

*Commission on Government
Forecasting and Accountability*

***REVISED
FY 2006 REVENUE ESTIMATE***

and

UPDATED FY 2005 REVENUE OUTLOOK



MAY 5, 2005
703 Stratton Office Building
Springfield, Illinois 62706

*Commission on Government Forecasting
And Accountability*

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BACKGROUND

The Commission on Government Forecasting and Accountability (CGFA), a bipartisan, joint legislative commission, provides the General Assembly with information relevant to the Illinois economy, taxes and other sources of revenue and debt obligations of the State. The Commission's specific responsibilities include:

- 1) Preparation of annual revenue estimates with periodic updates;
- 2) Analysis of the fiscal impact of revenue bills;
- 3) Preparation of "State Debt Impact Notes" on legislation which would appropriate bond funds or increase bond authorization;
- 4) Periodic assessment of capital facility plans;
- 5) Annual estimates of public pension funding requirements and preparation of pension impact notes;
- 6) Annual estimates of the liabilities of the State's group health insurance program and approval of contract renewals promulgated by the Department of Central Management Services;
- 7) Administration of the State Facility Closure Act.

The Commission also has a mandate to report to the General Assembly ". . . on economic trends in relation to long-range planning and budgeting; and to study and make such recommendations as it deems appropriate on local and regional economic and fiscal policies and on federal fiscal policy as it may affect Illinois. . . ." This results in several reports on various economic issues throughout the year.

The Commission publishes several reports each year. In addition to a Monthly Briefing, the Commission publishes the "Revenue Estimate and Economic Outlook" which describes and projects economic conditions and their impact on State revenues. The "Illinois Bond Watcher" report examines the State's debt position as well as other issues directly related to conditions in the financial markets. The "Financial Conditions of the Illinois Public Retirement Systems" provides an overview of the funding condition of the State's retirement systems. Also published are an Annual Fiscal Year Budget Summary; Report on the Liabilities of the State Employees' Group Insurance Program; and Report of the Cost and Savings of the State Employees' Early Retirement Incentive Program. The Commission also publishes each year special topic reports that have or could have an impact on the economic well being of Illinois. All reports are available on the Commission's website. (http://www.ilga.gov/commission/cgfa/cgfa_home.html)

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CHART 1: Change in Real GDP

- The pace of economic activity edged lower in FY 2005, following a sharp rebound in FY 2004, but remained above its long-term trend.
- After strong 4.5% growth in FY 2004, real growth is estimated to have increased 3.9% in FY 2005,
- As stated last March, further moderation is expected in FY 2006 as the expansion matures; interest rates rise further slowing housing and durable goods spending; prices, lead by energy prices, increase at a faster pace than in recent years, and fiscal stimulus abates as the stimulative effects of tax cuts disappear.
- In early April, Global Insight, a forecasting service used by the Commission, forecast growth to slow to 3.3% in FY 2006. Since then, most economists are in the process of reevaluating growth forecasts somewhat lower.

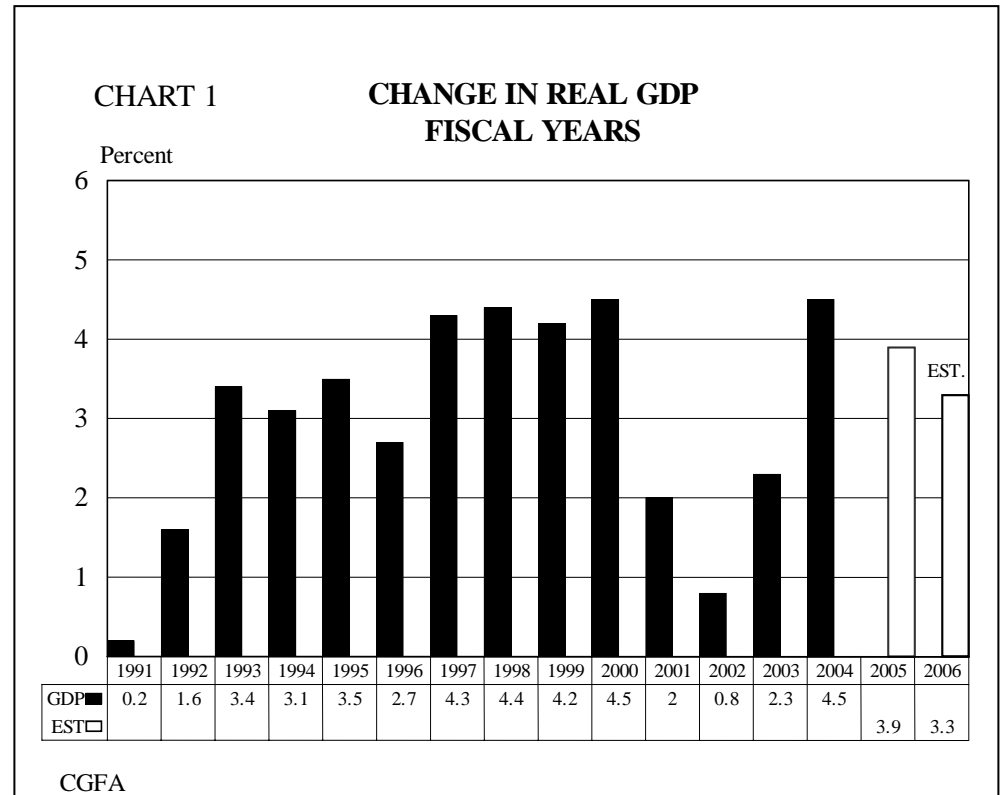


CHART 2: U.S. Interest Rates

- To prevent inflation from re-igniting, the Federal Reserve has been removing stimulus by increasing the federal funds rate in quarter point increments eight times from a low of 1% last summer to its current target rate of 3% just a few days ago.
- The rise in short-term rates has not yet been transferred to higher long-term interest rates, represented in the chart by the mortgage rate.
- In response to these rate increases, commercial banks have raised their prime, or best lending rate, from 4% to 6%, and the resulting firmer credit posture has significantly slowed growth in the money supply.

