SUMMARY

FY 2008 REVENUE FORECAST

and

UPDATED FY 2007 REVENUE ESTIMATE

Commission on Government
Forecasting and Accountability
703 Stratton Office Building
Springfield, Illinois 62706

March 28, 2007

CGFA Commission Members

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CGFA Background & Responsibilities

- Bi-Partisan, 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.
- Preparation of annual revenue estimates with periodic updates;
- Analysis of the fiscal impact of revenue bills;
- Preparation of State Debt Impact Notes;
- Periodic assessment of capital facility plans;
- 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;
- Implement the provisions of the State Facility Closure Act;
- Annual estimates of public pension funding requirements and preparation of pension impact notes.

CHART 1: Change in Real GDP

REVIEW OF FY 2007

- Following two years of growth of 3.3% and 3.4%, respectively, that was above its long-term trend, the pace of economic advance in the U.S. slowed in FY 2007.

- The slowdown in part reflects a major correction in the housing market as well as less than expected gains in business spending despite healthy corporate profit gains and tightening capacity.

- Despite these disappointments, overall growth continued at an estimated rate of 2.6%, although further data and revisions are yet to be released. This was moderately below the 3.0% projected by the Commission at this time last year but the same as the 2.6% gain foreseen with its later revisions put forward last November.

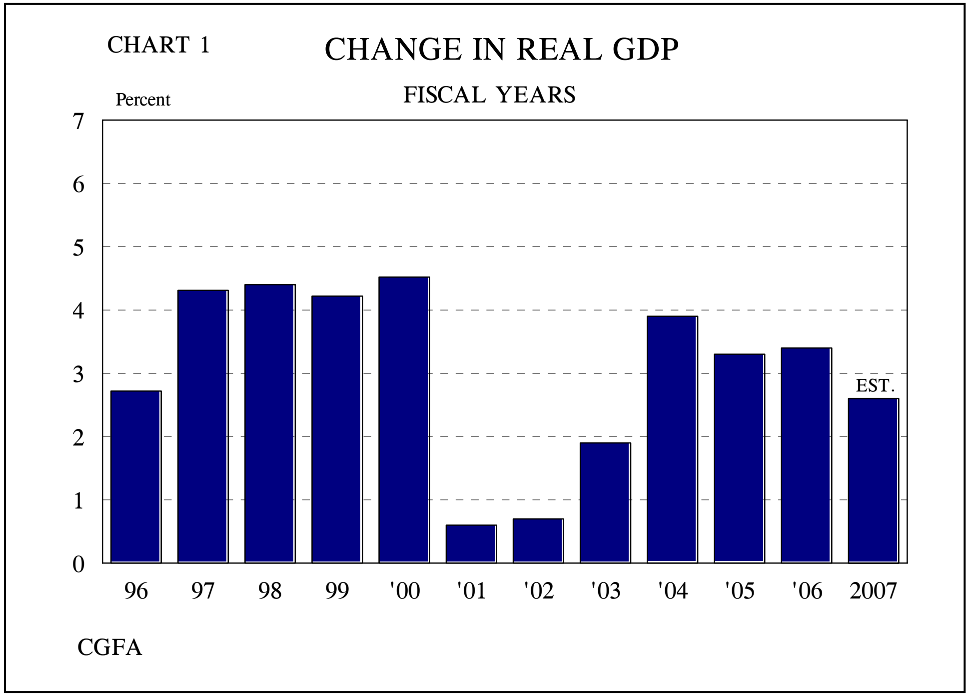

CHART 2: New Privately-Owned Housing Starts Single-Family

- A major subtraction from growth was in the area of residential construction spending.
- There was a particularly steep decline in new housing starts in the first half of the fiscal year, continuing the trend that began in the final quarter of FY 2006.
- While the bottom of the housing correction may not have yet been reached and problems with "subprime" lenders remain, reduced levels of inventories and lower home prices suggest the downward pressure on overall growth will lessen.

CHART 2

New Privately-Owned Housing Starts
Single-Family

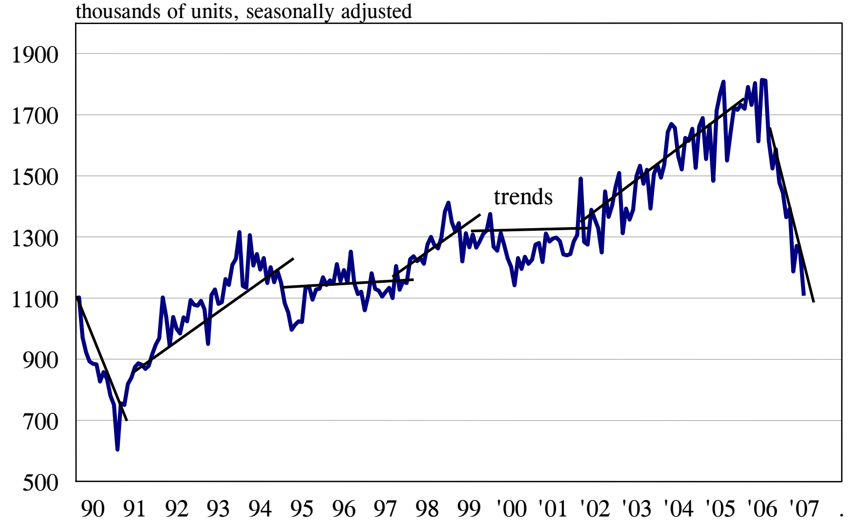

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CHART 3: Purchasing Managers Index

- Business spending (nonresidential fixed investment) also weakened despite good profit growth and tightening capacity and by the second quarter of FY 2007, actually declined.

- Once again, the weakest sector was manufacturing, particularly autos. Chart 3 shows the Purchasing Managers Index for both the U.S. and the Chicago area. A reading above 50% represents expansion whereas an index number less than 50% represents contraction.

- As illustrated in the last several months, the index has fluctuated in and out of a contraction phase. This is the first time a contraction has occurred in the U.S. index since early in 2003.

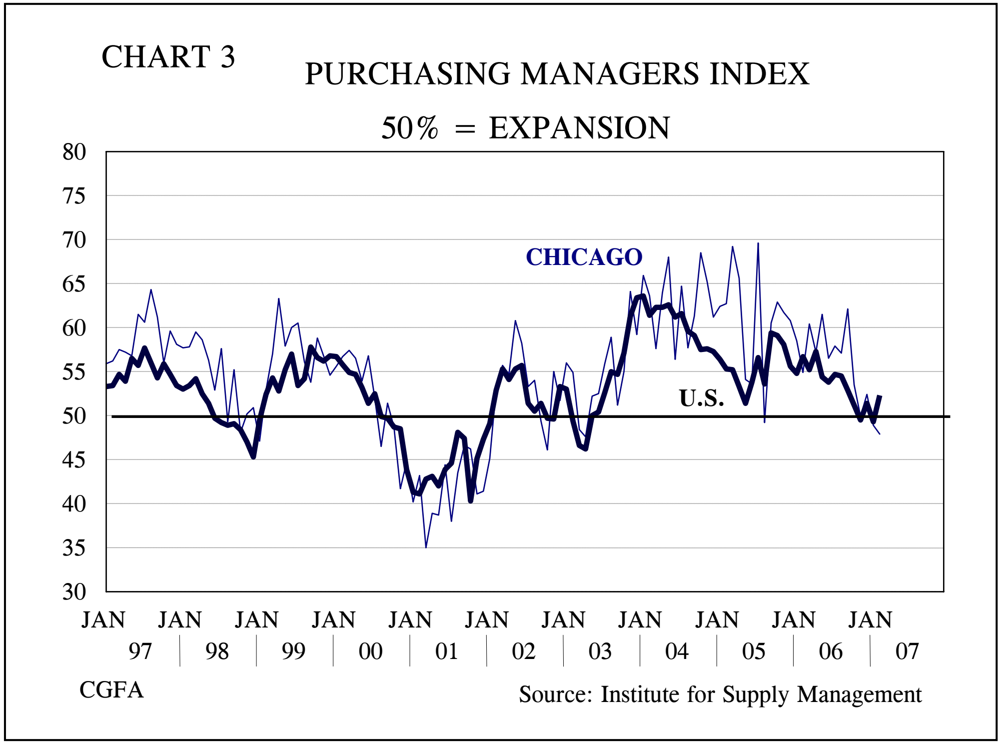


CHART 4: State Tax Receipts Survey

- In reviewing FY 2007, the rate of economic advance edged lower from the previous two-year's pace. As a result of slower economic growth, State tax receipts, while still strong, began to come in at a lower rate.

- Chart 4 shows the index of 16 States, including Illinois, which is a good proxy for State revenues on a national basis.

- While Illinois often lags the general trend, it mirrors the national pattern and, therefore, some moderation in revenue inflows from economic sources can be expected before the fiscal year ends.

