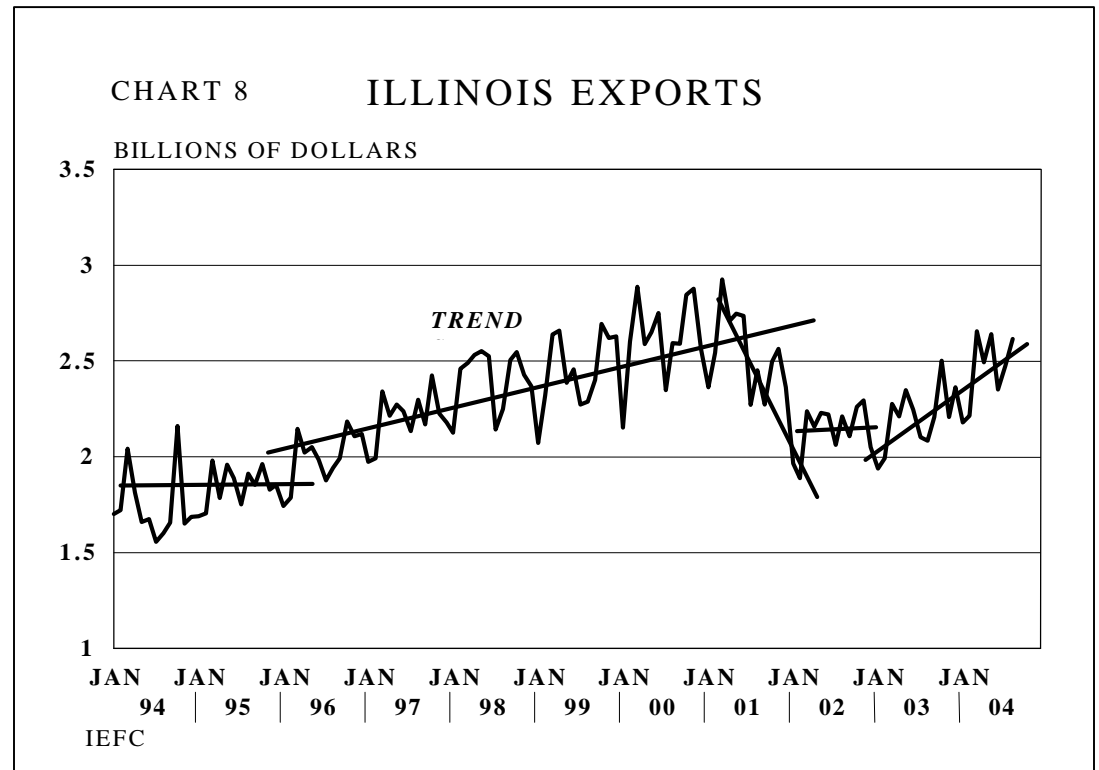
### CHART 7: Illinois Autos

- As the basis of the economic expansion broadens, some sectors will be less of a factor than was true earlier in the recovery.
- With interest rates somewhat higher, heavy sales in recent years satisfying much of the backlog of demand, and higher energy prices, auto sales are likely to be one sector that will moderate.
- Chart 7 shows new car and truck registrations in Illinois. These registrations have fallen from the high levels of the first two years of the decade but are trending at levels above that of the early 1990s.



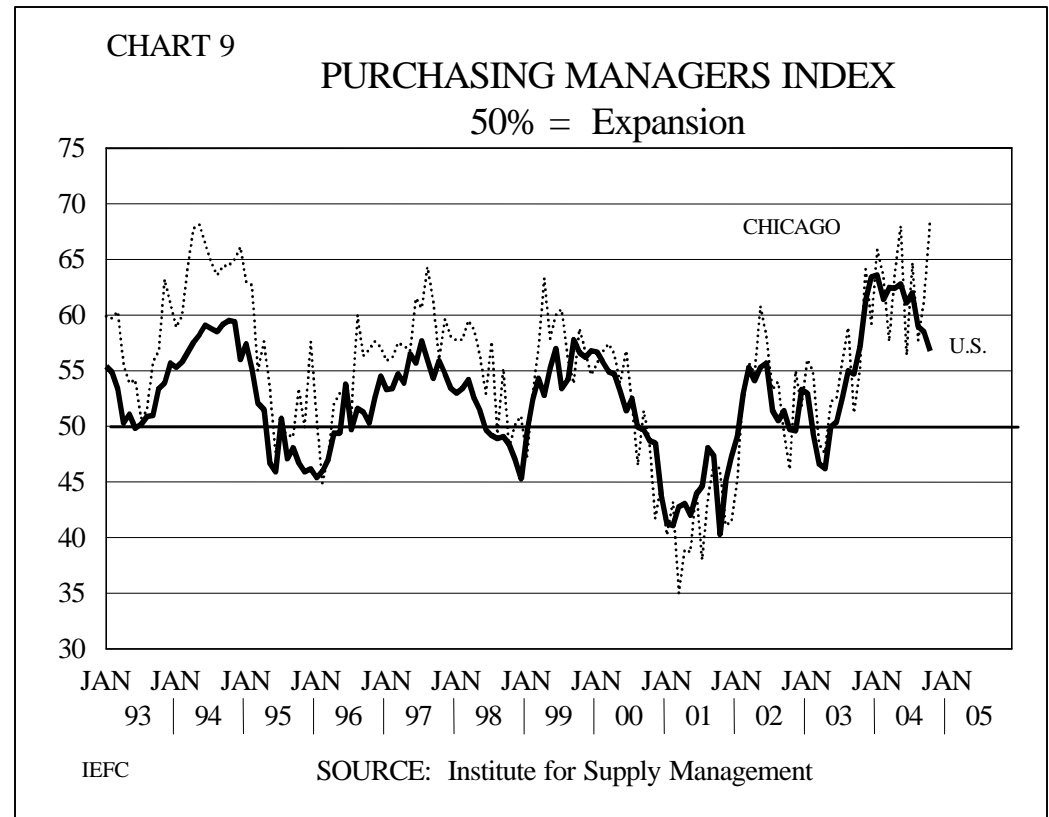
### CHART 8: Illinois Exports

- As auto sales have softened, other sectors have been revived. U.S. exports, after declining in 2001 and 2002, have been on a rising trend over the past two years. This is mirrored in the performance of Illinois exports, shown in Chart 8.
- The forecast provided by IEFC's economic service continues to see the economies of many countries growing faster. (Many in Europe have lagged the performance we have seen in the U.S.) When this is combined with a weaker dollar, it will keep exports on a strong upward trend.
- At the same time export growth will continue, import growth is expected to slow. As a result, Global Insight, IEFC's forecasting service, projects that the foreign trade sector will make a positive contribution to GDP for the first time since 1995.



## CHART 9: Purchasing Manager's Index

- With the consumer less robust, it will take a greater contribution from the business sector to keep the expansion growing at a healthy pace. With profits up and the expansion maturing, prospects remain good.
- By far the weakest sector in the economy had been manufacturing. After contracting from late 2000 until early 2002, the sector began to expand again. Movements were erratic and without trend until mid-2003 when the indicator began a sharp upward path. There was a modest weakening in the index in the past couple of months, but expansion has now been underway for eighteen consecutive months.
- The Chicago Index generally followed the national pattern, although it was a bit more erratic with a strong up tick last month.
- Because manufacturing is a larger component of the Illinois economy than nationally, the movement of the Chicago Purchasing Manager's Index is particularly noteworthy.