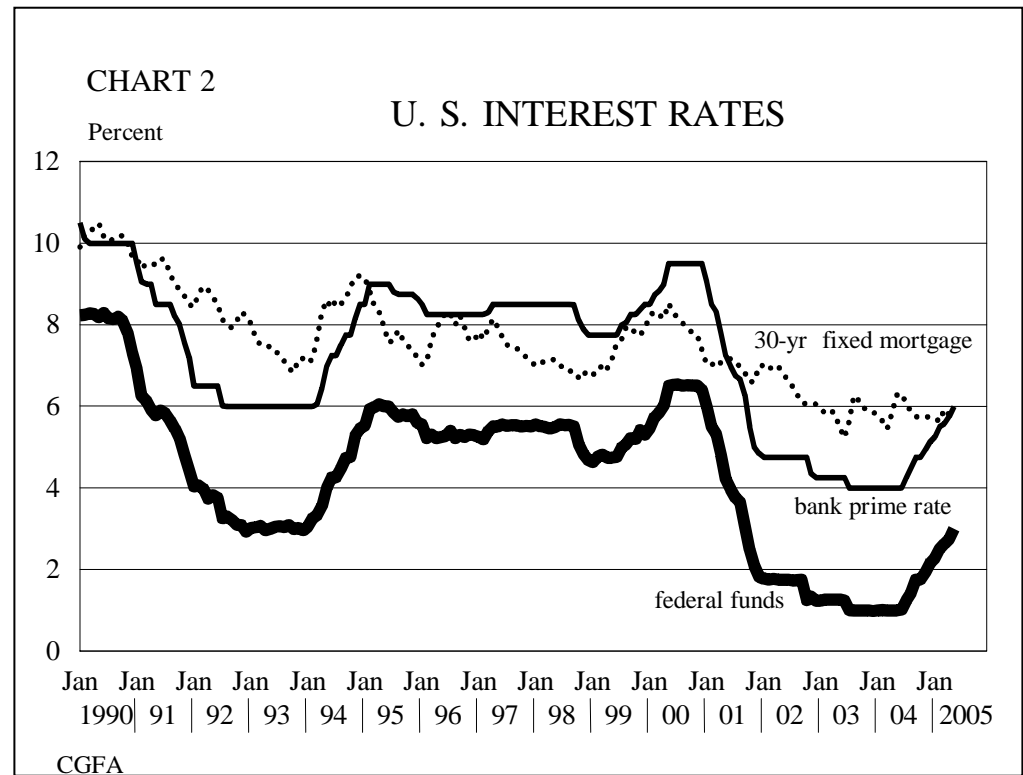


CHART 3: Money Supply

- The rise in the federal funds rate has slowed growth in the money supply, as shown in Chart 3.
- Recently the money supply was up slightly less than 2% over a year earlier, the lowest rate of advance in a decade. As pointed out by ISI, International Strategy & Investment, “this suggests slower growth into early 2006.”
- In its analysis, the ISI noted the decline in money in 1994 was a good leading indicator for the 1995 mid-cycle economic slowdown that occurred one year later.

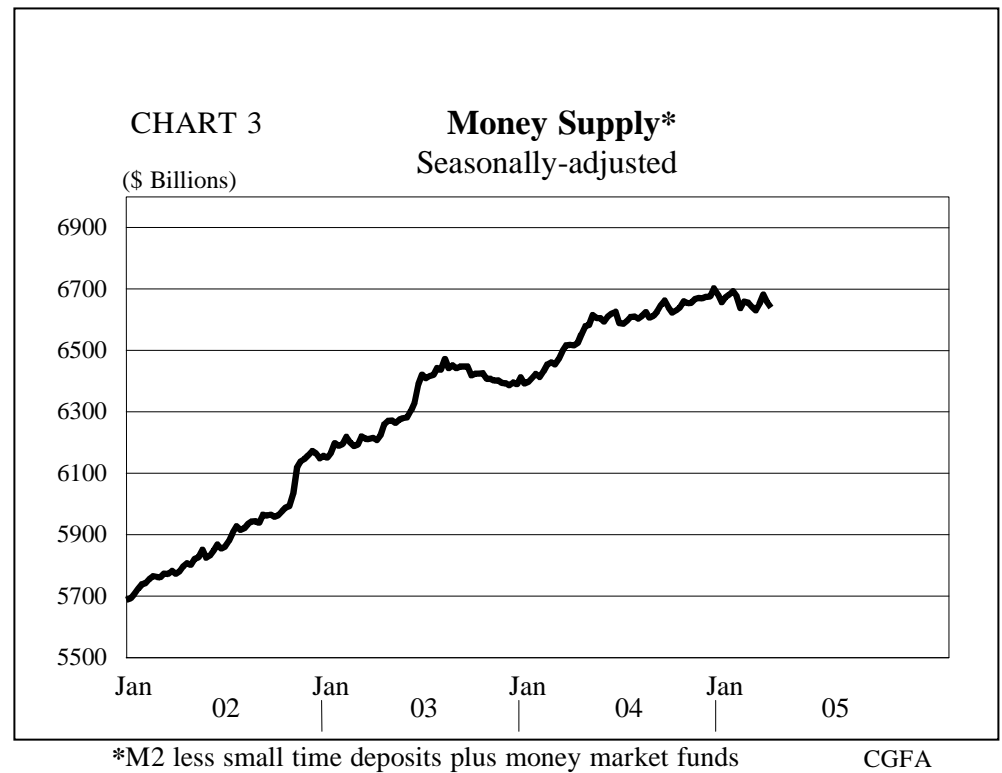


CHART 4: Consumer Price Index

- The rise in key short-term interest rates by the Federal Reserve is an attempt to preempt inflationary pressures from developing.
- As shown in Chart 4, consumer prices have been rising at a faster pace in recent months. This is in sharp contrast to conditions two years ago when the major concern was deflation, or falling prices.
- In March 2005, overall consumer prices were 3.1% higher than a year ago while the core rate, excluding food and energy prices, was up at 2.3%. While neither looks particularly disturbing, both rates are higher than in January 2004 when overall prices were 1.9% higher and the core rate only up 1.1%.

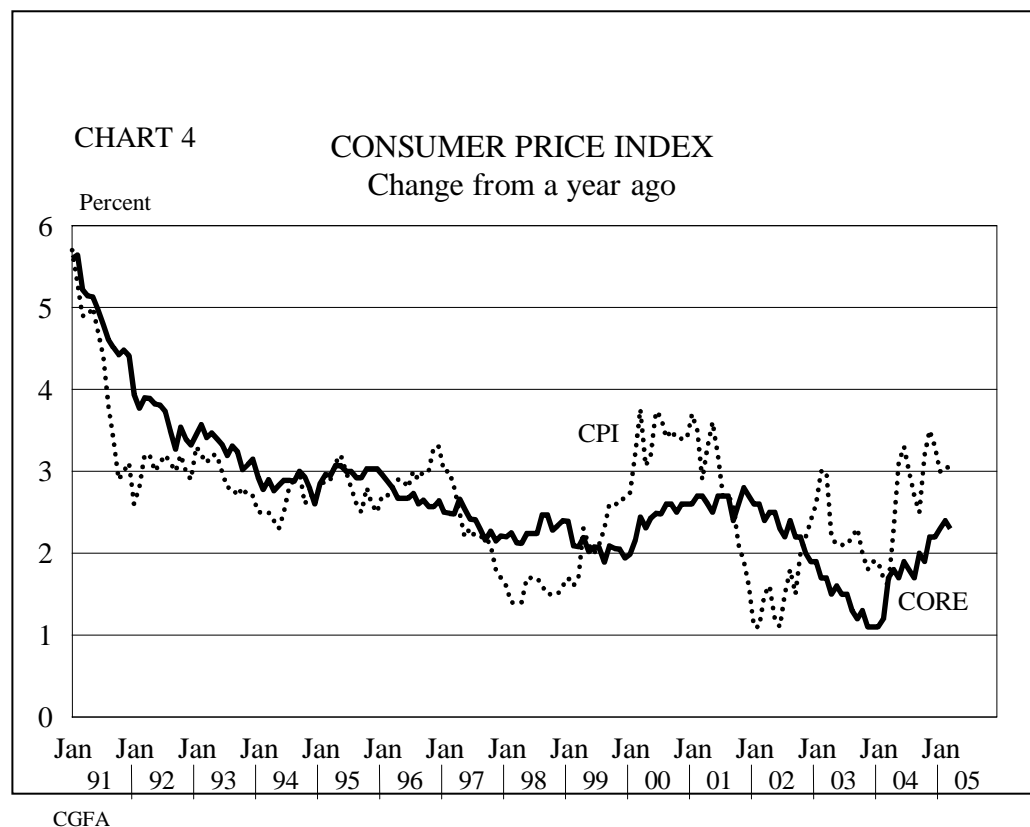


CHART 5: Consumer Confidence

- Consumer confidence, as measured both by the University of Michigan and the Conference Board, generally has risen since a low was reached in early 2003. Even so, there was a weakening last summer as the economy hit a soft patch, followed by modest improvement, only to weaken again in recent months.
- Despite gains, the measures are well below the levels reached in the late 1990s and there is a general feeling of growing concern in recent months.
- The current weakness reflects reduced expectations for the future. Both measures in their latest reports show a sharp drop in real income expectations, as consumers expect inflation to accelerate at the same time they expect income to slow.
- Sharp gyrations in the stock market, intermixed with significant declines, undoubtedly are adding to concerns. If continued, this could suggest weaker employment and retail sales in the months ahead.

