



Commission on Government Forecasting and Accountability

MONTHLY BRIEFING

FEBRUARY 2006

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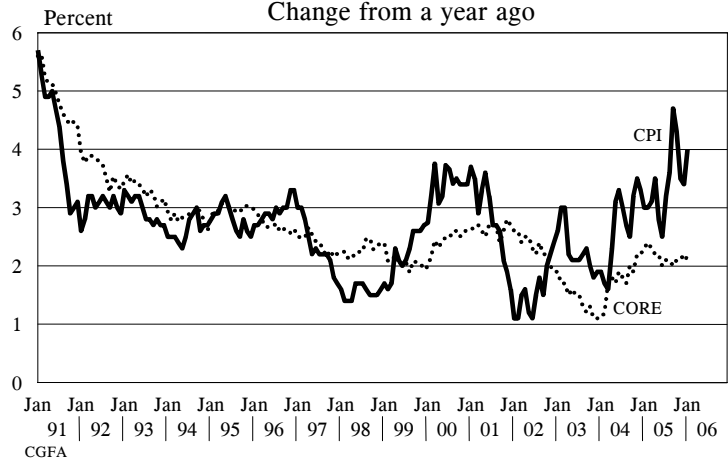
ECONOMY: Inflation Still a Concern?

Edward H. Boss, Jr., Chief Economist

Consumer prices rose a seasonally adjusted 0.7% in January, or at an 8.4% annualized rate, and are up 4% from a year earlier, more than twice the rate seen in early 2004 (See Chart 1). As has been true so often in recent months, the increase in energy prices was the major contributor, rising 5% in January alone for its first advance since September and accounting for about 70% of the total rise. While energy prices have shown wide month-to-month fluctuations, they are up 24.8% from a year earlier. Prices excluding the volatile food and energy sectors, *the core rate*, however, continued to be well behaved, rising only 0.2% in January and are up 2.0% from a year earlier, half the rate of increase in overall prices. The money, bond, and equity markets all preformed well immediately following the release of the price report, apparently showing little concern over any building up of inflationary pressures.

The lack of any negative market response to the latest price report may reflect confidence that the Federal Reserve, which has increased interest rates 14 times since June 2004,

CHART 1
CONSUMER PRICE INDEX
Change from a year ago



will successfully contain any sustained increase in prices, much as it has been able to do since the early 1990s. This confidence is in spite of continuing strength in the economy, further improvement in the labor markets that has driven the national unemployment rate down to a low 4.7% rate, diminished capacity as utilization rates have increased, and a change in the leadership at the Federal Reserve with the stepping down of Chairman Alan Greenspan. While there apparently is little concern at this time in the credit markets that inflation is a concern, the near unanimity of opinion does not seem to be true among all the members of the Federal Open Market Committee that formulates the course of monetary policy.

In the recently-released minutes of the January 31st meeting of the Federal Open Market Committee, issued on February 22nd, some interesting observations can be made. While the vote to raise key monetary policy rates again by ¼ % was unanimous, there appeared to be some differences in viewpoints when it came to future policy changes. As pointed out by the International Strategy and Investment group, ISI, in one statement the minutes read *“Although the stance of monetary policy seem to be close to where it needed to be given the current outlook*

some further firming might be needed to keep inflationary pressures contained...” This seemed to suggest that the Federal Reserve was near the end of its interest rate rising pattern with perhaps only one or at most two further ¼ point increases anticipated before stopping. Later on, however, the minutes went on to say, *“In the view of some members, the possibility of additional policy moves was reinforced by readings on core inflation and inflation expectations that were somewhat higher than desirable over the longer run.”* This suggested that there were some members that were more concerned over inflation and willing to take a more aggressive stance than others to combat it.

The replacement of the long-serving Alan Greenspan with the new Chairman Ben Bernanke together with the recent resignation of Vice Chairman Roger Furguson, who reportedly disagreed with Mr. Bernanke on announcing a numerical inflation target, will change the makeup of the Open Market Committee that will be deciding policy implementation in the months ahead. Thus, the question remains how much of a factor inflation will be in setting policy and whether the previous policy of gradually removing credit accommodation will continue or a more aggressive stance taken.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY			
<u>INDICATORS</u>	<u>2006</u>	<u>2005</u>	<u>2005</u>
Unemployment Rate (Average)	*%	*%	*%
Annual Rate of Inflation (Chicago)	6.3%	-5.5%	3.6%
	<u>LATEST MONTH</u>	<u>% CHANGE OVER PRIOR MONTH</u>	<u>% CHANGE OVER A YEAR AGO</u>
Civilian Labor Force (thousands) (January)	*	*%	*%
Employment (thousands) (January)	*	*%	*%
New Car & Truck Registration (January)	50,770	19.4%	4.7%
Single Family Housing Permits (January)	2,621	-10.0%	-3.5%
Total Exports (\$ mil) (December)	3,191	5.8%	18.1%
Chicago Purchasing Managers Index (February)	54.9	-6.2%	-12.4%
*January statewide data unavailable until March 2 nd , due to additional time required to revise historical monthly, annual unemployment statistics.			

REVENUE
Summary of Revenue Related
Budget Highlights

Jim Muschinske, Revenue Manager

On February 15th, 2006 Governor Blagojevich presented his proposed budget for FY 2007. The following provides a brief overview of revenue related items concerning the current fiscal year as well as the upcoming one. The CGFA will be updating its forecast on March 15, 2006.

Changes to GOMB FY 2006 General Revenue Forecast (\$ in Millions)	
	<u>GOMB</u>
Enacted FY 2006 Budget May-05	\$26,671
Net Change Income Taxes	\$447
Sales Tax	\$77
Net Change Other State Sources	\$73
Net Change Transfers	(\$94)
Federal Sources	(\$79)
Total Change	\$424
FY 2006 Estimate Feb-06	\$27,095
*Does not include \$276 million Budget Stabilization Fund transfer or \$1 billion in short-term borrowing.	

FY 2006

The GOMB made a number of significant upward adjustments to the estimates of the economically related sources. However, some of those changes were offset by downward adjustments in the estimates of transfers and federal sources. In total, the estimate was increased by \$424 million.

FY 2007

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

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

FY 2006 Special Transfers

Lynnae Kapp, Bond/Revenue Analyst

Chargebacks for February equaled \$39.8 million and were the first chargebacks

to occur in FY 2006. Total special transfers for FY 2006 year-to-date equal \$141.1 million.