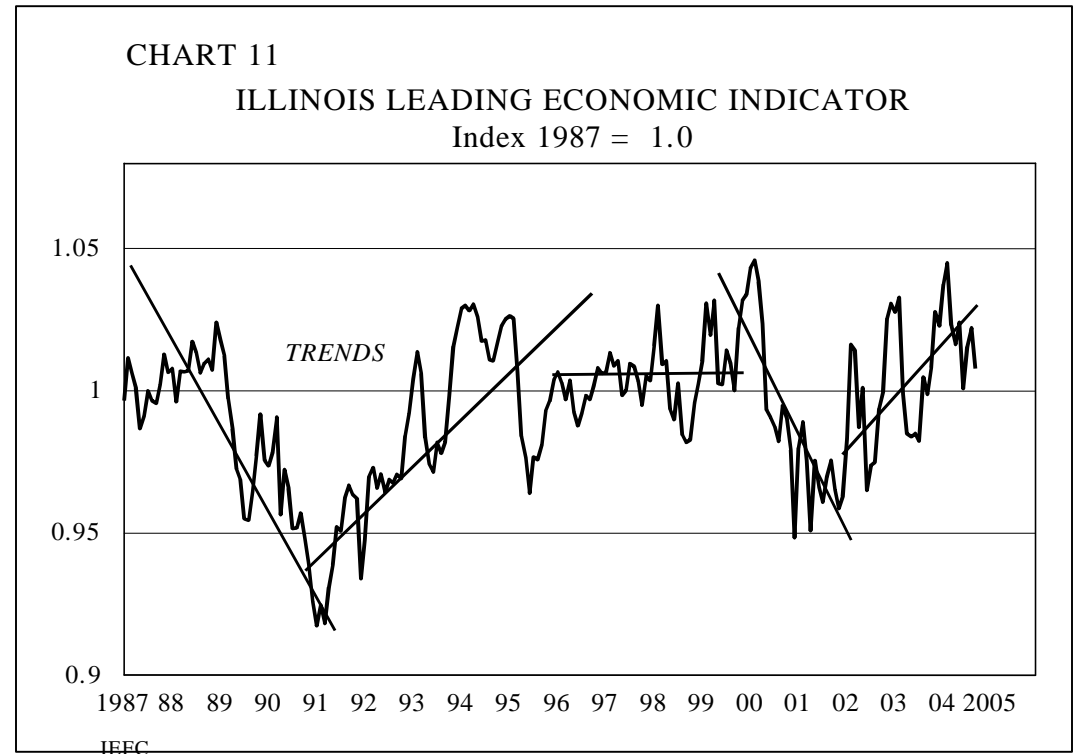
## CHART 10: Unemployment Rates and Job Status

- One of the major economic discussions centers on the job front. Since October of last year, jobs rose by 1.8 million as measured by the household survey and 2.1 million by the payroll survey. However, since the beginning of 2001, household survey jobs are up 1.9 million while payroll jobs are actually lower by slightly less than 400,000.
- As shown in Chart 10, the unemployment rate, which is based on the household survey, has been on the decline. In October 2004 it was 5.5%, down almost a full percent from a recent high of 6.4% in June 2003. Illinois has continued to lag the nation and its unemployment rate in September 2004 was 6.0%. Even so, this is down from a recent high of 6.9% last September.
- The October unemployment rate is below the average unemployment rate of the 1970s, 1980s, and 1990s. It is hardly comparable to the job market during President Hoover or the Great Depression when the unemployment rate peaked at 24.9% in 1933 and remained above 20% for two more years. By 1937 it was still a whopping 14.3%.
- It is true, however, that the pace of job growth will be a key to future economic performance.



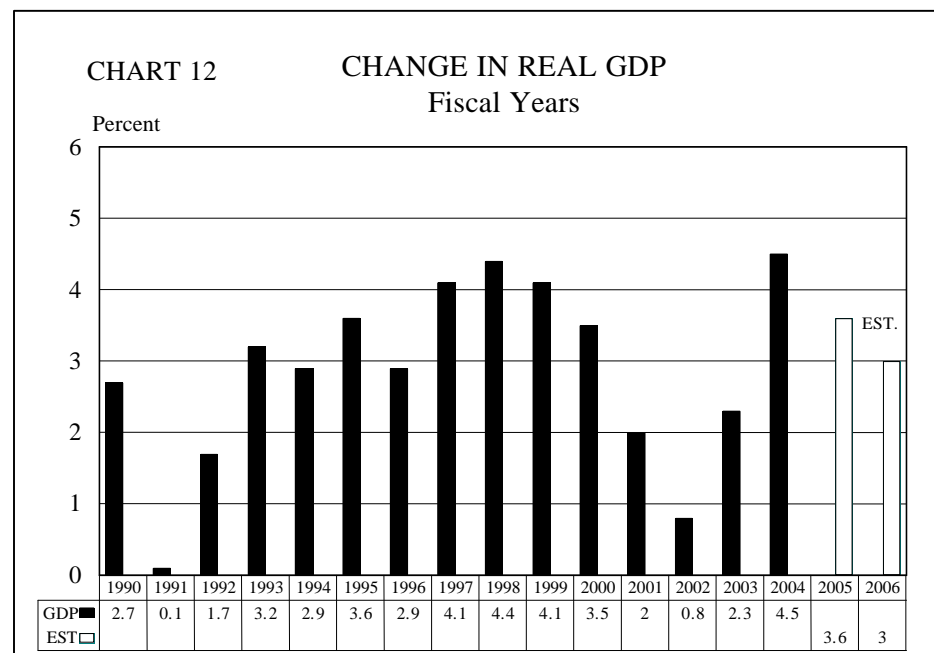
### CHART 11: Illinois Leading Economic Indicator

- The IEFC leading economic indicator has fluctuated more than in the past as the economy hit a soft patch, but overall has been on an upward course for over three years. This is in sharp contrast to declining trend that began in early 2000 just prior to the last recession that many now think started towards the end of that year.
- The indicator, which is based on measures of employment, hours worked, new building permits, and manufacturing components has been a good predictor of the future direction, if not the magnitude of change, in the economy.
- The indicator, thus, suggests continued economic expansion in the year ahead.



## CHART 12: Change in Real GDP

- The forecast for FY 2005 is for continued growth in economic activity, with real growth of 3.6%, down from the 4.5% rate achieved in FY 2004, but slightly above its long-term growth trend and better than the three years previous to FY 2004. As the economic expansion matures, growth is expected to be a more moderate 3.0% in FY 2006. (See Chart 12).
- Consumer spending is likely to ease off somewhat as housing and car sales weaken from their rates of recent years and interest rates creep up a bit, but business spending and increased exports will add more to overall strength while gains in overall government spending hold relatively stable at last year's pace.
- An improvement in the business sector should help to begin to narrow the gap that has existed between the performance of the Illinois economy and activity at the national level in recent years.
- While growth will be improved, serious financial problems will continue to be faced by most state governments as they adjust to the severe budget shortfalls accumulated over the past few years.



