DANIEL W. HYNES
COMPTROLLER
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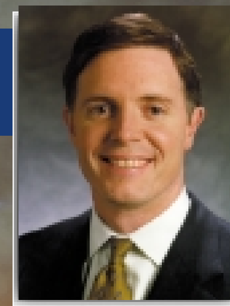
Comptroller Daniel W. Hynes
JULY 2000 ISSUE



Fiscal Focus QUARTERLY

Illinois' Tax Structure

Taxes are the price we pay for government. However, the mention of the word usually invokes an objectionable response from most people. To make taxes more palatable, it is generally agreed that a tax structure should include the characteristics of equity, efficiency and simplicity. Unfortunately, this is about all that can be agreed to due to the subjective nature of the definitions of these characteristics. What is fair or equitable to one person may not be fair to another. As a result, each state has its own unique tax structure determined by its economy, politics, and attitudes of its citizens.

The Illinois tax structure serves multiple purposes. As the primary source of revenue to fund state programs, the responsiveness of Illinois' tax structure to changing economic conditions plays a key role in determining how well Illinois government reacts to the business cycle and the extent to which local governments who share in state-collected tax revenues can perform their functions. As a policy

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FROM THE COMPTROLLER

Dear Readers:

On a daily basis this Office is involved in receipting funds, processing vouchers and issuing warrants. The process works smoothly as long as there is enough money to pay the bills. Having enough revenue to pay for essential services is a key to state budgeting, and the amount of revenue available is highly dependent on the taxes collected during the year.

The majority of state tax revenue is derived from sales and income taxes, while local governments depend on property taxes. However, both levels of government are facing new revenue raising challenges posed by changes in the economy. The transformation to a service based economy and the projected growth in Internet sales may have a significant impact on government tax revenues. Many states, including Illinois, are beginning to reexamine their tax structures to assess their ability to meet the new challenges.

I am happy to report that our scheduled cemetery cleanups and the training sessions for local government officials were very successful. The cleanup efforts occurred in 19 counties, and more than 1,200 local government representatives attended the financial reporting seminars.

As always, your comments about this and our other publications are welcome. Your input can be sent directly, or via the web site at www.ioc.state.il.us.

Sincerely,

Daniel W. Hynes
Comptroller

Fiscal Focus Features

Fiscal Focus

Fiscal Focus is one of the ways the Comptroller's Office strives to assist taxpayers and the people of Illinois. This monthly report is designed to provide fiscal information of general interest and in compliance with state statutes.

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Fiscal $marts

New Tax Relief Enacted

The General Assembly recently enacted three programs to provide additional tax relief to Illinois residents. Funds to support the programs will come from $687 million the state expects to receive from the first few payments of the estimated $9.1 billion share of the national tobacco settlement.

Of the $687 million, $350 million will be used to provide for a one-time tax rebate to homeowners, expand the state's Circuit Breaker program that helps seniors pay for property taxes and prescription drugs, and create an Earned Income Tax Credit for the working poor. [Of the remaining settlement funds, $85 million will be spent on medical research and smoking cessation programs, $27 million will go for non-health related capital projects, and the remaining $225 million will set up a Rainy Day Fund.]

Homeowners Property Tax Relief Rebate

This program allows for a one-time rebate to homeowners in an amount equal to five percent of a homeowner's property tax bill claimed on the 2000 income tax return (for the 1999 tax year) for residential property taxes paid. The rebate amount will be capped at $300. The state will use $280 million from the Tobacco Settlement Recovery Fund to pay for the rebates.

Rebate checks will be issued by the Comptroller's Office and mailed to taxpayers by October 17, 2000, for returns filed on or before July 17, 2000, and December 15, 2000, for returns filed after July 17, 2000. An estimated 2.3 million taxpayers will receive checks under this program.

FISCAL SMARTS continued, page 17

tool, the Illinois tax structure can be used to adjust the tax burden on various groups within the Illinois population and can be used to encourage economic growth. Finally, to the extent taxes are easy to administer and not an excessive burden on taxpayers, the pain of this unpleasant task can be kept at a reasonable level.

Overall, Illinois is considered a moderate tax state when compared to other states. While Illinois' tax structure includes numerous taxes, some of which are collected for local governments, it relies primarily on income and sales taxes. Property taxes, which generate the largest amount of revenue and support local governments (see Local Government Line), are not part of the state tax structure.

Tax structure is not stagnant, but is always changing to meet new policy needs and adjust to the changing economy. The following exploration of the Illinois tax structure includes highlights of each of the major taxes and key issues facing the tax.

Sales Taxes

The sales tax is by far the most complicated tax levied by the state. While the state imposes a 6.25% tax on the sale and use of tangible personal property, it also collects a variety of supplemental sales taxes levied by local governments. Of the 6.25%, 5% is the share that supports state programs and the 1.25% is collected for and distributed back to local governments. Of the nearly $8.8 billion collected in sales taxes in fiscal year 1999, over $5.9 billion was the state's share while the remaining $2.8 billion was returned to local governments.

Distribution of the state portion is also somewhat complex as the flow chart indicates [see page 10]. The diversions of the state portion of sales taxes are used to fund or assist specific programs for state and local governments. The Build Illinois Program uses sales taxes to pay for the bonds issued. Sales taxes are also used to support local mass transit and tax increment financing districts. A large portion is reserved for elementary and secondary education.

The state portion is first distributed into the Build Illinois Fund (5.55% of sales taxes), then 0.4% is deposited in the Local Government Distributive Fund and 0.27% into the Illinois Tax Increment Fund. After these distributions are made, the remaining sales tax receipts are divided with 25.0% deposited into the General Revenue - Common School Special Account Fund and 75.0% to the General Revenue Fund. Revenue sharing from the state portion of the sales tax is by transfer from the General Revenue Fund to the mass transit funds.

Illinois Taxes
All Funds*
(Dollars in Millions)

	FY 1999
Sales Taxes	$8,783
Individual Income Tax	7,778
Corporate Income Tax	2,290
Public Utility Taxes	1,423
Motor Fuel Tax	1,355
Health Care Provider Taxes	549
Cigarette Taxes	499
Inheritance Tax	347
Riverboat Gambling Tax	310
Hotel Tax	220
Insurance Taxes	218
Corporate Franchise Tax	121
Automobile Renting Tax	60
Liquor Taxes	57
Real Estate Transfer Tax	55
Admissions Tax	52
Private Sales/Used Car Tax	43
Horse Racing Taxes	37
Pull Tab & Jar Games Taxes	7
Bingo Tax	6
Airport Departure Tax	6
Coin-Operated Amusement Taxes	1
Drycleaner Tax	1
Charitable Games Tax	---
Vehicle Replacement Tax	---
Interstate Gross Revenue Tax for Motor Carriers	---

* Excludes Protest Fund.

The local government portion ($2.8 billion) includes the 1.25% share of the sales tax, as well as a 1.0% local tax on food and drugs, and locally levied mass transit, water commission, home rule and county public safety sales taxes.

While local governments impose a sales tax on food and drugs, these items are exempt from the state tax. In fiscal year 1999, there were 48 exemptions to the state sales tax with a cost of $2.5 billion. The two largest tax expenditures (exemptions) were the sales tax on food and drugs ($918 million) and sales to exempt organizations ($558 million).

The trend in the Illinois sales tax has been toward a smaller base and higher rates on the remaining taxable items. Tax rates have been increased several times since their inception in 1933. While there were exemptions enacted that year, most of the exemptions have occurred over the past two decades.

A key issue confronting the state sales tax is that it is imposed on the sale and use of tangible personal property. As we move toward a service economy, an increasing portion of consumer spending is on services that are outside the tax base. The growth of the Internet economy adds an additional problem to the collection of sales tax revenues. Even when tangible property is sold over the Internet, legal bars to collecting taxes from retailers with no physical presence in Illinois make it hard for the state to collect legally owed taxes on some of these purchases.

Individual Income Tax

The Illinois individual income tax has a 3% state rate (with no local government tax) levied on federal adjusted gross income with some modifications such as taxing capital gains as regular income. Total individual income tax receipts of $7.8 billion in fiscal year 1999 accounted for 21.6% of all appropriated funds revenues. The individual income tax was the

COVER STORY continued page 7

Economic FOCUS

Is The Sales Tax Incompatible With E-Commerce?

Governors, state and federal lawmakers, and businesses are struggling with the question of whether traditional sales or use taxes need to be revamped in response to the expected growth in retail Internet sales. Some argue that Internet sales are no different than other interstate sales and that existing sales and use tax laws need to be enforced. Others argue that the Internet is opening up a vast new era of e-commerce where existing laws do not and should not apply. In particular, government officials are concerned by 1) projections that show online retail sales growing rapidly at the expense of brick and mortar sales, and 2) estimates that show substantial losses in the collection of state and local sales taxes. Businesses, however, are wary of government attempts to impose new regulations and/or taxes on their sales, and would prefer Internet transactions to be free of taxes.

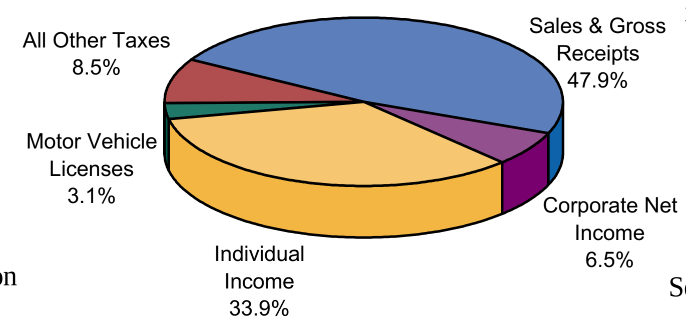
Background

Sales taxes began to be enacted after the Depression when state and local governments needed additional revenues in response to the collapse of property values, and, subsequently, the reduction in property tax collections. Currently, 45 states impose state sales taxes. Approximately 48 percent of total state tax revenues come from sales and gross receipts taxes (see Chart).

One problem with collecting traditional sales taxes began to emerge in the 1950s when shopping across state lines increased. States responded by enacting use taxes in an attempt to capture revenue from such sales. The argument was that taxes were due in the state where a product was used or consumed. However, use taxes are difficult to collect because out-of-state merchants can not always be required to collect and remit the tax dollars.

