



2005

ILLINOIS NATIONAL RANKINGS

IN STATE GOVERNMENT FINANCING

Commission on Government Forecasting and Accountability
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Forecasting and Accountability***

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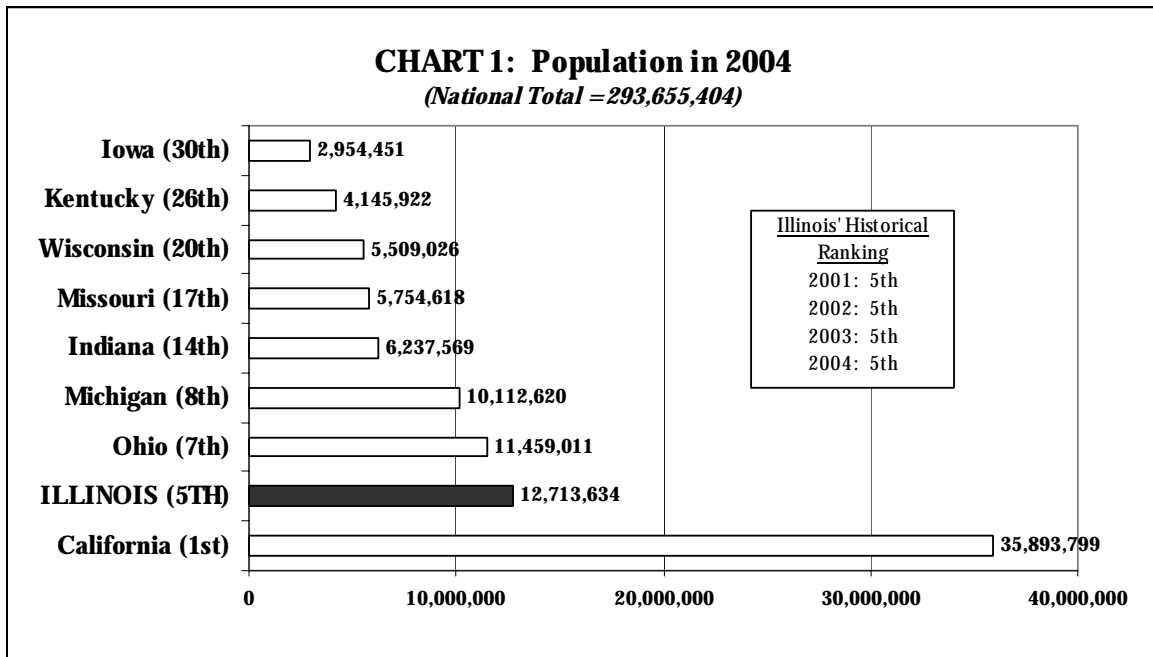
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Introduction

A question often raised at Commission on Government Forecasting and Accountability (CGFA) meetings is how Illinois compares nationally in revenue and spending related categories. In response, the Commission has created the following report, which provides a quick guide as to how Illinois stacks up against the other 49 states in the various areas of state government financing. The majority of the information used comes from the publication series *State Rankings: A Statistical View of the 50 United States*.

Due to its large population size, Illinois ranks high in most areas on a total dollar basis. As shown below in Chart 1, Illinois ranks 5th in the nation in total population with 12.7 million people. As a result, Illinois is among the top ten states in nearly every category dealing with total dollars received or spent. Because of this, in order to get a better picture of how Illinois compares to other states, the information is provided in two formats: in total dollars and on a per-capita basis. The per-capita format is useful for comparing a highly populated state, like Illinois, with states with much lower populations, such as neighboring Iowa (ranked 30th with less than 3.0 million people), to account for the population discrepancy.



Whether it is better for a state to be ranked high or low is open to interpretation. When observing revenue-related rankings on a per-capita basis, some believe that if a state is able to financially survive on tax rates that create relatively low per-capita figures, the better the financial situation for the people of that state. Others, however, would view low per-capita figures as missed opportunities for revenue growth, and subsequent program spending.

A similar argument holds true for the rankings dealing with government spending. Those benefiting from spending in a particular area would likely view the rankings as the higher the better. On the other hand, those who do not benefit from a specific area of spending would likely view a high ranking negatively, as spending for one source prevents monies from being reallocated to other areas.

In all of the charts provided, the highest ranked state is listed, along with Illinois and the states bordering Illinois: Iowa, Wisconsin, Indiana, Kentucky, and Missouri. Ohio and Michigan are also included due to their proximity to Illinois and because of their similarities to Illinois in population and in demographics. For the purpose of this report, this group of states will be considered the *Midwest Region*.

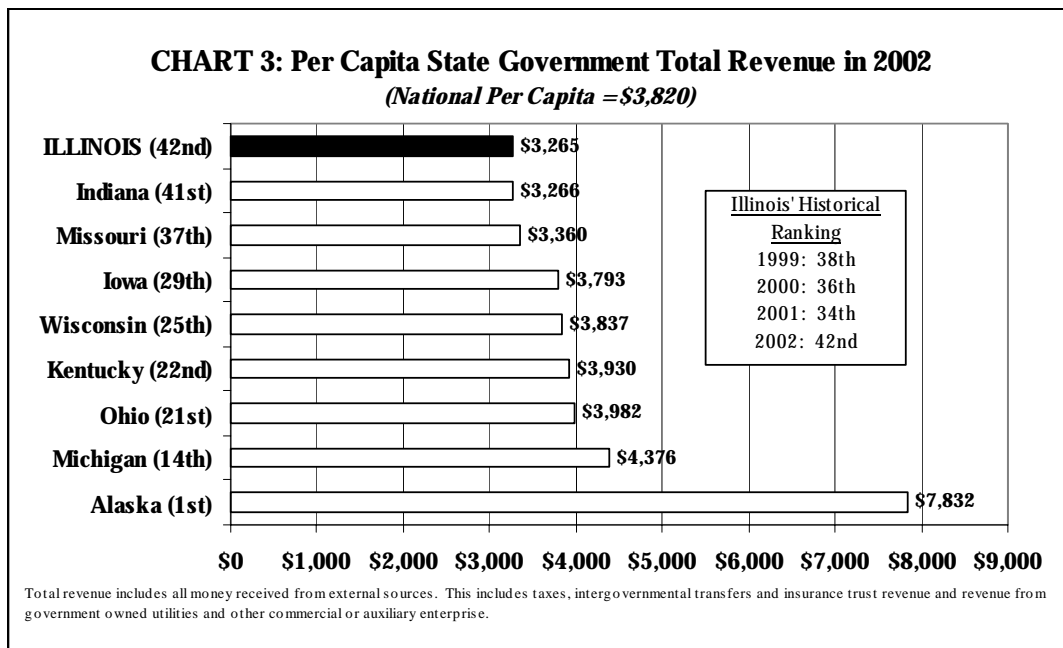
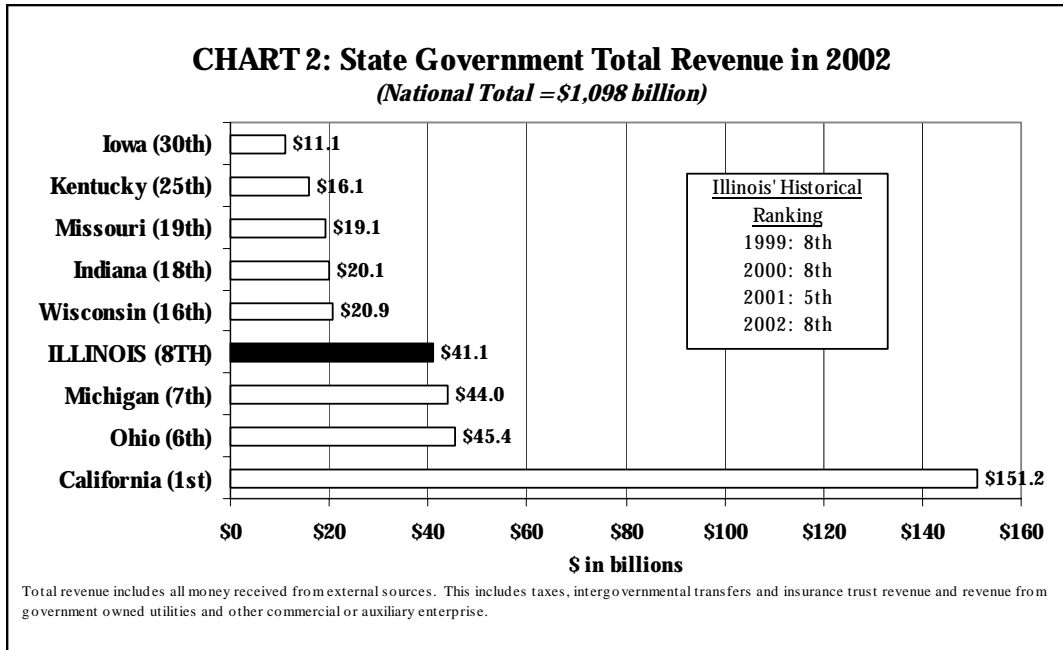
Listed on the top of each chart ranked in total dollars is the national total amount of revenue for that particular source. For the charts shown on a per-capita basis, the overall national per-capita figure is included. Each chart also includes a history of how Illinois has ranked in a particular area over the past several years. Most of the data is from 2003, unless stated otherwise (Note: 2003 is the most recent list of rankings available from *State Rankings 2005: A Statistical View of the 50 United States*).

Included in each category of charts is a short synopsis of Illinois' rankings. In most categories, Illinois ranks near the middle of the pack with revenue on a per-capita basis. However, there are a few charts that show Illinois at the high end of the rankings, while some show Illinois near the low end of the national rankings. Examples of this contrast are highlighted throughout the report.

The intent of this report is to provide a clearer picture of how Illinois ranks nationally in State finance related areas. These charts will be updated, as more information becomes available. Any questions regarding the data used in this study can be addressed through the data source mentioned earlier.

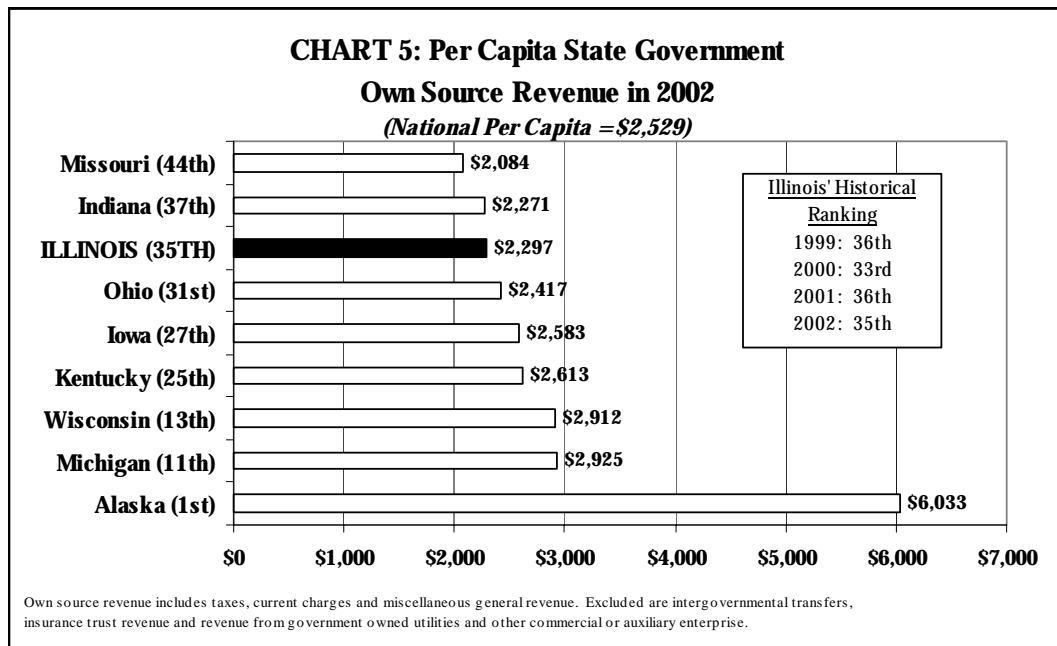
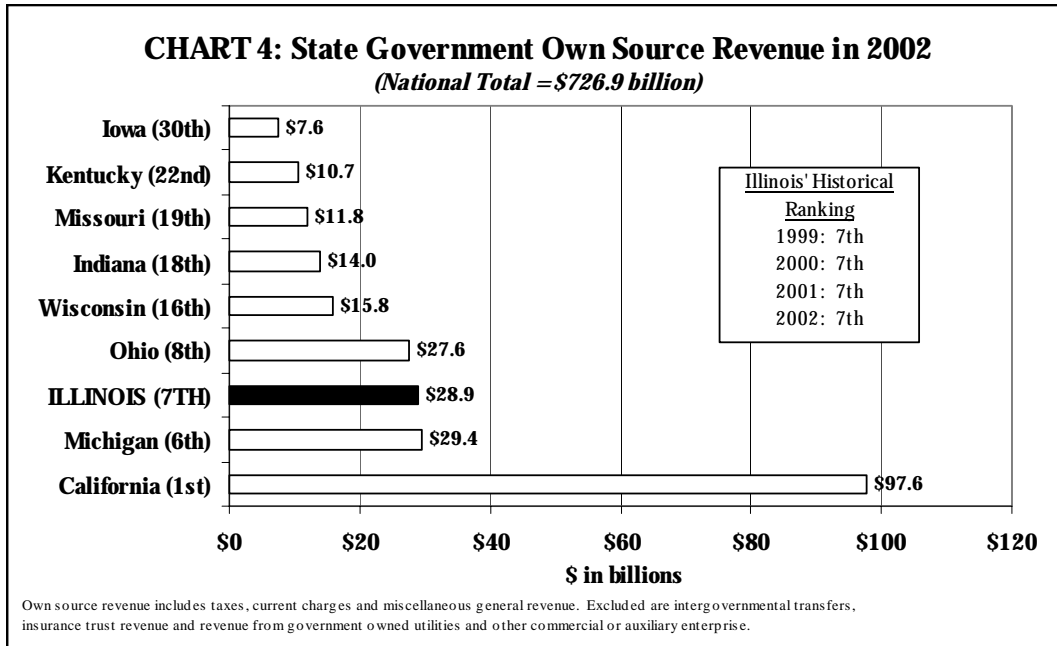
Category 1: State Government Total Revenue

State government total revenue includes all money received from external sources. This includes taxes, intergovernmental transfers and insurance trust revenue and revenue from government owned utilities and other commercial or auxiliary enterprise. In total dollars received, Illinois ranked 8th in the nation in 2002. On a per-capita basis, Illinois ranked 42nd with \$3,265 per capita. As shown in Chart 3, Illinois had the lowest per-capita ranking of the states in the Midwest Region.