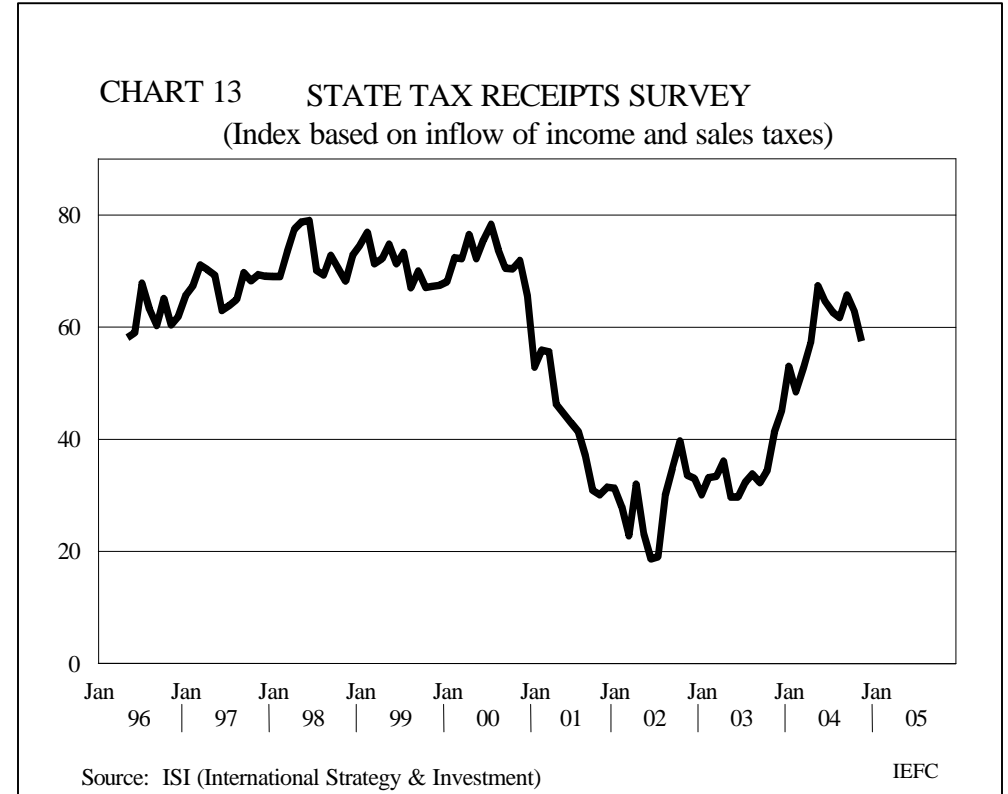
### ECONOMIC FORECASTS – NOVEMBER 2004

(\$ Change from prior year levels)

REAL (2000 \$)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
	Actual	Actual	Actual	Actual	Estimated	Estimated
Gross Domestic Product	2.0	0.8	2.3	4.5	3.6	3.0
Personal Consumption	3.5	2.8	3.0	3.8	3.2	2.8
Durable	3.5	7.0	5.8	8.5	4.7	2.6
Nondurable	3.0	2.3	2.5	4.8	3.1	2.8
Services	3.7	2.1	2.6	2.3	2.9	2.7
Fixed Investment (Business Spending)	-0.6	-8.7	1.4	11.2	9.2	2.6
Exports	7.5	-8.6	0.7	3.5	8.3	9.2
Imports	7.2	-4.2	6.7	9.4	6.8	4.4
Government	1.9	4.2	3.7	2.4	2.3	2.3
Federal	1.5	4.6	7.4	6.9	3.9	3.1
State & Local	2.4	3.3	1.6	0.7	1.2	2.1
<b>OTHER MEASURES</b>						
Personal Income (Current \$)	6.3	2.0	2.1	4.6	5.1	5.1
Personal Consumption (Current \$)	5.9	4.3	4.9	5.7	5.4	4.4
Before Tax Profits (Current \$)	-6.2	1.5	14.8	22.7	8.6	3.6
Consumer Prices	3.4	1.8	2.2	2.2	2.8	1.5
Unemployment Rate (Average)	4.1	5.5	5.9	5.8	5.4	5.5

### CHART 13: State Tax Receipts Survey

- Chart 13 indicates that state tax receipts have been on an upward trend since reaching a low in the summer of 2002. The rise has been particularly noticeable this year as states finally began to reap the benefit of increased revenues from the economic expansion. This survey is based upon data from 16 states -- including Illinois -- that have diverse geographic and population characteristics.
- It will take sustained improvement in employment to substantially increase income tax revenues and give consumers confidence to feel secure enough to increase spending and take on additional debt. Fortunately the outlook remains favorable.
- Even as state tax receipts improve, however, states first will have to begin to close the huge budget gaps that developed over recent years as their first priority. Thus, while economically-sensitive sectors of the economy will add to their revenue streams, decisions made in earlier budgets may act as restraints.



<b>*Walk-Up of FY 2005 Revenues From Introduced Budget vs. Enacted Budget</b>	
	(in Millions)
Total Base Revenues per Budget Book	\$25,313
Less loss of 10th riverboat license	(\$350)
<b>Adjusted Base</b>	<b>\$24,963</b>
<b><u>Items Increasing FY 2005 Revenues</u></b>	
Fund transfers	\$260
Change in tax refund percentage	\$172
Tax shelter loophole closing	\$100
Increased estimates for income taxes and other misc. sources	\$91
Change in fund chargebacks provisions	\$84
Hospital Assessment Tax transfer	\$80
Tax all income as business income	\$30
Increased federal match per FY'04 borrowing	\$25
Sale of assets	\$25
Liquor tax no longer being protested	\$24
DUI conviction fee increase	\$17
Foreign tax havens (80/20 rule)	\$15
SoS late fee	\$10
Other misc. fees (lottery, loan originator)	\$6
Watercraft use tax	\$6
ID card fee increase	\$2
<b>Total of Revenue Increases</b>	<b>\$947</b>
<b><u>Items Decreasing FY 2005 Revenues</u></b>	
End Road Fund chargebacks	(\$140)
Loss of Federal match from cuts	(\$109)
Manufacturer's purchase credit change	(\$20)
Industrial Commission fee change	(\$19)
Research and development credit change	(\$15)
Graphic arts tax credit change	(\$4)
Revise NPDES fees	(\$1)
<b>Total of Revenue Decreases</b>	<b>(\$308)</b>
<b>Net Change to Introduced Budget</b>	<b>\$639</b>
<b>REVISED FY 2005 BUDGET (Unofficial)</b>	<b>\$25,602</b>
*This information should be considered unofficial and was compiled utilizing information provided by various sources. These figures do not represent the Illinois Economic and Fiscal Commission's FY 2005 estimate.	

## REVENUE ASSUMPTION USED TO CRAFT FY 2005 BUDGET

- The accompanying table illustrates the various revenue assumptions used to craft the FY 2005 budget. **These figures do not represent the Illinois Economic and Fiscal Commission's FY 2005 estimate (see following page).**
- In the Governor's introduced budget, base FY 2005 general funds revenues were anticipated to be \$25.313 billion (excludes \$803 million in proposed "deficit reduction sources"). Later in the spring, \$350 million was removed from the forecast due to complexities surrounding the sale of the 10<sup>th</sup> riverboat license. As a result, adjusted base revenues were forecast to be \$24.963 billion.
- As detailed, approximately \$639 million in net changes were added to the adjusted base to arrive at an enacted budget amount of \$25.602 billion. Those adjustments were comprised of \$947 million worth of items increasing revenues and \$308 million in items having the effect of decreasing revenues.