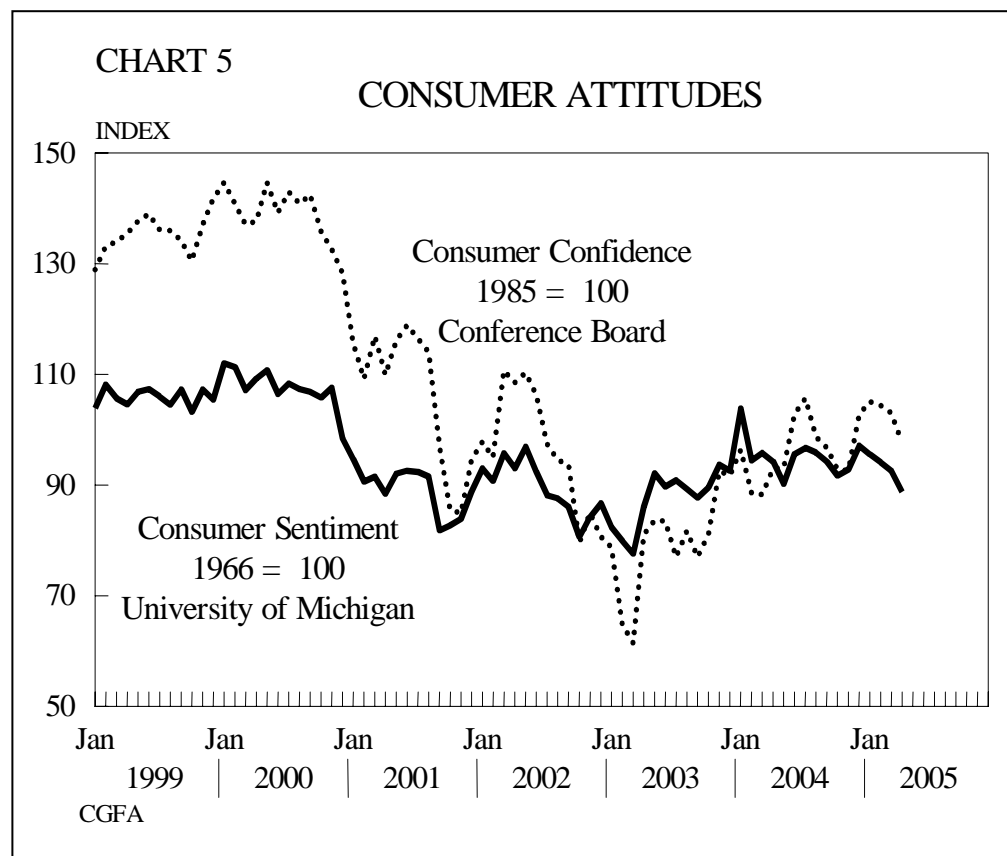


CHART 6: United States Employment

- The employment situation has continued to improve throughout the year with new highs reached in both the household and payroll series.
- The gain was particularly evidenced in the important payroll series, which at this time last year had shown virtually no gain and was well below its previous peak.
- The improvement in employment also showed up in a declining unemployment rate, which fell to 5.2 % in March 2005, down from 5.7% a year earlier and a peak last June of 6.4%.

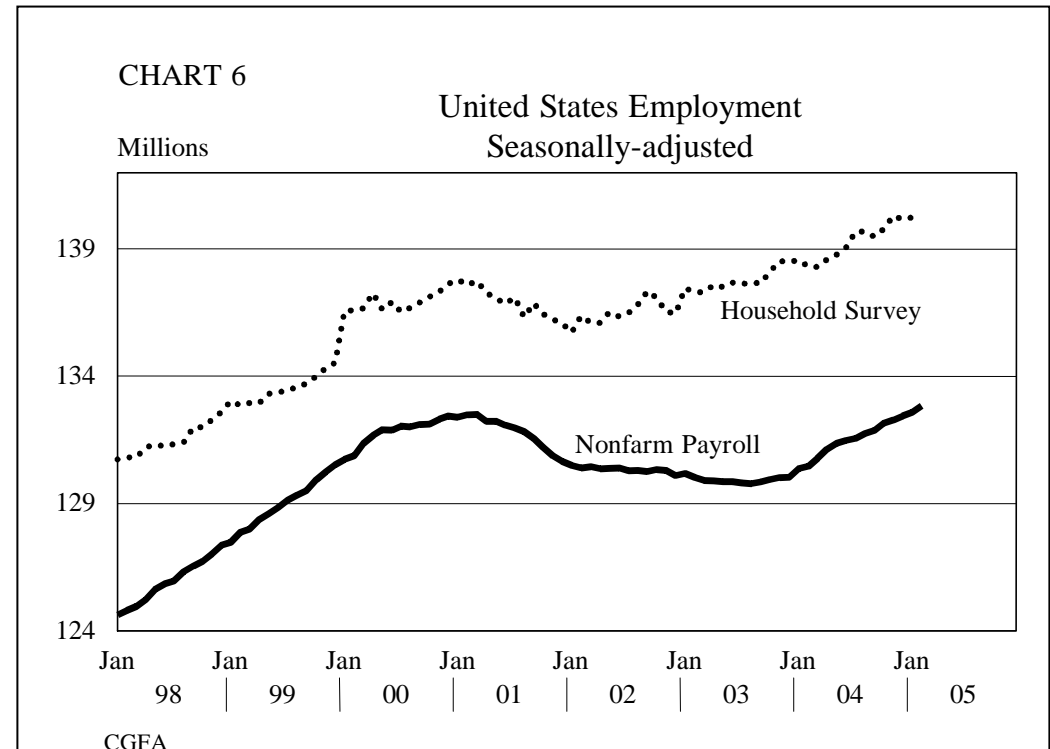
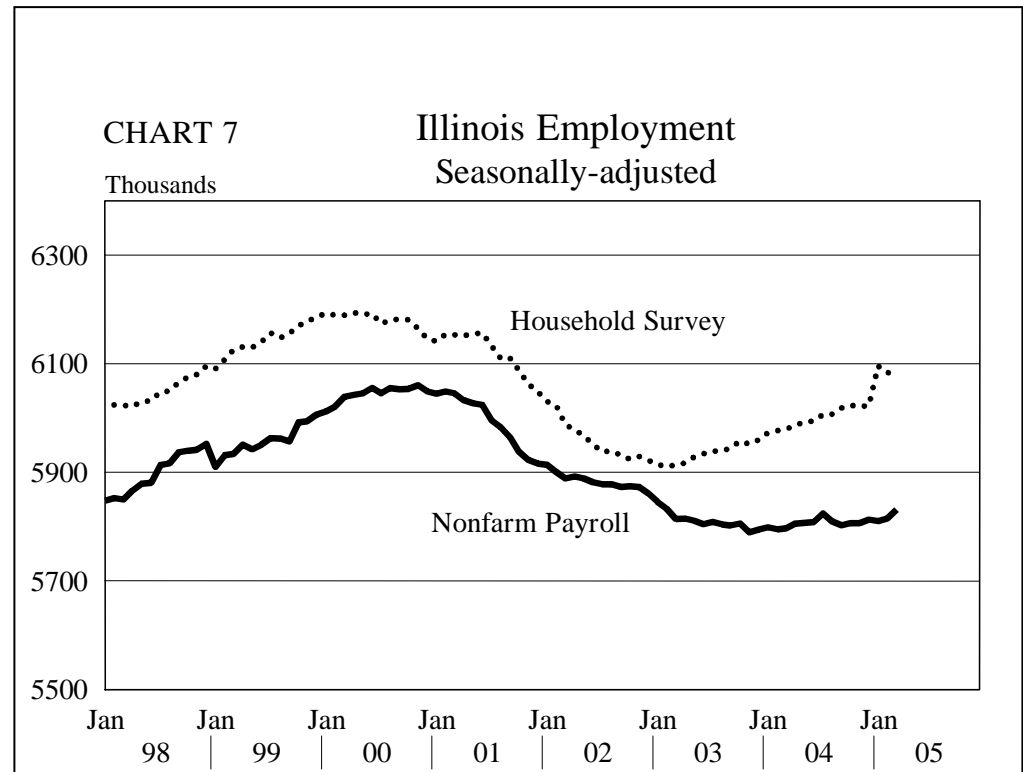