Special Transfers in FY 2006 YTD as of February 28, 2006						
FUND #	FUND NAME	Chargebacks	Statute (Funds Sweep)	Repealed Funds	Fee Increase	TOTAL
0014	Food & Drug Safety	\$111,560	\$316,051			\$427,611
0016	Teacher Certificate Fee Revolving Fund		\$736,799			\$736,799
0017	Keep IL Beautiful Fund			\$10,352		\$10,352
0021	Financial Institution Fund	\$434,600	\$1,836,518			\$2,271,118
0022	General Professions Dedicated Fund	\$932,600	\$2,981,856			\$3,914,456
0023	Economic Research and Information Fund	\$4,300	\$36,754			\$41,054
0024	IL Dept. of Ag. Laboratory Services Fund	\$62,400	\$131,096			\$193,496
0031	Drivers Education		\$22,614			\$22,614
0036	IL Veterans' Rehabilitation	\$34,600	\$164,205			\$198,805
0039	State Boating Act		\$301,368			\$301,368
0040	State Parks	\$867,696	\$784,417			\$1,652,113
0043	Military Affairs Trust Fund	\$23,000	\$51,351			\$74,351
0046	Aeronautics Fund		\$1,640			\$1,640
0048	Rural/Downstate Health Access Fund		\$3,483			\$3,483
0049	Industrial Hygiene Reg and Enforcement Fund		\$2,673			\$2,673
0057	IL State Pharmacy Disciplinary Fund	\$304,100				\$304,100
0067	Radiation Protection		\$159,008			\$159,008
0069	Natural Heritage Endowment Trust Fund		\$417,948			\$417,948
0071	Firearm Owner's Notification Fund		\$2,970			\$2,970
0074	EPA Special State Projects Trust		\$213,197			\$213,197
0078	Solid Waste Management		\$4,940,380			\$4,940,380
0085	Illinois Gaming Law Enforcement		\$487,985			\$487,985
0089	Subtitle D Management Fund		\$127,308			\$127,308
0094	DCFS Training Fund		\$704,053			\$704,053
0098	DuQuoin State Fair Harness Racing Trust Fund		\$2,526			\$2,526
0111	Toxic Pollution Prevention Fund		\$21,401			\$21,401
0113	Community Health Center Care Fund		\$78,360			\$78,360
0114	Emergency Response Reimbursement Fund		\$11,905			\$11,905
0118	Facility Licensing Fund	\$8,300	\$17,219			\$25,519
0119	IL Rural Bond Bank Trust Fund			\$35		\$35
0124	Workers Compensation Benefit Trust Fund		\$199,931			\$199,931
0126	New Technology Recovery			\$4,177		\$4,177
0127	IL Underground Utility Facilities Damage Prevention Fund		\$1,631			\$1,631
0128	Youth Alcohol & Substance Abuse Prevention Fund		\$22,496			\$22,496
0130	School District Emergency Financial Assistance		\$1,598,136			\$1,598,136
0137	Plugging & Restoration	\$41,280				\$41,280
0145	Explosives Regulatory		\$17,344			\$17,344
0146	Aggregate Operation Regulatory		\$24,563			\$24,563
0147	Coal Mining Regulatory Fund		\$95,687			\$95,687
0152	State Crime Laboratory	\$61,000	\$33,724			\$94,724
0153	Agrichemical Incident Response Trust Fund		\$314,873			\$314,873
0154	EPA Court Trust Fund		\$253,985			\$253,985
0156	Motor Vehicle Theft Prevention Fund	\$50,240	\$1,061,521			\$1,111,761
0159	ISBE Teacher Certificate Institution Fund		\$91,588			\$91,588
0161	ISBE GED Testing Fund		\$109,647			\$109,647
0162	ISBE School Bus Driver Permit Fund			\$192		\$192
0163	Weights and Measures	\$233,736	\$808,591			\$1,042,327
0167	Registered Limited Liability Partnership Fund		\$112,500			\$112,500
0173	Emergency Planning & Training		\$21,634			\$21,634
0175	Illinois School Asbestos Abatement		\$137,393			\$137,393
0184	Violence Prevention Fund	\$82,806				\$82,806
0185	SOS Special License Plate Fund		\$390,150			\$390,150
0192	Professional Regulation Evidence Fund		\$2,113			\$2,113