The 1967 Supreme Court decision known as Bellas Hess established that states do not have the authority to make out-of-state firms collect use taxes unless the firms have a "nexus" or physical presence in the state. Despite state government attempts to get Congress to overturn the Bellas Hess decision, the Supreme Court reaffirmed the physical presence standard in the 1992 Quill decision.

Distribution of State Tax Collections, 1998



Source: US Bureau of the Census

When a resident of one state purchases goods from an out-of-state business, they usually do not pay a use tax even though they are required to do so under state law. If the out-of-state business does not have a physical presence in the buyer's state and does not collect the taxes owed, the buyer's state loses revenue. Since the Internet, in theory, makes it easier for people to buy goods from out-of-state firms, there is growing concern among Governors and lawmakers about the loss of this tax revenue. A further complication is that Internet sales can involve services or "digital" goods such as computer files that replace the physical products that would have been subject to the sales tax.

Recent Actions

Congress enacted the Internet Tax Freedom Act in 1998. This law placed a moratorium on new Internet taxes through 2001, and created a 19-member Advisory Commission on Electronic Commerce (ACEC) to study the issue. Unfortunately, the Commission's final report released in April of 2000 was marked with controversy. The ACEC members representing state and local governments clashed with the representatives of business and industry. The final 11-8 vote (short of the required 2/3 vote) recommended extending the current moratorium on Internet taxes; prohibiting taxation of internet service provider access charges; and repealing the federal 3 percent excise tax on local and long-distance telephone calls. Although the ACEC disbanded in May, 2000, the U.S. House of Representatives voted 352-75 to extend the moratorium for another 5 years. Action is still pending in the Senate.

While state and local governments are steadfast in their belief that Congress should not preempt their ability to levy sales and use taxes, some business interests have argued the Internet should be a "tax free" zone, free from all state and local taxes. These arguments have helped to frame the discussion around three possible alternatives: 1) maintain the status quo; 2) create an Internet "tax free" zone where Internet transactions would be free from all state and local taxes; or 3) compromise on a simplified, technology-based sales tax system where a Trusted Third Party would administer the collection of taxes on behalf of state and local governments.

ECONOMIC FOCUS continued page 5

Compromise Proposal

The National Governors Association and the National Conference of State Legislatures have entered the debate with a plan to "level the playing field" for all parties. These associations are proposing a Zero Burden Sales Tax Administration System to ease compliance costs for businesses and to help states receive the use tax revenue from interstate sales.

The proposal centers on the idea of using Trusted Third Parties (TTPs) and computer software that can maintain sales tax rates and exemptions for various state and local jurisdictions. The TTPs would provide tax information to sellers on a real time basis so that the seller and the customer would know the tax rate and tax due before completion of a transaction. Settlement to a seller would be the full amount of the purchase plus any additional taxes. The TTPs would be responsible for documenting the taxes collected and for debiting the seller's account for the taxes owed to any states participating in the system. The TTPs would also be responsible for remitting the appropriate taxes to the participating states.

Sellers, as well as states, would be free to choose to participate in such a system. States would assume responsibility for all costs associated with the system. Payments would be made to the TTPs on a per transaction basis based on negotiated rates. The key characteristics of the system would:

- Eliminate the burden for firms to collect state and local sales taxes,
- Maintain the current definition of nexus,
- Simplify the current system of exemptions through common definitions,
- Eliminate costs of compliance, tax returns and payments, and tax audits,
- Eliminate tax rate monitoring and implementation, and eliminate record keeping requirements for sellers,
- Implement the system in phases on a voluntary basis, and
- Enact the system without federal government intervention.

There would be no distinction under this system between Internet sales or catalog sales. Based on the location of the buyer and the seller, a TTP would determine the applicable taxes and assure they were remitted to the appropriate state government. State governments, in turn, would be responsible for passing along any local taxes to the appropriate local jurisdiction.

Conclusion

This compromise proposal would require extensive cooperation between the states to create more uniformity in their sales and use taxes. States would need to adopt a common set of definitions of products and services subject to such taxes, and agree on standardized filing, treatment of exempt organizations and simplified audit and record keeping procedures. But recent state actions do not bode well for multi-state cooperation. Some states, for example, have adopted temporary sales tax holidays that make it more difficult rather than easier for remote vendors to comply. In addition, with many states experiencing budget surpluses, there is no apparent urgency to modernize or simplify sales and use taxes.

The General Assembly recently enacted two measures related to sales and use taxes. PA 91-901 authorizes the Director of the Department of Revenue to establish an Occupation and Use Tax Reporting and Simplification Committee that will: 1) study methods for simplifying tax reporting requirements, and 2) consider the feasibility of reducing the number of use tax returns required to be filed each tax year. The committee is to report its findings to the General Assembly by January 1, 2001.

PA 91-882, however, parallels the ideas supported by the National Governors Association and the National Conference of State Legislatures. The law creates the Streamlined Sales Tax System for the 21st Century Act, and provides for the Department of Revenue to enter into discussions, and participate in a sales and use tax pilot project, with other states. The goal is the development of a voluntary, multi-state, streamlined system for the administration and collection of use and

ECONOMIC FOCUS continued page 13

The expected growth of electronic commerce may not be the only threat to state and local taxes. Some analysts are concerned that other social, demographic, and technological trends may pose difficult challenges not only to state and local sales taxes, but also to property and utility taxes. As they see it, the current tax structure was formed years ago when an industrial economy produced tangible goods, and most people worked, shopped, and lived in the same community. That situation is changing, and some states have not reformed their tax structures to reflect changes in the economy.

The current trends identified as possible threats to state and local taxes include the shift toward a service-based economy; the changing nature of work; the shift to electronic commerce; the mobility of firms and tax competition; the deregulation of the electric and telecommunications industries; and the aging of society.

The trends and their possible effects are listed below.

Trend	Possible Effect(s)
Shift to service-based economy	Reduced sales taxes Reduced property taxes • Goods shrink as percent of Gross Domestic Product • Service firms use less space/real estate than manufacturing firms
Changing nature of work	Reduced sales taxes Reduced excise taxes Reduced property taxes • Downsizing reduces employees • Downsizing reduces space/property requirements • Decentralizing reduces space/real estate requirements • Telecommuting reduces gasoline consumption
Increase in electronic commerce	Reduced sales taxes • Internet sales avoid taxation
Mobility of firms/jurisdictional tax competition	Reduced property taxes Reduced Income Taxes • Locals use tax incentives to lure firms
Deregulation of electric/telecommunications	Reduced income taxes Reduced property taxes • Competition will end special taxation and reduce collections from utilities • Closed plants will reduce property taxes • Achieving tax equity will shift taxes
Aging of society	Reduced sales taxes Reduced property taxes • Senior citizens buy less goods • Senior citizens buy more health services • Senior citizens get property tax breaks

Source: Based on Tom Bonnett, "Is the New Global Economy Leaving State-Local Tax Structures Behind?"

HOW Illinois Stacks Up

A Comparison of State Motor Fuel Taxes

As of April 2000, Illinois' state excise tax on gasoline was 19.0 cents per gallon, slightly above the U.S. average of 18.0 cents per gallon. This amount ranked Illinois 30th among the states. The highest state excise tax was in Connecticut at 32.0 cents per gallon and the lowest excise tax was Georgia's at 7.5 cents per gallon. The vast majority of states (68 percent) had a base motor fuel tax rate of 18.0 cents per gallon or higher.

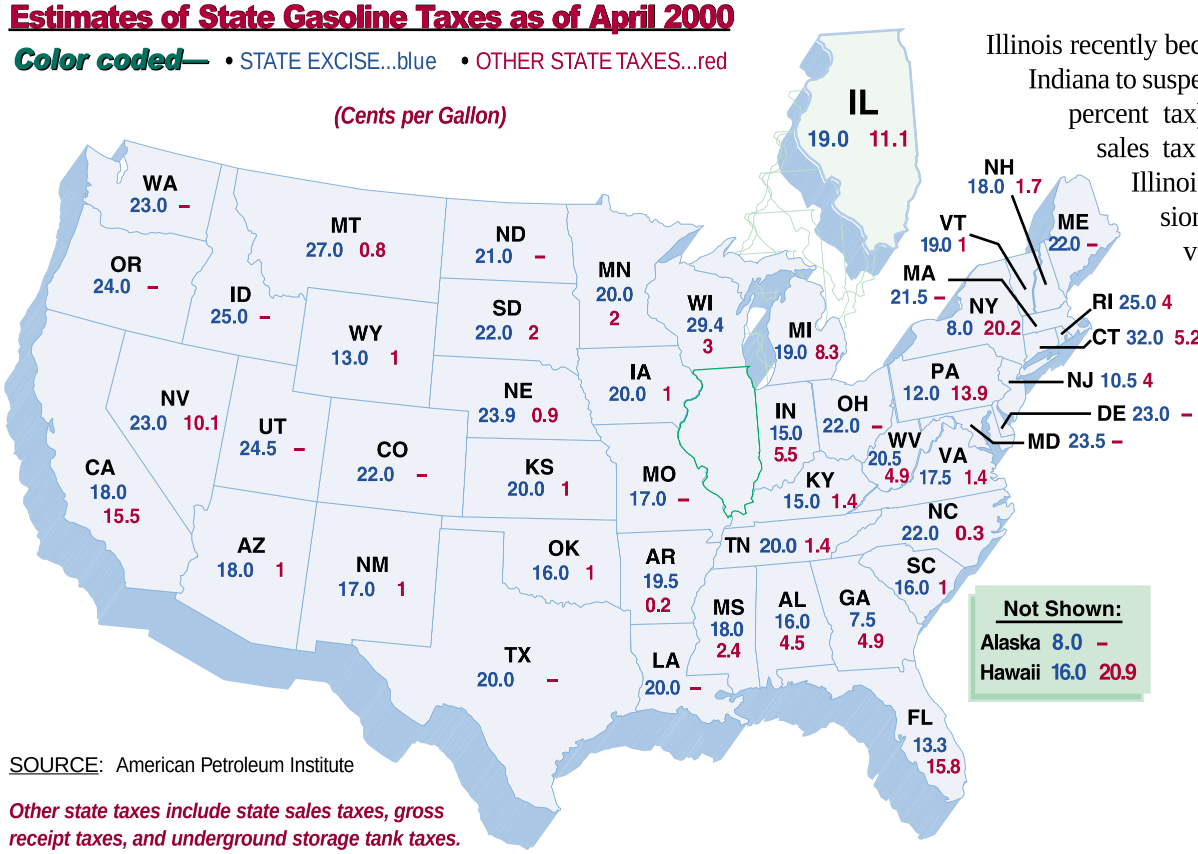
Considering total state and federal taxes, Illinois had the 6th highest motor fuel tax in the United States with 48.5 cents per gallon. Among states in the Midwest, Wisconsin (50.8 cents per gallon), Michigan (45.7 cents per gallon), and Illinois rank above the U.S. average of 42.2 cents per gallon. Iowa (39.4 cents per gallon), Indiana (38.9 cents per gallon), Missouri (35.4 cents per gallon), and Kentucky (34.8 cents per gallon) are below the U.S. average. Connecticut leads the nation with the highest total gasoline tax of 55.6 cents per gallon and Alaska has the lowest gasoline tax of 26.4 cents per gallon. The majority (64 percent) of the states had a total federal and state tax below the national average.

