Presented to:

Senate Appropriations I & II Committee

ECONOMIC and REVENUE UPDATE

Presented by:
Commission on Government Forecasting and Accountability
703 Stratton Office Building; Springfield, Illinois 62706

February 23, 2010

CGFA Commission Members

http://www.ilga.gov/commission/cgfa2006/home.aspx

Senate

Senator Jeffrey M. Schoenberg
Co-Chairman

Senator Bill Brady
Senator Michael Frerichs
Senator Matt Murphy
Senator Dave Syverson
Senator Donne Trotter

House of Representatives

Representative Richard P. Myers
Co-Chairman

Representative Patricia Bellock
Representative Kevin McCarthy
Representative Elaine Nekritz
Representative Raymond Poe
Representative Al Riley

Dan R. Long
Executive Director

Trevor J. Clatfelter
Deputy Director

Jim Muschinske
Revenue Manager

Edward H. Boss, Jr.
Chief Economist

Dan Hankiewicz
Pension Manager

CGFA Background & Responsibilities

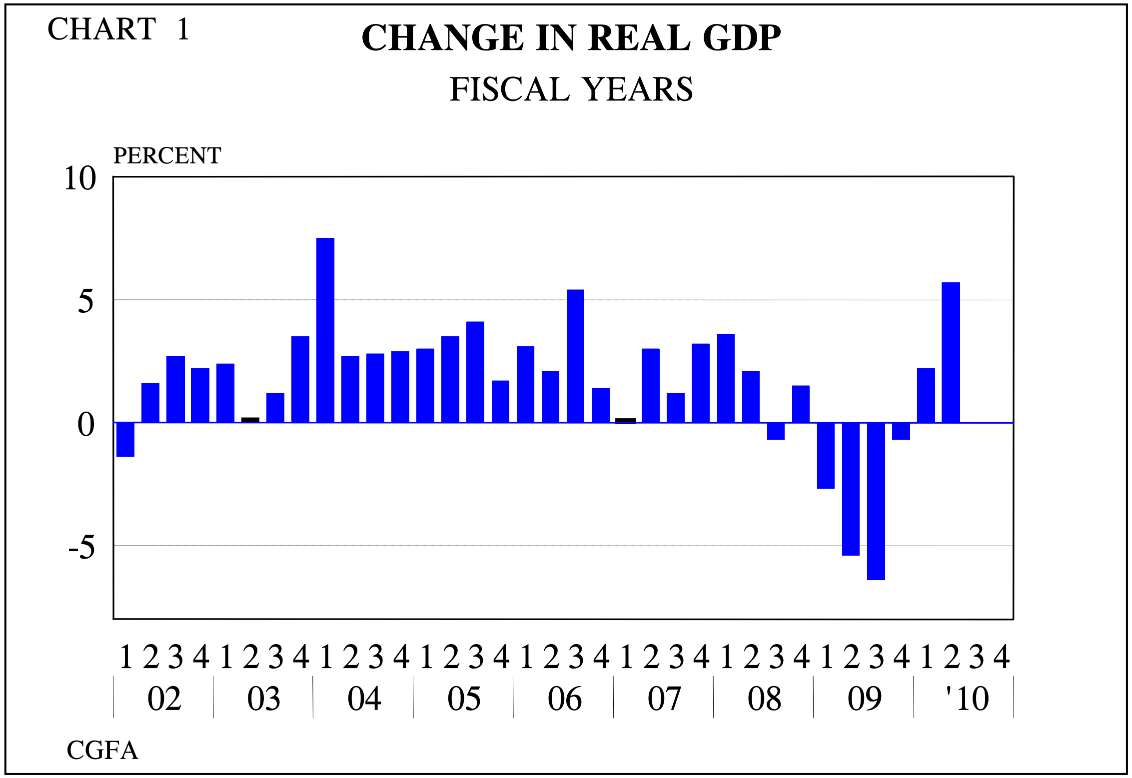
- Bi-Partisan, joint legislative commission, provides the General Assembly with information relevant to the Illinois economy, taxes and other sources of revenue and debt obligations of the State.
- Preparation of annual revenue estimates with periodic updates;
- Analysis of the fiscal impact of revenue bills;
- Preparation of State Debt Impact Notes;
- Periodic assessment of capital facility plans;
- Annual estimates of the liabilities of the State's group health insurance program and approval of contract renewals promulgated by the Department of Central Management Services;
- Implement the provisions of the State Facility Closure Act;
- Annual estimates of public pension funding requirements and preparation of pension impact notes.

CHANGE IN REAL GDP

- Economic activity resumed growth in the first half of FY 2010, following FY 2009 when economic activity had declined in every quarter.

- The sharper gain in the latest reported quarter largely reflected increases in government spending due to the stimulative program, although business spending showed improvement and consumer spending was somewhat better than had been expected.

- While the rate of growth may slow from that recorded in the last quarter, it is likely to remain positive.



LENGTH OF RECESSIONS

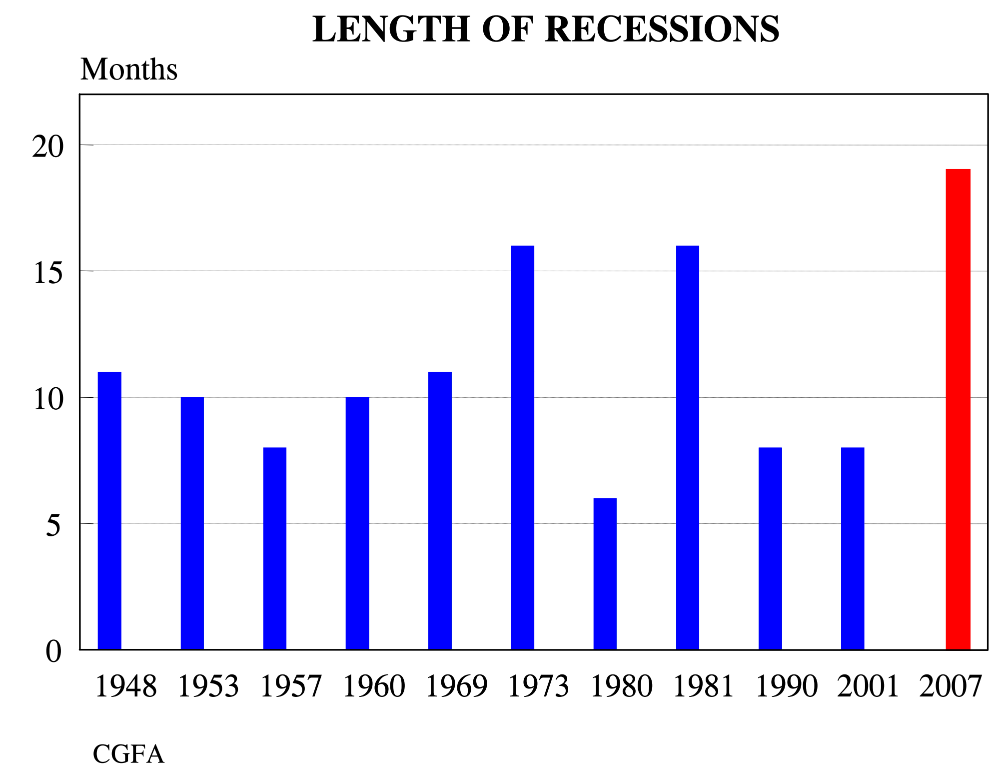
- The recession, which officially started in December 2007, ended last summer. This marked the eleventh recession the U.S. economy has experienced in the post WWII period and the longest (see chart 2).

- If it turns out that the current recession ended in June or July, it would have been 18 or 19 months respectively in length.

- The previous 10 recessions in the post WWII period had an average length of 10 months in duration, although there have been wide variations. The last two recessions each lasted 8 months, while the recessions in 1973 and 1981 were twice as long, each lasted 16 months.

- The shortest recession on record was 6 months in 1980, while the longest starting in 1929 lasted 43 months.

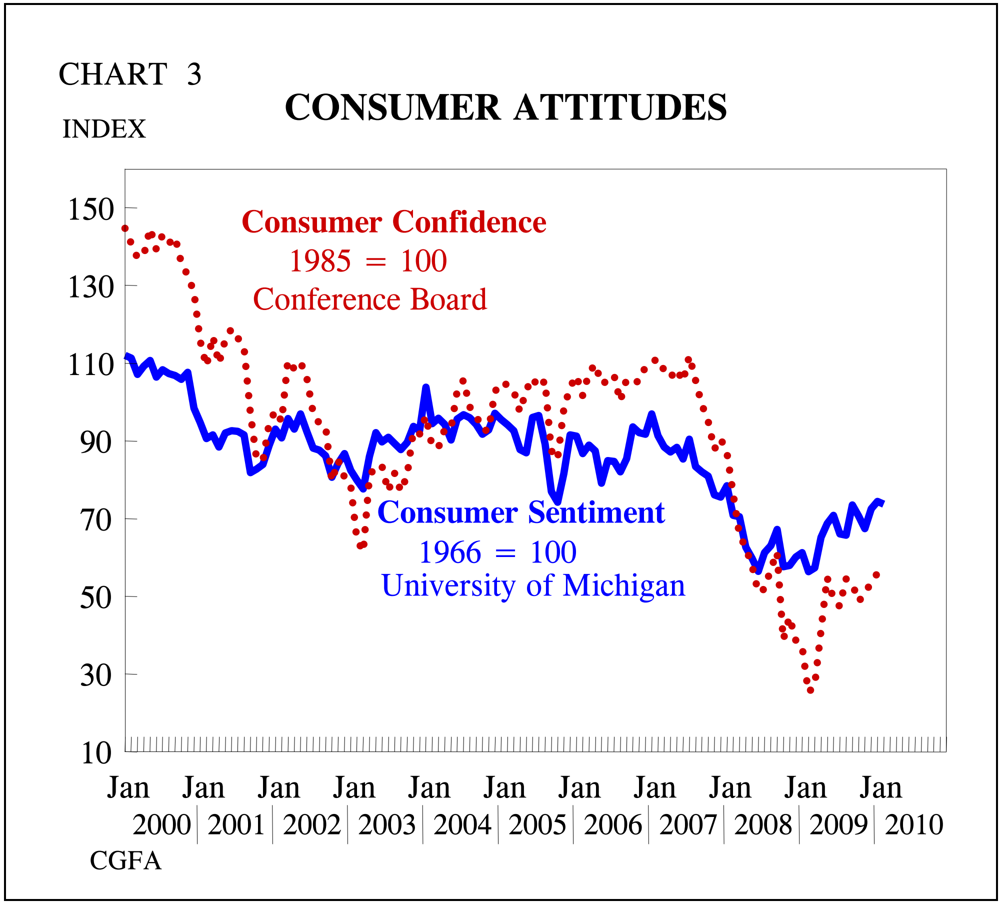
CHART 2



- **The consumer sector, which generally accounts for two-thirds or more of total spending in the economy, while improving, remains less than spectacular.**

- As shown in Chart 3, consumer attitudes as measured by either the University of Michigan's Consumer Sentiment Index or the Conference Board's Consumer Confidence Index reached all-time lows last year.

- **Since then, Consumer Sentiment (1966=100) appears to be showing signs of erratic improvement, rising from a low of 56.3 in February 2009, to 73.7 in February 2010. The Conference Board Index (1985=100) registered a reading of 55.9 in January, up only slightly from a recent high in May, but more than double the low reached last February.**



NEW U.S. HOME PRICES

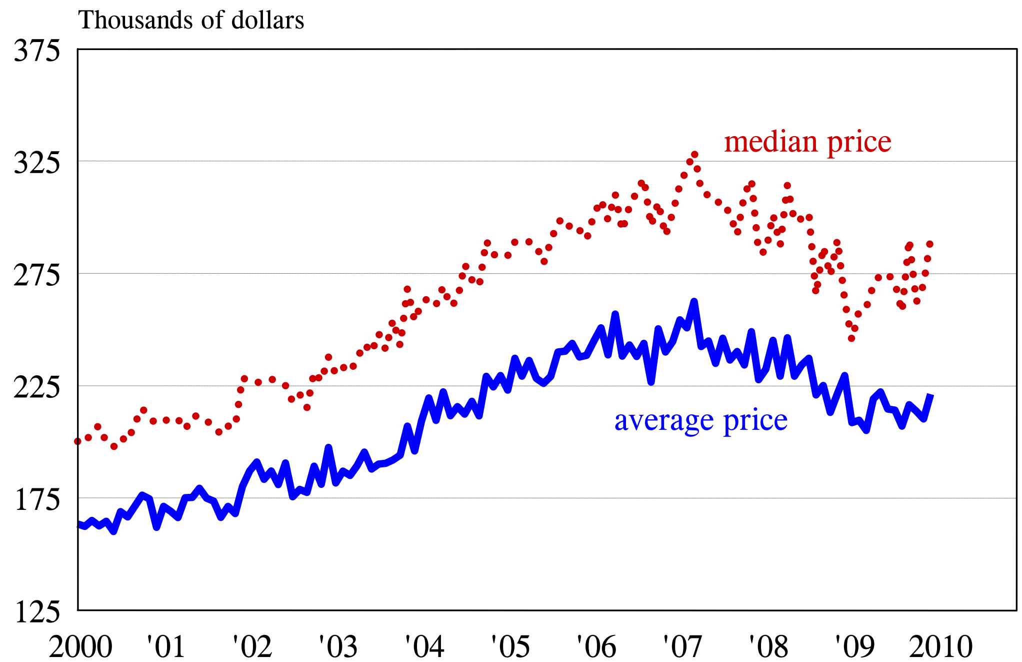
- A major source of consumer spending in recent years had been achieved through the use of home equity loans as home prices continued to increase at a rapid pace. Thus, consumers were using the increased home value to supplement income for various uses from college expenses for their children, to remodeling their homes, to other large-ticket purchases.

- As home prices kept rising and interest rates came down, many refinanced their homes, which increased their spendable cash. Indeed, given the continued rise in home prices many found they could purchase a home with little or no down payment and often at a sub prime or adjustable interest rate. This of course came home to roost once home prices stopped increasing.

- Chart 4 shows the average and median price of new homes and the unexpectedly sharp fall off in prices that put many homeowners under water, increasing foreclosures, and adding to the inventory of unsold homes. Prices appear to have bottomed, although there are wide regional differences, with median new home prices rising in the past few months and average prices leveling.

CHART 4

NEW HOME PRICES IN THE U.S.



CGFA

DOW JONES AVERAGE

- Not only had consumer net worth been reduced by the declining value of real estate, but also the severe financial crises of last year sharply reduced the value of their investments.