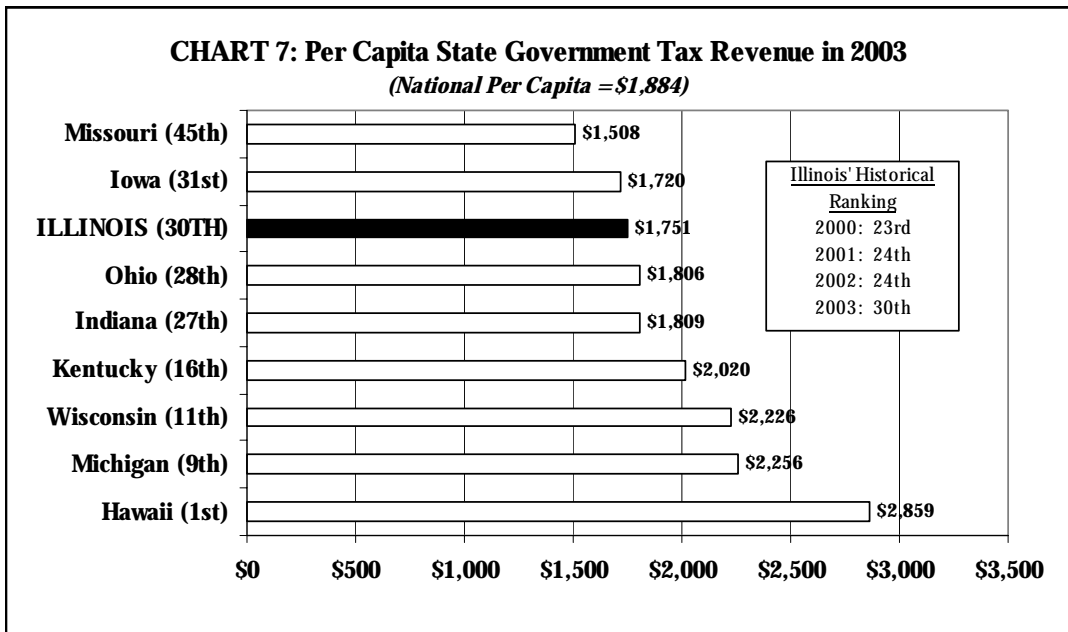
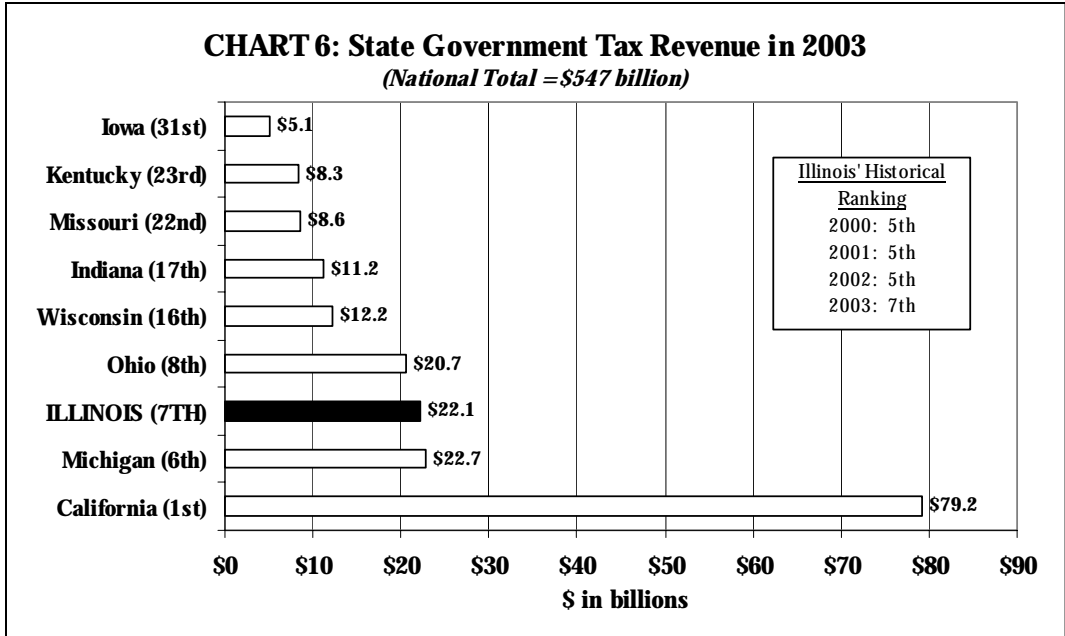
Category 2: State Government Own Source Revenue

State government own source revenue includes taxes, current charges and miscellaneous general revenue. Excluded are intergovernmental transfers, insurance trust revenue and revenue from government owned utilities and other commercial or auxiliary enterprise. In 2002, Illinois ranked 7th in the nation in total dollars and 35th in the nation on a per-capita basis. Illinois per-capita rate of \$2,297 was below the national per-capita rate of \$2,529.



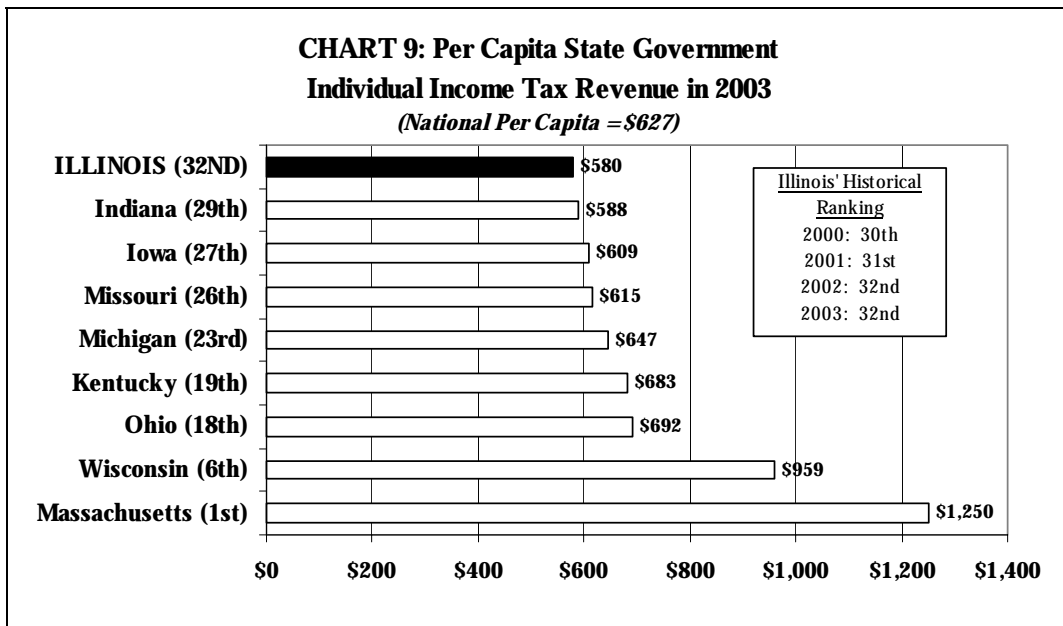
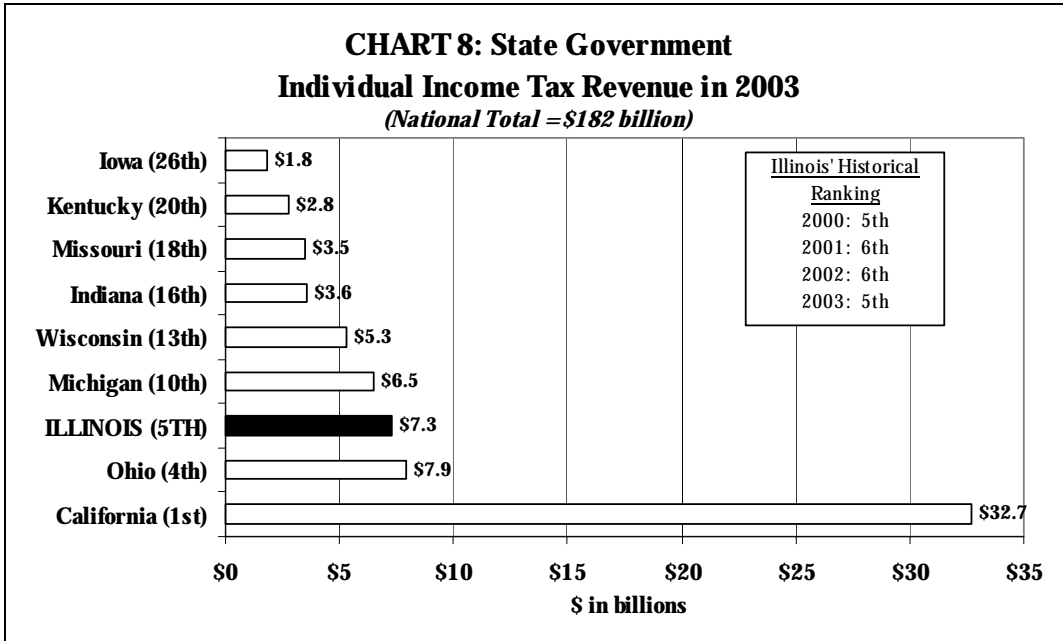
Category 3: State Government Tax Revenue

In the category of state government tax revenue, Illinois had the 7th highest amount of revenues collected in 2003. In the Midwest Region, Illinois trailed only Michigan in total dollars. California had the highest dollar amount overall. On a per-capita basis, Illinois ranked 30th in the nation with an amount of \$1,751 per capita. As shown in Chart 7, Illinois' ranking in this category has fallen over the last several years from 23rd in 2000 to its current ranking of 30th. The national per-capita rate was \$1,884. Hawaii had the highest per-capita ranking with an amount of \$2,859 per capita.



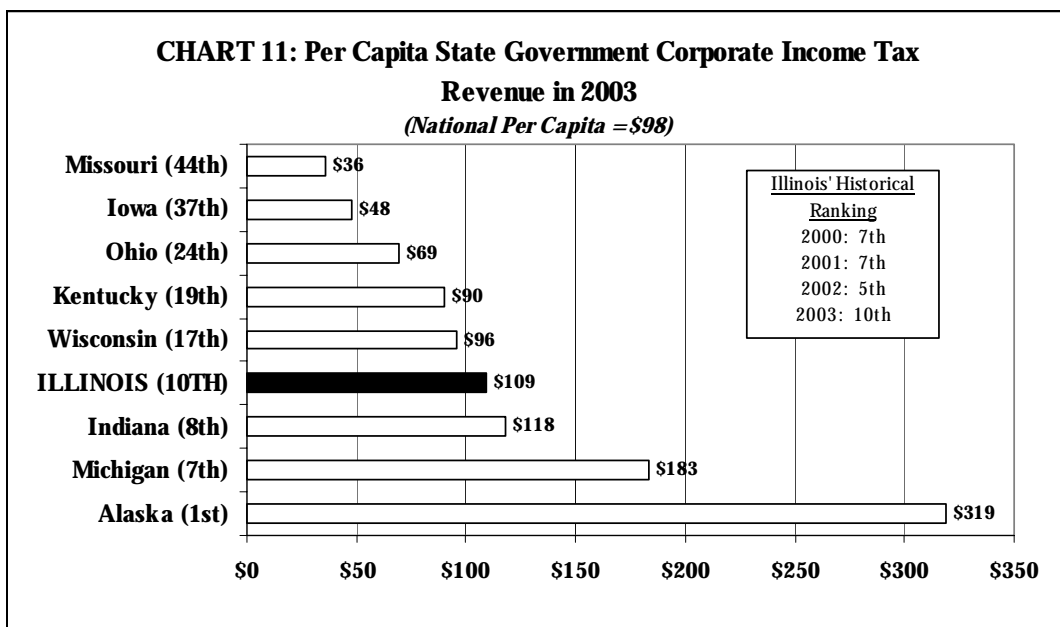
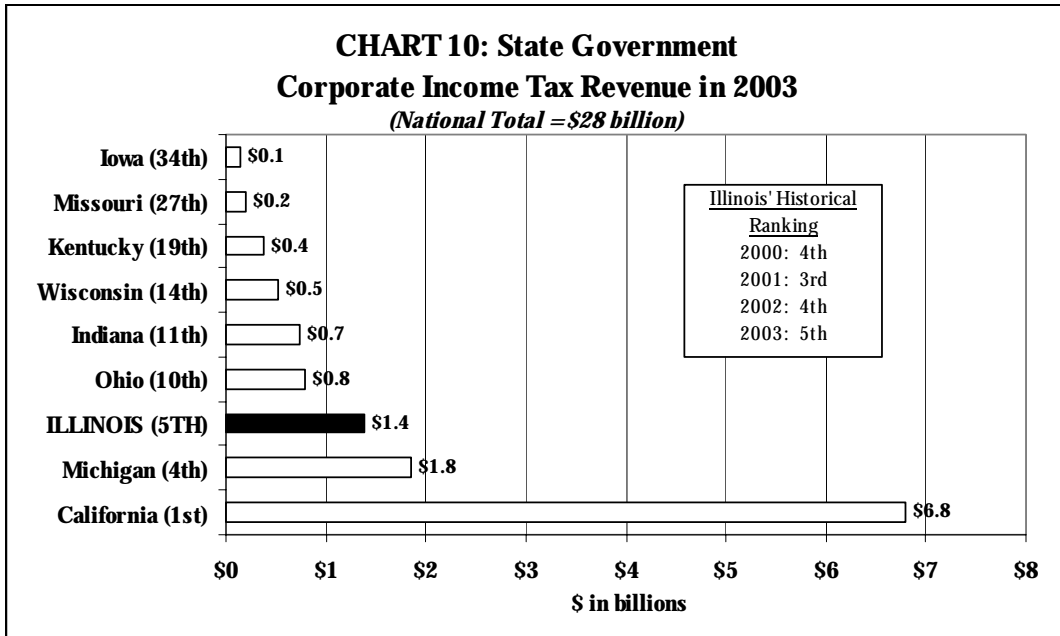
Category 4: State Government Individual Income Tax Revenue

Illinois ranked 5th in the nation in the amount collected from state government individual income taxes in 2003 with a total amount of \$7.3 billion. Illinois trailed only Ohio (ranked 4th) among Midwest Region states. On a per-capita basis, Illinois was the lowest ranked state in the Midwest with a ranking of 32nd. Illinois' per-capita rate of \$580 was below the national average of \$627 and well below the 1st ranked state in this category, Massachusetts, at \$1,250 per capita. The main reason for this discrepancy is Illinois has a flat personal income tax rate of 3.0%, compared to Massachusetts' flat rate of 5.3%. Of the six states with a flat income tax (most have graduated tax rates), Illinois' has the lowest rate. Seven states currently have no income tax.