Special Transfers in FY 2006 YTD as of February 28, 2006						
FUND #	FUND NAME	Chargebacks	Statute (Funds Sweep)	Repealed Funds	Fee Increase	TOTAL
0207	Pollution Control Board State Trust Fund		\$307,988			\$307,988
0213	Response Contractors Indemnification Fund		\$95			\$95
0215	Capital Development Board Revolving		\$339,791			\$339,791
0220	DCFS Childrens' Services	\$1,553,368				\$1,553,368
0222	State Police DUI Fund	\$51,700				\$51,700
0229	Sports Facilities Tax Trust Fund		\$0			\$0
0237	Medicaid Fraud/Abuse Prevent		\$45,230			\$45,230
0238	IL Health Facilities Planning Fund	\$69,460	\$17,300			\$86,760
0240	Emergency Public Health Fund	\$137,784	\$104,998			\$242,782
0242	ISAC Accounts Receivable Fund		\$19,781			\$19,781
0245	Fair & Exposition Fund	\$132,900				\$132,900
0246	State Police Vehicle		\$17,174			\$17,174
0248	Racing Board Fingerprint License Fund		\$12,626			\$12,626
0251	Dept. of Labor Special State Trust Fund		\$269,921			\$269,921
0255	Credit Enhancement Development			\$51		\$51
0256	Public Health Water Permit Fund		\$13,218			\$13,218
0258	Nurse Dedicated & Professional Fund	\$802,800				\$802,800
0261	Underground Resource Conservation Enforcement	\$53,160	\$220,688			\$273,848
0265	State Rail Freight Loan Repayment Fund		\$860,795			\$860,795
0274	Self-Insurers Administration Fund		\$215,223			\$215,223
0276	Drunk & Drugged Driving Prevention Fund		\$38,415			\$38,415
0277	Pollution Control Board Fund		\$17,253			\$17,253
0282	Hazardous Waste Occup. Licensing Fund		\$11,204			\$11,204
0285	Long-Term Care Monitor/Receiver Fund	\$79,104	\$320,888			\$399,992
0288	Community Water Supply Lab		\$537,174			\$537,174
0289	Motor Fuel and Petroleum Standards Fund		\$14,755			\$14,755
0290	Fertilizer Control Fund		\$155,549			\$155,549
0291	Regulatory Fund		\$41,435			\$41,435
0292	Securities Investors Education Fund		\$75,000			\$75,000
0294	Used Tire Management Fund		\$959,250			\$959,250
0295	SOS Interagency Grant Fund		\$30,675			\$30,675
0296	IL Executive Mansion Trust Fund		\$42,116			\$42,116
0297	Guardianship & Advocacy Fund		\$20,467			\$20,467
0298	Natural Areas Acquisition Fund	\$1,350,224				\$1,350,224
0299	Open Space Lands Acquisition and Development	\$3,154,720				\$3,154,720
0301	Working Capital Revolving Fund	\$1,000,000	\$1,053,651			\$2,053,651
0303	State Garage Revolving Fund		\$479,747			\$479,747
0304	Statistical Services Revolving Fund		\$3,635,837			\$3,635,837
0308	Paper and Printing Revolving Fund		\$36,357			\$36,357
0309	Air Transportation Revolving Fund		\$136,109			\$136,109
0310	Tax Recovery Fund		\$85,193			\$85,193
0312	Communications Revolving Fund		\$9,749,879			\$9,749,879
0314	Facilities Management Revolving Fund		\$0			\$0
0315	Efficiency Initiatives Revolving Fund		\$4,633,724			\$4,633,724
0317	Professional Services Fund	\$1,221,000	\$34,667			\$1,255,667
0323	Motor Vehicle Review Board Fund		\$187,500			\$187,500
0325	Community MH and DD Services Provider Participation Fee Trust			\$46,637		\$46,637
0332	Workers Compensation Revolving Fund		\$390,214			\$390,214
0335	Criminal Justice Information Projects Fund		\$13,659			\$13,659
0336	Environmental Lab Certification Fund	\$49,600	\$46,529			\$96,129
0339	IL Community College Board Contracts and Grants Fund		\$7			\$7
0340	Public Health Services Revolving Fund	\$44,680	\$69,207			\$113,887
0341	Provider Inquiry Trust Fund	\$59,732	\$155,324			\$215,056

Special Transfers in FY 2006 YTD as of February 28, 2006						
FUND #	FUND NAME	Chargebacks	Statute (Funds Sweep)	Repealed Funds	Fee Increase	TOTAL
0342	Audit Expense	\$1,185,400				\$1,185,400
0344	Care Providers for Persons w/ Developmental Disabilities	\$318,400	\$1,783,703			\$2,102,103
0348	Nursing Home Grant Assistance Fund			\$145		\$145
0360	Lead Poisoning, Screening, Prevention & Abatement Fund	\$156,375				\$156,375
0361	State Appellate Defender Special State Projects Fund		\$5,955			\$5,955
0362	Securities Audit and Enforcement		\$2,550,000			\$2,550,000
0363	Dept. Business Service Spec. Ops Fund		\$1,500,000			\$1,500,000
0368	Drug Treatment Fund		\$120,023			\$120,023
0369	Feed Control Fund	\$76,032	\$358,676			\$434,708
0370	Tanning Facility Permit Fund	\$6,882	\$48,428			\$55,310
0371	Innovations in Long-term Care Quality Demonstration Grants Fund		\$424,121			\$424,121
0372	Plumbing Licensure & Program Fund	\$127,624				\$127,624
0375	Natural Heritage Fund		\$834			\$834
0376	State Police Motor Vehicle Theft Prevention Fund		\$123,632			\$123,632
0378	Insurance Premium Tax Refund Fund	\$180,000				\$180,000
0380	Corporate Franchise Tax Refund Fund		\$375,000		\$1,050,921	\$1,425,921
0382	Dept. of Insurance State Trust Fund		\$13,507			\$13,507
0384	Tax Compliance & Administration	\$88,960	\$322,033			\$410,993
0386	Appraisal Administration	\$218,500	\$187,500			\$406,000
0387	Small Business Environmental Assistance Fund		\$10,265			\$10,265
0388	Regulatory Evaluation and Basic Enforcement Fund		\$48,166			\$48,166
0389	Sexual Assault Services Fund		\$9,158			\$9,158
0390	IL Habitat Endowment Trust Fund		\$0			\$0
0397	Trauma Center Fund	\$122,364				\$122,364
0398	EMS Assistance Fund		\$30,692			\$30,692
0416	Armory Rental Fund		\$83,654			\$83,654
0417	State College and University Trust Fund		\$104,579			\$104,579
0418	University Grant Fund		\$17,911			\$17,911
0420	MAP Reserve Fund		\$659,775			\$659,775
0421	Public Aid Recoveries Trust	\$3,941,944	\$5,707,973			\$9,649,917
0422	Alternative Fuels Fund	\$124,800	\$792,625			\$917,425
0423	ISAC Higher EdNet Fund			\$1		\$1
0430	Livestock Management Facilities Fund		\$35,850			\$35,850
0431	Second Injury Fund		\$113,620			\$113,620
0434	Court of Claims Admin and Grant Fund		\$18,712			\$18,712
0438	IL State Fair		\$37,632			\$37,632
0440	Agricultural Master Fund		\$13,370			\$13,370
0441	Kaskaskia Commons Permanent Fund		\$59,860			\$59,860
0448	DORS State Project Fund			\$13,917		\$13,917
0452	IL Tourism Tax		\$485,812			\$485,812
0483	Secretary of State Special Services		\$1,875,000			\$1,875,000
0502	Early Intervention Services Revolving Fund	\$83,392	\$783,701			\$867,093
0514	State Asset Forfeiture Fund	\$125,100	\$53,991			\$179,091
0517	Police Training Board Service Fund		\$1,155			\$1,155
0520	Federal Asset Forfeiture Fund		\$1,403			\$1,403
0523	Department of Corrections Reimbursement	\$460,000	\$1,656,242			\$2,116,242
0524	Health Facility Plan Review Fund	\$66,292	\$124,479			\$190,771
0525	Statewide Grand Jury Prosecution Fund		\$5,734			\$5,734
0535	Sex Offender Registration		\$5,735			\$5,735
0536	LEADS Maintenance		\$57,736			\$57,736
0537	State Offender DNA ID System Fund	\$198,700	\$61,305			\$260,005
0538	IL Historic Sites		\$100,775			\$100,775
0544	School Technology Revolving Fund			\$496		\$496