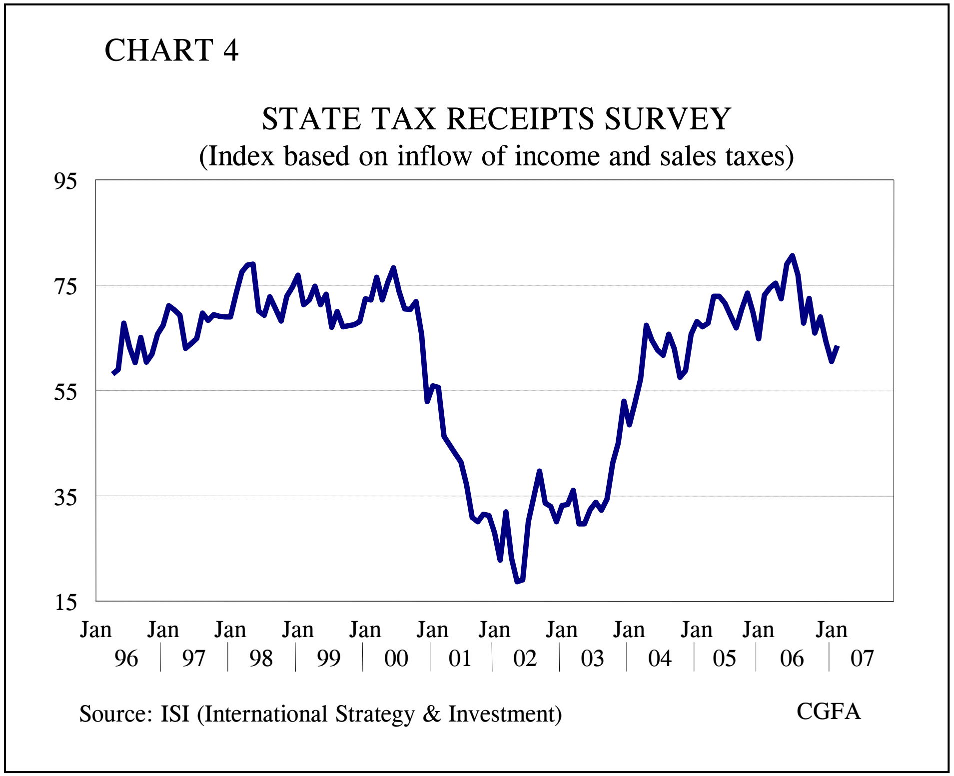


CHART 5: Change in Real GDP

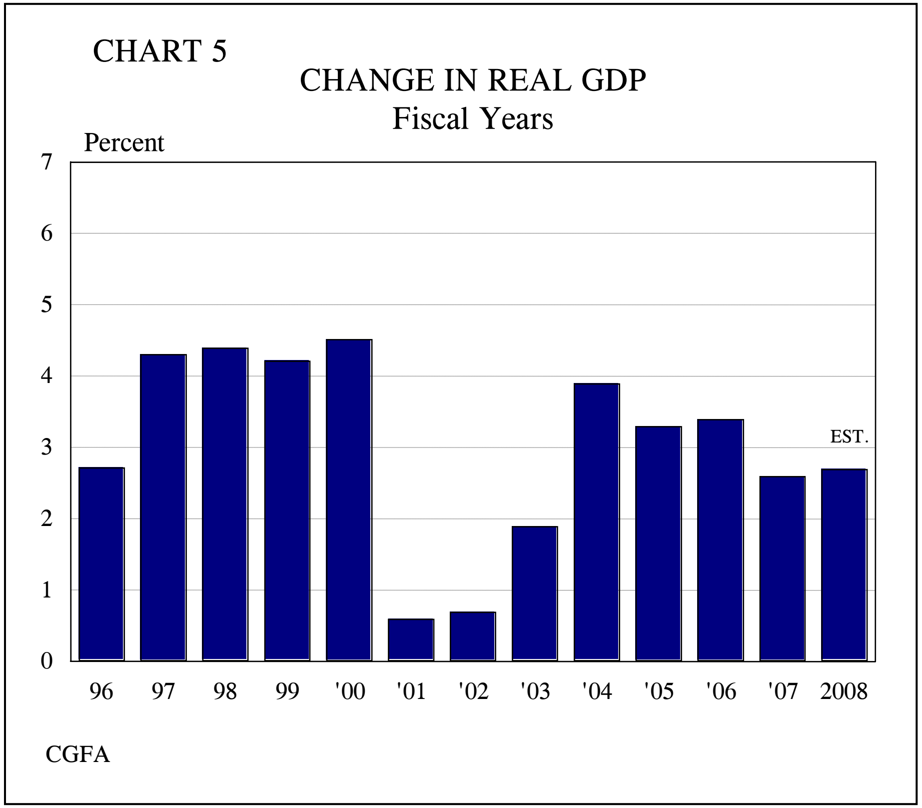
U.S. ECONOMIC OUTLOOK FY 2008

- The U.S. economy in FY 2008 is anticipated to continue to grow at a rate not significantly different from the prior year, although the pattern of growth is likely to show improvement as the year progresses. Even so, the economy is more fragile than in recent years, and subject to any policy mistakes and less resilient to any adverse outside events.

- Indeed, while the current Federal Reserve Chairman sees an end to the housing slump developing, no serious long-term deleterious effects from "subprime" lending, and continuing inflation moderation, the previous Chairman has expressed a different view. Ex-Chairman Alan Greenspan has been quoted saying that there is a one in three chance of an economic recession starting before the end of calendar 2007.

- This is a more negative view from that expressed by Global Insight, a service used by the Commission, which in March gave only a 20% chance that the economic recovery would experience a "hard landing".

- As shown in Chart 5, real or inflation-adjusted gross domestic product (GDP) is forecast at 2.7% in FY 2008, little changed from the 2.6% forecast for FY2007.



Economic Forecasts – March 2007

- The table provides a more detailed breakdown of the U.S. economic forecast for FY 2008 as projected by Global Insight.

- Personal consumption, the largest spending component of GDP, is expected to moderate, hampered in part by high-energy prices, lower home values, and continued weak auto and household durable goods sales. The forecast rate of gain in consumer spending in current dollars next year is anticipated to drop to 4.7% in FY 2008, from 5.3% in FY 2007, and well below the of 6% to 6 1/2% range in each of the previous three years.

- Real fixed investment spending is expected to be flat in FY 2008 following a 1.6% decline in FY 2007. The bulk of the decline has been in residential construction. At the same time, non-residential investment spending has weakened. Even as housing reaches a bottom in FY 2007, reducing its negative impact on growth, business spending is likely to weaken further as corporate profits gains fall sharply in FY 2008.

- A bright spot continues to be the trade sector. U.S. exports are anticipated to expand at an inflation-adjusted 9.8% in FY 2008, up from 8.5% in FY 2007 and substantially higher than in earlier years.

ECONOMIC FORECASTS - March 2007 (Change from prior year levels)						
REAL (2000$)	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual r	FY 2007 Est.	FY 2008 Est.
Gross Domestic Product	1.9	3.9	3.3	3.4	2.6	2.7
Personal Consumption	2.4	3.7	3.7	3.3	3.2	2.9
Durable	4.9	7.7	5.5	5.0	4.7	2.7
Nondurable	2.3	4.0	3.9	4.3	3.3	3.1
Services	1.8	2.7	3.2	2.4	2.8	2.9
Fixed Investment	1.6	8.3	7.2	5.5	-1.6	0.1
Exports	0.5	3.3	8.5	7.4	8.6	9.8
Imports	6.5	9.7	7.4	6.3	2.2	4.0
Government	3.6	2.3	1.1	1.6	2.3	2.4
Federal	7.1	7.0	2.8	2.0	1.4	3.7
State & Local	1.6	0.3	0.4	1.1	2.5	2.0
OTHER MEASURES						
Personal Income (Current $)	2.1	4.9	6.2	5.6	5.7	5.5
Personal Consumption (Current $)	4.3	5.9	6.5	6.5	5.3	4.7
Before Tax Profits (Current $)	16.6	18.8	13.9	15.2	13.6	3.8
Consumer Prices	2.2	2.2	3.0	3.8	2.3	1.9
Unemployment Rate (Average)	5.9	5.8	5.3	4.8	4.7	4.9

Alternative Economic Forecasts

- Line one is the current baseline, or most likely, forecast of real Gross Domestic Product for calendar years 2007-2012 by Global Insight made in March 2007. It has a 55% probability. It suggests the U.S. economy will struggle in the coming months, but the risk of recession will remain low.
- The Hard Landing Forecast, with a 20% probability, has the economy sinking into recession, falling well below its potential, with GDP growth at just 1.6% for all 2007. The ground lost relative to the baseline forecast is not made up, with real GDP below its baseline level.
- The Expansion Keeps Rolling on, with a March 2007 probability of 25%, shows renewed strength in productivity. In this scenario, rapid productivity growth is the major reason why economic growth and employment gains are higher and inflation and budget deficits lower.

ALTERNATIVE ECONOMIC FORECASTS - March 2007
(Change from prior year levels)

REAL (2000 $) CALENDAR YEARS	2007	2008	2009	2010	2011	2012
CURRENT FORECASTS (55%)						
Gross Domestic Product	2.4	3.0	3.2	3.1	2.7	2.4
HARD LANDING FORECAST (20%)						
Gross Domestic Product	1.6	1.3	2.8	2.5	2.3	2.0
EXPANSION KEEPS ON ROLLING (25%)						
Gross Domestic Product	2.8	3.9	3.9	3.5	2.9	2.6

SOURCE: Global Insight, March 2007

CHART 6: Consumer Price Index

- As shown in Chart 6, consumer price increases have come down substantially in recent months as the economy slowed. In January 2007, overall consumer prices were 2.1% higher than a year earlier, substantially improved.

- The sharp drop in the rate of price increases, however, was largely due to declining energy prices early in the year. More recently, there has been renewed upward pressure on energy prices; with oil again over $60 a barrel.

- In contrast, the core rate, excluding the volatile food and energy sectors, was up 2.7% over a year earlier, well above the Federal Reserve's desired rate of no more than 2%.