CHART 7: Illinois Employment

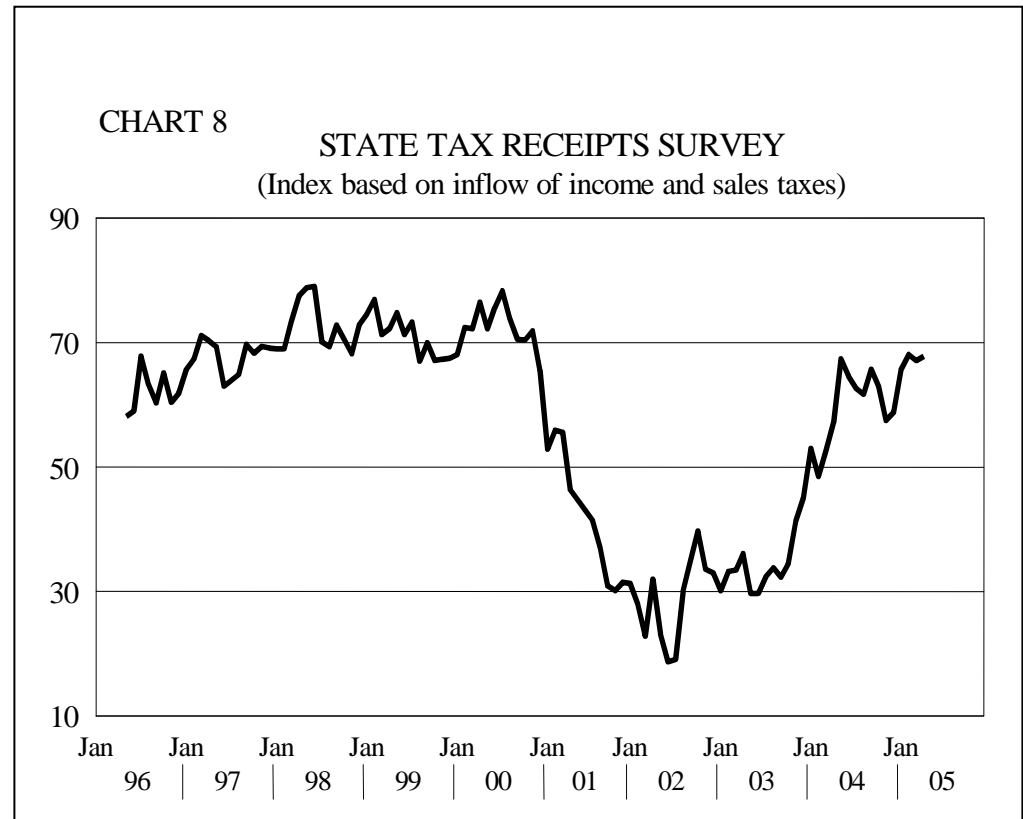
- The employment situation also has continued to improve throughout the year in Illinois. Even so, unlike the national data, the level of employment by either measure remains well below previous peaks.
- The State gain has been evidenced mainly in the Household Survey, while improvement in the more comprehensive Payroll series has been significantly less apparent.
- The improvement in employment showed up in a declining unemployment rate, but Illinois' rate remains well above the national rate. In March Illinois had an unemployment rate of 5.6%, down from 6.3% a year ago.



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CHART 8: State Tax Receipts Survey

- The improved employment situation is being reflected in an increase in state tax receipts.
- Personal income in current dollars rose from a 4.6% gain in FY 2004 to an estimated 5.9% in FY 2005. This coupled with rising corporate profits are behind the improvement seen in income taxes.
- At the same time, further strong gains in consumer spending and somewhat higher prices, particularly for gasoline, added to sales tax collections.
- With the pace of business expansion moderating, consumer attitudes weakening, and both inflation and interest rates rising, there is concern, however, that future gains in State revenues also may be tempered.



Source: ISI (International Strategy & Investment)

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INDIVIDUAL SOURCE PERFORMANCE TO DATE

TABLE 1: GENERAL FUNDS RECEIPTS: THROUGH APRIL				
FY 2005 vs. FY 2004				
(\$million)				
Revenue Sources	FY 2005	FY 2004	CHANGE FROM FY 2004	% CHANGE
State Taxes				
Personal Income Tax	\$7,264	\$6,835	\$429	6.3%
Corporate Income Tax (regular)	1,228	1,171	\$57	4.9%
Sales Taxes	5,483	5,267	\$216	4.1%
Public Utility Taxes (regular)	886	905	(\$19)	-2.1%
Cigarette Tax	383	333	\$50	15.0%
Liquor Gallonage Taxes	123	105	\$18	17.1%
Vehicle Use Tax	27	29	(\$2)	-6.9%
Inheritance Tax (Gross)	263	175	\$88	50.3%
Insurance Taxes and Fees	276	291	(\$15)	-5.2%
Corporate Franchise Tax & Fees	144	131	\$13	9.9%
Interest on State Funds & Investments	55	47	\$8	17.0%
Cook County IGT	327	338	(\$11)	-3.3%
Other Sources	343	265	\$78	29.4%
Subtotal	\$16,802	\$15,892	\$910	5.7%
Transfers				
Lottery	491	463	\$28	6.0%
Riverboat transfers & receipts	571	541	\$30	5.5%
Other	662	849	(\$187)	-22.0%
Total State Sources	\$18,526	\$17,745	\$781	4.4%
Federal Sources (incl. \$434m MPRF transfer)	\$4,052	\$4,290	(\$238)	-5.5%
Total Federal & State Sources	\$22,578	\$22,035	\$543	2.5%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$733)	(\$800)	\$67	-8.4%
Corporate Income Tax	(\$299)	(\$376)	\$77	-20.5%
Subtotal General Funds	\$21,546	\$20,859	\$687	3.3%
Short-Term Borrowing	\$765	\$0	\$765	N/A
HPF and HESMIF Transfers	\$995	\$0	\$995	N/A
Budget Stabilization Fund Transfer	\$276	\$226	\$50	22.1%
Pension Contribution Fund Transfer	\$0	\$1,395	(\$1,395)	N/A
Total General Funds	\$23,582	\$22,480	\$1,102	4.9%
SOURCE: Office of the Comptroller, State of Illinois. Some totals may not equal, due to rounding.				
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- Gross personal income tax has performed quite well over the first ten months of the fiscal year. While the Voluntary Compliance Program (VCP) contributed to year to date growth, the underlying receipt performance has been stronger than anticipated.
- While VCP program also contributed to Gross corporate income tax growth, underlying receipts have also performed better than projected.
- Sales taxes continue to perform moderately better than expected thus far reflecting the continued strength of the consumer as well as increases in prices.
- Cigarette tax is up due to the temporary change in the tax distribution that has already ended.
- Liquor tax is up as expected due to elimination of earlier tax protests.
- Inheritance tax continues to outpace expectations due to a number of large settlements and the annualization of decoupling from the federal phase-out.
- Insurance taxes and fees have faltered due mainly to offsets associated with other insurance company tax payments.
- Corporate franchise taxes and fees have improved as corporate activity has increased.
- Other sources are up due to the annualizations of last year's fee increases as well as timing aspects related to those same fees. Despite those positives, a number of items should significantly slow that rate of increase over the remainder of the year.
- Overall transfers are down due to the timing of large numbers of transfers experienced last fiscal year, i.e. chargebacks, fee transfers, and other miscellaneous transfers. That aside, lottery transfers have performed well and riverboat transfers and receipts are expected to improve over the remainder of the year based on actual adjusted gross receipt activity.
- While federal sources are down substantially, that fall off was expected due to federal flexible grants received last year.