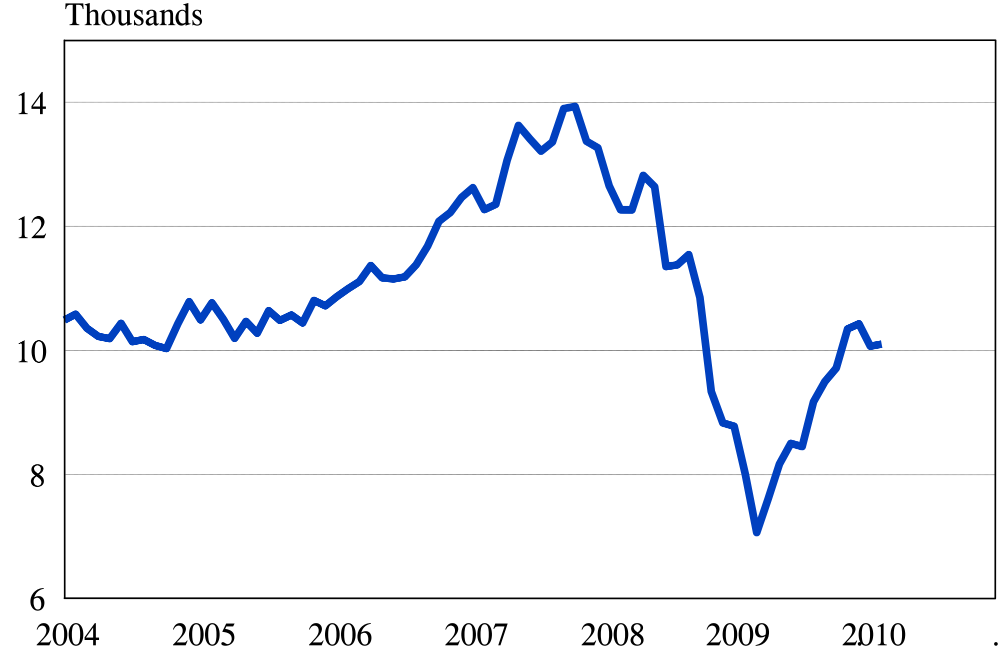
- Chart 5 shows the plunge in equity prices as measured by the Dow Jones Average since 2007. Indeed, by early March 2009, the Dow had reached the lowest level in 12 years, reaching half its earlier peak value.

- Thus, as pointed out, many 401K accounts were being referred to as 201Ks.

- The stock market has been an early indicator of the end of a recession and beginning of a recovery by 6 months or so. Thus, its rise since the low was reached in the first week of March 2009 shows a remarkable upswing in the past year and a clear sign of improving consumer net worth.

CHART 5

DOW JONES AVERAGE



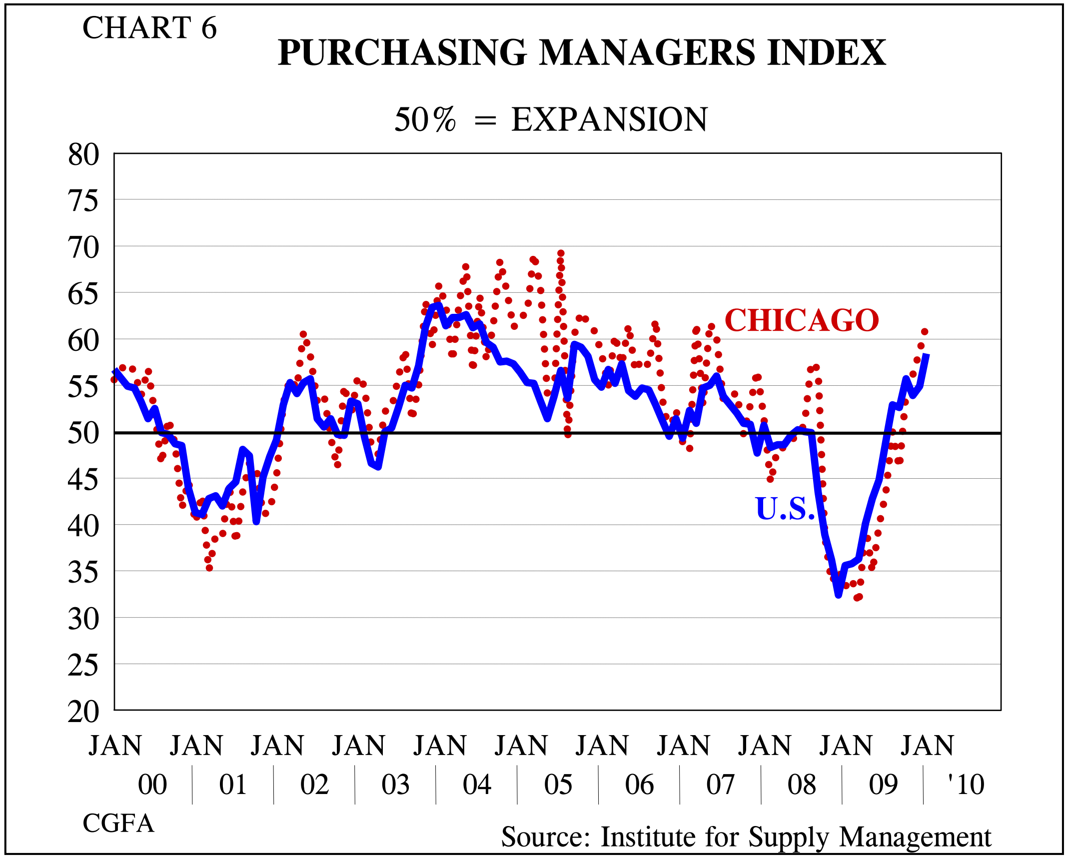
CGFA

PURCHASING MANAGERS INDEX

- As mentioned earlier, the consumer accounts for the majority of spending in the economy and this had deteriorated sharply. Latest data, however, show signs of improvement as holiday sales turned positive following 2008's disastrous decline and retail sales rose in January 2010 with December revised upward.

- Business spending had been another matter. Chart 6 shows the index of manufacturing contracting, registering an index number of less than 50%, and contracting for 12 consecutive months through July of 2009. Even so, there has been significant improvement in both the national and Chicago rate during the past six months.

- The national rate in January 2010 rose to 58.4%, the highest reading since October 2005 while the Chicago rate rose to 61.5%.

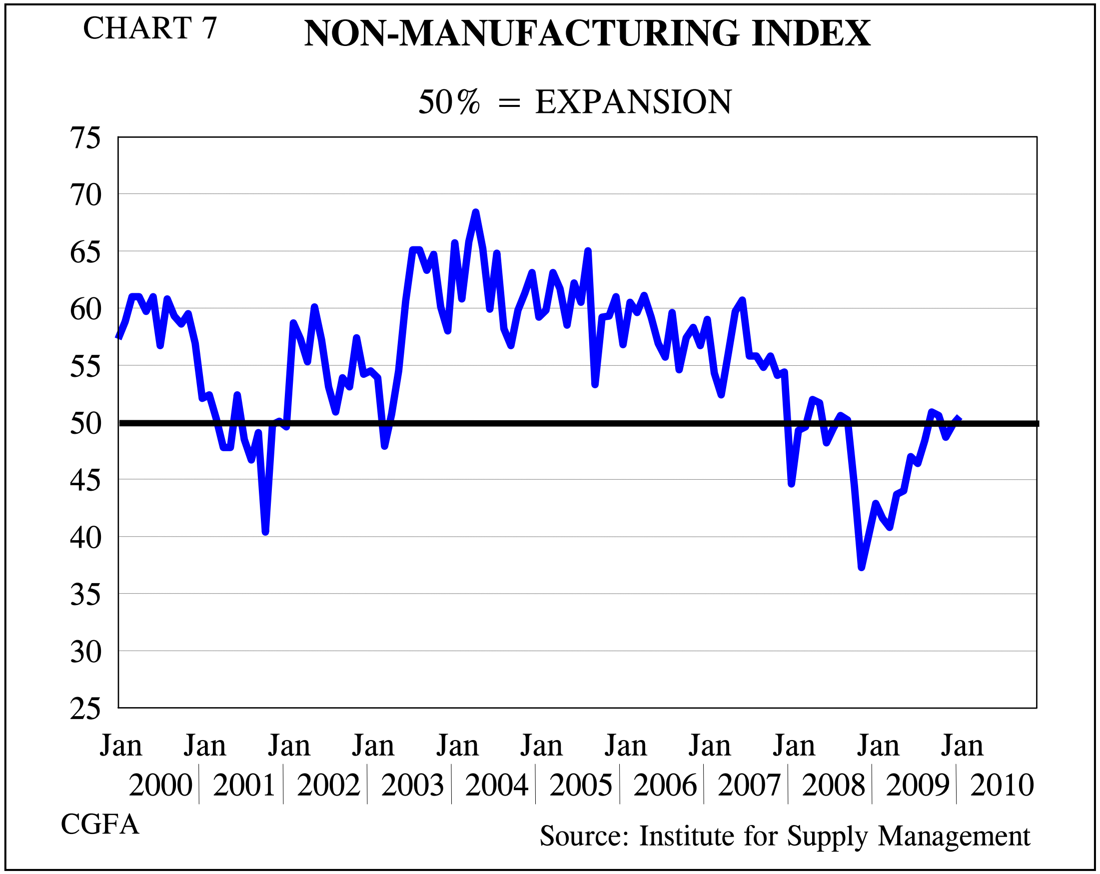


NON-MANUFACTURING INDEX

- A growing share of business is in the non-manufacturing, or the service sector. Chart 7 takes a look at the growing service sector of the economy.

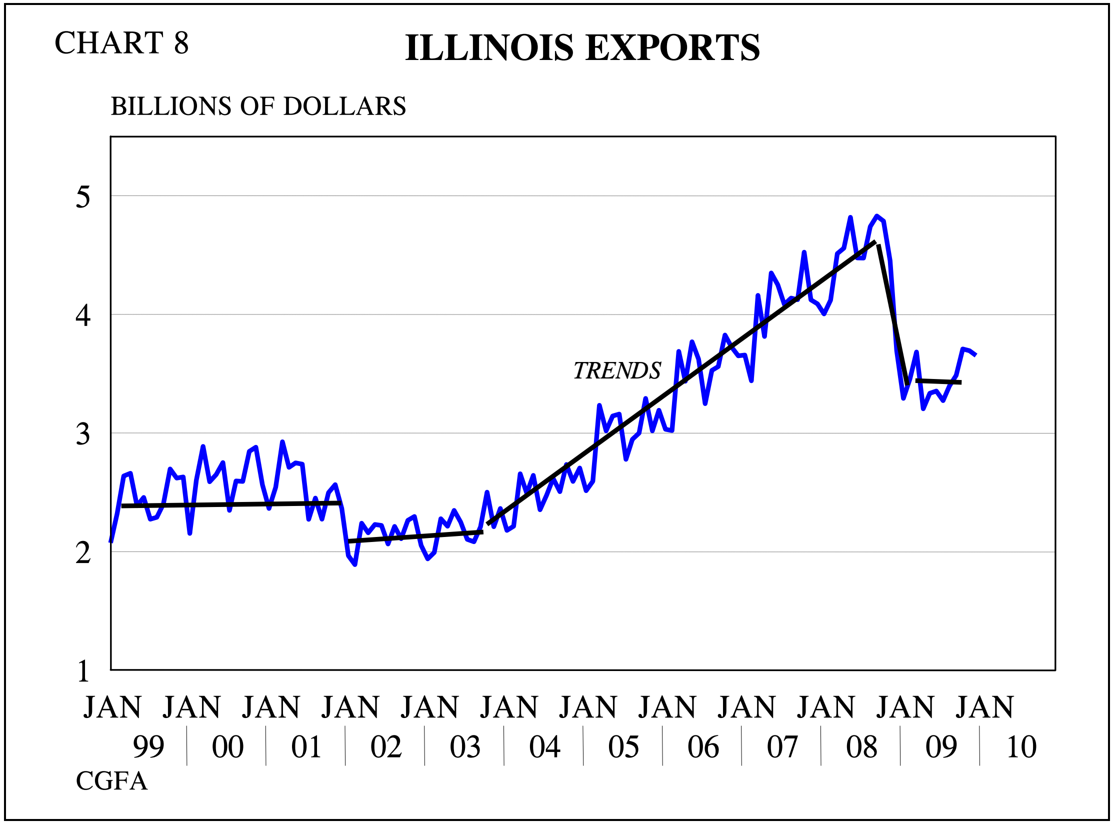
- Economic activity in the non-manufacturing sector had declined for 11 straight months through October 2009 before fluctuating around the 50% mark since.

- In January the index registered a reading of 50.5%.



ILLINOIS EXPORTS

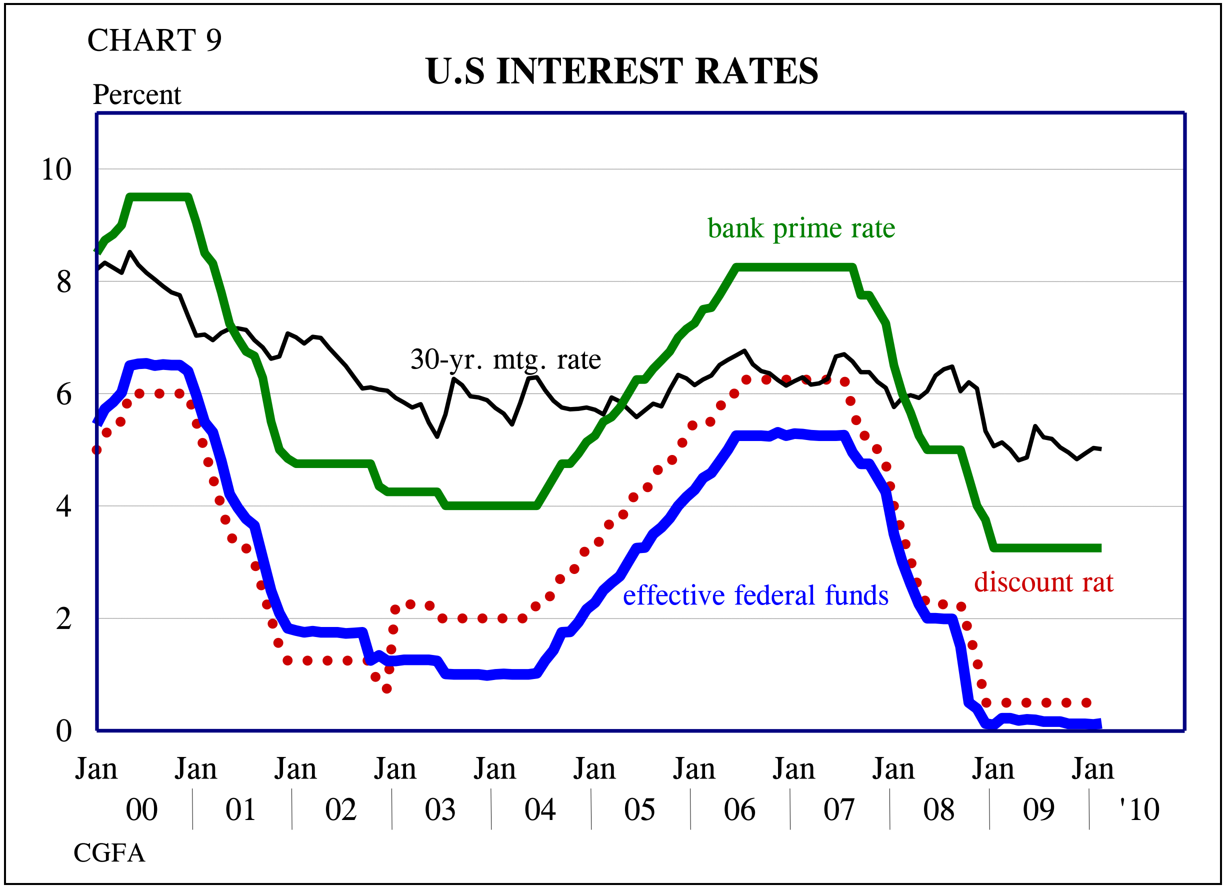
- Finally, a major uplift to the Illinois economy had been its growth in exports. Illinois ranks fifth in the nation's exports.
- As shown in Chart 8, these exports had been on a strong up trend from 2003 until late fall of 2008. As the worldwide recession took hold, however, demand for U.S. goods plunged.
- Indeed Illinois exports had fallen sharply to levels not see since the fall of 2006. Currently with recovery underway, there are signs that a bottom has been reached and a recovery may be forming.



