FY 2007 REVENUE FORECAST

and

UPDATED FY 2006 REVENUE ESTIMATE

Commission on Government
Forecasting and Accountability

MARCH 2006

703 Stratton Office Building
Springfield, Illinois 62706

Commission on Government Forecasting and Accountability

COMMISSION CO-CHAIRMEN

Senator Jeffrey M. Schoenberg
Representative Terry R. Parke

SENATE	*HOUSE*
Don Harmon	Mark H. Beaubien, Jr.
Christine Radogno	Frank Mautino
Steven Rauschenberger	Robert Molaro
David Syverson	Richard Myers
Donne Trotter	Elaine Nekritz

EXECUTIVE DIRECTOR
Dan R. Long

DEPUTY DIRECTOR
Trevor J. Clatfelter

REVENUE MANAGER
Jim Muschinske

CHIEF ECONOMIST
Edward H. Boss, Jr.

REVENUE ANALYSTS

Lynnae Kapp	Eric Noggle
Michael Moore	Benjamin Varner

EXECUTIVE SECRETARY
Donna K. Belknap

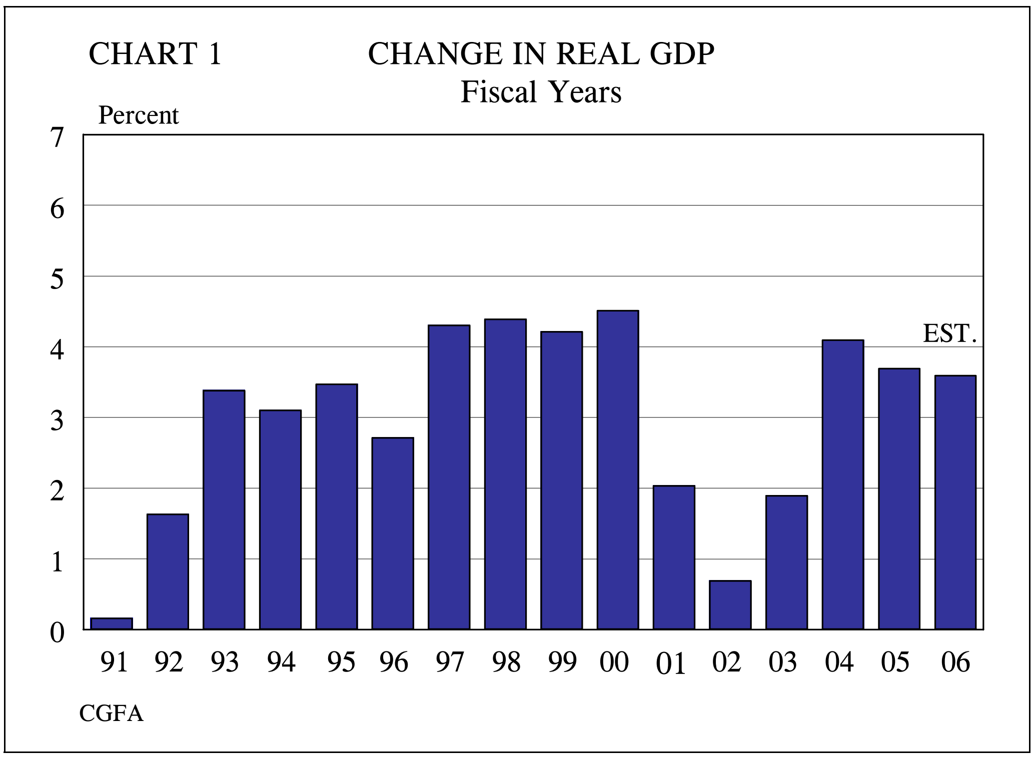
TABLE OF CONTENTS

FY 2007 REVENUE FORECAST

REVIEW OF FY 2006:

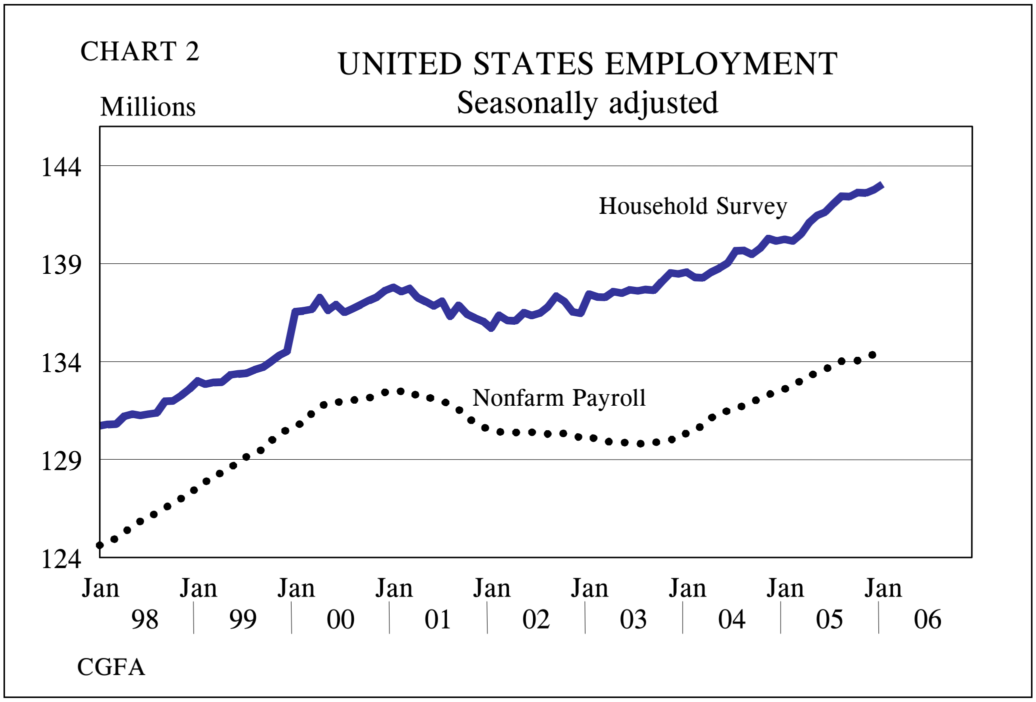
Much Like FY 2005 With Further Gains
In Employment and Receipts

The pace of economic advance in the U.S. in FY 2006 was very erratic but in total was similar to that achieved in FY 2005, and remained above its long-term trend. (See Chart 1.) The fiscal year started out strongly at a 4.1% annual rate in the first fiscal quarter but dropped off sharply to a slight 1.6% rate in the second fiscal quarter as the hurricane-ravaged Gulf Coast States depressed activity, only to have a rebuilding surge in the following quarter followed by an expected moderation in the final quarter. Despite the sharp volatility, real gross domestic product (GDP) is estimated to have grown at a 3.6% rate in FY 2006, although further data and revisions are yet to be released, about the same as the 3.7% gain achieved in FY 2005. This was somewhat above the 3.2% projected by the Commission at this time last year and the 3.4% gain foreseen with its later revisions put forward last November.



The consumer, which generally accounts for two-thirds of total spending, as expected, rose at modestly less than the previous year's strong pace. This is despite a weakening in purchases of large-ticket items, such as automobiles. At the same time, business spending, while down from last year's pace, remained strong; exports held at a vigorous pace; and government spending remained restrained. The employment situation improved sharply throughout the year, particularly the important payroll series that had been lagging the improving trend that had developed in the household series.

(See Chart 2). The unemployment rate also continued its decline, falling to a low of 4.7% in January 2006, the lowest rate since July 2001 and down from 5.2% a year earlier and compared to a peak of 6.4% in June 2004.



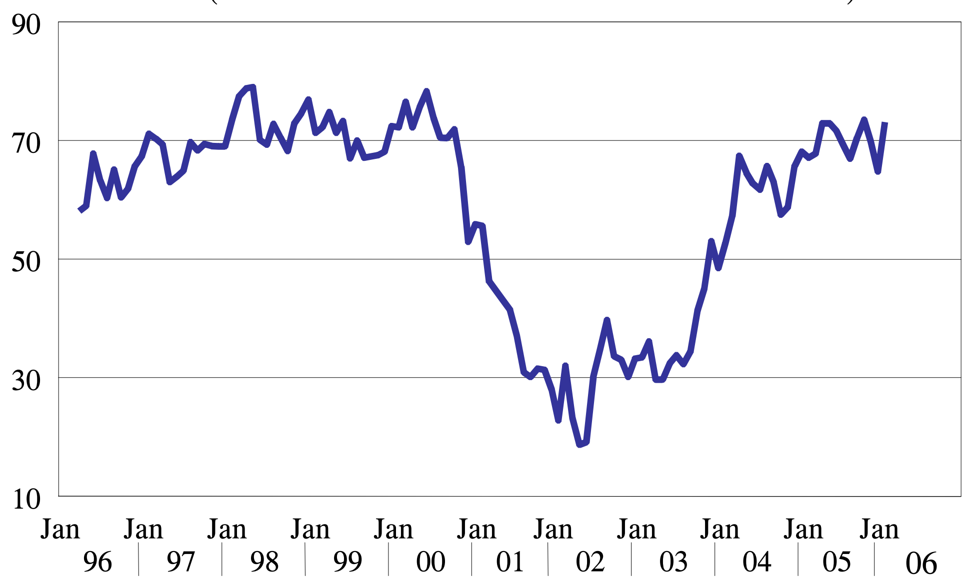
Overall state tax receipts, which began to improve last year, showed further advances during the fiscal year aided by an improved employment situation. (See Chart 3). The index of 16 states, including Illinois, is a good proxy for state revenues on a national basis. The continued improvement experienced through FY 2006 has now returned states to their performance levels seen in the late 1990s.

In reviewing FY 2006, the pace of economic advance, although erratic, continued near the previous year's pace while 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, given the severe financial squeeze most faced in earlier years, if states are to return to their previous financial positions.

CHART 3

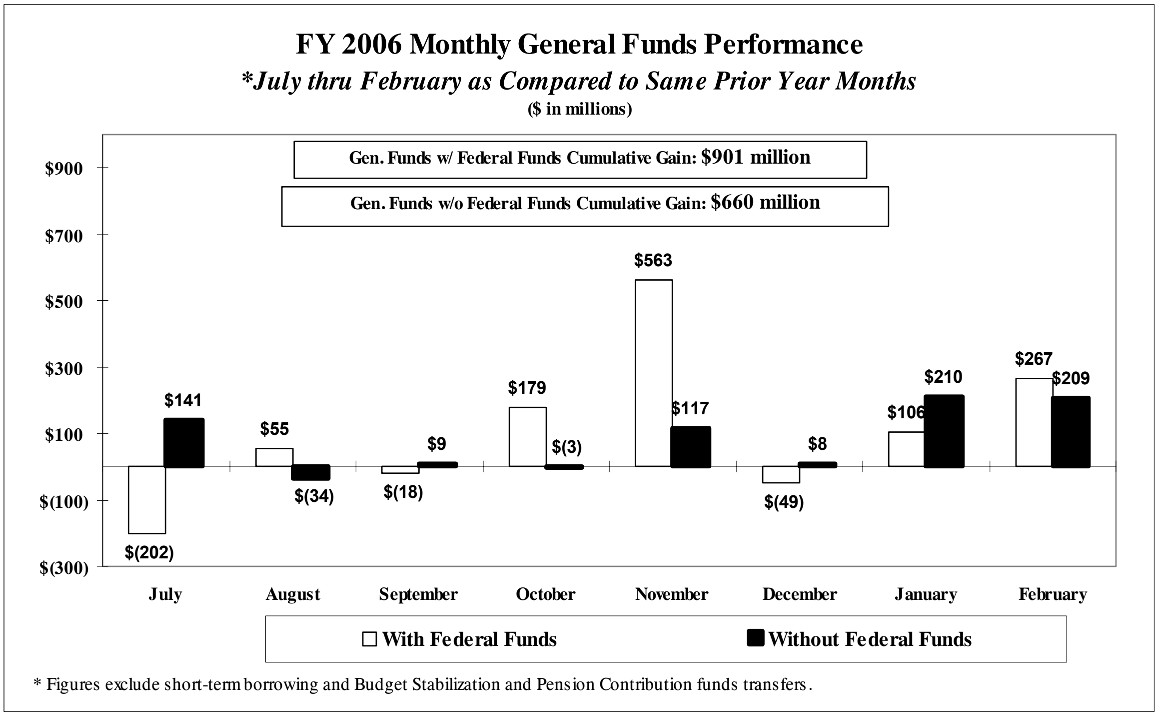
STATE TAX RECEIPTS SURVEY

(Index based on inflow of income and sales taxes)



Source: ISI (International Strategy & Investment) CGFA

FY 2006 REVENUE RECAP



First Quarter

Overall July general revenue receipts fell $202 million to begin the fiscal year. While most of the economically related revenue sources performed well, an expected decline in federal sources more than offset gains experienced in other areas. Excluding a $343 million decline in federal sources due to last year's short-term borrowing and subsequent reimbursable Medicaid spending, all other revenues posted a $141 million gain. In August, overall receipts increased $55 million. While federal sources recovered and posted decent gains, other revenue source performance was mixed. Excluding $89 million in federal source gains, all other areas fell $34 million. Other transfers contributed heavily to that loss as the timing of statutory funds sweeps resulted in a monthly falloff. In September, most of the larger economically related sources performed quite well. However, those gains were more than offset by losses in other areas such as transfers and federal sources. Federal sources aside, other revenue sources posted a $9 million monthly increase.

Through the first three months of the fiscal year, overall revenues were down $165 million. However, the loss was due primarily to the timing and magnitude of fund sweeps as well as last year's significant jump in federal sources related to earlier short-term borrowing. Absent those items, revenues for the most part performed fairly well, rising $116 million.

Second Quarter

Receipts increased $179 million in October as most of the revenue sources posted gains. The majority of the increase stemmed from a very good month for federal sources, which were up $182 million. However, excluding federal sources, the monthly change totaled -$3 million, reflecting the timing of statutory fund sweeps and other transfers. Overall general funds revenues were up $563 million in November, excluding $1 billion in short-term borrowing. The large increase resulted from a huge gain in federal sources that was directly related to the short-term borrowing and subsequent reimbursement from Medicaid spending. Federal sources aside, with only a few exceptions, the other revenue sources performed well, up $117 million. In December, general funds revenues fell $49 million. The decline resulted from a falloff in federal sources as well as a slowdown in a variety of transfers. The remaining revenue sources experienced mixed results. Excluding a $57 million drop in federal sources, all other sources gained a modest $8 million.

With the fiscal year half over, excluding the $1 billion in short-term borrowing, overall revenues were up $528 million. While most of that gain can be attributed to reimbursement on Medicaid spending due to November's short-term borrowing, sources most closely tied to the economy continued to do well. However, offsetting some of those gains were falloffs in transfers such as the Cook County IGT, riverboat transfers, chargebacks and statutory fund sweeps. Excluding the growth generated by federal sources, the year-over-year gain was a more modest $238 million.

Third Quarter

The third quarter began on a mostly positive note as overall revenues grew $106 million on the strength of the economic sources as well as timing of certain transfers. The increase occurred despite a drop of $104 million in federal sources meaning non-federal sources gained $210 million for the month. Overall February receipts grew by $267 million, in part aided by $58 million in federal sources. However, even absent that gain, all other revenue sources grew a robust $209 million due mostly to strong sales tax performance and transfer activity.

With two-thirds of the fiscal year completed, excluding the $1 billion in short-term borrowing, overall revenues are up $901 million. While $241 million of that gain can be attributed to growth in federal sources related to short-term borrowing, sources most closely tied to the economy continue to perform above expectations. Absent gains associated with federal sources, all other sources are still up an impressive $660 million.

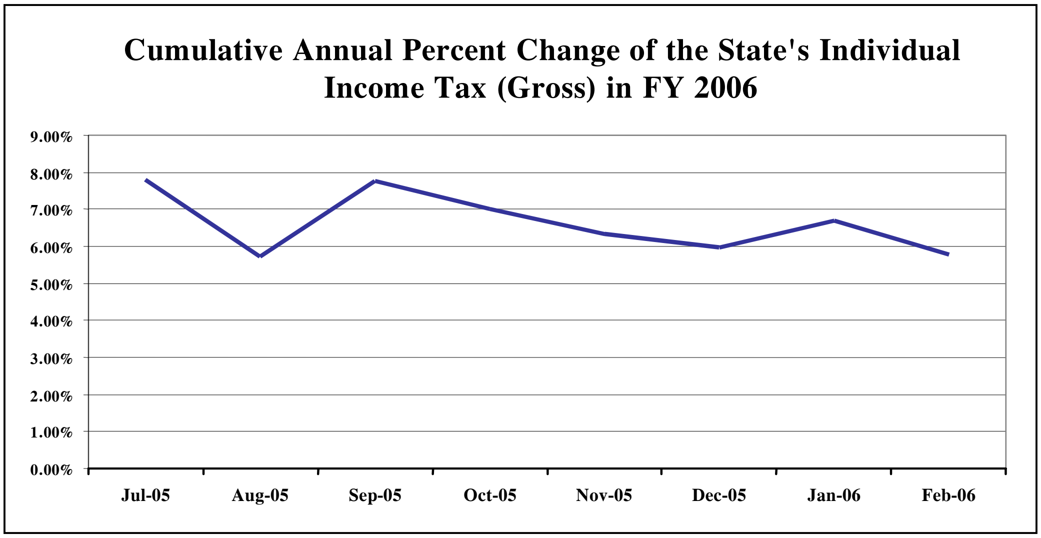
REVISED FY 2006 GENERAL REVENUE FORECAST

As shown in Table 1 on page 14, excluding short-term borrowing, general revenues through February are up $901 million or 5.5%. A significant amount of that increase is due to November's $1 billion in short-term borrowing that resulted in a significant increase in Medicaid spending and resulting federal source reimbursement. Even excluding federal source revenue growth, the year-to-date increase of $660 million has been impressive.

