Commission on Government
Forecasting and Accountability

PRELIMINARY
FY 2006 REVENUE ESTIMATE

and

UPDATED FY 2005 REVENUE OUTLOOK

MARCH 2005

703 Stratton Office Building
Springfield, Illinois 62706

Commission on Government Forecasting and Accountability

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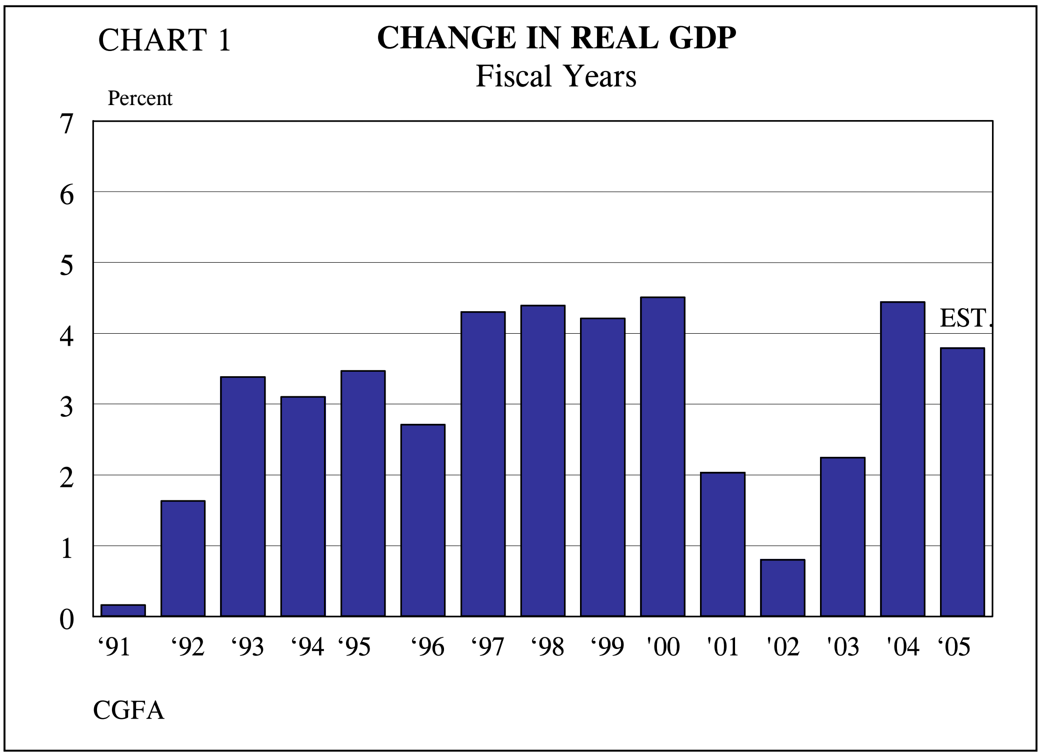
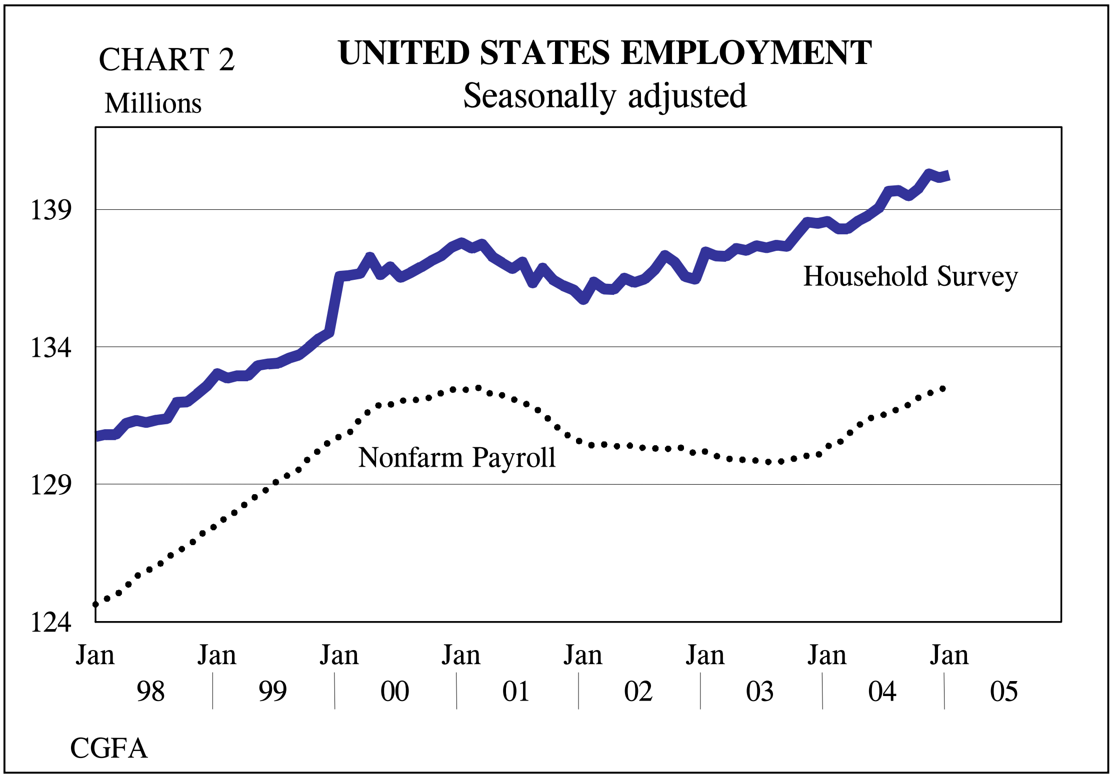
PRELIMINARY FY 2006 REVENUE ESTIMATE

REVIEW OF FY 2005:
Economy Moderates While Employment and Receipts Improve

The pace of economic advance in the U.S. edged lower during FY 2005, following a sharp rebound in FY 2004, but remained above its long-term trend. (See Chart 1.) Real gross domestic product (GDP) is estimated to have grown at a 3.8% rate in FY 2005, although further data and revisions are yet to be released, down from the rapid 4.5% recorded for FY 2004. The more moderate rate of growth, however, not only was anticipated, but also is in line with both the Commission's expectations made at this time last year and with its later revisions put forward last November.



The consumer, which generally accounts for two-thirds of total spending, as expected, held up at about the previous year's pace despite some softening in purchases of large-ticket items, such as automobiles, from the soaring pace set during FY 2004. At the same time, business picked up its rate of spending; exports held at a strong pace, while government spending remained restrained. Unlike last year, however, the employment situation improved throughout the year, particularly the important payroll series that had shown virtually no gain at this time last year and was well below its previous peak. (See Chart 2.) The unemployment rate also continued its decline, falling to 5.2% in January 2005 down from 5.6% a year earlier and a recent peak of 6.4% in June 2004.



Overall state tax receipts, which began to improve last year, showed further advances during the fiscal year aided by an improved employment situation. (See Chart 3.) The later buoyed personal income in current dollars from a 4.6% gain in FY 2004 to an estimated 5.5% advance in FY 2005. Continued gains in corporate profits added to the increase in tax receipts while further strong consumer spending and somewhat higher prices, particularly for gasoline, added to sales tax collections.

In reviewing FY 2005, the pace of economic advance moderated but the employment picture brightened, bringing with it an improvement in state tax receipts from the economically-sensitive sectors of the states' tax structure. Further gains will be needed, however, given the severe financial squeeze most faced in recent years, if states are to return to their previous financial conditions.

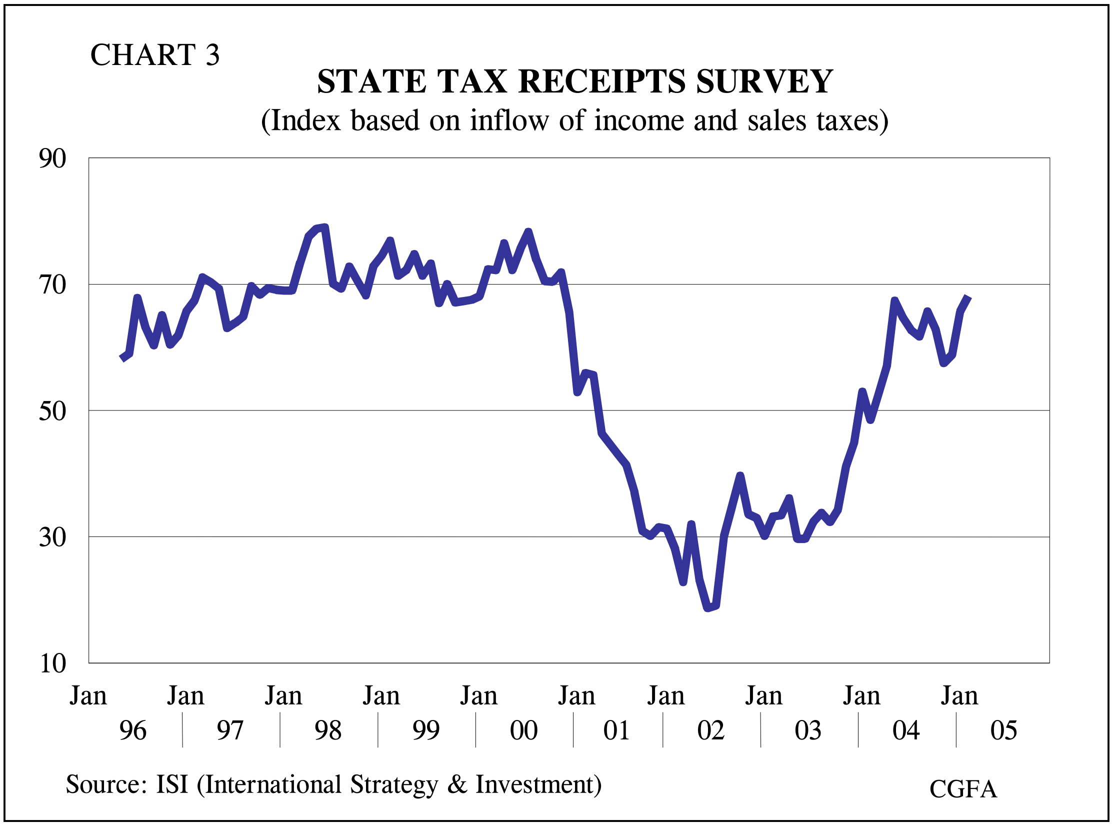
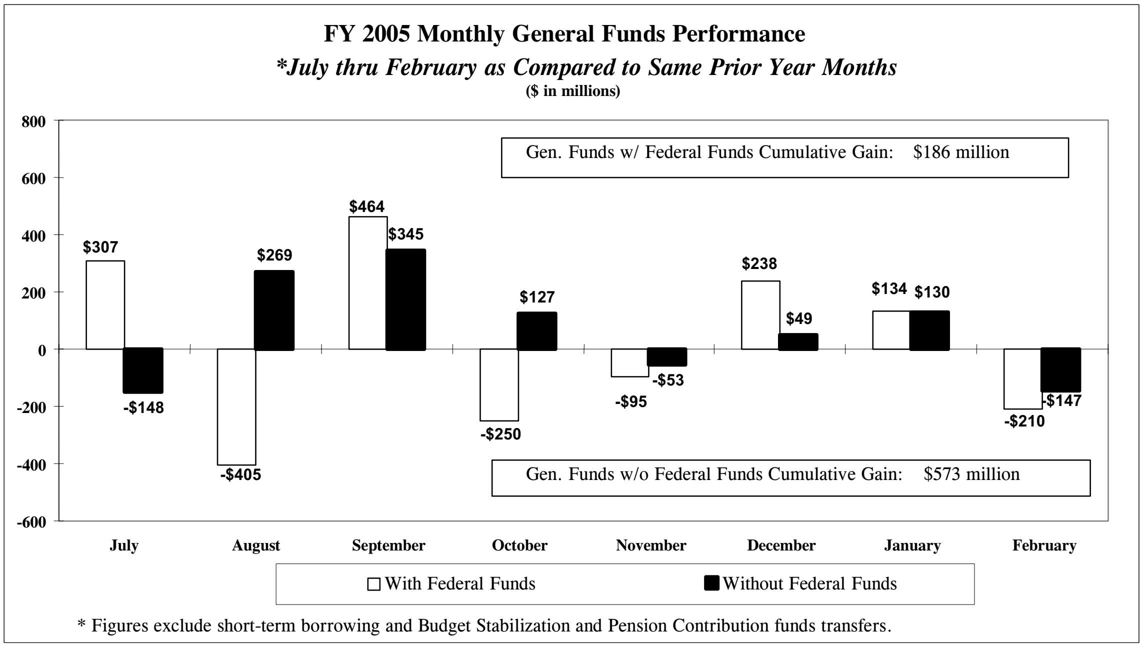


CHART 3
STATE TAX RECEIPTS SURVEY
(Index based on inflow of income and sales taxes)
90
70
50
30
10
Jan 96
Jan 97
Jan 98
Jan 99
Jan 00
Jan 01
Jan 02
Jan 03
Jan 04
Jan 05
Source: ISI (International Strategy & Investment)
CGFA

FY 2005 REVENUE RECAP



FY 2005 opened on an apparent high note as general revenue receipts rose $307 million in July. 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. Overall revenues fell $405 million in August and reflected an expected drop-off in 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. The first quarter ended on a positive note as overall September revenues were up $464 million as federal sources and transfers contributed the largest share. Even if federal sources were excluded from the comparison, monthly revenues still gained $345 million.

Through the first three months of the fiscal year, overall revenues were up $366 million, reflecting good growth in virtually all areas except federal sources. Growth would have improved to $465 million if federal-related monies were excluded from the comparison. *[Monthly revenue performance excludes short-term borrowing proceeds as well as Budget Stabilization and Pension Contribution Fund transfers.]*

The second quarter began on a down note, as a significant fall off in federal sources due to last year's second installment of a federal grant, resulted in overall revenues falling $250 million in October. However, most of the other more closely-tied economic sources continued to perform well and if federal sources were excluded from the comparison, monthly receipts would have been up $127 million. Overall revenues fell $95 million in November as a comparatively weak month for federal sources as well as last year's tax amnesty program accounted for most of the decline. Without the drop in federal sources, receipts would have fallen by $53 million. Federal sources reversed course in December and rose substantially contributing $189 million to the monthly increase of $238 million. As the first half of FY 2005 concluded, overall revenues were up $260 million, and an even more impressive $589 million excluding federal sources.

The third quarter began on a mostly positive note as January revenues grew $134 million. A virtually flat month for federal sources did little to skew the monthly advance. February receipts fell $210 million due to last year's chargebacks as well as a weak month for federal sources. So, with two thirds of the fiscal year completed, overall revenues are up $186 million. If the decline of approximately $387 million in federal sources were excluded, overall revenues would be up $573 million.

REVISED FY 2005 GENERAL REVENUE FORECAST

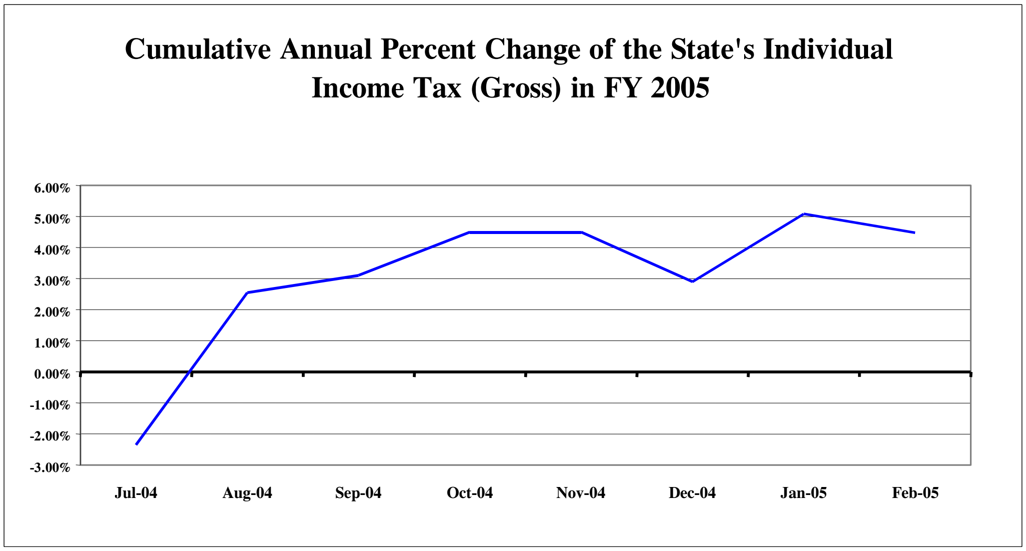
As shown in Table 1 on page 17, excluding short-term borrowing and Budget Stabilization Fund and Pension Contribution Fund transfers, general revenues through February are up $186 million or 1.1%. While nonfederal related revenue sources have performed quite well in comparison to last year, due to last year's flexible grants and increased Medicaid match, overall federal sources are running significantly behind last year's pace.

In assessing revenue performance to date, it is clear that most of the economically related sources have met or even exceeded expectations through the first two-thirds of the fiscal year. As a result, a number of estimates need to be adjusted upward to reflect that performance. However, for a variety of reasons the estimates in other areas will have to be adjusted down to a similar degree. Therefore, the Commission's overall estimate for FY 2005 remains unchanged at $25.634 billion. The estimate continues to represent a $206 million increase over last fiscal year (see Tables 2 and 3 on pages 18 and 19).

A discussion of the major sources or those experiencing revisions include the following:

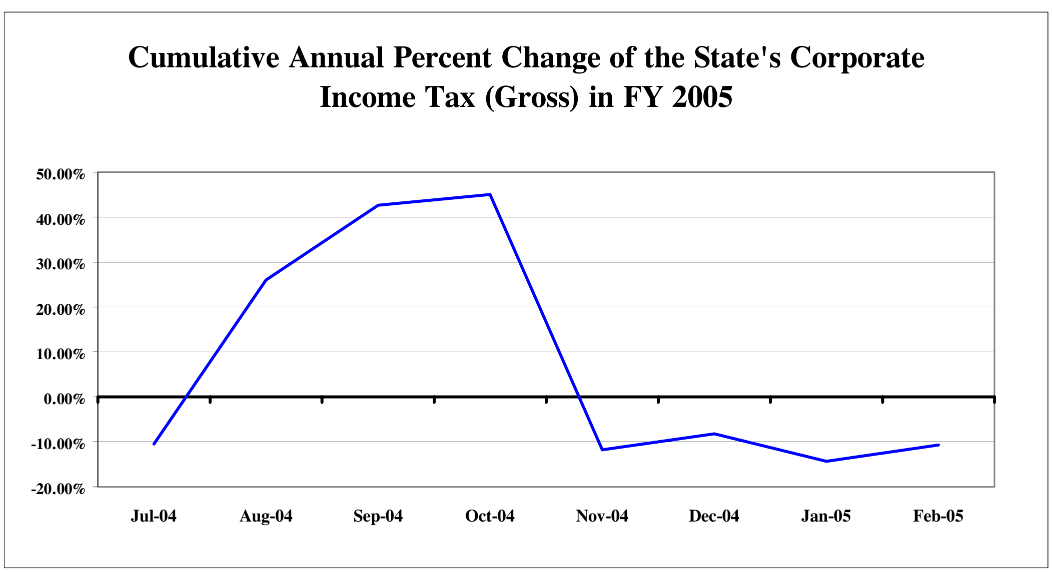
- Gross personal income tax receipts are up $230 million or 4.5% through the first two-thirds of the year. However, because the refund percentage is significantly lower this fiscal year, on a net of refund basis, receipts are actually up $288 million. *[It is unclear at this time how much of that increase is due to the recent "Voluntary Compliance Program" or VCP. The VCP was a limited amnesty period for those individuals and entities that participated in illegal tax shelters. In the recent Budget Book the Department of Revenue estimated that approximately $95 million in personal income tax will be receipted from the one-time program, but actual figures have yet to be confirmed].*

  Personal income taxes are comprised of withholding taxes, estimated payments, and final payments. Through January, withholding payments, which are based on current wages and employment and comprise approximately 80% of total income taxes, were up 3.7% (February statistics appear to be skewed, likely due to the recent VCP). Estimated payments, which are largely made up of non-wage income such as capital gains and other investment income and usually make up approximately 12% of total income tax receipts, are up 15.7% through January. Lastly, final payments, which comprise the remainder of income tax collections, are final settlements that are made by the taxpayer. While in normal years the vast majority of final payments are not received until after the April 15th deadline, due to last year's tax amnesty program, those typical patterns were significantly altered, and as a result, final payments were down 21.8% through January.