U.S. INTEREST RATES

- The Federal Reserve Board began lowing key monetary policy interest rates in the summer of 2007. As shown in Chart 9, an acceleration in the decline to meet the credit crisis came in late 2008. At that time, the federal funds rate was lowered to a range of 0% to 0.25%, a situation which continues to date.

- While the Fed has been successful in keeping short-term rates low, fears of ensuing inflation from huge government spending is anticipated to push up long-term rates. While there are few signs of this happening yet, this could threaten progress in improving the housing market.

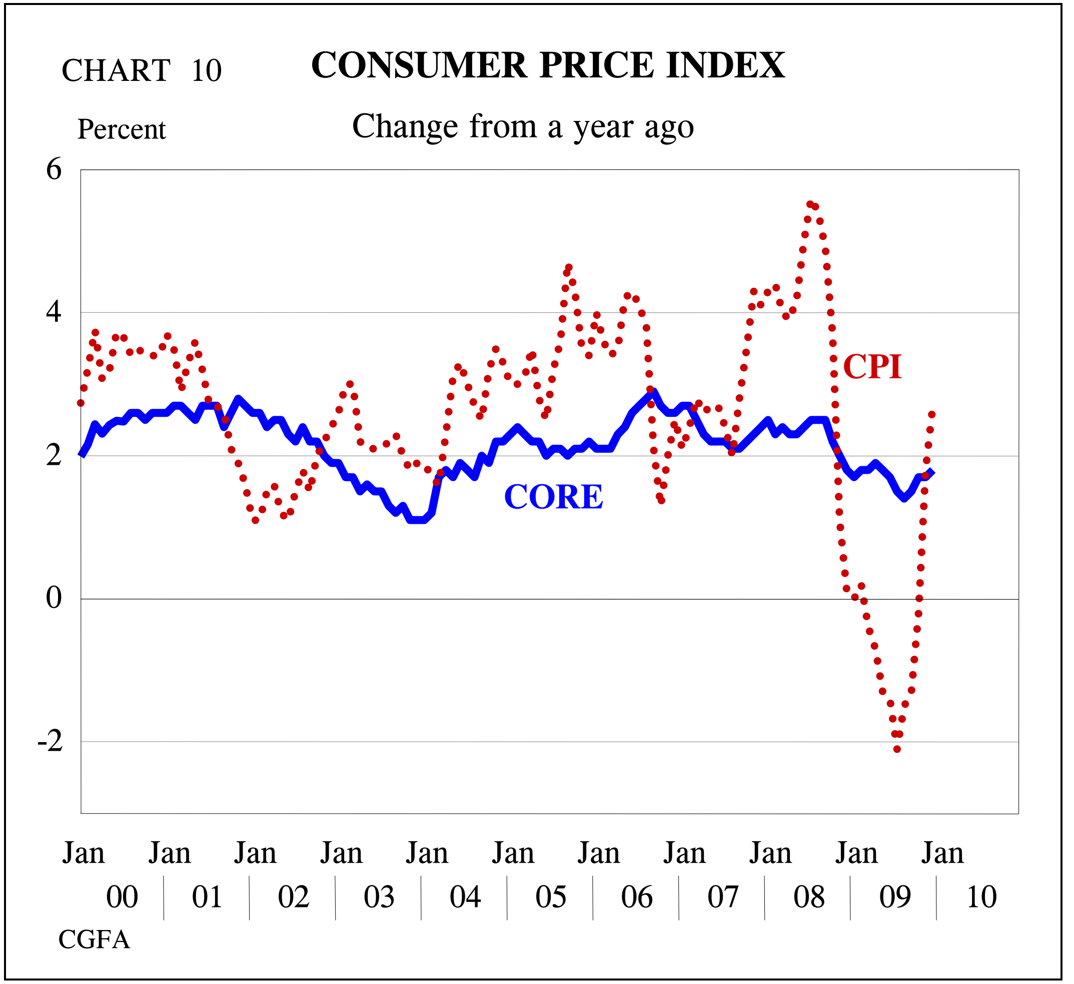


CONSUMER PRICE INDEX

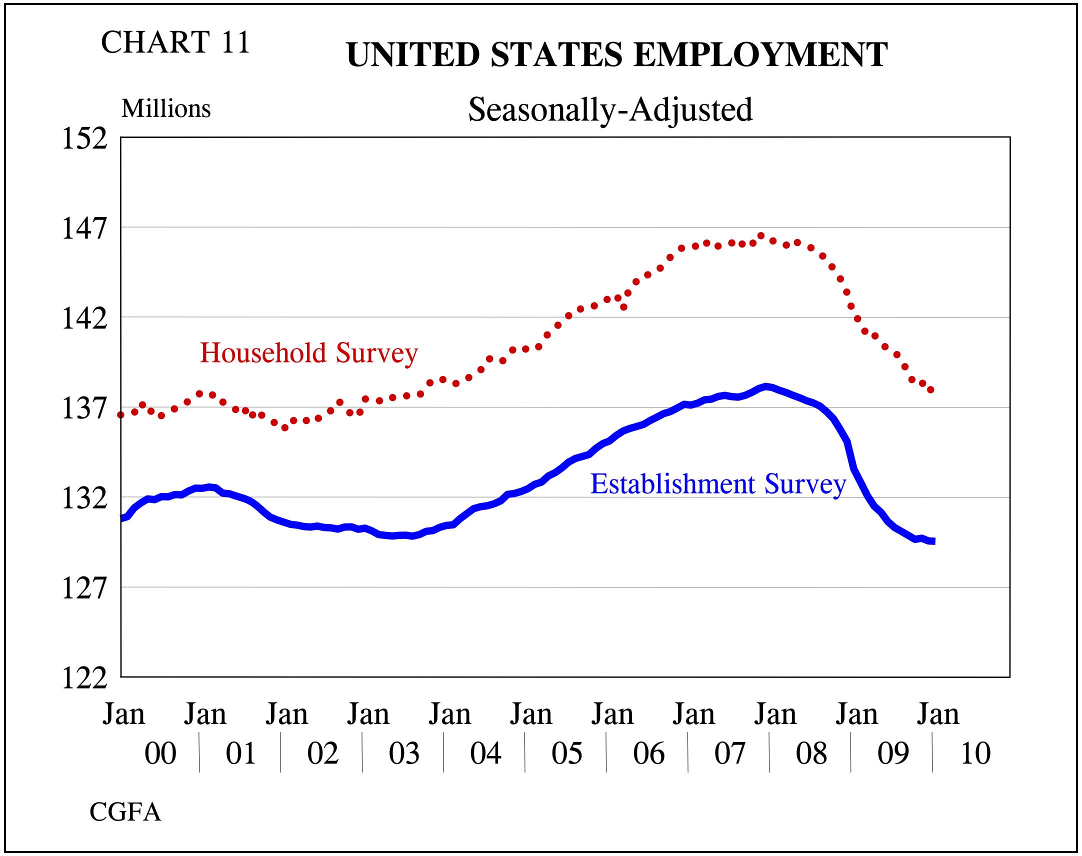
- While monetary policy is in position to stimulate the economy, it must be sensitive to the potential inflationary pressures it would generate as the economy resumes its growth path. To often in the past the Federal Reserve has overstayed its easy policy stance only to have to make severe corrections later.

- As shown in Chart 10, consumer prices that had declined for eight consecutive months rose in the past two months as measured from the same month a year earlier. In December the all items CPI was 2.7% above the same month a year earlier, the highest since late in 2008. At the same time, the core rate, which excludes the volitale food and energy sectors, rose 1.8% and has been trading in a narrow range for some time.

- As the earlier plunge in energy prices fades and push upward and as fears that congressional actions will drive up federal budget deficits, further upward pressures on prices are likely.



- The rising level of job loss is perhaps the major ingredient behind the depth and length of the recession.
- As Chart 11 shows, employment in the United States has been on a decline since the end of 2007, whether measured by the Household Survey, used to measure the unemployment rate, or the more comprehensive Establishment, or Payroll Survey.
- Indeed, more than 8.4 million payroll jobs have been lost since the recession began, although the rate of job loss has decreased.
- A similar pattern of employment has occurred in Illinois, although the State has tended to lag the national trend.

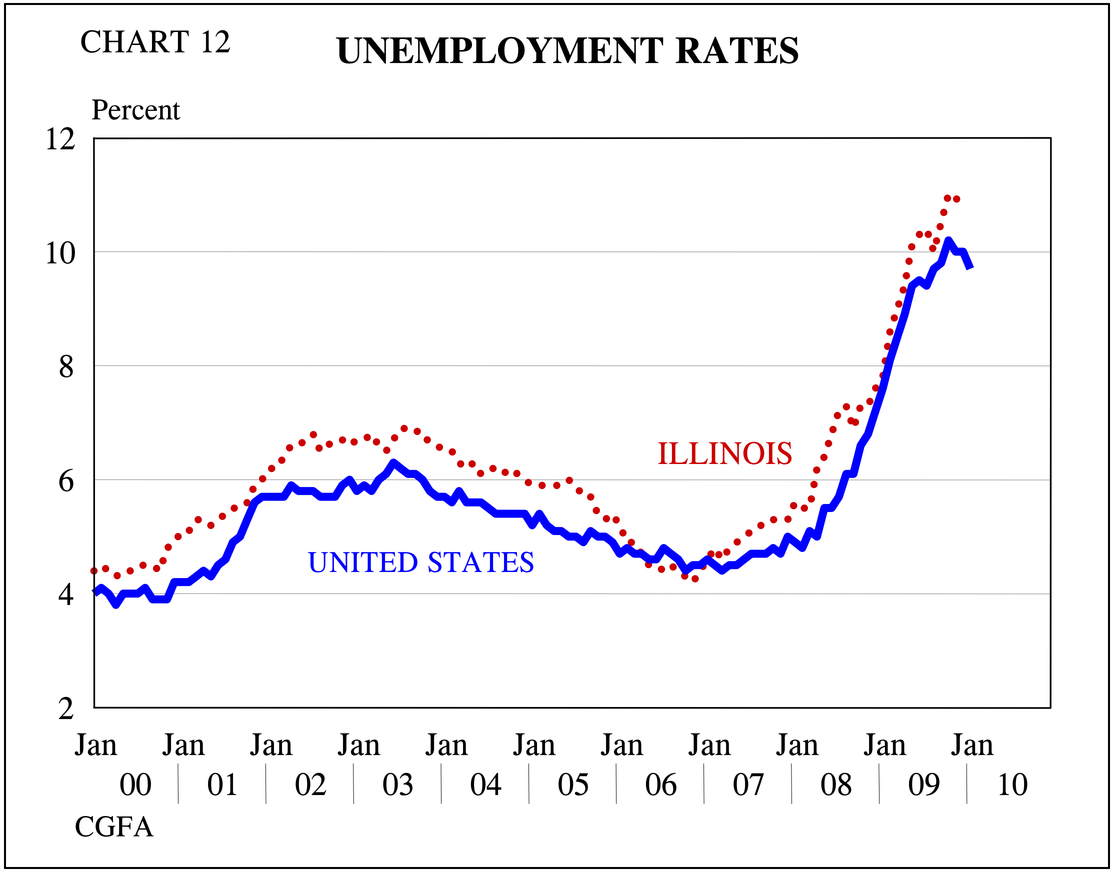


UNEMPLOYMENT RATES

- As a result of job losses, as shown in Chart 12, the unemployment rate rose from a low of 4.4% in early 2007 to 10.2% in October 2009. It held steady at 10% in both November and December before edging down to 9.7% in January 2010.

- At this stage of the business cycle, Illinois has tended to lag the national trend and in recent months has held higher.

- Illinois' unemployment rate rose to 11% in October, fell to 10.9% in November and was at 11.1% in December.



CHANGE IN REAL GDP

- Chart 13 shows three alternative forecasts of the U.S. economy in the years FY 2010 and FY 2011. The **BASELINE** shows the most likely solution with a 60% chance of occurrence. This forecast has the economy beginning to rise in the first quarter of FY 2010 followed by increases through the remainder of the year and strengthening in FY 2011.

- A more **OPTIMISTIC** senario, with a 20% chance of happening, shows stronger gains in FY 2010 continuing through 2011. (A so-called V shaped recovery).

- Finally a **PESSIMISTIC** alternative is provided, also with a 20% chance, whereby the economy eeks out modest growth in the first half of 2010 only to return to negative growth for the next two quarters, before registering slow but positive growth during the final quarters of FY 2011.(A so-called W shaped recovery).