In assessing revenue performance to date, it is clear that most of the economically related sources have continued to exceed 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. In contrast, a few non-economic sources must be adjusted down to reflect poor year-to-date performance and/or other reasons (i.e. Administration decisions related to transfers). Therefore, the Commission's overall estimate for FY 2006 has been increased $275 million to $27.115 billion, which represents an increase of $955 million over the previous year (see Tables 2 and 3 on pages 15 and 16).

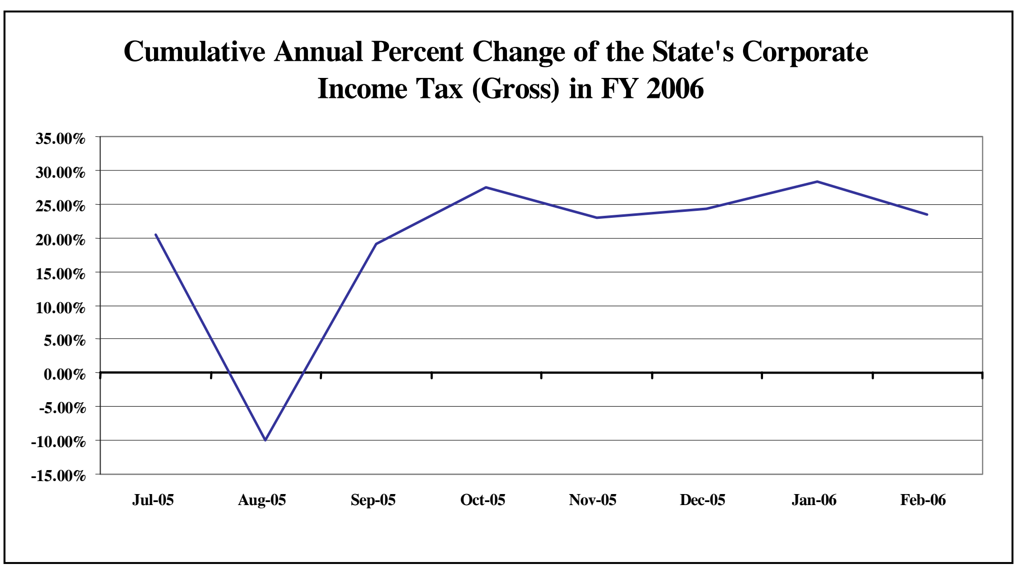
A discussion of the major sources experiencing revisions include the following:

- Gross personal income tax receipts are up $313 million or 5.8% through the first two-thirds of the year, [$302 million or 6.3% on a net of refund basis]. Personal income taxes are comprised of withholding taxes, estimated payments, and final payments. Through February, withholding payments, which are based on current wages and employment and comprise approximately 80% of total income taxes, were up 5.2%. 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 14.9% through February. Lastly, final payments, which comprise the remainder of income tax collections, are final settlements that are made by the taxpayer. The vast majority of final payments are not received until after the April deadline, however, final payments were down 7.8% through February.

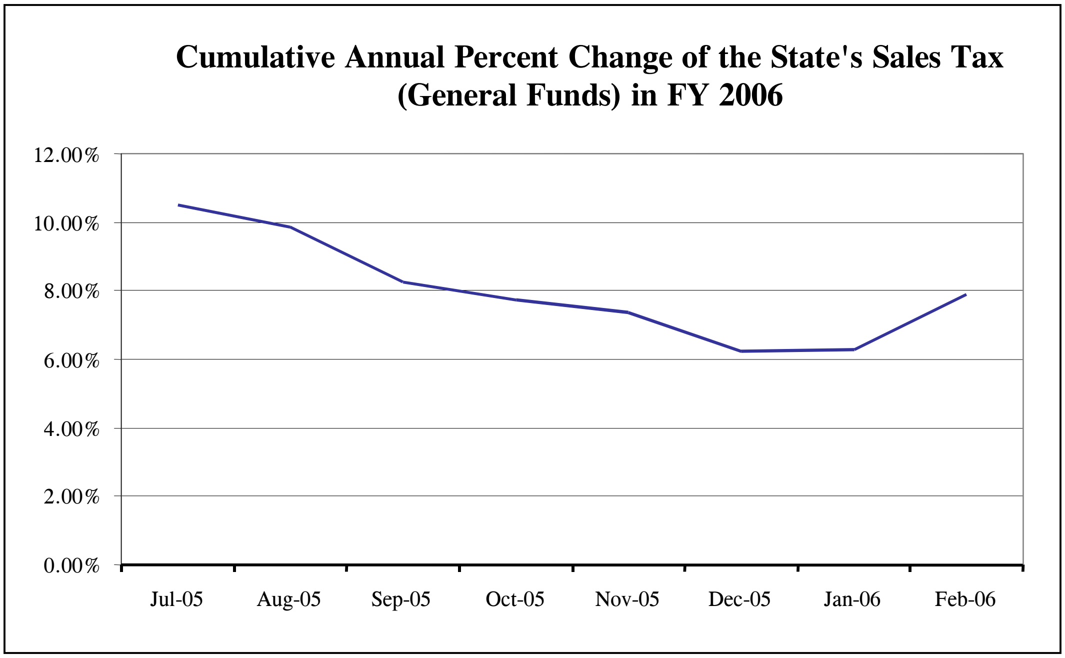


Overall, personal income taxes have performed above expectations through the first two-thirds of the fiscal year. As a result the estimate has been increased $113 million, or $102 million on a net of refund basis. In order to reach the revised estimate, gross personal income taxes are required to grow 5.5%, which is a growth rate slightly lower than has been experienced to date.

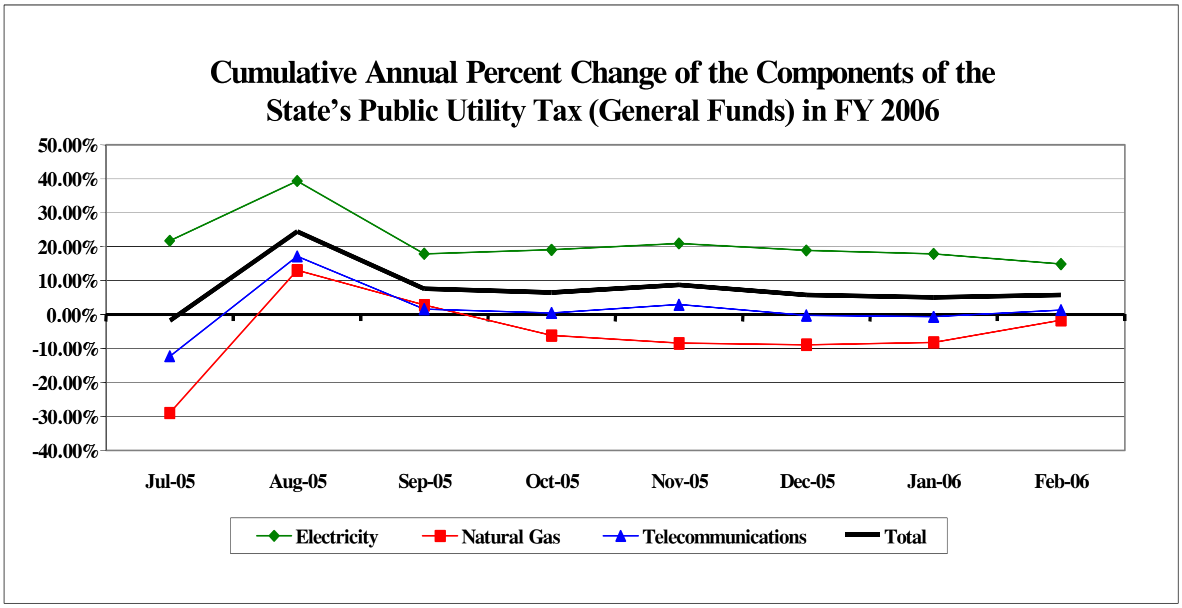
- Gross corporate income tax receipts are up an impressive $146 million or 23.4%, [also up $146 million but 31.1% on a net of refund basis]. While the bulk of receipts has yet to occur as the highest months of receipts are still to come, the actual performance of corporate income taxes has outperformed expectations. **As a result, the estimate has been increased by $175 million or $140 million net of refunds and reflects the expectation that measurable gains will continue over the remainder of the fiscal year.**



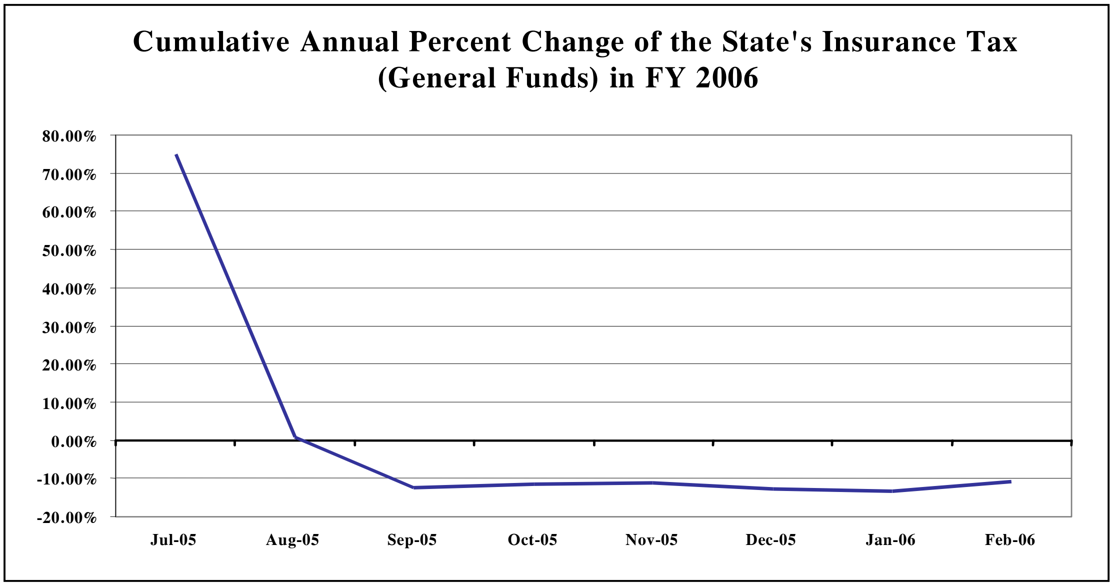
- Through the first two-thirds of the fiscal year, sales tax revenues are up $344 million or 7.9%. **Receipts have been able to outperform earlier expectations for much of the fiscal year. As a result, the estimate has been increased by $95 million.** It is unlikely that the current rate of growth can be maintained over the remainder of the year, as a result, in order to reach the revised estimate, receipts must experience a more modest 3.2% growth rate.



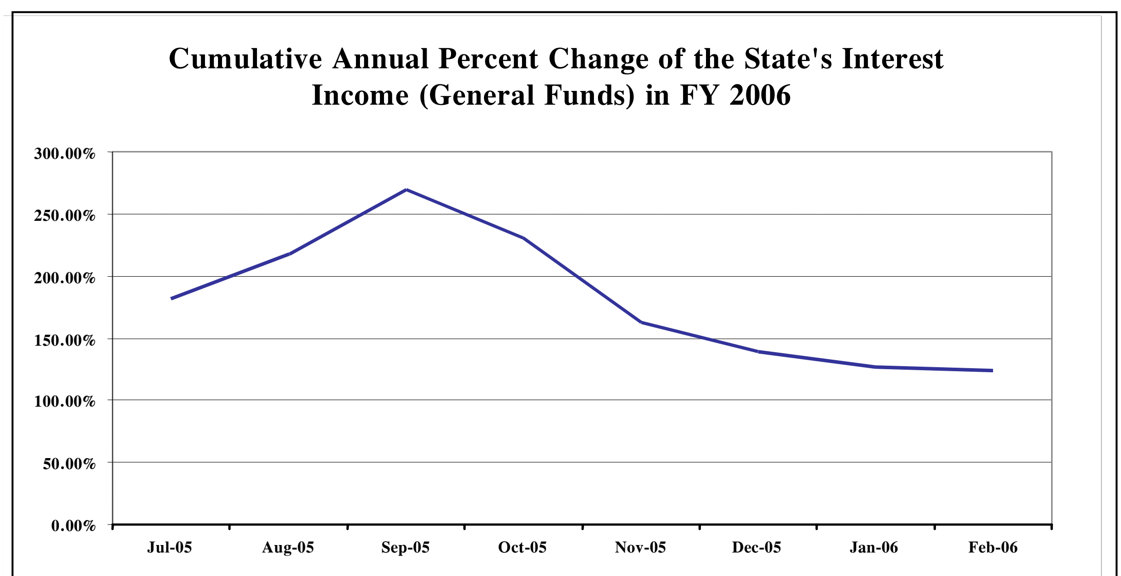
- Public utility taxes are up $40 million or 7.9% through February. Through eight months, electricity receipts are up 14.9%. While off its highest growth rates, electric receipts are expected to generate measurable gains this year due primarily to their performance early in the fiscal year, presumed to have occurred because of a warmer than normal summer. While telecommunication taxes are up about 1.3% through February, receipts are expected to be essentially flat. Natural gas tax receipts are down 1.7% year-to-date. Since natural gas receipts are for the most part based on usage rather than price, higher heating bills this winter do not equate into additional tax revenue. **While little growth was anticipated in overall public utility taxes, the significant increase in electricity receipts results in an upward revision of $20 million.**



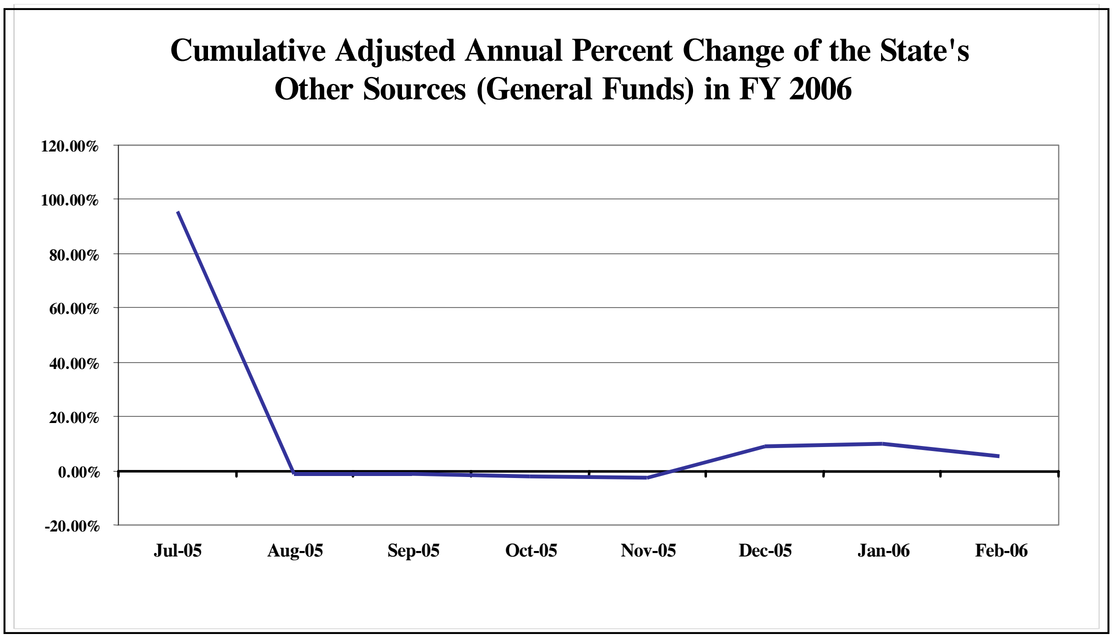
- Insurance taxes and fees continue to perform poorly with receipts down $20 million or 10.8% through February. **That rate of decline is expected to continue over the remaining months and as a result the estimate has been decreased $25 million.** Insurance tax receipts are impacted by income tax performance as income tax is credited against insurance tax liability.