*SOURCE: GOMB and various Legislative staffs.*



## IEFC vs. GOMB ESTIMATE COMPARISON

<i>FY 2005 General Revenue Estimates</i> <i>IEFC vs. Enacted (GOMB)</i> (millions)				
<b>Revenue Sources</b>	<b>IEFC FY 2005 Estimate Aug-04</b>	<b>Enacted GOMB Estimate Aug-04</b>	<b>\$ Difference</b>	
<b>State Taxes</b>				
Personal Income Tax	\$8,572	\$8,406	\$166	
Corporate Income Tax	\$1,308	\$1,129	\$179	
Sales Taxes	\$6,457	\$6,431	\$26	
Public Utility (regular)	\$1,090	\$1,102	(\$12)	
Cigarette Tax	\$450	\$400	\$50	
Liquor Gallonage Taxes	\$147	\$147	\$0	
Vehicle Use Tax	\$35	\$37	(\$2)	
Inheritance Tax (gross)	\$265	\$240	\$25	
Insurance Taxes & Fees	\$371	\$347	\$24	
Corporate Franchise Tax & Fees	\$168	\$175	(\$7)	
Interest on State Funds & Investments	\$54	\$45	\$9	
Cook County Intergovernmental Transfer	\$450	\$450	\$0	
Sale of 10th Riverboat License	\$0	\$0	\$0	
<b>Other Sources</b>	<b>\$500</b>	<b>\$732</b>	<b>(\$232)</b>	
<b>Subtotal</b>	<b>\$19,867</b>	<b>\$19,641</b>	<b>\$226</b>	
<b>Transfers</b>				
Lottery	\$575	\$578	(\$3)	
Riverboat Transfers & Receipts	\$642	\$653	(\$11)	
Medicaid Provider Relief Fund*	\$433	\$433	\$0	
<b>Other</b>	<b>\$1,044</b>	<b>\$1,154</b>	<b>(\$110)</b>	
<b>Total State Sources</b>	<b>\$22,561</b>	<b>\$22,459</b>	<b>\$102</b>	
<b>Federal Sources*</b>	<b>\$4,255</b>	<b>\$4,255</b>	<b>\$0</b>	
<b>Total Federal &amp; State Sources</b>	<b>\$26,816</b>	<b>\$26,714</b>	<b>\$102</b>	
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$864)	(\$841)	(\$23)	
Corporate Income Tax	(\$318)	(\$271)	(\$47)	
<b>Subtotal General Funds</b>	<b>\$25,634</b>	<b>\$25,602</b>	<b>\$32</b>	
Budget Stabilization Fund Transfer	\$276	\$276	\$0	
<b>Total General Funds</b>	<b>\$25,910</b>	<b>\$25,878</b>	<b>\$32</b>	
<p>* The GOMB includes the \$433 million from the Medicaid Provider Relief Fund in their estimate of federal sources. The Comptroller's Office records that money as a transfer in. For comparison purposes, the GOMB's federal source estimate was adjusted to take this into account. [\$4.255 billion + \$433 million = \$4.688 billion].</p>				
IEFC				

**This table compares the IEFC's August FY 2005 estimate with that of the GOMB. While varying in total by only \$32 million, significant differences exist between anticipated revenues in a number of individual lines.**

- The IEFC's estimates of the more closely-tied economic sources such as income and sales are higher and were formulated based upon the most recent data available, while GOMB used only a slightly adjusted budget book forecast.
- IEFC's cigarette tax estimate is based on language in P.A. 93-0839. [The additional \$50 million has already been receipted].
- Specific details of GOMB "other sources" estimate are unknown, but differences are likely due to anticipated fee revenues and where revenues from new sources are to be counted.
- The IEFC's estimate of other transfers is lower due to fewer transfers being available via chargebacks and other miscellaneous transfers.

<b>IEFC FY 2005 ESTIMATE &amp; FY 2004 ACTUALS</b>				
<b>(millions)</b>				
	<b>IEFC</b>			
<b>Revenue Sources</b>	<b>Estimate</b>	<b>Actual</b>	<b>\$</b>	<b>%</b>
	<b>FY 2005 Aug-04</b>	<b>FY 2004</b>	<b>Difference</b>	<b>Difference</b>
<b>State Taxes</b>				
Personal Income Tax	\$8,572	\$8,235	\$337	4.1%
Corporate Income Tax	\$1,308	\$1,379	(\$71)	-5.1%
Sales Taxes	\$6,457	\$6,331	\$126	2.0%
Public Utility (regular)	\$1,090	\$1,079	\$11	1.0%
Cigarette Tax	\$450	\$400	\$50	12.5%
Liquor Gallonage Taxes	\$147	\$127	\$20	15.7%
Vehicle Use Tax	\$35	\$35	\$0	0.0%
Inheritance Tax (gross)	\$265	\$222	\$43	19.4%
Insurance Taxes & Fees	\$371	\$362	\$9	2.5%
Corporate Franchise Tax & Fees	\$168	\$163	\$5	3.1%
Interest on State Funds & Investments	\$54	\$55	(\$1)	-1.8%
Cook County Intergovernmental Transfer	\$450	\$428	\$22	5.1%
Other Sources	\$500	\$439	\$61	13.9%
<b>Subtotal</b>	<b>\$19,867</b>	<b>\$19,255</b>	<b>\$612</b>	<b>3.2%</b>
<b>Transfers</b>				
Lottery	\$575	\$570	\$5	0.9%
Riverboat Transfers & Receipts	\$642	\$661	(\$19)	-2.9%
Medicaid Provider Relief Fund*	\$433	\$0	\$433	N/A
Other	\$1,044	\$1,159	(\$115)	-9.9%
<b>Total State Sources</b>	<b>\$22,561</b>	<b>\$21,645</b>	<b>\$916</b>	<b>4.2%</b>
<b>Federal Sources*</b>	<b>\$4,255</b>	<b>\$5,189</b>	<b>(\$934)</b>	<b>-18.0%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$26,816</b>	<b>\$26,834</b>	<b>(\$18)</b>	<b>-0.1%</b>
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund*</b>				
Personal Income Tax	(\$864)	(\$964)	\$100	-10.4%
Corporate Income Tax	(\$318)	(\$442)	\$124	-28.1%
<b>Subtotal General Funds</b>	<b>\$25,634</b>	<b>\$25,428</b>	<b>\$206</b>	<b>0.8%</b>
Budget Stabilization Fund Transfer	\$276	\$226	\$50	22.1%
Pension Contribution Fund Transfer	\$0	\$1,395	(\$1,395)	-100.0%
<b>Total General Funds</b>	<b>\$25,910</b>	<b>\$27,049</b>	<b>(\$1,139)</b>	<b>-4.2%</b>
*The \$433 million in Medicaid Provider Relief Fund transfers represents federal money related to FY 2004 short-term borrowing. Since the Comptroller's Office records that money as a transfer in, it is being presented as such. However, it could also be considered as federal money which would result in a total federal estimate of \$4.688 billion.				
IEFC 11/10/2004 10:19				