Illinois' total gasoline tax of 48.5 cents per gallon includes 18.4 cents per gallon in federal taxes, and the state excise tax of 19.0 cents per gallon. Additional taxes account for 11.1 cents per gallon of which the most controversial is the sales tax of 6.25 percent. The state keeps 5 percent of the purchase price and pays the remaining 1.25 percent to local governments. Illinois is one of nine sates, including California, Florida, Georgia, Hawaii, Indiana, Michigan, New York and West Virginia with a state sales tax on gasoline. Of the states bordering Illinois, Missouri is the only state that doesn't impose any other state tax on gasoline. A .3 cent per gallon tax for underground storage tank fees and an environmental impact fee of .8 cent per gallon are also charged in Illinois for a total of 30.1 cents per gallon in state taxes (or 62 percent of the total taxes).

Estimates of State Gasoline Taxes as of April 2000

Color coded— • STATE EXCISE...blue • OTHER STATE TAXES...red

(Cents per Gallon)



SOURCE: American Petroleum Institute

Other state taxes include state sales taxes, gross receipt taxes, and underground storage tank taxes.

Illinois recently became the second state besides Indiana to suspend its sales tax on gasoline (5 percent tax). Indiana suspended their sales tax on gas for up to 60 days. Illinois lawmakers, in a special session of the General Assembly, voted to suspend the tax for six months beginning July 1, and to require each gas pump to display a sign stating the tax had been lowered and the posted prices should reflect that change. There are fines of up to $500 a day for owners who fail to attach the signs to the pumps.

By suspending the state sales tax on gasoline, Illinois will have to remain watchful of the impact it will have on the state budget. ■

most significant source of General Funds revenues with $7.2 billion in receipts accounting for one-third of revenues.

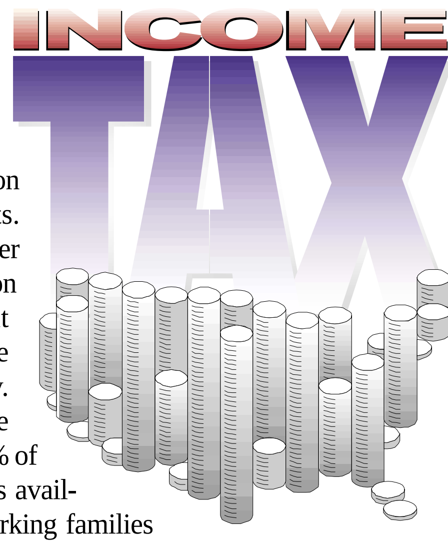
The individual income tax always gets taxpayers' attention as they struggle to assemble the documents necessary to prepare their submission before the April 15th deadline. Unlike the many state taxes based on a purchase, the payer must compute their income tax liability.

Since taxable income is computed on an annual basis, there is a problem of how to spread collections to avoid a revenue spike. This is largely resolved by withholding a portion of wage and salary income for taxes and requiring quarterly estimated payments from other taxpayers. Use of automatic and estimated payments does lead to overpayments which can require significant refund payments during the tax season. For many years, there were complaints that Illinois delayed refund payments at times when balances were short. This problem was resolved with the creation of the Income Tax Refund Fund that now receives an automatic flow of income tax monies for payment of refunds.

Illinois' individual income tax is relatively efficient as it is closely linked to the federal income tax. After spending days, if not weeks, preparing one's federal income tax return, it is a relief to start with your adjusted gross income, make a handful of adjustments, and compute your state tax liability within minutes.

The more serious issue concerning the Illinois individual income tax is whether it puts an unfair burden on low-income Illinoisans. Illinois is one of the six states that levies its tax at a single flat rate on taxable income. The remaining thirty-five states with general individual income taxes either have a graduated tax rate schedule or tax at a percentage of federal liability which is computed on the basis of the graduated federal tax rate schedule.

A bit of progressivity is added to the individual income tax through the standard exemption. Unchanged at $1,000 between the inception of the tax and the 1997 tax year, the standard exemption is now being doubled to $2,000 over a three-year period, and will be fully phased-in for 2001. A recent study showed that Illinois' individual income tax kicked in at lower levels of income than most other states. The increased standard exemption will raise the income threshold where tax liability becomes effective.



The Illinois earned income tax credit provides a new credit to reduce the tax burden on low-income residents. Illinois joins eleven other states that offer a version of this federal credit against their state income tax liability. Illinois' earned income credit is computed at 5% of the federal credit that is available to low income working families and provides an additional incentive for low income individuals to remain in the labor force.

The individual income tax's other large adjustments are the homeowners property tax credit and the retirement income deduction. The homeowner's credit is equal to 5% of the property taxes paid on the taxpayer's residence and the retirement deduction exempts any social security or pension income subject to federal income taxation from the Illinois income tax.

The bulk of Illinois individual income tax revenues are deposited into the General Revenue Fund. After 7.1% is deposited into the Income Tax Refund Fund, the remaining revenues are split 7.3% to the Education Assistance Fund and 92.7% to the General Revenue Fund. Although no individual income tax revenues go directly to local governments, 10% of individual and corporate revenues (net of deposits into the Refund Fund) are transferred into the Local Government Distributive Fund monthly and then distributed to municipalities and counties.

Corporate Income Tax

The Illinois corporate income tax rate is 7.3% including a 4.8% state tax and a 2.5% corporate personal property replacement tax that is distributed to local governments. The tax base is federal taxable income with Illinois adjustments. Receipts totaled $2.3 billion or 6.4% of appropriated fund revenues in fiscal year 1999 with General Funds receipts of $1.1 billion accounting for 5.2% of total General Funds revenues.

The state Constitution requires that the state corporate rate not exceed the individual rate by a ratio of more than 8 to 5. This ratio has been maintained throughout the history of the taxes. The replacement tax component, which went into effect in 1979, was created to satisfy a Constitutional requirement that the personal property tax paid by businesses be abolished and replaced with taxes paid by the same taxpayers that generate a similar level of revenues. (In addition to the replacement income tax, additional replacement taxes paid by public utilities are discussed in the next section).

Most individuals pay their personal income tax on gross income with limited deductions. Unincorporated owners of small businesses are the exception. In contrast, the corporate income tax is a tax on profits as corporations deduct their business expenses from income to get their tax base. Due to the variability of corporate revenues and expenses, corporations are more likely to suffer losses or overestimate estimated payments than individuals. As a result, a higher percentage (19% for fiscal years 1999-2001) of corporate receipts are reserved for refunds.

Many of the modifications to the corporate income tax are incentives intended to

COVER STORY continued page 10

FOCUS On Revenue

FY 2000 General Funds Revenue Higher Than Expected

During fiscal year 2000, General Funds revenue sources out performed original estimates for the eighth consecutive year. When the fiscal year 2000 budget was enacted, General Funds revenues were expected to generate $886 million in new revenue. Over the 12-months, revenues actually jumped $1.576 billion, $690 million more than estimated. This year-over-year increase is the second largest on record trailing only last year's $1.690 billion growth.

The fiscal year 2000 revenue performance was due to several factors, including: continued economic strength, one-time revenue gains, and the annualization of prior year legislative changes. The economic strength is especially evident in the growth of personal income and sales taxes. At the beginning of the fiscal year, both sources were expected to grow 4.5%. The personal income tax actually grew 6.4% generating $136 million more than estimated while sales tax receipts increased 7.5% producing an additional $167 million.

The corporate income and public utility taxes also produced considerably more revenue than originally thought. Public utility tax receipts were $76 million higher due to stronger growth in electric and messages taxes. Nearly all of the unexpected $137 million corporate income tax growth is attributable to a one-time payment in March.

The last two big gainers were the Cook County Intergovernmental Transfer and transfers from Riverboat Gaming. Rather than declining as originally expected, the Cook IGT increased $93 million due to a revised agreement between the state and county. Although Riverboat Gaming transfers were expected to exhibit double-digit growth, this source actually increased more than two times faster than estimated bringing in an additional $55 million. Much of that increased growth is due to dockside gaming, which was enacted in June 1999. ■

General Funds Revenues By Source
Comparison of Estimated to Actual
(Dollars in Millions)

	July '99 Estimate FY 2000	Actual FY 2000	Difference $
Sources			
Income	8,650	8,923	273
Personal	7,550	7,686	136
Corporate	1,100	1,237	137
Sales	5,860	6,027	167
Public Utility	1,040	1,116	76
Cigarette	400	400	0
Liquor	115	128	13
Inheritance	310	348	38
Insurance	190	209	19
Corporate Francise	120	138	18
Interest	210	233	23
Cook IGT	152	245	93
Other	338	232	(106)
Total, State Sources	17,385	17,999	614
Federal Aid	3,860	3,892	32
Transfers-In:			
Riverboat Gaming	275	330	55
Lottery	540	515	(25)
Other	500	514	14
Total Revenues	22,560	23,250	690

Source: The July 1999 estimate of FY 2000 General Funds revenue is based on the Bureau of the Budget's July 1999 Quarterly Financial Report.