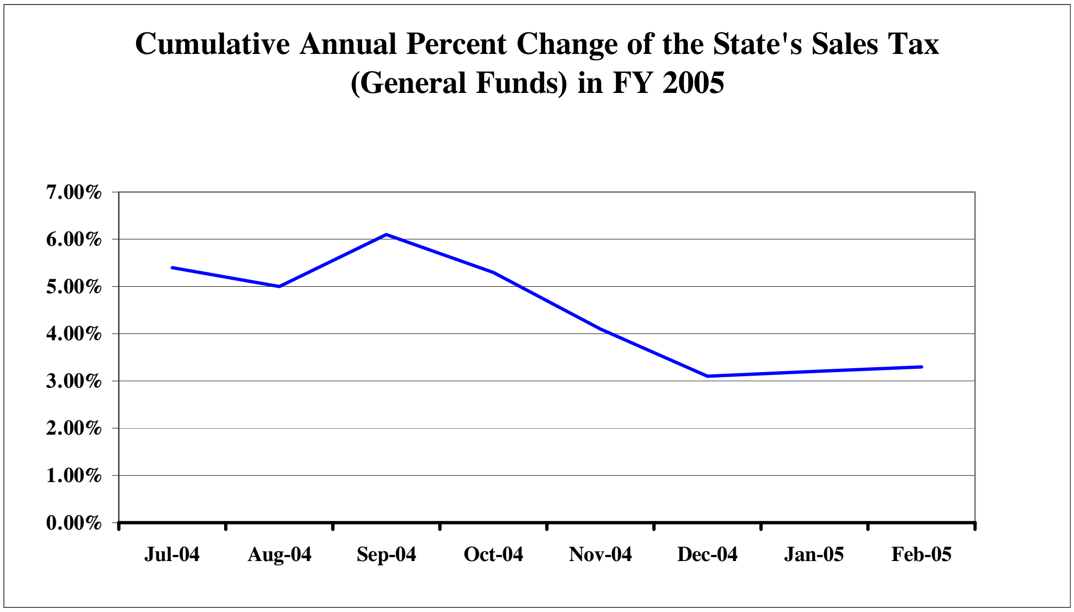


Overall, despite volatile receipt patterns brought about due to last year's tax amnesty program and this year's VCP, personal income taxes have performed about as expected through the first two-thirds of the fiscal year. In order to reach the current estimate, gross personal income taxes are required to grow an obtainable 3.5%.

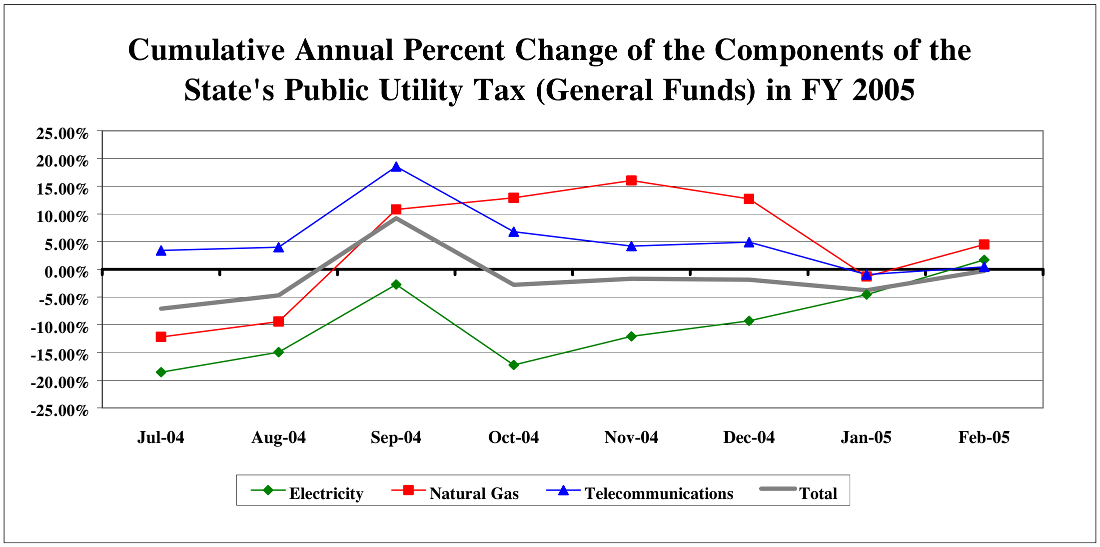
- Gross corporate income tax receipts are down $75 million or 10.7%, but only down $4 million on a net of refund basis. While gross receipts are down due to last year's tax amnesty program that accelerated receipts into FY 2004, the actual performance of corporate income taxes have outperformed expectations. As a result, the estimate has been increased by $114 million ($86 million net of refunds) and reflects the expectation that impressive gains will continue over the remainder of the fiscal year.



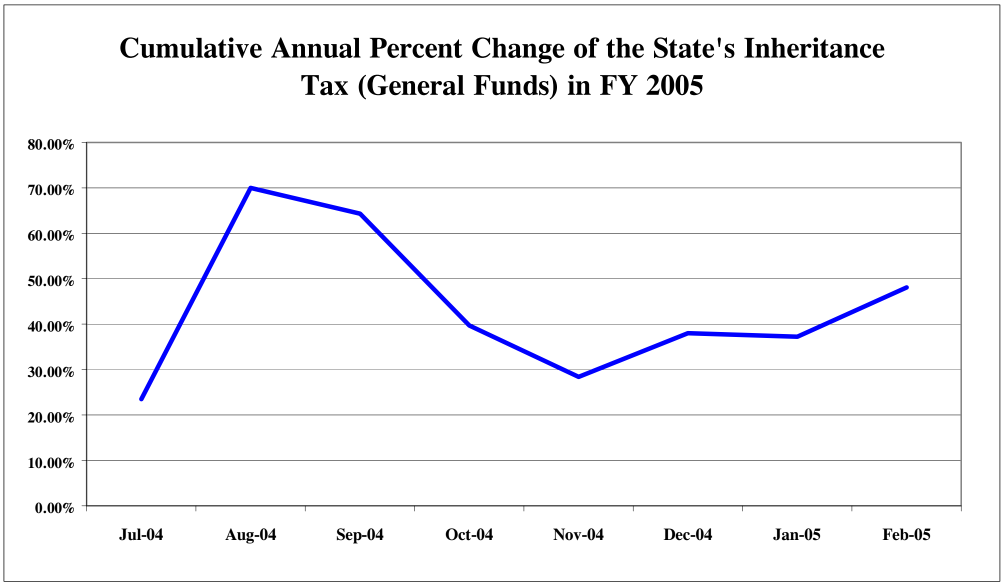
- Through the first two-thirds of the fiscal year, sales tax revenues are up $140 million or 3.3%. Receipts have been able to outperform earlier modest expectations for much of the fiscal year. As a result, the estimate has been increased by $88 million. In order to reach the estimate, receipts must maintain a growth rate similar to that experienced to date.



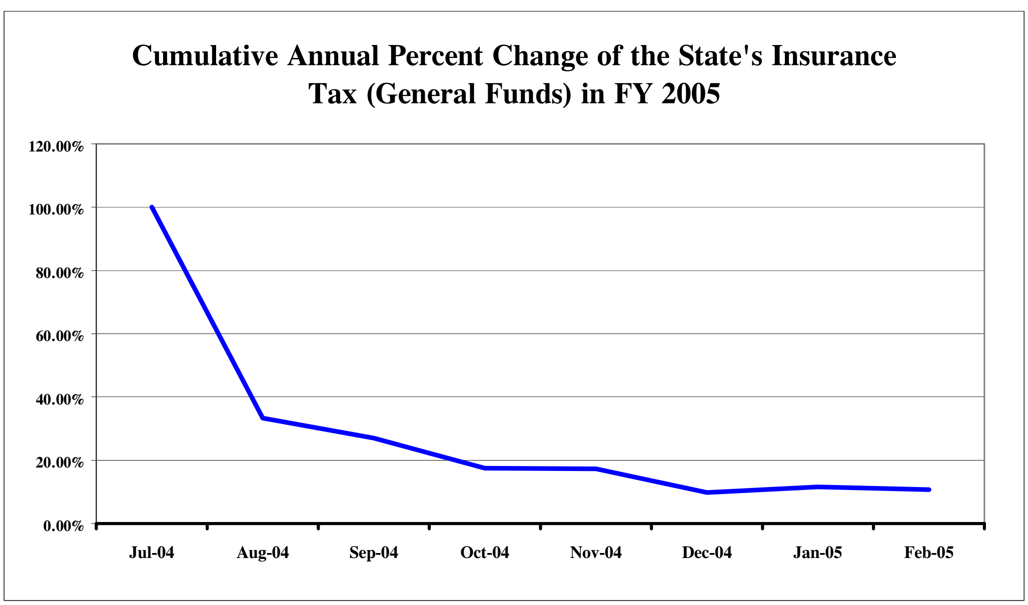
- Public utility taxes are virtually flat through February. Performance to date reflects the lack of meaningful growth in any of the components. While receipts are slightly behind pace, the estimate remains unchanged as receipt timing and weather variability could still lead to a modest up tick. In order to reach the estimate, receipts would have to grow approximately 3.2%.



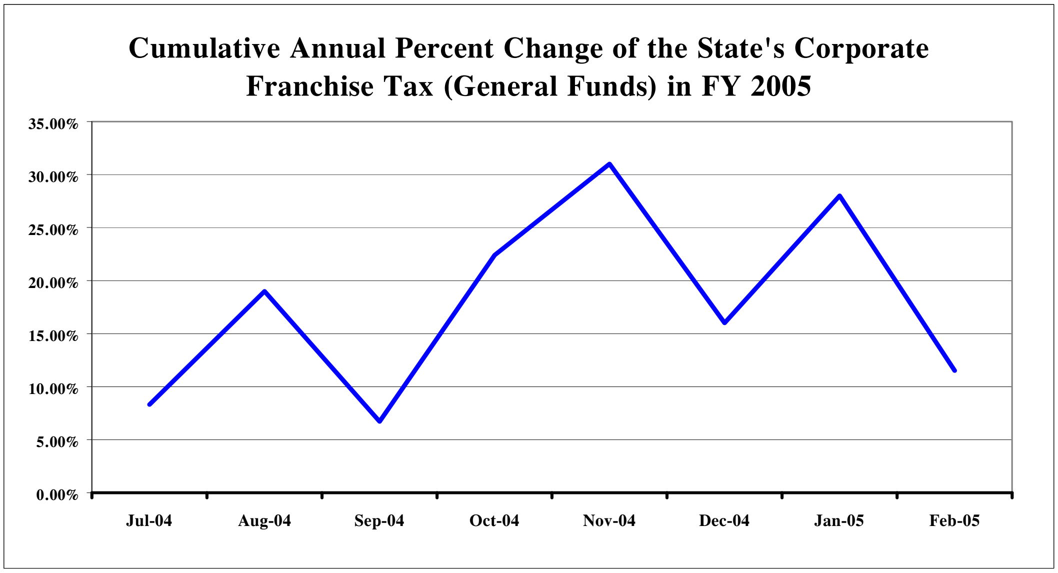
- Inheritance taxes have performed above expectations over the first two-thirds of the fiscal year with receipts up $65 million or 48.1%. A number of large estate settlements account for the increase as does the annualization of the previous decoupling from the federal phase-out of the inheritance tax. Due to the strong year to date performance the estimate has been increased by $20 million and assumes the remainder of the year will match the same period of last year.



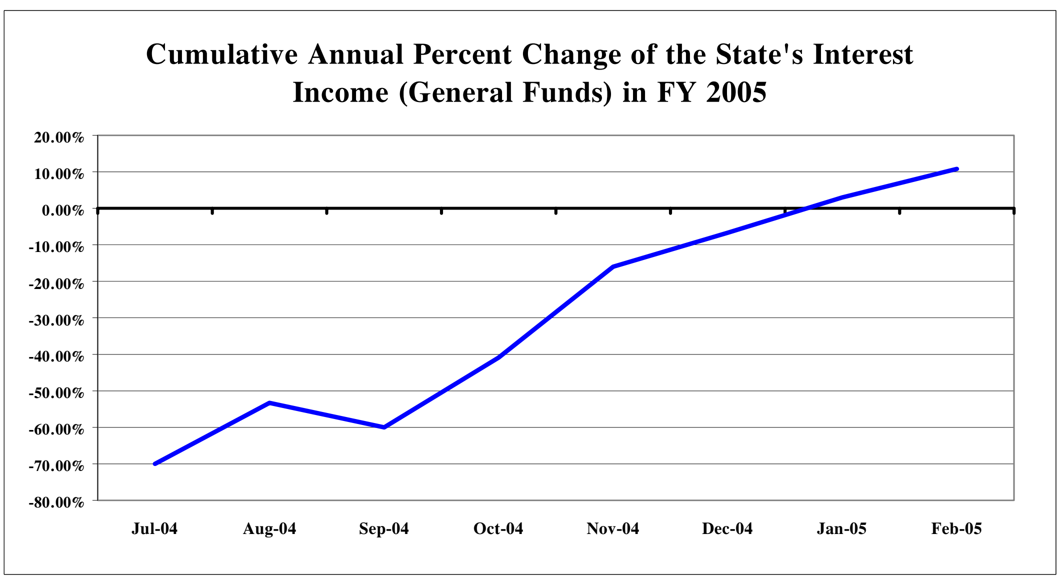
- Insurance taxes and fees continue to perform well with receipts up $18 million or 10.7% through February. While that rate of growth is expected to temper over the remaining months, the estimate has been increased $20 million to account for the strong receipting to date.



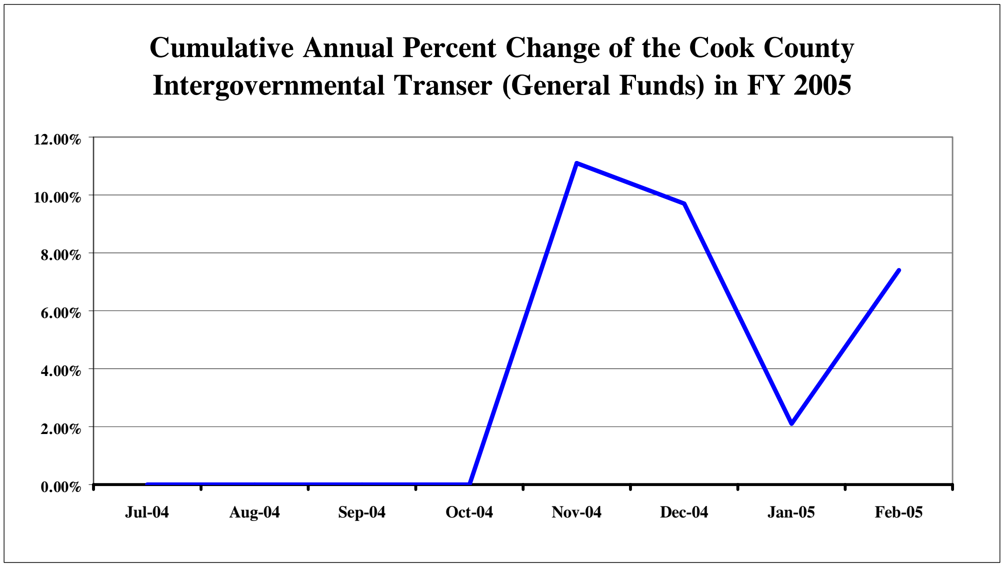
- Corporate franchise taxes are also doing significantly better than anticipated as receipts are up $12 million or 11.5%. As a result, the estimate has been increased by $12 million and reflects the rate of growth to slow but still remain strong over the last third of the fiscal year.



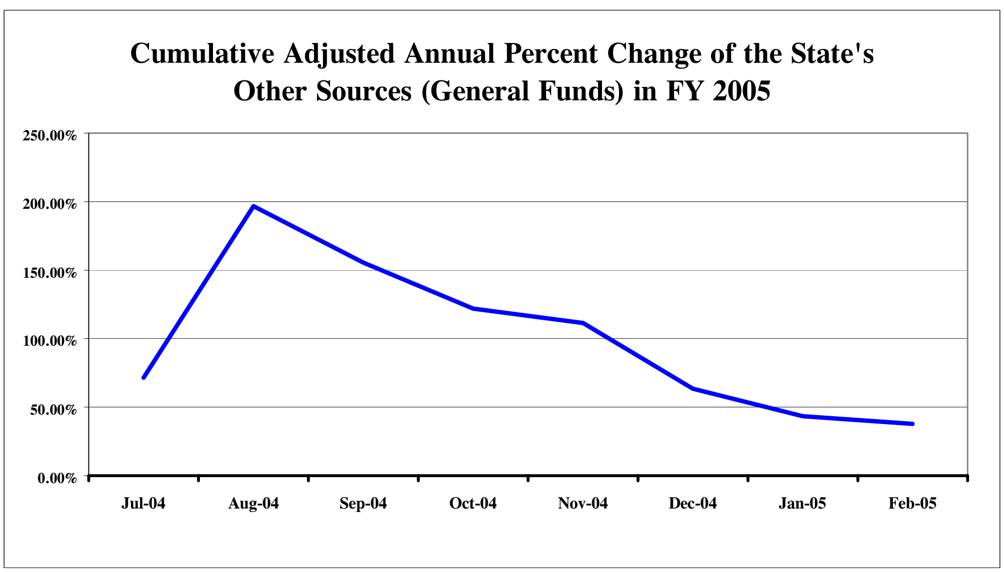
- Interest rates have finally begun to rebound as rates of return have been steadily improving. Though February revenues are up $4 million or 10.8%. With no reason to believe a reversal in rates will occur in the foreseeable future, the estimate has been increased by $6 million.



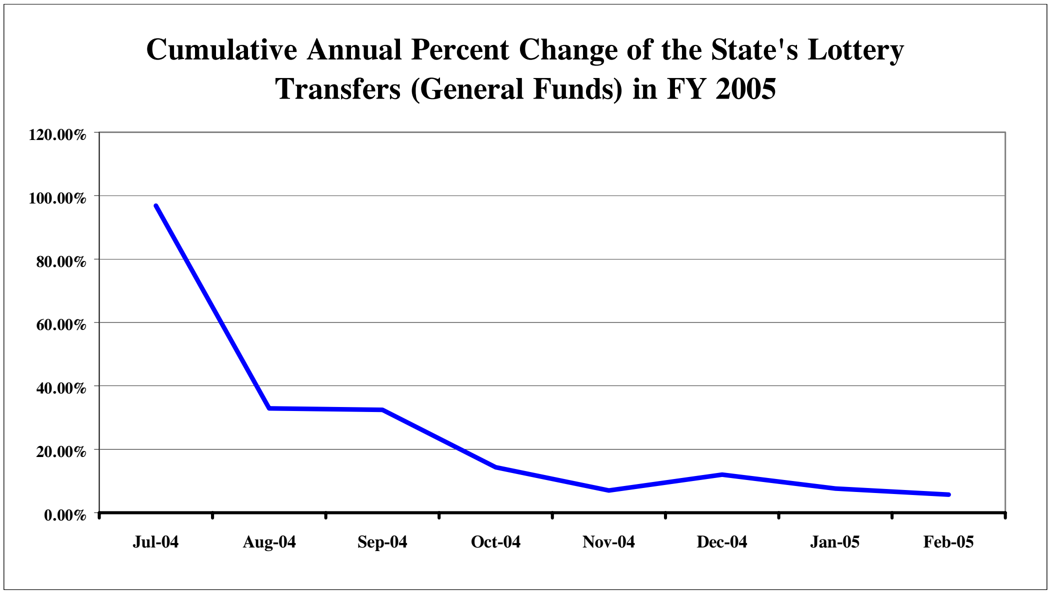
- The estimate of the Cook County Intergovernmental Transfer (IGT) has been reduced by $17 million to reflect anticipated changes to the program. In essence, the federal government is phasing out the practice of higher than cost billing for government hospitals. As a result, beginning with this revision, future fiscal years can be expected to experience declining revenues.