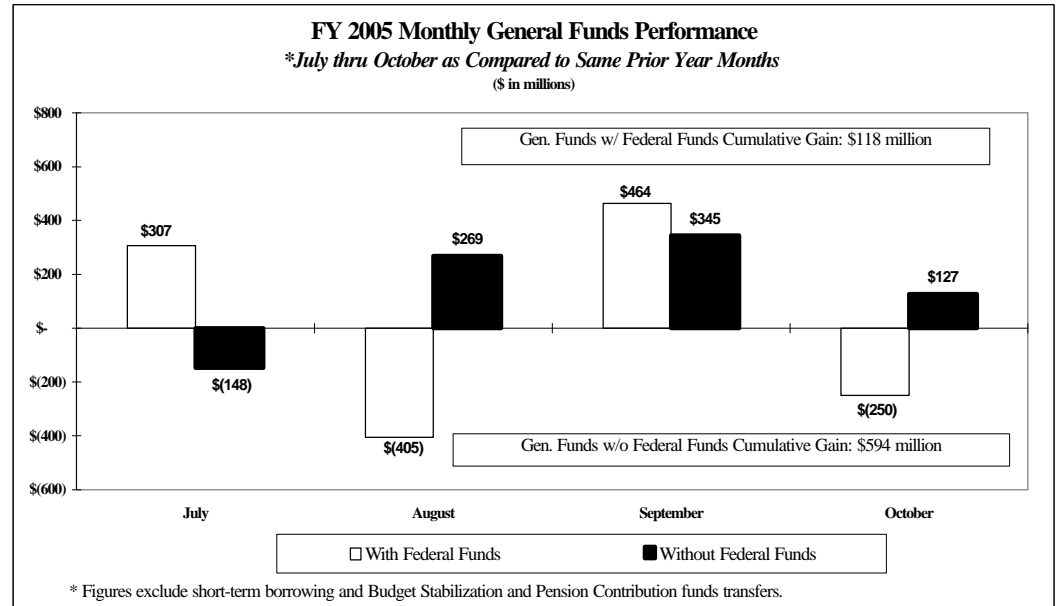
<b>GOMB FY 2005 ESTIMATE &amp; FY 2004 ACTUALS</b>				
<b>(millions)</b>				
	<b>GOMB</b>			
<b>Revenue Sources</b>	<b>Estimate</b>	<b>Actual</b>	<b>\$</b>	<b>%</b>
	<b>FY 2005 Aug-04</b>	<b>FY 2004</b>	<b>Difference</b>	<b>Difference</b>
<b>State Taxes</b>				
Personal Income Tax	\$8,406	\$8,235	\$171	2.1%
Corporate Income Tax	\$1,129	\$1,379	(\$250)	-18.1%
Sales Taxes	\$6,431	\$6,331	\$100	1.6%
Public Utility (regular)	\$1,102	\$1,079	\$23	2.1%
Cigarette Tax	\$400	\$400	\$0	0.0%
Liquor Gallonage Taxes	\$147	\$127	\$20	15.7%
Vehicle Use Tax	\$37	\$35	\$2	5.7%
Inheritance Tax (gross)	\$240	\$222	\$18	8.1%
Insurance Taxes & Fees	\$347	\$362	(\$15)	-4.1%
Corporate Franchise Tax & Fees	\$175	\$163	\$12	7.4%
Interest on State Funds & Investments	\$45	\$55	(\$10)	-18.2%
Cook County Intergovernmental Transfer	\$450	\$428	\$22	5.1%
Other Sources	\$732	\$439	\$293	66.7%
<b>Subtotal</b>	<b>\$19,641</b>	<b>\$19,255</b>	<b>\$386</b>	<b>2.0%</b>
<b>Transfers</b>				
Lottery	\$578	\$570	\$8	1.4%
Riverboat Transfers & Receipts	\$653	\$661	(\$8)	-1.2%
Medicaid Provider Relief Fund*	\$433	\$0	\$433	N/A
Other	\$1,154	\$1,159	(\$5)	-0.4%
<b>Total State Sources</b>	<b>\$22,459</b>	<b>\$21,645</b>	<b>\$814</b>	<b>3.8%</b>
<b>Federal Sources*</b>	<b>\$4,255</b>	<b>\$5,189</b>	<b>(\$934)</b>	<b>-18.0%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$26,714</b>	<b>\$26,834</b>	<b>(\$120)</b>	<b>-0.4%</b>
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund*</b>				
Personal Income Tax	(\$841)	(\$964)	\$123	-12.8%
Corporate Income Tax	(\$271)	(\$442)	\$171	-38.7%
<b>Subtotal General Funds</b>	<b>\$25,602</b>	<b>\$25,428</b>	<b>\$174</b>	<b>0.7%</b>
Budget Stabilization Fund Transfer	\$276	\$226	\$50	22.1%
Pension Contribution Fund Transfer	\$0	\$1,395	(\$1,395)	-100.0%
<b>Total General Funds</b>	<b>\$25,878</b>	<b>\$27,049</b>	<b>(\$1,171)</b>	<b>-4.3%</b>
*The \$433 million in Medicaid Provider Relief Fund transfers represents federal money related to FY 2004 short-term borrowing. Since the Comptroller's Office records that money as a transfer in, it is being presented as such. However, it could also be considered as federal money which would result in a total federal estimate of \$4.688 billion.				
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## FY 2005 REVENUE RECAP

General funds revenue performance through the first third of the fiscal year has been mixed. **Excluding Budget Stabilization and Pension Contribution Fund transfers, overall revenues have increased by \$118 million. However, if the decline of \$476 million in federal-related sources is excluded, other non-federal sources are \$594 million higher than the same prior year period as most of the more closely-tied economically related sources have performed quite well in early FY 2005.**

**July-** General revenue receipts, excluding Pension Contribution Fund and Budget Stabilization Fund transfers, rose \$307 million. However, this increase primarily was due to transfers into the general funds related to the short-term borrowing for Medicaid bills entered into late last fiscal year [P.A. 93-674]. In essence, \$433 million in federal reimbursement related to FY 2004 Medicaid spending was ultimately transferred to the general funds in July. Excluding those transfers as well as other federal receipts, July receipts actually fell \$148 million as the other revenue lines were mixed.

**August-** Excluding last fiscal year's Pension Contribution Fund transfer, August general funds revenues fell \$405 million. The large decline reflected an expected drop-off in August's federal receipting. Absent federal sources, many other revenue sources performed quite well, with the more closely-tied economic sources experiencing decent gains. Absent the decline attributed to federal sources, monthly revenues improved by \$269 million.



**September-** General revenue receipts, excluding Pension Contribution Fund transfers, gained \$464 million. While federal sources and overall transfers contributed the largest share, virtually all revenue sources performed well. Even if federal sources were excluded, monthly revenues gained \$345 million over the previous September.

**October-** Excluding Budget Stabilization Fund and Pension Contribution Fund transfers, general funds revenues fell \$250 million. While most of the more closely-tied economic sources performed well, a comparatively weak month for federal sources erased all the gains from non-federal sources. The abrupt decline in federal sources was due to last year's second installment of a federal flexible grant. If federal sources are excluded from the comparison, October receipts rose by \$127 million.