General Funds Base Revenue Growth
Estimated vs Actual
(Dollars in Millions)

Fiscal Year	Estimated Revenue	Actual Revenue	Estimated Growth	Actual Growth	Difference
1989		12,133			
1990	13,009	12,841	876	708	(168)
1991	13,471	13,261	630	420	(210)
1992	14,532	14,032	1,271	771	(500)
1993	14,523	14,750	491	718	227
1994	15,410	15,587	660	837	177
1995	16,622	17,002	1,035	1,415	380
1996	17,713	17,936	711	934	223
1997	18,660	18,854	724	918	194
1998	19,504	19,984	650	1,130	480
1999	21,384	21,674	1,400	1,690	290
2000	**22,560**	**23,250**	**886**	**1,576**	**690**

Fiscal Year	Estimated Growth	Actual Growth
1990	7.2%	5.8%
1991	4.9%	3.3%
1992	9.6%	5.8%
1993	3.5%	5.1%
1994	4.5%	5.7%
1995	6.6%	9.1%
1996	4.2%	5.5%
1997	4.0%	5.1%
1998	3.4%	6.0%
1999	7.0%	8.5%
2000	**4.1%**	**7.3%**

Estimates reflect the first estimates for the fiscal year released by the Bureau of the Budget following enactment of the new year's budget.

FOCUS On Spending

Fiscal Year 2001 Spending Authority

General Funds appropriations as passed by the General Assembly total $22.4 billion for fiscal year 2001. This represents an increase of $1.1 billion or 5.3% over fiscal year 2000 spending authority. Of the increase, $806 million is for awards and grants, $342 million is for operations while all other appropriations are down about $20 million.

Grants - Appropriations for awards and grants are $15.6 billion and account for 69.4% of the fiscal year 2001 total compared to $6.7 billion or 30.6% for operations. These percentages are little changed from last year and are only slightly different when compared to fiscal year 1990. At that time, awards and grants accounted for 68.8% of total General Funds spending authority with 31.2% going to operations.

With the major portion of the General Funds budget consumed by grants to the state's social services programs and education, these areas are generally the focal point in crafting the state budget. For fiscal year 2001, these two functions of state government accounted for almost all of the increase in grant authority.

Social services grant appropriations account for the majority of the increase in total grant spending authority. The Department of Public Aid received increased General Funds grant appropriations of $297 million or 6.3% over fiscal year 1999 for payments to medical providers. This increase accounts for 36.8% of the total increase in awards and grants appropriations, as well as 26.3% of the increase in total General Funds appropriations. The grant appropriations increase of $180 million for the Department of Human Services was offset slightly by a $2 million decline for the Department of Children and Family Services.

Collectively, the state's education entities received increased grant authority of $316 million or 5.1% in fiscal year 2001 and accounted for 39.2% of the increase in total awards and grants appropriations. Individually, the State Board of Education received a $189 million increase for grants to school districts, while appropriations to the Teacher's Retirement systems are up $83 million and grants for higher education are $44 million more than last year.

Operations - While the growth in awards and grants appropriations can be traced to two functional areas of government, increased spending authority for operations is more widespread. Higher education institutions received the highest level of operations spending authority ($1.7 billion). Of the agencies shown in the table, the Department of Corrections received the largest percentage increase (up $88 million or 7.9%) and accounted for 25.7% of the increase for operations appropriations.

The Department of Human Services recorded both the third highest level of spending authority from the General Funds as well as the second largest percentage increase. Fiscal year 2001 operations spending authority for the Department is set at $1.1 billion, $67 million or 6.5% above fiscal year 2000.

Among the larger agencies, the Department of Public Aid experienced a

FOCUS ON SPENDING continued, page 13

General Funds Appropriations for Operations and Grants
FY 1990, FY 1999, FY 2000 and FY 2001
(Dollars in Millions)

Operations	FY 1990	FY 1999	$ Change	% Change	FY 2000	$ Change	% Change	FY 2001	$ Change	% Change
Higher Education	$ 1,113	$ 1,479	$ 366	32.9	$ 1,575	$ 96	6.5	$ 1,663	$ 88	5.6
Corrections	486	1,032	546	112.3	1,107	75	7.3	1,195	88	7.9
Human Services	0	1,012	1,012	0.0	1,024	12	1.2	1,091	67	6.5
Central Management Services	274	563	289	105.5	647	84	14.9	681	34	5.3
Children and Family Services	92	277	185	201.1	288	11	4.0	293	5	1.7
Supreme Court	129	189	60	46.5	208	19	10.1	219	11	5.3
State Police	134	207	73	54.5	224	17	8.2	238	14	6.3
Public Aid	400	133	(267)	(66.8)	217	84	63.2	136	(81)	(37.3)
Other	1,190	933	(257)	(21.6)	1,116	183	19.6	1,232	116	10.4
Total Operations	$ 3,818	$ 5,825	$ 2,007	52.6	$ 6,406	$ 581	10.0	$ 6,748	$ 342	5.9
Grants	**FY 1990**	**FY 1999**	**Change**	**Change**	**FY 2000**	**Change**	**Change**	**FY 2001**	**Change**	**Change**
Elementary & Secondary Education										
State Board of Education	3,017	4,441	1,424	47.2	4,741	300	6.8	4,930	189	4.0
Teachers Retirement System*	257	584	327	127.2	650	66	11.3	733	83	12.8
Public Aid Total	$ 3,411	$ 4,297	$ 886	26.0	$ 4,696	$ 399	9.3	$ 4,993	$ 297	6.3
Public Aid (Medical)	2,325	4,297	1,972	84.8	4,696	399	9.3	4,993	297	6.3
Human Services	0	2,437	2,437	0.0	2,460	23	0.9	2,640	180	7.3
Higher Education	448	735	287	64.1	772	37	5.0	816	44	5.7
Children and Family Services	234	620	386	165.0	637	17	2.7	635	(2)	(0.3)
Other	1,167	806	(361)	(30.9)	803	(3)	(0.4)	818	15	1.9
Total Grants	$ 8,534	$ 13,920	$ 5,386	63.1	$ 14,759	$ 839	6.0	$ 15,565	$ 806	5.5
Total Appropriations	$ 12,410	$ 19,868	$ 7,393	59.6	$ 21,294	$ 1,420	7.1	$ 22,422	$ 1,128	5.3

*FY 1990 includes a $234 million appropriation to the State Board of Education for payment to the Teacher's Retirement System.

make Illinois a more attractive location for investment, research, and employment. These tax incentives include the training expense credit, research and development credit, and investment incentives for projects with high economic growth potential or located in specially designated enterprise zones and foreign trade zones. The EDGE program (Economic Development for a Growing Economy) is the newest incentive program. It is specifically designed to provide tax breaks for large job creation investments that level the playing field between Illinois and competing states. In addition to these incentives from state tax revenues, an investment tax credit is exclusively applied against the replacement tax component of the corporate income tax.

Another issue has been how to apportion income from corporations with multi-state operations to determine the portion of the income that should be credited to Illinois. Illinois has made a recent change to its apportionment formula that favors businesses with operating facilities in the state. The original apportionment formula included the share of employment, assets, and sales in Illinois. Under a new formula, which is being phased-in over a three-year period, Illinois will become the fourth state (following Iowa, Nebraska, and Texas) where apportionment is solely based on the share of a corporation's sales in Illinois. This will decrease the percentage of income apportioned to Illinois for companies that have a greater share of assets and payroll than sales in Illinois.

Public Utility Taxes

Public utility taxes are levied on companies selling communications, electricity and natural gas. In fiscal year 1999, public utility tax revenues totaled $1.4 billion or 4.0% of Appropriated Funds revenues including $1.0 billion deposited into the General Funds (4.7% of revenues).

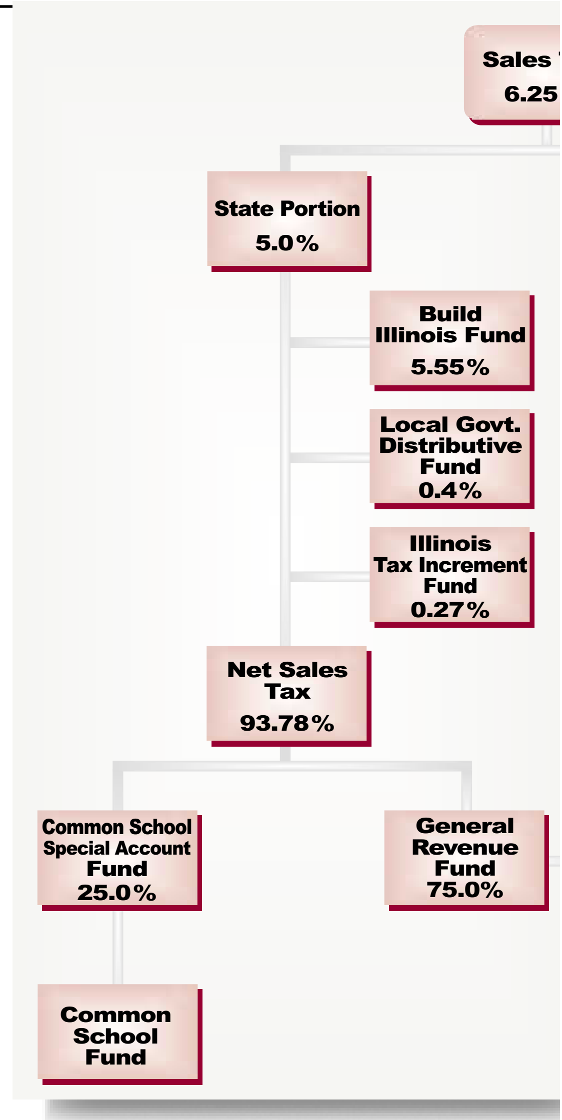
When power and communications were exclusively provided by regulated public utilities, utility taxes were easy to collect and had limited economic impact on the utility because they could include the full cost of taxes in utility bills. Since deregulation, the major utility taxes have undergone significant rate and base revisions as the role of regulated utilities in the sale of power and communications services has shrunk.

There are two components of state public utility taxes. Regular taxes largely go to the General Funds and are used for state government purposes. Additional corporate personal property replacement taxes on utilities are distributed to local governments.