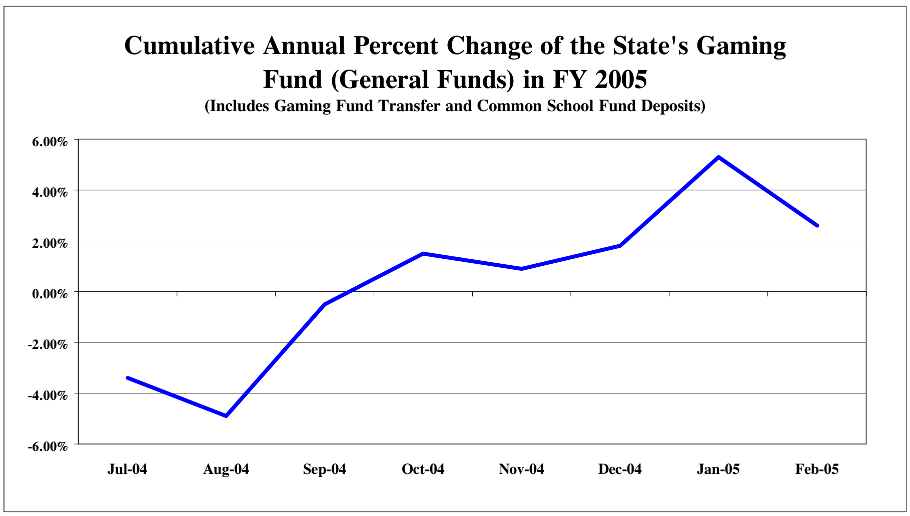
- Other sources to the general funds are up $71 million through February. The increase appears to be the result of annualizations of last year's fee increases, as well as timing aspects related to the receipting of those same fees. However, despite that increase the estimate is being revised down $48 million to reflect $17 million less in planned Build Illinois Escrow transfers, reducing expected sales of State property by $16 million, and reducing the estimates of a number of other taxes, fees, and miscellaneous revenue sources by a combined $15 million.



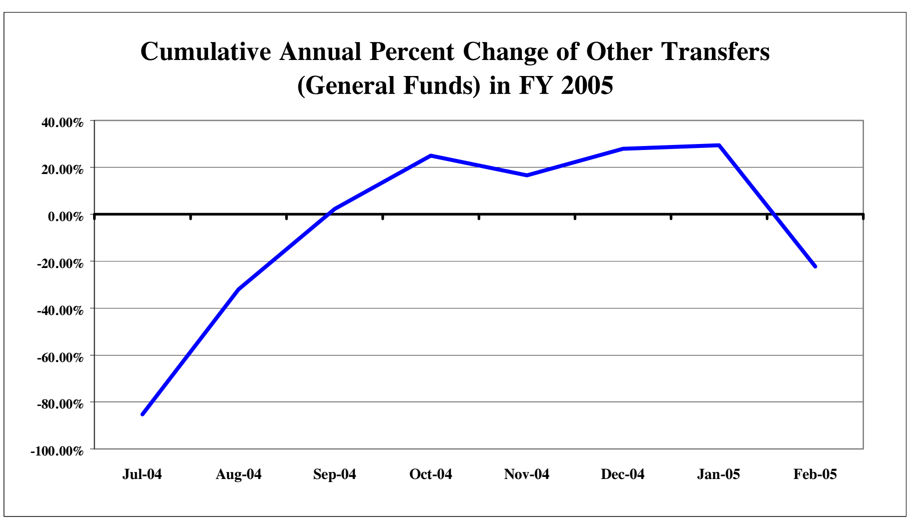
- Lottery transfers are up $20 million or 5.7% through the first two-thirds of the fiscal year. Even though lottery transfers can be somewhat volatile due to rollovers, that performance is above expectations and as a result, the estimate has been increased by $13 million. Also contributing to the anticipated increase is an upcoming extra Monday Lotto drawing beginning sometime in April.



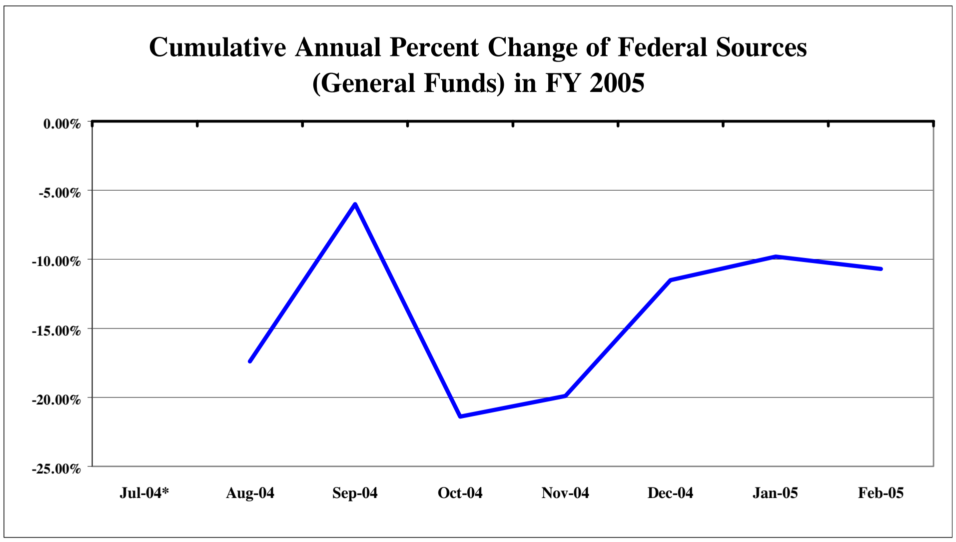
- Transfers and receipts from riverboat gaming into the general funds are up $12 million or 2.6% through February. That modest rate of growth does not adequately reflect the turnaround in riverboat performance in FY 2005. Originally, the fiscal year once again was expected to suffer declining adjusted gross receipts (the base on which the graduated rate structure is applied). However, through January (last month available), AGR is up 6.8% and admissions have also reversed and are up 1.2%. Theories abound as to what has caused this improvement. The most plausible seems to be that riverboats are once again marketing their Illinois licenses in anticipation of lower tax rates set to resume July 1, 2005. Whatever the reason, the estimate must be adjusted to reflect this improvement. As a result, the estimate has been increased $71 million.



- Other transfers into the general funds are down $132 million or 22.3% through February. The difference in administrative chargebacks and other one-time transfers of last year comprise most of the decline. In response to the lack of chargeback activity as well as other planned transfers, the estimate has been reduced by $81 million.



- Federal related sources are down $387 million or 10.7% through the first two-thirds of the fiscal year. That decline is attributed mostly to flexible federal grants received last fiscal year and an increased matching rate. The estimate has been decreased $169 million to reflect the GOMB's forecast in the Budget Book that takes into account a change in anticipated general funds Medicaid spending and subsequent reimbursement. In essence, Medicaid bills that were previously expected to be paid with general funds will instead be paid with other non-general funds appropriations i.e. Hospital Assessment Fund. While the total amount spent on bills is not impacted, it does result in a change in where the reimbursement is ultimately deposited. In addition, some other fine-tuning of the estimate was made by the GOMB and incorporated into the estimate.



In conclusion, while the Commission's FY 2005 estimate remains unchanged overall, a number of specific revenue lines require adjustment. While many of the more closely tied economic sources have outperformed earlier expectations, gains associated with those areas have been offset with decreased expectations from other items such as chargebacks, transfers, and lower IGT.

CGFA/GOMB FY 2005 COMPARISON

As shown in Table 4 on page 20, the Commission's FY 2005 general funds estimate of $25.634 billion is $12 million above the Governor's Office of Management and Budget's latest official estimate reflected in the FY 2006 Budget Book.

The two estimates are similar in most respects as both agencies made adjustments to many of the same areas. While the Commission is somewhat lower in the estimate for personal income taxes, it's higher in the forecasts for corporate income tax and sales tax. Overall, the estimates are quite similar and reflect many of the same assumptions.

The GOMB made a number of significant upward adjustments to the estimates of the economically related sources. However, those changes were essentially offset by large downward revisions in the non-economic lines such as other sources, other transfers, and federal sources (the result of significant changes in GOMB's estimates of fee revenue, chargebacks, and federal sources).

Overall, an upward adjustment totaling $20 million was made to the GOMB's enacted FY 2005 revenue estimate. The table below shows the overall change to the forecast summarized by major revenue source.

Changes to GOMB FY 2005 General Revenue Forecast	
	GOMB
Enacted Budget Aug-04 ($ millions)	**$25,602**
Net Change Income Taxes	$431
Sales Tax	$99
Net Change Other State Sources	($189)
Net Change Transfers	($152)
Federal Sources	($169)
Total Change	$20
FY 2005 Estimate Feb-05	**$25,622**

*Does not include $276 million in anticipated Budget Stabilization Fund transfer

TABLE 1: GENERAL FUNDS RECEIPTS THROUGH FEBRUARY

FY 2005 vs. FY 2004

($ million)

Revenue Sources	FY 2005	FY 2004	CHANGE FROM FY 2004	% CHANGE
State Taxes				
Personal Income Tax	$5,366	$5,136	$230	4.5%
Corporate Income Tax (regular)	623	698	($75)	-10.7%
Sales Taxes	4,369	4,229	$140	3.3%
Public Utility Taxes (regular)	675	677	($2)	-0.3%
Cigarette Tax	316	266	$50	18.8%
Liquor Gallonage Taxes	99	85	$14	16.5%
Vehicle Use Tax	21	23	($2)	-8.7%
Inheritance Tax (Gross)	200	135	$65	48.1%
Insurance Taxes and Fees	186	168	$18	10.7%
Corporate Franchise Tax & Fees	116	104	$12	11.5%
Interest on State Funds & Investments	41	37	$4	10.8%
Cook County IGT	276	257	$19	7.4%
Other Sources	259	188	$71	37.8%
Subtotal	$12,547	$12,003	$544	4.5%
Transfers				
Lottery	369	349	$20	5.7%
Riverboat transfers & receipts	465	453	$12	2.6%
Other	460	592	($132)	-22.3%
Total State Sources	$13,841	$13,397	$444	3.3%
Federal Sources (incl. $434m MPRF transfer)	$3,220	$3,607	($387)	-10.7%
Total Federal & State Sources	$17,061	$17,004	$57	0.3%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($543)	($601)	$58	-9.7%
Corporate Income Tax	($154)	($225)	$71	-31.6%
Subtotal General Funds	$16,364	$16,178	$186	1.1%
Budget Stabilization Fund Transfer	$276	$226	$50	22.1%
Pension Contribution Fund Transfer	$0	$1,264	($1,264)	N/A
Total General Funds	$16,640	$17,668	($1,028)	-5.8%

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

CGFA 3-Mar-05

TABLE 2: ADJUSTMENTS TO CGFA FY 2005 Estimate (millions)			
Revenue Sources	**CGFA FY 2005 Revised Estimate Mar-05**	**CGFA Estimate Aug-04**	**Change From Aug-04 Est.**
State Taxes			
Personal Income Tax	$8,572	$8,572	$0
Corporate Income Tax	$1,422	$1,308	$114
Sales Taxes	$6,545	$6,457	$88
Public Utility (regular)	$1,090	$1,090	$0
Cigarette Tax	$450	$450	$0
Liquor Gallonage Taxes	$147	$147	$0
Vehicle Use Tax	$34	$35	($1)
Inheritance Tax (gross)	$285	$265	$20
Insurance Taxes & Fees	$391	$371	$20
Corporate Franchise Tax & Fees	$180	$168	$12
Interest on State Funds & Investments	$60	$54	$6
Cook County Intergovernmental Transfer	$433	$450	($17)
Other Sources	$452	$500	($48)
Subtotal	**$20,061**	**$19,867**	**$194**
Transfers			
Lottery	$588	$575	$13
Riverboat Transfers & Receipts	$713	$642	$71
Other	$963	$1,044	($81)
Total State Sources	**$22,325**	**$22,128**	**$197**
Federal Sources (incl. $434m MPRF transfer)	**$4,519**	**$4,688**	**($169)**
Total Federal & State Sources	**$26,844**	**$26,816**	**$28**
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax	($864)	($864)	$0
Corporate Income Tax	($346)	($318)	($28)
Subtotal General Funds	**$25,634**	**$25,634**	**$0**
Change from Prior Year	**$206**	**$206**	
Percent Change	**0.8%**	**0.8%**	
Budget Stabilization Fund Transfer	**$276**	**$276**	**$0**
Total General Funds	**$25,910**	**$25,910**	**$0**
Change from Prior Year Actual	**($1,139)**	**($1,139)**	
Percent Change	**-4.2%**	**-4.2%**	
CGFA			

TABLE 3: REVISED CGFA FY 2005 ESTIMATE vs. FY 2004 ACTUALS (millions)				
Revenue Sources	**CGFA FY 2005 Estimate Revised Mar-05**	**Actual FY 2004**	**$ Difference**	**% Difference**
State Taxes				
Personal Income Tax	$8,572	$8,235	$337	4.1%
Corporate Income Tax	$1,422	$1,379	$43	3.1%
Sales Taxes	$6,545	$6,331	$214	3.4%
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	$34	$35	($1)	-2.9%
Inheritance Tax (gross)	$285	$222	$63	28.4%
Insurance Taxes & Fees	$391	$362	$29	8.0%
Corporate Franchise Tax & Fees	$180	$163	$17	10.4%
Interest on State Funds & Investments	$60	$55	$5	9.1%
Cook County Intergovernmental Transfer	$433	$428	$5	1.2%
Other Sources	$452	$439	$13	3.0%
Subtotal	**$20,061**	**$19,255**	**$806**	**4.2%**
Transfers				
Lottery	$588	$570	$18	3.2%
Riverboat Transfers & Receipts	$713	$661	$52	7.9%
Other	$963	$1,159	($196)	-16.9%
Total State Sources	**$22,325**	**$21,645**	**$680**	**3.1%**
Federal Sources (incl. $434m MPRF transfer)	**$4,519**	**$5,189**	**($670)**	**-12.9%**
Total Federal & State Sources	**$26,844**	**$26,834**	**$10**	**0.0%**
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($864)	($964)	$100	-10.4%
Corporate Income Tax	($346)	($442)	$96	-21.7%
Subtotal General Funds	**$25,634**	**$25,428**	**$206**	**0.8%**
Budget Stabilization Fund Transfer	$276	$226	$50	22.1%
Pension Contribution Fund Transfer	$0	$1,395	($1,395)	-100.0%
Total General Funds	**$25,910**	**$27,049**	**($1,139)**	**-4.2%**
CGFA				3/3/2005 15:15

TABLE 4: FY 2005 CGFA/GOMB COMPARISON (millions)				
Revenue Sources	**Actual FY 2004**	**CGFA FY 2005 Adjusted Estimate Mar-05**	**GOMB FY 2005 Adjusted Estimate Mar-05**	**Difference**
State Taxes				
Personal Income Tax	$8,235	$8,572	$8,645	($73)
Corporate Income Tax	$1,379	$1,422	$1,412	$10
Sales Taxes	$6,331	$6,545	$6,530	$15
Public Utility (regular)	$1,079	$1,090	$1,101	($11)
Cigarette Tax	$400	$450	$450	$0
Liquor Gallonage Taxes	$127	$147	$145	$2
Vehicle Use Tax	$35	$34	$35	($1)
Inheritance Tax (gross)	$222	$285	$265	$20
Insurance Taxes & Fees	$362	$391	$371	$20
Corporate Franchise Tax & Fees	$163	$180	$190	($10)
Interest on State Funds & Investments	$55	$60	$45	$15
Cook County Intergovernmental Transfer	$428	$433	$433	$0
Other Sources	$439	$452	$451	$1
Subtotal	**$19,255**	**$20,061**	**$20,073**	**($12)**
Transfers				
Lottery	$570	$588	$588	$0
Riverboat Transfers & Receipts	$661	$713	$700	$13
Other	$1,159	$963	$945	$18
Total State Sources	**$21,645**	**$22,325**	**$22,306**	**$19**
Federal Sources (incl. $434m MPRF transfer)	**$5,189**	**$4,519**	**$4,519**	**$0**
Total Federal & State Sources	**$26,834**	**$26,844**	**$26,825**	**$19**
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($964)	($864)	($864)	$0
Corporate Income Tax	($442)	($346)	($339)	($7)
Subtotal General Funds	**$25,428**	**$25,634**	**$25,622**	**$12**
Change from Prior Year Actual		**$206**	**$194**	
Percent Change		**0.8%**	**0.8%**	
Budget Stabilization Fund Transfer	$226	$276	$276	$0
Pension Contribution Fund Transfer	$1,395	$0	$0	$0
Total General Funds	**$27,049**	**$25,910**	**$25,898**	**$12**
Change from Prior Year Actual		**($1,139)**	**($1,151)**	
Percent Change		**-4.2%**	**-4.3%**	

* For comparison purposes, the FY 2005 federal source estimates includes $434 million in Medicaid Provider Relief Fund transfers rather than being acccounted for as a transfer-in.

CGFA

U.S. ECONOMIC OUTLOOK FY 2006:
Continued Growth at a More Moderate Pace

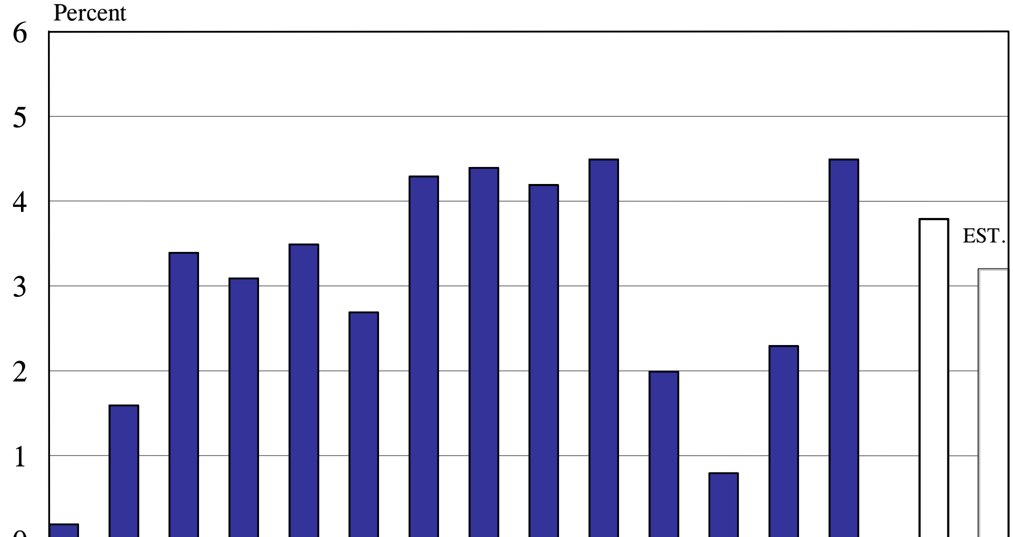
The U.S. economy is anticipated to continue to expand, but at a rate moderately below that of the past two years as the economic recovery matures, continuing to go from the initial recovery phase of the business cycle though the expansion phase. The return to a growth rate more in line with its long-term historical trend is to be expected, however, as the stimulus of the tax cuts fade, the breadth of the expansion broadens, and monetary policy continues to remove the stimulus provided earlier in the recovery phase of the cycle.

As shown in Chart 4, real or inflation-adjusted gross domestic product (GDP) is forecast to slow to 3.2% in FY 2006, down from 3.8% estimated for FY 2005, and below the strong 4.5% recorded in FY 2004. The expected gain, while below that of the last two fiscal years, is in line with the average growth of fiscal years 1993-1996 when the economy was at a similar stage of business expansion.

CHART 4

CHANGE IN REAL GDP

Fiscal Years



	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
GDP	0.2	1.6	3.4	3.1	3.5	2.7	4.3	4.4	4.2	4.5	2	0.8	2.3	4.5	3.8	3.2
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Table 5 provides a more detailed breakdown of the U.S. economic forecast for FY 2006. Personal consumption, the largest spending component of GDP, is expected to moderate as the tax cuts fade, but also because of rising interest rates and their impact on slowing durable goods purchases such as automobiles. The latter already have slowed as zero interest rate financing and other incentives that forced early sales abated, which not only acted to satisfy past pent-up demand, but also probably ate into current sales. The forecast rate of gain in consumer spending next year, while below that of the past two years, is in line with the average of the previous two years.