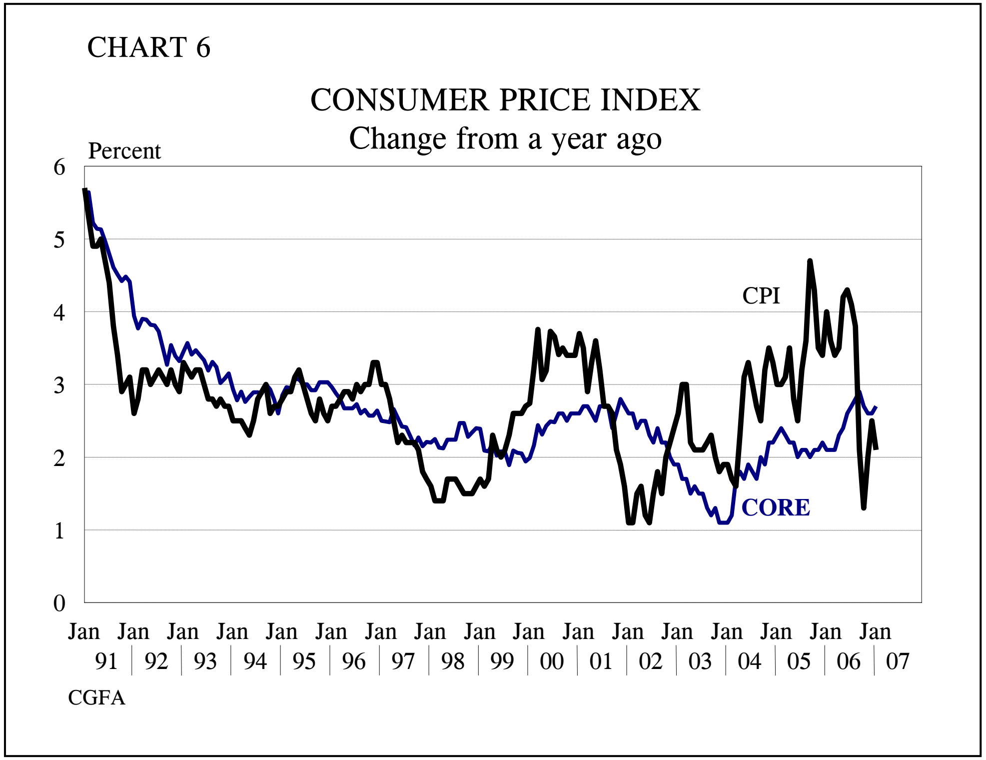


CHART 7: U.S. Interest Rates

- In response to continued economic growth and as a preemptive inflation measure, the Federal Reserve progressively removed the monetary stimulus it had been providing.

- As illustrated in Chart 7, key monetary policy rates were increased seventeen times from the summer of 2004 until August of 2006. The rise in interest rates dampened demand, leading to a prolonged period of slowing growth and resulting in expectations for inflation to moderate further in the months ahead.

- Should this occur, the Federal Reserve is likely to reverse course and modestly lower key interest rates to re stimulate demand.

- ***CGFA's forecast for FY 2008 is for continued economic growth, at a modest 2.7% pace, about the same as the 2.6% estimated for FY 2007. A maturing economic expansion, only a modest improvement in housing following a long period of hemorrhaging activity and softening values, and weakening business spending will all be factors depressing faster growth. Even so, improvement should occur as the year progresses and such a mid course correction could set the stage for continued economic expansion.***

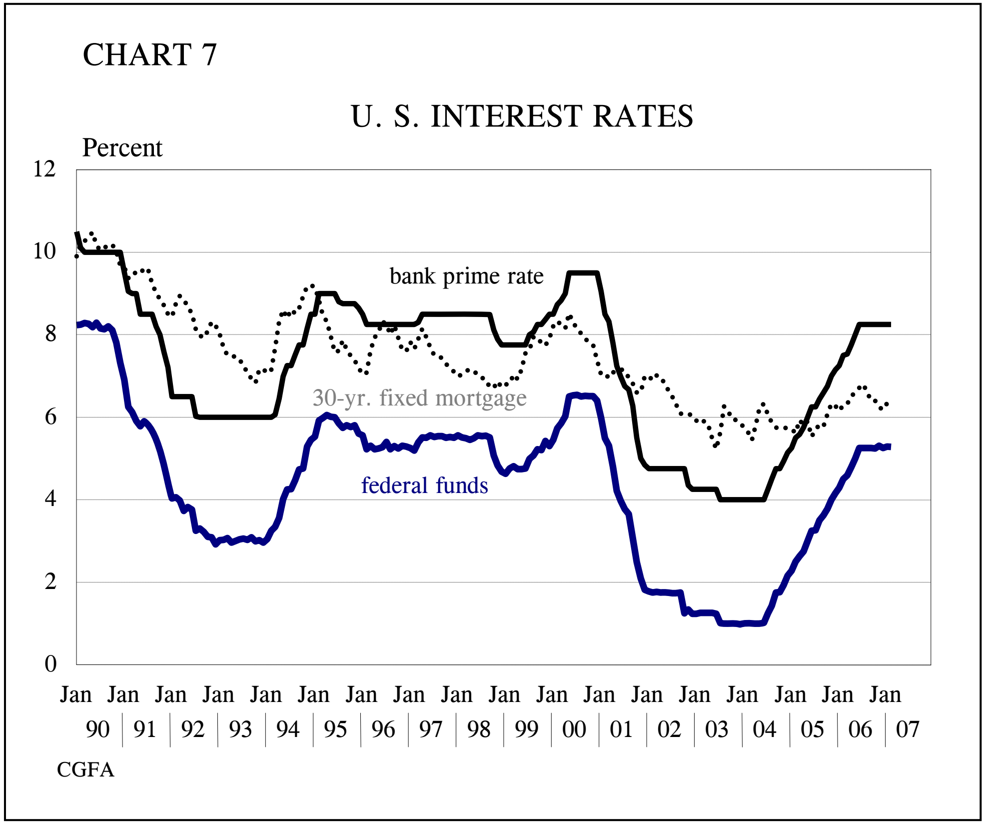


CHART 8: Unemployment Rates

ILLINOIS ECONOMIC OUTLOOK FY 2008

- The Illinois economy, like the nation, is anticipated to stay on track in FY 2008 despite the recent lull in activity. The economic outlook for Illinois, while closely tied to that of the nation as a whole, is expected to improve further.

- Even so there has been a tendency for economic performance in the State to lag the national trend. Thus, even as the national economy slowed in the first half of FY 2007, Illinois revenues from economically sensitive sources outpaced expectations. This lagging phenomenon perhaps can be illustrated by the recent performance of unemployment rates.

- As shown in Chart 8, even as declines in the national unemployment rate ceased and leveled out in 2006, Illinois' rate continued to decline, falling a full percent from 5.1% in March and April 2006 to 4.1% in October through year-end 2006.

- The lower Illinois unemployment rate than that existing in the nation was in sharp contrast to the years 1999 through 2005 when the State unemployment rate consistently held above the national rate. (The more recent experience, however, was not without precedent as Illinois had maintained a lower-than-national rate in the mid to late1990s.)

- In January 2007, the Illinois unemployment rate finally moved up, jumping to 4.6%, matching the national rate that month. In February 2007, the national unemployment rate edged down to 4.5%.

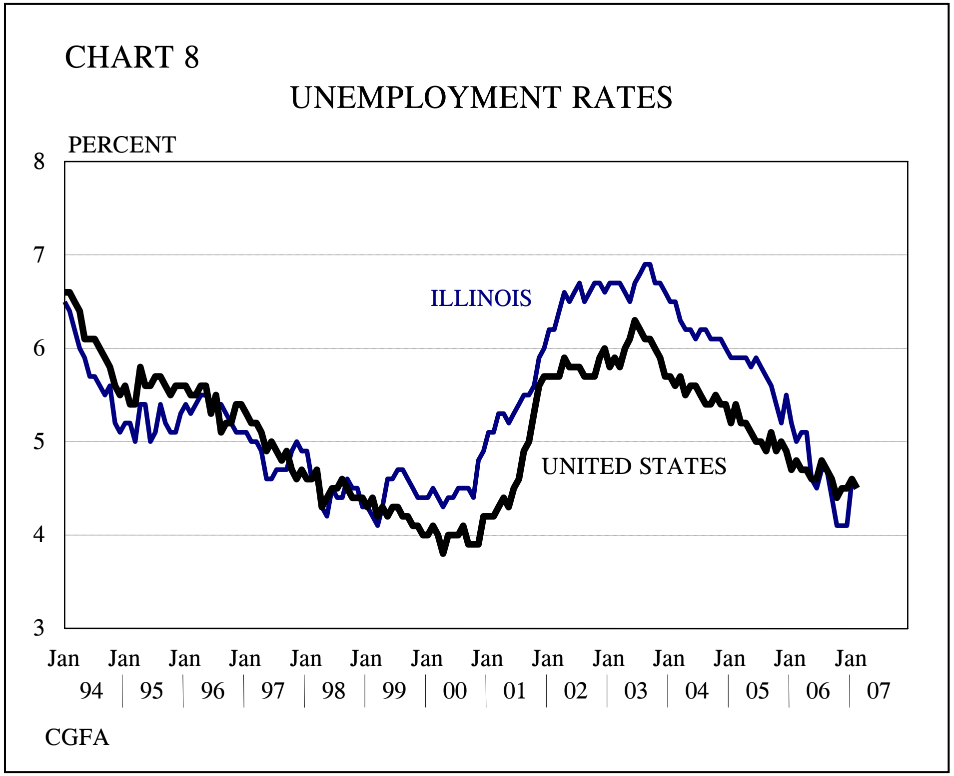


CHART 9: Illinois Employment

- As shown in Chart 9, data now show that the State has made substantial gains in new jobs as measured by the household survey and is well above its pre-recession peak of employment. (It should be pointed out, however, that the nation as measured by this series surpassed its pre-recession peak in 2004).