Excluding the loss in federal sources, most of the economically related revenue lines have performed quite well thus far. Unfortunately, poor performance in a few mostly non-economic areas will serve to offset a large portion of those gains. However, the net adjustment to the FY 2005 forecast will be still be positive and will also have the consequence of improving the FY 2006 estimate.

TABLE 2: ADJUSTMENTS TO CGFA FY 2005 ESTIMATE
(millions)

	CGFA FY 2005 Revised Estimate Mar-05	CGFA FY 2005 Estimate Mar-05	Change From Mar-05 Est.
Revenue Sources			
State Taxes			
Personal Income Tax	\$8,700	\$8,572	\$128
Corporate Income Tax	\$1,477	\$1,422	\$55
Sales Taxes	\$6,585	\$6,545	\$40
Public Utility (regular)	\$1,060	\$1,090	(\$30)
Cigarette Tax	\$450	\$450	\$0
Liquor Gallonage Taxes	\$150	\$147	\$3
Vehicle Use Tax	\$33	\$34	(\$1)
Inheritance Tax (gross)	\$305	\$285	\$20
Insurance Taxes & Fees	\$327	\$391	(\$64)
Corporate Franchise Tax & Fees	\$180	\$180	\$0
Interest on State Funds & Investments	\$65	\$60	\$5
Cook County Intergovernmental Transfer	\$433	\$433	\$0
<u>Other Sources</u>	<u>\$452</u>	<u>\$452</u>	<u>\$0</u>
Subtotal	\$20,217	\$20,061	\$156
Transfers			
Lottery	\$602	\$588	\$14
Riverboat Transfers & Receipts	\$709	\$713	(\$4)
<u>Other</u>	<u>\$923</u>	<u>\$963</u>	<u>(\$40)</u>
Total State Sources	\$22,451	\$22,325	\$126
Federal Sources (incl. \$434m MPRF transfer)	\$4,519	\$4,519	\$0
Total Federal & State Sources	\$26,970	\$26,844	\$126
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax	(\$877)	(\$864)	(\$13)
Corporate Income Tax	(\$359)	(\$346)	(\$13)
Subtotal General Funds	\$25,734	\$25,634	\$100
Change from Prior Year	\$306	\$206	
Percent Change	1.2%	0.8%	
Short-Term Borrowing*	\$765	\$765	\$0
HPF and HHSMIF Transfer*	\$997	\$997	\$0
Budget Stabilization Fund Transfer	\$276	\$276	\$0
Pension Contribution Fund Transfer	\$0	\$0	\$0
Total General Funds	\$27,772	\$27,672	\$100
Change from Prior Year Actual	\$723	\$623	
Percent Change	2.7%	2.3%	

*The March 2005 estimate was made prior to the recent short-term borrowing and subsequent transfer from the Hospital Provider Fund and Health & Human Service Medicaid Trust Fund. They are being included in the March estimate to reflect actual activity and are now incorporated into the official estimate.

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OVERALL FY 2005 REVENUE FORECAST REVISED UP

As shown in the accompanying table, a number of revenue sources are undergoing some significant revisions. While most of the economically related sources are being adjusted up, a number of downward revisions are being made in other areas. Overall, the net impact of those adjustments results in an upward revision of \$100 million.

Major changes to the FY 2005 Estimate

- Both personal income and corporate income tax receipts have performed better than expected. As a result, the estimates have been increased a total of \$183 million, or \$157 million net of refunds.
- Similarly, sales tax receipts continue to impress and have outpaced earlier expectations. Therefore, the estimate is being increased by \$40 million.
- Better than expected performance have also continued in a number of areas such as inheritance, interest income, and liquor. As a result, those estimate also are undergoing upward revisions.
- Overall public utility taxes have fallen behind expectations. With little cause to expect a turnaround over the remaining months the estimate is being lowered by \$30 million.
- Insurance taxes and fees, after starting out strong, have faltered significantly over the past months. The most likely reasons being payments made under corporate income tax designation and new higher fees that act to offset tax liability owed under this source line. The estimate has been reduced by \$64 million.
- Overall transfers are being revised down \$30 million. While lottery transfers continue to outpace expectations and are being increased by \$14 million, riverboat transfers are being trimmed by \$4 million. In addition, lower transfer activity to date and anticipated drop offs in other areas cause a \$40 million downward revision in other transfers.

TABLE 3: FY 2005 CGFA/GOMB COMPARISON
(millions)

Revenue Sources	Actual	CGFA	GOMB*	Difference
	FY 2004	FY 2005 Revised Estimate May-05	FY 2005 Adjusted Estimate Feb-05	
State Taxes				
Personal Income Tax	\$8,235	\$8,700	\$8,645	\$55
Corporate Income Tax	\$1,379	\$1,477	\$1,412	\$65
Sales Taxes	\$6,331	\$6,585	\$6,530	\$55
Public Utility (regular)	\$1,079	\$1,060	\$1,101	(\$41)
Cigarette Tax	\$400	\$450	\$450	\$0
Liquor Gallonage Taxes	\$127	\$150	\$145	\$5
Vehicle Use Tax	\$35	\$33	\$35	(\$2)
Inheritance Tax (gross)	\$222	\$305	\$265	\$40
Insurance Taxes & Fees	\$362	\$327	\$371	(\$44)
Corporate Franchise Tax & Fees	\$163	\$180	\$190	(\$10)
Interest on State Funds & Investments	\$55	\$65	\$45	\$20
Cook County Intergovernmental Transfer	\$428	\$433	\$433	\$0
Other Sources	\$439	\$452	\$451	\$1
Subtotal	\$19,255	\$20,217	\$20,073	\$144
Transfers				
Lottery	\$570	\$602	\$588	\$14
Riverboat Transfers & Receipts	\$661	\$709	\$700	\$9
Other	\$1,159	\$923	\$945	(\$22)
Total State Sources	\$21,645	\$22,451	\$22,306	\$145
Federal Sources (incl. \$434m MPRF transfer)	\$5,189	\$4,519	\$4,519	\$0
Total Federal & State Sources	\$26,834	\$26,970	\$26,825	\$145
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$964)	(\$877)	(\$864)	(\$13)
Corporate Income Tax	(\$442)	(\$359)	(\$339)	(\$20)
Subtotal General Funds	\$25,428	\$25,734	\$25,622	\$112
Change from Prior Year Actual		\$306	\$194	
Percent Change		1.2%	0.8%	
Short-Term Borrowing	\$0	\$765	\$765	\$0
HPF and HHSMITF Transfer	N/A	\$997	\$997	\$0
Budget Stabilization Fund Transfer	\$226	\$276	\$276	\$0
Pension Contribution Fund Transfer	\$1,395	\$0	\$0	\$0
Total General Funds	\$27,049	\$27,772	\$27,660	\$112
Change from Prior Year Actual		\$723	\$611	
Percent Change		2.7%	2.3%	

* The GOMB February estimate was made prior to the recent short-term borrowing and subsequent transfer from the Hospital Provider Fund and Health and Human Service Medicaid Trust Fund. They are being included here to reflect actual activity.