Special Transfers in FY 2006 YTD as of February 28, 2006						
FUND #	FUND NAME	Chargebacks	Statute (Funds Sweep)	Repealed Funds	Fee Increase	TOTAL
0546	Public Pension Regulation Fund	\$54,600	\$166,825			\$221,425
0548	Drycleaner Environ Response Fund		\$0			\$0
0555	Good Samaritan Energy Trust Fund		\$5,393			\$5,393
0562	Pawnbroker Regulation Fund	\$14,500	\$70,598			\$85,098
0564	Renewable Energy Resources Trust Fund		\$3,508			\$3,508
0567	Charter Schools Revolving Fund		\$488,041			\$488,041
0569	School Technology Revolving Loan fund	\$411,500	\$14,369			\$425,869
0571	Energy Efficiency Trust Fund	\$240,000	\$975,704			\$1,215,704
0573	Petroleum Resources Revolving Fund		\$21,385			\$21,385
0574	Off-Highway Vehicle Trails		\$183,611			\$183,611
0576	Pesticide Control		\$315,167			\$315,167
0582	DCFS Special Purposes Trust Fund		\$19,459			\$19,459
0589	Trans. Safety Highway Hire-back	\$24,000				\$24,000
0595	IL Rural Rehab Fund		\$6,143			\$6,143
0610	Energy Assistance Contribution			\$258,585		\$258,585
0621	International Tourism Fund	\$589,770				\$589,770
0628	IL Building Commission Revolving Fund			\$1,398		\$1,398
0629	Real Estate Recovery Fund	\$7,174				\$7,174
0632	Horse Racing	\$600,000				\$600,000
0634	IL Aquaculture Develop Fund			\$1		\$1
0635	Death Certificate Surcharge	\$150,544	\$850,756			\$1,001,300
0637	State Police Wireless Service Emergency Fund	\$118,800				\$118,800
0641	Auction Regulation Administration	\$51,000				\$51,000
0642	DHS State Projects Fund		\$67,438			\$67,438
0643	Auction Recovery Fund	\$5,178				\$5,178
0648	Downstate Public Transportation	\$5,771,800				\$5,771,800
0649	Motor Carrier Safety Inspection	\$40,400	\$110,608			\$151,008
0651	Watershed Park Fund		\$14,840			\$14,840
0658	State Off-set Claims Fund		\$0			\$0
0669	Airport Land Loan Revolving Fund		\$1,252,478			\$1,252,478
0672	Homelessness Prevention Fund			\$3,697		\$3,697
0677	ISAC Contracts and Grants Fund		\$4,192			\$4,192
0684	DCFS Refugee Assistance Fund			\$328		\$328
0688	IEMA State Projects Fund		\$10			\$10
0702	Assisted Living and Shared Housing Reg. Fund		\$18,370			\$18,370
0703	State Whistleblower Reward & Protection		\$1,194			\$1,194
0705	Whistleblower Reward & Protection Fund	\$68,500	\$149,774			\$218,274
0708	IL Standardbred Breeders Fund	\$134,800				\$134,800
0709	IL Thoroughbred Breeders Fund	\$192,512				\$192,512
0712	Post Transplant Maintenance and Retention Fund		\$56,325			\$56,325
0720	Family Care Fund		\$16,939			\$16,939
0728	Drug Rebate Fund		\$12,986,866			\$12,986,866
0729	IL Century Network Special Purposes Fund			\$3,889		\$3,889
0731	IL Clean Water Fund		\$1,376,847			\$1,376,847
0738	Alternative Compliance Market Account Fund	\$8,000	\$39,840			\$47,840
0739	Group Worker's Compensation Pool Insolvency Fund		\$102,410			\$102,410
0740	Medicaid Buy-In Program Revolving Fund		\$239,171			\$239,171
0745	State's Attorneys Appellate Prosecutor's County Fund		\$52,576			\$52,576
0746	Home Inspector Administration		\$183,377			\$183,377
0753	IL Future Teachers Corps Scholarship Fund		\$3,627			\$3,627
0757	Child Support Administrative		\$837,950			\$837,950
0762	Local Initiative Fund		\$1,455,485			\$1,455,485
0763	Tourism Promotion	\$3,152,700				\$3,152,700