- 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 (in Illinois) will not return to its pre-recession peak until late 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.

- Citing the February 2007 Global Insight update on Illinois' economy, Illinois wage and salary gains are expected to moderate from a gain of 5.3% in FY 2007 to 4.8% in FY 2008. Slower income gains also will be translated into more moderate increases in State retail sales.

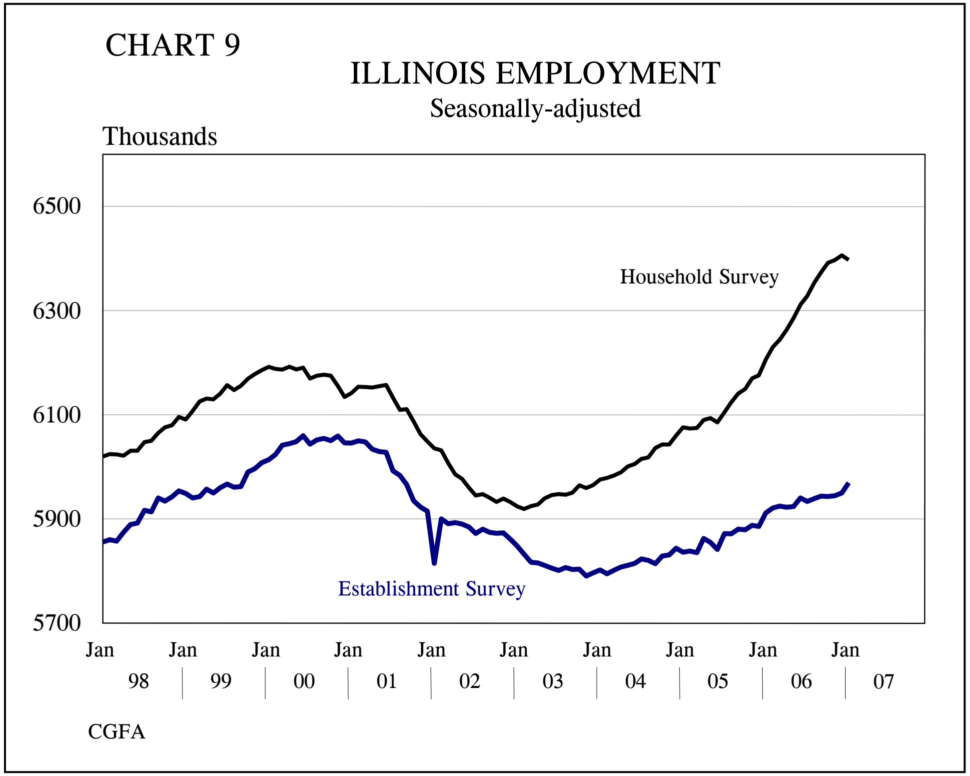


CHART 10: Illinois Building Permits Single-Family

- Consumer spending had been held up in part due to consumers using part of their appreciation in home equity values. This perceived wealth factor has been greatly diminished.

- While Illinois had not seen the huge increases in home prices some parts of the country have seen, gains still had been sizeable. However, home sales have been declining and the median home price in the State in January 2007 was unchanged from a year ago at $200,000.

- Moreover, as shown in Chart 10, building permits, a precursor to new housing starts, is currently still in a steep downward trend suggesting a bottom has yet to be reached. (The latest month plotted was January 2007 and undoubtedly reflected the unseasonably warm weather and is likely to fall sharply again when February data are released.)

- While housing activity is likely to bottom out sometime during FY 2008, the recovery in activity is likely to be restrained.

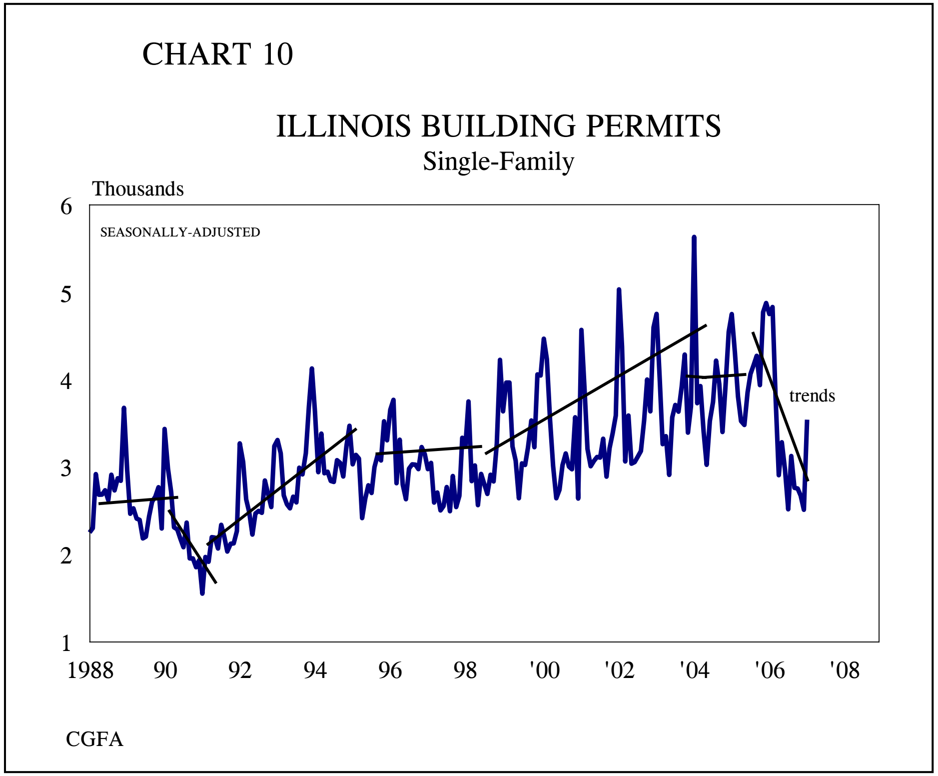


CHART 11: Non-Manufacturing Index

- With housing contracting and consumer spending less simulative, attention turned to business spending. Despite soaring corporate profits, record stock prices and tightening capacity, gains in business spending have been disappointing.

- The manufacturing sector, as already mentioned, has been hardest hit with both the national and Chicago area fluctuating in and out of a contraction phase. A larger and growing portion of the economy, however, is composed of the service sector.

- Chart 11 depicts a similar index for the non-manufacturing sector of the economy. This shows continued expansion (above 50 % of the companies) since early 2003. Even so, the index number recently has weakened. Thus, with the expected pace of economic activity below trend and corporate profits gains slashed in FY 2008, business spending is unlikely to contribute much to overall spending gains.

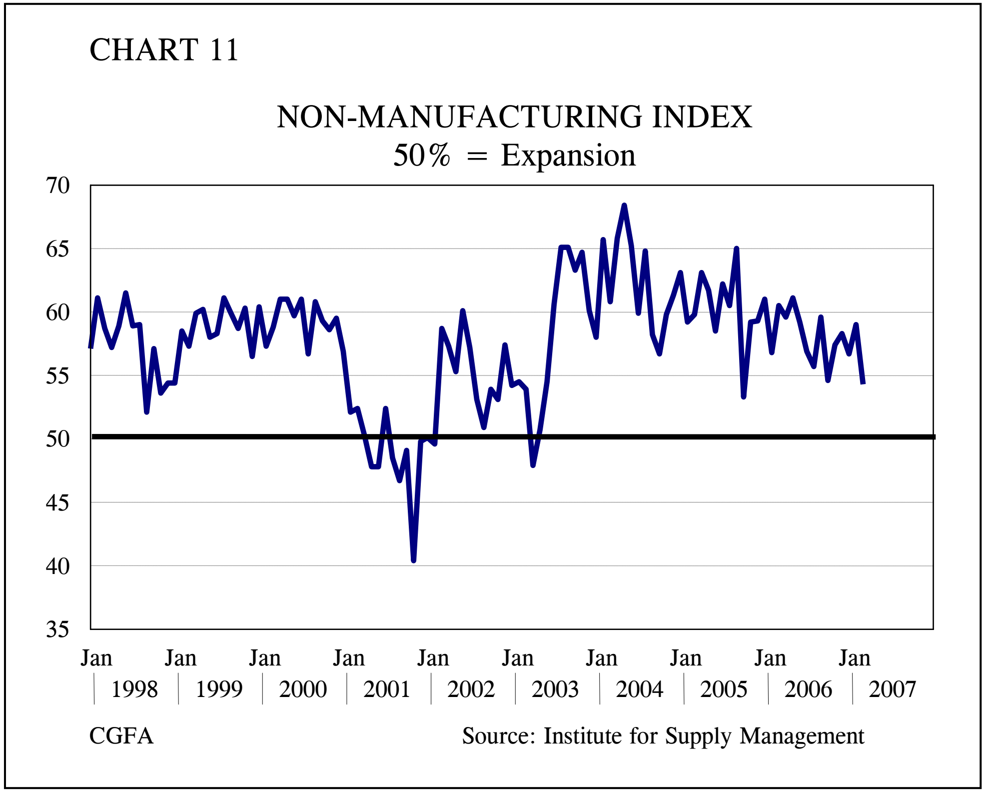


CHART 12: Illinois Exports

- In contrast to housing and business spending, Illinois exports have been on a sharp rising trend since 2003 as shown in Chart 12.