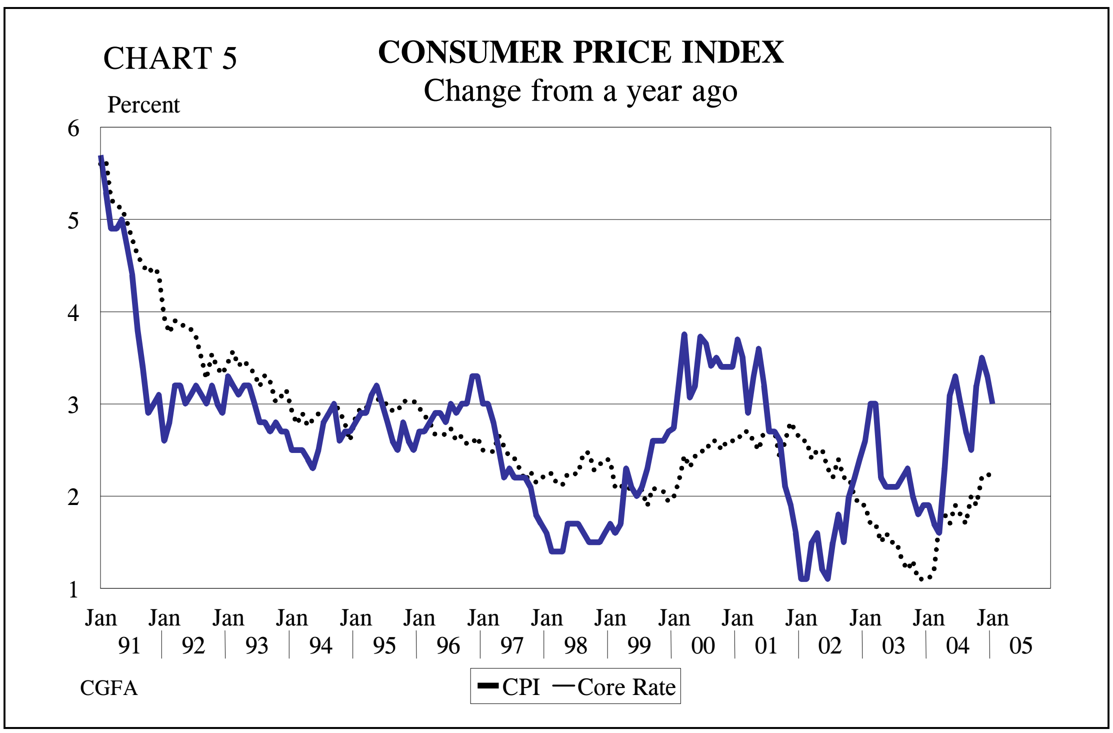
TABLE 5: ECONOMIC FORECASTS – FEBRUARY 2005
($ Change from prior year levels)

REAL (2000 $)	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Estimated	FY 2006 Estimated
Gross Domestic Product	2.0	0.8	2.3	4.5	3.8	3.2
Personal Consumption	3.5	2.8	3.0	3.8	3.7	2.9
Durable	3.5	7.0	5.8	8.5	5.8	1.8
Nondurable	3.0	2.3	2.5	4.2	3.4	2.5
Services	3.7	2.1	2.6	2.3	3.1	2.9
Fixed Investment (Business Spending)	-0.6	-8.7	1.4	11.2	9.3	3.8
Exports	7.5	-8.6	0.7	3.5	7.0	7.5
Imports	7.2	-4.2	6.7	9.2	7.0	4.0
Government	1.9	4.2	3.7	2.4	1.7	2.1
Federal	1.5	4.6	7.4	6.9	3.7	2.8
State and Local	2.4	3.3	1.6	0.7	0.4	1.8
OTHER MEASURES						
Personal Income (Current $)	6.3	2.0	2.1	4.6	5.5	5.1
Personal Consumption (Current $)	5.9	4.3	4.9	5.7	5.9	4.4
Before Tax Profits (Current $)	-6.2	1.5	14.8	22.7	6.4	3.9
Consumer Prices	3.4	1.8	2.2	2.7	1.5	1.8
Unemployment Rate (Average)	4.1	5.5	5.9	5.8	5.3	5.2

Business spending is anticipated to moderate somewhat following double-digit gains on average in FY 2004 and FY 2005. Even so, such investment is expected to exceed the overall spending gain and is in sharp contrast to virtually no growth registered in FY 2003 and sharp declines in FY 2001 and FY 2002. Business remains cautious on spending and, while the rise in short-term interest rates underway has yet to be transferred to longer term investment rates, this is likely to change as key monetary policy rates rise further and thus serve as a constraint on spending increases.

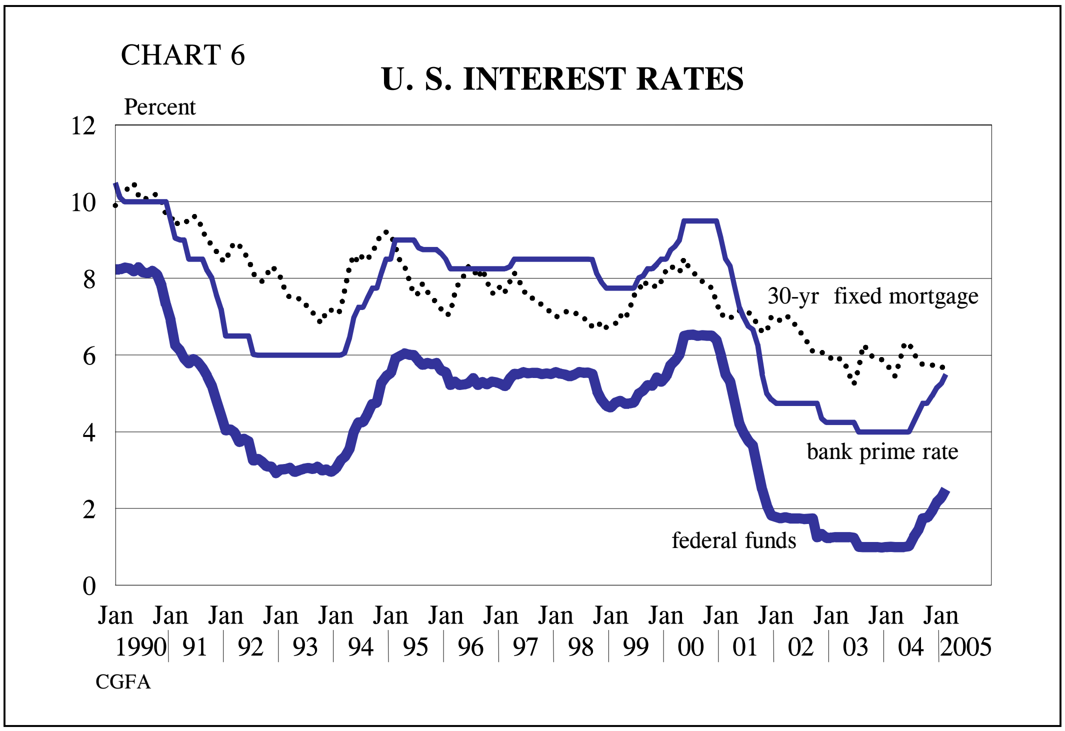
A bright spot continues to be the trade sector. While deepening trade deficits have been a major factor in reducing the international value of the dollar, a weakening in the dollar also has improved the U.S. competitive position. U.S. exports are anticipated to expand at an inflation-adjusted 7.5% in FY 2006 while imports slow from a 7% pace in FY 2005 to 4% in FY 2006.

One weaker spot is likely to be residential investment. Mortgage interest rates are anticipated to rise as short-term rates increase further, pent-up demand for housing is satisfied, and home price appreciation slows. Similarly, no new tax cuts are expected, some restraint on government spending is projected so that fiscal stimulus is reduced. And, finally, as mentioned, the Federal Reserve is anticipated to continue to systematically remove the monetary stimulus it had been providing, which will limit growth. The tightening of credit policy is an attempt to preempt inflationary pressures from developing.



As shown in Chart 5, consumer price increases have been rising at a faster pace in recent months. This is in contrast to two years ago when the major concern was deflation, or falling prices, not inflation. In February 2005, overall consumer prices were 3% higher than a year earlier, where it has averaged in recent months, while the core rate, excluding the volatile food and energy sectors, was up 2.3% over a year earlier. While neither looks particularly disturbing on the chart, both rates are higher than in January 2004, when overall consumer prices were 1.9% higher than a year earlier and the core rate was only 1.1% greater. Moreover, recent renewed upward pressure on energy prices, with oil again over a record $50 a barrel, remains a concern.

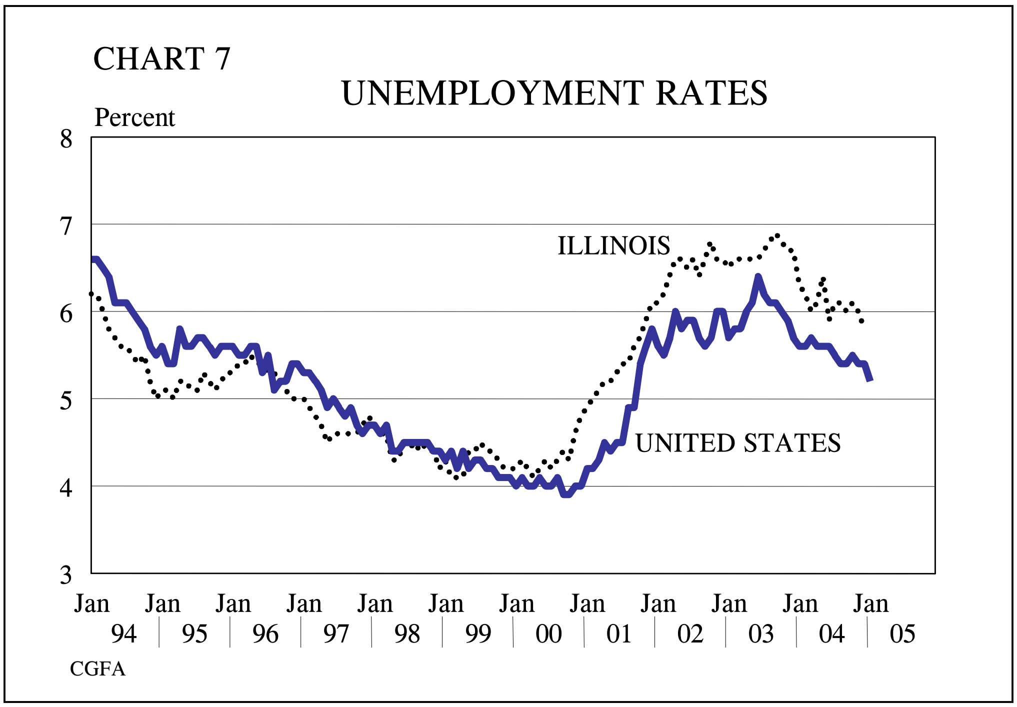
In response to continued economic growth and as a preemptive inflation measure, the Federal Reserve has been progressively removing the monetary stimulus it had been providing. As illustrated in Chart 6, key monetary policy rates have been increased six times since summer, with the key overnight federal funds rate rising to 2.5% from a low of 1%. In response, the bank prime lending rate, or best rate to business has increased from 4% to 5 1/2%. Current estimates are that these short-term rates will rise by another full percent in the months ahead. Thus, while the rise in these short-rates has yet to been transferred to higher longer-term rates, represented in the chart by the mortgage rate, this pattern is unlikely to continue.



CGFA's forecast for FY 2006 is for continued economic growth, but at a more moderate 3.2% pace, down from 3.8% this fiscal year and 4.5% in the previous year. A maturing economic expansion, less stimulus from the federal government, and a firming in Federal Reserve credit policy leading to some increase in long-term interest rates will all be constraining factors.

ILLINOIS ECONOMIC OUTLOOK: FY 2006

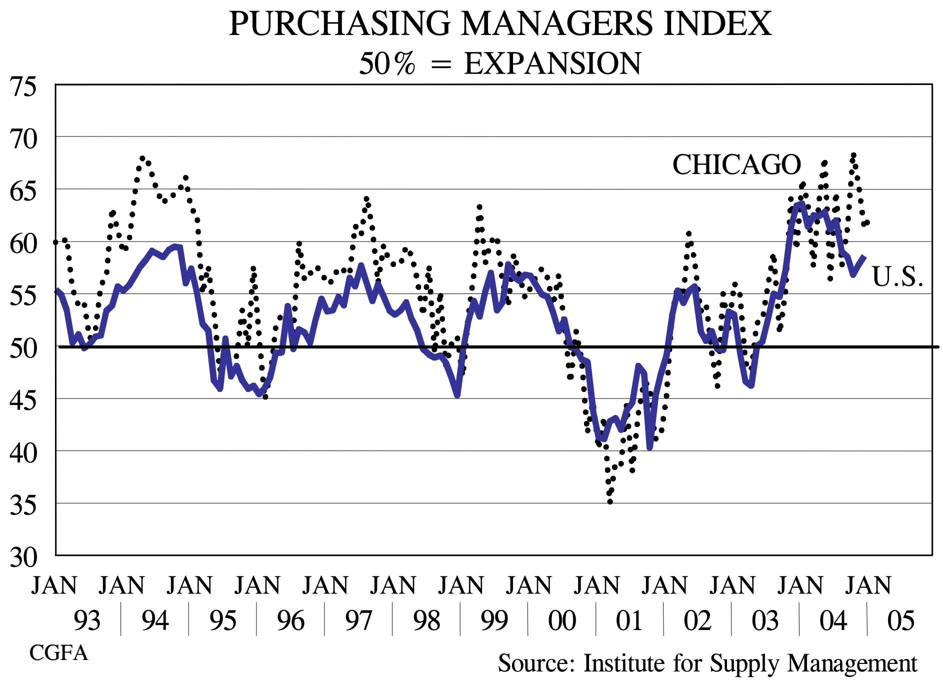
The economic outlook for Illinois is closely tied to that of the nation as a whole as the structure of both is similar. According to Economy.com, 97% of the variation in the Illinois economy is related to variations in the national economy. Thus, as is true of the U.S. economy, the outlook for Illinois' economy in FY 2006 is for continued growth. As noted by Economy.com, however, in a study done specifically for the Commission, "Although Illinois' business cycle closely tracks the nation's business cycle, job growth has trailed the national pace for the past 10 years." Moreover the study went on to suggest that while the amplitude of economic downswings has been greater in Illinois than for the nation, this was not true of its upswings.



As illustrated in Chart 7, the unemployment rate in the State, while continuing to decline, has exceeded the national unemployment rate on a consistent basis since 1999, reversing its better- than- national performance during the mid-1990s. In January 2005, the national unemployment rate had fallen to 5.2%, down from a previous peak rate of 6.4% in June 2004, whereas in Illinois, the latest reported rate in December was 5.8%, down from a peak of 6.9% last September.

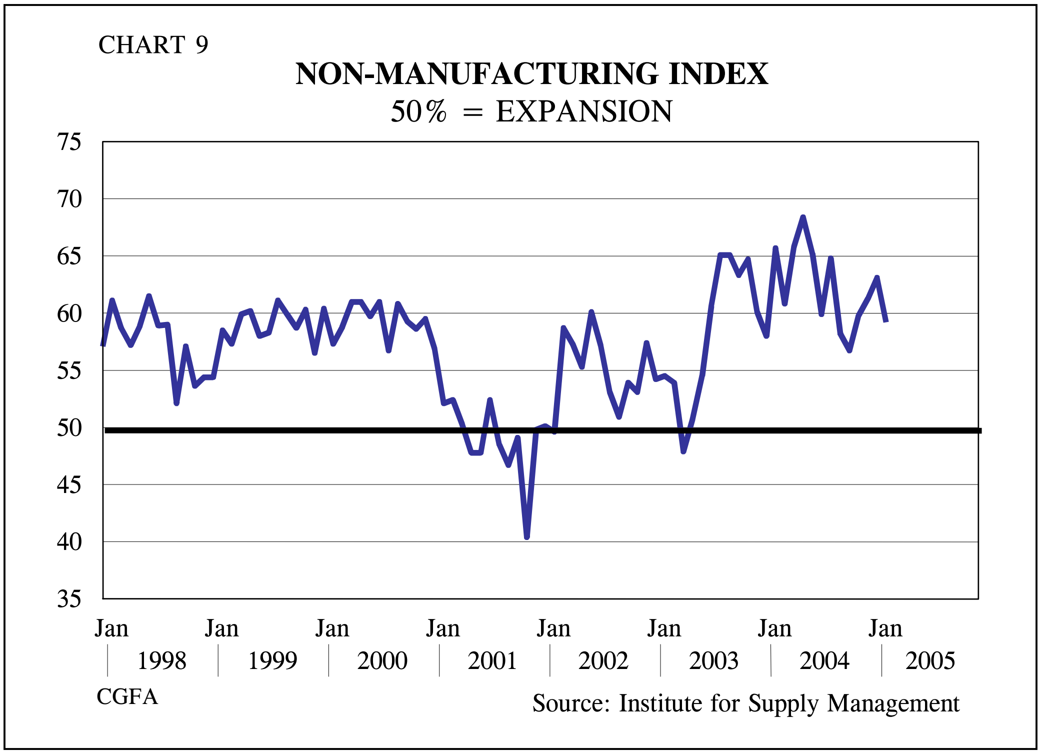
The business sector has been expanding since the fall of 2003, after being the weakest sector during the recession and very slow to recover. As shown in Chart 8, businesses have continued to expand since late 2003 -- more than 50% reporting an increase -- although the level of the index eased late last year and early this year, but was still on a par with the better months in the 1990s. Within the index, the employment sector in the U.S. recorded its 16th consecutive increase in February 2005, following a 37-month trend of contraction. While not exactly comparative, the Chicago area Index in February showed a positive turn but only for the last seven months. Given the overall economic forecast, further gains are anticipated for both the nation and the Chicago area throughout FY 2006.

CHART 8



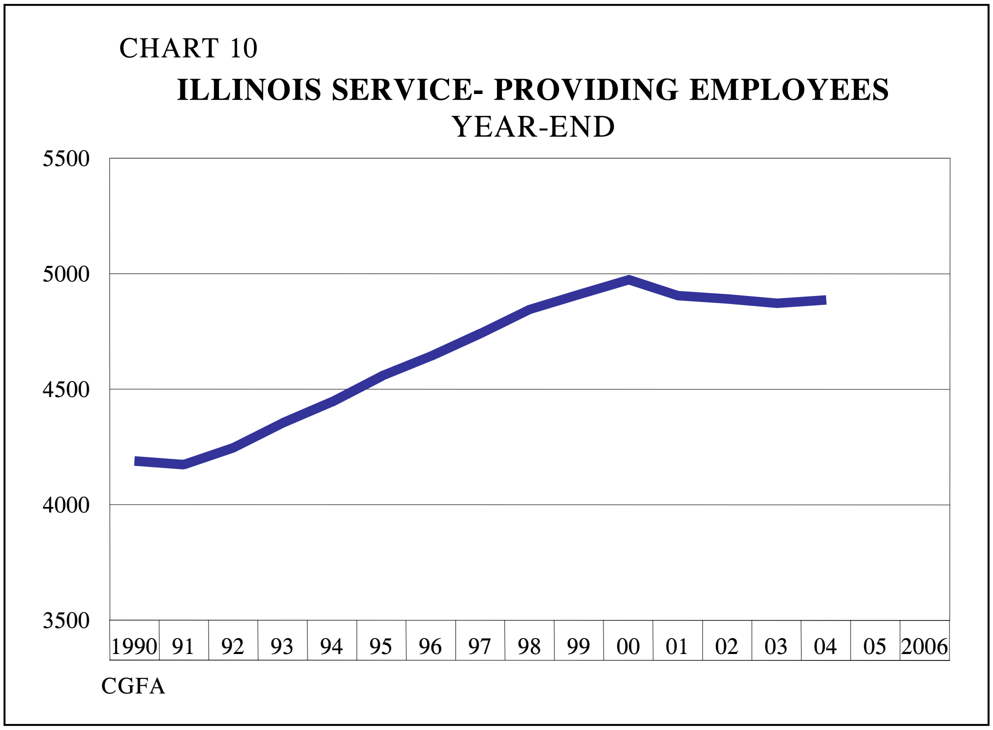
Source: Institute for Supply Management

While manufacturing is important in the outlook, particularly given its highly cyclical nature, the U.S. services sector accounts for the bulk of the economy. The Institute of Supply Management publishes a Non-manufacturing Index similar to its Purchasing Managers' Index to represent trends in that sector. Chart 9 shows that, with the exception early in 2003, this important sector of the economy has been expanding (more than 50% reporting an increase in activity) at a similar pace to that of the late 1990s.