## INDIVIDUAL SOURCE PERFORMANCE TO DATE

<b>GENERAL FUNDS RECEIPTS: THROUGH OCTOBER</b>				
<i>FY 2005 vs. FY 2004</i>				
<i>(\$ million)</i>				
<b>Revenue Sources</b>	<b>FY 2005</b>	<b>FY 2004</b>	<b>CHANGE FROM FY 2004</b>	<b>% CHANGE</b>
<b>State Taxes</b>				
Personal Income Tax	\$2,459	\$2,353	\$106	4.5%
Corporate Income Tax (regular)	\$322	\$222	\$100	45.0%
Sales Taxes	\$2,214	\$2,102	\$112	5.3%
Public Utility Taxes (regular)	\$318	\$327	(\$9)	-2.8%
Cigarette Tax	\$183	\$133	\$50	37.6%
Liquor Gallonage Taxes	\$50	\$43	\$7	16.3%
Vehicle Use Tax	\$12	\$13	(\$1)	-7.7%
Inheritance Tax (Gross)	\$88	\$63	\$25	39.7%
Insurance Taxes and Fees	\$94	\$80	\$14	17.5%
Corporate Franchise Tax & Fees	\$60	\$49	\$11	22.4%
Interest on State Funds & Investments	\$13	\$22	(\$9)	-40.9%
Cook County IGT	\$130	\$130	\$0	0.0%
Other Sources	\$142	\$64	\$78	121.9%
<b>Subtotal</b>	<b>\$6,085</b>	<b>\$5,601</b>	<b>\$484</b>	<b>8.6%</b>
<b>Transfers</b>				
Lottery	\$184	\$161	\$23	14.3%
Riverboat transfers & receipts	\$263	\$259	\$4	1.5%
Medicaid Provider Relief Fund	\$434	\$0	\$434	N/A
Other	\$355	\$284	\$71	25.0%
<b>Total State Sources</b>	<b>\$7,321</b>	<b>\$6,305</b>	<b>\$1,016</b>	<b>16.1%</b>
<b>Federal Sources</b>				
<b>Total Federal &amp; State Sources</b>	<b>\$1,313</b>	<b>\$2,223</b>	<b>(\$910)</b>	<b>-40.9%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$8,634</b>	<b>\$8,528</b>	<b>\$106</b>	<b>1.2%</b>
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$252)	(\$275)	\$23	-8.4%
Corporate Income Tax	(\$82)	(\$71)	(\$11)	15.5%
<b>Subtotal General Funds</b>	<b>\$8,300</b>	<b>\$8,182</b>	<b>\$118</b>	<b>1.4%</b>
<b>Budget Stabilization Fund Transfer</b>	\$276	\$226	\$50	22.1%
<b>Pension Contribution Fund Transfer</b>	\$0	\$669	(\$669)	N/A
<b>Total General Funds</b>	<b>\$8,576</b>	<b>\$9,077</b>	<b>(\$501)</b>	<b>-5.5%</b>

SOURCE: Office of the Comptroller, State of Illinois: Some totals may not equal, due to rounding.  
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- Gross personal income tax has performed quite well over the first third of the fiscal year with withholding, estimated, and final payments all measurably up.
- Gross corporate income tax is up markedly, however, some of that gain may be attributed to a poor start to last year as some corporate taxpayers waited until the tax amnesty period. In addition, the impact of last year's amnesty program, which accelerated revenues into FY 2004, will be felt over the coming months as the rate of increase should fall significantly.
- While sales tax has performed somewhat higher than anticipated thus far, the current rate of increase should temper over the coming months due to: last year's tax amnesty program; a comparatively stronger latter two-thirds of FY 2004; and, this year's reinstatement of select sales tax credits.
- Cigarette tax is up due to the temporary change in tax distribution that has now ended.
- Inheritance is up due in part to annualizations of earlier decoupling action.
- Interest income is still lagging, although as rates of return edge up, comparative rates of decline should also improve.
- Other sources are up due to the timing of last year's fee increases that are now annualizing.
- Transfers are up due to good lottery performance as well as statutory fund transfers that were part of the FY 2005 budget plan. In addition, while \$434 million in Medicaid Provider Fund transfers are counted as a transfer, those monies are related to last year's Medicaid borrowing and, as a result, can be viewed as federal sources [represents federal reimbursement from FY 2004 Medicaid spending].
- While federal sources are down substantially over the first third of the year, as mentioned above, Medicaid Provider Relief Fund transfers could be considered federal money. In addition, in early FY 2004, \$422 million in federal flexible grants were receipted, a higher match rate was occurring, and a concerted effort to pay Medicaid bills was undertaken. All of these items served to reduce federal sources on a comparative basis.

Excluding Budget Stabilization and Pension Contribution Fund transfers, overall revenues are up just \$118 million, or 1.4%. However, that modest increase stems from last year's phenomenal federal source performance. **Federal sources aside, most of the other revenue sources, particularly the economically-related ones, have performed quite well during the first third of the year. While rates of growth will likely moderate over the coming months due to a variety of reasons and a level of uncertainty still exists, clearly revenues appear to be moving in the right direction.**

**GENERAL FUNDS GROWTH NEEDED TO MEET IEFB ESTIMATE**

*FY 2005 ESTIMATE vs. FY 2004 ACTUAL*

*(\$ million)*

	Aug-04 ESTIMATE	FYTD 2005	AMOUNT NEEDED FY 2005 EST.	FYTD 2004	GROWTH NEEDED	% CHANGE
<b>Revenue Sources</b>						
<i>State Taxes</i>						
Personal Income Tax	\$8,572	\$2,459	\$6,113	\$2,353	\$231	3.9%
Corporate Income Tax (regular)	\$1,308	\$322	\$986	\$222	(\$171)	-14.8%
Sales Taxes	\$6,457	\$2,214	\$4,243	\$2,102	\$14	0.3%
Public Utility Taxes (regular)	\$1,090	\$318	\$772	\$327	\$20	2.7%
Cigarette Tax	\$450	\$183	\$267	\$133	\$0	0.0%
Liquor Gallonage Taxes	\$147	\$50	\$97	\$43	\$13	15.5%
Vehicle Use Tax	\$35	\$12	\$23	\$13	\$1	4.5%
Inheritance Tax (Gross)	\$265	\$88	\$177	\$63	\$18	11.3%
Insurance Taxes and Fees	\$371	\$94	\$277	\$80	(\$5)	-1.8%
Corporate Franchise Tax & Fees	\$168	\$60	\$108	\$49	(\$6)	-5.3%
Interest on State Funds & Investments	\$54	\$13	\$41	\$22	\$8	24.2%
Cook County IGT	\$450	\$130	\$320	\$130	\$22	7.4%
Other Sources	\$500	\$142	\$358	\$64	(\$17)	-4.5%
<i>Subtotal</i>	\$19,867	\$6,085	\$13,782	\$5,601	\$128	0.9%
<i>Transfers</i>						
Lottery	\$575	\$184	\$391	\$161	(\$18)	-4.4%
Riverboat transfers & receipts	\$642	\$263	\$379	\$259	(\$23)	-5.7%
Medicaid Provider Relief Fund	\$433	\$434	(\$1)	\$0	N/A	N/A
Other	\$1,044	\$355	\$689	\$284	(\$186)	-21.3%
<i>Total State Sources</i>	\$22,561	\$7,321	\$15,240	\$6,305	(\$100)	-0.7%
<i>Federal Sources</i>	\$4,255	\$1,313	\$2,942	\$2,223	(\$24)	-0.8%
<i>Total Federal &amp; State Sources</i>	\$26,816	\$8,634	\$18,182	\$8,528	(\$124)	-0.7%
<i>Nongeneral Funds Distribution:</i>						
<i>Refund Fund</i>						
Personal Income Tax	(\$864)	(\$252)	(\$612)	(\$275)	\$77	-11.2%
Corporate Income Tax	(\$318)	(\$82)	(\$236)	(\$71)	\$135	-36.4%
<i>Subtotal General Funds</i>	\$25,634	\$8,300	\$17,334	\$8,182	\$88	0.5%
<i>Budget Stabilization Fund Transfer</i>	\$276	\$0	\$276	\$226	\$276	N/A
<i>Pension Contribution Fund Transfer</i>	\$0	\$0	\$0	\$669	(\$726)	-100.0%
<i>Total General Funds</i>	\$25,910	\$8,300	\$17,610	\$9,077	(\$362)	-2.0%
<b>IEFC</b>						

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**FY 2005 REVENUE FORECAST UNCHANGED**

While variances exist in most of the revenue lines, overall revenue performance through the first third of the fiscal year has met in most instances, and in some cases even exceeded expectations. Despite this positive early performance, a number of uncertainties still exist which could serve to temper future growth (see below). As a result, the Commission's forecast remains unchanged.