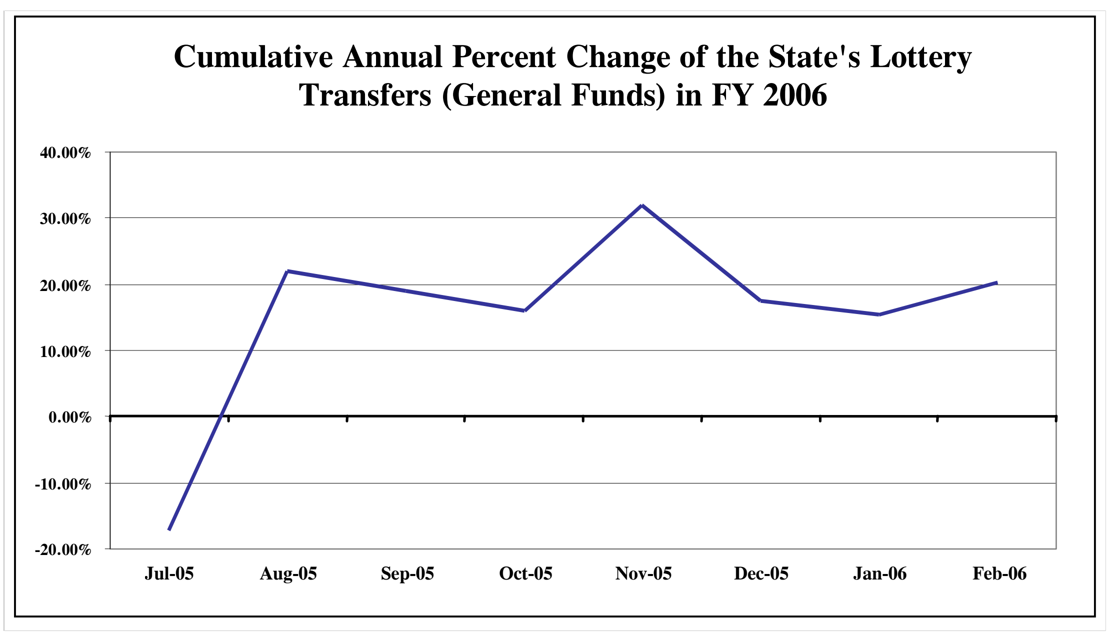
- Interest income earnings have rebounded as rates of return have been steadily improving. **Through February, revenues are up $51 million or 124%. With rates expected to continue to increase slightly in the near term, the estimate has been increased by $20 million.**



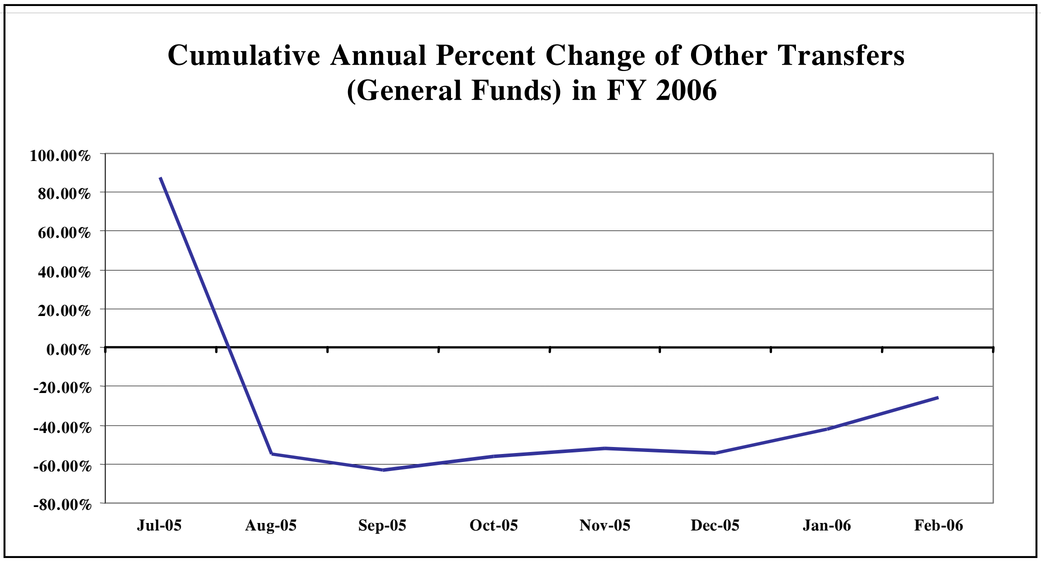
- Other sources to the general funds are up $14 million or 5.4% through February. **The estimate is being revised up $30 million to reflect higher than originally expected Build Illinois Escrow transfers, (per GOMB planned transfer), as well as higher net miscellaneous other revenue sources.**



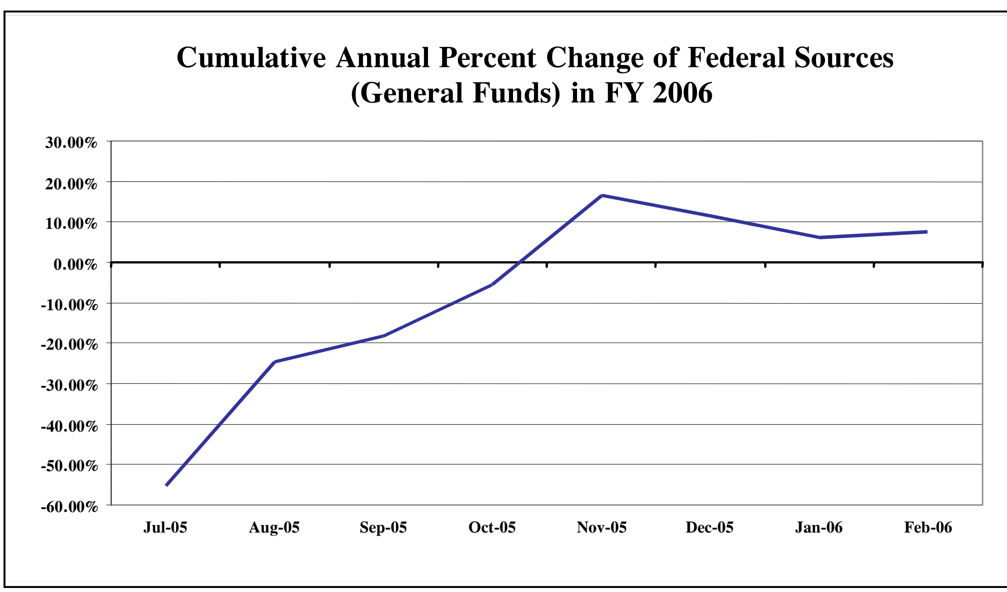
- Lottery transfers are up $75 million or 20.3% through the first two-thirds of the fiscal year. **Even though lottery transfers can be somewhat volatile due to rollovers, that performance is significantly above expectations and as a result, the estimate has been increased by $30 million.**



- Other transfers into the general funds are down $118 million or 25.7% through February. Lower administrative chargebacks and fund sweep transfers have accounted for most of the decline. **In response to GOMB's lowered forecast of chargeback and other transfer activity, the estimate had been lowered by $70 million.**



- Federal related sources are up $241 million or 7.5% through the first two-thirds of the fiscal year. That increase is due primarily to the $1 billion in short-term borrowing that took place in November and was used for reimbursable spending on Medicaid. The result was a spike, albeit temporary, in federal receipts. **In fact, the GOMB's forecast in the Budget Book actually falls by $79 million from the enacted budget. The Commission's forecast will also reflect that change.**



In conclusion, the revisions to the Commission's FY 2006 estimate are in large part due to the continued positive performance experienced to date by the sources most closely tied to the improved economy. While income and sales have outperformed earlier expectations, gains associated with those areas have been somewhat offset with decreased expectations from other items such as chargebacks, transfers, and lower federal sources.

CGFA/GOMB FY 2006 COMPARISON

As shown in Table 4 on page 17, the Commission's FY 2006 general funds estimate of $27.115 billion is $20 million above the GOMB's latest official estimate reflected in the FY 2007 Budget Book. The GOMB made a number of significant upward adjustments to the estimates of the economically related sources. However, some of those changes were offset by downward adjustments in the estimates of transfers and federal sources. In total, the GOMB estimate was increased by $424 million over the enacted budget.

Changes to GOMB FY 2006 General Revenue Forecast ($ in Millions)	
	GOMB
Enacted FY 2006 Budget May-05	**$26,671**
Net Change Income Taxes	$447
Sales Tax	$77
Net Change Other State Sources	$73
Net Change Transfers	($94)
Federal Sources	($79)
Total Change	**$424**
FY 2006 Estimate Feb-06	**$27,095**

*Does not include $276 million Budget Stabilization Fund transfer or $1 billion in short-term borrowing.

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 a number of areas such as other transfers, inheritance tax, insurance taxes, as well as a few others, the Commission's upward revisions in other areas such as sales tax, interest earnings and lottery transfers, equate into a higher overall estimate for FY 2006. [It should be noted that the Commission is currently not incorporating $80 million in GOMB assumed transfers resulting from the yet to be approved hospital assessment program].

TABLE 1: GENERAL FUNDS RECEIPTS THROUGH FEBRUARY FY 2006 vs. FY 2005 ($ million)				
Revenue Sources	**FY 2006**	**FY 2005**	**CHANGE FROM FY 2005**	**% CHANGE**
State Taxes				
Personal Income Tax	$5,679	$5,366	$313	5.8%
Corporate Income Tax (regular)	769	623	$146	23.4%
Sales Taxes	4,713	4,369	$344	7.9%
Public Utility Taxes (regular)	715	675	$40	5.9%
Cigarette Tax	266	316	($50)	-15.8%
Liquor Gallonage Taxes	104	99	$5	5.1%
Vehicle Use Tax	22	21	$1	4.8%
Inheritance Tax (Gross)	185	200	($15)	-7.5%
Insurance Taxes and Fees	166	186	($20)	-10.8%
Corporate Franchise Tax & Fees	122	116	$6	5.2%
Interest on State Funds & Investments	92	41	$51	124.4%
Cook County IGT	216	276	($60)	-21.7%
Other Sources	273	259	$14	5.4%
Subtotal	$13,322	$12,547	$775	6.2%
Transfers				
Lottery	444	369	$75	20.3%
Riverboat transfers & receipts	404	465	($61)	-13.1%
Other	342	460	($118)	-25.7%
Total State Sources	$14,512	$13,841	$671	4.8%
Federal Sources	$3,461	$3,220	$241	7.5%
Total Federal & State Sources	$17,973	$17,061	$912	5.3%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($554)	($543)	($11)	2.0%
Corporate Income Tax	($154)	($154)	$0	0.0%
Subtotal General Funds	$17,265	$16,364	$901	5.5%
Short-Term Borrowing	$1,000	$0	$1,000	N/A
Budget Stabilization Fund Transfer	$276	$276	$0	N/A
Total General Funds	$18,541	$16,640	$1,901	11.4%

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

CGFA 7-Mar-06

TABLE 2: ADJUSTMENTS TO CGFA FY 2006 ESTIMATE (millions)				
Revenue Sources	Actual FY 2005	CGFA FY 2006 Revised Estimate March-06	CGFA Estimate Nov-05	Change From Nov-05 Est.
State Taxes				
Personal Income Tax	$8,873	$9,380	$9,267	$113
Corporate Income Tax	$1,548	$1,839	$1,664	$175
Sales Taxes	$6,595	$7,010	$6,915	$95
Public Utility (regular)	$1,056	$1,092	$1,072	$20
Cigarette Tax	$450	$400	$405	($5)
Liquor Gallonage Taxes	$147	$150	$150	$0
Vehicle Use Tax	$32	$34	$32	$2
Inheritance Tax (gross)	$310	$265	$265	$0
Insurance Taxes & Fees	$342	$307	$332	($25)
Corporate Franchise Tax & Fees	$181	$190	$185	$5
Interest on State Funds & Investments	$73	$136	$116	$20
Cook County Intergovernmental Transfer	$433	$350	$340	$10
Other Sources	$468	$475	$445	$30
Subtotal	**$20,508**	**$21,628**	**$21,188**	**$440**
Transfers				
Lottery	$614	$670	$640	$30
Riverboat Transfers & Receipts	$699	$688	$688	$0
Other	$918	$700	$770	($70)
Total State Sources	**$22,739**	**$23,686**	**$23,286**	**$400**
Federal Sources	**$4,691**	**$4,712**	**$4,791**	**($79)**
Total Federal & State Sources	**$27,430**	**$28,398**	**$28,077**	**$321**
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($894)	($915)	($904)	($11)
Corporate Income Tax	($376)	($368)	($333)	($35)
Subtotal General Funds	**$26,160**	**$27,115**	**$26,840**	**$275**
Change from Prior Year		**$955**	**$680**	
Percent Change		**3.7%**	**2.6%**	
Short-Term Borrowing	$765	$1,000	$0	$1,000
Hospital Provider Fund (cash flow transfer)	$982	$0	$0	$0
Budget Stabilization Fund Transfer	$276	$276	$276	$0
Total General Funds	**$28,183**	**$28,391**	**$27,116**	**$1,275**
Change from Prior Year Actual		**$208**	**($1,067)**	
Percent Change		**0.7%**	**-3.8%**	
CGFA				

TABLE 3: FY 2006 CGFA ESTIMATE & FY 2005 ACTUALS (millions)				
Revenue Sources	CGFA FY 2006 Estimate March-06	ACTUAL FY 2005	$ Difference	% Difference
State Taxes				
Personal Income Tax	$9,380	$8,873	$507	5.7%
Corporate Income Tax	$1,839	$1,548	$291	18.8%
Sales Taxes	$7,010	$6,595	$415	6.3%
Public Utility (regular)	$1,092	$1,056	$36	3.4%
Cigarette Tax	$400	$450	($50)	-11.1%
Liquor Gallonage Taxes	$150	$147	$3	2.0%
Vehicle Use Tax	$34	$32	$2	6.3%
Inheritance Tax (gross)	$265	$310	($45)	-14.5%
Insurance Taxes & Fees	$307	$342	($35)	-10.2%
Corporate Franchise Tax & Fees	$190	$181	$9	5.0%
Interest on State Funds & Investments	$136	$73	$63	86.3%
Cook County Intergovernmental Transfer	$350	$433	($83)	-19.2%
Other Sources	$475	$468	$7	1.5%
Subtotal	**$21,628**	**$20,508**	**$1,120**	**5.5%**
Transfers				
Lottery	$670	$614	$56	9.1%
Riverboat Transfers & Receipts	$688	$699	($11)	-1.6%
Other	$700	$918	($218)	-23.7%
Total State Sources	**$23,686**	**$22,739**	**$947**	**4.2%**
Federal Sources	**$4,712**	**$4,691**	**$21**	**0.4%**
Total Federal & State Sources	**$28,398**	**$27,430**	**$968**	**3.5%**
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($915)	($894)	($21)	2.3%
Corporate Income Tax	($368)	($376)	$8	-2.1%
Subtotal General Funds	**$27,115**	**$26,160**	**$955**	**3.7%**
Short-Term Borrowing	$1,000	$765	$235	30.7%
Hospital Provider Fund (cash flow transfer)	$0	$982	($982)	-100.0%
Budget Stabilization Fund Transfer	$276	$276	$0	0.0%
Total General Funds	$28,391	$28,183	$208	0.7%
CGFA				

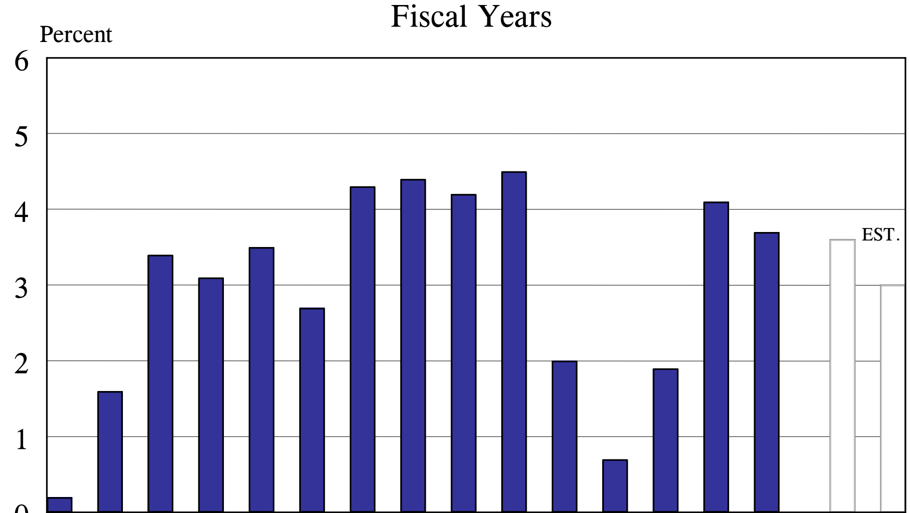
TABLE 4: FY 2006 CGFA/GOMB ESTIMATE COMPARISON (millions)			
Revenue Sources	**CGFA FY 2006 Estimate March-06**	**GOMB FY 2006 Estimate Feb-06**	**$ Difference**
State Taxes			
Personal Income Tax	$9,380	$9,375	$5
Corporate Income Tax	$1,839	$1,860	($21)
Sales Taxes	$7,010	$6,950	$60
Public Utility (regular)	$1,092	$1,081	$11
Cigarette Tax	$400	$400	$0
Liquor Gallonage Taxes	$150	$151	($1)
Vehicle Use Tax	$34	$34	$0
Inheritance Tax (gross)	$265	$285	($20)
Insurance Taxes & Fees	$307	$320	($13)
Corporate Franchise Tax & Fees	$190	$191	($1)
Interest on State Funds & Investments	$136	$98	$38
Cook County Intergovernmental Transfer	$350	$350	$0
Other Sources	$475	$489	($14)
Subtotal	**$21,628**	**$21,584**	**$44**
Transfers			
Lottery	$670	$636	$34
Riverboat Transfers & Receipts	$688	$678	$10
Other	$700	$771	($71)
Total State Sources	**$23,686**	**$23,669**	**$17**
Federal Sources	**$4,712**	**$4,712**	**$0**
Total Federal & State Sources	**$28,398**	**$28,381**	**$17**
Nongeneral Funds Distribution:			
Refund Fund*			
Personal Income Tax	($915)	($914)	($1)
Corporate Income Tax	($368)	($372)	$4
Subtotal General Funds	**$27,115**	**$27,095**	**$20**
Change from Prior Year	**$955**	**$935**	**$20**
Percent Change	**3.7%**	**3.6%**	
Short-Term Borrowing	$1,000	$1,000	$0
Budget Stabilization Fund Transfer	$276	$276	$0
Total General Funds	**$28,391**	**$28,371**	**$20**
Change from Prior Year	$208	$188	
Percent Change	0.7%	0.7%	
CGFA			

U.S. ECONOMIC OUTLOOK FY 2007:
Continued Growth at a More Moderate Pace

The U.S. economy is anticipated to continue to grow, but at a rate noticeably below that of the past two years as the economic recovery ages, continuing to go from the recovery phase of the business cycle through 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 housing sector weakens further, consumer spending moderates, the breadth of the expansion broadens, and monetary policy continues its more restrictive credit stance.