Special Transfers in FY 2006 YTD as of February 28, 2006

FUND #	FUND NAME	Chargebacks	Statute (Funds Sweep)	Repealed Funds	Fee Increase	TOTAL
0769	Lawyers Assistance Program Fund		\$0			\$0
0770	Digital Divide Elimination Fund	\$401,200				\$401,200
0774	Oil Spill Response Fund		\$125,660			\$125,660
0776	Presidential Library and Museum Fund		\$545,438			\$545,438
0808	Medical Special Purpose Trust Fund		\$698,001			\$698,001
0821	Dram Shop		\$82,916			\$82,916
0830	Dept. of Aging State Projects Fund		\$7,544			\$7,544
0831	Natural Recourses Restoration Trust Fund		\$47,252			\$47,252
0835	State Fair Promotional Activities Fund		\$6,551			\$6,551
0840	Hazardous Waste Research Fund	\$31,520	\$93,907			\$125,427
0844	Continuing Legal Education Trust Fund		\$17,564			\$17,564
0845	Environmental Protection Trust Fund		\$0			\$0
0849	Real Estate Research & Education	\$11,500				\$11,500
0850	Real Estate License Administration		\$1,125,000			\$1,125,000
0858	Land Reclamation Fund		\$0			\$0
0865	Domestic Violence Shelter & Service Fund	\$39,100				\$39,100
0866	Snowmobile Trail Establishment Fund		\$2,343			\$2,343
0878	Drug Traffic Prevention Fund	\$9,300	\$16,592			\$25,892
0884	DNR Special Projects Fund		\$226,237			\$226,237
0888	Design Professionals Administration & Investigation	\$104,100	\$38,776			\$142,876
0896	Public Health State Projects	\$353,600	\$612,152			\$965,752
0903	State Surplus Property Revolving Fund		\$194,142			\$194,142
0906	State Police Services	\$1,614,700				\$1,614,700
0910	Youth Drug Abuse Prevention Fund		\$3,068			\$3,068
0914	Natural Recourses Information Fund		\$48,447			\$48,447
0921	DHS Recoveries Trust	\$118,000	\$1,193,876			\$1,311,876
0922	Insurance Producer Administration	\$1,118,148				\$1,118,148
0924	LT Governor's Grant Fund		\$141			\$141
0925	Coal Technology Development Assistance Fund	\$1,824,000				\$1,824,000
0927	IL National Guard Armory Construction Fund		\$23,602			\$23,602
0931	JJ Wolf Memorial for Conservation Investigation Fund		\$6,103			\$6,103
0938	Hearing Instrument Dispenser Examining and Disciplinary Fund	\$6,312	\$77,132			\$83,444
0944	Environmental Protection Permit & Inspection		\$135,428			\$135,428
0947	Governor's Grant Fund		\$1,194			\$1,194
0951	Narcotics Profit Forfeiture Fund		\$29,534			\$29,534
0954	Illinois State Podiatric Disciplinary Fund		\$237,929			\$237,929
0962	Park & Conservation	\$491,656	\$2,287,616			\$2,779,272
0969	Local Tourism Fund		\$99,657			\$99,657
0973	Build IL Capital Revolving Loan Fund		\$3,018,080			\$3,018,080
0974	IL Equity Fund		\$89,395			\$89,395
0975	Large Business Attraction Fund	\$55,040	\$255,583			\$310,623
0982	IL Beach Marina		\$44,450			\$44,450
0984	International & Promotional Fund	\$11,680				\$11,680
0993	Public Infrastructure Construction Loan		\$47,852			\$47,852
0996	Educational Labor Relations Board Fair Share Trust Fund		\$0			\$0
0997	Insurance Financial Regulation	\$1,520,800	\$600,000			\$2,120,800
	TOTAL	\$39,839,649	\$100,169,940	\$343,900	\$1,050,921	\$141,392,729

REVENUE

February Revenues Up Due to Higher Sales Tax and Transfers

Jim Muschinske, Revenue Manager

Overall general funds revenues increased \$267 million in February. The increase was due primarily to a significant increase in sales tax revenue as well as strong transfers from the lottery and other transfers related to chargebacks. Federal sources also did considerably better than last year, although the increase was more a function of a low level last year. February had the same number of receipting days as in the last fiscal year.

Sales tax revenues posted impressive gains in February, rising \$98 million. The Cook County IGT grew by \$11 million due to the timing of such transfers, while public utility taxes grew by \$10 million. Interest income increased by \$8 million largely due to higher rates of return. Liquor taxes, insurance taxes, and corporate franchise taxes each gained \$3 million for the month. Finally, vehicle use tax managed to rise by \$1 million.

A few revenue sources experienced declines in February. Gross corporate income taxes took a break from its year to date impressive performance, falling \$20 million for the month, or \$14 million net of refunds. Other sources gave up \$9 million, while inheritance tax fell \$6 million. Gross personal income tax receipts suffered a minor setback, falling \$3 million, or \$2 million net of refunds.

As mentioned, February was a very good month for transfers. Overall transfers

rose \$103 million, as other transfers rose by \$72 million, mostly due to \$40 million in chargeback transfer activity. In addition, lottery transfers grew by \$24 million, while riverboat gaming transfers posted a \$7 million increase. Again, federal sources had a comparatively good month as receipts grew by \$58 million.

Year to Date

With two-thirds of the fiscal year completed, excluding the \$1 billion in short-term borrowing, overall revenues are up \$901 million. While some of that gain can be attributed to reimbursement on Medicaid spending due to November's short-term borrowing, sources most closely tied to the economy have continued to do well. However, offsetting some of those gains are falloffs in transfers such as: the Cook County IGT; riverboat transfers; chargebacks, and statutory fund sweeps.

Through February, sales tax receipts are up \$344 million. Gross personal income tax is up \$313 million, or \$302 million net of refunds. Gross corporate income tax has posted gains of \$146 million (same on net basis). Interest income has contributed \$51 million to the yearly advance while all other sources experiencing gains have added another \$66 million.

Not all areas have fared as well as the economically related sources. The Cook County IGT is off \$60 million in large part due to timing of the transfers but also because of an anticipated decline in the total yearly transfer amount. The cigarette tax is down \$50 million due to a

temporary change in the distribution of the tax early last fiscal year, and insurance taxes and fees have fallen \$20 million. Inheritance tax receipts are doing slightly better than expected, but are still down \$15 million year to date.

Despite the significant increase in February, total transfers are down \$104 million, reflecting the timing of statutory fund sweeps as well as chargeback activity, in addition to the lower riverboat tax rates. Other fund transfers are down \$118 million while riverboat transfers and receipts trail by \$61 million. Offsetting some of those declines is a \$75 million increase in lottery transfers.

Finally, in November, the \$1 billion in short-term borrowing resulted in a very large month for federal sources. Through the first eight months of the fiscal year, federal receipts are up \$241 million. However, as reimbursable spending is slowed in the second half of the fiscal year, those year to date gains will continue to decline.

As mentioned earlier in the briefing, the Commission will be updating its FY 2006 revenue forecast as well as providing a detailed estimate for FY 2007 on March 15, 2006. A summary of the estimates will be provided at next month's briefing.

GENERAL FUNDS RECEIPTS: FEBRUARY

FY 2006 vs. FY 2005

(\$ million)

	FEB.	FEB.	\$	%
Revenue Sources	FY 2006	FY 2005	CHANGE	CHANGE
State Taxes				
Personal Income Tax	\$638	\$641	(\$3)	-0.5%
Corporate Income Tax (regular)	18	38	(\$20)	-52.6%
Sales Taxes	544	446	\$98	22.0%
Public Utility Taxes (regular)	109	99	\$10	10.1%
Cigarette Tax	33	33	\$0	0.0%
Liquor Gallonage Taxes	14	11	\$3	27.3%
Vehicle Use Tax	3	2	\$1	50.0%
Inheritance Tax (Gross)	27	33	(\$6)	-18.2%
Insurance Taxes and Fees	17	14	\$3	21.4%
Corporate Franchise Tax & Fees	15	12	\$3	25.0%
Interest on State Funds & Investments	14	6	\$8	133.3%
Cook County IGT	94	83	\$11	13.3%
Other Sources	22	31	(\$9)	-29.0%
Subtotal	\$1,548	\$1,449	\$99	6.8%
Transfers				
Lottery	69	45	\$24	53.3%
Riverboat transfers & receipts	20	13	\$7	53.8%
Other	83	11	\$72	654.5%
Total State Sources	\$1,720	\$1,518	\$202	13.3%
Federal Sources	\$287	\$229	\$58	25.3%
Total Federal & State Sources	\$2,007	\$1,747	\$260	14.9%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$63)	(\$64)	\$1	-1.6%
Corporate Income Tax	(\$3)	(9)	\$6	-66.7%
Subtotal General Funds	\$1,941	\$1,674	\$267	15.9%
Short-Term Borrowing	\$0	\$0	\$0	N/A
HPF and HHSMTF Transfers	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$0	\$0	\$0	N/A
Total General Funds	\$1,941	\$1,674	\$267	15.9%
CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				1-Mar-06

GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2006 vs. FY 2005

(\$ million)

Revenue Sources	FY 2006	FY 2005	CHANGE FROM FY 2005	% CHANGE
State Taxes				
Personal Income Tax	\$5,679	\$5,366	\$313	5.8%
Corporate Income Tax (regular)	769	623	\$146	23.4%
Sales Taxes	4,713	4,369	\$344	7.9%
Public Utility Taxes (regular)	715	675	\$40	5.9%
Cigarette Tax	266	316	(\$50)	-15.8%
Liquor Gallonage Taxes	104	99	\$5	5.1%
Vehicle Use Tax	22	21	\$1	4.8%
Inheritance Tax (Gross)	185	200	(\$15)	-7.5%
Insurance Taxes and Fees	166	186	(\$20)	-10.8%
Corporate Franchise Tax & Fees	122	116	\$6	5.2%
Interest on State Funds & Investments	92	41	\$51	124.4%
Cook County IGT	216	276	(\$60)	-21.7%
Other Sources	273	259	\$14	5.4%
Subtotal	\$13,322	\$12,547	\$775	6.2%
Transfers				
Lottery	444	369	\$75	20.3%
Riverboat transfers & receipts	404	465	(\$61)	-13.1%
Other	342	460	(\$118)	-25.7%
Total State Sources	\$14,512	\$13,841	\$671	4.8%
Federal Sources	\$3,461	\$3,220	\$241	7.5%
Total Federal & State Sources	\$17,973	\$17,061	\$912	5.3%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	(\$554)	(\$543)	(\$11)	2.0%
Corporate Income Tax	(\$154)	(\$154)	\$0	0.0%
Subtotal General Funds	\$17,265	\$16,364	\$901	5.5%
Short-Term Borrowing	\$1,000	\$0	\$1,000	N/A
HPF and HHSMTF Transfers	\$0	\$0	\$0	N/A
Budget Stabilization Fund Transfer	\$276	\$276	\$0	N/A
Total General Funds	\$18,541	\$16,640	\$1,901	11.4%
SOURCE: Office of the Comptroller, State of Illinois: Some totals may not equal, due to rounding.				
CGFA				1-Mar-06

GENERAL FUNDS GROWTH NEEDED TO MEET ESTIMATE

FY 2006 ESTIMATE vs. FY 2005 ACTUAL

(\$ million)

Revenue Sources	NOV-05 ESTIMATE FY 2006	FYTD 2006	AMOUNT NEEDED FY 2006 EST.	FYTD 2005	GROWTH NEEDED	% CHANGE
State Taxes						
Personal Income Tax	\$9,267	\$5,679	\$3,588	\$5,366	\$81	2.3%
Corporate Income Tax (regular)	1,664	769	\$895	623	(\$30)	-3.2%
Sales Taxes	6,915	4,713	\$2,202	4,369	(\$24)	-1.1%
Public Utility Taxes (regular)	1,072	715	\$357	675	(\$24)	-6.3%
Cigarette Tax	405	266	\$139	316	\$5	3.7%
Liquor Gallonage Taxes	150	104	\$46	99	(\$2)	-4.2%
Vehicle Use Tax	32	22	\$10	21	(\$1)	-9.1%
Inheritance Tax (Gross)	265	185	\$80	200	(\$30)	-27.3%
Insurance Taxes and Fees	332	166	\$166	186	\$10	6.4%
Corporate Franchise Tax & Fees	185	122	\$63	116	(\$2)	-3.1%
Interest on State Funds & Investments	116	92	\$24	41	(\$8)	-25.0%
Cook County IGT	340	216	\$124	276	(\$33)	-21.0%
Other Sources	445	273	\$172	259	(\$36)	-17.3%
Subtotal	\$21,188	\$13,322	\$7,866	\$12,547	(\$94)	-1.2%
Transfers						
Lottery	640	444	\$196	369	(\$49)	-20.0%
Riverboat transfers & receipts	688	404	\$284	465	\$50	21.4%
Other	770	342	\$428	460	(\$11)	-2.5%
Total State Sources	\$23,286	\$14,512	\$8,774	\$13,841	(\$104)	-1.2%
Federal Sources	\$4,791	\$3,461	\$1,330	\$3,220	(\$141)	-9.6%
Total Federal & State Sources	\$28,077	\$17,973	\$10,104	\$17,061	(\$245)	-2.4%
Nongeneral Funds Distribution:						
Refund Fund						
Personal Income Tax	(\$904)	(\$554)	(\$350)	(\$543)	\$1	-0.3%
Corporate Income Tax	(333)	(\$154)	(\$179)	(154)	\$43	-19.4%
Subtotal General Funds	\$26,840	\$17,265	\$9,575	\$16,364	(\$201)	-2.1%
Short-Term Borrowing	\$1,000	\$1,000	\$0	\$0	(\$765)	N/A
HPF and HHSMTF Transfer	\$0	\$0	\$0	\$0	(\$1,002)	N/A
Budget Stabilization Fund Transfer	\$276	\$276	\$0	\$276	\$0	N/A
Total General Funds	\$28,116	\$18,541	\$9,575	\$16,640	(\$1,968)	-17.0%
CGFA						1-Mar-06

GENERAL FUNDS PERFORMANCE TO DATE
GOVERNOR'S OFFICE OF MANANGEMENT AND BUDGET

FY 2006 ESTIMATE vs. FY 2005 ACTUALS

(\$ million)