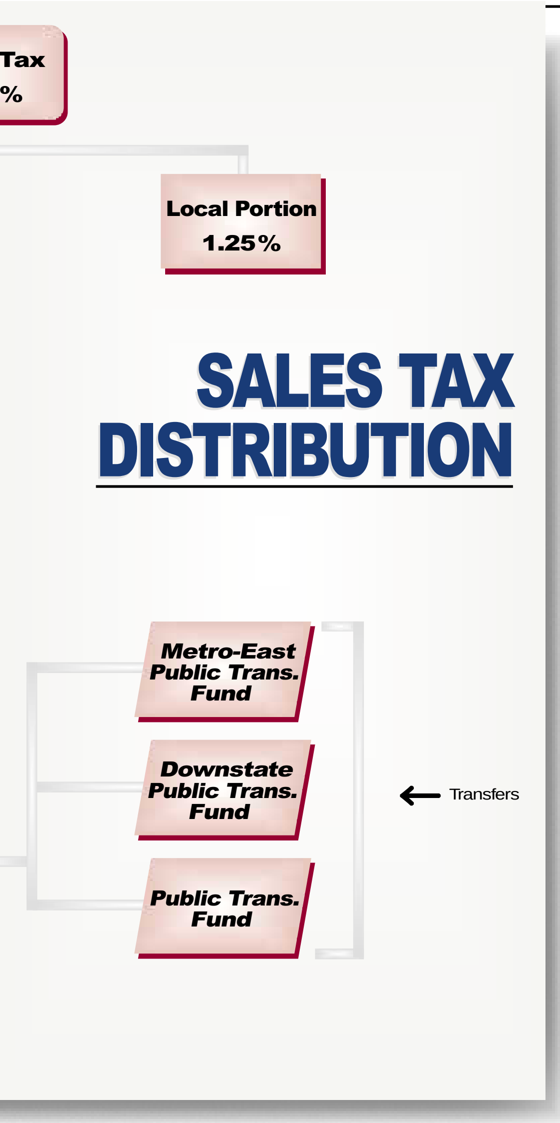
Public utility taxes include taxes on communications services that have experienced exploding sales and plummeting prices during the communications revolution. In 1998, the state telecommunications rate was increased from 5% to 7% of gross charges with a resulting increase in revenues. The tax is collected by telecommunications providers and applies to all telecommunications sent or received in Illinois. Revenues from the original 5% rate go to the General Funds. Revenues from the rate increase are split between the School Infrastructure Fund to help support new school construction and the General Funds. In addition, municipalities may levy a 5% telecommunications tax.

The personal property replacement tax for communications providers had been an invested capital tax on telephone companies. In response to the reduced role of regulated public utilities in providing communications services, this tax was changed to the telecommunications infrastructure maintenance fee in 1998 which is a 0.5% charge on the gross receipts of telecommunications retailers.

Increased use of telecommunications gives the state an opportunity to tap a rapidly growing revenue source. The concern in taxing this rapidly changing industry is how to capture revenues to operate government while not unfairly impacting new communications companies, putting Illinois-based businesses at a disadvantage when competing with out of state operations, or stifling growth of one of Illinois' most dynamic economic sectors.



The declining role of regulated utilities in the provision of electricity has lead to the creation of a series of new electric utility taxes. The public utilities (electric) tax, which was the lesser of 5% of gross revenues or 0.32 cents per kilowatt-hour for each customer, was replaced by the electricity excise tax in August 1998. This tax is based on a schedule where the marginal rate declines for each customer as usage expands. Nonresidential customers also have the option to pay 5.1% of their electricity charges directly to the state. Electricity tax collections are divided 97% to the General Funds and 3% to the fund used for Commerce Commission operations.



Other state charges on electricity purchases include the energy assistance charge ($.40 per month for each residential electric and natural gas account with higher amounts for nonresidential accounts) which is used to help low-income energy users pay their bills, and the renewable energy charge ($.05 per month for each residential electric and natural gas account with higher amounts for nonresidential accounts) which subsidizes research in the use of renewable resources and improved coal technology to generate electricity. A final small charge gathers $3 million from utilities each year to be used by the Department of Commerce and Community Affairs to promote the efficient residential use of energy. The invested capital tax on electric utilities was replaced by the electricity distribution tax in 1998. This tax is levied on electricity distributors. The marginal tax rates in the schedule for this tax increase as the amount of electricity distributed by the company increases. In addition, municipalities may levy electric privilege and franchise taxes with rate schedules similar to the electricity excise tax.

Unlike telecommunications and electricity, the tax structure for natural gas has not changed in recent years. The regular tax deposited into the General Funds is the lesser of 5% of revenues or 2.4 cents per therm per customer. The additional replacement tax is still 0.8% of the invested capital of Illinois gas utilities. Finally, municipalities may impose a 5% (8% in Chicago) natural gas tax.

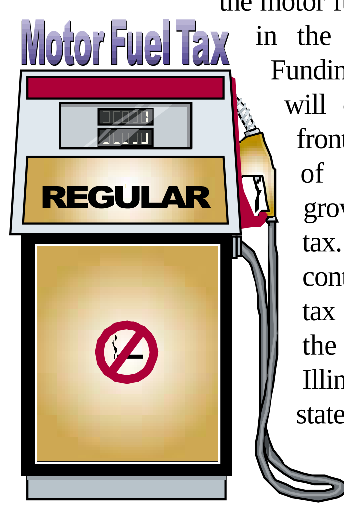
Motor Fuel Tax

The state motor fuel tax is the main source for funding for the Illinois Highway Program. Revenues for the motor fuel tax are primarily for state highway construction and maintenance as well as distribution to local government road programs.

Currently, the motor fuel tax rate is 19¢ per gallon, with an additional 2.5¢ per gallon tax on diesel fuel. While these taxes support the highway programs, there are two other fuel taxes used to fund underground storage tank cleanup. A 0.3¢ per gallon tax and 0.8¢ per gallon environmental impact fee are deposited in the Underground Storage Tank Fund. Therefore, the total state tax on a gallon of gas for motorists is 20.1¢ and 22.6¢ for diesel motorists. Local home-rule governments can also impose motor fuel taxes. County tax rates vary from 6¢ per gallon for Cook to 2¢ in Kane and city rates vary from 5¢ in Chicago to 0.5¢ in Moline. Local governments collect their own motor fuel taxes.

The receipts from the 19¢ per gallon tax are deposited into the State Motor Fuel Tax Fund and the receipts from the 2.5¢ per gallon diesel fuel tax are deposited in the State Construction Account Fund [see flow chart on page 12]. Most of the distribution of motor fuel tax revenues is done by transfer from the State Motor Fuel Tax Fund. First, there are monthly transfers to three funds; $5.04 million is transferred annually to the State Boating Act Fund, a total of $27 million to the Grade Crossing Protection Fund and $25 million to the Vehicle Inspection Fund. Administrative costs, including the payment of refunds, for the Departments of Transportation and Revenue are then deducted. Of the remaining monies, 45.6% is apportioned for state use and 54.4% is shared by local governments. Of the state portion, 37% is transferred to the State Construction Account Fund and 63% to the Road Fund. Distribution of the local government share consists of 49.10% to the municipalities, 16.74% to Cook County, 18.27% to the other 101 counties and 15.89% to townships and road districts.

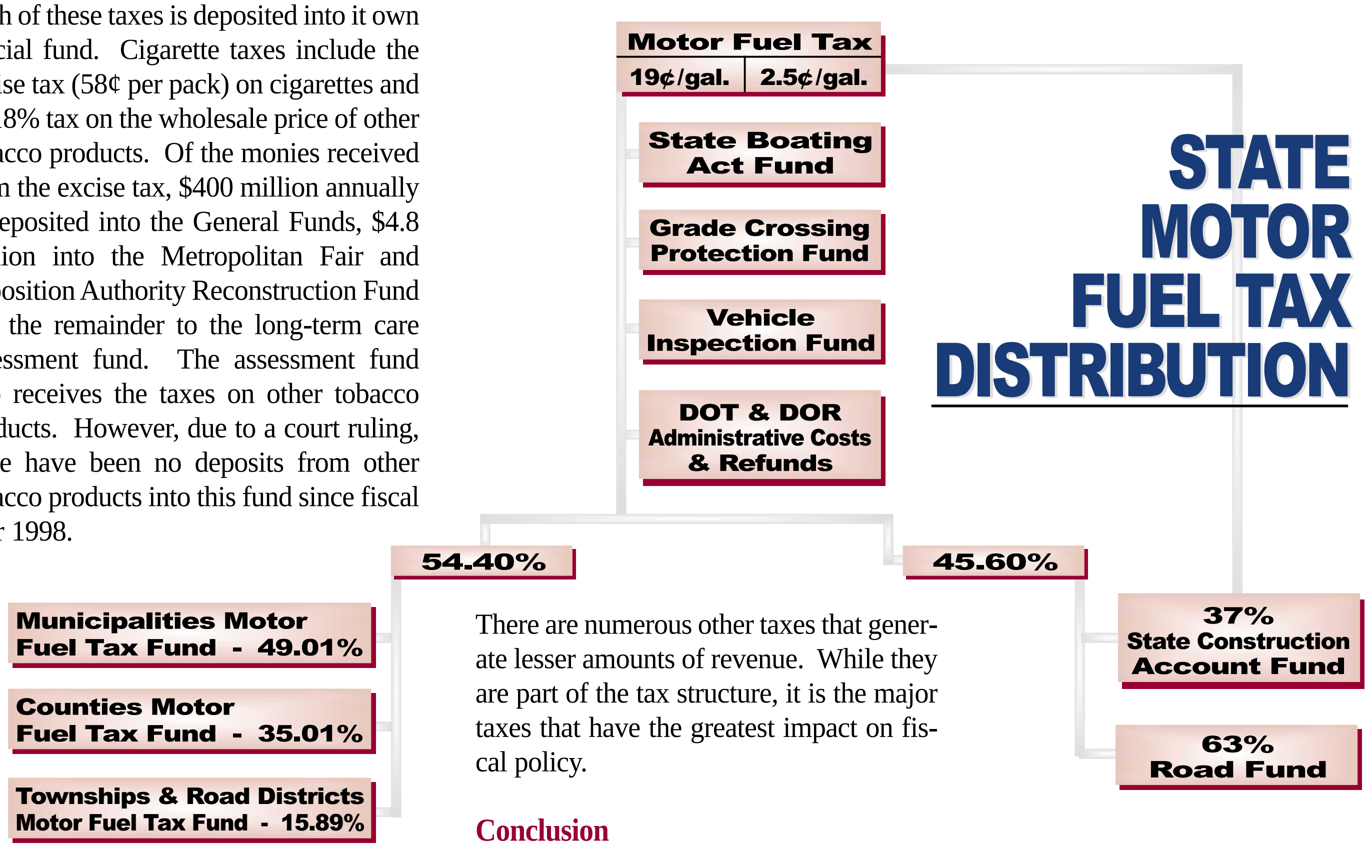
The main issue facing the motor fuel tax, and the road programs it supports, is the fact that the motor fuel tax is a flat excise tax that generates revenue growth only with an increase in consumption. Unfortunately, consumption has remained fairly stable. Since road construction and maintenance costs have increased over the years and tax revenues have remained fairly stable, this has resulted in an increase in the motor fuel tax rate five times in the past twenty years. Funding for the state's roads will continue to be confronted with the problem of minimal revenue growth from this excise tax. A flat excise tax is in contrast to an ad valorem tax that fluctuates with the price. However, Illinois is one of eight states that also impose the sales tax on the purchase of motor fuel. [The sales tax on gasoline has been temporarily suspended - see How Illinois Stacks Up]. But recent legislation has eliminated the motor fuel sales tax transfer that helped support road funds.