- ***By any of these senarios it indicates a recession that is longer term than anything experienced during post war period although falling far short of the prolonged period of great depression.***

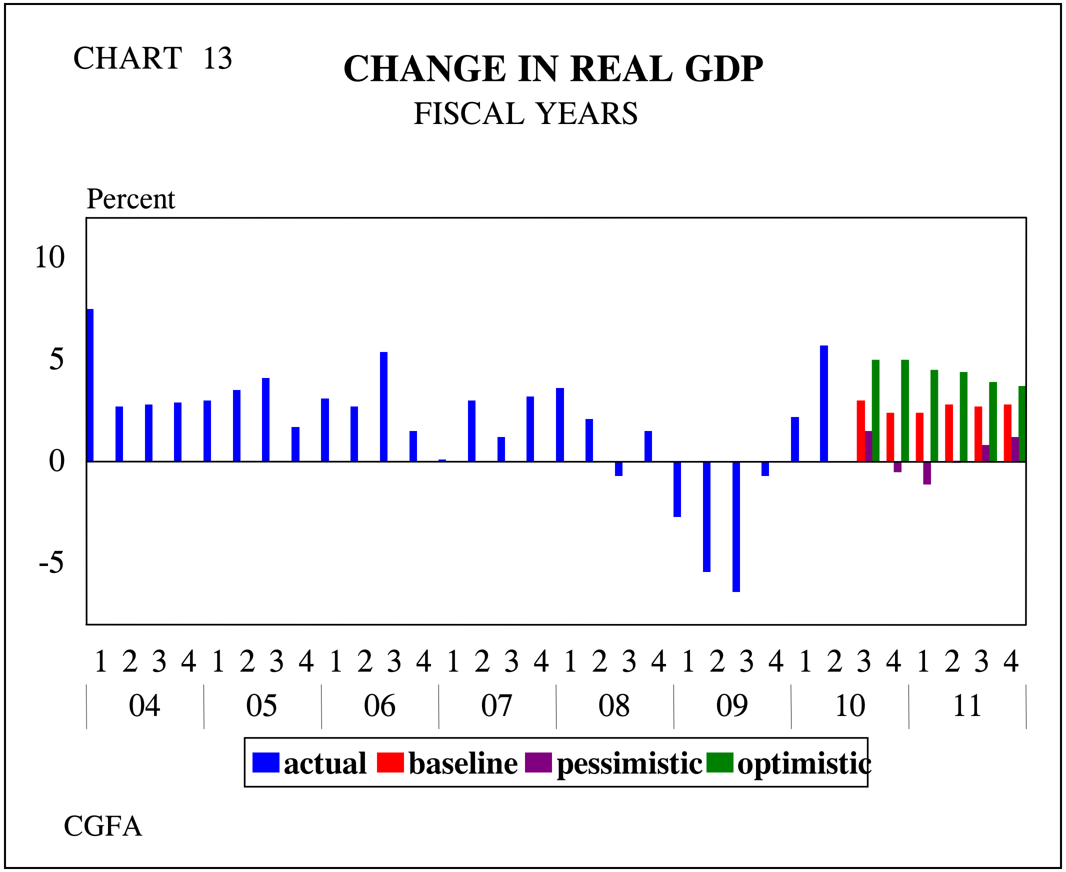


Chart 14 **BASELINE FORECASTS – FEBRUARY 2010**

($ Change from prior year levels)

REAL (2005 $)	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Estimated	FY 2011 Estimated
Gross Domestic Product	3.0	2.0	2.2	-2.3	0.8	2.8
Personal Consumption	3.0	2.9	1.6	-1.4	1.3	2.7
Durable	4.0	4.1	2.2	-8.8	3.8	6.9
Nondurable	3.0	3.0	1.2	-2.1	1.2	2.4
Services	2.8	2.7	1.6	0.0	0.9	2.2
Fixed Investment	4.8	-2.5	-3.4	-24.4	4.8	12.0
Exports	7.3	8.5	12.1	-6.3	1.9	7.0
Imports	6.4	2.5	-0.1	-11.2	-1.3	9.4
Government	1.1	1.1	2.7	2.6	2.0	0.2
Federal	1.8	0.7	5.2	7.2	4.8	0.6
State & Local	0.4	1.6	1.4	-0.1	0.2	-0.1
OTHER MEASURES						
Personal Income (Current $)	6.6	6.5	4.6	0.1	1.2	4.1
Personal Consumption (Current $)	6.3	5.4	4.9	0.1	2.4	3.9
Before Tax Profits (Current $)	14.1	3.2	-7.4	-15.5	14.4	5.8
Consumer Prices	3.8	2.6	3.7	1.4	1.2	1.4
Unemployment Rate (Average)	4.8	4.5	5.0	7.6	9.9	9.7

- The loss of jobs was a major factor reducing sales taxes as well as income taxes, which were further weakened by declining corporate profits.

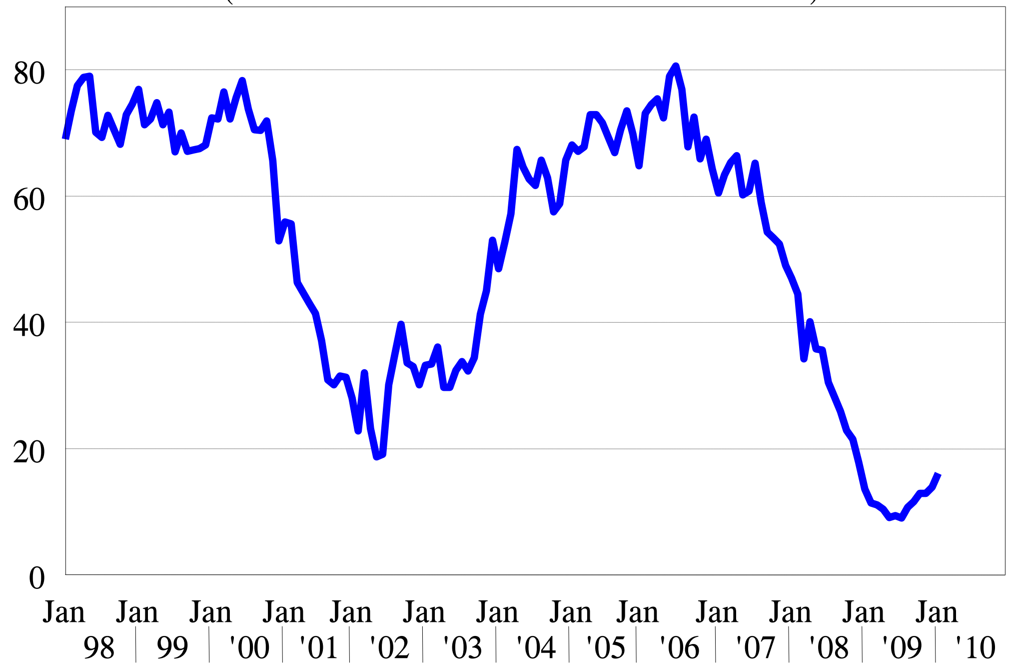
- The sharp decline in State receipts is depicted in Chart 15 that is based upon data from 16 states-including Illinois- that have diverse geographic and population characteristics.

- ***The index for overall receipts for January was at 16.1; up from 13.9 in December and 12.9 in October and November but still the highest since December 2008, suggesting a bottom may be being reached. While Illinois mirrors the national pattern, it often lags the general trend and, therefore, poor revenue inflows from economic sources can be expected to continue well into the fiscal year even as an economic recovery continues.***

CHART 15

STATE TAX RECEIPTS SURVEY

(Index based on inflow of income and sales taxes)

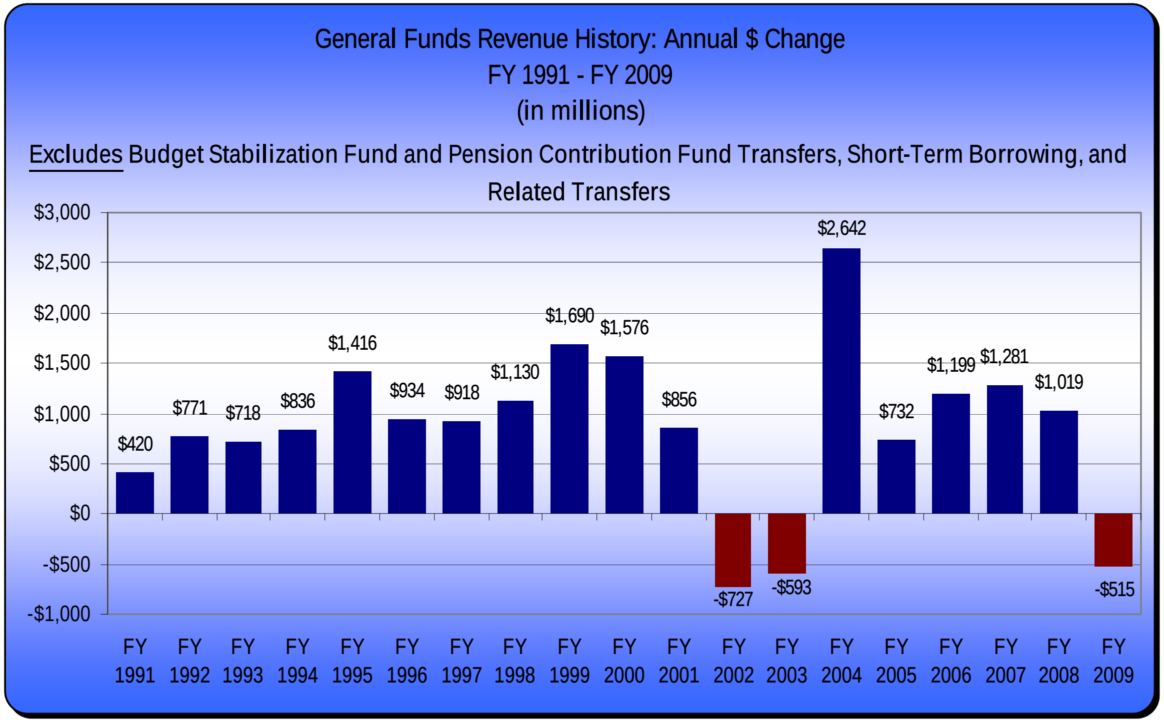


Source: ISI (International Strategy & Investment)

CGFA

REVIEW OF FY 2009 REVENUE FALLOFF

As shown in the accompanying graph, base general funds revenues plunged $515 million in FY 2009. This was the first year-over-year decline in revenues since the last recession [FY 2002-03]. This is in contrast to an average gain of just over $1 billion experienced the previous four fiscal years, and illustrates the abrupt change that revenues can undergo when tough economic times hit.



REVIEW OF THE FY 2009 REVENUE ASSUMPTIONS

This table illustrates that base revenues in FY 2009 [excludes direct federal stimulus] fell $2.873 billion below assumptions used to implement the budget per GOMB. According to GOMB, the budget initially was implemented on the assumption that base revenues would grow $792 million. As is now known, not only did that growth not occur, but base revenues actually fell $2.081 billion below that assumption. That falloff was partially mitigated by the $1.566 billion received via the federal stimulus package that was not originally included in the FY 2009, but proved fortunate as without it the budget picture would have been even gloomier.

Actual vs. Unofficial FY 2009 Budget (per GOMB)
Excludes short-term borrowing and cash flow transfers
(millions)

Revenue Sources	Actual FY 2009 Revenues	Unofficial FY 2009 Budget Assumptions Estimate Aug-08	$ Difference	% Difference
State Taxes				
Personal Income Tax	$10,219	$11,559	($1,340)	-11.6%
Corporate Income Tax	$2,073	$2,348	($275)	-11.7%
Sales Taxes	$6,773	$7,332	($559)	-7.6%
Public Utility (regular)	$1,168	$1,110	$58	5.2%
Cigarette Tax	$350	$350	$0	0.0%
Liquor Gallonage Taxes	$158	$161	($3)	-1.9%
Vehicle Use Tax	$27	$31	($4)	-12.9%
Inheritance Tax (gross)	$288	$275	$13	4.7%
Insurance Taxes & Fees	$334	$325	$9	2.8%
Corporate Franchise Tax & Fees	$201	$205	($4)	-2.0%
Interest on State Funds & Investments	$81	$180	($99)	-55.0%
Cook County Intergovernmental Transfer	$253	$256	($3)	-1.2%
Other Sources	$418	$504	($86)	-17.1%
Subtotal	**$22,343**	**$24,636**	**($2,293)**	**-9.3%**
Transfers				
Lottery	$625	$664	($39)	-5.9%
Riverboat Transfers & Receipts	$430	$642	($212)	-33.0%
Sale of 10th Riverboat License [approx.]	$0	$575	($575)	N/A
Other	$538	$678	($140)	-20.6%
Total State Sources	**$23,936**	**$27,195**	**($3,259)**	**-12.0%**
Federal Sources	**$5,001**	**$4,794**	**$207**	**4.3%**
Total Federal & State Sources	**$28,937**	**$31,989**	**($3,052)**	**-9.5%**
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($996)	($1,127)	$131	-11.6%
Corporate Income Tax	($363)	($411)	$48	-11.7%
Subtotal General Funds	**$27,578**	**$30,451**	**($2,873)**	**-9.4%**
Change from Prior Year	**($2,081)**	**$792**	**($2,873)**	**N/A**
Percent Change	**-7.0%**	**2.7%**		
Federal Stimulus	**$1,566**	**$0**	**$1,566**	
Subtotal with Federal Stimulus	**$29,144**	**$30,451**	**($1,307)**	**-4.3%**

CGFA

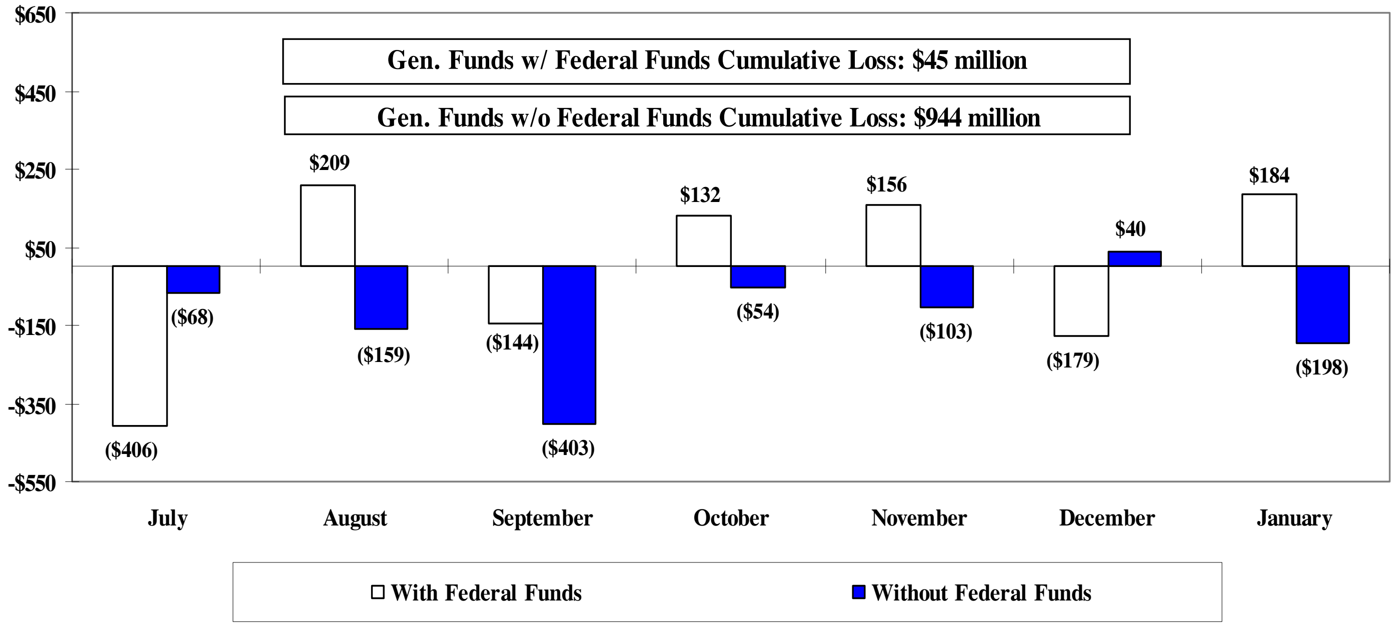
Review of First Half Revenues

As shown, through January, overall base revenues are down $45 million. The decline is attributed to continued weakness in the economically related areas. If $899 million in federal sources gains are excluded, the falloff in receipts would be a much more troublesome $944 million.