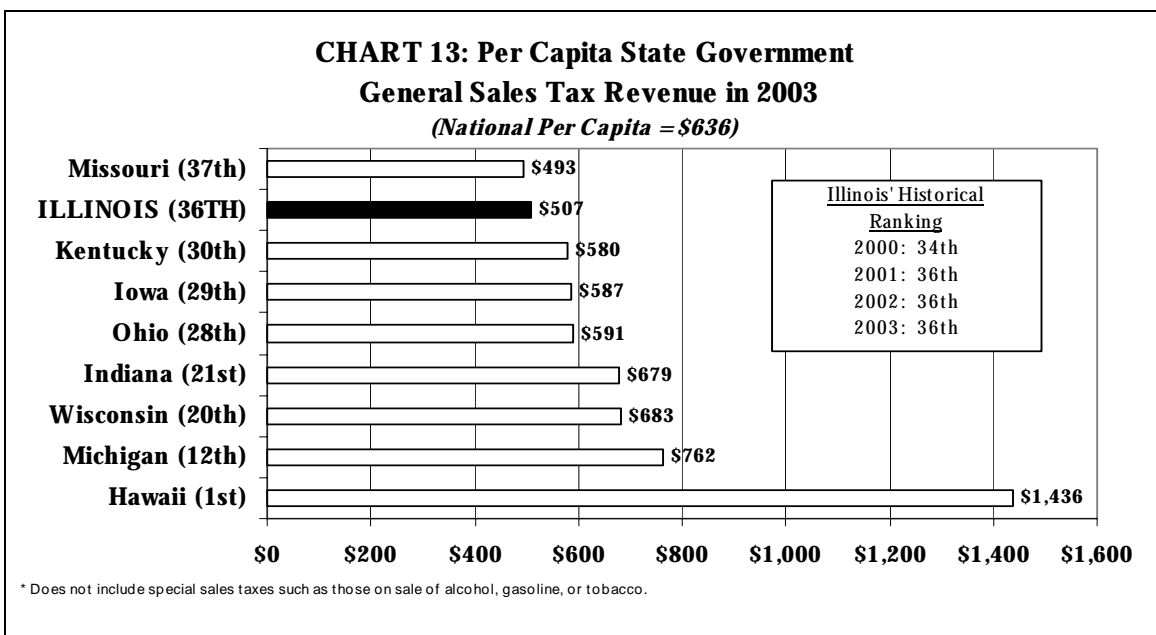
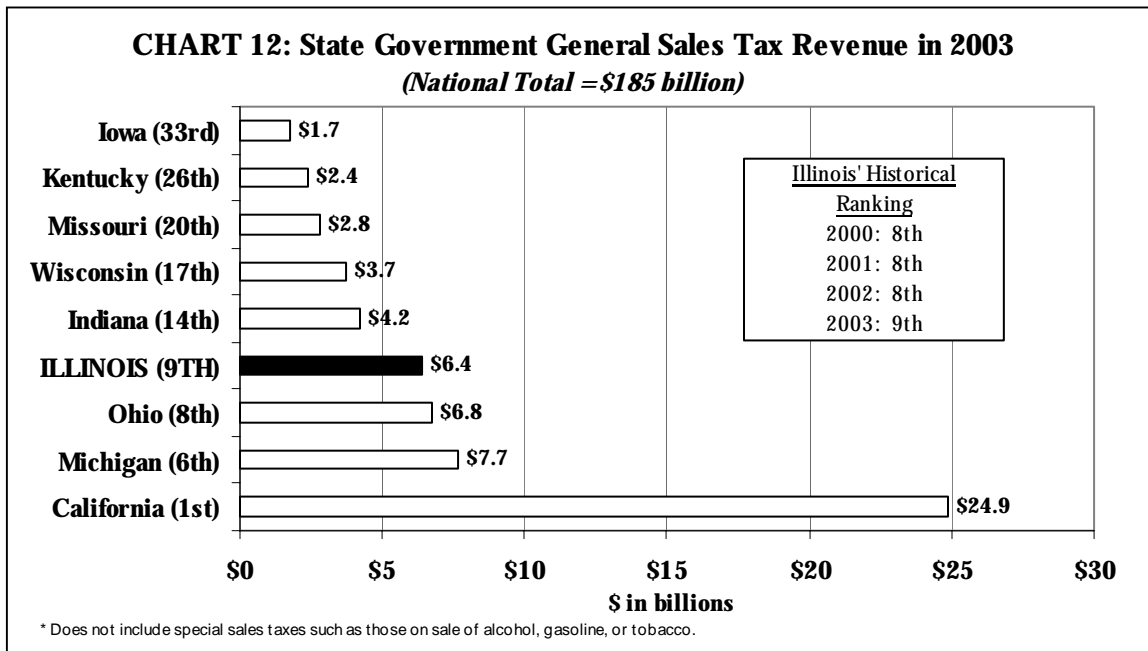
Category 5: State Government Corporation Net Income Tax Revenue

Illinois collected \$1.4 billion in corporate income tax receipts in 2003, which ranked them 5th in the nation in this category. Again, California had the highest total with \$6.8 billion. On a per-capita basis, Illinois ranked 10th with a per-capita rate of \$109, slightly above the national per-capita rate of \$98. In the Midwest Region, only Indiana (8th) and Michigan (7th) had higher per-capita rates than Illinois. Illinois has a flat tax rate of 4.8% (7.3% including the replacement tax) compared to Indiana’s flat rate of 8.5%. Michigan imposes a single business tax of 1.9% on the sum of federal taxable income of the business, dividends, interest, royalties paid, and other items.



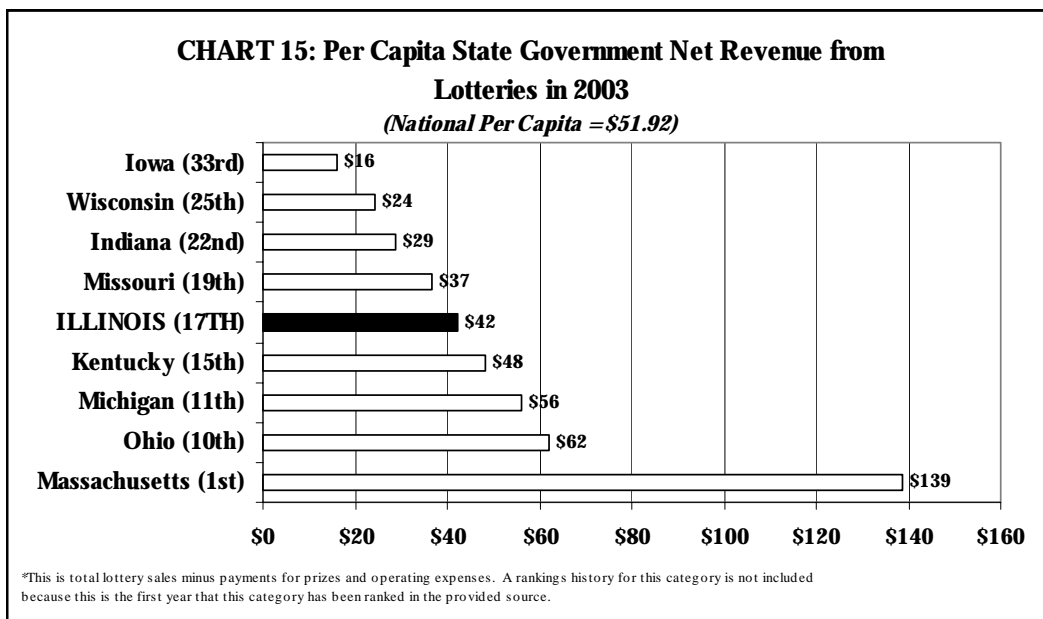
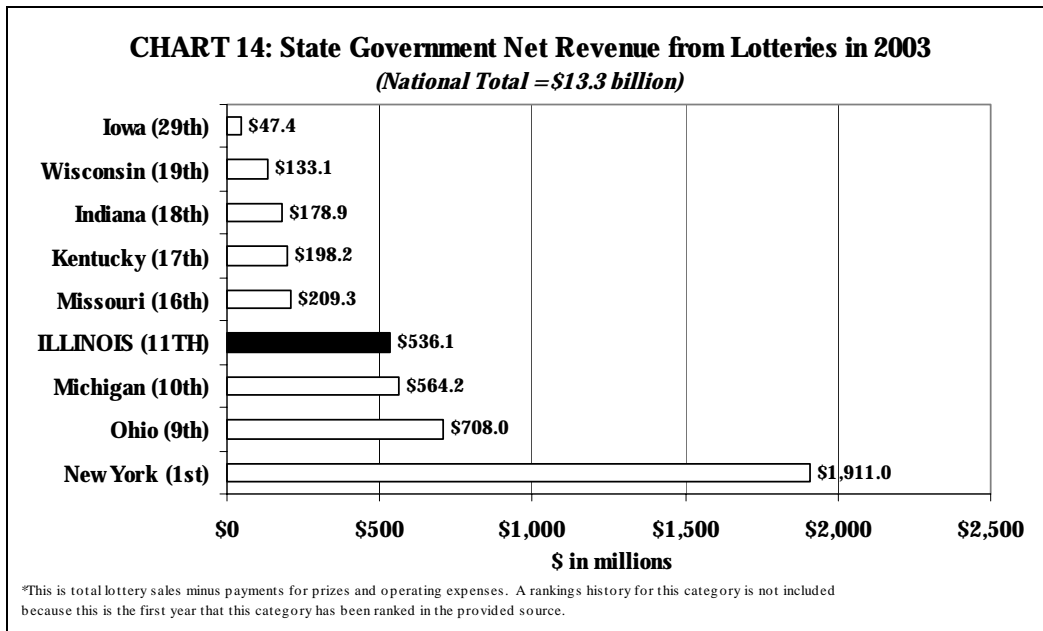
Category 6: State Government General Sales Tax Revenue

General sales tax revenue, under this category, does not include special sales taxes such as those on sale of alcohol, gasoline, or tobacco. In 2003, Illinois ranked 9th in the amount of sales tax revenue collected with a total of \$6.4 billion. California collected the most, generating \$24.9 billion. On a per-capita basis, Illinois ranked 36th in the nation with a value of \$507 per capita. As shown in Chart 13, in the Midwest Region, only Missouri (37th) was ranked lower than Illinois. Illinois' sales tax rate is 6.25%, in which 5% goes to the State, and the remaining 1.25% goes to local governments. Missouri's sales tax rate is 4.225%.



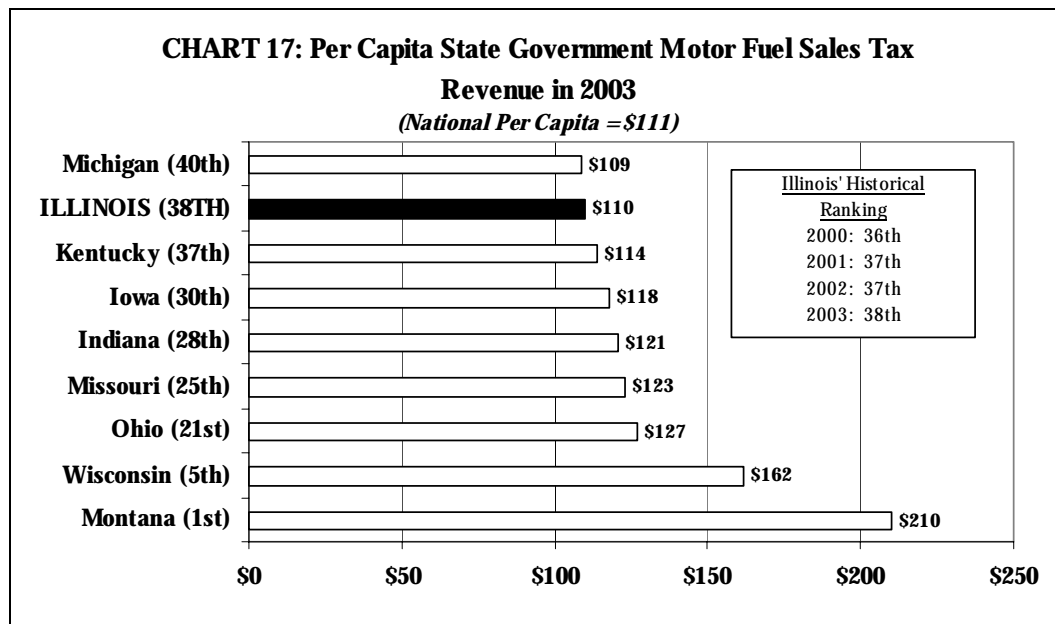
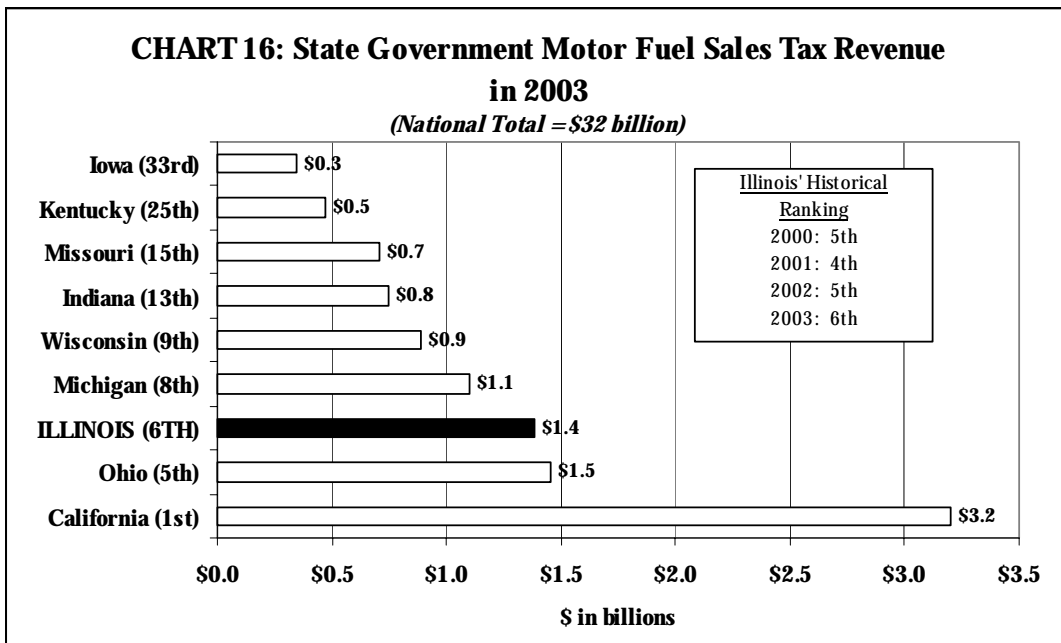
Category 7: State Government Net Revenue from Lotteries

Under this category, net revenue from lotteries pertains to total lottery sales minus payments for prizes and operating expenses. In 2003, Illinois ranked 11th in the nation in total lottery receipts with an amount of \$536 million. New York had the highest total with over \$1.9 billion. On a per-capita basis, Illinois ranked 17th in the nation with a value of \$42 per capita which was below the national per-capita rate of \$52. The majority of Illinois lottery sales come from instant games, followed by the Pick 3 Game, and the Mega Millions game. Other states that join Illinois in the Mega Millions game are California, Georgia, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio, Texas, Virginia, and Washington. (*A rankings history is not included in the charts below because this is the first year this category has been ranked in the provided source*).