COVER STORY continued, page 12

Other Taxes

Illinois imposes numerous other taxes that generate lesser amounts of revenue than the major taxes, but are still important sources of revenue. Health care provider taxes are assessments and fees imposed on hospitals, nursing homes, and developmentally disabled care providers. These assessments are collected from medical providers to assist in the funding of Medicaid and help the state to qualify for the maximum federal reimbursement. Each of these taxes is deposited into it own special fund. Cigarette taxes include the excise tax (58¢ per pack) on cigarettes and an 18% tax on the wholesale price of other tobacco products. Of the monies received from the excise tax, $400 million annually is deposited into the General Funds, $4.8 million into the Metropolitan Fair and Exposition Authority Reconstruction Fund and the remainder to the long-term care assessment fund. The assessment fund also receives the taxes on other tobacco products. However, due to a court ruling, there have been no deposits from other tobacco products into this fund since fiscal year 1998.



A unique tax, since it relies solely on a federal tax, is the inheritance or estate tax. The tax is imposed on a decedent's estate and varies depending on the amount of the estate. It is called a "pick-up" tax because it takes advantage of a state tax credit that federal law allows against federal estate tax liability. The estate total tax bill does not change, only part of the tax goes to Illinois instead of the federal government. If the federal estate tax is abolished so is Illinois'. Receipts from the inheritance tax are deposited into the General Revenue Fund.

One of the fast growing taxes is the riverboat gambling or wagering tax. This growth is due to recent changes in the tax rate and implementation of dockside gambling. While the first tax on riverboats was a flat 20%, the current wagering tax is a graduated percent of adjusted gross receipts. While local governments get their share and monies are appropriated for law enforcement, the major portion of tax receipts is transferred to the Education Assistance Fund.

There are numerous other taxes that generate lesser amounts of revenue. While they are part of the tax structure, it is the major taxes that have the greatest impact on fiscal policy.

Conclusion

As mentioned earlier, state tax structures are unique and dynamic. Prior to the 1930s, state and local governments relied largely on property taxes for their revenues. However, the evolution of business practices, the development of modern retailing, the growing importance of manufacturing, and the movement from the farm to the city made sales and income taxes more practical sources of revenue.

The transformation of the state revenue structure in Illinois is continuing. Utility taxes have been adjusted to meet a deregulated industry. Corporate income tax breaks have been used to make Illinois more attractive to global investors. The use of tax expenditures (exemptions) has expanded to aid business and economic development. There has also been an increase in the past couple of decades in the use of dedicated licenses and fees where revenue from a specific fee is earmarked to fund a specific program.

Even though the tax structure has changed, important issues remain to be addressed. Changes in technology, primarily the use of the Internet, and changes toward a service economy, may have a dramatic impact on state tax revenues. Does the tax structure that is evolving best meet the needs of Illinois residents? Will the revenue structure be robust enough to meet the growing needs of state government and survive economic downturns? Is Illinois government taking advantage of new technology to make the tax collection process more efficient and less burdensome? Is the changing tax structure treating all taxpayers fairly, or is an undue portion of the burden being shifted to specific segments of the population?

COVER STORY continued, page 13

Cover Story concluded

These tax issues are not being ignored. Congress enacted a temporary moratorium on new Internet taxes and created an Advisory Commission on Electronic Commerce to study the issue. Legislation has been introduced in the Senate and the House of Representatives to repeal the estate and gift tax act, and there is talk of eliminating the income tax marriage penalty. Public interest groups such as the National Conference of State Legislatures and the National Governors Association are proposing a zero burden sales tax administration system [see Economic Focus]. And the Illinois General Assembly has passed legislation authorizing the Department of Revenue to issue reports on sales and use tax simplification, and on the possibility of participating in a streamlined, multi-state system for the administration of sales and use taxes. These actions, however, tend to be piecemeal, and changes in one tax are considered in isolation from other taxes. Perhaps the time is right to study the tax structure in its entirety. ■

Selected Illinois Tax Expenditure Programs

The tax structure of a state not only includes the various taxes imposed, but also the tax breaks included in state law. Referred to as "tax expenditures," the tax relief may take the form of abatements, exemptions, or credits. While tax expenditures are enacted to promote a public policy objective such as tax fairness or economic development, the bottom line is that they reduce tax collections. The table below lists some of the tax breaks provided by Illinois State Statutes.

The Ten Largest Tax Expenditures (Dollars in Thousands)

Tax Expenditure	Applied Against	FY 1998	FY 1999
Food, Drugs, Medical Appliances	Sales Tax	$904,500	$918,000
Sales to Exempt Organizations	Sales Tax	536,000	557,982
Retirement and Social Security Deductions	Individual Income Tax	527,760	553,805
Standard Deduction	Individual Income Tax	319,805	418,016
Exemption for Trade-Ins	Sales Tax	300,000	300,000
Property Tax Credit	Individual Income Tax	279,400	288,000
Farm Chemical Exemption	Sales Tax	158,000	164,000
Net Operating Loss Deduction	Corporate Income Tax	129,559	137,810
Manufacturing Machinery Exemption	Sales Tax	122,000	127,200
Retailers' Discount	Sales Tax	87,800	89,760

Total Impact of Largest Ten in FY 99 . . . . $3.555 billion

Total Impact of All Tax Expenditures FY 99. . . . . $4.315 billion

Percent of Total Impact 82%

Source: Office of the Comptroller, State of Illinois Tax Expenditure Report, Fiscal Year 1999

Focus On Spending concluded

substantial decrease in operations spending authority declining 37.3% from $217 million in fiscal year 2000 to $136 million for fiscal year 2001. This reduction is due to a supplemental appropriation for fiscal year 2000 to support a transfer of funds from the General Revenue Fund to the Child Support Enforcement Fund. The amount and timing of this supplemental not only boosted the fiscal year 2000 appropriations level, but also permitted the fiscal year 2001 appropriations request to be reduced. ■

Economic Focus concluded

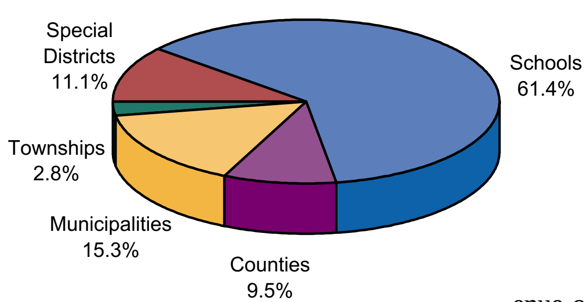
sales taxes. A final report on the status of any multi-state discussions is to be issued to the Governor and the General Assembly by March 1, 2001. If a proposed system has been developed by the participating states, the final report is to include recommendations on whether Illinois should participate in that system. ■

LOCAL Government Line

Property Taxes: Lifeblood of Local Governments

It is probably no surprise that property taxes are the primary source of revenue for local governments. Property taxes have existed for hundreds of years and are the traditional foundation of local government revenues. Despite being unpopular with citizens, property taxes are relied on heavily to finance local government services.

Percent Distribution of Property Tax Extensions, 1997



Source: Department of Revenue

In 1997, for example, property tax extensions (the amount billed to property taxpayers) in Illinois totaled about $14.0 billion. That far surpasses the state collections from sales or income taxes. Local schools rely the most on property taxes and accounted for $8.6 billion, or 61.4% of the total 1997 extensions. The other $5.5 billion was attributable to general and special purpose local governments.

Data collected by the Comptroller's Office pursuant to the Fiscal Responsibility Report Card Act allow a closer look at property taxes as a revenue source for local governments in Illinois (excluding school districts). In fiscal year 1998, property taxes accounted for 31.2%, or $4.7 billion of all the revenue collected by the reporting local governments. But this aggregate number hides the fact that some types of local government rely more heavily on property taxes than other types. Examining property taxes as a percent of total local revenue indicates that counties received 31.0% of their revenue from property taxes and municipalities received 26.2%. But townships received a whopping 77.0%, and libraries received 80.1%.

The primary factor that contributes to the lower reliance on property taxes by counties and municipalities is the state government's willingness to collect and distribute taxes for municipalities and counties. Municipal and county governments receive 10 percent of the net collections from the state income tax, which is distributed based on population. In addition, local governments receive 1.25% of the state imposed and collected sales tax that is re-distributed to municipalities and counties also based on population. These combined taxes represented 11.5% of all revenue of counties and 17.0% of the revenue for municipalities.

Other state and federal sources, such as the state personal property replacement tax, motor fuel tax, and miscellaneous items, accounted for an additional 9.5% of income for municipalities and 18.2% of income for counties. Overall, state and federal resources provide 36.5% of municipal revenues and 29.7% of county revenues. Very few other government types receive significant funding from the state or federal government.

State statutes also allow municipal and county governments to use several different methods, including the imposition of sales taxes or utility taxes, to raise revenues. In addition, municipal and county governments provide, license or regulate several services to residents that can be controlled by charging fees.

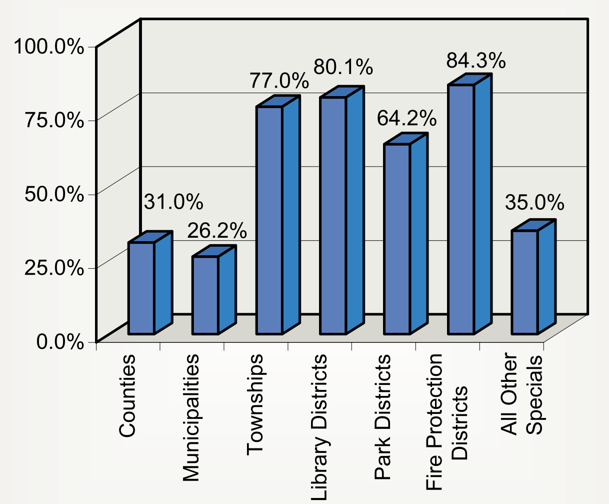
The table shows the reliance on property taxes for other selected special districts. Multi-Township Tax Assessment Districts top the list at 96.0%, followed by Water Authorities (93.5%), Mosquito Abatement Districts (89.0%), Street Lighting Districts (88.1%), and Surface Water Districts (82.3%). At the other end of the scale are Hospital Districts (5.3%) and Mass Transit Districts (3.5%), which like counties and municipalities, have access to federal or state grants and can charge fees.