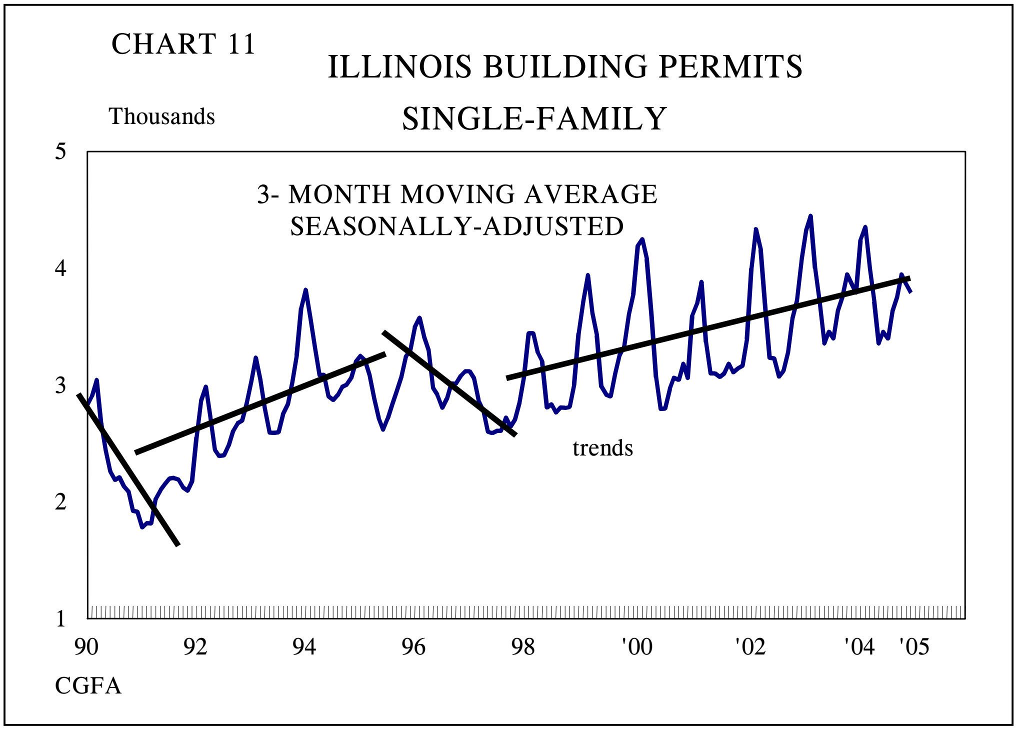


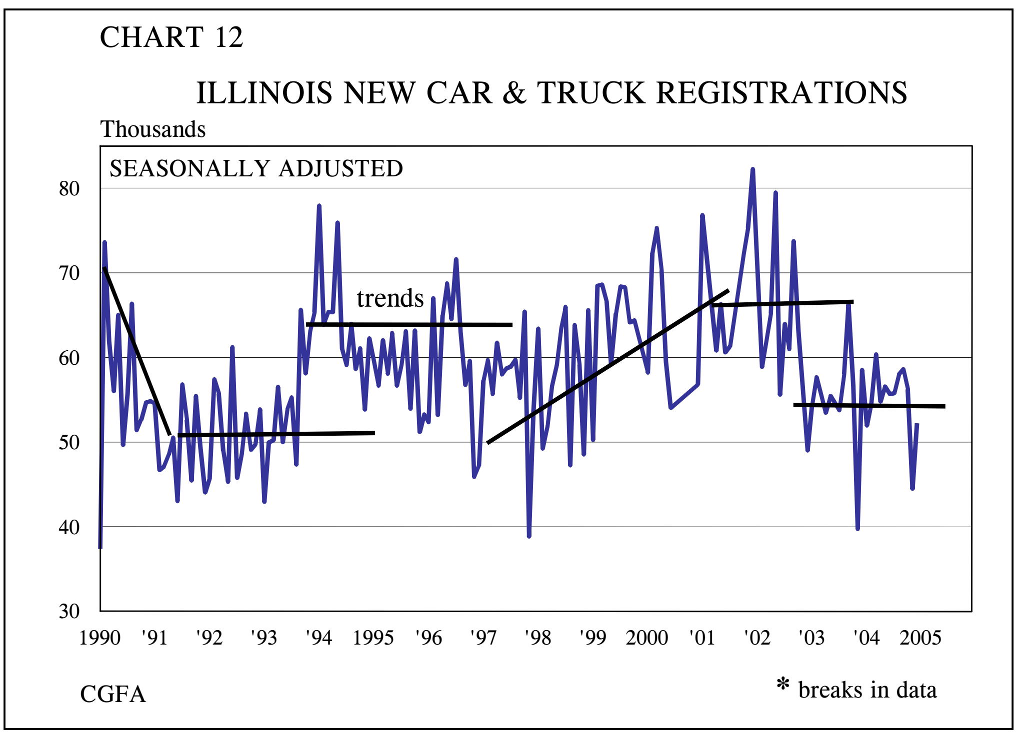
The continued healthy expansion in the non-manufacturing sector, however, has not been fully translated in the form of new service sector jobs in Illinois. Chart 10 shows year-end service-providing jobs in the State. Again referring to the Commission's study done by Economy.com, the largest drag on growth in the service industries has come from business and professional services, which in Illinois are 9% below pre-recession levels compared to a 1% shortfall nationally.

Similarly, Illinois' financial services have been weaker than national trends as bank mergers have weakened employment in that industry while a restructuring of the insurance industry has cost jobs in the State. Nationwide, employment in the insurance industry has been rising steadily since 2000, rising 2%, while employment in Illinois has fallen by 5%. Despite this past performance, the report goes on to state that…such service industries as leisure/hospitality and education/healthcare will lead the growth while business/professional services, which lagged far behind national trends in 2004, are expected to accelerate and match the national pace.

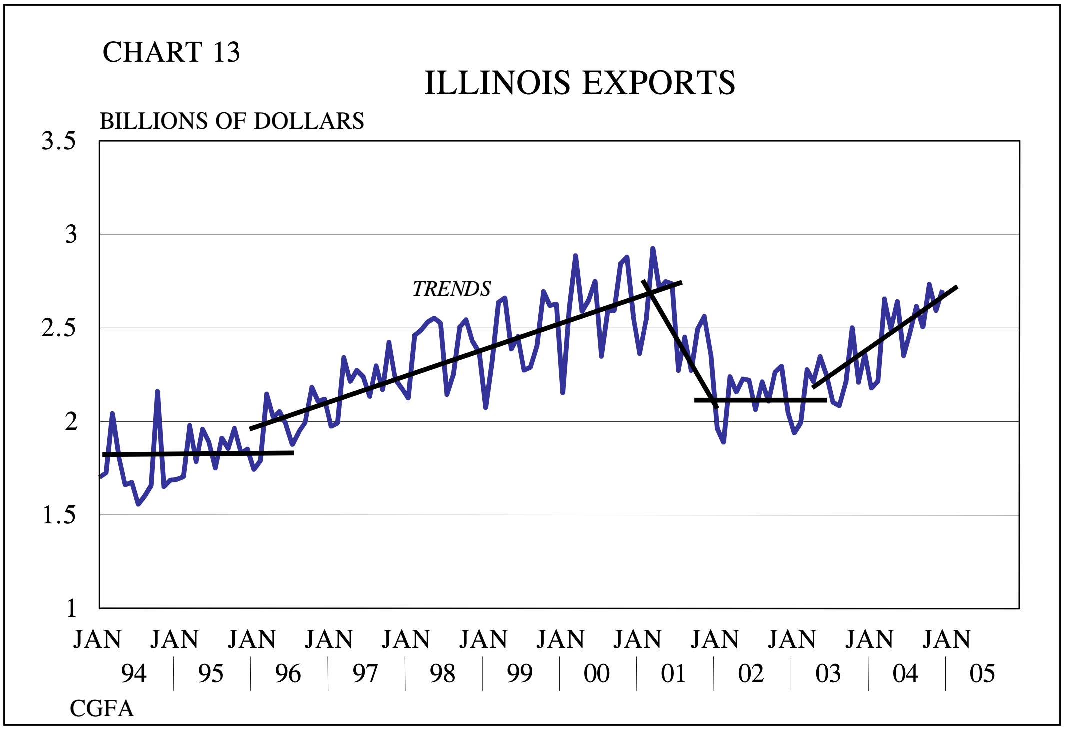


While some weak sectors of the Illinois economy are expected to strengthen, others that have been strong are likely to weaken. Such is the likely case with construction activity. As shown in Chart 11, new single-family building permits in Illinois, a precursor to new construction activity, have been on a prolonged up trend. But, with mortgage interest rates expected to rise, home price appreciation slow, and pent-up demand satisfied, some slowing in this sector is anticipated. Similarly, as depicted in Chart 12, new auto sales, which already have softened, are likely to be negatively affected by higher borrowing costs, less extensive incentives, and heavy past sales that may curtail future sales.

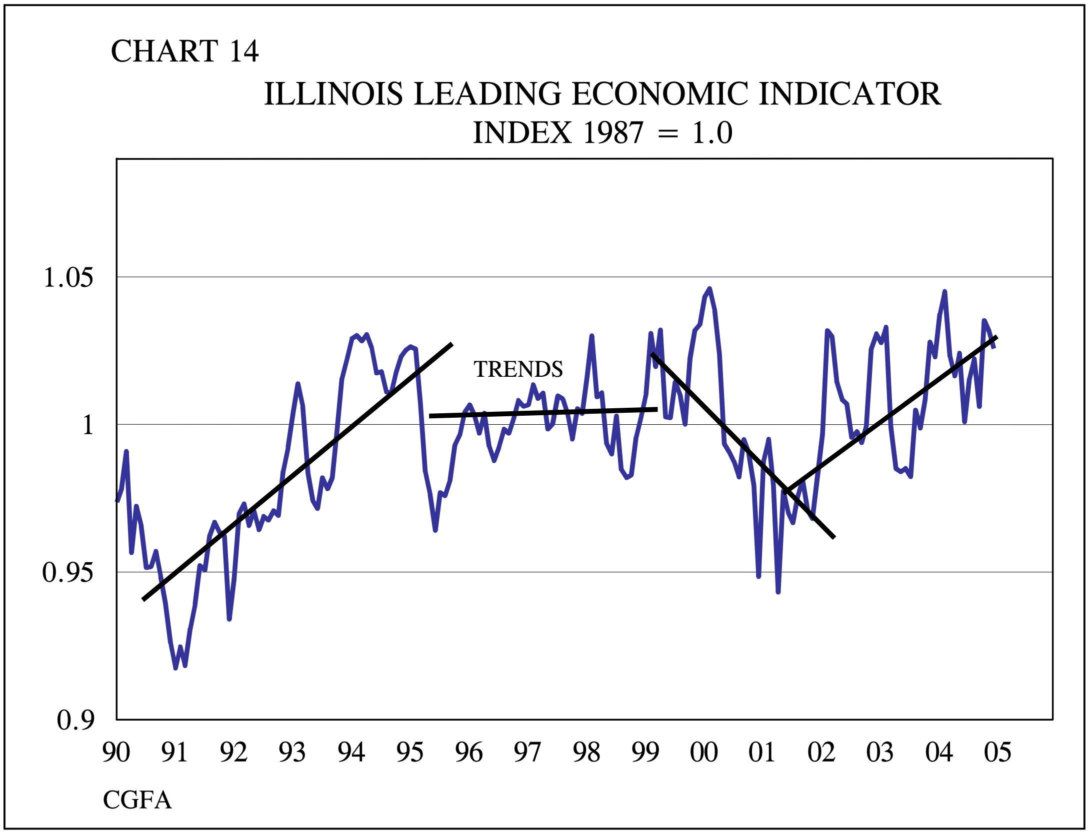




In contrast to housing and autos, Illinois exports have been strengthening and are expected to continue on this improved trend. A weak dollar in the foreign exchange markets has improved U.S. price competitiveness, while a healthy agricultural sector auger well for continued gains in exports. A further strength in exports represents a positive force for Illinois as the State ranks fifth in the nation in exports.



Finally, as shown in Chart 14, the Illinois Leading Economic Indicator, which is based upon measures of employment such as hours, worked in manufacturing, new single-family building permits, and surveys of manufactures' expectations, continues on a strong upward trend. Such a pattern strongly suggests further economic expansion for the State in the months ahead.



The Illinois' economy is likely to expand further in FY 2006. As cited earlier, national growth is conservatively anticipated to slow to 3.2% in FY 2006 from an estimated 3.8% in FY 2005. In contrast to the Office of Management and Budget, however, which anticipates that the slower pace of revenue growth in Illinois will correct itself over the next two fiscal years, the Commission continues to see Illinois lagging the nation. The latter is predicated on Illinois' sub-par demographic trends; its diminishing role as a financial center and insurance restructuring; business costs which put it at a disadvantage relative to most southern states and many other Midwestern states; difficulty in obtaining venture capital; constraints on Chicago as a transportation hub, and its concentration of slow growing and secular declining industries.

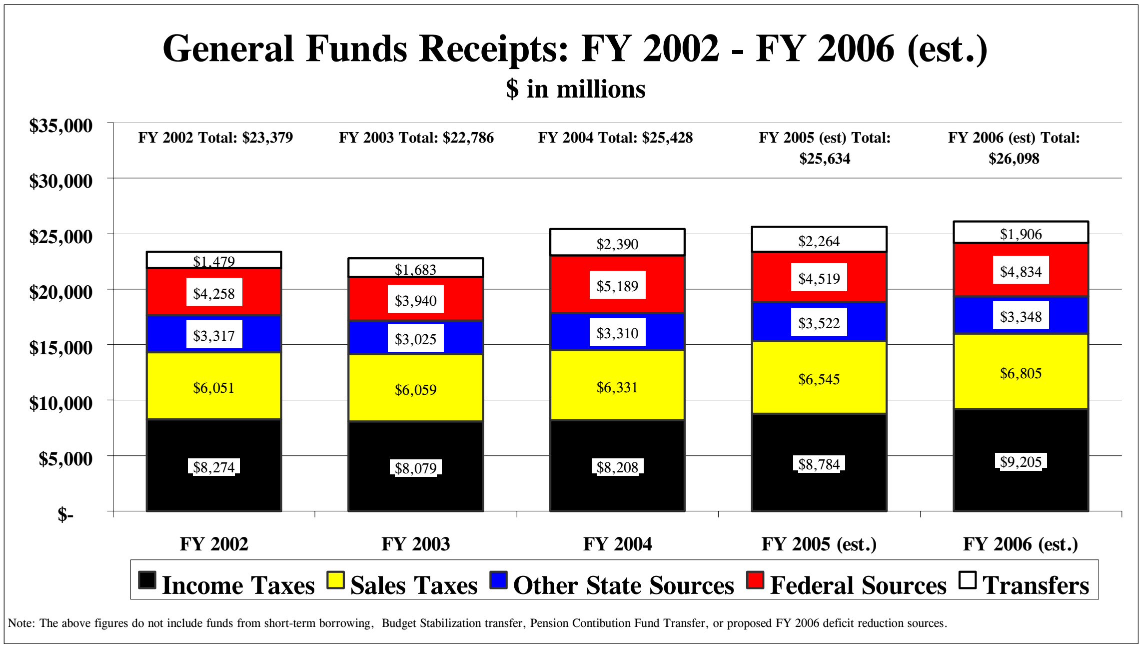


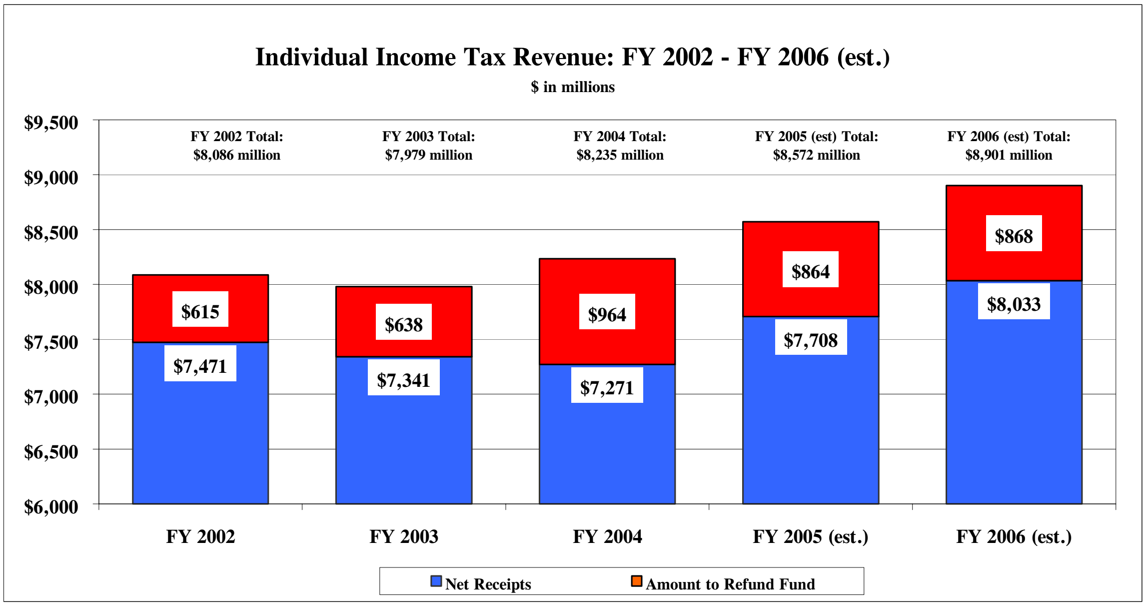
Table 6 on page 48, provides a preliminary estimate of the upcoming fiscal year. As shown, total general funds are estimated to be $26.098 billion or $464 million more than FY 2005. While an improved economy contributes decent rates of growth in FY 2006, a number of unrelated items serve to retard the impact of those improvements. For example:

- A return to normal cigarette tax distributions equates into a year over year decline of $50 million.
- The beginning of significant reductions in IGT revenue takes hold and reduces revenue by $93 million.
- The return to a lower riverboat taxing structure will reduce receipts by $125 million.
- Without legislative action, $265 million in various funds sweeps cannot be repeated in the upcoming fiscal year.

While the governor has proposed changes that would equate into an additional $669 million in revenues over current law, with the exception of $81 million from lower refund percentages, they are not included in the CGFA forecast since legislative action is required. See section on page 49.

The following provides background information on each major source and the FY 2006 forecast.

PERSONAL INCOME TAX



The individual income tax is the largest revenue source, generating approximately one-third of all general funds revenue. Enacted in 1969 at the rate of 2.5%, the current individual income tax is imposed at a rate of 3.0% on the federal-adjusted gross income (AGI) for individuals with some adjustments.