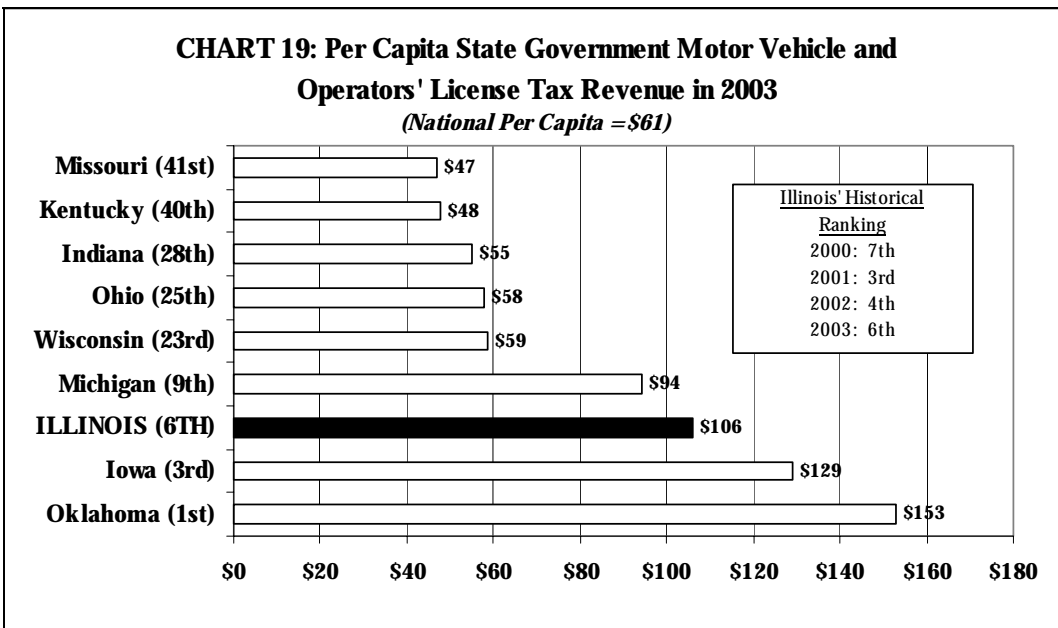
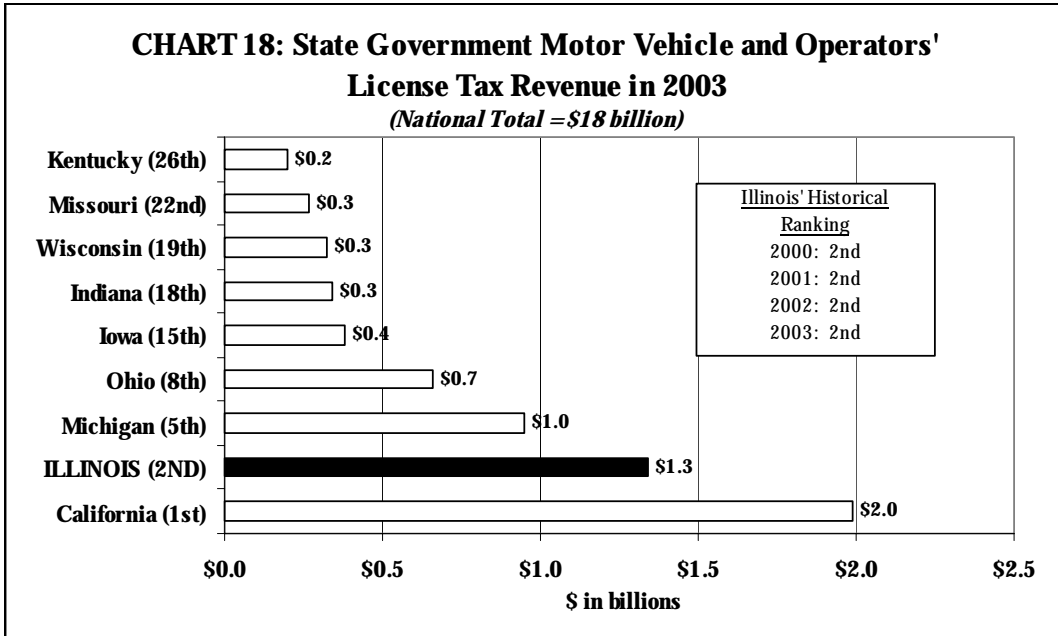
Category 8: State Government Motor Fuel Sales Tax Revenue

In 2003, Illinois ranked 6th in the nation in the amount of motor fuel sales tax revenue collected. Only Ohio collected more in the Midwest Region. On a per-capita basis, Illinois ranked 38th in the nation with a per-capita rate of \$110, which was slightly lower than the national per-capita rate of \$111. Only Michigan (40th) in the Midwest Region had a lower ranking than Illinois on a per-capita basis. In 2004, Illinois had the 32nd highest tax rate on motor fuel at 20.1 cents per gallon (which includes 1.1 cents in environmental fees). Rhode Island had the highest gasoline tax at 31 cents-per-gallon. Georgia had the lowest rate at 7.5 cents-per-gallon. Like Illinois, most states also impose their state sales tax on motor fuel.



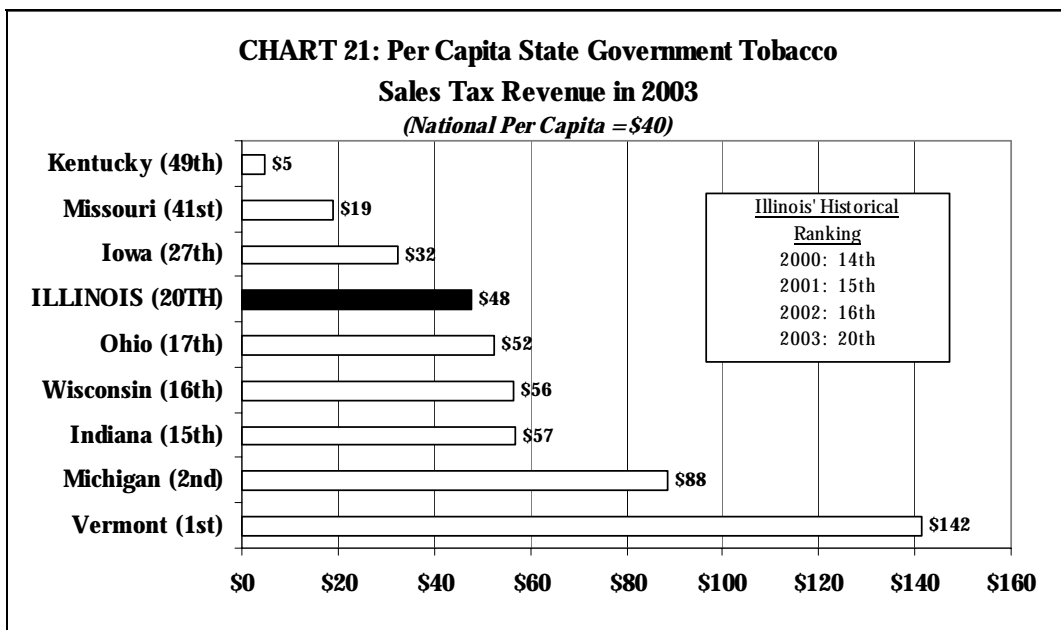
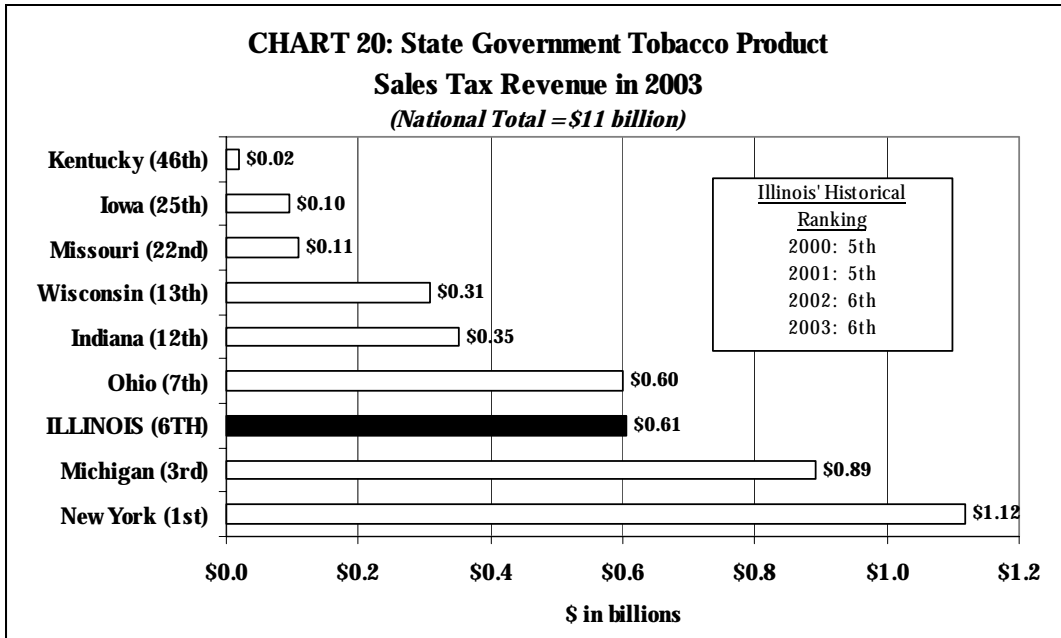
Category 9: State Government Motor Vehicle and Operators' License Tax Revenue

Since 2000, Illinois has collected the 2nd highest amount of tax revenue from motor vehicle and operators' licenses. In 2003, Illinois' total amount of \$1.3 billion trailed only California (\$2.0 billion) in this category. Illinois had the 6th highest per-capita ranking in this category, collecting \$106 per capita, which was well above the national per-capita value of \$61. Only Iowa (ranked 3rd) had a higher ranking than Illinois in the Midwest Region. The highest ranked state was Oklahoma at \$153 per capita. In FY 2000, Illinois increased its vehicle registration fee from \$48 to \$78 with corresponding increases for all vehicle registrations, which is the primary reason for its current high ranking.



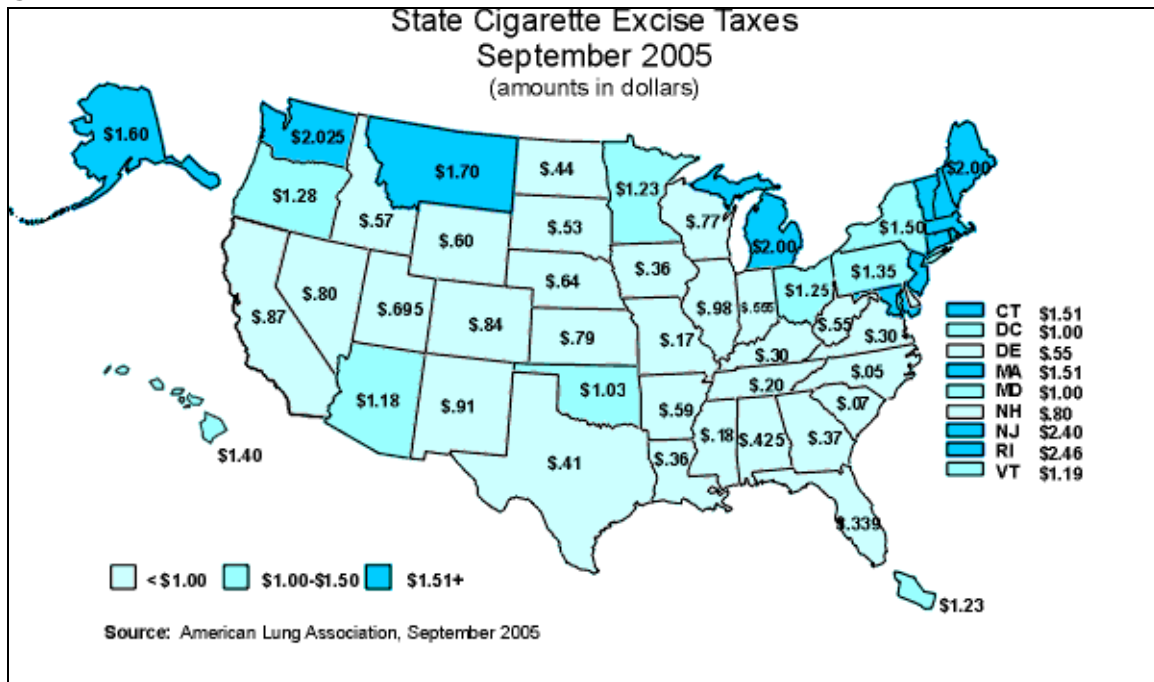
Category 10: State Government Tobacco Product Sales Tax Revenue

In the category of tobacco product sales tax revenue, Illinois ranked 6th in the nation in 2003 in total collections with New York ranking 1st. On a per-capita basis, Illinois ranked 20th with a per-capita value of \$48. This amount was above the national average of \$40, but well below the top ranked state of Vermont, which had a per-capita value of \$142. Michigan was the highest ranked (2nd) Midwest state with a value of \$88. Despite Illinois increasing their cigarette tax from 48-cents to 98-cents per pack in FY 2003, Illinois' ranking has actually dropped in recent years. The reason is many other states have also raised their cigarette tax as a means of generating new revenues.



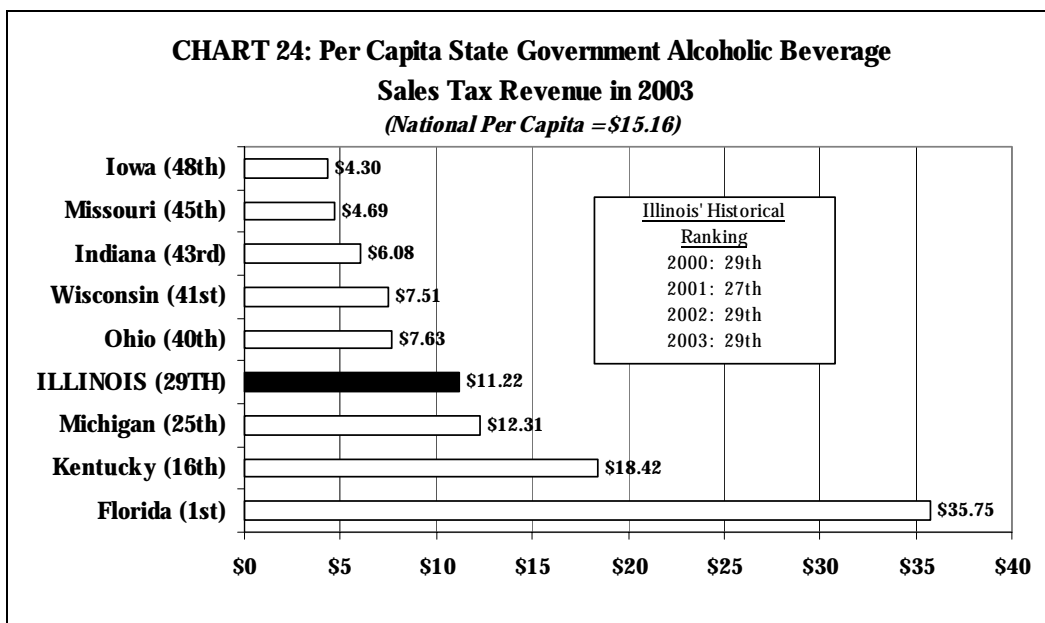
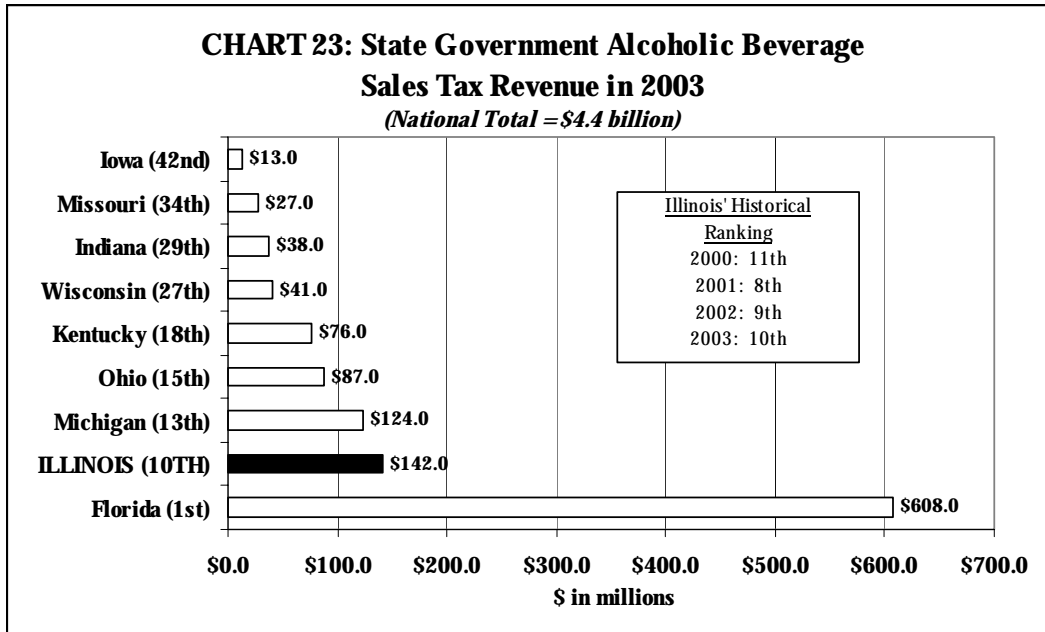
As of September 2005, Illinois has the 21st highest cigarette tax in the country. Rhode Island currently has the highest tax rate of \$2.46 per pack. Rates of states surrounding Illinois widely vary. Michigan currently has the fourth highest cigarette tax in the country at \$2.00 per pack. Ohio is also higher than Illinois with a rate of \$1.25 per pack. However, all of the states that border Illinois currently have rates less than Illinois. These rates range from \$0.555 cents in Indiana to only \$0.17 cents per pack in Missouri. Chart 22 below from the National Conference of State Legislators shows the cigarette excise taxes for all of the states as of September 2005.