As shown in Chart 4, real or inflation-adjusted gross domestic product (GDP) is forecast to slow to 3.0% in FY 2007, down from 3.6% estimated for FY 2006, and 3.7% recorded in FY 2005. The expected gain, while below that of the last four fiscal years, is in line with the average growth of fiscal years 1993-1996. While the Commission slightly underestimated GDP growth in FY 2006, it does not feel the same about its preliminary FY 2007 estimate. Indeed, the prospect for even somewhat slower growth, while not dominant, remains a distinct possibility.

CHART 4 CHANGE IN REAL GDP
Fiscal Years



	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP	0.2	1.6	3.4	3.1	3.5	2.7	4.3	4.4	4.2	4.5	2.0	0.7	1.9	4.1	3.7		
EST																3.6	3.0

CGFA

Table 5 provides a more detailed breakdown of the U.S. economic forecast for FY 2007 as projected by Global Insight, a well-respected service employed by the Commission. Personal consumption, the largest spending component of GDP, is expected to be moderately hampered in part by high-energy prices, but also because of higher interest rates and their impact on slowing durable goods purchases such as household furnishings and automobiles. The forecast rate of gain in consumer spending in current dollars next year is anticipated to drop to slightly below 5%, after expanding in a range of 6% to 6.5% in each of the previous three years, although this would still be higher than in FY 2002 and FY 2003.

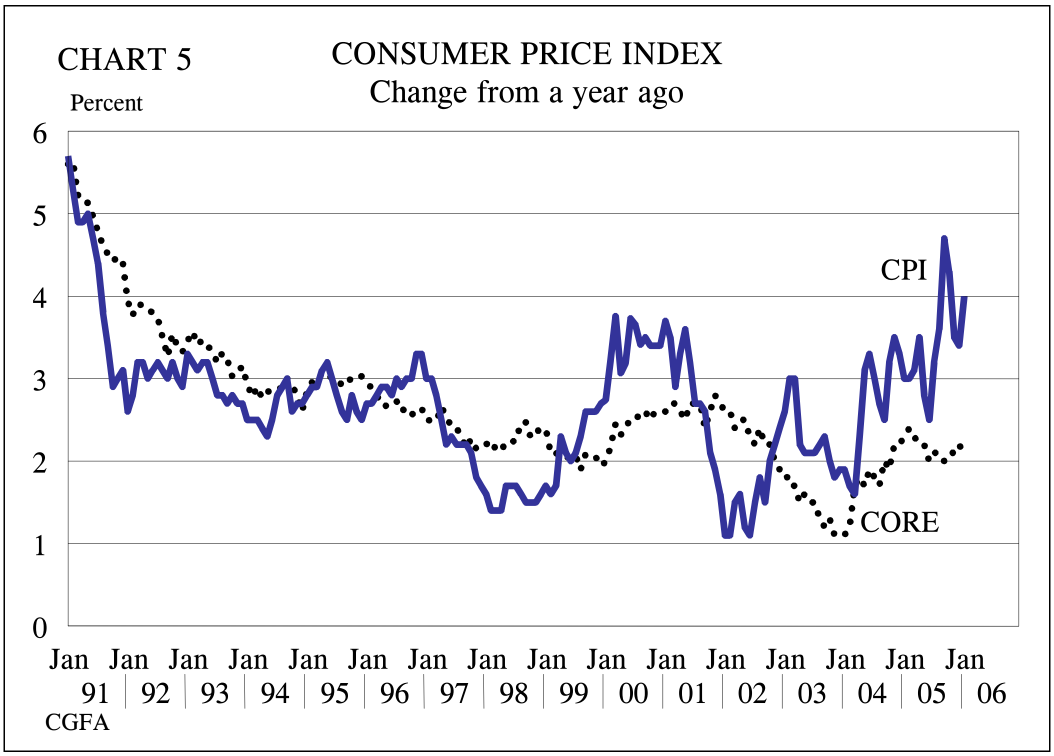
TABLE 5: ECONOMIC FORECASTS – FEBRUARY 2006
(% Change from prior year levels)

REAL (2000 $)	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Estimated	FY 2007 Estimated
Gross Domestic Product	0.7	1.9	4.1	3.7	3.6	3.0
Personal Consumption	2.7	2.4	3.8	3.7	3.4	3.1
Durable	7.5	5.3	8.1	5.1	3.1	3.7
Nondurable	2.3	2.2	4.6	4.4	4.3	2.9
Services	1.8	1.9	2.6	3.1	3.0	3.0
Fixed Investment	-8.9	1.7	9.4	9.0	5.2	4.1
Exports	-8.6	0.7	3.4	8.0	6.5	6.8
Imports	-4.2	6.8	9.9	7.6	5.7	4.8
Government	4.2	3.8	2.4	1.9	1.7	1.9
Federal	4.5	7.1	7.3	3.8	2.2	2.5
State and Local	3.4	1.9	0.3	1.1	1.2	1.7
OTHER MEASURES						
Personal Income (Current $)	-0.1	2.2	4.7	6.3	5.3	6.1
Personal Consumption (Current $)	4.2	4.3	6.0	6.5	6.3	4.9
Before Tax Profits (Current $)	1.1	19.0	17.6	11.0	16.9	5.8
Consumer Prices	1.8	2.2	2.2	3.0	3.4	1.8
Unemployment Rate (Average)	5.5	5.9	5.8	5.3	4.9	4.8

Business spending also is anticipated to moderate somewhat further following exceptionally large gains 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 fully transferred to longer term interest rates, this is likely to change as key monetary policy rates rise further and thus serve as a constraint on spending increases.

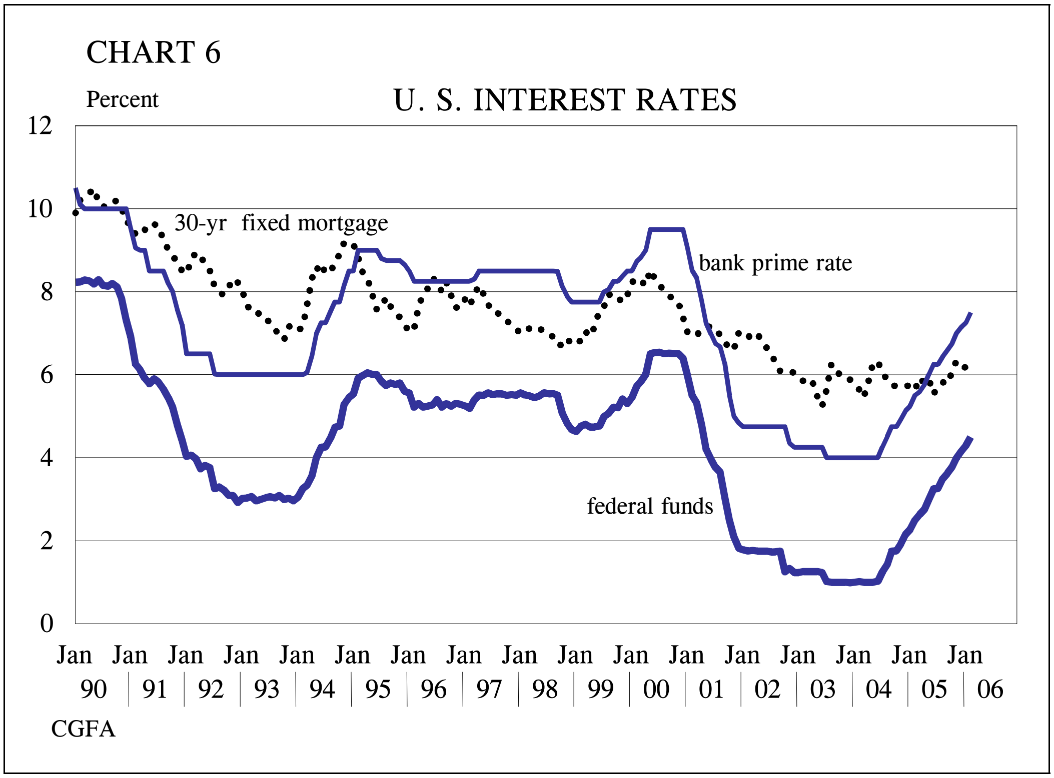
A bright spot continues to be the trade sector. While deepening trade deficits have been a major factor in reducing the international value of the dollar, a weakening in the dollar also has improved the U.S. competitive position. U.S. exports are anticipated to expand at an inflation-adjusted 6.8% in FY 2007 while imports slow from a 5.7% pace in FY 2006 to 4.8% in FY 2007.

One continuing weak spot is likely to be residential investment. Mortgage interest rates are anticipated to rise further; housing sales continue to weaken with inventories of unsold homes increasing as home prices soften. Restraint on government spending is projected so that fiscal stimulus is reduced. And, finally, as mentioned, the Federal Reserve is anticipated to hold to its more restrictive credit stance, although further rate increases are unlikely beyond FY 2006 and a weakening in the pace of business activity will raise expectations for some downward reversal.



As shown in Chart 5, consumer price increases have been building at a faster pace in recent years. This is in contrast to three years ago when the major concern was deflation, or falling prices. In January 2006, overall consumer prices were 4.0% higher than a year earlier, although the core rate, excluding the volatile food and energy sectors, was up only 2.1% 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, with recent renewed upward pressure on energy prices and oil again over $60 a barrel, the concern remains that continuation of these price levels will be passed through to other sectors, raising overall inflation levels on a more permanent basis.

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 fourteen times since the summer of 2004, with the key overnight federal funds rate rising to 4.5% from a low of 1%. In response, the bank prime lending rate, or best rate to business has increased from 4% to 7.5%. Current estimates are that these short-term rates will rise by another quarter to one-half percent in the months ahead. Thus, while the rise in these short-term rates has yet to be fully transferred to higher longer-term rates, represented in the chart by the mortgage rate, this pattern is unlikely to continue and already is starting to surface.



CGFA's forecast for FY 2007 is for continued economic growth, but at a more moderate 3.0% pace, down from 3.6% this fiscal year, 3.7% in 2005, and 4.1% in FY 2004. 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. While these projections are in line with historical trends, prospects for somewhat slower growth remain, although signs of any pending recession seem highly unlikely.

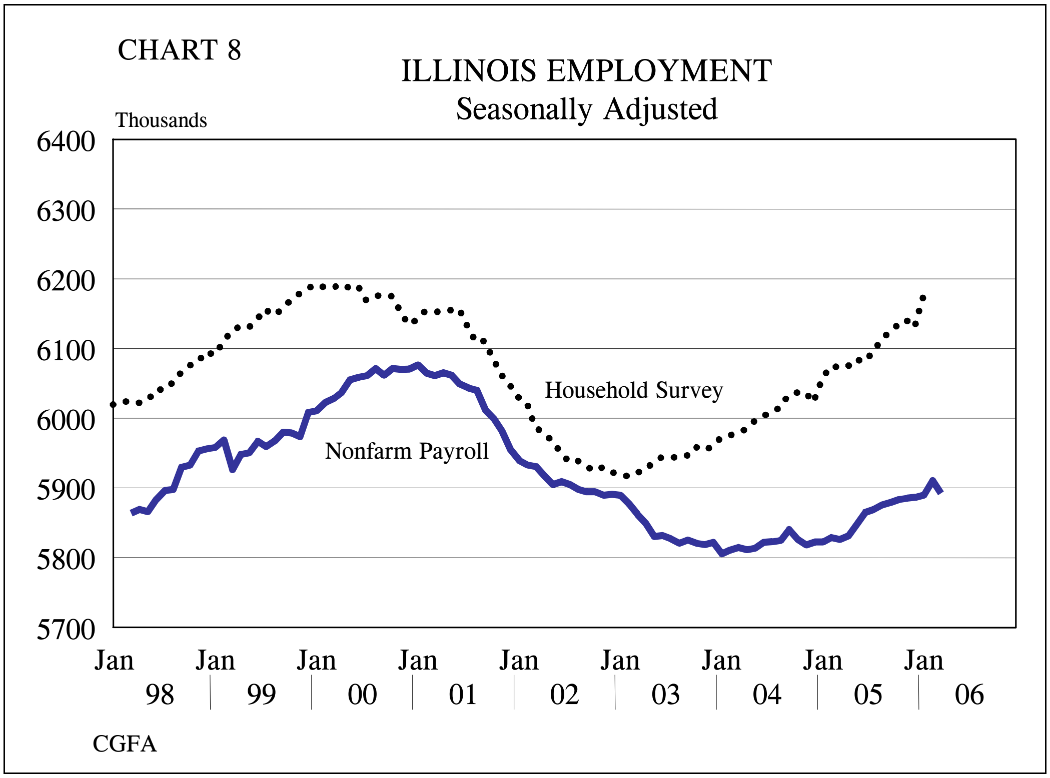
ILLINOIS ECONOMIC OUTLOOK FY 2007:

Continuing to Lag U.S. Performance

The economic outlook for Illinois, while closely tied to that of the nation as a whole, is expected to improve further but, according to a study prepared specifically for the Commission by Moody's Economy.com, "*will not be able to match U.S. in growth as its lagging population trends will constrain the growth potential of its consumer industries. Employment growth is expected to exceed 2% on an annualized basis during the first half of 2006 after which it will decelerate.*" As shown in Chart 7, the State unemployment rate has continued to remain higher than the national rate since around 1999, in contrast to it holding below the national rate earlier in the 1990s. In January 2006, the Illinois unemployment rate fell to a recent low of 5.2%, the lowest since 2001, showing continuing improvement, but it remained above the U.S. rate that month which fell to 4.7%, also its lowest rate since 2001.

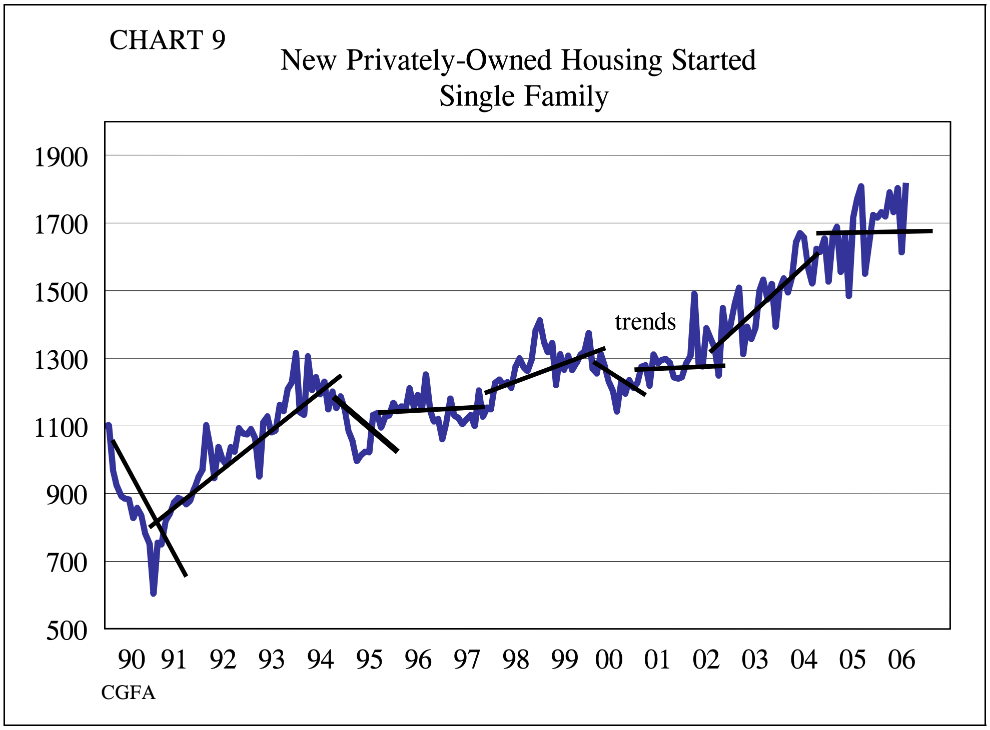
CHART 7

In early March 2006, new benchmark data on State labor force, employment, and unemployment for the years 2000-2005 were released by the Illinois Department of Employment Security. As shown in Chart 8, the data now show that the State has made substantial gains in new jobs and is near its pre-recession peak of employment, as measured by the household survey. (It should be pointed out, however, that the nation surpassed its pre-recession peak in 2004 as measured by this series.) When measured by the more comprehensive nonfarm payroll series, however, it shows the State has a long way to go before it regains the jobs lost during the past recession. (The national data show the U.S. reached its pre-recession peak of employment by the payroll series in early 2005.) According to the Moody's report prepared for the Commission, "*Employment will not return to its pre-recession peak until 2008.*"