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CGFA/GOMB FY 2005 COMPARISON

As shown, the Commission's revised FY 2005 general funds estimate of \$25.734 billion is \$112 million above the Governor's Office of Management and Budget's latest official estimate reflected in the FY 2006 Budget Book.

In terms of the overall forecast, the two estimates are similar in most respects. However, with its latest revision, the Commission is now measurably higher in its estimates of the economically related areas such as income and sales taxes. Conversely, the Commission is considerably lower in the areas of insurance taxes, public utility taxes, and other transfers.

TABLE 4: CGFA ESTIMATE FY 2006 vs. FY 2005
(millions)

	CGFA FY 2006 Estimate May-05	CGFA FY 2005 Estimate May-05	\$ Difference	% Difference
Revenue Sources				
State Taxes				
Personal Income Tax	\$9,035	\$8,700	\$335	3.9%
Corporate Income Tax	\$1,538	\$1,477	\$61	4.1%
Sales Taxes	\$6,848	\$6,585	\$263	4.0%
Public Utility (regular)	\$1,060	\$1,060	\$0	0.0%
Cigarette Tax	\$400	\$450	(\$50)	-11.1%
Liquor Gallonage Taxes	\$150	\$150	\$0	0.0%
Vehicle Use Tax	\$33	\$33	\$0	0.0%
Inheritance Tax (gross)	\$300	\$305	(\$5)	-1.6%
Insurance Taxes & Fees	\$328	\$327	\$1	0.3%
Corporate Franchise Tax & Fees	\$185	\$180	\$5	2.8%
Interest on State Funds & Investments	\$75	\$65	\$10	15.4%
Cook County Intergovernmental Transfer	\$340	\$433	(\$93)	-21.5%
Other Sources	\$399	\$452	(\$53)	-11.7%
Subtotal	\$20,691	\$20,217	\$474	2.3%
Transfers				
Lottery	\$620	\$602	\$18	3.0%
Riverboat Transfers & Receipts	\$615	\$709	(\$94)	-13.3%
Other	\$680	\$923	(\$243)	-26.3%
Total State Sources	\$22,606	\$22,451	\$155	0.7%
Federal Sources	\$4,834	\$4,519	\$315	7.0%
Total Federal & State Sources	\$27,440	\$26,970	\$470	1.7%
Nongeneral Funds Distribution:				
Refund Fund*				
Personal Income Tax	(\$881)	(\$877)	(\$4)	0.5%
Corporate Income Tax	(\$308)	(\$359)	\$51	-14.2%
Subtotal General Funds	\$26,251	\$25,734	\$517	2.0%
Short-Term Borrowing	\$0	\$765	(\$765)	-100.0%
HPF and HHSMIF Transfer	\$0	\$997	(\$997)	-100.0%
Budget Stabilization Fund Transfer	\$276	\$276	\$0	0.0%
Total General Funds	\$26,527	\$27,772	(\$1,245)	-4.5%
* The CGFA estimates assume federal source figures presented in the Budget Book. The CGFA FY 2006 estimate assumes the refund percentages at 9.75% for PIT and 20% for CIT. In addition, it is assumed that \$276 million in Budget Stabilization Fund transfers will be utilized in FY 2006 for cash flow purposes. CGFA				

FY 2006 ESTIMATE

As shown, excluding Budget Stabilization Fund transfers, the CGFA's revised estimate of FY 2006 general funds revenue is \$26.251 billion. The forecast represents an increase of \$517 million or 2.0% over the revised FY 2005 estimate.

While the economically related sources are expected to contribute decent rates of growth in FY 2006, a number of unrelated items serve to retard the impact of those improvements. For example:

- A return to normal cigarette tax distributions equates into a year over year decline of \$50 million.
- The beginning of significant reductions in IGT revenue takes hold and reduces revenue by \$93 million.
- The return to a lower riverboat taxing structure will reduce receipts by \$94 million.
- Without legislative action, \$265 million in various funds sweeps cannot be repeated in the upcoming fiscal year.

While the Governor has proposed changes that would equate into an additional \$641 million in revenues over current law, since legislative action is required, most are not included in the CGFA forecast (the exception being assumed lower refund percentages valued at \$84 million).

HIGHLIGHTS OF FY 2006 ESTIMATE

- Base gross personal income tax is expected to grow 5%, but due to impact of the VCP in FY 2005, the effective rate of growth is a lower 3.9%. The estimate incorporates the lower refund percentages assumed in the Budget Book. Therefore, on a net of refund basis, personal income tax is expected to increase by 4.1% as the lower refund percentage is worth approximately \$23 million.
- Base gross corporate income tax is expected to grow 7%, but due to impact of the VCP in FY 2005, the effective rate of growth is a lower 4.1%. The estimate incorporates the lower refund percentages assumed in the Budget Book. Therefore, on a net of refund basis, corporate income tax is expected to increase by 9.6% as the lower refund percentage is worth approximately \$61 million.
- Sales tax is forecasted to grow a decent 4.0%.
- A return to normal cigarette tax distribution will result in a \$50 million reduction in general fund receipts.
- Continued rising interest rates will result in a \$10 million increase in interest earnings.
- The Cook County Intergovernmental transfer (IGT) is expected to fall \$93 million. The transfer agreement 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, it is understood the federal government is phasing out the allowance of these hyper-payments. As a result, the transfer that the State can expect to receive from the IGT will begin to erode in future years and ultimately end in 2009.
- The FY 2006 other source estimate is expected to fall \$53 million from the previous fiscal year. The net decrease results from the planned reduction in Build Illinois general reserve account transfer as well as the anticipated drop in commercial distribution fee revenue stemming from P.A. 93-1033.
- Increased lottery drawings and additional retailers are expected to result in \$18 million in lottery transfer growth.
- The FY 2006 estimate of gaming transfers is \$615 million, which represents a decline of \$94 million from this fiscal year. Under current law, the graduated taxing structure returns to lower levels July 1, 2005.
- In FY 2006, other transfers to the general funds are expected to fall \$243 million from the prior fiscal year, primarily reflecting the \$265 million in one-time "fund sweeps" made in FY 2005.
- Per the Governor's proposed budget request, the FY 2006 estimate of total federal source receipts to the general funds is \$4.834 billion, which is \$315 million more than the FY 2005 forecast. Federal source receipts are largely based on appropriation levels and subsequent spending activity. As a result, the estimate likely will change once appropriation levels have been established.

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

TABLE 5: GOMB FY 2006 General Revenue Growth Assumptions

	GOMB Feb-05
FY 2005 Estimate (\$millions)	\$25,622
Net Change Income Taxes (current Refund %)	\$346
Sales tax	\$248
Net Change Other State Sources	(\$208)
Net Change Transfers	(\$295)
Federal Sources	\$315
Base Growth	\$406
Proposed Revenue Changes	
Deficit Reduction Sources	\$255
School Endowment Fund Transfer	\$140
Net Change due to Proposed Lower Refund %	\$81
Riverboats at Current Tax Rates (Revised CGFA est. value)	\$94
Fund Sweep (Tobacco Settlement Fund)	\$68
Growth from Proposed Changes	\$638
Total Growth Assumptions	\$1,044
FY 2006 Estimate	\$26,666
*Does not include \$276 million in anticipated Budget Stabilization Fund transfer	

**SUMMARY OF REVENUE RELATED FY 2006 BUDGET
HIGHLIGHTS**

The Governor’s proposed FY 2006 budget is based upon general funds revenue growth of \$1.044 billion. As shown in the table below, the majority of that growth is based on a number of assumptions that likely would require legislative approval. These items total approximately \$638 million, while other growth is anticipated to be \$406 million.