FY 2010 Monthly General Funds Performance

***July thru January as Compared to Same Prior Year Months**

($ in millions)



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

GENERAL FUNDS RECEIPTS: Year to Date

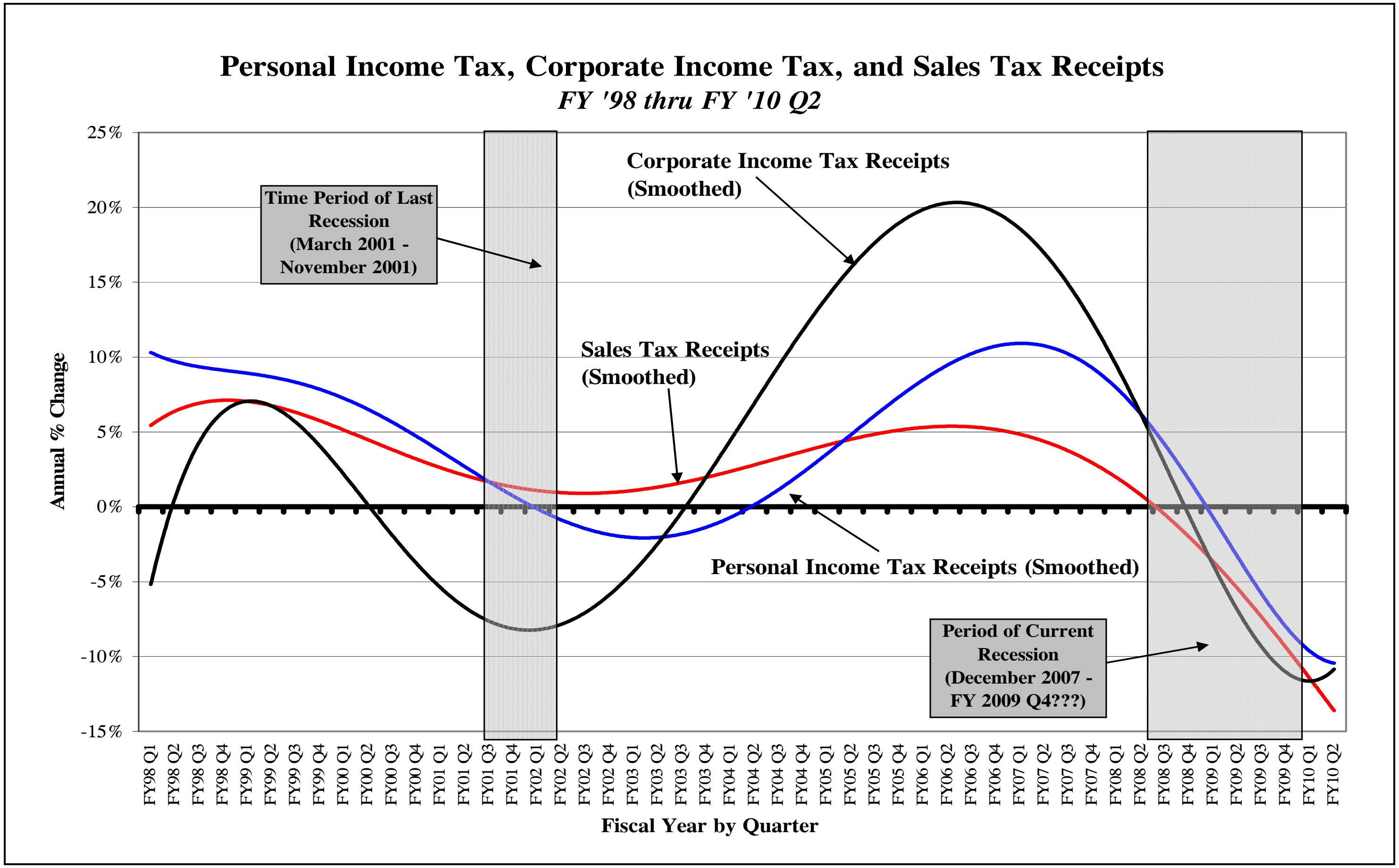
GENERAL FUNDS RECEIPTS: YEAR TO DATE
FY 2010 vs. FY 2009
($ million)

Revenue Sources	FY 2010	FY 2009	CHANGE FROM FY 2009	% CHANGE
State Taxes				
Personal Income Tax	$5,259	$5,830	($571)	-9.8%
Corporate Income Tax (regular)	711	813	($102)	-12.5%
Sales Taxes	3,738	4,216	($478)	-11.3%
Public Utility Taxes (regular)	610	663	($53)	-8.0%
Cigarette Tax	204	204	$0	0.0%
Liquor Gallonage Taxes	95	99	($4)	-4.0%
Vehicle Use Tax	17	16	$1	6.3%
Inheritance Tax (Gross)	131	168	($37)	-22.0%
Insurance Taxes and Fees	159	144	$15	10.4%
Corporate Franchise Tax & Fees	122	123	($1)	-0.8%
Interest on State Funds & Investments	16	33	($17)	-51.5%
Cook County IGT	56	65	($9)	-13.8%
Other Sources	229	234	($5)	-2.1%
Subtotal	$11,347	$12,608	($1,261)	-10.0%
Transfers				
Lottery	339	339	$0	0.0%
Riverboat transfers & receipts	257	305	($48)	-15.7%
Other	486	194	$292	150.5%
Total State Sources	$12,429	$13,446	($1,017)	-7.6%
Federal Sources	$3,498	$2,599	$899	34.6%
Total Federal & State Sources	$15,927	$16,045	($118)	-0.7%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($513)	($568)	$55	-9.7%
Corporate Income Tax	($124)	($142)	$18	-12.7%
Subtotal General Funds	$15,290	$15,335	($45)	-0.3%
Short-Term Borrowing	$1,250	$1,400	($150)	N/A
Pension Contribution Fund Transfer	$835	$0	$835	N/A
Budget Stabilization Fund Transfer	$666	$276	$390	141.3%
Total General Funds	$18,041	$17,011	$1,030	6.1%

SOURCE: Office of the Comptroller, State of Illinois: Some totals may not equal, due to rounding.
CGFA 18-Feb-10

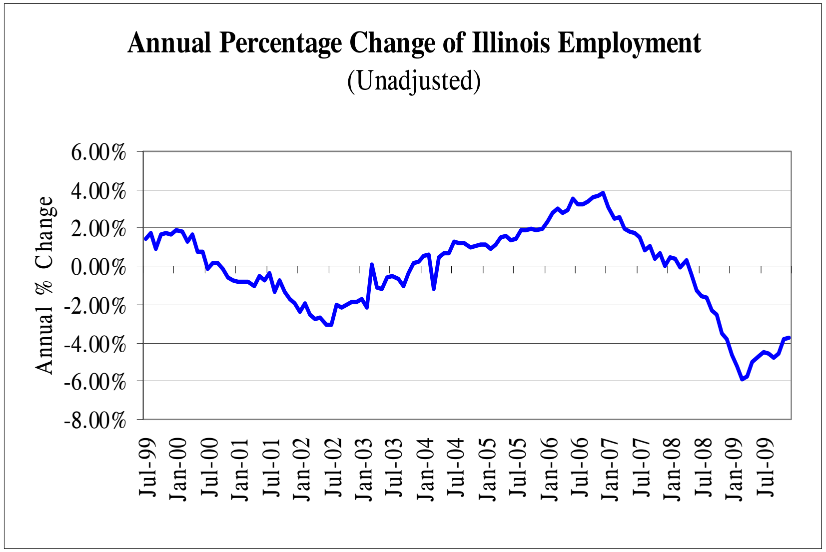
EARLY SIGNS OF RECOVERY PHASE MANIFESTING IN REVENUES

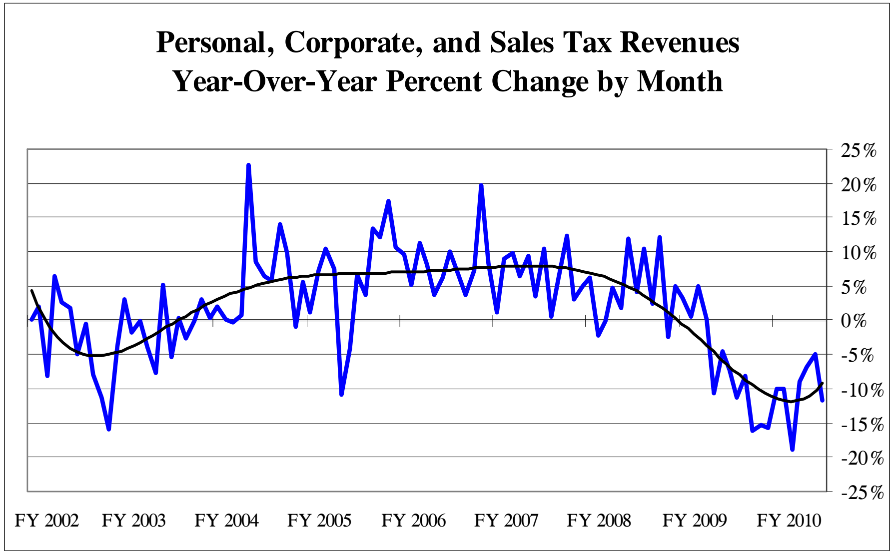
As evidenced by the last recession in 2001, it took approximately four quarters before the recovery phase manifested in actual receipt improvement from personal income tax and sales tax. Given the current employment figures, there is little reason to anticipate a dramatic turn around soon. However, it appears that minute improvement may be manifesting itself in income taxes, and even sales taxes may be seeking a bottom, although it will take several more months before that is confirmed. (See following chart).



TRENDS

The first chart demonstrates that the employment picture, while still in negative territory, appears to have bottomed, affirming earlier expectations. Again, however, it will take some time before improving economic conditions will translate into a more positive revenue picture. As shown in the next chart, while the current rates of income and sales tax appear to have bottomed and are slowly improving, they still reside squarely in negative territory. As indicated in earlier briefings, at best, gradual improvement in the rate of loss can be hoped for by fiscal year end.





REVISED FY 2010 REVENUE OUTLOOK

The State's enacted budget assumed revenues would reach $29.299 billion. In the September Monthly Revenue Briefing, CGFA raised numerous warnings related to the FY 2010 revenue outlook. That was quickly followed by a Comptroller's report indicating that Offices concern with the backlog of unpaid bills. Finally, during the first week of the fall veto session, officials from the GOMB warned that revenues were expected to fall well short of budgeted expectations.

The following table provides an abbreviated view of the current fiscal year, comparing updated CGFA and GOMB revenue projections, as well as subsequent revenue shortfalls when compared to enacted budget assumptions.

Base Revenues [$millions]	Adopted Budget Estimated (GOMB) FY 2010	CGFA Jan.-10 Estimated FY 2010	GOMB Dec.-09 Estimated FY 2010	Difference
State Sources	$19,947	$19,253	$19,081	$172
Transfers	$2,221	$2,195	$2,171	$24
Federal Sources	$7,131	$6,951	$6,951	$0
Total	**$29,299**	**$28,399**	**$28,203**	**$196**
Change from Budgeted		**($900)**	**($1,096)**	

FY 2010 CGFA vs. GOMB GENERAL FUNDS REVENUE ESTIMATE COMPARISON

FY 2010 CGFA vs. GOMB General Funds Revenue Estimate Comparison Jan.-2010
(millions)

Revenue Sources	CGFA FY 2010 Estimate Jan.-10	GOMB* FY 2010 Estimate Dec-09	$ Difference	% Difference
State Taxes				
Personal Income Tax	$9,600	$9,350	$250	2.7%
Corporate Income Tax	$1,475	$1,373	$102	7.4%
Sales Taxes	$6,200	$6,394	($194)	-3.0%
Public Utility (regular)	$1,100	$1,150	($50)	-4.3%
Cigarette Tax	$350	$350	$0	0.0%
Liquor Gallonage Taxes	$160	$161	($1)	-0.6%
Vehicle Use Tax	$28	$25	$3	12.0%
Inheritance Tax (gross)	$265	$275	($10)	-3.6%
Insurance Taxes & Fees	$355	$325	$30	9.2%
Corporate Franchise Tax & Fees	$195	$205	($10)	-4.9%
Interest on State Funds & Investments	$40	$80	($40)	-50.0%
Cook County Intergovernmental Transfer	$240	$240	$0	0.0%
Other Sources	$439	$306	$133	43.5%
Subtotal	**$20,447**	**$20,234**	**$213**	**1.1%**
Transfers				
Lottery	$630	$645	($15)	-2.3%
Riverboat transfers and receipts	$415	$420	($5)	-1.2%
Proceeds from sale of 10th license	$50	$50	$0	0.0%
Other [Includes $352 sweeps & $245 Cap. Proj.]	$1,100	$1,056	$44	4.2%
Total State Sources	**$22,642**	**$22,405**	**$237**	**1.1%**
****Federal Sources [Includes Stimulus Package]**	**$6,951**	**$6,951**	**$0**	**0.0%**
Total Federal & State Sources	**$29,593**	**$29,356**	**$237**	**0.8%**
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax [9.75%]	($936)	($912)	($24)	2.6%
Corporate Income Tax [17.5%]	($258)	($241)	($17)	7.1%
Subtotal General Funds	**$28,399**	**$28,203**	**$196**	**0.7%**

*The GOMB revenue estimate totaled $28.203 billion per the Dec. 2009 Preliminary Official Statement.

**Federal sources are primarily dependent on reimbursable spending, subsequently, final appropriations, available cash for spending and spending plans will largely dictate the final outcome. The federal source estimates reflected here come directly from the GOMB's Dec. 2009 Preliminary Official Statement and reflect updated estimates of federal spending, reibursement, and federal stimulus.

NOTE: Totals exclude short-term borrowing, Budget Stabilization transfers, and other cash flow transfers.
CGFA

LATEST BUDGET PLAN – FY 2008 to FY 2010

This table details the State's most recent FY 2010 fiscal plan as presented in the December 2009 Preliminary Official Statement. As shown, since enacted, the State's budget has deteriorated from an expected $279 million surplus, to an anticipated deficit of $1.996 billion. When a negative $3.674 billion budgetary basis to begin the fiscal year is included, the budgetary deficit at the end of FY 2010 is expected to grow from an earlier calculated $3.395 billion to a revised $5.670 billion.

Latest Budget Plan--FY 2008 to FY 2010
Source: Based on December 30th, 2009 Preliminary Official Statement page 22.
$ millions

	FY 2008 Actual	Estimated Results (9/9/09) FY 2009	FY 2010 Adopted Budget FY 2010	FY 2010 Revised (12/15/09) FY 2010
Revenues [GOMB]	$29,659	$29,144	$29,299	$28,203
Appropriations	$27,538	$29,857	$26,085	$26,310
less unspent approp	($385)	($322)	($951)	($400)
Net Approp Spending	$27,153	$29,535	$25,134	$25,910
Statutory Transfers Out				
approx. POB Debt Service [incl. FY10 PONs]	$467	$467	$520	$520
Continuting Pension Approp.	$0	$426	$0	$0
Reduced Pension Transfer	$0	$0	$0	$0
Legislatively Required Transfers	$2,735	$2,532	$2,321	$2,724
Total Transfers Out	$3,202	$3,425	$2,841	$3,244
Total Operating Spending and Transfers Out	$30,355	$32,960	$27,975	$29,154
Operating Deficit (Surplus)	($696)	($3,816)	$1,324	($951)
Short-term Borrowing	$2,400	$2,400	$1,250	$1,250
Repay of Short-term Borrowing [w/ interest]	($2,403)	($1,424)	($2,295)	($2,295)
Budget Deficit (Surplus)	($699)	($2,840)	$279	($1,996)
Budgetary Basis to Begin Year	($135)	($834)	($3,674)	($3,674)
Budget Deficit at End of Year	($834)	($3,674)	($3,395)	($5,670)

Note: Figures may not exactly match Preliminary Official Statement due to rounding.