<u>Revenue Sources</u>	GOMB FEB-06 Estimate FY 2006	FYTD 2006	AMOUNT NEEDED FY 2006 Est.	FYTD 2005	GROWTH NEEDED	% CHANGE
State Taxes						
Personal Income Tax	\$9,375	\$5,679	\$3,696	\$5,366	\$189	5.4%
Corporate Income Tax (regular)	1,860	769	\$1,091	623	\$166	17.9%
Sales Taxes	6,950	4,713	\$2,237	4,369	\$11	0.5%
Public Utility Taxes (regular)	1,081	715	\$366	675	(\$15)	-3.9%
Cigarette Tax	400	266	\$134	316	\$0	0.0%
Liquor Gallonage Taxes	151	104	\$47	99	(\$1)	-2.1%
Vehicle Use Tax	34	22	\$12	21	\$1	9.1%
Inheritance Tax (Gross)	285	185	\$100	200	(\$10)	-9.1%
Insurance Taxes and Fees	320	166	\$154	186	(\$2)	-1.3%
Corporate Franchise Tax & Fees	191	122	\$69	116	\$4	6.2%
Interest on State Funds & Investments	98	92	\$6	41	(\$26)	-81.3%
Cook County IGT	350	216	\$134	276	(\$23)	-14.6%
Other Sources	489	273	\$216	259	\$8	3.8%
Subtotal	\$21,584	\$13,322	\$8,262	\$12,547	\$302	3.8%
Transfers						
Lottery	636	444	\$192	369	(\$53)	-21.6%
Gaming Fund Transfer	678	404	\$274	465	\$40	17.1%
Other	771	342	\$429	460	(\$10)	-2.3%
Total State Sources	\$23,669	\$14,512	\$9,157	\$13,841	\$279	3.1%
Federal Sources	\$4,712	\$3,461	\$1,251	\$3,220	(\$220)	-15.0%
Total Federal & State Sources	\$28,381	\$17,973	\$10,408	\$17,061	\$59	0.6%
Nongeneral Funds Distribution:						
Refund Fund						
Personal Income Tax	(\$914)	(\$554)	(\$360)	(\$543)	(\$9)	2.6%
Corporate Income Tax	(372)	(154)	(\$218)	(154)	\$4	-1.8%
Subtotal General Funds	\$27,095	\$17,265	\$9,830	\$16,364	\$54	0.6%
Short-Term Borrowing	\$1,000	\$1,000	\$0	\$0	(\$765)	N/A
HPF and HHSMTF Transfer	\$0	\$0	\$0	\$0	(\$1,002)	N/A
Budget Stabilization Fund Transfer	\$276	\$276	\$0	\$276	\$0	N/A
Total General Funds	\$28,371	\$18,541	\$9,830	\$16,640	(\$1,713)	-14.8%
CGFA						1-Mar-06

Investment Income

Benjamin L. Varner, Revenue Analyst

While a relatively small revenue source, usually averaging less than 1% of total general funds receipts, interest income experienced a significant rebound from recent lows. Through February, general funds interest income was \$90 million, while all-appropriated interest income was \$150 million. This is an increase of 127% over last year on a general revenue basis. Similarly, all-appropriated income is up 124%. As shown below, this revenue source is

quite volatile and has experienced wide fluctuations year over year. The amount of investment income varies depending upon the amount of funds invested and the rates of return on these investments. With the economic down-turn and the lowering of the Federal Funds rate, investment returns fell in recent years. Prior to the economic downturn in 2001, the State averaged a rate of return of over 5%. Since then, the rate of return has fallen to less than 1% in some months. In recent months, the rate returned to around 4.0%. A summary of the State's investment income is shown in the table below.

Year	General Funds Investment Income (Millions)	Change from Previous Year	All-Appropriated Investment Income (Millions)	Change from Previous Year
FY 1998	\$182	26.4%	\$261	22.5%
FY 1999	\$212	16.5%	\$292	11.9%
FY 2000	\$233	9.9%	\$332	13.7%
FY 2001	\$274	17.6%	\$406	22.3%
FY 2002	\$135	-50.7%	\$216	-46.8%
FY 2003	\$66	-51.1%	\$110	-49.1%
FY 2004	\$55	-16.7%	\$88	-20.0%
FY 2005	\$73	32.7%	\$125	42.0%
FY 2006 YTD	\$90	126.5%*	\$150	123.9%*

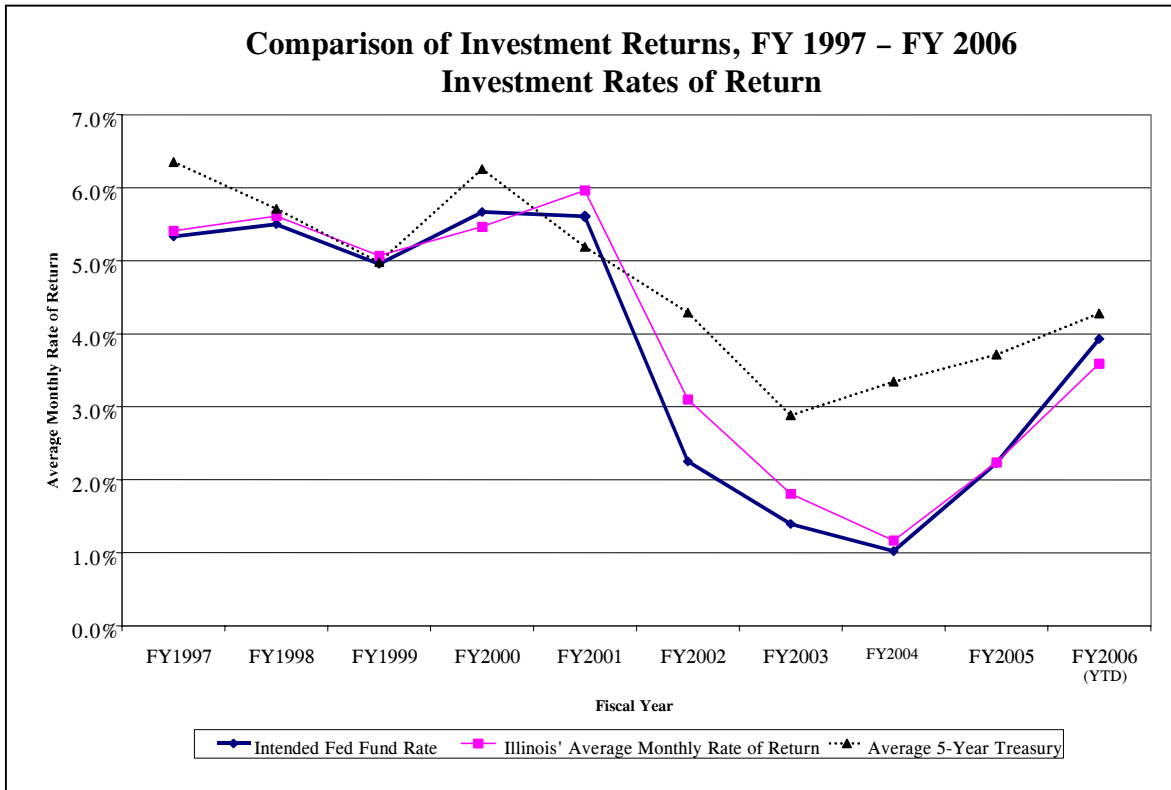
*Compared to February FY 2005 YTD.