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

- Increased Audit Enforcement-\$10 million
- Sales tax on software-\$65 million
- Reform retail rate law-\$17 million
- Increase cigarette tax and other tobacco products tax-\$155 million

The budget assumes \$394 million in a combination of chargebacks [\$186 million], a Tobacco Fund sweep [\$68 million], and a new transfer from School Endowment Fund [\$140 million] made possible by proposed funds reform. In addition, the FY 2006 revenue forecast assumes a lower refund fund percentage (valued at approximately \$81 million when compared to current rates). Also, it is assumed that the current tax rates applied to riverboats will continue, rather than rolling back to lower levels under current law (the CGFA now estimates the value of that tax change to be approximately \$94 million).

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

TABLE 6: FY 2006 CGFA/GOMB COMPARISON

(millions)

	*CGFA FY 2006 <u>Estimate May-05</u>	GOMB FY 2006 <u>Estimate Feb-05</u>	\$ <u>Difference</u>
Revenue Sources			
State Taxes			
Personal Income Tax	\$9,035	\$8,997	\$38
Corporate Income Tax	\$1,538	\$1,451	\$87
Sales Taxes	\$6,848	\$6,778	\$70
Public Utility (regular)	\$1,060	\$1,096	(\$36)
Cigarette Tax	\$400	\$400	\$0
Liquor Gallonage Taxes	\$150	\$146	\$4
Vehicle Use Tax	\$33	\$35	(\$2)
Inheritance Tax (gross)	\$300	\$255	\$45
Insurance Taxes & Fees	\$328	\$366	(\$38)
Corporate Franchise Tax & Fees	\$185	\$194	(\$9)
Interest on State Funds & Investments	\$75	\$45	\$30
Cook County Intergovernmental Transfer	\$340	\$340	\$0
<u>Other Sources</u>	<u>\$399</u>	<u>\$401</u>	<u>(\$2)</u>
Subtotal	\$20,691	\$20,504	\$187
Transfers			
Lottery	\$620	\$628	(\$8)
Riverboat Transfers & Receipts	\$615	\$696	(\$81)
<u>Other</u>	<u>\$680</u>	<u>\$916</u>	<u>(\$236)</u>
Total State Sources	\$22,606	\$22,744	(\$138)
Federal Sources	\$4,834	\$4,834	\$0
Total Federal & State Sources	\$27,440	\$27,578	(\$138)
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax	(\$881)	(\$877)	(\$4)
Corporate Income Tax	(\$308)	(\$290)	(\$18)
Subtotal General Funds	\$26,251	\$26,411	(\$160)
Change from Prior Year Estimate	\$517	\$789	(\$272)
Percent Change	2.0%	3.1%	
Proposed Deficit Reduction Sources	\$0	\$255	(\$255)
Budget Stabilization Fund Transfer	\$276	\$276	\$0
Total General Funds	\$26,527	\$26,942	(\$415)
* The CGFA estimates assume federal source figures presented in the Budget Book. The CGFA FY 2006 estimate assumes the refund percentages at 9.75% for PIT and 20% for CIT. In addition, it is assumed that \$276 million in Budget Stabilization Fund transfers will be utilized in FY 2006 for cash flow purposes.			
CGFA			

CGFA/GOMB FY 2006 COMPARISON

As shown, excluding the Governor's proposed \$255 million in deficit reduction sources, the Commission's FY 2006 general funds estimate of \$26.251 billion is \$160 million below the GOMB's estimate of \$26.411 billion reflected in the FY 2006 Budget Book. If the \$255 million in deficit reduction sources are included in the GOMB estimate, the difference grows to \$415 million.

The two estimates reflect moderate differences in most of the larger more economically-tied sources such as income and sales taxes, with the Commission being higher in the estimates of these areas in large part due to a higher FY 2005 base. Other notable differences reside in the estimates of inheritance tax and interest income with the Commission being higher in each instance. Public utility taxes and insurance taxes and fees are two areas where the Commission is substantially lower than the GOMB.

The largest differences reside in the transfer categories. Specifically:

- The Commission's riverboat transfers and receipts forecast is based on current law that has the tax rate structure reverting to lower levels July 1, 2005. The GOMB's estimate assumes that the current higher rates continue at their present level. The difference in the estimates amount to \$81 million. [The Commission estimates the value of the tax change to be worth \$94 million].
- The Commission's estimate of other transfers does not include \$140 million in Governor proposed School Endowment Fund transfers into the Common School Fund. In essence, the proposal is to sweep \$420 million from available fund balances and deposit them in this newly created fund. Then, over the next three years, transfer \$140 million a year into the Common School Fund. The Commission's estimate also does not assume \$68 million in Tobacco Settlement Fund sweeps. Taken together, these two items account for the majority of the \$236 million difference in the estimates of other transfers.

TABLE 7: FY 2006 CGFA/GOMB COMPARISON
CGFA ESTIMATE ADJUSTED FOR PROPOSED REVENUE CHANGES
(millions)

	*CGFA FY 2006 Estimate May-05	GOMB FY 2006 Estimate Feb-05	\$ Difference
Revenue Sources			
State Taxes			
Personal Income Tax	\$9,035	\$8,997	\$38
Corporate Income Tax	\$1,538	\$1,451	\$87
Sales Taxes	\$6,848	\$6,778	\$70
Public Utility (regular)	\$1,060	\$1,096	(\$36)
Cigarette Tax	\$400	\$400	\$0
Liquor Gallonage Taxes	\$148	\$146	\$2
Vehicle Use Tax	\$35	\$35	\$0
Inheritance Tax (gross)	\$300	\$255	\$45
Insurance Taxes & Fees	\$328	\$366	(\$38)
Corporate Franchise Tax & Fees	\$185	\$194	(\$9)
Interest on State Funds & Investments	\$75	\$45	\$30
Cook County Intergovernmental Transfer	\$340	\$340	\$0
<u>Other Sources</u>	<u>\$399</u>	<u>\$401</u>	<u>(\$2)</u>
Subtotal	\$20,691	\$20,504	\$187
Transfers			
Lottery	\$620	\$628	(\$8)
Riverboat Transfers & Receipts	\$709	\$696	\$13
<u>Other</u>	<u>\$888</u>	<u>\$916</u>	<u>(\$28)</u>
Total State Sources	\$22,908	\$22,744	\$164
Federal Sources	\$4,834	\$4,834	\$0
Total Federal & State Sources	\$27,742	\$27,578	\$164
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax	(\$881)	(\$877)	(\$4)
Corporate Income Tax	(\$308)	(\$290)	(\$18)
Subtotal General Funds	\$26,553	\$26,411	\$142
Change from Prior Year Estimate	\$819	\$789	\$30
Percent Change	3.2%	3.1%	
Proposed Deficit Reduction Sources	\$255	\$255	\$0
Budget Stabilization Fund Transfer	\$276	\$276	\$0
Total General Funds	\$27,084	\$26,942	\$142
* The CGFA estimates assume federal source figures presented in the Budget Book. The CGFA FY 2006 estimate assumes the refund percentages at 9.75% for PIT and 20% for CIT. In addition, it is assumed that \$276 million in Budget Stabilization Fund transfers will be utilized in FY 2006 for cash flow purposes.			
CGFA			

CGFA ESTIMATE ADJUSTED FOR PROPOSED REVENUE CHANGES

For presentation purposes and ease of comparison, this table presents the CGFA's FY 2006 estimate including the various proposed revenue changes that total \$557 million:

- Deficit reduction sources- \$255 million
- School Endowment Fund transfer- \$140 million
- Riverboats remain at current tax rates-valued at \$94 million
- Tobacco Settlement Fund sweep- \$68 million

As shown, under this adjusted format the Commission's FY 2006 estimate is actually \$142 million higher than the GOMB's estimate.