CGFA

FY 2011 BUDGET HOLE

(Base in $ Millions)

FY 2011 Budget Hole [Base] *Exludes non-pension related spending pressures	
Gap from one-time FY 2010 Revenues	**$5,254**
Pension Note Proceeds	$3,466
Federal Stimulus	$1,436
Fund Sweeps	$352
1st Year Repay of Pension Notes	**$800**
Estimated Pension Increase**	**$531**
Carry forward of FY 2010 Deficit	**$5,670**
FY 2011 Budget Hole [Base]	**$12,255**
**Based on assest smoothing per P.A. 96-0043	

FY 2011 Revenues – A Year in Transition: Receipts Will Continue to Struggle

Economic Sources to Remain Weak

FY 2011 is expected to be a "transitional year" in terms of economically related revenues. That is revenues will improve off of their lows suffered over the past two years, but remain weak despite entering the expansion phase. While a third consecutive year of declines for the economic sources should be avoided, combined growth from income and sales taxes is only expected to be in the $200-$500 million range. More meaningful revenue growth is not expected to manifest until well after the economy strengthens further (likely not until FY 2012).

- Personal income tax is expected to continue to suffer as economic activity is still several quarters away from adding jobs. Even when improvement does begin, it is likely to be less than half of historical average growth of 4%-5%. Decent gains will probably be delayed until FY 2012 when an improved employment picture will manifest in higher growth rates.
- Corporate income tax is the most volatile economic source and as such, possible outcomes cover a wide spectrum. Historically, corporate income tax has most closely coincided with the timing of recessions and recoveries. If that pattern continues to hold true, then some growth may be anticipated next fiscal year, however, given current expectations as well as historical performance (corporate income tax suffered three consecutive years of declines during the last recession), a conservative outlook is justified. Even returning to the average growth of approximately 4%-5% would be welcomed.
- Sales tax receipts should provide some modest growth in FY 2011, for no other reason than a much "lower base" has been established during the past recessionary period. However, the contraction of the employment base will continue to weight on retail sales for some time. Subsequently, growth somewhere in the 1%-2% range is all that can be expected until the recovery takes firmer hold in FY 2012.

Non-Economic Factors Will Serve to Erase Gains

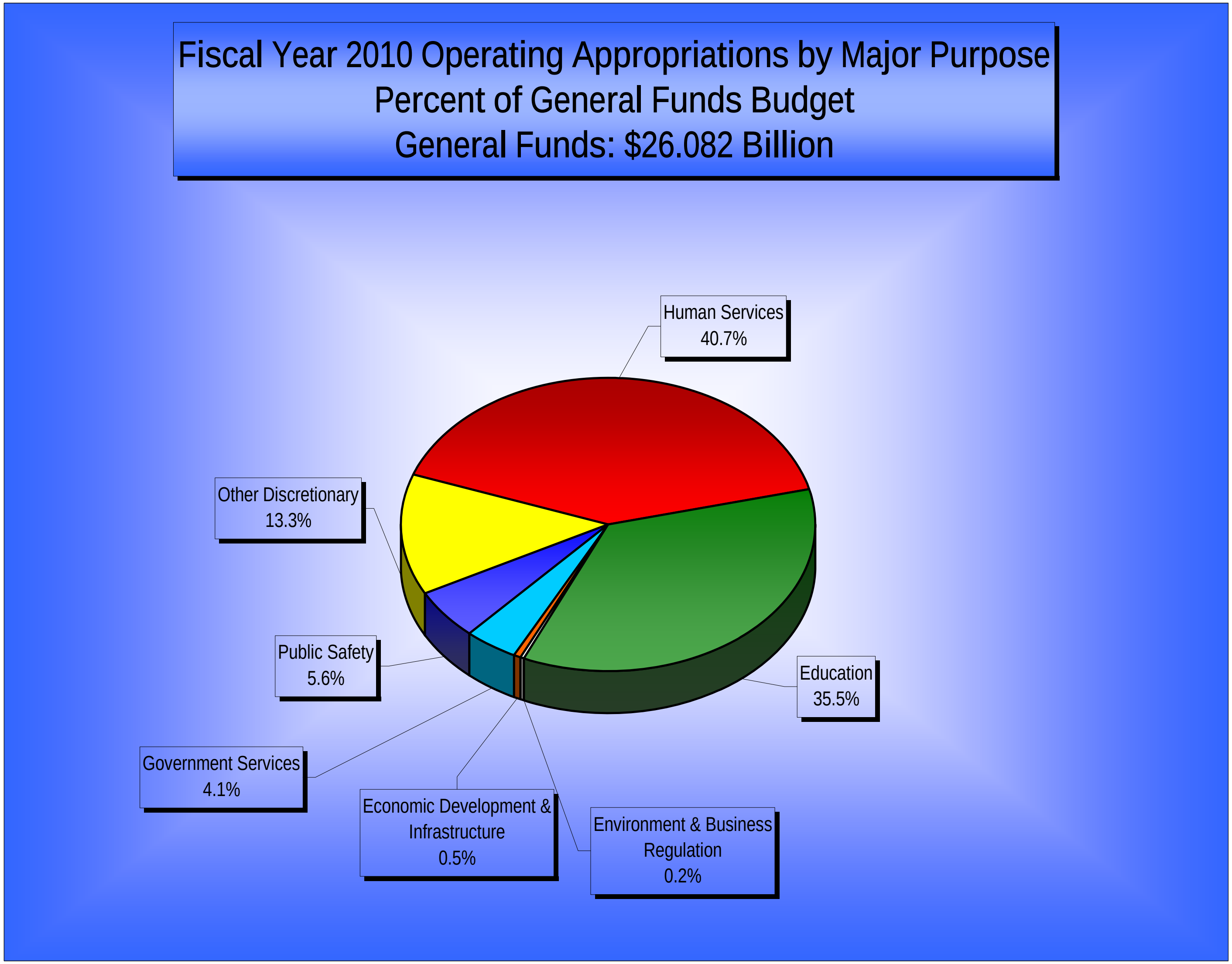
- The greatest drag on FY 2011 revenues will be the expiration of the federal stimulus at the end of 2010. No education stimulus money is expected in FY 2011, while only two quarters of enhanced Medicaid match can be assumed. As a result, federal stimulus is expected to be approximately $1.4 billion less next fiscal year.
- The FY 2010 budget includes fund sweeps totaling $352 million. Unless similar legislation is passed, that revenue will not repeat next year, and result in a year over year loss.
- Unless legislative action is taken, a quirk in federal/state estate tax law would preclude collection of estate tax in calendar year 2010. On average this tax generates $250 to $300 million a year.
- Finally, little net growth can be expected from the remaining revenue sources.

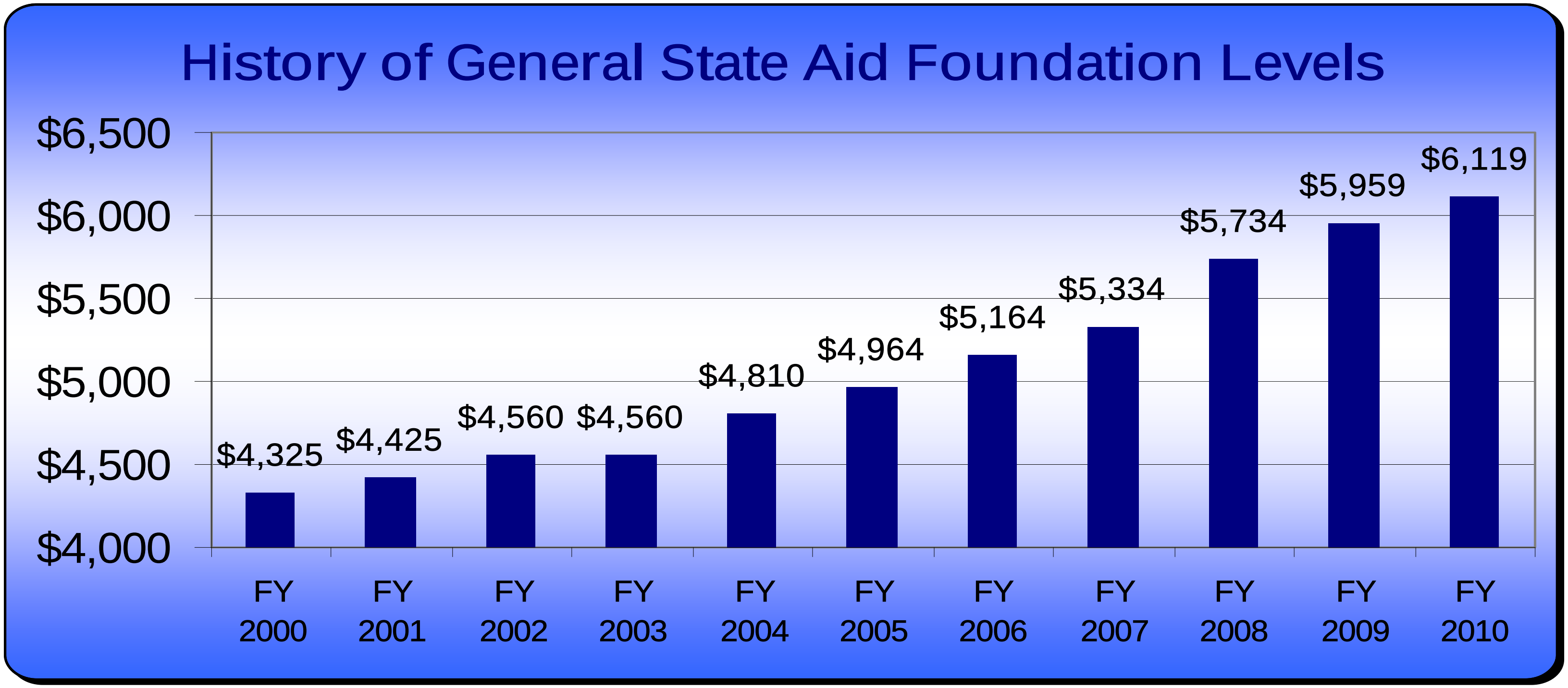
DETAILED GENERAL FUNDS REVENUE HISTORY FY 2001 - FY 2010
($ million)

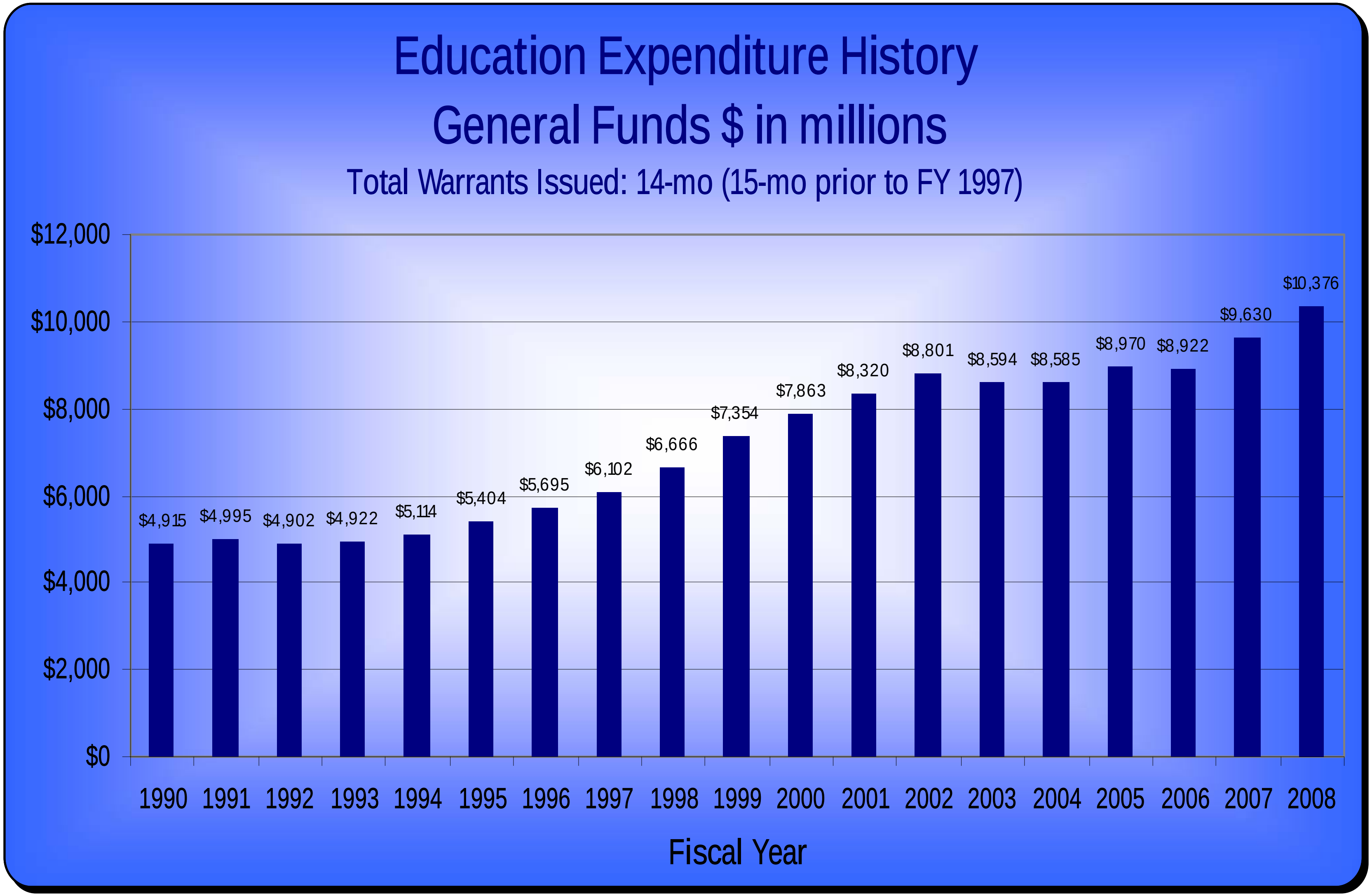
Revenue Sources	Actual Receipts FY 2001	Actual Receipts FY 2002	Actual Receipts FY 2003	Actual Receipts FY 2004	Actual Receipts FY 2005	Actual Receipts FY 2006	Actual Receipts FY 2007	Actual Receipts FY 2008	Actual Receipts FY 2009	Estimated Receipts FY 2010
State Taxes										
Personal Income Tax	$8,607	$8,086	$7,979	$8,235	$8,873	$9,568	$10,424	$11,187	$10,219	$9,600
Corporate Income Tax (regular)	1,279	1,043	1,011	1,379	1,548	1,784	2,121	2,201	2,073	1,475
Sales Taxes	5,958	6,051	6,059	6,331	6,595	7,092	7,136	7,215	6,773	6,200
Public Utility Taxes (regular)	1,146	1,104	1,006	1,079	1,056	1,074	1,131	1,157	1,168	1,100
Cigarette Tax	400	400	400	400	450	400	350	350	350	350
Liquor Gallonage Taxes	124	123	123	127	147	152	156	158	158	160
Vehicle Use Tax	34	38	34	35	32	34	33	32	27	28
Inheritance Tax (Gross)	361	329	237	222	310	272	264	373	288	265
Insurance Taxes and Fees	246	272	313	362	342	317	310	298	334	355
Corporate Franchise Tax & Fees	146	159	142	163	181	181	193	225	201	195
Interest on State Funds & Investments	274	135	66	55	73	153	204	212	81	40
Cook County Intergovernmental Transfer	245	245	355	428	433	350	307	302	253	240
Other Sources	407	512	349	439	468	441	449	442	418	439
Subtotal	**$19,227**	**$18,497**	**$18,074**	**$19,255**	**$20,508**	**$21,818**	**$23,078**	**$24,152**	**$22,343**	**$20,447**
Transfers										
Lottery	501	555	540	570	614	670	622	657	625	630
Gaming Fund Transfer	460	470	554	661	699	689	685	564	430	465
Other	452	454	589	1,159	918	746	939	679	538	1,100
Total State Sources	**$20,640**	**$19,976**	**$19,757**	**$21,645**	**$22,739**	**$23,923**	**$25,324**	**$26,052**	**$23,936**	**$22,642**
Federal Sources	**$4,320**	**$4,258**	**$3,940**	**$5,189**	**$4,691**	**$4,725**	**$4,703**	**$4,815**	**$6,567**	**$6,951**
Total Federal & State Sources	**$24,960**	**$24,234**	**$23,697**	**$26,834**	**$27,430**	**$28,648**	**$30,027**	**$30,867**	**$30,503**	**$29,593**
Nongeneral Funds Distribution:										
Refund Fund										
Personal Income Tax	($611)	($615)	($638)	($964)	($894)	($933)	($1,016)	($867)	($996)	($936)
Corporate Income Tax	(243)	(240)	(273)	(442)	(376)	(356)	(371)	(341)	(363)	(258)
Subtotal General Funds	**$24,106**	**$23,379**	**$22,786**	**$25,428**	**$26,160**	**$27,359**	**$28,640**	**$29,659**	**$29,144**	**$28,399**
Change from Prior Year	$856	($727)	($593)	$2,642	$732	$1,199	$1,281	$1,019	($515)	($745)
Percent Change	3.7%	-3.0%	-2.5%	11.6%	2.9%	4.6%	4.7%	3.6%	-1.7%	-2.6%
Short-Term Borrowing	**$0**	**$0**	**$1,675**	**$0**	**$765**	**$1,000**	**$900**	**$2,400**	**$2,400**	**$1,250**
HPF and HHSMTF Transfers	**$0**	**$0**	**$0**	**$0**	**$982**	**$0**	**$456**	**$1,503**	**$0**	**$0**
Budget Stabilization Fund Transfer	**$0**	**$226**	**$226**	**$226**	**$276**	**$276**	**$276**	**$276**	**$576**	**$516**
Pension Contribution Fund Transfer	**$0**	**$0**	**$300**	**$1,395**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
Total General Funds	**$24,106**	**$23,605**	**$24,987**	**$27,049**	**$28,183**	**$28,635**	**$30,272**	**$33,838**	**$32,120**	**$30,165**
Change from Prior Year	$856	($501)	$1,382	$2,062	$1,134	$452	$1,637	$3,566	($1,718)	($1,955)
Percent Change	3.7%	-2.1%	5.9%	8.3%	4.2%	1.6%	5.7%	11.8%	-5.1%	-6.1%