[For more information about local government collection of taxes see the Fiscal Year 1998 Fiscal Responsibility Report Card on the Comptroller's web site or request it from the local government hotline by phoning toll-free (877) 304-3899.]

Because of their unpopularity, property taxes have been the object of many efforts for tax reform. Some of the changes that have been enacted include general and senior citizen homestead exemptions, certain commercial and industrial abatements, enterprise zone abatements, and the

LOCAL GOVERNMENT LINE continued page 15

Property Taxes as a Percent of Total Revenue, 1998



Source: Office of the Comptroller

Local Government Line concluded

Property Tax Extension Limitation Law (PTELL). PTELL limits the annual increase in property tax extensions to the lower of 5%, or the increase in the consumer price index, and now applies to taxing districts in 24 counties.

Property Taxes as a Percent of Total Revenue
Selected Special Districts, 1998

Type of District	Property Tax Total	Revenue Total	Property Tax as % of Revenue
Multi-Township Tax Assessment Districts	$2,369,834	$2,467,468	96.0%
Water Authorities	7,655	8,189	93.5%
Mosquito Abatement Districts	5,263,410	5,916,693	89.0%
Street Lighting Districts	251,146	285,140	88.1%
Surface Water Districts	119,639	145,294	82.3%
Water Authority Districts	10,654	13,069	81.5%
River Conservancy Districts	1,018,492	1,273,998	79.9%
Rescue Squad Districts	374,841	491,747	76.2%
Conservation Districts	7,968,575	10,819,109	73.7%
Forest Preserve Districts	76,047,282	115,166,261	66.0%
Cemetery Districts	459,606	808,296	56.9%
Road Districts	3,742,119	6,674,655	56.1%
Airport Authorities	6,115,429	15,576,683	39.3%
Public Health Districts	3,896,408	10,222,419	38.1%
Sanitary Districts	11,671,124	39,105,139	29.8%
Water Service Districts	3,006,125	41,618,384	7.2%
Hospital Districts	3,239,193	61,600,677	5.3%
Mass Transit Districts	2,074,503	59,659,599	3.5%

Source: Office of the Comptroller

One proposal that has not succeeded is the idea of implementing a property tax-for-income tax swap. Spurred on in part due to inequities in school district funding related to disparities in property values, the debate has progressed no farther than the creation of a study commission appointed by former Governor Jim Edgar that issued a report, but included no recommendations for a swap. Instead, the study commission suggested that a tax swap equitable to all taxpayers was not possible until certain state and local tax policy issues were addressed. ■

Fiscal Smarts concluded

tax relief for approximately 765,000 families in Illinois.

The Impact of the Tax Credit and Rebates

Earned Income Tax Credit: A family of four earning $25,000 receives a federal credit of $1,159 and would receive a state credit of $57.95. A family of five earning $16,800 receives a federal credit of $2,770 and would receive a state credit of $138.50 Average credit is expected to be about $55.

Property Tax Rebate: A property tax bill of $1,800 would mean a $90 rebate. A $3,200 bill means a $160 rebate. A property tax bill of $6,000 and above would mean a rebate of $300, the cap on the proposal. The average rebate is expected to be about $125. ■

Sources: Illinois Bureau of the Budget, and the U.S. Internal Revenue Service.

Fiscal Forum

Last month's Fiscal Forum related to electronic commerce and asked readers about their experiences in making purchases over the Internet. The questions and the distribution of our readers' responses are presented below.

1. Have you ever made a purchase over the Internet?

   YES 86%
   NO 14%

2. What type of item(s) did you last purchase?

   Books 48%
   Clothes/Shoes 27%
   Music 35%
   Computer/Accessories . . . 33%
   Electronics 20%
   Other. 46%

3. What was the cost of the purchase?

   Less than $25 . . . . 26%
   $26-$100 . . . . 37%
   $101-$500. . . . . 11%
   $501-$1,000 . . . . 10%
   Over $1,000 . . . . 15%

4. Do you intend to purchase over the Internet in the next 12 months?

   YES 81%
   NO 19%

This month's question concerns the issue of whether state and local government tax structures need to be adjusted to meet the challenges posed by social, economic and technological change.

Should a study commission be established to examine Illinois' entire tax structure in light of current and projected economic changes such as the growth in services, and sales over the Internet?

YES ❑ NO ❑

To respond to this question, simply log onto the Comptroller's Web site at www.ioc.state.il.us.

CEMETERY Care Corner

Cemetery Clean Up Month Successful

One challenge of the Cemetery Care and Burial Trust Division, and of great concern to Comptroller Hynes, is the number of abandoned and neglected cemeteries throughout the state. Responding to the volume of calls received by the Cemetery Hotline about this issue, the Comptroller designated the month of May as "Cemetery Clean Up Month." The month of May was chosen with the intention that by Memorial Day, when so many family and friends visit their loved ones and observe the contributions of those who served our country, a marked change would be seen in cemetery conditions.

During Cemetery Clean Up Month, local volunteers and organizations organized 20 cemetery clean up projects throughout the state of Illinois. Joining volunteers from local communities, Comptroller Hynes contributed his time to both honor local history and to provide assistance in cleaning the abandoned cemeteries. This initiative is an attempt to recover pieces of local history and honor the deceased, including veterans of our nation's wars.

Comptroller Hynes seated with Ms. Ruby Williamson and Mr. Percy McKinney, St. Clair County Assessor, announcing the formation of the Southwestern Illinois African American Memorial Society.

"My husband's father, Joe D. Williamson, was the first African American to serve on the county board in the early 1930's. Unfortunately, most young people in the area do not know about Booker T. Washington Cemetery. It is our history and we need to preserve as much of it as we can and make sure our young people know about it," said Ruby Williamson, organizer of the cemetery clean-up efforts at Booker T. Washington Cemetery in St. Clair County.

Booker T. Washington Cemetery, one of the oldest African American cemeteries in the area, was established in 1917, a time when African Americans were barred from burial in many white cemeteries. By 1960 the cemetery was abandoned and was not discovered again until 1995 when the land was being used by contractors.

Influenced by the efforts of the Comptroller's Office, the newly formed Southwestern Illinois African-American Memorial Society is committed to reviving the overgrown and overlooked cemetery land, a job that may take up to two years to complete.

There is much work left to be done concerning the issue of neglected and abandoned cemeteries. Comptroller Hynes held public hearings last summer to determine what legislative reforms might be needed to improve the cemetery and funeral industry. As a result of the hearings and countless consumer calls, House Bill 3988 was drafted to resolve many of the concerns that were

Comptroller Hynes stops to read a tombstone inscription at Booker T. Washington Cemetery.

voiced. One key initiative would allow local municipalities and townships to apply for state grants to clean up abandoned and neglected cemeteries. The bill passed through the House overwhelmingly, but the Senate did not act on it before adjournment.

The Comptroller said that he hoped the May clean up campaign would be a catalyst for concerned citizens in each community to continue volunteering to clean up cemeteries in need of restoration. "We can't get to every cemetery in Illinois, but we can spark interest in the communities we visit and that is a good first step toward progress."

CEMETERY CARE CORNER continued, page 17

Cemetery Care Corner concluded

Plans are already under way for next year's efforts. If you are aware of any cemeteries in your area requiring attention, or if you are part of a volunteer group who would like to help in these efforts, please call Nikki Budzinski at (217) 782-1276. ■

Comptroller Hynes is joined by members of Local Union IBEW who volunteered to work at Bequeath Cemetery in Pekin, Illinois.

Mr. McKinney and Comptroller Hynes visit Booker T. Washington Cemetery in Centreville, Illinois.

Fiscal Smarts continued

Expansion of the Circuit Breaker and Pharmaceutical Assistance Programs

The Circuit Breaker Tax Relief Program's primary purpose is to provide yearly property tax relief for low-income senior and disabled residents. Property tax grants are available to eligible persons, but claims must be filed each year. The legislature increased the income eligibility for participation in the circuit breaker program from $16,000 to $21,218 for a single person household, $28,480 for a two-person household and $35,740 for a three or more person household. The change is expected to make an additional 178,000 households eligible.

The Pharmaceutical Assistance Program is designed to provide compensation to low-income senior and disabled residents for drug costs. The cost of coverage is purchased each year and an identification card is issued to validate coverage. The cost of coverage was reduced from $40 to $5 for those below the official poverty line and from $80 to $25 for all other persons. Participants who pay $5 will not have to pay additional prescription costs, but those who pay $25 will pay $3 per prescription.

Disbursement of Tobacco Settlement Proceeds
(Dollars In Millions)

Use	Dollar Amount	% of Total
A one-time property tax rebate of 5 percent capped at $300	$280	40.8%
Tax credits to help working poor equal to 5 percent of federal tax credit	$35	5.1%
Expand program that helps low-income senior citizens pay for prescriptions and property taxes	$35	5.1%
Non-health related capital spending	$27	3.9%
Smoking prevention, enforcement and cessation programs	$30	4.4%
Medical research	$14	2.0%
Technology initiatives regarding medical and biotech research	$41	6.0%
Rainy Day Fund (Est. Amount Remaining)	$225	32.7%
TOTAL	**$687**	**100.0%**

Source: Bureau of the Budget and Office of the Comptroller.

The program also raises the annual prescription drug coverage threshold from $800 to $2,000 and after the first $2,000, participants will only pay 20% for each prescription (plus the coverage fee). The expansion of drug coverage includes drugs for Parkinson's disease, Alzheimer's, cancer, glaucoma, lung disease, and smoking related illnesses. Drugs already covered are for heart, diabetes and arthritis conditions.

Both programs are permanent expansions and will be effective January 1, 2001. The cost to implement the programs is expected to be $35 million. Due to the fact that this amount only covers approximately six months, the costs of these programs by the end of fiscal year 2001 could be substantially higher.