- Indeed, as pointed out in a recent study done for the Commission, Illinois ranks fifth in overall exports and account for a growing share of gross output and nearly one half of its manufacturing output.

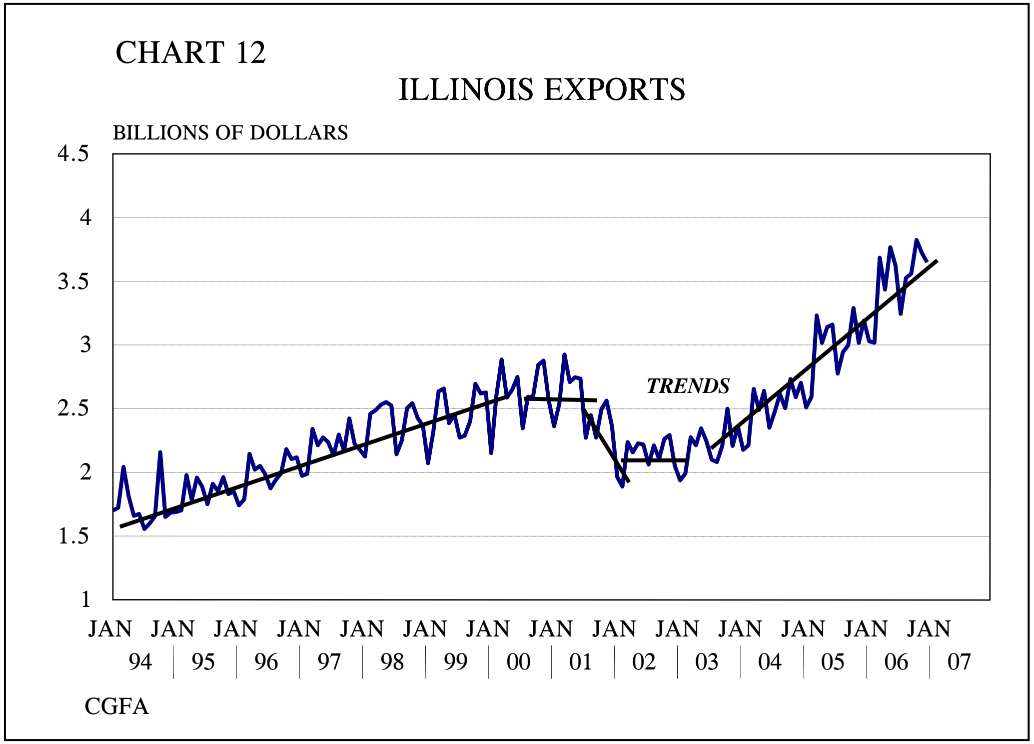
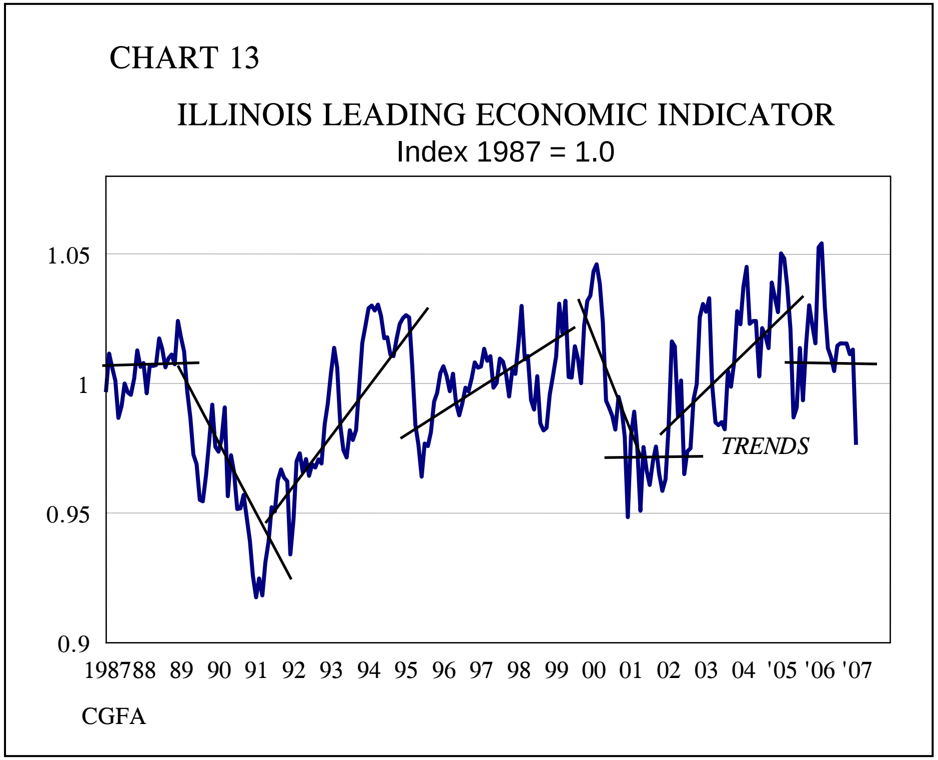


CHART 13: Illinois Leading Economic Indicator

- 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.

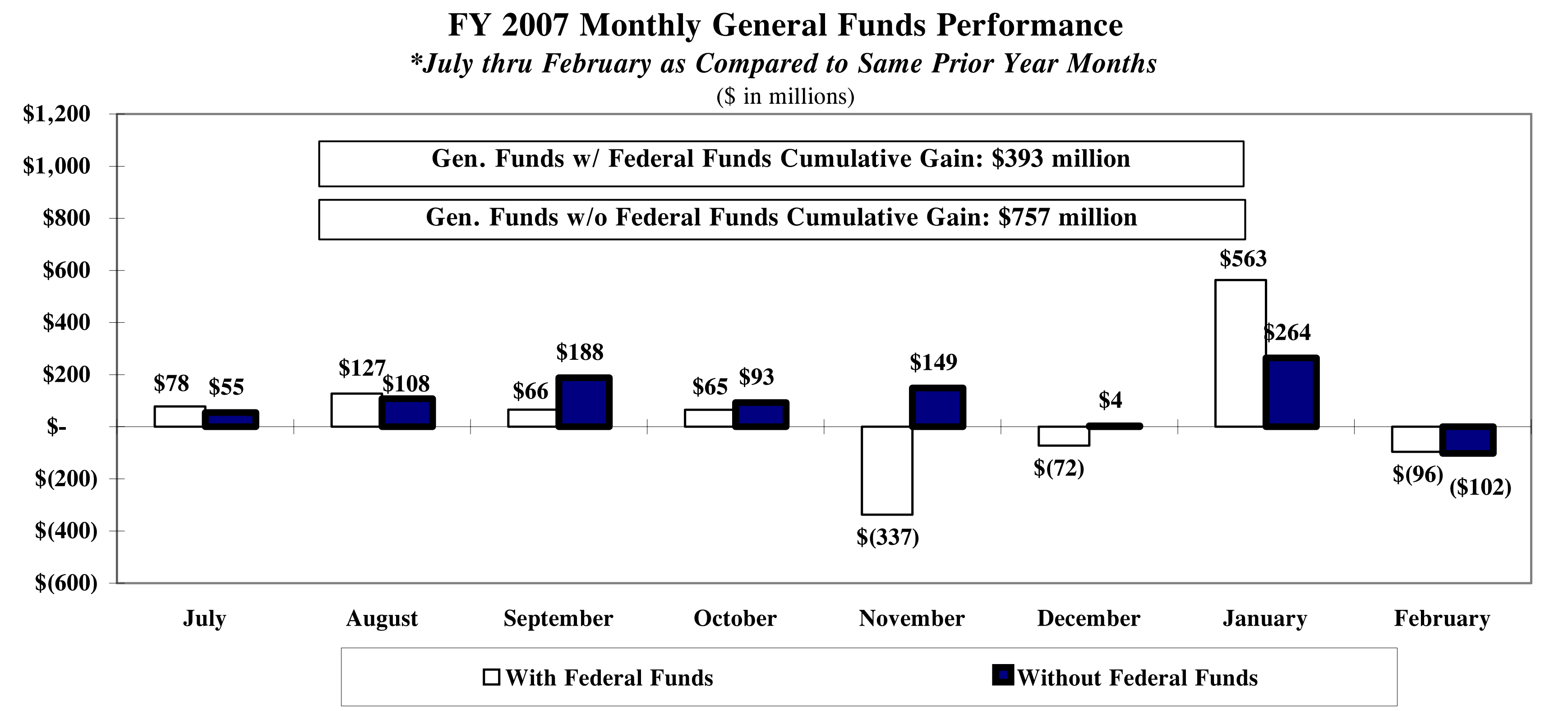
- The last month showed a sharp drop and future moves should be watched to see if this is an outlier or an early signal of something more ominous. For now, the current leveling in the indicator should be seen as reminiscent of the latter half of the 1990s, when the economy continued to expand for a number of years, and not the sharp downturns in the indicator that occurred prior to the last two recessions in 1990-91 and 2000-2001.