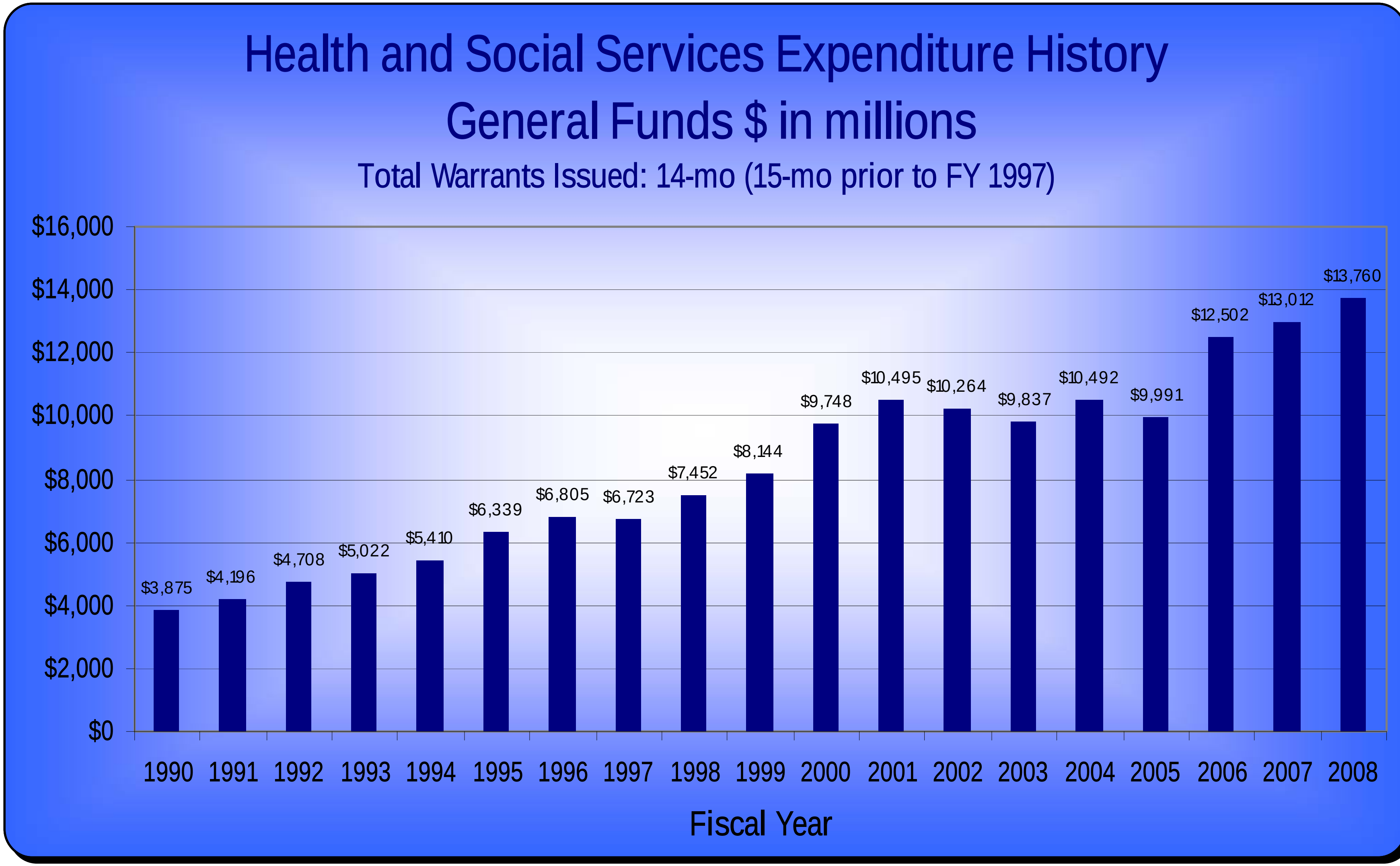
CGFA

FY 2010 APPROPRIATION BY MAJOR PURPOSE

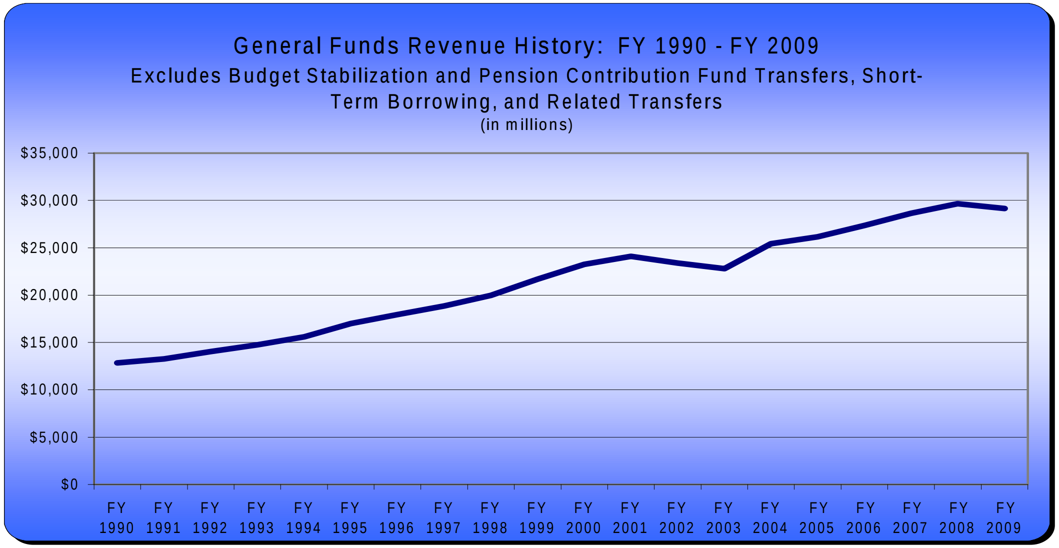



History of General State Aid Foundation Levels
$6,500
$6,000
$5,500
$5,000
$4,500
$4,000
$4,325
$4,425
$4,560
$4,560
$4,810
$4,964
$5,164
$5,334
$5,734
$5,959
$6,119
FY 2000
FY 2001
FY 2002
FY 2003
FY 2004
FY 2005
FY 2006
FY 2007
FY 2008
FY 2009
FY 2010

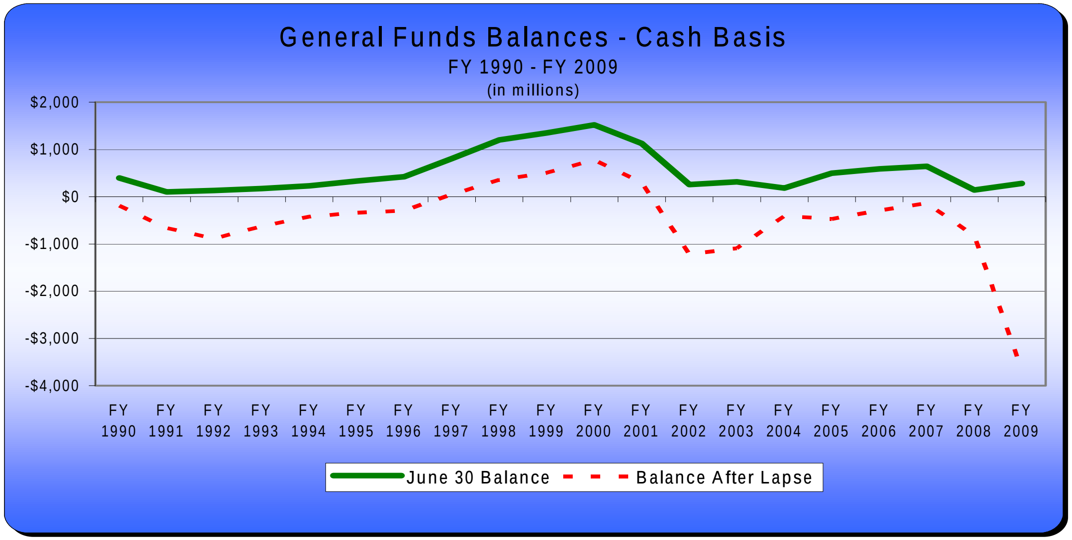

Education Expenditure History
General Funds $ in millions
Total Warrants Issued: 14-mo (15-mo prior to FY 1997)
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$0
$4,915
$4,995
$4,902
$4,922
$5,114
$5,404
$5,695
$6,102
$6,666
$7,354
$7,863
$8,320
$8,801
$8,594
$8,585
$8,970
$8,922
$9,630
$10,376
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
Fiscal Year


Health and Social Services Expenditure History
General Funds $ in millions
Total Warrants Issued: 14-mo (15-mo prior to FY 1997)
$16,000
$14,000
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$0
$3,875
$4,196
$4,708
$5,022
$5,410
$6,339
$6,805
$6,723
$7,452
$8,144
$9,748
$10,495
$10,264
$9,837
$10,492
$9,991
$12,502
$13,012
$13,760
1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008
Fiscal Year

GENERAL BALANCE INFORMATION



	General Funds (in millions)	Annual $ Change	% Change
FY 1990	$12,841	-	-
FY 1991	$13,261	$420	3.3%
FY 1992	$14,032	$771	5.8%
FY 1993	$14,750	$718	5.1%
FY 1994	$15,586	$836	5.7%
FY 1995	$17,002	$1,416	9.1%
FY 1996	$17,936	$934	5.5%
FY 1997	$18,854	$918	5.1%
FY 1998	$19,984	$1,130	6.0%
FY 1999	$21,674	$1,690	8.5%
FY 2000	$23,250	$1,576	7.3%
FY 2001	$24,106	$856	3.7%
FY 2002	$23,379	-$727	-3.0%
FY 2003	$22,786	-$593	-2.5%
FY 2004	$25,428	$2,642	11.6%
FY 2005	$26,160	$732	2.9%
FY 2006	$27,359	$1,199	4.6%
FY 2007	$28,640	$1,281	4.7%
FY 2008	$29,659	$1,019	3.6%
FY 2009	$29,144	-$515	-1.7%



	June 30 Balance (in millions)	Balance After Lapse
FY 1990	$395	-$191
FY 1991	$100	-$666
FY 1992	$131	-$887
FY 1993	$172	-$630
FY 1994	$230	-$422
FY 1995	$331	-$341
FY 1996	$426	-$292
FY 1997	$806	$45
FY 1998	$1,202	$356
FY 1999	$1,351	$503
FY 2000	$1,517	$777
FY 2001	$1,126	$300
FY 2002	$256	-$1,220
FY 2003	$317	-$1,094
FY 2004	$182	-$410
FY 2005	$497	-$474
FY 2006	$590	-$291
FY 2007	$642	-$135
FY 2008	$141	-$834
FY 2009	$280	-$3,674

Federal Funding Leveraged

- $11.557 billion Federal Funding
- $1.995 billion in Federal Stimulus Dollars

Local Funding Match

- $1.6 billion for School Construction
- $725 million for the Multi-year Road Program
- $50 million for Environmental-Energy-Technology