Earned Income Tax Relief Rebate

This program creates a non-refundable credit for an eligible individual in the amount of 5% of the federal income tax credit each taxable year beginning on or after January 1, 2000, and ending on or before December 31, 2002. The cost of this program is estimated to be $35 million. This proposal will result in income

FISCAL SMARTS continued page 15

A Monthly Look At State Finance

Vital Statistics

The Heartbeat of Illinois' Finance

General Funds End-of-Year Balance Reaches All-Time High But GRF Balance Dips!

The continuation of a strong economy propelled the end-of-year available cash balance in the General Funds to a fourth consecutive all-time high. The $1.517 billion balance at the end of June is $166 million or 12.3% higher than the $1.351 billion balance recorded at the end of fiscal year 1999, $315 million higher than the $1.202 billion balance at the end of fiscal year 1998, and $711 million higher than the $806 million balance at the end of fiscal year 1997.

All of the increase in the General Funds balance can be attributed to the Education Assistance Fund, which increased $205 million or 97.6% for the 2000 fiscal year to a record $415 million. The other two school funds declined by a combined $20 million for the year while the General Revenue Fund was down $19 million.

General Funds Revenues - Up 7.3% Over FY 1999

For fiscal year 2000, General Funds revenues totaled $23.250 billion, $1.576 billion or 7.3% higher than fiscal year 1999. This year-over-year increase is the second largest ever trailing only last year's $1.690 billion increase.

Personal income and sales taxes accounted for 55.7% of the growth in General Funds revenues. Compared to fiscal year 1999, personal income taxes were up $460 million or 6.4%, while sales taxes grew $418 million or 7.5%.

Other sources of revenue with significant increases include federal revenues (up $174 million or 4.7%), transfers in (up $168 million or 14.1%), corporate income taxes (up $116 million or 10.3%), public utility taxes (up $97 million or 9.5%), and liquor taxes (up $71 million or 124.6%). The increase in liquor tax receipts is due to a tax rate increase instituted as part of the Illinois FIRST Program. Increased corporate income taxes are due to a one-time $130 million payment in March.

A breakdown of the $168 million increase in transfers in includes a $25 million drop in lottery transfers, a $90 million jump in riverboat gambling transfers and a $103 million increase in all other transfers. The $90 million or 37.5% growth in riverboat gambling transfers is due, at least in part, to the implementation of dockside gambling while the $103 million increase in all other transfers reflects a new transfer of $76 million in surplus monies from the Income Tax Refund Fund to the General Revenue Fund.

General Funds Spending Up 7.2% Over FY 1999

During fiscal year 2000, General Funds cash expenditures totaled $23.084 billion, $1.559 billion or 7.2% higher than last year. Just like revenues, the growth in fiscal year 2000 spending is the second highest ever trailing only the $1.855 billion increase recorded last year. For the year, total revenues exceeded spending by $166 million resulting in an increase in the available cash balance from $1.351 billion to $1.517 billion.

Compared to last fiscal year, total grant spending from the General Funds grew $1.009 billion or 7.4% to $14.659 billion. Public Aid grant spending, which is for medical assistance, increased $486 million or 11.5% for the year. Awards and grants spending by the State Board of Education for elementary and secondary education was up $300 million or 6.7% including a $328 million increase in categorical grant payments and a $24 million decline in general state aid. Other education related grant spending includes Teacher's Retirement, which was up $70 million or 12.1%, and higher education, which grew $27 million or 3.7%. Human Services grants increased by $141 million or 6.0% for the year while all other grants declined $15 million or 1.1%.

Operations spending from the General Funds for fiscal year 2000 totaled $6.287 billion, $560 million or 9.8% higher than the previous year. Higher education operations were up 4.9% or $73 million, while all other operations increased $487 million or 11.5%. ■

Don't forget to visit the Comptroller's Tent at the Illinois State Fair August 11-20.

GENERAL FUNDS REVENUES, EXPENDITURES AND BALANCES
(Dollars in Millions)

	June 2000	FY 2000	Twelve Months Change From Prior Year $	%
Total General Funds				
Available Balance	$ 1,482	$ 1,351	$ 149	12.4 %
Revenues	2,155	23,250	1,576	7.3
Expenditures	2,120	23,084	1,559	7.2
Ending Balance	$ 1,517	$ 1,517	$ 166	12.3 %
General Revenue Fund				
Available Balance	$ 1,052	$ 1,016	$ 4	0.4 %
Revenues	1,841	19,986	1,397	7.5
Expenditures	1,896	20,005	1,420	7.6
Ending Balance	$ 997	$ 997	$ (19)	(1.9) %
Common School Special Account Fund				
Available Balance	$ 66	$ 68	$ 9	15.3 %
Revenues	135	1,499	104	7.5
Expenditures	132	1,498	112	8.1
Ending Balance	$ 69	$ 69	$ 1	1.5 %
Education Assistance Fund				
Available Balance	$ 336	$ 210	$ 126	150.0 %
Revenues	92	982	121	14.1
Expenditures	13	777	42	5.7
Ending Balance	$ 415	$ 415	$ 205	97.6 %
Common School Fund				
Available Balance	$ 28	$ 57	$ 12	26.7 %
Revenues	553	3,078	33	1.1
Expenditures	545	3,099	66	2.2
Ending Balance	$ 36	$ 36	$ (21)	(36.8) %

Note: Total General Funds excludes interfund transfers while the individual funds include such transfers. Numbers may not add due to rounding.

GENERAL FUNDS REVENUES
(Dollars in Millions)

Revenues:	June 2000	FY 2000	Twelve Months Change From Prior Year $	%
State Sources:				
Cash Receipts:				
Income Taxes:				
Individual	$ 692	$ 7,686	$ 460	6.4 %
Corporate	149	1,237	116	10.3
Total, Income Taxes	$ 841	$ 8,923	$ 576	6.9 %
Sales Taxes	543	6,027	418	7.5
Other Sources:				
Public Utility Taxes	99	1,116	97	9.5
Cigarette Taxes	33	400	(3)	(0.7)
Inheritance Tax (gross)	24	348	1	0.3
Liquor Gallonage Taxes	16	128	71	124.6
Insurance Taxes and Fees	39	209	1	0.5
Corporation Franchise Tax and Fees	15	138	21	17.9
Investment Income	20	233	21	9.9
Cook County IGT	31	245	27	12.4
Other	24	232	4	1.8
Total, Other Sources	$ 301	$ 3,049	$ 240	8.5 %
Total, Cash Receipts	$ 1,685	$ 17,999	$ 1,234	7.4 %
Transfers In:				
Lottery Fund	$ 64	$ 515	$ (25)	(4.6) %
State Gaming Fund	30	330	90	37.5
Protest Fund	0	7	(6)	(46.2)
Other Funds	50	507	109	27.4
Total, Transfers In	$ 144	$ 1,359	$ 168	14.1 %
Total, State Sources	$ 1,829	$ 19,358	$ 1,402	7.8 %
Federal Sources:				
Cash Receipts	$ 313	$ 3,756	$ 156	4.3 %
Transfers In	13	136	18	15.3
Total, Federal Sources	$ 326	$ 3,892	$ 174	4.7 %
Total, Revenues	$ 2,155	$ 23,250	$ 1,576	7.3 %

GENERAL FUNDS ANALYSIS OF EXPENDITURES
(Dollars in Millions)

Expenditures:	June 2000	FY 2000	Twelve Months Change From Prior Year $	%
Awards and Grants:				
Public Aid	$ 337	$ 4,705	$ 486	11.5 %
Elem. & Sec. Education:				
State Board of Education	740	4,752	300	6.7
Teachers Retirement	54	648	70	12.1
Total, Elem. & Sec. Education	$ 794	$ 5,400	$ 370	7.4 %
Human Services	140	2,485	141	6.0
Higher Education	17	756	27	3.7
All Other Grants	75	1,313	(15)	(1.1)
Total, Awards and Grants	$ 1,363	$ 14,659	$ 1,009	7.4 %
Operations:				
Other Agencies	$ 378	$ 4,720	$ 487	11.5 %
Higher Education	49	1,567	73	4.9
Total, Operations	$ 427	$ 6,287	$ 560	9.8 %
Transfers Out	$ 279	$ 2,029	$ (77)	(3.7) %
All Other	$ 4	$ 99	$ 68	219.4 %
Vouchers Payable Adjustment	$ 47	$ 10	$ (1)	N/A
Total, Expenditures	$ 2,120	$ 23,084	$ 1,559	7.2 %

COMPARISON OF SPENDING FOR OPERATIONS BY OBJECT
(Dollars in Millions)

	June 2000	FY 2000	Twelve Months Change From Prior Year $	%
Personal Services:				
Regular Positions	$ 194	$ 2,252	$ (947)	(29.6) %
Other Personal Services	20	242	16	7.1
Total, Personal Services	$ 214	$ 2,494	$ (931)	(27.2) %
Contribution Retirement	35	454	34	8.1
Contribution Social Security	13	159	4	2.6
Contribution Group Insurance	0	589	83	16.4
Contractual Services	35	482	(61)	(11.2)
Travel	2	25	(1)	(3.8)
Commodities	9	132	(7)	(5.0)
Printing	1	10	0	0.0
Equipment	4	47	(12)	(20.3)
Electronic Data Processing	3	47	(6)	(11.3)
Telecommunications	4	50	(9)	(15.3)
Automotive Equipment	1	16	0	0.0
Other Operations	106	1,782	1,466	463.9
Total, Operations	$ 427	$ 6,287	$ 560	9.8 %

COMPARISON OF SPENDING FOR AWARDS AND GRANTS
(Dollars in Millions)

	June 2000	FY 2000	Twelve Months Change From Prior Year $	%
State Board of Education:				
General State Aid	$ 493	$ 2,992	$ (24)	(0.8) %
Categoricals	247	1,760	328	22.9
Other	0	0	(4)	(100.0)
Public Aid	337	4,705	486	11.5
Human Services	140	2,485	141	6.0
Higher Education:				
Student Assistance Commission	10	366	17	4.9
Community College Board	0	298	12	4.2
Other	7	92	(2)	(2.1)
Teacher's Retirement	54	648	70	12.1
Children and Family Services	18	642	(1)	(0.2)
Aging	19	193	15	8.4
Revenue	9	90	6	7.1
All Other	29	388	(35)	(8.3)
Total, Awards and Grants	$ 1,363	$ 14,659	$ 1,009	7.4 %

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