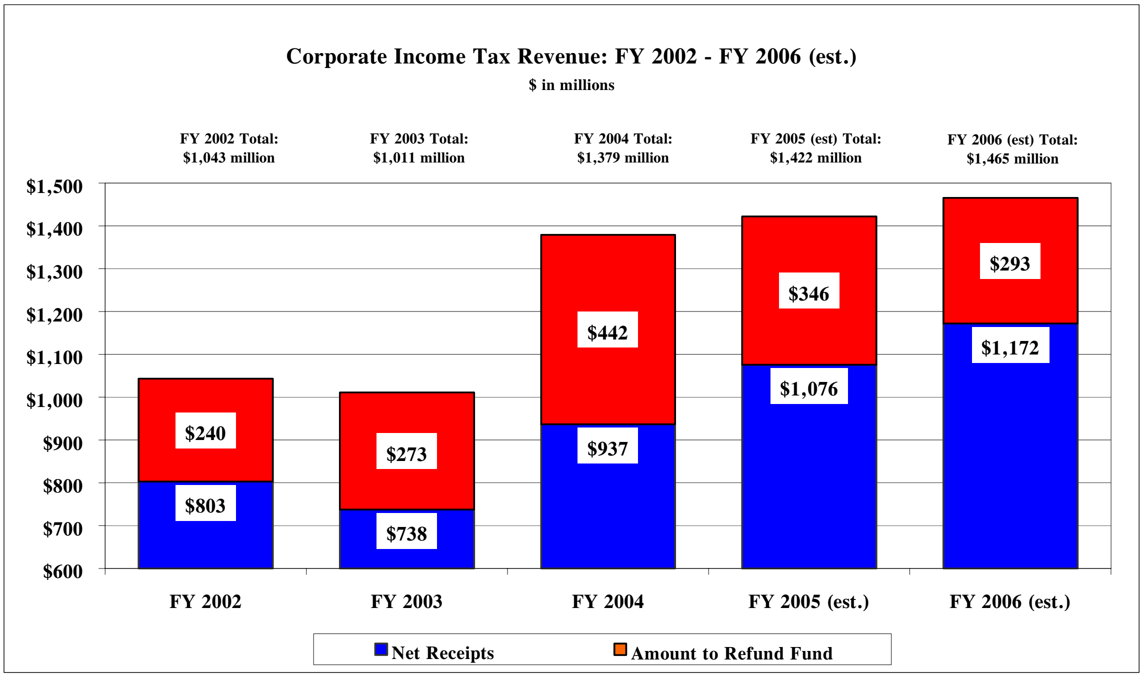
Since tax year 2000, each taxpayer is permitted a $2,000 standard exemption plus an additional $2,000 for a spouse and each dependent. An additional exemption of $1,000 is available to taxpayers and their spouses who are blind or 65 years of age or older. In addition to the personal exemptions, there are several tax credits available to assist individuals in reducing the amount of tax due. The most significant credit is based on 5% of property taxes paid on the taxpayer's principal residence.

A percentage (10.0% in FY 2005) of gross personal income tax receipts are deposited into the Income Tax Refund Fund, with 7.3% of that net amount going to the Education Assistance Fund (EAF). The remainder goes to the General Revenue Fund. The EAF is considered to be part of general funds and, accordingly, receipts going to the EAF are shown as general funds receipts.

According to statute, at the beginning of each fiscal year the Department of Revenue should determine the refund percentage for the new fiscal year based on actual refund activity and unpaid refund backlog. However, in most recent years, that refund percentage has been set in the budget implementation language. In FY 2006, the estimate is based on the refund percentage used in the FY 2006 Budget Book, 9.75%. Any change in that percentage also will affect net personal income tax receipts.

The FY 2006 estimate of gross personal income tax receipts is $8.901 billion, an increase of $329 million or 3.8% over projected FY 2005 receipts. The estimate makes necessary adjustments related to the VCP and assumes an overall base growth rate of 5.0%. On a net of refund basis, receipts are estimated to increase by $325 million or 4.2%. The value of the proposed lower refund percent is calculated to be worth $22 million.

CORPORATE INCOME TAX



Enacted in 1969 at a rate of 4%, the current rate is 4.8% and is applied to a corporation's federal taxable income with several adjustments.

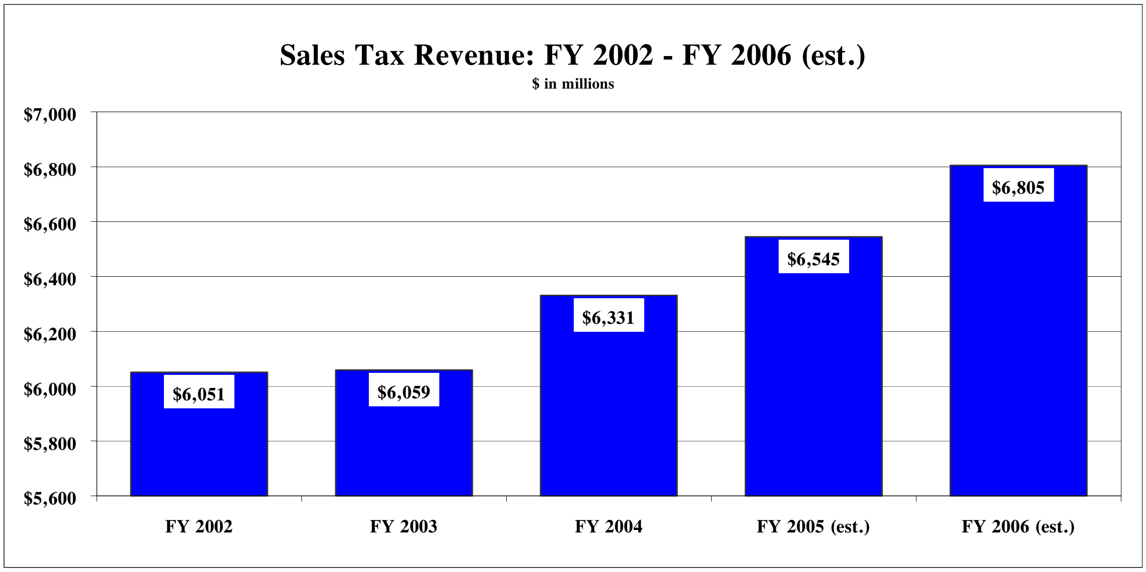
After a phased-in transition to a single-factor sales formula apportionment of business income, sales in Illinois are the only determinant of how much of a multistate firm's income is taxed.

Historically, corporate income tax has proven much more volatile than personal income tax revenue. Carry forward (and until recently carry backward) provisions as well as other recent tax changes contribute to that volatility.

Like the personal income tax, corporate income tax receipts are deposited into the Income Tax Refund Fund and the Education Assistance Fund (7.3% net of refunds), with the remainder going to the General Revenue Fund. In FY 2005, the refund percentage is 24%. In FY 2006 that percentage is expected to fall to 20%, although any change in that percentage will also affect net corporate income tax receipts.

The FY 2006 estimate of gross corporate income tax revenue is $1.465 billion. This represents a $43 million or 3.0% increase over the FY 2005 forecast and includes the necessary adjustments related to the VCP. The forecast assumes an overall base growth rate of 7.0%. On a net of refund basis, receipts are estimated to increase by $96 million or 8.9%. The value of the proposed lower refund percent is calculated to be worth $59 million.

SALES TAX



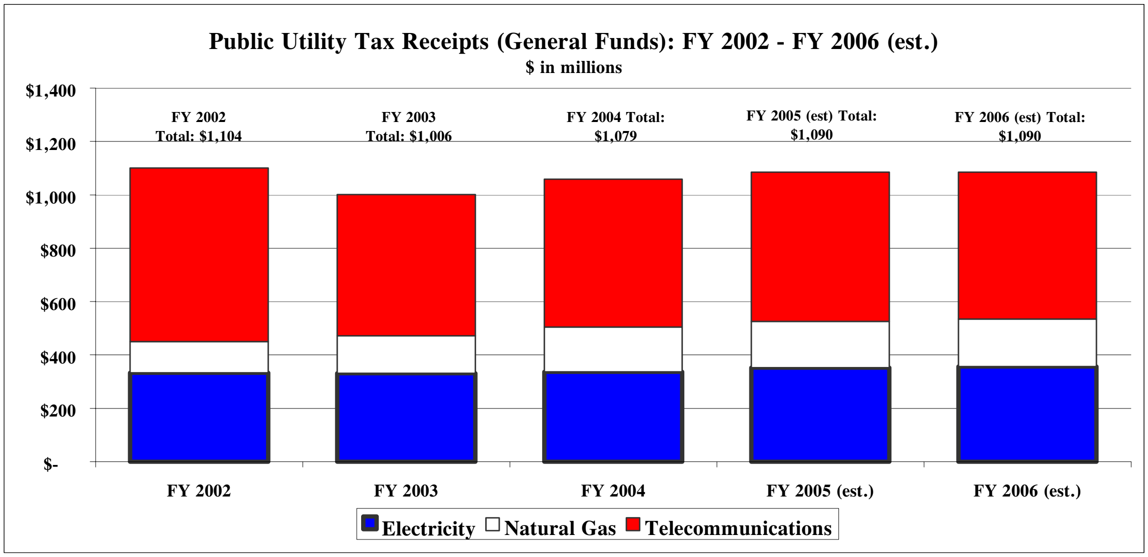
The sales tax rivals the personal income tax as one of the largest general funds sources, generating approximately 25% of total general funds revenue. The sales tax is composed of four individual taxes including the retailers' occupation tax, the use tax, the service occupation tax, and the service use tax.

These taxes are designed to capture most transactions involving tangible goods. The retailers' occupation tax is imposed on those persons engaged in the business of selling tangible personal property. The service occupation tax combined with the service use tax captures property acquired in connection with the performance of a service. Out-of-state sellers doing business in Illinois are liable for the use and occupation taxes.

Presently, the rate for all four sales taxes is 6.25% of either the purchase price or the fair market value. Rates may vary around the State depending on locally-imposed sales taxes. Of the 6.25% rate, 5.0% is collected for the State and 1.25% goes to local governments. The estimate of general funds sales tax receipts is based on a 5.0% rate.

Sales tax receipts are estimated to be $6.805 billion in FY 2006. This represents overall growth of $260 million or 4.0%.

PUBLIC UTILITY TAXES



Public utility taxes deposited in the general funds consist of three separate taxes that are imposed on utilities providing electric, natural gas, and telecommunications service in Illinois. Public utilities are the third largest general funds revenue source, generating approximately 4.2% of all general funds revenue.

A telecommunications (messages) excise tax is imposed on businesses sending or receiving interstate and intrastate telecommunications. The rate and base of the telecommunications excise tax is 7.0% of the gross charges of businesses transmitting interstate or intrastate messages.

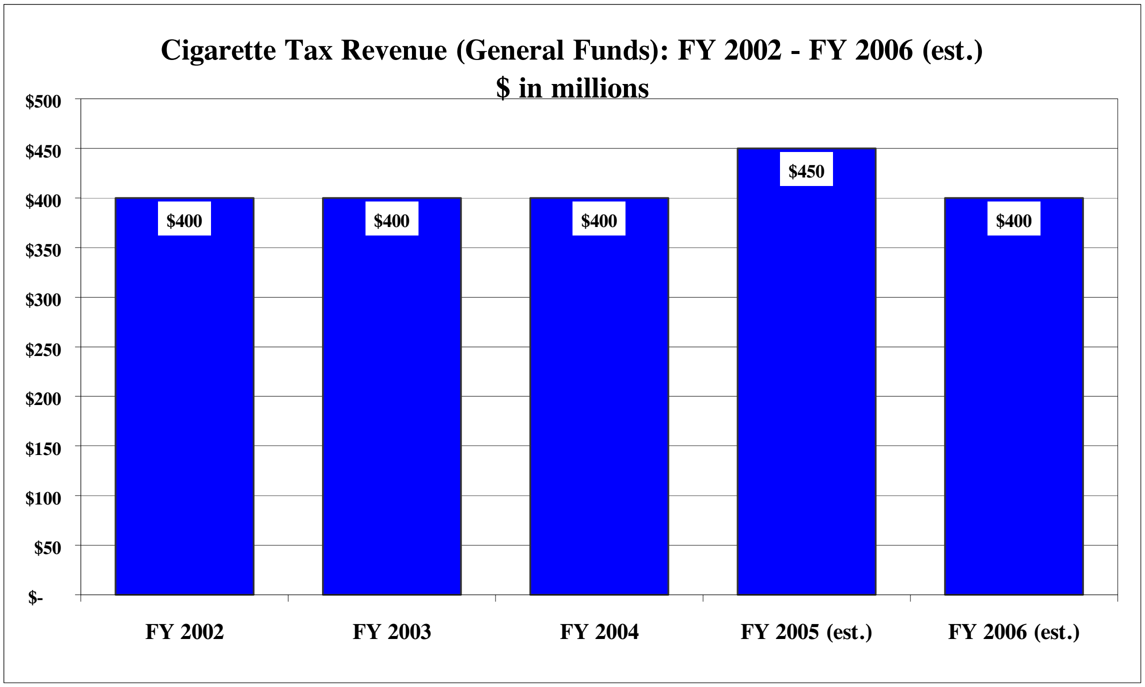
The natural gas revenue tax is imposed on utilities distributing natural gas in Illinois. The rate and base of the natural gas revenue tax is the lesser of 2.4 cents per therm of all gas sold to each customer or 5.0% of the gross receipts received from each customer. A new tax on purchases of out-of–state natural gas was enacted in FY 2004.

Since August 1, 1998, the rate and base of the public utility electricity tax is calculated on the amount of kilowatt hours used in a month by a residential customer. The rate begins at 0.33 cents per kilowatt-hour and decreases as the amount of usage increases.

The tax on self-assessing (non-residential) customers equals 5.1% of their purchase price. Customers of municipal systems or rural electrical cooperatives pay the lesser of 0.32 cents per kilowatt-hour or 5% of their purchase price.

The FY 2006 estimate of public utility tax receipts is $1.090 billion and is unchanged from the previous year. While unpredictable factors related to weather make forecasting difficult, little growth is anticipated for the coming fiscal year.

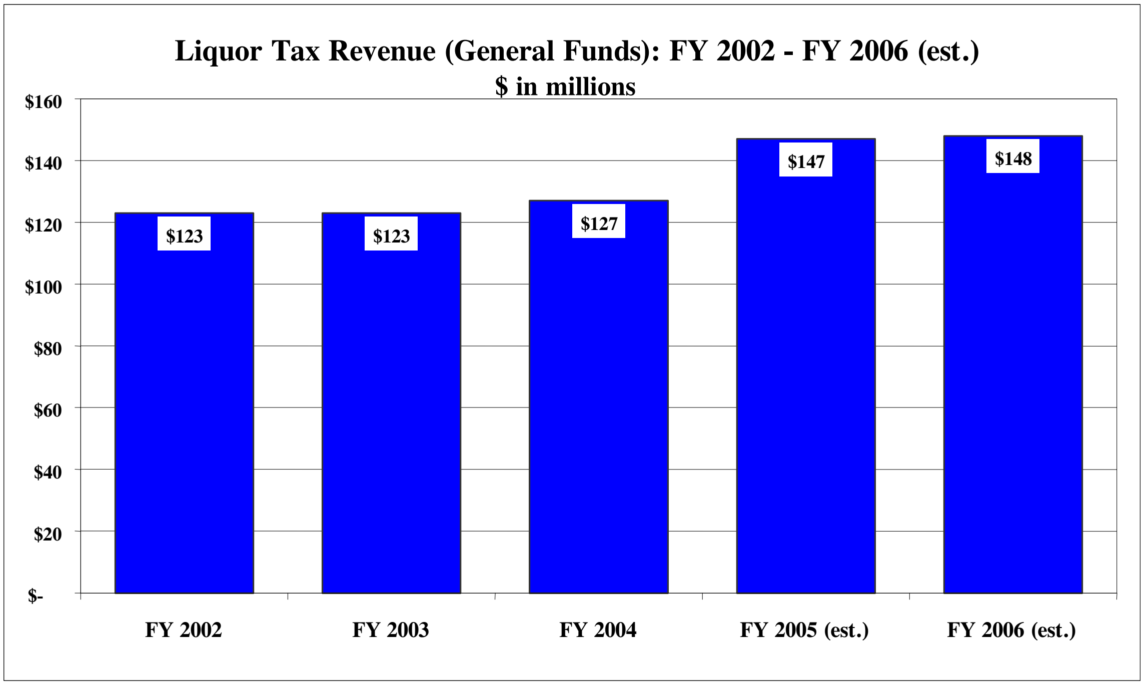
CIGARETTE TAXES



There are two taxes on cigarettes: the cigarette tax and the cigarette use tax. Wholesale distributors collect the taxes from retailers and are ultimately responsible for sending collections to the State. The taxes are mutually exclusive in that they are not levied on the same transaction, thereby avoiding double taxation. The current tax rate for both taxes is 98 cents per pack of 20 cigarettes.

The FY 2006 estimate of general funds cigarette tax receipts is $400 million. This estimates represents a decline of $50 million from the previous year and reflects the return to earlier distribution patterns. By statute $33.3 million a month is transferred into the general funds. [The Governor has proposed increasing the tax by 75 cents a pack and also increasing the tobacco products tax from 18% to 30%. The proposed FY 2006 budget assumes approximately $155 from those increases.]

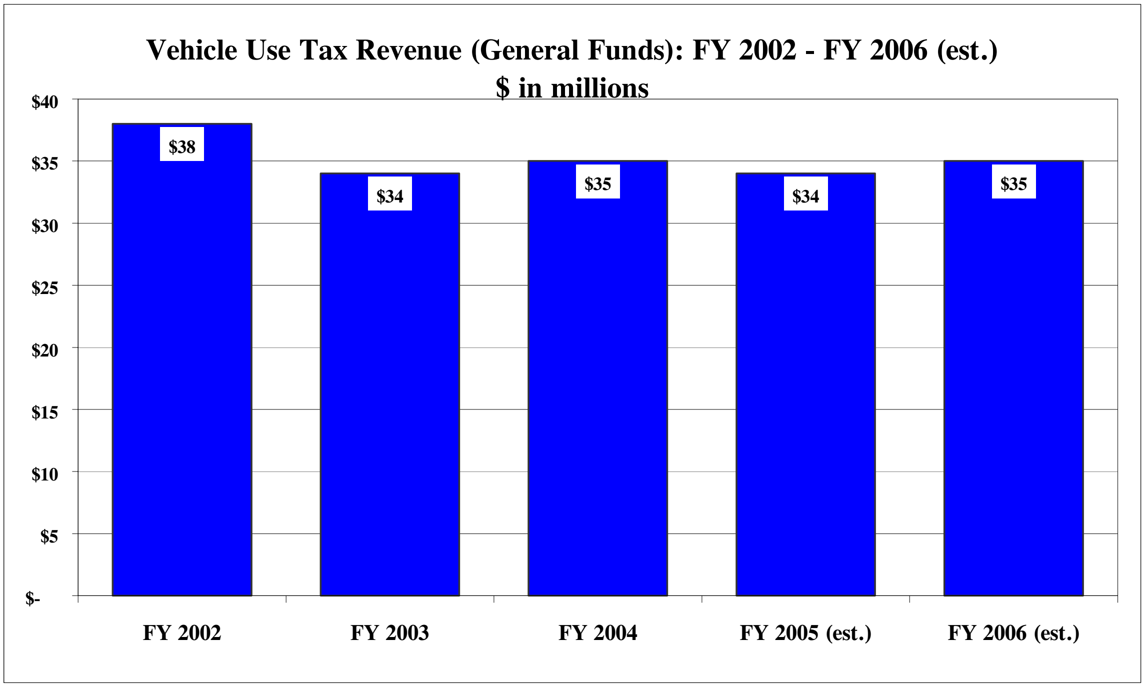
LIQUOR GALLONAGE TAXES



Illinois imposes a tax on the privilege of manufacturing or distributing alcoholic beverages in the State, measured by the number of gallons produced or distributed. The rates vary based on the type of alcohol. The tax per gallon of beer is 18.5 cents, wine and other fortified beverages with less than 20% alcohol is 73 cents, and on distilled liquor $4.50. The significant increase in FY 2005 stems from a court case that resulted in some of the liquor tax no longer being protested.

The FY 2006 estimate of liquor gallonage taxes is $148 million, reflecting a slight $1 million increase over prior fiscal year.