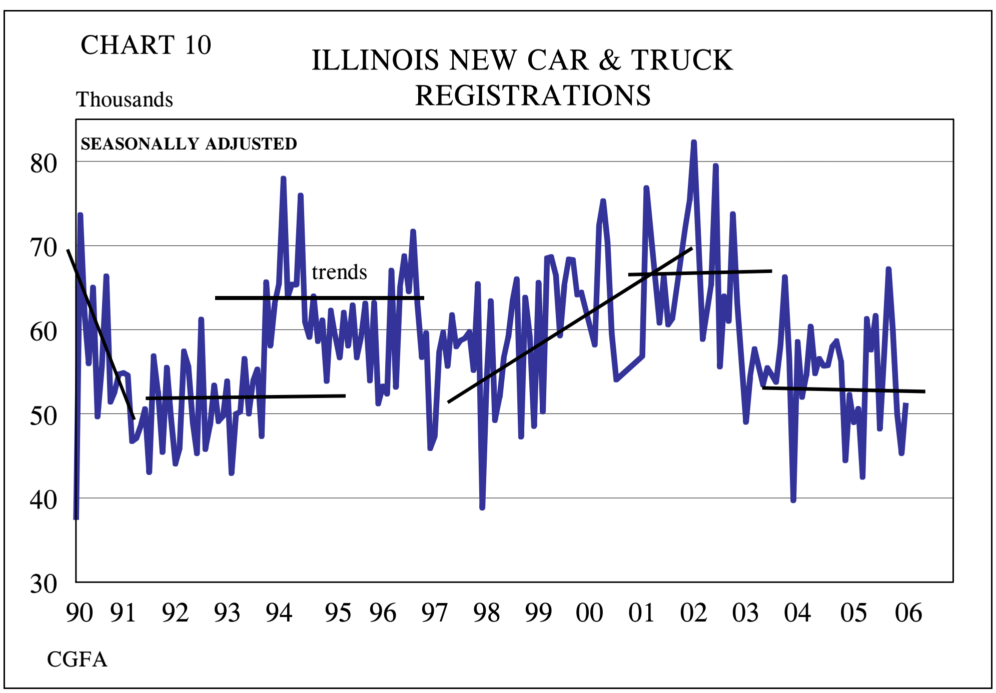


The slower pace of employment gains in conjunction with a slowing in the pace of economic advance will moderate gains in consumer spending, which generally account for about two-thirds of total spending. Again, citing the Moody's report, Illinois' wage and salary gains are expected to moderate from a gain of 6.2% in 2005 to 5.0% this year and 4.8% in 2007. Slower income gains will be translated into more moderate increases in State retail sales.

Consumer spending has held up in part due to consumers using part of their appreciation in home equity values. While Illinois has not seen the huge increases in home prices some parts of the country have seen, gains still have been sizeable. However, the Moody's report forecasts the median existing home price in Illinois would fall from a gain of 9.6% in 2005, to 3.9% in 2006 and a modest 1.1% in 2007. A slowing in home sales and an increase in inventories of unsold homes already has caused a softening in housing starts as shown in Chart 9 which shows a leveling out of new housing starts following a strong upward trend.



In addition to housing activity, moderation also has been seen in the auto sector after a surge early in the decade. As illustrated in Chart 10, new car and truck registrations in Illinois remain substantially lower than in those booming years, leveling out at levels reminiscent of the early 1990s. This level of activity, however, is likely to be sustained at around current levels in FY 2007 according to quarterly forecasts from Global Insight.

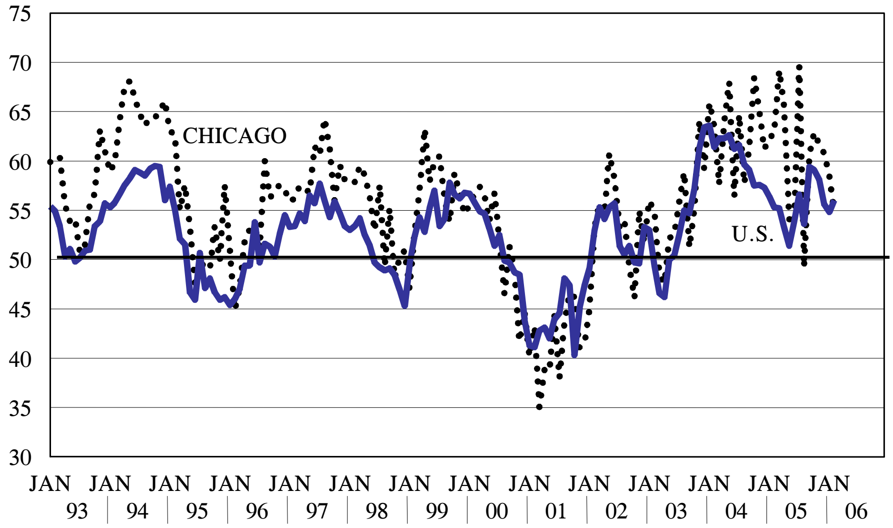


Business spending continues to provide positive support to the economic advance spurred by rising corporate profits and higher capacity utilization rates. Businesses have been expanding --when more than 50% report an increase-- since the fall of 2003 illustrated by the Purchasing Managers Index shown in Chart 11. The Chicago area index, while volatile, closely mirrors that of the overall index and both are anticipated to show further gains in FY 2007.

CHART 11

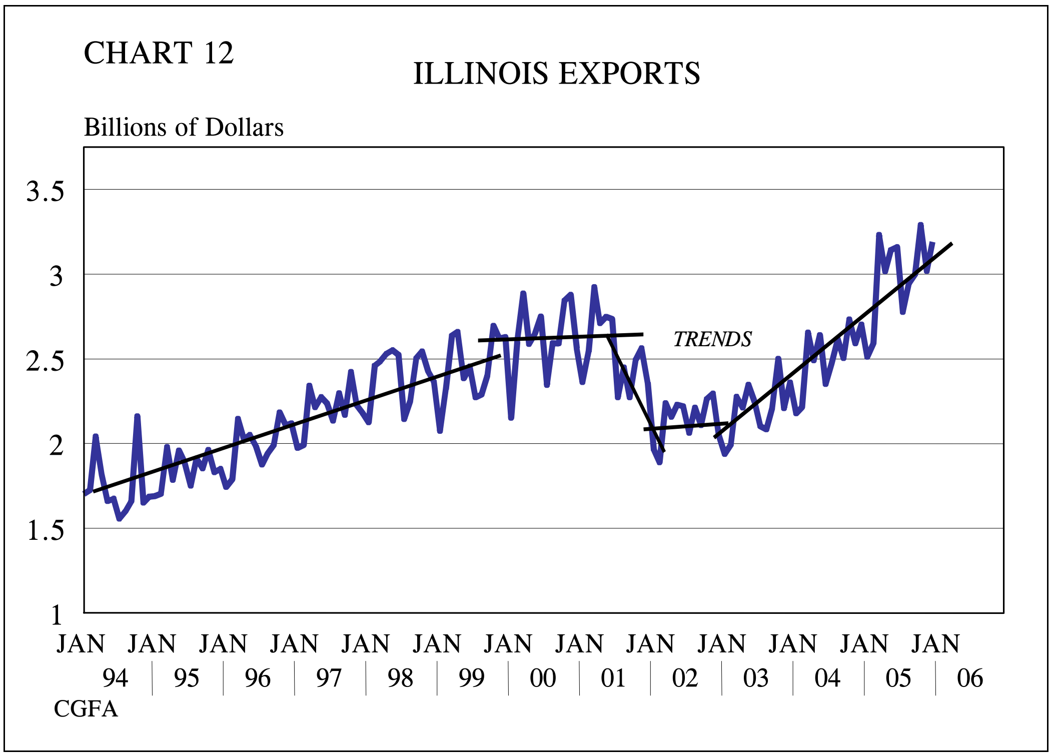
PURCHASING MANAGERS INDEX

50% = EXPANSION



Source: Institute for Supply Management CGFA

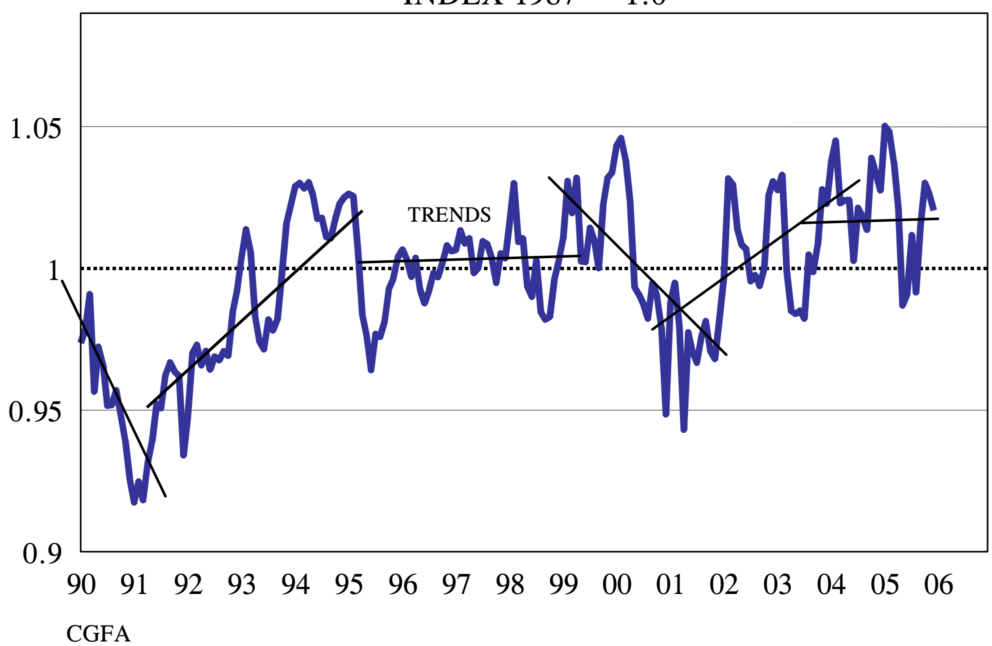
In addition to continued gains in business spending, Illinois exports are another source of strength for the economy. As shown in Chart 12, Illinois exports have been on a sharp rising trend since 2003. As pointed out in the Moody's study, "*As the fifth largest exporter, exports are crucial to the long-term prospects for the area's manufacturers and transportation and distribution industries. Exports account for nearly half of Illinois manufacturing output.*" As noted in the study, exports of machinery and fabricated metals have been particularly strong, up 24% year to date, with much of the increase accounted for by the State's largest companies, which can sell to customers overseas in foreign currencies, such as Caterpillar and Deere. Exports are anticipated to continue on this upward trend in FY 2007.



Finally, as shown in Chart 13, 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, have leveled off in recent months after having been on an upward course for over three years. The current leveling in the indicator should not be seen as an indication of an impending downturn. Instead, the recent experience is reminiscent of the latter half of the 1990s, when the economy continued to expand for a number of years, and not the sharp downturns in the indicator that occurred prior to the last two recessions in 1990-91 and 2000-2001.

CHART 13

ILLINOIS LEADING ECONOMIC INDICATOR
INDEX 1987 = 1.0



In conclusion, the U.S. economy is expected to slow to 3.0% in FY 2007 from rates of 3.7% and 3.6% in FY 2005 and FY 2006, respectively. While Illinois' economy mirrors the national economy, the Commission expects the State to continue to lag behind the U.S. average.

FY 2007 GENERAL FUNDS ESTIMATE

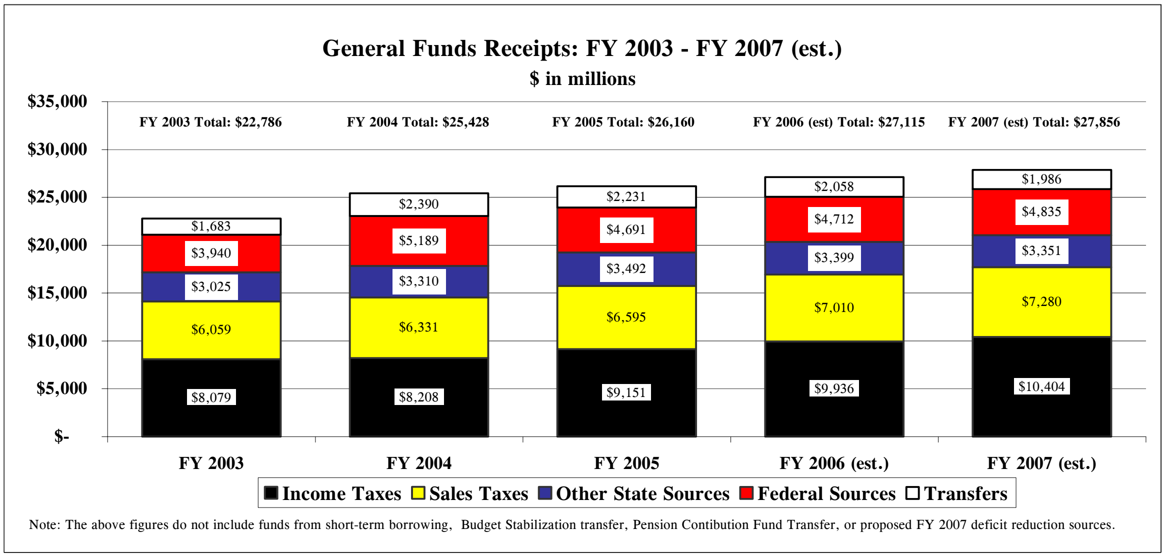


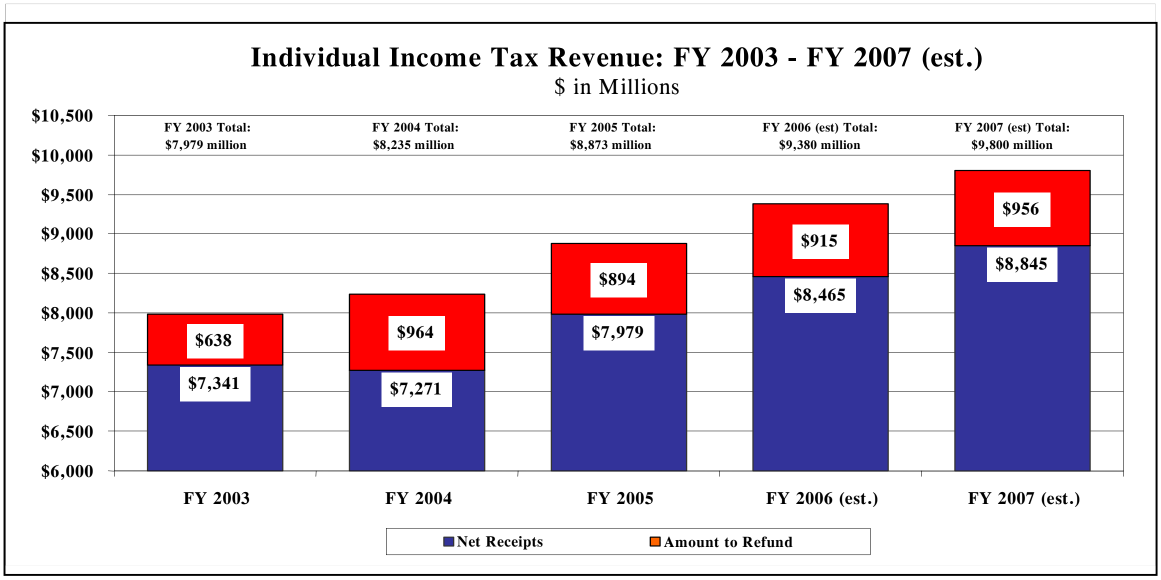
Table 6 on page 44, details the Commission's revenue estimate of the upcoming fiscal year. As shown, based on current law, total general funds are estimated to be $27.856 billion or $741 million more than FY 2006. While a continued improving economy is expected to contribute decent rates of growth in FY 2007, a number of unrelated items serve to retard the impact of those improvements. For example:

- The continued reductions in IGT revenue reduces receipts by $41 million.
- The continued phasing down of the commercial distribution fee results in lower other sources as well as timing associated with some FY 2006 fines not expected to be repeated in FY 2007 (losses of approximately $25 million on a year-over-year basis).
- Without legislative action, $130 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 $307 million in revenues over current law, since legislative action is required, those items are not included in the CGFA forecast. See section on page 45.

The following provides background information on each major source and the FY 2007 forecast.