**Remaining Uncertainties**

Non-Economic Uncertainties

- Comparative impact of last year's amnesty program on FY 2005 revenues yet to occur
- Performance of revenue assumptions used to craft FY 2005 budget remain
  - Loophole closures
  - Sale of State assets
  - New fees and taxes
  - Chargebacks

Economic Uncertainties

- Price of Oil
- Stock market performance
- Consumer Confidence
- Slow job growth and resulting income gains
- Impact of continuing threats of terrorism

**FY 2006 REVENUE PICTURE –  
DIFFICULT TIMES CONTINUE**

**Unfortunately, even with expected base growth of approximately 4% for the more closely-tied economic sources such as income and sales, due to various one-time revenues used to craft the FY 2005 budget as well as statutory changes, revenue growth is anticipated to be an unimpressive \$325 million.**

- Base personal and corporate income taxes are expected to grow approximately 4% in FY 2006. However, since FY 2005 assumes an estimated one-time \$100 million from the FY 2005 tax shelter amnesty program, overall net growth for income taxes are forecast to be only \$240 million.
- Sales tax receipts are also forecast to grow 4% in FY 2006. That rate of change would equate into about \$260 million in growth.
- Miscellaneous other sources can be expected to contribute approximately \$50 million in additional revenues i.e. public utility, insurance, interest earnings.
- While revenues from federal sources are dependent in large part on appropriation levels, assuming a 4% increase in overall federal monies would add approximately \$190 million in growth.

**Since a number of one-time revenue sources were used to craft the FY 2005 budget, unless similar or new one-time items can be utilized in FY 2006, certain areas will experience negative growth for a number of reasons:**

- In FY 2005, approximately \$265 million from various funds will be swept into the general funds. Unless similar fund sweeps and chargebacks are available next year, it would equate in a drop of a \$265 million.

<b>FY 2006 Revenue Growth (\$ millions)</b>	
Net change in income taxes	\$240
Sales tax	\$260
Miscellaneous other sources	\$50
Federal source revenues	\$190
One-time FY' 05 funds sweep	(\$265)
One-time FY' 05 Cigarette tax distribution change	(\$50)
One-time FY' 05 sale of State property	(\$25)
Return to lower riverboat tax structure	(\$75)
<b>Anticipated General Funds Revenue Growth</b>	<b>\$325</b>

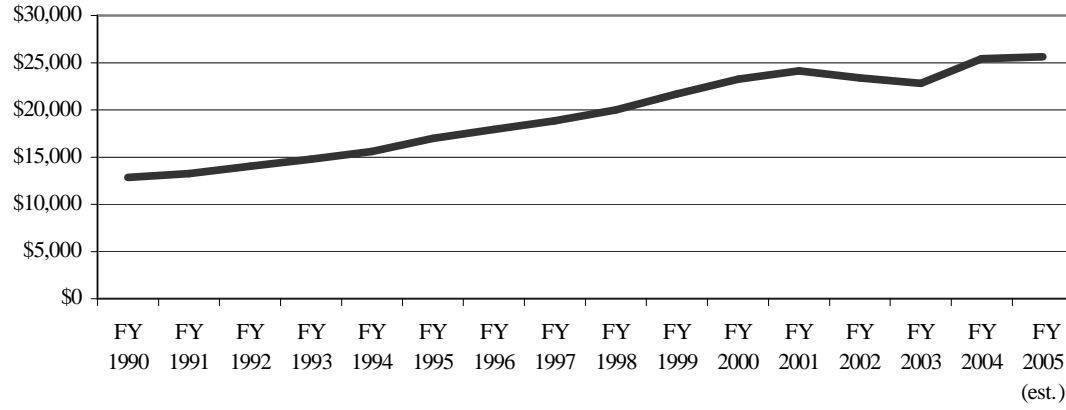
- In FY 2005, a temporary cigarette tax distribution change was made which had the effect of increasing cigarette taxes to the general funds by \$50 million (the overall tax rate was not changed, just the distribution of the tax). Since the distribution already has returned to its original pattern, unless some other change is made, FY 2006 cigarette revenues to the general funds will be \$50 million less than in FY 2005.
- The FY 2005 budget assumes a one-time \$25 million from the sale of State properties. Unless a similar assumption is made for FY 2006, a \$25 million decrease will occur.
- Absent legislative changes, according to current law, tax rates for riverboat gaming will revert back to earlier levels. While it is assumed that market forces will adjust and additional play will return to Illinois, it's unlikely that it will offset the lower rates. As a result, riverboat transfers to the general funds could fall an estimated \$75 million.

**GENERAL FUNDS REVENUE FY 1995 - FY 2005**

(\$ million)