- ***In conclusion, the U.S. economy is expected to rise by 2.7% in real terms in FY 2008, about unchanged from the 2.6% rate in FY 2007 but well below rates of 3.3% and 3.4% in FY 2005 and FY2006, respectively. While the growth rates this year and next is similar, the pattern is likely to be reversed, this time gaining momentum as next year progresses. Similarly Illinois' economy is anticipated to continue to mirror the national economy. According to the latest Global Insight State Forecast, real Gross State Product for Illinois is anticipated to rise by 2.8% in FY 2008. (Even so, like the national numbers, which were based on more complete data and later lowered, the same could hold true for the Illinois forecast.)***



FY 2007 Revenue Recap

Through February, excluding short-term borrowing, overall general revenues are up $393 million. To date, most of the economically related sources have enjoyed good growth. In fact, excluding a decline of $364 million in federal sources, all other revenue sources are up $757 million. As a result, overall general funds revenue performance through the first two-thirds of the fiscal year continues to be slightly better than expected.



* Figures exclude short-term borrowing and Budget Stabilization Fund transfers.

Individual Source Performance To Date

- Gross personal income taxes have performed quite well over the first two-thirds of the fiscal year with withholding and estimated payments up measurably.
- Gross corporate income taxes also have performed well thus far in FY 2007. Since the vast majority of corporate tax is not receipted until March-June, it still is difficult to predict how this volatile source will perform over the remainder of the fiscal year. However, a moderating of current rates of growth is anticipated.
- Sales tax has performed about as expected thus far this fiscal year, although has recently moderated.
- Cigarette tax is down as expected due to this year's tax distribution change.
- Interest income earnings are up substantially due to higher rates of return.
- Cook County IGT is down due to the timing of the transfers as well as an anticipated total year falloff.
- While lottery transfers have disappointed and are lagging substantially, other transfers are up due to a large Income Tax Refund transfer, statutory fund sweeps, and chargeback activity.
- Federal sources are down significantly due to lower reimbursable spending activity and last year's $1 billion short-term borrowing used to pay Medicaid bills. While $900 million was borrowed to pay Medicaid bills this year, that spending took place outside of the general funds.

Federal sources aside, most of the economically related sources have met and in some cases are ahead of expectations. While rates of growth are expected to moderate, the estimates for several sources will need to be adjusted in late March to account for year to date performance.

GENERAL FUNDS RECEIPTS: YEAR TO DATE
FY 2007 vs. FY 2006
($ million)

Revenue Sources	FY 2007	FY 2006	CHANGE FROM FY 2006	% CHANGE
State Taxes				
Personal Income Tax	$6,136	$5,679	$457	8.0%
Corporate Income Tax (regular)	894	769	$125	16.3%
Sales Taxes	4,862	4,713	$149	3.2%
Public Utility Taxes (regular)	744	715	$29	4.1%
Cigarette Tax	234	266	($32)	-12.0%
Liquor Gallonage Taxes	107	104	$3	2.9%
Vehicle Use Tax	22	22	$0	0.0%
Inheritance Tax (Gross)	182	185	($3)	-1.6%
Insurance Taxes and Fees	163	166	($3)	-1.8%
Corporate Franchise Tax & Fees	126	122	$4	3.3%
Interest on State Funds & Investments	136	92	$44	47.8%
Cook County IGT	178	216	($38)	-17.6%
Other Sources	275	273	$2	0.7%
Subtotal	$14,059	$13,322	$737	5.5%
Transfers				
Lottery	380	444	($64)	-14.4%
Riverboat transfers & receipts	420	404	$16	4.0%
Other	456	342	$114	33.3%
Total State Sources	$15,315	$14,512	$803	5.5%
Federal Sources	$3,097	$3,461	($364)	-10.5%
Total Federal & State Sources	$18,412	$17,973	$439	2.4%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($598)	($554)	($44)	7.9%
Corporate Income Tax	($156)	($154)	($2)	1.3%
Subtotal General Funds	$17,658	$17,265	$393	2.3%
Short-Term Borrowing	$900	$1,000	($100)	N/A
Budget Stabilization Fund Transfer	$276	$276	$0	N/A
Total General Funds	$18,834	$18,541	$293	1.6%

SOURCE: Office of the Comptroller, State of Illinois: Some totals may not equal, due to rounding.
CGFA 14-Mar-07

FY 2007 Estimate Increased by $125 Million

Overall receipt performance through the first two-thirds of the fiscal year has performed about as expected, albeit slightly ahead of expectations. In particular, income taxes have continued to do well, and public utility taxes have recently strengthened. Despite those improvements, a few sources have been disappointing. For example, sales taxes have recently weakened, after running at or slightly ahead of expectations. Inheritance tax receipts continue their historic volatility by giving back some earlier gains. And lottery transfers, despite lowered expectations, continue to disappoint. See below for a breakdown of the adjustments to the FY 2007 estimate.

Upward Adjustments

Personal income tax $122 million [$110 million net of refunds]
Corporate income tax $49 million [$40 million net of refunds]
Public utility tax $40 million
Interest income $5 million
Liquor tax $2 million

Downward Adjustments

Sales tax $30 million
Inheritance tax $20 million
Lottery transfers $10 million
Insurance taxes $6 million
Corporate franchise taxes $4 million
Cook County IGT $2 million

Net Increase = $125 million

CGFA vs. GOMB Comparison

As shown, the Commission's revised FY 2007 general funds estimate of $28.505 billion is $12 million above the GOMB's latest official estimate reflected in the FY 2008 Budget Book. [The GOMB Revised Estimate represents an increase of $163 million over the enacted budget].

The two estimates are similar in most respects although a few differences do exist. While the Commission is noticeably higher in its estimate of personal income tax receipts, it is somewhat lower in the forecasts for corporate income tax, sales tax, and lottery transfers.

FY 2007 CGFA/GOMB ESTIMATE COMPARISON
(millions)

Revenue Sources	CGFA FY 2007 Estimate March-07	GOMB FY 2007 Estimate March-07	$ Difference
State Taxes			
Personal Income Tax	$10,238	$10,117	$121
Corporate Income Tax	$1,987	$2,046	($59)
Sales Taxes	$7,315	$7,356	($41)
Public Utility (regular)	$1,114	$1,110	$4
Cigarette Tax	$350	$350	$0
Liquor Gallonage Taxes	$155	$153	$2
Vehicle Use Tax	$34	$35	($1)
Inheritance Tax (gross)	$257	$255	$2
Insurance Taxes & Fees	$314	$322	($8)
Corporate Franchise Tax & Fees	$186	$186	$0
Interest on State Funds & Investments	$190	$185	$5
Cook County Intergovernmental Transfer	$307	$307	$0
Other Sources	$440	$440	$0
Subtotal	**$22,887**	**$22,862**	**$25**
Transfers			
Lottery	$620	$631	($11)
Riverboat Transfers & Receipts	$700	$692	$8
Other	$841	$850	($9)
Total State Sources	**$25,048**	**$25,035**	**$13**
Federal Sources	**$4,803**	**$4,803**	**$0**
Total Federal & State Sources	**$29,851**	**$29,838**	**$13**
Nongeneral Funds Distribution:			
Refund Fund*			
Personal Income Tax	($998)	($987)	($11)
Corporate Income Tax	($348)	($358)	$10
Subtotal General Funds	**$28,505**	**$28,493**	**$12**
Change from Prior Year	**$1,146**	**$1,134**	**$12**
Percent Change	**4.2%**	**4.1%**	
Short-Term Borrowing	$900	$900	$0
Budget Stabilization Fund Transfer	$276	$276	$0
Total General Funds	**$29,681**	**$29,669**	**$12**
Change from Prior Year	$1,046	$1,034	
Percent Change	3.7%	3.6%	
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CGFA's FY 2008 Estimate

As shown, base revenues are expected to be $29.310 billion in FY 2008. The forecast represents an increase of $805 million over the FY 2007 estimate. While revenue growth is expected to slow somewhat next year, the economic related sources are still expected to contribute modest increases. However, a few items will serve to subtract from those gains. For example:

- The continued reduction in IGT revenue reduces receipts by $20 million.
- Other transfers are expected to fall a net $78 million due to less chargeback and fund sweep activity.
- The hold harmless provision of the riverboat gaming tax expires and as a result, year over year growth is expected to fall $30 million.

While the Governor has proposed changes that would generate an additional net $2.186 billion in revenues, those specific items are not included in the base estimate.

CGFA ESTIMATE FY 2008 vs. FY 2007 (Base Revenues)*

(millions)

Revenue Sources	CGFA FY 2008 Estimate March-07	CGFA FY 2007 Estimate March-07	$ Difference	% Difference
State Taxes				
Personal Income Tax	$10,648	$10,238	$410	4.0%
Corporate Income Tax	$2,047	$1,987	$60	3.0%
Sales Taxes	$7,534	$7,315	$219	3.0%
Public Utility (regular)	$1,109	$1,114	($5)	-0.4%
Cigarette Tax	$350	$350	$0	0.0%
Liquor Gallonage Taxes	$156	$155	$1	0.6%
Vehicle Use Tax	$34	$34	$0	0.0%
Inheritance Tax (gross)	$257	$257	$0	0.0%
Insurance Taxes & Fees	$309	$314	($5)	-1.6%
Corporate Franchise Tax & Fees	$188	$186	$2	1.1%
Interest on State Funds & Investments	$185	$190	($5)	-2.6%
Cook County Intergovernmental Transfer	$287	$307	($20)	-6.5%
Other Sources	$440	$440	$0	0.0%
Subtotal	**$23,544**	**$22,887**	**$657**	**2.9%**
Transfers				
Lottery	$640	$620	$20	3.2%
Riverboat Transfers & Receipts	$670	$700	($30)	-4.3%
Other	$763	$841	($78)	-9.3%
Total State Sources	**$25,617**	**$25,048**	**$569**	**2.3%**
Federal Sources	**$5,089**	**$4,803**	**$286**	**6.0%**
Total Federal & State Sources	**$30,706**	**$29,851**	**$855**	**2.9%**
Nongeneral Funds Distribution:				
Refund Fund*				
Personal Income Tax	($1,038)	($998)	($40)	4.0%
Corporate Income Tax	($358)	($348)	($10)	2.9%
Subtotal General Funds	**$29,310**	**$28,505**	**$805**	**2.8%**
Short-Term Borrowing	$0	$900	($900)	N/A
Budget Stabilization Fund Transfer	$276	$276	$0	0.0%
Total General Funds	$29,586	$29,681	($95)	-0.3%