CHART 22



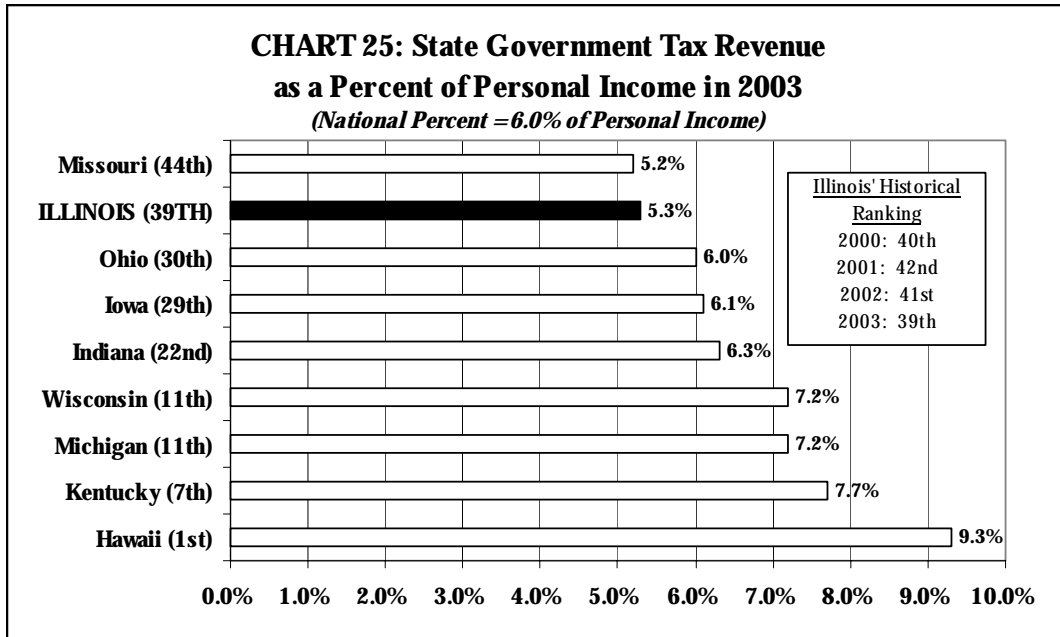
Category 11: State Government Alcoholic Beverage Sales Tax Revenue

In 2003, Illinois ranked 10th in the nation in total revenues from alcoholic beverage sales with \$142 million collected. Florida ranked 1st with \$608 million collected. Florida was also 1st on a per-capita basis with a value of \$35, which was well above the national average of \$15. Florida uses this high taxation on alcoholic beverages to take advantage of the many vacationers that visit that state throughout the year. Illinois has consistently ranked around 29th in the nation over the last four years. In 1999, Illinois ranked 43rd. The reason for the jump in rankings was the liquor tax increases associated with *Illinois First* that occurred in FY 2000.



Category 12: State Government Tax Revenue as a Percent of Personal Income

As shown below in Chart 25, Illinois ranked 39th in the nation in 2003 in the category of state government tax revenue as a percent of personal income. Illinois' percentage of 5.3% was lower than all other Midwest Region states, except for Missouri, which came in at 5.2%. The national average was 6.0%. The highest-ranking state was Hawaii at 9.3%.

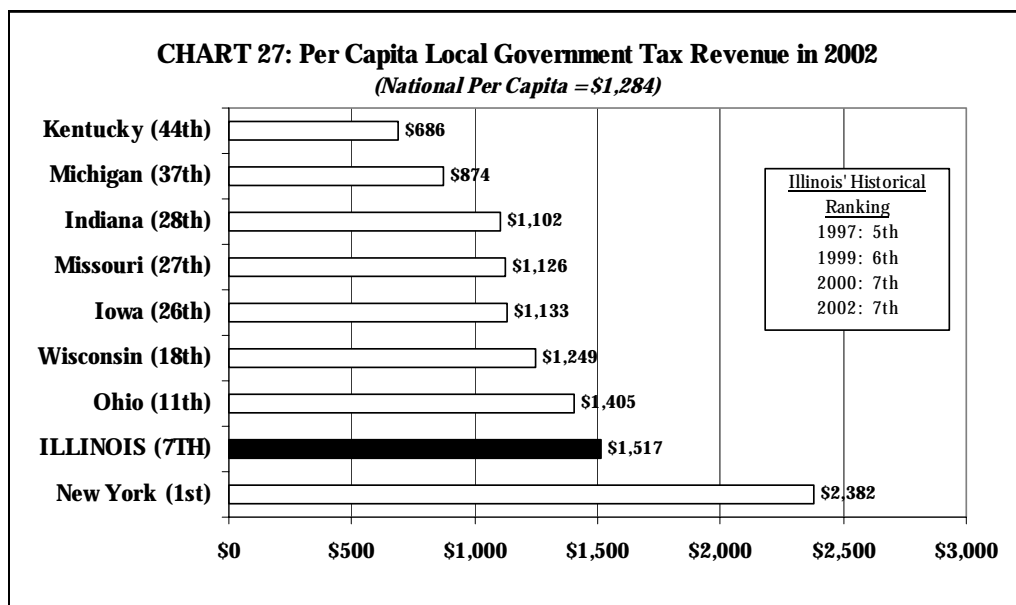
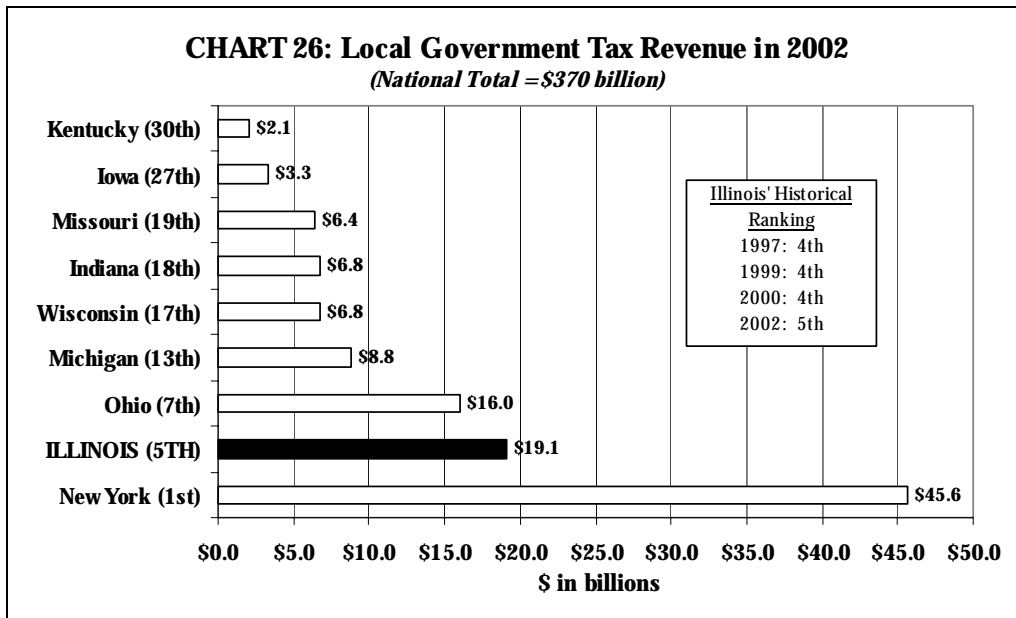


So what does this say about Illinois' state government tax structure? Many would see this low ranking as encouraging as it shows that state government can function without creating too much of a financial burden on the people of Illinois. They would argue that the State's tax structure is very acceptable, especially when compared to other states throughout the nation.

However, others would argue that these numbers show that the State needs to take up a larger role in financing programs and institutions throughout the State, which would lessen the burden on local governments. While Illinois is one of the lowest taxed states in terms of State revenues, it is one of the highest taxed states in terms of local government tax revenues. Charts depicting this revenue source are shown on the following page.

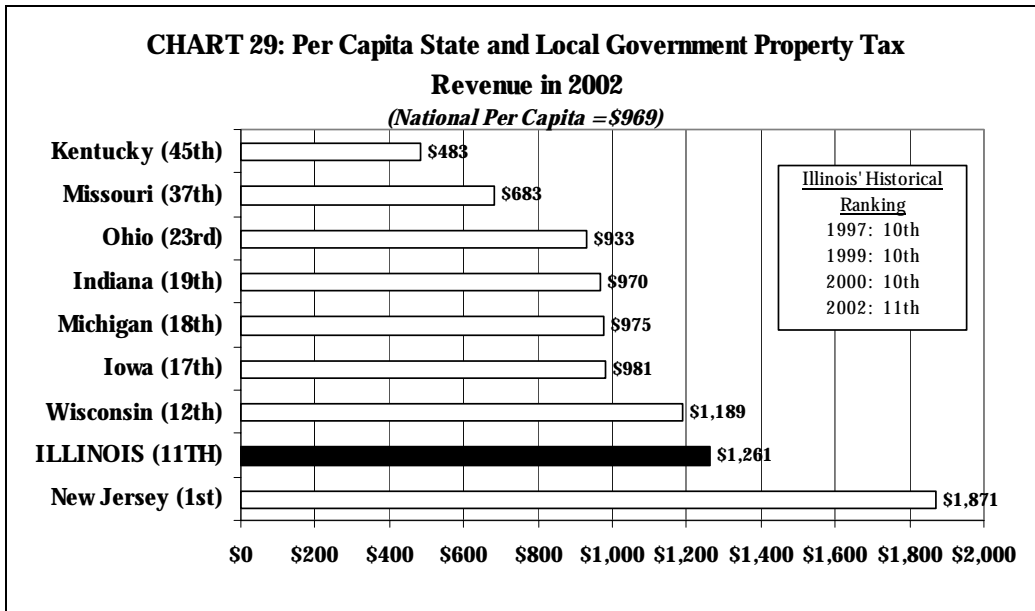
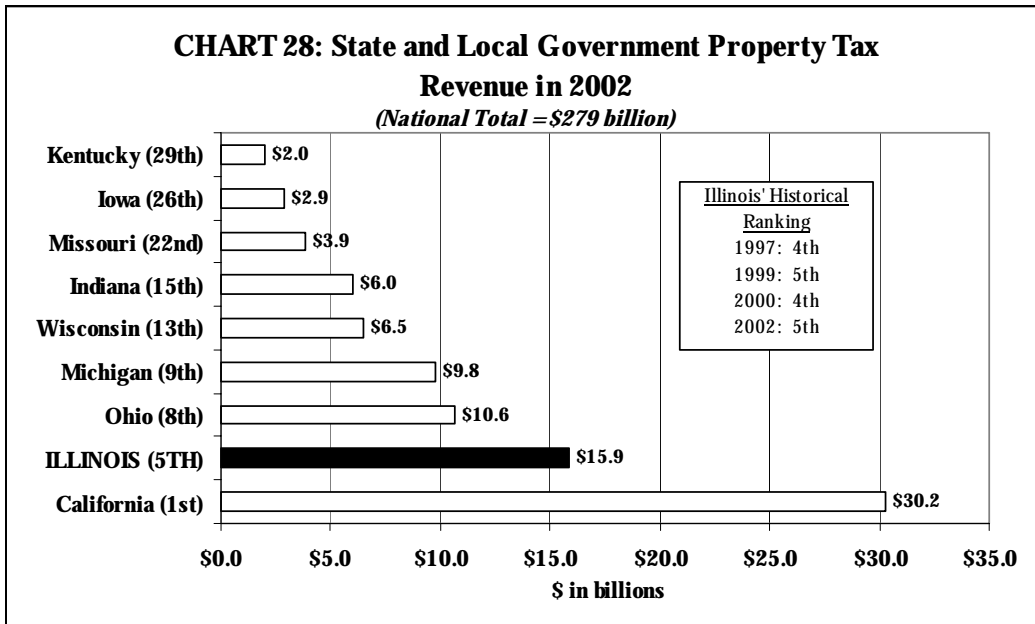
Category 13: Local Government Tax Revenue

In 2002, Illinois ranked 5th in the nation in the category of local government tax revenue collected. On a per-capita basis, Illinois ranked 7th and was the highest ranked state in the Midwest Region. The highest ranked state in total dollars and on a per-capita basis was New York. Because Illinois' ranking in per-capita local government revenue is significantly higher than its ranking in state government revenue, many argue that the State should take a larger role in financing programs. They argue that local taxes need to be lowered, while increasing State tax sources to create a more "equitable" system. Others argue that a reliance on property taxes give local governments more local control and promotes a higher degree of accountability to their community. This debate will continue in the years to come, especially in the area of education funding.



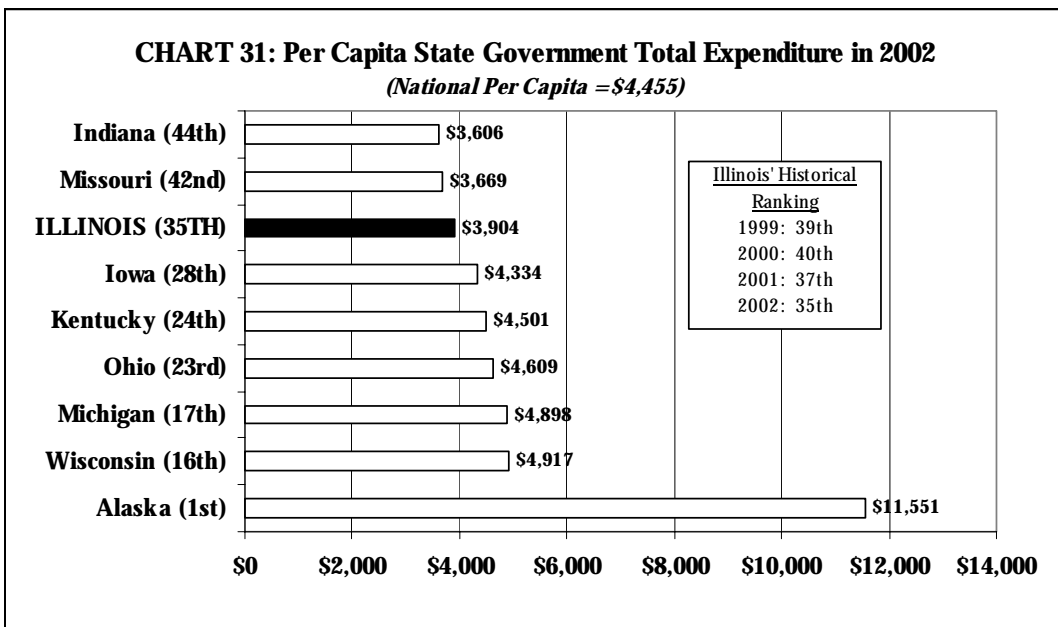
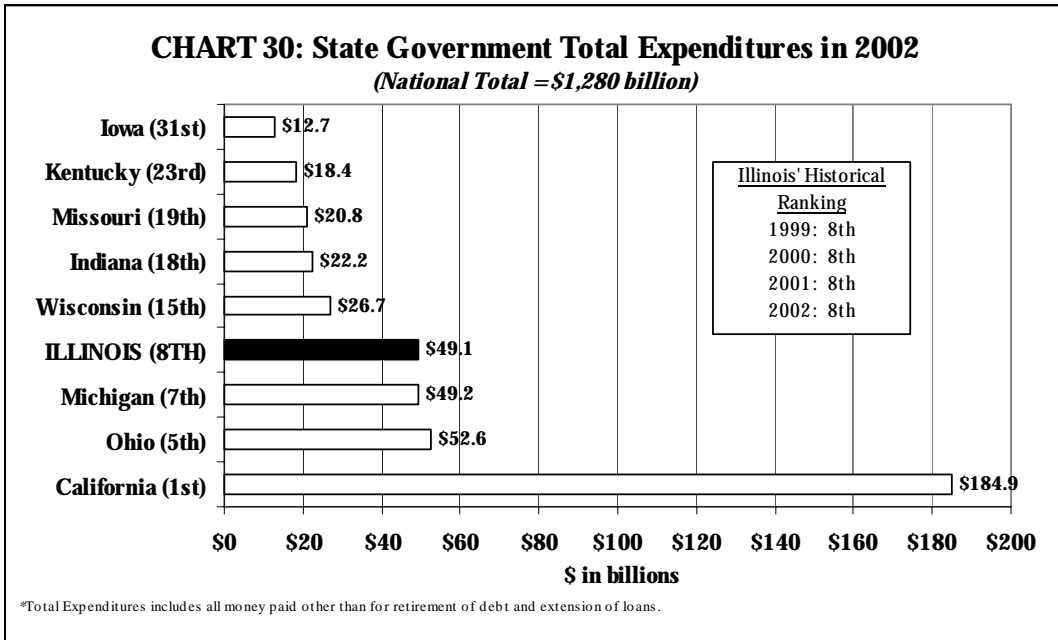
Category 14: State and Local Government Property Tax Revenue