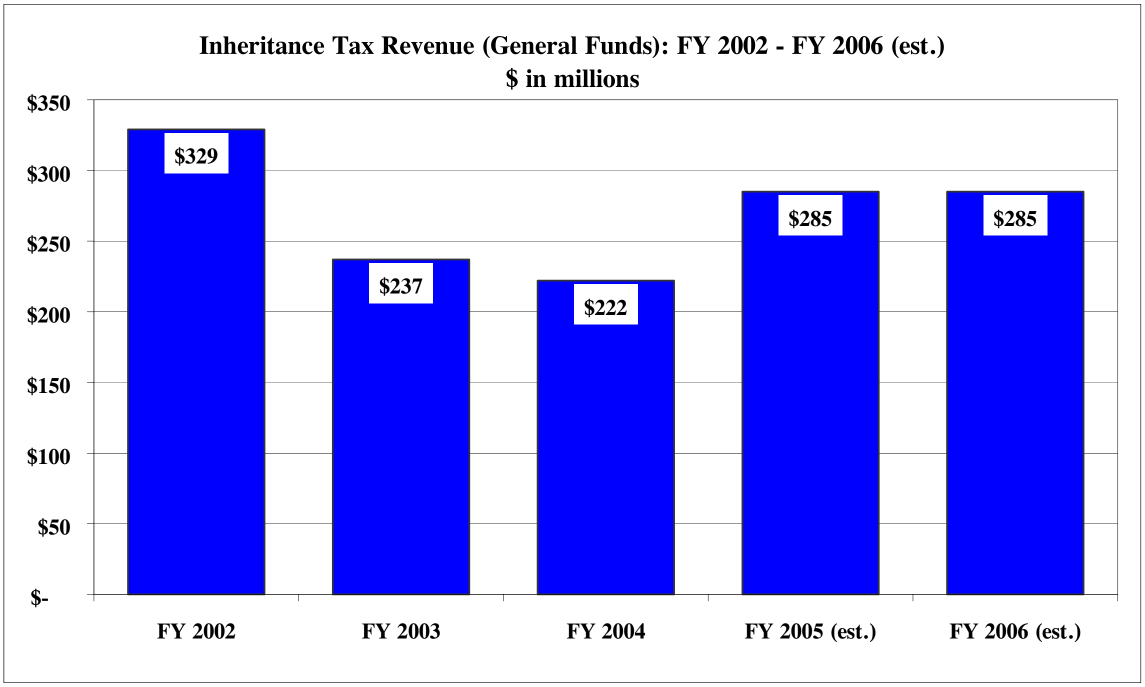
VEHICLE USE TAX



The vehicle use tax is collected on the transfer of ownership of motorized vehicles between private parties. The current rate is based on a statutory schedule that is determined by the age of the vehicle or the purchase price.

The FY 2006 general funds estimate for vehicle use tax is $35 million. Receipts from this source have been virtually unchanged for many years.

INHERITANCE TAX



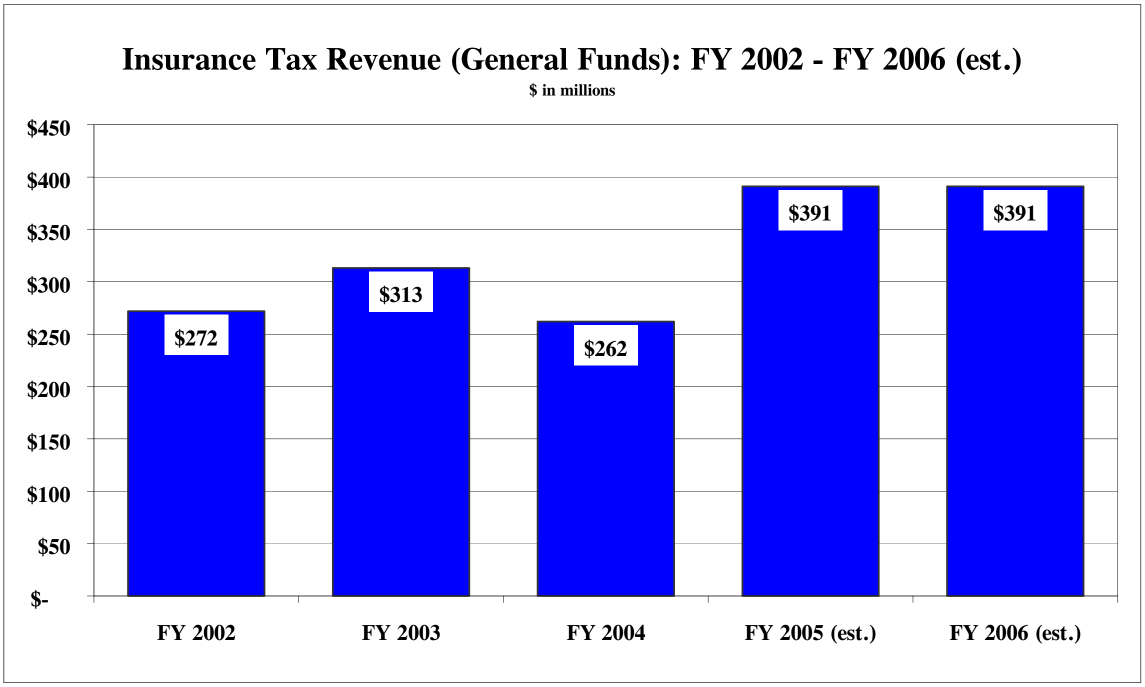
The State of Illinois currently administers an estate tax and a generation-skipping transfer tax. The Illinois estate tax is imposed on a decedent's estate prior to its distribution. The State generation-skipping transfer tax is imposed on bequests in which the transferor is two or more generations removed from the transferee. These taxes are commonly referred to as "pick-up" taxes, because the State taxes equal the maximum state credit permitted against deferral estate and generation-skipping tax liability. This type of tax provides revenue to the State without increasing the estate's total tax burden.

On June 7, 2001, Congress passed H.R. 1836 which completely overhauled the federal estate tax. It repeals federal estate and gift taxes over a ten-year period, it increases the unified credit associated with a decedent's estate, and it reduces the state death credit by 25% per calendar year until it is completely eliminated in 2005. The federal estate tax repeal ultimately would have eliminated Illinois' estate tax revenue due to the nature of the pick-up taxes. However, on June 20th, 2003, P.A. 93-0030 effectively decoupled the State from most of those federal provisions, thus allowing the State to retain its share of revenues.

The spike in FY 2005 is the result of the annualization of the decoupling as well as a number of larger settlements.

The FY 2006 estimate of inheritance tax is $285 million, reflecting no change from the previous year. The volatile nature of this source makes estimating difficult.

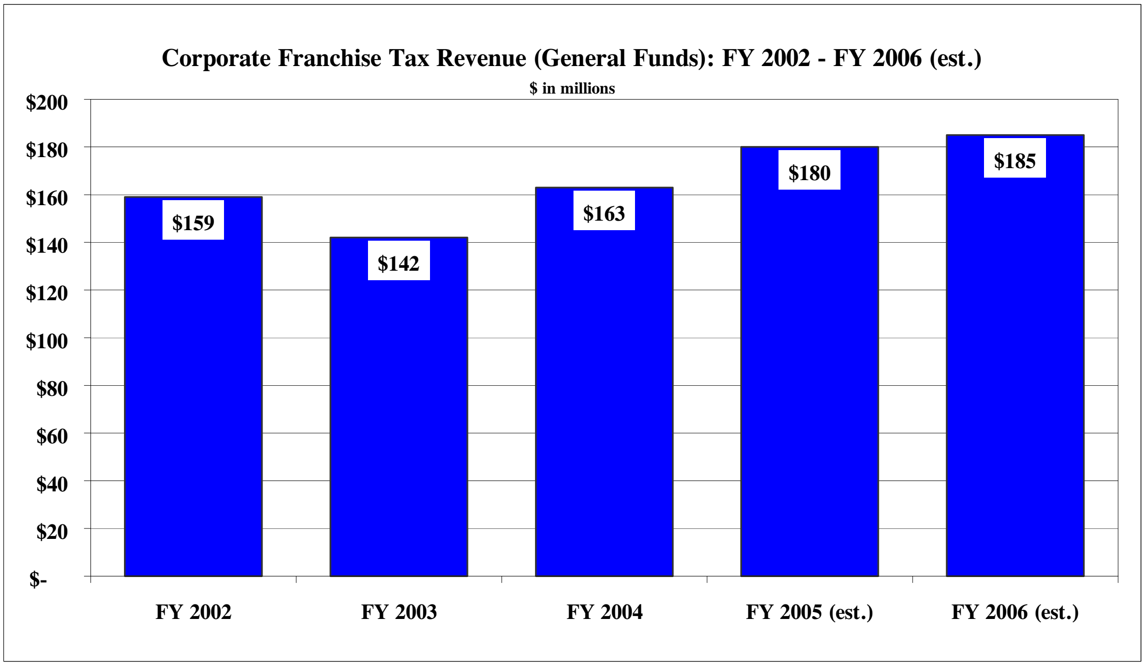
INSURANCE TAXES AND FEES



The State imposes a number of taxes and fees on insurance companies. The tax is based on the net taxable premiums written and is applied at the rate of either 0.4% for accident or health insurance, or 0.5% for other insurance policies. There are numerous other fees levied on particular types of insurance activities.

The FY 2006 general funds estimate of insurance taxes and fees is $391 million and reflects no growth from the prior year. It is unlikely that the recent growth surge in receipts can be repeated as certain components are expected to fall next year.

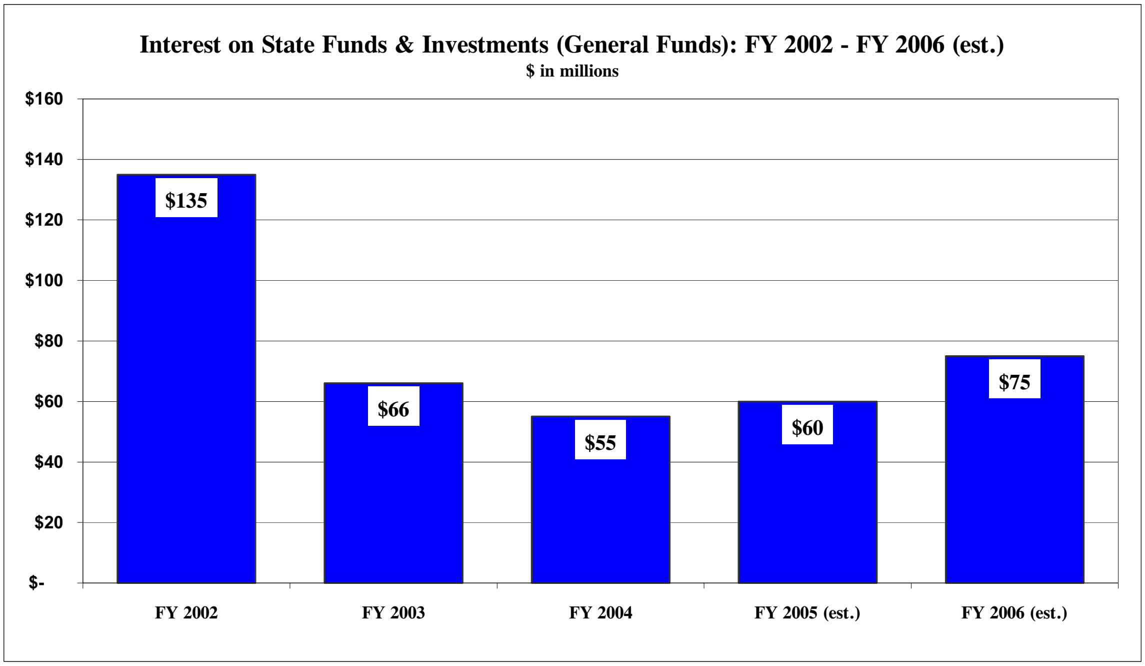
CORPORATE FRANCHISE TAXES AND FEES



All domestic corporations (headquartered in Illinois) and foreign corporations (headquartered in another state or foreign county) are required to pay an annual franchise tax at the rate of 0.1% of paid-in capital. Also, an initial franchise tax based on 0.15% of paid-in capital is levied when a corporation begins to conduct business in Illinois. An additional franchise tax of 0.15% is imposed on any increases in paid-in capital during the year (such as occurs in a capital restructuring, merger, or consolidation).

The FY 2006 estimate of corporate franchise taxes is $185 million, a $5 million or 2.8% increase over the forecast in FY 2005.

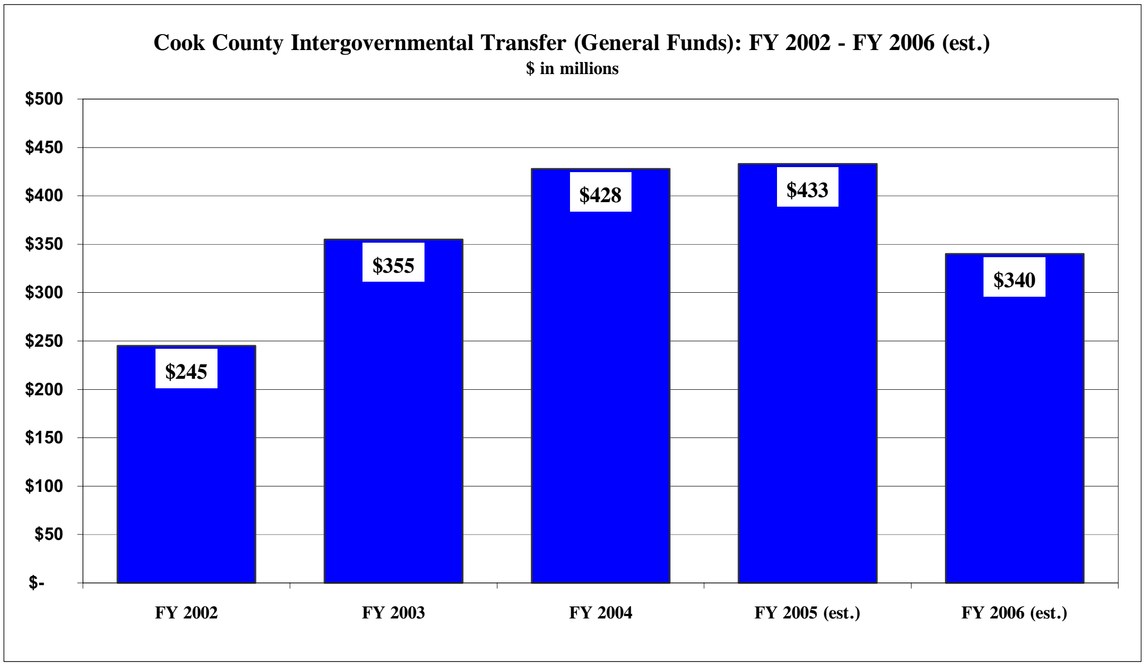
INTEREST



Interest income is earned on the investable balances of various state funds. Interest income is apportioned between the funds based upon each fund's pro ration of the total balance of all invested funds, or by specific statutory direction. The general funds receive the largest share of investment income.

Rates should continue to increase in the foreseeable future. As a result, $15 million in growth is anticipated for FY 2006.

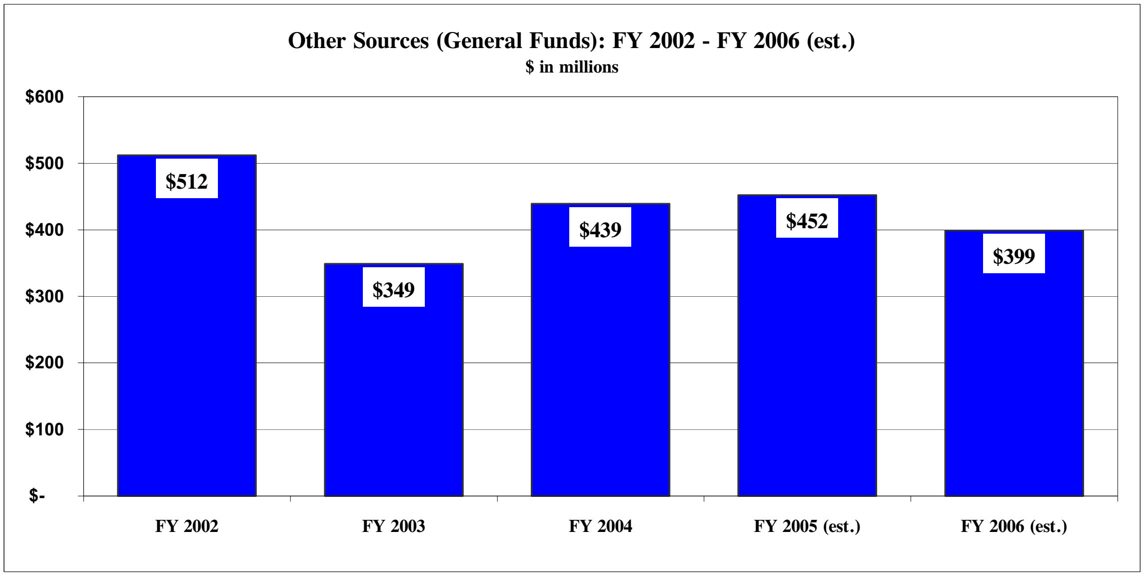
COOK COUNTY INTERGOVERNMENTAL TRANSFER (IGT)



The Cook County Intergovernmental transfer (IGT) has allowed the State to capture additional federal monies via a hyper-payment mechanism that basically allowed higher than cost payments to government hospitals, and culminated in a secondary transfer back to the State's general fund. However, the federal government is phasing out the practice of allowing these hyper-payments. As a result, the transfer that the State can expect to receive from the IGT will begin to erode in future years and ultimately end in 2009.

The IGT is expected to fall $93 million in FY 2006.

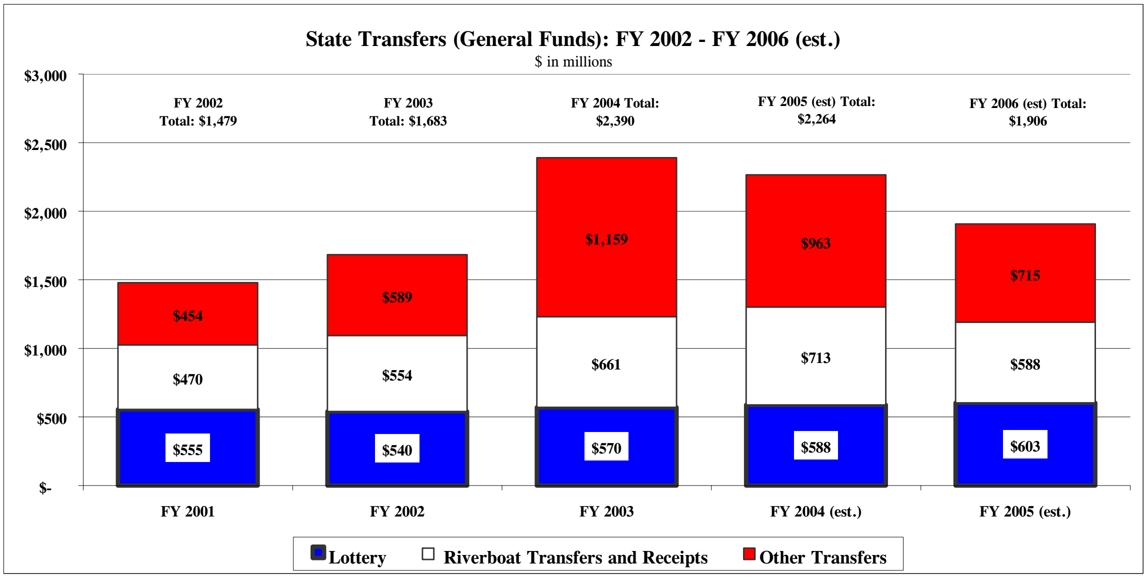
OTHER SOURCES



Other sources to the general funds include various taxes and fees such as the hotel operator's occupation tax and other license and registration fees. A number of the new and/or increased fees imposed in recent years are directly receipted in this source i.e. commercial distribution fee. In addition, in some years other sources also receive monies in the form of a transfer from the Build Illinois general reserve account. This transfer takes place at the discretion of the Governor between June 15th – 30th of any fiscal year.

The FY 2006 estimate of other sources to the general funds is $399 million, a reduction of $53 million from the previous fiscal year. The net decrease results from the planned reduction in Build Illinois general reserve account transfer as well as the anticipated drop in commercial distribution fee revenue stemming from P.A. 93-1033.