PERSONAL INCOME TAX



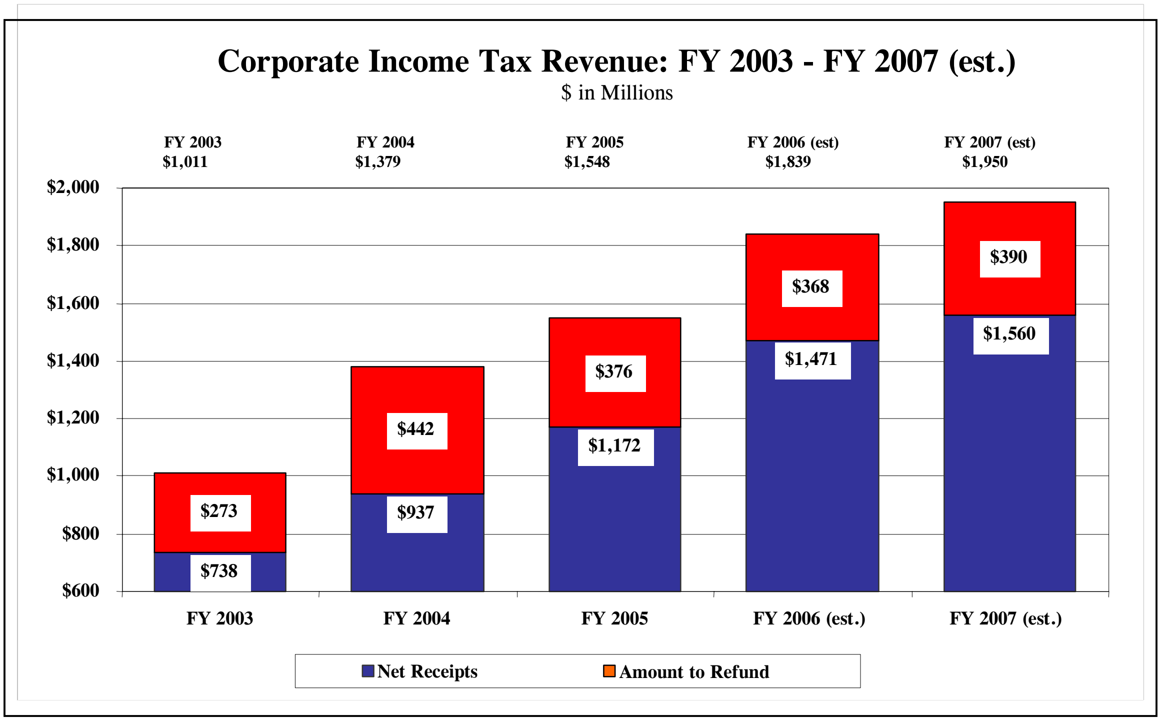
The individual income tax is the largest revenue source, generating approximately one-third of all general funds revenue. Enacted in 1969 at the rate of 2.5%, the current individual income tax is imposed at a rate of 3.0% on the federal-adjusted gross income (AGI) for individuals with some adjustments. 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 (9.75% in FY 2006) 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 2007, the estimate is based on the current refund percentage of 9.75% [the Budget Book also assumed the same percentage]. Any change in that percentage also will affect net personal income tax receipts.

The FY 2007 estimate of gross personal income tax receipts is $9.800 billion, an increase of $420 million or 4.5% over projected FY 2006 receipts. On a net of refund basis, receipts are estimated to increase by $379 million or 4.5%.

CORPORATE INCOME TAX



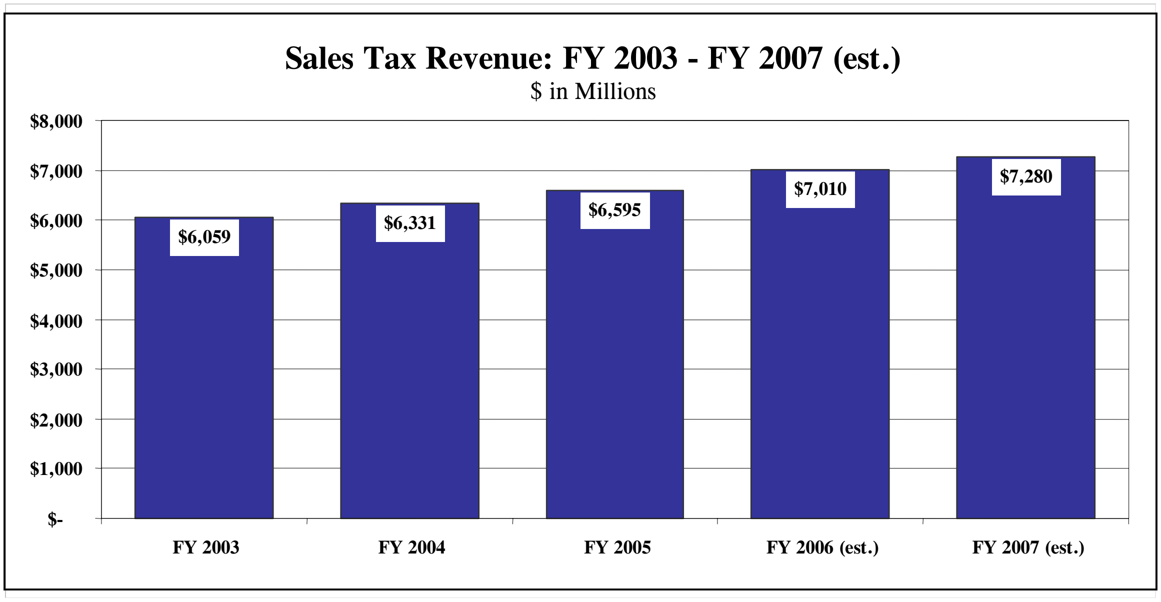
Enacted in 1969 at a rate of 4%, the current rate is 4.8% and is applied to a corporation's federal taxable income with several adjustments. After a phased-in transition to a single-factor sales formula apportionment of business income, sales in Illinois are the only determinant of how much of a multistate 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 2006, the refund percentage is 20%. According to the FY 2007 Budget Book, that percentage is proposed to be reduced to 17.5%. Any change in that percentage will also affect net corporate income tax receipts.

The FY 2007 estimate of gross corporate income tax revenue is $1.950 billion. This represents a $111 million or 6.0% increase over the FY 2006. Based on the current refund percentage of 20%, on a net of refund basis, receipts are estimated to increase by $89 million or 6.0%. [Utilizing the Commission's FY 2007 estimate the value of the proposed lower refund percent is calculated to be worth $49 million.]

SALES TAX



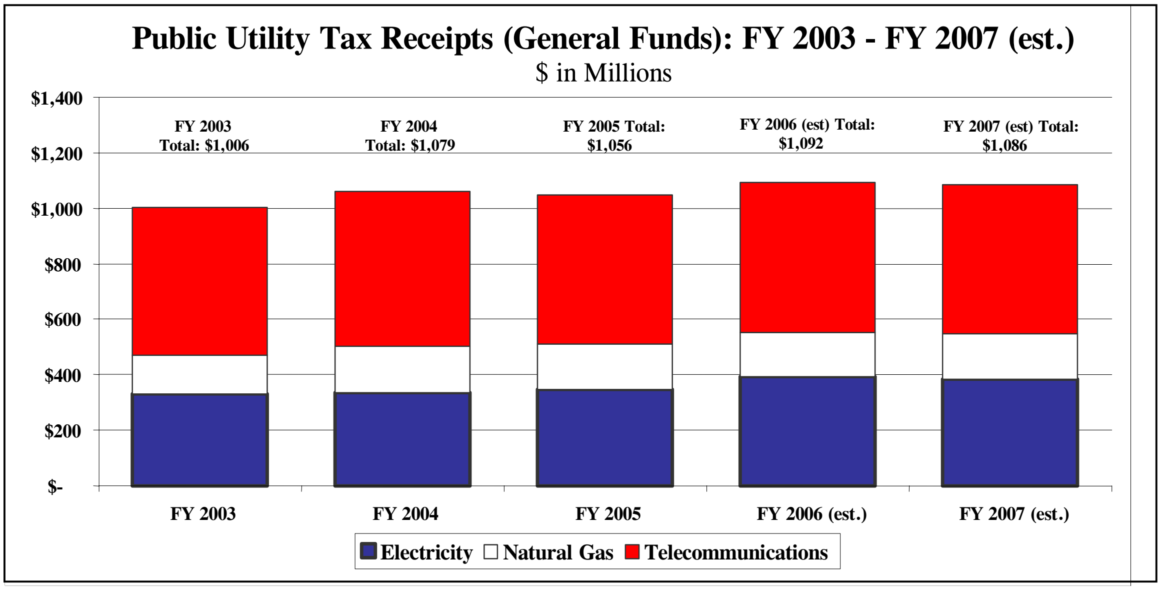
The sales tax rivals the personal income tax as one of the largest general funds sources, generating approximately 25% of total general funds revenue. The sales tax is composed of four individual taxes including the retailers' occupation tax, the use tax, the service occupation tax, and the service use 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 $7.280 billion in FY 2007. This represents overall growth of $270 million or 3.9%.

PUBLIC UTILITY TAXES



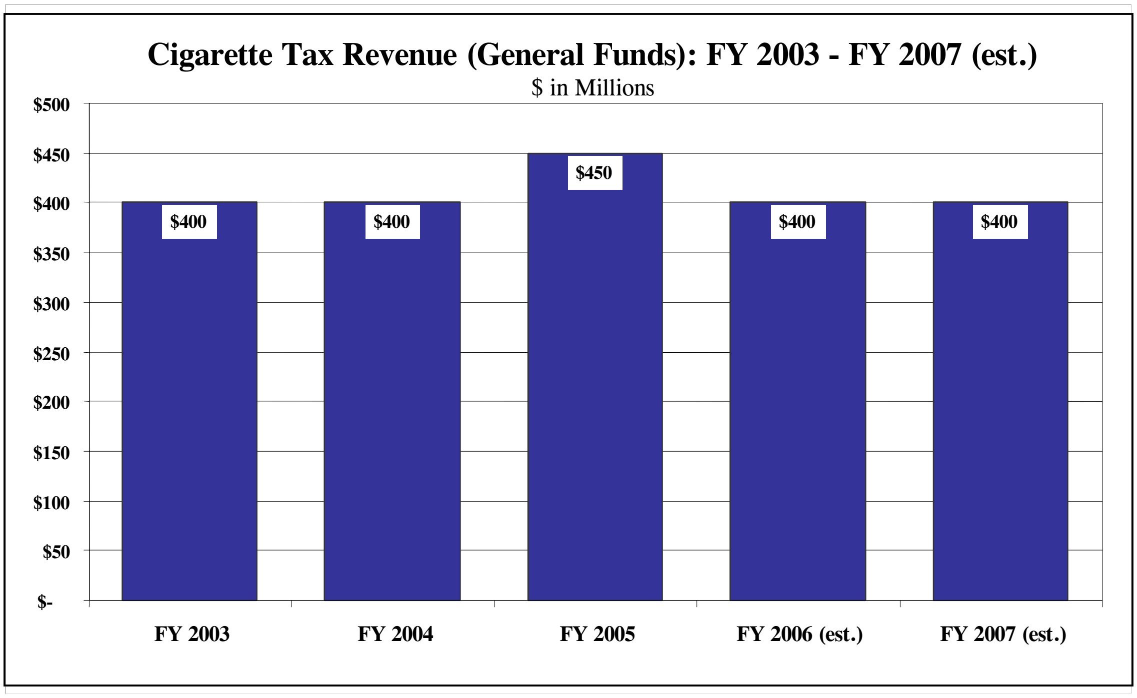
Public utility taxes deposited in the general funds consist of three separate taxes that are imposed on utilities providing electric, natural gas, and telecommunications service in Illinois. Public utilities are the fourth largest general funds revenue source, generating approximately 4.0% of all general 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 2007 estimate of public utility tax receipts is $1.086 billion, which represents a $6 million or 0.5% decline from the previous year and reflects a modest decline in electricity tax receipts [another warmer than usual summer, and subsequent increase in electric usage cannot be assumed to be repeated].

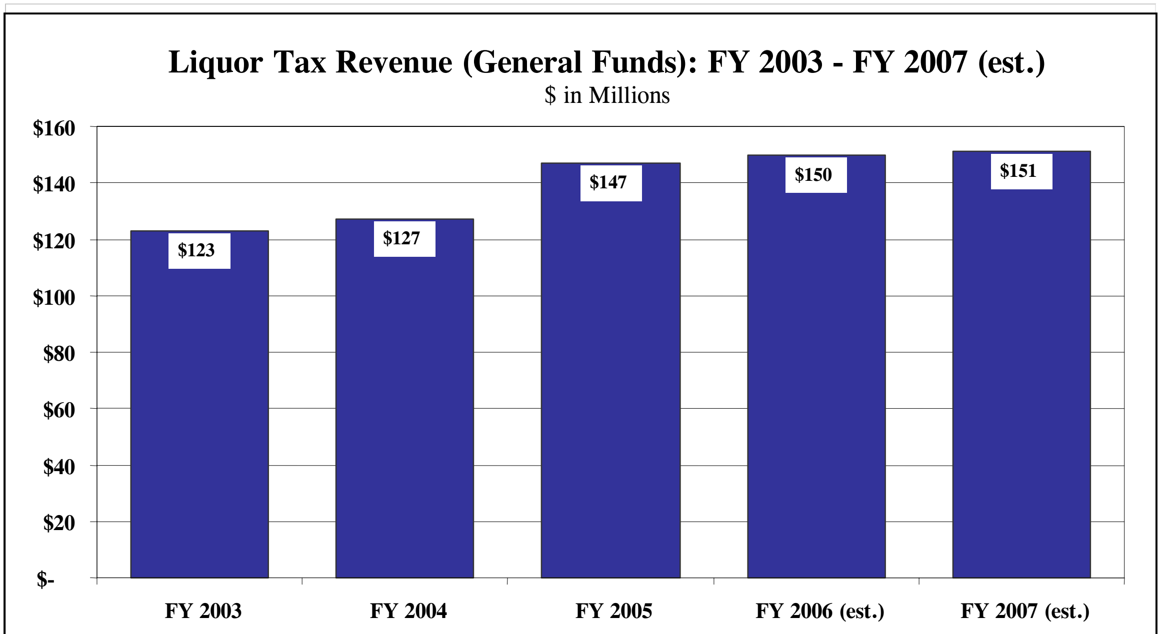
CIGARETTE TAXES



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 2007 estimate of general funds cigarette tax receipts assumes current law distribution is $400 million. The Governor has proposed decreasing the cigarette tax distributed to the general funds by $50 million in FY 2007.

LIQUOR GALLONAGE TAXES

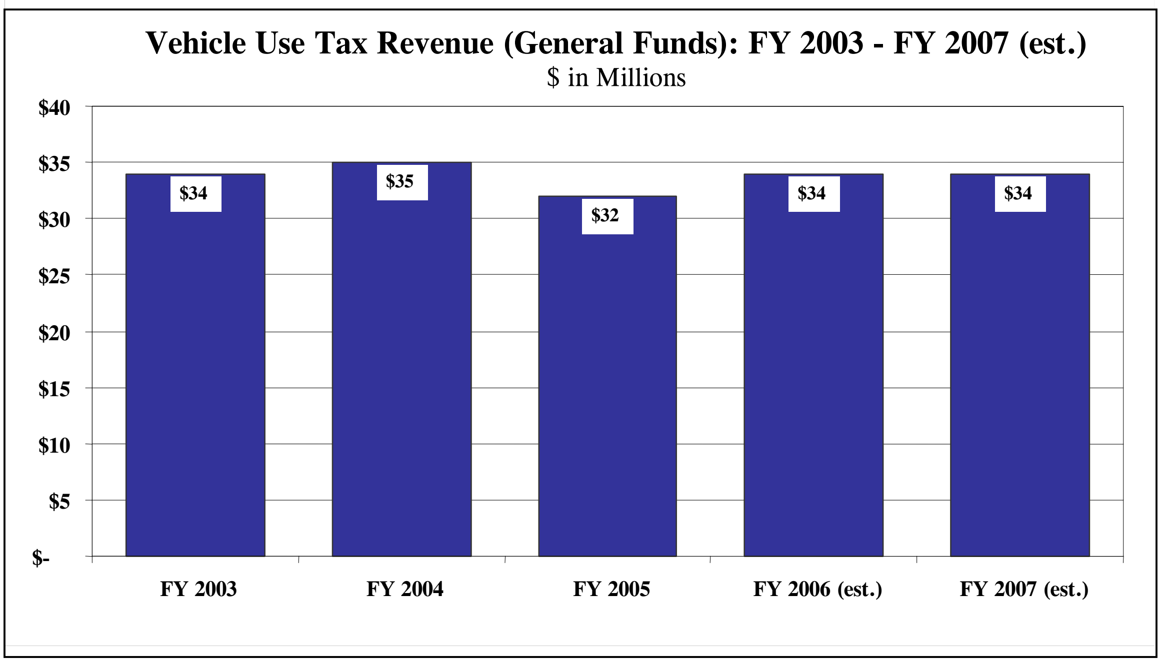


Illinois imposes a tax on the privilege of manufacturing or distributing alcoholic beverages in the State, measured by the number of gallons produced or distributed. The rates vary based on the type of alcohol. The tax per gallon of beer is 18.5 cents, wine and other fortified beverages with less than 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 2007 estimate of liquor gallonage taxes is $151 million, reflecting a slight $1 million increase over prior fiscal year.