*The FY 2008 estimate includes current refund percentages at 9.75% for PIT and 17.5% for CIT.
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Highlights of CGFA's FY 2008 Estimate

- The FY 2008 estimate of gross personal income tax receipts is $10.648 billion, an increase of $410 million or 4.0% over projected FY 2007 receipts. On a net of refund basis [assuming current refund rate of 9.75%], receipts are estimated to increase $370 million.
- The FY 2008 estimate of gross corporate income tax revenue is $2.047 billion. This represents a $60 million or 3.0% growth over the previous year. On a net of refund basis [assuming current refund rate of 17.5%], receipts are estimated to increase $50 million. Corporate profits are expected to fall significantly from recent fiscal year levels.
- Sales tax receipts are estimated to be $7.534 billion in FY 2008. That forecast represents growth of $219 million next fiscal year, or a modest 3.0%.
- The FY 2008 estimate of public utility tax receipts is $1.109 billion, which represents a $5 million decline from the previous fiscal year and reflects modest declines in electric and telecommunications tax receipts.
- The Cook County IGT continues to decline per federal requirements. As a result, the IGT is expected to fall a further $20 million next fiscal year.
- The estimate of Lottery transfers is $640 million and reflects a $20 million increase from a disappointing FY 2007. It is assumed that rollover activity will improve next year.
- Riverboat transfers are expected to be $670 million. The estimate represents a decline of $30 million and reflects the expiration of the hold harmless provision.
- Other transfers are anticipated to be $763 million, a drop off of $78 million. The estimate reflects anticipated lower fund sweeps, chargebacks, and other miscellaneous transfers.
- Per the Governor's proposed budget, the FY 2008 estimate of total federal source receipts to the general funds is $5.089 billion, which is $286 million more than the FY 2007 forecast.

In conclusion, the base growth projections for the major tax sources are anticipated to post ordinary gains. Even those modest gins will be somewhat offset by losses in other areas such as IGT, riverboat transfers, and other transfers. At this time, it's unclear what, if any, of the Governor's proposed $2.186 billion in revenue changes will eventually be implemented for the FY 2008 budget (see next page).

GOMB FY 2008 Budget Book Revenue Picture

The table details the revenue assumptions used in the Governor's proposed FY 2008 budget. As shown, base growth is forecast to rise $899 million. In addition, the budget is predicated on net total growth of $2.186 billion in proposed revenue changes. As detailed, these changes include the following:

- The imposition of a gross receipts tax that is estimated by the GOMB to generate $2.626 billion in FY 2008 [annualizes to approx. $6 billion].
- Anticipated enhanced federal revenue from rate increase and Family Care Expansion valued at $63 million.
- An increase from various audit and tax collection improvements totaling $32 million.
- An increase in riverboat taxes and fee imposition totaling $115 million.
- The Governor has proposed leasing the Illinois Lottery for about $10 billion, the proceeds of which would be invested by the pension systems. With that stream of revenue removed from general funds, a corresponding reduction of $650 million is made to base revenues.

All told, when the $2.186 billion is added to the base growth estimate of $899 million, the FY 2008 budget is predicated on revenues totaling $31.578 billion, an increase of $3.085 billion or 10.8% over the previous year.

GOMB FY 2008 General Revenue Growth Assumptions ($ millions)	
	GOMB March-07
FY 2007 Estimate ($millions) excl. short-term borrowing	**$28,493**
Net change in income taxes (current refund %)	$434
Sales tax	$221
Misc. other sources (net)	($24)
Transfers (lottery, riverboat, other)	($18)
Federal source revenue	$286
FY 2007 Base Growth	**$899**
Proposed Revenue Changes per Budget Book	
Gross Receipts Tax (FY 2008 net portion only)	$2,626
Enhanced Federal Revenue ($45M per rate increase& $18M per Family Care Expansion)	$63
ITP	$32
Riverboat tax and fee changes ($55M higher rates & $60M franchise fees)	$115
Proposed Increases to Base Revenues	**$2,836**
Offset of Lottery Revenue per proposed lease agreement	($650)
Proposed Decreases to Base Revenues	**($650)**
Total Growth from Proposed Changes	**$2,186**
Total Growth Assumptions	**$3,085**
FY 2008 General Revenue Estimate	**$31,578**
*Does not include $500 million in proposed Budget Stabilization Fund consolidation	

Walk-up of FY 2008 Growth Assumptions

For comparison purposes, this table displays growth projections for both the CGFA and the GOMB and walks up from the respective FY 2007 estimates. As shown, from a base growth standpoint, the Commission's revised FY 2008 base growth is $805 million, or $94 million less than the base growth of $899 million assumed by the GOMB.

If all of the Governor's proposed revenue changes were made, the Commission's forecasted total growth would then climb to $2.969 billion, which is $116 million lower than the GOMB's estimated growth of $3.085 billion. Because the Commission's FY 2007 estimate is $12 million higher than the GOMB, the FY 2008 estimate of total revenue then becomes $104 million less than the GOMB.

CGFA/GOMB FY 2008 General Revenue Growth Assumptions ($ millions)
Walk-Up of CGFA and GOMB Estimates

	CGFA MARCH-07	GOMB MAR-06	Difference
FY 2007 Estimate ($millions)	**$28,505**	**$28,493**	**$12**
Net change in income taxes (current refund %)	$420	$434	($14)
Sales tax	$219	$221	($2)
Misc. other sources (net)	($32)	($24)	($8)
Transfers (lottery, riverboat, other)	($88)	($18)	($70)
Federal source revenue	$286	$286	$0
FY 2008 Base Growth	**$805**	**$899**	**($94)**
Proposed Revenue Changes per Budget Book			
Gross Receipts Tax (FY 2008 net portion only)	$2,626	$2,626	$0
Enhanced Federal Revenue ($45M rate incr/$18M Family Care	$63	$63	$0
ITP	$32	$32	$0
Riverboat tax & fee changes ($23 to $55 higher rates/$60M fees)	$83	$115	($32)
Proposed Increases to Base Revenues	**$2,804**	**$2,836**	**($32)**
Offset of Lottery Revenue per proposed lease agreement	($640)	($650)	$10
Proposed Decreases to Base Revenues	**($640)**	**($650)**	**$10**
Total Growth from Proposed Changes	**$2,164**	**$2,186**	**($22)**
Total Growth Assumptions	**$2,969**	**$3,085**	**($116)**
FY 2008 General Revenue Estimate With Proposed BB Changes	**$31,474**	**$31,578**	**($104)**

*Does not include $500 million in proposed Budget Stabilization Fund consolidation

Detailed CGFA/GOMB FY 2008 Comparison

As shown in Table 8, excluding the Governor's proposed $2.186 billion in proposed revenue changes, the Commission's FY 2008 base general funds estimate of $29.310 billion is $82 million below the GOMB's estimate of $29.392 billion. If the Governor's proposed revenue changes are included in the estimates, the difference grows to $104 million. The $22 million difference is due to the Commission's somewhat lower expectations of what the impact would be of raising the tax rates on riverboats.

It should be noted that at this time the Commission is utilizing the GOMB's forecasted impact of the proposed gross receipts tax. Based upon an initial review, the Commission feels that the GOMB's estimate of the gross receipts tax falls within a plausible range. If after review the Commission determines a different value should be assigned, a future adjustment will be made.

FY 2008 CGFA/GOMB COMPARISON
"Base" and "With Proposed Revenue Changes"
(millions)

Revenue Sources	CGFA FY 2008 Estimate Mar-07	GOMB FY 2008 Estimate Mar-07	$ Difference
State Taxes			
Personal Income Tax	$10,648	$10,547	$101
Corporate Income Tax	$2,047	$2,100	($53)
Sales Taxes	$7,534	$7,577	($43)
Public Utility (regular)	$1,109	$1,105	$4
Cigarette Tax	$350	$350	$0
Liquor Gallonage Taxes	$156	$154	$2
Vehicle Use Tax	$34	$34	$0
Inheritance Tax (gross)	$257	$255	$2
Insurance Taxes & Fees	$309	$317	($8)
Corporate Franchise Tax & Fees	$188	$187	$1
Interest on State Funds & Investments	$185	$185	$0
Cook County Intergovernmental Transfer	$287	$287	$0
Other Sources	$440	$446	($6)
Subtotal	**$23,544**	**$23,544**	**$0**
Transfers			
Lottery	$640	$650	($10)
Riverboat Transfers & Receipts	$670	$692	($22)
Other	$763	$813	($50)
Total State Sources	**$25,617**	**$25,699**	**($82)**
Federal Sources	**$5,089**	**$5,089**	**$0**
Total Federal & State Sources	**$30,706**	**$30,788**	**($82)**
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax	($1,038)	($1,028)	($10)
Corporate Income Tax	($358)	($368)	$10
Subtotal General Funds "Base"	**$29,310**	**$29,392**	**($82)**
Change from Prior Year Estimate	**$805**	**$899**	**($94)**
Percent Change	**2.8%**	**3.2%**	
Est. Value of Proposed Revenue Changes	**$2,164**	**$2,186**	**($22)**
Subtotal With Proposed Changes	**$31,474**	**$31,578**	**($104)**
Change from Prior Year Estimate	**$2,969**	**$3,085**	**($116)**
Percent Change	**10.4%**	**10.8%**	