The majority of local taxes come from the property tax. Illinois has historically been one of the highest taxing states in the nation in the area of property taxes. As shown below in Chart 28, in 2002, Illinois ranked 5th in the nation in the amount of property tax revenue collected. On a per-capita basis, Illinois ranked 11th and was the highest ranked state in this category in the Midwest Region. Illinois' per-capita rate was \$1,261, which was well above the national average of \$969. There are differing opinions on whether property taxes should be relied on so heavily to fund schools in Illinois. This issue is discussed in detail in the Commission's October 2002 report entitled, "Education Funding: Fair or Flawed", which can be found on the Commission's website: www.ilga.gov/commission/cgfa/cgfa_home.html.



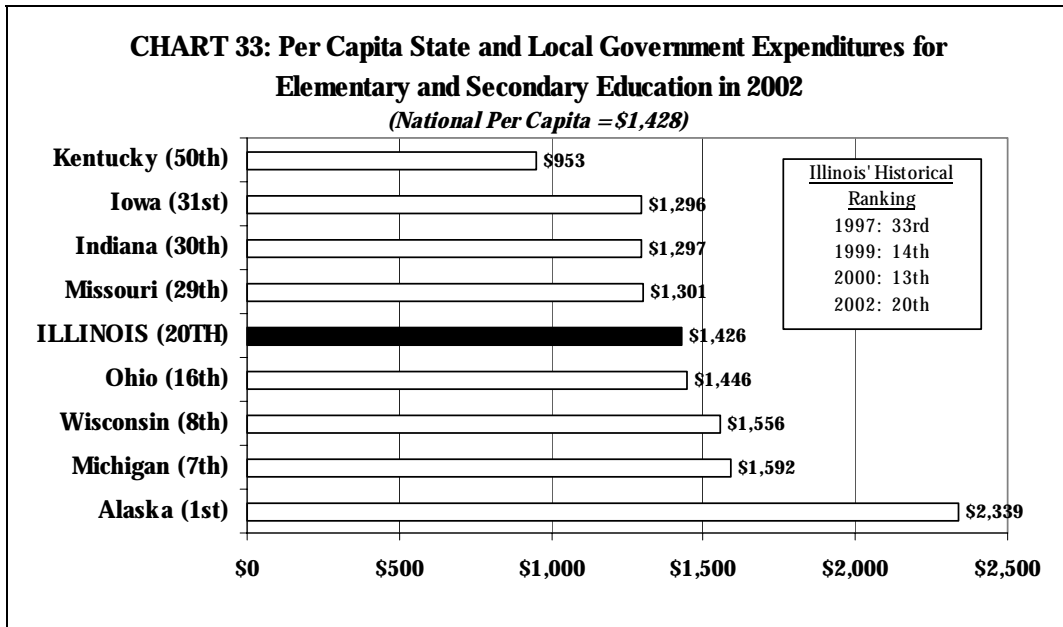
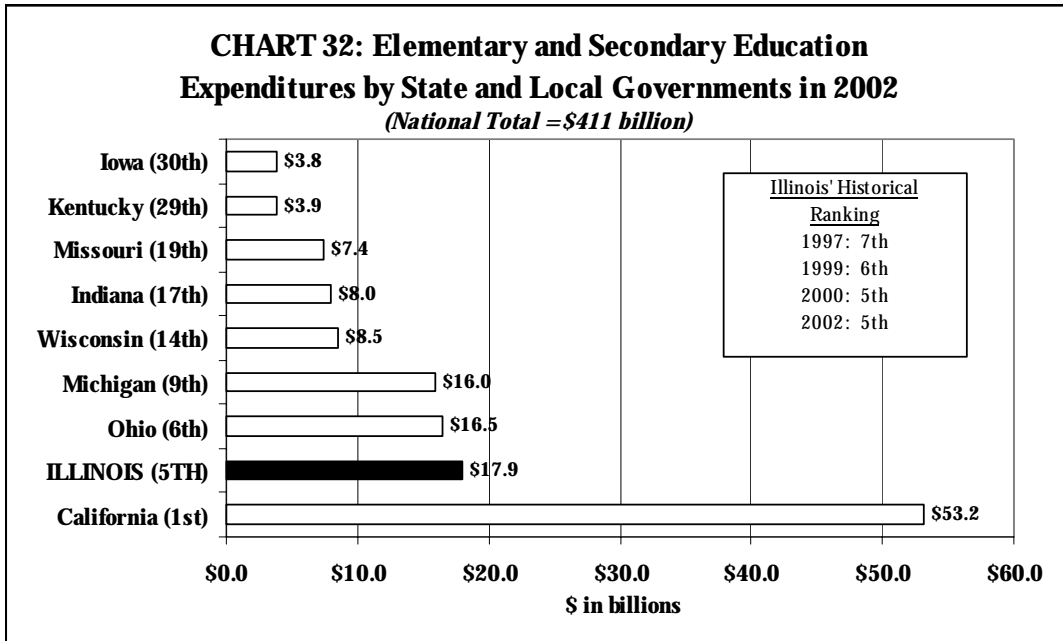
Category 15: State Government Total Expenditures

Total expenditures, in this category, include all money paid other than for retirement of debt and extension of loans. It includes payments from all sources of funds including current revenues and proceeds from borrowing and prior year fund balances. It also includes intergovernmental transfers and expenditures for government owned utilities and other commercial or auxiliary enterprise and insurance trust expenditures. In 2002, Illinois ranked 5th in the nation in total dollars, but only ranked 35th on a per-capita basis. Illinois' per-capita value of \$3,904 was well below the national average of \$4,455. The highest ranked state on a per-capita basis was Alaska with \$11,551.



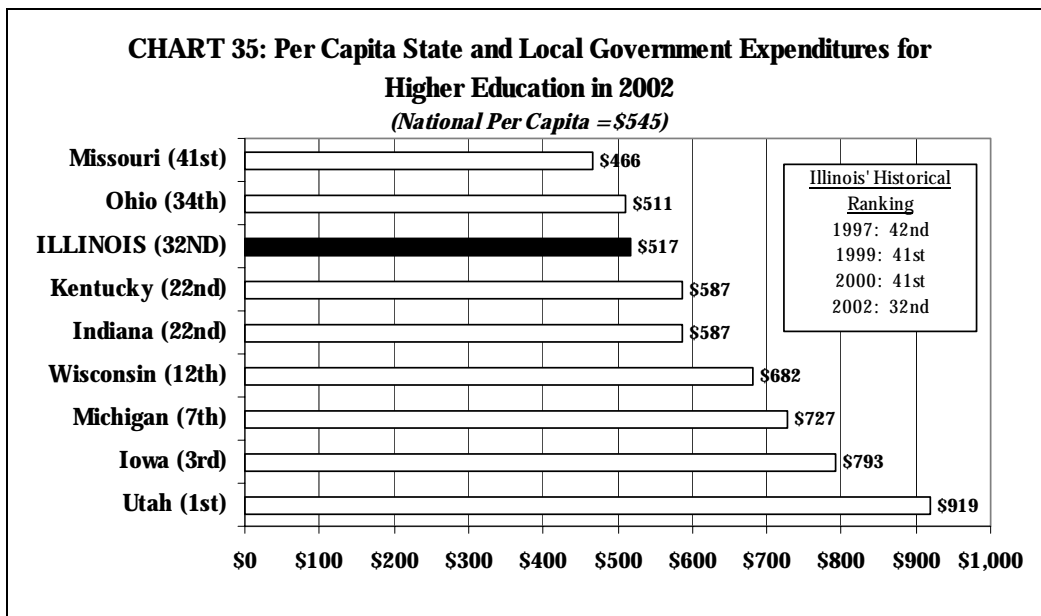
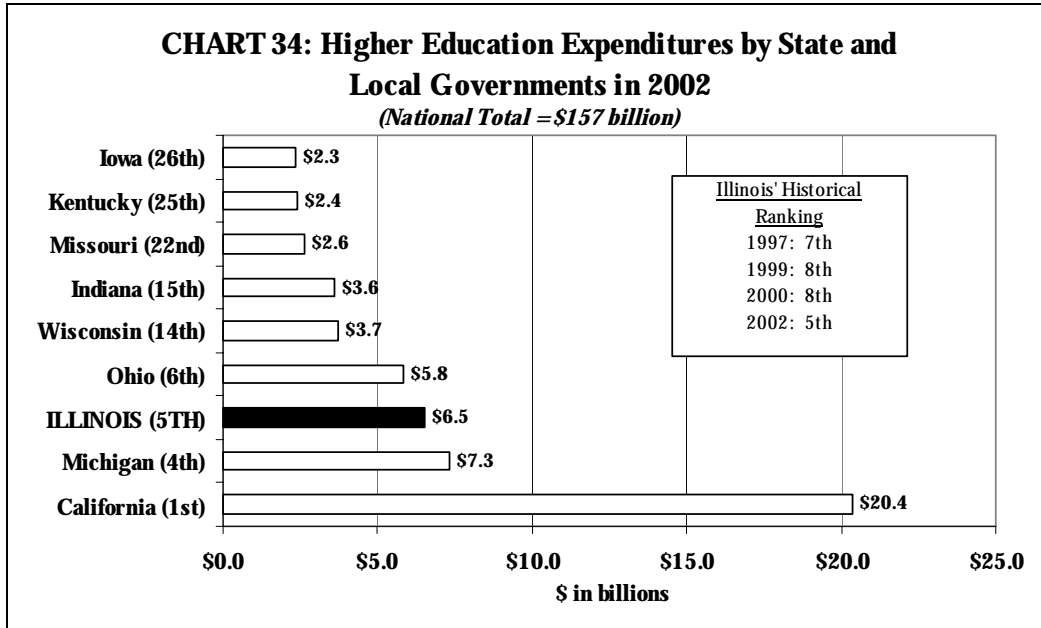
Category 16: Elementary and Secondary Education Expenditures by State and Local Governments

Illinois ranked 5th in the nation in the amount spent on elementary and secondary education in 2002. This includes money from local and state governments. California was the highest ranked state with a total expenditure amount of \$53.2 billion. On a per-capita basis, Illinois ranked 20th, at \$1,426 per capita, which was near the national average of \$1,428. Alaska was the highest ranked state on a per-capita basis at \$2,339. Kentucky was the lowest at \$953 per capita.



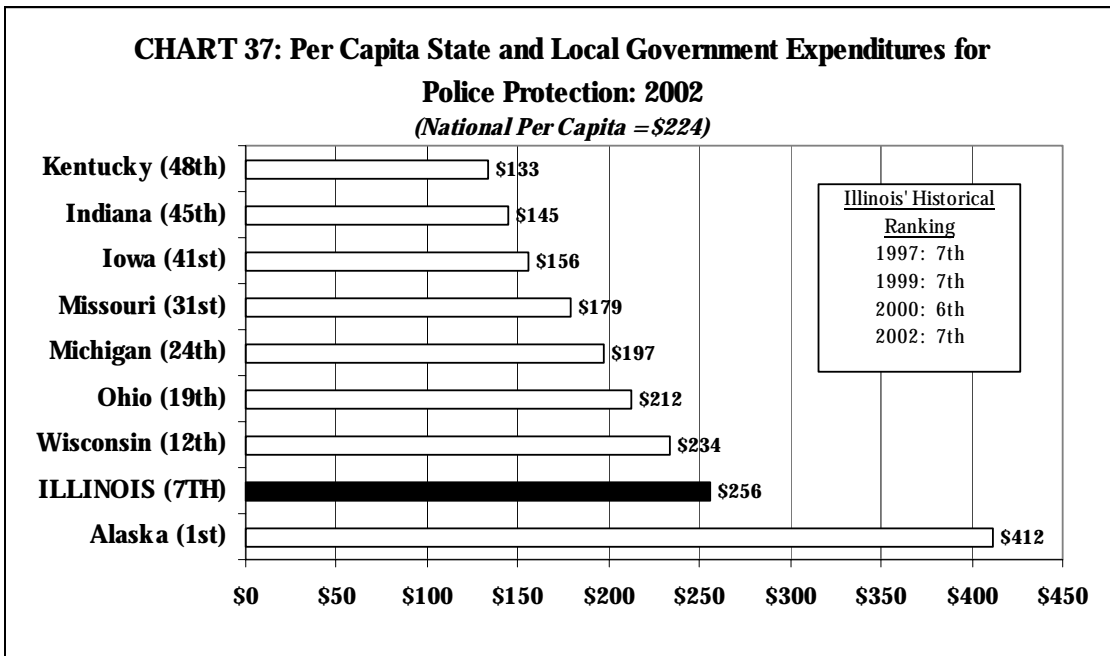
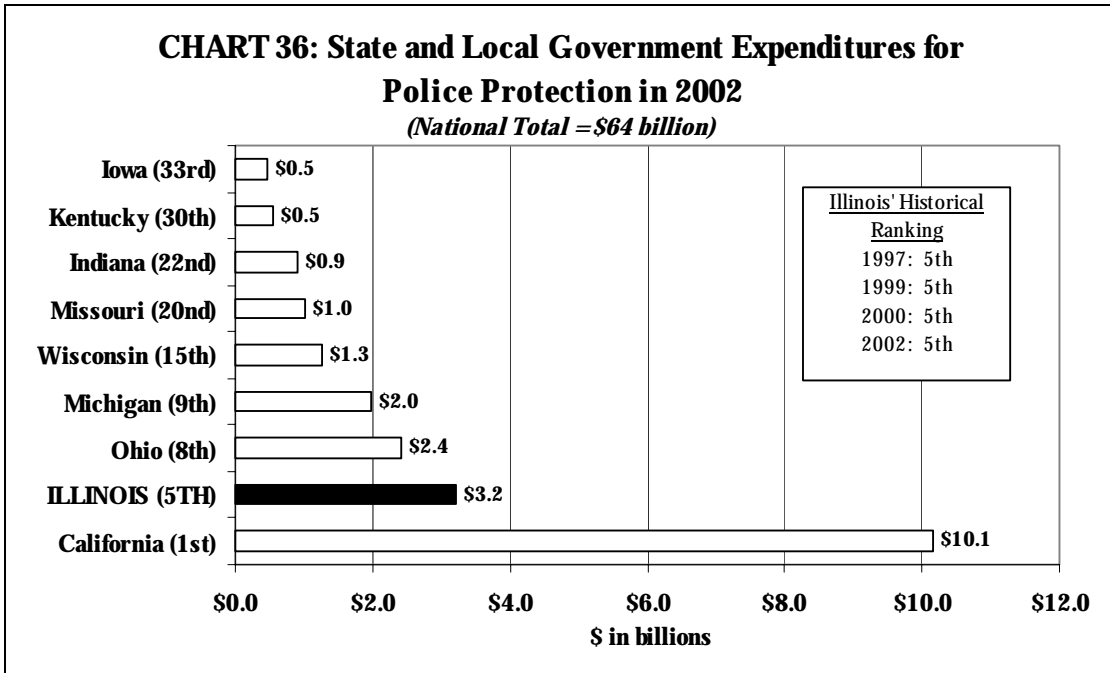
Category 17: Higher Education Expenditures by State and Local Governments

In the category of higher education expenditures, Illinois ranked 5th in the nation, spending \$6.5 billion in 2002. Again, this includes money from local and state governments. California was the highest ranked state with a total expenditure amount of \$20.4 billion. On a per-capita basis, Illinois ranked 32nd at \$517 per capita, which was below the national average per-capita value of \$545. Utah was the highest ranked state on a per-capita basis at \$919. In the Midwest Region, Iowa (3rd), Michigan (7th), Wisconsin (20th), Indiana (22nd), and Kentucky (22nd) all had higher rankings than Illinois, while Ohio (34th) and Missouri (41st) were ranked lower. While Illinois' ranking is relatively low, the State is up 10 spots from where it was ranked in 1997.