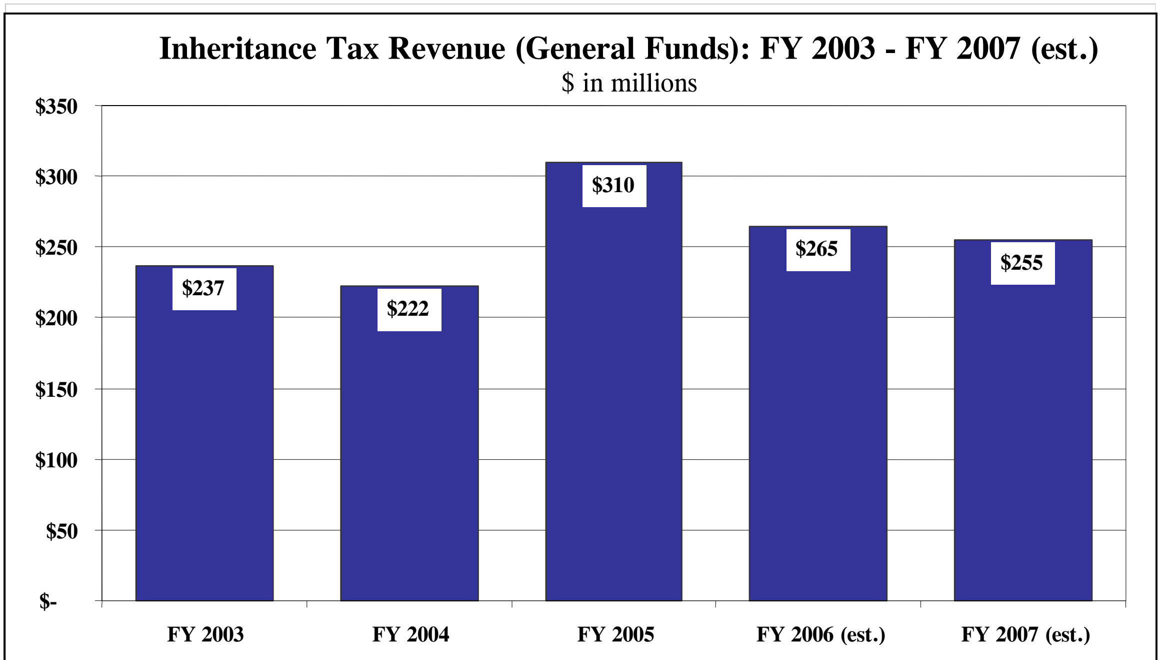
VEHICLE USE TAX



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 2007 general funds estimate for vehicle use tax is $34 million. Receipts from this source tend to have little fluctuation.

INHERITANCE TAX

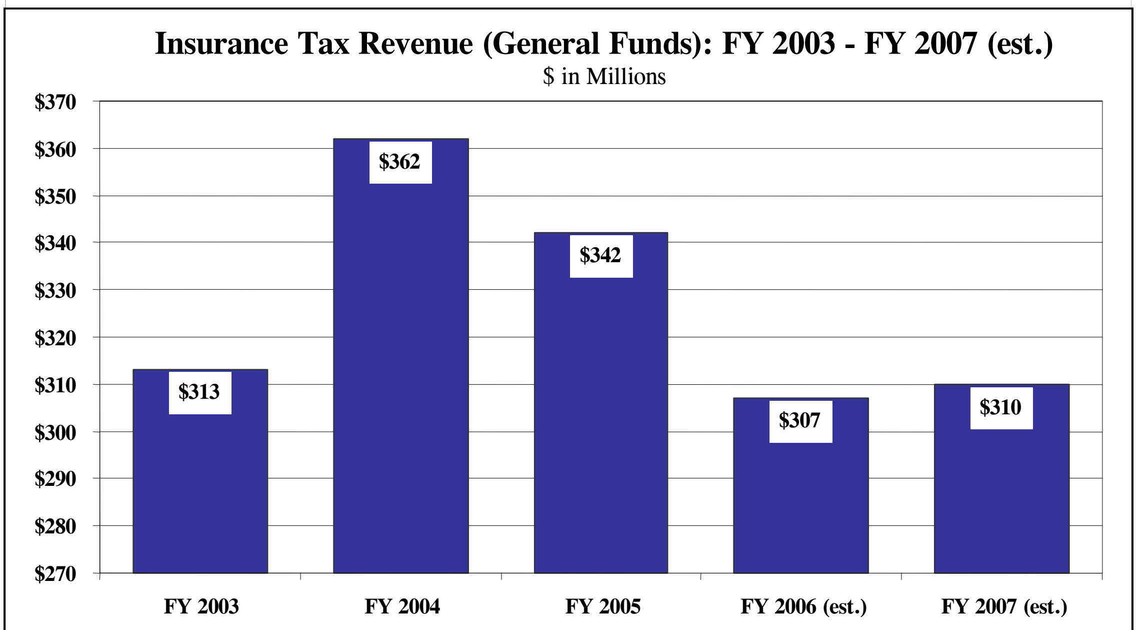


The State of Illinois currently administers an estate tax and a generation-skipping transfer tax. The Illinois estate tax is imposed on a decedent's estate prior to its distribution. The State generation-skipping transfer tax is imposed on bequests in which the transferor is two or more generations removed 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 repealed federal estate and gift taxes over a ten-year period, and increased the unified credit associated with a decedent's estate, and it reduced the state death credit by 25% per calendar year until 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, 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 FY 2007 estimate of inheritance tax is $255 million, reflecting a slight decline due to increased federal estate tax exemptions [rising to $2 million from $1.5 million].

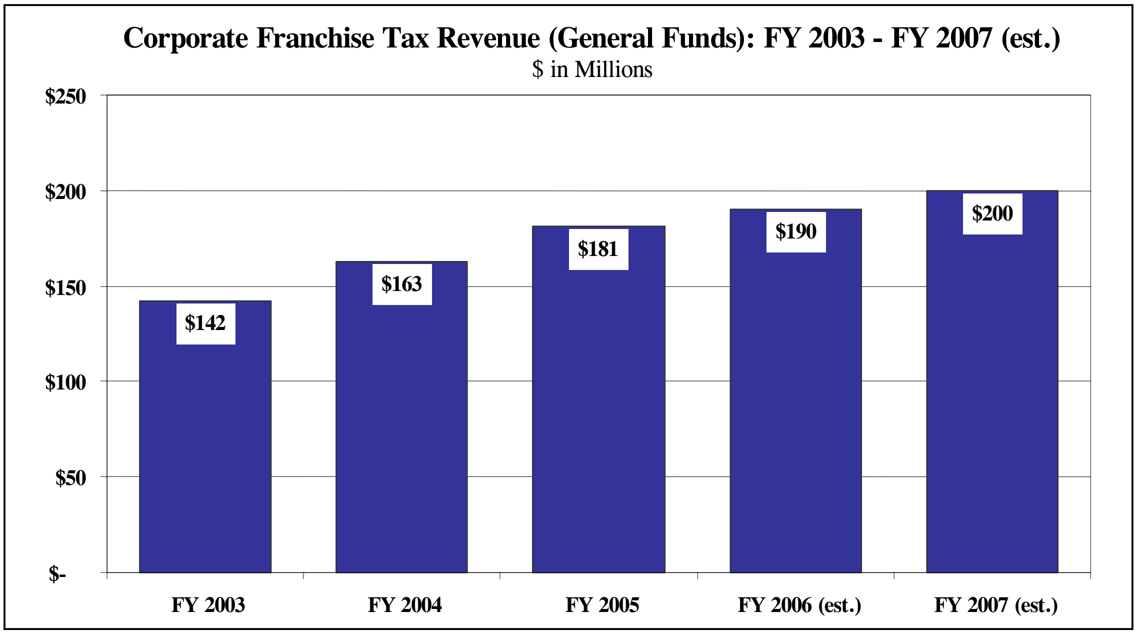
INSURANCE TAXES AND FEES



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 2007 general funds estimate of insurance taxes and fees is $310 million and reflects little overall growth from the prior year.

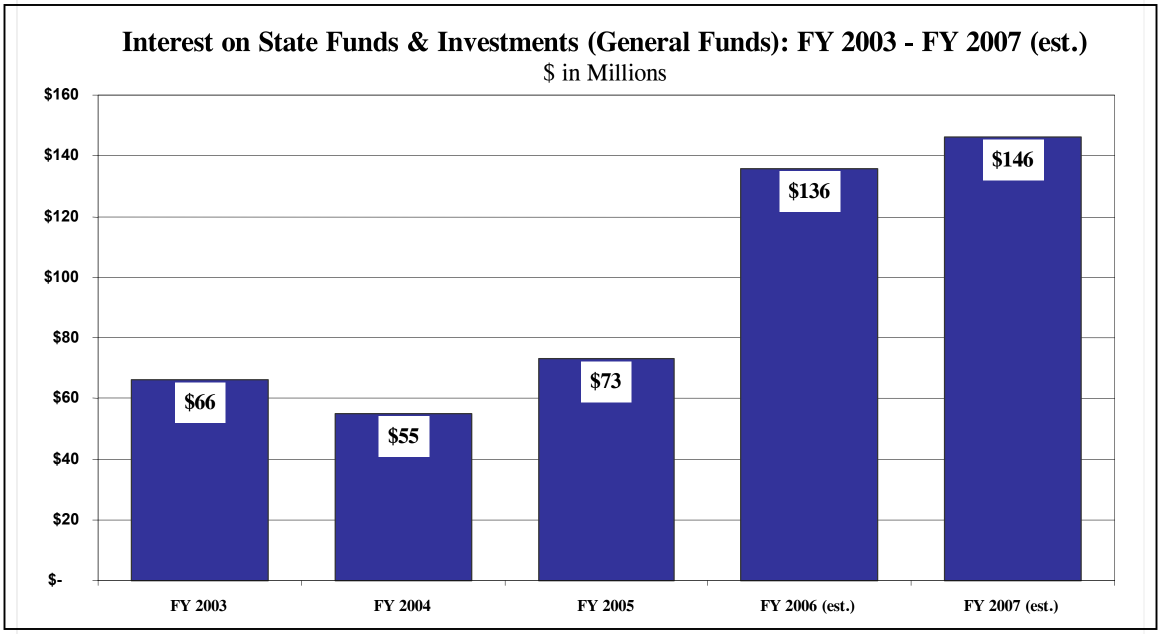
CORPORATE FRANCHISE TAXES AND FEES



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 2007 estimate of corporate franchise taxes is $200 million, a $10 million or 5.3% increase over the forecast in FY 2006.

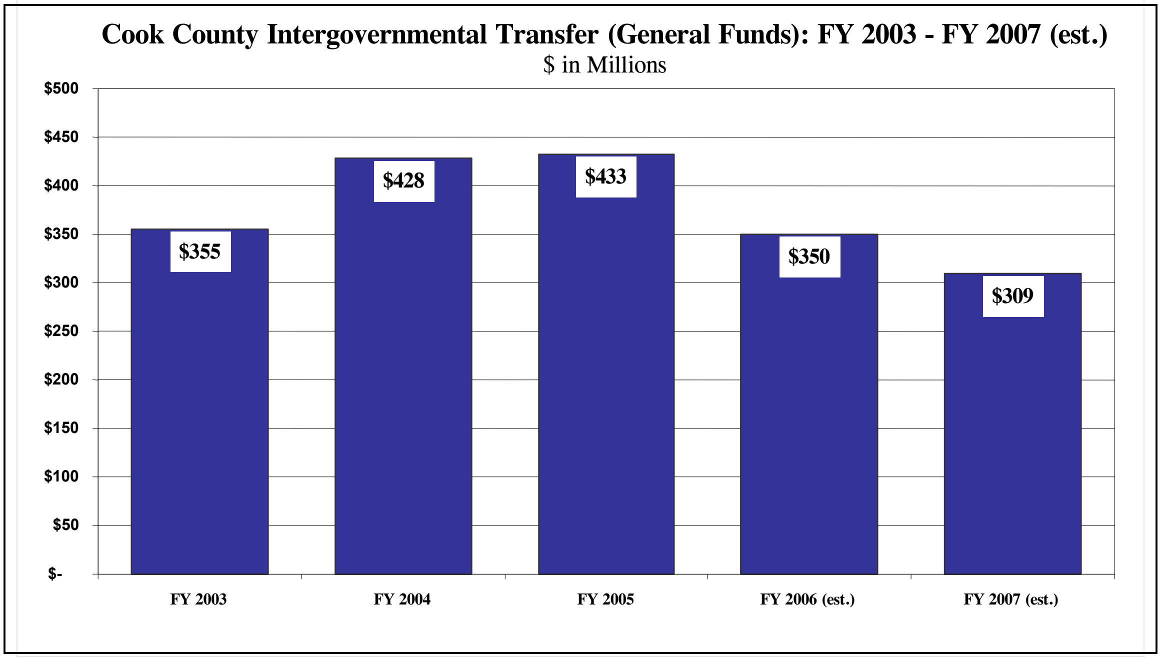
INTEREST



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 somewhat in the foreseeable future. As a result, $10 million in growth is anticipated for FY 2007.

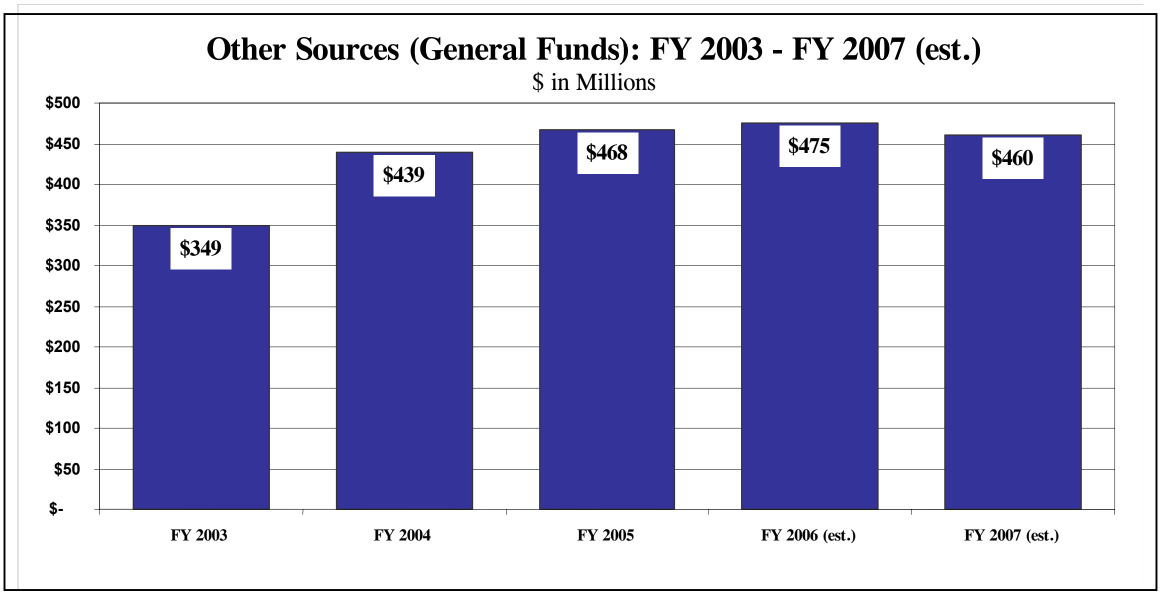
COOK COUNTY INTERGOVERNMENTAL TRANSFER (IGT)



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 from the IGT began to erode in FY 2006 and will continue to drop by approximately 15% annually in future years.

The IGT is expected to fall $41 million to $309 million in FY 2007.

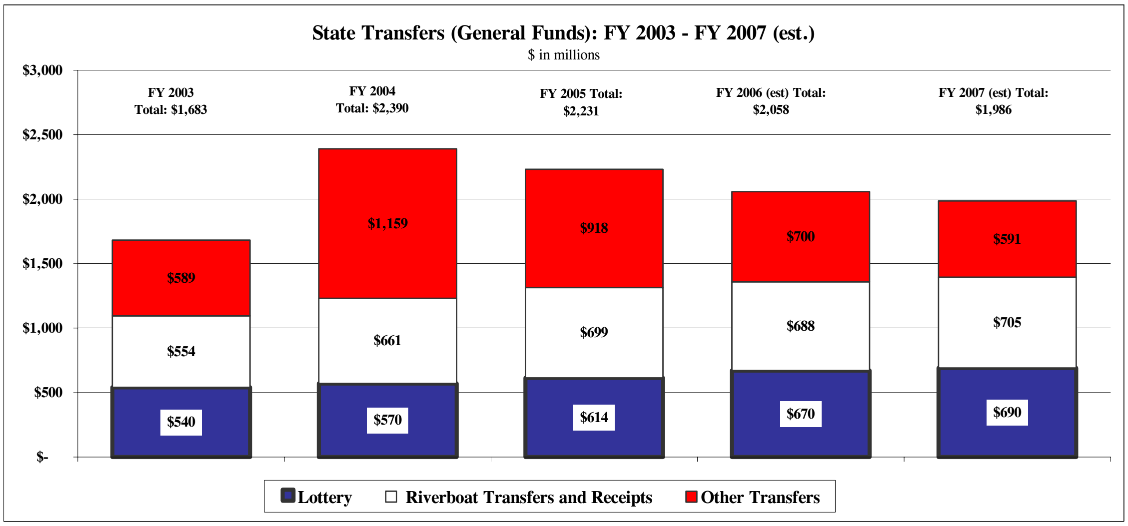
OTHER SOURCES



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. the commercial distribution fee or "trucker 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. It is estimated that this transfer will be approximately $50 million in both FY 2006 and FY 2007.

The FY 2007 estimate of other sources to the general funds is $460 million, a reduction of $15 million from the previous fiscal year. The net decrease results from the anticipated drop in commercial distribution fee revenue stemming from P.A. 93-1033 as well as some revenue from fines that is not expected to be repeated.