State Funding of approximately $15.6 billion with bonding and Pay-As-You-Go

FY 2010 FUNDING FOR CAPITAL PROJECTS

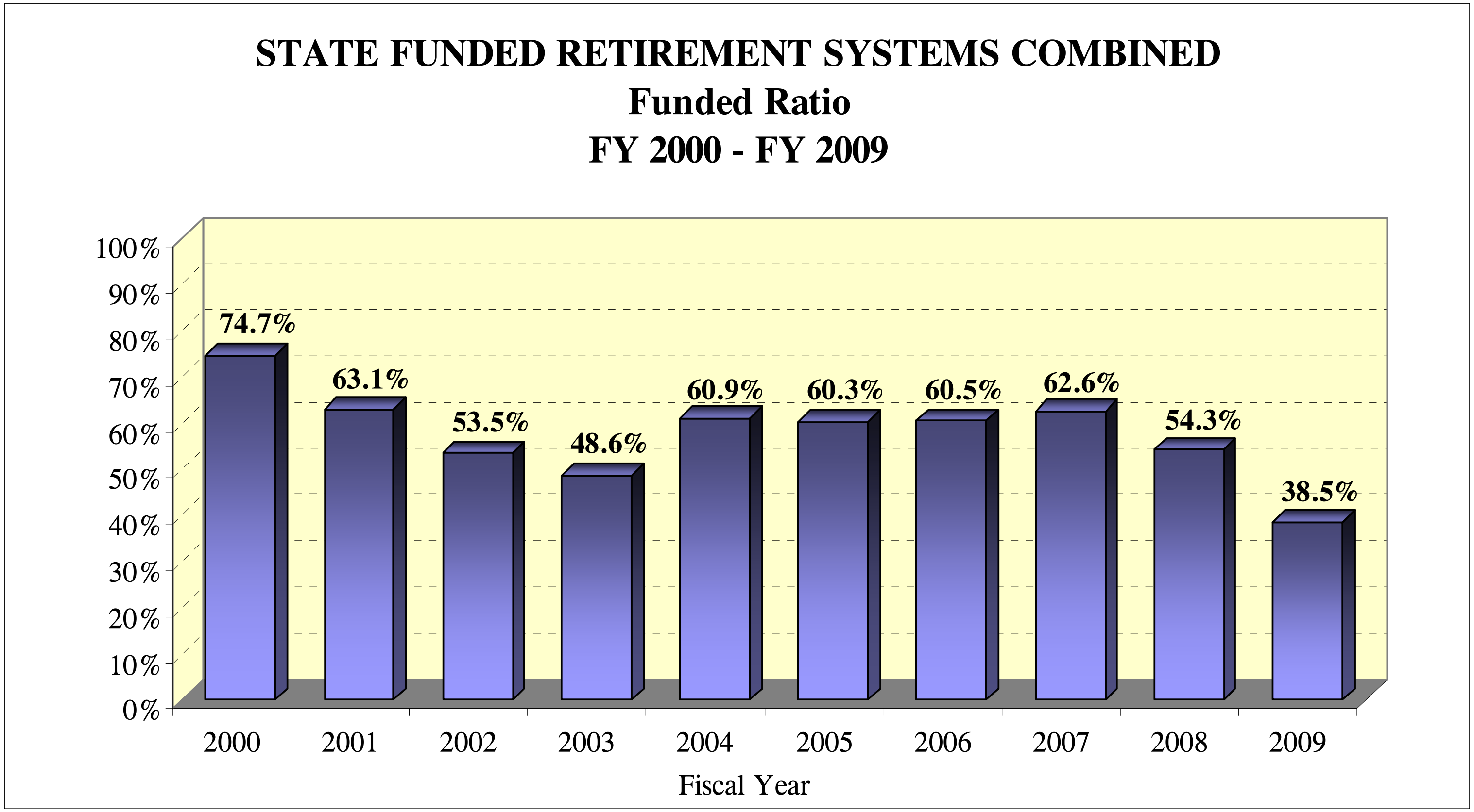
REVENUE SOURCE	REVENUE PER YEAR (Million)
Video Gaming	$288 to $534
Private management of Lottery/ Online Lottery	$150
Sales and Use Tax Expansion	$65
Liquor Tax	$108
Increase Motor Vehicle Fees	$332
TOTAL	**$943 to $1,189**

FY 2010 NEW APPROPRIATIONS BY PROJECT AREA

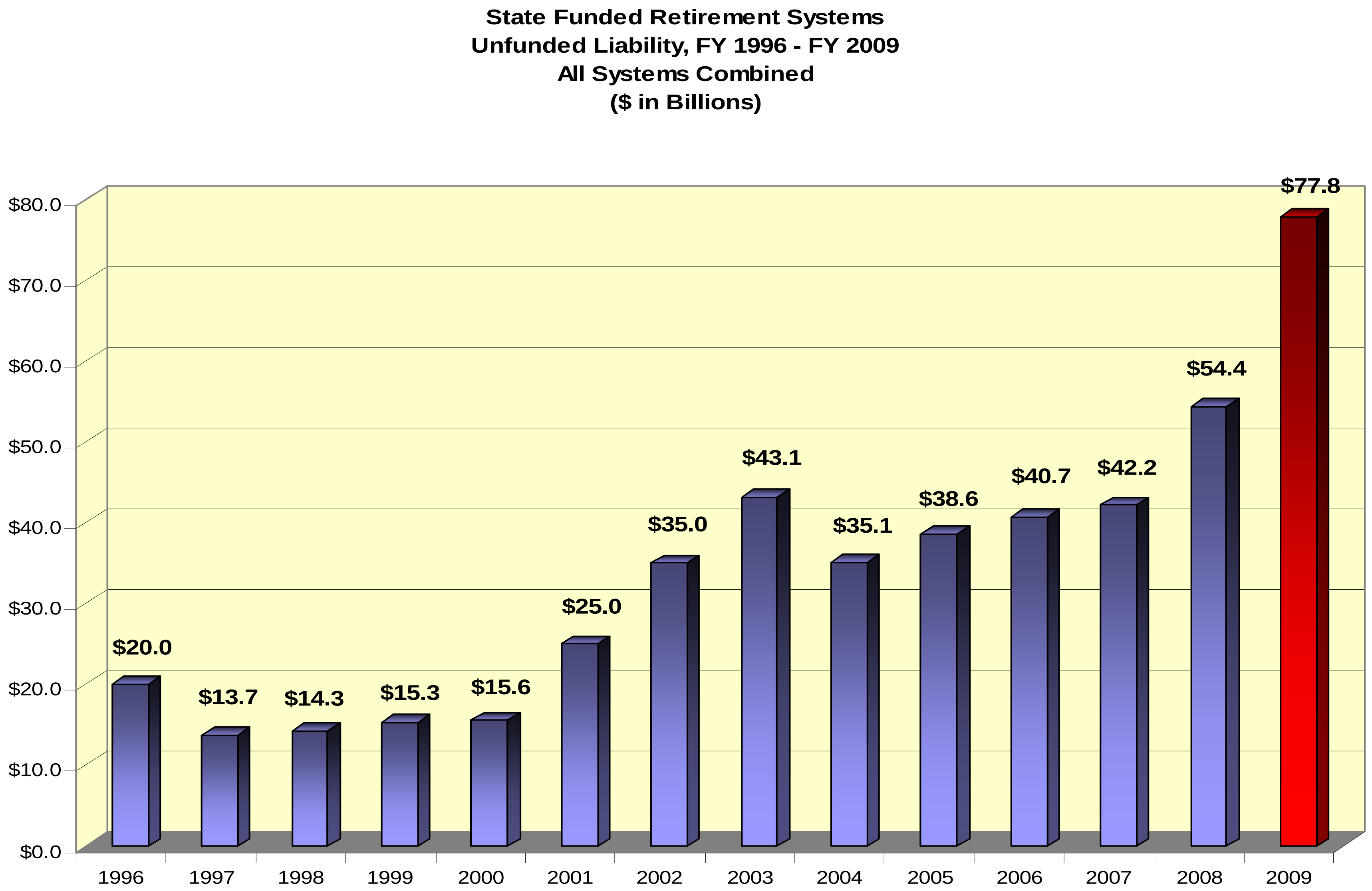
FY 2010 BREAKDOWN OF NEW APPROPRIATIONS BY PROJECT AREA	
Road and Bridge Projects	$5.5 billion
Transit and Rail Projects	$2.9 billion
School Construction & Early Childhood	$1.7 billion
Economic Development	$1.6 billion
Higher Education	$1.6 billion
Environmental/Energy Projects	$1.2 billion
State Facilities	$1.0 billion
Aviation Projects	$268 million

Summary of Financial Condition
State Employees' Retirement Systems
Without Asset Smoothing
FY 2009
($ in Millions)

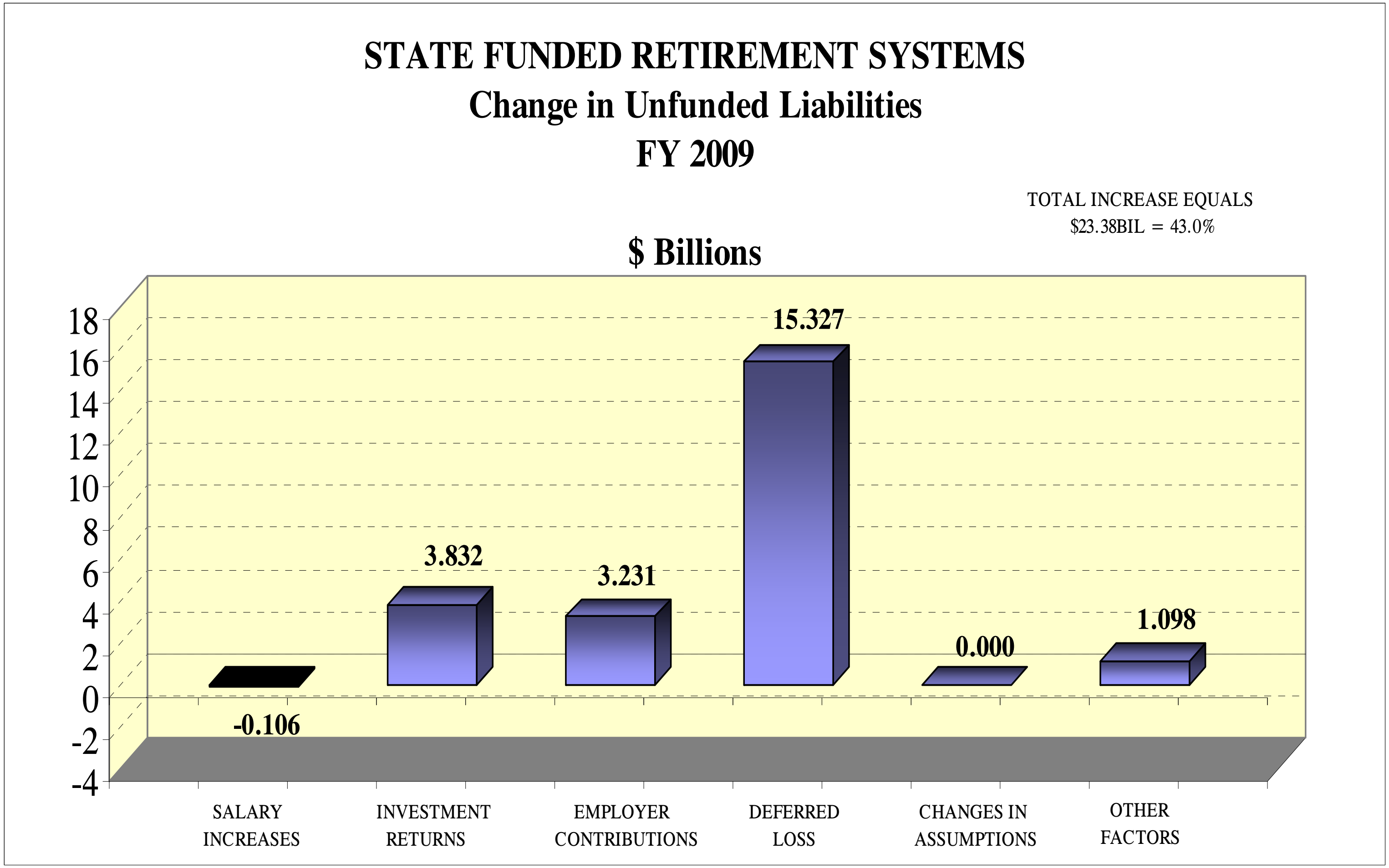
System	Accrued Liability	Net Assets	Unfunded Liability	Funded Ratio
TRS	$73,027.2	$28,531.3	$44,495.9	39.1%
SERS	$25,298.3	$8,565.8	$16,732.5	33.9%
SURS	$26,316.2	$11,033.0	$15,283.2	41.9%
JRS	$1,548.5	$483.5	$1,065.0	31.2%
GARS	$245.2	$55.6	$189.6	22.7%
TOTAL	$126,435.4	$48,669.2	$77,766.2	38.5%


STATE FUNDED RETIREMENT SYSTEMS COMBINED
Funded Ratio
FY 2000 - FY 2009
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
74.7%
63.1%
53.5%
48.6%
60.9%
60.3%
60.5%
62.6%
54.3%
38.5%
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
Fiscal Year

PENSION FUNDING

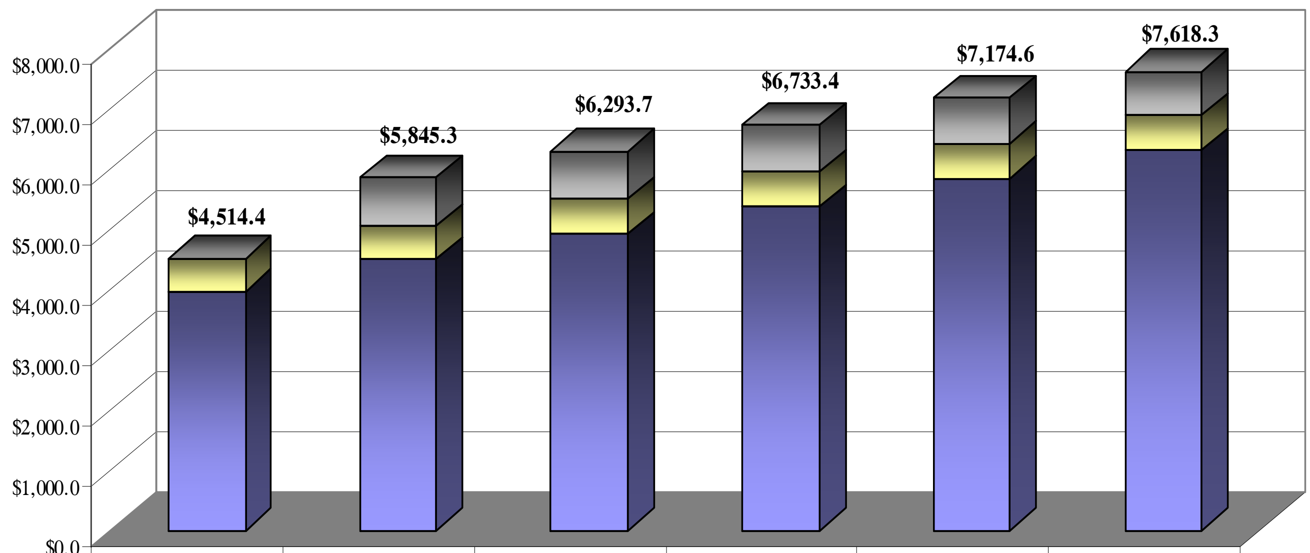


PENSION FUNDING



PENSION FUNDING

STATE RETIREMENT SYSTEMS
Projected Total State Pension Cost
Based on Laws in Effect on June 30, 2009
FY 2010 - FY 2015
($ in Millions)



	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
2010 POB Debt Service	$0.0	$802.5	$794.3	$775.1	$752.1	$723.8
2003 POB Debt Service	$543.6	$542.0	$590.2	$586.5	$582.4	$578.5
Regular Contribution	$3,970.8	$4,500.8	$4,909.2	$5,371.8	$5,840.2	$6,315.9