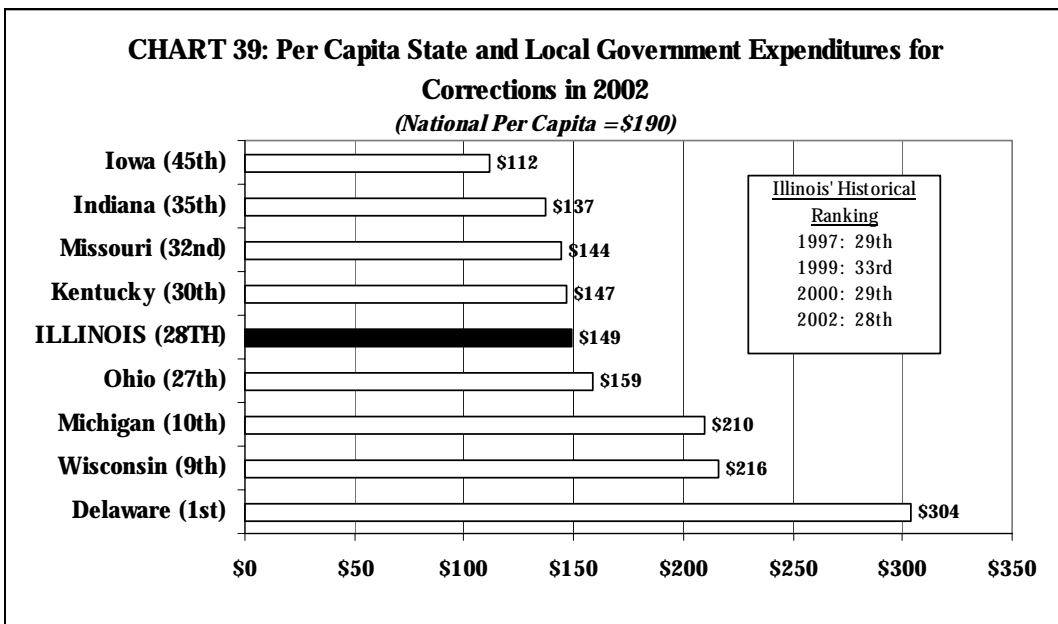
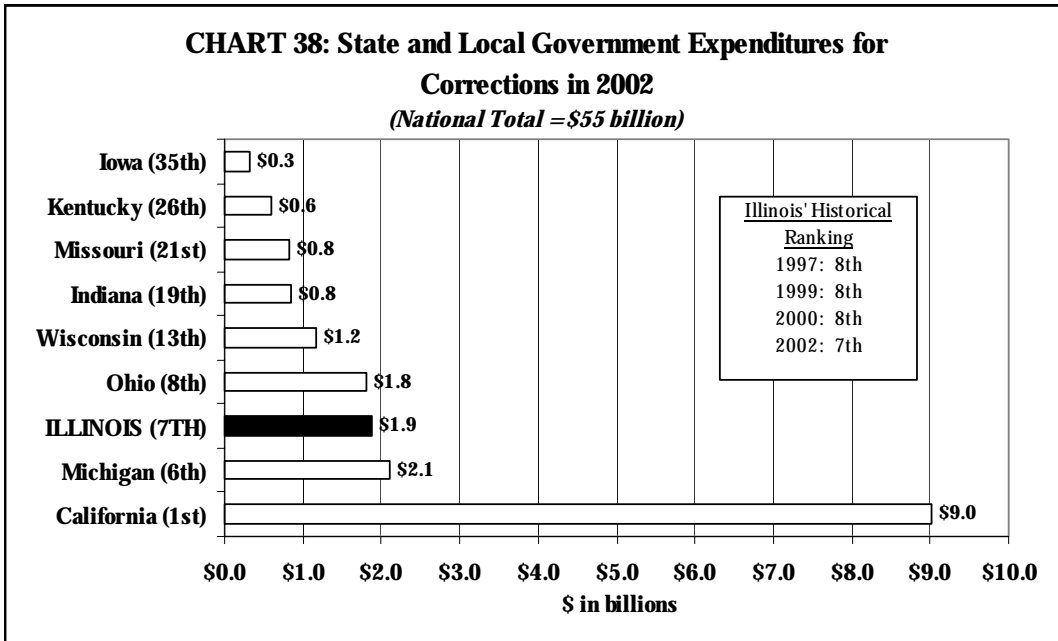
Category 18: State and Local Government Expenditures for Police Protection

In 2002, Illinois ranked 5th in the nation in the amount of state and local government expenditures for police protection. California ranked 1st. On a per-capita basis, Illinois ranked 7th in the nation with a value of \$256 per capita, above the national average of \$224. Illinois was the highest ranked state in the Midwest Region. The highest ranked state on a per-capita basis was Alaska with a per-capita value of \$412.



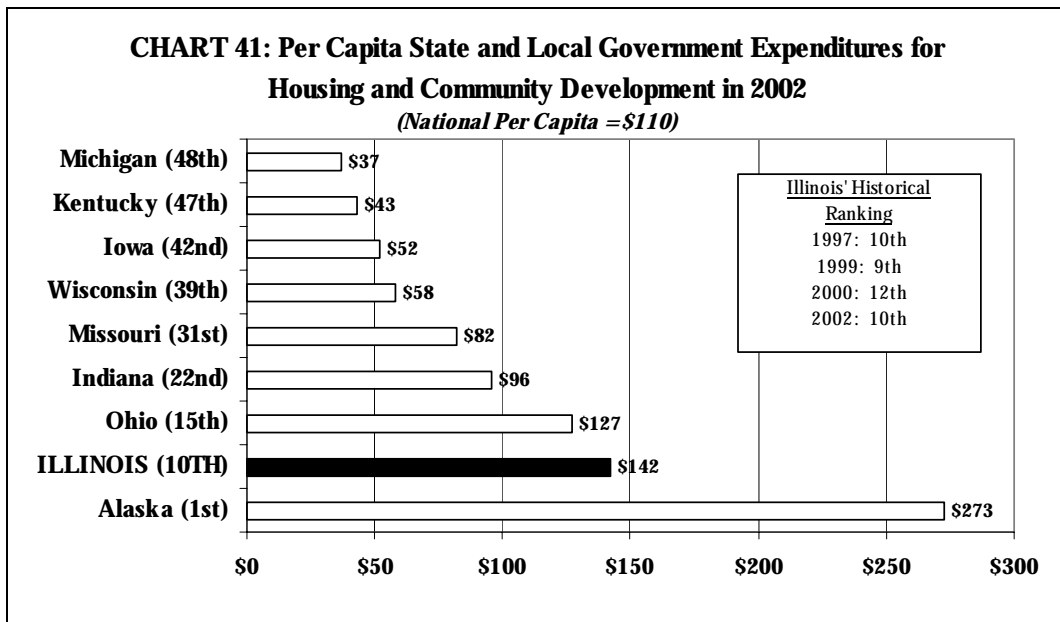
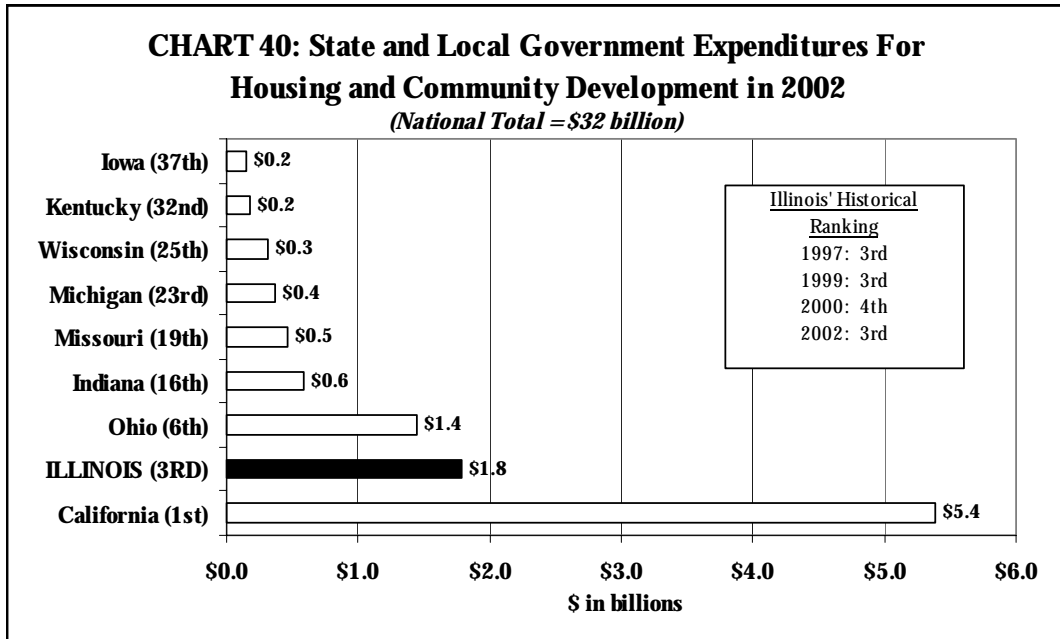
Category 19: State and Local Government Expenditures for Corrections

Illinois ranked 7th in the nation in the amount of state and local government expenditures for corrections in 2002, spending \$1.9 billion. California ranked 1st spending \$9.0 billion. On a per-capita basis, Illinois ranked 28th with a value of \$149 per capita. The national average was \$190. The highest ranked state on a per-capita basis was Delaware with a per-capita value of \$304. Illinois was the near the middle of the Midwest Region states on a per-capita basis, with Wisconsin calculated as the highest ranked Midwest state with a per-capita value of \$216.



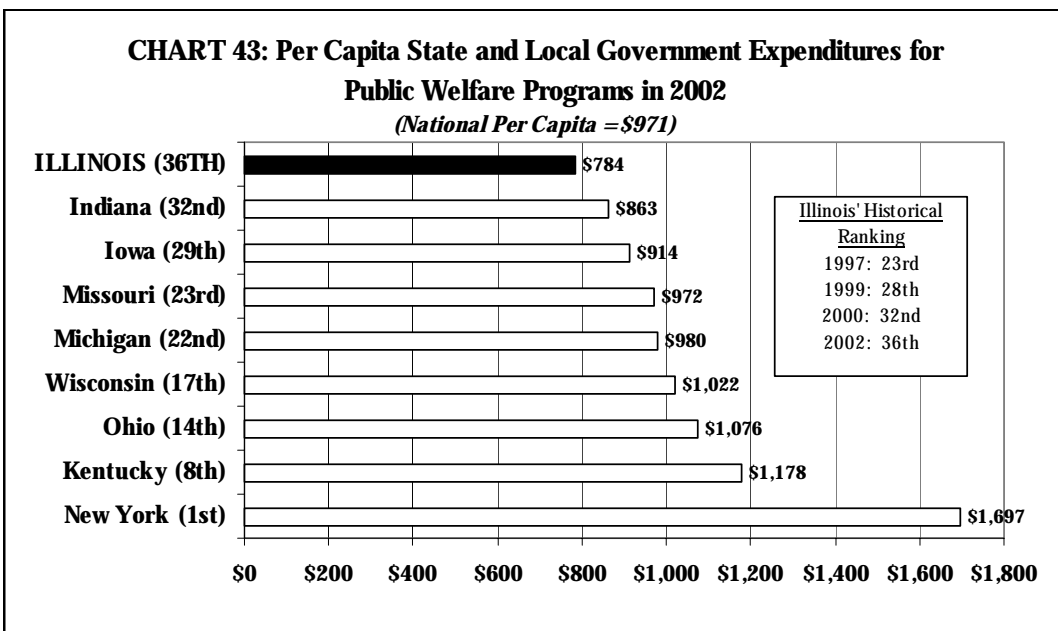
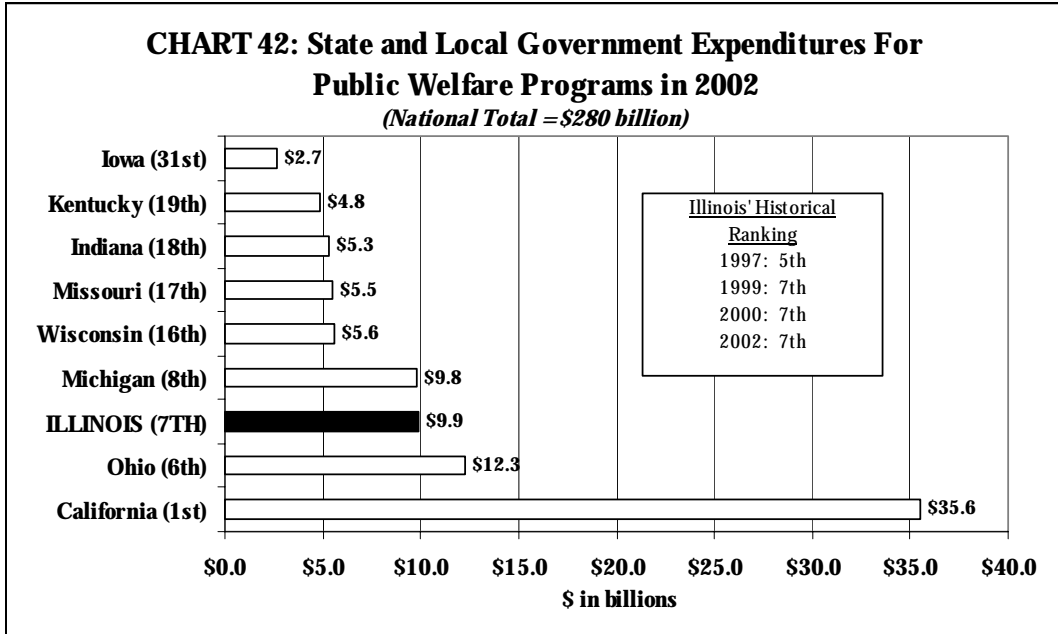
Category 20: State and Local Government Expenditures for Housing and Community Development

In 2002, Illinois ranked 3rd in the nation in the category of state and local government expenditures for housing and community development, trailing only California (1st) and New York (2nd). On a per-capita basis, Illinois ranked 10th with a value of \$142, which was above the national average of \$110. Illinois was the highest ranked state in the Midwest Region, with Ohio slightly behind (ranked 15th). Interestingly, Michigan was the 48th ranked state with a per-capita value of only \$37.