The economic downturn of 2001 led to reduced economy related revenues for the State. As such, the amount of money available for the State to invest was reduced. This reduction coincided with the lowering of the federal funds rate. The federal funds rate is the interest rate at which a depository institution lends immediately available funds (balances at the Federal Reserve) to another depository institution overnight. The federal funds rate is the

key interest rate that the Federal Reserve uses to implement its monetary policy objectives. The Federal Reserve lowers its target for the federal funds rate during recessions to make money more readily available and to reinvigorate the economy. Conversely, it raises this rate to restrain credit growth and reduce inflationary pressures. This leads to lower bond rates for all durations and similar investments. This affects the State's investment income. Rates of

return for the State, along with the federal funds rate and the 5-year Treasury over the last ten years can be seen in the following chart. As shown in the chart,

the State's investment income closely follows the federal funds rate. This is not surprising given the State's investment goals.



According to the State's investment policy, the primary objective in the investment of state funds is to ensure the safety of principal, while managing liquidity to pay the financial obligations of the State, and providing the highest investment return using authorized instruments. The State is allowed to invest in the following types of investments subject to the provisions of the Deposit of State Moneys Act (15 ILCS 520) and the Public Funds Investment Act (30 ILCS 235):

- a) Securities that are guaranteed by the full faith and credit of the United States as to principal and interest;
- b) Obligations of agencies and instrumentalities of the United States as originally issued by the agencies and instrumentalities;
- c) Interest-bearing savings accounts, interest-bearing certificates of deposit, or interest-bearing time deposits of a bank as defined by Section 2 of the Illinois Banking Act (205 ILCS 5/2);

d) Interest-bearing accounts or certificates of deposit of any savings and loan association incorporated under the laws of the State of Illinois, any other state, or the United States;

e) Dividend-bearing share accounts, share certificate accounts, or class of share accounts of a credit union chartered under the laws of the State of Illinois or the United States, which maintains its principal office in the State of Illinois;

f) Commercial paper of a corporation that is organized in the United States with assets exceeding \$500,000,000 and is rated by two or more standard rating services at a level that is at least as high as the following: A-1 by Standard & Poor's, P-1 by Moody's, F-1 by Fitch, D-1 by Duff & Phelps Credit Rating Company, A1 by IBCA, and TBW-1 by Thompson Bank Watch; and the corporation is not a forbidden entity, as defined in Section 22.6 of the Deposit of State Monies Act (effective Jan. 27, 2006);

g) Money market mutual funds registered under the Investment Company Act of 1940 (15 U.S.C.A. § 80a-1 et seq.) and rated at the highest classification of at least one standard rating service;

h) The Illinois Funds created under Section 17 of the State Treasurer Act (15 ILCS 505/17);

i) Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986 (1 U.S.C.A. § 78o-5); and

j) Obligations of National Mortgage Associations established by or under the National Housing Act (1201 U.S.C. 1701 et seq.).

k) Securities of a foreign government, other than the Republic of Sudan (effective Jan. 27, 2006), that are guaranteed by the full faith and credit of that government as to principal and interest and rated A or higher by at least two of the standard rating services, but only if the foreign government has not defaulted and has met its payment obligations in a timely manner on all similar obligations for at least 25 years prior to the time of acquiring those obligations.

l) Investments made in accordance with the Technology Development Act (30 ILCS 265/1 et seq.).

Suitable securities in the portfolio may be lent in accordance with Federal Financial Institution Examination Council guidelines.

The majority of the State's funds have their money invested in one portfolio with the income going to the State's General Revenue fund. By statute, fourteen funds (listed in the table below) have their money invested separately with all proceeds being deposited back into the original fund. Approximately 130 other funds are invested within the State's main investment portfolio but have their proceeds returned to the original fund based on the monthly, weighted return on investment and each funds average daily balance.

Funds that are Invested Separately		
Fund #	Fund Name	Statutory Origin
0052	Federal Title III Social Security and Employment Services	820 ILCS 405/2100
0055	Federal Unemployment Compensation Special Administration	820 ILCS 405/2100
0056	State Employees Unemployment Benefit	82 ILCS 405/1403
0069	Natural Heritage Endowment Trust	30 ILCS 150/4
0116	Employment Security Administration	820 ILCS 405/2103.1
0153	Agrichemical Incident Response Trust	415 ILCS 60/22.2
0390	Illinois Habitat Endowment Trust	520 ILCS 25/15(D)
0455	Illinois State Toll Highway Revenue	605 ILCS 10/24
0475	Illinois Municipal Retirement System	40 ILCS 5/7-137
0557	Illinois Prepaid Tuition Trust	110 ILCS 979/35
0595	Illinois Rural Rehabilitation	20 ILCS 220/1
0733	Statewide Economic Development	30 ILCS 105/5.540; 30 ILCS 105/6Z-43
0943	Low Level Radioactive Waste Facility Closure and Compensation	420 ILCS 20/14
0978	Deferred Lottery Prize Winners Trust	20 ILCS 1605/27

As of 1/31/06, the State's investment portfolio was worth \$7.84 billion and was made up primarily by repurchase agreements (30.7%), commercial paper

(29.4%), time deposits (17.0%), and money markets (15.2%). The remainder was made up of government securities (7.4%) and other investments (0.3%).