TRANSFERS TO THE GENERAL FUNDS



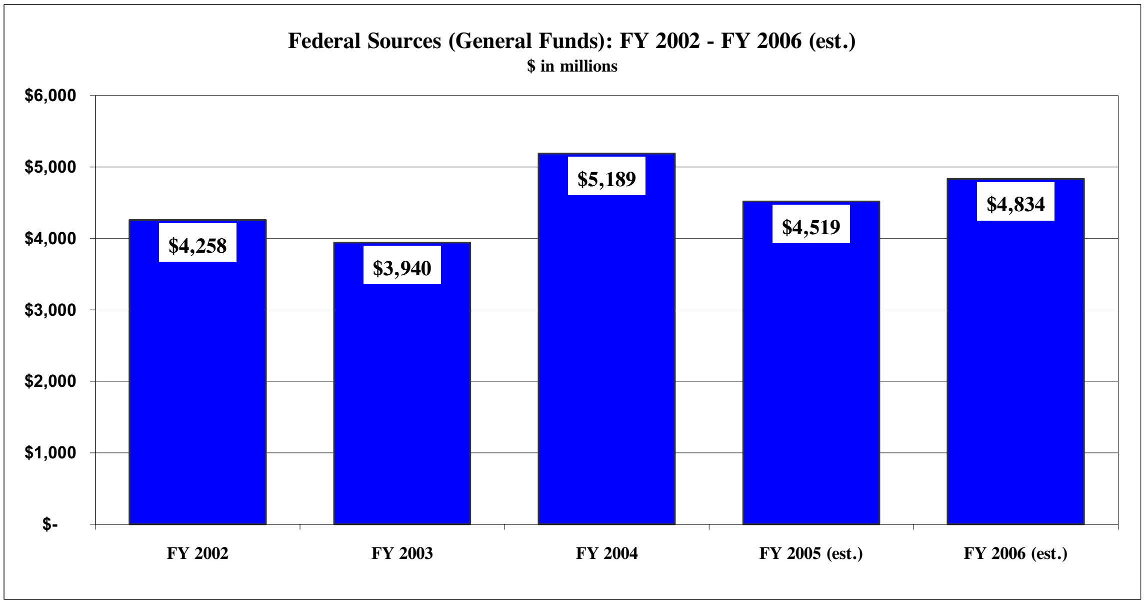
Transfers to the general funds are monies that are deposited in other State funds that are subsequently transferred into one of the four general funds. Included are transfers from the Lottery Fund to the Common School Fund as well as transfers from the State Gaming Fund to the Education Assistance Fund. [For ease of presentation, direct receipts to the general funds related to riverboat gaming are included under this source.] Due to the size of those transfers, they are itemized separately.

Lottery. ***The estimate of Lottery transfers for FY 2006 is $603 million and reflects $15 million in growth from the prior fiscal year. Increased drawings and additional retailers are expected to result in some growth for next year.***

Riverboat Transfers & Receipts. Receipts from riverboat license fees and taxes are deposited into the State Gaming Fund. From the State Gaming Fund, transfers are made to the Education Assistance Fund. In addition, taxes attributed to the increased tax structure are directly receipted into the Common School Fund. ***The FY 2006 estimate of gaming transfers is $588 million, which represents a decline of $125 million from this fiscal year. Under current law, the graduated taxing structure returns to lower levels July 1, 2005. [The Governor's FY 2006 Budget assumes that the current higher tax rate continue for FY 2006, resulting in the retention of approximately $125 million].***

Other transfers. ***In FY 2006, transfers to the general funds from sources other than the Lottery and the Gaming Fund are expected to be $715 million, a $248 million drop from the prior fiscal year, primarily reflecting the $265 million in one-time "fund sweeps" made in FY 2005.***

FEDERAL SOURCES



Federal source receipts to the general funds primarily consist of Medicaid reimbursements, the Social Services Block Grant, TANF monies, Child Care Block Grant, and other miscellaneous items.

Per the Governor's proposed budget request, the FY 2006 estimate of total federal source receipts to the general funds is $4.834 billion, which is $315 million more than the FY 2005 forecast. Federal source receipts are largely based on appropriation levels and subsequent spending activity. As a result, the estimate likely will change once appropriation levels have been established.

In conclusion, while the base growth projections for most of the major tax sources are anticipated to post decent gains, a number of issues related to cigarette tax, IGT, riverboat tax rates, and fund transfers will significantly impact on FY 2006 revenue growth. At this time, it's unclear what if any of the Governor's proposed deficit reduction sources or other changes will eventually be implemented for the FY 2006 budget (see following section).

TABLE 6: CGFA ESTIMATE FY 2006 vs. FY 2005

(millions)

Revenue Sources	CGFA FY 2006 Estimate Mar-05	CGFA FY 2005 Estimate Feb-05	$ Difference	% Difference
State Taxes				
Personal Income Tax	$8,901	$8,572	$329	3.8%
Corporate Income Tax	$1,465	$1,422	$43	3.0%
Sales Taxes	$6,805	$6,545	$260	4.0%
Public Utility (regular)	$1,090	$1,090	$0	0.0%
Cigarette Tax	$400	$450	($50)	-11.1%
Liquor Gallonage Taxes	$148	$147	$1	0.7%
Vehicle Use Tax	$35	$34	$1	2.9%
Inheritance Tax (gross)	$285	$285	$0	0.0%
Insurance Taxes & Fees	$391	$391	$0	0.0%
Corporate Franchise Tax & Fees	$185	$180	$5	2.8%
Interest on State Funds & Investments	$75	$60	$15	25.0%
Cook County Intergovernmental Transfer	$340	$433	($93)	-21.5%
Other Sources	$399	$452	($53)	-11.7%
Subtotal	**$20,519**	**$20,061**	**$458**	**2.3%**
Transfers				
Lottery	$603	$588	$15	2.6%
Riverboat Transfers & Receipts	$588	$713	($125)	-17.5%
Other	$715	$963	($248)	-25.8%
Total State Sources	**$22,425**	**$22,325**	**$100**	**0.4%**
Federal Sources	**$4,834**	**$4,519**	**$315**	**7.0%**
Total Federal & State Sources	**$27,259**	**$26,844**	**$415**	**1.5%**
Nongeneral Funds Distribution:				
Refund Fund*				
Personal Income Tax	($868)	($864)	($4)	0.5%
Corporate Income Tax	($293)	($346)	$53	-15.3%
Subtotal General Funds	**$26,098**	**$25,634**	**$464**	**1.8%**
Budget Stabilization Fund Transfer	$276	$276	$0	0.0%
Total General Funds	$26,374	$25,910	$464	1.8%

* The CGFA estimates assume federal source figures presented in the Budget Book. The CGFA FY 2006 estimate assumes the refund percentages at 9.75% for PIT and 20% for CIT. In addition, it is assumed that $276 million in Budget Stabilization Fund transfers will be utilized in FY 2006 for cash flow purposes.
CGFA

SUMMARY OF REVENUE RELATED BUDGET HIGHLIGHTS

The Governor's proposed FY 2006 budget is based upon general funds revenue growth of $1.044 billion. As shown in the table, the majority of that growth is based on a number of assumptions that will require legislative approval. These items total approximately $669 million, while other growth is anticipated to be $375 million.

GOMB FY 2006 General Revenue Growth Assumptions	
	GOMB Feb-05
FY 2005 Estimate ($millions)	**$25,622**
Net Change Income Taxes (current Refund %)	$346
Sales tax	$248
Net Change Other State Sources	($208)
Net Change Transfers	($326)
Federal Sources	$315
Base Growth	**$375**
Proposed Revenue Changes	
Deficit Reduction Sources	$255
School Endowment Fund Transfer	$140
Net Change due to Proposed Lower Refund %	$81
Riverboats at Current Tax Rates (CGFA est. value)	$125
Fund Sweep (Tobacco Settlement Fund)	$68
Growth from Proposed Changes	**$669**
Total Growth Assumptions	**$1,044**
FY 2006 Estimate	**$26,666**
*Does not include $276 million in anticipated Budget Stabilization Fund transfer	

The largest component of the proposed revenue changes totals $255 million and includes a number of tax changes referred to as "Deficit Reduction Sources". Specifically, these sources are comprised of the following proposed changes:

- Increased Audit Enforcement-$18 million
- Sales tax on software-$65 million
- Reform retail rate law-$17 million
- Increase cigarette tax and other tobacco products tax-$155 million

The budget assumes $394 million in a combination of chargebacks [$186 million], a Tobacco Fund sweep [$68 million], and a new transfer from School Endowment Fund [$140 million] made possible by proposed funds reform. In addition, the FY 2006 revenue forecast assumes a lower refund fund percentage (valued at approximately $81 million when compared to current rates). Also, it is assumed that the current tax rates applied to riverboats will continue, rather than rolling back to lower levels under current law (the CGFA estimates the value of that tax change to be approximately $125 million).

In conclusion, while the proposed FY 2006 budget is based on significant growth of $1.044 billion, most of that assumed growth requires legislative approval i.e. tax changes, fund sweeps, etc. It's unclear at this time what if any of these proposed changes will make it through the budgetary process.

CGFA/GOMB FY 2006 COMPARISON

As shown in Table 7 on page 51, excluding the Governor's proposed $255 million in deficit reduction sources, the Commission's FY 2006 general funds estimate of $26.098 billion is $313 million below the GOMB's estimate of $26.411 billion reflected in the FY 2006 Budget Book. If the $255 million in deficit reduction sources are included in the GOMB estimate, the difference grows to $568 million.

The two estimates reflect moderate differences in most of the larger more economically-tied sources such as income and sales taxes, with the Commission being higher in the estimates of corporate income taxes and sales tax, while lower in the forecast of income taxes. Other notable differences reside in the estimates of inheritance, insurance, and interest with the Commission being higher in each instance.

The largest differences reside in the transfer categories. Specifically:

- The Commission's riverboat transfers and receipts forecast is based on current law that has the tax rate structure reverting to lower levels July 1, 2005. The GOMB's estimate assumes that the current higher rates continue at their present level. The difference in the estimate amounts to $108 million. [The Commission estimates the value of the tax change to be worth $125 million.]

- The Commission's estimate of other transfers does not include $140 million in Governor proposed School Endowment Fund transfers into the Common School Fund. In essence, the proposal is to sweep $420 million from available fund balances and deposit them in this newly created fund. Then, over the next three years, transfer $140 million a year into the Common School Fund. The Commission's estimate also does not assume $68 million in Tobacco Settlement Fund sweeps. Taken together, these two items account for the majority of the $201 million difference in the estimates of other transfers.

For ease of comparison and presentation purposes, Table 8 on page 52 presents the CGFA's FY 2006 estimate <u>including</u> the various proposed revenue changes that total $588 million:

Deficit reduction sources- $255 million
School Endowment Fund transfer- $140 million
Riverboats remain at current tax rates-valued at $125 million
Tobacco Settlement Fund sweep- $68 million

As shown, under this adjusted format the Commission's FY 2006 estimate is actually $20 million higher than the GOMB's estimate.

TABLE 7: FY 2006 CGFA/GOMB COMPARISON

(millions)

Revenue Sources	*CGFA FY 2006 Estimate Mar-05	GOMB FY 2006 Estimate Feb-05	$ Difference
State Taxes			
Personal Income Tax	$8,901	$8,997	($96)
Corporate Income Tax	$1,465	$1,451	$14
Sales Taxes	$6,805	$6,778	$27
Public Utility (regular)	$1,090	$1,096	($6)
Cigarette Tax	$400	$400	$0
Liquor Gallonage Taxes	$148	$146	$2
Vehicle Use Tax	$35	$35	$0
Inheritance Tax (gross)	$285	$255	$30
Insurance Taxes & Fees	$391	$366	$25
Corporate Franchise Tax & Fees	$185	$194	($9)
Interest on State Funds & Investments	$75	$45	$30
Cook County Intergovernmental Transfer	$340	$340	$0
Other Sources	$399	$401	($2)
Subtotal	**$20,519**	**$20,504**	**$15**
Transfers			
Lottery	$603	$628	($25)
Riverboat Transfers & Receipts	$588	$696	($108)
Other	$715	$916	($201)
Total State Sources	**$22,425**	**$22,744**	**($319)**
Federal Sources	**$4,834**	**$4,834**	**$0**
Total Federal & State Sources	**$27,259**	**$27,578**	**($319)**
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax	($868)	($877)	$9
Corporate Income Tax	($293)	($290)	($3)
Subtotal General Funds	**$26,098**	**$26,411**	**($313)**
Change from Prior Year Estimate	**$464**	**$789**	**($325)**
Percent Change	**1.8%**	**3.1%**	
Proposed Deficit Reduction Sources	**$0**	**$255**	($255)
Budget Stabilization Fund Transfer	$276	$276	$0
Total General Funds	$26,374	$26,942	($568)
Change from Prior Year Estimate	$464	$1,044	($580)
Percent Change	1.8%	4.0%	

* The CGFA estimates assume federal source figures presented in the Budget Book. The CGFA FY 2006 estimate assumes the refund percentages at 9.75% for PIT and 20% for CIT. In addition, it is assumed that $276 million in Budget Stabilization Fund transfers will be utilized in FY 2006 for cash flow purposes.
CGFA

TABLE 8: FY 2006 CGFA/GOMB COMPARISON
CGFA ESTIMATE ADJUSTED FOR PROPOSED REVENUE CHANGES
(millions)

Revenue Sources	*CGFA FY 2006 Estimate Mar-05	GOMB FY 2006 Estimate Feb-05	$ Difference
State Taxes			
Personal Income Tax	$8,901	$8,997	($96)
Corporate Income Tax	$1,465	$1,451	$14
Sales Taxes	$6,805	$6,778	$27
Public Utility (regular)	$1,090	$1,096	($6)
Cigarette Tax	$400	$400	$0
Liquor Gallonage Taxes	$148	$146	$2
Vehicle Use Tax	$35	$35	$0
Inheritance Tax (gross)	$285	$255	$30
Insurance Taxes & Fees	$391	$366	$25
Corporate Franchise Tax & Fees	$185	$194	($9)
Interest on State Funds & Investments	$75	$45	$30
Cook County Intergovernmental Transfer	$340	$340	$0
Other Sources	$399	$401	($2)
Subtotal	**$20,519**	**$20,504**	**$15**
Transfers			
Lottery	$603	$628	($25)
Riverboat Transfers & Receipts	$713	$696	$17
Other	$923	$916	$7
Total State Sources	**$22,758**	**$22,744**	**$14**
Federal Sources	**$4,834**	**$4,834**	**$0**
Total Federal & State Sources	**$27,592**	**$27,578**	**$14**
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax	($868)	($877)	$9
Corporate Income Tax	($293)	($290)	($3)
Subtotal General Funds	**$26,431**	**$26,411**	**$20**
Change from Prior Year Estimate	**$797**	**$789**	**$8**
Percent Change	**3.1%**	**3.1%**	
Proposed Deficit Reduction Sources	**$255**	**$255**	$0
Budget Stabilization Fund Transfer	$276	$276	$0
Total General Funds	$26,962	$26,942	$20
Change from Prior Year Estimate	$1,052	$1,044	$8
Percent Change	4.1%	4.0%	

* The CGFA estimates assume federal source figures presented in the Budget Book. The CGFA FY 2006 estimate assumes the refund percentages at 9.75% for PIT and 20% for CIT. In addition, it is assumed that $276 million in Budget Stabilization Fund transfers will be utilized in FY 2006 for cash flow purposes.
CGFA

WALK-UP OF FY 2006 GROWTH ASSUMPTIONS

The following table compares growth projections for both the CGFA and the GOMB and walks up from the FY 2005 estimate. As shown, from a base growth standpoint (assumes current law and current income tax refund percentages), the Commission's revised FY 2006 base growth is $383 million, slightly higher than a preliminary projection made in November, and $8 million higher than the GOMB's forecasted base growth.

If all of the various $669 million proposed revenue changes were made, the Commisson's forecasted total growth would then climb to $1.052 billion, which is $8 million higher than the GOMB's estimated growth of $1.044 billion.

Table 9: FY 2006 Revenue Growth Assumptions
Walk-Up of CGFA and GOMB Estimates

	CGFA Nov-04	CGFA Mar-05	GOMB Feb-05
FY 2005 Estimate	$25,634	$25,634	$25,622
Net Change Income Taxes (current Refund %)	$240	$340	$346
Sales tax	$260	$260	$248
Net Change Other State Sources	($25)	($174)	($208)
Net Change Transfers	($340)	($358)	($326)
Federal Sources	$190	$315	$315
FY 2006 Base Growth	**$325**	**$383**	**$375**
GOMB Proposed Revenue Changes			
Deficit Reduction Sources		$255	$255
School Endowment Fund Transfer		$140	$140
Net Change due to Proposed Lower Refund %		$81	$81
Riverboats at Current Tax Rates (est. value)		$125	$125
Fund Sweep (Tobacco Settlement Fund)		$68	$68
Growth from Proposed Changes	**N/A**	**$669**	**$669**
Total Growth Including Proposed Changes	**$325**	**$1,052**	**$1,044**
FY 2006 Estimate Including Proposed Changes	**$25,959**	**$26,686**	**$26,666**

*Does not include $276 million in anticipated Budget Stabilization Fund transfer

TABLE 10: ALL APPROPRIATED FUNDS REVENUE FY 2004 to FY 2006

($ millions)

REVENUE SOURCES	ACTUAL RECEIPTS FY 2004	Mar-05 Estimate FY 2005	Mar-05 Estimate FY 2006	$ CHG. FROM FY 2005	% CHG. FROM FY 2005
State Taxes					
Personal Income Tax	$8,235	$8,572	$8,901	$329	3.8%
Corporate Income Tax					
Regular	$1,419	$1,422	$1,465	$43	3.0%
Replacement	$922	$991	$1,050	$59	6.0%
Sales	$7,442	$7,670	$7,940	$270	3.5%
Public Utility					
Regular	$1,576	$1,585	$1,585	$0	0.0%
Replacement	$207	$200	$200	$0	0.0%
Motor Fuel (gross)	$1,453	$1,460	$1,478	$18	1.2%
Cigarette	$760	$640	$620	($20)	-3.1%
Liquor Gallonage Taxes	$138	$152	$154	$2	1.3%
Vehicle Use Tax	$40	$39	$40	$1	2.6%
Inheritance Tax	$222	$285	$285	$0	0.0%
Insurance Taxes and Fees	$466	$506	$506	$0	0.0%
Horse Racing Taxes & Fees	$13	$13	$13	$0	0.0%
Corporate Franchise Taxes	$169	$186	$191	$5	2.7%
Other Privilege Taxes	$256	$273	$281	$8	2.9%
Riverboat Gambling Taxes & Fees	$775	$816	$694	($122)	-15.0%
SUBTOTAL	$24,093	$24,810	$25,403	$593	2.4%
State Nontax Sources					
Motor Vehicle & License Fees	$1,162	$1,162	$1,162	$0	0.0%
Cigarette Settlement Distributions	$270	$264	$284	$20	7.6%
Other Fees	$468	$516	$542	$26	5.0%
Provider Assessment Fees	$901	$1,538	$901	($637)	-41.4%
Receipts From State Hospital Patients	$24	$24	$25	$1	4.2%
Interest on State Funds & Investments	$88	$100	$120	$20	20.0%
Reimbursements & Repayments	$151	$151	$151	$0	0.0%
Revolving Fund Receipts	$425	$340	$340	$0	0.0%
Lottery (net gross)	$881	$890	$910	$20	2.2%
All Other Nonfederal Receipts	$4,110	$4,867	$5,110	$243	5.0%
Income from Sale of Bonds	$2,411	$1,250	$1,165	($85)	-6.8%
Local Government Health Plan	$73	$64	$64	$0	0.0%
SUBTOTAL	**$35,057**	**$35,976**	**$36,177**	**$201**	**0.6%**
State Transfers In	$334	$40	$40	$0	0.0%
TOTAL STATE SOURCES	**$35,391**	**$36,016**	**$36,217**	**$201**	**0.6%**
Federal Sources	$12,940	$12,505	$13,040	**$535**	**4.3%**
SUBTOTAL ALL APPROPRIATED	**$48,331**	**$48,521**	**$49,257**	**$736**	**1.5%**
Short Term Borrowing	**$850**	**$0**	**$0**	**$0**	**n/a**
TOTAL ALL APPROPRIATED	**$49,181**	**$48,521**	**$49,257**	**$736**	**1.5%**

CGFA 04-Mar-05

BACKGROUND

The Commission on Government Forecasting and Accountability (CGFA), 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;
5) Annual estimates of public pension funding requirements and preparation of pension impact notes;
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;
7) Administration of the State Facility Closure Act.

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 several reports each year. In addition to a Monthly Briefing, the Commission publishes the "Revenue Estimate and Economic Outlook" which describes and projects economic conditions and their impact on State revenues. The "Illinois Bond Watcher" report 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. Also published are an Annual Fiscal Year Budget Summary; Report on the Liabilities of the State Employees' Group Insurance Program; and Report of the Cost and Savings of the State Employees' Early Retirement Incentive Program. The Commission also publishes each year special topic reports that have or could have an impact on the economic well being of Illinois. All reports are available on the Commission's website.

These reports are available from:

Commission on Government Forecasting and Accountability
703 Stratton Office Building
Springfield, Illinois 62706
(217) 782-5320
(217) 782-3513 (FAX)

http://www.ilga.gov/commission/cgfa/cgfa_home.html