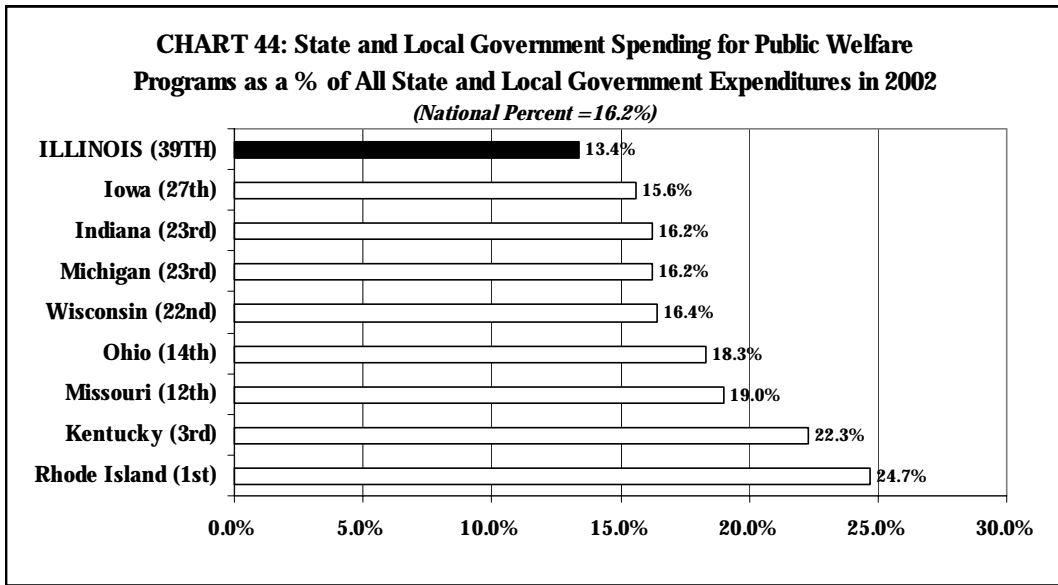


Category 21: State and Local Government Expenditures for Public Welfare Programs

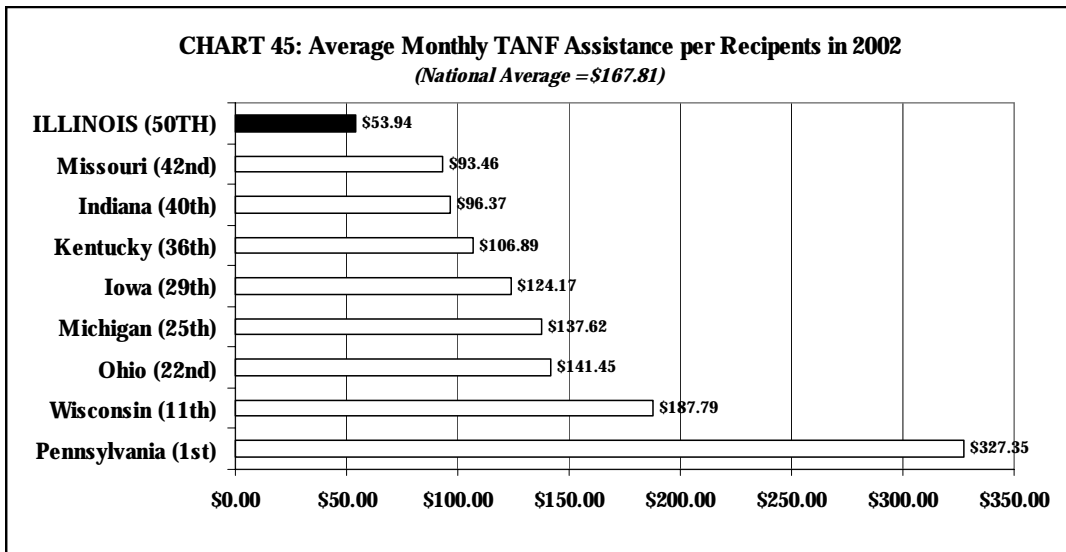
In 2002, in the category of state and local government expenditures for public welfare programs, Illinois ranked 7th in the nation in total dollars. California ranked 1st. Illinois, on a per-capita basis, ranked 36th with a per-capita value of \$784, which was well below the national average of \$971 per capita. In fact, Illinois was the lowest ranked Midwest Region state. Kentucky (8th) was the highest ranked Midwest Region state with a per-capita value of \$1,178. New York was the highest ranked state overall and on a per-capita basis with a value of \$1,697.



As shown in Chart 44, Illinois ranked 39th in the nation in 2002 in state and local government spending for public welfare programs as a percentage of all state and local government expenditures. Illinois' percentage of 13.4% was below the national average percentage of 16.2% and well below top ranked Rhode Island (24.7%).

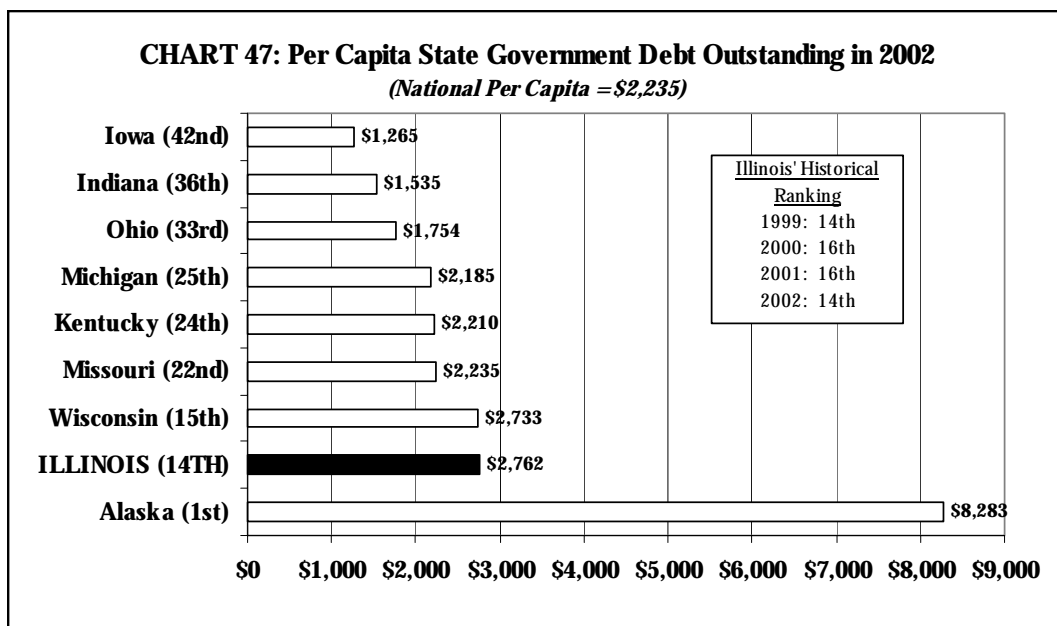
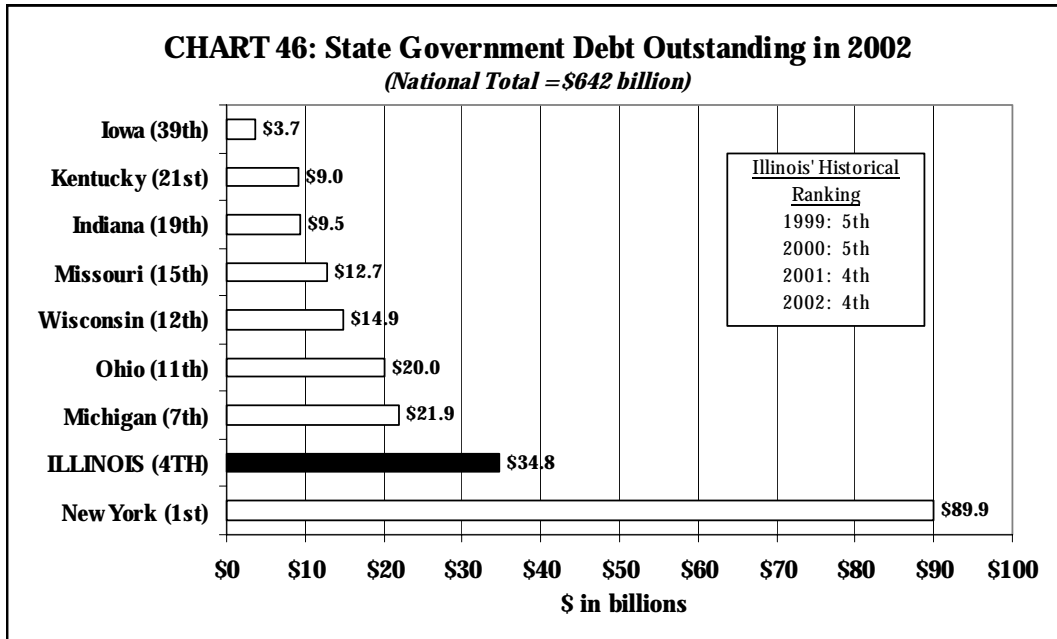


Part of the reason for Illinois' low spending levels for public welfare programs is due to its low monthly TANF assistance for Illinois recipients. As shown in Chart 45, Illinois ranked last (50th) in the average amount of monthly TANF assistance to recipients in 2002. Illinois' amount of \$53.94 was below the national average of \$167.81 and well below the highest ranked state of Pennsylvania at \$327.35. Over the last several years, Illinois has made an effort to dramatically alter welfare in Illinois and provide the impetus for thousands of families to become fully or partially self-supporting. Most TANF clients are required to work or participate in work-related activities to earn an income. As a result, less State financial assistance is needed.



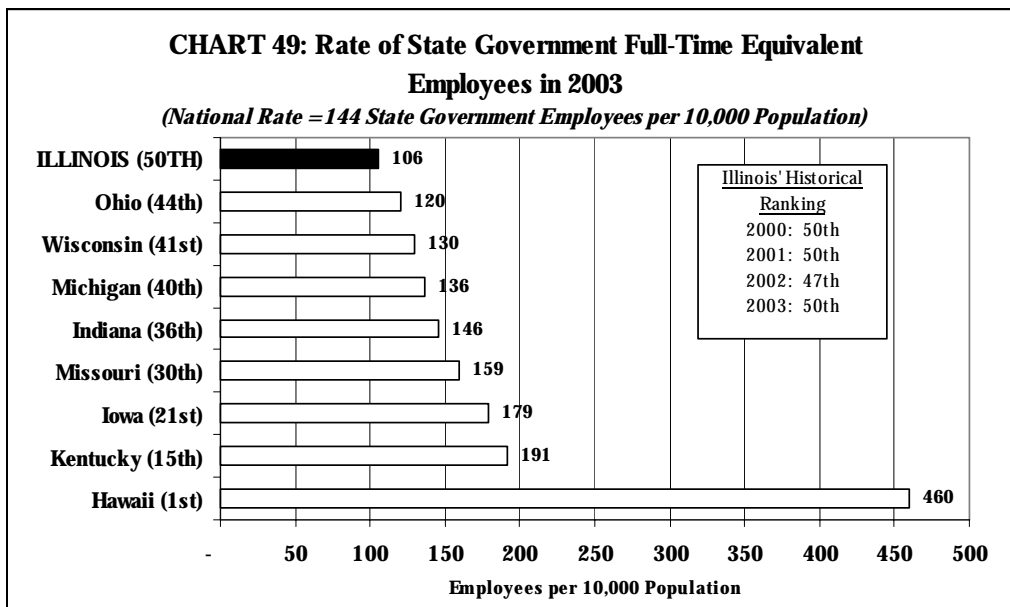
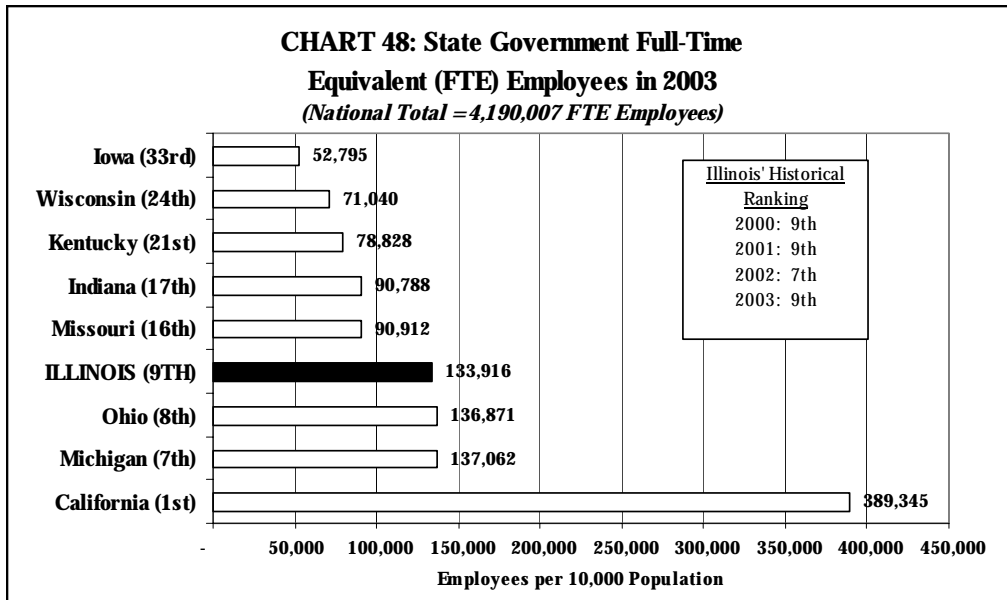
Category 22: State Government Debt Outstanding

In this category, state government debt outstanding includes short-term, long-term, full faith and credit, non-guaranteed and public debt for private purposes. In 2002, Illinois ranked 4th in the nation with a total debt of \$34.8 billion. New York had the highest level of debt outstanding with \$89.9 billion. On a per-capita basis, Illinois ranked 14th with a value of \$2,672. This amount was above the national average of \$2,235. Illinois was the highest ranked state in the Midwest Region in both total dollars and on a per-capita basis.



Category 23: State Government Full-Time Equivalent Employees

While the information provided below is not necessarily related to state government finance, Illinois' ranking in this category is interesting. Illinois ranked 9th in the nation in the number of state government full-time equivalent (FTE) employees (as of March 2003) with 133,916 FTE employees. However, as shown in Chart 49, Illinois ranked last (50th) in the rate of state government FTE employees per 10,000 population. Illinois' rate of 106 FTE employees was below the national rate of 144. Hawaii had the highest rate with 460 employees. While this ranking is eye-catching, it should be noted that the five highest populated states were all near the bottom of the rankings for this category. This suggests that, on average, the need for employees per 10,000 residents decreases as population increases.



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