TABLE 8: FY 2006 Revenue Growth Assumptions			
Walk-Up of CGFA and GOMB Estimates			
	CGFA	CGFA	GOMB
	Mar-05	May-05	Feb-05
FY 2005 Estimate	\$25,634	\$25,734	\$25,622
Net Change Income Taxes (current Refund %)	\$340	\$359	\$346
Sales tax	\$260	\$263	\$248
Net Change Other State Sources	(\$174)	(\$185)	(\$208)
Net Change Transfers	(\$358)	(\$319)	(\$295)
Federal Sources	<u>\$315</u>	<u>\$315</u>	<u>\$315</u>
FY 2006 Base Growth	\$383	\$433	\$406
GOMB Proposed Revenue Changes			
Deficit Reduction Sources	\$255	\$255	\$255
School Endowment Fund Transfer	\$140	\$140	\$140
Net Change due to Proposed Lower Refund %	\$81	\$84	\$81
Riverboats at Current Tax Rates (est. value)	\$125	\$94	\$94
Fund Sweep (Tobacco Settlement Fund)	<u>\$68</u>	<u>\$68</u>	<u>\$68</u>
Growth from Proposed Changes	\$669	\$641	\$638
Total Growth Including Proposed Changes	\$1,052	\$1,074	\$1,044
FY 2006 Estimate Including Proposed Changes	\$26,686	\$26,808	\$26,666
*Does not include \$276 million in anticipated Budget Stabilization Fund transfer			

WALK-UP OF FY 2006 GROWTH ASSUMPTIONS

For comparison purposes, the following table compares growth projections for both the CGFA and the GOMB and walks up from the FY 2005 estimate. As shown, from a base growth standpoint (assumes current law and current income tax refund percentages), the Commission's revised FY 2006 base growth is \$433 million, slightly higher than the projection made in March, and \$27 million higher than the GOMB's forecasted base growth.

If all of the various \$641 million proposed revenue changes were made, the Commission's forecasted total growth would then climb to \$1.074 billion, which is \$30 million higher than the GOMB's estimated growth of \$1.044 billion.

TABLE 9: GENERAL FUNDS REVENUE FY 1996 - FY 2006

(\$ million)

Revenue Sources	Actual Receipts FY 1996	Actual Receipts FY 1997	Actual Receipts FY 1998	Actual Receipts FY 1999	Actual Receipts FY 2000	Actual Receipts FY 2001	Actual Receipts FY 2002	Actual Receipts FY 2003	Actual Receipts FY 2004	CGFA May-05 Estimate FY 2005	CGFA May-05 Estimate FY 2006
State Taxes											
Personal Income Tax	\$6,070	\$6,552	\$7,269	\$7,778	\$8,273	\$8,607	\$8,086	\$7,979	\$8,235	\$8,700	\$9,035
Corporate Income Tax (regular)	1,209	1,361	1,402	1,384	1,527	1,279	1,043	1,011	1,379	1,477	1,538
Sales Taxes	4,798	4,992	5,274	5,609	6,027	5,958	6,051	6,059	6,331	6,585	6,848
Public Utility Taxes (regular)	833	873	912	1,019	1,116	1,146	1,104	1,006	1,079	1,060	1,060
Cigarette Tax	300	300	346	403	400	400	400	400	400	450	400
Liquor Gallonage Taxes	58	57	57	57	128	124	123	123	127	150	150
Vehicle Use Tax	37	37	37	38	38	34	38	34	35	33	33
Inheritance Tax (Gross)	187	199	250	347	348	361	329	237	222	305	300
Insurance Taxes and Fees	160	146	91	208	209	246	272	313	362	327	328
Corporate Franchise Tax & Fees	101	121	118	117	139	146	159	142	163	180	185
Interest on State Funds & Investments	133	144	182	212	233	274	135	66	55	65	75
Cook County Intergovernmental Transfer	0	251	152	218	245	245	245	355	428	433	340
Other Sources	<u>217</u>	<u>157</u>	<u>181</u>	<u>190</u>	<u>194</u>	<u>407</u>	<u>512</u>	<u>349</u>	<u>439</u>	<u>452</u>	<u>399</u>
Subtotal	\$14,103	\$15,190	\$16,271	\$17,580	\$18,877	\$19,227	\$18,497	\$18,074	\$19,255	\$20,217	\$20,691
Transfers											
Lottery	594	590	560	540	515	501	555	540	570	602	620
Gaming Fund Transfer	205	185	170	240	330	460	470	554	661	709	615
Other	<u>327</u>	<u>309</u>	<u>346</u>	<u>411</u>	<u>514</u>	<u>452</u>	<u>454</u>	<u>589</u>	<u>1,159</u>	<u>923</u>	<u>680</u>
Total State Sources	\$15,229	\$16,274	\$17,347	\$18,771	\$20,236	\$20,640	\$19,976	\$19,757	\$21,645	\$22,451	\$22,606
Federal Sources	\$3,339	\$3,269	\$3,323	\$3,718	\$3,891	\$4,320	\$4,258	\$3,940	\$5,189	\$4,519	\$4,834
Total Federal & State Sources	\$18,568	\$19,543	\$20,670	\$22,489	\$24,127	\$24,960	\$24,234	\$23,697	\$26,834	\$26,970	\$27,440
Nongeneral Funds Distribution:											
Refund Fund											
Personal Income Tax	(\$401)	(\$413)	(\$421)	(\$552)	(\$587)	(\$611)	(\$615)	(\$638)	(\$964)	(\$877)	(\$881)
Corporate Income Tax	(231)	(276)	(265)	(263)	(290)	(243)	(240)	(273)	(442)	(359)	(308)
Subtotal General Funds	\$17,936	\$18,854	\$19,984	\$21,674	\$23,250	\$24,106	\$23,379	\$22,786	\$25,428	\$25,734	\$26,251
Change from Prior Year	\$934	\$918	\$1,130	\$1,690	\$1,576	\$856	(\$727)	(\$593)	\$2,642	\$306	\$517
Percent Change	5.5%	5.1%	6.0%	8.5%	7.3%	3.7%	-3.0%	-2.5%	11.6%	1.2%	2.0%
Short-Term Borrowing	\$200	\$0	\$0	\$0	\$0	\$0	\$0	\$1,675	\$0	\$765	\$0
HPF and HHSMTF Transfers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$997	\$0
Budget Stabilization Fund Transfer	\$0	\$0	\$0	\$0	\$0	\$0	\$226	\$226	\$226	\$276	\$276
Pension Contribution Fund Transfer	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$300	\$1,395	\$0	\$0
Total General Funds	\$18,136	\$18,854	\$19,984	\$21,674	\$23,250	\$24,106	\$23,605	\$24,987	\$27,049	\$27,772	\$26,527
Change from Prior Year	\$834	\$718	\$1,130	\$1,690	\$1,576	\$856	(\$501)	\$1,382	\$2,062	\$723	(\$1,245)
Percent Change	4.8%	4.0%	6.0%	8.5%	7.3%	3.7%	-2.1%	5.9%	8.3%	2.7%	-4.5%
CGFA											05/04/05