TRANSFERS TO THE GENERAL FUNDS



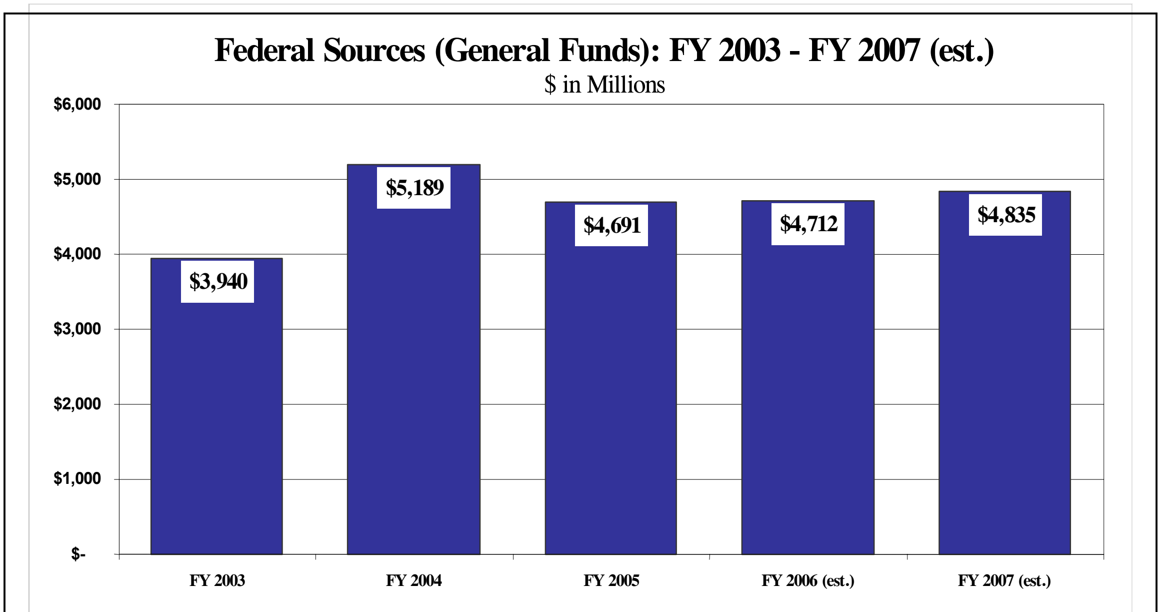
Transfers to the general funds are monies that are deposited in other State funds that are subsequently transferred into one of the four general funds. Included are transfers from the Lottery Fund to the Common School Fund as well as transfers from the State Gaming Fund to the Education Assistance Fund. [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 2007 is $690 million and reflects $20 million in growth from the prior fiscal year. The lottery has enjoyed success in recent years generating larger than historically normal rates of growth. It is unknown if these higher levels can be maintained or if a plateau will be reached. Increased promotions 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. ***The FY 2007 estimate of gaming transfers is $705 million, which represents an increase of $17 million or 2.5% over FY 2006. Under P.A. 94-0673, a "hold harmless" provision was enacted at the same time lower graduated tax rates were instituted. Essentially, the legislation requires virtually all of the current riverboat licenses to contribute a minimum amount for FY 2006 and FY 2007.***

Other transfers. ***In FY 2007, transfers to the general funds from sources other than the Lottery and the Gaming Fund are expected to be $591 million, a $109 million drop from the prior fiscal year, primarily reflecting the $130 million in one-time "fund sweeps" expected to be made in FY 2006. [The Governor's FY 2007 proposed budget includes approximately $144 million in similar fund sweeps].***

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 2007 estimate of total federal source receipts to the general funds is $4.835 billion, which is $123 million more than the FY 2006 forecast. Federal source receipts are largely based on appropriation levels and subsequent spending activity. As a result, the estimate could change once appropriation levels have been established.

In conclusion, while the base growth projections for most of the major tax sources are anticipated to again post decent gains, (albeit at growth rates lower than those enjoyed in FY 2006), a number of issues related to transfers and other sources will serve to offset some of those gains. At this time, it's unclear what if any of the Governor's proposed $307 million in revenue changes will eventually be implemented for the FY 2007 budget (see following section).

TABLE 6: CGFA ESTIMATE FY 2007 vs. FY 2006 (per current law)* (millions)				
Revenue Sources	**CGFA FY 2007 Estimate March-06**	**CGFA FY 2006 Estimate March-06**	**$ Difference**	**% Difference**
State Taxes				
Personal Income Tax	$9,800	$9,380	$420	4.5%
Corporate Income Tax	$1,950	$1,839	$111	6.0%
Sales Taxes	$7,280	$7,010	$270	3.9%
Public Utility (regular)	$1,086	$1,092	($6)	-0.5%
Cigarette Tax	$400	$400	$0	0.0%
Liquor Gallonage Taxes	$151	$150	$1	0.7%
Vehicle Use Tax	$34	$34	$0	0.0%
Inheritance Tax (gross)	$255	$265	($10)	-3.8%
Insurance Taxes & Fees	$310	$307	$3	1.0%
Corporate Franchise Tax & Fees	$200	$190	$10	5.3%
Interest on State Funds & Investments	$146	$136	$10	7.4%
Cook County Intergovernmental Transfer	$309	$350	($41)	-11.7%
Other Sources	$460	$475	($15)	-3.2%
Subtotal	**$22,381**	**$21,628**	**$753**	**3.5%**
Transfers				
Lottery	$690	$670	$20	3.0%
Riverboat Transfers & Receipts	$705	$688	$17	2.5%
Other	$591	$700	($109)	-15.6%
Total State Sources	**$24,367**	**$23,686**	**$681**	**2.9%**
Federal Sources	**$4,835**	**$4,712**	**$123**	**2.6%**
Total Federal & State Sources	**$29,202**	**$28,398**	**$804**	**2.8%**
Nongeneral Funds Distribution:				
Refund Fund*				
Personal Income Tax	($956)	($915)	($41)	4.5%
Corporate Income Tax	($390)	($368)	($22)	6.0%
Subtotal General Funds	**$27,856**	**$27,115**	**$741**	**2.7%**
Short-Term Borrowing	$0	$1,000	($1,000)	N/A
Budget Stabilization Fund Transfer	$276	$276	$0	0.0%
Total General Funds	$28,132	$28,391	($259)	-0.9%

*The FY 2007 estimate includes current refund percentages at 9.75% for PIT and 20.0% for CIT. In addition, it is assumed that $276 million in Budget Stabilization Fund transfers will be utilized in FY 2007 for cash flow purposes.
CGFA

SUMMARY OF REVENUE RELATED BUDGET HIGHLIGHTS

On February 15th, 2006 Governor Blagojevich presented his proposed budget for FY 2007. The Governor's proposed FY 2007 budget is based upon general funds revenue growth of $1.243 billion. As shown in the table below, the increase is comprised of $936 million in base revenue growth, as well as a net $307 million in growth from proposed revenue changes that likely would require legislative approval.

GOMB FY 2007 General Revenue Growth Assumptions ($ millions)	
	GOMB FEB-06
FY 2006 Estimate ($millions)	**$27,095**
Net change in income taxes (current refund %)	$572
Sales tax	$330
Misc. other sources (net)	($25)
Transfers (lottery, riverboat, other)	($64)
Federal source revenue	$123
FY 2007 Base Growth	**$936**
Proposed Revenue Changes per Budget Book	
Fund sweeps	$144
Sale of Student loans (FY'07 portion)	$100
Tax canned software	$48
Revised environmental impact fee	$44
Retail rate reform	$25
Tobacco product tax increase	$10
Continental Shelf definition change	$10
All other miscellaneous	$25
Proposed Increases to Base Revenues	**$406**
Tuition tax credit	($90)
Hybrid vehicle tax credit	($10)
Proposed Decreases to Base Revenues	**($100)**
Value of decreasing refund % for corporate income tax	$51
Decrease GRF cigarette tax distribution	($50)
Misc. Other Changes Requiring Statutory Changes	**$1**
Total Growth from Proposed Changes	**$307**
Total Growth Assumptions	**$1,243**
FY 2007 General Revenue Estimate	**$28,338**
*Does not include $276 million in anticipated Budget Stabilization Fund transfer	

WALK-UP OF FY 2007 GROWTH ASSUMPTIONS

For comparison purposes, Table 7 compares growth projections for both the CGFA and the GOMB and walks up from the respective FY 2006 estimates. As shown, from a base growth standpoint (assumes current law and current income tax refund percentages), the Commission's revised FY 2007 base growth is $741 million, or $195 million less than the base growth of $936 million assumed by the GOMB.

If all of the various $305 million in proposed revenue changes were made, the Commission's forecasted total growth would then climb to $1.046 billion, which is $197 million lower than the GOMB's estimated growth of $1.243 billion. [The $2 million difference in the value assigned to the Governor's proposed revenue changes is due to the Commission's lower corporate income tax estimate used to calculate the value of the proposed lower refund percentage]. Because the Commission's FY 2006 estimate is $20 million higher than the GOMB, the FY 2007 comparison then becomes $177 million less than the GOMB.

TABLE 7: CGFA/GOMB FY 2007 General Revenue Growth Assumptions ($ millions) Walk-Up of CGFA and GOMB Estimates			
	CGFA MARCH-06	GOMB FEB-06	Difference
FY 2006 Estimate ($millions)	**$27,115**	**$27,095**	**$20**
Net change in income taxes (current refund %)	$468	$572	($104)
Sales tax	$270	$330	($60)
Misc. other sources (net)	($48)	($25)	($23)
Transfers (lottery, riverboat, other)	($72)	($64)	($8)
Federal source revenue	$123	$123	$0
FY 2007 Base Growth	**$741**	**$936**	**($195)**
Proposed Revenue Changes per Budget Book			
Fund sweeps	$144	$144	$0
Sale of Student loans (FY'07 portion)	$100	$100	$0
Tax canned software	$48	$48	$0
Revised environmental impact fee	$44	$44	$0
Retail rate reform	$25	$25	$0
Tobacco product tax increase	$10	$10	$0
Continental Shelf definition change	$10	$10	$0
All other miscellaneous	$25	$25	$0
Proposed Increases to Base Revenues	**$406**	**$406**	**$0**
Tuition tax credit	($90)	($90)	$0
Hybrid vehicle tax credit	($10)	($10)	$0
Proposed Decreases to Base Revenues	**($100)**	**($100)**	**$0**
Value of decreasing refund % for corporate income tax	$49	$51	($2)
Decrease GRF cigarette tax distribution	($50)	($50)	$0
Misc. Other Changes Requiring Statutory Changes	**($1)**	**$1**	**($2)**
Total Growth from Proposed Changes	**$305**	**$307**	**($2)**
Total Growth Assumptions	**$1,046**	**$1,243**	**($197)**
FY 2007 General Revenue Estimate	**$28,161**	**$28,338**	**($177)**
*Does not include $276 million in anticipated Budget Stabilization Fund transfer			

DETAILED CGFA/GOMB FY 2007 COMPARISON

As shown in Table 8 on page 48, excluding the Governor's proposed $305 million in proposed deficit reduction sources, the Commission's FY 2007 base general funds estimate of $27.856 billion is $175 million below the GOMB's estimate of $28.031 billion. If $307 million in deficit reduction sources are included in the GOMB estimate, the difference grows to $177 million.

The two estimates reflect moderate differences in the estimates of income taxes with the Commission lower due to using somewhat more conservative growth rates. The Commission's other source estimate is lower primarily because it does not appear that the GOMB's estimate has taken into account the continued phase-down of the commercial distribution tax. Other transfers are also lower than the GOMB and reflects differences between chargeback and other fee transfers as well as other overall transfers. [As in FY 2006, the GOMB is again assuming an $80 million transfer from the yet to be federally approved hospital assessment program. Until federal approval is given, the Commission is for now not including these amounts in its estimates]. While lower overall, the Commission is higher than the GOMB in a few areas such as interest income as well as lottery and riverboat transfers.

TABLE 8: FY 2007 CGFA/GOMB COMPARISON ***"Current Law" and "With Proposed Revenue Changes"*** (millions)			
Revenue Sources	**CGFA FY 2007 Estimate Mar-06**	**GOMB FY 2007 Estimate Feb-06**	**$ Difference**
State Taxes			
Personal Income Tax	$9,800	$9,844	($44)
Corporate Income Tax	$1,950	$2,046	($96)
Sales Taxes	$7,280	$7,280	$0
Public Utility (regular)	$1,086	$1,075	$11
Cigarette Tax	$400	$400	$0
Liquor Gallonage Taxes	$151	$152	($1)
Vehicle Use Tax	$34	$35	($1)
Inheritance Tax (gross)	$255	$255	$0
Insurance Taxes & Fees	$310	$322	($12)
Corporate Franchise Tax & Fees	$200	$196	$4
Interest on State Funds & Investments	$146	$125	$21
Cook County Intergovernmental Transfer	$309	$309	$0
Other Sources	$460	$505	($45)
Subtotal	**$22,381**	**$22,544**	**($163)**
Transfers			
Lottery	$690	$650	$40
Riverboat Transfers & Receipts	$705	$692	$13
Other	$591	$679	($88)
Total State Sources	**$24,367**	**$24,565**	**($198)**
Federal Sources	**$4,835**	**$4,835**	**$0**
Total Federal & State Sources	**$29,202**	**$29,400**	**($198)**
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax	($956)	($960)	$4
Corporate Income Tax	($390)	($409)	$19
Subtotal General Funds "Current Law"	**$27,856**	**$28,031**	**($175)**
Change from Prior Year Estimate	**$741**	**$936**	**($195)**
Percent Change	**2.7%**	**3.5%**	
Value of Proposed Revenue Changes	**$305**	**$307**	**($2)**
Subtotal With Proposed Changes	**$28,161**	**$28,338**	**($177)**
Change from Prior Year Estimate	**$1,046**	**$1,243**	**($197)**
Percent Change	**3.9%**	**4.6%**	
Budget Stabilization Fund Transfer	$276	$276	$0
Short-Term Borrowing	$0	$0	$0
Total General Funds	$28,437	$28,614	($177)
Change from Prior Year Estimate	$46	$243	($197)
Percent Change	0.2%	0.9%	

*It is assumed that $276 million in Budget Stabilization Fund transfers will be utilized in FY 2007 for cash flow purposes.

CGFA

TABLE 9: ALL APPROPRIATED FUNDS REVENUE FY 2005 to FY 2007

($ millions)

REVENUE SOURCES	ACTUAL RECEIPTS FY 2005	Mar-06 Estimate FY 2006	Mar-06 Estimate FY 2007	$ CHG. FROM FY 2006	% CHG. FROM FY 2006
State Taxes					
Personal Income Tax	$8,873	$9,380	$9,800	$420	4.5%
Corporate Income Tax					
Regular	$1,548	$1,839	$1,950	$111	6.0%
Replacement	$1,055	$1,191	$1,275	$84	7.1%
Sales	$7,783	$8,325	$8,658	$333	4.0%
Public Utility					
Regular	$1,567	$1,630	$1,690	$60	3.7%
Replacement	$201	$210	$210	$0	0.0%
Motor Fuel (gross)	$1,465	$1,470	$1,485	$15	1.0%
Cigarette	$656	$650	$630	($20)	-3.1%
Liquor Gallonage Taxes	$153	$156	$157	$1	0.6%
Vehicle Use Tax	$37	$39	$39	$0	0.0%
Inheritance Tax	$310	$265	$255	($10)	-3.8%
Insurance Taxes and Fees	$425	$400	$410	$10	2.5%
Horse Racing Taxes & Fees	$12	$12	$12	$0	0.0%
Corporate Franchise Taxes	$190	$200	$210	$10	5.0%
Other Privilege Taxes	$281	$303	$314	$11	3.6%
Riverboat Gambling Taxes & Fees	$816	$802	$818	$16	2.0%
SUBTOTAL	$25,372	$26,872	$27,913	$1,041	3.9%
State Nontax Sources					
Motor Vehicle & License Fees	$1,169	$1,268	$1,268	$0	0.0%
Cigarette Settlement Distributions	$274	$284	$284	$0	0.0%
Other Fees	$523	$523	$523	$0	0.0%
Provider Assessment Fees	$1,601	$1,601	$1,601	$0	0.0%
Receipts From State Hospital Patients	$23	$26	$26	$0	0.0%
Interest on State Funds & Investments	$125	$219	$235	$16	7.3%
Reimbursements & Repayments	$137	$165	$165	$0	0.0%
Revolving Fund Receipts	$284	$450	$400	($50)	-11.1%
Lottery (net gross)	$907	$1,015	$1,045	$30	3.0%
All Other Nonfederal Receipts	$5,838	$5,955	$6,104	$149	2.5%
Income from Sale of Bonds	$1,143	$1,125	$1,257	$132	11.7%
Local Government Health Plan	$68	$65	$65	$0	0.0%
SUBTOTAL	**$37,464**	**$39,568**	**$40,886**	**$1,318**	**3.3%**
State Transfers In	$151	$150	$150	$0	0.0%
TOTAL STATE SOURCES	**$37,615**	**$39,718**	**$41,036**	**$1,318**	**3.3%**
Federal Sources	$12,210	$13,800	$13,544	**($256)**	**-1.9%**
SUBTOTAL ALL APPROPRIATED	**$49,825**	**$53,518**	**$54,580**	**$1,062**	**2.0%**
Short Term Borrowing	**$765**	**$1,000**	**$0**	**($1,000)**	**n/a**
TOTAL ALL APPROPRIATED	**$50,590**	**$54,518**	**$54,580**	**$62**	**0.1%**

CGFA 07-Mar-06

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 "Bonded Indebtedness 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