* Does not include $500 million in proposed Budget Stabilization Fund consolidation.
CGFA

Detailed General Funds Revenue History

DETAILED GENERAL FUNDS REVENUE HISTORY FY 1999 - FY 2008 ESTIMATE
($ million)

Revenue Sources	Actual Receipts FY 1999	Actual Receipts FY 2000	Actual Receipts FY 2001	Actual Receipts FY 2002	Actual Receipts FY 2003	Actual Receipts FY 2004	Actual Receipts FY 2005	Actual Receipts FY 2006	CGFA Mar-07 Est. FY 2007	CGFA Mar-07 Est. FY 2008
State Taxes										
Personal Income Tax	$7,778	$8,273	$8,607	$8,086	$7,979	$8,235	$8,873	$9,568	$10,238	$10,648
Corporate Income Tax (regular)	1,384	1,527	1,279	1,043	1,011	1,379	1,548	1,784	1,987	2,047
Sales Taxes	5,609	6,027	5,958	6,051	6,059	6,331	6,595	7,092	7,315	7,534
Public Utility Taxes (regular)	1,019	1,116	1,146	1,104	1,006	1,079	1,056	1,074	1,114	1,109
Cigarette Tax	403	400	400	400	400	400	450	400	350	350
Liquor Gallonage Taxes	57	128	124	123	123	127	147	152	155	156
Vehicle Use Tax	38	38	34	38	34	35	32	34	34	34
Inheritance Tax (Gross)	347	348	361	329	237	222	310	272	257	257
Insurance Taxes and Fees	208	209	246	272	313	362	342	317	314	309
Corporate Franchise Tax & Fees	117	139	146	159	142	163	181	181	186	188
Interest on State Funds & Investments	212	233	274	135	66	55	73	153	190	185
Cook County Intergovernmental Transfer	218	245	245	245	355	428	433	350	307	287
Other Sources	190	194	407	512	349	439	468	441	440	440
Subtotal	**$17,580**	**$18,877**	**$19,227**	**$18,497**	**$18,074**	**$19,255**	**$20,508**	**$21,818**	**$22,887**	**$23,544**
Transfers										
Lottery	540	515	501	555	540	570	614	670	620	640
Gaming Fund Transfer	240	330	460	470	554	661	699	689	700	670
Other	411	514	452	454	589	1,159	918	746	841	763
Total State Sources	**$18,771**	**$20,236**	**$20,640**	**$19,976**	**$19,757**	**$21,645**	**$22,739**	**$23,923**	**$25,048**	**$25,617**
Federal Sources	**$3,718**	**$3,891**	**$4,320**	**$4,258**	**$3,940**	**$5,189**	**$4,691**	**$4,725**	**$4,803**	**$5,089**
Total Federal & State Sources	**$22,489**	**$24,127**	**$24,960**	**$24,234**	**$23,697**	**$26,834**	**$27,430**	**$28,648**	**$29,851**	**$30,706**
Nongeneral Funds Distribution:										
Refund Fund										
Personal Income Tax	($552)	($587)	($611)	($615)	($638)	($964)	($894)	($933)	($998)	($1,038)
Corporate Income Tax	(263)	(290)	(243)	(240)	(273)	(442)	(376)	(356)	(348)	(358)
Subtotal General Funds	**$21,674**	**$23,250**	**$24,106**	**$23,379**	**$22,786**	**$25,428**	**$26,160**	**$27,359**	**$28,505**	**$29,310**
Change from Prior Year	$1,690	$1,576	$856	($727)	($593)	$2,642	$732	$1,199	$1,146	$805
Percent Change	8.5%	7.3%	3.7%	-3.0%	-2.5%	11.6%	2.9%	4.6%	4.2%	2.8%
Short-Term Borrowing	**$0**	**$0**	**$0**	**$0**	**$1,675**	**$0**	**$765**	**$1,000**	**$900**	**$0**
HPF and HHSMTF Transfers	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$982**	**$0**	**$0**	**$0**
Budget Stabilization Fund Transfer	**$0**	**$0**	**$0**	**$226**	**$226**	**$226**	**$276**	**$276**	**$276**	**$276**
Pension Contribution Fund Transfer	**$0**	**$0**	**$0**	**$0**	**$300**	**$1,395**	**$0**	**$0**	**$0**	**$0**
Total General Funds	**$21,674**	**$23,250**	**$24,106**	**$23,605**	**$24,987**	**$27,049**	**$28,183**	**$28,635**	**$29,681**	**$29,586**
Change from Prior Year	$1,690	$1,576	$856	($501)	$1,382	$2,062	$1,134	$452	$1,046	($95)
Percent Change	8.5%	7.3%	3.7%	-2.1%	5.9%	8.3%	4.2%	1.6%	3.7%	-0.3%

CGFA 03/21/07

Governor's Proposed Gross Receipts Tax

In the FY 2008 Operating Budget, the Governor has proposed the implementation of a general gross receipts tax on almost all of Illinois' economy. Beginning on January 1, 2008, a gross receipts tax will be imposed on all businesses in Illinois with annual gross receipts of more than $1 million. This tax will be imposed at two rates:

1) A 0.5 percent rate for all agriculture, mining, manufacturing, construction, wholesale, and retail activities; and
2) A 1.8 percent rate for all service activities.

The GRT will phase out the State's corporate income tax; in the interim, corporations subject to the corporate income tax will be credited against the gross receipts tax for any corporate income tax paid. The GRT is expected to raise $2.6 billion in FY 2008. The GRT will generate an estimated $6 billion per year when fully implemented. All companies with receipts over $1 million will pay tax at a set rate based on their receipts in Illinois with no deductions or tax credits, other than credits for corporate income taxes paid so that no company has to pay more than one time.

Some sectors of the economy would be exempt from the tax:

1) **Small businesses** – Companies that gross less than $1 million would be exempt. Seventy-five percent of Illinois companies would fall into this category.

2) **Essential products and services** – The retail sale of food and pharmaceuticals to Illinois residents will not be subject to the tax. Medicaid payments to practitioners would also be exempt.

3) **Exports** – By exempting exports, Illinois companies will be more competitive. An estimated 50 percent of Illinois manufacturing is produced for export.

4) **Gaming and Insurance** – These industries are subject to alternate taxing systems.

5) **Combined entities/non-profit organizations** – Transactions between parent companies and subsidiaries will be exempt, along with non-profit organizations.

6) **Sale of Securities and Traded Commodities** – Only the spread between purchase and sale price on trades of securities, as well as any commissions or fees charged will taxed under the gross receipts tax.

Pros and Cons of Gross Receipts Taxes

Proponents of GRTs believe that they are good tax policy because they:

1) **have a very broad base - all business transactions are taxed with few exemptions,**
2) **generate a lot of revenue at a low rate of taxation - it has been estimated that a 1% GRT could generate an additional $9 billion a year in tax revenue,**
3) **are simple to administer and comply with - a flat rate is applied to each transaction,**
4) **grow with the economy,**
5) **adjust automatically to changes in the economy,**
6) **and are neutral and efficient - proponents believe that GRTs do not push economic activity into any sector or away from any location.**

Opponents of GRTs believe that they are not good tax policy because they:

1) **lead to tax pyramiding - value created in early stages of production are taxed repeatedly in subsequent stages,**
2) **are NOT neutral - opponents believe that GRTs encourage vertical integration at the expense of efficiency and the acquiring of new suppliers outside of the taxing district to avoid the tax,**
3) **don't remain simple once enacted – GRTs often are enacted as flat rates but are later adjusted for different business sectors and exemptions are developed,**
4) **tax multiple stage industries more than other industries – industries with longer supply chains are taxed more often than shorter industries, service providers tend to be taxed the least,**
5) **get passed onto end consumers (higher prices), laborers (less wages), and business owners (less profits) – GRTs are meant to be business taxes but in the end, the taxes are paid by people in one form or the other,**
6) **and punish companies with low profit margins – because GRTs are based on sales instead of profits, companies with a high volume of sales tend to pay a larger portion of taxes than companies with low volume and high margins.**

Preliminary Review of GOMB GRT Estimate

Utilizing limited available information, the table below is CGFA's initial attempt to put into context the revenue estimate of the Governor's Gross Receipts Tax. As shown, while the GOMB's forecast falls near CGFA's presented estimates, it does so at the higher end of the range. Obviously, any changes in the proposed GRT could materially change these estimates.

GRT Estimates ($ billions)			
Analysis	**GOMB**	**CGFA**	
GSP Growth Est.	4.5%	Global Insight GSP Est.	Average Growth by Sector
GRT Base Less Small Biz	$737	$753	$727
Taxable Service Base (1.8%)	$315	$308	$305
Taxable Goods Base (0.5%)	$422	$445	$422
Annual Taxes	$7.78	$7.76	$7.60
Net Gain after CIT credit adjustments	$6.28	$6.26	$6.10

<u>Potential Variance to Estimates</u>

- Does not account for any change in economy (business reaction, changes in supply chains)
- Relies on only 1 1/2 years of OH Receipts
- Assumes Similar Sector Multipliers in IL as OH
- Small changes in growth estimates can alter estimates significantly