<b>Revenue Sources</b>	<b>Actual Receipts FY 1995</b>	<b>Actual Receipts FY 1996</b>	<b>Actual Receipts FY 1997</b>	<b>Actual Receipts FY 1998</b>	<b>Actual Receipts FY 1999</b>	<b>Actual Receipts FY 2000</b>	<b>Actual Receipts FY 2001</b>	<b>Actual Receipts FY 2002</b>	<b>Actual Receipts FY 2003</b>	<b>Actual Receipts FY 2004</b>	<b>IEFC Aug-04 Estimate FY 2005</b>
<b>State Taxes</b>											
Personal Income Tax	\$5,710	\$6,070	\$6,552	\$7,269	\$7,778	\$8,273	\$8,607	\$8,086	\$7,979	\$8,235	\$8,572
Corporate Income Tax (regular)	1,103	1,209	1,361	1,402	1,384	1,527	1,279	1,043	1,011	1,379	1,308
Sales Taxes	4,651	4,798	4,992	5,274	5,609	6,027	5,958	6,051	6,059	6,331	6,457
Public Utility Taxes (regular)	743	833	873	912	1,019	1,116	1,146	1,104	1,006	1,079	1,090
Cigarette Tax	300	300	300	346	403	400	400	400	400	400	450
Liquor Gallonage Taxes	57	58	57	57	57	128	124	123	123	127	147
Vehicle Use Tax	39	37	37	37	38	38	34	38	34	35	35
Inheritance Tax (Gross)	182	187	199	250	347	348	361	329	237	222	265
Insurance Taxes and Fees	159	160	146	91	208	209	246	272	313	362	371
Corporate Franchise Tax & Fees	102	101	121	118	117	139	146	159	142	163	168
Interest on State Funds & Investments	121	133	144	182	212	233	274	135	66	55	54
Cook County Intergovernmental Transfer	0	0	251	152	218	245	245	245	355	428	450
Other Sources	222	217	157	181	190	194	407	512	349	439	500
<b>Subtotal</b>	<b>\$13,389</b>	<b>\$14,103</b>	<b>\$15,190</b>	<b>\$16,271</b>	<b>\$17,580</b>	<b>\$18,877</b>	<b>\$19,227</b>	<b>\$18,497</b>	<b>\$18,074</b>	<b>\$19,255</b>	<b>\$19,867</b>
<b>Transfers</b>											
Lottery	588	594	590	560	540	515	501	555	540	570	575
Gaming Fund Transfer	171	205	185	170	240	330	460	470	554	661	642
Medicaid Provider Relief Fund	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	433
Other	338	327	309	346	411	514	452	454	589	1,159	1,044
<b>Total State Sources</b>	<b>\$14,486</b>	<b>\$15,229</b>	<b>\$16,274</b>	<b>\$17,347</b>	<b>\$18,771</b>	<b>\$20,236</b>	<b>\$20,640</b>	<b>\$19,976</b>	<b>\$19,757</b>	<b>\$21,645</b>	<b>\$22,561</b>
<b>Federal Sources</b>	<b>\$3,098</b>	<b>\$3,339</b>	<b>\$3,269</b>	<b>\$3,323</b>	<b>\$3,718</b>	<b>\$3,891</b>	<b>\$4,320</b>	<b>\$4,258</b>	<b>\$3,940</b>	<b>\$5,189</b>	<b>\$4,255</b>
<b>Total Federal &amp; State Sources</b>	<b>\$17,584</b>	<b>\$18,568</b>	<b>\$19,543</b>	<b>\$20,670</b>	<b>\$22,489</b>	<b>\$24,127</b>	<b>\$24,960</b>	<b>\$24,234</b>	<b>\$23,697</b>	<b>\$26,834</b>	<b>\$26,816</b>
<b>Nongeneral Funds Distribution:</b>											
<b>Refund Fund</b>											
Personal Income Tax	(\$377)	(\$401)	(\$413)	(\$421)	(\$552)	(\$587)	(\$611)	(\$615)	(\$638)	(\$964)	(\$864)
Corporate Income Tax	(205)	(231)	(276)	(265)	(263)	(290)	(243)	(240)	(273)	(442)	(318)
<b>Subtotal General Funds</b>	<b>\$17,002</b>	<b>\$17,936</b>	<b>\$18,854</b>	<b>\$19,984</b>	<b>\$21,674</b>	<b>\$23,250</b>	<b>\$24,106</b>	<b>\$23,379</b>	<b>\$22,786</b>	<b>\$25,428</b>	<b>\$25,634</b>
Change from Prior Year	\$1,416	\$934	\$918	\$1,130	\$1,690	\$1,576	\$856	(\$727)	(\$593)	\$2,642	\$206
Percent Change	9.1%	5.5%	5.1%	6.0%	8.5%	7.3%	3.7%	-3.0%	-2.5%	11.6%	0.8%
<b>Short-Term Borrowing</b>	<b>\$300</b>	<b>\$200</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$1,675</b>	<b>\$0</b>	<b>\$0</b>
<b>Budget Stabilization Fund Transfer</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$226</b>	<b>\$226</b>	<b>\$226</b>	<b>\$276</b>
<b>Pension Contribution Fund Transfer</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$300</b>	<b>\$1,395</b>	<b>\$0</b>
<b>Total General Funds</b>	<b>\$17,302</b>	<b>\$18,136</b>	<b>\$18,854</b>	<b>\$19,984</b>	<b>\$21,674</b>	<b>\$23,250</b>	<b>\$24,106</b>	<b>\$23,605</b>	<b>\$24,987</b>	<b>\$27,049</b>	<b>\$25,910</b>
Change from Prior Year	\$1,116	\$834	\$718	\$1,130	\$1,690	\$1,576	\$856	(\$501)	\$1,382	\$2,062	(\$1,139)
Percent Change	6.9%	4.8%	4.0%	6.0%	8.5%	7.3%	3.7%	-2.1%	5.9%	8.3%	-4.2%
IEFC						11/09/04					

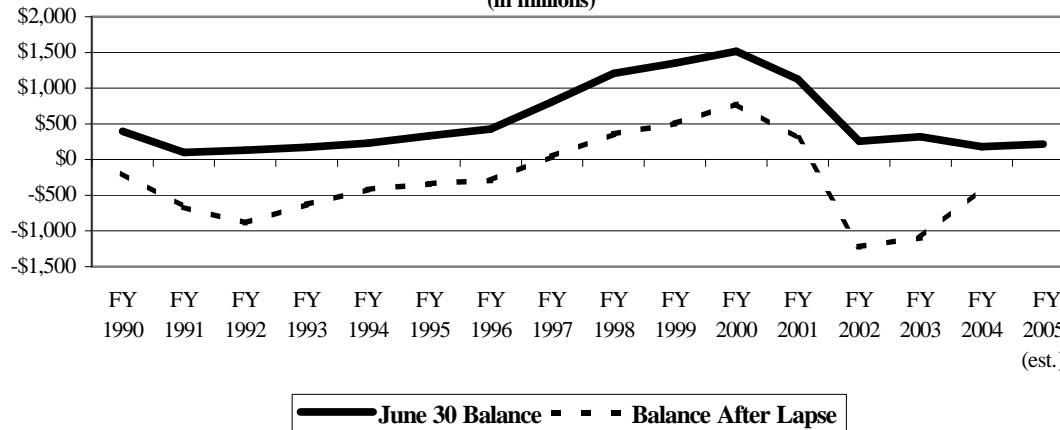
**General Funds Revenue History: FY 1990 - FY 2005**  
**Excludes Short-Term Borrowing, Budget Stabilization and Pension**  
**Contribution Fund Transfers**  
(in millions)



General Funds      Annual \$ Change      % Change  
(in millions)

Fiscal Year	General Funds (in millions)	Annual \$ Change	% Change
FY 1990	\$12,841	-	-
FY 1991	\$13,261	\$420	3.3%
FY 1992	\$14,032	\$771	5.8%
FY 1993	\$14,750	\$718	5.1%
FY 1994	\$15,586	\$836	5.7%
FY 1995	\$17,002	\$1,416	9.1%
FY 1996	\$17,936	\$934	5.5%
FY 1997	\$18,854	\$918	5.1%
FY 1998	\$19,984	\$1,130	6.0%
FY 1999	\$21,674	\$1,690	8.5%
FY 2000	\$23,250	\$1,576	7.3%
FY 2001	\$24,106	\$856	3.7%
FY 2002	\$23,379	-\$727	-3.0%
FY 2003	\$22,786	-\$593	-2.5%
FY 2004	\$25,428	\$2,642	11.6%
FY 2005 (est.)	\$25,634	\$206	0.8%

**General Funds Balances - Cash Basis**  
**FY 1990 - FY 2005**  
(in millions)



June 30 Balance      Balance After Lapse  
(in millions)

Fiscal Year	June 30 Balance (in millions)	Balance After Lapse (in millions)
FY 1990	\$395	-\$191
FY 1991	\$100	-\$666
FY 1992	\$131	-\$887
FY 1993	\$172	-\$630
FY 1994	\$230	-\$422
FY 1995	\$331	-\$341
FY 1996	\$426	-\$292
FY 1997	\$806	\$45
FY 1998	\$1,202	\$356
FY 1999	\$1,351	\$503
FY 2000	\$1,517	\$777
FY 2001	\$1,126	\$300
FY 2002	\$256	-\$1,220
FY 2003	\$317	-\$1,094
FY 2004	\$182	-\$407
FY 2005 (est.)	\$214	N/A